



Summary

Botswana's economy is recovering from the global crisis that especially hit its export sector. In 2011, the economy is expected to grow by 6%, from 7.2% in 2010. In addition, the current account deficit will shrink to 0.1% of GDP in 2011 (from 2.4% of GDP in 2010), signalling an increase in external demand for Botswana's diamond exports. However, despite this positive outlook, we fear that the government will not be able to curtail its spending. During the global crisis, the government implemented a number of stimulus measures that may prove hard to reverse. In addition, large wage demands by public sector workers could further constrain the government's efforts to bring the budget balance back in the black. Instead, we expect a deficit of 6.5% of GDP in 2011 (from 10.1% of GDP in 2010).

Things to watch:

- Large budget deficit
- Striking civil servants, demanding a 16% wage increase

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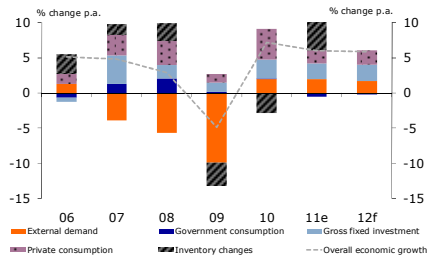
Botswana			
National facts		Social and governance indicators	
Type of government	Unitary republic	Human Development Index (rank)	rank / total 98 / 169
Capital	Gaborone	Ease of doing business (rank)	52 / 183
Surface area (thousand sq km)	582	Economic freedom index (rank)	40 / 179
Population (millions)	2.0	Corruption perceptions index (rank)	33 / 178
Main languages	Setswana (78%) English (official; 2%)	Press freedom index (rank)	62 / 178
Main religions	Christian (72%) other (7%) none (21%)	Gini index (income distribution)	61
Head of State (president)	Ian Khama	Population below \$1.25 per day (PPP)	31%
Head of Government	Ian Khama	Foreign trade	
Monetary unit	Pula (BWP)	2009	
Economy		2010	
Economic size		Main export partners (%)	
Nominal GDP	bn USD % world total 14 0.02	UK	53 SACU 76
Nominal GDP at PPP	28 0.04	SACU	15 UK 3
Export value of goods and services	5 0.03	Zimbabwe	10 Zimbabwe 6
IMF quatum (in mln SDR)	63 0.03	US	4 US 1
Economic structure		Main import products (%)	
Real GDP growth	2010 5-year av. 7.2 1.9	Diamonds	63
Agriculture (% of GDP)	2 2	Copper & nickel	15
Industry (% of GDP)	42 48	Meat & meat products	3
Services (% of GDP)	51 45	Soda ash	1
Standards of living		Main import products (%)	
Nominal GDP per head	USD % world av. 7156 73	Machinery & electrical goods	17
Nominal GDP per head at PPP	14003 119	Fuels	14
Real GDP per head	5994 75	Vehicles & transport equipment	13
		Openness of the economy	
		Export value of G&S (% of GDP)	34
		Import value of G&S (% of GDP)	42
		Inward FDI (% of GDP)	2.1

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

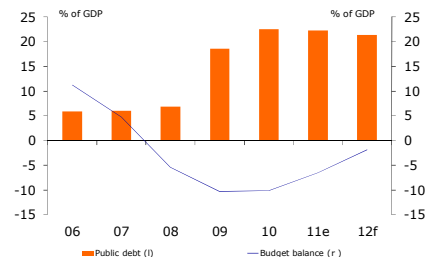
Botswana’s economy was severely hit by the global crisis, as country depends heavily on the export of diamonds and other minerals. Reduced demand in European export markets caused exports to drop and, consequently, real GDP contracted by 4.9% in 2009. In 2010, the economy started to recover on the back of recovering global demand. For 2011, we expect GDP growth to decelerate to 6%, from 7.2% in 2010. Aside from the increase in external demand, a new diamond mine, as well as increased investments in energy will all contribute to growth this year. Despite the impact of the global crisis on the export sector, Botswana’s financial sector has few links to the global economy and was largely shielded from the global turmoil.

Chart 1: GDP growth



Source: EIU

Chart 2: Public finances



Source: EIU

Political and social situation

Botswana is politically and socially stable and is not embroiled in any international conflicts. Compared to other Sub-Saharan African countries, Botswana scores relatively well on most social indicators.

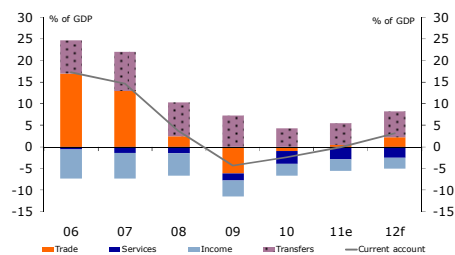
Economic policy

During the crisis, the government implemented a series of fiscal measures to help spur economic growth. As a result, the budget balance deteriorated to a deficit of 10.3% of GDP in 2009, from a surplus of 4.8% of GDP in 2007. With the economic recovery well underway, the government should return to a sustainable level of expenditures. Unfortunately, the government’s ability to enforce the necessary budget cuts will be constrained by high wage demands of public sector workers. Public workers are currently on strike and are demanding a wage increase of 16%. With an average inflation of over 7% (2010), their demands seem reasonable. In all likelihood, the government will be forced to accept a wage increase of around 10%. Consequently, we expect the budget balance to remain in deficit. Nonetheless, the expected deficit of 6.5% of GDP in 2011 is still an improvement from the 10.1% of GDP recorded in 2010. Public debt stands at a sustainable 23% of GDP. Despite high international commodity prices, we expect inflation to remain in the single digits. For 2011, we expect a slight increase to 7.5%, from 7% in 2010. Nonetheless, actual inflation will also depend on the government’s ability to curtail spending. The exchange rate of the pula is fixed against a basket of currencies, through a crawling peg. For 2011, we expect a slight downward trend.

Balance of Payments

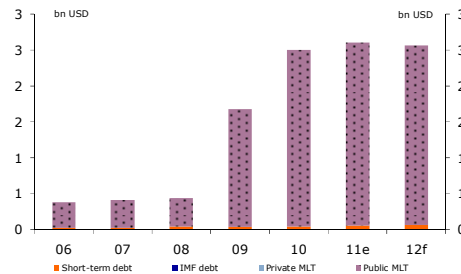
For two consecutive years, Botswana reported a deficit on the current account balance, which fell to -4.3% of GDP in 2009, from a surplus of 14.6% of GDP in 2007. As mentioned above, the deficit was the result of reduced global demand for Botswana’s natural resources. Moreover, Botswana generally reports a deficit on the services and income balances. In 2010, only the transfer balance reported a small surplus, reflecting the inflow of foreign aid and remittances. Together these deficits resulted in a current account deficit of 4.3% of GDP in 2010, up from 2.4% of GDP in 2009. For 2011, we expect the deficit to fall to 0.1% of GDP on the back of increased global demand, combined with an increase in output of the mining sector.

Chart 3: Current account balance



Source: EIU

Chart 4: External debt



Source: EcoWin

External position

Botswana received debt relief under the Highly Indebted Poor Countries Initiative and, as a result, debt is low at 18% of GDP. However, before the crisis, external debt stood at a far lower 3% of GDP (2007). Although the rapid increase is worrisome, we are comforted by the increase in FX-

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reserves and the fact that, as the economy is recovering, external debt levels as a percentage of GDP are expected to decrease.

Botswana							
Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	5.1	4.8	2.9	-4.9	7.2	6.0	5.9
Consumer prices (average % change pa)	11.5	7.1	12.6	8.1	7.0	7.5	6.3
Current account balance (% of GDP)	17.2	14.6	3.5	-4.3	-2.4	-0.1	3.1
Total foreign exchange reserves (mln USD)	7927	9722	9045	8541	7886	8040	8240
<i>Economic growth</i>							
GDP (% real change pa)	5.1	4.8	2.9	-4.9	7.2	6.0	5.9
Gross fixed investment (% real change pa)	-2.8	18.8	7.8	4.9	9.5	7.6	8.0
Private consumption (real % change pa)	4.0	8.5	9.7	3.2	10.5	4.5	5.0
Government consumption (% real change pa)	-2.6	6.0	9.6	1.0	0.4	-2.0	-1.0
Exports of G&S (% real change pa)	2.9	10.0	-3.5	-35.9	16.8	10.0	10.0
Imports of G&S (% real change pa)	-0.2	26.3	11.0	-12.6	7.5	3.0	4.0
<i>Economic policy</i>							
Budget balance (% of GDP)	11.2	4.8	-5.4	-10.3	-10.1	-6.5	-1.9
Public debt (% of GDP)	6	6	7	19	23	22	21
Money market interest rate (%)	15.0	14.5	15.0	10.0	9.5	10.0	10.5
M2 growth (% change pa)	67	31	21	-1	11	31	27
Consumer prices (average % change pa)	11.5	7.1	12.6	8.1	7.0	7.5	6.3
Exchange rate LCU to USD (average)	5.8	6.1	6.8	7.2	6.8	6.8	7.4
<i>Balance of payments (mln USD)</i>							
Current account balance	1938	1796	468	-526	-340	-10	530
Trade balance	1903	1607	328	-754	-136	70	370
Export value of goods	4522	5052	4754	3337	4690	5390	5820
Import value of goods	2619	3445	4426	4091	4826	5320	5450
Services balance	-64	-178	-204	-198	-422	-470	-430
Income balance	-773	-738	-697	-452	-387	-430	-440
Transfer balance	871	1105	1040	878	605	820	1020
Net direct investment flows	701	444	986	251	255	470	500
Net portfolio investment flows	-525	-387	279	316	-663	-360	-400
Net debt flows	-51	11	18	1258	851	190	50
Other capital flows (negative is flight)	-379	-66	-2423	-1713	-922	-130	-480
Change in international reserves	1683	1797	-671	-415	-818	160	200
<i>External position (mln USD)</i>							
Total foreign debt	382	413	438	1681	2503	2610	2570
Short-term debt	24	22	43	40	47	60	70
Total debt service due, incl. short-term debt	92	71	88	128	199	250	290
Total foreign exchange reserves	7927	9722	9045	8541	7886	8040	8240
International investment position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	16.9	13.0	2.5	-6.2	-1.0	0.4	2.2
Current account balance (% of GDP)	17.2	14.6	3.5	-4.3	-2.4	-0.1	3.1
Inward FDI (% of GDP)	6.7	4.0	6.7	2.1	1.8	2.8	3.1
Foreign debt (% of GDP)	3	3	3	14	18	16	15
Foreign debt (% of XGSIT)	6	5	6	29	37	33	30
International investment position (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	1	1	1	2	3	3	3
Interest service ratio incl. arrears (% of XGSIT)	0	0	0	0	1	1	2
FX-reserves import cover (months)	27.5	26.1	19.6	20.0	15.6	14.5	14.5
FX-reserves debt service cover (%)	8654	13635	10337	6693	3957	3203	2880
Liquidity ratio	304	302	243	233	215	211	218

Source: EIU

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