

REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

PRIVATE BAG 008

GABORONE

THE 2010 BUDGET IN BRIEF

Transforming Our Economy After the Crisis: 2010 and Beyond

Background

The deepest global economic downturn in recent history caused an unprecedented loss of national income for Botswana. Government revenue to finance development initiatives was severely impaired, threatening to stall the hard earned progress towards achieving the aspirations of Vision 2016.

Highlights

This budget responds by laying the foundation for a transformation of the Botswana economy. It identifies what must be done by Government and the private sector to resume rapid economic growth, while broadening the sources of growth beyond the mineral sector. The transformation begins now, but will be an ongoing process.

The principal thrusts of the expenditure budget are:

- Heavy investment in education and health of Botswana;
- Major infrastructure projects in electricity and water to serve the growing private sector demand;
- Privatisation and rationalisation of services provided by Government and parastatals to enhance efficiency, and open up new opportunities for citizen participation;

- Poverty reduction policies and taxation policies will be supportive of the transformation;
- Special initiatives, such as the Hubs, to focus attention on specific high return opportunities.

In every area, the limited funds available to Government must deliver more with less. Government will be rigorous in evaluating public sector programmes and projects to ensure only the most productive projects are undertaken.

Government is committed to a sustainable fiscal position, not burdened by excessive debt, by adhering to the macroeconomic framework of NDP 10 as approved by Parliament.

The private sector will have the benefit of a stable business-friendly economic environment, with the confidence that a burgeoning Government debt will not crowd out private sector financing.

Economic Review

Global Economy

Recovery has begun, even though GDP levels are still below what they were before the recession began. The IMF anticipates for 2010:

- Euro area growth of 1%
- US growth of 2.7%
- Emerging economies and other developing countries 6% growth

Botswana Economy

Real GDP for the four quarters through September 2009 was 4.6% percent below the previous twelve months. The fall in real output was largely due to the 31% fall in the mining industry, while the rest of the economy grew at 11.6% over the same period.

Quarter by quarter the Botswana economic downturn was very sharp:

- real contraction of 6.3% in Q4 of 2008
- further 20.5% drop in Q1 of 2009
- some recovery since, but real mineral output in Q3 2009 still well below levels achieved over the last 5 years

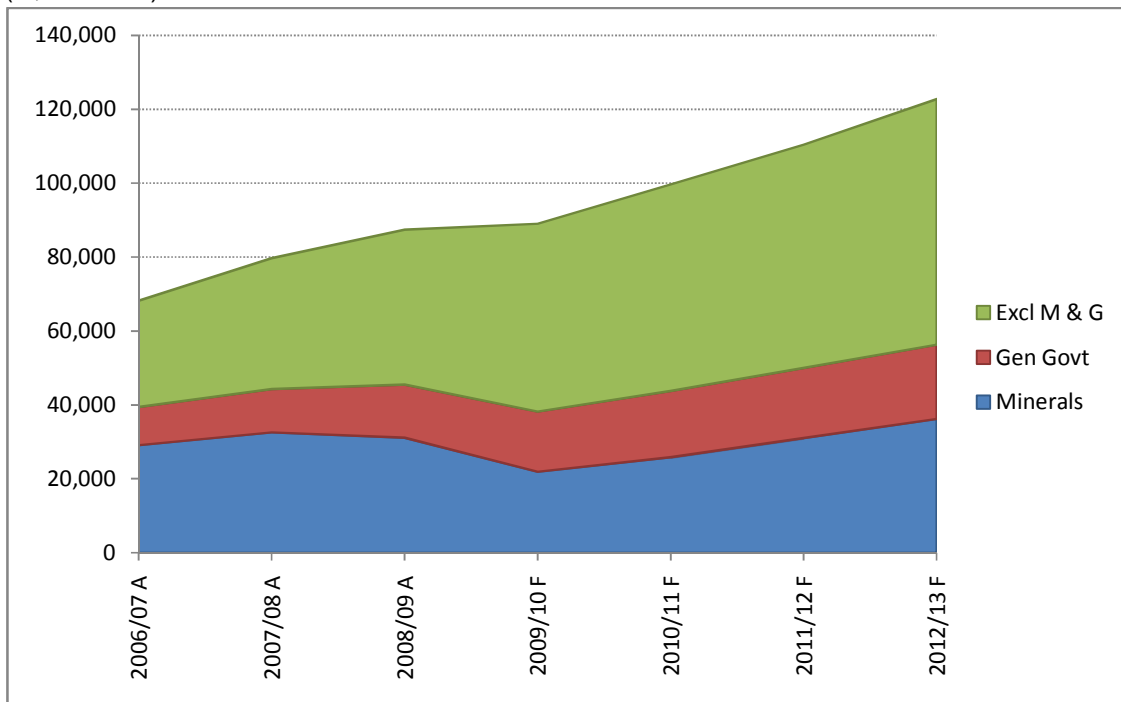
- overall real GDP for Q3 2009 still less than Q3 2008

Looking forward:

- gradual recovery of the world diamond market by 2012/13;
- non-mineral sectors continue with moderate real growth, in part because Government avoided a sharp reduction of spending;
- Overall real GDP growth projected
 - FY 2009/10 \approx zero
 - FY 2010/11 \approx 5 percent
- GDP in current prices
 - FY 2008/09 actual = P87.5 billion
 - forecasts
 - FY 2009/10 \approx P89.0 billion
 - FY 2010/11 \approx P99.7 billion

Chart 1: GDP in Current Prices, Financial Year, Actual 2006/07 – 2008/09, and Forecast 2009/10 – 2012/13

(P, millions)



Exchange Rate

During 2009 there was some movement of the exchange rate against individual currencies in the basket due to cross exchange rate

movements. The Pula appreciated by 12.7 percent against the US dollar, while it depreciated by 11 percent against the South Africa rand. The real effective exchange rate depreciated marginally by about 1.5 percent, reflecting a faster rate of decline of inflation in Botswana than in trading partners. Overall the real effective exchange rate has moved very little over the past 3 years in keeping with Government's policy of a stable real exchange rate.

Balance of International Payments

Current account was a deficit of P6.8 billion in 2009, compared to a surplus of P5.1 billion in 2008. Foreign exchange reserves, end November 2009 = P60.9 billion, down from P68.6 billion in December 2008. Reserves now represent 20.7 months of import cover of goods and services.

Employment

Formal sector employment increased by 3 percent over the year to March 2009. Employment declined in mining and quarrying by 9.3 percent, and manufacturing by 0.5%.

Budget

2008/09 Budget Outturn

Total revenue and grants in FY 2008/09 amounted to P30.46 billion, and total expenditure and net lending was P35.15 billion. The balance was an overall deficit of P4.70 billion, compared to the estimated deficit of P7.12 billion in the revised budget estimates. The deficit was 5.4% of the P87.5 billion GDP for the four quarters of FY 2008/09.

2009/10 Revised Budget Estimates

When the 2009/10 budget was presented, a deficit of P13.39 billion was estimated, which was approximately 14 percent of forecast GDP. During the course of the year, Government cut the development budget by 5 percent and the recurrent budget by 7 percent across the board. Additional expenditure was however, approved by Parliament in December 2009, leaving the 2009/10 revised recurrent expenditure budget at P26.38 billion. The development budget was increased to P14.45 billion. In addition, a P570 million shareholder loan to De Beers is included in Net Lending. The revised total revenue and grants figure

is P27.78 billion. The 2009/10 revised total expenditure and net lending is P41.27 billion

The overall revised budget outturn is a deficit of P13.48 billion which is 0.7 percent higher than the original budget deficit of P13.39 billion. This revised budget deficit is 15.1 percent of the revised 2009/10 forecast GDP of P89.05 billion.

To partly finance the deficit, Government negotiated with development partners where favourable financing was available. Government has drawn US\$1 billion of a budget support loan from the African Development Bank. Government's accumulated balances and the ongoing domestic bond issuance programme are also being used to finance the deficit.

The Ministry of Finance and Development Planning is instituting measures to deal with problem in budgeting and financial management that emerged during the 2009/10 financial year across most Ministries, such as cost-overruns caused by inadequate budgeting, award of tenders without enough funds, change of scope of projects without authority for additional funds and transferring of funds between expenditure heads without re-prioritising. Any officer who violates Section 39 of the Finance and Audit Act, which calls for the surcharge of public officers who cause Government nugatory expenditure, will be surcharged. At the same time, project appraisal will be tightened to make it more robust to ensure that only projects with the highest potential added value are approved, and that any subsequent project changes do not change the favourable net appraisal of the project.

2010/2011 BUDGET PROPOSALS

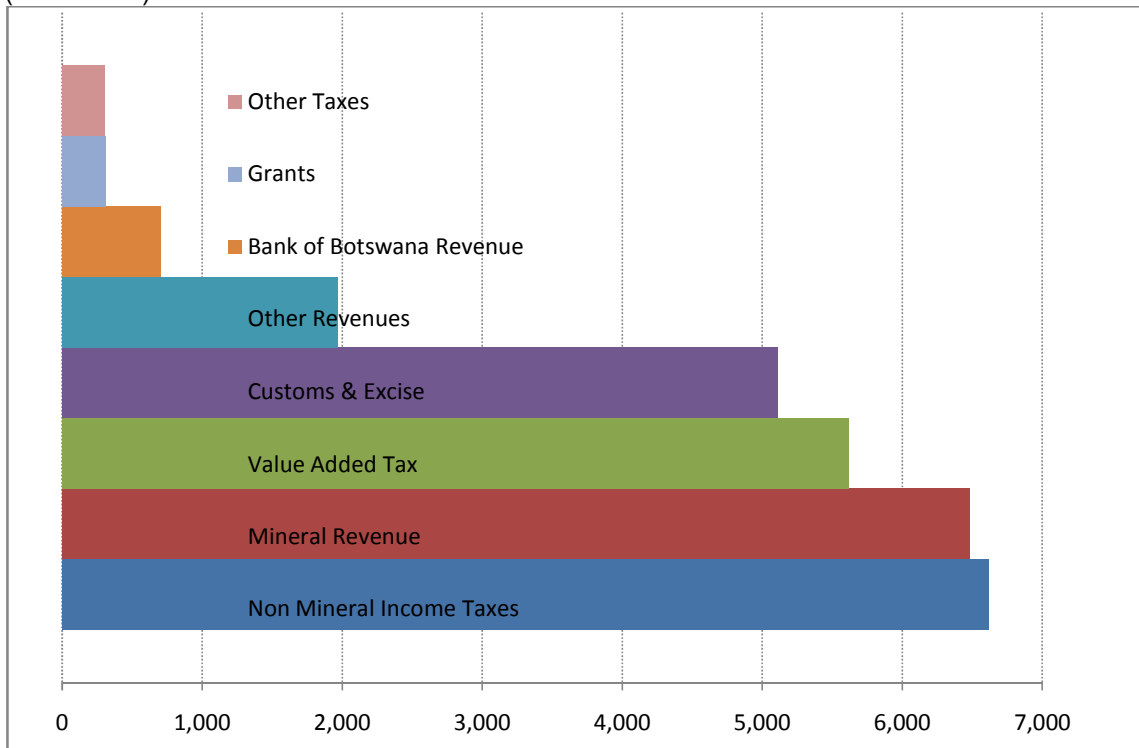
Revenues and Grants

Total revenues and grants are forecast at P27.08 billion. The largest revenue source is Non-mineral income tax at 24.4 percent of the total. The second largest contributor is Mineral revenue at 23.9 percent, while Customs and Excise revenue is third at 18.9 percent (Chart 2).

Forecast mineral revenue is greater than in the revised budget for the current financial year, but is considerably less than in 2008/09 due to the anticipated slow recovery of the world diamond market. Mineral revenues are not expected to return to the pre-recession levels in real

terms until 2012/13. The Customs revenue for 2010/11 will be significantly less than in recent years because of the decline in the Southern African Customs Union revenue pool, arising from a significant drop in high duty imports. The reduction for 2010/11 is compounded by the fact that distributions from the SACU revenue pool did not anticipate as sharp a decline in the pool, resulting in overpayments to member states, which must be repaid to the pool in the coming financial year.

Chart 2: Sources of Revenue, 2010/11 FY
(P millions)



Included in the total revenue estimates are:

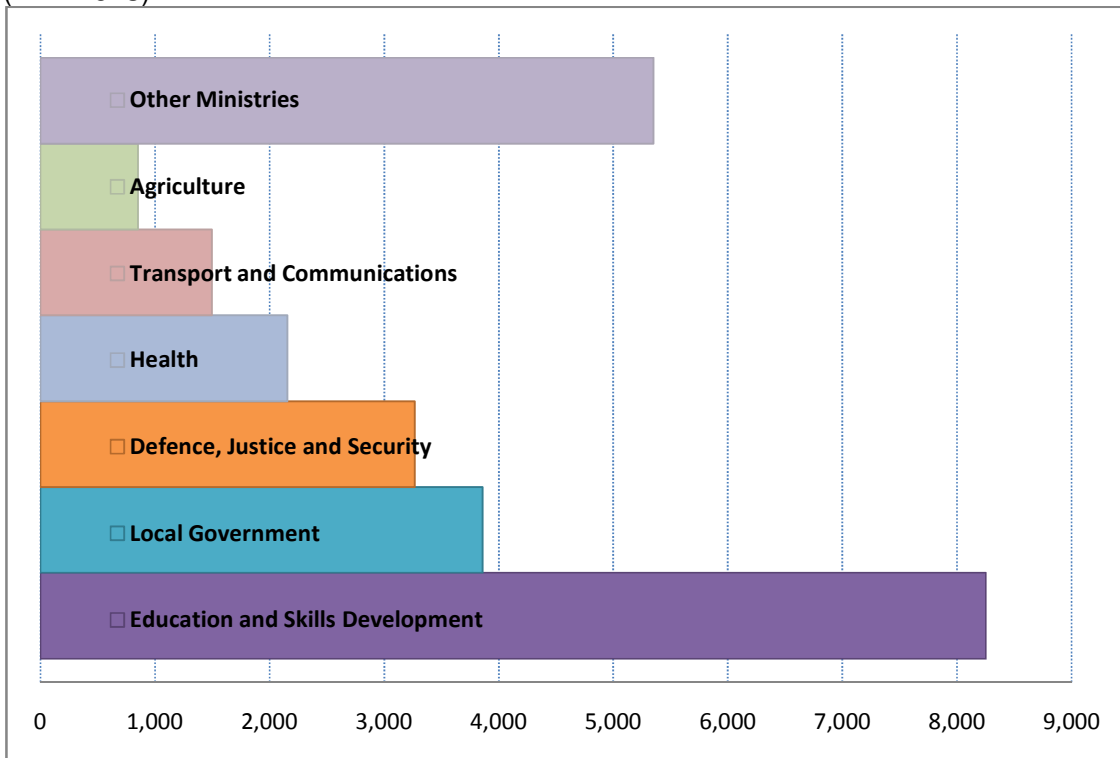
- an increase in the Value Added Tax to 12 % (accompanied by an increase in the threshold for registration from P250 thousand to P500 thousand) effective 1 April 2010;
- two-tier corporate tax system to be replaced by a single company tax rate of 25% percent of profits (companies designated as manufacturing and IFSC registered to be taxed at 15%), with a 7.5% final withholding tax on dividend distributions, effective 1 July 2010;
- several fees and levies that have not kept up with the costs of providing the associated services will be adjusted accordingly; and
- requirement that commercial parastatals pay 25 percent of their profits to Government will be strictly enforced.

Recurrent Budget

Recurrent expenditure budget is P27.14 billion, an increase of 2.9% over the 2009/10 revised budget. The major shares are:

- Ministry of Education and Skills Development (P8.3 billion);
- Local Government (P3.9 billion);
- Defence, Justice and Security (P3.3 billion);
- Health (P2.2 billion).

Chart 3: Recurrent Budget by Ministry, 2010/11 FY
(P millions)



Development Budget

Development expenditure budget is P12.18 billion, a decrease of 15.7% from the 2009/10 revised budget. The major shares are:

- Ministry of Minerals, Energy and Water Resources (P3.5 billion) including
 - Morupule “B” Power Station, P1.4 billion
 - Water Planning and Development, mainly for three ongoing dam projects, Thune, Lotsane and Dikgatlong, P1.05 billion
 - Emergency Power, P610 million
 - Major Village Water Supply, P219 million; and
 - North South Carrier, P250 million.

- Ministry of Transport and Communications, P2.1 billion, including
 - Air Transport Infrastructure, P693 million
 - Bitumen and Trunk Road project, P707 million
 - BTC finances, P389 million.

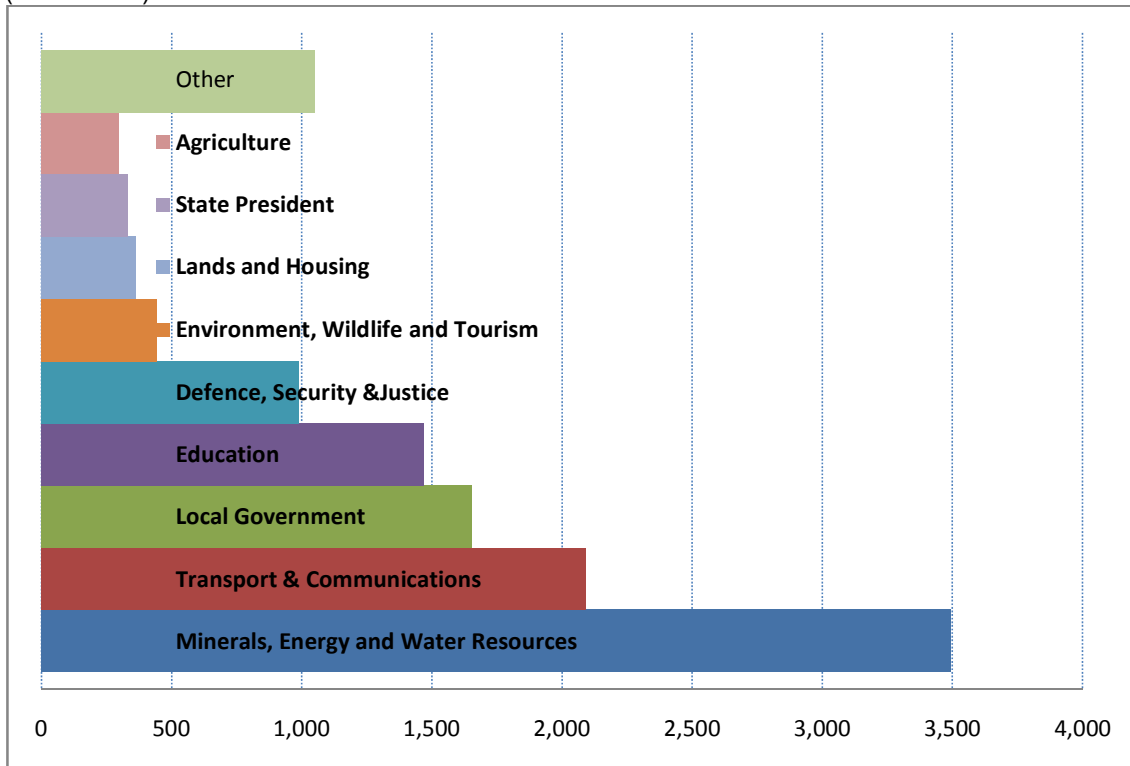
- Local Government, P1.65 billion, including
 - Village Infrastructure, P562 million
 - District and Urban Roads, P338 million
 - Ipelegeng, P200 million
 - Primary Schools, P178 million
 - Village Water Supply, P159 million
 - Urban Land Servicing, P70 million

- Ministry of Education and Skills Development, P1.5 billion, including
 - Secondary Schools, P1.28 billion to cover the construction of the four new senior secondary schools at Mogoditshane, Nata, Mmadinare and Shakawe.

- Defence, Justice and Security, P989 million, mainly for
 - BDF, P574 million
 - Directorate of Intelligence and Security, P200 million, and
 - Botswana Police Service, P175.8 million.

- Other Ministries/Departments share the remaining 20.3%.

Chart 4: Development Budget by Ministry, 2010/11 FY
(P millions)



PUBLIC SERVICE SALARIES

NEMIC considered the tight budgetary outlook, as well as the need to maintain long term sustainability and jobs, and recommended no Public Sector cost of living adjustment during the 2010/11 financial year. Government has accepted the recommendation.

FISCAL LEGISLATION

A review of the tax regime, to simplify it and improve tax compliance, while enhancing the investment climate, was completed last year and is currently the subject of extensive consultations with the many stakeholders. Detailed proposals will be made to Parliament in the very near future.

OVERALL BALANCE FY 2010/11

Summary

- Total revenues and grants = P27.077 billion
- Total expenditure and net lending = P39.194 billion
- Budget balance = - P12.118 billion
- Deficit = 12.2% of 2010/11 GDP forecast of P99.70 billion.

Cash Flow Budget is shown in Table 1 below.

Financing

Deficit to be financed by a combination of drawing down on Government's balances accumulated in surplus years, and by borrowing, largely on the domestic capital market. Details of the March 2010 bond issue will be announced by the Bank of Botswana shortly. An updated bond issuance programme, to assist financial markets in planning for the coming quarters, will be prepared for consideration by Parliament in the July session.

Compliance With NDP 10

Deficits for FY 2009/10 and 2010/11, which are the first two years of NDP 10, together will absorb most of the approved deficit for the entire NDP 10. To comply with Parliament's NDP 10 mandate, adjustments must be made to ensure that there is a balanced budget for the remaining years of NDP 10. To accomplish this, Government will require a substantial reduction of expenditure in the financial years 2011/12 and 2012/13, while revenues recover over those two years, to the point that we will have a balanced budget in 2012/13. This will restore sustainability in our public finances over the medium term. Projections for these adjustments are shown in Table 2. Then, in the remaining years of NDP10 a modest surplus would be run to comply with the NDP 10 mandate.

CONCLUSION

This budget lays the foundation for transformation of our economy. Government is committed to a sustainable fiscal position, not burdened

by excessive debt, and adhering to the macroeconomic framework of NDP 10 as approved by Parliament.

The limited funds available to Government must deliver more with less. Every Pula of Government spending must create more than a Pula worth of added value.

This will transform Botswana into a globally competitive high income economy that delivers development with dignity for all Batswana.

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

Financial Years	2005/06	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Estimates
Revenue and Grants	22,267	27,398	28,629	30,455	27,782	27,077
Revenue	22,154	26,949	28,052	29,832	27,469	26,771
Tax Revenue	11,980	15,919	17,267	20,454	19,718	18,472
Mineral Tax	2,895	3,803	3,769	3,451	1,983	1,896
Customs Pool	3,930	6,610	7,835	7,750	7,931	5,111
Non-Mineral Income Tax	3,003	3,072	2,573	4,608	5,852	6,618
Sales Tax/VAT	1,979	2,248	2,852	4,377	3,687	4,583
Other Taxes	173	186	238	266	264	264
Non Tax Revenue	10,174	11,030	10,785	9,378	7,750	8,299
Mineral Royalties & Dividends	8,150	9,312	8,564	6,731	4,852	4,586
Interest	97	59	67	52	60	48
Bank of Botswana revenue	741	569	906	1,302	1,000	700
Other Property Income	912	617	124	137	88	167
Fees, Charges and Sundry	958	1,009	1,029	1,049	1,656	1,660
Sale of Property	57	33	95	107	94	1,139
Grants	113	448	577	623	313	306
Recurrent	0	130	82	84	80	141
Development	113	319	495	539	234	165
Expenditures & Net Lending	17,632	19,737	24,822	35,151	41,265	39,194
Recurrent	14,155	15,954	18,579	23,889	26,378	27,143
Personal Emoluments	5,216	5,801	6,850	8,701	10,883	11,935
Other Charges	8,621	9,918	11,480	14,906	15,196	14,708
Public Debt Interest	318	236	248	282	300	500
Development Expenditure	3,783	4,055	6,548	11,458	14,445	12,182
PDSF/RSF Loans	0	0	0	0	570	0
Repayment of Loans	-306	-272	-305	-197	-128	-130
Overall Surplus/Deficit (-)	4,635	7,660	3,808	-4,696	-13,483	-12,117

Table 2: Government Budget and GDP,

(P millions, current prices, and %, FY 2006/07 to 2008/09 actual; and 2009/10 to 2012/13 projected)

FY			Recurrent		Development		Total Expend & Net Lending		Total Budget % GDP	Devel % Budget	Rev & Grants	Budget Balance	
	GDP	gr rate	Budget	gr rate	Budget	gr rate	Budget	gr rate				Balance	% GDP
2006/07	68,221	25.3%	15,954	12.7%	4,055	7.2%	19,737	11.9%	28.9%	20.5%	27,398	7,660	11.2%
2007/08	79,754	16.9%	18,579	16.5%	6,548	61.5%	24,822	25.8%	31.1%	26.4%	28,630	3,808	4.8%
2008/09	87,465	9.7%	23,889	28.6%	11,458	75.0%	35,151	41.6%	40.2%	32.6%	30,455	-4,696	-5.4%
2009/10 R	89,049	1.8%	26,378	10.4%	14,445	26.1%	41,265	17.4%	46.3%	35.0%	27,782	-13,483	-15.1%
2010/11 B	99,704	12.0%	27,143	2.9%	12,182	-15.7%	39,194	-5.0%	39.3%	31.1%	27,077	-12,117	-12.2%
2011/12 P	110,416	10.7%	28,771	6.0%	10,649	-12.6%	39,420	0.6%	36.3%	27.0%	33,297	-7,729	-7.0%
2012/13 P	122,758	11.2%	30,498	6.0%	9,149	-14.1%	39,646	0.6%	32.3%	23.1%	39,646	0	0.0%

Notes: R = Revised estimate; B = budget; P = planned

Chart 5: Functional Classification of Expenditure

FY 2003/04 through 2010/11 Budget, P millions

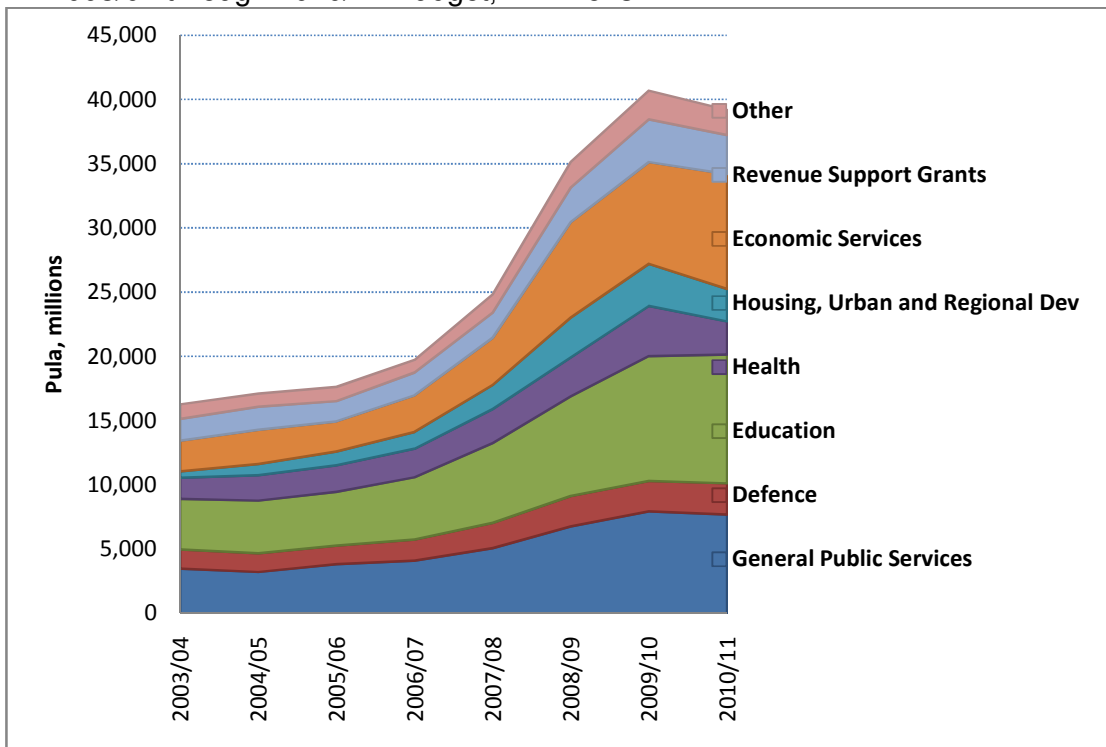


Chart 6: Overall Balance

FY 2003/04 through 2010/11 Budget, P millions

