



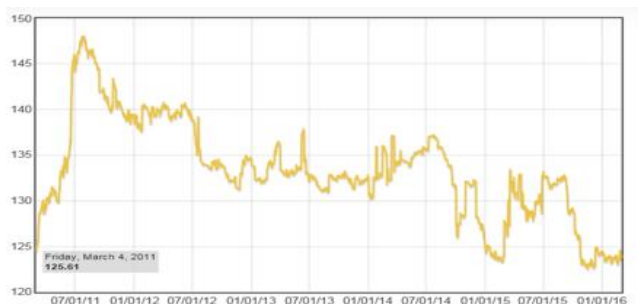
Key Indicators	
Population (2014)	2.2 million
Per capita GDP (constant USD, 2015)	\$7,096
Average population growth rate (2010-2014)	2%
Government revenue, % of GDP (2014)	34.2%
Country income classification	Upper-middle

Source: World Bank, 2015.

Macroeconomic Forecasts					
Indicator	2013	2014	2015 (proj.)	2016 (proj.)	2017-18 (proj.)
Real GDP growth (%)	9.9	3.2	-0.3	3.7	5.0
Real GDP per capita growth (%)	5	4.3	3.6	3.4	N/A
CPI inflation (%)	5.8	4.4	4.3	4.2	N/A
Budget balance % GDP	0.7	5.2	3.2	3.8	N/A
Current account % GDP	10.4	7.9	7.1	7.6	N/A

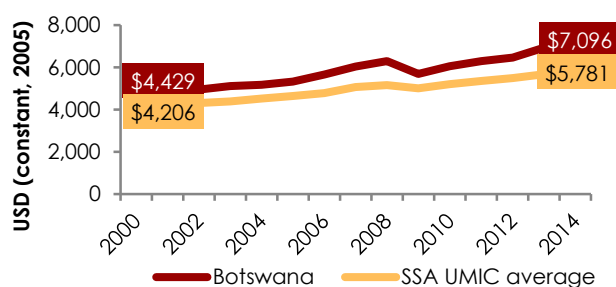
Source: AEO, 2015; IMF, 2016.

Figure 1: Diamond Price Index



Source: IDEX Online, 2015.

Figure 2: GDP per Capita Growth



Source: IMF, 2016; AEO, 2015.

Overview

Botswana was hit particularly hard by the global economic crisis, seeing its economic production shrink by nearly 8% in 2009. The country's economy quickly recovered, but real gross domestic product (GDP) growth is estimated to have turned negative in 2015 owing to decreases in the global demand for diamonds (Figure 1). The economy is expected to recover gradually, although volatility in mineral prices presents a lingering risk to economic stability.

Under the current government, which won re-election in 2014, Botswana has employed prudent fiscal and economic management. Inflation, which fell to 4.4% in 2014, is expected to remain at or below that level through 2016. Export earnings account for nearly half of Botswana's GDP—an estimated 45.1% in 2015. Botswana's trade balance was estimated to be -4.4% of GDP in 2015. After three years of surpluses, the government fiscal balance in fiscal year (FY) 2015/16 turned into a deficit. The FY 2016/17 budget presented to Parliament in February 2016 calls for high levels of public investment and running a higher fiscal deficit to stimulate the economy.

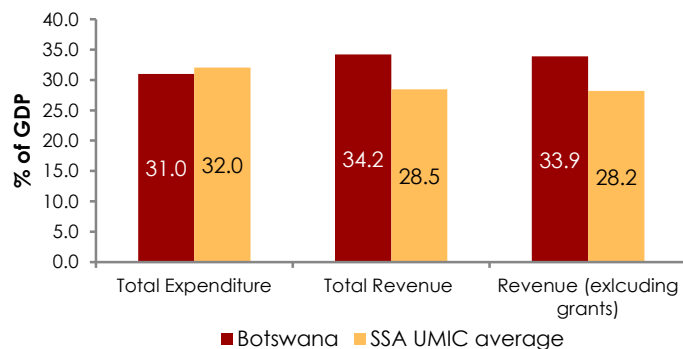
Political Economy

Botswana is considered a mature democracy, with free and fair elections held every five years. The Botswana Democratic Party has been in power since the country gained independence in 1966. Political stability has contributed to Botswana's rapid growth from one of the poorest countries in Africa to upper middle-income country (UMIC) status. The constitution ensures fundamental rights for its citizens, and strong institutions have facilitated prudent management of Botswana's significant mineral resources. The country has not fallen victim to the "resource curse," the paradox of resource-rich countries experiencing poor economic growth and development outcomes, and is, in fact, ranked 28th globally on the Transparency International Corruption Perceptions Index—the highest in Africa (World Bank, 2015).

GDP and Economic Growth

Despite external and domestic factors contributing to a recent economic slowdown in Botswana, Botswana's GDP per capita in constant U.S. dollars (Figure 2) has grown by nearly 50% in a decade and a half, from US\$4,429 to US\$7,096 in 2014. This trend has been part of a significant reduction in poverty in Botswana, from 31% in the early 2000s to 19% in FY 2009/10. Nonetheless, Botswana's unemployment remains high at nearly 18%, and pockets of poverty persist, mainly in rural areas (AEO, 2015).

Figure 3: Government Revenue and Expenditure (2014)



Source: IMF, 2016; AEO, 2015.

Government Revenue and Expenditure

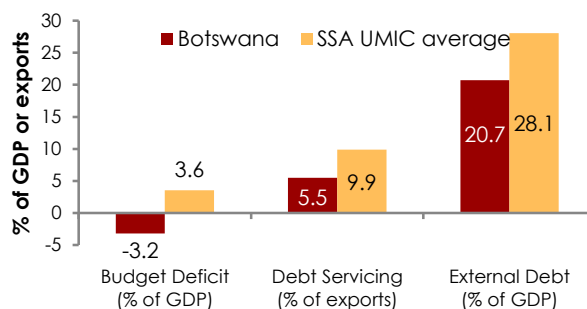
Botswana’s government has emphasized a prudent fiscal policy and fiscal buffers to protect against future economic shocks. Total government revenues amount to 34.2% of the GDP, well above the average of 28.5% in other sub-Saharan African UMICs (Figure 3). However, total government expenditure is only 31% of GDP, compared to an average of 32% for these countries. Budget surpluses since FY 2012/13 have kept public debt and debt servicing costs well below regional averages (Figure 4).

Government of Botswana’s revenue sources are diversified— income tax accounts for the largest proportion, at 29% of revenues (Figure 5). Import tariffs from the Southern African Customs Union account for 28% and mining royalties make up a significant portion, at 25%. Botswana is dependent on natural resource wealth, with more than 20% of revenues coming from natural resources. Potential future declines in mining revenue, particularly from diamonds, may threaten Botswana’s fiscal stability and balanced budget. Government expenditure in Botswana (Figure 6) demonstrates a strong prioritization of capital investment, which accounts for 25% of total expenditure, compared to 32% for employee salaries and benefits.

References and Works Consulted

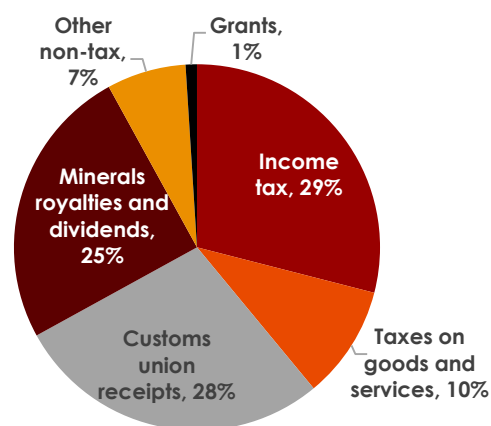
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Figure 4: Government Borrowing (2014)



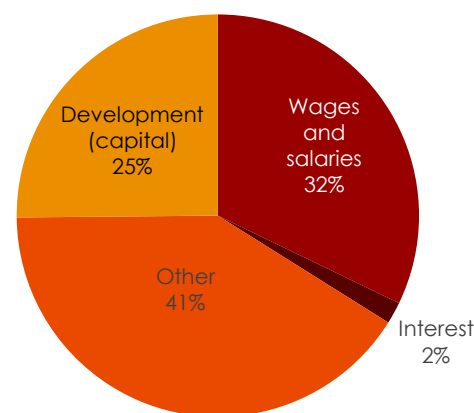
Source: IMF, 2016; AEO, 2015.

Figure 5: Revenue Sources (FY 2014/15)



Source: IMF, 2016.

Figure 6: Expenditure (FY 2014/15)



Source: IMF, 2016.

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