CHAPTER 3

ECONOMIC PERFORMANCE AND PROSPECTS

INTRODUCTION

3.1 This Chapter examines the performance of the economy in some detail, and gives the basic forecast for NDP 9, as well as some of the alternative scenarios the country might face over the period from 2003/04 to 2008/09. Chapter 2 has already described the country s long-term economic prospects and the challenges it faces in achieving its Vision 2016 objectives, including sustainable economic development.

3.2 At Independence Botswana was dependent mainly on agriculture for a livelihood. Beef production was the mainstay of the economy in terms of output and export earnings. Communication and infrastructure were not developed, except for the railway line. Prospects for rapid development of the economy seemed bleak and Government depended on foreign aid not only for investment projects, but also to finance most of its recurrent expenditures.

3.3 Since then, the country has recorded remarkable social and economic transformation, with the discovery and production of minerals, resulting in both growth and change in the structure of the economy as shown in Table 3.1. Currently, mineral revenues account for over 50 percent of all Government revenues. Other significant contributors to Government revenue include revenue from SACU, income from investment of foreign exchange reserves and non-mineral income tax. The improved revenue situation enabled Government to increase spending on physical infrastructure such as roads, education and health facilities.

3.4 Although the mining sector has dominated the economy since the second half of 1970s, there are indications that the economy is beginning to diversify. The highest share of the mining sector to GDP was 52.6 percent in 1983/84, but its contribution to GDP by 2000/01 had dropped to 36.5 percent. Other sectors such as Government, Finance and Business services, and Trade have made a significant contribution to the economy during this period.

3.5 Botswana s key to sustainable development centres on global competitiveness and economic diversification. Every country, including Botswana, faces great challenges from increasing globalisation, which requires domestic economic policies and strategies to be responsive to global challenges. Botswana s economy, an open economy with high trade-to-GDP ratio, is closely intertwined with the overarching global economies.

Table 3.1: GDP by Economic Activity –Selected Years (Constant 1993/94 Prices) P million

	1966		1975/76		1985/86		2000/01	
	Value	Share	Value	Share	Value	Share	Value	Share
Economic Activity		%		%		%		%
Agriculture	387.6	42.7	431.1	20.7	318.9	5.6	434.0	2.6
Mining & Quarrying	-	-	365.3	17.5	2,790.8	48.9	6,027.2	36.5
Manufacturing	51.4	5.7	159.2	7.6	224.9	3.9	681.3	4.1
Water and Electricity	5.2	0.6	48.4	2.3	113.1	2.0	391.3	2.4
Construction	71.2	7.8	267.1	12.8	260.7	4.6	954.8	5.8
Trade, Hotels & Restaurants	81.4	9.0	179.0	8.6	361.6	6.3	1,700.0	10.3
Transport	39.4	4.3	23.5	1.1	141.5	2.5	623.7	3.8
Banks, Insurance & Business Services	183.0	20.1	97.5	4.7	367.4	6.4	1,794.7	10.9
General Government	89.2	9.8	305.0	14.6	730.5	12.8	2,640.6	16.0
Social and Personal Services	-	-	57.8	2.8	145.4	2.5	663.2	4.0
+ Adjustments items:								
* FISIM	-	-	-14.8	-0.7	-114.7	-2.0	-548.3	-3.3
Net Taxes on products/production	-	-	164.3	7.9	368.0	6.4	1,229.9	7.4
= GDP total at constant market prices	908.6	100.0	2,083.5	100.0	5,708.1	100.0	16,524.4	100.0
GDP excluding Mining Value added	908.6	100.0	1,718.1	82.5	2,917.3	51.1	10,497.1	63.5
GDP Per Capita (Pula)	1,682.5		2,861.9		5,175.0		9,793.4	
GDP Per Capita (Excl. Mining) Pula	1,682.5		2,360.1		2,644.9		6,221.3	
Real GDP Growth rate %	-		18.4		7.7		8.4	
Real GDP Growth rate excl. Mining %	-		11.8		11.6		4.0	

Source: CSO

Note.Table 3.1 shows the growth and change in the structure of the economy of Botswana for selected years. GDP growth has averaged around 9.2 percent per annum in real terms over the entire post-Independence period up to the beginning of NDP 8. When expressed at 1993/94 constant prices, annual GDP per capita increased from P1, 682 in 1966 to P9,793.4 in 2000/01. Financial Intermediation Services Indirectly Measured.*

ECONOMIC PERFORMANCE DURING NDP 8

National Gross Domestic Product and Sectoral Output

3.6 Using the latest GDP data available for the period up to 2000/01 and the latest medium-term projections, the overall economic performance during the National Development Plan 8 period is expected to be significantly better than what was initially projected in the Plan. GDP in current prices rose as shown in Table 3.2 from slightly above P18.2

billion at the end of National Development Plan 7 to P38.6 billion at the end of National Development Plan 8, an increase of 13.3 percent per annum. In per capita terms, incomes are expected to nearly double over the Plan period, rising from P11,615 in 1996/97 to a revised projection of P21,309 in 2002/03.

Table 3.2: GDP at Current Prices by Broad Sectoral Categories (Pula Million)

Economic Sector	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Av. Growth
Agriculture	601.9	689.3	654.2	665.2	716.0	823.0	932.0	7.57
Mining	6,908.3	7,665.1	6,692.9	8,389.4	10,286.5	11,000.0	11,323.0	8.58
Manufacturing	882.7	1,011.3	1,127.7	1,239.9	1,367.7	1,623.0	1,812.0	12.74
Electricity and Water	319.6	370.8	458.1	567.5	691.5	831.0	922.0	19.32
Construction	1,017.2	1,153.8	1,360.2	1,423.6	1,562.7	1,827.0	2,045.0	12.34
Trade	2,971.2	3,519.1	4,116.5	5,161.5	5,696.5	6964.8	8,108.2	18.21
Transport	575.0	667.2	813.6	935.4	1,089.1	1,318.0	1,541.0	17.86
Finance	1,775.1	2079.4	2,410.4	2,761.1	3,159.0	3,717.0	4,193.5	15.41
Services	681.7	746.5	870.2	993.8	1,090.2	1,337.8	1,505.6	14.12
Government	2,478.5	2,918.6	3,751.3	4,104.6	4,654.2	5,929.1	6,176.5	16.44
TOTAL	18,211.2	20,821.6	22,255.0	26,242.0	30,313.0	35,370.0	38,560.0	13.32
Non-Mineral	10,831.9	12,497.5	14,830.8	16,973.3	19,066.0	23,287.2	26,015.0	15.72
Non-Mineral Growth	15.19	15.38	18.67	14.45	12.33	22.10	11.70	

Source: CSO and MFDP Model

3.7 Real GDP growth over the Plan period as shown in Table 3.3 is now expected to average around 6.4 percent per annum, while the initial projection in the Plan was for an annual average growth of 5.2 percent. Better than anticipated growth in mining, trade, hotels and restaurants, transport and communications and government accounted for most of the more favourable economic performance during NDP 8. In constant 1993/94 prices, GDP is expected to increase from P13.0 billion to P18.4 billion over the same period. Non-Mining GDP is expected to grow at an average annual rate of about 7 percent, from P8.4 billion at the end of NDP 7 to P12.6 billion at the end of NDP 8, while Mining GDP is expected to rise from P 4.3 billion to P 5.9 billion, an increase of 5.2 percent per annum, over the same period. Except for agriculture, which may record a sluggish real growth of 0.8 percent per annum over NDP 8, other sectors will register high real average annual growth ranging between 5 and 9 percent.

3.8 Non-Mining GDP is expected to grow fairly steadily over the Plan period. Mining sector GDP, on the other hand, has fluctuated markedly over NDP 8, with negative growth of about 2.8 percent recorded in 1998/99 as a result of the East Asian financial crisis, followed by strong recovery with growth rates of 12.1 percent and 19.6 percent in 1999/00 and 2000/01, respectively. The robust growth in those years was largely attributable to the Orapa 2000 project, which doubled its production capacity. Some of the fluctuations in GDP from the Mining sector from one national accounts years (July-June) to the next also occur due to variations in the rate of production during the two halves of the calendar years, which are used as reference periods for Debswana s production budgets.

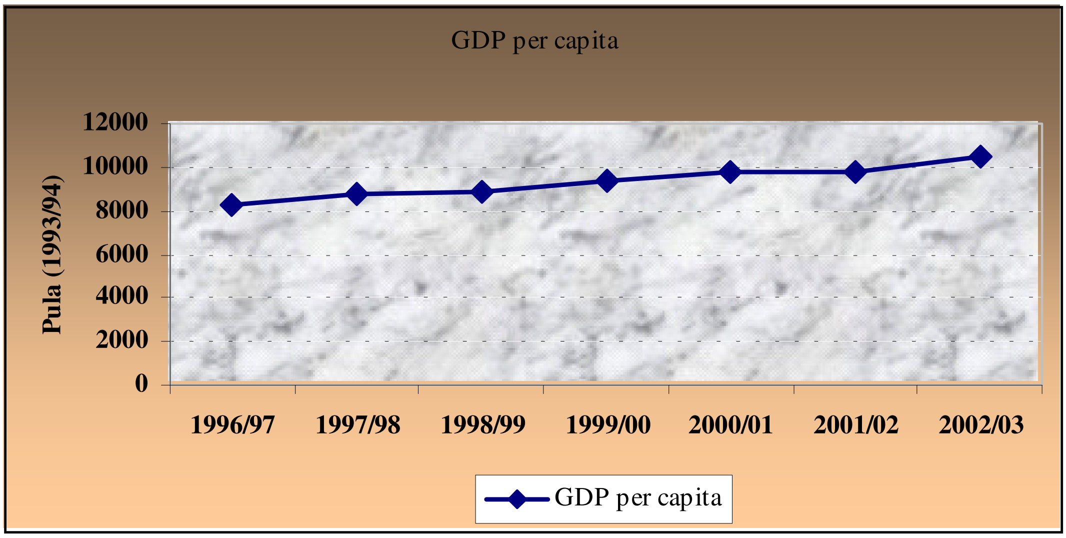
Table 3.3: GDP at Constant 1993/94 Prices by Broad Sectoral Categories (Pula Million)

Economic Sector	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Average Growth
Agriculture	453.1	479.9	443.4	404.6	434.0	423.2	476.0	0.83
Mining	4,310.7	4,721.8	4,588.5	5,142.3	6,027.2	5,838.6	5,853.0	5.23
Manufacturing	593.7	625.8	661.4	684.3	681.3	682.5	793.0	4.95
Electricity and Water	268.8	295.4	333.5	371.1	391.3	405.7	455.0	9.16
Construction	787.9	822.1	916.9	939.4	954.8	999.7	1,076.0	5.33
Trade	2,251.1	2,476.6	2,666.4	3,021.5	3,104.7	3,415.3	3,805.4	9.14
Transport	456.4	497.8	578.7	594.0	623.7	667.4	759.8	6.61
Finance	1,367.9	1,500.8	1,636.3	1,707.3	1,794.7	1,922.2	2,008.3	5.68
Services	558.1	574.6	617.7	645.2	663.2	704.6	777.3	6.99
Government	2,009.4	2,195.7	2,333.3	2,474.2	2,640.6	2,861.0	3,013.2	9.37
TOTAL GDP	12,703.7	13,728.6	14,295.6	15,451.0	16,524.4	16,911.5	18,412.0	6.38
Growth	5.60	8.07	4.13	8.08	8.40	2.30	8.87	
NON-MINING GDP	8,393.0	9,006.8	9,707.1	10,308.6	10,497.1	11,072.9	12,559.0	6.95
Growth	5.53	7.31	7.78	5.67	4.40	5.49	13.42	
GDP Per Capita	8,317.5	8,769.3	8,908.8	9,359.4	9,793.4	9,788.0	10,508.0	3.30

Source: CSO and MFDP Model

3.9 During the first four years of NDP 8, the economy grew at about 7.3 percent per annum in real terms. Economic performance during NDP 8 led to sustained increases in real per capita incomes, with GDP per capita in constant 1993/94 prices rising from P8,317.5 at the end of NDP 7 to a projected P10,508.0 at the end of NDP 8, at a rate of 3.3 percent per annum. Chart 3.1 shows real per capita GDP growth over NDP 8.

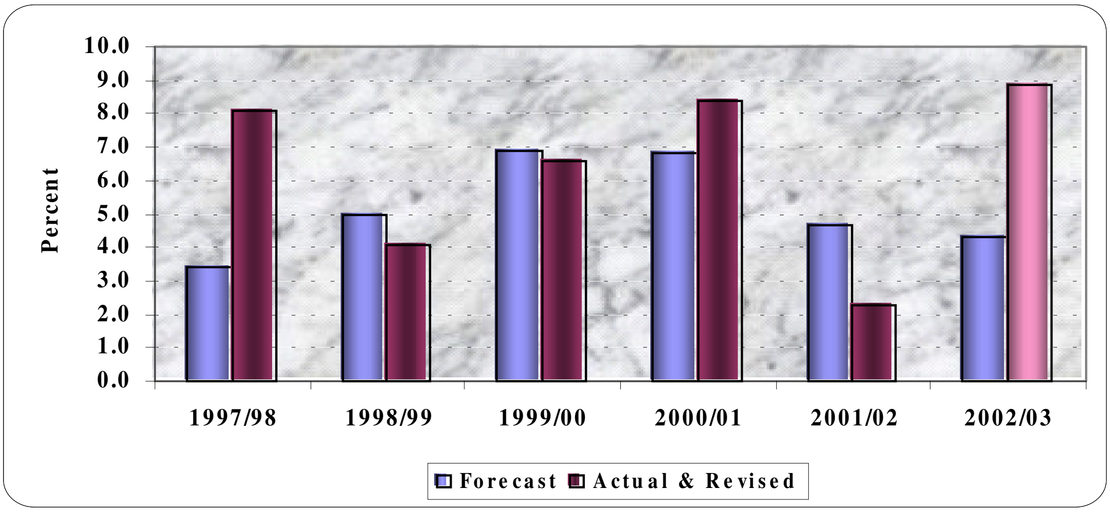
Chart 3.1: Real Per Capita GDP Growth over NDP 8



Source: CSO and MFDP Model

3.10 Chart 3.2 depicts a comparison between annual growth rates of real GDP that were forecast in NDP 8, vis-à-vis those that actually occurred and the revised projections.

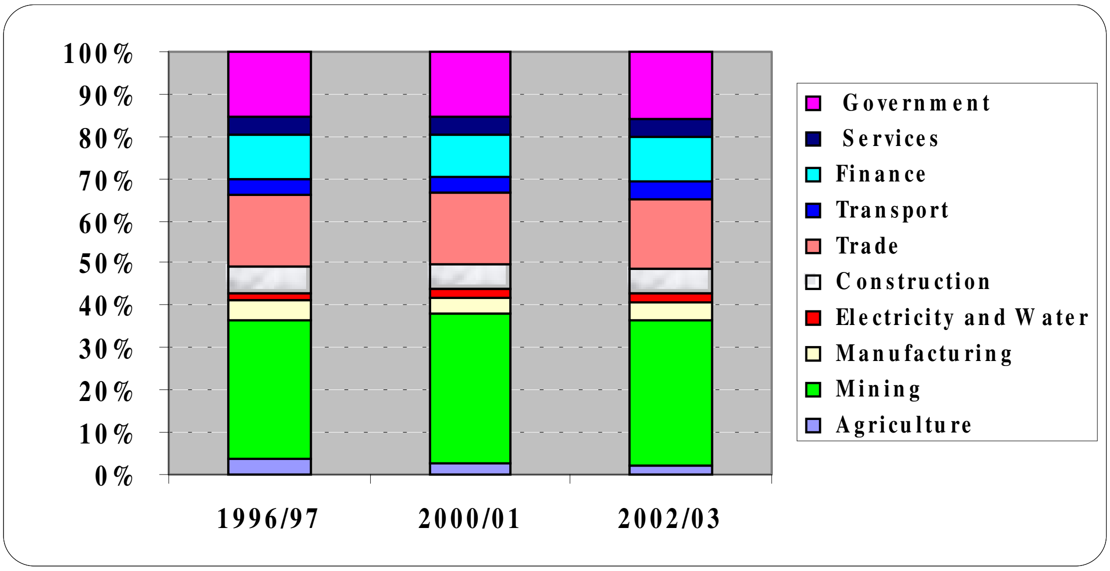
Chart 3.2: Comparison of NDP 8, Actual and Revised Projections of GDP Growth Rates



Source NDP 8, CSO and MFDP Model

3.11 Differences in the sectoral economic performances during NDP 8 resulted in modest changes in the structure of the economy (Chart 3.3). The weak agricultural performance resulted in the sector's share of total GDP declining from 3.6 percent at the end of NDP 7 to 2.6 percent at the end of NDP 8. The finance and trade sectors have grown in terms of GDP share from 10.8 and 17.7 percent respectively in 1996/97 to nearly 10.9 and 20.7 percent in 2002/03 respectively. Government s share of GDP rose modestly to 16.4 percent at the end of NDP 8 compared to 15.8 percent at the end of NDP 7. The changing structure of the economy indicated some success in achieving diversification to sectors other than mining. The rise in the share of non-mining sectors in total GDP at constant prices was a little less than planned, recording 68.2 percent against the target of 69.4 percent in NDP 8. This was due to much faster growth in mining sector GDP than projected.

Chart 3.3: Sectoral Composition of GDP during NDP 8



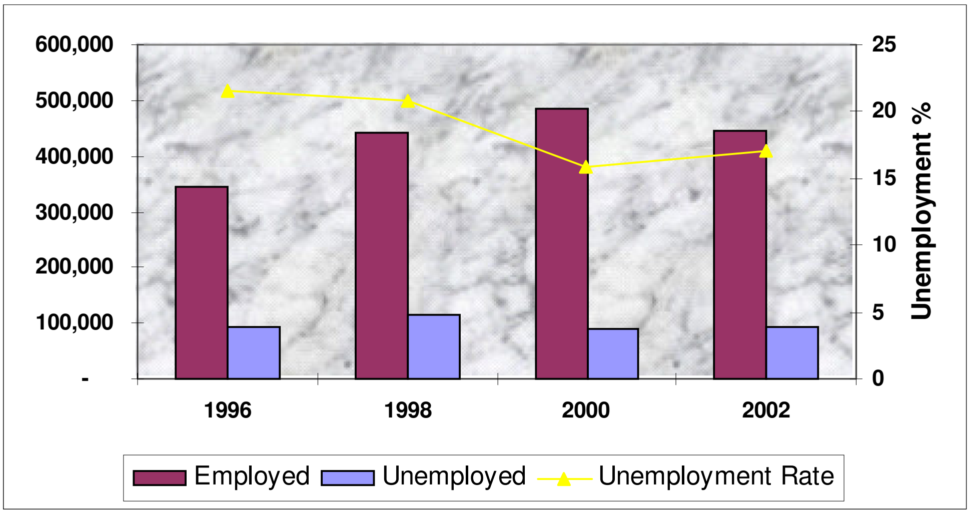
Source: CSO and MFDP Model

Labour Market Developments

3.12 Labour market conditions improved substantially during NDP 8. According to the 1995/96 Labour Force Survey and the 2000 Multiple Indicators Survey, total employment opportunities in the economy, grew from 345,400 in 1996 to 483,400 in 2000, an average annual rate of growth of 8 percent. Much of that employment growth was due to increases in employment opportunities in the informal sector.

3.13 The labour force, on the other hand, also grew rapidly during the early part of NDP 8, increasing from 439,900 in 1996 to 574,100 in 2000, an increase of 5.5 percent per annum. With employment growth of nearly 8 percent, exceeding the labour force growth, the unemployment rate fell from 21.5 percent in 1996 to 15.8 percent in 2000.

Chart 3.4: Employment, Unemployment and Unemployment Rate

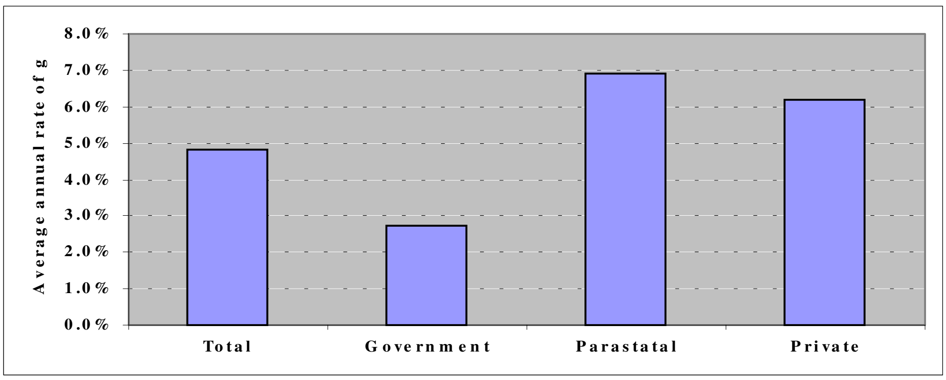


Source: CSO and MFDP Model

3.14 Recorded formal sector employment did not increase as rapidly as expected during NDP 8, although the growth rate was very close to that expected. In part, this was due to a change in statistical coverage implemented with the September 1997 Employment Survey. The Plan had envisaged formal sector employment growing from 255,600 in 1997 to 324,100 in 2002, an increase of 4.9 percent per annum over the period. In the event, employment in the formal sector grew from 226,800 in September 1997 to 272,800 in March 2001. It is now projected to reach 287,000 in September 2002, representing an average annual growth rate of 4.8 percent over the five year period to 2002.

3.15 In terms of broad sectoral categories, employment in the private and parastatal sectors grew rapidly over NDP 8, with average annual rates of growth from 1997 to 2002 of 6.5 percent. In contrast, employment in Government only grew by 2.7 percent per annum from September 1997 to September 2002.

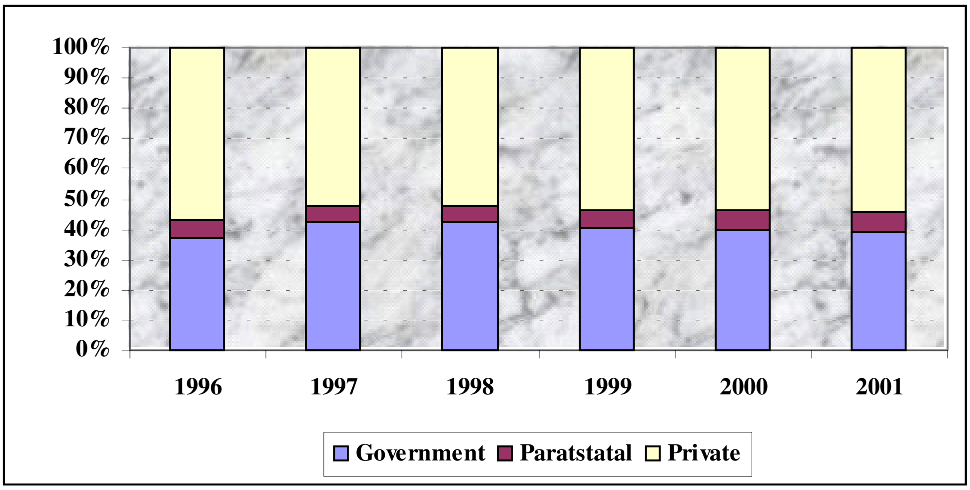
Chart 3.5: Formal Sector Employment Growth from September 1997 to March 2001



Source:CSO

3.16 As a result of the less rapid growth of Government employment, its share of total formal sector employment fell from 42.2 percent in 1997 to 39.2 percent in 2001 and is expected to fall again to 38.2 percent in 2002. The private sector s share of formal sector employment, which started NDP 8 at 52.0 percent, increased to 55.5 percent in 2001. The parastatals sector also saw its share increase from 5.8 percent in 1997 to 6.3 percent in 2001

Chart 3.6: Formal sector employment share by broad employing sector



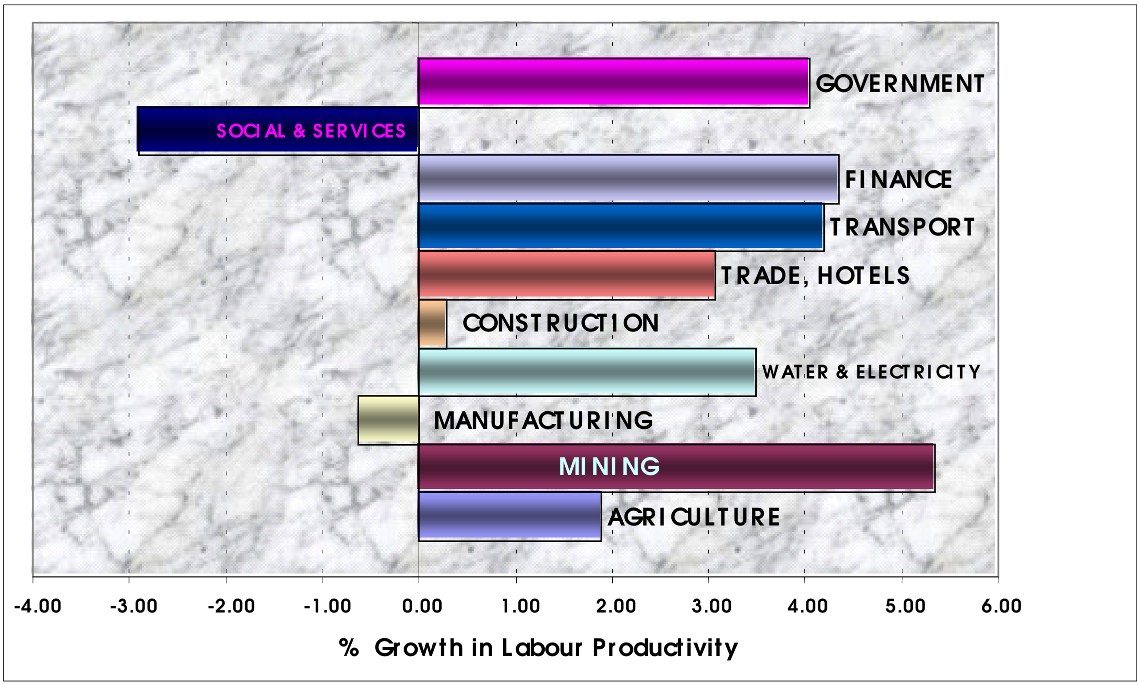
Source: CSO and MFDP Model

Note: Sharp change in 1997 was mainly due to a change in statistical coverage as of March to September.

3.17 Data on actual employment and revised projections for formal sector employment during NDP 8 indicate that the average growth rate for the entire period will be 4.0 percent, compared to the 4.9 percent rate of growth projected in the Plan. Actual and revised estimated GDP growth, at 6.4 percent per annum, is, on the other hand, higher than the 5.2 percent per annum growth projected. This implies that average labour productivity (i.e., value added per worker) increased more rapidly than was originally anticipated. Part of the reason for this is the considerable restructuring that occurred in the private sector, with a view to saving costs and improving profitability, through raising labour productivity. It is also due, in part, to the fact that much of the higher GDP growth registered during NDP 8 came from higher than expected growth of the mining sector, which is relatively capital-intensive.

3.18 During the NDP 8 period, high productivity growth was achieved in mining, trade, hotels and restaurants, transport, Government, finance, and water and electricity sectors, with average annual labour productivity growth rates ranging between 3 and 5 percent. On the other hand, declines in labour productivity were recorded in services and manufacturing. Overall, the economy-wide labour productivity growth rate was 2.3 percent per annum.

Chart 3.7: Growth in Labour Productivity in percentage terms over NDP 8



Source: CSO and MFDP Model

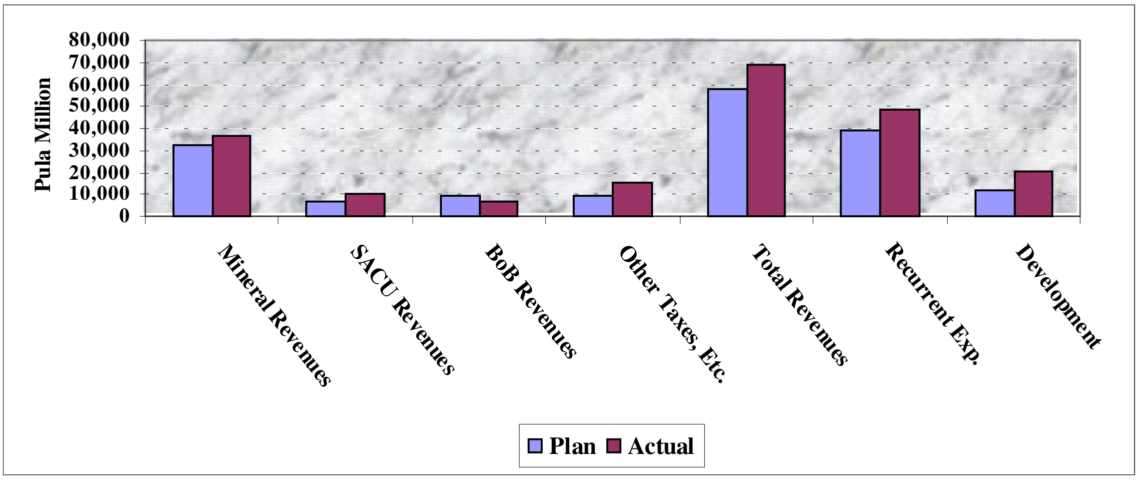
Government Finance

Budget Position

3.19 When National Development Plan 8 was approved by Parliament in 1997, Government envisaged total revenues and grants of P57.8 billion over the Plan period (see Table 3.4), comprising P32.0 billion of mineral revenues (55%), P6.7 billion of SACU revenues (12%), P9.4 billion of revenues from the Bank of Botswana (16%) and P9.7 billion from other taxes, fees and grants (17%). The revenue forecasts supported budget expenditure allocations of P51.2 billion, which included recurrent expenditure of P39.3 billion (77% of total expenditure) and development, net lending and FAP expenditure of P11.9 billion (23%). The Plan forecast surpluses (and some provision for contingencies) of P6.6 billion over the six year period, equivalent to 11% of the total revenues envisaged. In the event, there were significant departures from the Plan forecasts, for both revenues and expenditures.

3.20 Using the actual budget outturns for the first four years of the Plan, the revised estimates for 2001/02 and the budget estimates for 2002/03, the actual and latest estimates of Government revenues and expenditures can be compared with those initially forecast in the Plan.

Chart 3.8: Comparison of Plan and Actual NDP 8 Revenues and Expenditures



Source: CSO and MFDP Model

3.21 Adding the provisional actual for 2001/02 and the budget estimates for 2002/03 to the actual outturn data for the first four years of National Development Plan 8 allows a further comparison with the Plan forecasts (see Table 3.4). Total revenues over the Plan period are estimated to be P69.2 billion, 20% above the Plan forecast, while total expenditures, now estimated at P68.9 billion, are 14% above the forecast. The mineral and SACU revenues over National Development Plan 8 have been substantially higher that the amounts projected. In contrast, Bank of Botswana revenues to Government, according to the latest estimates, are expected to be less than the Plan forecast. For the six year period ending in 2002/03, the total of actual and latest estimated recurrent expenditure amounts to P48.3 billion, which is 18% more than initially forecast. Cumulative development expenditures, net lending and FAP are now expected to be 70% greater than that originally forecast for National Development Plan 8.

3.22 A deficit of P1388 million was recorded for the budget in 1998/99, compared to the originally projected surplus of P279 million. This below Plan performance was due to the adverse impact of the Asian crisis on Government revenue, as well as higher expenditures arising from increases in public sector salaries. This was the first deficit recorded in 16 years; a deficit of P21 million (2.16 percent of GDP) was recorded in 1982/83.

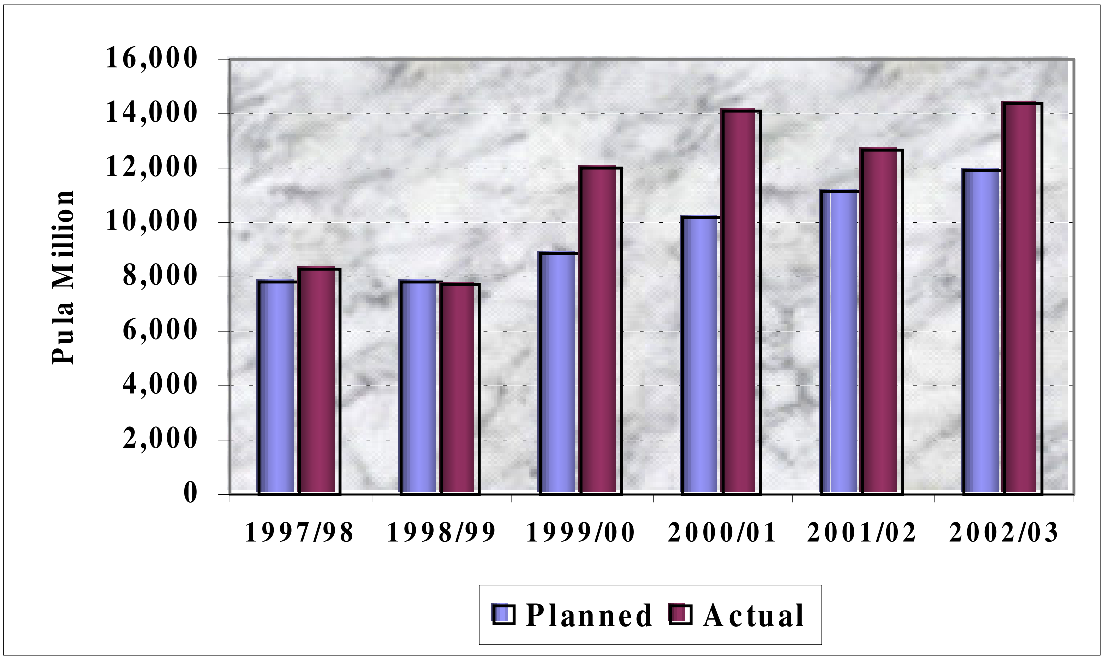
3.23 The Government budget figures for 2002/03 indicate that the budgetary outcome is expected to be a deficit compared to a surplus originally anticipated in NDP 8. The budget outturn for 2000/01 of a P2.6 billion surplus shows an improvement from the original forecast surplus of P1.5 billion. However, the last two years of the Plan, 2001/2002 and 2002/2003, provisional actual and budget estimates indicate budget deficits of P964 million and P2.2 billion, respectively. In 2001/02, revenue was considerably lower than in 2000/01, while recurrent expenditures were higher primarily due to the salary revisions effected in April and July 2001. Increased expenditures also reflect the additional cost of P150 million to cover Government's contribution towards the new Public Officers' Pension Fund, which came into effect from 1st April 2001.

Table 3.4: NDP 8 Government Budget Review (Pula, Million)

NDP 8 Forecasts of Government Revenues and Expenditures								
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	NDP 8 Period	Share of Total
Mineral Revenues	3,627	4,041	4,829	5,912	6,581	6,986	31,976	55.3%
SACU Revenues	1,163	1,112	1,112	1,112	1,112	1,112	6,723	11.6%
BoB Revenues	1,751	1,351	1,431	1,505	1,634	1,756	9,427	16.3%
Other Taxes, Etc.	1,274	1,343	1,491	1,665	1,851	2,066	9,690	16.8%
Total Revenues	7,815	7,846	8,864	10,194	11,178	11,920	57,816	100.0%
Recurrent Expenditure	4,652	5,179	6,060	6,885	7,756	8,740	39,273	76.7%
Development & Net Lending	2,400	2,389	1,792	1,769	1,804	1,773	11,928	23.3%
Total Expenditures	7,052	7,568	7,852	8,655	9,561	10,513	51,200	100.0%
Surplus/Deficit	763	279	1,012	1,539	1,617	1,407	6,616	11.4%
Actual Outturns and Latest Estimates for NDP 8 Period								
	Actual Outturn 1997/98	Actual Outturn 1998/99	Actual Outturn 1999/00	Actual Outturn 2000/01	Provisional Actual 2001/02	Budget Estimate 2002/03	NDP 8 Period	Share of Total
Mineral Revenues	4,681	3,187	6,687	8,368	6,996	7,040	36,959	53.7%
SACU Revenues	1,186	1,261	1,931	2,188	1,732	1,554	9,852	14.3%
BoB Revenues	947	1,217	1,200	1,167	1,167	1,150	6,848	9.9%
Other Taxes, Etc.	1,467	2,012	2,145	2,392	2,837	4,773	15,626	22.7%
Total Revenues	8,281	7,678	11,963	14,115	12,707	14,426	69,170	100.0%
Recurrent Expenditure	4,827	6,157	7,048	8,383	9,935	11,939	48,289	70.1%
Development & Net Lending	2,580	2,908	3,490	3,153	3,698	4,502	20,331	29.5%
Total Expenditures	7,406	9,065	10,538	11,536	13,670	16,642	68,857	100.0%
Surplus/Deficit	875	-1,388	1,426	2,579	-964	-2,216	312	0.5%

Source: NDP 8, MFDP and CSO

Chart 3.9: Comparison of NDP 8 Plan and Actual Revenues

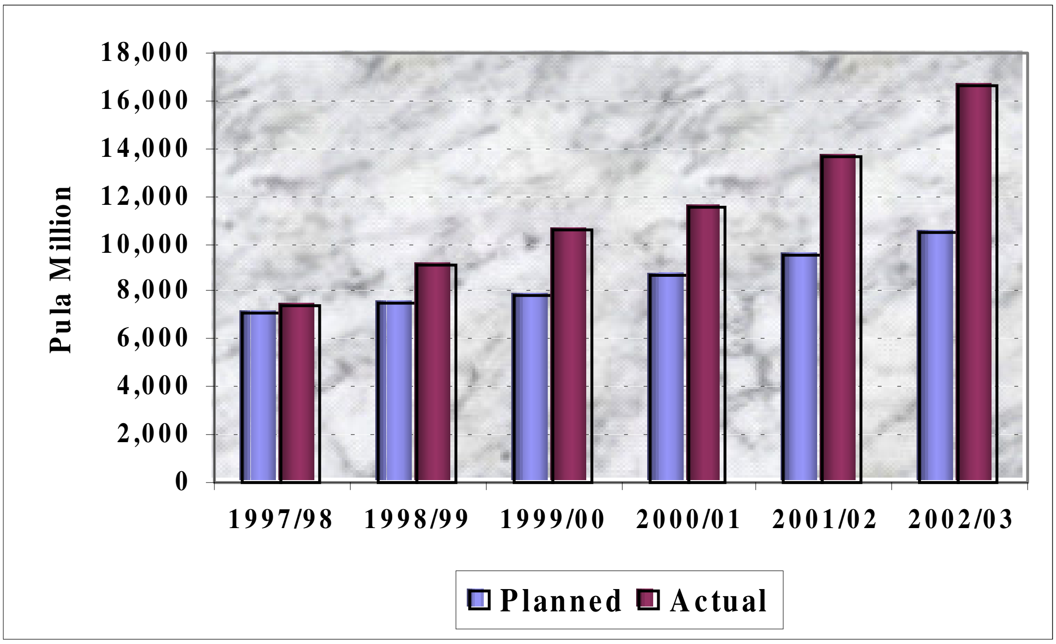


Source: MFDP

3.24 Government revenues were forecast to grow from P7, 815 million in 1997/98 to P11, 920 million in 2002/03, an increase of 8.8 percent per annum over the period. In the actual event, Government revenues were at a higher level of P8, 281 million at the start of NDP 8 and grew more rapidly at 11.7 percent per annum to reach P14,426 million at the end of NDP 8. As a result, the actual revenue outturns increasingly out-performed those originally forecast over NDP 8.

3.25 The higher than expected revenues are attributed to the effect of the introduction of continuous operations in all diamond mines, the millennium celebrations and improved production in mines, besides the expansion of the Orapa diamond mine. However, there was a fall in mineral revenue in 1998/99 due to the impact of the Asian crisis on the diamond market and an equally sharp increase in 1999/2000, attributed to recovery in the market as well as the incremental diamond sales associated with celebrations of the new millennium. The revenue further declined in 2001/02 due to the global recession during 2001 and 2002. The situation is expected to improve in 2002/03.

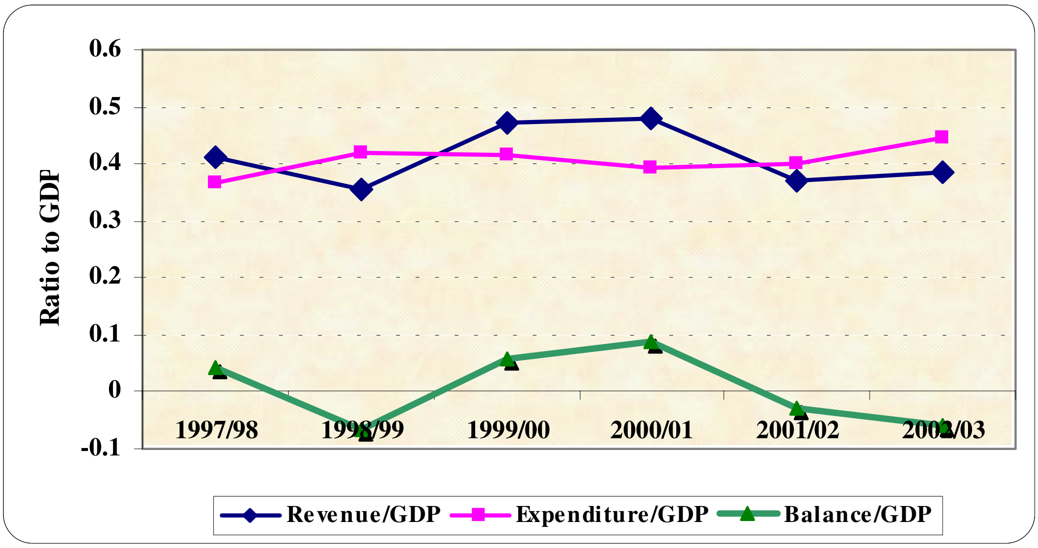
Chart 3.10: Comparison of NDP 8 Plan and Actual Expenditures



Source: MFDP

3.26 Overall, actual and revised expenditure figures have turned out to be higher than the original NDP 8 projections. The revised projections for the Plan period show the expenditure growth to be more than twice as fast as originally projected in NDP 8. The deviations of actual expenditure from projected expenditure are directly and indirectly due mainly to the high growth in development expenditure. The ratio of total Government expenditure relative to GDP increased from 36.7 percent in 1997/98 to 42.1 percent in 1998/99, but later declined to 41.5 percent in 1999/00. The ratio of expenditure to GDP declined further to 39.3 percent in 2000/01 and stabilized at around that ratio in 2001/02, before rising again at the end of the NDP 8 Plan period. The sharp increases in recurrent expenditure in 1998/99, and again in 2001/02 due to the introduction of revised Public Service Salaries were some of the reasons for the deviations from the Plan forecasts for expenditure.

Chart 3.11: Government Budget Outturn relative to GDP during NDP 8



Source: MFDP

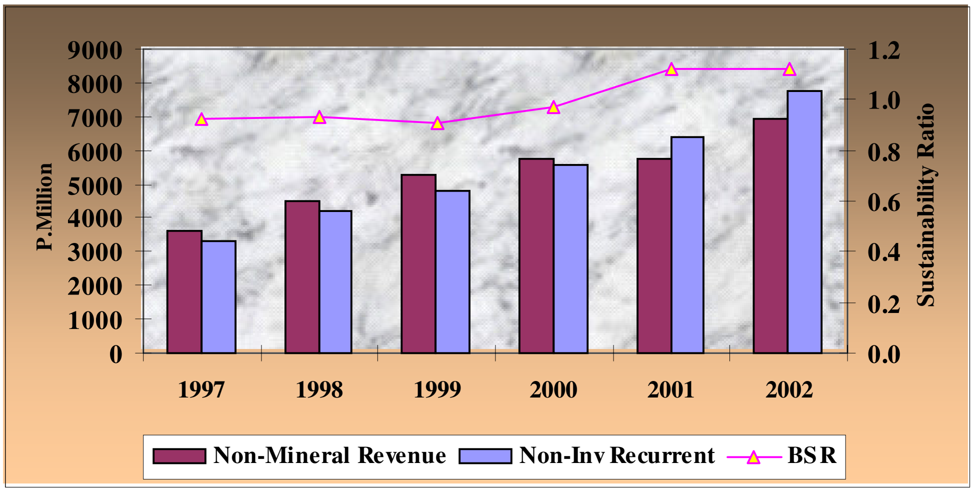
3.27 The sustainability of the Government's fiscal position can be depicted by the ratio of its non-investment expenditures to its recurring non-mineral revenues.

3.28 Government shows an overall improvement on sustainability of fiscal position over the original NDP 8 projections. This improvement is due to a higher growth in actual and revised non-mineral revenue over the Plan period than originally anticipated. However, for the financial year 2001/02, the projected ratio exceeded the critical value of 1, indicating that Government needed part of its earnings from minerals to finance non-investment related expenditure.

Box 3.1: Budget Sustainability Ratio

The budget sustainability ratio is the ratio of non-investment recurrent expenditure to non-mineral domestic revenues. Mineral revenues are excluded from sustainable budget calculations since they represent the profits from the sale of non-renewable assets. Since the nation's mineral revenues are derived from depleting a non-renewable asset, non-investment recurrent budget expenditure must be financed from other recurring sources of revenues, such as income taxes, VAT and customs duties, or interest earnings on Government savings. Government's investment expenditures, net of any capital depreciation and asset sales, represent the accumulation of new wealth and productive capacity for the country. Such accumulation is essential for sustained development and rising standards of living of the population. Non-investment recurrent expenditure represents public consumption that does not add to the nation's capital stock, including its stock of natural resources, physical man-made capital and human capital. However, some recurrent expenditure, such as expenditure on education, adds to the nation's productive capacity, and therefore can be financed by revenue generated from mineral resources. As a rough guide, about thirty percent of the total recurrent expenditure is considered investment which is on education, training and health. The budget sustainability ratio ideally should be less than unity, and certainly not greater than unity for any extended period of time.

Chart 3.12: Budget Sustainability Ratio (BSR)



Source: MFDP Model

External Sector Development

External Trade and Balance of Payments

3.29 The increase in construction activity in the private sector, as well as the public sector during NDP 8, resulted in strong growth in import demand. However, on the export front, the sharp rise in diamond export earnings from 1997, with the exception of 1998, gave rise to favourable out-turns for both the trade balance and the overall balance of payments. Table 3.5 shows a summary of the balance of payments over the period 1997/98 to 2002/03 as projected in NDP 8 compared to the actual data and revised projections. The performance of the current account turned out to be better than was originally forecast in NDP 8, except for 1998/99 when quota restrictions on diamond sales were imposed by the Central Selling Organisation (now the Diamond Trading Company) as a result of the impact of the Asian financial crisis on the international market for diamonds. The performance of the capital account was worse than what was projected in NDP 8. The overall balance of payments, also, has been deteriorating from the year 1999/00 and since then, the actual and revised estimates for the whole Plan period, are expected to be lower than original NDP 8 forecasts.

Table 3.5: Balance of Payments Summary; NDP 8 Forecasts and Actual/Revised Estimates, Pula millions

NDP 8 Forecast	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	NDP 8
Balance on: Goods & Services	1,072	982	1,361	1,696	1,646	1,037	7,794
Current Account	1,166	1,128	1,504	1,864	1,891	1,335	8,888
Capital Account	620	644	636	611	463	404	3,378
Overall Balance	1,785	1,771	2,140	2,475	2,354	1,739	12,264
Actual/Revised Estimates	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**NDP8**
Balance on: Goods & Services	2,248	-356	3,844	4,325	917	-714	10,264
Current Account	3,112	380	3,642	3,835	2,097	1,031	14,097
Capital Account	98	115	145	150	192	238	938
Overall Balance	1,290	1,043	1,885	1,482	1,297	216	7,213

Source: Bank of Botswana and MFDP Macro Model.

3.30 The level of foreign exchange reserves in Pula terms have turned out to be higher than the original NDP 8 projection due mainly to deeper depreciation of the Pula against major international currencies than was anticipated in the Plan. The level of foreign exchange reserves increased from P19.1 billion (US$5.2 billion) at the end of 1996 to P41.2 billion (US$5.9 billion) in December 2001. The level of international reserves is expected to rise further to P42.7 billion (US$6.6 billion) at the end of 2002. The months of import cover of goods and services projected in NDP 8 was expected to decline from 33.5 months in 1997/98 to 23.4 months in 2002/03. The actual and revised estimates show a small fall in import cover from 33.1 months in 1997/98 to 32.1 months in 2002/03.

Price Developments

3.31 The average rate of annual inflation, as shown in Table 3.6, declined in the first two years of NDP 8 to reach 6.7 percent in 1998/99. It then rose over the next two years, reaching an average annual rate of 8.0 percent in 2000/01. Inflation then receded to 6.0 percent in 2001/02, and is expected to rise again to 9.0 percent in 2002/03, due, in part, to the impact of the VAT, which was introduced in July, 2002. In all years of NDP 8, except for 1999/2000 and 2002/2003, the average annual rate of inflation was below that forecast in the Plan.

Table 3.6: Annual Inflation Rates 1997/98-2002/03

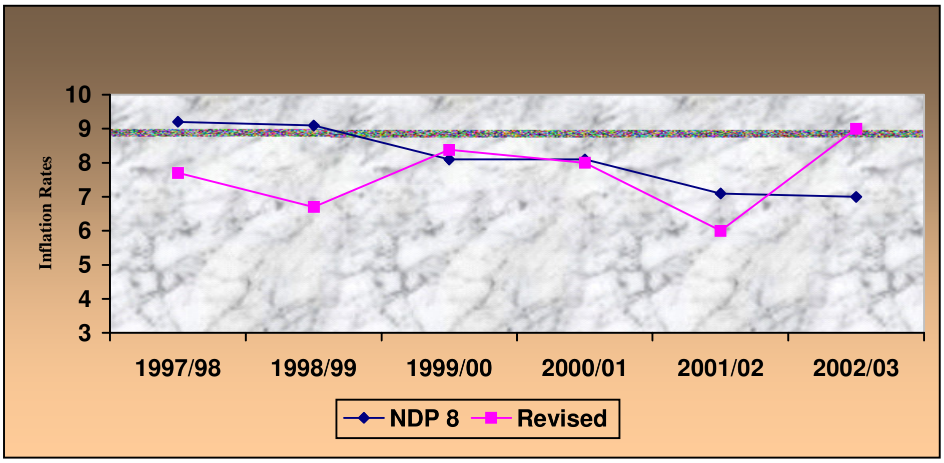
Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
NDP 8 Forecast	9.2	9.1	8.1	8.1	7.1	7.0
Actual and Revised	7.7	6.7	8.4	8.0	6.0	9.0

Source: Central Statistics Office and MFDP model

Note: Only the last two years are revised projections and annual inflation rates are the average for the national accounts year.

3.32 The improved inflation performance is a result of continuing low inflation in Botswana's major trading partner countries, including the Republic of South Africa (RSA), which supplies about 80 percent of Botswana's imports. Global inflation receded during the NDP 8 period, despite the financial crises in Asia and other emerging markets, oil price shocks, the terrorist attacks in the USA and other international conflicts. But, inflation in Botswana was also restrained by tight monetary policy, which sought to combat inflation by restraining credit growth and by lower Government expenditure as a percentage of GDP, which fell from 42.1 percent in 1998/99 to 38.3 percent in 2000/01. The appreciation of the Pula against the South African Rand also served to moderate imported inflation from that source. The inflation rate for tradable goods in the Botswana consumer price index, especially for imported tradable, declined over NDP 8, and became markedly lower than the inflation rate for non-tradable goods and services.

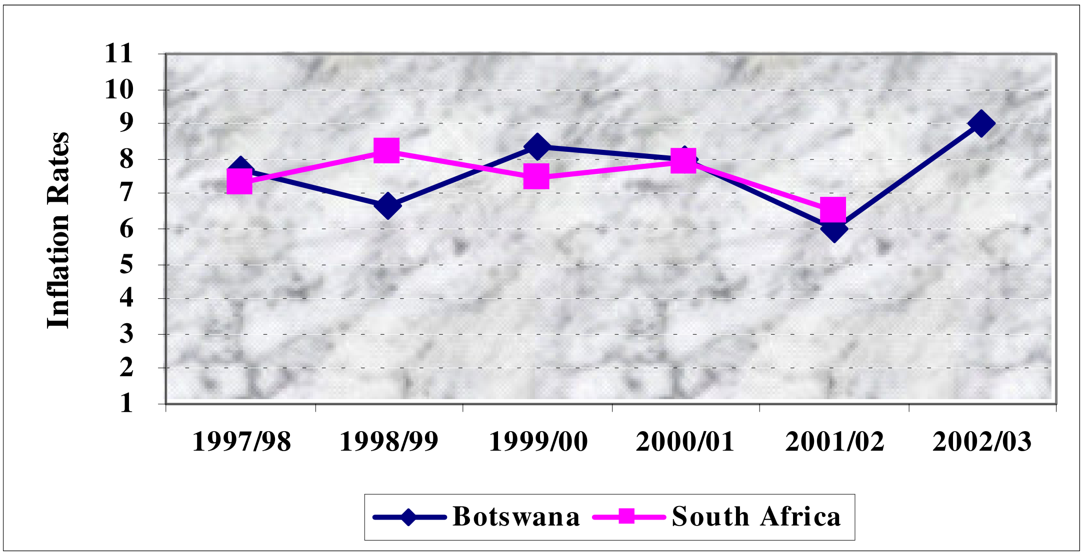
Chart 3.13: Comparison of NDP 8, Original and Revised Estimates of Inflation



Source: CSO and MFDP model
Note: The revised estimates have incorporated actuals from 1997/98 to 2000/01

3.33 The annual inflation rates in RSA (using "core" inflation) and Botswana over NDP 8 have not been very different from each other, although the changes in the rates have not always been in the same direction. Inflation in Botswana rose above the level in RSA in 1999/2000 due to high growth in Government expenditure, a surge in domestic credit growth and increases in Botswana Housing Corporation rentals. This trend has since been reversed and inflation in Botswana has been declining after reaching a peak of 8.4 percent during NDP 8 in 1999/2000. As noted already, the revised projections for NDP 8 show that the inflation will rise to about 9.0 percent in 2002/03 after falling to 6 percent in 2001/02.

Chart 3.14: Annual Inflation Rates in Botswana and South Africa

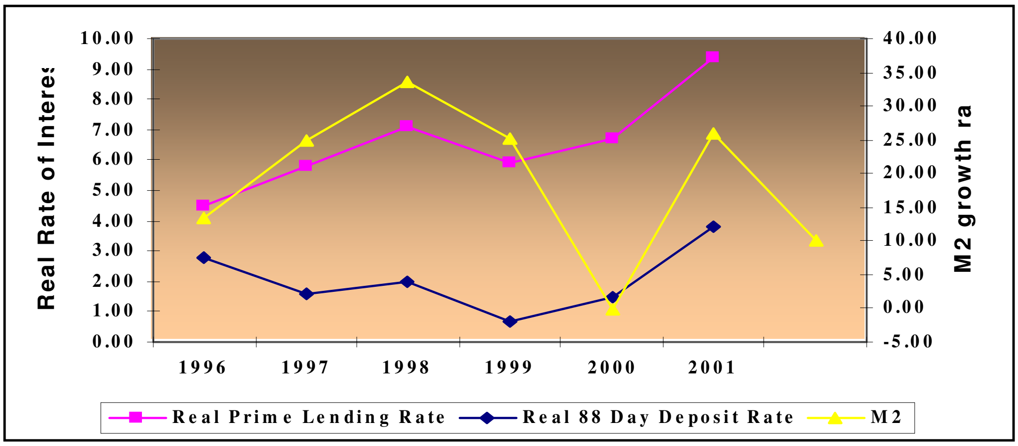


Source: Ministry of Finance and Development Planning

Monetary Developments

3.34 During NDP 8, monetary policy continued to focus on achieving price stability, exchange rate stability and positive real interest rates, which are comparable to rates prevailing in the international capital markets. Maintaining monetary stability has important implications for overall macroeconomic stability and the economic environment needed for private sector development and economic diversification. International crude oil price increases associated with supply shocks contributed to a rise in inflation in 1999. At the same time, domestic credit increased sharply in 1998 and 1999, by 55.5 percent and 38.7 percent, respectively.

Chart 3.15: Real Interest Rate and Money Supply Growth



Source: Bank of Botswana

3.35 Developments in the monetary sector show the annual (year-on-year to December) growth rate of money supply, M2, which includes currency outside banks, demand deposits, call, savings, notice and time deposits. The annual growth rate of money supply shows a steady upward trend at the beginning of the Plan period, before declining during the course of 1999. To restrain expenditure growth and thus contain inflation, tight monetary stance has been adopted since 2000. Positive real interest rates were maintained during the review period, and were slightly higher than those in South Africa.

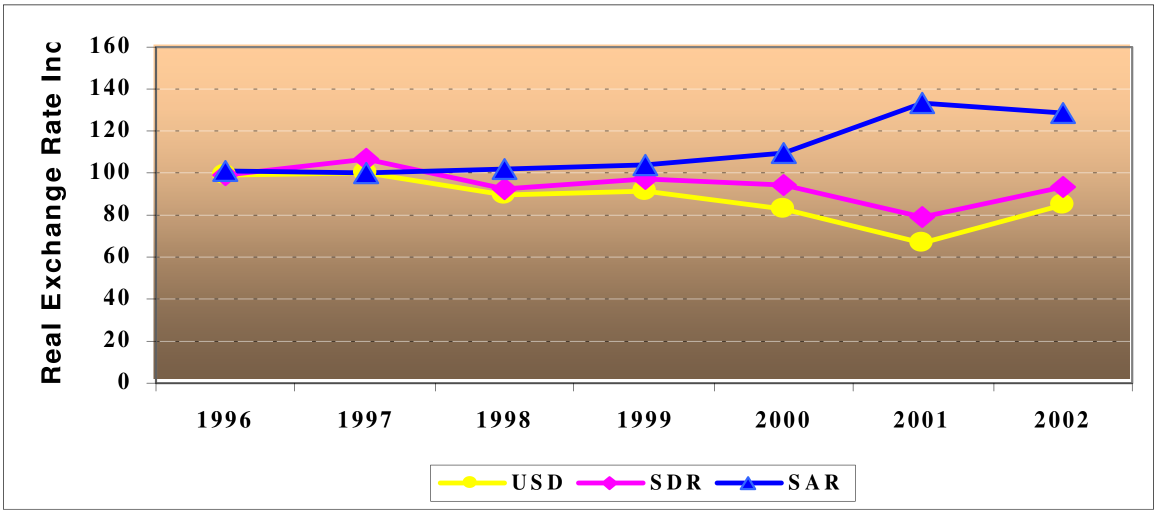
Exchange Rates

3.36 The Pula continued to be pegged to a basket of trading partner countries' currencies during NDP 8, taking into account the influence that such trade has on the economy in terms of output growth, incomes, jobs, Government revenue, exports and the balance of payments. This basket consists of the South African Rand and the SDR, which itself is a composite of the US Dollar, the Pound Sterling, the Euro and the Japanese Yen.

3.37 In nominal terms, the Pula appreciated sharply against the South African Rand over the first five years of NDP 8, rising from R1.28 per Pula at the end of 1996 to R1.72 at the end of 2001 an increase of 34.4 percent over the period. The Pula lost value slightly to R1.68 by the end of August 2002. The US Dollar/Pula exchange rate fell from US$0.2743 at the end of 1996 to US$0.1432 at the end of 2001, a nominal depreciation of 47.8 percent over the first 5 years of NDP 8. It appreciated slightly by the end of August 2002 to US$0.1585, an increase of 10.7 percent. The Pula also depreciated against the SDR during NDP 8, but to a lesser extent, reflecting that the US Dollar strengthened against the other major currencies comprising the SDR over the period. There were sharp depreciations against the SDR in 1998 and 2001, of 16.5 percent and 28.3 percent, respectively. Against the Pound Sterling and the Euro, the Pula depreciated by 36.9 percent and 27.1 percent, respectively, over NDP 8, while against the Zimbabwe Dollar, the Pula appreciated by 193.2 percent over the same period.

3.38 In real terms, the Pula depreciated against the US Dollar by 33.2 percent, while it appreciated by 32.9 percent against the Rand. The depreciation of the South African Rand against the US Dollar was greater than the inflation differential between the two countries, and thus South Africa achieved a real depreciation of its currency over the period. In real terms, the appreciation of the Pula against the South African Rand is the same in magnitude as the appreciation in terms of the nominal exchange rate. This is due to similar trends in the inflation rate in Botswana and South Africa.

Chart 3.16: Real Exchange Rate for the Pula against selected currencies



Source: Bank of Botswana

3.39 However the real effective exchange rate of the Pula against the currencies of its main trading partners remained broadly stable over the period as the real appreciation against the South African Rand being counter-balanced by the real depreciation against the US Dollar and other major currencies. The index of the real exchange rate of the Pula against the South African Rand increased from 100.5 at the end of 1996 to 133.6 at the end of 2001, and is expected to decline slightly by the end of the Plan period.

3.40 This real appreciation vis-à-vis the South African Rand indicates a loss of competitiveness in the South African market, and in markets in which Botswana producers must compete with South African producers. However, the real depreciation against the US Dollar during NDP 8, as reflected in the real exchange rate index falling from 99.1 at the end of 1996 to 66.2 at the end of 2001, a decrease of 32.9, indicates that the competitiveness of Botswana producers in US, UK and other major international markets has improved. Competitiveness in these other markets is crucial to Botswana's strategies for realising Vision 2016 goals of sustainable and diversified development through competitiveness in global markets.

ECONOMIC PROJECTIONS FOR NDP 9

3.41 The NDP 9 projected outlook for the economy reflects the importance of the broad policy issues that were drawn from the Mid-Term Review of NDP 8 and discussed widely with stakeholders in the development planning processes. These issues include, *inter alia*, HIV/AIDS, unemployment, poverty, economic diversification, public sector reform and financial discipline.

3.42 Economic forecasts are informed guesses of the likely trends – the balance of forces that will weigh upon the economy over some forecasting horizon. Because of this uncertainty, this section explores a number of scenarios, in order to identify the implications that important differences in the assumptions being made will have on key policies and strategies which Government wants to pursue. A Base Case Scenario of what is felt to be the most likely outcome is presented, along with the results obtained from more optimistic and pessimistic assumptions regarding a key economic variable, viz., the price of diamonds.

3.43 Botswana is a small and open economy, implying that, in general, the country is a price taker in international markets. This and other exogenous factors are taken into account in forecasting developments in the Botswana economy. Factors, such as drought, outbreak of animal diseases, movements in the world prices of minerals, and structural changes emanating from the impact of new policy initiatives like privatisation and public sector reforms, can and do significantly affect the performance of the economy. Therefore, assumptions have to be made regarding these factors in the process of preparing macroeconomic projections for NDP 9. Specifying alternative assumptions also allows the projections to give some indications of the economic impacts of the uncertainties Botswana faces by creating different scenarios, both less and more favourable. The main macroeconomic projections will be reviewed annually through the budgets, as well as during the Mid-Term Review of the Plan.

3.44 The projections are based on the MFDP macro-model, consisting of a set of equations, estimated econometrically from historical data. There are six major blocks of equations, covering the areas of employment; real GDP; government finance; balance of payments; consumption and investment; and money, credit and prices.

3.45 The NDP 9 Base Case Scenario is presented first. The key strategy under this scenario is budgetary sustainability by the end of the Plan period, while the rapid private sector development leads to significant progress with respect to sustainable economic diversification. The Base Case Scenario represents what can be achieved if the policies, programmes and projects set out in the Plan are fully implemented. The Optimistic Scenario, with large increases in Government revenues, will allow for adjustments later in the Plan period that could lower taxes and/or expand other initiatives to foster more rapid private sector development. In contrast, the Pessimistic Scenario would necessitate adjustments to curtail government spending, both development and recurrent expenditure, in order to have a sustainable fiscal position by the end of the Plan period.

The Base Case Scenario

3.46 Projections in the Base Case Scenario were based on a number of assumptions on the likely changes in key variables determining the performance of the economy [see Box 3.2]. This Scenario has been adopted for NDP 9.

Box 3.2: The Base Case Scenario Assumptions

i. *The output of diamonds will average 26 million carats with the output realised being higher during the first half of NDP 9, and expected to taper off towards the end of the Plan period.*

ii. *Diamond prices in US Dollar terms will increase in line with US inflation of 2% per annum on average from 2002 onwards*

iii. *Government fiscal policy will be targeted at achieving a balanced and sustainable budget in the medium term, both through expenditure control and higher revenue collection, through, among others, enhanced cost recovery measures.*

iv. *In particular, on the revenue forecasts, it is assumed that:*

- *The new SACU revenue sharing formula will become operational from the second year of NDP 9.*
- *There will be substantial collection of revenue from VAT reflecting, among others, the extensive coverage and institutional reforms through the merging of the Department of Taxes and the Department of Customs and Excise into a unified Botswana Revenue Service.*
- *There will be significant amounts of revenue collected through cost recovery, through both better administration of existing measures, and introduction of new measures.*

v. *Possible occurrences of natural disasters, such as droughts, floods and outbreak of animal diseases, have not been factored into the projections.*

vi. *On average, investment as a percentage of Real GDP will oscillate around 30% during NDP 9, rising from 24 percent in 2000/2001. Most of the additional* *investment will be directed to the major non-mining sectors of the economy, thus assisting in the further diversification of the economy.*

vii. *The annual average inflation over the NDP 9 period will be around 4.5%, falling from 6% in the first year to around 4% by the end of NDP 9. Inflation in South Africa will decline gradually from a level of around 8% in 2000/01 to around 3.5% by 2008/09, while industrial countries' inflation will be around 2.0%.*

viii. *The real effective exchange rate of the Pula, which is a trade-weighted exchange rate, vis-à-vis currencies of major trading partner countries, adjusted for differences in inflation rates, will remain relatively stable.*

3.47 A detailed discussion of the projections from the Base Case Scenario is presented below.

Gross Domestic and Sectoral Product

3.48 The average growth rate of total GDP over the NDP 9 period is estimated to be 5.5 percent per annum. The construction, manufacturing and the trade, hotels and restaurants sectors will be the fastest growing sectors with expected growth rates ranging from 7.0 to 10.5 percent, in real terms. The mining sector is expected to register growth in the first half of the Plan period, but decline in the second half, with an average rate of decline of 0.35 percent per annum over the entire NDP 9 period. With diamond output expected to plateau in NDP 9, the country will have to accelerate the process of identification of alternative sources of growth, involving private sector development and attracting foreign investment. The projections assume that Government's continuing efforts in further diversifying the economy will be successful in attracting substantial volumes of investment, both domestic and foreign, into sectors like manufacturing, tourism and services.

3.49 Vision 2016 set a target of trebling of per capita real income of Batswana over the 20 year period from 1996 to 2016. This would require per capita real GDP to grow over the period at an average annual rate of over 5.6 per cent and total real GDP to grow at about 8 per cent per year. As compared to this target, the actual average growth rate of total GDP from 1995/96 to 2000/01 has been lower at about 7.0 per cent per annum. This, together with the latest projections, indicates that the average growth rate from 1995/96 to 2008/09 (i.e., up to the end of the NDP 9 period) will be about 5.9 per cent per year. With the population growing at an average rate of 2.1 per cent per year, per capita income will grow at about 3.7 per cent per year over this period, as compared to the 5.6 per cent growth targeted in Vision 2016.

3.50 An interesting question to ask would be: what growth rate will the nation need to achieve between 2008/09 and the critical year 2015/16 to make up for this shortfall in growth up to 2008/09 and still achieve the Vision target of trebling Botswana's real per capita income by 2015/16? Assuming that the country's population continues to grow at 2.1 per cent per year over that period, the required growth rate during this period will be about 9.5 per cent for per capita GDP and 11.8 per cent for total GDP.

3.51 By the year 2015/16, the country will have completed the implementation of another National Development Plan (NDP 10) and gone into the first year of the following plan, NDP 11. If the target of 5.5 per cent average growth projected for the NDP 9 period is achieved, it will not be unreasonable to expect that a somewhat higher annual growth rate of about 6.0 per cent per year will be attainable during NDP 10 and NDP 11. The fact that we project a GDP growth of 5.5 percent during NDP 9, which is less than the Vision target of 8 percent, is a challenge to Government, the private business sector and the people at large to do much more to achieve the Vision target during NDP 9, 10 and 11 periods.

Employment

3.52 During NDP 9, growth in employment is expected to average 5.6 percent per annum. The trade, hotel and restaurants and manufacturing sectors are projected to record strong growth of employment, in view of their high labour intensity and the projected high GDP growth rates. The Government sector is projected to move away from its role as one of the major employers, with an extraneously imposed projection of 2.4 percent growth of employment per annum, bringing down its share in employment by 5.2 percentage points during NDP 9. This relatively weak growth of employment in the Government sector is expected to pave the way for higher employment growth rates in the private sector. In light of this development, policies such as privatisation and the right-sizing of the public sector should be pursued in full force in order to sustain this trend. On the other hand, employment in the mining sector will decline by 0.1 percent due to the expected decline of output in the sector.

Aggregate Demand

3.53 Over the NDP 9 period, investment as a percentage of GDP is expected to rise from a projected 26.6 percent in 2002/03 to 31.9 percent in 2008/09, despite the projected low growth in Government development expenditure. In absolute terms, real investment will increase by 8.7 percent per annum. Significant investment growth is expected in agriculture; manufacturing; construction; finance; trade, hotel and restaurants and services sectors. Mining is expected to attain modest growth in investment, while investment in the Government sector will decline marginally. These sectoral investment growth rates reflect the nation's drive to diversify the economy away from the mining and Government sectors. The NDP 9 Base Case Scenario assumes an average investment to GDP ratio of a little over 30 percent over the Plan period. Further significant growth in the investment ratio, taking it towards the Vision goal of 41%, should be realised over the next Plan period, when the Privatisation Policy now being put in place and other measures will have been firmly entrenched. Total consumption is expected to grow at 4.8 percent per annum in real terms in NDP 9, comprising of 2.0 percent and 7.7 percent growth rates for public and private sectors, respectively. Imports of goods and services are projected to grow at an average of 4.7 percent per annum, while exports will grow at 3.8 percent per annum, due mainly to the expected stagnation of diamond exports in real terms.

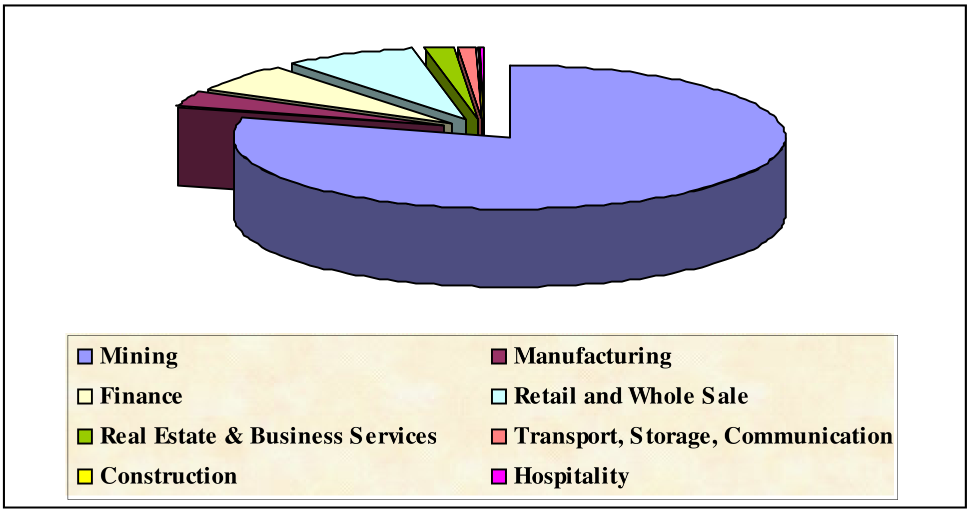
3.54 The stock of Foreign Direct Investment (FDI) and share by industry, according to Bank of Botswana, as of end-December 2000 is shown below:

Table 3.7: **Share of FDI Stock by Industry, as at 31 December 2000**

STOCKS OF FDI BY INDUSTRY	P.MILLIONS	RATIO
Mining	7,791.74	79.29
Manufacturing	343.49	3.50
Finance	618.92	6.30
Retail and Whole Sale	773.02	7.87
Real Estate & Business Services	161.15	1.64
Transport, Storage, Communication	105.18	1.07
Construction	15.62	0.16
Hospitality	17.37	0.18
Total	**9,826.49**	**100.00**

Source: Bank of Botswana

Chart 3.17: Share of FDI Stock by Sectors, 2000



Source: Bank of Botswana

3.55 Capital investment in Botswana has succeeded in building an impressive infrastructure. The Base Case Scenario indicates that by the end of NDP 9, investment to GDP ratio will reach about 32 percent, compared to 26.5 percent achieved in 2001/02, which in turn, implies that a significant amount has to be harnessed from foreign investment as shown in Table 3.8 below:

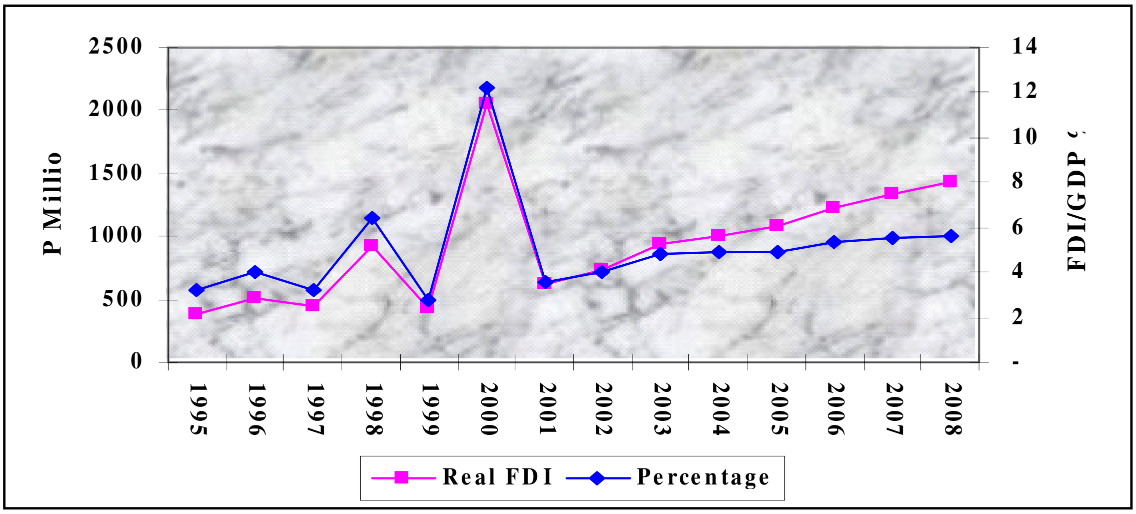
Table 3.8: FDI Flows in Botswana by Years

Years	Real FDI Pula Million at Constant (1993/94) prices	Real GDP P.Millions	FDI/GDP
1995	385.11	12,029.5	3.20
1996	504.97	12,703.7	3.97
1997	440.95	13,728.6	3.21
1998	916.37	14,295.6	6.41
1999	431.49	15,450.9	2.80
2000	2,058.16	16,865.8	12.21
Forecast			
2001 Est.	615.94	17,349.9	3.55
2002	738.99	18,411.9	4.01
2003	934.28	19,349.9	4.83
2004	1,010.05	20,487.4	4.93
2005	1,082.78	21,835.4	4.96
2006	1,233.05	22,905.9	5.38
2007	1,341.40	24,053.1	5.58
2008	1,432.14	25,342.2	5.65

Source: Actual data from Bank of Botswana and forecast calculated based on past data and FDI/GDP ratio[4].

[4] Forecast of FDI/GDP ratio is based on interpolation of 1995 and 1998 and plotted into the Plan period subject to efforts to revert the down turn trend from 2001. The real FDI for the plan period is then derived by plotted FDI/GDP ratio and GDP forecast from MFDP Model.

Chart 3.18: Real FDI Flows in Botswana by Years



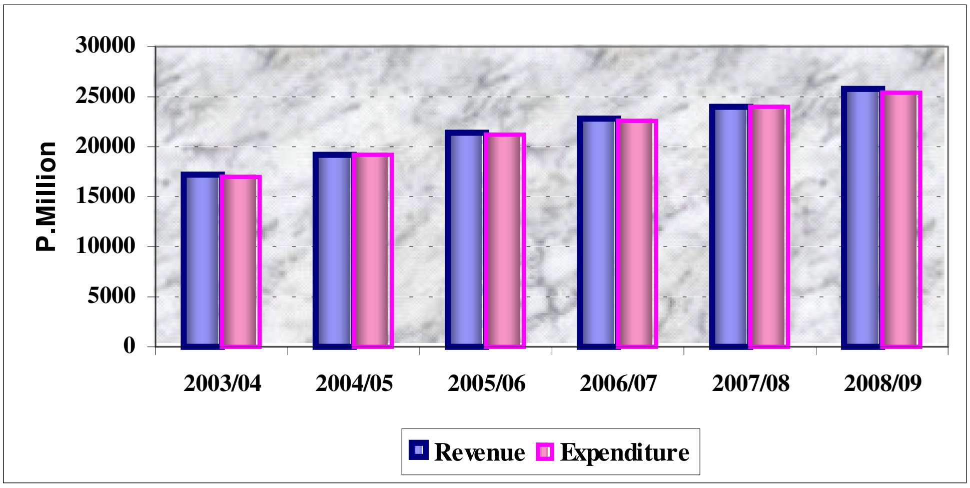
Source: Actual data from Bank of Botswana and forecast calculated based on past data and FDI/GDP ratio.

3.56 As shown in the Table 3.8 and Chart 3.18, most of the accumulated foreign direct investment at the end of 1999 was in the mining sector. It peaked in 1998 and slowed down afterward. The other significant shares were in manufacturing, trade and finance. However, the share of manufacturing sector declined from 5.4 percent in 1998 to 3.7 percent in 1999. The slowdown of foreign direct investment in the mining sector, the decline in manufacturing sector, and BCL's indebtedness for loans and accrued interest had an impact on foreign direct investment, resulting in a sharp decline in 2001 according to the provisional estimates of the Bank of Botswana. In order to realize the target 41 percent of real investment to GDP ratio, vigorous efforts have to be made to attract private investment, including foreign direct investment into manufacturing; trade, hotels and restaurants and finance sectors. In the past, the principal sources of foreign direct investment were the Republic of South Africa and the European Union, which accounted for 50 and 47 percent, respectively, of the total FDI at the end of 1999.

Government Sector

3.57 Total revenues accruing to Government are expected to grow at 9.0 percent per annum, on average, with mineral revenues growing at 2.0 percent per annum. The major impetus of this growth is expected to emanate from the introduction of Value Added Tax (VAT) in 2002 and implementation of significant cost recovery measures. The revenue growth of 9.0 percent is faster than expenditure growth of 7.0 percent per annum during the Plan period, resulting in moderate budget surpluses in all years of the Plan period.

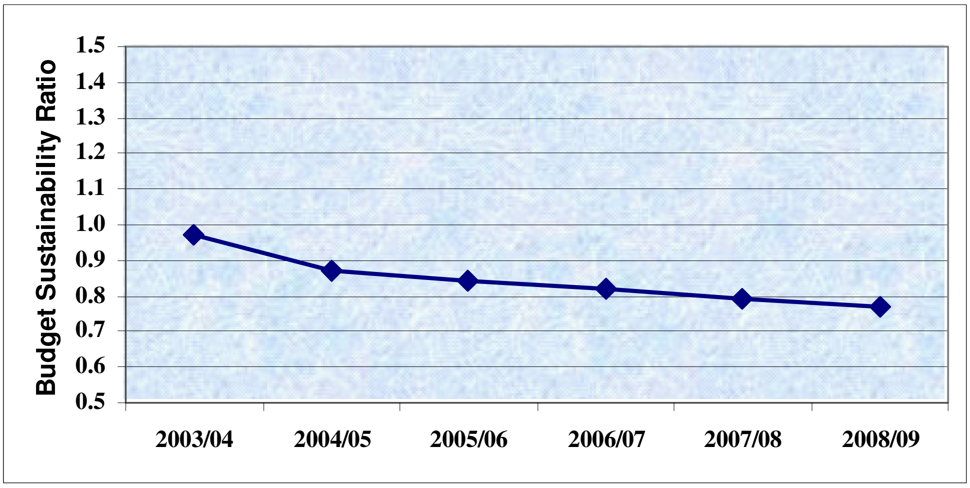
Chart 3.19: Projected Government Revenues and Expenditures



Source: MFDP Model

3.58 The projected budget sustainability ratio will remain below unity, improving from 0.97 to 0.77 at the end of the Plan. This will call for, among others, vigorous efforts to collect non-mineral taxes and non-tax revenue, through progressive improvement in collection efficiency and broadening of the tax base.

Chart 3.20: Projected Budget Sustainability Ratio Profile



Source: MFDP Model

3.59 According to the study on 'Macro-economic Impacts of the HIV/AIDS Epidemic in Botswana" done by BIDPA in August 2000, AIDS will inevitably have an impact on Government expenditure. Health spending will be expected to increase significantly following the decision to make Anti-Retroviral (ARV) drugs available to Batswana in 2001. Given that combating HIV/AIDS pandemic is a national priority, any additional expenditure implications will be addressed through reallocation among programmes and public-private partnerships.

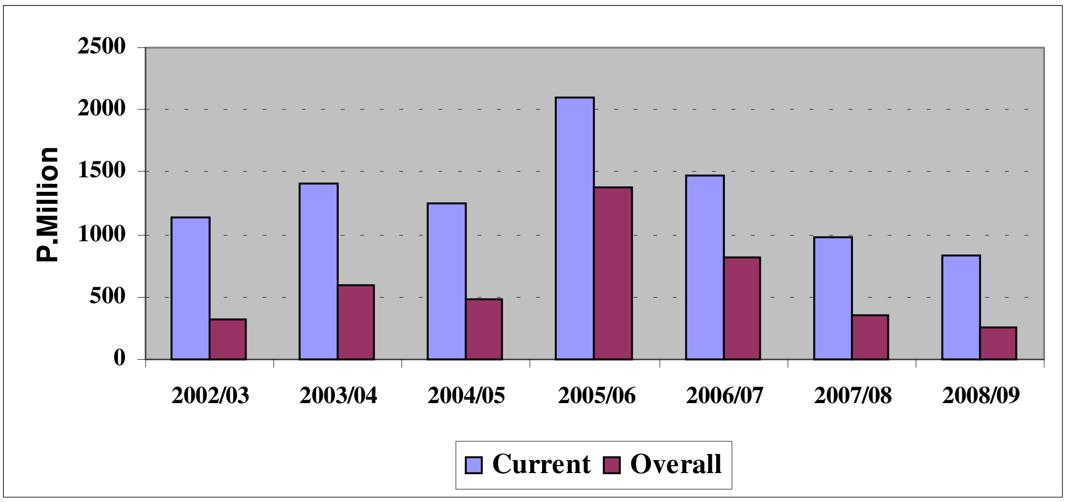
Balance of Payments

3.60 Growth of exports of goods and services in nominal terms is expected to be at 9.1 percent per annum, while imports will grow at a slightly higher rate of 10.1 percent during NDP 9 period. This indicates that during the Plan period, the balance of trade in goods and services will decline gradually until it moves into deficit towards the end of the period. This is primarily due to sluggish growth in exports of diamonds. Diamond exports will grow at 5.1 percent per annum, and copper/nickel at 4.7 percent per annum. This growth is due to depreciation of the Pula against hard currencies and the expected price increase. Exports of meat and meat products are expected to grow at a relatively higher rate of 6.8 percent per annum. Growth in exports of other goods is expected to be very high at 16.9 percent per annum, indicating the impact of diversification of the economy and enhanced international competitiveness of Botswana's non-traditional exports.

3.61 The overall balance of payments is expected to remain in surplus. However, it will decline as demand for imports is expected to grow faster than the trends in exports indicated above.

3.62 The major macro-economic indicators and fiscal developments in the Base Case Scenario can be seen in Tables 3.9, 3.10, and 3.11.

Chart 3.21: Current Account Balance and Overall Balance of Payments in P.Million



Source: MFDP Model

Alternative Scenarios

3.63 Because of the importance of the diamond industry in the economy of Botswana and the need to provide a range of possible economic outcomes over the Plan period, two further scenarios were considered by changing the assumptions for diamond prices in

US Dollars relative to US inflation or, in short, real diamond prices. A change in real diamond prices will have a large impact on the balance of payments and balances of the Government budget.

The Optimistic Scenario

3.64 This Scenario changes a key assumption of the Base Case Scenario with respect to the price of diamonds by assuming that in dollar terms, it will rise 2.5 percent per year faster than the US inflation. In other words, the real diamond price in US Dollar terms will increase by 2.5 percent per annum. This assumption may be realised if the current world economic slowdown is short-lived and there is a resumption of strong growth in the world economy, together with growth of new markets for gem diamonds among the middle class in countries like China and India. An additional assumption made in this Scenario is that the budget surpluses achieved are ploughed back into development and recurrent expenditures, with a view to achieving a higher GDP growth. The results of this Scenario indicate that while the budget remains balanced the GDP growth improves by 0.2 percentage points from 5.5 to 5.7 percent per year. There is also some significant improvement in the country's balance of payments and foreign reserve position by the end of the Plan period.

The Pessimistic Scenario

3.65 Under this Scenario, the Base Case assumption on diamond price is changed to incorporate a 2.5% fall in the diamond price relative to US inflation. The World Consumer Prices are projected at an average annual growth of 2.7 percent for 2000-2010 by the World Bank. According to the December 2001 *World Economic Outlook* published by the International Monetary Fund, prospects for global economic growth have weakened since the beginning of 2001, and growth projections across almost all regions of the world have been revised downwards due to a variety of factors. Inflation in advanced countries remained stable at the same level of 2.2% in 2001 as the previous year. Although the latest data of February, 2002 suggested that America's recession may be almost over, Japan, one of the biggest markets for diamonds, remained mired in recession. The resilience of the economy in the US and Europe has derived from a debt-fuelled consumer boom, which carries its own danger in the long term. The Pessimistic Scenario may come about if the situation in the world economy slips downward further again, rather than recovering. The negative shock of a fall in the real price of diamonds will erode Government revenue and lead to high budget deficits, as shown in the results of this scenario. The country's balance of payments and foreign reserves at the end of the Plan period also become significantly worsened. If that is the case, it will be necessary to scale down current expenditure to bring it into balance with the revenue trend.

TABLE 3.9: MAJOR ECONOMIC INDICATORS, BASE CASE SCENARIO

Indicators	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Real GDP (PM) (1993/94 PRICES)	19,349.9	20,487.4	21,835.4	22,905.9	24,053.1	25,342.2
GDP growth %	5.09	5.88	6.58	4.90	5.01	5.36
Employment Growth Rates %	5.38	5.02	5.24	5.78	5.82	5.69
Government's share in Employment	37.08	36.15	35.18	34.05	32.95	31.93
Investment to GDP, %	26.86	29.13	30.73	31.53	32.07	31.88
BoP (PM)	413.5	201.2	1,077.5	533.8	45.8	-85.7
Reserves as Months of Imports	29.96	27.84	26.50	25.07	23.59	22.02
Budget Surplus/ Deficit (PM)	102.0	136.1	162.1	137.4	76.2	303.3
Reserves in US$b	6.80	6.83	6.99	7.06	7.07	7.06
Budget Sustainability Ratio	0.97	0.87	0.84	0.82	0.79	0.77

Source: MFDP Model

TABLE 3.10: Central Government Budget Position (P.Millions, Current Prices)

	Sector	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
1	Total Revenue, inclusive of:	17,175	19,256	21,415	22,740	23,996	25,786
	Mineral	8,140	8,500	9,388	9,465	9,328	9,548
	Customs	1,723	2,332	2,571	2,838	3,138	3,522
	Non-mineral income Taxes	1,825	2,238	2,445	2,683	2,948	3,232
	VAT	3,000	3,000	3,437	3,932	4,504	5,144
	Bank of Botswana	1,158	1,424	1,460	1,519	1,565	1,600
	Other Revenues	1,042	1,130	1,237	1,362	1,500	1,649
	Interest received	156	148	139	130	119	109
	Grants	31	34	38	41	45	50
	Cost Recovery	100	450	700	770	849	933
2	Total Expenditures	17,073	19,120	21,252	22,602	23,920	25,483
	Recurrent	13,103	13,992	15,111	16,133	17,251	18,473
	Development	3,905	5,194	6,216	6,550	6,757	7,101
	Net Lending	65	-67	-74	-82	-88	-92
	Surplus/Deficit	102	136	162	137	76	303

Source:MFDP Model

TABLE 3.11: Summary of the Balance of Payments (Pula Millions, Current Prices)

Sector	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Balance on Visible Trade	1,525	1,531	2,567	1,957	1,421	1,372
Balance on Services	-1,852	-2,241	-2,572	-3,037	-3,471	-4,049
Balance on Goods and Services	-327	-710	-5	-1,080	-2,050	-2,677
Balance on Income	-535	-735	-952	-851	-747	-774
Balance on Goods, Services and come	-862	-1,445	-957	-1,931	-2,796	-3,450
Net Transfers	2,090	2,421	2,754	3,120	3,464	3,931
Balance on the Current Account	1,228	977	1,797	1,189	667	481
Balance on the Capital Account	272	315	358	406	451	512
Overall Balance	414	201	1,078	534	46	-86

Source: MFDP Model

TABLE 3.12: COMPARISON OF BASE CASE, OPTIMISTIC AND PESSIMISTIC SCENARIOS ON BUDGET POSITION (Pula Millions)

Scenario / Indicators		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
BASE CASE	**BoP**	413.53	201.23	1,077.51	533.82	45.80	-85.66
	Budget Surplus/ Deficit	102.0	136.1	162.1	137.44	76.17	303.31
	Foreign Exchange (billion)	44.41	45.76	48.00	49.77	51.09	52.32
OPTIMISTIC	**BoP**	702.97	703.82	1873.92	1630.37	1463.61	1656.57
	Budget Surplus/ Deficit	429.56	142.66	168.00	167.36	206.68	301.8
	Foreign Exchange (billion)	44.81	46.67	49.73	52.64	55.46	58.54
PESSIMISTIC	**BoP**	103.59	-497.65	75.44	-702.61	-1414.01	-1835.37
	Budget Surplus/ Deficit	102	-533.17	-848.02	-1164.77	-1442.47	-1520.29
	Foreign Exchange (billion)	44.07	44.69	45.92	46.39	46.17	45.52

Source: MFDP Model