BOTSWANA

Table 1	2015
Population, million	2.3
GDP, current US$ billion	13.0
GDP per capita, current US$	5742
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]	108.1
Life Expectancy at birth, years[b]	64.2

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:
(a) Most recent value (2009)
(b) Most recent WDI value (2014)

Improvement from the 2015 downturn in Botswana's growth is expected over the medium term. Real GDP should advance by 4 percent by 2017, as commodity prices improve and fiscal buffers are used for counter-cyclical stimulus. Structural reforms remain critical 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. With recovery to low per capita growth, poverty-reduction gains can be expected to be only modest.
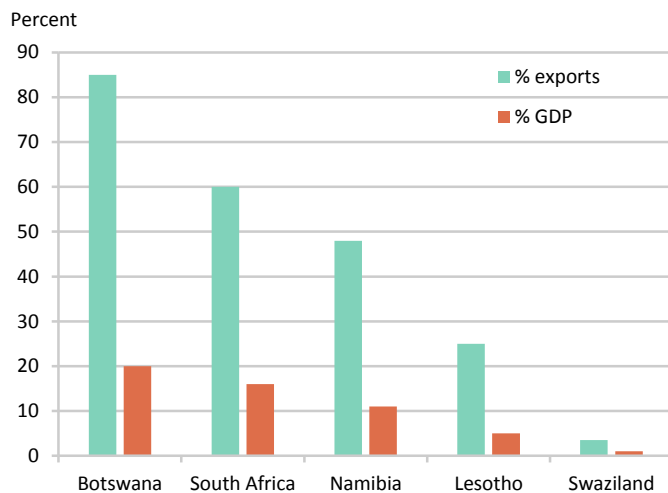
Recent developments

Weak global demand for rough diamonds and relatively low prices of metals caused real GDP to contract by 0.3 percent in 2015, down from a gain of 3.2 percent in 2014. Mining plummeted by 21 percent for the year. Continuing electricity and water supply disruptions have impacted manufacturing, whereas the regional drought adversely effected agriculture. In contrast, services and retail led the non-mining sectors to overall growth of above 3 percent. The first half of 2016 showed encouraging signs of improved economic conditions. Most importantly, rough diamond sales started recovering and helped deliver a welcome boost to exports and government revenues.

The fiscal position moved sharply into deficit in FY2015/16 after three years of consecutive surpluses. The fiscal balance swung from surplus of 3.7 percent of GDP in FY2014/15 (the fiscal year starts April 1) to an estimated deficit of 6.3 percent of GDP in FY2015/16, largely due to much lower than expected revenue. Government relies mainly on two volatile sources of revenue inflows, mineral revenues (which accounts for almost 40 percent of total revenue) and SACU customs revenues (over one-quarter of total revenue). Both have declined, the former due to weak global demand and the latter from decline in South Africa's economic growth. Total revenues dropped by 7.8 percent of GDP in 2015, while expenditures increased by 2.2 percent of GDP due

to counter-cyclical fiscal stimulus including the start of the Economic Stimulus Program. The Government has substantial fiscal savings from diamond revenues (i.e., the Pula fund), and international reserves stand at about 12 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. Weaker performance across the mining sector will tend to narrow the current account surplus. In 2014, Botswana achieved a substantial surplus of 15.6 percent of GDP. But external factors noted above adversely affected exports in 2015, and the current account surplus narrowed to 7.2 percent of GDP.

Economic growth has been pro-poor, leading to 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 PPP exchange rate, 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 45.2 percent in 2002/03 to 23.7 percent in 2009/10). However, inequality in Botswana remains high with a Gini coefficient of 60.5 in 2009/10, slightly down from 64.7 in 2002/03. Given the

FIGURE 1 **Botswana** / Commodity dependence in SACU countries, 2005-14

Sources: World Bank, World Development Indicators.

FIGURE 2 **Botswana** / Poverty and inequality
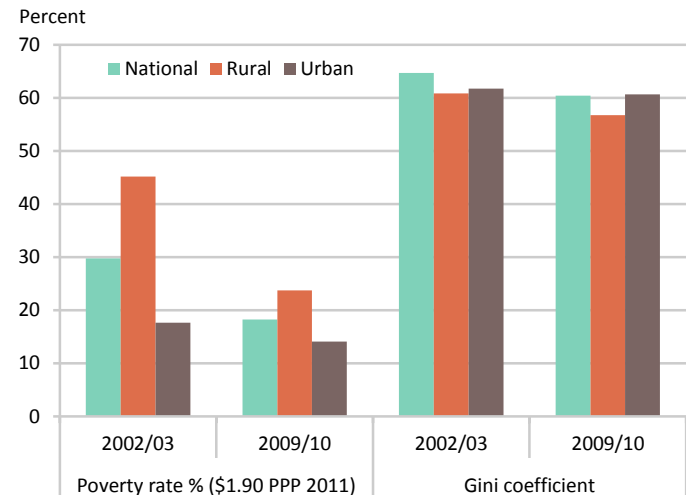
Sources: World Bank calculations based on data from Statistics Botswana (2014) comprising HIES (2002) and CWIS (2009).

recent real GDP contraction, poverty is estimated to have remained stagnant between 2013 and 2015, at 13.2 percent and 13.4 percent of the population respectively.

Outlook

The economy is expected to rebound to real growth near 3 percent this year and 4 percent by 2017, driven mainly by improved diamond sector conditions 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 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 near-term economic outlook for South African growth. The combination of strong expenditure growth and lower revenue is expected to keep the fiscal balance in the red for the next few years. The current account surplus should continue to narrow in 2016 and 2017 on continued softness in the mining sector before gradual improvement.

The country is expected to make modest progress toward poverty reduction over the medium-term. Poverty is projected to decline from 13.2 percent in 2016 to 11.9 percent in 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 exposed to external shocks. Slowdown in major economies, particularly in 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	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	9.9	3.2	-0.3	3.1	4.0	4.3
Private Consumption	10.4	4.3	2.6	2.6	2.7	3.0
Government Consumption	14.2	2.2	8.7	8.9	9.5	12.5
Gross Fixed Capital Investment	-6.8	15.3	2.6	5.4	2.8	0.3
Exports, Goods and Services	29.8	12.1	-16.9	-6.5	2.5	6.3
Imports, Goods and Services	11.6	6.9	1.5	-2.0	2.8	5.3
Real GDP growth, at constant factor prices	10.1	3.0	-0.6	3.4	4.0	4.3
Agriculture	1.3	-0.3	0.3	0.9	1.1	1.2
Industry	16.1	-0.5	-10.6	0.5	1.3	2.5
Services	7.4	5.0	4.6	4.8	5.2	5.1
Inflation (Consumer Price Index)	5.9	4.4	3.1	3.2	3.5	4.0
Current Account Balance (% of GDP)	9.4	15.6	7.3	4.9	2.9	4.6
Fiscal Balance (% of GDP)	5.6	3.7	-6.3	-4.3	-4.0	-2.4
Debt (% of GDP)	17.8	17.3	17.2	16.9	15.3	13.7
Primary Balance (% of GDP)[d]	6.2	4.3	-5.6	-3.7	-3.3	-1.8
Poverty rate ($1.9/day PPP terms)[a,b,c]	13.2	13.0	13.4	13.2	12.5	11.9
Poverty rate ($3.1/day PPP terms)[a,b,c]	28.5	27.9	28.7	28.4	27.4	26.5

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice. and Poverty Global Practice.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2009-CWIS.
(b) Projection using neutral distribution (2009) with pass-through = 0.87 based on GDP per capita in constant LCU.
(c) Projections are from 2013 to 2018.
(d) Non-mineral primary balance.