

# ECONOMIC REVIEW

second quarter april-june 2021

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## COMMENTARY

# Economic Challenges Deepen in Q1 2021: National Accounts Rebased to 2016

### Introduction

The persistent COVID-19 pandemic continued to intensify the economic challenges faced by Botswana. Annual economic growth contracted further during the first quarter of 2021, recording a larger slowdown than that recorded during the global financial crisis in 2008/09. Moreover, the revisions to the national accounts data released in July 2021 show that the economy recorded a larger contraction in 2020 than was originally estimated, due to technical adjustments made to the national accounts. However, economic recovery is still expected in 2021, attributable to the improvement in the global demand for diamonds and improvements in the rollout of COVID-19 vaccines locally and globally.

### National accounts rebasing and GDP growth

The recently-released national accounts for Botswana showed that real GDP (in constant prices) has been rebased from the old 2006 base year to a new 2016 base year, for the period from 2014 to Q1 2021. The rebase was necessary to bring about greater accuracy in the measurement of GDP and economic growth, as Botswana national accounts were last rebased in 2012. This means that national accounts are up to date with the latest economic developments, structural changes and international methodologies used in the compilation of national accounts.

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## COMMENTARY

On an annual basis, real GDP growth continued to worsen as a result of the impact of COVID-19 pandemic. Real GDP contracted by 8.6% year-on-year in Q1 2021. Based on the new data, the economy contracted more in 2020 than was originally estimated, but growth was higher in 2016 and 2017. Year-on-year real GDP contracted by 8.5% in 2020 rather than the 7.9% originally reported. Similarly, real GDP recorded in 2016 and 2017 was 7.0% and 4.0% respectively, from the originally estimated growth rates of 4.3% and 2.9% respectively. The decline in real GDP during the year to March 2021 was anticipated, as it covers a full 12 month period reflecting the impact of COVID-19.

On a positive note, however, if we just consider the first quarter of 2021, the encouraging result is that GDP was marginally higher (by 0.7%) than it had been in Q1 of 2020, notwithstanding the continuing impact of COVID-19. Growth in many services sectors, including diamond trading, offset the weak performance of diamond mining, tourism and manufacturing.

### Global diamond market

As always, the global market for diamonds is of great importance for Botswana. After a poor performance in 2020 because of the COVID-19 pandemic, which led to a sharp decline in global demand for diamonds and overall decline in international diamond activity, diamond sales had a good start in 2021 and this continued throughout the first half of the year. Recovery has been supported by the implementation of fiscal stimulus across many countries in the world as well as the rollout of COVID-19 vaccines in some countries. All industry segments continue to report positive sales, while demand has been driven by the two key markets of the United States and China. The diamond industry has also benefited from the prolonged slowdown of spending on travel and tourism due to movement restrictions, and the diversion of some spending to consumer demand for diamond jewellery.

Similarly, De Beers Group has reported strong sales during H1 2021 when compared to sales in the same period last year. De Beers Global Sightholder Sales (DBGSS) increased sales by 178% between the two periods, from USD906 million in H1 2020 to USD2.5 billion in H1 2021. The rebound is attributable to increased production and sales volumes as well as higher rough diamond prices. During the half year, production across Botswana's mines increased by 43%, from 7.5 million carats to 10.7 million, carats while the average price per carat increased by 13% to USD135 per carat in H1 2021 from USD119 per carat.

The rebound of the global diamond market from the COVID-19 crisis is important for Botswana and it will provide a boost to export earnings, the external account balance, and government revenues.

### Tourism

Tourism is one of the sectors that has been affected by the pandemic. The period with which the sector will recover from the crisis is very uncertain and it is continuously interrupted by policy measures that restrict movement as a preventative measure to reduce the spread of the virus, as well as travellers' trust regarding their safety during the pandemic. Government support for the sector is vital to support the survival of tourism industries and to avoid job losses. A lot will need to be done to revive the sector and bring it back to "normality". This entails regaining customer's trust, promoting domestic tourism to cushion the interruptions in international tourism especially during pandemics like the coronavirus, and providing government support. In Botswana, the accommodation and food services sector has had the deepest and most prolonged contraction of any economic sector. Continued domestic travel restrictions will inhibit the extent to which domestic tourism can compensate for the loss of international tourists.

### International trade activity

Trade data for the first quarter of 2021 shows that international trade activity has continued to recover from the effects of the COVID-19 pandemic. There were significant increases in exports to the value of P24.1 billion in Q1 2021, representing an increase of 38.4% when compared to Q4 2020. The sharp increase in exports was driven by diamond exports, which rose by 45% during the quarter as the global demand for diamonds improved during the period. Imports were valued at P22.8 billion, indicating a marginal decrease of 1.4% between Q1 2021 and Q4 2020. This resulted in a trade surplus of P1.3 billion in Q1, the first quarterly surplus since 2018. However, subsequent trade data for April and May 2021 are less positive, and indicate a likely substantial trade deficit in Q2.

There have also been two major events during Q2 2021; the opening of the Kazungula bridge and the launch of the revised African Growth and Opportunity Act (AGOA) National Response Strategy for Botswana, both of which will increase trade activity. The Kazungula bridge provides a one-stop border post and links regional markets as a north-south corridor. Almost P9 million in revenues was collected during the first full month of operation (June), which indicates that the bridge could become a useful

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source of government revenues in the future, mainly from toll fees and transport permits from the additional freight traffic generated by the bridge – although the bridge's running costs and additional road maintenance expenses must be factored in.

On the AGOA strategy, it is anticipated that the revised strategy will increase Botswana exports to the United States markets. Sectors that have the potential to increase exports, create employment opportunities and contribute to an export-led growth have been prioritised. These include Agriculture, Textiles and Apparel, Meat and Meat Products, Handicrafts, Jewellery and Semi-precious stones, Horticulture and Agro-processing and Indigenous products. Since the commencement of AGOA in 2000, Botswana has mainly exported textiles & clothing and furniture. It is hoped that the inclusion of other industries in the revised AGOA will boost Botswana exports and increase export earnings.

### Macroeconomic policy environment

Annual inflation increased sharply during the second quarter of 2021. The inflation rate increased to 8.2% in June 2021, rising above the upper bound of the Bank of Botswana's medium-term inflation objective range of 3-6%. This is the first-time inflation rate has gone above the objective range since May 2013. The increase in annual inflation reflects upward adjustments in utility prices, VAT, fuel prices and BHC rentals. Inflation is forecast to remain above the upper bound of the objective range in 2021 and return within the range in H1 2022. Despite the increase in annual inflation, the Bank of Botswana maintained the Bank Rate at 3.75%, reaffirming their accommodative monetary policy stance.

### Financial sector

Commercial banks continued to exercise caution with regards to extending credit to the market, due to uncertainties regarding the COVID-19 pandemic. Bank credit growth is historically low and slowed to an annual 2.8% in April 2021, notwithstanding an improvement in credit growth to both households and firms. Credit to parastatals fell, although it is not clear whether it was mainly driven by supply or demand. Arrears on bank lending fell marginally during the first quarter of 2021 indicating that both firms and households have not begun defaulting on loans at an increased rate. Overall, the banking sector environment is healthy with adequate liquidity.

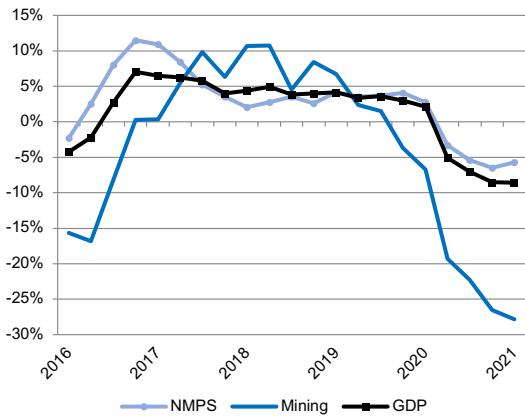
### Outlook

Data on the recent economic developments provide a decidedly mixed picture, with some positive developments with regard to economic growth, trade performance and banking, offset by negative developments with regard to inflation, hopefully temporarily. COVID-19 continues to cause significant economic and social disruption, with an upsurge in infections and deaths in recent weeks. Vaccination rollout is continuing, and Botswana has been doing so at a faster pace than most countries in sub-Saharan Africa, but by July only around 15% of adults had received at least one dose. At this stage, the impact of the pandemic both locally and globally is set to continue for some time.

The broader socio-economic impact of the pandemic may, of course, be hidden by a lack of up-to-date data, with no recent data on poverty levels, or household incomes or expenditures. The quarterly labour market survey that had been providing useful information on critical labour market trends has only published one set of results recently (for Q4 2020), and, perhaps surprisingly, there is no indication of when more results can be expected. There are fears that household budgets are under increasing stress due to reduced incomes, job losses and healthcare expenses, which will only mount over time, with no clear end in sight.

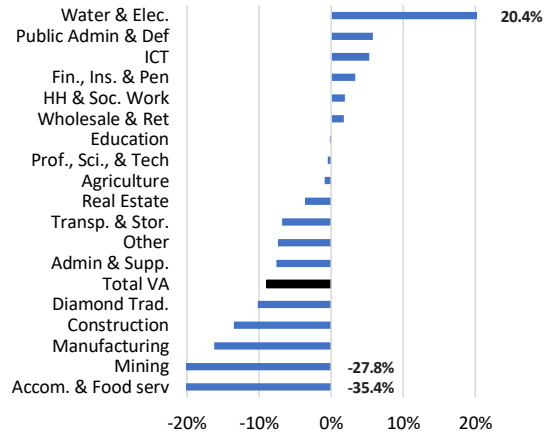
## KEY ECONOMIC VARIABLES

### Annual GDP Growth



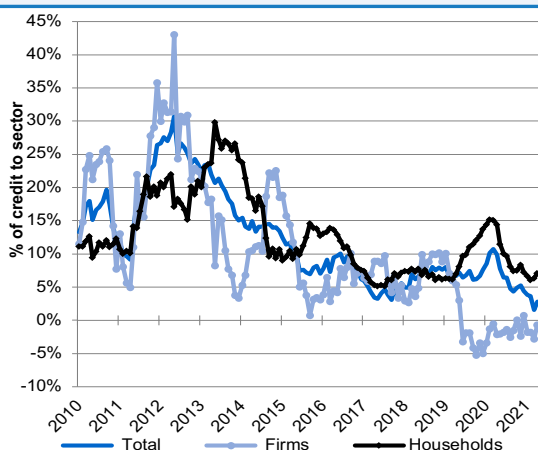
Real GDP continued to shrink during the first quarter of 2021. Q1 2021 was the fourth consecutive quarter to register negative economic growth, highlighting the deep and persistent effect of the COVID-19 pandemic on the domestic economy. Real year-on-year GDP growth declined to minus 8.6%, marginally lower than the minus 8.5% recorded in Q4 2020. The mining sector continues to bear the brunt of the COVID-19 pandemic, recording y-on-y growth of minus 27.8%, down from minus 26.5% in the previous quarter. There were contractions across all mining subsectors especially diamond mining which recorded growth of minus 29.1%. Non-mining private sector (NMPS) activity showed a slight improvement during Q1 2021, although still performing badly by historical standards, recording y-on-y growth of minus 5.7%, up from a contraction of 6.5% in Q4 2020.

### Sectoral GDP Growth



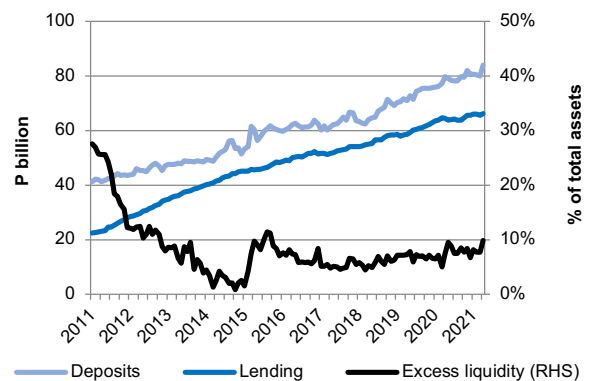
In line with continued difficult economic conditions, most sectors of the economy recorded negative growth during the year to Q1 2021. There were significant contractions in the Accommodation & Food Services, Mining and Manufacturing sectors, which recorded growth rates of minus 35.4%, minus 27.8% and minus 16.2% respectively. The data highlights the severe impact that the COVID-19 pandemic has had on both the mining and tourism industries. The Public Administration and ICT sectors recorded positive y-on-y growth of 5.8% and 5.3% respectively, reflecting the uptake in the use of technology and government relief programmes in an effort to combat the pandemic.

### Annual Credit Growth



Annual bank credit growth declined to 2.8% in April 2021, down from 3.9% in January 2021. Although total bank credit growth slowed down, growth in both household credit and credit taken up by private firms improved during this period. Household credit growth rose to 7.1% in April 2021, up from 6.7% in January, whilst credit taken up by private firms contracted by 0.7% in the year to April 2021 up from a contraction 1.7% in January. Therefore, the slowdown in total credit growth was driven by a 36.4% contraction in credit taken up by parastatals.

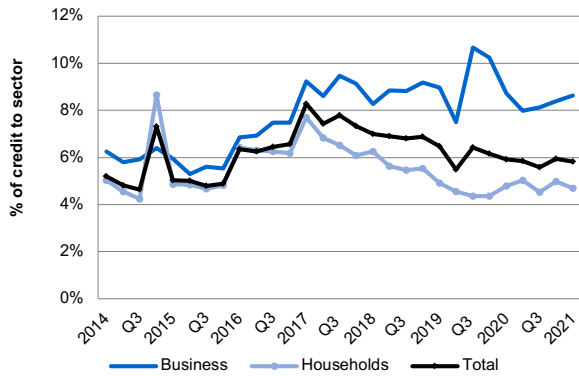
### Bank Deposits, Lending & Liquidity



Bank liquidity improved during the first quarter of 2021. Excess liquidity rose from 8.1% of total assets in January 2021 to 9.9% in April 2021. Excess liquidity as a proportion of total assets has now reached its highest levels since Q3 2015. Bank deposits were valued at P84.0 billion in April 2021, up by 4.0% (P3.23 billion) from January. Bank lending also increased, albeit marginally, by 0.4% (P0.26 billion), reaching a value of P66.2 billion in April 2021.

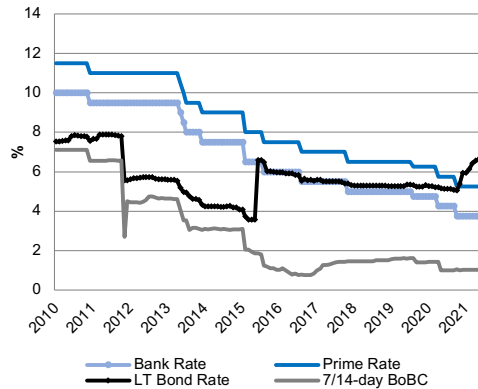
# KEY ECONOMIC VARIABLES

## Arrears on Bank Lending



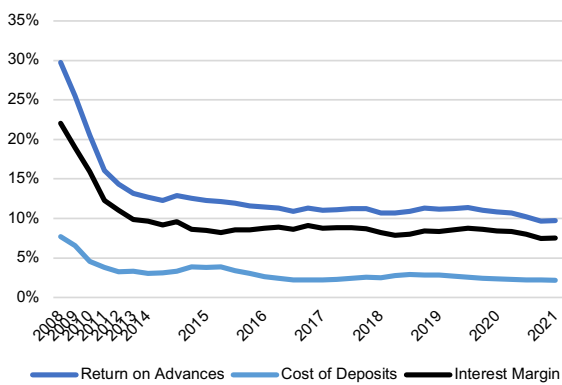
Total arrears on bank lending declined marginally as a proportion of total banking assets during the first quarter of 2021. Total arrears declined from 5.9% in Q4 2020, to 5.8% in Q1 2021. This was driven by lower arrears on lending to households, down from 5.0% of lending in Q4 2020, down to 4.7% in Q1 2021. This was partially offset by an increase in arrears on lending to businesses, which rose from 8.4% to 8.6% during the same period. The marginal decline in arrears suggests a measure of resilience in Botswana’s credit sector as the COVID-19 pandemic has not resulted in households or firms defaulting on loans at an increased rate.

## Interest Rates



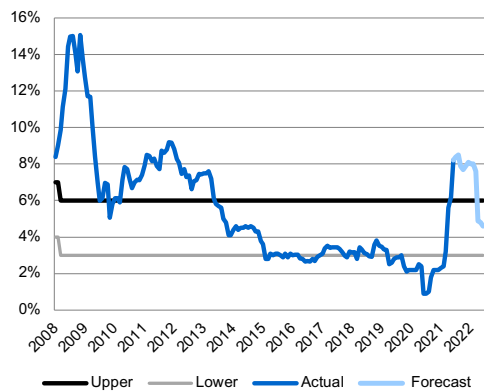
The Bank of Botswana’s Monetary Policy Committee (MPC) took the decision to reaffirm their accommodative monetary policy stance and maintain the Bank Rate at 3.75% in June 2021. The 7/14-day BoBC rate rose from 1.02% in March 2021, to 1.04% in June 2021. While policy and money market rates remain unchanged, longer-term interest rates have been rising. The long-term government bond rate (BW012) rose from 5.05% in October 2020 to 6.60% in May 2021. This is due to increased bond issuance following government’s decision to increase domestic borrowing to finance budget deficits. The changed balance between supply and demand in the capital market has inevitably led to an increase in the cost of long-term funds.

## Interest Rate Spread



The long-term trend of both lending and deposit rates for commercial banks has followed Bank of Botswana’s Bank Rate downwards. This follows two 50 basis point cuts in the Bank Rate in 2020 and a 25-basis point cut in 2019. The average return on advances has fallen from 11.3% in Q1 2019 to 9.7% in Q1 2021. During the same period, the average cost of deposits has also fallen, declining from 2.8% to 2.2%. As a result of the greater decrease in the average return on advances compared to the average cost of deposits, the interest margin between the two declined from 8.4% in Q1 2019 to 7.5% in Q1 2021, reaching its lowest ever recorded level. The declining and historically low interest margins are expected to put a squeeze on bank profits.

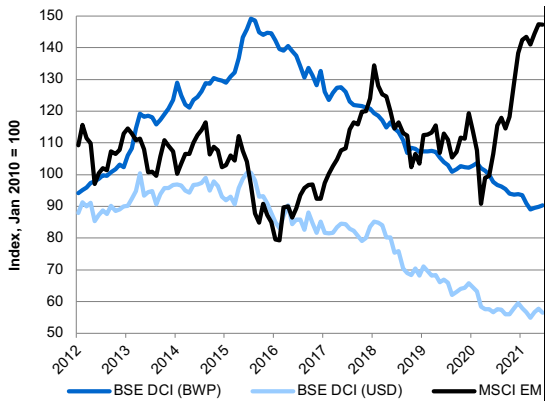
## Inflation and Forecast



The headline inflation rate increased sharply during Q2 2021, rising from 3.2% in March 2021, to 8.2% in June. The sharp rise in the headline inflation during the quarter reflects the increase in utility prices, VAT, BHC rentals and fuel prices that took effect between March and June. This is compounded by the base effect from the fuel price reduction in the second quarter of 2020. However, the increase in inflation is expected to be a short-term phenomenon. Inflation is projected to continue rising until Q3 2021, before returning to within the BoB’s objective range in Q2 2022.

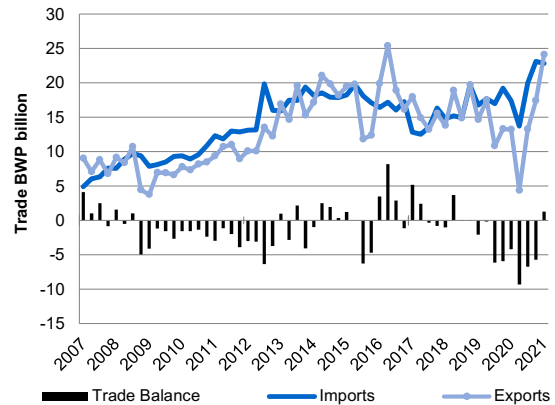
## KEY ECONOMIC VARIABLES

### Stock Markets



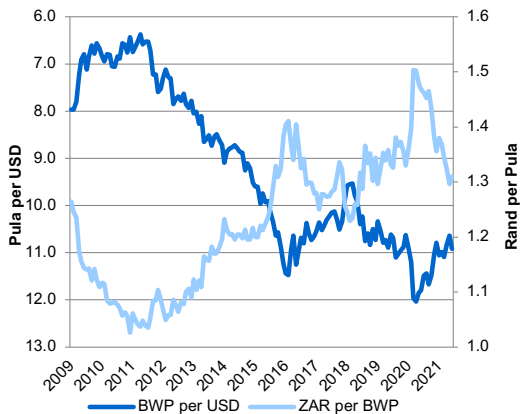
The Botswana Stock Exchange (BSE)'s Domestic Companies Index (DCI) strengthened during the second quarter of 2021, a sign that the domestic stock exchange may be starting to recover from the effects of the COVID-19 pandemic. The DCI rose by 1.4% and 3.0% in Pula and USD terms respectively. However, the BSE was outperformed by international stock markets with the MSCI World Index appreciating by 7.3% and the MSCI Emerging Markets Index rising by 4.4%.

### International Trade



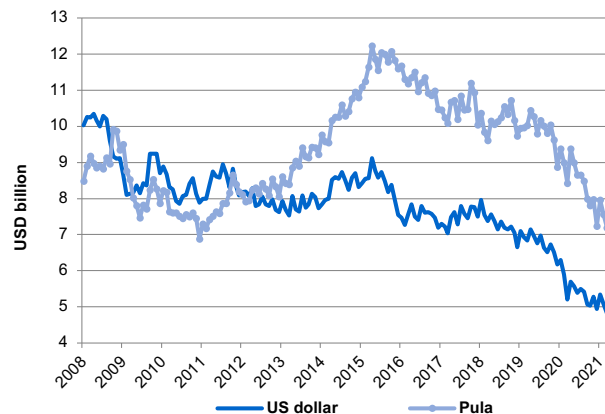
International trade activity continued to recover from the effects of the COVID-19 pandemic, characterised by an increase in exports and a marginal decline in imports. Exports were P24.1 billion in Q1 2021, up by 38.4% when compared to Q4 2020. This was driven by 42.5% increase in Diamond exports. Imports were P22.8 billion in Q1 2021, a 1.4% decline when compared to the previous quarter. The rise in exports and decline in imports resulted in a trade surplus of P1.3 billion. This is the first quarterly trade surplus since 2018.

### Exchange Rates



The Pula depreciated against the rand and strengthened against the USD during Q2 2021. The Pula depreciated by 2.6% against the rand, ending Q2 2021 at ZAR1.310, down from ZAR1.345 at the end of Q1 2021. The Pula-US dollar exchange rate was 10.92 at the end of Q2 2019, up from 11.09 at the end of Q1 2019, an appreciation of 1.6%. These changes were mainly driven by the strong appreciation of the rand against the US dollar.

### Foreign Exchange Reserves



Foreign exchange reserves decreased across all measurement currencies, namely, the Pula, US Dollar and SDR, (albeit marginally against the Pula and the SDR) during the first quarter of 2021. Foreign exchange reserves declined by 0.5% in Pula terms to P53.1 billion in March 2021, down from P53.4 billion in December 2020. Reserves decreased by 2.4% in US Dollar terms and 0.7% in SDR terms to USD4.8 billion and SDR3.4 billion, respectively, during the same period.

## NEWS HIGHLIGHTS

9th April	IMF Staff completes 2021 Article IV Mission to Botswana. (International Monetary Fund)	The International Monetary Fund (IMF) team has completed virtual discussions for the 2021 Article IV consultation for Botswana and applauded the country for the immediate response and actions to reduce the impact of the COVID-19 pandemic. The IMF noted that the pandemic has intensified Botswana's economic challenges as it has reduced Botswana's financial buffers, caused revenues to drop significantly, increased the level of public debt, and widened the current account deficit. According to the IMF team, economic recovery is expected but depends on the successful rollout of the COVID-19 vaccine locally and globally, and on a positive demand trend for rough diamonds. Botswana has been advised to continue with the implementation of the recovery measures, which include advancing fiscal reforms, enhancing policy frameworks, implementing the ERTF to diversify sources of growth and promote private sector activity, and building resilience and transforming the economy.
15th April	Tenders awarded to connect Lesedi gas, solar project to Botswana grid. (Engineering News)	Tlou Energy has awarded tenders for the construction of 100 km of overhead transmission lines and substations at Lesedi and Serowe to connect the coal-bed methane Lesedi power project to the Botswana national electricity grid at Serowe. The Lesedi substation will integrate the generation assets with the transmission line and the Serowe substation will tie in with BPC's existing infrastructure. According to the company, the proposed transmission lines are key to unlocking the independently certified gas reserves, contingent resources, and the company's solar potential. Tlou Energy aims to be a significant supplier of clean energy as the local and regional markets are significantly short of renewable energy.
23rd April	Botswana's Debswana expects new strategy to create at least USD900 million in extra revenue. (Nasdaq)	Debswana Diamond Company expects its new five-year strategy to create approximately P10 billion in additional revenues. The strategy, which was adopted in 2020, includes restructuring of mines and improving efficiency throughout the group's operations. As mines get deeper and costlier to run, Debswana is looking to convert its flagship Jwaneng mine into an underground mine and expand the lifespan of the mine by further 20 years, with annual production of about nine million carats. At full operation, Jwaneng mine will be the world's largest underground mine with more than 360 km of tunnel network.
23rd April	Moody's downgrade Botswana's rating to A3, changes outlook to stable. (Yahoo finance)	Moody's Investor Service (Moody's) has downgraded Botswana's rating from "A2" to "A3" and changed outlook from "negative" to "stable". According to Moody's, the downgrade reflects the deterioration in fiscal strength exacerbated by the shock induced by the coronavirus pandemic. Hence, Botswana's fiscal buffers have significantly reduced, and this makes the country more vulnerable to future shocks than its A-rated peers. However, the stable outlook reflects Botswana's strong credit profile; low debt and high debt affordability, and prudent macroeconomic policies which should help the country navigate through the challenges and take out the economy out of the crisis. Moody's noted that the ratings could be revised upwards if the country has improved resilience to external shocks, reduced vulnerabilities of the budget structure, made progress in economic diversification and improvement in the business environment. However, a downgrade is possible if there is a deterioration of fiscal metrics beyond the current level due to fiscal consolidation challenges and a significant increase in financial support to state-owned enterprises.

## NEWS HIGHLIGHTS

3rd May	Botswana launches Revised AGOA Strategy. (Daily News)	The Ministry of Investment, Trade and Industry (MITI) and the Embassy of the United States of America (USA) has launched the Revised African Growth and Opportunity Act (AGOA) National Response Strategy for Botswana. The strategy provides a comprehensive plan to increase Botswana exports to the USA under the AGOA preference Program, a non-reciprocal unilateral trade arrangement that the United States established in 2000 to promote bilateral trade and investment between the United States and Sub-Saharan African countries. The revised strategy is aligned with national priorities of promoting export-led growth and promoting a knowledge-based economy included in the National Vision 2036 and the National Development Plan 11. Priority industries identified under the strategy that have the potential to increase exports, create employment, reduce poverty and diversify the economy are Agriculture, Textile and Apparel, Meat and Meat Products, Handcrafts, Jewelry and Semi-precious stones, Horticulture and Agro-processing and Indigenous products. Botswana has mainly exported textiles and clothing, and furniture since the commencement of the AGOA in 2000, and the addition of other industries to the program is hoped to increase the value of exports to the USA which has fallen significantly from USD318 million in 2014 to USD277 million in 2019.
6th May	Lucara secures USD220 million for Botswana diamond mine expansion. (Mining weekly)	Lucara Diamond Corp. has secured funds of up to USD220 million for underground expansion of its Karowe mine. It is anticipated that the lifespan of Karowe mine will be increased to 2040, with life-of-mine production of approximately 7.8 million carats. The Karowe underground expansion has an estimated capital cost of USD514 million and a five-year development period. The balance of the development capital is expected to come from operating cash flow generated by open-pit operations at the mine during the development period.
10th May	Businesses project slower growth, rising costs. (Sunday Standard)	According to the Bank of Botswana's Business Expectations Survey (BES), businesses are still hampered by the coronavirus containment measures, with the first three months of the year characterised by decline in production, inventories, sales, profitability, and investment. However, businesses remain optimistic and expect economic activity to increase in the second half of the year. Similarly, there is optimism about economic performance in the twelve-month period to March 2022 with businesses expecting increased economic activity and the easing of COVID-19 containment measures.
18th May	Kazungula bridge opens. (The Voice)	The Kazungula bridge, which connects Botswana and Zambia and links Durban's port to the Democratic Republic of Congo and Tanzania through the North and South corridor has been officially opened. The construction of the 923-meter road began in 2014 at an estimated investment cost of USD259 million, financed jointly by the governments of Botswana and Zambia. The road is key to connect regional markets in the SADC region with major seaports, thereby promoting regional integration. The Kazungula bridge also offers an alternative north-south route, allowing long-haul truckers to bypass the Beitbridge border post and will also help to ease congestion at border crossings, which could previously delay trucks for days. There is also a new one-stop border post in Botswana and Zambia.



## NEWS HIGHLIGHTS

20th May	RDC rental revenue 14% down. (The Patriot)	The COVID-19 pandemic has taken a toll on most economic sectors, including the property market. The RDC Properties Group has reported a 14% decline in rental revenue, attributable to the difficulties brought by the pandemic. The Group has reported that rental revenues were down by 13.7% to P131.6 million for the financial year ended 31 December 2020, as compared to P152.5 million recorded in financial year ended in December 2019. The Botswana market accounted for 55% of the decline while South Africa accounted for 45%. The diversified real estate property indicated that both markets have been heavily impacted due to deep contraction in economies owing to COVID-19.
26th May	BURS targets P43 billion. (The Patriot)	Botswana Unified Revenue Service (BURS) expects improvement in revenue collection and anticipates collecting about P43 billion in tax revenue during 2021/ 22 fiscal year. In the 2020/21 FY, BURS exceeded its target by P2 billion and collected revenue totaling P39 billion from the targeted P37 billion. According to the Commissioner General, the COVID-19 pandemic brought challenges regarding tax collection. However, it is expected that the revenue service which is undergoing Tax Administration Diagnostic Assessment Tool (TADAT) will help measure the effectiveness of the operations of a tax administration against international best practices and improve the overall tax administration in Botswana.
3rd June	Botswana's Khoemacau Copper mine aims to start production this month. (Mining weekly)	Botswana's new Khoemacau copper mine aims to start production in June 2021 and its first sales are expected from the third quarter of the year. According to the Chief Executive of the company, the first concentrate will be produced after completing the commissioning work and introduction of ore into the processing facility. Khoemacau plans to produce between 25,000 to 28,000 tonnes of copper in concentrate and between 790,000 to 810,000 ounces of silver in 2021 and increase production to 60,000 tonnes of copper and 2 million ounces of silver thereafter. Khoemacau mine will be the only operational copper mine in Botswana, after the closure of the BCL and Mowana mines, which have been placed under liquidation since 2017 and 2018, respectively.
9th June	PPC sells Botswana aggregates business, expects to report higher full-year earnings. (Engineering News)	PPC has signed a binding sale and purchase agreement with a Botswana-based construction and mining company to buy PPC's 100% shareholding in PPC Aggregate Quarries Botswana. The transaction is expected to be completed in August 2021.
9th June	World-class Motheo copper project in Botswana ties the knot with mining contractor. (Mining review)	Sandfire Resources has awarded the contract for open pit mining services of the T3 pit at its Motheo copper project in Botswana to African Mining Services (AMS). The award was made through its subsidiary, Tshukudu Metals Botswana. The contract is estimated to be valued at USD496 million and is the largest single operational contract for the new Motheo project covering a period of seven years and three months, with provision for a one-year extension. The award is subject to the grant of mining licence and subsequent execution of the final contract.

## NEWS HIGHLIGHTS

11th June	Government loses debt target again. (Mmegi)	The Bank of Botswana has managed to raise 53% of the targeted P1.95 billion - or P1.03 billion - through monthly auctions of Government Treasury Bills and Bonds. The shortfall comes about the market opting for shorter maturing government bonds as opposed to long-term bonds, and Government rejecting the higher return being demanded by the market to lend funds. The auction for short-term bonds managed to raise P1 billion while the remainder was from auctions of long-term government bonds, indicating the market's preference for short-term government bonds as opposed to long term bonds. The Government was looking to raise funds to finance part of the forecasted P6 billion budget deficit in 2021/22 financial year, as government savings have been depleted due to COVID-19 spending.
11th June	Cresta suffers P63m loss due to COVID-19 pandemic. (Mmegi)	The hospitality and tourism group, Cresta Marakanelo Limited, has recorded a net loss of P63 million for the financial year 2020 because of disruptions caused by the COVID-19 pandemic in the travel and hospitality industry. This compares with P24 million profit recorded in the corresponding period in 2019. The Group's chairperson, Mr Moathodi Lekaukau, noted that the disruptions are expected to continue in the medium term and is uncertain when the operations will return to normal. This is a further indication of how the Tourism sector has adversely been affected by the pandemic.
16th June	Botswana unearths the world's third-largest diamond. (Reuters News)	A 1,098-carat diamond, believed to be the third largest gem-quality stone ever to be mined, has been discovered in Botswana by the Debswana Diamond Company. The rough diamond is the third largest after the 1,758-carat Sewelo in 2019 and the 1,109 carats Lesedi la Rona in 2015, both of which were recovered by Lucara Diamond Corp. Karowe mine in Botswana. According Debswana Acting Managing Director Ms Lynette Armstrong, the rough diamond is the largest that the company has ever recovered in its history of over 50 years in operation.
17th June	Botswana gets a P2.6 billion loan from World Bank. (Sunday Standard)	The World Bank has approved a P2.6 billion loan to Botswana under the Programmatic Economic Resilience and Green Recovery Development Policy Loan (DPL). The loan will be used to accelerate the pace of economic reforms and support the implementation of the ERTF which is important to take the economy out of the COVID-19 crisis, restore growth and build resilience to future economic shocks. Also, the program will encourage the Government's effort towards green technologies by supporting reforms to increase production of renewable energy by independent power producers, promoting and regulating rooftop solar energy generation, and embedding climate change considerations in environmental assessments.
21st June	Tsodilo set to advance Phase 2 of Botswana project following licence renewal. (Mining weekly)	The Ministry of Mineral Resources, Green Technology and Energy Security, has renewed Tsodilo Resource's prospecting licence for two years, for an area which contains the company's BK16 kimberlite project. The renewal will pave way for the company to continue with its plans to advance to Phase 2 of the evaluation programme and it include a surface bulk sample of 20,000 tonnes of kimberlite, which will enhance the work already undertaken and increase confidence in the value of the diamonds and grade as the miner moves closer to developing this asset.

## NEWS HIGHLIGHTS

<p>23rd June</p>	<p>De Beers sales bounce back. (Rapaport News)</p>	<p>De Beers' rough diamond sales reached a three-month high at its June 2021 De Beers Global Sightholder Services (DBGSS) sight as retail demand remained strong and the COVID-19 crisis in India eased. Provisional rough sales at the fifth cycle were USD470 million, up from USD385 million in May 2021. This compares to DBGSS sales of only USD56 million for the fourth and fifth cycles combined in 2020, as the coronavirus pandemic froze the supply chain. The demand for rough diamond during the first half the year has been consistently positive with increased activity in the fifth cycles and prompted the company to increase rough prices by 2% for 2-carat rough and by 5% for larger rough diamonds.</p>
<p>23rd June</p>	<p>Lucara wows again with 1,175 carats rough diamond. (Rapaport News)</p>	<p>Lucara Diamond Corp. has recovered a 1,174.76 carats rough diamond from its Karowe mine in Botswana. It is believed that the diamonds were originally part of a stone weighing more than 2,000 carats. The rough diamond is the third over 1,000 carats Lucara has recovered following the 1,758 carat Sewelo in 2019 and the 1,109 carat Lesedi la Rona in 2015. The rough diamond was unearthed from the south lobe, an area known for its large and high-quality rough diamonds.</p>
<p>23rd June</p>	<p>Tsodilo Resources: Initiates Collaboration to Study the Production of a Pellet Feed Direct Reduced Product Using Botswana Coal for Steel Generation. (Junior Mining Network)</p>	<p>Tsodilo Resources has announced a research collaboration with the Department of Chemical, Materials and Metallurgical Engineering at the Botswana International University of Science and Technology (BIUST) and Morupule Coal Mine (MCM) to undertake metallurgical studies with respect to the potential of generating a Pellet Feed and Direct Reduced Iron (DRI) product from the Xaudum Iron Formation (XIF) utilizing its magnetite and MCM's coal as a reductant. Commercially, these high-grade pellets and DRI product would be used to produce steel for the local market and export market. The Company's Metallurgical results show that the XIF magnetite product is expected to be a premium high-grade product containing 67% iron magnetite that will be ideal pellet feed material. This quality grade will place the XIF in the top 4-5% of producers in the world by Fe grade. High-grade concentrates and pellets of 67% Fe, such as the XIF products, offer a net environmental benefit over its life cycle compared to classic lower grade. They are shown to have lower GHG emissions.</p>
<p>29th June</p>	<p>Update on Botswana's progress towards exiting the FATF grey-listing. (MFED)</p>	<p>The Ministry of Finance and Economic Development (MFED) has announced the outcome of the Financial Action Task Force (FATF) Plenary on Botswana's progress towards moving out FATF greylist. The FATF Plenary recognized the country's efforts to address the strategic deficiencies which were identified in the 2018 Mutual Evaluation Review and noted that Botswana has substantially completed its action plan to strengthen the AML/CFT regime. Based on this significant progress, the FATF Plenary plans to conduct an on-site assessment to determine sustainable and political commitment for the implementation of the AML/CFT reforms. It is then that a final determination will be made on whether to remove Botswana from the FATF grey-list and subsequently de-listing from the European Union's (EU) black-list.</p>

## MACRO-ECONOMIC DATA

Key Economic Data													
	unit	2015	2016	2017	2018	2019	2020	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
<b>Annual Economic Growth</b>													
GDP	%	-5.7	7.0	4.0	4.0	3.0	-8.5	2.2	-5.1	-7	-8.5	-8.6	..
Mining	%	-15.3	0.3	6.3	8.4	-3.7	-26.5	-6.7	-19.3	-22.2	-26.5	-27.8	..
Non-mining private sector	%	-5.0	11.5	3.6	2.6	4.1	-6.5	2.7	-3.3	-5.4	-6.5	-5.7	..
GDP current prices	P bn	137.54	164.42	166.47	172.53	178.48	172.55	46.46	36.59	43.87	45.63	47.74	..
GDP 2016 prices	P bn	153.61	164.42	171.00	177.81	183.13	167.58	45.75	33.96	43.98	43.89	46.08	..
<b>Money &amp; Prices</b>													
Inflation	%	3.1	3.0	3.2	3.5	2.2	2.2	2.2	0.9	1.8	2.2	3.2	8.2
Prime lending rate	%	7.50	7.00	6.50	6.50	6.25	5.25	6.25	5.75	5.75	5.25	5.25	5.25
BoBC 7/14-day	%	0.97	0.84	1.45	1.52	1.41	1.04	1.44	1.00	1.01	1.04	1.02	1.04
<b>Trade &amp; Balance of Payments</b>													
Exports - total goods	P bn	63.48	80.34	61.67	67.17	56.29	48.24	13.20	4.39	13.24	17.41	24.09	..
Exports - diamonds	P bn	52.73	70.78	54.38	60.41	51.01	42.54	11.44	3.57	11.68	15.85	21.61	..
Balance of payments	P bn	-4.15	-3.28	-4.28	-4.20	-12.02	-20.10	-4.85	-3.02	-6.95	-5.24	..	..
<b>Foreign Exchange</b>													
Exchange rate BWP per USD	end	11.24	10.65	9.87	10.73	10.63	10.79	11.96	11.79	11.67	10.79	11.09	10.92
Exchange rate ZAR per BWP	end	1.38	1.28	1.26	1.34	1.33	1.36	1.50	1.47	1.47	1.36	1.34	1.31
FX reserves	\$ bn	7.55	7.19	7.50	6.66	6.17	4.94	5.20	5.39	5.07	4.94	4.82	..
FX reserves	P bn	84.88	76.80	73.69	71.43	65.23	53.36	62.01	63.65	58.85	53.36	53.08	..
<b>Financial Sector</b>													
Deposits in banks	P bn	59.96	62.44	63.58	69.27	75.71	80.54	77.26	78.37	79.75	80.54	79.88	..
Bank credit	P bn	48.31	51.32	54.18	58.33	62.77	65.55	64.63	64.05	63.77	65.55	65.64	..
BSE index		10,602	9,728	8,860	7,854	7,495	6,890	7,488	7,160	7,001	6,890	6,528	6,622
<b>Business Indicators</b>													
Diamond production (a)	mn cts	20.73	20.88	22.96	24.38	23.67	16.87	5.74	1.93	4.92	4.29	5.04	..
Copper production (b)	tonnes	23.05	16.88	1.24	1.46	0.00	..	..	..	..	..	..	..
Nickel production	tonnes	16.79	13.12	0.00	0.00	0.00	..	..	..	..	..	..	..
Business confidence index		44%	43%	46%	..	..	..	..	..	..	..	..	..
No. of companies formed		19,134	17,133	20,707	..	..	..	..	..	..	..	8,110	..
Electricity consumption	GWh	3,974	3,929	3,772	3,919	3,906	3,842	1,011	854	994	983	943	..
Crude oil (Brent)	\$/bar	36.61	54.96	66.73	50.57	67.77	51.22	14.85	41.64	40.30	51.22	63.52	76.94
<b>Employment (formal) (f)</b>													
Government		130,220	129,216	129,009	156,785	156,785	152,973	155,488	..	..	152,973	..	..
Parastatals		19,411	19,008	19,444	23,497	23,497	18,933	26,591	..	..	18,933	..	..
Private sector		191,484	194,202	193,745	250,778	227,281	250,715	224,735	..	..	250,715	..	..
Total		341,115	342,426	342,198	431,060	407,563	422,621	406,814	..	..	422,621	..	..
<b>Govt Budget</b>													
		2017/18	2018/19	2019/20	2020/21	2021/22							
			(d)	(d)	Revised	Projection							
			(d)	(d)	(e)	(e)							
Revenues	P bn	56.41	53.47	54.30	48.33	64.58							
Spending	P bn	58.39	62.35	65.40	69.36	70.61							
Balance	P bn	-1.98	-8.88	-11.10	-21.03	-6.03							
Public debt & guarantees	P bn	32.99	34.41	36.19	46.69	56.64							
Govt deposits at BoB	P bn	30.09	21.56	19.86	6.20	..							
GDP	P bn	167.70	175.20	180.60	173.80	197.90							
Revenues	%GDP	33.6%	30.5%	30.1%	27.8%	32.6%							
Spending	%GDP	34.8%	35.6%	36.2%	39.9%	35.7%							
Balance	%GDP	-1.2%	-5.1%	-6.1%	-12.1%	-3.0%							
Public debt & guarantees	%GDP	19.7%	19.6%	20.0%	26.9%	28.6%							
Govt deposits at BoB	%GDP	17.9%	12.3%	11.0%	3.6%	..							

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

(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

# Updating and Rebasing Botswana National Accounts

## Introduction

Statistics Botswana has released the national accounts of Botswana by economic activity and components of final demand at current and constant prices for the period 2014 to 2020 and the first quarter of 2021. In this feature we look at the new methodology and also investigate the detail of the results, which provide some interesting insights into the structure of the economy and how it is changing.

## Rebasing and why it is necessary

The new data are not just a normal update from the previous data, but are the results of a once-a-decade exercise to rebase the entire national accounts data, update the methodology of calculation and improve the range of data sources used in doing so. Hence, the new national accounts include Gross Domestic Product (GDP) estimates that have been rebased from the old base year of 2006 to a new base year of 2016, for the constant prices (real output) estimates. The update in the base year was necessary to reflect changes in the structure of the economy, prices, and consumption patterns over the years. This exercise ensures that the data is as accurate as possible and is representative of the economy and the economic developments that have taken place over the years. It is desirable that national accounts be updated periodically as recommended by the 2008 System of National Accounts (SNA) with best practice updating every 5 to 10 years.

Until the end of 2020, Botswana national accounts used a 2006 base year, which meant that there were potential inaccuracies in the measurement of GDP and economic growth. The exercise to update to the new 2016 base year has been ongoing for some time but was delayed by the COVID-19 pandemic which disrupted data collection and the technical discussions. However, the rebase exercise has now been completed.

## Changes in revised estimates

- The newly revised estimates use the recent concept and definitions (as far as possible and where data is available) as set in the latest version of the 2008 System of National Accounts (SNA). Until the Q4

2020 GDP estimates, Botswana's national accounts have been prepared following the 1993 SNA methodology, which was subsequently updated to the 2008 SNA in 2009. These updates considered the evolving needs of users, latest economic developments, and upgrades in statistical methodologies. The 2008 SNA are flexible and are designed to cater for the needs of countries at different stages of economic development.

- As a result, there has also been a change in the methodology used to prepare the Botswana GDP estimates. The latest figures employ a Supply and Use Table (SUT), for the first time in Botswana. SUTs describe how products (goods and services) are brought in the economy (Supply table) and how the same products are used in the economy (Use table), and hence ensure consistency between the output and expenditure estimates of GDP.
- The new GDP data also have a more detailed breakdown economic activities into main sectors and sub-sectors, the inclusion of several new industries in economic sectors – across agriculture, manufacturing and services, and re-classification of economic sectors as more and more data has become available over the years (see table 1).

The new estimates have:

- 17 primary sectors and 58 sub-sectors, compared to 10 primary sectors and 39 sub-sectors in the old NA;
- Much more disaggregation of manufacturing (15 sub-sectors, compared to five previously);
- Much more disaggregation of services (reflecting the pattern of growth over past years);
- Explicit recording of education and health services;
- A new ICT sector;
- Clearer identification of tourism-related activities;
- Separation of downstream diamond activities (cutting & polishing, trading) so that the overall extent of the diamond value chain can be measured;
- Clearer identification of activities related to creative industries.

## SPECIAL FEATURE

**Table 1: Comparison of new and old primary economic sectors and sub-sectors**

NEW		OLD	
Sector	Subsector	Sector	Subsector
Agriculture	Crop farming; horticulture	Agriculture	Livestock
	Livestock farming		Crops
	Support services to agriculture		Other
	Forestry & logging; fishing & aquaculture		
Mining	Coal	Mining	Diamonds
	Copper & nickel		Copper
	Gold & other metal ores		Coal
	Diamonds		Soda ash
	Soda ash & salt		Other mining
	Other mining & quarrying		Prospecting
	Mining support service activities		
Manufacturing	Meat & meat products	Manufacturing	Meat & meat products
	Dairy products		Beverages
	Grain mill & animal feed products		Textiles
	Bakery products		Tanning & leather products
	Other food products		Other manufacturing
	Beverages & tobacco		
	Textiles, clothing & leather products		
	Wood, paper & products thereof		
	Printing & reproduction of recorded media		
	Chemical, pharmaceutical, rubber & plastic products		
	Other non-metallic mineral products		
	Basic metals & metal products		
	Manufacture, repair & installation of machinery & equipment		
	Furniture; other manufacturing		
Diamond sorting, cutting, polishing & setting			
Water & Electricity	Electricity supply	Water & Electricity	Water supply
	Water collection, treatment & supply		Electricity distribution
Construction		Construction	
Wholesale & Retail		Trade, hotels & restaurants	Wholesale
Diamond Trade			Retail
Accommodation & Food Services	Accommodation		Hotels & Restaurants
	Food Services		Petrol Stations
		Vehicle Dealers	

# SPECIAL FEATURE

Transport & Storage	Rail Transport	Transport & Communications	Road			
	Road transport		CTO			
	Air Transport		Railway			
	Storage & Transport Support Services		Air			
	Postal & Courier Services		Post & Comm.			
Information & Communication Technology	Publishing incl. motion pictures, printed matter		Finance & Business Services	Other		
	Radio & television broadcasting					
	Telecommunications					
	Computer programming & information services					
Finance, Insurance & Pensions	Central banking			Finance & Business Services	Banks	
	Monetary intermediation & financial services	Insurance				
	Insurance & pensions	Real Estates				
	Financial & insurance auxiliary services	Business Service				
Real Estate Activities	Owner occupied dwellings	Finance & Business Services			Prospecting	
	Real estate				Own Occupied Dwell.	
Professional, scientific & technical			Finance & Business Services			
Administrative & support services	Travel agencies, tour operators & related activities				Finance & Business Services	
	Other administrative & support services					
Public Admin. & Defence	Public administration, central government					General Govt
	Local government activities			L/Govt		
Education				Social & Personal Services		NPISH
Health & social work						HH Business Enterprises
Other Services	Arts, entertainment & recreation					Social & Personal Services
	Activities of membership organisations					
	Other service activities					

## SPECIAL FEATURE

### Purpose of rebasing national accounts

Measures of economic activity (national accounts) are typically derived from a detailed measurement of the economy carried out in a base year, with annual and quarterly measurements of activity and growth based on a selection of indicators. The base year is also used to derive the prices/values of different types of economic activity and output, which are used for the “constant price” estimates of economic output that are used to calculate real GDP growth rates. Best practice is for the national accounts base year to be updated every 5-10 years as recommended by the 2008 System of National Accounts. This is because the structure of the economy changes over time, with new economic activities emerging that may not be well reflected in GDP if an old base year measurement is used. Similarly, relative prices change, which can cause different distortions. Therefore, these changes in the economy that continuously take place justify the need to rebase national accounts series periodically.

New data has also become available which made it possible for the rebase exercise. The main data sources are

- 2015/16 Botswana Multi-Topic Household Survey (BMTHS);
- 2015 Agriculture census and surveys;
- 2016 Census of Enterprise and Establishment;
- Administrative data source from businesses e.g Mining, Financial Services, Public Administration, Water & Electricity;
- VAT data from the Botswana Unified Revenue Service.

### Methodology used for rebasing the national accounts

Rebasing is the process of replacing the old base year used for compiling the constant price estimates to a new and more relevant base year for compiling constant price estimates. Constant price estimates are important because they are used to calculate growth rates, an important indicator about how well the economy is performing. The choice of the base year is important and should be representative of the current state of the economy. The International Monetary Fund (IMF) recommends that the base year should be one that reflects “normal economic activity” for a country and “not shocks” because economic shocks can often cause temporary shifts in production and consumption patterns. Choosing the base year in which the economy was undergoing economic shocks can result in the calculation of unusual weights which could understate or overstate growth rates.

For the first time in Botswana, national accounts have been prepared using the Supply and Use Tables (SUTs). They show the inputs and outputs of different sectors and their inter-relationships and ensure the overall consistency of the sectoral national accounts estimates, and notably between the output and expenditure approaches to the calculation of GDP.

SUTs describe everything in the economy by industry (e.g. livestock farming) and by product (e.g. cattle sold for slaughter). They have two interlinked tables being the supply table and the use table. The supply tables show the supply of products (goods and services) by type of product and by type of industry and differentiate between domestic supply and imports from abroad. The use table gives information about the different uses of products (goods and services) by type of product and by type of use. By type of use it is meant whether it is intermediate consumption by industry, final consumption, gross fixed capital formation or exports.

Table 2: Example of supply and use table

		Products				Industries				Final Users			Total
		Industry A's product	Industry B's product	...	Industry Z's product	Industry A	Industry B	...	Industry Z	Final consumption	Gross capital formation	Exports	
Products	Industry A's product	Output by product by industry				Intermediate consumption by product and by industry				Final use by product and by category			Total use by product
	Industry B's product												
	...												
	Industry Z's product												
Industries	Industry A	Output by product by industry				Value added by component and by industry							Total output by industry
	Industry B												
	...												
	Industry Z												
Value added						Value added by component and by industry							Value added
Imports		Total imports by product											Total imports
Total		Total supply by product				Total output by industry				Total final uses by category			

Source: United Nations (2018)



## SPECIAL FEATURE

GDP estimates in Botswana have been calculated using the product approach. Using this measurement approach, the formula for calculating GDP is:

$$\begin{aligned} \text{GDP (value added) at basic prices} &= \\ &= \text{output (at current prices)} - \text{Intermediate consumption} \\ \text{GDP at market prices} &= \\ &= \text{GDP (value added) at basic prices} + \\ &+ (\text{taxes} - \text{subsidies on products}) \\ \text{Real GDP (at constant prices)} &= \\ &= \text{GDP at market prices} / \text{GDP deflator} \end{aligned}$$

In rebasing the national accounts, the reference period (base year) has been changed from 2006 to 2016 for the deflators. This means that the reference prices for the calculation of constant price (real) GDP will now be 2016 prices rather than 2006 prices. This in turn affects the relative weights of different sectors in GDP and their contribution to economic growth.

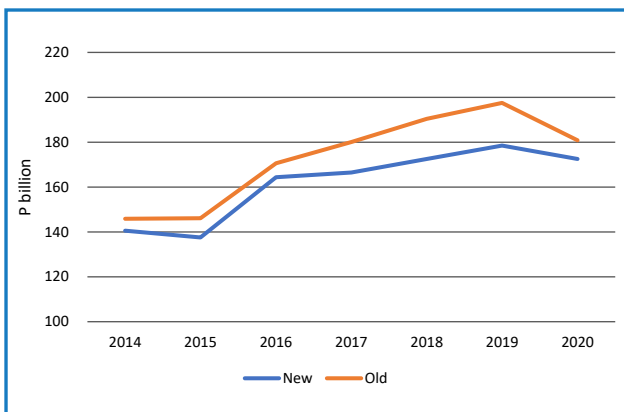
The new GDP methodology will be used for the reporting of GDP from the first quarter of 2021 onwards. It has also been applied to historical GDP, for the period 2014 to 2020, and will in due course be “backcast” to 2006, so that the old series becomes comparable and consistent with the new concepts and clarifications in the 2008 SNA.

### Results of the Rebasing and New Data

The rebasing of the National Accounts data coupled with the change in methodology to the 2008 SNA and the utilisation of new data sources has provided several insights into economic growth and the structure of the economy in Botswana.

#### Size of the economy

Figure 1: GDP at Current Prices

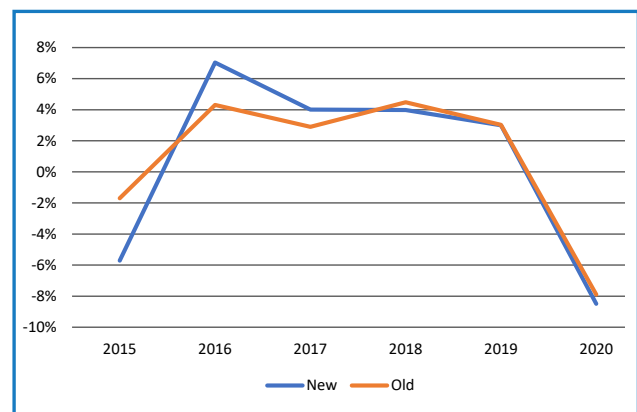


On the basis of the new data, Botswana’s economy is slightly smaller than previously estimated. According to the new series, nominal GDP in 2020 was recorded at P172,552 million compared to previous estimates of P180,799 million, a 4.6% reduction. This discrepancy is

mainly due to technical adjustments/differences on how taxes and subsidies on products are accounted for in GDP calculations between the two systems of national accounting, rather than any differences in the value of goods and services produced during the year. The “new” series is consistently smaller than the “old”, with the greatest difference between the two (-9.6%) coming in 2019. The implications of a smaller economy are broad and far reaching. For instance, per capita GDP is now slightly lower than previously reported, making the Vision 2036 objective of reaching high income status more difficult. Furthermore, various key economic metrics such as the fiscal deficit, public debt as a share of GDP, tax-to-GDP ratios, credit-to-GDP ratios will now be higher, affecting investment and borrowing decisions by government, banks and other economic agents.

#### Real GDP growth

Figure 2: Real GDP Growth



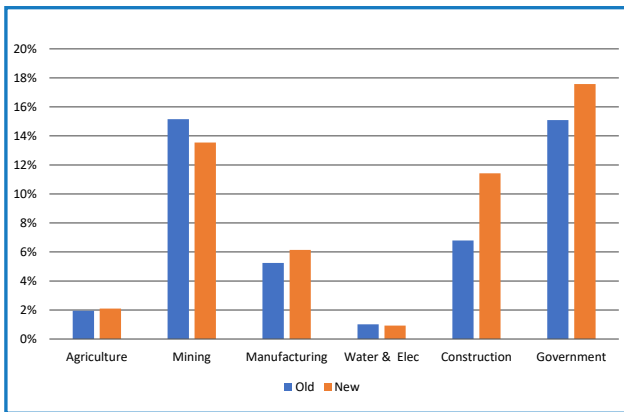
The contraction of the local economy in 2020, due mainly to the COVID-19 pandemic, was greater than initially thought. Growth calculations based on the “old” data series reported that real GDP output contracted by 7.9% year-on-year, whereas the “new” data series reports an 8.5% contraction. The “new” data series paints a more dire picture of the impact of the pandemic and highlights the need for swift, targeted and decisive government intervention in providing support to agents within the economy. Real GDP growth rates were similar between both series in 2018 and 2019, however, the new series reported greater growth rates in 2016 and 2017 and a greater contraction in 2015. On a more positive note, the yearly average growth rate of GDP from 2014-19 in the “new” series was 3.1%, slightly greater than the 2.9% average reported by the “old” series during the same period. This implies that pre-COVID, the domestic economy had been performing better than reported, suggesting that economic institutions in Botswana are stronger than previously thought, providing a basis for assuming stronger post-pandemic recovery than earlier projected.

## SPECIAL FEATURE

### Structure of the economy

As previously stated, the shift to the 2008 SNA has resulted in the re-organisation of economic sectors and sub-sectors. The changes make it difficult to draw a direct comparison of the structure of the economy between the “new” and “old” series as sectors like Education and Health services were not previously separately identified. However, the comparison of some key sectors, where classifications are unchanged, is possible<sup>1</sup>.

Figure 3: Shares of GDP, 2019



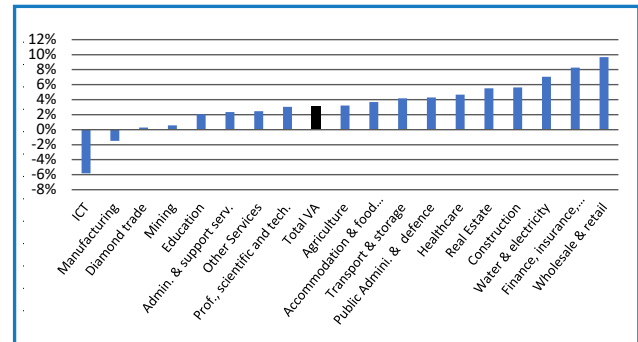
The six sectors we can compare directly are Agriculture, Mining, Manufacturing, Water & Electricity, Construction and Government. These sectors account for 45.2% and 51.7% of total GDP in the “old” and “new” series respectively, allowing us to make inferences about structural differences for approximately half of the economy. Agriculture accounts for a slightly larger share of GDP (2.1%) in the “new” series when compared to the “old” (1.9%) but remains a small component of total output. Similarly, Water & Electricity continues to account for a small fraction of output although its share declined from 1.0% (old series) to 0.9% (new series). The share of total output attributed to Mining activity is significantly smaller in the “new” series (13.5%) than previously estimated (15.2%), resulting in a 10.2% decline in the sector’s share of GDP. On the other hand, the Manufacturing sector’s share of GDP increased significantly, (by 17.2%) from 5.2% (old series) to 6.1% (new series). The largest percentage increase in share of total output (68.1%) took place in the Construction sector which accounts for 11.4% of GDP in the “new” series, up from 6.8%. The size of Government in the economy is significantly larger than previous thought. The Government sector is estimated to directly account for 17.6% of total GDP in the “new” series, up from 15.1%. Government is now by far the largest sector of the economy. Once public health and education are added in, the share of Government is larger still, at well over 20% of GDP. Hence there is an increasing danger that government activity will crowd out the private sector.

Apart from these six sectors, there are other conclusions we can draw about the structure of the economy:

- The share of GDP attributed to the Trade, Hotels and Restaurants sector in the “old” national accounts data was overestimated at 19.7%. The comparable sectors in the “new” data, namely, Wholesale & Retail trade, Diamond trading and Accommodation & Food services, only account for 14.1% of GDP.
- The Education (5.2% of GDP) and Human Health & Social Work Activities (3.1% of GDP) sectors, which were previously not separately identified, account for a significant share of total output (8.3%).
- The Finance & Business Services in the “old” data series is comparable to a combination of various sectors in the “new” series, namely, 1) Finance, Insurance & Pensions: 2) Real Estate: 3) Professional, Scientific & Technical activities: and 4) Administrative and Support Service activities. These four sectors make up 14.3% of total GDP in the “new” series, similar to the 14.2% share of total GDP held by Finance & Business Services in the “old” series.
- Downstream diamond activities – cutting & polishing, plus valuing and trading – accounted for 2% of GDP in 2019, compared to 12% for diamond mining.

### Sectoral Growth

Figure 4: Sectoral Growth, 2014-19



Examination of average annual growth rates between 2014 and 2019 across all sectors of the economy provides new insights into how the economy has been evolving over the past half decade. On average, total value added (GDP less taxes and subsidies) grew by 3.1% yearly. We can classify fast-growing sectors as those with average annual growth above 5%; those with an average annual growth rate similar to total value added (+/- 2%) are regarded as normal growing and the rest as slow growing sectors. That data is summarised in the table below.

<sup>1</sup>The following comparisons are based on 2019 shares of GDP.

## SPECIAL FEATURE

Fast Growth	Normal Growth	Slow Growth
Wholesale & Retail (9.8%)	Health & Social work (4.8%)	Mining (0.5%)
Finance, Insurance, Pensions (8.1%)	Transport & Storage (4.3%)	Diamond Traders (0.2%)
Water & Electricity (7.5%)	Public Admin. & Defence (4.2%)	Manufacturing (-1.2%)
Construction (5.7%)	Accommodation & Food services (3.7%)	ICT (-5.7%)
Real Estate (5.6%)	Agriculture (3.2%)	
	Professional, Scientific and Technical Activities (3.1%)	
	Total VA (3.1%)	
	Other Services (2.5%)	
	Administrative & support services (2.4%)	
	Education (2.2%)	

One anomaly is the high negative growth rate of the ICT sector over this period. This doesn't seem to match developments on the ground. Our view is that falling prices for telecommunications and internet products have introduced a distortion into the measurement of growth rates. Hence there may be a technical deficiency that will need to be addressed and resolved in future data revisions.

### GDP by Expenditure

The year 2019 is again adopted as a base year to allow us to investigate changes in the structure of the economy when considering GDP by expenditure in the national accounts. GDP by expenditure comprises three main elements that are of particular interest, namely, Government Consumption, Household Consumption and Gross Fixed Capital Formation (GFCF). According to the "old" data series, Government Consumption accounted 19.3% of total GDP and Household Consumption accounted for 50.8%. The "new" data series reveals that the share of Government Consumption (31.1% of GDP) was previously grossly under-stated, and the share of Household Consumption (now 44.2% of GDP) was over-stated. This reaffirms our earlier finding that the size of government in the domestic economy was being under-reported. GFCF as a percentage of GDP was also over-stated in the "old" data series (31.5% in 2019) when compared to the "new" data series (29.1%), suggesting a lower level of infrastructural investment.

Worryingly, the average annual growth rate between 2014-19 for both Government Consumption (1.7%) and Household Consumption (2.3%) were previously over-estimated (2.6% and 4.3% respectively). The significantly lower growth of Household Consumption is now in line with conditions prevalent in Botswana's labour market such as high unemployment, low average earnings and sticky wages. On a more positive note, the yearly average annual growth rate for GFCF rose from 2.4% (old) to 4.3% (new) suggesting a more rapid increase in the level of investment than previously thought.

### Conclusion

The rebasing of the national accounts represents a critical step in updating GDP data to reflect the evolving structure of the economy and new data sources. The updating is overdue – coming ten years after the last similar revision – but welcome nonetheless. Besides a more accurate measurement of overall growth, it enables more detailed understanding of key sectors of the economy. The breakdown of manufacturing and services sectors is particularly important in monitoring how the economy is changing, the effectiveness and impact of policy measures, and emerging opportunities. In terms of results, the larger shares in the new data for Manufacturing and Construction are illuminating, but the much larger share for Government in terms of both output and expenditure suggests that the economy is less diversified and more dependent on public spending than earlier thought.

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