

BOTSWANA: ECONOMIC OVERVIEW

Keith Jefferis

Botswana's Growth Record



- Best-performing economy in Africa over 30 years from 1970-2000
- Average economic growth rates over 10% - highest in the world
- Comparable with Asian “Tiger” economies
- Driven by growth of diamond mining and exports

Botswana's Growth Record



- Per capita income approx USD 6600 (2006)
- World Bank “middle-income” status
- Highest in mainland SSA
- Higher than SA, Brazil, Turkey, Malaysia, Russia

Impact of Mineral Revenues



- Minerals make up some 90% of total export revenues
- Basis of consistent balance of payments surpluses
- Accumulation of substantial foreign exchange reserves
- Basis for independent exchange rate policy

Impact of Mineral Revenues



- Diamond mining highly profitable - for both De Beers and Botswana Government
- Mineral revenues contribute 50% of total govt. revenues
- Basis for “developmental state”
- Wide-ranging government spending on social and economic infrastructure (education, health, roads, water etc.)

Current Issues - Diversification



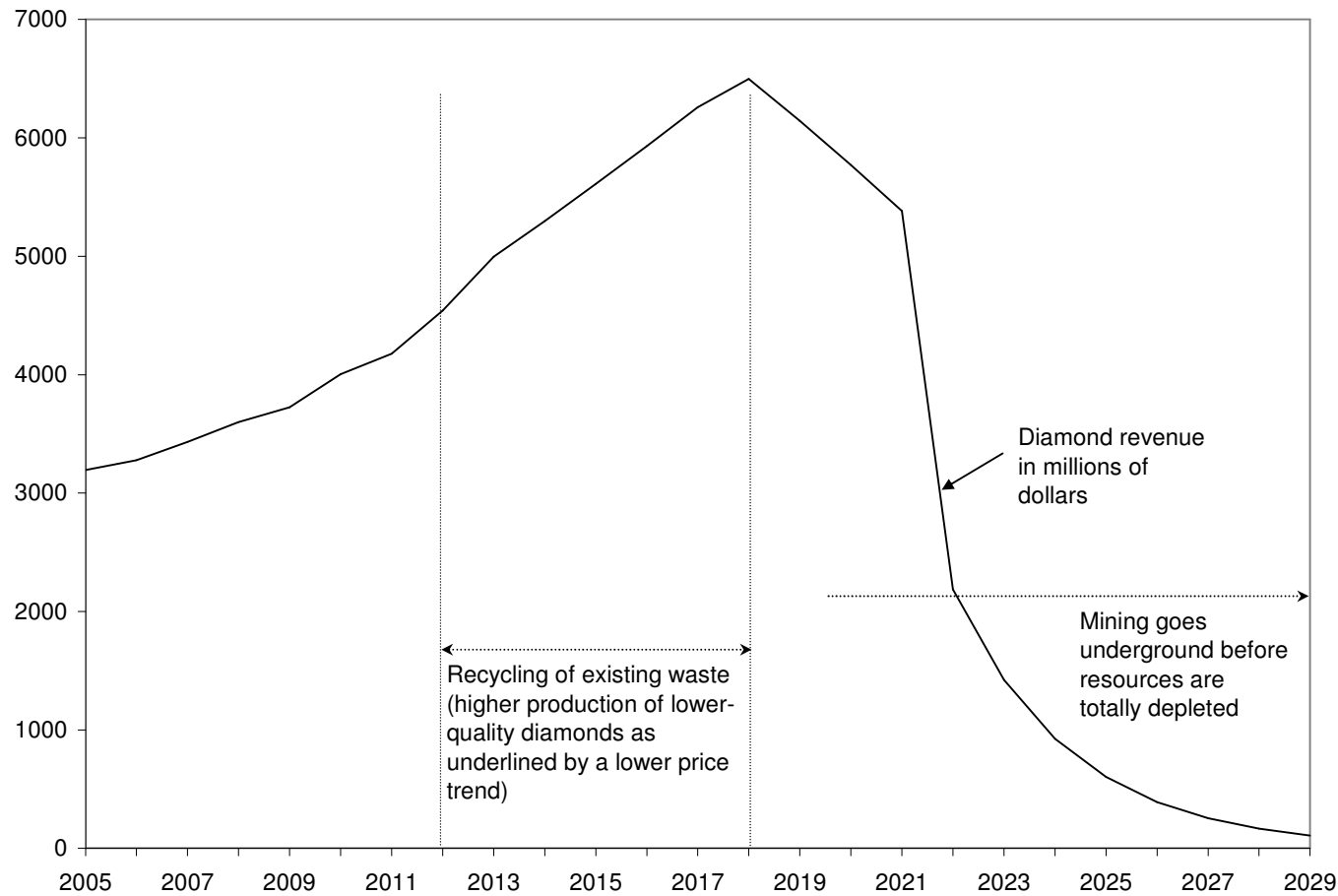
- Economy is at a transition stage – needs to diversify
- Diamonds remain very important, but period of rapid diamond-led growth ending
- Need to diversify sources of economic activity to sustain future growth

Current Issues - Diversification



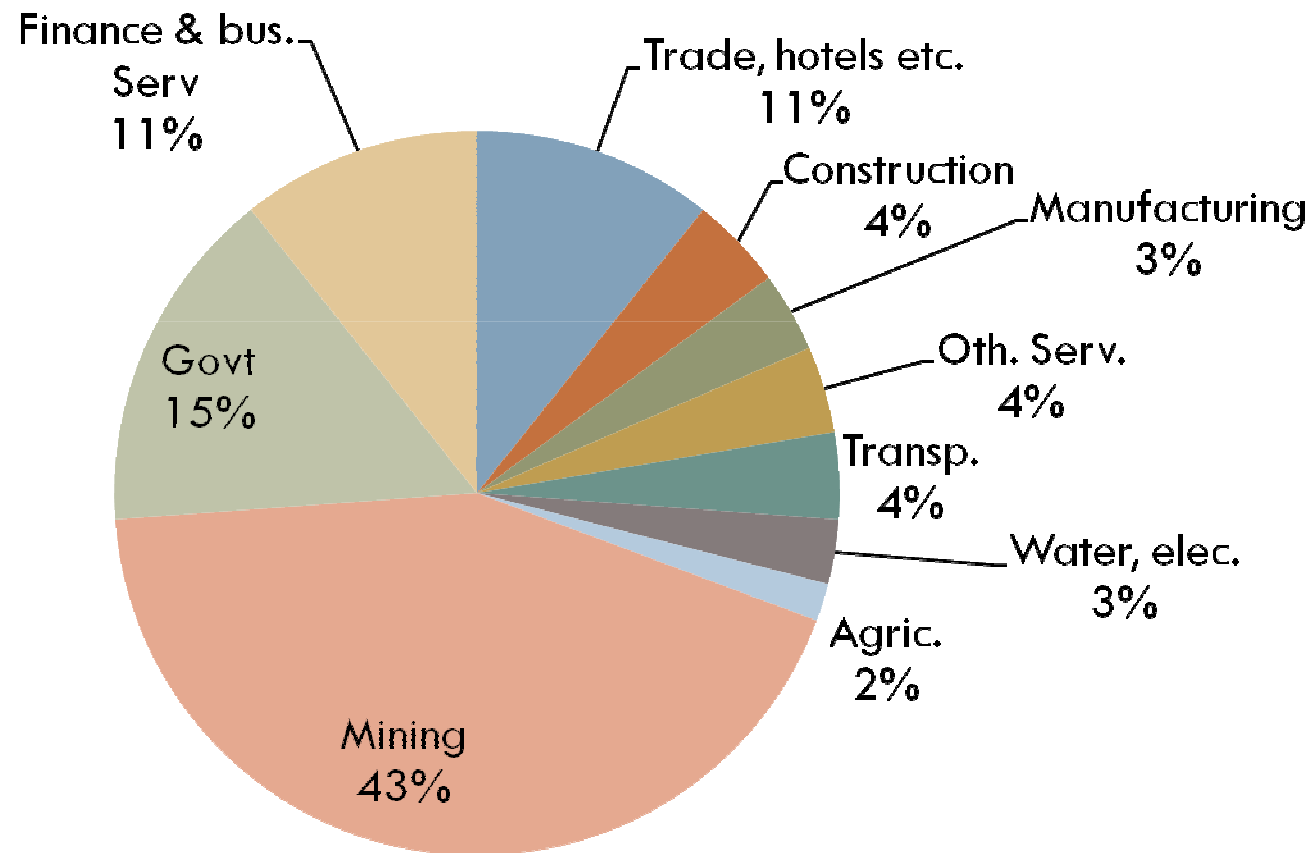
- Diamonds mining is capital intensive – need for *employment generation* to deal with unemployment and poverty
- Vulnerability to market changes – reduce dependence on single commodity
- Diamond revenues will decline once mining goes underground and deposits are eventually exhausted
- Government budget – new revenue sources needed
- New sources of export earnings

Projections of Diamond Revenues

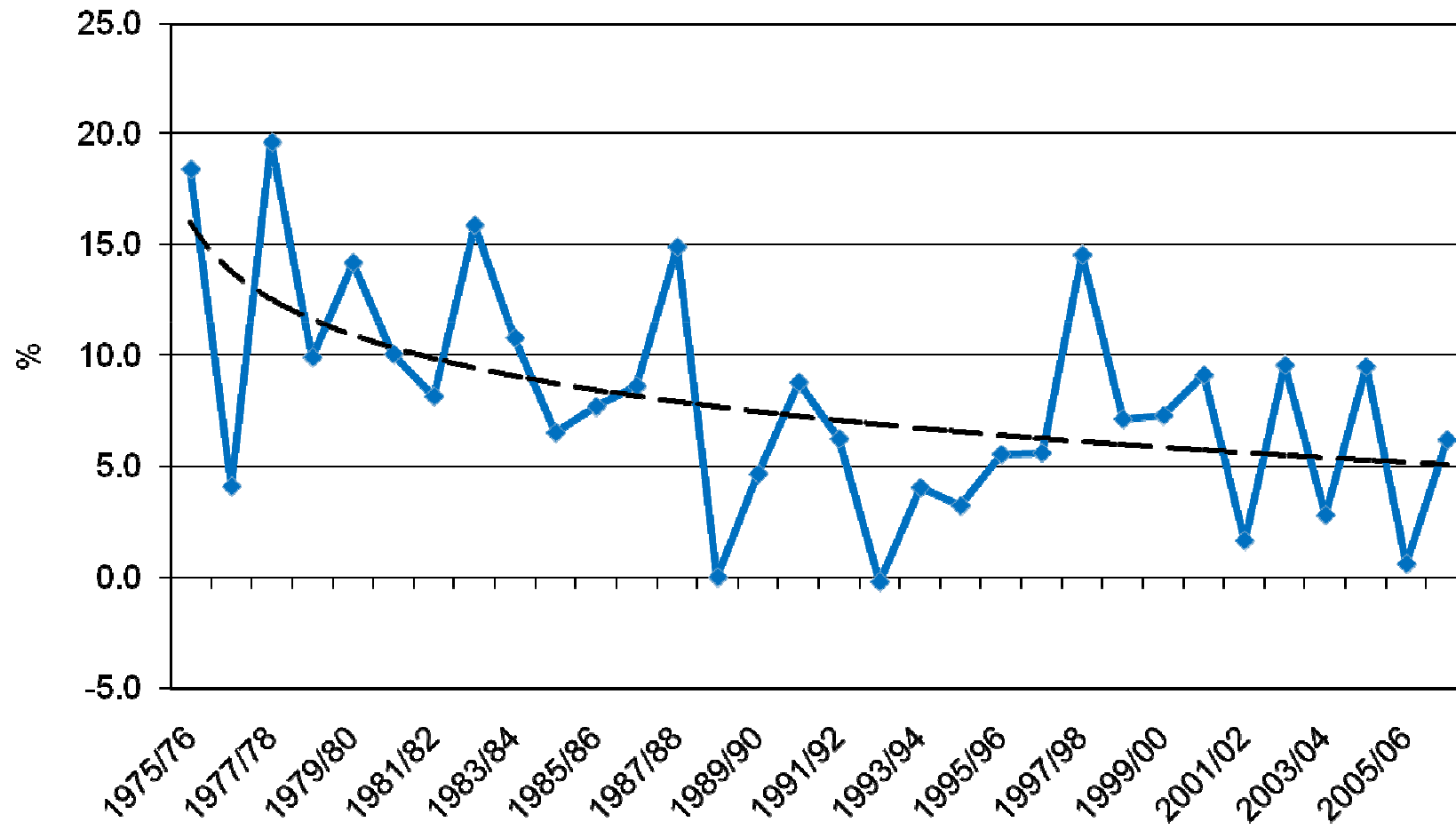


Source: IMF – Botswana Selected Issues, 2007

Economic Structure (GDP, 2006/07)



GDP Growth



Diversification



- Diversification must be export-led – based on integration with the global economy
- Initial focus on manufacturing – limited success
- Broader range of activities now encouraged:
 - ▣ financial and business services;
 - ▣ tourism;
 - ▣ manufacturing;
 - ▣ new mining ventures
- Has been some progress in diversifying exports

Diversification – Policy



- Policy framework aims to support investment across range of activities
- Conducive macroeconomic framework
- Enhance overall investment climate
- Improve competitiveness and productivity
- Boost institutional efficiency
- Key role for FDI
- Strengthen citizen participation & empowerment

Macroeconomic Policies



- Basic Philosophy:
 - Liberal, market-based
 - Development role for Government
 - Consistent and stable
 - Based on discussion and national consensus
- Key Policies
 - Competitive exchange rate
 - Fiscal balance & sustainability
 - Contain inflation

Exchange Rate Policy



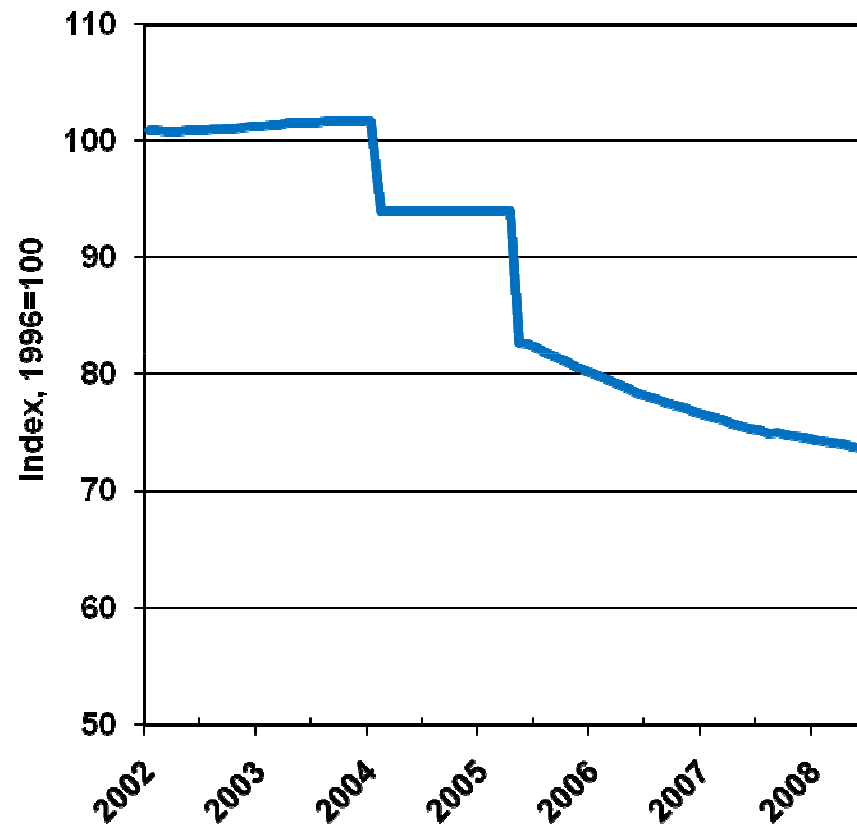
- Policy objective
 - ▣ *stable real exchange rate*
 - ▣ to support trade, exports & import substitution
- Pula pegged to a basket comprising ZAR and SDR
- Concerns about overvaluation and lack of competitiveness between 2000 and 2004
- Hence devaluations in 2004 and 2005 (total approx. 20%)

Exchange Rate Policy



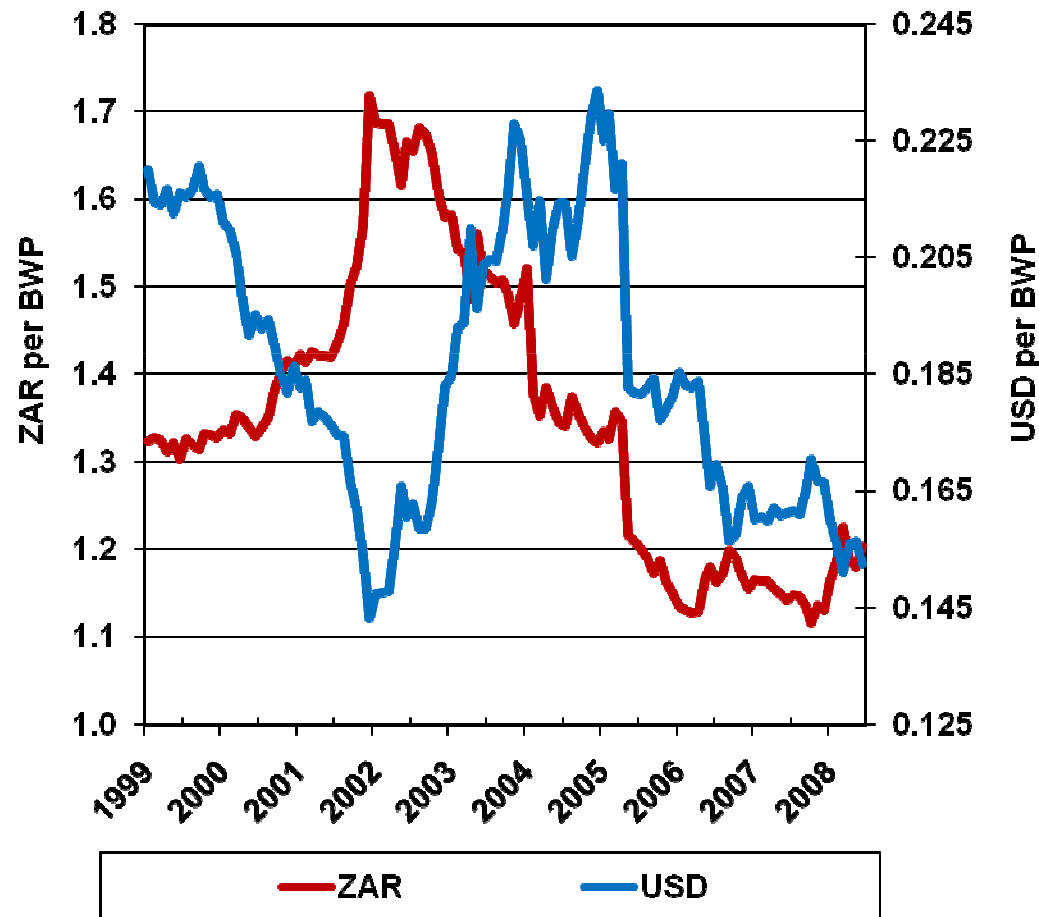
- New XR policy May 2005:
 - change from fixed (but adjustable) to crawling peg
 - small changes to prevent misalignment
 - more certainty (no more step devaluations)
 - 11% further devaluation (against the basket) since mid-2005
- Future exchange rate movements
 - Long-term tendency for ZAR to depreciate against USD, EUR etc
 - Pula likely to be stable vs rand (1.10 – 1.20) and to depreciate with rand against major currencies

Pula Exchange Rate vs Basket



- Overall rate stable on a day to day basis
- Devaluations and crawling peg clearly visible

Pula Exchange Rate vs ZAR, USD



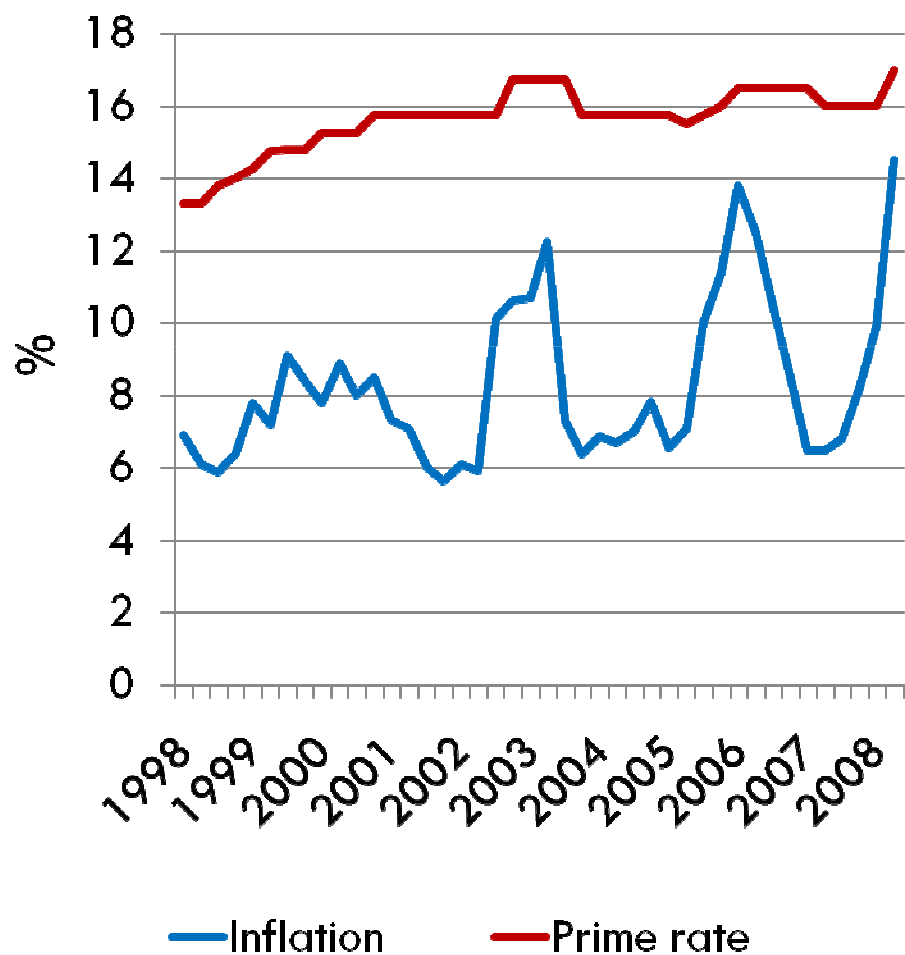
- Currencies in basket float against each other
- Bilateral exchange rates driven by ZAR/USD and ZAR/EUR rates

Monetary Policy



- Bank of Botswana runs independent monetary policy – setting interest rates
- Aims to keep inflation comparable with trading partners to preserve competitiveness
- BoB targets a medium term inflation rate of 3%-6% (same as SA)

Inflation and Interest Rates



- Inflation largely determined externally (import prices)
- Inflation spikes due to:
 - VAT (2002)
 - Devaluation (2005)
 - Rising oil and food prices (2008)
- Relatively high interest rates reflecting high inflation

External Assessments



- Credit Ratings
- Moody's and S&P have rated Botswana since 2001
- Investment grade sovereign ratings; highest in Africa
- Moody's local currency rating “A1”
 - ▣ same as Chile, Czech Rep, Greece, Estonia, Japan
 - ▣ higher than Brazil, S. Korea, Malaysia, SA & Russia

External Assessments



- Credit rating positive assessments
 - ▣ Very low public debt - domestic and foreign – and strong asset base
 - ▣ Long record of political and macroeconomic stability
 - ▣ Strong balance of payments and government budget - no domestic or external imbalances

External Assessments



- Credit rating negative assessments
 - Narrow economic base
 - Slow diversification
 - HIV/AIDS – fiscal, social and economic impact
 - Poverty levels

External Assessments



- World Economic Forum Global Competitiveness Index
 - ▣ Botswana rated no.3 in sub-Saharan Africa (after SA and Mauritius)
- Fraser Institute and Heritage Foundation
 - ▣ High degree of economic freedom (top in Africa)
- World Bank “Survey of Doing Business”
 - ▣ Botswana rated 51 globally (out of 155 countries)
- IMF
 - ▣ generally positive annual assessments; no borrowing

THANK YOU

Email: info@econsult.co.bw
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