



### Summary

Botswana, one of the world's largest diamond exporters, remains very dependent on diamond mining for its economic growth. Weaker global demand for diamonds pushed economic growth from 7% in 2010 to 5% in 2011. Growth will further slow to 4% in 2012, as the global outlook remains weak and the government has slowed down its capital spending as part of its newly adopted fiscal consolidation policy. Botswana is trying to diversify its economic base, as its diamond reserves will begin to decline sharply from 2020 onwards. However, more progress is needed to ensure long-term macroeconomic and fiscal stability of the country from 2020 onwards. Although unemployment remains persistently high, we do not expect the high unemployment level to result in public discontent and unrest.

### Things to watch:

- Dependence on demand for and prices of diamonds
- Depletion of diamond reserves
- Structural unemployment

Author: **Reinier Meijer**  
Country Risk Research  
Economic Research Department  
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands  
+31-(0)30-21-31568  
[R.Meijer@rn.rabobank.nl](mailto:R.Meijer@rn.rabobank.nl)

| Botswana                           |                        |   |                                 |
|------------------------------------|------------------------|---|---------------------------------|
| <b>National facts</b>              |                        | <b>Social and governance indicators</b> |                                 |
| Type of government                 | Unitary republic       | Human Development Index (rank)          | rank / total<br>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%)         | Press freedom index (rank)              | 62 / 178                        |
|                                    | English (official; 2%) | Gini index (income distribution)        | 61                              |
| Main religions                     | Christian (72%)        | Population below \$1.25 per day (PPP)   | n.a.                            |
|                                    | other (7%)             |   |                                 |
|                                    | none (21%)             | <b>Foreign trade</b>                    |                                 |
| Head of State (president)          | Ian Khama              | 2010                                    |                                 |
| Head of Government                 | Ian Khama              | <i>Main export partners (%)</i>         | <i>Main import partners (%)</i> |
| Monetary unit                      | Pula (BWP)             | UK 55                                   | South Africa 72                 |
|                                    |                        | South Africa 13                         | UK 9                            |
|                                    |                        | Norway 9                                | China 5                         |
|                                    |                        | Israel 5                                | Israel 2                        |
| <b>Economy</b>                     |                        | <b>2011</b>                             |                                 |
| <i>Economic size</i>               |                        | <i>bn USD</i>                           | <i>% world total</i>            |
| Nominal GDP                        | 17                     | 0.03                                    |                                 |
| Nominal GDP at PPP                 | 30                     | 0.04                                    |                                 |
| Export value of goods and services | 7                      | 0.03                                    |                                 |
| IMF quatum (in mln SDR)            | 63                     | 0.03                                    |                                 |
| <i>Economic structure</i>          |                        | <i>2011</i>                             | <i>5-year av.</i>               |
| Real GDP growth                    | 5.1                    | 3.0                                     |                                 |
| Agriculture (% of GDP)             | 2                      | 2                                       |                                 |
| Industry (% of GDP)                | 42                     | 46                                      |                                 |
| Services (% of GDP)                | 50                     | 47                                      |                                 |
| <i>Standards of living</i>         |                        | <i>USD</i>                              | <i>% world av.</i>              |
| Nominal GDP per head               | 8642                   | 80                                      |                                 |
| Nominal GDP per head at PPP        | 14886                  | 120                                     |                                 |
| Real GDP per head                  | 6220                   | 77                                      |                                 |
|                                    |                        | <i>Main export products (%)</i>         |                                 |
|                                    |                        | Diamonds                                | 69                              |
|                                    |                        | Copper & nickel                         | 13                              |
|                                    |                        | Soda ash                                | 2                               |
|                                    |                        | Meat & meat products                    | 1                               |
|                                    |                        | <i>Main import products (%)</i>         |                                 |
|                                    |                        | Machinery & electrical goods            | 18                              |
|                                    |                        | Fuels                                   | 14                              |
|                                    |                        | Food, drink & tobacco                   | 13                              |
|                                    |                        | Vehicles & transport equipment          | 10                              |
|                                    |                        | <i>Openness of the economy</i>          |                                 |
|                                    |                        | Export value of G&S (% of GDP)          | 33                              |
|                                    |                        | Import value of G&S (% of GDP)          | 40                              |
|                                    |                        | Inward FDI (% of GDP)                   | 1.8                             |

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

### Introduction and update

Botswana is one of Africa's most politically stable countries and one of the world's largest diamond exporters. The country remains very dependent on diamond mining, which accounts for roughly a third of GDP and 70% of exports. Diamond exports declined substantially in the fourth quarter of 2011 on the back of a weaker global demand (see figure 1). Exports of diamonds rebounded in February and March 2012, growing 181% month-on-month (m-o-m) and 34% m-o-m respectively.<sup>1</sup> Export receipts are expected to remain slightly lower than in 2011, as global economic growth still remains low and global diamond prices remain below 2011's peak level.

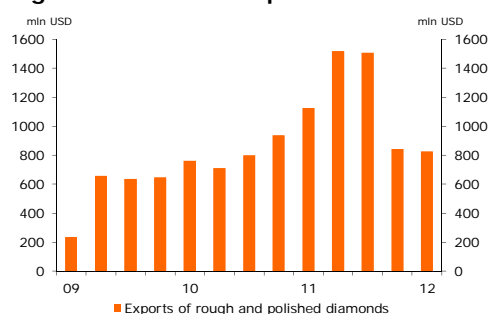
As a result of the weaker global demand for and lower prices of diamonds, Botswana's economy grew by 5% last year, compared with a 2011 forecast of 6%. Growth is expected to further slow to 4% this year, which is somewhat lower than last year's forecast of 6% for 2012. This is not only the result of the developments on the diamond markets, but also the result of the government's slowdown in capital spending as part of its new fiscal consolidation policy. This policy is focused on a balanced budget rule and a targeted decline in spending as a share of GDP and was adopted after the country recorded large budget deficits following the global financial crisis of 2008/9. Fiscal consolidation has resulted in an impressive reduction of the budget deficit, which fell from 10% of

<sup>1</sup> The strong growth in February 2012 and March 2012 is not visible in the quarterly data of figure 1 due to a decline in January 2012.

GDP in 2009 to 3% of GDP in 2011. This year, the country is expected to record a small budget surplus of 1-2% of GDP.

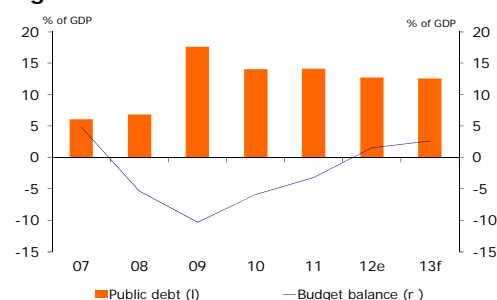
The country's external position was affected by the global financial crisis in 2008/9, but remains strong. Foreign debt stands at about 12% of GDP, while FX reserves cover over 12 months of imports.

**Figure 1: Diamond exports**



Source: Bank of Botswana

**Figure 2: Public finances**



Source: EIU

The ruling Botswana Democratic Party (BDP) is expected to continue its dominance in Botswana's politics in the medium term. Although the BDP has dominated Botswana's politics since the country's independence from the UK in 1966, the elections are considered free and fair.

Most pressing issues are the depletion of diamond reserves and the high unemployment level, which are discussed more extensively below.

### Depletion of diamond reserves

IMF forecasts show that Botswana's diamond reserves will reach a peak of 31mln carats in 2017 and will begin to decline sharply from 2020 onwards. Diamond reserves are forecast to be depleted by 2029. Over the last few years, Botswana's government received about 11,000mln pula or 40% of its revenues from minerals (mostly diamonds).

The government is anticipating the depletion by diversification within the mining sector (beyond diamonds) and towards the services sector. Within the mining sector, the government targets diversification into coal and uranium mining. Discovery and exploration activities to mine these minerals and metals are taking place, but apart from coal no production activities have yet come on line. A recent coal export trial confirmed the technical feasibility of using rail infrastructure through Zimbabwe to Mozambique to export coal. However, the link through Zimbabwe is vulnerable, given the poor political, economic and social situation in this country. Furthermore, the government aims to increase the mining of copper and nickel, which already accounts for 13% of the country's exports and is expected to increase further as new recoverable reserves have been found.

Within the services sector, the government sees potential in especially the trade and financial sectors. However, progress in these sectors is still limited, as the development of regional trade is constrained by trade logistics, communication technologies, high labor costs and skill shortages.

The government also aims to develop Botswana as a global diamond hub by attracting other diamond activities (e.g. sorting, cutting and trading) to the country. The country is on track to

attract these activities with the recent deals to move activities of De Beers from the UK to the country and the start of a Botswana-owned trading company. However, it is doubtful whether the country would be able to maintain its potential global diamond hub position from 2020 onwards. If no new diamond reserves are found, the country would have to import diamonds, or the additional diamond activities will disappear. This “diversification” therefore remains dependent on the diamond mining activities.

Despite the fact that diversification is at the top of the political agenda, the efforts of Botswana’s government have not yet led to diversification successes. Therefore, continuation of the efforts and progress in diversification is needed to ensure long-term macroeconomic and fiscal stability of the country from 2020 onwards.

### **Unemployment**

Botswana suffers a persistently high unemployment rate. Most recent official figures are from 2009/10 and place the unemployment rate at 17.8%. However, according to unofficial estimates it stands at 40-50% currently. At the end of 2010, an estimated 11,700 people of the employed labor force of 378,000 people were employed in the mining and quarrying sector, while the private sector offered employment to about 187,000. Meanwhile, the total number of employees from abroad rose steadily from 15,600 in 2008 to 18,400 in 2010. Most of them are employed in the wholesale and retail, education, manufacturing and construction sectors and come from China, India, South Africa and Zimbabwe.

On the one hand, the high unemployment figures reflect the capital intensity of the mining sector. On the other hand, they reflect a skills mismatch problem in the labor market for the non-mining sectors. According to the IMF, the mismatch is especially a problem in the information technology sector and the non-bank financial sector.

Several job creation programmes of the government are underway to address the unemployment level, most clearly by the “Ipelegeng” Labour Intensive Work Initiative. The programme is aimed at short-term employment support and relief. People that are employed under this programme do small maintenance of infrastructure (such as schools, hospitals, government buildings and streets). Although this programme has helped relieving the poverty situation of individuals, recent research from a non-government organization shows that it does not lead to skills transfer, and participants can thus not graduate from the programme to higher paying and permanent jobs. Thereby, we do not consider the programme convincing to tackle unemployment. Other programmes are aimed at reducing youth employment, but despite these efforts youth unemployment remains very high, at over 60% of the total unemployed labor force.

As the unemployment level is not expected to come down soon, it could potentially result in public discontent and unrest, which may consequently lead to higher government spending and thereby a weakening of the fiscal balance. However, at the moment, we consider the probability of this scenario to be low.

| Botswana  |       |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|
| Selection of economic indicators  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012e | 2013f |
| <i>Key country risk indicators</i>  |       |       |       |       |       |       |       |
| GDP (% real change pa)  | 4.8   | 2.9   | -4.8  | 7.0   | 5.1   | 4.2   | 4.8   |
| Consumer prices (average % change pa)   | 7.1   | 12.6  | 8.1   | 6.9   | 8.5   | 6.6   | 5.8   |
| Current account balance (% of GDP)  | 15.5  | 8.4   | -2.6  | 1.0   | 1.6   | 4.2   | 6.0   |
| Total foreign exchange reserves (mln USD)   | 9722  | 9045  | 8541  | 7721  | 7918  | 8480  | 8830  |
| <i>Economic growth</i>  |       |       |       |       |       |       |       |
| GDP (% real change pa)  | 4.8   | 2.9   | -4.8  | 7.0   | 5.1   | 4.2   | 4.8   |
| Gross fixed investment (% real change pa)   | 18.1  | 14.5  | 4.9   | 16.2  | 12.8  | 6.0   | 5.0   |
| Private consumption (real % change pa)  | 8.5   | 10.7  | 2.3   | 11.5  | 10.1  | 5.0   | 4.2   |
| Government consumption (% real change pa)   | 6.0   | 9.6   | 1.0   | 0.4   | -4.1  | -1.5  | -1.7  |
| Exports of G&S (% real change pa)   | 10.0  | -3.5  | -34.7 | 16.2  | 28.9  | 6.5   | 5.9   |
| Imports of G&S (% real change pa)   | 26.3  | 11.3  | -13.7 | 9.7   | 17.4  | 4.0   | 4.7   |
| <i>Economic policy</i>  |       |       |       |       |       |       |       |
| Budget balance (% of GDP)   | 4.8   | -5.4  | -10.3 | -5.9  | -3.2  | 1.5   | 2.6   |
| Public debt (% of GDP)  | 6     | 7     | 18    | 14    | 14    | 13    | 13    |
| Money market interest rate (%)  | 14.5  | 15.0  | 10.0  | 9.5   | 9.5   | 10.0  | 10.0  |
| M2 growth (% change pa)   | 31    | 21    | -1    | 11    | 25    | 12    | 15    |
| Consumer prices (average % change pa)   | 7.1   | 12.6  | 8.1   | 6.9   | 8.5   | 6.6   | 5.8   |
| Exchange rate LCU to USD (average)  | 6.1   | 6.8   | 7.2   | 6.8   | 6.8   | 7.2   | 7.6   |
| <i>Balance of payments (mln USD)</i>  |       |       |       |       |       |       |       |
| Current account balance   | 1918  | 1129  | -299  | 147   | 271   | 760   | 1110  |
| Trade balance   | 1705  | 437   | -763  | -217  | 183   | 20    | 230   |
| Export value of goods   | 5163  | 4800  | 3435  | 4633  | 6458  | 6290  | 6550  |
| Import value of goods   | 3458  | 4363  | 4198  | 4850  | 6275  | 6270  | 6320  |
| Services balance  | -180  | 80    | -643  | -801  | -1066 | -990  | -910  |
| Income balance  | -738  | -632  | -41   | -206  | -230  | -160  | -120  |
| Transfer balance  | 1131  | 1245  | 1147  | 1371  | 1385  | 1880  | 1910  |
| Net direct investment flows   | 545   | 437   | 1017  | 265   | 320   | 500   | 500   |
| Net portfolio investment flows  | 441   | -600  | 366   | 424   | 476   | 520   | 580   |
| Net debt flows  | 11    | 15    | 1126  | 951   | 265   | 40    | 40    |
| Other capital flows (negative is flight)  | -1118 | -1651 | -2624 | -2605 | -1135 | -1250 | -1880 |
| Change in international reserves  | 1797  | -671  | -415  | -819  | 197   | 570   | 350   |
| <i>External position (mln USD)</i>  |       |       |       |       |       |       |       |
| Total foreign debt  | 413   | 434   | 1617  | 1709  | 1968  | 1990  | 2030  |
| Short-term debt   | 22    | 43    | 229   | 357   | 468   | 470   | 480   |
| Total debt service due, incl. short-term debt                                       | 71    | 91    | 120   | 354   | 501   | 600   | 600   |
| Total foreign exchange reserves   | 9722  | 9045  | 8541  | 7721  | 7918  | 8480  | 8830  |
| 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)  | 13.8  | 3.2   | -6.7  | -1.5  | 1.1   | 0.1   | 1.3   |
| Current account balance (% of GDP)  | 15.5  | 8.4   | -2.6  | 1.0   | 1.6   | 4.2   | 6.0   |
| Inward FDI (% of GDP)   | 4.0   | 3.9   | 8.4   | 1.8   | 1.7   | 2.9   | 2.9   |
| Foreign debt (% of GDP)   | 3     | 3     | 14    | 12    | 11    | 11    | 11    |
| Foreign debt (% of XGSIT)   | 5     | 6     | 31    | 26    | 23    | 22    | 22    |
| 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     | 2     | 5     | 6     | 7     | 6     |
| Interest service ratio incl. arrears (% of XGSIT)                                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     |
| FX-reserves import cover (months)   | 26.0  | 21.1  | 19.9  | 15.6  | 12.4  | 13.3  | 13.7  |
| FX-reserves debt service cover (%)  | 13635 | 9907  | 7141  | 2182  | 1581  | 1408  | 1460  |
| Liquidity ratio   | 301   | 269   | 254   | 223   | 197   | 207   | 215   |

Source: EIU

**Disclaimer**

This document is issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. incorporated in the Netherlands, trading as Rabobank Nederland, and regulated by the FSA. The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy or completeness. It is for information purposes only and should not be construed as an offer for sale or subscription of, or solicitation of an offer to buy or subscribe for any securities or derivatives. The information contained herein is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient. All opinions expressed herein are subject to change without notice. Neither Rabobank Nederland, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith, and their directors, officers and/or employees may have had a long or short position and may have traded or acted as principal in the securities described within this report, or related securities. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities are described in this report, or any related investment. This document is for distribution in or from the Netherlands and the United Kingdom, and is directed only at authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 or to persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons categorised as a "market counterparty or intermediate customer" in accordance with COBS 3.2.5. The document is not intended to be distributed, or passed on, directly or indirectly, to those who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons. The distribution of this document in other jurisdictions may be restricted by law and recipients into whose possession this document comes from should inform themselves about, and observe any such restrictions. Neither this document nor any copy of it may be taken or transmitted, or distributed directly or indirectly into the United States, Canada, and Japan or to any US-person. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Rabobank Nederland. By accepting this document you agree to be bound by the foregoing restrictions.