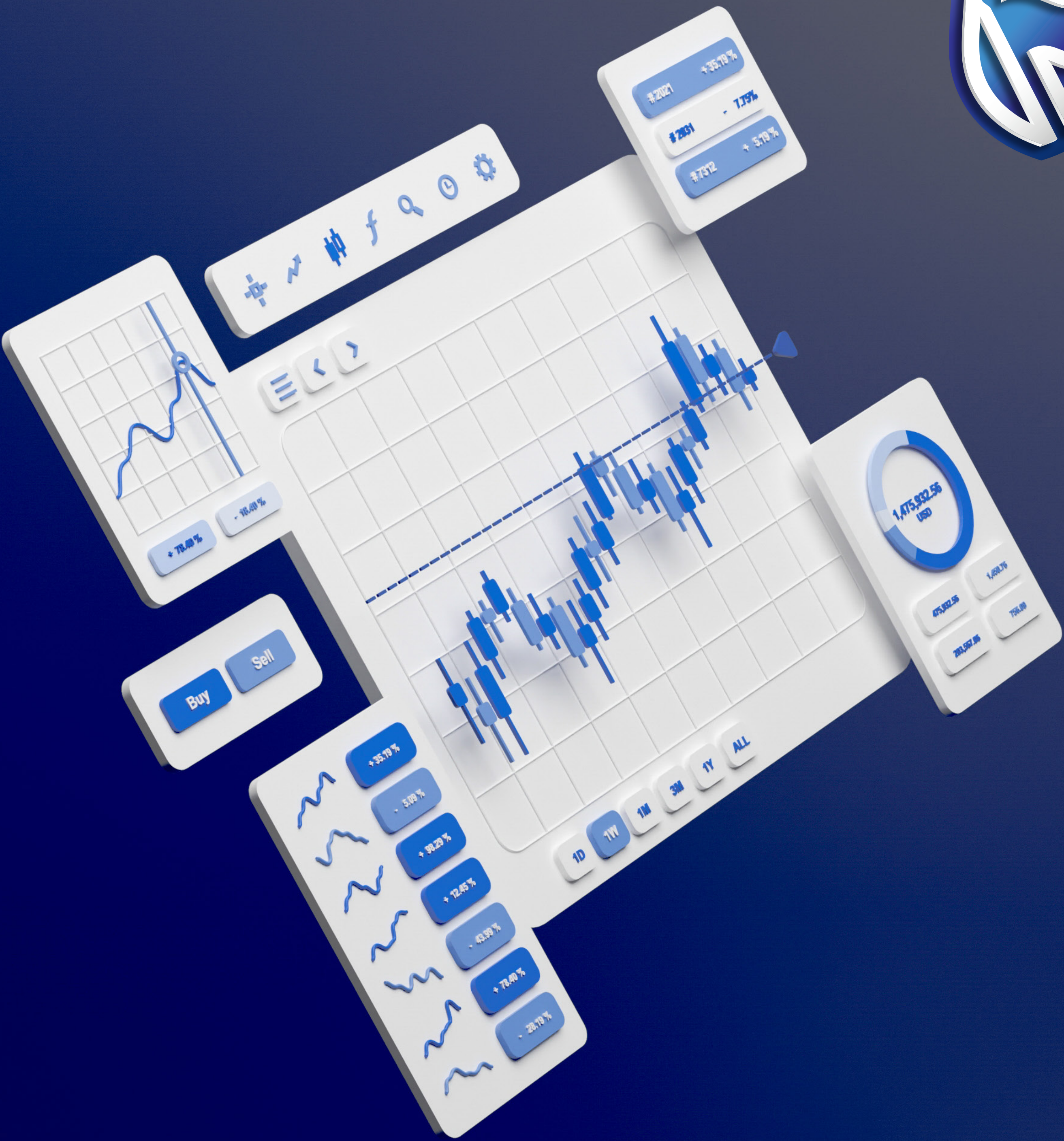


Stanbic Bank
Quarterly Economic Review

First Issue 2021

This issue examines the performance in the first half of 2021 and prospects for the domestic economy. One key conclusion is that the economy is rebounding from the deepest economic slump at a pace that exceeded expectation, with real GDP increasing by 5 percent in first quarter as compared to a decline of 0.2 percent in the fourth quarter of last year, overwhelmingly driven by exports demand. Another key conclusion is that the economy continues to exhibit features of pre-modern growth, with the mining and quarrying still as the leading sector and manufacturing sector stagnated at around 5 percent of real gross valued at 2016 prices and growth was concentrated on few sectors. Thus, the character of economic growth does not bode well for achievement of the national aspiration of prosperity for all by 2036. The other major conclusion is that domestic outlook has markedly improved in the post-budget speech period; the domestic economy is now projected to grow by 9.7 percent in 2021, up by 0.8 percentage point from previously projected. However, growth will be less evenhanded, with mining and quarrying projected to overwhelming generates the growth. This will be largely supported by export demands and by moderate recovery of domestic demand following relaxation of containment measures on account of successful vaccination roll-out programme. Despite that the expected sharp economic revitalization domestic output is not expected to return to pre-crisis projected levels in the near term.

UNPRECEDENTED RECOVERY OF THE BOTSWANA ECONOMY

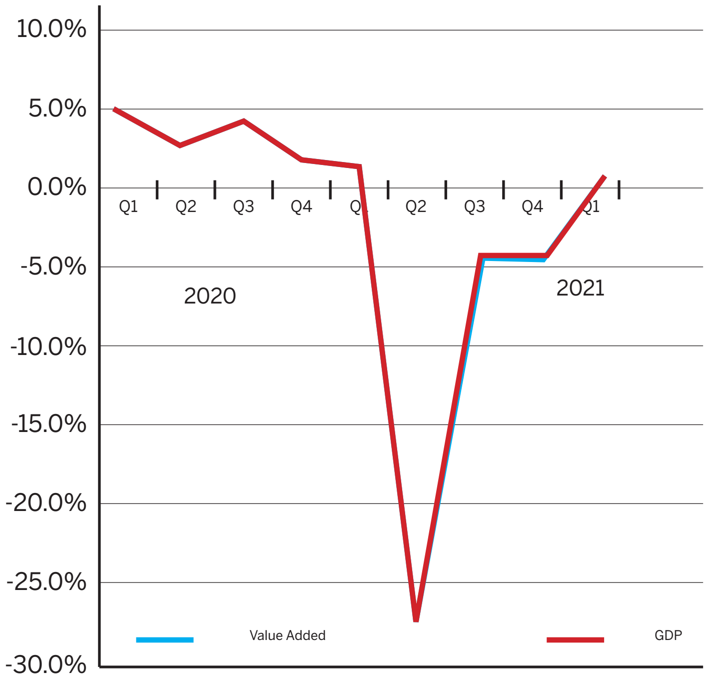
Dr. J.B. Tlhalefang
Department of Economics
University of Botswana

Economic rebound exceeded expectation

The economy of Botswana during the first half of 2021 was recovering from the worst slump since 1965/66 at a speed that is faster than was envisioned even by the Ministry of Finance and Economic Development (MFED) and firms. However, the resurgence is less evenly spread across both across and within economic sectors and less than enough to return outputs to pre-crisis projected levels. Also, the durability of the revival is exceptionally uncertain.

According to Statistics Botswana latest preliminary National Accounts estimates released in July 2021, the domestic economy contracted by 8.5 percent from 2019 to P167,575.50 million in 2020. This was 0.8 percentage point higher than previously estimated. Certainly, with total output only P3157.3 million higher than in 2016, this was the worst economic meltdown since the 1965/66 one that was caused, as the Transitional

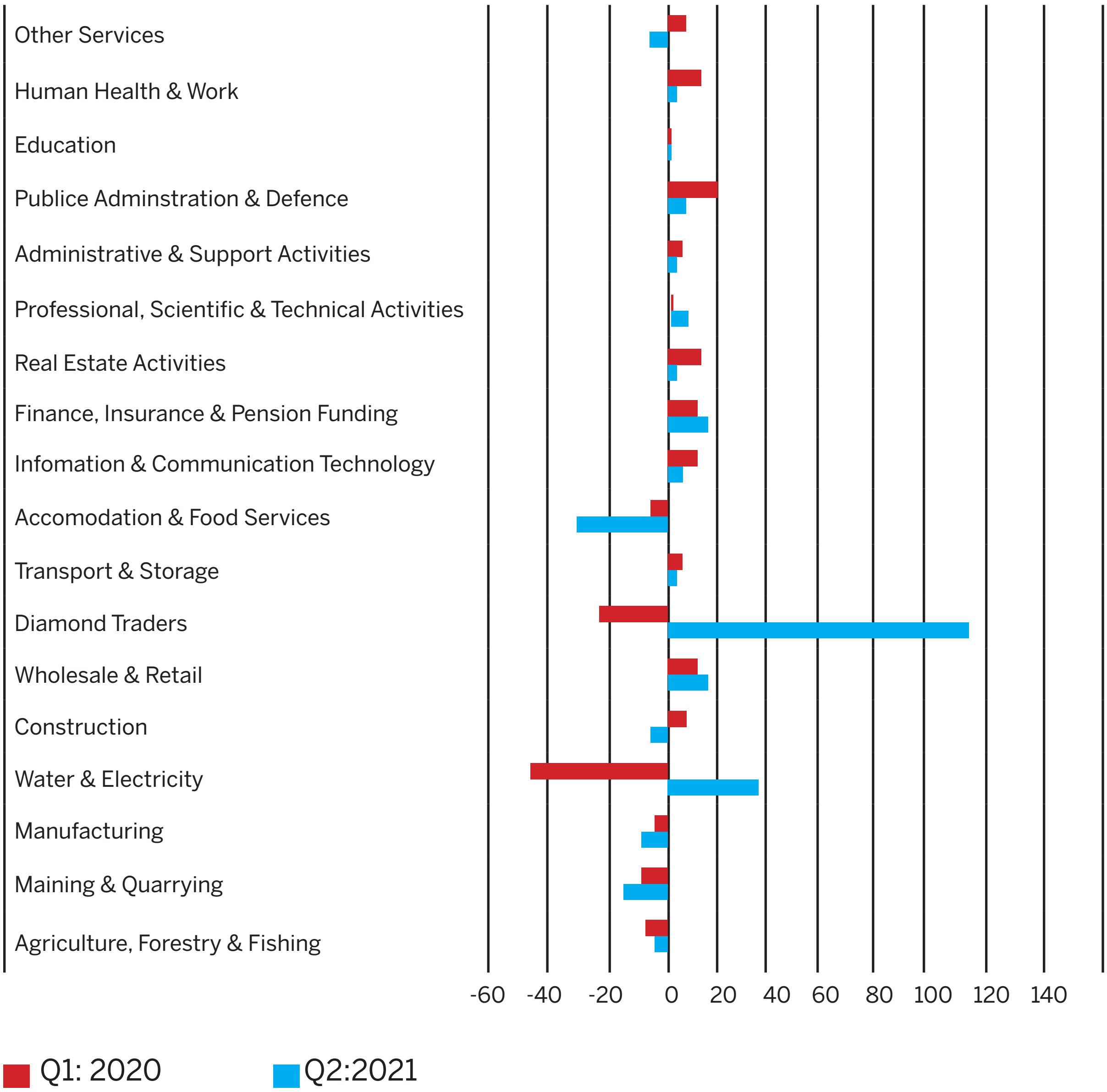
Figure 1: Growth of the economy from 2019-2021



Source: Author's Elaboration

Plan for Social and Economic Development pointed out, the most calamitous drought in living memory, which had left one-fifth of the population dependent on international famine relief assistance and demised one-third of the national cattle herd. It is common knowledge that the economic fallout was caused by coronavirus pandemic and associated containment measures. At the trough in the second quarter 2020, real GDP was 26 percent lower than for in the second quarter of last year. The sectors that enormously contributed to this severe slump were mining, the trade, hotels & restaurants, the construction and the manufacturing sectors. These sectors are less amenable to teleworking and are highly integrated into global value chains.

Figure2: Real percentage changes year-on-year (2021 Q1)



Source: Author's generation, Statistics Botswana Data (2021)

It further emerged from national accounts figures that a V-shaped recovery was underway in the first-half of 2021. First-quarter 2021 overall real GDP is estimated to have increased, albeit by 0.5 percentage point less than for the same period last year whilst non-mining output increased by 0.1 percentage point higher than during the corresponding period in 2020. The principal cause of the timid performance of the economy remained the COVID-19 containment measures. However, quarter-on-quarter analysis revealed that the economy was experiencing a V-shaped recovery. After plummeting by 0.2 percent to P43,890.2 million in the fourth quarter of last year, output increased by 5 percent to P46,078.2 million in the first quarter of 2021. The key factors responsible for the domestic economic resurgence included positive spill-over effects of buoyant external environment that manifested themselves in strong exports demand, especially for diamonds, modest growth of domestic demand for products that support working from home and relaxation of some COVID-19 containment measures such cross-border and domestic travel restrictions and opening of some activities that resulted in the release of pent-up demand.

Growth was unevenly spread across sectors

Nonetheless, the growth was, as fig.2 shows, highly concentrated on few industries. Most of growth was generated by the diamond traders, which grew by phenomenally 112.7 percent, water & electricity, which grew by 33.8 percent, wholesale & retail with 11.4 percent, finance, insurance & pension funding, which grew by 8.3 percent, professional, scientific & technical activities, with 5.9 percent and public administration and defence, which posted a growth rate of 5.4 percent. The diamond traders' overwhelming performance was primarily caused by buoyant global demand and higher prices of diamonds. As it is the smallest sector of the economy, the direct contribution of water & electricity's impressive performance to economic activity was negligible. However, the utility sector's indirect contribution to the economy was quite large. By supplying a critical input to virtually all economic sectors, it is a key growth enabler of other sectors in the sense that it enhances their contribution to the economy. Coupled with the increase in domestic electricity production of 22.4 percent, the substantial reduction of electricity imports of 33.3 percent contributed to the sector's impressive performance.

Given that COVID-19 propelled demand for data services and internet connectivity in nearly all economic sectors, the information, communications & technology (ICT)'s tepid growth rate of 3.9 percent may have been somewhat bewildering to some and it is, thus, deserving of a more detailed inquiry. A decomposition of the ICT's growth by sub-sectors underpinned that 73 percent of the ICT's real value added in the first quarter of 2021 was telecommunications and about 20 percent was computer programming & information service activities. These are the two ICT sub-sectors that produce products that support teleworking. Indeed, the telecommunications subsector, which grew by 4.4 percent, and computer programming and information service activities, which expanded by 8.8 percent, were buoyant and fueled the ICT's performance. Evidently, the sector's performance was dampened by the contraction of the publishing including motion picture, etc., and the printed matter industry.

By contrast, industries that are either contact-intensive sectors that have limited opportunities for teleworking and those that are highly integrated in global value chains or those that are less resilient to public heal restrictions invariably contracted. With first quarter 2021 output contraction of 31.7 percent, accommodation & food sector was the worst affected by the recessionary effects of containment measures. Restrictions on international travel and domestic mobility impacted on the number of tourists entering the borders of the country and social distancing heavily weighed on the sector as these factors manifest themselves in curtailment of demand for accommodation, leisure and conferencing activities, with the latter largely held through virtual platforms. Mining & quarry was the second worst-hit, with 11.4 percent decline of real value added. According to the leading authorities in developments in the diamond industry including Rapaport, heavy rainfall and operational issues, including continued power supply disruptions occasioned a lower grade feed to the plant at Orapa. Such bottlenecks manifested themselves in a 12 percent reduction of diamond production and 17.5 percent decline in diamond mining real value added. These factors severely limited the diamond mining sector's ability to take advantage of the robust demand in the global markets for rough diamonds. Another contributory factor was the depletion of the resource base that resulted in a 17.5 percent decline in tonnage of gold production.

With annualised 7.4 percent output contraction, manufacturing was the third worst affected. A breakdown of the growth showed that the sector's severe downturn was overwhelmingly driven by the beverages & tobacco, which plummeted by a 57 percent due to adverse business conditions stemming from alcohol sale ban imposed during the first quarter, and the diamond cutting, polishing & setting sub-sector, which contracted by a 38.5 percent owing to a 24.9 percent fall. Statistics Botswana attributed this to a fall in exports of polished diamonds. This explanation that is misaligned to developments in the diamond industry. The fall of the construction industry's performance of 4.8 percent reflects the sector's limited adaptability to COVID-19 containment measures by recourse to teleworking. Likewise, the decrease in other services activities is explained by closure of arts, entertainment & recreation.

Finally, the performance of the agriculture, forestry & fishing sector also disappointed. First quarter 2021 agricultural real value added fell by 2 percent, with all the sub-sectors contributing to the contraction. However, most of the contraction originated from the logging, fishing & aquaculture and the second worst was livestock farming. The least growth offender was crop farming & horticulture and forestry sub-sector, which accounted for 48 percent of overall agricultural sector's value added during the quarter under review. Considering that agriculture, forestry & fishing activity has direct positive impact on the livelihoods of the majority of the rural dwellers through provision of food and employment, the sector's persistent sluggish performance suggests that many rural households may be faced with acute food insecurity. Needless to emphasize, improving in agricultural-sector's productivity, therefore, remains crucially important to sustainability of agricultural-sector's resuscitation, in particular, and of economic development, in general. Apart from providing surplus labour and savings to support industrialization, agricultural productivity improvement, as the economic transformation Agenda envisages, would enable the agricultural sector to contribute to the economy by initiating or further strengthening industrialization and, thereby generating employment, household incomes and tax revenues to the government.

The afore-going suggests that the performance of the economy from the perspective of the character of economic growth does not bode well for the national Vision 2036's aspiration of achieving prosperity for all. That growth is concentrated on few economic sectors implies that there is less trickle-down effect of benefits of growth to the majority of the population. As conventional wisdom in the fraternity of development economists and development policy practitioners argues, inclusive development crucially depends not only on the headline growth, but also on the nature and structure of growth. There is need to ensure that measures geared at achieving inclusive growth are earnestly implemented and are achieving their intended objective.

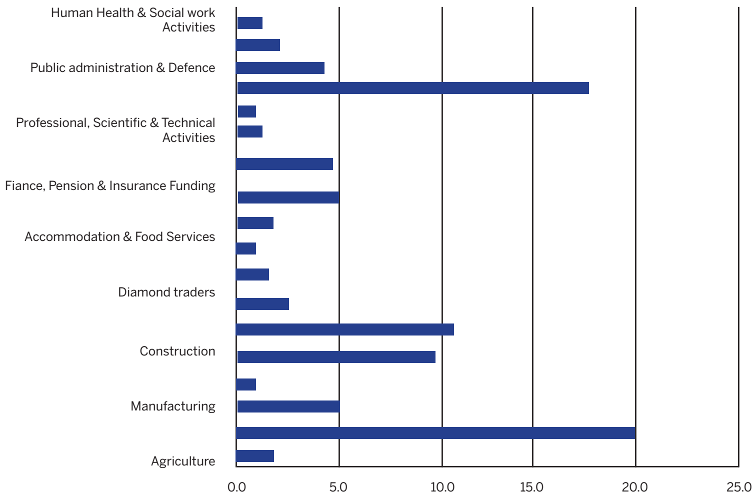
Recovery is uneven

Regarding the analysis of sectoral economic performance from the dynamics perspective, a striking observation that emerges is that the revitalization of economy is broad-based in nature. In nearly all the industries, the deterioration of output growth receded. The decline of output growth retreated the most in mining and quarrying, with real value added declining by 12 percentage points less than in the fourth quarter of 2020, the second largest recovery of growth was for construction sector, which reduced from a low of -7.4 percent to a high of -4.8 percent and other services, with a reduction to -3 percent from -4.3 percent in the fourth quarter of last year. Conversely, the recession deteriorated in the manufacturing and accommodation & food services. The slump in the former plunged further by -7.4 percent as compared to by -4 percent whilst in the latter it plummeted by -32 percent as compared to by -20 percent in the fourth quarter of last year. It is worth noting that amongst the sectors that prominently feature in the Economic Recovery and Transformation Plan (ERTP) and Vision 2036 as potential drivers of economic growth, employment creation and export earnings as well as government revenue it is only the manufacturing and accommodation & food services sectors that continue to be worst affected by the deleterious adjustment costs of the COV-19 containment measures. The remaining sectors continued to record positive growth rates or their growth rate turned from negative to positive territories and their output had returned to their first-quarter 2020 output levels.

Structural transformation favoured diamond traders and wholesale & retail activity

Fig.3 aids in the analysis of economic performance from the perspective of

Figure 3: Sectoral contribution in value added in the first quarter of 2021 in 2016 constant prices



structural transformation rather than from the viewpoint of growth and stability. Such an assessment squarely rests on the conception of Kuznets (1973) wherein the goal for any society is ultimately to realise ‘modern economic growth’[1]. A distinctive feature of this modernisation or equivalently development is by, amongst the other things, economic structural transformation. It is, thus, informative to consider how the structure of production has been affected by growth.

[1]For details, see Kuznets, S, (1973), ‘Modern economic growth: findings and reflections’ in Amreican Economic Review 63, 3: pages 247-258.

It is apparent in fig.3, wherein the contribution of each sector real gross value added is depicted, that the leading sector of the economy, with a share of about 20 percent of real GDP at basic 2016 prices, remains mining and quarry, the second largest, at 17.4 percent real GDP, is public administration & defence and third largest sectors are wholesale & retail and the construction sectors, each with a share of roughly 10 percent. Most disappointing to advocates of development as a process entailing a withdrawal of labour from low-productivity agriculture to high productivity manufacturing, in general, and architects of the Economic Diversification Strategy, in particular, is the manufacturing-sector's stagnancy of relative importance in the economy to around 5 percent of real GDP. In fact, the sector is as important as that of the finance, pension & insurance funding, the real estate activities and the education sectors. This lends support to existing empirical to evidence showing that Botswana's experience exemplifies a case of failed industrialization. Furthermore, it suggests that more needs to be done to help manufacturing to play its role in both the Economic Transformation Agenda and Economic Recovery and Transformation Plan (ERTP). The remaining economic sectors including, but not limited to, the agriculture, forestry & fishing (1.8), ICT2 (2.8) and other services3 (2.2), contributed less than 3 percent each to the economy.

It would be an unpardonable act to eschew to reconcile two pieces of evidence pertaining to the relative importance of economic sectors. In the Stats Brief report of July 2021 of Statistics Botswana, public administration & defence emerges, with 18 percent share of gross value added, as the leading economic sector whereas mining and quarry emerges as the dominant sector in this paper. The explanation of these seemingly conflicting pieces of evidence is simple and it lies in the measurement of the contribution of gross value added to GDP. Whereas the present paper used the conventional approach whereby the contribution of gross value added to GDP by kind of economic activity is measured at constant prices, i.e., n real terms, Statistics Botswana curiously used the approach whereby the relative contribution of sectors is measured at current prices.

Unsurprisingly, the uneven economic growth manifested itself in the transformation of the production structure. With a deterioration of 2.8 percentage points in the share of real value added in 2020 to roughly 21 percent in the first quarter of 2021, the structural change was re-oriented mostly away from the mining and quarrying and distantly followed by accommodation & food services, with deterioration in relative importance of 0.8 percentage point, construction and manufacturing, with a deterioration of roughly 0.5 percentage point each and lastly by other services, which witnessed -0.1 fall in relative contribution to GDP. By contrast, the change in the structure of production was mostly oriented towards diamond traders, with an increase of two percentage points from the first quarter of 2020 to 3.7 percent in 2021, followed by the wholesale & retail activity, with an improvement of around 1.1 percentage point from 10.9 percent, and public administration and defence, with a 0.8 percentage point increase in the share of GDP to 17.4 percent. The remaining sectors realized negligible increases in their relative economic importance.

Recovery driven by robust export demand

A conspicuous observation that emerges from the assessment of the national accounts from the expenditure perspective is that the robust export demand was overwhelmingly responsible for the rekindling of economic growth. As evident In table 1, wherein real GDP is decomposed by expenditure components, exports demand increased by 84 percent from P16,873 million in the first quarter of 2020 or by 34.7 percent from P23,095.9 million in the fourth quarter of last year to P31,103.3 million in first quarter of 2021. The strong export performance has been attributed by many including the Rapaport News and Statistics

[2]This sector encompasses (a) publishing including motion picture, etc., and printed matter, (b) radio & television broadcasting, (c) telecommunication services and (d) computer programming & information services activities.
[3]The sector comprises of both arts, entertainment & recreation, activities of membership organizations and other services activities like dry cleaners, hairdressing and other beauty treatment, funeral and related activities and households as employers of domestic personnel.

Botswana to the strong demand for rough diamonds as the midstream pulled through stocks in response to the recovery in consumer demand. In fact, The De Beers Group reported has that consumer demand in the United States, which is the largest market for diamonds, exceeded pre-pandemic levels in the first half of 2021 with retailers reporting robust double-digit growth on 2019 levels. Also, it has been reported that the demand in the China was so robust that it recorded the highest revenue and profit in seven years for the financial year ending March 2021 from the China market. The factors responsible, singly and in combination, for bolstering consumer demand are outlined in the Rapaport website and such included vaccine roll-outs, fiscal stimulus in the US, unleashing of pent-up demand, and reduced competition from international travel and entertainment. Likewise, imports recorded a year-on-year robust growth in demand of 87.8 percent and similarly high quarter-on-quarter increase in demand of 35 percent.

Table 1: GDP by type of spending

Source: Author's own calculation, Statistics Botswana (2021) data

		y-on-y	Q-on-Q
	2020	2021	2021
Household consumption	5.9	-2.7	0.4
Gross Fixed Capital Formation	6.3	-11.6	-10.6
Government consumption	4.0	2.4	1.5
Exports	-21	84.3	34.7
Imports	-5.2	87.8	35.0

Botswana (2021) data

Gross fixed capital formation (GFCF) and household final consumption emerge in table 1 as dragging economic revitalization. Whilst GFCF registered a year-on-year and quarter-on-quarter reduction of 11.6 percent and 10.6 percent respectively, household consumption demand recorded a year-on-year decline of 2.7 percent, but negligibly increased by 0.4 percent on quarter-on-quarter basis in the first quarter of 2021. Analysis of investment by in table 2 clearly underlines that the key impediment to growth recovery has been the demand for plant, machinery & equipment and for transport equipment. Investment demand decreased by almost half to P1,581.70 million for plant, machinery & equipment and by 3 percent from the last quarter of 2020 to P673.4 million for the transport equipment. The decreases in the demands of these GFCF components overshadowed the increase in demand for building structures of 33.3 percent over the fourth-quarter 2020.

Table 2: Breakdown of GFCF

Source: Author's elaboration (2021), Statistics

	y-on-y	Q-on-Q
Buildings structures	-4.8	3.3
Transport equipment	-15.0	-2.9
Plant, machinery & equipment	-34.8	-48.3

Botswana data

Inflation has breached the BOB's upper bound

In the absence of national accounts data for the remaining first-half of 2021 period, it is instructive to look at inflation dynamics to draw inferences about the current state of the economy. Such changes are closely related to fluctuations in GDP. Moreover, inflation is not only more visible even to laypersons, but it is also watched by almost everybody.

[6]This is measured by the consumer price index (CPI) which is defined as the percentage rate of change in the general price level from one period to the next. It measures price changes in goods and services with reference to a base period.

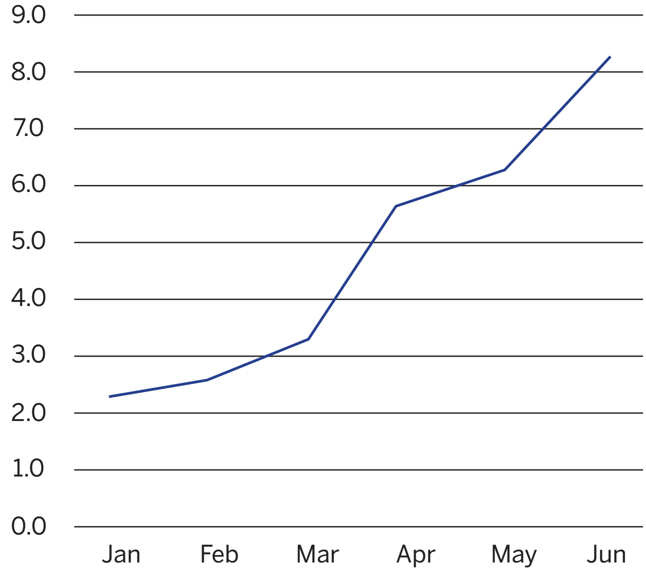
The general price level is itself a measure of the purchasing power of the Pula or the amount of goods and services the Pula can buy.

[4]This is the leading authority on the current state and outlook of the industry throughout the diamond pipeline.
[5]https://www.diamonds.net

Throughout the first half of 2021 headline inflation, as fig.4 shows, consistently increased. This increased from a low of 2.3 percent in January to a high of 8.2 percent in June. The notable spike in inflation by 3.3 percentage point from an average rate of 3.2 percent in March to an average rate of 5.6 percent in April was driven by increases in value added by 2 percentage points to 14 percent, of electricity tariffs by 3 percent in 2021 and sugar tax and plastic levy effective on the 1st April 2021. The increase in the average headline rate was exacerbated by upward adjustment of domestic water tariffs on the 1st June 2021. Another striking observation is that the average rate of headline inflation, at 6.2 percent, surpassed the upper bound of the BoB's medium-term objective range of 3-6 percent in May. This was this the first time since June 2013 that the BoB's medium-term objective range was breached.

Looking ahead, inflation is expected to continue to increase, with inflationary dynamics underpinned by government actions and their second-round effects. Increase in headline inflation will be sustained by a combination of upward adjustment of petroleum prices in July and a 5 percent increase in electricity tariffs in the financial year 2022/23, assuming that the application of the Botswana Power Corporation (BPC) to the Botswana Energy Regulatory Authority (BERA) is successful. The BPC application shows that the utility company will further require a 3 percent upward adjustment of electricity tariff in FY 2023/24. However, since these are transitory factors their impacted are, ceteris paribus, expected to fizzle out in the near-term. Moreover, recovery of domestic demand is gradual, underpinning that demand pull inflation pressures continue to be relatively weak. In a nutshell, it is expected that inflation will have reverted to medium-term objective range by 2022.

Fig.3: Inflation rate January - June 2021



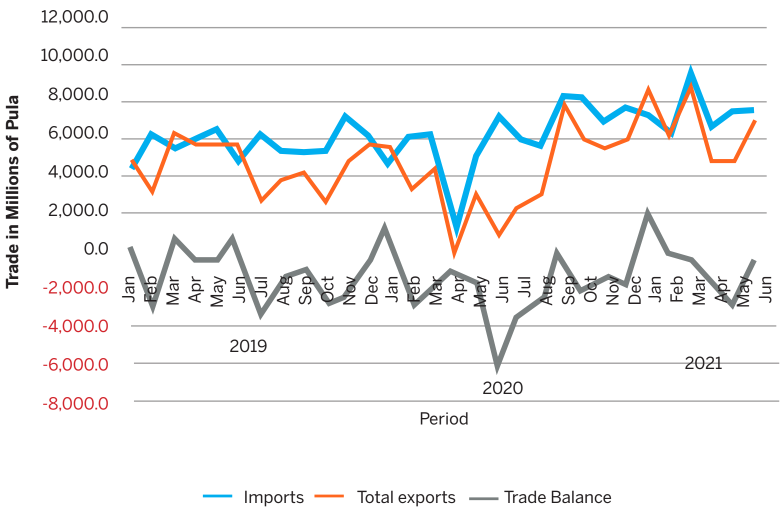
Source: Consumer price Index Statistics – June 2021, Statistics Botswana (2021)

Trade deficit is improved

The International Merchandise Trade Statistics (IMTS) monthly digest not only presented data on exports and imports of goods and services, trade by principal commodity groups, and the current account balance and highlighted the economy's performance, but also how it fared in competitiveness in the global market. In fact, the substantial improvement of the current-account's performance mirrored that of the economy. Preliminary estimates showed that the country's global competitiveness improved. For the first time in nine consecutive quarters, the balance in the current account was on the positive territory. At P1,280.90 million, the trade surplus was 2.8 percent of the first quarter 2021 real GDP at market prices.

A breakdown of total imports of P22,809.9 million in the first quarter of 2021 by principal commodity shows that forty percent of imports were diamonds, 11 percent was food, beverages & tobacco, 10 percent each was fuel and mechanical & electrical equipments and 9 percent was chemicals & product. Most of diamonds were from Belgium and Asia whilst most of the imports of other goods and services were from South Africa. This underscores that the Botswana is highly susceptible to adverse effects in South Africa. Such effects, like the recent mayhem of looting and arson in South Africa, are likely to have large spill-over effects to Botswana via the import channel.

Figure 4: International Merchandise Trade – January 2019 to Jun 2021 (P. Million)



Source: Statistics Botswana (2021), International Merchandise Trade Statistics, Monthly Digest June 2021

Even more worrisome is the high concentration of exports on one commodity. Of the P24,090.8 million worth of goods and services exported in the reference period, 94 percent were diamonds. The increase in the contribution of diamonds by 7 percentage points over that of the same quarter in 2020 does not bode well for the export diversification strategy. It further underscores the extent of susceptibility of Botswana to developments in the global markets, especially for rough diamonds. The direction of exports reveals that the United Arab Emirates, which received 29.8 percent of Botswana's export, was the largest market for rough diamonds, Belgium the second largest, with 28.6 percent, and, India the third largest diamonds export market, with 23 percent of total diamonds. Other important markets of Botswana's exports were Hong Kong and Israel, each with an export share of around 7 percent. The foregoing further discussion underscores that Botswana's diamonds exports are also highly concentrated on few exports markets, i.e., lack of diversification by exports markets. This exposes the country to developments in three countries, namely, United Arab Emirates, Belgium and India.

Domestic economic outlook has markedly improved

Turning to prospective assessment, ample indications abound that the prospects for a sharp domestic economic recovery have considerably improved since the national Budget Speech for 2021/22 financial year. One visible manifestation of the improvement in the economic prospects for recovery is the upward revision of the growth projections even by the MFED. According to the MFED's revised projections, the economy is now expected to grow by 9.7 percent this year, up by 0.8 percentage point from the previously projected growth rate of 8.8 percent and, owing largely to structural factors predating the pandemic, to slow down to the pre-crisis growth rate of around 4 percent in 2022 and 2023. Meanwhile, the non-mining GDP is forecasted to accelerate by a much slower rate of 4.3 percent this year and by a slightly faster rate of 4.5 percent next year and 4.8 percent in 2023. Since the majority of Batswana are directly affected in terms of income levels and employment possibilities by the growth of non-mining sectors, welfare and incomes of Batswana should be able to grow faster than in 2019.

Table 3 decomposes growth by sectors and clearly underlines that domestic growth will be highly uneven across industries. Growth will be overwhelmingly generated by the mining

Table 3: Real GDP Growth by Sector (% change)

	2020	2021	2022	2023
Agriculture	-1.7	2.6	2.8	3.4
Mining	-26.5	33.9	3.5	2.0
Manufacturing	-14.9	1.3	3.5	3.6
Water & Electricity	-11.7	12.7	12.8	23.2
Construction	-11.4	3.1	4.8	4.2
Trade, Hotels & Restaurants	-10.3	11.1	5.3	6.6
Transport & Communication	0.5	4.9	5.1	6.9
Finance & Business Service	-1.2	4.6	5.7	5.7
General Government	7.7	1.5	3.2	3.1
Social & Personal Services	-0.6	1.8	3.1	3.1
Total Value Added, Gross	-8.9	9.9	4.2	4.2
Adjustments items (Taxes less subsidies)	3.5	5.2	5.3	3.9
Total GDP	-8.5	9.7	4.3	4.2
GDP excluding Mining Value added	-3.2	4.3	4.5	4.8

Source: MFED (2021)

sector, with remarkable growth rate of about 34 percent projected for this sector, and the second largest source of growth will be the trade, hotels & restaurants, which is projected to expand by 11 percent. Also, particularly worth noting is that even the other sectors that dragged economic rebound in the first-half of the year, vizily, manufacturing, construction and social & personal services will positively contribute to growth. With a projected grow rate 1.3 percent, the contribution of manufacturing will be muted. Lastly, it is noticeable that growth of general government real value added is projected to enormously decelerate by 6 percentage points from 2020 to 1.5 percent in 2021. This seemingly reflects withdrawal of fiscal policy support.

Underlying the sizably improved domestic economic outlook and as it clearly emerges in table 3 is the supposition that the positive spillover effects to Botswana from buoyed global economy in the form of increased trade, especially of diamonds demand, higher commodity prices and possibly resumption of capital inflows than was envisaged in the International Monetary Fund's World Economic Outlook (WEO) January 2021 Update and in the 2021/22 National Budget Speech will be quite large. Indeed, an assessment of the latest projections of leading expert forecasting organizations summarised in table 4 underpinned that the prospects of strong global and domestic economic recovery have markedly improved. A seen in table 4, the IMF's WEO July 2021 Update projected global output to grow by 6 percent in 2021 and expand by 4.9 percent in 2022, 0.5 percentage point faster will than in the April 2021 WEO. This will be due to relatively fast growth for advanced economies, particularly the United States (US), reflecting the additional fiscal support in the second half of 2021 and improved health metrics more broadly across the group. Likewise, the report of the World Bank's June 2021 edition of Global Economic Prospects (GEP) forecasted global output expanding at 5.6 percent and 4.3 percent in 2021 and 2022 respectively. It further described the global resurgence as exceptionally the fastest from any of the five global recessions in the past eighty years. Similarly, it attributed the revival to accelerating vaccine roll-out and the associated gradual relaxation of containment measures and rising confidence as well as on-going fiscal support in a few large economies, such as the trillions in fiscal stimulus in the United States, and the continued monetary accommodation by the central banks.

Divergent economic growth prospects

Due largely to differing pace of vaccine roll-out and policy support, growth is less evenhanded. Advanced economies, as a group, are forecasted to grow at robust pace of 5.6 percent in 2021 and 4.4 percent in 2022 underpinned by continued impact of sizable fiscal support in the US and new fiscal measures in other advanced economies such as France, Germany, Italy and the UK and improved health metrics more broadly across the group. It is notable that within advanced economies the US economy, which is the major export market for diamonds, is projected to expand by 0.6 percentage point and by 1.4 percentage point higher to 7 percent and 4.9 percent in 2021 and 2022 respectively than was envisioned in the April 2021 WEO, supported by additional fiscal support in the second half of 2021. A stronger recovery is also envisaged in Canada, which is one of the sources of diamonds imports, with growth of 1.3 percentage points higher to 6.3 percent in 2021 and to moderate to 4.5 percent in 2022.

By contrast, the prospects for emerging markets and developing economies (EMDE), especially emerging Asia, have slightly been weakened by flare-ups of infections and rising COVID-19 death tolls, with Sub-Saharan Africa grappling with a third wave and concerns that still remain about the situation in parts of South and Southern Asia. EMDE growth is projected to slightly weaken to 6.3 percent this year, 0.4 percentage point lower than envisaged in the April 2021 WEO and to 5.2 percent next year, 0.2 percentage point projected stronger than previously envisioned, supported by buoyant output and the release of pent-up demand amid effective control of the outbreak.

In China, another major diamonds export market, output surpassed pre-pandemic levels and has gradually broadened from public investment to consumption and growth of exports and goods imports has been strong. Moreover, growth has accelerated and authorities have started to shift policy away from supporting activity towards reducing financial risks. Growth is envisioned to weaken to 8.1 percent this year and to moderate to 5.7 percent next year owing to diminishing fiscal and monetary policy support and tighter property and macro-prudential regulations. Similarly, growth of the Indian economy, another crucial Asian export market for rough diamonds, is expected to remain remarkably strong despite the worsening pandemic, at 9.5 percent this year, 3 percentage point lower than projected in the April WEO, and at 8.5 percent next year, 1.6 percentage point higher than previously projected. The baseline presumes that the economic effects of the flaring up of the pandemic would be more than outweighed by strong services activity.

In spite of a third wave entailing the delta variant of coronavirus, a growth rate 3.4 percent is projected in 2021 and of 4.1 percent in 2022 for Sub-Saharan Africa. This will be driven by improved exports and commodity prices as well as recovery in both private consumption and investment. For South Africa, Botswana's main trading partner on the import side, a better-than-expected fourth quarter performance and the ambitious vaccination program that that is underway, which, if implemented swiftly, could limit the risk of additional waves and thereby, resulting in further normalization of economic activity, contributed to improvement in economic outlook, with a growth rate of 4 percent this year and 2.2 percent next year projected for the economy, which are 0.9 percentage point and 0.2 percentage higher than projected in the April WEO respectively. Several factors have, however, been cited as undermining the country's medium-term growth. Such include the scarring effects of the crisis, product and labour market rigidities, rising inequality and persistent electricity bottlenecks. Acting singly and in combination, such factors will limit the economy's capability to take advantage of an improving external environment.

Table 4: Overview of world projections (%)

	IMF			World Bank	
	2020	2021	2022	2021	2022
World Output	-3.2	6.0	4.9	5.6	4.7
Advanced Economies	-4.6	5.6	4.4	5.6	4.3
United States	-3.5	7.0	4.9	5.4	4.0
Euro Area	-6.5	4.6	4.3	4.2	4.4
Canada	-5.3	6.3	4.5		
Emerging & Developing Economies	-2.1	6.3	5.2	6.0	4.7
China	2.3	8.1	5.7	8.5	5.4
India	-7.3	9.5	8.5	8.3	7.8
Sub-Saharan Africa	-1.8	3.4	4.1	2.8	3.3
South Africa	-7.0	4.0	2.2	3.5	2.1
Botswana	-8.3	7.5	5.4	6.9	4.3

Sources: IMF's WEO July 2021 Update and World Bank's June 2021 Global Economic Prospects

The foregoing clearly reinforce the MFED's conclusion that the external environment is more buoyant than previously anticipated and, thus, it has contributed to a marked improvement in the domestic economic outlook than was envisaged in the 2021/22 national Budget Speech. Indeed, the positive spillover effects to Botswana of the continued revitalization of global growth, particularly in key exports market as well as South Africa, which is a main source of imports, are in the form of increased trade, especially of diamonds demand, higher commodity prices and possibly resumption of capital inflows can be reasonably be expected to be large.

Another sense in which the MFED forecasts are plausible is that they are not substantially far off from those of other expert forecasting organizations. For instance, the domestic economy is projected in the IMF's April 2021 WEO to recovery strongly and to grow by 7.5 percent this year and by 5.4 percent next year whilst it is forecasted in the World Bank's Global Economic Prospects (GEP) to expand by 6.9 percent in 2021 and 4.3 percent in 2022. Notably, the IMF's forecasts are 2.2 percentage points lower and 1.1 percentage point for 2021 and 2022 respectively higher than those of the MFED.

Equally important is that experts from a range of industries have also been noting that the outlook for the second half of the year remains positive. According to the De Beers Group's Chief Executives, the fundamentals of the diamond industry are very strong. Moreover, they envisaged the recovery in consumer demand for diamonds to continue to be strong in the second half of this year in the US and China, which together accounted for 68 percent of the De Beers' consumer demand in the first half of 2021. Similarly, in India, which is a crucial market for the diamond midstream of manufacturers and which struggled with the world's worst COVID-19 infections in March driven by the Delta variant, consumer demand has since been improving. De Beers Group reported that this year's the sixth cycle has seen the continuation of good demand for rough diamonds, driven by strong demand for diamond jewellery in the key US and China consumer markets and that the ongoing strength in consumer sales of diamond jewellery means that the outlook for the second half of the year remains positive, subject to the risks that the pandemic continues to present across the globe. Likewise, the seventh cycle over-performed. Furthermore, he indicated that global consumer demand for diamonds continued to recover from the impact of COVID-19, supported by fiscal stimulus in the US and the roll-out of COVID-19 vaccines. Lastly, the Group held restrictions on international travel and entertainment over the course of the pandemic responsible for higher discretionary spending on luxury goods, including diamond jewellery. The first half year sales have reportedly been strong, with De Beers receiving USD $3 billion from the sales and has surpassed the $2.79 billion earned in all of the ten sales cycles of 2020 and will likely out-perform the $4 billion earned in 2019. Similarly, Analysts and experts in the copper industry expect an uptick in copper prices, in particular, and of other base metals, in general, and the rise in global copper demand. Such will be caused partly by transitioning the power and transportation sectors away from fossil fuels and partly by the new uses of copper such as in electric-car infrastructure and other new uses of the metal. Mmegi, Friday 13 August 2021 quoted the company's Executive Director, Boikobo Paya, as having said that "the supply-demand gap looks very good because it looks like in five years, we will start to see a deficit in copper supply, and once you see a deficit the price goes up". The company will benefit from higher prices driven by electric vehicle market and other uses as it starting operations at a time copper prices are expected to average around $4.62 a pound this year and to rise to $4.75 a pound by 2022. As the President of Fluor's Mining and Metals business rightly noted, "the transition from construction to operations marks a major historical achievement for Khoemacau and Botswana". Indeed, the commencement of copper production at this Khoemacau Copper Mine around August this year in the Kalahari Copper Belt , after four years of construction, is expected to produce approximately 60,000 to 65,000 tonnes of payable copper and 1.8 to two million ounces of payable silver by 2022. At the peak of construction, the mine had more than 1800 workers on site and achieved its first concentrate on time and a substantial within budget . Thus, the coming on stream of the copper mining will boost mining value added and employment.

Another crucial assumption that underlies the revised baseline projections is that the vaccination programme roll-out will be successful. Currently, there has been progress in the acquisition of vaccines and vaccination rollout. For instance, a large proportion of essential frontline workers – health providers, teachers and so on – have been inoculated and over 12 percent of the targeted population has been vaccinated. Such developments have given Batswana and residents to look forward to the remaining second half of this year with a renewed sense of hope of further relaxation of containment measures, some degree of normalization of business operations including partial resumption of international tourism and re-opening of schools. The country has just emerged from one of the world's highest Delta variant of coronavirus infection that has caused cases in Botswana to rise 107,000 and the country has since registered 1,600 deaths, with almost all occurring in the first six month of the year. There is no doubt that successful inoculation of the population will be a boost to the much welcomed economic resuscitation. As in elsewhere, this is critical to revival of private consumption and investment demand and the operations of especially the contact-intensive activities and those with less adaptability to reduced mobility.

The other critical assumption relates to the net impact of the release of pent-up demand following the relaxation of containment measures and the increase in the VAT and other administered prices. Here, the reasoning of MFED is that 'with the successful roll out of vaccines to a larger share of the population and accompanying relaxation of travelling restrictions and resumption of normal activity, consumers will minimize their fears of travelling and adjust consumption patterns enough to offset the impact of the VAT increase and other levies as consumers seek to make up for the shortfall realized in the past'. In other words, the net impact of the positive effect unleashing of pent-up demand and of adverse effect increases will be positive.

Finally, the baseline presumes that there will be not be a nationwide lockdown. With the country just emerging from the peak of Delta strain of the coronavirus, containment measures have been cautiously relaxed, schools are re-opening, curfew have returned from 8 pm to 10 pm, alcohol sale have been re-introduced, etc. In the current context in which herd immunity appears to distant, there is likely to be flare-up of infections. However, it appears that containment measures will continue to be less stringent than they were in the second quarter of 2020. Moreover, the effects on economic performance of containment measures can be expected to be less than in the second quarter of 2020. This is because of a combination of more increased adaptation of activities, a more subdued starting point for contact-intensive activities and a more deliberate targeting.

The pandemic's scarring effects are quite large

Regarding economic costs, there is no doubt that the economic adjustment costs of this extraordinary crisis and associated containment measures to Botswana are quite large. However, there are good reasons to suspect the economic loss is not quite as high as in many other commodity exporting and tourism-reliant countries as well as those that entered the crisis with severely limited policy space. Contrary to many commodity exporting countries, Botswana entered this a 'once in century' crisis with fiscal and financial buffers and those enabled it to quickly and

[7]The Kalahari Copper Belt is considered as the rich copper and silver district and runs south-west to north-west in the west of the country's west.
See for details cadillacnews.com

decisively respond by launching a series of fiscal and financial packages to address the health emergency needs, to ease liquidity pressures on businesses, and to safeguards jobs and household incomes as well as ultimately launching an Economic Recovery and Transformation Plan (ERTP) intended to fast track recovery and transformation as well as enhance medium to long-term economic resilience. Furthermore, the country has a relatively small size of informal sector and a good quality and access to digital infrastructure. Without a doubt, the latter played and continues to play a key role in both the downturn and the speed of the recovery.

Notwithstanding, domestic output losses from the crisis are expected by the MFED to persist, with the level of output expected to return to pre-crisis levels at least until 2022. Simple calculation indicated that should the economy realise the projected growth rate of 9.7 percent total output, at P183, 630.324 million, will be P701.92 million higher than the 2019 real GDP level of P183,128.40 million in 2021. Nonetheless, output will remain lower than the pre-pandemic projected levels for quite some time. Moreover, the impact on unemployment, poverty and inequality can be expected to have been pervasive.

A delicate Policy Balancing Act needed

On the policy front, continued fiscal and monetary policy support will be needed in the near to short term ensure a lasting recovery. Undoubtedly, Policy support has played a role and will to continue to play a crucial in reshaping economic recovery. This will require a delicate balancing act.

On the monetary policy front, the BoB has clearly recognized that continuation of high degree of monetary accommodation is essential to bolstering a strong recovery. By maintaining the bank rate at 3.75 percent at its August meeting in spite of the fact that the headline rate of inflation has been rising and surpassed the 3-6 percent inflation objective range within which the economy is considered to have achieved price stability, the BoB reaffirmed its stance to continue implementing the accommodative monetary policy. Such clear communication from the BoB on the outlook for monetary policy is key to shaping inflatuion expectation and safeguarding against financial premature tightening of financial conditions. Going forward, the mother bank is expected to continue to implement an accommodative monetary policy.

Regarding fiscal policy support, a delicate policy package has been calibrated. On one hand, it seeks to implement policies and strategies that instill public trust in vaccine safety and accelerate roll-out of vaccines and strengthen the health system so that it deals with the prolonged pandemic's health effects such as chronic coronavirus symptoms and delayed treatment of other conditions. Certainly, all these require additional spending not only for strengthening the health system's resilience, but also to meet the administrative, logistical support and financial requirements associated with mass vaccination. And in the absence of herd immunity, policy actions should ensure that growth-friendly control measures such as face masking and social distancing needed to help contain domestic flare-ups are strictly adhered. The policy package also seeks to strengthen the growth outlook, but also to support a sustainable and inclusive economic recovery, 4i.e generates employment in high-growth sectors and provides protection to vulnerable groups, with combined increased investments in education and connectivity as well as green infrastructure to accelerate a transition to low-carbon economy. On the other hand, fiscal policy package is aimed at helping rebuild fiscal sustainability by seeking to improve spending efficiency and increased use of public private partnership and through domestic revenue mobilization. As mentioned earlier on, the latter has included increasing some tax rates and administered prices and service levies.

Policy Lessons

Whilst one commends government for decisively responding to contain the spread of the virus the allegations of wastage and in increase in perceived corruption related to spending of COVID-19 funds are a cause for concern. Irrespective of whether this unfortunate allegations are founded or not, the validity of which would, of course, only be known with the publication of the auditor's report, one could only wish, with the benefit hindsight, that Botswana had heeded the IMF warning at the outset of the crisis that the urgency and extraordinary nature of the crisis spending often increases the risk and opportunity cost of wastage and fraud.

One hopes that several lessons have been learnt from both domestic experience and elsewhere on the management of crisis-related spending. One such a crucial lesson is the critical role of transparency and good governance. The value of improving transparency and accountability lies in ensuring that limited funds are helping the people who need it most. Many countries that sought emergency financial support from the international community committed to enhanced governance measures to ensure transparency and accountability for COVID-19-related spending. According to the IMF, of the countries that were receiving funds, more than 60 percent had committed to publishing procurement information, 80 percent had committed to publishing information on beneficial ownerships, and all countries had committed to audits. Implementation is ongoing and varies from country to country. Botswana can learn from the experience on: successful and innovative procurement transparency from Benin; openness on beneficial ownership from Guinea, Malawi and Sierra Leone; and, enhanced audits from Kenya, Sierra Leone and South Africa.

Stanbic Bank Botswana Quarterly Economic Review

Edited by Dr. J.B. Tlhalefang (Chairperson), Mr. O. Galebotswe, Dr. M. Monnane, Dr. L. Sekwati and Prof. B.M. Malema

Published by the Stanbic Bank Botswana. Opinions expressed in the Quarterly Economic Review by contributors are entirely their own personal views and do not reflect the views of Stanbic Bank Botswana. Whilst every care has been taken to ensure the accuracy of statements made in this publication, Stanbic Bank Botswana cannot accept responsibility for any errors or omissions. In any event, professional advice should be sought before arriving at any decision based on the contents of the Stanbic Bank Botswana Quarterly Economic Review

NOTES

Stanbic
Bank