Contents

- Structure of economy
  - Growth drivers; mining/non-mining
- External account
  - Exports, imports, balance of trade
  - Exchange rates
- Money & prices
  - Inflation & interest rates
- Fiscal accounts
  - Revenues, spending & budget balance; savings
- Banking/financial sector
  - Credit growth, profitability, liquidity.
- Employment, poverty etc
- Economic Prospects
Economic Growth – 5 year averages

Botswana one of the fastest growing economies in the world over past 50 years – but driven by double digit growth to 1990. Much slower – and unexceptional – growth since
Long-term structural change

Mining

Manuf, Constr. Utilities

Agriculture

Services (excl. govt.)
GDP growth – declining steadily

- Overall GDP growth has declined steadily since late 2013
- GDP contracted by 0.2% in 12 months to Q1 2016
  - Mainly due to slower mining growth
- Growth should recover in 2016 (see later)
- Historical GDP data may be revised later in 2016
Mining the main reason for lower growth

- In March 2016:
  - Annual growth of mining was minus 21.4%
  - NMPS was the main driver of growth, at 3.9%
  - NMPS growth is steady, but is offset by significant mining contractions
Sectoral growth: services still the main driver

- Mixed picture across sectors
- Strongest growth in various services sectors
- Relatively weak performance in primary/secondary sectors

Source: Stats Botswana
Economic structure – increasingly diversified

- Mining less than one quarter of national output (value added) – 20% in 2015
- Economy is more diversified – in terms of production – than is often recognised
- Has been becoming more diversified over time
- Services now almost 50% (47% in 2015)
Agriculture

Share of Output – 2015

- Live Stock: 63%
- Crops: 11%
- Other: 26%

Unstable performance of sub-sectors; weak policy environment;
BMC – highly politicised, reforms difficult
Other policies – focused on social welfare not commercialisation

Annual Growth Rates

- Live Stock 2014: 3%, 2015: 4%
- Crops 2014: -1%, 2015: -2%
- Other 2014: 0%, 2015: -3%
- Agric 2014: 1%, 2015: -1%
**Mining**

**Share of Output – 2015**

- **Diamonds**: 81%
- **Copper**: 10%
- **Coal**: 0.8%
- **Soda Ash**: 3%
- **Other**: 2%
- **Prospecting**: 3%

**Overall performance still driven by diamonds; copper-nickel performing badly**

**Annual Growth Rates**

- **Diamonds**: 2014: 14.2%, 2015: -40%
- **Copper**: 2014: -35%, 2015: -30%
- **Coal**: 2014: -25%, 2015: -20%
- **Soda Ash**: 2014: -15%, 2015: -10%
- **Other**: 2014: -10%, 2015: -5%
- **Prospecting**: 2014: -5%, 2015: 0%
- **Mining**: 2014: -5%, 2015: -0%
Manufacturing

Share of Output – 2015

- Meat etc: 16%
- Beverages: 13%
- Textiles: 3%
- Tanning & Leather: 0.3%
- Other Manuf: 68%

Annual Growth Rates

Poor data – no breakdown of “other”; doesn’t include diamond cutting yet; textiles highly volatile..
Construction – conflicting data signals

- Construction activity has slowed sharply, although still positive growth as recorded by GDP data
- Cement import data shows sharper slowdown and negative growth, but more of a recent recovery
- Lack of major government projects squeezes whole industry
- No sign of ESP impact yet
Services (excl. govt)

**Share of Output – 2015**

- Retail: 13%
- Hotels & Rest.: 15%
- Petrol Stn: 2.2%
- Vehicle deal.: 3%
- Road: 2%
- Rail: 1%
- Air: 1%
- Communic.: 6%
- Banks: 8%
- Real Est.: 3%
- Insurance: 3%
- Business Serv.: 13%
- Other: 26%
- Wholesale: 4%

**Annual Growth Rates**

<table>
<thead>
<tr>
<th>Services</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td></td>
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<tr>
<td>Retail</td>
<td></td>
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<tr>
<td>Hotels &amp; Rest.</td>
<td></td>
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<tr>
<td>Petrol Stn</td>
<td></td>
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<tr>
<td>Vehicle deal.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road</td>
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<tr>
<td>Rail</td>
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<tr>
<td>Air</td>
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<td>Communic.</td>
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<tr>
<td>Banks</td>
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<tr>
<td>Insurance</td>
<td></td>
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<tr>
<td>Real Est.</td>
<td></td>
<td></td>
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<tr>
<td>Business Serv.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NB does not fully reflect diamond-related services, e.g. DBGSS and ODC not yet included.
Where is growth coming from?

- Botswana increasingly services driven
- Is that growth sustainable, with strong domestic focus?
- Long-term services growth will depend on:
  - Services exports (e.g. tourism, some business services)
  - External (regional/ international) investment
Sources of growth 2005-2015 – also diversified
External Sector
Exports & Imports – weak performance in 2015H2 but recovery in 2016

- Both exports and imports volatile due to impact of diamond aggregation – diamonds now the largest import as well as largest export
- Softening of minerals prices (copper, diamonds) as well as Chinese economic slowdown negatively affected mineral exports in second half of 2015
- Import bill benefitting from lower international fuel prices
- Diamond slowdown apparent in both imports and exports
- Strong diamond recovery in Q1 2016
Global Diamond Market - DBGSS

- Dismal H2 2015 apparent in De Beers total sales figures
  - Price margins between polished and rough diamonds very narrow
  - Limited purchasing by cutters & polishers
  - Weak final demand (mainly jewellery)
  - Diamond pipeline not flowing
  - Debswana forced to cut production in response

- Strong recovery in 1st 5 sights of 2016 (to June)
  - Averaging over $600m
  - Enabling stocks accumulated in 2015 to be sold
  - Cautious optimism about recovery
  - Production not yet increased to higher levels – guidance of 20mcts for 2016 remains, unchanged from 2015
Diamond Exports (Rough, Polished & Re-exports)

- Diamond exports of rough diamond increased drastically in 2016
  - From P1,198 at the end of 2015 to P9,130 in March
- Other categories of diamond exports (polished and re-exports) declined in Q1 2016
- Botswana is the “swing” producer – sales of BW rough dropped faster than total sales
Balance of trade: swinging from surplus to deficit and back

- Measures the balance between imports and exports (of goods)
- The most important determinant of the current account and overall BoP
- Volatile swings between surpluses and deficits
- Surplus in 2016Q1 after deficits in 2015 H2
Composition of exports

Diamonds still dominate – but services (mainly tourism) increasingly important
Exchange rates dominated by ZAR weakness & volatility

Trend of depreciation vs USD through to early 2016 has been reversed with ZAR strength

ZAR caught up in EM XR weakness / volatility, compounded by SA specific issues

BWP up from lowest ever level vs USD

Small change in rate of crawl in Jan 2016 (to +0.38%) will have little impact
Inflation and Monetary Policy
Inflation ... at unprecedented low levels but has probably bottomed out

- Inflation fell below 6% in June 2013 and has been below the upper end of the BoB range for almost 3 years.
- At 2.7% in June 2016, inflation is below the lower end of the BoB range.
- Main drivers:
  - Declining international fuel prices
  - Generally low international inflation
  - Weak domestic inflationary pressures
- Risks:
  - Water & electricity
  - Regional food prices
- Inflation expected to rise slowly over the next 12 months
- Medium-term inflation expectation – around 4%
Fuel has been the major reason for falling headline in 2015-16 – with falling fuel prices.

However, falling rates of price increase now more generalised;

Inflation excluding food & fuel now only 4%;

Food price pressures rising due to regional drought – although still low

Core inflation also declining

Indicates that low inflation not just due to fuel prices
Monetary policy – continued cutting by BoB – but mainly following inflation

- Bank Rate at its lowest ever level, following steady decline in inflation
- Interest rates more stable in real terms – so monetary conditions are not particularly easy
- Real prime rate around 4% - consistent with historical levels
- Recent cut a surprise given that inflation is expected to rise
- Actual deposit and lending rates increasingly influenced by liquidity conditions as well as policy rates.
Government Budget
Government budget – rapid deterioration

- Revenues very dependent on external sources:
  - Diamond taxes & SACU

- Poor performance of diamonds in 2015 reduced revenues and pushed budget into large deficit

<table>
<thead>
<tr>
<th>Budget balance 2015/16</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original</td>
<td>+P0.2bn</td>
</tr>
<tr>
<td>Revised</td>
<td>-P4.2bn</td>
</tr>
<tr>
<td>Actual</td>
<td>-P6.6bn</td>
</tr>
</tbody>
</table>
Government budget – entering era of prolonged deficits

- Revenues in long-term decline
- Spending also has to be cut (as % of GDP)
- MTEF projects deficits through to 2018
- Revised projections for NDP11 suggests deficits throughout
- Deficit can be funded but will require both additional borrowing and drawdown of savings
Government savings being drawn down

- Deficits being funded by drawdown of balances at BoB
- Not sustainable indefinitely
- Deficits will eventually have to be funded by more debt
### How much does government have to finance budget deficits?

#### Financial Assets (Gross)

- **Pula Fund:** P61.1 billion (December 2015)
- **o/w GoB share:** P35.0 billion (=GIA balance)
- **Approx. 24% of GDP**

#### Borrowing Capacity

- **Statutory limit:** 40% of GDP
- **Current borrowing:** 22% of GDP (March 2016)
- In principle, could raise a further 18% of GDP (P27bn)
- Commitments to g’tee BCL USD bond will exhaust FX borrowing limit – additional borrowing will have to be in BWP

---

**Pula Fund and GIA have dual purposes:**

- short-term stabilisation
- to provide long-term income once diamonds run out (Fund for Future Generations)
- no rules on allocation between two functions
- can easily be depleted for short-term gain
NDP 11 – behind schedule

- NDP 11 still being finalised
  - Updating of macro projections, expenditure ceiling
  - Project list and funding
  - Co-ordination with Vision 2036
- Has been presented to Cabinet
- Will be presented to Parliament in Nov/Dec
- List of approved development projects will be crucial
The Banking Sector
Rapidly declining profitability

- Profitability (RoE) has been declining for a long period
- Dropped further to 12.5% 2015.
- Profits decline due to:
  - Competition
  - Saturation of key market segments
  - Lower policy interest rates
  - Regulatory interventions
Bank profitability (most recent AFS)

RoE after tax – banks in order of asset size

- SBI
- BOI
- Baroda
- Capital
- Bank Gaborone
- BancABC
- Stanbic
- StanChart
- Barclays
- FNBB

-20% -10%  0%  10%  20%  30%

- Larger banks more profitable
  - Economies of scale important
  - Profits under pressure throughout the industry
- Concern about loss-making banks – adds instability
Bank credit: slowdown continues, but stabilised

- Overall credit growth declining from early 2012 to May 2016
- Decline appears to have bottomed out
- Annual growth of 9.7% in May 2016
- Comparable to nominal non-mining GDP growth (10.5% in yr to March)
Bank credit: divergence between household and business credit

- Households the main driver of credit growth
- Growth in credit to businesses still very weak
- Growth in year to May:
  - Private business: 4.3%
  - Households: 12.9%
Arrears on bank credit

- Sharp upturn in arrears in 2016Q1 (but new reporting?)
- Across all categories – business & households
- Business arrears (March 2016):
  - Agriculture 13.8%
  - Manufacturing 1.8%
  - Construction 8.6%
  - Trade 4.0%
  - Real estate 1.9%
Banking environment volatility – especially deposits

- Bank deposit base much less stable than lending
  - BPOPF funds
  - Parastatals
- Reflects maturity differences
- Deposit-lending gap highly unstable
Liquidity environment – volatile

- Banking liquidity:
  - Recovered strongly after 2014 crisis,
  - Due to regulatory changes and faster deposit growth
  - Has since fallen back somewhat
  - Has largely stabilized at manageable level
  - Banks no longer chasing deposits with high interest rates

- Still concerns that deposit base will prove unstable – hence caution in lending
Payments Trends (volumes)
Pension Funds

- Still growing in BWP terms – P74.8bn in 2015
- Almost as large as banking system (P76.7bn)
- 2015 increase largely driven by exchange rates – steady at just over USD$6bn in recent years
- Offshore proportion steady around 60% - unlikely to change dramatically
Labour Market
Formal employment – very slow growth

- Very little increase in formal employment in past four years
- Average employment growth rate less than 0.5% p.a.
- Approx 1,500 new jobs a year
- Compares with approx 20,000 net new entrants to the labour force each year
- Unemployment officially around 20% but in reality much higher
Entry to and exit from labour force

- **New entrants** (40k)
  - Labour Force (26k)
  - Not in LF (14k)
  - Formal sector (3k)
  - Unemployed, informal, agric (23k)

About 6,000 retirees from labour force, releasing around 1,500 formal jobs
## Importance of Govt. wage and welfare payments

<table>
<thead>
<tr>
<th>Category</th>
<th>Number ('000)</th>
<th>Total Value (per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment – private sector</td>
<td>190</td>
<td>12,000</td>
</tr>
<tr>
<td>Employment – public sector</td>
<td>150</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Govt Transfer Recipients</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old Age Pensioners*</td>
<td>100</td>
<td>400</td>
</tr>
<tr>
<td>WW2 vets*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Destitutes*</td>
<td>32</td>
<td>150</td>
</tr>
<tr>
<td>Ipelegeng</td>
<td>60</td>
<td>350</td>
</tr>
<tr>
<td>OVC carers*</td>
<td>40</td>
<td>200</td>
</tr>
<tr>
<td>Tertiary students</td>
<td>40</td>
<td>600</td>
</tr>
<tr>
<td>ISPAAD farmers</td>
<td>130</td>
<td>400</td>
</tr>
<tr>
<td>LIMID farmers</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Total welfare recipients</td>
<td>420</td>
<td>2,200</td>
</tr>
<tr>
<td>Total Govt Dependents (transfers + employees)</td>
<td>570</td>
<td>20,000</td>
</tr>
</tbody>
</table>
Economic Outlook
Business Confidence

% of firms rating current business conditions satisfactory

- Volatile confidence levels, especially amongst exporters (small sample?)
- Long-term downward trend
- No real recovery since global financial crisis
- Private sector concerns about water & electricity shortages
IMF and GoB forecasting a reasonable recovery in 2016

- Diamond market stability
- ESP

Medium-term growth rates of 4-5% (NDP11)
Global Diamond Market

- 2015 was very difficult:
  - Weakening final demand (for jewellery), with global growth slowdown, especially China
  - Cutters/polishers squeezed between high rough prices (De Beers) and weak final demand (cannot pass on high input prices)
  - Reduction in prices mid-year, with sharp reduction in rough supply in H2
  - Enabled excess stock to be run down

- First half of 2016 much better
  - Christmas 2015 season was positive
  - Re-stocking lifted the market in early 2016
  - Pipeline now flowing again, albeit at lower levels

- Still high risk and uncertainty
  - Shortage of financing – Stanchart withdrawal from diamond chain financing
  - Final demand still weak
  - Not enough recovery to lift rough production
Botswana diamond industry

- Failure of downstream market to recover in mid 2015, and small sights forced Debswana to cut back production (could not continue to stockpile)
- 2016 production target cut by 20% from 24 to 20mcts.
- Still maintained despite some market recovery
- ODC also experienced weak market in 2015, better in 2016
- Mixed picture from small mines
  - Karowe (Lucara) lifted by large stones
  - Ghagoo (Gem) struggling – production cut back
  - Lerala (Kimberley) restarting production
- Cutting & polishing still under pressure – employment only half of peak
Domestic growth outlook – balance shifting towards positives

- **Positive news:**
  - Inflation and interest rates at historic lows, should remain
  - Fears of large fiscal and BoP deficits in 2015H2 somewhat alleviated
  - Diamond market stabilised, although not yet recovering
  - Copper-nickel prices off lows, although still weak
  - ESP impact on construction, infrastructure
  - Alleviation of power, water supply problems

- **Negative news:**
  - Increased global uncertainty; risks mostly on the downside
  - Regional drought impact on food prices
  - Regional economies: SA slow growth, Zimbabwe crisis, Zambia downturn
  - BCL sustainability issues
  - Ability to implement changes envisaged in NDP 11 & V2036
# Regional Expansion – BSE-listed companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letshego</td>
<td>Financial Services</td>
<td>Uganda, Swaziland, Tanzania, Zambia, Namibia, Mozambique, Kenya, Lesotho, Rwanda, South Sudan*</td>
</tr>
<tr>
<td>Turnstar</td>
<td>Property</td>
<td>Tanzania</td>
</tr>
<tr>
<td>Funeral Services Group (FSG)</td>
<td>Consumer Services, Financial Services</td>
<td>Zambia, South Africa</td>
</tr>
<tr>
<td>Sefalana</td>
<td>Retail</td>
<td>Zambia, Namibia</td>
</tr>
<tr>
<td>PrimeTime</td>
<td>Property</td>
<td>Zambia</td>
</tr>
<tr>
<td>RDCP</td>
<td>Property, Tourism</td>
<td>Madagascar, South Africa</td>
</tr>
<tr>
<td>Choppies</td>
<td>Retail</td>
<td>South Africa, Zimbabwe, Zambia, Kenya</td>
</tr>
<tr>
<td>Chobe</td>
<td>Tourism</td>
<td>Namibia</td>
</tr>
<tr>
<td>Cresta Marakanelo</td>
<td>Tourism</td>
<td>Zambia</td>
</tr>
<tr>
<td>Furnmart</td>
<td>Retail</td>
<td>South Africa, Namibia, Zambia</td>
</tr>
<tr>
<td>Wilderness</td>
<td>Tourism</td>
<td>Namibia, South Africa, Malawi, Zimbabwe, Zambia, Seychelles, Congo, Kenya</td>
</tr>
<tr>
<td>BIHL</td>
<td>Financial Services</td>
<td>Zambia, Malawi, Mozambique, Tanzania, Uganda, Zambia</td>
</tr>
<tr>
<td>Imara</td>
<td>Financial Services</td>
<td>UK, Malawi, South Africa, Namibia, Zambia, Zimbabwe, Mauritius, Angola, Kenya, Nigeria</td>
</tr>
</tbody>
</table>
Drivers of Regional Expansion

- Limits of BW market reached
- Mostly services (non-tradeables) – cannot be exported directly – hence outward FDI needed
- Domestic success
- Strong management teams
- Good business model
- BW suited to regional HQ
- Capital on balance sheet
- Access to competitive loan funding
SSA growth projections 2016-20 (IMF)
### Macroeconomic Forecasts (Econsult)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth (real)</strong></td>
<td>3.2%</td>
<td>3.1%</td>
</tr>
<tr>
<td>- mining</td>
<td>-2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>- non-mining</td>
<td>4.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Govt. spending growth (real)</strong></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Bank rate (eoy)</strong></td>
<td>5.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Inflation rate (eoy)</strong></td>
<td>3.5%</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>BWP per USD</strong></td>
<td>10.5</td>
<td>..</td>
</tr>
<tr>
<td><strong>ZAR per BWP</strong></td>
<td>1.33</td>
<td>..</td>
</tr>
</tbody>
</table>
Economic Stimulus Package

- Not much public information has been provided, other than what is contained in the initial transcript, and brochure listing broad ESP initiatives
- Plan will target tourism, manufacturing, farming, building of roads and homes, education and health facilities
- Key aspects (in theory):
  - High impact projects that have substantial ROI
  - Firm M&E Framework (so as to avoid cost overruns and delivery of quality products efficiently and effectively)
ESP is a medium-term project (3 years), so will take a while to have an impact.

Very few “shovel-ready” projects – major new projects need detailed design and specification (e.g. by-passes) or organisational development (SEZs).

Initial ESP projects are those that had already been planned & designed, but postponed due to lack of funds.

Some re-packaging of projects that would have happened anyway (e.g. SEZs).

Approx P1.4 bn of ESP money in 2015/16 budget, P2.2bn in 2016/17 budget, which should contribute around 1.5% to GDP growth.

Concerns that proper project appraisal and procurement may be overlooked.
Thank You