



ECONOMIC

# review

FIRST QUARTER JAN-MAR 2023

compiled by | SETHUNYA KEGAKGAMETSE

## COMMENTARY

# A more normalised GROWTH IN 2022

### Introduction

Statistics Botswana released full year national accounts data for 2022 at the end of March 2023. Annual GDP growth in 2022 slowed, reflecting in broader terms the normalisation of growth following the covid-19 pandemic. Growth was lower than earlier projections from the Ministry of Finance and the International Monetary Fund (IMF), but was nevertheless strong. Elsewhere in the economy, macroeconomic data released during the first quarter of 2023 were positive, especially for the financial sector.

### Economic growth

The economy in 2022 showed a decrease in annual GDP growth to 5.8%. This was broadly in line with expectations but was sharply lower than 11.9% growth recorded in the previous year. However, the two years cannot be directly compared. This is because 2021 was an exceptional year, with the economy experiencing a robust recovery from the covid-19 pandemic as a result of a surge in diamond sales and increased economic activity that had been suppressed by covid-related restrictions around the world. Economic performance in 2022 is attributable to the decrease in mining sector growth, which fell to (a still strong) 7.5% from 29.8% in 2021. Non-mining private sector growth also fell during the period to 5.5% from 8.8%. Overall growth in 2022 was in line with expectations of lower growth during the year, but fell below projections of 6.7% by Ministry of Finance and 6.4% by IMF. This partly reflected downward revisions to the published National Accounts data for the first three quarters of 2022, upon which the earlier estimates for the year as a whole had been based.

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### Diamond market

The international market for rough diamonds experienced a rough start to 2023, with De Beers' Global Sightholder Sales (DBGSS) recording lower sales in the first three sales cycles of the year. Compared to the previous year, total sales in the first three cycles of 2023 were 20.6% lower than the same in 2022. This reflects subdued global demand for diamonds and diamond jewellery from two biggest markets, China and USA. However, this was largely expected, given that Botswana diamond exports rose significantly by 20.4% in 2022, benefiting from sanctions on Russia's diamond exports.

### International trade activity

Trade data for 2022 as a whole show significant improvement in the trade balance, registering the first surplus since 2018. There were major increases in both exports and imports, however, exports rose faster than imports. Exports increased across all major categories, mineral and non-mineral, by 24.5% to P102.39 billion in 2022. The value of imports also rose to P99.82 billion, reflecting a 7.5% increase in 2022. The balance of trade was a surplus of P2.57 billion, compared to a trade deficit of P10.90 billion in 2021.

### Inflation

Headline inflation fell during the first quarter of the year. Annual inflation declined to 9.9% in March 2023, from 12.4% in December 2022. Inflation has been below 10% through the quarter and recorded the first single digit rate in January 2023 since April 2022. Over the past year, pressure on inflation has mainly come from fuel prices, which rose sharply following Russia's invasion in Ukraine in February 2022. However, international fuel prices have declined since the middle of 2022, although major oil producers have restricted supply in attempt to keep prices high. The second largest contributor to inflation is food prices, whose contribution to inflation has become more significant as fuel prices have fallen. Food price inflation reflects both higher regional and international prices, as well as the price-raising effect of Botswana's import restrictions (notably on vegetables). Over the year to March, the Food and Non-Alcoholic Beverages category had the highest inflation rate (at 17.8%) of any of the 12 sub-groups of the CPI basket, with 23% vegetable price inflation.

Nevertheless, inflation is forecast to continue declining and fall within the Bank of Botswana's objective range of 3-6% in the second half of the year before increasing towards the end of the year. The decline in inflation will reduce pressure on incomes as households have been struggling with rising prices.

### Monetary policy and banking sector conditions

The Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65% in February and April 2023, which was perhaps surprising given the substantial increase in government spending contained in the 2023 Budget. However, based on the positive inflation outlook and the decision by the Monetary Policy Committee (MPC) to maintain the MoPR, there is indication that interest rates might not be adjusted upwards at least for the rest of the year. The central bank also decided to allow commercial banks to determine their Prime Lending Rate, effective from April 2023. The Prime Lending Rate is a benchmark rate for interest rates offered to individuals and businesses on any type of loan on consideration of their credit ability or their defaulting risk, in addition to the MoPR. The liberalisation of interest rates is welcome and would encourage competition in the banking sector as commercial banks will now make independent decisions on setting their own rates.

Conditions in the banking sector show a robust and resilient banking industry. Annual bank credit growth increased marginally while arrears on bank lending fell. Bank credit was driven by businesses, consistent with an open business environment and economic activity post-pandemic. Banks continued to be cautious in extending credit to households, hence, subdued credit growth in this market segment. Bank profitability also increased in 2022, surpassing post-tax ROE of 20% for the first time in over a decade. Conditions during the year were favourable: an increase in bank credit, reduction in arrears reducing provisions for bad and doubtful debts, and an increase in net interest income due to rising interest rates.

### Government revenue and expenditure

The 2023 Budget was presented to Parliament on February 6th by the Minister of Finance, Ms Peggy Serame. The Budget was particularly significant because it is the first budget under the Transitional National Development Plan, which will run for two years. Highlights of the budget include a substantial increase in total spending in the new financial year (2023/24), and positive budget outturn for 2021/22 relative to the original budget.

Total revenues and grants are estimated at P79.79 billion in the 2023/24 financial year, while total government expenditures and net lending are forecasted at P87.38 billion. The result is a projected budget deficit of P7.59 billion, or 2.8% of GDP. Both revenues and expenditures are projected to increase from the revised estimates of 2022/23 FY. Revenues are expected to increase because of substantial rise in SACU receipts by 70.4%, while mineral revenue is expected to fall by 22.7% between 2022/23 FY and 2023/24 FY. The uptick in total expenditure and net lending during the 2023/24 FY is because of a high budget allocation for the development budget, which is projected to increase by 27.9% to P21.01 billion. The bulk of development spending is for infrastructure development, much of which is for completing existing projects. However, given the persistent underperformance of development spending, it must be questionable whether a 28% increase is feasible or realistic.

Another interesting insight is the 2021/22 FY budget outturn, the first year of budget performance following the depths of the covid-19 pandemic. The budget performed remarkably well, with revenues exceeding projections while expenditures came in below estimates. Total revenues and grants increased from the original budget of P64.58 billion to P68.57 billion because of higher-than-expected mineral revenues, especially diamonds. Total expenditures and net lending underperformed the original budget of P70.61 billion, at P68.68 billion, due to underspending in the development budget. Hence, the 2021/22 FY budget outturn was a significant improvement in the overall balance from a projected original deficit of P6.03 billion to a more or less balanced budget (a small deficit of P127.89 million).

### Employment

Notwithstanding the generally positive economic developments discussed above, the slow pace of employment creation and the continued high rate of unemployment remains the economy's Achilles' heel. Labour force survey data from Q4 2022 showed only a marginal decrease in unemployment (to 25.4%, from 26.0% in 2021 Q4). Furthermore, this decline was mainly due to a shrinkage of the estimated labour force rather than jobs being created, as the employed population remained largely unchanged over this 12-month period. The fact that economic growth of almost 6% did not lead to any net increase in employment is disappointing.

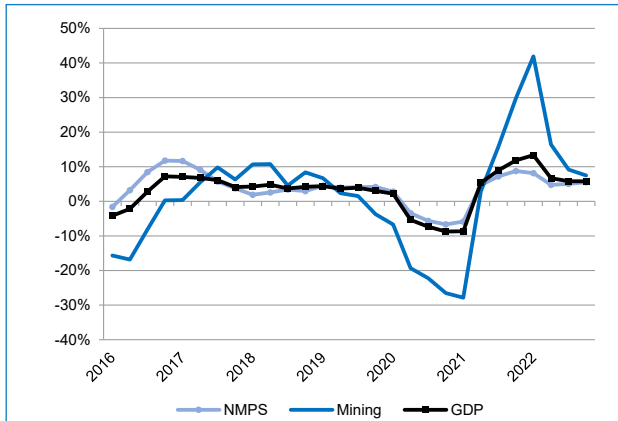
### Conclusion and Outlook

Many macro-economic indicators performed well in 2022, notably economic growth – which was relatively high at 5.7% notwithstanding the reduction from 2021 – as well external trade and the fiscal outturn. Financial buffers were partially restored, with increases in the foreign exchange reserves and in government deposits at the Bank of Botswana. Inflation and unemployment, however, remained worryingly high.

The prospects for 2023 are mixed, with lower growth and a deterioration in the trade balance anticipated, as diamond exports slow. However, the outlook for inflation is positive, with a steady decline expected, along with the prospect that interest rates may have peaked. The economy is also weighed down by a number of uncertainties, including delays in concluding negotiations between Government and De Beers on a suite of critically-important diamond marketing and mining agreements, as well as threats of further import bans, which would be in conflict with Botswana's commitments under the Southern African Customs Union (SACU) Agreement and the recently-signed African Continental Free Trade Area (AfCFTA) agreement. These uncertainties need to be removed if there is to be sufficient private sector investment, including foreign direct investment (FDI), to underpin competitiveness, export-led growth, and job creation.

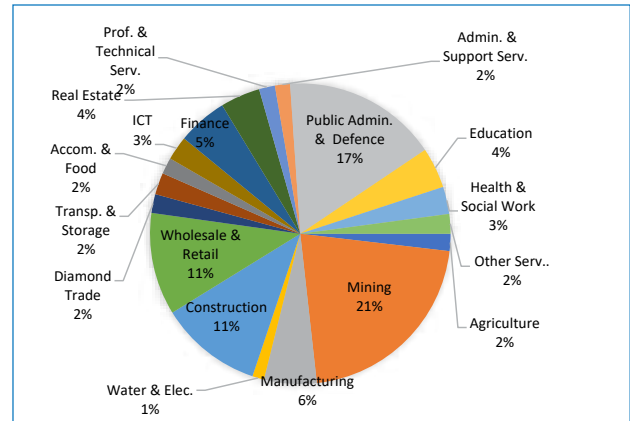
# KEY ECONOMIC VARIABLES

## ANNUAL GDP GROWTH



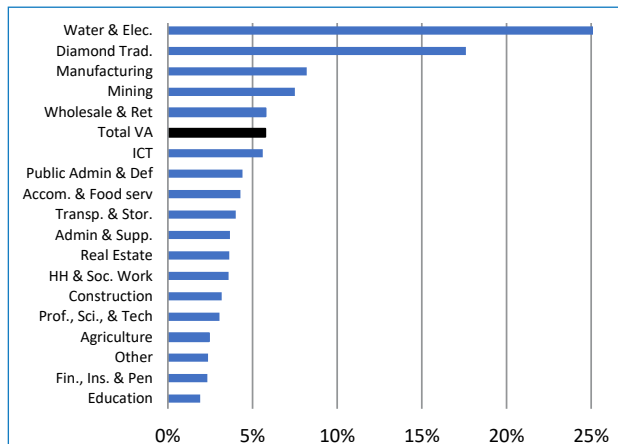
Annual GDP growth slowed sharply in 2022, mainly reflecting the normalisation of growth following the robust post-covid recovery that occurred during 2021 because of a strong performance in the mining sector especially diamonds. Real GDP growth fell to 5.8% in 2022, down from 11.9% growth in 2021. Growth in the mining sector experienced a sharp decrease from 29.8% in 2021 to 7.5% in 2022. Despite recording lower growth than in 2021, mining performed strongly when compared to pre-covid growth rates and higher than a contraction of 3.7% in 2019. Non-mining private sector (NMPS) growth also slowed in 2022 to 5.5%, down from 8.8% in 2021.

## SECTORAL GDP SHARES 2022



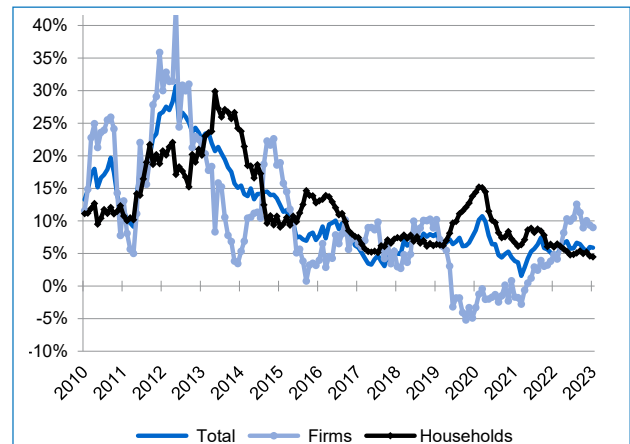
The structure of GDP in terms of economic sectors shows that mining was the largest sector of the economy in 2022. Mining accounted for 21.4% of value added at current prices in 2022, up from 17% in 2021. This was followed by Public Administration & Defence, Wholesale & Retail and Construction, with shares of 16.7%, 11.0% and 11.0%, respectively. Mining regained its position as the largest sector of the economy in 2022 after several years of declining, since 2017. The mining sector was boosted by higher diamond output, increased prices, the new Khoemacau copper mine reaching full capacity production, as well as increased coal output.

## SECTORAL GROWTH



Economic performance in 2022 was generally respectable, even though most sectors experienced lower growth rates than in 2021. There were significant decreases in the growth rates of Mining and Diamond Traders sectors which recorded year-on-year growth of 7.5% and 17.6% down from 29.8% and 85.0%, respectively. However, all sectors registered positive annual growth during the year. There was notable improvement from the Agriculture and Water & Electricity sectors. Agriculture recorded positive growth in 2022, in contrast to a contraction in 2021 while Water & Electricity registered significant growth of 48.6% up from 9.6%.

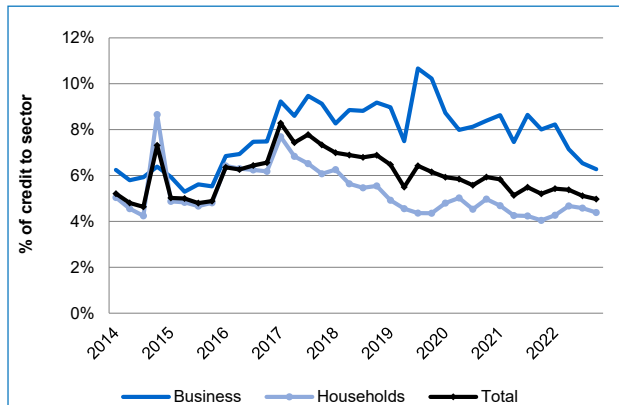
## ANNUAL CREDIT GROWTH



Annual bank credit growth improved marginally in January 2023 to 5.9% from 5.8% in October 2022. Similarly, the growth of credit to firms improved marginally to 9.0% from 8.9%. On the other hand, the growth of credit to households fell from 5.0% to 4.5% between January 2023 and October 2022. Changes in the growth of credit to households and firms often offset each other, resulting in steady annual bank credit growth. Nevertheless, the overall growth rate of bank credit is low by historical standards, and represents a contraction in real terms.

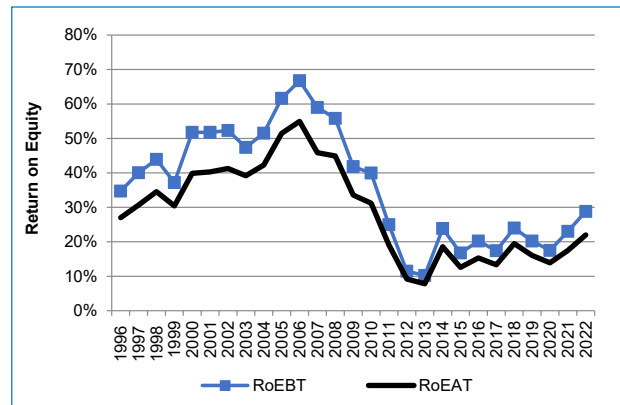
# KEY ECONOMIC VARIABLES

## ARREARS ON BANK LENDING



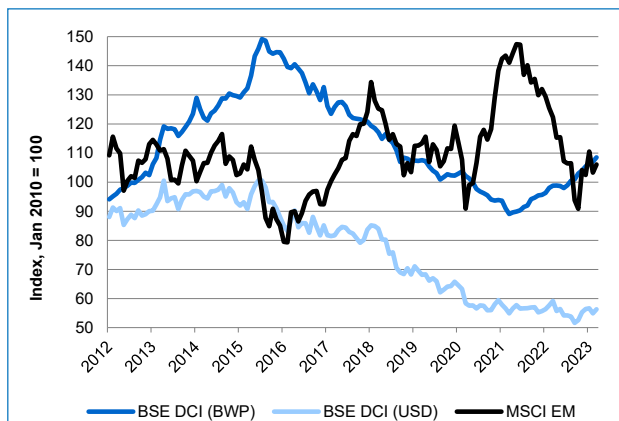
Total arrears as a proportion of outstanding bank credit decreased marginally in 2022. Arrears on lending fell from 5.2% at the end of December 2021 to 5.0% at the end of December 2022. This is attributable to the decrease in business arrears, falling from 8.0% in 2022 to 6.2% in 2021. Arrears on lending to households rose during the year, increasing to 4.4% from 4.0%, partially offsetting the decline in arrears on lending to businesses.

## BANK PROFITABILITY



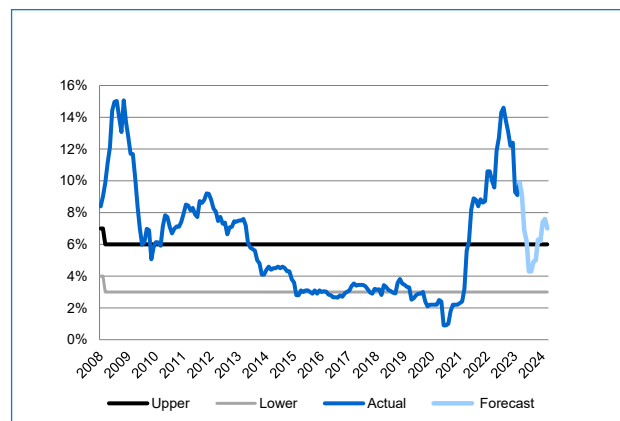
Bank profitability, as measured by the return on equity (RoE) increased in the year ended December 2022. Post tax (RoEAT) bank profitability rose to 22.0% in 2022, up from 17.5% in 2021. This marks the first time that post-tax profitability has surpassed 20% since 2010. A combination of factors contributed to the increase in bank profitability. These are the reduction in arrears during 2022, and hence a reduction in provisions for bad and doubtful debts, as well as an increase in net interest income with higher bank credit and rising interest rates during the year.

## STOCK MARKETS



The Botswana Stock Exchange's (BSE) Domestic Company Index (DCI) continued to improve during Q1 2023. The DCI rose by 2.9% in Pula terms while contracting by 0.2% in US Dollar terms. International stock markets also performed very well during the first quarter of the year, with the MSCI World Index and MSCI Emerging Markets Index increasing by 7.3% and 3.5%, respectively.

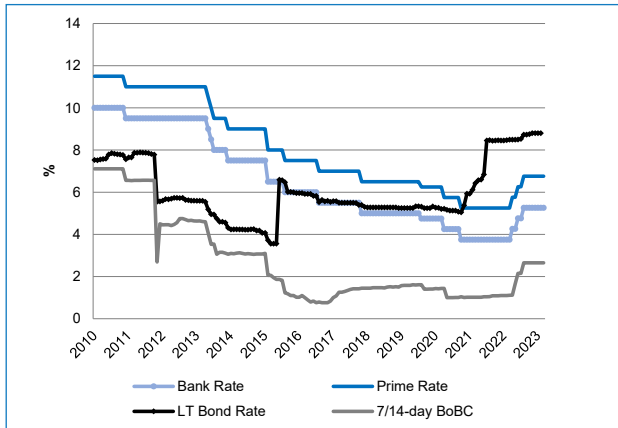
## INFLATION AND FORECAST



In line with forecasts, annual inflation fell during the first quarter of 2023. Inflation in March 2023 decreased to 9.9% down from 12.4% in December 2022. Inflation was below 10% through the quarter, recording the first single digit rates since April 2022. The decrease in inflation is attributable to changes in the Transport index group which fell by 1.4% in the three months to March 2023 because of a decrease in the Operation of Personal Transport (declined by 2.6%) due to adjustments in retail prices of fuel in January and March 2023. Inflation is forecast to continue declining and fall within the Bank of Botswana's objective range of 3-6% in the third quarter of the year, before rising again towards the end of the year.

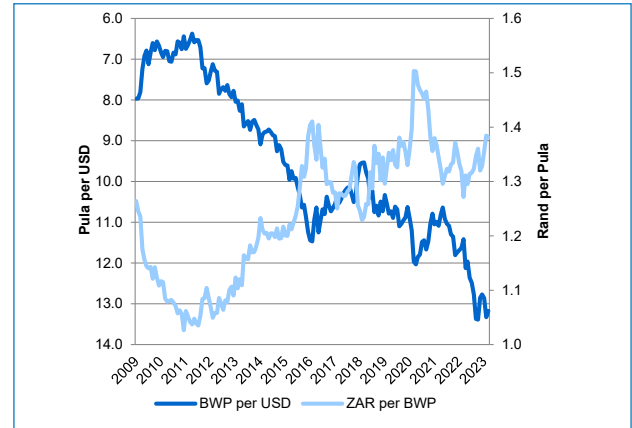
# KEY ECONOMIC VARIABLES

## INTEREST RATES



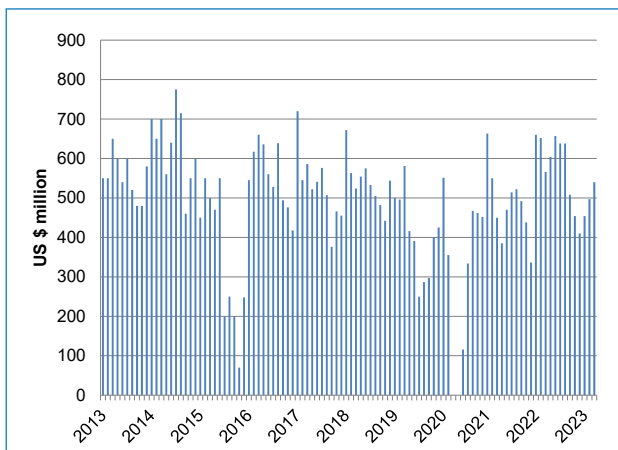
The first meeting of Bank of Botswana’s (BoB) Monetary Policy Committee (MPC) in February 2023 maintained the Monetary Policy Rate (MoPR) at 2.65%. Subsequently, the banks’ Prime Lending Rate was unchanged at 6.76%. Money market rates also did not change. The 7/14-day BoBC rate was 2.65% in Q1 2023 while the long-term government bond rate (BW012) was 8.80% in February 2023. The Bank of Botswana has also liberalised interest rates by allowing commercial banks to set their own Prime Lending Rate effective 1 April 2023. This is a welcome banking sector reform and should contribute to a more competitive banking industry. The fact that the MPC did not raise rates in February and April suggests that interest rates may have plateaued for the time being, given the anticipated decline in inflation.

## EXCHANGE RATES



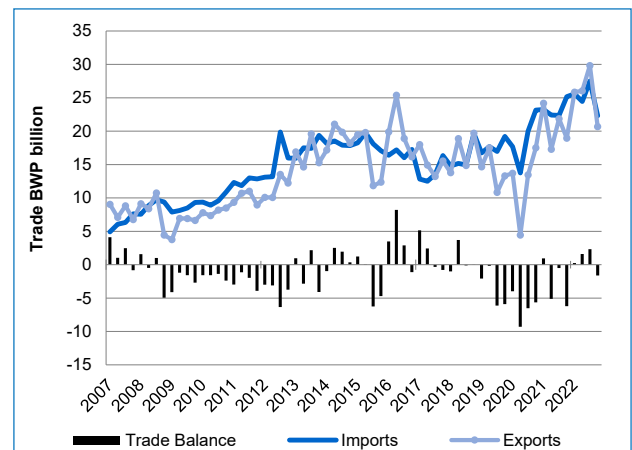
Foreign exchange rates were volatile during the first quarter of 2023. This is due to general US dollar volatility as well as worsened economic conditions in South Africa with regards to shortages of power that have negatively impacted business operations, leading to a weakening of the SA rand. The Pula strengthened against the rand and weakened against the US dollar during Q1 2023. The Pula appreciated against the Rand by 4.0%, ending the quarter with an exchange rate of ZAR1.381, down from ZAR1.328 in December 2022. The Pula-US Dollar exchange rate went from 12.77 to 13.18 during the same period, reflecting a depreciation of 3.1%.

## DE BEERS DIAMOND SALES



The demand for rough diamonds softened during Q1 2023. The international market for rough diamonds experienced weaker demand for diamonds as the demand for diamond jewellery also reduced. Key markets for diamonds, China and the USA, are experiencing economic pressure from a combination of rising interest rates, high inflation, and the fallout from covid-19. De Beers Global Sightholder Sales (DBGSS) from the first three cycles of 2023 were 20.6% lower than sales in the same cycles of 2022, to USD1.49 billion down from USD1.88 billion.

## INTERNATIONAL TRADE

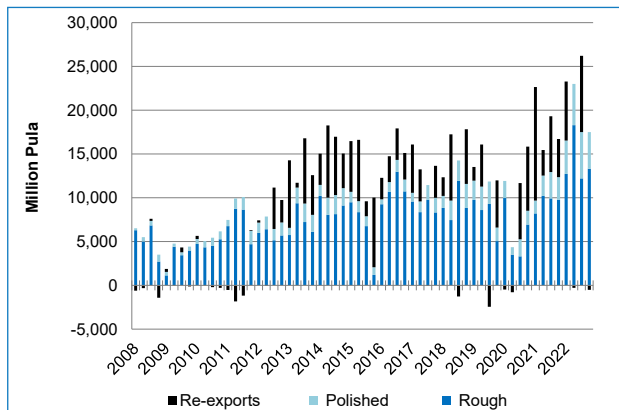


There was an increased international trade activity in 2022, recording higher exports than imports and the first trade surplus in four years. Total exports increased by 24.5% to P102.39 billion in 2022, up from P82.26 billion in 2021. Total imports also rose during the year, by 7.1% to P99.82 billion, up from P93.16 in 2021. The greater value of exports compared to imports resulted in a trade surplus of P2.57 billion in 2022, significantly increasing from a trade deficit of P10.90 billion 2021.



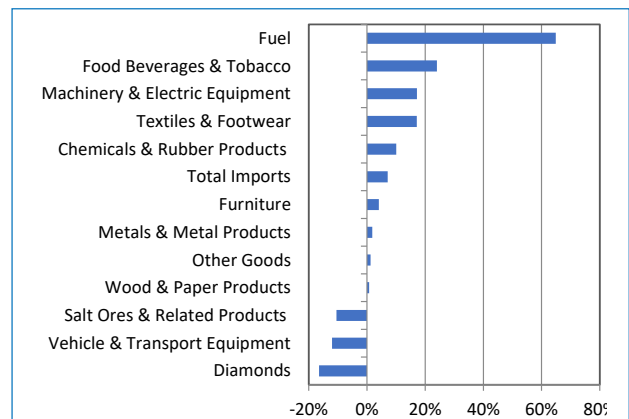
# KEY ECONOMIC VARIABLES

## DIAMOND EXPORTS



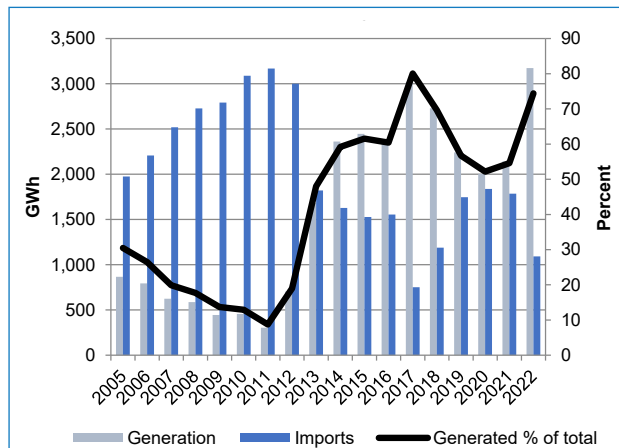
Global demand for rough diamonds was strong in 2022, and Botswana diamond exports benefited from sanctions on Russia's diamond exports because of its invasion in Ukraine in February 2022. Total diamond exports recorded an increase of 20.4% y-o-y in 2022; however, on a quarter-on-quarter basis total exports fell by 35.2% between Q3 and Q4 2022. Diamond exports increased for all categories of exports except for re-exports. Botswana rough and polished exports increased by 48.3% and 91.8%, respectively, while decreasing for re-exports by 44.9% between 2022 and 2021.

## IMPORT GROWTH



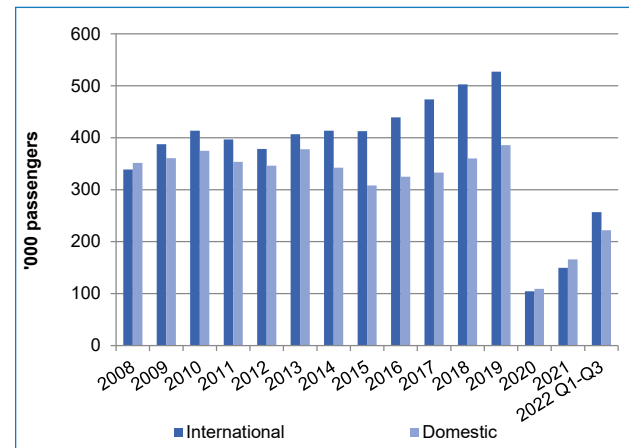
Imports registered increased year-on-year growth across several sectors in 2022 with the exception of Diamonds, Salt, Ores & Related Products and Vehicles & Transport Equipment. Total imports grew by 7.1% in 2022, compared to 25.5% growth in 2021. The main drivers of growth were Fuel and Food Beverages & Tobacco, registering growth rates of 64.9% and 24.0%, respectively.

## ELECTRICITY



Domestic generation of electricity increased by 48.0% y-o-y to 3,173 GWh in 2022 up from 2,144 GWh in 2021. Conversely, the volume of electricity imported during the same period decreased significantly by 38.8% to 1,092 GWh. Total electricity consumed in 2022 rose by 8.6% to 4,265 GWh, up from 3,928 GWh in 2021. There has been improvement in output of electricity from Morupule power stations which contributed to lower imports during the period.

## AIR PASSENGER TRAFFIC



Air passenger movement was adversely affected by Covid-19 pandemic and its associated travel restrictions. However, air travel in Botswana is gaining momentum as travelers, especially international passengers, regain confidence and covid-19 travel restrictions are lifted. The number of air passenger movements at all Botswana airports increased by 272,695 passengers to 478,550 passengers in the nine months to September 2022, from 205,855 passengers during the same period in 2021. Air passenger movement increased for both international and domestic passenger traffic. However, there was a significant increase in international air passenger traffic, from 97,413 air passengers to 256,684 passengers during the period. Air passenger traffic has not yet reached pre-pandemic levels, but the momentum gained is a positive sign of the road to recovery for the tourism sector in Botswana.

## NEWS HIGHLIGHTS

11th January	Diamond sales fuel Botswana budget surplus as buyers shun Russia. (Further Africa)	The Botswana Government posted a budget surplus for the six months to September 2022, driven by surging demand for diamonds as buyers flocked to the country and avoided Russia following its invasion of Ukraine. Botswana recorded a budget surplus of P598.7 million or 0.55% of gross domestic product, in the first half of the fiscal year ending March 2023. The positive balance was driven by a 66% increase in mineral revenues, largely due to improved diamond exports. Debswana sold P54.9 billion of rough diamonds in the 11 months to November 2022, compared to P38.1 billion sold in the same period in 2021.
11th January	NBFIRA guarantees safe virtual assets services. (Botswana Guardian)	The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) granted Yellow Card Botswana a licence to operate as a Virtual Asset Service Provider in accordance with Section 11 of the Virtual Asset Act, 2022. Yellow Card Botswana is the first company to be granted a virtual asset service provider license in Botswana. According to NBFIRA, the granting of the virtual license is an indication of the continued growth, depth, and dynamism of the local market. Customers can be assured that the company is regulated and is accountable to the NBFIRA in accordance with the Authority's regulatory and supervisory processes.
11th January	Government to regulate ozone depleting substances. (Botswana Guardian)	Companies that trade in ozone depleting substances (ODS) - chlorofluorocarbons and hydrofluorocarbons - must apply for import, export and transit permits for 2023, to be issued by the Department of Meteorological Services (DMS). The issuance of permits is in line with the Ozone Depleting Substances (ODS) Regulations, 2014 under the National Meteorological Service Act, 2014. Botswana has an obligation, under the Montreal Protocol on Substances that deplete the Ozone Layer, to control, monitor, report on consumption, promote friendlier alternatives as well as raise awareness around the country to ensure compliance with the protocol. Government ratified the Montreal Protocol in 1992 and has been compliant with the set phase-out schedule thus maintaining zero consumption of chlorofluorocarbons since 2010.
16th January	De Beers slashes prices of larger rough diamonds. (Rapaport News)	De Beers' has reduced prices for larger rough diamonds while increasing prices for smaller diamonds. Prices fell by 10% for rough diamonds of 2 carats and above, while prices of diamonds under 0.75 carats rose by a similar amount, reflecting a market split that has persisted since 2022. There has been sluggish demand for larger diamonds, especially from China because of Covid-19 lockdowns, and high inflation in the US which has led to consumers being cautious about discretionary spending.



## NEWS HIGHLIGHTS

22nd January	Botswana's mining cadastre reveals hydrocarbon scramble in iconic Kalahari game reserve. (Daily Maverick)	There is a scramble for oil, gas, and coal in Botswana, much of it centred on the Central Kalahari Game Reserve (CKGR). The world's second largest reserve, the remote CKGR is home to a plethora of African flora and fauna including the Big 5 and is a sacred ancestral homeland of the San Bushmen. About half the surface area of the 52,800 square kilometres of the park has been allotted into blocks for exploration for oil, gas, coal, coalbed methane, and other minerals and metals. This raises environmental concerns and questions about funding sources any mining projects that might result from this exploration, in an age when the green energy transition is in full swing and bankers are increasingly reluctant to fund fossil fuel initiatives, notably for coal.
2nd February	Botswana, OPEC seal P1.2 billion loan deal. (The Patriot)	Botswana has signed a loan agreement with the Organisation of Petroleum Exporting Countries (OPEC) Fund for International Development Fund. According to the Minister of Finance, the loan will be used for the intended objectives of Botswana Programmatic Economic Resilience and Green Recovery Programme. Through the loan, Botswana will be able to strengthen its response to the pandemic and be in a better position should a crisis arise in the future, enhance private sector growth, and support transition towards a green economy.
2nd February	BSB lists P1 billion bond. (The Patriot)	Botswana Savings Bank (BSB) has listed a bond worth P1 billion with the Botswana Stock Exchange (BSE). The bond note programme will give BSB access to capital and provide alternative funding, reducing dependency on volatile short- term deposits.
2nd February	De Beers' rough prices rise 23% in 2022. (Rapaport News)	De Beers's rough diamond price index increased by 23% in 2022. The average realised price rose by 35% to USD197 per carat in 2022, up from the average selling price of USD146 per carat in 2021. The increase in prices reflected the overall positive consumer demand for diamond jewellery in 2022, especially during the first half of the year. In terms of sale performance, sales volume for rough diamonds declined by 7 percent to 30.4 million carats, down from 33.4 million carats in 2021. However, the value of rough diamonds increased during the period. Total rough diamond sales rose by 20% to USD6.0 billion, up from USD4.9 billion in 2021.
6th February	Botswana sees 2023 growth of 4%, plans infrastructure drive. (Reuters Africa)	According to the Minister of Finance, the economy is expected to grow by 4.0% in 2023 and targets a medium-term growth rate of 5.7%. Estimated economic growth for 2022 has been revised upwards from 4.2% to 6.7% because of strong growth from the mining sector and positive recovery from the Covid-19 pandemic. Delivering the 2023 budget speech, the Minister noted that the government intends to increase investments in infrastructure and increased the 2023/24 infrastructure budget to unlock constraints to economic growth.

## NEWS HIGHLIGHTS

12th February	Plans underway to certify three airports. (Daily News)	The Civil Aviation Authority of Botswana (CAAB) is working on certifying Botswana airports to meet international standards. Only the Sir Seretse Khama International Airport is currently certified, and plans were underway to certify Kasane, Maun and Francistown airports. The certification would make the facilities more secure, safer, and regulated in accordance with the international standards of the International Civil Aviation Organization. This should contribute to international travel and tourism.
14th February	Attaining transitional plan priorities crucial – Gare. (Daily News)	Achieving the six Transitional National Development Plan (TNDP) 2023/2025 priorities remains crucial to economic growth. The six priority areas are digital transformation, business environment reforms, infrastructure development, value chain development, sustainable livelihoods, and climate. Mr Karabo Gare, who is Minister of Entrepreneurship, noted that the realisation of the priority areas would contribute to attaining high income status as envisioned by Vision 2036. Government remains committed to provide a conducive business climate as a pre-requisite to achieving inclusive economic diversification, sustainable growth, and employment creation.
24th February	BoB gives banks free rein on lending rates. (Mmegi)	The Bank of Botswana (BoB) will let commercial banks to set their own prime lending rates from 1 April 2023, the anchor instrument which influences lending rates across other credit products such as scheme and personal loans as well as mortgages. The central bank argues that freeing up the prime lending rates will “facilitate market competition and fair pricing of credit and other lending products,” although the BoB will monitor implementation and “enforce good business conduct”. Before a wave of reforms in the country’s interest regime dating back to last April, the prime lending rate, defined as the lending interest rate banks give their best customers, was pegged at 1.5% above the bank rate and 4.07% above the MoPR.
26th February	AfCFTA opens trade for SMMES. (Daily News)	Local businesses have been encouraged to take advantage of the opportunities offered by the African Continental Free Trade Area (AfCFTA) Agreement by establishing businesses that can benefit from the favourable terms. According to the Minister of Trade and Industry, Botswana will be eligible to trade under the AfCFTA after verification of the SACU Tariff offer by the AfCFTA Secretariat. The Minister noted that the AfCFTA provides for SMMES to trade under the AfCFTA and has a Provision/Protocol on Women and Youth in Trade and as such local SMMES should use the opportunity to access regional markets.

## NEWS HIGHLIGHTS

1st March	Botswana mining growth seen flat amid dim diamond outlook. (Reuters Africa)	Botswana expects output from its mining sector to be flat this year, as the diamond industry loses its sparkle due to a contraction in consumer spending and weaker demand for diamond jewellery globally. A gloomy outlook is projected for 2023, due to expected slowdown in consumer demand especially from USA because of pressure on real income and consumption. Botswana expects diamond output to decline by 1%, from 8.2% growth in 2022, while diamond trading growth is seen slowing to 7% from 41% in 2022, respectively. Higher copper and coal production are expected to partially offset the slowdown in diamond industry. Khoemacau copper mine has ramped up its production to 60,000 tonnes per annum while the global demand for coal has been increasing.
8th March	Botswana's Minergy seeks government bailout after halting coal mining ops. (Mining Weekly)	Minergy has approached the Mineral Development Company Botswana (MDCB) and Botswana Development Corporation (BDC) for a financial bailout to settle debts owed to a mining contractor, which has brought mining operations at its Masama coal mine to a halt. Production at the mine has been ceased by the contractor due to overdue payments. According to Minergy, operations have been weighed by weakening coal prices which has dropped by 33% since December 2022.
9th March	Botswana President wants bigger share of diamonds from De Beers. (Bloomberg)	Botswana is pushing for a higher allocation of rough diamonds mined in the country by Debswana, the joint venture between Government and De Beers, as negotiations between the two parties are still ongoing. The state-owned Okavango Diamond Company (ODC) receives about 25% of rough diamonds mined from Debswana mines in the country, with the remainder being marketed through De Beers Global Sightholder Sales. According to His Excellency President Masisi, the government seeks to expand the diamond manufacturing industry. Negotiations over a new deal between the Botswana government and De Beers, which began in 2018, are yet completed.
16th March	Moody's downgrades Letshego Holdings credit ratings. (Sunday Standard)	Moody's credit agency has downgraded Letshego Holdings' credit rating to Ba3- and indicated a negative outlook for the microlender. Letshego faces rising competition, regulatory risk, cybersecurity threats, high inflation and interest rates, as the company expands into Africa. Letshego is operates in 11 African countries, and the rating agency's outlook for the financial sector in Sub Sahara Africa for the most part of 2023 is negative.

## NEWS HIGHLIGHTS

12th March	Better tariffs upon AfCFTA ratification. (Daily News)	Botswana has finally deposited its instrument of ratification of AfCFTA at the 36th summit of the African Union, becoming the 45th country to do so. The delay in submission was necessary to negotiate favourable tariffs and duties for domestic businesses. Three AfCFTA protocols have been ratified: on Investment, Intellectual Property Rights and on Competition. The implementation of AfCFTA will broaden Botswana's African export-market opportunities given market size of about 1.4 billion. Botswana would be able to trade under the AfCFTA once the tariff offer from SACU has been verified. In addition, the country is developing the strategy to facilitate leveraging the benefits under the AfCFTA with support from the United Nations Economic Commission.
15th March	Tlou to complete 10MW project in 2023 third quarter. (Mmegi)	The country's most advanced Coal Bed Methane (CBM) developer, Tlou Energy, anticipates completing the 66kV transmission line of the Lesedi 10MW gas-to-power (GTP) project in the third quarter of 2023. The 100km transmission line runs from Nyamakatshe to the Botswana Power Corporation's (BPC) substation in Serowe. Commenting on the group's half-year financial results for the year ended December 31, 2022, Managing Director Anthony Gilby said construction of the transmission line is being done by Zismo Engineering, with February end progress at approximately 50%. Tlou plans to rapidly expand to 25MW and beyond.
15th March	BIHL profits up by 15%. (Sunday Standard)	Botswana Insurance Holdings Limited (BIHL), reported strong profit for the financial year ended December 2022, as insurance claims dropped. BIHL's total revenue grew from P3.4 billion in 2021 to P3.9 billion in 2022, while net insurance and investment contract benefits and claims came at P2.4 billion, and expenses increased slightly to P1 billion, resulting in P522 million profit excluding income from associated companies. When including incomes from other companies that the group has interests in, BIHL's profit before tax jumped to P759 million, and profit after tax increased by 56% to P614.5 million in 2022. BIHL managed to record strong profits amid a challenging operating year with high inflation. Management expects a tough 2023, due to pressure on costs and household incomes.
20th March	Bank profits reach P2.7 billion in 2022. (Mmegi)	Commercial banks in Botswana recorded a collective profit after tax of P2.7 billion in 2022. Banks recorded collective net interest income of P5.0 billion in 2022, up from P4.4 billion in 2021. Most banks tightened their credit risk protocols after the onset of COVID-19 three years ago, and provisions for bad and doubtful debts have reduced significantly as a result.
22nd March	Ghaghoo Mine faces final closure. (Mmegi)	Gem Diamonds is considering the final closure of its Ghaghoo Diamond Mine in the Central Kalahari Game Reserve (CKGR) after failing to secure a buyer over the last six years of suspended activities. Ghaghoo Mine was kept under care and maintenance activities since 2017 to keep the mine's infrastructure in prime condition in preparation for a possible reopening.

## NEWS HIGHLIGHTS

23rd March	Botswana to buy 24% stake in HB Antwerp. (Rapaport News)	The Government is set to acquire a 24% minority share in HB Antwerp, a Belgium manufacturer of diamond jewellery. Contract agreement is expected to be signed by the two parties following mutual agreements on key commercial terms. It is also expected that the Okavango Diamond Company (ODC) will supply the HB Botswana factory with rough diamonds.
24th March	'Lost' Lerala diamonds finally back in local hands. (Mmegi)	A parcel of 53,000 carats in rough diamonds from the Lerala Mine that was spirited away to Belgium by the former owner a day before closing the mine in 2017, is finally under local control after six years of complicated court cases. The government secured a key legal victory in Brussels and have the diamonds under their control, a situation that will bring finality to the saga at Lerala where creditors had filed claims worth P30 million. The process of selling the diamonds is underway.
24th March	Norway firm budgets P650 million for Phikwe solar plant. (Mmegi)	Scatec ASA is mobilising funding of about P650 million required to build the 50-megawatt solar plant at Selebi-Phikwe. The company won a highly contested tender for the contract in 2022 and will be Botswana's single largest renewable project to date. The project is being done on an Independent Power Producer (IPP) basis, where Scatec will bear the costs of building, running, and maintaining the plant with the Botswana Power Corporation (BPC) purchasing the power under a 25-year agreement.
24th March	Stanbic raises P150 million through bond placement. (Mmegi)	Stanbic Bank Botswana has raised P150 million through the private placement of a five-year bond, the second largest debt note the bank has sought under its P2 billion issuance programme. The bond was listed on the Botswana Stock Exchange (BSE) and it carries a 9.15% fixed rate and matures in March 2028.
27th March	Sandfire's Botswana copper neighbour comes up for sale. (Financial Review)	The owners of Khoemacau Copper mine plan to put up the mine for auction this year. Khoemacau's estimated production resources are 60,000 tonnes of copper and 2 million ounces of silver, in concentrates, per year. Sandfire Resources, a competitor, will be weighing their options to purchase the mine. Sandfire owns the nearby Motheo copper mine, which is expected to produce its first concentrate in 2023.
31st March	Bona Life grand plan. (Botswana Guardian)	Bona Life Insurance celebrated ten years of existence this year. The Chief Executive Officer, Ms Phatsimo Keakabetse, noted that the company experienced challenges in the past but it is ready to turn a new leaf and regain its market share in the industry. Bona Life is owned by the Botswana Public Officers Pension Fund (BPOPF) and offers life insurance products, ranging from funeral to credit life.

## MACRO-ECONOMIC DATA

Key Economic Data		unit	2017	2018	2019	2020	2021	2022	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1
<b>Annual Economic Growth</b>													
GDP	%		4.1	4.2	3.0	-8.7	11.9	5.8	13.3	6.7	5.8	5.8	..
Mining	%		6.3	8.4	-3.7	-26.5	29.8	7.5	42.0	16.4	9.2	7.5	..
Non-mining private sector	%		3.7	2.9	4.2	-6.7	8.8	5.5	8.4	4.8	5.0	5.5	..
GDP current prices	P bn		166.65	173.73	179.90	171.39	207.74	251.73	58.9	64.8	63.1	65.0	..
GDP 2016 prices	P bn		171.18	178.35	183.76	167.72	187.63	198.48	49.6	48.8	50.6	49.5	..
<b>Money &amp; Prices</b>													
Inflation	%		3.2	3.5	2.2	2.2	8.7	12.4	10.0	12.7	13.8	12.4	9.9
Prime lending rate	%		6.50	6.50	6.25	5.25	5.25	6.76	5.25	6.26	6.76	6.76	6.76
BoBC 7/14-day	%		1.45	1.52	1.41	1.04	1.10	2.65	1.11	2.15	2.65	2.65	2.65
<b>Trade &amp; Balance of Payments</b>													
Exports - total goods	P bn		61.67	67.17	56.33	49.12	82.26	102.390	25.84	26.04	29.83	20.68	..
Exports - diamonds	P bn		54.38	60.41	51.01	43.30	74.13	89.22	23.29	22.73	26.22	17.0	..
Balance of payments	P bn		-4.28	-4.20	-12.02	-20.06	-2.87	..	2.17	3.04	0.20	..	..
<b>Foreign Exchange</b>													
Exchange rate BWP per USD	end		9.87	10.73	10.63	10.79	11.74	12.77	11.42	12.36	13.37	12.77	13.18
Exchange rate ZAR per BWP	end		1.256	1.344	1.330	1.356	1.355	1.328	1.272	1.314	1.347	1.328	1.381
FX reserves	\$ bn		7.502	6.657	6.171	4.941	4.806	..	4.633	4.377	4.102	..	..
FX reserves	P bn		73.69	71.43	65.23	53.36	56.02	..	53.07	54.24	54.55	..	..
<b>Financial Sector</b>													
Deposits in banks	P bn		63.58	69.27	75.71	80.54	84.36	90.93	84.55	86.61	91.44	90.93	..
Bank credit	P bn		54.18	58.33	62.77	65.55	68.92	73.05	69.61	71.32	72.93	73.05	..
BSE index			8,860	7,854	7,495	6,879	7,010	7,726	7,243	7,183	7,402	7,726	7,954
<b>Business Indicators</b>													
Diamond production (a)	mn cts		22.96	24.38	23.67	16.87	22.70	24.48	6.30	5.58	6.726	5878	..
Copper production (b)	'000t		1.24	1.46	0.00	..	11.74	34.20	5.71	8.32	9.474	10.911	..
Electricity consumption	GWh		3,772	3,919	3,906	3,842	3,928	4,265	1,006	1,100	1,076	1084.2	..
Crude oil (Brent)	\$/bar		66.73	50.57	67.77	51.22	77.24	82.82	107.29	119.78	88.90	82.82	79.19
<b>Employment (formal) (f)</b>													
Government			129,009	156,785	156,785	152,973	152,225	143,022					
Parastatals			19,444	23,497	23,497	18,933	21,056	18,674					
Private sector			193,745	250,778	227,281	250,715	268,086	257,618					
Total			342,198	431,060	485,524	477,716	494,457	486,376					
<b>Govt Budget</b>													
			2019/20	2020/21	2021/22	2022/23	2023/24	2024/25					
			(d)	(e)	(f)	Revised (g)	Budget (h)	Projection (i)					
Revenues	P bn		54.30	49.37	68.57	71.54	79.79	83.72					
Spending	P bn		65.40	65.79	68.68	76.41	87.38	88.78					
Balance	P bn		-11.10	-16.41	-0.11	-4.88	-7.59	-5.06					
Public debt & guarantees	P bn		38.18	42.37	48.74	51.28	56.65	57.52					
Govt deposits at BoB	P bn		19.86	6.20	12.82	..	..	..					
GDP	P bn		180.94	171.91	216.76	247.54	268.20	292.31					
Revenues	%GDP		30.0%	28.7%	31.6%	28.9%	29.7%	28.6%					
Spending	%GDP		36.1%	38.3%	31.7%	30.9%	32.6%	30.4%					
Balance	%GDP		-6.1%	-9.5%	0.0%	-2.0%	-2.8%	-1.7%					
Public debt & guarantees	%GDP		21.1%	24.6%	22.5%	20.7%	21.1%	19.7%					
Govt deposits at BoB	%GDP		11.0%	3.6%	5.9%	..	..	..					

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) - (e) Actual.

(f) Employment figures up to 2018 are not comparable with those from 2019 onwards due to changed methodology of data collection and reporting

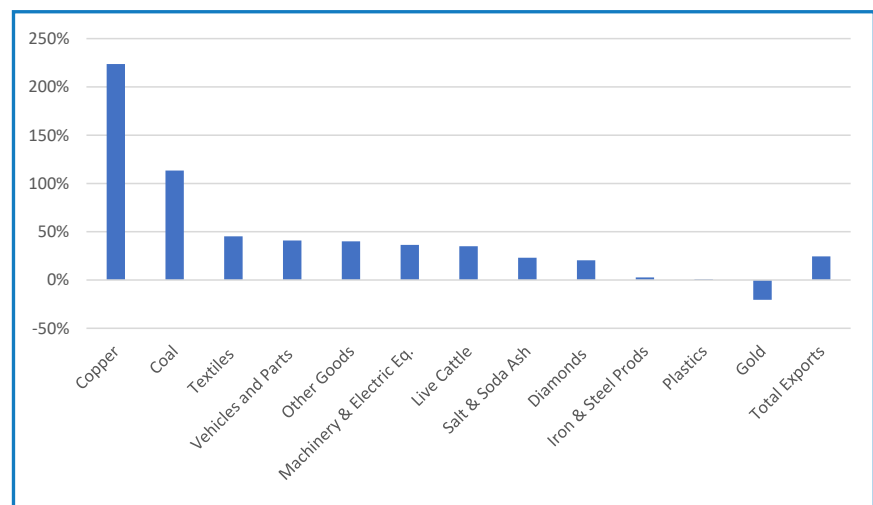


# A Recovery in EXPORTS?

The release of merchandise trade data for the full year 2022 provides some useful insights into export trends and developments during the year. As is well known, the achievement of export-led growth is the single most important economic development objective for Botswana as, without this, all other objectives – such as increased job creation and reduced poverty, will be virtually impossible to achieve. How did we do in 2022?

First, overall export performance was not bad, with total goods exports increasing by 24%, from P82.3 bn in 2021 to P102.4 bn in 2022. This was based around strong performance of diamond exports, which grew by 20%. But some other categories of exports have performed even better, at least in relative terms. Copper exports increased by over 200% as the Khoemacau mine (which commenced commercial production in mid-2021) ramped up to full capacity operation, and coal exports more than doubled as Botswana’s two coal mining companies took advantage of strong international demand. Other categories of exports experiencing strong double-digit growth included textiles (up 45%),

**Figure 1: Growth of major export categories, 2021-22**



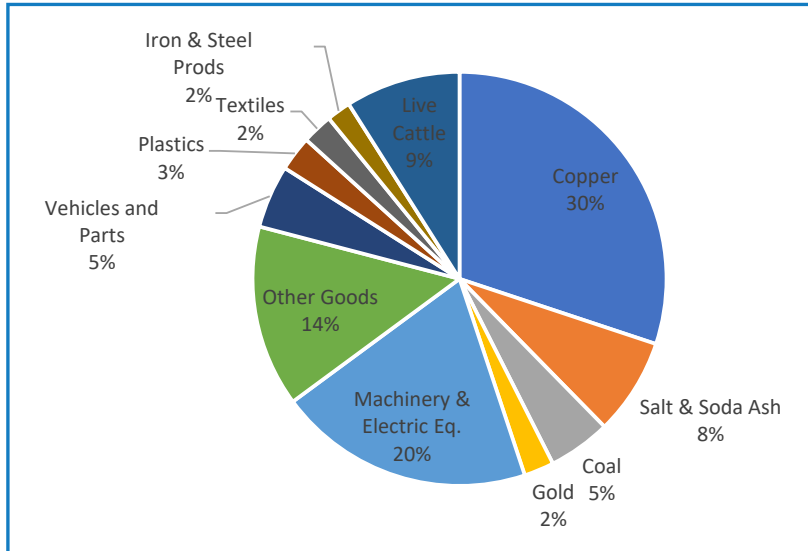
Source: Statistics Botswana, Botswana International Merchandise Trade Statistics (BIMTS)

vehicle parts (up 41%), machinery and electrical equipment (up 36%) and live cattle (35%). Of the major export categories, only gold had lower exports in 2022 than in 2021.

Of course, diamonds still dominate overall exports, accounting for 87% of goods exports. But even this sector is changing. Botswana rough diamonds accounted for 63% of total diamonds in 2022, polished diamonds 20%, and re-exported (aggregated) rough, 17%. Polished diamond exports have boomed as the local manufacturing sector has expanded and global demand was strong, increasing by 93% in 2022 over 2021.

Non-diamond exports still account for a small minority (13%) of total goods exports, and it is critical that this increases rapidly. Non-diamond exports are made up of other minerals (copper, coal, soda ash and gold), at 45% of the total, manufactured goods (46%), and agricultural products (live cattle), at 9%.

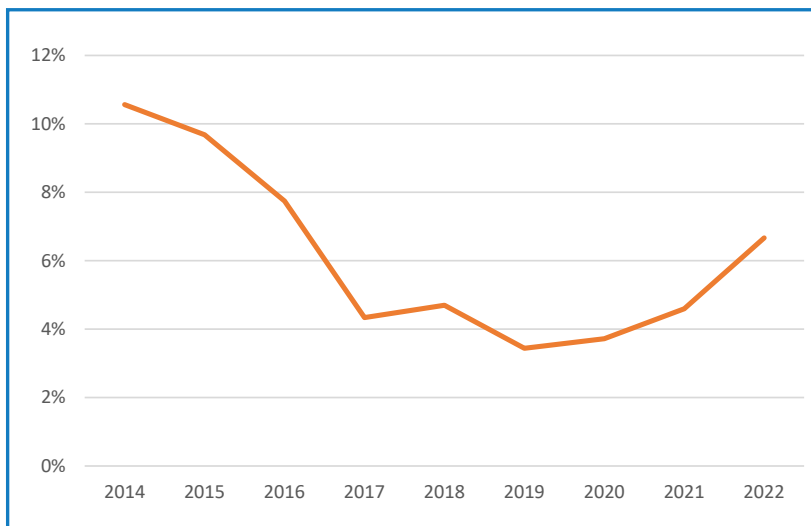
**Figure 2: Composition of non-diamond exports, 2022**



Source: BIMTS

Statistics Botswana has introduced useful changes in the presentation of export statistics, highlighting sectors that have recently become important but were less so in the past (notably live cattle and coal), and dropping others that were important in the past but are no longer significant enough to be worth recording as a specific category (notably meat, and hides and skins).

**Figure 3: Non-diamond exports as a percentage of non-diamond GDP**



Source: Statistics Botswana, BIMTS and National Accounts

Figure 2 refers only to goods exports, and excludes services (notably tourism), which are important but are derived from a different source (Bank of Botswana’s balance of payments statistics), which normally take longer to compile. Tourism was hit hard by covid-19, and it will be interesting to see how much it has recovered in 2022 when services trade data are published, although data on visitor numbers from Statistics Botswana suggest that the recovery has been slow.

The good news is that the previous downward trend in non-diamond exports may have been reversed. As Figure 3 shows, the ratio of non-diamond exports to non-diamond GDP fell from 2014 to 2019 (data is not available prior to 2014), but has since risen, particularly in 2022. This has been mainly driven by increased exports of (in order of importance) copper, machinery, coal and live cattle. Not all of these are likely to be sustainable. Coal exports in 2022 were driven by exceptionally high coal export prices, but by March 2023 regional coal export prices had fallen by nearly 60% from their peak in mid-2022, which will make future exports less attractive. Live cattle exports have boomed, and have been highly lucrative for the cattle farming sector, but there are indications that such exports will be restricted once domestic capacity for the treatment for the treatment of hides and skins into leather has been developed. At least the outlook for copper production is positive, with a new mine opening later in 2023.

# Assessing Post-Covid ECONOMIC RECOVERY

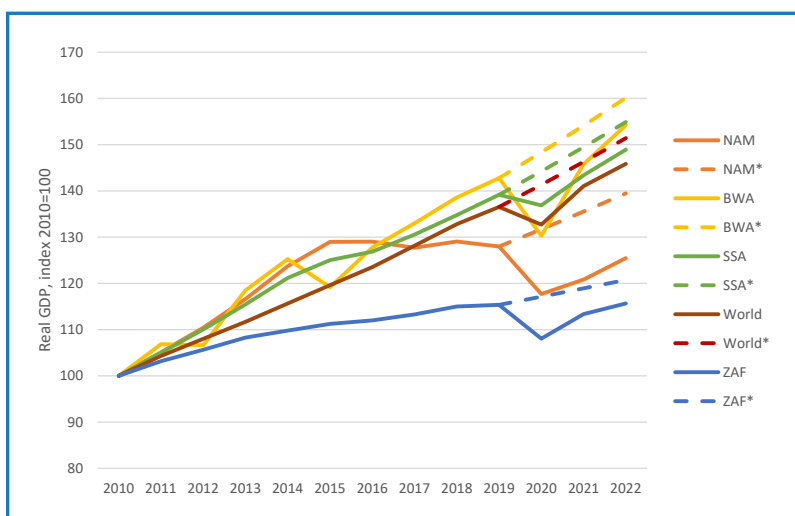
In 2020 and 2021 the global economy and most country economies were heavily impacted by the impact of the covid-19 pandemic. In 2020, output in most economies was heavily constrained by measures taken to contain the spread of the virus, including lockdowns, travel restrictions, and other restrictions on economic activity. In 2021 there was gradual lifting of these restrictions as vaccines were rolled out widely, and most countries experienced an economic recovery, if only because of base effects relative to the contraction in 2020. By contrast, 2022 was the first full year where economic activity was to a large extent “back to normal”, to the extent that growth figures were no longer primarily impacted by the pandemic.

Nevertheless, almost all countries suffered a (semi-)permanent income loss, with real GDP still below the level that would have been expected had pre-pandemic trend growth rates continued. Real GDP in Botswana

in 2022 was 3.7% lower than what it would have been if the pre-pandemic trend rate of growth from 2010 to 2019 had been continued. This is similar to the real income loss in Sub-Saharan Africa as a whole (-3.9%) and the world economy (-3.7%). However, some countries have done much worse, notably neighbouring Namibia (down 10.0%) (see Figure 1).

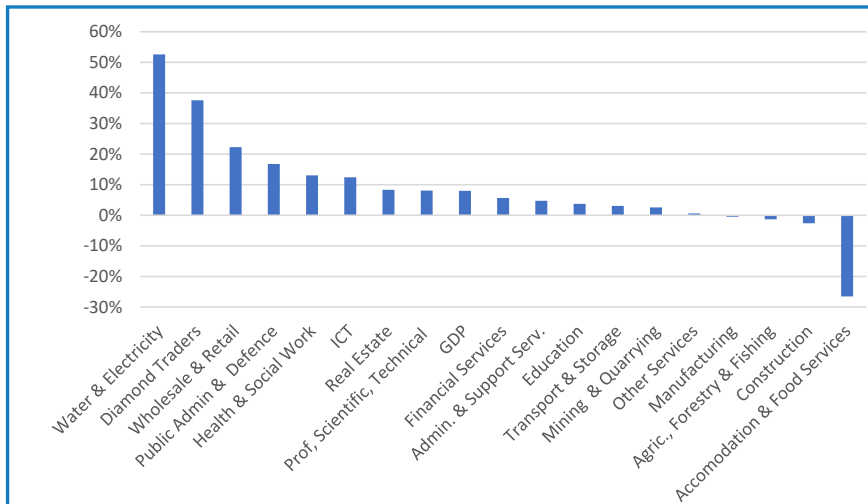
Within Botswana, it is useful to consider how the covid-19 impact and post-pandemic recovery varies across sectors. We can compare real output (value added) in 2022 with the pre-pandemic level in 2019. Overall real GDP was 8% higher in 2022 than in 2019 (without covid, it would have been expected to be almost 12% higher). But the experience across sectors varies considerably (see Figure 2). Output in Water & Electricity was 57% higher in 2022 than in 2019, while the Diamond Traders sector output was 38% higher. Other sectors that did relatively well (better than the average across the entire economy) were Wholesale and Retail trade, Public Administration (central and local government), Healthcare, and ICT. Much of this is to be expected, with increased government activity in terms of covid-related support measures, increased healthcare needs, and the shift of some activities from physical channels to online/digital channels. The strong performance of wholesale and retail trade is perhaps surprising, however, given the pressure on consumer spending power from high inflation and squeezed real incomes.

Figure 1: Real GDP 2010-2022, Actual and Trend (index 2010 = 100)



Source: IMF World Economic Outlook database, April 2023, and own projections

**Figure 2: Real Sectoral Growth, 2019-2022**



Source: Statistics Botswana, National Accounts

Several sectors have shown sluggish recovery, or even a continued negative impact. Output in the Accommodation and Food Services sector was 27% lower in 2022 than in 2019, reflecting the severe impact of covid-19 on travel and tourism, which is still being felt, notwithstanding gradual recovery. For related reasons,

Transport & Storage has shown only modest recovery, weighed down by 30% contractions in Rail Transport and Air Transport. Manufacturing, Agriculture and Construction were all smaller in 2022 than in 2019. These sectors were weighed down by adverse performance in particular sub-sectors that experienced negative growth, notably Livestock (Cattle) Farming, Forestry and Fishing, and Food-related Manufacturing (Meat, Dairy and Beverages). Weak (but just positive) performance was evident in Other Services, weighed down by a massive 57% contraction in creative industries (Arts, Entertainment, Recreation), and Mining (where a large increase in Copper Mining was offset by broadly flat output in Diamond Mining and a huge contraction (56%) in Gold Mining).

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