



BIDPA

Briefing

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Introduction

During the past three decades, impressive economic performance in Botswana was mainly due to the success of the export sector, which is dominated by diamonds. Despite the dominance of diamonds, Botswana has exported other products, such as copper/nickel, beef and beef products, soda ash and manufactured products. However, the challenge is to increase the shares of these products in total exports in order to reduce the dominance of diamonds. In this BIDPA Briefing issue we discuss the trends in Botswana's exports for the period 1997 to 2001 using the latest available data disaggregated at the 4 digit level of the Harmonised System (HS4).

Also discussed in this Briefing are the high credit ratings that have been awarded Botswana between 2001 and 2004. In previous issues of the BIDPA Briefing, the discussion on the credit ratings awarded Botswana by the ratings agencies focused on describing them and the advantages they provided in attracting investment into the economy, as well as how the economy in general could benefit from such positive ratings. In this issue, greater focus is given to the factors that are considered in the rating process, how the factors may change and the implications such changes may have for the sustainability of the high ratings that Botswana has achieved. The Briefing highlights critical issues that policy makers and implementers need to address to maintain such favourable ratings into the future.

Export Trends

Minerals, diamonds in particular, constitute the largest share of Botswana's exports. The share of diamond exports in total exports was 74% in 1997, 69% in 1998, 79% in 1999, 82% in 2000 and 85% in 2001. Despite the dominance of diamonds, Botswana exports other products, including, *inter alia*, copper/nickel, beef, soda ash and manufactured products.

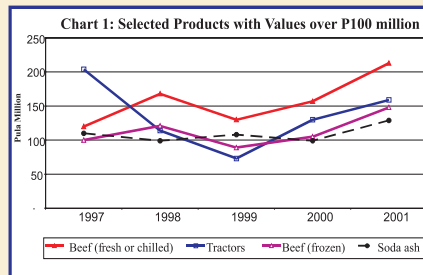
Export Trends of Products with 2001 Values over P100 Million

Products in this category include diamonds, copper/nickel, beef, tractors and soda ash. Diamond exports stood at P8 billion and P6 billion in 1997 and 1998, respectively. The

fall in exports in 1998 was due to weak global demand for diamonds. Exports increased to P10 billion in 1999 and P11 billion in 2000 due to increased world demand for diamonds, especially in the USA, which is the major market for jewellery. In 2001, diamond exports fell slightly due to weak global demand.

Copper/nickel matte exports increased steadily from P315 million in 1997 to P557 million in 1999 and further to P832 million in 2000, before declining to P596 million in 2001. The 2000 increase was due to improved copper prices. In 2001, prices for copper and nickel dropped, in dollar terms, by an average of 13 and 31 per cent, respectively. Exports of copper/nickel matte fell sharply as a result. Trends in other major exports are as shown in Chart 1.

Chart 1 shows that chilled beef exports increased between 1997 and 1998, but declined in 1999 due to drought conditions. Exports of chilled beef increased slightly in 2000 and more markedly in 2001. The 2001 increase was due to high demand in Europe following an outbreak of foot and mouth disease in Britain and an increased supply of cattle to the Botswana Meat Commission. Exports of frozen beef followed a similar trend.

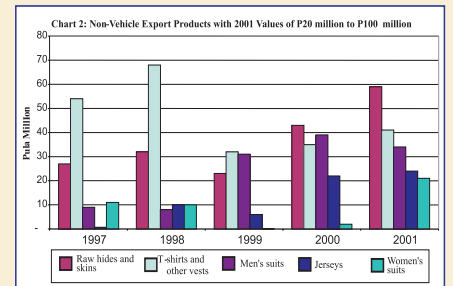


Exports of tractors fell in 1998 and 1999, but managed to rise in 2000 and 2001. The 2000 and 2001 increases were consistent with the increased market share in the South African market, which went from 18% in 2000 to 20% in 2001. Exports of tractors increased over the period despite that average world demand declined by 5% per annum between 1998 and 2002.

Exports of soda ash fell in 1998, recovered in 1999, fell again in 2000 and increased in 2001. The 2001 increase was due to increased demand in South Africa, which is the major market for soda ash.

Export Trends of Products with 2001 Values Ranging from P20 to P100 Million

Products with 2001 export values ranging from P20 million to P100 million included motor vehicles, raw hides and skins, t-shirts, men's suits, jerseys and women's suits.



men's suits, jerseys and women's suits.

Exports of motor vehicles fell from P700 million in 1997 to P600 million in 1998 and further to P400 million in 1999. Vehicle exports fell by 78% in 2000. This was followed by a 23% decline in 2001. The sharp fall in 2000 was due to the closure of the Motor Company of Botswana in 2000, which assembled Hyundai cars. Chart 2 shows non-vehicle exports in this category.

Exports of raw hides and skins increased in 1998 and fell in 1999. The 1999 fall in exports could be attributed to, in part, a reduced supply of livestock to BMC due to drought conditions. Exports of raw hides and skins rose in 2000 and 2001.

With regard to t-shirts, exports increased in 1998 and fell in 1999. While exports increased in 2000 and 2001, they still fell short of the 1998 levels. Between 1998 and 2002, world demand for t-shirts grew by an average of 7% per annum. The 2000 and 2001 increase in exports reflected some response (though limited) to increased world demand and to improved market access in the USA following the introduction of the Africa Growth and Opportunity Act (AGOA). In value terms, Botswana's exports to the USA market increased from \$43,000 in 2000 to \$1,977,000 in 2001.

Exports of women's and girls' suits fell between 1997 and 1999, with the 1999 fall more pronounced compared to the other years. Exports increased in 2000 and in 2001, despite a fall in market share in the USA. Exports of jerseys increased between 1997 and 1998, but fell in 1999. A sharp increase in 2000 was followed by a slight one

in 2001. The 2001 increase was matched by an increase in Botswana's share in the USA market.

Export Trends of Products with 2001 Values Ranging from P10 million to P19 million

In 2001, export products with values between P10 million and P19 million included jewellery, vaccines, packaging containers, pasta, plastic tubes and soap. Chart 3 shows export trends of these products from 1997 to 2001.

Exports of jewellery increased between 1997 and 1998, but fell between 1999 and 2001. In terms of market share, performance was mixed. Botswana increased its share in the South African market from 1.3% in 2000 to 11% in 2001 and was the second largest source of jewellery imports to South Africa after Italy in 2001. Notwithstanding the fact that the USA was a major world market for jewellery, Botswana's share of the USA market was very small and declined from 0.05% in 2000 to 0.02% in 2002. World demand for jewellery grew by an average of 5% between 1998 and 2002. The response of Botswana's jewellery exports to increased world demand was limited as the level of exports declined in some years.

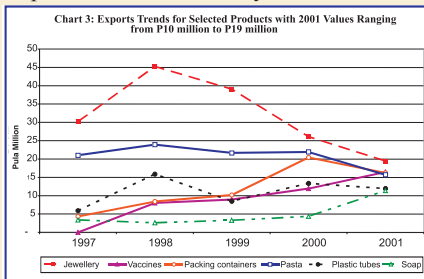


Chart 3 also shows that exports of vaccines increased steadily, especially between 1999 and 2001. The increase in vaccine exports corresponded with the average annual growth in the value of global exports antisera, vaccines, toxins, etc. which was 17% p.a. between the period 1998 to 2002.

Export Trends of Products with 2001 Values Ranging from P5 million to P10 million

Table 1 shows 8 products with export values ranging from P5 million to P10 million in 2001, suggesting that despite the dominance of minerals, beef and textile exports, some diversification of exports, albeit limited, has been achieved.

Table 1: Selected Products with Export Values 2001 Ranging From P5 million to P10 million

Description	1997	1998	1999	2000	2001
Articles of iron or steel	5.45	3.6	4.78	2.21	9.74
Television receivers	5.06	10.86	24.33	27.21	7.68
Men's suits	0.34	6.33	7.17	19.33	7.39
Men's shirts	0.85	3.59	6.11	2.05	7.38
Prepared or preserved meat	5.32	7.55	10.82	4.74	6.26
Bars and rods	12.45	17.11	21.45	27.33	6.18
Pencils	3.15	3.15	5.18	6.23	5.42
Paints and varnishes	0.16	0.99	2.46	3.56	5.28

Exports of television receivers increased between 1998 and 2000, but fell sharply in 2001 as Botswana's share of such exports to the South African market fell from 7% in 2000 to 2% in 2001.

Exports of men's suits increased between 1997 and 2000, but dropped sharply in 2001, despite the fact that average annual growth in world demand from 1998 to 2002 was 5%.

Products with 2001 Values Ranging from P2 Million to P4.9 Million

Table 2 shows export trends of products with values ranging between P2 million and P4.9 million.

Exports of blankets increased between 1997 and 1998, but fell sharply in 2001. The fall in exports of blankets corresponded with a sharp fall in Botswana's share in the South African market, from 74% in 2000 to 30% in 2001.

Table 2: Selected Products with Export Values from P2.5 million to P4.9 million

Description	1997	1998	1999	2000	2001
Blankets	41.95	48.93	36.92	26.27	4.99
Structures of iron	3.08	13.98	13.21	5.06	3.88
Women's suits	16.03	19.94	25.63	20.21	3.78
Gold	1.36	0.59	0.30	2.98	3.62
Paper and paperboard (uncoated)	3.16	4.13	3.68	3.96	3.35
Paper and paperboard (coated)	1.96	1.70	1.78	2.68	3.28
Waste and scrap paper	1.69	1.73	2.19	1.98	3.09
Hosiery	0.28	0.37	0.36	0.72	2.56

Waste and scrap paper exports increased over the period, except for a slight decrease in 2000. During the period 1998 and 2002, the average annual growth in world demand for waste and scrap paper was 12%. Export trends reflected some response to increased world demand. Other products depicted moderate fluctuations, except for structures of iron or steel, which declined steadily after 1998.

Despite the dominance and increasing share of diamonds in total exports, the large number and diversity of products with values less than P100 million suggests that some diversification of exports has been achieved, though export values of other products are still relatively low. Initiatives aimed at export development and promotion should be intensified to diversify exports further and, where possible, add value to existing exports.

The response of products to increased market access and increased world demand was mixed. Export values of some products increased, while export values of some products declined and others lost their market shares. This suggests that while world demand is an important determinant of export growth, amongst other factors, competitiveness of products (price, quality, reliable supply, etc.) is equally important. The need to

improve competitiveness of products is becoming increasingly important in view of mounting global competition. Efforts aimed at enhancing competitiveness of products should be intensified and coordinated.

Botswana's Credit Ratings: 2001-2004

In four consecutive years, since 2001, Botswana has been awarded high credit ratings for both foreign currency debt and domestic currency debt. The awarded ratings, as shown in Table 3, which have remained the same since 2001, reflect superior repayment abilities for both long term and short term debt obligations. According to both Moody's Investor Services and Standard & Poor's, the ratings reflect a stable outlook for the economy over this period. Comparatively, Botswana's ratings have exceeded those of other African countries, such as South Africa, whose ratings, as given by Standard and Poor's for 2003, were *A-1* for long term domestic currency debt and *BBB* for long term foreign currency debt. The ratings given South Africa by Moody's Investor Service were *A2* for long term domestic currency debt and *Baa2* for long term foreign currency debt. Botswana's ratings were also higher than those of countries such as Tunisia, Egypt and Senegal, and some of the strongest countries in Central Europe, Latin America and Asia.

Factors considered in the determination of the high credit ratings Botswana received mainly include the sustained high GDP growth rates, high export revenues, expenditure flexibility, modest debt ratios and public sector external assets, which give the Government the capacity to absorb potential shocks. The high revenue from diamond resources, together with fiscal prudence, has enabled the country to maintain a healthy budget. Other factors that contributed to the favourable ratings include a strong and well managed mineral economy, coupled with a

Table 3: Botswana's Credit Ratings 2001-2004

Rating Agencies	2001-2004 Ratings	
	Foreign Currency Debt	Domestic Currency Debt
Standard & Poor's	A (LT) A-1 (ST)	A+
Moody's Investor Service	A2 (LT) Prime-1 (ST)	A1

Notes: LT- long term, ST-short term, Standard & Poor's ratings are only up to 2003. Countries rated in the A category, offer good financial security with low debt levels and high liquidity. BBB rating means that a country has adequate capacity to meet its financial commitments, but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments. Baa rating means that a country has medium grade obligations, neither highly protected nor poorly secured. Security appears adequate at present, but certain protective elements may be unreliable over any great length of time. A rating of Prime-1 indicates superior ability for repayment of senior short term debt obligations. Numerical modifiers 1, 2 and 3 indicate ratings of upper, middle or lower range categories, respectively.

long record of political and macroeconomic stability. Combined, all these factors reflect the country's economic strength and credit-worthiness.

It is commendable that the country has done well since independence and, thus, has achieved high ratings compared to

While there are already efforts underway to promote the growth and sustainability of GDP from the other sectors, it is quite critical

into a middle income developing country, it still remains critical for the economy to broaden its revenue sources, without imposing additional burdens and costs on businesses, workers and consumers.

Table 4: GDP for selected years (Current prices; P Million)

	1989/90		1994/95		1999/00		2002/03	
	Value	Share	Value	Share	Value	Share	Value	Share
GDP by Economic Activity		%		%		%		%
Agriculture	307	5	484	4	665	3	871	2
Mining and Quarrying	2922	45	4145	34	8389	34	12636	35
Manufacturing	319	5	616	5	1238	5	1550	4
Water and Electricity	158	2	271	2	568	2	927	3
Construction	465	7	775	6	1424	6	1976	5
Trade, Hotels & Restaurants	459	7	1178	10	2735	11	4178	11
Transport & Communications	178	3	464	4	935	4	1288	4
Banks, Insurance & Business Services	467	7	1345	11	2761	11	4097	11
General Government	801	12	1883	15	4105	16	5818	16
Social and Personal Services	235	4	535	4	994	4	1394	4
Total	6539		12262		24943		36338	

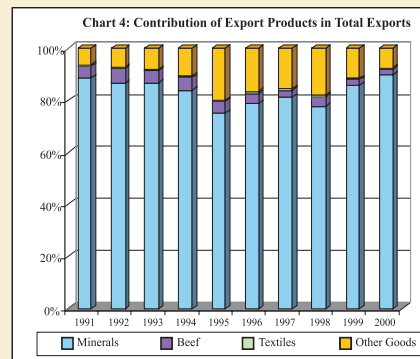
other developing countries. However, Botswana faces challenges that need to be addressed for it to sustain such positive ratings into the future, especially looking at factors that are considered in rating a particular country. Of particular concern is the fact that a closer look at the key rating factors shows that, besides prudent economic management, there is only one key reason for the exceptional performance that has earned Botswana the ratings awarded - diamond exports and the revenue they generate for Government. Countries, such as South Africa, though rated lower than Botswana, have a broader range of exports of goods and services, which contributes to varied revenue sources. Countries that have more than one sector contributing to exports, revenue and GDP growth are less vulnerable to external shocks compared to Botswana.

Sustained GDP Growth: Botswana's high rates of economic growth have mainly been a result of the high GDP growth rate emanating from the mining sector, whose share in total GDP has exceeded that of any other sector. This one sector has dominated GDP growth as indicated in Table 4.

The share in total GDP from other sectors, such as manufacturing, tourism, etc., which constitute the non-mining engines of growth of the economy, have been lower, averaging less than 10% each. The non-mining sectors of the economy have generally contributed less to GDP growth, re-emphasising the fact that the high GDP emanating from the mining sector has played a key role in Botswana achieving high credit ratings. Also, real growth of GDP from the mining sector, though still higher than that of other sectors, has been lower in the 1990's compared to the late 1970's and early 1980's, when the Jwaneng mine came on stream. Of particular concern is the fact that the real growth rate of non-mining GDP has not risen to the level needed to allow the country to achieve Vision 2016 targets.

that the contribution made by other sectors increases.

Growth of export revenues: The major source of export revenues and its growth for Botswana has been derived from the export and sale of diamonds (Chart 4). Non-mineral related Government customs revenue has been low compared to that generated from exporting diamonds. Other export commodities, such as beef and beef products,

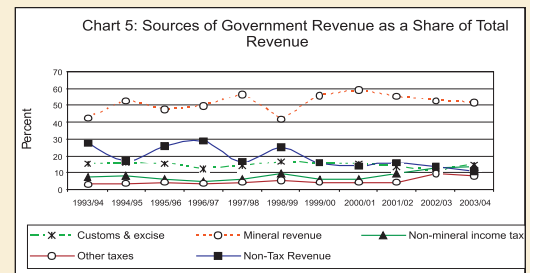


have also generated low levels of revenue. Revenue from motor vehicles, property, business and professional licenses and fees and the general sales tax has accounted for less than 10% of total revenue.

There is a need for further improving sources of Government revenue, not only to sustain the positive ratings, but also for the overall economic benefits associated with having varied export commodities contributing to revenue and growth in the economy. For example, having more enterprises producing and exporting would add not only to a more varied export mix, it would also contribute towards increasing export receipts, the formation of a strong industrial base, job creation and higher GDP growth. Having other non-traditional exports contributing towards the growth of foreign exchange revenues would reduce the potential risks and vulnerability associated with reliance on one major export. While the revenues from diamonds have been well managed and used to transform Botswana

Spending flexibility: Expenditure flexibility, which has also contributed to the high ratings, hinges to a great extent on the revenue earned from minerals. With few sources of revenue and the need to spend on various expenditure priorities, such flexibility can be easily eroded. This is particularly the case for Botswana, which currently faces the need for increased spending in fighting the HIV/AIDS pandemic through providing anti-retroviral drugs freely to the affected population. There are also other priority development projects which add to the pressure for increases in spending. This is a challenge that not only raises questions about the sustainability of the awarded ratings, but also threatens the sustainability of the fiscal budget, which has been considered reasonably sound. The budget soundness issue becomes even more pressing if the current diversification strategy, which aims to have more revenue being generated from other sectors besides mining, continues to progress at a slow pace.

All the factors that have played a major role in the high ratings that Botswana has achieved are largely the result of the performance of the mineral sector in generating revenue for the economy and the Government. The sector's export earnings have contributed to national savings that have been used in the accumulation of foreign assets. It is imperative for the country to ensure a diversified export base and to have other sources of income to avoid potential risks associated with relying on only one export commodity. Any shock that may result in poor performance of diamonds in the international market may act to reverse the positive ratings that Botswana has managed to achieve and sustain over the past four years. The other issue of major importance for Botswana, if it is to sustain the positive ratings, is the need to continue



strengthening efforts aimed at developing the non-mineral sectors of the economy. Such efforts are an essential component of the diversification process, which would not only contribute to maintaining the country's credit-worthiness, but also will contribute towards the long term growth of Botswana.

ECONOMIC FACTS AND FORECASTS

(end of period)	Quarterly										
	2002				2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Interest rates (%)											
BOBC (3 month)	12.51	12.51	12.54	14.03	13.99	13.92	13.84	12.74	12.62	12.99	
Prime	15.75	15.75	15.75	16.75	16.75	16.75	16.75	15.75	15.75	15.75	
Inflation (%)	6.1	5.9	10.1	11.2	10.7	12.2	7.4	6.4	6.9	6.7	
Rand-Pula	1.687	1.667	1.675	1.580	1.540	1.520	1.509	1.488	1.354	1.346	
US\$-Pula	0.148	0.161	0.159	0.183	1.940	0.204	0.210	0.225	0.215	0.214	
BSE index	2,634	2,533	2,480	2,497	2,283	2,223	2,346	2,499	2,641	2,844	
	Annual										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Growth (%)											
GDP (real)	<i>d</i>	5.5	5.6	8.1	4.1	6.6	8.6	2.1	6.7	2.0 <i>f</i>	2.3 <i>f</i>
Non-mineral GDP (real)	<i>d</i>	6.1	5.5	7.3	7.8	4.0	4.1	5.1	4.8	2.6 <i>f</i>	3.0 <i>f</i>
Exports (nominal)	<i>b</i>	23.1	39.7	-15.4	41.2	11.0	-1.0	8.5	-3.3	0.9 <i>f</i>	12.1 <i>f</i>
Imports (nominal)	<i>b</i>	9.6	44.0	19.3	3.4	4.4	3.6	10.9	3.3	10.2 <i>f</i>	10.2 <i>f</i>
Govt. spending (nominal)	<i>c</i>	19.2	21.6	22.4	15.0	10.6	17.4	14.6	4.4	14.4 <i>e</i>	8.3 <i>f</i>
Govt. revenues (nominal)	<i>c</i>	35.3	12.0	-7.2	55.8	18.0	-10.0	12.6	13.1	6.2 <i>e</i>	12.8 <i>f</i>
Formal employment	<i>s</i>	2.2	-4.5	6.1	6.2	2.3	1.5	3.1	2.4	1.3 <i>e</i>	1.7 <i>f</i>
Unemployment rate	<i>u</i>	20.9	20.4	19.8	17.8	15.8	19.6	20.7	22.1	23.6 <i>e</i>	23.7 <i>f</i>
Domestic (bank) credit	<i>b</i>	1.1	5.6	56.1	41.3	17.7	10.7	21.3	10.0	12.0 <i>f</i>	10.2 <i>f</i>
Interest rates (%)											
BOBC (3 month)	<i>a</i>	12.23	11.40	10.66	11.98	12.71	12.51	14.03	12.74	12.50 <i>f</i>	10.00 <i>f</i>
Prime	<i>a</i>	14.50	14.00	14.00	14.81	15.75	15.75	16.75	15.75	15.25 <i>f</i>	13.00 <i>f</i>
Inflation (average, %)		10.1	8.9	6.5	7.8	8.5	6.6	8.0	9.2	7.0 <i>f</i>	6.0 <i>f</i>
Rand-Pula	<i>a</i>	1.284	1.278	1.318	1.329	1.411	1.719	1.580	1.488	1.353 <i>f</i>	1.282 <i>f</i>
US\$-Pula	<i>a</i>	0.274	0.263	0.224	0.216	0.187	0.143	0.183	0.225	0.208 <i>f</i>	0.187 <i>f</i>
Real Effective Exchange Rate	<i>a</i>	100.0	101.1	101.8	109.0	117.3	144.3	130.5	130.3	121.5 <i>e</i>	111.7 <i>f</i>
BSE index	<i>a</i>	352	709	947	1,399	1,454	2,455	2,497	2,499	2,800 <i>f</i>	3,085 <i>f</i>
Balance of Payments (Pm)											
Exports (diamonds)	<i>b</i>	5,272	7,675	6,004	9,843	11,420	11,395	12,499	11,704	11,638 <i>e</i>	13,129 <i>f</i>
Exports (other goods)	<i>b</i>	2,100	2,620	2,704	2,449	2,230	2,124	2,172	2,420	2,667 <i>e</i>	2,912 <i>f</i>
Imports (goods, cif)	<i>b</i>	4,879	7,026	8,380	8,664	9,047	9,370	10,392	10,735	11,831 <i>e</i>	13,043 <i>f</i>
Current account balance	<i>b</i>	1,644	2,634	860	2,859	2,782	3,491	1,078	3,703	1,557 <i>e</i>	2,097 <i>f</i>
Foreign Reserves											
Pula m	<i>a</i>	19,076	21,619	26,485	28,852	33,880	41,182	29,926	23,717	25,387 <i>e</i>	28,283 <i>f</i>
US\$ m	<i>a</i>	5,234	5,675	5,941	6,229	6,317	5,897	5,474	5,339	5,286 <i>e</i>	5,300 <i>f</i>
Govt. spending (Pm)	<i>c</i>	6,092	7,406	9,065	10,427	11,536	13,549	15,528	16,207	18,544 <i>e</i>	20,075 <i>f</i>
Govt. revenue (Pm)	<i>c</i>	7,395	8,281	7,681	11,963	14,115	12,709	14,311	16,182	17,182 <i>e</i>	19,385 <i>f</i>
Budget surplus/(deficit) (Pm)	<i>c</i>	1,302	875	-1,385	1,536	2,579	-840	-1,217	-24	-1,362 <i>e</i>	-690 <i>f</i>
Govt. balances at BOB	<i>a</i>	7,204	15,364	19,212	20,199	24,740	27,880	16,548	10,530	9,911 <i>e</i>	9,968 <i>f</i>

Notes: *a* end of period; *b* calendar year; *c* financial year (starts March); *d* statistical year (starts July)
e BIDPA estimate; *f* BIDPA forecast; *p* preliminary data; *s* year to September; *u* % of labour force
 Details of assumptions underlying the forecasts can be obtained from BIDPA.

Sources: CSO, Bank of Botswana, MFDP, BIDPA

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