



**KGORI CAPITAL**

INVEST WITH PRIDE

# MARKET INSIGHTS

Botswana Fixed Income  
and Macroeconomics

2021

Botswana's leading citizen-owned  
and run Asset Management firm





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### MARKET INSIGHTS: BOTSWANA FIXED INCOME AND MACROECONOMICS

- We have maintained our GDP growth expectation of 7.2% for 2021.
- We expect the BoB to maintain interest rates at current levels in the medium term in order to support economic growth.
- We expect inflation to accelerate in the next few months driven by Transport inflation where we expect further pump prices increments as global oil prices continue to rebound.

## MARKET REVIEW

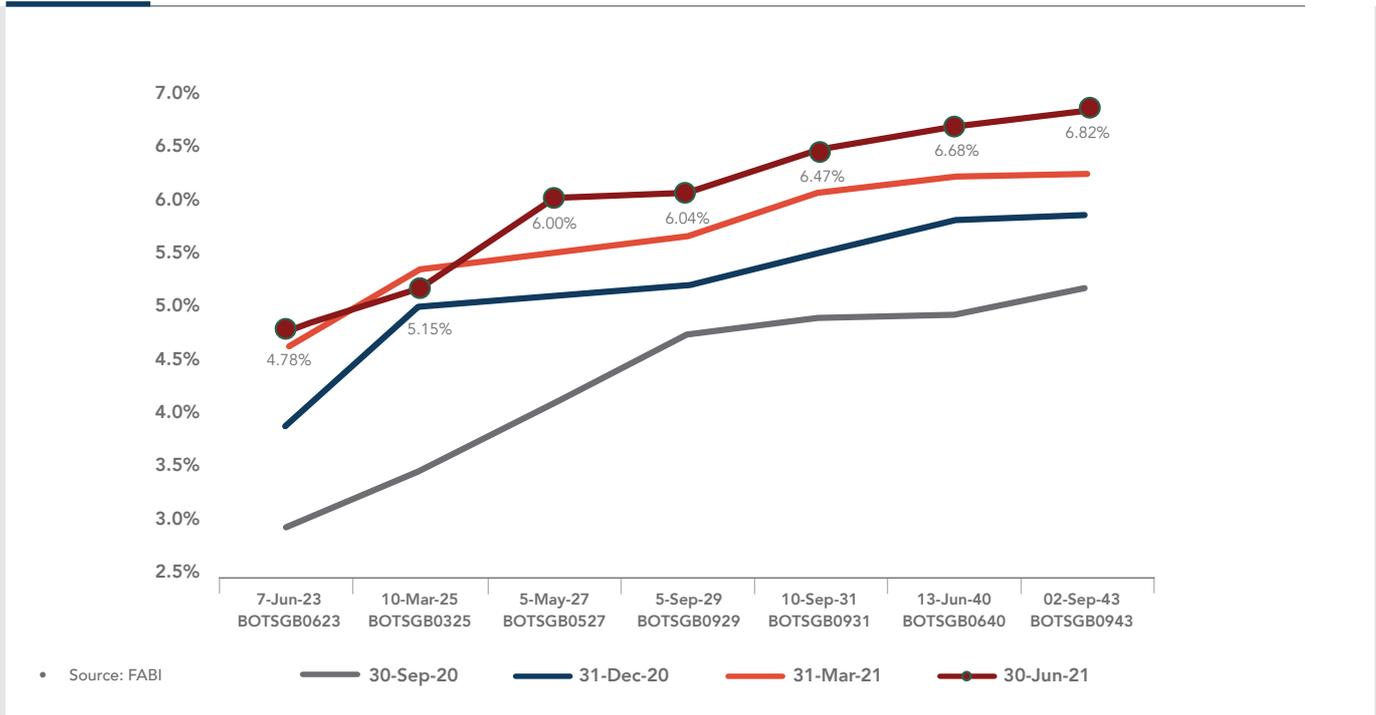
The FABI returned 0.5% for the quarter as interest income more than compensated for capital losses. Both Government and Corporate bonds registered positive returns for the quarter, returning 0.4% and 1.3%

respectively. The pressure on Government bonds remains as yields continued to rise across the curve with the exception of BOTSGB0325 (BW007, 4-Year bond) which experienced a 15bps drop in yield. The

upward shift in the Government yield curve is expected to continue as Government bond supply will increase in order to fund its E RTP.



**CHART 1: GOVERNMENT BOND YIELD CURVE CHANGES**



There was one auction held during the quarter where P2.0bn of bonds and T-Bills were offered. There was decent demand with P2.3bn of bids received, however, in a similar manner to Q1 2021’s auctions, it was under allotted with an allotment ratio (allotment divided by securities on offer) of 46.0%. The bulk of the allotment was at the short end of the curve where P1.0bn (96.2% of total allotment) T-Bills were issued. On the long end of the curve, two out of the three bonds on offer were not allotted; the BOTSGB0623 (BW013, 2-Year bond) and the BOTSGB0931 (BW011, 10-Year bond). The question still remains how the Government plans to fund its projected deficits. Even with the news that

the IMF has approved a \$250mn (~P2.8bn) loan to support Botswana’s economic recovery, there is an increased likelihood that projects under its ERTP may be delayed due to insufficient funding.

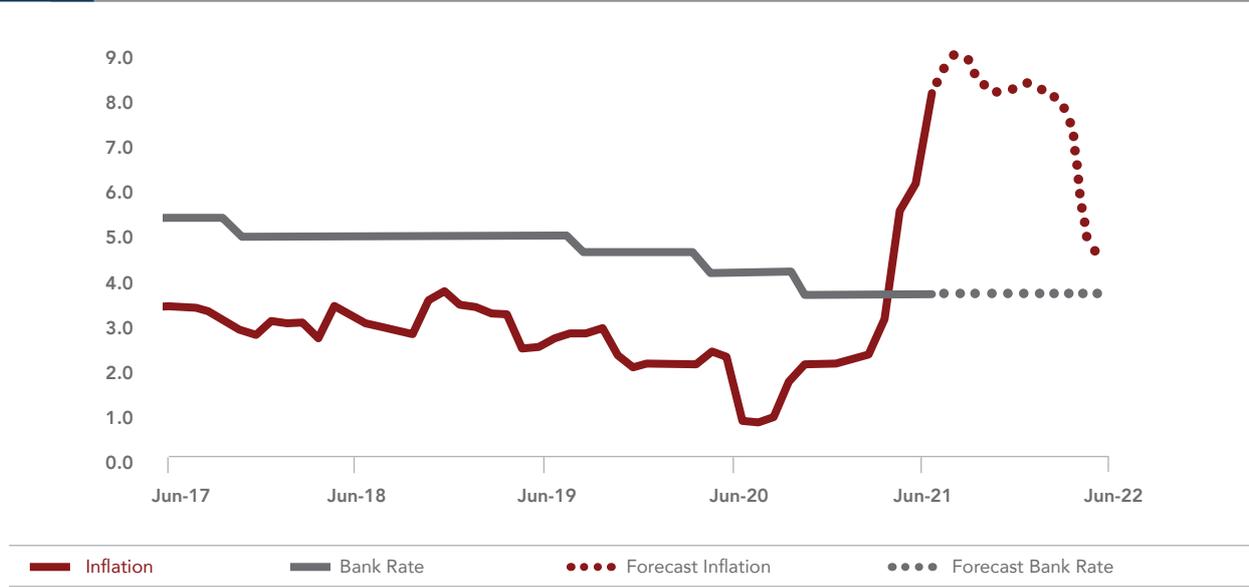
After trending near or below the lower bound of Bank of Botswana’s (BoB) 3%-6% objective range for the past 6 years, inflation surged in 2Q21 to breach the upper bound for the first time since June 2013. Inflation ended the quarter at 8.2%, driven by elevated Transport (17.4%), Housing (8.6%) and Food inflation (6.8%). Transport inflation’s increase is due to the increase in global oil prices which have risen by 45%

thus far in 2021. Moreover, housing inflation has soared as a result of the normalisation in BHC rentals to market levels (3-4x increase in some instances) and the ~13% increase in water tariffs. Food inflation has been supported by the recent increase in VAT, coupled with regional and global supply chain disruptions. We expect inflation to accelerate further premised on continued supply-push inflation and base effects arising from the Transport basket. The main upside risks to our outlook remains higher than expected Food and Transport inflation. The main downside risk remains continued lacklustre domestic demand.

**The main upside risks to our outlook remains higher than expected Food and Transport inflation. The main downside risk remains continued lacklustre domestic demand.**



**CHART 2: BOTSWANA CPI (Y/Y %)**



Source: Statistics Botswana, Kgori Capital Analysis

The BoB Monetary Policy Committee (MPC) met twice during the quarter on 29 April 2021 and 17 June 2021. The MPC maintained the Bank Rate at 3.75% despite inflation breaching the upper bound of its objective range.

The MPC views the increase in inflation as transitory (due to factors such as the increase in VAT, sugar tax, fuel levy and other administered prices) and hence maintained its accommodative position.

A trade deficit of P1.9bn was recorded for the month of April 2021. The main driver of this was the normalisation in diamond trade which registered a reduced surplus of P2.5bn in April 2021 versus P4.8bn in March 2021. On a Last Twelve Months (LTM) basis the trade deficit stood at P20.9bn. The trade deficit is a result of sluggish diamond trade activity coupled with a pickup in non-mining imports, which have ballooned to P54.5bn LTM in April 2021 from P50.8bn LTM in April 2020.

GDP grew 0.2% q/q and -8.6% y/y LTM. Statistics Botswana (SB) rebased GDP for 1Q21 onwards. SB also disaggregated economic sectors resulting in 18 economic sectors versus 10 previously. It appears that Wholesale and Retail Trading has been split into Wholesale & Retail, Diamond Traders and Accommodation & Food Services; Transport and Communication appears to have been split into Transport & Storage and Information

& Communication Technology; Finance and Business Services appears to have been split into Finance Insurance & Pension Funding, Real Estate Services, Professional, Scientific & Technical and Administrative & Support Activities. Following the rebasing the largest sector is now Public Administration and Defence (previously General Government) contributing 18.6% to GDP in 1Q21. In its previous release before the rebasing (4Q20), the largest sector was Wholesale and Retail Trading accounting for 20.2% of GDP.

BoB released its April 2021 Monetary Policy Report, where it reiterated its accommodative stance to support economic growth as well as its expectation for a near term increase in inflation due to recent VAT and administered price increases. The BoB also stated that though risks to inflation are tilted to the upside, sluggish economic growth would keep inflation restrained in the medium term.

April 2021 credit growth accelerated to 2.8% y/y from 1.6% y/y in March 2021. The acceleration in credit was broad based, however Business and Parastatal credit growth remained in negative territory registering -0.7% y/y and -36.4% y/y respectively.

The Financial Stability Council (FSC) released the May 2021 Financial Stability Report where the FSC highlighted that Botswana's financial system continues to be resilient, characterized by strong capital and liquidity buffers as well as moderate profitability. The FSC also concluded that the current level of credit growth poses a minimal risk to financial stability and that vulnerabilities to financial stability are judged to be moderate in the short term.

## OUTLOOK

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### GDP

We have maintained our GDP growth expectation of 7.2% for 2021. Growth will be principally supported by a recovery in the Mining sector which was severely impacted by lockdowns and constrained demand in 2020.

We expect diamond production and sales to continue unconstrained in 2021. Forecasts will as always remain fluid as we get more information on the status of the local and global vaccine rollout as well as the implementation of Government's E RTP.

### INTEREST RATES

We expect the BoB to maintain interest rates at current levels in the medium term in order to support economic growth.

### INFLATION

We expect inflation to accelerate in the next few months driven by Transport inflation where we expect further pump prices

increments as global oil prices continue to rebound on the back of optimism regarding the global economic recovery from the pandemic.





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