

Botswana's economy springs back to life



➡ Credit appetite will increase in 2018 ➡ More coal companies may be licensed

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The record low interest rates and increased spending from government will be among the biggest drivers of economic growth this year even in the midst of global uncertainties that have affected mineral exporting countries such as Botswana, central bank top executives have insisted.

Bank of Botswana's (BoB) optimism for the year ahead is jelling well with that of most economic and political commentators who have warmed up to new President Mokgweetsi Masisi, who has announced reviews of some of the policies which are viewed as deterrents to economic prosperity. A day after updating the President and his cabinet on economic developments, BoB's top brass sounded even more optimistic when they held a conference with the media last Friday. The regulator of commercial banks is buoyant despite the fact that economic growth for the past year slowed, even when the cost of borrowing for both individuals and businesses has been lowered.

The central bank's head of research and financial stability, Dr Tshokologo Tshoganetso said lower bank rates are indeed helping the economy to grow, but there are other factors

during the year under discussion which can be singled out for having dragged down the economy last year.

According to latest data published by the central bank, the economy expanded by 2, 4 percent in the past year, compared to 4, 3 percent in 2016. "The slower growth reflects a lower increase of 4.2 percent in non-mining activity, compared to 5.5 percent in the previous year. Mining output, however, contracted significantly by 11.2 percent in 2017 compared to a decline of 3.5 percent in 2016," said the bank.

The slow growth is notwithstanding the fact that the banking rate, which is one tool that the bank uses to boost the economy is at a two decade year low. The bank rate is now at 5 percent. While BoB is of the view lower benchmark interest rates are working, an economist with a leading bank holds a contrary view.

Barclays Bank Botswana's economist has told BSE News publication that an accommodative monetary policy in Botswana seems to impact household final consumption expenditure. She added that the transmission of the rate cuts to economic growth has been very minimal.

"This is because the local economy is highly dependent on the mining sector, and if the mining sector is not performing well even consumer

income is negatively impacted. Non-mining GDP (Gross Domestic Product) has remained restrained, mainly because of the slow growth in personal incomes," said the Barclays economics expert.

Nonetheless, Tshoganetso together with BoB Governor, Moses Pelaelo are adamant that the economy will improve this year, backed by the expected rise in appetite for credit for business purposes as a result of lower cost of borrowing made possible by lower bank rates. He stated that, during the period under review, the economy was coming from the 2016 closure of BCL group of mines, which heavily affected growth. Government has put BCL mine in Selibe Phikwe and Tati Nickel under liquidation citing inability to operate efficiently on the backdrop of rising debts. Furthermore, increased spending from government will also stimulate the economy. This February, finance and economic minister, Kenneth Matambo - who has forecast the economy to expand by 5,3 percent in 2018- presented an expanded budget which is aimed at funding infrastructure development, health, defense, education, social services among others. Growth for the year will also come from the mining sector, which is expected to see at least two copper mines, Minergy

and Shumba Energy projects going commercial if they are granted coal mining licenses. The two companies presented their plan at the two-day annual resources conference which ended on Thursday.

The diamond industry is also poised to improve this year, on the backdrop of a recovery in global commodity prices. Debswana, the country's biggest rough diamond producer is also upbeat on the year ahead. In the past year, the company's production jumped 11 percent to a three year high in 2017 of 22, 2 million carats. The company, which is owned by Botswana and De Beers, is expecting growth this year as lower taxes in the United States leave consumers with more to spend on luxury goods.

"With stable and improving macroeconomics, particularly in the USA, we will see growth of the same order of magnitude or perhaps slightly higher in 2018," Bonyongo told the media in March.

Water and electricity, according to Tshoganetso, will also be supportive of other sectors of the economy especially that most of the major projects within the two sectors have been completed. Morupule B power station which plunged the country into darkness a few years ago, has been completed.