

# ECONOMIC REVIEW

first quarter jan-mar 2021

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## COMMENTARY

## Economic challenges continue into 2021

### Introduction

The first quarter of 2021 has been marked by a poor set of economic data releases, highlighting the toll that the COVID-19 pandemic had on the domestic economy in 2020. Real GDP data released by Statistics Botswana for the fourth quarter of 2020 has revealed that the domestic economy contracted by 7.9% during the year, slightly worse than the 7.7% contraction experienced during the global financial crisis in 2009. The years' economic contraction was less severe than both the IMF (-9.2%) and MFED (-8.9%) had predicted, suggesting a measure of resilience or even recovery within the economy. The economic downturn was driven by the COVID-19 pandemic that resulted in significant contractions of both the mining and non-mining private sectors, which registered growth rates of minus 26.2% and minus 8.0%, respectively, in 2020 as a whole. Trade activity was also adversely affected during 2020, with exports declining and imports increasing over the course of the year, resulting in trade deficit of P26 billion, up from P14.3 billion in 2019.

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## COMMENTARY

### COVID-19 Vaccine Rollout

Starting on a positive note, the Government of Botswana began its rollout programme of the COVID-19 vaccine to the general public in March 2021, with elderly citizens (those over 55 years of age) getting first priority. Botswana initially received a donation of 30,000 doses of the two-shot AstraZeneca vaccine from India and purchased a further 24,000 doses from South Korean firm SKBioscience. Towards the end of 2020, the Government of Botswana signed an agreement with the COVAX scheme giving them the option to purchase 940,800 doses of the vaccine, under the two-shot regimen, providing coverage for approximately 20% of the population. Botswana, who did not receive subsidies for the vaccine by virtue of being classed as an upper middle-income country, made an upfront payment to the COVAX scheme under the optional purchasing model which allows it to pull out of the purchasing agreement at a later stage if the need arises to.

As of 19 April 2021,<sup>1</sup> 31,628 doses of the COVID-19 vaccine have been administered in Botswana. All of which were the first round of the two shot AstraZeneca vaccine, meaning nobody in the country has been fully vaccinated yet. In comparison, Namibia, another middle-income country, has administered 4,748 doses of the vaccine with 128 individuals being fully vaccinated. Due to the high prevalence of the 501Y.V2 variant of the virus within its borders, South Africa purchased the one-shot Johnson & Johnson vaccine and have administered approximately 293,000 doses of it, with approximately 293,000 individuals or 0.5% of the population being fully vaccinated.

The need to improve the rollout of the vaccine can not be understated. The sooner Botswana can vaccinate the critical mass of the population to ensure herd immunity the sooner normal economic activity can resume. The progress of international vaccination campaigns will also impact on the speed of resumption of international travel and tourism.

### Diamonds and Mining

The COVID-19 pandemic led to the cancellation of numerous De Beers Global Sightholder Sales (DBGSS) events during the second quarter of 2020, this, combined with weakened demand for rough diamonds during Q2 and Q3, resulted in a 32.6% decline in sales value for the year 2020 compared to 2019. The consolidated average price per carat decreased by 3% during 2020. However, there

were signs of recovery in the diamond market towards the end of 2020 which have persisted into the early part of 2021, although the COVID-19 pandemic continues to pose a significant risk to the market. It is still not clear whether the recovery in the diamond market in the first quarter of 2021 represents the beginning of a sustained recovery or simply a “bounce” after the trauma of 2020.

On the production side, De Beers produced 25.2 million carats in 2020, 18.2% less than in 2019. This was due to planned production reductions due to the decline in demand for rough diamonds during the course of the year along with operational challenges experienced at the Orapa Mine. Debswana alone experienced a 29.2% decline in production volumes in 2020. De Beers have revised their production guidance for 2021 downwards to 32-34 million carats (previously 33-35 million carats) citing ongoing operational challenges and expected lower production from their Venetia mine in South Africa as the reasons for the downward adjustment. Rough diamond production data for the first quarter of 2021 suggest that the operational challenges at Orapa have continued; Debswana reported that output was down 12% in the first quarter of 2021 compared to 2020.

### International Trade Activity

Trade data for the whole of 2020 shows a significant decline in exports, which were valued at P48.2 billion. This was driven by a decline in both mineral and non-mineral exports, which registered growth of minus 15.2% and minus 4.1% respectively. The decline in mineral exports was driven by a large contraction in diamond exports which fell by 16.6% due to the COVID-19 pandemic and the negative impact it has had on the diamond market. Botswana’s vulnerability to the volatility of the diamond market is of no surprise given that diamonds accounted for 88.2% of the total value of exports. Imports were valued at P74.2 billion in 2020, rising by 5.1% when compared to 2019. There was a mixed bag of performance across import categories, with approximately half recording positive growth and the other half registering declines. Overall, there was a large trade deficit of P26.0 billion in 2020, showing a declining balance of trade. Although the overall balance of payments data for 2020 is not yet available, we can expect this to be negative as foreign exchange reserves declined sharply in 2020. The trade data released during the COVID-19 pandemic has emphasised the urgency of developing sustainable export-led growth in Botswana.

<sup>1</sup>All data on vaccine statistics is taken from Our World in Data.

## COMMENTARY

### Monetary Policy Environment

Inflation rose to 3.2% in March 2021, rising above the lower bound of the Bank of Botswana's medium-term inflation objective range of 3-6% for the first time since September 2019. Inflation is expected to increase further throughout the year, rising beyond the upper-bound of the BoB's objective range towards the start of Q3 2020. The increase in VAT from 12% to 14%, the increase in the fuel levy, the introduction of the tax on sugar-sweetened beverages, higher electricity tariffs and Botswana Housing Corporation (BHC) rentals prices<sup>2</sup> will all add to inflation through cost pressures. This could be compounded by rising international fuel and commodity prices, the implementation of the Economic Recovery and Transformation Plan (ERTP), and possible supply side constraints due to COVID-19 related lockdowns. In order to continue supporting the domestic economy during the COVID-19 pandemic, the Bank of Botswana decided to maintain its current accommodative monetary policy stance, keeping the Bank Rate at 3.75% in February 2021.

### Banking Sector

Bank credit growth gradually slowed down during 2020 and into early 2021, with commercial banks exercising caution in their lending to both households and firms due to uncertainties brought about by the COVID-19 pandemic. Arrears on bank lending remained fairly stable throughout 2020, suggesting some resilience in the private sector with regards to maintaining loan repayment schemes. As expected, bank profitability measured as Return on Equity (RoE) declined in 2020 due to the negative impact of the COVID-19 pandemic on the economy as well as cautionary provisions that banks made to cover anticipated credit losses.

### Other Developments

- The Bank of Botswana maintained the current pula exchange rate policy for 2021. The Pula basket weights remain at 45% for the rand 55% for the Special Drawing Right (SDR) with a downward rate of crawl of 2.87%.

- Despite improving across three key areas of concern in compliance with International Anti-Money Laundering/Combating of Financing Terrorism (AML/CFT) standards, Botswana remains "grey-listed". There are still glaring deficiencies in Botswana's AML-CFT framework and as a result of the "greylisting" banks and other entities covered by EU anti-money laundering rules have to undertake increased checks on financial operations involving customers and financial institutions from Botswana.
- The Standard & Poor's Global Ratings (S&P) agency has maintained Botswana's sovereign credit rating for long and short term foreign and local currency sovereign credit at BBB+/A-2. Furthermore, Botswana's negative outlook due to risks on the domestic economy posed by the COVID-19 pandemic has been maintained as well.

### Outlook

The Botswana economy is expected to recover quite strongly from the COVID-19 pandemic. Real GDP growth in 2021 is projected to be 8.8% by the MFED and 8.7% by the IMF. This is due to anticipated recovery in both mining and global economic activity. The implementation of the ERTP coupled with the accommodative monetary policy stance adopted by the Bank of Botswana is expected to bolster non-mining private sector growth within the economy during 2021. It is worth noting that the COVID-19 pandemic continues to pose a major risk to the anticipated upturn in economic activity as new variants and uncertainties surrounding vaccines could lead to further lockdowns and subsequently weakened global demand in the future. We at Econsult project real GDP growth to be slightly lower at around 7.5-8.0% in 2021 given the slower than expected recovery of the tourism sector, slow pace of vaccine rollout and a healthy scepticism towards the adequate and proper implementation of the ERTP. Furthermore, the extension of the State of Emergency may result in more firms than necessary closing down permanently due to their inability to downsize by retrenching workers. All these factors pose significant downside risks to economic recovery in 2021 and must be addressed in the near future.

<sup>2</sup>All these price increases took effect on 1 April, 2021.

# The 2021/22 Budget Analysis

## Introduction

The Minister of Finance and Economic Development (MFED) delivered the 2021/22 budget at the beginning of February, and the budget contains insights on how government revenues will be used to finance fiscal expenditures in the current government financial year (April 2021 – March 2022). The budget has been prepared under unprecedented conditions, given the global COVID-19 pandemic. Public finance is challenged more than ever, with revenues declining due to low economic activity and expenditures exuberated by the need to cater for COVID-19 mitigation expenses. The resulting budget deficit would have to be financed by either borrowing or drawing down on government savings. However, there is a compelling need to guard against the risk of accumulating high debt while at the same time, not to run out of accumulated savings necessary to cushion any future shocks. More than ever, there is greater need to accelerate the pace of economic diversification initiatives and structural reforms, and growth which is export-led has become crucial.

## Government revenues and expenditures

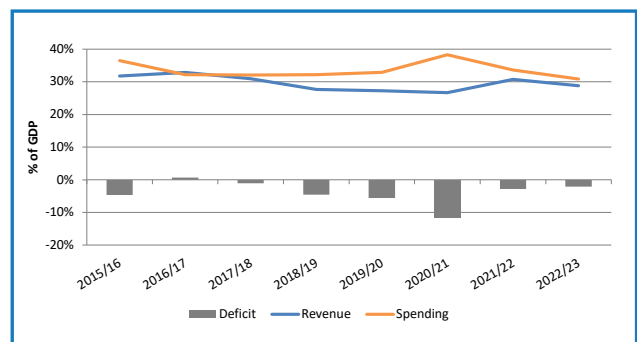
The fiscal position is under stress due to budget deficits in the recent years and the additional impact of COVID-19. The budget underperformed in the 2020/21 FY with revenues significantly falling against the rising government expenditures. Revenues underperformed mainly as a result of the underperformance of mineral revenues – especially diamonds which were negatively impacted by the pandemic and its associated restrictions on movement. Total revenues and grants are projected to have decreased by 11% between 2019/20 FY and 2020/21 FY, to P48.3 billion or 26.7% of GDP in 2020/21. The depth of the revenue shock is illustrated by the fact that this is the lowest ratio of government revenues to GDP for more than 40 years - since 1976/77, when it was 24.9%. However, with the anticipated increase in economic activity along with recovery from the global market for rough diamonds, total revenues are projected to amount P64.6 billion or 30.7% of GDP in 2021/22 FY, an increase of 33.6% over the 2020/21 FY.

On the other hand, government expenditures continue to increase and have been heightened by COVID-19 health needs as well as the need to support economic activity

and mitigate the impact of the pandemic. Total budgeted expenditures and net lending increased by 6.0% from the 2019/20 FY level, to P70.6 billion or 33.6% of GDP in 2021/22. The resulting budget deficit, of P21.03 billion or minus 11.6% of GDP, expected in 2020/21 FY is large, but comparable to the deficit of -12.4% of GDP experienced in 2009/10 as a result of the impact of the Global Financial Crisis. The difference this time is that accumulated financial buffers in the form of government savings and the foreign exchange reserves were much smaller in 2020 than they were in 2009. The deficit is projected to shrink to minus 2.9% of GDP or P6.03 billion in the coming (2020/22) fiscal year. We also expect that the final budget deficit for 2020/21 will be smaller than the budgeted figure, given the normal tendency to underspend on the development budget in particular.

Nevertheless, the current government fiscal position is not sustainable as deficits need to be financed by borrowing or drawing down on the already depleted savings. Hence, there is need to bring the budget under control and start to restore government savings by achieving budget surpluses. The next NDP 12 will need to achieve budget surpluses to restore the fiscal position, increase government savings and improve the balance of payments position, through the adoption to a fiscal rule aimed at long-term fiscal sustainability.

Figure 1: Revenues, Expenditures & Deficits



Source: Ministry of Finance and Economic Development, Table V, Consolidated cash flow presentation of the budget, 2021/22.

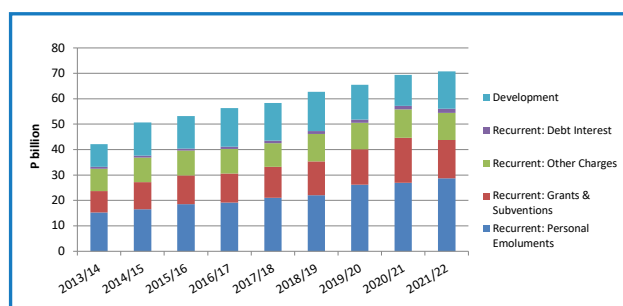
### Recurrent and development expenditures

Recurrent expenditure makes up the bulk of government spending, and almost half of the recurrent expenditures go to personal emoluments or payments to wages and salaries of central government employees (figure 2). The government is the largest employer in the country and has a high wage bill, which is at unsustainable level. In fact these data under-report the true situation in terms of the broader public sector wage bill, as they refer only to central government and do not include local government and associated entities such as land boards, or other public sector agencies, parastatals and state-owned enterprises (SOEs). It is noted in the budget that the government will abolish about 50% of the current vacant positions to reduce pressure from the growing wage bill, which is estimated at 15% of GDP in 2021/22, way above the sustainable level estimated at 10% of GDP. Grants and subventions to local authorities, parastatals and SOEs are also on the rise, accounting for 26.7% of the recurrent budget and 7.1% of GDP in 2021/22. The government's intention to rationalise parastatals and its SOEs is a welcome development to reduce government spending on these entities. The Q4 2017 Economic Review noted that government's subventions to parastatals continue to increase, with some commercial parastatals consistently unprofitable and requiring bail-outs in the form of more grants from time to time. This form of spending on its own is not sustainable as it highlights the inefficiencies in the public sector. Interest on government debt is relatively small and averages 2.2% of total spending over the past five years.

The development budget accounts for about 20% of the total national budget in 2021/22 FY. Emphasis has been placed on programs and projects necessary to restore economic growth and these include the development of infrastructure in road and ICT, utilities and funding for promotion of locally produced goods under the Livestock Management and Infrastructure Development 11 (LIMID) and the Integrated Support Programme for Arable Agriculture Development (ISPAAD) programs.

For long-term sustainability, the ratio of government spending to GDP will need to be brought down to around 25%, consistent with that of other upper middle-income countries.

**Figure 2: Recurrent and Development Expenditure**



Source: Ministry of Finance and Economic Development, Table V, Consolidated cash flow presentation of the budget, 2021/22.

### Financing the national budget

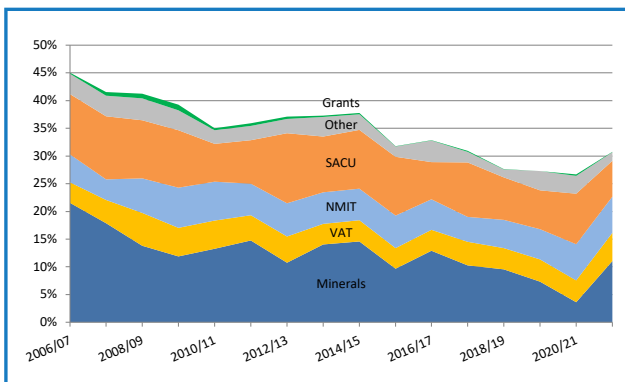
The response to COVID-19 pandemic requires a good balance in addressing priority spending. There is a strong pressure to provide a fiscal stimulus during the COVID-19 pandemic, mainly to boost demand and support economic activity. A fiscal stimulus can be from borrowing internally or externally and drawing down on the accumulated government savings. However, for the new financial year, there is little room to draw-down further on savings, as these are already depleted from earlier drawdowns to finance budget deficits in recent years, compounded by the huge impact of the pandemic on government revenues and spending in 2020/21 FY. As a result, the government has no option but to borrow. The trend in public debt was already increasing and it is projected that accumulated debt would reach 31% of GDP in 2022/23 FY. Hence, there is a need to borrow and at the same time contain public debt so that it is within sustainable levels.

### Composition of government revenues

Government revenues are on a long-term decline, from averages of about 45% of GDP in 2006/07 to around 27% of GDP in 2019/20. In 2020/21, government revenues underperformed and were significantly impacted by the poor performance of mineral revenues due to COVID-19 and its associated restrictions on movement (figure 3). The global

diamond trade almost came to a halt during the first half of 2020 with major rough markets in China and the USA closing. In other instances, the De Beers Global Sight-holder Sales were also suspended. Mineral revenues are consistently the largest source of government revenues, as shown in figure 3 below. However, the share of mineral revenues to total government revenues has been declining over time, from a peak of 59% in 1988/89 to 27% in 2019/2020. Mineral revenues are estimated to have fallen to P6.56 billion or 3.6% of GDP in 2020/21. However, the anticipated recovery in the global market for rough diamonds is expected to increase total government revenues to about 31% of GDP in 2021/22. Customs and Excise (SACU) and non-mineral income tax (NMIT) revenues are projected to have the second largest shares of 21% each, followed by value added tax (VAT) with a share of 17%, in 2021/22.

**Figure 3: Composition of Government Revenues, % of GDP**



Source: Calculations based on Ministry of Finance and Economic Development, Table V, Consolidated cash flow presentation of the budget, 2021/22, BFS, and Statistics Botswana, National Accounts.

The downward trend in government revenues reflects a structural shift from a mineral-led economy to a non-mineral-led economy. Hence, leading to a structural decline in fiscal revenues as a percentage of GDP. This further highlights need to fast-track economic diversification; improve export competitiveness and diversification; build more resilience to withstand shocks; and, crucially, reduce the size and cost of government and the public sector more generally.

**Government debt and net financial assets**

**Public debt**

Public debt in Botswana is relatively low by global standards and is contained well within the legal limits. One of the reasons why the country had low debt was because the government was accumulating budget surpluses in the 1980s to 2000s. Debt has been accumulated out of need, to finance budget deficits and the need to support economic activity during periods of economic crisis - like the GFC in 2008/09 and the current COVID-19 pandemic. Before COVID-19, public debt was about 16.3% of GDP, and is now expected to gradually increase to about 31% of GDP in 2022/23 FY with domestic debt projected at 13.7% of GDP and external debt projected at 17.2% of GDP. Although debt is forecast to increase in the next FYs, it is worth noting that public debt is contained below the legal limits. The law requires that total public debt must not exceed of 40% of GDP, divided into 20% domestic and 20% external debt. So, the 31% public debt projected in 2022/23 is well within statutory limits. It also remains well below international debt levels, with public debt in Namibia and South Africa projected to reach 85-90% of GDP, and many countries with debt levels of over 100% of GDP.

**Government net financial assets**

Government savings have been in long term decline, and fell sharply during the global financial crisis (GFC) in 2008/09, mainly to support economic activity (as in figure 4 below). Also, government has been running budget deficits in recent years, trade and the balance of payments were in deficits – shortly after the GFC, and these were financed by either borrowing drawing down on foreign exchange reserves or a combination of both. Similarly, COVID-19 pandemic has taken a toll on government savings due to the heightened need to finance spending and support economic activity. Net Financial Assets (NFA) have decreased substantially and projected to fall further to minus 24% of GDP in 2021. Figure 4 show deterioration in government’s NFA from a peak of 106.2% of GDP in 1998 to minus 7.2% of GDP in 2020. The NFA have been depleted by past drawdowns and was used to finance the 2020/21 budget deficit due to lower revenues and high expenditures to cover COVID-19 pandemic spending. Overall, government savings have been depleted due to fiscal deficits, BOP deficits and out of need to support economic activity during a crisis. The government can no longer afford to drawdown on its savings as this put Botswana in

a vulnerable position of the reduced ability to withstand shocks. Similarly, government deposits at the Bank of Botswana have also fallen from about 11% of GDP (or P21.56 billion in 2019) pre-COVID-19 and deposits are projected to decrease further to about 1% of GDP or P2.24 billion in 2022.

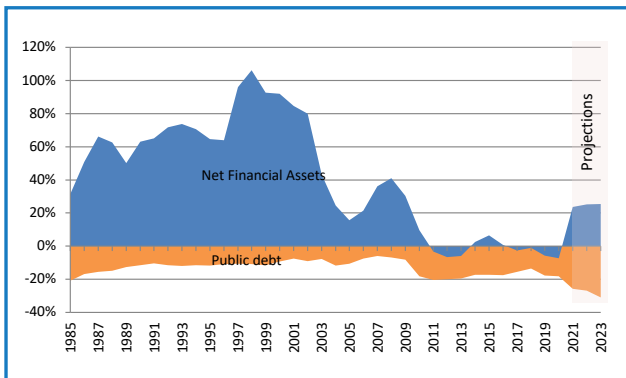
At one point it was anticipated that government savings, and the long-term portion of the foreign exchange reserves (the Pula Fund), would act as a “fund for future generations”, such that financial returns would be generated in future to (partially) offset the projected future decline in mineral revenues. In this sense, the accumulated financial buffers would act as a form of intergenerational transfer. In practice, however, this objective was never built into the legal and operational framework governing

the use of the Pula Fund and the Government Investment Account, and those buffers are now too small to serve that purpose. Nevertheless, it remains important some buffers to be maintained to support the longer-term process of structural transformation, and to absorb unanticipated economic shocks.

### Conclusion

The outbreak of the COVID-19 pandemic has had major negative impacts and has put pressure on the government fiscal position. Government revenues are in long-term decline but public spending has grown significantly in recent years. The government has introduced some revenue mobilisation measures to increase the declining revenue base. These include the proposed tax increases like the VAT, fuel levy, withholding tax, plastic levy and the sugar levy, and the increase in fees and charges. The government also intends to improve efficiency in spending by prioritising spending on high impact programs and projects which will be proven to have higher returns. Given the current stance of the fiscal position, there is a greater need to bring the budget to a surplus as debt is at historically high levels, and savings have been run down. A renewed thinking to promote growth which is export-led (and not mineral-led) is critical. This can be achieved by promoting domestic production, improving export competitiveness and diversification, encouraging inward investments by creating an environment which is favourable for attracting investment and business operation. But on the fiscal side, the most critical objective is to reduce the size of government, which is simply unaffordable in its current state, in the long term. This will require some tough – but inevitable – decisions to be taken on downsizing the public sector and deciding which programmes, projects and functions are priorities, and which are simply a waste of scarce public resources.

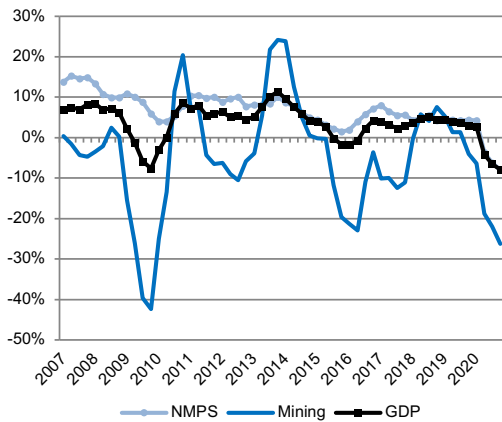
**Figure 4: Government Debt and Net Financial Assets, % of GDP**



Source: Calculations based on the Bank of Botswana, Botswana Financial Statistics and Statistics Botswana, National Accounts.

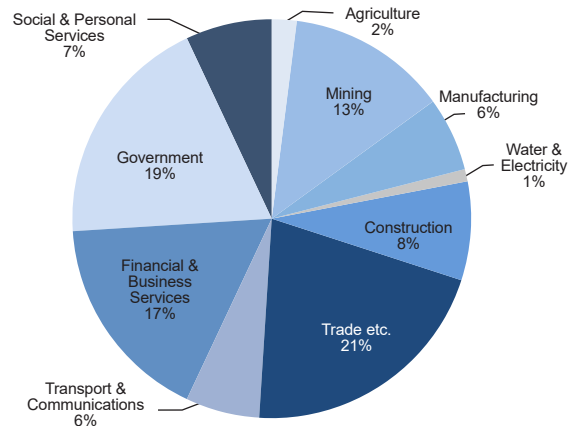
# KEY ECONOMIC VARIABLES

## Annual GDP Growth



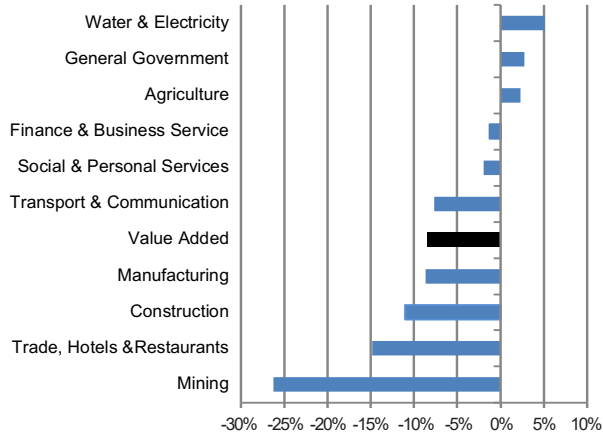
As a result of the COVID-19 pandemic, the global market for rough diamonds was weak in 2020, and had a major negative impact on GDP growth. In 2020, the economy contracted for the first time since 2015, recording GDP growth of negative 7.9% y-o-y, slightly worse than growth of negative 7.7% y-o-y recorded during the global financial crisis in 2009 and significantly lower than the 3.0% y-o-y growth realised in 2019. The mining sector, which was significantly affected by the pandemic, contracted by 26.2% y-o-y in 2020 compared to a contraction of 4.1% y-o-y in 2019. The effects of the pandemic were also felt in the non-mining private sector (NMPS) and output growth in 2020 was negative for the first time since 2004. The NMPS contracted by 8.0% y-o-y in 2020 from a positive growth of 4.3% y-o-y recorded in 2019.

## Sectoral GDP Shares



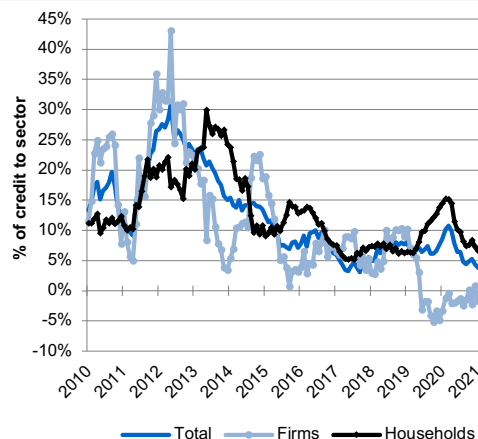
With the contraction of mining, the sector's share of GDP has continued to fall. In 2020, mining was only the fourth largest sector of the economy, accounting for 13% of value added at current prices, down from 17% in 2019. Trade continues to be the largest sector of the economy, (21% of value added), with Government the second largest sector, followed by Finance & Business Services. Trade and other services sectors have become more important over the past few years as a result of economic diversification, a characteristic that provides some resilience when the economy is experiencing the effects of economic shocks, but is a weakness when pursuing export-led growth.

## Sectoral GDP Growth



The overall economic growth performance in 2020 was poor, reflecting the effects from the COVID-19 pandemic on most economic sectors. All sectors except Water & Electricity, Government and Agriculture contracted during 2020. Mining recorded the largest contraction with a y-o-y growth of minus 26.2% followed by the Trade and Construction sectors which contracted by 14.8% and 11%, respectively. Worryingly, the Manufacturing sector which is important for structural transformation of the economy, recorded a contraction of 8.7% y-o-y in 2020. Tourism sector is also expected to have the largest contraction: an indication from the Hotels & Restaurant subsector showed output decreased by minus 33.3% y-o-y in 2020.

## Annual Credit Growth

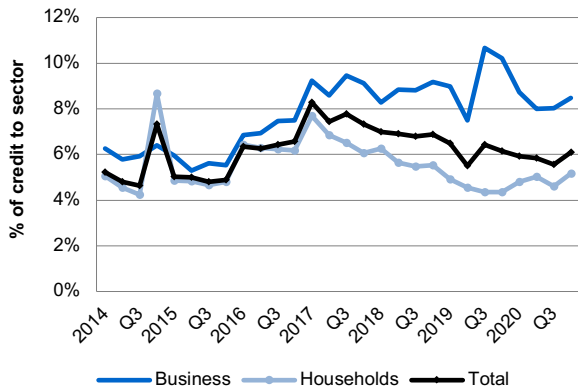


Annual bank credit growth slowed to 3.9% in January 2021, from 4.9% in October 2020. Commercial banks continue to be cautious about lending mainly because of uncertainties related to the COVID-19 pandemic. Bank credit growth decreased for both firms and households, from positive 0.1% and positive 7.5% to negative 1.7% and positive 6.7%, respectively, between October 2020 and January 2021. The growth of bank credit to households declined for all categories, also reflecting the cautious supply of credit by commercial banks.



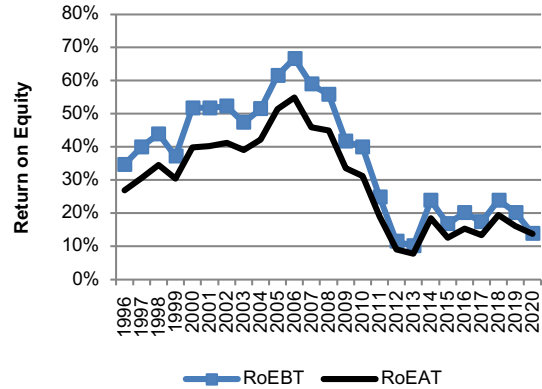
## KEY ECONOMIC VARIABLES

### Arrears on Bank Lending



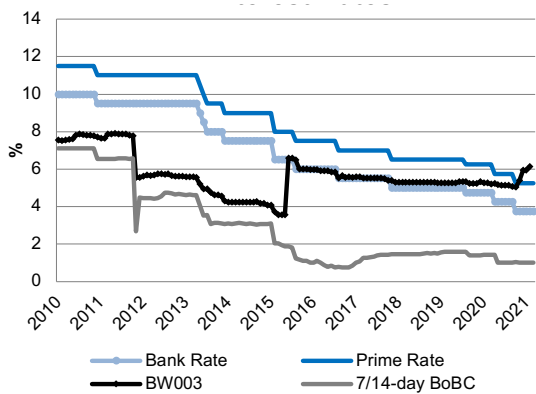
Total arrears as a proportion of outstanding bank credit decreased marginally in 2020. Arrears on lending fell from 6.2% at the end of 2019 to 6.1% in 2020. The decrease was driven mainly by business arrears, falling from 10.2% in 2019 to 8.5% in 2020. This was partially offset by the increase in household arrears, which increased from 4.4% to 5.2% during the same period.

### Bank Profitability



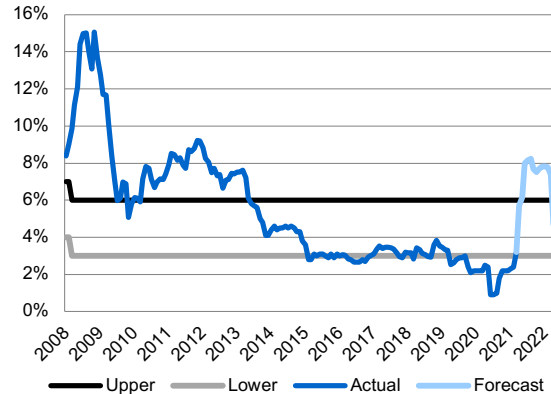
Bank profitability, as measured by the return on equity (RoE), fell in the year to December 2020. Bank profitability post-tax (RoEAT) fell to 13.9% in 2020 from 16.1% in 2019. Although profitability was marginally higher than the low point of 12.6% in 2015, it still remains low by historical standards. The decline in profitability was to be expected given the impact of COVID-19 and the associated provisions for credit losses.

### Interest Rates



The first sitting of Monetary Policy Committee (MPC) in 2021 maintained the Bank Rate at 3.75%, with the prime lending rate constant at 5.25%. Interest paid on the 7-day Bank of Botswana Certificate (BoBC) was lower when compared to the same period last year, consistent with the Bank Rate reductions in April and October 2020. On the contrary, interest on Government long-term bond (BW003) has increased despite the reduction in policy rates. On February 2021, interest on BW003 rose to 6.11% from 5.38% in November 2020. The issuance of the 91-day BoBC was discontinued in October 2020, to avoid competition with the newly re-introduced 3-month Treasury Bill (T-Bill).

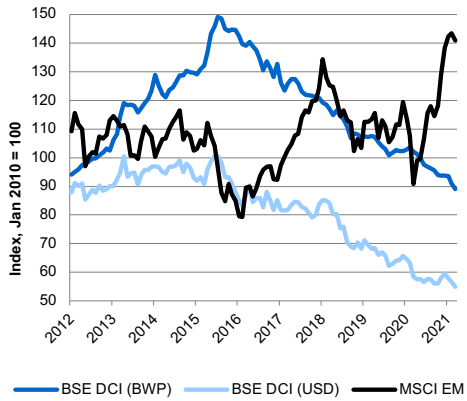
### Inflation & Forecast



Annual inflation increased to 3.2% in March 2021, after a 17 month period of when inflation was below the lower limit of the Bank of Botswana's objective range of 3%. The increase in annual inflation reflects the impact of adjustments to regulated fuel prices in March 2021. The Operation of Personal Transport and Purchase of Vehicles section indices increased by 5.3% and 0.9%, respectively, during the period in turn impacting on the overall Transport Index group which increased by 2.8%. Other group indices were generally stable, recording changes less than 1.0% during the quarter. Inflation is forecast to increase sharply in 2021 due mainly to the impact of tax changes in April, but to return to the Bank of Botswana objective range of 3-6% in 2022.

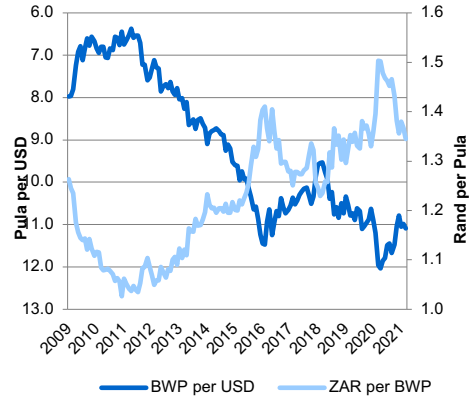
# KEY ECONOMIC VARIABLES

## Stock Markets



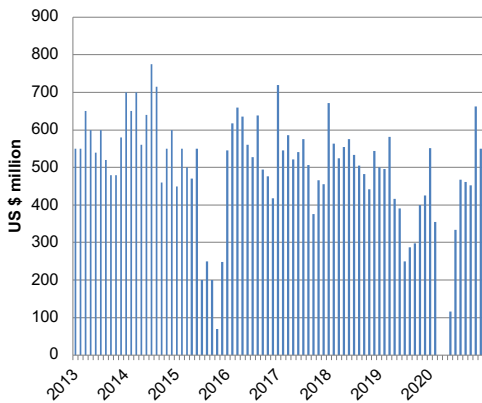
The Botswana Stock Exchange’s Domestic Companies Index (DCI) continued to fall during Q1 2021, after a weak performance in 2020 due to the COVID-19 pandemic. The DCI fell in both Pula and US dollar terms, reaching the lowest level since December 2010. The DCI declined by 5.1% and 7.7% in Pula and US dollar terms, respectively. On the other hand, international markets are on an upward trajectory, recovering from the effects of the pandemic. The MSCI World index rose by 4.5% while the MSCI Emerging Market index rose by 1.9% in Q1 2021.

## Exchange Rates



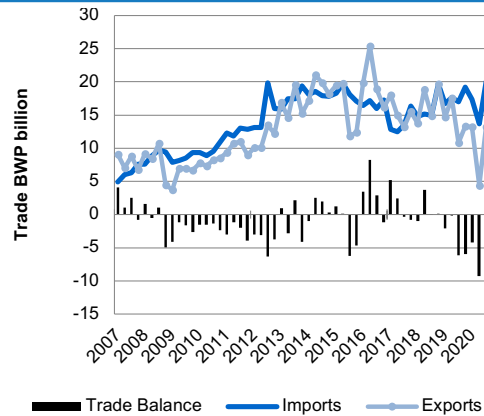
Foreign exchange markets were calm in the first quarter of the year, registering fewer movements when compared to the last quarter of 2020. The Pula weakened against the US dollar and strengthened against the South Africa rand in Q1 2021. The Pula-US dollar depreciated by 2.8% to end the quarter at BWP11.09 per USD, while appreciating against the rand by 0.8% with an exchange rate of ZAR1.3447. The Bank of Botswana also decided to continue the downward crawl of 2.87% in 2021 and maintain the Pula basket weights at 45% for the rand and 55% for the Special Drawing Right (SDR).

## De Beers Diamond Sales



The demand for rough diamonds showed positive signs of recovery in the first quarter of 2021. The demand for rough diamonds was relatively good from the mid-stream industries after the holiday season as well as a positive consumer demand for diamond jewellery during the quarter. De Beers had successful sightholder and auction sales in January and February with rough diamond sales valued at USD1,213 million. The rough diamond market had a good start of 2021 but the industry remains cautious with developments in the global market.

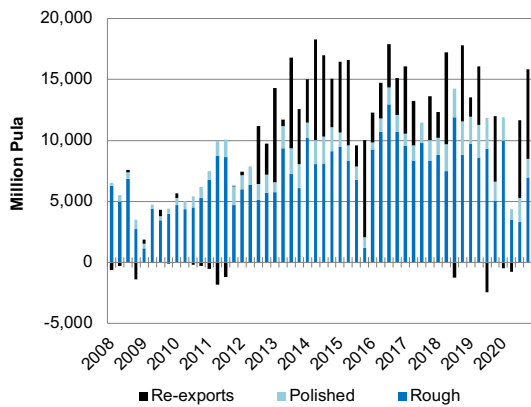
## International Trade



Trade performance in 2020 was characterised by weakened exports for minerals, particularly diamonds. International trade decreased significantly for exports while increasing for imports. Total exports were down by 14.4%, to P48.2 billion in 2020 from P56.3 billion in 2019. On the other hand, total imports increased by 5.1% up from P70.6 billion in 2019 to P74.2 billion in 2020. This resulted in a large trade deficit of P26 billion in 2020, compared to a deficit of P14.3 billion in 2019.

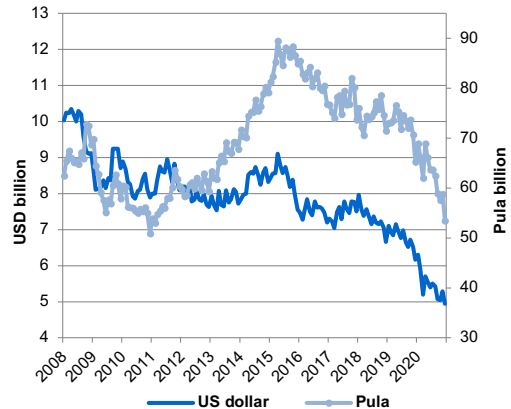
## KEY ECONOMIC VARIABLES

### Diamond Exports



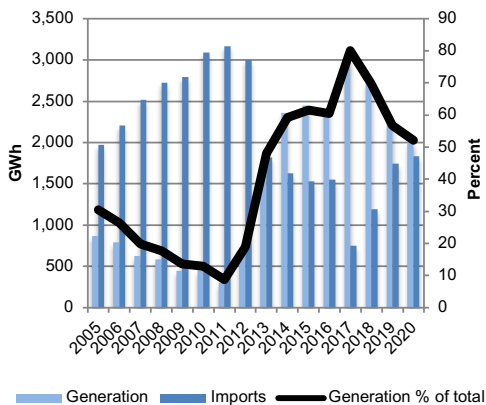
The international market for rough diamonds was weak in 2020, largely impacted by the COVID-19 pandemic. Exports of diamonds fell for all categories except for re-export (diamonds imported for aggregation purposes) which increased by 33.9% y-o-y during the year. Botswana rough exports declined by 27.4% y-o-y in 2020 and polished diamond exports fell by 29.5%. Production was also reduced in 2020, due to market uncertainties as a result of the pandemic.

### Foreign Exchange Reserves



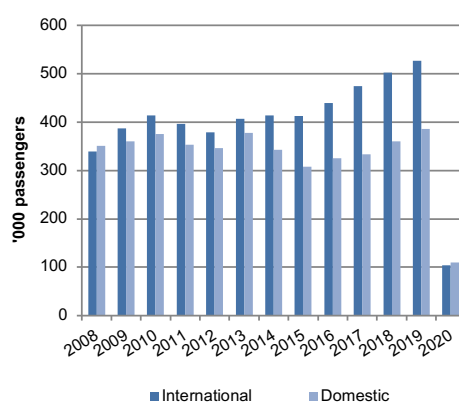
Foreign exchange reserves declined across all reporting currencies (Pula, US dollar and SDR). The reserves decreased by 18.2% in Pula terms to P53.4 billion in 2020, down from P65.2 billion in 2019. The reserves decreased by 19.9% and 23.1% in US dollar and SDR terms, respectively, in 2020. Foreign exchange reserves have been on a long term decline due to balance of payments deficits in the past years. At the end of December 2020, reserves were equivalent to about 10 months of import cover of goods and services.

### Electricity



Domestic generation of electricity decreased by 10.6% y-o-y to 2,004 GWh in 2020 down from 2,240 GWh in 2019. Conversely, the volume of imported electricity during the same period rose 5.2% to 1,837 GWh. Total electricity consumed in 2020 fell to 3,842 GWh, a reduction of 2.8% compared to 3,951 GWh consumed in 2019. Since 2013, The Botswana Power Corporation (BPC) has been making efforts to increase the distribution of electricity and increasing electricity coverage in the country.

### Air Passenger Traffic



Air passenger movements have been tremendously affected by the outbreak of the COVID-19 pandemic and its associated lockdowns and movement restrictions. The number of air passenger movements at all Botswana airports decreased by 76.6% in 2020, decreasing for both international and domestic passenger traffic. However, there were improvements in air passenger traffic during Q4 2020 with both international and domestic air passenger movement increasing to 43,077 passengers compared to 2,704 passengers in Q2 2020 during the first lockdown in Botswana. However, traffic levels are well below previous years' levels, such as the 228,215 passengers in Q4 2019.

## NEWS HIGHLIGHTS

|            |  |   |
|------------|--|---|
| 05/01/2021 | Pula Exchange Rate:<br>Rate of crawl maintained<br>(Bank of Botswana)          | His Excellency the President of Botswana has approved the Ministry of Finance and Economic Development and Bank of Botswana's recommendation to maintain the current exchange rate parameters. The Pula basket weights remain at 45% South African rand and 55% SDR, with a 2.87% downward rate of crawl for 2021.  |
| 05/01/2021 | Karowe receives mining licence renewal and extension<br>(Mining Review Africa) | The application for the renewal of Mining License by Lucara Diamond Corp. and Lucara Botswana with respect to its Karowe mine has been approved by the Ministry of Mineral Resources, Green Technology and Energy Security. The renewal, effective from January 2021 will last a period of 25 years.  |
| 12/01/2021 | Debswana terminates USD1.3 billion contract with Thiess<br>(Mining Technology) | Debswana Mining Company has terminated a USD1.3 billion contract with Australian firm Thiess, to extend the lifespan of the Jwaneng mine. Instead, the Cut 9 project, which is expected to extend the Jwaneng mine's life span to 2035, will be carried out in-house. The contract had originally been awarded to Majwe Mining, a joint venture between Thiess (70%) and Bothakga Burrow Botswana (30%).  |
| 14/01/2021 | Government fiscal reserves drop further<br>(Mmegi)                             | Government reserves held in the Government Investment Account (GIA) fell to P5.6 billion in November 2020, down from P16.3 billion 12-months earlier. An increase in drawdowns from the GIA was triggered by the need to support the government's budget during the COVID-19 pandemic crisis. Moving forward, the government will look to alternative sources, such as domestic and external borrowing, and improved domestic resource mobilization, to raise funds.  |
| 15/01/2021 | BDC assets reach P5.1 billion despite COVID-19<br>(Mmegi)                      | According to their financial results, the Botswana Development Corporation (BDC) achieved 6% growth in total assets, reaching P5.1 billion, in the year to June 2020. Group operating profits and revenues rose by 94% and 25% respectively, when compared to the previous year.  |
| 15/01/2021 | Lucara recovers 341 carat diamond at Karowe<br>(Mining Weekly)                 | Lucara Diamond Corp. has unearthed an unbroken 341-carat white gem-quality diamond from its Karowe mine. There have now been 54 diamonds over 200 carats recovered from Karowe mine since 2015.   |
| 20/01/2021 | Solar offers multiple options to manganese mine in Botswana<br>(PV Magazine)   | Canadian based Giyani Metals Corp. has completed a feasibility study for the construction of a solar park at their K. Hill manganese project in Botswana. The PV plant may be built under three possible scenarios:<br>1) A 14MW project for self consumption with unsatisfied power demands being met by the national grid (capex: USD10.5 million)<br>2) A 60MW scheme which meets the sites annual energy requirements during peak solar generation with excess power being injected into the grid (capex: USD44.9 million)<br>3) A 48MW project which would contemplate the sale of surplus power to the grid (capex: USD34.9 million). |

## NEWS HIGHLIGHTS

|            |  |  |
|------------|--|--|
| 22/01/2021 | Botswana Diamonds to raise £363,000 for exploration (Engineering News)                                       | Botswana Diamonds has arranged a placing with new and existing investors in a bid to raise £363,000 through the issue of 60.5 million new shares. The funds are to be used on ongoing exploration activities in Botswana and South Africa during the current year, as well as working capital.   |
| 22/01/2021 | Government fast-tracks PPPs as development budget tightens (Mmegi)   | The Government of Botswana will fast track its Public-Private Partnership (PPP) policy, which has been in place since 2009, to deliver more projects. A total of 16 PPP projects will be focused on initially, with some at the procurement of consultant stage whilst two are in the process of identifying a partner within the private sector.  |
| 22/01/2021 | Botswana is now looking for bids to build 200MW of CSP (Solarpaces)  | The Government of Botswana published an integrated resource plan in December 2020 which detailed plans to build 200MW of concentrated solar power (CSP) capacity by 2026. The procurement plan for the project will start this year (2021).  |
| 28/01/2021 | De Beers lowers 2021 production outlook again (Rapaport News)  | De Beers has released a revised production outlook of 32 million to 34 million carats in 2021, down from a previous production guidance of 33 million to 35 million carats for the year. The company has cited operational issues at mines as the reason for the downward revision.  |
| 06/02/2021 | Economic activity in Sub Saharan Africa to rise by 2.7% in 2021 (Sunday Standard)                            | The Global Economic Prospects report published by the World Bank has shown that GDP output in the Sub-Saharan Africa (SSA) region contracted by an estimated 3.7% in 2020. However, economic output is predicted to recover modestly in 2021 with GDP growth estimated at 2.7% for the year.   |
| 09/02/2021 | Maatla to start on USD45 million Mmamabula coal project in June after Botswana gives nod (MiningMx)          | Maatla Resources have received a mining licence for their Mmamabula coal project. Construction of the mine is set to begin in June once financial close on the project is achieved. Maatla Resources will raise the USD45 million required for the first phase of the project from funds made available within the coal industry. The first phase of the mine is expected to begin production by June 2022 producing up to 100,000 tonnes/month of coal which will be exported to firms in South Africa. |
| 12/02/2021 | New emission of the polymer P10 banknote bearing portrait of His Excellency The President (Bank of Botswana) | The Bank of Botswana will issue a new P10 polymer banknote bearing the portrait of His Excellency President Dr. Mokgweetsi Eric Keabetswe Masisi. The banknote will be issued for circulation on February 22, 2021 and will bear the same design characteristics and colour schemes as the previous P10 banknote.  |
| 13/02/2021 | Botswana names Canadian firm as preferred bidder for copper mine (Bloomberg)                                 | Canadian firm, Premium Nickel Resources Corp. has been named as the preferred bidder for the BCL copper mine by the Ministry of Mineral Resources, Green Technology and Energy Security. According to BCL's liquidator, the firm has six months to perform due diligence on the mine before making an offer.   |

## NEWS HIGHLIGHTS

|            |  |  |
|------------|--|--|
| 16/02/2021 | Shumba Energy proceeds with Tati Solar project (Mmegi)   | Shumba Energy has received environmental authorisation from the Department of Environmental Affairs (DEA) in Francistown for its Tati Solar Project. This is a 100 MW solar project, currently at the planning stage for the first phase development of a 50 MW solar farm.  |
| 19/02/2021 | BURS aims to collect P44 billion (Mmegi)   | For the 2021/22 financial year, The Botswana Unified Revenue Service (BURS) is expected to collect P44.1 billion through various taxes and other revenues, up from an estimated P37.9 billion for the current financial year ending March 31st, 2021. This is expected to account for 69% of government's revenues for 2021/22, with the remaining 31% to be raised through mineral royalties and dividends.                                   |
| 22/02/2021 | De Beers hikes diamond prices again as revival keeps going (Mining Weekly)   | De Beers lifted diamond prices for the third consecutive sales event amid continued recovery across the global diamond market. The diamond producer increased prices by 4% during its second sales event of the year. Price rises were focused on the biggest and most expensive diamonds. The price hikes in January (5%) and December last year did not deter customers, with De Beers recording its biggest sale in three years in January. |
| 23/02/2021 | Sefalana releases best ever half-year financial results (Weekend Post)   | Sefalana published a strong set of financial results for the six-month period to October 31, 2020. Revenues reached P2.91 billion, up by 2.3% when compared to the same period in 2019. Furthermore, pre-tax, and post-tax profits increased by 22.8% and 30.7% respectively.  |
| 25/02/2021 | Monetary Policy Committee Decision - February 2021 (Bank of Botswana)  | The Bank of Botswana (BoB) took the decision to maintain the Bank Rate at 3.75% at the February Monetary Policy Committee meeting. The Bank noted a balanced outlook for price stability with inflation forecast to rise above the lower bound of the Bank's 3-6% objective range in the second quarter of 2021 and subsequently move towards the upper bound, mainly due to transitory factors.   |
| 26/02/2021 | Botswana's Debswana expects to increase diamond output by 38% in 2021 (Reuters)  | Debswana aims to increase its production by 38% in 2021 to pre-pandemic levels of 23 million carats. This is due to recovery within the diamond market as travel restrictions are eased and jewellers reopen.  |
| 19/03/2021 | BPC resumes remedial work on Morupule B's Unit 4 (Sunday Standard)   | The Botswana Power Corporation (BPC) has resumed remedial works on unit 4 of the Morupule B power station. The newly-appointed Chief Executive, David Kgoboko, has stated that BPC is undertaking various projects, including the remedial works at Morupule B, to reduce the number of power cuts experienced on the national grid.   |
| 19/03/2021 | S&P Global Ratings affirms the sovereign credit rating and maintained the negative economic outlook on Botswana (Bank of Botswana) | The S&P Global Ratings (S&P) agency has affirmed Botswana's sovereign credit rating for long and short term foreign and local currency sovereign credit at BBB+/A-2. The ratings agency has also maintained Botswana's negative outlook due to the continued risks that the COVID-19 pandemic poses to the country's economic and fiscal performance.  |

## NEWS HIGHLIGHTS

|            |   |   |
|------------|---|---|
| 19/03/2021 | Botswana improves but remains on dirty money grey list (Mmegi)                          | A recent review of Botswana’s compliance with International Anti-Money Laundering/Combating of Financing Terrorism (AML/CFT) standards has resulted in three key areas of concern being positively re-rated. However, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), which conducted the review, has not yet recommended that the country be removed from the grey list.  |
| 23/03/2021 | World’s biggest elephant herd opened for hunters to kill 287 (Bloomberg)                | Botswana is offering hunting licences to shoot 287 elephants. The Department of Wildlife and National Parks is also selling licences to hunt leopards, zebras, and buffaloes. Travel restrictions associated with the COVID-19 pandemic have previously thwarted the hunting industry in Botswana, which is largely dependent on international tourists. The hunting season will begin April 6.   |
| 24/03/2021 | Profit drops sweep BSE (Mmegi)  | Botswana Stock Exchange (BSE)-listed firms including ABSA Botswana, BancABC Botswana, Cresta, G4S Botswana and RDC Properties are expected to report massive reductions in their end of year profits as firms begin to publish financial results. Losses are mainly due to the COVID-19 pandemic and its associated lockdowns.  |
| 24/03/2021 | Lucara Diamond to raise up to USD200m debt for Karowe underground expansion (Mining Mx) | Lucara Diamond aims to finance up to USD200 million of its proposed USD514 million Karowe underground extension project with borrowings it hopes to secure in the second half of 2021.  |
| 25/03/2021 | Canadian firm signs BCL MoU (Mmegi)   | Premium Nickel Resources (PNR) have signed a Memorandum of Understanding (MoU) with BCL mine’s liquidator. The MoU governs the six-month due diligence process the firm must undertake before tabling an offer for the mine.  |
| 27/03/2021 | Government moves to ease poultry monopolies (Mmegi)                                     | In order to grant small-scale poultry farmers greater access to the market, The Ministry of Agricultural Development and Food Security plans to construct poultry slaughter facilities during 2021/22 financial year.   |
| 30/03/2021 | Over supply collapses Serule Uranium mine (The Voice)                                   | The Serule Uranium project failed to take off due to the collapse of the uranium market. Minister of Mineral Resources, Green Technology and Energy, Lefoko Moagi, stated that an over-supply of the mineral led to the collapse of the market. Furthermore, the situation was worsened by countries closing down their older nuclear plants following the nuclear power station accident that happened in Japan in 2011. As a result, A-Cap Resources did not begin production in 2018 as had been expected following the award of their mining license in 2016. |

## MACRO-ECONOMIC DATA

| Key Economic Data                      |        | unit   | 2015    | 2016    | 2017    | 2018        | 2019           | 2020    | 2020Q1  | 2020Q2 | 2020Q3 | 2020Q4  | 2021Q1 |
|--|--------|--------|---------|---------|---------|-------------|----------------|---------|---------|--------|--------|---------|--------|
| <b>Annual Economic Growth</b>          |        |        |         |         |         |             |                |         |         |        |        |         |        |
| GDP                                    | %      |        | -1.7    | 4.3     | 2.9     | 4.5         | 3.0            | -7.9    | 2.6     | -4.2   | -6.4   | -7.9    | ..     |
| Mining                                 | %      |        | -19.6   | -3.7    | -11.1   | 5.3         | -3.9           | -26.2   | -6.3    | -18.8  | -21.9  | -26.2   | ..     |
| Non-mining private sector              | %      |        | 1.4     | 7.1     | 5.6     | 4.7         | 4.2            | -8.0    | 4.2     | -3.6   | -6.3   | -8.0    | ..     |
| GDP current prices                     | P bn   |        | 146.07  | 170.56  | 180.10  | 190.37      | 197.50         | 180.80  | 50.75   | 36.88  | 44.70  | 48.46   | ..     |
| GDP 2006 prices                        | P bn   |        | 86.08   | 89.79   | 92.39   | 96.53       | 99.45          | 91.60   | 25.09   | 18.86  | 23.39  | 24.26   | ..     |
| <b>Money &amp; Prices</b>              |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Inflation                              | %      |        | 3.1     | 3.0     | 3.2     | 3.5         | 2.2            | 2.2     | 2.2     | 0.9    | 1.8    | 2.2     | 3.2    |
| Prime lending rate                     | %      |        | 7.50    | 7.00    | 6.50    | 6.50        | 6.25           | 5.25    | 6.25    | 5.75   | 5.75   | 5.25    | 5.25   |
| BoBC 7/14-day                          | %      |        | 0.97    | 0.84    | 1.45    | 1.52        | 1.41           | 1.04    | 1.44    | 1.00   | 1.01   | 1.04    | 1.02   |
| <b>Trade &amp; Balance of Payments</b> |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Exports - total goods                  | P bn   |        | 63.48   | 80.34   | 61.67   | 67.17       | 56.29          | 48.24   | 13.20   | 4.39   | 13.24  | 17.41   | ..     |
| Exports - diamonds                     | P bn   |        | 52.73   | 70.78   | 54.38   | 60.41       | 51.01          | 42.54   | 11.44   | 3.57   | 11.68  | 15.85   | ..     |
| Balance of payments                    | P bn   |        | -4.15   | -3.28   | -4.28   | -4.20       | -12.02         | ..      | -4.85   | -3.02  | -6.95  | ..      | ..     |
| <b>Foreign Exchange</b>                |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Exchange rate BWP per USD              | end    |        | 11.24   | 10.65   | 9.87    | 10.73       | 10.63          | 10.79   | 11.96   | 11.79  | 11.67  | 10.79   | 11.09  |
| Exchange rate ZAR per BWP              | end    |        | 1.38    | 1.28    | 1.26    | 1.34        | 1.33           | 1.36    | 1.50    | 1.47   | 1.47   | 1.36    | 1.34   |
| FX reserves                            | \$ bn  |        | 7.55    | 7.19    | 7.50    | 6.66        | 6.17           | 4.94    | 5.20    | 5.39   | 5.07   | 4.94    | ..     |
| FX reserves                            | P bn   |        | 84.88   | 76.80   | 73.69   | 71.43       | 65.23          | 53.36   | 62.01   | 63.65  | 58.85  | 53.36   | ..     |
| <b>Financial Sector</b>                |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Deposits in banks                      | P bn   |        | 59.96   | 62.44   | 63.58   | 69.27       | 75.71          | 80.54   | 77.26   | 78.37  | 79.75  | 80.54   | ..     |
| Bank credit                            | P bn   |        | 48.31   | 51.32   | 54.18   | 58.33       | 62.77          | 65.55   | 64.63   | 64.05  | 63.77  | 65.55   | ..     |
| BSE index                              |        | 10,602 | 9,728   | 8,860   | 7,854   | 7,495       | 6,890          | 7,488   | 7,160   | 7,001  | 6,890  | 6,528   | ..     |
| <b>Business Indicators</b>             |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Diamond production (a)                 | mn cts |        | 20.73   | 20.88   | 22.96   | 24.38       | 23.67          | 16.87   | 5.74    | 1.93   | 4.92   | 4.29    | ..     |
| Copper production (b)                  | tonnes |        | 23.05   | 16.88   | 1.24    | 1.46        | 0.00           | ..      | ..      | ..     | ..     | ..      | ..     |
| Nickel production                      | tonnes |        | 16.79   | 13.12   | 0.00    | 0.00        | 0.00           | ..      | ..      | ..     | ..     | ..      | ..     |
| Business confidence index              | 44%    | 43%    | 46%     | ..      | ..      | ..          | ..             | ..      | ..      | ..     | ..     | ..      | ..     |
| No. of companies formed                | 19,134 | 17,133 | 20,707  | ..      | ..      | ..          | ..             | ..      | ..      | ..     | ..     | ..      | ..     |
| Electricity consumption                | GWh    |        | 3,974   | 3,929   | 3,772   | 3,919       | 3,906          | 3,842   | 1,011   | 854    | 994    | 983     | ..     |
| Crude oil (Brent)                      | \$/bar |        | 36.61   | 54.96   | 66.73   | 50.57       | 67.77          | 51.22   | 14.85   | 41.64  | 40.30  | 51.22   | 63.52  |
| <b>Employment (formal) (f)</b>         |        |        |         |         |         |             |                |         |         |        |        |         |        |
| Government                             |        |        | 130,220 | 129,216 | 129,009 | 156,785     | 156,785        | 152,973 | 155,488 | ..     | ..     | 152,973 | ..     |
| Parastatals                            |        |        | 19,411  | 19,008  | 19,444  | 23,497      | 23,497         | 18,933  | 26,591  | ..     | ..     | 18,933  | ..     |
| Private sector                         |        |        | 191,484 | 194,202 | 193,745 | 250,778     | 227,281        | 250,715 | 224,735 | ..     | ..     | 250,715 | ..     |
| Total                                  |        |        | 341,115 | 342,426 | 342,198 | 431,060     | 407,563        | 422,621 | 406,814 | ..     | ..     | 422,621 | ..     |
| <b>Govt Budget</b>                     |        |        |         |         |         |             |                |         |         |        |        |         |        |
|  |        |        | 2017/18 | 2018/19 | 2019/20 | 2020/21     | 2021/22        |         |         |        |        |         |        |
|  |        |        | (d)     | (d)     | (d)     | Revised (e) | Projection (e) |         |         |        |        |         |        |
| Revenues                               | P bn   |        | 56.41   | 53.47   | 54.30   | 48.33       | 64.58          |         |         |        |        |         |        |
| Spending                               | P bn   |        | 58.39   | 62.35   | 65.40   | 69.36       | 70.61          |         |         |        |        |         |        |
| Balance                                | P bn   |        | -1.98   | -8.88   | -11.10  | -21.03      | -6.03          |         |         |        |        |         |        |
| Public debt & guarantees               | P bn   |        | 32.99   | 34.41   | 36.19   | 46.69       | 56.64          |         |         |        |        |         |        |
| Govt deposits at BoB                   | P bn   |        | 30.09   | 21.56   | 19.86   | ..          | ..             |         |         |        |        |         |        |
| GDP                                    | P bn   |        | 182.19  | 193.48  | 198.98  | 181.13      | 210.03         |         |         |        |        |         |        |
| Revenues                               | %GDP   |        | 31.0%   | 27.6%   | 27.3%   | 26.7%       | 30.7%          |         |         |        |        |         |        |
| Spending                               | %GDP   |        | 32.0%   | 32.2%   | 32.9%   | 38.3%       | 33.6%          |         |         |        |        |         |        |
| Balance                                | %GDP   |        | -1.1%   | -4.6%   | -5.6%   | -11.6%      | -2.9%          |         |         |        |        |         |        |
| Public debt & guarantees               | %GDP   |        | 18.1%   | 17.8%   | 18.2%   | 25.8%       | 27.0%          |         |         |        |        |         |        |
| Govt deposits at BoB                   | %GDP   |        | 16.5%   | 11.1%   | 10.0%   | ..          | ..             |         |         |        |        |         |        |

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 (Ghaghool) and Lerala mines (no longer operational)
- (b) Copper production starting Q2 2017 for Mowana mine
- (c) Numbers in Italics reflect revisions from the previous review
- (d) Actual
- (e) Budget
- (f) Employment figures up to 2018 are not comparable with those from 2019 onwards due to changed methodology of data collection and reporting



**SPECIAL FEATURE**

# Further Insights into Botswana’s Labour Market

## Introduction

Until 2019, labour market data in Botswana was mainly derived from the Formal Employment Survey (FES) (approximately quarterly) and the Labour Force Survey (LFS) (approximately once a decade). To address the gaps in Botswana’s labour market data, Statistics Botswana introduced the Quarterly Multi Topic Survey (QMTS) in 2019. The new survey covers a wide range of indicators pertaining to both individual and household employment. Unfortunately, the QMTS is not compatible with previous labour market surveys due to differences in data collection methodologies, which makes it difficult to draw reliable inferences or conclusions on long-term trends in Botswana’s labour market. Soon after the start of the QMTS, the outbreak of the COVID-19 pandemic and its associated lockdowns and travel restrictions put a halt to nationwide data collection therefore the QMTS was not published for Q2 and Q3 2020.

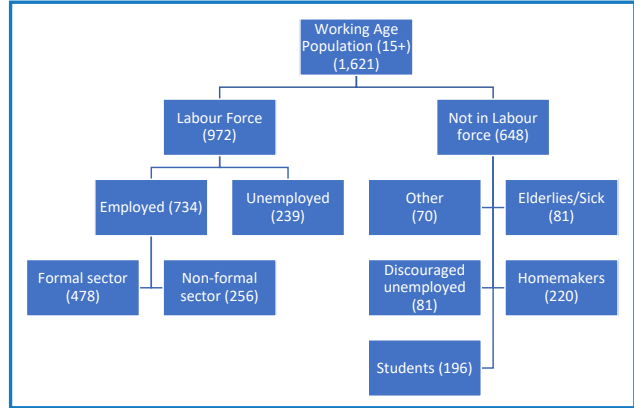
Publication of the survey was resumed for Q4 2020. The release of the QMTS Q4 2020 allows us, for the first time, to chart the evolution of Botswana’s labour market between two consecutive years whilst avoiding seasonality bias<sup>1</sup>. This is particularly important as it provides some, albeit restricted, insight into the impact of the COVID-19 pandemic on employment and wages in Botswana. Nevertheless, the declaration of the State of Public Emergency (SoPE), which prevents firms from retrenching workers, may have kept employment figures higher than they truly are, masking the true impact of the COVID-19 pandemic.

This article provides a brief overview of the key results from the latest QMTS, for the fourth quarter of 2020. Furthermore, it will provide some insights on how the labour market has evolved between the fourth quarter of 2019 and the fourth quarter of 2020.

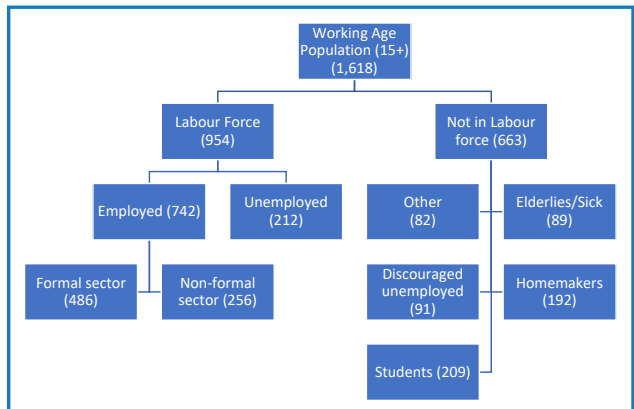
As of Q4 2020, the QMTS results show that the total working age population (15 years and above) was 1,621,400. Of these, 972,606 were economically active (in the labour force). The labour force participation rate was therefore 60%. In comparison, for Q4 2019, the total working age population (15 years and above) was 1,618,068, of which 954,121 individuals were economically active, resulting in a labour force participation rate of 59%. The results show that between 2019 and 2020, Botswana’s labour force grew by 1.9%, the labour force participation rate rose by 1% and the number of individuals outside the labour force declined by 2.3%.

<sup>1</sup>The time of year the survey is undertaken will affect employment and unemployment figures, especially in sectors that do not require labour all year round, e.g., agriculture. By comparing Q4 2019 and Q4 2020, we avoid this bias by controlling for the time of year.

**Figure 5: Structure of the Working Age Population QMTS Q4 2020**



**Figure 6: Structure of the Working Age Population QMTS Q4 2019**



Note: Figures refer to size of segment in thousands.

Figures 5. and 6. above provide a general overview of the structure of Botswana’s labour market for the years 2020 and 2019. The total employed population (733,875) declined by 1.1% whereas the unemployed population (238,734) grew by 12.7%; as a result, the employment rate declined by 2.3% from 77.8% in 2019 to 75.5% in 2020, while the unemployment rate increased from 22.2% to 24.5%.

65.1% of the employed population worked within the formal sector (477,716) during Q4 2020. The structure of formal employment remained largely unchanged between 2019 and 2020; however, average monthly cash earnings rose by 9.4% to P6,014.

## Employment

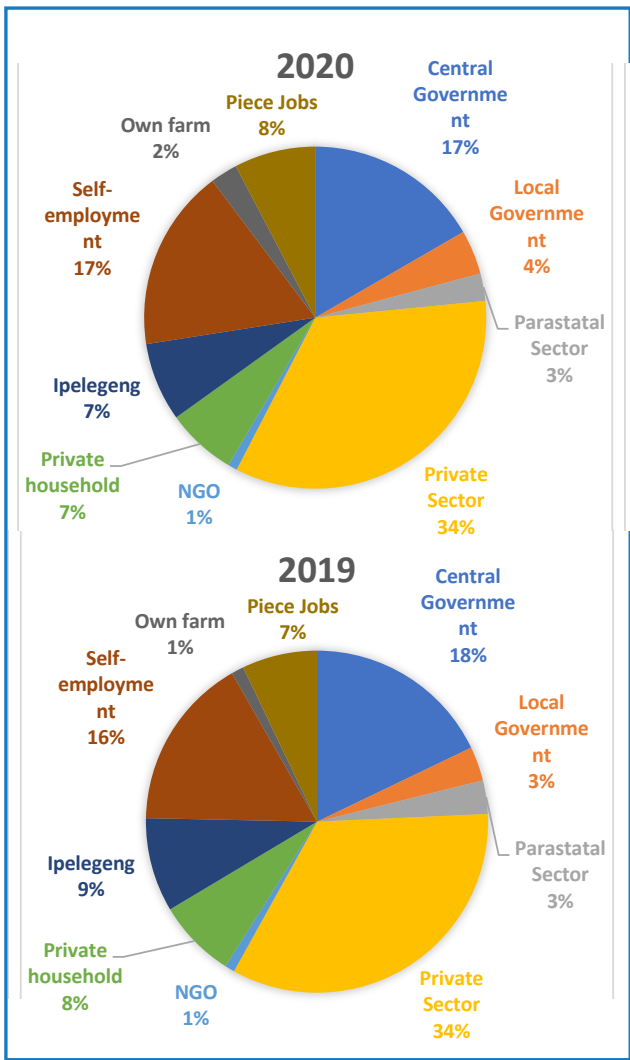
The distribution of jobs across different types of employers has remained fairly stable between Q4 2019 and Q4 2020. The private sector continues to be the largest contributor to employment with its share remaining steady at 34%. This is followed by the public sector (central and local

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government, parastatals and Ipelegeng), which accounted for 31% of employment in 2020, down from 33% in 2019. Self-employment (17%), employment in piece jobs (8%) and private households (7%) all experienced minor changes (+/-1%) to their shares of total employment.

rienced minimal change in employment. However, once the SoPE is lifted, there may be a significant drop in private sector employment. Table 1 below provides a summary of these figures.

**Figure 7: Distribution of Employment by Type of Employer**



Whilst the distribution of total employment has remained largely unchanged, the number of individuals employed by the various types of employers has changed significantly. Employment in the public sector declined by 8.0% from 246,310 individuals in 2019 to 226,510 in 2020 (mainly due to reduced employment in the Ipelegeng public works programme). Simultaneously, there were increases in the number of individuals engaging in self-employment (3.8%), employment in piece jobs (6.9%) and employment in own farms (116.9%). As employment in the public sector has declined, other categories have been absorbing greater quantities of labour. The private sector expe-

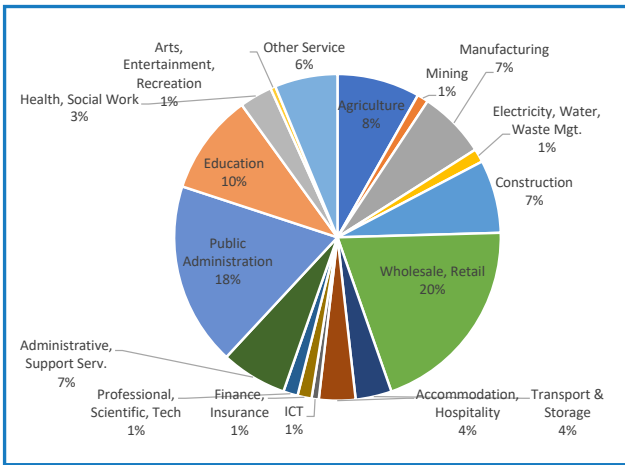
**Table 1: Employment by Type of Employer**

|                    | 2020           | 2019           | Change       |
|--------------------|----------------|----------------|--------------|
| Central Government | 122,185        | 132,712        | -7.9%        |
| Local Government   | 30,788         | 24,073         | 27.9%        |
| Parastatal Sector  | 18,993         | 23,497         | -19.2%       |
| Private Sector     | 250,715        | 250,778        | 0.0%         |
| NGO                | 6,364          | 6,839          | -6.9%        |
| Private household  | 48,644         | 55,281         | -12.0%       |
| Ipelegeng          | 54,544         | 66,028         | -17.4%       |
| Self-employment    | 126,378        | 121,753        | 3.8%         |
| Own farm           | 18,904         | 8,714          | 116.9%       |
| Piece Jobs         | 56,359         | 52,704         | 6.9%         |
| <b>Total</b>       | <b>733,874</b> | <b>742,379</b> | <b>-1.1%</b> |

**Employment by Economic Activity**

The distribution of employment by economic activity has varied slightly between 2019 and 2020. As of Q4 2020 (figure 8), wholesale and retail trade is the largest employing sector with 20.1% of total employment, followed by public administration with 18.1% and education with 10.0%. Perhaps surprisingly, the share of employment in human health and social work activities declined from 4.1% in 2019 to 3.2% in 2020, as the number of individuals employed within the sector declined by 22.5%. This is unusual as one would assume the implementation of the government’s COVID-19 response would require more health and social workers.

**Figure 8: Employment by Economic Activity Q4 2020**



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### Unemployment

The national unemployment rate in Q4 2020 stood at 24.5%, up from 22.2% in Q4 2019. The number of unemployed individuals rose by 12.7% from 211,743 during Q4 2019 to 226,598 in Q4 2020. When we broaden the definition of unemployment to include discouraged job seekers, the extended unemployment rate (30.3% in Q4 2020) rose by 2.8% during the reference period. The rise in both the national and extended unemployment rates was to be expected due to the slowdown in economic activity caused by the COVID-19 pandemic. A major concern is that the “true” unemployment rate, which will be realised once the SoPE is lifted, may be greater than the currently measured rate. Furthermore, the longer the SoPE is extended, firms that could have recovered from the impact of the COVID-19 by downsizing, may be forced to shut down completely, driving future unemployment rates higher.

The disproportionate distribution of unemployment persists across the country:

- The unemployment rate is higher for females (25.8%) than males (23.3%)
- Across settlement types, urban village settlements now have the largest unemployment rate (27.4%), followed by rural areas (25.7%) and cities/towns (17.1%)
- The youth unemployment rate (32.4%) remains higher than the national average (24.5%), indicating that unemployment is more severe amongst the youth. What is particularly concerning is that there is a greater divergence between the youth and national unemployment rates, suggesting that the youth will account for an even larger proportion of the unemployed population in the future.

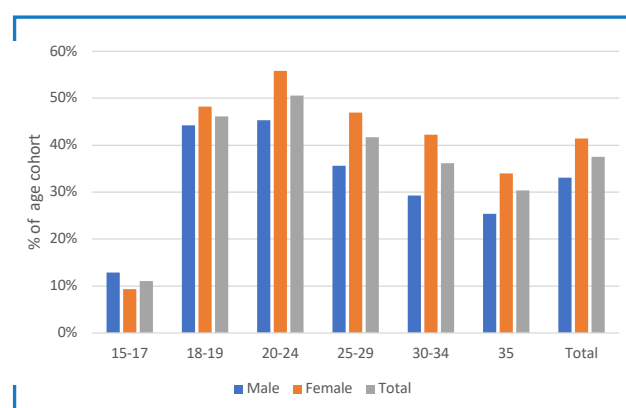
### Youth Activity

A useful metric to gauge youth activity is to isolate those “Not in Employment, Education or Training” (NEET). This is because a significant proportion of the youth are not in the labour force yet, but are engaged in activities such as education and training; therefore the youth unemployment rate will not provide much information about the demographic.

The total number of youth NEETs in Q4 2020 was 322,849, up from 309,328 in Q4 2019, reflecting a 4.4% increase in the number of youths not gainfully employed or receiving an education/training. The proportion of NEETs that are females rose to 57.7% (186,261) in 2020, up from 55.3% (170,950), suggesting that the number of female NEETs are rising at a faster rate than their male counterparts. Indeed, the number female NEETs rose by 9.0%, compared to a 1.3% decline in the number of male NEETs. The overall NEET rate recorded in 2020 was 37.5%, up from 36.1% during the previous year. The female NEET rate rose sig-

nificantly by 2.9% to 41.4% whereas the male NEET rate declined by 0.5% to 33.1%. Figure 9 below illustrates that the female NEET rate is higher across all ages groups barring 15–17-year-olds. If this trend continues, the gender pays imbalances, which already exist in Botswana’s labour market, will be exacerbated in the future as young women are unable to begin shaping their careers and gaining human capital with their male counterparts.

**Figure 9: Proportion of Youth Not in Employment, Education or Training (NEET), by Age Cohort**



### The Impact of COVID-19

The QMTS Q4 2021 provides data detailing the direct impact that the COVID-19 pandemic has had on the labour market. The data was collected through a survey with an estimated 561,312 people working or having a business since the first COVID-19 associated lockdown. 438,594 individuals (78.1%) were employees and the remaining 122,718 (21.9%) were engaged in self-employment. The largest proportion of individuals, approximately 53.0%, were employees that experienced no changes to their pre-COVID-19 terms employment. The second largest proportion (17.4%), were self-employed individuals who reported a downturn in business activity since the first lockdown. 11.0% were employees that incurred a reduction in their salaries whilst a surprisingly low proportion of people (0.2%) were self-employed and had to close their business down, this may be the result of the SoPE and the relief funds provided by the government.

A total of 19,112 people managed to find employment due to COVID-19. More females (75.5%) were able to gain employment than males (24.5%) with the majority of the newly employed being employees (89.0%) and the remaining 11.0% being self-employed. The Education and Public Administration industries each accounted for 36.0% of the new employment followed by Wholesale and Retail Trade (10.5%) and Agriculture, Forestry and Fishing (4.7%). The

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COVID-19 related employment was most prevalent in urban villages (42.9%) followed by rural areas (39.9%) and lastly cities and towns (17.2%). A closer analysis of the 17,014 individuals who found employment as employees (as opposed to self-employment) shows that the majority of newly created jobs (13,694 or 80.5% of employees) were directly created by the government through the Ipelegeng, central government and local government sectors. Suggesting that the bulk of new employment has been for the rollout of COVID-19 relief support programmes. In comparison, the private sector only accounted for 2,375 employees (14.0%) and private households 725 employees (4.3%).

An estimated 67,132 individuals lost their jobs or businesses due to the COVID-19 pandemic. The majority of job losses (58.0%) were incurred by females compared to males (42.0%). Only 4.1% (2,720) of individuals who lost their jobs managed to gain employment again, whilst 43.6% (29,300) were actively seeking employment since losing their jobs and 35,112 individuals (52.3%) were now discouraged job seekers.

**Table 2: Population that Lost Jobs/Business due to COVID-19**

| Age          | Lost Jobs/Business | Lost Jobs/Business actively seeking employment | Lost Jobs/Business actively seeking employment % |
|--------------|--------------------|--|--|
| 15-34        | 34,183             | 17,909   | 52.4   |
| 35-59        | 27,584             | 11,245   | 40.8   |
| 60+          | 5,365              | 148  | 2.76   |
| <b>Total</b> | <b>67,732</b>      | <b>29,302</b>                                  | <b>43.3</b>                                      |

The table above shows that the demographic most affected by job losses due to COVID-19 were youths aged between 15-34 who accounted for 50.5% of total job losses. Of the youth population that lost employment, only 52.4% were actively seeking employment. Given that only a small proportion of the population managed to regain

employment after losing their jobs due to COVID-19, the data suggests that a large number of youth aged individuals were discouraged job seekers and had effectively fallen out of the labour force because of the pandemic.

The data relating to job losses caused by the COVID-19 pandemic paints a dire picture of the labour market in Botswana. However, overall employment/unemployment figures have not been as negatively affected as these results would suggest, with employment falling by only around 9,000. This can be explained by the fact that the labour market has restructured and adapted, with an increased number of individuals taking up self-employment and farming in reaction to the changes in the economy that have been brought about by the COVID-19 pandemic.

**Conclusion**

The QMTS Q4 2021 has provided us with the first snapshot of the impact of COVID-19 on employment and the labour market in Botswana as a whole. Unsurprisingly, employment growth has slowed down, and unemployment has risen during this period. However, the impact of COVID-19 on employment is much smaller than expected, possibly due to the restrictions on retrenchment imposed by the SoPE. The data from the QMTS also indicates a strong, positive labour market response to changing conditions in Botswana, with a seemingly rapid adjustment in the type of employment, characterised by an increase in the number of individuals involved in self-employment and farming.

Moving forward, government needs to provide optimal conditions to support recovery in private sector employment. Following what will be a year and a half of restrictions on retrenchments and slowed economic activity the private sector will need to be adequately supported to avoid the closure of businesses. Fair and efficient access to services such as the loan guarantee scheme and industry support funds will be imperative to the recovery of the private sector and avoiding a spike in unemployment in the future.

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