

REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE AND DEVELOPMENT PLANNING
PRIVATE BAG 008
GABORONE

THE 2008 BUDGET SPEECH IN BRIEF

The new budget is designed to ensure that the economy of Botswana is on target to achieve the goals of *Vision 2016*, including a trebling of Botswana's real per capita income between 1996 and 2016.

Macro-Economic Prospects

- The international economy, which has grown rapidly for several years, appears to be slowing down slightly.
- In the domestic economy real growth was 6.2% in 2006/07 (national accounts year, July-June), with the mining sector growing at 5.2%, and non-mining at 6.8%. Growth is very close to the rate cited in the Mid-Term Review of NDP 9, conditional on implementation of reforms, including an increased share of the Development Budget and achievement of a competitive real effective exchange rate. These reforms are bearing fruit. Progress on other reforms, including breaking down administrative bottleneck still facing business, improved performance of parastatals, and scaling up of project implementation, must be accelerated.
- The stability of the real effective exchange rate of the Pula was maintained during 2007, contributing to the ongoing rapid growth of non-diamond exports. Foreign exchange reserves grew by about US\$2.3 billion, and provide cover for 28 months of goods and services imports.
- Inflation averaged 7.1% during 2007, compared with an average of 11.6% in 2006.

Developments in Specific Sectors

Privatisation

- Administration of the Government Employees Motor Vehicle and Residential Property Advance Scheme will be outsourced to the private sector, preferably to a citizen owned company. Government Loans Insurance Fund, will continue to be outsourced.
- An “Investment Trust Fund” has been created in the form of an incorporated company to warehouse shares and other assets from privatised entities. Government’s indefinite period shares in the Botswana Building Society have been transferred to the company, known as Privatisation Assets Holdings (Pty) Limited, which is wholly owned by Government.
- A strategy to privatise NDB is being developed, while IFC has been engaged as a transaction advisor for the privatisation of BTC.

Financial Services

- The Non-Bank Financial Institutions Regulatory Authority has been established to ensure the soundness, sustainability and global competitiveness of the non-bank financial sector.

Government Bonds

- Government continues to support the development of the capital market with a regular bond issuance programme to build up and maintain a presence across the yield curve from six months to twelve years. The 5-year Government bond maturing in March 2008 will be replaced by a mix of maturities across the yield curve. (Bank of Botswana to publish details shortly.)

International Trade

- Negotiations on an Economic Partnership Agreement to replace the now expired Cotonou Agreement extended for another year, during which there will be no duties or quota for Botswana’s beef exports to the EU.

- SADC-Free Trade Area, to be launched in August 2008, will allow free movement of goods and services produced within the region. It will provide a larger SADC market to local producers, but they will face greater competition from the rest of SADC.
- Botswana assumed the rotating Chairmanship of SACU in July 2007, as SACU Member Countries move towards the full implementation of the 2002 SACU Agreement, including more democratised SACU decision-making institutions, as well as the adoption of common policies and strategies.

Agriculture

- Agricultural remains the mainstay of the majority of rural households. Government investments in the sector aim to improve its productivity and enhance rural incomes. Four NAMPAAD production and training farms will be fully operational during 2008/2009. The next phase will be to consolidate the activities of these projects, to provide more varied demonstrations and training to farmers.
- The severe drought in 2006/07 resulted in a 51% reduction of the total area planted, and yields were seriously affected. The substantial deficit for domestic consumption was met by imports.
- Government's drought recovery measures, including human relief programmes, and livestock feed and seed subsidies, will cost P324 million. Despite the drought condition, the food security situation remained stable, and child malnutrition of the *under fives* declined from 5.2 percent in 2006 to 4.1 percent in 2007.
- Government has entered into an Agreement with a foreign private investor, to carry out a feasibility study of the Chobe-Zambezi Integrated Agro-Commercial Development Project in Pandamatenga. The private investor will invest in agro-commercial activities like fisheries, poultry, field crops, vegetables and oil plants; whilst Government investment will be in infrastructure, mainly for water conveyance from the Chobe-Zambezi River system to the project site for irrigation.

Minerals

- The minerals sector is flourishing with:
 - active exploration for a wide variety of minerals;
 - Diamond Trading Company (Botswana) to be fully functional in 2008;
 - diamond cutting licenses issued to 16 companies, expected to employ 3 000 people;
 - Messina Copper and DiamonEx (Botswana) have started mining operations;
 - African Diamonds has submitted an application for a mining licence for the AK 6 diamond deposit;
 - Gold output at the Mupane mine up 14%;
 - Production of soda ash up 6% and salt up 15%.
 - BCL now able to meet its operational and project funding requirements, and repay Government part of the emergency funding.
- Botswana Metal Refinery, under construction near Francistown, will process copper and nickel ore to a finished stage using the Activox technology that proved itself at the pilot stage in Botswana. As part of Government's efforts to promote beneficiation of minerals produced in the country, a tax agreement with the company was approved by Parliament in August 2007.
- Diamond market has become more volatile in recent years: a substantial increase in production to 34.4 million carats in 2006, while production was lower by about a million carats in 2007.

Energy

- Demand for electricity in the SADC region has grown considerably faster than was forecast because high international commodity prices gave rise to increased mining activities in the SADC region. The resulting power deficit was exacerbated, in January 2008, by power generation difficulties experienced in South Africa by some of Eskom, the South African power utility's stations, which adversely affected supplies to Botswana and the region as a whole.
- Short, medium and long term power supply strategies are being implemented to ensure that Botswana has sufficient power.

- Mmamabula Energy Project is at stage where tariff negotiations are on-going between the project sponsors, CIC Energy Corporation and International Power plc, and the off-takers, being Botswana Power Corporation and Eskom.
- A new Morupule B Power Station Project, which entails the development of a 600 Megawatts gross capacity coal fired project is at tender evaluation stage, with an Engineering Procurement and Construction award of the project scheduled for March 2008.
- Government has embarked on a major programme of electrifying an additional 130 villages and the extension of electrification network in 20 villages.

Water

- The treatment works, pipeline and the distribution pump station for Ntimbale dam will all be ready in April, 2008. Works have started for additional major dams, including Dikgatlhong, Thune, Lotsane, and Mosetse. Design and construction of the North-South Carrier II Pipeline Project will start during the 2008/2009 financial year. An emergency programme to deal with water shortages in 79 villages is underway. These will facilitate full access to safe potable drinking water.

Transport

- A substantial upgrading of major roads and airports is underway.
 - Construction of major roads is ongoing including: Tsabong-Middlepits, Middlepits-Bokspits, Dutlwe-Morwamosu and Sekoma-Kokotsha roads.
 - Roads like Francistown-Ramokgwebana, Francistown-Nata and Nata-Kazungula are under design and their construction will commence during 2008/2009.
 - Dualling of the Gaborone-Tlokweng Border Post, Western Bypass-Metsimotlhabe, Tonota-Francistown and Gaborone-Boatle roads, will commence during 2008/2009.
 - Design of new road projects like Charleshill-Ncojane, Tsabong-Hukunsi and Molepolole-Lentsweletau, Boatle-Lobatse and the dualling of Mogoditshane-Gabane, will be done during 2008/2009 for construction during NDP10.
 - Several airports will be upgraded, including Sir Seretse Khama International, Kasane, Maun, and Francistown.

ICT

- Several ICT initiatives are underway to enhance Botswana's ability to compete globally in the ICT arena.
 - Construction of the Botswana Innovation Hub, which will act as a catalyst to enhance Botswana's ability to compete globally in the ICT arena, will start in 2008.
 - With the completion of the Trans-Kalahari fibre-optic project in 2008, Botswana will have a fully resilient core ICT backbone connecting to the rest of the world, that matches the best in the world.
- Transmission coverage for the Radio Botswana and Btv will extend to 95 percent by the end of the 2008/2009 financial year.

Education

- With the coming on stream of several new Senior Secondary Schools in Goodhope, Nata, Shakawe, Mogoditshane and Mmadinare the transition rate from junior to senior secondary schools and technical colleges (including brigades) will be 83 percent, by the end of NDP 9.
- Access to tertiary education is expanding dramatically, with enrolment at University of Botswana at 14 590 undergraduate and graduate students during 2007. Plans for the Botswana International University of Science and Technology are well advanced with the initial intake of students expected during the 2009/2010 financial year.
- Several private tertiary institutions have been licensed by the Tertiary Education Council, and thousands of Botswana students are receiving Government sponsorships in the licensed private institutions.

Law, Justice and Security

- There are significant allocations to the Botswana Police Service, Directorate on Corruption and Economic Crime, the newly established Directorate of Intelligence Services, Administration of Justice, the Industrial Court, and the Botswana Defence Force to

improve national security, and to protect individual and property rights in pursuit of the *Vision 2016 Pillar of A Safe And Secure Nation*.

- The AOJ has embarked on a number of reforms to improve litigation and reduce the backlog of cases, in addition to provision of physical infrastructure for the Courts.
- A backlog in the provision of Customary Court infrastructure is being eliminated to ensure that the system is easily accessible to the populace.

Budget

Table 1 (attached) contains the consolidated cash flow presentation of the budget for recent financial years, the current year, and next year. Charts showing expenditure allocations, revenue sources, and the budget balance are also attached.

2006/07 Financial Year

- The final outcome was a surplus of P7.66 billion, somewhat more than anticipated at the time of last year's Budget Speech, due to
 - significant under-spending of the Development and Recurrent budgets; and
 - additional revenue of over P600 million.

2007/08 Financial Year

- The original budget, after provision for a public sector salary increment, anticipated a surplus of P738 million. The revised estimate is for a surplus of P787 million, due to somewhat lower Recurrent expenditure and an upward revision in estimated Development expenditure, in anticipation of some improvements in the implementation capacity.
- The Development Budget amounts to 29 percent of total revised expenditure and net lending.

2008/09 Budget Estimates

- Proposed total expenditure is P30.34 billion, with the Recurrent Budget accounting for P21.84 billion, before provision for a possible public sector salary increment, and the Development Budget of P8.50 billion.
- Total revenues and grants are estimated at P29.89 billion. Mineral revenues are expected to decline by 3%, largely due to Debswana's planned substantial increase in capital expenditure. Customs and Excise revenue is expected to grow by 10.5 percent, reflecting buoyant imports and expenditure on excisable goods in the SACU region as a whole. Looking towards NDP 10, a gradual increase in the share of non-mineral revenues will be necessary.
- The cash flow budget, after allowing for net repayments of P116 million, is almost balanced, with a small deficit of P332 million. This is 0.4 percent of the forecast GDP of P83.245 billion for the 2008/09 financial year.

Public Service Salaries

- The reports of the two salaries review commissions are under active consideration, and Government's decision will be announced in the near future.
- The additional cost of meeting the salary increment and other contingencies will be constrained to ensure that the budget deficit will not exceed P2.522 billion. A deficit beyond this limit would offend our Fiscal Rule of containing the annual expenditure budget within 40 percent of GDP. It would also result in a deficit exceeding 3 percent of GDP, which is frequently cited internationally as a limit which should not be exceeded. The funds to cover any public sector salary increase would be drawn from Government's cash balances which recent years' surpluses have built up, pursuant to Government's policy of balancing the budget over the medium term, as restated in the NDP 9 Mid-Term Review.

Fiscal Legislation

- A comprehensive review of the tax regime will be undertaken in the next financial year, to further improve the investment climate and competitiveness of the economy.
- Changes will be effected on a gradual basis to ensure that improvement of the enabling environment does not lead to loss of revenue to the detriment of other Government priority programmes.

Conclusion

- Continued rapid growth is necessary to realise *Vision 2016* targets of trebling Botswana's real per capita income, and a more equitable distribution of that income. This is achievable if all stakeholders rededicate themselves to the pursuit of excellence through hard work and discipline.

Table 1: Consolidated Cash Flow Presentation of the Budget

(Pula, millions)

	Actual						2007/08 Revised	2008/09 Estimates
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Revenue and Grants	12,709	14,318	16,197	17,957	22,267	27,398	27,178	29,889
Revenue	12,650	14,234	16,136	17,609	22,154	26,949	26,854	29,484
Tax Revenue	6,043	7,473	8,362	10,072	11,980	15,919	17,170	19,364
Mineral Tax	2,456	2,716	2,378	2,509	2,895	3,803	3,504	3,138
Customs Pool	1,733	1,569	2,246	3,226	3,930	6,610	7,398	8,177
Non-Mineral Income Tax	1,248	1,839	2,079	2,082	3,003	3,072	3,553	4,962
Export Duties	0	0	0	0	0	0	1	0
Taxes on Property	16	18	12	13	13	17	18	18
Taxes on Motor Vehicles	51	55	62	105	123	138	132	176
Business & Prof'l Licences	16	18	9	17	19	22	24	24
Sales Tax/VAT	520	1,255	1,573	2,116	1,979	2,248	2,519	2,850
Airport Tax	3	2	3	3	18	9	20	18
Non Tax Revenue	6,607	6,761	7,774	7,537	10,174	11,030	9,684	10,120
Mineral Royalties and Dividends	4,540	4,787	5,785	6,173	8,150	9,312	7,386	7,420
Interest of which	189	227	208	-97	97	59	59	50
PDSF	137	179	165	-128	13	11	23	12
RSF	0	0	0	0	0	0	0	0
OTHER	52	48	43	30	84	48	36	38
Other Property Income, of which	1,170	1,064	969	433	912	617	1,000	1,412
BOB revenue	1,142	1,029	755	388	741	569	907	1,302
Fees, Charges and Sundry	601	605	733	891	958	1,009	1,191	1,197
Sale of Property	107	79	79	137	57	33	49	41
Grants	59	84	61	348	113	448	324	405
Recurrent	0	1	0	0	0	130	101	82
Development	59	84	61	348	113	319	223	323
Expenditures and Net Lending	13,671	15,710	16,276	17,113	17,632	19,737	26,391	30,220
Recurrent	9,935	11,581	12,935	13,495	14,155	15,954	18,732	21,836
Personal Emoluments	3,446	3,947	4,142	5,129	5,216	5,801	6,689	7,910
Other Charges	6,394	7,553	8,600	8,051	8,621	9,918	11,898	13,783
Public Debt Interest	94	81	193	315	318	236	145	143
FAP Grants	150	10	0	0	0	0	0	0
Development Expenditure	3,698	4,200	4,256	3,910	3,783	4,055	7,720	8,500
PDSF/RSF Loans	1	40	0	0	0	0	0	0
Repayment of Loans, of which	-113	-121	-916	-293	-306	-272	-61	-116
PDSF	-70	-76	-878	-257	-10	-9	-14	-8
RSF	-1	-1	0	0	0	0	0	0
OTHER	-42	-44	-38	-36	-296	-263	-47	-108
Overall Surplus/Deficit (-)	-962	-1,392	-78	844	4,635	7,660	787	-331*
Financing	962	1,392	78	-574	-4,635	-7,660	-787	331
External loans	60	24	62	23	1	0	279	251
Internal Loans	0	461	1,955	0	0	0	900	0
less Amortisations (external)	-225	-231	-174	-167	-177	-196	-214	-180
less Amortisations (internal)	0	0	0	0	-750	0	-850	0
IMF Transactions	-18	-43	0	0	0	-49	-78	-28
Pension Liability Service Fund	-1,835	-5,329	-3,704	-1,592	-1,137	0	0	0
Other Financing	244	-1,223	-2,013	-494	780	-333	-10	-10
Change in Cash Balances	2,736	7,733	3,952	1,656	-3,350	-7,082	-814	299

* before any provision for a possible public sector salary increment

Chart 1: Expenditure by Function

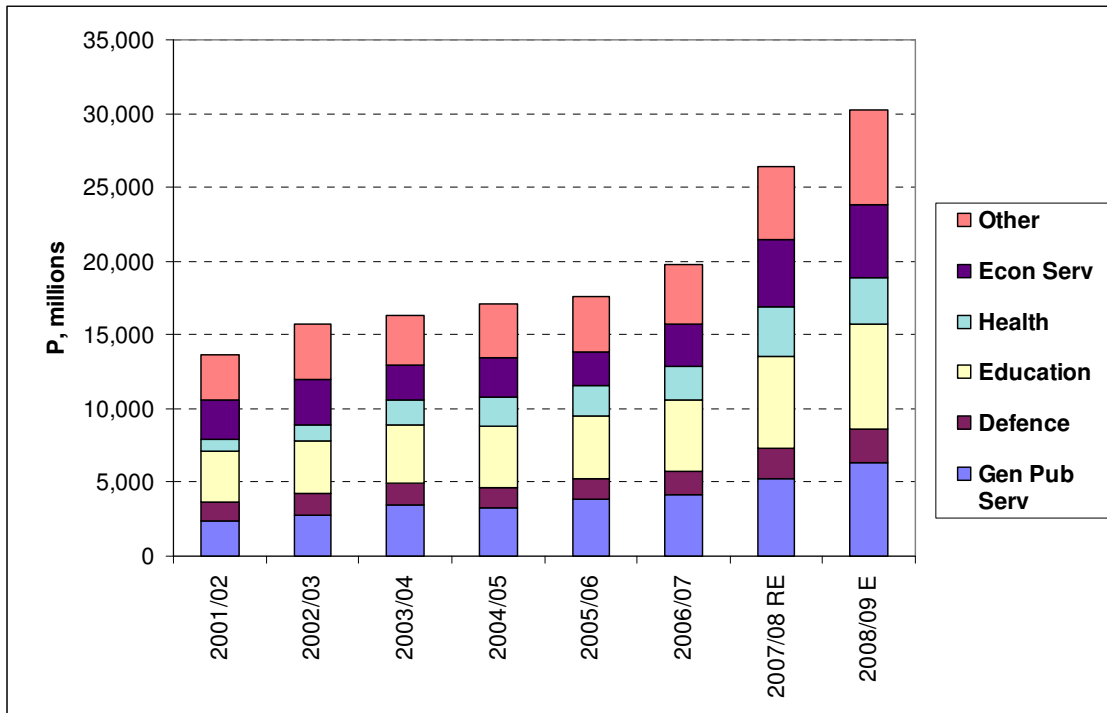


Chart 2: Development and Recurrent Expenditure

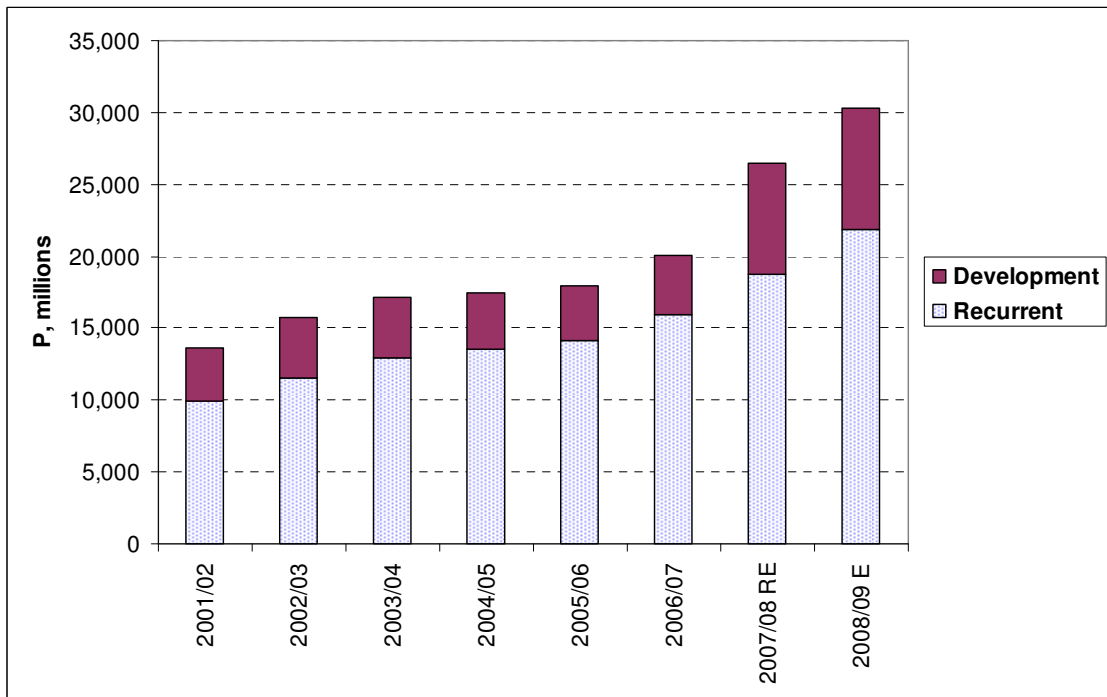


Chart 3: Shares Recurrent Expenditure by Ministry

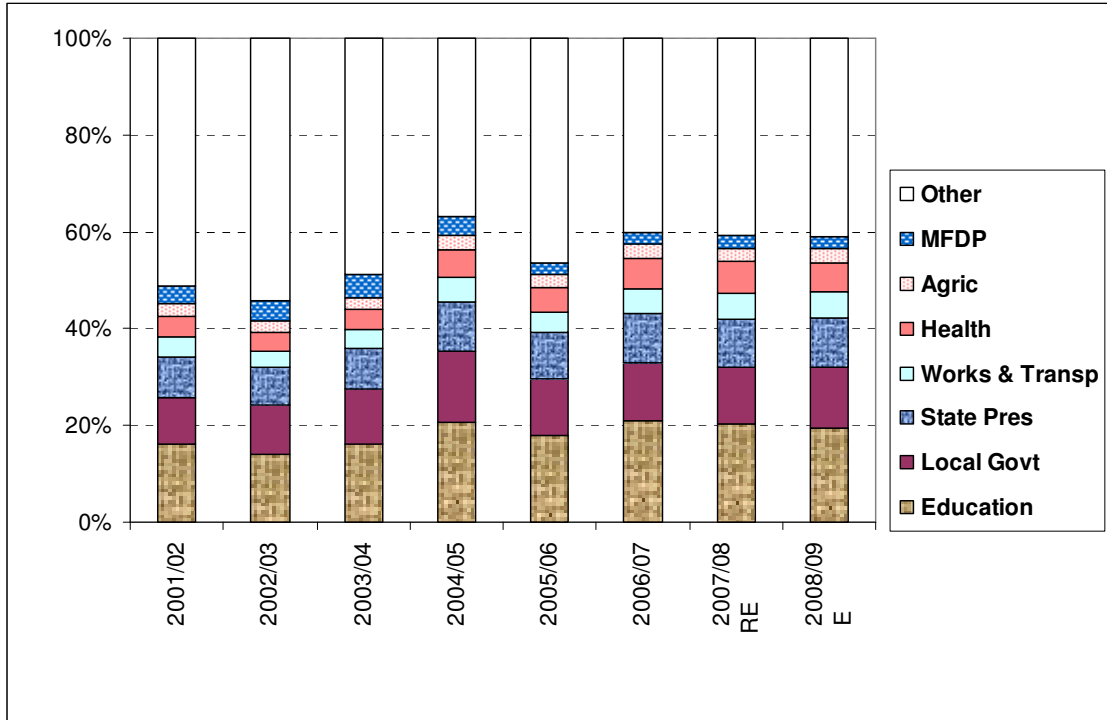


Chart 4: Shares Development Budget by Ministry

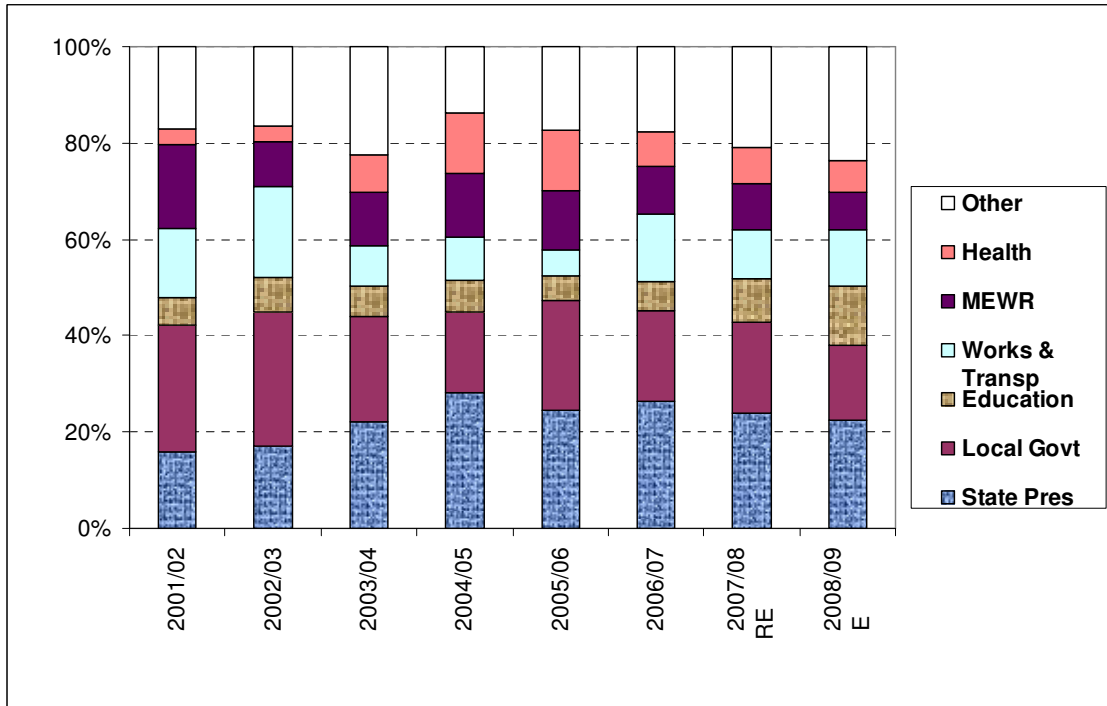


Chart 5: Principal Revenue Sources

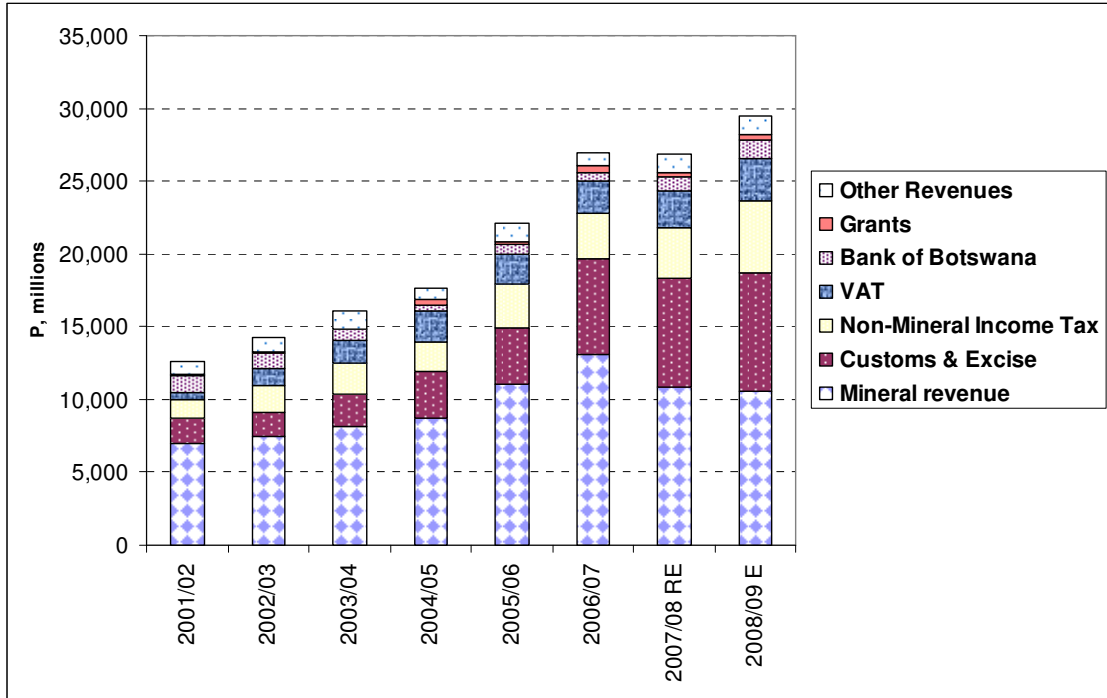


Chart 6: Budget Balance

