



## IMF Executive Board Concludes 2019 Article IV Consultation with Botswana

FOR IMMEDIATE RELEASE

**WASHINGTON, DC – March 27, 2020.** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Botswana.

***Please note: The Staff Report was prepared by an IMF staff team for the Executive Board's consideration on March 9. The staff report reflects discussions with the Botswana authorities in November 2019 and is based on the information available as of February 21, 2020. It focuses on Botswana near- and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity, and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Botswana and globally. We direct you to the [attached documents](#) that includes preliminary staff recommendations with regard to the COVID-19 global outbreak.***

Persistently lower mineral revenues and SACU proceeds and delays in the needed fiscal adjustment, including the large increase in the wage bill, have contributed to a moderately overvalued exchange rate, and eroded buffers and savings for future generations. These challenges, together with a severe drought, have contributed to slower real GDP growth and a deterioration in the fiscal and external balances in 2019.

Growth is expected to pick up in the near-term mostly driven by the mining sector. Yet, over the medium term, absent bold fiscal and structural reforms, growth will remain around 4 percent, a level that is insufficient to achieve the authorities' objectives of reducing unemployment and transitioning to high-income status. Inflation is expected to remain within the Bank of Botswana's target range.

The outlook is subject to significant downside risks, including potential disruptions from COVID-19, most of which will affect Botswana through diamond and SACU revenue. Over the medium and longer term, Botswana could also be affected by climate change.

In the FY2020 budget, the first after the October 2019 general election, the authorities envisage resuming fiscal consolidation, mostly through reprioritization of capital spending, cuts in non-priority recurrent expenditures, and increases in fees, while the public wage bill will continue to increase. With a constrained fiscal position, the budget also acknowledged the need to transform the economy toward a private sector, export-led and knowledge-based growth model, and increase the efficiency of public spending while aligning the human and physical capital on the transformation agenda.

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<sup>1</sup> 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.

## Executive Board Assessment<sup>2</sup>

Executive Directors noted that economic growth slowed last year following a contraction in diamond activity and a severe drought. Expansionary fiscal policy in the face of persistent lower diamond and trade revenues has widened the fiscal deficit, eroding buffers and weakening the external position. With the outlook subject to downside risks, Directors highlighted the need to rebuild buffers to guard against future shocks, including from a global growth slowdown, coronavirus-related spillovers, and climate change and natural disasters. Reforms to facilitate structural transformation and diversify the economy will be crucial to promote stronger, sustainable, and inclusive growth.

Directors welcomed the planned gradual fiscal consolidation, stressing the need to start without delay. They underscored the importance of carefully calibrating the adjustment to minimize the impact on competitiveness and growth and protect the most vulnerable, as well as using fiscal space should downside risks materialize. They encouraged greater efforts in mobilizing revenue, including by broadening the tax base, reducing exemptions, and advancing tax reform, while containing the wage bill to protect efficient capital and social spending. Directors commended the authorities' focus on increasing spending efficiency through public investment management and parastatal reforms. They highlighted the importance of strengthening the fiscal framework aimed at ensuring intergenerational equity and smoothing cyclical fluctuations. They also recommended defining a medium-term anchor and modifying the existing fiscal rule, and took positive note of the authorities' interest in Fund technical assistance in this area.

Directors agreed that the current accommodative monetary policy stance is appropriate and welcomed the authorities' readiness to loosen the stance further if needed. They encouraged the authorities to use the flexibility within the current exchange rate framework to cushion against external shocks and help the economy adjust over time to the persistent decline in mineral receipts and revenues from the Southern African Customs Union. Directors urged a further strengthening of monetary transmission by deepening domestic financial markets. They emphasized the need to continue to closely monitor risks in household balance sheets and employ macroprudential tools as necessary.

Directors encouraged acceleration of the implementation of supply-side reforms to promote private sector activity and economic diversification, building on recent progress in improving the business environment. To foster competitiveness and boost jobs, they recommended reducing the government footprint in the economy, further enhancing human capital, and promoting greater integration into regional and global value chains. Continuing to enhance resilience to climate change will be important.

Directors took positive note of the country's track record of good governance and encouraged continued efforts to strengthen fiscal transparency and address the remaining deficiencies identified in the 2017 AML/CFT evaluation.

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

Table 1. Botswana: Selected Economic and Social Indicators, 2014–2025

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections						
(Annual percent change, unless otherwise indicated) <sup>1</sup>												
National income and prices												
Real GDP	4.1	-1.7	4.3	2.9	4.5	3.4	4.4	5.6	3.8	3.9	3.9	3.9
Mineral <sup>2</sup>	0.5	-19.6	-3.5	-11.1	7.4	-1.1	7.1	26.0	5.1	4.0	2.7	0.4
Nonmineral	4.9	1.7	5.5	4.8	4.1	3.9	4.1	3.3	3.6	3.9	4.1	4.4
GDP per capita (US dollars)	7,498	6,539	6,958	7,584	7,994	...	...	...	...	...	...	...
Consumer prices (average)	4.4	3.1	2.8	3.3	3.2	2.8	3.5	3.5	4.0	4.0	4.0	4.0
Diamond production (millions of carats)	24.7	20.8	20.9	22.9	24.4	24.0	25.8	25.3	26.0	26.8	27.5	27.5
Money and banking												
Monetary Base	-8.5	18.6	3.7	-13.7	17.5	9.4	7.7	7.0	7.8	8.0	8.3	8.5
Broad money (M2)	4.6	19.9	5.4	2.7	8.3	9.4	7.7	7.0	7.8	8.0	8.3	8.5
Credit to the private sector	13.7	9.0	9.0	5.3	6.6	5.6	7.9	7.3	8.1	8.3	8.3	9.1
(Percent of GDP, unless otherwise indicated)												
Investment and savings												
Gross investment (including change in inventories)	28.2	32.6	28.6	28.2	29.4	34.5	30.8	32.3	31.9	30.8	30.9	31.0
Public	8.2	8.8	8.5	8.2	8.0	6.6	5.6	5.0	4.8	4.6	4.4	4.2
Private	20.0	23.8	20.0	20.0	21.4	27.9	25.2	27.2	27.1	26.2	26.5	26.7
Gross savings	42.6	39.5	34.6	36.4	31.5	30.2	28.7	31.5	31.8	31.2	31.7	31.9
Public	19.8	16.1	16.2	15.2	12.1	9.2	10.2	10.8	11.1	10.7	11.1	11.5
Private	22.8	23.4	18.4	21.2	19.5	21.0	18.6	20.7	20.7	20.5	20.6	20.5
Central government finances <sup>3</sup>												
Total revenue and grants	38.3	31.2	33.2	30.9	27.7	25.5	28.2	27.0	26.8	25.9	26.3	26.1
Total expenditure and net lending	34.7	35.8	32.5	32.0	32.3	31.3	31.3	29.2	28.1	27.5	26.8	26.0
Overall balance (deficit -)	3.7	-4.6	0.6	-1.1	-4.6	-5.8	-3.1	-2.3	-1.3	-1.6	-0.5	0.1
Non-mineral primary balance <sup>4</sup>	-16.1	-18.1	-17.6	-14.3	-17.1	-15.4	-13.5	-12.8	-12.1	-11.2	-10.3	-9.3
Total central government debt	22.6	23.2	21.3	18.1	18.9	18.7	16.7	16.7	16.0	15.5	14.5	13.3
External sector												
Exports of goods and services, f.o.b. (% change)	8.2	-24.1	14.0	-15.7	9.8	-20.0	25.0	6.0	4.5	7.6	4.5	3.1
o/w diamonds	10.4	-28.4	24.6	-17.6	6.8	-24.9	31.3	-0.6	2.5	6.6	4.2	2.0
Imports of goods and services, f.o.b. (% change)	-2.1	-10.0	-14.6	-10.0	16.6	-3.8	14.4	1.6	1.1	5.6	3.6	3.3
Current account balance	10.7	2.2	7.8	6.1	2.1	-4.3	-2.1	-0.8	-0.1	0.4	0.8	1.0
Overall Balance	3.7	-5.4	-2.3	1.8	2.0	-7.7	-1.9	-0.9	0.0	0.9	1.3	1.4
Nominal effective exchange rate (2010=100)	94.8	94.9	95.1	95.4	95.5	...	...	...	...	...	...	...
Real effective exchange rate (2010=100)	104.3	105.2	104.8	105.0	105.1	...	...	...	...	...	...	...
Terms of trade (2005=100)	165.7	197.6	176.1	160.1	147.2	134.7	132.5	132.5	132.4	132.4	132.3	132.3
External public debt <sup>5</sup>	17.2	18.4	14.3	11.6	11.9	11.0	10.0	8.9	8.1	7.4	6.7	6.0
o/w public and publicly guaranteed	4.8	5.3	4.7	4.4	4.2	4.0	3.7	3.3	3.1	2.8	2.6	2.4
(Millions of U.S. dollars, unless otherwise indicated)												
Gross official reserves (end of period)	8,323	7,546	7,189	7,502	6,657	6,557	6,182	5,986	5,994	6,365	6,673	7,032
Months of imports of goods and services <sup>6</sup>	12.3	13.1	13.9	12.4	11.4	9.9	9.4	9.0	8.5	8.5	8.6	8.8
Months of non-diamond imports <sup>6</sup>	17.8	17.5	17.8	16.4	14.0	12.5	11.9	11.4	10.8	10.8	10.9	11.0
Percent of GDP	54.3	58.0	44.9	41.1	37.5	35.3	32.2	29.0	27.7	28.3	28.4	28.3

Sources: Botswana authorities and IMF staff estimates and projections.

<sup>1</sup> Calendar year, unless otherwise indicated.<sup>2</sup> Projections are based on diamond production due to lack of information on the breakdown of mining value added by mineral.<sup>3</sup> Year beginning April 1.<sup>4</sup> 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.<sup>5</sup> Includes central government-guaranteed debt.<sup>6</sup> Based on imports of goods and services for the following year.