



Recent Economic Developments & Prospects

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Structure of Presentation

- Botswana Economic Developments
 - Economic Growth
 - Exchange Rates, Trade etc.
 - Inflation and Interest Rates
 - Government Budget
 - 2007 Prospects



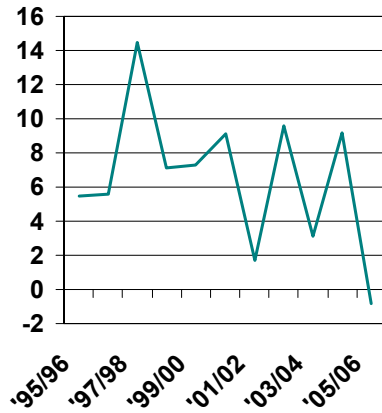
Economic Growth



Growth Developments

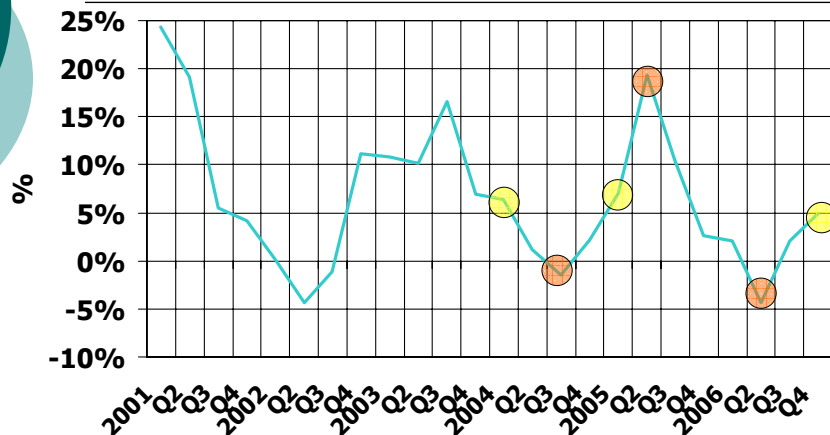
- Economic growth data released just after 2007 Budget
 - For the first time in many years, the real GDP growth figure was not mentioned in the Budget speech
 - Growth in 05/06 was minus 0.8%

GDP growth



- Growth data disappointing, but not all bad:
 - Mainly driven by mineral sector developments – volatile due to overlapping calendar and national accounts years
 - Underlying mineral growth performance steady and at a reasonable rate
 - Prospects for improvements in non-diamond mineral sector growth

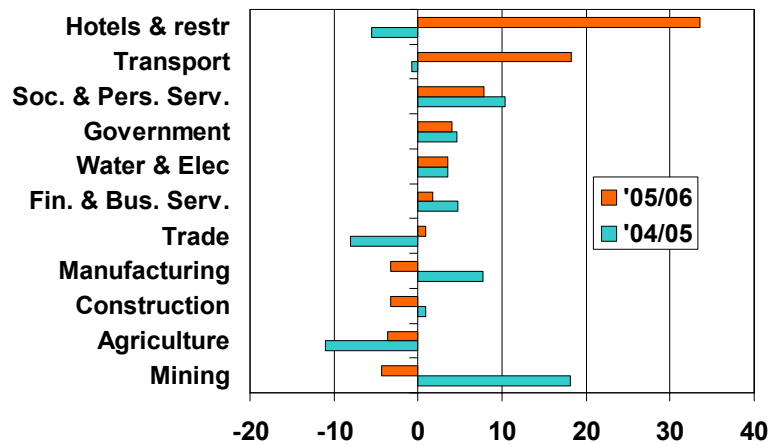
Growth of Diamond Production



Growth Developments

- Outside of mining sector, growth performance mixed.
- Strong growth in transport, hotels & restaurants
- Negative growth in manufacturing, construction, agriculture
- Year to year volatility
- Concern over quality of GDP data

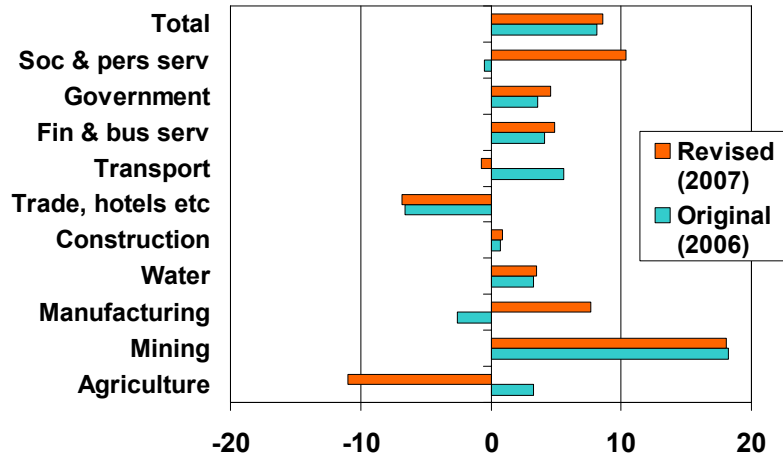
Growth by Sector



Growth Developments

- Major revisions to GDP data in some sectors, notably:
 - Agriculture
 - Social & personal services
 - Transport
 - Manufacturing
- Most recent GDP growth estimates highly provisional

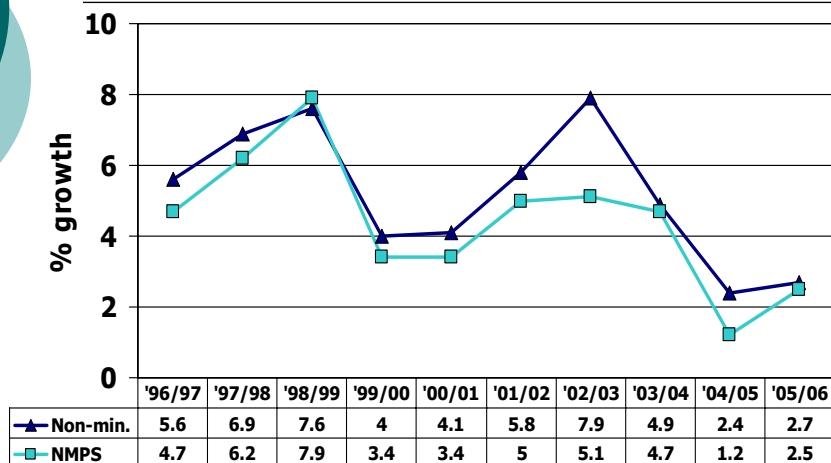
Growth by Sector 2004/05: Original & Revised



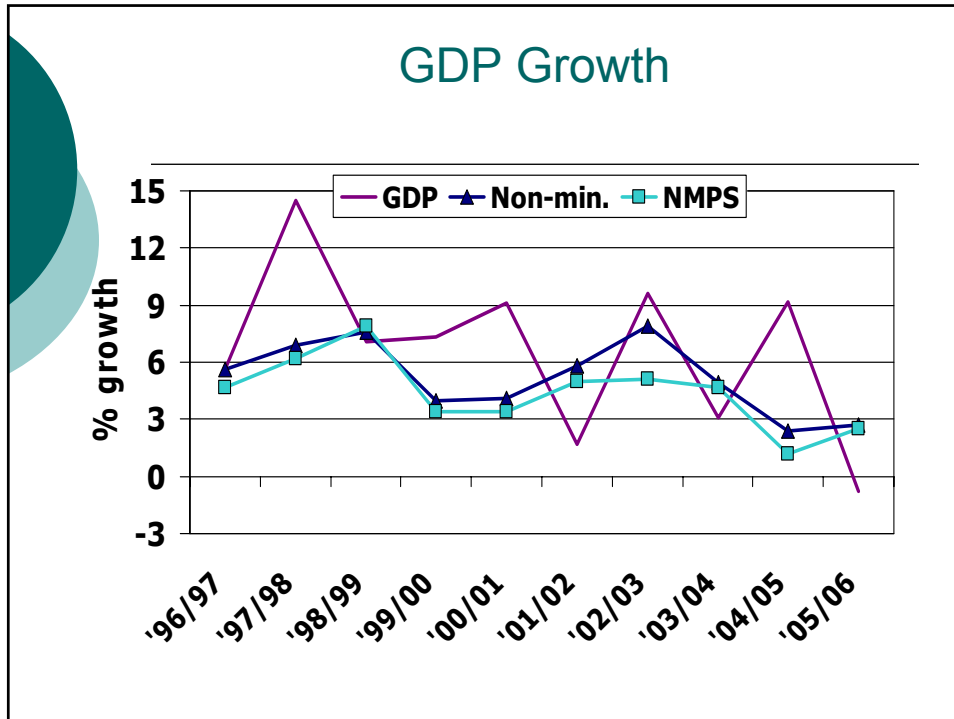
Growth Developments

- GDP data difficult to interpret, due to:
 - Revisions
 - Adjustment items not allocated to sectors
- Making allowances for these factors, overall growth in non-mining GDP appears to be picking up slowly

Growth of Non-Mining Value Added



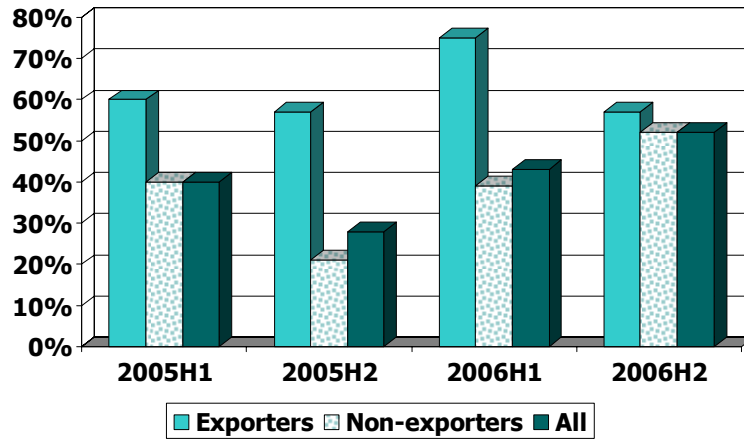
NMPS = non-mining private sector (i.e. excludes government)



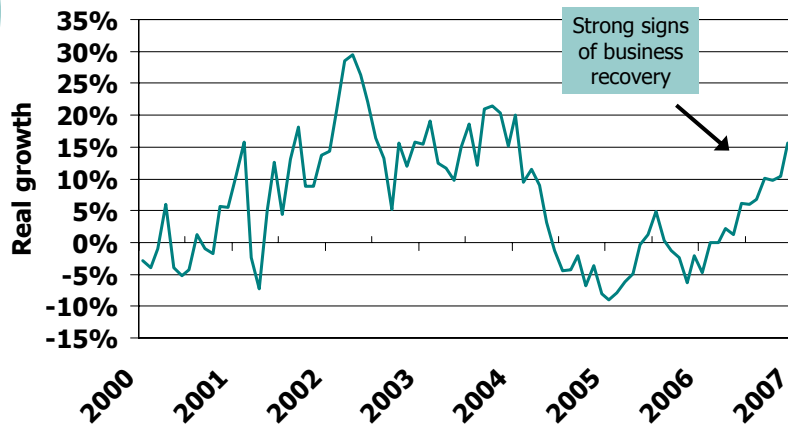
Evidence for Economic Recovery?

- GDP data (to June 06)
- Growth indicators in positive territory
- BoB Business Expectations survey
 - Jump in confidence in 2006H2 compared to 2006H1;
 - Confidence now over 50% for first time
 - Much improved confidence amongst non-exporters

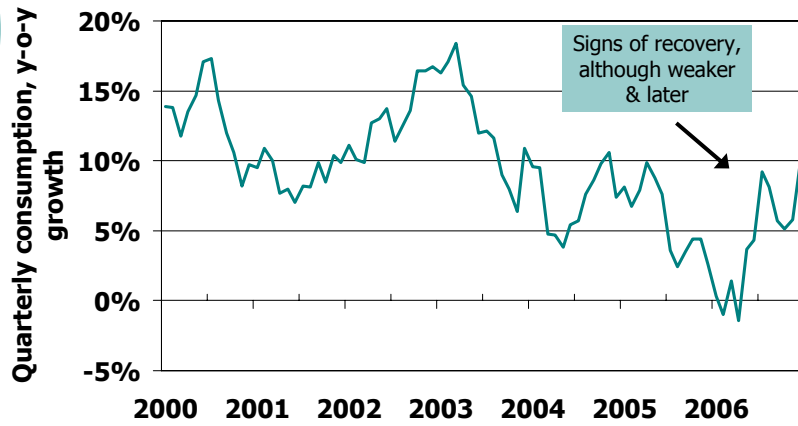
BoB Business Confidence Survey



Growth Indicators – Real Private Business Credit

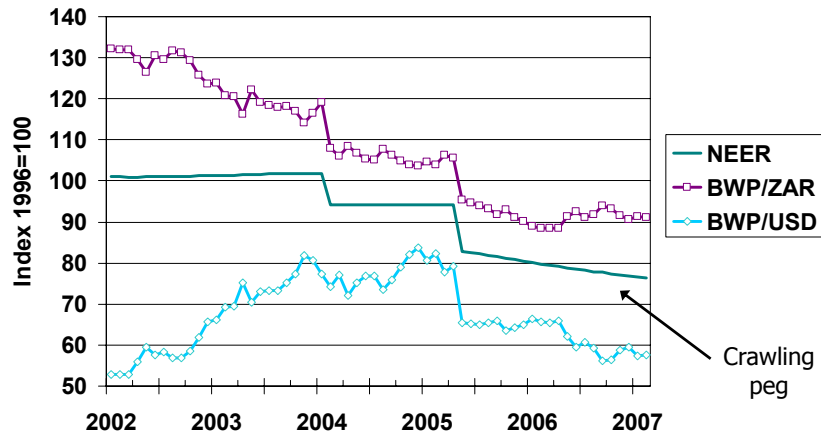


Growth Indicators – Non-Mining Electricity Consumption

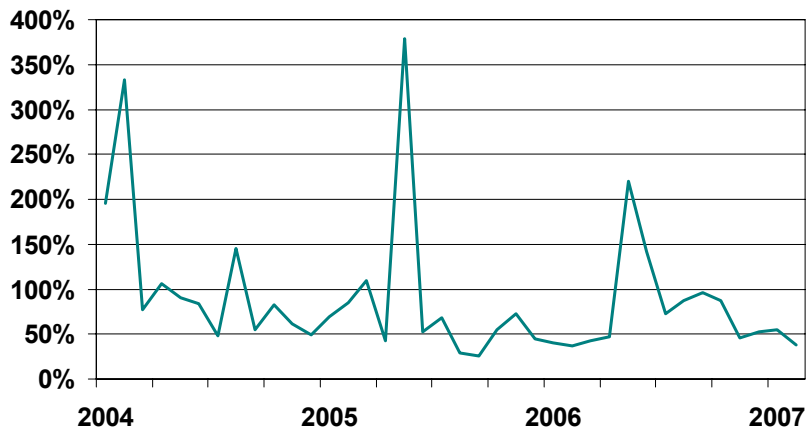


Exchange Rates

Exchange Rates



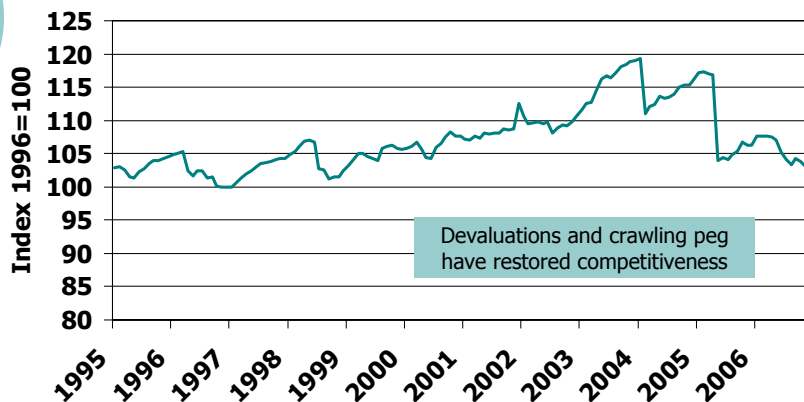
Exchange Rate Volatility



Exchange Rates

- BWP crawl reduced slightly as forecasts of inflation gap closing and real exchange rate stabilising
- No transparency yet on rate of crawl or basis for calculation, but would be desirable to make exchange rates and inflation more predictable
- Crawl may be reviewed around mid-year

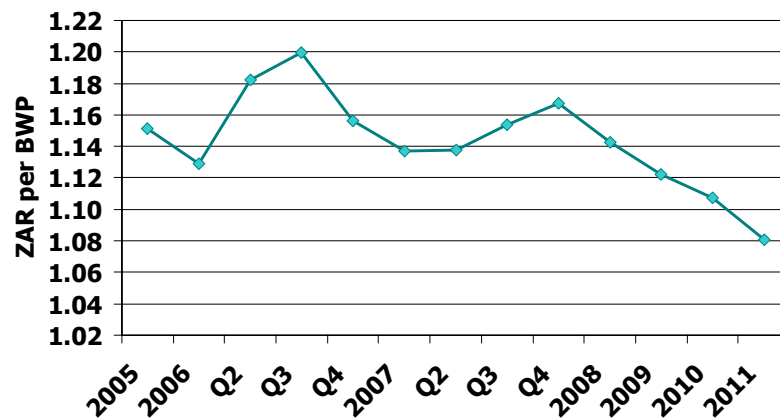
Real Effective Exchange Rates 1995-2006



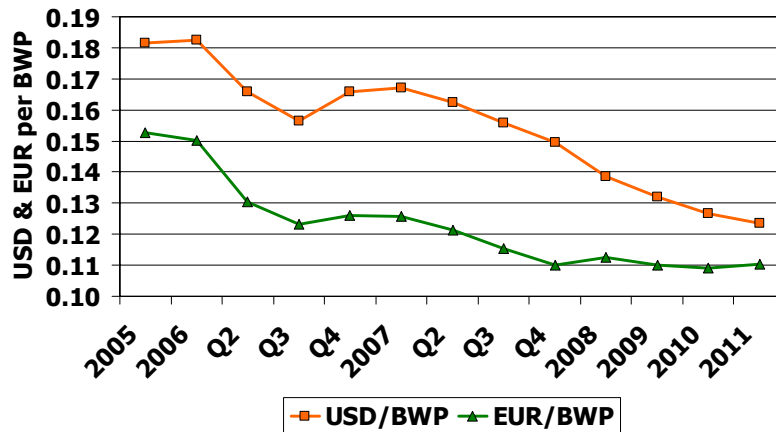
Exchange Rate Forecasts: 2006

	Actual, end Dec-06	Forecast, end Dec-07	Change
ZAR/USD	6.97	7.80	-10.6%
ZAR/BWP	1.157	1.167	0.9%
USD/BWP	0.166	0.150	-9.7%

Forecasts 2006-2011 Pula vs. ZAR



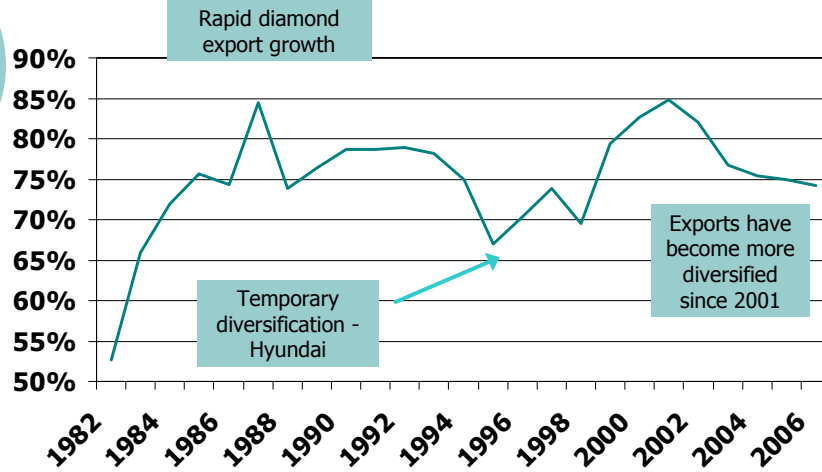
Forecasts 2006-2011 Pula vs. USD, EUR



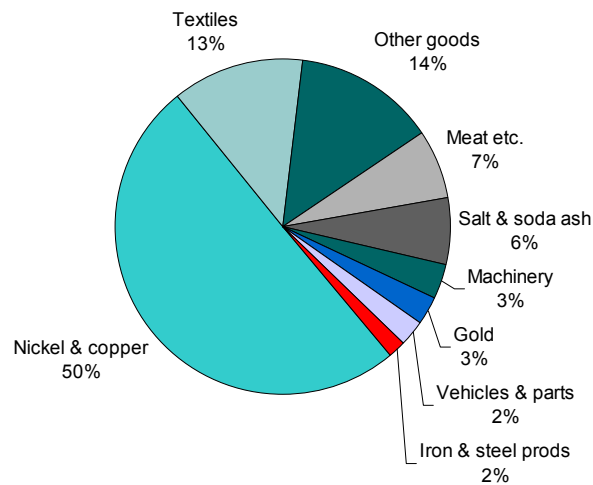
Export Developments

- Exports have become more diversified (away from diamonds)
- Wide range of non-diamond exports
- Modest overall export growth from 2005 to 2005 (3% in USD terms)

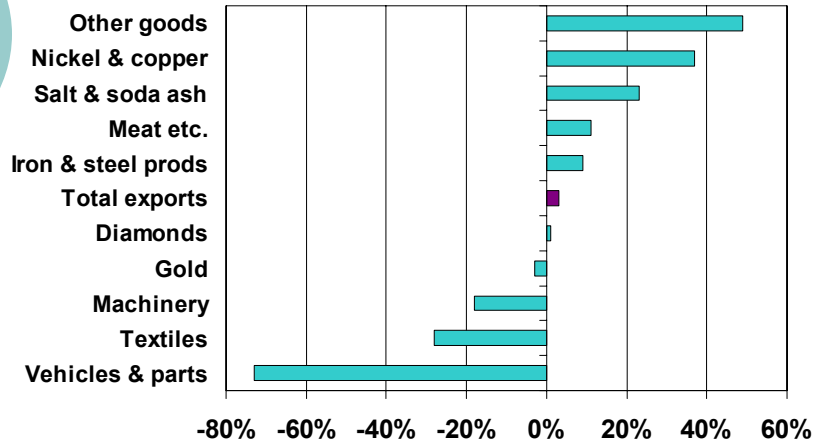
Diamond Exports as % of Total Exports



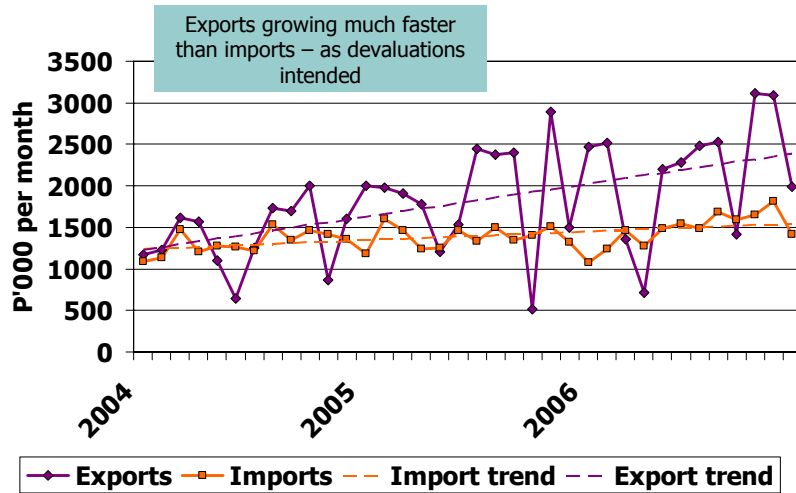
Composition of Non-diamond Exports, 2006



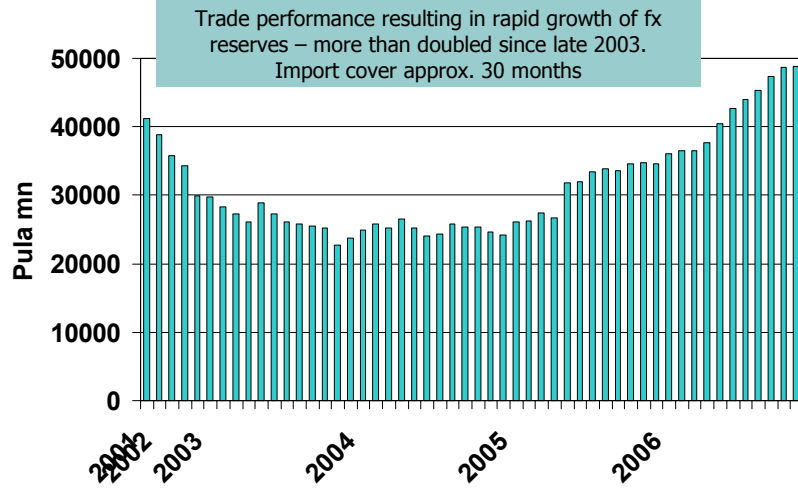
Change in Exports (US\$), 2005-06



Exports & Imports

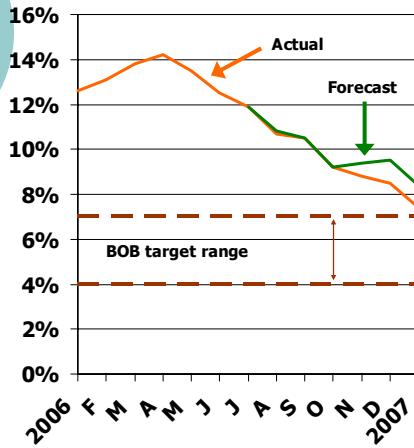


Foreign Exchange Reserves (Pula)



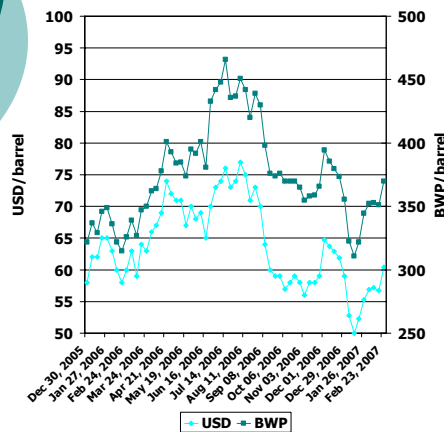
Inflation & Monetary Policy

Inflation vs Forecast (as at July 06)



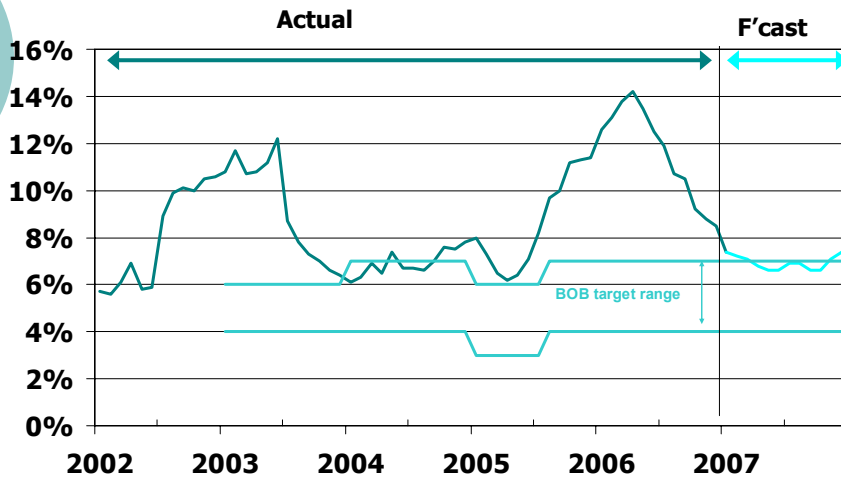
- Inflation has declined steadily since peak of 14.2% in April 2006
- Down to 7.4% in January 2007
- Decline has been faster than expected, due mainly to falling oil prices
- New CPI index will help more accurate measurement of inflation

Crude Oil Prices (Brent)



- Crude oil prices have reversed most of 2006 gains
- By end-Feb down 23% in USD terms and 21% in BWP terms from 2006 peak
- Impact of falling prices reinforced by larger weight for fuel prices in new basket

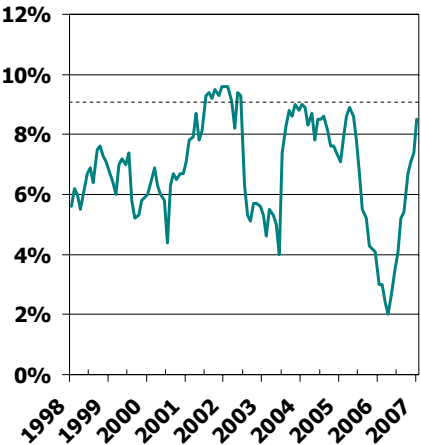
Inflation Forecast (Feb 07)



Monetary Policy

- No interest rate changes since Feb 2006
- Declining inflation favours rate reduction, but:
 - inflation still above BoB target range of range of 4%-7%, which is to be maintained in 2007
 - historically interest rates only reduced when inflation close to target
 - inflation should fall within range in Q2 2007, but only to around 6.5%
 - main concern now is credit growth – way above range of 11%-14%
 - may see small reduction in rates (50bps) in next 2-3 months, but not much after that

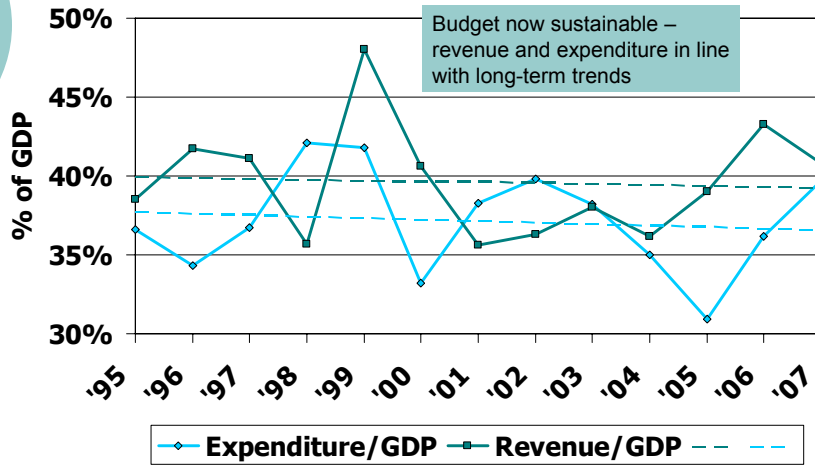
Real Prime Lending Rate



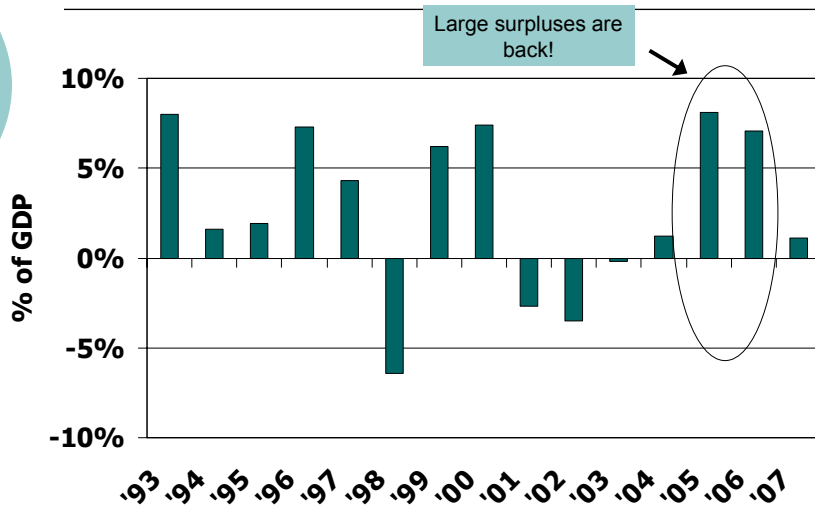
- Real prime rate reaching recent historical peak
- Supports case for rate reduction

Government Budget 2007

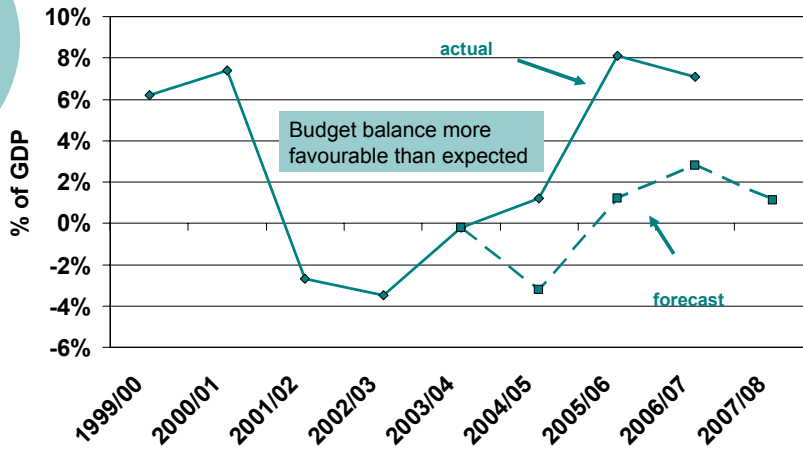
Govt Revenue & Spending



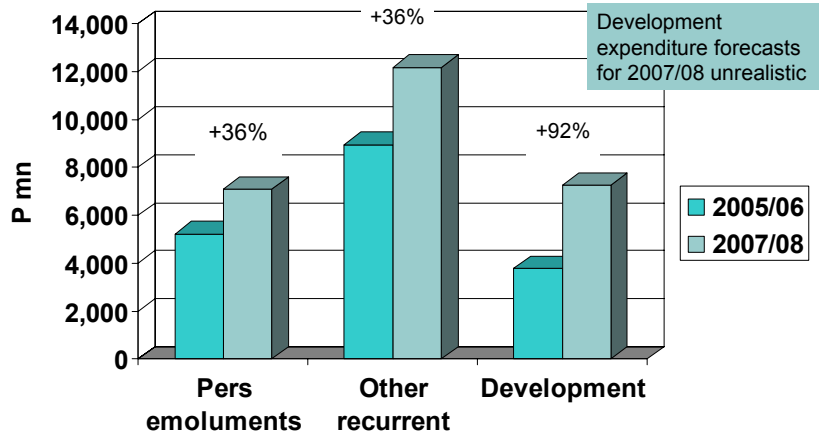
Budget Balance



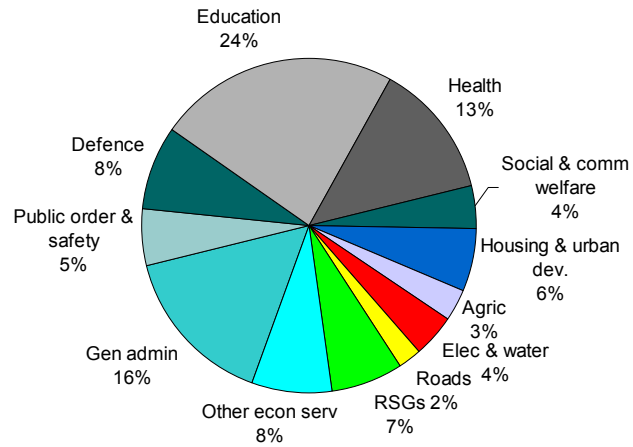
Budget balance – actual vs. forecast



Budgeted Expenditure



Allocation of Expenditure by Function, 2007/08



Economic Prospects 2007



Botswana Economic Prospects 2007

- Slow resumption of growth
 - declining inflation and – hopefully – interest rates;
 - positive impact of govt. salary increases in 2006 & 2007
 - impact of higher government spending – but slow
 - positive devaluation impact feeding through – export-led growth
 - impact of reforms – telecomms etc.
 - major projects



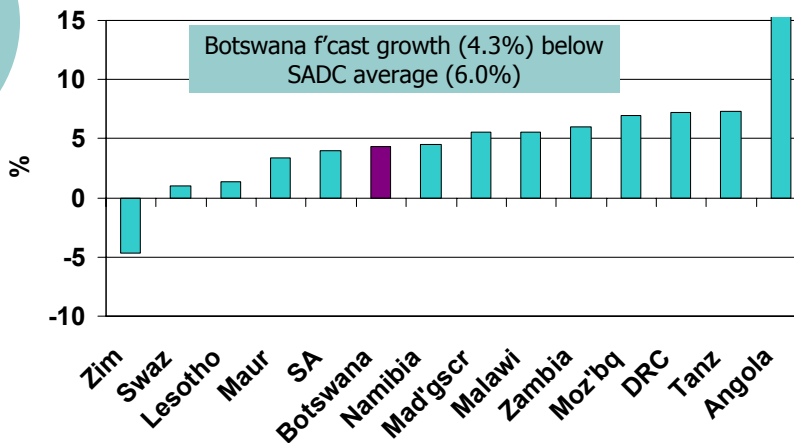
Major Projects – Mining & Related

- LionOre/Tati Nickel Activox refinery (Cu/Ni/PGMs) (Francistown)
- Diamondex mine early 2007 (Tuli Block)
- African Copper 2008 (Dukwe)
- Diamond aggregation/cutting
- African Diamonds AK6 2007 (Orapa)
- Mmamabula coal/power
- Mount Burgess (zinc/silver); Discovery (nickel/copper/silver) & A-Cap Resources (uranium)

Botswana Economic Prospects 2007

- Growth inhibited by:
 - Slow disbursement of govt. spending
 - Slow structural reforms, privatisation etc.
 - Skills shortages
 - Capacity constraints in region (e.g. cement)
- BEAC reforms
 - Focus on openness, competitiveness, policy and mindset change, supported by major projects
- IMF growth forecasts
 - 2006 4.2%; 2007 4.3%

SADC GDP Growth 2007 IMF Forecasts



Thank You



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