

BOTSREAL

BOTSWANA'S PROPERTY & INFRASTRUCTURE FORUM

MACRO ECONOMIC OVERVIEW – UNPACKING POTENTIAL RISKS & OPPORTUNITIES FORGROWTH: 02 MARCH 2022 | 09h10 (CAT)



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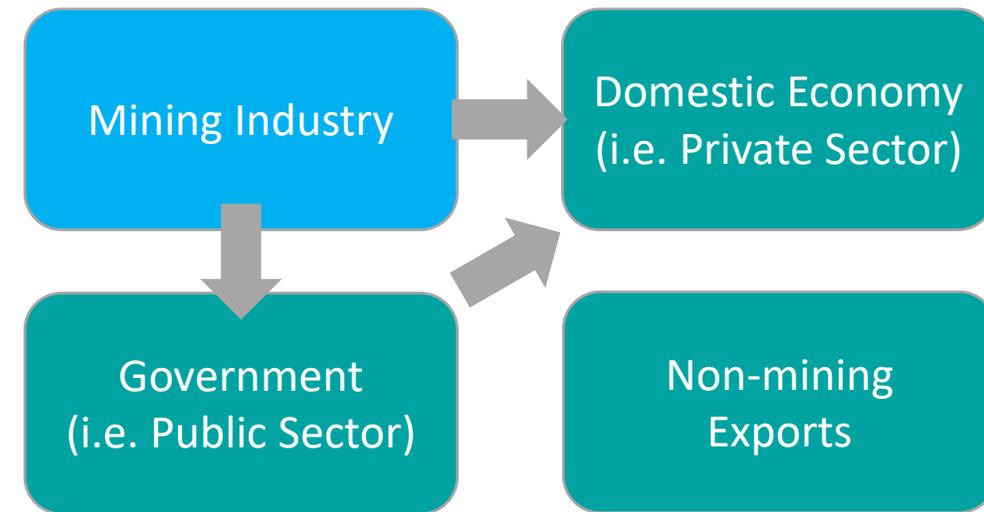
What got Botswana here, won't get it
to where it wants to | A Macro view
By Rorisang Makhema

The traditional view of Botswana as an African Success Story begins, at its independence

- Botswana was an agrarian society and one of the poorest countries on the planet
- It had little in the form of known resources and was dependent on foreign assistance and “poor grade” cattle for economic growth
- In fact, it famously only had:
 - 12km of paved road
 - 22 university graduates
 - 100 secondary school graduates

...And, thanks to the discovery of Diamonds, tells the tale of Government-led growth

- GoB was able to negotiate the receipt of high revenues from its mineral resources
- Employed sound, development focused policies and prudent financial management to invest in physical and social infrastructure
- Maintained a relatively accommodative tax environment
- Fastest growing economy 1965 - 1995

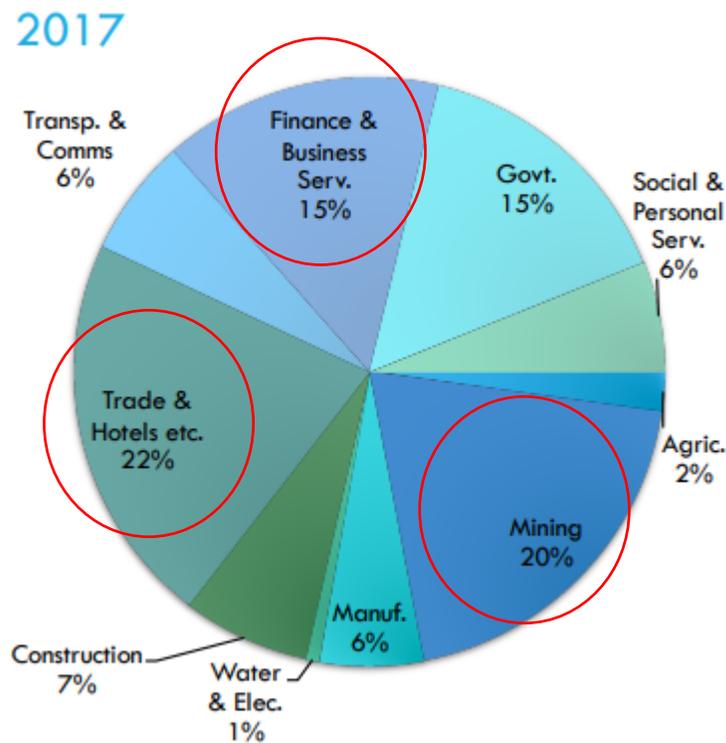
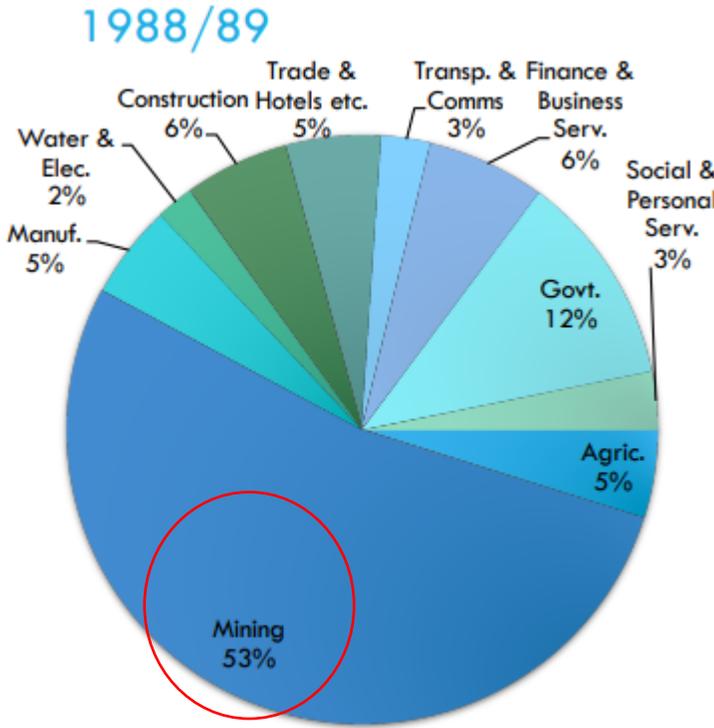


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Unfortunately, this paradigm is unsustainable

- As mining growth tailed off, researchers and policy analysts, began questioning whether or not this African miracle could continue and where the next impetus for growth would come from
- Greater emphasis was placed on examining the competitiveness of Botswana's non-mining sectors
- Botswana hadn't avoided *Dutch disease*

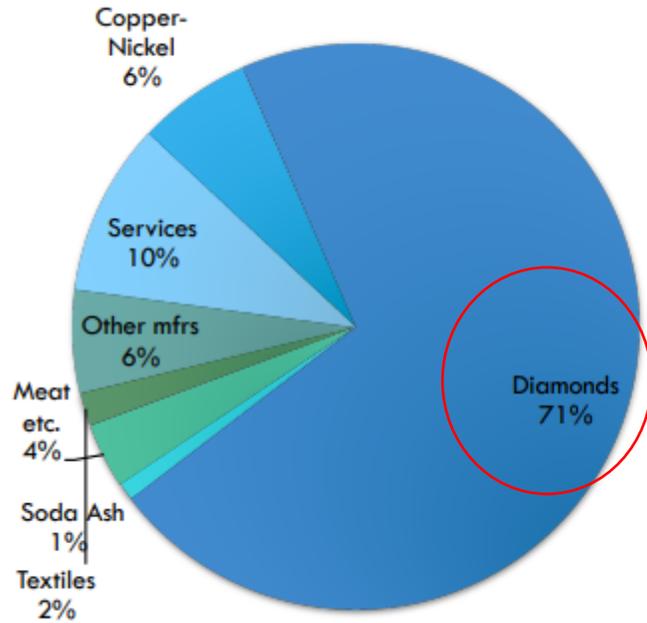
National GDP has diversified away from mining



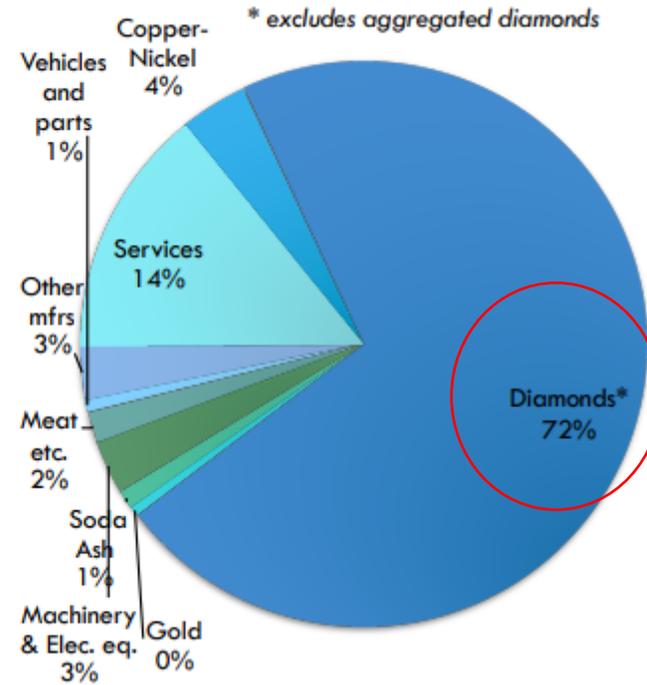
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However, exports have not...

1992

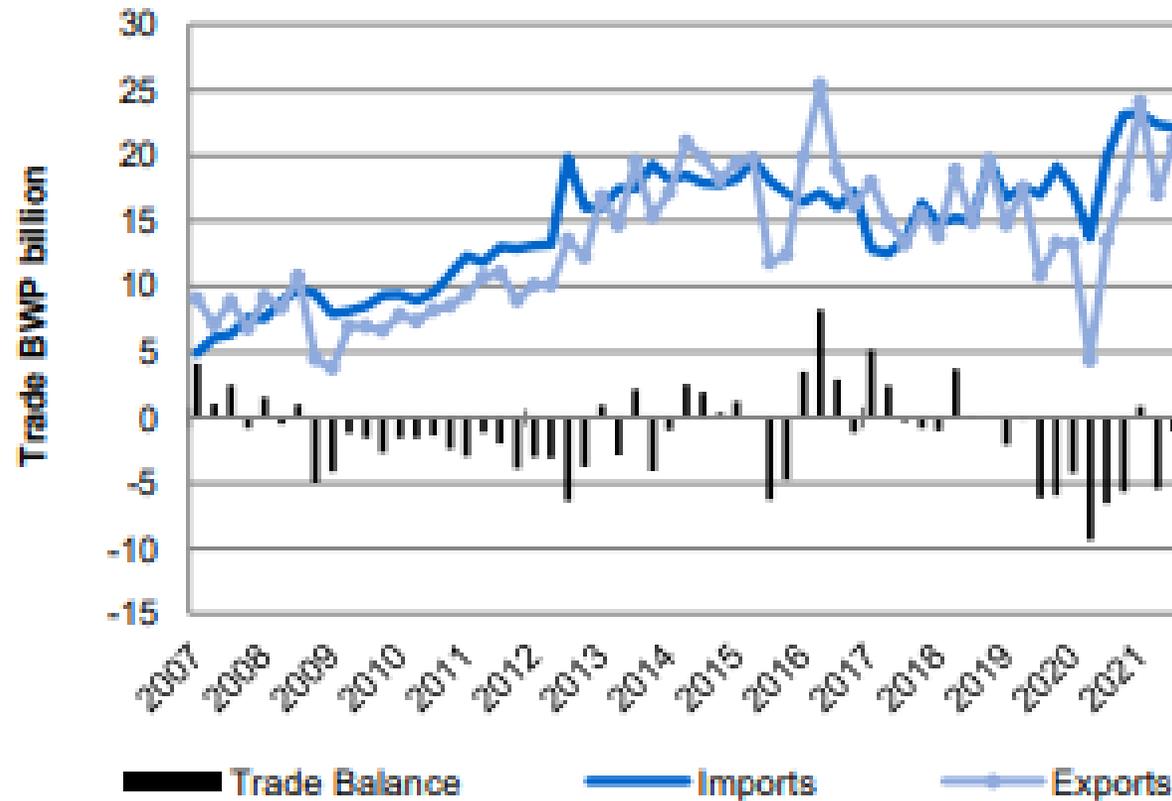


2016



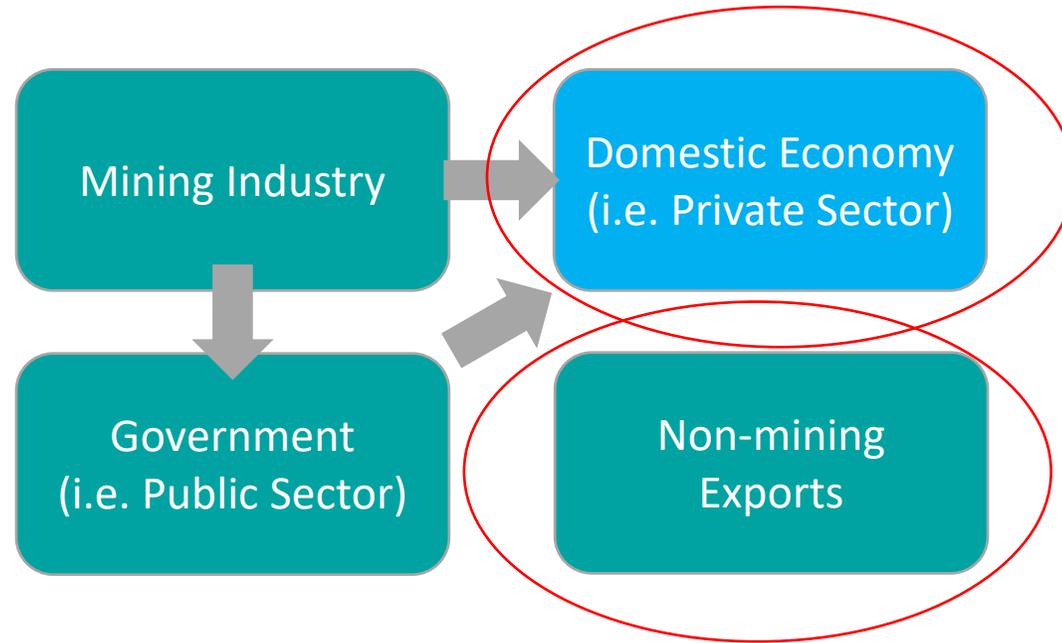
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Leading to structural current account and balance of payment deficits



Econsult Review 2021_fourth quarter oct-dec 2021

...and highlighting that Botswana's economic diversification is driven by domestic consumption



Botswana's domestic markets are ill suited to be a key driver of significant economic growth

- Population – 2.4 million (2022e)
- Median age – 24 (2022e)
- Population Growth rate – 2.09% (2020e)
- Households – 634 000 (2020)
- Between 2015/16 and Q1 2020, the country averaged a respectable GDP growth rate of 4.0% p.a.
- Pre-Covid unemployment rate – 23.2% (Q1 2020)

Botswana's domestic markets are ill suited to be a key driver of significant economic growth



In response, the GoB proposed a Transformation Agenda which identified four key changes

- The continued diversification away from diamonds
- A shift towards increased national competitiveness – through greater productivity and efficiency – rather than “managed good fortune”
- The encouragement of FDI and tourism in order to strengthen links to the global economy
- To inculcate a mindset and skills shift in Botswana allowing the GoB’s role to evolve from that of economic controller to economic facilitator

However, Covid disrupted this transformation and highlighted continued structural limitations

- The protection of Human life took precedence over economic concerns leading to travel restrictions and national lockdowns across the world
- Global supply-chain constraints and protectionist leaning approaches to the pandemic by developed nations worked together to highlight the need to secure key strategic value-chains
- The need to implement work from home policies highlighted shortcomings in the nation's ICT infrastructure

...and the GoB's Covid interventions, while necessary, negatively impacted the national fiscus

- GoB responded through the *short-term Economic Stabilisation Package* and the *Economic Recovery and Transformation Plan* which initially diverted resources from existing projects in addition to seeking external funding to address various Covid impacts
- Despite these efforts:
 - The economy contracted by 8.5% in 2020 and
 - The GoB funded a BWP 26.6 billion deficit over the two years running 2020 – 2022 through drawdowns from the accumulated savings in the Government Investment Account (GIA) and additional borrowing from domestic and international sources.

...Which in turn led to a downgrading of Botswana's sovereign credit rating

- Government borrowing also increased during the pandemic and, given the state of the GIA, will remain necessary to fund current and future fiscal deficits.
- Government debts remain relatively low and should remain considerably below the statutory limit (i.e. 40% of GDP) and comfortably within debt sustainability metrics
- Botswana remains the only country in mainland sub-Saharan Africa with investment grade sovereign credit ratings from Moody's and Standard and Poor's

The nation's Post-Covid economic outlook faces some challenges

- Unemployment levels hit 26% in Q4 2021 however, as the recently ended States of Emergency placed a moratorium on employee separations, the true unemployment level may still be masked
- Sharp increases in domestic living costs coupled with external upward pressures pushed inflation to 8.7% in December 2021 and 10.6% in January 2022; significantly above the BoB's 3% – 6% medium term target

With a number of potential impacts on the real estate sector

- In 2019, Botswana introduced an amendment to the Transfer Duty Act which introduced the highest transfer duty in the world on property sales to foreign buyers (30% vs 5% for citizens)
 - Both Banks and Real Estate agents have raised concerns about the effect that this will have on sales and property prices.
- Changing work patterns – stimulated by the Covid-19 pandemic – have damped the office real estate sub-sector however its unclear whether this is a long-term change or a transient one

However, the recovery appears to be trending in the right direction

- Post-covid economic recovery is strong but, as the Omicron variant showed, caution and vigilance are needed
 - Global economic performance and sentiment strengthened in 2021
 - Botswana's estimated growth for 2021 was 9.7%
 - Recovery is primarily driven by robust diamond trading (up 80.6% on the 12 months to Q3) and the mining sector (15.6% for the 12 months to Q3)
 - However, the broader economy (non-mining) also grew appreciably (8.1% Year-to-September '21)
- The BoB will replace its key bank rate with a Monetary Policy Rate derived from its seven-day BoB Certificates

It remains imperative that Botswana adopts significant structural reforms for long-term growth

- To address the GoB's constrained fiscal position, a combination of additional revenue and reduced expenditures will be required
 - The continued review of the national tax environment with a view to broadening the tax base and improving revenue collection efforts
 - Underperforming State-owned Enterprises and Parastatals continue to be a drain on the national coffers which must be addressed
 - Poor project implementation and Government wastage needs to be curtailed so as to improve return on investment
 - The Government wage bill currently sits at over 16% of GDP; significantly higher than the 10% recorded by comparator nations

It remains imperative that Botswana adopts significant structural reforms for long-term growth

- Reforms to the GoB's recurrent education and healthcare expenditure – through the implementation of a needs-based cost-sharing approach – present an opportunity for significant cost savings
- Botswana has also received numerous calls to review and restructure its public sector however, given the current lack of private sector job growth and the continued global uncertainty, any such restructuring efforts would be costly in the short term to medium term
- Lastly, these reforms should also free up revenue which can then be used to improve the Government's fiscus and fund its developmental and transformational agenda

Thank you. Any Questions?



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