

BOTSWANA

Key conditions and challenges

Table 1 2020

Population, million	2.4
GDP, current US\$ billion	16.1
GDP per capita, current US\$	6853.6
International poverty rate (\$ 19) ^a	14.5
Lower middle-income poverty rate (\$3.2) ^a	36.5
Upper middle-income poverty rate (\$5.5) ^a	59.1
Gini index ^a	53.3
School enrollment, primary (% gross) ^b	103.2
Life expectancy at birth, years ^b	69.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2015), 2011 PPPs.

(b) WDI for school enrollment (2015); life expectancy (2018).

Botswana's economy is estimated to have contracted by 7.9 percent in 2020 as the pandemic affected key sectors, notably diamonds and tourism. Unemployment edged up to 24.5 percent and the poverty rate is estimated to have reached 60.2 percent in 2020, up from 57.0 percent in 2019, using the upper-middle-income country threshold. While a growth recovery is expected in 2021, sustaining the momentum in the medium-term will require transformation to overcome the structural limits of the current growth model.

The discovery of the world's largest diamond deposits in the 1960s allowed Botswana to maintain average growth rates of over 5 percent up until the 2009 global financial crisis, with real GDP per capita growing almost five times faster than the global average. Notably, Botswana has benefited from buoyant diamond exports – at around 80 percent of total export earnings- and accompanying significant revenue inflows (over a third of overall revenue collection). This led the authorities to establish, in 1994, the Pula Fund with the aim of preserving part of the income from diamond exports for future generations. Prudent macroeconomic management has enabled Botswana to accumulate substantial savings, in the form of foreign exchange reserves and the Government Investment Account (GIA). However, Botswana has struggled to maintain its growth momentum in recent years as the diamonds-cum-public sector led growth model has reached its limits and alternative drivers of growth have not materialized. After averaging at 7 percent between 2010 and 2014, weakening global demand for diamonds and severe weather conditions slowed real GDP growth to an average of 2.6 percent between 2015 and 2019. Increased government spending to support growth and greater revenue volatility has resulted in consecutive years of fiscal deficits since FY2015/16, thus eroding

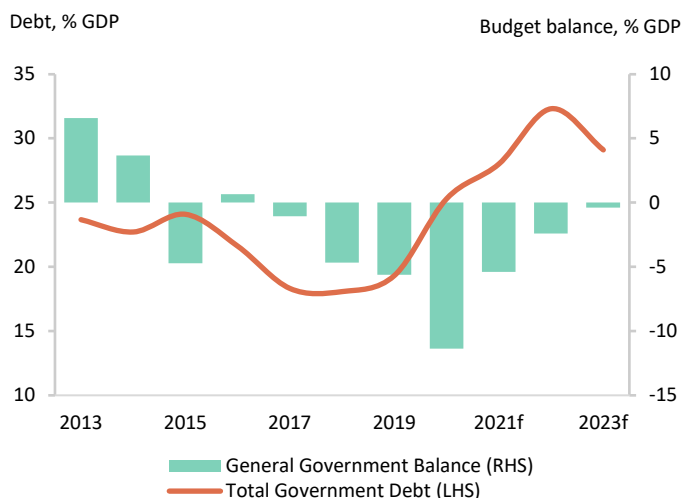
fiscal buffers. GIA savings fell from 20 percent of GDP in FY2015/16 to 8 percent at the end of FY2019/20, posing a threat to the sustainability of savings.

COVID-19 has exacerbated existing vulnerabilities, reversing some of the gains made in living standards over the past five years. Low capital accumulation and sluggish productivity have affected growth in the non-resource economy. Unemployment is high and living conditions have deteriorated. The pandemic has underscored the urgent need for a transformation in the growth model so that Botswana can develop a diversified and robust economy and accelerate job creation. Successful implementation of structural reforms under the Economic Recovery and Transformation Plan (ERTP) would improve conditions for a diversified and private sector-led growth model.

Recent developments

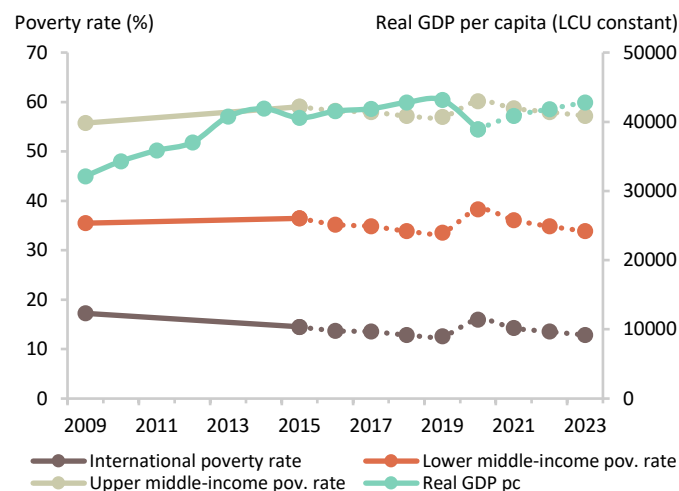
The economy is estimated to have contracted by 7.9 percent in 2020. Diamond production is estimated to have declined by 29 percent as global demand waned. As a result, merchandise exports fell by an estimated 26 percent in 2020, weighed down by a 77 percent drop (y/y) in the second quarter. Travel restrictions affected the private sector, with significant losses registered in the tourism and hospitality industry. Unemployment increased slightly from 23.2 percent in the first quarter of 2020 to 24.5 percent in the last quarter. An additional 103,000 people are estimated to

FIGURE 1 Botswana / Evolution of Public Debt and Fiscal Balance



Source: World Bank staff estimates.

FIGURE 2 Botswana / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

have fallen below the upper-middle income poverty line (US\$5.5 per day, 2011 PPP) in 2020, bringing the total to 1.4 million people.

Botswana's fiscal position has worsened. The fiscal deficit is set to widen to 11.4 percent of GDP in FY2020/21, from 5.6 percent in FY2019/20, reflecting a sharp decline in mineral revenues (55 percent), a rigid and high public sector wage-bill, and the impact of the COVID-19 Economic Response package approved in April 2020. Elevated financing needs have been met by further GIA drawdowns and increased domestic bond issuances. Increased borrowing to close the financing gap is expected to push public debt from 19.3 percent in FY2019/20 to an estimated 27.4 percent of GDP at the end of FY2020/21, although remaining below the 40 percent of GDP statutory cap.

Muted exports caused the current account deficit to widen to an estimated 8.1 percent of GDP in 2020 (from 7.6 percent in 2019). Merchandise exports declined by an estimated 26 percent in 2020 as travel restrictions constrained diamond sales (also known as sights) and year-on-year export fell by 78 percent in Q2 2020. Coupled with relatively stable imports and a significant drop in tourism receipts, the trade deficit increased to 12.5 percent in 2020 from 6.9 percent in 2019. Despite this,

increased Southern African Customs Union (SACU) transfers for FY2020/21 helped to alleviate some pressures. Foreign direct investment fell 30 percent in the first half of 2020. International reserves decreased by 23.3 percent year-on-year to US\$5.1 billion (10.9 months of imports) at the end of November 2020.

Outlook

Botswana's economy could grow by 6.9 percent in 2021, reflecting recovery of mining production following last year's sharp contraction, with results from the first diamond sight showing exports are up by 18 percent (y/y). However, broad-based recovery will be critical to reduce poverty, as most people who lost jobs due to COVID-19 remain unemployed. Similarly, per capita GDP will not revert to 2019 levels until 2023. Over the medium-term, growth will plateau at around 4.2 percent with private investments in coal and copper mining, along recovering consumption, being the main contributing factors.

The anticipated diamond-led recovery will also improve the fiscal position, with the deficit set to narrow to about 5.4 percent of GDP in FY2021/22 due to higher

mineral revenues and revenue enhancing measures including revisions to the VAT rate, fuel levy and withholding tax. These will cushion the anticipated impact of reduced SACU receipts. Expenditures will remain largely unchanged as one-off COVID-19 emergency spending is replaced by E RTP-linked spending, although efforts to "right-size" the wage bill will begin with the abolishment of 50 percent of vacant positions. While total debt is expected to remain sustainable over the medium-term, it is expected to increase to an estimated 28.0 percent of GDP in FY2020/21, reflecting depleted fiscal buffers and subsequent increase in external borrowing.

The outlook is not without substantial COVID-19-related downside risks, particularly as additional waves and mutations of the virus provide added uncertainty. A scenario where waves of infections are followed by worldwide lockdowns could curtail demand in the global diamond industry, thus resulting in a slower recovery for Botswana. Services, particularly tourism, trade and transport, would also be impacted. Lower mineral receipts would worsen the fiscal position, adding to pressures from the anticipated declines in SACU receipts. Both the fiscal and external balance would likely remain in deficit beyond FY2023/24.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	3.0	-7.9	6.9	4.3	4.1
Private Consumption	4.1	4.2	-1.8	1.1	3.0	4.1
Government Consumption	3.7	3.3	-0.7	3.3	-7.5	-9.9
Gross Fixed Capital Investment	8.1	6.6	-2.6	3.3	3.2	8.0
Exports, Goods and Services	7.2	-16.7	-28.6	32.5	16.5	6.2
Imports, Goods and Services	11.8	6.7	-8.9	9.7	5.0	2.5
Real GDP growth, at constant factor prices	4.5	3.2	-7.9	6.9	4.2	4.2
Agriculture	2.6	-0.1	3.5	3.0	3.0	2.5
Industry	5.5	0.2	-15.0	14.5	2.7	3.2
Services	4.1	4.5	-5.5	4.4	4.8	4.6
Inflation (Consumer Price Index)	3.2	2.8	1.9	3.1	4.0	4.0
Current Account Balance (% of GDP)	0.6	-7.6	-8.1	-5.2	-2.8	0.5
Net Foreign Direct Investment (% of GDP)	1.1	1.2	1.1	1.7	1.8	1.6
Fiscal Balance (% of GDP)^a	-4.7	-5.6	-11.4	-5.4	-2.4	-0.4
Debt (% of GDP)	18.1	19.3	25.3	28.0	32.3	29.1
Primary Balance (% of GDP)^{a,b}	-4.1	-5.0	-10.5	-4.4	-1.1	1.1
International poverty rate (\$1.9 in 2011 PPP)^{c,d}	12.9	12.6	16.0	14.3	13.5	12.9
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{c,d}	33.9	33.6	38.3	36.1	34.9	33.9
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{c,d}	57.2	57.0	60.2	58.7	58.0	57.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

(b) Refers to Public and Publicly Guaranteed debt.

(c) Calculations based on 2015-BM THS. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(d) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.