



THE 2012/13 BUDGET in BRIEF

Background

- Wide-ranging pre-budget consultations, based on Budget Strategy Paper¹ were held during second half of 2011.
- Priorities for FY 2012/13 budget set:
 - Service delivery focus
 - Maintenance of existing infrastructure
 - Complete on-going projects
 - Only very high return new projects possible
 - Balanced budget
- Growing concern over prospects for world economy on which our economy and Government revenues depend
- Forthcoming mid-term review of NDP 10 – an opportunity to revise priorities and budget allocations

Economic Review

Global Economy

Growth of global economy is slowing.

IMF has substantially reduced outlook for 2012:

- World growth down from 4.5% (issued April 2011) to 4.0% (September 2011) to 3.3% or possibly 2.0% (January 2012)
- Growth prospects of major advanced economies, on which our diamond exports depend, now appear to be slower: USA @ 1.8% (or possibly 0.7%); Japan @ 1.7% (or possibly 0.4%).

¹ http://www.finance.gov.bw/templates/mfdp/file/File/Microsoft%20Word%20-%202012-13%20Budget%20Strategy%20Paper-FINAL_ct_2011.pdf

Botswana Economy

Real economic growth year-on-year to third quarter of 2011:

- Overall = 7.8%;
- Construction = 24.3 %;
- Manufacturing = 13.8%;
- Agriculture = 10.1%
- Mining = 9.7%.

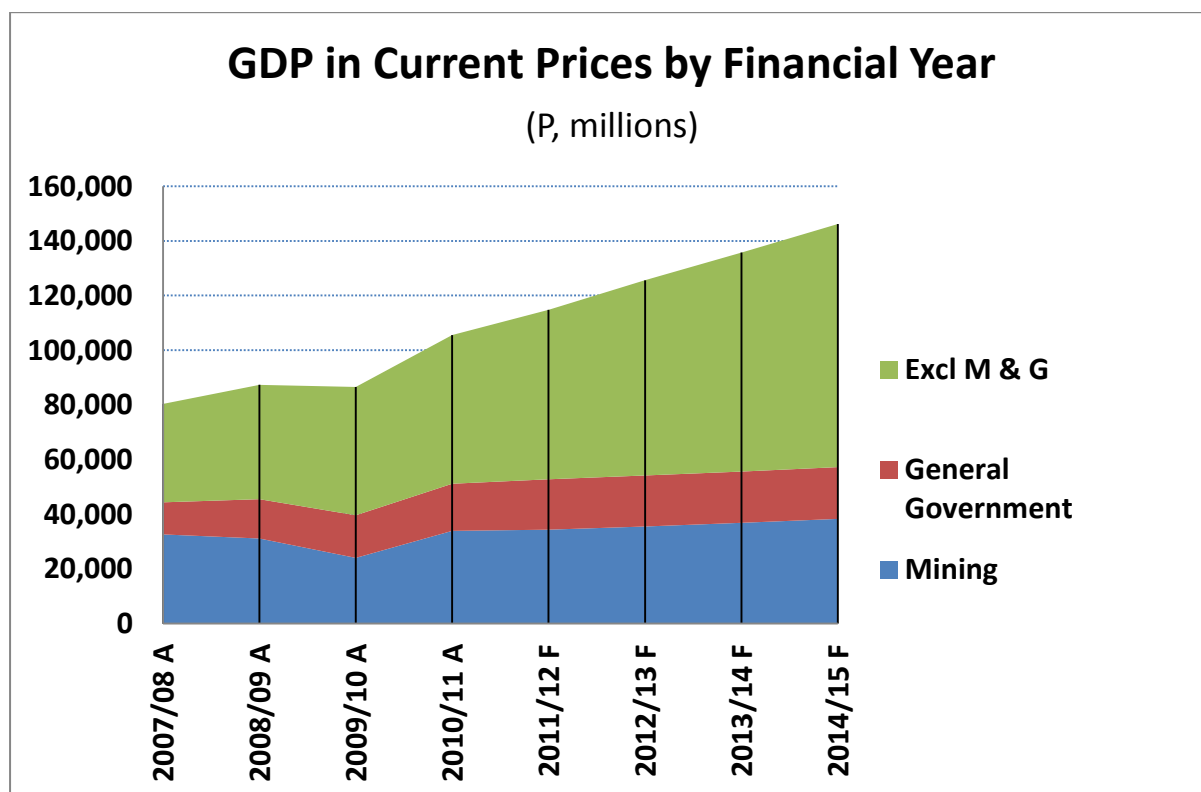
Economic Outlook

In real terms, the economy is projected to grow by 4.4% in 2012 and 3.9% in 2013. The Mining sector is projected to grow by 1.3% in 2012 and 0% in 2013.

Forecast of total GDP in current prices:

- FY 2011/12 = P115 billion
- FY 2012/13 = P126 billion
- FY 2013/14 = P136 billion
- FY 2014/15 = P146 billion

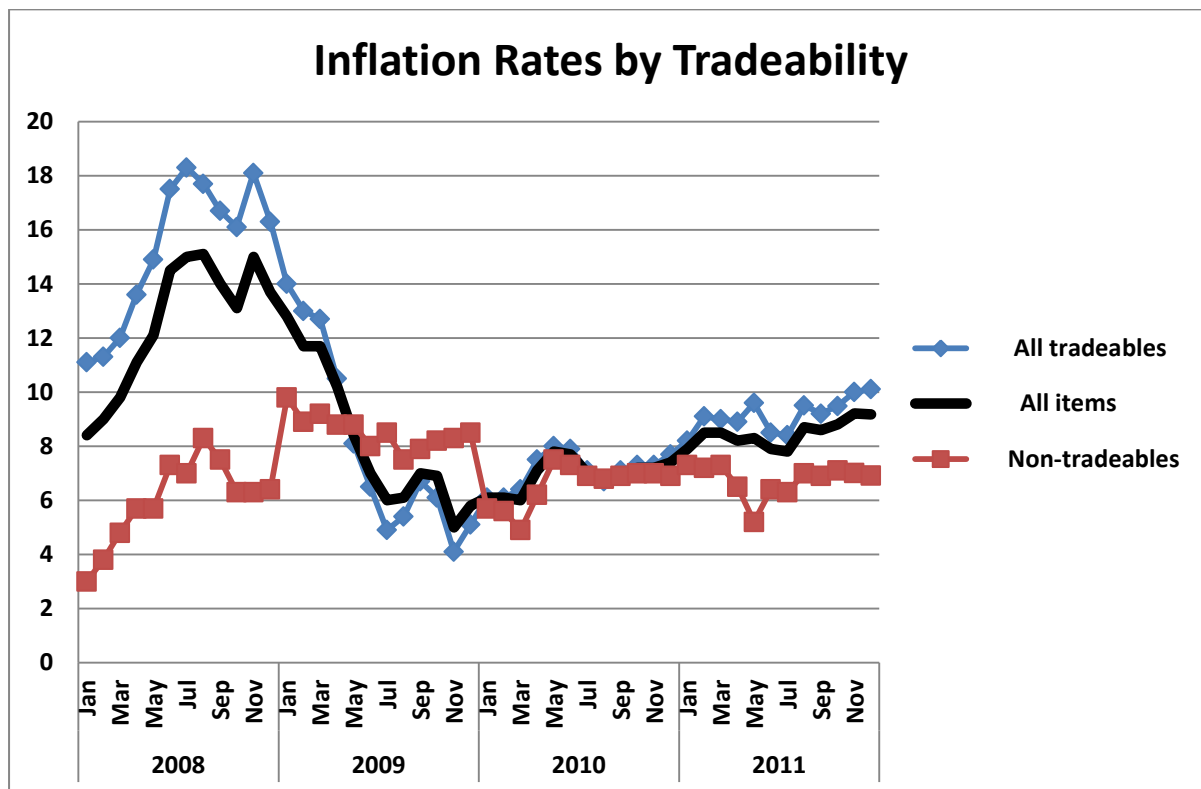
GDP at current prices by major sectors, actual and forecast, for several financial years, are sketched in the Chart.



Notes: A = actual; F = forecast

Inflation and Monetary Policy

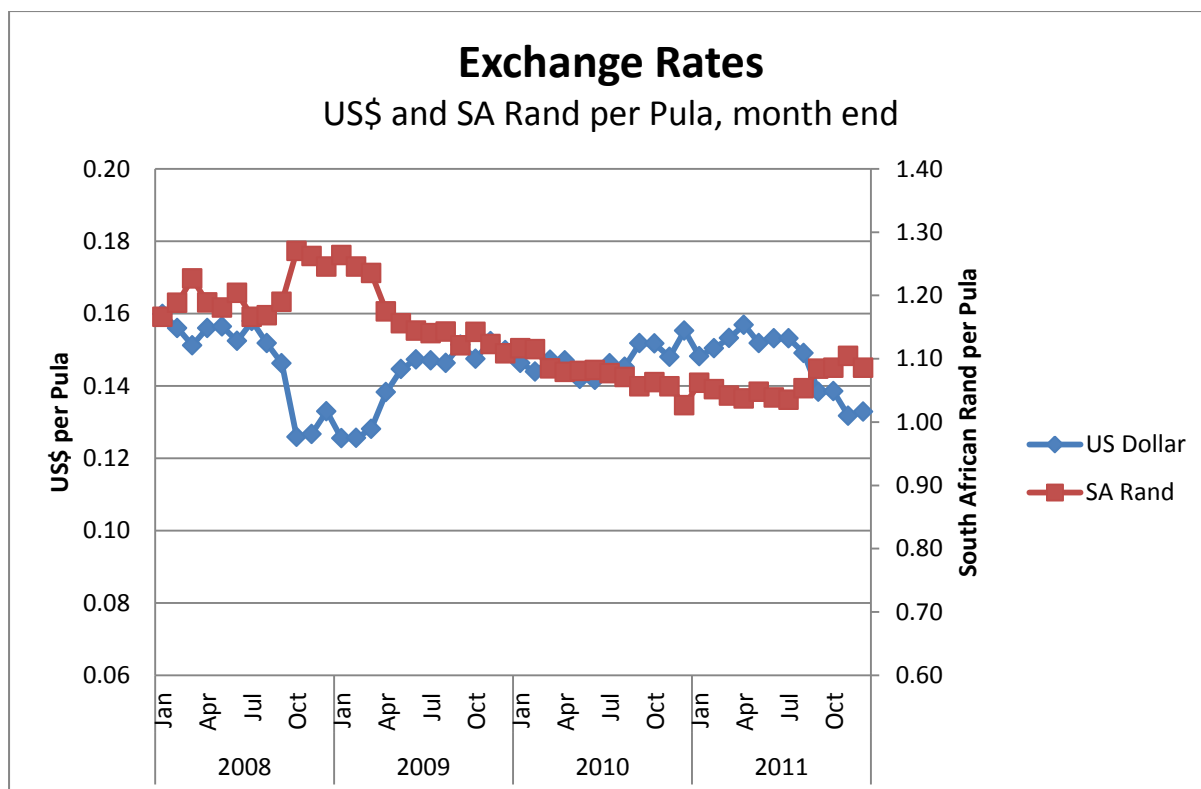
- Inflation rose from the December 2010 rate of 7.4% (year-on-year) to 9.2% in December 2011. See Chart.
- The Bank Rate was maintained at 9.5%.



Exchange Rate

During 2011 the exchange rate of the Pula against individual currencies was affected by significant movement of the South African Rand against major international currencies. In the 12 months to end December 2011, the Pula appreciated against the Rand by 5.8%, and depreciated against the SDR (representing the major international currencies) by 13.8%.

The crawling peg exchange rate mechanism kept the appreciation of the inflation adjusted exchange rate to just under 1% over the 11 months to November.



Balance of International Payments

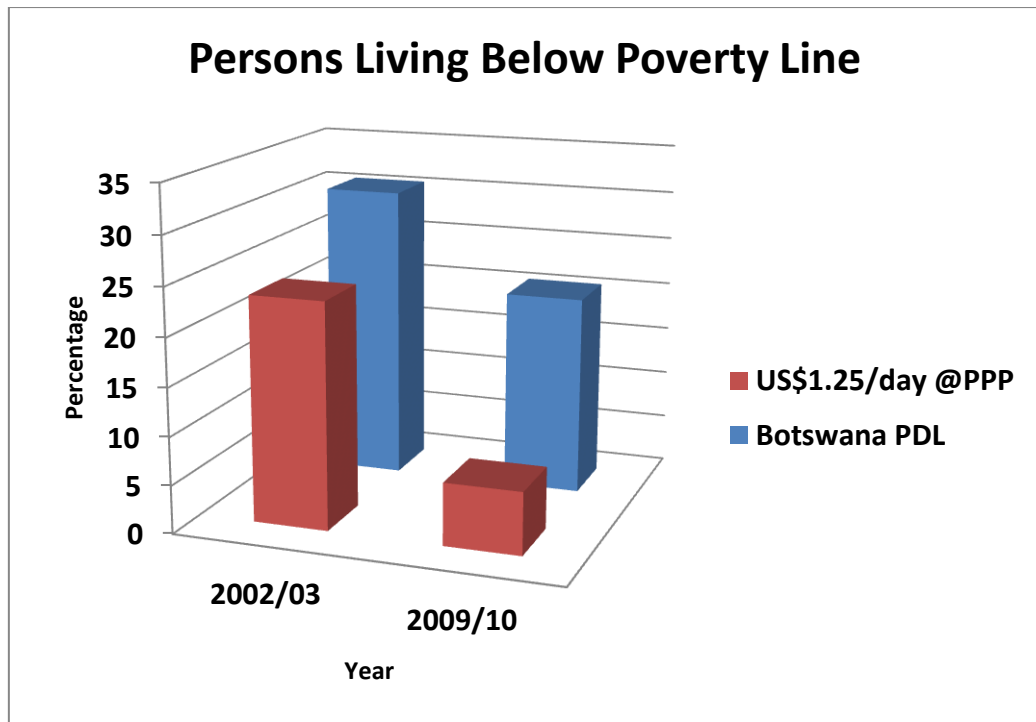
The current account deficit for 2011 of P2 billion was smaller than the P5.1 billion in 2010. Foreign exchange reserves at the end of October 2011 of P62.1 billion are enough to finance 19 months of goods and services imports.

Population Growth

2011 Census reported a total population of just over 2 million, reflecting an annual growth rate of 1.9% since 2001.

Botswana Core Welfare Indicators (Poverty) Survey of 2009/10

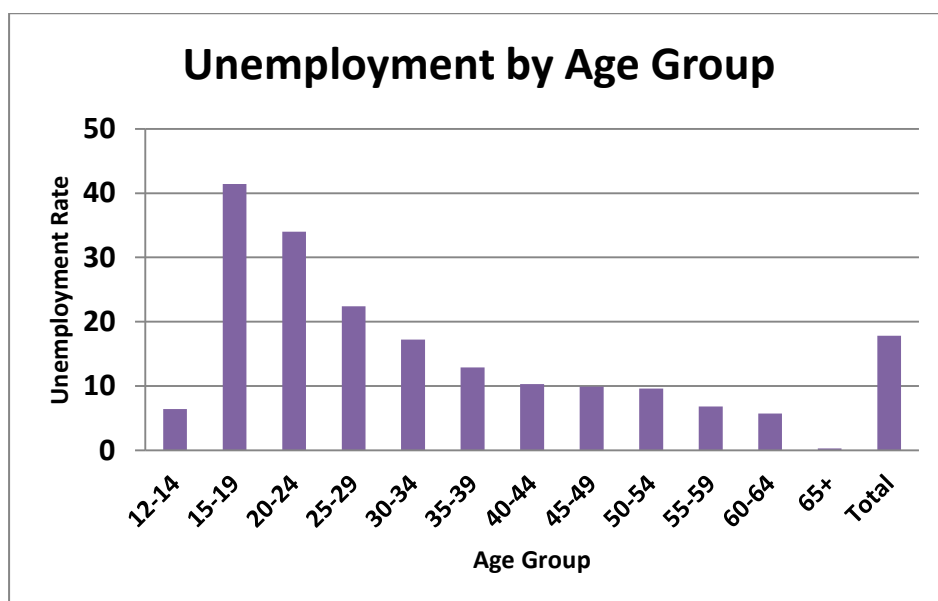
- Individuals below Botswana Poverty Datum Line declined from 30.6% of population in 2002/03 to 20.7% in 2009/10.
- Using the internationally comparable measure of US\$1.25 per day at Purchasing Power Parity exchange rates, the rate declined from 23.4% to 6.5% over same period.



- To succeed in eradicating poverty, the substantial budget allocation needs to be clearly targeted.

Employment and Labour

- Unemployment rate in BCWI(P) Survey at 17.8%, up slightly from last Labour Force Survey
- Unemployment concentrated in youth under 24 years of age



- Clear need to expand job opportunities for youth and better match skills development with job market requirements.

Trade and Investment Climate

- Botswana's sovereign credit rating remains investment grade. In November 2011 Moody's changed its outlook from negative to stable.
- World Bank's Doing Business 2012 report identifies several challenges for Botswana to improve the business climate, particularly the number and length of procedures to start a business or undertake a construction project.

Economic Diversification and Competitiveness

- National Economic Diversification Council launched September 2011 to give strategic guidance to diversification thrust.
- World Economic Forum's latest Global Competitiveness Report rated Botswana lower, indicating importance of Government's agenda to improve competitiveness.
- Government funding to upgrade local bandwidth expected to improve WEF's GCR future internet access ranking.
- New Immigration Act to substantially reduce time for processing work and residence permits.

Financial Services

- Rapid development of the non-banking financial sector an important part of diversification strategy
- Non-Bank Financial Institutions Regulatory Authority and MFDP reviewing several pieces of legislation to protect customers and ensure stable environment.

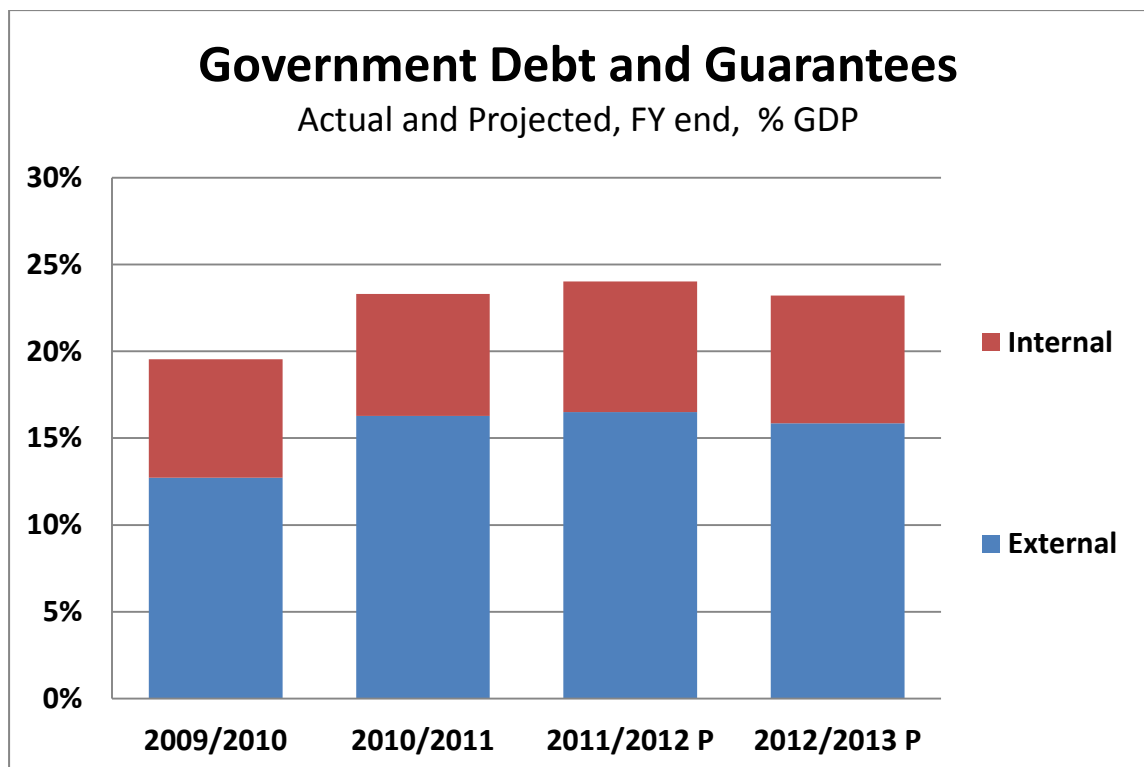
Private Sector Development & Parastatals

- Strategy of reducing Government's dominance by cutting expenditure as a share of GDP from NDP 10 maximum of 40% to create space for private sector – share in FY 2012/13 expected to be 33%
- Each Ministry to reduce its wage bill by 5% each year for next three years
- New Privatisation Master Plan in preparation

- Examples of dividends paid to Government by Public Enterprises are: BTC P57 million; BDC P28 million; NDB P12 million; BTA P6 million; BSB P3 million

Debt Management

- Statutory cap on debt of 20 percent of GDP for each of internal and external debt (inclusive of guarantees in each case) has helped keep debt levels sustainable.



- In future, domestic borrowing and guarantees to be more important in financing major capital projects.

Budget

2010/11 Budget Outturn

- Total Revenue and Grants for FY 2010/11 = P31.91 billion
- Total Expenditure and Net Lending = P38.42 billion
- Balance = deficit of P6.51 billion, compared to the estimated deficit of P6.93 billion announced in February 2011.

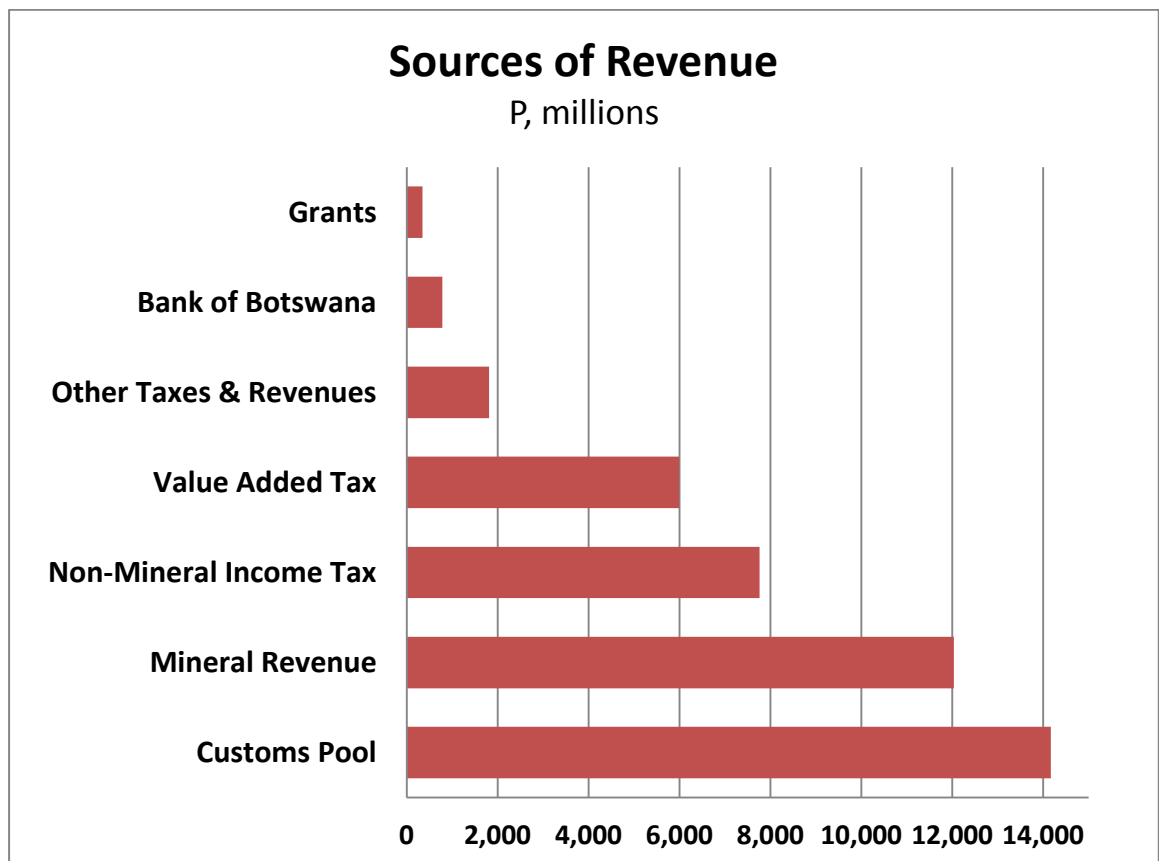
2011/12 Revised Budget Estimates

- Original estimates for 2011/12 showed a deficit of P6.93 billion.
- Revised Total Expenditure and Net Lending = P41.75 billion
- Revised Revenue & Grants = P37.99 billion
- Reduced budget deficit of P3.76 billion, mainly due to an increase in total Revenue and Grants of P3.9 billion.

2012/2013 Budget Proposals

Revenues and Grants

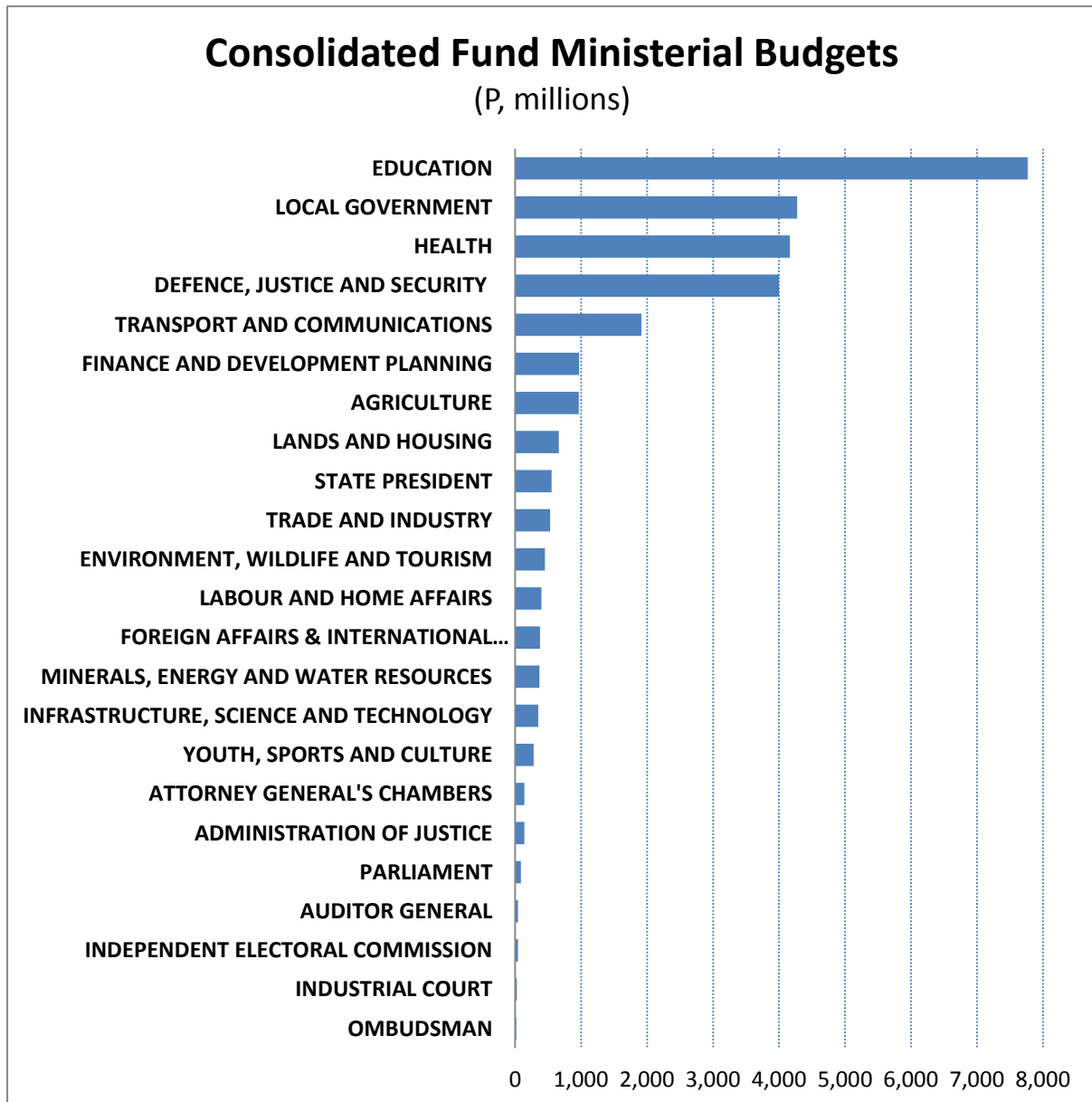
Total revenue and grants for FY 2012/13 is forecast = P42.91, from following sources:



- Revenue from SACU customs and excise pool = 33% of total, including one-off payment of P2.48 billion arising from underestimate of amount owing to Botswana for 2010/11 FY

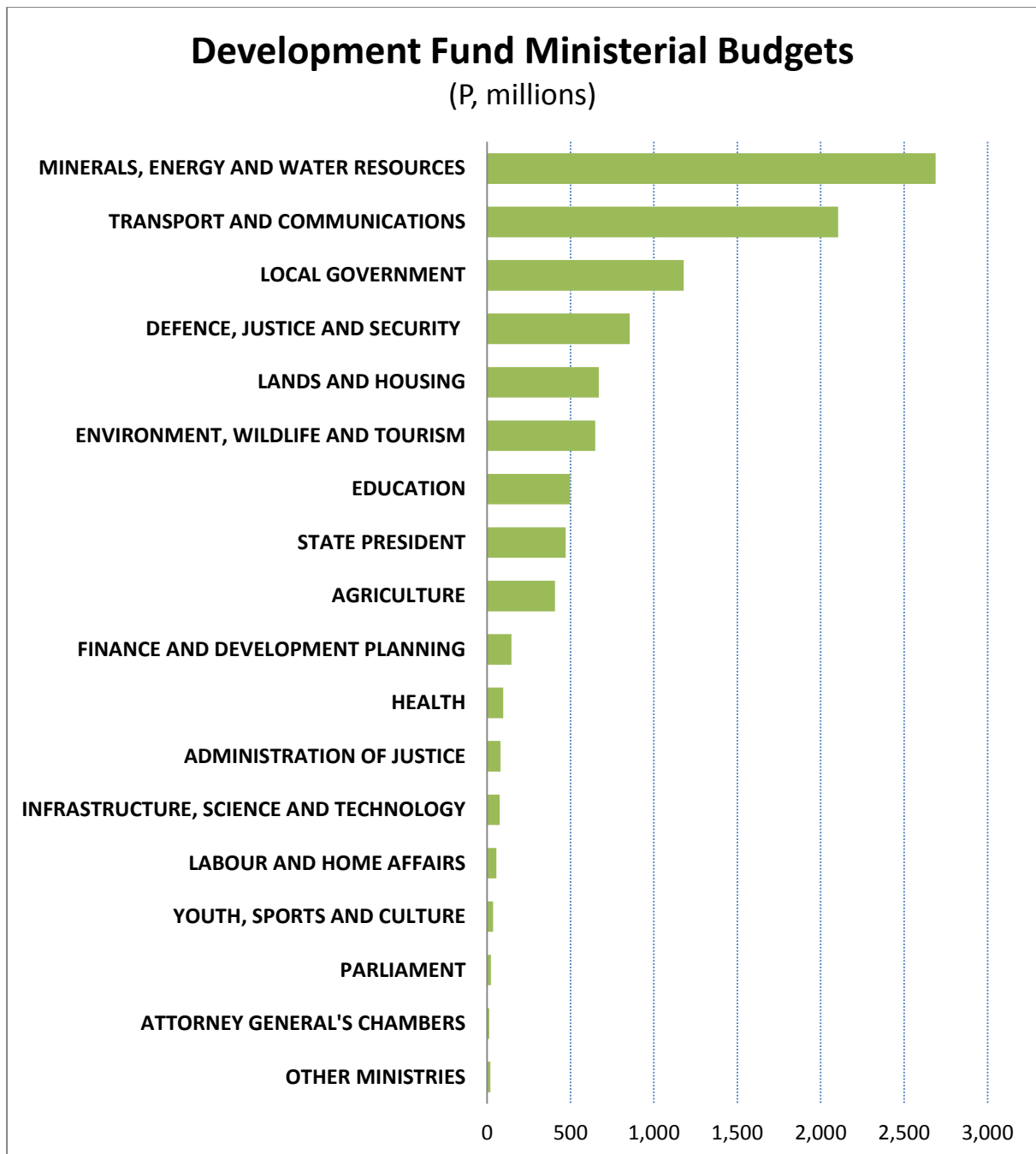
Ministerial Expenditure Budgets

Proposed Ministerial expenditures from the Consolidated Fund for recurrent items are shown below:



Development Budget

Proposed Ministerial Expenditures from Development Fund are shown below:



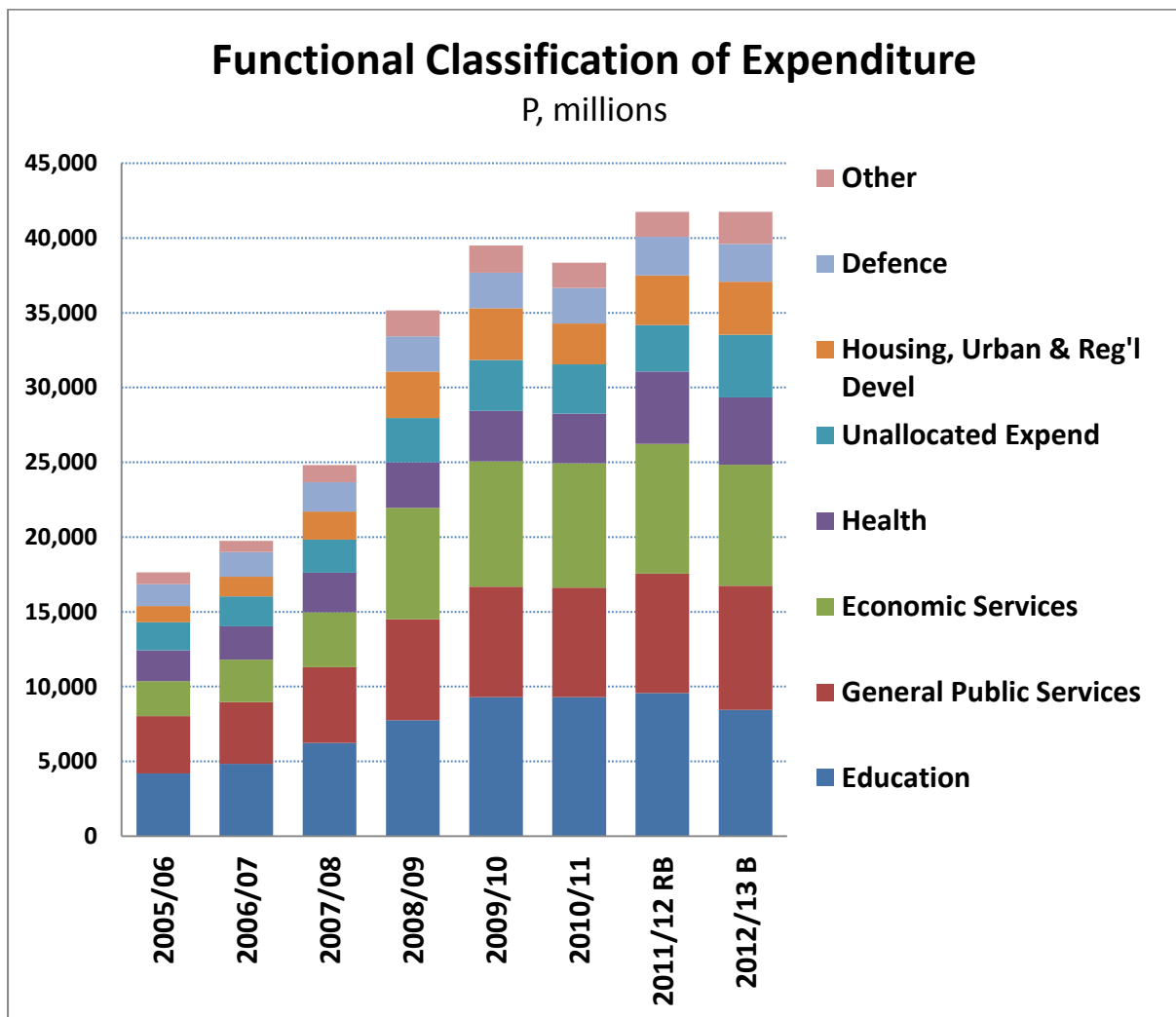
The major projects include:

- Ministry of Minerals, Energy and Water Resources (P2.69 billion)
 - Botswana Power Corporation Finances to cover Morupule B Power Station and Emergency Power (P800 million)
 - Water Planning and Development (P1.24 billion)
 - Major Village Water Supply (P380 million)

- Ministry of Transport and Communications (P2.10 billion), for ongoing and new projects that include:
 - Kasane airport,
 - Charleshill to Ncojane road,
 - Tonota to Francistown road and associated bridges
 - Kazangula and Thamalakane bridges
- Ministry of Local Government (P1.18 billion), including
 - Ipelegeng (P530 million)
 - Village Infrastructure (P272 million)
- Ministry of Defence, Justice and Security (P855 million)

Expenditure by Function

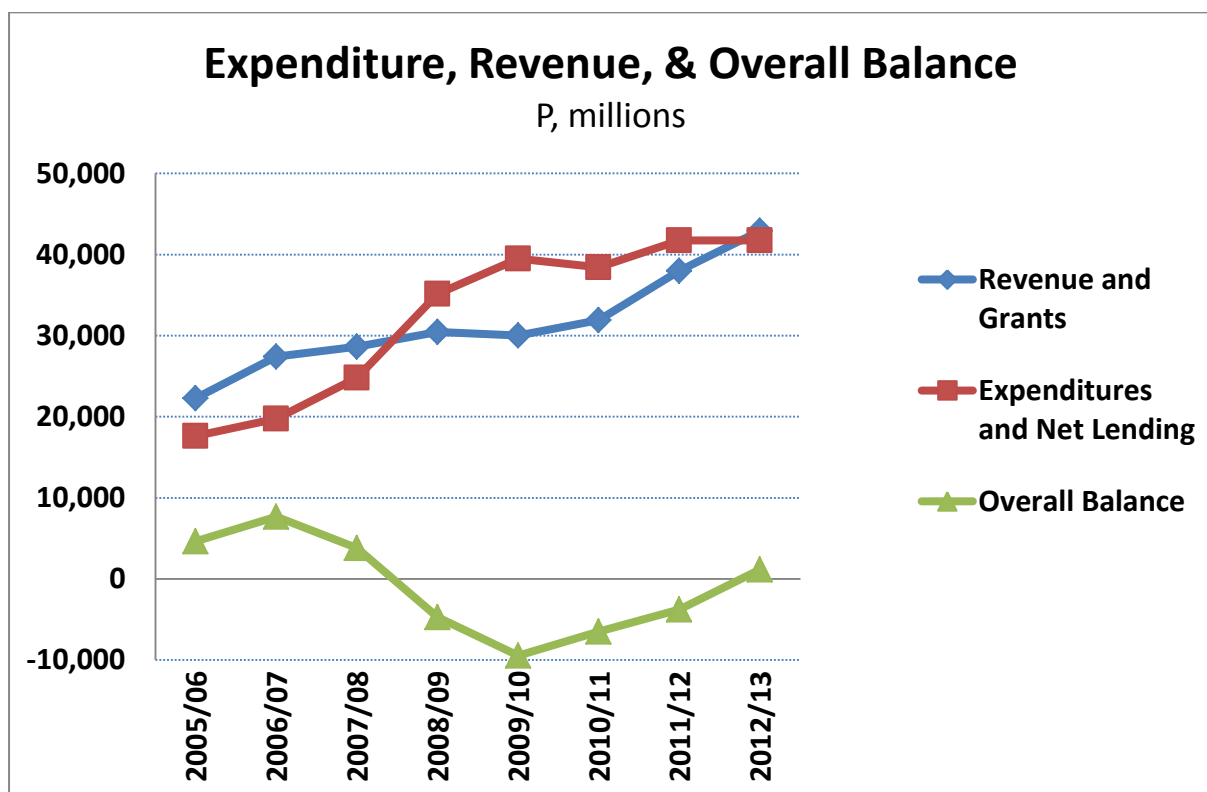
The functional allocation of expenditure in the cash flow recurrent and development budgets combined for the past several years is shown below:



Overall Cash Flow Balance

Total Revenues and Grants for FY 2012/13 are forecast at P42.91 billion. Total Expenditure and Net Lending are proposed at P41.76 billion. The net result is a budget surplus amounting to P1.15 billion.

A summary of the major items in the cash flow budget for the coming financial year, in the context of recent financial years, is set out in Table 1. The total revenues, expenditures, and budget balances for the past several years are shown graphically below:



Updated Projections

The recent past and updated fiscal projections for the next three financial years are shown in Table 2.

Fiscal Legislation

Several pieces of legislation are in various stages of being updated:

- Consultations on the Insurance Industry Bill and the Retirement Funds Bill are underway.
- Amendment of the Collective Investment Undertakings Act, has started.

- Amendments have been made to the Value Added Tax, which included exemptions from VAT of farm implements such as ploughs, planters and harvesters.
- Tax and banking laws are being reviewed to ensure they are in line with international standards on transparency and exchange of information for tax purposes.

Conclusion

Context of this year's budget:

- Considerable uncertainty about the state of the world economy;
- Our debt level has increased; and
- Our future revenues are projected to fall substantially.
- Need to sustain economic growth from available resources without incurring unsustainable debt or jeopardising current and future economic growth prospects.

Government had promised a balanced budget for the coming financial year. Instead a modest surplus is projected, demonstrating that Botswana is indeed committed to maintaining fiscal sustainability.

Surpluses realised are to be used to pay debt, replenish reserves, and where necessary be invested in high return, self-liquidating projects and programmes.

Table 1: Consolidated Cash Flow Presentation of Budget
(Pula, millions)

Financial Years	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
		Actual			Revised	Estimates
Revenue and Grants	28,629	30,455	30,023	31,909	37,994	42,906
Tax Revenue	17,267	20,454	20,045	20,505	24,843	31,759
Mineral Tax	3,769	3,451	2,360	2,949	2,717	3,524
Customs Pool	7,835	7,750	7,931	6,207	8,441	14,170
Non-Mineral Income Tax	2,573	4,608	5,561	6,413	7,138	7,764
Value Added Tax	2,852	4,377	3,943	4,638	6,212	5,995
Other Taxes	238	268	250	298	335	306
Non Tax Revenue	10,785	9,378	9,209	11,076	12,841	10,799
Mineral Royalties & Dividends	8,564	6,731	6,729	9,111	10,257	8,514
BOB revenue	906	1,302	1,000	700	525	780
Other Revenues	286	1,345	1,480	1,264	2,059	1,505
Grants	577	623	769	329	310	348
Recurrent	82	84	121	210	123	181
Development	495	539	648	119	187	167
Expenditures and Net Lending	24,822	35,151	39,489	38,417	41,753	41,755
Recurrent	18,579	23,889	25,732	27,089	30,525	31,751
Personal Emoluments	6,850	8,701	9,252	11,899	12,140	12,128
Other Charges	11,480	14,906	16,110	14,667	17,828	18,032
Public Debt Interest	248	282	370	524	557	1,592
Development Expenditure	6,548	11,458	13,006	11,372	11,343	10,058
Net Lending	-305	-197	752	-44	-115	-54
Overall Surplus (+) / Deficit (-)	3,808	-4,696	-9,466	-6,508	-3,759	1,151

Table 2: Government Budget and GDP

(P, millions, current prices and %, FY 2005/06 to 2009/10 actual; and 2010/11 to 2014/15 projected)

	FY	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 B	2013/14 P	2014/15 P
GDP	GDP, current prices, FY	80,344	87,313	86,551	105,553	114,778	125,609	135,720	146,169
	growth rate	17.8%	8.7%	-0.9%	22.0%	8.7%	9.4%	8.0%	7.7%
						Revised B	Budget	Budget Projections	
Budget	Revenues & Grants	28,629	30,455	30,023	31,909	37,994	42,906	43,680	47,043
	Recurrent Expenditure	18,579	23,889	25,732	27,089	30,525	31,751	34,748	36,086
	Development Expenditure	6,548	6,548	13,006	11,372	11,343	10,058	8,687	9,022
	Net lending	-305	-197	752	-44	-115	-54	0	0
	Total Expenditure & Net Lending	24,822	35,151	39,489	38,417	41,753	41,755	43,435	45,108
	Balance	3,808	-4,696	-9,466	-6,508	-3,759	1,151	244	1,935
Shares of GDP	Revenues & Grants	35.6%	34.9%	34.7%	30.2%	33.1%	34.2%	32.2%	32.2%
	Recurrent Expenditure	23.1%	27.4%	29.7%	25.7%	26.6%	25.3%	25.6%	24.7%
	Development Expenditure	8.1%	7.5%	15.0%	10.8%	9.9%	8.0%	6.4%	6.2%
	Total Expenditure & Net Lending	30.9%	40.3%	45.6%	36.4%	36.4%	33.2%	32.0%	30.9%
	Balance	4.7%	-5.4%	-10.9%	-6.2%	-3.3%	0.9%	0.2%	1.3%

Table 3: Government Debt

(Pula, millions, actual and projected, FY end, and % of FY GDP)

	2009/2010	2010/2011	2011/2012 P	2012/2013 P
External				
External Debt	9,288	12,573	13,810	14,211
External Guarantees	1,726	4,604	5,120	5,699
Total External	11,015	17,177	18,930	19,910
Internal				
Internal Debt	4,650	6,217	7,486	8,123
Internal Guarantees	1,241	1,207	1,159	1,125
Total Internal	5,891	7,424	8,645	9,248
Grand Total	16,905	24,601	27,575	29,157
GDP actual/forecast for FY	86,551	105,553	114,778	125,609
a. Total Debt / GDP =	19.5%	23.3%	24.0%	23.2%
b. External Debt/GDP =	12.7%	16.3%	16.5%	15.9%
c. Internal Debt / GDP =	6.8%	7.0%	7.5%	7.4%