

BOTSWANA

Table 1 **2016**

Population, million	2.3
GDP, current US\$ billion	15.6
GDP per capita, current US\$	6763
International poverty rate (\$ 19) ^a	18.2
Lower middle-income poverty rate (\$3.2) ^a	37.1
Upper middle-income poverty rate (\$5.5) ^a	57.5
Gini coefficient ^a	60.5
Life expectancy at birth, years ^b	64.4

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

Notes:

(a) Most recent value (2009), 2011 PPPs.

(b) Most recent WDI value (2014)

Botswana's economic growth recovered strongly in 2016, fueled by mineral exports and services sector. Further gains are expected for the medium-term, with a real GDP growth of up to 4.8 percent by 2019. Growth will be driven by the mining sector activity as global demand increases, construction activity supported from public investments, and the services sectors. Over the period, poverty is projected to decline by 0.7 percentage point annually to reach 10.6 percent of the population by 2019.

Recent developments

Botswana's GDP grew by 4.5 percent in 2016, strongly rebounding from a contraction of 1.7 percent in 2015. Growth was driven by upswing in mineral exports and services sector, outpacing earlier projections for 2016.

The rebound in the global demand for diamonds resulted in a sharp increase in diamond exports and clearance of previously accumulated diamond inventories. The increase in the global demand for diamonds resulted in gradual recovery of the mining activity related to diamond extraction, although this was fully offset by the closure of the BCL copper and nickel mines in the last quarter of 2016. Overall, the mining production shrank by 3.7 percent in 2016 compared to 19.6 percent in 2015.

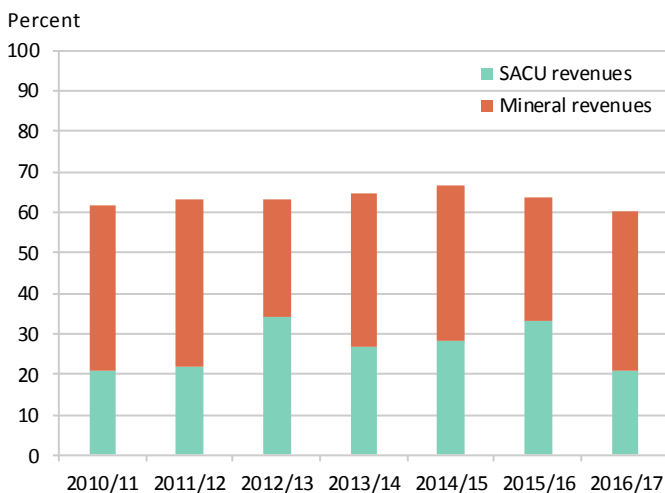
Services sector continued to be the fastest growing segment of the economy, contributing significantly to overall GDP growth. Strongest gains within the tertiary sector were noticed in the wholesale and retail trade and transport and communication areas. Furthermore, GDP growth was supported by the intensified construction activity and the water and electricity sectors over the course of 2016 that recuperated from last year's supply disruptions. Agricultural sector continued to have a limiting role to GDP growth, in part due to the lasting droughts in the region.

An additional marginal boost to economic recovery has been provided from fiscal policy, with policy geared toward

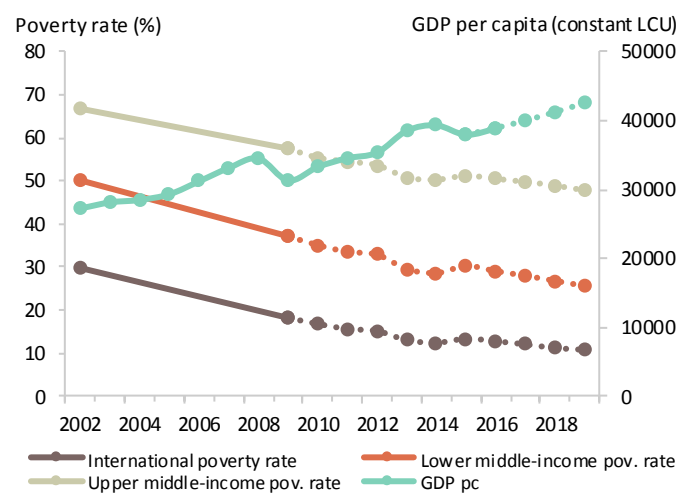
increased capital spending and implementation of the Economic Stimulus Program. Nonetheless, despite higher capital spending and lower SACU revenues in FY16, the budget deficit has narrowed to 0.3 percent of GDP compared to 4.8 percent in FY15. The reduction of the deficit reflects higher government revenues from minerals, and this has reduced the need to withdraw funds from accumulated fiscal savings (i.e. the Pula fund). Since FY15 when tax reforms were implemented, the share of mineral revenues and SACU receipts has declined in total revenues that is attributable to higher reliance on direct and indirect non-mineral taxes.

The sharp increase of diamond exports in 2016, triggered strong export growth that resulted in a further improvement in the current account surplus. Inflation in 2016 eased to 2.8 percent, and is attributable to declining import prices especially oil.

Economic growth has been pro-poor, leading to significant and rapid poverty reduction. Between 2002/03 and 2009/10, the share of the population living on less than \$1.90 a day at the 2011 PPP exchange rate, declined steadily from 29.8 percent to 18.2 percent (figure 2). This reflects a combination of equitable growth, demographic changes (e.g. decreasing fertility rates and dependency ratios), increased credit, and expansion of social assistance schemes (especially direct transfers to rural households), and employment expansion (especially of agricultural employment in rural areas by 5.6 percent). Progress in rural poverty reduction has been rapid, as it was almost halved (from 45.2 percent in 2002/03 to 23.7 percent in

FIGURE 1 Botswana / Share of SACU and mineral revenues in total public revenue


Source: Bank of Botswana financial statistics.

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


Source: World Bank. Notes: see table 2.

2009/10). However, inequality in Botswana remains high with a Gini coefficient of 60.5 in 2009/10, down slightly from 64.7 in 2002/03. In response to the real GDP contraction of 2015 (table 2), the share of the population living in poverty is estimated to have increased by almost 1 percentage point from the previous year to 13.3 percent. Gradual pickup in economic growth in 2016 helped to reduce the poverty headcounts to 12.7 percent. Statistics Botswana recently finished collecting new household consumption data based on the Botswana Multi-Topic Survey 2015/16 and the poverty estimates are expected this FY.

Outlook

Economic activity is expected to reach 4.5 percent in 2017, up to 4.8 by 2019. The economic growth will be driven by the mining activity, construction, services sector and intensified public investments. In the next few years mining activity is expected to return close to its pre-crisis level in line with the expectations for a gradual recovery of the global demand for diamonds and the possible restructuring and startup of parts of the BCL copper and nickel mines.

Additional support to the GDP growth will be provided from the intensified public capital spending that will foster construction activity. Construction activity will also be supported with the expansion of the new power supply capacities which will reduce supply shortages in the country.

Tertiary sector will remain the fastest growing segment in the economy and will make a significant contribution to overall value added in the country through increased demand for services that are closely related to mining activity and to the recovery of domestic demand.

At the same time, stronger domestic demand will place upward pressure on imports of goods and services, and is expected to lead to a gradual reduction of the current account surplus. Stronger domestic demand and rising oil prices will generate price pressures which are likely to lead to an acceleration of inflation to around 4 percent by 2019.

Fiscal spending will continue to advance at today's more-rapid pace, with priority for areas identified in the recently announced National Development Plan 11 (NDP11) which are: tackling poverty, inclusive growth, and job creation. Budget deficits are anticipated to narrow from FY 2018/19 forward because of higher mineral revenues, despite lower SACU receipts.

Over the medium term, the country is expected to reduce poverty by 0.7 percentage point annually, to 10.6 percent by 2019. Achieving further poverty reduction will be challenging with the pace of progress constrained by limited private sector job creation, particularly in urban areas, and reliance on low productivity agricultural jobs in rural areas, combined with reduced credit growth and high levels of household indebtedness.

Risks and challenges

Botswana, as heavily dependent on commodity exports and public sector activity, will remain exposed to external shocks. Therefore, a key risk facing the economic outlook arises from potentially slower than expected recovery of global demand for commodities including diamonds. For example, a slowdown in major economies, would further constrain diamond and other commodity production, with spillover effects across government revenues and exports. In the medium-term, structural reforms remain critical for managing volatility and sustainability risks such as reforms in the water and energy sectors, as well as policies that address labor market distortions.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	4.1	-1.7	4.3	4.5	4.7	4.8
Private Consumption	0.8	3.9	2.2	2.6	3.0	3.5
Government Consumption	10.8	2.5	0.5	1.9	2.2	2.3
Gross Fixed Capital Investment	1.5	8.8	3.6	4.3	4.3	4.4
Exports, Goods and Services	7.8	-17.1	13.9	6.1	6.5	6.8
Imports, Goods and Services	-0.5	0.4	-6.2	4.0	4.6	5.4
Real GDP growth, at constant factor prices	4.1	-2.0	4.8	4.5	4.7	4.8
Agriculture	-0.4	0.3	-1.0	1.5	1.8	2.0
Industry	-0.2	-8.9	1.3	1.1	2.2	2.5
Services	6.5	1.3	6.6	6.0	5.8	5.8
Inflation (Consumer Price Index)	4.4	3.1	2.8	3.6	3.9	4.1
Current Account Balance (% of GDP)	15.2	8.3	11.7	9.7	8.4	7.5
Fiscal Balance (% of GDP)^a	3.7	-4.8	-0.3	-1.6	-1.0	-0.6
Debt (% of GDP)	17.5	17.0	15.9	17.3	18.0	18.3
Primary Balance (% of GDP)^{a,b}	4.3	-4.2	0.3	-1.0	-0.3	0.2
International poverty rate (\$1.9 in 2011 PPP)^{c,d}	12.3	13.3	12.7	11.9	11.1	10.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{c,d}	28.6	30.2	29.0	27.9	26.7	25.5
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{c,d}	50.2	51.1	50.4	49.7	48.8	47.7

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.

Notes: f = forecast.

(a) Fiscal year starts from April 1st.

(b) Non-mineral primary balance.

(c) Calculations based on 2009-CWIS. Nowcast: 2014 - 2016. Forecast are from 2017 to 2019.

(d) Projection using neutral distribution (2009) with pass-through = 0.87 based on GDP per capita in constant LCU.