

COUNTRY PROFILE

Quarterly update

July 2016



United Nations
Economic Commission for Africa

BOTSWANA

Introduction

The quarterly report on macroeconomic and social developments in Botswana covers the first quarter of 2016 and updates the country profile published in April 2016 using the latest available data from national sources.

Recent developments: Key highlights

- The economy of Botswana grew by 2.8 per cent during the first quarter of 2016. The country's estimated gross domestic product (GDP) in nominal terms was 39,238.6 million pula in March 2016, against 34,911.6 million pula in the fourth quarter of 2015 (Statistics Botswana, 2016a). Net exports accounted for 10 per cent of GDP by expenditure during the first quarter; gross fixed capital formation, 27.4 per cent; household final consumption, 45.2 per cent; and government final consumption, 17.3 per cent. Total final consumption expenditure recorded an increase of 7.4 per cent in the quarter, household final consumption increased by 9.2 per cent, government final consumption rose by 3.2 per cent, and fixed capital formation decreased by 1.0 per cent (Bank of Botswana, 2016a). The increase in the growth rate of the economy during the first quarter was attributed to real value added growth in trade, hotels and restaurants, finance and business services, and transport and communication, which increased by 5.8 per cent, 5.2 per cent and 4.6 per cent respectively. Although the

mining and agricultural sectors contracted by 3.1 and 5.6 per cent respectively during the quarter, prospects for the former are brighter for the rest of the year due to the recovery in the market for diamonds.

- The country's fiscal position worsened to a total deficit of 7,488.1 million pula for the financial year up to February 2016, from a surplus of 143.1 million pula during the first quarter of the 2015/2016 financial year (Bank of Botswana, 2016a). As at June 30 2015, total government debt was 23,826.8 million pula, made up of a total domestic debt of 7,749 million pula and total external debt of 16,077.8 million pula. The total domestic debt in March 2016 amounted to 30,966 million pula for the 2015/2016 financial year (Bank of Botswana, 2016a). The rising domestic debt is on account of financing the deficit, as government expenditure remains high in the face of declining revenues.
- Monetary policy continues to be guided by the need to maintain price stability. The pula basket weights for the special drawing rights and the South African rand were adjusted in late 2015 and the competitiveness of tradeable goods and services ensured the relative stability of the net effective exchange rate in early 2016 (Bank of Botswana, 2016b). However, on an annual basis, during the 12 months to April 2016, the pula depreciated against the pound (3.6 per cent), the dollar (8.4 per cent), the euro (10.7 per cent) and the yen (17.1 per cent), but

appreciated against the rand (10.5 per cent). The annual inflation rate in June 2016 was 2.7 per cent, the same rate as recorded in January 2016 (Statistics Botswana, 2016b). However, the inflation rate averaged 2.8 per cent for the first six months of 2016, down 1 per cent from the January to March average of 2.9 per cent. The increase in the consumer price index to 187.1 from 184.3 from January to June 2016 was fuelled by the index for housing, water, electricity, gas and other fuels, which recorded an increase of 2.1 per cent during the same period. The 2015 levels of the bank rate (6 per cent), the repo rate (5.5 per cent) and the prime nominal interest rate (7.5 per cent) prevailed during the first quarter of 2016 (Bank of Botswana, 2016a).

- The current account balance stood at 11,314 million pula by the end of 2015 (Bank of Botswana, 2016a). The trade balance recorded a surplus of 3,511.6 million pula for the first quarter of 2016, from an annual deficit of 9,732.9 million pula at the end of 2015. However, real exports of goods and services decreased by 2.6 per cent in the first quarter of 2016 compared to a 5.4 per cent increase recorded in the same quarter of 2015. Imports of goods and services decreased by 9.0 per cent in the first quarter of 2016 compared to an 18.4 per cent increase registered in the same quarter of 2015. The major imports in March 2016 were diamonds (34.8 per cent of total imports), fuel (15.5 per cent) and machinery and equipment (11 per cent). Diamonds accounted for 84.9 per cent of total exports in March 2016, up from an annual share of 83.1 per cent in 2015, and total revenue from diamond exports, mainly non-industrial and unworked diamonds, contributed 17,003.1 million pula to export revenue during the first quarter of 2016. Nickel and copper exports accounted for 5 per cent of total imports in March 2016, compared with an annual share of 6 per cent in 2015. The Southern African Development Community accounted for 7.8 per cent of the value of Botswana's imports between January and April 2016 and 22.2 per cent of the value of the country's exports over the same period (Statistics Botswana, 2016c)

- The balance on the capital and financial account increased to a surplus of 252 million pula in the fourth quarter of 2015, from a deficit of 4,237 million pula during the first quarter of 2015, due to increases in foreign direct investment, especially during the fourth quarter when 2,101 million pula in direct investment into Botswana occurred. The overall balance amounted to a deficit of 5,529 million pula in December 2015. Foreign exchange reserves amounted to 81,868.2 million pula in March 2016, a decline from 82,780 million pula the previous month and 84,890 million pula in December 2015. The reserves at December 2015 were equivalent to 18.3 months of import cover, up from 17.6 months in December 2014.
- Water levels in the country's nine dams continued to decline between April and September 2015 due to the low total rainfall recorded in 2014/2015 and high evaporation due to rising temperatures. This contributed to low water levels and poses serious challenges to water supply across the country (Statistics Botswana, 2016d).
- The index of electricity generation during the first quarter of 2016 stood at 105.5, a decrease of 37.1 per cent from 167.8 during the last quarter of 2015. The index reflects a year-on-year decrease of 14.5 per cent when compared to 123.4 recorded in the corresponding quarter of 2015. The decrease on a quarter by quarter comparison is largely due to plant failures at the Morupule B power station in early 2016. Consequently, the volume of imported electricity increased by 16.1 per cent during the quarter. Electricity generated locally contributed 45.9 per cent to electricity distributed during the first quarter of 2016, compared to 53.5 per cent during the corresponding quarter of 2015 and 67.7 per cent during the last quarter of 2015 (Statistics Botswana, 2016e).

Economic performance

Macroeconomic performance

	Value	Year
GDP, constant 2006 prices (millions of pula)	85,401.1	2015
GDP, current prices (millions of pula)	145,714.6	2015
Real GDP growth rate (%)	-0.3	2015
Real GDP per capita (pula)	39,148.1	2015
Inflation rate (%)	3.1	2015
Current account balance (millions of pula)	11,314.0	2015

Source: Bank of Botswana, 2016a; Statistics Botswana, 2016a.

Fiscal policy

(% of GDP)	Value	Year
Overall deficit/surplus	3.66	2014/15
Total revenue and grants	38.36	2014/15
Tax revenue	35.45	2014/15
Non-tax revenue	2.66	2014/15
Grants	0.26	2014/15
Expenditure and net lending	34.70	2014/15
Recurrent expenditure	25.79	2014/15
Development expenditure	8.97	2014/15

Source: Bank of Botswana, 2016a; Statistics Botswana, 2016a.

Monetary policy

(%)	Value	Year
Bank rate (year average)	6.375	2015
Repo rate (year average)	5.875	2015
Reverse repo rate (year average)	1.875	2015
Prime lending rate (year average)	7.95	2015
Prime nominal interest rate (year average)	7.95	2015
Pula denominated savings rate (year average)	2.53	2015

Source: Bank of Botswana, 2016a.

Current account

(millions of pula)	Value	Year
Imports of goods	73,169.0	2015
Exports of goods	63,436.1	2015
Trade balance	-9,732.9	2015
Current account	11,314.0	2015

Source: Statistics Botswana, 2016c.

Capital and financial accounts

(millions of pula)	Value	Year
Gross fixed capital formation	43,036	2015
Portfolio investment	-8,889	2015
Financial account (excluding reserves)	-8,590	2015
Capital account	2	2015
Reserves (excluding valuation adjustments)	-5,769.0	2015

Source: Statistics Botswana, 2016a.

References

Bank of Botswana (2016a). *Financial Statistics*. Vol. 23, no. 4.

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