

BOTSWANA – RECENT ECONOMIC DEVELOPMENTS

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Structure of Presentation



- Botswana Economic Developments
 - Growth
 - Exchange Rates
 - Inflation and Interest Rates
 - Government Budget
 - Economic scenario 2008



Economic Growth

Recent Economic Growth Experience



- Long term decline in economic growth rates
- Overall growth rate volatile due to mining
- Diversification has been slow - mining and government still account for over 50% of GDP
- Non-mining private sector growth has been weak
- But, signs of significant improvement in past 18 months
- Good export performance, including reduced dependence upon diamonds
- Non-mining private sector growth has picked up, although still dependent upon government

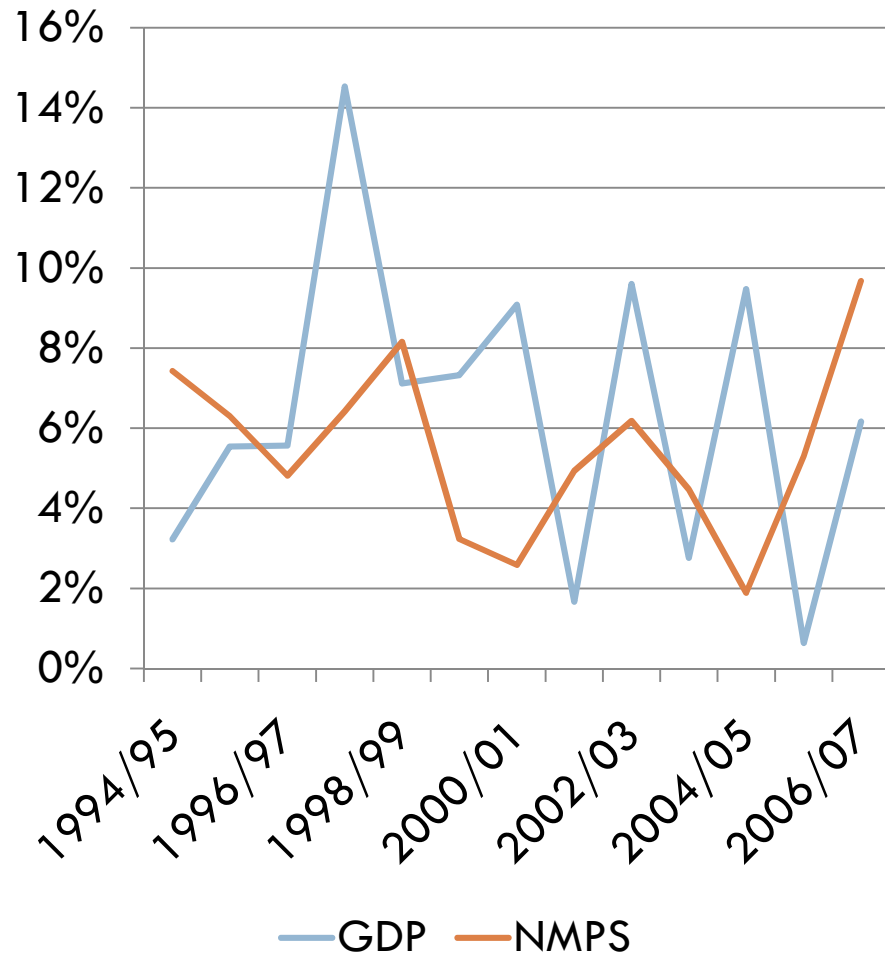
Growth Developments - Mining

- Good conditions in mining sector
 - ▣ world commodity markets tight, although for metals less so than in 2006;
 - ▣ copper & nickel prices at high levels by historical standards, but off their peak in 2007H2;
 - ▣ widespread prospecting taking place in Botswana, (copper, nickel, zinc, diamonds, gold, PGMs, uranium, coal, gas)
- Market for diamonds weak in short-term
 - ▣ US slowdown & dollar weakness will hurt in 2008
 - ▣ but long-term supply-demand imbalance will support prices, with long-term real price rise forecast

Mining-related Developments

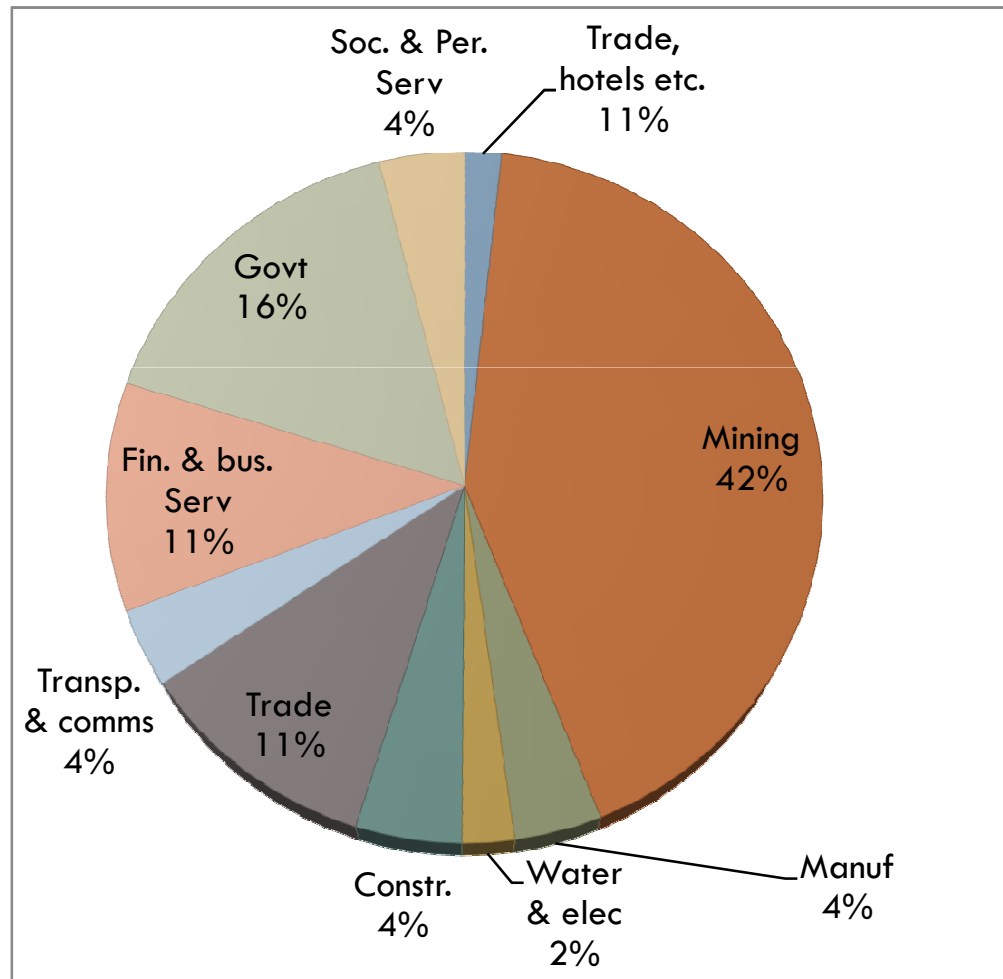
- Ongoing and Forthcoming Projects
 - Diamonex, 2008 (Tuli Block – licensed, funded and under construction)
 - African Diamonds AK6, 2008/9 (Orapa) – mining licence applied for
 - African Copper 2008, (Dukwe – licensed, funded and under construction)
 - Norilsk Nickel/Tati Nickel Activox refinery (Cu/Ni/PGMs), 2007-9 (Francistown) – under construction
 - CIC coal/power, 2008-12 (Mmamabula) – moving closer to conclusion of negotiations
 - BPC expansion (coal, power) (2008-11)
 - Diamond aggregation/cutting, 2008 onwards
 - Discovery (nickel, zinc) and A-Cap (uranium) – very good prospecting results & favourable price developments
 - Longer-term possibilities: gas, trans-Kalahari coal
- Huge investments in processing as well as mining
- Positive impact on exports, jobs, spin-offs
- Very active prospecting continuing
- Not yet impacting on economic growth data, although signs of capex feeding through to trade data

Economic Growth



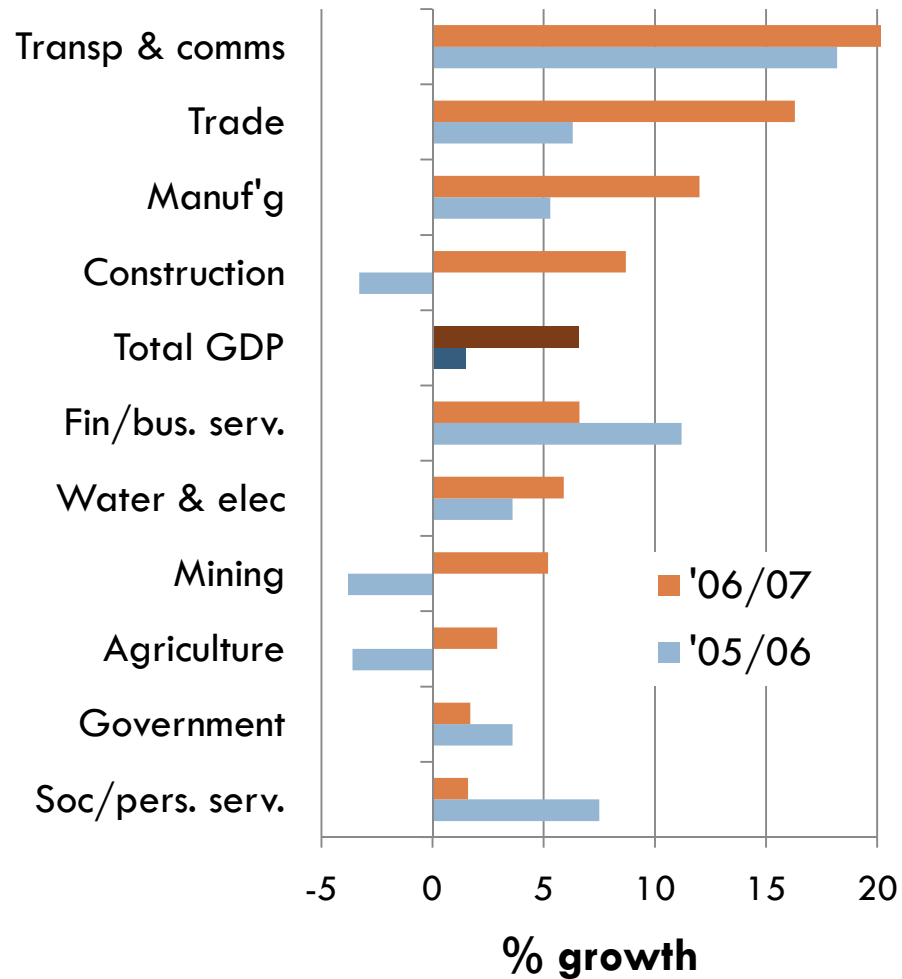
- Headline GDP growth has recovered from (a revised) 0.6% in 2005/06 to 6.2% in 2006/07
- Confirms earlier signs of recovery from other indicators
- Growth in NMPS even more buoyant – up from a revised 5.3% (previously 2.5%) to 9.7%

Economic Structure (GDP, 2006/07)



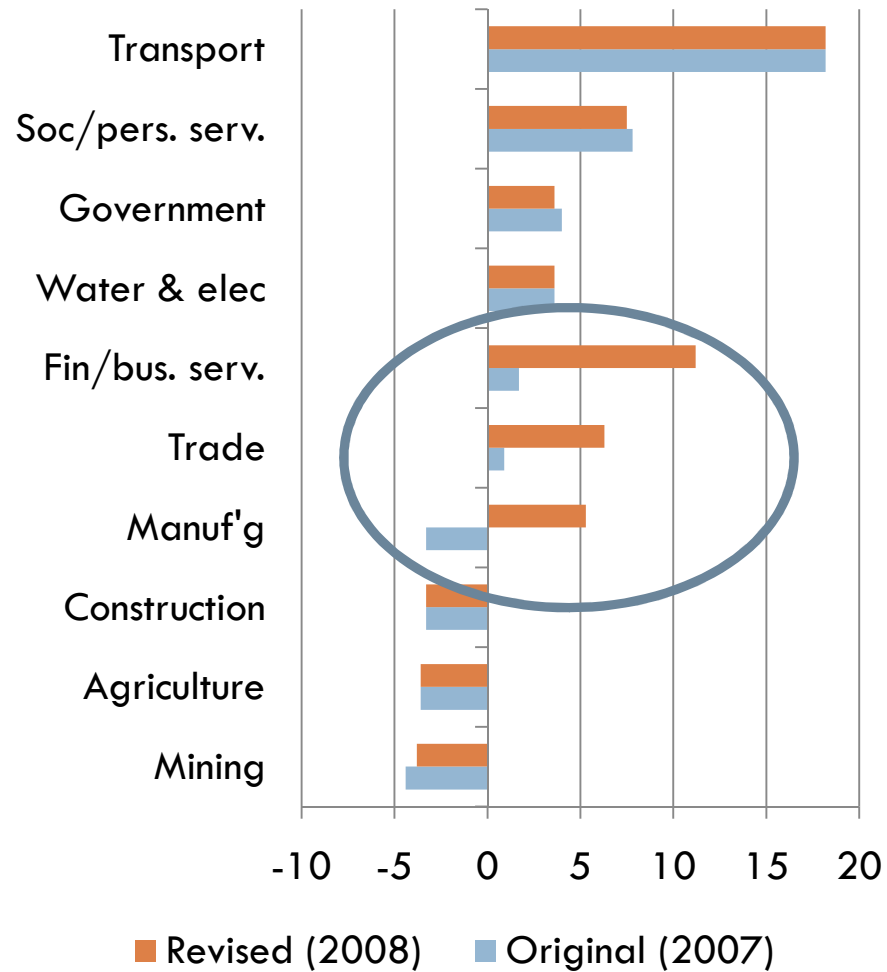
- Mining still dominates GDP
- Mining & government contribute 58% of GDP, so non-mining private sector well under half of the economy

Growth by Sector, 2005/6 & 2006/7



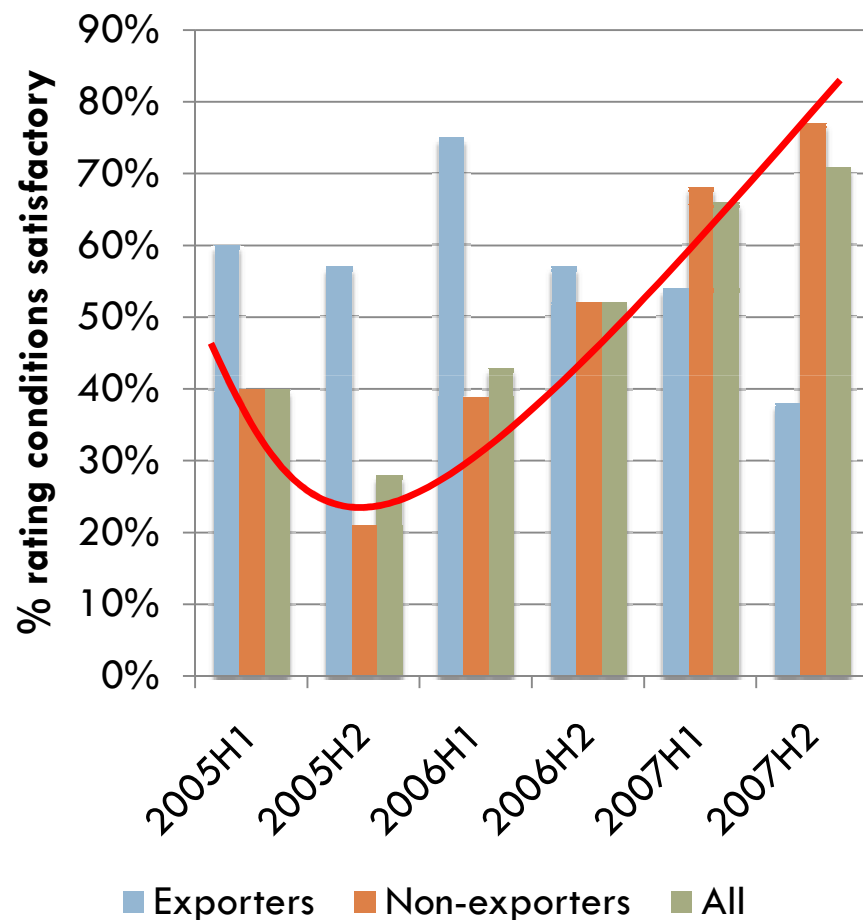
- Transport & communications, trade, manufacturing and construction fastest growing sectors
- All showing improved performance over the previous year
- However, growth figures are preliminary and are subject to revisions

Growth by Sector 2005/06: Original & Revised



- Previous year's growth performance revised upwards for several sectors
- Notably, finance/business, trade and manufacturing, which all had appeared to do badly

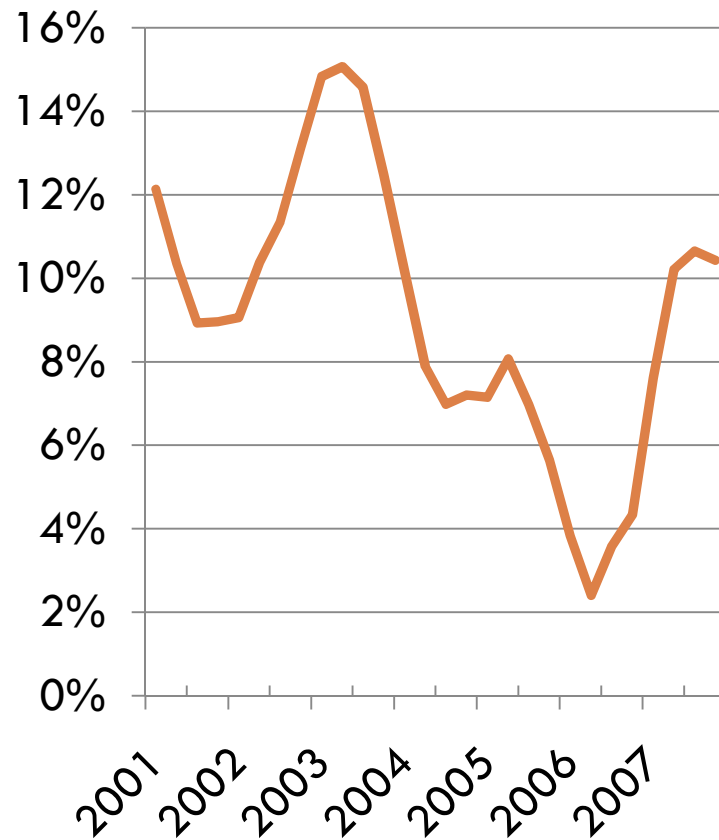
BoB Business Confidence Survey



- Clear upturn in confidence shown in BoB survey
- Striking recovery amongst firms serving the domestic market
- Surprising decline in confidence amongst exports, but BoB caution about small sample

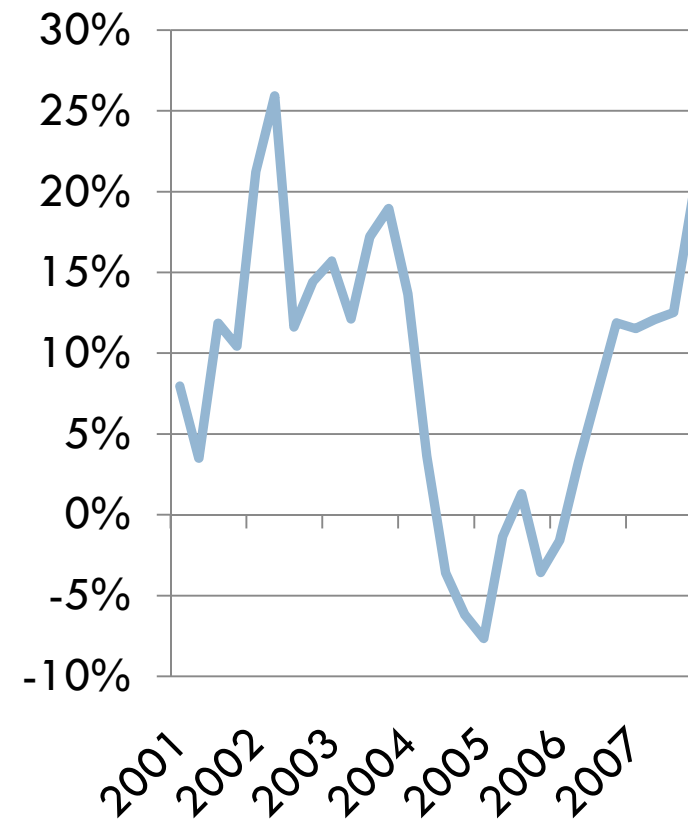
Growth Indicators - 1

Non-mining electricity consumption (y-o-y growth)



Source: BPC

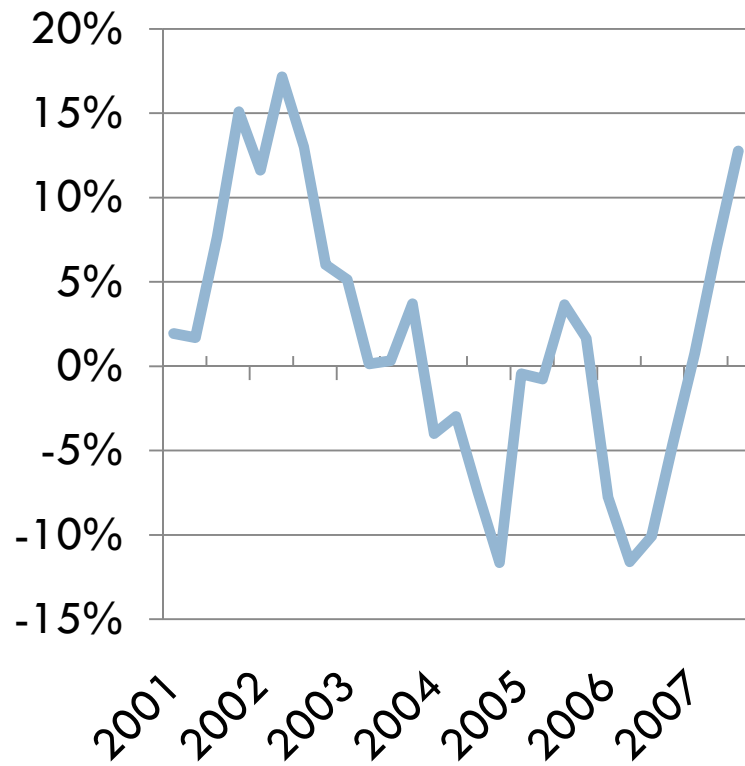
Real business credit (y-o-y growth)



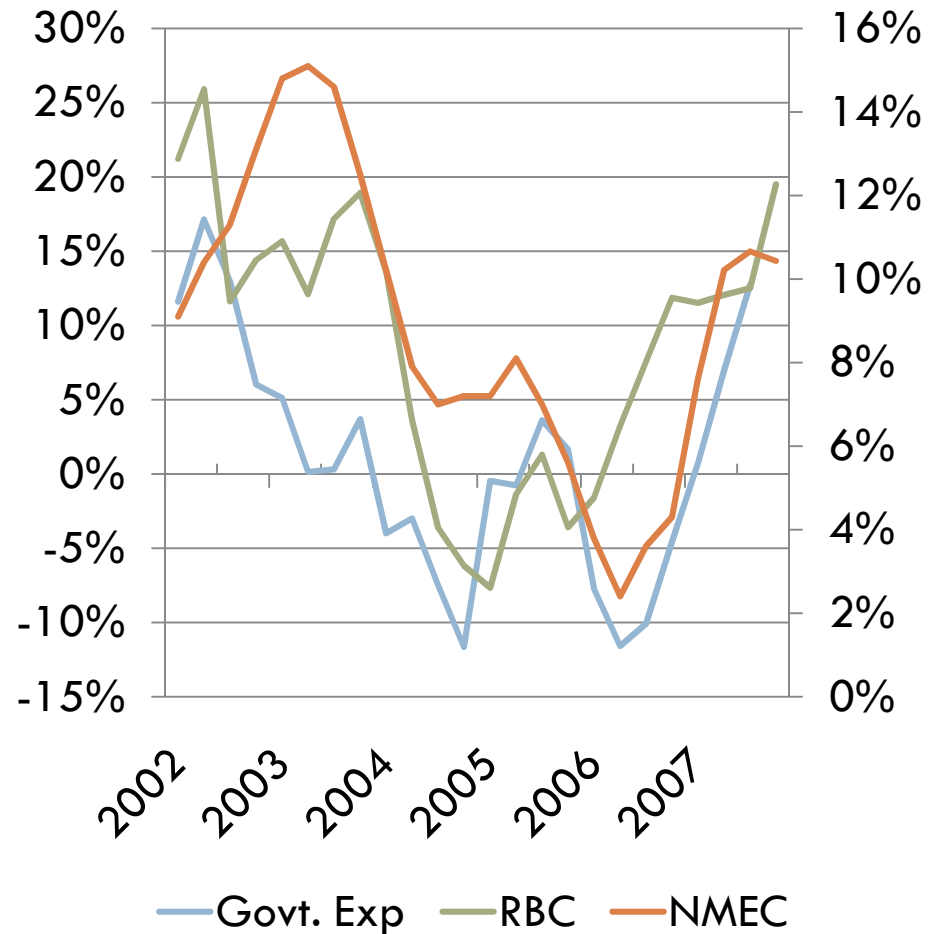
Source: BoB

Growth Indicators - 2

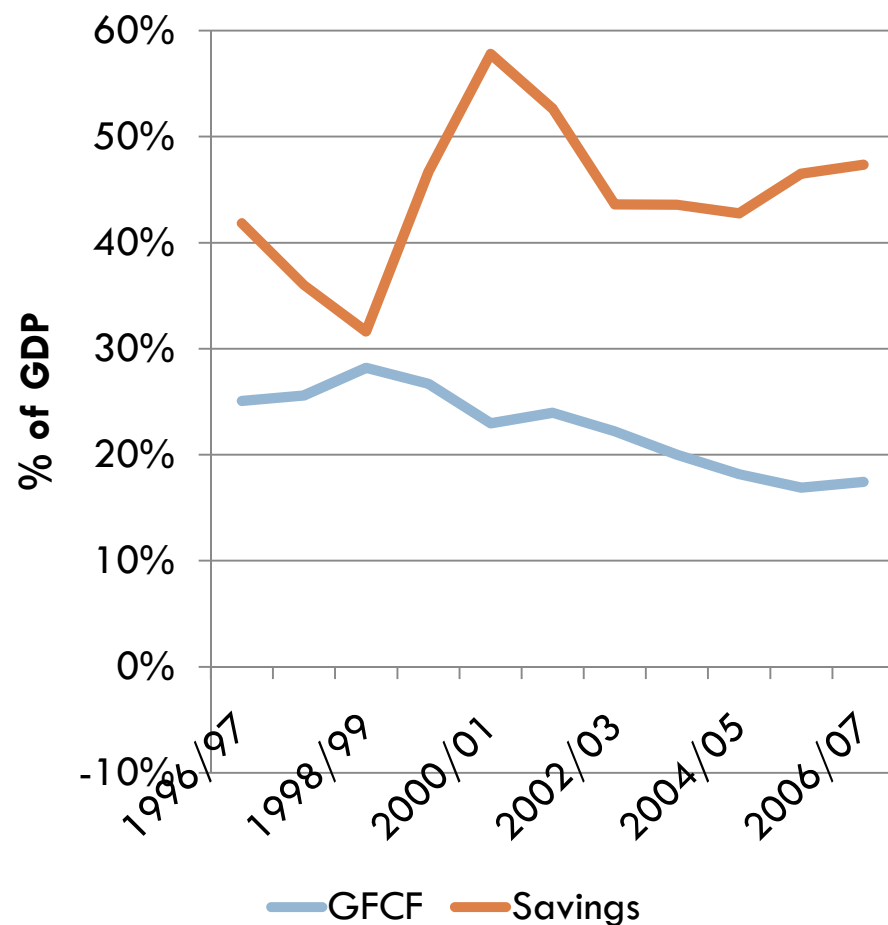
Real Government Spending



Multiple Indicators



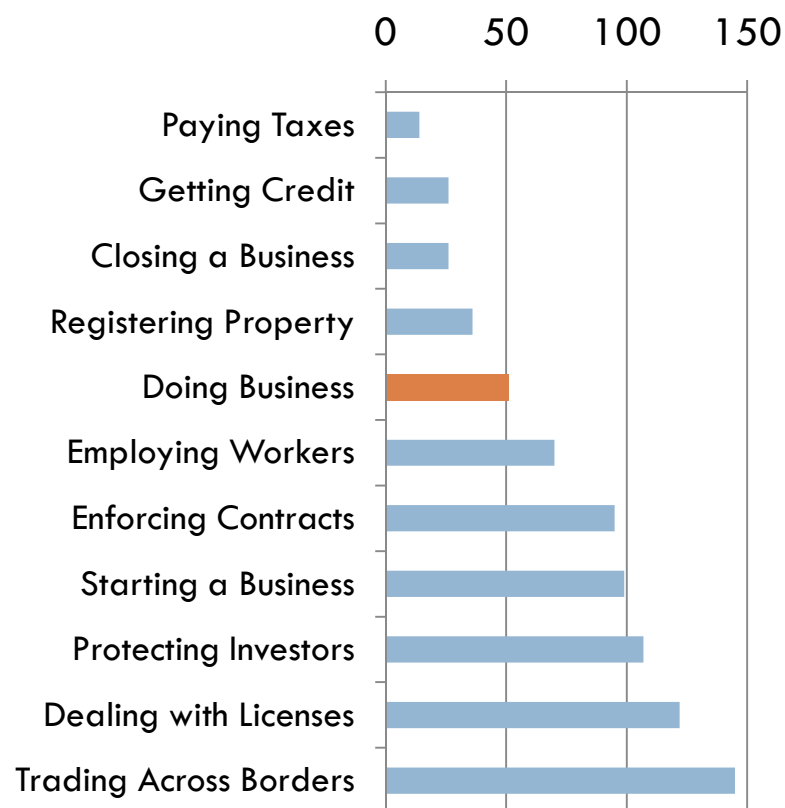
Investment (GFCF) & Savings



- Declining rate of investment (% GDP) does not augur well for future growth
- Not due to shortage of savings, which remain very high
- Reinforces need to improve investment climate, encourage FDI

World Bank “Doing Business” 2007

Ranking (178 countries)

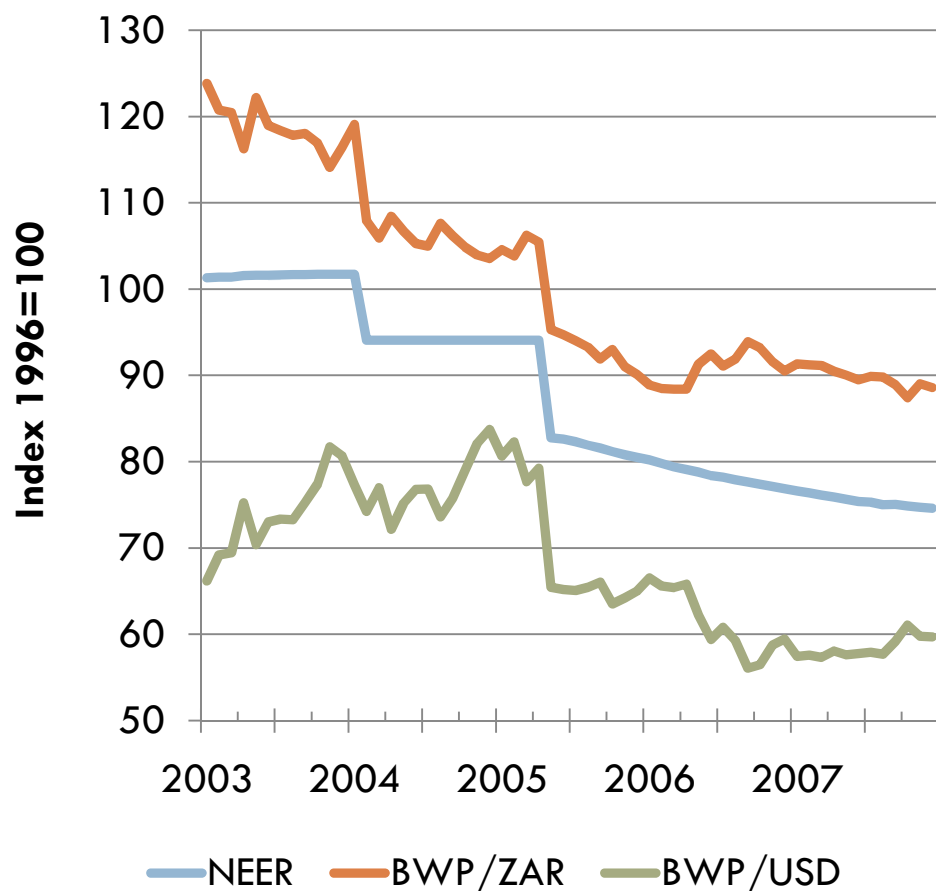


- Botswana amongst the top performers in African on the WBDB survey, but slow slipping
- Regulatory reform can address some of the weaknesses



External Sector

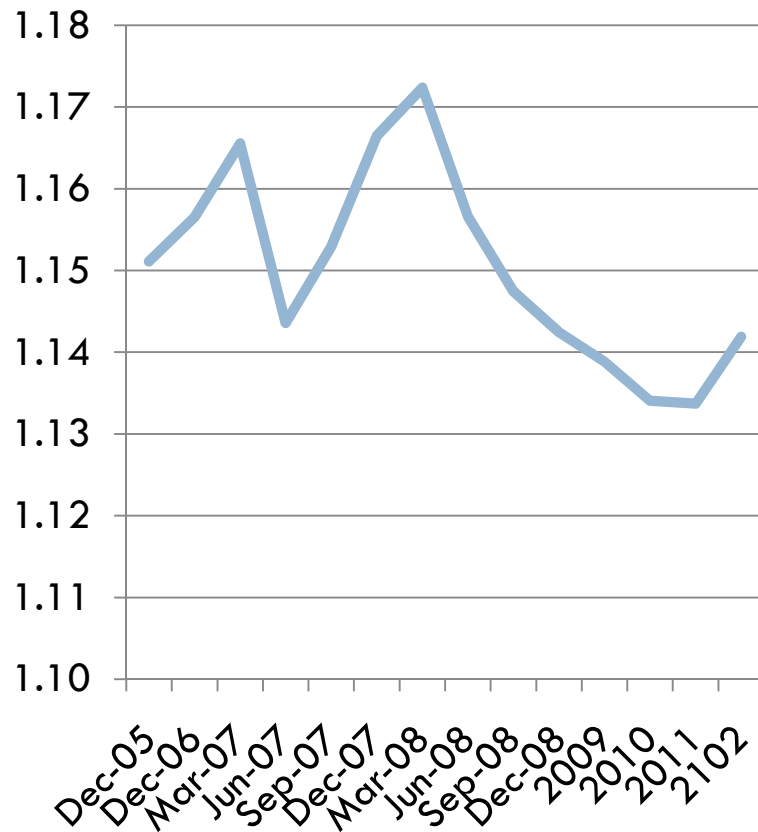
Exchange Rates



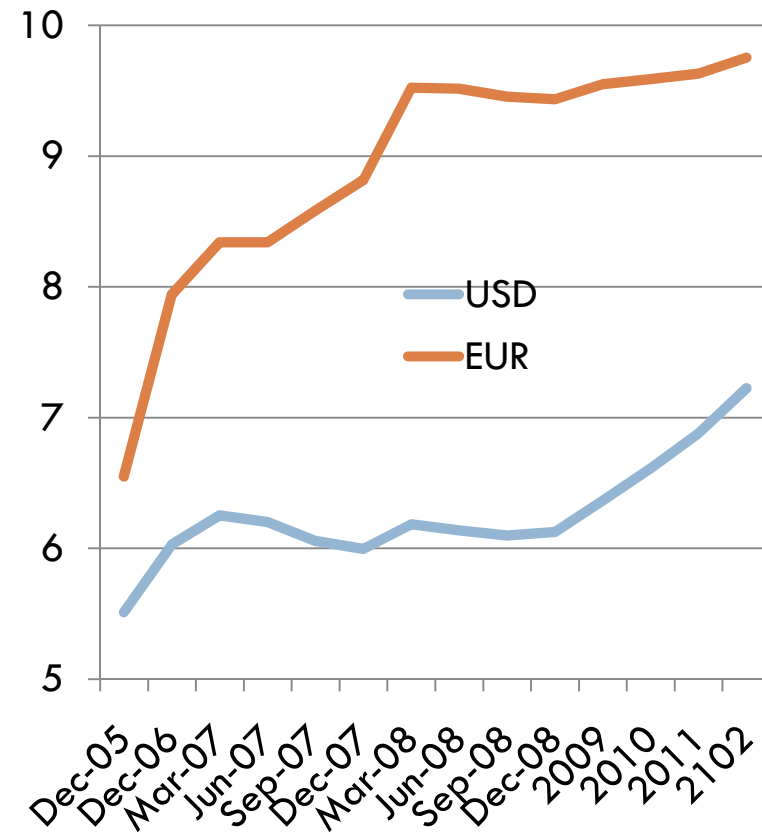
- Rate of crawl reduced from 4% to 2% in July - reflecting smaller inflation gap between Botswana and trading partners
- Basket weights adjusted – ZAR reduced - presumably reflecting growth of non-diamond exports outside of the region
- Will make BWP slightly more volatile against ZAR
- Basket parameters still not disclosed (against advice of IMF, credit rating agencies & BoB)

Exchange Rate Forecasts to 2012

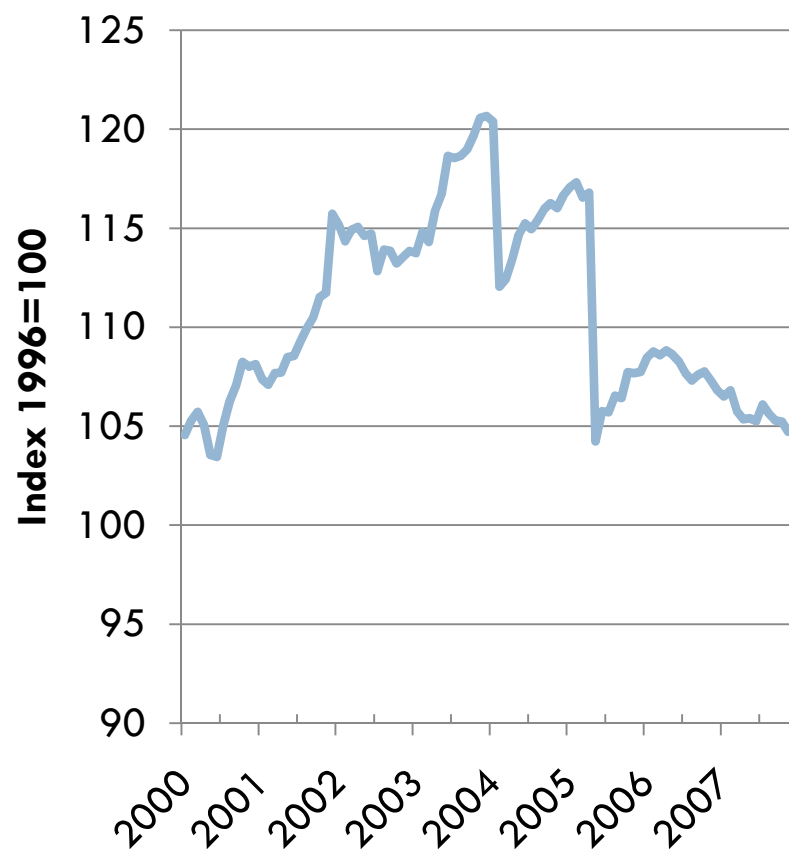
ZAR per BWP



BWP per USD & EUR

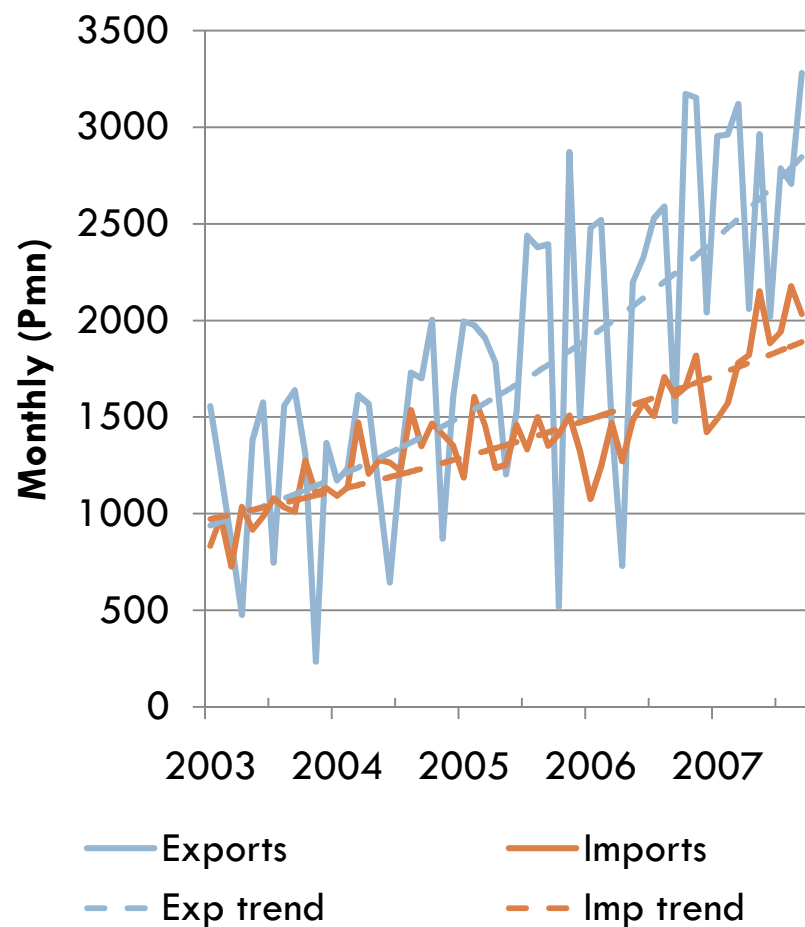


Real Effective Exchange Rate (REER)



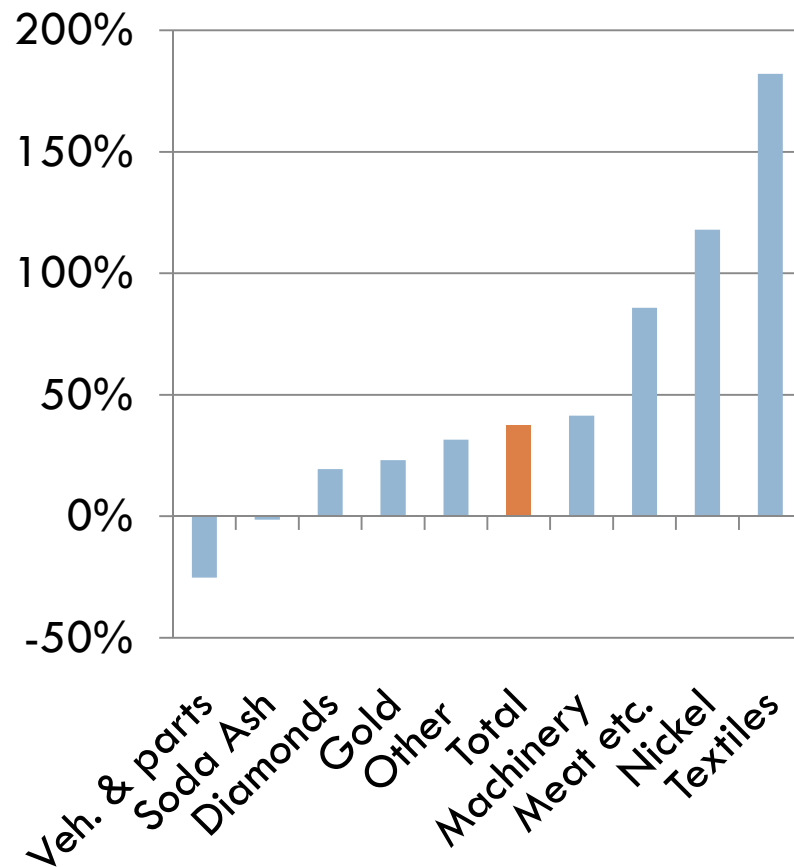
- Long period of REER appreciation (declining competitiveness) through to 2004
- Devaluations and crawling peg have achieved REER depreciation and restored competitiveness

Exports & Imports



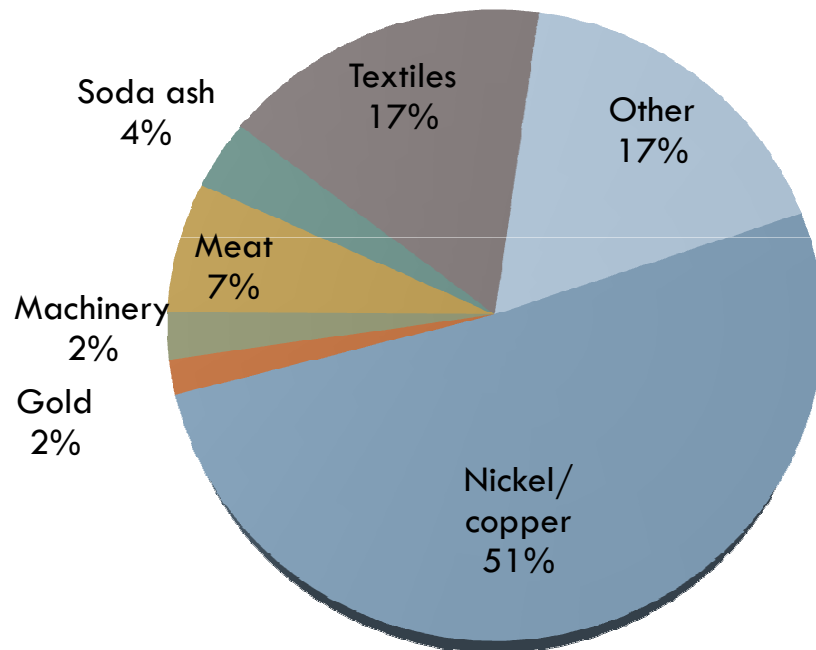
- Much faster export growth than imports – as intended by exchange rate policy
- Healthy balance of trade surpluses & accumulation of fx reserves
- Recent pick up in imports driven by capital goods – suggesting investment may be recovering

Export growth, Jan-Sep 2006-7



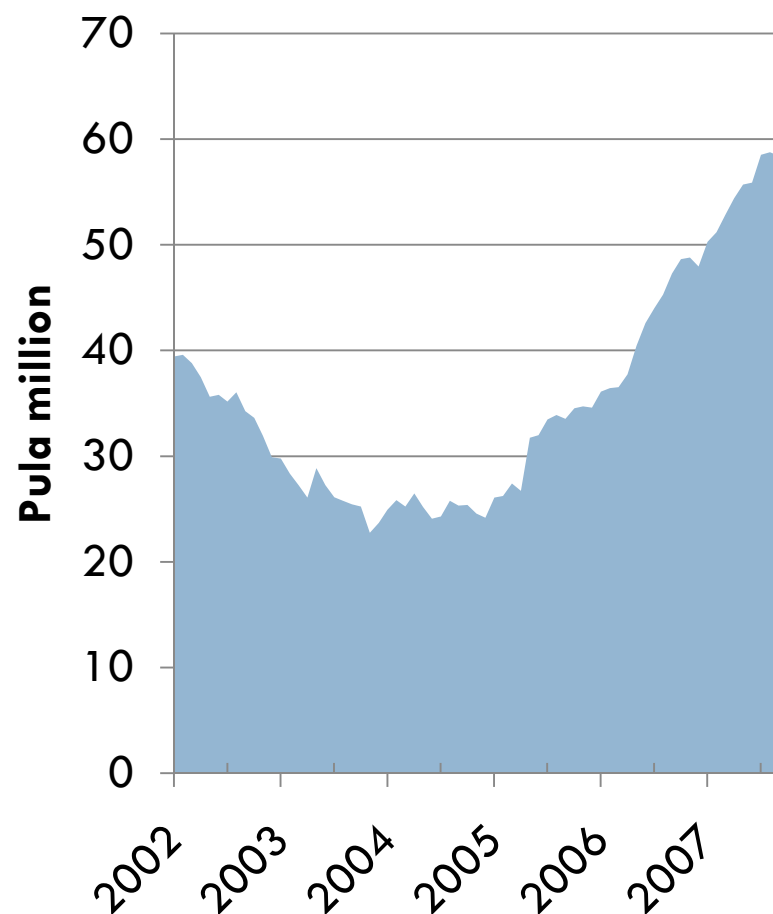
- Strong export growth in 2007, driven by non-diamond exports
- Textiles, Cu-Ni & Meat the best performers
- Diversification of exports taking place

Non-diamond Exports, Jan-Sep 2007



- Nickel & copper dominate non-diamond exports, but the rest is quite diversified

Foreign Exchange Reserves (Pula)



- Trade performance resulting in rapid growth of fx reserves – more than doubled since late 2003.
- Import cover approx. 30 months



Inflation & Monetary Policy

Inflation

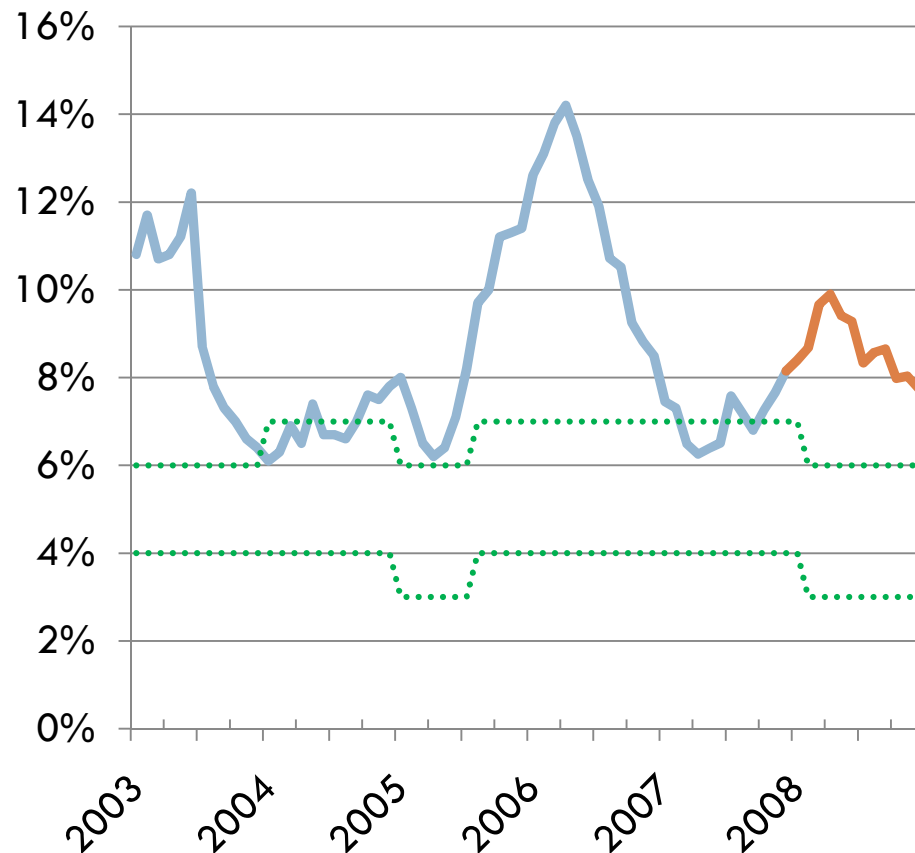
- Inflation fell sharply early in 2007, as expected, from 14.2% in April 06 to a low of 6.3% in April 07
 - ▣ falling away of one-off impacts (devaluation, school fees)
 - ▣ lower world fuel prices in late 06/early 07
- Subsequent increase (to 8.1% in December) due to:
 - ▣ Higher fuel prices
 - ▣ Higher food prices (esp. cereals and dairy)
 - ▣ Rising domestic demand

Inflation



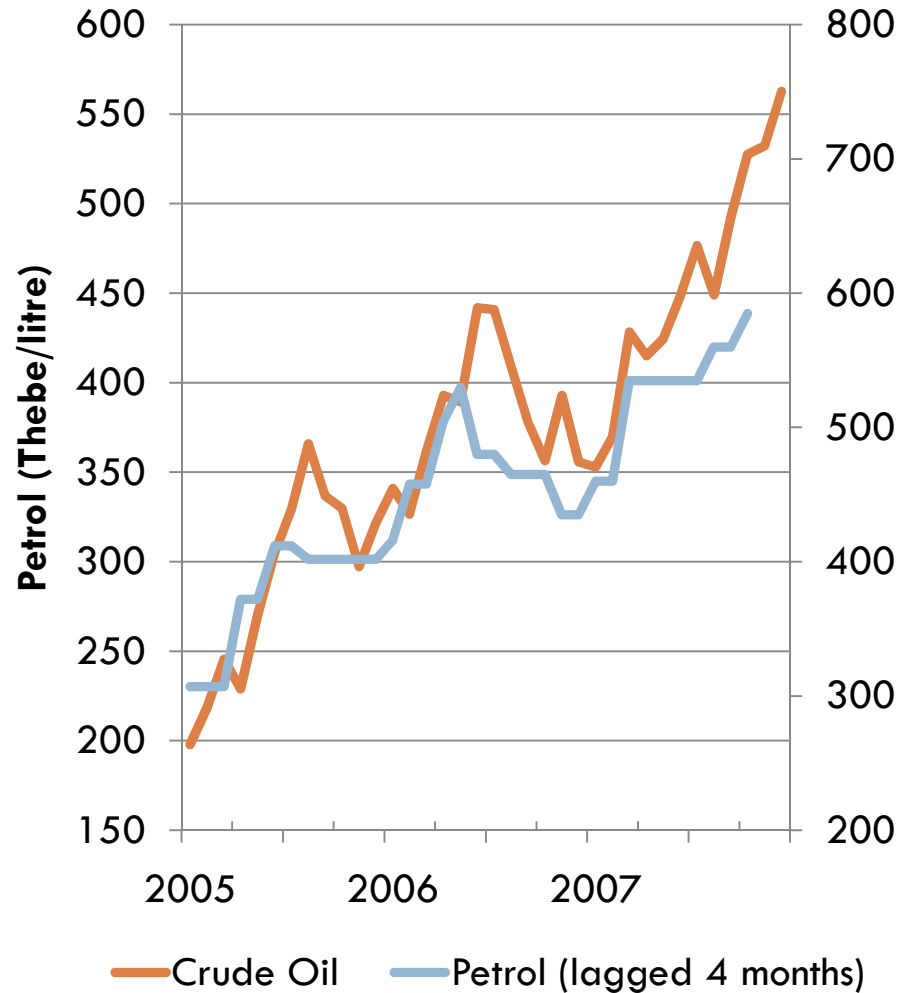
- Inflation likely to continue rising, should end year around 8%;
- Main risks:
 - ▣ world fuel and food prices
 - ▣ further BTC telecomms rebalancing
 - ▣ administered prices (health costs, housing, water, electricity)
 - ▣ rising world and SA inflation

Inflation & Forecast



- Inflation likely to continue rising in 1st half of 2008, due to
 - world fuel and food prices
 - administered prices (housing, water)
 - rising power costs
 - rising world and SA inflation
 - But should peak and fall in H2
- Forecast of inflation around 8% by year-end

Fuel Prices

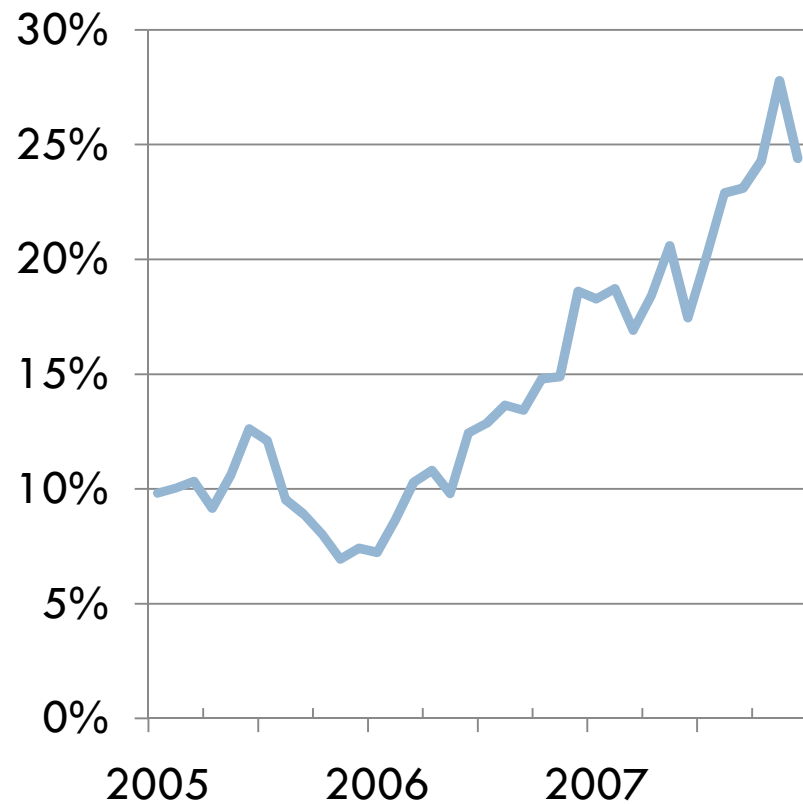


- Close relationship between local fuel prices and world crude prices, with a 4 month lag
- Still may be further rises if international fuel prices do not fall

Monetary Policy

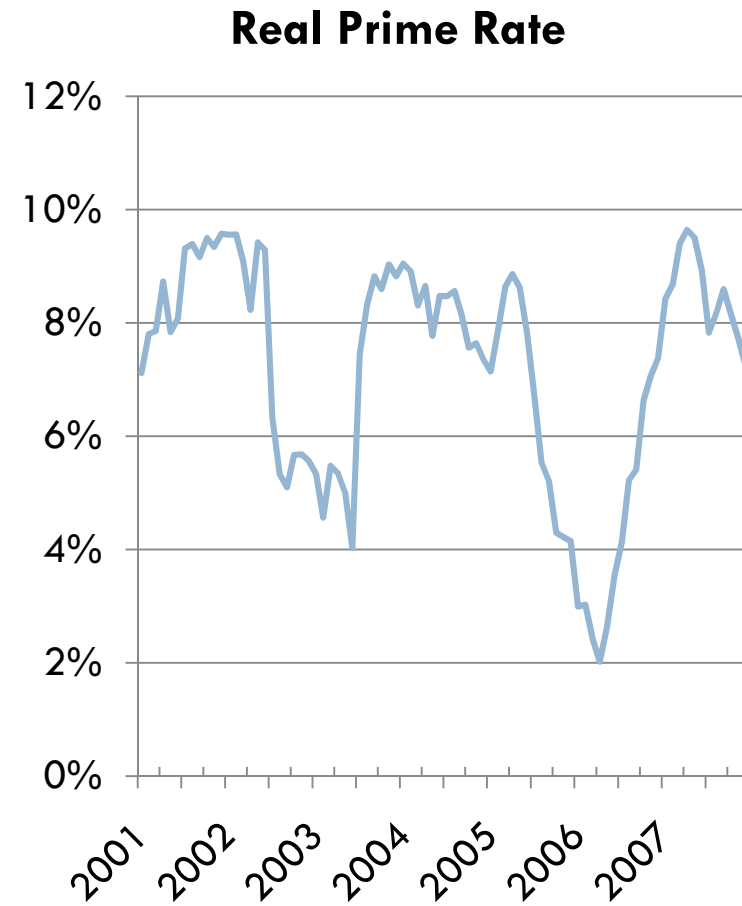
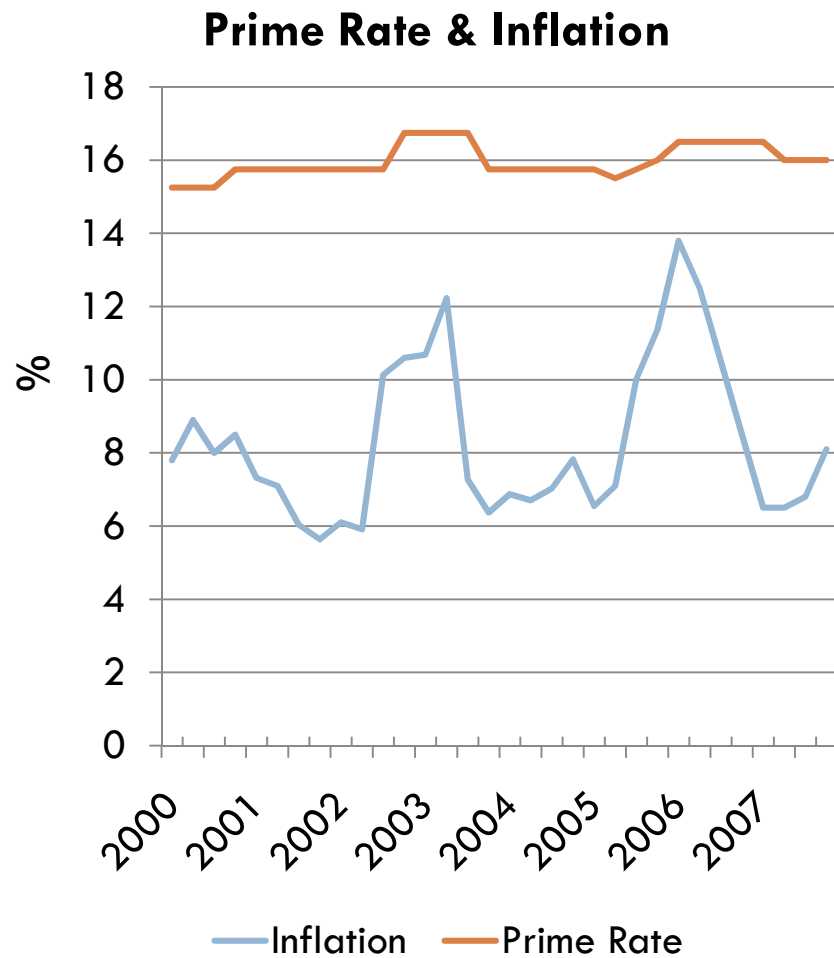
- Interest rates cut by 0.5% in June 2007, but no more rate cuts likely in the short term:
 - Inflation now above BoB target range
 - High credit growth pushing up demand pressures
 - Increasing government spending also contributing to inflationary pressures
 - Next move likely to be upwards
- 2008 Monetary Policy Statement
 - Due late February
 - Likely to have less positive outlook than 2007 MPS
- MPC meetings slightly more transparent

Credit growth (yoy)



- Credit growth has risen sharply
- Now well above BoB target range (11%-14%)
- Driven by improving economic sentiment, inflow of funds from non-bank BoBCs in 2006

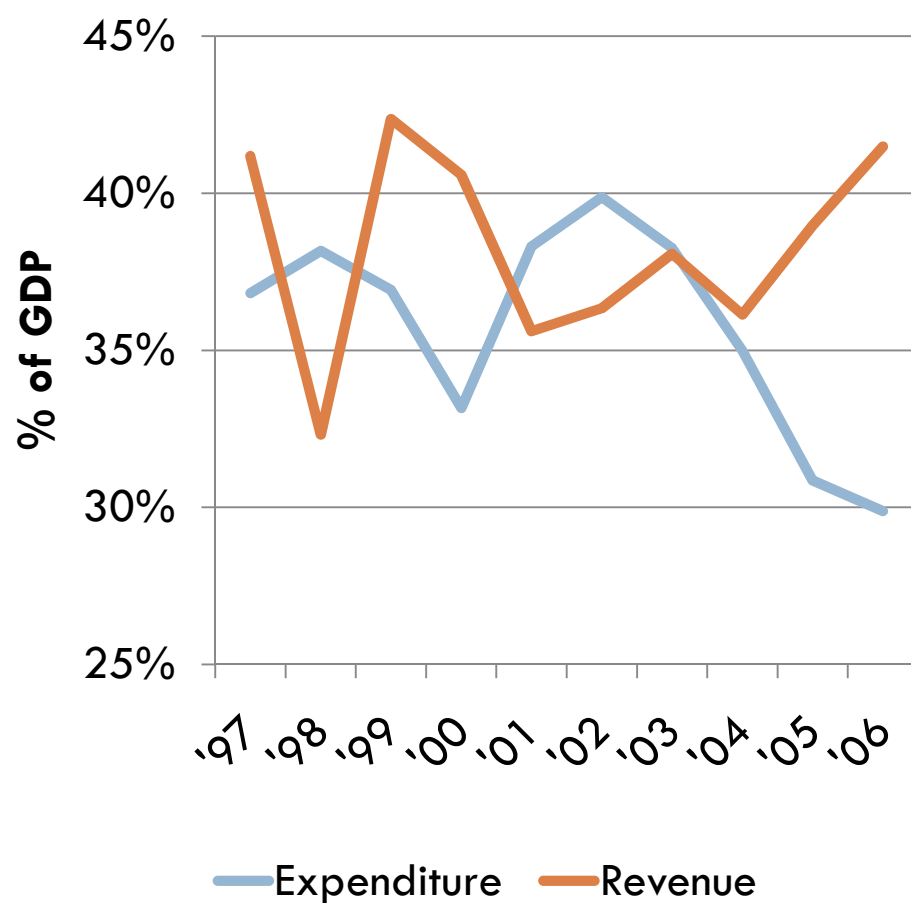
Inflation and Interest Rates





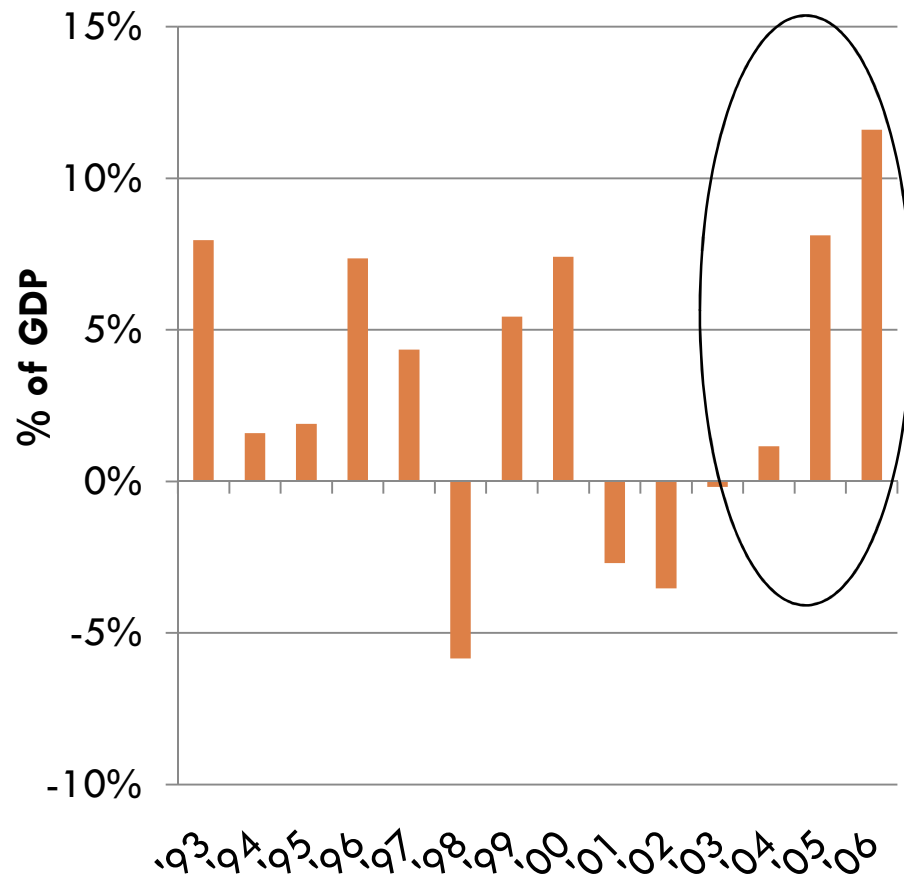
Government Budget

Govt Revenue & Spending - actual



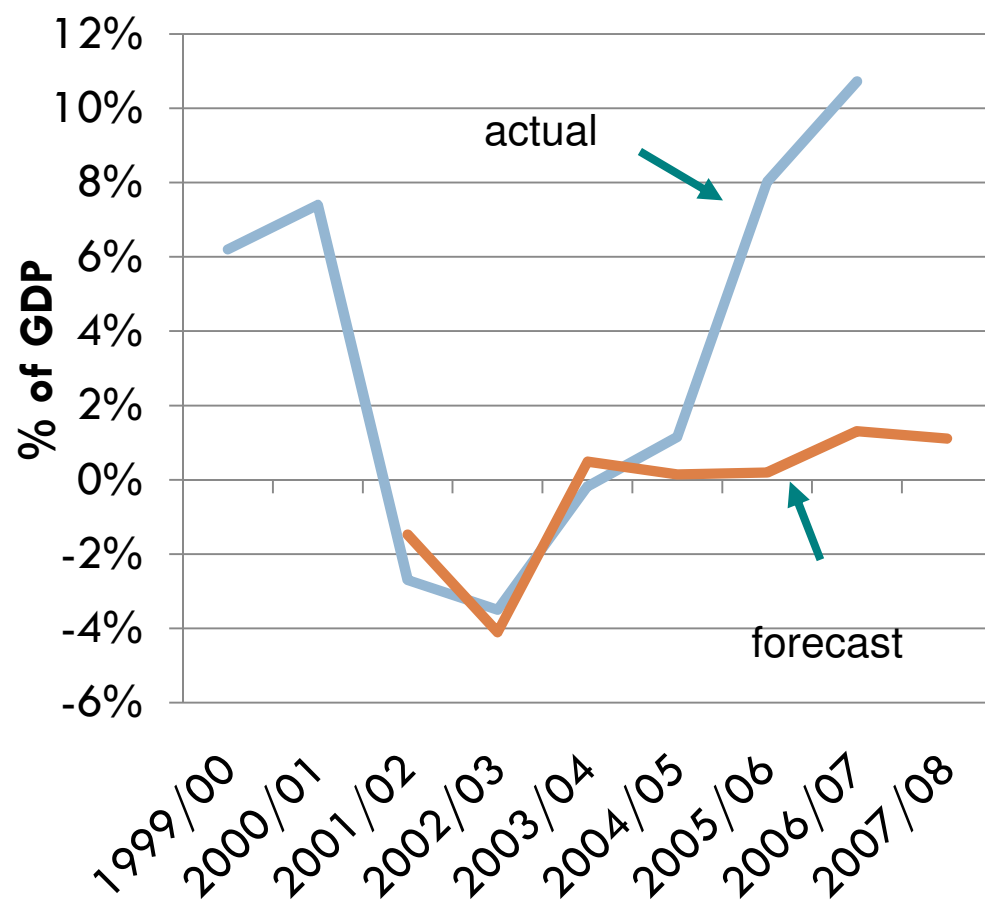
- After deficits in the late 1990s and early 2000s, spending is now well below revenues
- Decline in spending (as % of GDP) has led to major reduction in demand

Budget Balance



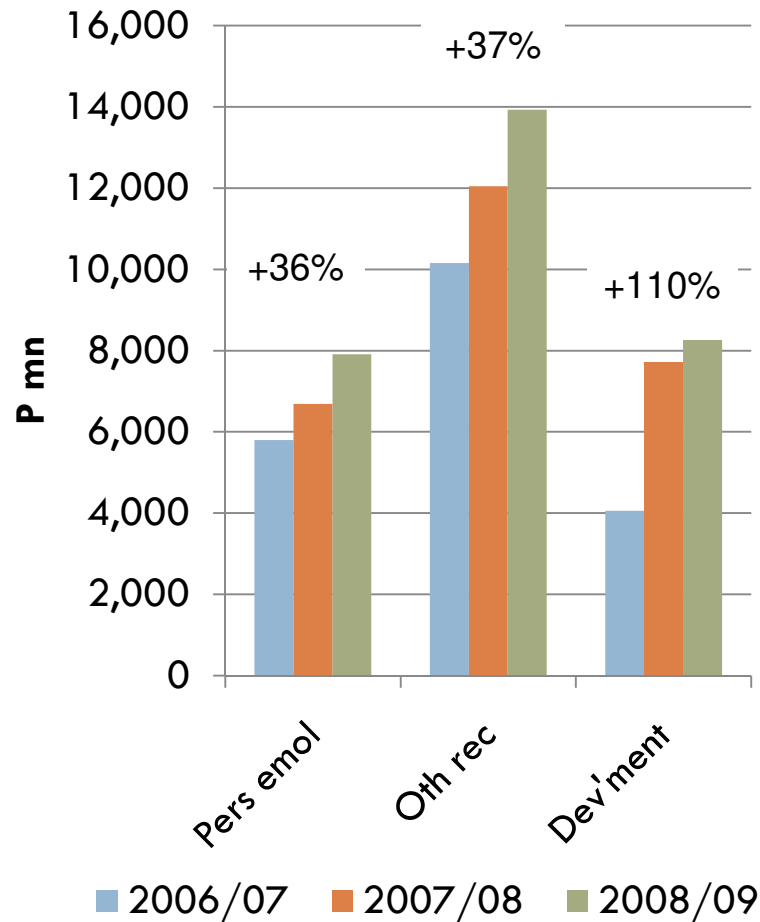
- Budget situation has turned around significantly in last two years
- 2006/07 surplus over 11% of GDP – largest since late 1980s

Budget balance – actual vs. forecast



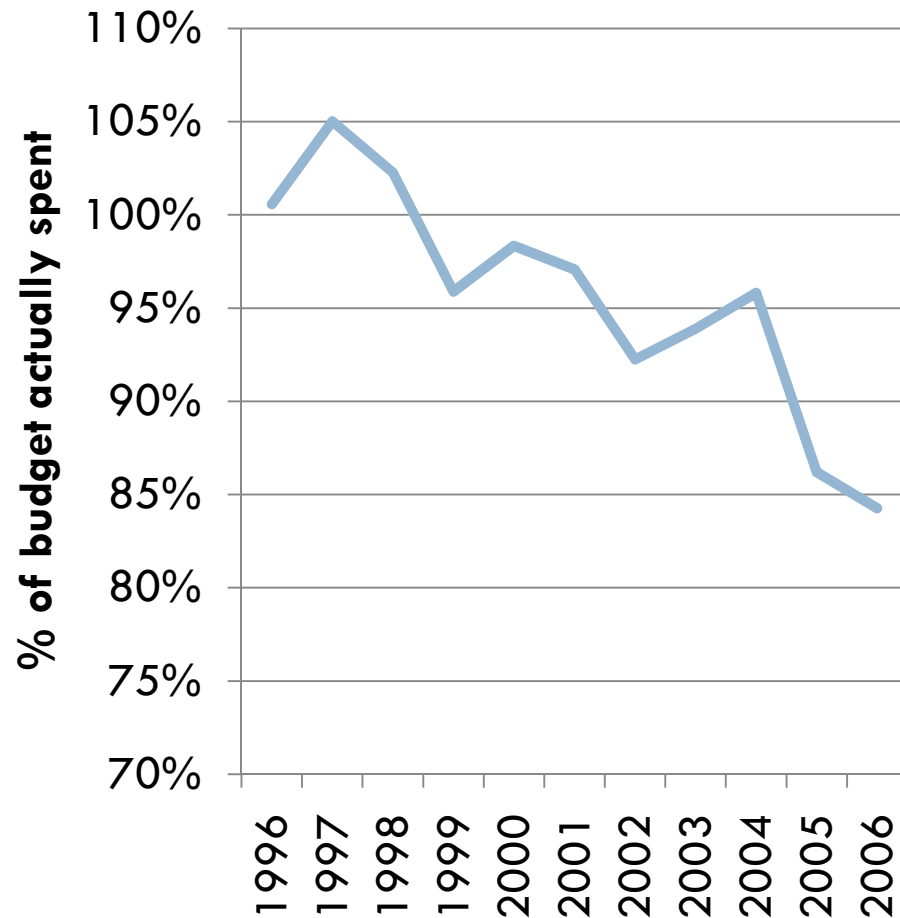
- Quality of budget forecasts seems to have declined
- Mainly due to shortfalls on expenditure

Budgeted Expenditure



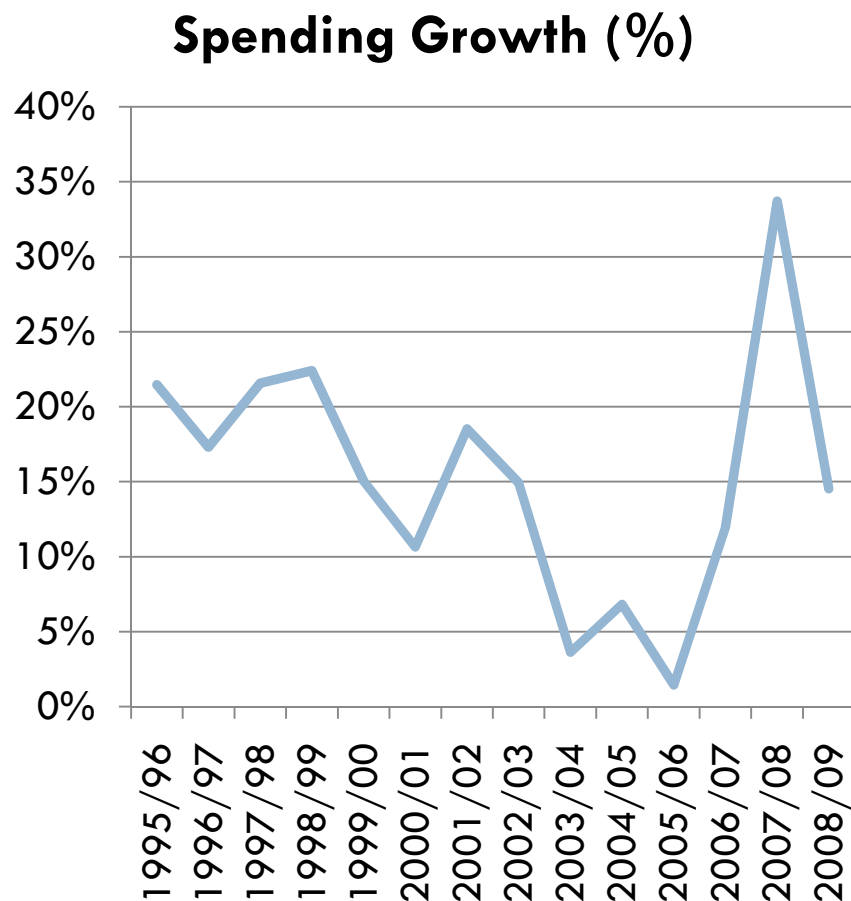
- 2008/09 Budget entails major increase in spending compared to last year of actual data (2006/07)
 - Total +53%
 - Recurrent +36% (without public sector pay rise)
 - Development +110%
- Demands much improved implementation capacity

Expenditure Budget Efficiency



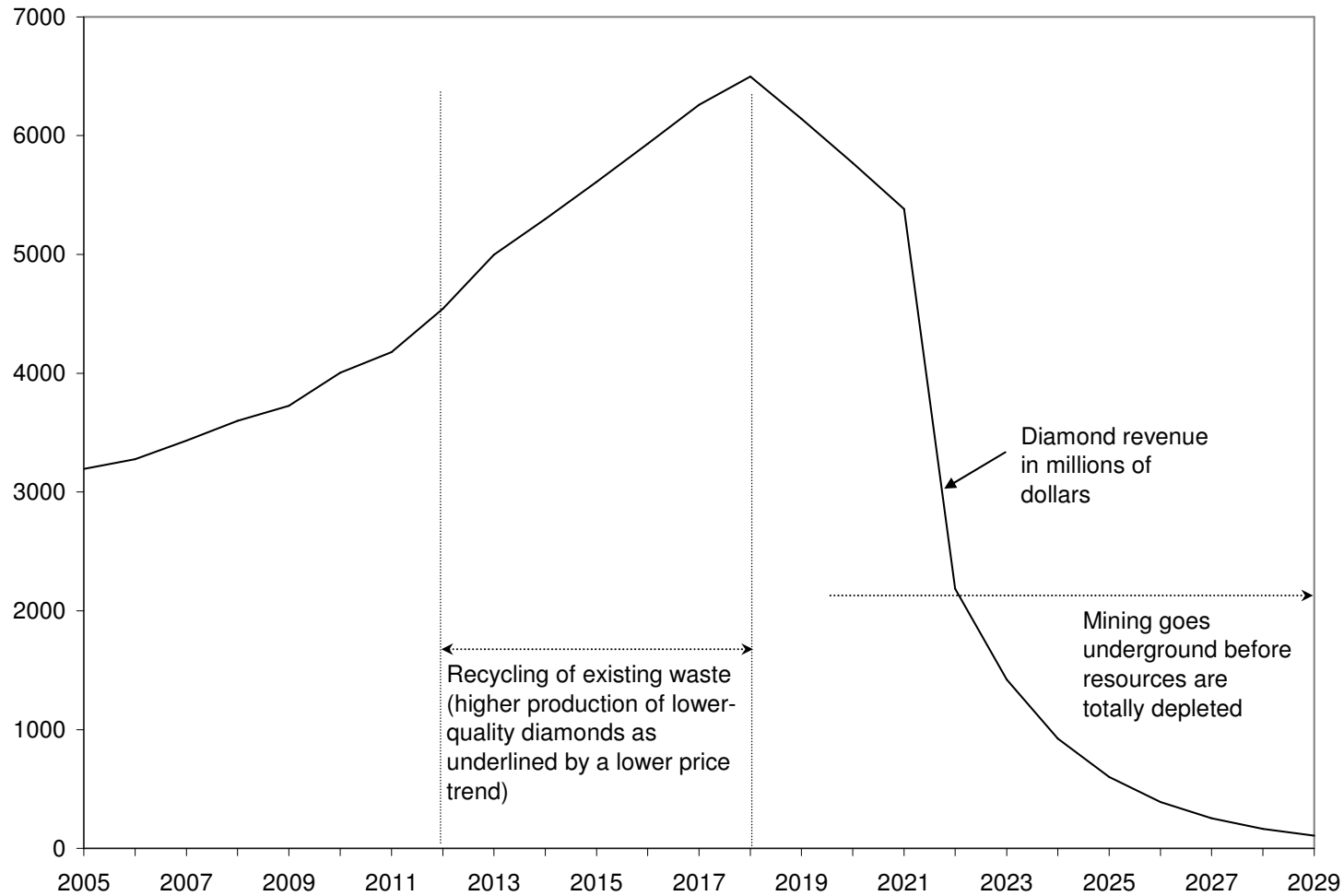
- Progressive decline in proportion of budget actually spent
- Particularly a problem with development budget – only 67% spent in 2006/07

Government Spending Cycle



- Long-term decline in growth rate of government spending – which is appropriate
- Budgeted figures for 2007/08 suggest much larger increase in spending than has been achieved in recent history – and are therefore unlikely to be realised
- Likely to be destabilising

Long-term Mineral Revenues



Source: IMF

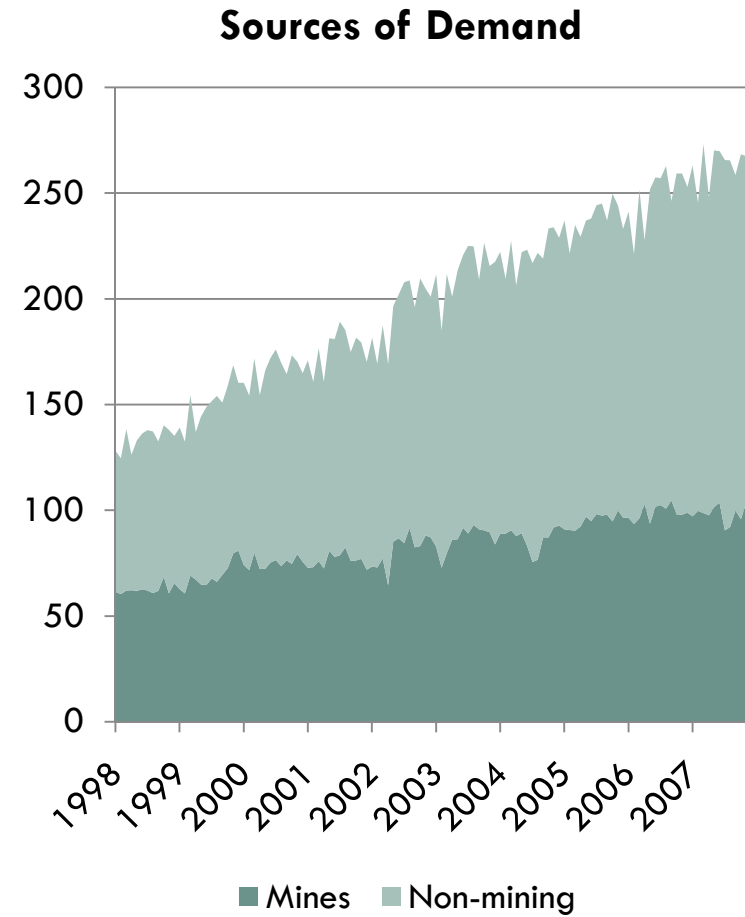
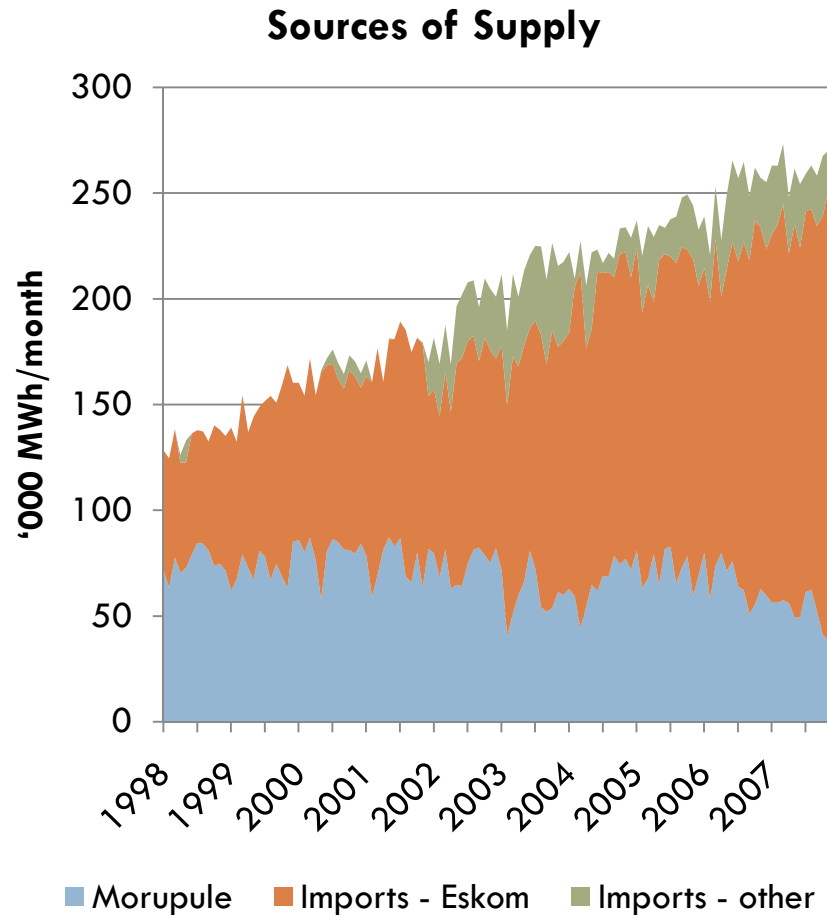


Economic Prospects

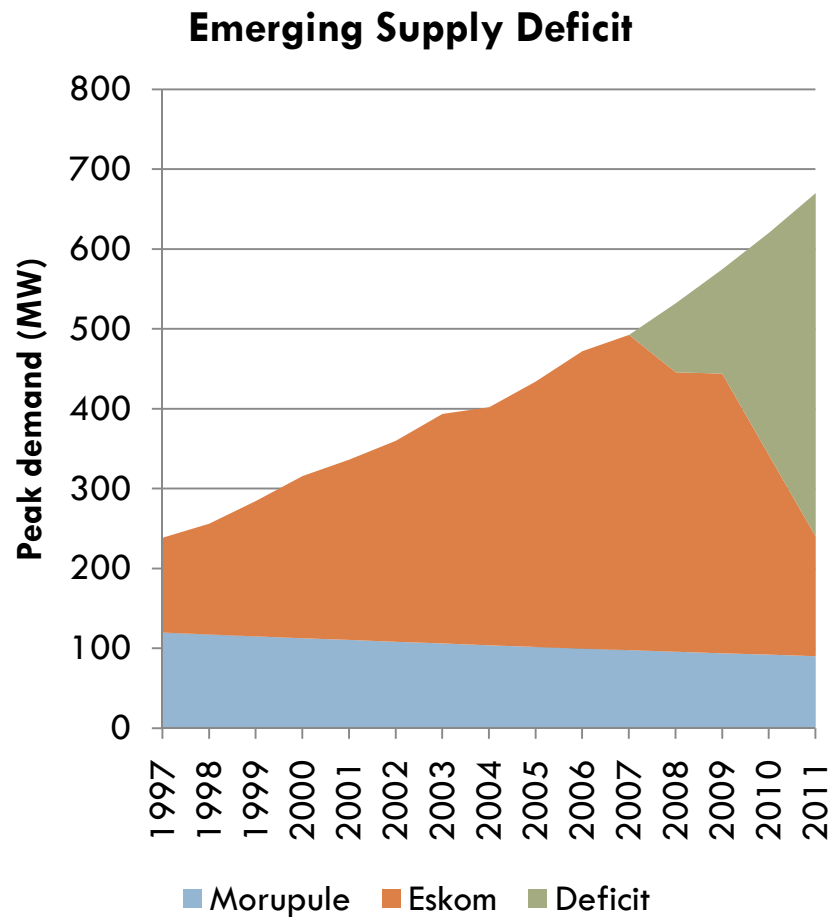
Botswana Economic Prospects 2008-9

- 2008: improved growth to continue, driven by
 - Rising government spending
 - Mining projects
- Export uncertainty, due to US recession and international economic slowdown, but impact will be confined and not widespread through the economy, as long as growth slowdown is not long-term
- Main threats to domestic growth:
 - ▣ Volatility in government spending, and hence uncertainty
 - ▣ Power constraints
 - ▣ Sharply higher inflation, and rising interest rates

Power Supply Issues



Power Supply Issues



- Peak demand increasing at around 8% p.a.
- Tati, other new mines excluded
- Eskom firm supply reducing from 2008-2011
- Gap emerging – around 80MW in 2008
- 60MW from HCB in 2008, but then what?
- Major shortfalls from 2010



Thank You