

# Economic Review

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## Real GDP Growth

7.1%

Up from 2.9 percent during the same period in 2012

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## Headline Inflation

5.0%

from 5.8 percent at the end of the second quarter (June)

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## Trade Balance (Pula)

-2.5bil

The deterioration in the trade balance was in part due to a fall in exports from 16.8 billion during the first quarter to 14.6 billion during the second quarter, which represents a 13.1 percent decline.

## Introduction

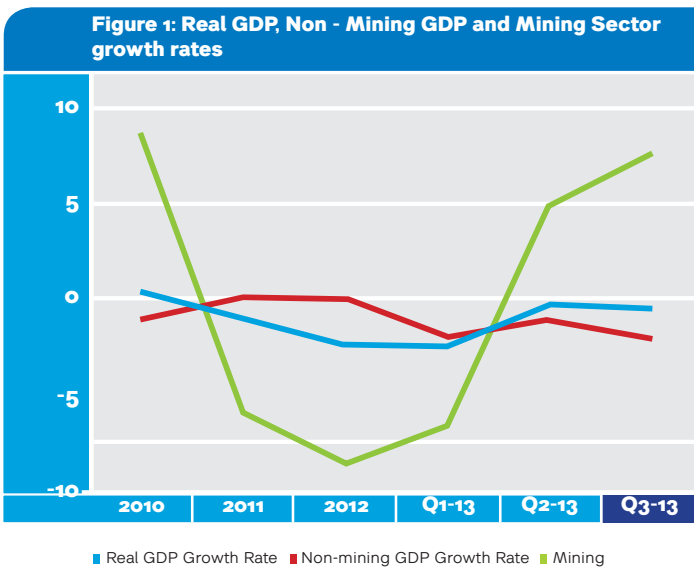
The December 2013 data from Statistics Botswana show that real GDP growth rate in the third quarter of 2013 was 7.1 percent. This is an improvement over the 2.9 percent recorded during the same period in 2012. Sectors that have significantly contributed to this growth are Water & Electricity, Mining and General Government. At 4.1 percent in December 2013, inflation has remained within the Bank of Botswana's objective range of 3–6 percent since June 2013. The lower inflation is largely due to the base effect of the increase in some administered prices in 2012.

International trade data shows a major improvement in the trade balance during the third quarter of 2013, mainly due to the sharp increase in exports and a modest increase in imports. On the other hand, credit growth eased to 25.0 percent in the third quarter, after reaching 28.1 percent during the second quarter. However, household credit accounts for the largest share of total credit and the share has grown over the past three quarters.

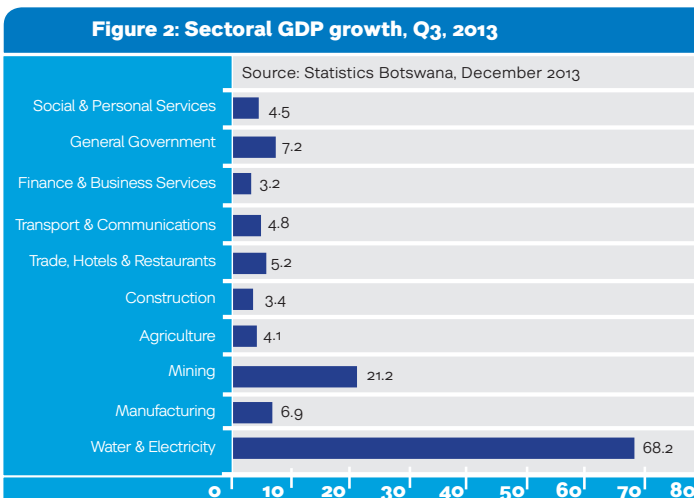


## Economic Growth

Real GDP growth rate for the third quarter of 2013 was 7.1 percent, up from 2.9 percent recorded during the same period in 2012.

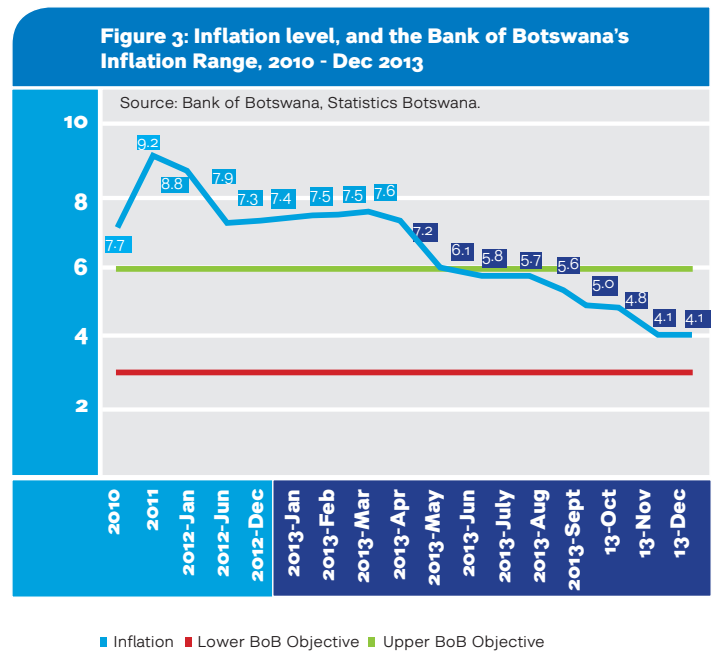


The higher growth recorded in the third quarter is largely due to Water & Electricity, Mining and General Government which recorded higher growth rates of 68.2, 21.2 and 7.2 percent respectively. It is also important to note that all other sectors recorded growth rates of 3.2 percent or better over the period.



## Inflation and Monetary Policy

Inflation has remained within the Bank of Botswana's objective range of 3–6 percent since June 2013. It stood at 4.1 percent in November and remained at that level in December 2013 as well; lower than the 7.4 percent recorded in December 2012. The lower inflation is largely due to the base effect of the increase in some administered prices in 2012. Thus, as we have noted in the last review, the fact that lower inflation has not been achieved through the implementation of a deliberate domestic policy framework suggests that authorities have little control over inflation movements. Any pressures, especially external pressures such as those associated with commodity prices will inevitably lead to increases in inflation. The current water and power shortages may soon put considerable inflationary pressures on the economy, either through efficiency losses or huge capital expenditures that will have to be recovered through higher utility consumer prices.



Further, the discussions within the Public Service Bargaining Council (made up of representatives of the Government and Trade Unions) are ongoing. Given the fact that public service salaries have not been substantially increased in the last five years, it is most likely that an increase may be implemented

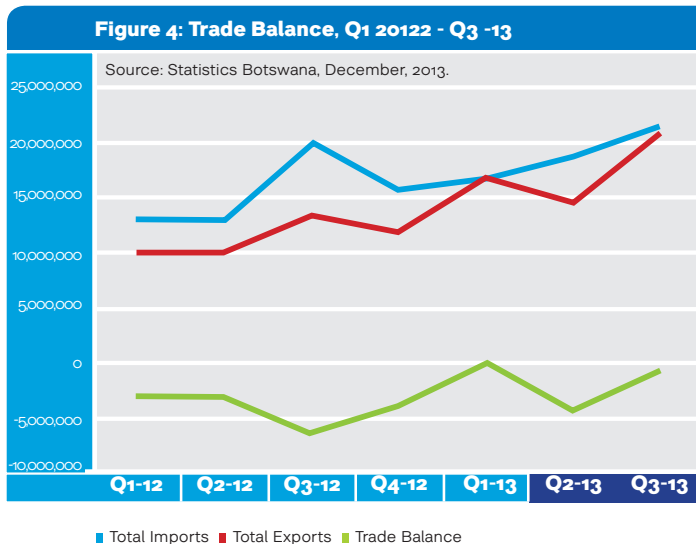


in 2014. Hence, in addition to possible external pressures, there are domestic pressures that are likely to push up inflation. We therefore expect inflation to have assumed an upward trend by the end of the first quarter of 2014.

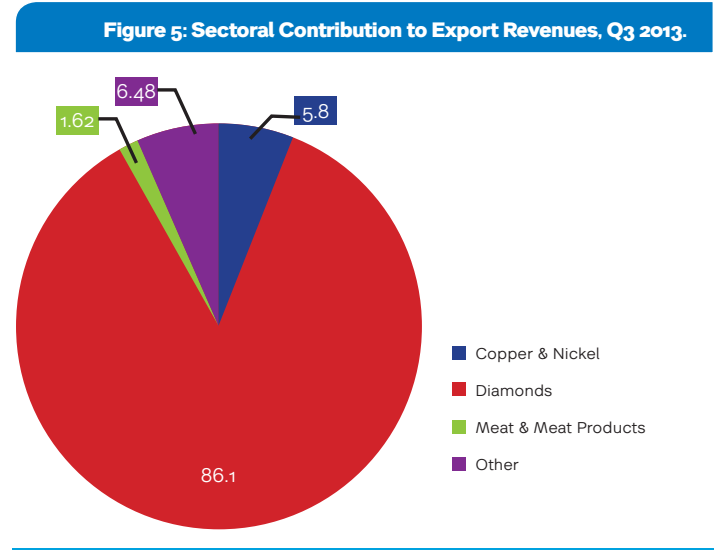
## International Trade and Export Diversification

There was a major improvement in the trade balance during the third quarter of 2013, mainly due to the sharp increase in exports from and a modest increase in imports. Exports value increased from P14.59 billion during the second quarter to P20.9 billion during the third quarter or a 43.2 percent increase. On the other hand imports value increased from P18.8 billion to P21.5 billion or just 14.4 percent.

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The increase in exports was largely due to the P6.5 billion increase in diamonds exports, which represented a 54.7 percent increase in diamond exports during the period. A disturbing trend however is that although diamonds' contribution has fallen from around 30 percent in 2006 to about 20.0 percent in 2010, diamonds accounted for 86.1 percent of export revenues during the third quarter of 2013, showing that, despite strides made in economic diversification at the production level, the economy still relies heavily on diamonds for export earnings. This calls for efforts to couple production diversification efforts with export earnings diversification.

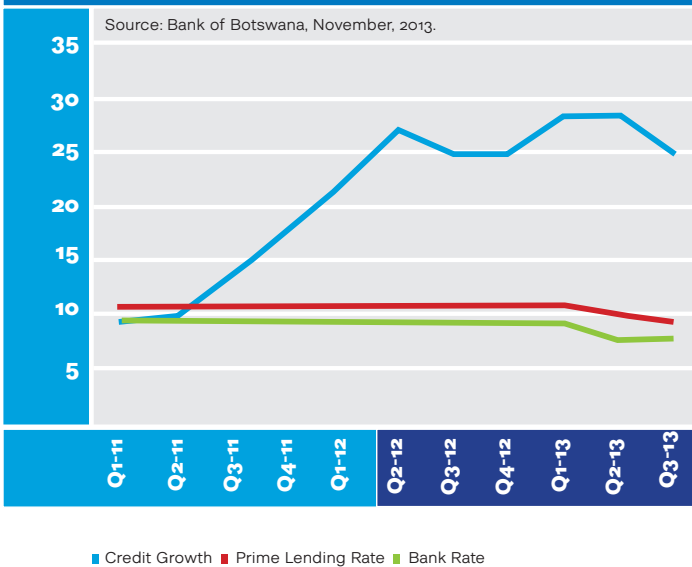


Source: Bank of Botswana

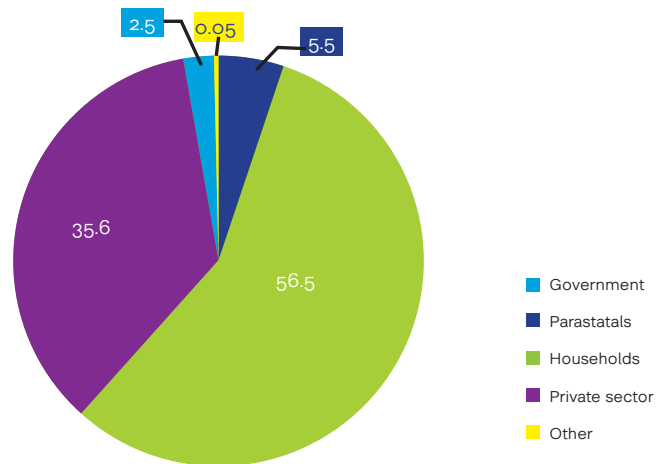
## Credit Growth

Year on year credit growth eased to 25.0 percent in the third quarter, after reaching 28.1 percent during the second quarter. The fall in total credit growth is welcome, especially given the fact that the Bank of Botswana reduced the bank rate from 9.5 percent in March 2013 to 7.5 percent in December 2013, which in turn led to the fall in the prime lending rate from 11.0 percent in March 2013 to 9.50 in December 2013.

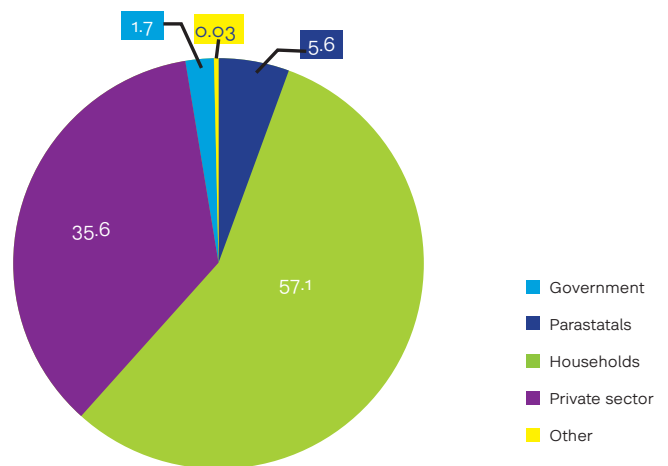
**Figure 6: Year on Year Credit Growth, Q1 2011 - Q3 2013**



**Figure 7: Credit Composition: Q2, 2013**

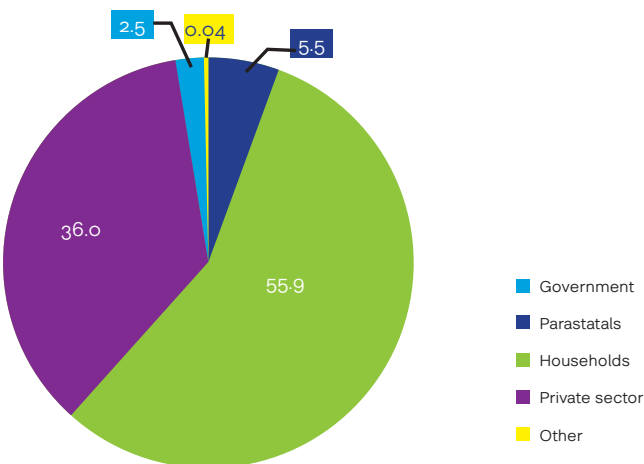


**Figure 7: Credit Composition: Q3, 2013**



However, as observed in the past briefings, household credit still accounts for the largest share of total credit. In fact the share has grown from 55.9 percent in the first quarter to 57.11 percent in the third quarter of 2013. The discomfort that much of this credit may be used for consumption remains, although it is appreciated that some of it may be used for investment purposes. It is difficult to determine, from the available data, the proportion that may be used for investment purposes.

**Figure 7: Credit Composition: Q1, 2013**



Source: Bank of Botswana, November, 2013.

Perhaps more serious is the fact that, though falling, a large proportion of credit to households has consistently been unsecured loans. Although some of the unsecured loans may have been used for investment purposes including buying property, the fact that they were unsecured may pose some risk to the stability of banking sector, and thus need to be closely monitored. On a positive note, household lending for property financing has been steadily going up (from 21.2 percent of total household lending in 2008 to 28.0 percent

during the third quarter of 2013), indicating increased appetite for investing in property. In addition, the proportion of credit expended on motor vehicles has gone down from 10.2 percent in 2008 to 5.8 percent in the third quarter of 2013. This suggests a decrease in consumption oriented vehicle expenditure. It is important to note that a proportion of unsecured loans may be used to buy especially second hand vehicles.

**Table 1: Composition of Household Credit, 2008 - Q3 2013**

Year	Property	Motor Vehicle	Credit Cards	Unsecured Loans	Total
2008	21.2	10.2	..	68.6	100.0
2010	25.1	6.5	..	68.4	100.0
2012	25.1	6.3	3.1	65.5	100.0
Q1-2013	25.3	6.0	3.1	65.5	100.0
Q2-2013	26.0	5.7	2.9	65.4	100.0
Q3-2013	28.0	5.8	2.7	63.5	100.0

Source: Bank of Botswana, November, 2013.

## Conclusions

It is pleasing to note that the third quarter of 2013 has experienced improved economic performance (7.1 percent) over the 2.9 percent recorded during the same period in 2012. More pleasing is the recovery of the mining sector, which recorded a 21.2 growth rate, a major turnaround from the 23.5 decline recorded in the third quarter of 2012. It is also pleasing to note that inflation has remained within the Bank of Botswana's objective range of 3–6 percent since June 2013. However, a cautionary note is needed. Pressure on the Government to increase public sector salaries is mounting. So is pressure on electricity and water prices. It seems inevitable that authorities will yield to some of these pressures within the next two quarters. We therefore expect inflation to have assumed a slight upward trend by June 2014. There was a major improvement in the trade balance during the third quarter of 2013. This was largely due to the P6.5 billion increase in diamonds exports, which represented a 54.7 percent increase in diamond exports during the period. There seems no immediate reason to suggest that the diamonds won't do well in 2014. Subsequently, we expect 2014 to be a fairly good year for the diamond sector and the Botswana economy.



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