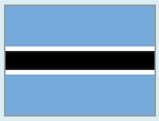
KPMG

Botswana Economic Snapshot H2, 2017



Trade & Investment SWOT

Strengths	Weaknesses
Financial incentives and transparent tax procedures encourage foreign investment.	Lengthy procedures related to opening a business and insolvency increase the time costs for investors.
Botswana has the least corrupt government in Africa, which increases the security of the investment environment.	Limited access to credit reduces consumer spending and constrains the size of the domestic market for high value commodities.
The time constraints involved in constructing and registering a property are competitive on the regional level.	Multiple cases of corruption decrease the trust in government institutions and increase risks to the operating environment.
The country's rail and road networks are efficient and well connected, enhancing both national and regional connectivity.	Businesses face high minimum wage costs which reduce Botswana's competitiveness for enterprises requiring low skilled workers.
Opportunities	**Threats**
A positive economic growth outlook increases the opportunity for trade and investment.	The cost and difficulty involved in bankruptcy proceedings may deter high-risk investments.
A growth in internet penetration and ICT infrastructure improves the growth prospects for trade overall.	A negative shift in the euro zone will significantly affect export growth via a reduced demand for diamonds.
The solid foundations of the financial sector will facilitate growth in the medium term.	Botswana's established union presence increases the risk of industrial action which in turn reduces business productivity and raises costs.
Relatively straightforward immigration procedures make it easier to import labour.	Instability in neighbouring countries, particularly Zimbabwe, makes it difficult for Botswana to escape the 'good house in a bad neighbourhood' perception.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector is dominated by agriculture with limited forestry and fishing activities in the arid country. Farming is focussed on livestock (cattle) rearing. The agriculture industry accounted for 30% of gross domestic product (GDP) in the 1970s but has diminished in importance due to significant growth in mining production. Industry represents a third of GDP with mining activity accounting for around 25% of national economic activity. Botswana was the world's third-largest diamond producer (after the US and Australia) during 2016 and global leader De Beers moved its diamond sorting and auctioning to Gaborone in 2012. The tertiary sector has grown significantly over the past few decades, rising from less than 30% of GDP in the late 1980s to more than 50% of GDP since 2007. The retail and hospitality industry is dependent on tourism - mostly safari holidays – and growing domestic consumer expenditure. Government services account for 15% of GDP.

Recent economic developments – The country's parliament passed the Immigration (Amendment) Bill 2016 during April 2017 which empowers the relevant minister to grant the status of permanent residence to non-citizens who are investors and have resided in Botswana lawfully for a period of less than five years. This is aimed at boosting foreign direct investment (FDI). S&P Global Ratings and Moody's Investor Services both currently have investment-grade sovereign ratings for the country. The country's inflation rate decreased from 3.4% y-o-y in August to 3.2% y-o-y in September. The Bank of Botswana (BoB) cut its benchmark interest rate by 0.5 percentage points to 5% on 24 October 2017, aimed at support economic activity without undermining inflation. The International Monetary Fund (IMF) expects Botswana to experience higher economic growth during 2017 (4.5%) and 2018 (4.8%) on the premise of a recovery in the diamond market as well as moderate fiscal stimulus. Botswana's fiscal budget deficit will widen during 2017 and 2018 as spending accelerates under the 11th National Development Plan (NDP 11), which commenced in April 2017 as a medium term plan towards achieving the country's Vision 2036.

Mega trends

Population	2017	Total: 2.343 million; female: 1.173 million; male: 1.17 million; age 0-14: 31.74% of total; age 15+: 68.22% of total; age 65+: 3.80% of total
Population growth rate	2015	1.84%
Life expectancy at birth	2015	Total: 65.75 years; female: 68.71 years; male: 62.94 years
HIV/AIDS	2016	Total number of people living with HIV: 0.36 million; total adult prevalence: 21.9%; HIV AIDS orphans (age 0-17): 0.06 million
Adult literacy rate	2015	Total population: 88.22%; female: 89.21%; male: 87.22%
Urbanisation	2016	Urban population: 57.71% of total; annual urban population growth: 2.3%; rural population: 42.29% of total
Population below $1.90/day poverty line	2009	18.24%
Unemployment rate	2017	Total: 18.6%; female: 21.5%; male: 15.9%; youth (15 - 24): 33.4%
Employment	2017	Agriculture: 25.7% of total; industry: 14.9% of total; services: 59.4% of total
Labour participation rate	2017	Total (ages 15+): 77.55% of total population
Business languages	n/a	English, Setswana, Kalanga
Telephone & internet users	2012; 2016	Fixed telephone subscriptions: 0.14 million (2016); wired internet subscriptions: 0.02 million (2012); cell phone subscriptions: 3.29 million (2016)
Quality of infrastructure (1 = underdeveloped; 7 = developed)	2017	3.87

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
108th	out of 188 countries	34th	out of 180 countries	63rd	out of 137 countries	81st	out of 190 countries	35th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The 11th National Development Plan (NDP 11) commenced in April 2017 and will be valid until 2023. Entitled 'Inclusive Growth for Realisation of Employment Creation and Poverty Eradication', the scheme is a medium term plan towards achieving the country's Vision 2036. The NDP 11 focusses on six national priorities, namely: 1) developing diversified sources of economic growth; 2) human capital development; 3) social development; 4) sustainable use of national resources; 5) consolidation of good governance and strengthening of national security; and 6) implementation of an effective monitoring and evaluation system. According to NDP 11 documentation, the plan will focus on diversifying economic growth, ensuring that government expenditure supports domestic demand, and to advocate for export-led growth given the small size of the domestic economy. The NDP 11 will cost P364 billion to implement and the government envisages fiscal deficits during the first half of the 2017-2023 period in order to fund this, followed by small fiscal surpluses. Around 60% of the money needed for the plan will come from external (export and customs) revenue.

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
A-/Negative	---	A2/Stable

Source: Trading Economics

S&P Global Ratings affirmed Botswana's sovereign debt ratings in April 2017, with the long-term foreign sovereign credit rating kept at "A-" with a continued negative outlook. The latter reflects the view that the country's GDP growth performance and fiscal outcomes could in the 12 months thereafter be weaker than S&P was projecting at the time of the ratings review. The rating agency warned that it could lower Botswana's ratings if diamond sector underperformance leads to lower economic growth outcomes or greater fiscal deterioration. At a sale during September 2017, De Beers sold the fewest diamonds since the start of 2016 as it cut supplies in a stagnant market for gems. The global diamond giant sold $370 million worth of diamonds in its eighth sale of the year, compared with $494 million in the same month of 2016. S&P said in April it could revise the outlook on Botswana's ratings to stable if its analysts observe greater improvement in the diamond sector. This could include higher international prices which could support higher levels of production in Botswana.

Moody's Investor Services kept Botswana's credit rating unchanged at "A2" with a stable outlook in September 2016, and retained the rating in several non-review publications over following 12 months. The "A2" rating reflects the government's strong balance sheet and the country's low debt burden. Botswana's "political stability, policy predictability, solid governance and the successful implementation of forward-looking policies" also reflects its high institutional strength. The country's fiscal strength is assessed as very high, pointing towards strong fiscal surpluses, as well as prudent fiscal management. Moody's commented in September 2017 that Botswana's credit profile still reflected a strong balance sheet and low levels of government debt. It warned that "significant deterioration" in the sovereign's net asset position would put downward pressure on its creditworthiness.

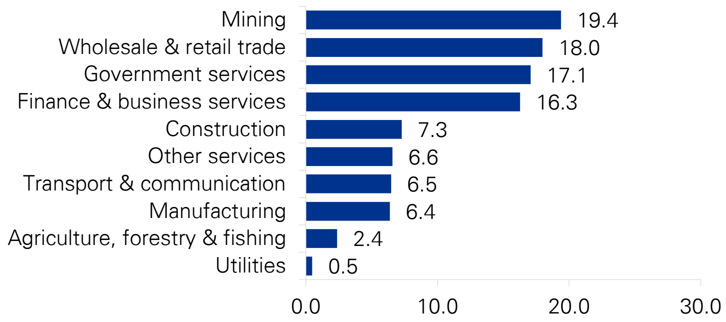
Finance & Banking

Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of Botswana (BoB)	10	7.93	30.94	596.29
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
Botswana Stock Exchange	33	$4.1 billion	Financial services	$1.7 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Low	14 days to 10 years	No	Yes

Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

Macroeconomic overview

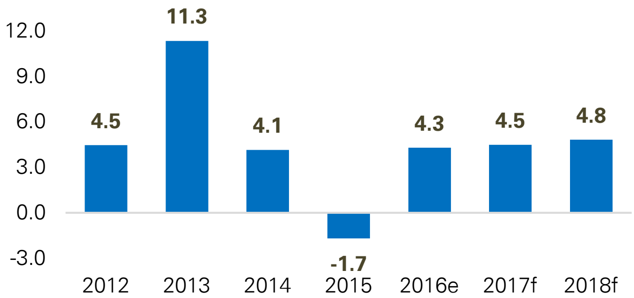
Economic structure (% of GDP), 2016



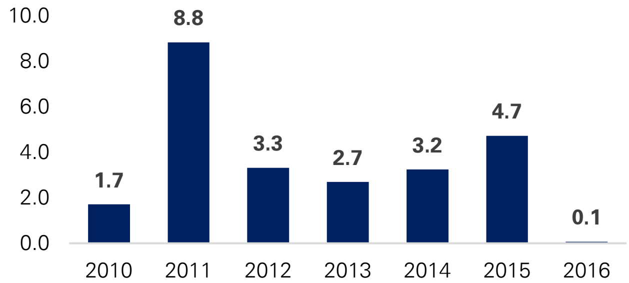
Source: African Economic Outlook (AEO)

Economic growth - Economic activity has been recovering since the 2015 economic downturn while inflation remains low. Real GDP growth recovered rapidly to 4.3% in 2016 on the back of base effects (following the 2015 downturn), higher diamond exports, accommodative macroeconomic policies, and improvements in electricity generation. While diamond and copper production remained depressed, diamond sales rebounded in 2016. The IMF expects Botswana to experience higher economic growth during 2017 (4.5%) and 2018 (4.8%) on the premise of a recovery in the diamond market as well as moderate fiscal stimulus. An expected boost in private consumption during 2017, buoyed by stable inflation and low interest rates, will also support higher economic growth.

Real GDP growth (%)



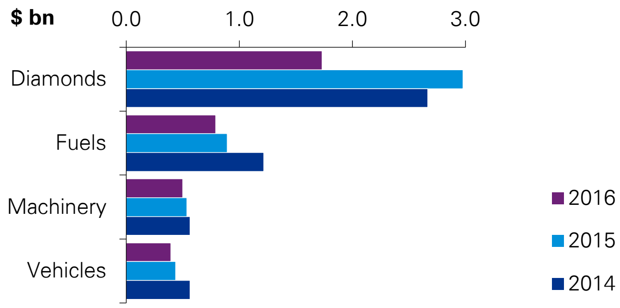
FDI inflows (% of GDP)



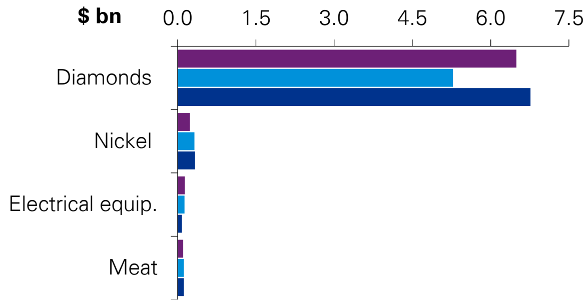
Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Botswana remains an attractive destination for foreign capital, with foreign inflows into coal mining likely to offer a significant long-term boost to growth. This forms part of a broader programme of infrastructure investment under the NDP 11. In January 2017, the Botswana government moved to amend immigration laws to regulations in order to promote job creation, encourage foreign investment and support the country's FDI receipts. The country's parliament passed the Immigration (Amendment) Bill 2016 during April 2017 which empowers the relevant minister to grant the status of permanent residence to non-citizens who are investors and have resided in Botswana lawfully for a period of less than five years. The amended law states that such status could extend to a non-citizen's spouse and minor children. The effective date is yet to be announced.

Main imports



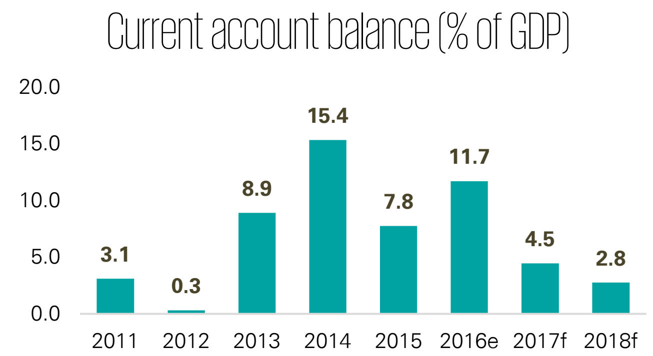
Main exports

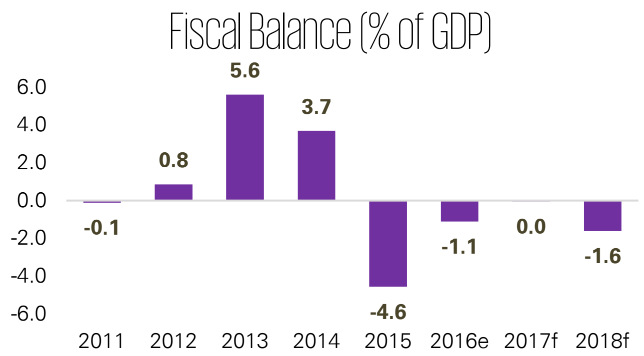


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Diamonds	34.1%	39.0%	28.4%	Diamonds	85.5%	83.6%	88.7%
Fuels	15.5%	11.7%	12.9%	Nickel	4.2%	5.1%	3.2%
Machinery	7.2%	7.0%	8.2%	Electrical equipment	1.1%	2.1%	1.9%
Vehicles	7.2%	5.7%	6.4%	Meat	1.5%	1.8%	1.4%

Source: Trade Map

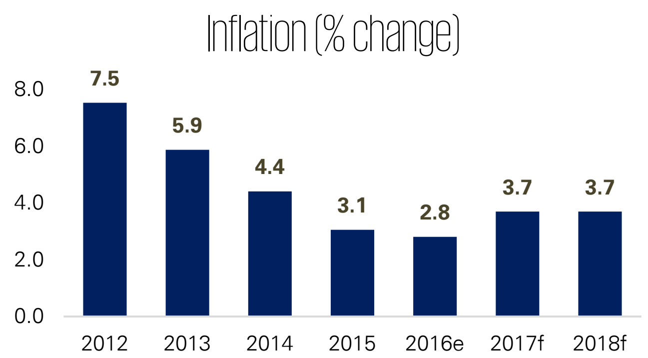
External trade – The IMF projects that the current account surplus will decrease from 11.7% of GDP in 2016 to 4.5% of GDP in 2017. This is noticeably higher than the previous prediction of 1.8% earlier in the year, due to the underperforming growth in Botswana's mining sector and the poor receipts from the Southern African Customs Union (SACU). Botswana's net export position will remain negative over the next few years until diamond exports recover. A slow recovery in global demand for diamonds will see prices rise, albeit gradually, and will encourage firms to lift output which will bolster export receipts in the coming years. Botswana's tourism sector should also continue to grow at a steady pace and support a stable flow of foreign exchange into the country. Imports of goods and services will rise steadily over the next decade due to increased demand for imported capital goods and the government implementing the NDP 11. Increasing infrastructure investment will raise imports of goods used in the construction process. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to reach 11.1 months in 2018, compared to a global benchmark of at least three months.

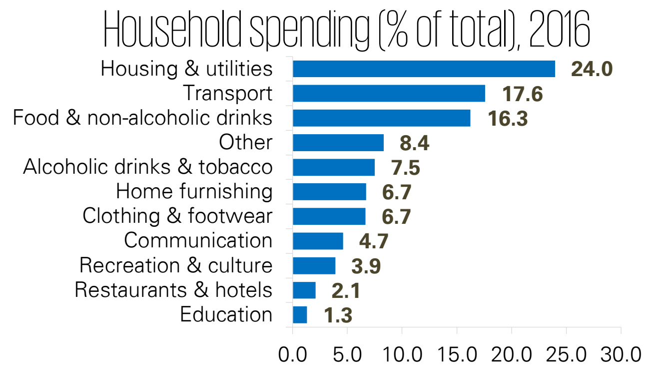




Source: IMF

Fiscal policy – The IMF predicts the fiscal deficit to reach 1.6% of GDP in 2018, widening slightly from 1.1% in 2016. Weak revenue growth and a commitment to capital spending will see fiscal deficits continue towards 2019. Botswana's budget deficit will widen during 2017 and 2018 as spending accelerates under the NDP 11. Having historically accounted for around 35% of the government's total revenues, the ongoing slowdown in Botswana's mining sector (that afforded the country with fiscal surpluses in the past) will continue to weigh on the country's fiscal position. However, a relatively small debt burden means any shortfall will remain largely manageable. In addition, the NDP 11 will be largely conducive to long-term growth and therefore unlikely to result in a decline in investor sentiment.





Source: IMF, BMI, country statistics agencies

Monetary policy - Low inflation together with a sharp slowdown in economic growth enabled the BoB to reduce the bank rate from 7.5% in the beginning of 2015 to 5.5% in July 2016. Most recently, the central bank cut its benchmark interest rate by a further 0.5 percentage points to 5% on 24 October 2017. This brought borrowing costs to the lowest since at least 2008 when the medium-term target range for the inflation was set at 3%-6%. Policymakers said the rate cut aims to support economic activity without undermining inflation. The country's inflation rate decreased from 3.4% y-o-y in August to 3.2% y-o-y in September, and is expected to remain within the target band over the coming months due to the effect of low fuel and food prices on the country's consumer basket. This will see the central bank persist with loose monetary policy towards 2019.

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