

BOTSWANA

Table 1 **2021**

Population, million	2.4
GDP, current US\$ billion	16.5
GDP per capita, current US\$	6849.4
International poverty rate (\$1.9) ^a	14.5
Lower middle-income poverty rate (\$3.2) ^a	36.5
Upper middle-income poverty rate (\$5.5) ^a	59.1
Gini index ^a	53.3
School enrollment, primary (% gross) ^b	103.2
Life expectancy at birth, years ^b	69.6
Total GHG Emissions (mtCO2e)	59.1

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2015), 2011 PPPs.
 b/ WDI for School enrollment (2015); Life expectancy (2019).

Botswana's economic growth is projected to moderate to 4.1 percent in 2022 following a 12.1 percent rebound last year. Despite the headwinds created by COVID-19, economic growth surpassed expectations. Structural policies to deliver a stronger, resilient, equitable and sustainable recovery remain key to tackle among others the unemployment rate of 26 percent and the projected poverty rate of 56.6 percent in 2021, based on the upper middle-income country poverty line.

Key conditions and challenges

Botswana has historically enjoyed strong and stable growth since independence supported by the discovery of large diamond deposits and prudent use of the proceeds. The limitations of the existing diamond sector-led development model have become increasingly pronounced: growth remains sluggish, job creation is low, and inequality is high. Weakened global demand has kept diamond proceeds below pre-global financial crisis levels and competition from synthetic diamonds and higher production costs have added further pressures.

Since 2015, continued fiscal expansion to support growth has created large fiscal deficits, eroded buffers and weakened the external position. Low capital accumulation and sluggish productivity constrained growth in the non-diamond economy. Unemployment remains high, as the private sector struggles to create jobs due to high costs/barriers to doing business and the mismatch between poor domestic supply of skills and high demand.

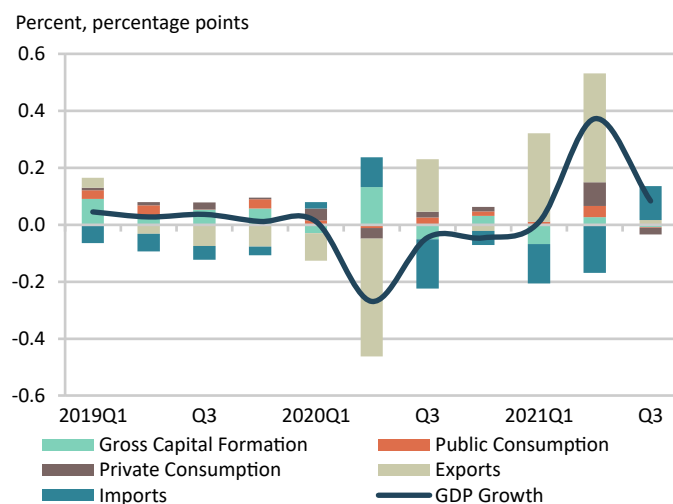
COVID-19 exacerbated existing economic and social challenges, setting back some gains made in alleviating poverty, underscoring the urgent need for a significant shift towards a more diversified and export-led economy, with the private sector playing a leading role. Improving public sector spending efficiency,

rationalizing the SOE sector and addressing constraints that hinder private sector engagement in trade and investment are central to the recovery.

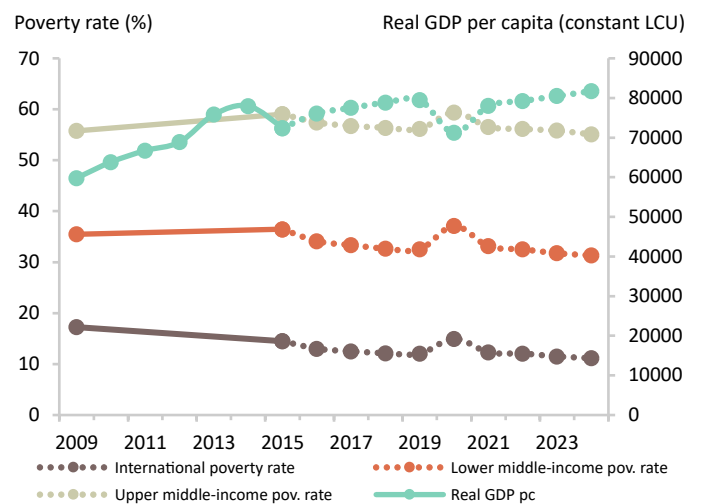
Recent developments

Botswana's economy rebounded strongly in 2021 led by the mining sector. GDP growth is estimated to have bounced back to 12.1 percent in 2021, following a contraction of 8.5 percent in 2020, driven by a rebound in diamond activity. Botswana's economy grew 13.5 percent over Q1-Q3 2021 year-on-year (y-o-y). Supported by the rollout of COVID-19 vaccines, domestic consumption also significantly contributed to the recovery. Diamond prices returned to pre-pandemic levels after a sharp decline in 2020. Diamond mining increased 35.4 percent over Q1-Q3 2021, contributing 6.1 percent to overall GDP growth. Non-mining sectors showed more mixed recovery trajectories. The hospitality sector remained affected by intermittent restrictions. Unemployment peaked from 24.5 percent in Q42020 to 26 percent in Q42021. Poverty is projected to have declined to 56.6 percent in 2021 after a projected sharp increase in 2020, based on the upper middle-income country poverty line and remains high compared to other upper middle-income countries.

CPI averaged 6.7 percent in 2021 compared to 1.9 percent in 2020. Inflationary pressures were on an upward trajectory driven by adjustments to regulated

FIGURE 1 Botswana / Real GDP growth and contributions to real GDP growth


Source: Statistics Botswana.

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


Source: World Bank. Notes: see table 2.

prices, notably utilities, VAT, Botswana Housing Corporation rentals, and increases in domestic fuel prices. Bank of Botswana maintained an accommodative monetary policy stance, maintaining the repo rate at 3.75 percent. The current account deficit narrowed in 2021 to an estimated 2.1 percent of GDP, buoyed by the rebound in diamond exports. Foreign exchange reserves are estimated to have increased from P58.8 billion (US\$4.9 billion) in December 2020 to P61.1 billion (US\$5.2 billion) in November 2021 with sound reserves at 10 months of import cover.

With the Government channeling fiscal resources towards healthcare and supporting the economy, the 2020 projected deficit increased to 9.4 percent of GDP hence further Government Investment Account drawdowns, dropping balances from US\$ 1.6 billion in 2020 to an all-time low of US\$ 0.8 billion as of September 2021. Debt is projected to reach 25.5 percent of GDP in 2021 from 23.9 percent in 2020.

Outlook

The outlook is not without substantial downside risks as the emergence of new COVID-19 variants pose a threat to the recovery. Prolonged higher inflation leading to monetary tightening around the world could slow the recovery exacerbated by the Ukraine-Russia conflict through high food and fuel prices. Muted mineral receipts against envisaged lower SACU receipts would dampen the fiscal position. Poverty levels are projected to reach 56.2 percent in 2022 (measured using the upper-middle-income country poverty line, US\$5.5/person/day in 2011PPP).

Growth is envisaged to moderate in 2022 but still maintain a robust recovery at 4.1 percent as the base effects from the pandemic shock fade. Progress in vaccination will support economic activity, especially in the non-mining sectors that have continued to be significantly affected by the pandemic in 2021. Diamond activity is also

poised to remain robust, supported by external demand. Investment in renewable energy projects will support growth and contribute to removing the energy supply constraint to higher private sector activity. Abundant copper reserves coupled with record-high copper prices will add the needed impetus. Implementation of structural reforms will support growth over the medium term as Government pursues fiscal consolidation. Growth is expected to average 4 percent over 2023-24.

The current account deficit is expected to narrow to 0.6 percent of GDP in 2022 and record a surplus of 1.6 percent of GDP in 2023 as the rebound in diamond production and favorable terms of trade owing to subdued diamond supply in Russia anchor the projected drop in SACU revenues. The fiscal deficit is expected to decline to 4.2 percent of GDP in FY2022/23, driven by higher revenue collection while expenditure remain under pressure. Public debt is estimated to reach 27.2 percent of GDP this year and 26.8 percent by 2023, driven by external borrowing.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.0	-8.5	12.1	4.1	4.0	4.0
Private Consumption	3.5	-2.7	6.2	6.0	4.2	4.0
Government Consumption	9.8	3.6	0.7	-5.2	-2.2	-1.8
Gross Fixed Capital Investment	10.2	-7.7	7.0	4.1	4.0	4.1
Exports, Goods and Services	-7.1	-18.1	44.0	9.2	8.3	7.3
Imports, Goods and Services	11.9	5.2	5.1	5.0	4.9	4.8
Real GDP growth, at constant factor prices	3.2	-8.9	12.1	4.1	4.0	4.0
Agriculture	3.0	-1.7	3.0	3.0	2.8	2.6
Industry	-1.5	-20.6	26.7	4.6	4.4	4.4
Services	6.8	-0.8	4.1	3.8	3.8	3.8
Inflation (Consumer Price Index)	2.8	1.9	6.7	7.5	4.5	4.5
Current Account Balance (% of GDP)	-8.4	-10.6	-2.1	-0.6	1.6	1.9
Net Foreign Direct Investment (% of GDP)	1.3	-0.6	0.6	0.8	1.2	1.2
Fiscal Balance (% of GDP)^a	-6.2	-9.4	-5.7	-4.2	-0.5	0.0
Debt (% of GDP)	21.2	23.9	25.5	27.2	26.8	26.4
Primary Balance (% of GDP)^{a,b}	-5.5	-8.7	-4.9	-3.4	0.3	1.1
International poverty rate (\$1.9 in 2011 PPP)^{c,d}	12.0	15.0	12.3	12.1	11.5	11.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{c,d}	32.5	37.1	33.1	32.5	31.8	31.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{c,d}	56.2	59.4	56.6	56.2	55.8	55.1
GHG emissions growth (mtCO2e)	0.6	-1.4	3.7	0.4	0.3	0.4
Energy related GHG emissions (% of total)	17.2	15.7	16.8	17.2	17.4	17.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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

b/ Refers to Public and Publicly Guaranteed debt.

c/ Calculations based on 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.

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