

BOTSWANA

Key conditions and challenges

Table 1 **2023**

Population, million	2.7
GDP, current US\$ billion	22.1
GDP per capita, current US\$	8249.6
International poverty rate (\$2.15) ^a	15.4
Lower middle-income poverty rate (\$3.65) ^a	38.0
Upper middle-income poverty rate (\$6.85) ^a	63.5
Gini index ^a	53.3
School enrollment, primary (% gross) ^b	93.7
Life expectancy at birth, years ^b	61.1
Total GHG emissions (mtCO2e)	53.3

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2015), 2017 PPPs.
 b/ Most recent WDI value (2021).

In 2023, economic growth slowed to 3.3 percent, driven by reduced global demand for diamonds. In FY24-26, economic activity is projected to stabilize at 3.5-4.0 percent, buoyed by an expansionary fiscal policy and growth in the non-mining private sector. Diamond value chain risks underscore the urgency of implementing structural reforms to boost growth and jobs, including through human capital development, enhancing market contestability, reducing regulatory and trade barriers, allowing for reductions in poverty and inequality.

Until the 2009 global financial crisis, abundant diamond resources, political stability, effective institutions, and prudent macroeconomic policies delivered robust growth. They allowed the government to deliver improved public services, including health, education, and infrastructure. Social assistance programs also served to reduce extreme poverty.

Yet, since the early 2010s, structural constraints contributed to slowing down economic expansion as the economy remains dominated by the diamond sector, which is increasingly vulnerable to boom-and-bust cycles on international markets. Poor learning outcomes, skills mismatches, and infrastructure deficiencies in transportation, communication, energy, and water services have negatively impacted productivity and competitiveness. Regulatory barriers and red tape have increased the cost of doing business, stifled entrepreneurship, and deterred investment. The large state presence, especially state-owned enterprises, has crowded out private investment.

The current growth model, based on low-labor-intensive sectors yields fewer jobs. The unemployment rate remains high, at 25.9 percent in 2023Q3, mainly affecting the youth. Poverty, projected at 14.3 percent in 2022 using the US\$2.15 per day international poverty line, remains high for Botswana's income level, while inequality (Gini index of 53.3) is among the world's highest.

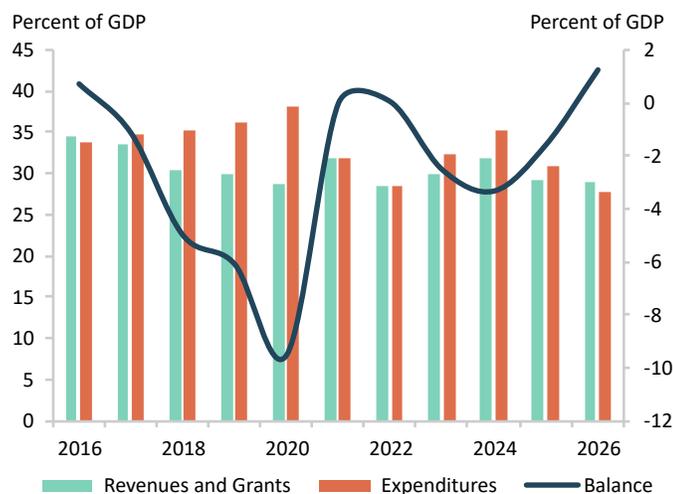
Reforms to promote competition, reduce the costs of doing business, remove policy barriers to trade and services, and promote trade facilitation would strengthen economic diversification, boost growth and exports, and encourage job creation. Improving the effectiveness and efficiency of public services, including public investment efficiency and strengthening education outcomes to meet the demand for skills in the private sector, could further enhance growth. Incentivizing innovative new businesses to emerge and grow, attracting Foreign Direct Investment, creating linkages with local firms, encouraging market contestability would improve the business environment.

Recent developments

Economic activity moderated to an estimated 3.3 percent in 2023 following the 5.8 percent rebound in the aftermath of the COVID-19 pandemic spurred by the decline in global demand for rough diamonds, falling prices, and intensifying competition from synthetic diamonds. Headline inflation declined in 2023, averaging 5.2 percent compared with 12.2 percent in 2022, supported by tight monetary policy conditions and a reduction in fuel prices. In December 2023, the central bank cut the policy rate by 25 basis points to 2.4 percent to address the persistent and sizable output gap.

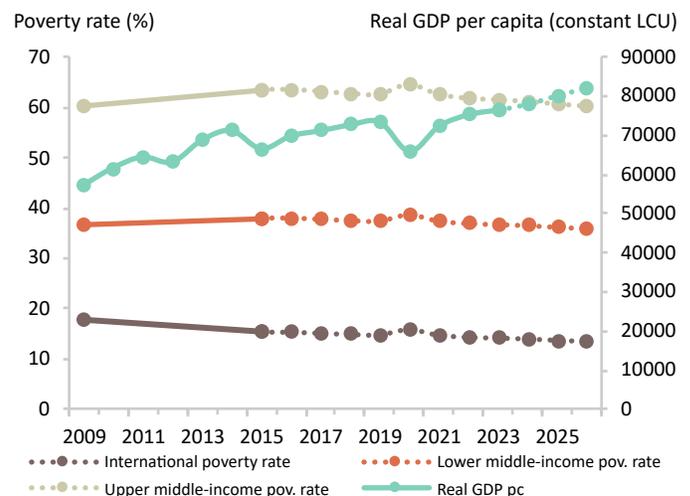
The financial sector remains profitable and stable. However, the ongoing repatriation of pension fund assets poses liquidity risks

FIGURE 1 Botswana / Fiscal consolidation will rest on spending cuts



Sources: Statistics Botswana and World Bank.

FIGURE 2 Botswana / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

in local financial markets due to limited investment opportunities.

After two years of a balanced budget, the fiscal balance deteriorated in 2023, despite higher Southern African Customs Union (SACU) revenues. Higher recurrent spending alongside capital investments underscore the need for improved expenditure efficiency. Increased subsidies necessitate re-evaluating their criteria, enhancing monitoring and evaluation, and exploring alternative policy instruments beyond price controls to improve spending quality. Implementation deficiencies constrain the expansionary fiscal stance and require lower spending growth and a strong recovery in mineral revenues.

The current account turned into a surplus of 2.5 percent of GDP by 2023Q3 due to increased SACU receipts and mineral export proceeds. Foreign exchange reserves increased, averaging US\$4.7 billion in October 2023, equivalent to nine months of imports, supported by increased SACU receipts and higher capital inflows.

Amid high domestic prices and weak job creation, poverty is estimated to have remained broadly unchanged.

Outlook

The economy is projected to expand by 3.5-4.0 percent annually over 2024-26 as the global economy strengthens and demand for copper and diamonds increases. Projected investments in power generation from coal bed methane, battery-grade manganese, and solar photovoltaic projects will support GDP growth.

An expansionary fiscal policy and accommodative monetary policy in 2024 are expected to support the economy but effects of the first are mitigated by leakages owing to a high import content. The fiscal deficit is projected to deteriorate to 3.4 percent of GDP in FY24, driven by large increases in capital and recurrent spending and to steadily improve over the medium term, reaching a surplus by 2026. Projections hinge on SACU revenue trends and the government's initiatives to boost domestic revenue mobilization, which include the introduction of electronic invoicing for value-added tax.

Inflation is projected to remain within the central bank's target range of 3-6 percent, in line with declining import prices of energy and food. The current account balance is projected to improve, driven by a recovery in global demand for diamonds.

The expansion of the private sector is expected to remain too subdued to increase the demand for employment. Lower inflation is expected to support household purchasing power. Still, limited job opportunities will constrain significant reductions in poverty and inequality, which is projected to remain high, at 14 percent in 2024 based on the US\$2.15 international poverty line.

Downside risks to the outlook include how the G7's decision regarding diamond traceability may impact the diamond trade and the local value chain; inward-looking trade policies; delays in implementing the Transitional National Development Plan and the severity of the ongoing drought, which can impact output negatively and the current account via higher imports, as well as renew inflationary pressures and create fiscal pressures as the government provides support to affected households.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	11.8	5.8	3.3	3.5	4.3	4.0
Private consumption	2.4	4.5	2.4	2.8	2.8	2.2
Government consumption	4.0	3.0	2.5	4.3	-0.3	-0.9
Gross fixed capital investment	-0.3	0.0	-0.7	3.6	3.3	1.8
Exports, goods and services	31.7	-5.6	4.6	7.0	9.9	10.2
Imports, goods and services	2.3	-11.8	-10.4	7.6	5.4	5.2
Real GDP growth, at constant factor prices	11.9	5.8	3.3	3.5	4.3	4.0
Agriculture	-1.0	2.4	2.6	2.0	2.4	2.2
Industry	19.3	7.6	4.0	4.4	4.6	4.7
Services	8.1	4.8	2.9	3.0	4.2	3.6
Inflation (consumer price index)	6.7	12.2	5.2	4.9	4.7	4.5
Current account balance (% of GDP)	-0.5	2.9	2.0	1.1	1.3	1.5
Net foreign direct investment inflow (% of GDP)	0.6	0.2	0.7	0.7	0.6	0.6
Fiscal balance (% of GDP)^a	0.0	0.0	-2.4	-3.4	-1.6	1.2
Revenues (% of GDP)	31.9	28.5	30.0	31.7	29.2	28.8
Debt (% of GDP)^b	22.4	20.6	22.0	25.0	22.5	20.1
Primary balance (% of GDP)^a	0.5	0.6	-1.6	-2.5	-1.0	1.8
International poverty rate (\$2.15 in 2017 PPP)^{c,d}	14.8	14.3	14.2	14.0	13.7	13.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	37.5	37.0	36.8	36.6	36.4	36.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	62.6	61.8	61.6	61.2	60.8	60.3
GHG emissions growth (mtCO₂e)	0.8	-0.7	-0.4	1.2	1.5	1.5
Energy related GHG emissions (% of total)	11.3	11.3	11.1	16.3	18.0	19.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).

b/ Refers to Public and Publicly Guaranteed debt.

c/ Calculations based on 2009-CWIS and 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2023. Forecasts are from 2024 to 2026.

d/ Projection for \$2.15 poverty uses annualized elasticity (2009-2015) with pass-through = 0.87 based on GDP per capita in constant LCU. Higher poverty lines use regional elasticity.