

BOTSWANA

Table 1 **2021**

Population, million	2.4
GDP, current US\$ billion	17.5
GDP per capita, current US\$	7247.6
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	99.0
Life expectancy at birth, years ^b	69.8
Total GHG emissions (mtCO2e)	59.1

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2015), 2017 PPPs.
 b/ WDI for School enrollment (2021); Life expectancy (2020).

After a strong growth rebound in 2021, Botswana's economy is projected to expand by 4.1 percent in 2022, surpassing expectations despite the headwinds created by COVID-19 and the Ukraine war. In 2022, higher fiscal revenues driven by diamond exports are helping to replenish the Pula Fund. Still, the fiscal deficit is set to increase with higher government spending to cushion households against soaring higher inflation. Structural reforms to boost competitiveness for more and better jobs remain essential to tackling poverty and the unemployment rate of 26 percent.

Key conditions and challenges

Botswana has historically enjoyed robust and stable growth since independence, supported by the discovery of large diamond deposits and prudent use of the proceeds. However, the limitations of the existing diamond sector-led development model have become increasingly pronounced: the pace of growth has weakened since the global financial crisis in a context of higher competition from synthetic diamonds and higher production costs locally, and job creation is low. The unemployment rate climbed to 26 percent in 2021, with youth unemployment posing a critical challenge. Despite historically declining inequality, Botswana remains one of the world's most unequal countries, with the Gini index estimated at 53.3 percent.

Botswana's reliance on a diamond and public sector-driven model makes the economy vulnerable to external shocks, as diamonds contribute over 80 percent of total exports and are a major source of fiscal revenues. This vulnerability was evident during the pandemic when the economy contracted by 8.7 percent in 2020 and fiscal pressures rose.

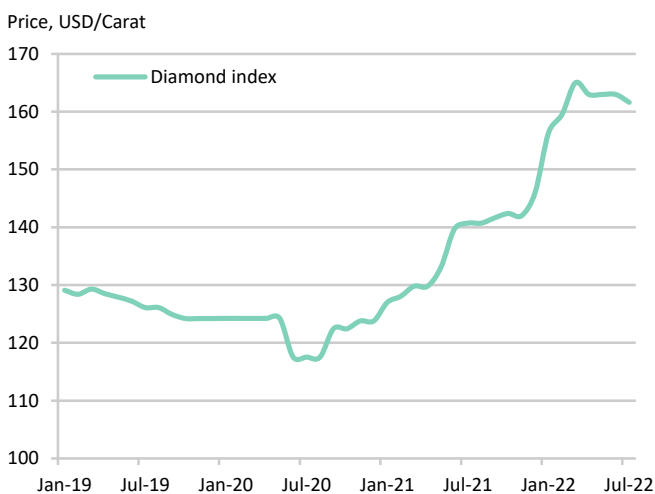
COVID-19 exacerbated existing economic and social challenges, setting back some gains made in alleviating poverty, underscoring the urgent need for a shift towards a more diversified economy, with the private sector playing a leading role. Steadfast implementation of reforms envisaged

in the "Reset Agenda" will help diversify the economy towards financial services, manufacturing, and tourism.

Recent developments

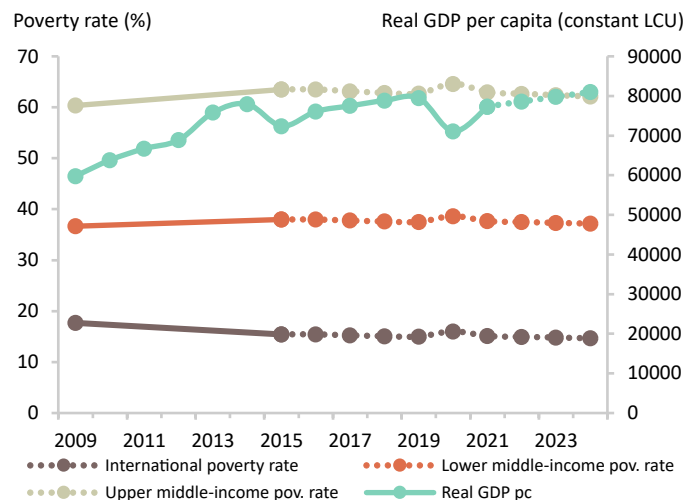
Growth has been broad-based in 2022Q1 and 7 percent higher than in 2021Q1, driven by mining, manufacturing, water & electricity, accommodation, and food services. The diamond industry performed well, as sanctions against Russia are benefiting Botswana through higher prices and market share. Economic activity has also been boosted by the lifting of COVID-19 restrictions amid a high vaccination rate of over 95 percent of the eligible population. Inflation continued to exceed the central bank's medium-term 3–6 percent objective range during the 2022H1, reflecting high energy prices and other input costs. Annual CPI inflation averaged 11.4 percent during January-July 2022 compared to 6.7 percent in 2021. The impact of the Ukraine war on food and transport prices was high, as they together accounted for 10.9 percentage points of the 14.3 percent inflation in July 2022. As inflationary pressures mount, the Bank of Botswana has tightened monetary policy, raising the newly introduced Monetary Policy Rate by a cumulative 151 basis points between April and August 2022. The poverty rate is projected at 63 percent in 2021, down from 64.6 percent in 2020 (based on the new upper-middle-income poverty line). Unemployment increased to 26 percent in 2021 from 24.5 percent in 2020.

FIGURE 1 Botswana / Diamond prices



Source: Bank of Botswana.

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



Source: World Bank. Notes: see Table 2.

In 2022H1, both the current account and fiscal balances improved, driven by the solid performance of the diamond industry, and foreign reserves stabilized. The external position is expected to record a surplus in 2022 due to solid diamond exports and lower net capital outflows. On the fiscal side, the rise in revenues reflected elevated diamond sales and improved revenue collection; yet the fiscal deficit is expected to widen by end-2022 due to higher government spending. On July 27, the Government approved several short-term interventions to cushion households against heightened inflationary pressures. These fiscal interventions will cost an estimated 0.8 percent of GDP and mostly support social programs targeted at households.

Outlook

Following a robust growth rebound in 2021 (11.4 percent), growth is projected

at 4.1 percent in 2022 and to average 4 percent during 2023-2024. Growth will be supported by strong demand for diamonds, increased copper production, and an uptick in international tourist arrivals. Though inflation is expected to remain in double figures in 2022, Botswana's relatively strong public sector governance and predictable monetary policy framework will support macroeconomic stability in the medium term. The outlook hinges on the course of the war in Ukraine, diamond prices, the pandemic, and the implementation of fiscal consolidation and economic diversification reforms.

The approved short-term fiscal interventions to cushion households against rising inflation is projected to increase the fiscal deficit in 2022, despite the higher performance of mineral revenues. The measures (VAT rate will decline from 14 to 12 percent with zero rating of VAT for cooking oil and fuel) announced in July will lead to reduced revenues. The

projected deficit will be financed through external borrowing, increasing public debt. However, in the medium term, the fiscal balance is projected to turn into a surplus as authorities move ahead with fiscal consolidation focused on the wage bill, subventions, and SOE reforms.

The current account balance is projected to be in surplus in the medium-term, as the rebound in diamond production and favorable terms of trade owing to subdued diamond supply in Russia anchor the projected drop in SACU revenues. Poverty under the new upper-middle-income poverty line is expected to decline slightly to 62.7 percent in 2022. A sustained reduction in poverty and inequality will require further progress on diversification and digitalization reforms to enhance access to good private-sector jobs. There is a need to expedite the implementation of key strategic priorities by developing infrastructure, expanding social programs, and improving public service delivery.

TABLE 2 Botswana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.0	-8.7	11.4	4.1	4.0	4.0
Private Consumption	3.5	3.5	3.3	2.6	4.8	2.8
Government Consumption	9.8	5.3	3.2	-5.7	-1.0	2.3
Gross Fixed Capital Investment	10.2	-10.4	-0.2	4.1	-0.6	2.3
Exports, Goods and Services	-7.1	-18.1	32.8	10.8	8.8	7.3
Imports, Goods and Services	11.9	5.2	2.7	5.0	4.9	4.8
Real GDP growth, at constant factor prices	3.2	-8.7	11.4	4.1	4.0	4.0
Agriculture	3.0	-5.1	-2.9	2.8	2.8	2.6
Industry	-1.5	-20.7	19.4	11.3	4.4	4.4
Services	6.8	-0.2	7.3	-0.4	3.7	3.8
Inflation (Consumer Price Index)	2.8	1.9	6.7	11.0	5.9	4.5
Current Account Balance (% of GDP)	-7.0	-8.7	-0.5	1.7	2.6	4.3
Net Foreign Direct Investment Inflow (% of GDP)	-1.3	0.7	-0.6	-0.8	-1.0	-1.1
Fiscal Balance (% of GDP)^a	-6.2	-9.6	-2.9	-3.3	0.3	1.6
Debt (% of GDP)^b	19.4	22.4	25.0	27.4	26.6	24.3
Primary Balance (% of GDP)^a	-5.5	-8.9	-2.1	-2.5	1.2	2.4
International poverty rate (\$2.15 in 2017 PPP)^{c,d}	15.0	16.0	15.1	15.0	14.8	14.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	37.5	38.7	37.7	37.5	37.3	37.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	62.7	64.6	63.0	62.7	62.4	62.1
GHG emissions growth (mtCO₂e)	0.6	-1.4	3.7	0.4	0.3	0.4
Energy related GHG emissions (% of total)	17.2	15.7	16.8	17.1	17.3	17.7

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

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: 2016-2021. Forecasts are from 2022 to 2024.

d/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.