



BOTSWANA

June 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2021 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 27, 2021 consideration of the staff report that concluded the Article IV consultation with Botswana.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 27, 2021, following discussions that ended on March 23, 2021, 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 May 13, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Botswana.

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IMF Executive Board Concludes 2021 Article IV Consultation with Botswana

FOR IMMEDIATE RELEASE

WASHINGTON, DC – May 27, 2021. The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Botswana.

Botswana entered the COVID-19 crisis with larger buffers than most countries but was already contending with structural challenges. The pandemic caused a 7.9 percent contraction in GDP, due to heavy reliance on diamonds and contact-intensive services, while the unemployment rate reached 24.5 percent in the last quarter of 2020—the highest in the last three and half decades. The authorities have taken decisive measures to limit the health and economic fallout of the pandemic. While the fiscal relief package has focused on supporting firms and vulnerable households to cope with the shock, the monetary stance has been eased to maintain adequate liquidity in the banking system.

The Botswana economy is expected to recover in 2021, with growth projected at 8.3 percent, driven by improvements in the global demand for diamonds, the easing of restrictions on mobility, and the expansionary fiscal stance. The recovery is expected to be uneven across sectors, depending on improvement in both domestic and external environment. Current account and fiscal deficits are projected to narrow in 2021, reflecting the expected improvement in the global demand for diamonds, phasing out of the one-off COVID-related spending, and implementation of revenue enhancing and expenditure consolidation measures. Inflationary pressures are expected to rise temporarily in the near term, following the rebound in oil prices, the increase in fuel levy and VAT rate, and the increase in administered prices. However, inflation is expected to remain within the central objective of 3–6 percent over the medium term.

The growth outlook is subject to high uncertainty. Downside risks stem mainly from the evolution of the pandemic, availability and deployment of vaccines, and lower-than-expected diamond revenue. On the upside, a faster rollout of vaccines in Botswana and worldwide could raise growth; while steadfast implementation of supply side reforms could promote private sector activity and diversify the sources of growth.

Executive Board Assessment²

Executive Directors noted that careful management of mineral resources and a track record of very strong policies and policy frameworks have allowed Botswana to enter the crisis with larger fiscal space than most countries and they commended the authorities for their decisive pandemic response. However, Directors observed that the projected recovery in 2021 remains subject to downside risks, including from the path of the pandemic, and emphasized the need for a successful rollout of vaccines to support recovery. Going forward, they underscored the need for steadfast commitment to structural reforms to increase diversification, tackle climate change challenges, and boost potential growth.

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

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in Summaries up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors supported maintaining targeted support to firms and households until the recovery takes hold more firmly. They welcomed the planned fiscal consolidation through a combination of revenue and expenditure measures, which will be critical to rebuild buffers, guard against shocks, and create fiscal space for growth-oriented investment. Directors noted that sustaining fiscal consolidation will require civil service reform, rationalizing parastatals and improving their governance, and strengthening the fiscal framework.

Directors supported maintaining the accommodative monetary policy stance. They highlighted the need to monitor second-round effects from supply shocks and discretionary measures on inflation and expectations, as well as credit developments. Directors encouraged the authorities to use the exchange rate flexibility within the existing crawl arrangement to help the economy adjust to shocks, and facilitate structural transformation to enhance competitiveness.

Directors agreed that the financial sector is sound. They encouraged the authorities to monitor risks, including through enhanced reporting, regular stress-testing and financial oversight. Directors concurred with the need to maintain targeted support to solvent but illiquid firms while reducing moral hazard and underscored the need to unwind COVID-related forbearance measures as the health crisis wanes. They also encouraged the authorities to clarify the role of development banks and deepen the domestic bond market. Directors urged the authorities to address the remaining deficiencies in the AML/CFT framework in order to be removed from the FATF grey list.

Directors emphasized that successful implementation of the Economic Recovery and Transformation Plan (ERTP) is essential in accelerating structural transformation, creating jobs, and promoting inclusiveness. They commended the authorities' focus on promoting non-mineral export, manufacturing, and transformative sectors, including digitalization and green and climate adaptation technologies.

Botswana: Selected Economic Indicators, 2015–26

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|--|-------|-------|-------|-------|-------|------------|-------|-------|-------|-------|-------|
| | | | | | | Prel. | Projection | | | | | |
| National income and prices | (Annual percent change, unless otherwise indicated) ¹ | | | | | | | | | | | |
| Real GDP | -1.7 | 4.3 | 2.9 | 4.5 | 3.0 | -7.9 | 8.3 | 6.4 | 4.8 | 4.0 | 4.0 | 4.0 |
| Mineral ² | -19.6 | -3.5 | -11.1 | 7.6 | -4.1 | -26.2 | 52.9 | 17.2 | 8.0 | 1.7 | 1.3 | 1.3 |
| Nonmineral | 1.7 | 5.5 | 4.8 | 4.1 | 3.9 | -5.9 | 4.5 | 5.0 | 4.4 | 4.3 | 4.4 | 4.4 |
| GDP per capita (US dollars) | 6,811 | 7,249 | 7,883 | 8,290 | 7,989 | ... | ... | ... | ... | ... | ... | ... |
| Consumer prices (average) | 3.1 | 2.8 | 3.3 | 3.2 | 2.7 | 1.9 | 4.8 | 5.0 | 4.4 | 4.4 | 4.4 | 4.4 |
| Diamond production (millions of carats) | 20.8 | 20.9 | 22.9 | 24.4 | 23.7 | 16.9 | 23.5 | 25.9 | 28.0 | 27.8 | 27.8 | 28.3 |
| Money and banking | | | | | | | | | | | | |
| Monetary Base | 18.6 | 3.7 | -13.7 | 17.5 | 5.4 | -7.0 | 10.4 | 10.3 | 8.9 | 8.9 | 8.8 | 8.8 |
| Broad money (M2) | 19.9 | 5.4 | 2.7 | 8.3 | 8.0 | 5.9 | 10.4 | 10.3 | 8.9 | 8.9 | 8.8 | 8.8 |
| Credit to the private sector | 9.0 | 9.0 | 5.3 | 6.6 | 7.1 | 5.3 | 7.8 | 10.5 | 9.2 | 8.9 | 9.3 | 9.3 |
| Investment and savings | (Percent of GDP, unless otherwise indicated) | | | | | | | | | | | |
| Gross investment (including change in inventories) | 32.6 | 27.0 | 27.6 | 29.4 | 33.3 | 35.8 | 34.7 | 32.4 | 31.8 | 31.1 | 31.2 | 31.1 |
| Public | 8.8 | 8.5 | 8.2 | 8.0 | 7.1 | 6.2 | 6.2 | 5.9 | 5.5 | 5.3 | 5.1 | 4.9 |
| Private | 23.8 | 18.5 | 19.4 | 21.4 | 26.1 | 29.6 | 28.5 | 26.5 | 26.3 | 25.8 | 26.1 | 26.2 |
| Gross savings | 39.5 | 123.1 | 104.8 | 108.4 | 27.2 | 25.7 | 31.4 | 30.5 | 32.8 | 33.6 | 33.8 | 33.6 |
| Public | 16.1 | 16.2 | 15.2 | 12.5 | 8.8 | 4.9 | 8.8 | 8.1 | 10.2 | 11.5 | 11.6 | 11.9 |
| Private | 23.4 | 106.9 | 89.6 | 95.9 | 18.4 | 20.8 | 22.6 | 22.4 | 22.6 | 22.1 | 22.1 | 21.8 |
| Central government finances ³ | | | | | | | | | | | | |
| Total revenue and grants | 31.2 | 33.2 | 30.9 | 27.8 | 26.0 | 24.0 | 27.5 | 24.4 | 27.3 | 27.5 | 27.1 | 26.7 |
| Total expenditure and net lending | 35.8 | 32.5 | 32.0 | 32.4 | 33.9 | 35.0 | 32.0 | 30.2 | 29.2 | 28.3 | 27.6 | 26.6 |
| Overall balance (deficit –) | -4.6 | 0.6 | -1.1 | -4.6 | -7.9 | -11.0 | -4.4 | -5.7 | -1.9 | -0.8 | -0.5 | 0.1 |
| Non-mineral primary balance ⁴ | -18.1 | -17.6 | -14.3 | -17.1 | -17.7 | -18.5 | -16.5 | -18.3 | -13.4 | -12.3 | -11.2 | -10.3 |
| Total central government debt | 23.2 | 21.3 | 18.1 | 18.6 | 19.2 | 23.5 | 25.7 | 28.9 | 28.5 | 27.3 | 26.0 | 23.7 |
| External sector | | | | | | | | | | | | |
| Exports of goods and services, f.o.b. (% change) | -24.1 | 14.4 | -16.2 | 9.2 | -17.5 | -24.6 | 58.9 | 8.1 | 8.5 | 8.0 | 4.5 | 5.9 |
| o/w diamonds | -28.4 | 24.6 | -17.0 | 9.8 | -19.9 | -21.8 | 64.2 | 2.8 | 7.4 | 7.5 | 4.4 | 6.5 |
| Imports of goods and services, f.o.b. (% change) | -10.0 | -14.6 | -9.8 | 17.0 | 5.2 | -4.9 | 11.7 | -3.0 | 5.2 | 5.8 | 4.6 | 4.6 |
| Current account balance | 2.1 | 7.7 | 5.3 | 0.6 | -6.0 | -10.1 | -3.3 | -1.9 | 1.0 | 2.5 | 2.5 | 2.5 |
| Overall Balance | -5.4 | -2.3 | 1.8 | 2.3 | -8.4 | -14.4 | -0.7 | 1.8 | 3.3 | 3.4 | 3.1 | 3.1 |
| Nominal effective exchange rate (2010=100) | 94.9 | 95.1 | 95.4 | 95.5 | ... | ... | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (2010=100) | 105.2 | 104.8 | 105.0 | 105.1 | ... | ... | ... | ... | ... | ... | ... | ... |
| Terms of trade (2005=100) | 197.4 | 175.9 | 159.2 | 166.2 | 143.6 | 138.7 | 151.6 | 159.0 | 165.4 | 170.0 | 170.6 | 171.4 |
| External public debt ⁵ | 18.4 | 14.3 | 11.6 | 11.7 | 10.5 | 11.1 | 12.4 | 13.0 | 12.4 | 11.1 | 9.9 | 8.7 |
| o/w public and publicly guaranteed | 5.3 | 4.7 | 4.4 | 4.2 | 4.1 | 4.4 | 3.8 | 3.4 | 3.0 | 2.8 | 2.6 | 2.4 |
| | (Millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | | | |
| Gross official reserves (end of period) | 7,546 | 7,189 | 7,502 | 6,657 | 6,172 | 4,944 | 4,818 | 5,178 | 5,914 | 6,724 | 7,504 | 8,345 |
| Months of imports of goods and services ⁶ | 13.1 | 13.8 | 12.3 | 10.4 | 10.1 | 7.3 | 7.3 | 7.5 | 8.0 | 8.7 | 9.3 | 9.9 |
| Months of non-diamond imports ⁶ | 17.5 | 17.8 | 16.3 | 13.7 | 13.9 | 10.1 | 9.6 | 9.8 | 10.7 | 11.5 | 12.2 | 12.9 |
| Percent of GDP | 58.0 | 44.9 | 41.1 | 37.5 | 33.2 | 29.5 | 26.3 | 25.6 | 27.1 | 28.8 | 30.1 | 30.5 |

Sources: Botswana authorities and IMF staff estimates and projections.

¹ Calendar year, unless otherwise indicated.

² Projections are based on current value added and projected growth rates by different types of minerals.

³ Year beginning April 1.

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

⁵ Includes central government-guaranteed debt.

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



BOTSWANA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 13, 2021

KEY ISSUES

Recent Developments. Botswana entered the COVID-19 crisis with larger buffers than most countries, but significantly less than in the past. The country was contending with structural challenges, persistent negative external shocks and delays in adjustment that had already caused a significant weakening of international reserves coverage and the fiscal position amid high unemployment. The pandemic exacerbated these challenges causing a sharp GDP contraction, among the strongest in SSA and a widening in the current account deficit. Foreign exchange reserves dropped further, though still remaining well above adequate levels. The fiscal deficit widened significantly as the government sought to counter the economic impact of the COVID-19 crisis, and implemented a sizeable public wage increase agreed in 2019. The deficit was financed partially by drawing down on the Government Investment Account.

The Authorities' Response and Plans. The authorities adopted a multi-pronged strategy to mitigate the impact of the pandemic and reduce its scarring effects. They implemented a fiscal relief package through the newly created "pandemic relief fund", including wage subsidies, in-kind transfers, additional spending on health and education, and loan facilities and guarantees to affected firms and households. On the financial side, Bank of Botswana (BoB) reduced the monetary policy rate along with several liquidity-supporting measures, allowed discretionary repayment holidays and relaxed the capital requirement. In addition to relief measures, the parliament approved in October an Economic Recovery and Transformation plan, aiming at reducing the potential economic scars, accelerating the transformation, and increasing job creation and inclusiveness. In addition to supporting existing sectors, the plan focuses on accelerating investment in digitalization and "productive" infrastructure while reducing the government footprint and enhancing the business environment.

Outlook and Risks. With large fiscal space, a relatively strong recovery is underway, driven by improvements in global demand for diamonds, the easing of restrictions on mobility, and the expansionary fiscal stance. The fiscal and external positions are expected to strengthen gradually in tandem with more favorable terms of trade, the removal of temporary COVID-19 relief measures, and strengthening of the economy. However, uncertainty is high, and risks are tilted to the downside, including from the

evolution of the pandemic, availability and deployment of vaccines, and lower-than-expected diamond revenue. At the same time, a steadfast implementation of supply side reforms could promote private sector activity and diversify the sources of growth.

Policy Recommendations

Vaccine Rollout. Staff supports the authorities' plan to secure and ensure successful rollout of vaccines to a share of the population large enough to keep the pandemic under control and prevent health systems from being overwhelmed.

Fiscal Policy. Proceed with planned removal of COVID-19 support measures and fiscal consolidation to achieve fiscal sustainability and rebuild an asset base that will benefit future generations. Maintain targeted support to illiquid but solvent firms and affected households and make the support state-contingent or conditional to reduce moral hazard. Advance civil service reform to contain the wage bill and strengthen the fiscal framework by revamping the fiscal rule and upgrading the fiscal risk framework. On financing, compare various financing opportunities and take advantage of favorable market conditions for debt to finance long-term infrastructure plans. If downside risks materialize, create space through progressive measures on revenue and expenditure, and fiscal reforms to improve efficiency of spending.

Monetary and Exchange Rate Policy. Maintain accommodative monetary stance and carefully monitor second-round effects from supply shocks to inflation and discretionary measures on expectations, as well as credit developments. Closely monitor liquidity to counter potential volatility related to public bond issuances. Consistent with the current exchange rate regime, let the exchange rate adjust to shocks, reduce real overvaluation while avoiding de-anchoring inflation expectations, and facilitate structural transformation.

Financial Sector Policies. As the health crisis wanes, unwind COVID-related forbearance measures, and maintain adequate liquidity in domestic market. Closely monitor risks through enhanced reporting, regular stress-testing and financial oversight. Make sure NPLs are well recorded and provisioned for. Enhance crisis preparedness and resolution framework. Tighten macroprudential policies in the event of excess credit growth, especially toward households. Address remaining AML/CFT deficiencies.

Structural Policies. Greater focus is needed on promoting non-mineral exports, manufacturing, and transformative sectors (including green and climate adaptation technologies), while reducing reliance on import substitution and protectionist policies. Enhance Botswana's cost competitiveness by promoting more competition in the network sector, spatial planning/geographic clustering, e-government, etc. Strengthen institutions and accountability to reduce information asymmetries and enhance implementation. Take steps to deepen financial markets, including the bond market.

Approved By
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 and **Bjorn Rother**
(SPR)

Discussions for the 2021 Article IV consultation took place virtually during March 8–23, 2021. The team comprised Mr. N'Diaye (head), Ms. Li, Messrs. Gurara and Jardak (all AFR). Mses. Mannathoko and Basutli (both OED) participated in the discussions. Ms. Wang and Mr. Alsokhebr provided research and editorial assistance for the preparation of this report.

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