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ECONOMIC REVIEW

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in this issue ...

COMMENTARY

Short-term recovery, but COVID exposes structural weaknesses and emphasizes the urgency of reforms

As 2020 draws to a close, the depth of the impact of the COVID-19 pandemic on the local, regional, and international economies is becoming clearer. Notwithstanding some recovery from the most severe negative economic impact in the second quarter of 2020, it is apparent that the duration of the pandemic will be much longer than originally anticipated, or at least hoped, and as a result some firms and industries will find it even more difficult to survive and recover. Our Feature this quarter goes back to the Special Issue of the Review on COVID produced in March 2020, and examines the economic impact nine months later relative to the projections made at that time.

In health terms, the impact of COVID-19 in Botswana is still relatively low, as figures on COVID-related death rates in different countries show. However, the pandemic is still spreading, with an upsurge in early 2021, so it would be unwise to be complacent about the comparatively low impact to date. As in other countries, it is increasingly evident that the pandemic will only be contained once a vaccine is widely available and distributed. Although Botswana is a member of the World Health Organisation

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COVAX initiative, which is intended to provide access to vaccines to cover at least 20% of the population, there is still no news from the Ministry of Health and Wellness regarding when vaccine roll-out will start in Botswana.

In terms of economic impact, annual economic growth was -6.4% in the year to September 2020, and seems likely to be around -8% for the year as a whole; comparable with the 7.7% contraction experienced in 2009 as a result of the global financial crisis. It is evident, however, that the impact will be quite different across sectors of the economy. There has been a sharp contraction in the mining sector, with knock-on effects on the balance of payments and the government budget. Similarly, tourism has been devastated, and perhaps of more concern, seems likely to take much longer to recover than the diamond sector. Although much smaller than diamonds in terms of its share of GDP, tourism employs many more people and encompasses a wide range of activities – transport, accommodation, and many support services - and probably has more direct linkages to the rest of the economy. Although the wage subsidy scheme was extended to the end of 2020 for tourism enterprises, government may need to consider other extended support packages for the sector if it is to survive what is potentially another year of lost business. Some other sectors – e.g. bars and restaurants, entertainment, brewing, and parts of retail – similarly have no end in sight for COVID-related agony.

On a positive note, the global diamond industry showed signs of strong recovery in the final quarter of 2020. There are reasonable expectations that this will be sustained into 2021, although this is subject to a high degree of uncertainty. Perhaps another surprise is that the perennially underperforming agricultural sector is one of the few sectors to record positive growth so far in 2020. Agriculture may have been helped by the protectionist measures imposed during the pandemic to boost local production, although of course this comes at a cost to consumers through higher prices (as cheaper imports are kept out by border closures) and supply disruptions.

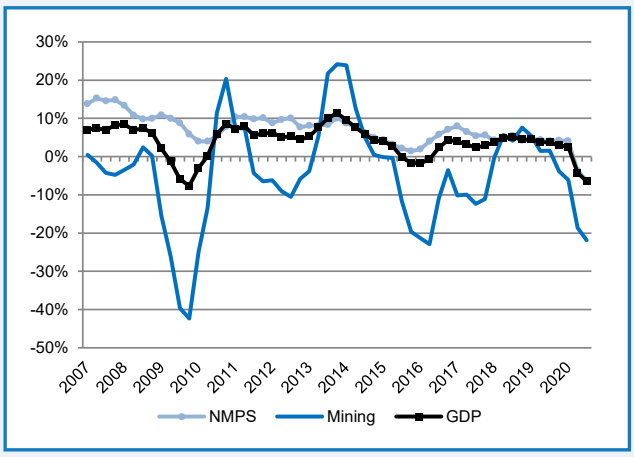
Overall, however, COVID-19 has highlighted the structural weaknesses of the economy and the failure to achieve adequate structural transformation beyond the development model based on diamonds, public spending, domestically-focused services and subsidised state-owned enterprises. Once the macroeconomic driver of this model (diamonds) is disrupted, large macroeconomic imbalances – in the fiscal accounts and the balance of payments – emerge very quickly.

The key development priorities to address this have been laid out in the Mid-Term Review of the Eleventh National Development Plan (NDP 11) and the associated Economic Recovery and Transformation Plan (ERTP), which are: export-led growth; improving the efficiency of government spending; investing in infrastructure; human capital development and improving economic resilience. Policy initiatives will need to focus on these priorities in order to achieve the necessary economic transformation.

Indications are that the fiscal situation has become a lot tighter, with a large budget deficit anticipated in the 2020/21 fiscal year. The 2021 Budget, to be released on 1st February, will provide details of fiscal projections for the second half of NDP 11 (2020/21 – 2022/23), and no doubt there will be details of fiscal adjustments to be adopted to bring the fiscal position back on track. A likely increase in VAT has already been widely reported, along with other tax increases. Spending adjustments will also be required. The urgency of structural change is now more apparent than ever. This will not necessarily be easy, and some tough – and painful – decisions and actions will be needed. But unlike the global financial crisis in 2008-9, the COVID-19 crisis must not be wasted as an opportunity for change.

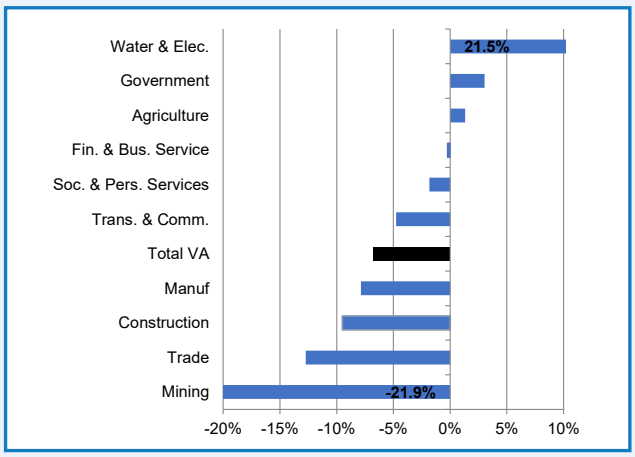
KEY ECONOMIC VARIABLES

Annual GDP Growth



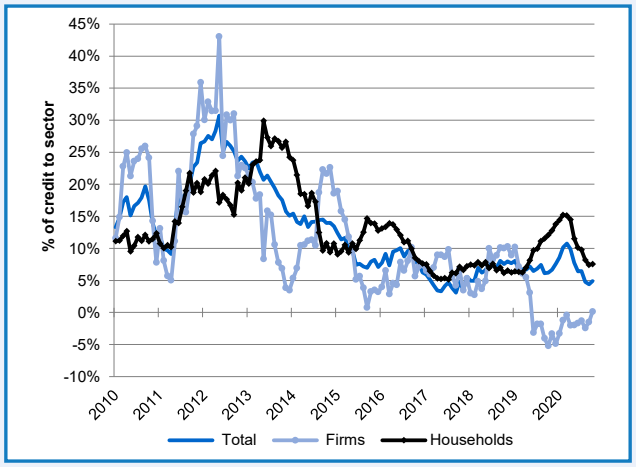
Growth in annual GDP continued to decline during the third quarter of 2020. Q3 2020 was the second consecutive quarter to register negative economic growth. Real annual GDP fell to minus 6.4% in Q3 2020, down from minus 4.2% in Q2 2020. The mining sector has felt the brunt of the COVID-19 pandemic and its associated lockdowns, contracting even further from a year-on-year growth rate of minus 18.6% in the previous quarter to a y-on-y growth rate of minus 21.9% in Q3 2020. The non-mining private sector (NMPS) also contracted further, registering y-on-y growth of minus 6.3% in Q3 2020, down from minus 3.7% in the previous quarter. On a more positive note, however, quarterly GDP was only 5.9% lower than a year earlier in Q3, compared to a comparable figure of 24.0% in Q2.

Sectoral GDP Growth



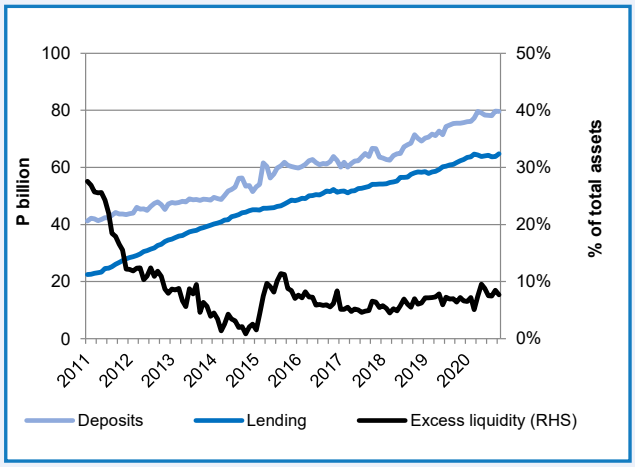
All sectors except Agriculture, General Government and Water & Electricity contracted on an annual basis in Q3 2020. The largest contraction was in the mining sector which recorded y-on-y growth of minus 21.9%, followed by the Trade sector which contracted by 12.7%. Worryingly, the Hotels and Restaurants subsector recorded y-on-y growth of minus 26.3%, indicative of a large decline in the tourism industry. Contrary to historical experience, Agriculture is now one of the best performing sectors in the economy, registering y-on-y growth of 1.3%.

Annual Credit Growth



Annual bank credit growth declined to 4.9% in October 2020, down from 6.4% in July 2020. This was driven by a fall in the growth of debt taken up by households. This is reflective of uncertainties in household incomes due to the COVID-19 pandemic and the cautious attitude towards lending that has been adopted by banks. Annual credit growth to households declined from 9.8% in July 2020 to 7.5% in October 2020. Annual bank credit to firms recorded y-on-y growth of 0.1% in October 2020, its first positive growth rate since May 2019.

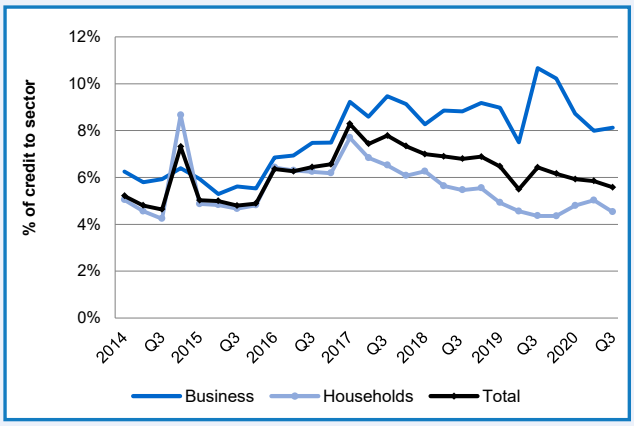
Bank Deposits, Lending & Liquidity



Bank liquidity declined marginally during the third quarter of 2020. Excess liquidity fell from 8.8% of total assets in June 2020 to 8.5% in September 2020. Although declining, excess liquidity as proportion of total assets is still high by historical standards. Bank deposits were valued at P79.7 billion in September 2020, up by 1.8% (P1.38 billion) from June 2020. Conversely, bank lending declined by 0.4% (P0.27 billion), ending September 2020 with a value of P64.8 billion. The decline in bank lending reflects the cautious attitude that has been taken by banks.

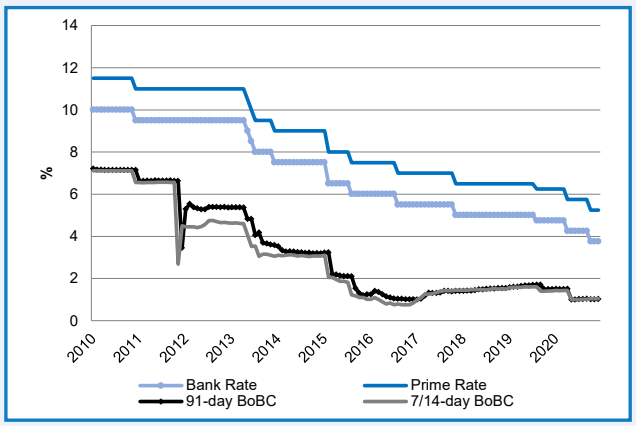
KEY ECONOMIC VARIABLES

Arrears on Bank Lending



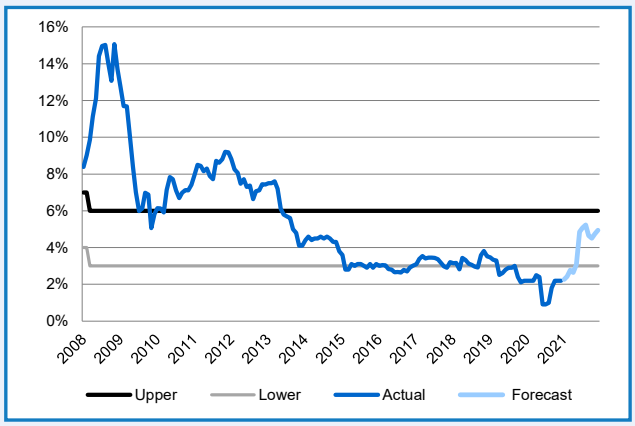
Total arrears on bank lending as a proportion of total banking assets declined during the third quarter of 2020, reaching its lowest level since the fourth quarter of 2015. Total arrears declined from 5.8% in Q2 2020, to 5.6% in Q3 2020. This was driven by a decline in arrears on lending to households from 5.0% in Q2 2020, down to 4.5% in Q3 2020. This was partially offset by a marginal increase in arrears on lending to businesses, which rose from 8.0% to 8.1% during the same period. The overall decline in arrears suggests that the COVID-19 pandemic has not resulted in households or firms defaulting on loans at an increased rate, which may in turn reflect a rescheduling of loan repayments by banks.

Interest Rates



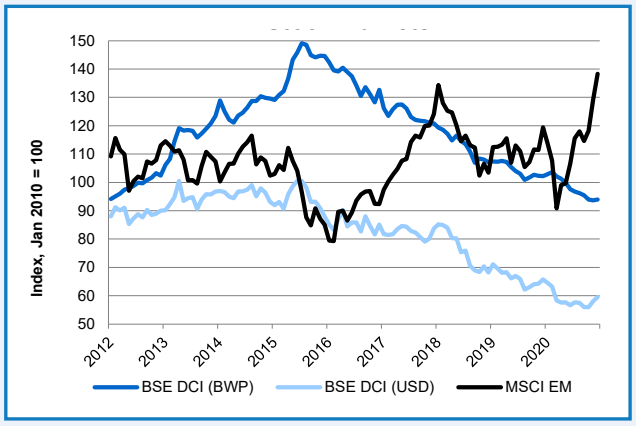
The Bank of Botswana's Monetary Policy Committee (MPC) took the decision to cut the Bank Rate by 50 basis points in October 2020, setting the new Bank Rate at 3.75%. This was the second 50 basis point cut in 2020. The decision to adopt a more accommodative monetary policy stance was taken to help support domestic economic activity during the global COVID-19 outbreak. Following the various Bank Rate cuts, money market rates also declined in 2020. The 7/14-day BoBC rate fell from 1.41% in December 2019, to 1.04% in December 2020; during the same period, the 91-day BoBC rate fell from 1.49% to 1.02%.

Inflation and Forecast



The headline inflation rate increased over the quarter to 2.2% in December 2020, up from 1.8% in September. Inflation has now remained below the Bank of Botswana's objective range of 3-6% for 15 months consecutively. However, inflation is expected to rise beyond the Bank's 3% lower bound by Q2 2021. Group indices remained generally stable during Q4 2020, recording changes of less than 1.0%, barring the Transport group index, which rose by 1.7%.

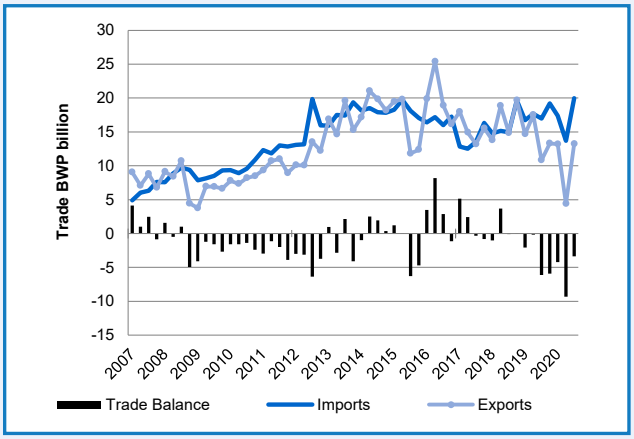
Stock Markets



The Botswana Stock Exchange (BSE)'s Domestic Companies Index declined by 1.6% in Pula terms but rose by 6.5% in USD terms during Q4 2020. The BSE performed poorly in 2020, failing to register significant recovery during the second half of the year as countries around the world began lifting lockdown restrictions. Overall, during 2020, the BSE declined by 8.1% and 9.4% in Pula and USD terms respectively. Conversely, global markets, the MSCI World Index and the MSCI Emerging Markets Index managed to record some recovery during the second half of the year, ending 2020 with growth of 14.1% and 15.8% respectively. The BSE continues to show little correlation with global markets, indicating that its performance is mainly driven by domestic factors.

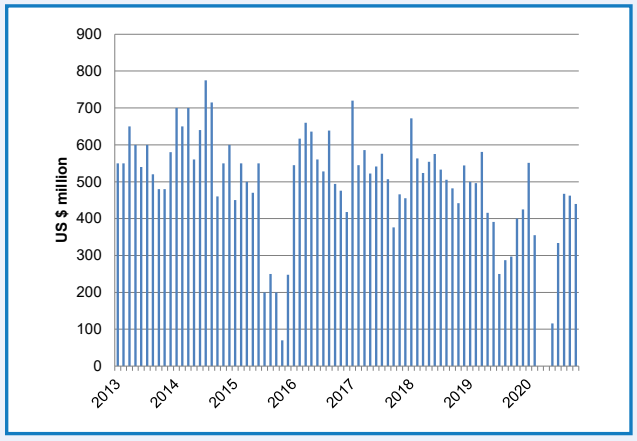
KEY ECONOMIC VARIABLES

International Trade



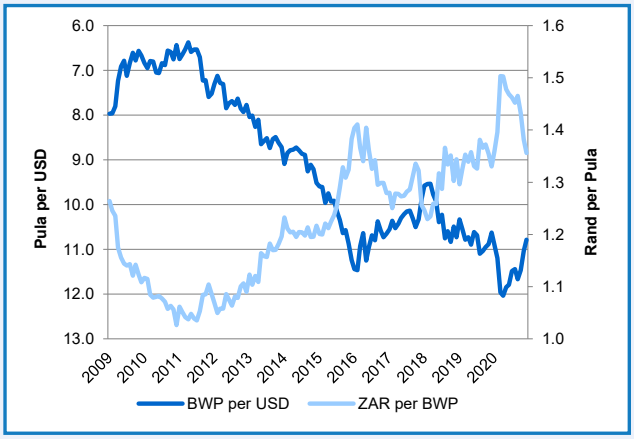
The negative impact of the COVID-19 pandemic on international trade activity began to ease during the third quarter of 2020 as countries gradually lifted lockdowns and travel restrictions. Total imports were valued at P20.0 billion in Q3 2020, up from a value of P13.7 billion in Q2 2020, representing a 45.8% increase. Imports increased across all categories. The value of total exports also increased significantly, rising by 201.7%, from P4.39 billion in Q2, to P13.2 billion in Q3. The rise in exports was driven by a 226.8% increase in the value of diamonds exported as De Beers reinstated its sight sales during Q3. The greater rise in exports against imports resulted in a smaller trade deficit of P3.35 billion in Q3, down from P9.32 billion during the previous quarter.

De Beers Diamond Sales



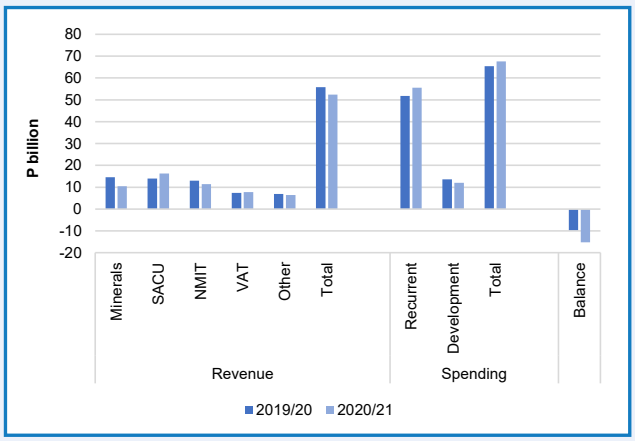
The global market for rough diamonds suffered a huge shock in 2020 due to the COVID-19 pandemic. Numerous sales events were cancelled during the year, due to travel restrictions and the closure of manufacturing operations and retail trade outlets to curb the spread of the COVID-19 virus. De Beers Global Sightholder Sales (DBGSS) experienced a drop in sales of 32.6% during the year, concluding 2020 with a total sales value of USD2.7 billion, down from USD4.0 billion in 2019. There were signs of recovery in the diamond market in Q4 2020 due to positive consumer demand going into the holiday season, but COVID-19 continues to pose various risks to the recovery of the sector. DBGSS sales were USD1.3 billion in Q4 2020, up by 204.2% compared to Q3, and 65.9% compared to Q4 2019.

Exchange Rates



The Pula weakened against the Rand and strengthened against the US Dollar during Q4 2020. As the global economy began to recover during the quarter, the appetite for riskier, emerging market currencies, such as the Rand began to increase. As a result, the Pula depreciated by 7.5% against the Rand, ending December 2020 with an exchange rate of ZAR1.3561, down from ZAR1.4654 in September. The Pula-US Dollar exchange rate appreciated by approximately 7.6% during the same period, rising from 11.67 to 10.79. The depreciation against the rand is particularly welcome, as the high value of the Pula was making it very difficult for Botswana's manufacturing sector to compete, whether competing with imports from South Africa or exporting to that country.

Fiscal Data



The release of the 2021 Budget Strategy Paper provided revised figures on government spending and revenue for the 2019/20 FY and updated forecasts for the 2020/21 FY. The data provided reports a larger budget deficit of P15.2 billion during 2020/21, up from an expected budget deficit of P9.6 billion in 2019/20. Revenue in 2020/21 is expected to decline by 6.3% when compared to 2019/20. This mainly due to an expected decline of 28.1% in mineral tax revenues in 2020/21 due to the COVID-19 pandemic and the negative impact it has had on the global market for rough diamonds. Total expenditure in 2020/21 is expected to rise by 3.2% compared to 2019/20; this is driven by an expected 7.3% rise in the recurrent budget but will be partially offset by a projected 11.3% decline in development spending. Post COVID-19, recovery will require increased expenditure from the government in order to stimulate the economy, therefore, P7.0 billion has been allocated for the Economic Recovery and Transformation Plan (ERTP) in 2020.

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14th October	De Beers September sales soar 57%. (Rapaport News)	De Beers has registered its highest sales since January 2020 as the demand for rough diamonds is gradually improving ahead of the holiday season. De Beers Global Sightholder Sales and Auctions were valued at USD467 million during the eight cycle of 2020, representing an increase of 57% when compared to the same period in 2019. Similarly, rough sales rose 40% when compared to the seventh cycle of 2020. The company also reduced prices of smaller goods by about 5-10%, mainly to encourage interest after months of rock-bottom demand during the coronavirus pandemic. In January 2020, the company recorded sales of USD551 million, however, sales shrunk to unprecedented lows when there was no trade activity in the diamond industry between the months of April and July 2020. According to the company, the demand trend is encouraging, but there is a long way to go before sustainable recovery in trading conditions is achieved.
20th October	Botswana sees 7.7% growth in 2021 on diamond industry recovery. (Reuters News)	The economy is expected to return to growth in 2021 on the back of a recovery of the diamond industry. The Government forecast GDP growth of 7.7% in 2021 up from the projected 8.9% contraction in 2020, as the coronavirus pandemic took a toll on economic activity. The domestic economy was severely constrained by the international coronavirus lockdowns which restricted movement. As a result, De Beers could not hold the usual sightholder sales. However, the diamond industry showed signs of positive recovery during the last quarter of 2020, and which is expected to lead to the rebound in domestic growth in 2021.
22nd October	Botswana approaches the World Bank for budgetary support. (Reuters Africa)	According to the Minister of Finance and Economic Development, Dr Thapelo Matsheka, Botswana has approached the World Bank for budgetary support after the coronavirus crisis hit revenues. Botswana has registered relatively few cases, but lockdown restrictions have disrupted economic activities and caused loss of income in key sectors such as diamond industry and tourism. The Botswana Parliament has also approved the Government's request to double the domestic borrowing programme to P30 billion to fund the expected budget deficit and economic stimulus.
6th November	De Beers to close Damtshaa mine. (Mining.com)	Debswana Diamond Company plans to temporarily close its Damtshaa diamond mine in 2021 for a period of three years. The mine produces lower quality diamonds which makes it expensive to dig especially during the period when the diamond industry is not performing well. The mine is one of four operated by the company, which is equally owned by De Beers and the Botswana Government. It has an average annual output of 500,000 carats which represent about 2.5% of Debswana's total production.
8th December	DTCB launches solar power project. (The Voice)	Diamond Trading Company Botswana (DTCB) has started the construction of a solar photovoltaic (PV) project at its offices in Gaborone. The project will be constructed in two phases, with phase one being the construction of a 350 kilowatt peak (kWp) solar power plant and phase two being the construction of a 600 kWp solar power plant, enough to generate sufficient energy for DTCB facility during the daytime. The construction of the green energy plants by DTCB would also add towards the realisation of Botswana's Vision 2036 goals by contributing to energy security.

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8th December	Businesses maintain confidence despite economic contraction. (Sunday Standard)	The Bank of Botswana's Business Expectations Survey (BES) results revealed that businesses were less pessimistic about economic activity in the third quarter of 2020 and expect to take about 12 months to recover from the impact of the coronavirus pandemic. Firms expect output to be stagnant in 2020, which is nevertheless an improvement from the 0.2% contraction predicted in the June 2020 survey. GDP is expected to contract along with the decline in production, sales, profitability, trade, investment etc. However, firms across all sectors are optimistic about economic recovery in the 12 months to September 2021, fostered by recovery in the mining and tourism sectors and the overall pick-up in economic activity.
10th November	A 998-carat diamond was discovered in Botswana. (Forbes)	Lucara Diamond's Karowe Diamond mine has unearthed a 998-carat rough diamond, which would be the fourth largest rough diamond ever discovered. The diamond measured 67x49x45mm and was recovered from ore sourced from an area in which other diamonds weighing 273, 105, 83, 73 and 69 carats were discovered. The 998-carat diamond is the second largest diamond to be discovered in 2020, after the 549 carat Sethunya diamond.
10th November	P14.5 billion allocated towards economic recovery. (The Voice)	The Government has allocated P14.5 billion for the implementation of the Economic Recovery and Transformation Plan (ERTP), which is expected to contribute to increased economic activity by accelerating the pace of implementation of existing policies and taking the economy out of the coronavirus crisis. The ERTP is an addendum to the Mid-Term Review of NDP 11 and it is aligned to Vision 2036. Hence, the ERTP will run until 2023 and the budget amount will be spread over the three years of plan.
10th November	Botswana signs agreement with global vaccine scheme for 20% of population. (Reuters News)	Botswana has signed an agreement with the global vaccine distribution scheme co-led by the World Health Organization (WHO), giving it the option to buy coronavirus vaccines for 20% of its population. Botswana does not qualify for subsidised vaccines under the COVAX scheme because of the upper middle-income status. According to the Ministry of Health and Wellness, Botswana has made an upfront payment to COVAX and has the option to secure about 940,800 vaccine doses under the two-dose regimen. Botswana has recorded a low number of coronavirus cases and deaths, but the economy has been dealt with a severe blow by the pandemic.
1st December	Sandfire bets in Botswana as copper price soars. (Financial Review)	Sandfire Resources has made the decision to open a copper mine at its T3 project located in the Kalahari Copper belt. The new mine is estimated to produce 30,000 tonnes of copper per year from 2023 and production would increase to more than 50,000-60,000 tonnes of copper in the following years based on the added scale and higher copper grades at its nearby A4 project. The decision to open the mine was motivated by the increase in copper prices in recent months, which hit a seven year high in 2020. Copper prices increased to USD3.48 a pound in December 2020, up from USD2.10 a pound in March 2020.

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4th December	BHC hikes rentals next April. (Mmegi)	The Botswana Housing Corporation (BHC) announced its intention to increase rentals on its properties from 1 April 2021 after approval by the Government. Rentals are expected to increase by as much as three times from their current levels, as this will be the first increase in about 16 years. Rental increments will be done in phases; individual rentals will be increased over a period of five years while government and parastatal rentals will be increased once, from the beginning of April 2021. BHC rental prices has been below market value and impacting the performance of the BHC.
6th December	De Beers planning return of Botswana sights. (Rapaport News)	De Beers intends to reintroduce sights in Botswana during the first quarter of 2021, enabling a more efficient sales process following months of viewings in scattered locations. This follows the relaxation of some travel restrictions by Government and allowing cross-border movement into and out of Botswana. De Beers has not held sights in Botswana since February 2020; the company plans to offer sightholders the flexibility to attend sales in Gaborone or continue inspecting goods in different market locations.
8th December	Uranium mine exits the BSE. (Sunday Standard)	The Australian miner A-Cap, which is listed on the Botswana Stock Exchange (BSE)'s venture capital board, will be exiting the local stock market following the decision by major shareholders to delist. The loss of A-Cap is a setback for the BSE, which last year lost two major companies, Wilderness Holdings Limited and Furnmart, after they delisted. A-Cap was granted a mining licence for uranium in 2016. However, the commencement of construction of A-Cap's proposed Letlhakane Uranium mine has been postponed to sometime later in 2021; when operational, the mine is expected to produce about 3.75 million pounds of uranium per annum over a mine life of 18 years.
11th December	More than 100,000 companies axed off CIPA's register. (Mmegi)	In accordance with regulations of the Companies (Amendment) Act of 2018, companies and businesses were required to re-register their company names and business names on the Companies and Intellectual Property Authority (CIPA)'s Online Business Registration System (OBRS) by the 2 December 2020. Failure to re-register would result in the de-registration of a company and a business. According to CIPA, about 47.6% (105,845) of companies and 8.6% (18,990) of businesses had been re-registered before the deadline, while approximately 117,000 companies and another 200,000 businesses had been de-registered and removed from the CIPA's register. The re-registration on the OBRS commenced on 1 June 2019 and ended on 2 December 2020. The migration of companies and businesses on the OBRS meant that there will be no provision for 'dormant' companies and businesses, and that all companies and businesses are active.

NEWS HIGHLIGHTS

13th December	De Beers trims production plan for coming years. (Rapaport News)	De Beers has reduced its production plan for the next two years, aiming to avoid releasing too much rough into the market as the diamond sector attempts to exit the coronavirus crisis that dominated 2020. Rough production will be reduced to between 33 and 35 million carats in 2021, down from the initial forecast of 34 to 36 million carats. Output in 2022 will range from 30 to 33 million carats — compared with earlier guidance of 33 to 35 million carats — and will remain at the same level in 2023. De Beers will exercise prudence and monitor industry developments to not contribute to overstocking across the industry.
14th December	BBS looks forward to clinching banking license in 2021. (Sunday Standard)	The former Botswana Building Society (BBS), now BBS Ltd, intends to re-apply for a banking license with the Bank of Botswana in 2021. BBS had previously made an application for a banking license in 2018, but later withdrew its application due to the delay in the release of financial statements. The latest financial statements show that BBS made a loss of P35.76 million in 2019 compared to a P26.19 million loss in the 9 months to September 2018. Total assets amounted to P4.63 billion in 2019 up from P4.03 billion in 2018, representing an increase of 15%. There was an increase of 6% in mortgage loans and advances from P3.19 billion in 2018 to P3.40 billion in 2019.
14th December	Inside BMC's prime COVID-19 cut of P115 million. (Sunday Standard)	The Government has injected about P115 million to cushion the Botswana Meat Commission (BMC) against the unprecedented impacts of the COVID-19 pandemic. The cash injection will be used to payoff some of BMC's debts including commercial banks and outstanding payments to farmers.
15th December	De Beers buys another year to strike diamond deal with Botswana. (Bloomberg)	The Government of Botswana and the De Beers Group have extended their sales agreement by another year due to logistical challenges presented by the coronavirus pandemic. The extension of the sales agreement would also give the two parties time to negotiate the new contract after the original contract ended in December 2020. It was also stated that the extension of the sales agreement will be under the terms of the existing agreement. The deal is crucial for both parties – Botswana accounts for more than 66.6% of De Beers output while diamonds are the single largest export commodity in Botswana.
23rd December	Botswana launches National Space program. (Space in Africa)	The President of Botswana, Dr Mokgweetsi Masisi, has launched the satellite project which will see Botswana developing its own space programme and owning a home-grown nanosatellite. The program aims to launch an Earth observation 3U nanosatellite into space in the next three years with the ambition to launch bigger satellites such as the 6U and 12U in the future to create a constellation. The program will be domicile at the Botswana International University of Science and Technology (BIUST) in collaboration with local and regional partners.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2015	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4
Annual Economic Growth										
GDP	%	-1.7	4.3	2.9	4.5	3.0	2.6	-4.2	-6.4	..
Mining	%	-19.6	-3.7	-11.1	5.3	-3.9	-6.1	-18.6	-21.9	..
Non-mining private sector	%	1.4	7.1	5.6	4.7	4.2	4.1	-3.7	-6.3	..
GDP current prices	P bn	146.07	170.56	180.10	190.37	197.27	50.73	36.86	44.67	..
GDP 2006 prices	P bn	86.08	89.79	92.39	96.53	99.40	25.07	18.85	23.40	..
Money & Prices										
Inflation	%	3.1	3.0	3.2	3.5	2.2	2.2	0.9	1.8	2.2
Prime lending rate	%	7.50	7.00	6.50	6.50	6.25	6.25	5.75	5.75	5.25
BoBC 7/14-day	%	0.97	0.84	1.45	1.52	1.41	1.44	1.00	1.01	1.04
Trade & Balance of Payments										
Exports - total goods	P bn	63.48	80.34	61.67	67.17	56.29	13.19	4.39	13.23	..
Exports - diamonds	P bn	52.73	70.78	54.38	60.41	51.01	11.44	3.57	11.68	..
Balance of payments	P bn	-4.15	-3.28	-4.28	-4.20	-12.02	-4.85	-3.02	..	..
Foreign Exchange										
Exchange rate BWP per USD	end	11.24	10.65	9.87	10.73	10.63	11.96	11.79	11.67	10.79
Exchange rate ZAR per BWP	end	1.38	1.28	1.26	1.34	1.33	1.50	1.47	1.47	1.36
FX reserves	$ bn	7.55	7.19	7.50	6.66	6.17	5.20	5.39	5.07	..
FX reserves	P bn	84.88	76.80	73.69	71.43	65.23	62.01	63.65	58.85	..
Financial Sector										
Deposits in banks	P bn	59.96	62.44	63.58	69.27	75.71	77.3	78.4	79.7	..
Bank credit	P bn	48.31	51.32	54.18	58.33	62.77	64.6	64.0	63.8	..
BSE index		10,602	9,728	8,860	7,854	7,495	7,488	7,160	7,001	6,890
Business Indicators										
Diamond production (a)	mn cts	20.73	20.88	22.96	24.38	23.67	5.74	1.93	4.92	..
Copper production (b)	tonnes	23.05	16.88	1.24	1.46	..	..	..	..	..
Nickel production	tonnes	16.79	13.12	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	1,011	854	994	..
Crude oil (Brent)	$/bar	36.61	54.96	66.73	50.57	67.77	14.85	41.64	40.30	51.22
Employment (formal) (f)										
Government		130,220	129,216	129,009	133,238	156,785	155,488			
Parastatals		19,411	19,008	19,444	19,830	23,497	26,591			
Private sector		191,484	194,202	193,745	195,681	227,281	224,735			
Total		341,115	342,426	342,198	348,749	407,563	406,814			

Govt Budget		2017/18 (d)	2018/19 (d)	2019/20 Revised (e)	2020/21 Projection (e)
Revenues	P bn	56.41	53.47	55.81	52.31
Spending	P bn	58.39	62.35	65.39	67.52
Balance	P bn	-1.98	-8.88	-9.58	-15.21
Public debt & guarantees	P bn	32.99	34.41	38.17	34.91
Govt deposits at BoB	P bn	30.09	21.56	19.86	..
GDP	P bn	182.19	193.48	194.48	190.47
Revenues	%GDP	31.0%	27.6%	28.7%	27.5%
Spending	%GDP	32.0%	32.2%	33.6%	35.4%
Balance	%GDP	-1.1%	-4.6%	-4.9%	-8.0%
Public debt & guarantees	%GDP	18.1%	17.8%	19.6%	..
Govt deposits at BoB	%GDP	16.5%	11.1%	10.2%	..

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

Notes:

(a) 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)

(b) Copper production starting Q2 2017 for Mowana mine

(c) Numbers in Italics reflect revisions from the previous review

(d) Actual

(e) Budget

(f) Data sources changed from 2019 onwards, therefore there is a structural break in the data series.

SPECIAL FEATURE

The Economic Impact of COVID-19 - Predictions and Outcomes

Introduction

The COVID-19 pandemic began in Wuhan City in China, when clusters of viral pneumonia of an unknown cause were identified in December 2020. It was later referred to as the "novel coronavirus" in January 2020. The origin of the virus is unknown, and research is still underway to find the root source, which could take several years. The virus then spread rapidly within China and to other countries. The World Health Organisation (WHO) then declared the novel coronavirus outbreak a Public Health Emergency of International Concern (PHEIC) in the late January 2020. At the time there were 98 cases and no deaths, in the 18 countries outside China that had reported cases to the WHO. In China, 41 cases and 1 death had already been reported by WHO.

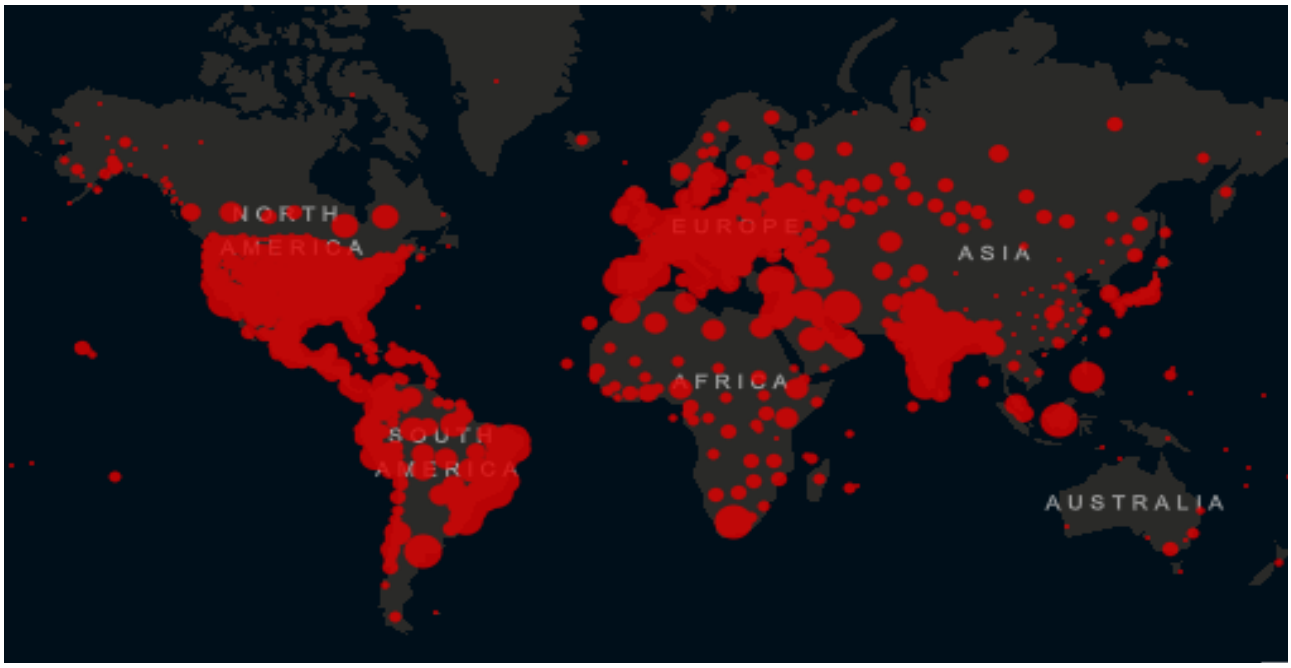
The virus then spread rapidly with more and more cases reported worldwide. The alarming number of cases prompted the WHO to declare COVID-19 a pandemic on 11 March 2020, with more than 118,000 cases and 4,291 deaths reported in 114 countries. The WHO Director-General noted that the COVID-19 pandemic was not just a public health crisis but one that would affect all sectors of the economy. A prudential approach should be taken to minimise the spread and save lives.

When we first reported in our special edition of the Economic Review on COVID-19 back in March 2020, the total number of COVID-19 cases globally was 339,259, with 14,706 deaths, as represented in figure 1 below. At the time, no cases had been reported in Botswana, but neighbouring South Africa and Namibia had reported cases so it was only a matter of time before Botswana reported its first COVID-19 cases.

Figure 1: Global distribution of confirmed COVID-19 cases (24 March 2020)

SPECIAL FEATURE

Figure 2: Global distribution of confirmed COVID-19 cases (25 January 2021)



Source: John Hopkins University

As with other viral pandemics, the hope was that infections would stabilise and eventually decline. However, the situation with COVID-19 has not been easy to predict, with waves of infections and no clear signs of stabilisation. Some locations have seen a high number of cases followed by a decline and then a rise in new cases. Overall, there have been a steady increase in the number of confirmed COVID-19 cases globally. As at the 25 January 2021, the cumulative number of confirmed COVID-19 infections globally was 99,257,349, with 2,123,743 deaths.

Botswana recorded its first COVID-19 cases in March 2020, and by 23rd January 2021 there had been 19,654 total confirmed infections with 105 deaths and 15,991 recoveries. This is significantly lower than the total COVID-19 infections recorded in Namibia, which has a comparable population size to Botswana, and proportionally lower than in South Africa. The total number of confirmed COVID-19 cases in Namibia was 32,213 with 317 deaths, while South Africa – with approximately 25 times the population of Botswana - had 1,404,839 confirmed COVID-19 cases with 40,574 deaths.

Table 1: COVID cases and deaths, selected countries

Country	Cases	Deaths	Cases	Deaths
	number	number	per million	per million
New Zealand	2,283	25	473	5
South Korea	75,084	1,349	1,465	26
Kenya	99,898	1,740	1,858	32
Australia	28,766	909	1,128	36
Japan	361,928	5,063	2,862	40
Botswana	**19,654**	**105**	**8,358**	**45**
Zimbabwe	31,007	974	2,086	66
Norway	60,803	544	11,216	100
Namibia	32,213	317	12,678	125
South Africa	1,404,839	40,574	23,687	684
Brazil	8,816,254	216,445	41,477	1,018
Sweden	547,166	11,005	54,179	1,090
France	3,093,619	73,018	47,395	1,119
USA	24,994,463	417,439	75,511	1,261
UK	3,627,746	97,518	53,439	1,436

Source: ourworldindata.org

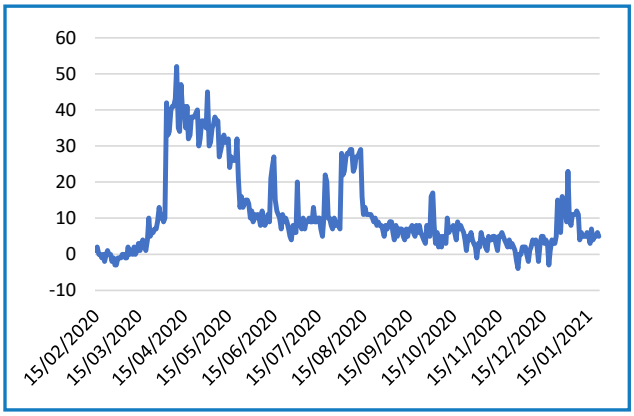
SPECIAL FEATURE

Expectations that infections would stabilise and decrease are far from reach as new strains or variants of the virus that cause COVID-19 have been detected (so far) in South Africa, the United Kingdom and Brazil. These new variants are reported to be more deadly that the original virus as they have been found to spread faster. This suggests that the impact of the pandemic will be much longer-lasting than it was originally anticipated. Thus, the fight against COVID-19 has become highly dependent on the successful rollout of vaccines globally.

Impact of COVID-19 on mobility

In recent months, companies like Google and Apple, through their map services and location history data, have been able to compile data on people's movement during the pandemic. The analysis of the data provides insights into movement trends over time by geographical region, across different categories of places like retail stores, transport facilities such as bus stations and combi ranks, workplaces, and residential locations. We use the Google mobility data to analyse the impact of COVID-19 on people's movement in Botswana, with focus on the following categories: retail and recreation, supermarkets and pharmacies, public transport, residential areas and workplaces. The figures measure mobility relative to a February (pre-lockdown) baseline.

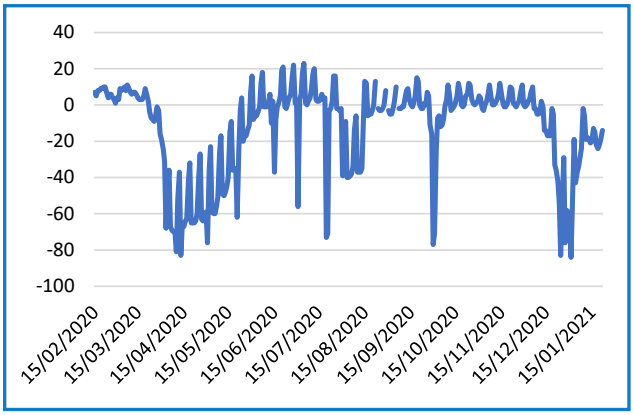
Figure 3: Residential mobility (index relative to pre-COVID baseline)



Source: www.google.com/covid19/mobility

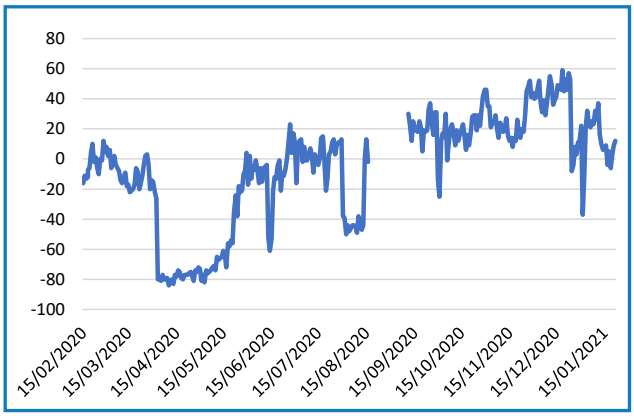
The residential mobility graph shows three main events in Botswana (spikes in the data). The first period is that of the first lockdown during April and May 2020. The mobility data shows that many people, as expected, spent more time in their homes during this period. The second period is that of the two week lockdown in July/August 2020 imposed for the greater Gaborone zone because of an increase in the number of confirmed cases, especially in schools. Lastly, the third spike in residential stays was during the festive season and closure of schools for the holidays. In general, residential mobility in Botswana was higher during holiday periods and lockdown periods.

Figure 4: Workplace mobility



There is a notable change in workplace mobility before and after the first lockdown in Botswana. The graph shows constant workplace mobility in February 2020 and March 2020. However, mobility in the workplaces fell during periods of lockdown, with people spending fewer hours at work or not reporting at work because they are working from home. There are also clear reductions in workplace mobility around holiday periods. On a positive note, there is no sign of a reduction of employment once the lockdowns were lifted.

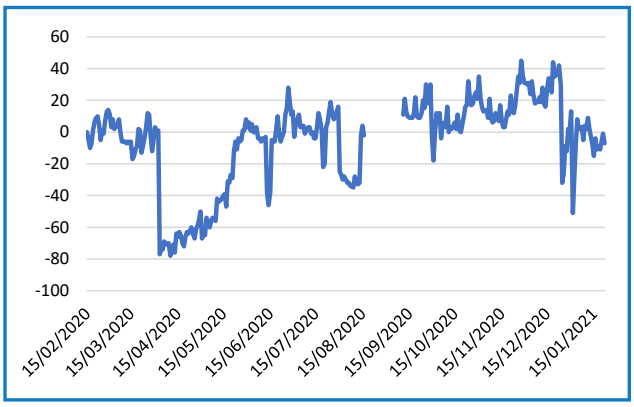
Figure 5: Transport mobility



SPECIAL FEATURE

Similarly, mobility in transport facilities such as bus stations and combi/taxi ranks show that there were fewer people there during periods of lockdowns and public holidays. However, mobility clearly demonstrates an upward trend from the middle of the year, particularly during the festive season. This may reflect "catch up" from the lockdown period when travel was not possible, and perhaps more domestic travel given the continued restrictions on cross-border travel[1].

Figure 6: Retail mobility



Like other categories, mobility in retail and recreational locations such as restaurants, shopping centres and libraries etc was affected by lockdown periods. There were fewer people visiting retail and recreation places due to movement restrictions and the closure of non-essential services. Mobility began to increase when movement restrictions were eased, but fell sharply around the festive season when a night-time curfew was imposed.

Overall, the mobility data paints a fairly positive picture, with recovery from lockdowns and other disruptions, an upward trend in retail and travel, thereby supporting the economy, and no major negative impact on workplace activity.

The Economic Impact of COVID-19

The outbreak of the COVID-19 pandemic led to the imposition of travel restrictions and complete lockdowns across various countries. As such, the pandemic caused a slowdown in economic activity across the globe, driven by a sharp decline in consumer demand. The IMF adjusted global growth projections for 2020 from 3.4% pre-COVID to around minus 3% in April 2020. Standard and Poors initially projected 2020 global growth to fall to between 1-1.5% (in a best-case scenario). For Botswana, Econsult projected back in March that the economy would contract by 4% in 2020 with the possibility of a short-term contraction of up to 20%.

GDP Growth

However, the pandemic has persisted for a longer period of time than was initially expected resulting in a much larger negative impact on economies. As of October 2020, the IMF projected a larger contraction in the global economy, with a global GDP growth estimate of minus 4.4% in 2020. However, a more recent estimate in January 2021 estimated a smaller contraction of 3.5% in the global economy owing to "stronger-than-expected momentum" in the second half of 2020. Growth projections in Botswana have also been adjusted downwards; the IMF and the MFED have provided growth estimates of minus 9.2% and minus 8.9% respectively for 2020. The short-term contraction in the local economy recorded in Q2 2020 was 24%, larger than initially projected.

Diamonds and Tourism

Focusing on specific sectors/industries within the economy, diamonds and tourism, Botswana's main sources of foreign earnings, were both expected to be negatively affected. Travel restrictions were expected to negatively affect the tourism industry as the number of international visitors coming into the country collapsed. The travel restrictions were also expected to affect the diamond market negatively as sales events, which had previously been conducted in person, required travel into Botswana. Furthermore, the general economic slowdown across the globe due to the COVID-19 pandemic would severely weaken the demand for diamonds due to reduced incomes and retail activity. Other sectors of the economy were also expected to be negatively affected by the COVID-19 outbreak due to lower consumer demand and disruptions to supply chains.

There was a significant decline in diamond trading activity through Q2 and Q3 2020, with various sales events being cancelled due to travel restrictions and the closure of manufacturing operations and retail trade outlets. There were, however, signs of recovery going into the holiday season in Q4 2020 with the value of DBGSS diamond sales rising by over 200% between Q3 and Q4. Overall, DBGSS diamond sales for 2020 were valued at USD2.8 billion, down from USD4.0 billion in 2019, representing a 31.2% decline in sales revenue. The prospects for continued recovery in 2021 in the diamond market are good, although downside risks caused by COVID-19 continue to persist.

On the other hand, the tourism industry is most likely to experience the longest-lasting negative effects of the COVID-19 pandemic. There has been no clear indication of when "business as normal" will return and despite an increase in domestic tourism, recovery in the industry has remained subdued due to limited international travel.

[1]The gaps in the data reflect dates when the data did not meet quality and privacy thresholds, or there was not enough data to ensure anonymity.

There are likely to be some casualties in the industry, with some business not surviving the duration of the pandemic. Overall, the negative impact on the diamond industry was deeper than originally anticipated, but there are signs that the hoped for "V-shaped" recovery is materialising. For tourism, however, the impact has been as deep as feared, but will be much more prolonged. Ironically, it now appears that the inability of wealthy consumers to travel is one of the contributors to the recovery in demand for diamonds.

Across other sectors, the negative impact of COVID-19 was widespread throughout Q2 2020 but there have been signs of subsequent recovery. There will however be a prolonged negative impact on some sectors: transport, due to restrictions on domestic and international travel; catering/restaurants, sports and entertainment due to crowd restrictions and travel restrictions; bars and alcohol related trade due to the prohibition of alcohol sales.

Fiscal position and government debt

The COVID-19 pandemic was expected to have a negative impact on Botswana's fiscal position. Most sources of Government revenue - be it mineral revenues, SACU revenues and income tax - were expected to decline during this period. However, the decline in revenues has been sharper than initially projected. This, coupled with an increase in spending on healthcare and economic support programmes, has resulted in a large budget deficit for the 2020/21 FY, which in the October 2020 Budget Strategy Paper was estimated to reach P15.2 billion (8% of GDP). To fund the deficit, the Government has increase the level of domestic borrowing[2] and made substantial drawdowns from the Government Investment Account (GIA) held at the Bank of Botswana. Normally, a significant increase in Government spending would result in an increase in interest rates and possibly "crowding out" of private sector investment; however, to mitigate this, the BoB implemented two 50 basis point cuts to the Bank Rate during 2020 which have driven down domestic interest rates. It is, however, worth noting that the bond yields for medium to longer term bonds such as the BW007 and BW014 have risen over the course of 2020.

Foreign trade and balance of payments

Diamond trading and tourism, Botswana's main sources of export earnings, were the two sectors that were likely to be hardest hit by the COVID-19 pandemic. As a result, export earnings were expected to decline in 2020 by approximately P12 billion, a 20% decline when compared to 2019. If imports were assumed to remain the remain the same, then the balance of payments would worsen and have to be financed through a drawdown of foreign exchange reserves. Whilst a full year of trade data is not yet available, we can see that between January and October 2020, export earnings from diamonds were valued at P30.9 million, a 25.1% decline when compared to the P41.3 million earned during the same period in 2019. Foreign exchange reserves were valued at P57.5 billion in October 2020, representing 16.5% (P11.39 billion) decline since the start of the year.

Employment

Unemployment was expected to rise as economic activity slowed down which is a common occurrence during global economic downturns. There has been no data on employment figures since the first lockdown in April as data collection was suspended through Q2-3 2020. However, we can conclude that the restrictions on retrenchments imposed through the implementation of the SoPE have suppressed the rise in unemployment. Although this may be good for employment in the short-term, some firms may be forced to shut down permanently because they are not able to downsize their staff, which, in the long run, will have a negative impact on both output and employment.

Inflation

The significant drop in international oil prices, along with weakened global demand subduing imported inflation, were the main drivers behind the decline in the domestic inflation rate, which reached historically low levels in mid-2020. The last half of 2020 did see a slight rise in domestic inflation as global demand began to rise as economies began easing lockdown/travel restrictions, international oil prices began to recover, and food prices rose.

Financial sector

The financial sector in Botswana has proven to be more resilient than initially predicted. The sharp increase in arrears/debt write offs that were expected have not been realised. Total bank credit has continued to grow, albeit at a slower pace as commercial banks began to adopt a more cautious approach to lending. Furthermore, bank credit to firms, which had been contracting since June 2019 registered positive growth in October 2020, indicating a possible resurgence in firm output/activity in the future. Arrears on bank lending as a proportion of credit have also remained fairly stable, gradually declining from 6.2% in Q4 2019 to 5.6% in Q3 2020.

Financial markets

Stock markets around the world suffered a major crash in the immediate aftermath of the COVID-19 pandemic. At the time, there were fears that the collapse would continue for a prolonged period time with no clear indication of when it would "bottom out". However, there has been a strong recovery in global stock markets following the initial shock, especially during the second half of 2020. In fact, over the course of the 2020, the MSCI World Index and the MSCI Emerging markets Index grew by 14.1% and 15.8% respectively when compared to 2019. The BSE however suffered an almost perfectly opposite fate, during the initial global crash, the DCI remained stable but failed to register any significant growth during H2 2020, ending the year with a 9.4% decline in US Dollar terms. The performance of glob-

al stock markets remains a puzzle, however, with concerns that they are detached from underlying economic realities. This applies especially to US markets, which have been remarkably buoyant during 2020.

Exchange rates

The initial reaction to the COVID-19 pandemic for investors was to flee from riskier emerging market currencies such as the Rand to safer currencies such as the US Dollar. As a result of this, the Rand dropped sharply, and the Pula appreciated against it when the pandemic begun, reaching an exchange rate of over ZAR1.50 in April/March. This was particularly troubling as it raised concerns over the competitiveness of locally manufactured goods exported to the South African market, as well as those competing with imports. Fortunately, as the global economy began to recover, the appetite for South African Rands began to increase as investors chased greater returns. This increased appetite, coupled with the political upheaval in the United States towards the end of 2020, allowed the ZAR to recover strongly against the US Dollar which helped normalise the exchange rate between the Pula and the Rand. The Pula is now worth below R1.40, a welcome development for manufacturing firms looking to export to South Africa and local firms competing with goods imported from South Africa.

Policy interventions and their effectiveness

Like most countries, Botswana has adopted a range of interventions to combat the pandemic. These include restrictions on movement and economic activity, combined with interventions to offset the adverse impacts. Physical restrictions have included lockdowns – one national and one regional; restrictions on domestic (interzonal) travel; border closures (now lifted); the current curfew; and restrictions on the size of meetings and gatherings. Economic restrictions include the closure of bars and the prohibition of alcohol sales, as well as restrictions on meetings, conferences, sporting and music events etc.. While these restrictions continue to have an adverse impact on some businesses, there seems to be an acceptance they strike a reasonable compromise between protecting the health and economic needs of the population.

Botswana moved quickly early on in the pandemic to introduce short-term economic stabilisation measures to combat the effects of COVID-19. These included wage subsidies for most firms; a loan guarantee scheme; provision for deferment of some tax obligations; and food support for vulnerable households. The Bank of Botswana acted to take pressure off of the financial system by reducing capital requirements for banks, relaxing prudential regulations, and reducing interest rates. The rate of downward crawl of the exchange rate was also increased slightly. Subsequently, the wage subsidy scheme for tourism was extended, and a soft loan scheme was established through government-owned development finance institutions to support firms across the economy, along with a small grant payment to informal sector enterprises. The total fiscal value of the interventions by government is in the range of 2.5% - 3% of GDP

It is of course difficult to quantify their effectiveness, as the counterfactual (no or different interventions)is unknown. However, the interventions implemented were in line with best practice internationally. There appears to have been a good take up of most of the concessions on offer, with the exception of the loan guarantee scheme. While there are inevitable calls for the concessions to be increased in size or extended, they are probably close to what can be afforded from a fiscal perspective. However, there may be a need for some targeted interventions to support the worst hit sectors, including tourism, hospitality and entertainment.

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