



BIDPA

Briefing

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Overview

This issue of the BIDPA Briefing discusses the sectoral performance of the economy during the decade to 2003/04. Mining and Government sectors posted strong growth rates. They accounted for 38 percent and 18 percent, respectively, of the total increase in value added over the period. However, there were signs of slowing down throughout the rest of the economy.

Trends in employment, productivity and unemployment are also discussed in this issue. The economy recorded an increase in formal employment with sectoral variations. With modest employment growth and more rapid labour force growth, the unemployment rate increased over the period to 2003, reaching 23.8 percent. Unemployment is concentrated amongst the youth, especially those with secondary education but no training, and amongst females.

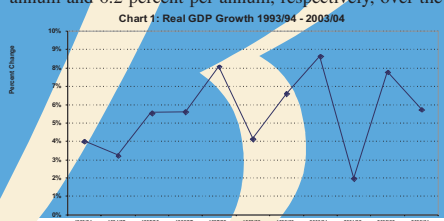
The Briefing also looks at the developments relating to inflation, interest rates and exchange rates and trade. There has been a marked reduction in inflation over the period covering September 2003 to April 2005. This has recently been followed by a modest downward adjustment of the Bank Rate. The 7.5 percent devaluation implemented in February 2004 resulted in the depreciation of the local currency against all the currencies in the basket except for the US dollar, which experienced a weak performance during the year. As this Briefing was going to press, the Government announced a 12 percent devaluation of the Pula. On the trade front, diamonds still account for the healthy performance in terms of trade balance, current account and balance of payments.

The Briefing concludes by making some economic forecasts. The forecasts have taken into account the many challenges; domestic and international, that the economy faces as well as a number of policy initiatives that are expected to be adopted and implemented, which could have major impacts on the economy over the next few years. Economic growth is expected to slow down during 2004/05 and the following 2005/06.

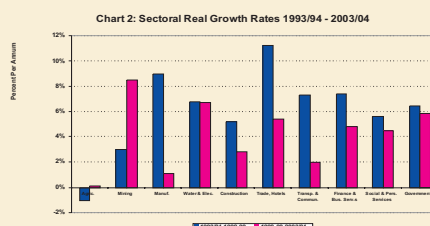
Gross Domestic Product

The preliminary National Accounts estimates for 2003/04 indicate that Gross Domestic Product in current prices reached P39.9 billion, an increase of 8.6 percent over the P36.7 billion recorded for 2002/03. GDP per capita was P22,013 in 2003/04 equivalent to about USD 4,955 at the US dollar-pula exchange rate prevailing at the end of 2003 (the mid-point of the 2003/04 national accounts year). In real terms, growth was more modest, with GDP measured in constant 1993/94 prices rising from P18.2 billion in 2002/03 to P19.2 billion in 2003/04, a real increase of 5.7 percent. Apart from a sharp dip in 2001/02, real GDP growth has been reasonably robust in Botswana, averaging 5.7 percent per annum since 1993/94.

However, much of that growth has been due to the strong performances of the Mining and Government sectors, which grew at an average rate of 5.7 percent per annum and 6.2 percent per annum, respectively, over the



decade to 2003/04. There are signs that the economy has been slowing down, with the growth of other sectors, excluding Mining and Government, decreasing from an average annual rate of growth of 6.5 percent for the period from 1993/94 to 1998/99 to just 4.6 percent for the period from 1998/99 to 2003/04. Within those two episodes, strong growth was recorded in the first period by the Manufacturing (9.0% p.a.), Water and Electricity (6.8% p.a.), Trade, Hotels and Restaurants (11.2% p.a.), Transport and Communications (7.3% p.a.) and Finance, Real Estate and Business Services (7.4% p.a.) sectors.



In the latter period, of the non-mining, non-government sectors, only the Trade, Hotels and Restaurants sector registered average annual growth above 5 percent. Especially weak performance was recorded for the Agriculture sector, which contracted at an average annual rate of 1.0 percent over the period from 1993/94 to 1998/99; and only managed growth of 0.1 percent per annum for the period from 1998/99 to 2003/04. Despite substantial government support for the Agricultural sector (public expenditure on Agriculture for the period 1993/94 to 2003/04 amounted to P4,149 million), performance has been adversely affected by recurring drought and the outbreak of pests and animal diseases, especially Contagious Bovine Pleuro-Pneumonia (CBPP), which necessitated the slaughter of over 300,000 cattle in Ngamiland in 1996. Other sectors with lacklustre performance in the latter period were Manufacturing (1.1% p.a.), Construction (2.8% p.a.) and Transport and Communications (2.0% p.a.). The Manufacturing sector was negatively affected by the closure of the Motor Company Botswana, while the slowdown in Construction was mainly due to the completion of several major Mineral sector and shopping centre projects and the tapering off of growth in the Government Development Programme. The Transport sector's weak performance can be attributed to 9/11 and the switch of Southern Africa rail traffic to the Beit Bridge route through Zimbabwe.

Over the period from 1993/94 to 2003/04, the Mining sector, which grew at the same average rate as the economy as a whole, albeit more rapidly in the second half of the period, was able to maintain its share of total value added at 38 percent. Agriculture, in contrast, saw its share of value added decline steadily over the period from 4.5 percent in 1993/94 to 2.5 percent in 2003/04. A number of other sectors with modest growth over the decade also registered decreases in their shares of value added, including Manufacturing (4.1% to 3.9%), Construction (6.8% to 5.8%), Transport and Communications (3.9% to 3.5%), and Social and Personal Services (4.5% to 4.2%). The Water and Electricity sector saw its share of total value added rise from 2.3 percent to 2.6 percent over the decade, while that of the Trade, Hotels and Restaurants sector grew from 8.5 percent to 10.8 percent over the same period. The share of the Finance, Real Estate and Business Services sector rose modestly from 11.0 percent in 1993/94 to 11.4 percent in 2003/04, while that of General Government increased from 16.4 percent to 17.1 percent over the same period.

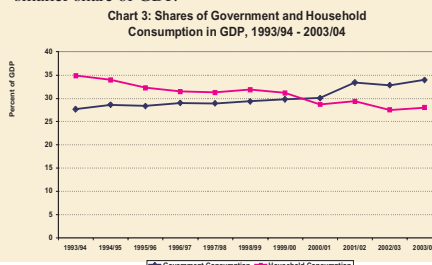
The changes in sectoral shares also reflected the contribution that individual sectors made to total GDP growth over the period, with the Mining sector's growth accounting for 38.3 percent of the total growth in value added; and the Government sector accounting for another 18.2 percent of that growth. The Trade, Hotels and Restaurants sector's performance contributed 14.0 percent of the total growth in value added; and the Finance, Real Estate and Business Services sector accounted for a further 12.1 percent. The growth in those four sectors explained nearly 83 percent of the growth in value added, dwarfing the contributions made by the other sectors over the decade.

Table 1: Sectoral Contribution to Growth in Value Added, 1993/94 - 2003/04

	Value Added 1993 Pula million	993/94 Prices 2003 Pula million	Change in Value Added Pula million	Contribution to Growth in Total Value Added
Agriculture	467.2	446.1	-21.1	-0.3%
Mining	3,956.2	6,896.8	2,940.7	38.3%
Manufacturing	430.5	699.8	269.3	3.5%
Water & Electricity	240.3	461.7	221.4	2.9%
Construction	710.1	1,054.5	344.4	4.5%
Trade, Hotels & Restaurants	882.3	1,956.5	1,074.2	14.0
Transport & Communications	406.5	639.1	232.6	3.0%
Finance & Business Services	1,144.4	2,071.4	927.0	12.1
Social and Personal Services	470.1	769.1	299.0	3.9
General Government	1,706.7	3,102.4	1,395.8	18.2%
Value Added	10,414.3	18,097.6	7,683.3	100.0%

Source: Central Statistics Office, National Accounts.

Over the period from 1993/94 to 2003/04, there has been a marked shift in the shares that government consumption and household consumption comprise of Gross Domestic Product. As shown in Chart 3, because of the relatively rapid growth of government in the economy, the share of government consumption in GDP has exhibited a steady increase, rising from 27.6 percent of GDP in 1993/94 to 34.3 percent in 2003/04. At the same time, the share of household consumption in GDP has trended downward, declining from 34.8 percent of GDP at the start of the period to 28.8 percent at the end. Over the decade to 2003/04, real government consumption expenditure (measured in 1993/94 prices) increased at an average annual rate of 7.9 percent, while real household consumption only averaged an increase of 3.4 percent per annum. However, looking forward, the tapering off of the rate of growth of government expenditure, which is necessary if government is to adhere to sustainable budgeting and remain fiscally sound, will reverse this trend and lead to government consumption becoming a smaller share of GDP.

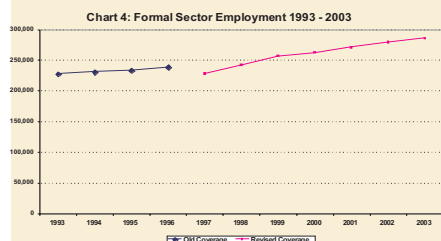


The share of Gross Fixed Capital Formation in GDP has been relatively stable over the period from 1993/94 to 2003/04, averaging 25.3 percent of GDP. Over the period from 1993/94 to 2003/04, GDP measured in 1993/94 prices increased by P8,195 million, while Gross Fixed Capital Formation (also in 1993/94 prices) over the period amounted to P37,572 million. Thus, each pula of investment in Gross Fixed Capital Formation gave rise to 0.218 pula of additional real output over the period to 2003/04. Alternatively, each additional pula of real output required 4.6 pula of additional investment in Gross Fixed Capital Formation. In economics jargon, the incremental capital-output ratio of the economy over the period from 1993/94 to 2003/04 was 4.6.

Employment, Productivity and Unemployment

Over the decade from September 1993 to September 2003, formal sector employment increased from 227,600 to 285,383, an increase of 25.4 percent. However, there was a change in statistical coverage in 1997, which reduced the sampling and non-sampling errors associated with the statistics on the small enterprises, especially in the Retail Trade and Repair Services (Community Services) sectors. As noted by the Central Statistics Office (Labour Statistics, 1999), this resulted in a noticeable decline in overall employment between 1996 and 1997, which makes comparing aggregate employment before and after that date a bit misleading. However, as shown in Chart 4, employment has been growing in both periods, with relatively modest growth up to 1996 and more rapid growth after the new statistical coverage was introduced. For the latter period, from 1998 to 2003, formal sector employment grew from 241,700 to 285,383, an average increase of 3.4 percent per annum. Over the period from 1998 to 2003, employment in the private and parastatal sectors increased from 139,700 to 174,483, an increase of 4.5 percent per annum, while employment in government, both central and local government grew from 102,000 to 110,900, an increase of 1.7 percent per annum.

With data on value added and employment by sector, it is



possible to provide some estimates of labour productivity for the period from 1998 to 2003. Improvement in labour productivity is key to Botswana's strategies for international competitiveness, economic diversification, poverty reduction and raising standards of living. Improvements in labour productivity can be brought about by increases in the capital employed per worker (e.g., automation), improvements in workers' skills and their application, improvement in management and improvements in the institutional and regulatory frameworks under which private sector enterprises operate. Table 2 presents the estimates of value added per employee, excluding Agriculture, which is complicated by the large proportion of the workforce that is not captured in the statistics on formal sector employment. A substantial increase in labour productivity was recorded in the mining sector, where employment contracted 1.5 percent over the period from 1998 to 2003, while real output expanded by 40.5 percent. As a consequence, value added per employee in the mining sector grew from P533,545 in 1998 to P865,567 in 2003, an increase of 62.2 percent. Such productivity improvements can be attributed mainly to the substantial capital investments made by Debswana in the Fully Integrated Sorting House (FISH) and the Completely Automated Recovery Plant (CARP), the adoption of Continuous Operations at the mines, and the continuing upgrading of the skills of the workers and managers.

Table 2: Labour Productivity, 1998 - 2003

	Value Added Per Worker 1998	Value Added Per Worker 2003	Change 1998/99 to 2003/04
Mining	533,545	865,567	62.2%
Manufacturing	28,756	23,198	-19.3%
Water and Electricity	123,513	163,425	32.3%
Construction	36,677	35,446	-3.4%
Trade, Hotels & Restaurants	34,687	35,388	2.0%
Transport & Communications	68,080	62,185	-8.7%
Finance & Business Services	103,560	108,880	5.1%
Social and Personal Services	158,392	132,694	-16.2%
General Government	22,876	27,975	22.3%

Source: Central Statistics Office, National Accounts, Labour Statistics.

Notable increases in value added per employee were also recorded in the Water and Electricity and General Government sectors, with productivity growth of 32.3 percent and 22.3 percent, respectively. However, for the Government sector, there is an inherent problem in estimating productivity, since value added is estimated by the cost of the inputs used in producing government goods and services, not by the market value of the outputs produced, since there typically is no market for most public goods and services. There were only modest increases in value added per employee in the Trade, Hotels and Restaurants (2.0%) and Finance, Real Estate and Business Services (5.1%) sectors. Decreases in value added per employee were registered in the Manufacturing (19.3%), Construction (3.4%), Transport and Communications (8.7%) and Social and Personal Services (16.2%) sectors. In the case of the Manufacturing sector, the drop in productivity is likely due to the closure of the Motor Company Botswana (Hyundai) plant, where relatively high levels of value added per worker were achieved.

The data on employment and output also allow estimation of sectoral employment elasticities, a measure of how much employment creation is associated with output growth (i.e., the percentage change in employment in a sector over some period divided by the percentage change in the sector's value added over the same period). Employment elasticities can be useful in identifying where initiatives can be focused to accelerate the growth of jobs and incomes: the higher the employment elasticity of a sector, the greater will be the increase in jobs created by increasing output in a sector by a given percent. Table 3 shows the percentage changes in employment and output for various sectors (excluding Agriculture and Government) over the period from 1998 to 2003, and the estimated employment elasticities they give rise to. Over the six year period from 1998 to 2003, formal sector employment in the Mining sector contracted 7.3 percent, while real sectoral output expanded 50.3 percent. Thus, each percentage change in output was associated with a 0.146 percent reduction in employment. The mining sector was shedding jobs, even as it was growing substantially.

Table 3: Sectoral Employment Elasticities 1998 - 2003

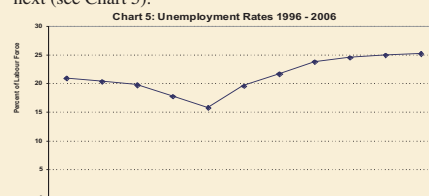
	% Change in GDP	% Change in Employment	Employment Elasticity
Mining	50.31%	-7.35%	-0.146
Manufacturing	5.81%	31.17%	5.362
Water and Electricity	38.44%	4.63%	0.120
Construction	15.00%	19.00%	1.266
Trade, Hotels & Restaurants	30.27%	27.69%	0.915
Transport & Communications	10.44%	20.91%	2.003
Finance & Business Services	26.60%	20.41%	0.767
Social and Personal Services	24.50%	48.62%	1.984

Source: Central Statistics Office, National Accounts, Labour Statistics.

In contrast, the Manufacturing sector, which recorded output growth of 5.8 percent over the period from 1998 to 2003, was increasing employment by 31.2 percent. Thus, the sector was increasing employment by almost 5.4 percent for each percentage increase in output, indicating a very high employment elasticity. Other sectors with relatively high employment elasticities included the Transport and Communications (2.0), Social and Personal Services (2.0), Construction (1.3) and Trade, Hotels and

Restaurants (0.9) sectors. The Water and Electricity sector had a relatively low employment elasticity, with each percentage increase in value added giving rise to a 0.12 percent increase in employment only. Tackling Botswana's unemployment problem could focus attention on removing the impediments to growth in those sectors with relatively high employment elasticities.

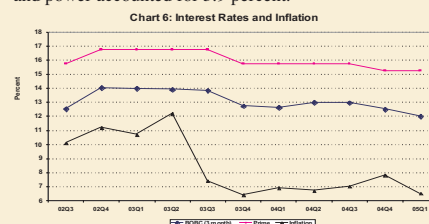
Because employment, especially formal sector employment, is not growing rapidly enough, the Botswana economy continues to be plagued by high unemployment, which is a major contributing factor to a number of social problems, including poverty, HIV/AIDS, crime and income inequality. The 2002/03 Household Income and Expenditure Survey estimated the national unemployment rate at 23.8 percent of the labour force, with especially high unemployment rates recorded for the urban villages (29.6%) and rural areas (23.1%). Unemployment was concentrated amongst the youth, and amongst those with Junior Certificate and Cambridge qualifications. The national unemployment rate for females (26.3%) was markedly higher than that for males (21.4%). With the slowdown in the economy registered in 2003/04, especially for non-mining GDP, which only grew 2.6 percent, and only modest growth of about 3 percent expected for 2004/05 and 2005/06, very little employment growth (1-2% p.a.) is projected for the next few years. With the labour force expected to continue to grow at over 2 percent per annum, unemployment is likely to worsen, rising to over 25 percent this year and next (see Chart 5).



Inflation and Interest Rates

Inflation, which had risen to over 12 percent in 2003, mainly due to the introduction of VAT, has come down to 6.5 percent in March 2005, and further to 6.2 percent in April 2005. The tight monetary policy stance adhered to by the central bank, as evidenced by the high yields on Bank of Botswana Certificates and the high prime rate of interest, along with less expansionary fiscal policy, is credited with the success achieved in moving towards the target of a low and stable rate of inflation in the range of 4-6 percent. Real rates of interest in Botswana (as reflected in the gap between the Bank of Botswana Certificate yield and the rate of inflation) have increased sharply over the past year and a half, from 1.6 percent in June 2003 to 5.2 percent in March 2005.

The increase in inflation during 2004, culminating in a rate of inflation of 8 percent in January 2005, was mainly due to the 7.5 percent devaluation in February 2004 and sharp increases in fuel and power (+12.1%) and transport prices (+14.2%), as well as substantial increases in a number of non-tradeable good prices (e.g., water and telecommunications). Of the 7.8 percent national rate of inflation recorded in the year to December 2004, increases in housing costs accounted for 16.9 percent, increases in transport accounted for 34.8 percent and increases in fuel and power accounted for 3.9 percent.

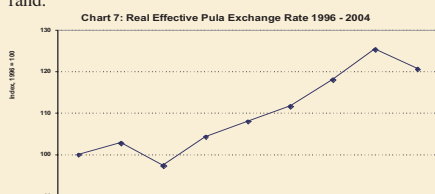


The Bank of Botswana announced a reduction in the Bank Rate on April 25th 2005 by one quarter percentage point (25 basis points) to 14 percent, reflecting the generally positive outlook it perceived for lower inflation. This expectation was based relatively benign international inflationary pressures and the lower rates of growth of commercial bank credit and government expenditure that have been recorded recently. However, the Bank of Botswana cautioned the public that it would continue to monitor financial and inflationary developments with a

view to taking whatever actions may be necessary to meet its monetary policy objective of maintaining inflation at a low and stable level.

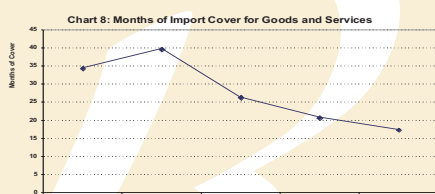
Exchange Rates and Trade

The exchange rate of the pula against the South African rand came down sharply in the early part of 2004, decreasing from R1.488 in December 2003 to R1.379 in February 2004 as a result of the 7.5 percent devaluation. But since then, the rand-pula exchange rate has exhibited more stability than it did during 2003, hovering in the range of R1.39 to R1.32 per pula. The pula depreciated by 4.3 percent against the euro and the British pound during 2004. But, against the US dollar, the pula, which appreciated sharply during 2002 and 2003 by 27.7 percent and 23.1 percent, respectively, recorded a small gain of 3.8 percent in 2004; in part because of the 7.5 devaluation in February 2004. The pula's gains against the US dollar reflected the continuing weakness of the greenback. Over the year to the end of December 2004, the US dollar depreciated by 7.8 percent against the euro and the British pound, and by 14.3 percent against the South African rand.



Despite the pula's depreciation against the South African rand, the euro and the British pound as a result of the 7.5 percent devaluation, because prices in Botswana were rising faster than those of its major trading partners, the real effective exchange rate only depreciated by 3.8 percent during 2004. Compared to a benchmark period of 1996, the real effective exchange rate had appreciated by nearly 21 percent at the end of 2004, making it very difficult for Botswana exporters to compete in foreign markets and for domestic producers to compete with imported goods and services. Given Botswana's current inflation target range of 4-6 percent, which is expected to be achieved later this year, there will not be much improvement, if any, in the ability of Botswana producers to be able to compete with foreign producers without some significant action on the exchange rate policy front (e.g., some further devaluation).

On the trade front, Botswana has continued to register a healthy balance of trade through 2004, mainly due to the growth of diamond exports, which increased 12.0 percent from P11.7 billion in 2003 to P13.1 billion in 2004. Other exports recorded a lacklustre performance, declining from P3,266 million in 2003 to P3,161 million in 2004, a decrease of 3.2 percent. Imports of goods grew sharply from P10.5 billion in 2003 to P13.3 billion in 2004, an increase of 26.6 percent. Nevertheless, the country registered a merchandise surplus of P2,939 million and an overall current account surplus of P3,985 million. While the merchandise surplus in 2004 was smaller than the P4,477 million surplus recorded in 2003, the current account surplus was larger than the P2,288 million surplus achieved in 2003. Despite capital outflows that totalled P3,609 million in 2004, Botswana's international reserves increased from P23.7 billion (USD5.3b) in 2003 to P24.2 billion (USD5.7b) in 2004. Those reserves continued to provide the country with a very healthy level of import cover, although it was clear the level was on a declining trend.



Economic Forecast

Making economic forecasts is always fraught with dangers. There are many challenges and uncertainties facing the Botswana economy. In addition to domestic challenges, such as drought, water shortages and

animal diseases, that might arise, there are a variety of international developments, such as fluctuations in exchange rates of major trading partners, economic downturns in the markets for some of Botswana major exports or potential exports and new trade agreements that could significantly alter both the opportunities and challenges Botswana producers face. Furthermore, there are a number of policy initiatives that might be adopted and implemented by the authorities which could also have major impacts on economic opportunities and activities over the next few years. Nevertheless, given the existing policy framework that has been adopted and espoused in National Development Plan 9 and other policy documents, and taking on board estimates and information provided by government and private sector sources, some rough economic projections can be put forward.

Key elements of the projections include the assumptions made regarding mineral sector developments, government spending, exchange rate policy and interest rate policy. In brief, it is assumed that:

- Mining Sector GDP in real terms only grows 1 percent per annum in 2004/05 and 2005/06. Mineral prices rise 2 percent per annum, basically in line with USA inflation; thus, maintaining their real international value.
- Non-Mining GDP in real terms grows 3 percent in 2004/05 and 4 percent 2005/06, as some competitiveness gains are achieved.
- Government spending in nominal terms grows 11.3 percent in 2005/06 and 5.9 percent in 2006/07, mainly as a result of continued restraint on development spending. This is designed to keep the budget deficit from escalating and to maintain a sustainable budget outlook.
- The pula is devalued by 10 percent during 2005, and by a further 10 percent during 2006, in order to move the real effective exchange rate back towards where it was in 1996.
- Interest rates are reduced: the Bank of Botswana Certificate yield is brought down to 10 percent in 2005 and further to 9 percent in 2006 in order to encourage greater private sector investment.
- Despite the devaluations, inflation is brought down to within the target range of 4-6 percent in 2005, and falls further to 5 percent in 2006, mainly through modest imported international inflation and efforts to improve parastatal performance and productivity, so they do not have to increase their prices.

Economic Growth

With the Mining sector only expected to grow 1 percent per annum in 2004/05 and 2005/06, even with Non-mineral GDP increasing its real rate of growth from 2.6 percent in 2004/05 to 3.0 percent and further to 4.0 percent in 2005/06, the overall rate of growth of the economy is projected to slow from the 5.7 percent recorded in 2003/04 to 2.3 percent in 2004/05, before picking up a little bit of steam to expand 2.9 percent in 2005/06.

Trade and the Balance of Payments

Despite a small (3%) increase in their US dollar value as production expands and dollar prices keep up with US inflation, the pula value of diamond exports is forecast to drop marginally in 2005 to P13.0 billion because the average US dollar-pula exchange rate in 2005 is estimated to be higher than the average in 2004, even though a 10 percent devaluation is forecast for later in the year. Diamond exports are projected to rise to P14.7 billion in 2006, an increase of 13.3 percent, reflecting both the expected 3 percent increase in the US dollar value of diamond exports and the 10 percent devaluation forecast.

As a result of the pula devaluation and initiatives to promote export diversification, other exports are forecast to increase from P3,161 million in 2004 to P3,659 million in 2005, and further to P4,176 million in 2006, an average annual increase of 14.9 percent. Overall, exports are projected to rise 2.4 percent in 2005 and 13.5 percent in 2006. Imports, which grew sharply by 26.6 percent in 2004, are forecast to increase 10.2 percent to P14.7 billion in 2005, and by a further 10.3 percent in 2006 to reach P16.2 billion. The favourable balance of trade is forecast to contribute to current account surpluses of P1,360 million in 2005 and P1,939 million in 2006. Despite

capital outflows, international reserves in US dollar terms remain basically flat at USD5.49 billion at the end of 2005 and USD5.48 billion at the end of 2006. In pula terms, given the projected devaluations, international reserves rise to P26.1 billion in 2005 and to P29.0 billion in 2006, providing 21.5 months of cover for the import of goods.

Employment and Unemployment

Formal sector employment growth is projected to remain modest, at 1.7 percent in 2005 and 2.0 percent in 2006, reflecting the low rate of growth of output and expected productivity increases. With labour force growth expected at 2.3 percent per annum, the national unemployment rate is projected to edge upward from 24.5 percent in 2004 to 25.0 percent in 2005 and further to 25.2 percent in 2006.

Credit

Domestic commercial bank credit, which grew 16.1 percent in 2004, is forecast to rise by 10.2 percent in both 2004 and 2005, basically in line with non-mining GDP.

Exchange Rates

As a result of the 10 percent devaluations projected in 2005 and 2006, the US dollar-pula exchange rate is forecast to drop from USD 0.234 at the end of 2004 to USD 0.210 at the end of 2005, and further to USD 0.189 at the end of 2006. The South African rand is expected to depreciate against the US dollar and other major currencies by 5 percent per annum over the period: thus, the rand-pula exchange rate is projected to decline from R1.323 at the end of 2004 to R1.254 at the end of 2005, and further to R1.188 at the end of 2006. While the expected inflation rate of 6 percent in 2005 is higher than the average of the inflation rates expected in major trading partners, the real effective exchange rate index is forecast to decrease from 120.7 at the end of 2004 to 111.4 at the end of 2005 because of the 10 percent devaluation projected. The further 10 percent devaluation projected for 2006, along with the 5 percent inflation forecast in 2006 is expected to result in the real effective exchange rate declining to 101.6 in 2006, indicating a real exchange rate depreciation of 15.8 percent over the two year period from 2004, basically restoring the economy's competitiveness to where it was in 1996.

Growth in government spending, which is estimated to have been 12.1 percent in 2004/05, is projected to be less rapid in 2005/06, with total expenditure and net lending forecast to grow 11.3 percent to P18,859 million. For 2006/07, even slower growth of 5.9 percent is forecast, taking the total to P21,504 million. Government revenues, which increased 4.9 percent to P16,987 million in 2004/05, are projected to grow to P18,859 million in 2005/06, an increase of 11.0 percent, mainly due to the substantial increase in mineral revenues arising from the new Debswana mining lease agreements. This projected revenue figure, however, is substantially less than the P20,566 million contained in the Government budget estimates for 2005/06, reflecting less optimistic forecasts of mineral revenues, SACU revenues and non-mineral income tax revenues.

Government Budget

Table 4: Government Budget Projections 2004/05 - 2006/07

	2004/05	2005/06	2006/07
Govt. spending (Pm)	18,251	20,311	21,504
Govt. revenue (Pm)	16,987	18,859	20,739
Budget surplus/(deficit) (Pm)	-1,264	-1,453	-765
Govt. balances at BOB (Pm)	9,418	7,710	7,717

For 2006/07, Government revenues are forecast to increase by 10.0 percent to P20,739 million. With expenditures and net lending projected to be above revenues and grants, budget deficits of P1,264 million, P1,453 million and P765 million are projected for 2004/05, 2005/06 and 2006/07, respectively. As a result of the deficits, taking into account the effect of the exchange rate devaluations on the Government Investment Account, Government balances at the Bank of Botswana are forecast to decline from P9,418 million at the end of 2004 to P7,710 million at the end of 2005, and remain basically at that level, i.e., P7,717 million, at the end of 2006. Thus, despite the budget deficits projected, the Government fiscal position is forecast to remain reasonably healthy over the next two years.

ECONOMIC FACTS AND FORECASTS

		Quarterly										2005
		2002	2003	2003	2003	2003	2003	2004	2004	2004	2004	
(end of period)		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Interest rates (%)												
BOBC (3 month)		12.54	14.03	13.99	13.92	13.84	12.74	12.62	12.99	12.98	12.50	12.00
Prime		15.75	16.75	16.75	16.75	16.75	15.75	15.75	15.75	15.75	15.25	15.25
Inflation (%)		10.1	11.2	10.7	12.2	7.4	6.4	6.9	6.7	7.0	7.8	6.5
Rand-Pula		1.675	1.580	1.540	1.520	1.509	1.488	1.354	1.346	1.357	1.323	1.358
US\$-Pula		0.159	0.183	1.940	0.204	0.210	0.225	0.215	0.214	0.211	0.234	0.217
BSE index		2,480	2,497	2,283	2,223	2,346	2,499	2,641	2,844	2,903	2,889	3,021
		Annual										2006
		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	2.0	7.8	5.7	2.3 <i>f</i>	2.9 <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	3.0 <i>f</i>	4.0 <i>f</i>
Exports (nominal)	<i>b</i>	23.1	39.7	-15.4	41.2	11.0	-1.0	9.8	0.9	8.7	2.4 <i>f</i>	13.5 <i>f</i>
Imports (nominal)	<i>b</i>	9.6	44.0	19.3	3.4	4.4	3.6	10.6	1.6	26.6	10.2 <i>f</i>	10.3 <i>f</i>
Govt. spending (nominal)	<i>c</i>	17.3	21.6	22.4	15.0	10.6	18.5	14.9	3.6	12.1	11.3 <i>e</i>	5.9 <i>f</i>
Govt. revenues (nominal)	<i>c</i>	35.3	12.0	-7.2	55.8	18.0	-10.0	12.7	13.1	4.9	11.0 <i>e</i>	10.0 <i>f</i>
Formal employment	<i>s</i>	2.2	-4.5	6.1	6.2	2.3	1.5	3.1	2.3	1.3	1.7 <i>e</i>	2.0 <i>f</i>
Unemployment rate	<i>u</i>	20.9	20.4	19.8	17.8	15.8	19.6	21.7	23.8	24.5	25.0 <i>e</i>	25.2 <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	16.1	10.2 <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	10.00 <i>f</i>	9.00 <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	13.00 <i>f</i>	10.50 <i>f</i>
Inflation (average, %)		10.1	8.9	6.5	7.8	8.5	6.6	8.0	9.2	7.0	6.0 <i>f</i>	5.0 <i>f</i>
Rand-Pula	<i>a</i>	1.284	1.278	1.318	1.329	1.411	1.719	1.580	1.488	1.323	1.254 <i>f</i>	1.188 <i>f</i>
US\$-Pula	<i>a</i>	0.274	0.263	0.224	0.216	0.187	0.143	0.183	0.225	0.234	0.210 <i>f</i>	0.189 <i>f</i>
Real Effective Exchange Rate	<i>a</i>	100.0	102.8	97.4	104.3	108.0	111.7	118.1	125.4	120.7	111.4 <i>e</i>	101.6 <i>f</i>
BSE index	<i>a</i>	352	709	947	1,399	1,454	2,455	2,497	2,499	2,889	3,184 <i>f</i>	3,510 <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	13,107	13,006 <i>e</i>	14,741 <i>f</i>
Exports (other goods)	<i>b</i>	2,100	2,620	2,704	2,449	2,230	2,124	2,344	3,266	3,161	3,659 <i>e</i>	4,176 <i>f</i>
Imports (goods, cif)	<i>b</i>	4,879	7,026	8,380	8,664	9,047	9,370	10,365	10,529	13,330	14,695 <i>e</i>	16,201 <i>f</i>
Current account balance	<i>b</i>	1,644	2,634	860	2,859	2,782	3,491	1,245	2,288	3,985	1,360 <i>e</i>	1,939 <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	24,200	26,101 <i>e</i>	28,967 <i>f</i>
US\$ m	<i>a</i>	5,234	5,675	5,941	6,229	6,317	5,897	5,474	5,339	5,653	5,487 <i>e</i>	5,481 <i>f</i>
Govt. spending (Pm)	<i>c</i>	6,092	7,406	9,065	10,427	11,536	13,671	15,710	16,276	18,251	20,311 <i>e</i>	21,504 <i>f</i>
Govt. revenue (Pm)	<i>c</i>	7,395	8,281	7,681	11,963	14,115	12,709	14,318	16,197	16,987	18,859 <i>e</i>	20,739 <i>f</i>
Budget surplus/(deficit) (Pm)	<i>c</i>	1,302	875	-1,385	1,536	2,579	-962	-1,392	-78	-1,264	-1,453 <i>e</i>	-765 <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	9,418	7,710 <i>e</i>	7,717 <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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