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Overview

The real rate of growth of non-mining GDP has definitely slowed, but current indications are for a soft landing. The economy's growth rate appears to have fallen from between 8% and 9% to perhaps about half that rate. Part of the reason is that government spending growth was already slowing down in 1999 (from 22% to 14%), and spending growth will continue at about this rate if actual spending is close to budgeted spending. This compares with the much larger cut in the growth of government spending indicated in the 2000 Budget Speech. With no significant growth expected in diamond exports, growth of non-traditional exports is particularly important at present. Earnings from textile exports have not grown in real terms since 1996, and vehicle exports have fallen sharply. However, "other" non-traditional exports have grown rapidly since 1996, as have (much smaller) soda ash exports. The macroeconomic impact of the closure of Motor Company Botswana has been exaggerated. Allowing for the high import content of vehicle exports, they contributed (at their peak) less than 2% of total exports, 1% of GDP, and 0.5% of formal sector employment. Meanwhile, the latest employment statistics show that employment growth was 6.4% in the year to September 1999. It has shifted towards the private sector (up 9.6%) and in particular to manufacturing (up 21.4%). Growth in public sector employment was lower (up 2.0% compared with 9.6% in the previous year), and nearly all of that growth was in education.

Government spending and GDP growth

Total government spending grew by 14% in the budget year to March 2000 (about 6% in real terms). This rate of increase was significantly lower than in the previous two years, when growth was more than 20% each year. This reduced GDP growth rates. Much of the recent economic boom has been driven by high rates of increase of government spending.

The growth of government spending in the current budget year, *if actual spending is close to budgeted spending*, seems unlikely to be reduced at all. The 2000 Budget Speech proposed a severe cutback in spending growth, to only 3% compared with 26% in the preceding year. Comparing with the actual figures for 1999/00 now available, budgeted spending for this year (2000/01) would give a 14% rate of increase. In other words, the budget figures for this fiscal year (ending in March 2001) show a more or less constant rate of increase compared with the previous year. The two scenarios can be compared in Chart 1.

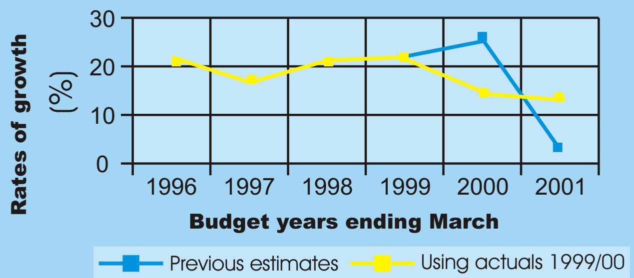
This recent information on government spending suggests *no further slowdown* in GDP growth from this cause. Put slightly differently, there could be a relatively "soft landing" for the economy, depending of course on future trends in government spending and other factors affecting GDP growth.

Other indicators of GDP growth are mixed. The rate of growth of electricity consumption declined further in the last quarter of 2000 (from 12% to 4%), but the rate of growth of notes in circulation picked up slightly. The rate of growth of commercial bank credit has also slowed. Using three-month moving averages, quarter-on-quarter growth, which was in double figures in 1998, fell steadily, to less than 5% at the end of 1999 and 2.6% in March 2000. But it rose to around 5% in the three months to September 2000.

Using these indicators, non-mining GDP growth has definitely slowed from the annual rates of 8% or 9% of recent years. It seems at present that growth may have settled down to perhaps 4% or 5%.

Last year's Budget Speech indicated that development spending would go from a 39% rate of *increase*, to a 12% *reduction* (in nominal terms). In fact, development spending grew by only 17% (about 8% in real terms) in the year to March 2000. It is budgeted to grow by 4% in nominal terms in the current budget year. That is still quite a sharp cutback in rates of growth, amounting to an absolute reduction in real terms. Nevertheless, this would be much less of a change than previously indicated. In contrast, although recurrent spending growth fell from 28% in 1998/99 to 13% in 1999/00, it is budgeted to rise slightly, to 18%, in the current budget year.

Chart 1 Growth rates of Government spending



Because the Government spent less in 1999/2000 than indicated in the revised estimates, the budget surplus in that year was larger than previously estimated. The 1999 Budget Speech forecast a deficit of P400 million. In the 2000 Budget Speech, the estimates for 1999/00 indicated a surplus of P510 million (despite an upward revision in spending estimates), mainly because of greatly increased revenue estimates deriving from unexpectedly large sales of millennium diamonds. The actual figures for 1999/00 now show a surplus of P1611 million, mainly because of lower government spending than indicated by the revised estimates.

The impact on the rest of the economy of these changes in the net budget position is small. Changes of this size merely affect the amount of government balances at the Bank of Botswana and the foreign exchange reserves, both of which were larger as a result of the larger budget surplus. This is important for the future, but has no short-term impact. In the current circumstances, where the government has no domestic debt and large financial surpluses, the main impact of the budget is through the rate of change of government spending. There is no impact on interest rates, for example, because the Government does not need to borrow.

If past procedures are followed, the revised spending estimates in the 2001 budget speech in February will be the sum of the original budget estimates, and all supplementary estimates presented to Parliament in the current year. This does not amount to a forecast of the amount that will actually be spent. It can be expected that actual spending will be less than the revised estimates, although it is not possible to know by how much. It is also probable that the revised revenue estimates will be higher than the budget estimates, because diamond sales have been higher than the forecasts on which the revenue estimates were based and because of Pula depreciation against the US$.

Non-traditional exports

Sustainable growth of GDP and employment require the economy to expand non-traditional exports. This is more urgent than ever at the present time, because there is no significant growth expected in diamond production now that the Orapa expansion is on stream.

There is, therefore a greater need than ever before for growth of "non-traditional exports", by which is normally meant exports of goods other than beef products, diamonds and copper-nickel. In practice, non-traditional exports are mostly manufactured products. Service exports, including tourism, are just as important a source of economic growth and diversification, but only "visible exports" (meaning goods rather than services) are discussed here.

The manufacturing sector is particularly important for the creation of employment. In 1999, every P1 million of GDP generated in the mining sector employed approximately one person. Every P1 million of GDP in the manufacturing sector employed 22 people. The equivalent figure for the rest of the economy was just under 16.

Table 1 below shows real export revenues, as deflated by the consumer price index. This particular deflator shows the real buying power in Pula terms of the income flow from exports.

There are three main types of non-traditional export: soda ash, textiles and other.

The growth rate of soda ash exports, at an average of 13.7% from 1992 to 1999, was healthy. Further growth depends mainly on the growth of the South African economy. Distance and transport costs make it difficult to compete in non-regional markets; indeed, soda ash from Botswana cannot compete in many parts of South Africa with imports from the United States, even with tariff protection. Other neighbouring markets are relatively small.

The average annual growth rate for textile exports also appears reasonably healthy, at 13.2% between 1992 and 1999, but with worrying fluctuations and almost no growth since 1996. The setting up of new textile and clothing factories, and the growth of established factories, has only compensated for the closure of old ones since 1996. However, this was achieved at considerable cost to the Government, both in FAP subsidies and in the finance of investments by BDC (some of which have resulted in large losses).

Botswana has relatively low comparative advantage in textile exports, and the opportunity provided by the global quota system is scheduled to disappear in 2005. Some 55 percent of textile exports in 1998 went to South Africa and Zimbabwe, however. This suggests that Botswana is competitive in some textile and

Table 1. Export revenues in Pula, at November 1996 prices
(P million)

	Diamonds	Cu-Ni	Meat, etc	Textiles	Soda ash	Vehicles	Other	Total
1992	4537	416	236	120	68	0	375	5751
1993	4568	301	249	130	69	124	402	5843
1994	4618	322	264	220	46	373	325	6168
1995	4491	370	246	165	25	1079	323	6698
1996	5845	454	242	199	71	1169	330	8308
1997	7195	451	249	233	103	1110	407	9747
1998	5350	386	297	268	87	856	459	7703
1999	8130	336	224	206	163	667 (b)	715	10326
Growth rate 1992-1999 (a)	**8.0**	**1.2**	**0.4**	**13.2**	**13.7**	**24.6**	**7.3**	**8.8**

Notes: (a) growth rates calculated by fitting a line to each series; this removes bias arising from exceptional values at the beginning or end of the series; growth rates for textiles and "other" 1992-98, for vehicles 1993-98

(b) Growth rate 1993-99; Hyundai factory closed down in January 2000

Sources: *Statistical Bulletin, Bank of Botswana Annual Reports* clothing categories within the region, where there are no quotas. Note, though, that there is tariff protection from non-regional imports, and this tariff protection is scheduled to be reduced.

“Other" non-traditional exports grew at 7.3% between 1992 and 1999, slightly slower than the growth of diamond exports. *These "other" exports, therefore, were not contributing to economic diversification*. However, the annual growth rate was very much more rapid from 1995 to 1999, at 21.2%. This rate of progress, if it could be maintained, would contribute significantly to diversification. Moreover, "other" non-traditional exports include a wide variety of different products. Growth of this category should therefore involve less risk than relying on one type of commodity such as textiles. The risk of dependence on textile exports is increased because the advantage provided to Botswana by the quota system will probably disappear in 2005.

Closure of Motor Company Botswana

The closure of this factory was a major disappointment, and the personal impact on the employees must have been very painful. However, the macroeconomic significance of the closure of MCB has been greatly exaggerated.

It is well known that vehicle exports had become the second largest export after diamonds. While this is technically correct, it is extremely misleading. The *net contribution* to the balance of payments was quite small in relation to gross exports. The vehicles had a much higher import content than most other exports. As a result, although the damage to Botswana's reputation may have been serious, the actual impact on the economy was relatively small.

Vehicle exports were highest in 1996, at P1.2 billion, which was 14% of total visible exports in that year, but this overstated their importance. Net of their import content, their contribution to foreign exchange earnings was less than P0.2 billion. This was *less than 2% of total exports* in that year, and about 1% of GDP. MCB provided *less than 0.5% of total formal sector employment* in 1996. As a point of comparison, GDP was growing at about 8% and employment was growing at about 6%, at the time when the company closed.

Employment

The unemployment rate fell to 16% in 2000, from the level previously reported of 19.6% (in 1998). Although 16% is too high, the rate of progress is encouraging.

The most recent statistics for formal sector employment are for September 1999, more than a year ago. They show that employment had increased by 6.4% on September 1998. This is very much the same as the annual rate of increase recorded six months earlier, but the breakdown appears more promising. Most of the increase was in the private sector and in education, with non-education employment in central and local government almost static. Moreover, there was a shift *within* the private sector, from heavy reliance on construction for job creation, to rapid growth in manufacturing employment as well. Manufacturing employment will have been affected by recent well publicised factory closures. It must be hoped that they have been offset by increases elsewhere. The details are shown in Table 2.

Exchange rate movements

Pula exchange rates have been sharply affected by the rapid decline of the rand, because the currency basket to which the Pula is pegged has a large rand weight. The rand cost of one United States dollar increased during 2000 by 22.9%. This movement was, however, made larger by the relative strength of the US$ compared to other major currencies. The cost of one Euro in rand increased by "only" 13.7% in 1999. Over the same period, the Pula also declined against the major currencies, although by less than the rand. The Pula cost of one US$ increased by 15.8%, and of one Euro by 7.1%. This meant, of course, that the Pula *appreciated* against the rand. The Pula ended the year at R1.41, an increase of 5.8% over end-1999 when the Pula was worth R1.33.

These exchange rate movements will have increased the Pula value of non-regional exports, notably diamonds, copper-nickel and beef. In contrast, exchange rate movements will have reduced the Pula value of exports to South Africa, the main destination of soda ash and manufactured exports.

The overall effect of exchange rate movements on the cost of imports depends considerably on whether inflation is driven up in South Africa by rand depreciation. In recent years, rand depreciation has had relatively little effect on South African inflation, helped by tariff reductions, tight macroeconomic

Table 2. Formal sector employment and growth, Sept 1999

	Jobs Sept 1999	Annual increase	Annual % increase
Manufacturing	28000	4900	+21.4
Construction	27500	2500	+9.7
Education: private	5600	800	+17.6
Other private sector	79500	5200	+7.0
Total private sector	**153100**	**13400**	**+9.6**
Education: public	31900	1600	+5.3
Other public sector	72000	400	+0.6
Total public sector	**103900**	**2000**	**+2.0**
TOTAL	**257100**	**15400**	**+6.4**

Source: CSO *Stats Brief, Labour September 1999* (November 2000) policy, and a relatively depressed economy. Unfortunately, there is no guarantee that this will continue, although Botswana is partially protected by Pula appreciation against the rand. So far, inflation in Botswana has not being affected significantly, remaining between 8% and 9% during most of 2000.

ECONOMIC FACTS AND FORECASTS

Quarterly

(end of period)	1999 Q1	Q2	Q3	Q4	2000 Q1	Q2	Q3	Q4
Interest rates (%)								
BOBC (3 month)	11.56	11.58	11.65	11.98	12.43	12.49	12.49	12.71
Prime	14.25	14.75	14.81	14.81	15.25	15.25	15.25	15.75
Inflation (%)	7.8	7.2	9.1	8.4	7.8	8.9	8.2	8.7
Rand-Pula	1.33	1.3	1.32	1.33	1.35	1.35	1.38	1.41
Pula-US$	4.67	4.63	4.53	4.63	4.85	5.12	5.27	5.36
BSE index	990	1033	1417	1399	1471	1435	1475	1453

Annual

		1994	1995	1996	1997	1998	1999	2000	2001
Growth (%)									
GDP (real)	d	2.5	6.6	7.1	8.3	4.2	9.0(e)	7 e	3.4 f
Non-mineral GDP (real)	d	4.8	4.9	7.8	7.7	8.9	8.5(e)	5 e	4.5 f
Exports (nominal)	b	18.4	19	23.1	39.6	-15.4	41.8	4.4 e	5 f
Imports (nominal)	b	2.7	20.4	8.3	43.8	18.8	10.2	15 e	9 f
Govt. spending (nominal)	c	-4.6	21.5	17.3	21.6	22.4	14.2	12 e	12 f
Govt. revenues (nominal)	c	-16.5	22.2	35.3	12	-7.3	55	4 e	10 f
Domestic (bank) credit	b	18.2	-3.7	1.1	5.6	56.1	55.9	25 e	20 f
Interest rates (%)									
BOBC (3 month)	a	11.9	12	12.2	11.4	10.7	12	12.7	12.5 f
Prime	a	14.5	14.5	14.5	14	14	14.8	15.8	15.5 f
Inflation (average, %)	b	10.6	10.5	10.1	8.9	6.5	7.8	8.6	8.5 f
Rand-Pula	a	1.3	1.29	1.28	1.28	1.32	1.33	1.41	1.43 f
Pula-US$	a	2.72	2.82	3.64	3.81	4.46	4.63	5.36	5.6 f
BSE index	a	313	333	352	709	947	1399	1453	1500 f
Balance of Payments (Pm)									
Exports (diamonds)	b	3727	3994	5272	7675	6061	9813	10200 e	10600 f
Exports (other goods)	B	1304	1994	2100	2620	2647	2539	2700 e	2950 f
Imports (goods, cif)	b	4408	5306	5729	8256	9804	10800	12400 e	13500 f
Current account balance	b	568	831	1643	2634	860	1842	200 e	50 f
Foreign Reserves									
Pula m	a	11961	13249	19076	21619	26485	28852	33750 e	35550 f
US$ m	a	4402	4695	5234	5675	5941	6229	6300 e	6350 f
Govt. spending (Pm)	c	4277	5195	6092	7406	9065	10356	11730 e	13150 f
Govt. revenue (Pm)	c	4473	5464	7395	8281	7678	11968	12500 e	13700 f
Budget surplus/(deficit) (Pm)	c	196	269	1303	875	-1387	1611	770 e	550 f
Govt. balances at BOB	a	6705	6460	11664	15634	19212	20199	24000 e	26000 f

Notes: e BIDPA estimate; f BIDPA forecast; p preliminary data
Details of assumptions underlying the forecasts can be obtained from BIDPA.

Sources: CSO, Bank of Botswana, BIDPA

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