

Inflation overview – Headline inflation decreased from 3.5% y-o-y March 2017 to 3.4% y-o-y in April. Low inflation together with a sharp slowdown in economic growth enabled the Bank of Botswana (BoB) to cut the bank rate from 7.5% in the beginning of 2015 to 5.5% at the end of 2016. The BoB has managed to keep inflation within the 3-6% objective since 2013.

Growth summary – The mining sector in Botswana contracted for five consecutive quarters between Q2 2015 and Q2 2016, though has since recovered significantly, as global commodity prices increased. Botswana is expected to see rising economic growth during 2017-2018 due to positive growth in the extractive sector and a boost in private consumption due to stable inflation and low interest rates.

Economic policy – The 11th National Development Plan (NDP) was set to commence in April 2017 and will be valid until 2022. Entitled 'Inclusive Growth for Realisation of Employment Creation and Poverty Eradication', the scheme aims to deal with three key challenges, namely poverty, unemployment and income inequality. This will contribute to the country's goals set out under its Vision 2036.

| 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)

| Mega trends | | |
|---|------|--|
| Population | 2017 | Total: 2.34 million; female: 1.17 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 | 1.90% |
| Life expectancy at birth | 2014 | Total: 64.43 years; female: 66.83 years; male: 62.14 years |
| HIV/AIDS | 2015 | Total number of people living with HIV: 0.35 million; total adult prevalence: 22.2%; HIV/AIDS orphans (age 0-17): 0.06 million |
| Adult literacy rate | 2015 | Total population: 88.22%; female: 89.21%; male: 62.14% |
| Urbanisation | 2015 | Urban population: 57.44% of total; annual urban population growth: 2.35%; rural population: 42.56% of total |
| Population below \$1.90 per day poverty line | 2009 | 5.78% |
| Unemployment rate | 2017 | Total: 18.6%; female: 21.5%; male: 15.9%; youth (15 - 24): 33.4% |
| Employment | 2010 | Agriculture: 26.4% of total; industry: 17.5% of total; services: 56.1% 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 | Fixed telephone subscriptions: 0.16 million; wired internet subscriptions: 0.02 million; cell phone subscriptions: 3.48 million (2015) |

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

| Human Development Index (HDI) 2015 | | Index of Economic Freedom 2016 | | Global Competitiveness Index (GCI) 2016 | | Doing Business 2017 | | Corruption Perceptions Index 2016 | |
|------------------------------------|----------------------|--------------------------------|----------------------|---|----------------------|---------------------|----------------------|-----------------------------------|----------------------|
| 108th | out of 188 countries | 30th | out of 179 countries | 64th | out of 148 countries | 71st | out of 189 countries | 35th | out of 177 countries |

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

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

S&P Global Ratings affirmed Botswana's sovereign debt ratings in October 2016, with the long-term foreign sovereign credit rating kept at "A-" with a negative outlook. The outlook remained negative due to "the risks...over the next 12-18 months if the current diamond sector slump proved more cyclical in nature". The diamond mining industry is the country's main economic driver, contributing almost a third of Botswana's GDP. However, since the second half of 2015, diamond demand and sales has been soft due to a weaker global environment and declining pricing power of key diamond marketers. S&P expects Botswana to run fiscal deficits towards 2019. On the other hand, it is expected that the country will see current account surpluses. Botswana's sovereign debt ratings could be downgraded if the country's external position deteriorates significantly or if its "institutional framework and policy settings slip". The outlook could be revised to stable if Botswana's fiscal performance "proves materially stronger" than initially forecast by S&P.

Moody's Investor Services kept Botswana's credit rating unchanged at "A2" with a stable outlook in September 2016. This 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. Botswana's rating could react positively from further diamond beneficiation and broader economic diversification over the medium term. However, "a significant deterioration in the net asset position" would put downward pressure on Botswana's creditworthiness.

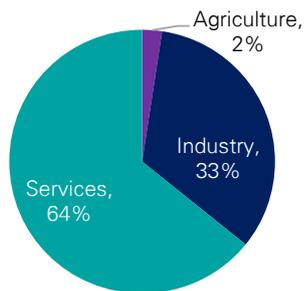
| Quality of infrastructure | Economic diversity | Banking sector | Continuity of economic policy | GDP growth | Fiscal / current account balances | Foreign investment | Socio-economic development | Forex reserves |
|---------------------------|------------------------------|----------------|--|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------|
| Generally good | Dominated by mining industry | Healthy | 11 th NDP started in April 2017 | Recovering from 2015 recession | Recent surpluses, deficit ahead | High levels, but mostly in mining | High compared to African peers | Very high |

| Stock market | Listed companies | Liquidity | Market capitalisation | Largest sector | Weekly trading volume |
|-------------------------|-----------------------------------|-----------|---|--------------------|---|
| Botswana Stock Exchange | 22 domestic listings (main board) | Limited | \$4.2 billion Source: African Alliance | Financial services | \$3.4 million Source: African Alliance |
| Capital market | Level of development | Liquidity | Maturity range | Municipal bonds | Corporate bonds |
| Yes | Low | Low | 14-days to 10 years | No | Yes |

Macroeconomic overview

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 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 in the world (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.

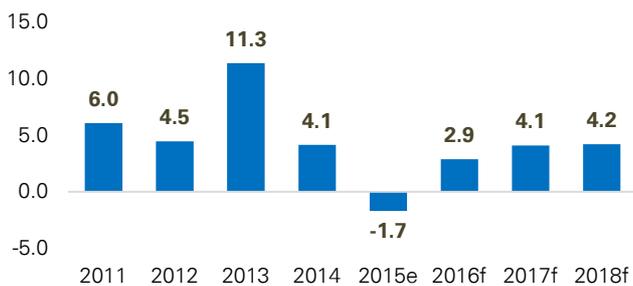
Economic structure as % of GDP 2015



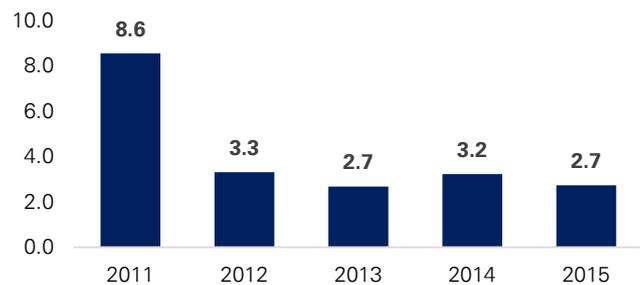
Source: World Bank: World Development Indicators

Economic growth – The mining sector in Botswana contracted for five consecutive quarters between Q2 2015 and Q2 2016, representing a sharp slowdown in output during this period. Following the recession in 2015 together with the slump in the mining sector, Botswana's commodity-dependent economy has recovered significantly, as global commodity prices has risen, encouraging mining firms to ramp up production. Botswana will experience higher economic growth during 2017 (4.1%) and 2018 (4.2%), according to the International Monetary Fund (IMF). The expected economic recovery is mainly due to positive growth seen in the extractive sector recently. An expected boost in private consumption during 2017, supported by stable inflation and low interest rates, will also aid in generating higher economic growth. Low interest rates will spur credit demand in the country, increasing spending in the economy. Over the next decade, growth will be driven by the mining sector and rising tourism.

Real GDP growth (%)



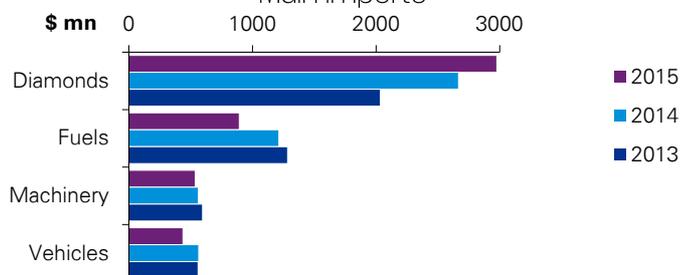
FDI inflows (% of GDP)



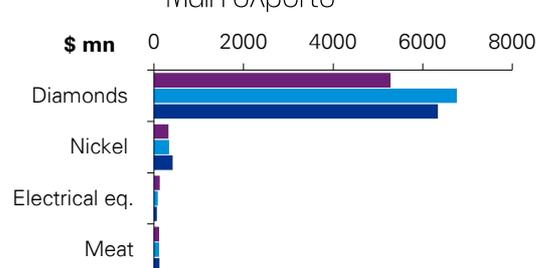
Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Local investment experts, including Moatlhodi Seabole, the head of Economic Research at First National Bank (FNB) Botswana, have in the past pleaded with the government to relax trade and immigration regulations in order to support the country's foreign direct investment (FDI) receipts. Botswana has good political stability with no civil unrest. However, cumbersome and delayed processes, and requirements with work permits and immigration, leads to a failure to attract more investors to Botswana. In this regard, during January 2017, the government moved to amend immigration laws. An amendment to current legislation, to be tabled in the next sitting of Parliament, is geared toward attracting FDI into Botswana. For instance, the relevant minister will have the power to issue a permanent residency permit to non-citizens and their families if the minister is convinced the investment in the country will expand their current operations.

Main imports



Main exports

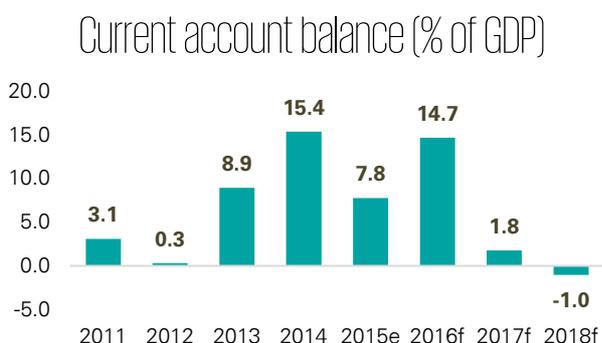


| Main Imports: % share of total | 2013 | 2014 | 2015 |
|--------------------------------|-------|-------|-------|
| Diamonds | 27.4% | 34.1% | 39.0% |
| Fuels | 17.3% | 15.5% | 11.7% |
| Machinery | 8.0% | 7.2% | 7.0% |
| Vehicles | 7.5% | 7.2% | 5.7% |

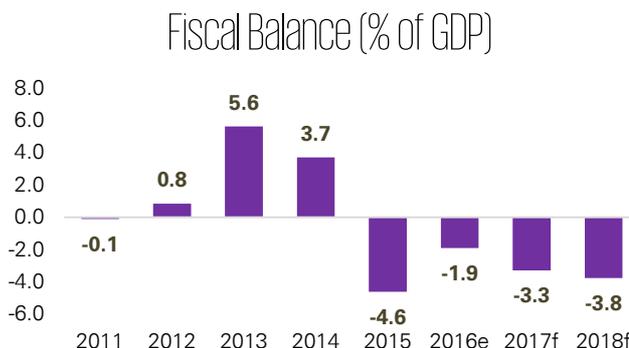
| Main Exports: % share of total | 2013 | 2014 | 2015 |
|--------------------------------|-------|-------|-------|
| Diamonds | 83.7% | 85.5% | 83.6% |
| Nickel | 5.5% | 4.2% | 5.1% |
| Electrical eq. | 0.9% | 1.1% | 2.1% |
| Meat | 1.6% | 1.5% | 1.8% |

Source: Trade Map

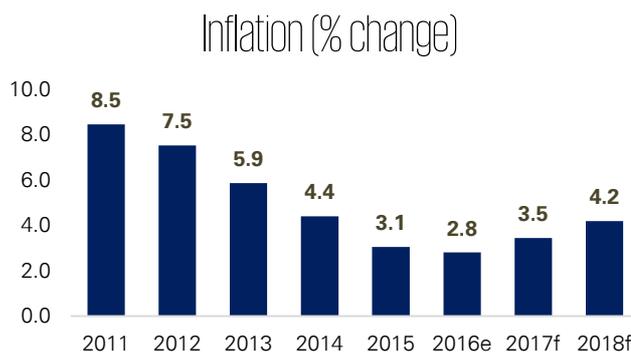
External trade –The IMF projects that the current account surplus will decrease from 14.7% of GDP in 2016 to 1.8% of GDP in 2017. Botswana’s current account surplus will narrow this year due to structurally lower foreign exchange receipts from diamonds (Botswana’s biggest export product) and restrained Southern African Customs Union (SACU) receipts. Diamond exports contribute more than 80% of total exports, and while diamond prices are expected to rise in the years ahead, prices will remain below the levels experienced in the years after the 2008 financial crisis. Other key primary exports include copper, followed by electrical equipment. Meat and meat product exports remain key earners of foreign exchange too, with the main export partners being the EU and Southern African Development Community (SADC) countries.



Source: IMF



Fiscal policy –The finance minister, Kenneth Matambo, highlighted in his budget speech on 6th February 2017 that Botswana’s fiscal deficit will narrow this year. However, according to the IMF, the budget deficit will widen during 2017 and 2018 as spending accelerates under the 11th National Development Plan (NDP 11). The IMF predicts the fiscal deficit to reach 3.8% of GDP in 2018, widening from 1.9% in 2016. Recurrent government expenditure under the NDP 11 will be prioritised towards the education and health sectors in an effort to improve skill levels and standards of living. There is also expected to be substantial revenue growth from stronger diamond production and improved mining taxes. Nonetheless, expenditure growth will outpace revenue growth over the next two years. It is generally expected that Botswana’s fiscal balance will remain in a deficit until at least 2022 with the conclusion of the NDP 11.



Source: IMF

Monetary policy - Headline inflation decreased from 3.5% y-o-y March 2017 to 3.4% y-o-y in April. Low inflation together with a sharp slowdown in economic growth enabled the Bank of Botswana (BoB) to cut the bank rate from 7.5% in the beginning of 2015 to 5.5% at the end of 2016. Average inflation is expected to rise in 2017, in comparison to 2016. The BoB has managed to keep inflation within the 3-6% objective since 2013 when inflation fell to an average of 5.9% y-o-y. The IMF predicts that this within-target trend will on average continue until at least 2018 and potentially beyond. In the context of restrained economic growth and a slump in commodity prices, the IMF foresees annual inflation at an average of 3.5% in 2017, before rising to a mean of 4.2% in 2018. Overall, relatively stable inflation – in a SADC context - will contribute a boost to private consumption during 2017, and projected low inflation in the coming years will support citizens’ purchasing power.

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