



ECONOMIC

review

SECOND QUARTER APR-JUN 2023

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COMMENTARY

Growth sustained in the first quarter 2023 **BUT THE OUTLOOK FOR THE YEAR INDICATES A SLOWDOWN IN ECONOMIC GROWTH**

Introduction

Economic developments taking place or being reported in the second quarter of 2023 have been broadly positive, with real growth maintained at a robust level. Inflation has fallen faster than had been expected, and interest rates have remained unchanged. Financial buffers in the form of the foreign exchange reserves and government deposits at the Bank of Botswana showed a strong recovery in April. However, there has been a slowdown in the global market for rough diamonds, with weak demand, falling prices and intensifying competition from synthetic diamonds. This will in due course have an impact on export earnings and fiscal revenues.

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Economic Growth

GDP growth figures for the first quarter of 2023 show that the economy continues to expand at a healthy rate, with annual growth of 5.4%, similar to the 5.8% rate for 2022. Growth was well distributed across the economy as a whole, with all sectors showing positive growth. Mining grew by 5.0% in the year to March 2023, and the non-mining private sector by 6.0%. The fastest-growing sectors were water and electricity, diamond traders, manufacturing, wholesale and retail trade, and ICT. The slowest growing was agriculture. The spread of growth across sectors is positive from a diversification perspective. Nevertheless, it is likely that growth will slow during the remainder of 2023.

Inflation and interest rates

Inflation has dropped rapidly, down to 4.6% in June 2023. Inflation was expected to decline through the first half of 2023, due largely to the reduction in fuel prices, compounding base effects as the impact of large fuel price rises in the first half of 2022 dropped out of the annual inflation calculation. However, the fall in inflation has been faster than expected. Transport costs have been the largest contributor to overall inflation since mid-2021, but this is no longer the case, with food and non-alcoholic beverages now the main driver of inflation. High food price inflation reflects both regional trends (in Southern Africa) and local import restrictions, and contrasts with global trends where food prices have been falling; the FAO global food price index in June 2023 was down 21% on a year earlier.

Inflation has been above the upper end of the Bank of Botswana's objective range of 3%-6% since May 2021, but fell back into the range as of May 2023. Our expectation is that inflation will continue to fall in the short term, before rising towards the end of 2023, while remaining with the BoB range. Inflation risks are, however, on the upside, as food prices may increase both regionally and globally due to climate impacts and supply constraints. International fuel prices have also been rising over the past two months, which may mean that the next domestic fuel price movement could be upwards. Some measures of inflation have remained stubbornly high, notably core inflation excluding administered prices (7.1%) and the prices of domestically produced tradeable commodities (10.0%). We expect inflation to end the year just below 6%.

The fall in inflation is positive from a monetary policy perspective. BoB has kept policy rates on hold since August 2022, notwithstanding interest rates being raised around the world to address stubbornly high inflation. The high rate of domestic tradeables inflation may be one result of this relatively loose monetary policy. However, given the fact that external rather than domestic factors are the main driver of inflation – and external factors are now more benign – there is now less pressure for an increase in domestic interest rates.

Diamonds

On a less positive note, the global diamond market has had a tough time so far in 2023. To some extent this represents an inevitable correction after the post-covid recovery boom in 2022, but it is also influenced by global macroeconomic uncertainty, fears of recession in the USA, and a slow pace of recovery in China following the lifting of covid-19 related restrictions at the beginning of the year. Rough diamond prices have fallen in 2023, after sharp increases during 2021 and 2022. Rough diamond sales by De Beers Global Sightholder Sales (DBGSS) in the first half of 2023 totalled US\$2.42 billion, which was 23% lower than in the first half of 2022. This is reflected in lower diamond exports for Botswana, which were down 19% (in Pula terms) over the first four months of 2023 compared to the same period in 2022. Despite this, the balance of trade showed a surplus over this period, as imports (especially diamond imports) showed a large drop. Export performance was also helped by much higher copper exports.

Much of the uncertainty that had been overhanging the diamond sector through the first half of the year was lifted by the welcome announcement by the Government and De Beers that they had reached agreement on a wide range of issues around the mining and marketing of Botswana's diamonds, as well as measures to boost Botswana's participation in the global diamond value chain. While a full assessment of the impact of the agreement requires more information on the details of the agreement – which are still being finalised – there are many positive aspects for Botswana. The most important is the agreement on the extension of Debswana's mining licences through to the early 2050s, as well as continuation of the long-standing relationship between Botswana and De Beers. This provides the assurances that are necessary to underpin the very large investments that will be required from GoB and De Beers to prolong production at these world-class mines. It is important to recall that, in fiscal terms, GoB obtains almost all of its mineral revenues from Debswana, and the continued production from these mines is essential to fiscal sustainability.

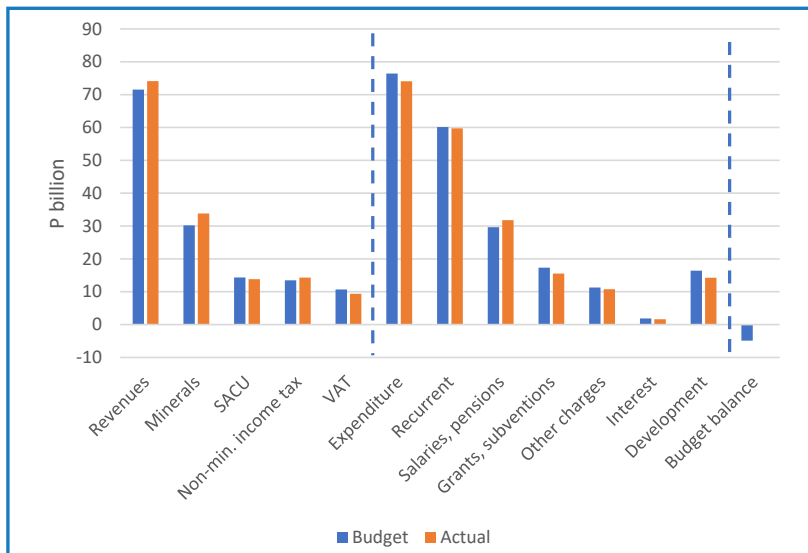
Foreign Exchange Reserves

The foreign exchange reserves increased to US\$4.9 billion in April 2023, the highest level since the beginning of 2022. The increase resulted from the positive trade balance, SACU receipts, and drawdowns of external borrowing. In Pula terms, the reserves increased to P64.9 billion, due in part to exchange rate effects with the weakening of the Pula against the US dollar. At this level, the reserves provide around 7 months of import cover. Of the total reserves, 29% or P18.5 billion are directly attributable to Government, through the Government Investment Account (GIA) at the Bank of Botswana.

Government Budget

Preliminary budget figures for the 2022/23 financial year show that the overall budget was broadly in balance (a small surplus of P9 million was reported). This compares with the projected deficit for the year of P4.88 billion at the time of the 2023 Budget. The improvement of some P5 billion in the budget outturn had several contributing factors. Overall revenues came in P2.6 billion (3.6%) ahead of the revised budget, with P3.6 billion (12.0%) outperformance in mineral revenues, offset by a P1.3 billion (12.2%) shortfall in VAT revenues. Total expenditure was P3.3 billion (3.0%) below budget, mainly due to a P2.2 billion (13.2%) underspend on the development budget.

Figure 1: 2022/23 Budget and Preliminary Outturn



Source: Ministry of Finance

The results are largely in line with expectations and are positive, in that the budget needs to be brought back into balance after five successive years of deficits. However, they are also a reminder of the lack of realism in the preparation and implementation of projects included in the development budget, with Ministries unable to spend the money they have been allocated.

The process of selecting and prioritising development projects is also weak. Furthermore, it is unlikely that the increase of almost 50% in the 2023/24 development programme (compared to the 2022/23 outturn) will be realised, and runs the risk of creating inflationary pressures in the economy.

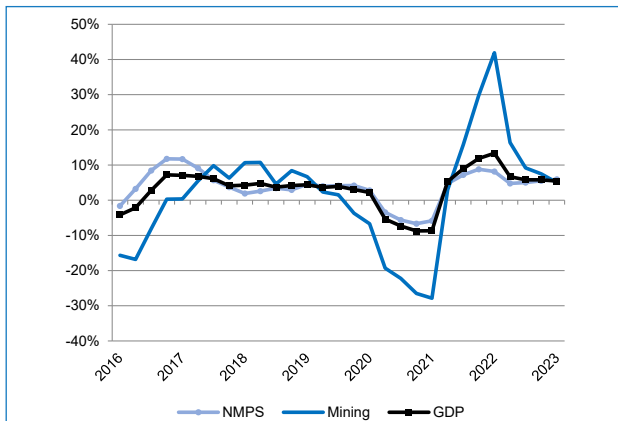
Outlook

At the half-way point of 2023, the outlook is for a slowdown in economic growth during the remainder of the year. Recent forecasts from the IMF project growth of 3.8% for 2023 as a whole. With growth of 5.4% in the first quarter, this indicates that growth will be slower in the coming quarters. The main driver of the slowdown will be lower diamond production, as output is trimmed to match weak global demand and rising inventories in the diamond value chain. This, combined with lower diamond prices, will also have an impact on diamond exports. Government may try to offset this slowdown to some extent with additional spending, given the run-up to the national election due in 2024. This may provide a short-term boost to the economy, but is unlikely to change the longer-term growth outlook given the difficulties associated with selecting and implementing productive public investment projects.

Inflation should remain within the Bank of Botswana's objective range for the rest of 2023, albeit with a pick-up towards the end of the year. Given this outlook, it is likely that policy interest rates will remain at their current levels for the foreseeable future. However, at some point individual banks will start changing their own interest rates, following liberalisation, to reflect their rates their own funding and liquidity positions.

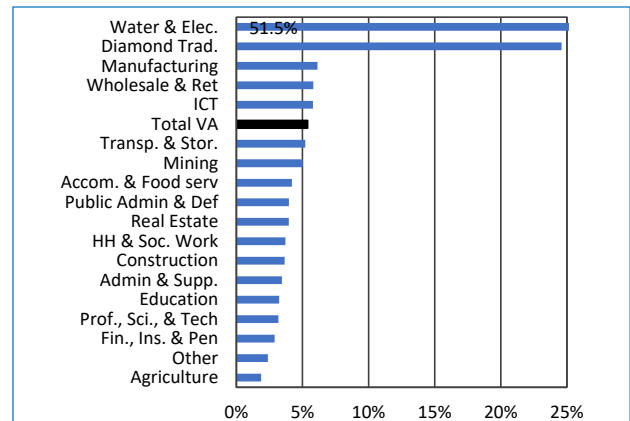
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



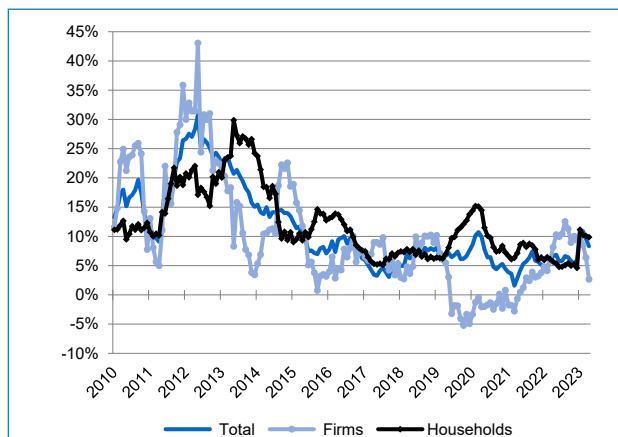
The subdued demand for rough diamonds experienced in the global diamond market during the first quarter of 2023 contributed negatively to GDP growth. Real GDP growth fell to 5.4% year-on-year, down from 5.8% year-on-year growth recorded in Q4 2022. Annual growth in the mining sector continued to slow, down from 7.5% in Q4 2022 to 5.0% in Q1 2023. Conversely, non-mining private sector (NMPS) growth marginally increased in Q1 2023 and recorded an annual growth rate of 6.0%, up from 5.5% in Q4 2022. Although economic growth continued to slow down, it is still higher than pre-pandemic level in 2018.

ANNUAL SECTORAL GROWTH



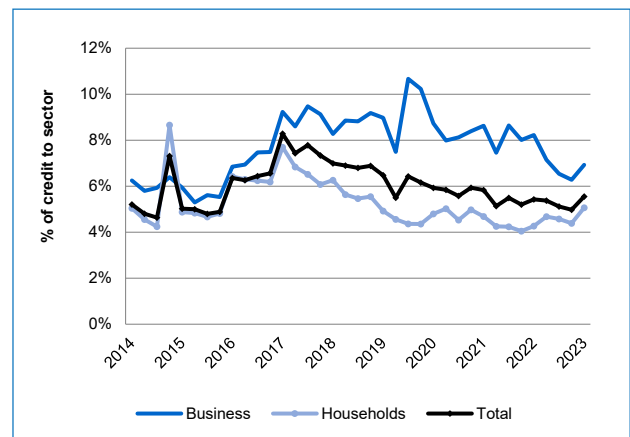
Economic sectors performed generally well in Q1 2023 with most sectors recording higher annual growth than in the previous quarter. The fastest growing sectors were Water & Electricity and Diamond Traders which registered growth of 51.5% and 24.6% up from 48.6% and 17.6% in Q4 2022, respectively. Notably, all sectors continued to register positive annual growth.

ANNUAL CREDIT GROWTH



Annual bank credit growth declined between January and April 2023, to 8.3% down from 10.7%. This is attributable to significant slowing in the uptake of credit by both businesses and households. Growth of credit to businesses fell sharply to 2.7% in April 2023, down from 10.1% in January 2023. Similarly, growth of credit to household decreased to 9.9% down from 11.2% during the period. The lower growth of credit is probably reflective of the high cost of borrowing contributing to a lesser appetite for credit from both businesses and households.

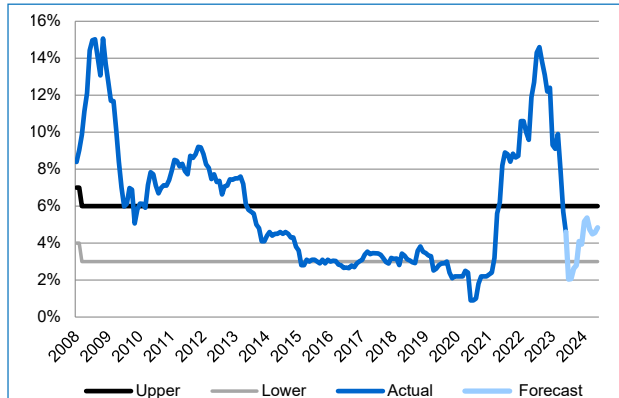
ARREARS ON BANK LENDING



Total arrears as a proportion of outstanding bank credit increased in Q1 2023. Arrears on lending rose from 5.0% at the end of December 2022 to 5.6% at the end of March 2023, driven by both businesses and households. Arrears on lending to businesses increased in Q1 2023 to 6.9% and arrears on lending to households increased to 5.1% from 4.4% during the period.

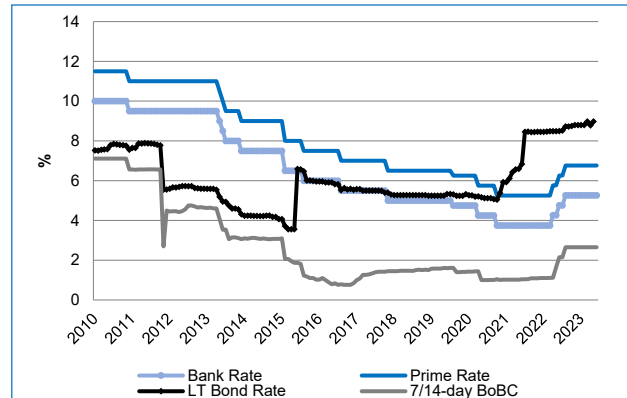
KEY ECONOMIC VARIABLES

INFLATION AND FORECAST



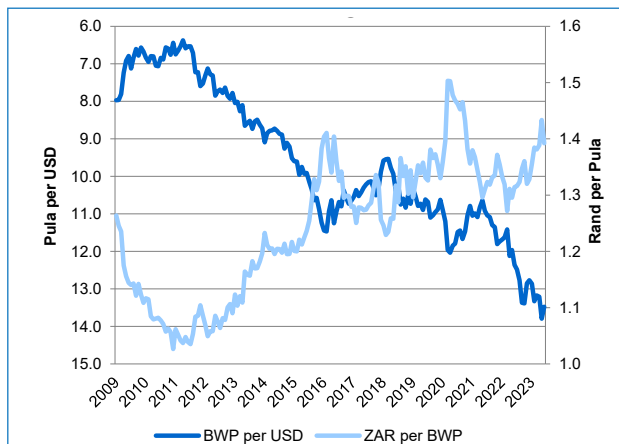
Headline inflation in the second quarter of the year has been positive, falling below the upper bound of the Bank of Botswana’s objective range for the first time in May 2023 and reaching 4.6% in June. Inflation had previously been above the 6% upper bound since April 2021. Annual inflation continued to ease, driven by the Transport group, given that local fuel prices have been decreased twice since the beginning of the year. The outlook for inflation is positive, and inflation is forecast to decline further in the coming months, before an uptick at the end of the year, while remaining within the objective range. With the decrease in fuel prices, the main contributor to inflation is now food and non-alcoholic beverages.

INTEREST RATES



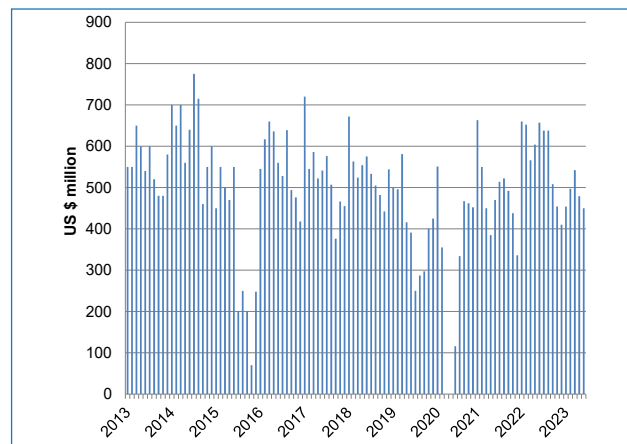
The Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 2.65% in June 2023. Subsequently, the banks’ Prime Lending Rate was unchanged at 6.76%. Despite the liberalisation of interest rates earlier in 2023, none of the banks have yet changed their Prime Lending Rate. The outlook for inflation is positive and it is expected to remain within the Bank’s objective range in the medium term. The 7/14-day BoBC rate was unchanged at 2.65% in Q2 2023 while the long-term government bond rate (BW012) increased to 8.98% in May 2023 from 8.80% in February 2023.

EXCHANGE RATES



Foreign exchange rate volatility continued in Q2 2023. The Pula strengthened against the rand and weakened against the US dollar during the quarter. The Pula appreciated against the rand by 0.8%, ending the quarter with an exchange rate of ZAR1.392, down from ZAR1.381 in Q1 2023. The Pula depreciated by 2.2% against the US dollar and ended the quarter with a Pula-US Dollar exchange rate of 13.48.

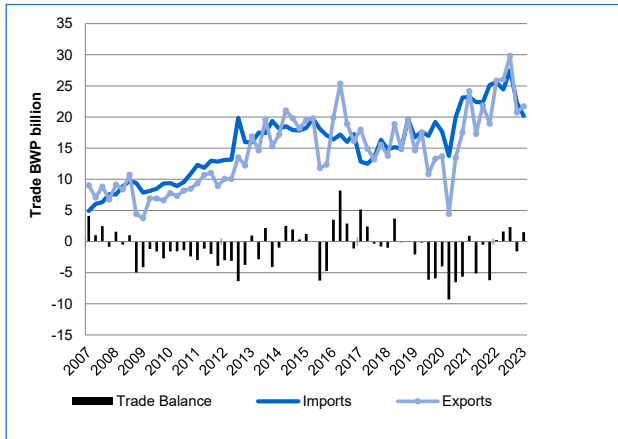
DE BEERS DIAMOND SALES



The international market for rough diamonds continued to experience weaker demand as consumer demand for diamond jewellery lessened in key markets. Generally, Q2 is a quieter period in the global rough diamond market, however, the uncertain macroeconomic outlook in the US and the slow pace of recovery in consumer demand in China have contributed to a weak global market. De Beers Global Sightholder Sales (DBGSS) recorded sales valued at USD929 million in Q2 2023 down from USD1.49 billion in Q1 2023, representing 37.8% decrease between the quarters. However, there were three sightholder sales in Q1 compared to two in Q2.

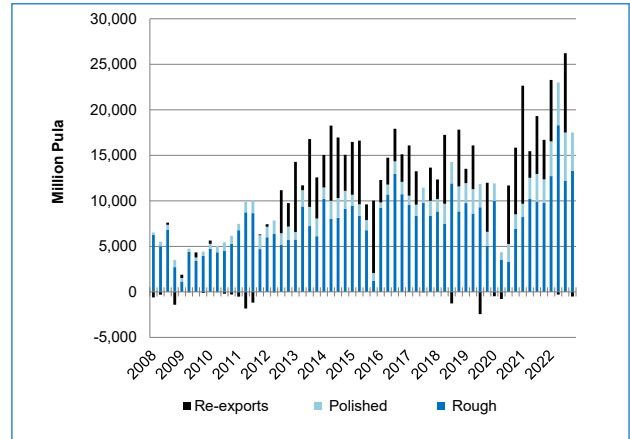
KEY ECONOMIC VARIABLES

INTERNATIONAL TRADE



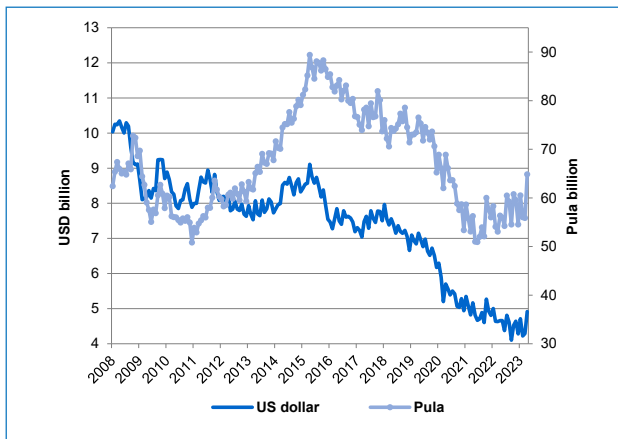
Trade performance in the first quarter of 2023 continued a positive trend, recording higher exports than imports. Total exports increased by 4.6% to P21.71 billion in Q1 2023, up from P20.75 billion in Q4 2022. The value of exports was driven by the increase in mineral exports, notably diamonds, copper and gold, with the two metals benefitting from higher commodity prices during the period. Total imports fell during the quarter, by 9.5% to P20.20 billion, down from P22.33 in Q4 2022. The greater value of exports compared to imports resulted in a trade surplus of P1.51 billion in Q1 2023, significantly increasing from a trade deficit of P1.57 billion registered in the last quarter of 2022.

DIAMOND EXPORTS



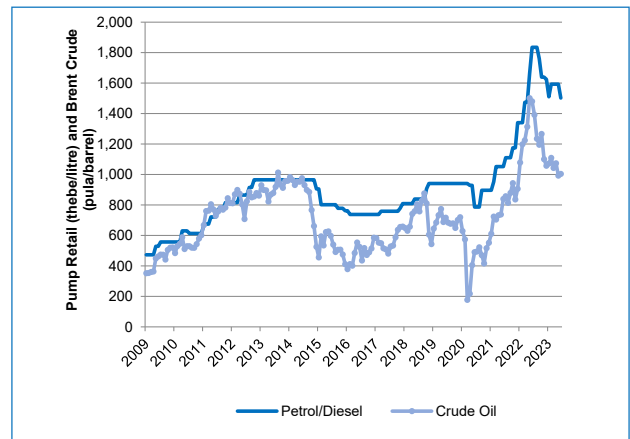
Botswana diamond exports performed relatively well during the first quarter of 2023 when compared to the fourth quarter of 2022. Total diamond exports recorded an increase of 2.2% between Q4 2022 and Q1 2023. This was driven by the increase in Botswana rough exports by 6.0%, notwithstanding the decrease in polished exports which declined by 13.1% between Q4 2022 and Q1 2023. Year on year, however, diamond exports declined in Q1, in line with the weakening of the global diamond market.

FOREIGN EXCHANGE RESERVES



In recent months, foreign exchange reserves have stabilised somewhat following a long period of decline. Foreign exchange reserves increased in Pula and US Dollar terms while decreasing in terms of SDR, in March 2023 when compared with levels in December 2022. Foreign exchange reserves rose by 2.5% and 0.3% to reach P55.89 billion and USD4.29 billion in Pula and US Dollar terms between Q1 2023 and Q4 2022, respectively. In SDR currency, foreign exchange reserves declined by 0.5% to SDR3.19 billion during the period. There was a significant increase in foreign exchange reserves in April 2023, rising across all measurement currencies. Foreign exchange reserves rose to P64.87 billion, USD4.92 billion and SDR3.64 billion in Pula, US dollar and SDR terms, respectively. The recent increase is attributable to loan drawdowns from OPEC Fund and the Japan International Cooperation Agency (JICA)

FUEL PRICES



Local fuel prices decreased by 5.7% during Q2 2023. Local retail pump prices have been adjusted three times in 2023, downwards in January and June 2023 and upwards in February 2023. Prices were decreased by 22t and 227t per litre for petrol and diesel in June 2023, respectively. The adjustment in local prices was influenced by the movement in international fuel prices which has been on a downward trend since mid-2022. However, industry commentary suggests a possible increase in international prices following restrictions in supply from top oil producers.

NEWS HIGHLIGHTS

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| 20th April | Botswana tightens banking laws. (WeekendPost) | The Ministry of Finance has proposed major changes to the Banking Act. The Banking Bill, 2023, Bill Number 1 of 2023 seeks to repeal and re-enact the Banking Act (CAP 46:04) to address the shortcomings identified in the 2007 Financial Sector Assessment Programme (FSAP) by the International Monetary Fund (IMF) and World Bank, as well as to address evolving domestic and international financial systems, which present new and more complex regulatory challenges. Amongst many other changes, the bill restricts the use of the word 'bank' to only institutions licensed by the BoB; adds a requirement that mergers, acquisitions and other forms of corporate affiliation be first notified with the BoB; provision on the maximum amounts a bank can hold or maximum indebtedness which it may incur in foreign currencies as may be determined by the Central Bank through Directives; and a provision for banks or deposit-taking institutions to request approval from the BoB before declaring, paying or transferring abroad any dividend from their profits. |
| 21st April | US report confirms collapse of Botswana's AGOA exports. (Mmegi) | According to the US International Trade Commission's (USITC) report on African Growth and Opportunities Act (AGOA), Botswana's non-crude petroleum AGOA utilisation rate has fallen in recent years. Botswana had a high AGOA utilization rate of between 99.5 to 100 percent from 2014 to 2017, but then dropped to zero or near zero starting in 2018. While the US received imports from Botswana in 2018, 2020 and 2021, none of them entered under the AGOA or GSP preference even though they were products covered under the preferential agreement. AGOA is a trade arrangement between the US and nearly 50 sub-Saharan African countries, including Botswana, established in 2000 and providing preferential access to the American market. |
| 21st April | IMF trims forecast for Botswana economy. (Mmegi) | The International Monetary Fund (IMF) World Economic Outlook (WEO) forecast the local economy to grow by 3.7 percent this year. The IMF's forecast for Botswana is slightly above the average of 3.6 percent expected for sub-Saharan Africa and comfortably ahead of both the averages for SADC and the Southern African Customs Union. In the Southern Africa region, the IMF's forecast for Botswana's growth is the fourth highest after Mozambique, Mauritius, and Zambia. By comparison, South Africa is expected to grow by 0.1 percent, while other neighbours such as Namibia and Zimbabwe are forecast to expand by 2.8 percent and 2.5 percent respectively. |
| 26th April | Tlou ramps up gas production at its gas-to-power Lesedi project. (WeekendPost) | Tlou Energy has commenced work on the next phase of drilling at its Lesedi Gas-to-Power project, moving closer to delivering Botswana's first Coal-Bed Methane (CBM) electricity generation undertaking. Once Lesedi 6 is drilled and completed, dewatering will commence and thereafter the well will start to establish an indicative gas flow rate. Lesedi 6 is the first well of a proposed drilling program to expand gas production at the Lesedi project. Gas flows from Lesedi 6 are planned to be converted to electricity for the existing 10MW Power Purchase Agreement (PPA) with Botswana Power Corporation (BPC) once the transmission line, substations and associated electrical infrastructure are in place. Tlou Energy expects to have the first power into the BPC grid by December 2023. |

NEWS HIGHLIGHTS

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| 28th April | The De Beers-Botswana Divide. (Rapaport News) | De Beers is embroiled in momentous negotiations with the Botswana government, who are threatening to derail their model partnership. For the first time in their 54-year relationship, the two are simultaneously in talks for a new 10-year marketing deal as well as the 25-year license governing their Debswana mining joint venture. Government is seeking a larger percentage of Debswana's output to be sold to the state-owned Okavango Diamond Company (ODC). Similarly, to diversify its participation in the diamond market, the Government announced it intends to acquire a stake in HB Antwerp and supply the manufacturer with diamonds through ODC. |
| 28th April | Department of Mines approves Giyani Metals' shipment of manganese material. (Sunday Standard) | The Botswana Department of Mines approved Giyani Metals Corporation's shipment of 100 tonnes of Kgwakgwe Hill manganese oxide material to the Demo Plant site to provide representative feedstock for the processing and production of high purity manganese sulphate monohydrate (HPMSM) for qualification by potential off-takers. Kgwakgwe Hill has an indicated resource of 2.1 million tonnes of high-grade manganese oxide, which is a material needed for the lithium-ion batteries used in electric vehicles. It is expected that the company will use modern technology that will leave a low carbon footprint. If the sample is approved by potential off-takers, this will then trigger the application for a mining license. |
| 8th May | Shumba secures funding for its 100 MW Tati solar project. (WeekendPost) | Shumba announced funding for its 100MW Tati Solar Project acquired through an underwriting debt financing agreement with an undisclosed investment bank. The Tati Solar project will be developed on a 295-hectare farm owned by the company near Francistown. |
| 15th May | Botswana's financial sector remains robust – FSC. (WeekendPost) | The Financial Stability Council (FSC) has noted the resilience of the Botswana financial sector during challenging local and global financial market conditions. The financial system also remained robust, safe and sound and unconstrained in providing and growing the range of financial services to support the economy. The resilience and effectiveness of the financial system in providing financial services to the economy is anchored on strong capital and liquidity buffers, profitability, as well as an enabling and robust regulatory environment. However, the FSC warned of risks that the domestic financial sector is exposed to, which includes subdued global growth, tighter global financial conditions and the risks of reversal of global economic integration. |

NEWS HIGHLIGHTS

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| 17th May | Botswana is one of the world's best mining destinations. (BusinessWeekly) | The Fraser Institute Annual Survey of Mining Companies 2022 ranked Botswana among the top 10 jurisdictions in the world and first in Africa for investment based on the Investment Attractiveness Index. The Investment Attractiveness Index is constructed by combining the Best Practices Mineral Potential index, which rates regions based on their geologic attractiveness, and the Policy Perception Index (PPI), a composite index that measures the effects of government policy on attitudes toward exploration investment. Under PPI, Botswana ranked second because of its ideal investment policies for mining, and a favourable tax regime. |
| 17th May | De Beers may curtail diamond sales as consumers in China take foot off pedal. (MiningMx) | De Beers reported weaker fourth cycle sales estimated at USD480 million, compared to USD542 million in the previous cycle. Sales were also significantly lower than sales of USD604 million recorded in the fourth cycle of 2022. According to the company, there was lower demand for rough diamonds from the Chinese market because of ongoing macroeconomic uncertainty and the slow pace of recovery in consumer demand. |
| 23rd May | Can coal-hungry Botswana ramp up solar to meet renewables target? (Zawya) | Despite its abundant sunshine, Botswana gets a small fraction of its electricity from solar power, with most coming from its vast coal reserves, fuelling concerns about its ability to meet green energy goals. According to the International Renewable Energy Agency (IRENA) and the African Development Bank (ADB), Botswana generated just 0.26% of its electricity from solar in 2020 and it has only 6 megawatts (MW) of installed solar capacity out of a total 890 MW energy capacity, with coal accounting for 99%. Botswana is shifting policies to make investment in solar and other renewables appealing and is involving the private sector in building new capacity. The World Bank notes that the country receives more than 3,200 hours of sunshine per year and has some of the world's best highest levels of direct normal solar irradiation (DNI). However, Botswana is also looking to utilise its large coal reserves, both for power generation and for export, given the increased appetite for coal globally following Russia's invasion in Ukraine. |
| 25th May | Australia's Sandfire produces first copper at new Botswana mine. (Reuters) | Sandfire Resources announced first production of copper concentrate at its new Motheo mine in Botswana's Kalahari Copper Belt, becoming the second producing mine in the emerging copper hotspot. Works construction at the mine is almost complete and the first shipment of copper concentrates is expected by the mid-2023. |

NEWS HIGHLIGHTS

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| 1st June | The great beyond: inside Debswana and Huawei's 5G connected mine. (Mining Technology) | Debswana has partnered with Huawei to implement 5G technology at Jwaneng mine in efforts to enhance efficiency and expand technological use in mining operations. It also readies the company for the next mining phase, Jwaneng Cut 9, which will require complex mining solutions, technological advancement and smart mining. |
| 1st June | Vision Ridge closes Botswana's sole iron ore mine. (Mining Technology) | The Ikongwe Mine, Botswana's sole iron ore mining operation, has stopped production due to falling export prices. The mine is owned by Vision Ridge Investments and was commissioned in 2021 when iron ore prices surged to a record high of USD240 per tonne. However, global iron ore prices have fallen to USD100 per tonne due to decreased demand for steel, of which iron is a major ingredient. Ikongwe has an annual production capacity of one million tonnes over an operational life of ten years. |
| 12th June | Gov't launches National Quality Policy. (Mmegi) | The Ministry of Trade and Industry, in partnership with other government departments, launched the National Quality Policy (NQP). The NQP was passed by Parliament in 2022, and the policy serves as a part of a broader industrial plan for diversification and export strategies that seek the development of quality products and services to enhance trade. It is designed to ensure that private and public enterprises comply with the highest product and service quality standards as the nation eyes taking local products to international markets. |
| 22nd June | NBFIs account for largest share of financial assets. (Sunday Standard) | The Financial Stability Council (FSC) noted that the Non-Banking Financial Institution (NBFI) sector has more assets than commercial banks and urged for tight measures to avoid financial risks. The NBFI sector, which is dominated by pension funds, accounted for the largest share of financial system assets, at 55.6 percent, compared to 44.4 percent for the banking sector. In 2022, NBFI assets stood at P157.9 billion while banking sector assets were P126 billion, bringing the entire financial system assets to about P284 billion in 2022, an increase of 5.5 percent from 2021. The FSC report called for tight scrutiny of the NBFI sector, noting the potential risks to financial stability. According to the report, insurance companies could affect financial stability and contribute to systematic risk through three potential transmission channels, namely, failure to provide critical services; inability to mitigate risk and compensate for loss with respect to systematically important counterparts; and risk to financial institutions. The report further noted that failure by one dominant company may leave a significant gap in the provision of critical risk mitigation services to the economy as the remaining companies may not have the capacity to fill the void. |

NEWS HIGHLIGHTS

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| 26th June | Botswana slips in world competitiveness rankings. (Mmegi) | Botswana has dropped one notch in the latest global competitiveness rankings compiled by the Swiss-based Institute of Management Development (IMD), with local researchers noting disturbing regression across several key indicators. Botswana was ranked 59 out of 64 countries down from 58 out of 64 countries in 2022. According to the report, factors that resulted in a low ranking for Botswana include high cost of doing of business, high rate of unemployment, low levels of economic diversification, poor implementation of projects, programs and policies, and negative mindset and poor work ethic. A total of 64 middle and high-income economies were assessed in 2023 with only Botswana and South Africa participating from Africa. |
| 26th June | World Bank approves further P2 billion loan. (Mmegi) | The World Bank board has approved a USD150 million (approximately P2 billion) loan for Botswana, aimed at supporting the country's efforts to rebound from the pandemic, boost the private sector's contribution and drive sustainable development initiatives. Botswana, like many other countries, was affected by the COVID-19 pandemic and there is an urgent need to diversify the economy, create more jobs, and rebuild fiscal buffers to remain resilient to any future shocks. The loan follows the World Bank's earlier approval of a USD250 million credit to Botswana under the Programmatic Economic Resilience and Green Recovery Development Policy (ERGRDP). |
| 26th June | IFC to PF Scatec PV. (Project Finance International) | Norwegian developer Scatec is due to sign an agreement for USD46 million of debt financing for the USD60 million 50MW Selebi Phikwe PV plant. Scatec ASA won a highly contested tender for the contract in August 2021, and following the signing of a PPA with the Botswana Power Corporation (BPC) has been mobilising funding required for the plant, which will be the Botswana's single largest renewable project to date. The project is being done on an Independent Power Producer (IPP) basis, where Scatec will bear the costs of building, running, and maintaining the plant and sell electricity generated to BPC under a 25-year agreement. |
| 27th June | BSE allows Access Bank P2 billion bond programme. (Sunday Standard) | Access Bank Botswana has hailed the Botswana Stock Exchange's (BSE's) move to approve its P2 billion medium term note programme. The bond programme allows Access Bank Botswana to periodically raise bonds of various tenor, interest rate profile and size on the BSE or any other through take up by institutional and other investors. This will assist the bank to grow its balance sheet and become a leading market player in the banking sector. |

NEWS HIGHLIGHTS

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| 29th June | Botswana's fiscal future on shaky ground..? (Sunday Standard) | To defend and protect the country's macroeconomic stability, the Ministry of Finance will have to work hard to reverse a structural fiscal imbalance recorded during the National Development Plan (NDP) 11 that also made its way into the Transitional National Development Plan (TNDP). The TNDP will run for two years from April 2023 to March 2025. Under the TNDP, the Ministry intends to lay a fiscal foundation that will bring Botswana's fiscal position on a balanced budget going into NDP 12. However, economic growth during the TNDP plan period is forecast to be below the 5.7% rate required to achieve the aspirations of Vision 2036. This could be a setback in government's fiscal plans to contain the budget balance because of lower government revenues. |
| 30th June | BURS to plug multi-million pula fuel tax leaks. (Mmegi) | The Botswana Unified Revenue Service (BURS) has been appointed to collect all fuel levies and taxes at ports of entry into the country, as opposed to importers declaring their dues after sales, to plug leaks estimated to run into millions of pula each year. BURS will collect the National Petroleum Fund (NPF) Levy, the Road Levy Fund and the Security of Supply Margin, on top of the Fuel Levy which it already collects. The move comes as reports from the local oil industry suggest that amounts ranging up to P100 million each year could be lost to shady practices such as under-pricing of products and non-declarations by fuel importers. |
| 1st July | De Beers and Botswana strike deal on diamond sales after tense talks. (Financial Times) | De Beers has renewed a deal to market diamonds from Botswana with Botswana government, to continue their 54-year partnership. The two parties announced that they had reached an 'agreement in principle' for a new 10-year sales deal of rough diamonds produced by their Debswana joint venture and a 25-year extension to its mining licences. Under the agreement, Okavango Diamond Company will receive 30 percent of diamond output which will increase to 50 per cent by the final year of the contract. De Beers added that it would contribute up to USD750 million over the next 10 years in a fund to accelerate the diversification of Botswana's economy away from diamonds. |

MACRO-ECONOMIC DATA

| Key Economic Data | | unit | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022Q1 | 2022Q2 | 2022Q3 | 2022Q4 | 2023Q1 | 2023Q2 |
|--|--------|------|---------|---------|---------|-------------|---------|------------|--------|--------|--------|--------|--------|--------|
| Annual Economic Growth | | | | | | | | | | | | | | |
| GDP | % | | 4.1 | 4.2 | 3.0 | -8.7 | 11.9 | 5.8 | 13.3 | 6.7 | 5.8 | 5.8 | 5.4 | .. |
| Mining | % | | 6.3 | 8.4 | -3.7 | -26.5 | 29.8 | 7.5 | 42.0 | 16.4 | 9.2 | 7.5 | 5.0 | .. |
| Non-mining private sector | % | | 3.7 | 2.9 | 4.2 | -6.7 | 8.8 | 5.5 | 8.4 | 4.8 | 5.0 | 5.5 | 6.0 | .. |
| GDP current prices | P bn | | 166.65 | 173.73 | 179.90 | 171.39 | 207.74 | 251.73 | 58.9 | 64.8 | 63.1 | 65.0 | 66.9 | .. |
| GDP 2016 prices | P bn | | 171.18 | 178.35 | 183.76 | 167.72 | 187.63 | 198.48 | 49.6 | 48.8 | 50.6 | 49.5 | 52.3 | .. |
| Money & Prices | | | | | | | | | | | | | | |
| Inflation | % | | 3.2 | 3.5 | 2.2 | 2.2 | 8.7 | 12.4 | 10.0 | 12.7 | 13.8 | 12.4 | 9.9 | 4.6 |
| Prime lending rate | % | | 6.50 | 6.50 | 6.25 | 5.25 | 5.25 | 6.76 | 5.25 | 6.26 | 6.76 | 6.76 | 6.76 | 6.76 |
| BoBC 7/14-day | % | | 1.45 | 1.52 | 1.41 | 1.04 | 1.10 | 2.65 | 1.11 | 2.15 | 2.65 | 2.65 | 2.65 | 2.65 |
| Trade & Balance of Payments | | | | | | | | | | | | | | |
| Exports - total goods | P bn | | 61.67 | 67.17 | 56.33 | 49.12 | 82.26 | 102.39 | 25.84 | 26.04 | 29.83 | 20.68 | 21.71 | .. |
| Exports - diamonds | P bn | | 54.38 | 60.41 | 51.01 | 43.30 | 74.13 | 89.22 | 23.29 | 22.73 | 26.22 | 16.99 | 17.43 | .. |
| Balance of payments | P bn | | -4.28 | -4.20 | -12.02 | -20.06 | -2.87 | .. | 2.17 | 3.04 | 0.20 | -0.93 | .. | .. |
| Foreign Exchange | | | | | | | | | | | | | | |
| Exchange rate BWP per USD | end | | 9.87 | 10.73 | 10.63 | 10.79 | 11.74 | 12.77 | 11.42 | 12.36 | 13.37 | 12.77 | 13.18 | 13.48 |
| Exchange rate ZAR per BWP | end | | 1.256 | 1.344 | 1.330 | 1.356 | 1.355 | 1.328 | 1.272 | 1.314 | 1.347 | 1.328 | 1.381 | 1.392 |
| FX reserves | \$ bn | | 7.502 | 6.657 | 6.171 | 4.941 | 4.806 | .. | 4.633 | 4.377 | 4.102 | 4.22 | .. | .. |
| FX reserves | P bn | | 73.69 | 71.43 | 65.23 | 53.36 | 56.02 | .. | 53.07 | 54.24 | 54.55 | 54.53 | .. | .. |
| Financial Sector | | | | | | | | | | | | | | |
| Deposits in banks | P bn | | 63.58 | 69.27 | 75.71 | 80.54 | 84.36 | 90.93 | 84.55 | 86.61 | 91.44 | 90.93 | 95.18 | .. |
| Bank credit | P bn | | 54.18 | 58.33 | 62.77 | 65.55 | 68.92 | 73.05 | 69.61 | 71.32 | 72.93 | 73.05 | 76.27 | .. |
| BSE index | | | 8,860 | 7,854 | 7,495 | 6,879 | 7,010 | 7,726 | 7,243 | 7,183 | 7,402 | 7,726 | 7,954 | 8,055 |
| Business Indicators | | | | | | | | | | | | | | |
| Diamond production (a) | mn cts | | 22.96 | 24.38 | 23.67 | 16.87 | 22.70 | 24.48 | 6.30 | 5.58 | 6.73 | 5.88 | 6.99 | .. |
| Copper production (b) | '000t | | 1.24 | 1.46 | 0.00 | .. | 11.74 | 34.20 | 5.71 | 8.32 | 9.47 | 10.91 | 12.44 | .. |
| Electricity consumption | GWh | | 3,772 | 3,919 | 3,906 | 3,842 | 3,928 | 4,265 | 1,006 | 1,100 | 1,076 | 1,084 | 1,166 | .. |
| Crude oil (Brent) | \$/bar | | 66.73 | 50.57 | 67.77 | 51.22 | 77.24 | 82.82 | 107.29 | 119.78 | 88.90 | 82.82 | 79.19 | 74.51 |
| Employment (formal) (f) | | | | | | | | | | | | | | |
| Government | | | 129,009 | 156,785 | 156,785 | 152,973 | 152,225 | 143,022 | | | | | | |
| Parastatals | | | 19,444 | 23,497 | 23,497 | 18,933 | 21,056 | 18,674 | | | | | | |
| Private sector | | | 193,745 | 250,778 | 227,281 | 250,715 | 268,086 | 257,618 | | | | | | |
| Total | | | 342,198 | 431,060 | 407,563 | 422,621 | 486,432 | 494,457 | | | | | | |
| Govt Budget | | | | | | | | | | | | | | |
| | | | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | | | | | | |
| | | | | | | Preliminary | Budget | Projection | | | | | | |
| | | | | | | (d) | (e) | (e) | | | | | | |
| Revenues | P bn | | 54.30 | 49.37 | 68.57 | 74.10 | 79.79 | 83.72 | | | | | | |
| Spending | P bn | | 65.40 | 65.79 | 68.68 | 74.09 | 87.38 | 88.78 | | | | | | |
| Balance | P bn | | -11.10 | -16.41 | -0.11 | 0.01 | -7.59 | -5.06 | | | | | | |
| Public debt & guarantees | P bn | | 38.18 | 42.37 | 48.74 | 51.28 | 56.65 | 57.52 | | | | | | |
| Govt deposits at BoB | P bn | | 19.86 | 6.20 | 12.82 | .. | .. | .. | | | | | | |
| GDP | P bn | | 180.94 | 171.91 | 216.76 | 259.75 | 268.20 | 292.31 | | | | | | |
| Revenues | %GDP | | 30.0% | 28.7% | 31.6% | 28.5% | 29.7% | 28.6% | | | | | | |
| Spending | %GDP | | 36.1% | 38.3% | 31.7% | 28.5% | 32.6% | 30.4% | | | | | | |
| Balance | %GDP | | -6.1% | -9.5% | 0.0% | 0.0% | -2.8% | -1.7% | | | | | | |
| Public debt & guarantees | %GDP | | 21.1% | 24.6% | 22.5% | 19.7% | 21.1% | 19.7% | | | | | | |
| Govt deposits at BoB | %GDP | | 11.0% | 3.6% | 5.9% | .. | .. | .. | | | | | | |

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 and Q2 2022 for Khoemacau
(c) Numbers in Italics reflect revisions from the previous review.
(d) Preliminary budget outturn for 2022/23
(e) Budget forecast/MTFF
(f) Employment figures up to 2018 are not comparable with those from 2019 onwards due to changed methodology of data collection and reporting

Gender Parity IN THE ECONOMY

Introduction

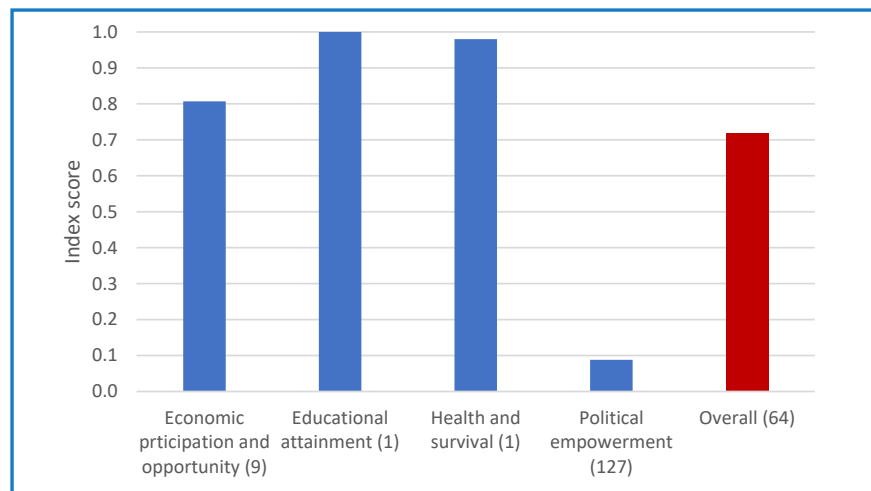
In June 2023 the World Economic Forum (WEF) released its 2023 Global Gender Gap Report. This Report, which is now in its 17th year since inception in 2006, measures gender parity across four dimensions: Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment, using a range of measures and metrics. In this Feature we look at how Botswana scores on the WEF Global Gender Gap Index, and look in more detail at two particular measures of gender parity, in terms of educational enrolment and labour force participation.

Botswana’s attainments in the WEF GGG Index are mixed. The country is ranked number 64 out of 146 countries globally, with a score of 0.713 (on a scale of 0 to 1). This is an improvement of two places on the 2022 ranking. The overall score is an average across the four categories outlined above, and it is striking that Botswana scores very highly on three of the four categories (Economic Opportunity, Education and Health), and very poorly on one (Political Empowerment), as shown in Figure1.

Educational Parity

Recent statistics on participation by gender at the secondary and tertiary education levels paint an encouraging picture. In 2020, at the secondary level, there were 185,237 students, of which 95,950, or 52% were women. There is a clear contrast between junior secondary (forms 1 to 3) and senior secondary (forms 4 and 5) levels. At junior secondary level,

Figure 1: Botswana’s WEF GGG sub-index scores and ranking

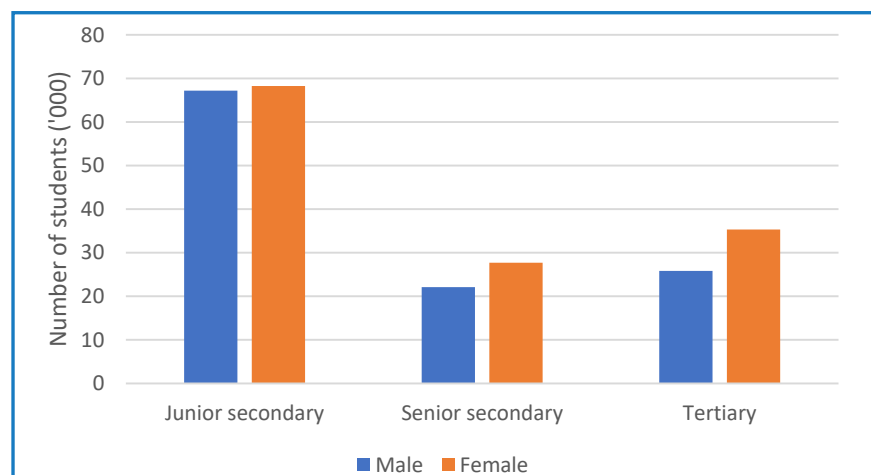


Source: WEF Global Gender Gap Report, 2023

the gender split is roughly 50-50. But at senior secondary level, there are more female students (56%) than males (44%). This indicates that females have a higher progression rate (presumably based on a higher pass rate at form 3 junior certificate level) than male students.

At the tertiary level, in 2021, there were a total of 61,157 students across all tertiary institutions. This includes public and private universities, other tertiary colleges and institutions, and vocational training institutions. Of these students, 35,517 (58%) were female. This is reflected in the employment data, which show that 21% of employed female workers have university education, compared to 17% of male workers.

Figure 2: Secondary (2020) and Tertiary (2021) Students



Source: Statistics Botswana, Secondary School Stats Brief, 2020. Statistics Botswana and HRDC, Tertiary Education Statistics, 2021

The higher level of participation of females in the secondary and tertiary education systems is a positive reflection on access to education – unlike in some countries where participation by female students drops off sharply at higher levels of education. It also provides a strong basis for participation by females in the labour force, which we discuss below.

Labour Force Participation

The most recent labour force statistics are contained in the results of the Quarterly Multi-Topic Household Survey from the further quarter of 2022. This presents information on various aspects of employment (and unemployment).

In terms of high-level indicators, women are in a less favourable position in the labour force. They have a lower labour force participation rate, a higher unemployment rate amongst those that are in the labour force, and lower average monthly earnings (see Table 1).

Digging into the data in more detail, however, provides interesting information on where males and females work. One of the ways of dividing up the labour force is by occupation, which classifies workers by the types of duties they undertake. This broadly relates to the type and level of skills required. One interesting finding is that amongst the three most skilled occupational categories (managers, professionals and technicians/associate professionals), females account for the majority of those employed in those categories (see Figure 3) – presumably reflecting in part the better educational participation and progression rates of females.

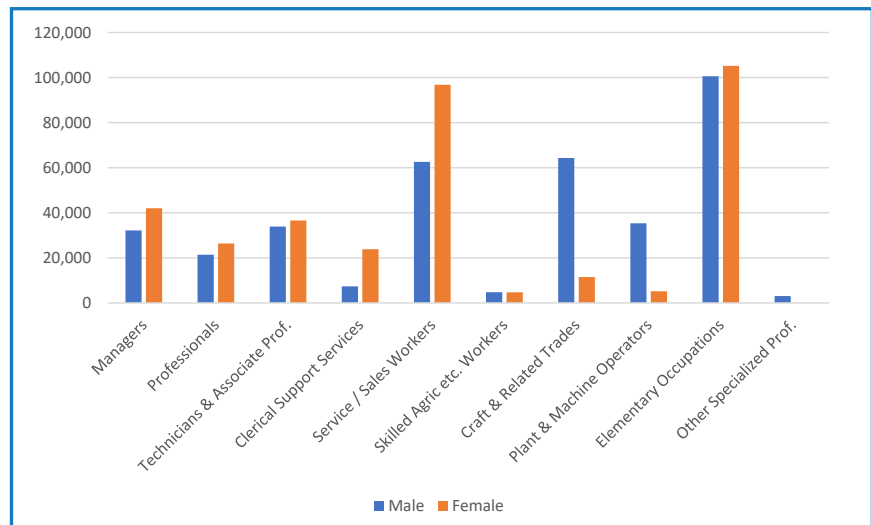
Table 1: High-level indicators of male and female participation in the labour force

| Indicator | Female | Male | Total |
|-------------------------------------|--------|-------|-------|
| Labour force participation rate (%) | 56.5 | 63.3 | 59.7 |
| Unemployment rate (15+) (%) | 26.9 | 23.9 | 25.4 |
| Average cash earnings (P/m) | 5,466 | 5,914 | 5,701 |

Source: Statistics Botswana, Quarterly Multi-Topic Survey, Q4 2022.

Although females are well represented in the most highly skilled occupations, this still only accounts for 30% of female employees. The majority of female employees are employed in less skilled occupations, notably service/sales workers and elementary occupations, which account for 57% of female workers, as compared to only 45% of males. There are some occupations that remain largely off-limits to females, notably craft and related trades, and plant and machine operators, which account for 27% of male workers but only 5% of females.

Figure 3: Employment by Occupation and Gender



Source: Statistics Botswana, Quarterly Multi-Topic Survey, Q4 2022.

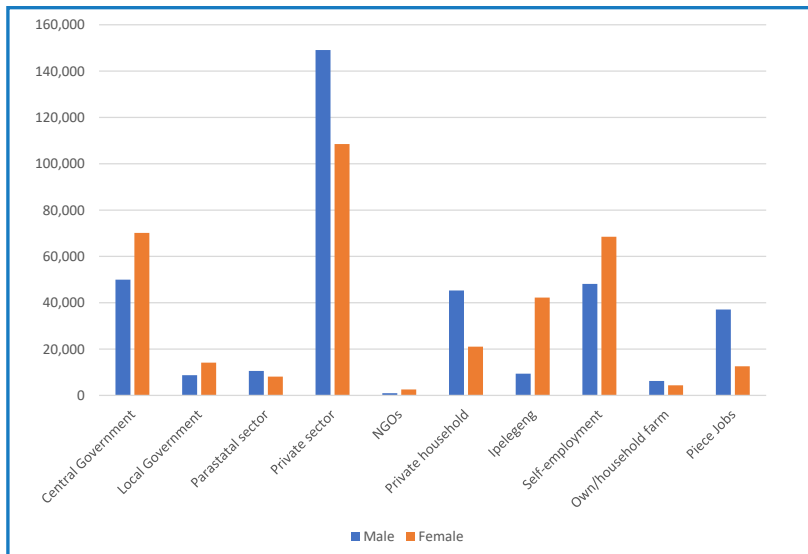
It is also evident that women work in different sectors to men (see figure 4). More women than men work in Government (central and local), while more men than women work in the private sector. Women are more likely than men to be self-employed, while women are far more involved in the social welfare (pelegeng) work scheme. As a general point, it is also striking how few people are engaged in working on their own farms.

Females generally earn less than males (see figure 5). Average monthly earnings are lower for females in all occupations except for Managers and Craft & Related Trades Workers. Overall, the gender pay gap is 7.6% - representing the gap between average monthly earnings for men and women.

SPECIAL FEATURE

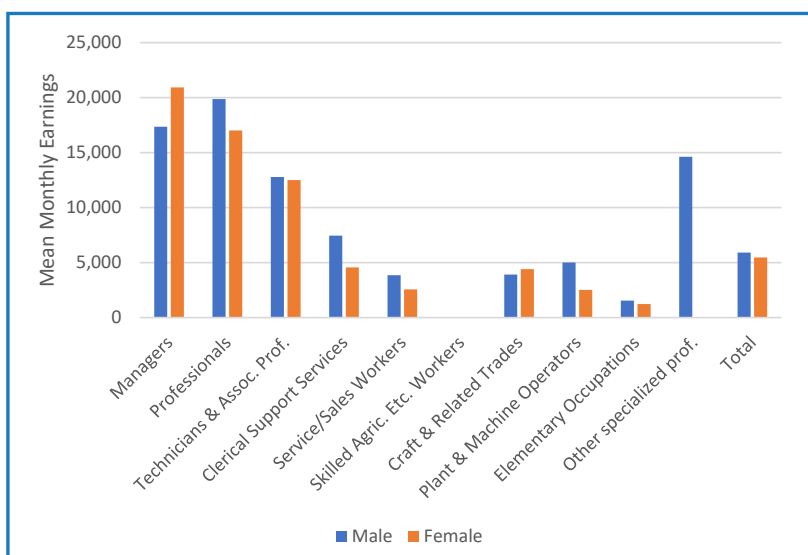
By international standards, the gender pay gap in Botswana is relatively small. Across the OECD, a group of 41 high income, mostly industrialised countries, the average gender pay gap is 11.9%. Botswana's gender pay gap is around the level of Sweden (7.3%) and Croatia (7.6%), and is smaller than 28 of the 41 OECD member countries.

Figure 4: Employment by Gender and Type of Employer



Source: Statistics Botswana, Quarterly Multi-Topic Survey, Q4 2022.

Figure 5: Average Monthly Earnings by Occupation and Gender (Pula)



Source: Statistics Botswana, Quarterly Multi-Topic Survey, Q4 2022.

Conclusion

Botswana demonstrates a reasonable level of gender parity in education and the economy. Female participation and progress in secondary and tertiary education is ahead of that of males, which provides a good foundation for future economic participation. There are also signs of reasonable parity in the labour force, with females well represented in higher-skilled occupations. Relative to men, women are relatively highly represented in the public sector and self-employment, under-represented in the private sector, and under-represented in occupations classed as "skilled manual". In terms of average pay, while there is a gap between male and female earnings, this is relatively small by global standards.

These results are in line with the Botswana's scores in the WEF Global Gender Gap report, where Botswana does well on Economic Empowerment and Educational Attainment. The key weakness is with respect to Political Empowerment, which reflects the very low representation of women in Parliament and as elected local representatives. Addressing the poor representation of women at the political level is a key priority to further closing the other gaps as well as improving laws and dealing with issues such as gender-based violence.

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