June 2010
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Botswana: 2009 Article IV Consultation—Staff Report; 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 2009 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 15, 2009, 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 2, 2009. 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 Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 20, 2009 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 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation with Botswana

Approved by Saul Lizondo and Dhaneshwar Ghura

July 2, 2009

- **Dates:** May 6–15, 2009. The mission met with Minister of Finance and Development Planning Gaolathe, Bank of Botswana Governor Mohohlo, other senior government officials, the donor community, and representatives of the private sector and civil society.

- **Team:** Mr. Thugge (head), Mr. Davoodi, Mr. Gaertner, Mr. Kpodar and Ms. Topak (all AFR). Ms. Mannathoko (OED) and a representative from the World Bank also attended some meetings.

- Botswana has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The exchange rate regime is a crawling peg against a basket of currencies.

- Botswana participates in the General Data Dissemination System; data provision is adequate for surveillance.

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Boxes

Glossary

AfDB	African Development Bank
ARV	Anti-Retroviral
BoB	Bank of Botswana
BoBCs	Bank of Botswana Certificates
EREER	Equilibrium real effective exchange rate
GDDS	General Data Dissemination System
MTEF	Medium-term expenditure framework
NBFIRA	Nonbank Financial Institutions Regulatory Authority
NDP10	National Development Plan 10
NMPD	Nonmining primary deficit
PIH	Permanent income hypothesis
REER	Real effective exchange rate
SARB	South African Reserve Bank
SDDS	Special Data Dissemination Standard
VAT	Value-added tax

EXECUTIVE SUMMARY

Background and outlook

- Sound macroeconomic management, underpinned by strong institutions and good governance, has sustained Botswana's strong macroeconomic performance in recent years. Real GDP growth averaged 4 percent over the past five years, with average fiscal and current account surpluses of 5 and 11 percent of GDP, respectively, over this period.

- However, the current global economic crisis has reduced demand for diamonds and contributed to a significant deterioration in the economic outlook. The economy is now projected to contract sharply in 2009, and large fiscal and external deficits are anticipated. Inflation has slowed considerably and is projected to fall to 7 percent by the end of 2009. In the medium-term, real GDP is expected to rebound as diamond output recovers, and two large electricity generation projects begin production.

Policy issues and authorities' response

- In light of rapid growth in spending in recent years, staff raised concerns about the quality of expenditure and the need to reduce it to a more sustainable level over the medium term. The authorities acknowledged there was some scope to improve spending efficiency, but emphasized the exceptional circumstances facing the country in 2009, and explained that development spending would decline as on-going infrastructure projects are completed.

- Staff recommended an alternative fiscal rule based on the nonmining primary deficit (NMPD) as a share of nonmining GDP rather than the current limit on overall expenditure relative to total GDP. This would provide a clearer indication of the underlying fiscal stance and medium-term fiscal sustainability. The authorities indicated that a revision to their fiscal rule to incorporate a link to non-mining GDP was being considered, but did not commit to an NMPD target.

- Staff concurred with the authorities' view that the weak outlook for growth and expected decline in inflation should allow further monetary policy easing.

- The financial sector has weathered the global economic downturn thus far, although non-performing loans have edged up. The authorities indicated that they are closely monitoring banks' loan portfolios and will be taking further steps to improve supervision of nonbank financial institutions.

- The sharp contraction in real GDP expected in 2009 underscores the need to accelerate structural reforms to increase productivity and economic diversification. The authorities' diversification strategy focuses on improving infrastructure in key sectors and investing in education and health to build up human capital and boost productivity.

I. Background

1. **Sound macroeconomic management, supported by strong institutions and good governance, has underpinned strong economic growth in Botswana for the past four decades.** Annual real GDP growth averaged nearly 10 percent per year from 1960 through 2008, supported by increased mining production and more recently by stronger growth in the nonmining economy as the mining sector has matured (Figure 1). As a result, real per capita income increased from US$250 in 1960 to US$4,800 in 2008 (in constant 2000 US$).

2. **Prudent management of diamond revenues, together with high minerals' prices, resulted in large fiscal and external surpluses in recent years.** International reserves rose to 21 months of imports of goods and services by end-2008, boosted by the accumulation of sizable fiscal savings.

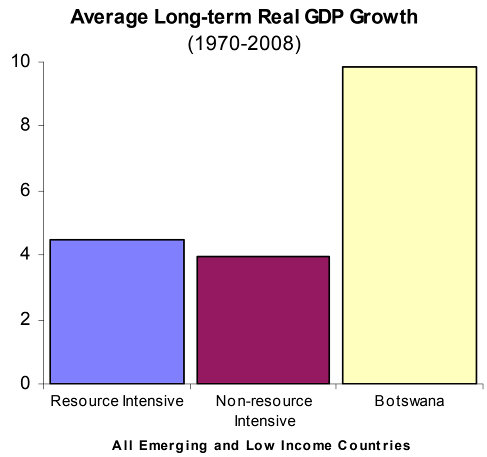
3. **Despite this impressive progress, considerable social challenges remain.** HIV/AIDS is a serious problem, while poverty, unemployment, and income inequality are all high for a middle-income country (see Text Tables 1 and 2). In addition, the economy continues to rely heavily on diamond mining, which is expected to decline after 2020. Greater progress on economic diversification will be critical to sustain high growth and reduce poverty and inequality.

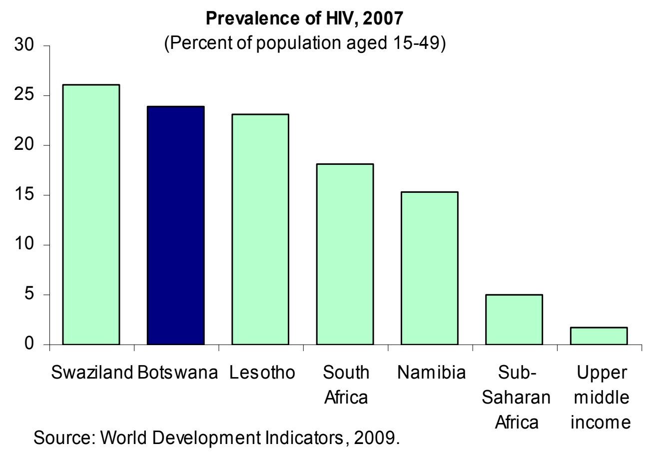
II. Recent Economic Developments

4. **After several years of robust growth, real GDP growth slowed to 2.9 percent in 2008 due to a decline in mining output (Figure 2).** Value added in the mining sector decreased by 3.7 percent in 2008 as demand for diamonds fell sharply in the fourth quarter. With demand for diamonds remaining weak in early 2009 and a significant amount of inventory accumulating, diamond mining was suspended from January through mid-April (Box 1).

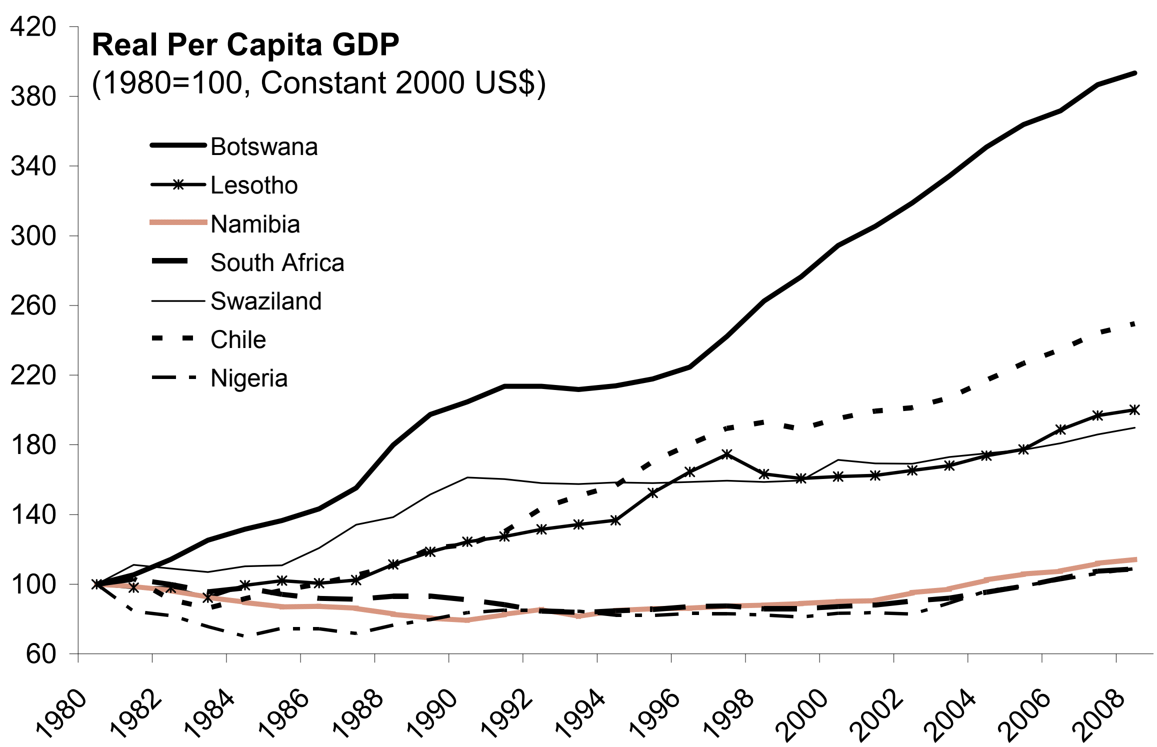
5. **The decline in diamond exports, together with a large increase in public infrastructure-related imports, reduced the current account surplus to 7 percent of GDP in 2008.** This compared with an average surplus of 15.6 percent of GDP during 2005-2007. International reserves declined from US$10 billion in mid-2008 to US$8.1 billion in March 2009, equivalent to 16 months of imports of goods and services.

Figure 1. Cross-Country Indicators





Source: World Development Indicators, 2009.



Source: World Development Indicators, 2009.

Sources: UN COMTRADE Database, Bank of Botswana, World Economic Outlook, and IMF staff calculations.

Text Table 1. Comparative Social Indicators, 2007

Country	GNI per Capita, (Atlas method, US$)	Total Life Expectancy at Birth (years)	Infant Mortality Rate (per 1,000 live births)	Prevalence of HIV (percent of population ages 15-49)	Primary School Completion Rate (percent of relevant age group) [2]	Population Growth (percent)
Botswana [1]	6,120	50.6	40	17.6	94.6	1.2
Chile	8,190	78.4	9	0.3	..	1.0
Lesotho	1,030	42.6	84	23.2	78.3	0.5
Malaysia	6,420	74.3	11	0.5	98.3	1.7
Mexico	9,400	74.9	35	0.3	103.6	1.0
Namibia	3,450	52.8	68	15.3	77.1	1.6
Poland	9,850	75.1	7	0.1	96.8	-0.1
South Africa	5,720	50.5	59	18.1	92.2	1.0
Swaziland	2,560	39.6	91	26.1	58.6	0.7
Sub-Saharan Africa	951	50.8	146	5.0	59.9	2.4
Upper middle income	7,107	71.0	24	1.7	100.6	0.7
World	7,995	68.8	68	0.8	86.3	1.2

Source: World Development Indicators database, 2009.

[1] For Botswana, the data on HIV prevalance are from the *National AIDS Coordinating Agency, BAIS III*, 2008 and are for the entire population aged 18 months and above.
[2] Latest data available. A figure above 100 percent indicates that some students repeat their primary education.

Text Table 2. Income Distribution, Poverty, and Unemployment

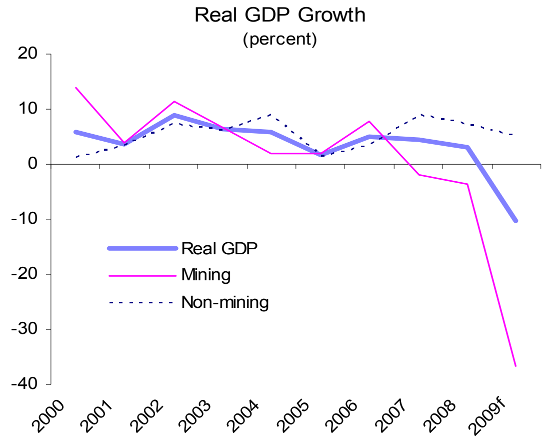
Country	Gini Index [1]	Poverty [2]	Unemployment [3]
		(Percent)	
Botswana	61	22.3	17.6
Chile	52	0.5	8.9
Lesotho	53	33.0	27.3
Malaysia	38	1.4	3.1
Mexico	48	1.0	3.4
Namibia	74	36.5	21.9
Poland	35	0.5	9.6
South Africa	58	18.3	23.0
Swaziland	51	45.8	22.5
Sub-saharan Africa	…	…	…
Upper middle income	…	…	8.7
World	…	….	6.4

Source: World Bank, World Development Indicators 2009.
Note: Most of the data refer to 2007; the latest data available has been used for others.

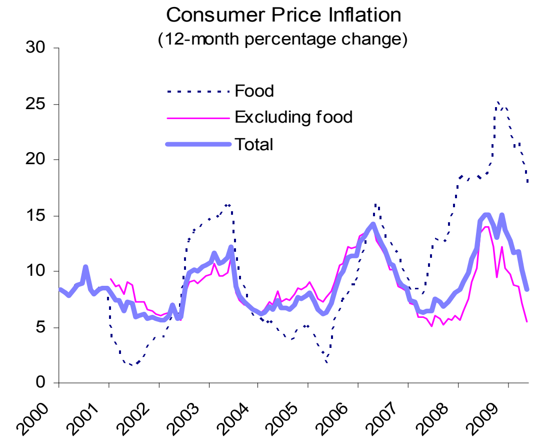
[1] A measure of distribution of income, where 0 represents perfect equality and 100 represents perfect inequality. For Botswana, the figure represents cash income only.
[2] Poverty at below $2/day PPP basis.
[3] The figure for Botswana is from the 2005-2006 Labour Force Survey.

Figure 2. Macroeconomic Developments

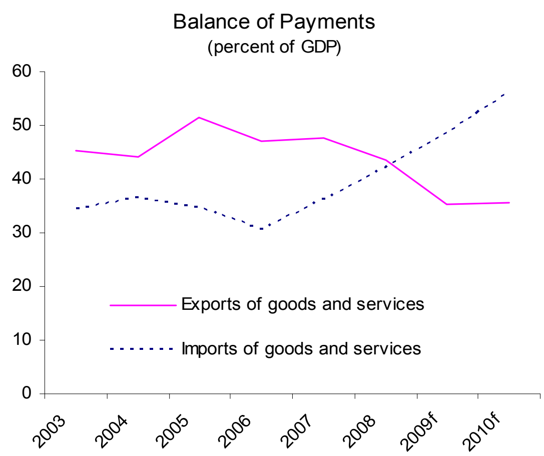
Real GDP is likely to contract in 2009 as mining output falls …



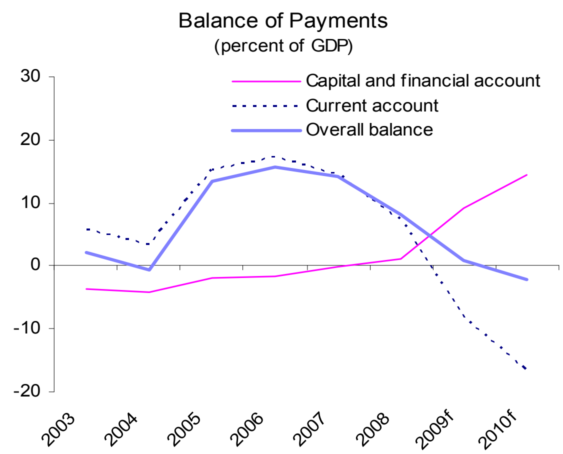
… but inflation has begun to moderate in line with food and energy prices.



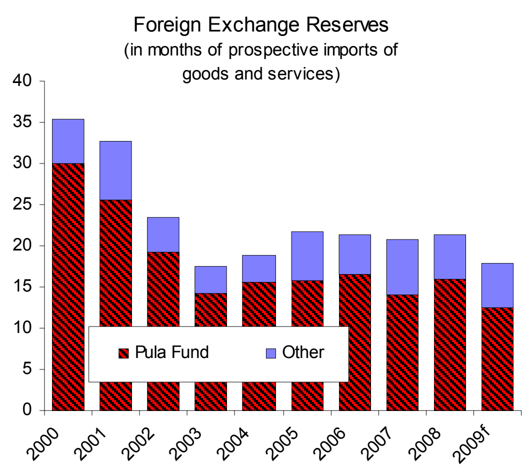
An increase in investment-related imports, together with falling mineral exports, …



… is likely to result in large current account deficits in 2009-10.



Reserve coverage is projected to decline in 2009, but should remain at a comfortable level.



External debt remains relatively low, but it will increase considerably in 2009-10.

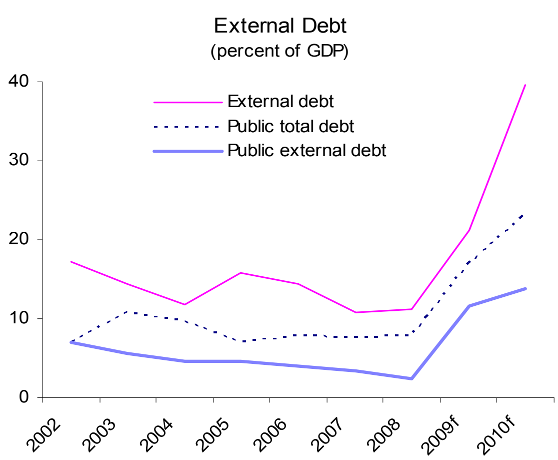
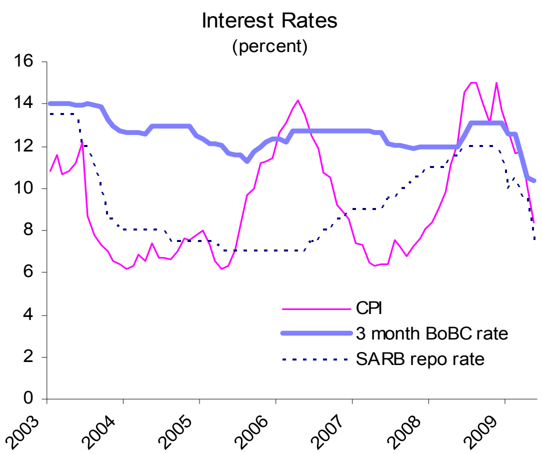
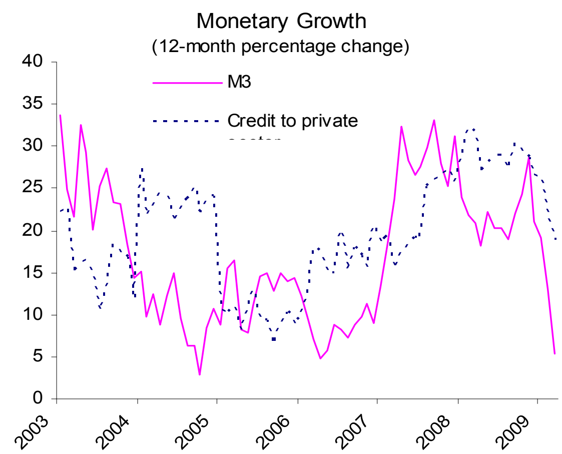


Figure 3. Macroeconomic Developments

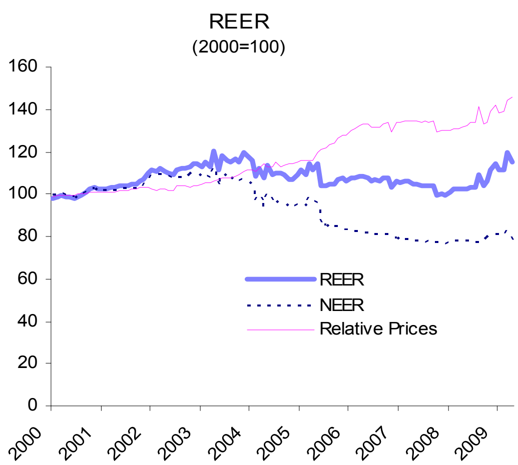
The BoB has lowered interest rates in line with slowing inflation.



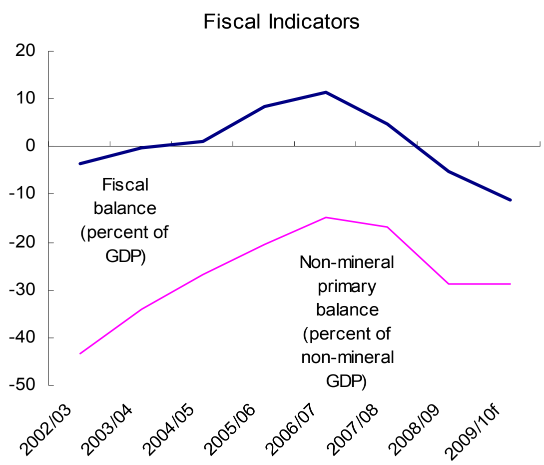
Credit growth has been strong over the past two years, but appears to be slowing.



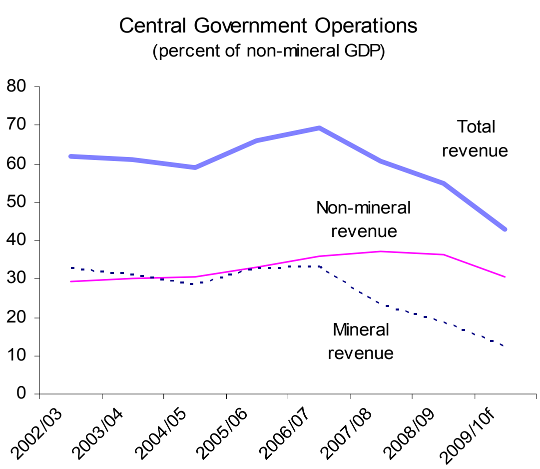
An increase in inflation differentials resulted in modest REER appreciation in 2008 and early 2009.



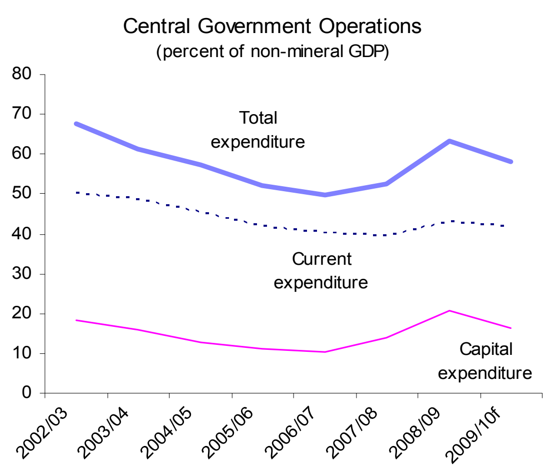
The nonmining primary deficit is projected to remain unchanged in 2009/10.



Mineral revenues are likely to decline further …



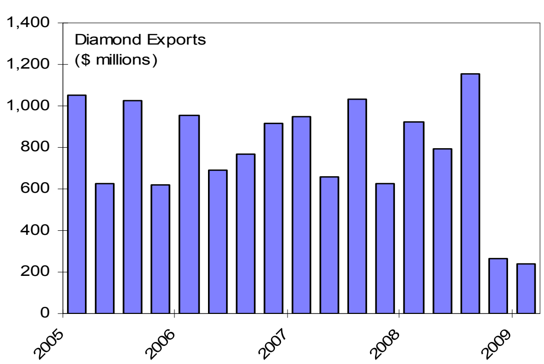
… but spending should moderate after the sizable increase last year.

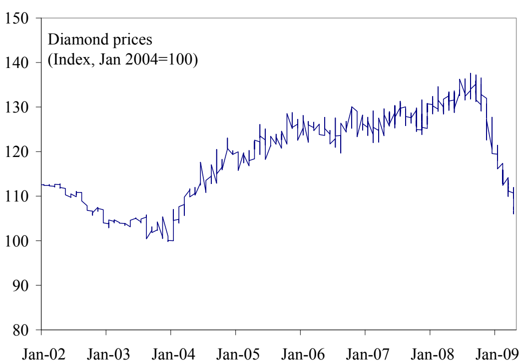


Box 1. Recent Developments in the Diamond Sector

Botswana is one of the world's leading diamond producers, with a market share of about 20 percent. Production is conducted almost exclusively by Debswana, a 50-50 joint venture of DeBeers and Botswana; Botswana also holds a 15 percent stake in DeBeers. Botswana's diamond production has increased steadily in recent years, and in 2008 contributed about 40 percent of fiscal revenues, 35 percent of GDP, and 62 percent of total exports. As a step toward development of a local downstream diamond industry, the Diamond Trading Company Botswana was launched in 2008 to sort and aggregate diamonds locally.

The global financial crisis caused a significant decline in demand for diamonds in the fourth quarter of 2008 and early 2009. As a result, Debswana suspended production in early 2009; in April the mines at Jwaneng, Orapa #1 and Letlhakane resumed production, though at reduced capacity, while the mines at Damtshaa and Orapa #2 will remain closed through December. Diamond prices also fell sharply in the fourth quarter of 2008. Total diamond production in 2009 is estimated to be 20 million carats, nearly 40 percent less than in 2008. Debswana expects output to return to full capacity by 2012 as the global economy strengthens, but there is considerable uncertainty about when a sustained recovery in demand will occur.





Sources: National authorities, and PolishedPrices.com.

6. **The nonmining primary deficit (NMPD)[1] amounted to 28.6 percent of non-mining GDP in 2008/09, well above the 16.8 percent NMPD in 2007/08 (Figure 3).** The larger deficit mostly reflected a surge in spending to 63 percent of nonmining GDP from 52.5 percent in 2007/08. Current expenditure rose 12.5 percent in real terms, reflecting a further increase in the public sector wage bill, while development spending increased by 54 percent in real terms as the government accelerated the construction of airports, roads, dams, schools and the Morupule electricity generation project. Increased spending also

[1] The NMPD is calculated as the difference between nonmining revenue and expenditure (excluding interest receipts and interest payments).

reflected a public works program to provide income support for vulnerable groups and measures to offset higher food prices.

7. **The NMPD is projected to remain broadly unchanged in 2009/10.** The original 2009/10 budget had proposed a further real spending increase of 4 percent over the revised budget, which would have raised the NMPD to 34 percent of non-mining GDP. However, the government has announced plans to scale back recurrent spending by 7 percent and development spending by 5 percent, which staff projects would stabilize the NMPD at 28.3 percent of non-mining GDP. The overall deficit of 11.1 percent of GDP is expected to be fully financed by an AfDB budget support loan (US$1.5 billion).

8. **Botswana continues to peg the pula to a basket of the rand and the SDR in an effort to maintain a stable real effective exchange rate (REER).** The rate of crawl is determined on the basis of the difference between domestic inflation and trading partner inflation.[2] The real effective exchange rate has stabilized since the shift to the crawling peg regime in May 2005, although Botswana's higher inflation vis-à-vis its trading partners resulted in a modest appreciation in 2008 and early 2009.

9. **The twelve-month inflation rate fell to 8.4 percent in May 2009 from 15 percent in mid-2008, mostly reflecting reduced pressure on fuel and food prices.** Inflation is expected to decline further toward the upper end of the Bank of Botswana's (BoB) medium-term (three-year) inflation objective of 3–6 percent. With inflationary pressures easing, the BoB has reduced its main interest rate by 250 basis points since December 2008 with a view to stimulating economic activity. The outstanding stock of Bank of Botswana Certificates (BoBCs), which are used for liquidity management purposes, has declined since mid-2008 due to increased issuance of government domestic debt and reduced foreign inflows.[3]

10. **Thus far, the financial sector has been relatively unscathed by the turmoil in international financial markets.** Conservative lending practices and limited international exposure appear to have insulated commercial banks, and they remain well-capitalized, liquid and profitable (Figure 4). Nonperforming loans are at very low levels despite a modest increase in late 2008 and early 2009, although a weaker economy and rising unemployment could lead to a further deterioration in asset quality. As elsewhere, the global financial crisis has adversely affected the value of assets held by domestic pension and insurance funds, but these funds remain financially sound and profitable.

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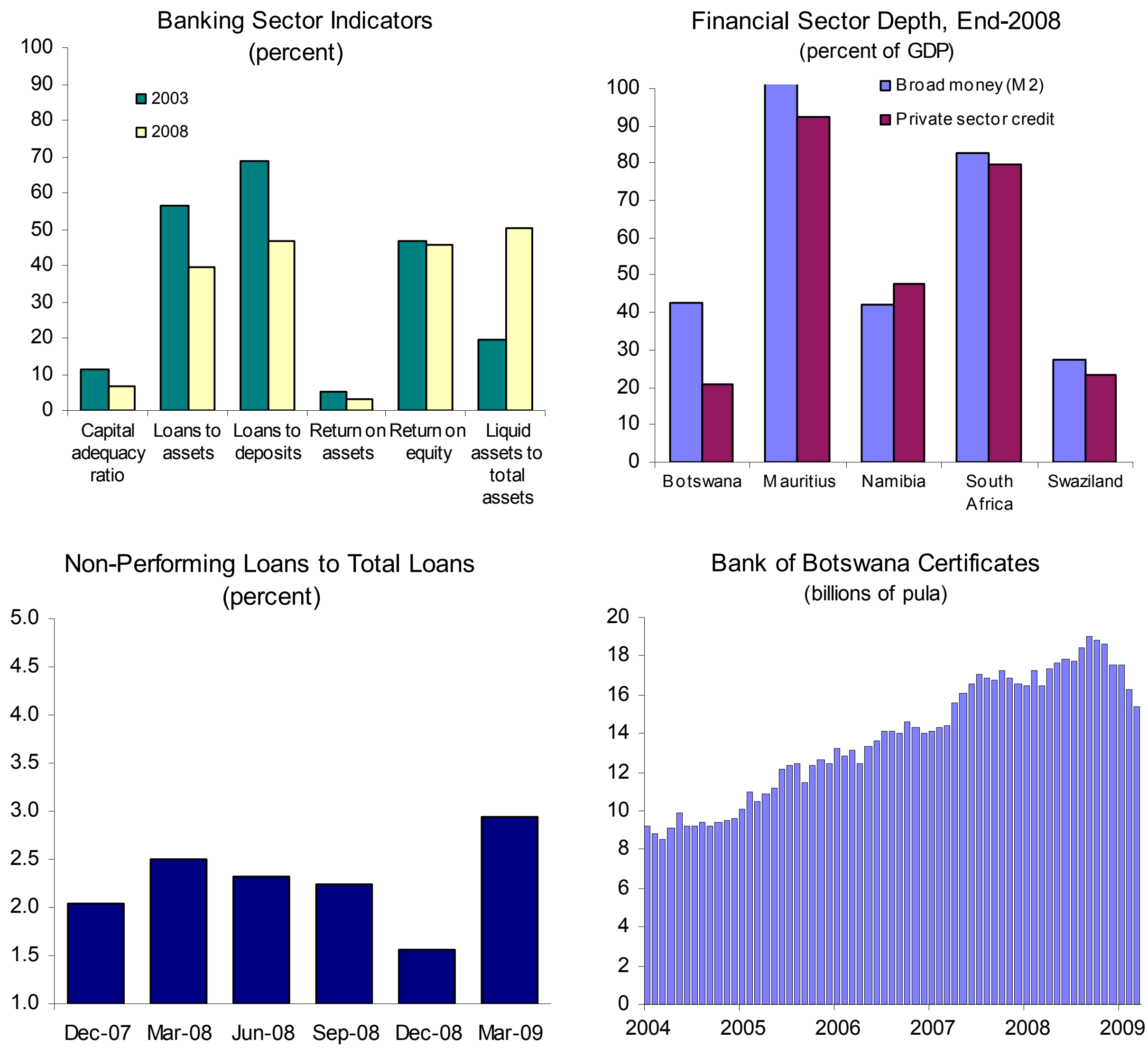
[2] The Bank of Botswana Annual Report of 2008 notes that "the annual rate of crawl is determined on the basis of the differential between Botswana's inflation objective and forecast inflation for trading partner countries."

[3] The government issued a total of P2 billion (equal to 2.2 percent of GDP) in September 2008 and March 2009 as part of its P5 billion Government Note Issue program to help develop the domestic capital market.

Figure 4. Financial Sector Developments



III. Outlook and Risks

11. **Real GDP is projected to contract by 10 percent in 2009 as diamond production declines** (see Text Table 3). Diamond output is expected to fall by 40 percent, reflecting the marked weakening in external demand since late 2008. The downturn in the diamond sector is also likely to contribute to slower growth in the nonmining sector, although large public expenditures for several ongoing infrastructure projects should help sustain nonmining growth of 5 percent in 2009. A modest rebound is projected for 2010, with a stronger recovery in 2011-12 as diamond output returns to full capacity. In addition, two large electricity generation projects (Morupule and Mmamabula) should boost growth after 2012.

Text Table 3. Medium-Term Economic and Financial Indicators, 2007–2014

	2007	2008	2009	2010	2011	2012	2013	2014
				(Annual percentage change)				
Real GDP	4.4	2.9	-10.3	4.1	8.6	13.8	8.9	2.0
Mineral	-2.0	-3.7	-36.7	0.3	24.0	29.1	1.8	0.1
Non-mineral [1]	9.0	7.2	4.9	5.5	3.5	7.7	12.3	2.8
Diamond production (millions of carats)	33.6	32.6	20.0	20.0	25.0	32.6	33.0	33.0
Consumer prices (average)	7.1	12.6	8.7	6.5	5.9	5.4	5.2	5.1
Consumer prices (end of period)	8.1	13.7	7.0	6.1	5.7	5.3	5.2	5.0
				(Percent of GDP, unless otherwise indicated)				
Overall fiscal balance (deficit –) [2]	4.8	-5.2	-11.1	-9.7	-4.5	-1.4	-0.3	-0.3
Non-mineral primary balance [2,3]	-16.8	-28.6	-28.3	-26.7	-23.4	-21.4	-18.6	-18.5
Current account balance	14.3	7.0	-8.2	-16.6	-11.4	-6.5	3.2	3.5
Balance of payments	14.1	8.2	0.9	-2.1	2.3	-0.1	1.4	1.6
				(US$ millions)				
Change in reserves (increase –)	-1,742	-1,100	-95	231	-268	7	-202	-232
Gross official reserves (end of period)	9,743	9,125	9,220	8,988	9,256	9,249	9,450	9,682
In months of imports of goods and services [4]	20.7	20.8	17.0	16.3	16.0	16.5	16.4	16.3

Sources: Botswana authorities; and IMF staff estimates and projections.

[1] Stronger growth in non-mineral real GDP over the medium-term largely reflects significant investment in electricity generation, including the Morupule Power Station and the Mmamabula Energy Project.

[2] Year beginning April 1.

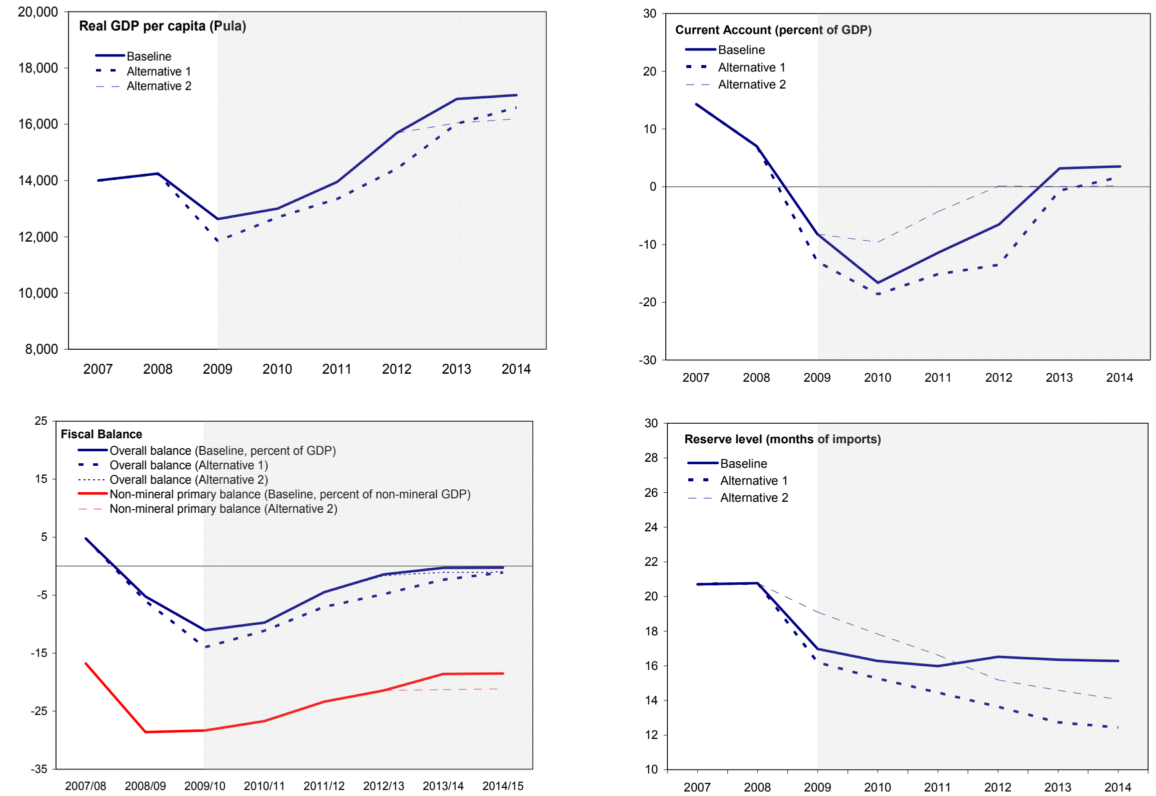
[3] The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest receipts and interest payments), divided by non-mineral GDP.

[4] Based on imports of goods and services for the following year.

12. **The external position is projected to deteriorate in 2009-10, but should improve thereafter.** Botswana's current account balance is expected to shift to a deficit of 8.2 percent of GDP in 2009, and widen further to 16.6 percent of GDP in 2010 because of the decline in diamond exports and an increase in imports related to the construction of the two power stations. However, by 2013 the current account is expected to shift to a surplus as these projects are completed and diamond production returns to full capacity. Gross international reserves are projected to remain at least 16 months of import cover throughout the projection period.

13. **Despite the rapid build-up of external debt in 2009, Botswana is at little risk of debt distress** (see Debt Sustainability Analysis in the Informational Annex). External debt is expected to reach nearly 50 percent of GDP by 2012 to finance construction of the two power stations, but would stay below 60 percent of GDP in the stress-test scenarios. Public debt would rise to 25 percent of GDP by 2010, before falling to 15 percent by 2014. If growth and the primary balance were to return to recent levels, however, Botswana would be able to repay its public debt by 2012.

Box 2. Economic Impact of Lower Diamond Output and Absence of the Mmamabula Project



Source: Botswana authorities and IMF staff estimates and projections.

14. **There are significant downside risks to the economic outlook over the next several years.** Staff considered two alternative scenarios: (i) a larger reduction (54 percent) in diamond production in 2009 with a slower recovery in international demand; and (ii) that the Mmamabula project, does not move forward (Box 2). Both scenarios would have a significant impact on the fiscal and external positions. The authorities broadly shared staff's assessment of the outlook and noted there was a risk that a recovery of diamond production to pre-crisis levels could take several years.

15. **The fall in diamond production expected after 2020 clouds the longer-term outlook.** Although there has been some progress toward diversification, the nonmining sector continues to be heavily influenced by government expenditure, highlighting the importance of diversification for sustaining long-term growth and mitigating risks to the outlook. Improving competitiveness and productivity remains key to achieving broad-based long-term growth and reducing high structural unemployment.

IV. Policy Discussions

16. **Against the background of the global economic crisis, the discussions focused on:** preserving medium-term fiscal sustainability; the appropriate monetary and exchange rate policy stance; the status of the financial sector; and medium-term diversification.

Box 3. Implementation of Previous Fund Policy Advice

The authorities have generally agreed with Fund staff on Botswana's main economic challenges. During the 2007 Article IV consultation, staff recommended containing expenditure, strengthening non-diamond revenues, implementing recommendations from the 2007 FSAP and accelerating diversification. The authorities strengthened VAT collection in 2008/09, although implementation of the FSAP recommendations has been uneven. Public spending has increased significantly over the past two years owing to a large infrastructure investment plan to support diversification.

A. Fiscal Policy

17. **The substantial increase in expenditures during 2007/08 and 2008/09 raises concerns about its quality.** The staff, therefore, welcomed the authorities' intention to reduce expenditures from the original 2009/10 budget and focus on improving spending efficiency. Although spending will remain high even after the cuts, the authorities explained that the increase in development expenditure is largely temporary, and should decline in 2010/11 as ongoing infrastructure projects are completed. They also emphasized the exceptional circumstances facing the economy in 2009/10 due to the global economic downturn, and considered that the increase in spending would help mitigate the large contraction in the diamond sector. The authorities acknowledged that the wage bill had increased rapidly in recent years and pointed to recent measures to limit further growth, including the decision to forgo a cost of living adjustment in 2009/10. They also agreed that the recurrent costs associated with the completed infrastructure projects would add to pressure on current spending, and indicated that they are examining options for more cost-effective public service delivery.

18. **The staff also recommended strengthening nonmining revenues over the medium term given the considerable uncertainty surrounding mining and SACU revenues.** In addition to strengthening tax administration, staff encouraged the authorities to consider raising the VAT and the fuel levy to regional rates over the medium term. The authorities indicated that raising the VAT was one of several options, but cautioned that the higher rate could undermine compliance and increase demand for exemptions. They observed, therefore, that for now they will concentrate on improving tax administration.

19. **Staff recommended that the authorities consider an alternative fiscal rule based on the NMPD as a share of nonmining GDP.** The current fiscal rule sets a ceiling on overall expenditure of 40 percent of GDP. The NMPD provides a clearer picture of the underlying fiscal stance and is a better measure of longer-term fiscal sustainability and the government's ability to finance ongoing expenditures. The authorities noted they were considering revising their fiscal rule to incorporate a link to nonmining GDP, although this could be relative to expenditure rather than the level of NMPD. They indicated that such a revision to the fiscal rule could be introduced as part of National Development Plan 10 (NDP10)[4].

20. **Achieving fiscal sustainability would require reducing the NMPD to 8 percent in the longer term, based on the permanent income hypothesis (PIH)** (see Text Table 4, scenario (a)).[5] To avoid sharp cuts in expenditures that could be destabilizing in the short and medium term, the staff encouraged the authorities to reduce the NMPD to at least 14 percent of nonmining GDP within the next five years (compared to the baseline projection of 17.8 percent in 2015/16). This would require keeping recurrent expenditures roughly constant in real terms, as development expenditures decline once current infrastructure projects are completed. The authorities did not identify a specific target for the NMPD, noting that there was still considerable need for spending to meet their development objectives, which could have a rate of return higher than savings in financial assets.

21. **To improve public expenditure management and increase spending efficiency, staff encouraged the authorities to consider developing a Medium-Term Expenditure Framework (MTEF).** The MTEF would provide a rolling three-year framework for implementing the six-year National Development Plans, in terms of which annual budgets would be formulated. The MTEF should be anchored in a regularly updated macroeconomic framework that would also provide the basis for growth and revenue forecasts - major weaknesses in the current process of budget formulation. The authorities indicated that improving the macroeconomic framework for budget preparation was a priority, and that they would welcome technical assistance in this area.

[4] NDP10 will be finalized later this year, to cover 2009-2016.

[5] The permanent income hypothesis argues in favor of saving excess receipts in order to smooth expenditures as mineral receipts decline over the medium term. In this model, permanent income is calculated by annuitizing the present value of expected future diamond revenues. The mission's calculations are based on keeping the annuity value constant as a share of nonmining GDP until mining-related wealth is exhausted in 2050.

Text Table 4. Medium-Term Fiscal Outlook and Sustainability Benchmarks

	Nonmining Primary Balance		Overall Balance	
	2009/10	2015/16	2009/10	2015/16
	(Percent of nonmining GDP)		(Percent of GDP)	
Staff projections [1]	-28.3	-17.8	-11.1	0.0
Sustainability benchmarks:				
Revenue projections minus expenditure that follows "permanent" income				
(a) Conservative assumptions	-7.8	-7.8	3.4	6.5
Baseline revenues[1] and conservative interest rate assumption				
(b) Less conservative assumptions	-8.7	-8.7	2.7	5.9
Baseline revenues and optimistic interest rate assumption				
(c) Optimistic assumptions	-9.2	-9.2	2.3	5.6
Optimistic mineral and non-mineral revenues and optimistic interest rate assumption				
(d) Back-loaded adjustment	-12.3	-9.9	0.0	5.1
Conservative assumptions				

Source: IMF staff calculations.

[1] Revenue projections assume a slow increase in non-mineral revenues and a decrease in mineral revenues in terms of GDP. Expenditure projections assume that capital expenditure fall after 2010/11 and then stabilize over the medium term.

(a) Assumes a real interest rate of 3 percent. In comparison, the Norwegian Government Pension Fund has earned an annualized net real return of 4.6 percent since 1997.

(b) Assumes a real interest rate of about 4½ percent. Being more optimistic concerning the return on assets allows for somewhat larger non-mineral deficits and lower overall balances relative to (a).

(c) Assumes a slower decline in the path of mineral revenues after 2020; this changes the value of the annuity and thereby allows for higher non-mineral deficits relative to (b). This scenario also assumes stronger growth in non-mining revenues relative to (a) and (b).

(d) Programming the annuity to stay constant in real terms (rather than in terms of non-mining GDP) yields lower initial savings and assumes a more back-loaded adjustment.

B. Monetary and Exchange Rate Policies

22. **The authorities and staff agreed that there appears to be scope for the BoB to lower interest rates further provided that government spending in 2009/10 is scaled back as planned[6].** Inflation is expected to continue to decline in line with projections for South Africa, from which Botswana imports most of its inflation. The authorities are mindful that too rapid an expansion in government spending after the large increase in 2008/09 could add to inflationary pressure and limit the scope for further interest rate cuts.

23. **The authorities indicated that the crawling peg regime has continued to serve Botswana well.** They noted that they are continuing to strengthen their inflation forecasting model, but were not yet in a position to move to a full-fledged inflation-targeting framework. Staff noted that greater exchange rate flexibility would be required if the inflation objective were to become the primary monetary policy anchor over the medium-term.

24. **Staff's analysis suggests a modest overvaluation of the real exchange rate (Box 4).** In any event, there appears to be limited scope for real exchange rate adjustment to improve prospects for nonmining exports. The authorities broadly agreed with staff's assessment, and acknowledged that while ensuring stability of the REER is important to the competitiveness of Botswana's nonmining sector, other factors such as raising productivity by deepening structural reforms, and improving the business climate are also significant.

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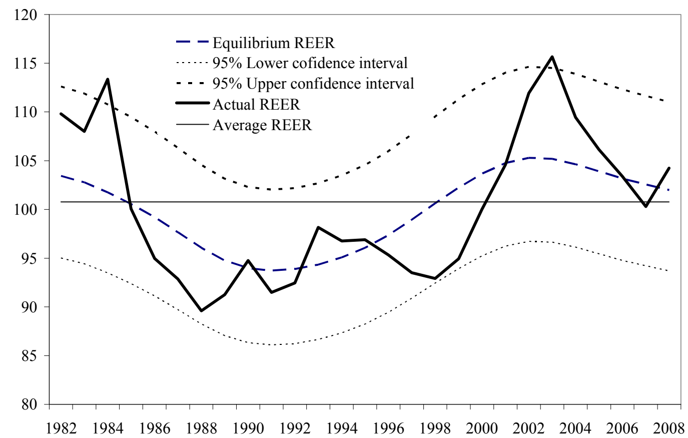
[6] Although the crawling peg remains the primary operational target, the lack of well-developed financial markets to permit full arbitrage has provided the authorities some scope to retain an independent interest rate policy.

Box 4. Exchange Rate and Competitiveness Assessment

The assessment relies on three different but complementary approaches[1]:

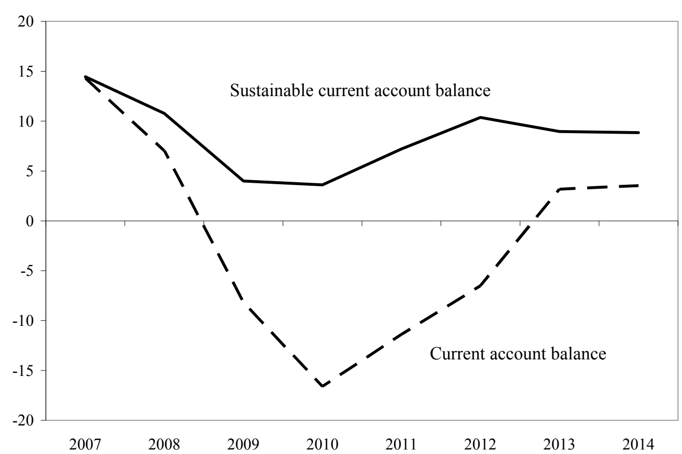
- An econometric analysis of determinants of the equilibrium real effective exchange rate (EREER), which takes into account the real interest rate differential between Botswana and its trading partners; the terms of trade; government consumption; and relative productivity against Botswana's main trading partners, indicates that Botswana's REER was overvalued by about 2 percent at the end of 2008.

Actual and Equilibrium Real Effective Exchange Rate
(Index, 2000=100)



- A forward-looking assessment of external sustainability shows that by 2014 the projected current account surplus would be below its long-run sustainable level, suggesting an overvaluation of 3-6 percent, depending on the assumption used for trade elasticity, and highlighting the need for fiscal consolidation. A large part of the projected deficits in the interim reflect imports related to the two electricity projects.

Current Account Sustainability
(In percent of GDP)



- Structural measures of competitiveness suggest that Botswana continues to lead most countries in the world in various aspects of governance, but faces declining labor productivity, high cost of trade across its borders, difficulties in business start-ups, and a travel and tourism industry that does not compete effectively in the region (Figure 5).

1/ For more details, see IMF Working Paper 08/83 .

Figure 5. Selected Competitiveness Indicators

Botswana scores well on measures of governance.

Botswana: Percentile ranking on Measures of Governance and Institutions[1]

	Voice & Accountability	Political Stability & lack of violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Governance[2]
1996	73	71	67	77	70	69	71
1998	71	75	73	74	68	77	73
2000	72	79	73	72	68	76	73
2002	69	75	75	76	67	75	73
2003	72	82	75	75	69	84	76
2004	75	78	77	69	69	82	75
2005	70	83	75	69	68	83	75
2006	63	80	72	66	68	79	71
2007	93	78	73	65	70	80	77

Source: World Bank Governance Indicators Data base

[1] Each entry shows percentile of countries that perform poorer than Botswana.
[2] Simple average of previous columns.

It also scores well in overall cost of doing business, but not in trading costs, licenses,...

Ranking out of 181 countries

Ease of Doing Business Rank	38
Trading Across Borders	149
Dealing with Construction Permits	119
Enforcing Contracts	92
Starting a Business	80
Employing Workers	73
Getting Credit	43
Protecting Investors	38
Registering Property	29
Closing a Business	26
Paying Taxes	17

Source: World Bank's Doing Business 2009

..or starting a business.

Ranking out of 181 countries
Starting a business

Mauritius	7
South Africa	47
Chile	55
Seychelles	68
Malaysia	75
Botswana	**80**
Namibia	112
Lesotho	125
Swaziland	153

Source: World Bank's Doing Business 2009

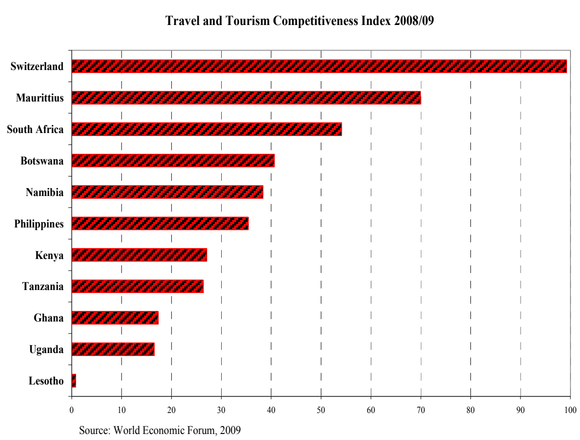
However, it scores high among landlocked countries.

Ranking out of 38 countries
Ease of doing business in Landlocked countries

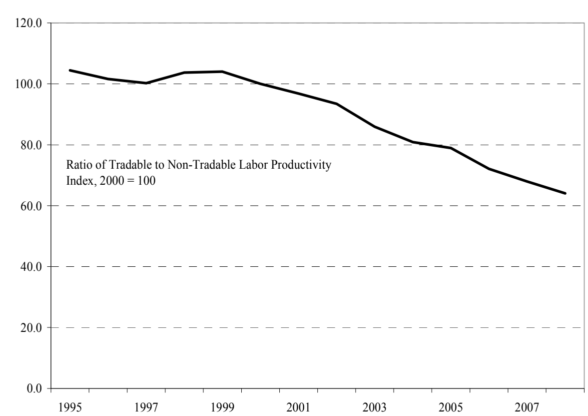
Switzerland	1
Austria	2
Azerbaijan	3
Slovakia	4
Botswana	**5**
Hungary	6
Luxumburg	8
Zambia	16
Swaziland	18
Uganda	19
Lesotho	23
Central African Republic	38

Source: World Bank's Doing Business 2009

Travel and tourism rank below regional leaders …



... and declining labor productivity needs to be reversed.



C. Financial Sector

25. **To mitigate against risks from the deteriorating economy, banks have increased their provisioning, focused on lending to established clients and tightened the approval process for new clients.** In the current environment, the authorities concurred with staff on the need for closer monitoring of loan portfolios and more frequent on-site inspections. In this context, they conduct routine stress tests and have developed guidelines on supervision of distressed banks.

26. **Progress on implementing the recommendations of the 2007 FSAP mission has been uneven (Box 5).** There has been notable progress on supervision of the nonbanking financial sector. The Nonbank Financial Institutions Regulatory Authority (NBFIRA) began operating in April 2008 and the BoB is planning to transfer various supervisory responsibilities for nonbank financial institutions to the NBFIRA by end-2009. Looking ahead, the NBFIRA intends to embark on an ambitious reform agenda—including amending the insurance and pension acts, designing a risk-based framework for on-site inspection, and collecting and analyzing statutory returns for off-site inspections.

Box 5. The 2007 FSAP Recommendations

Implementation of the recommendations has been uneven, but there are plans to address most remaining issues:

- Systemic liquidity is being addressed by (i) increasing issuance of government debt and (ii) strengthening the liquidity forecasting framework.
- The authorities intend to amend the Banking Act to grant limited power to the BoB to vet "significant" and "controlling" shareholders.
- Cooperation with cross-border supervisors has improved, and internal guidelines have been drafted for dealing with problem banks and instituting contingency plans for crisis management.
- A Securities Bill is expected to be tabled in Parliament before end-2009.
- Anti-money laundering issues are being tackled through a Financial Intelligence Agency Bill that makes financing of terrorism a financial offence; the bill was approved by Parliament in April 2009 and is awaiting the President's signature. The BoB will be closely monitoring compliance as part of their effort to address recommendations from the 2007 World Bank AML/CFT mission. A Financial Intelligence Agency is to be established at the Ministry of Finance and Development Planning by end-2009.
- The BoB does not yet have full power to supervise stated-owned statutory banks, while legislation to improve the institutional basis and financial soundness of Saving and Credit Cooperatives is still to be updated.

D. Medium-Term Diversification

27. **The sharp diamond-related contraction in real GDP highlights the need for greater economic diversification.** The current downturn offers a window of opportunity for accelerating the structural reforms needed to achieve these objectives. Key elements of the authorities' strategy for diversification are summarized in Box 6.

Box 6. Economic Diversification

The authorities' strategy for diversification centers on infrastructure investment to facilitate the development of key sectors:

- **Mining and energy:** The Diamond Hub seeks to increase value-added in downstream activities such as cutting, polishing, and jewelry making. In addition, the planned Morupule and Mmamabula power stations aim to take advantage of Botswana's coal deposits to meet domestic electricity demand and further diversify exports.

- **Education and health:** The authorities intend to strengthen human capital and productivity by improving access to education and the quality of tertiary instruction in key areas such as science, technology and medicine.

- **Transport, agriculture and tourism:** The Transport Hub aims to provide a corridor to Namibia and improve transport links to tourist areas. The Agricultural Hub aims to improve agricultural productivity and diversity. A number of new lodge sites have been awarded and the marketing activities of the Tourism Board expanded in order to support development of the tourist sector.

28. **Strengthening the investment climate also remains a key priority.** Staff encouraged the authorities to address structural aspects of competitiveness where Botswana lags behind other countries (Figure 5) and improve access to land and the provision of work permits for expatriates. Progress on privatization has been limited in recent years, but plans are underway to privatize the National Development Bank and revise the regulatory framework to facilitate privatization of several parastatals.

29. **There has been some progress toward reducing the incidence of HIV/AIDS, but it remains a significant medium-term challenge.** The authorities plan to further increase access to Anti-Retroviral (ARV) treatment, as well as expanding a campaign to raise public awareness. Reducing the high HIV/AIDS prevalence rate will be key to improving labor productivity.

E. Data Issues

30. Botswana has significantly improved the quality of economic statistics in recent years, but there is scope for further improvements, especially with regard to timeliness.

31. Staff commended the considerable progress in the balance of payments and national accounts data and encouraged the authorities to complete the remaining steps necessary to move from the General Data Dissemination System (GDDS) to the Special Data Dissemination Standard (SDDS). The authorities emphasized their intention to move to SDDS, but indicated a need to further enhance capacity in order to be able to meet SDDS requirements on an ongoing basis.

V. Staff Appraisal

32. **Botswana's near-term macroeconomic outlook is uncertain, with significant downside risks.** Diamond exports are expected to be sluggish through at least 2010, with large fiscal and external deficits likely to persist for the next several years. A protracted recovery in diamond demand would add to pressure on the external and fiscal positions. The two electricity generation projects should boost output as they come online in 2012–13, but the fall in diamond production expected after 2020 clouds the longer-term outlook.

33. **The marked increase in expenditures in the last two years raises concerns about the quality of spending, as well as fiscal sustainability.** A large part of the increase in expenditure reflects outlays for infrastructure investment, which should facilitate a return to a more sustainable level of spending as these projects are completed. The authorities will also need to rein in growth in the public sector wage bill, however, in order to create fiscal space for the recurrent costs associated with the completed projects. On current policies the fiscal position would deviate substantially from the recommended sustainability benchmark, suggesting the need for a larger than currently envisaged fiscal adjustment in the medium term.

34. **An alternative fiscal rule based on the NMPD as a share of nonmining GDP could be considered.** The NMPD provides a clearer picture of the underlying fiscal stance and is a better indicator of longer-term fiscal sustainability.

35. **The weak outlook for growth and easing of inflationary pressures should allow further monetary policy easing in 2009.** A further increase in international fuel prices could limit the downward trend in inflation, but domestic price pressures remain limited and food prices should continue to moderate. The limited scope for real exchange rate adjustment, given the large share of imported inflation, highlights the need for fiscal consolidation to ensure medium-term external stability.

36. **The abrupt contraction in real GDP in 2009 underscores the need for Botswana to accelerate greater economic diversification.** The authorities have significantly increased spending on infrastructure, education and health, and it will be important to ensure that outcomes are commensurate with these additional expenditures. Moreover, it is critical to move quickly on key structural reforms to reduce the cost of doing business and enhance productivity

37. **The global financial crisis has not had a significant adverse impact on the banking sector to date, but the authorities will need to remain vigilant.** The sizable contraction in 2009 can be expected to increase stress on the banking system. The establishment of the

NBFIRA is a welcome start, but further steps to enhance its capacity are essential, including through technical assistance, given the sizable reform agenda ahead. Remaining issues from the FSAP recommendations should also be addressed.

38. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Medium-Term Economic and Financial Indicators, 2007–2014

	2007	2008	2009	2010	2011	2012	2013	2014
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP 1/	4.4	2.9	-10.3	4.1	8.6	13.8	8.9	2.0
Mineral	-2.0	-3.7	-36.7	0.3	24.0	29.1	1.8	0.1
Non-mineral	9.0	7.2	4.9	5.5	3.5	7.7	12.3	2.8
Consumer prices (average)	7.1	12.6	8.7	6.5	5.9	5.4	5.2	5.1
Consumer prices (end of period)	8.1	13.7	7.0	6.1	5.7	5.3	5.2	5.0
Nominal GDP (billions of pula) 1/	75.7	91.2	80.1	87.1	98.1	116.8	133.9	142.5
Mineral	30.6	37.6	20.3	21.7	29.8	41.1	44.5	47.3
Non-mineral 2/	45.2	53.6	59.8	65.4	68.2	75.7	89.4	95.2
Diamond production (millions of carats)	33.6	32.6	20.0	20.0	25.0	32.6	33.0	33.0
External sector								
Exports of goods and services, f.o.b. (US$)	10.6	-0.4	-35.8	5.3	16.9	19.3	22.9	3.8
Of which:								
Diamonds	-2.3	-6.1	-44.6	1.8	30.3	32.2	2.8	1.5
Other raw materials	59.4	-21.3	-42.4	12.1	8.6	8.2	13.6	3.5
Other	29.2	56.5	-22.3	9.4	6.7	6.6	105.2	7.7
Imports of goods and services, f.o.b. (US$)	29.2	26.2	-6.6	23.6	1.7	4.9	-3.3	3.2
Terms of trade	1.0	7.9	-16.5	-0.3	-1.9	0.2	0.4	0.4
Central government finance 3/								
Total revenue and grants	4.5	5.7	-13.1	12.5	16.4	16.3	9.9	6.4
Total expenditure and net lending	25.8	40.6	1.4	8.4	2.0	6.9	6.4	6.3
Money and banking								
Net foreign assets	24.1	20.2	0.6	5.3	8.4	5.3	7.2	6.7
Net domestic assets	17.0	19.1	-15.8	-9.0	0.6	-7.2	0.3	-12.0
Money and quasi money (M2)	31.2	21.1	14.9	14.5	12.3	10.9	9.8	13.2
Velocity (non-mineral GDP relative to M2)	1.4	1.4	1.3	1.3	1.2	1.2	1.3	1.2
Credit to the private sector	25.7	26.6	14.0	9.7	8.6	7.8	7.7	7.5
	(Percent of GDP, unless otherwise indicated)							
Investment and savings 1/								
Gross investment	25.9	32.4	35.8	44.2	40.8	40.1	31.5	30.8
Public	7.8	11.2	13.0	12.1	9.5	7.9	7.3	7.3
Private	18.1	21.3	22.8	32.1	31.3	32.2	24.2	23.5
Gross savings	40.9	42.1	27.6	27.6	29.4	33.6	34.7	34.4
Public	20.1	15.0	12.4	11.4	12.7	13.9	14.3	14.6
Private	20.8	27.1	15.2	16.2	16.7	19.7	20.4	19.8
Saving–investment balance	15.0	9.6	-8.2	-16.6	-11.4	-6.5	3.2	3.5
Central government finance 3/								
Total revenue and grants	36.0	34.2	32.2	33.0	33.6	33.1	32.4	32.4
Total expenditure and net lending	31.2	39.5	43.2	42.7	38.0	34.5	32.7	32.6
Overall balance (deficit –)	4.8	-5.2	-11.1	-9.7	-4.5	-1.4	-0.3	-0.3
Non-mineral primary balance (percent of non-mineral GDP	-16.8	-28.6	-28.3	-26.7	-23.4	-21.4	-18.6	-18.5
External sector								
Current account balance	14.3	7.0	-8.2	-16.6	-11.4	-6.5	3.2	3.5
Balance of payments	14.1	8.2	0.9	-2.1	2.3	-0.1	1.4	1.6
External public debt 5/	2.5	2.3	11.7	16.1	15.0	13.3	12.1	11.4
External public debt in percent of total exports	5.3	5.3	33.2	45.0	38.1	32.0	26.1	24.2
	(US$ millions, unless otherwise indicated)							
Change in reserves (increase –)	-1,742	-1,100	-95	231	-268	7	-202	-232
Gross official reserves (end of period)	9,743	9,125	9,220	8,988	9,256	9,249	9,450	9,682
In months of imports of goods and services 6/	20.7	20.8	17.0	16.3	16.0	16.5	16.4	16.3
In percent of GDP	79.0	67.8	86.8	81.1	78.9	69.4	64.7	64.9
Pula Fund (US$ millions)	6,614	6,866	…	…	…	…	…	…
In months of imports of goods and services 6/	14.1	15.6	…	…	…	…	…	…
Liquidity portfolio/ other reserves (US$ millions)	3,130	2,259	…	…	…	…	…	…
In months of imports of goods and services 6/	6.6	5.1	…	…	…	…	…	…
			…	…	…	…	…	…
Gross official reserves, net of BoBC (US$ millions)	6,977	6,790	…	…	…	…	…	…
In months of imports of goods and services 6/	14.8	15.5	…	…	…	…	…	…

Sources: Botswana authorities; and IMF staff estimates and projections.

1/ Calendar year.

2/ Stronger growth in non-mineral real GDP over the medium-term partly reflects significant investment in electricity generation, including the Morupule Power Station and the Mmamabula Energy Project.

3/ Year beginning April 1.

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

5/ Medium- and long-term public and publicly guaranteed debt outstanding.

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

Table 2. Sectoral GDP and Savings-Investment Balances, 2007–2014 1/

	2007	2008	2009	2010	2011	2012	2013	2014
				(Millions of pula)				
Consumption	46,969	57,858	62,857	68,767	74,852	82,480	91,181	97,597
Public	14,726	18,185	19,556	21,265	23,436	25,287	26,934	28,605
Private	32,243	39,674	43,302	47,502	51,417	57,193	64,247	68,991
Gross investment	19,614	29,596	28,663	38,494	39,984	46,834	42,154	43,919
Public	5,925	10,200	10,377	10,523	9,284	9,239	9,819	10,421
Private (including changes in stocks)	13,689	19,396	18,286	27,971	30,699	37,595	32,335	33,498
Net exports of goods and services 2/	9,145	3,759	-11,433	-20,132	-16,747	-12,562	550	973
Exports of goods and services	36,057	42,140	28,333	31,113	38,680	48,348	62,104	67,242
Imports of goods and services	-26,912	-38,381	-39,766	-51,244	-55,427	-60,910	-61,554	-66,270
Gross domestic savings	28,759	33,355	17,229	18,362	23,237	34,272	42,703	44,891
Public	7,162	5,221	2,273	1,898	4,074	7,310	9,325	10,214
Private	21,597	28,134	14,956	16,465	19,162	26,962	33,378	34,677
GDP at market prices	75,728	91,213	80,087	87,130	98,089	116,752	133,885	142,488
				(Percent of GDP)				
Consumption	62.0	63.4	78.5	78.9	76.3	70.6	68.1	68.5
Public	19.4	19.9	24.4	24.4	23.9	21.7	20.1	20.1
Private	42.6	43.5	54.1	54.5	52.4	49.0	48.0	48.4
Gross investment	25.9	32.4	35.8	44.2	40.8	40.1	31.5	30.8
Public	7.8	11.2	13.0	12.1	9.5	7.9	7.3	7.3
Private (including changes in stock)	18.1	21.3	22.8	32.1	31.3	32.2	24.2	23.5
Net exports of goods and services	12.1	4.1	-14.3	-23.1	-17.1	-10.8	0.4	0.7
Exports of goods and services	47.6	46.2	35.4	35.7	39.4	41.4	46.4	47.2
Imports of goods and services	-35.5	-42.1	-49.7	-58.8	-56.5	-52.2	-46.0	-46.5
Gross domestic savings	38.0	36.6	21.5	21.1	23.7	29.4	31.9	31.5
Public	9.5	5.7	2.8	2.2	4.2	6.3	7.0	7.2
Private	28.5	30.8	18.7	18.9	19.5	23.1	24.9	24.3
				(Annual percentage change, unless otherwise indicated)				
Real GDP	4.4	2.9	-10.3	4.1	8.6	13.8	8.9	2.0
Of which: non-mineral real GDP	9.0	7.2	4.9	5.5	3.5	7.7	12.3	2.8
Nominal GDP (billions of pula)	75.7	91.2	80.1	87.1	98.1	116.8	133.9	142.5
Mineral	30.6	37.6	20.3	21.7	29.8	41.1	44.5	47.3
Non-mineral 2/	45.2	53.6	59.8	65.4	68.2	75.7	89.4	95.2
Consumer prices (end of period)	8.1	13.7	7.0	6.1	5.7	5.3	5.2	5.0

Sources: Central Statistics Office; and IMF staff estimates.

1/ National accounts data is now presented on a calendar year basis, rather than based on a year beginning July 1 as was the previous convention.
2/ Stronger growth in non-mineral real GDP over the medium-term largely reflects significant investment in electricity generation, including the Morupule Power Station and the Mmamabula Energy Project.

Table 3. Balance of Payments, 2007–2014 1/

	2007	2008	Projections 2009	2010	2011	2012	2013	2014
			(US$ millions, unless otherwise indicated)					
Current account balance	1,766	945	-868	-1,841	-1,336	-867	465	527
Trade balance	1,581	444	-1,239	-1,913	-1,342	-862	457	502
Exports, f.o.b.	5,026	4,941	2,975	3,140	3,769	4,606	5,776	5,998
Diamonds	3,266	3,068	1,700	1,731	2,255	2,981	3,064	3,110
Other raw materials	1,135	894	515	577	627	678	770	797
Other	625	979	761	832	888	946	1,942	2,091
Of which: Mmamabula	…	…	…	…	…	…	887	924
Imports, f.o.b	-3,445	-4,497	-4,214	-5,053	-5,111	-5,468	-5,319	-5,497
Of which: Mmamabula and Morupule	…	…	-105	-683	-683	-420	…	…
Services	-180	-241	-278	-649	-660	-571	-397	-400
Transportation	-317	-381	-350	-370	-401	-463	-466	-474
Travel	265	271	236	258	277	287	299	317
Other services	-128	-131	-164	-536	-537	-394	-229	-242
Income	-740	-278	-211	-151	-181	-280	-479	-487
Current transfers	1,105	1,020	859	871	848	846	884	912
Capital and financial account	-147	1	962	1,610	1,603	860	-264	-295
Capital account	80	104	59	70	68	59	59	57
Financial account	-228	-102	903	1,540	1,536	801	-323	-352
Direct investment	444	-3	232	426	475	458	258	273
Portfolio investment	-413	274	-201	-277	-225	-219	-225	-211
Other investment	-259	-373	872	1,390	1,286	562	-355	-414
Assets	-246	-358	-283	-257	-262	-241	-230	-224
Liabilities	-13	-14	1,155	1,648	1,548	804	-125	-190
Net government long-term borrowing	0	-29	964	473	6	6	6	-61
Other net private long-term borrowing	-68	-38	147	1,131	1,501	759	-168	-165
Short-term borrowing	55	52	44	44	41	39	37	36
Reserve assets (increase –)	-1,742	-1,100	-95	231	-268	7	-202	-232
Net errors and omissions	124	153	0	0	0	0	0	0
<u>*Memorandum items:*</u>			(Percent of GDP, unless otherwise indicated)					
Balance of payments	14.1	8.2	0.9	-2.1	2.3	-0.1	1.4	1.6
Current account	14.3	7.0	-8.2	-16.6	-11.4	-6.5	3.2	3.5
Excluding Mmamabula			-8.2	-9.6	-4.3	0.1	0.0	0.2
Excluding Mmamabula and Morupule			-6.6	-6.1	-0.4	-1.2	1.2	1.5
Trade balance	12.8	3.3	-11.7	-17.3	-11.4	-6.5	3.1	3.4
Exports of goods	40.7	36.7	28.0	28.3	32.1	34.6	39.5	40.2
Of which: diamonds	26.5	22.8	16.0	15.6	19.2	22.4	21.0	20.9
Imports of goods	-27.9	-33.4	-39.7	-45.6	-43.6	-41.0	-36.4	-36.9
Services balance	-1.5	-1.8	-2.6	-5.9	-5.6	-4.3	-2.7	-2.7
Income and transfers balance	3.0	5.5	6.1	6.5	5.7	4.2	2.8	2.9
Financial account	-1.8	-0.8	8.5	13.9	13.1	6.0	-2.2	-2.4
Direct investment	3.6	0.0	2.2	3.8	4.0	3.4	1.8	1.8
Portfolio investment	-3.3	2.0	-1.9	-2.5	-1.9	-1.6	-1.5	-1.4
Other investment	-2.1	-2.8	8.2	12.5	11.0	4.2	-2.4	-2.8
			(Annual percentage change, unless otherwise indicated)					
Export volumes	5.0	-15.1	-23.0	1.8	20.5	20.3	23.2	2.1
Import volumes	24.6	11.4	1.7	15.1	-0.7	6.0	-4.1	1.9
Terms of trade	1.0	7.9	-16.5	-0.3	-1.9	0.2	0.4	0.4
End-of-year reserves (US$ millions)	9,743	9,125	9,220	8,988	9,256	9,249	9,450	9,682
(Months of imports of goods and services) 2/	20.7	20.8	17.0	16.3	16.0	16.5	16.4	16.3

Sources: Botswana authorities; and IMF staff estimates and projections.

1/ Based on pula-denominated estimates converted at period-average exchange rate.

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

Table 4a. Central Government Operations, 2007/08—2013/14 1/

	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14
		Preliminary	Budget	Projection				
	(Millions of pula)							
Total revenue and grants	28,629	30,269	24,393	26,316	29,613	34,475	40,085	44,059
Total revenue	28,052	29,508	24,080	26,003	29,275	34,116	39,680	43,594
Tax revenue	17,267	20,176	16,307	17,974	20,391	22,797	25,621	28,264
Income taxes	6,342	7,906	5,722	6,752	7,633	9,202	10,993	12,239
Mineral	2,448	3,451	1,983	2,423	2,760	3,825	4,924	5,269
Non-mineral	3,894	4,454	3,739	4,329	4,873	5,377	6,069	6,970
Taxes on goods and services 2/	2,852	4,256	3,255	3,864	4,569	5,196	5,579	5,991
Customs Union receipts 3/	7,835	7,750	7,065	7,065	7,872	8,063	8,671	9,598
Other	238	264	265	293	316	336	379	435
Nontax revenue	10,785	9,332	7,773	8,029	8,884	11,320	14,059	15,331
Mineral royalties and dividends	8,564	6,725	4,852	5,108	5,818	8,063	10,380	11,107
Interest	67	51	60	60	65	75	88	99
Property income	1,125	1,533	1,171	1,171	1,175	1,246	1,406	1,615
Of which: BoB transfers	906	1,302	1,000	1,000	899	1,028	1,210	1,360
Fees and charges	1,029	1,024	1,690	1,690	1,825	1,936	2,185	2,509
Grants	577	761	313	313	338	359	405	465
Total expenditure and net lending	24,822	34,894	37,787	35,365	38,340	39,093	41,798	44,475
Current expenditure	18,579	23,686	27,357	25,463	27,789	30,420	32,571	34,670
Wages and salaries	6,850	8,692	9,576	8,906	9,623	10,334	11,045	11,789
Interest	248	369	300	300	601	1,224	1,366	1,360
Other	11,480	14,625	17,481	16,257	17,565	18,863	20,160	21,520
Of which: grants and subsidies	4,869	7,058	8,436	7,846	8,477	9,103	9,729	10,386
Capital expenditure	6,548	11,417	10,558	10,030	10,687	8,817	9,379	9,965
Net lending	-305	-209	-128	-128	-136	-144	-152	-160
Overall balance	3,808	-4,625	-13,394	-9,049	-8,727	-4,618	-1,713	-416
Financing	-3,808	4,625	13,394	9,049	8,727	4,618	1,713	416
Foreign (net)	-93	-313	103	10,992	-7	-7	-7	-7
Domestic	-3,714	4,938	13,292	-1,943	8,734	4,625	1,720	423
Memorandum items:								
Non-mineral primary balance 4/	-7,929	-15,784	-20,989	-17,340	-17,668	-16,384	-16,949	-16,891

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 4b. Central Government Operations, 2007/08—2013/14 1/

	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14
		Preliminary	Budget	Projection				
	(Percent of GDP)							
Total revenue and grants	36.0	34.2	25.4	32.2	33.0	33.6	33.1	32.4
Total revenue	35.2	33.4	25.1	31.8	32.6	33.2	32.8	32.0
Tax revenue	21.7	22.8	17.0	22.0	22.7	22.2	21.2	20.8
Income taxes	8.0	8.9	6.0	8.2	8.5	9.0	9.1	9.0
Mineral	3.1	3.9	2.1	3.0	3.1	3.7	4.1	3.9
Non-mineral	4.9	5.0	3.9	5.3	5.4	5.2	5.0	5.1
Taxes on goods and services 2/	3.6	4.8	3.4	4.7	5.1	5.1	4.6	4.4
Customs Union receipts 3/	9.8	8.8	7.4	8.6	8.8	7.8	7.2	7.1
Other	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Nontax revenue	13.5	10.6	8.1	9.8	9.9	11.0	11.6	11.3
Mineral royalties and dividends	10.8	7.6	5.1	6.2	6.5	7.8	8.6	8.2
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Property income	1.4	1.7	1.2	1.4	1.3	1.2	1.2	1.2
Of which: BoB transfers	1.1	1.5	1.0	1.2	1.0	1.0	1.0	1.0
Fees and charges	1.3	1.2	1.8	2.1	2.0	1.9	1.8	1.8
Grants	0.7	0.9	0.3	0.4	0.4	0.3	0.3	0.3
Total expenditure and net lending	31.2	39.5	39.4	43.2	42.7	38.0	34.5	32.7
Current expenditure	23.3	26.8	28.5	31.1	30.9	29.6	26.9	25.5
Wages and salaries	8.6	9.8	10.0	10.9	10.7	10.1	9.1	8.7
Interest	0.3	0.4	0.3	0.4	0.7	1.2	1.1	1.0
Other	14.4	16.5	18.2	19.9	19.5	18.4	16.7	15.8
Of which: grants and subsidies	6.1	8.0	8.8	9.6	9.4	8.9	8.0	7.6
Capital expenditure	8.2	12.9	11.0	12.3	11.9	8.6	7.7	7.3
Net lending	-0.4	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Overall balance	4.8	-5.2	-14.0	-11.1	-9.7	-4.5	-1.4	-0.3
Financing	-4.8	5.2	14.0	11.1	9.7	4.5	1.4	0.3
Foreign (net)	-0.1	-0.4	0.1	13.4	0.0	0.0	0.0	0.0
Domestic	-4.7	5.6	13.8	-2.4	9.7	4.5	1.4	0.3
Memorandum items:								
Non-mineral primary balance 4/ (percent of non-mineral GDP)	-16.8	-28.6	-34.3	-28.3	-26.7	-23.4	-21.4	-18.6
GDP (fiscal year; millions of pula)	79,599	88,431	96,000	81,848	89,870	102,754	121,035	136,036

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 4c. Central Government Operations, 2007/08—2013/14 1/

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
			Preliminary	Projection				
				(Percent of non-mining GDP)				
Total revenue and grants	69.1	60.5	54.8	43.0	44.8	49.2	50.7	48.5
Total revenue	68.0	59.3	53.5	42.5	44.3	48.7	50.2	48.0
Tax revenue	40.2	36.5	36.6	29.4	30.8	32.5	32.4	31.1
Income taxes	17.3	13.4	14.3	11.0	11.5	13.1	13.9	13.5
Mineral	9.6	5.2	6.3	4.0	4.2	5.5	6.2	5.8
Non-mineral	7.8	8.2	8.1	7.1	7.4	7.7	7.7	7.7
Taxes on goods and services 2/	5.7	6.0	7.7	6.3	6.9	7.4	7.1	6.6
Customs Union receipts 3/	16.7	16.6	14.0	11.5	11.9	11.5	11.0	10.6
Other	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	27.8	22.8	16.9	13.1	13.4	16.1	17.8	16.9
Mineral royalties and dividends	23.5	18.1	12.2	8.3	8.8	11.5	13.1	12.2
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Property income	1.6	2.4	2.8	1.9	1.8	1.8	1.8	1.8
Of which: BoB transfers	1.4	1.9	2.4	1.6	1.4	1.5	1.5	1.5
Fees and charges	2.5	2.2	1.9	2.8	2.8	2.8	2.8	2.8
Grants	1.1	1.2	1.4	0.5	0.5	0.5	0.5	0.5
Total expenditure and net lending	49.8	52.5	63.2	57.8	58.0	55.8	52.8	48.9
Current expenditure	40.3	39.3	42.9	41.6	42.0	43.4	41.2	38.2
Wages and salaries	14.6	14.5	15.7	14.5	14.6	14.7	14.0	13.0
Interest	0.6	0.5	0.7	0.5	0.9	1.7	1.7	1.5
Other	25.0	24.3	26.5	26.6	26.6	26.9	25.5	23.7
Of which: grants and subsidies	11.1	10.3	12.8	12.8	12.8	13.0	12.3	11.4
Capital expenditure	10.2	13.8	20.7	16.4	16.2	12.6	11.9	11.0
Net lending	-0.7	-0.6	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance	19.3	8.1	-8.4	-14.8	-13.2	-6.6	-2.2	-0.5
Memorandum items:								
Non-mineral revenue	36.0	37.3	36.4	30.7	31.8	32.2	31.3	30.5
Non-mineral primary balance 4/	-14.8	-16.8	-28.6	-28.3	-26.7	-23.4	-21.4	-18.6
Non-mineral GDP (fiscal year; millions of pula)	39,626	47,284	55,191	61,219	66,110	70,102	79,116	90,866

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

1/ Fiscal year begins on April 1.

2/ Refers to sales tax and VAT.

3/ SACU receipts consist of external trade and excises on imported goods as well as a development component derived from excises.

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

Table 5. Monetary Survey, 2004–2009 1/

	2004	2005	2006	2007	2008	2009 Proj.
			(Millions of pula, end of period)			
Net foreign assets	25,269	35,903	48,812	60,589	72,831	73,283
Bank of Botswana	24,001	34,372	47,720	58,392	68,414	69,614
Assets	24,106	34,491	47,839	58,518	68,541	69,725
Liabilities	108	118	123	126	127	111
Commercial banks	1,268	1,531	1,093	2,177	4,416	3,668
Assets	1,779	2,993	2,863	3,751	6,059	5,320
Liabilities	511	1,462	1,771	1,574	1,642	1,652
Net other foreign assets	3	-1	4	20	1	1
Net domestic assets	-5,560	-13,356	-24,245	-28,364	-33,792	-28,441
Net domestic credit	-452	-3,410	-9,878	-13,656	-11,721	-8,264
Net claims on the government	-10,045	-13,703	-22,246	-27,833	-29,730	-29,129
Bank of Botswana	-9,541	-13,223	-21,236	-27,871	-31,768	-30,919
Commercial banks	31	62	12	38	2,038	1,790
Other financial institutions	-535	-542	-1,022	-1,212	-1,361	-1,195
Claims on nongovernment	9,593	10,293	12,368	14,008	17,907	20,776
Claims on parastatals	372	262	261	168	102	89
Claims on the private sector	9,221	10,030	12,108	15,220	19,268	21,972
Other items (net)	-5,108	-9,946	-14,367	-14,707	-22,071	-20,177
Capital	-1,976	-2,197	-2,716	-3,367	-4,201	-4,280
Bank of Botswana	-54	-59	-65	-67	-75	-66
Commercial banks	-1,922	-2,137	-2,651	-3,300	-4,126	-4,214
Reserves	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600
Bank of Botswana	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600
Commercial banks	0	0	0	0	0	0
Valuation adjustment 2/	-1,401	-5,543	-8,692	-9,503	-14,004	-14,227
Net unclassified assets	-131	-606	-1,359	-237	-2,266	-70
Money plus quasi-money (M2)	13,262	14,674	24,568	32,226	39,039	44,842
Money	4,225	3,998	5,157	6,167	7,580	8,582
Currency	632	625	753	908	1,103	1,263
Current deposits	3,592	3,372	4,404	5,260	6,477	7,319
Quasi money	9,037	10,676	19,411	26,058	31,459	36,260
Other monetary liabilities 3/	6,447	7,873	0	0	0	0
Broad money (M3)	19,708	22,547	24,568	32,226	39,039	44,842
			(12-month percentage change)			
Net foreign assets	1.3	42.1	36.0	24.1	20.2	0.6
Bank of Botswana	2.1	43.2	38.8	22.4	17.2	1.8
Commercial banks	-12.0	20.8	-28.6	99.3	102.8	-16.9
Net domestic assets	-22.3	140.2	81.5	17.0	19.1	-15.8
Net domestic credit	-82.8	654.1	189.6	38.3	-14.2	-29.5
Net claims on the government	-3.2	36.4	62.3	25.1	6.8	-2.0
of which: Bank of Botswana	-11.7	38.6	60.6	31.2	14.0	-2.7
Claims on nongovernment	23.9	7.3	20.2	13.3	27.8	16.0
Claims on parastatals	18.1	-29.4	-0.6	-35.4	-39.6	-12.2
Claims on the private sector	24.1	8.8	20.7	25.7	26.6	14.0
Other items (net)	13.0	94.7	44.5	2.4	50.1	-8.6
Money plus quasi-money (M2)	13.9	10.6	67.4	31.2	21.1	14.9
Broad money (M3)	10.7	14.4	9.0	31.2	21.1	14.9
Memorandum items:						
Nominal GDP (calendar year)	47,155	52,449	65,692	75,728	91,213	80,087
Nominal non-mineral GDP (calendar year)	29,663	32,513	37,781	45,163	53,646	59,826
Velocity (GDP relative to broad money, M2)	3.6	3.6	2.7	2.3	2.3	1.8
Velocity (non-mineral GDP relative to broad money, M2)	2.2	2.2	1.5	1.4	1.4	1.3
Private sector credit to GDP	19.6	19.1	18.4	20.1	21.1	27.4
Private sector credit to non-mineral GDP	31.1	30.9	32.0	33.7	35.9	36.7

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

1/ This table represents a depository corporations survey and the data are for end of period.

2/ Valuation adjustment reflects gains and losses arising from the valuation of foreign exchange reserves.

3/ Other monetary liabilities includes nonbank holdings of BoBCs; BoBCs cannot be held by nonbank financial institutions since March 2006.

Table 6. Banking System Prudential Indicators, 2004–2009 1/

	2004	2005	2006	2007	2008				2009
					Mar.	Jun.	Sep.	Dec	Mar.
	(Percent, unless otherwise indicated)								
Capital adequacy									
Regulatory capital (millions of pula) 2/	1,404	1,569	1,743	2,295	2,526	2,670	2,926	2,992	3,340
Tier 1 capital (millions of pula)	916	961	1,071	1,312	1,320	1,731	1,752	1,832	1,842
Risk Weighted Assets (in millions Pula)	8,302	9,066	10,404	13,380	13,996	15,383	16,707	17,694	18,056
Total Assets (in millions Pula)	14,842	17,761	29,256	37,139	40,930	41,684	45,190	45,318	41,688
Regulatory capital to risk-weighted assets 3/	16.9	17.3	16.8	17.2	18.0	17.4	17.5	16.9	18.5
Regulatory Tier I capital to risk-weighted assets 4/	11.0	10.6	10.3	9.8	9.4	11.3	10.5	10.4	10.2
Capital-to-assets	9.5	8.8	6.0	6.2	6.2	6.4	6.5	6.6	8.0
Asset composition and quality									
Loans-to-assets	57.0	51.2	36.9	37.6	35.5	36.6	38.2	39.6	44.5
Nonperforming loans (NPLs)-to-gross loans 5/	0.8	0.9	0.9	2.0	2.5	2.3	2.2	1.6	2.9
Compromised assets-to-gross loans 5/	2.7	2.6	3.7	1.4	1.2	1.2	1.0	0.9	1.2
NPLs net of specific provisions-to-gross loans 5/	0.0	0.0	0.0	0.2	0.8	0.3	0.4	-0.3	0.5
NPLs net of specific provisions-to-tier I capital 5/	0.0	0.0	0.0	2.2	8.8	2.6	3.9	-2.5	4.7
Profitability									
Return on average assets 6/	5.0	5.5	6.1	2.6	0.7	1.6	2.3	2.9	0.7
Return on average equity 6/	50.7	62.5	89.2	43.2	10.8	24.9	35.4	45.4	9.6
Net interest Margin to gross income	38.0	38.2	31.8	65.4	65.8	63.6	64.5	65.2	67.5
Non-interest income to gross income	22.2	23.2	17.8	34.6	34.2	36.4	35.5	34.8	32.5
Non-interest expenses to gross income	28.9	27.1	20.2	45.2	41.6	43.9	43.8	45.5	45.1
Liquidity									
Liquid assets to total assets	21.8	26.1	47.1	47.2	44.6	60.6	58.4	50.5	38.4
of which:									
BoBCs to Total Assets	15.9	19.6	43.4	44.9	40.1	40.5	39.6	38.7	36.6
Liquid assets to short-term liabilities	27.4	35.5	60.5	53.7	52.1	68.9	66.6	56.9	44.6
Foreign currency denominated loans to total loans	11.0	7.7	12.1	8.4	6.5	6.6	9.5	9.3	8.5
Foreign currency deposits to total deposits	15.4	17.9	24.8	29.9	34.7	33.5	32.2	26.9	16.5
Foreign currency denominated liabilities to total liabilities	18.4	22.5	29.1	45.7	60.6	68.1	63.2	53.5	50.6
Deposits-to-assets	80.0	74.5	79.0	84.5	81.7	83.7	84.9	85.2	83.6
Loans-to-deposits	71.2	68.7	46.7	44.5	43.4	43.8	45.0	46.5	53.2
Sensitivity to market risk									
Net open foreign exchange (FX) position as percent of regulatory capital 7/	-19.3	8.3	-18.1	18.5	60.2	14.9	35.3	28.7	14.9
Contingent foreign exchange (FX) assets-to-regulatory capital	23.6	70.7	258.2	242.6	294.6	247.8	232.4	132.7	76.5
Contingent foreign exchange (FX) liabilities-to-regulatory capital	44.7	52.4	88.4	111.8	164.1	180.3	180.7	60.9	70.8

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/ Quarterly figures for return on assets and return on equity in 2008 and 2009 are cumulative rather than annualized figures.
7/ Foreign currency liabilities less foreign currency assets as a percent of regulatory capital.

Table 7. Millennium Development Goals

	1990	1995	2000	2007	2007 SSA 1/
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*	12.5	10.7	26.6
Poverty gap at $1.25 a day (PPP) (percent of population)	...	*11*	...	...	51
Poverty headcount ratio at $1.25 a day (PPP) (percent of population)	...	*31*	...	…	29
Poverty headcount ratio at national poverty line (percent of population) 2/	...	...	...	…	...
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	...	...	*94*	72
Persistence to grade 5, total (percent of cohort)	*77*	...	85	…	...
Primary completion rate, total (percent of relevant age group)	89	91	90	95	60
School enrollment, primary (percent net) 3/	…	...	83	84	71
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (percent)	5	*9*	*17*	11	17
Ratio of girls to boys in primary and secondary education (percent)	…	...	74	100	68
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	33.5	38.4	39.4	*42.4*	...
Goal 4: Reduce child mortality					
Immunization, measles (percent of children ages 12–23 months)	87	89	90	90	73
Mortality rate, infant (per 1,000 live births) 3/	45	53	64	33	89
Mortality rate, under-5 (per 1,000) 3/	57	70	87	40	146
Goal 5: Improve maternal health					
Births attended by skilled health staff (percent of total)	*77*	*87*	94	…	45
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	…	380	900
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Incidence of tuberculosis (per 100,000 people)	307	444	640	731	369
Prevalence of HIV, female (percent ages 15–24)	…	...	…	15.3	3.3
Prevalence of HIV, total (percent of population ages 15–49) 4/	...	...	...	17.6	5
Tuberculosis cases detected under DOTS (percent) 5/	...	70	73	57	49
Goal 7: Ensure environmental sustainability					
CO2 emissions (metric tons per capita)	1.6	2.2	2.5	*2.5*	0.8
Forest area (percent of land area)	24	23	22	21	26
Improved sanitation facilities (percent of population with access)	38	42	45	*47*	31
Improved water source (percent of population with access)	93	94	95	*96*	58
Nationally protected areas (percent of total land area)	...	...	...	*308*	11.3
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	106	57	18	56	44
Debt service (PPG and IMF only, percent of exports, excl. workers' remittances)	4	3	2	1	4
Telephone lines (per 100 people)	2	4	8	7	2
Mobile cellular subscriptions (per 100 people)	0	0	13	61	23
Internet users (per 100 people)	0	0.1	2.9	5.3	4.4
Other					
Fertility rate, total (births per woman)	4.6	3.9	3.4	2.9	5.1
GNI per capita, Atlas method (current US$)	2,560	3,040	3,310	6,120	951
GNI, Atlas method (current US$ billions)	3.5	4.8	5.7	11.5	761
Gross capital formation (percent of GDP)	37.4	24.6	35.0	40.7	21.9
Life expectancy at birth, total (years) 3/	63	57	49	51	51
Literacy rate, adult total (percent of people ages 15 and above)	69	...	...	*83*	62
Population, total (millions)	1.4	1.6	1.7	1.9	800
Trade (percent of GDP)	104.8	89	86.2	83.7	71.3

Source: World Bank, World Development Indicators, 2009.

Note: Figures in italics refer to periods other than those specified.
1/ SSA represents the average for the sub-Saharan Africa region.
2/ Poverty headcount ratio at national poverty line updated from the Botswana 2002-2003 HIES.
3/ Data taken from the *Botswana Millennium Development Goals, Status Report* , 2004.
4/ Data taken from the *National AIDS Coordinating Agency, BAIS II* , 2004 and are for the entire population aged 18 months and above.
5/ The Directly Observed Treatment, Short-course (DOTS) is a WHO-recommended strategy for detection and cure of TB.

Table 8. Competitiveness Rankings

	2005	2006	2007	2008
Global Competitiveness Index Ranking *				
Argentina	54	69	85	88
Botswana	**72**	**81**	**55**	**56**
Chile	27	27	28	28
Colombia	58	65	73	74
Lesotho	…	112	119	123
Malaysia	25	26	21	21
Mauritius	55	55	56	57
Namibia	79	84	79	80
South Africa	40	45	44	45
Swaziland	…	…	…	…
No. of Countries	*117*	*125*	*130*	134
Ease of Doing Business Ranking *				
Argentina	93	101	102	113
Botswana	**44**	**48**	**52**	**38**
Chile	24	28	36	40
Colombia	76	79	66	53
Lesotho	116	114	119	123
Malaysia	25	25	25	20
Mauritius	32	32	29	24
Namibia	39	42	48	51
South Africa	28	29	35	32
Swaziland	67	76	100	108
No. of Countries	*175*	*175*	*181*	181

Sources: World Economic Forum, Global Competitiveness Report 2008-09, and World Bank, Doing Business Indicators 2009.

INTERNATIONAL MONETARY FUND

BOTSWANA

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by Saul Lizondo and Dhaneshwar Ghura

July 2, 2009

- **Relations with the Fund:** The last Article IV consultation was concluded in December 2007.
- **JMAP**.
- **Statistical Issues:** Botswana subscribes to the General Data Dissemination System (GDDS).
- **Debt Sustainability Analysis**

Content Page

Table

I. RELATIONS WITH THE FUND

(As of April 30, 2009)

I. Membership status Joined July 24, 1968; VIII.

II. General resources account	SDR (million)	Percent of Quota
Quota	63.00	100.00
Fund holdings of currency	54.53	86.56
Reserve position in Fund	8.48	13.45

III. SDR department	SDR (million)	Percent of Quota
Net cumulative allocation	4.36	100.00
Holdings	39.66	909.81

IV. Outstanding purchases and loans None

V. Financial arrangements None

VI. Project obligations to Fund None

VII. Implementation of HIPC initiative None

VIII. Exchange rate arrangements

The exchange rate of the Botswana pula is a crawling peg arrangement against a basket of currencies. As of May 31, 2009, the exchange rate of the U.S. dollar to the pula was US$1=P6.88, and that of the South African rand to the pula was R1=P0.84.

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.

IX. Article IV consultation

Botswana is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on December 7, 2007. Directors agreed with the thrust of the staff appraisal.

X. Technical assistance assignments/projects

Department	**Dates**	**Position**
MFD	1997	Central banking advisor
	1999–2000	Banking supervision advisor
STA	1997	Balance of payments advisor

XI. Technical assistance missions

Department	Dates	Purpose
MFD	January 2001	Banking supervision advisor
	February 2001	Monetary operations
	December 2001	MEFMI–Monetary operations
	August 2002	Banking supervision, anti-money laundering
	July 2004	NBFI supervision
	August 2004	Money and banking statistics follow-up
FAD	November 1997	Introduction of a VAT
	September 2000	Implementation of VAT next steps
	February 2002	Tax administration (SADC Region)
	November 2004	Public expenditure management
LEG	January 2006	Review of amended VAT provisions
	July 2006	Review of central bank law
	June 2007	Review of VAT laws
STA	May 2001	Inspection for visit of long-term balance of payments advisor
	April 2002	ROSC data module
	July 2002	BOP statistics: peripatetic visit
	August 2003	Monetary and financial statistics using the GDDS
	June 2004	GDDS project for Anglophone Africa: National accounts statistics
	August 2004	Follow-up mission: Money and banking statistics
	October 2004	GDDS: 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
	March 2006	GDDS project for Anglophone Africa: balance of payments statistics
	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
	November 2007–November 2008	Real Sector Statistics (Resident Regional Advisor)
	November 2008	Money and Banking Statistics

	February 2009	Phase II SDDS- Balance of Payments Statistics
	June 2009– June 2010	Real Sector Statistics (Resident Regional Advisor)
MCM	January, March 2007	IMF-World Bank Financial Sector Assessment Program (FSAP)
	December 2008	Inflation forecasting and modeling
	January 2009	Risk Management Framework
	February 2009, April 2010	Payments Systems (LT Resident Expert Assignment)
	July 2009	Monetary Operations

II. JMAP: Botswana—World Bank and IMF Work Programs

(As of June 9, 2009)

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. Country Partnership Strategy		Bank Board Q4, FY09 (discussed)
	2. Electricity Program		
	• Morupule B Generation and Transmission Power Project (SIL/PCG)		FY10
	• Mmamabula IPP Power Project PRG (TBD)		FY11 (TBD)
	3. HIV/AIDS Project		Bank Board Q1, FY09 (approved)
	4. Integrated Transport Project		Bank Board Q4, FY09 (approved)
	5. DPL (Budget Support)		FY10
	6. Wildlife Conflict Management and Biodiversity Conservation for Improved Rural Livelihoods Project (Global Environment Facility)		Q2, FY10
	7. Statistics/Capacity-building		
	• Strengthening Monitoring and Evaluation capacity for Vision 2016 Council (IDF Grant)		FY10; On-going
	• Strengthening Institute & Accountants (IDF Grant)		FY10; On-going
	• Strengthening Statistical Capacity for Poverty Analysis		FY09
	8. Carbon Finance Assistance Program		FY10
	9. Post ICA Follow-up/Financial Systems Stability Assessment (TA)		FY10
	10. Water Sector:		FY09/FY10
	• FBSA Technical Advisory Services (Phases 1 & 2)		FY10
	11. Sustainable Development (SDN) Policy Notes		FY10
	12. PER/PFM Reform (TA)		FY11

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	13. Development Policy Review (DPR)		FY10
	14. Skills Gap/Labor Markets		FY10
	15. Macro-Modeling (TA)		FY10
	16. Capacity building in NBFI (TA)		FY10
	17. Strategic Issues in Competitiveness Study		FY10
	18. Issues Notes on Accrual Accounting		FY10
IMF work program in the next 12 months	STA TA on monetary and balance of payments statistics	Ongoing	
	MCM TA on monetary and financial sector issues, including: revision of the Bank of Botswana Act and the Banking Act; macroeconomic modeling; payment systems modernization	Ongoing FY 2010	
	FAD TA on tax administration and public financial management	Expected FY 2010	
	LEG TA on tax administration and income tax law reform	Expected FY 2010	
	Article IV consultation	May 2009	
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic update on progress		
Bank request to Fund	Periodic macro update		

III. Statistical Issues

1. Data provision is adequate to conduct surveillance, but there are some shortcomings. The accuracy of data, particularly for the national accounts and balance of payments, needs improvement. National accounts are now prepared on a calendar basis rather than the July-June schedule. Historical data have been adjusted accordingly

2. A ROSC reassessment took place October 31–November 13, 2006 and the report, along with the authorities' response, was published on April 6, 2007. Cross-cutting recommendations were to monitor the consistency of the main macroeconomic datasets and reconcile differences regularly; establish a list of institutional units consistent with sectorization in the 1993 *System of National Accounts* (1993 SNA), to be applied consistently across all datasets; and support greater use of preliminary data by formalizing revision policies and implementing regular revision cycles.

3. As one of 22 countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Botswana has undertaken to use the GDDS as framework for the development of its national statistical system. Also, in preparation for eventual SDDS subscription, Botswana is participating in the monetary and financial statistics modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata, which were posted on the Fund's Dissemination Standards Bulletin Board on October 24, 2002. Recent advances include the publication of the *National Summary Data Page* on the BoB website and the dissemination of advance release calendars for key macroeconomic data.

National accounts and prices

4. Using the production and expenditure approaches, national accounts are now principally based on the concepts and definitions recommended by the 1993 SNA, in line with the strong commitment of the authorities to migrate to the 1993 SNA, but some changes are needed for full observance. For instance, classification and sector breakdowns are still broadly in line with 1968 SNA. Staff welcomes the authorities recent decision to harmonize the accounting period for national accounts It would be important to conduct comprehensive enterprise surveys every few years and introduce estimates for the informal sector. Detailed recommendations are contained in the April 2007 ROSC report.

5. The consumer price index is comprehensive and provides breakdowns between urban and rural areas and between tradable (domestic and imported) and nontradables. The Classification of Individual Consumption by Purpose (COICOP) in the rebased CPI (September 2006) broadly conforms with the guidelines of 1993 SNA and the CPI Manual, although there are still deviations with respect to the imputation of rents and owner-occupied housing. Estimates from the Household Income and Expenditure Survey (HIES) are used for the weights of market expenditure for goods and services. With respect to the wholesale price index (WPI), the ROSC mission recommended the development of concepts and definitions to meet the needs of data users. The Central Statistics Office is to decide whether to produce

an output index (PPI), an Intermediate Consumption Index or a Supply Price Index. Currently, the WPI of industrial output is not representative of industrial production, because it measures changes in the prices of only six product groups.

Fiscal accounts

6. The concepts and definitions used in compiling central government finance statistics generally follow the methodology of the IMF's *Government Finance Statistics Manual* (GFSM 1986) but cover only budgetary central government activities. No fiscal statistics are compiled for extrabudgetary institutions and consolidated central government. The classification used for budgetary central government partially follows the concepts of GFSM 1986. Detail on some components of current spending is lacking. Transactions are recorded on a cash basis consistent with the GFSM 1986 guidelines. In general, the statistics disseminated in official publications are presented clearly and are made available to all users simultaneously. The data ROSC mission recommended at least annual compilation and dissemination of GFS for extrabudgetary institutions, and the consolidated general government. The authorities have yet to decide on a suitable "migration path" to adopt the GFSM 2001 methodology. The authorities regularly report monthly data on budgetary central government for inclusion in the *International Financial Statistics* (IFS), but no data are reported for inclusion in the *Government Finance Statistics Yearbook*.

7. The periodicity of central government finance statistics meets GDDS standards, except for timeliness. It should be noted that information is available to permit compilation and dissemination of government finance statistics within the GDDS recommendations.

Monetary accounts

8. The Bank of Botswana's (BoB) compilation of the depository corporations survey is generally consistent with the methodology recommended in the Fund's *Monetary and Financial Statistics Manual* (MFSM). The survey covers BoB and all other depository corporations, excluding Savings and Credit Cooperatives, that issue liabilities included in the national definition of broad money as recommended in the MFSM. Classification and sectorization are largely consistent with MFSM, except for the classification of financial derivatives. In addition, some nonbudgetary central government units are classified as nonfinancial public corporations and accrued interest is not consistently presented together with the underlying instrument.

9. Monetary data for publication in *International Financial Statistics* are reported regularly using Standardized Report Forms. Although reporting is more timely, data concerning the central bank are still being reported to STA with a longer lag than those for the other depository corporations.

External sector statistics

10. The concepts, structure and definitions of the balance of payments statistics follow the fifth edition of the *Balance of Payments Statistics Manual* (BPM5). Institutional classifications generally follow BPM5, although data sources raise minor issues, in

particular, administrative sources using definitions and classifications that deviate from BPM5. Source data are adequate, but International Transaction Reporting System (ITRS) data, used mostly for services, have become unreliable, and alternative data sources are needed. Data compilation, estimation, and adjustments mostly employ sound techniques. However, the methods for estimating missing data and calculating flows from stock data are inadequate.

11. Balance of payments statistics are compiled and published in the BoB's monthly statistical bulletin and the Annual Report, thus meeting GDDS periodicity and timeliness recommendations, although only annual balance of payments statistics are reported to STA for publication. There are discrepancies with national accounts statistics concerning imports, exports, and payments related to settlements within the Southern African Customs Union (SACU), mainly due to different data sources and valuation methods. A recent TA mission has identified gaps in recording of portfolio investments and services.

Table 1. Botswana: Common Indicators Required for Surveillance

(As of June 10, 2009)

	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	Mar. 2009	6/10/2009	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities 4/	Mar.2009	6/10/2009	M	M	M		
Reserve/base money	Mar. 2009	6/10/2009	M	M	M	O, O, LO, O	LNO, O, LO, LO, LO
Broad money	Mar. 2009	6/10/2009	M	M	M		
Central bank balance sheet	Mar. 2009	6/10/2009	M	M	M		
Consolidated balance sheet of the banking system	Mar. 2009	6/10/2009	M		M		
Interest rates 5/	Mar. 2009	6/10/2009	M	M	M		
Consumer price index	Apr. 2009	May 2009	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	Mar. 2009	May 2009	A/Q	Q	Q		
Stocks of central government and central government-guaranteed debt 8/	NA	NA					
External current account balance	2008	May 2009	A	A	A	O, O, O, LO	LO, LO, LNO, O, LO
Exports and imports of goods and services	2009 Q1	May 2009	M/Q	M	Q		
GDP/GNP	2008	May 2009	A/Q	A/Q	A/Q	LO, LO, LNO, LO	LO, LO, LNO, LO, LO
Gross external debt	Dec. 2008	May 2009	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 during October 31-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.

IV. Public Sector Debt Sustainability Analysis

The public sector debt sustainability analysis (DSA) shows little risk of debt distress, even under various stress tests. Despite the sizeable increase in public debt expected during 2009-10, the DSA indicates that Botswana's public debt would remain sustainable over the medium term. However, continued large fiscal deficit over the medium term would worsen the debt indicators considerably, underscoring the need for fiscal measures.

1. At end-2008, Botswana's public debt is estimated at about P5.1 billion, (5.6 percent of GDP). About 30 percent of the debt is owed to bilateral and multilateral foreign creditors, while the rest is domestic debt. Botswana has a historically low level of public debt thanks to sound fiscal policies, which has led to fiscal surpluses and an accumulation of government reserves. However, the global financial crisis and the resulting lower demand for diamond has contributed to a sharp decline in government mineral revenues. This, combined with a significant rise in public spending, would result in a large fiscal deficit of 11.1 percent of GDP in FY 2009/10, which is expected to be more than fully financed by a budget support loan from the African Development Bank (AfDB), amounting to about 13 percent of GDP. On current projections, the debt-to-GDP ratio would rise from 5.6 percent of GDP in 2008 to 24.4 percent of GDP by 2010, driven largely by rising external debt and a decline in GDP by 10.3 percent in 2009, before declining thereafter to reach 15 percent of GDP by 2014.

2. The baseline scenario underlying the macroeconomic framework assumes that the central government primary budget balance moves from a substantial surplus in 2007 to a deficit in 2008, and remains so through 2011 before returning into a surplus during 2012-2014. Revenue and grants are projected to remain stable around 33 percent of GDP in the medium term, while primary expenditure is projected to increase by 8.5 percentage point of GDP in 2009, as the government undertakes large infrastructure projects. Expenditures would gradually decline in the medium term, as ongoing infrastructure projects are completed. Reflecting the more expansionary fiscal stance, the public debt-to-revenue ratio, which was 17.1 percent in 2008, would increase to 46.4 percent of GDP by 2014.

3. Table 1 presents two additional 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 public debt-to-GDP ratio would drop to zero by 2012, reflecting strong economic growth, as well as the prudent fiscal stance in the recent past. The second scenario shows the outcome if the government's policies remain unchanged, with the result that the primary deficit for the projection period remains at the unprecedented level of 9.5 percent of GDP. In this case, debt indicators would worsen considerably, with public debt rising to 48.2 percent of GDP by the end of the forecast period, underscoring the need to reduce expenditures to sustainable levels.

4. The bounds tests illustrate the sensitivity of the fiscal position to exogenous shocks (Figure 1). The results show that with different levels of standard deviation shock to key

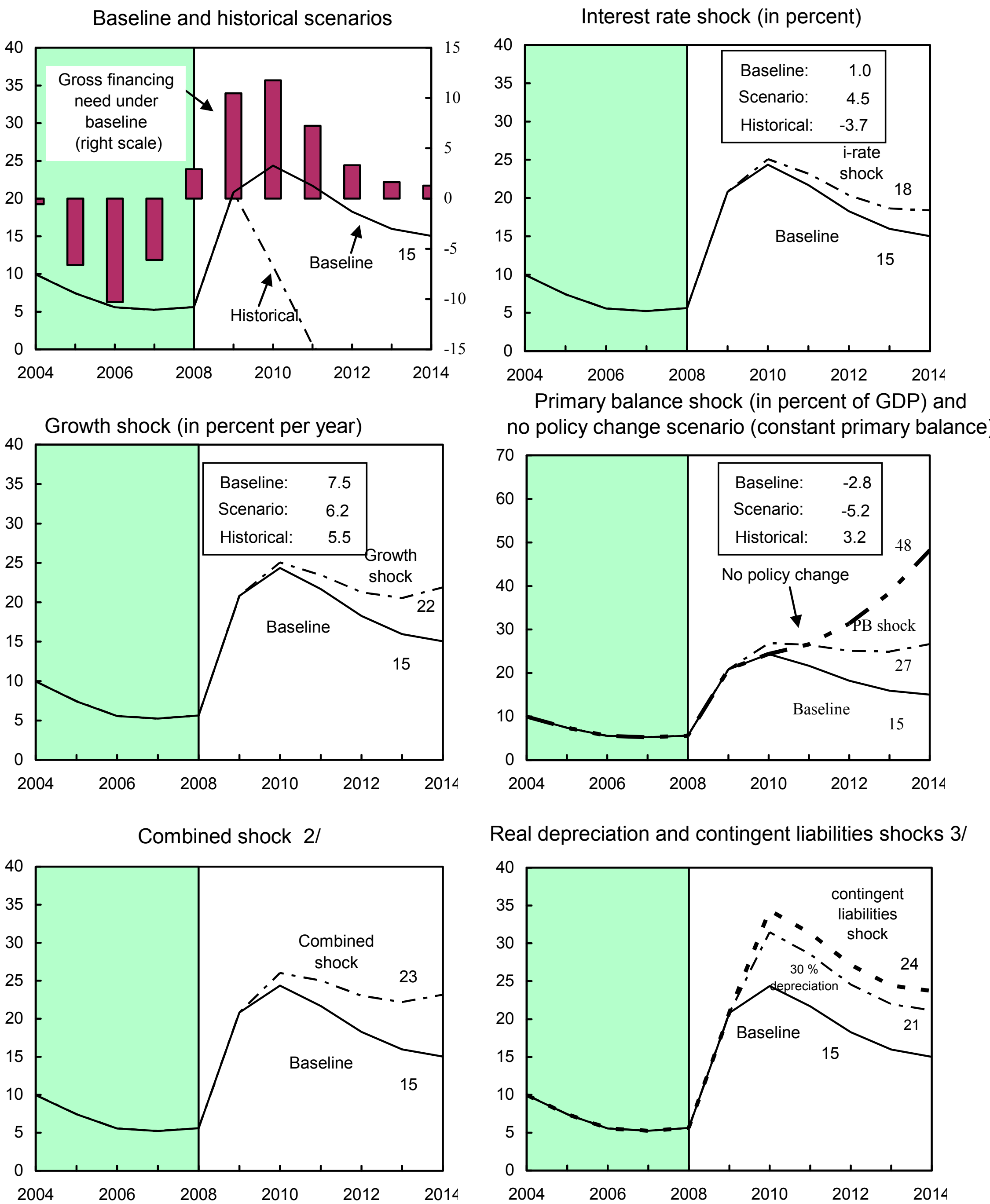
indicators, the debt-to-GDP ratio is projected to increase by between 3 to 12 percentage points of GDP depending on the shock. The most benign shock is that from the real interest rate, which nevertheless could result in up to 3.4 percentage points increase in the debt-to-GDP ratio relative to the baseline scenario, while a worsening in the 10 year historical average primary balance by one standard deviation results in a 11.7 percentage points increase in the debt-to-GDP ratio.

Table 1. Botswana: Public Sector Debt Sustainability Framework, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	9.9	7.4	5.6	5.2	5.6	**20.8**	**24.4**	**21.7**	**18.3**	**16.0**	**15.0**	**0.4**
o/w foreign-currency denominated	4.6	4.1	2.9	2.3	1.7	15.7	14.5	12.9	10.9	9.5	9.0	
Change in public sector debt	-1.3	-2.5	-1.9	-0.3	0.4	15.2	3.5	-2.7	-3.4	-2.3	-0.9	
Identified debt-creating flows (4+7+12)	-2.7	-6.7	-11.7	-7.0	2.4	10.7	8.4	3.0	-1.4	-1.8	-0.7	
Primary deficit	-1.5	-7.5	-10.9	-6.6	2.4	9.5	9.5	4.7	0.9	-0.5	-0.7	
Revenue and grants	37.1	40.4	39.8	37.4	32.7	34.1	33.0	33.9	33.1	32.2	32.4	
Primary (noninterest) expenditure	35.7	32.9	28.9	30.8	35.1	43.6	42.5	38.6	34.1	31.7	31.7	
Automatic debt dynamics 2/	-1.2	0.9	-0.8	-0.4	0.0	1.2	-1.1	-1.6	-2.3	-1.3	0.0	
Contribution from interest rate/growth differential 3/	-1.1	-0.4	-1.1	-0.4	-0.5	1.2	-1.1	-1.6	-2.3	-1.3	0.0	
Of which contribution from real interest rate	-0.5	-0.3	-0.8	-0.2	-0.4	0.5	-0.3	0.2	0.2	0.1	0.3	
Of which contribution from real GDP growth	-0.6	-0.1	-0.3	-0.2	-0.1	0.7	-0.8	-1.9	-2.5	-1.4	-0.3	
Contribution from exchange rate depreciation 4/	-0.2	1.2	0.3	0.0	0.5	...	...	...	...	...	...	
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/	1.5	4.1	9.8	6.7	-2.0	4.5	-4.9	-5.7	-2.0	-0.5	-0.2	
Public sector debt-to-revenue ratio 1/	26.8	18.4	14.0	14.0	17.1	61.0	73.7	63.9	55.1	49.6	46.4	
Gross financing need 6/	-0.6	-6.6	-10.3	-6.1	2.9	10.5	11.8	7.2	3.3	1.6	1.3	
in billions of U.S. dollars	-0.1	-0.7	-1.2	-0.8	0.4	1.1	1.3	0.8	0.4	0.2	0.2	
Scenario with key variables at their historical averages 7/						**20.8**	**11.0**	**0.5**	**...**	**...**	**...**	**0.8**
Scenario with no policy change (constant primary balance) in 2009-2014						**20.8**	**24.4**	**26.6**	**31.3**	**38.4**	**48.2**	**1.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.0	1.6	5.1	4.4	2.9	-10.3	4.1	8.6	13.8	8.9	2.0	
Average nominal interest rate on public debt (in percent) 8/	6.3	6.8	6.6	6.7	8.5	6.2	3.2	5.0	6.3	6.4	6.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-4.9	-2.7	-12.6	-3.7	-8.5	8.3	-1.3	1.3	1.7	1.1	2.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	3.8	-22.3	-8.6	0.4	-20.1	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	11.2	9.4	19.1	10.4	17.0	-2.1	4.5	3.7	4.6	5.3	4.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.3	-6.3	-7.8	11.4	17.5	11.3	1.6	-1.6	0.5	1.3	2.1	
Primary deficit	-1.5	-7.5	-10.9	-6.6	2.4	9.5	9.5	4.7	0.9	-0.5	-0.7	
A2. No policy change (constant primary balance) in 2005-09						**20.8**	**24.4**	**26.6**	**31.3**	**38.4**	**48.2**	**1.2**
B. Bound Tests												
B1. Real interest rate is at historical average plus one standard deviation						**20.8**	**25.1**	**23.2**	**20.4**	**18.6**	**18.4**	**1.1**
B2. Real GDP growth is at historical average minus one standard deviation						**20.8**	**25.1**	**23.4**	**21.3**	**20.5**	**21.9**	**0.8**
B3. Primary balance is at historical average minus one standard deviation						**20.8**	**26.8**	**26.5**	**25.1**	**24.9**	**26.7**	**0.7**
B4. Combination of B1-B3 using 1/2 standard deviation shocks						**20.8**	**26.0**	**25.0**	**23.0**	**22.2**	**23.1**	**1.1**
B5. One time 30 percent real depreciation in 2006 10/						**20.8**	**31.4**	**28.5**	**24.6**	**22.0**	**21.2**	**0.5**
B6. 10 percent of GDP increase in other debt-creating flows in 2006						**20.8**	**34.4**	**31.4**	**27.1**	**24.4**	**23.7**	**0.6**

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
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 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

V. External Debt Sustainability Analysis

The external debt sustainability analysis indicates that Botswana's external debt would remain sustainable in the medium term even under various stress tests. Total external debt is projected to increase substantially, although from a very low level at present, reflecting external budget support and financing of the power plant projects.

1. Botswana's gross external debt stood at $1.2 billion (11.2 percent of GDP) at the end of 2008, with short-term debt accounting for one-fifth of total external debt. Public external debt was at a low level of 2.7 percent of GDP in 2008.

Table 1. External Debt Indicators, 2008

	2008
Gross external debt (in millions of U.S. dollars)	1,248
(in percent of GDP)	11.2
Of which:	
Public debt	295
(in percent of GDP)	2.7
Short-term debt (in millions of U.S.dollars)	250
(in percent of GDP)	2.3
Gross official reserves (in millions of U.S. dollars)	9,125
(ratio to short-term debt)	36.5
(ratio to reserve money)	3.3
Memorandum items:	
GDP at current market prices (in million U.S.dollars)	11,101
Reserve money (in million U.S. dollars)	2,745

Sources: Bank of Botswana and Fund staff estimates.

2. Under the baseline medium-term macroeconomic scenario, gross external debt is projected to increase to 48.1 percent of GDP by 2012, and trend downward thereafter to 40.8 percent of GDP by 2014. This reflects primarily the new loan from the AfDB (US$1.5 billion) and the external borrowing related to the Morupule (US$750 million) and Mmamabula (US$2.4 billion) power plant projects. The initial increase in 2009 is also explained by the projected 10.3 percent contraction in real GDP due to significantly lower diamond production. The current account surplus, excluding interest payments, is expected to turn into a deficit during 2009-11, largely owing to a drop in external demand for diamonds in 2009 and a rise in imports related to the power plant projects. Current account surpluses are expected during 2013-14, reflecting a recovery in the diamond sector and electricity exports to South Africa. The external debt-to-export ratio is projected to rise significantly beginning in 2009 and to reach a peak of 121.1 percent in 2011 before gradually falling to 86.5 percent by 2014.

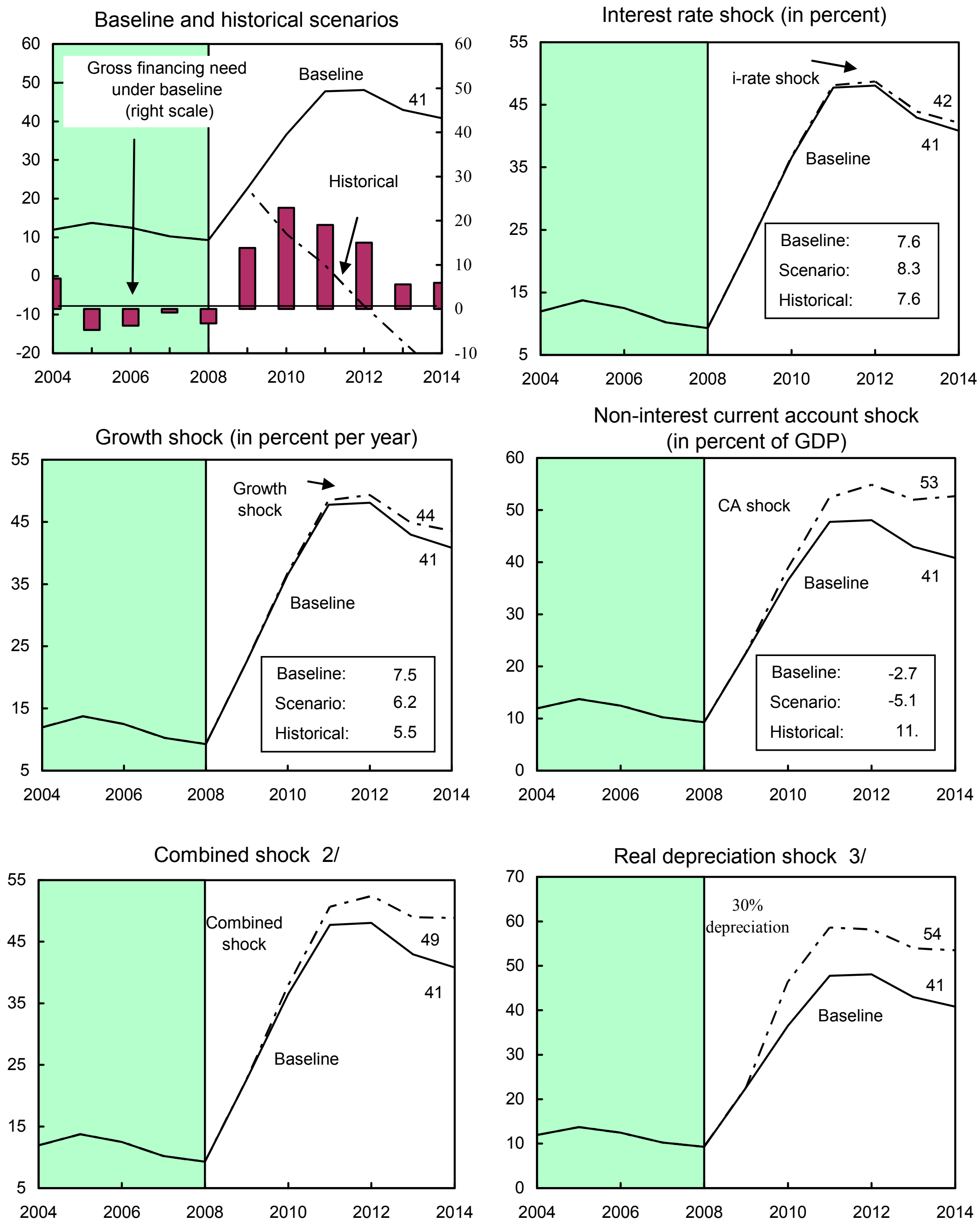
3. The bounds tests suggest that Botswana's external debt position would remain sustainable even if there are shocks. Botswana's external debt-to-GDP ratio is robust to growth and interest rate shocks, but appears more sensitive to a current account shock and an exchange rate shock (a 30 percent depreciation), and to a combination of growth, interest rate, and current account shocks.

Table 1. Country: External Debt Sustainability Framework, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing non-interest current account 6/
Baseline: External debt	11.9	13.7	12.5	10.2	9.3	**22.6**	**36.5**	**47.7**	**48.1**	**43.0**	**40.8**	**0.7**
Change in external debt	-3.8	1.8	-1.2	-2.3	-1.0	13.4	13.9	11.2	0.3	-5.1	-2.1	
Identified external debt-creating flows (4+8+9)	-10.8	-18.0	-22.6	-19.0	-7.6	7.4	12.1	4.6	-2.5	-8.6	-6.0	
Current account deficit, excluding interest payments	-4.7	-15.9	-18.1	-15.2	-7.8	7.1	15.0	8.8	3.3	-6.6	-6.8	
Deficit in balance of goods and services	-7.8	-16.8	-16.4	-11.4	-1.5	14.3	23.1	17.1	10.8	-0.4	-0.7	
Exports	44.2	51.4	47.0	47.6	43.5	35.4	35.7	39.4	41.4	46.4	47.2	
Imports	36.5	34.6	30.7	36.3	42.0	49.7	58.8	56.5	52.2	46.0	46.5	
Net non-debt creating capital inflows (negative)	-4.3	-2.4	-4.2	-3.7	0.3	-2.0	-3.6	-3.8	-3.2	-1.5	-1.6	
Automatic debt dynamics 1/	-1.8	0.4	-0.3	-0.2	0.0	2.3	0.7	-0.4	-2.5	-0.5	2.5	
Contribution from nominal interest rate	1.3	0.8	0.9	0.9	0.8	1.1	1.6	2.6	3.3	3.4	3.3	
Contribution from real GDP growth	-0.8	-0.2	-0.6	-0.5	-0.3	1.2	-0.9	-3.0	-5.8	-3.9	-0.8	
Contribution from price and exchange rate changes 2/	-2.3	-0.2	-0.5	-0.5	-0.6	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	7.0	19.8	21.3	16.8	6.6	5.9	1.8	6.6	2.8	3.5	3.8	
External debt-to-exports ratio (in percent)	27.0	26.7	26.6	21.5	21.3	64.0	102.4	121.1	116.1	92.6	86.5	
Gross external financing need (in billions of US dollars) 4/	0.7	-0.5	-0.4	-0.1	-0.4	1.5	2.5	2.2	2.0	0.8	0.9	
in percent of GDP	6.9	-4.7	-3.7	-0.8	-3.3	13.8	22.9	19.1	15.0	5.6	5.9	
Scenario with key variables at their historical averages 5/						**22.6**	**10.9**	**2.7**	**…**	**…**	**…**	**-1.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.0	1.6	5.1	4.4	2.9	-10.3	4.1	8.6	13.8	8.9	2.0	
GDP deflator in US dollars (change in percent)	17.0	1.3	3.7	4.6	6.0	-12.0	0.2	-2.5	-0.2	0.7	0.1	
Nominal external interest rate (in percent)	10.0	6.5	7.0	7.7	8.8	9.3	7.2	7.4	7.7	7.9	7.9	
Growth of exports (US dollar terms, in percent)	20.9	19.7	-0.3	10.6	-0.4	-35.8	5.3	16.9	19.3	22.9	3.8	
Growth of imports (US dollar terms, in percent)	31.5	-2.3	-3.3	29.2	26.2	-6.6	23.6	1.7	4.9	-3.3	3.2	
Current account balance, excluding interest payments	4.7	15.9	18.1	15.2	7.8	-7.1	-15.0	-8.8	-3.3	6.6	6.8	
Net non-debt creating capital inflows	4.3	2.4	4.2	3.7	-0.3	2.0	3.6	3.8	3.2	1.5	1.6	
B. Bound Tests												
B1. Nominal interest rate is at historical average plus one standard deviation						**22.6**	**36.7**	**48.1**	**48.7**	**43.9**	**42.1**	**1.1**
B2. Real GDP growth is at historical average minus one standard deviations						**22.6**	**36.8**	**48.5**	**49.3**	**44.9**	**43.6**	**1.4**
B3. Non-interest current account is at historical average minus one standard deviations						**22.6**	**38.9**	**52.4**	**54.9**	**52.0**	**52.7**	**1.4**
B4. Combination of B1-B3 using 1/2 standard deviation shocks						**22.6**	**37.9**	**50.7**	**52.4**	**48.9**	**48.9**	**1.6**
B5. One time 30 percent real depreciation in 2006						**22.6**	**46.4**	**58.6**	**58.2**	**54.0**	**53.5**	**0.7**

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) 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 growt
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 [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (t
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 1. Country: 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 2009.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
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FOR IMMEDIATE RELEASE
June 1, 2010

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

IMF Executive Board Concludes 2009 Article IV Consultation with Botswana

On July 20, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Botswana.

Background

Sound macroeconomic management, supported by strong institutions and good governance, has underpinned strong economic growth in Botswana for the past four decades. Annual real gross domestic product (GDP) growth averaged nearly 10 percent per year from 1960 through 2008, supported by increased mining production and more recently by stronger growth in the nonmining economy as the mining sector has matured. As a result, real per capita income increased from US$250 in 1960 to US$4,800 in 2008 (in constant 2000 US$).

Prudent management of diamond revenues, together with high minerals prices, resulted in large fiscal and external surpluses in recent years. International reserves amounted to 21 months of imports of goods and services by end-2008, boosted by the accumulation of sizable fiscal savings.

Despite this impressive progress, considerable social challenges remain. HIV/AIDS is a serious problem, while poverty, unemployment, and income inequality are all high for a middle-income country. In addition, the economy continues to rely heavily on diamond mining, which is expected to decline after 2020.

After several years of robust growth, real GDP growth slowed to 2.9 percent in 2008 due to a decline in mining output. The decline in diamond exports, together with a large increase in public infrastructure-related imports, reduced the current account surplus to 7 percent of GDP in 2008 from an average surplus of 15.6 percent of GDP during 2005-2007. The nonmining primary deficit (NMPD) increased to 28.6 percent of non-mining GDP in 2008/09 from 16.8 percent in 2007/08, reflecting a large increase in public investment and further growth in the wage bill.

The real effective exchange rate has stabilized since the shift to the crawling peg regime in May 2005, although Botswana's higher inflation vis-à-vis its trading partners resulted in a modest appreciation in 2008 and early 2009. The 12-month inflation rate fell to 8.4 percent in May 2009 from 15 percent in mid-2008, mostly reflecting reduced pressure on fuel and food prices. With inflationary pressures easing, the Bank of Botswana has reduced its main interest rate by 400 basis points since December 2008 with a view to stimulating economic activity.

The financial sector has weathered the global economic downturn thus far, although non-performing loans have edged up in late 2008 and early 2009. There has been notable progress on supervision of the nonbanking financial sector, including the establishment of a Non-Bank Financial Institutions Regulatory Authority (NBFIRA). There are still several recommendations from the 2007 Financial Sector Assessment Program (FSAP) mission that remain on the agenda.

The current global economic crisis has reduced demand for diamonds and contributed to a significant deterioration in the economic outlook. The economy is now projected to contract sharply in 2009, and large fiscal and external deficits are anticipated. Inflation has slowed considerably and is projected to fall to 7 percent by the end of 2009. Looking ahead, Botswana's near-term macroeconomic outlook is uncertain, with significant downside risks in the event of a slower than expected recovery in diamond demand. Two large electricity generation projects should boost output as they come online in 2012–13.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their prudent macroeconomic management, underpinned by strong institutions and good governance, which has contributed to rapid growth, large fiscal and external surpluses, and a significant build up of international reserves. Directors observed that the current global economic crisis has contributed to a significant deterioration in the economic outlook for Botswana with near-term downside risks. With a recovery in diamond exports expected to be sluggish, large fiscal and external deficits are likely to persist for the next several years. A slower-than-expected recovery in diamond demand would add to pressure on the external and fiscal positions. Directors noted that Botswana also faces the challenge of diversifying from diamond production and tackling high unemployment, HIV/AIDS prevalence, and income inequality.

Directors agreed that the recent marked increase in expenditures raises concerns about spending quality and fiscal sustainability. As a large part of this increase reflected outlays for infrastructure investment, a return to a more sustainable level of spending could take place as these projects are completed. They called for the authorities to scale back the public sector wage bill to create fiscal space for the recurrent costs associated with the completed projects, as well as for social spending. Directors noted that on current fiscal policies, the fiscal adjustment to achieve fiscal sustainability in the medium term would be larger than currently envisaged.

Directors encouraged the authorities to consider a fiscal rule that is based on the nonmining primary deficit as a share of nonmining GDP rather than the present rule, which limits overall expenditure relative to GDP. They noted that such a rule would provide a clearer picture of the underlying fiscal stance and be a better indicator of longer-term fiscal sustainability. Directors also encouraged the authorities to develop a Medium-Term Expenditure Framework in order to improve public expenditure management and increase spending efficiency.

Directors agreed that the weak outlook for growth and easing of inflationary pressures had provided room for easing monetary policy in 2009. Directors generally welcomed the recent easing of monetary policy. They encouraged the authorities to continue to weigh carefully the balance of inflation risk in their monetary policy decision.

Directors noted that the crawling peg has resulted in greater stability of the real effective exchange rate. They also noted staff's assessment that the real effective exchange rate is modestly overvalued. The limited scope for real exchange rate adjustment underscores the need for fiscal consolidation and structural reform to ensure medium-term external stability and competitiveness. Over the medium term, a few Directors encouraged greater exchange rate flexibility if the inflation objective were to become the primary monetary policy anchor.

Directors observed that the global financial crisis has not had a significant adverse impact on the banking sector to date. Nevertheless, they urged the authorities to remain vigilant, as the marked economic contraction expected in 2009 could increase stress on bank balance sheets. Directors welcomed the establishment of the Non-Bank Financial Institutions Regulatory Authority, but noted that further steps are needed to enhance its capacity, including through technical assistance, given the sizable reform agenda ahead. They encouraged the authorities to address the remaining issues from the FSAP recommendations.

Directors noted that Botswana needs to accelerate economic diversification in order to reduce vulnerability to shocks in the diamond trade. They urged the authorities to ensure that the increased spending on infrastructure, education, and health results in outcomes that are commensurate with these additional expenditures. They also called on the authorities to accelerate key structural reforms, which would reduce the cost of doing business and enhance productivity.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Botswana: Selected Economic Indicators

	2005	2006	2007	2008	2009 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP 1/	1.6	5.1	4.4	2.9	-10.3
Mineral	1.9	7.9	-2.0	-3.7	-36.7
Non-mineral	1.4	3.2	9.0	7.2	4.9
Consumer prices (average)	8.6	11.6	7.1	12.6	8.7
Consumer prices (end of period)	11.3	8.5	8.1	13.7	7.0
Nominal GDP (billions of pula) 1/	52.4	65.7	75.7	91.2	80.1
Diamond production (millions of carats)	31.8	34.3	33.6	32.6	20.0
Money and quasi money (M2)	10.6	67.4	31.2	21.1	14.9
	(Percent of GDP, unless otherwise indicated)				
Central government finance 2/					
Total revenue and grants	39.9	40.2	36.0	34.2	32.2
Total expenditure and net lending	31.6	28.9	31.2	39.5	43.2
Overall balance (deficit –)	8.3	11.2	4.8	-5.2	-11.1
Non-mineral primary balance (percent of non-mineral GDP) 3/	-20.5	-14.8	-16.8	-28.6	-28.3
External sector					
Current account balance	15.2	17.2	14.3	7.0	-8.2
Balance of payments	13.4	15.6	14.1	8.2	0.9
External public debt 4/	4.2	3.3	2.5	2.3	11.7
External public debt in percent of total exports	8.1	6.9	5.3	5.3	33.2
	(In millions of US dollars, unless otherwise indicated)				
Gross official reserves (end of period)	6,278	7,954	9,743	9,125	9,220
In months of imports of goods and services 5/	21.7	21.3	20.7	20.8	17.0
In percent of GDP	60.6	70.4	79.0	67.8	86.8
Pula Fund	4,511	6,110	6,614	6,866	...
In months of imports of goods and services 5/	15.6	16.4	14.1	15.6	...
Liquidity portfolio/ other reserves	1,767	1,844	3,130	2,259	...
In months of imports of goods and services 5/	6.1	4.9	6.6	5.1	...
Terms of trade (Annual percentage change)	14.5	-1.8	1.0	7.9	-16.5

Sources: Botswana authorities; and IMF staff estimates and projections.
1/ Calendar year.
2/ Year beginning April 1.
3/ The nonmineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest receipts and interest payments), divided by non-mineral GDP.
4/ Medium- and long-term public and publicly guaranteed debt outstanding.
5/ Based on imports of goods and services for the following year.

Statement by Mr. Itam on Botswana
July 20, 2009

Introduction

On behalf of my Botswana authorities, I would like to thank staff for the candid and productive discussions during the Article IV mission. I also thank the Executive Board and Management for their continued support. The authorities value the advice proffered by the Fund and are in general agreement with the thrust of the staff reports.

Following decades of high and sustained growth, which was supported by prudent economic management, the Botswana economy has been hard hit by the effects of the global recession, which has negatively affected growth through reduced diamond output. The slowdown in the diamond sector also affected the fiscal and external sector performance through lower revenues and exports, respectively. In the short term, the authorities have implemented some infrastructure projects to stimulate domestic demand and alleviate the impact of the recession on growth, while in the medium to long run they plan to facilitate diversification of the economy in order to reduce vulnerability to external shocks.

The authorities remain committed to the implementation of prudent policies, which have supported the country's strong economic performance over the years, in order to preserve macroeconomic stability and promote sustainable economic growth.

Recent economic developments and outlook

The effects of the global recession on the Botswana economic performance and outlook have been transmitted primarily through the diamond sector, which continues to be the mainstay of the economy. Economic growth slowed down from an average of 4 percent over the last five years to about 3 percent in 2008, with the value added in diamond mining falling significantly in the last quarter.

A sharp economic contraction, coupled with the widening of the fiscal and external deficits, is expected in 2009 as activities were suspended during the first four months of 2009 because of weak demand. Total production for the year is projected at only half of that realized in 2008. However, the economic slowdown is expected to be dampened by construction activities emanating from a number of ongoing government infrastructure projects.

Due to the country's openness and susceptibility to shocks, inflation has, for the most part, remained above the Central Bank target range of 3-6 percent. In 2008, inflation was driven largely by high fuel and food prices. Since then, inflation has been on a downward trend and is expected to continue to move towards the upper end of the target in line with easing of food and fuel prices.

Fiscal performance has deteriorated, with the overall balance shifting into deficit in FY2008/09 as a result of a fall in revenues due to lower global demand for diamonds coupled with high public spending, including major infrastructure projects. The overall fiscal deficit is expected to widen in FY 2009/10, as government revenue continues to be adversely effected by the global crisis and as SACU revenue possibly declines on account of lower regional imports. The overall budget deficit of some 11 percent of GDP is expected to be financed largely by an AfDB budget support loan.

The balance of payments position is expected to deteriorate in 2009 and 2010, with the current account balance shifting to deficit as a result of lower diamond exports and increased imports to support the construction of power projects. However, the situation is expected to improve in the medium term as the demand for diamonds recovers and capital imports level off. Consequently, the level of international reserves is expected to remain comfortable, at 16 months of import cover or higher during the short to medium term.

Macroeconomic policies

Fiscal policy

The authorities are committed to sound fiscal policies, which have led to fiscal surpluses and facilitated significant accumulation of reserves. The authorities are cognizant of the need to contain spending in order to ensure fiscal sustainability in light of the recent setbacks. However, they are of the view that increased spending at this time will be beneficial in mitigating the effects of the contraction in the diamond sector. The increase in infrastructure spending is considered to be temporary and is expected to fall as the ongoing projects are completed. The authorities are focusing on improving the efficiency of public expenditure. In this regard they have scaled down current expenditures from the original 2009/10 budget. They are also examining options for more cost effective public service delivery, in order to help contain further recurrent spending. The authorities are also open to the idea of revising their fiscal rule to incorporate a link to non-mining GDP. Such a revision will be considered as part of the National Development Plan 10 (NDP 10). On the revenue front, the authorities plan to concentrate on improving tax administration in order to strengthen nonmining tax revenues over the medium term.

Monetary policy and financial sector issues

Monetary policy will continue to aim at containing inflation within the medium-term target range of 3-6 percent. However, the Bank of Botswana is also mindful of the need to support domestic demand in response to the global recession. In this regard, the easing of inflation, although still above the target range, has allowed some loosening of monetary policy. The authorities have continued to strengthen their inflation forecasting model, but do not plan to move to a full fledged inflation targeting framework immediately.

The effect of the global financial crisis on the financial sector has thus far been minimal. Commercial banks continue to be well capitalized, liquid and profitable. Non-performing loans are low but could rise as economic conditions deteriorate. The authorities are closely monitoring the situation and have developed supervision guidelines for distressed banks. The authorities are making some progress in implementing the FSAP mission recommendations, notably on improving supervision of nonbank financial sector. The Nonbank Financial Institutions Regulatory Authority (NBFIRA) has been established and is expected to assume supervisory responsibilities for the nonbank sector by the end of the year. The authorities are committed to the implementation of the remaining FSAP recommendations.

Growth policies

Diversification of the economy, with the aim of boosting growth and reducing vulnerability to external shocks, is high on the authorities' development agenda. The need for diversification has been heightened by the recent abrupt economic contraction which emanated primarily from the effect of the global slowdown on the diamond mining sector. In the short term, the authorities have increased spending on infrastructure to boost domestic demand and dampen the effects of the global economic downturn.

For the medium term, the authorities have developed the new development plan (NDP 10) whose implementation is expected to begin in April next year. The main emphasis of the plan is economic diversification, job creation and poverty alleviation. The diversification strategy will concentrate on infrastructure investment and development of the agriculture, transport, tourism, education and health sectors as well as the downstream activities in the diamond sector, and improvement of the energy sector. The authorities will also enhance the investment climate by addressing the structural aspects of competitiveness.

Conclusion

In conclusion, I wish to reaffirm the authorities' commitment to the prudent macroeconomic management which has facilitated macroeconomic stability and impressive growth in the past. Diversification of the economy remains high on the agenda. The authorities appreciate the support of the Fund and the international community in their development endeavors.