

Botswana

Recent macroeconomic and financial developments

GDP expanded by 12.5% in 2021 as COVID-19 restrictions eased, from a contraction of 8.7% in 2020. Mining output rose with the global diamond market recovery. Non-mining output also expanded, particularly from public administration and defense, construction, and wholesale and retail. Aggregate demand rose in 2021 as the adverse COVID-19 impact on net exports waned, and the public expenditure increase prompted by the pandemic preserved consumption. Per capita GDP growth followed the GDP trend. The fiscal deficit, financed through borrowing and a reserves drawdown, widened to 6.2% of GDP in FY2020/21, with increased pandemic-related net expenditure. Public debt, at 18.6% of GDP in FY2020/21, remains sustainable. The Bank of Botswana's monetary policy stance was accommodative, with its policy rate at 3.75% in 2021. Average annual inflation in 2021 rose above the upper end of the central bank's range of 3–6%, reflecting higher fuel prices, value-added tax, and domestic demand. Botswana's financial sector is well capitalized. The capital-adequacy ratio averaged 19.8% in 2020, and 18.5% in August 2021, above the 12.5% prudential requirement. The NPL ratio fell to 3.7% in August 2021, from 4.5% in August 2020. The current account deficit, largely financed by offshore pension fund investments, narrowed to 1.9% of GDP in 2021, from 10.6% in 2020, as diamond prices and Southern African Customs Union (SACU) revenues rebounded. International reserves stood at \$4.6 billion at end-November 2021 (10 months of import cover). Botswana received SDR 189 million in the IMF allocation (about \$268.4 million; 1.6% of GDP), which is likely to be used to rebuild reserves or for budget support. Botswana has a relatively low poverty headcount ratio of 16.1% (2019) and high unemployment of 26.0% (quarter to December 2021).

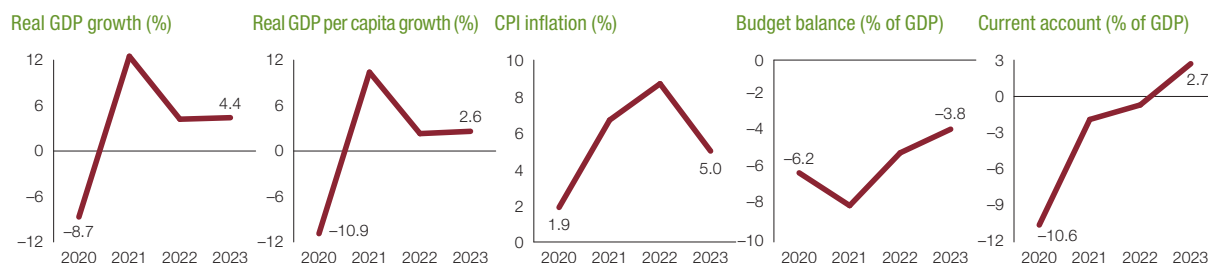
Outlook and risks

GDP growth is projected to moderate at 4.2% in 2022, supported by the continued pickup in economic activity

and diamond prices, a successful COVID-19 vaccine rollout, and full implementation of the Government's Economic Recovery and Transformation Plan (ERTP). Headwinds include weaker diamond demand if the global economic recovery loses momentum, COVID-19 variants, persistent drought, and effects of South Africa's weak economic growth on Botswana's exports and SACU revenues. With the economy operating below full capacity up to the medium term, inflation is projected to revert to within the central bank's range in 2023. The fiscal deficit may narrow, as domestic revenues rise with the ERTP growth stimulus. The current account may register a surplus in 2023, with the revival of the diamond and tourism industries. Unemployment may widen post-lockdown but could be mitigated by well-targeted social programs.

Climate change issues and policy options

Botswana is 117 on the 2021 Global Climate Risk Index (GCRI), out of 180 countries. According to the 2019 IMF assessment of the long-term macroeconomic effects of climate change, Botswana could lose 0.13–0.30% of per capita income in 2030–50 if the 2015 Paris Agreement on limiting global warming is not met. According to the 2021 SDG Index, Botswana has achieved 61.9% of the 17 SDGs, and is ranked 115 out of 165 countries. However, the country has stagnated on SDG 13 on climate action. Partly to overcome these challenges, the 2020–2040 Integrated Resource Plan for electricity generation covers RE technologies in solar and wind, and Botswana's 2020 National Adaptation Plan roadmap prioritizes the NDC target of a 15% reduction in GHGs by 2030 (costing an estimated \$18.4 billion). The 2021 National Climate Change Response Policy focuses on climate change governance, technological change, and related investment. Botswana has strengthened climate finance resource mobilization through mechanisms such as the 2021 Green Climate Fund (GCF) program on RE, clean technology, and natural capital.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.