

Capital Securities

A member of the Botswana Stock Exchange

Botswana economic report - October 2008

QUARTERLY UPDATE:

Reserve position: Botswana's foreign exchange reserves dropped slightly over the second quarter of the year, but remain significantly up over the last 12 months. They closed June at 65,377 mln pula or 10,002 mln dollars, down three pct in pula, two pct in dollars over the quarter, but up 17 pct in pula terms, 10 pct in dollar terms since June 2007.

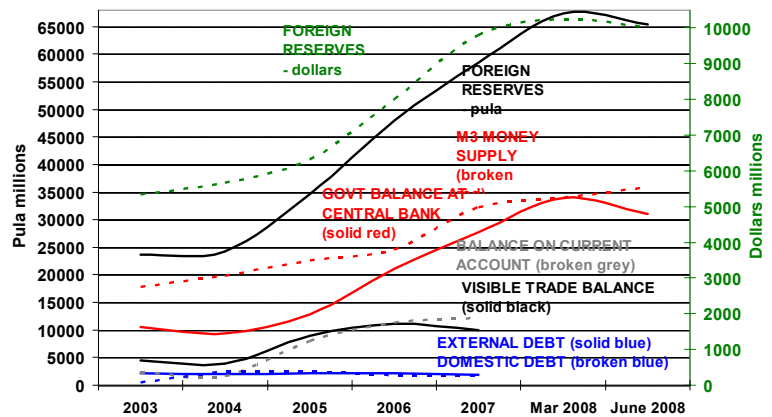
The government's balance at the central bank also dropped over the June quarter. It was down 8.5 pct, but similarly remains well up over the 12 month period.

Financials: M3 money was up. It gained six pct to 36 bln pula to close up 20 pct over 12 months. The bank reports the monetary base as at end June as 20,331 mln pula, up nine pct over 12 months.

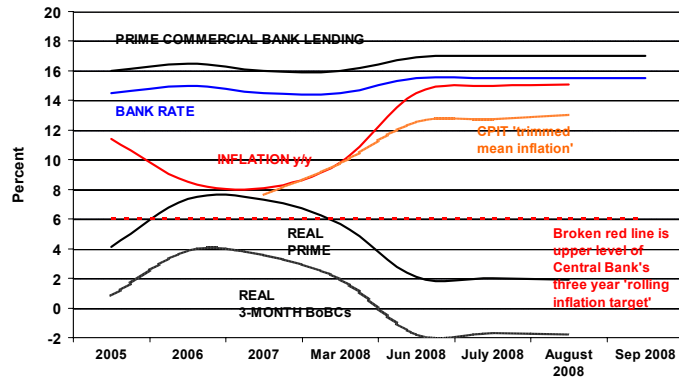
Interest rates and inflation: Year on year headline inflation is now at its highest since before 1999, with CPIT 'trimmed' inflation the highest since first recorded in September 2006. Y/y headline inflation closed August at 15.1 pct - having spiralled up from 7.2 pct 12 months previous. CPIT inflation - so-called volatilities removed - was 13 pct up from 7.6 pct over 2007.

The central bank admits there are significant upward risks to its inflation outlook, but sticks doggedly to its three-year rolling target. It quotes price increases over H1 2008 of 40 pct for petrol, 77 pct for diesel 85 pct for paraffin, but still forecasts inflation will peak at the end of 2008 before decreasing towards the six pct high end of that target.

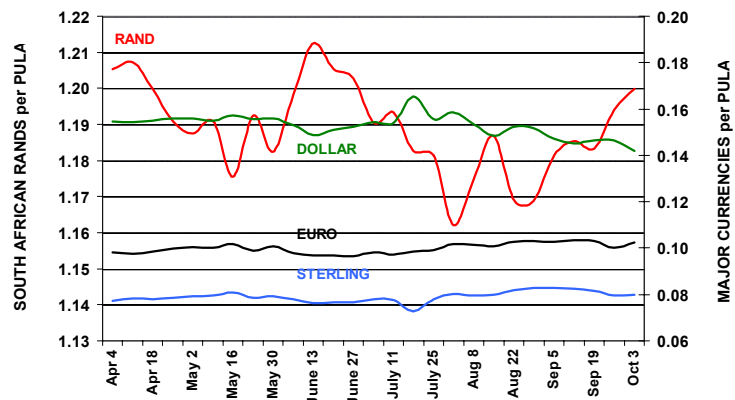
MAJOR ECONOMIC INDICATORS



INTEREST RATES AND INFLATION



FOREIGN EXCHANGE over 26 WEEKS



Botswana economic report - October 2008

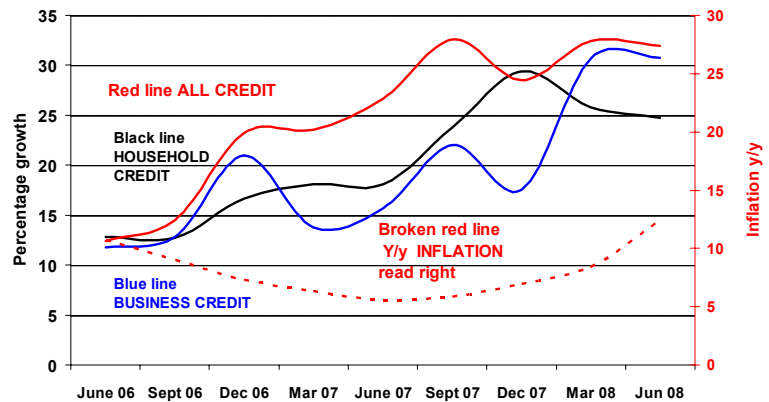
To counter the inflation spiral, the bank rate has been increased twice in quick succession, to 15 pct in May, 15.5 pct in June. Commercial bank prime lending is now quoted at 17 pct, real prime at 1.9 pct and the real return on the bank's paper (BoBCs) has been negative since June.

Credit growth: Annual growth in demand for credit by the business sector over the June quarter was measured at 31 pct - a two year high. High levels of household credit remain a thorn in the central bank's side. Annual growth measured over the June quarter must have eased the pain: that was five points off growth over 2007 - which was almost double that of 2006.

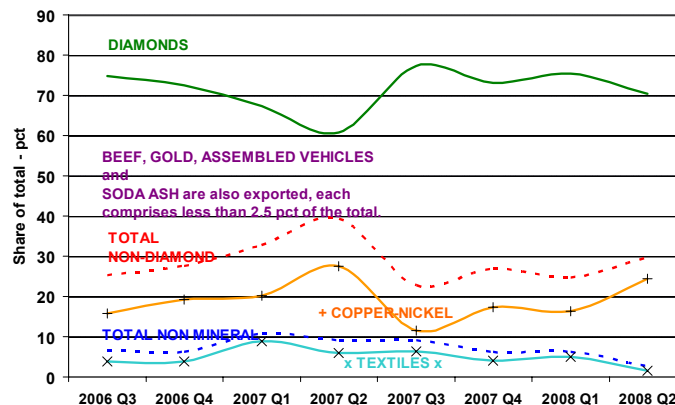
Foreign exchange: As at October 10, the pula was 0.1326 against the dollar, 0.0785 against sterling, 1.2493 against the South African rand. Over the September quarter, it continued to depreciate against the dollar. It improved against sterling and the South African rand, the currency of Botswana's major non-diamond trading partner. The bank expects this to remain the pattern over the rest of the year. "The rate of crawl of the exchange rate, which is based on the differential between the bank's inflation objective and forecast inflation in trading partner countries, is not expected to result in a substantial nominal exchange rate adjustment," it says.

Export pattern: In spite of continuing efforts to strive for diversification of Botswana's export led economy away from an overwhelming dependence on diamond revenues, they continue to account for 60 pct of government revenue, 85 pct of export revenues and a direct third of gross domestic product, directly far more. Growth in mineral exports continues to outstrip that of any other commodities.

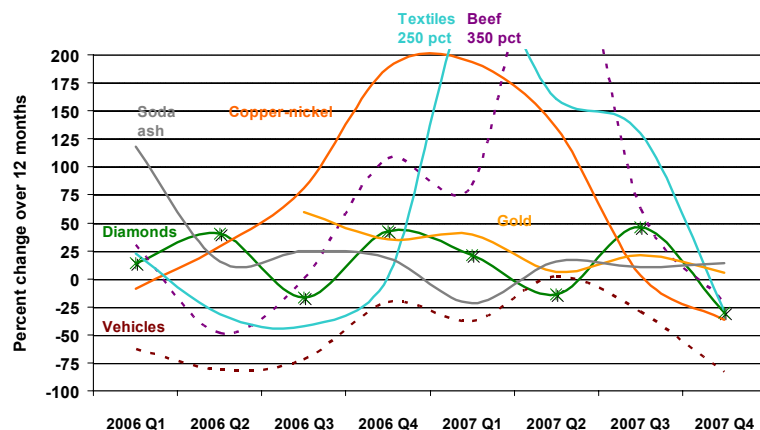
CREDIT GROWTH over previous 12 months



QTLY PATTERN OF PRINCIPAL EXPORTS LAST 24 MONTHS



PRINCIPAL EXPORTS - quarterly growth rates last two years



Botswana economic report - October 2008

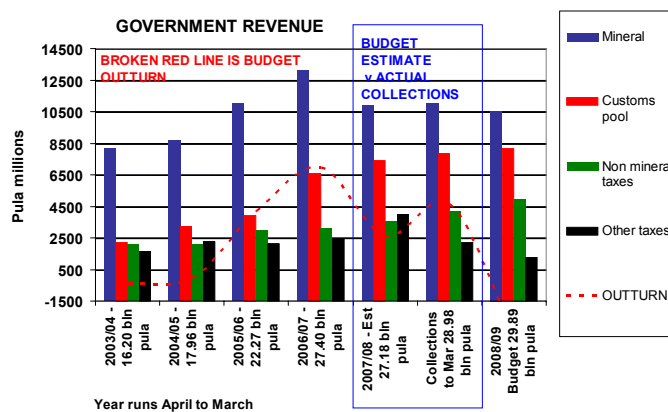
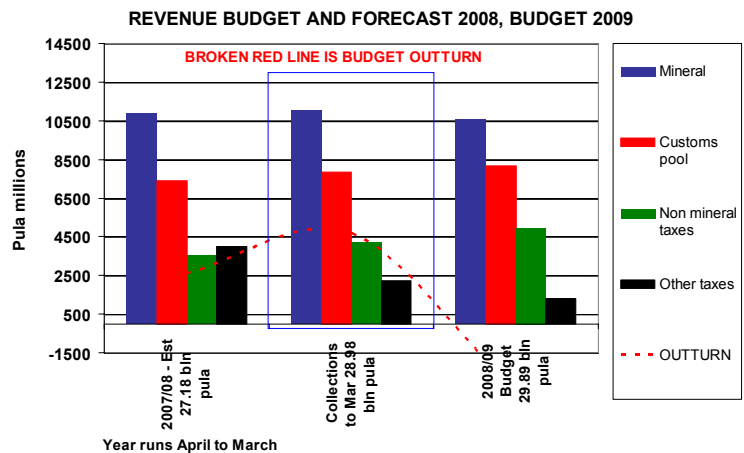
Forecasts are that a six billion pula increase in total export revenue 2008 over 2007 will be attributable to improved diamond exports. Non-mineral exports are forecast to decrease by 25 pct.

On these forecasts, diamond exports, 74 pct of the export total over 2006, but down to 61 pct over 2007, could again surge. Based on principal export commodities alone - others are not so regularly recorded - they could again reach 74 pct.

Government revenue: No details of gross domestic product for 2007/08 are yet available, but revenue figures show that the budget will outturn 2.1 billion pula better than originally estimated.

For a second year in succession, government receipts have been bolstered by improved revenues from the regional customs pool (Southern Africa Customs Union), but in August this year, most countries of the region will be members of a southern Africa free trade area. As Minister of Finance Baledzi Gaolathe himself warns, this is a source that cannot be relied on in the longer-term.

**UPDATES ARE ISSUED MONTHLY.
COPIES OF REPORTS ON THE LATEST
ANNUAL AND OTHER LESS
FREQUENTLY UPDATED ITEMS
AVAILABLE CAN BE OBTAINED FROM:**
rupert@capresources.co.uk
newsworld@btInternet.com



This report is prepared from official statistics by NewsWorld London and Botswana. It is issued quarterly. Last updated from information available as at October 17 2008. Published by Capital Securities, Botswana. Comment and opinion by Barry Baxter, NewsWorld. newsworld@btinternet.com Copyright exists in this document. For further information contact Rupert McCammon, Capital Resources. rupert@capresources.co.uk

Capital Securities

A member of the Botswana Stock Exchange

Block 6, Plot 64511, Exchange House,
Fairgrounds, Gaborone, Botswana.
P. Bag 173, Gaborone. Tel: +267 3188886
enquiries@capital.bw