

COUNTRY PROFILE:**REPUBLIC OF BOTSWANA****DATED:****JANUARY 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1B	No Restriction

Recent Political Highlights

- ❑ Chief of state since April 2008 has been President Seretse Khama Ian Khama who is the son of Botswana's first president. The president is indirectly elected for a five-year term and is eligible for a second term. The next election is due by October 2009. A call for the president to be elected directly by the people was rejected by parliament in 2008. Some critics have warned that the country was becoming a dynasty and that democracy was under threat.
- ❑ Nineteen new sub-districts have been established under the new National Development Plan (NDP 10) which starts in the new financial year in April. Nine of the sub-districts are in the vast Central District. The Ministry of Local Government says that the new sub districts plus the three new administrative authorities will be implemented in phases throughout the six-year life of NDP 10. All of the nineteen sub districts have been approved and are waiting to operate.

Recent Economic Highlights

- ❑ Consumer inflation slowed to 13.7% year-on-year in December 2008, down by 1.3% from 15% in November as fuel costs fell. Inflation started easing in September 2008 after an upward trend nearly a year on the back of high food and fuel costs. The Bank of Botswana cut its bank rate by 50 basis points to 15% last month. It expects inflation to move towards its 3%-6% target this year. Analysts believe that the central bank's inflation target range will be attainable during the last quarter of 2009 as long as food and fuel remain at current levels.
- ❑ The banking sector is still flush with cash and looks prepared for the challenges of 2009. In the first week of 2009, some Botswana banks were marketing personal and SMME loans while others were recruiting additional staff. Micro lenders were also advertising their loan facilities early in the month.
- ❑ The impact of the global financial crisis has definitely hit the mining sector. It has impacted heavily on prices of commodities such as diamonds, nickel and copper, of which Botswana is among the world's leading producers. Copper prices have weakened by 40% and nickel by 50%. According to the CEO of Capital Asset Management, the outlook for 2009 is one which suggests the country is likely to be headed for a recession. Other local specialists believe that Botswana's healthy reserves will shield it from the full effects of a recession, but expect to see economic growth slowing significantly this year.
- ❑ Botswana has improved its economic freedom ranking this year, moving to 34th from 36th last year according to the 2009 Index of Economic Freedom assessment by the Heritage Foundation. The country's economy is 69.7% free, 1.5 points better than last year and is above the regional average. The assessment noted that Botswana could improve its relatively weak scores in trade freedom and freedom from corruption. Botswana scores 69% in trade freedom but 10 points were deducted to account for non-tariff barriers. The Foundation noted that inflation was relatively high, averaging 8.3% between 2005 and 2007. It ranks the banking system as very competitive and one of Africa's most advanced. The country boasts over 100 private pension funds and 32 insurance companies, but fared poorly in labour freedom as employees are not required to make pension, health insurance and unemployment insurance contributions.
- ❑ African Copper directors are relieved after shareholders approved a resolution that gives it the go-ahead to raise \$15m it needed before 15th January to forestall closure as a result of the worldwide slump in commodity prices. Failure for the company to raise cash means that it will not be able to fund and implement its interim plan geared to maximising operating margins and minimising capital and expenditure. At 30th September 2008, the company had a working capital deficit of P7.3m. Delays in shipping the first concentrate due to commissioning delays combined with costs of continuing to mine during this period contributed to this situation. The delays have resulted in production shortfalls as a consequence of which the company has further revised its 2008 copper in concentrate production forecast from approximately 2.300 tonnes to 1.500 tonnes. Total open-pit reserves at Mowana Mine is estimated at 14.8m tones with a 1.11% grading of copper.
- ❑ A high demand for maize meal has resulted in some shops having to restrict the number of bags purchased per customer. The deteriorating Zimbabwean economy is a big factor in the rising demand as the country's long suffering citizens cross into neighbouring countries to buy food. The situation was manageable until last November when demand escalated. This has also increased the demand for other food commodities. Botswana relies chiefly on SA for maize, but will look to Namibia and Zambia should the need arise. Demand for maize meal is most noticeable as it is consumed daily. Its demand rose 90%, while pasta and rice demand rose 110% and 120% respectively.
- ❑ The launch of BeMobile by Botswana Telecommunications Corporation (BTC) last April indicated rising growth expectations for Botswana's telecommunication industry. Botswana's telecommunication industry is likely to see record growth in 2009, placing it ahead of the telecoms market of South Africa and Nigeria in terms of teledensity. Botswana is being looked as an emerging force in the mobile communication industry driven by cut-throat competition prevailing between the operators Mascom and Orange.

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