

BOTSWANA

Table 1	2015
Population, million	2.3
GDP, current US\$ billion	13.8
GDP per capita, current US\$	6087
Poverty rate (\$1.9/day 2011PPP terms) ^a	18.2
Poverty rate (\$3.1/day 2011PPP terms) ^a	35.7
Gini Coefficient ^a	60.5
School enrollment, primary (% gross) ^b	108.2
Life Expectancy at birth, years ^b	47.0

Sources: World Bank WDI and Macro Poverty Outlook.

Notes:

(a) Most recent value (2009)

(b) Most recent WDI value (2013)

Weakening global demand for diamonds in 2015 led growth in Botswana to stall, pressured the fiscal position to deficit and narrowed the current account surplus. GDP should rebound in 2017 as commodity prices improve and counter-cyclical stimulus is undertaken. Medium-term structural reforms are critical to manage volatility and sustainability risks, notably reforms in the water and energy sectors; while labor market distortions require addressing to spur private sector job creation. Recovery to low per-capita growth in the medium-term suggests that gains in poverty reduction are likely to be modest.

Recent developments

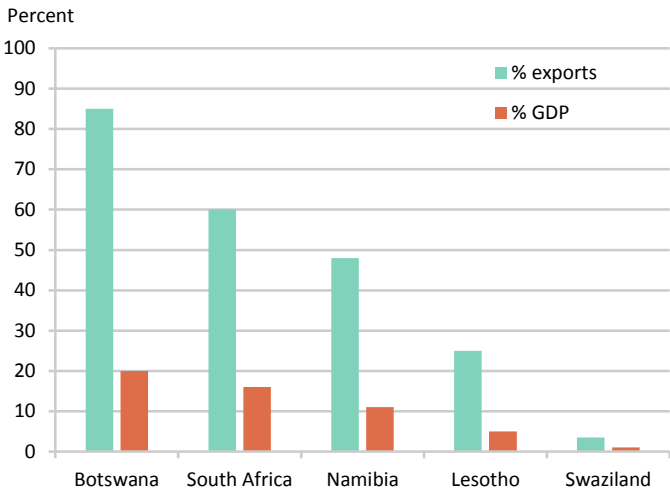
Weakening global demand for rough diamonds, combined with falling prices of metals have led to a deterioration in the near term growth outlook. Real growth is estimated to have contracted slightly in 2015 by 0.3 percent, down from a gain of 3.2 percent in 2014 on the back of poor outcomes in the diamond sector. The slowdown in China and falling global prices for commodities caused the mining sector to contract sharply in 2015 Q3 and Q4; mining GDP contracted by 21 percent for the year. Continuing electricity and water supply disruptions have impacted manufacturing, whereas the negative effects of a regional drought adversely effected agriculture. In contrast, service and retail sectors led the non-mining sectors to overall growth of above 3 percent. The fiscal position moved into deficit in 2015/16 after three years of consecutive surpluses. The fiscal balance swung from a surplus of 3.8 percent of GDP in 2014/15 (the fiscal year starts April 1) to an estimated deficit of 2.9 percent of GDP in 2015/16, as revenues fell and spending increased. On the revenue side, Government relies mainly on two volatile sources of inflows, mineral revenues (which accounts for almost 40 percent of total revenue) and SACU customs revenues (27 percent of total revenue). Both have declined, the former from weak global demand and the latter from the decline in South Africa's economic growth. On the expenditure side, in 2015 Government

started an ambitious Economic Stimulus Program. This Program emphasizes development spending on building construction, roads, tourism development, agriculture and manufacturing. The Government has substantial fiscal savings from diamond revenues (i.e., the Pula fund), and international reserves stand at about 11 months of imports, which provides Botswana ample space to gradually adjust expenditures to the SACU shock in the long run, and to provide counter-cyclical stimulus in the near term.

Weak performance across the mining sector will narrow the current account surplus. In 2014, Botswana achieved a current account surplus of 15.7 percent of GDP. External factors mentioned above adversely affected exports in 2015, and the current account surplus narrowed to 9.3 percent of GDP. Foreign reserves remain strong at USD 7.5 billion at end- 2015, or 65 percent of GDP.

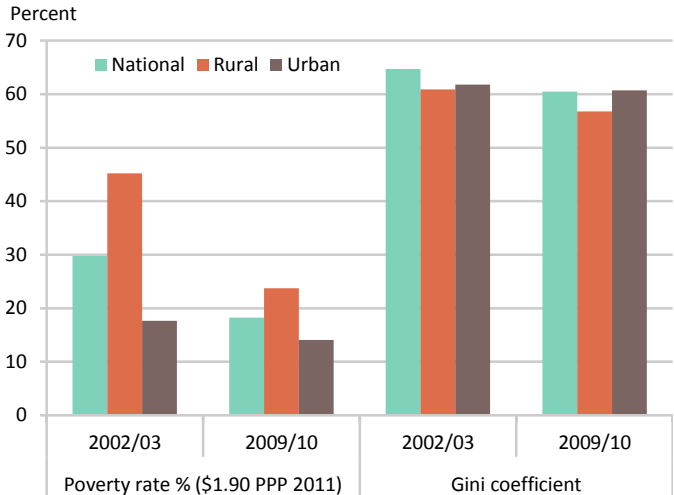
Economic growth has been pro-poor, leading to very significant and rapid poverty reduction. Between 2002/03 and 2009/10, the share of the population living on less than \$1.90 a day at 2011 international prices declined steadily from 29.8 percent to 18.2 percent (figure 2) thanks to a combination of equitable growth, demographic changes (e.g. decreasing fertility rates and dependency ratios), increased credit, and expansion of social assistance schemes (especially direct transfers to rural households), and employment expansion (especially of agricultural employment in rural areas by 5.6 percent). Progress in rural poverty reduction has been especially rapid, as it was almost halved (from

FIGURE 1 Botswana / Commodity dependence in SACU countries



Sources: World Bank, World Development Indicators.

FIGURE 2 Botswana / Poverty and inequality



Sources: World Bank calculations based on data from Statistics Botswana (2014) comprising HIES (2003) and CWIS (2010).

45.2 percent in 2002/03 to 23.7 percent in 2009/10). However, inequality in Botswana remains high with the Gini coefficient of 60.5 in 2009/10, down moderately from 64.7 in 2002/03.

Outlook

The economy is expected to rebound to 4.4 percent real growth by 2018, driven mainly by an expected improvement in diamond prices as developed economies stabilize and continued fiscal stimulus that will propel non-mining activity. Lower fuel and commodity prices, slower credit growth and weakening economic activity will keep CPI inflation at the lower end of the Central Bank's policy band of 3-6 percent.

The fall in mining revenue is expected to gradually recover as developed economies stabilize. However, SACU transfers are expected to remain soft mainly due to a weak economic outlook for South African growth to near 1 percent through 2017. The combination of expenditure growth and lower revenue is expected to push the

fiscal balance further into the red in 2016, to a deficit of 3.9 percent of GDP, before a gradual return to balance by 2019 with deficits of 3.0 percent of GDP in 2017 and 1.5 percent in 2018). The current account will continue narrowing further in 2016 on continued weakness in the mining sector before gradual improvement.

The country is expected to make modest progress toward poverty reduction over the medium-term. Poverty is estimated to decline from 13.2 percent in 2013 to 11.6 percent by 2018. Achieving further poverty reduction will be challenging with the pace of progress constrained by limited private sector job creation, particularly in urban areas, and reliance on low productivity agricultural jobs in rural areas, combined with reduced credit growth and high levels of household indebtedness.

Risks and challenges

As long as growth is heavily dependent on commodity exports and public sector activity, Botswana will remain heavily exposed to external shocks. Slowdown in

major economies, particularly China, would further constrain diamond and other commodity production, with follow-on impacts across Government revenues, and the retail and service sectors. Slowing revenue growth over coming years, partly reflecting declining SACU receipts, requires careful management of expenditure pressures, especially in relation to the wage bill. Continued delays in upgrading electricity and water infrastructure will dampen non-mining activity, especially in the manufacturing sector.

Over the medium-term, diversification of the economy and exports away from mining is a priority. Structural reforms remain critical in the medium term to manage volatility and sustainability risks, including reforms in the water and energy sectors and addressing labor market distortions to spur private sector job creation. Investments are needed in infrastructure and human capital, as well as establishment of trade, business environment, and immigration policies that encourage competition.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	9.9	3.2	-0.3	3.7	4.3	4.4
Private Consumption	10.4	4.3	1.9	2.5	2.6	3.0
Government Consumption	14.2	2.2	10.9	-4.8	1.5	2.0
Gross Fixed Capital Investment	-6.8	15.3	4.5	9.8	5.2	4.7
Exports, Goods and Services	29.8	12.1	-29.4	5.5	9.3	9.5
Imports, Goods and Services	11.6	6.9	-20.7	13.2	6.3	6.6
Real GDP growth, at constant factor prices	10.1	3.0	-0.3	3.7	4.3	4.4
Agriculture	1.3	-0.3	0.1	0.9	1.1	1.2
Industry	16.1	-0.5	-4.0	3.1	4.6	4.7
Services	7.4	5.0	1.6	4.1	4.2	4.4
Inflation (Consumer Price Index)	5.9	4.4	3.0	3.4	3.6	4.0
Current Account Balance (% of GDP)	8.9	15.7	9.3	2.2	2.9	4.3
Fiscal Balance (% of GDP)	5.6	3.8	-2.9	-3.9	-3.0	-1.5
Debt (% of GDP)	17.8	17.2	18.3	14.5	12.0	11.5
Primary Balance (% of GDP)	6.2	4.4	-2.2	-3.2	-2.5	-1.0
Poverty rate (\$1.9/day PPP terms)^{a,b,c}	13.2	13.0	13.4	13.0	12.3	11.6
Poverty rate (\$3.1/day PPP terms)^{a,b,c}	28.5	27.9	28.7	28.0	27.0	26.0

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

Notes: f = forecast.

(a) Calculations based on 2009-CWIS.

(b) Projection using neutral distribution (2009) with pass-through = 0.87 based on GDP per capita constant PPP.