

# ECONOMIC REVIEW

fourth quarter oct-dec 2021

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## COMMENTARY

# Strong Recovery in 2021, but Structural Problems Persist

## Introduction

Botswana has experienced strong GDP growth recovery during the first three quarters of 2021, as the country continues to emerge from the Covid-19 pandemic. However, this recovery remains susceptible to new variants of the covid-19 virus as evidenced by the outbreak of the Omicron strain which led to travel restrictions against the whole Southern African region during the holiday period of late 2021. All in all, as we enter 2022, the key developments in 2021 included broad-based economic growth, a significant increase in government spending and borrowing, and rising inflation rates.

## Growth

National accounts data for the first three quarters of 2021 show that GDP was 13.5% higher than during the same period in 2020. This suggests that final real GDP growth for 2021 will surpass the 9.7% and 8.7% growth forecasts set out by the Ministry of Finance and Economic Development (MFED) and the IMF respectively. This indicates stronger than expected economic recovery from covid-19 for the year 2021 to September. However, the emergence of the Omicron variant, which was first reported in November 2021, may have dampened growth during the fourth quarter of the year, the extent of which will only be clear once Statistics Botswana publishes GDP data for the full year towards the end of March 2022. Travel restrictions are bound to have had a disproportionately larger impact on the tourism industry, further delaying the recovery of the sector.

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The momentum in economic growth has been mainly driven by recovery in the diamond trading and mining sectors, raising questions about the extent to which the broader economy will grow and reap the benefits of this recovery. Diamond Trading and Mining were the best performing sectors in Q3 2021, recording y-on-y growth rates of 80.6% and 15.6%, respectively. However, non-diamond private sector output (total GDP excluding mining, diamond trading and public administration) was 8.1% higher during the nine months to September 2021 than in the same period in 2020, indicating robust, broad-based economic recovery. Only two sectors of the economy, namely Agriculture and Accommodation & Food Services recorded negative growth during Q3 2021.

### Diamond Market

The global market for rough diamonds experienced robust recovery in 2021, spearheading Botswana's post-pandemic recovery. De Beers' total sales for the year were valued at USD4.1 billion, representing a 76.0% increase compared to 2020 and rising beyond their pre-pandemic levels of 2019. Furthermore, consolidated rough diamond prices rose by 28% according to the Zimnisky Global Rough Diamond Price Index. The tightening of the supply of global rough diamonds towards the tail end of 2020 meant that the supply-demand balance for diamonds was healthier at the start of 2021 than it had been over recent years. Mid-stream sentiments remained positive during the year indicating strong demand for diamond jewellery. Consumer demand for diamond jewellery remained robust over 2021, especially in key markets such as the USA and China, maintaining its momentum from Q1 through to the holiday period in December 2021. De Beers continued to implement its more flexible approach to rough diamond sales during 2021 with most sight events being extended beyond their usual week-long duration.

De Beers total rough diamond production for Q3 2021 was 9.2 million carats, rising by 11% and 28% when compared to Q2 2021 and Q3 2020, respectively. The overall increase in production was planned in order to meet the stronger demand for rough diamonds. The total production guidance for the year was tightened to approximately 32 million carats during the quarter (previously 32-33 million carats), due to operational challenges, and remains vulnerable to any future covid-19 related disruptions. Production in Botswana rose by 12% and 33% when compared to Q2 2021 and Q3 2020, respectively, reaching 6.4 million carats in Q3 2021; this was attributed to the treatment of higher-grade ore at the Jwaneng mine and was partially offset by a decrease in production at Orapa mine due to the closure of Plant 1.

### Employment

However, concerns over whether or not the improved economic output will translate into job creation and therefore a reduction in unemployment still remain. Although economic recovery has been broad-based, its main driver has been diamond mining and trading sectors which are capital intensive and have a low labour share of income.

Furthermore, there is uncertainty over possible retrenchments following the lifting of the State of Public Emergency (SoPE), which had highly restricted retrenchments. Statistics Botswana is expected to publish data on employment and unemployment for Q4 2021 soon, but this data is not available at the time of writing.

On the surface, there have been next to no reports of widespread retrenchments locally following the ending of the SoPE, suggesting a measure of resilience in the labour market. Furthermore, according to international reports, especially from developed countries, the general trend has been for a tightening of labour markets with a sharp increase in the demand for labour during the economic recovery, and a subsequent reduction in unemployment. Given both of these facts, concerns over a rapid increase in unemployment in Botswana following the lifting of the SoPE may be exaggerated.

### Banking Sector

Annual bank credit growth has generally followed an upward trend in 2021, rising from 3.9% in January to 5.8% in October, following a peak growth rate of 7.4% for the year in September and a historic low of 1.6% in March. This upturn in credit growth has mainly been driven an increase in credit taken by firms from May 2021 to date, recording positive growth for consecutive months for the first time since early 2019. The increase in bank credit growth to firms is in line with improving market conditions, as firms source increased capital/labour in order to meet rising demand. Credit growth to households has also increased during the year although it reached a historically low level of 6.1% in February 2021. Arrears on bank lending as a proportion of total banking assets rose slightly during Q3 2021, reaching 5.5% of bank credit outstanding. However, arrears remain low by historical standards, indicating a measure of resilience within Botswana's credit sector as both firms and households are yet to experience increased levels of debt stress due to the covid-19 pandemic.

### Monetary Policy Environment

The Bank of Botswana decided to maintain its accommodative monetary policy throughout 2021, keeping the Bank Rate at 3.75%. This was done in order to provide support to the local economy as the country emerges from the covid-19 pandemic. Inflation rose beyond the upper-bound of the Bank's objective range of 3-6% in May 2021, where it remained until the end of year. Initial forecasts showed inflation falling back to within the Bank's objective range towards the end of Q2 2022; however, following the fuel price increase in December 2021, inflation is now forecast to remain above 6% for the whole of 2022, although gradually declining as the year progresses. BoB highlights that inflation risks remain on the upside.

A key question is whether there is likely to be any monetary policy response to rising inflation. If inflation is expected to be transitory, the appropriate policy response is to "look through" the short-term increase in inflation and calibrate the monetary policy stance to expected medium-

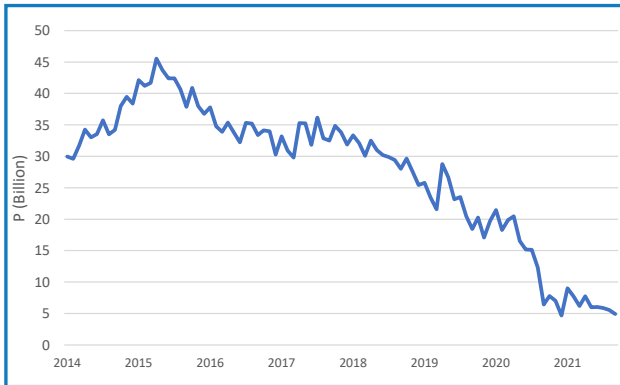
## COMMENTARY

term inflation. But if higher inflation is prolonged, this runs the risk of it becoming generalised through second-round effects, for instance, through the impact of higher transport costs on the prices of goods and services. In this case, there is a risk that monetary policy may need to be tightened to bear down on inflation.

### Fiscal Space

The 2022 Budget Strategy Paper was published towards the end of Q3 2021. The data indicates large budget deficits of P14.6 billion and P7.2 billion for the 2020/21 and 2021/22 financial years, respectively, along with significant drops in government revenues due to the outbreak of the covid-19 pandemic. Both of these factors have been instrumental in the depletion of government savings.

**Figure 1: Government Deposits at Bank of Botswana**



Source: Botswana Financial Statistics (Bank of Botswana)

The graph above illustrates that governments savings at BoB have declined from a peak of approximately P45.5 billion in April 2015 to about P4.9 billion in September 2021. This shows that historical savings have been almost entirely depleted over the past few years. The remaining balances are required to cushion the impact of short-term fluctuations in revenue, given that government’s average monthly expenditure is estimated to be around P6 billion for the 2021/22 FY, and are no longer sufficient to finance budget deficits.

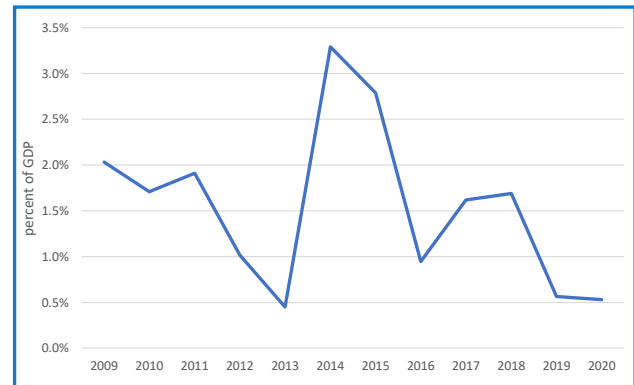
The long-term decline in government savings is due to the persistent fiscal deficits the government has been running over the past years. The covid-19 pandemic only exasperated the already existing stress on government’s savings through the need for increased spending to fund the ERTF, alongside significant reductions in government revenues. Moving forward, the government will now be more reliant on both domestic and foreign borrowing to finance budget deficits, a welcome development for pension funds, insurance funds and other market players who have an appetite for long-term government bonds. The impact of this is already evident as there has been a sharp rise in government bond yields over the year. Fortunately, the level of public debt prior to covid-19 was very low, and even

with increased borrowing to finance deficits, debt should remain well below the statutory limit of 40% of GDP, and comfortably within debt sustainability metrics.

### Much Needed Structural Reforms

Despite the strong growth recovery experienced in 2021, evidence of serious structural problems within Botswana’s economy remain. The economy has continued to run “twin deficits” i.e. internal (fiscal deficits) and external (balance of payments) deficits which indicate persistent macroeconomic imbalances. There is a desperate need for a change of course in terms of policies to correct them. Whilst the emergence of the covid-19 pandemic exasperated these problems, it did not cause them, as the twin deficits existed prior to 2020.

**Figure 2: Net Inflows of Foreign Direct Investment (FDI )**

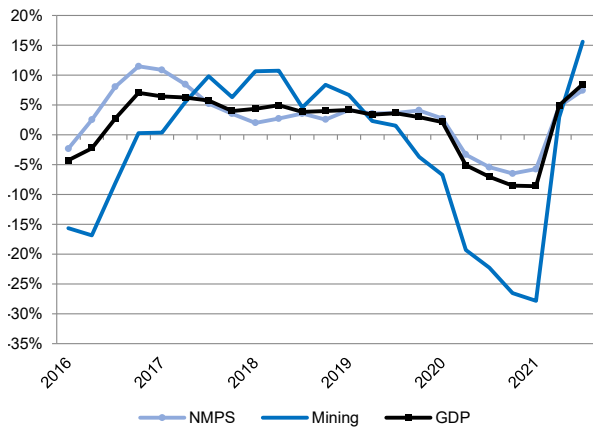


Source: Bank of Botswana

There is a particularly alarming problem with deficits under the direct investment section of the financial (capital) account of the BoP. The data suggests that residents are exporting capital whilst there are minimal capital inflows through sources such as FDI. The graph above shows how Net FDI inflows have declined from 3.3% of GDP in 2014, to 0.6% of GDP in 2019. The deficits in the current account of the BoP highlight the need for Botswana to pursue economic growth policies that are anchored on both export-led growth and export diversification. Such policies would reduce both the magnitude and frequency of trade deficits, subsequently leading to more sustainable BoP current account balances. The need to tighten spending and bring government budget balances back to a surplus is more pressing than ever. The financial buffers – government savings and the foreign exchange reserves - that were present prior to covid-19 have now been reduced and there is an urgent need to replenish them in order to provide the economy with some measure of protection against future economic shocks.

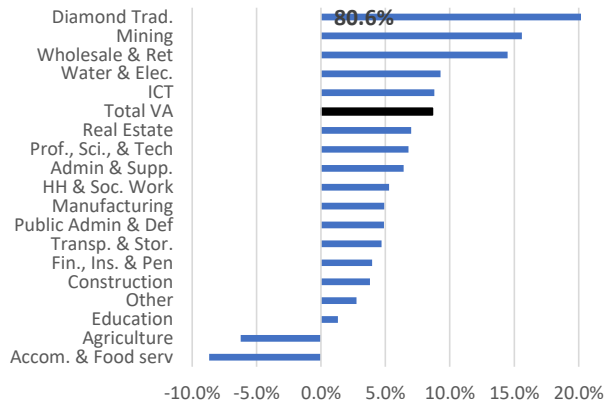
# KEY ECONOMIC VARIABLES

## Annual GDP Growth



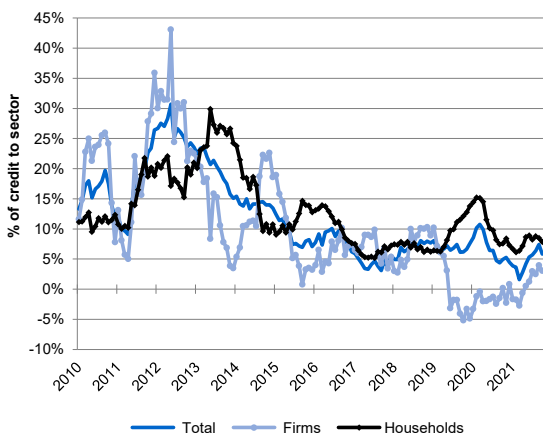
Growth in annual GDP continued its strong recovery into the third quarter of 2021. Q2 and Q3 2021 represent the first consecutive quarters of positive growth since the outbreak of the COVID-19 pandemic in early 2020. Real annual GDP growth rose from 5.0% in Q2 2021, to 8.5% in Q3 2021. This was driven by continued recovery across most sectors of the economy, especially mining, which registered year-on-year growth of 15.6% in Q3 2021, up from 3.0% during Q2. The non-mining private sector (NMPS) also performed strongly during Q3 2021, recording y-on-y growth of 7.5% during the quarter, up from 4.8% in Q2 2021. The improvement in economic growth is reflective of the continued global effort to re-open economies and adopt the “new normal” manner of conducting business.

## Sectoral GDP Growth



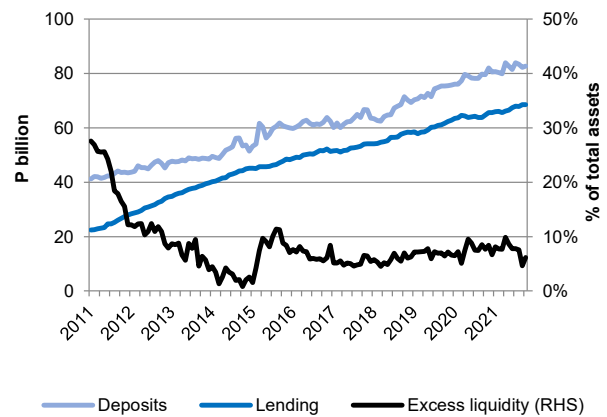
In line with the continued broad based economic recovery, all sectors except Agriculture (-6.2%) and Accommodation & Food Services (-8.7%) recorded positive y-on-y growth in Q3 2021. The sizable contraction in Accommodation & Food Services was unsurprising as the sector is a proxy for tourism activity; which is expected to recover at a slower pace than other sectors and still remains extremely susceptible to travel restrictions and outbreaks of new Covid-19 variants. Diamond Trading and Mining were the best performing sectors in Q3 2021, recording y-on-y growth rates of 8.6% and 15.6% respectively. This was due to the robust recovery of the global market for rough diamonds during Q3 2021 leading to higher production volumes and sales values.

## Annual Credit Growth



Annual bank credit growth rose marginally to 5.8% in October 2021, up from 5.7% in July 2021. This was driven by the continued recovery of annual bank credit taken up by businesses which rose from 2.9% in July 2021 to 3.0% in October 2021. This was partially offset by a slowdown in credit being taken by households which recorded y-on-y growth of 7.8% in October 2021, down from 8.2% in July of the same year. Uncertainties in household incomes due to possible job losses following the lifting of the State of Public Emergency (SoPE) is leading banks to adopt a more cautious approach when lending to households.

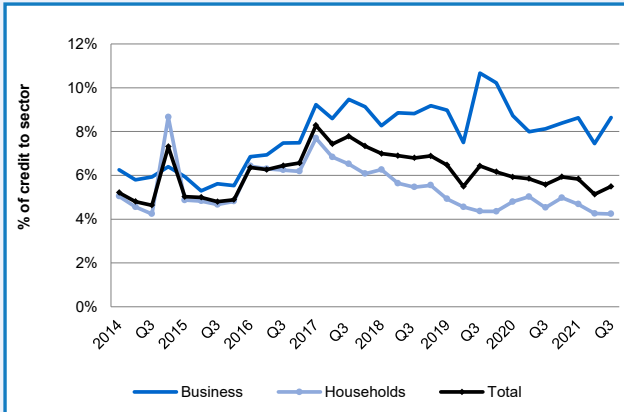
## Bank Deposits, Lending & Liquidity



Bank liquidity continued its decline into the second half of 2021. Excess liquidity fell from 7.8% of total assets in July 2021 to 6.2% in October 2021. The decline in excess liquidity was due to a fall in the value of total bank deposits between July and October 2021 which was compounded by an increase in bank lending during the same period. Bank deposits totalled P82.7 billion in October 2021, down by 1.5% (P1.28 billion) from July 2021. Conversely, bank lending rose by 0.8% (P0.57 billion), ending October 2021 at P69.5 billion. The decline in excess liquidity reflects the continued uptick in credit taken up by businesses as post-pandemic recovery gathers pace. Banks continue to hold enough liquidity to support domestic lending.

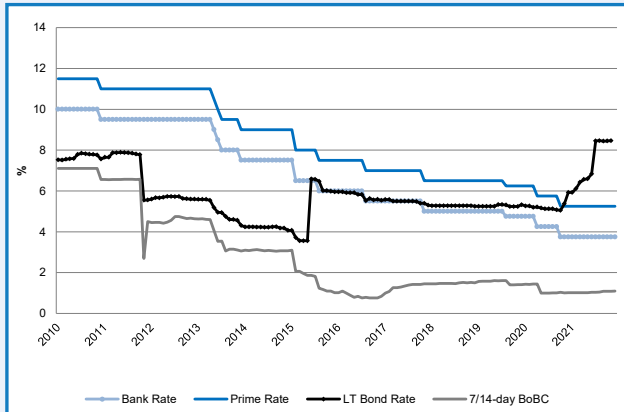
# KEY ECONOMIC VARIABLES

## Arrears on Bank Lending



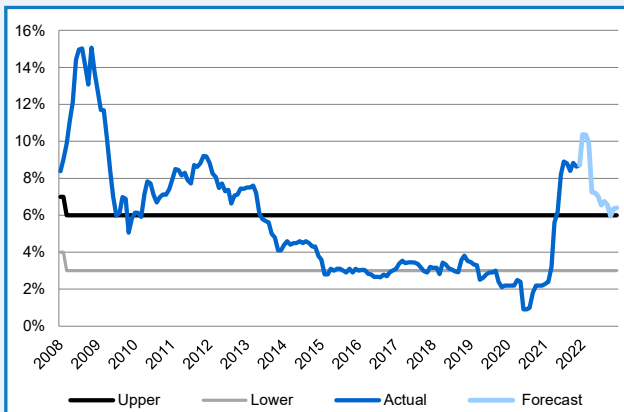
Total arrears on bank lending as a proportion of total banking assets rose during the third quarter of 2021 but remains low by historical standards. Total arrears rose to 5.5% of bank credit outstanding in Q3 2021, up from 5.1% in Q2 2021. This was driven by an increase in arrears on lending to businesses from 7.5% in Q2 2021, to 8.6% in Q3 2021. This was partially offset by a marginal decline in arrears on lending to households, which fell to its lowest recorded level of 4.2% in Q3 2021, down from 4.3% during the previous quarter. Despite increasing during the quarter, the low level of arrears suggests that both households and businesses are yet to experience increased levels of debt stress. However, upside risks, especially to household arrears persist due to the lifting of the SoPE and firms being allowed to retrench workers.

## Interest Rates



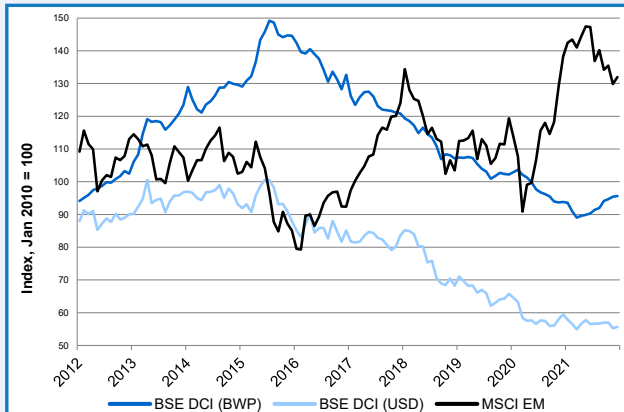
The Bank of Botswana’s Monetary Policy Committee (MPC) maintained the Bank Rate at 3.75% at their December 2021 meeting. The Bank highlights that inflation risks remain skewed to the upside, despite a lack of demand-driven inflationary pressures due to the economy operating below full capacity in the short to medium term. Money market rates rose slightly in 2021. The 7/14-day BoBC rate rose from 1.02% in December 2020, to 1.1% in December 2021. The long-term bond rate rose from 5.4% in November 2020 to 8.5% 12-months later, reflecting increased government borrowing through domestic bond issuance. The balance of risks is moving towards an increase in policy interest rates, given that inflation is now expected to be higher for longer.

## Inflation and Forecast



The annual inflation rate rose to 8.7% in December 2021, up from 8.4% in September and 2.2% in December 2020. Inflation rose beyond the upper bound of the BoB’s 3-6% objective range in March 2021 and remained there for the rest of the year. The sharp increase in headline inflation during 2021 was due to increases in utility prices, VAT, BHC rentals and various fuel price adjustments that took place during the year. Higher international oil prices are the main driver of increased inflation. Following another upward adjustment in fuel prices in December 2021, inflation is forecast to reach double digits in Q1 2022, reaching its highest levels since the first half of 2009. Headline inflation is expected to decline gradually during the year although still remaining above the 6% upper bound of the BoB’s objective range for the whole of 2022.

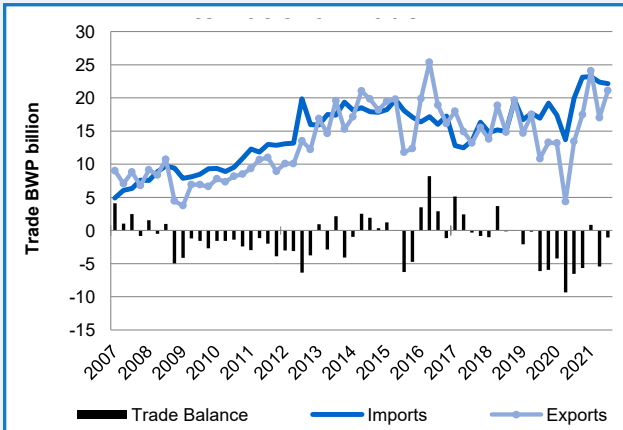
## Stock Markets



The Botswana Stock Exchange (BSE)’s Domestic Companies Index rose by 1.9% in Pula terms but declined by 6.4% in USD terms during 2021. Yet again, the BSE underperformed when compared to global markets. The MSCI World Index recorded y-on-y growth of 20.1% whilst the MSCI Emerging Markets Index contracted by 4.6% during 2021. Nevertheless, the increase in the DCI in 2021 was the first year of positive growth since 2015, and marks a welcome improvement in the performance of the BSE.

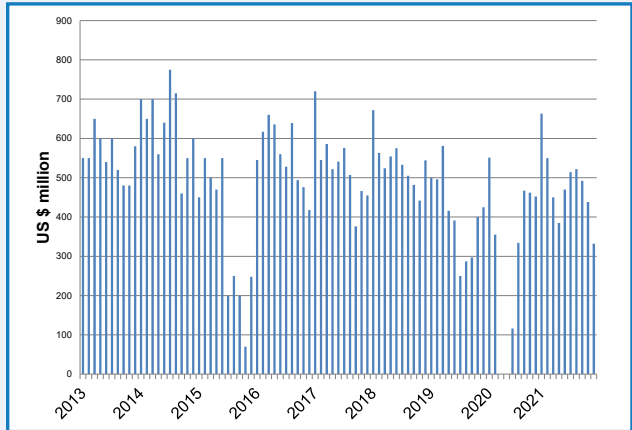
# KEY ECONOMIC VARIABLES

## International Trade



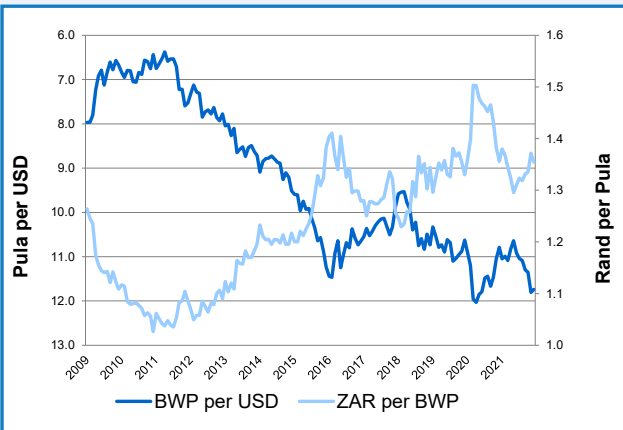
International trade activity had a mixed performance during the third quarter of 2021. On the one hand, total imports declined marginally by 1.1% to P22.2 billion in Q3 2021, down from P22.4 billion in Q2 2021. This is in contrast to exports, which rose by 24.2% to P21.1 billion in Q3 2021, up from P17.0 billion in Q2. The rise in exports was driven by a 22.4% increase in the value of diamonds exported during Q3 2021 as the global market for rough diamonds continued its robust recovery. The rise in exports against the marginal decline of imports resulted in a smaller trade deficit of P1.04 billion in Q3 2021, down from P5.4 billion during the previous quarter.

## De Beers Diamond Sales



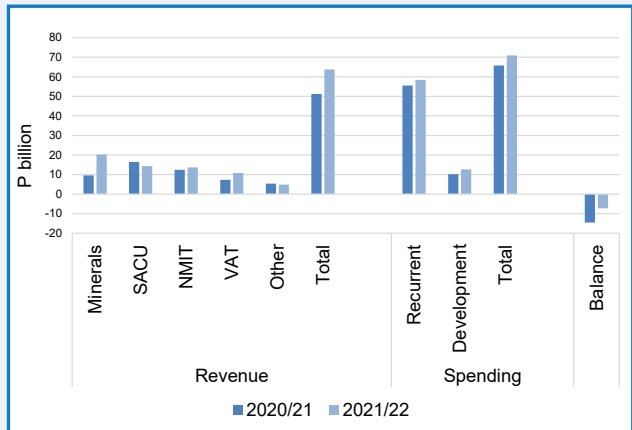
Despite the ongoing challenges and risks posed by the Covid-19 pandemic, the global market for rough diamonds recovered strongly in 2021 with sales surpassing their pre-pandemic levels of 2019. Compared to 2019 and 2020, the value of De Beers Global Sightholder Sales (DBGSS) increased by 19.1% and 76.0% respectively, concluding 2021 with a total sales value of USD4.1 billion. The demand for rough diamonds remained positive during the fourth quarter of 2021 driven by consumer demand for diamond jewellery remaining robust during the holiday period. DBGSS sales were valued at USD1.3 billion in Q4 2021, up by 21.8% compared to Q3 2021 (due to having an extra sight sale during the quarter) but 8.6% lower than Q4 2020.

## Exchange Rates



Foreign exchange rate trends persisted for the second consecutive quarter as the Pula continued to strengthen against the Rand and weaken against the US Dollar during Q4 2021. The Pula appreciated by 1.6% against the Rand, ending Q4 2021 with an exchange rate of ZAR1.3548, up from ZAR1.3316 in Q3. Conversely, the Pula-US Dollar exchange rate depreciated by 3.9% during the same period, falling from 11.3 to 11.7.

## Quarterly Fiscal Data



The 2022 Budget Strategy Paper, published in September 2021, provided revised figures on government spending and revenue for the 2020/21 FY and updated forecasts for the 2021/22 FY. Government is expected to report a budget deficit of P7.2 billion in the 2021/22 FY, almost half the size of the P14.6 billion budget deficit recorded during the 2020/21 FY. Government revenues are expected to rise by 24.4% between the 2020/21 and 2021/22 FY due mainly to an expected 112.0% increase in mineral revenues as the global market for rough diamonds recovers post-pandemic. VAT revenues are also expected to increase significantly (46.5%) as economic activity rises and businesses open up post Covid-19. Government spending is expected to increase by 7.9%, driven by a 24.1% increase in development spending as the government aims to fuel post Covid-19 growth through high impact public projects. The large budget deficits for both the 2020/21 and 2021/22 financial years have been funded through drawdowns of the Government Investment Account (GIA) and increased borrowing.



## NEWS HIGHLIGHTS

21st October	De Beers adjust production outlook again. (Rapaport News)	De Beers has revised its production guidance for 2021, indicating that production will be at the lower end of its previous guidance because of continuing operational challenges. The company expects to recover around 32 million carats of rough diamonds in 2021 from the previous guidance of 32 million to 33 million carats. According to the company, the new outlook is subject to the extent of any further covid-19 related disruptions.
26th October	Botswana delivers first iron ore exports to China. ( Reuters Africa)	Botswana’s first iron ore mine, Ikongwe, has started production and has delivered its first exports to China. The company is expected to export about 50,000 tonnes of iron ore every month to a steel manufacturer in China. The miner noted while exports currently go via South Africa, they are in talks with Botswana Railways to export through Mozambique. The Ikongwe mine is owned by Vision Ridge Investments, a unit of India’s Yashomann Industries, and the company expects to produce one million tonnes of iron ore per year over an initial 10-year lifespan, with a grade of up to 65%.
4th November	Botswana signs COP26 deal against coal, but.... (Mmegi)	Botswana has signed the COP26 deal to reduce the use of coal but declined to sign a pledge to stop the issuances of new licenses. At least 49 countries have officially committed to moving away from coal and into clean power, including some of the biggest producers and consumers of coal, as well as some of the most coal-dependent countries in the world. Botswana opted out of committing to not issuing new licenses for coal as the country looks to tap into its estimated 212 billion tonnes of coal resources ahead of the Paris agreement deadline of 2050 and intends to exploit these resources using clean energy. Botswana also committed to scale-up clean power generation and transition away from coal power generation in the 2040s.
9th November	Lower Rough Supply Driving Greater Efficiency. (Rapaport News)	Global rough-diamond production is not expected to return to pre-pandemic levels. The coronavirus forced the mining companies to re-think their production programs and downscale accordingly. Global output peaked in 2017, however, it has been declining and worsened in 2020 when operations were forced to shut in response to covid-19. The pandemic forced mining companies to re-think production and the experience during the early part of the pandemic resulted in a realization that the trade could make do with less, as it is going to have to in the long run. The permanent closure of some mines resulted in lower global production volumes. Global production in 2021 is projected to increase by 4%, as some mines have ramped up from their covid-19-driven drop in 2020. Global production is expected to be subdued in the short to medium term and in turn encouraging efficiency along the distribution chain.

## NEWS HIGHLIGHTS

11th November	Alrosa ups production outlook in strong market. (Rapaport News)	Alrosa has raised its production plan for 2021 amid buoyant rough demand and a tight supply situation. The miner estimates to recover around 32.5 million carats in 2021, compared with a previous outlook of 31.5 million carats. The increase had been under consideration since earlier this year, as rough sales soared and inventories slumped.
18th November	Russia's Nornickel resolves dispute with Botswana, gets compensation. (The Patriot)	Nornickel has settled its dispute with Botswana government and BCL Group related to the sale of Nornickel's assets in Africa, including half of joint venture, Nkomati, to BCL. The dispute began in 2016 in which Nornickel and BCL entered into an agreement for the sale of Nornickel's African assets to BCL in 2014, and BCL could not complete the transaction. As part of the settlement, and the parties waived further claims against each other
19th November	India's Jindal plans to start building Botswana coal mine in 2022. (Reuters Africa)	Jindal Steel & Power Limited (JSPL) plan to start building a coal mine in the Mmamabula coalfields in 2022, aiming to supply the export market and a planned Botswana coal power plant. The development of the mine is expected to be done in two phases over three years and the mine is expected to produce 4.5 million tonnes of coal per year. Despite the global shift away from coal, Botswana is pushing ahead with developing its estimated 212 billion tonnes of coal resources and the country awaits to award a tender to build a 300 MW coal-fired power plant. At the COP26 climate conference in November 2021, Botswana signed up to a global commitment to reduce the use of coal but opted out of a pledge to stop issuing new coal mining licences.
25th November	Lucara outlook strong amid "healthy" market. (Rapaport News)	Lucara Diamond Corp. expects a strong diamond revenue in 2022 as demand continues to strengthen and the company mines a higher-value portion of its Karowe deposit in Botswana. Sales are forecast between USD185 million and USD215 million for the year, excluding sales from any large or exceptional diamonds, with total output of 300,000 carats to 340,000 carats to be sold through multiple channels to maximise revenue. For 2021, the miner expects full-year revenue to be USD195 million to USD210 million, with total output between 340,000 carats and 370,000 carats. According to the company CEO, Eira Thomas, the business environment for diamonds and diamond jewellery is the healthiest in several years, spurred on by an improvement in global supply-and-demand fundamentals, a trend which is expected to continue.
2nd December	High inflation to last longer than forecast. (Mmegi)	The Bank of Botswana (BoB) forecast inflation to drop to the medium-term objective range of 3-6% by the third quarter of 2022, a revision from the original forecast that this would happen in the second quarter of 2022. The Bank Rate was maintained at 3.75% to continue to support economic activity.



## NEWS HIGHLIGHTS

2nd December	De Beers owner plans global vaccine mandate. (Rapaport News)	Anglo American plans to introduce a covid-19 vaccine mandate across its operations to combat the virus. The mining group intends to make vaccinations a requirement for anyone accessing its global sites and offices. There will likely be differences in how and when the group executes the rule across its network because of local contexts and laws. The company has already been setting up vaccination centres in some of its operational locations to enable workers to receive a vaccine.
3rd December	Morupule secures SA deals for new P1.7 billion expansion. (Mmegi)	Morupule Coal Mine (MCM) officially opened the Motheo mine, which is projected to produce about 1.4 million tonnes of coal per annum. The opencast mine is expected to be operational in April 2022 and is targeting the South African export market, as well as the proposed 300MW power plant which is yet to be awarded by the government.
3rd December	Botswana's Debswana diamond sales jump 73% in first nine months of 2021. (Mining Weekly)	Sales of rough diamonds by Debswana jumped 73.7% in USD terms in the first nine months of 2021, driven by the reopening of U.S. and China's consumer markets. According to data from the BOB's Botswana Financial Statistics (BFS), exports of rough diamonds stood at USD2.603 billion in the first nine months of 2021 compared with USD\$1.498 billion in the same period previous year. In Pula terms, rough exports increased by 68.8% to P28.35 billion from P16.79 billion, during the period under review. Rough sales fell significantly in 2020 as the covid-19 pandemic hit demand while global travel restrictions hurt trading.
7th December	Botswana Diamonds Looks to move into Production. (Rapaport News)	Botswana Diamonds is hoping to enter the production phase as it juggles several advanced projects that could come to fruition by the second quarter of 2022. This will see the company evolving from a pure diamond explorer to a diamond producer after converting one of its exploration projects in South Africa into a diamond mine. The company is also in the process of acquiring the Ghaghoo mine in Botswana through its subsidiary, Okwa Diamonds, which has the capacity to produce about 300,000 to 400,000 carats every year.
7th December	Taxman says taxpayers are not taking advantage of amnesty. (Sunday Standard)	The Botswana Unified Revenue Service (BURS) has raised concern over the low uptake of the Tax Amnesty Scheme by businesses and individuals, to reduce the tax burden on their outstanding tax liabilities. The scheme was introduced in February 2021 to accord taxpayers with outstanding taxes an opportunity to clear their principal tax owed in exchange for write-off of interests and penalties charged during the tax periods prior to 1 July 2021. Businesses and individuals are estimated to owe about P6.8 billion collectively of which P2.5 billion, P3.5 billion and P796 million are the principal, interest and penalty taxes owed, respectively. Before the end of 2021, BURS managed to collect about P64 million of the expected P2.5 billion outstanding principal taxes. The deadline has been extended to 30 June 2022.

## NEWS HIGHLIGHTS

10th December	Government launches Middle Income Strategy. (Mmegi)	The Government has launched the “Strategy for Growing the Middle Class in Botswana”. The objective of the strategy is to facilitate the middle class to effectively participate in the country’s economic development through the creation of globally competitive sustainable businesses while providing growth opportunities. As well as contributing to the achievement of national goals of economic diversification, job creation and poverty eradication. It also aims create 100 young Batswana millionaires in 10 years. The strategy envisions to make the middle class a significant driver of Botswana’s economic development by the year 2036, in line with the goal set out in the National Entrepreneurship Policy.
10th December	BOB wary as Omicron shakes global economies. (Mmegi)	The Bank of Botswana (BoB) has raised concerns about the economic threats posed by the new covid omicron variant and the country’s ability to respond to further shocks, in terms of fiscal and monetary policy. In March 2020, when the pandemic first hit, there was space for policy action. Since then, the scope of policy to respond to future shocks has narrowed, as fiscal buffers have been significantly reduced and monetary policy has been loosened. According to the Governor, further interventions and reforms are necessary to bring about economic recovery and build resilience.
12th December	De Beers plans steady output through 2024. (Rapaport News)	De Beers’ parent company, Anglo American, forecast a stable production outlook until 2024 and expects to extract between 30 million and 33 million carats of rough diamonds in each of the next three years. According to the company, the outlook is positive for the global market for rough diamonds with strong consumer demand for diamonds and good rough diamond prices which are expected to increase by 30% in the next two years.
17th December	Rent hikes help triple BHC’s profits. (Mmegi)	The Botswana Housing Corporation’s (BHC) profit before tax for the half year to September 2021, increased three-fold from the corresponding period in 2020, attributable to rental adjustments and the resolution of a dispute with a major customer. Profit-before-tax increased to P23.2 million, boosted by P121 million rental income during the period, up from P17 million in half year to September 2020. The corporation’s other main business, house sales, fell to P74 million from P90 million during the same period.
19th December	De Beers and Botswana extend sales deal again. (Rapaport News)	De Beers has extended its sales agreement with Botswana by a further six months after covid-19 made it hard to negotiate a new deal. The terms of the current arrangement will remain in place until the end of June 2022. The extra time will allow the two parties to complete discussions with a view to renewing the contract following good progress made during 2021. The agreement was initially due to expire at the end of 2020, however, because of the pandemic and resulting travel restrictions the parties had to roll it over for another year.

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20th December	BURS on track to reach P40bn tax target. (Mmegi)	The Botswana Unified Revenue Service has so far collected P38.5 billion in various taxes in the 2021 financial year, setting it on course to reach its P40 billion target. This is commendable given the prevailing economic challenges brought by the covid-19 pandemic.
21st December	Prime Time Properties record slight profit growth. (The Voice)	Prime Time Properties has recorded marginally higher profit of P14.6 million in the financial year ended 31 August 2021, compared to P14.1 million profit recorded in the previous financial year. Across the group, 35% of rental income is from major corporates, multinationals, and commercial banks, while 38% is from established retail chains and a further 8% is from government, parastatals and foreign missions. Botswana represents 64% of the Group's market value with 22 properties. According to the Director Sandy Kelly, the Group was resilient and navigated through the challenges of covid-19 pandemic attributable to the diversity of the Group's portfolio which provided a strong protection against shocks on individual properties or tenants.
23rd December	RDC acquires JSE listed company Tower Property Fund. (Sunday Standard)	RDC Properties Limited has acquired the Johannesburg Stock Exchange (JSE) listed property company, Tower Property Fund, following the approval of the transaction by Tower Property Fund shareholders. Tower Property Fund owns a domiciled portfolio of mixed use, retail and high-quality office properties in South Africa and Croatia. According to RDC, the transaction is a major achievement in terms of diversifying the company's portfolio geographically and a testimony that a Botswana company can grow and compete in foreign markets.
25th December	BSE heads for first positive year since 2015. (Mmegi)	The Botswana Stock Exchange's (BSE) Domestic Companies Index (DCI) is headed for its first positive annual performance since 2015, attributable to the robust performances of financial counters such as Letshego Holdings, Standard Chartered and First National Bank. The DCI recorded positive growth in the first three quarters of 2021, as the economy and the local market recovers from the covid-19 pandemic.

## MACRO-ECONOMIC DATA

KEY ECONOMIC DATA											
	unit	2015	2016	2017	2018	2019	2020	2021Q1	2021Q2	2021Q3	2021Q4
<b>Annual Economic Growth</b>											
GDP	%	-5.7	7.0	4.0	4.0	3.0	-8.5	-8.6	4.9	8.5	..
Mining	%	-15.3	0.3	6.3	8.4	-3.7	-26.5	-27.8	3.0	15.6	..
Non-mining private sector	%	-5.0	11.5	3.6	2.6	4.1	-6.5	-5.7	4.7	7.5	..
GDP current prices	P bn	137.05	164.42	166.65	173.73	179.58	171.04	46.9	48.7	49.3	..
GDP 2016 prices	P bn	153.37	164.42	171.18	178.35	183.76	167.73	46.3	46.3	47.8	..
<b>Money &amp; Prices</b>											
Inflation	%	3.1	3.0	3.2	3.5	2.2	2.2	3.2	8.2	8.4	8.7
Prime lending rate	%	7.50	7.00	6.50	6.50	6.25	5.25	5.25	5.25	5.25	5.25
BoBC 7/14-day	%	0.97	0.84	1.45	1.52	1.41	1.04	1.02	1.04	1.09	1.10
<b>Trade &amp; Balance of Payments</b>											
Exports - total goods	P bn	63.48	80.34	61.67	67.17	56.29	48.24	24.09	17.01	21.12	..
Exports - diamonds	P bn	52.73	70.78	54.38	60.41	51.01	42.54	22.58	15.23	18.63	..
Balance of payments	P bn	-4.15	-3.28	-4.28	-4.20	-12.02	-20.06	-0.90	-3.28	..	..
<b>Foreign Exchange</b>											
Exchange rate BWP per USD	end	11.24	10.65	9.87	10.73	10.63	10.79	11.09	10.92	11.299	11.737
Exchange rate ZAR per BWP	end	1.38	1.28	1.26	1.34	1.33	1.36	1.34	1.31	1.332	1.355
FX reserves	\$ bn	7.55	7.19	7.50	6.66	6.17	4.94	4.82	4.67	4.61	..
FX reserves	P bn	84.88	76.80	73.69	71.43	65.23	53.36	53.08	50.94	52.10	..
<b>Financial Sector</b>											
Deposits in banks	P bn	59.96	62.44	63.58	69.27	75.71	80.54	79.88	81.37	82.20	..
Bank credit	P bn	48.31	51.32	54.18	58.33	62.77	65.55	65.64	67.45	68.51	..
BSE index		10,602	9,728	8,860	7,854	7,495	6,890	6,528	6,622	6,901	7,010
<b>Business Indicators</b>											
Diamond production (a)	mn cts	20.73	20.88	22.96	24.38	23.67	16.87	5.04	5.827	6.5	..
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	943	968	1004	..
Crude oil (Brent)	\$/bar	36.61	54.96	66.73	50.57	67.77	51.22	63.52	76.94	77.86	76.83
<b>Employment (formal) (f)</b>											
Government		130,220	129,216	129,009	156,785	156,785	152,973	..	..	..	..
Parastatals		19,411	19,008	19,444	23,497	23,497	18,933	..	..	..	..
Private sector		191,484	194,202	193,745	250,778	227,281	250,715	..	..	..	..
Total		341,115	342,426	342,198	431,060	407,563	422,621	..	..	..	..
<b>Govt Budget</b>											
		2017/18	2018/19	2019/20	2020/21 Preliminary	2021/2 Revised	2022/23 Projection				
		(d)	(d)	(d)	(e)	(f)	(g)				
Revenues	P bn	56.41	53.47	54.30	51.25	63.76	63.06				
Spending	P bn	58.39	62.35	65.40	65.80	70.98	71.55				
Balance	P bn	-1.98	-8.88	-11.10	-14.56	-7.22	-8.50				
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	173.83	194.93	213.39				
Revenues	%GDP	33.6%	30.5%	30.1%	29.5%	32.7%	29.6%				
Spending	%GDP	34.8%	35.6%	36.2%	37.9%	36.4%	33.5%				
Balance	%GDP	-1.2%	-5.1%	-6.1%	-8.4%	-3.7%	-4.0%				
Public debt & guarantees	%GDP	19.7%	19.6%	20.0%	26.9%	29.1%	..				
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

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