

COMMENTARY ↘

Weakening global economy posing new challenges for Botswana

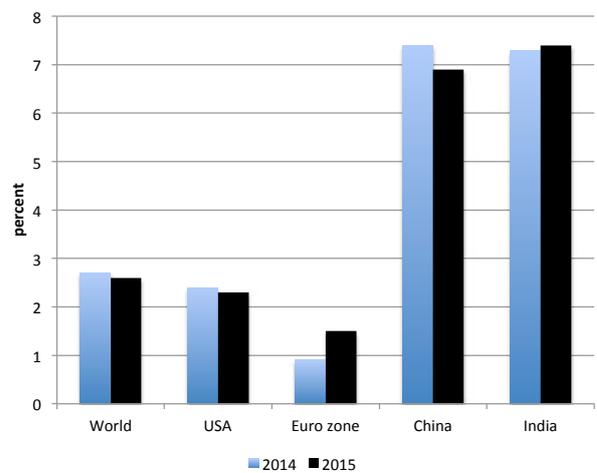
Introduction

The continued slowdown in the global economy in the last quarter (Q4) of 2015 has intensified the economic challenges faced by Botswana. This is most obviously manifested in weakening markets for diamonds and other minerals, which make up the bulk of Botswana's exports. But other effects, such as currency market volatility and the impact on exchange rates, pose additional challenges for both policymakers and firms.

Global economy

The global economy disappointed in 2015, with growth coming in below expectations. Real GDP growth for the world economy is estimated at 2.6%, well below the average rate of 3.7% over the previous 30 years. In contrast to the last severe global slowdown, which was led by collapsing growth in the major developed markets following the financial crisis, in 2015 the growth slowdown was mainly driven by the major emerging markets (EMs), where there have been policy mistakes and growing economic imbalances. Amongst major emerging markets, China's growth has slowed, while Brazil and Russia are in recession. Although China has reported annual growth of 6.9% for 2015, there is widespread suspicion that this is overstated, and that true Chinese growth is 5% or lower. Even on the official figures, this is the slowest Chinese growth rate for 25 years. Brazil and Russia both contracted by 3.8% in 2015. India is now the fastest growing of the major world economies. In an interesting example of "de-coupling", the US economy has been growing at a reasonably healthy rate, despite the global slowdown, so much so that the Federal Reserve felt able to start raising interest rates from historic lows.

Figure 1: Global Growth Rates, 2014-15



The impacts of slowing global growth, and particularly slowing EM growth, are widespread. Global trade has slowed sharply: the Baltic Dry Index, a measure of global shipping costs, ended 2014 close to its lowest ever level, and was even lower than during the depths of the global financial crisis in late 2008.

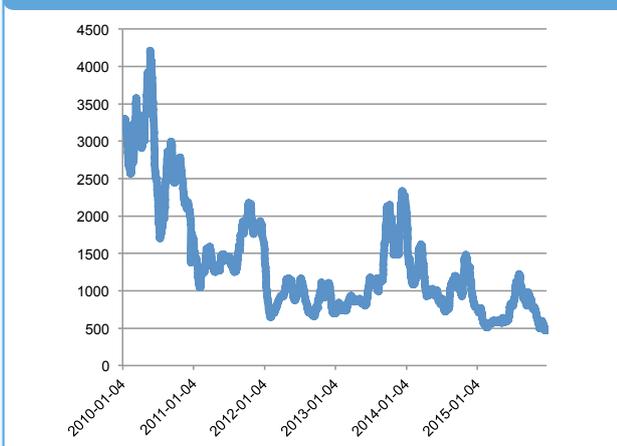
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Figure 2: Baltic Dry Index (Global Shipping Costs)



The impact of slowing growth was also evident in commodities markets, notably for oil and hard minerals. In recent years, minerals prices have been driven mainly by Chinese demand, and slowing Chinese growth has led to sharply falling minerals prices. In the oil market, a combination of slowing demand and increased supply has caused prices to weaken dramatically.

Slowing global growth affects most countries negatively, but the largest impacts have been felt by commodity exporters. This includes many countries in Africa, notably the major oil exporters – Angola and Nigeria – but also metals exporters such as Zambia and South Africa.

Diamonds and Minerals

The global diamond market has faced intensifying problems for more than a year. In some respects the cause is the same as for minerals in general – slowing Chinese demand combined with excess supply. However, the impact has not been evenly distributed along the diamond supply pipeline. While demand has been weak for jewellery and polished diamonds for some time, this was not readily transmitted to the market for rough diamonds, where De Beers has a strong influence over prices. Diamond prices had risen very rapidly following the global financial crisis, and De Beers attempted to maintain rough diamond prices and supply at high levels even as demand was weakening. As a result, profitability was squeezed for diamond cutters and polishers, and the pipeline became overstocked as final demand slowed. This imbalance became overwhelming around the middle of 2015, since then sales of rough diamonds have dropped significantly and prices have fallen. As a result, Debswana has had no choice but to cut production and align it to market demand, which in turn feeds through to Botswana's GDP growth.

Currencies and Exchange rates

The past few months have been a period of exchange rate volatility, for a mixture of global and local reasons. The US dollar has been strong, in part reflecting US economic strength and the usual flight to safety at a time of economic turbulence. The South African Rand (ZAR) has been caught up in the general disfavour of emerging market currencies, but has performed worse than most, due to policy errors by the

government. This has affected the Pula, given that the ZAR has a 50% weight in the Pula Basket. The sharp depreciation of the ZAR against the US dollar and other major currencies is not something that Botswana policymakers can do anything about, and the current basket weights distribute the impact across different stakeholders in rough proportion to the use of different currencies in Botswana's trade patterns.

There will be multiple impacts of this currency instability in Botswana. The depreciation of the ZAR will push up South African inflation, and hence the prices of goods imported into Botswana. The appreciation of the Pula against the ZAR will offset this to some extent, but makes life very difficult for Botswana producers competing against imports from South Africa in the local market (such as Kgalagadi Breweries), and for exporters selling into the South African market. The depreciation of the Pula against the US dollar helps exporters (such as mining companies and BMC) into international markets, and help to mitigate the fiscal impact of lower diamond revenues.

Growth

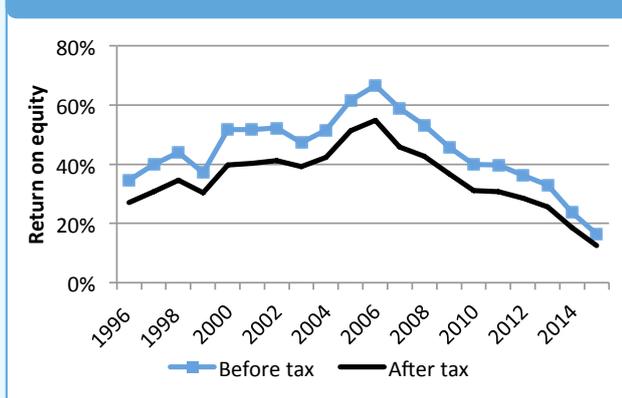
As expected, GDP growth fell in the third quarter of 2015, and is likely to fall again the fourth quarter (and hence for the year as a whole). This is mainly due to reduced diamond production, but also due to problems faced by other mining and mining-related sectors such as diamond cutting and polishing, and copper-nickel mining. Although growth figures for the rest of the economy – the non-mining sector – are much better, there still remains a general perception that economic conditions are deteriorating. Certainly there are macroeconomic challenges – reduced diamond production and exports have a direct impact on the balance of payments and fiscal balance, pushing both into deficits that would become a major problem if sustained over a period of time. It also seems likely that the rate of job creation has slowed, although due to long delays in the production of data by Statistics Botswana there is no definitive information on employment since 2013.

Financial sector

The impact of the slowing economy can be clearly seen in the financial sector. Bank credit growth has fallen to the lowest level in a decade, and arrears remain problematic. Banks have become very cautious in making new loans, due to concerns about the volatility of the deposit base and the ability of customers to repay. Perhaps most striking has been the collapse in bank profitability; in the first nine months of 2015, the post-tax rate of profit for the banking sector as a whole was only 12.5% (annualised), sharply down from 18.6% in 2014 and half of the 25.7% earned in 2013. And almost all of the profit was made by the three largest banks, meaning that some of the medium-sized and small banks were probably making losses. Some people will no doubt celebrate this – banks are disliked, and certainly profitability was excessive in the past. But there is a danger that such a sharp fall in profitability could lead to instability in the banking system, which would have widespread costs. And as a general indicator of deteriorating business conditions, it is of major concern. Furthermore, there is a fiscal impact through reduced tax revenue, given that the banks are amongst the largest taxpayers in the economy, after Debswana.

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Figure 3: Bank Profitability

**Fiscal Challenges and the 2016 Budget**

The sharp reduction in diamond exports will inevitably have a major fiscal impact, given that mineral revenues are in most years the largest single source of government revenues. Data for the first half of the 2015-16 fiscal year (April-September) show a large budget deficit – of P3.3 billion – and the second half is likely to be worse. The estimated budget balance for the whole fiscal year, which will be revealed in the Budget Speech on February 1st, will show that there has been a major deterioration from the small surplus (P1.2 billion) originally projected for the fiscal year. So far the deficit has been mainly funded by drawdowns from government deposits at the Bank of Botswana, which have fallen P41.7 billion to P37.9 billion over the same period.

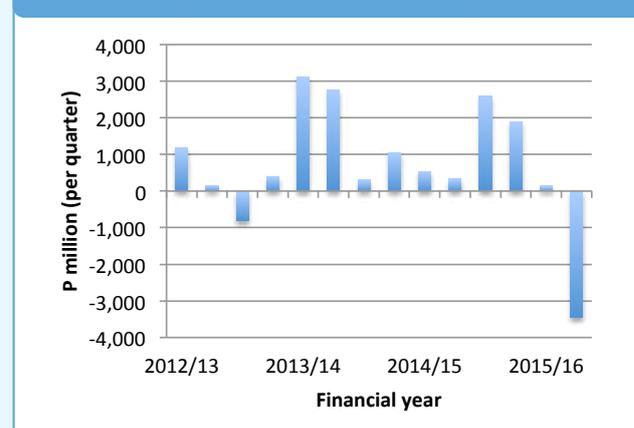
Setting the budget for the new fiscal year (2016/17) will therefore be very difficult. There is unlikely to be a significant recovery in diamond earnings during 2016, although there is some hope that there will be no further deterioration. The prospect of a second large budget deficit will therefore limit the government's room for manoeuvre on the spending front. And yet there are expectations that spending will be boosted to counter the impact of the economic slowdown, especially following the government's announcement of an Economic Stimulus Package (ESP).

While there has been much talk of the ESP, and excitement in some quarters, it is notable that no figures have been provided as to the quantum of additional funds that might be dedicated to it. Without that, it is impossible to make any predictions as to its impact or effectiveness. But with evident revenue shortfalls, and large defence spending commitments coming up, it is likely that those expecting significant additional funding for the ESP will be disappointed, at least in the coming budget year. Much of the ESP is related to infrastructure spending, and such projects need time to be prepared for implementation. Hence, the ESP should be seen as a medium-term programme, rather than short-term spending boost and additional spending may follow in later budget years.

Earlier commitments that the government's financial reserves would be drawn down to finance the ESP are likely to be scaled back, given the likely large deficit - even without additional spending - and the realisation that the reserves are in part

intended for long-term adjustment to lower diamond revenues, not just short-term stabilisation measures. But with no rules governing the allocation of reserves between these short-term and long-term objectives, there is obviously a danger that they could be depleted rapidly.

Figure 4: Budget Balance (quarterly)

**Outlook**

The immediate economic outlook is poor, especially given the turmoil afflicting global markets in the early days of 2016. China is likely to experience further problems, including currency weakness and a possible financial crisis. In Southern Africa, the regional economic powerhouse, South Africa, is growing slowly and there is a strong possibility of further currency turmoil if more policy mistakes or deteriorating economic conditions lead to a credit rating downgrade. The regional drought has devastated food production and the prices of food grains have already risen sharply, and there will be a need for large scale regional food imports.

Against this backdrop, however, there is some room for optimism. There are signs that the global diamond market is beginning to stabilise, and that measures undertaken by De Beers and others to reduce supply and prices of rough diamonds are beginning to take effect. Combined with reasonably good jewellery sales over the peak Christmas period, the diamond pipeline is flowing again as demand is rising for polished goods, and this will in turn help rough demand. Debswana has reduced production targets for 2016 to 20 million carats (from 24 million carats), and if the market stabilises there is a good chance that production will not have to be reduced further. Nevertheless, this will weigh on GDP growth – which we forecast at 2% for 2016 – as well as the balance of payments and government revenues. As long there is not major disruption from regional or global events, 2016 should mark the turning point with the prospect of improved economic conditions ahead. But this will only be effective if there is an improved policy environment in Botswana – it is not only South Africa that has made policy mistakes. Recent moves to deny trading licences to foreign retail chains hoping to invest in Botswana, and an immigration system that makes it very difficult for investors and skilled workers to enter the country, go against attempts to make Botswana an attractive environment for both domestic and foreign investment.

BTCL IPO

The long-awaited Initial Public Offering (IPO) of Botswana Telecommunications Ltd (BTCL) was finally launched in December. The closing date for applications to purchase shares is 4th March, 2016. As this marks the first substantive privatisation of a government-owned company, even though the official Privatisation Policy has been in place since 2000, it is a momentous event.

Perhaps reflecting its status as the first ever privatisation, the way in which it has been structured is very cautious. Only 44% of BTCL shares are included in the IPO; a further 5% are reserved for staff, while Government will retain 51%. It is only a partial privatisation, therefore, and BTCL will remain majority-owned by Government.

Secondly, only Botswana citizens, 100% citizen controlled companies and local fund managers will be eligible to purchase shares. Foreigners – even if permanently resident in Botswana – will not be able to buy or hold shares. This restriction applies not just at the IPO, but also to subsequent sales, and is built into the company's constitution.

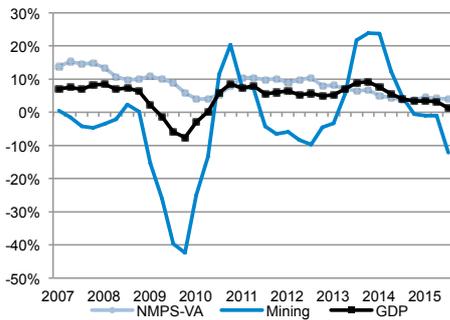
Shares are for sale at P1.00 each. Does this represent good value for eligible investors? Forecasts in the IPO prospectus indicate post-tax profits of just over P110 million in 2017 and 2018, or earnings of just under 11 thebe per share.

Valuing BTCL at the median price/earnings ratio on the BSE (11.6) would give a valuation of around P1.26 per share. But a discount must be applied to this valuation, given continued government control and limited marketability of the shares. Hence the underlying valuation of the BTCL shares is probably not far from the IPO price. This suggests that buyers should not expect a large capital appreciation. Owners of BTCL shares should also note that the limited range of eligible buyers may impact on their ability to sell their shares in future. Government has promised that will act as a market maker for BTCL shares, through its shareholding subsidiary Botswana Privatisation Asset Holdings (BPAH), and provide market liquidity, but there are no details as to how this will operate or how prices will be determined. Large-scale purchases by BPAH to support the market would of course run counter to the intention of the privatisation.

No doubt most of the institutions acting on behalf of pension funds will buy shares, and this may underpin the market. But given the uncertainties over the issue, they are likely to be cautious. Institutional demand will also reflect the fact that with a post-IPO market capitalisation of just over P1 billion, BTCL will be a relatively small company, representing around 2% of the total capitalisation of domestic stocks on the Botswana Stock Exchange.

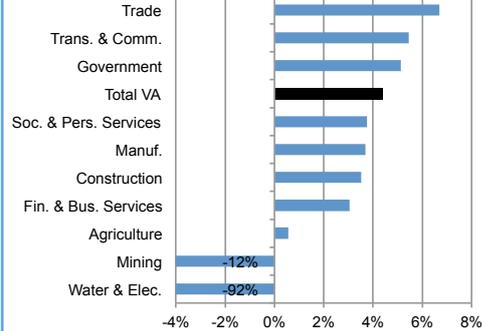
KEY ECONOMIC VARIABLES

Annual GDP Growth



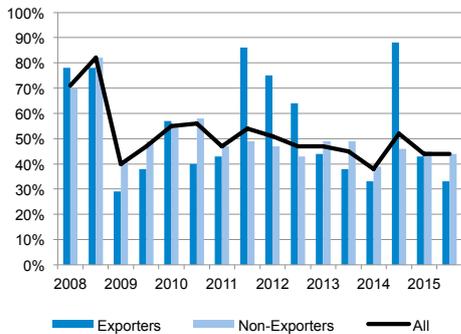
Q3 2015 was characterised by a further decline in annual GDP growth to 1.2%, compared to 3.1% growth in the year to June. This economic slowdown was mainly due to the mining sector shrinking by 11.8% in the year to September. The non-mining private sector (NMPS) continued to be the main driver of growth, with growth of 3.8% in the year to September, the same as in the previous quarter.

Sector GDP Growth



Water & Electricity and Mining were the worst performing economic sectors, contracting by 92% and 12%, respectively, in the year to September 2015. The contraction in mining was due to sharply reduced diamond output in the third quarter, following a fall in demand for rough diamonds, along with a major reduction in copper-nickel output. Trade continued to be the fastest-growing sector, at 6.7%, closely followed by Transport & Communications and Government, growing by 5.4% and 5.1% respectively.

% Of Firms Rating The Current Business Conditions Satisfactory



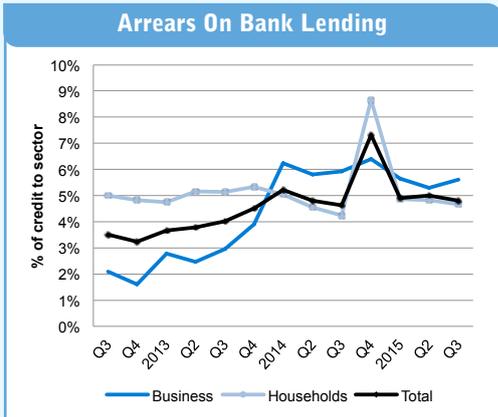
The Bank of Botswana's Business Expectations Survey for the second half of 2015 showed the overall rating of business confidence to be similar to the H1 survey, with 44% of firms rating current business conditions to be satisfactory. However, confidence among exporters dropped significantly, from 43% to 33% (albeit based on a small sample). It is striking that over the medium term, the level of business confidence has fluctuated in a fairly narrow range around 50%, but has never really recovered from the collapse of confidence at the time of the 2008-9 Global Financial Crisis.

Annual Credit Growth

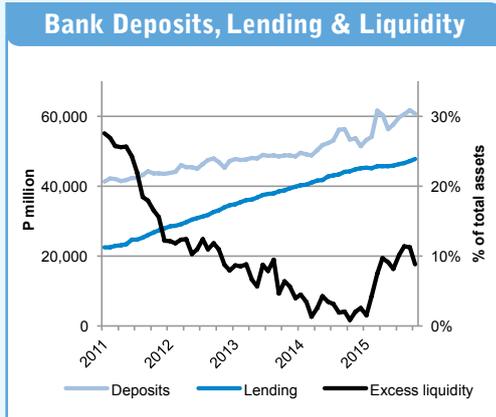


Credit growth continued to be subdued, with overall growth in bank credit at 8.0% over the year to October, little changed from 7.6% in July. Credit to firms continued to be weak, only growing by 3.2% in the year to October in contrast to the 5.6% realised in July 2015. Household credit growth was 13.9%, up from 11.2% for the same period. However, over the past year, annual credit growth fell by nearly half, from 14.0% in October 2014 to 8.0% in October 2015, with the decline almost entirely concentrated on corporate borrowing.

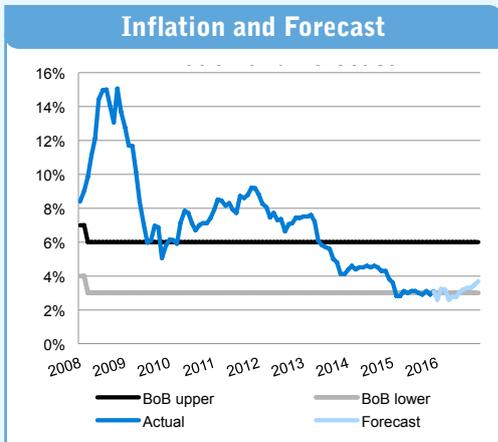
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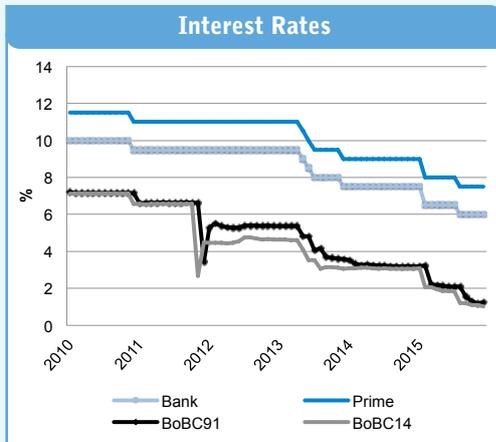
Arrears on bank lending decreased to 4.8% in Q3 2015, down marginally from 5.0% in Q2. In keeping with the trend throughout most of 2014 and 2015, businesses were the drivers of arrears during the period, at 5.6% in Q3 2015, up from 5.3% in Q2 2015. By contrast, arrears on lending to households have been declining for 3 consecutive quarters, falling marginally to 4.7% in Q3 2015. Combined with the declining growth rate of credit to businesses, this is a further illustration of tough conditions in the business sector.



Banking liquidity has been less tight in recent months than it was a year ago, when surplus liquidity dropped to almost zero. The situation was eased by an increase in deposits, and regulatory changes which reduced the required reserve ratio. However, bank deposits in aggregate have been quite volatile, with some large, lumpy deposits and withdrawals, most likely from parastatals and institutional investors. Although there is ample liquidity at present, instability in the deposit base will make banks somewhat cautious about lending.

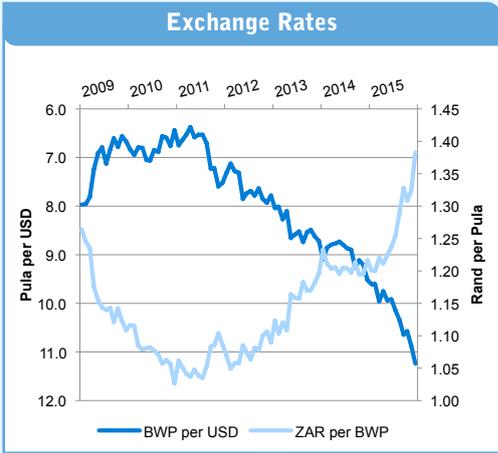


Inflation rose slightly in Q4, reaching 3.1% in December, as compared to 2.9% in September, thereby rising just above the lower limit of the Bank of Botswana (BoB) inflation range. The increase in inflation can be largely attributed to the decrease in domestic fuel prices in December 2014, which fell out of the annual inflation calculation. Food price inflation also remains very low (only 0.7% year on year). However, underlying inflation remains higher than headline inflation, with core inflation excluding administered prices at 4.5% in December. We expect inflation to fall slightly in the first half of 2016, before rising gradually towards 4% in the second half of the year.

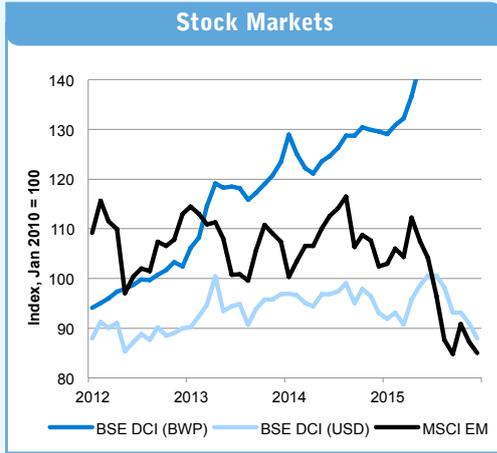


The Monetary Policy Committee met twice (October and December) in Q4 2015, and on both occasions the bank rate was maintained at 6.0%, where it has been since the 50 basis point reduction in August. The BoBC-14 and BoBC-91 yields have continued to move slowly downward, with yields of 0.97% and 1.17% respectively when compared to the 1.18% and 1.53% prevailing in Q3 2015. The commercial bank prime lending rate remained constant at 7.5%

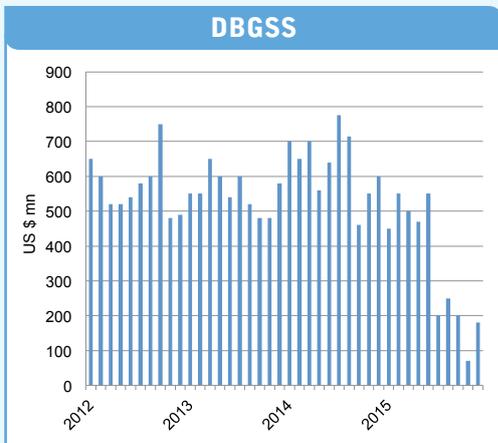
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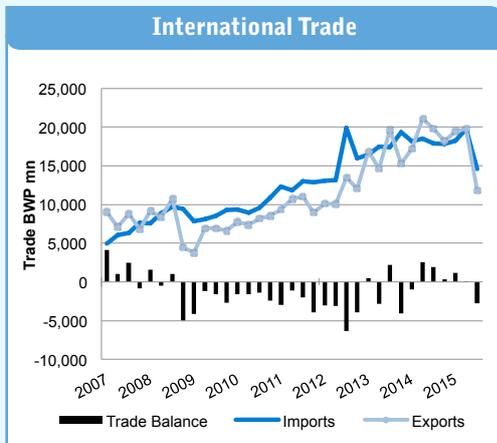
Foreign exchange markets continued to be volatile during the fourth quarter. As at the end of Q4, the Pula-US Dollar exchange rate was 11.24, signalling a 5.3% depreciation of the BWP to the USD since the end of Q3. Conversely, the Pula appreciated by 4.1% against the South African Rand over the quarter, to ZAR1.38, the highest rate since the devaluation of the Pula in early 2004. The Pula continues to be buffeted by the weakness of emerging market currencies generally, and the ZAR in particular. With Botswana's trade largely denominated in either USD or ZAR, the impact of this volatility cannot be avoided.



For the Botswana Stock Exchange, Q4 was characterised by a sombre performance as the domestic index (DCI) declined in both Pula and US Dollar terms, by 0.2% and 5.5% respectively. Emerging stock markets more generally were weak, and MSCI EM index only realised a gain of 0.3% during the quarter, due in part to the economic slowdown of China. Over the year as whole the BSE DCI fell by 5.5% (in USD terms), its worst performance since 2011, but outperformed emerging markets as a group, which fell by 17%.



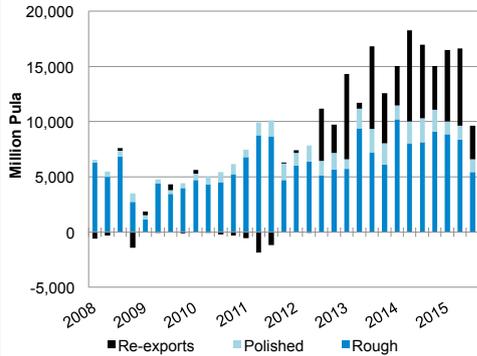
The final quarter of 2015 saw a continuation of the dismal performance of the diamond market that started in Q3. The 3 sights held in Gaborone in Q4 by DeBeers Global Sightholder Sales (DBGSS), had a total value of USD450m, compared to USD1610m in the same period in 2014 – a reduction of 72%. Over 2015 as a whole, DBGSS sales totalled USD3.5 billion, down 45% from the USD6.5 billion reported in 2014. The November 2015 sight was worst performing sight in recent history, registering a value of only USD70m. With weak demand for rough diamonds, DBGSS allowed its sightholders to defer up to 100% of their allocated boxes. Prices for rough diamonds also weakened further.



The weakness in the diamond markets showed up in a sharp drop in both exports and imports of diamonds in Q3. Total goods exports were down 40% compared to Q2, and imports down 26%. The result was a substantial trade deficit – the first since Q1 of 2014. Besides diamonds, down 42%, there were also reductions in copper/nickel exports (down 72%), textiles (-15%) and vehicle parts (-32%). Besides diamond imports, which were down 68% in Q3, there were increases in all the other major import categories of food, fuel and machinery.

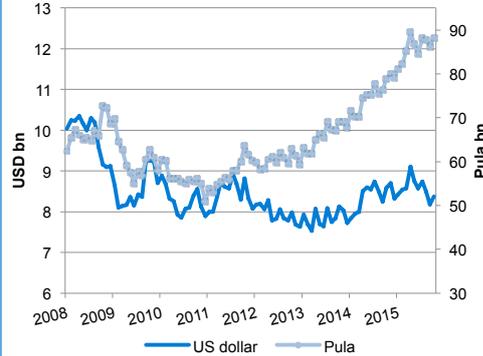
KEY ECONOMIC VARIABLES ➔

Diamond Exports



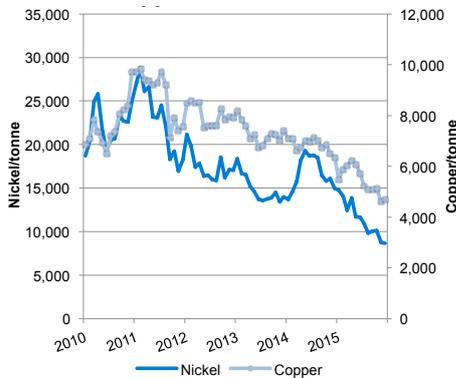
The shock experienced by the diamond industry in Q3 is clearly apparent in the export figures. All categories (Botswana rough, polished and re-exports) were down on the previous quarter. Quarterly exports of Botswana rough and polished were down by nearly 50% from their 2014 peaks, while re-exports (diamonds imported for aggregation purposes) were 63% below their peak.

Foreign Exchange Reserves



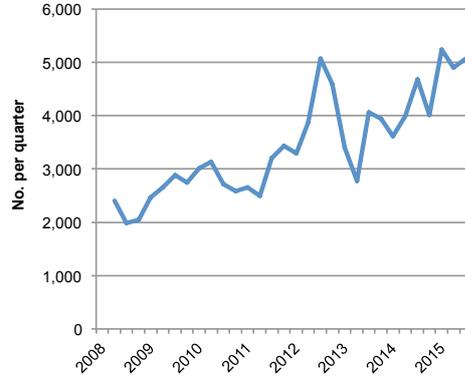
The Foreign Exchange Reserves fell slightly in Q3 2015, in USD terms, to \$8.2 billion, although due to exchange rate effects they increased in Pula terms, to P86.2 billion. While the reserves remain relatively high, emerging balance of payments deficits will put them under pressure.

Copper & Nickel Prices



Copper and nickel prices fell further in Q4, to reach USD4701 and USD8663 per tonne, respectively, at the end of 2015. This represented price declines of respectively 7.7% and 14.0%, relative to Q3, and 26% and 42% over the year as a whole. This is a result of the persistent subdued demand for the minerals by China, which is experiencing an economic slowdown. With low demand and excess supply, the imbalance is likely to take some time to be corrected, before prices start rising again.

Company Registrations



The number of company registrations has plateaued at around 5,000 per quarter for most of 2015. This is quite a respectable number – nearly 400 a week – of new companies being formed. Of course, not all of them represent active businesses – many will be shelf companies, or property owning companies, or formed just for tendering purposes. Nevertheless, it provides some sign of entrepreneurial activity.

NEWS HIGHLIGHTS 

2nd July	Shumba Coal plans 200MW solar plant. (Mmegi)	According to an Environmental Impact Assessment (EIA) public notice from Shumba Coal, the company is considering the development of a 100MW solar power station in north-western Botswana. The intention is to supply mines in the Kalahari copper belt, which are currently outside the national electricity grid.
3rd July	Services sector drives economic growth. (Mmegi)	Statistics Botswana (StB) figures showed that the services sector drove economic growth in the first quarter of the year as mining production, the country's traditional economic mainstay, slowed. Real Gross Domestic Product (GDP) grew by 4.3% in Q1 2015, compared to 3.6% realised the same quarter in 2014. Slower mining growth is attributed to a fall in diamond production by 2.5%.
9th July	Khoemacau to spend P2 bn on new copper mine. (Mmegi)	Construction works at Khoemacau Copper's new P2 bn copper and silver mine at Somelo in the north-west region are expected commence in 2016, with first sales in 2018. The copper and nickel mine is expected to produce 50,000 tonnes of copper and 1.8 mn ounces of silver every year.
10th July	World Bank warns Botswana. (Mmegi)	The Systematic Country Diagnostic (SCD) report by the World Bank has cautioned Botswana over unsustainable consumer spending that is increasingly replacing diamond exports as the key driver of economic growth. The report states that while economic diversification is welcome, economic growth that is dependent on consumer spending poses high risks to the economy, given the weak capacity by the private sector to create jobs, low wage growth and increasing household debt.
10th July	Botswana's statistical capacity declining. (Mmegi)	According to the World Bank's SCD report, Botswana's statistical capacity has been declining over the past decade, constraining implementation of evidence-based policy making. The SCD reported that the transformation of StB from a government department to a semi-independent agency, the low frequency of data collection, and delays in dissemination are some of the reasons for declining performance.
10th July	Power imports decrease due to Eskom shortages. (Mmegi)	Figures released by StB showed that power imports decreased by 26.8% in Q1 2015, from 616,206 MWH realised the same quarter last year to 451,092 MWH. The fall in imported electricity, however, did not mean increased domestic production; rather, Botswana Power Corporation (BPC) could not secure adequate supplies from South Africa's Eskom, leaving BPC to implement demand side tools to manage the consumption of electricity given the shortfall in supply.
14th July	ODC sales dip 23% as diamond market softens. (Mmegi)	Okavango Diamond Company (ODC) rough diamond sales fell 23% year-on-year to USD231 mn in the first half of 2015. Sales by volume dropped 21% and the company sold 745 of the 794 lots on offer. ODC's stakeholder relations executive officer stated that plans are in place to introduce contract sales as the company currently only sells through auctions.
1st October	Botswana first half rough exports – 15%. (Rapaport News)	As a result of overstocked polished diamonds in the market, which forced producers to cut output as well high rough prices, Botswana rough diamond exports fell by 15% during the first half of 2015 to an estimated US \$1.7 billion. During the same period, production at Debswana was 4% less than that of the same period last year.

NEWS HIGHLIGHTS 

2nd October	Firestone Diamonds says sale of Botswana assets hits snag. (Alliance News)	The sale of Firestone Diamonds' BK11 mine to Tango Mining Ltd has hit an obstacle due to failure to pay the required sale deposit as per the sale agreement. Tango mine was unable to raise the required US \$300,000 deposit and has since requested for an extension to the deal timetable.
7th October	Banks urged to look away from deposits for other sources of funding. (Sunday Standard)	The Bank of Botswana (BoB) has encouraged commercial banks to explore other sources of financing in addition to deposits. In the monetary policy mid-term review statement, the BoB also stated that banks need to review their asset, liability and risk management practices so that they reflect the changed market situation, which is characterised by low interest rates.
7th October	Transition hampers Botswana's competitiveness. (Sunday Standard)	The World Economic Forum's Global Competitiveness Report 2015-2016 ranked Botswana 71st out of 140 countries, a three place improvement compared to the previous year's rankings. Despite the global competitiveness gains, Botswana still struggles with other pillars such as business sophistication, market size, innovation, higher education and training as well as goods market efficiency, which are mainly triggered by transition in economic development.
8th October	Shumba Coal eyes power exports to Namibia. (Mmegi)	Shumba Coal stated plans to export 300 megawatt (MW) to Namibia by 2017 from its proposed Sechaba power project, which is located in the central district. The Botswana Stock Exchange (BSE) listed company stated in its market update that it hopes to first set up a 1.5 million tonnes per annum (mtpa) coal mine, which will later be expanded to cater for the power station.
9th October	Botswana Diamonds, Alrosa JV awarded new prospecting licence. (Mining Weekly)	The Botswana government has awarded Sunland Minerals – a 50/50 joint venture between Aim-listed Botswana Diamonds and Russian diamond producer Alrosa – a new prospecting licence. The prospecting area covers three previously discovered kimberlites bodies while the existing ones were being reviewed to verify if they warrant further evaluation.
14th October	African Copper in financial doldrums. (Mmegi)	Following the closure of its Thakadu mine, African Copper (AC) implemented cost cutting and savings measures to augment revenue falls caused by depressed international copper prices. In addition, production at the Mowana mine was to be increased. These measures have not borne fruit as AC is reportedly facing serious financial constraints, a situation that threatens the mine's future and the possible loss of hundreds of jobs.
23rd October	SB's capacity boosting strategy to cost P187m. (Mmegi)	Statistics Botswana (StB) announced a new strategy in an attempt to tackle the declining capacity to compile and disseminate accurate and timely statistics. The strategy, National Strategy for the Development of Statistics (NSDS), aims to address data limitations, mobilise and prioritise use of resources for statistics, as well as integrate statistics within national policymaking.
25th October	De Beers cut Q3 production on weak global demand. (Sunday Standard)	In its production report for the third quarter, De Beers stated that they will cut production to reflect the current global trading conditions. This is part of the company's strategy to align production with demand as the market continues to be characterised by weak consumer demand for jewellery.

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26th October	De Beers Enables 100% Deferrals at November Sight. (Rapaport News)	Sightholders have been allowed to defer their entire November and December allocations as diamond manufacturers remain under pressure from weak market conditions. This follows a refusal of almost half of the allocated supply at the October sight, consistent with other deferrals during the second half of 2015.
30th October	Market headwinds drag ODC sales down 35%. (Mmegi)	The value of sales by Okavango Diamond Company (ODC) fell by 35% in Q3 2015 compared to the same period in 2014 as global market headwinds impacted demand for rough diamonds. The company sold 1.64 million carats of rough diamonds valued at US \$303 million during the period, while 2.7 million carats diamonds worth US \$463 million were sold the same period last year.
5th November	Underutilised Francistown abattoir bleeds losses. (Mmegi)	The Chief Executive Officer of Botswana Meat Commission (BMC) that the Francistown abattoir is experiencing losses due to under utilisation of the facility. In 2014 the abattoir slaughtered a total of 27,681 cattle, down from 38,033 in 2013, out of cattle population of 223,701. At full capacity, the abattoir should be slaughtering 400 cattle a day, or 100,000 cattle a year, which shows that abattoir's capacity does not correspond with actual or potential cattle supply from the region.
6th November	Trade deficit widens on softer diamond exports. (Mmegi)	Statistical data released by StB showed that Botswana's trade deficit increased to P1.7 billion in August 2015 from P486.4 million recorded in July, due to low volumes of diamond exports. Imports remained relatively unchanged while exports declined 34% from P4.6 billion to P3.03 billion.
10th November	IMF handholds Botswana in building statistical capacity. (Mmegi)	Botswana is the first member country to implement the International Monetary Fund's (IMF) enhanced General Data Dissemination System (eDDS) that is aimed at making information easily accessible in both human and machine-readable formats. The system is a one-stop publication for essential macroeconomic data and can be accessed on the BoB website.
11th November	De Beers November Sight Slumps to Estimated \$70M. (Rapaport News)	De Beers recorded one of its smallest ever contract sales at the November sight which closed at an estimated value of US \$70 million. Prices for rough diamond were kept stable and sightholders allowed 100% deferral on their allocations.
12th November	Mowana Mine closes, sends 400 workers home. (Mmegi)	African Copper suspended its operations at the Mowana Mine outside Francistown, putting close to 400 workers on paid leave awaiting the decision on a liquidation plea from a creditor. The mine has been battling declining copper prices since 2008, recording losses and even closing operations at its Thakadu mine in 2015.
12th November	Letshego acquires Tanzanian bank. (Mmegi)	The BSE listed financial services company, Letshego Holdings Services, acquired a 75% stake in a commercial bank in Tanzania as part of the strategy to advance their footprint in Africa.
15th November	BTCL listing slated for mid December. (Sunday Standard)	The opening date for the long awaited initial public offering (IPO) of Botswana Telecommunications Corporation Limited (BTCL) has been set for December 2015 after several postponements of cautious steps that needed to be taken, including the BSE's listing requirements.

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19th November	Lucara Finds Second-Largest Diamond in History. (Rapaport News)	Lucara Diamond Corporation has recovered a 1,111 carat stone from its Karowe mine in Botswana. The diamond is the second-largest gem-quality diamond ever recovered in the world and the largest to be retrieved through a modern processing facility.
24th November	Pula Steel exports first products to South Africa. (Mmegi)	Pula Steel, the only producer of steel products in Botswana, exported 300 tonnes as its first batch of billet to South Africa. The company is also looking into exporting the rest of Southern Africa market.
25th November	Cut 8 to pump P301bn into Botswana economy. (Mmegi)	A study commissioned by De Beers revealed that the expanded Jwaneng Mine pit will contribute more than US \$28 billion (P301 billion) to the economy and create about 1,000 jobs during its operational phase between 2017 and 2029, and uncover an additional 105 million carats diamonds.
26th November	Botswana set to draw water from Lesotho highlands project. (Mining Weekly)	Botswana hopes to source water from Lesotho in order to address ongoing water shortages. A deal involving both South Africa and Lesotho, which would enable Botswana to draw water from dams in the Lesotho highlands, via South Africa, is being finalised.
26th November	100Mt-plus copper resource defined at Botswana copper, silver play. (Mining Weekly)	Cupric Canyon Capital subsidiary Khoemacau Copper Mining, has defined a more 100 million ton high grade copper and silver ore resource at the Zone 5 deposit. The mine's estimated life is 27 years and will produce 50,000 tons of copper and 1.4 million ounces of silver per year contained in concentrate. Production is expected to commence in two years.
30th November	Choppies enters Zambian market. (The Patriot)	Choppies Enterprises has opened its first retail store in Zambia, a further step in its strategy to expand in the Southern African market. The retail giant aims to have 200 stores in Sub-Saharan Africa by the end of 2016.
1st December	World Bank proposes support for Botswana. (Mmegi)	The World Bank Group's Country Partnership Framework (CPF) has proposed a strong programme of technical and financial support for Botswana. The new CPF for 2016-2020 will guide the Group's support to Botswana to address priority areas of poverty reduction, employment creation and reducing income inequalities.
2nd	Termination notices for 350 Mowana Mine workers. (Mmegi)	Hundreds of workers who were previously placed on unpaid leave pending liquidation hearing have been served with termination notices as the copper mine faces a bleak end. African Copper was hard hit by the lowest copper prices in six years which forced the closure of its Thakadu mine in 2015, and the provisional liquidation of the Mowana mine, following an order in favour of creditors.
3rd December	Lucara invests \$18m in additional large diamond recovery process at Botswana mine. (Mining Weekly)	Lucara Diamond Corporation, which made history by unearthing the largest diamond the world has seen in a century, plans to invest US \$18 million on an additional large diamond recovery process at its Karowe mine, an upgrade from the current process circuit that is designed to recover diamonds of up to 1,000 carats. The company stated that they will focus recovery in the south lobe were the exceptional 1,111 carat stone was recovered.

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4th December	World Bank avails P3bn envelope of loans to Botswana. (Mmegi)	The World Bank (WB) has pledged almost P3 billion in loans to fund a string of projects in Botswana, headlined by investments in water and renewable energy, private sector support and other socio-economic upliftment initiatives under the CPF. The Bank stated that a new growth model that is job-intensive, export-oriented and private sector led is needed to address key issues of unemployment, income inequality and poverty eradication.
7th December	Retail fuel prices slashed again. (Sunday Standard)	Historically lower international prices for oil due to oversupply in the market have pushed retail prices further down this year. In response, the Government has adjusted retail prices downwards for petrol, diesel and illuminating paraffin which took effect from December. Prices for petrol decreased by 15 thebe per litre while diesel and illuminating paraffin decreased by 40 thebe per litre each.
10th December	Botswana third most unequal country in the world – Report. (Mmegi)	Improved social welfare in the rural areas has seen inequality levels in Botswana declining, but more needs to be done as the disparity between the rich and the poor is still the third highest in the world, the World Bank has advised.
14th December	Debswana closes Damtshaa mine as pressure mounts on diamond industry. (Sunday Standard)	Debswana Diamond Company announced that it plans to close one of its diamond mines, Damtshaa mine, effective from January 2016. During the closure, the mine will undergo a maintenance programme in response to the downturn in the diamond market. However, worth assuring is that at most 250 employees will redeployed to other mines.
16th December	BTCL shares to sell at P1 each. (Mmegi)	In the long-awaited BTCL IPO, 352 million shares will be available for sale to Batswana at P1 each under the country's pioneering privatisation issue. A 44% shareholding will be availed to Batswana and Batswana owned businesses, 5% to citizen workers, while the Government will retain 51%.
17th December	Business confidence remains subdued. (Mmegi)	According to the Business Expectations Survey by BoB, the level of optimism among businesses remains subdued on the back of power and water shortages, constrained government spending as well as weak domestic demand. Measured by the Business Confidence Index (BCI) optimism remained unchanged at 44% between March and September 2015.

MACROECONOMIC DATA

Key Economic Data									
	unit	2012	2013	2014	2014 Q4	2015 Q1	2015 Q2	2015Q3	2015Q4
Annual Economic Growth									
GDP	%	4.8	9.3	4.4	3.2	3.2	3.1	1.2	..
Mining	%	-4.6	23.9	4.5	0.5	-0.1	-0.4	-11.8	..
Non-mining private sector	%	8.0	6.8	4.1	3.4	3.9	3.8	3.8	..
GDP current prices	P mn	112,705	125,810	141,942	36,926	36,580	37,758	37,801	..
GDP 2006 prices	P mn	75,786	82,851	86,514	22,156	21,494	21,472	20,671	..
Money & Prices									
Inflation	%	7.4	4.1	3.8	3.8	2.8	3.1	2.9	3.1
Prime lending rate	%	11.0	9.0	9.0	9.0	8.0	8.0	7.5	7.5
BoBC 14-day	%	4.6	3.1	3.1	3.1	2.1	1.9	1.18	0.97
Trade & Balance of Payments									
Exports - total goods	P mn	45,719	66,392	76,200	18,172	19,459	19,769	11,827	..
Exports - diamonds	P mn	36,143	55,367	65,327	15,054	16,463	16,618	9,609	..
Imports - total goods	P mn	62,112	70,725	72,393	17,835	18,265	19,753	14,578	..
Balance of visible trade	P mn	-16,393	-4,333	3,808	338	1,194	16	-2,751	..
Balance of payments	P mn	-862	1,340	11,404	2 701	4,998	942	..	..
Foreign Exchange									
Exchange rate BWP per USD	end	7.776	8.718	9.515	9.515	9.960	9.911	10.638	11.236
Exchange rate ZAR per BWP	end	1.090	1.196	1.217	1.217	1.221	1.237	1.329	1.383
FX reserves	\$ mn	7,628	7,726	8,323	8,323	8,571	8,572	8,179	..
FX reserves	P mn	59,317	67,772	79,111	79,111	85,194	84,536	86,190	..
Financial Sector									
Deposits in banks	P mn	47,216	48,512	53,231	51,492	61,637	57,628	61,780	..
Bank credit	P mn	34,555	39,763	45,116	45,116	45,694	45,866	47,209	..
BSE index		7,510.2	9,053.4	9,501.6	9,501.6	9,693.9	10,690.1	10,624.3	10,602.3
Business Indicators									
Diamond production (a)	'000 cts	20,619	23,134	24,658	6,103	5,734	6,022	4207	..
Copper production	tonnes	57,916	49,448	46,721	12,969	9,653	7,575	2518	..
Nickel production	tonnes	17,942	22,848	14,958	5,299	5,169	6,439	1194	..
Business confidence index		47%	45%	52%	..	44%	..	44%	..
No. of companies formed		16,561	14,190	16,300	4,013	5,238	4,904	5,071	..
Electricity consumption	GWh	3,703	3,502	3,990	1,013	970	1,006	956	..
Crude oil (Brent)	\$/bar	110.80	109.95	55.27	55.27	53.69	60.31	47.29	36.61
Employment (formal)									
Government		131,033	130,175	..	..	..	..	..	..
Parastatals		17,484	18,838	..	..	..	..	..	..
Private sector		188,531	189,894	..	..	..	..	..	..
Total		337,048	338,907	..	..	..	..	..	..
Govt Budget									
		2013/14	2014/15 Revised	2015/16 Budget					
Revenues	P mn	48,951	51,544	55,382					
Spending	P mn	41,730	51,263	54,153					
Balance	P mn	7,222	281	1,229					
Public debt & guarantees	P mn	30,769	32,064	31,931					
Govt deposits at BoB	P mn	31,745	41,680	..					
GDP	P mn	130,457	144,367	155,735					
Revenues	%GDP	37.5%	35.7%	35.6%					
Spending	%GDP	32.0%	35.5%	34.8%					
Balance	%GDP	5.5%	0.2%	0.8%					
Public debt & guarantees	%GDP	23.6%	22.2%	20.5%					
Govt deposits at BoB	%GDP	24.3%	28.9%	..					