



BOTSWANA

2014 ARTICLE IV CONSULTATION—STAFF REPORT; AND PRESS RELEASE

July 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 2, 2014, with the officials of Botswana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 17, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF
- A **Press Release**

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BOTSWANA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

June 17, 2014

KEY ISSUES

Setting: The seeds of good governance and prudent macroeconomic and natural resources management planted by the Botswana authorities paid off with an impressive increase in the GDP per capita during the last three decades. However, as in many other small middle-income countries (SMICs) in the region, trend growth has softened in recent years, reflecting the decline in the contribution of total factor productivity (TFP) to growth which calls for policies to reduce structural bottlenecks in the economy.

Current conditions and outlook: Botswana's economy remains broadly internally and externally balanced and the authorities' near-term macroeconomic policy mix is appropriate. Output growth is expected to slowdown in 2014 reflecting partly weaknesses in the non-mineral sector, while inflation is expected to remain within the Bank of Botswana's (BoB) medium-term objective range of 3-6 percent.

Fiscal policy: Staff supports the FY2014/15 budget, which reins in unproductive current spending, while protecting growth-promoting capital spending. Achieving medium-term fiscal consolidation objectives adopted in the budget, would require articulating concrete measures to reduce the wage bill relative to GDP and broaden the revenue base.

Financial sector development: Botswana's banking system is well-capitalized and profitable with relatively low nonperforming loans. Although from a low base, credit growth to households continues to expand at a high rate, which poses potential vulnerabilities for the financial sector. Thus, staff recommends that macro prudential measures be considered to temper the rate of growth of household borrowing. In this context, staff welcomes the government's emphasis on enhancing greater financial deepening and inclusion, while preserving the stability of the financial system.

Reinvigorating growth: Returning to an era of strong growth and accelerating Botswana's convergence to higher income levels would require policies to reinvigorate TFP growth. These include improving the quality of public spending, notably in public investment projects and education to ensure the transformation of diamond wealth into sustainable assets. The authorities' efforts to improve the country's competitiveness, including through reducing the regulatory burden on firms, is also welcomed.

Past advice: There is broad agreement between the Fund and the authorities on the macroeconomic policy stance and structural reform policy priorities. Consistent with staff's advice, the FY 2014/15 budget outlined a framework to reduce the burden of loss-making state-owned enterprises on fiscal resources and propel them toward commercial viability. Furthermore, the budget includes medium-term projections of government accounts, as recommended by staff during past consultations. However, progress towards reducing the wage bill relative to GDP remains modest.

Approved By
**Anne-Marie Gulde and
 Mark Flanagan**

Discussions took place in Gaborone April 21-May 2, 2014. The team comprised Messrs. Leigh (head), Stepanyan, Kitsios and Ms. Parulian (all AFR). Mr. Jonelis and Ms. Kiggundu provided excellent research and editorial assistance, respectively.

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RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Challenges and Opportunities

1. Botswana, has over the years, been one of Africa's success stories; however, poverty and unemployment remain relatively high with the country's income inequality being among the highest in the world (Figure 1).

- GDP per capita more than quintupled during the last three decades and the country has earned a good reputation in the areas of governance and prudent management of natural resources. The government was also successful in increasing the literacy rate of the population.
- Despite the strong growth performance, Botswana is still some way from meeting the objectives of poverty elimination and reduced inequality. Poverty rate remains high at about 19 percent and Botswana is among the most unequal countries in the world with a Gini coefficient over 0.60. In sub-Saharan Africa (SSA) Botswana scores well in terms of the level of human development index (HDI), including the level of education and absolute poverty. However, the improvement in the HDI has been very small over the last decade and Botswana also lags behind its peers outside the region (Figure 1).
- Moreover, driven by the decline in TFP growth, trend growth has slowed down amidst persistently high rate of structural unemployment.¹ The skill mismatch in the labor market remains a perennial challenge despite the fact that significant resources have been invested by the government in education.

2. The government is aware of the economy's challenges, and the recent Mid-Term Review (MTR) of the 10th National Development Plan (NDP 10) serves as the blueprint for structural transformation. The policy thrust of the MTR of NDP10 is reducing the size of the government relative to GDP so that the private sector can take the lead in driving growth. NDP 11, which is under preparation, is being framed around policies to boost economy-wide productivity, enhance financial inclusion, and reduce the high unemployment rate to pave the way for higher, sustainable, and more inclusive growth. The government's Vision 2016 aims at "prosperity for all", with the goals of: poverty eradication; a more equitable distribution of income; and rapid economic growth and diversification.

B. Current Conditions and Macroeconomic Policy Mix

3. Under current conditions the economy remains internally and externally balanced.

- Botswana is undergoing a cyclical recovery in line with its major trading partners and the output gap is largely closed. The economy grew by 5.9 percent in 2013, driven by the recovery in the

¹ See 2013 Selected Issues, chapter 1 (SM/14/23).

mining sector, while the nonmineral sector slowed down, partly reflecting power and water supply disruptions (Figure 2 and Table 1).

- Inflation decelerated significantly in 2013 and stayed well within the BoB's medium-term objective range (Figure 2). Staff endorses the BoB's broadly neutral monetary policy stance as reflected in the April 2014 Monetary Policy Committee decision. The monetary policy committee (MPC) statement by the BoB in December 2013 reinforced an existing measure on the floor on deposits that required banks to offer and publish a 91-day deposit at the minimum, 4 percent per annum, with commensurate higher interest rates for longer-dated deposits in order to boost savings and protect the interest of depositors.
- The government recorded a small surplus in FY 2013/14. The budget surplus was achieved through reining in current expenditure, higher mining revenue, and an increase in the Bank of Botswana's profit transfer (Table 2b). Staff supports the FY2014/15 budget, which reins in unproductive elements of current spending, while protecting growth-promoting capital spending. While the current size of the Pula Fund is adequate for stabilization purposes, the envisaged accumulation of additional savings from non-renewable resource revenues is desirable from an intergenerational equity perspective.
- The current account balance turned into a surplus in 2013 supported by a rebound in diamond exports. Imports continued to grow partly attributed to the increased electricity imports.

4. Botswana's external position remains broadly sound. Staff's econometric analysis, using CGER-like methods, which incorporate features appropriate for a mineral-based economy like Botswana, shows that the real effective exchange rate (REER) is broadly in line with macroeconomic fundamentals from a medium-term perspective (Appendix I). While other methods suggest a mild undervaluation, the two most relevant approaches to Botswana's natural resource-rich economy, the macroeconomic balance and the external sustainability approaches, give point estimates that are not significantly different from zero. Moreover, Botswana's reserves are well above the adequate range suggested by the Fund's new metric for reserve adequacy (SM/13/22).² Non-price competitiveness indicators suggest that Botswana performs well relative to its peers, but some challenges remain, most notably in the areas of education and skills shortage. Overall external stability is also affected by the lack of export diversification, which leaves Botswana's economy vulnerable to sustained fluctuations in the international demand for diamonds.

5. The banking system is well capitalized, profitable and liquid, but rapid growth of credit and the non-bank financial sector represent concerns. While decelerating, credit to households continued to grow at about 24 percent—which is among the highest growth in the region (Figure 2). The increase, however, is from a low base. Banks' nonperforming loans (NPLs) doubled to 5.3 percent in December 2013 (Table 7) driven by the deterioration in the asset quality of banks' loans to corporate borrowers (although this is also from a low base). The nonbank financial

² Botswana's foreign reserves include the Pula Fund, which essentially is a long term saving. However, the fund is liquid and readily available for stabilization purposes.

institutions (NBFIs) sector has also been growing rapidly in recent years. Total assets of NBFIs account for about 50 percent of GDP. Furthermore, the cross linkages between NBFIs and the commercial banks (NBFIs wholesale deposits constitute about 40 percent of banks' liabilities) have increased in recent years, which could propagate and amplify system-wide contagion.

C. Outlook and Risks

6. Outlook: Real GDP growth is expected to moderate to 4.4 percent in 2014, reflecting the slowdown in diamond recovery and continued problems in the electricity and water supply (Table 1). Subsequently, growth is expected to stabilize around 4 percent in the medium-term, with slightly higher growth in the non-mining sector as the bottlenecks in the energy sector are removed. Headline inflation is likely to remain within the BoB's medium-term objective range in 2014. The current account surplus is projected to stabilize at around 2 percent of GDP supported by the planned fiscal consolidation and the expected recovery in diamond exports.

7. Risks:

- The uncertain external environment, such as the potential slowdown in emerging markets, poses downside risks to mineral export demand. Although significant progress has been made in negotiations with the EU and the authorities are optimistic about reaching an agreement, Botswana could lose all its preferential trade access to the EU market in October 2014, if they fail to reach agreement with the EU on the economic partnership agreement.³ Under some adverse scenarios, output growth could be lower by 1–1½ percentage points compared with the baseline forecast (Appendix II). If further adverse global spillovers beyond the staff's baseline scenario lead to a decline in diamond prices and a significant loss of revenues, staff advised the authorities to allow the automatic stabilizers to work on the revenue side. Botswana has ample reserves and the debt level is very low. Such a policy response would avoid a procyclical fiscal stance and only slightly delay the envisaged pace of fiscal consolidation in the FY2014/15 budget without posing risks to both medium-term fiscal and external sustainability.
- On the domestic front, delays in the full commencement of the Morupule B power plant pose an additional risk. The current problems with power and water supply have the potential to unravel the ongoing recovery, including through the negative impact on investor sentiment. Although the level of household indebtedness does not give rise to an imminent macroeconomic and financial stability risk, the continued high rate of growth of household borrowing poses a potential risk to consumer welfare and could generate vulnerabilities in the financial sector. A key medium-term risk relates to the sustainability of long-term growth, which relies on removing the existing structural bottlenecks and on finding new growth drivers.

³ However, Botswana's export to the EU is only about 5 percent of the total export base.

POLICY DISCUSSIONS

The authorities largely agreed with the staff's assessment of recent economic developments, outlook, and prospects. They acknowledged the need to reduce the size of the government (as a share of GDP). In light of Botswana's challenges, this year's consultation focused on three main themes: (i) cost-efficient and growth-friendly fiscal consolidation; (ii) preserving financial stability, while promoting financial inclusion; and (iii) raising economy-wide productivity growth to lift up potential growth over the medium term.

A. Policy Theme 1: Cost-Efficient and Growth-Friendly Fiscal Consolidation

8. The authorities' gradual fiscal consolidation strategy is appropriate given the uncertain external environment and the existing policy space.⁴ This would bring the nonmineral primary balance (NMPB) closer to its long-term sustainable level of about 5 percent of nonmineral GDP.⁵ The emphasis on improving the performance of state owned enterprises (SOE) is also well placed. In line with staff advice, the inclusion of a medium-term projection for the government accounts in the FY2014/15 budget is welcomed.

9. Achieving targets in the government's medium-term fiscal framework would require implementing concrete measures to reduce the wage bill relative to GDP, broaden the tax base, and improve the quality of government spending.

- Despite the modest wage awards by the government in recent years (3-4 percent) and the de facto hiring freeze (except for teachers and nurses), the wage bill continues to be high reflecting the impact of promotions, re-grading, non-wage allowances, and overtime. The policy measures that staff has recommended to the authorities include in the short-term—streamlining the system of nonwage payments and including tighter eligibility criteria for allowances. Over the medium-term—rationalizing the size and structure of government, tightening the link between pay and performance, and strengthening payroll systems should be considered.
- The change in the VAT registration threshold initiated in the FY2014/15 budget will support the authorities' objective to simplify the existing tax system. However, further VAT exemptions could undermine the government's objective of broadening the tax base and simplifying the tax system. There is in general a need for the government to rationalize existing tax incentives and avoid granting unwarranted preferential tax regimes for businesses. Given the recent improvements in Botswana Unified Revenue Service' (BURS) information technology system, staff believes that a comprehensive study on tax expenditures that would inform policymakers about the magnitude of tax revenue that is lost through tax incentives can now be done easily and should be of high priority for the

⁴ Botswana's debt ratio has been historically very low and is expected to decline over the medium term—see the annex on the debt sustainability analysis (DSA) using the new market access DSA template.

⁵ See 2012 Article IV staff report (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=26166.0>).

government. The estimated value of the forgone tax revenues of the existing tax incentives should also provide a solid foundation for future policy decisions on net reductions in tax expenditures.

- The expansion of social welfare programs, including the feeding programs, the Old Age Pension program, the Orphan Care program, and the Program for Destitute Persons, has helped to reduce poverty significantly. However, the authorities should make these programs more targeted since income inequality remains very high. The government's efforts to improve the quality of spending on health and education and make them more targeted are also essential for reducing income inequality. And existing redistributive policies should try to minimize the adverse effects on incentives to work, save, and invest.
- The continued privatization and merger of some of the SOEs would help to reduce their reliance on public resources. In addition, guidance developed by the Public Enterprise Evaluation and Privatization Agency for overseeing the performance of SOEs and efforts to reform SOEs governance structure to increase their accountability and set clear performance targets would increase efficiency of SOEs and contain their cost.

10. The authorities affirmed their medium-term fiscal consolidation goals, centered on reining in unproductive elements of current expenditures. They agreed with the need to address the size of the government (as a share of GDP) and are exploring ways to gradually reduce its size. They noted that the outsourcing of low-skilled government services has not significantly reduced the wage bill as some of the affected employees have been redeployed to other government departments. The government also hired new personnel to fill up positions in recently completed infrastructure projects such as schools and hospitals. The authorities' approach to the SOEs focuses on reducing overlaps among them, optimizing the use of resources, and improving shareholders' oversight. They are also exploring sustainable ways to rationalize the large scale discretionary tax incentives.

B. Policy Theme 2: Strengthening the Monetary Regime, the Transmission Channel and Enhancing Financial Stability

11. The authorities and staff agreed that Botswana's crawling peg arrangement has served as a good anchor for monetary and financial stability, and merits continued support. The crawling peg provides some element of exchange rate flexibility to absorb shocks, while avoiding the challenges of a fully flexible exchange rate regime in shallow markets. Staff encourages the authorities to continuously look for opportunities to further strengthen the operational aspects of the exchange rate framework, including regularly updating the optimality of the currency basket⁶, and deepening money and foreign currency markets. Steps toward capacity building would also strengthen monetary policy operations and put the authorities in a position of strength in the long-run if and when the economy becomes more diversified and they decide to move to a more flexible exchange rate regime.

⁶ The authorities published the weights of the pula currency basket and the rate of crawl in the FY 2013/14 budget.

12. The concentrated banking system could contribute to the weakening of the monetary transmission channel and have potential negative implications for consumer welfare. A floor on a deposit rate may in some circumstances mitigate problems due to such banking system concentration. However, a binding floor on 91-days and longer maturity deposit rates combined with a moratorium on increasing banks' fees for two years, could also create distortions in the financial system, and may not address the underlying inefficiencies in the banking system. Thus, the BoB should continue to be vigilant to monitor, identify, and address unintended negative consequences of these policies. Staff is of the view that positive real deposit rates will support financial inclusion and could be achieved through the BoB's liquidity management framework.

13. The authorities emphasized that in light of the perceived high level of commercial banks' charges in Botswana, the aim of the floor on deposit rate and moratorium on increasing banks' fees is to provide consumer protection. In addition, this would encourage banks to increase intermediation and move away from non-interest income towards interest income. The Bankers Association of Botswana is planning to conduct a survey to compare bank charges in Botswana with those in other countries. Furthermore, the BoB established a consumer protection unit in its banking supervision department that aims to enhance the BoB's efforts towards better consumer protection.

14. While Botswana's banking system is well-capitalized and profitable, striking a balance between financial inclusion and stability remains a challenge.

- Staff recommends that the authorities consider using macro-prudential measures to contain the growth of household borrowing, including a tighter debt to income ratio, and assigning higher risk weights on unsecured lending to households. Data gaps in capturing household borrowing outside the banking system need to be addressed to make macro-prudential tools more effective. The continued rapid increase in the household borrowing is a potential vulnerability to the financial sector.⁷ Discussions with the banks suggest that some households are already beginning to experience difficulties in repaying their debt, although this is not widespread. The situation would likely be amplified in the event of a return to a period of high interest rates since a vast majority of loans to households are contracted at floating rates.
- Given the size of the nonbanking financial sector and the cross linkages between non-bank financial institutions (NBFIs) and the commercial banks, the authorities should also continue to strengthen the regulation of NBFIs and support capacity building in the Non-Bank Financial Institutions Regulatory Agency (NBFIRA).

15. The authorities, who have been exploring options to promote financial inclusion, should make sure to do so in a stability-friendly way.⁸ International experience suggests that

⁷ Due to capacity constraints in the non-bank financial institutions regulatory agency, the part of the households' debt that is contracted from micro-lenders is not yet fully captured by the regulator.

⁸ Financial deepening and inclusion still remain low by international standards. About 60 percent of population still remains unbanked (does not have an account at a bank) and small and medium sized enterprises face higher financing constraints than in the other middle-income countries.

special programs to increase access to credit through public sector institutions have been costly with little sustained impact. In contrast, actions that lower intermediation costs to maximize the welfare gains from financial inclusion, while preserving financial stability, on balance tend to have more sustained impact. This includes by addressing the perennial financing constraints facing small and medium sized enterprises (access to finance, including for SMEs, was emphasized in the 2007 FSAP report on Botswana).⁹ The critical policies would include: promoting competition, enhancing domestic supervision, boosting the use of technological innovation, and strengthening the regulatory and supervisory framework for financial services. Establishing a national credit bureau would also improve the screening of borrowers and reduce the risk of adverse selection.

16. The authorities agreed that the level of household debt in an environment of slow growth is a cause for concern. They highlighted that overall credit growth is decelerating and while current indicators, such as low default ratios, suggest that widespread default risks are not imminent, the related emerging debt repayment burden for households warrants close attention. However, they emphasized that banks in Botswana remain well capitalized with low level of NPLs and are in a position to absorb potential losses from asset quality deterioration. In addition, the BoB signaled its intention to keep the current 100 percent risk weight on banks' unsecured credit, which is above Basel II requirements. They also argued that the portion of the household borrowing that is not captured by the non-bank regulator is small. Moreover, the government is conducting a diagnostic study of the current credit reporting system in Botswana to identify the gaps, and provide recommendations on improving the credit reporting environment. The authorities are aware of the capacity constraints in NBFIRA and continue to strengthen its skill base and regulatory infrastructure with the support of the African Development Bank.

C. Policy Theme 3: Raising Productivity—A Key Driver of Long-Term Growth Prospects

17. Returning to an era of strong growth and accelerating Botswana's convergence to a higher income level would require policies to reinvigorate total factor productivity. As noted above, skills mismatches and problems with SME access to finance are important structural bottlenecks, and peer comparisons also point to problems with adequate access to electricity and with bureaucratic procedures needed to start a business (Figure 4). The authorities should thus focus on: (i) improving the quality of public spending, most notably on education to minimize the skill mismatch in the labor market and on the public investment program to provide the needed infrastructure in a timely manner¹⁰; (ii) reducing further the regulatory burden on firms; and (iii) improving SME's access to finance.

18. The efficiency gains from higher total factor productivity would enhance prospects for successful economic diversification. The authorities' diversification strategy aims to leverage Botswana's areas of comparative advantage. Given the country's well-established infrastructure for

⁹ In Mauritius, the ministry of finance in close coordination with the central bank provided a framework through which finance could be extended to SMEs by banks on favorable terms and conditions in a market conforming manner.

mineral development, a focus on expanding the mineral product space beyond diamonds, and including downstream sectors, could have relatively large employment multipliers. The authorities' efforts to improve the quality of Botswana's institutions and improve the skill base of the labor force could also enhance prospects for development of the knowledge-based service sectors.

19. The authorities noted that the recent MTR of NDP 10 aims to address Botswana's long term challenges. A skills development policy has been announced in the FY2014/15 Budget. To enhance competitiveness and doing-business in Botswana, the government in collaboration with the World Bank is also implementing several projects under the Economic Diversification and Competitiveness Program that include: streamlining business registration, licensing and issuance of permits; establishment of e-Government policies and standards, including through one stop shop; and capacity building to support monitoring and evaluation of the national strategies and policies.

D. Other Surveillance Issues

20. Data quality is broadly adequate for surveillance, although there is room for improvement. While Statistics Botswana continues to make steady progress, challenges remain in the area of having a representative coverage of national accounts surveys and in estimating the GDP deflators. Best practice would also suggest the rebasing of the national accounts about every five years.¹¹ The compilation of the balance of payments statistics could be improved, including the data coverage on trade in services. Improving the quality of labor market statistics is key to assessing the impact of government policies on job creation. In line with some of its peers, staff commends Botswana's plans to work towards subscribing to the IMF's Special Data Dissemination Standard

STAFF APPRAISAL

21. Botswana's economic performance has been remarkable thanks to the authorities' good governance and prudent management of natural resources. However, in recent years, trend growth has softened in the midst of high unemployment and income inequality.

22. The mid-term review (MTR) of the 10th National Development Plan (NDP10) serves as the authorities' blueprint for structural transformation. Staff welcomes the MTR of NDP 10, which reemphasizes the need to reduce the size of government relative to GDP so that the private sector can take the lead in generating economic growth.

23. Under current conditions the economy is broadly internally and externally balanced and the authorities' near-term macroeconomic policy stance is appropriate. Overall external stability is, however, affected by the lack of export diversification, which leaves Botswana's economy vulnerable to fluctuations in the international demand for diamonds.

¹⁰ Improving the quality of the public investment program is essential for transforming the existing natural resource endowments into sustainable assets.

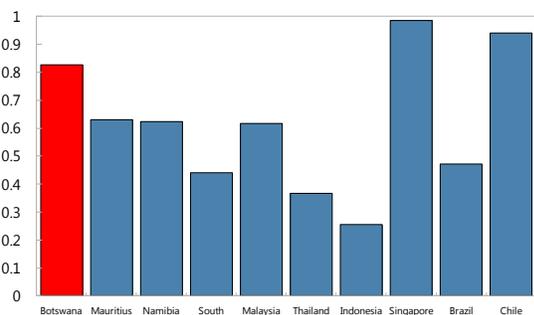
¹¹ Botswana rebased its GDP in 2012 to a base year of 2006.

- 24. Staff welcomes the authorities' medium-term fiscal strategy.** The emphasis on rebuilding the Pula Fund and improving the performance of state owned enterprises is well placed. Improving the quality of spending on health and education and making the social welfare programs better targeted are essential to reducing income inequality and making growth more inclusive.
- 25. Staff urges the government to articulate a clearer set of measures to reduce the wage bill relative to GDP and broaden the tax base.** Despite the modest wage awards in recent years and the de facto hiring freeze, the wage bill continues to be high reflecting the impact of promotions, non-wage allowances and overtime. The authorities should avoid granting unwarranted preferential tax regimes for businesses.
- 26. Botswana's exchange rate regime has served the country well.** Staff encourages the authorities to continuously look for opportunities to further strengthen the operational aspects of the exchange rate framework and deepen the money and foreign currency markets.
- 27. The continued increase in household borrowing warrants close monitoring.** Staff urges the authorities to use macro prudential tools to limit potential vulnerabilities in the financial system. Plans to establish a national credit bureau is also welcomed. Policies to enhance financial inclusion should focus on mitigating the underlying market failures in the financial system and reducing intermediation costs.
- 28. Returning to a period of strong growth would require policies to reinvigorate total factor productivity.** These include improving the quality of public spending, most notably on education and the public investment program to ensure the transformation of diamond wealth into sustainable assets, reducing further the regulatory burden on firms, alleviating infrastructure bottlenecks and improving access to finance by small and medium sized enterprises.
- 29. Staff recommends that the next Article IV consultation with Botswana take place on the standard 12-month cycle.**

Figure 1. Botswana: Long-Term Economic Developments

Botswana is ahead of many of its peers in terms of good governance

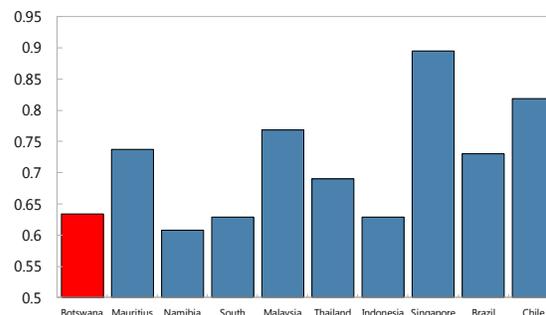
Control of Corruption
(Percentile)



Source: World Governance Indicators

...while it lags behind in terms of the human development index.

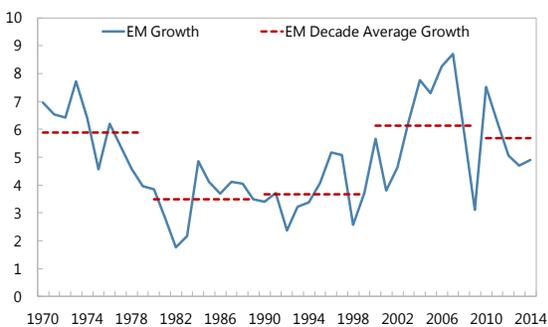
Human Development Index
(Most Developed = 1)



Source: UN

While trend growth, on average, has accelerated in emerging market economies....

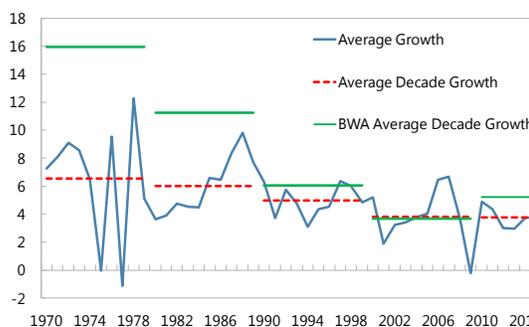
Emerging Markets Growth Dynamics
(Percent)



Source: IMF World Economic Outlook

... it has declined in Botswana, similar to other SMICs in the region....

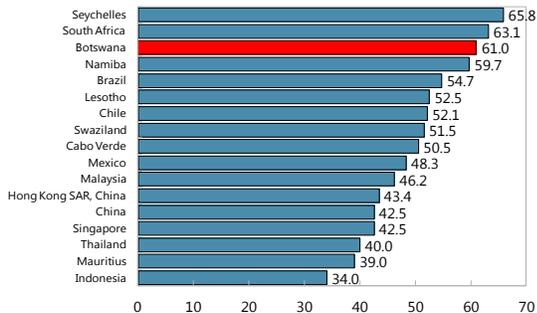
SMICs Growth Dynamic
(Percent)



Source: IMF World Economic Outlook

...amidst high level of income inequality...

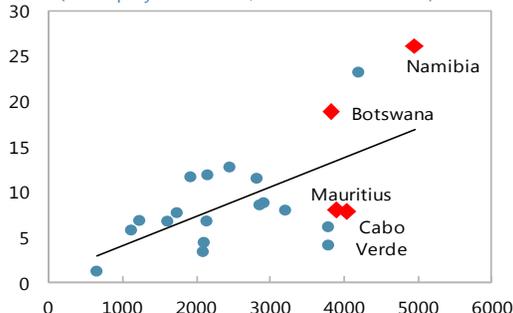
GINI Coefficient
(Latest available estimate)



Source: World Bank

...and unemployment, which is partly driven by the skill mismatch in the labor market.

Unemployment and Skill Mismatch
(Unemployment Y-axis, Skill Mismatch X-axis)

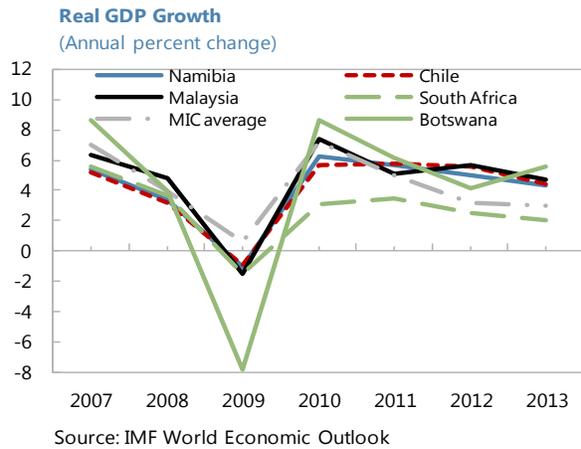


Sources: ILO, IMF staff estimates

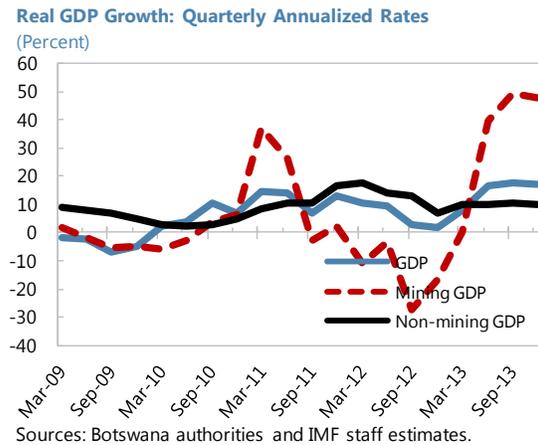
*The skills mismatch index is calculated by taking the difference between the skill demand and supply for each country (see SM/13/22 for details).

Figure 2. Botswana: Recent Economic Developments

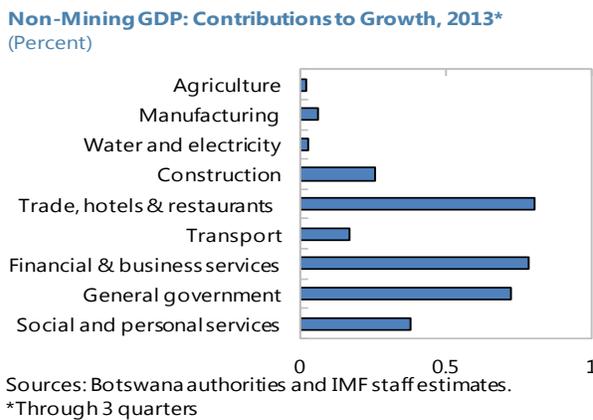
GDP growth has picked up...



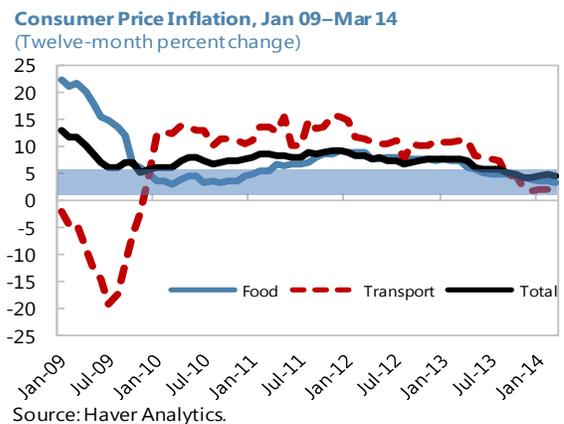
...driven by the growth of the mining sector ...



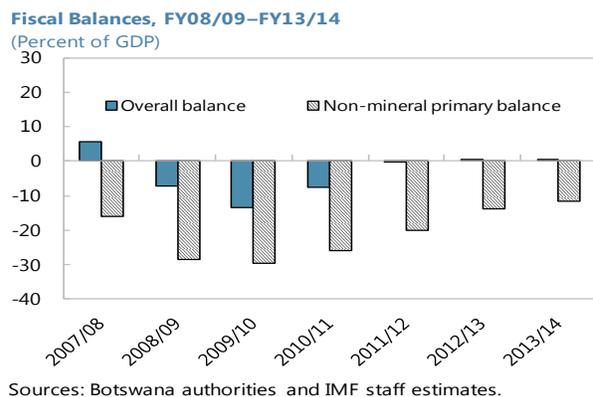
...while nonmining sector growth slowed down.



Inflation decelerated markedly and fell within the BoB's objective range.



Fiscal balance continues to improve...



... thanks to higher mineral and SACU revenue.

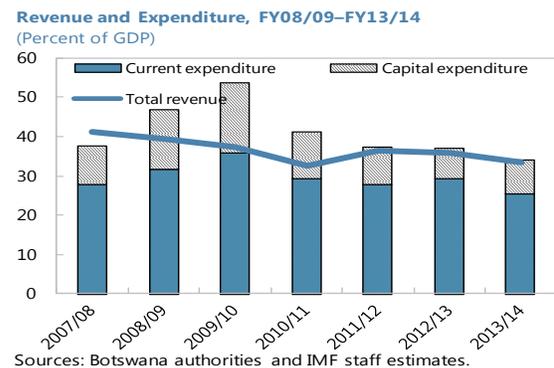
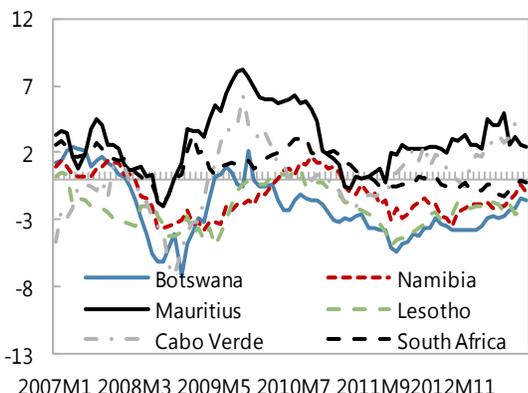


Figure 2. Botswana: Recent Economic Developments (concluded)

Botswana's real interest rates are the lowest in the region...

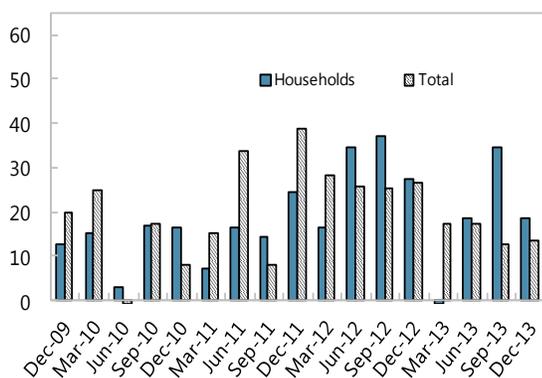
Real Deposit Rate (Percent)



Sources: IMF International Financial Statistics.

...driven by the credit to households.

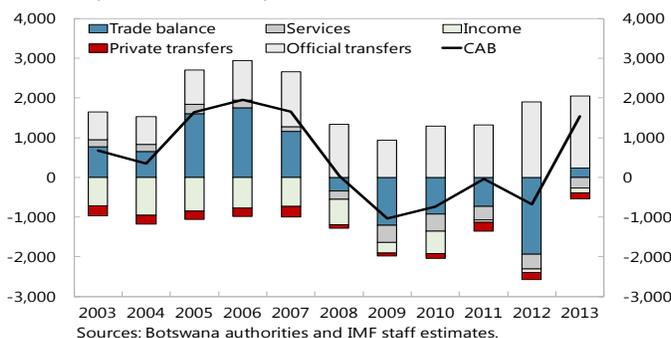
Bank Credit Growth, 2009–December 2013 (Q/Q annualized, percent)



Sources: Botswana authorities and IMF staff estimates.

Strong export growth closed the trade deficit ...

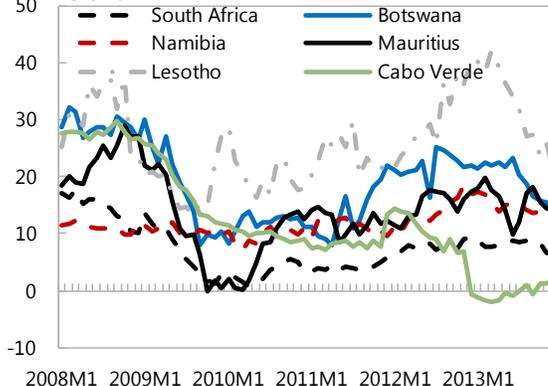
Current Account Balance (Millions of US dollars)



Sources: Botswana authorities and IMF staff estimates.

...and thus private sector credit growth is among the highest in the region...

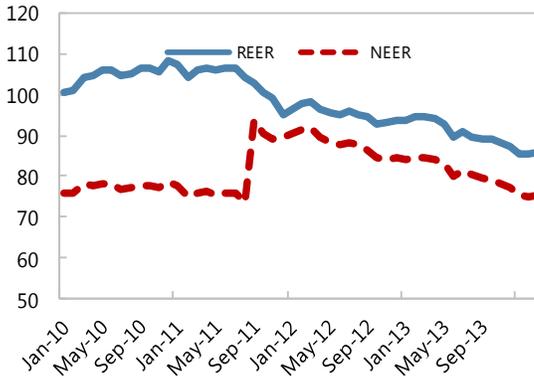
Sub-Saharan Africa Middle-Income Countries, Credit Growth



Sources: IMF International Financial Statistics.

The real effective exchange rate has depreciated slightly.

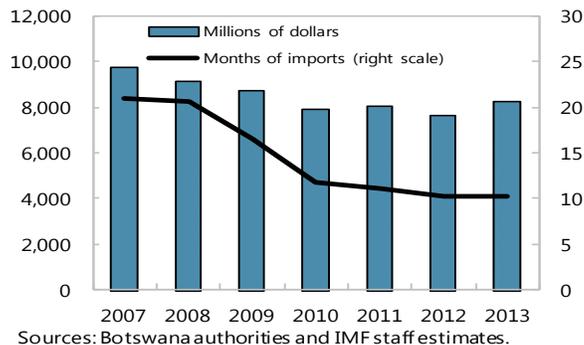
Effective Exchange Rates, Jan 09 – Mar 14 (Index, 2005=100)



Sources: International Financial Statistics.

... and slightly increased import coverage of foreign reserves.

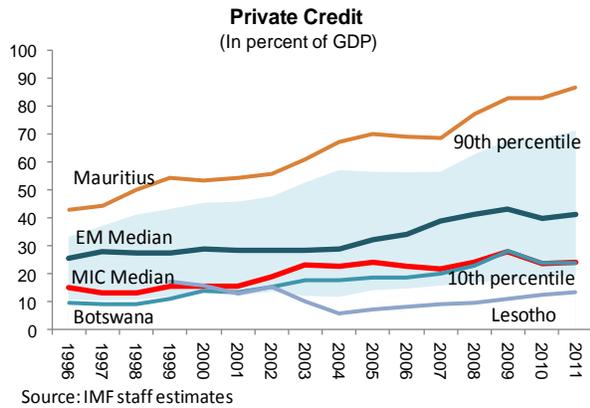
Foreign Exchange Reserves, 2007–13



Sources: Botswana authorities and IMF staff estimates.

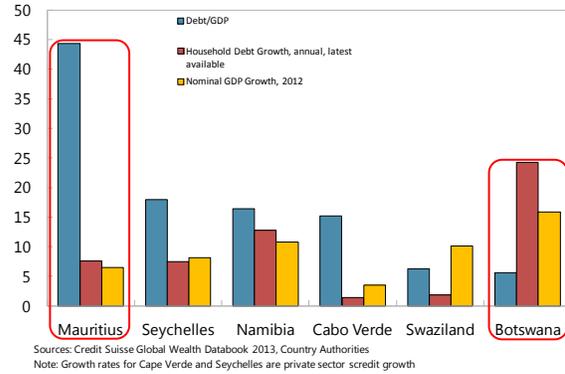
Figure 3. Financial Landscape in Middle Income Countries in Sub-Saharan Africa

Botswana's level of financial intermediation is below emerging market (EM) peers....



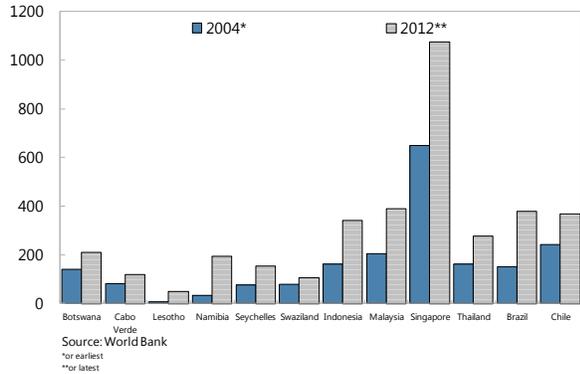
... however credit growth is among the highest in the region..

Estimates of Household Debt
(Percent)



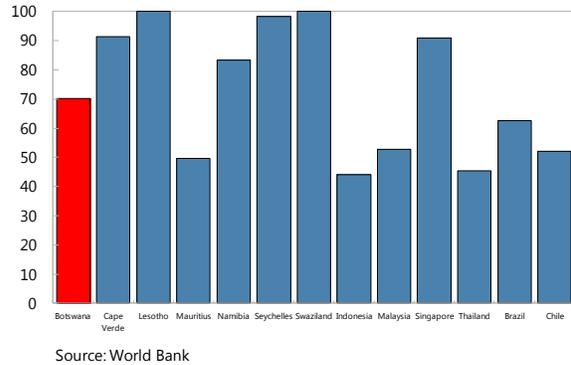
While the number of borrowers is increasing, it is still below relative to peers

Number of Borrowers
(Per 1000 adults)



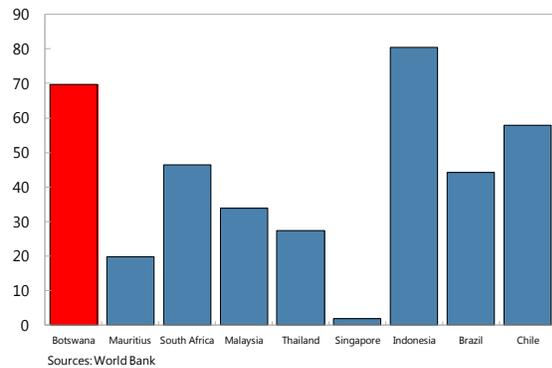
... and so the concentration of banks is high compared with Botswana's peers..

Bank Concentration
(Percent of assets owned by top 3 banks)



A significant part of the population is excluded from the banking system...

Unbanked Population
(Percent of Adults)



... and the number of firms facing financial constraints in Botswana is high compared with peers.

Firms identifying finance as a constraint
(Percent)

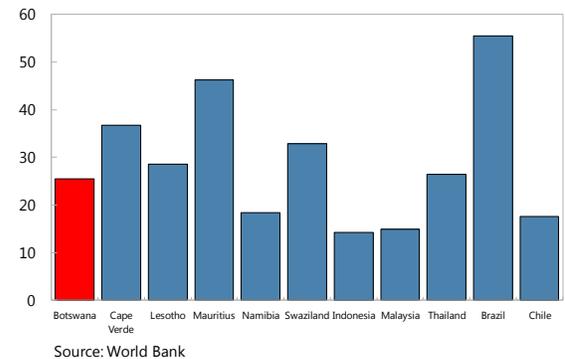
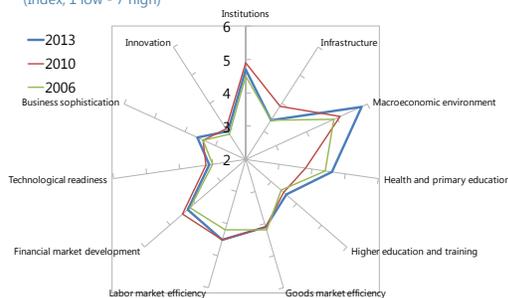


Figure 4. Botswana's Progress on Competitiveness

Botswana's economy-wide competitiveness continues to improve over time....

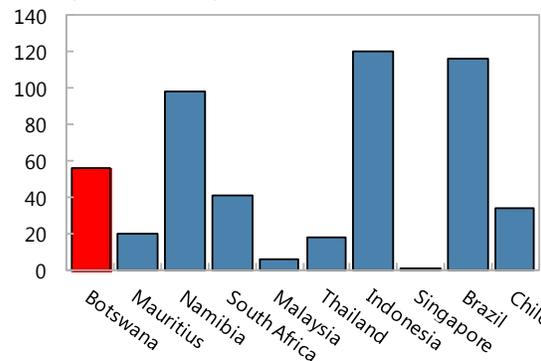
... as well as the ease of doing business.

Botswana Global Competitiveness Index Scores
(Index, 1 low - 7 high)



Source: World Economic Forum, Global Competitiveness Reports

Ease of Doing Business
(Rank out of 189)

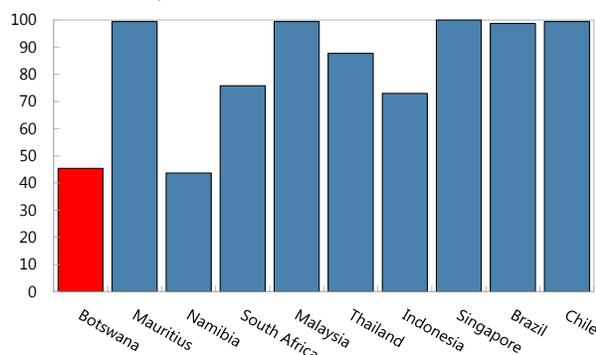


Source: World Bank Doing Business Indicators

However, access to key infrastructure remains an impediment...

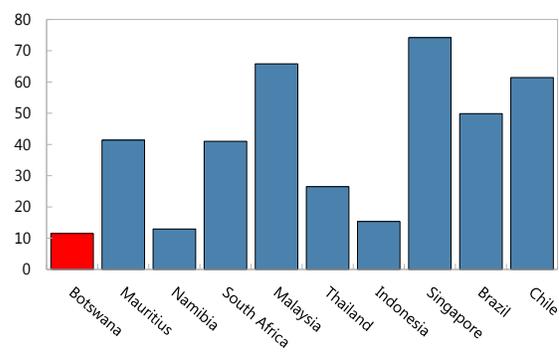
... in particular in the area of internet and communication technology (ICT).

Access to Electricity
(Percent of Population)



Source: World Bank World Development Indicators

Internet Users
(Per 100 people)

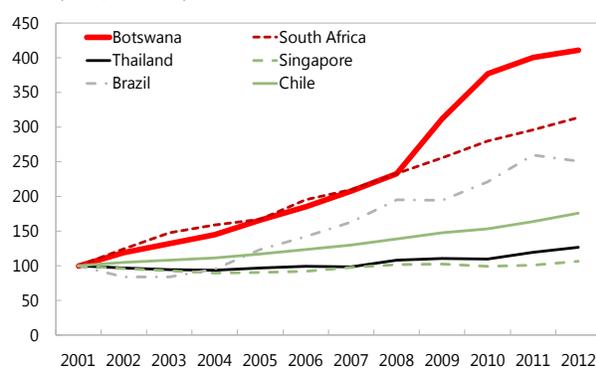


Source: World Bank World Development Indicators

The labor cost is less competitive and continues to rise...

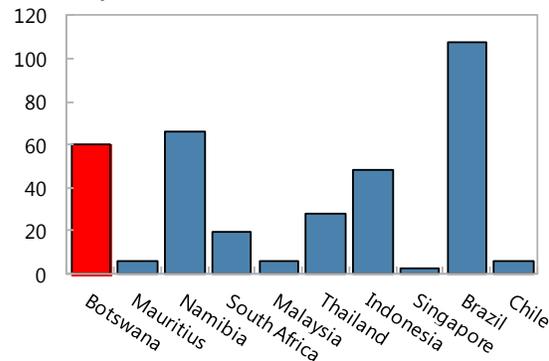
... and long bureaucratic procedures still remain an obstacle.

Unit Labor Costs
(Index, 2001=100)



Sources: Haver, IMF staff calculations

Time Required to Start a New Business
(Days)



Source: World Bank World Development Indicators

Table 1. Botswana: Authorities' Response to Past IMF Policy Recommendations¹

	IMF 2012 & 2013 Article IV Recommendations	Authorities' Response
Fiscal Policy	<ul style="list-style-type: none"> - consolidate fiscal policy and rebuild the fiscal buffers. - develop medium term expenditure framework. 	The FY2014/15 Budget targets a small fiscal surplus, and is centered on further expenditure restraint, which is consistent with staff advice. The FY2014/15 budget for the first time includes medium term projection of government accounts—in line with staff advice.
	<ul style="list-style-type: none"> - rationalize state owned enterprises (SOE). - contain the wage bill. 	The FY 2014/15 budget puts a strong emphasis on addressing the performance of SOEs and reducing their reliance on budgetary resources. The outsourcing of low-skilled government services has not significantly reduced the wage bill as some of the affected employees have been redeployed to other government departments. The measures taken thus far have been partially consistent with staff advice.
	<ul style="list-style-type: none"> - broaden the tax base. 	One of the key objectives of the MTR of NDP 10 is to achieve a simplified tax system with high compliance and a low cost of administration. The measures taken thus far have been partially consistent with staff advice.
Financial Sector Policy	<ul style="list-style-type: none"> - strengthen the regulation and supervision of nonbank financial institutions. - enhance the monitoring of commercial banks' exposure to households and consider macro prudential measures to limit the growth rate of household borrowing and the associated risks to financial stability. - establish a national credit bureau - develop a reliable property market index to help monitor price developments and take appropriate regulatory steps where needed. 	The authorities continue to strengthen NBFIRA's skill base and regulatory infrastructure with the assistance from the AfDB. A significant progress has been made on the retirement and Securities bills. The government is conducting a diagnostic study of the current Credit Reporting System in Botswana to identify the gaps, and provide recommendations on improving the current credit reporting environment. The BoB has subscribed a quarterly report on property market that includes information on price developments and is currently working towards developing a property price index for Botswana. The measures taken thus far have been partially consistent with staff advice.

Table 2. Risk Assessment Matrix (RAM)¹

Sources of Risk		Relative Likelihood	Impact if Realized	Staff Advice on Policy Response
External Risks				
Short term	Surges in global financial market volatility, triggered by geopolitical tensions or revised market expectations on UMP exit/emerging market fundamentals.	High	Low Botswana has not been significantly affected by the recent capital outflows from emerging economies and surges in global financial market volatility are not likely to have a significant impact. Staff analysis shows that once global shocks are controlled for, there is no evidence of significant spillovers from South Africa on Botswana and other SACU countries.	See paragraph 7
	Protracted period of slower growth in advanced economies.	High	Medium to High A protracted slowdown of Botswana's major trading partners could have a negative impact on Botswana's mineral exports and thus fiscal revenue.	See paragraph 7
Short/Medium term	Protracted period of slower growth in emerging market economies.	High	Medium Emerging market economies, such as India and China, are becoming growing trading partners for Botswana. A slowdown in emerging markets could lower commodity prices with negative implications for the balance of payments, fiscal revenue and growth of Botswana.	See paragraph 7
	Sustained decline in commodity prices triggered by deceleration of global demand.	Medium	Medium While the recent decline in commodity prices may to some extent rub off on diamond prices, the storable nature of diamonds, that allows buffering of shocks by adjusting inventories, will likely limit the price decline. Indeed, since the 2008-09 global financial crisis, Botswana has been keeping production volumes stable while using inventories in response to global demand changes. Nevertheless, a protracted decline in the global demand for diamonds could have negative implications for growth and fiscal revenues.	See paragraph 7
	Growth slowdown and persistent labor unrest in South Africa.	Medium/Low	Low Key channels of impact could arise from Botswana's exchange rate link to the rand and from the close financial linkages—of both banks and nonbanks. However, staff analysis did not find any evidence of significant spillovers from South Africa once global shocks are controlled for. Plausible explanations include: the limited extent of integration, the difficulty to detect separately South Africa's growth impact from global growth after South Africa reintegrated into the world economy with the end of sanctions, and the possibility that the multiple spillover channels pull in opposite directions.	See paragraph 7

¹ The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in staff's view. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern at the time of discussions with the authorities.

Table 2. Botswana: Risk Assessment Matrix (concluded)¹

Domestic Risks				
Short term	Delayed commencement of the Morupule B power plant.	Medium	<p style="text-align: center;">Medium to High</p> <p>A delay in the full commencement of the Morupule B power plant would weigh heavily on the domestic economy going forward, lowering electricity output and extending to the general private sector that bears the opportunity cost of power shortages. In addition, import bills for electricity and fuel will remain at record-high levels.</p>	See paragraph 7
Short/Medium term	Deterioration of the credit portfolio of unsecured lending.	Low	<p style="text-align: center;">Medium to High</p> <p>A deterioration of the credit portfolio of unsecured lending could undermine the soundness of Botswana's banking system because the bulk of household credit—which counts for more than 55 percent of banks' total loans—is unsecured loans. In addition, this shock could easily propagate through the nonbank sector given their strong linkages.</p>	See paragraph 14

¹ The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in staff's view. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern at the time of discussions with the authorities.

Table 3. Botswana: Selected Economic and Financial Indicators, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP ¹	8.6	6.2	4.3	5.9	4.4	4.2	4.0	4.1	4.1
Mineral	22.7	-2.3	-7.0	10.6	1.4	2.7	2.7	3.5	3.5
Nonmineral ²	6.2	7.9	6.3	5.2	4.8	4.4	4.3	4.2	4.2
Consumer prices	7.4	9.2	7.4	4.1	5.4	5.4	5.3	5.3	5.3
Diamond production (millions of carats)	22.8	23.0	20.9	22.7	22.4	22.9	23.4	24.1	24.9
External sector									
Exports of goods and services, f.o.b. (US\$)	33.4	41.7	-9.2	28.2	5.5	4.0	3.9	4.7	4.7
<i>Of which: diamonds</i>	49.9	38.3	7.1	39.7	3.6	3.6	3.6	4.3	4.3
Imports of goods and services, f.o.b. (US\$)	17.9	28.0	7.4	-5.7	15.3	6.0	5.1	5.3	4.6
Terms of trade	-6.1	0.4	4.2	6.2	0.2	0.8	2.2	2.0	1.8
Nominal effective exchange rate	4.6	-4.7	-7.8	...	...	...	...	...	...
Real effective exchange rate	8.3	-0.8	-3.5	...	...	...	...	...	...
	(Percentage change with respect to M2 at the beginning of the period)								
Money and banking									
Net foreign assets	-17.5	25.4	0.2	16.8	10.5	15.8	5.3	4.1	5.4
Net domestic assets	29.9	-21.0	7.3	-12.8	2.0	-5.4	5.6	6.8	5.5
Broad money (M2)	12.4	4.3	7.4	4.0	12.5	10.3	10.9	10.9	10.8
Velocity (nonmineral GDP relative to M3)	1.6	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Credit to the private sector	6.1	11.8	13.9	9.6	10.9	8.0	8.4	8.3	8.1
	(Percent of GDP, unless otherwise indicated)								
Investment and savings ¹									
Gross investment (including change in inventories)	35.4	38.7	39.2	33.9	31.5	30.6	29.6	28.4	27.3
Gross savings	29.9	38.5	34.5	44.2	37.1	34.7	31.7	30.1	29.4
Central government finances ³									
Total revenue and grants	32.4	36.3	36.5	35.5	35.2	33.8	31.2	29.8	29.4
Total expenditure and net lending	39.9	36.4	35.7	35.2	34.2	31.8	29.3	28.2	27.8
Overall balance (deficit -)	-7.5	-0.2	0.8	0.3	0.9	2.0	1.9	1.6	1.6
Non-mineral primary balance ⁴	-25.9	-20.1	-13.2	-14.0	-12.3	-10.9	-10.7	-9.9	-9.2
Total central government debt	19.5	20.1	19.2	16.9	14.8	12.9	11.3	9.8	8.5
External sector									
Current account balance	-5.4	-0.2	-4.6	10.4	5.7	4.1	2.1	1.7	2.1
Balance of payments	-7.0	3.3	-0.8	1.1	4.7	3.2	1.4	1.0	1.5
External public debt ⁵	19.7	20.7	19.8	17.4	14.7	12.8	11.0	9.4	8.0
	(Millions of US\$, unless otherwise indicated)								
Gross official reserves (end of period)	7,883	8,386	8,270	8,429	9,200	9,765	10,031	10,235	10,577
<i>Of which: Pula Fund</i>	6,938	6,901							
Months of imports of goods and services ⁶	11.8	11.1	11.2	9.9	10.3	10.5	10.2	10.0	10.1
Percent of GDP	57.3	52.2	52.3	52.5	52.4	51.3	49.0	45.6	43.1
Financial position in the IMF (as of May 31, 2012)									
Holdings of currency (percent of quota)	...	...	66.7	...	...	...	...	...	...
Holdings of SDRs (percent of allocation)	...	...	149.4	...	...	...	...	...	...
Quota (SDR millions)	...	...	87.8	...	...	...	...	...	...
Social indicators									
Per capita GDP (2010): US\$8,117; Life expectancy at birth (2007): 51									
Poverty headcount ratio at national poverty line (percent of population, 2008): 30.3									

Sources: Botswana authorities and IMF staff estimates and projections.

¹ Calendar year.

² Refers to the growth of value added of sectors other than mining, excluding statistical adjustments. The latter includes financial intermediation services indirectly measured (FISIM), taxes on products, and subsidies.

³ Year beginning April 1.

⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest receipts and interest payments), divided by non-mineral GDP.

⁵ Includes publicly guaranteed debt.

⁶ Based on imports of goods and services for the following year.

Table 4a. Botswana: Central Government Operations, 2009/10–2017/18 ¹

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Millions of pula)								
Total revenue and grants	29,023	31,210	38,487	41,658	45,426	50,205	52,749	53,492	56,039
Total revenue	28,254	30,881	37,954	41,554	44,990	49,710	52,202	52,915	55,463
Tax revenue	20,045	20,505	24,847	29,787	31,741	35,751	36,981	36,539	40,338
Income taxes	7,921	9,362	11,249	9,987	12,997	13,728	15,081	15,985	17,699
Mineral	2,360	2,949	5,136	3,262	4,029	4,117	4,532	4,901	5,406
Nonmineral	5,561	6,413	6,113	6,725	8,968	9,611	10,549	11,084	12,292
Taxes on goods and services ²	3,943	4,638	4,851	5,283	4,747	6,050	6,707	7,117	7,893
Customs Union receipts ³	7,931	6,207	8,424	14,216	13,683	15,973	15,193	13,437	14,747
Other	250	298	323	301	314	0	0	0	0
Nontax revenue	8,209	10,375	13,107	11,767	13,249	13,959	15,221	16,376	15,124
Mineral royalties and dividends	6,729	9,111	10,687	8,814	9,225	11,124	12,247	13,242	12,738
Interest	32	37	31	38	42	42	42	42	46
Property income	211	131	158	116	211	211	211	211	223
Of which: BoB transfers	0	0	864	1,490	1,904	899	935	972	1,011
Fees and charges	1,237	1,097	1,367	1,308	1,867	1,683	1,786	1,909	2,117
Grants	769	329	533	104	436	495	547	577	577
Total expenditure and net lending	39,490	38,417	38,668	40,736	45,040	48,857	49,682	50,240	53,026
Current expenditure	25,732	27,089	28,836	32,106	32,977	36,693	37,737	38,641	40,700
Wages and salaries	9,252	11,899	12,941	14,548	15,128	15,749	17,072	17,487	18,414
Interest	370	524	587	672	778	907	984	1,013	876
Other	16,110	14,667	15,308	16,886	17,071	20,037	19,681	20,141	21,410
Of which: grants and subsidies	8,106	8,348	7,192	8,088	8,350	9,809	9,956	10,105	10,742
Capital expenditure	13,006	11,372	9,956	8,280	12,118	12,240	12,044	11,738	12,478
Net lending	752	-44	-124	350	-55	-76	-99	-139	-153
Primary balance (deficit -)	-10,129	-6,721	-489	66	-782	1,314	3,075	3,251	2,833
Overall balance	-10,467	-7,208	-181	922	386	1,348	3,067	3,252	3,014
Financing	10,467	7,208	181	-922	-386	-1,348	-3,067	-3,252	-3,014
Foreign (net)	6,852	3,621	871	-1,329	-72	-836	-974	-944	-948
Drawing	7,195	3,754	1,118	0	265	204	61	61	61
Amortization	-343	-201	-166	-1,266	-275	-977	-972	-942	-946
IMF transactions (net) ⁴	0	68	-80	-63	-63	-63	-63	-63	-63
Domestic	3,615	3,587	-690	407	-314	-512	-2,093	-2,307	-2,066
Of which:									
Issuance	1,050	3,605	2,824	1,940	2,000	2,000	2,000	2,000	1,500
Amortization	0	-2,101	-2,201	-2,160	-2,000	-2,000	-2,000	-2,000	-2,000
Change in cash balance (- increase)	6,788	2,046	2,275	1,796	-314	-512	-2,093	-2,307	-1,566
<i>Memorandum items:</i>									
Non-mineral primary balance ⁵	-19,218	-18,781	-16,312	-12,011	-14,036	-13,927	-13,704	-14,892	-15,311

Sources: Ministry of Finance and Development Planning; and IMF staff estimates and projections.

¹ Fiscal year begins on April 1.² Refers to sales tax and VAT.³ SACU receipts consist of external trade and excises on imported goods as well as a development component derived from excises.⁴ These transactions reflect Botswana's SDR allocation and contribution to the IMF's General Resource Account (GRA).⁵ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure. (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

Table 4b. Central Government Operations, 2009/10–2017/18 (GFSM 2001 Classification)¹

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Millions of pula)								
Revenue	29,023	31,210	38,487	41,658	43,522	50,205	52,749	53,492	56,039
Taxes	20,045	20,505	24,847	29,787	31,741	35,751	36,981	36,539	40,338
Taxes on income, profits, and capital gains	7,921	9,362	11,249	9,987	12,997	13,728	15,081	15,985	17,699
Payable in the mineral economy	2,360	2,949	5,136	3,262	4,029	4,117	4,532	4,901	5,406
Payable in the non-mineral economy	5,561	6,413	6,113	6,725	8,968	9,611	10,549	11,084	12,292
Taxes on property	27	35	60	51	38	0	0	0	0
Taxes on goods and services	4,166	4,900	5,113	5,531	5,023	6,050	6,707	7,117	7,893
Value added and sales tax	3,943	4,638	4,851	5,283	4,747	6,050	6,707	7,117	7,893
Motor vehicle taxes	189	229	232	220	224	0	0	0	0
Other	34	33	30	29	51	0	0	0	0
Taxes on international trade	7,931	6,209	8,425	14,218	13,684	15,973	15,193	13,437	14,747
Customs Union receipts ²	7,931	6,207	8,424	14,216	13,683	15,973	15,193	13,437	14,747
Taxes on exports	1	2	1	2	1	0	0	0	0
Grants	769	329	533	104	436	495	547	577	577
Other receipts	8,209	10,375	12,243	10,277	11,345	13,060	14,286	15,404	15,124
Property income	6,972	9,279	10,876	8,969	9,478	11,377	12,500	13,496	13,007
Mineral royalties and dividends	6,729	9,111	10,687	8,814	9,225	11,124	12,247	13,242	12,738
Interest	243	168	189	155	253	253	253	253	269
Property interest income ³	211	131	158	116	211	211	211	211	223
Other Interest	32	37	31	38	42	42	42	42	46
Fees and charges	1,237	1,097	1,367	1,308	1,867	1,683	1,786	1,909	2,117
Expense	25,732	27,089	28,836	32,106	32,194	36,693	37,737	38,641	40,700
Compensation of employees	9,252	11,899	12,941	14,548	14,481	15,749	17,072	17,487	18,414
Purchases of goods and services	8,004	6,319	8,116	8,798	9,742	10,228	9,725	10,036	10,668
Interest	370	524	587	672	778	907	984	1,013	876
Grants and subsidies	8,106	8,348	7,192	8,088	7,193	9,809	9,956	10,105	10,742
Gross Operating Balance	3,291	4,120	9,651	9,552	11,328	13,512	15,012	14,851	15,339
Net acquisition of nonfinancial assets	13,006	11,372	9,956	8,280	11,103	12,240	12,044	11,738	12,478
Net lending/borrowing	-9,715	-7,252	-305	1,272	225	1,272	2,968	3,113	2,861
Transactions in financial assets and liabilities	-9,715	-7,252	-305	1,274	225	1,272	2,968	3,113	2,861
Net acquisition of financial assets	-6,036	-2,089	-2,399	-1,443	153	436	1,994	2,168	1,414
Domestic	-6,036	-2,089	-2,399	-1,443	153	436	1,994	2,168	1,414
Currency and deposits	-6,788	-2,046	-2,275	-1,796	208	512	2,093	2,307	1,566
Loans (net lending)	752	-44	-124	350	-55	-76	-99	-139	-153
Foreign	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	3,679	5,162	-2,094	-2,718	-72	-836	-974	-944	-1,448
Domestic	-3,173	1,541	-2,965	-1,388	0	0	0	0	-500
Loans	1,050	3,605	2,824	1,940	2,000	2,000	2,000	2,000	1,500
Amortization	0	-2,101	-2,201	-2,160	-2,000	-2,000	-2,000	-2,000	-2,000
Other	-4,223	37	-3,588	-1,168	0	0	0	0	0
Foreign	6,852	3,621	871	-1,329	-72	-836	-974	-944	-948
Loans	7,195	3,754	1,118	0	265	204	61	61	61
Amortization due (paid)	-343	-201	-166	-1,266	-275	-977	-972	-942	-946
Other	0	68	-80	-63	-63	-63	-63	-63	-63
Memo items:									
Overall balance	-10,467	-7,208	-181	924	280	1,348	3,067	3,252	3,014
Non-mineral primary balance ⁴	-19,218	-18,781	-16,312	-12,011	-12,238	-13,927	-13,704	-14,892	-15,311

Source: Ministry of Finance and Development Planning and Fund staff estimates.

¹ Fiscal year begins on April 1.

² SACU receipts consist of taxes on international trade and excise on imported goods as well as the impact of a development component derived from excises.

³ Includes transfers received from the Bank of Botswana (BoB) on account of interest income on government investments made by the BoB on behalf of the government.

⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

Table 4c. Central Government Operations, 2009/10–2017/18 (GFSM 2001 Classification)¹

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Percent of GDP)								
Revenue	37.4	32.4	36.3	36.5	34.0	35.2	33.8	31.2	29.8
Taxes	25.8	21.3	23.4	26.1	24.8	25.0	23.7	21.3	21.4
Taxes on income, profits, and capital gains	10.2	9.7	10.6	8.8	10.1	9.6	9.7	9.3	9.4
Payable in the mineral economy	3.0	3.1	4.8	2.9	3.1	2.9	2.9	2.9	2.9
Payable in the non-mineral economy	7.2	6.7	5.8	5.9	7.0	6.7	6.8	6.5	6.5
Taxes on property	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	5.4	5.1	4.8	4.8	3.9	4.2	4.3	4.1	4.2
Value added and sales tax	5.1	4.8	4.6	4.6	3.7	4.2	4.3	4.1	4.2
Motor vehicle taxes	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on international trade	10.2	6.5	7.9	12.5	10.7	11.2	9.7	7.8	7.8
Customs Union receipts ²	10.2	6.5	7.9	12.5	10.7	11.2	9.7	7.8	7.8
Taxes on exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.0	0.3	0.5	0.1	0.3	0.3	0.4	0.3	0.3
Other receipts	10.6	10.8	11.5	9.0	8.9	9.1	9.1	9.0	8.0
Property income	9.0	9.6	10.2	7.9	7.4	8.0	8.0	7.9	6.9
Mineral royalties and dividends	8.7	9.5	10.1	7.7	7.2	7.8	7.8	7.7	6.8
Interest	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Property interest income ³	0.3	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Other Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fees and charges	1.6	1.1	1.3	1.1	1.5	1.2	1.1	1.1	1.1
Expense	33.2	28.2	27.2	28.1	25.1	25.7	24.2	22.5	21.6
Compensation of employees	11.9	12.4	12.2	12.7	11.3	11.0	10.9	10.2	9.8
Purchases of goods and services	10.3	6.6	7.6	7.7	7.6	7.2	6.2	5.8	5.7
Interest	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Grants and subsidies	10.4	8.7	6.8	7.1	5.6	6.9	6.4	5.9	5.7
Gross Operating Balance	4.2	4.3	9.1	8.4	8.8	9.5	9.6	8.7	8.1
Net acquisition of nonfinancial assets	16.8	11.8	9.4	7.3	8.7	8.6	7.7	6.8	6.6
Net lending/borrowing	-12.5	-7.5	-0.3	1.1	0.2	0.9	1.9	1.8	1.5
Transactions in financial assets and liabilities	-12.5	-7.5	-0.3	1.1	0.2	0.9	1.9	1.8	1.5
Net acquisition of financial assets	-7.8	-2.2	-2.3	-1.3	0.1	0.3	1.3	1.3	0.8
Domestic	-7.8	-2.2	-2.3	-1.3	0.1	0.3	1.3	1.3	0.8
Currency and deposits	-8.7	-2.1	-2.1	-1.6	0.2	0.4	1.3	1.3	0.8
Loans (net lending)	1.0	0.0	-0.1	0.3	0.0	-0.1	-0.1	-0.1	-0.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.7	5.4	-2.0	-2.4	-0.1	-0.6	-0.6	-0.6	-0.8
Domestic	-4.1	1.6	-2.8	-1.2	0.0	0.0	0.0	0.0	-0.3
Loans	1.4	3.7	2.7	1.7	1.6	1.4	1.3	1.2	0.8
Amortization	0.0	-2.2	-2.1	-1.9	-1.6	-1.4	-1.3	-1.2	-1.1
Other	-5.4	0.0	-3.4	-1.0	0.0	0.0	0.0	0.0	0.0
Foreign	8.8	3.8	0.8	-1.2	-0.1	-0.6	-0.6	-0.6	-0.5
Loans	9.3	3.9	1.1	0.0	0.2	0.1	0.0	0.0	0.0
Amortization due (paid)	-0.4	-0.2	-0.2	-1.1	-0.2	-0.7	-0.6	-0.5	-0.5
Other	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Memo items:									
Overall balance	-13.5	-7.5	-0.2	0.8	0.2	0.9	2.0	1.9	1.6
Non-mineral primary balance ⁴	-24.8	-19.5	-15.4	-10.5	-9.6	-9.8	-8.8	-8.7	-8.1

Source: Ministry of Finance and Development Planning and Fund staff estimates.

¹ Fiscal year begins on April 1.

² SACU receipts consist of taxes on international trade and excise on imported goods as well as the impact of a development component derived from excises.

³ Includes transfers received from the Bank of Botswana (BoB) on account of interest income on government investments made by the BoB on behalf of the government.

⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

Table 4d. Botswana: Central Government Operations, 2009/10–2017/18 ¹

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Percent of GDP)								
Total revenue and grants	37.4	32.4	36.3	36.5	35.5	35.2	33.8	31.2	29.8
Total revenue	36.4	32.1	35.8	36.4	35.1	34.8	33.4	30.8	29.5
Tax revenue	25.8	21.3	23.4	26.1	24.8	25.0	23.7	21.3	21.4
Income taxes	10.2	9.7	10.6	8.8	10.1	9.6	9.7	9.3	9.4
Mineral	3.0	3.1	4.8	2.9	3.1	2.9	2.9	2.9	2.9
Nonmineral	7.2	6.7	5.8	5.9	7.0	6.7	6.8	6.5	6.5
Taxes on goods and services ²	5.1	4.8	4.6	4.6	3.7	4.2	4.3	4.1	4.2
Customs Union receipts ³	10.2	6.5	7.9	12.5	10.7	11.2	9.7	7.8	7.8
Other	0.3	0.3	0.3	0.3	0.2	0.0	0.0	0.0	0.0
Nontax revenue	10.6	10.8	12.4	10.3	10.3	9.8	9.7	9.5	8.0
Mineral royalties and dividends	8.7	9.5	10.1	7.7	7.2	7.8	7.8	7.7	6.8
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.3	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Of which: BoB transfers	0.0	0.0	0.8	1.3	1.5	0.6	0.6	0.6	0.5
Fees and charges	1.6	1.1	1.3	1.1	1.5	1.2	1.1	1.1	1.1
Grants	1.0	0.3	0.5	0.1	0.3	0.3	0.4	0.3	0.3
Total expenditure and net lending	50.9	39.9	36.4	35.7	35.2	34.2	31.8	29.3	28.2
Current expenditure	33.2	28.2	27.2	28.1	25.7	25.7	24.2	22.5	21.6
Wages and salaries	11.9	12.4	12.2	12.7	11.8	11.0	10.9	10.2	9.8
Interest	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Other	20.8	15.2	14.4	14.8	13.3	14.0	12.6	11.7	11.4
Of which: grants and subsidies	10.4	8.7	6.8	7.1	6.5	6.9	6.4	5.9	5.7
Capital expenditure	16.8	11.8	9.4	7.3	9.5	8.6	7.7	6.8	6.6
Net lending	1.0	0.0	-0.1	0.3	0.0	-0.1	-0.1	-0.1	-0.1
Primary balance (deficit -)	-13.1	-7.0	-0.5	0.1	-0.6	0.9	2.0	1.9	1.5
Overall balance	-13.5	-7.5	-0.2	0.8	0.3	0.9	2.0	1.9	1.6
Financing	13.5	7.5	0.2	-0.8	-0.3	-0.9	-2.0	-1.9	-1.6
Foreign (net)	8.8	3.8	0.8	-1.2	-0.1	-0.6	-0.6	-0.6	-0.5
Drawing	9.3	3.9	1.1	0.0	0.2	0.1	0.0	0.0	0.0
Amortization	-0.4	-0.2	-0.2	-1.1	-0.2	-0.7	-0.6	-0.5	-0.5
IMF transactions	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	4.7	3.7	-0.7	0.4	-0.2	-0.4	-1.3	-1.3	-1.1
Of which:									
Issuance	1.4	3.7	2.7	1.7	1.6	1.4	1.3	1.2	0.8
Amortization	0.0	-2.2	-2.1	-1.9	-1.6	-1.4	-1.3	-1.2	-1.1
Change in cash balance (- increase)	8.7	2.1	2.1	1.6	-0.2	-0.4	-1.3	-1.3	-0.8
<i>Memorandum items:</i>									
Non-mineral primary balance ⁴	-29.9	-25.9	-20.1	-13.2	-14.0	-12.3	-10.9	-10.7	-9.9
Nominal GDP (in current of local currency)	78	96	106	114	128	143	156	172	188

Sources: Ministry of Finance and Development Planning; and IMF staff estimates and projections.

¹ Fiscal year begins on April 1.² Refers to sales tax and VAT.³ SACU receipts consist of external trade and excises on imported goods as well as a development component derived from excises.⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

Table 4e. Botswana: Central Government Operations, 2009/10–2017/18¹

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Percent of non-mineral GDP)								
Total revenue and grants	45.1	43.0	47.4	45.9	45.5	44.2	42.0	38.5	36.3
Total revenue	43.9	42.6	46.7	45.8	45.0	43.8	41.6	38.0	35.9
Tax revenue	31.2	28.3	30.6	32.9	31.8	31.5	29.5	26.3	26.1
Income taxes	12.3	12.9	13.8	11.0	13.0	12.1	12.0	11.5	11.5
Mineral	3.7	4.1	6.3	3.6	4.0	3.6	3.6	3.5	3.5
Nonmineral	8.6	8.8	7.5	7.4	9.0	8.5	8.4	8.0	8.0
Taxes on goods and services ²	6.1	6.4	6.0	5.8	4.7	5.3	5.3	5.1	5.1
Customs Union receipts ³	12.3	8.6	10.4	15.7	13.7	14.1	12.1	9.7	9.6
Other	0.4	0.4	0.4	0.3	0.3	0.0	0.0	0.0	0.0
Nontax revenue	12.8	14.3	16.1	13.0	13.3	12.3	12.1	11.8	9.8
Mineral royalties and dividends	10.5	12.6	13.2	9.7	9.2	9.8	9.8	9.5	8.3
Interest	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1
Of which: BoB transfers	0.0	0.0	1.1	1.6	1.9	0.8	0.7	0.7	0.7
Fees and charges	1.9	1.5	1.4	1.4	1.9	1.5	1.4	1.4	1.4
Grants	1.2	0.5	0.7	0.1	0.4	0.4	0.4	0.4	0.4
Total expenditure and net lending	61.4	52.9	47.6	44.9	45.1	43.1	39.6	36.1	34.4
Current expenditure	40.0	37.3	35.5	35.4	33.0	32.3	30.1	27.8	26.4
Wages and salaries	14.4	16.4	15.9	16.0	15.1	13.9	13.6	12.6	11.9
Interest	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.7	0.6
Other	25.0	20.2	18.8	18.6	17.1	17.7	15.7	14.5	13.9
Of which: grants and subsidies	12.6	11.5	8.9	8.9	8.4	8.6	7.9	7.3	7.0
Capital expenditure	20.2	15.7	12.3	9.1	12.1	10.8	9.6	8.4	8.1
Net lending	1.2	-0.1	-0.2	0.4	-0.1	-0.1	-0.1	-0.1	-0.1
Primary balance (deficit -)	-15.7	-9.3	-0.6	0.1	-0.8	1.2	2.5	2.3	1.8
Overall balance	-16.3	-9.9	-0.2	1.0	0.4	1.2	2.4	2.3	2.0
<i>Memorandum items:</i>									
Non-mineral revenue	31.0	26.4	27.9	32.6	32.2	30.8	28.7	25.4	24.6
Non-mineral primary balance ⁴	-29.9	-25.9	-20.1	-13.2	-14.0	-12.3	-10.9	-10.7	-9.9
Non-mineral GDP (fiscal year; millions of pula)	64,320	72,574	81,237	90,662	99,939	113,468	125,457	139,113	154,280

Sources: Ministry of Finance and Development Planning; and IMF staff estimates and projections.

¹ Fiscal year begins on April 1.² Refers to sales tax and VAT.³ SACU receipts consist of external trade and excises on imported goods as well as a development component derived from excises.⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

Table 5. Botswana: Balance of Payments, 2010–2018

	2010	2011	2012	Est.	Projections				
				2013	2014	2015	2016	2017	2018
(US\$ millions, unless otherwise indicated)									
Current account balance	-744.4	-36.7	-676.6	1,536.1	924.2	725.5	396.3	356.6	492.9
Trade balance	-926.9	-732.9	-1,934.3	241.6	-553.7	-761.3	-863.0	-904.1	-959.3
Exports, f.o.b.	4,635.5	6,449.5	6,022.4	7,610.1	8,024.4	8,342.4	8,670.0	9,077.1	9,508.2
Diamonds	3,207.8	4,435.2	4,748.3	6,631.2	6,869.0	7,115.3	7,369.2	7,685.7	8,015.8
Other raw materials	686.2	574.9	530.5	561.1	466.4	491.7	518.3	551.6	587.7
Other	741.5	1,439.4	743.6	417.8	689.0	735.4	782.5	839.7	904.6
Imports, f.o.b.	-5,562.5	-7,182.4	-7,956.7	-7,368.5	-8,578.1	-9,103.6	-9,533.0	-9,981.2	-10,467.5
Services	-432.7	-338.6	-377.4	-277.7	-282.4	-298.5	-350.7	-425.9	-415.4
Transportation	-44.6	-117.3	-140.3	-139.1	-134.3	-148.4	-160.0	-208.9	-213.6
Travel	-10.1	-48.3	-38.4	-31.0	-34.7	-32.2	-37.1	-56.2	-61.9
Other services	-378.0	-172.9	-198.6	-107.6	-113.5	-118.0	-153.6	-160.8	-139.9
Income	-554.5	-59.6	-79.5	-106.3	-69.8	-63.0	-34.3	-24.6	-8.3
Current transfers	1,169.7	1,094.3	1,714.5	1,650.9	1,830.2	1,848.4	1,644.2	1,711.2	1,875.9
SACU receipts	977.7	1,153.9	1,677.4	1,646.5	1,798.4	1,794.6	1,586.3	1,647.7	1,806.2
Capital and financial account	-404.1	807.1	89.3	-919.4	-153.1	-161.1	-130.3	-152.4	-150.9
Capital account	3.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-407.4	806.8	89.3	-919.4	-153.1	-161.1	-130.3	-152.4	-150.9
Direct investment	-7.4	425.7	302.9	188.7	194.5	196.4	194.8	199.6	203.3
Portfolio investment	-402.4	-213.9	-175.3	-1,244.4	-161.1	-168.8	-168.6	-171.7	-171.5
Other investment	2.3	594.9	-38.4	136.3	-186.5	-188.7	-156.4	-180.3	-182.7
Assets	-222.5	82.3	-175.6	117.6	-143.2	-136.6	-104.4	-112.8	-119.7
Liabilities	224.9	512.7	137.2	18.8	-43.3	-52.1	-52.0	-67.5	-63.0
Net government long-term borrowing	-74.8	450.7	-107.9	-66.0	-94.1	-102.2	-101.6	-101.0	-99.3
Other net private long-term borrowing	53.6	138.4	151.0	192.8	152.7	158.8	163.8	156.7	159.2
Short-term borrowing	358.9	-80.8	-97.9	-95.8	-101.9	-108.6	-114.3	-123.2	-122.8
Reserve assets (increase –)	960.4	-503.1	116.5	-159.6	-771.2	-564.4	-266.0	-204.2	-342.1
Net errors and omissions	188.1	-267.3	470.8	-457.1	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>	(Percent of GDP, unless otherwise indicated)								
Balance of payments	-7.0	3.3	-0.8	1.1	4.7	3.2	1.4	1.0	1.5
Current account	-5.4	-0.2	-4.6	10.4	5.7	4.1	2.1	1.7	2.1
Trade balance	-6.7	-4.8	-13.3	1.6	-3.4	-4.3	-4.5	-4.3	-4.2
Exports of goods	33.7	42.1	41.4	51.4	49.2	46.9	45.3	43.2	41.3
Of which: diamonds	23.3	28.9	32.6	44.8	42.1	40.0	38.5	36.6	34.8
Imports of goods	40.4	46.8	54.7	49.8	52.6	51.2	49.8	47.5	45.4
Services balance	-3.1	-2.2	-2.6	-1.9	-1.7	-1.7	-1.8	-2.0	-1.8
Income and transfers balance	4.5	6.7	11.2	10.4	10.8	10.0	8.4	8.0	8.1
Financial account	-3.0	5.3	0.6	-6.2	-0.9	-0.9	-0.7	-0.7	-0.7
Direct investment	-0.1	2.8	2.1	1.3	1.2	1.1	1.0	1.0	0.9
Portfolio investment	-2.9	-1.4	-1.2	-8.4	-1.0	-1.0	-0.9	-0.8	-0.7
Other investment	0.02	3.9	-0.3	0.9	-1.1	-1.1	-0.8	-0.9	-0.8
(Annual percentage change, unless otherwise indicated)									
Export volumes	19.3	24.5	-6.3	31.6	1.3	2.7	2.7	3.4	3.5
Import volumes	-0.1	15.6	16.0	-2.0	15.6	5.7	5.8	5.5	5.5
Terms of trade	-6.1	0.4	4.2	6.2	0.2	0.8	2.2	2.0	1.8
End-of-year reserves (US\$ millions)	7,883.1	8,386.1	8,269.6	8,429.3	9,200.4	9,764.8	10,030.9	10,235.1	10,577.1
(Months of imports of goods and services) ¹	11.8	11.1	11.2	9.9	10.3	10.5	10.2	10.0	10.1

Source: Bank of Botswana; IMF staff estimates.

¹ Months of prospective imports.

Table 6. Botswana: Monetary Survey, 2010–2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(Millions of pula, end of period)								
Net foreign assets	52,550	63,596	63,682	71,886	77,221	86,215	89,527	92,376	96,530
Bank of Botswana	49,585	58,885	57,884	66,317	70,425	78,248	80,648	82,510	85,583
Assets	50,776	60,201	59,223	67,743	71,851	79,674	82,073	83,935	87,009
Liabilities	-612	-641	-1,339	-1,426	-1,426	-1,426	-1,426	-1,426	-1,426
Commercial banks	2,965	4,710	5,799	5,569	6,795	7,967	8,879	9,866	10,946
Assets	5,838	5,524	7,115	6,806	8,033	9,204	10,117	11,104	12,184
Liabilities	-2,873	-813	-1,317	-1,238	-1,238	-1,238	-1,238	-1,238	-1,238
Net domestic assets	-9,016	-18,174	-14,880	-21,122	-20,129	-23,218	-19,683	-14,899	-10,658
Net domestic credit	7,956	8,177	16,375	15,586	20,965	24,092	27,415	31,781	37,433
Net claims on the government	-14,580	-22,726	-20,963	-26,734	-27,196	-28,894	-31,148	-32,899	-33,923
Bank of Botswana	-14,882	-24,075	-22,279	-28,531	-28,993	-30,691	-32,945	-34,696	-35,720
Commercial banks	302	1,349	1,316	1,797	1,797	1,797	1,797	1,797	1,797
Claims on parastatals	386	1,021	1,081	1,213	1,363	1,487	1,635	1,794	1,969
Claims on nongovernment	22,150	29,882	36,257	41,108	46,798	51,498	56,928	62,886	69,387
Claims on the private sector	23,622	28,781	35,091	39,800	45,327	49,894	55,165	60,950	67,263
Other financial institutions	-1,472	1,101	1,166	1,308	1,470	1,605	1,764	1,936	2,124
Other items (net)	-16,972	-26,351	-31,293	-37,983	-42,055	-48,012	-47,494	-46,745	-47,793
Money plus quasi-money (M2)	43,534	45,422	48,802	50,763	57,091	62,997	69,844	77,476	85,872
Money	9,938	9,334	10,555	12,513	12,717	14,396	16,245	17,661	19,724
Currency	1,916	2,089	1,558	1,585	1,429	1,413	1,544	1,689	1,846
Current deposits	8,023	7,244	8,997	10,929	11,289	12,983	14,701	15,972	17,878
Quasi-money	33,596	36,088	38,247	38,250	44,374	48,602	53,599	59,815	66,148
Other monetary liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Broad money (M3)	43,534.4	45,421.8	48,802.0	50,763.4	57,091.3	62,997.3	69,844.3	77,476.5	85,871.8
	(Contribution to growth in M2)								
Net foreign assets	-17.5	25.4	0.2	16.8	10.5	15.8	5.3	4.1	5.4
Bank of Botswana	-18.7	21.4	-2.2	17.3	8.1	13.7	3.8	2.7	4.0
Commercial banks	1.2	4.0	2.4	-0.5	2.4	2.1	1.4	1.4	1.4
Net domestic assets	29.9	-21.0	7.3	-12.8	2.0	-5.4	5.6	6.8	5.5
Net domestic credit	26.4	0.5	18.0	-1.6	10.6	5.5	5.3	6.3	7.3
Net claims on the government	20.2	-18.7	3.9	-11.8	-0.9	-3.0	-3.6	-2.5	-1.3
Of which: Bank of Botswana	21.6	-21.1	4.0	-12.8	-0.9	-3.0	-3.6	-2.5	-1.3
Claims on nongovernment	5.9	17.8	14.0	9.9	11.2	8.2	8.6	8.5	8.4
Claims on parastatals	0.2	1.5	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Claims on the private sector	6.1	11.8	13.9	9.6	10.9	8.0	8.4	8.3	8.1
Other items (net)	3.5	-21.5	-10.9	-13.7	-8.0	-10.4	0.8	1.1	-1.4
<i>Memorandum items:</i>									
Nominal GDP (calendar year)	93,390	104,573	110,763	124,223	139,628	152,368	167,480	183,818	201,696
Nominal non-mineral GDP (calendar year)	70,522	78,732	88,751	96,393	110,577	122,138	135,413	150,210	166,487
Velocity (GDP relative to broad money, M2)	2.1	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.3
Velocity (non-mineral GDP relative to broad money, M2)	1.6	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Private sector credit to GDP	25.3	27.5	30.4	30.4	31.7	32.8	33.8	35.0	36.2
Private sector credit to non-mineral GDP	33.5	36.6	37.9	39.2	40.0	40.9	41.8	42.8	43.8

Sources: Bank of Botswana and IMF staff estimates and projections.

Table 7. Botswana: Banking System Prudential Indicators, 2007–2013¹

	2007	2008	2009	2010	2011	2012	2013
	(Percent, unless otherwise indicated)						
Regulatory capital (millions of pula) ²	2,020.6	2,991.6	3,670.7	4,582.0	4,801.9	6,919.1	7,365
Tier 1 capital (millions of pula)	1,185.4	1,832.2	2,191.6	2,692.0	2,798.7	4,103.0	5,049.0
Risk weighted assets (millions Pula)	10,947.2	17,694.4	18,734.7	22,311.8	22,784.9	33,255.3	37,665.2
Total assets (millions Pula)	33,988.1	45,317.7	44,090.1	49,067.9	50,320.7	58,109.6	60,231.2
Regulatory capital to risk-weighted assets ³	18.5	16.9	19.6	20.5	21.1	20.8	19.6
Regulatory Tier I capital to risk-weighted assets ⁴	10.8	10.4	11.7	12.1	12.3	12.3	13.4
Capital-to-assets	5.9	6.6	8.3	9.3	9.5	11.9	12.2
Asset composition and quality							
Loans-to-assets	33.9	39.7	44.8	43.9	44.3	58.2	65.8
Nonperforming loans (NPLs)-to-gross loans ⁵	1.3	1.6	3.2	6.1	2.5	0.8	3.6
Compromised assets-to-gross loans ⁵	3.3	0.9	0.9	2.7	2.8	2.6	5.3
NPLs net of specific provisions-to-gross loans ⁵	1.4	-0.3	0.3	3.7	-0.1	-1.0	1.8
NPLs net of specific provisions-to-tier I capital ⁵	0.1	-2.5	3.0	4.2	...	-8.5	14.2
Profitability							
Return on average assets	2.6	2.9	2.8	0.9	0.6	0.3	2.9
Return on average equity	43.2	45.4	56.5	15.5	25.8	19.5	23.5
Net interest margin to gross income	65.4	65.2	67.5	39.8	33.7	47.8	19.2
Non-interest income to gross income	34.6	34.8	32.5	69.9	32.4	27.3	13.2
Non-interest expenses to gross income	45.2	45.5	45.3	24.6	39.4	39.9	17.9
Liquidity							
Liquid assets to total assets	47.2	50.5	39.6	34.4	33.4	16.7	12.4
<i>Of which:</i>							
BoBCs to total assets	45.3	38.7	37.3	34.6	34.4	14.1	8.8
Liquid assets to short-term liabilities	59.5	56.9	45.3	41.7	38.9	20.5	15.0
Foreign currency denominated loans to total loans	12.1	9.2	7.2	8.5	7.6	6.6	6.3
Foreign currency deposits to total deposits	32.7	26.9	12.9	14.8	15.5	13.9	14.2
Foreign currency denominated liabilities to total liabilities	41.6	34.8	34.2	13.8	13.4	13.0	13.3
Deposits-to-assets	83.2	85.2	86.0	82.4	85.9	83.7	83.0
Loans-to-deposits	40.8	46.6	52.1	53.3	61.9	69.5	79.9
Sensitivity to market risk							
Net open foreign exchange (FX) position as percent of regulatory capital ⁶	-8.1	28.7	22.5	15.4	13.0	10.9	-3.8
Contingent foreign exchange (FX) assets-to-regulatory capital	327.1	132.7	31.8	39.9	37.4	33.0	34.0
Contingent foreign exchange (FX) liabilities-to-regulatory capital	18.7	60.9	74.2	130.5	139.9	97.6	96.3

Source: Bank of Botswana and FSAP estimates.

¹ The compilation methodology has changed somewhat since 2006; the number of banks has increased since 2007.

² Regulatory capital refers to the total of Tier 1 and Tier 2 capital, less investments in subsidiaries and associates.

³ The minimum capital requirement is 15 percent of risk weighted assets.

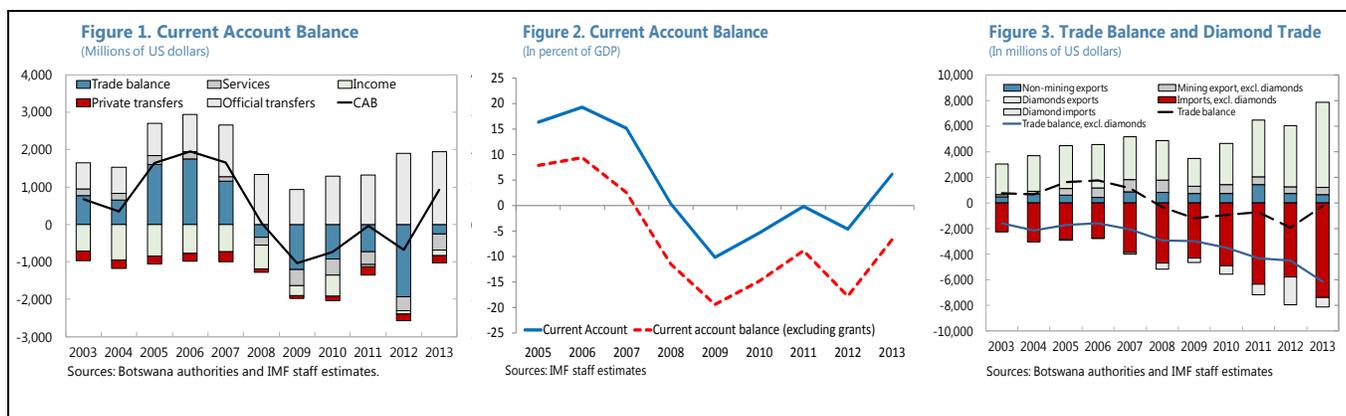
⁴ The minimum capital requirement is 7.5 percent of risk weighted assets.

⁵ NPLs are defined as credits with interest past due of 182 days or more; compromised assets are defined as credits with interest past due of 91 days or more.

⁶ Foreign currency liabilities less foreign currency assets as a percent of regulatory capital.

Appendix I. External Stability and Competitiveness Assessment¹

1. Botswana returned to a current account surplus in 2013 for the first time after the 2008-09 financial crisis (Figure 1). The trade balance improved over the period 2012-2013, after being in a deficit for six years in a row. During this time, SACU revenues partly contributed to the financing of the trade deficit. The return to surplus in the current account balance in 2013 was supported by a rebound in diamond exports. (Figures 2 and 3).



2. While the trade balance improved, the deficit (excluding diamonds) widened (Figure 3). The diamond industry contributed to the improvement of the trade balance, but imports continued to grow. Diamond exports increased, partly reflecting the increased demand from advanced economies that are showing the first signs of recovery from the financial crisis, such as the United States. The significant import growth in 2013 worsened the deficit in the trade balance excluding diamonds. The increase in import growth is partly due to increased electricity imports.

3. Botswana's capital inflows have been relatively stable over the past three years, while the level of international reserves remained adequate during this period. Net inflows under foreign direct investment and portfolio investment remained stable both in absolute and in relative to GDP terms. Their average value amounted to 2.1 and -1.2 percent of GDP in 2012 and 2013, respectively, which is in line with their average pattern observed after 2009. Reserve coverage remained at about 10 months of import coverage at end-2013.

4. The Pula is broadly in line with fundamentals from a medium-term perspective (Table 1). The exchange rate assessment is based on the macroeconomic balance (MB), the external sustainability (ES), the purchasing power parity (PPP), and the equilibrium real exchange rate (ERER) methodologies that are similar to those proposed by the IMF's Consultative Group on

¹ Prepared by Emmanouil Kitsios.

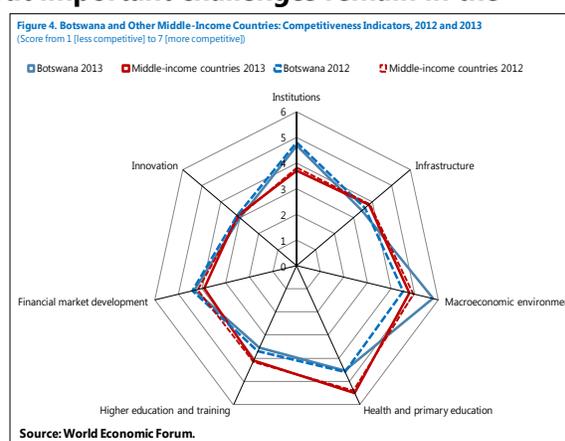
Exchange Rate Issues (CGER), but extended to emerging and developing economies (Vitek, 2014).² The two more relevant approaches to Botswana’s natural resource-rich economy, normally the Macroeconomic Balance and the External Sustainability approaches, give point estimates that are not significantly different from zero.

Macroeconomic Balance	-0.8
External Sustainability	1.3
Purchasing Power Parity	-4.9
Equilibrium Real Effective Exchange Rate	-7.2

¹ In percentage. Positive numbers signify overvaluation.
Source: IMF staff estimates.

5. Non-price competitiveness indicators suggest that Botswana performs well relative to its peers in macroeconomic related indicators, but important challenges remain in the education and health related indicators (Figure 4).

Botswana performs better than other middle-income countries in terms of strength of institutions and financial market development. In 2013, Botswana significantly improved its macroeconomic environment. However, there was no progress in 2013 on the health and education related indicators, on which Botswana has been consistently lagging behind its peers, as well as in innovation which has slightly deteriorated compared to the previous year.



6. Overall, the analysis suggests a medium-term balance of payments position that is broadly in line with macroeconomic fundamentals from a medium-term perspective. Staff’s assessment, which incorporates features appropriate for natural resource-rich economies, show that the current level of the real effective exchange rate (REER) is broadly in line with macroeconomic fundamentals and that the balance of payments position is not likely to give rise to disruptive exchange rate movements under the crawling peg arrangement. Botswana’s current account and trade balance improved over the period 2012-13 and international reserves have remained at high levels for the past few years. However, the improvements in Botswana’s external position relied heavily on increases in diamond exports. Promoting export diversification would enhance Botswana’s external stability, as well as broaden the base for achieving a sustainable long-term growth.

² Vitek, F. (2014) “Exchange Rate Assessment Tools for Advanced, Emerging and Developing Economies”, Forthcoming Working Paper, IMF.

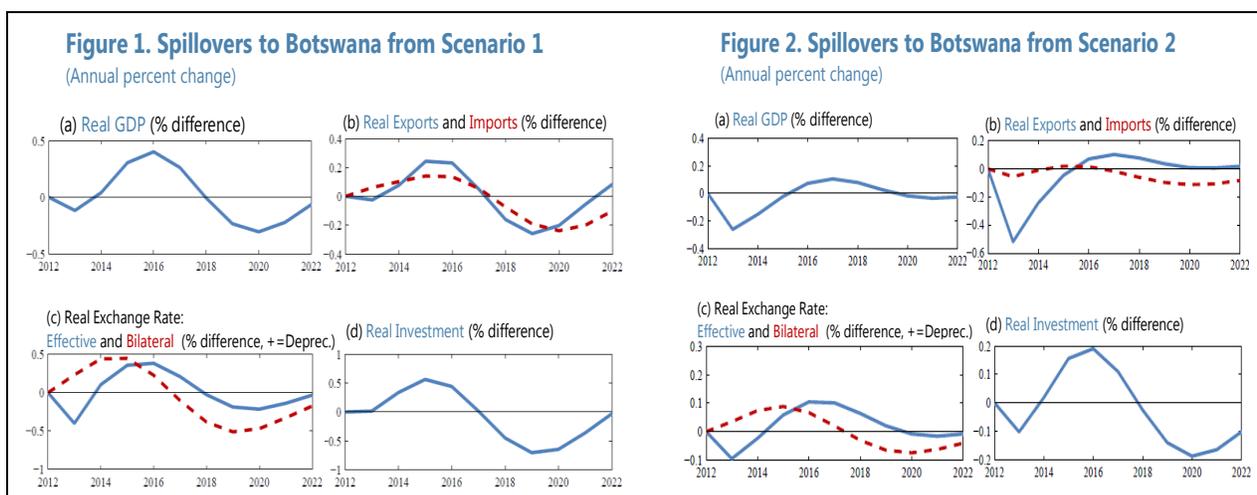
Appendix II. Managing Inward Global Spillovers¹

1. **Staff has assessed the impact of selected risks on Botswana by conducting G-RAM consistent simulations using a structural model.** Staff constructed a four region version of the Global Integrated Monetary and Fiscal model (GIMF), tailored to Botswana's specific economic circumstances. The four regions are intended to capture Botswana, the United States, the Euro area, and the rest of the world which also has emerging market economies including South Africa. Staff simulated the following adverse scenarios:
2. **Scenario 1: Surges in global financial market volatility would negatively affect real GDP growth in Botswana, but the impact would be short-lived (Figure 1).** An increase in the US interest rates would lead to a US dollar appreciation relative to the Pula. However, Botswana's effective exchange rate would appreciate, reflecting the depreciation tendencies of countries that trade with Botswana and the fact that Botswana's main exporting good (diamonds) is priced in US dollars. The deterioration of the trade balance would lead to an initial mild decline in real GDP growth and an eventual depreciation of the Pula.
3. **Scenario 2: A slowdown in the Euro-area would negatively affect Botswana in the short-term (Figure 2).** Botswana is potentially vulnerable to demand shocks in advanced economies that could induce fluctuations in world demand for diamonds. Botswana's effective exchange rate would appreciate on impact, which, combined with the sluggish demand for Botswana's products in the Euro-area, would reduce exports. The impact on GDP would be less pronounced. The policy rate would decline in response to Pula's appreciation, and investment and real GDP growth would rise in the second period.
4. **Scenario 3: A slowdown in emerging market economies would lead to a decline of Botswana's exports, but the effect on GDP growth would be moderate (Figure 3).** Real investment would initially decline as a result of declining exports and reduced economic activity, but then pick up as domestic interest rates would increase in response to the appreciation of the real effective exchange rate. Real GDP growth would initially decline due to the drop in exports, but eventually recover, largely reflecting the increase in real investment.
5. **Scenario 4: The re-emergence of financial stress in the euro area would negatively affect real GDP growth in Botswana, but the impact would be short lived (Figure 4).** Staff simulated a temporary increase of 1 percentage point in Euro-area sovereign risk. Demand for imports from Botswana would decline, but the effect would be short lived. Real investment would initially decline, but then pick up as domestic interest rates would decline to counteract the appreciation of the real effective exchange rate. Real GDP growth would eventually recover from the decline induced by the drop in exports.
6. **A growth slowdown in South Africa would have limited potential spillovers to Botswana, once the impact of global shocks are controlled for.** A growth slowdown in South Africa might be propagated to the rest of the region via FDI outflows from its neighboring countries,

¹ Prepared by Emmanouil Kitsios.

such as Botswana. Additionally, a looser monetary policy in South Africa and the associated depreciation of the rand may lower export prices and boost the competitiveness of Botswana on international markets in the short term. While there are multiple linkages (trade, investment, financial, and institutional) that are quantitatively important, recent empirical analysis have not been able to detect a clear impact after 1994, once global shocks are controlled for.² Plausible explanations include: the limited extent of integration, the continent's growth acceleration from the mid-1990s, the fact that South Africa's growth impact may have become impossible to detect separately from global growth after South Africa reintegrated into the world economy with the end of sanctions, and the possibility that the multiple spillover channels pull in opposite directions.

7. The results from the structural modeling approach suggest that the potential spillovers would be limited and transitory. The analysis revealed that Botswana is more vulnerable to external shocks originating from advanced economies, rather than from emerging markets, including South Africa. This finding is in agreement with recent empirical studies that show a limited impact of real spillovers from economic developments in South Africa to the region, once global economic shocks have been properly accounted for.



² See, for example, the studies by Basdevant, O., A., Jonelis, B., Mircheva, and S. Slavov (2014) "The mystery of Missing Real Spillovers in Southern Africa: Some Facts and Possible Explanations," IMF Working Paper (forthcoming), and Canales-Kriljenko, J., F. Gwenhamo, and S. Thomas (2013) "Inward and Outward Spillovers in the SACU Area," IMF Working Paper WP/13/31.

Figure 3. Spillovers to Botswana from Scenario 3

(Annual percent change)

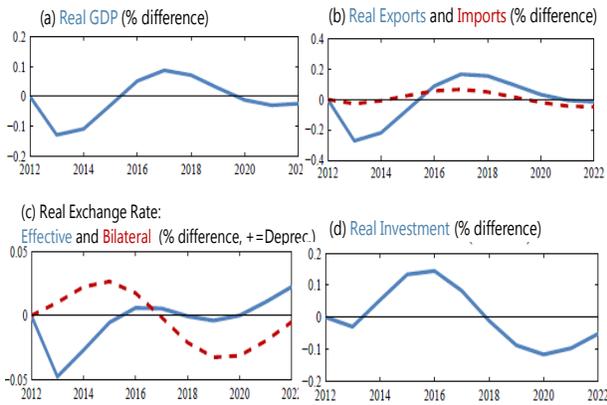
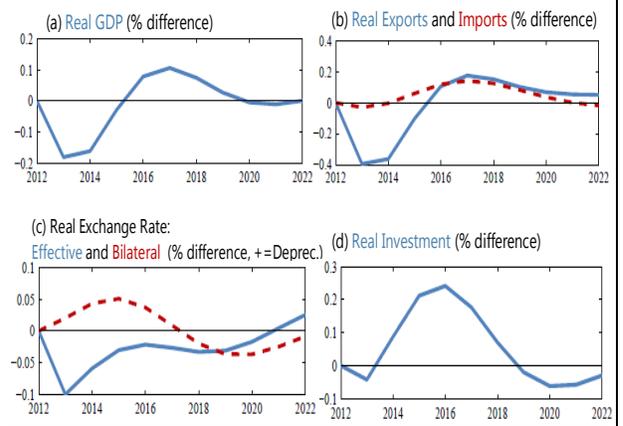


Figure 4. Spillovers to Botswana from Scenario 4

(Annual percent change)





BOTSWANA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 17, 2014

Prepared By

African Department

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FUND RELATIONS

As of April 30, 2014

Membership Status

Joined July 24, 1968; Article VIII

General resources account	<u>SDR (million)</u>	<u>Percent of Quota</u>
Quota	87.80	100.00
Fund holdings of currency	56.53	64.39
Reserve position in Fund	31.28	35.62

SDR Department	<u>SDR (million)</u>	<u>Percent of Quota</u>
Net cumulative allocation	57.43	100.00
Holdings	85.70	149.21

Outstanding Purchases and Loans None

Financial Arrangements None

Project Obligations to Fund None

Implementation of HIPC Initiative Not Applicable

Exchange Rate Arrangements

The exchange rate of the Botswana pula is a crawling peg arrangement against a basket of currencies. As of May 20, 2014, the exchange rate of the U.S. dollar to the pula was US\$1= P8.696, and that of the South African rand to the pula was R1=P0.837.

Botswana accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, as of November 17, 1995, and maintains an exchange rate system free of restrictions in the making of transfers and payments of current account transactions.

Article IV consultation

Botswana is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on September 9, 2013.

Technical assistance

Department	Dates	Purpose
FAD	September 2000	Implementation of VAT next steps
	February 2002	Tax administration (Southern Africa Development Community Region)
	November 2004	Public expenditure management
	February 2010	Public financial management (scoping mission)
	September 2010	Macro-fiscal framework, asset management, and accrual accounting
	January 2013	Overall Tax Policy Review with Emphasis on Tax Expenditures
	April 2013	Needs Assessment
	June—July 2013	Follow-up on Cash Management
LEG	August 2013	Introducing a Medium-Term Expenditure Framework
	January 2006	Review of amended VAT provisions
	July 2006	Review of central bank law
	June 2007	Review of VAT laws
	July 2010	Technical assistance in Fiscal Law
April 2014	Legal Framework for Central Banking, Banking Supervision and Resolution, and Financial Stability Arrangements	
STA	May 2001	Inspection for visit of long-term balance of payments advisor
	October 2001	Report on Standards and Code (ROSC) data module
	July 2002; Feb. 2003	BOP statistics: peripatetic visit
	August 2003	Monetary and financial statistics using the General Data Dissemination Standard (GDDS)
	April-May 2014	Streamline Data Submission to STA Using SDMX Standards
	March 2004	GDDS project for Anglophone Africa: Government Finance Stat.
	June 2004	GDDS project for Anglophone Africa: National accounts statistics
	August 2004	Follow-up mission: Money and banking statistics
	Oct. 2004; May 2005	GDDS project for Anglophone Africa: National accounts mission
	June 2005	Follow-up on monetary and financial statistics using the GDDS
	August 2005	Follow-up mission: GDDS quarterly balance of payments statistics
	December 2005	Technical assistance evaluation mission
	March 2006	GDDS project for Anglophone Africa: national accounts statistics
	October 2006	ROSC data module covering GDDS and Data Quality Assessment Framework (DQAF)
	October 2007	Monetary and financial statistics
	Nov. 2007 – Nov. 2008	Real sector statistics (resident regional advisor)
	November 2008	Money and banking statistics

	February 2009	Phase II Special Data Dissemination Standard (SDDS)—Balance of Payments Statistics
	June 2009 – June 2010	Real sector statistics (resident regional advisor)
	February 2010	Money and banking statistics
	February 2010	Regional Data Harmonization
	February 2013	Price Statistics
	March 2013	National Accounts Statistics
	March 2014	IMF-DFID Enhanced Data Dissemination Initiative
MCM	January 2001	Banking supervision advisor
	February 2001	Monetary operations
	December 2001	Macroeconomic and Financial Management Institute MEFMI— Monetary operations
	August 2002	Banking supervision, anti-money laundering
	July 2004	Non-bank Financial Institution (NBFI) supervision
	August 2004	Money and banking statistics follow-up
	January, March 2007 Program (FSAP)	IMF-World Bank Financial Sector Assessment
	March, September, December 2004	Inflation forecasting and modeling
	July 2006	
	December 2008	
	December 2009	
	January 2009	Risk management framework
	February 2009	Payments systems (LT Resident Expert Assignment)
	June 2009	Risk management
	July 2009	Monetary operations
	January 2011	Risk management
	February 2011	Continuation of support on inflation forecasting and modeling
	April 2011	Implementation of central bank risk management
	July 2012	Strengthening Financial Stability Framework
	July—August 2012	Modernizing Payment Systems
	September 2012	Risk Management Function and Financial Reporting Issues
	April 2013	Modernizing Payment Systems
	April 2013	Strengthening Financial Stability Framework
	December 2013	Development of the Risk Management Function
	January 2014	Technical Assistance on Modernizing Payment Systems
	April 2014	Towards Financial Stability Analysis and Reporting

JOINT WORLD BANK AND IMF WORK PROGRAM

As of April 30, 2014

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank indicative work program in the next 12 months	1. Morupule B Generation and Transmission Power Project (SIL/PCG)		Approved in FY10; ongoing
	2. HIV/AIDS Project		Approved FY09; ongoing
	3. Integrated Transport Project		Approved FY09; ongoing
	4. Northern Botswana Human-Wildlife Coexistence (Global Environment Facility)		Approved FY10; ongoing
	5. Agricultural Public Expenditure Review		FY 14; ongoing
	6. Fee-Based Technical Advisory Services for Economic Diversification and Competitiveness		FY13; ongoing
	7. Social Safety Net Assessment for Botswana		FY13; completed
	8. Poverty Assessment and Poverty Mapping		FY13; ongoing
	9. Wealth Accounting and Valuation of Ecosystem Services for Botswana		FY12; ongoing
	10. Jobs, Growth, and Competitiveness Regional Programmatic Studies		FY14; ongoing
	11. Fiscal Management Regional Programmatic Studies		FY 14; ongoing
	12. Botswana Procurement System Support		FY 14; ongoing
	13. Systematic Country Diagnostics		FY 15 (preparation)
IMF work program in the next 12 months	MCM TA on liquidity management, payment and settlement system modernization, regulation of non-bank financial institutions, and financial stability.	FY 2015	
	Article IV Consultation	May 2015	

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance with some data shortcomings in national accounts, fiscal, monetary, and external sector statistics.

Macroeconomic data are adequate for surveillance, but some shortcomings exist in terms of accuracy and reliability of the source data and the statistical techniques used in the compilation of national accounts, government finance, and balance of payments statistics. The timeliness of the central bank survey and detailed government expenditure data by economic classification needs to be increased to better support economic analysis and prepare Botswana for an eventual subscription to the Special Data Dissemination Standard (SDDS). Further improvements would include dissemination of readily available information on monthly production of diamonds and quarterly aggregate financial soundness indicators.

The authorities are working on a number of fronts to improve data quality and dissemination: (i) source data and methodologies are being reviewed for those data with obvious estimation problems/gaps, (ii) stronger collaboration is being sought among source data producers to secure consistency and reconcile discrepancies across data sets; (iii) the production of leading economic indicators is currently underway; and (iv) staff shortages are being addressed within budget constraints.

National Accounts: In October 2012, the Statistics Botswana (SB) announced revised time series of GDP rebased to 2006 as a new benchmark year. However, there are some weaknesses and areas for further improvements, which include representativeness of the coverage of national accounts surveys and estimations of the GDP deflators. The Labor Force Survey (2005/06) is out of date. More frequent surveys would support a better understanding of poverty and unemployment.

Price Statistics: The official monthly consumer price index (CPI) is available on a timely basis in the SB's website. The index is comprehensive and provides breakdowns between urban and rural price data, and between prices of tradable (domestic and imported) and nontradable goods and services. Currently SB is working to update the CPI weights based on the recent Household Income and Expenditure Survey. Compilation challenges include the eventual inclusion of owner-occupied housing price data in the CPI. Compilation of producer or wholesale prices has been discontinued.

Government Finance Statistics: The concepts and definitions used in compiling government finance statistics generally follow the guidelines of the IMF's *1986 Government Finance Statistics Manual (GFSM 1986)* but cover only budgetary central government activities. No fiscal statistics are compiled for extra budgetary institutions, consolidated central government, or consolidated general government. No decision has been made by the authorities on adopting a "migration path" to the *GFSM 2001* methodology, although the authorities are working with the Fund Statistics Department (STA) toward that endeavor. Recurrent and development expenditure data are published with a significant lag. Development spending comprises a mixture of current and capital spending.

Monetary and Financial Statistics: Compilation practices are consistent with the Fund's *Monetary and Financial Statistics Manual*. The central bank survey is currently available with a lag of usually

about three months, which is well short of the two-week period recommended in the SDDS. STA's recommendation is to make preliminary data available with clear identification of data status. The authorities prefer a more cautious approach to data dissemination to avoid reputation damage if the data require revisions. The BoB is seeking to expand the coverage of financial statistics to include the operations of nonbank financial intermediaries (NBFIs), such as pension funds, insurance companies, and other financial corporations, such as unit trusts, finance companies, and financial auxiliaries. STA's recommendation is to focus on data collection in a handful of large institutions within each NBFIs category.

Balance of Payments and International Investment Position Statistics: Annual and quarterly balance of payments data are published in the Botswana Financial Statistics (*BF*) and the BoB's Annual Report. Preliminary data are generally disseminated within two months of the end of the reporting period, while revised (final) data are available after nine months. The concepts, structure, and definitions of the balance of payments statistics follow the fifth edition of the *Balance of Payments Statistics Manual* (BPM5). Source data are adequate, but the International Transaction Reporting System (ITRS) data—as opposed to alternative survey data on services and transfer items in the current account—has become unreliable. Data compilation, estimation, and adjustments mostly employ sound techniques, but the methods used for estimating missing data (for example, unrecorded trade), f.o.b. /c.i.f. adjustment factors to import values, and flows from stock data are inadequate. Discrepancies exist in trade statistics data concerning: (i) the valuation of diamond exports and (ii) imports, exports, and payments related to settlements within the Southern African Customs Union (SACU). Following the relocation of De Beers' London operations, the BoB has introduced detailed new forms for import and export of diamonds to present the rising re-exports trade for diamonds. Compilation challenges include appropriate treatment of diamond related re-export trade both in the national accounts and balance of payments.

The BoB conducts an annual survey of Botswana's investment and international investment position (IIP). A quarterly IIP survey is also produced for internal use with data from the ITRS.

II. Data Standards and Quality

Botswana has participated in the GDDS since late 2002. A Data ROSC and its updates were published in April 2002, March 2004, and April 2007, respectively.

III. Reporting to STA

Monetary data are reported for publication in *International Financial Statistics* using *Standardized Report Forms* and Botswana reports annual balance of payments and IIP data to STA. No government financial statistics are currently reported for publication in the *Government Finance Statistics Yearbook*.

Table 1. Botswana: Common Indicators Required for Surveillance
(As of May 20, 2014)

	Date of		Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹	Memo Items	
	Latest Observation	Date Received				Data Quality— Methodological Soundness ²	Data Quality— Accuracy and Reliability ³
Exchange rates	5/20/2014	5/20/2014	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities ⁴	Feb 2014	May 2014	M	M	M		
Reserve/base money	Feb 2014	May 2014	M	M	M	O, O, LO, O	LNO, O, LO, LO, LO
Broad money	Feb 2014	May 2014	M	M	M		
Central bank balance sheet	Feb 2014	May 2014	M	M	M		
Consolidated balance sheet of the banking system	Feb 2014	May 2014	M		M		
Interest rates ⁵	Mar 2014	May 2014	M	M	M		
Consumer price index	Mar 2014	May 2014	M	M	M	O, LO, O, O	LO, LO, LO, LO, O
Revenue, expenditure, balance, and composition of financing ⁶ —general government ⁷	NA	NA				LO, LNO, LNO, LO	LO, O, LO, LO, LNO
Revenue, expenditure, balance, and composition of financing ⁶ —central government	Feb 2014	May 2014	A/Q/M	Q	Q		
Stocks of central government and central government-guaranteed debt ⁸	Feb 2014	May 2014	A	A	A		
External current account balance	2013 Q4	May 2014	A/Q	A	A	O, O, O, LO	LO, LO, LNO, O, LO
Exports and imports of goods	March 2014	May 2014	M	M	M		
GDP/GNP	2013 Q4	April 2014	A/Q	A/Q	A/Q	LO, LO, LNO, LO	LO, LO, LNO, LO, LO
Gross external debt	Feb 2014	May 2014	A/Q	A	A		

¹ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

² Reflects the assessment provided in the data ROSC published on April 6, 2007, and based on the findings of the mission that took place from October 31 to November 13, 2006, for the data set corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).

³ Same as footnote 2, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

⁴ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

⁵ Both market-based and officially determined, including discount, money market, treasury bill, note, and bond rates.

⁶ Foreign, domestic bank, and domestic nonbank financing.

⁷ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁸ Including currency and maturity composition.



BOTSWANA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

June 17, 2014

Approved By
Anne-Marie Gulde and
Mark Flanagan

Prepared by African Department

MEDIUM-TERM PUBLIC DEBT SUSTAINABILITY

Botswana's gross public debt was broadly unchanged in nominal pula terms but decreased slightly relative to GDP in 2013/14 compared with 2012/13. However, there was a slight change in the structure of the debt: the external debt decreased slightly, while domestic debt increased offsetting the decline in the external debt. As a result, the share of external debt in total debt decreased slightly to 67 percent in 2013/14.

Botswana's historically low level of public debt reflects the authorities' prudent macroeconomic policies. This resulted in a significant reserve accumulation, which allowed them to face the Great Recession with strong policy buffers. Therefore, countercyclical policies were successfully implemented without much debt accumulation.

Staff's analysis, based on the permanent income hypothesis, suggests that in order to fully preserve mineral wealth for future generations, the non-mineral primary balance (NMPB) should be reduced to about 5 percent of non-mineral GDP from the current level of about 14 percent.¹

The baseline scenario, underlying the staff's macroeconomic framework, assumes continuing fiscal consolidation with the primary surplus amounting about 2 percent of GDP on average for 2014/15–19/20. The main burden of fiscal adjustment falls on primary expenditure. By 2019/20, the stock of gross public debt is projected at 7 percent of GDP (Table 1).

Figure 1 shows two alternative scenarios:

¹ The associated background work can be found in the 2012 Article IV staff report (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=26166.0>).

- The first scenario aims to demonstrate what would be the fiscal outcome if the main macro-variables are maintained at their historical 10-year averages. In this scenario, debt-to-GDP ratio does not decline further and stabilizes at about 14 percent of GDP—much higher than suggested by the baseline scenario. The main driver of this kind of dynamics is the deteriorated primary balances due to countercyclical fiscal policy response to the 2008-09 financial crisis.
- The second scenario assumes no change in the policy and holds the primary fiscal balance constant at its 2014/15 level (1.4 percent of GDP) throughout the medium-term. In this case, public debt also stabilizes at a level higher than suggested by the baseline scenario, because the baseline scenario assumes further fiscal consolidation.

Table 1. Botswana Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

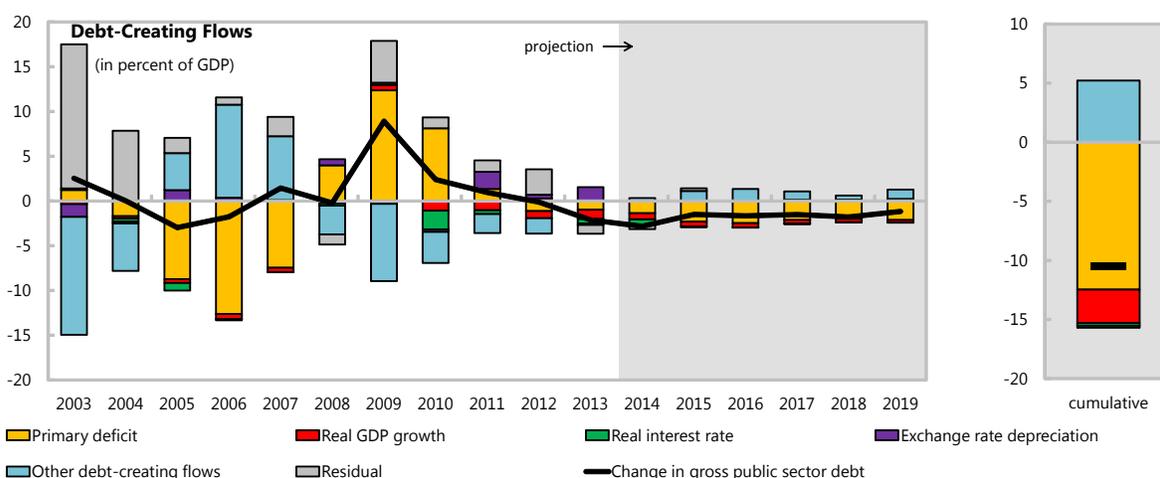
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators^{1/}

	Actual			Projections						As of March 12, 2014		
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	Sovereign Spreads		
Nominal gross public debt	11.8	19.6	17.5	14.7	13.2	11.5	10.0	8.2	7.0	Spread (bp) 2/ NA		
Public gross financing needs	1.1	2.3	1.6	1.2	0.3	0.0	0.3	0.2	0.4	CDS (bp) NA		
Real GDP growth (in percent)	4.4	4.3	5.9	4.4	4.2	4.0	4.1	4.1	3.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	8.6	1.6	5.9	7.7	4.7	5.6	5.4	5.4	5.2	Moody's	Aa3	Aa3
Nominal GDP growth (in percent)	13.5	5.9	12.2	12.4	9.1	9.9	9.8	9.7	9.2	S&Ps	A-	A-
Effective interest rate (in percent) ^{3/}	5.7	3.1	3.5	3.6	4.8	5.8	6.8	7.2	8.4	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{8/}
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019		
Change in gross public sector debt	1.3	-0.13	-2.13	-2.8	-1.5	-1.7	-1.5	-1.8	-1.2	-10.5	
Identified debt-creating flows	-2.6	-2.98	-1.14	-2.8	-1.4	-1.6	-1.5	-1.8	-1.1	-10.3	
Primary deficit	-0.4	-1.1	-1.0	-1.4	-2.3	-2.5	-2.1	-2.0	-2.1	-12.5	1.0
Primary (noninterest) revenue and grants	40.0	36.9	35.8	35.1	34.2	31.8	30.1	29.4	28.8	189.4	
Primary (noninterest) expenditure	39.6	35.7	34.8	33.7	31.8	29.3	28.0	27.4	26.7	176.9	
Automatic debt dynamics ^{4/}	-0.6	-0.1	0.0	-1.8	-0.2	-0.5	-0.3	-0.2	-0.1	-3.1	
Interest rate/growth differential ^{5/}	-0.8	-0.5	-1.5	-1.4	-0.6	-0.5	-0.3	-0.2	-0.1	-3.1	
Of which: real interest rate	-0.4	0.3	-0.5	-0.7	0.0	0.0	0.1	0.1	0.2	-0.2	
Of which: real GDP growth	-0.4	-0.8	-1.0	-0.7	-0.6	-0.5	-0.4	-0.4	-0.3	-2.8	
Exchange rate depreciation ^{6/}	0.2	0.4	1.5	...	...	...	...	...	...	...
Other identified debt-creating flows	-1.6	-1.7	-0.2	0.3	1.1	1.3	0.9	0.5	1.0	5.2	
Privatization receipts (negative)	-1.6	-1.7	-0.2	0.3	1.1	1.3	0.9	0.5	1.0	5.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt-creating flows (specify) ^{7/}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	3.9	2.8	-1.0	-0.4	0.3	0.0	0.0	0.0	0.0	-0.2	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Bond Spread over U.S. Bonds.

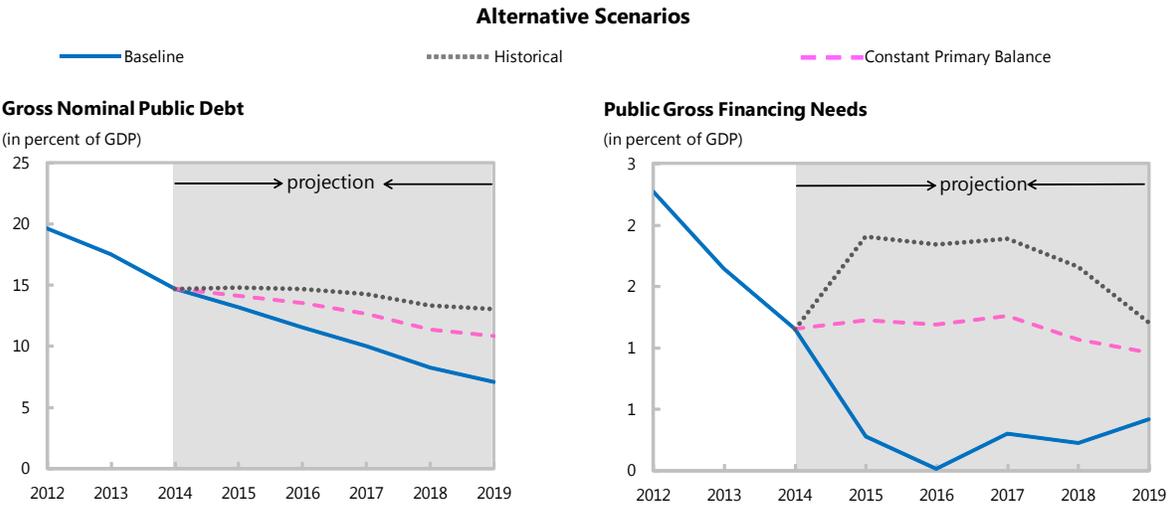
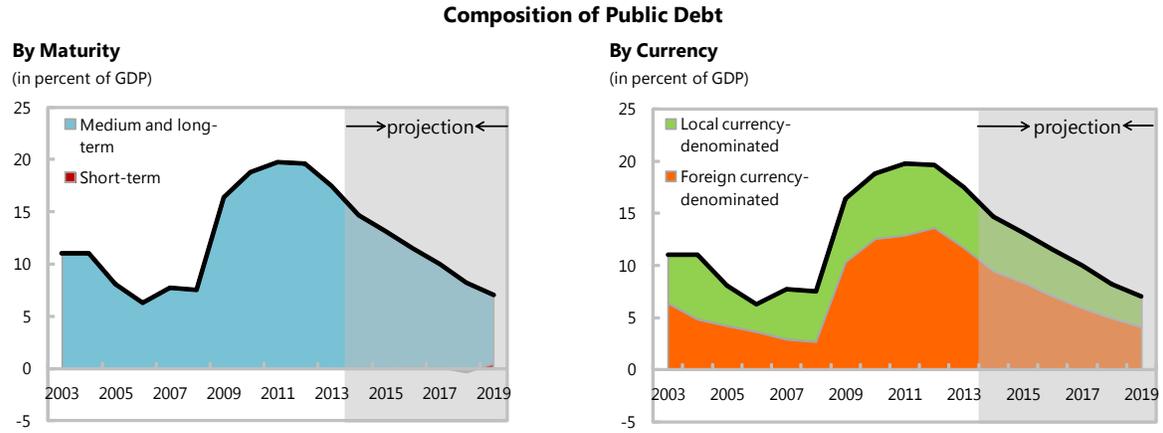
3/ Defined as interest payments divided by debt stock at the end of previous year.

4/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).5/ The real interest rate contribution is derived from the denominator in footnote 4 as $r - \pi(1+g)$ and the real growth contribution as $-g$.6/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

7/ For projections, this line includes exchange rate changes during the projection period.

8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Botswana Public DSA - Composition of Public Debt and Alternative Scenarios



Underlying Assumptions (in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019	Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	4.4	4.2	4.0	4.1	4.1	3.8	Real GDP growth	4.4	4.5	4.5	4.5	4.5	4.5
Inflation	7.7	4.7	5.6	5.4	5.4	5.2	Inflation	7.7	4.7	5.6	5.4	5.4	5.2
Primary Balance	1.4	2.3	2.5	2.1	2.0	2.1	Primary Balance	1.4	0.7	0.7	0.7	0.7	0.7
Effective interest rate	3.6	4.8	5.8	6.8	7.2	8.4	Effective interest rate	3.6	4.8	5.0	5.1	4.8	5.0
Constant Primary Balance Scenario													
Real GDP growth	4.4	4.2	4.0	4.1	4.1	3.8							
Inflation	7.7	4.7	5.6	5.4	5.4	5.2							
Primary Balance	1.4	1.4	1.4	1.4	1.4	1.4							
Effective interest rate	3.6	4.8	5.7	6.5	6.7	7.4							

Source: IMF staff.

MEDIUM-TERM EXTERNAL DEBT SUSTAINABILITY

Botswana's gross external debt decreased to 26 percent of GDP in 2013 from 28.5 percent in 2012. The government's external borrowing was mainly from multilateral organizations, including from the International Bank for Reconstruction and Development and the African Development Bank.

The stock of Botswana's gross external debt is projected to decline gradually from about 26 percent of GDP in 2013 to about 13.5 percent of GDP in 2019 (Table 2). Ongoing fiscal consolidation supported by a steady improvement in international terms of trade, and stable FDI inflows should support a reduction in the external debt ratio.

An alternative scenario, with key debt-creating variables at their historical levels, suggests that Botswana could become a net creditor vis-à-vis the rest of the world over the medium-term. This is a notable improvement over the baseline projections (Figure 2).

Simulations suggest that Botswana's external debt-to-GDP ratio is sensitive only to a current account shock. A real depreciation shock, while it increases the debt-to-GDP ratio initially, has only a marginal impact on the medium-term debt dynamics. Moreover, Botswana's external debt is not very sensitive to a shock in interest rates and economic activity.

Table 2. Country: External Debt Sustainability Framework, 2009-2019

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -1.2	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Baseline: External debt	28.4	29.6	27.0	28.5	26.3	24.0	21.1	19.2	17.0	15.1	13.5		
Change in external debt	18.0	1.2	-2.6	1.4	-2.1	-2.3	-2.9	-1.9	-2.1	-1.9	-1.7		
Identified external debt-creating flows (4+8+9)	9.9	-2.0	-5.5	4.1	-12.2	-7.9	-6.1	-3.9	-3.4	-3.7	-3.6		
Current account deficit, excluding interest payments	9.1	5.1	-1.0	2.7	-12.3	-7.5	-5.6	-3.6	-3.0	-3.3	-3.3		
Deficit in balance of goods and services	16.1	9.9	7.0	15.9	0.2	5.1	6.0	6.3	6.3	6.0	5.0		
Exports	36.3	35.8	45.4	43.5	54.8	52.5	50.1	48.3	46.1	44.0	41.8		
Imports	52.4	45.6	52.4	59.4	55.0	57.6	56.0	54.6	52.4	49.9	46.9		
Net non-debt creating capital inflows (negative)	-1.4	0.0	-2.7	-2.0	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9	-0.8		
Automatic debt dynamics 1/	2.2	-7.1	-1.8	3.4	1.4	0.8	0.6	0.7	0.6	0.5	0.5		
Contribution from nominal interest rate	1.1	0.4	1.2	1.9	2.0	1.9	1.5	1.5	1.3	1.2	1.0		
Contribution from real GDP growth	0.9	-1.8	-1.6	-1.2	-1.7	-1.0	-0.9	-0.8	-0.7	-0.6	-0.5		
Contribution from price and exchange rate changes 2/	0.2	-5.6	-1.4	2.7	1.1	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	8.0	3.2	2.9	-2.6	10.0	5.6	3.2	2.0	1.2	1.8	2.0		
External debt-to-exports ratio (in percent)	78.2	82.8	59.5	65.5	48.0	45.8	42.1	39.7	37.0	34.4	32.2		
Gross external financing need (in billions of US dollars) 4/	1086.0	779.3	62.4	806.8	-1473.8	-830.7	-612.0	-287.7	-248.7	-386.6	-466.4		
in percent of GDP	10.7	5.7	0.4	5.5	-10.0	10-Year	10-Year	-5.1	-3.4	-1.5	-1.2	-1.7	-1.9
Scenario with key variables at their historical averages 5/						23.6	18.1	11.2	4.1	-2.4	-8.7	-2.8	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Nominal GDP (US dollars)	10155.9	13754.9	15333.5	14551.7	14803.6			16305.4	17770.2	19146.6	21005.1	23047.9	25166.5
Real GDP growth (in percent)	-7.8	8.6	6.2	4.3	5.9	4.5	4.5	4.4	4.2	4.0	4.1	4.1	3.8
GDP deflator in US dollars (change in percent)	-1.6	24.7	5.0	-9.0	-3.9	5.6	13.3	5.5	4.6	3.6	5.3	5.4	5.2
Nominal external interest rate (in percent)	9.6	1.7	4.6	6.8	7.0	6.9	2.4	7.8	7.0	7.6	7.4	7.5	7.5
Growth of exports (US dollar terms, in percent)	-26.8	33.4	41.7	-9.2	28.2	12.2	22.2	5.5	4.0	3.9	4.7	4.7	3.9
Growth of imports (US dollar terms, in percent)	-4.7	17.9	28.0	7.4	-5.7	13.9	16.7	15.3	6.0	5.1	5.3	4.6	2.5
Current account balance, excluding interest payments	-9.1	-5.1	1.0	-2.7	12.3	6.0	9.8	7.5	5.6	3.6	3.0	3.3	3.3
Net non-debt creating capital inflows	1.4	0.0	2.7	2.0	1.3	2.9	1.7	1.2	1.1	1.0	1.0	0.9	0.8

1/ Derived as $[r - g - r(1+g) + ea(1+r)]/(1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)]/(1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

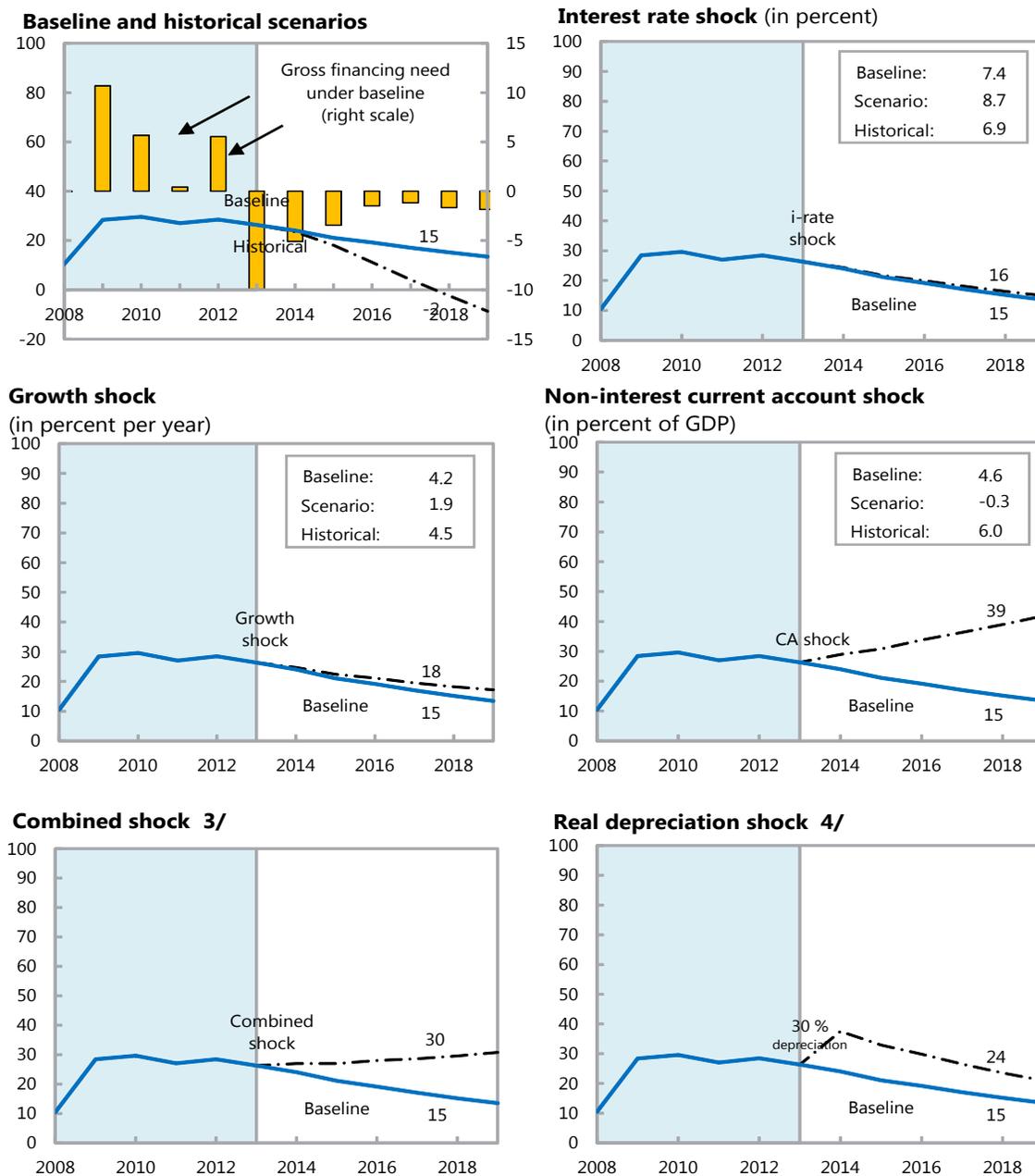
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 2. Country: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.



Press Release No. 14/340
FOR IMMEDIATE RELEASE
July 11, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Botswana

On July 3, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation ¹ with Botswana and considered and endorsed the staff appraisal without a meeting.²

Botswana's economy grew faster than expected reaching a real Gross Domestic Product (GDP) growth of about 6 percent in 2013, which reflects the cyclical recovery of the mining sector along with the recovery in its major trading partners. However, the non-mineral sector slowed down, partly reflecting recurring power supply disruptions. Consumer price inflation decelerated significantly and stood at 4.4 percent at the end of March 2014—well within the Bank of Botswana's (BoB) medium-term objective range of 3–6 percent. The deceleration in inflation largely reflects a base effect of fuel price increase in 2012 and the appreciation of the Pula against the rand.

Preliminary data suggest that the fiscal balance registered a small surplus in FY 2013/14. This outcome was supported by a further reining in current expenditure, higher mining revenue, and a one-off increase in the Bank of Botswana's (BoB) profit transfer. Botswana's current account recorded a surplus in 2013 compared to a deficit in 2012. The diamond sector contributed to the improvement of the current account balance, but imports continued to grow. As a result, the overall external position continues to be relatively strong with official reserve coverage standing at about 10 months of import cover at end-March 2014. Despite the recent deceleration, household borrowing grew at about 24 percent annually in January 2014, which was among the highest in the region. Banks' nonperforming loans (NPLs), while rising, still remain low by international standards.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² Article IV consultations are concluded without a Board meeting when the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

Staff projects Botswana's real GDP growth to slow down to 4.4 percent in 2014 and subsequently stabilize at around 4 percent over the medium-term. The growth slowdown in 2014 is owing to the slowdown in diamond recovery and continued problems in the electricity and water supply which has affected the non-mineral sector. Headline inflation is likely to remain within the BoB's medium-term objective range in 2014. The current account surplus is expected to stabilize at around 2 percent of GDP over the medium-term supported by the planned fiscal consolidation.

The main near-term risks relate to the uncertain external environment, such as the potential slowdown in emerging markets, which poses downside risks to mineral export demand. On the domestic front, the ongoing problems with power supply and continued high though decelerating growth in household borrowing are potential sources of vulnerabilities. A key medium-term risk relates to the sustainability of long-term growth as trend growth has softened in the last decade requiring the easing of structural bottlenecks and finding new growth drivers.

Executive Board Assessment

In concluding the 2014 Article IV consultation with Botswana, Executive Directors endorsed staff's appraisal, as follows:

Botswana's economic performance has been remarkable thanks to the authorities' good governance and prudent management of natural resources. However, in recent years, trend growth has softened in the midst of high unemployment and income inequality.

The mid-term review (MTR) of the 10th National Development Plan (NDP10) serves as the authorities' blueprint for structural transformation. Staff welcomes the MTR of NDP 10, which reemphasizes the need to reduce the size of government relative to GDP so that the private sector can take the lead in generating economic growth.

Under current conditions the economy is broadly internally and externally balanced and the authorities' near-term macroeconomic policy stance is appropriate. Overall external stability is, however, affected by the lack of export diversification, which leaves Botswana's economy vulnerable to fluctuations in the international demand for diamonds.

Staff welcomes the authorities' medium-term fiscal strategy. The emphasis on rebuilding the Pula Fund and improving the performance of state owned enterprises is well placed. Improving the quality of spending on health and education and making the social welfare programs better targeted are essential to reducing income inequality and making growth more inclusive.

Staff urges the government to articulate a clearer set of measures to reduce the wage bill relative to GDP and broaden the tax base. Despite the modest wage awards in recent years and the de facto hiring freeze, the wage bill continues to be high reflecting the impact of promotions, non-wage allowances and overtime. The authorities should avoid granting unwarranted preferential tax regimes for businesses.

Botswana's exchange rate regime has served the country well. Staff encourages the authorities to continuously look for opportunities to further strengthen the operational aspects of the exchange rate framework and deepen the money and foreign currency markets.

The continued increase in household borrowing warrants close monitoring. Staff urges the authorities to use macro prudential tools to limit potential vulnerabilities in the financial system. Plans to establish a national credit bureau is also welcomed. Policies to enhance financial inclusion should focus on mitigating the underlying market failures in the financial system and reducing intermediation costs.

Returning to a period of strong growth would require policies to reinvigorate total factor productivity. These include improving the quality of public spending, most notably on education and the public investment program to ensure the transformation of diamond wealth into sustainable assets, reducing further the regulatory burden on firms, alleviating infrastructure bottlenecks and improving access to finance by small and medium sized enterprises.

Botswana: Selected Economic and Social Indicators, 2010–2014

	2010	2011	2012	2013 Prel.	2014 Proj.
(Annual percent change, unless otherwise indicated)					
National income and prices					
Real GDP ¹	8.6	6.2	4.3	5.9	4.4
Mineral	22.7	-2.3	-7.0	10.6	1.4
Nonmineral ²	6.2	7.9	6.3	5.2	4.8
Consumer prices	7.4	9.2	7.4	4.1	5.4
Diamond production (millions of carats)	22.8	23.0	20.9	22.7	22.4
External sector					
Exports of goods and services, f.o.b. (US\$)	33.4	41.7	-9.2	28.2	5.5
<i>Of which:</i> diamonds	49.9	38.3	7.1	39.7	3.6
Imports of goods and services, f.o.b. (US\$)	17.9	28.0	7.4	-5.7	15.3
Terms of trade	-6.1	0.4	4.2	6.2	0.2
Nominal effective exchange rate	4.6	-4.7	-7.8	-7.0	...
Real effective exchange rate	8.3	-0.8	-3.5	-4.1	...
(Percentage change with respect to M2)					
Money and banking					
Net foreign assets	-17.5	25.4	0.2	16.8	10.5
Net domestic assets	29.9	-21.0	7.3	-12.8	2.0
Broad money (M2)	12.4	4.3	7.4	4.0	12.5
Velocity (nonmineral GDP relative to M3)	1.6	1.7	1.8	1.9	1.9
Credit to the private sector	6.1	11.8	13.9	9.6	10.9
(Percent of GDP, unless otherwise indicated)					
Investment and savings ¹					
Gross investment (including change in inventories)	35.4	38.7	39.2	33.9	31.5
Gross savings	29.9	38.5	34.5	44.2	37.1
Central government finances ³					
Total revenue and grants	32.4	36.3	36.5	35.5	35.2
Total expenditure and net lending	39.9	36.4	35.7	35.2	34.2
Overall balance (deficit -)	-7.5	-0.2	0.8	0.3	0.9
Non-mineral primary balance ⁴	-25.9	-20.1	-13.2	-14.0	-12.3
Total central government debt	19.5	20.1	19.2	16.9	14.8
External sector					
Current account balance	-5.4	-0.2	-4.6	10.4	5.7
Balance of payments	-7.0	3.3	-0.8	1.1	4.7
External public debt ⁵	19.7	20.7	19.8	17.4	14.7
(Millions of US\$, unless otherwise indicated)					
Gross official reserves (end of period)	7,883	8,386	8,270	8,429	9,200
<i>Of which:</i> Pula Fund	6,938	6,901			
Months of imports of goods and services ⁶	11.8	11.1	11.2	9.9	10.3
Percent of GDP	57.3	52.2	52.3	52.5	52.4

Sources: Botswana authorities and IMF staff estimates and projections.

¹ Calendar year.

² Refers to the growth of value added of sectors other than mining, excluding statistical adjustments. The latter includes financial intermediation services indirectly measured (FISIM), taxes on products, and subsidies.

³ Year beginning April 1.

⁴ The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest receipts and interest payments), divided by non-mineral GDP.

⁵ Includes publicly guaranteed debt.

⁶ Based on imports of goods and services for the following year.