

# The COVID-19 pandemic and the economy in Southern Africa: Botswana's response

19 May 2021



## Overview of Botswana

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Botswana is a sparsely populated country with 2,4 million people and has recorded average GDP growth of 3,6% for the past decade.



The prudent use of its mineral resources and good governance has transformed Botswana into a middle-income country. The country aspires to be a high-income country by 2036.



Botswana is highly dependent on international trade which accounted for 77% of country's GDP in 2018. Diamonds account for 90% of its goods exports, and tourism contributes 8% of total export revenues.

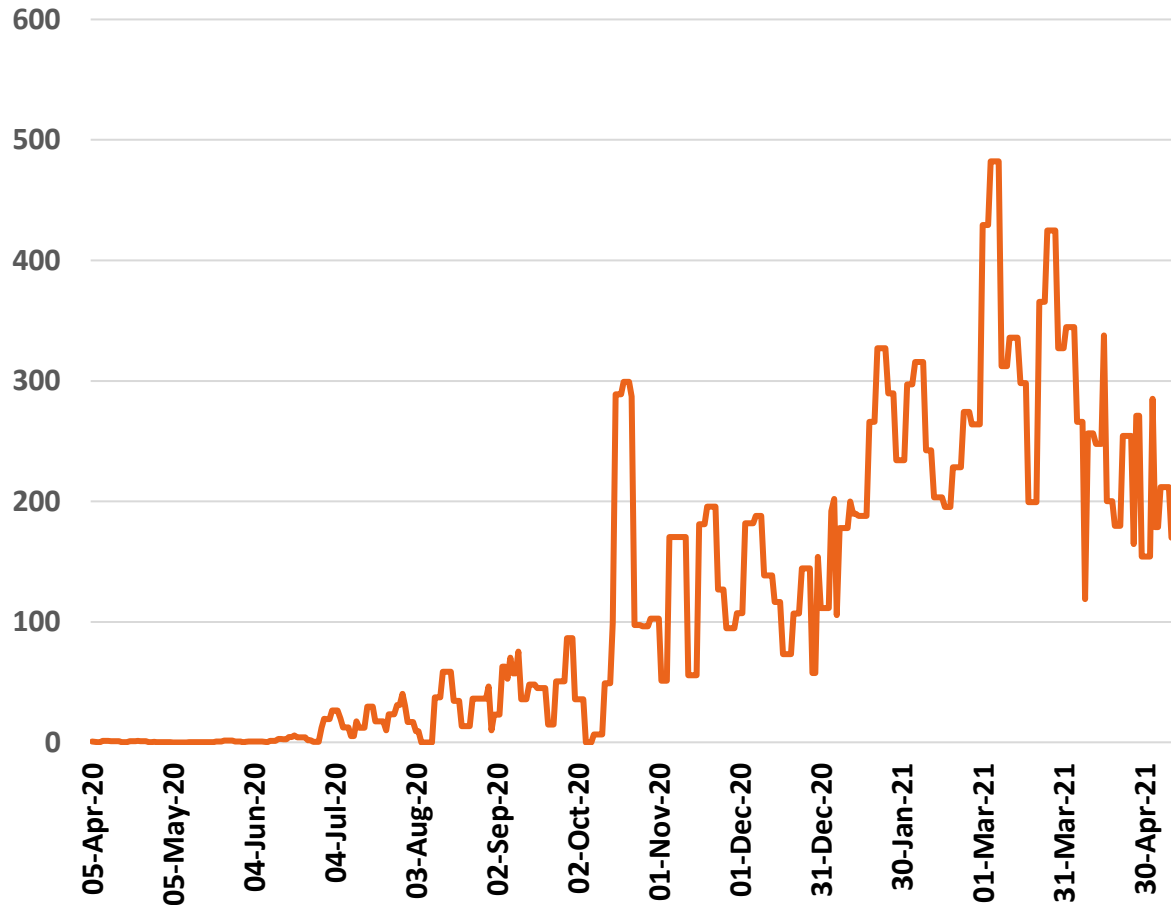


Botswana's heavy dependence on diamond exports and overseas tourism made it particularly vulnerable to weak global demand and travel bans. As a result, its economy saw a 6% decline for 2020 as a whole, with a contraction of 24% in the second quarter.

# COVID -19 in Botswana

The incidence of COVID-19 in Botswana is comparatively high in the SADC region, second to South Africa.

Graph: Daily New Cases, shown as seven day rolling average, 05 April 2020 to 13 May 2021

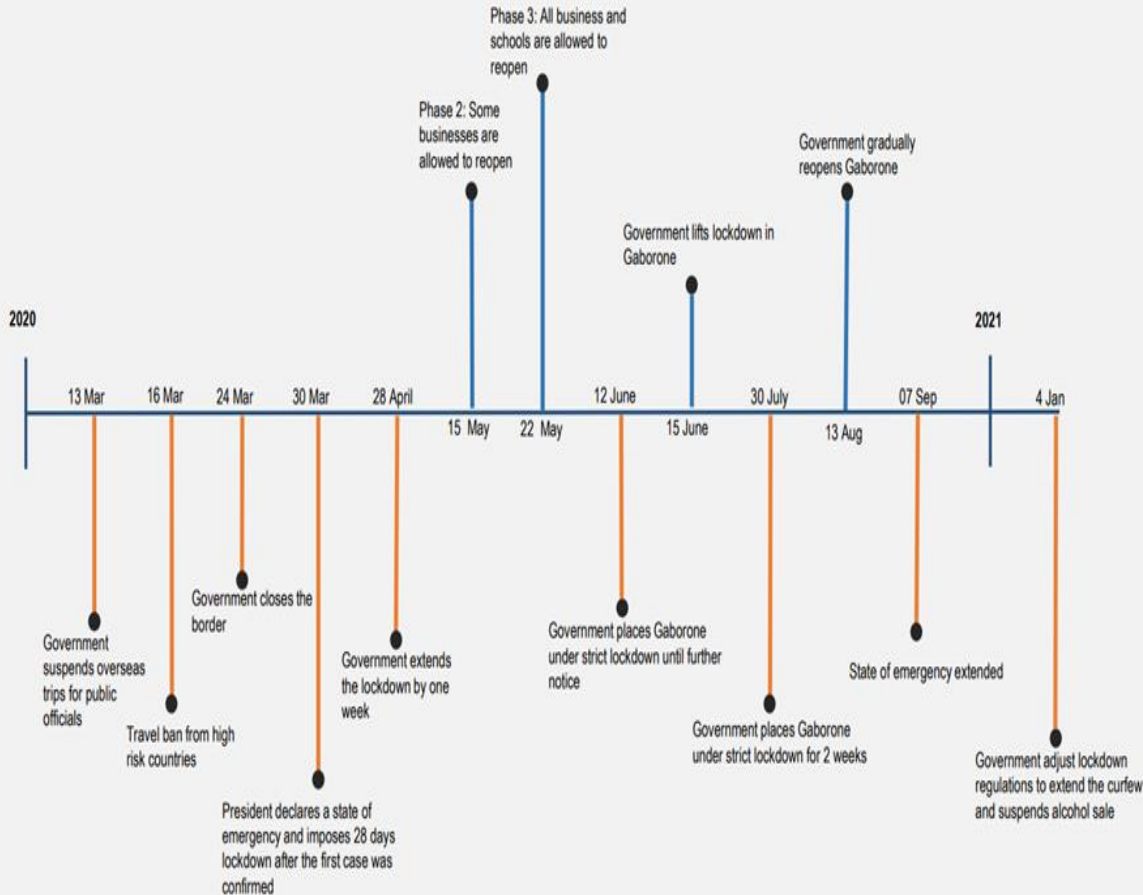


- As of 13 May 2021, Botswana had a total of 49 041 confirmed cases and 751 COVID-related deaths.
- Daily confirmed cases, shown as 7 day rolling average on the graph, have been fluctuating while indicating that the overall trend is moving up, reaching a peak in early March 2021 before declining in early April 2021.
- Botswana recorded the highest daily count on 1 March 2021, with 2,356 new cases.
- The authorities have reported that the surge in March was driven largely by the new variant discovered in South Africa in November 2020
- The authorities blamed the initial spread largely on a freight drivers and other travellers from South Africa.

# Public Health Measures

## Botswana acted quickly to slow the spread of COVID-19, in recognition of the limited capacity of its health sector

### Botswana's major lockdown measures, 13 March 2020 to 4 January 2021

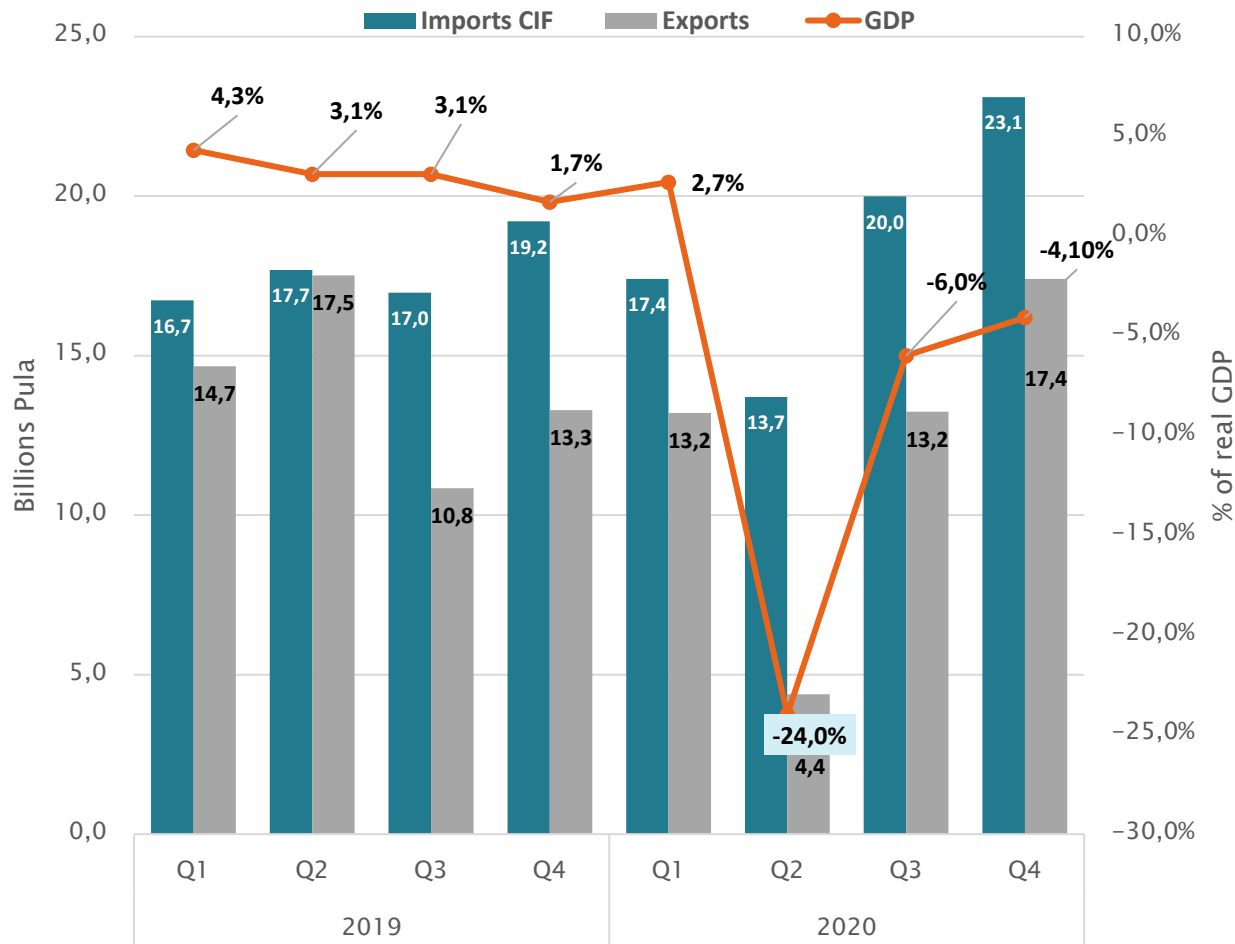


- The country closed borders to neighbouring countries and suspend overseas trips for public officials before registering the first case.
- They went to full lockdown to after three diagnoses on 30 March 2020.
- Government gradually began to reopen the economy in May 2020.
- Much like South Africa's main economic centres – Johannesburg and Cape Town, Gaborone became the epicentre of the pandemic. Thus it was placed under full lockdown.
- Thereafter, the Botswanan government has relied on comparatively narrow regulations such as alcohol bans and curfews.
- Botswana started its official vaccine roll out on the 26 March 2021. As of 14 May 2021 had administered 53 375 doses of COVID vaccines. That's enough to have vaccinated 1,2% of the country's population, assuming every person need 2 doses.
- Botswana authorities indicate that they have secured nearly 2 million doses of COVID-19 vaccine, enough to cover the adult population.

# Economic Impact of COVID -19

Botswana experienced the largest GDP decline in the SADC region, with a contraction of 24% in Q2 2020

Graph: Imports, Export(Billion Pula) and Quarterly GDP from Q1 2019 to Q4 2020



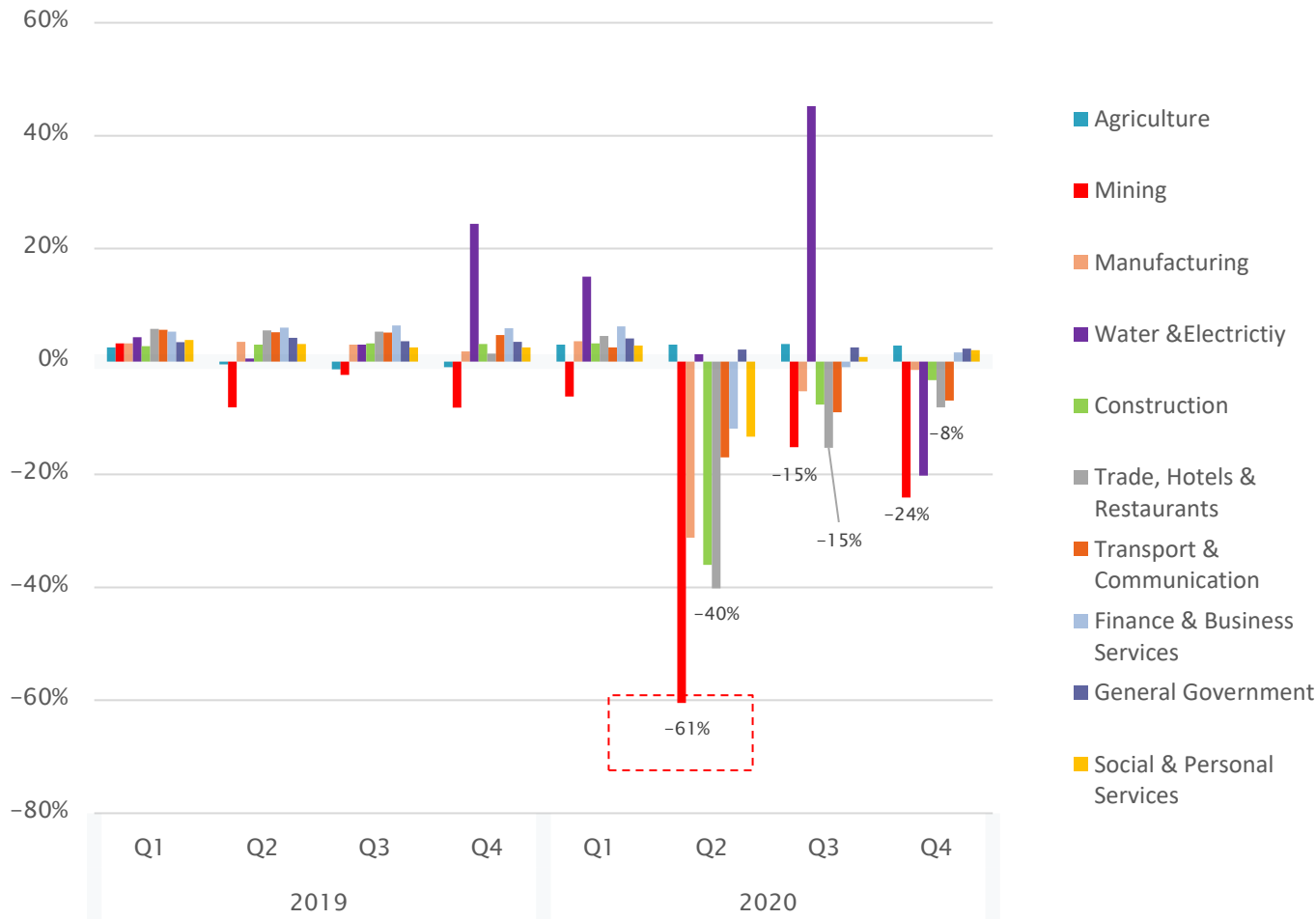
- This contraction was due to a sharp decline in mining, trade and hospitality (hotels and restaurants).
- In Q4, real GDP contracted by 4,1% an overall improvement compared to previous quarter. However, it is still below the Q4 of 2019 (1,7%).
- The improvement of GDP in each quarter since Q2 is a result of continuous effort to reopen business and resume economic activities
- Imports declined from P17 billion in Q2 of 2019 to P14 billion in Q2 of 2020.
- Exports declined steeply from P18 billion in Q2 of 2019 to P4 billion in Q2 of 2020.
- In Q4 of 2020, imports showed signs of recovery, surging to P23 billion. Exports also increased to P17 billion.



# Economic Impact of COVID -19 : Sectoral level

The mining sector, particularly diamonds, continue to suffers from weak demand from global markets

Graph: Gross Value Added by Kind of Economic Activity at constant 2006 Prices



- Lockdown restrictions affected all sectors, except agriculture. However, the impact was different across sectors.
- In Q2 of 2020, mining suffered the sharpest decline (61%), followed by Trade and hospitality (Hotels and Restaurants) at 40%.
- In Q4 of 2020, mining contracted by 24% due to weak demand from global markets compounded by lower local demand from coal because Morupule Power Station is going through remedial work.
- Water and Electricity declined by 20% in Q4 of 2020 because only one unit was in operation at Morupule power station.



# Botswana's Socio-Economic Response to COVID-19

## Fiscal response



In 2020/21, Government spending fell by 4% in real terms as its revenues plummeted. It slashed investment by 30% while expanding current expenditure by 2%.

- Despite the efforts to restrain spending, in 2020/21, the budget deficit more than doubled in constant Pula. It reached 12% of the GDP, compared to 6% a year earlier.
- By early 2021, concerns about the deficit reportedly made the government increasingly unwilling to impose rigorous public-health measures because it was not prepared to fund relief measures for workers or businesses.
- The fiscal response to the pandemic reflected two long-standing factors: the critical importance of diamond revenues for the budget, and Botswana's historically highly conservative macro-economic policy

## Monetary policy response



- In April 2020, the Bank of Botswana reduced the interest rates from 4,75% to 4,25%. It reduced the rate again to 3,75% in August 2020.
- The BoB supported commercial banks to meet the capital requirements and address liquidity challenges by reducing the capital adequacy ratio (CAR) from 15% to 12,5%.
- Other measures provided by the Bank include regulatory forbearance on non-performing loans and broadened access to repo facilities.

## Social protection



- On 30 March 2020, Botswana announced a COVID Relief Fund, with an initial P2 billion in public funds and a further P1 billion added through a supplementary budget toward the end of 2020.
- The Fund provided various forms of relief, including a wage subsidy designed to limit retrenchments, as well as support for the public health sector.
- As of November 2020, it had disbursed P1,8 billion. Of that, P800 million went for wage support (limited to three months and half of the workers' wage, with a maximum of P2500 month).

## Industrial Policy



- Botswana announced an Economic Recovery and Transformation Plan (ERTP), which was allocated P14,5 billion (USD 1,3 billion) over three years, with the approval of Parliament.
- The government set up a P1,3 billion Industrial Support Fund to support SMMES, tourism agriculture as well as informal businesses.
- The National Development Bank (NDB) set up an Agriculture Stimulus Fund to the tune of P50 million to support smart farming.
- ERTP will be funded entirely from borrowing( domestic and international markets. In the past, Botswana has used its sovereign fund to finance the development plans.
- However, the fund has been depleted due to large budget deficit. The level of the Fund has declined from P19 billion at the end of 2019/20 financial year to P6 billion in Nov 2020, a decline of 72%.

## Concluding remarks

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COVID -19 has exposed Botswana's vulnerabilities as the economy is heavily reliant on mining, in particular diamonds for its growth.

The ERTTP recognizes the importance of diversification, but more can be done to boost recovery and accelerate growth.

- a) **Import localization.** The country imports bulk of consumer goods mainly from South Africa. This presents an opportunity to reduce reliance on South Africa and improve industrial development.
  
- b) **Tourism.** Botswana could make tourism attractive to local and regional tourists. Currently, Botswana attracts mainly international tourists due to high prices . To make tourism attractive to local and regional tourism, preferential pricing could be used. NB: Tourism will remain slow until COVID-19 is under control



# Thank you

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