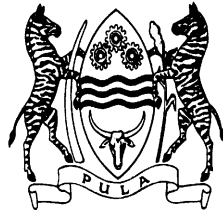


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REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE AND  
DEVELOPMENT PLANNING  
PRIVATE BAG 008  
GABORONE

## PRESS RELEASE

17:00 HOURS, Sunday 29 MAY 2005

### Pula Exchange Rate

1. One of Botswana's exchange rate policy objectives is to maintain a stable and competitive real exchange rate of the Pula against a basket of international currencies. This is a critical element in our strategy to achieve sustained and diversified development.
2. Following consultation with the Bank of Botswana, pursuant to Section 21 of the Bank of Botswana Act, His Excellency the President has approved the following changes:
  - a. **To adopt a new framework for the determination of the Pula exchange rate consisting of the following elements:**
    - i. **The Pula will continue to be pegged to a basket of currencies** consisting of our major trading partners, namely the South African Rand and the Special Drawing Rights (SDR) of the International Monetary Fund, comprised of the US Dollar, the Euro, the British Pound, and the Japanese Yen.
    - ii. **The exchange rate of Pula to the basket will be adjusted continuously** rather than in discrete steps. This system, often referred to as a '**crawling peg**' exchange rate, has been successfully employed by several other countries. The rate of crawl will be reviewed from time to time to align it with the differential between the expected rate of inflation in Botswana and the expected rate of inflation in the currencies of the basket.
    - iii. **The margin between the buy and sell rates for currencies quoted by the Bank of Botswana has been increased** from the current margin of  $\pm 0.125\%$  around the central rate **to a margin of  $\pm 0.5\%$  around the central rate.**
  - b. **To start the new system from an exchange rate in line with economic fundamentals, the Pula has been devalued by 12% against the basket.** Monday's exchange rates posted at the Bank of Botswana will reflect this adjustment.
3. The new system has major advantages over the system it replaces. First, the slow steady crawl provides an assurance that in the future the exchange rate will remain in line with the fundamentals. Second, it is forward looking, which thereby provides an anchor for expectations about future inflation and interest rates. Third, the new system will encourage the development of a foreign exchange market. This is intended to

encourage the development of an inter-bank foreign exchange market. Primary dealers are encouraged to trade foreign exchange between themselves rather than have to come to the Bank of Botswana to buy or sell foreign exchange. It is expected, however, that the margin between the wholesale buy and sell rates of the primary dealers will not be significantly greater than at present. As the foreign exchange market among the primary dealers develops, further increases in the width of the band around the central rate will be announced. As the band widens, the foreign exchange market will provide a first line of gradual adjustment to changes in fundamentals.

4. By keeping the real effective exchange rate in line with the fundamentals, exporters and domestic producers competing with imports will be in a much stronger position vis-a-vis the rest of the world. Tourism, textiles, diamonds, copper-nickel, and beef are among the many sectors that will benefit from the new system. In addition, the assurance of a stable competitive real effective exchange rate will be an important reassurance to foreign direct investors that Botswana is an attractive destination. In brief, the new exchange rate system is an important step on our path to rapid, diversified and sustained job creation.
5. The new exchange rate system will be supported by ongoing fiscal and monetary prudence. Government expenditure will continue to play a stabilising role in the economy by maintaining a steady sustainable expenditure path that is consistent with Government's long-term revenues. The Mid Term Review of NDP 9, currently underway, is mapping out a stable and sustainable path for Government expenditures. In addition, productivity improvement measures in Government, parastatals and the private sector will be enhanced to complement the foregoing.

**B. GAOLATHE**

**MINISTER OF FINANCE AND DEVELOPMENT PLANNING**