Standard Bank ResearchEconomics

# Blueprint

**Botswana** ● January 2008

## Resources dominant

Although Botswana has successfully avoided the resource curse and its close relation, the Dutch disease over the four decades since independence, the economy remains in the grip of resource-intensive production, particularly of diamonds. Sound economic policy, good governance and strong institutions have held the resource curse of low economic growth rates despite being blessed with abundant natural resources at bay. The Dutch disease symptom of an overvalued exchange rate has been neutralised by sensible exchange rate management. Efforts to diversify the economy have partly paid off. For example, tourism is a growing industry. Although the small open economy with a population of 1.8 million is at risk from high rates of HIV/Aids infection, effective intervention has resulted in HIV prevalence rates now dropping. The government aims to eliminate new infections by 2016 .

## Political background

Botswana is a stable parliamentary democracy and has regularly held free and fair elections since independence in 1966. The ruling party, the Botswana Democratic Party (BDP), won a large majority (44 out of 57 seats) in the October 2004 parliamentary election. The opposition is generally divided, but has attempted to present a united front to counter the BDP's dominance. The current president  Festus Mogae, who retires at the end of March, is expected to hand over power to vice-president Ian Khama in due course. The next elections will be held in October 2009.

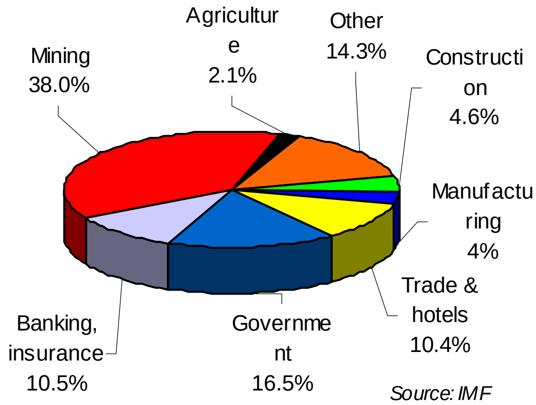
Jan Duvenage ☎(+27 11) 636-4557 ✉ jan.duvenage@standardbank.co.za

## Economic structure

Botswana's GDP at current prices (the local currency is pula = P) was estimated at P57 134.4 million in 2005/06 and P49 620.9 million in 2004/05 (central bank data). In US dollar terms, the GDP was US$10.5 billion in 2006 and US$10.5 billion in 2005 (World Bank data). Gross National Income (GNI) per capita was US$5 950 in 2006, an indication of the country's relatively high standard of living. It is classified as an upper-middle-income country by the World Bank. In comparison, sub-Saharan Africa's GNI per capita was US$842 in 2006 (World Bank data).

The mining industry - mainly diamond mining - continues to contribute significantly to economic activity and accounted for 38% of GDP in 2004/05. Botswana is the world's largest gem diamond producer, with output reaching 34.4 million carats in 2006, but dropping by about a million carats in 2007. In terms of market value of rough diamond production Botswana accounted for 25.9% of world diamond production to the value of about US$2.9 billion, followed by Russia (17.9%), Canada (12.5%) and South Africa (11.6%) in 2004. Mining's dominance of the production side persists despite government's continuous efforts to diversify the economy. The sector accounts for about 5% of formal employment. The sector's output growth rates are volatile. Mining's contribution to GDP and employment numbers has risen marginally since 1999.

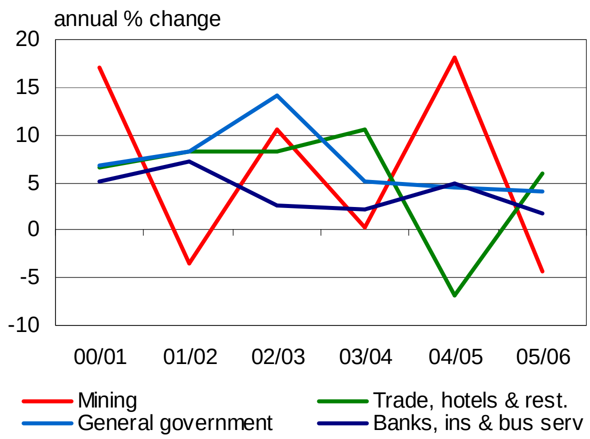
**Contribution to GDP (2004/05 revised)**




Agriculture's contribution has declined to the lower single digits, both in terms of contribution to GDP and employment. Although some 80% of the country is covered in sand, agricultural land, which includes arable land, land under permanent crops and under permanent pastures, constitutes 45.8% of total land area. The agricultural sector suffers from low levels of productivity and is often plagued by droughts, floods and periodic incidences of animal disease. A severe drought in 2006/07 lowered the total area planted and hence yields.

The manufacturing sector's contribution to GDP, currently 4%, has declined since 1999, but employee numbers have risen. The government focuses on this sector to accelerate the diversification of the economy through private sector participation.

**Sectoral growth rates – major sectors**




The services sector now contributes around 50% to GDP and accounts for a large portion of formal employment. Banking, insurance and business services are large and growing sectors (10.5% of GDP). General government services, at central and local level, remain significant contributors, accounting for 16.5% of GDP and around 38% of formal employment, thus making the government the largest services employer. Government is an important and large economic player in the economy and its spending decisions can have a direct impact on economic variables. The government wage bill is relatively large in a regional context, and was estimated at more than half of total government expenditure and about 10% of GDP in the late 1990s, according to the IMF.

Mining giant De Beers' Diamond Trading Company is in the process of moving its headquarters and some of its downstream activities, such as sales and marketing, to Gaborone, the capital, to boost the services sector. Construction of the headquarters is almost complete and should be operational this year.

The trade and hotels sector's contribution (10.4%) is rising. Tourism is an important sub-sector and the government has identified tourism as an engine of growth. According to the World Travel & Tourism Council's (WTTC) satellite accounts for Botswana[1], the tourism *industry* (a measure of travel and tourism's direct production-side impact), is expected to have contributed 3.3% to GDP (or

[1] *The WTTC's reports and several documents on Botswana can be downloaded free of charge from www.wttc.org.*

P2 073 million) in 2007. The broader tourism *economy* (travel and tourism's direct as well as indirect or economy-wide impact) is expected to have contributed 7.5% to GDP in 2007. The travel and tourism economy is estimated to have provided 28 000 jobs in 2007, equivalent to almost 9.2% of total employment, according to the WTTC.

## Real GDP growth

Botswana has often been regarded as Africa's miracle economy and has experienced high economic growth rates. According to the OECD, Botswana's growth averaged more than 9% over most of the past four decades, one of the highest in the world. Between 1989 and 1998 the economy grew at an average of 6.5%, according to the IMF. Growth rates are often revised considerably. In 2004 and 2005 the economy slowed down but the near-term growth outlook is more positive - in 2005 GDP grew by 3.8% and by 2.6% in 2006.

The mining sector is the most important growth driver, despite being volatile. The sector grew by 6.9% in 2003/04, but growth dropped to 2.7% in 2004/05. The three largest sectors, bar mining, all grew by more than 5% in 2004/05: banking, insurance and business services, and trade and hotels by 6% and general government by 5%.

The diamond sector's physical output has grown steadily since the late 1990s, rising from 20 million carats in 1998, 31.1 million carats in 2004 and 34.4 million carats in 2006. Higher output was underpinned by investment in the diamond-mining sector. Output growth in diamond mining is expected to level off at current levels and "open-cast operations at current extraction rates can be sustained for at least another 20 years, followed by another 25 years of deep-pit mining", according to a 2004 report by rating agency Standard and Poor's. More recently, the IMF[2] found that "diamond production will continue at high levels until 2021, when a sharp decline will set in until diamond resources are depleted around 2030", so that economic growth will be severely disrupted and fiscal revenues will deteriorate from 2021 onward. Furthermore, after about 2017 mining will need to shift from surface to underground mining as the surface mines will become depleted, resulting in higher costs and lower yields.

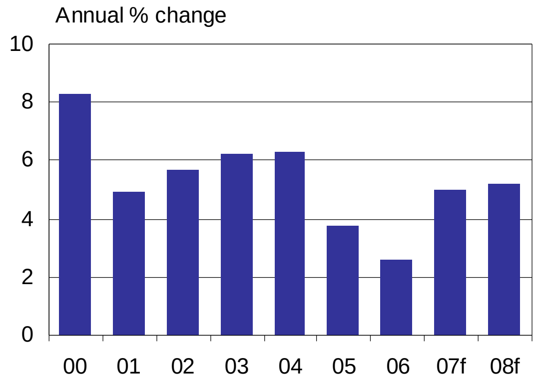
Buoyant global economic growth and strong consumer spending in the US, which is the largest market for gem diamonds, supported demand for jewellery over the recent period. However, a US and/or global slowdown and recession, now a real possibility, will reduce demand for diamond jewellery.

Over the past decade the services sector has benefited from brisk growth in trade and hotels; banking, insurance and business services, and general government, as mentioned.

The country's HIV/Aids infection rate, one of the highest in the world, is a threat to its growth potential and social capabilities. The economy needs to diversify into high-productivity sectors such as manufacturing, as diamond mining has reached a plateau. But low levels of corruption and a high international competitiveness rating are positive for economic growth.

Botswana's real GDP growth is expected to average 5% in 2007 and 5.2% in 2008, according to the IMF.

**Real GDP growth**




*Source: IMF*

[2] *IMF. 2007. Botswana Country Report CR 07/228.* *www.imf.org*

## Consumer inflation

Botswana's inflation rate has been relatively high – between 1989 and 1998 inflation averaged 11.3%, according to the IMF. Inflation averaged 11.6% in 2006 and 7.1% in 2007.

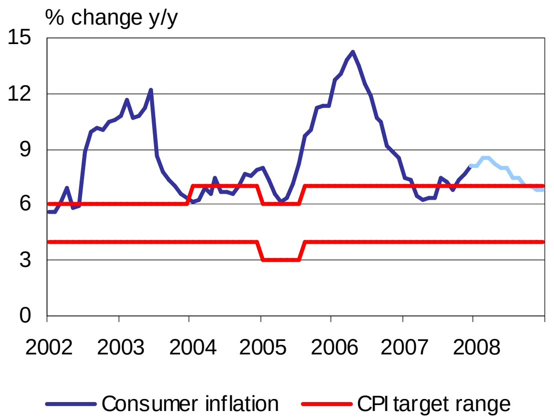
The spike in the inflation rate in 2005 is largely the result of the 12% devaluation of the pula in May 2005, the 7.5% devaluation in February 2004 – imported inflation was therefore higher – and high international crude oil prices. Also, three-quarters of Botswana's imports are from the SACU, but mostly South Africa, resulting in imported inflation from its southern neighbour. The devaluations no longer impact on inflation and inflation started to fall at the beginning of 2006 to below the upper target range in March to June 2007.

The Central Statistics Office (CSO) rebased the CPI using a new and expanded basket of goods and services based on household consumption patterns identified in the *2002/03 Household Income and Expenditure Survey*. The new basket weights were implemented in October 2006. The central bank also started to publish two new measures of core inflation: the "sixteen percent trimmed mean Core Inflation rate" and the "Core Inflation rate by exclusion" from the first half of 2007. Volatile price movements are excluded from the core measures.

The central bank's inflation target band, which was set at 3% to 6% for 2005, and which was adjusted upwards to 4% to 7% in June 2005, has been largely breached since then. Rising food inflation (the food component is weighted at 25.5% in the consumer basket) and imported inflation from South Africa will push consumer prices higher this year. A recent IMF[3] study found that South Africa's inflation rate has the greatest influence on Botswana's price movements, but exchange rate depreciations against the rand and monetary growth are also important factors.

A stable pula against the rand will help to dampen inflationary pressures in 2008. However, high fuel prices, expansionary fiscal policy and rising administered prices pose larger inflationary risks than in previous years. South Africa's inflation rate is expected to average 7.5% in 2008 and Botswana's inflation rate is typically higher than South Africa's. We expect inflation to average 7.7% in 2008.

**Consumer inflation**




*Source: Bank of Botswana*

[3] *IMF. 2007. Botswana Country Report No. 07/228: 34. www.imf.org*

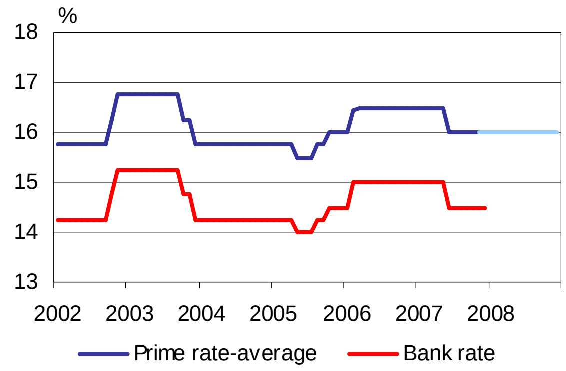
## Interest rates

A prudent monetary policy regime over the past three decades has contributed to macroeconomic stability. The central bank has generally adhered to a relatively tight monetary policy regime to contain inflation.

In February 2006 the bank rate rose to 15% from 14.5%; then adjusted lower in June 2007 to 14.5%, where it remains unchanged. The prime rate has moved in tandem with the bank rate and is currently 16%.

The Bank of Botswana (BoB), the central bank, has stated that "In controlling inflation, the Bank influences changes in aggregate domestic demand, with a primary focus on the intermediate target, the growth rate of commercial bank credit, given that it contributes significantly to domestic demand pressures and can be influenced by monetary policy". The BoB's monetary policy statements and reviews in 2007 were initially optimistic regarding price trends, but in the second half of 2007, inflation crept higher. The bank maintained a relatively restrictive monetary policy stance with the real bank rate averaging 7.6% in 2007. Supply-side pressures from fuel prices and administered prices, and demand-side pressures from rising wages, are important factors driving inflation higher. Inflation expectations average 8.6% for 2008, according to a central bank survey. The bank is expected to maintain its restrictive monetary policy stance. We expect interest rates to remain unchanged in 2008.

**Interest rates**




*Source: Bank of Botswana*

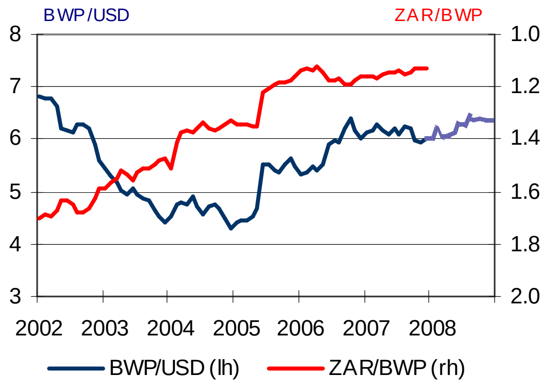
## Exchange rate

Exchange rate policy has been mainly focused on promoting Botswana's international trade competitiveness, particularly of its non-diamond exports, by maintaining a stable and competitive (weak) real effective exchange rate (REER). Between 2000 and 2003 external competitiveness declined as measured by the REER (that is, it appreciated). This had a negative impact on Botswana's export earnings and, as a result, the pula was devalued by 7.5% in February 2004 and by a further 12% in May 2005. The actions were taken to restore export or external competitiveness and maintain a stable and competitive REER. From 2003 to 2006 the REER has depreciated, thus promoting exports.

At the end of May 2005, when the pula was devalued, a crawling band (or peg) exchange rate regime was adopted. The pula is still pegged to a basket of currencies, the South African rand and the SDR (or Special Drawing Rights, an IMF construct, which is itself a basket of currencies comprising US dollars, euros, yen and pounds). The Botswana authorities have not revealed the weights, but it is estimated that the rand dominates the basket with a weight of 60% to 70%. The new regime will prevent the pula moving in large steps and will therefore reduce currency volatility. A more flexible exchange rate regime will help make monetary policy more effective compared to a fixed regime. The small continuous movements are based on expected inflation differentials between the central bank's domestic objectives and future inflation of its main trading partners. The central bank is particularly concerned that the REER is properly aligned and the new regime should obviate the need for large adjustments to the currency peg.

During 2008 we expect that the authorities will continuously adjust the crawling band to compensate for inflation differentials and to ensure external competitiveness. However, a narrowing of inflation differentials between Botswana and its main trading partners will take pressure off adjustments in the nominal exchange rate. The pula traded at an average of BWP6.13/USD in 2007, marginally weaker than BWP5.81/USD in 2006. We expect the pula to average about BWP6.24/USD in 2008.

**Pula against the USD and ZAR**




*Source: EcoServ*

## Balance of payments

The data used here are the BoB's 2006 estimates and are subject to revision. The current account surplus was higher in 2006 compared to 2005 and much higher in both years than in 2004, largely from surging export earnings. The current account surplus rose from P1 352 million in 2004 to P11 319.2 million in 2006.

Exports rose from P17 334 million in 2004 to P26 386 million in 2006. Exports were mostly diamonds. Imports were relatively stable. The merchandise trade account showed a similar larger surplus.

Services, income and transfers account (which includes tourism receipts and SACU transfers) were in deficit from outflows in the income sub-account, but showed a small surplus in 2006. Limited domestic investment opportunities for pension funds have generally resulted in investments moving abroad, according to the IMF. Current transfers are mostly SACU receipts, which have risen sharply in recent years.

The principal merchandise exports are diamonds; copper and nickel; textiles; meat and meat products; and soda ash. Diamond exports amounted to US$3 412.9 million in 2006 up from US$3 325 million in 2005 and US$2 815.4 million in 2004. Sales from Q1 through Q3 2007 were higher compared to the same period in 2006. The *Antwerp Diamond Index*, published by the BoB, and which is based on US dollar diamond prices on Antwerp markets, firmed steeply at the end of 2005, but dropped in Q1 2007. Since January 2004 the index has risen from 126.6 to 140.9 in October 2007.

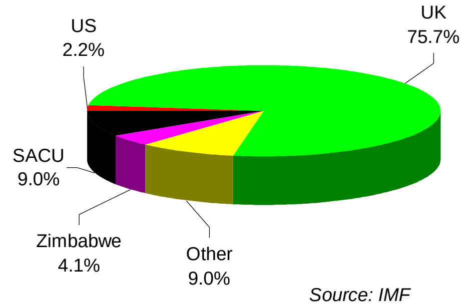
Copper and nickel export earnings rose from US$460.7 million in 2005 to US$650.3 million in 2006 on the back of strong commodity prices. Beef exports were stable in 2004 through 2006. Soda ash exports were higher in 2006 compared to 2005 and 2004. Textiles exports fell in 2006 against 2005, but exceeded 2004 levels.

The main imports are machinery and electrical goods; vehicles and transport equipment; food and beverages; and fuel. Imports rose significantly in 2005 and 2004 against 2003, stimulated by buoyant domestic demand, while high global oil prices added to the import bill. Imports for infrastructure projects were also important. Currency depreciation also had a negative impact on the import bill. In 2006 imports were marginally above 2005. Most of Botswana's imports are sourced from the SACU, but largely from South Africa.

The overall balance of payments position has mostly remained in surplus over the past decade on the back of surpluses in the current and capital accounts. This facilitated a build up of gross official reserves of US$6 276 million at end-2005, equivalent to about 20.8 months of imports, according to the IMF.

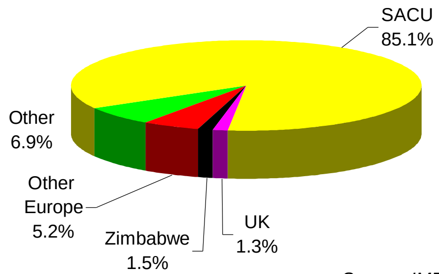
Expectations of lower mining output and subdued investment flows suggest that the balance of payments position may weaken in the coming years. SACU receipts are also expected to fall over time. A slowdown in the global economy and lower commodity prices should depress demand for diamonds and prices could weaken.

### Destination of exports



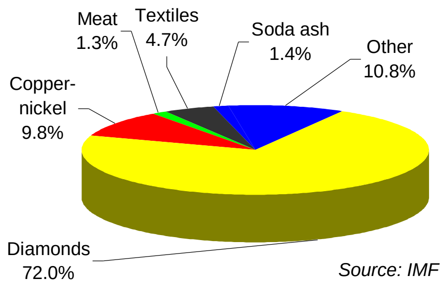

*Source: IMF*

### Origin of imports



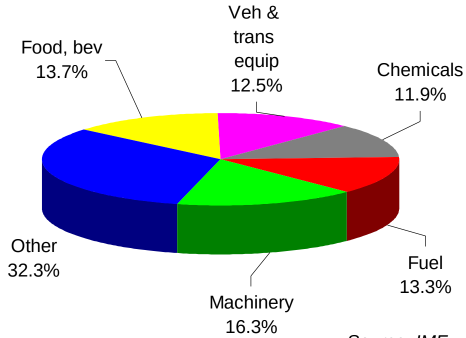

*Source: IMF*

### Composition of exports




*Source: IMF*

### Composition of imports




*Source: IMF*

## Balance of payments

| Pula million | 2001 | 2002 | 2003 | 2004 | 2005 | 2006e |
|---|---|---|---|---|---|---|
| Exports | 13 519.0 | 14 842.6 | 14 970.3 | 17 344.6 | 22 708.0 | 26 386.2 |
| Imports | 9 369.9 | 10 365.4 | 10 529.4 | 13 440.5 | 13 726.5 | 15 271.4 |
| Merchandise trade balance | 4 149.1 | 4 477.2 | 4 440.9 | 3 904.1 | 8 981.5 | 11 114.8 |
| Services, income and transfers | -657.4 | -3 232.7 | -2 152.7 | -2 552.1 | -801.4 | 204.4 |
| Current account | 3 491.7 | 1 244.5 | 2 288.1 | 1 352.0 | 8 180.1 | 11 319.2 |
| Capital account | 33.7 | 3.9 | 111.2 | 149.2 | 160.8 | 142.4 |
| Overall balance | 1 023.1 | 335.8 | 796.6 | -271.8 | 7 035.6 | 10 255.8 |

*Source: Bank of Botswana*

## Government finances

Government has traditionally relied on the mining industry for most of its revenue, with mineral revenue from royalties, dividends and taxes, contributing about half to total revenue. The balance of the revenue is largely made up of customs and excise income (SACU receipts or customs pool revenue), non-mineral sales tax, VAT and non-tax revenue. Development grants accounted for a small part of total revenue. Customs pool tax revenue rose from P1 733 million in 2001/02 to P6 610 million in 2006/07 and is estimated to rise to P8 177 million in 2008/09.

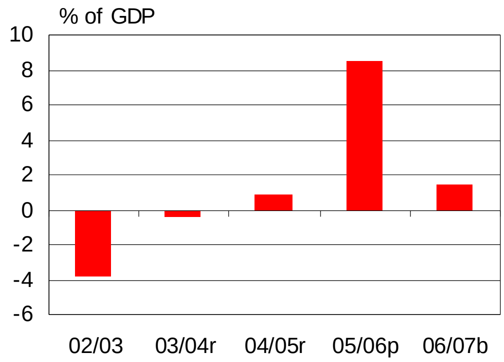
The rules-based approach by the fiscus to the management of mining revenues has contributed to macroeconomic stability, avoiding the boom-and-bust type fiscal situations experienced by some of the resource-based economies. The fiscal rule requires that mineral revenue must be dedicated to the expansion of the economy's productive base, rather than to consumption. The rule states that government expenditure must not exceed 40% of GDP. In addition, recurrent and development expenditure must be apportioned in an ideal ratio of 70:30, that is development expenditure must not fall below 30% and recurrent not exceed 70% of total expenditure. This has enabled government finances to remain sound in recent years despite revenues coming under pressure as the strength of the currency, at times, resulted in lower export earnings (in pula terms). In 2005/06 a large surplus was recorded largely on the back of higher mineral revenues.

Expenditure pressures are largely emanating from a higher social spending burden, particularly on education and health, mainly HIV/Aids-related. To improve revenue collection, the Botswana Unified Revenue Service has been established.

Lower tax revenue from the diamond sector is almost certain, as revenue is expected to level off with diamond earnings over the medium to long term, while additional pressure will come from a slowdown in SACU receipts over the medium term. The tax base will need to be broadened and tax collection streamlined further. Issuing more bonds and short-term instruments will also help to deepen financial markets, although there is no fiscal need for borrowing.

Government wages and salaries account for a large slice of current government spending and need to be trimmed. Botswana's wage bill as a percentage of GDP and of total government expenditure is one of the highest in sub-Saharan Africa, according to the IMF. Salary increases for public servants impact on domestic demand, adding to price pressures, and making monetary policy more difficult.

**Budget summary**




*Source: IMF*

## Financial markets

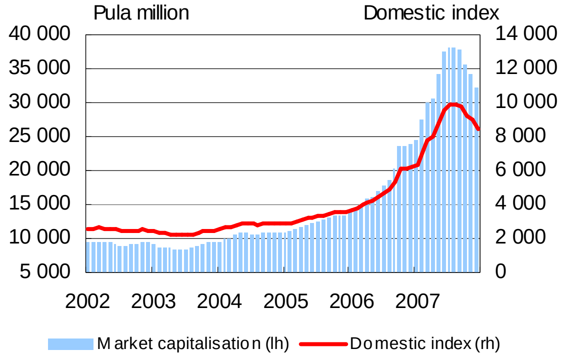
As at the end of December 2007 the Botswana Stock Exchange (BSE) had 19 domestic companies and four foreign companies listed on the main board. Since March 1997 dual listing of companies has been allowed on the BSE. The Foreign Company Index was then set at the same level as the Domestic Company Index for comparative purposes. Bonds are also listed.

The exchange's market capitalisation as a percentage of GDP was 38.2% in 2006, according to the World Bank. The market's P/E ratio was 16.3 and the dividend yield 3.8% in 2006. Domestic companies' market capitalisation was P23 776 million, foreign companies' market capitalisation was P510 407 million, giving total market capitalisation of P534 184 million in 2006. Liquidity is relatively low in the market and the ratio of turnover to domestic (all companies) market capitalisation was 1.8% (0.1%) in 2006. The number of shares traded was 87.2 million in 2006, up from 44.2 million in 2005.

The BSE performed well in 2005 and into 2006, but the index dropped marginally at the end of 2007 after the August peak, largely in line with global market trends.

The Bank of Botswana announced that from 1 March 2006 only registered commercial banks are allowed to purchase Bank of Botswana Certificates (BoBCs). Banks are not permitted to hold BoBCs on behalf of individuals. Since the central bank does not issue Treasury bills, the certificates were used as substitutes. BoBCs were originally issued by the central bank to mop up excess liquidity and were not intended as an investment instrument. Investors will need to find alternative investment vehicles.

**Botswana Stock Exchange (domestic companies)**




*Source: BSE, BoB*

## Economic outlook

Prudent macroeconomic policies and significant capital investments over the past few decades have transformed Botswana into one of the most dynamic economies in Africa, catapulting the country from being the third poorest at independence to having one of the highest standards of living on the African continent. Good governance, rule of law and strong institutions coupled with prudent economic management helped to transform the economy from being primarily based on agriculture to a more dynamic mix of mining and services.

The *Heritage Foundation* rates Botswana's market-based economy as one of the freest in Africa and second in SSA after Mauritius in 2007. Similarly, Botswana achieved high scores in the World Bank's 2007 *Worldwide Governance Indicators 1996-2006*, which judges countries according to six governance dimensions. *Transparency International* rates Botswana the least corrupt country in Africa and is ranked 38 globally. Other rating institutions find similar high standards of governance.

The government should continue to strive to diversify the economy towards a stronger manufacturing and service bases. Productivity is typically high in the manufacturing sector when compared to other sectors and a more diversified economy - through greater industrialisation - is a sound basis for raising the overall standard of living. New investment in non-mineral sectors is also needed to expand output and productive capacity, such as in ecotourism. Important sectors are infrastructure, adding value to exports of raw materials and promoting the textile, leather, jewellery and other industries.

Botswana has massive coal reserves, over 200 billion tons according to reports, and given the current electricity crisis in South Africa, intends producing electricity from coal for export. Efforts are underway to open coal mines and build power stations, such as the Mmamabula Energy Project, a coal-fired power station, which is now expected to commence operation in 2012/13, and the expansion of the Morupule Power Station Plant, also a coal-fired project. Electricity outages affecting the region could impact negatively on Botswana's mining and manufacturing sectors. Construction activity will be boosted by such large projects as well as developments in the tourism sector and infrastructure projects.

To address water shortages, several projects will become operational, such as a pipeline, treatment works and several new dams. Upgrading of airports and major roads are also being implemented.

An emphasis on productivity growth is an integral part of the government's long-term economic growth vision. This is evident from the BoB's *Annual Report 2004*, which contains an analysis of the importance of productivity for long-term economic growth and raising the country's standard of living, as well as the theme of the *2007 Budget Speech*: "Improved Productivity – The Key to Sustainable Economic Diversification and Global Competitiveness". The establishment of the Botswana International University of Science and Technology, to open in 2009, should help boost labour productivity and relieve the skills shortage in the medium term.

Foreign direct investment inflows amounted to US$274 million in 2006, down from US$419 million in 2003, but well above the 1990-2000 annual average of US$20 million, according to Unctad.

Confidence in the country's financial system and currency was affirmed when the African Development Bank issued a pula-denominated bond of P300 million (one-year maturity) and the European Investment Bank one of P500 million (five-year maturity) at the end of 2005.

The high HIV/Aids infection rate of about 24% is a constraint on the country's future economic development. Life expectancy at birth was only 34.4 years in 2006. Although GNI per capita is one of the highest in sub-Saharan Africa, income inequality is also high at 60.5 (which is higher than South Africa's 57.8). However, unemployment declined from 21.5% in 1996 to 17.6% in 2006, according to the 2005/06 Labour Force Survey.

The large government sector, the second largest after mining, needs to be trimmed to allow greater participation of the private sector, particularly small- and medium-sized companies. The Privatisation Master Plan, despite the unsuccessful Air Botswana's sale recently, should speed up the process of placing public enterprises in private hands.

Overall macroeconomic management is expected to remain prudent, with coordination of monetary and fiscal policies continuing to play a pivotal role in ensuring stability and limiting the risk of fiscal slippages. Diversifying the economy remains crucial as it will help to shield it from external shocks. Sound economic fundamentals and the absence of restrictions on capital flows make Botswana one of the most attractive investment destinations in Africa. Neither the political transition this year nor the elections next year are expected to destabilise the country, as political stability has become entrenched.

## Summary indicators

| | 2003 | 2004f | 2005 | 2006p | 2007p | 2008p |
|---|---|---|---|---|---|---|
| **External sector (US$ million)** | | | | | | |
| Exports | 3 035 | 3 734 | 4 559 | 4 707 | 4 919 | 5 265 |
| Imports | 2 135 | 2 893 | 2 791 | 3 515 | 3 852 | 4 196 |
| Trade balance | 900 | 840 | 1 769 | 1 192 | 1 067 | 1 069 |
| Services | -9 | -44 | -8 | -80 | -121 | -163 |
| Income | -718 | -1 037 | -724 | -644 | -584 | -587 |
| Transfers | 291 | 532 | 529 | 691 | 658 | 676 |
| Current account balance | 464 | 291 | 1 565 | 1 159 | 1 020 | 995 |
| | | | | | | |
| **Central government operations (Pula million)*** | | | | | | |
| Tax revenue | 12 259.4 | 14 146.4 | 16 245.4 | 20 130.0 | 25 222.3 | - |
| Non-tax revenue | 1 974.5 | 1 989.5 | 1 363.6 | 2 023.6 | 1 552.8 | - |
| Grants | 84.4 | 61.4 | 347.6 | 113.0 | 370.0 | - |
| Revenue and grants | 14 318.3 | 16 197.3 | 17 956.6 | 22 266.6 | 27 145.1 | - |
| Recurrent expenditures | 11 591.1 | 12 934.8 | 13 765.4 | 14 154.5 | 15 807.3 | - |
| Development expenditure | 4 200.2 | 4 256.4 | 3 910.1 | 3 783.5 | 4 033.1 | - |
| Net lending | -81.2 | -915.6 | -292.9 | -306.1 | -271.6 | - |
| Total expenditures | 15 710.1 | 16 275.6 | 17 382.6 | 17 631.9 | 19 568.8 | - |
| Overall balance | -1 391.8 | -78.3 | 574.0 | 4 634.8 | 7 576.3 | - |
| | | | | | | |
| **National income and prices** | | | | | | |
| Real GDP growth (%) | 6.2 | 6.3 | 3.8 | 2.6 | 5.0 | 5.2 |
| Consumer prices | 9.2 | 7.0 | 8.6 | 11.6 | 7.0 | 7.0 |
| **Gross national savings (% of GDP)** | 44.8 | 45.6 | 45.4 | 44.2 | - | - |
| **Gross domestic investment (% of GDP)** | 41.3 | 38.7 | 31.3 | 29.9 | - | - |
| **Reserves (year-end)** | | | | | | |
| Gross official reserves (US$ million) | 5 338.7 | 5 665.3 | 6 275.7 | 7 206.7 | 7 959.8 | 8 705.4 |
| Months of imports | 23.0 | 18.4 | 20.8 | 19.5 | 19.8 | 19.9 |

**fiscal year: April to March; - = not available*

*Sources: IMF World Economic Outlook & CR 07/227; Bank of Botswana.*

# Selected socio-economic information

## General facts

**People:**
Population: 1.8 million (2006)
Population growth rate: -0.4% (2006)
Life expectancy at birth: 35 years (2005)
**Government:**
Form of state: Republic
Capital: Gaborone
Chief of state: President Festus Mogae
Elections: President is elected by the National Assembly after each parliamentary election
Election last held: 30 October 2004;
Next election: 2009
**Geography:**
Natural resources: Diamonds, copper-nickel, soda ash, salt, coal, gold
Agricultural land: 45.8% of land area
**Health**
Prevalence of HIV (ages 15-49): 24.1% of population (2005)
*Sources: EISA, UNAIDS, CSO, World Bank, EIU, Global Insight.*

## Restrictions on capital flows

- Foreign exchange controls were abolished in 1999.
- Profits, dividends and capital can be freely repatriated.
- SACU - common external tariff; no duties within SACU.

*Source: BEDIA, Global Insight*

## Taxation

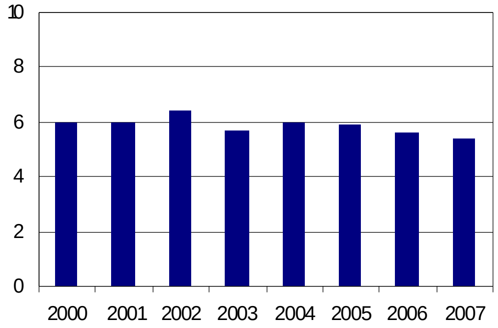
- Tax administered by the Botswana Unified Revenue Service.
- Companies tax: 5% Basic (B) & 10% Additional (A) for manufacturing concerns; for other: 15% (B) & 10% (A).
- IFSC company tax: 25% or 45% (B).
- Capital gains tax: 15% (B) & 10% (A).
- Value added tax: 10%; some supplies exempt/zero rated.
- Personal: top rate 25% for taxable income over P120 000.

*Sources: KPMG, BEDIA, IFSC, Global Insight*

## Sovereign credit rating

**Standard & Poor's (2006):**
**Local currency:**
Long-term: A+ and outlook: stable
Short-term: A-1
**Foreign currency:**
Long-term: A and outlook: stable
Short-term: A-1
*Long-term definition: "A" indicates a strong capacity to meet financial commitments. "+" indicates upper end of category.*
*Short-term definition: "A-1" indicates strong capacity to meet financial commitments and is the highest short-term rating category offered by S&P.*
*Outlook definition: "Stable" indicates that the rating is unlikely to change over the next two to three years.*
**Moody's Investor Service (2006):**
Foreign currency bonds and notes: Aa3 (long term) – raised in May 2006; P-1 (short term)
Foreign currency bank deposits: A2 (long term); P-1 (short term)
Government debt**:** Foreign currency A2/P-1; domestic currency A1/P-1
*Long-term definition: "A" indicates good credit quality and "1" indicates top-end and "2" mid-range within category.*
*Short-term definition: "P-1" indicates superior credit quality and a very strong capacity for timely payment.*
*Outlook definition: "Stable" indicates that the rating is unlikely to change over medium-term.*

## Corruption perceptions index (2007)




**Score: 5.4**
(where 10 is "highly clean" and 0 is "highly corrupt").
**Rank: 38**
180 countries surveyed, 1 = least corrupt, 180 = most corrupt.
The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys.

*Source: Transparency International 2007*

## Human Development Index

HDI Ranking 2006
**124 out of 177 countries**
(1=most developed, 177= least developed)

| | |
|---|---|
| **Iceland** | **1** |
| Seychelles | 50 |
| Mauritius | 65 |
| Egypt | 112 |
| South Africa | 121 |
| **Botswana** | **124** |
| Namibia | 125 |
| Ghana | 135 |
| Lesotho | 138 |
| Swaziland | 141 |
| Madagascar | 143 |
| Cameroon | 144 |
| Kenya | 148 |
| Zimbabwe | 151 |
| Uganda | 154 |
| Nigeria | 158 |
| Tanzania (United Republic of) | 159 |
| Angola | 162 |
| Malawi | 164 |
| Zambia | 165 |
| Ivory Coast | 166 |
| Congo (Democratic Republic of the) | 168 |
| Mozambique | 172 |
| **Sierra Leone** | **177** |

The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.

*Source: UNDP Human Development Report 2007/8*

# Group Economics

Goolam Ballim – Group Economist
+27-11-636-2910 goolam.ballim@standardbank.co.za

**South Africa**

Johan Botha
+27-11-636-2463
Johan.botha2@standardbank.co.za

Shireen Darmalingam
+27-11-636-2905
Shireen.darmalingam@standardbank.co.za

Sizwe Nxedlana
+27-11-631-2018
Sizwe.Nxedlana@standardbank.co.za

Jeremy Stevens
+27-11-631-7855
Jeremy.Stevens@standardbank.co.za

Danelee van Dyk
+27-11-636-6242
Danelee.vanDyk@standardbank.co.za

**Rest of Africa**

Jan Duvenage
+27-11-636-4557
Jan.duvenage@standardbank.co.za
**Botswana**
**Lesotho**
**Namibia**
**Swaziland**

Anita Last
+27-11-631-5990
Anita.last@standardbank.co.za
**Angola**
**Ghana**
**Malawi**
**Mauritius**

Yvonne Mhango
+27-11-631-2190
Yvonne.Mhango@standardbank.co.za
**Kenya**
**Mozambique**
**Uganda**
**Zambia**

Victor Munyama
+27 11-631-1279
Victor.Munyama@standardbank.co.za
**DRC**
**Nigeria**
**Tanzania**
**Zimbabwe**

Kindly email brenda.landsberg@standardbank.co.za should you wish to be included on our research distribution list.
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