

Capital Securities

A member of the Botswana Stock Exchange

Botswana economic report – April 2010

Monthly update

Drop in government balance over 12 months hits 37%, foreign reserves remain 16% down

Botswana's foreign exchange reserves stood at P 57.9 billion, \$8.7 billion, as at end December, down 15.6% in pula terms, 4.6% in dollars, over 12 months. The government's balance at the Bank of Botswana was P 22.9 billion, down 37.0% over 12 months.

M3 money supply was P 38.5 billion, down 7.8% over the year. The central bank reported the monetary base as P 20.4 billion, down 6.4%.

Inflation drops within target range

Year-on-year inflation was 6.0% as at end March, from 6.1% the previous month, 5.8% over three months, 7.0% over six months, 11.7% over 12 months. It is now in line with the upper level of the central bank inflation target.

The bank rate was 10.0% as at April from 13.0% 12 months previous and prime was 11.5%, from 14.50%.

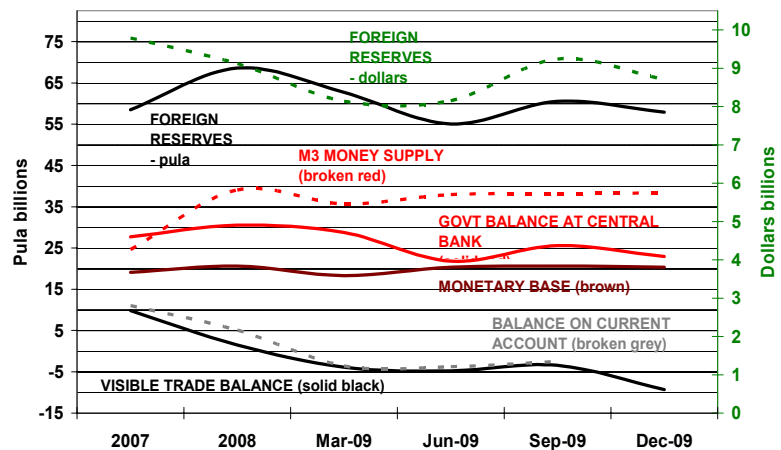
Trade balance improves over January

Botswana's provisional actual trade balance as at December 2009 was a negative P 9.3 billion, with imports at 139% of exports. The trade balance over January 2010 improved from the 2009 monthly average of a negative P 775 million to a negative P 458 million, imports dropped to 121% of exports.

European weakness boosts pula

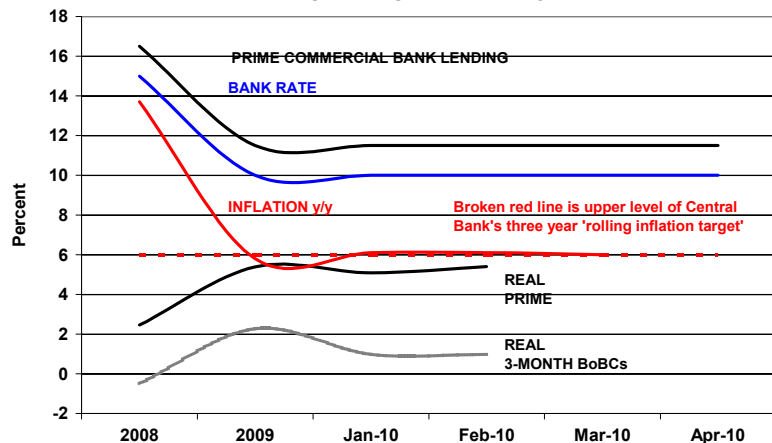
During February, the pula depreciated against the US dollar by 1.6% and the South African rand by

MAJOR ECONOMIC INDICATORS



Diamond market holds – 25% global growth forecast. Trade deficit narrows. Inflation within target. Sterling boost for pula.

INTEREST RATES AND INFLATION



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0.2%. It appreciated against sterling by 3.7% and the euro by 0.9%.

As at April 16 the pula was 0.1475 against the dollar (13 week change - 0.07%, 52 wks +10.40%); 0.0957 against sterling (13 wks +5.28%, 52 wks +6.10%); 1.0852 against the South African rand (13 wks -2.71%, 52 wks - 9.31%).

Credit growth remains tight

Total deposits held by commercial banks remained almost unchanged over January 2010 falling by a marginal P 15.8 million to P 37.6 billion. Decreases in deposits by central government, local government, non-resident and household sectors were almost entirely offset by increased deposits by para-statal organisations and resident businesses.

Twelve-month growth in business credit as at end of January was 14.9 %, 12 points down over the rate 12 months previous. Growth in business credit over the last three months was 5.0%.

Annual growth in credit to households was 11.1%, down 23 points over 12 months. Over the last three months it was 4.3 %. Households accounted for 59.1 % of total credit against 59.8 % 12 months ago.

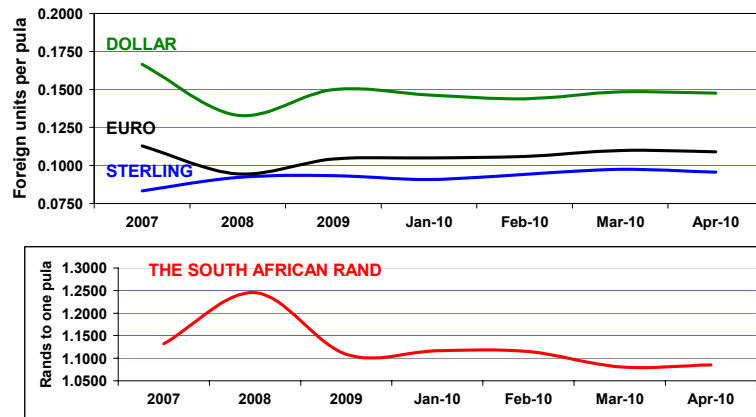
Budget deficit 2008/2009 closes P 1 billion worse, 2009/2010 forecast is better

The final budget outcome for 2008/2009 is a deficit of P4.7 billion, compared to the earlier estimate of P3.6 billion. The difference is attributable to lower revenues from asset sales.

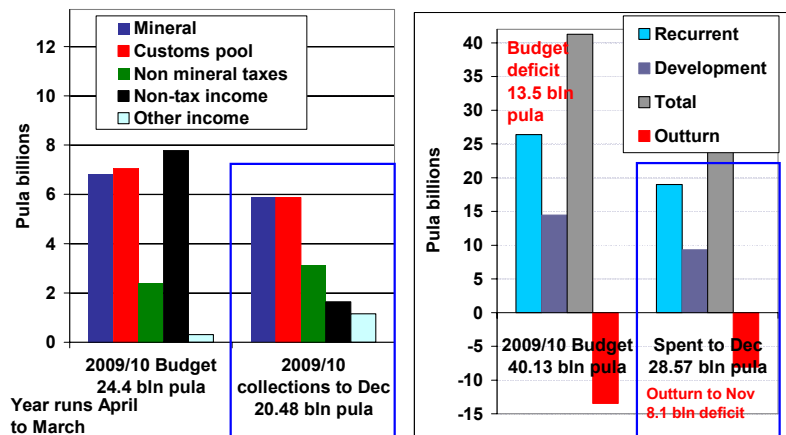
Receipts 12% down over 12 months, payments 13% up

Revenue collections for the current budget year (April/March) as at December 2009 totalled P 20.2 billion, 11.6% down on those during the same period of the previous year.

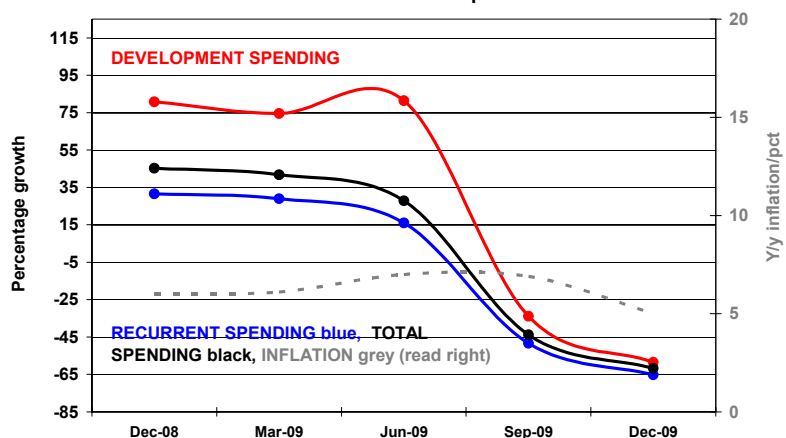
REGIONAL AND INTERNATIONAL CURRENCIES PER PULA



REVENUE AND SPENDING - BUDGETTED AND ACTUAL 2009/10



GROWTH IN GOVT SPENDING over previous 24 months



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Spending was P 28.6 billion against P 25.3 billion (+12.7%).

... but the forecast is better. The budget outturn to December 2009 was a negative P 8.4 billion. The official estimate for the year remains a negative P 13.4 billion, but a current average forecast is an improved P 12.9 billion deficit

Export recovery

Diamond forecasts remain bullish, copper improves

The latest forecasts show that Botswana's total exports over 2010 could reach 81% of those of pre-recession 2008, diamonds 94%.

Total mineral exports are forecast at 84% of 2008. Revised figures for January suggest copper nickel exports could reach 60%, other minerals excluding diamonds 9%, non-mineral exports 65%.

Feasibility study for new copper project

Following bullish forecasts for the copper market as reported in March, Discovery Metals says a scoping study at its Botswana project has confirmed the economic viability of underground mining. A feasibility study has started and is scheduled for completion by September.

The company is estimating in an underground resource of 25 million tonnes at 1.4% copper and 23.1 g/tonne of silver. The forecast of average base core production is 1.2 million tonnes over an eight-year life of mine, yearly production at 15,300 tonnes copper, 480,000 ounces silver.

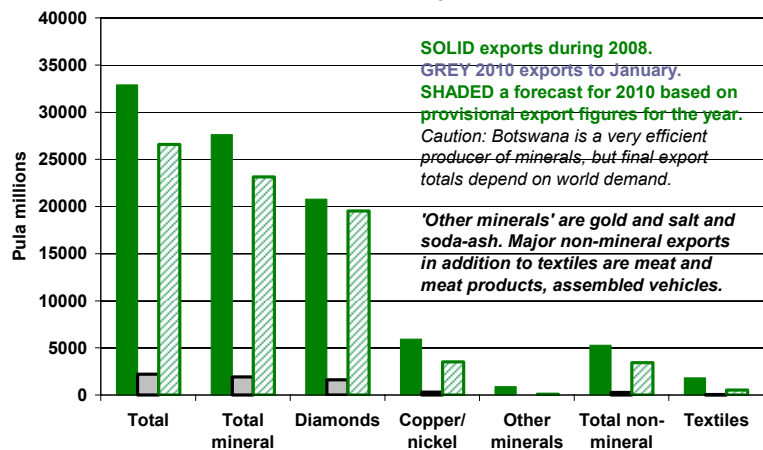
Diamond market reports

2010 production forecast

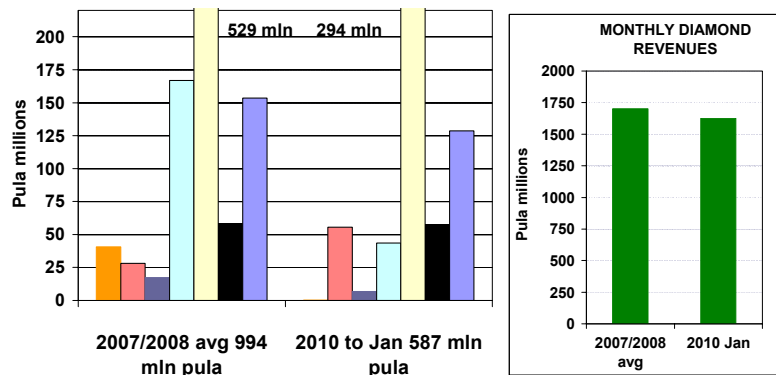
De Beers is expecting to raise global production by 25% on the back of a better market outlook.

"In India and China, we have seen double-digit growth over 2009, with a 15% to 17% rise in the purchase of

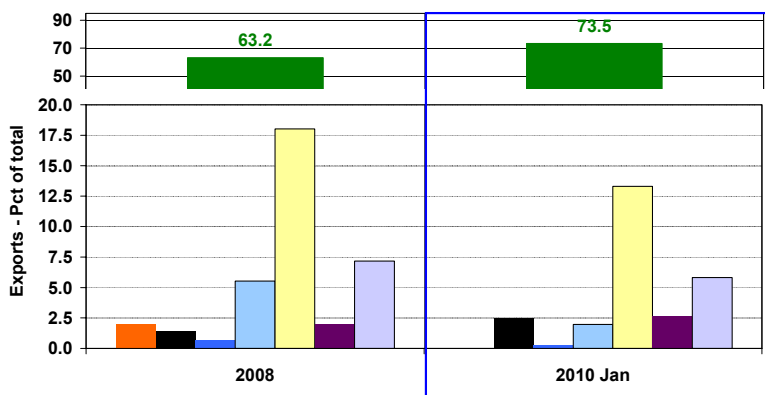
EXPORTS - current year forecast



MONTHLY EXPORT REVENUES. Non-diamond, from left each year: unidentified, gold, vehicles, salt and soda ash, textiles, copper-nickel, meat and meat products, other non-mineral.



EXPORTS, PERCENTAGES OF TOTAL 2008 AND 2010. Top, diamonds. Bottom, from left: unidentified, gold, vehicles, salt and soda ash, textiles, copper-nickel, meat and meat products, other non-mineral



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diamond jewellery in India," Varda Shine, chief executive of the De Beers Diamond Trading Company said.

"For the first three months of 2010 our global sales were three times the size of those over Q 2009, that is a big jump and an indication of the change in the market," Shine said..

De Beers expects to produce 30 to 32 million carats of diamonds over 2010 against 24.6 million over 2009.

Market 'holding up well'

Diamond market analyst Des Kilalea of RBC Capital Markets believes that the rough diamond market is holding up well and conditions may be stronger than reported.

"The strength of rough diamonds will see significant gains in revenue and cash flow for diamond miners over 2010," Kilalea said. A number of diamond juniors had taken advantage of the improved market conditions to raise funds to continue various projects. One of these is African Diamonds, which has just raised £9.6 billion to increase its stake in the AK6 project in Botswana.

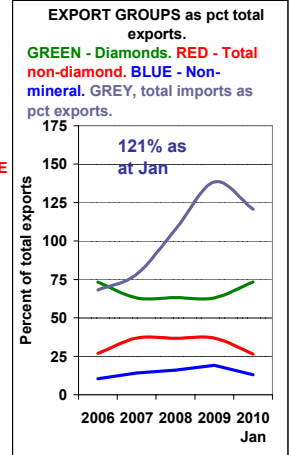
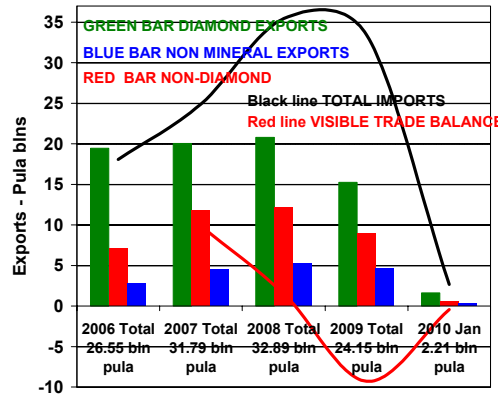
"However," Kilalea warned, "whilst China and India remain strong buyers of polished diamonds, there is residual concern about the United States, which is still the largest single market."

Botswana to collaborate with Russia in marketing diamonds?

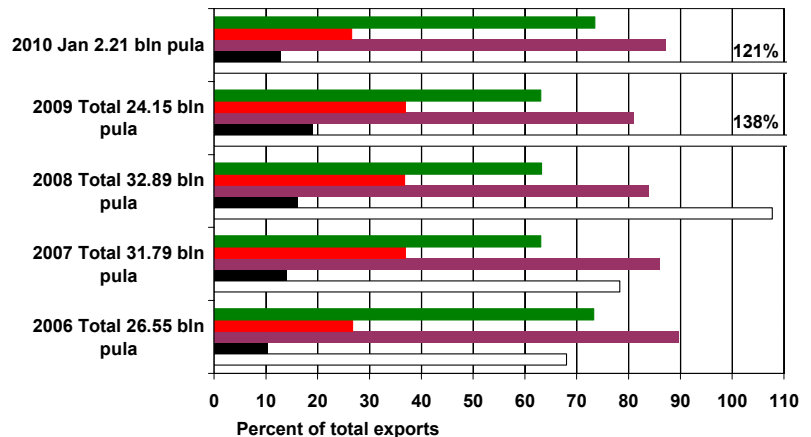
Botswana is looking to collaborate with Russia on diamond mining and cutting according to reports from *Interfax*. "We would like to see Russian companies involved in exploration and activity on the part not just of ALROSA, but of other companies, too," Botswana's Director of Mineral Affairs Nchidzi Mmolawa is quoted as saying.

The government of Botswana and De Beers have an equal partnership in the Botswana Diamond Trading Company (BDTC), but are to due to renegotiate the agreement under

EXPORT PATTERN AND TRADE BALANCE



EXPORTS and IMPORTS as pct of total exports. From top, each year: Diamond, non-diamond, mineral, non-mineral. WHITE imports pct exports.



EXPORTS - annual growth rates over last four quarters

