



Recent Economic Developments & Prospects

September 2006

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Structure of Presentation

- Economic Growth
- Exchange Rates, Foreign Trade
- Inflation, Monetary Policy & Banking
- Fiscal Developments
- Outlook



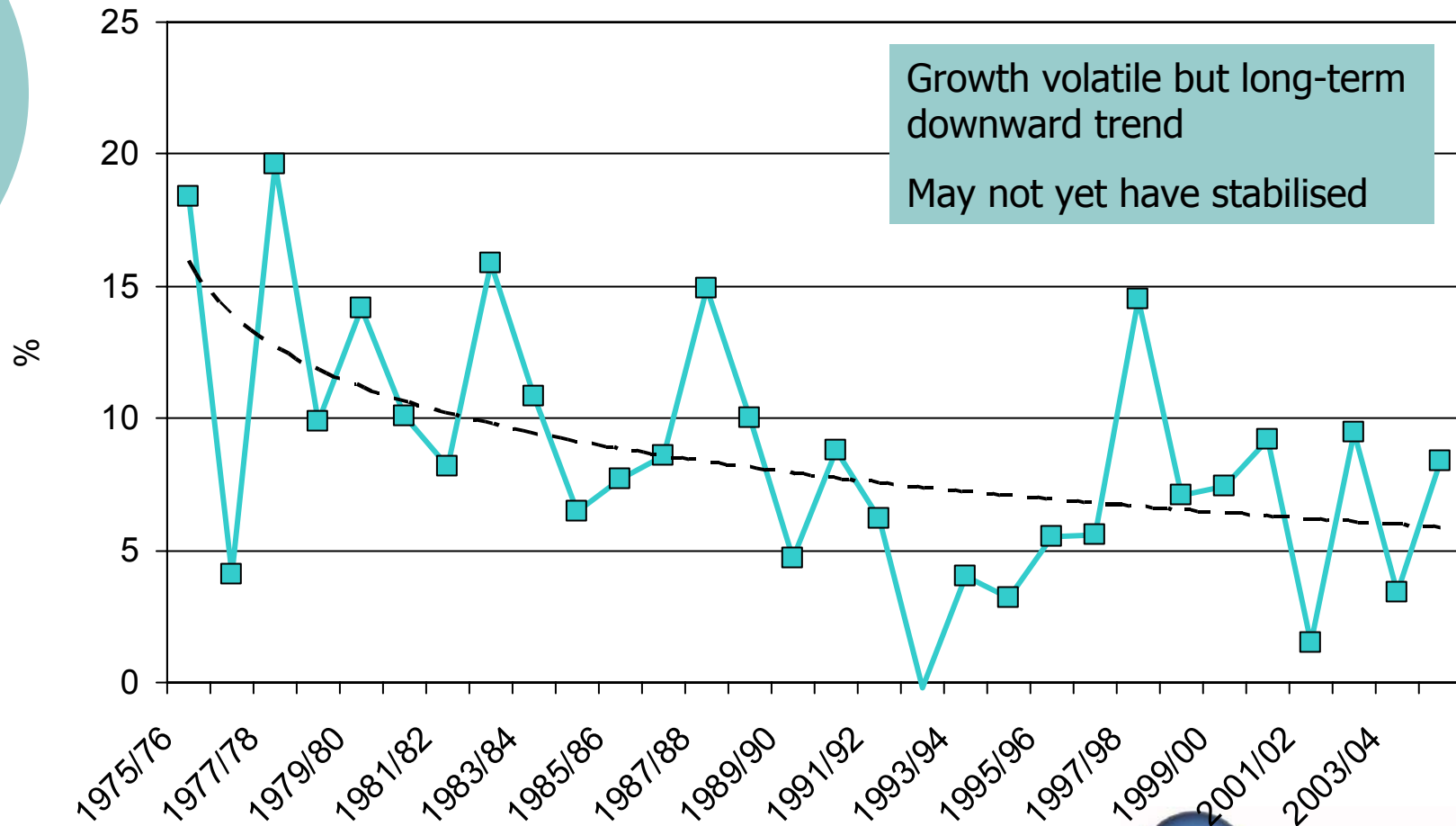
Economic Growth



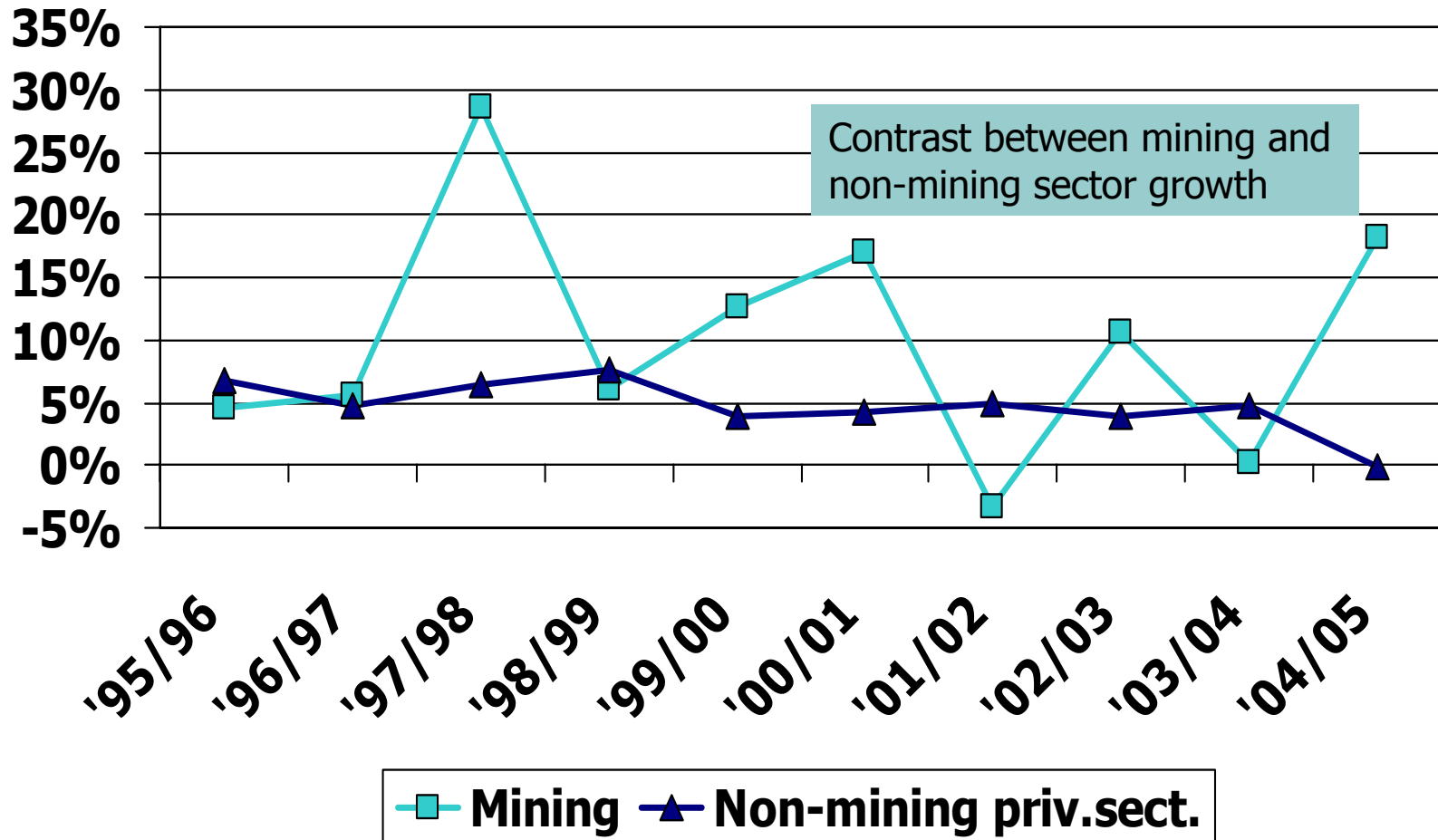
Botswana Prospects (Sept. 2005)

- Evidence of short-term cyclical recovery
- Higher inflation & interest rates
- Longer-term reforms pending:
 - Sustainable budget
 - FIAS report recommendations
 - Real focus on competitiveness
 - Privatisation, liberalisation, PPPs

GDP Growth – Long Term



GDP growth – mining vs non-mining

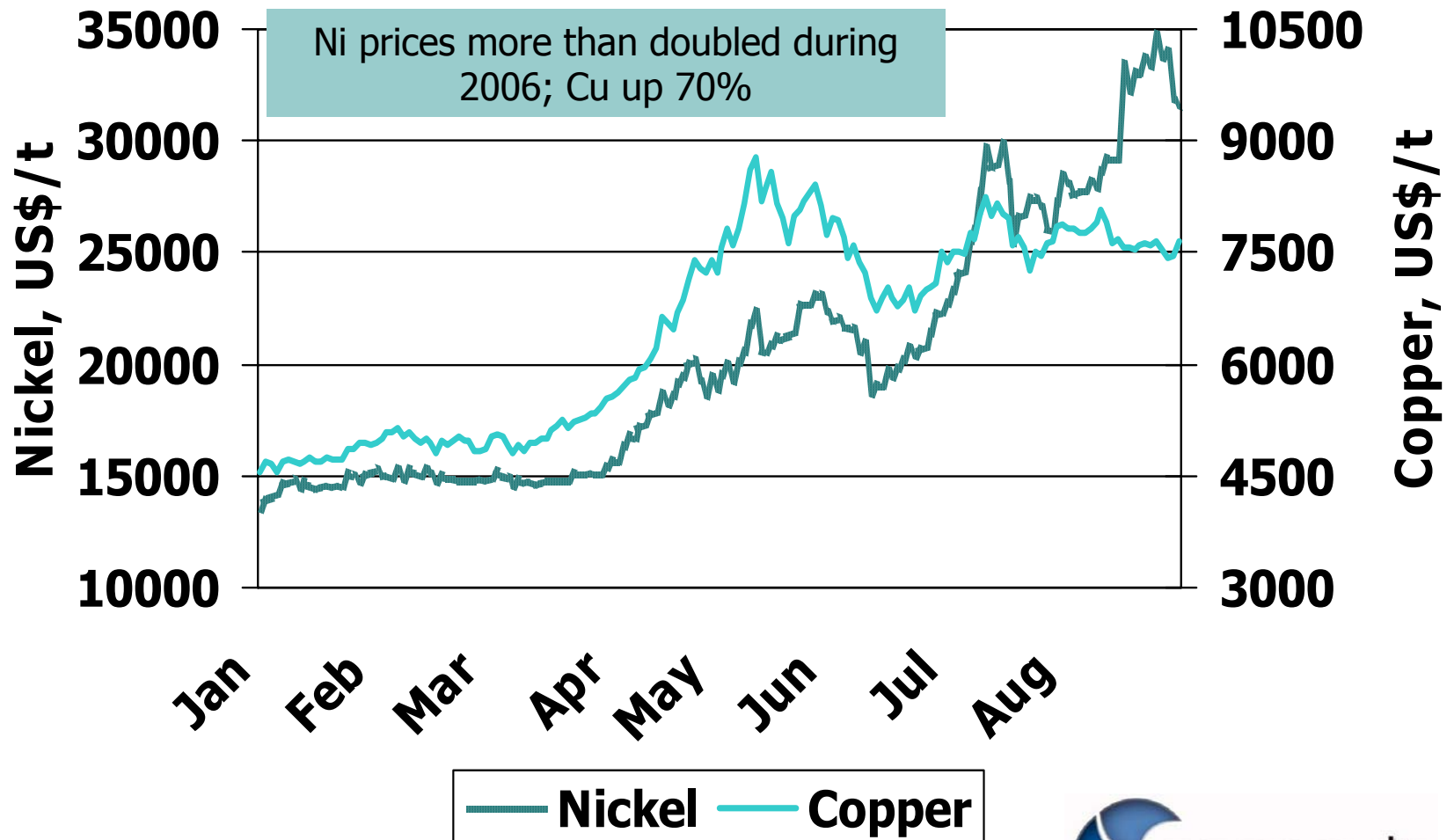




Growth Developments

- Good conditions in mining sector
 - world commodity markets very tight;
 - copper & nickel prices at very high levels;
 - widespread prospecting (copper, nickel, zinc, diamonds, gold, PGMs, coal, gas)
 - Good long-term prospects
- Possible temporary weakness ahead
 - market for diamonds weakening (US)
 - metals prices expected to fall

Copper & Nickel Prices





Growth Developments

- Forthcoming Mining & Related Projects
 - Diamondex mine early 2007 (Tuli Block)
 - African Diamonds AK6 2007 (Orapa)
 - African Copper 2008 (Dukwe)
 - LionOre/Tati Nickel Activox refinery (Cu/Ni/PGMs) (Francistown)
 - Mmamabula coal/power
 - Diamond aggregation/cutting



Growth Developments

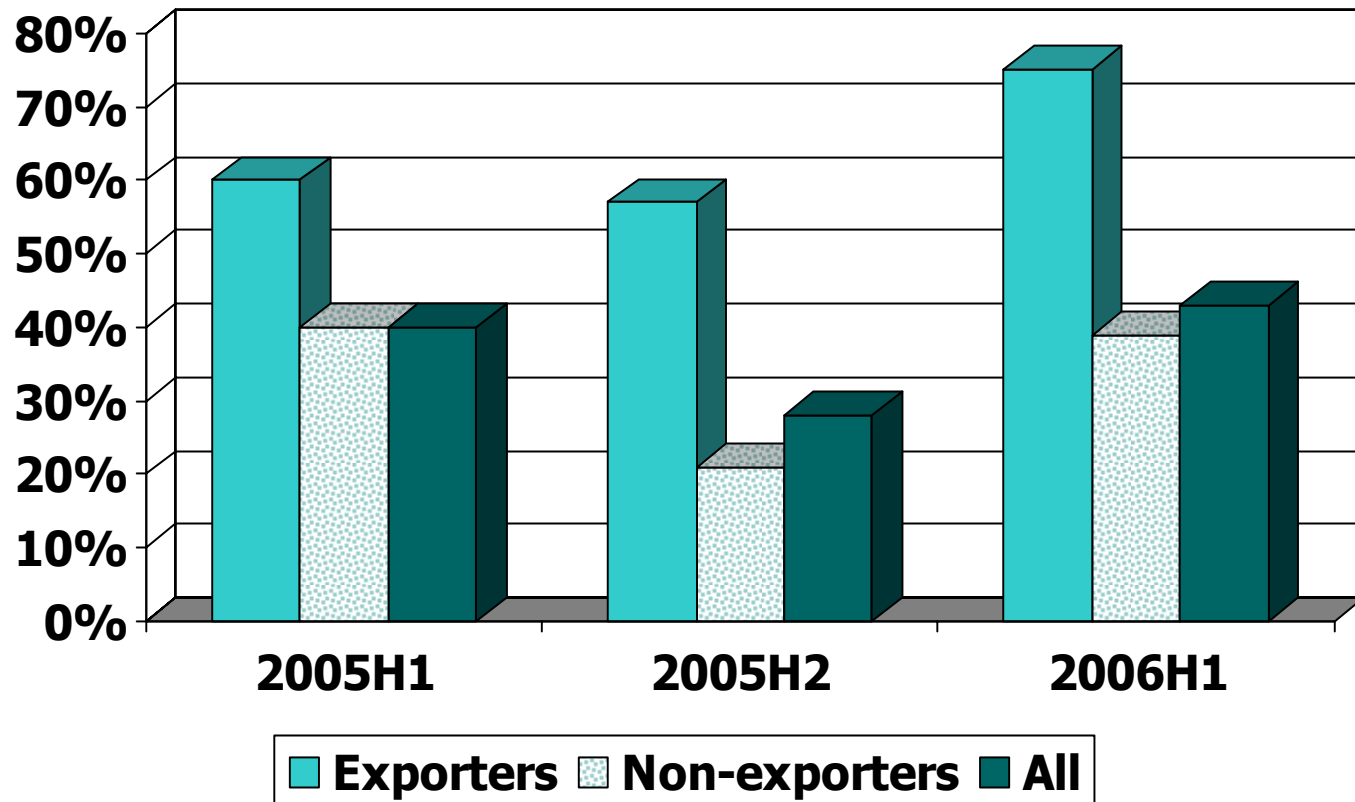
- Weak conditions in non-mining sector
 - Recession in manufacturing, trade;
 - Impact of:
 - declining real incomes in public sector
 - slow public spending growth
 - credit squeeze
 - devaluation
 - HIV/AIDS



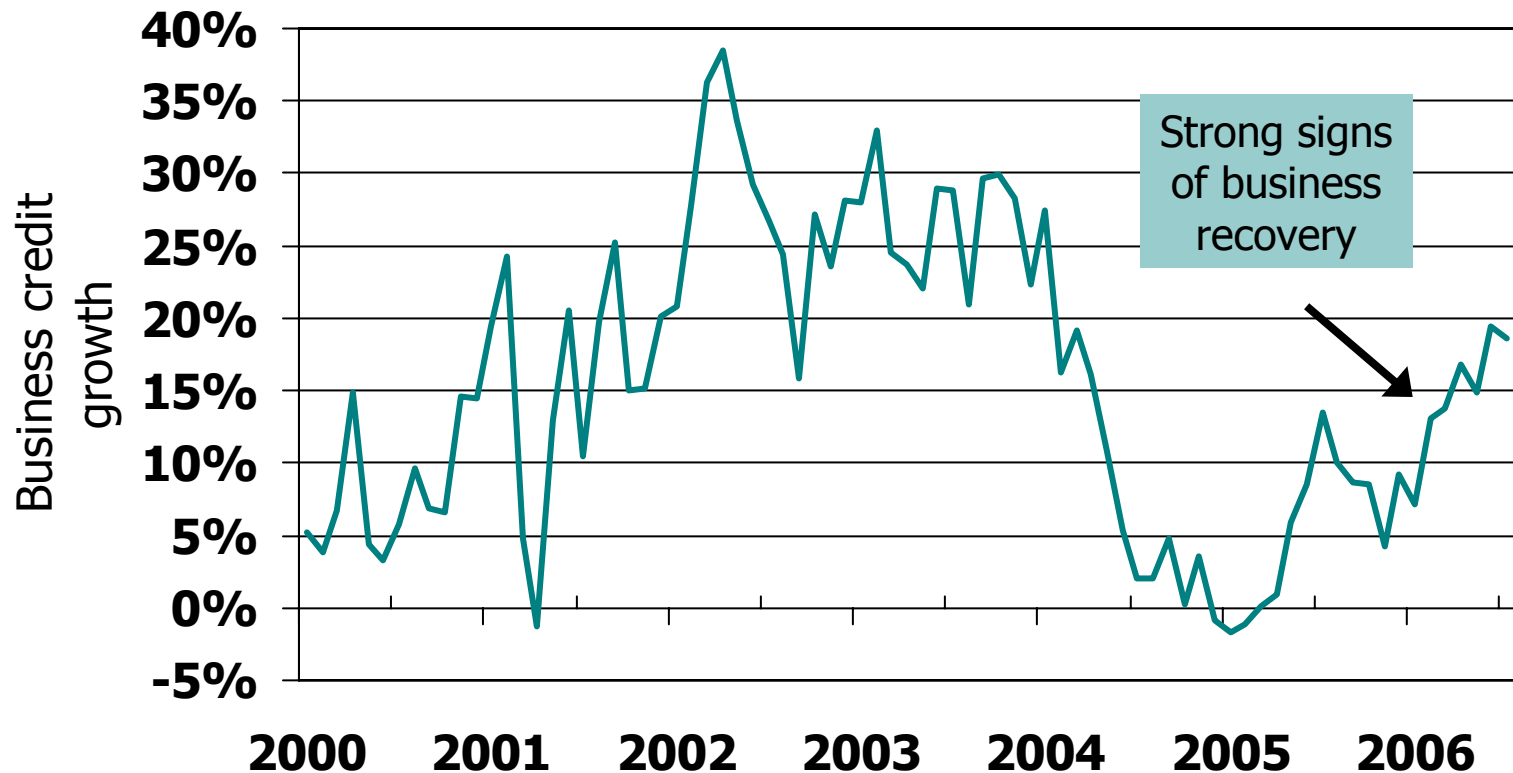
Is There a Recovery?

- No new GDP data (only to June 05)
- BoB Business Expectations survey
 - less pessimistic in 2006H1 compared to 2005H2;
 - contrast between domestic and exporting sectors
 - overall confidence below 50%, but improving

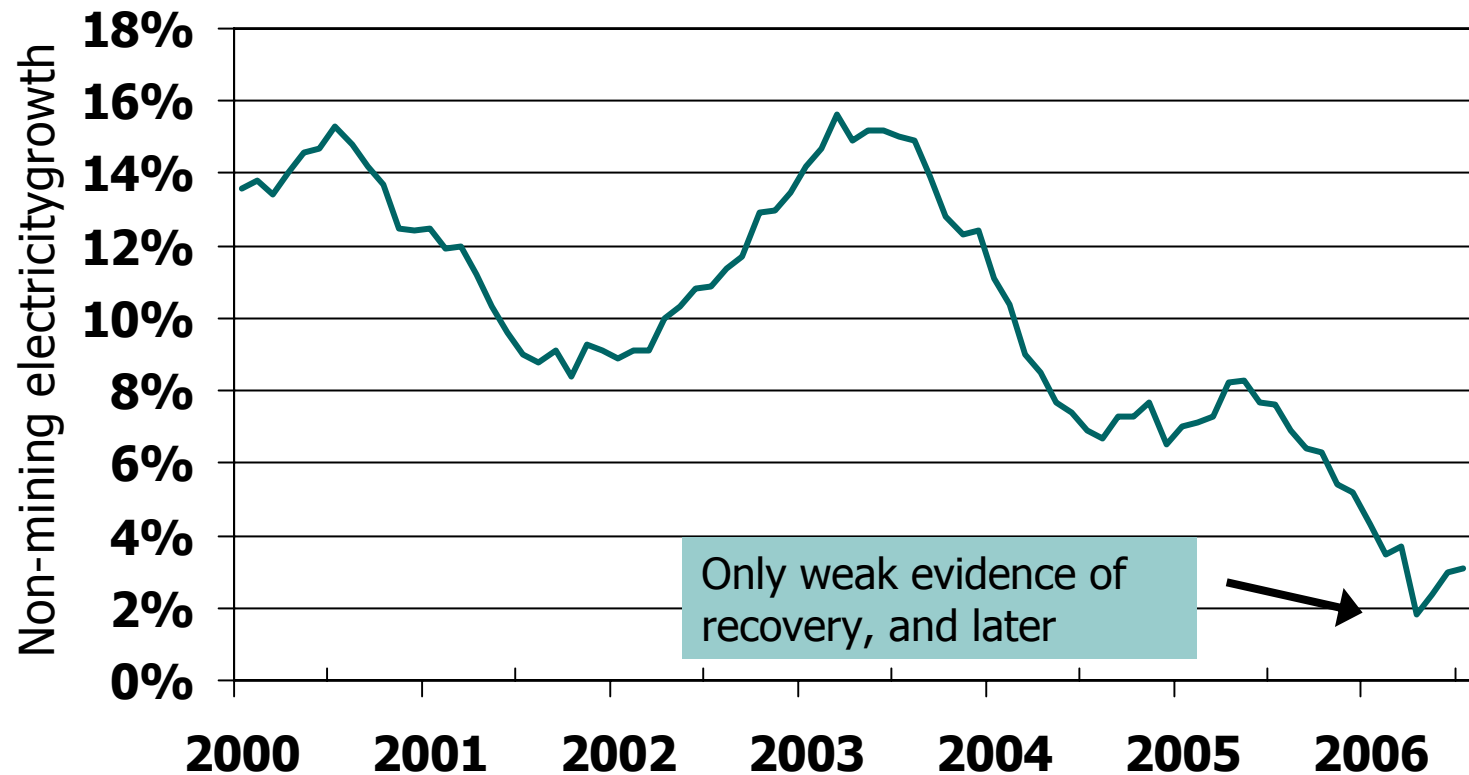
BoB Business Confidence Survey



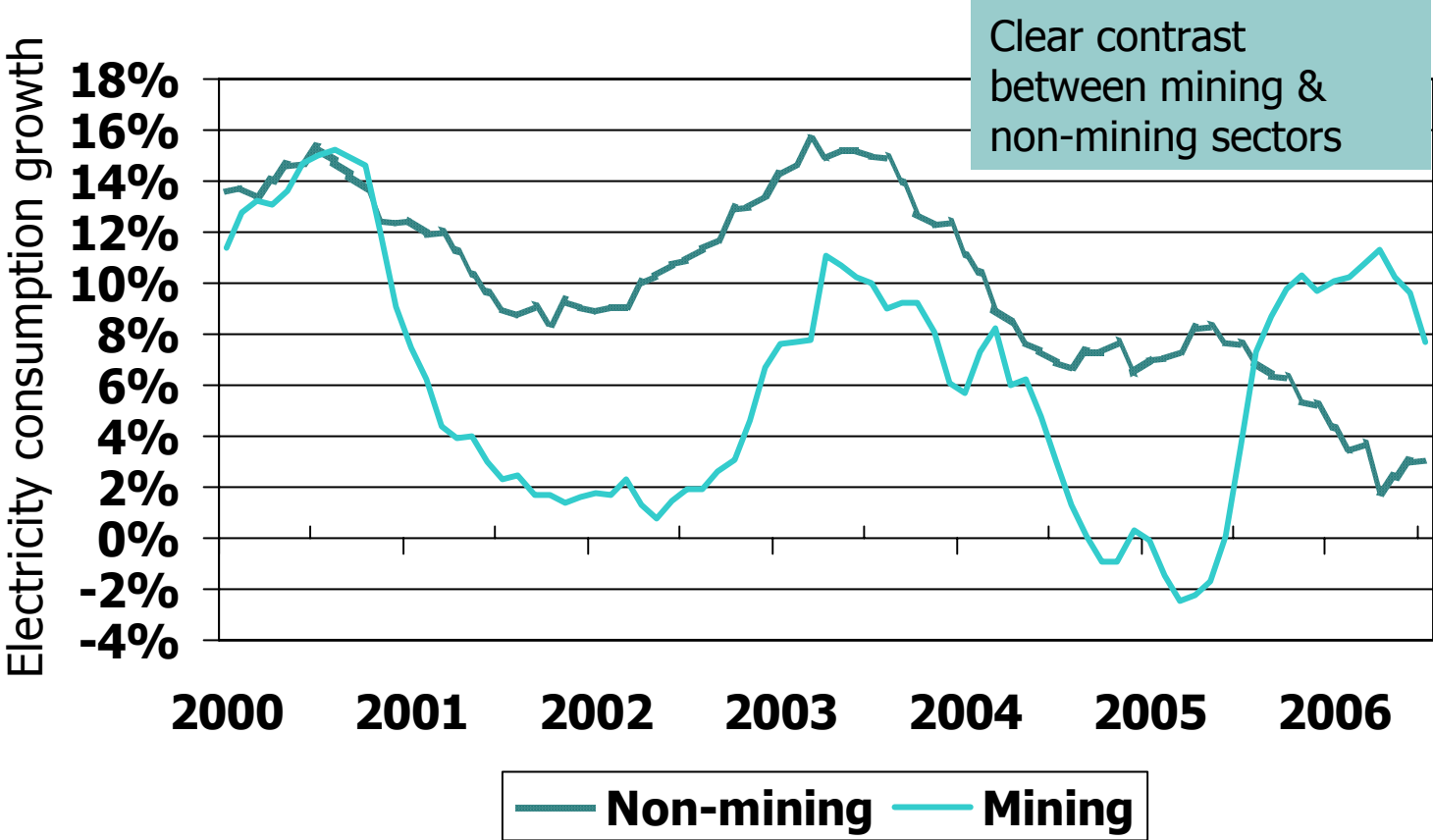
Growth Indicators – Private Business Credit



Growth Indicators – Non-Mining Elec. Consumption



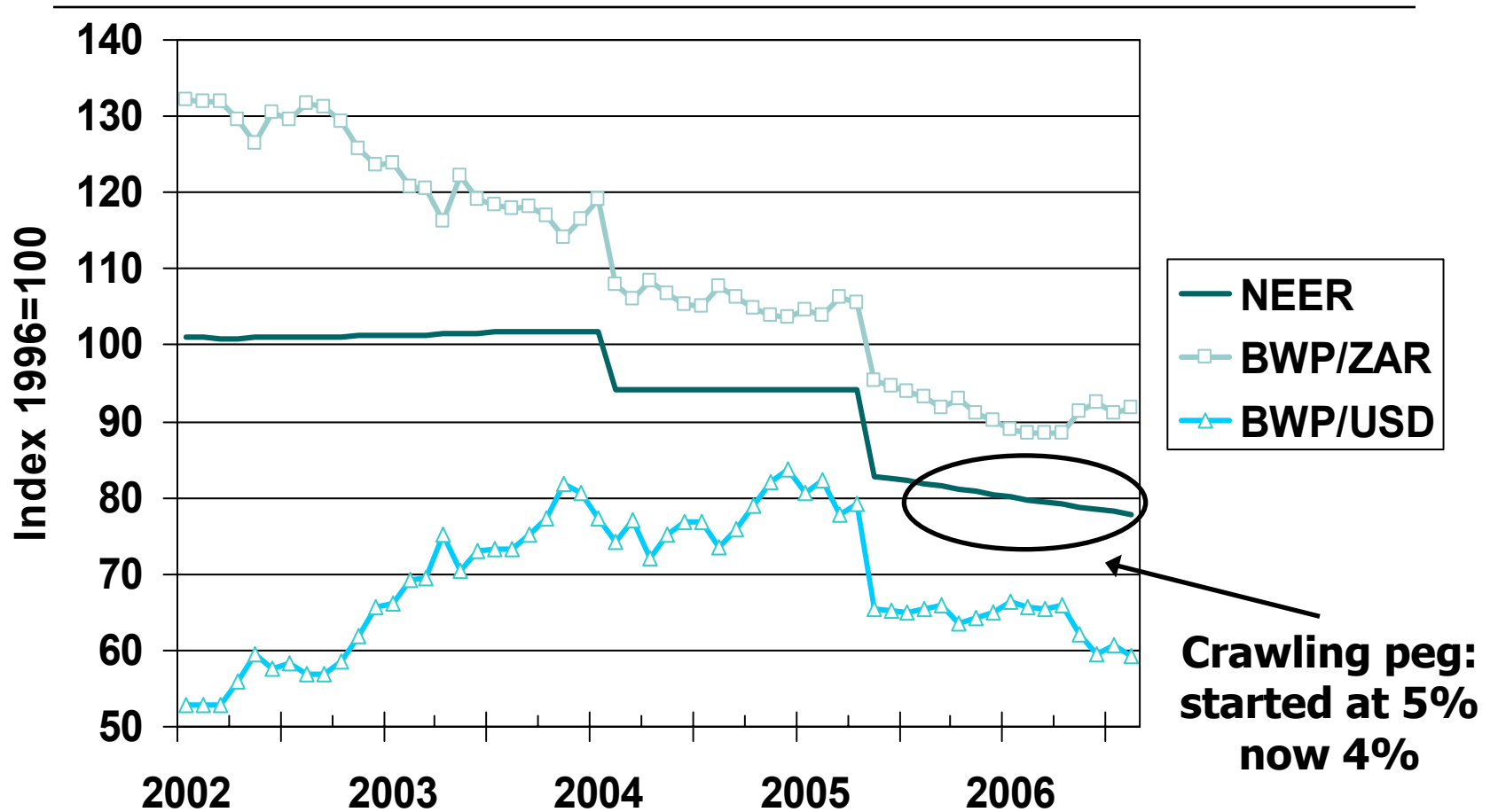
Growth Indicators – Electricity Consumption



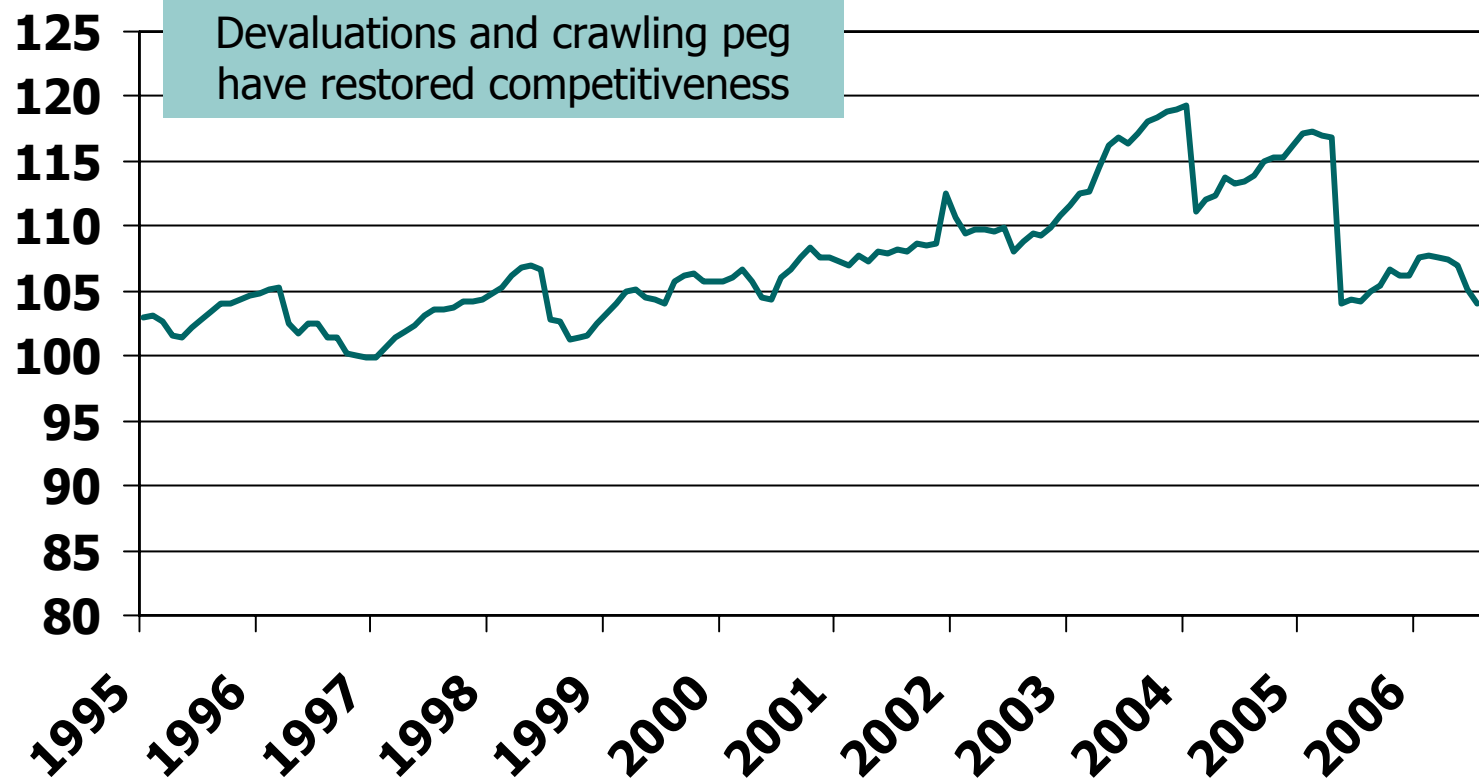


Exchange Rates
FX Reserves
Exports

Exchange Rates

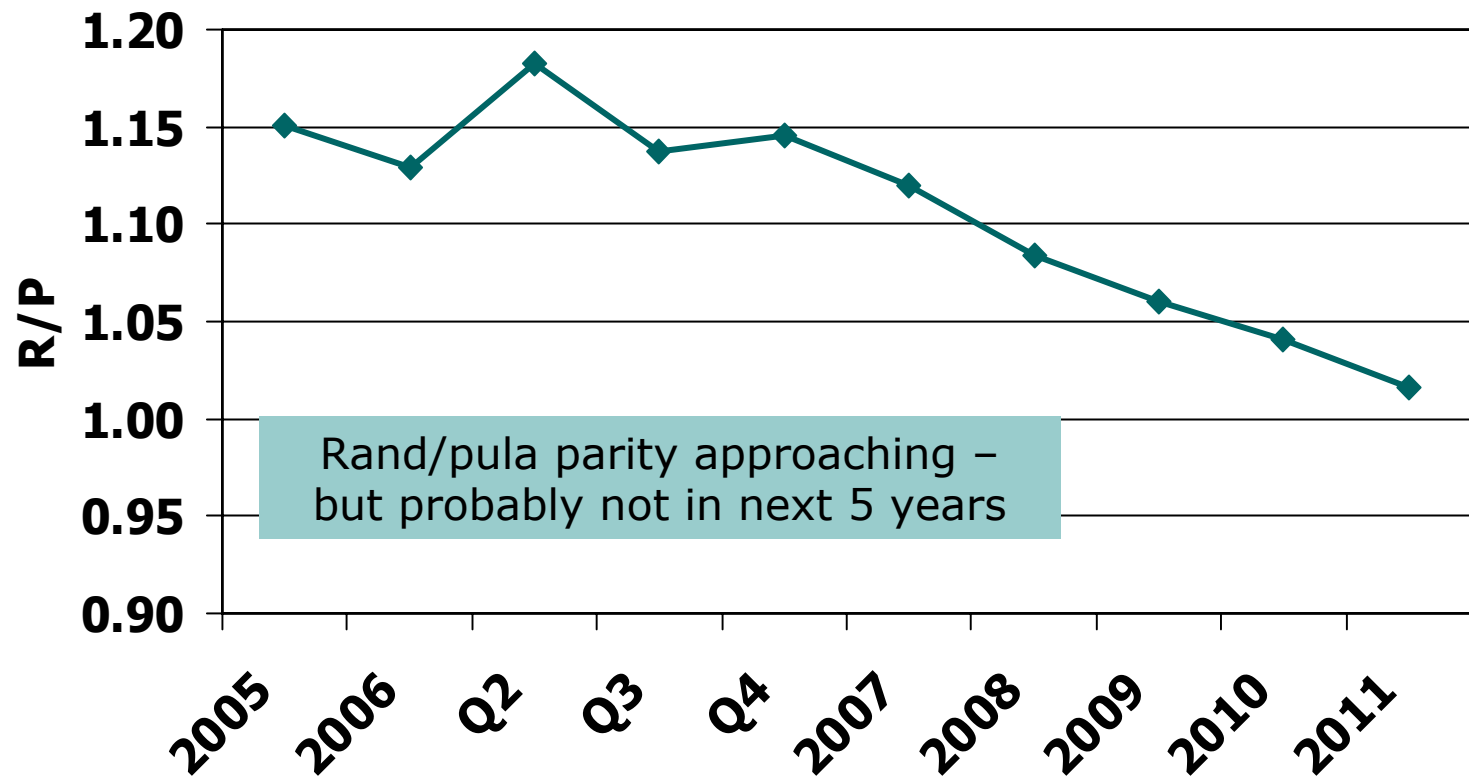


Real Effective Exchange Rates 1995-2005



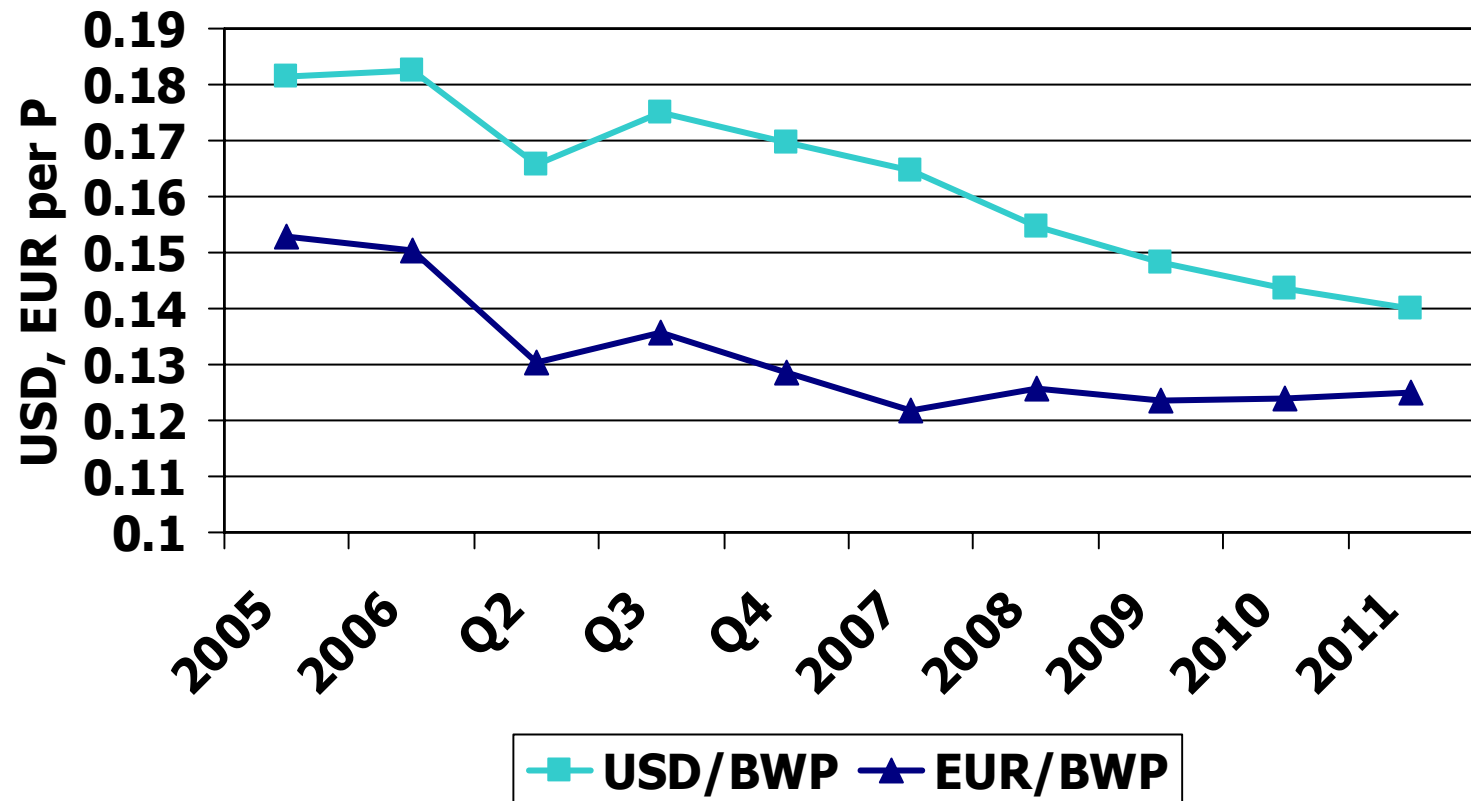
Forecasts 2006-2011

Pula vs. ZAR

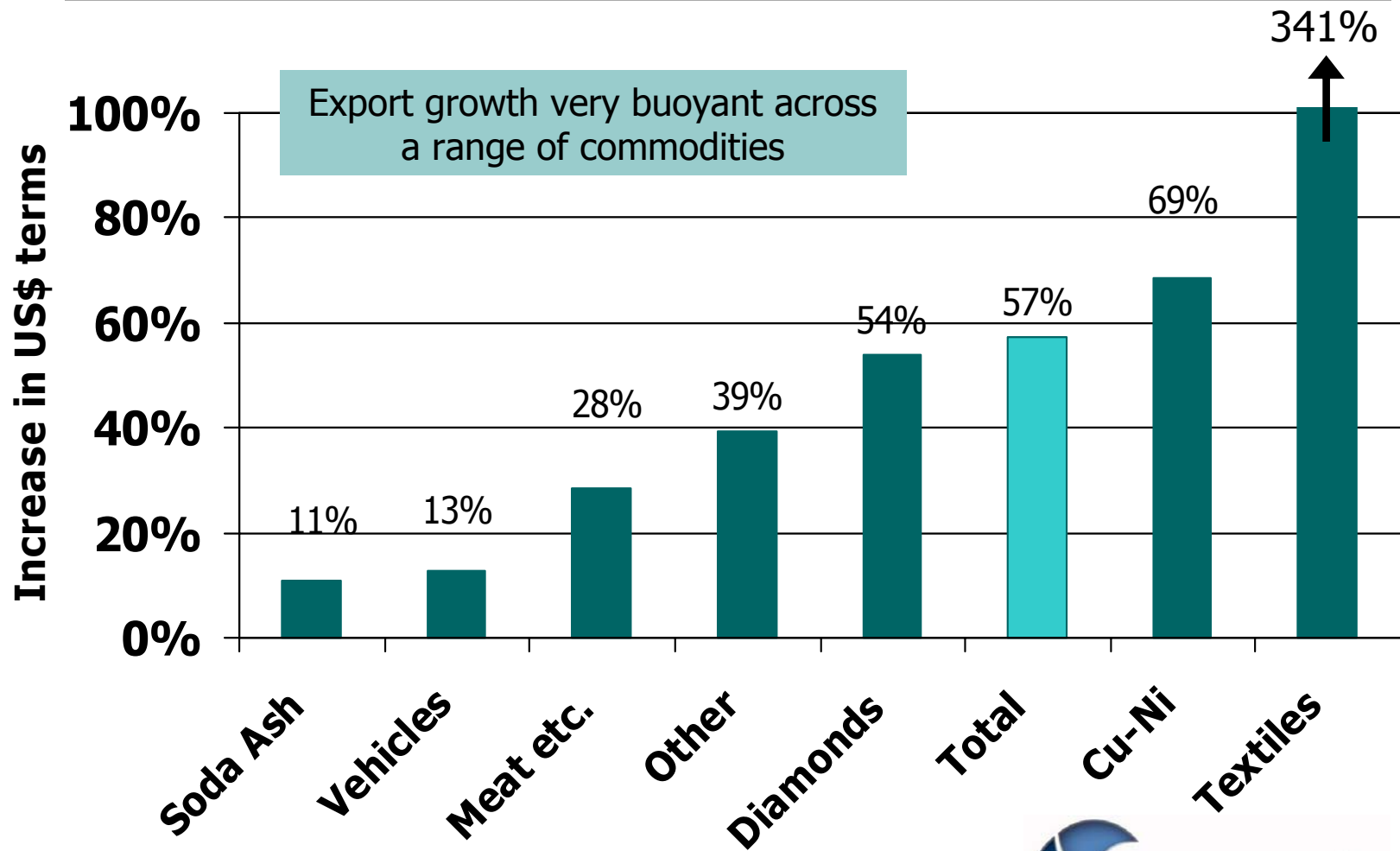


Forecasts 2006-2011

Pula vs. USD, EUR



Export growth (US\$), 2003-05

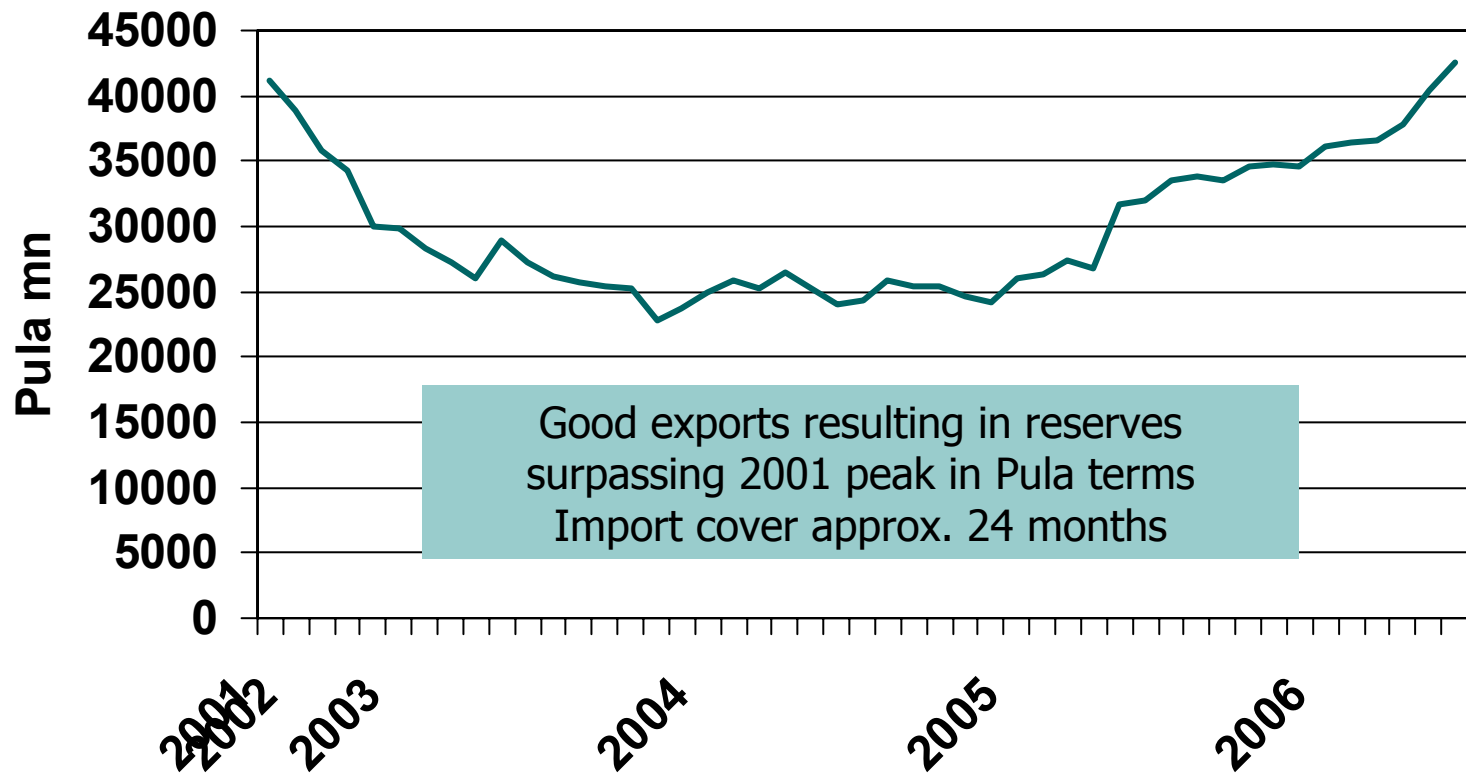


Major Exports (>P2m)

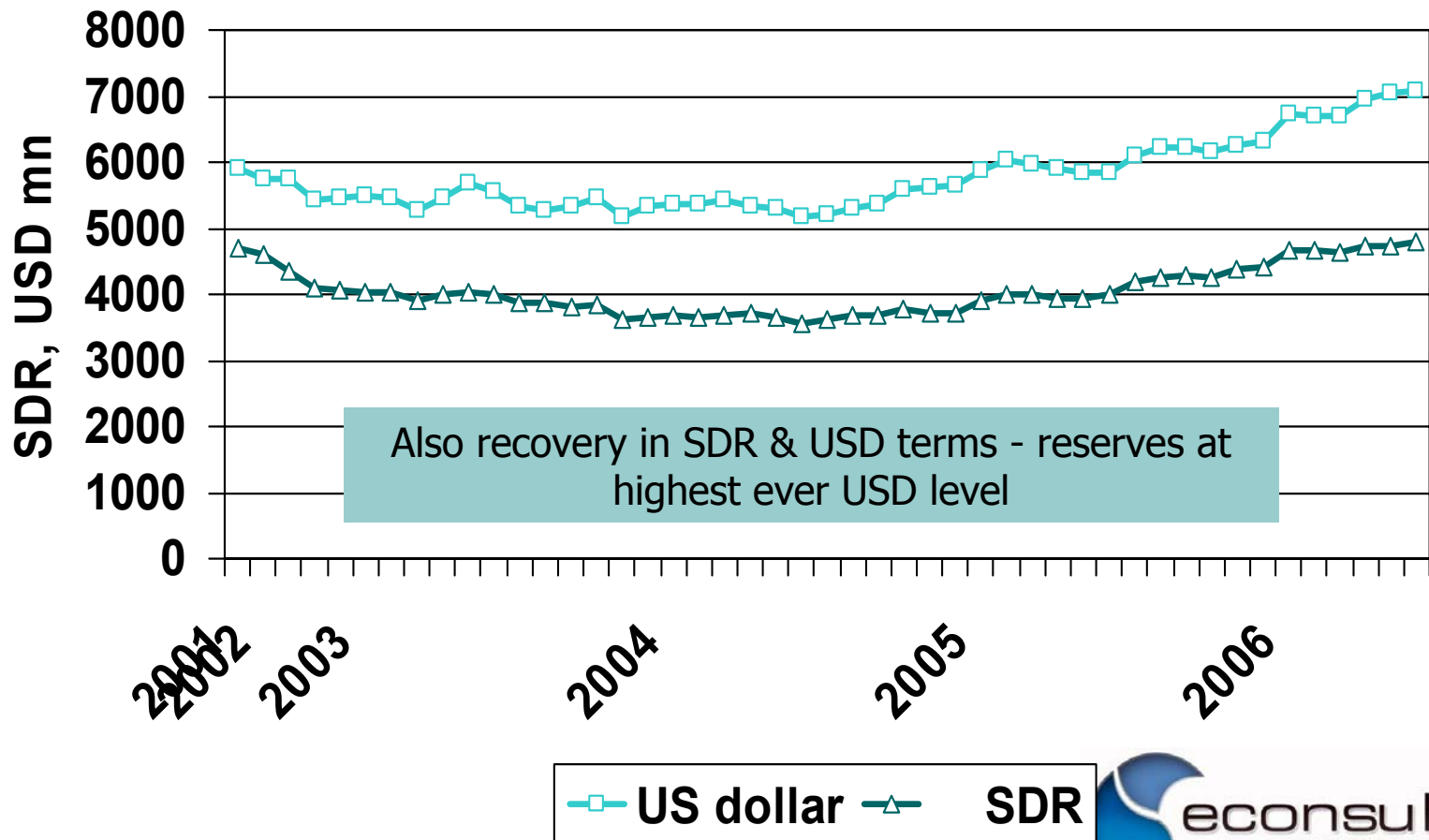
June 2006

1	Diamonds	11	Plastics
2	Copper-nickel	12	Meat
3	Apparel/clothing	13	Paper products
4	Stamps, banknotes	14	Hides & skins
5	Sugar confect.	15	Pers. effects
6	Vehicles & parts	16	Optical equip.
7	Machinery	17	Salt
8	Pasta & biscuits	18	Fuels & oils
9	Iron & steel	19	Meat products
10	Electrical mach.	20	Pharmaceut. prods.

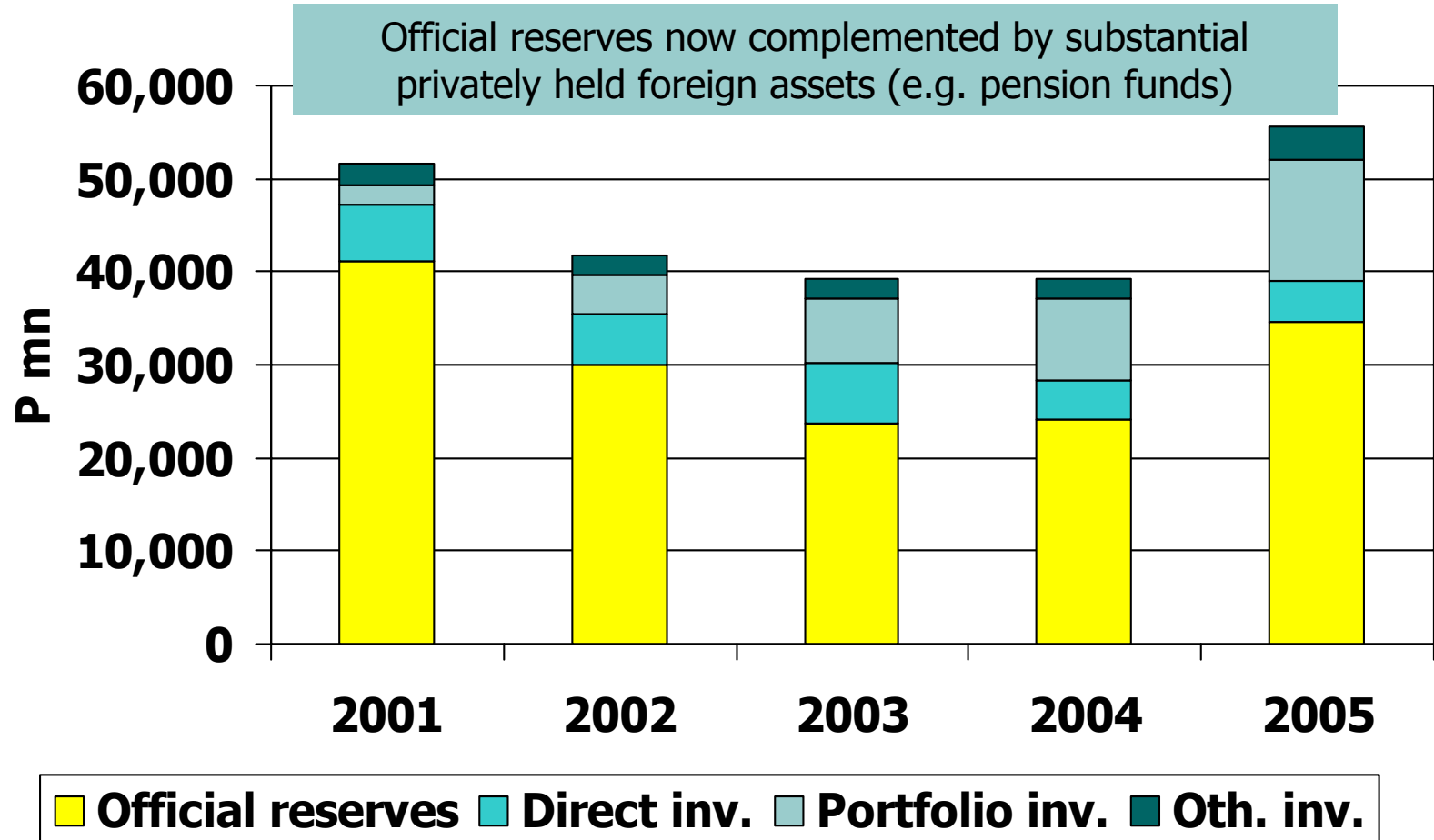
Foreign Exchange Reserves (Pula)



Foreign Exchange Reserves (SDR, USD)



Botswana's International Assets





Inflation
Monetary Policy
Banking



Inflation

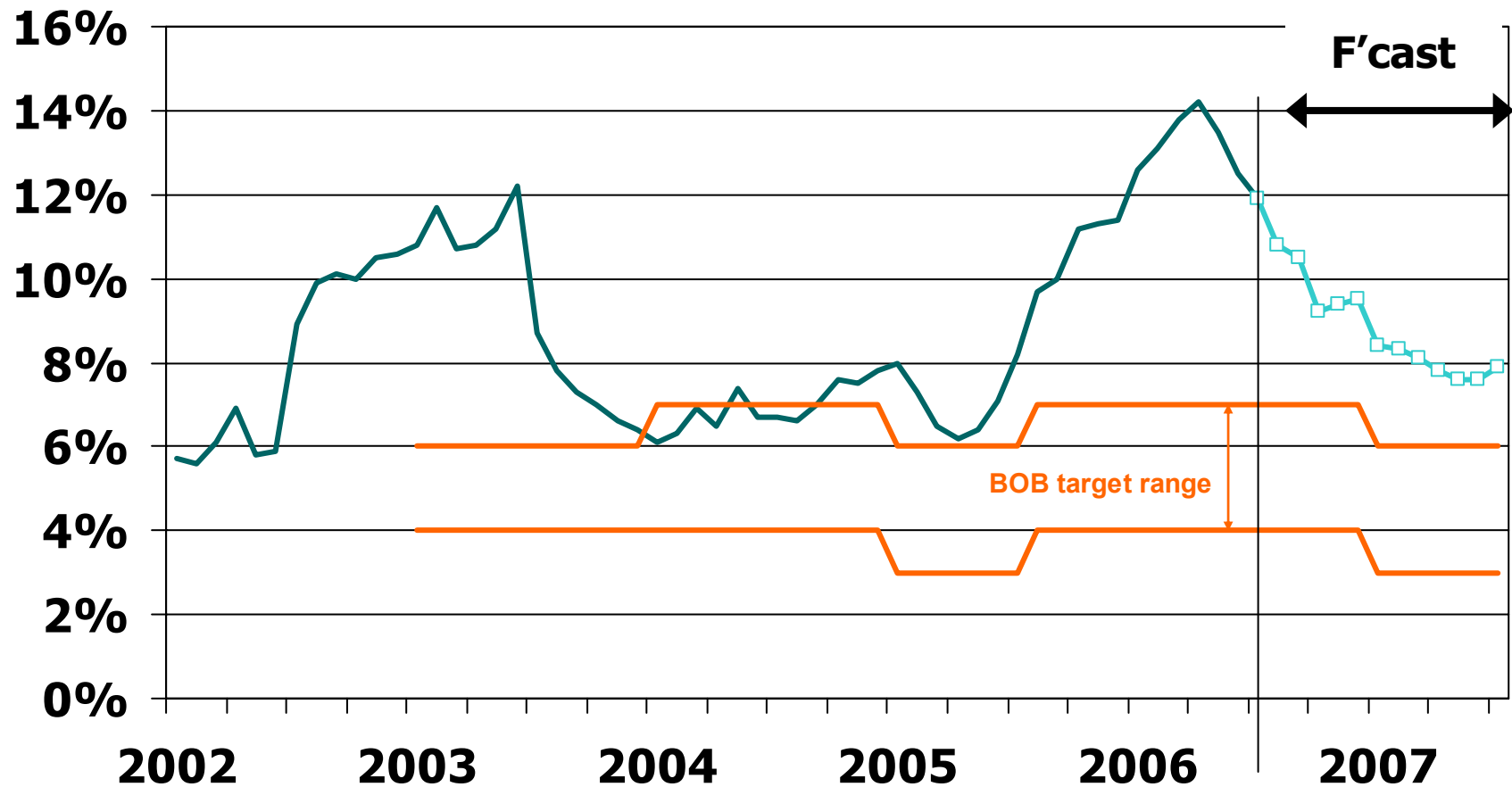
- Inflation rose sharply to 14.2% in April 2006, above expectations
- Main cause was 2005 devaluation, compounded by:
 - world fuel prices
 - regional food prices
 - telecomms tariffs rebalancing
 - school fees



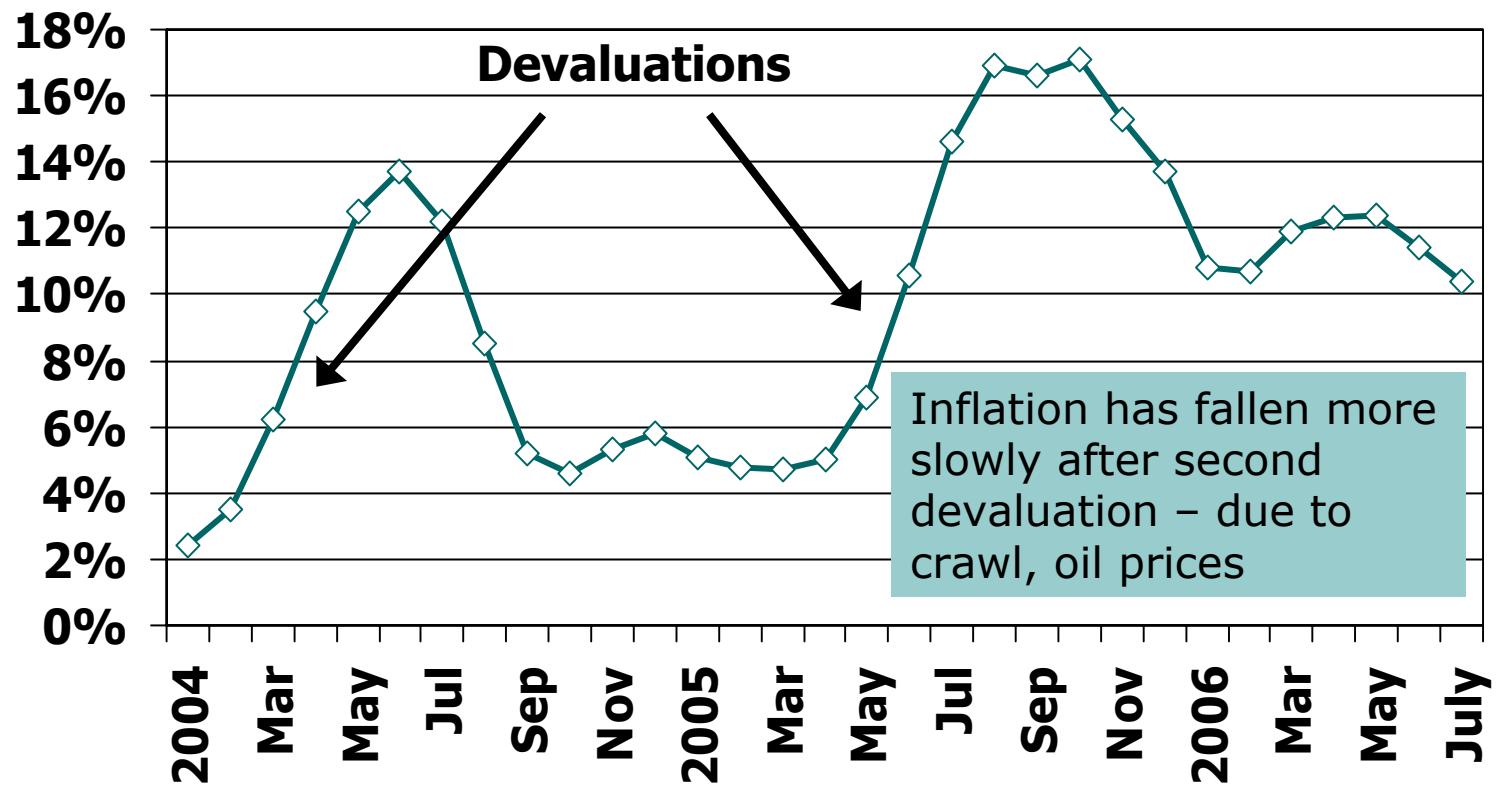
Inflation

- Steady decrease since April, down to 11.9% in July
- Decline should continue; inflation to end year below 10%;
- Should fall to 7%-8% by Q1 2007
- Main risks:
 - world fuel prices
 - further telecomms rebalancing
 - rising world and SA inflation
- New CPI index before end of year will help more accurate measurement of inflation

Inflation Forecast



Inflation – Quarterly annualised



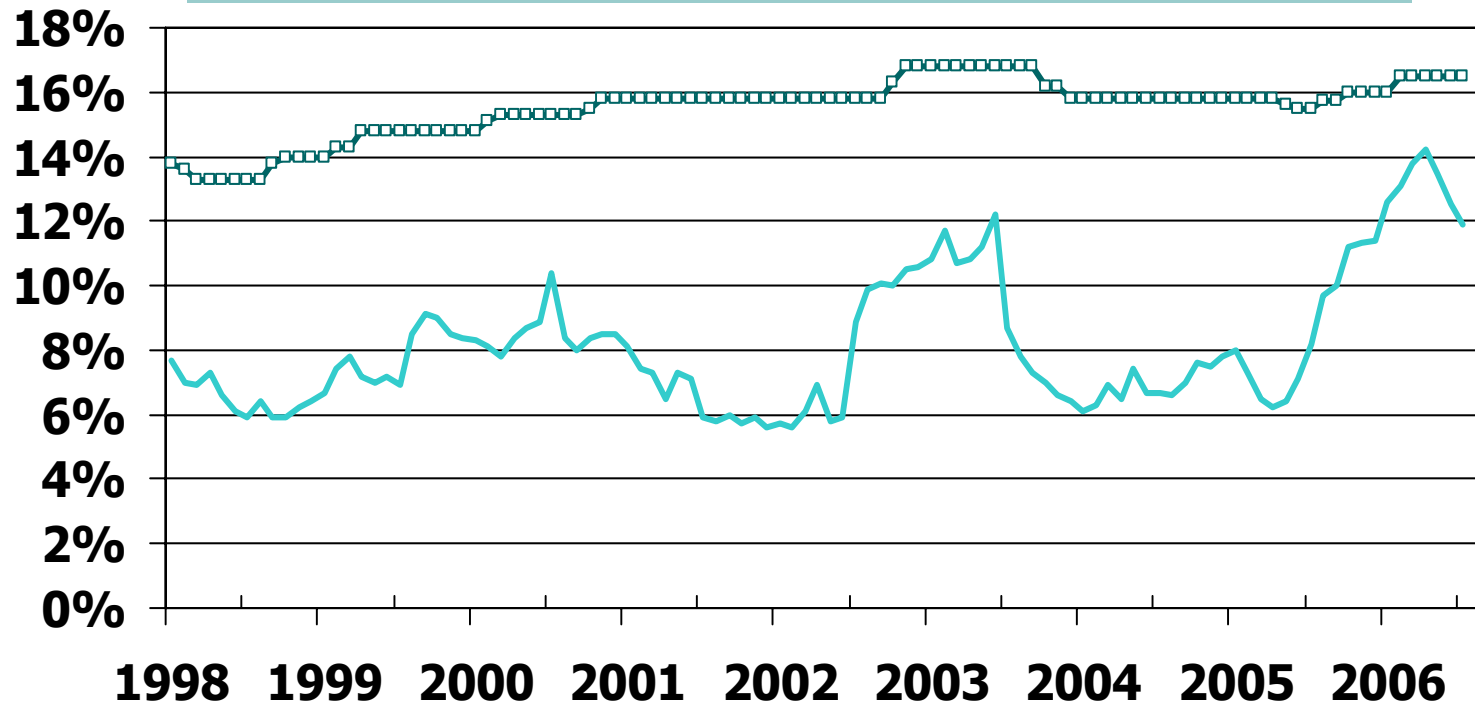


Monetary Policy

- Revision to inflation data in April has avoided need for further interest rate increases (since Feb 2006)
- Declining inflation favours rate reduction, but:
 - inflation way above BoB target range, and unlikely to fall within it
 - BoB inflation range too low, given crawling peg
 - may see small reduction in rates in late 2006/early 2007
- Mid-Year Review of 2006 Monetary Policy Statement – no change to inflation objective

Prime Lending Rate and Inflation

BoB has traditionally been reluctant to cut rates much even when inflation falls sharply



— Prime — Inflation

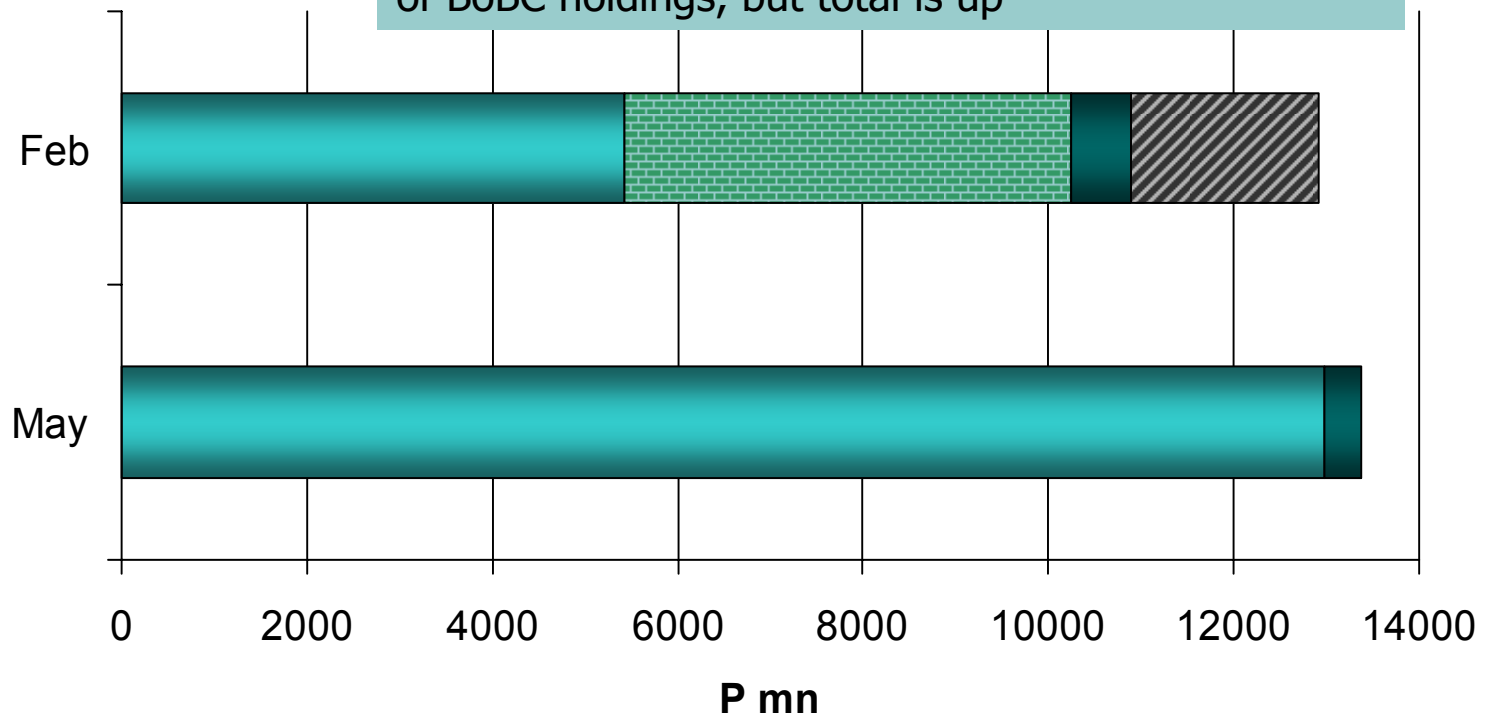


Banking System Developments

- Banking system going through period of change
- Regulatory changes
 - BoBCs
 - Reserve requirements
 - FX dealing
- Rapid expansion of deposit base, banks very liquid, additional profits
- May conflict with objectives of restraining credit growth

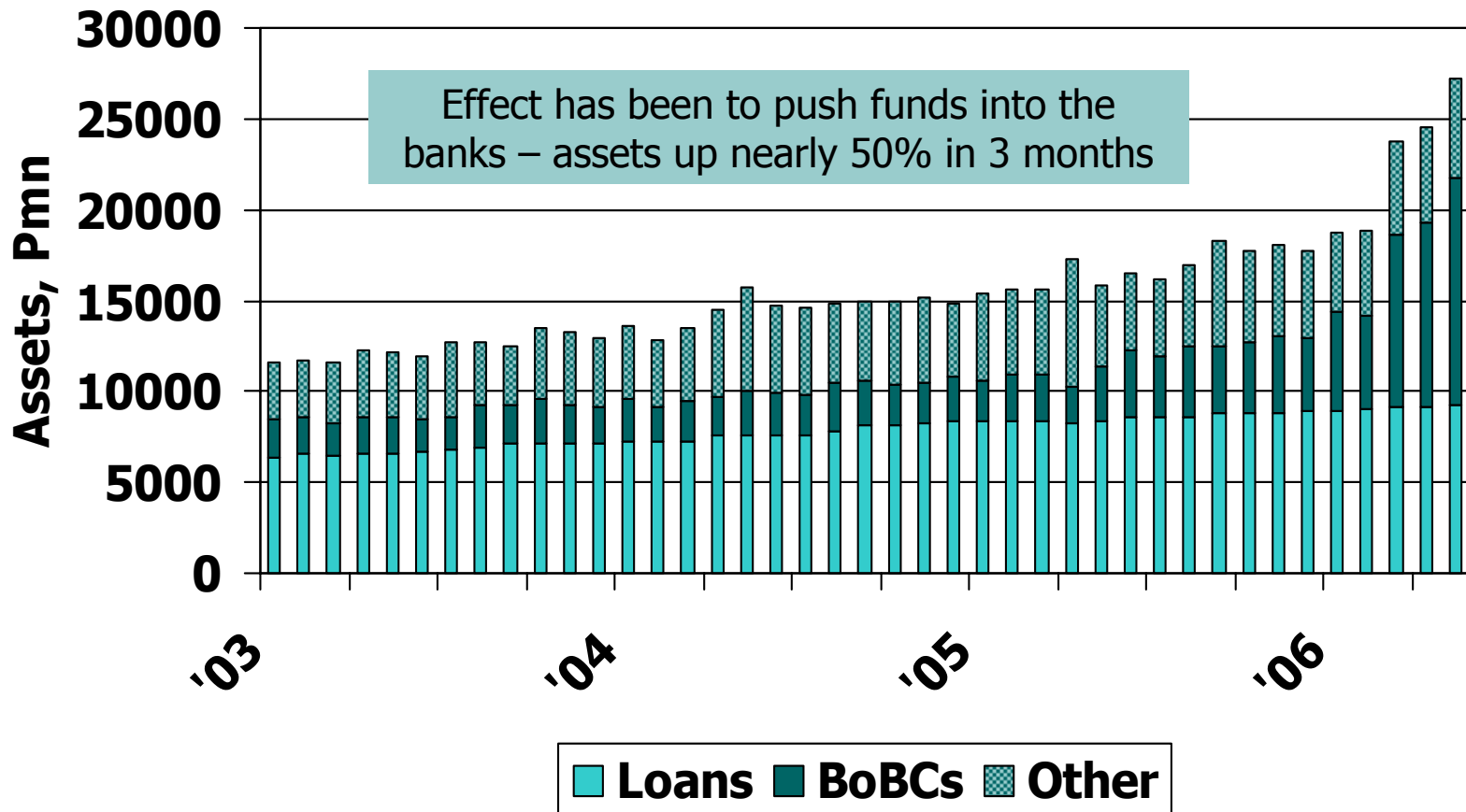
BoBC Holdings

Change in BoB regulations has altered composition of BoBC holdings, but total is up

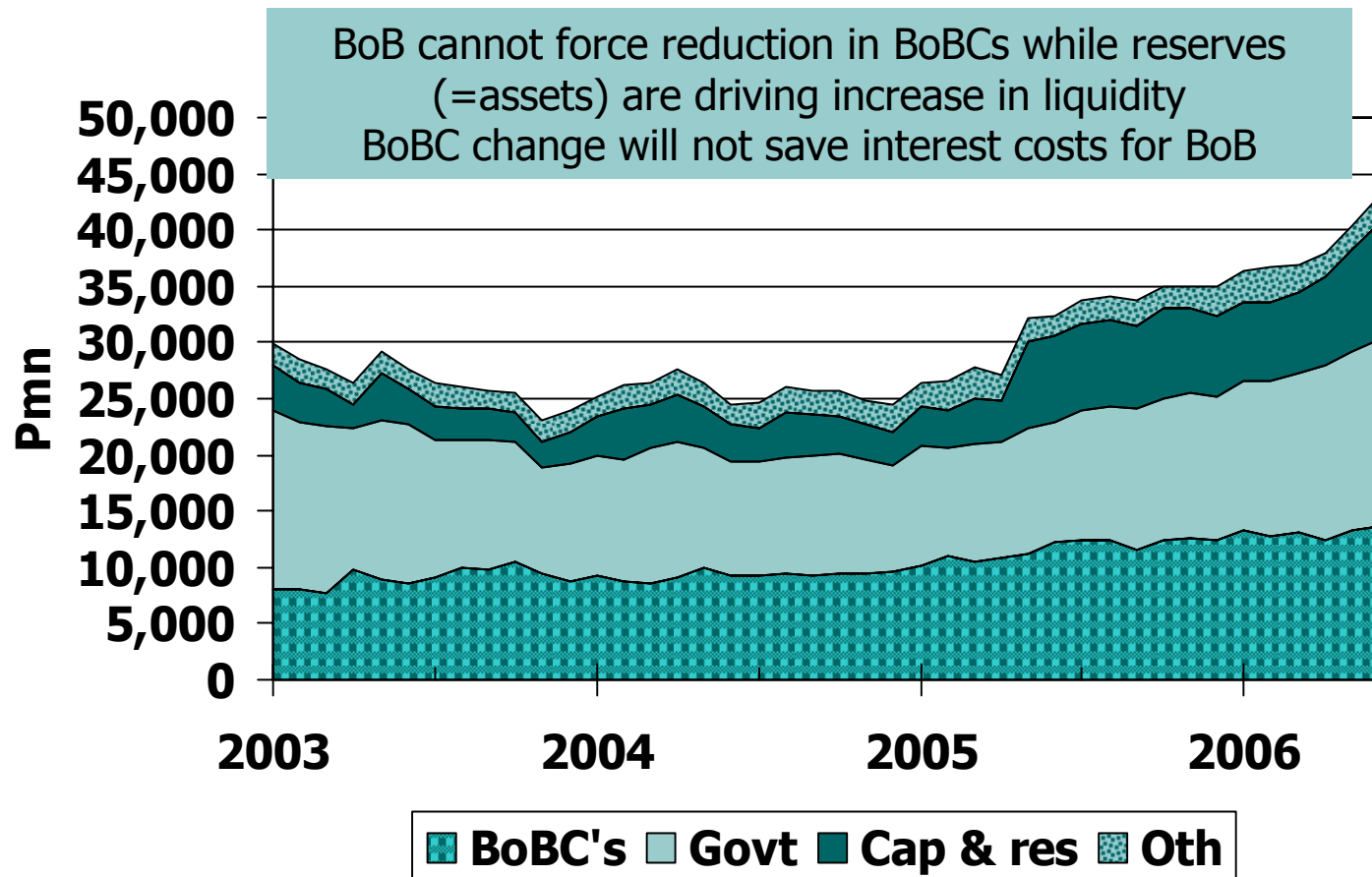


■ Banks - own ■ Banks - cust ■ Other FIs ■ Other private

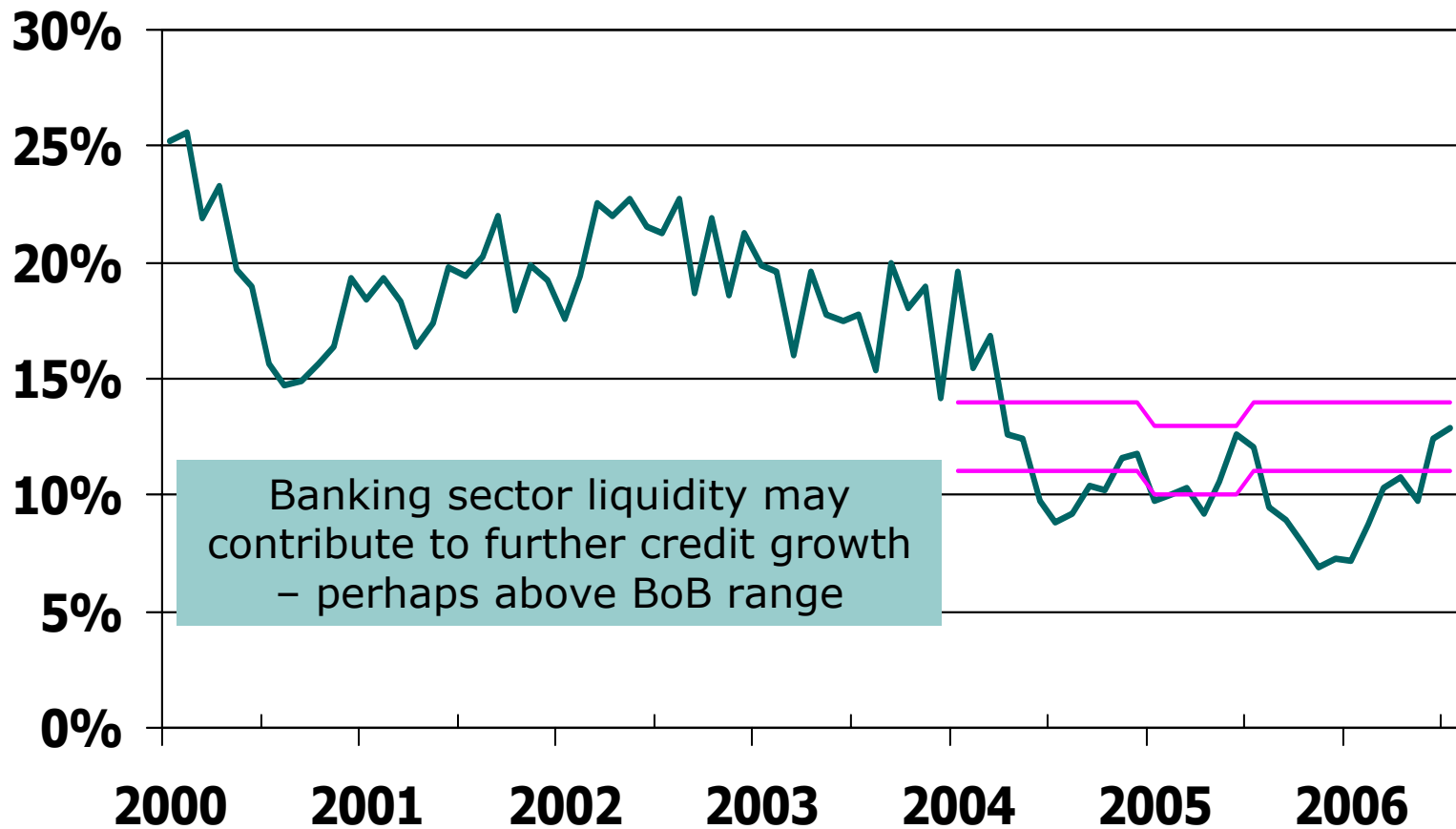
Banking Assets



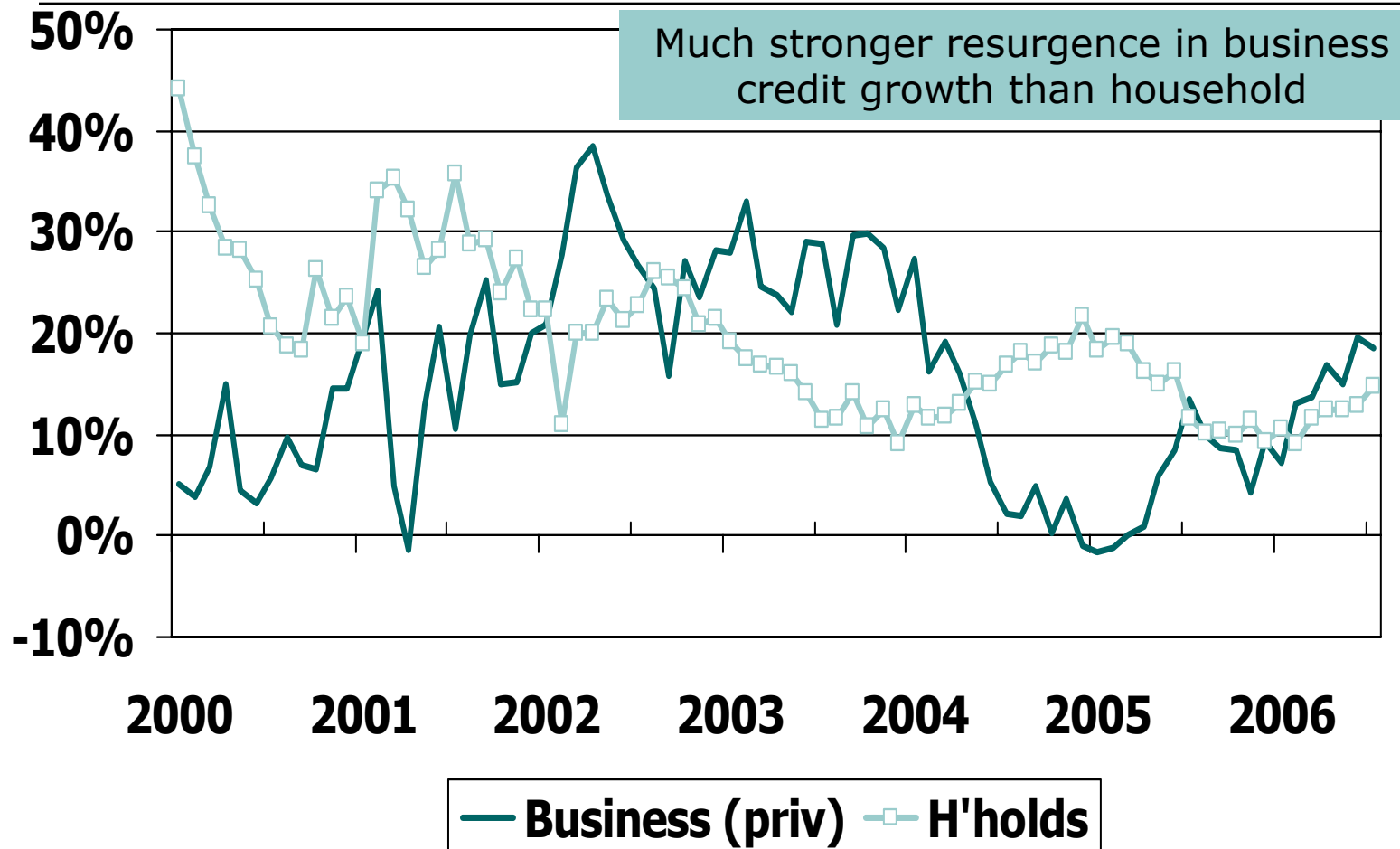
BoB Liabilities



Credit Growth

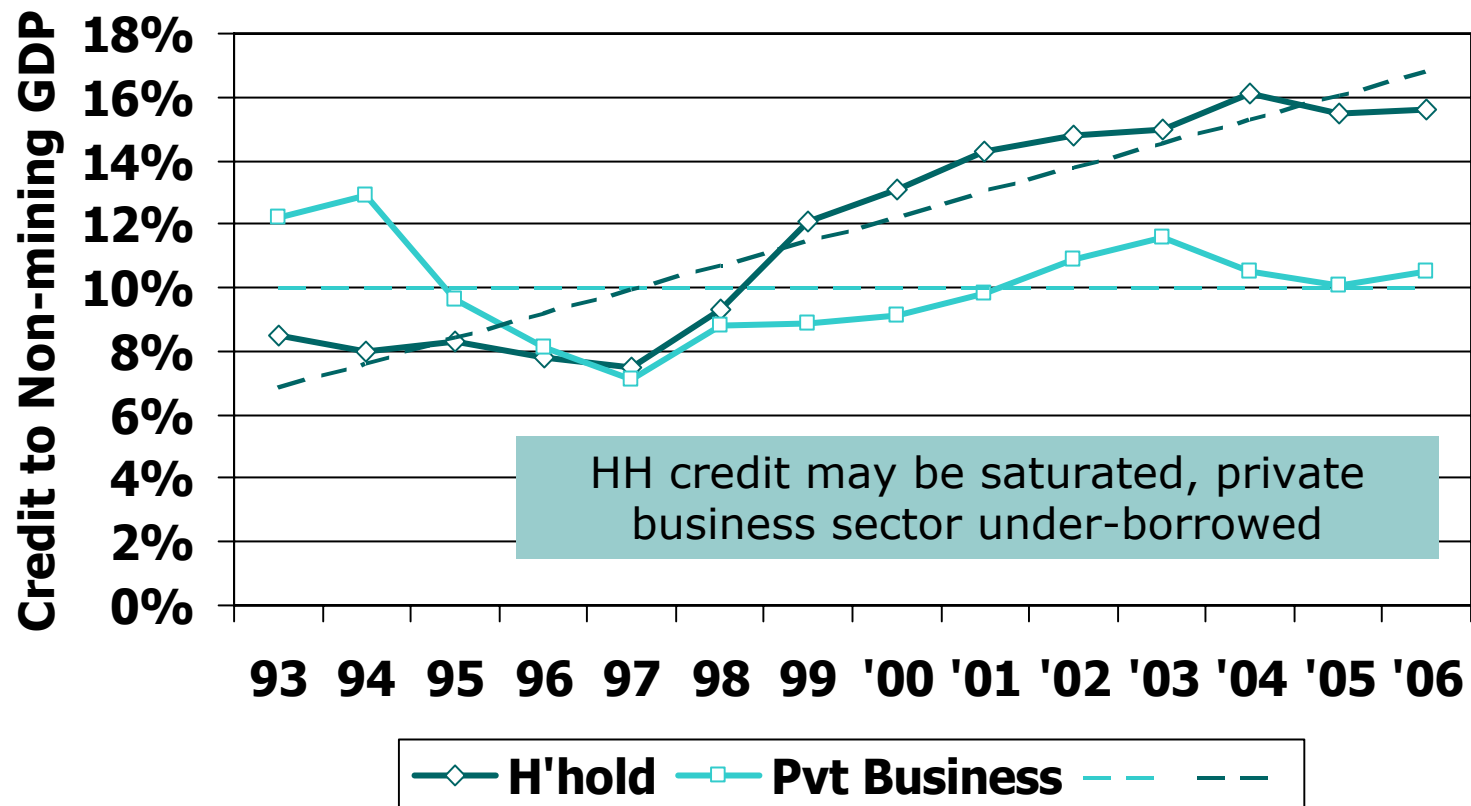


Credit Growth



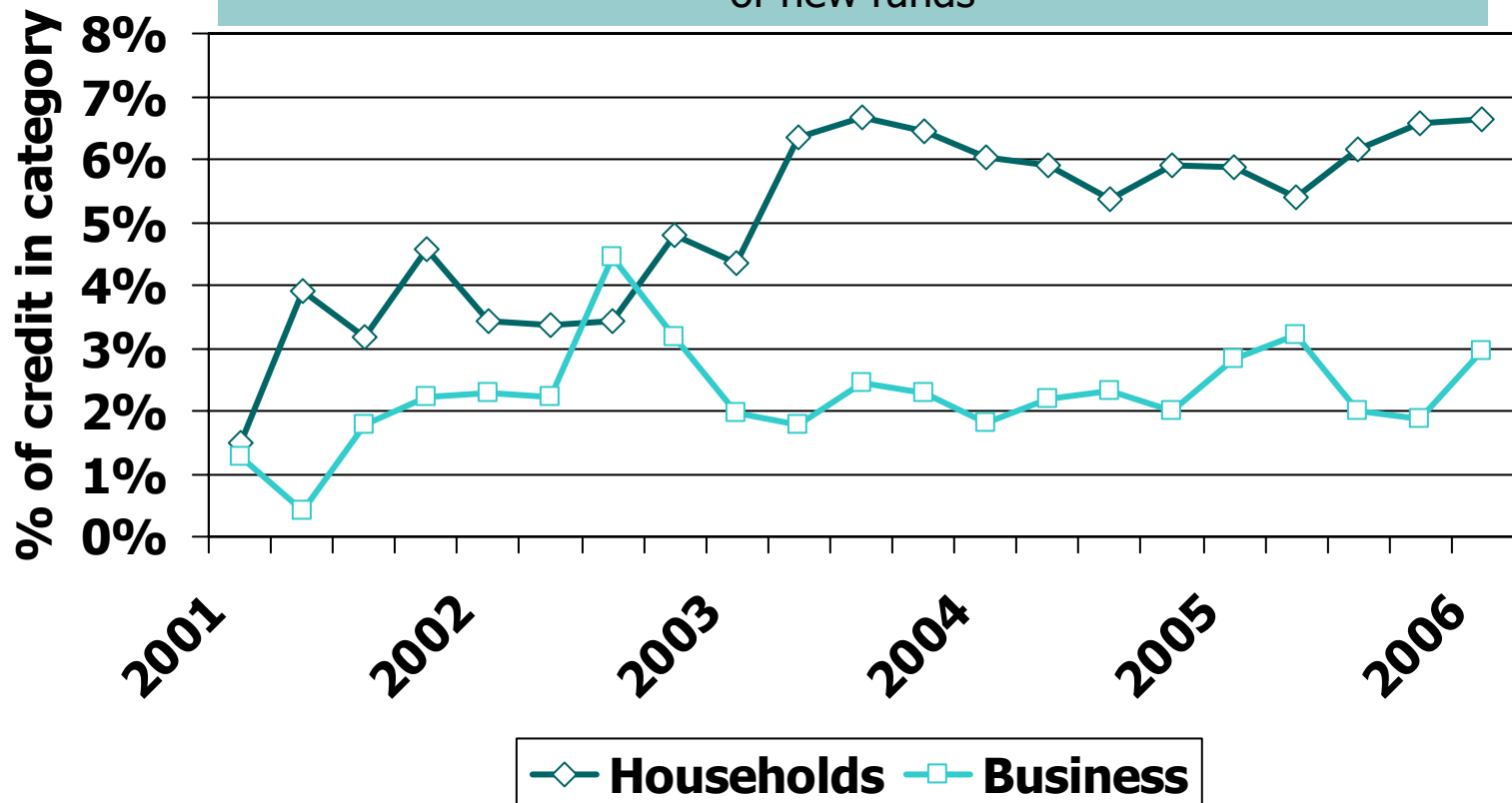
Rising Indebtedness

Ratio of Credit to Non-mining GDP



Banking – Loans in Arrears

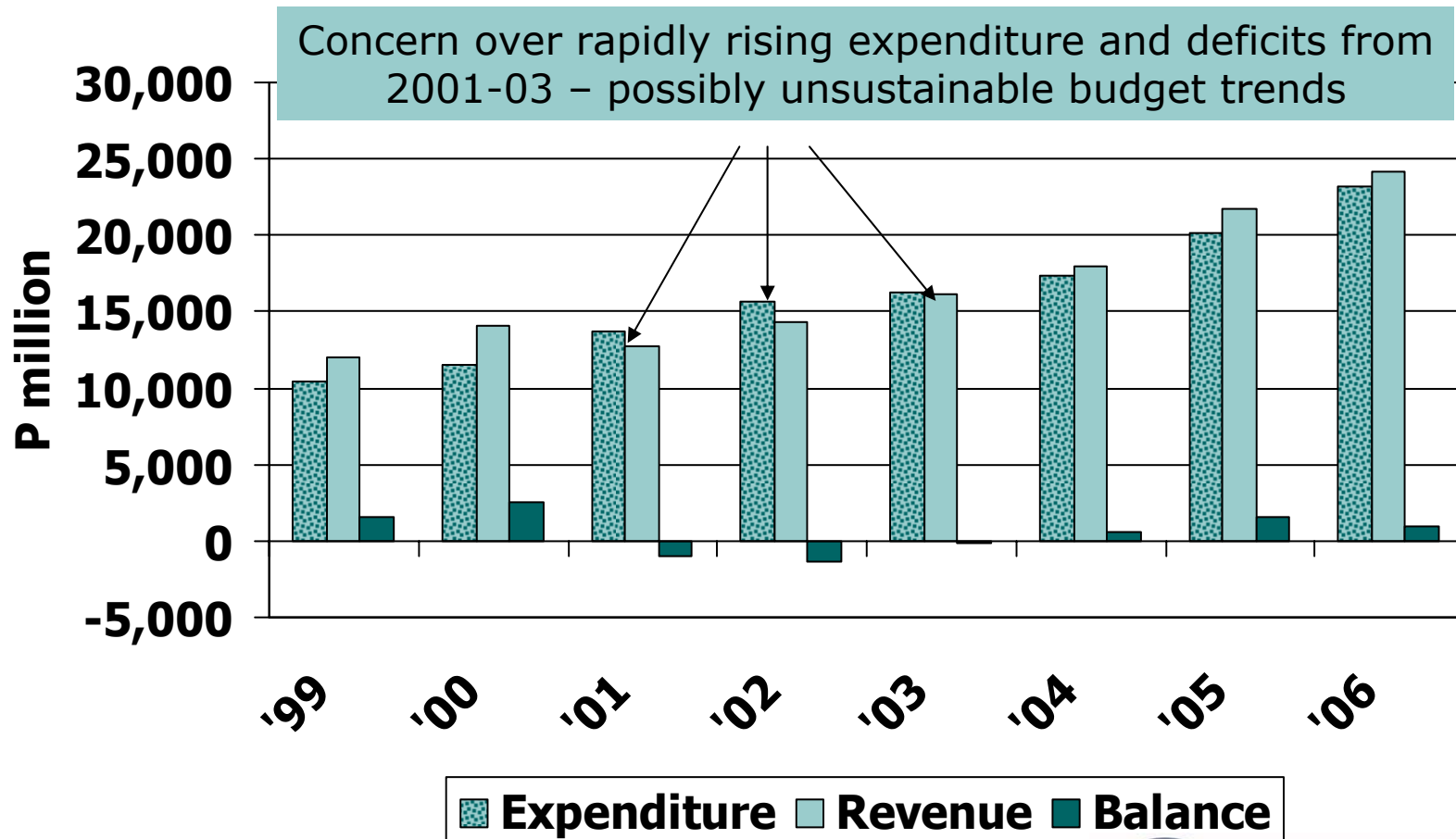
But concern about rising arrears rates will constrain lending out of new funds



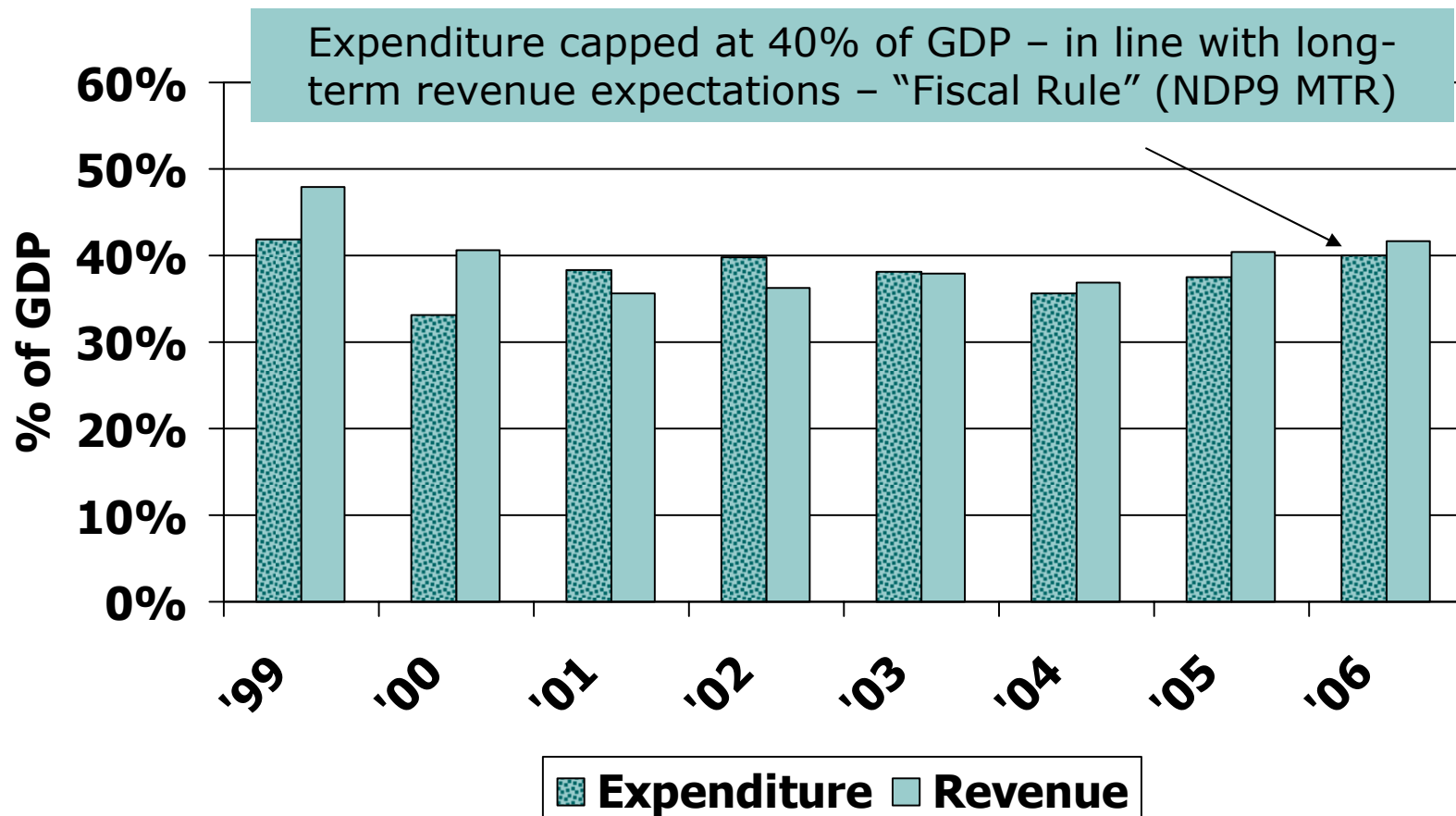


Fiscal Developments

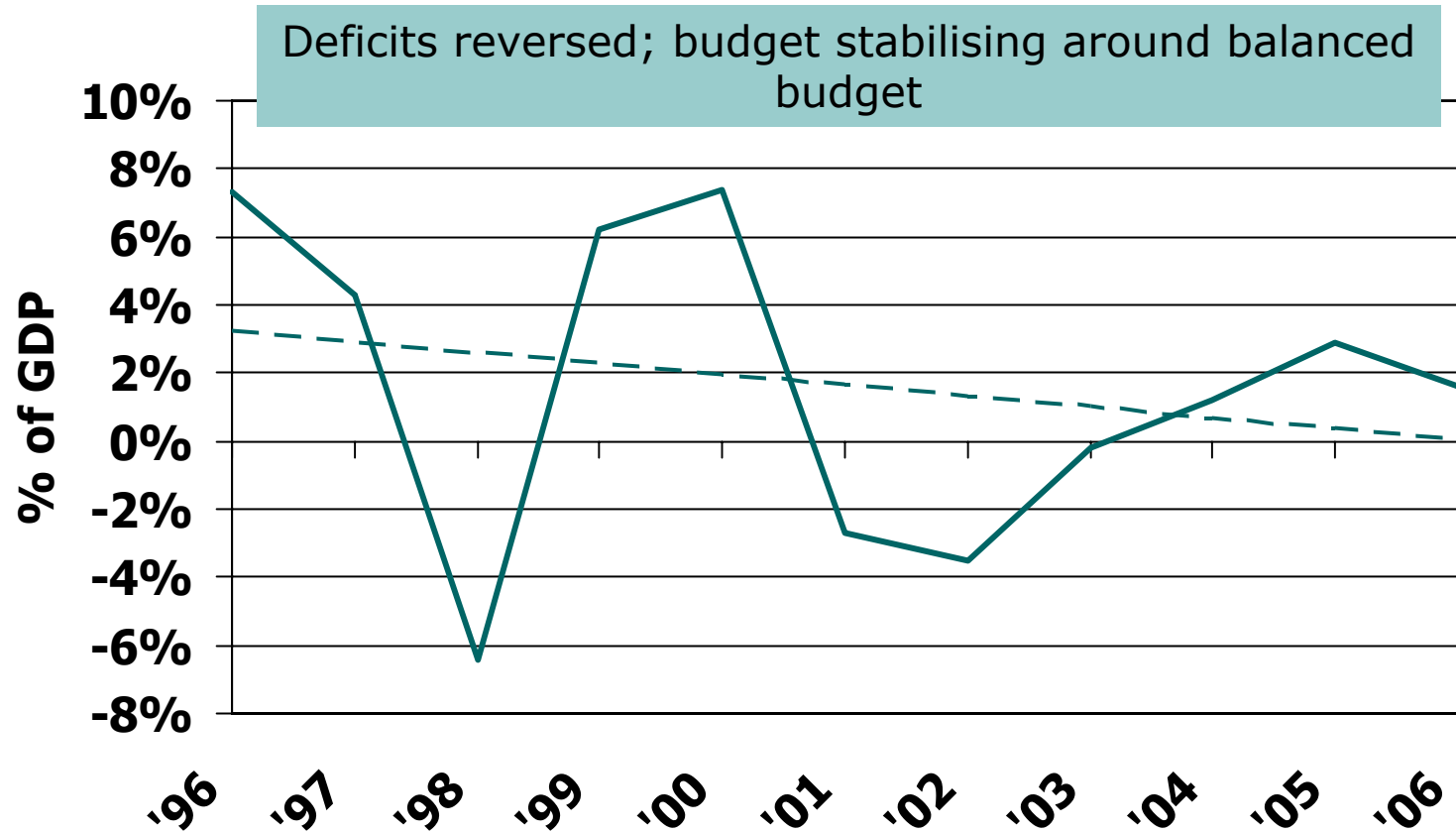
Govt Revenue & Spending (Pmn)



Govt Revenue & Spending (% GDP)



Budget Balance





Government Budget

- Immediate problems averted
- 2006/07 budget combined fiscal restraint with expansion of development budget
- Concern that authorised funds not being spent, delaying domestic economic recovery
- Fiscal balance still a challenge in future years



Economic Prospects



Botswana Economic Prospects 2006

- 2006H2 - 2007: slow resumption of growth
 - declining inflation, and eventually lower interest rates;
 - positive impact of salary and govt. spending increases (eventually);
 - improved international competitiveness; positive devaluation impact feeding through
 - impact of telecomms liberalisation
 - impact of ART rollout



Botswana Economic Prospects 2006

- But overall growth rate likely to stay low
 - long-standing constraints remain:
 - Land cost and availability
 - Skilled labour – same
 - Slow privatisation
- And some new ones
 - Anti-foreigner/FDI perceptions
 - Increasing crime
 - Competition from opportunities elsewhere in the region
- What will BEAC deliver?



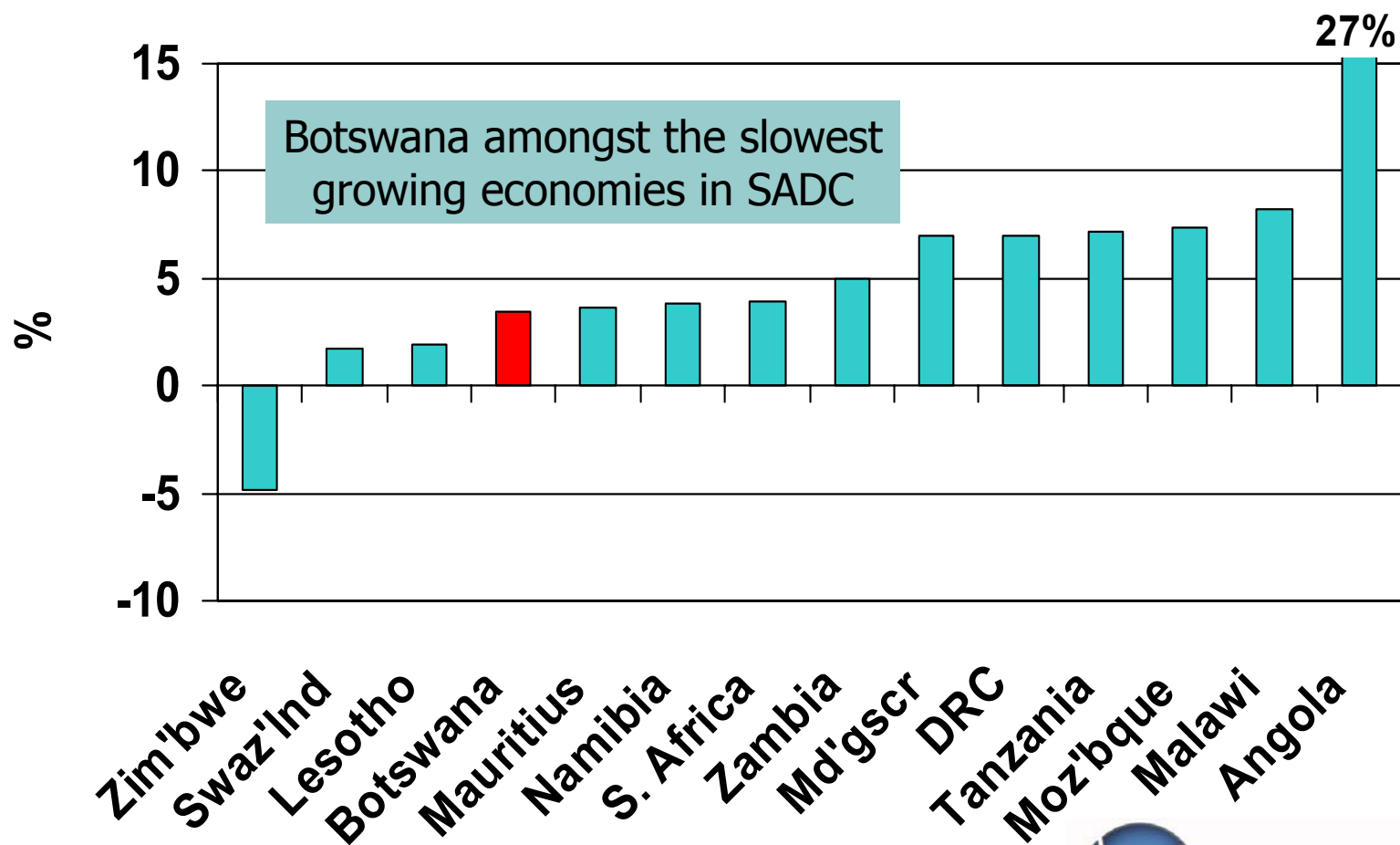
Economic Prospects

○ Growth Forecasts

- MFDP: 4.3% avg. to end NDP9
- IMF: 2005 3.8%;
- 2006 3.5%;
- 2007 3.5%
- S&P: short-medium term 3.5% - 4%

SADC GDP Growth 2006

IMF Forecasts





Thank You



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