

ECONOMIC REVIEW

third quarter jul-sep 2022

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COMMENTARY

Broad-based growth slowdown in Q2 2022

Introduction

Growth slowed during the second quarter of 2022 after having a good start to the year, with several sectors recording lower growth when compared to the previous quarter. The global diamond market was relatively quiet during the period, but the global economy is expected to slow down sharply, and both the IMF and World Bank have revised growth projections for 2022 and 2023 downwards. Global growth is weighed down by persistently high inflation rates which are contributing to stringent monetary policies and a surge in interest rates, the slowdown in growth from China and other major economies in Europe and the continued ripple effects of the Russia's invasion in Ukraine.

Economic growth

Real GDP growth in the year to June 2022 was 6.7%, significantly lower than the 13.1% year-on-year growth recorded in Q1 2022. The slow growth was broad-based and mainly reflected the falling away of the deep contraction in Q2 2020 from the base of the GDP calculations, and the normalisation of growth post-COVID pandemic. Only three sectors of the economy (Agriculture, Water & Electricity and Diamond Traders) recorded higher growth rates in Q2 than in Q1. Growth slowed for both the mining and non-mining sectors and was largely in line with expectations. The main contributor was a sharp fall in mining sector growth, from 42.0% y-o-y in Q1 2022 to 16.5% y-o-y in Q2 2022, attributable to the levelling off of demand for rough diamonds during the period. The non-mining private sector (NMPS) growth fell to 5.2% y-o-y, down from 8.4% y-o-y between Q1 and Q2. It is safe to say that economic performance during the second quarter was more a reflection of normalisation of economic activities post-COVID pandemic.



COMMENTARY

Diamond markets

Rough diamond sales in the third quarter of 2022 were lower than in the previous quarter, as the global market for diamonds slowed in the three months to September 2022. However, when compared to the same period in 2021, sales of rough diamonds increased significantly. Sales of rough diamonds through De Beers Global Sightholder Sales (DBGSS) were 30.2% lower in Q3 2022, in part because there were three sightholder events in Q3 2022 compared to two sightholder events in Q2 2022. Sales decreased from USD1.83 billion in Q2 to USD1.28 billion in Q3. But when compared to sales in Q3 2021, the value of DBGSS sales in Q3 2022 was higher by 23.2%. The slowdown in September 2022 is in line with expectations of the global market, which tends to soften during this period. There is also overstocking in diamond manufacturing (cutting and polishing) firms and the market has excess inventories accumulated ahead of the annual Diwali festivities, as well as those which have been brought forward in 2022 from 2021. Significant market risks still exist and raise uncertainties in the market as the two major players on the diamond side of the industry, the US and China, continue to experience economic slowdown.

Monetary and Financial Conditions

Inflation has remained stubbornly high and way above the Bank of Botswana's inflation objective range of 3-6%. Inflation recorded the highest level of 14.6% in August 2022 (since 2008) before slowing to 13.8% in September 2022. The changes in inflation during the quarter were largely influenced by the adjustments in retail prices for fuel and other food commodities like flour and maize. High inflation increases the cost-of-living and erodes disposable incomes, causing particular challenges and hardships for the low-income households. Persistently higher inflation also leads to a monetary policy response by raising interest rates. So far, the BoB has increased interest rates three times in 2022 as a policy to counter high inflation. Similarly, interest rates have also been increased by central banks around the world. Inflation is likely to remain elevated and return to within the objective range during

the second half of 2023. However, the inflation outlook is dependent on the length and intensity of the war in Ukraine. In the banking sector, credit growth slowed, which may be an indicator that banks are applying caution when extending credit. More positively, banking liquidity improved and reflects growth in total deposits, which will help when banks begin to be more open to increasing credit extension.

External sector

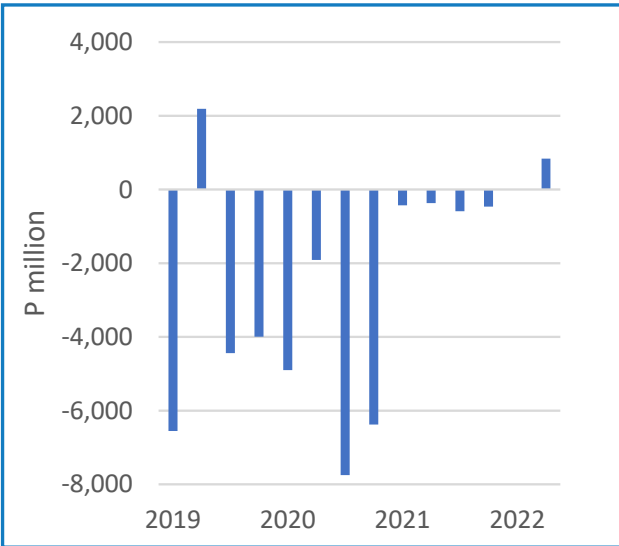
According to data from Statistics Botswana on international trade, export performance continued to improve during the second quarter of 2022, with several categories of exports registering increases. Mineral exports fell slightly, in line with developments in the global diamond market, while the non-mineral exports improved. In terms of imports, their value fell to P24.41 billion in Q2 2022, down from P25.57 billion in Q1 2022 even though increasing significantly for several commodity groups. The higher value of exports than of imports resulted in a trade surplus of P1.61 billion in Q2. The return of trade surpluses is necessary to add to the current account balance and positively to the balance of payments accounts.

Fiscal Developments

In a difficult economic environment, there have been positive developments on the fiscal front. After a series of quarterly budget deficits dating back to before COVID-19, 2022 has seen the first quarterly budget surplus since early 2019. This largely reflects the boost to revenues resulting from the strong performance of the diamond market in 2021 and 2022. One result of this is that there has been some recovery in Government's financial balances held at the Bank of Botswana, which have been boosted by the return to budget surplus as well as the proceeds of domestic and external borrowing. Deposits at BoB include both Government's own savings and balances held in various Special Funds. While there have been positive fiscal developments this year, the threat of looming global recession and falling demand for diamonds means that 2023 could be more difficult in terms of fiscal revenues.

COMMENTARY

Figure 1: Budget surplus/deficit (quarterly)

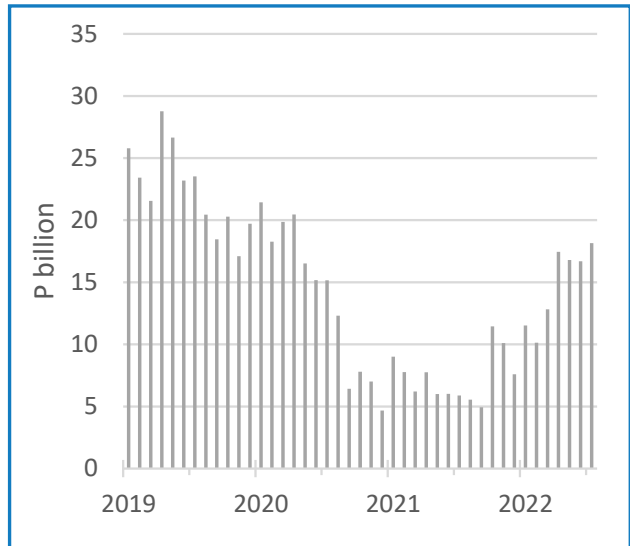


Source: Botswana Financial Statistics (BoB)

Outlook

Russia’s invasion of Ukraine continues to leave devastating effects on the global economy and the unknown period of when the war would end is putting pressure on response policies. The war has interrupted global markets, especially the global energy market, in turn leading to surging levels of inflation around the world and pressure on living standards. Interest rates are likely to increase further, and several major economies are on the brink of economic

Figure 2: Government Deposits at Bank of Botswana



Source: Botswana Financial Statistics (BoB)

recession. Sanctions against Russia have come at a cost, especially to countries in Europe, which are struggling with fuel shortages because of Russia’s decision to reduce fuel supply to the region, adding further to global inflationary pressures. The appreciation of the US dollar against most currencies has added to these pressures, leading to higher import prices for many countries. Offsetting this, the prices of many energy, mineral and food commodities appear to have peaked and are declining, which will in due course help to bring inflation down.

Tourism Sector Update

Prior to the COVID-19 pandemic, the tourism sector was one of the bright spots of the Botswana economy in terms of the pursuit of diversified, export-led growth. However, the sector was hard-hit by the pandemic, and is yet to fully recover. A couple of recent data releases provide important insights as to the state of the sector.

The first is an updated Tourism Satellite Account (TSA) for 2019, prepared by the European Union and the Ministry of Environment and Tourism (MET). The TSA provides an important overview of the size and growth of the sector, and the 2019 TSA was the first full survey-based report since 2010. The key results from the TSA were that tourism directly contributed 5.1% to GDP in 2019, and accounted for 58,420 jobs (7.9% of total employment). It was also the second largest contributor to the balance of payments, accounting for 17.3% of export earnings.

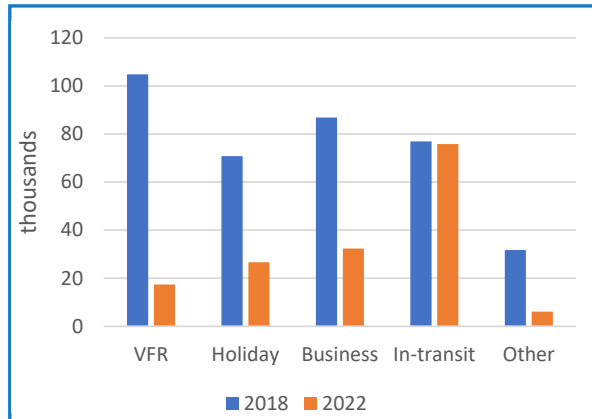
Since being devastated by the impact of the COVID-19 pandemic in 2020, with widespread restrictions on economic activity and travel, the sector has shown some recovery. Statistics Botswana has started releasing quarterly data on international visitor arrivals, most recently for the first quarter of 2022. This can be compared with the data for the most recent year pre-COVID, 2018 (for some reasons, Statistics Botswana has not published data for 2019).

The data makes for sobering reading. In the first quarter of 2018, Botswana had 371,099 international visitors. However, in Q1 2022, there were only 158,284 visitors, a decline of 57%. By type of visitor, the number of in-transit arrivals (mostly truck drivers) was largely unchanged at around 76,000 between 2018 Q1 and 2022 Q1.

The number of visitors in the categories more normally classed as “tourists” – holiday/leisure, visiting friends and relatives (VFR), business and other – was 82,840 in Q1 2022, 72% lower than the 294,203 arrivals in these categories in Q1 2018. Based on these figures, tourist arrivals in early 2022 were at only 28% of pre-pandemic levels.

Of course, tourism activity is still down around the world. In September, the UN World Tourism Organisation (UNWTO) reported that international tourism reached 57% of pre-pandemic levels over January-July 2022¹. It therefore appears that Botswana’s recovery is lagging international trends. To some extent this is a regional phenomenon; South African tourist arrivals were at only 38% of the 2018 level in Q1 2022. But the speed of Botswana’s tourism recovery appears to be slower than the global recovery and that of South Africa, a finding that is echoed by operators in the sector.

Figure: Number of visitors by category ('000, Q1 2018 and Q1 2022)

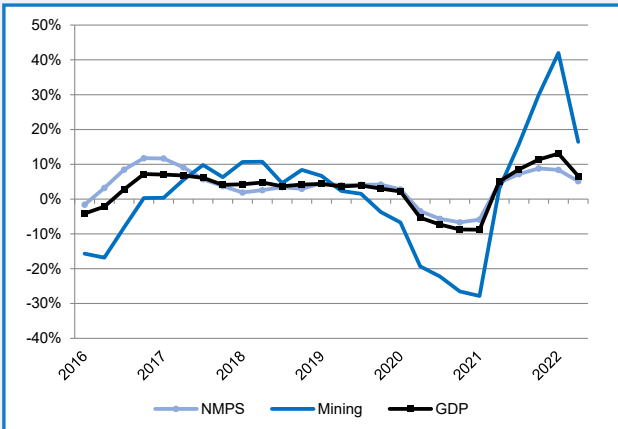


Source: Statistics Botswana

¹ <https://www.unwto.org/news/international-tourism-back-to-60-of-pre-pandemic-levels-in-january-july-2022>

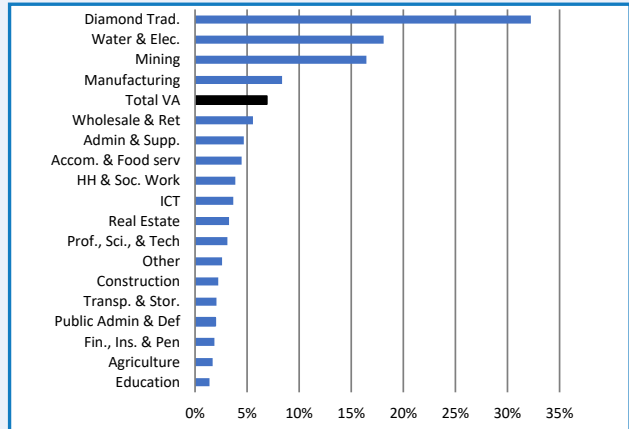
KEY ECONOMIC VARIABLES

Annual GDP Growth



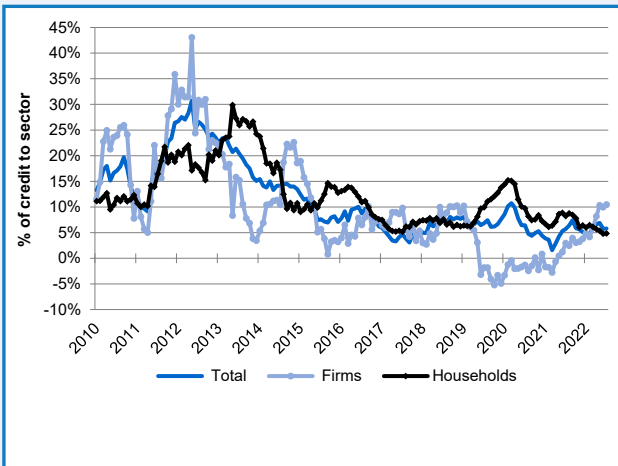
“The economy slowed during the second quarter of 2022. Real GDP growth was 6.7% year-on-year in Q2 2022 down from 13.1% year-on-year in Q1 2022. Growth slowed for both the mining and the non-mining private sector (NMPS) during the period. Real growth in the mining sector decreased sharply from 42.0% y-o-y in Q1 2022 to 16.5% y-o-y in Q2 2022. NMPS growth fell from 8.4% y-o-y in Q1 to 5.2% y-o-y in Q2. The decrease in mining growth in Q2 is partly attributable to lower demand for rough diamonds which is in line with market expectations during the period. But more generally, the growth slowdown reflects the normalisation of growth rates following the post-COVID recovery.”

Sectoral GDP Growth



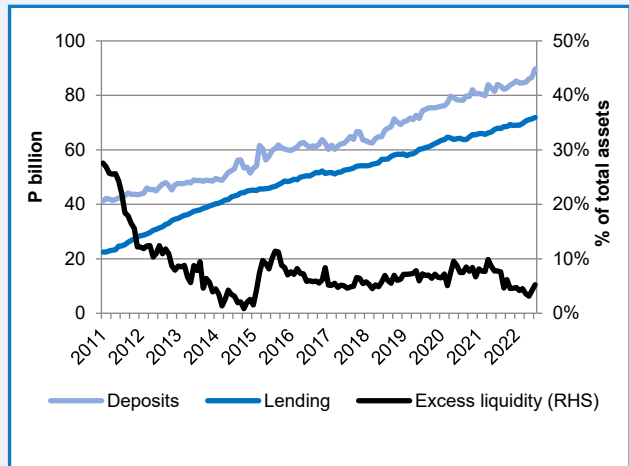
Economic performance was generally slower during Q2 2022, with most sectors experiencing lower annual growth rates compared to the previous quarter. This is mainly because the base of the economic growth calculations no longer includes the period of the major drop in GDP in Q2 2020. Only three sectors - Agriculture, Water & Electricity and Diamond Traders - recorded higher y-o-y growth, of 1.7%, 18.1% and 32.2% in Q2 2022 from -1.5%, 2.7% and 30.1% in Q1 2022, respectively. However, all sectors of the economy registered positive annual growth during the second quarter of 2022.

Annual Credit Growth



Annual bank credit growth decreased to 5.8% y-o-y in July 2022 down from 6.6% y-o-y in April 2022. This is attributable to the fall in growth of credit to households, which accounts for about 65% of commercial banks’ loan book, from 5.7% y-o-y in April to 4.8% y-o-y in July. Credit to firms increased to 10.5% y-o-y in July 2022 from 8.2% y-o-y in April 2022, recording the highest growth since January 2019, but did not offset the decrease in bank credit growth to households.

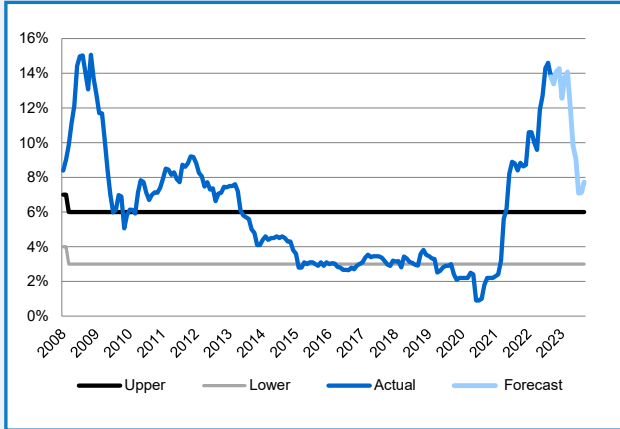
Bank Deposits, Lending & Liquidity



Bank liquidity improved in July 2022 after several months of deterioration since early 2021. Excess liquidity increased to 5.3% of total assets in July 2022, up from 3.6% in April 2022. Bank deposits went up by 5.8% to P89.7 billion in July compared to P84.8 billion in April. Bank lending rose at a lower rate of 1.8%, ending July 2022 with a value of P71.9 billion. Although early, an improvement in the level of liquidity through deposit growth is essential to loosen tightening of credit extension in the economy.

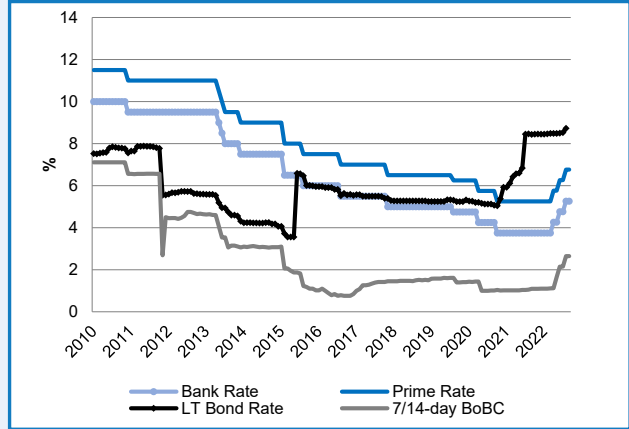
KEY ECONOMIC VARIABLES

Inflation and Forecast



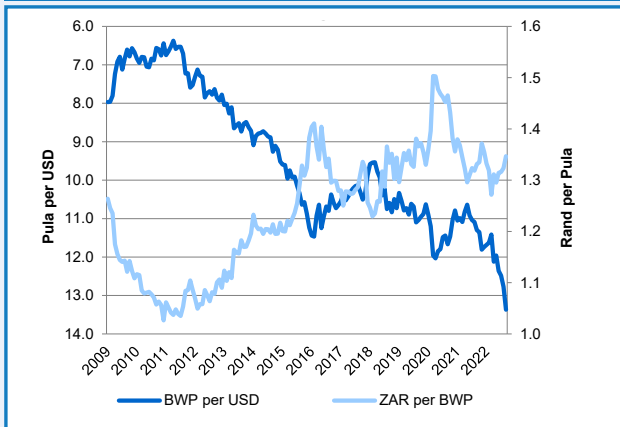
Annual inflation increased further between June 2022 and September 2022, and reached the highest level of 14.6% in August 2022, since December 2008. Inflation rose from 12.7% to 13.8%, between Q2 and Q3, influenced by changes in the prices of fuel and food items of flour and maize. The effect of high inflation has been the reduction in real incomes and the increase in the cost-of living making living hard for the low-income groups. Inflation is projected to remain elevated in 2022 and begin to fall in the first half of 2023

Interest Rates



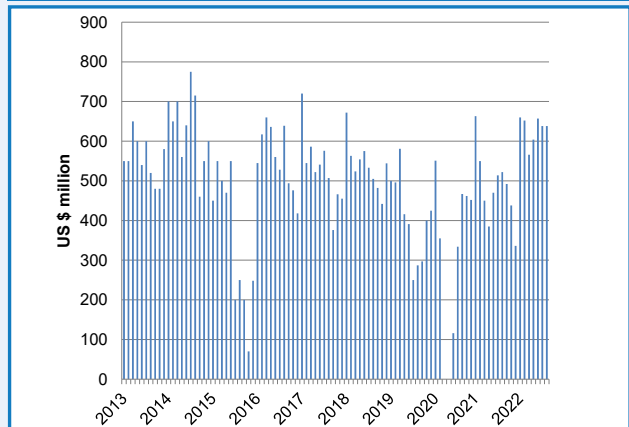
The Bank of Botswana's (BoB) Monetary Policy Committee (MPC) increased interest rates by 50 basis points in August 2022. Subsequently, the banks' Prime Lending Rate also rose by 50 basis points reaching 6.76% at the end of September 2022. Persistently high levels of inflation have led to hikes in interest rates worldwide as central banks seek to rein in surging inflation. Domestically, interest rates have been raised three times in 2022, in April, June and August, by a cumulative 151 basis points. The 7/14-day BoBC rate rose from 2.15% in June 2022 to 2.65% in September 2022. The long-term government bond rate (BWO12) rose marginally from 8.49% in May 2022 to 8.73% in August 2022. Rising interest rates in bond markets around the world will add to the pressure for higher rates on government bonds in Botswana.

Exchange Rates



The Pula continued to strengthen against the Rand and weaken against the US dollar during Q3 2022. The Pula appreciated against the rand by 2.5% and traded with an exchange rate of ZAR1.3467 at the end of Q3 2022 from ZAR1.3142 in Q2 2022. The Pula depreciated by 7.5% against the US dollar, ending Q3 2022 with Pula-US dollar exchange rate of 13.37, down from 12.36 in Q2 2022. The US dollar continued to make gains against almost all currencies due largely to its safe-haven status at a time of greatly enhanced global risk and uncertainty.

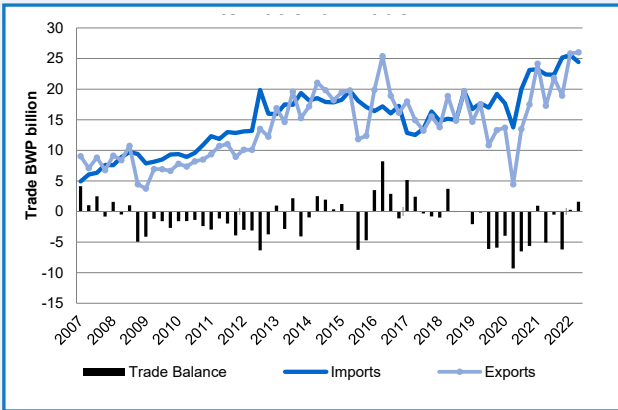
De Beers Diamond Sales



The global market for rough diamonds was generally stable during the third quarter of 2022. De Beers Global Sightholder Sales (DBGSS) recorded sales valued at USD1.28 billion in Q3 2022 down from USD1.83 billion in Q2 2022, representing 30.2% decrease between the quarters. However, when compared to the same period in 2021, the value of DBGSS sales in Q3 2022 was higher by 23.2% when compared to sales of USD1.03 billion in the same period in 2021. The q-o-q decrease largely reflected the fact that there were two sightholder sales events in Q3 compared to three in Q2.

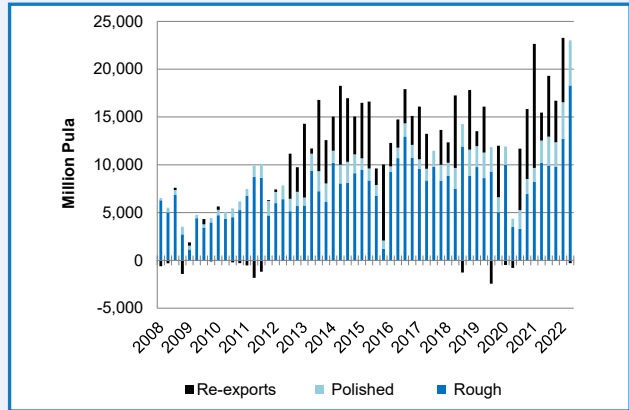
KEY ECONOMIC VARIABLES

International Trade



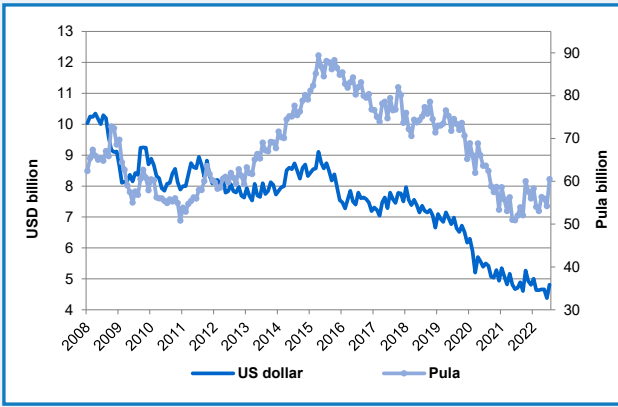
International trade activity reflected higher exports and lower imports during the second quarter of 2022. Total exports were valued at P26.02 billion in Q2 2022, an increase of 0.7% from P25.83 billion in Q1 2022. Despite significantly increasing for several commodity groups, the overall value of imports fell by 4.5% to P24.41 billion in Q2, down from P25.57 billion in Q1. This resulted in a trade surplus of P1.61 billion in Q2 2022, an improvement from the surplus of P0.26 billion in Q1. On the export front, the impact of lower diamond exports was more than countered by higher exports of copper, machinery & electrical equipment, vehicle parts and live cattle.

Diamond Exports



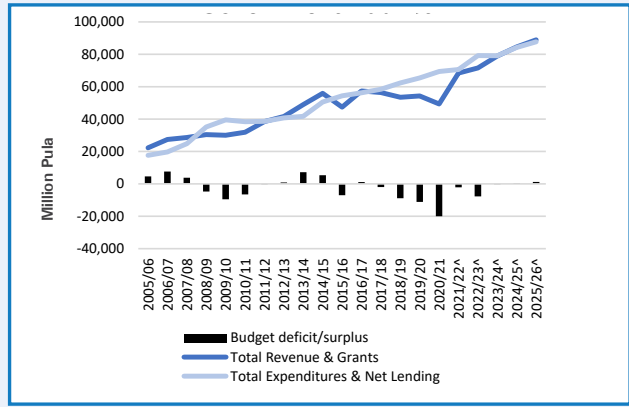
Total diamond exports registered a decrease of 2.4% during the second quarter of 2022, to P22.7 billion down from P23.3 billion in Q1 2022. The decline in total diamond exports was driven by a decrease in the value of re-exports, from P6.7 billion in Q1 to a deficit of P0.29 billion in Q2. Conversely, Botswana rough and polished diamonds increased by 43.8% and 23.6% between Q1 and Q2, respectively, but could not offset the decline in the value of re-exports.

Foreign Exchange Reserves



Foreign exchange reserves increased in Pula terms while decreasing in terms of the US dollar and SDR. Foreign exchange reserves increased by 2.2% in Pula terms to P54.24 billion in Q2 2022. In other currencies, the reserves fell by 5.5% in US dollar terms and 1.8% in SDR terms to USD4.38 billion and SDR3.29 billion, respectively. The changes in reserves mainly reflects revaluation gains and losses from the movement in exchange rates during the quarter. The reserves were equivalent to nine months of import cover of non-diamond goods and services.

Government Budget



The 2023 Budget Strategy Paper (BSP) has been released and it provides insights on the revised budget for government spending and revenue for the 2022/23 FY. Another interesting insight is the three-year financial projections up to 2025/26 FY, in which the government is set to achieve modest budget surpluses in 2023/24 and 2024/25 financial years. According to the BSP, the revised budget for the 2022/23 FY indicates that budget deficit will widen from the original deficit of P6.98 billion to a revised deficit of P7.69 billion. However, the preliminary outturn for the 2021/22 FY shows the budget to be approximately balanced, with higher than budget revenues and lower than budgeted expenditure. Projections for the next National Development Plan show the intention to bring the budget to surplus, which will be done by exercising fiscal discipline and focusing spending on priority areas. Notably, recurrent expenditure is forecast to decrease from 28.0% of GDP in 2021/22 FY to 23.8% of GDP in 2025/26 FY.

NEWS HIGHLIGHTS

08/07/2022	Canadian firm, BITRI in P1.2bn deal for battery minerals (MMEGI)	The Botswana Institute for Technology Research and Innovation (BITRI) is to sign a partnership deal worth P1.2 billion with a Canadian firm. The project will bring in funders for a copper and nickel mine, two minerals that are necessary for the production of batteries used in electric vehicles.
08/07/2022	Botswana Oil sets up Mozambique, Namibia fuel depots (MMEGI)	Botswana Oil will lease out fuel storage facilities in Mozambique and Namibia, effectively doubling Botswana's strategic oil reserves from 15 to 30-days. This is to provide a buffer against South Africa's declining refining capacity and potential disruptions to global supplies of refined products.
18/07/2022	BPC procures 6 solar PV projects (MMEGI)	Botswana Power Corporation (BPC) CEO, David Kgoboko, has stated that the corporation has procured six solar PV plant projects with a total capacity of 66MW. Of the six, two are under construction, three are at the financing stage and a PPA is still being signed for the last one. Eight further solar PV projects which are expected to generate 69MW are under procurement.
20/07/2022	Botswana Diamonds announces acquisition of Maibwe (NewsnReleases)	Botswana Diamonds, through its subsidiary, Siseko Minerals, has increased its stake in the Maibwe Joint Venture from 29% to 50%. Siseko is expected to pay P411,800 along with a 2% royalty to the liquidators of BCL from any future commercial development.
21/07/2022	De Beers' output down 4% y/y on lower grades; demand remains robust (Engineering News)	De Beer's rough diamond production fell by 4% year-on-year to 7.9 million carats during the second quarter of 2022. This was mainly due to the processing of lower-grade ore at operations in Canada and Botswana (both Orapa and Jwaneng). Nonetheless, demand for rough diamonds remained strong during the quarter.
21/07/2022	De Beers boosts 2022 guidance despite drop in output (Mining.com)	Due to "robust demand" from US customers, De Beers has increased its full-year guidance from 30 million-33 million to 32 million – 34 million.
22/07/2022	Three more diamond cutters, polishers come to town (Sunday Standard)	Minister of Minerals and Energy, Lefoko Moagi stated in parliament that three more diamond cutting, and polishing companies will set up business in Botswana before the end of 2022. This would bring the total number of local factories to 34.
26/07/2022	Botswana president sees progress on diamond pact with De Beers (Bloomberg News)	H.E President Mokgweetsi Masisi has stated that Botswana and De Beers are discussing the "finer" details of the new diamond-sales pact between the two parties. Furthermore, H.E expressed his confidence that a deal will be struck.
27/07/2022	De Beers Sales Momentum Continues (Rapaport)	During their July 2022 sight, De Beers managed sales valued at USD630 million, 23% higher than during the same period in 2021 but 4% less than sales realised in June 2022. The demand for rough diamonds has remained robust during the first half of the year, but macroeconomic challenges continue to pose a risk to consumer sentiment.

NEWS HIGHLIGHTS

28/07/2022	De Beers Cautious Following Sales Jump (diamonds.net)	Despite revenues rising by 24% during the first half of 2022, De Beers have given a somber outlook for sales for the rest of year. This is due to activity on the polished side having levelled off since the beginning of the year.
29/07/2022	BoB relishes greater autonomy as MPs pass amendments (Mmegi)	Parliament has passed extensive amendments to the Bank of Botswana (BoB) Act. The changes are aimed at giving the central bank more autonomy in setting monetary policy (greater operational independence). The amendments also place tighter restrictions on the conditions from which government can borrow from BoB.
02/08/2022	US firm, BURS seal 10-year 'track and trace' deal (MMEGI)	American authentication firm, Authentix has stated that it signed a 10-year deal with the Botswana Unified Revenue Service (BURS) to provide them with technology to implement a "track and trace" system. The system will be used to significantly reduce tax leakages in the alcohol and tobacco industries. It will involve placing a biometric imprint on all alcohol and tobacco products whether manufactured locally or imported.
05/08/2022	South Africa and Botswana to improve rail freight links (Reuters)	South Africa, through Transnet Freight Rail (TFR) and Botswana, through Botswana Rail (BR) have agreed to fund the improvement of rail links between the countries. They will collaborate to fix parts of the rail line between Swartruggens and Mafikeng, which will help bring Botswana's coal exports to market. The project is expected to be operational in 24 months.
08/08/2022	Government pours P379 million into Lobatse Leather Park (MMEGI)	According to Special Economic Zones Authority (SEZA) CEO, Lonely Mogara, government is planning to spend P379 million on the development of the Lobatse Leather Park. Furthermore, he stated that the Business Case and Urban Design Masterplan for the Lobatse SEZ had been completed within budget.
11/08/2022	Lucara Profit Surges as Polished Proceeds Pay Off (Rapaport)	Second quarter profits for Lucara Diamond Corp. increased from USD6 million in 2021 to USD12.5 million in 2022. Revenues rose by 13%, sales volumes dropped 3.8% and the average price increased by 1% to USD557 per carat during the same period.
11/08/2022	Lucara Diamond starts shaft-sinking at USD547 million Karowe mine expansion (Mining.com)	Lucara Diamond is moving towards the main shaft sinking phase of the underground expansion project of its Karowe mine. The capital cost of the expansion project has been increased from USD514 million to USD547 million and is expected to extend the life of the mine to 2040.
14/08/2022	Ngwato Landboard owed over P122 million in lease arrears (Sunday Standard)	The Ngwato Land Board is owed in excess of P122 million in lease arrears. These arrears are attributable to both companies and individuals, who are expected to pay annual lease rentals after being allocated land.

NEWS HIGHLIGHTS

17/08/2022	Didiza asked to intervene in blocking of SA vegetables by Botswana, Namibia (NEWS24)	The Minister of Agriculture, Land Reform and Rural Development of South Africa, Thoko Didiza has been requested to intervene with Botswana and Namibia's decision to close their borders to certain fruits and vegetables from South Africa. The decisions taken by Botswana and Namibia are against the spirit of Southern African Customs Union (SACU) agreement which was supposed to allow for the free flow of goods within the union.
25/08/2022	Monetary Policy Committee Decision - August 2022 (Bank of Botswana)	The Monetary Policy Committee (MPC) of the Bank of Botswana (BoB) increased the Monetary Policy Rate (MoPR) by 50 basis points from 2.15% to 2.65%. The MPC reports that upside inflation risks are mainly due to supply side factors and related second round effects.
25/08/2022	Botswana suspends beef exports over suspected FMD outbreak (Bizcommunity)	Botswana has suspended beef exports following a potential outbreak of foot and mouth disease. The suspected outbreak, in the North East District of the country has lead to movement restrictions as investigations continue.
31/08/2022	De Beers sales strengthen in August (Diamonds.net)	De Beers' sales during their seventh sales cycle of 2022 reached USD630 million. Increasing by 21% compared to the same period in 2021. The demand for rough diamonds has remained strong despite global uncertainty.
31/08/2022	Motheo tracking to plan – Sandfire (Mining Weekly)	According to Sandfire Resources MD and CEO, Karl Simich, construction of the Motheo copper mine is proceeding on schedule with costs increasing by 10%. The rise in construction costs was described as "relatively insignificant in the environment that we're in" by Simich.
01/09/2022	Scatec inks PPA deal to build 50MW Botswana solar (renews.biz)	Norwegian firm Scatec has signed a 25-year power purchase agreement with the Botswana Power Corporation (BPC). The agreement will result in the development of a 50MW solar power plant to be built in Selebi Phikwe.
02/09/2022	Yields rise as government raises P1 billion debt (MMEGI)	Government, through Bank of Botswana, managed to raise P1 billion in debt via the auction of three bonds and two treasury bills during August sales. On average, yields increased by nearly 20 basis points across instruments.
05/09/2022	BIHL sells part stake in FSG (Sunday Standard)	Subject to approval from the Competition and Consumer Authority, Africa Lighthouse Capital will purchase a 37.62% shareholding in FSG. The shares will be bought from Botswana Insurance Holding Limited (BIHL) through their subsidiary Botswana Life Insurance Limited and would make ALC the new major shareholder in FSG, which is a major funeral services provider.

NEWS HIGHLIGHTS

16/09/2022	S&P Affirms the Sovereign Credit Rating and the Economic Outlook on Botswana (Bank of Botswana)	Standard and Poors Global Ratings (S&P) has updated Botswana's sovereign credit rating. The rating's agency has maintained Botswana's sovereign credit rating for long and short term foreign and local currency sovereign credit at "BBB+/A-2". S&P have also maintained the economic outlook for Botswana as stable, due to expectations that the demand for Botswana's diamonds will remain strong despite downside risks due to weakening global economic activity.
16/09/2022	BMC monopoly nears end as Cabinet approves meat regulator (MMEGI)	Cabinet formally approved the establishment of the Meat Industry Regulatory Authority (MIRA). Legislation for MIRA could be tabled to Parliament before its November sitting. The establishment of MIRA would allow farmers to independently process and export their beef and other meat products outside of the Botswana Meat Commission (BMC), effectively ending BMC's monopoly.
20/09/2022	Minergy posts first profits from Masama mine, expects profitable 2023 financial year (Engineering News)	Minergy has reported a significant increase in revenue from P193 million in the 2021 financial year (FY) to P425 million in the 2022 FY. Operating losses reduced from P85 million in the 2021 FY to P74 million in the 2022 FY whilst pure coal sales grew from P167 million to P297 million during the same period. The company also managed to achieve the 1 million-tonne mark of ore extracted and processed at its Masama coal mine.
23/09/2022	Budget to return to first surplus in eight years (MMEGI)	The recently released Budget Strategy Paper published by the Ministry of Finance indicates that Botswana's budget will return to a surplus of P355 million in the 2024/25 financial year. Budget deficits of P7.7 billion and P163 million are expected for the current and 2023/24 FY's respectively.
28/09/2022	Botswana's Morupule aims to boost coal output by 50% with new mine (Reuters)	In a bid to increase exports, H.E President Mokgweetsi Masisi commissioned a new 1.4 million-tonne per year extension at the Morupule Coal Mine (MCM). The new open cast mine will increase MCM's output to 4.2 million tonnes per year, increasing its output by 50%. The aim is to supply various markets with a cumulative 7.6 million tonnes of coal annually by 2027.

MACRO-ECONOMIC DATA

Key Economic Data		unit	2017	2018	2019	2020	2021	2022Q1	2022Q2	2022Q3
Annual Economic Growth										
GDP	%		4.1	4.2	3.0	-8.7	11.4	13.1	6.7	..
Mining	%		6.3	8.4	-3.7	-26.5	29.9	42.0	16.5	..
Non-mining private sector	%		3.7	2.9	4.2	-6.7	8.8	8.4	5.2	..
GDP current prices	P bn		166.65	173.73	179.58	171.04	195.30	53.85	58.59	..
GDP 2016 prices	P bn		171.18	178.35	183.76	167.73	186.80	49.53	48.81	..
Money & Prices										
Inflation	%		3.2	3.5	2.2	2.2	8.7	10.0	12.7	13.8
Prime lending rate	%		6.50	6.50	6.25	5.25	5.25	5.25	6.26	6.76
BoBC 7/14-day	%		1.45	1.52	1.41	1.04	1.10	1.11	2.15	2.65
Trade & Balance of Payments										
Exports - total goods	P bn		61.67	67.17	56.29	49.12	82.26	25.83	26.02	..
Exports - diamonds	P bn		54.38	60.41	51.01	42.54	73.41	23.29	22.73	..
Balance of payments	P bn		-4.28	-4.20	-12.02	-20.06	-2.87	0.18	..	..
Foreign Exchange										
Exchange rate BWP per USD	end		9.87	10.73	10.63	10.79	11.74	11.42	12.36	13.37
Exchange rate ZAR per BWP	end		1.26	1.34	1.33	1.36	1.35	1.272	1.314	1.347
FX reserves	\$ bn		7.50	6.66	6.17	4.94	4.81	4.63	4.377	..
FX reserves	P bn		73.69	71.43	65.23	53.36	56.02	53.07	54.238	..
Financial Sector										
Deposits in banks	P bn		63.58	69.27	75.71	80.54	84.36	84.55	86.61	..
Bank credit	P bn		54.18	58.33	62.77	65.55	68.92	69.61	71.32	..
BSE index			8,860	7,854	7,495	6,879	7,010	7,243	7,183	7,402
Business Indicators										
Diamond production (a)	mn cts		22.96	24.38	23.67	16.87	22.70	6.30	5.58	..
Copper production (b)	'000t		1.24	1.46	0.00	..	11.74	5.71	8.32	..
Nickel production	'000t		0.00	0.00	0.00	..	..	..	..	..
Business confidence index			46%	..	..	..	..	..	..	..
No. of companies formed			20,707	..	..	..	..	..	..	..
Electricity consumption	GWh		3,772	3,919	3,906	3,842	3,928	1,006	1,100	..
Crude oil (Brent)	\$/bar		66.73	50.57	67.77	51.22	77.24	107.29	119.78	88.9
Employment (formal) (f)										
Government			129,009	156,785	156,785	152,973	152,225			
Parastatals			19,444	23,497	23,497	18,933	21,056			
Private sector			193,745	250,778	227,281	250,715	268,086			
Total			342,198	431,060	407,563	422,621	441,367			
Govt Budget										
			2019/20	2020/21	2021/22	2022/23	2023/24			
			(a)	(b)	Preliminary (c)	Revised (d)	Projection (e)			
Revenues	P bn		54.30	49.37	68.45	71.56	78.99			
Spending	P bn		65.40	65.79	68.46	79.24	79.15			
Balance	P bn		-11.10	-16.41	-0.01	-7.69	-0.16			
Public debt & guarantees	P bn		38.18	41.56	46.76	53.77	..			
Govt deposits at BoB	P bn		19.86	6.20	12.82	..	..	
GDP	P bn		180.60	171.91	202.27	217.72	248.14			
Revenues	%GDP		30.1%	28.7%	33.8%	32.9%	31.8%			
Spending	%GDP		36.2%	38.3%	33.8%	36.4%	31.9%			
Balance	%GDP		-6.1%	-9.5%	0.0%	-3.5%	-0.1%			
Public debt & guarantees	%GDP		21.1%	24.2%	23.1%	24.7%	..			
Govt deposits at BoB	%GDP		11.0%	3.6%	6.3%	..	..	

Sources: BoB; MFED; Statistics Botswana; Department of Mines; CIPA; BSE; US Energy Information Administration; Bloomberg; Econsult

Notes:

(a) Figures include production from Lucara Diamonds (Karowe mine) and Debswana. In 2016 and 2017, figures also include production from Gem Diamonds (Ghaghoo) and Lerala mines. (no longer operational)

(b) Copper production starting Q2 2017 for Mowana mine and Q2 2022 for Khoemacau

(c) Numbers in Italics reflect revisions from the previous review.

(d) Actual.

(e) Budget.

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

SPECIAL FEATURE

Changing Wealth of Nations: Botswana

Introduction

The Changing Wealth of Nations 2021 (CWON 2021) is a World Bank publication that provides a database of global world wealth accounts. The CWON provides comparable, annual data from 1995 to 2018 for 146 countries, and adopts the balance sheet approach following frameworks set forth by both the System of National Accounts (SNA) and System of Environmental-Economic Accounting (SEEA). The CWON dataset allows users to investigate and compare economic growth and national wealth amongst numerous countries beyond traditional measures such as per capita gross domestic product (GDP), gross national income (GNI) and value added (VA). The CWON complements conventional national accounts by providing a national balance sheet to complement the

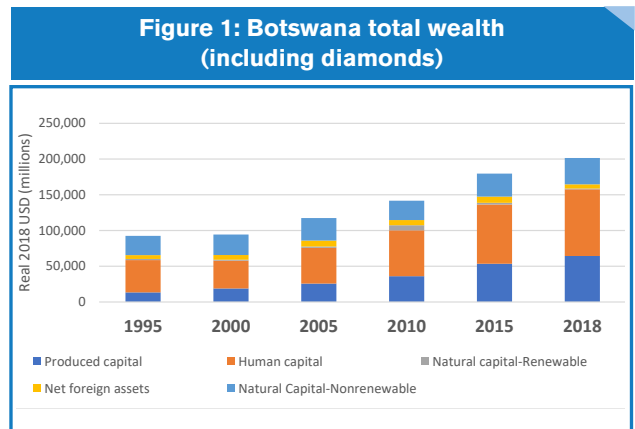
national income accounts and enable both the level of national wealth and its composition to be monitored over time. Both are necessary to monitor development, in the same way that companies provide both a balance sheet and an income statement to monitor their financial health.

An important innovation in the CWON is to broaden the conceptualisation of national wealth beyond conventional measures of physical and financial assets. In the CWON, a country’s “Total Wealth” is measured as the sum of various capital measures such as human, produced and natural capital whilst taking into account the country’s International Investment Position (IIP) (financial assets). The table below provides a brief description of each variable considered:

Variable	Components
Total Wealth	Produced Capital + Human Capital + Natural Capital + Net Foreign Assets
Produced Capital	Manufactured or built assets such as machinery, equipment, physical structures and urban infrastructure
Human Capital	Education, skills, training, experience. Measured by the total present value of the expected future labour income that could be generated over the lifetime of people living in a country
Natural Capital: Renewable Assets	Includes protected areas, agricultural land, fisheries, mangroves and forest resources (timber plus ecosystem services)
Natural Capital: Non-Renewable Assets	Includes fossil fuel energy and mineral resources
Net Foreign Assets	Measure of cross boarder assets and liabilities

Wealth Trends for Botswana

There is one drawback to the CWON accounts that affects their usefulness for Botswana. The global measures do not include diamond wealth in the measure of non-renewable (mineral) assets. This is because of the difficulty in obtaining consistent information on global diamond prices, costs, sales and profitability (the diamond industry is notorious for its lack of transparency). For most diamond-producing countries, diamond wealth makes up a small proportion of total mineral wealth, For Botswana, however, the contribution of diamonds is large. Fortunately, valuations of mineral wealth (including diamonds) have been produced as part of the Wealth Accounting and Valuation of Ecosystem Services (WAVES) project, and the valuations of diamond wealth have been used to supplement the CWON data for Botswana.



SPECIAL FEATURE

Total Wealth

Botswana's real total wealth (measured in terms of real 2018 US dollars) rose from USD92,539 million in 1995, to USD201,486 million in 2018, an impressive increase of 117.7%. However, in per capita terms the change was much less dramatic, rising from USD62,987 in 1995 to USD89,385 in 2018, representing a 41.9% increase over the 23-year period. This translates to a cumulative average growth rate (CAGR) of 3.4% at levels and 1.5% in per capita terms. The growth trajectory of total wealth has not always been positive though. Total wealth fell to a trough of USD89,866 million in 1997 (a 2.9% decline from initial levels) and remained below its initial 1995 level until 1999. The initial decline in total wealth was deeper and lasted longer when measured in per capita terms. Total wealth per capita reached its lowest point of USD57,340 in 2001 (a 9.0% decline from initial levels) and remained below its initial level until 2005. This initial decline was driven by a combined decrease in both Human Capital and Natural Capital per capita during those early years. Whereas Human Capital per capita began to rise after 2005, Natural Capital per capita generally followed a down trend for the whole 23-year period. This is to be expected, given that mineral wealth is non-renewable.

The shares of total wealth by sectoral breakdown tell an interesting story between 1995 and 2018. The largest share is attributable to Human Capital, which roughly accounts for half of total wealth. There were no large fluctuations in the share of total wealth due to Human Capital, with its range spanning from a peak of 48.9% (1995) to a trough of 39.7% (2003). On average, the second largest contributor to total wealth is Natural Capital. The share of total wealth due to Natural Capital has been declining steadily over the 23-year period. This is to be expected because as a country develops over time, there tends to be a shift away from depending on primary goods (mainly produced from natural capital) to secondary/manufactured goods (more reliant on human and produced capital). As a result, an inverse trend was realised for the share of total wealth attributable to Produced Capital which rose steadily from 14.5% in 1995 to a 31.9% in 2018. We can conclude that the share of total wealth that is lost to Natural Capital, is being replaced/absorbed by Produced Capital. That is, the non-renewable assets which form part of Natural Capital are not just being consumed, but rather reinvested into other forms capital, namely Produced Capital and Human Capital. Net foreign assets (Financial Assets) remained positive between 1995 and 2018 whilst accounting for the smallest share in total wealth. Its contribution ranged from as high as 9.6% in 2002 to as low as 2.9% in 2018. The table below summarises each sectors average share between 1995 and 2018:

Variable	Average share of Total Wealth (1995-2018) (%)
Produced Capital	23.2
Human Capital	44.6
Natural Capital	25.9
Net Foreign Assets	6.3

Produced Capital

Produced capital in Botswana increased by 378% between 1995 and 2018, rising from USD13,463 million to USD64,359 million. The value of produced capital rose steadily over the 23-year period in both total and per capita terms, with the largest year-on-year increase of 9.0% (7.7% in per capita terms) taking place in 2012. It is worth noting that the annual growth rate of produced capital has, on average, been declining since 2012 which could be a cause for concern for future wealth calculations.

Human Capital

The growth path of human capital accumulation in Botswana has been interesting. Whilst having risen from USD45,214 million in 1995 to USD93,301 million in 2018 (106.4% increase, with a CAGR of 3.2%), the value of human capital has fluctuated from year to year. There were significant year-on-year declines in 1997 (-8.9%), 2000 (-9.8%) and 2009 (-7.3%), on the other hand, there were various years such as 2005 (+11.8%), 2006 (+13.8%) and 2013 (+12.2%) that registered strong growth. Per capita, the value of human capital has grown by 34% over 23 years in Botswana, rising from USD30,775 in 1995 to USD41,391 in 2018. The growth path of the value of per capita human capital is one of a general, although inconsistent, decline from 1995 to 2001, reaching a trough of USD22,920, this was then followed by a slow rise over the subsequent years. Per capita, human capital had a worryingly low CAGR of 1.3%. This has possible implications for the evolution of labour productivity in Botswana. All things being equal, changes in labour incomes should reflect changes in labour productivity, meaning, on average, labour productivity rose by 1.3% every year. Much like the trend in the value of human capital per capita, labour productivity had been declining for periods in Botswana.

Natural Capital

Between 1995 and 2018, the value of Botswana's natural capital has grown by 32.8%, resulting in CAGR of 1.2%, rising from USD28,581 million to USD37,956 million. The value of renewable natural resources grew by 17.6% over the 23-year period whereas the value of non-renewable natural resources increased by 36.3%.

SPECIAL FEATURE

Looking at the various components of natural capital between 1995 and 2018 in greater detail, Coal had the greatest increase in value (201%), followed by Timber (121%), Ecosystem Services (84%) and Cropland (76%). The large increases in the value of Coal and Cropland can be attributed to growth from a low base. The Metals and Minerals sector was the slowest growing sector which recorded positive growth, increasing by 45.3% over the 23-year period. Only two sectors recorded negative growth namely, Pastureland (minus 26%) and Protected Areas (minus 9%). This is unsurprising as Metals and Minerals through diamond mining and Protected Areas through tourism are major sectors in Botswana's Gross Domestic Product and the country's two biggest sources of foreign income. They are therefore consumed more than other natural resources over time. Metals and Minerals are a non-renewable resource and so its growth rate (positive or negative) depends on the balance between depletion and new discoveries. The decline in the value of Pastureland may reflect land degradation. The decline in the reported value of Protected Areas needs further interrogation, and is of concern. This brings into question the sustainability of Botswana's current growth path. The current data suggests that although the value of Minerals and Metals is still increasing, it is doing so at a much slower rate than other sources of natural capital. What happens when the value of these non-renewable natural resources begins to decline and eventually run out? Research has shown that it is not the abundance of natural resources but rather the dependence on them (natural resources) that leads to the Resource Curse, a phenomenon whereby in which countries that are richly endowed with natural resources experience lower growth rates than countries which are not.

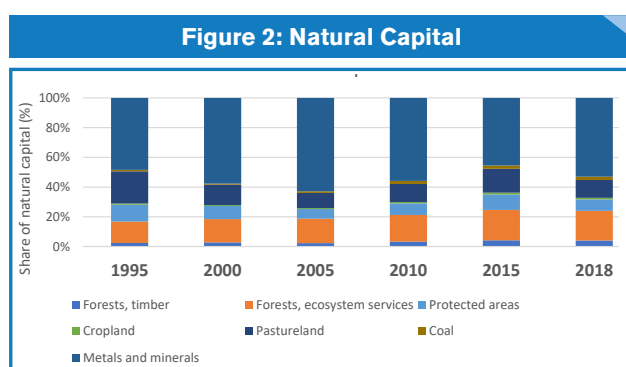


Figure 2. above illustrates the changes in shares of natural capital in Botswana. Unsurprisingly, Metals and Minerals are the largest contributor to Botswana's natural capital wealth, accounting for, on average, just over half (54%) of all natural capital. Hence Botswana's natural

capital has been based more on non-renewable assets (56.2% of total) than renewable assets (43.8%). Given that Botswana's total wealth has also been increasing over time, one can safely assume that as these non-renewable capital assets are not just being consumed over time, but rather reinvested. The share of Natural Capital attributable to Metals and Minerals is heavily influenced by diamond mining activity. When the market for rough diamonds improves and prices increase, Minerals and Metals account for a larger share of Natural Capital wealth, as its value increases (like between 2006 and 2009). The share of Minerals and Metals improved again in 2010 and 2011 due to the commencement of the Cut-8 project in Jwaneng which extended the life of mine by another 7 years and increased the realised mineral prospects within the mine. Coal, Botswana's other non-renewable capital assets and only source of fossil fuel, had the second smallest share of Natural Capital. Its trend is characterized by an initial decline, followed by a steady increase from 2004 onwards. The low wealth value of coal reflects its low price (market value), as well as the low quantity of proven (rather than just estimated) coal reserves.

The second largest contributor to Natural Capital in Botswana is Ecosystem Services (average, 17.4%) which has increased slowly between 1995 and 2018. Pastureland is the third largest contributor to Natural Capital with an average contribution of 13.8% of total Natural Capital. Its long-term trend followed a steep decline between 1995 and 2008 followed by a moderate rise over the most recent 11 years. A particularly interesting year to focus on is 2012, the year after National Forest Policy (2011) was implemented. Both Pasturelands and Ecosystem Services¹ experienced strong year-on-year growth in their shares of Natural Capital which was sustained for a few years, perhaps owing to these policy changes. Lastly, it is unsurprising that the Cropland sector contributed the least to the value of natural capital given the persistent droughts and water shortages that plagued Botswana during the time period. The following table provides each sectors average share of natural capital between 1995 and 2018:

Variable	Average share of Natural Capital (1995-2018) (%)
Timber	3.1
Ecosystem Services	17.4
Protected Areas	8.6
Cropland	0.9
Pastureland	13.8
Coal	1.5
Metals and Minerals	54.7

¹ Defined under three categories: 1) Recreation, hunting, and fishing (recreation services) 2) water services 3) non-wood forest products

SPECIAL FEATURE

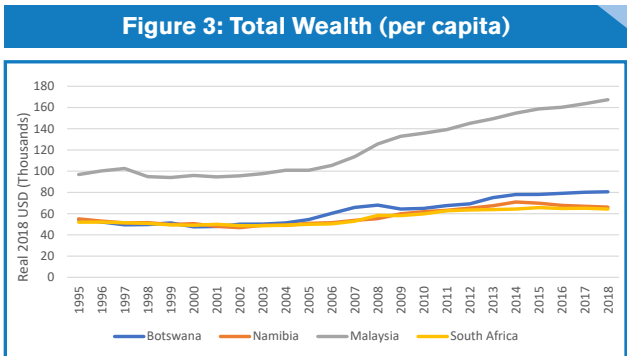
Net Foreign Assets

Botswana managed to maintain its status as a net creditor nation between 1995 and 2018. This means that over the 23-year period in question, the foreign assets held by Botswana citizens and firms, exceeded their foreign liabilities. In total, Botswana's net foreign assets (NFA) rose from USD5,280 million in 1995, to USD5,870 million in 2018, increasing by 11%. Botswana's NFA rose gradually (with fluctuations) to a peak of USD12,914 million in 2007 before gradually declining (with fluctuations) to its 2018 level. By remaining a net creditor, it means that Botswana's NFA added to the wealth of the country every year.

International Comparisons

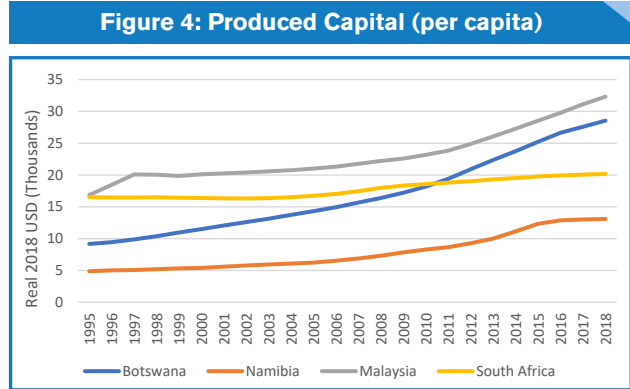
(For the following section, we remove our estimates for the value of diamonds from Botswana's total wealth to make comparisons and methodology consistent with other countries)

Total Wealth



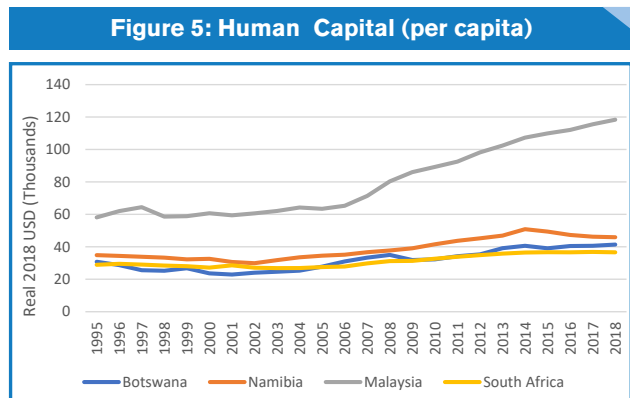
Botswana's growth path of total wealth per capita has performed well when compared to other countries within the SADC region, namely South Africa and Namibia, but pales in comparison to other middle-income countries such as Malaysia. Malaysia's wealth per capita is almost consistently double Botswana's but managed to record a greater CAGR of 2.4%, compared to Botswana's CAGR of 1.7%. Compared to other SADC countries, Botswana started on par with South Africa and Namibia in terms of wealth per capita, but a divergence took place around 2005 when Botswana started outperforming her regional partners in terms of per capita wealth accumulation. In total South Africa and Namibia recorded lower CAGRs of 0.9% and 0.8% respectively.

Produced Capital



Amongst our sample of countries, Botswana has performed the best with regards to increasing produced capital per capita between 1995 and 2018. This is unsurprising given the large infrastructure projects that have been emphasised by government since the commencement of the National Development Plan 8 (NDP 8) (1997) through to NDP 11 (2017). Botswana's produced capital per capita was almost half of both Malaysia and South Africa's in 1995. By 2011, Botswana's produced capital per capita had surpassed South Africa's and on a path of convergence with Malaysia's. For the most part, South Africa experienced subdued growth in produced capital per capita, recording a CAGR of 0.9%. Namibia, despite growing from a relatively low base compared to the other countries registered a CAGR of 4.4%. Malaysia reported a CAGR of 2.9% which was less than the 5.1% CAGR achieved by Botswana.

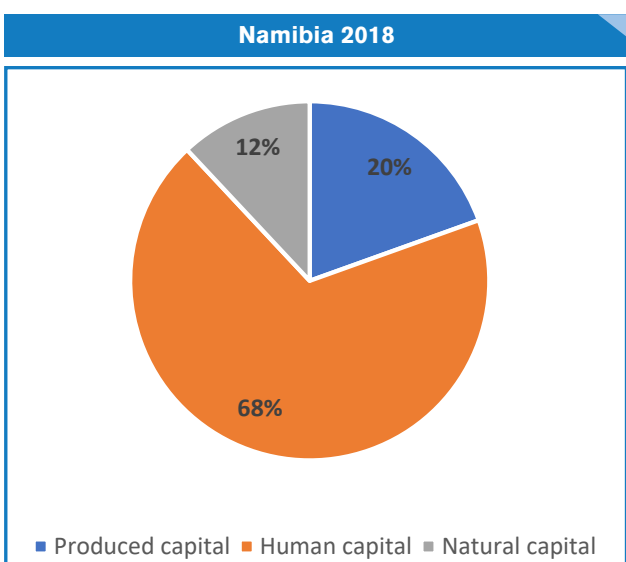
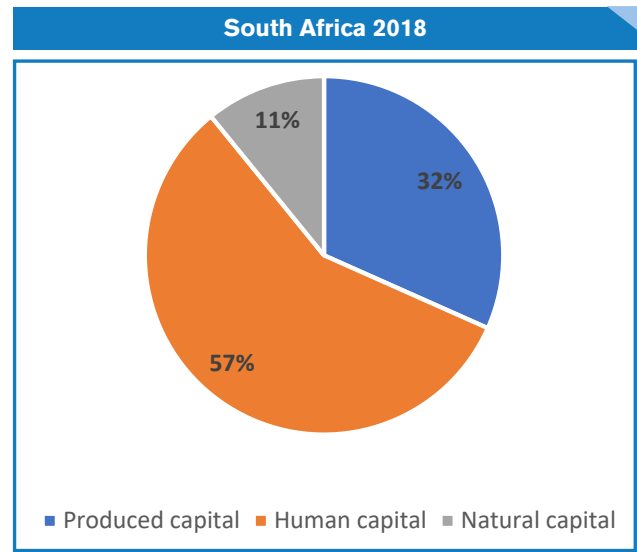
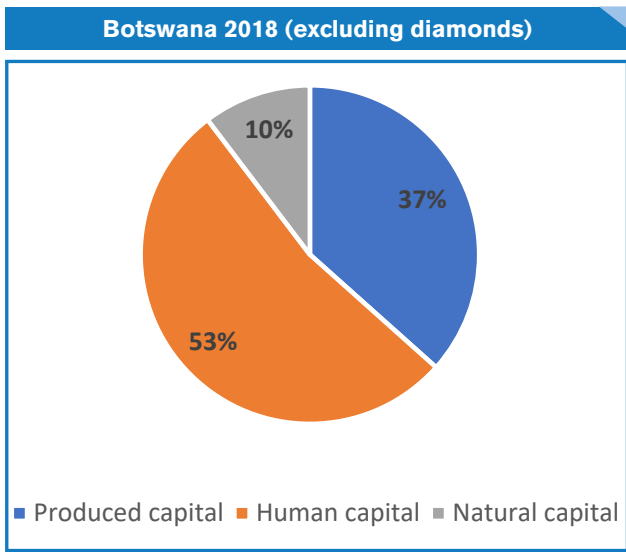
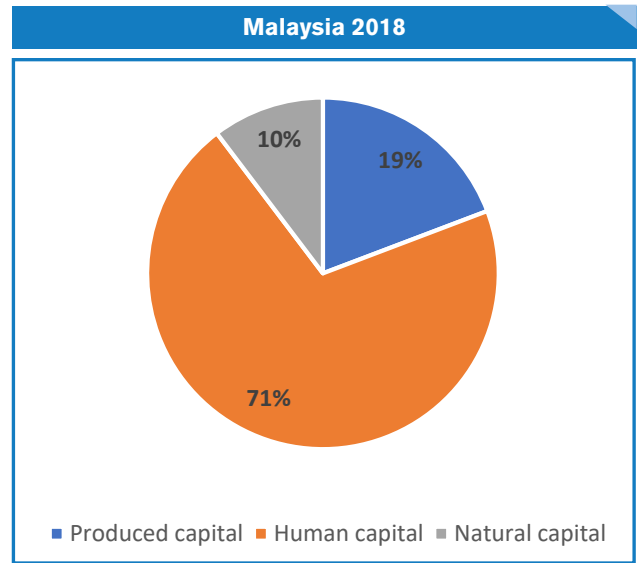
Human Capital



Per capita human capital accumulation (labour productivity) continues to be a problem in Botswana even when compared to other countries. Both Namibia and Malaysia recorded higher levels of human capital per capita than Botswana for every year between 1995 and 2018. However, there was some slight convergence between Botswana and Namibia with the former recording a CAGR of 1.3% and the latter 1.2%, this however, is not enough. Malaysia, a country which shares the same income status as Botswana registered a CAGR of 3.1%, more than double the growth Botswana could muster. In terms of per capita human capital, South Africa was the worst performing country although periodically surpassing Botswana's level. South Africa reported the lowest CAGR of 1.0%.

Composition of per capita Total Wealth

The structure of total wealth (excluding NFA) that each country has can help us gauge how far along the development path our selected group of countries are.



The first thing to note is that the share of Natural Capital for Botswana, South Africa and Namibia has been affected by the lack of diamonds in the World Bank's mineral accounting. In the case of Botswana, when diamonds are accounted for, the share of Natural Capital almost doubles, increasing from 10% to 19%. The effect will not be as large for South Africa and Namibia, but it will be significant none the less, given that they are both diamond producing countries. Even so, it is clear that Malaysia is further down their development path given their smallest reliance on Natural Capital. Unsurprisingly, because of the constraints in the labour market (poor productivity), Botswana holds the smallest share of Human Capital (53%) and the largest share in Produced Capital (37%). Given the low productivity of labour, firms will find it more efficient to invest in machinery and infrastructure rather than in labour and human capital. This is in sharp contrast to Malaysia who have the greatest share in Human Capital (71%) and the

lowest share in Produced Capital (19%). This could have far reaching implications for Botswana. Given that a small proportion of the population owns the produced capital, further investment in produced capital away from Human Capital, which tends to be more evenly distributed, could exasperate the already high levels of inequality present within the country.

Conclusion

The information in the World Bank CWON data shows that Botswana has done well in maintaining and increasing total wealth despite having a development model driven by the exploitation of non-renewable mineral resources.

This has been done by converting the proceeds of natural capital depletion into other forms of capital, including produced capital, human capital and financial assets. Botswana's wealth per capita has increased faster than in neighbouring South Africa and Namibia. However, Botswana has not managed to achieve a breakthrough to achieve a similar level of wealth per capita as Malaysia. Much of Botswana's mineral wealth has been converted to produced capital (infrastructure and equipment). While there has also been significant expenditure on developing human capital, this has not resulted in the value of human rising as fast as it should have done, due to low productivity and poor labour market outcomes.

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