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# ECONOMIC REVIEW

second quarter april-june 2018

## in this issue ...



## COMMENTARY

# Improvement in business and economic sentiment, but there may be headwinds from global risks

### Overview

Economic developments and data released during the second quarter of 2018 generally paint a positive picture. Real GDP growth over the year to March show a small increase to 3.3%, up from 2.4% in December 2017. This was mainly for technical reasons, as the negative impact of the BCL closure in 2016 gradually falls out of the calculation.

Nevertheless, business confidence has improved, according to the Bank of Botswana's (BoB) semi-annual expectations survey. At 58%, this is the first time that more than half of the firms surveyed have rated current business conditions to be satisfactory since 2012. This may well reflect the changed environment since H.E. President Masisi took office on 1st April, a confidence that many of the barriers to business activity that had been erected in past years would be removed and urgent economic reforms will at last be implemented. Some of the new President's early policy pronouncements demonstrated a commitment to improving the business climate and welcoming foreign investment.

Other positive developments include a fall in arrears on bank lending, and stable inflation despite a rise in fuel prices, which were fortunately offset by a reduction in cellphone tariffs. This may, however, be short-lived, as further fuel price increases are inevitable, and these will inevitably push up inflation over the next year. Domestic fuel prices are regulated and have not been raised in line with rising international fuel prices, presumably for political reasons. An increase of at least P1 per litre of petrol and diesel (approximately 12%) is needed to cover the costs of fuel. Going forward, fuel pricing should be depoliticised and adjusted in line with cost changes.

## Diamond Developments

The global diamond market has been broadly stable, with the total value of sales through De Beers Global Sightholder Sales (DBGSS) in Gaborone approximately the same (in US dollar terms) in the first half of 2018 as in the same period in 2017. Diamond production at Botswana mines was up slightly over the period. Diamond exports are crucially dependent on the state of the world economy, with the USA and China being the two major markets, and both are growing strongly.

The diamond world was, however, shocked by the announcement by De Beers in May that it would begin selling synthetic diamonds produced by its Element Six subsidiary. This was seen by many as a major turnaround, given the company's previous attempts to prevent the mixing of synthetic (lab grown) diamonds with natural (mined) diamonds in conventional sales channels. However, on reflection there is logic to De Beers' move. The synthetic diamonds will be branded quite differently to natural diamonds and sold through different channels at much lower prices. It is therefore part of the company's attempts to preserve the special and distinctive character of natural diamonds, and hence to preserve their price premium. If successful, this will work to Botswana's advantage, as one of the world's largest producers of natural diamonds. Nevertheless, it is a risky strategy, given the lack of inherent distinction between natural and synthetic diamonds. Much will rest on De Beers' ability to keep the two markets segmented through smart marketing, which is one of the company's strengths.

## Rising Global Risks

Global economic growth has been reasonably strong, with an upward trend, and the IMF is forecasting global real GDP growth of 3.9% in 2018 and 2019. Growth in sub-Saharan Africa is projected to be slightly lower than global levels, at 3.4% in 2018 and 3.8% in 2019. However, it is clear that the risks to growth are rising and are strongly tilted towards the downside. This is mainly due to rising protectionism, with tariffs and other anti-trade measures being promoted by the Trump administration in the USA, and retaliatory actions from those affected by these actions, notably the European Union (EU) and China. The dangers of a full-scale global trade war are very real. One of the main lessons of history is that trade wars and protectionism lead to lower economic growth and leave everybody worse off. At worse, there could be a 1930s-style global depression, which was brought about by protectionism and retaliation.

While US trade policy is the main risk to global prosperity, it is not the only one. In Europe, the Brexit process leading to the departure of the UK from the EU is going badly. This is not surprising, given the foolishness of the idea and the lack of preparedness on the part of the UK government. It increasingly appears that there is no Brexit solution that will simultaneously satisfy the UK population, the British Parliament, the governing Conservative Party and the EU. As a result, a disorderly "no deal" Brexit now appears to be the most likely outcome, with all of the disruption this implies for trade, and particularly for the UK economy. While not of huge global significance in itself (the main negative impact will be on the UK population, who voted for it), an additional source of uncertainty at a time of global trade tensions is unwelcome.

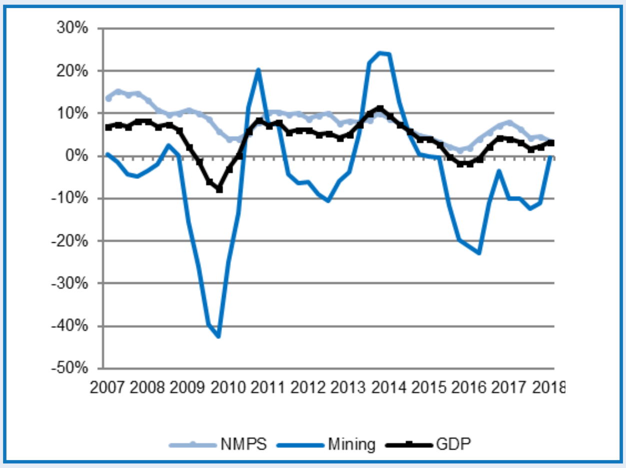
## Special Funds

Back home, one of the early announcements under the Masisi presidency was that the management of various government "special funds" was to be improved and in particular, the monies in these funds are to be placed with government deposits at the Bank of Botswana under the control of the Ministry of Finance and Economic Development (MFED). Some of these funds have been held at commercial banks and/or managed by private sector asset managers. As we have commented in previous reviews, special funds are one of the major weaknesses of Botswana's public finances, vulnerable to fraud and abuse (as in the case of the National Petroleum Fund (NPF), and perhaps others), but in general characterized by a lack of accountability and transparency, with much less information provided than on government revenue and expenditure in general.

The improved procedures relating to special funds are to be welcomed, but need to go further; ideally, special funds should be fully integrated into the national budget, and subject to much greater transparency around revenues and expenditures. The levies that finance many of these funds are in reality taxes by another name, and should be accounted for in the same way as general taxation. One adverse side effect of the reforms, however, is a potential squeeze on bank liquidity, depending on the magnitude of funds to be moved from the commercial banks to the BoB.

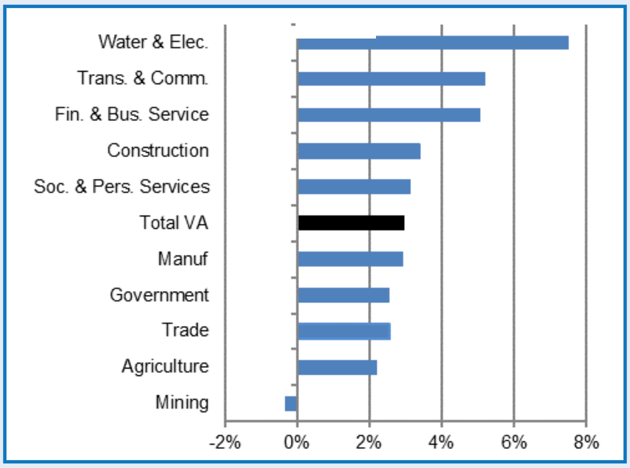
# KEY ECONOMIC VARIABLES

## Annual GDP Growth



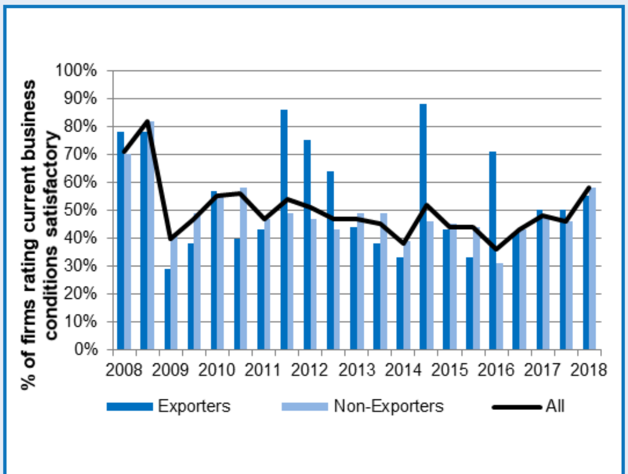

Real GDP growth picked up during the first quarter of 2018, recording year-on-year growth of 3.3%, compared to 2.4% in Q4 2017. The upturn is due to the effect of the BCL mine closure in October 2016 dropping out of the y-o-y growth calculations. Consequently, the mining sector recorded improved y-o-y growth of minus 0.3%, its highest level since Q1 2015. The non-mining private sector (NMPS) recorded y-on-y growth of 3.6%, down from 4.7% in the previous quarter. This decline is driven mainly by fall in the growth of wholesale trade, which includes diamond trading activities.

## Sectoral GDP Growth



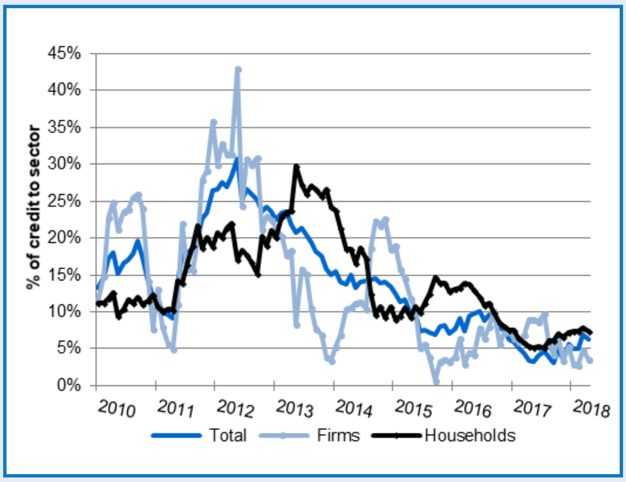

Economic performance has generally been positive during Q1 2018. All sectors except Trade and Construction recorded marginal or significant improvements in performance when compared to Q4 2017. The greatest rise in growth was in the Water & Electricity sector, registering y-o-y growth of 7.5%, compared to minus 19.5% in Q4 2017. Although growth was positive, the sector still remains very volatile. Trade recorded growth of 2.5%, down from 7.3% in the previous quarter. This was driven by a significant drop in wholesale trade output during the quarter, caused by fluctuations in diamond trading.

## Business Confidence




The Bank of Botswana's Business Expectations Survey (BES) has shown an increase in overall business confidence, from 46% in H2 2017 to 58% in H1 2018. This is the highest level of business confidence since 2008, and indicates a breakout from the narrow range of confidence scores that the country has been locked in since 2009. Exporters have signaled an increase in confidence to 55%, up from 50% in H2 2017. Non-exporters have seen a greater rise, up from 46% in the previous survey to 58% currently. The rise in business confidence in 2018H1 may reflect an expectation that the policy environment for business may become more conducive under the new President.

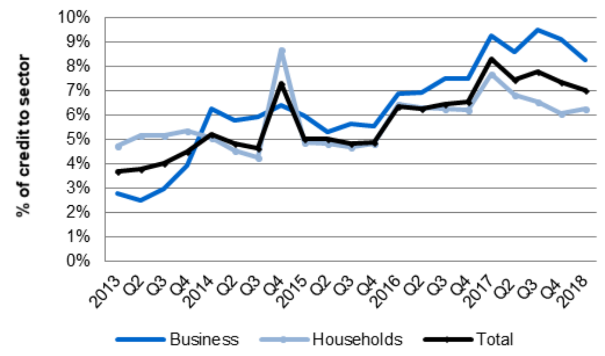
## Annual Credit Growth




Annual bank credit growth rose significantly to 6.2% in April 2018 from 4.9% in January. This was driven by two factors, firstly, the growth of credit to firms rose from 3.0% in January to 3.6% in April. Secondly, there has been a sharp increase in bank lending to parastatals during the period. This may be associated with increased business confidence, which should underpin greater investment by firms and parastatals alike. Household credit growth fell marginally to 7.3% in April compared to 7.4% in January.

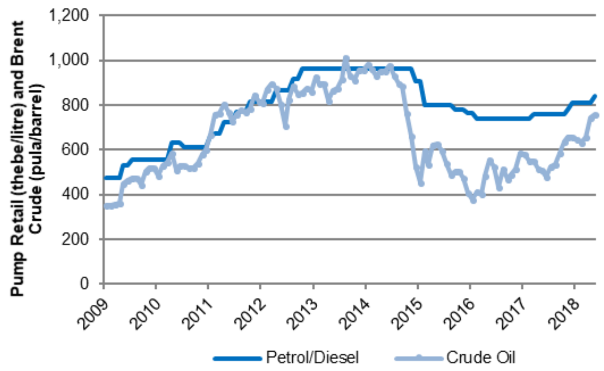
# KEY ECONOMIC VARIABLES

## Arrears on Bank Lending



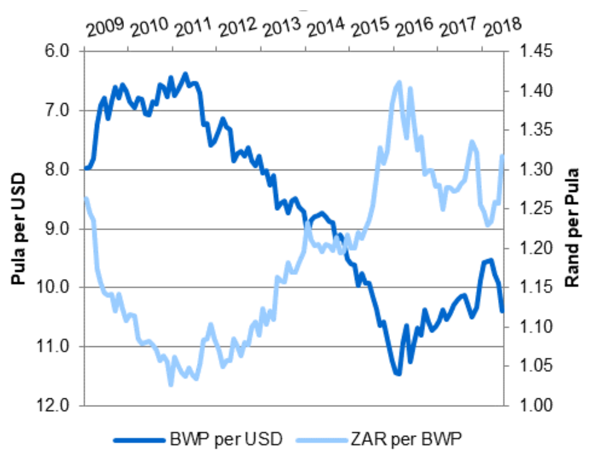

Total arrears as a proportion of outstanding bank credit decreased further in the first quarter of 2018. Arrears fell from 7.3% of credit outstanding in Q4 2017 to 7.0% in Q1 2018. Total arrears are, however, still high by historical standards. The decline in total arrears was driven by a fall in business arrears from 9.1% in Q4 2017 to 8.3% in Q1 2018. There has also been a decline in arrears on lending to government and parastatals. Both declines were however partially offset by a marginal increase in household arrears to 6.3% from 6.1% during the same period.

## Fuel Prices



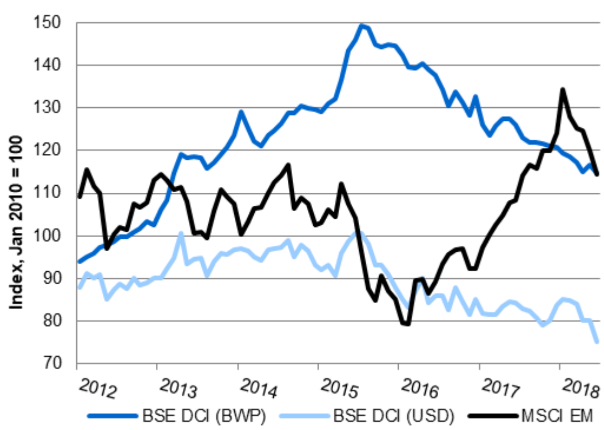

International fuel prices have risen sharply during the first half of the year. The spot price of Brent crude increased by 67.4% and 64.5% in Pula and US dollar terms respectively during the 12 months to June 2018. Domestic retail pump prices for petrol and diesel have been adjusted upwards three times over the past 12 months, with a total increase of 9.5% for petrol and 12.9% for diesel. These price increases do not, therefore, yet reflect fully the rising cost of fuel internationally. In addition, local costs incorporate levies to cover the MVA Fund, the Road Fund, and strategic fuel storage facilities. Local fuel prices are estimated to be under-recovering costs by around P1 per litre, hence will need to rise by at least this amount sooner rather than later, unless international fuel prices drop. Exchange rate changes are accentuating the impact of higher oil prices in Pula terms.

## Exchange Rates




The Pula strengthened against the SA rand by 6.7%, to end Q2 2018 with an exchange rate of ZAR1.3171 compared to ZAR1.2348 at the end of Q1. The appreciation is driven mainly by the volatility of the rand, which weakened sharply against the US dollar during the quarter. The Pula-US dollar exchange rate was 10.40 by the end of June 2018 compared to 9.533 at the end of March 2018. This is a significant Pula depreciation of 8.3% against the US dollar.

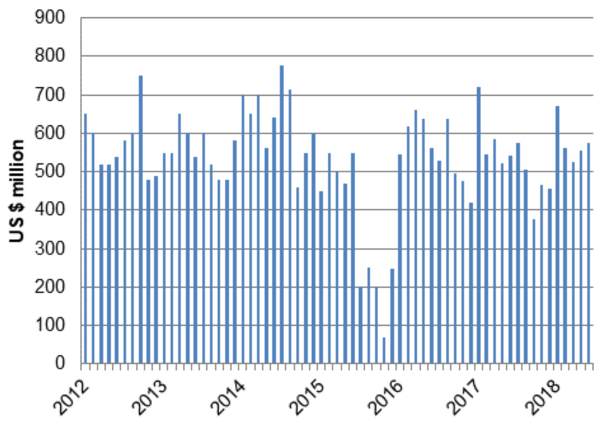
## Stock Markets




The Botswana Stock Exchange (BSE)'s Domestic Companies Index (DCI) weakened in the second quarter, falling by 2.2% and 10.3% in Pula and USD terms respectively, as market conditions show no signs of recovery. On global stock markets, growth has also been limited. The MSCI Emerging Markets Index declined by 8.5%, while the MSCI World Index rose 1.5%.

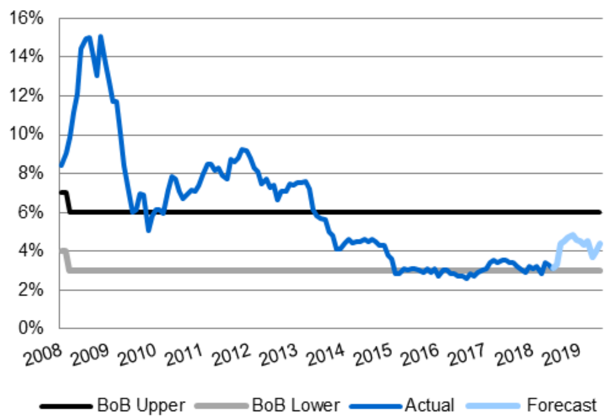
# KEY ECONOMIC VARIABLES

## De Beers Diamond Sales



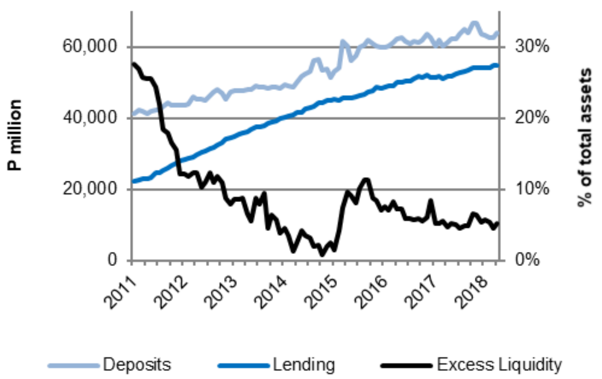

The global market for rough diamonds was generally positive with signs of steady recovery, during the second quarter of 2018. De Beers Global Sightholder Sales (DBGSS) recorded sales valued at USD1.653 billion in Q2 2018; this was 33.8% and 0.2% greater than sales recorded in Q1 2018 and Q2 2017 respectively.

## Inflation & Forecast



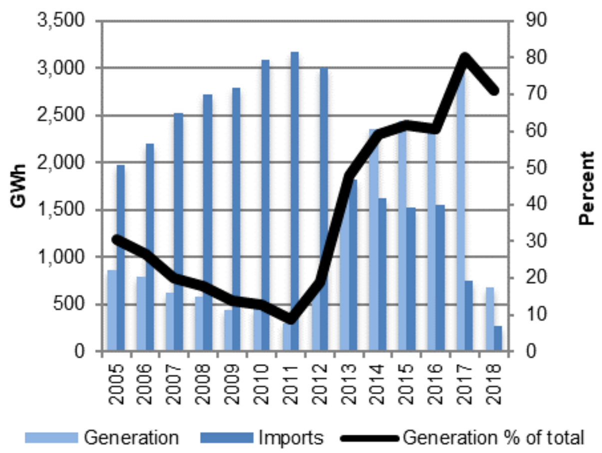

Annual inflation was 3.1% in June 2018, 0.3% greater than in March. This is due in part to the increase in fuel prices which took place in May. Inflation remains within the Bank of Botswana's objective range of 3-6%. Increasing international fuel prices and the need to replenish the National Petroleum Fund will put pressure to adjust fuel prices up again and consequently put upward pressure on inflation. The May increase in inflation was, however, mitigated by a reduction of mobile telephone tariffs.

## Bank Deposits, Lending & Liquidity




Bank liquidity fell marginally in April 2018. This was driven by slightly greater growth in bank lending over bank deposits. Bank deposits registered growth of 1.2% to P64.1 billion in April from P63.3 billion in January, while lending grew by 1.5% from P54.1 billion to P54.9 billion during the same period. As a result, excess liquidity was recorded at 5.2% of total assets compared to 5.8% in January this year. The intermediation (loan-to-deposit) ratio rose from 85% to 86% over this period.

## Electricity




Total consumption of electricity in the year to March 2018 increased by 8.1%. Year-on-year domestic generation of electricity declined by 2.3%, to a total of 682GWh from 698GWh in the year to March 2017. Morupule B Power Station produced 98.1% of all locally generated electricity. Imports increased by 46.7% in the first quarter of 2018 compared to the same quarter in 2017. This was due to the need to supplement local production in light of the increase in demand.

# NEWS HIGHLIGHTS

| | | |
|---|---|---|
| 03/04/2018 | Botswana approves drilling at Metal Tiger, MOD's T3 Dome (MINING WEEKLY) | The Department of Environmental Affairs has approved the Environmental Management Plan (EMP) for a drilling campaign to test numerous high-priority targets along the T3 project's 50-km-long T3 Dome. The T3 project is located along the Kalahari Copperbelt and drilling is planned to start in May. |
| 04/04/2018 | Government approves P430m for Norilsk settlement (Daily News) | Parliament has agreed to provide funds amounting to P430 million for the Ministry of Mineral Resources, Green Technology and Energy Security to settle legal claims made against the BCL Group by Norilsk Nickel Group (NNG). The Minister of Finance and Economic Development, Mr. Kenneth Matambo stated that the settlement agreement was accepted in order to avoid a potentially delayed, expensive and uncertain litigation process. |
| 05/04/2018 | De Beers, Botswana to dig deeper at world's richest diamond mine (MINING WEEKLY) | Debswana is seeking permission to deepen the Jwaneng mine to 830 metres. The Cut 9 project would extend the mine's life span by 11 years to 2035 and allow for the extraction of an additional 50 million carats. |
| 06/04/2018 | Morocco replaces Botswana as Africa's best investment destination (MMEGI) | The Global Investment Index published by Quantum Global has ranked Botswana as the 4th most favourable investment destination in Africa. Botswana had previously ranked 1st in Africa but has now fallen behind Morocco, Egypt and Algeria respectively. |
| 06/04/2018 | Tourists forecast to spend P7.5bn in Botswana this year (MMEGI) | The World Travel and Tourism Council (WTTC) has forecast spending by tourists in Botswana to reach P7.5billion in 2018. This is an increase of 5.7% compared to spending last year. |
| 08/04/2018 | National grain reserve below par (SUNDAY STANDARD) | The Strategic Grain Reserve (SGR) is reported to be at less than half of the required level of 70,000 metric tonnes. The Minister of Agricultural Development and Food Security, Patrick Ralotsia reported holdings of 30,000 tonnes of sorghum (full required allocation), 2,000 tonnes of pulses (20% of required allocation) and no maize (0% of required allocation). |
| 08/04/2018 | Botswana Oil seeks exclusive rights to import petroleum products (SUNDAY STANDARD) | State-owned Botswana Oil Limited (BOL) has applied to the Botswana Energy Regulatory Authority (BERA) for an exclusive licence to import petroleum products into Botswana. BOL will be looking to partner with Oman Trading International to procure both petroleum and petroleum-based products. The application aims to "ensure a consistent fuel supply in the country." |
| 15/04/2018 | World Bank "Classifies" Morupule B as a health hazard (SUNDAY STANDARD) | The World Bank's "Energy and Extractives Global Practice Country Department, Arica Region" report finds that Morupule B power station's greenhouse gas emissions do not meet the required international standard. The report pinpoints the employment of a contractor with no experience using Circulation Fluidized Bed (CFB) technology as the main culprit for the failure. The World Bank also warns that the high emissions from the plant could deter the government from further investment in the coal power plant. In response to these findings, BPC CEO Stefan Peter Schwarzfischer has outlined the parastatal's commitment to remedying the situation, adding that he believes the problem will be rectified within four years. |
| 15/04/2018 | Lucara Unearths 472ct. Rough Stone (RAPAPORT) | Lucara Diamond Corp. has recovered a 472-carat rough diamond. The stone is third largest to be mined from Karowe mine and is believed to have a relatively low colour grade. This is the fourth diamond over 100 carats Lucara has recovered this year, and is expected to be auctioned later this year. |

# NEWS HIGHLIGHTS

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|---|---|---|
| 24/04/2018 | BTC Bokamoso project speeds up internet (WEEKEND POST) | Botswana Telecommunications Corporation (BTC) has completed phase 1 of their Bokamoso project aimed at improving internet services. The project, conducted in partnership with Korea Telecom, has received positive reviews from 88% of users within a representative sample. Phase 1 rolled out the internet upgrade to residential regions such as Phakalane and Tsholofelo East, and major malls such as Airport Junction and Game City. The second phase will see the upgrade reaching the greater part of Gaborone and other cities. Furthermore, BTC's Managing Director, Anthony Masunga has stated the company's intention to lower internet tariffs in the near future. |
| 27/04/2018 | Probe cites IFSC as money laundering, tax evasion hotspot (MMEGI) | A report published by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) has cited International Financial Services Centres (IFSC) companies in Botswana as the country's top source of risk of money laundering. This is because of the complexity of their operations and the lack of cross border supervision and monitoring. |
| 01/05/2018 | Botswana Diamond Mine Up for Auction (RAPAPORT) | Kimberly Diamonds' Lerala mine was offered for sale in an online auction by its liquidators. This was caused by a failure to secure any viable bids for the mine, which produced less than 17% of their annual targeted carats in the year leading to its closure. The auction took place from May 24th through to May 30th, 2018. According to CNBC the mine was sold for $8.1 million. |
| 11/05/2018 | IMF shaves Botswana 2018 forecast (MMEGI) | The International Monetary Fund (IMF) has trimmed Botswana's projected real economic growth for 2018 from 4.8% to 4.6%. Although the IMF did not provide details for the revision, researchers did comment that the poor performance of the South African economy is likely to have a negative spillover effect on her neighbouring economies and slow growth within the region. |
| 13/05/2018 | Debswana Pension Fund's higher returns linked to offshore investments (SUNDAY STANDARD) | The Debswana Pension Fund (DPF) has recorded 7 percent growth in 2017. This was mainly driven by positive returns in emerging markets. The fund invested 59 percent of its assets in offshore markets, with the rest allocated domestically. The fund reports its best performing assets as the global emerging equities portfolio which provided returns of 26.3 percent. In contrast, local equities were the worst performing class of assets, and were down by 5.8 percent compared to their performance in the previous 12 months. |
| 14/05/2018 | BoB shuts down local Forex Ponzi scheme (WEEKEND POST) | The Bank of Botswana has shut down local forex trader Aquapanel (Pty) Ltd, after determining that the institution was soliciting and taking deposits from members without a valid license. The central bank stated that the ponzi scheme conducted by the trader was in direct violation of Section 3(1) of the Banking Act. |
| 15/05/2018 | BERA denies Botswana Oil exclusive import license (WEEKEND POST) | The Botswana Energy Regulatory Authority (BERA) has rejected an application by Botswana Oil Limited (BOL) for an exclusive license that would have seen them importing all of the country's petroleum and petroleum-based products. The energy sector regulator stated that request was rejected due to "technical, skills and financial constraints." |
| 18/05/2018 | Lobatse Clay Works grinds to a halt after failed P60m deal (MMEGI) | Lobatse Clay Works has suspended operations. The manufacturing company which employs approximately 500 individuals, was due an investment of P60million by the Botswana Opportunities Partnership Fund (BOP) which would have seen them (BOP) acquire 80% equity of the company. However, the deal failed to materialize due to a long-standing legal battle between Capital Management Botswana (CMB), who established the BOP, and Botswana Public Officers Pension Fund (BPOPF) who financed it. |
| 21/05/2018 | BITC, UB partner to push Botswana's export led economy dream (WEEKEND POST) | The Botswana Investment & Trade Centre (BITC) and the University of Botswana (UB) have signed a Memorandum of Understanding that will see the establishment of the Botswana Exporter Development Program (BEDP). BEDP, a capacity building initiative, will provide market expansion opportunities to local firms. According to BITC's acting CEO, Kelotsositse Olebile, the aim of the BEDP is to "increase exports of products and services that add domestic value and contribute to the diversification of the economy". |

# NEWS HIGHLIGHTS

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|---|---|---|
| 24/05/2018 | De Beers-Botswana Diamond Agreement talks set to be a tough battle (www.idexonline.com) | De Beers and the government of Botswana are set to hold talks on the next 10-year diamond agreement between the two parties, which is to come in effect in 2020. President Mokgweetsi Masisi is expected to push for the diamond industry to create more jobs in Botswana and for more diamonds to be cut and polished in the country. It is however worth noting that this would be no easy feat given the large-scale changes brought about during the last negotiations. |
| 07/06/2018 | Botswana Diamonds to buy BCL's stake in exploration project (AFRICAN REUTERS) | The managing director of Botswana Diamonds (BoD), James Campbell, has stated the company's intent to buy liquidated BCL Mine's stake in the diamond exploration Maibwe Joint Venture. |
| 11/06/2018 | Khoemacau to start mining (THE PATRIOT) | Khoemacau Copper Mining expects to begin mining operations during the first quarter of 2019. The company's exploration of the Khalari copper belt over several years resulted in the discovery of the Zone 5 North deposit. According to Khoemacau Country Manager Johannes Tsimako, the site is expected to produce in excess of 150,000 tonnes of copper concentrate per year. |
| 13/06/2018 | MEDIA RELEASE - Removal of Off-Net Premium on Mobile Voice Calls (www.bocra.org.bw) | Botswana Communications Regulatory Authority (BOCRA) informed the public that as of 1 June 2018, On-Net Calls (within the same network) and Off-Net calls (between different networks) will be charged at the same rate. The removal of Off-Net premiums has taken place over the space of two years as directed by the Regulatory Directive No.1 of 2017 issued by BOCRA. |
| 18/06/2018 | IMF urges Gov't on fiscal reforms (WEEKEND POST) | The IMF released a report on Friday June 8th recommending that Botswana undertake revenue and expenditure reforms along with policy reviews in order to reduce income inequality. |
| 19/06/2018 | Botswana notifies WTO of foot and mouth disease outbreak (AFRICAN REUTERS) | Botswana has published a report notifying its trading partners of a suspected foot and mouth outbreak in the Ngamiland district. The report stated that the "Export of all meat products from export slaughter and processing plants produced in the last 30 days in Ngamiland is suspended." |
| 19/06/2018 | Monetary Policy Committee Meets (Bank of Botswana) | The Monetary Policy Committee (MPC) of the Bank of Botswana (BoB) has decided to maintain the Bank Rate at 5 percent. The MPC reports a positive outlook on price stability with the inflation rate forecast to be within the Bank's objective range of 3-6 percent in the medium term. |
| 25/06/2018 | Parley throws "Living Wage" motion out the Window (SUNDAY STANDARD) | A motion to introduce a decent living wage in the country has been rejected by the Parliament of Botswana. It is understood that whilst the motion received support across all pollical divides, the urgency and implementation of it was not agreed upon and thus the motion was rejected. |
| 26/06/2018 | SPEDU Region tax incentives experience legislative challenges (WEEKEND POST) | The tax incentives put in place to attract investors to do business in the SPEDU have not been accessed by investors. This is due to the fact that the tax incentives have not yet been accepted under the Development Approval Order provision, due to legal inconsistencies. According to the coordinator of the SPEDU revitalisation program, Linah Mohohlo, the problem is currently being dealt with by the Attorney General's Chambers. |
| 29/06/2018 | BPC bounces back to profit, targets higher exports (MMEGI) | According to numbers sourced by BusinessWeek, Botswana Power Corporation (BPC) has recorded profits of P200 million for the 2017/18 financial year. This would the first time in a decade (since 2008) that BPC has recorded profits, having registered losses of P140.3 million as recently as 2016/17. The increase in profits is due, in part, to a sharp decline in electricity imports as Morupule B power station's performance improves amid its ongoing remediation works. |

# MACRO-ECONOMIC DATA

| Key Economic Data | unit | 2013 | 2014 | 2015 | 2016 | 2017 | 2017Q1 | 2017Q2 | 2017Q3 | 2017Q4 | 2018Q1 | 2018Q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Annual Economic Growth** | | | | | | | | | | | | |
| GDP | % | 11.3 | 4.1 | -1.7 | 4.3 | 2.4 | 4.0 | *3.2* | 1.8 | 2.4 | 3.3 | .. |
| Mining | % | 24.2 | 0.5 | -19.6 | -3.7 | -11.2 | -10.2 | *-10.0* | *-12.4* | -11.2 | -0.3 | .. |
| Non-mining private sector | % | 10.1 | 4.9 | 1.4 | 7.2 | 4.7 | 7.9 | 6.5 | 4.5 | 4.7 | 3.6 | .. |
| GDP current prices | P mn | 125,158 | 145,868 | 146,066 | 170,589 | 180,113 | 43,857 | *44,639* | *44,963* | 46,654 | 46,654 | .. |
| GDP 2006 prices | P mn | 84,081 | 87,569 | 86,083 | 89,797 | 91,917 | 22,467 | *22,893* | *22,660* | 23,897 | 23,550 | .. |
| **Money & Prices** | | | | | | | | | | | | |
| Inflation | % | 4.1 | 3.8 | 3.1 | 3.0 | 3.2 | 3.5 | 3.5 | 3.2 | 3.2 | 2.8 | 3.1 |
| Prime lending rate | % | 9.0 | 9.0 | 7.5 | 7.0 | 6.5 | 7.0 | 7.0 | 7.0 | 6.5 | 6.5 | 6.5 |
| BoBC 14-day | % | 3.06 | 3.07 | 0.97 | 0.84 | 1.45 | 1.26 | 1.34 | 1.42 | 1.45 | 1.47 | 1.47 |
| **Trade & Balance of Payments** | | | | | | | | | | | | |
| Exports - total goods | P mn | 66,404 | 76,261 | 63,484 | 80,336 | 61,093 | *17,535* | *14,931* | *13,204* | *15,479* | 13,737 | .. |
| Exports - diamonds | P mn | 55,367 | 65,328 | 52,730 | *70,781* | 54,384 | 16,084 | *13,246* | *11,400* | 13,654 | 12,345 | .. |
| Balance of payments | P mn | 1,340 | 11,404 | - 57 | 2 843 | 6 258 | *4 783* | *2 437* | *- 326* | - 636 | - 766 | .. |
| **Foreign Exchange** | | | | | | | | | | | | |
| Exchange rate BWP per USD | end | 8.718 | 9.515 | 11.236 | 10.650 | 9.872 | 10.526 | 10.215 | 10.309 | 9.872 | 9.533 | 10.395 |
| Exchange rate ZAR per BWP | end | 1.196 | 1.217 | 1.383 | 1.279 | 1.256 | 1.278 | 1.274 | 1.312 | 1.256 | 1.235 | 1.317 |
| FX reserves | $ mn | 7,726 | 8,323 | 7,546 | 7,189 | 7,502 | 7,041 | 7,288 | 7,454 | 7,502 | 7,383 | .. |
| FX reserves | P mn | 67,772 | 79,111 | 84,881 | 76,804 | 73,693 | 73,957 | 74,734 | 76,763 | 73,693 | 70,582 | .. |
| **Financial Sector** | | | | | | | | | | | | |
| Deposits in banks | P mn | 48,512 | 51,492 | 59,961 | 62,438 | 63,581 | 60,120 | 62,380 | 63,842 | 63,581 | 62,495 | .. |
| Bank credit | P mn | 39,763 | 45,116 | 48,307 | 51,316 | 54,181 | 51,141 | 52,555 | 53,290 | 54,181 | 54,695 | .. |
| BSE index | | 9,053.4 | 9,501.6 | 10,602.3 | 9,727.7 | 8,860.1 | 9,225.2 | 9,244.2 | 8,930.4 | 8,860.1 | 8,589.6 | 8,402.7 |
| **Business Indicators** | | | | | | | | | | | | |
| Diamond production *(a)* | '000 cts | 23,134 | 24,658 | 20,732 | 20,880 | 22,961 | 8,553 | 5,992 | 6,117 | 5,568 | .. | .. |
| Copper production (c) | tonnes | 49,448 | 46,721 | 23,050 | 16,878 | 1,239 | 0 | *689* | *340* | *210* | .. | .. |
| Nickel production | tonnes | 22,848 | 14,958 | 16,789 | 13,120 | 0 | 0 | 0 | 0 | 0 | .. | .. |
| Business confidence index | | 45% | 52% | 44% | 43% | 46% | 48% | .. | 46% | .. | 58% | .. |
| No. of companies formed | | 14,190 | 16,300 | 19,134 | 17,133 | 20,707 | 5,661 | 4,913 | 5,350 | 4,783 | 5,327 | .. |
| Electricity consumption | GWh | 3,502 | 3,990 | 3,974 | 3,929 | 3,772 | 888 | 899 | 1,018 | 967 | 960 | .. |
| Crude oil (Brent) | $/bar | 109.95 | 55.27 | 36.61 | 54.96 | 66.73 | 52.20 | 47.08 | 57.02 | 66.73 | 69.02 | 77.44 |
| **Employment (formal)** | | | | | | | | | | | | |
| Government | | 130,175 | 129,918 | 130,220 | 129,216 | 129,009 | 129,078 | 128,520 | 128,950 | 129,009 | | |
| Parastatals | | 18,838 | 18,790 | 19,411 | 19,008 | 19,444 | 19,314 | 19,579 | 19,469 | 19,444 | | |
| Private sector | | 189,894 | 191,399 | 191,484 | 194,202 | 193,745 | 193,582 | 192,937 | 193,480 | 193,745 | | |
| Total | | 338,907 | 340,107 | 341,115 | 342,426 | 342,198 | 341,974 | 341,036 | 341,874 | 342,198 | | |

| Govt Budget | | 2014/15 | 2015/16 | 2016/17 Outturn | 2017/18 Revised | 2018/19 Proposed |
|---|---|---|---|---|---|---|
| Revenues | P mn | 55,904 | 47,420 | 57,398 | 57,187 | *64,277* |
| Spending | P mn | 50,564 | 54,411 | 56,275 | *59,606* | *67,867* |
| Balance | P mn | 5,340 | -6,991 | 1,123 | *-2,419* | *-3,590* |
| Public debt & guarantees | P mn | 33,131 | 35,342 | 36,864 | 38,000 | 38,539 |
| Govt deposits at BoB | P mn | 41,680 | 33,916 | 30,451 | 30,596 | 30,596 |
| GDP | P mn | 147,920 | 149,111 | 174,836 | 185,931 | 203,175 |
| Revenues | %GDP | *37.8%* | *31.8%* | 32.8% | *30.8%* | 31.6% |
| Spending | %GDP | *34.2%* | *36.5%* | 32.2% | *32.1%* | 33.4% |
| Public debt & guarantees | %GDP | *22.4%* | *23.7%* | 21.1% | 20.4% | 19.0% |
| Govt deposits at BoB | %GDP | *28.2%* | *22.7%* | *17.4%* | *16.5%* | *15.1%* |

Sources: Bank of Botswana; MFED; Statistics Botswana; Department of Mines; Registrar of Companies; BSE; Econsult

Notes:

(a) 2013 figures include production from Boteti Diamonds (Karowe mine) and Debswana.

(b) 2016 figures include production from Gem Diamonds (Ghagoo) and Lerala mines as well as Boteti and Debswana

(c) Copper production starting Q2 2017 for Leboam Holdings' Mowana and Thakadu mines

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

SPECIAL FEATURE

# Essential Immigration Reform in Botswana

## Introduction

Over the past decade, Botswana's economic performance has been sluggish, with a steady deterioration in business confidence, declining growth and foreign direct investment, and a collapse in employment growth. This has shown up in a range of indicators, such as:

**Economic growth:** the real annual growth rate of the non-mining private sector has been falling steadily, from 10% in 2011 to less than 4% in Q1 2018;

**Employment creation** has been weak: over the five years from 2012 to 2017, formal sector employment has increased by less than 1,200 jobs a year on average, compared to an estimated 20,000 net new entrants to the labour force each year;

**Foreign Direct Investment (FDI)** has collapsed: in 2016-17, annual FDI inflows amounted to some 0.5% of GDP, compared to around 5% between 2002 and 2008;

**Business Confidence is low:** from a peak of 80% of firms rating current business conditions as satisfactory in 2008, confidence tumbled to 40% as a result of the global financial crisis in 2008-9; what is disturbing is that it did not significantly recover from 2009 through to 2017, although there has been a welcome upturn in the first half of 2018;

**Doing Business rankings:** Botswana's position (ranking) has fallen to 81 in 2018 (out of 190 countries), and in general has deteriorated over time – in 2009, Botswana was ranked number 38 globally;

There are many reasons for this, but one of the main ones is the crisis relating to immigration, and the (non-)availability of visas and work permits for skilled foreign workers and investors.

## Immigration, work permits and visas

A points-based system (PBS) for work and investment permits was supposedly introduced several years ago, but has failed to achieve the objective of making immigration easier. The intention was to have a liberal, open, transparent and objective basis for making decisions on work and investor permits.

Instead, the system implemented was illiberal, totally non-transparent and subjective, and was used to make it far more difficult for investors to come to Botswana and for companies to recruit foreigners when they have a scarcity of skills. Totally contrary to the original intention of the system, it was used to force investors out of the country when they had been operating businesses for years or decades. No reasons were given for refusals or withdrawals of permits. Arbitrary additional requirements were introduced on a whim. It has become extremely difficult for even long-term residents to obtain permanent residence or citizenship, and there are no published criteria on what is needed to qualify.

In this environment, it is not surprising that there have been job losses, that employment has failed to grow, and that FDI is on the decline.

Even obtaining visas for tourists or business visits became much more difficult. Botswana does not offer facilities that are standard elsewhere, especially in countries that have limited international representation through embassies etc., such as online visa applications, or "visa on arrival". As with work permits, visa applications are refused with no reason given. Visa applications from all over the world are processed in Gaborone, rather than at embassies, as is commonly the case with other countries. Visa applications take a long time, and there is no commitment to issue a visa within a certain period of time (for other countries, 2-5 days would be the norm).

Other examples of a negative official attitude include requiring foreign owners of business in Botswana, or their representatives, to have a full work permit even if coming for a meeting or other short work assignment in Botswana. This has even extended to arresting people on one-day visits to their companies if they do not have a work permit. Clearly this type of approach is a deterrent to investment in Botswana.

One of the major problems has been that the screening of applicants for visas and work/residence permits from a security angle has become excessive, with this becoming a major cause of delays, inefficiencies and rejections, often for no good reason. Other countries, with even higher security risks than Botswana, manage to undertake such screening very quickly. They achieve this, by, for instance,

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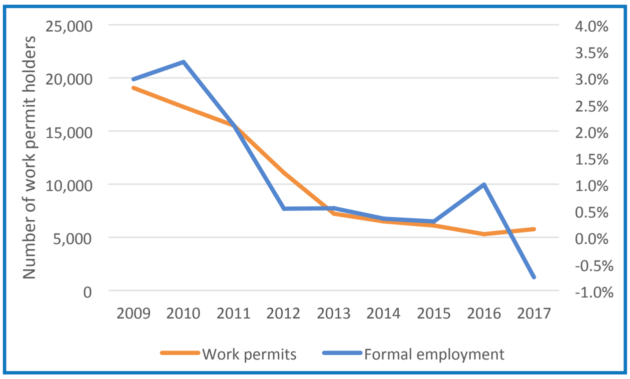
having applicants' names checked against names on international blacklists on a real-time basis, without it becoming a barrier to immigration in general.

A major consequence of the immigration crisis has been an upsurge in uncertainty and perceptions of risk. Not long ago, Botswana was perceived as one of the most business-friendly and low-risk places to do business in Africa. No longer. The risks of attempting to invest and then not being granted work permits for both investors and key foreign employees, or of having permits not renewed in the future, leading to the effective closure or expropriation of the business, is just too high. There are documented examples of potential investors avoiding Botswana specifically for reasons of immigration-related risks, thereby leading to fewer jobs being created in the country.

The extent of the crisis can be seen in the chart below. From a peak of 19,080 in 2009, the number of work permits has been reduced sharply, to only 5,766 in 2017 – a reduction of 70 percent. At the same time, the rate of job creation has fallen by a similar amount – from over 3% a year in the late 2000s to less than 1% a year since 2012. This demonstrates the close and positive link between immigration and jobs – more immigration means MORE jobs for Batswana, not less.

**Figure 1: Immigration**




### The Need for Openness

Over the past decade there has been an increasing perception that Botswana is "closed for business" in relation to the international community and economy. Although the Botswana Investment and Trade Centre (BITC) was set up with the prime intention of facilitating exports and inward investment, its ability to do so is limited, in part because the "one stop shop" for investors that has been promised for two decades has been ineffective, at least until recently. Even when BITC identifies potential investors that it wants to bring to Botswana, visas can be refused.

In a positive sign of a changing approach, the new Vision 2036 sets out very clearly that:

"Botswana will be a destination of choice for investment. We will avail conditions for doing business that are attractive for investment by creating a facilitative regulatory environment, supporting infrastructure, and a competitive, highly productive workforce. We will open up our economy and our country to the global world and to international expertise and know-how, and make foreign investors feel welcome. We will welcome foreign investors who wish to invest and live in Botswana (p.14)".

This now needs to be implemented in a determined and consistent manner. **The importance of immigration reform cannot be overstated,** and is probably the single most important element of business environment reform; without this, other interventions are unlikely to be effective. Given the deterioration in business confidence as well as in objective measures of business performance, only wide-ranging and credible immigration reform will turn this around.

### Mauritius and Rwanda

Botswana is ranked fourth in sub-Saharan Africa in the annual World Bank Doing Business survey, at number 81 globally, behind Mauritius (25), Rwanda (41) and Kenya (80). Both Mauritius and Rwanda have opened up their economies to foreign investors and workers.

Immigration reform has been central to the success of Mauritius, and has underpinned an inflow of FDI. The liberal policy provides virtually automatic work and residence permits for skilled workers in certain specified (but very broad) categories of industries, and for investors bringing in investment over a certain amount. Furthermore, Mauritius offers permanent residence to foreigners after only three years. It also offers residence permits to retirees (over 50 years old), in the knowledge that they will bring in funds, create a demand for healthcare, financial and services, and lead to direct and indirect employment.

The result is an unemployment rate of 7%, and the establishment of new export-focused activities including IT services, health and education hubs, and financial services, as well as the long-established tourism sector. Mauritius has encouraged immigration despite it being the most densely populated country in sub-Saharan Africa.

Rwanda is similar. Immigration is liberal for foreign investors and workers, while visas are either not required, or are available on arrival, for most nationalities. Decisions on work permits are made within 3 days.

Botswana's attitude has been quite the opposite, and seems to be based on the flawed thinking that "one less job for a foreigner is one more job for a Motswana". This is completely wrong; international experience shows that foreign investors and skilled workers create jobs on a multiple of 5 to 100 citizen jobs for every foreigner. Evidence also shows that foreign-owned firms are also much more likely to export than locally owned firms (essential to Botswana's diversification strategy), and less likely to be dependent on government procurement. Job creation is not the only benefit of FDI; even if direct job creation is limited, it generates economic activity and thereby increases GDP, boosts demand for goods and services and therefore creates jobs indirectly, it also generates exports and foreign currency earnings.

Besides attracting investors and skills, there can be considerable benefits in attracting well-off, foreign retirees to spend part of their time in Botswana. Malaysia, for instance, aims to attract such retirees, offering 10 year renewable residence permits on the basis of a few conditions. These include having liquid financial assets globally of around USD 85,000 (approx. P850,000) and demonstrable monthly income of USD 2,500 (approx. P25,000). They also need to have a medical examination and show that they have medical insurance. By the end of 2016, the Malaysian programme had attracted 30,000 retirees to the country. Thailand has a similar programme, with even lower financial requirements (USD 25,000 in a bank in Thailand, and monthly income of USD2,000).

Similarly, any ambition of establishing Botswana as a regional or international education hub has to include a commitment to readily granting visas and residence permits to foreign students and academics (as Mauritius has done, successfully).

The barriers to immigration and FDI that were put in place over the past decade are almost certainly one of the main reasons for declining economic growth, the slowdown in job creation and rising unemployment in Botswana. NDP11 illustrates the misguided thinking regarding this issue by referring to immigrants as a "source of problems" who can "create conflict" and "lead to social discord and instability" (para 2.19). Rather, it is the rising unemployment due to a lack of immigration that can lead to instability.

Fortunately, there has recently been a recognition that a much more open and liberal immigration policy is essential to boosting economic growth and creating jobs in Botswana. Recent pronouncements indicate a move in the right direction.

### An immigration reform programme

A number of immigration reforms can and should be undertaken to help restore Botswana's position as an open and competitive economy, integrated into global and regional markets for goods, services, capital and labour.

- Facilitating visas for tourists and business visitors:
  - Introduce online applications and approvals for visitors requiring visas for Botswana;
  - Commit to issuing visas, whether online or through embassies/high commissions, with a specific period of time (maximum five days);
  - Introduce a "visa on arrival" facility at international airports and key land borders;
  - Undertake a critical, risk-based review the list of countries that require visas to visit Botswana, with a view to removing countries from the visa list;
  - Exempting from visa requirements anybody who already has a visa issued by countries with strict screening requirements, such as the USA and the EU (Schengen), in their passport.
- Reform the PBS system for work permits for workers and investors:
  - clearly publicise the points requirements;
  - make it easier to qualify by reducing the points required; publicise the pass mark;
  - provide reasons for rejection;
  - do not reject people who otherwise qualify on the basis of the PBS;
  - have simple, minimal requirements for work/residence permit renewals.
- Provide larger foreign investors with automatic work permits for selected posts.
- Provide a simple and assured route to permanent residence for business owners and long-term residents of Botswana.
- Introduce a new, easy to obtain, long-term residence permit for retirees.
- Remove the requirement that anybody coming to work in Botswana for a short period, even if for a meeting for one day, requires a work permit.
- Undertaking risk-based security screening, so that only those identified as potentially higher risk are screened intensively.
- Revise the Immigration Act to remove regional immigrants selection boards (RISBs) as the sole channel for consideration of permit applications, and in the short-term designate the Special Economic Zones Authority (SEZA) and BITC as RISBs.

Recent announcements indicate that some of these moves are being considered or implemented, which is a positive step forward. But the change in the immigration regime needs to be extensive, and is urgently required, if diversification and increased growth and job creation are to be achieved.

SPECIAL FEATURE

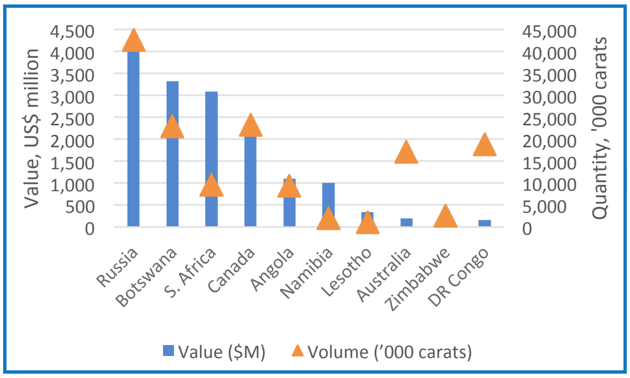
# Global Diamond Production and Trade

## Diamond Production

Figures released by the Kimberly Process (kimberleyprocessstatistics.org) for 2017 show the who's who in the international diamond world, with regard to production and trade. Botswana has maintained its position as the second largest producer of rough diamonds in the world, by value, at USD 3329 in 2017, some way behind Russia and (just) ahead of South Africa. Russia is also the largest producer of rough diamonds by volume, while Botswana is the third largest, behind Canada.

As the chart shows, the relationship between the value and volume of production is uneven, reflecting the contrasts in the types of diamonds mined in different countries. Namibia produces the most valuable diamonds, on average, worth $519 per carat. DR Congo produces the least valuable, at $8 per carat. Botswana's diamonds are of medium value, at $145 per carat.

**Figure 2:**
**Global Diamond Production, 2017 (by value)**




## Diamond Trade

Diamonds are extensively traded once they have left the mines, and before they are further processed through cutting, polishing and incorporation into jewellery. Hence the pattern of exports and imports of rough diamonds is not necessarily related to where those diamonds are produced, but more to where the diamond trading hubs are located, and where cutting and polishing operations take place.

As can be seen from the tables below, the biggest exporters and importers of diamonds are the European Union (trading, and cutting & polishing, e.g. in Antwerp); the UAE (trading); Israel (trading, and cutting & polishing); and India (cutting & polishing).

Unusually amongst the big five, Botswana combines being a diamond producer, a trading hub (for De Beers Global Sightholder Sales), and to some extent a cutting and polishing centre. Hence besides being the world's second largest diamond producer, it is also the world's fifth largest rough diamond importer and third largest exporter.

**TABLE 1: TOP FIVE ROUGH IMPORTERS IN 2017**

| Country | Value ($M) | Volume ('000 carats) | Average price ($/ct.) |
|---|---|---|---|
| India | $18,977 | 195,004 | $97 |
| European Union | $12,183 | 159,800 | $76 |
| United Arab Emirates | $6,925 | 86,904 | $80 |
| Israel | $3,658 | 10,065 | $363 |
| Botswana | $1,983 | 10,706 | $185 |

**TABLE 2:TOP FIVE ROUGH EXPORTERS IN 2017**

| Country | Value ($M) | Volume ('000 carats) | Average price ($/ct.) |
|---|---|---|---|
| European Union | $12,677 | 129,158 | $98 |
| United Arab Emirates | $9,757 | 88,379 | $110 |
| Botswana | $5,548 | 33,319 | $167 |
| Russia | $4,429 | 45,950 | $96 |
| Israel | $3,011 | 8,731 | $345 |

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