

# ECONOMIC REVIEW

second quarter april - june 2020

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## COMMENTARY

# Economic recovery post COVID-19

## Introduction

The first half of 2020 has seen the world faced with a major health outbreak of the corona virus pandemic. The virus caused massive economic disruption; and the effects are being felt globally, regionally and domestically. During the first half of the year, most economies went into “lockdowns”, a necessary protection measure to try to reduce the degree of the spread of the COVID-19 virus. As a result, economic activity worldwide was greatly affected, notably international trade and tourism. The International Monetary Fund (IMF) has also projected a gloomy growth outcome for 2020. The global economy is expected to contract by 4.9% in 2020, much worse than the negative 0.07% growth recorded during the global financial crisis in 2008/09. However, gradual recovery is expected in 2021 as most economic activities are anticipated to have bounced back towards normality. Countries around the world are also developing or have developed policies and strategies essential to encourage economic activity. Botswana has also been preparing a post COVID-19 economic recovery strategy. This strategy is discussed below along with the sectors which have the potential to help the country to bounce back to growth.

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## COMMENTARY

### The Economic Recovery and Transformation Plan (ERTP)

Botswana, like many other developing countries, has been affected by the corona virus pandemic. The national accounts data from Statistics Botswana showed that year-on-year growth in the first quarter of the year decreased by 0.4% to 2.6%, down from 3.0% year-on-year growth recorded in Q4 2019. The IMF has forecast a contraction of 5.4% for Botswana in 2020; but there are a lot of uncertainties as to when most effects of the virus will eventually phase out and economic activity return to normal. Moody's are projecting growth of minus 7% for Botswana in 2020, while the Government's own forecast is a contraction of 8.9%. The bounce back of economic activity relies on many factors, including the effectiveness of government policies which are being or will be implemented to help bolster economic growth. In Botswana, the Government is developing a strategy policy called the "Economic Recovery and Transformation Plan (ERTP)", which has as its main objective accelerating the pace of implementation of existing transformation policies in Botswana. If successfully implemented, the ERTP will assist Botswana to make the transition out of the corona virus crisis, stimulate economic activity and improve economic growth.

We hold hopes that the ERTP will be able to also address some of the long-lasting issues impeding economic development and growth in Botswana. Issues relating to the declining rate of economic growth, a deteriorating fiscal position, the need to diversify exports and the economy, uncertainties around the diamond industry's future and high unemployment. Fundamentally, the ERTP is aligned with existing aspirations to accelerate Botswana's transformation agenda.

Several sectors key to the ERTP have also been identified; these include Tourism, Agriculture, ICT, Manufacturing and Mining.

**Tourism:** The Tourism sector is the most likely to be the hardest hit by the pandemic, as recovery is likely to be slow due to ongoing restrictions on international travel as well as the need for customer confidence. This is because the northern part of Botswana is the primary destination

for international tourism, for its famous Okavango Delta and the luxurious safaris on the land. Although Tourism does not directly appear as a distinct sector in the national accounts, the sector is estimated to contribute about 5% of GDP (Tourism Satellite Accounts, 2016). Hence, there is an important need to promote domestic tourism of other unexploited tourist attraction sites other than the famous Okavango Delta. This will not only reduce pressure from one area, but also develop other tourism destinations in the country.

**Agriculture:** Food security has become paramount since the onset of the corona virus pandemic. The Government realises the need to increase food production for products in which Botswana has a comparative advantage, such as beef, grains and other horticulture products. The Government is ready to support commercial farming that uses climate smart techniques and several funding channels through CEDA and NDB have been revised and improved to make access to finance easier for entrepreneurs. It is important that commercial farmers develop their niche as the future growth and sustainability of the sector relies on competitive enterprises. Also, the sector has a lot of potential to increase employment because of its labour intensive nature.

**Information and Communication Technology (ICT):** The development of ICT, along with its essential infrastructure, is critical for Botswana's transformation agenda. This was highlighted when employees had to work from home during the period when the country went on a national lockdown. ICT is important for improving efficiency and the quality of services offered which are essential for fostering a private sector led economy as well as economic development.

**Manufacturing:** This sector is at the core of industrialisation aspirations and strategies for economic development in Botswana. In theory, manufacturing can be the driver of economic growth through technological improvements and innovation. Similarly, trade is based primarily on goods and less so on services. Hence, the development of the sector could also foster export diversification and export-led growth in Botswana.

## COMMENTARY

**Mining:** Although the share of the Mining sector in GDP has been gradually declining over the past 30 years, the sector remains important in the economy. Mining (especially diamonds) is the single most important sector for foreign currency earnings in Botswana and exports of diamonds accounted for about 90% of the country's total exports in 2019. Mining is important for providing government revenues, which are used to finance fiscal expenditures for the provision of public services, development infrastructure and employment. Coal is another mineral commodity which is now being used to produce the Coal Bed Methane (CBM) electricity. CBM electricity is much more environmentally cleaner than the traditional coal fired electricity. CBM is a form of natural gas found in coal deposits. If tapped into sooner, Botswana has an opportunity to produce electricity to meet the national demand, as well as export excess electricity to other regional countries. This would, in turn, diversify mineral exports and increase foreign currency earnings.

The main impact of COVID-19 on the economy will be felt in the second quarter (April-June). GDP growth forecasts for this period will only be available at the end of September 2020. However, some data are available to assess the short-term economic impact. Most critically, merchandise trade data from Statistics Botswana showed that exports dropped to almost zero in April and May. While imports also fell sharply in April - the main month of the lockdown - they rose in May. As a result, the country experienced a large trade deficit of over P4 billion in May 2020. The impact of this can be seen on the country's foreign exchange reserves, which according to Bank of Botswana (BoB) fell from P68.9 billion at the end of April 2020 to P66.1 billion at the end of May. This has also affected government revenues, as little is being earned from the mining sector; as a result, the balance of the Government Investment Account at the BoB fell from P18.8 billion in April to P15.1 billion in

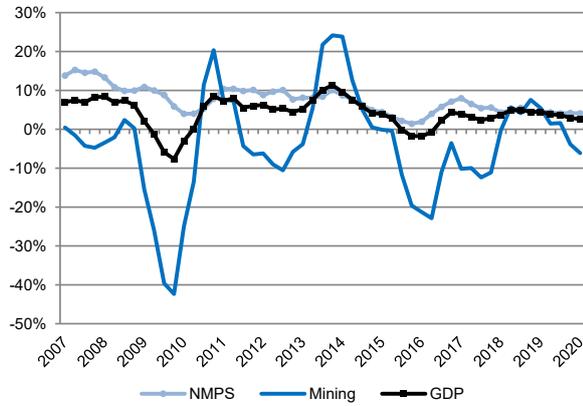
May. Both of these developments illustrate the continued high level of dependence on diamonds and the extreme urgency of developing new sources of export earnings; hence the need to focus on competitiveness.

The short-term government intervention measures which were introduced in early April were also of great assistance. At this point, without data, it is difficult to assess the survival rate of firms during the period, but it appears that most firms have been able to survive the wave of the pandemic in the short-term. Similarly, the impact on employment cannot be measured and the most recent data from Statistics Botswana is only up to Q4 2019, when the COVID-19 virus had not yet impacted on Botswana. It is a good to note that about 80% of workers were eligible to be covered by the Government's wage subsidy, so we hope that this reflects positively on the employment figures once they are available.

The Bank of Botswana also implemented monetary policy measures to support economic activity. The Bank Rate was reduced to 4.25%, and both nominal and real interest rates are expected to decrease to reflect the policy changes. Along with other bank interventions such as the three months holiday period for loans repayments, households and businesses were positively assisted as these initiatives eased their loan servicing burdens and reduced the cost of borrowing. BoB also reduced the Primary Reserve Requirement Ratio from 5% to 2.5%, thereby injecting liquidity into the banking system. Up to date data are not yet available, but about P1.6 billion is estimated to have been injected into the banking system. Another notable change was the downward adjustment of the rate of crawl of the Pula exchange rate to an annual rate of -2.87% in 2020. This supports the export competitiveness of locally produced goods.

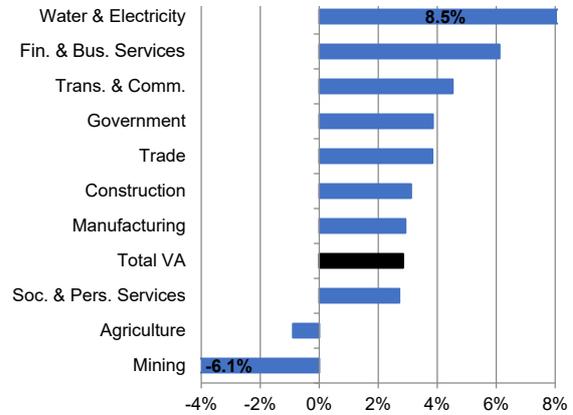
# KEY ECONOMIC VARIABLES

## Annual GDP Growth



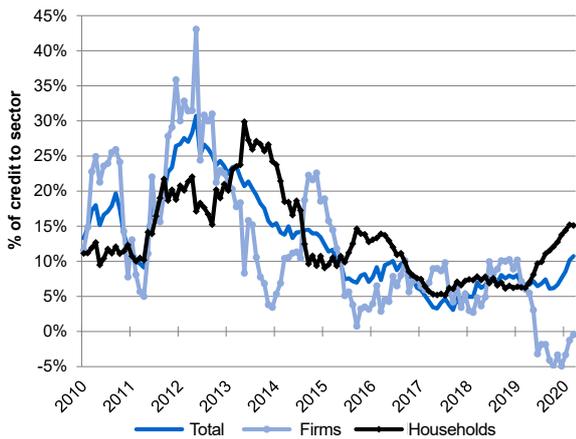
Overall economic growth continued its steady decline into the first quarter of 2020. Real annual GDP growth fell to 2.6% in Q1 2020, down from 3.0% in Q4 2019 and was significantly lower than the 4.4% growth recorded during the same period in 2019. The decline is due to a substantial contraction in the mining sector, which recorded year-on-year growth of minus 6.1%, down from growth of minus 3.9% in Q4 2019. Mining growth was characterised by a contraction across all its sub-sectors excluding Mineral Prospecting, which recorded subdued growth of 0.8%. Growth of the non-mining private sector (NMPS) declined marginally during the quarter, recording y-on-y growth of 4.1% during Q1 2020, down from 4.2% in Q4 2019.

## Sectoral Annual GDP Growth Q1 2020



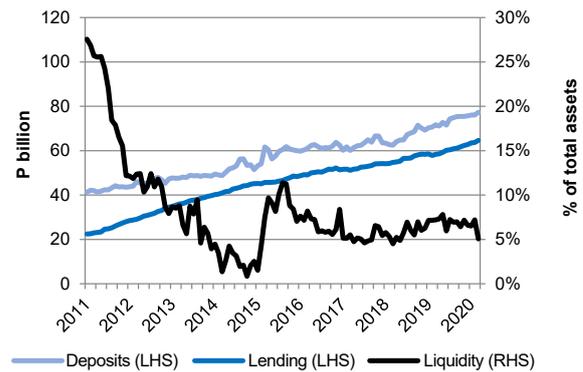
In line with the decline in overall economic growth in Q1 2020, most sectors recorded lower or marginally similar (+/- 0.3%) growth rates when compared to the previous quarter. Worryingly, there were significant contractions in the Agriculture and Mining sectors which recorded y-on-y growth rates of minus 0.9% and minus 6.1%, respectively. Consistent with historical data, services continue to be the best performing sectors in the economy, whilst Agriculture remains at the bottom end.

## Annual Credit Growth



Annual bank credit growth increased over the first quarter to 10.7% in March 2020, up from 7.6% in December 2019. This was due to an increase in debt being taken up by households. Annual credit growth to households rose from 13.8% in December 2019, to 15.1% in March 2020. Annual bank credit to firms continued to contract for the tenth consecutive month, registering y-on-y growth of minus 0.4% in March, up from minus 4.9% y-on-y growth in December 2019. This persistent contraction in credit to firms is concerning as it may indicate lower private sector growth in the future.

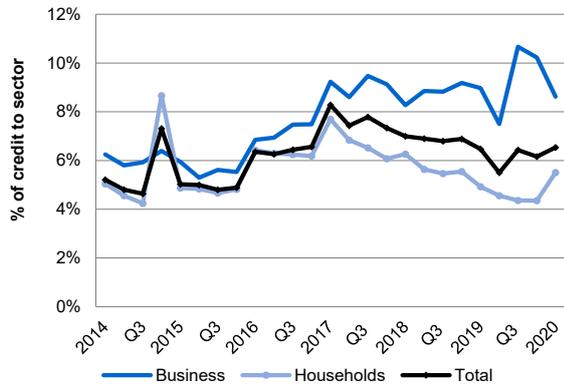
## Bank Deposits, Lending & Liquidity



Bank liquidity decreased during the first quarter of 2020. Excess liquidity fell from 6.6% of total assets in December 2019, to 5.1% in March 2020. This reflected the greater increase in bank lending as compared to bank deposits during the period. Bank lending was valued at P64.6 billion in March 2020, up by 3.0% (P1.9 billion) from P62.8 billion in December 2019. During the same period, bank deposits rose by 2.0% (P1.5 billion), ending March 2020 with a value of P77.3 billion. Banks also reduced their holdings of low return earning assets such as cash and treasury bills during Q1 2020, which has also contributed to the reduction in excess liquidity.

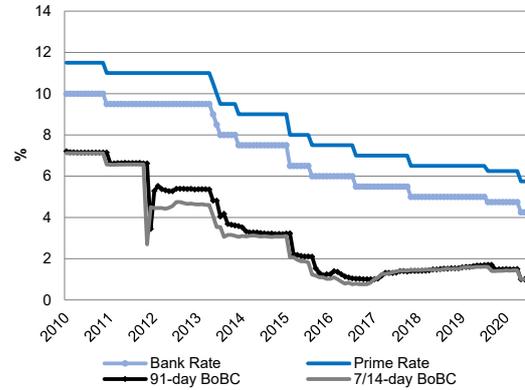
# KEY ECONOMIC VARIABLES

## Arrears on Bank Lending



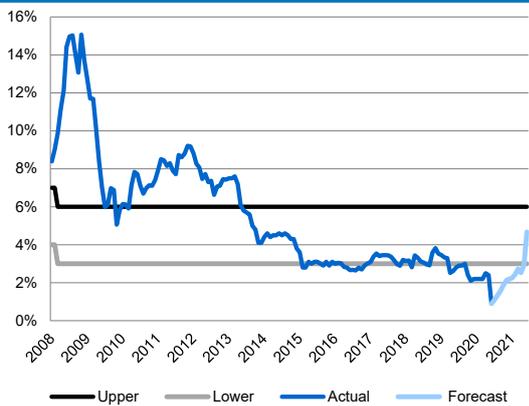
Total arrears on bank lending as a proportion of total credit increased during the first quarter of 2020. Arrears rose from 6.2% in Q4 2019, to 6.5% in Q1 2020. This was driven by a sharp increase in arrears on lending to households which rose to 5.5% in Q1 2020, up from 4.4% in Q4 2019. This was partially offset by a decline in arrears on lending to businesses, which fell from 10.2% in Q4 2019, to 8.6% in Q1 2020. A decline in arrears on lending to businesses is much needed as arrears to the private sector had reached record highs since Q3 2019 and were subsequently making banks more cautious in their lending to firms, the effects of which were feeding through to lower growth in bank credit growth to firms.

## Interest Rates



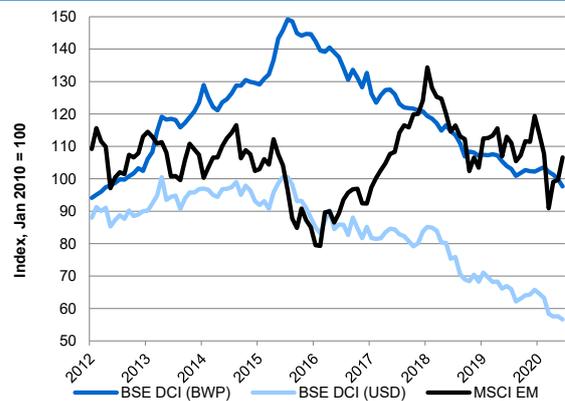
The Bank of Botswana’s Monetary Policy Committee (MPC) cut the Bank Rate by 50 basis points in April 2020. The decision to ease monetary policy was taken in order to support domestic economic activity as both firms and households deal with the disruptive effects caused by the COVID-19 outbreak. As a result, money market rates decreased during Q2 2020. The 91-day BoBC rate fell from 1.49% in March 2020 to 1% in June; the 7-day BoBC rate fell from 1.44% to 1% during the same period.

## Inflation and Forecast



The headline inflation rate was 0.9% in June 2020, lower than the 2.2% headline inflation rate that was recorded in March 2020. This is the lowest recorded rate of inflation in Botswana’s history and is well below the Bank of Botswana’s objective range of 3-6%. The fall in inflation is due to a number of factors providing downward inflationary pressure; these include: the large drop in domestic fuel prices that took place during Q2 2020, the freeze in public sector pay rises and the very low international inflationary pressures due to the COVID-19 outbreak. However, these effects are not expected to persist and will only be present in the short term; as such, inflation is projected to rise in the medium term, reaching the BoB’s objective range by March 2021.

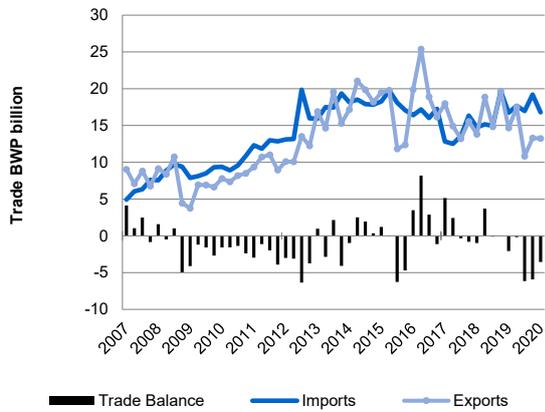
## Stock Markets



The Domestic Companies Index (DCI) of the Botswana Stock Exchange (BSE) declined by 4.4% and 3.0% in both Pula and US-Dollar terms, respectively, during Q2 2020. There was strong recovery in global stock markets during the quarter, as countries began to ease their various lockdown restrictions. The MSCI World Markets Index appreciated by 18.8% and the MSCI Emerging Markets index rose by 17.3%, both outperforming the BSE’s DCI.

# KEY ECONOMIC VARIABLES

## International Trade



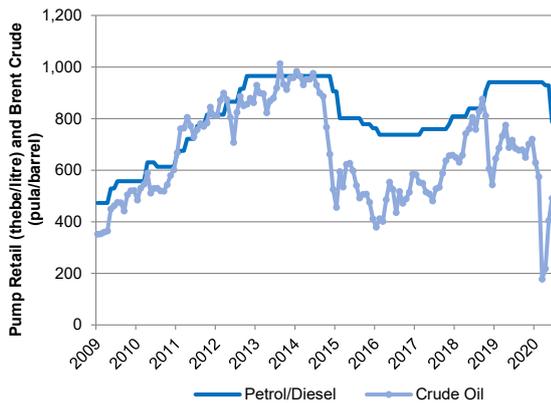
Total international trade activity slowed down during the first quarter of 2020. Total imports were valued at P16.8 billion in Q1 2020, down from P19.2 billion in Q4 2019, representing a 12.5% fall in the value of imports. This was mainly driven by a 38.9% decline in the value of imported diamonds during the period. The value of total exports also declined, be it marginally, by 0.3%, down from P13.3 billion in Q4 2019, to P13.2 billion in Q1 2020. Non-mineral exports performed strongly in Q1 2020 when compared to Q4 2019, rising by 40.8%, whereas, mineral exports performed poorly, declining by 0.8%. The larger decline in the value of imports when compared to exports resulted in the trade deficit decreasing from P5.9 billion in Q4 2019 to P3.6 billion in Q1 2020.

## Exchange Rates



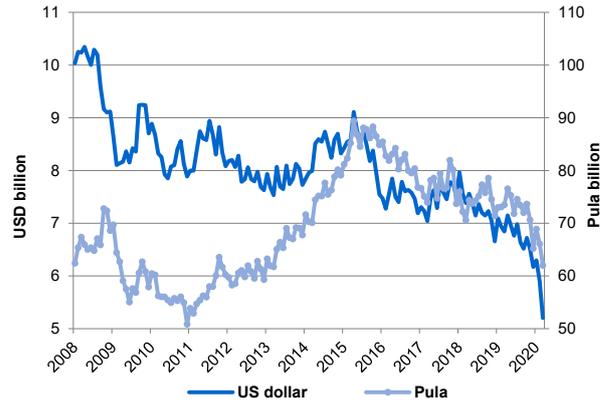
The Pula weakened against the Rand and strengthened against the US Dollar during the second quarter of 2020. The Pula depreciated against the Rand by 2.3%, ending Q2 2020 with an exchange rate of ZAR1.47, down from ZAR1.50 at the end of Q1 2020. Conversely, the Pula appreciated by 1.4% against the US Dollar during the quarter, ending Q2 2020 with a Pula per US Dollar exchange rate of P11.80, an appreciation from P11.97 at the close of Q1 2020. During Q2 2020, the Pula exchange rate mechanism was adjusted to a downward rate of crawl of 2.87% per annum. This will marginally devalue the Pula over the next few months.

## Fuel Prices



Local fuel prices decreased by 16.4% during Q2 2020. Local retail pump prices were adjusted downwards twice during the second quarter of the year, in April and then in June by, on average, 13t and 162t per litre for petrol and 10t and 140.5t per litre for diesel. The high over recoveries since the last price adjustment in November 2018 and subsequent replenishing of the NPF necessitated the need to lower local retail pump prices. International fuel prices showed strong signs of recovery in Q2 2020, rising by 176.4% since the end of March 2020. The recovery of international fuel prices is due to a sharp increase in the demand for oil as countries began to ease the strict lockdown conditions that had been enforced to curb the spread of COVID-19.

## Foreign Exchange Reserves



Foreign exchange reserves decreased across all measurement currencies, namely, the Pula, US Dollar and SDR, during the second quarter of 2020. Foreign exchange reserves declined by 4.9% in Pula terms to P62.0 billion in March 2020, down from P65.2 billion in December 2019. Reserves decreased by 15.7% in US Dollar terms and 14.6% in SDR terms to USD5.2 billion and SDR3.8 billion, respectively, during the same period. The larger declines in the reserves in US Dollar and SDR terms than in Pula terms was due to exchange rate effects; the Pula weakened significantly against the US Dollar and the SDR during Q1 2020 as the global COVID-19 pandemic triggered investors to exit from riskier emerging markets to safer, developed markets.

## NEWS HIGHLIGHTS

28th April	De Beers reduces 2020 production due to COVID-19. (De Beers Group)	De Beers Group announced new production guidelines for 2020. In response to the impact of COVID-19 on mining operations, wholesale trading activity and consumer traffic in key consumer markets, production guidance has been revised to 25-27 million carats from the previous 32-34 million carats, subject to continuous review based on the disruptions related to COVID-19, as well as the timing and scale of the recovery in trading conditions. Production of rough diamonds in Botswana declined by 5% to 5.6 million carats, driven by a 7% decrease at Orapa due to challenges related to commissioning of new plant infrastructure and maintenance, while production at Jwaneng decreased by 4% due to planned mining of lower grade.
30th April	De Beers Offers 100% Deferrals at May Sight. (Rapaport news)	De Beers is allowing rough-diamond customers to skip all purchases at next week's sight, as shutdowns of manufacturing and retail markets have led to minimal demand. The sight will be the second consecutive sale at which the miner has allowed clients to push their allocations to later in the year. Appetite for rough is at rock bottom as the trade seeks to avoid taking on unsellable inventory amid the corona virus related slowdown
3rd May	The Economist ranks Botswana top. (The Patriot)	The Economist has ranked Botswana top in a report on the financial strength of the 66 emerging economies in the wake of the COVID-19 fallout. The ranking examines the vulnerability of selected economies across four potential sources of peril, being public debt as a percentage of GDP, foreign debt (both public and private), cost of borrowing and reserve cover. Botswana came number one out of 66 emerging economies because of low public debt, low foreign debt, high foreign exchange reserves and low cost of government borrowing.
10th May	De Beers Launches Online Rough-Sales Platform. (Rapaport news)	De Beers has launched an online platform that lets clients buy rough on demand, creating an opportunity for sales during travel restrictions in Botswana as a result of the corona virus. The new platform gives registered buyers an extra way of purchasing rough in addition to the company's existing limited-time auctions. Customers will be able to buy rough diamonds immediately and at any time of the day, with the available goods ranging from very high-end to low-end items. Prices will be visible to customers at the point of purchase.
11th May	Local businesses less optimistic about the economy. (Sunday Standard)	According to the Bank of Botswana's Business Expectations Survey (BES), local businesses were less optimistic regarding domestic activity in the first quarter of the year and expect the economic downturn to continue in the coming months. This is attributable to the anticipated declines in exports and imports of goods and services, production, sales, stock inventories, profitability, investment in buildings, vehicles and equipment, and other investments. The survey report notes that the expected deterioration in business confidence during the first half of 2020 is consistent with the perceptions of weaker overall economic growth in the first quarter of 2020, and the overall contraction expected in the second quarter. Moreover, the perceived generally weaker economic performance by businesses could be associated with the disruption of business operations following the outbreak of the COVID-19 pandemic.

## NEWS HIGHLIGHTS

27th May	Giyani raises \$1.2m to advance Botswana project. (Mining Weekly)	Giyani Metals announced the closure of the non-brokered private placement financing and managed to raise USD1.2 million towards the advancement of the feasibility study at its K.Hill manganese project in Botswana. The study is expected to be completed during the first quarter of 2021.
1st June	Botswana Diamonds Recovers Marsfontein Macro-Diamonds. (Mmegi)	Botswana Diamonds Group has announced the recovery of 100 macro diamonds from the Marsfontein diamond development project in the Limpopo Province of South Africa. According to the Managing Director, the company has successfully concluded the processing of the two bulk samples comprising of 58-tonnes of fresh high-interest kimberlite and 62-tonnes of kimberlitic material from one of the residual stockpiles. The bulk sampling project was carried out to test the grade of the fresh kimberlite as well as to confirm the grades from one of the mine's dumps. The results of both tests gave proof of fresh kimberlite grades, paving way for further diamond exploration work on the Marsfontein project.
3rd June	Moody's affirms the "A2" sovereign credit rating and changes the outlook on Botswana's rating from stable to negative. (Bank of Botswana)	Moody's Investors Service has affirmed Botswana's sovereign credit rating of 'A2' for long-term bonds denominated in both domestic currency and foreign currency, and changed the outlook from stable to negative. According to Moody's, there are risks associated with the corona virus given the country's strong dependence on the diamond industry for exports and fiscal revenues. The revision of the outlook from stable to negative reflects the increasing risks of lower growth, higher budget deficits and a likely increased government borrowing. According to Moody's, the adverse effects of the COVID-19 pandemic coupled with the current challenges the government faces with regard to fiscal consolidation could mean further deterioration of the fiscal metrics to a level not consistent with the 'A2' sovereign credit rating. The agency also noted that there is potential to change the outlook to stable if the observed deterioration of the fiscal metrics caused by the corona virus shock are stabilised by credible fiscal measures aimed at rebuilding fiscal buffers in the long-term and reduce fiscal vulnerabilities posed by the rigid budget structure. The overall assessment by Moody's is that Botswana's economic fundamentals, economic strength, debt profile, institutions and governance strength have not materially changed since the last rating in March 2020.
8th June	Big Shots Grab Country's First Lottery Licence. (Mmegi)	Grow Mine, Trading as "Dineo Tsa Pula", has been given Botswana's first Lottery License to run the Botswana National Lottery for a period of 10 years. The license attracts an annual license fee of P1 million and P10 million advance from Grow Mine to commence the lottery. Similarly, Grow Mine will have to pay an agreed percentage towards the National Lottery Fund from the lottery proceeds, which will be used to benefit the creative industry, youth and other sectors. According to the Gambling Authority, a total of five companies submitted bids and the runner-up was lthuba Botswana. Grow Mine is a citizen-owned company and its shareholders are Sefalana Holdings Company, Colmar Enterprises, Citizen Money Makers, Idlehill (PTY) Ltd, Carthlee Inventions and Mokgethi Magapa.

## NEWS HIGHLIGHTS

9th June	BAMB allays fears of food shortage. (The Voice BW)	The Botswana Agricultural Marketing Board (BAMB) has stated that it has enough grain stock to cover a nine months period. According to the CEO, BAMB has 30,000 tons of sorghum, 5,000 tons of yellow maize and 2,500 tons of beans. Hence, BAMB has been able to replenish its stock from the current season's harvest. BAMB has also noted that it has not received reports of drought from their contracted farmers, thus, they are positive of high yields at the end of the current season.
17th June	De Beers Sight Opens with Viewings in Antwerp. (Rapaport news)	De Beers has been holding sight viewings in Antwerp as part of its move to offer goods in locations other than Botswana due to the corona virus. Although the company is making new solutions for sales during the pandemic, the miner will still formally sell the rough from Botswana as usual, but travel restrictions have forced it to ship goods to other locations when sight holders wish to see them in person. The Government of Botswana gave De Beers permission to sell outside the country, enabling Botswana and the company to generate revenue where demand exists. Botswana is currently only permitting residents and citizens to enter the country.
18th June	Tlou Energy gets green light for 2MW plan. (Engineering News)	The Botswana Energy Regulatory Authority (BERA) has granted Tlou Energy an electricity generation licence for a period of 15 years for the generation of 2MW of Coal Bed Methane (CBM) gas and solar power generation at its Lesedi project. The electricity generated will be sold to Botswana Power Corporation (BPC) at an approved tariff. Tlou Energy is focused on generating cleaner power in Botswana for supply into the local and regional power markets. The Lesedi project is expected to lead Botswana into a new era of clean energy production.
23rd June	BBS total savings, deposits soar to P2 billion. (The Patriot)	The Botswana Building Society Limited (BBSL) has recorded an increase in the total savings and deposits income stream for the nine months to 31 December 2018. Total savings and deposits rose to P2.2 billion compared to P1.8 billion in the same period in 2017. According to BBSL, this is a growth of P367 million or a 20% between the two periods. Loans and advances grew by 3.2% to P3.2 billion up from P3.1 billion during the two same periods under consideration. The return on average equity ratio improved significantly from 17% in March 2018 to 19% in December 2018. Furthermore, the Bank has a strong capital base with a capital adequacy ratio of 28.40% for the nine months period ended 31 December 2018. According to the Managing Director, the bank is ready to transition to a commercial bank once the Bank of Botswana has granted the BBSL with a commercial banking license.

## NEWS HIGHLIGHTS

<p>25th June</p>	<p>Botswana gets three Independent Power Producers. (Sunday Standard)</p>	<p>Botswana Energy Regulatory Authority (BERA) has awarded three licences to Energy and Natural Resource Corporation, Sese Power and Tlou Energy for the generation of electricity in Botswana. Energy and Natural Resource Corporation intends to build a 600 megawatt (MW) coal-fired power station, while Sese Power is undertaking a 225 MW coal-fired power station. Tlou Energy intends to construct a 2 MW coal bed methane (CBM) fuelled power station. The three independent power producers are expected to sell part of the electricity generated to the Botswana Power Corporation (BPC), which has had the monopoly of electricity generation and distribution nationwide. BPC is having challenges with meeting the national energy consumption demand at its Morupule A and Morupule B coal-fired power stations, which continue to face issues. Hence, BPC has been importing power from other countries.</p>
<p>25th June</p>	<p>Karowe lifespan to double. (Daily News)</p>	<p>Underground mining is expected to double Lucara’s Karowe mine life from the original 2010 feasibility study, by another 20 years. The vice president of Lucara Diamond Corporation, Dr John Armstrong, stated that underground mining would increase the life of the mine by 20 more years from 2020 to 2040. The extension of the life of mine would require an estimated USD667.5 million to cover the project’s capital costs. The company also stated that underground mining would be undertaken from 2020 to 2025 with full production from underground expected to commence in 2025/2026. Revenues are estimated at USD4 billion with over USD200 million in revenues from sale of exceptional diamonds.</p>
<p>26th June</p>	<p>ERTP: A call to action. (Mmegi)</p>	<p>The Government is developing the draft Economic Recovery and Transformation Plan (ERTP), a policy document meant to be the roadmap for the Government to stimulate and shock the economy out of the worst economic crisis Botswana has ever faced. The document is being prepared, led by a committee which has representation from various arms in government and the private sector. The main objective of the ERTP is to speed up the implementation of existing transformation policies in Botswana, in a bid to take Botswana to high income status by 2036. Moreover, the ERTP would try to address the challenges noted in the NDP 11 Mid-Term Review of declining economic growth, a deteriorating fiscal position, the need to diversify exports and the economy, uncertainties around the diamond industry’s future and high unemployment. The basic principles that drive the ERTP are to tackle issues in the short, medium and long term by using a counter-cyclical stimulus strategy to replace lost activity whilst staying aligned with existing aspirations to accelerate the transformation agenda. The plan will run from 2020/21 to 2022/23 and would spearhead Botswana’s economic transformation by promoting a private sector led economy, anchored by exports and citizen participation.</p>

## NEWS HIGHLIGHTS

<p>29th June</p>	<p>Botswana Oil seeks Moagi to open fuel taps to meet demand. (Sunday Standard)</p>	<p>The COVID-19 pandemic, with its associated restrictions on trade, has forced Botswana Oil Limited (BOL) to look elsewhere for alternative fuel suppliers to meet a surge in demand. BOL's fuel supplier, SASOL, can only supply the country with the contracted 2 million litres of fuel, while demand stands at 16 million litres. Recently, there have been supply challenges as a result of the COVID-19 virus and this has resulted in demand-supply mismatches for fuel in Botswana.</p>
<p>29th June</p>	<p>Government turns to citizens for P40 billion. (Sunday Standard)</p>	<p>According to the Economic Recovery and Transformation Plan (ERTP), boosting economic performance will require a large capital injection of an estimated amount of P40 billion in government expenditure, a huge sum at a time when the country has been running deficits with revenues expected to fall in the medium term. The estimated total cost of ERTTP spending is P20 billion over the period of two and half years, while the remaining P20 billion would be used to finance the anticipated budget deficit over the same period. The funds required for the economic recovery plan would be obtained through drawing on the Government's portion of the foreign reserves, taking on more external debt and increasing domestic borrowing, while also disposing some government properties, including privatisation of some institutions. The Government also plans to raise revenue generation through increased taxes and other levy charges. Botswana has been largely exposed to the disruptions due to its economic reliance on diamond exports and tourism, forcing the country to re-evaluate its budget.</p>
<p>29th June</p>	<p>Government considers unemployment benefit scheme. (Sunday Standard)</p>	<p>The Government is considering introducing a new benefit scheme for the unemployed youth as entailed in the draft Economic Recovery and Transformation Plan (ERTTP). According to the draft ERTTP, the unemployment benefits or insurance would be a welfare programme that provides cash benefits to eligible workers who are unemployed through no fault of their own. On an insurance basis, the scheme would be funded by deductions from pay and employer contributions or from taxation or both. Furthermore, the Government plans to review the personal incomes tax bands and increase the upper threshold for the exemption from income tax bracket from P3,000 per month to a higher level; thus, improving the consumption spending power of tax-paying households.</p>

## MACRO-ECONOMIC DATA

### Key Economic Data

	unit	2015	2016	2017	2018	2019	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
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### Annual Economic Growth

GDP	%	-1.7	4.3	2.9	4.5	3.0	3.9	3.6	3.0	2.6	..
Mining	%	-19.6	-3.7	-11.1	5.3	-3.9	1.5	1.6	-3.9	-6.1	..
Non-mining private sector	%	1.4	7.1	5.6	4.7	4.2	4.4	4.1	4.2	4.1	..
GDP current prices	P bn	146.07	170.56	180.10	190.37	197.27	49.18	49.59	49.49	50.73	..
GDP 2006 prices	P bn	86.08	89.79	92.39	96.53	99.40	24.81	24.87	25.29	25.07	..

### Money & Prices

Inflation	%	3.1	3.0	3.2	3.5	2.2	2.8	3.0	2.2	2.2	0.9
Prime lending rate	%	7.5	7.0	6.5	6.5	6.25	6.5	6.25	6.25	6.25	5.75
BoBC 7/14-day	%	0.97	0.84	1.45	1.52	1.41	1.60	1.40	1.41	1.44	1.00

### Trade & Balance of Payments

Exports - total goods	P bn	63.48	80.34	61.67	67.17	56.26	17.50	10.82	13.29	13.25	..
Exports - diamonds	P bn	52.73	70.78	54.38	60.41	51.01	16.09	9.41	11.99	11.36	..
Balance of payments	P bn	-4.15	-3.28	-4.28	-4.20	..	-2.68	-2.17	..	..	..

### Foreign Exchange

Exchange rate BWP per USD	end	11.24	10.65	9.87	10.73	10.63	10.62	11.04	10.63	11.96	11.79
Exchange rate ZAR per BWP	end	1.38	1.28	1.26	1.34	1.33	1.33	1.37	1.33	1.50	1.47
FX reserves	\$ bn	7.55	7.19	7.50	6.66	..	6.77	6.52	6.17	5.20	..
FX reserves	P bn	84.88	76.80	73.69	71.43	..	71.81	72.01	65.23	62.01	..

### Financial Sector

Deposits in banks	P bn	59.96	62.44	63.58	69.27	75.71	71.48	75.36	75.71	77.26	..
Bank credit	P bn	48.31	51.32	54.18	58.33	62.77	60.18	61.10	62.77	64.63	..
BSE index		10,602	9,728	8,860	7,854	7,495	7,623	7,461	7,495	7,488	7,160

### Business Indicators

Diamond production (a)	mn cts	20.73	20.88	22.96	24.38	0.00	5.83	5.79	5.97	5.74	..
Copper production (b)	'000 tonnes	23.05	16.88	1.24	1.46	..	..	..	..	..	..
Nickel production	'000 tonnes	16.79	13.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	..
Business confidence index		44%	43%	46%	..	..	..	..	..	..	..
No. of companies formed		19,134	17,133	20,707	..	..	..	..	..	..	..
Electricity consumption	GWh	3,974	3,929	3,772	3,919	3,906	926	927	1,088	1,011	..
Crude oil (Brent)	\$/bar	36.61	54.96	66.73	50.57	67.77	67.52	60.99	67.77	22.74	41.64

### Employment (formal)

Government		130,220	129,216	129,009	133,238	..	..	..	..	..	..
Parastatals		19,411	19,008	19,444	19,830	..	..	..	..	..	..
Private sector		191,484	194,202	193,745	195,681	..	..	..	..	..	..
Total		341,115	342,426	342,198	348,749	..	..	..	..	..	..

Govt Budget		2017/18	2018/19	2019/20	2020/21
		(d)	(d)	(e)	(e)
Revenues	P bn	56.41	53.47	60.71	62.39
Spending	P bn	58.39	62.35	68.64	67.62
Balance	P bn	0.00	-8.88	-7.93	-5.22
Public debt & guarantees	P bn	32.99	34.41	36.19	34.91
Govt deposits at BoB	P bn	30.09	21.56	..	..
GDP	P bn	182.19	193.48	205.13	221.74
Revenues	%GDP	31.0%	27.6%	29.6%	28.1%
Spending	%GDP	32.0%	32.2%	33.5%	30.5%
Balance	%GDP	0.0%	-4.6%	-3.9%	-2.4%
Public debt & guarantees	%GDP	18.1%	17.8%	17.6%	..
Govt deposits at BoB	%GDP	16.5%	11.1%	..	..
Balance	%GDP	0.0%	-4.6%	-3.9%	-2.4%
Public debt & guarantees	%GDP	18.1%	17.8%	17.6%	..
Govt deposits at BoB	%GDP	16.5%	11.1%	..	..

Sources: BoB; MFED; Statistics Botswana; Department of Mines; CIPA; BSE; US Energy Information Administration; Bloomberg; Econsult

#### Notes:

- Figures include production from Lucara Diamonds (Karowe mine) and Debswana. In 2016 and 2017, figures also include production from Gem Diamonds (Ghaghoo) and Lerala mines (no longer operational)
- Copper production starting Q2 2017 for Mowana mine
- Numbers in Italics reflect revisions from the previous review
- Actual
- Budget

## SPECIAL FEATURE

# District Rankings

## Introduction

The variation in the level of both economic and social development across the numerous census districts in Botswana is an interesting and often under-investigated area of study. A previous study by Econsult using data from 2009-2011 found that urban areas often held the “best” developmental rankings along with “urbanised” districts that benefitted from their close proximity to Gaborone. The question then remains, has this trend persisted over the years since then?

## Indicator selection

To provide a summary of overall district performance, a comprehensive, aggregated measure is to be developed. This combines district performance across seven different indicators which are divided across three main categories, namely, Economic, Access to Infrastructure/Services and Education.

### Economic Indicators:

1. Median household expenditure (P/month): this provides a measure of living standards (in terms of spending power) for the “average” household in the district. (Source: Botswana Multi-Topic Household Survey (BMTHS) 2015/16)
2. Headcount poverty rate: the proportion of households in the district whose consumption spending falls below the poverty datum line. (Source: BMTHS 2015/16)
3. Unemployment rate: the proportion of adults seeking work. (Source: Quarterly Multi-Topic Survey Q4 2019)

### Access to Infrastructure/Services:

4. Access to the internet: percentage of households which have had access to the internet within the last 12 months or less in the district. (Source: BMTHS 2015/16)
5. Access to piped water: percentage of households with their own piped water (in the house or yard). (Source: Botswana Environmental Statistics-Human Settlement Report 2018)

### Education:

6. Literacy Rate: percentage of population between the ages of 15-65 years that are literate. (Source: BMTHS 2015/16)
7. Primary school pupil-teacher ratio<sup>1</sup>: the number of primary school pupils per teacher in the district. (Source: Primary Education Statistics Report 2015)

These indicators cover a mixture of economic and broader development issues. Data constraints have restricted the choice of indicators. A few examples are as follows:

- Data on household access to electricity, youth not in education, not in employment or training (NEET) figures and other indicators, especially from the Education Reports, is only available at the regional and not at the district level
- The most recent Botswana Health Statistics Report is from 2010; therefore, it is too outdated for this exercise.
- Agricultural regions do not coincide with census districts.

As these indicators cannot be directly combined into an aggregate measure, the districts are first ranked according to their performance under each measure – with the best performance ranked 1<sup>2</sup>. The rankings under the three categories are then averaged to give a district ranking for each category. The overall weighted district ranking is then calculated by taking the average ranking across all three categories.

## Results

### Economic Indicator Rankings

**Table 1: Economic Development District Rankings**

Ranking	District	Ranking	District
1	Jwaneng	14	Ghanzi
2	Sowa	15	Chobe
3	Gaborone	16	Serowe/Palapye
4	South East	17	Ngamiland East
5	Orapa	18	Bobonong
6	Kgalagadi North	19	Kgalagadi South
7	Lobatse	20	Barolong
8	Francistown	21	Mahalapye
9	Boteti	22	Ngamiland West
10	North East	23	Tutume
11	Kgatleng	24	Ngwaketse South
12	Selebi-Phikwe	25	Ngwaketse West
13	Kweneng East	26	Kweneng West

<sup>1</sup>The Ngwaketse South and Ngwaketse West districts, along with the Kweneng East and Kweneng West districts were given the same pupil-teacher ratio because data from Statistics Botswana did not differentiate between the two districts.

<sup>2</sup>There are 28 districts in total. However, Statistics Botswana did not provide Census data for 2 districts (CKGR and Okavango), while CKGR and Okavango were not separately identified in the BMTHS. Hence, only 26 districts were included in the aggregate assessment.

## SPECIAL FEATURE

Unsurprisingly, urban areas occupy most of the top places. This reflects the higher incomes, lower unemployment, and lower poverty rates in the regions. Districts close to Gaborone (South East, Kgatleng and Kweneng East) all appear in the top half of the table, indicating that they have benefitted from the spill over effect of economic activity in Gaborone. Most central and remote districts occupy the bottom half of the table with the exception of Kgalagadi North and Boteti due to their relatively low unemployment rates (ranked 2nd and 4th, respectively), which propelled them into the top half. Interestingly, Selebi-Phikwe appears in the top half of the table despite the high unemployment levels in the region since the closure of BCL mine. There also seems to be a stark difference in the fortunes of Kweneng East and Kweneng West, despite their close proximity.

### Access to Infrastructure/Services

**Table 2: Access to infrastructure/ Services District Rankings**

Ranking	District	Ranking	District
1	Orapa	14	Boteti
2	Jwaneng	15	Serowe/Palapye
3	Gaborone	16	Ghanzi
4	Sowa	17	Tutume
5	Lobatse	18	Ngamiland East
6	Selebi-Phikwe	19	Ngwaketse South
7	South East	20	Mahalapye
8	Francistown	21	Barolong
9	Chobe	22	Bobonong
10	Kweneng East	23	Kgalagadi South
11	Kgatleng	24	Ngamiland West
12	Kgalagadi North	25	Ngwaketse West
13	North East	26	Kweneng West

The rankings for access to infrastructure and services are mostly as expected. All urban areas and those close to Gaborone occupy the top half of the table. The regional development of services and infrastructure that are a by-product of the tourism sector have helped propel the otherwise remote Chobe district into the top half of the table. The disparity in fortunes between Kweneng East (ranked 10th) and Kweneng West (ranked 26th) is highlighted further with a much greater proportion of Kweneng East residents having access to both piped water and the internet.

### Education

**Table 3: Education District Rankings**

Ranking	District	Ranking	District
1	Sowa	14	Kgalagadi South
2	Gaborone	15	Bobonong
3	Jwaneng	16	Ngwaketse West
4	Lobatse	17	Kweneng East
5	Chobe	18	Serowe/Palapye
6	South East	19	Ngwaketse South
7	North East	20	Boteti
8	Kgatleng	21	Tutume
9	Kgalagadi North	22	Ngamiland East
10	Francistown	23	Ghanzi
11	Orapa	24	Mahalapye
12	Selebi-Phikwe	25	Ngamiland West
13	Barolong	26	Kweneng West

The education district rankings have a few surprising results. A few urban areas, namely Orapa (11th) and Selebi-Phikwe (12th), ranked poorly. This was due to Orapa having a relatively low literacy rate of 83.9% (ranked 21/26) whilst Selebi-Phikwe had a high pupil-teacher ratio of 24.9 (ranked 19/26). Conversely, the Chobe, North East and Kgalagadi North districts performed strongly. Kgalagadi North had the smallest pupil-teacher ratio of 17.7, but a relatively low literacy rate of 85.5%; whereas the Chobe and North East districts performed strongly across both indicators. Kweneng West again ranked the lowest amongst the country's districts.

## SPECIAL FEATURE

### Overall Rankings

Table 4: Overall District Rankings

Previous Rankings		Current Rankings		Change
Rank	District	Rank	District	
1	Orapa	1	Jwaneng	+3
2	Sowa	2	Sowa	-
3	Gaborone	3	Gaborone	-
4	Jwaneng	4	South East	+2
5	Francistown	5	Orapa	-4
6	South East	6	Lobatse	+3
7	Selebi-Pikwe	7	Francistown	-2
8	Chobe	8	Chobe	-
9	Lobatse	9	Kgalagadi North	+3
10	Kgatleng	10	Selebi Phikwe	-3
11	Kweneng East	11	North East	+3
12	Kgalagadi North	12	Kgatleng	-2
13	Serowe/Palapye	13	Kweneng East	-2
14	North East	14	Boteti	+5
15	Ngamiland East	15	Serowe Palapye	-2
16	Ghanzi	16	Ghanzi	-
17	Mahalapye	17	Bobonong	+1
18	Bobonong	18	Barolong	+5
19	Boteti	19	Kgalagadi South	+2
20	Tutume	20	Ngamiland East	-5
21	Kgalagadi South	21	Tutume	-1
22	Kweneng West	22	Ngwaketse South	n/a
23	Barolong	23	Mahalapye	-5
24	Ngwaketse West	24	Ngwaketse West	-
25	Ngamiland West	25	Ngamiland West	-
n/a	Ngwaketse	26	Kweneng West	-4

The overall district rankings are similar to previous 2009-2011 results. Jwaneng is the best performing region, having appeared in the top 3 rankings across all categories. In contrast, Kweneng West ranked the lowest of all districts, having ranked at the bottom of all three categories. Urban towns and cities occupy the top places and districts that are "urbanised" due to their proximity to Gaborone are in the top half. The exceptions are the Chobe, Kgalagadi North and North East districts. The Chobe district performed strongly in the education and access to infrastructure categories, appearing in the top half of both; but the district was ranked poorly in terms of economic development due to rampant unemployment and a high poverty head count. The Kgalagadi North and North East districts performed consistently well across all three categories, ranking in the top half of each. The performance of the Central Districts has been mixed. Serowe/Palapye, Boteti and Bobonong ranked mid-table, whereas Tutume and Mahalapye were closer to the bottom end of the table. Having fallen a total of five places from previous rankings, Mahalapye appears to be developing at a slower pace than the other districts in the central region.

### Conclusion

In general, the results show that economic opportunities and access to infrastructure are more prevalent in urban areas and larger urban villages. Botswana is ranked amongst the countries with the worst inequality levels in the world. To help reduce this problem, the results of this exercise can help guide policy by identifying which districts and regions are lagging behind in terms of socio-economic development. A diversion of resources towards these poorer regions, such as Kweneng West, will aid in obtaining a more equal distribution of wealth across the country. Furthermore, the results of this survey can help specific cities/towns/districts identify the areas and indicators they need to improve; for instance, the literacy levels in Orapa and the high poverty headcount in Kgalagadi South.

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*The Econsult Economic Review is sponsored by BIFM, Botswana's largest asset manager. All content and commentary in the Review is produced by Econsult and should not be attributed to BIFM.*



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