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ECONOMIC REVIEW

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in this issue ...

COMMENTARY

Economic Growth Surges in 2021, but International Developments Raise Uncertainty for the New Year

Introduction

The developments in the first three months of the year have been mixed, with some positive outcomes but with the outlook clouded by a high level of uncertainty. National accounts data released by Statistics Botswana revealed that economic growth ended 2021 on a high note and registered double digit growth for the first time since in 2013, and exceeded projections made at the time of the 2022 Budget. However, the higher growth may be short lived due to other developments taking place in the global economy. The threats to growth include the possible emergence of new COVID-19 variants, leading countries to reimpose restrictions on mobility, and rising international fuel and food prices, along with supply interruptions, a combination that has trigged higher levels of inflation rate around the world. The war in Ukraine has added to supply problems in the global economy that were already apparent in the post-pandemic recovery. Before the war, macroeconomic indicators were seen as improving and returning to pre-covid levels. The global economy was also projected to improve in 2022 and 2023. However, global growth projections have been revised downwards from the initial forecast of 4.9% in 2022 and 3.6% in 2023 forecasted in October 2021, to 3.6%, for both 2022 and 2023.

COMMENTARY

Economic growth

Statistics Botswana has released real GDP data for the fourth quarter of 2021, hence, completing the data for the year as a whole. The data revealed an improvement in economic growth to 11.4% for 2021, significantly increasing from negative growth of 8.7% recorded in 2020 and positive growth of 8.5% in the year to Q3 2021. The improved growth was expected, but is higher than earlier projections from the Ministry of Finance and the International Monetary Fund (IMF) which forecasted growth to be 9.7% and 9.2%, respectively. The recovery was driven by the improvement in output in the mining sector to 29.9%, up from negative growth of 26.5% in 2020 and 15.6% growth in Q3. The non-mining private sector also performed well in 2021 with Agriculture being the main under-performer, having contracted by 2.9% year-on-year.

Diamond market

Positive momentum in the global diamond market, led to strong recovery in 2021, which continued in the first quarter of 2022. De Beers Global Sightholder Sales (DBGSS) rough diamond sales for the first quarter of 2022 were stronger compared to sales values recorded in Q4 and Q1 2021. DBGSS sales in Q1 2022 were USD 1.3 billion, representing an increase of 4.0% and 8.2% over Q4 and Q1 2021. The strong demand for rough diamonds in 2022 arose because diamond traders were restocking their supply which was depleted during a buoyant holiday season. However, there are risks emanating from the continued covid-19 restrictions in key markets like China, which could slow down the momentum gained in 2021. Along with continued risks from covid-19, instability in the global diamond market has arisen from sanctions on Russia's diamond exports, as the United States of America and the European Union have banned diamond exports from the country, while the United Kingdom has raised tariffs. The Box on page 15 provides further detail on the potential impact of the Russia-Ukraine crisis on the global diamond market. The increase in global inflation reduces the disposable income of consumers and may stimulate a shift toward spending on essential items and away from luxury items, thereby potentially reducing the demand for diamond jewellery. The global diamond industry is therefore facing headwinds from both the demand side and the supply side.

Inflation

Annual inflation rose to 10.6% in January and February 2022, before falling slightly to 10.0% in March. This is the highest inflation rate in 13 years. The rise in inflation is due to several factors, such as the persistent increase in fuel and food prices. It has been made worse by the ban on the importation of many vegetable items, which has led to sharply higher prices for some items. This has, in turn, had a negative impact on households, especially low-income households, who are already struggling with rising prices. It has also led to shortages, and, as should have been expected, smuggling of basic items such as onions into the country.

Global inflation is forecast by the IMF to increase to 6.8% in 2022, compared to 2.8% in 2020, as the war in Ukraine added to already-existing inflationary pressures. The World Bank has predicted that food and fuel prices will remain elevated above the levels that would otherwise have been expected for up to five years. Nevertheless, we expect inflation to fall below 10 percent in April this year, and to gradually decline and return to within the Bank of Botswana's 3-6% objective range, but only around the middle of next year.

Monetary policy and banking sector conditions

The Bank of Botswana maintained the Bank Rate at 3.75% in February 2022, to continue to support the economy as it emerges from the pandemic. But with inflation at high levels and persistent inflationary pressures emanating from the rise in commodity prices, the monetary authorities responded as expected and raised interest rates in April by around half a percent. The higher policy rate will assist in preventing inflationary expectations from becoming entrenched and thereby inhibiting second-round effects that can cause higher inflation to become entrenched.

Conditions in the banking sector have shown some measure of resilience. Annual bank credit growth has generally been on an upward trend in 2021, rising from 3.9% in January to 5.1% in December. The upturn in credit growth reflected the increase in the uptake of credit by businesses which is consistent with market conditions of improved demand and favourable interest rates. Bank credit slowed in January 2022 due to the continued decrease in credit to households as banks continue to apply a cautious approach when lending to households because of uncertainties in household incomes. Arrears on bank lending declined during the year, indicating a positive sign that both businesses and households are still committed to servicing their loans. Bank profitability also improved reflecting a resilient banking sector amid covid-19 conditions.

COMMENTARY

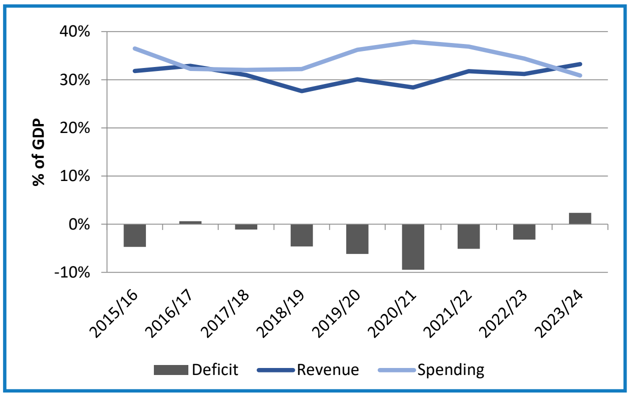
International trade

Trade data for the whole of 2021 show significant increases in both exports and imports. Most categories of exports and imports improved, attributable to the diamond sector which increased by 70% for exports and 40% for imports. The value of exports was P81.38 billion in 2021, 65.7% higher than the value of exports in 2020. Imports were valued at P91.91 billion and increased by 23.3% during the same period. Although exports increased faster than imports, the value of imports was higher than the value of exports, as a result the trade balance was in deficit in 2021. But it was better than in 2020, with a reduction from P25.44 billion to a deficit of P10.54 billion in 2021.

The Budget

The Minister of Finance, Peggy Serame, delivered the Budget Speech in February 2022. This Budget was particularly important as it marked the final year of National Development Plan 11. Total revenues and grants are estimated at P67.87 billion in the 2022/23 financial year, while total government expenditures and net lending are forecasted at P74.84 billion. The result is a projected budget deficit of P6.98 billion, or 3.2% of GDP.

Figure 1: Government budget, 2018/19 to 2023/24



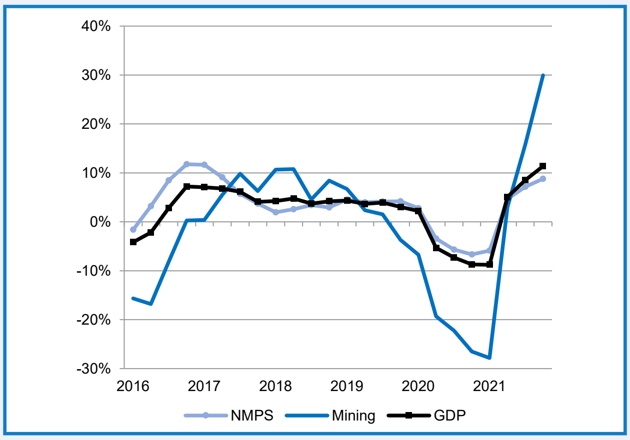
Total revenues and grants fell significantly to below pre-covid estimates in 2020/21 FY, from a 2020 budget estimate of P62.39 billion to an outturn of P49.38 billion. In the medium-term, revenues are expected to increase in 2022/23 and 2023/24 financial years mainly due to the increase in mineral revenues, VAT and SACU receipts. On the expenditure side, total government expenditures and net lending are also expected to increase, and the main focus is to fund post-pandemic economic recovery and the fight against the covid-19 virus.

The negative impact of the pandemic on the budget balance is that budget surpluses are now only forecast at the start of the next National Development Plan, NDP 12, against the original forecasts that the budget would return to a surplus at the end of NDP 11. Instead, NDP 11 has been characterised by budget deficits throughout. Although pre-pandemic the budget was already in deficit, the pandemic exacerbated the magnitude of the deficit and delayed progress towards a balanced budget. As a percentage of GDP, deficits increased from 4.6% of GDP in 2018/19 FY to 9.4% of GDP in the 2020/21 FY.

The large budget deficits have been financed through drawing down on government savings and increasing borrowing. There is currently no longer room to draw down on savings – which have largely been depleted - and future budget deficits will have to be funded by borrowing, both domestically and externally. Nevertheless, public debt remains low and borrowing is projected to remain well within the legal limit of 40% of GDP.

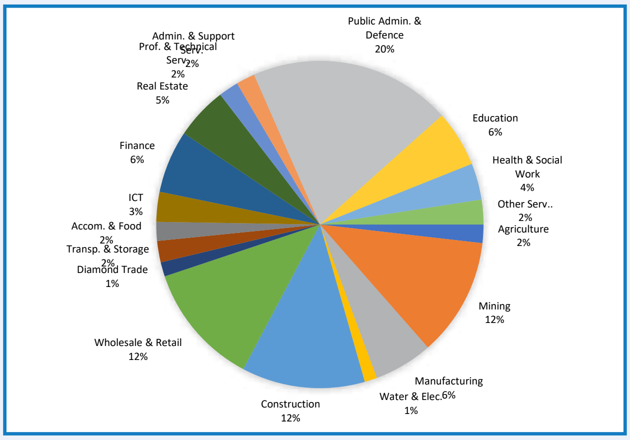
KEY ECONOMIC VARIABLES

Annual GDP Growth



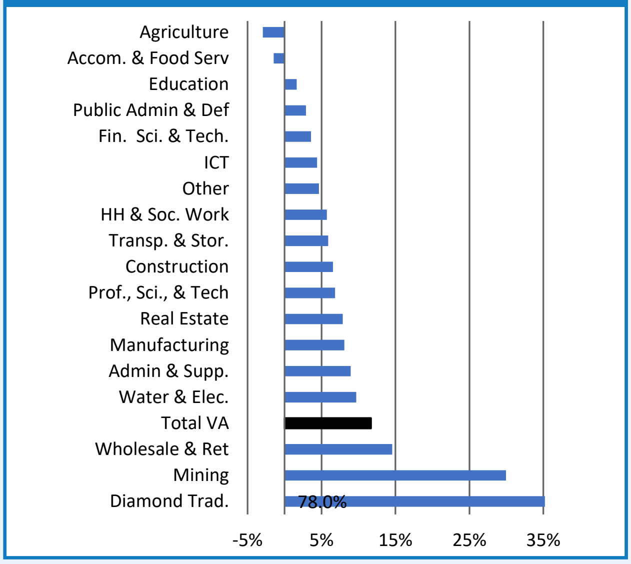
Annual GDP growth recovered sharply in 2021 from the pandemic-induced recession in 2020. Year-on-year real GDP growth increased to 11.4%, up from a contraction of 8.7% in 2020. The last time double-digit growth was recorded was in 2013. The mining sector experienced strong growth of 29.9% in 2021, significantly higher than minus 26.5% y-on-y growth recorded in the previous year. The non-mining private sector (NMPS) growth also recorded increased growth of 8.8%, up from minus 6.7%. The significantly higher growth in 2021 was driven by improved demand for rough diamonds during the year which led to sharp growth in the Diamond Traders and Mining & Quarrying sectors.

Sectoral Shares of GDP



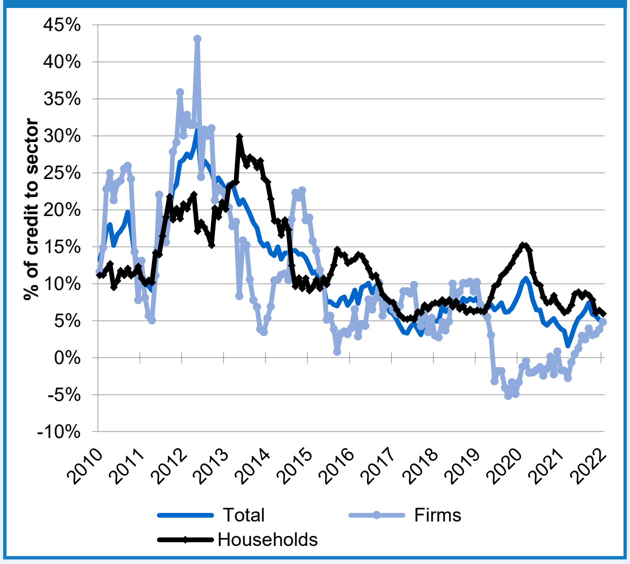
The updating and rebasing of national accounts data during the year saw the inclusion of several new sectors and a more detailed breakdown of economic activities. The largest four sectors of the economy are now Public Administration & Defense, Construction, Wholesale & Retail and Mining & Quarrying, with shares of 19.8%, 12.2%, 12.1% and 12.0%, respectively. Mining is no longer the largest sector of the economy, however; its share of GDP has been gradually declining since 2017. The more detailed breakdown of GDP provides more insight into how newly-emerging sectors are growing.

Sectoral Growth



Growth in 2021 was broad-based, with most sectors of the economy recording much-improved growth during the year when compared to 2020. The fastest growing sectors were Diamond Traders and Mining & Quarrying, which registered growth of 78.0% and 29.9% respectively. These were followed by Wholesale & Retail (14.6%) and Water & Electricity (9.7%) sectors. Agriculture, Forestry & Fishing continued to be the slowest growing sector of the economy, recording a contraction of 2.9% in 2021.

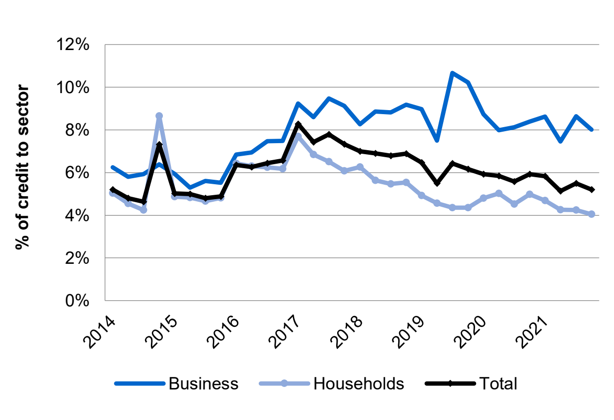
Annual Credit Growth



Bank credit growth slowed in January 2022 after months of increased appetite for credit. Annual bank credit growth fell to 4.7% in January, down from 5.8% in October 2021. The decrease is attributable to a slowdown in lending to households. Household credit growth declined to 6.0%, down from 7.8%, during the three months to January 2022. Growth of credit to firms rose from 3.0% in October 2021 to 4.8% in January 2022. The steady increases in annual bank credit to firms is a positive sign that output is increasing and contributing to post-pandemic recovery.

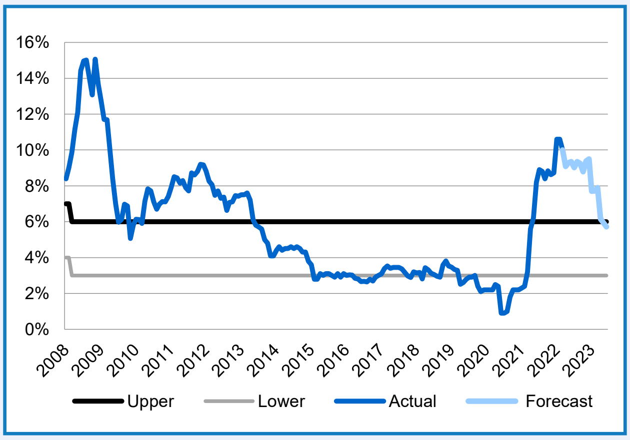
KEY ECONOMIC VARIABLES

Arrears on Bank Lending



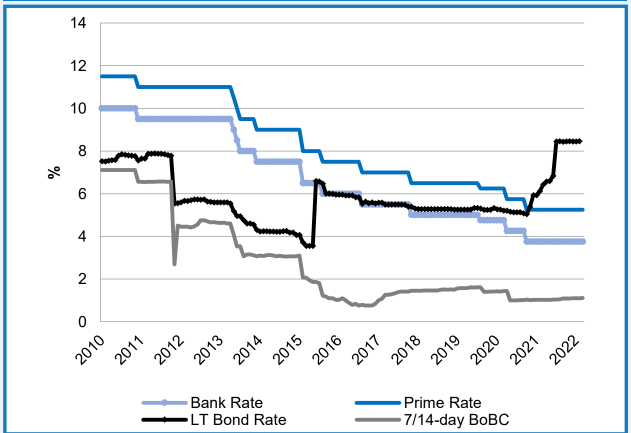
Total arrears as a proportion of outstanding bank credit fell during the year from 5.9% in 2020 to 5.2% in 2021. The decline in arrears during 2021 has been driven by reduction in both household and business arrears which fell from 5.0% and 8.4% in 2020 to 4.0% and 8.0% 2021. Both the household and business sectors have shown resilience in their ability to continue servicing their loan obligations.

Inflation and Forecast



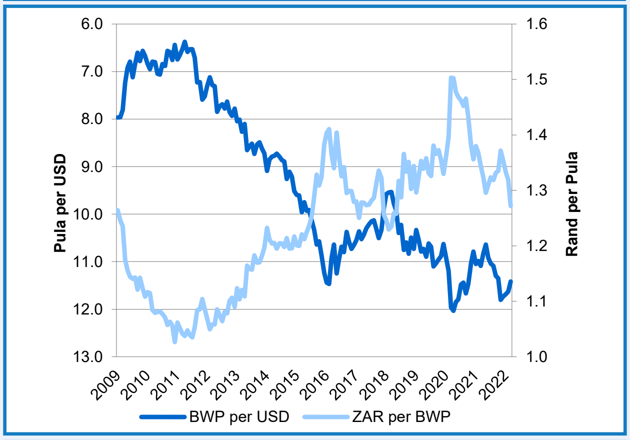
Annual inflation was 10.0% in March 2022, up from 8.7% in December 2021. Inflation in the first quarter of the year recorded double digits for the first time since 2009, reaching 10.6% in January and February. Inflation is forecast to gradually decline during the year and fall within the Bank of Botswana's medium term objective range during the second quarter of 2023. Annual inflation has been increasing for many reasons, notably the increases in indirect taxes in the 2021 Budget and higher international fuel prices. These have now been exacerbated by the Russian invasion of Ukraine, which has pushed up fuel prices even further, as well as caused higher food prices. The impact on food prices has been compounded by Botswana's ban on the imports of many fruit and vegetables, which has pushed up domestic food inflation even further.

Interest Rates



The Bank of Botswana's Monetary Policy Committee (MPC) maintained the Bank Rate at 3.75% at their first meeting of 2022 in February. This decision was taken to continue supporting the recovery economic activity post-pandemic. Consequently, the bank Prime Lending Rate remained unchanged at 5.25%. However, money market rates increased marginally, with the 7/14-day BoBC rate rising from 1.10% in December 2021 to 1.11% in March 2022, and the long-term government bond rate (LT bond) rose from 8.45% to 8.47% during the same period. However, with interest rates rising around the world, and domestic inflation likely to remain above the BoB objective range throughout 2022, policy rates were raised in April and more increases are likely during the year.

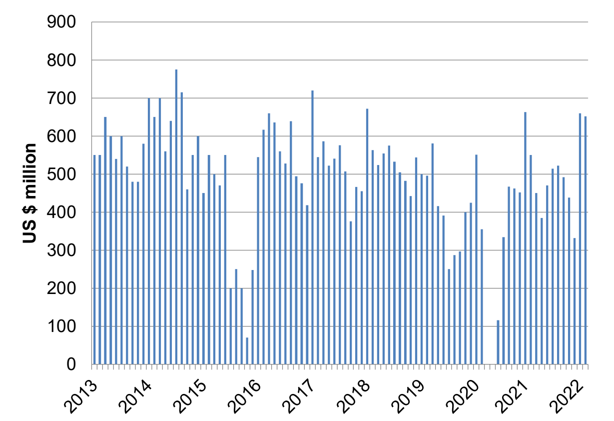
Exchange Rates



Exchange rates have been characterized by much volatility during the first quarter of 2022, attributable in part to Russia's invasion in Ukraine. The US dollar has been boosted as a safe-haven currency during a "risk-off" period, and while this has negatively affected most emerging market currencies, those with a strong commodity export basis – such as the SA rand – have benefitted. As a result, the Pula depreciated against the Rand while appreciating against US dollar as the ZAR strengthened. The Pula depreciated by 6.1% against the rand, ending Q1 2022 at ZAR1.2717, down from ZAR1.3548 at the end of Q4 2021. The Pula-US dollar exchange rate was 11.41 at the end of Q1 2022, up from 11.73 at the end of Q4 2021, representing an appreciation of 2.8%.

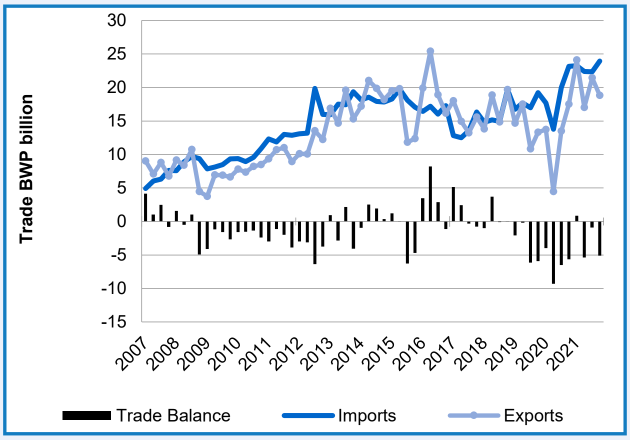
KEY ECONOMIC VARIABLES

De Beers Diamond Sales



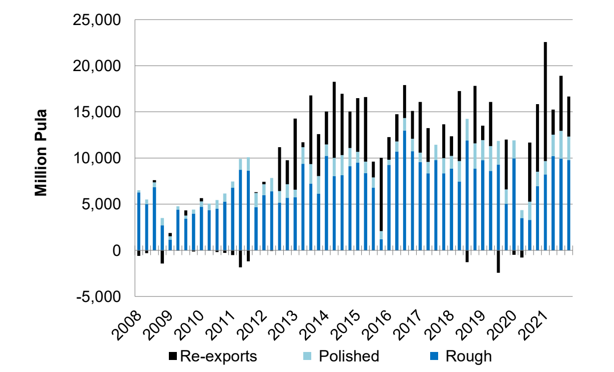
De Beers Global Sightholder Sales (DBGSS) recorded sales valued at USD1.312 billion during Q1 2022. Sales during the first quarter were 4.0% and 8.2% higher than the value of recorded sales in Q4 2021 and Q1 2021, respectively. The demand for rough diamonds during Q1 was relatively good with most jewelers restocking inventories after the holiday season. However, the sanctions imposed on Russia following the invasion of Ukraine have added fresh uncertainty and instability to the global diamond market.

International Trade



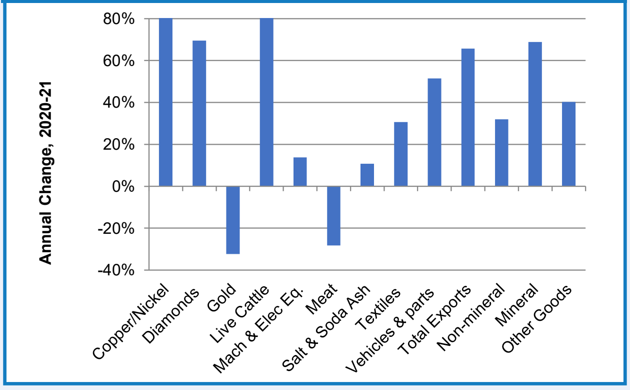
Total international trade increased during the year to December 2021. Imports increased by 23.3% from P74.6 billion in 2020 to P91.9 billion in 2021 whilst exports rose by 65.7% from P49.1 billion to P81.4 billion. The greater value of imports compared to exports resulted in a trade deficit of P10.5 billion. However, this was an improvement over the trade deficit in 2020, which was P25.4 billion. The increase in international trade reflects improved economic activity in 2021, which is supported by the rollout of covid-19 vaccines both local and internationally. Excluding diamonds, imports rose by 17% to P60.0 billion while exports rose 37% to P8.0 billion. The massive non-diamond trade deficit of P52 billion illustrates the critical importance of export diversification.

Diamond Exports



Global demand for rough diamonds picked up during the year as the demand for diamonds and diamond jewelry improved in 2021 and surpassed pre-covid-19 levels of 2019. Total diamond exports registered year-on-year growth of 72.6% in 2021, while increasing by 43.9% when compared to total diamond exports in 2019. Diamond exports increased for all categories of exports, notably for the value of re-exports, up by 107.8%, from P12.5 billion in 2020 to P25.9 billion in 2021.

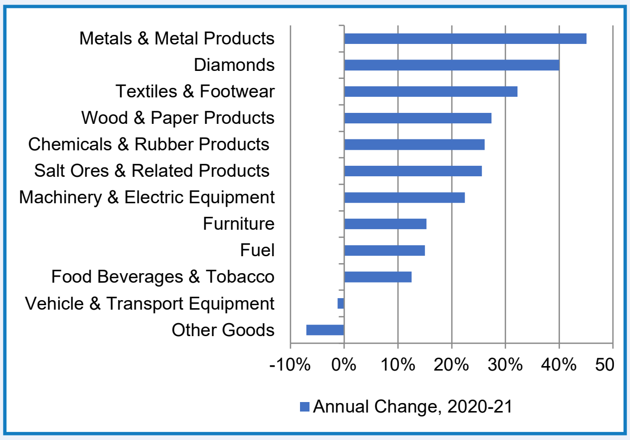
Export Growth



Overall export performance in 2021 was fairly strong with several export categories experiencing positive growth, albeit from a low base in 2020. Mineral exports registered improved y-on-y growth of 68.9% in 2021. This was driven by large increases in copper & diamonds exports which grew by 306.3% and 69.5%, respectively. Non-mineral exports performed well, increasing by 32% during 2021. The strongest performance was the export of live cattle, which increased by 94%. Meat and Gold were the commodity groups registering a contraction, declining by 28.3% and 32.3% y-on-y respectively. The substitution of exports of beef with exports of live cattle illustrates the dismal performance of the beef sector in recent years, due in no small part to the stranglehold of the Botswana Meat Commission (BMC).

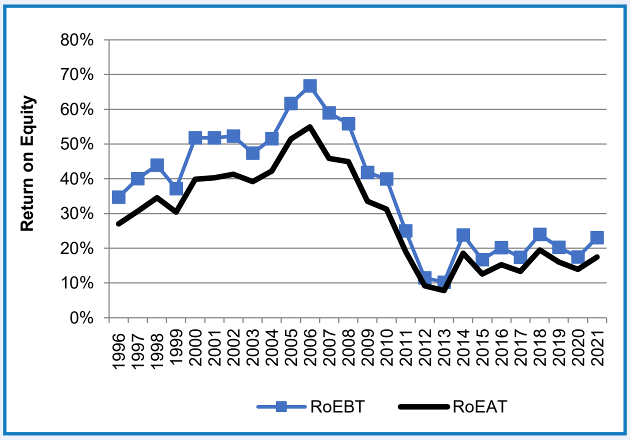
KEY ECONOMIC VARIABLES

Import Growth



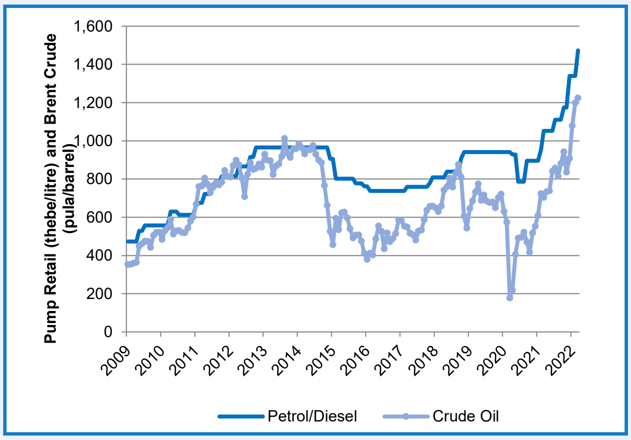
Imports registered increased year-on-year growth across several sectors in 2021, except for Vehicle & Transport Equipment, which declined. The positive growth of imports is expected given the increase in trade activity due to the relaxation of covid-19 travel restrictions, and general global recovery. Diamonds, Metal & Metal Products and Textile & Footwear were the fastest growing import categories, registering growth rates of 40%, 45.1% and 32.2%, respectively.

Bank Profitability



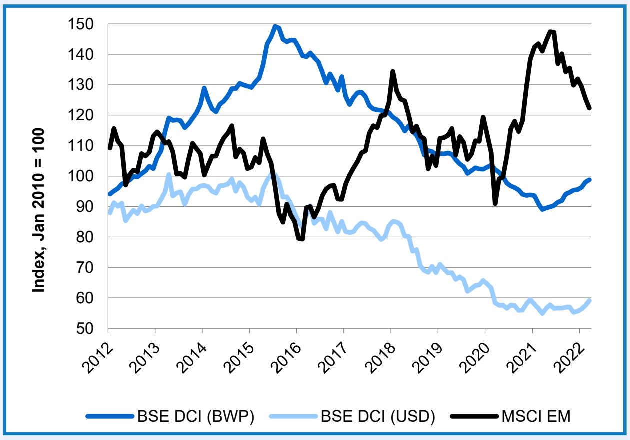
Bank profitability, as measured by the return on equity (RoE) increased in the 12 months to December 2021. The reduction in total arrears during 2021 coupled with the increase in total credit during the year have had a positive impact on bank profitability. The previous year had also been impacted by precautionary provisions made for covid-19 related losses, which did not, in the event, fully materialise. Post tax (RoEAT) bank profitability rose to 17.5% in 2021, up from 13.9% in 2020. This is reflective of a resilient banking sector given the prevailing conditions of covid-19 along with its uncertainties.

Fuel Prices



International fuel prices, which were already on an upward trend as many countries recovered from the covid-19 pandemic, surged in March 2022. International fuel prices were pushed up because of the war in Ukraine, and consequent sanctions imposed by some countries on Russia's oil exports. Russia accounts for about 13% of the world's total oil exports and the sanctions have sent a supply shock in the international markets. Crude oil, an international benchmark for prices, reached 14-year high of USD107.29 per barrel. Local fuel prices were increased by 10.0% between December 2021 and March 2022. However this was not enough to match the increase in the cost of fuel, and hence more increases are anticipated.

Stock Markets



The Botswana Stock Exchange (BSE)'s Domestic Companies Index (DCI) continued to improve during the first quarter of 2022. The DCI rose by 3.3% and 6.2% in Pula and USD terms, respectively. The DCI was 7242.61 in March, the highest since September 2019. Similarly, the BSE outperformed the international stock markets with the MSCI World Index depreciating by 5.5% and the MSCI Emerging Markets Index declining by 7.3%. The performance of the BSE is a good sign that the domestic market has recovered from the pandemic and the multi-year decline that preceded it. On the other hand, international stock markets have fallen after suffering volatility due to Russia's war in Ukraine.

NEWS HIGHLIGHTS

06/01/2022	African Development Bank's SEFA to provide USD1 million in support of Botswana's energy transition (Ecofin Agency)	The Sustainable Energy Fund for Africa (SEFA) has approved a grant worth USD1 million to Botswana aimed at facilitating the country's shift to clean energy. The technical assistance project will support the government in efforts to close critical gaps identified at the Africa Energy Market Place in 2019. SEFA is managed by the African Development Bank.
17/01/2022	BDC group posts P63million loss as COVID-19 hits subsidiaries (Mmegi)	Due to the impact of COVID-19 on its subsidiaries, the Botswana Development Corporation (BDC) reported pre-tax losses of P63.1 million for the year to June 2021, down from pre-tax profits of P151.3 million during the same period in 2020.
17/01/2022	De Beers implements big diamond price hike as demand runs hot (Bloomberg)	De Beers raised prices by approximately 8% during its first sale of 2022. The price increases were mainly geared towards smaller rough diamonds which saw price hikes of up to 20% whereas larger stones experienced price increases of up to 5%.
24/01/2022	BERA calls for national standard for gas (Sunday Standard)	Following a study of the Liquified Petroleum Gas market, the Botswana Energy Regulatory Authority (BERA) has recommended the development of a national gas quality standard. The enforcement of the regulatory requirements would require the development of new testing facilities.
25/01/2022	Final order granted for liquidation of Bluthorn subsidiaries (Sunday Standard)	Botswana's High Court has granted a final order for the liquidation of Bluthorn Holdings, Prime Employee Benefits, Bluthorn Procurement Solutions, and B Thorn, all subsidiaries under Bluthorn Fund Managers. Several local authorities lost money they had invested with Bluthorn.
28/01/2022	BMC fails to fulfil 'lucrative' Norway quota (Mmegi)	The Botswana Meat Commission (BMC) failed to meet its 1,600-tonne beef quota to Norway in 2021. This is the first time since 2012 that BMC has failed to meet the quota, which is provided under the Southern African Customs Union (SACU)/Norway European Free Trade Association (EFTA) agreement. An under-supply to BMC's abattoirs by local farmers, due to unattractive prices offered by BMC, has been identified as the reason behind the failure.
31/01/2022	Botswana gets new infrastructure minister (Sunday Standard)	Honourable. Eric Molale, who serves as the Member of Parliament for Good Hope/Mabule, has been appointed as Botswana's new minister of Infrastructure and Housing Development. This follows a recent cabinet reshuffle due to the resignation of Honourable. Mpho Balopi as the minister of Employment, Labour Productivity and Skills Development.

NEWS HIGHLIGHTS

31/01/2022	Botswana's Debswana annual diamond sales jump 64% (US News)	Debswana Diamond Company, a joint venture between De Beers and the Government of Botswana, reported a 64% increase in its sales of rough diamonds in 2021. Total rough sales were valued USD3.466 billion in 2021, up from USD2.120 billion in 2020.
01/02/2022	Vast Resources pulls out of deal to buy Botswana's Ghaghoo diamond mine (Reuters)	Vast Resources, a London-listed company, has withdrawn from a deal worth USD4 million to acquire the Ghaghoo diamond mine from Gem Diamonds. The deal for the mine, which has been under care and maintenance since 2017, was initially expected to be completed in Q1 2022.
04/02/2022	Cattle ranchers want more freedom as live exports near P1 billion (Mmegi)	In 2021, live cattle exports were valued at P787 million for the year to November. This follows the liberalisation of the beef sector in October 2020, allowing individual farmers to export live cattle. Representatives from the Botswana National Beef Producers Union (BNBPU) have urged government to allow private abattoirs to produce beef for export, in order to bolster competition within the industry and end BMC's monopoly.
04/02/2022	Crypto Bill passes with rare bipartisan support in Parliament (Mmegi)	The Virtual Assets Bill has been passed by the National Assembly, and now awaits President Mokgweetsi Masisi's assent to pass into law. The Bill expands the Non-Bank Financial Institutions Regulatory Authority's (NBFIRA) mandate and responsibilities to include licensing and regulating providers of virtual asset services such as cryptocurrencies.
07/02/2022	Sefalana undeterred by P24 million loss (Mmegi)	According to the Sefalana Group's audited financial statements for the year to April 2021, the group realized profits of P89 million, down from P113 million for the previous year. The reduced profits have been attributed to challenges caused by the outbreak of COVID-19.
08/02/2022	Botswana aims to build Its biggest renewable power plant yet (Bloomberg)	Botswana, through the Ministry of Mineral Resources, Green Technology and Energy, announced that it is looking for companies to build and operate a 200MW concentrated solar power plant. The project, which is aimed to be completed by 2027, is part of the country's Integrated Resource Plan.
14/02/2022	Motheo on track-Sandfire (Mining Weekly)	Sandfire Resources have announced that they are on track to start first production at their Motheo copper mine in the first half 2023.
16/02/2022	Giyani announces significant mineral resources increase and upgrade for K. Hill Project (Global News Wire)	Giyani Metal Corporation have announced an updated Mineral Resource Estimate (MRE) for their K. Hill project which now includes the recently discovered K. Hill Extension. The updated MRE features a 31% increase in Indicated Resources and a 121% increase in Inferred Resources.

NEWS HIGHLIGHTS

19/02/2022	Vegetable ban hits little and large alike (The VoiceBW)	Following government's decision to ban the importation of various food/vegetable items, both large and small retailers have experienced shortages, as local supply fails to meet demand. Furthermore, the increase in vegetable prices due to the ban have put a squeeze on profits for street vendors.
22/02/2022	Botswana Railways (BR), Time Projects partner to build the long-awaited mall in Francistown (Sunday Standard)	Botswana Railways Property, a subsidiary of Botswana Railways, signed a mixed used project agreement with Time Projects Botswana, which will include the construction of a state-of-the-art mall in Francistown.
22/02/2022	Botswana, Zimbabwe finalise plans for one-stop border (CAJ News Africa)	Botswana and Zimbabwe have ramped up efforts to establish a one-stop-border post (OSBP) at the Plumtree/Ramokgwebana port of entry they share. Both countries seek to sign a Memoranda of Understanding (MoU) that will pave the way towards setting up the OSBP.
22/02/2022	Discontinuation of cheques in Botswana (Bank of Botswana)	The Bank of Botswana and Bankers Association of Botswana, through the Botswana Automated Clearing House, have announced that from January 1, 2024, the general use of cheques will be discontinued in Botswana.
22/02/2022	Surging diamond demand helps Botswana trader post record sales (Mine Web)	The Okavango Diamond Company (ODC) recorded its highest yearly revenue since it began operations in 2012, managing sales of rough diamonds valued at USD963 million in 2021. This was primarily due to the strong recovery of demand from US markets following the COVID-19 induced slowdown. ODC has also benefitted from an increased allocation of rough diamonds from Debswana.
23/02/2022	Botswana's cenbank hints at rate hike (Reuters)	The Bank of Botswana (BoB) maintained the Bank Rate at 3.75% at the February Monetary Policy Committee meeting. The Bank observed that inflation was above its objective range of 3-6%; however, it did not expect inflation to persistently remain there {above 6%} in the medium term, reverting within range from Q3 2022. However, Governor Moses Pelaelo hinted that rate hikes may be coming, "given the significant upside risks to the inflation outlook in the short-term and possibility of elevated inflation expectations."
02/03/2022	BMC courts UAE, China markets (Sunday Standard)	The Botswana Meat Commission (BMC) is at the tail-end of signing a trade agreement with China in order to sell beef on Chinese markets. Furthermore, BMC is engaged in discussions with the United Arab Emirates over an agreement which would grant Botswana access to their beef market.

NEWS HIGHLIGHTS

06/03/2022	De Beers Sights return to Botswana (Sunday Standard)	De Beers Sight Sales will return to Botswana in March 2022, following a 2-year migration due to the COVID-19 pandemic. Executive Vice-President of Diamond Trading, Paul Rowley further mentioned that a degree of flexibility will be maintained for customers who are still unable to make the journey to Botswana.
09/03/2022	Bank profits surpass pre-pandemic levels (Mmegi)	Collectively, Botswana's commercial banks recorded after-tax profits worth P1.88 billion in 2021, up from P1.57 billion and P1.28 billion in 2020 and 2019 respectively. Data indicates that a reduction in provisions for bad and doubtful debts was the main driver behind the increase in profits.
15/03/2022	Dubai partners with Botswana to promote diamonds (Rapaport News)	Okavango Diamond Company (ODC) and the Dubai Multi Commodities Centre (DMCC) have signed an agreement to cross-promote the diamond industry through various business endeavours. For instance, ODC will host diamond auctions at Dubai Diamond Exchange (DDE), the two will share data analytics on the global diamond market and partner on applying Kimberley Process.
16/03/2022	Businesses use P250 million of COVID-19 credit scheme (Mmegi)	P250 million of a possible P1 billion in loans was underwritten by the Botswana Export Credit Insurance (BECI) as part of government's loan guarantee scheme, which was aimed at providing support to firms negatively affected by the COVID-19 pandemic. The scheme is coming to a halt at the end of March 2022 and there has been no indication of it being extended any further.
23/03/2022	BPC, signs Power-Purchasing-Agreements with AKOU Energy (Sunday Standard)	The Botswana Power Corporation (BPC) has signed three power purchase agreements (PPAs) with AKUO energy company. The PPAs are for small-scale grid-tied solar power generation projects at sites located in Gantsi, Lobatse and Maun, and will provide a total capacity of 12MW. The agreements are to run for a 25-year period.
23/03/2022	Money laundering: The EU says Botswana no longer poses a risk (Sunday Standard)	Botswana has officially been delisted from countries deemed as "High Risk" to Anti-Money Laundering and Counter Terrorism Financing by the European Union (EU). This follows an approximately three-year exercise undertaken by Botswana to comply with the Financial Action Task Force (FATF) recommendations that were highlighted.

MACRO-ECONOMIC DATA

KEY ECONOMIC DATA	unit	2015	2016	2017	2018	2019	2020	2021	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Annual Economic Growth													
GDP	%	-4.9%	7.2%	4.1%	4.2%	3.0%	-8.7%	11.4%	-8.8%	5.1%	8.5%	11.4%	..
Mining	%	-15.3%	0.3%	6.3%	8.4%	-3.7%	-26.5%	29.9%	-27.8%	3.0%	15.8%	29.9%	..
Non-mining private sector	%	-3.5%	11.8%	3.7%	2.9%	4.2%	-6.7%	8.8%	-5.9%	4.7%	7.2%	8.8%	..
GDP current prices	P bn	137.05	164.42	166.65	173.73	179.58	171.04	195.30	46.93	48.68	49.29	50.40	..
GDP 2016 prices	P bn	153.37	164.42	171.18	178.35	183.76	167.73	186.80	46.25	46.25	47.82	46.47	..
Money & Prices													
Inflation	%	3.1	3.0	3.2	3.5	2.2	2.2	8.7	3.2	8.2	8.4	8.7	10.0
Prime lending rate	%	7.50	7.00	6.50	6.50	6.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
BoBC 7/14-day	%	0.97	0.84	1.45	1.52	1.41	1.04	1.10	1.02	1.04	1.09	1.10	1.11
Trade & Balance of Payments													
Exports - total goods	P bn	63.48	80.34	61.67	67.17	56.29	49.11	81.38	24.09	17.02	21.44	18.83	..
Exports - diamonds	P bn	52.73	70.78	54.38	60.41	51.01	42.54	73.41	22.58	15.25	18.91	16.68	..
Balance of payments	P bn	-4.15	-3.28	-4.28	-4.20	-12.02	-20.06	-2.87	-0.90	-3.28	0.18	1.14	..
Foreign Exchange													
Exchange rate BWP per USD	end	11.24	10.65	9.87	10.73	10.63	10.79	11.74	11.09	10.92	11.30	11.74	11.42
Exchange rate ZAR per BWP	end	1.38	1.28	1.26	1.34	1.33	1.36	1.35	1.34	1.31	1.332	1.355	1.272
FX reserves	$ bn	7.55	7.19	7.50	6.66	6.17	4.94	4.81	4.82	4.67	4.605	4.81	..
FX reserves	P bn	84.88	76.80	73.69	71.43	65.23	53.36	56.02	53.08	50.94	52.10	56.02	..
Financial Sector													
Deposits in banks	P bn	59.96	62.44	63.58	69.27	75.71	80.54	84.36	79.88	81.37	82.20	84.36	..
Bank credit	P bn	48.31	51.32	54.18	58.33	62.77	65.55	68.92	65.64	67.45	68.51	68.92	..
BSE index		10,602	9,728	8,860	7,854	7,495	6,879	7,010	6,528	6,622	6,901	7,010	7,243
Business Indicators													
Diamond production (a)	mn cts	20.73	20.88	22.96	24.38	23.67	16.87	22.70	5.04	5.83	6.50	6.33	..
Copper production (b)	'000t	23.05	16.88	1.24	1.46	0.00	..	11.74	..	..	7.52	4.23	..
Nickel production	'000t	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	..	..	..	..	8,110	..	..	..	..
Electricity consumption	GWh	3,974	3,929	3,772	3,919	3,906	3,842	3.928	943	968	1,004	1,013	..
Crude oil (Brent)	$/bar	36.61	54.96	66.73	50.57	67.77	51.22	77.24	63.52	76.94	77.86	77.24	107.29
Employment (formal) (f)													
Government		130,220	129,216	129,009	156,785	156,785	152,973	152,225					
Parastatals		19,411	19,008	19,444	23,497	23,497	18,933	21,056					
Private sector		191,484	194,202	193,745	250,778	227,281	250,715	268,086					
Total		341,115	342,426	342,198	431,060	407,563	422,621	441,367					

Govt Budget		2017/18 (d)	2018/19 (d)	2019/20 (d)	2020/21 (e)	2021/22 Revised (f)	2022/23 Budget (g)
Revenues	P bn	56.41	53.47	54.30	49.37	63.40	67.87
Spending	P bn	58.39	62.35	65.40	65.79	73.57	74.84
Balance	P bn	-1.98	-8.88	-11.10	-16.41	-10.16	-6.98
Public debt & guarantees	P bn	32.99	34.41	38.18	41.56	46.76	53.77
Govt deposits at BoB	P bn	30.09	21.56	19.86	6.20	4.08	3.86
GDP	P bn	167.70	175.20	180.60	173.83	199.54	217.72
Revenues	%GDP	33.6%	30.5%	30.1%	28.4%	31.8%	31.2%
Spending	%GDP	34.8%	35.6%	36.2%	37.8%	36.9%	34.4%
Balance	%GDP	-1.2%	-5.1%	-6.1%	-9.4%	-5.1%	-3.2%
Public debt & guarantees	%GDP	19.7%	19.6%	21.1%	23.9%	23.4%	24.7%
Govt deposits at BoB	%GDP	17.9%	12.3%	11.0%	3.6%	2.0%	1.8%

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 (Ghaghoo) and Lerala mines. (no longer operational)
(b) Copper production starting Q2 2017 for Mowana mine and Q2 2022 for Khoemacau
(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

Implications of Russia, Ukraine Conflict

Introduction

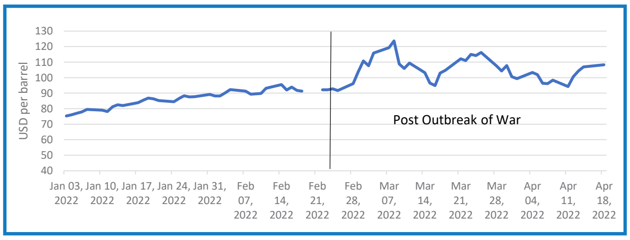
War in Eastern Europe broke out on 24 February 2022, as Russian forces began their invasion of Ukraine through the deployment of airstrikes across various regions of the country, including the capital Kyiv. This followed years of tense relations between the two neighbouring states stemming from the dissolution of the Soviet Union and the nuclear disarmament process which followed during the 1990's. Since then, there have been various major flash points in Russia-Ukraine relations caused by territorial, political and economic disputes, including: 1) discussions about Ukraine possibly joining the EU and NATO, perceived as a pro-Western political move and hence an act of hostility by the Russians; 2) the annexure of Crimea by Russia in 2014; and 3) mobilisation of anti-government forces by Russia in eastern Ukraine (Donbas) since 2014.

The outbreak of war has severely dampened the global recovery that was under way following the COVID-19 pandemic. Notwithstanding the fact that many countries still have some residual pandemic-related restrictions in place, the pace of recovery had been rapid, leading to stretched supply chains. Together, Russia and Ukraine are major exporters of crucial commodities such as crude oil, gas, various base metals, cereals (e.g., wheat) and other foodstuffs. The war has caused disruptions in the supply chains of these commodities, through both damage due to conflict and the economic sanctions imposed on Russia. These further disruptions have added to those already in play from the COVID recovery, driving prices and thus global inflation up and slowing growth down, prompting fears of possible stagflation. Both the World Bank and the IMF have now revised their growth projections for 2022 downwards. The World Bank's new estimate for global growth in 2022 is 3.2%, down from the previous projection of 4.1%. In the April publication of the World Economic Outlook (WEO), the IMF have revised their growth projections for 2022 and 2023 down by 0.8% and 0.2% respectively, falling to 3.6% for both years. The IMF have also revised 2022 inflation forecasts upwards to 8.7% in developing economies and 5.7% in advanced economies. The upward revision was greater for developing economies (+2.8%) than advanced economies (+1.8%) emphasising the agencies' opinion that the brunt of the price increases will be disproportionately felt by less developed countries. Furthermore, the IMF expects already high global inflation rates to persist for longer than previously predicted, owing to the conflict-driven hike in commodity prices.

The rest of this note will provide greater detail of the impact that the Russia-Ukraine war has had on global commodity prices, monetary policy, and exchange rates.

Fuel Prices

Figure 1: Crude oil



Source: U.S. Energy Information Administration

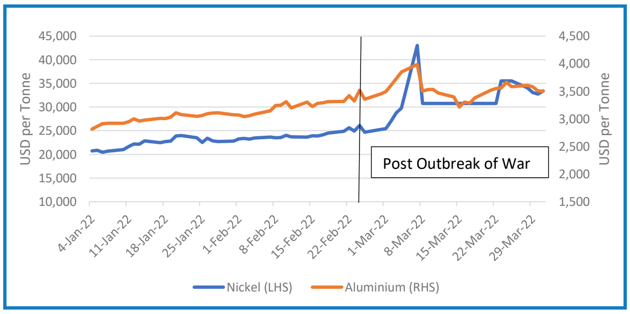
Since war broke out, energy prices across the globe have skyrocketed. Aside from conflict-related supply side constrictions, oil-related economic sanctions imposed by the West, such as America banning imports of Russian oil & petroleum products as well as major energy firms such as Shell withdrawing from Russian deals, have resulted in speculation over supply side constraints in the future, pushing oil prices further up. Brent crude oil traded at over USD100.00 per barrel on most days since the last week of February, reaching a peak of USD123.64 per barrel on 8 March 2022, its highest recorded level since August 2008 (during the height of the financial crisis). Botswana has not been insulated from the spike in global fuel prices. The Botswana Energy Regulatory Authority (BERA) increased retail pump prices for petrol, diesel and paraffin by 125t-174t per litre on the 29th of March 2022, citing rising international oil prices as the reason behind the increase in the inflation figures for March 2022, the Operation of Personal Transport section had an annual inflation rate of 37%, by far the highest amongst all the CPI basket sections.

SPECIAL FEATURE

Metals Prices

Russia is a major supplier of various metals which are key components of production for multiple manufacturing industries. These include: nickel, which is used in the production of steel; aluminium, a crucial component in the manufacturing process of automobiles and the construction industries; and palladium, the metal used to make catalytic converters for cars.

Figure 2: Metal prices



Source: London Metal Exchange

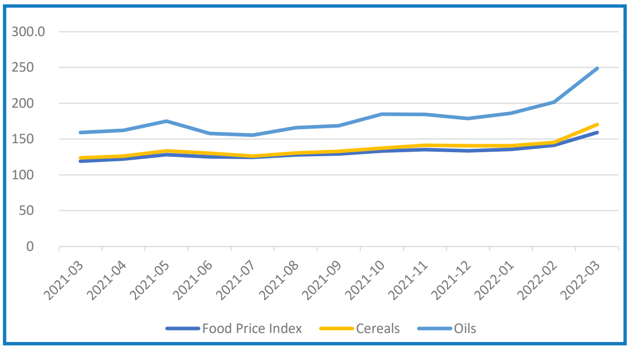
In 2020, Russia exported nickel and nickel products worth USD3.02 billion, making it the world's largest exporter of the metal. Once war broke out between Russia and Ukraine, nickel prices were thrown into a frenzy, especially in early March due to fears of supply side shortages caused by the war. Since the first week of March, nickel has traded at above USD30,000 per metric tonne, which is high by historical standards. The price of nickel peaked at USD42,992.50 per metric tonne on 7 March 2022, its highest level since 2007. This was due to firms being forced to cover the short positions they had taken against the metal driving prices further up. The price increase was so sharp that it forced the London Metal Exchange (LME) to temporarily suspend the trading of nickel.

Russian exports of primary aluminium were valued at USD4.47 billion in 2020, making it the second largest exporter of the metal in the world behind China. The average daily price of aluminium in March 2022 was USD3,537 per metric tonne, representing an 8.5% and 17.8% increase when compared to the average price in February and January respectively. Fears over supply side shortages were not only driven by conflict related disruptions but also by the economic sanctions placed on Russia. The process of extracting aluminium has three key stages. These stages require the use of bauxite and alumina both of which the government of Australia has stopped exporting to Russia as part of its economic sanctions against the country.

The price of palladium reached its highest trading price in history of USD3,441 per metric tonne in March 2022. The increase in the price of the metal may spell good news for South Africa and Zimbabwe as they are both major global producers of the metal. This contributed to the positive run that the South African Rand has had against other major currencies such as the US Dollar and the Euro.

Food Prices

Figure 3: Food prices



Source: Food and Agriculture Organisation of the United Nations

The war between Ukraine and Russia has caused food prices to soar, disproportionately affecting lower income countries and households. The global Food Price Index reached its highest ever recorded level (since 1990) of 159.3 in March 2022, increasing by 12.3% from the previous month. This was largely driven by the effect of the war on cereal and oils prices.

Combined, Russia and Ukraine account for just over 25% of global exports of wheat. The war has caused significant export disruptions from Ukraine, causing a surge in wheat and maize (coarse grains in general) prices in March 2022. Month-on-month, global wheat and maize prices rose by 19.7% and 19.1% respectively, subsequently pushing the average Cereal Price Index to 170.1 for the month, up by 17.1% against the previous month.

The Vegetable Oil Price Index also reached record highs in March 2022, recording an average index of 248.6 points, reporting m-on-m growth of 17.1%. Ukraine alone accounts for approximately half of all global sunflower seed or safflower exports, with Russia being the second largest exporter. Export supplies of sunflower oils have declined due to the significant supply side disruptions caused by the war. This has in turn resulted in a marked increase in the demand for alternatives such as palm, soy and rapeseed oils, driving their prices up. Both of these factors have fed into the rise of the Vegetable Oil Price Index.

Implications of the Ukraine conflict for the global diamond market

Early in 2022, the global diamond market was booming, with strong demand and rising prices. This marked a continuation of the positive momentum from 2021, and prospects for the rest of 2022 were good. However, in a sudden about-turn, the Russian invasion of Ukraine has dramatically shaken up the diamond world. It has done so in a way that is quite different, and potentially more far-reaching, than its impact on the markets for other commodities, such as food, metals and oil/gas. Such a rapid pace of change is rarely helpful, and while there may be some opportunities, the overall diamond environment is now characterised by a very high level of risk and uncertainty.

In recent years, the Russian company Alrosa – which is one-third owned by the government of the Russian Federation – has been the world's largest producer of rough diamonds, with a global market share of around 30%. Following the invasion, most western countries have now imposed wide-ranging economic sanctions on Russia and Russian companies, including on Alrosa, as well as restrictions on Russia's access to the SWIFT international payments system.

Although this is aimed at inhibiting Alrosa's access to markets, it has several loopholes. First, once rough diamonds are processed by cutting and polishing, they have been "substantively transformed", and in terms of international trade rules and definitions, they now originate from the country where the processing took place, not the country where they were mined. The majority of global cutting and polishing of diamonds takes place in India, which has not imposed sanctions on Russia; hence if Indian companies process Russian diamonds, they can legitimately be sold globally, even in the USA, as they are outside of the Russian sanctions net. A second possibility is that Russian diamonds can easily be sold into the Chinese market, where there are also no sanctions, with payments made in currencies other than US dollars.

However, the Indian channel for selling Russian diamonds into the US and Europe is unlikely to work for long. First, US trade regulators are aiming to bring Russian-sourced diamonds into the sanctions net, even if processed elsewhere. Second, there may well be consumer resistance. A US jewellery buyer may not care whether a Russian diamond has been processed in India; for them it is still a Russian diamond, and liable to consumer avoidance or a boycott as a "conflict diamond".

The danger is that this will spread further, and affect all diamonds. At present, diamonds from different source countries are intermingled at the processing stage, and diamonds from Botswana, Russia and other countries appear together in retail jewellery, and there is at present no simple way of distinguishing the provenance of individual stones at the retail level. If the question, 'is this a Russian diamond?" cannot easily be answered by a jewellery retailer, then the entire diamond market could be badly affected.

How can this problem be addressed? It may be necessary to clearly segment diamond trading and manufacturing value chains – a "bifurcation" of the market – keeping Russian and non-Russian diamonds separate throughout, which would complicate the market. A second response could be to rapidly expand diamond "traceability" using blockchain technology. This is already in use on a limited basis, enabling individual diamonds to be tracked from mine to jewellery.

The situation also poses a challenge to the Kimberly Process (KP), which was established by the industry to keep "conflict diamonds" out of the market, through a certification system involving 85 countries. However, this was devised when such diamonds originated mainly from rebel groups in various countries, and in fairly small quantities. It will be much more difficult to do so when the diamonds in question originate from the largest producer in the world, and from a nation that is an important KP member. This challenge will need to be addressed during Botswana's current chairmanship of the KP.

There are a number of risks going forward. The situation provides an opportunity for lab-grown diamonds (LGDs) to gain a stronger foothold in the market, as it is far easier for dealers to prove that they have "conflict free" status. This will be compounded if restrictions on the marketing of Russian diamonds lead to a price spike for natural diamonds (as with oil, gas and foodstuffs), creating further space for (cheaper) LGDs.

There may, however, be an important opportunity for Botswana. With Russian diamonds excluded, even if temporarily, from the US and EU markets, Botswana then becomes by far the largest supplier of "conflict free" natural diamonds to those markets. As long as the market remains robust, this could be an opportunity to consolidate that dominant position and promote the Botswana diamond brand. But it will require strong market intelligence and nimble footwork to cope with the rapid changes in supply chains, regulations and consumer preferences.

SPECIAL FEATURE

The effect of the increase in global food prices has so far been very limited in Botswana, at least according to official reports. Inflation figures for March 2022 indicate that the prices under the Food & Non-alcoholic beverages group rose by only 6.9% over 12 months, less than might have been expected. However, this is probably just "the calm before the storm", as global market price increases will take a few weeks to feed through to the retail prices of foodstuffs, not least because some of the channels of impact will be indirect, for instance through increases in the price of animal feed.

Monetary Policy and Exchange Rates

With global inflation rates rising during the post-pandemic recovery even before the outbreak of war, most central banks are under pressure to increase interest rates in a bid to rein in inflation before it gets out of control. This has to be done in a well calculated and meticulous manner so as to not hamper the post COVID-19 economic recovery. Advanced economies such as the United States and the United Kingdom have already raised key interest rates along with emerging markets such as Brazil and South Africa.

The South African Rand rallied strongly against the US Dollar and other major currencies following the outbreak of war, in contrast to many emerging market currencies. The Rand strengthened significantly due to South Africa benefitting from the rise in the prices of metals that they export (such as gold and palladium), and speculation over the South African Reserve Bank raising interest rates in response to rising inflation. Furthermore, given its distance from the conflict, risk averse investors have been drawn towards to South African bonds, further propping up the Rand.

At the end of March 2022, the Rand was trading at 14.60 against the dollar, strengthening by 5.1% over the month. The Pula also strengthened against the US Dollar by 1.8% during the same period, ending the month with a Pula-US Dollar exchange rate of 11.42. As a result of the mechanical operation of Botswana's exchange rate basket, as the Rand strengthened against the US dollar, the Pula also strengthened against the US dollar and weakened against the Rand. Consequently, the pula depreciated by 3.6% against the Rand in March, ending the month an exchange rate of ZAR1.2717.

Conclusion

The war between Russia and Ukraine has had global ramifications. Despite being geographically removed from the conflict, Botswana has not and will not be exempt from these consequences. The disruptions to global supply chains resulting from the war will have a negative effect on both Botswana's growth and trade activities. The economic sanctions against diamonds from Russia will add uncertainty to the market which will have knock on effects to Botswana's growth, exports, and government revenues. Should the sharp increase in both global and local inflation persist, Bank of Botswana much like other central banks around the world, will be forced to raise interest rates in a bid to control rising prices. This would mean an end to the expansionary monetary policy stance that had been adopted post COVID-19 to aid economic growth. The strengthening of the South African Rand since the conflict began will have a positive impact on Botswana's trade balance as local exports (from Botswana to South Africa) will be cheaper, and thus more competitive on South African markets and imports from South Africa will reduce as they become more expensive.

It is without doubt that the geopolitical state of Europe and the West in general will be altered following the war. The economic and human cost of the war will leave a permanent scar on the continent. It is imperative that Botswana's foreign policy is well planned so as to not ruin both trade and social relations which have been nurtured over the past decades.

Botswana's Labour Market: Two Years On

Introduction

During the first quarter of 2022, Statistics Botswana released the Quarterly Multi-topic Survey (QMTS) for the fourth quarter of 2021. This was the fifth instalment of the labour market report since it was first published for Q3 2019 in January 2020. Attempts to consistently publish quarterly reports in 2020 and 2021 were hampered by the outbreak of the COVID-19 pandemic and its associated lockdowns and travel restrictions. A complete set of quarterly data would allow users to compute annualized data for labour market indicators across all four phases of the year as well as provide insights into the seasonal changes in employment that occur. But that is something we can only hope for in future.

The publication of the QMTS for the fourth quarters of 2019, 2020 and most recently 2021 provides a basis for longer term analysis of Botswana's labour market whilst avoiding seasonality bias[1]. Furthermore, QMTS Q4 2021 provides a truer, albeit still limited, reflection of the impact of the COVID-19 pandemic on employment following the lifting of the State of Public Emergency (SoPE), which had previously barred retrenchments, on 30 September 2021. Comparisons with Q4 2019 also allow a reflection of the overall impact of COVID-19 on the labour market through 2020 and 2021.

Results from the QMTS Q4 2021 report that the total working age population (15 years and above) in Botswana was estimated at 1,637,822, rising by 1.0% and 1.2% compared to 2020 and 2019 respectively. The number of economically active individuals (in the labour force) was 969,734. As a result, Botswana's labour force grew by 1.6% compared to 2019 but declined by 0.3% in comparison to the previous year. The labour force participation rate (LFPR) was recorded at 59.2% in 2021, lying between those recorded in 2019 (59%) and 2020 (60%). Year-on-year, the population outside of the labour force rose by 3.0% in 2021 reaching 668,088 individuals, this follows a 2.3% decline in the previous year.

Figure 1: Structure of the Working Age Population QMTS Q4 2021

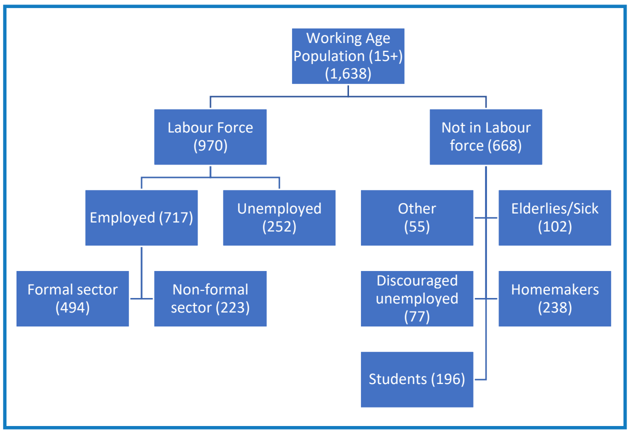


Figure 1. provides a summary of Botswana's labour market structure in Q4 2021. The employed population stood at 717,418, declining by 3.4% since 2019, conversely, the total number of unemployed individuals rose to 252,316 representing a 19.6% increase from 2019; consequently, the unemployment rate has risen by 3.8% over the past two years, reaching 26% in Q4 2021. The number of individuals employed within the formal sector rose to 494,457 in Q4 2021, representing a 1.8% increase from Q4 2019. The share of formal sector employment in total employment rose to 68.9% in Q4 2021, up from 65.4% two years ago. This reflects the more robust nature of formal sector employment – particularly in the public sector - compared to informal sector employment during the COVID-19 pandemic. On a more positive note, average monthly cash earnings rose by 10.8% during the same period, reaching P5,320.

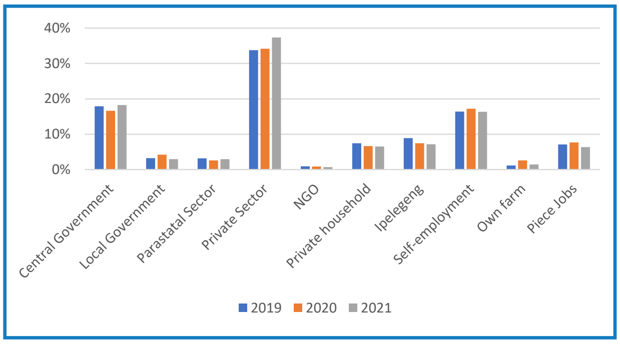
[1]The time of year the survey is undertaken will affect employment and unemployment figures, especially in sectors that do not require labour all year round, e.g., agriculture. By comparing Q4 2019, Q4 2020 and Q4 2021, we avoid this bias by controlling for the time of year.

SPECIAL FEATURE

Employment

Employment distribution has remained consistent in Botswana between Q4 2019 and Q4 2021. The greatest fluctuations within this period were in the share of employment attributable to the Private sector (+3%), Public Sector (central government, local government, parastatals and Ipelegeng) (-2%) and Piece Jobs (-1%). All other sectors experienced minor changes of less than 1 percentage point. As such, as at Q4 2021, the Private Sector remains the largest employer in the country, accounting for 37% of jobs, followed by the Public Sector (31%), Self-employment (16%), Private Households (7%), Employment in piece jobs (6%), and NGOs (1%).

Figure 2: Distribution of Employment by Type of Employer

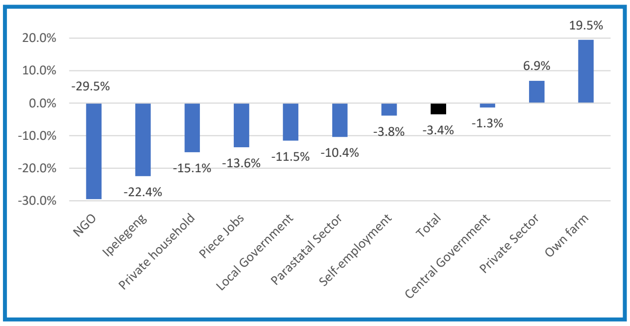


In line with a general decline in total employment, the number of employees per employment sector has declined between Q4 2019 and Q4 2021. As illustrated in Figure 3. below, all sectors, barring the Private Sector (+6.9%) and Own Farm dwellings (+19.5%) experienced negative growth. As of Q4 2021, the expected decline in Private Sector employment once the SoPE was lifted has not come to fruition, suggesting a high degree of robustness in Botswana's private sector employment. The overall decline in Public Sector employment was 8.9%, driven by a sharp contraction of 22.4% in employment through the Ipelegeng programme. Interestingly, the rapid increase in Own Farm employment at the height of the COVID-19 impact (from Q4 2019 to Q4 2020) seems to have been largely reversed in 2021. Table 1 below provides a breakdown of employment of by employer.

Table 1: Employment by Type of Employer (Q4)

	2019	2020	2021
Central Govt	132,712	122,185	130,926
Local Govt	24,073	30,788	21,299
Parastatal Sector	23,497	18,993	21,056
Private Sector	250,778	250,715	268,086
NGO	6,839	6,364	4,821
Private household	55,281	48,644	46,931
Ipelegeng	66,028	54,544	51,217
Self-employment	121,753	126,378	117,110
Own farm	8,714	18,904	10,411
Piece Jobs	52,704	56,359	45,562
Total	742,379	733,874	717,419

Figure 3: Percentage Changes per Employer Type



Employment by Industry

The structure of employment per economic activity has remained fairly stable between Q4 2109 and Q4 2021. The Wholesale & Retail (18.7%) industry is the largest employer in Botswana, having taken over that mantle from Public Administration in Q4 2020, which now accounts for 15.8% of total employment. It is worth noting that the share of employment held by Public Administration has declined by 4.1% since Q4 2019, a welcome development which suggests that the role of government in employment creation is diminishing over time and making way for the private sector. Education (10.6%), Manufacturing (7.9%) and Agriculture, Forestry & Fishing (7.5%) round up the top five employing industries. Having been in the list of top five employers in previous years, the Construction industry now ranks 7th, providing 6.9% of all employment, down by 1.2% when compared to Q4 2019. We do however expect its share to rise again during the coming years as major infrastructure projects are being undertaken as part of the Economic Recovery and Transformation Plan (ERTP).

SPECIAL FEATURE

Unemployment and Youth Activity

The unemployment rate has risen steadily from 22.2% in Q4 2019 to 26.0% in Q4 2021. The total number of unemployed individuals stood at 252,316, representing a 29.3% increase since Q4 2019. The number of unemployed people including those who were discouraged jobseekers was estimated at 329,301, giving an extended unemployment rate of 34.1%, up from 27.5% in Q4 2019. The sharp increases in both the national (+3.8%) and extended (+6.6%) unemployment rates reflect the impact of the COVID-19 pandemic on employment. However, the lifting of the SoPE does not seem to have accelerated the increase in unemployment, this may be due to the higher-than-expected growth the economy experienced in 2021, supporting job retention. The unemployment disparities by sex, strata and age (youth unemployment) first reported in Q4 2019 and discussed in previous issues of this publication, continued to persist over the two-year period.

While the sharp increase in unemployment between 2019 and 2021 is most unwelcome, it is important to note that unemployment of 26.0% is not the highest rate recorded in Botswana. Unemployment rates of 27.1% and 26.2% were recorded in 2006 and 2008 respectively.

In Q4 2021, the number of youths Not in Employment, Education or Training (NEETS) was estimated at 322,849 individuals, rising by 8.6% over two years. The proportion of NEETS that are females rose for the second consecutive year, reaching 58.1%, further widening the gulf between young males and young females gainfully employed or receiving an education/training. The female NEET rate was recorded at 44.4% whilst the male NEET rate was significantly lower at 34.1%, both rising by 3% and 0.5% respectively.

Impact of COVID-19

The reported direct impact of covid-19 on employment has remained largely similar between the QMTS Q4 2020 and QMTS Q4 2021 with very few changes in the survey results. Data was collected for a subset of the labour force, of 522,618 individuals, with 77.4% (404,588) of them being employees and 22.6% (118,030) engaging in self-employment. 52.6% of surveyed individuals were employees who reported no changes in their jobs, making them the largest demographic. This group was followed by self-employed individuals who experienced a down-turn in their business activity, who accounted for 16.2% of respondents. Other significantly sized groups were employees who experienced a decrease in their salaries (7.9%) and employees who had their work hours decreased (7.2%). Much like the QMTS Q4 2020, a surprisingly low number of respondents were self-employed individuals who lost their businesses (0.3%).

A total of 17,770 people found jobs due to COVID-19, reflecting year-on-year decline of 7.0%. Most of these individuals were women (71.6%), occupying a smaller proportion (-3.6%) than previously reported in the Q4 2020 survey, subsequently, men now account for a larger proportion (28.4%) of those who found COVID-19 related employment. Unfortunately, there is no data COVID-19 related employment by industry, but we do know that Urban Villages accounted for 46.7% of new employment (+3.8%), followed by Rural Areas with 41.7% (+1.8%), and last Cities and Towns 11.7% (-5.4%).

The survey results estimate that 64,347 individuals lost their jobs or businesses due to COVID-19, recording a y-on-y decline of 4.1%. The majority of this demographic remain females (53.0%/34,103), whilst a smaller proportion were males (47.0%/30,245). The proportion of individuals who lost jobs, but managed to find employment again approximately doubled, reaching 8.2% (5,280) in Q4 2021, up from 4.1% (2,720) in Q4 2020.

Interestingly, the number of reported job losses due to COVID-19 (64,347) is far higher than the reduction of overall employment (24,960). This indicates that there is still some dynamism in the labour market, with new jobs being created or employment opportunities emerging at the same time.

Conclusion

The QMTS Q4 2021, has shown us that trends in Botswana's labour market have persisted since 2019. Employment growth has continued to slow down whilst unemployment has risen. The lifting of the SoPE has not resulted in large job losses as previously feared, this may be due to greater than expected economic growth in 2021 maintaining employment and preventing job losses.

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