

botswana



Demographics

Population:	2 155 784 (July 2014 est.)
Population: world ranking	145 out of 240 countries (CIA)
Life expectancy (years)	Total population: 54.06; male: 55.75; female: 52.32 (2014 est.)
Main ethnic groups	Tswana (or Setswana) 79%, Kalanga 11%, Basarwa 3%, other, including Kgalagadi and white 7%
Business language	English, Setswana, Kalanga
Urban population	62.3%
Population below national poverty line	19.3% (2009 est.)

Sources: CIA, World Bank

Geography

Area in sq km	581 730
Area: World ranking	48 out of 252 countries (CIA)
Climate	Semiarid; warm winters and hot summers
Natural resources	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver

Sources: CIA, World Bank

Sovereign ratings

S&P	A-/Stable
Fitch	N/R
Moody's	A2/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US\$bn)	13.26	Total government debt as % of GDP	18.13
Nominal GDP: World ranking	118 out of 188 countries (IMF)	Total external debt as % of GDP	21.36
Real GDP (% y.o.y)	5.49	Consumer price inflation (average, %)	5.92
GDP growth: World ranking	78 out of 189 countries (IMF)	Current account balance as % of GDP	11.24
GDP per capita (US\$)	6,559.87	Equity market: Size in US\$	US\$4.89bn
Agriculture as % of GDP	2.82	Equity market: Listed companies	22 primary listings
Industry as % of GDP	35.46	Bond market size	US\$788m govt bonds outstanding in the domestic market
Services as % of GDP	61.71		

Sources: IMF, NKC Research, Bloomberg (Stock market), Reuters (Bond market)

Political environment

Government type	Parliamentary republic
Head of state	President Seretse Khama Ian Khama
Head of government	President Seretse Khama Ian Khama
Ruling political party	Botswana Democratic Party (BDP)
Main opposition parties	Botswana Movement for Democracy (BMD), Botswana Alliance Movement (BAM), Botswana Congress Party (BCP), Botswana National Front (BNF)
Elections	Elections last held on 20 October 2009 and due next in October 2014

Source: NKC Research

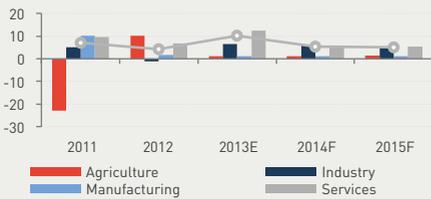
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



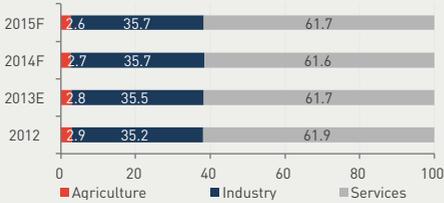
Source: NKC Research

According to the statistics office, real GDP grew by 4.7% y-o-y in the fourth quarter of 2013, following a revised 6.9% y-o-y expansion in the preceding quarter. The economy's overall expansion was supplemented by strong numbers from the mining sector, which averaged 15.8% y-o-y growth during the last three quarters of the year, after slowing to 3.6% y-o-y in the first quarter. Other sub-sectors showing strong growth in 2013 included hotels and restaurants (7.2%), post and telecommunications (8.3%), and real estate and business services (9.6%). On the other hand, the agricultural and manufacturing sectors showed lacklustre expansion last year, averaging 2% and 2.1%, respectively.

With regard to economic structure, the mining sector continues to be the largest sub-sector in the Botswanan economy, despite falling considerably from levels seen prior to the global financial crisis. After accounting for an average of 31% of GDP in the 2005-07 period, the mining sector accounted for some 22.4% of GDP last year, with the central government sector being the second-largest sub-sector (12.8% of GDP). While diamonds currently dominate Botswana's mining

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

sector, the country's vast coal resources lie at the forefront of potential alternatives. The authorities have claimed several times that Botswana is home to more than 200 billion tonnes of coal resources, although these resources remain mostly unproven. However, it can be surmised that there is considerable potential in the coal sector, and the commodity could be the most

propitious new export sector and a potential substitute for Botswana's diamond revenue in time. Consequently, the development of the coal sector has become a key priority for the Botswanan government.

Overall, real economic expansion is projected to slow from last year's estimated 5.5% to 4.4% in 2014, and further to 4.1% in 2015. The expected slowdown stems from a forecast slowdown in the industrial sector, as expansion of the mining sector slows to a more temperate level. More specifically, the industrial sector is forecast to slow from an estimated 6.5% growth last year to 6% in 2014, and further to 6% next year. While the services sector is projected to show relatively strong growth numbers, 5% and 5.4% in 2014 and 2015, respectively, the agricultural and manufacturing sectors are forecast to grow by only 1.2% and 1%, respectively, this year.

International trade

The diamond trade continues to be imperative to Botswana's balance of payments. According to the central bank, which differentiates between domestic rough diamond exports and diamond re-exports, exports of domestic rough diamonds grew by 60.3% y-o-y in the first quarter of 2014, following a 2.1% y-o-y contraction in the last quarter of 2013. On a q-o-q basis, exports

of rough diamonds increased by 139.2% from US\$481.8 million in Q4 2013 to US\$1.152 billion in Q1 2014. Debswana, which was established jointly by the Botswana government and De Beers on 23 June 1969, is the largest mining company in the country. According to Anglo American's latest press release, Debswana recovered 9% q-o-q fewer diamonds in the first quarter of 2014.

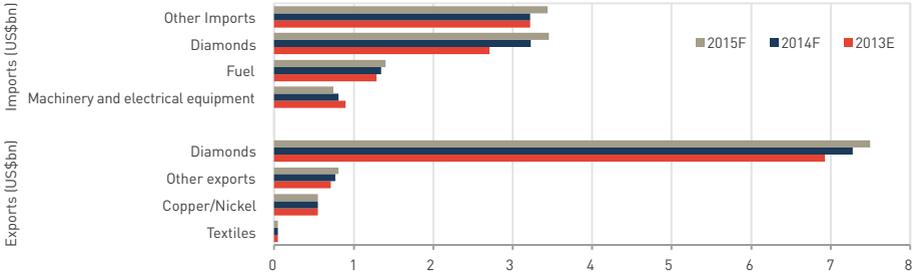
Foreign trade flows, 2013

Main exports	(US\$ billion)	Main imports	(US\$ billion)
Diamonds	6.93	Other Imports	3.22
Other exports	0.71	Diamonds	2.71
Copper / Nickel	0.55	Fuel	1.29
Textiles	0.04	Machinery and electrical equipment	0.90

Source: NKC Research

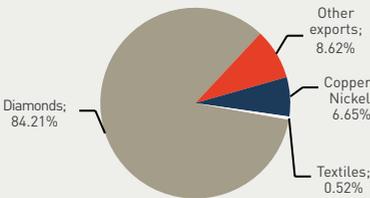
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Botswana top four exports and imports (US\$ billion)



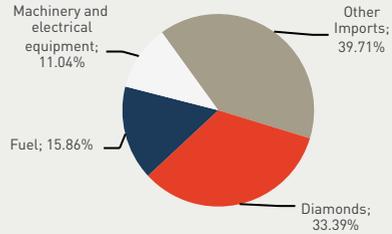
Source: NKC Research

2013 exports (% of total)



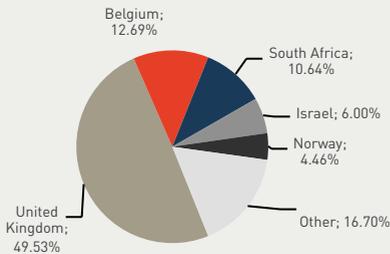
Source: NKC Research

2013 imports (% of total)



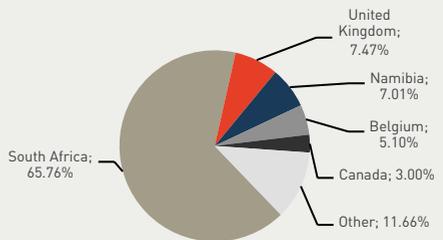
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

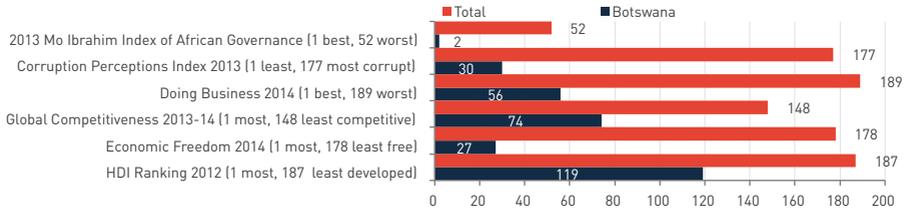
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The central bank's Monetary Policy Committee (MPC) most recently convened on 22 April, and elected to maintain the country's policy rate for the fourth consecutive month. The committee kept the policy rate at 7.5%, citing balanced risks to inflation and below-potential domestic economic expansion.

The committee noted that consumer price inflation is well within the 3% to 6% target range, and external price developments are projected to remain benign throughout the forecast trajectory. Botswana's Consumer Price Index (CPI) inflation for April 2014 was recorded at 4.5% y-o-y, compared to the preceding month's 4.4% y-o-y. Inflation has fallen within the central bank's target band since June 2013, and is projected to remain within the band for the rest of 2014.

Exchange rate policy:

Botswana's pula operates as a crawling peg against a basket of currencies, which is composed primarily of the South African rand (55%), and the International Monetary Fund's (IMF) Special Drawing Rights (SDR, a basket of major currencies). Small adjustments to the pula's peg are said to be determined by Botswana's inflation rate objective, as well as the expected inflation

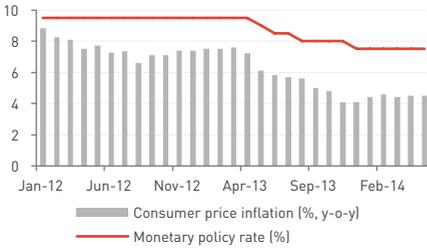
rates of its trading partners. In addition, the country's international competitiveness is also considered by stabilising its real effective exchange rate. The Botswanan currency averaged P8.41/US\$ last year, and is forecast to depreciate to an average of P8.82/US\$ in 2014, before strengthening to an average of P8.40/US\$ next year.

Fiscal policy:

The primary objective of fiscal policy in Botswana is to maintain macroeconomic stability by means of running a balanced budget over the medium term. According to the latest statistics released by the central bank (which in turn sources its data from the Ministry of Finance and Development Planning), Botswana's government received fiscal revenues and grants totalling P35.1 billion in the first nine months of the 2013/14 fiscal year (FY, 1 April to 31 March).

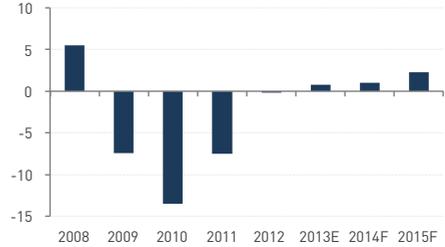
Expenditure and net lending amounted to P30.8 billion over the corresponding period, representing a fiscal surplus of P4.2 billion over the April to December 2013 period. Our baseline forecast is relatively in line with government expectations, with an estimated budget surplus of 0.81% of GDP in the 2013/14 FY, and projected overall budget surpluses equivalent to 1% of GDP and 2.27% of GDP in the 2014/15 and 2015/16 fiscal years, respectively.

Consumer price inflation and monetary policy rate



Source: Central Statistics Office, Bank of Botswana

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

According to the Bank of Botswana’s (BoB, the central bank) 2013 annual report, the 2014/15 fiscal budget includes proposals to amend the value added tax (VAT) Act in order to expand the country’s revenue base, while also attempting to simplify the Botswanan tax system. Amendments to the VAT Act include the exemption of all farming equipment and basic foodstuffs. Furthermore, the Act is set to be amended to increase the registration threshold from P500 000 to P1million in order to release small businesses from the filing of VAT returns. Also, the Transfer Duty Act will be amended in order to encourage homeownership, particularly with first-time buyers set to benefit.

Political environment

Botswana is one of several Southern African states to hold elections this year, with the country due to go to the polls in October. Since 1965, when the then Bechuanaland Democratic Party – subsequently the Botswana Democratic Party (BDP) – won the first independence elections with some 80% of the vote, the only thing to change in the subsequent nine national elections was that the BDP share of the vote declined, but never enough for it to lose.

Over time, there have been several false dawns for the opposition in Botswana and there is little to suggest 2014 is going to be any different. The key problem for the opposition is a near complete inability to work together for even the shortest period of time before splits occur over jobs, titles and leadership. The only hope the opposition has is that the BDP itself suffers a major split, but to date, when that has happened it has been short-lived. There is nothing to suggest that Botswana will face any problems in the campaigns leading up to the elections and the elections themselves and the foregone conclusion of a BDP victory. There will be robust campaign exchanges and the usual allegations and discontented mumbling, but nothing to even send a ripple through the country’s political stability.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Standard and Poor's (S&P) affirmed its long-term and short-term sovereign credit ratings for Botswana on 16 May 2014. The respective ratings therefore remain at 'A-' and 'A-2', while both outlooks are deemed stable. According to the rating agency's press release, Botswana's ratings are supported by the country's 'strong institutions and external and fiscal balance sheets, well-managed minerals-based economy, and long track record of political stability and relatively sound institutional effectiveness.' On the other hand, Botswana's narrow economic base that relies heavily on the diamond sector and is thus vulnerable to shocks, continues to constrain the country's ratings. S&P had previously affirmed their Botswana sovereign credit ratings on 20 December 2013.

On 28 November 2013, Moody's affirmed Botswana's 'A2' government bond rating with a stable outlook. According to the rating agency, this reflects 'the government's relatively strong balance sheet, net external creditor position and its low debt burden against its small economy, which remains heavily dependent on the diamond industry.' The rating agency pointed out that 'upward pressure on Botswana's A2 rating could develop as a result of a successful implementation of the economic diversification strategies over the medium term, coupled with the accumulation of an even larger net financial position'. On the other hand, downward pressure on the rating could be exerted should Botswana see 'a large deterioration in its net asset position over the medium term'.

Botswana is currently not rated by Fitch Ratings.

Key indicators to watch

Diamond prices and production	Debswana recovered 9% q-o-q fewer diamonds in the first quarter of 2014, which could possibly translate to a slowdown in exported diamonds from Botswana later in the year. De Beers projects global diamond demand to expand by between 4% and 4.5% in 2014, with the US market showing strong growth.
Forex reserves and exchange rate	Foreign reserve accumulation was relatively lacklustre in 2013, but is forecast to increase over the medium term once income from De Beers' relocation to Gaborone starts to generate revenue for the local economy. According to the latest data from the central bank, Botswana had foreign reserves totalling US\$7.992 billion at the end of Q1 2014.
Monetary policy and inflation	The head of monetary and financial stability at the BoB, Kealeboga Masalila, told Bloomberg in early June that the central bank will maintain its accommodative monetary policy stance, and the central bank projects inflation to remain inside the 3% to 6% target band in the medium term.

Source: NKC Research

Key vulnerabilities

What is the government doing to address this?

Economic structure: heavy reliance on diamonds. This renders the economy vulnerable to fluctuating gem prices and external demand.	Fast-tracking economic diversification remains a key objective, as seen by the implementation of the economic diversification drive (EDD).
A relatively underdeveloped rail infrastructure is a constraint to development of non-diamond extractive sectors (coal, uranium).	Botswana and Namibia signed a bilateral agreement on 19 March to develop a railway between the two countries, stretching some 1 500 km, in order to transport Botswanan coal to the port of Walvis Bay.
Botswana is historically a net importer of electricity, and power shortages are likely to have had a detrimental effect on economic growth.	Medium to long-term goals include the development of additional units for the Morupule B power station, which will provide an estimated 600 MW.

Source: NKC Research

Market participation

Foreign investors	Botswana's debt markets have grown significantly since its establishment in 2003. Foreign investors are allowed to participate in the local government bond market.
Local investors	Investors include domestic companies, commercial banks, and institutional investors. The local non-bank investor base (asset management, life and general insurance) is deep and diversified.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/maturity	Quotation/settlement	Reuters page	Additional information
Spot	US\$1m to US\$10m	US\$15m to US\$50m	3.5 bps (average from January 2012)	-	T+2	BWP=	Main cross is US\$/BWP
Forwards (deliverable)	US\$15m to US\$50m	US\$3m to US\$10m	Variable	Overnight to 1-year	T+2	BWP-FWD=	Main benchmark is US\$/BWP
Swaps	US\$1m to US\$10m	US\$20m to US\$50m	Variable	Overnight to 1-year but pricing is available beyond 1-year	T+2	-	Main benchmark is US\$/BWP

Sources: NCK Research, Reuters

Exchange rate Botswana pula



Source: Reuters

Over the past 12 months (ending May 2014) the Botswanan pula has stayed relatively stable, depreciating by 1.14% against the dollar. The central bank noted in its 2014 annual Monetary Policy Statement (MPS) that the lower inflation in 2014 allowed a downward crawl adjustment to the local currency's peg. More specifically, the nominal effective exchange rate (NEER) crawled by negative 0.16% last year. According to the MPS, Botswana's projected inflation for 2014, as well as that of the country's major trading partners, will result in the NEER once again crawling downwards at a rate of 0.16% this year. The central bank maintains its view that 'a crawling band exchange rate policy is in the best interest of international competitiveness of domestic industries, and is intended to contribute towards macroeconomic stability and economic diversification'.

The pula's basket weights will remain at 55% for the South African rand and 45% for the IMF's SDR. Consequently, the rand's movements are significant for the Botswanan local unit. The rand is known as one of the most traded and volatile currencies in the world due to the ease with which it can be bought and sold. The rand returned to stronger

South African rand



Source: Reuters

than the R11/US\$ level late in February and was back at R10.50/US\$ by early-May. This came in the wake of investors moving money out of Russia and surrounding countries (and into other emerging markets) given the continued tense situation between Moscow and the West around Crimea. However, the rand handed back some of its gains in late-May and early-June in the wake of a slew of weak economic data reports emanating from Africa's second-largest economy. The rand was weighed down by a lingering strike in South Africa's platinum industry, which is curbing exports of the country's largest export commodity by value. Looking ahead, we see a very gradual appreciation over the medium term, although this will most likely include bouts of weakness and volatility, as seen at present.

As a result of these recent developments and taking our expectations for the future value of the South African rand into consideration, we project that the pula will depreciate from an average of P8.41/US\$ in 2013 to P8.88/US\$ this year, before recovering somewhat to P8.74/US\$ in 2015. Please note that these forecasts remain vulnerable to volatility in the South African rand over the short to medium term.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Botswana Stock Exchange	22 primary listings (Main Board)	Limited	US\$4.8bn	T+3	Financial Services	US\$43.6m (total shares traded in March 2014)

Sources: Bank of Botswana, Botswana Stock Exchange

The Botswana Stock Exchange’s (BSE) Domestic Company Index (DCI) is dominated by the financial sector as a whole, with the banking sector contributing the majority of the capital asset size on the DCI. According to the central bank, Botswana’s stock exchange had a capital asset size of P42.5 billion at the end of April 2014, representing a 2.9% increase from the same period a year earlier.

According to the BSE’s website, the DCI boasts 22 domestic company listings, after Firestone Diamonds delisted in the first quarter of 2014. The company’s main investment in Botswana is its BK11 mine, which was placed under ‘care and maintenance’ in February 2012. According to Firestone’s press release, the company has moved its primary focus to its assets in Lesotho.

With regard to trading activity, the volume of shares traded in the first quarter of 2014 increased significantly in terms of both volume and value when compared to the same period a year earlier.

More specifically, the volume of shares traded in Q1 2014 amounted to 99.8 million, representing a y-o-y increase of 77.3%. The value of shares traded showed an even higher increase, from US\$252.07 million in Q1 2013 to US\$650.58 million in the same period a year later. Considering that the number of transactions only increased by 12.4% y-o-y in the corresponding period, it can be deduced that investors are taking much larger positions when investing than they have in the past.

Top-five listed companies	Market capitalisation
FNB Botswana	US\$1,036m
Choppies Enterprises Limited	US\$554m
Letshego Holdings Limited	US\$484m
Barclays Bank of Botswana	US\$445m
Standard Chartered Botswana	US\$402m

Source: Botswana Stock Exchange

BSE Domestic Companies Index



Source: Reuters

BSE Foreign Companies Index



Source: Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bills	14, 91- and 182-day	Weekly	Low	T+3	Licensed primary dealers	20 bps
Treasury bonds	1- to 17-year	Quarterly	Low	T+3	Licensed primary dealers	20 bps

Sources: NKC Research, Bank of Botswana

The BoB utilised mostly open market operation in order to conduct its monetary policy last year. Consequently, excess liquidity in the local money markets was absorbed via the sale of BoB certificates in order to manipulate interest rates that were in line with the central bank's monetary policy stance. The central bank also made use of reverse repurchase agreements (repos) and repos in order to manage intra-auction liquidity, although the BoB made considerably less use of these instruments in 2013 compared to the previous year (P302m and P1bn, respectively).

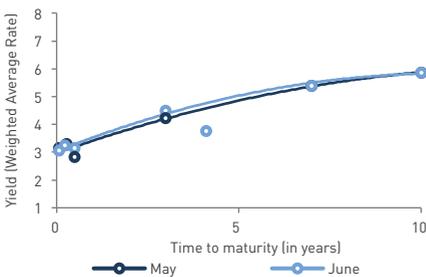
The central bank primarily uses 14- and 91-day certificates to implement its monetary policy operations, but occasionally issues 182-day debt instruments as well.

Botswana treasury bills



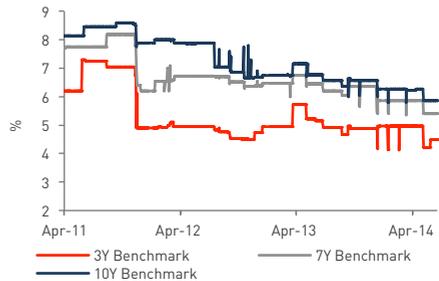
Sources: NKC Research, Reuters

Botswana yield curve



Sources: NKC Research, Reuters

Botswana treasury bonds



Sources: NKC Research, Reuters

The central bank is also known to issue longer-term treasury bonds. The yield rates on the 14-day security held relatively stable during the first five months of 2014, falling by one basis point, from 3.11% at the beginning of the year to 3.1% at the last auction of May. The borrowing costs on the 91-day tenor, which was only sold on four occasions during the corresponding period, saw its weighted average rate (WAR) fall from 3.33% on 4 February to 3.27% on 6 May. The most recent occasion the 182-day treasury bill was sold occurred on 6 June, with the WAR falling by two basis points to 3.197%,

compared to the previous auction the security was sold on 7 March. The 6 June auction also included the sale of three, seven and 17-year treasury bonds. The three and seven-year tenors saw yields recorded at 4.525% and 5.32% respectively. Finally, the 17-year security received bids amounting to P182 million, of which P92 million were accepted, with the tenor's yield rising by three basis points to 6.051%, compared to the previous auction on 7 March. We expect Botswana's borrowing costs to move in line with inflationary pressures, which have been relatively benign of late.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	-7.84	8.59	6.10	4.18	5.49	4.44	4.13
Nominal GDP (US\$bn)	10.11	13.75	15.29	14.50	13.26	13.85	14.60
Consumer price inflation (average, %)	8.03	6.94	8.46	7.54	5.92	5.95	5.92
Budget balance, incl grants (% of GDP)	-7.46	-13.49	-7.49	-0.15	0.81	1.00	2.27
- Revenue (% of GDP)	39.42	37.41	32.46	36.37	36.54	34.80	34.66
- Expenditure (% of GDP)	46.88	50.90	39.94	36.52	35.73	33.81	32.39
Government debt (% of GDP)	7.59	17.76	19.37	19.35	18.13	15.88	13.79
Current account balance (% of GDP)	-11.77	-6.07	-5.00	-6.12	11.24	10.30	9.05
Trade balance (% of GDP)	-13.38	-7.34	-9.52	-14.78	0.84	0.26	-0.93
Pula/US\$	7.15	6.80	6.86	7.63	8.41	8.88	8.74
Short-term interest rate (%)	13.76	11.46	11.00	11.00	10.21	9.50	9.50
Foreign reserves (US\$bn)	8.70	7.89	8.08	7.63	8.00	8.10	8.31
Months of import cover	19.36	14.76	11.90	10.40	10.98	10.56	10.35

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% , yoy)	7.41	9.17	7.40	4.10	4.40	4.50	4.50
Monetary policy rate (%)	10	9.5	9.5	7.5	7.5	7.5	7.5
Foreign reserves (US\$bn)	7.89	8.08	7.63	7.73	7.99	N/A	N/A
91-day treasury bill rate (% , eop)	7.15	3.45	5.36	3.58	3.27	3.13	3.10
Pula/US\$ (eop)	6.46	7.49	7.79	8.76	8.80	8.77	8.77
Diamond price index (US\$, eop)	132.19	156.27	139.23	140.43	150.44	145.64	145.72

Sources: NKC Research, Bank of Botswana, Bloomberg, Central Statistics Office, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.