INTERNATIONAL MONETARY FUND

IMF Country Report No. 11/248

Botswana

2011 ARTICLE IV CONSULTATION COVER

Botswana: 2011 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Botswana

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 2011 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 31, 2011, 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 July 12, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A supplement on the Debt Sustainability Analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 29, 2011 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Botswana.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BOTSWANA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

July 11, 2011

KEY ISSUES

Growth prospects: The economy is now back onto a strong growth trajectory led by a rebound in diamond exports and supported by solid growth in the non-mining sector. Growth is projected at 6.5 percent in 2011 and will ease to 5.5 percent next year. Downside risks to growth primarily stem from weaker-than-expected global growth. These risks are balanced by a potentially faster rebound in domestic private investment.

Addressing global food and fuel price shocks: Staff supports the Bank of Botswana's (BoB's) neutral monetary policy stance, since at this stage, there appears to be no firm evidence of generalized price pressures in the economy. The government's policy of providing a stable food basket to the needy shields them from the impact of inflation.

Balancing the budget and buttressing medium-term fiscal consolidation: The authorities are targeting a balanced budget by FY2012/13 centered on a sharp reduction in spending (as a share of GDP) and prioritization of government outlays. A credible reduction of the wage bill would require both a prudent wage policy and reform of the civil service as a leaner and more effective entity. Broadening the tax base should be an integral pillar of the medium-term fiscal consolidation process.

Strengthening the public sector institutional framework: Staff urges the authorities to give greater prominence to the non-mineral primary balance in the formulation of fiscal policy. Staff supports the ongoing efforts to make fully operational the BoB's newly established financial stability unit and welcomes the progress made on strengthening the regulatory framework for non-bank financial institutions.

Improving the quality of growth: Despite its middle-income status, Botswana faces significant development challenges including on sustaining growth, diversifying its sources, reducing unemployment and eradicating poverty. The authorities see potential in diversifying within the mineral sector, beyond diamonds, and toward the services sector. The government is taking measures to address the skills mismatch problem in the labor market to tackle the high unemployment rate. Perhaps of equal importance, is the government's focus on inclusive growth policies to eradicate poverty.

Approved By
Sharmini Coorey and Dhaneshwar Ghura

Discussions took place in Gaborone during May 18-31, 2011. The team comprised of Messrs. Leigh (head), Dixit, Pastor and Ramirez (all AFR). Zeinab Partow (World Bank) also participated in some meetings.

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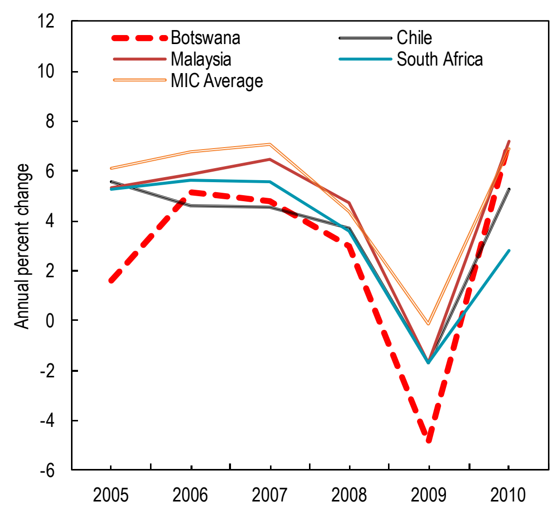
RECENT DEVELOPMENTS, OUTLOOK AND RISKS

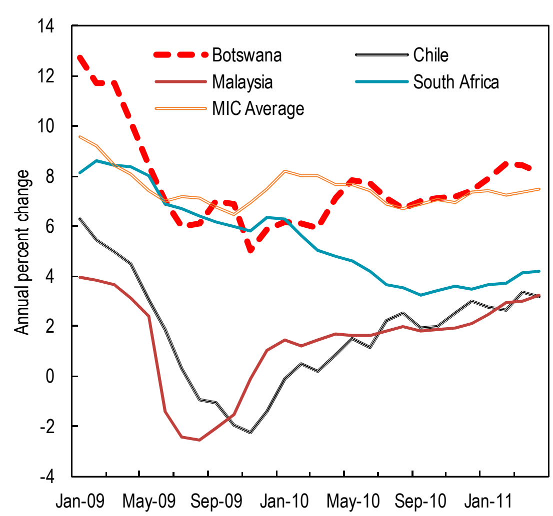
A. A Resurgent Economy

1. **Botswana's economy staged an impressive recovery during the past year.** Since the second quarter of 2010, the pace of economic growth has been one of the strongest among middle-income countries (MICs). The recovery was led by the diamond sector which was propelled by rapidly rising prices for rough diamonds in the international markets. Non-mining sector growth has also been solid, despite the deceleration of public expenditure growth. From the demand side, both private consumption and investment have also picked up. Real GDP grew by 7.2 percent in 2010 compared to a 4.9 percent contraction in 2009 (Table 1). On balance, leading economic indicators point to a recovery that is gaining strength.

Real GDP Growth



CPI Inflation



2. **Despite the recovery, underlying inflation pressures remain contained.** Consumer price inflation (year on year) rose from about 7 percent at end-2010 to 8.3 percent as of May 2011, but was driven almost exclusively by cost-push factors related to food and fuel price shocks and the impact of increases in administered tariffs and fees on the provision of electricity and health services. Core inflation (excluding food, fuel and administered prices) has not shown a trend increase in the last few months.

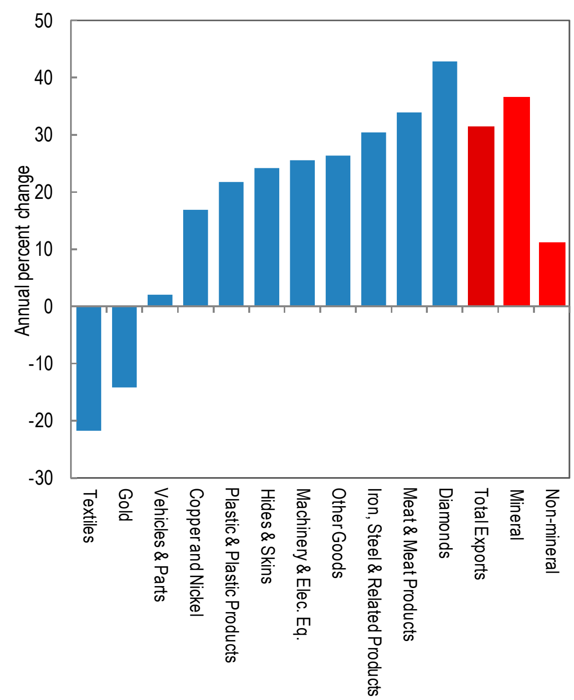
3. **The strong economic recovery has helped stabilize financial market conditions.** Credit growth to households has picked up somewhat but is still well below pre-crisis levels. Arrears on bank lending, which rose significantly during 2009, stabilized during

2010 and by September 2010 had fallen somewhat due to lower levels of non-performing loans to businesses. Banking sector profitability should improve over time as banks seek efficiencies in cost-to-income ratios and net interest margins, rather than in growing assets and liabilities.

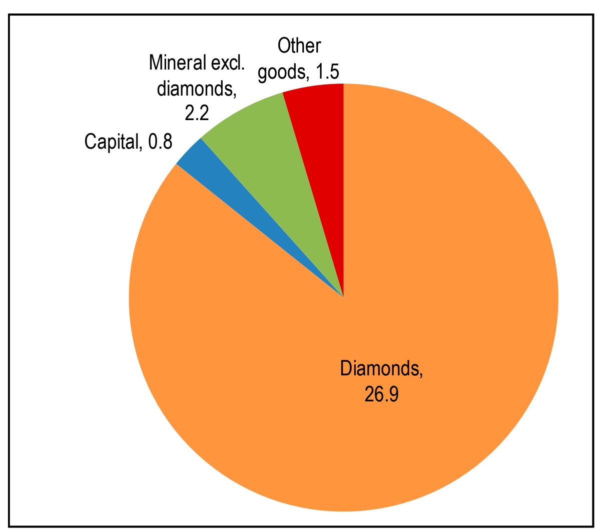
4. The fiscal position has improved. The fiscal outturn in FY2010/11 was better than expected with a deficit of just under 10 percent of GDP compared to the original budget target of 12 percent of GDP. The non mineral primary deficit declined from about 31 percent of non mineral GDP in 2009/10 to 27 percent in FY2010/11 (Table 2c). The adjustment reflects a sharp decline in the growth of overall government spending which more than compensated for reduced customs revenues (net of repayments to the Southern Africa Customs Union [SACU] Common Revenue Pool were made in 2010) and slow growth of income taxes from the non-mineral economy. Spending cuts focused on central government transfers to other public bodies and on development spending. The impact of the April 2010 increase in VAT rates (from 10 to 12 percent) did not yield significant tax revenues.

5. The overall external position has also strengthened. Annual export growth (in dollar terms) was about 35 percent in 2010. Strong export growth led to a considerable narrowing of the trade deficit in 2010 (Table 3). Beyond diamonds, other minerals such as copper and nickel have benefitted from a strong surge in international prices. Outside mining, beef exports also rose in 2010, while the weakest performer continues to be the textile sector. The real effective exchange rate remained broadly unchanged over the last 12 months (Figure 1).

Export Growth, 2010



Contributions to Export Growth, 2010



B. Outlook, Risks and Medium-Term Challenges

6. **Looking ahead in the near term, staff expects the recovery to be sustained, albeit with elevated overall inflation.** Under the central scenario, output growth is projected to reach 6.5 percent in 2011 led by the mineral sector. The opening of new diamond mines (AK6) and copper/silver (Boseto), and the reopening of the Damtshaa diamond mine, combined with brisk economic activity in the construction sector particularly the ongoing building of the large Moropule B power plant should support growth this year. Staff expects the inflation rate to remain above the BoB's medium-term objective of 3-6 percent throughout 2011. Fuel prices will likely remain at elevated levels in the near term.

7. **Near-term risks are broadly balanced at the moment.** Downside risks to growth primarily stem from weaker-than-expected global growth given the elasticity of diamond exports to economic performance of key trading partner economies. These are balanced by potentially faster recovery in domestic private investment in the energy and non-diamond mineral sectors.

8. **Over the medium term, output growth is projected to average about 5.5 percent with an important contribution by sectors other than diamonds.** With diamond production stabilizing at below pre-crisis levels, ongoing and prospective investments in other minerals and metals should be important sources of growth, as extraction of uranium, coal, and copper/nickel come on stream. The completion of the Moropule B power plant by 2012/13 should gradually increase the domestic production capacity of electricity by about 600 mega watts and eliminate the country's dependence on energy imports from South Africa. Also, deepening of downstream diamond activities such as cutting and polishing, together with further sustained growth of the services economy, should support growth over the medium term. The external current account balance is set to improve gradually (Table 3). This reflects robust exports receipts from diamonds and other minerals, together with lower imports of energy and machinery and equipment due to the completion of existing projects and the planned downsizing of the government's public investment program. A recovery of SACU revenues should also support an improved current account balance over the medium-term. Based on a forward-looking framework, staff judges the current exchange rate level as broadly in line with macroeconomic fundamentals (Appendix I).

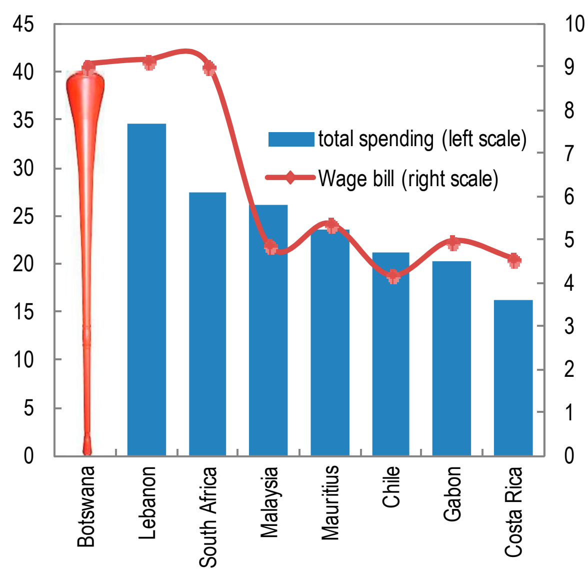
9. **Now as the recovery strengthens, the overarching theme dominating the authorities' policy agenda revolves around two broad and related issues:**

- **Reducing the size of government** (as a share of GDP). Government remains the main employer in the economy and its overall spending is just under 40 percent of GDP.

- **Sustaining growth, broadening its sources and improving its quality**. Trend growth has slowed in the last decade. The government's efforts at economic diversification aim to find new engines of growth as the country's long-term success on the back of diamond exports seems to be fading. Improving the quality of growth—including addressing the high unemployment rate—is important for the sustainability of long-term growth.

Central Government Total Spending and Wage Bill

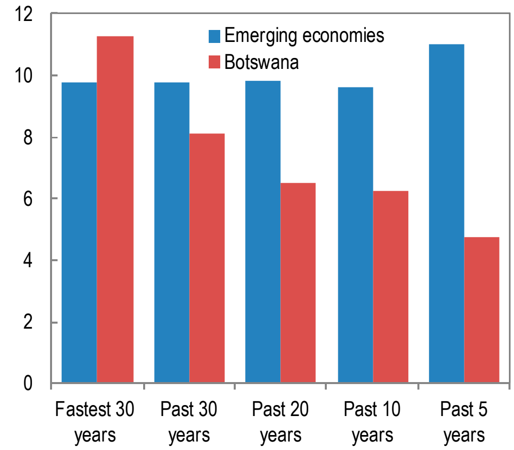
(In percent of GDP)



Note: Average of last 5 years.

Real GDP Growth Rates, 1978–2009

(In percent)



Authorities' Views

10. The authorities broadly concurred with the mission's review of recent economic developments, prospects and the policy challenges. The FY2011/12 budget forecast for real GDP growth of 6.8 percent is broadly in line with staff's forecast. The budget strikes a good balance between continued support for growth and the need for fiscal restraint. They noted that attaining pre-crisis levels for diamond exports is not the main priority in the near term, although a number of small private investors will seek to exploit market niches underdeveloped by the joint venture between De Beers and the Botswana government, Debswana. The BoB expects inflation to fall within its medium-term objective range of 3–6 percent only in the second half of 2012. The government's tenth National Development Plan (NDP10) emphasizes the need to reduce the relative size of government ("doing more with less") and diversify the economy.

POLICY DISCUSSIONS

With the recovery gaining strength, staff and the authorities agreed that the priorities are to respond appropriately to global food and fuel price shocks, achieve a balanced budget, strengthen the public sector institutional framework and improve the quality of growth. Over the years, the Fund has commended the authorities for prudent macroeconomic management, supported by strong institutions and good governance. As noted in the 2010 Article IV consultation report such good policies put Botswana in a position of considerable strength as it entered the global financial crisis in 2008-09.

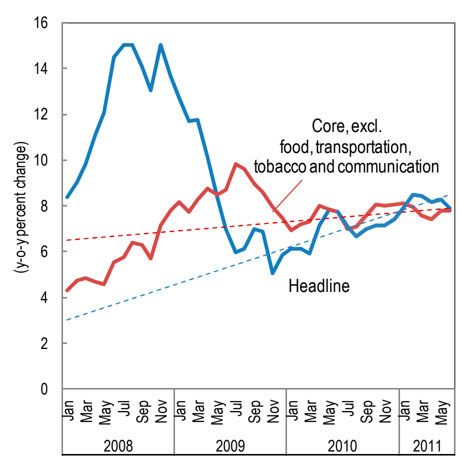
A. Policy Theme 1: Addressing Global Food and Fuel Price Shocks

Background

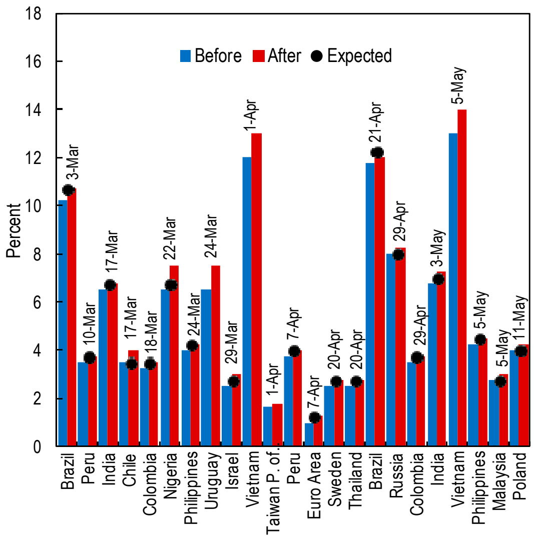
11. The BoB's bank rate was lowered by 50 basis points to 9.5 percent in December 2010 and has been kept at that level since then. Core inflation (excluding energy, food, and other administered prices), which accounts for about 60 percent of the CPI basket, has not shown any rapid increase in recent months and there is some slack in the non-mining economy, limiting the feeding of energy and food price increases into core inflation. Credit growth also remains subdued and moreover, there are no discernible pressures on international reserves. Staff's analysis shows short-term real interest rates at about the level implied by the Taylor rule and consistent with a neutral monetary policy stance. The government continues to maintain a prudent wage policy. In this respect, it is worth noting that the Botswana Federation of Public Sector Unions (BOFEPUSU) went on strike in April, the largest such strike since independence, and initially demanded a 16 percent wage increase (following a 3-year wage freeze). In response, the government, respecting the current need for austerity, reached a preliminary agreement with the public unions for a 3 percent wage increase effective in September that would add only 0.2 percentage points to the wage bill.

12. The mission sought the authorities' views about the feasibility of using targeted fiscal support for the needy in response to food and fuel price shocks. Staff noted that the aim should be to protect the vulnerable while rebuilding the fiscal policy buffers.

Botswana: Headline and Core Inflation



Recent Interest Rate Hikes



13. The BoB communicates regularly to the public on its monetary policy decisions. The Monetary Policy Statement and the mid-term review, together with the public release of statements of the Monetary Policy Committee after each meeting, provides guidance on its future actions and thereby help manage expectations. The BoB also announces its outlook on inflation relative to the medium-term band on a rolling basis. This strategy of frequent communications aims at encouraging agents to be forward-looking in forming their inflation expectations, thereby dampening the real cost of disinflation on the domestic economy.

Staff Recommendations:

14. Staff supported the BoB's neutral monetary policy stance. At this stage, there appears to be no firm evidence of generalized price pressures in the economy. Fiscal policy is also appropriately constraining domestic demand. If and when food and fuel price shocks appear to be leading to generalized price pressures in the domestic economy (as indicated by inflation expectations and wage developments), monetary policy should be tightened. This is needed to firmly anchor inflation expectations. Anchoring inflation expectations well inside the objective band would also help reduce public sector borrowing costs. Recent policy responses by central banks in other middle-income countries suggest the need to guard against generalized inflationary pressures. Staff supported the authorities' forward-looking approach when determining the rate of crawl for the exchange rate which avoids accommodating past inflation.

Authorities' Views:

15. The BoB emphasized the rationale for its neutral policy stance regarding interest rates. They noted that the current high inflation rate stems from transient factors that are largely beyond the authorities' control, and that the medium-term inflation outlook remains positive. They also noted that the BoB's decision to increase the statutory reserve requirement for banks from 6.5 percent to 10 percent, effective July 1, 2011, aims at alleviating the cost of monetary operations, and its monetary tightening effect is likely to be limited given the large structural liquidity already in the banking system.

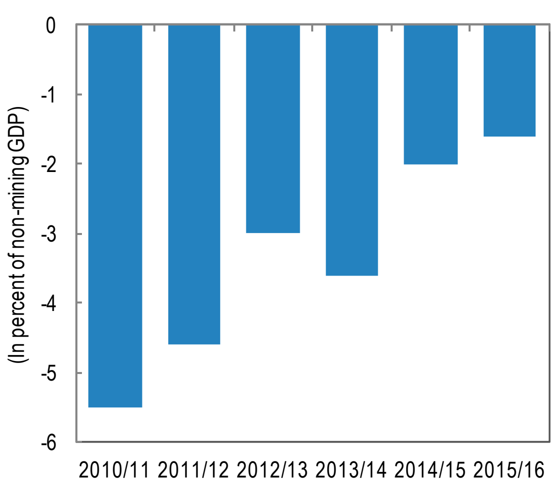
16. On the response of fiscal policy to food and fuel price shocks, the authorities argued that the welfare program is already sufficient and covers the vulnerable segments of the population. The government's current policy of providing in kind transfers based on a predetermined food basket to the needy, as opposed to monetary transfers, shields the poor from the impact of inflation.

B. Policy Theme 2: Balancing the Budget and Buttressing Medium-Term Fiscal Consolidation

Background

17. The countercyclical policy stance in the FY2011/12 budget implies a significant fiscal withdrawal. The overall fiscal balance moved from substantive fiscal surpluses to large deficits starting in FY2008/09 as diamond revenues collapsed and government outlays increased. The FY2010/11 fiscal outturn, although still registering a deficit is estimated to have been better than expected. The FY2011/12 budget targets a deficit of 6 percent of GDP.

Botswana: Fiscal Impulse



Note: Fiscal impulse is defined as the change in the fiscal structural balance.

18. The government's medium-term fiscal strategy is grounded in an expenditure-based adjustment. It is guided by the government's strategy for achieving cost effectiveness ("value-for-money") and the need to ensure that only high-quality projects are undertaken using public funds. The government's expenditure envelope (as a share of GDP), including the wage bill, is very high by international standards, thus warranting a thorough assessment of pockets of unproductive spending and ways to increase efficiencies. The post-secondary education budget also remains high, and the costs per university student are out of line with the average cost in comparator countries without discernible superiority in education achievements. Staff's baseline scenario envisages a balanced budget in FY2012/13 with small surpluses projected in the outer years. The fiscal adjustment that is needed to balance the budget would require reining in overall spending (as a share of GDP) to broadly the level prevailing before the global financial crisis. In this regard, the reverting of the public investment program to pre-crisis levels would contribute about 4½ percentage points of GDP to the fiscal adjustment. The remainder of the needed adjustment is expected to come from the ongoing government efforts to rein in current spending most notably on goods and services and transfers to local authorities. Staff's updated Debt Sustainability Analysis shows that Botswana's debt burden continues to be very low although sensitive to diamond revenue fluctuations that are the main determinants of overall economic growth and the primary deficit calculations.

Central Government Operations, 2009/10–2015/16

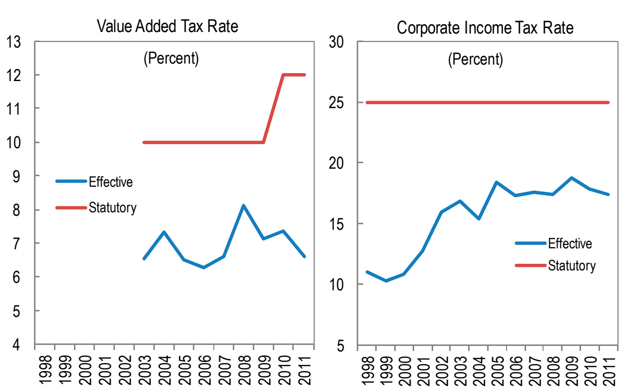
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	(Percent of GDP)						
Revenue	34.6	28.8	30.5	31.2	31.7	32.2	32.1
Expenditure	45.5	38.5	36.2	31.2	29.6	28.7	27.9
Current	29.6	25.9	27.4	23.0	21.7	20.9	20.1
Capital	15.0	12.7	8.9	8.4	7.9	7.9	7.9
Overall balance	-10.9	-9.7	-5.7	0.0	2.2	3.5	4.2
Non-mineral primary balance[1]	-30.6	-26.6	-23.0	-15.2	-12.4	-10.9	-9.5

Sources: Botswana authorities and IMF Staff estimates and projections.

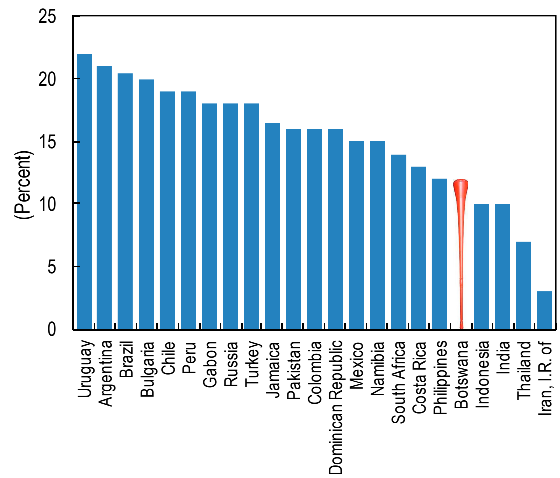
[1] The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest payments and receipts, which are roughly proxied by BoB transfers and interest).

19. Staff analysis show that the effective tax rates of the VAT and corporate taxes are significantly lower than the statutory rates. Already Botswana's VAT rate is one of the lowest among comparator countries, implying that granting zero ratings on such a low VAT rate is eroding the revenue base.

Botswana: Effective and Statutory Tax Rates



VAT Rates, end-2010



Staff Recommendations

20. In the near term, it would be prudent to rebuild the fiscal buffers especially while diamond prices are high. Thus, staff supports the government's policy stance of saving revenue over performance in FY2011/12 as this would contribute towards the replenishing of the Pula Fund (Appendix II).

21. A credible medium term fiscal consolidation would require reining in government spending. Staff analysis shows that medium-term sustainability will require reducing the non-mineral primary balance (NMPB) to a deficit of about 8 percent of non-mineral GDP from the current estimate of about 23 percent (Appendix II) which would call for a sizable reduction in expenditures. Measures to contain spending and guarantee value for money need to focus on reducing the wage bill and tertiary education spending:

- **Wage bill:** Reducing the wage bill (as a share of GDP) will require a prudent wage policy and a civil service reform to make the public service leaner and more efficient. The mission supported the government's position that any nominal wage adjustment made in FY2011/12 would need to be budget neutral and financed by other expenditure savings to avoid derailing the fiscal consolidation program. Benchmarking wage adjustments on expected inflation and productivity growth would avoid distorting wage determination in the private sector.

- **Education budget:** Reining in the large education budget is also needed to ensure value for money. A first step toward reducing the bloated current expenditure appropriation on tertiary education would be to better synchronize expenditures and receipts of the respective budgetary units to improve the central government's overall cash management and minimize idle bank balances with budgetary units. The recent World Bank Public Expenditure Review and the planned Fund technical assistance on public financial management would assist the authorities in reforming education spending.

22. There is scope to broaden the tax base and consider this as an integral pillar of the medium-term fiscal consolidation process.

- Staff urged the authorities to closely monitor the effective tax rates and noted that caution is warranted in granting preferential tax regimes for businesses. More generally, consideration could be given to conducting a study on tax expenditures to inform policymakers about the magnitude of tax revenues that are lost through tax incentives.

- Strengthening tax administration is also critical. Thus, the mission urged the authorities to move ahead on the creation of a large tax payer unit (LTU) within the Botswana Unified Revenue Service.

Authorities' Views

23. The government is committed to balancing the budget in FY2012/13. They agreed that spending levels were unsustainably high and indicated that substantial reductions in expenditures during the next two years would be the basis for achieving a balanced budget by FY2012/13. Specifically, the FY2011/12 budget documents noted that spending as a share of GDP would be reduced from its current level of just under 40 percent of GDP to just about 30 percent by FY2014/15. The public investment program, which expanded during 2008–10, should revert to more normal pre-crisis levels as the big-ticket infrastructure projects are completed, with the emphasis on maintenance of existing infrastructure projects rather than initiating new projects.

24. The authorities indicated that they were seeking to devise simple rules and metrics to contain the appropriations already included in the budget without unduly affecting the normal functioning of budgetary units. Steps toward mandatory public service outsourcing of non-core activities (such as security services, office maintenance and transport services) should help to reduce the administrative burden on the government. The authorities agreed with staff on the need to reduce the size of the wage bill. They shared the staff's view that Botswana may not be getting "value for money," regarding current spending on tertiary education.

25. The authorities concurred that tax incentives do little to propel new investment and productive activity, but significantly erodes the tax base. They agreed that there was some scope for broadening the tax base, for example, by reducing the numbers of goods and services that are exempt from VAT. At the same time, they noted that Botswana needs to avoid undue tax burdens that may discourage domestic economic activity and foreign direct investment, which would thwart efforts for economic diversification.

C. Policy Theme 3: Strengthening the Public Sector Institutional Framework

Background

26. Currently the authorities' fiscal policy framework focuses on a balanced budget rule and a targeted decline in spending as a share of GDP. Unlike the non-mining fiscal balance, the overall fiscal balance may not be a reliable indicator of (i) the impact of fiscal policy on domestic demand, or (ii) the government's adjustment effort. The fiscal rule that limits government expenditures in percent of GDP tends to give rise to unintended procyclicality since when the price of diamonds increases, GDP also increases allowing an increase in spending.

27. Maintaining a strong supervisory framework for the financial sector is a key priority for the authorities. The banking sector is sound, with banks remaining vigilant over asset quality and reserves. Although banks are heavily exposed to households whose real incomes have declined in recent years, banks remained profitable, capital levels are significantly in excess of regulatory requirements, and non-performing loans remain low. The BoB is working towards making its financial stability unit fully operational. The mission welcomed the progress made by the Nonbank Financial Institutions Regulatory Authority (NBFIRA) in strengthening the regulatory and supervisory framework for non-bank financial institutions from a compliance-based approach to a risk-based system. A new Insurance and Pension Funds Act, proposing a gradual rebalancing of the insurance companies' and pension funds' portfolios, is tentatively planned for discussion by parliament in November 2011.

Staff Recommendations

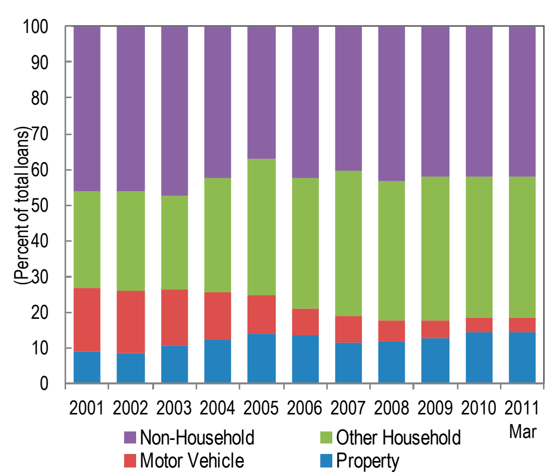
28. As in previous consultations, staff recommended the strengthening of the government's fiscal framework by giving greater prominence to the non-mineral primary balance (NMPB) in the formulation of fiscal policy. Staff stressed that while the authorities should continue monitoring their current fiscal indicators, adding the NMPB to their fiscal rules would provide a clearer picture of the underlying fiscal stance and long-term fiscal sustainability. Indeed, in countries such as Norway, budget documents and fiscal policy discussions focus mainly on the non-oil balance and its impact on the domestic economy.

29. Staff highlighted areas requiring further monitoring on banking system surveillance. Bank prudential regulation should keep pace with financial innovation particularly the introduction of new financial products through mobile banking. Staff also noted that close monitoring of banks' exposure to mortgage loans is essential, as some banks plan to expand such secured lending over time.

Authorities' Views

30. The authorities emphasized that they recognize the need for a new fiscal rule although care needs to be taken in transitioning from the current fiscal rule that includes mineral revenues to a more constrained rule that excludes mineral revenues. They noted that the new fiscal rule should take a long-term view of revenues, especially mineral revenues which are likely to decline in the decades following NDP10. Also, the rule should denominate expenditures on the basis of share of non-mineral GDP to avoid ramping up expenditure during mineral revenue booms. Implementation of the exit policy for this new fiscal rule should be carefully managed, as indicated by the recent national public sector union strike. The sustainable budget index rule in NDP10 reserves mineral revenues for capital spending, leaving only non-mineral revenues to finance recurrent spending.

Sectoral Composition of Commercial Bank Loans and Advances



31. The BoB continues to place priority on banking system surveillance. They are well aware of the challenges posed by the emergence of new financial products such as cell phone banking and e-wallet. They noted that although banks' exposure to households remains high, the increased level of provisioning should provide safeguards. The BoB emphasized that mortgage lending is still a relatively small component of overall bank lending, albeit growing, and agreed with staff that it would be appropriate to monitor data for the real estate market on a systematic basis, although a practical way to achieve this has not yet been identified.

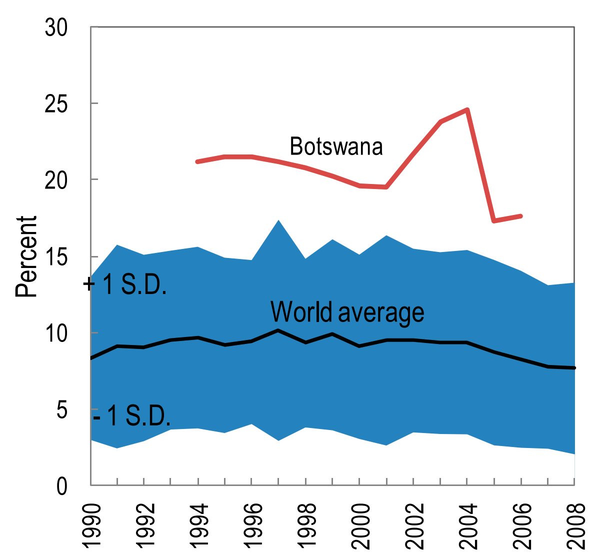
D. Policy Theme 4: Improving the Quality of Growth

Background

32. Over the years, Botswana has relied heavily on its diamond exports to deliver high growth but this has also made the economy vulnerable to shocks. The global financial crisis underscored the economy's vulnerability to external shocks and the need to develop a more diversified and competitive private sector.

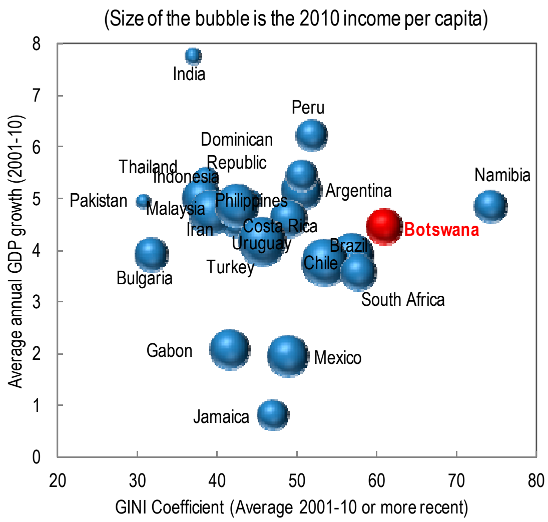
33. The unemployment rate has also been persistently high. Competitiveness indicators do not point to much in the way of policy-induced obstacles to hiring and firing, and in labor market flexibility Botswana compares well with other middle-income countries. The high unemployment rate largely reflects both the capital intensity of the mining sector and the skills mismatch in the labor market for the non-mining sectors, including the emerging information technology sector and services such as non-bank financial sector.

Unemployment Rate



Sources: World Bank, World Development Indicators.

International Comparison: GINI Coefficient and Real Output Growth



Sources: IMF, World Economic Outlook; and World Bank, World Development Indicators.

34. A sustained growth in output alone cannot reduce income inequality and eradicate poverty if it is not accompanied by a discernible reduction in structural unemployment. Staff's cross-country analysis for selected middle-income countries shows that an increase in structural unemployment increases the income share of the highest quintile and decreases the share of the bottom 60 percent of the population.

Staff Recommendations

35. The government's focus on sectors with high productivity and employment creation potential bodes well for economic diversification. Successful diversification will likely demand sizeable foreign direct investment in the non-mining sector, albeit avoiding unwarranted tax incentives that may not be effective and would further impair the tax base. Staff noted that reducing the cost of doing business and providing an enabling business environment tend to yield better medium-term outcomes for private sector development.

36. A combination of carefully designed initiatives and faster growth is likely to make significant inroads in unemployment. Improving labor force skills by ensuring that the education system produces workers with skills that are in demand in the labor market would contribute to reducing structural unemployment.

37. A more inclusive growth is critical for poverty eradication. Staff noted that policies that lead to a sustained reduction in structural unemployment should help to reduce poverty. Fiscal policy can also play a role in inclusive growth through more efficient and well-targeted pro-poor spending on health and education.

Authorities' Views

38. The authorities agreed with staff on the need to improve the quality of growth and stressed the challenges they face in diversifying the economy and reducing the unemployment rate.

- On the diversification front, they see potential in service sectors although limited trade logistics and communication technologies constrain the development of regional trade, and financial and business hubs. Therefore the focus should be on cost-effective service sectors and measures to improve the business environment.

Business licensing procedures have been simplified, and the time to register a business is now 5 to 10 days. Ongoing diversification efforts within the mineral sector include investments in the discovery and exploration of other minerals and metals, such as uranium and copper/nickel.

- They agreed that the skills mismatch problem is a key constraint in the labor market. Thus, the government's tertiary education reform program and creation of the Human Resource Development Council aim at reducing the unemployment rate. The establishment of a Labor Market Observatory should also enhance the dissemination of labor market information including vacancies.

- On poverty, a deliberate shift has occurred in government policy from poverty reduction to poverty eradication, signaling the growing priority the government gives to poverty issues. They noted that the government's priority now is to refocus social safety net expenditures and make pro-poor spending more efficient (rather than merely scaling up such spending). The upcoming Botswana Core Welfare Indicator Survey should give an assessment of poverty levels and thus assist the government in making informed policy decisions on poverty eradication.

STAFF APPRAISAL

39. **Botswana's economy staged an impressive recovery during the past year led by a rebound in diamond exports**. Leading economic indicators, including those for the non-mining sector, point to a recovery that is gaining strength. Staff projects a GDP growth of 6.5 percent in 2011, averaging about 5.5 percent over the medium term. Staff judges the level of the exchange rate as broadly in line with fundamentals.

40. **As the recovery strengthens, staff agrees with the authorities that the overriding economic policy challenges are**:

- Reducing the size of government; and
- Sustaining growth, diversifying the economy and improving its quality—including through reducing unemployment and improving other social indicators.
- These challenges would have to be pursued in a much more complex and uncertain global environment—one where the threat from exogenous shocks has heightened. This highlights the need to rebuild fiscal buffers to further strengthen the economy's resilience to future shocks.

41. **The monetary and fiscal policy stance on the global food and fuel price shocks is appropriate**.

- Staff supports the BoB's neutral monetary policy stance, since at this stage, there appears to be no firm evidence of generalized price pressures in the economy. If and when food and fuel price shocks appear to be leading to systemic price pressures in the economy, monetary policy should be tightened.

- The government's current policy of providing a predetermined food basket to the needy, as opposed to a monetary transfer, automatically shields the poor from the impact of inflation.

42. Staff encourages the government to move decisively on its fiscal plan which targets a balanced budget by FY2012/13 centered on a sharp reduction in spending. Staff also sees scope to broaden the tax base.

- Staff supports ongoing government initiatives include better prioritizing of overall government outlays, ensuring that only high quality ongoing projects are undertaken using public funds and efforts to contain the growth of budget appropriations for current transfers, goods and services, and the wage bill. Nominal wage adjustment should be benchmarked to the expected inflation and productivity gains.

- On tax policy, staff welcomes measures taken to reform the corporate income tax system, which could be complemented with improving the effective tax rates on both the VAT and corporate income taxes, revisiting the merits of specific tax incentives, and establishing a large taxpayer unit at the Botswana Unified Revenue Service in line with best practice.

43. Strengthening the public sector institutional framework is an important part of the authorities' reform agenda.

- Staff encourages the authorities to give consideration to adding to its fiscal anchor indicators the non-mineral primary balance since this provides a clearer picture of the underlying fiscal stance.

- The BoB has a strong bank supervisory framework, and staff supports ongoing efforts to make fully operational the newly established financial stability unit. Staff welcomes the progress made on strengthening the regulatory framework for non-bank financial institutions.

44. Sustaining growth, broadening its sources and improving its quality are key policy priorities of the government.

- The government sees potential in economic diversification within the mineral sector beyond diamonds. Exploring diversification opportunities in the services sector is also appropriate given the sectors' high productivity and employment creation potential. Successful diversification will likely demand sizeable foreign direct investment in the non-mining sector, albeit avoiding unwarranted tax incentives that may not be effective and would further impair the tax base.

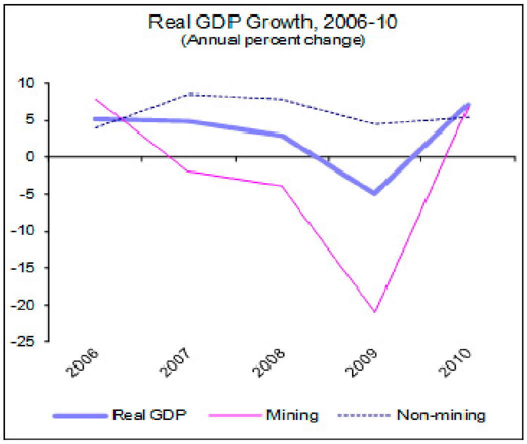
- Staff welcomes the initiatives taken by the government to reduce the unemployment rate. The government's tertiary education reform program and creation of the Human Resource Development Council intend to address the skills mismatch in the labor market.

- Perhaps of equal importance is the government's focus on poverty eradication for which more inclusive growth policies are critical. Policies leading to a sustained reduction in structural unemployment should help to reduce poverty. Fiscal policy can also play a role in making economic growth more inclusive through more efficient and well-targeted pro-poor spending on health and education.

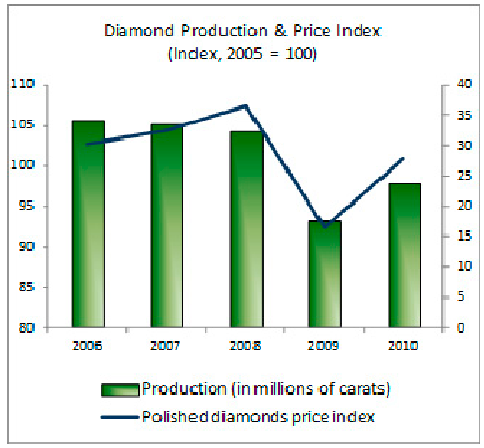
45. Staff recommends that the next Article IV consultation with Botswana will take place on the standard 12-month cycle.

Figure 1. Botswana: Recent Economic Developments

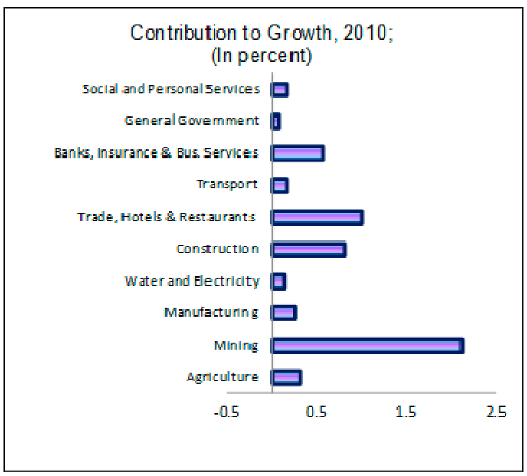
The economy has recovered strongly from the impact of the global financial crisis …



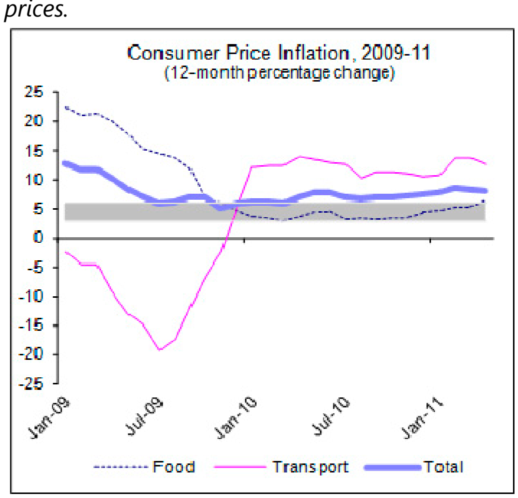
…supported by strong growth in mineral exports, particularly diamonds.



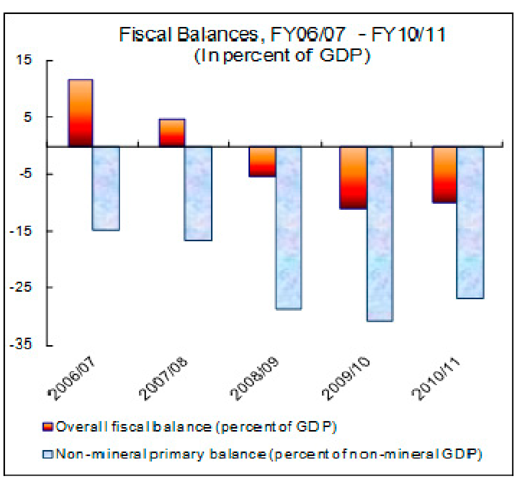
Non-mining real GDP growth remained robust, despite limited government support.



Inflation has been low, but rising due to hikes in food and energy prices and increases in some administrated prices.



The overall and the nonmineral primary deficits declined somewhat …



…due to cuts in overall public spending that more than compensate for a substantial decline in SACU revenues.

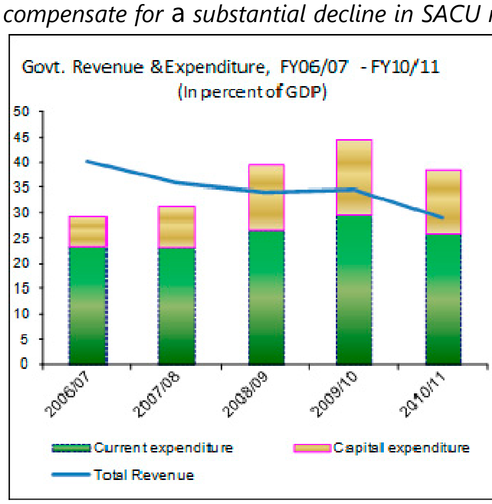
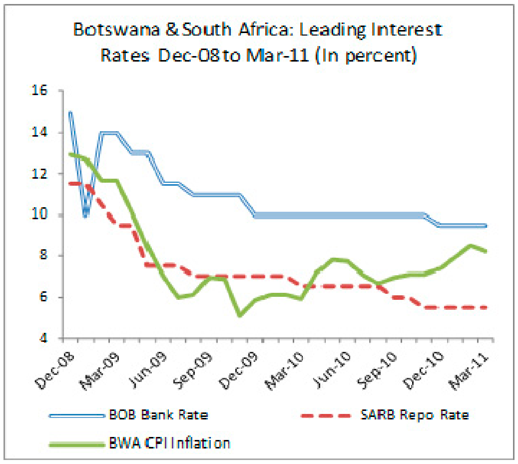
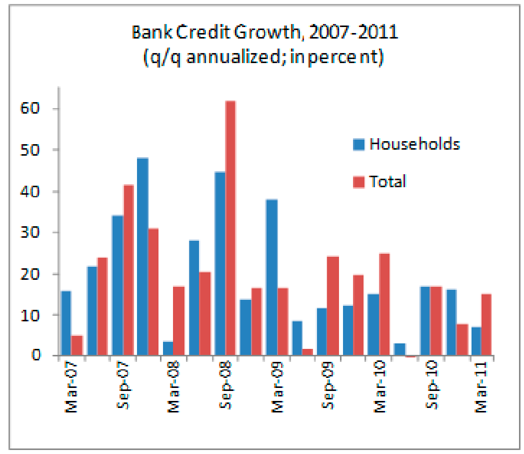


Figure 1. Botswana: Recent Economic Developments *(Cont'd)*

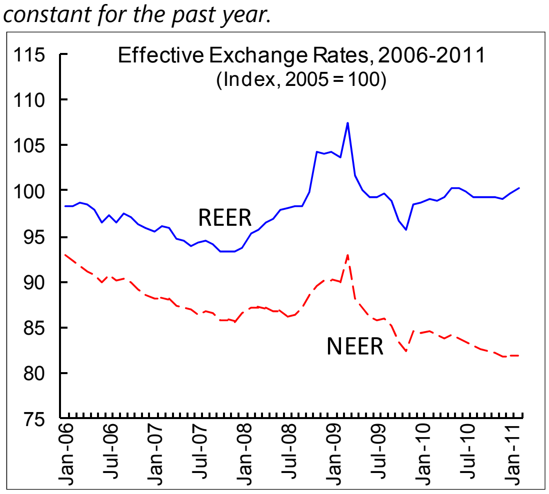
The broadly positive environment enabled the central bank to cut its leading interest rate in December…



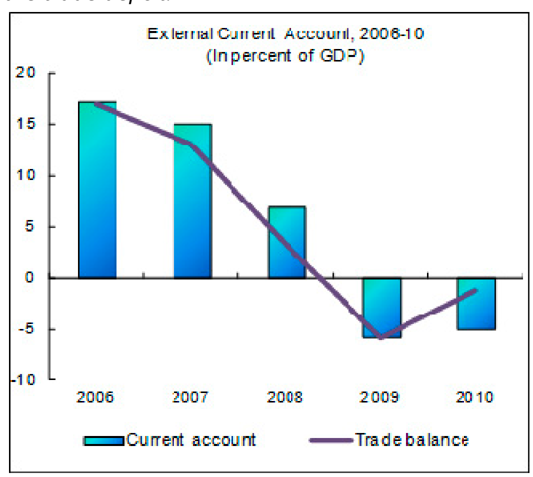
…while credit conditions are gradually normalizing, especially for households.



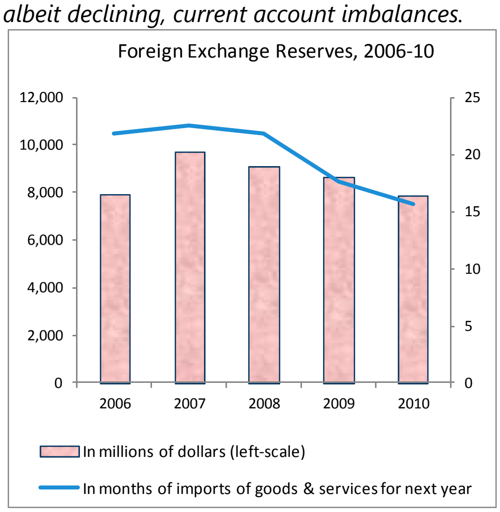
The real effective exchange rate has remained broadly constant for the past year.



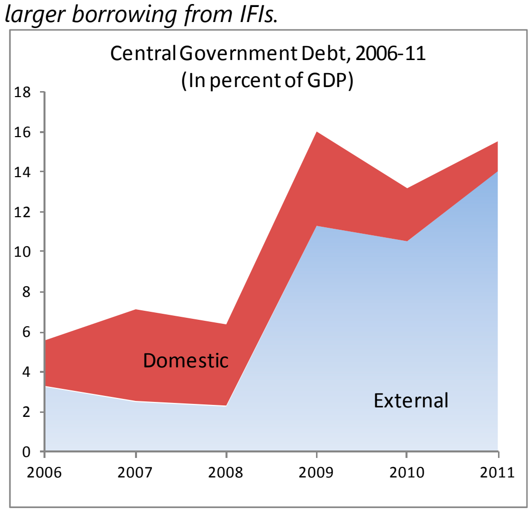
Strong export growth has led to a gradual decline in the trade deficit.



International reserves dropped owing to enduring, albeit declining, current account imbalances.



Public debt has been on the rise, mainly driven by larger borrowing from IFIs.



Sources: National authorities; and Fund staff's estimates.

Table 1. Botswana: Selected Economic and Financial Indicators, 2008–2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP [1]	3.0	-4.9	7.2	6.5	5.5	7.1	5.1	4.4	4.7
Mineral	-3.8	-21.0	7.0	8.8	5.6	5.7	4.4	2.1	3.2
Nonmineral [2]	7.9	4.5	5.4	5.6	5.7	8.2	5.4	5.5	5.3
Consumer prices (average)	12.6	8.1	6.9	7.8	6.2	5.1	5.0	4.9	4.9
Consumer prices (end of period)	13.7	5.8	7.4	7.2	5.2	5.1	4.9	4.9	4.9
Nominal GDP (billions of pula) [1]	92.0	82.1	100.9	117.6	132.3	149.5	164.8	180.5	198.6
Mineral	37.5	21.5	31.6	38.6	43.2	47.3	51.2	54.3	58.8
Nonmineral	54.5	60.6	69.4	79.0	89.1	102.2	113.6	126.1	139.9
Diamond production (millions of carats)	32.3	17.7	23.8	26.1	27.6	29.0	30.1	30.5	31.3
External sector									
Exports of goods and services, f.o.b. (US$)	-2.9	-35.7	33.6	11.1	6.1	5.0	4.7	3.4	4.6
Of which:									
Diamonds	-8.1	-30.3	36.4	11.2	7.2	6.6	5.3	2.8	4.2
Imports of goods and services, f.o.b. (US$)	18.2	-3.5	18.1	2.4	0.5	1.6	1.9	2.2	4.3
Terms of trade	2.3	4.8	-5.9	-0.2	1.1	1.1	1.1	0.8	0.4
Nominal effective exchange rate	0.6	-0.8	-3.9	...	...	...	...	...	...
Real effective exchange rate	4.0	2.3	-1.0	...	...	...	...	...	...
	(Percentage change with respect to M2 at the beginning of the period)								
Money and banking									
Net foreign assets	37.8	-34.3	-17.5	30.6	26.4	25.7	23.3	21.8	11.5
Net domestic assets	-16.1	33.0	29.9	-16.8	-13.6	-9.0	-10.0	-10.8	-0.6
Broad money (M2)	21.7	-1.3	12.5	13.9	12.7	16.6	13.3	11.0	10.9
Velocity (nonmineral GDP relative to M3)	1.4	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Credit to the private sector	12.6	5.1	6.1	6.5	6.4	6.4	6.3	6.3	6.2
	(In percent of GDP, unless otherwise indicated)								
Investment and savings [1]									
Gross investment (including change in inventories)	30.8	30.6	29.9	22.1	21.1	20.5	20.5	20.5	20.8
Public	11.1	15.4	13.1	9.7	8.3	7.7	7.7	7.7	8.0
Private	19.6	15.2	14.7	12.4	12.8	12.8	12.8	12.8	12.8
o/w Change in inventories	0.0	0.0	0.0	...	...	...	...	...	...
Gross savings	37.6	24.8	25.0	18.2	19.9	21.3	22.1	22.6	23.0
Public	15.9	15.0	11.3	10.6	14.2	16.2	17.4	18.0	18.8
Private	21.7	9.8	13.7	7.6	5.7	5.1	4.7	4.5	4.2
Saving–investment balance	6.9	-5.8	-4.9	-3.9	-1.1	0.8	1.6	2.0	2.1
Central government finances [3]									
Total revenue and grants	34.0	34.6	28.8	30.4	31.2	31.6	32.1	32.0	32.3
Total expenditure and net lending	39.3	45.5	38.5	36.2	31.2	29.6	28.7	27.9	26.6
Overall balance (deficit –)	-5.2	-10.9	-9.7	-5.8	0.0	2.1	3.4	4.1	5.6
Nonmineral primary balance[4]	-28.5	-30.6	-26.6	-23.0	-14.9	-12.1	-10.7	-9.3	-7.1
Total central government debt	6.4	16.1	13.2	15.6	14.0	12.4	10.8	9.4	8.1
External sector									
Current account balance	6.9	-5.8	-4.9	-3.9	-1.1	0.8	1.6	2.0	2.1
Balance of payments	8.0	-5.5	-5.5	3.1	3.1	3.5	3.7	3.9	3.8
External Public debt [5]	2.1	14.3	15.1	15.8	15.0	13.0	11.0	9.2	9.0
	(In millions of US$, unless otherwise indicated)								
Change in reserves (increase –)	628	447	786	-499	-538	-672	-762	-845	-873
Gross official reserves (end of period)	9,116	8,669	7,883	8,382	8,920	9,592	10,353	11,198	12,071
In months of imports of goods and services [6]	21.9	17.6	15.6	17.3	19.3	21.6	23.8	25.3	26.0
In percent of GDP	67.2	75.2	53.0	53.7	57.0	59.3	62.5	65.5	63.7

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 nonmineral primary balance is computed as the difference between nonmineral 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 2a. Botswana: Central Government Operations, 2007/08–2015/16[1]

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	(Millions of pula)								
Total revenue and grants	28,629	30,455	30,023	30,289	36,920	42,594	48,507	54,213	59,209
Total revenue	28,052	29,833	29,254	29,769	36,329	41,925	47,746	53,367	58,270
Tax revenue	17,267	20,455	20,045	19,472	25,646	29,108	32,643	35,969	39,503
Income taxes	6,342	8,059	7,921	8,534	11,066	12,479	13,996	15,375	16,812
Mineral	2,448	3,451	2,360	2,728	4,473	5,009	5,496	5,932	6,331
Nonmineral	3,894	4,608	5,561	5,806	6,593	7,470	8,500	9,443	10,481
Taxes on goods and services [2]	2,852	4,377	3,943	4,668	5,301	6,006	6,834	7,592	8,427
Customs Union receipts [3]	7,835	7,750	7,931	6,004	8,978	10,281	11,425	12,570	13,785
Other	238	268	250	266	301	341	388	431	479
Nontax revenue	10,785	9,378	9,209	10,297	10,683	12,817	15,103	17,398	18,767
Mineral royalties and dividends	8,564	6,731	6,729	6,589	7,182	8,854	10,605	12,410	13,243
Interest	67	52	32	48	56	63	71	78	85
Property income	1,125	1,546	1,211	2,006	1,567	1,772	2,006	2,220	2,453
Of which: BoB transfers	906	1,302	1,000	700	606	683	767	844	925
Fees and charges	1,029	1,049	1,237	1,654	1,878	2,128	2,421	2,690	2,986
Grants	577	623	769	520	590	669	761	846	939
Total expenditure and net lending	24,822	35,150	39,490	40,509	43,934	42,594	45,325	48,455	51,689
Current expenditure	18,579	23,889	25,732	27,224	33,254	31,634	33,691	35,621	37,597
Wages and salaries	6,850	8,701	9,252	11,935	12,876	11,673	12,274	12,887	13,519
Interest	248	282	370	500	563	873	1,059	1,053	1,011
Other	11,480	14,906	16,110	14,789	19,815	19,089	20,358	21,681	23,068
Of which: grants and subsidies	4,869	7,058	8,106	8,348	9,122	9,823	10,476	11,157	11,871
Capital expenditure	6,548	11,458	13,006	13,312	10,774	11,060	11,740	12,944	14,207
Net lending	-305	-197	752	-27	-94	-100	-105	-110	-116
Primary balance (deficit -)	3,083	-5,767	-10,129	-10,468	-7,113	126	3,403	5,890	7,520
Overall balance	3,808	-4,695	-9,467	-10,220	-7,014	0	3,182	5,758	7,520
Financing	-3,808	4,696	9,467	10,220	7,014	0	-3,182	-5,758	-7,520
Foreign (net)	-93	-174	6,443	1,274	5,819	116	-89	-853	-991
Drawing	196	139	6,857	1,634	6,065	475	265	204	61
Amortization	-211	-255	-343	-280	-166	-279	-275	-977	-972
IMF transactions	-78	-58	-71	-80	-80	-80	-80	-80	-80
Domestic	-3,714	4,870	3,024	8,946	1,195	-116	-3,093	-4,905	-6,529
Of which:									
Issuance	1,291	1,954	2,877	1,292	1,300	0	0	0	0
Amortization	-850	-600	-2,123	-2,701	-2,201	0	0	0	0
Change in cash balance (- increase)	-4,019	4,607	6,610	4,636	2,107	-116	-3,093	-4,905	-6,529
Memorandum items:									
Nonmineral primary balance [4]	-7,929	-15,949	-19,218	-19,085	-18,769	-13,737	-12,698	-12,453	-12,054

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 2b. Botswana: Central Government Operations, 2007/08–2015/16 (GFSM 2001 Classification)[1]

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	(Millions of pula)								
Revenue	28,629	30,455	30,023	30,289	36,920	42,594	48,507	54,213	59,209
Taxes	17,267	20,455	20,045	19,472	25,646	29,108	32,643	35,969	39,503
Taxes on income, profits, and capital gains	6,342	8,059	7,921	8,534	11,066	12,479	13,996	15,375	16,812
Payable in the mineral economy	2,448	3,451	2,360	2,728	4,473	5,009	5,496	5,932	6,331
Payable in the non-mineral economy	3,894	4,608	5,561	5,806	6,593	7,470	8,500	9,443	10,481
Taxes on property	33	26	27	21	24	27	31	34	38
Taxes on goods and services	3,057	4,618	4,166	4,911	5,576	6,318	7,189	7,987	8,865
Value added and sales tax	2,852	4,377	3,943	4,668	5,301	6,006	6,834	7,592	8,427
Motor vehicle taxes	159	188	189	209	237	268	306	339	377
Other	46	53	34	34	39	44	50	55	62
Taxes on international trade	7,835	7,752	7,931	6,006	8,980	10,283	11,427	12,573	13,788
Customs Union receipts [2]	7,835	7,750	7,931	6,004	8,978	10,281	11,425	12,570	13,785
Taxes on exports	0	2	1	2	2	2	2	3	3
Grants	577	623	769	520	590	669	761	846	939
Other receipts	10,785	9,378	9,209	10,297	10,683	12,817	15,103	17,398	18,767
Property income	9,756	8,329	7,972	8,643	8,805	10,689	12,682	14,708	15,781
Mineral royalties and dividends	8,564	6,731	6,729	6,589	7,182	8,854	10,605	12,410	13,243
Interest	1,192	1,598	1,243	2,054	1,623	1,835	2,076	2,298	2,538
Property interest income [3]	1,125	1,546	1,211	2,006	1,567	1,772	2,006	2,220	2,453
Other Interest	67	52	32	48	56	63	71	78	85
Fees and charges	1,029	1,049	1,237	1,654	1,878	2,128	2,421	2,690	2,986
Expense	18,579	23,889	25,732	27,224	33,254	31,634	33,691	35,621	37,597
Compensation of employees	6,850	8,701	9,252	11,935	12,876	11,673	12,274	12,887	13,519
Purchases of goods and services	6,611	7,848	8,004	6,441	10,693	9,265	9,881	10,523	11,197
Interest	248	282	370	500	563	873	1,059	1,053	1,011
Grants and subsidies	4,869	7,058	8,106	8,348	9,122	9,823	10,476	11,157	11,871
Gross Operating Balance	10,051	6,566	4,291	3,065	3,666	10,960	14,817	18,592	21,612
Net adquisition of nonfinancial assets	6,548	11,458	13,006	13,312	10,774	11,060	11,740	12,944	14,207
Net lending/borrowing	3,503	-4,892	-8,715	-10,247	-7,108	-100	3,077	5,648	7,404
Transactions in financial assets and liabilities	3,503	-4,892	-8,715	-10,247	-7,128	-100	3,077	5,648	7,404
Net adquisition of financial assets	3,714	-4,804	-5,858	-4,663	-2,201	16	2,988	4,795	6,413
Domestic	3,714	-4,804	-5,858	-4,663	-2,201	16	2,988	4,795	6,413
Currency and deposits	4,019	-4,607	-6,610	-4,636	-2,107	116	3,093	4,905	6,529
Loans (net lending)	-305	-197	752	-27	-94	-100	-105	-110	-116
Foreign	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	211	88	2,857	5,584	4,927	116	-89	-853	-991
Domestic	305	262	-3,586	4,310	-891	0	0	0	0
Loans	1,291	1,954	2,877	1,292	1,300	0	0	0	0
Amortization	-850	-600	-2,123	-2,701	-2,201	0	0	0	0
Other	-136	-1,093	-4,340	5,719	10	0	0	0	0
Foreign	-93	-174	6,443	1,274	5,819	116	-89	-853	-991
Loans	196	139	6,857	1,634	6,065	475	265	204	61
Amortization due (paid)	-211	-255	-343	-280	-166	-279	-275	-977	-972
Other	-78	-58	-71	-80	-80	-80	-80	-80	-80
Memo items:									
Overall balance	3,808	-4,695	-9,467	-10,220	-7,034	0	3,182	5,758	7,520
Non-mineral primary balance [4]	-7,929	-15,949	-19,218	-19,085	-18,769	-13,737	-12,698	-12,453	-12,054

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 Botswna (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 2c. Botswana: Central Government Operations, 2007/08–2015/16 [1]

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
					(Percent of GDP)				
Total revenue and grants	35.8	34.0	34.6	28.8	30.4	31.2	31.6	32.1	32.0
Total revenue	35.1	33.3	33.7	28.3	30.0	30.7	31.1	31.6	31.5
Tax revenue	21.6	22.9	23.1	18.5	21.1	21.3	21.3	21.3	21.3
Income taxes	7.9	9.0	9.1	8.1	9.1	9.1	9.1	9.1	9.1
Mineral	3.1	3.9	2.7	2.6	3.7	3.7	3.6	3.5	3.4
Nonmineral	4.9	5.1	6.4	5.5	5.4	5.5	5.5	5.6	5.7
Taxes on goods and services [2]	3.6	4.9	4.5	4.4	4.4	4.4	4.5	4.5	4.6
Customs Union receipts [3]	9.8	8.7	9.1	5.7	7.4	7.5	7.5	7.5	7.5
Other	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	13.5	10.5	10.6	9.8	8.8	9.4	9.8	10.3	10.1
Mineral royalties and dividends	10.7	7.5	7.8	6.3	5.9	6.5	6.9	7.4	7.2
Interest	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	1.4	1.7	1.4	1.9	1.3	1.3	1.3	1.3	1.3
Of which: BoB transfers	1.1	1.5	1.2	0.7	0.5	0.5	0.5	0.5	0.5
Fees and charges	1.3	1.2	1.4	1.6	1.5	1.6	1.6	1.6	1.6
Grants	0.7	0.7	0.9	0.5	0.5	0.5	0.5	0.5	0.5
Total expenditure and net lending	31.0	39.3	45.5	38.5	36.2	31.2	29.6	28.7	27.9
Current expenditure	23.2	26.7	29.6	25.9	27.4	23.2	22.0	21.1	20.3
Wages and salaries	8.6	9.7	10.7	11.4	10.6	8.5	8.0	7.6	7.3
Interest	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.6	0.5
Other	14.4	16.7	18.6	14.1	16.3	14.0	13.3	12.9	12.5
Of which: grants and subsidies	6.1	7.9	9.3	7.9	7.5	7.2	6.8	6.6	6.4
Capital expenditure	8.2	12.8	15.0	12.7	8.9	8.1	7.7	7.7	7.7
Net lending	-0.4	-0.2	0.9	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Primary balance (deficit -)	3.9	-6.4	-11.7	-10.0	-5.9	0.1	2.2	3.5	4.1
Overall balance	4.8	-5.2	-10.9	-9.7	-5.8	0.0	2.1	3.4	4.1
Financing	-4.8	5.2	10.9	9.7	5.8	0.0	-2.1	-3.4	-4.1
Foreign (net)	-0.1	-0.2	7.4	1.2	4.8	0.1	-0.1	-0.5	-0.5
Drawing	0.2	0.2	7.9	1.6	5.0	0.3	0.2	0.1	0.0
Amortization	-0.3	-0.3	-0.4	-0.3	-0.1	-0.2	-0.2	-0.6	-0.5
IMF transactions	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Domestic	-4.6	5.4	3.5	8.5	1.0	-0.1	-2.0	-2.9	-3.5
Of which:									
Issuance	1.6	2.2	3.3	1.2	1.1	0.0	0.0	0.0	0.0
Amortization	-1.1	-0.7	-2.4	-2.6	-1.8	0.0	0.0	0.0	0.0
Change in cash balance (- increase)	-5.0	5.1	7.6	4.4	1.7	-0.1	-2.0	-2.9	-3.5
Memorandum items:									
Nonmineral primary balance [4]	-16.6	-28.5	-30.6	-26.6	-23.0	-14.9	-12.1	-10.7	-9.3
Nominal GDP (in current of local currency)	79,987	89,509	86,805	105,102	121,275	136,587	153,342	168,716	185,026

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 2d. Botswana: Central Government Operations, 2007/08–2015/16[1]

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				(Percent of non-mineral GDP)					
Total revenue and grants	60.0	54.4	47.8	42.2	45.3	46.1	46.2	46.4	45.7
Total revenue	58.8	53.3	46.6	41.5	44.6	45.4	45.4	45.7	45.0
Tax revenue	36.2	36.5	31.9	27.1	31.5	31.5	31.1	30.8	30.5
Income taxes	13.3	14.4	12.6	11.9	13.6	13.5	13.3	13.2	13.0
Mineral	5.1	6.2	3.8	3.8	5.5	5.4	5.2	5.1	4.9
Nonmineral	8.2	8.2	8.9	8.1	8.1	8.1	8.1	8.1	8.1
Taxes on goods and services [2]	6.0	7.8	6.3	6.5	6.5	6.5	6.5	6.5	6.5
Customs Union receipts [3]	16.4	13.8	12.6	8.4	11.0	11.1	10.9	10.8	10.6
Other	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	22.6	16.7	14.7	14.3	13.1	13.9	14.4	14.9	14.5
Mineral royalties and dividends	18.0	12.0	10.7	9.2	8.8	9.6	10.1	10.6	10.2
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Property income	2.4	2.8	1.9	2.8	1.9	1.9	1.9	1.9	1.9
Of which: BoB transfers	1.9	2.3	1.6	1.0	0.7	0.7	0.7	0.7	0.7
Fees and charges	2.2	1.9	2.0	2.3	2.3	2.3	2.3	2.3	2.3
Grants	1.2	1.1	1.2	0.7	0.7	0.7	0.7	0.7	0.7
Total expenditure and net lending	52.1	62.8	62.9	56.4	53.9	46.1	43.1	41.5	39.9
Current expenditure	39.0	42.7	41.0	37.9	40.8	34.3	32.1	30.5	29.0
Wages and salaries	14.4	15.5	14.7	16.6	15.8	12.6	11.7	11.0	10.4
Interest	0.5	0.5	0.6	0.7	0.7	0.9	1.0	0.9	0.8
Other	24.1	26.6	25.6	20.6	24.3	20.7	19.4	18.6	17.8
Of which: grants and subsidies	10.2	12.6	12.9	11.6	11.2	10.6	10.0	9.6	9.2
Capital expenditure	13.7	20.5	20.7	18.5	13.2	12.0	11.2	11.1	11.0
Net lending	-0.6	-0.4	1.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Primary balance (deficit -)	6.5	-10.3	-16.1	-14.6	-8.7	0.1	3.2	5.0	5.8
Overall balance	8.0	-8.4	-15.1	-14.2	-8.6	0.0	3.0	4.9	5.8
Memorandum items:									
Non-mineral revenue	36.9	36.2	33.3	29.2	31.0	31.1	30.8	30.7	30.6
Non-mineral primary balance [4]	-16.6	-28.5	-30.6	-26.6	-23.0	-14.9	-12.1	-10.7	-9.3
Non-mineral GDP (fiscal year; millions of pula)	47,685	56,007	62,816	71,776	81,503	92,350	105,080	116,737	129,572

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 2e. Botswana: Central Government Partial Balance Sheet, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	(Millions of pula, as of end-December)						
Net Worth	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Nonfinancial assets	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Net Financial Worth[1]	**29,754**	**46,224**	**57,797**	**67,198**	**46,083**	**31,451**	**34,177**
Financial assets	**33,846**	**49,939**	**62,982**	**72,892**	**57,960**	**45,348**	**51,808**
Domestic							
Currency and deposits w/BoB	13,223	21,236	27,871	31,768	23,252	14,882	12,668
Securities other than shares							
Loans							
Shares and other equity[1]	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Insurance technical reserves							
Financial derivatives							
Other accounts receivable							
Foreign							
Monetary gold and SDRs							
Currency and deposits (Pula fund; 60% gross reserves)	20,623	28,703	35,111	41,124	34,708	30,466	39,140
Debt securities							
Loans							
Equity and investment fund shares[1]	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Insurance, pensions, and standardized guarantee schemes							
Financial derivatives and employee stock options							
Other accounts receivable							
Financial liabilities	**4,092**	**3,716**	**5,184**	**5,694**	**11,877**	**13,897**	**17,631**
Domestic							
Currency and deposits							
Securities other than shares[2]	1,953	1,561	3,219	3,647	4,387	3,593	2,565
Loans							
Shares and other equity							
Insurance technical reserves							
Financial derivatives							
Other accounts payable							
Foreign							
SDRs							
Currency and deposits							
Debt securities							
Loans[3]	2,139	2,155	1,966	2,047	7,490	10,304	15,066
Equity and investment fund shares							
Insurance, pensions, and standardized guarantee schemes							
Financial derivatives and employee stock options							
Other accounts payable							

Source: Botswana authorities and Fund staff estimates.

[1] Information is not available on existing government investments.

[2] Using market value of the government debt.

[3] Using nominal value of existing foreign loans.

Table 3. Botswana: Balance of Payments, 2008–2016

			Est.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(US$ millions, unless otherwise indicated)								
Current account balance	931.8	-668.0	-727.8	-628.5	-196.1	147.4	321.4	440.8	486.7
Trade balance	440.1	-680.9	-176.7	177.1	462.7	673.0	850.5	939.1	986.4
Exports, f.o.b.	4,835.9	3,377.6	4,593.3	5,069.1	5,356.6	5,608.4	5,854.3	6,016.8	6,282.3
Diamonds	3,068.7	2,139.5	2,917.6	3,244.9	3,479.1	3,709.2	3,906.3	4,016.3	4,185.4
Other raw materials	948.8	582.3	750.7	1,010.0	1,037.8	1,019.3	1,024.8	1,033.1	1,083.8
Other	818.5	655.9	925.0	814.1	839.7	879.8	923.1	967.4	1,013.2
Imports, f.o.b	-4,395.8	-4,058.5	-4,770.0	-4,892.0	-4,893.9	-4,935.4	-5,003.8	-5,077.7	-5,295.9
Services	80.2	-655.1	-832.9	-784.2	-768.5	-788.1	-797.7	-808.7	-833.8
Transportation	-360.3	-295.1	-287.0	-308.8	-328.2	-348.9	-365.2	-390.0	-414.6
Travel	271.1	317.0	195.2	257.7	281.2	285.0	296.1	312.3	312.7
Other services	169.4	-677.0	-741.2	-733.1	-721.5	-724.2	-728.7	-731.0	-731.9
Income	-636.8	40.3	-55.1	-203.2	-285.2	-289.5	-380.3	-407.5	-406.8
Current transfers	1,048.3	605.8	462.1	181.8	394.9	552.0	648.9	717.9	740.9
SACU receipts	1,146.9	1,159.1	961.5	674.1	941.6	1,081.3	1,146.5	1,213.3	1,267.4
Capital and financial account	936.0	838.6	725.7	1,127.4	733.6	524.8	440.2	403.8	386.2
Capital account	103.7	115.0	22.0	61.2	84.5	96.6	101.4	101.3	98.6
Financial account	832.3	723.6	703.7	1,066.2	649.1	428.2	338.8	302.4	287.6
Direct investment	616.9	381.1	399.7	595.3	585.5	608.7	626.5	634.1	648.0
Portfolio investment	585.0	-345.9	-405.2	-34.1	-43.6	-55.9	-67.9	-82.0	-98.2
Other investment	-369.7	688.4	709.2	505.1	107.2	-124.6	-219.9	-249.6	-262.2
Assets	-284.8	137.3	328.3	-133.5	-111.8	-127.2	-109.3	-108.7	-121.4
Liabilities	-84.9	551.2	380.9	638.6	219.0	2.7	-110.6	-141.0	-140.9
Net government long-term borrowing	-13.4	682.0	389.4	648.5	210.2	5.4	-72.0	-104.9	-102.7
Other net private long-term borrowing	-123.8	-0.9	-58.9	-57.4	-36.1	-46.3	-80.9	-76.9	-77.7
Short-term borrowing	52.3	47.0	50.4	47.6	44.8	43.6	42.3	40.9	39.5
Reserve assets (increase –)	-1,089.3	639.3	824.8	-498.9	-537.5	-672.2	-761.5	-844.6	-872.9
Net errors and omissions	-778.5	-810.0	-822.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items	(Percent of GDP, unless otherwise indicated)								
Balance of payments	8.0	-5.5	-5.5	3.1	3.1	3.5	3.7	3.9	3.8
Current account	6.9	-5.8	-4.9	-3.9	-1.1	0.8	1.6	2.0	2.1
Trade balance	3.2	-5.9	-1.2	1.1	2.7	3.5	4.2	4.3	4.3
Exports of goods	35.6	29.3	30.9	31.1	30.7	29.4	28.7	27.9	27.4
Of which: diamonds	22.6	18.6	19.6	19.9	20.0	19.5	19.2	18.6	18.2
Imports of goods	-32.4	-35.2	-32.1	-30.0	-28.1	-25.9	-24.5	-23.5	-23.1
Services balance	0.6	-5.7	-5.6	-4.8	-4.4	-4.1	-3.9	-3.7	-3.6
Income and transfers balance	8.3	-0.4	-2.5	-3.7	-2.1	-1.2	-0.7	-0.4	-0.4
Financial account	6.1	6.3	4.7	6.5	3.7	2.2	1.7	1.4	1.3
Direct investment	4.5	3.3	2.7	3.7	3.4	3.2	3.1	2.9	2.8
Portfolio investment	4.3	-3.0	-2.7	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
Other investment	-2.7	6.0	4.8	3.1	0.6	-0.7	-1.1	-1.2	-1.1
	(Annual percentage change, unless otherwise indicated)								
Export volumes	-13.4	-30.3	21.8	3.0	5.1	4.7	3.9	2.2	3.2
Import volumes	20.3	-3.5	-0.9	-4.6	0.5	1.9	2.0	1.7	3.5
Terms of trade	2.3	4.8	-5.9	-0.2	1.1	1.1	1.1	0.8	0.4
End-of-year reserves (US$ millions)	9,115.6	8,668.8	7,883.1	8,382.0	8,919.5	9,591.7	10,353.2	11,197.9	12,070.8
(Months of imports of goods and services) [1]	21.9	17.6	15.6	17.3	19.3	21.6	23.8	25.3	26.0

Source: Bank of Botswana; and IMF staff estimates.

[1] Months of prospective imports.

Table 4. Botswana: Monetary Survey, 2008–2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				(Millions of pula, end of period)					
Net foreign assets	72,781	59,312	52,550	65,892	78,960	93,311	108,512	124,615	134,021
Bank of Botswana	68,364	56,823	49,585	61,962	74,182	87,535	101,853	117,048	125,404
Assets	68,541	57,847	50,776	63,153	75,373	88,726	103,044	118,240	126,596
Liabilities	-127	-421	-612	-612	-612	-612	-612	-612	-612
Commercial banks	4,416	2,489	2,965	3,930	4,778	5,776	6,659	7,567	8,617
Assets	6,059	3,855	5,838	6,803	7,651	8,649	9,532	10,440	11,490
Liabilities	-1,642	-1,365	-2,873	-2,873	-2,873	-2,873	-2,873	-2,873	-2,873
Net domestic assets	-33,553	-20,596	-9,008	-16,315	-23,065	-28,116	-34,660	-42,607	-43,103
Net domestic credit	-11,721	-2,251	7,964	13,373	16,871	17,940	17,469	15,856	20,788
Net claims on the government	-29,730	-22,404	-14,580	-11,835	-11,351	-13,648	-18,054	-24,130	-24,076
Bank of Botswana	-31,768	-23,252	-14,882	-12,187	-11,747	-14,096	-18,547	-24,670	-24,670
Commercial banks	2,038	848	302	352	396	447	493	540	594
Claims on parastatals	102	303	386	450	506	572	631	691	760
Claims on nongovernment	17,907	19,850	22,158	24,758	27,717	31,016	34,892	39,295	44,103
Claims on the private sector	19,268	21,254	23,630	26,473	29,646	33,197	37,296	41,927	47,000
Other financial institutions	-1,361	-1,404	-1,472	-1,715	-1,929	-2,181	-2,403	-2,632	-2,897
Other items (net) [2]	-21,832	-18,345	-16,972	-29,688	-39,936	-46,057	-52,128	-58,463	-63,890
Money plus quasi-money (M2)	39,228	38,717	43,542	49,577	55,896	65,195	73,852	82,008	90,919
Money	7,768	7,108	9,946	11,325	12,768	14,892	16,870	18,733	20,768
Currency	1,103	1,145	1,916	2,181	2,459	2,868	3,249	3,608	4,000
Current deposits	6,666	5,963	8,031	9,143	10,309	12,024	13,621	15,125	16,768
Quasi money	31,459	31,609	33,596	38,252	43,128	50,303	56,982	63,275	70,151
				(Contribution to growth in M2)					
Net foreign assets	37.8	-34.3	-17.5	30.6	26.4	25.7	23.3	21.8	11.5
Bank of Botswana	30.9	-29.4	-18.7	28.4	24.6	23.9	22.0	20.6	10.2
Commercial banks	6.9	-4.9	1.2	2.2	1.7	1.8	1.4	1.2	1.3
Net domestic assets	-16.1	33.0	29.9	-16.8	-13.6	-9.0	-10.0	-10.8	-0.6
Net domestic credit	6.0	24.1	26.4	12.4	7.1	1.9	-0.7	-2.2	6.0
Net claims on the government	-5.9	18.7	20.2	6.3	1.0	-4.1	-6.8	-8.2	0.1
of which: Bank of Botswana	-12.1	21.7	21.6	6.2	0.9	-4.2	-6.8	-8.3	0.0
Claims on nongovernment	12.1	5.0	6.0	6.0	6.0	5.9	5.9	6.0	5.9
Claims on parastatals	-0.2	0.5	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Claims on the private sector	12.6	5.1	6.1	6.5	6.4	6.4	6.3	6.3	6.2
Other items (net)	-22.1	8.9	3.5	-29.2	-20.7	-10.9	-9.3	-8.6	-6.6
Memorandum items:									
Nominal GDP (calendar year)	91,981	82,095	100,934	117,609	132,274	149,525	164,793	180,487	198,643
Nominal non-mineral GDP (calendar year)	54,466	60,631	69,372	78,986	89,053	102,240	113,600	126,146	139,852
Velocity (GDP relative to broad money, M2)	2.3	2.1	2.3	2.4	2.4	2.3	2.2	2.2	2.2
Velocity (non-mineral GDP relative to broad money, M2)	1.4	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Private sector credit to GDP	20.9	25.9	23.4	22.5	22.4	22.2	22.6	23.2	23.7
Private sector credit to non-mineral GDP	35.4	35.1	34.1	33.5	33.3	32.5	32.8	33.2	33.6

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

Table 5. Botswana: Banking System Prudential Indicators, 2005–2011 [1]

	2005	2006	2007	2008	2009	2010 March	2010 December	2011 March
	(Percent, unless otherwise indicated)							
Regulatory capital (millions of pula) [2]	1,568.6	1,743.2	2,020.6	2,991.6	3,670.7	3,989.6	4,582.0	4,801.9
Tier 1 capital (millions of pula)	961.4	1,071.3	1,185.4	1,832.2	2,191.6	2,253.5	2,692.0	2,798.7
Risk Weighted Assets (in millions Pula)	9,065.6	10,404.2	10,947.2	17,694.4	18,734.7	20,044.4	22,311.8	22,784.9
Total Assets (in millions Pula)	17,760.6	29,255.5	33,988.1	45,317.7	44,090.1	46,368.7	49,067.9	50,320.7
Regulatory capital to risk-weighted assets [3]	17.3	16.8	18.5	16.9	19.6	19.9	20.5	21.1
Regulatory Tier I capital to risk-weighted assets [4]	10.6	10.3	10.8	10.4	11.7	11.2	12.1	12.3
Capital-to-assets	8.8	6.0	5.9	6.6	8.3	8.6	9.3	9.5
Asset composition and quality								
Loans-to-assets	51.2	36.9	33.9	39.7	44.8	45.1	43.9	44.3
Nonperforming loans (NPLs)-to-gross loans [5]	0.9	1.5	1.3	1.6	3.2	3.3	6.1	2.5
Compromised assets-to-gross loans [5]	2.6	3.2	3.3	0.9	0.9	1.1	2.7	2.8
NPLs net of specific provisions-to-gross loans [5]	0.0	0.0	1.4	-0.3	0.3	0.3	3.7	-0.1
NPLs net of specific provisions-to-tier I capital [5]	0.0	0.0	0.1	-2.5	3.0	3.2	4.2	...
Profitability								
Return on average assets	5.5	6.1	2.6	2.9	2.8	0.7	0.9	0.6
Return on average equity	62.5	66.9	43.2	45.4	56.5	13.8	9.1	6.8
Net interest Margin to gross income	38.2	31.8	65.4	65.2	67.5	65.8	39.8	33.7
Non-interest income to gross income	23.2	17.8	34.6	34.8	32.5	34.2	69.9	...
Non-interest expenses to gross income	27.1	20.2	45.2	45.5	45.3	46.9	24.6	25.1
Liquidity								
Liquid assets to total assets	26.1	47.0	47.2	50.5	39.6	37.1	34.4	33.4
of which:								
BoBCs to Total Assets	19.6	43.4	45.3	38.7	37.3	34.6	34.6	34.4
Liquid assets to short-term liabilities	35.5	60.4	59.5	56.9	45.3	44.4	41.7	38.9
Foreign currency denominated loans to total loans	7.7	12.1	12.1	9.2	7.2	8.0	8.5	8.1
Foreign currency deposits to total deposits	17.9	24.8	32.7	26.9	12.9	14.0	14.8	15.5
Foreign currency denominated liabilities to total liabilities	22.5	29.1	41.6	34.8	34.2	35.9	13.8	13.4
Deposits-to-assets	74.5	79.0	83.2	85.2	86.0	80.7	82.4	85.9
Loans-to-deposits	68.7	46.7	40.8	46.6	52.1	55.8	53.3	51.5
Sensitivity to market risk								
Net open foreign exchange (FX) position as percent of regulatory capital [6]	8.3	-18.1	-8.1	28.7	22.5	23.4	15.4	13.0
Contingent foreign exchange (FX) assets-to-regulatory capital	70.7	258.2	327.1	132.7	31.8	47.8	39.9	37.4
Contingent foreign exchange (FX) liabilities-to-regulatory capital	52.4	88.4	18.7	60.9	74.2	95.9	130.5	139.9

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.

Table 6. Botswana: Millennium Development Goals, 1990–2010

	1990	1995	2000	2007	2008	2009	2010
Goal 1: Eradicate extreme poverty and hunger							
Income share held by lowest 20 percent	...	3.1	...	...	...	...	...
Malnutrition prevalence, weight for age (percent of children under 5)	...	17.2	13.0	4.6	4.3	4.1	...
Poverty gap at $1.25 a day (PPP) (percent of population)	...	11	...	...	...	...	...
Poverty headcount ratio at $1.25 a day (PPP) (percent of population)	...	31	...	...	23.5	23.5	...
Poverty headcount ratio at national poverty line (percent of population) [1]	...	47.0	47.0	30.3	30.3	...	...
Prevalence of undernourishment (percent of population)	20	24	...	26	...	...	...
Goal 2: Achieve universal primary education							
Literacy rate, youth total (percent of people ages 15–24)	89	89	89	94	94	94	...
Persistence to grade 5, total (percent of cohort)	77	87	86	86	88	86	...
Primary completion rate, total (percent of relevant age group)	89	91	90	87	86	86	...
School enrollment, primary (percent net) [2]	...	...	83	84	86	86	...
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliament (percent)	5	9	5	11	11	7	7
Ratio of girls to boys in primary and secondary education (percent)	...	...	74	100	103	102	...
Ratio of young literate females to males (percent ages 15–24)	110	...	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	34	38	42	43	41	48	49
Goal 4: Reduce child mortality							
Immunization, measles (percent of children ages 12–23 months)	87	89	90	90	91	93	...
Mortality rate, infant (per 1,000 live births) [2]	45	53	57	...	57	...	...
Mortality rate, under-5 (per 1,000) [2]	57	70	75	...	76	...	...
Goal 5: Improve maternal health							
Births attended by skilled health staff (percent of total)	77	92	97	99	95	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	193	198	190	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Contraceptive prevalence (percent of women ages 15–24)	...	...	44	52	...	...	...
Incidence of tuberculosis (per 100,000 people)	307	444	595	470	536	524	...
Prevalence of HIV, female (percent ages 15–24)	...	...	...	15.3	10.7	...	...
Prevalence of HIV, total (percent of population ages 15–49) [3]	...	...	...	17.6	25.0	...	...
Tuberculosis cases detected under DOTS (percent) [4]	...	70	73	57	63	...	...
Goal 7: Ensure environmental sustainability							
CO2 emissions (metric tons per capita)	1.6	2.2	2.5	2.5	...	...	...
Forest area (percent of land area)	24	23	22	21	21	21	21
GDP per unit of energy use	6	6	7	...	...	...	...
(constant 2000 PPP $ per kg of oil equivalent)							...
Improved sanitation facilities (percent of population with access)	38	42	45	47	84	80	...
Improved water source (percent of population with access)	93	94	96	96	96	...	...
Nationally protected areas (percent of total land area)	19.0	19.0	19.0	19	19	19	19
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	106	57	18	56	...	...	...
Debt service (PPG and IMF only, percent of exports, excl. workers' remittances)	4	3	2	1	...	...	...
Telephone lines (per 100 people)	2	4	8	7	8	8	...
Mobile cellular subscriptions (per 100 people)	0	0	13	61	91	105	...
Internet users (per 100 people)	0	0.1	2.9	5.3	4.0	4.0	...
Personal computers (per 1,000 people)	...	9.0	34.0	...	...	...	...
Unemployment, youth female (percent of female labor force ages 15–24)	33.4	42.4	14.0	...	59	...	...
Unemployment, youth male (percent of male labor force ages 15–24)	20.2	33.5	13.2	...	41	...	...
Unemployment, youth total (percent of total labor force ages 15–24)	25.6	37.9	13.6	...	50	...	...
Other							
Fertility rate, total (births per woman)	4.6	3.9	3.4	2.9	...	2.5	...
GNI per capita, Atlas method (current US$)	2,560	3,040	3,310	6,120	...	...	...
GNI, Atlas method (current US$ billions)	3.5	4.8	5.7	11.5	...	...	...
Gross capital formation (percent of GDP)	37.4	24.6	35.0	40.7	...	...	...
Life expectancy at birth, total (years) [2]	63	57	49	51	...	...	...
Literacy rate, adult total (percent of people ages 15 and above)	69	...	...	83	...	...	...
Population, total (millions)	1.4	1.6	1.7	1.9	...	...	...
Trade (percent of GDP)	104.8	89	86.2	83.7	...	...	...

Source: Botswana authorities and World Bank, World Development Indicators.

Note: Figures in italics refer to periods other than those specified.

[1] Poverty headcount ratio at national poverty line updated from the Botswana 2002-2003 HIES.

[2] Data taken from the *Botswana Millennium Development Goals, Status Report*, 2004.

[3] Data taken from the *National AIDS Coordinating Agency, BAIS II*, 2004 and are for the entire population aged 18 months and above.

[4] The Directly Observed Treatment, Short-course (DOTS) is a WHO-recommended strategy for detection and cure of TB.

Appendix I. Exchange Rate Assessment[1]

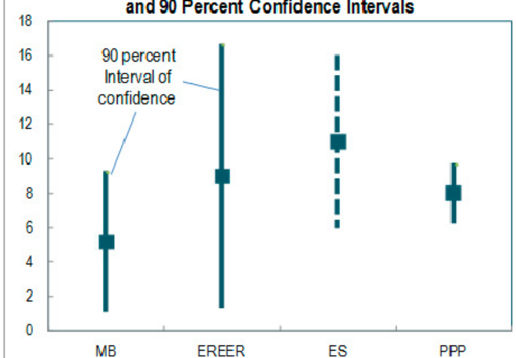
Different measures of exchange rate assessment provide evidence of some degree of overvaluation, although the misalignment is not in excess of 10 percent. Taking into account the confidence bands surrounding the various estimates, it is fair to conclude that by and large the real effective exchange rate (REER) is broadly in line with macroeconomic fundamentals from a medium-term perspective.

1. Alternative estimates suggest that the real effective exchange rate in Botswana is only slightly overvalued (Figure 1). In particular:

- Macroeconomic balance approach (MB): This approach assesses the exchange rate by estimating the gap between the underlying current account balance and its norm, taking into account Botswana's macroeconomic fundamentals. The degree of exchange rate under- or overvaluation is determined by the size of the gap and the elasticity of the current account relative to the real effective exchange rate. The MB indicates an overvalued exchange rate, in the order of 4–6 percent under the baseline scenario and 15–17 percent under the alternative scenario that assumes a delayed fiscal consolidation. This assessment assumes that fiscal consolidation proceeds as planned and that the overall budget balance returns to a moderate surplus over the medium term. The underlying current account balance is calculated to be consistent with the sustainable fiscal position under the NMPB approach.

- Equilibrium real exchange rate approach (EREER): This approach estimates the level of the equilibrium real exchange rate based on macroeconomic fundamentals and then compares it to the observed real exchange rate. The difference between the levels is the amount of under- or overvaluation of the real effective exchange rate. The EREER estimates that the exchange rate is currently overvalued by 9 percent.

Figure 1. Botswana: Exchange Rate Overvaluation Estimates and 90 Percent Confidence Intervals



1/ The exchange rate regime is a crawling peg, in which the pula is pegged to a basket of currencies comprising the SDR and South African rand. The regime is implemented through continuous adjustment of the trade-weighted nominal effective exchange rate of the pula at a rate of crawl based on the differential between Botswana's inflation objective and the forecast inflation of trading partner countries. The rate of crawl is thus determined using a forward-looking approach and is revised on a regular basis. In this forward-looking scheme, the authorities periodically determine the rate of crawl for the subsequent period, such as the next 6 or 12 months. Botswana maintains an exchange system free of restrictions on the making of payments and transfer for current international transactions.

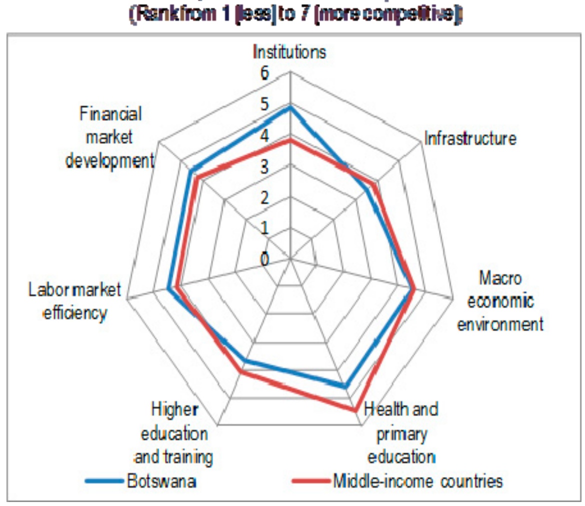
- External sustainability approach (ES): In the case of Botswana, this approach has been calibrated to calculate the norm current account balance consistent with a buildup of net foreign assets that takes into account the need to accumulate savings ahead of declining diamond receipts. In this case also, the gap between the underlying and norm current account balances reflects the degree of under- or overvaluation of the real effective exchange rate. The ES approach indicates that the exchange rate is overvalued by 11 percent.

- The purchasing power parity approach (PPP): Proposed by Rodrick (2008), this approach builds a stylized model following three steps: (i) define the concept of relative prices using the PPP approach (PPP exchange rate); (ii) estimate a panel regression of the ratio of the PPP exchange rate to the market exchange rate as a function of GDP per capita at "PPP dollars" and (iii) evaluate the residual of the model to determine the degree of misalignment. The PPP approach shows an exchange rate that is overvalued by about 8 percent in 2010.

2. Other non-price competitiveness indicators suggest that Botswana is close to its peer countries in terms of overall competitiveness (Figure 2). It scores slightly above average compared to other middle-income countries (MICs) in terms of strength of institutions, financial market development, and labor market flexibility. Still on other metrics it scores below the average for MICs worldwide. For example, health and education are below middle-income average. Infrastructure and macroeconomic environment scores are broadly in line with countries with similar income level and characteristics.

3. In general, Botswana has the conditions to be as competitive as other middle-income countries. Improving the return on investment in tertiary education is important to placing the country in a competitive position as the economy moves beyond the diamond sector.

Figure 2. Botswana and Other Middle-Income Countries: Competitiveness Indicators, 2010.
(Rank from 1 (less) to 7 (more competitive))

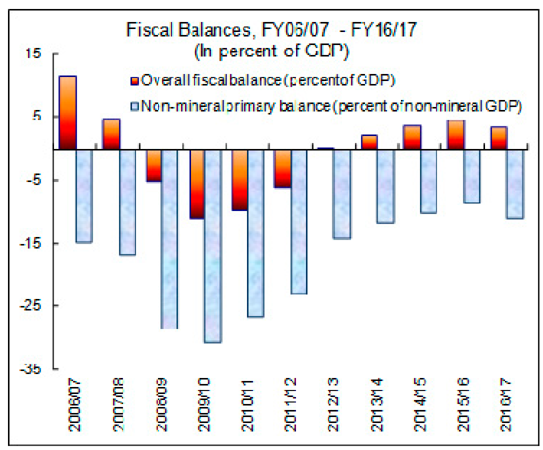


Source: World Economic Forum.

Appendix II: Long-Term Fiscal Sustainability Benchmarks

1. This appendix applies the permanent income hypothesis framework to derive numerical benchmarks to guide Botswana's medium-term fiscal policy toward the goal of long-term fiscal sustainability.[1] A key long-term fiscal challenge facing producers of exhaustible natural resources is to decide how to allocate government wealth (including mineral wealth) across generations. This challenge is met by targeting a fiscal policy that preserves the government wealth. The standard permanent income hypothesis (PIH) argues that the preservation of wealth would require that spending in each period be limited to the permanent income or the implicit return on government wealth. To compute this "permanent" income, the projected stream of mineral revenues is transformed into a hypothetical annuity with the same net present value as the revenues. The annuity reflects the permanent portion of the country's mineral wealth. The benchmark amount of spending that the government can then permanently sustain is equal to the sum of the annuity and non-mineral revenues. The benchmark fiscal balance is then calculated by setting annual expenditures equal to this level and saving the difference between actual and the hypothetical annuitized mineral revenues.

2. The numerical exercises in the appendix compare the staff's medium-term fiscal projections (which are consistent with the government's fiscal framework) against the fiscal benchmarks derived from the PIH approach. The staff projections assume the reaching of a balanced budget by FY2012/13, along a steady, but gradual, diamond market recovery.



3. The benchmarks derived from the PIH suggest that Botswana's current fiscal position is not sustainable. Under the baseline scenario (scenario (a) in Table 1 below) in which the annuity is held constant as a share of non-mineral GDP, the sustainable non-mineral primary deficit is 8.1 percent of non-mineral GDP. This deficit is consistent with a spending level of 27 percent of GDP on average from FY2011/12 to FY2015/16, which is lower than the staff's medium-term

1/ This follows the same methodology used by Clausen (2008) and applied to Botswana in the Article IV staff reports since 2007.

expenditure projections of 30.7 percent of GDP for the same period. The benchmarks non-mineral primary deficits average about 10 percent of GDP between FY2011/12 and FY2015/16, when we assume a more optimistic rate of return on mineral wealth (scenario (b)) or higher non-mineral revenues (scenario (c)). When the annuity is held constant in real per capita terms (scenario (d)), or simply in real terms (scenario (e)), the sustainable non-mineral primary deficits are wider initially, but narrow gradually to a range of 9 to 11 percent of non-mineral GDP by 2015-16. The assumptions used to calculate the benchmarks are summarized in Box 1.

4. **The robustness of the PIH benchmarks was confirmed against structural budget deficit estimates prepared using Chile's structural fiscal balance approach**. Staff estimates suggest that the sustainable structural balance path for Botswana is closely correlated with the path for the non-mineral primary deficit derived using the PIH framework (Table 2). The structural balance is defined as the difference between the expected structural mining revenues and the expected non-mining structural expenditures. Expected structural mining revenues are those derived by assuming that the economy is operating at its potential and diamond prices are at their long-term levels.

Table 1. Medium-Term Fiscal Outlook and Sustainability Benchmarks

	Nonmining Primary Balance		Overall Balance	
	2010/11	2015/16	2010/11	2015/16
	(Percent of nonmining GDP)		(Percent of GDP)	
Staff projections	-22.8	-9.3	-5.8	4.1
Sustainability benchmarks:				
Revenue projections minus expenditure that follows "permanent" income				
(a) Baseline assumptions	-8.1	-8.1	4.2	4.9
Baseline revenues[1] and baseline interest rate assumption				
(b) Conservative assumptions	-9.6	-9.6	3.2	3.9
Baseline revenues and optimistic interest rate assumption				
(c) Optimistic assumptions	-10.0	-10.0	2.9	3.6
Optimistic mineral and non-mineral revenues and optimistic interest rate assumption				
(d) Constant per capita purchasing power	-11.2	-9.0	2.1	4.2
Baseline assumptions				
(e) Constant real purchase power	-13.8	-10.7	0.3	3.1
Baseline assumptions				

Source: IMF staff calculations.

Table 2. Structural Balance Estimates, 2009/10–2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	(In percent of non-mining GDP)						
Structural revenues	36.9	32.5	34.6	36.2	38.4	39.6	39.8
Structural Expenditures	63.5	53.6	51.1	49.7	48.3	47.5	46.1
Structural balance	-26.6	-21.1	-16.5	-13.5	-9.9	-7.9	-6.3
Memo item:							
Rolling correlation with NMPB under PIH framework	0.712	0.744	0.721	0.703	0.759	0.771	0.762

Source: IMF staff estimates.

Box 1. Botswana: Assumptions Used to Calculate Benchmarks

Production of diamonds reaches a peak of 31 million carats in 2017 and begins a sharp decline from 2020.

- The nominal US dollar price of diamonds is adjusted annually by the rate of change in the CPI of the advanced economies, so it stays constant in real terms. The dollar price is converted to pula using the period average nominal exchange rate.
- The initial stock of wealth accumulated into the pula fund is 47 percent of GDP at end-December 2011. This is added to the value of mineral wealth still in the ground in calculating the total value of mineral wealth.
- The real return on mineral wealth is 4.2 percent, based on the average real return of the Norwegian Pension Fund over the last 10 years.
- The income from annuitized diamond revenue is spread until 2050.
- The annuity is assumed to stay constant in terms of real non-mining GDP.

The Pula Fund

The Pula Fund was originally established in November 1993 under the Bank of Botswana Act (1975). It was re-established in its current form under the Bank of Botswana Act (1996) to provide greater flexibility in the management of international reserves, and greater certainty in the forecasting of annual "dividend" payments to the government from the BoB. The Act came into operation on January 1, 1997.

Under the Act, Botswana's international reserves are split into two portfolios: (i) the Liquidity Portfolio, to provide the foreign exchange needed for normal day to day international transactions; and (ii) the Pula Fund, to be invested in long-term assets to achieve higher returns. The Pula Fund, managed by the BoB, is composed of the Government Investment Account (GIA), which reflects both savings from accumulated fiscal surpluses and inflows of additional of government debt, together with the broader accumulation of national savings in excess of the BoB's target for liquid reserves. This target is based on six months of import cover, and when import cover deviates from this level by more than three months in either direction resources are transferred, as appropriate, into or out of the liquidity portfolio. Pula Fund assets are invested in long-term instruments overseas across a range of major currencies and in a mixture of long-term fixed income securities and equities. The Act charges the BoB with managing and determining investment policy of, and the payment of dividends accruing from, the Pula Fund, in consultation with the Minister of Finance and Development Planning. Together with the Liquidity Portfolio, the Pula Fund has been held with a global custodian since 1993.

While the Act provides a legal framework for the establishment, management, and auditing of the Fund, it does not specify the objective of the Fund in the context of overall fiscal policy and rules on the operation of the Pula Fund, particularly concerning payments into the Fund, withdrawals from it, and their uses. However, since its inception it has been broadly understood that as well as serving as a revenue stabilization fund, the Pula Fund is a fund for future generations that provides a holding ground for subsequent domestic investment when productive opportunities for such investment are identified.

INTERNATIONAL MONETARY FUND

BOTSWANA

July 11, 2011

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

African Department

CONTENTS

TABLES

FUND RELATIONS

As of May 31, 2011

Membership Status

Joined July 24, 1968; Article VIII

General resources account	SDR (million)	Percent of Quota
Quota	87.80	100.00
Fund holdings of currenty	63.13	71.91
Reserve position in Fund	24.68	28.10

SDR Department	SDR (million)	Percent of Quota
Net cumulative allocation	57.43	100.00
Holdings	86.88	151.28

Outstanding Purchases and Loans None

Financial Arrangements None

Project Obligations to Fund None

Implementation of HIPC Initiative None

Exchange Rate Arrangements

The exchange rate of the Botswana pula is a crawling peg arrangement against a basket of currencies. As of June 15, 2011, the exchange rate of the U.S. dollar to the pula was US$1= P6.519, and that of the South African rand to the pula was R1=P0.96284.

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 July 27, 2010.

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
LEG	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
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)
	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
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	IMF-World Bank Financial Sector Assessment Program (FSAP)
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

JOINT WORLD BANK AND IMF WORK PROGRAM

As of June 14, 2011

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		FY10 (approved)
	2. HIV/AIDS Project		Bank Board Q1, FY09 (approved)
	3. Integrated Transport Project		Bank Board Q4, FY09 (approved)
	4. Northern Botswana Human-Wildlife Coexistence (Global Environment Facility)		Q2, FY10 (approved)
	5. Statistics/Capacity-building		
	• Strengthening Monitoring and Evaluation capacity for Vision 2016 Council (IDF Grant)		FY12; ongoing
	• Strengthening Institute & Accountants (IDF Grant)		FY12; ongoing
	6. Carbon Capture and Storage TA		FY11; ongoing
	7. Post ICA Follow-up— Microenterprises		FY10; completed
	8. Public Expenditure Review		
	9. FBSA Technical Advisory Services (Phases 1 & 2)		FY 10; completed
	10. Sustainable Development (SDN) Policy Notes		Phase 1 completed FY10, Phase 2 completed FY11
	11. PER/PFM Reform (TA)		FY11; completed
	12. Development Policy Review (DPR): Competitiveness, Diversification and Growth		FY12
	13. Skills Gap/Labor Markets		FY12; ongoing

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	14. Assistance to Statistics Botswana in developing a new Poverty Datum Line; including capacity building		FY11; ongoing
	15. Capacity Building in Nonbank Financial Institutions (TA); further capacity building being undertaken (pension funds, insurance; capital markets)		FY10; completed FY12; ongoing
	16. Issues Note on Accrual Accounting		FY11; ongoing
	17. Country Program Strategy (CPS) Progress Report		FY12
	18. Medium Term Debt Management Strategy (MTDS)		FY10; completed
IMF work program in the next 12 months	STA TA on balance of payments and government financial statistics	Ongoing FY 2012	
	MCM TA on nonbank supervision, central bank risk management, and monetary operations, including assistance in moving on inflation forecasting and modeling.	Ongoing FY 2012	
	FAD TA Follow up on PFM scoping mission	Expected FY 2012	
	Article IV Consultation	May 2012	

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: On November 30, 2010, the government of Botswana gazetted the commencement of the Statistics Act of 2009. Under the Act, the Central Statistics Office (CSO), which had been a department of the Ministry of Finance and Development Planning, was transformed into Statistics Botswana (SB), responsible for the country's statistical system. SB will operate independently of the Ministry of Finance and Development Planning, with its own board of Directors. 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. A national population census is scheduled to begin the current fiscal year.
National Accounts: National accounts estimation has not kept pace with changes to the structure of the economy and needs to be rebased (the current base year is 1993/94). The Household Income and Expenditure Survey (HIES) (2002/03) and Labor Force Survey (2005/06) are out of date. More frequent surveys would support a more robust estimation of private consumption and 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. Estimates from an outdated HIES are currently used for the weights of market expenditure for goods and services. Compilation challenges include undertaking a new HIES (ongoing) and 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 in an aggregate form. 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 (NBFI), 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 NBFI 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 national accounts data concerning: (i) the valuation of diamond exports and (ii) imports, exports, and payments related to settlements within the Southern African Customs Union (SACU). Large errors and omissions in the 2008–2010 balance of payments statistics have complicated the assessment of external sustainability.

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.

External Debt: Public external debt data are of good quality and but timeliness could be improved (the latest published data is for March 2009).

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 June 15, 2011)

	Date of Latest Observation	Date Received	Frequency of Data [1]	Frequency of Reporting [1]	Frequency of Publication [1]	Memo Items: Data Quality—Methodological Soundness [2]	Memo Items: Data Quality—Accuracy and Reliability [3]
Exchange rates	6/15/2011	6/15/2011	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities [4]	Mar 2011	May 2011	M	M	M		
Reserve/base money	Mar 2011	May 2011	M	M	M	O, O, LO, O	LNO, O, LO, LO, LO
Broad money	Mar 2011	June 2011	M	M	M		
Central bank balance sheet	Mar 2011	Mar 2011	M	M	M		
Consolidated balance sheet of the banking system	Mar 2011	June 2011	M		M		
Interest rates [5]	6/15/2011	6/15/2011	D	D	D		
Consumer price index	May 2011	June 2011	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	March 2011	July 2011	A/Q/M	Q	Q		
Stocks of central government and central government-guaranteed debt [8]	March 2011	July 2011	A	A	A		
External current account balance	2010 Q4	July 2011	A/Q	A	A	O, O, O, LO	LO, LO, LNO, O, LO
Exports and imports of goods	March 2011	May 2011	M	M	M		
GDP/GNP	2010 Q4	April 2011	A/Q	A/Q	A/Q	LO, LO, LNO, LO	LO, LO, LNO, LO, LO
Gross external debt	March 2011	July 2011	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.

INTERNATIONAL MONETARY FUND

BOTSWANA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

July, 11, 2011

Approved By
Sharmini Coorey and Dhaneshwar Ghura

Prepared by the Staff Representatives for the 2011 Consultation with Botswana

MEDIUM-TERM PUBLIC DEBT SUSTAINABILITY ANALYSIS

Compared with 2009/10, Botswana's gross public debt remained mainly unchanged in absolute pula values in 2010/11. As a share of GDP, the debt declined from 17 to 13.8 percent. About 77 percent of the debt is owed to bilateral and multilateral foreign creditors, while the rest is domestic debt.

Botswana has had a historically low level of public debt thanks to prudent macroeconomic policies that resulted in a substantial accumulation of international reserves, including the Pula Fund. The large fiscal imbalances that developed in the context of countercyclical policies implemented in response to the global financial crisis were largely financed by a drawdown of government deposits in the Bank of Botswana rather than through large increases in debt.

The baseline scenario underlying the staff's macroeconomic framework assumes a sharp adjustment in the primary balance that shifts from a deficit of 9.5 percent of GDP in 2010/11 to a surplus of about 6 percent of GDP in 2016/17. This adjustment mainly reflects a sharp contraction in primary expenditure that reinforces increases in tax revenue. By 2016/17, the stock of gross public debt is projected at 8.3 percent of GDP.

Table 2 presents two alternative scenarios:

- The first scenario shows the fiscal outcome if real GDP growth, real interest rates, and the primary balance are maintained at their historical 10-year averages. In this case, the recent deterioration in primary balances constitutes the main driver of the debt dynamics and leads to a steady increase in the public debt-to-GDP ratio.
- The second scenario shows the fiscal outcome if the primary fiscal balance is held constant at its 2010/11 peak level (-9.5 percent of GDP) throughout the medium-term. In this case, public debt rises sharply to 53 percent of GDP by 2016/17—more than twice the debt-to-GDP ratio reached under the first scenario—thus underscoring the downside risk of delay or failure to reduce expenditure to more sustainable levels.

The bounds tests illustrate the sensitivity of the public debt-to-GDP ratio to exogenous shocks (Figure 1). The most benign shock is that stemming from an increase in real interest rates, which results in a 3 percentage points increase in the debt-to-GDP ratio relative to the baseline. A worsening in the 10-year historical average primary balance by one standard deviation results in a 16 percentage points increase in the debt-to-GDP ratio.

Table 2. Botswana: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	5.4	7.1	6.4	16.1	13.2	**15.6**	**14.0**	**12.4**	**10.8**	**9.4**	**8.1**	**0.0**
o/w foreign-currency denominated	3.1	2.4	2.3	10.7	10.1	13.6	12.3	10.9	9.5	8.1	7.0	
Change in public sector debt	-1.6	1.8	-0.8	9.7	-2.8	2.4	-1.6	-1.5	-1.6	-1.4	-1.3	
Identified debt-creating flows (4+7+12)	-11.2	-6.7	2.1	10.0	6.2	4.6	-0.5	-3.2	-4.2	-4.8	-6.0	
Primary deficit	-10.5	-6.3	2.6	9.1	9.1	6.0	0.7	-2.2	-3.7	-4.4	-5.7	
Revenue and grants	38.3	35.4	33.5	34.7	28.8	29.1	30.1	30.7	31.3	31.3	31.5	
Primary (noninterest) expenditure	27.8	29.1	36.1	43.8	37.9	35.1	30.8	28.5	27.6	26.9	25.8	
Automatic debt dynamics 2/	-0.7	-0.4	-0.4	0.9	-2.9	-1.4	-1.2	-1.0	-0.5	-0.4	-0.3	
Contribution from interest rate/growth differential 3/	-1.0	-0.4	-1.0	1.2	-2.6	-1.4	-1.2	-1.0	-0.5	-0.4	-0.3	
Of which contribution from real interest rate	-0.8	-0.2	-0.8	0.8	-1.6	-0.7	-0.4	-0.1	0.0	0.0	0.1	
Of which contribution from real GDP growth	-0.3	-0.2	-0.2	0.4	-0.9	-0.7	-0.8	-0.9	-0.6	-0.4	-0.4	
Contribution from exchange rate depreciation 4/	0.3	0.0	0.5	-0.3	-0.3	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	9.6	8.5	-2.9	-0.3	-9.1	-2.2	-1.1	1.7	2.6	3.3	4.7	
Public sector debt-to-revenue ratio 1/	14.0	20.1	19.0	46.3	45.9	53.5	46.3	40.5	34.7	30.0	25.7	
Gross financing need 6/	-5.0	-8.4	-5.1	3.3	8.2	8.4	5.9	1.3	-0.9	-2.2	-3.0	
in billions of U.S. dollars	-590.1	-1091.0	-668.0	405.9	1262.2	1415.7	1062.7	258.8	-196.1	-495.6	-708.3	
Scenario with key variables at their historical averages 7/						**15.6**	**13.2**	**13.8**	**15.3**	**17.6**	**21.3**	**-1.0**
Scenario with no policy change (constant primary balance) in 2011-2016						**15.6**	**19.2**	**25.5**	**33.2**	**41.7**	**51.8**	**-0.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.1	4.8	3.0	-4.9	7.2	6.5	5.5	7.1	5.1	4.4	4.7	
Average nominal interest rate on public debt (in percent) 8/	6.6	6.7	4.8	6.1	3.4	3.9	4.2	5.3	5.5	5.6	6.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-12.6	-3.7	-12.7	12.2	-11.3	-5.6	-2.5	-0.3	0.6	0.6	1.4	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-8.6	0.4	-20.1	12.7	3.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	19.1	10.4	17.6	-6.1	14.7	9.5	6.7	5.6	5.0	5.0	5.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.8	11.4	17.9	25.5	-8.8	-2.4	-7.2	-2.0	1.8	1.9	0.0	
Primary deficit	-10.5	-6.3	2.6	9.1	9.1	6.0	0.7	-2.2	-3.7	-4.4	-5.7	

1/ Central government data as of end-March (i.e., 2011 refers to FY2011/12).

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

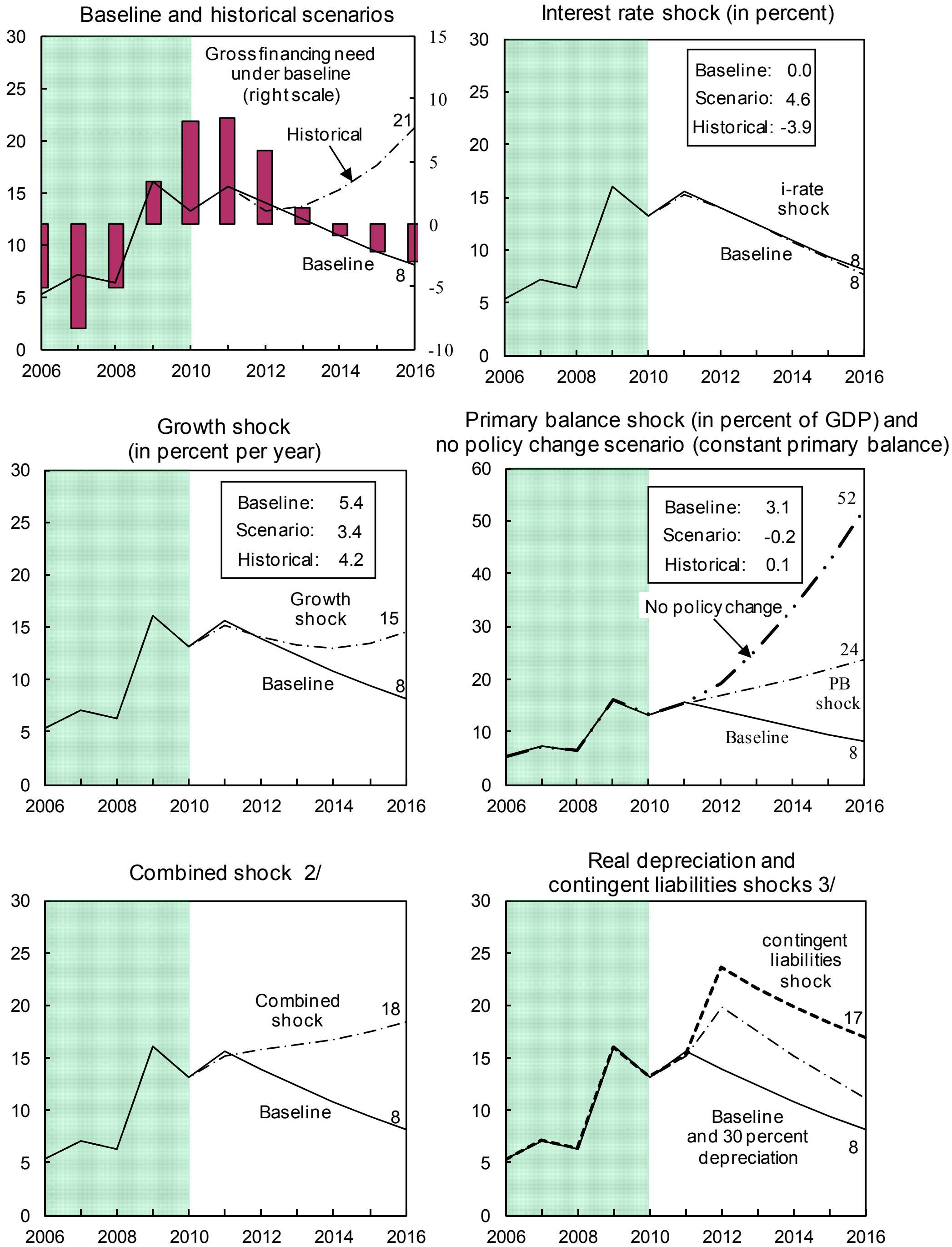
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ 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 Debt Sustainability: Bound Tests 1/
(Public 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

MEDIUM–TERM EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Botswana's gross external debt increased from US$2.7 billion in 2009 to US$3.5 billion in 2010, but remained unchanged as a share of GDP in those two years. The nominal increase in the debt mainly reflected external borrowing by the Botswana Power Corporation to finance the construction of the Moropule B energy plant and loan disbursements from the World Bank to cover an array of social and institution-building programs. The latter included, among others, the development of databases at Statistics Botswana, capacity-building initiatives at NBFIRA, and a medium-term debt strategy at the Ministry of Finance and Development Planning.

The stock of Botswana's gross external debt is projected to gradually decline from a peak of about 23 percent of GDP in 2009/2010 to about 7 percent of GDP in 2016 (Table 3). Prospective fiscal consolidation in an environment of robust export growth, steady improvement in international terms of trade, and FDI inflows should support a reduction in the external debt ratio.

Staff's scenarios assuming that key debt-creating variables remain at their historical levels portrait a situation in which Botswana could become a net creditor vis-à-vis the rest of the world over the medium-term, thus improving over the baseline projections (Figure 2).

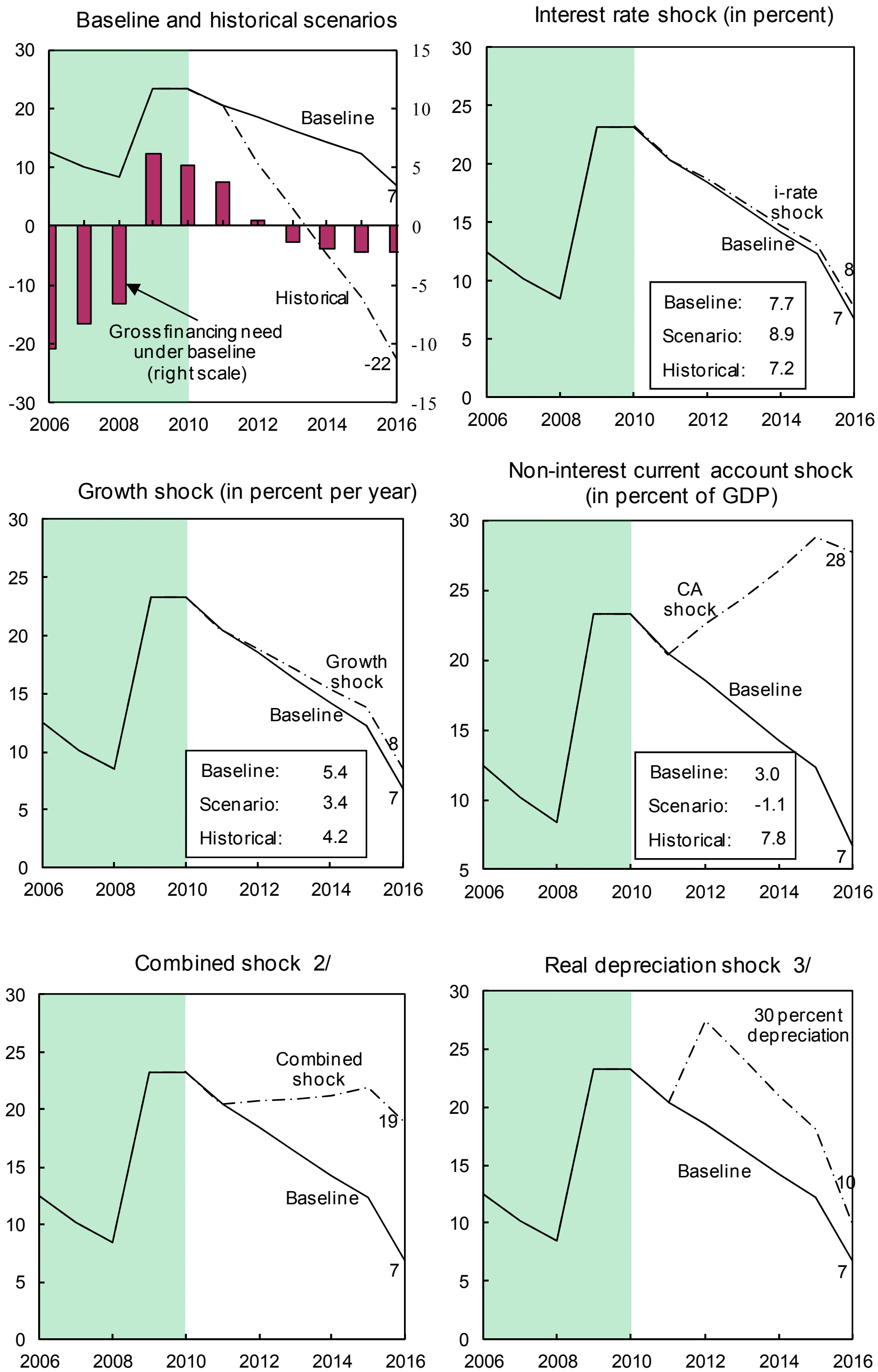
Simulations suggest that Botswana's external debt-to-GDP ratio is robust to shocks in interest rates and economic activity. Botswana's greatest vulnerability is with respect to a shock to the current account balance. A real depreciation shock would lead to a temporary increase in the external debt-to-GDP ratio that would gradually fade over the medium-term.

Table 3. Botswana: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	12.5	10.1	8.4	23.3	23.2	**20.4**	**18.5**	**16.3**	**14.2**	**12.3**	**6.8**	**-2.9**
Change in external debt	-1.2	-2.3	-1.7	14.8	0.0	-2.8	-1.9	-2.2	-2.1	-1.9	-5.5	
Identified external debt-creating flows (4+8+9)	-23.0	-20.2	-11.4	3.8	-3.2	-1.5	-4.3	-6.1	-6.4	-6.4	-6.2	
Current account deficit, excluding interest payments	-18.2	-15.9	-7.7	4.9	4.6	2.4	-1.2	-2.8	-3.6	-3.8	-3.6	
Deficit in balance of goods and services	-16.3	-12.0	-3.8	11.6	6.8	3.7	1.6	0.5	-0.4	-0.7	-0.7	
Exports	47.0	47.5	42.0	31.8	32.9	33.5	33.3	32.0	31.4	30.7	30.3	
Imports	30.7	35.4	38.2	43.4	39.7	37.2	34.9	32.5	31.0	30.1	29.6	
Net non-debt creating capital inflows (negative)	-4.6	-4.1	-3.6	-3.5	-2.8	-3.7	-3.5	-3.3	-3.2	-3.1	-3.0	
Automatic debt dynamics 1/	-0.1	-0.1	-0.1	2.4	-4.9	-0.3	0.4	0.0	0.4	0.5	0.4	
Contribution from nominal interest rate	1.0	0.9	0.8	0.9	0.3	1.1	1.4	1.2	1.1	1.1	1.0	
Contribution from real GDP growth	-0.6	-0.5	-0.3	0.5	-1.3	-1.4	-1.1	-1.2	-0.8	-0.6	-0.5	
Contribution from price and exchange rate changes 2/	-0.5	-0.5	-0.6	1.0	-3.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	21.8	17.8	9.6	11.0	3.1	-1.3	2.4	3.9	4.3	4.5	0.7	
External debt-to-exports ratio (in percent)	26.6	21.4	20.1	73.1	70.5	60.9	55.6	51.0	45.2	39.9	22.4	
Gross external financing need (in billions of US dollars) 4/	-1180.4	-1019.8	-895.8	713.1	771.4	610.8	81.6	-264.6	-392.9	-462.8	-496.7	
in percent of GDP	-10.4	-8.2	-6.6	6.2	5.2	3.8	0.5	-1.4	-1.9	-2.2	-2.2	
Scenario with key variables at their historical averages 5/						**20.4**	**10.7**	**2.8**	**-4.7**	**-12.0**	**-22.5**	**-3.1**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.1	4.8	3.0	-4.9	7.2	6.5	5.5	7.1	5.1	4.4	4.7	
GDP deflator in US dollars (change in percent)	3.7	4.6	6.5	-10.7	20.3	2.6	1.2	1.9	1.5	1.2	1.3	
Nominal external interest rate (in percent)	8.1	8.3	8.5	8.8	1.8	5.2	7.5	7.3	7.4	7.9	8.2	
Growth of exports (US dollar terms, in percent)	-0.3	10.6	-2.9	-35.7	33.6	11.1	6.1	5.0	4.7	3.4	4.5	
Growth of imports (US dollar terms, in percent)	-3.3	26.6	18.2	-3.5	18.1	2.2	0.1	1.7	1.8	2.6	4.4	
Current account balance, excluding interest payments	18.2	15.9	7.7	-4.9	-4.6	-2.4	1.2	2.8	3.6	3.8	3.6	
Net non-debt creating capital inflows	4.6	4.1	3.6	3.5	2.8	3.7	3.5	3.3	3.2	3.1	3.0	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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. Botswana: External Debt Sustainability: Bound Tests 1/
(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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2011.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

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August 2, 2011

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

IMF Executive Board Concludes 2011 Article IV Consultation with Botswana

On July 29, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Botswana.[1]

Background

Botswana's economy staged an impressive recovery during the past year. Since the second quarter of 2010, the pace of economic growth has been one of the strongest among middle-income countries. The recovery was led by the diamond sector which was propelled by rapidly rising prices for rough diamonds in international markets. The non-mining sector growth has also been solid, notwithstanding the deceleration of public expenditure growth.

Despite the recovery, underlying inflation pressures remain contained. Consumer price inflation (year-on-year) rose from about 7 percent at end-2010 to 8.3 percent as of May 2011, but driven almost exclusively by cost-push factors related to food and fuel price shocks and the impact of increases in administered tariffs and fees on the provision of electricity and health services. Core inflation (excluding food, fuel and administered prices) has not shown a trend increase in the last few months.

[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. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The strong economic recovery has helped stabilize financial market conditions. Credit growth to households has picked up somewhat but is still well below pre-crisis levels. Arrears on bank lending, which rose significantly during 2009, stabilized during 2010 and by September 2010 had fallen somewhat due to lower levels of non-performing loans to businesses. Banking sector profitability should improve over time as banks are now seeking efficiencies in cost-to-income ratios and net interest margins, rather than in growing assets and liabilities.

The fiscal position has improved. The estimated fiscal outturn in FY2010/11 was better than expected with a deficit close to 10 percent of GDP, compared to the original budget target of 12 percent of GDP. The non-mineral primary deficit declined from about 31 percent of non-mineral GDP in 2009/10 to 27 percent in FY2010/11. The adjustment reflects a sharp decline in the growth of overall government spending which more than compensated for reduced customs revenues (as net repayments to the Southern Africa Customs Union-SACU Common Revenue Pool were made in 2010) and slow growth of income taxes from the non-mineral economy. Spending cuts were centered in central government transfers to other public bodies and in development spending. The impact of the April 2010 increase in value-added tax (VAT) rates (from 10 to 12 percent) did not yield significant tax revenues.

The overall external position has also strengthened. Annual export growth (in dollar terms) was about 35 percent in 2010. Strong export growth led to a considerable narrowing of the trade deficit in 2010. Beyond diamonds, other minerals such as copper and nickel have benefitted from a strong surge in international prices. Outside mining, beef exports also rose in 2010, while the weakest performer continues to be the textile sector. The real effective exchange rate remained broadly unchanged over the last 12 months.

The medium-term outlook is for a recovery to be sustained, while inflation remains within the central bank's target band of 3 to 6 percent in the second half of 2012. Output growth is projected to average about 5.5 percent with an important contribution by sectors other than diamonds. The external current account balance is set to improve gradually. This reflects robust exports receipts from diamonds and other minerals, together with lower imports of energy and machinery and equipment due to the completion of existing projects and the planned downsizing of the government's public investment program. A recovery of SACU revenues should also support an improved current account balance over the medium-term.

Executive Board Assessment

Executive Directors commended the authorities for their prudent macroeconomic management and welcomed Botswana's strong economic recovery. Looking ahead, the key policy challenges are to reduce the size of government, strengthen the public sector institutional framework, diversify the economy and improve the quality of growth.

Directors broadly supported the authorities' neutral monetary policy stance given that at present there appears to be no concrete evidence of generalized price pressures in the domestic economy. However, if high global food and commodity prices begin to translate into economy-wide price pressures, the authorities should tighten the policy stance.

Directors agreed on the need for fiscal consolidation. They encouraged the authorities to move decisively on their fiscal plan to achieve a balanced budget by FY2012/13, largely centered on prioritizing and reducing government spending. It will be important to ensure that only high quality public investment projects are undertaken and that the growth of the wage bill and the large transfers on tertiary education are appropriately contained. Directors welcomed recent measures to reform the corporate income tax system, and called for additional efforts to increase the effective tax rate on the VAT through rationalizing tax exemptions and incentives and to broaden the tax base.

Directors saw merit in a new fiscal rule which focuses on a greater role of the non-mineral primary balance as a share of non-mineral GDP in the formulation of fiscal policy. Such a fiscal rule would help develop a more robust medium-term fiscal sustainability plan.

Directors welcomed the authorities' efforts to make fully operational the newly established financial stability unit at the Bank of Botswana, and strengthen the regulatory and supervisory framework for non-bank financial institutions.

Directors noted that Botswana faces the challenge of improving the quality of growth. They commended the authorities for their increased focus on poverty reduction and policy initiatives to enhance economic diversification and foster more inclusive growth. In particular, they supported measures to address skills mismatches in the labor market to tackle the high rate of unemployment. Directors noted that successful economic diversification will likely demand sizeable foreign direct investment in the non-mineral sector, which will require sustained efforts to improve the business environment, without impairing the tax base.

Botswana: Selected Economic and Financial Indicators, 2008–2011

	2008	2009	2010 Prel.	2011 Proj.
(Annual percentage change, unless otherwise indicated)				
National income and prices				
Real GDP [1]	3.0	-4.9	7.2	6.5
Mineral	-3.8	-21.0	7.0	8.8
Nonmineral [2]	7.9	4.5	5.4	5.6
Consumer prices (average)	12.6	8.1	6.9	7.8
Consumer prices (end of period)	13.7	5.8	7.4	7.2
Nominal GDP (billions of pula) [1]	92.0	82.1	100.9	117.6
Diamond production (millions of carats)	32.3	17.7	23.8	26.1
External sector				
Exports of goods and services, f.o.b. (US$)	-2.9	-35.7	33.6	11.1
Of which:				
Diamonds	-8.1	-30.3	36.4	11.2
Imports of goods and services, f.o.b. (US$)	18.2	-3.5	18.1	2.4
(Percentage change with respect to M2 at the beginning of the period)				
Money and banking				
Net foreign assets	37.8	-34.3	-17.5	30.6
Net domestic assets	-16.1	33.0	29.9	-16.8
Broad money (M2)	21.7	-1.3	12.5	13.9
Velocity (nonmineral GDP relative to M3)	1.4	1.6	1.6	1.6
Credit to the private sector	12.6	5.1	6.1	6.5
(In percent of GDP, unless otherwise indicated)				
Central government finances [3]				
Total revenue and grants	34.0	34.6	28.8	30.4
Total expenditure and net lending	39.3	45.5	38.5	36.2
Overall balance (deficit –)	-5.2	-10.9	-9.7	-5.8
Nonmineral primary balance[4]	-28.5	-30.6	-26.6	-23.0
Total central government debt	6.4	16.1	13.2	15.6
External sector				
Current account balance	6.9	-5.8	-4.9	-3.9
Balance of payments	8.0	-5.5	-5.5	3.1
External Public debt [5]	2.1	14.3	15.1	15.8
(In millions of US$, unless otherwise indicated)				
Change in reserves (increase –)	628	447	786	-499
Gross official reserves (end of period)	9,116	8,669	7,883	8,382
In months of imports of goods and services [6]	21.9	17.6	15.6	17.3
In percent of GDP	67.2	75.2	53.0	53.7

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 nonmineral primary balance is computed as the difference between nonmineral 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.

Statement by Mr. Majoro on Botswana
July 29, 2011

Botswana has made significant progress in developing its economy and building the necessary buffers. Good macroeconomic policy framework and management have aided the country in achieving its developmental goals. Botswana has been successful in implementing sound fiscal and monetary policies over the years and as a result, the country was better positioned to weather the global crisis. In spite of these achievements, challenges remain, which include high unemployment, poverty and HIV/AIDS. Albeit these challenges, the authorities have successfully maintained a low inflation environment, high gross official reserves and low debt ratios.

Economic Developments

The modest resurgence in global demand augured well for growth in 2010 with economic activity improving in both the mining and non-mining sectors. The economy is estimated to have grown by 7.2 percent in real terms. The mining sector grew by 7 percent supported by a recovery in the production of diamonds, nickel and copper. At the same time, construction, trade and finance and business services accounted to a large extent for the higher growth in non-mining output. Prospects for growth in the medium term remain positive with economic growth projection of 6.8 percent in 2011, underpinned by sustained recovery in emerging markets and a gradual recovery in the advanced economies. On the downside, the lingering effects of the global economic crisis and rising food and fuel prices will exert downward pressures on economic activity.

Inflationary pressures remained subdued in 2010 despite a rebounding economy and resurging global commodity prices. On average, headline inflation eased from the 2009 rate of 8.2 percent to 6.9 percent in 2010. Accounting for inflation were mostly increases in VAT from 10 to 12 percent and administered prices including electricity tariffs, fuel prices and public transport fares. Though inflation was above the medium term objective of 3-6 percent, it remained in single digits and is projected to remain subdued in 2011.

The balance of payments position improved from the 2009 position boosted by a recovery in mineral exports. Diamond production is expected to increase further in 2011 and 2012 as the mines reach full production. Additionally, higher mineral prices will bode well for export receipts. Botswana successfully accumulated significant reserves over the years; a consequence of sustained balance of payments surpluses, prudent fiscal management and investment guidelines. The authorities remain committed to a practical build up of reserves in order to replenish the buffers that were reduced during the global crisis. Foreign exchange reserves are still high by international standards at 17 months of import cover.

Fiscal Policy Issues

The global economic crisis dampened government revenues resulting in a wider government deficit. The authorities however endeavored to realign spending with available revenue by prioritizing expenditures and reducing transfers to other public bodies while protecting vulnerable groups. This coupled with a robust recovery in the diamond market resulted in a much improved outturn. The authorities aim to reduce the deficit to achieve a balanced budget by 2012/13. The reduction of the budget deficit will involve prioritizing and streamlining spending to ensure optimal use of resources and improving revenue. These will include outsourcing, merging of some parastatals, and realigning the development budget to focus on high return projects. Furthermore, the authorities intend to improve revenue collection, particularly tax revenue, by raising the effective tax rate to statutory level while improving tax administration. This will be preceded by a thorough analysis of the causes of the poor tax performance. The authorities have also put in place a Public Finance Management Reform Program that will improve accountability, transparency and management of the public spending.

Historically Botswana has implemented prudent macroeconomic policies which have augured well for economic growth. However the authorities are not oblivious of the existing and prospective economic and social challenges faced by the country which include high unemployment and poverty. In addition, the economy remains highly reliant on the mining sector in general and diamond mining in particular. Therefore the need to diversify the economy, reduce unemployment and poverty remains a key priority for the authorities. In this regard, the authorities are in agreement with staff and are determined to ensure that the fiscal spending is in line with these objectives. The authorities believe that focus on fiscal sustainability going forward will enhance their ability to implement a budget that is pro poor, strengthens financial stability and promotes inclusive growth. While staff advised on the need for a tighter fiscal rule which excludes mining revenues, my authorities recognize that a new fiscal rule may be necessary but believe that care should be exercised in determining the rule and in managing the transition. The authorities continue to rely on the sustainable budget index rule which sets aside mineral revenues for capital spending while non-mineral revenues finance recurrent spending.

Debt Management

Botswana has successfully maintained relatively low debt levels over the years, mainly a consequence of high diamond revenues and prudent expenditure policies. In addition, Botswana has always had legislated debt limits which have assisted in maintaining the debt at low levels. To facilitate proficiency in debt management, the authorities are putting in place a debt management strategy that is designed to realize an efficient financing mix without violating the legislated limits. The internal debt ratio is estimated at 6.4 percent of GDP while the external debt ratio is estimated at 19.1 percent of GDP.

Monetary and Financial Issues

Monetary policy was broadly accommodative in 2010 in light of the benign external inflationary pressures, below trend economic performance and subdued demand pressure. The Bank Rate was maintained at 10 percent for most of 2010 and reduced by 50 basis points in December 2010. To reduce excess liquidity, the authorities raised the primary reserve requirement (PRR) for commercial banks from 6.5 percent to 10 percent of total Pula deposits held at commercial banks. However, private sector credit was not affected as this only mopped up excess funds in the system.

The authorities remain mindful that high inflation erodes purchasing power of income and financial savings hence monetary policy continued to focus on price stability through containing inflation using the medium term objective range of 3-6 percent. A forecasting framework is in place to monitor inflation developments and inform the decision making with the aim of achieving a low and sustainable level of inflation. The challenge for monetary policy in the medium term is to ensure low inflation expectations given the external developments in global food and fuel prices.

The Banking system was cushioned from the first round effects of the financial crisis and remained adequately capitalized, liquid and profitable. Though non performing loans edged up slightly in 2010, they remain low. The authorities continue to monitor the developments in the banking system. The focus for the Bank of Botswana is to enhance supervision and oversight of the financial system with particular emphasis on the nonbank financial sector.

Growth Policy Issues

The latest plan, the tenth National Development Plan NDP 10 outlines in detail the country's development agenda with the overall objective to improve the quality of life for the Batswana people through reduction of poverty. Diversification of the economy which has been made urgent by the recent global economic crisis is one of the paramount pillars that will anchor implementation of the authorities' agenda. The authorities acknowledge that although previous plans had emphasized diversification of the economy, limited success has been achieved. The strategic policy in NDP 10 is therefore to accelerate diversification of the economy with the aim to reduce vulnerability to shocks, dependency on government and diamonds and enhance private sector-led growth. In this regard, the authorities are prepared to take every necessary measure to ensure that the strategy is successful. This will include acceleration of a more inclusive growth, addressing the skills mismatch in the labor market and improving the quality of infrastructure development and maintenance. Spending on education and infrastructure will continue to increase albeit at a lower rate. Accordingly, we call on the IMF and World Bank to support the authorities in achieving the objectives of the NDP 10 through providing more concrete ideas on fostering broad based growth and diversification of the economy.

In conclusion, I wish to reiterate the authorities' commitment to prudent macroeconomic management that has supported stability and growth in the past. My authorities are appreciative of the Fund's continued support and advice.