

July 19, 2022

**Green Statement by Ms. Mannathoko and Ms. Basutli on Botswana
to Executive Board
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Our Botswana authorities appreciate the substantive, insightful and productive engagement with the staff team over the past couple of years. They value the effort made by IMF mission members to deepen their knowledge of the economy, which has led to the provision of high-quality analysis and tailored advice. On the authorities' behalf, we would like to thank staff for the excellent engagement over the past few years and the thoughtful and well-balanced report, addressing pertinent issues. Among other things, it is appropriately focused on rebuilding essential buffers that have been eroded by successive shocks and entrenching durable growth.

Our authorities broadly concur with the staff appraisal and recommendations. They continue to prioritize an effective COVID-19 response and improving livelihoods, aligning the government machinery to the Presidential Agenda, digitalization, value-chain development, and mindset change, to unlock opportunities in the private sector and address youth unemployment. These goals are clearly outlined in the Reset Agenda and reflect the aspirations of Vision 2036.

Our authorities continue to build on their track record of sound macroeconomic management, using this to exit the pandemic and achieve sustainable growth. Real GDP growth has rebounded to pre-COVID levels thanks to a rigorous vaccination campaign with over 95 percent of the eligible population fully vaccinated, and strong recovery in the mining sector. Output is expected to remain strong in the medium term, driven by higher prices and demand for diamonds, increased copper production, a general reopening of the economy, and recovery in tourism. The outlook is, however, subject to considerable risks, including the impact of the war in Ukraine and the path of the pandemic. In this context, the authorities agree that supporting vulnerable populations remains crucial. They view the current recently enhanced social safety net as appropriate to deal with the inflationary effects of the war, having increased social benefits in the 2022 budget. They however note the need to ensure sustainability of the support. The outlook is also subject to external inflationary pressures spilling over from the war in Ukraine, therefore going forward, reining in inflationary pressures will also be a policy priority. Inflation continues to trend upwards reaching 12.7 percent in June 2022, up from 10.6 percent in January 2022, significantly higher than 8.2 percent in June 2021, and an average 6.7 percent for 2021.

After substantial fiscal consolidation, improving revenue collection remains a key priority for Botswana. In that regard, the authorities intend to take measures to increase domestic revenue sources, while modernizing and strengthening tax collection. In addition they will rebuild fiscal buffers while managing fiscal expenditures, including by reducing subventions to commercial State-Owned Enterprises (SOEs) and reducing and effectively managing the public sector wage bill. With the help of Fund TA, they plan to adopt a fiscal rule that rebuilds buffers and strengthens the medium-term fiscal framework to anchor fiscal policy.

Inflationary pressures remain skewed to the upside, emanating from higher food and energy prices that could last longer than initially envisaged as the war in Ukraine continues, alongside the persistence of supply chain disruptions, and domestic factors including possible administered price increases and short-term impacts of import restrictions, among others. The central bank remains attentive to these pressures and committed to returning inflation to the objective range, while balancing price stability considerations with the need to support recovery. The Bank Rate was increased by 51 basis points and 50 basis points respectively, at the April and June 2022 meetings of the Monetary Policy Committee. In addition, reforms to monetary operations, including the introduction of the new monetary policy rate (MOPR) that took effect in April 2022 are expected to enhance monetary policy transmission and implementation. The authorities will also continue to allow flexibility within the current exchange rate regime to help the economy adjust to shocks, while facilitating structural transformation. The central bank continues to monitor developments in the financial sector for emerging risks to financial stability and looks forward to the upcoming Financial Sector Assessment Program that will reinforce this effort. Beyond this, the authorities remain committed to strengthening their AML/CFT framework having exited the FATF grey list in October 2021.

The authorities regard successful implementation of structural reforms as critical to their aspirations of attaining high income status by 2036. They agree with staff on the importance of accelerating the implementation of the Reset Agenda aimed at transforming Botswana's economy. In that regard, the recent restructuring of government ministries should help to enhance efficiency and service delivery while ensuring that the Reset Agenda is met. The authorities have also stepped-up efforts to rationalize parastatals and find private partners for some of them. Ensuring food security and addressing the country's long-standing high dependence on food imports also ranks high among priorities, with the consequences of this dependence painfully felt during the lockdown. In that connection, measures are being considered to encourage local production and reduce the import bill which weakens the external position. The authorities note the mission's reservations regarding excessive reliance on import substitution and restrictions to promote industrialization and have committed to monitor and review developments with a view to adapting as needed.

Plans are also underway to expedite digital connectivity countrywide through the Smart Botswana Strategy, and to migrate government services online, and leverage digitalization in education. The authorities also continue to work on building resilience to climate change with plans underway to contain ongoing water and agricultural impacts from recurring droughts and climate extremes. They have licensed one of two planned 50 megawatts of renewable energy capacity in a bid to increase renewable power generation.

The Botswana authorities appreciate and look forward to continued Fund engagement. They value the policy advice and technical assistance rendered by the Fund and have seen enhanced traction through more hands-on interaction. This could be further improved through resident advisors facilitated by the Fund.