



BOTSWANA

2024 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2024

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 2024 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on July 12, 2024, 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 25, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2024 Article IV Consultation with Botswana

FOR IMMEDIATE RELEASE

- *Botswana's economic growth is expected to slow to 1 percent in 2024 primarily because of a diamond market contraction, before picking up next year. Inflation has declined sharply since the peak of mid-2022 and returned to the central bank's medium-term objective range of 3–6 percent, where it is expected to remain in the medium term.*
- *The government plans a fiscal expansion in FY2024 followed by two years of substantial fiscal adjustment. Public debt is low (20 percent of GDP), but government deposits at the central bank have significantly reduced over the past decade.*
- *The financial sector is sound, stable, and resilient.*

Washington, DC – September 10, 2024: On August 28, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Botswana and endorsed the staff appraisal without a meeting on a lapse-of-time basis.²

Botswana's economic growth decelerated from 5.5 percent in 2022 to 2.7 percent in 2023, below the long-run potential growth of 4 percent. A sharp decline in diamond trading and mining activities was the main contributor to the slowdown, as global demand for rough diamonds decreased. Inflation has remained below the ceiling of the central bank's medium-term objective range since July 2023. Despite lower diamond exports, FX reserves increased in 2023 supported by higher customs union receipts. The financial sector is broadly sound, stable, and resilient.

Botswana's economy is expected to decelerate further this year, with growth projected at 1 percent. The continued slowdown is mainly due to a fall in diamond production, partly offset by construction projects financed by the fiscal expansion. Growth is forecast to rebound – averaging 5 percent over the next two years – due to higher prices and quantities of diamonds produced. Inflation is projected to remain within the central bank's objective range of 3–6 percent.

The fiscal deficit is projected to widen further to 6 percent of GDP in FY2024, reflecting a further decline in mineral revenues and higher capital expenditure. The government plans a substantial fiscal adjustment in the following two years to reach a fiscal surplus. The external position should soften over the medium term (with FX reserves decreasing to 5 months of imports) due to weak growth in customs revenues and higher government foreign debt

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 The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

repayments. Risks to the outlook remain elevated due to the emergence of cheaper lab-grown diamonds, and uncertainty over the recovery of major export markets.

Executive Board Assessment

In concluding the 2024 Article IV consultation with Botswana, Executive Directors endorsed staff's appraisal, as follows:

Botswana is facing a severe slowdown from a diamond market contraction in 2023 and 2024. Growth is expected to fall to 1.0 percent this year, from 2.7 percent in 2023 and 5.5 percent in 2022. This reflects weaker global demand for diamonds and a sharp increase in inventories.

Real GDP growth should rebound next year, although risks to the outlook remain elevated. A strong recovery is projected in 2025, driven by the rebound in diamond production and trade. But the economic outlook is highly uncertain, with the emergence of cheaper lab-grown diamonds, and the announced sale of De Beers by its UK parent company.

In the near term, the fall in diamond revenues could be accommodated by a mix of higher fiscal deficit and reprioritization of capital expenditure. Some fiscal relaxation is warranted in light of the widening of the output gap, but staff encourages the authorities to reprioritize capital projects to limit the increase in the deficit and ensure that they achieve the highest value for money.

Over the medium term, the authorities' planned fiscal consolidation is critical to put a stop to the depletion of government's financial buffers, build resilience against shocks, and preserve fiscal sustainability. Staff assesses that targeting a 1 percent of GDP fiscal surplus would generate sufficient savings to protect the budget against major economic shocks. While the authorities' adjustment plan focuses mostly on expenditure restraint, there is also scope to increase revenues. The medium-term adjustment should be supported by institutional reforms, including a fiscal rule, more credible medium-term budgeting, and possibly a well-designed SWF.

The monetary policy stance is appropriate. Inflation has declined since August 2022 and is projected to remain within the central bank's objective range in the medium term. Underlying pressures, as measured by core inflation indicators, seem contained, while inflation expectations are well anchored. The 2023 external position is assessed to be broadly in line with fundamentals and desirable policies.

The authorities' plans to strengthen financial sector oversight, deepening, and inclusion are welcomed. The financial sector is broadly sound and stable despite the economic slowdown. Faster implementation of the 2023 FSAP recommendations will further reduce financial risks. These include moving to implement Basel III liquidity standards, enhancing risk-based supervision of banks, reinforcing the crisis management framework (ELA, bank resolution), and deploying macroprudential tools to address household debt risk.

Accelerating growth and job creation requires a fundamental shift towards greater private sector participation, a more diversified export base, and a more efficient public sector. The authorities should prioritize SOE modernization, improved infrastructure for doing business (internet, energy, logistics), trade facilitation measures, more efficient social protection, and financial inclusion reforms that support small entrepreneurs. These goals could be enshrined in the new NDP, supported by time-bound and well-prioritized action plans.

Botswana: Selected Economic and Social Indicators, 2020-2029¹

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Projection									
(Annual percent change, unless otherwise indicated)										
National Income and Prices										
Real GDP	-8.7	11.9	5.5	2.7	1.0	5.2	4.8	4.0	4.0	4.0
Nonmineral	-3.5	7.9	4.9	2.6	5.1	4.1	4.4	4.4	4.4	4.5
GDP per capita (US dollars)	5,863	7,244	7,726	7,250	7,341	8,003	8,602	9,146	9,726	10,437
GNI per capita (US dollars) ²	5,872	7,174	7,220	6,963	7,150	7,733	8,290	8,798	9,344	10,027
Consumer prices (average)	1.9	6.7	12.2	5.1	3.8	4.5	4.5	4.5	4.5	4.5
Diamond production (millions of carats)	16.9	22.7	24.5	25.1	21.1	23.3	25.0	25.5	26.0	26.4
Money and Banking										
Monetary Base	-3.8	-8.8	-5.3	33.1	8.7	9.7	9.3	9.2	9.3	9.3
Broad money (M2)	5.9	5.0	6.8	9.3	8.7	9.7	9.3	9.2	9.3	9.3
Credit to the private sector	5.3	5.4	4.7	5.6	8.5	11.0	11.0	11.0	11.0	11.0
(Percent of GDP, unless otherwise indicated)										
Investment and Savings										
Gross investment (including change in inventories)	32.8	27.4	25.0	30.3	35.4	34.1	35.0	35.5	36.7	37.5
Public	6.5	5.5	5.4	7.1	8.4	7.0	6.2	6.0	5.5	5.2
Private	26.3	21.9	19.6	23.2	26.9	27.1	28.8	29.5	31.2	32.3
Gross savings	26.6	28.1	24.9	29.9	33.4	35.6	36.2	36.8	37.3	37.7
Public	-4.3	0.7	4.0	3.0	2.4	4.2	5.4	6.1	5.9	5.5
Private	30.8	27.5	20.8	26.9	31.0	31.4	30.9	30.7	31.4	32.2
Central Government Finances³										
Total revenue and grants	25.6	29.0	29.1	28.4	28.2	28.8	28.6	28.8	27.6	26.7
SACU receipts	9.1	6.5	5.5	9.1	9.6	7.0	6.4	6.6	6.3	5.9
Mineral revenue	5.3	10.6	13.3	7.4	5.8	9.5	9.9	9.8	8.9	8.4
Total expenditure and net lending	36.5	31.4	29.1	33.1	34.2	30.6	29.1	28.3	27.1	26.2
Overall balance (deficit -)	-10.9	-2.4	0.0	-4.7	-6.0	-1.7	-0.5	0.5	0.5	0.5
Non-mineral non-SACU balance ⁴	-25.3	-19.5	-18.8	-21.3	-21.3	-18.2	-16.7	-15.9	-14.7	-13.8
Net Debt	15.3	12.8	12.6	16.9	22.2	21.6	20.2	18.2	16.2	14.6
Total central government debt ⁵	18.7	18.7	18.1	20.1	22.6	22.1	20.7	20.1	20.0	20.0
Government deposits with the BoB ⁶	3.4	5.9	5.5	3.3	0.4	0.4	0.6	1.9	3.8	5.5
External Sector										
Trade balance	-13.2	-3.5	2.7	-2.4	-6.9	-0.9	0.2	0.3	0.0	0.0
Current account balance	-10.3	-1.7	-1.2	-0.6	-2.0	1.5	1.2	1.2	0.6	0.2
Overall Balance	-11.7	-1.4	1.8	0.6	-0.9	1.3	1.3	1.5	0.9	0.5
Nominal effective exchange rate (2018=100) ⁷	94.0	94.1	90.8	86.4	-	-	-	-	-	-
Real effective exchange rate (2018=100) ⁷	94.4	97.7	99.1	94.7	-	-	-	-	-	-
Terms of trade (2005=100)	140.5	178.9	161.3	152.7	125.9	162.2	171.4	176.6	181.6	186.6
External central government debt ⁵	7.8	8.4	7.5	8.9	8.3	6.7	5.6	4.8	3.9	3.5
Gross official reserves (end of period, millions of USD)	4,944	4,806	4,281	4,757	4,587	4,879	5,198	5,600	5,852	6,014
Months of imports of goods and services ⁸	6.4	6.6	7.1	7.3	6.3	6.0	5.8	5.6	5.4	5.1
Months of non-diamond imports ⁸	9.3	8.7	8.2	8.8	7.9	7.8	7.6	7.5	7.2	7.1
Percent of GDP	31.2	27.1	21.8	24.2	23.3	22.3	21.5	21.7	20.8	19.6

Sources: Botswana authorities and IMF staff estimates and projections.

¹ This table is based on calendar years unless otherwise indicated.

² Based on Atlas method from the World Bank.

³ Fiscal variables are based on fiscal years (starting on April 1).

⁴ The non-mineral non-SACU balance is computed as the difference between non-mineral non-SACU revenue and total expenditure.

⁵ Excludes guarantees. Debt data measured at end of fiscal year.

⁶ Government deposits with the BoB include Government Investment Account as well as other accounts. Deposits data measured at end of fiscal year.

⁷ For 2020-2023, both effective exchange rates are from IMF INS database.

⁸ Based on imports of goods and services for the following year.



BOTSWANA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

July 25, 2024

KEY ISSUES

Context. Botswana is experiencing a significant slowdown from a diamond market contraction in 2023–24. Inflation has declined sharply since the peak of mid-2022 and returned to the central bank’s objective range, where it is expected to remain in the medium term. The authorities plan a fiscal expansion in FY2024 followed by two years of substantial adjustment to reach a fiscal surplus by FY2026. The external position should soften over the medium term, with FX reserves decreasing to 5 months of imports. The financial sector remains sound and stable despite the economic downturn.

Policy Recommendations

- **Fiscal policy.** Some fiscal relaxation is warranted this year given the fall in mineral revenues, but the ambitious capital budget should be streamlined to contain the deterioration of the deficit and prioritize projects with the highest value for money. Rebuilding fiscal buffers in the medium term is critical for debt sustainability given the longer-term prospect of diamond resource exhaustion and competition from lab-grown diamonds.
- **Monetary policy.** The monetary policy stance is appropriate, but monetary policy transmission remains limited, requiring further deepening of the interbank, credit, and government bond markets along the transmission chain.
- **Financial sector policy.** Faster implementation of FSAP recommendations will reduce financial sector risks. These include moving to implement Basel III liquidity standards, enhancing risk-based supervision of banks, reinforcing the crisis management framework, and deploying macroprudential tools to address household debt risk.
- **Structural policies.** Reducing inequality and unemployment requires a more job-intensive, private sector-led, and export-oriented growth model. Reform of state-owned enterprises, improved infrastructure for doing business (internet, energy, logistics), trade facilitation measures, and a more efficient social protection system should be prioritized.

Approved By
Andrea Richter Hume (AFR) and **Peter Dohlman (SPR)**

Discussions for the 2024 Article IV consultation took place in Gaborone during July 2–12, 2024 between the IMF team and the Botswana authorities. Primary counterparts included Mr. Cornelius Dekop, Governor of the Bank of Botswana (BoB), the Permanent Secretary to the President, Ms. Emma Peloetletse, and the Permanent Secretary of the Ministry of Finance, Mr. Olesitse Masimega. The IMF team comprised Messrs. Luc Eyraud (head), Ian Stuart, Sergii Meleshchuk, Ms. Wasima Rahman-Garrett (all AFR). Ms. Basutli (OED) participated in the discussions. Ms. Lixue Chen, Ms. Mary Campestrin, and Mr. Erick Trejo Guevara provided research and editorial assistance for the preparation of this report. Ms. Andrea Richter Hume was the African Department reviewer for this document.

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CONTEXT

1. **Botswana's economy is experiencing a severe diamond market downturn.** After a strong post-pandemic rebound, diamond exports—which have accounted for almost 90 percent of goods exports over the past decade—declined by a third in 2023, reflecting weak global demand. Diamond sales recovered at the start of 2024, but diamond production is expected to be low this year, and the economic outlook remains uncertain amid a weak global recovery, pressures from cheaper lab-grown diamonds, and drought in Southern Africa.
2. **While public debt is low and foreign reserves are high, buffers have been significantly eroded in the past two decades.** Government deposits at the central bank declined from 50 to 4 percent of GDP between 2007 and 2023. Over the same period, FX reserves held by the central bank fell from 91 to 25 percent of GDP. These trends mainly reflect a structural reduction in domestic diamond production and an elevated public spending-to-GDP ratio.
3. **Both the current diamond market contraction and the longer-term depletion of buffers show the limitations of the existing development model.** Botswana's economic performance and good governance over the past decades have been impressive, allowing the country to move quickly from low to upper-middle income status. But relying primarily on minerals and government investment for development has downsides: the mining sector is capital-intensive, production of diamonds is finite and volatile, and the quality of public investment—both physical and human capital—has been relatively low. One third of youth is unemployed, and Botswana is one of the most unequal countries on the continent. The authorities need to shift more decisively to a new model centered on greater private sector participation, a diversified export base, and a more efficient public sector.
4. **The coming year presents an opportune time to undertake bold reforms.** Botswana will hold general elections in late-2024 followed by the launch of a new National Development Plan (NDP). The NDP will guide the country's development strategy for the next 5 years, laying out key sectoral programs and projects to transform the economy and make it more inclusive—with the ultimate objective of reaching high-income status.

RECENT ECONOMIC DEVELOPMENTS

5. **Botswana's economic growth decelerated from 5.5 percent in 2022 to 2.7 percent in 2023, below the long-run potential growth of 4 percent.** A sharp decline in diamond trading and mining activities was the main contributor to the slowdown as global demand for rough diamonds decreased (Box 1). Growth was further affected by operational challenges at the Morupule thermal power station, which accounts for more than three quarters of power generation in the country.

Box 1. The 2023–24 Diamond Market Slowdown

After the post pandemic rebound, global rough diamond prices started to decline in 2022. The difficulties faced by the mining sector in Botswana became more acute in the second half of 2023. De Beers cancelled two online sights¹ in the last quarter, and rough diamond sales ended 2023 more than 50 percent lower than the previous year. Diamond exports declined by 12 percentage points of GDP (from 35 percent of GDP in 2022), and mineral revenues by 6 percentage points (from 13 percent of GDP in FY2022). Given the weakness of global demand, both producers and sellers have accumulated large inventories. In response, Debswana (co-owned by the government and De Beers) plans to reduce production by 10–20 percent in 2024. A strong recovery of sales and production is expected next year as demand recovers and inventories decline throughout the value chain, though the longer-term outlook remains uncertain.

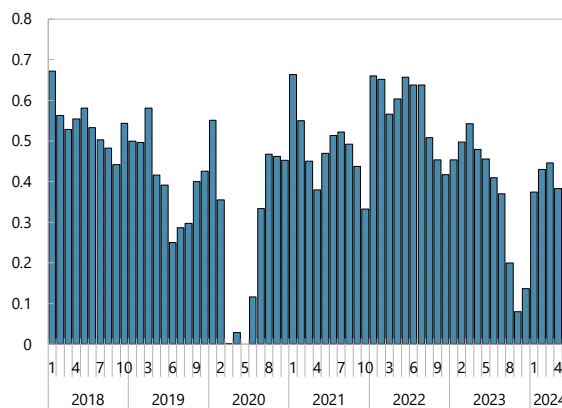
The current market slump mainly reflects a global cyclical slowdown, including weaker demand for luxury goods in China. Nonetheless, some structural factors may be at play. Over the longer term, prices may be suppressed by the rise of lab-grown diamonds, available at a fraction of the cost of some natural diamonds, and changing consumer preferences in advanced economies (including lower marriage rates). The announced intention by Anglo American to sell De Beers adds to uncertainty in the diamond market.² Factors leaning in the opposite direction include: a growing middle class in India and China, the profitability of big (i.e., larger than 10 carat) stones which cannot be grown in labs using current technology, the G7 ban on imports of Russian origin diamonds, and De Beers’ marketing strategy which aims at segmenting the market to maintain a substantial premium for natural diamonds.

Rough Diamond Price Index
(US Dollars per Carat)



Sources: Zimnisky, and IMF staff calculation.

Rough Diamond Sales Value Per Sales Cycle
(Billions of US Dollar)



Source: Sales Public Release of De Beers Group.

¹ Botswana is a global diamond hub. In addition to its own domestic production, the country imports diamonds for sales events, known as “sights,” in which buyers from all around the world come to see the new diamond batches. Diamonds are later re-exported, and part of the generated profit is repatriated abroad.

² Anglo American, headquartered in the United Kingdom, owns 85 percent of De Beers, with the remainder held by the government of Botswana.

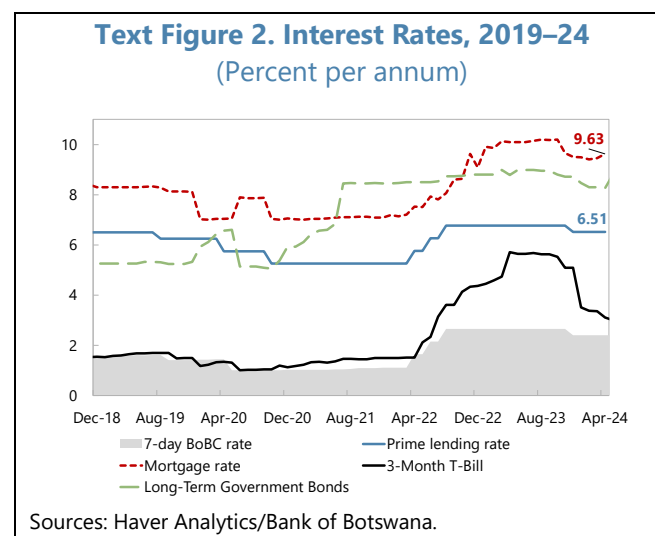
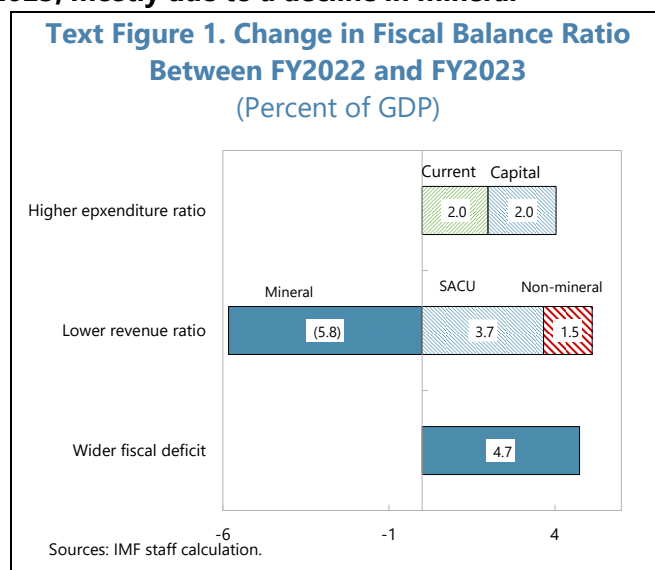
6. Inflation has remained below the ceiling of Bank of Botswana’s (BoB) objective range since spring 2023. After peaking at 14.6 percent in August 2022, inflation declined rapidly, mainly as a result of falling oil prices. Except for temporary breaches of the floor, it has remained within the 3–6 percent objective range in recent months, and stood at 3.0 percent in May 2024. Food inflation decreased from 17.8 percent in March 2023 to 4.0 percent in May 2024, as good harvests in the Americas and South-East Asia supported global food supply.

7. There was significant fiscal relaxation in FY2023, mostly due to a decline in mineral

revenues and higher spending.¹ The fiscal position was loosened from a budget balance in FY2022 to an estimated 4.7 percent of GDP deficit in FY2023.² As shown in Text Figure 1, the main reasons were (1) a contraction in mineral revenues due to the diamond market slowdown (although the rebound in regional trade led to substantially higher Southern African Customs Union (SACU) transfers) and (2) higher current and capital spending, as the authorities accelerated the projects from the Transitional National Development Plan. Public debt reached 20 percent of GDP at end-FY2023, a 2 percentage point increase y/y. Government deposits with the BoB declined by 2.2 percentage points to 3.3 percent of GDP over the same period. The Debt Sustainability Analysis assesses the risk of sovereign stress as low given the favorable net debt position (Annex I).

8. After raising the monetary policy rate (MoPR) by 151 basis points between April and August 2022, the BoB has cut the rate by a cumulative 50 basis points since December 2023.

The two 25 basis point declines—from 2.65 to 2.15 percent—were motivated by the widening output gap and muted inflation outlook. The prime lending rate, mortgage rate, and government securities rates followed the MoPR, dipping at the end of 2023 (Text Figure 2).



¹ The fiscal year runs from April 1 to March 31. FY2023 refers to April 1, 2023, to March 31, 2024.

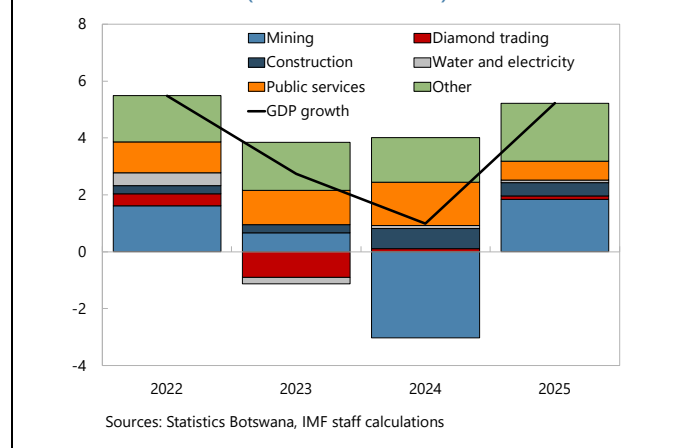
² At the time of drafting, fiscal outturns for FY2023 were not available. The delay was caused by technical issues with migrating the budget information system to new servers. In this report, the fiscal deficit is estimated from the financing side as the change in total public debt minus the change in government deposits. Revenue outturns are based on the unaudited Botswana Unified Revenue Service (BURS) data, and aggregate spending is the residual.

9. The financial sector remains stable, well-capitalized, and profitable. At end-April 2024, the banking sector's capital adequacy ratio—at 19.7 percent—was above the 12.5 percent regulatory threshold, while NPLs were broadly unchanged from the previous year at 3.8 percent of gross loans. The liquid assets-to-deposit ratio improved significantly to reach 25.2 percent, well above the 10 percent requirement. Despite the financial sector's strength, credit has yet to fully recover from the pandemic, reflecting mainly banks' cautious behavior: commercial credit growth has averaged 10 percent (y/y) over the past 12 months, which is at the lower end of sustainable estimates of 9-13 percent (according to the BoB October 2023 *Financial Stability Report*). In terms of stock, private credit stood at 30 percent of GDP at end-2023 (with two thirds extended to households), compared to 55 percent of GDP, on average, for upper middle-income countries. The non-bank financial institution (NBFI) system—mostly comprised of pensions funds and life insurance companies—continues to be strong and resilient, with steady growth in assets.³

10. Despite the weak diamond market, the external position improved in 2023 because of strong SACU transfers. The current account deficit narrowed from 1.2 percent of GDP in 2022 to 0.6 percent in 2023. The weaker diamond trade balance (which fell from 24.7 to 18.4 percent of GDP over the same period) was partly offset by higher SACU receipts and lower dividend payments to foreign investors in the mining sector. A small overall balance of payments surplus, combined with large revaluation gains⁴ (estimated at USD 552 million), raised the central bank's FX reserves to USD 4.8 billion or 7.3 months of imports at end-2023, from USD 4.3 billion or 7.1 months at end-2022. Reserve coverage at end-2023 was adequate, at 235 percent of the ARA metric. As discussed in Annex II, the 2023 external position is broadly in line with fundamentals and desirable policies.

OUTLOOK AND RISKS

Text Figure 3. Contributions to Growth, 2022–25
(Percent of GDP)



11. After a slowdown in 2024, growth is projected to rebound next year, before converging towards 4 percent in the medium term. Growth is projected to fall to 1 percent this year due to the reduction in diamond mining, given weak global demand and high inventories. Some sectors would nonetheless support growth, including diamond trading (projected to recover after the 2023 slump), and construction projects financed by the fiscal expansion, especially in water and electricity (Text Figure 3). In 2025, diamond production is expected to recover as

³ As of end-2022, 38 percent of pension funds' assets were invested domestically, mainly in equities (compared to a regulated minimum of 30 percent for onshore investments).

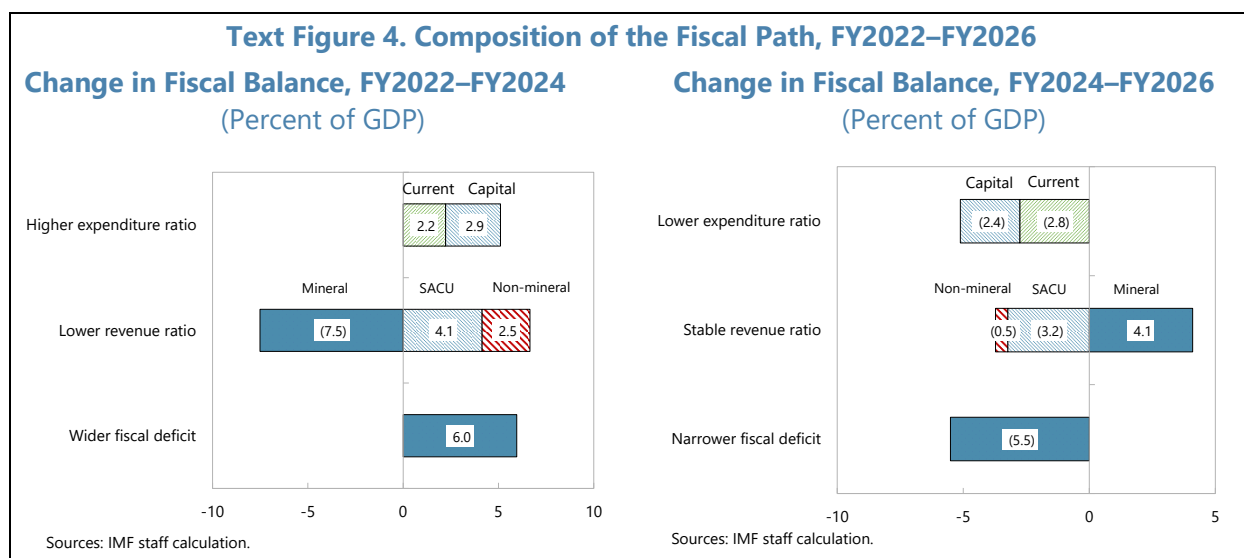
⁴ "Revaluation gains" refer to the increases in the value of equities and bonds held by the central bank.

consumer demand picks up. The impact of the 2024 drought that plagues the Southern African region is estimated to be limited by the small share of agriculture in Botswana’s economy, high proportion of imported food, and coal-powered electricity generation.

12. Inflation is expected to remain within the BoB’s 3–6 percent objective range over the medium term. Inflationary pressures should remain low, as international oil and food prices decline further from their 2022 peaks. Imported goods and administered prices constitute almost two thirds of the consumption basket, which should limit the inflationary impact of the ongoing fiscal relaxation. The drought may push up prices of South African food imports, but this risk is mitigated by a better-than-expected harvest in other parts of the world.

13. The fiscal deficit is projected to widen further in FY2024, before moving towards a fiscal surplus over the medium term.

- The deficit is estimated by staff at 6 percent of GDP in FY2024. Relative to the authorities’ budget, revenue forecasts are more conservative. However, staff also assumes some under-execution of capital spending, in line with past trends, since the doubling of the development budget over two years seems difficult to implement in full.
- The fiscal expansion between FY2022 and FY2024 reflects mainly faster capital investment to meet the goals of the Transitional NDP as well as the decline in mineral receipts (Text Figure 4). This is partly offset by higher SACU transfers (as international trade recovers after the pandemic) and some domestic revenue measures to improve VAT and non-mineral income tax collection (e.g., taxpayer education, stronger enforcement, better use of data analytics to identify compliance gaps). A large part of the capital budget increase is concentrated in water supply and roads and rail transportation.
- In the following years, the authorities’ medium-term budget framework foresees significant tightening to achieve a fiscal surplus by FY2026, as spending is scaled down.



14. Weak diamond exports should result in a wider current account deficit in 2024. Next year, the current account rebound is predicated on a recovery in the diamond market and continued elevated SACU transfers. In the medium term, the overall balance of payments is projected to decline, reflecting higher government foreign debt repayments and a long-term decline in SACU revenues. As a result, the FX reserve coverage ratio erodes by about two months of imports over the medium term, to 5 months by 2029.

15. The financial sector is expected to remain resilient. Staff assess that the effects of the economic slowdown and the decline in interest rates should be limited. The 2023 [Financial Sector Assessment Program](#) (FSAP) found that, under a severe diamond market slowdown scenario, banking sector solvency would not be materially affected, and liquidity stress would be limited to a few smaller banks. For NBFIs, insurers were found to be resilient, while retirement funds (being defined contribution schemes) could pass investment risks to their members. Similarly, staff expect declining interest rates to have a minor effect on banks' income, due to their strong initial position current low cost of funding, the small size of the policy rate relaxation (50 bps so far), and the substantial share of non-interest income (about 30 percent for the industry). Overall, private credit growth over the coming year is projected at 8½ percent—in line with nominal non-mining GDP growth, and near the lower bound of the BoB's estimates of sustainable credit growth (paragraph 9). Over subsequent years, convergence towards the mid-point (11 percent) helps to close the credit-to-GDP gap.

16. The outlook is uncertain and largely dependent on the diamond market. As discussed in the Risk Assessment Matrix (Annex III), the main risks relate to the mining sector. The pickup in diamond demand could be slow, especially in the event of abrupt global growth deceleration. The future is further clouded by the emergence of cheaper lab-grown diamonds, and the announced sale of De Beers by its UK parent company. In an illustrative downside scenario where diamond production is flat and diamond revenues remain at their current low level (kept constant in real US\$ in subsequent years), maintaining government spending as a share of GDP would push the government debt ratio to 120 percent of GDP over the next ten years. Annual growth would, on average, be reduced by 1–1½ percentage points. FX reserves would be fully depleted by the end of the period, unless most of the additional fiscal deficits were externally financed.⁵

Authorities' Views

17. The authorities broadly agreed with staff's projections and risks assessment. While recognizing the severity of the economic downturn, they noted that the non-diamond sector remains resilient (partly because of the budget stimulus), and that the diamond slowdown is primarily cyclical. In their view, the medium-term outlook will depend on growth in major diamond export markets (e.g., US, China, and India), the severity of and policy response to climate shocks, as

⁵ The additional fiscal deficits reflect both lower mineral revenue and higher expenditure compared to the baseline (which assumes a medium-term expenditure-based fiscal adjustment). The GDP path is assumed to be lower, with mining production growing at only 1 percent per year (due to non-diamond minerals), and zero real growth of value added in the diamond trading and public administration sectors. The import content of public spending is estimated at 50 percent. This analysis assumes a one-to-one effect of lower government mineral revenues on FX reserves.

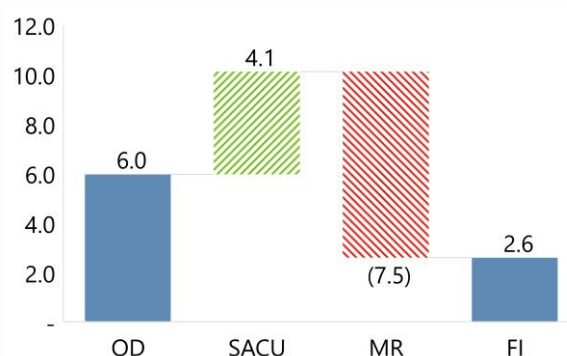
well as the implementation capacity for domestic development programs and structural reforms. The authorities have a more optimistic view on medium-term reserve coverage, on the grounds that South Africa's improved economic outlook could boost SACU revenues. Regarding the downside scenario presented by staff, the authorities considered this extreme risk unlikely, but said they would implement the necessary expenditure measures should mineral revenues remain durably low.

POLICIES TO NAVIGATE THE SLUMP WHILE PREPARING FOR THE FUTURE

A. Calibrating the Fiscal Response to the Diamond Market Downturn

18. Given the economic downturn, some fiscal stimulus is justified this year, but the execution of the authorities' ambitious capital expenditure plan should be slowed down. Staff projects a widening of the fiscal deficit by 6 percent of GDP between FY2022 and FY2024, corresponding to a fiscal impulse of 2.6 percent of GDP after excluding SACU and mineral revenues (Text Figure 5).⁶ As discussed in Annex IV, some fiscal relaxation is warranted in light of the widening of the output gap, but the near doubling of the capital budget between FY2022 and FY2024 seems excessive.⁷ Staff encourages the authorities to reprioritize capital projects to ensure that they achieve the highest value for money and that the deficit deterioration is contained. The 2023 IMF *Public Investment Management Assessment Update* (PIMA) report noted a 30 percent gap in infrastructure spending efficiency between Botswana and the most efficient countries with comparable income levels and public capital stock. Similarly, the 2023 World Bank *Systematic Country Diagnostic Update* found that the quality of education is low despite generous public spending.⁸

Text Figure 5. Change in Overall Fiscal Deficit and Fiscal Impulse, FY2022-FY2024
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.
Note: OD = change in overall fiscal deficit, SACU = SACU transfers, MR = mineral revenues, FI = fiscal impulse (defined as deficit excluding mineral and SACU revenues).

⁶ The analysis combines the two years of fiscal stimulus, to get a better sense of the overall expansion, and also because the FY2023 outturn is still estimated at the time of drafting the report (see footnote 2).

⁷ Staff assumes that 80 percent of the FY2024 capital budget will be executed, in line with past trends. Thus, the increase in capital spending is less pronounced in staff projections than in the authorities' plans.

⁸ According to the 2020 World Bank Human Capital Index, a child born in Botswana is expected to complete 8.1 years of schooling by the age of 18, but only 5.1 years of learning-adjusted schooling, compared to 11.8 and 7.8 years, on average, in upper-middle income countries.

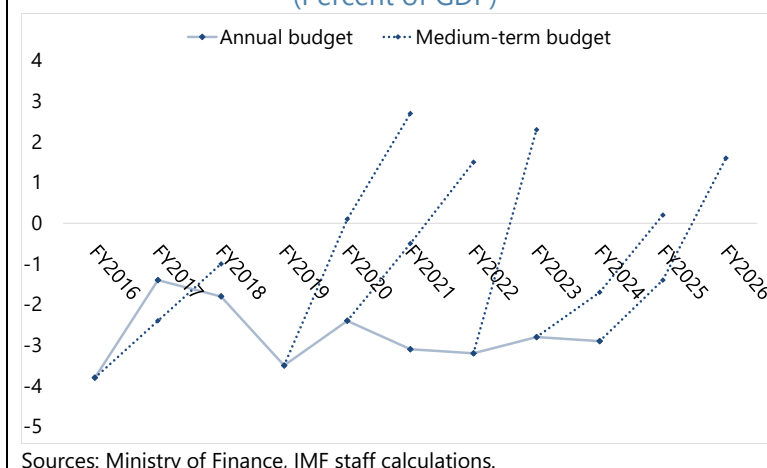
19. Over the medium term, the authorities' planned fiscal consolidation is critical to stop the depletion of financial buffers, build resilience against shocks, and preserve fiscal sustainability. Although the debt stock remains small, government deposits, which have been used to finance deficits, have shrunk since the early 2000s, to historic lows. The government's position has fallen from net assets of 75 percent of GDP in 2000, to net debt of 17 percent of GDP at end-FY2023. If these trends do not change and the diamond market contraction proves persistent, as illustrated in the downside scenario of paragraph 16, debt sustainability could be at risk. To quantify the required fiscal efforts, a calibration exercise is conducted in Annex V. It shows that targeting a 1 percent of GDP fiscal surplus would generate sufficient savings to protect the budget against major economic shocks. This target aligns with the authority's plan to achieve a moderate surplus over the medium term, as presented in the budget. As discussed in the Annex, more ambitious objectives, like saving mineral revenues for future generations, would require much larger surpluses.

20. While the authorities' adjustment plan focuses mostly on expenditure restraint, complementary measures on the revenue side, including tax policy, are likely to be needed. In the medium-term budget, most of the deficit reduction comes from scaled back capital spending and a lower wage bill (achieved by decreasing the number of positions in the public sector and encouraging early retirement). If the authorities are not able to execute on this plan, it will be critical to close the resulting gap through revenue measures. Options include streamlining exemptions on zero-rated VAT goods and services, replacing CIT tax holidays in Special Economic Zones with less costly investment tax credits, increasing PIT progressivity, improving compliance enforcement starting with the large taxpayer unit, and upgrading the revenue administration's customer service strategy.⁹

21. The medium-term adjustment should be supported by sequenced institutional reforms.

- The most pressing priority is to improve the *credibility of the medium-term budget*. In recent years, each new budget has postponed the start of the fiscal consolidation and the achievement of fiscal surpluses (Text Figure 6). Reforms to boost credibility include strengthening the macro-fiscal projection function, enhancing fiscal

Text Figure 6. Budget's Overall Balance, FY2016–FY2026
(Percent of GDP)



⁹ The 2021 *TADAT Performance Assessment report* found that there was scope to significantly improve compliance risk management and customer outreach.

reporting systems, and taking a more conservative approach to mineral revenue forecasts and spending capacity.

- Once the authorities have embarked on their adjustment plan, a *new fiscal rule* could support their efforts and reinforce their commitment to generate fiscal surpluses. While several design options are possible, an expenditure rule has some advantages by achieving longer-term spending restraint to save for future generations, while allowing automatic stabilizers to operate in case of shocks.
- Finally, at a later stage, once the budget generates persistent surpluses, a *new Sovereign Wealth Fund* (SWF) could be introduced to support the management of the savings generated by the rule. It would also help constitute a longer-term buffer for smoothing the economy's transition once diamond reserves are exhausted. As discussed in the Selected Issues Paper (SIP), a "financing fund" model, where inflows come from budget surpluses (like in Chile) would be preferable to more ad hoc arrangements. Since setting up a SWF may take time, staff encourage the authorities to start assessing design options.

Authorities' Views

22. The authorities are committed to prudent policy and stand ready to undertake the necessary decisions, if needed. They agreed that the significant decline in mineral revenues was exerting pressure on the budget. At the time of the mission, they were still estimating the extent of the deterioration before considering offsetting measures. To generate savings in later years, they emphasized the importance of improving the appraisal of capital projects to prioritize those with the highest growth payoffs. They argued that revenue gains should primarily come from revenue administration measures rather than tax rate increases. The authorities recognized benefits from institutional reform, but are still exploring various design options, including for fiscal rules. Regarding the SWF, their intention is to ringfence a pool of public savings, develop guidelines for inflows/outflows, and provide seed capital through a one-off transfer from the BoB's FX reserves. They are also working on enhancing the credibility of the medium-term budget by strengthening multi-year spending capacity in line ministries and taking a prudent approach to mineral revenue forecasts given the high level of uncertainty.

B. Improving Monetary Policy Effectiveness

23. The monetary policy stance is appropriate. Inflation has returned to the BoB objective range and is projected to remain there over the medium term. Underlying pressures seem contained, with various core inflation indicators (e.g., excluding food and fuel, excluding administered prices) also within the range. Inflation expectations are well anchored according to the latest business expectations survey. In addition, monetary policy is also appropriate from the perspective of the crawling peg, with the long end of Botswana's yield curve being in line with that

of trading partners.¹⁰ If the ongoing economic slowdown results in inflation falling durably below the lower bound, then additional monetary loosening may be warranted.

24. There is scope to strengthen monetary policy transmission. While transmission has improved at the lower end of the yield curve, some longer-term interest rates do not fully reflect changes in the policy rate. *At the bank level*, for example, wholesale deposit rates are mostly driven by competition to attract large deposits from the mining industry and pension funds.¹¹ *On the government security side*, the price of T-Bills is influenced by the fact that banks hold them as high-quality assets to comply with statutory liquidity requirements.¹² And bond yields tend to align with investments rates abroad. More generally, the ability of monetary policy to steer inflation is constrained by the fact that two thirds of the consumption basket consists of goods that are either imported or subject to administered prices.

25. To better transmit the policy rate signal, all markets involved in the transmission chain should be deeper, more liquid, and better connected.

- At the shorter end of the yield curve, the authorities have recently taken measures to promote interbank market activity by signing an agreement with Frontclear—a company that assists the authorities with developing money markets, including by providing guarantees for interbank trades, which will lower counterparty risk. Further reforms, include (1) encouraging repo transactions by strengthening the legal framework, building commercial bank capacity, and expanding the range of eligible collateral, and (2) publishing more granular and timely price/volume data to develop reference rates for money markets (e.g., overnight, 7, 14, 28 day rates). Widening the definition of eligible HQLA to include government bonds would also reduce excess demand for T-Bills and ensure that their rates are more reflective of market conditions.
- At the longer end, the priority is to deepen the government bond market. The authorities introduced switch auctions in 2023 and aim to introduce inflation-linked bonds in the second half of the year. The annual borrowing plan and auction calendar were shared with the market. However, other reforms identified in the IMF [TA report](#) on local bond market development are still underway, including revising the primary dealer agreement to encourage active participation in every auction; providing greater price-transparency in primary and secondary markets; expanding the investor base; and improving market infrastructure for trading.

¹⁰ The foreign yield curve is computed using the Pula basket weights (55 percent SDR and 45 percent rand) and corrected for expected depreciation.

¹¹ Compared to deposit rates, lending rates tend to be much more responsive to policy rate changes. Indeed, banks set the prime lending rate using the policy rate and add a constant margin. And most loans have variable rates that are linked to the prime lending rate.

¹² As a result, T-Bill yields are not necessarily driven by market conditions. For instance, they can rise when other securities become eligible as HQLA (e.g., when the term-to-maturity of a government bond falls below one year).

Authorities' Views

26. There was broad agreement between authorities and staff regarding monetary policy orientation and effectiveness. The BoB sees scope for keeping monetary policy accommodative given the negative output gap, anchored expectations, and the fact that inflation remains at the lower bound of the objective range. They pointed to some noticeable improvement in the interbank market and policy transmission at the short end of the yield curve. The BoB agreed that further work was needed to assess transmission to banks' lending, and plans to collect data on actual lending rates (not just prime rates). On bond market development, progress has been achieved through the publication of the FY2024 borrowing strategy, while work on the medium-term debt strategy is ongoing. The authorities also plan to review the primary dealer agreement with support from the IMF. Regarding the HQLA definition, the authorities are transitioning to Basel III standards, but noted that including government bonds as HQLA could crowd out private credit extension.

C. Financial Sector Policies to Strengthen Stability and Resilience

27. In recent years, the authorities have passed important reforms to support financial sector stability, but operationalization of the new regulations and laws should be the next priority. The 2023 FSAP report proposed a series of reforms to strengthen banking regulation and supervision, expand macroprudential oversight, develop money and bond markets, and establish new institutions for financial safety nets and crisis management. The 2022 Bank of Botswana Amendment Act and the 2023 revised Banking Act have created a stronger legal basis for financial stability oversight and operations. The authorities' responses to FSAP recommendations are outlined in Annex VI. In general, there has been progress with market development, liquidity regulations, cybersecurity risk supervision,¹³ and the operationalization of the deposit insurance scheme introduced in July 2023. But implementation of some key recommendations remains incomplete. For instance, the BoB has requested IMF technical assistance on the emergency lending assistance (ELA) framework. Furthermore, there is scope to strengthen the offsite financial analysis of banks on a quarterly basis, and reform the bank risk rating process for proper implementation of risk-based supervision.

28. Although the financial sector is generally sound and resilient, it faces significant funding liquidity risk due to the concentration of large, lumpy short-term deposits among a few larger banks. Volatile deposits, typically made by large corporations and pension funds, leave some banks vulnerable to liquidity stress—a situation that may become more acute in the coming years, as pension funds repatriate some assets.¹⁴ The response of banks has been to hold large

¹³ Over the past two years, bank supervisors have undertaken training on Basel III liquidity standards, finalized draft LCR regulations, prepared NSFR regulations, drafted revisions to the liquidity risk elements of the BoB's risk management guidelines, issued revised cybersecurity regulations, and started implementing them through onsite examinations.

¹⁴ Under amendments to the Retirement Funds Act, the NBFIRA mandates pension funds to raise their domestic holdings to a minimum of 50 percent of their total assets, progressively between 2023 and 2027 (from 30 percent previously). This policy action is currently being evaluated by the IMF to assess whether it is a macro-critical capital flow management measure.

precautionary liquidity buffers, which may not be efficient and could create further risks (like driving down short-term interest rates and encouraging bank risk-taking to compensate for the income loss). To strengthen the funding liquidity of banks, specific actions include: (1) enhancing the BoB refinancing operations (and operationalizing the ELA), especially by incentivizing the use of the primary reserve requirement (PRR) as risk absorber; (2) expanding the definition of liquid assets (HQLA), including bonds and required reserves; (3) moving to Basel III minimum liquidity requirements, which are more useful measures of vulnerability to sudden shifts in concentrated deposits; and (4) developing the repo interbank market, as discussed in paragraph 25.

29. While system-wide NPLs remain low, household debt has doubled to about 20 percent of GDP between 2007 and 2023. Most lending comprises unsecured, short-term, variable rate personal loans. While many borrowers are employed by the state (with repayments collected through direct deductions from their bank accounts), the growing share of lending to privately-employed individuals could raise banks' credit risk in the event of an economic downturn. There may also be pockets of risk in the system; banks have widely differing NPL ratios, loan portfolios, and customer bases. Furthermore, the current environment, characterized by excess liquidity and low interest rates, may lead some banks to start engaging in riskier lending. New credit data (supported by the 2022 Credit Information Act) should be used by supervisors to gain more granular insights into household indebtedness. The authorities may also consider deploying macroprudential tools (e.g., debt service-to-income ratio) to address specific credit risks in bank and NBFIs' loan books.

30. The BoB and Non-Bank Financial Institutions Regulatory Authority (NBFIRA) have made significant progress with AML/CFT reforms. Botswana was removed from the FATF grey list in October 2021 and the European Union's blacklist of high-risk third countries in January 2022. Staff encourages NBFIRA to continue to improve its risk-based supervisory tools for all sectors to address licensees' varying levels of compliance, including with additional resources, such as data collection systems. A risk assessment for the Virtual Asset Service Providers (VASPs) should be completed to urgently develop this sector's supervisory regime. Revisions to the legal definitions of Prominent Influential Persons and VASPs are ongoing in order to meet international standards. The Beneficial Ownership Enhancement Project, which establishes a public beneficial ownership registry, is expected to be completed by end-2024, enhancing the capacity of the public and private sector to access up to date beneficial ownership information, while balancing data privacy issues.

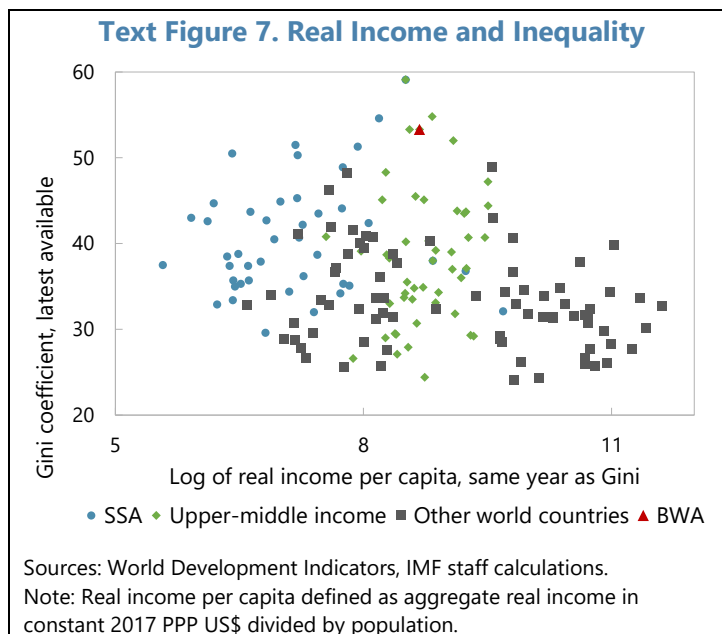
Authorities' Views

31. The authorities emphasized the resilience of the domestic financial system despite the ongoing economic downturn. They welcomed the banking industry's strong performance, reflected by adequate capitalization, improvement in industry earnings, and growth in industry asset base. They are closely monitoring the funding risk and the rise in household debt. Work on financial sector laws and regulations continues, including to operationalize the 2023 Banking Act, upgrade the payment system, and launch the LCR. Botswana continues to be steadfast in its commitment to improving the legal and institutional framework for AML/CFT. In preparation for the Eastern and Southern Africa Anti-Money Laundering Group's Mutual Evaluation scheduled for 2027, they

completed a second national risk assessment in December 2023, which will inform AML/CFT reform priorities.

D. Structural Reforms for Inclusive Growth

32. Inequality and unemployment remain elevated in Botswana. The latest official unemployment rate (as of Q3 2023) is 25.9 percent (34.4 percent for the youth), while inequality is high by global standards (Text Figure 7). The two trends are linked: inequality is mostly driven by the level of joblessness. The main causes are discussed in the SIP on social protection, including the capital-intensive nature of the mining industry, a large public sector paying a wage premium compared to the private sector, the lack of progressivity of fiscal policy (both tax and expenditure), a big urban-rural divide, and disparities in land ownership. The new NDP is expected to focus on the transition away from the current economic model. The downside scenario in paragraph 16 further illustrates the economy’s vulnerability, with a persistent contraction of the diamond market having the potential to derail the economic transformation process.



33. Making growth more inclusive requires accelerating the structural transformation of the economy towards greater economic diversification and private sector participation. While Botswana’s national plans tend to focus on sectoral policies, more attention could be given to horizontal (i.e., cross-cutting) reforms. For instance, investment in the energy, IT, and logistical infrastructure is needed to relax major constraints for businesses. Restructuring of SOEs—which dominate large sectors of the economy, raise barriers to entry, and result in resource misallocation—is another key step to create space for private enterprise and foster competition.¹⁵ As discussed in the 2023 World Bank *Systematic Country Diagnostic Update*, private sector productivity may also be enhanced by attracting FDI, facilitating the entry of skilled workers, and promoting partnerships between domestic and foreign firms. Furthermore, export-oriented growth¹⁶ could be supported by trade facilitation measures to leverage the new African Continental Free Trade Area (AfCFTA) and increase integration into regional and global value chains. Finally, the recent agreement-in-principle between the government and De Beers could help to develop downstream activities along the

¹⁵ See IMF Selected Issues Paper (2023) *Reforming the SOE Sector in Botswana*.

¹⁶ The case for export-oriented private sector development has been discussed in past IMF Article IV reports and features prominently in the 2023 World Bank *Systemic Country Diagnostic Update*.

diamond value chain, with more rough diamonds sold to local diamond cutters and polishers (Annex VII).

34. Social protection and education policies could also play a greater role to support the most vulnerable. As discussed in the SIP, reforming the existing social security protection system by consolidating existing programs, making them more scalable in response to shocks, introducing a single social registry, and leveraging modern technologies for targeting and delivery would enhance the system's efficiency and effectiveness. Active labor market policies could contribute to reducing the high unemployment rate by reducing skill mismatches through training and educational programs that meet the needs of the job market. Other reforms include reallocating funding towards better targeted programs (such as the Destitute Persons Program), improving income tax progressivity, and minimizing the use of VAT zero-rating. In education, the authorities could improve the design of the curriculum, develop technical and vocational training, and reallocate funds from tertiary to lower education levels that benefit poorer communities. Internet access and AI can be leveraged to facilitate learning in remote areas, thereby reducing spatial inequalities.

35. Financial inclusion reforms can also make growth more job-intensive by supporting small entrepreneurs. Micro, small, and medium enterprises (MSMEs) account for a large share of employment in the private sector, but limited access to finance constrains their growth, investment, and innovation. For instance, only 8 percent of MSMEs obtained bank credit in 2019. Improving access to credit will foster job creation, improve productivity, and increase wages of low-paid workers. Developing the MSME market requires concerted efforts in several directions. First, credit reporting should be further enhanced to incentivize lending and reduce information asymmetry by completing the formalization of credit bureaus and operationalizing a movable collateral registration system. Second, the authorities could introduce a broader range of innovative financial products tailored to MSME needs and with more flexible collateral requirements (e.g., accounts receivable finance). Third, public sector support could evolve from traditional loans by state-owned financial institutions to more innovative modalities, like co-investments, and financial training for new businesses. More generally, there is scope to increase the use of digital payment services to facilitate real-time transactions by developing the acquiring ecosystem, improving interoperability, and enabling market entry of new players.

Authorities' Views

36. The authorities agreed that making growth more inclusive and resilient is an urgent priority. They are now fully engaged in the next NDP preparation, which is anchored by the objectives of economic diversification and citizen empowerment. After approving the national transformation strategy last year and identifying priority sectors, they are now preparing the sectoral strategies and establishing a list of projects. They noted the great potential from accelerating beneficiation (local value chain development) in the mineral sector and integrating into regional value chains, taking advantage of the new African Continental Free Trade Agreement. They also wish to increase the efficiency of enabler sectors, such as electricity, water, and information and communication technologies.

OTHER SURVEILLANCE ISSUES

37. Capacity development (CD) and implementation of past AIV recommendations. The authorities have received IMF CD to strengthen core macroeconomic competencies and have a good track record in implementing proposed reforms (Annex VIII). Future CD should support the authorities' efforts to build fiscal buffers, enhance public financial management, increase monetary policy effectiveness, strengthen financial supervision and regulation, and improve the quality and timeliness of data. The authorities have generally been responsive to past Article IV recommendations, although implementation has been slow in some areas (Annex IX).

38. Data provided to the Fund has some shortcomings but is broadly adequate for surveillance. The authorities have continued to improve statistics with IMF support (Annex X). Notable recent progress includes the development of the producer price index and expanding CPI coverage to include owner-occupied housing. Since June 2023, the BoB has published the reserves template on the IMF's International Reserves and Foreign Currency Liquidity portal. Botswana publishes thirteen of the fifteen recommended data categories under enhanced General Data Dissemination System (e-GDDS). The authorities will need to address the remaining coverage, timeliness, and frequency requirements for several categories, including producer price index, production index, BOP, IIP, and external debt to be able to subscribe to the IMF's Special Data Dissemination Standards (SDDS). Addressing government financial statistics (GFS) data gaps is key, including upgrading accounting and budgeting systems (currently impaired by technical problems) to finalize the FY2023 accounts, expanding institutional coverage towards consolidated statistics, and using estimates generated through statistical techniques when latest data is not available.

STAFF APPRAISAL

39. Botswana is facing a severe slowdown from a diamond market contraction in 2023 and 2024. Growth is expected to fall to 1.0 percent this year, from 2.7 percent in 2023 and 5.5 percent in 2022. This reflects weaker global demand for diamonds and a sharp increase in inventories.

40. Real GDP growth should rebound next year, although risks to the outlook remain elevated. A strong recovery is projected in 2025, driven by the rebound in diamond production and trade. But the economic outlook is highly uncertain, with the emergence of cheaper lab-grown diamonds, and the announced sale of De Beers by its UK parent company.

41. In the near term, the fall in diamond revenues could be accommodated by a mix of higher fiscal deficit and reprioritization of capital expenditure. Some fiscal relaxation is warranted in light of the widening of the output gap, but staff encourages the authorities to reprioritize capital projects to limit the increase in the deficit and ensure that they achieve the highest value for money.

42. Over the medium term, the authorities' planned fiscal consolidation is critical to put a stop to the depletion of government's financial buffers, build resilience against shocks, and preserve fiscal sustainability. Staff assesses that targeting a 1 percent of GDP fiscal surplus would generate sufficient savings to protect the budget against major economic shocks. While the authorities' adjustment plan focuses mostly on expenditure restraint, there is also scope to increase revenues. The medium-term adjustment should be supported by institutional reforms, including a fiscal rule, more credible medium-term budgeting, and possibly a well-designed SWF.

43. The monetary policy stance is appropriate. Inflation has declined since August 2022 and is projected to remain within the central bank's objective range in the medium term. Underlying pressures, as measured by core inflation indicators, seem contained, while inflation expectations are well anchored. The 2023 external position is assessed to be broadly in line with fundamentals and desirable policies.

44. The authorities' plans to strengthen financial sector oversight, deepening, and inclusion are welcomed. The financial sector is broadly sound and stable despite the economic slowdown. Faster implementation of the 2023 FSAP recommendations will further reduce financial risks. These include moving to implement Basel III liquidity standards, enhancing risk-based supervision of banks, reinforcing the crisis management framework (ELA, bank resolution), and deploying macroprudential tools to address household debt risk.

45. Accelerating growth and job creation requires a fundamental shift towards greater private sector participation, a more diversified export base, and a more efficient public sector. The authorities should prioritize SOE modernization, improved infrastructure for doing business (internet, energy, logistics), trade facilitation measures, more efficient social protection, and financial inclusion reforms that support small entrepreneurs. These goals could be enshrined in the new NDP, supported by time-bound and well-prioritized action plans.

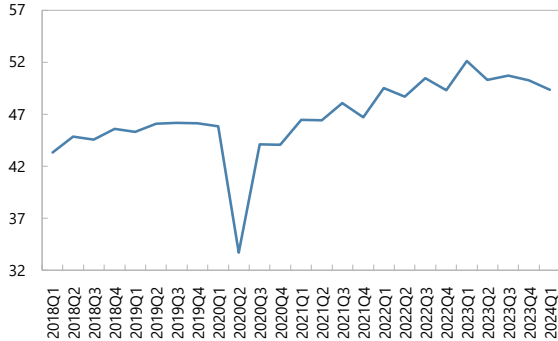
46. Staff recommends that the next Article IV consultation with Botswana be held on the standard 12-month cycle.

Figure 1. Botswana: Real Sector Developments

The recovery in real GDP since the pandemic slowed in 2023...

Real GDP

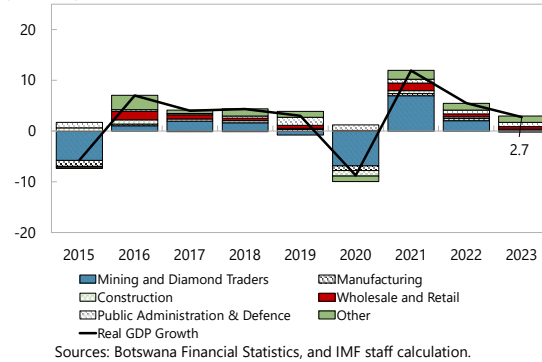
(Billion Pula, in constant 2016 price)



Sources: GDP Quarterly Release in Statistics Botswana

...reflecting a decline in mining and diamond trading activity...

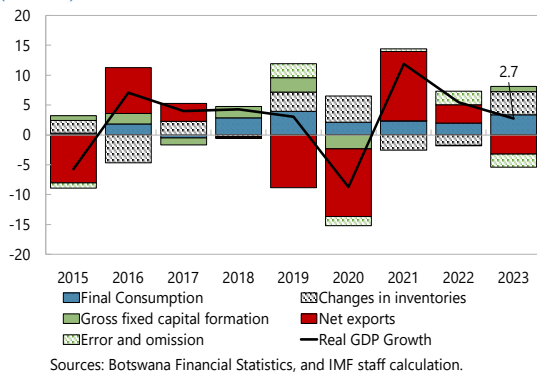
Real GDP Growth Breakdown by Selected Sectors (Percent)



Sources: Botswana Financial Statistics, and IMF staff calculation.

...and a negative contribution from net exports.

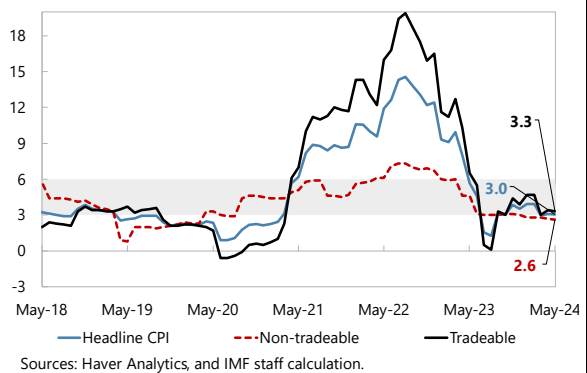
Real GDP Growth Breakdown by Type of Expenditure (Percent)



Sources: Botswana Financial Statistics, and IMF staff calculation.

Headline CPI has returned to the BoB objective range...

Consumer Price Index: Tradeable and Non-tradeable (Percent change, yoy)

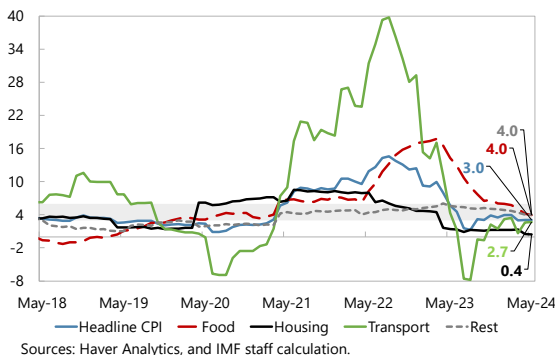


Sources: Haver Analytics, and IMF staff calculation.

...as lower imported fuel prices moderated the pace of transport inflation...

Consumer Price Index by Main Items (Percent change, yoy)

(Percent change, yoy)

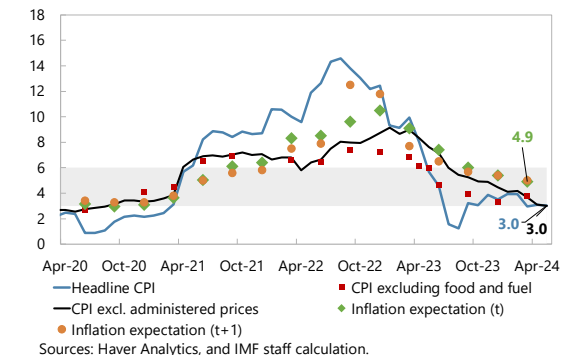


Sources: Haver Analytics, and IMF staff calculation.

...while core inflation has also remained contained.

Consumer Price Index (Percent change, yoy)

(Percent change, yoy)

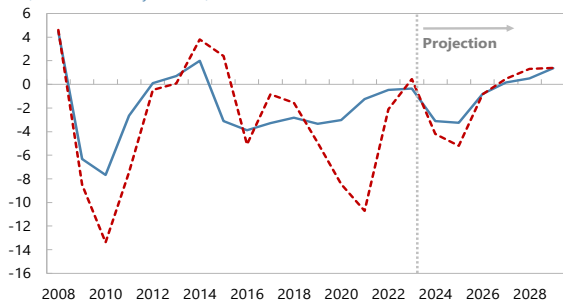


Sources: Haver Analytics, and IMF staff calculation.

Figure 2. Botswana: Fiscal Sector Developments

The fiscal deficit ratio is expected to continue to widen in FY2024...

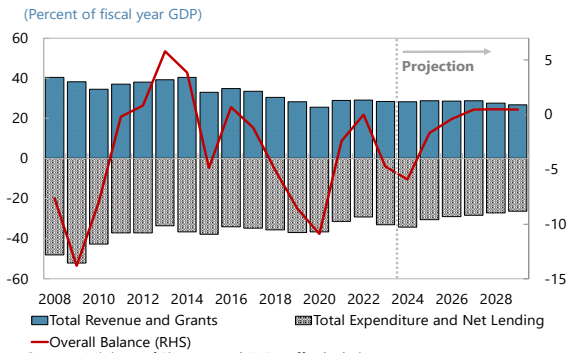
Primary Balance
(Percent of fiscal year GDP)



Sources: IMF staff calculation.

...before turning to a small surplus in the medium term.

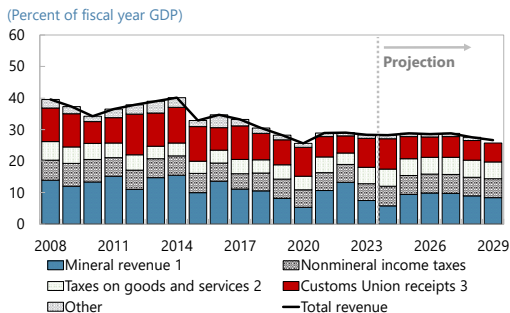
Fiscal Balance
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.

Mineral revenues are forecast to continue falling in FY2024 before recovering in the medium term...

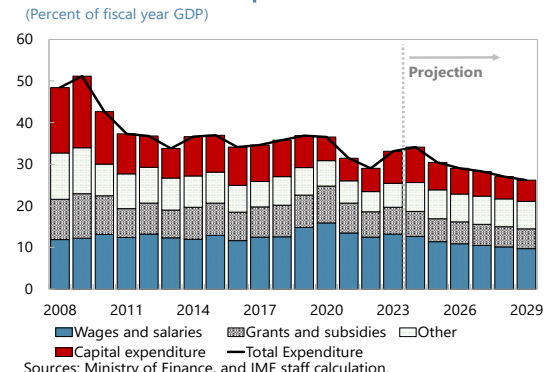
General Government Revenue
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.
1/Mineral income taxes + mineral royalties and dividend.
2/VAT.
3/SACU revenue.

...while the expenditure ratio is expected to decline as both current and capital expenditures moderate.

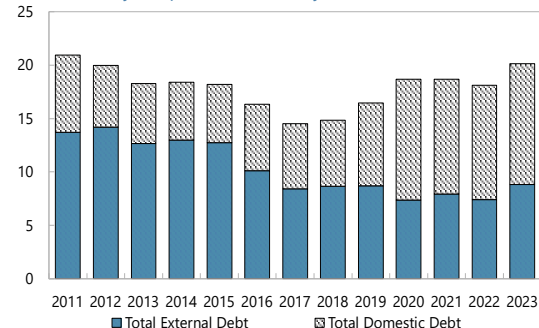
General Government Expenditure
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.

The gross government debt ratio increased in 2023 due to higher external borrowing.

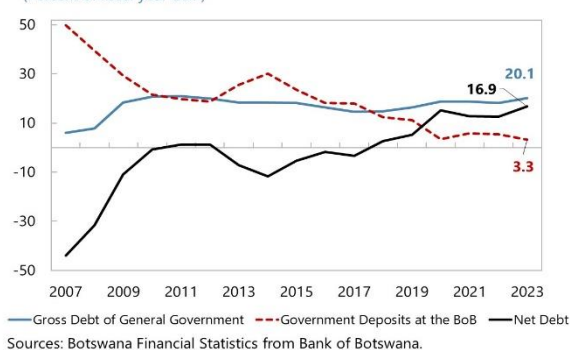
General Government Debt
(End of fiscal year, percent of fiscal year GDP)



Sources: Botswana Financial Statistics, and IMF staff calculation.

Government deposits held with the central bank have fallen substantially since 2007.

Government Net Debt
(Percent of fiscal year GDP)

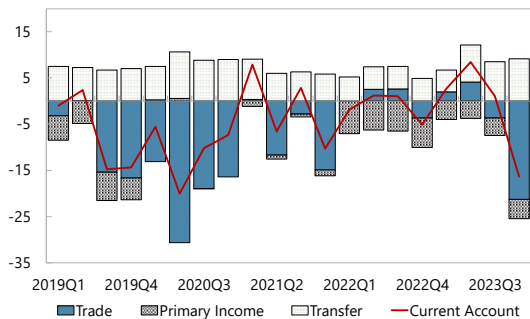


Sources: Botswana Financial Statistics from Bank of Botswana.

Figure 3. Botswana: External Sector Developments

The current account deficit widened in the second half of 2023...

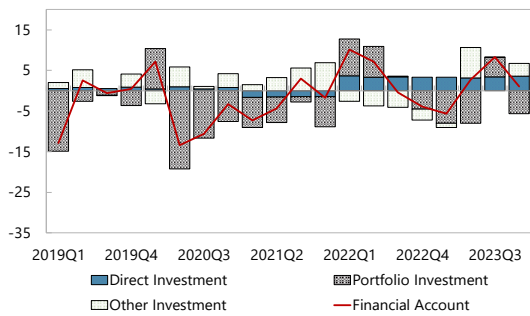
Current Account
(Percent of quarterly GDP)



Sources: Haver Analytics/Bank of Botswana and Statistics Botswana, and IMF staff calculation.

...while the financial account recorded a surplus due to less external repatriation of diamond trade profits.

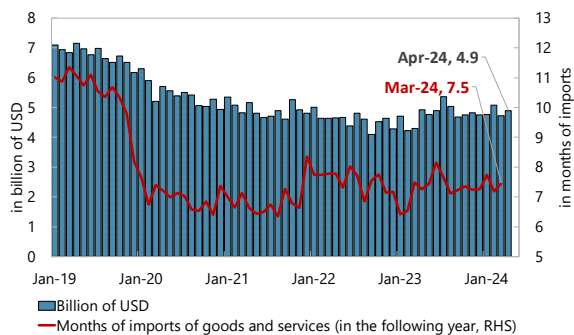
Financial Account
(Percent of quarterly GDP)



Sources: Haver Analytics/Bank of Botswana and Statistics Botswana, and IMF staff calculation.

Foreign reserves have declined over time with months of import coverage in the single digits since 2020.

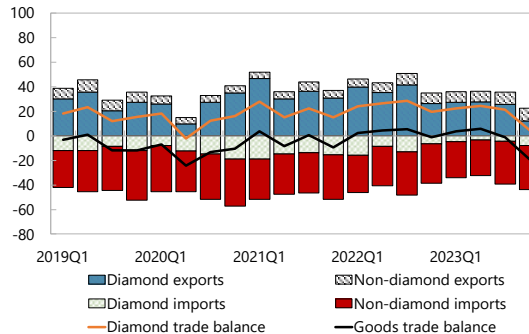
Monthly Foreign Reserves



Sources: Haver/Botswana Financial Statistics, International Merchandise Trade Statistics, and annual import numbers from team's framework.

...reflecting a worsening diamond trade balance...

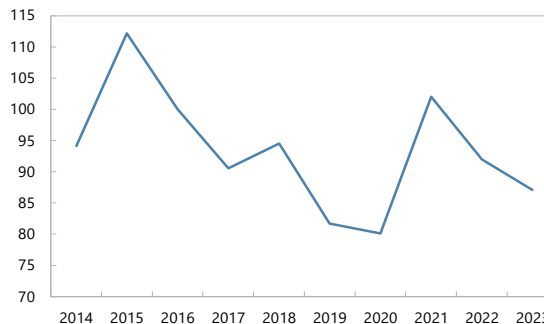
Goods and Diamond Trade
(Percent of GDP)



Sources: Haver Analytics/Statistics Botswana, and IMF staff calculation.

The terms of trade weakened in 2023 with the decline in diamond export prices.

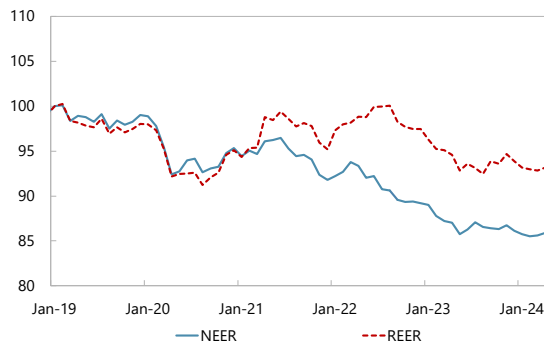
Terms of Trade
(Index, 2016=100)



Sources: Kimberley Process, and IMF staff calculation.

The REER has depreciated in line with lower domestic inflation and a nominal depreciation.

Botswana Effective Exchange Rate
(Index, based on CPI)



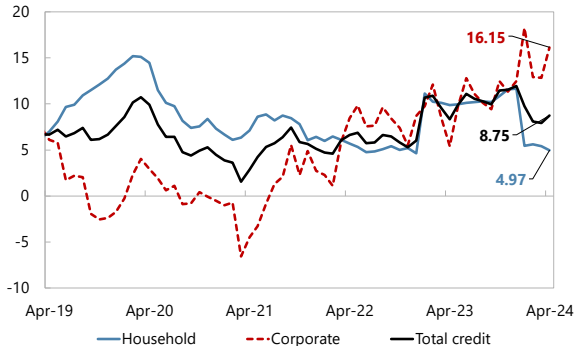
Sources: IMF INS database.

Figure 4. Botswana: Financial Sector Developments

Credit growth has increased since 2021 but remains subdued.

Credit Growth

(Percent change, yoy)

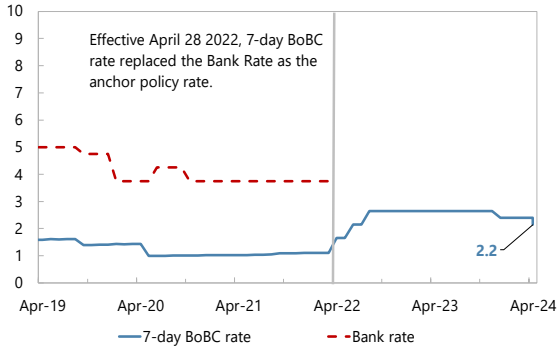


Sources: Haver Analytics.

The policy rate was lowered in December 2023, and again in June 2024.

Policy Rates

(Percent per annum)

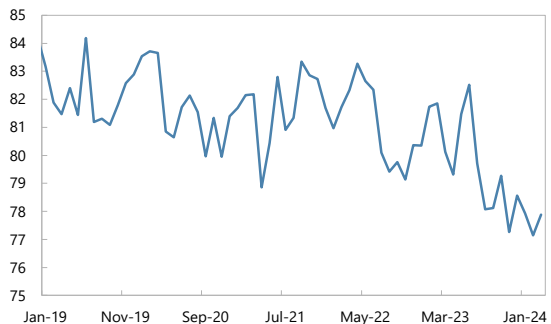


Sources: Haver Analytics/Bank of Botswana.

Bank liquidity has improved significantly...

Loan to Deposit Ratio

(Percent of total deposit)

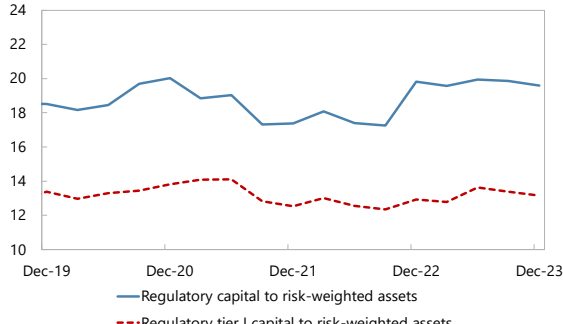


Sources: Haver Analytics, Botswana Financial Statistics, and IMF staff calculation.

...and the banking sector is well capitalized.

Capital Adequacy

(Percent of risk-weighted assets)

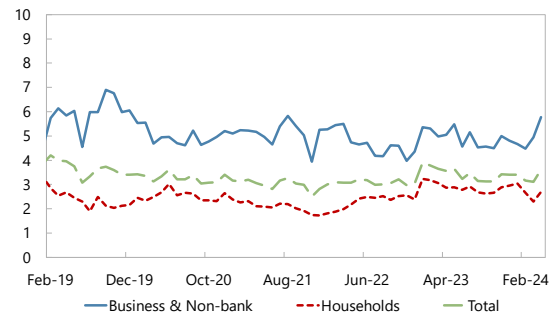


Sources: IMF FSI Database.

Non-performing loans remain low...

Non-performing Loan by Sector

(Percent of total loan in each sector)



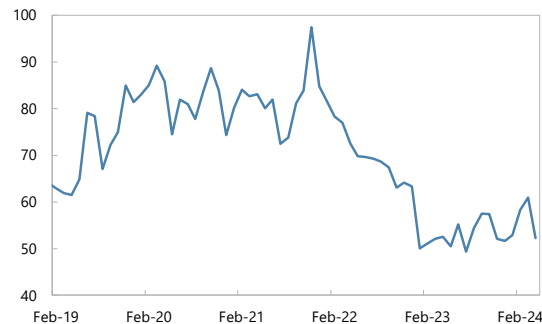
Sources: Botswana Financial Statistics.

Note: Non-performing loan is defined as arrears over 30 days net of provisions.

...with adequate provisioning.

Provisions to Total Non-performing Loans

(Percent)



Sources: Botswana Financial Statistics.

Table 1. Botswana: Selected Economic Indicators, 2020–2029¹

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Projection									
(Annual percent change, unless otherwise indicated)										
National Income and Prices										
Real GDP	-8.7	11.9	5.5	2.7	1.0	5.2	4.8	4.0	4.0	4.0
Nonmineral	-3.5	7.9	4.9	2.6	5.1	4.1	4.4	4.4	4.4	4.5
GDP per capita (US dollars)	5,863	7,244	7,726	7,250	7,341	8,003	8,602	9,146	9,726	10,437
GNI per capita (US dollars) ²	5,872	7,174	7,220	6,963	7,150	7,733	8,290	8,798	9,344	10,027
Consumer prices (average)	1.9	6.7	12.2	5.1	3.8	4.5	4.5	4.5	4.5	4.5
Diamond production (millions of carats)	16.9	22.7	24.5	25.1	21.1	23.3	25.0	25.5	26.0	26.4
Money and Banking										
Monetary Base	-3.8	-8.8	-5.3	33.1	8.7	9.7	9.3	9.2	9.3	9.3
Broad money (M2)	5.9	5.0	6.8	9.3	8.7	9.7	9.3	9.2	9.3	9.3
Credit to the private sector	5.3	5.4	4.7	5.6	8.5	11.0	11.0	11.0	11.0	11.0
(Percent of GDP, unless otherwise indicated)										
Investment and Savings										
Gross investment (including change in inventories)	32.8	27.4	25.0	30.3	35.4	34.1	35.0	35.5	36.7	37.5
Public	6.5	5.5	5.4	7.1	8.4	7.0	6.2	6.0	5.5	5.2
Private	26.3	21.9	19.6	23.2	26.9	27.1	28.8	29.5	31.2	32.3
Gross savings	26.6	28.1	24.9	29.9	33.4	35.6	36.2	36.8	37.3	37.7
Public	-4.3	0.7	4.0	3.0	2.4	4.2	5.4	6.1	5.9	5.5
Private	30.8	27.5	20.8	26.9	31.0	31.4	30.9	30.7	31.4	32.2
Central Government Finances ³										
Total revenue and grants	25.6	29.0	29.1	28.4	28.2	28.8	28.6	28.8	27.6	26.7
SACU receipts	9.1	6.5	5.5	9.1	9.6	7.0	6.4	6.6	6.3	5.9
Mineral revenue	5.3	10.6	13.3	7.4	5.8	9.5	9.9	9.8	8.9	8.4
Total expenditure and net lending	36.5	31.4	29.1	33.1	34.2	30.6	29.1	28.3	27.1	26.2
Overall balance (deficit –)	-10.9	-2.4	0.0	-4.7	-6.0	-1.7	-0.5	0.5	0.5	0.5
Non-mineral non-SACU balance ⁴	-25.3	-19.5	-18.8	-21.3	-21.3	-18.2	-16.7	-15.9	-14.7	-13.8
Net debt	15.3	12.8	12.6	16.9	22.2	21.6	20.2	18.2	16.2	14.6
Total central government debt ⁵	18.7	18.7	18.1	20.1	22.6	22.1	20.7	20.1	20.0	20.0
Government deposits with the BoB ⁶	3.4	5.9	5.5	3.3	0.4	0.4	0.6	1.9	3.8	5.5
External Sector										
Trade balance	-13.2	-3.5	2.7	-2.4	-6.9	-0.9	0.2	0.3	0.0	0.0
Current account balance	-10.3	-1.7	-1.2	-0.6	-2.0	1.5	1.2	1.2	0.6	0.2
Overall Balance	-11.7	-1.4	1.8	0.6	-0.9	1.3	1.3	1.5	0.9	0.5
Nominal effective exchange rate (2018=100) ⁷	94.0	94.1	90.8	86.4	-	-	-	-	-	-
Real effective exchange rate (2018=100) ⁷	94.4	97.7	99.1	94.7	-	-	-	-	-	-
Terms of trade (2005=100)	140.5	178.9	161.3	152.7	125.9	162.2	171.4	176.6	181.6	186.6
External central government debt ⁵	7.8	8.4	7.5	8.9	8.3	6.7	5.6	4.8	3.9	3.5
Gross official reserves (end of period, millions of USD)	4,944	4,806	4,281	4,757	4,587	4,879	5,198	5,600	5,852	6,014
Months of imports of goods and services ⁸	6.4	6.6	7.1	7.3	6.3	6.0	5.8	5.6	5.4	5.1
Months of non-diamond imports ⁸	9.3	8.7	8.2	8.8	7.9	7.8	7.6	7.5	7.2	7.1
Percent of GDP	31.2	27.1	21.8	24.2	23.3	22.3	21.5	21.7	20.8	19.6

Sources: Botswana authorities and IMF staff estimates and projections.

¹ This table is based on calendar years unless otherwise indicated.

² Based on Atlas method from the World Bank.

³ Fiscal variables are based on fiscal years (starting on April 1).

⁴ The non-mineral non-SACU balance is computed as the difference between non-mineral non-SACU revenue and total expenditure.

⁵ Excludes guarantees. Debt data measured at end of fiscal year.

⁶ Government deposits with the BoB include Government Investment Account as well as other accounts. Deposits data measured at end of fiscal year.

⁷ For 2020-2023, both effective exchange rates are from IMF INS database.

⁸ Based on imports of goods and services for the following year.

Table 2. Botswana: Balance of Payments, 2020–2029¹

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Projection									
	(millions of U.S. dollars)									
Current Account Balance	-1,538	-328	-241	-123	-391	323	286	325	167	62
Trade balance	-1,968	-652	548	-458	-1,383	-195	42	90	-3	-10
Exports, f.o.b.	4,293	7,427	8,293	5,715	5,497	7,468	8,622	9,690	10,722	11,642
Diamonds	3,714	6,686	7,214	4,532	4,237	6,080	7,058	7,942	8,765	9,456
Other raw materials	90	183	399	592	640	732	872	1,018	1,185	1,372
Other	489	558	680	592	621	656	693	731	772	814
Imports, f.o.b.	-6,260	-8,078	-7,745	-6,173	-6,880	-7,663	-8,580	-9,600	-10,725	-11,653
Diamonds	-2,011	-2,880	-2,205	-954	-1,386	-1,741	-2,137	-2,573	-3,066	-3,352
Other	-4,249	-5,199	-5,540	-5,219	-5,494	-5,922	-6,444	-7,027	-7,659	-8,301
Services	-899	-749	-471	-372	-283	-257	-281	-292	-309	-347
Transportation	-214	-331	-318	-267	-279	-299	-323	-346	-370	-401
Travel	27	130	267	315	367	389	401	433	467	500
Other services	-712	-548	-420	-420	-371	-347	-360	-380	-405	-446
Income	22	-182	-1,336	-777	-520	-747	-874	-991	-1,104	-1,203
Current transfers	1,305	1,253	1,011	1,472	1,794	1,521	1,400	1,518	1,583	1,622
SACU receipts	1,382	1,328	1,132	1,595	1,935	1,677	1,575	1,708	1,788	1,845
Capital and Financial Account	-670	-464	631	305	221	-31	33	78	85	100
Direct investment	100	-286	698	656	685	758	828	894	964	1,049
Portfolio investment	-959	-1,042	598	-829	-397	-444	-487	-527	-571	-623
Other investment	188	865	-665	478	-67	-346	-308	-288	-308	-326
Assets	265	282	-552	375	-48	-189	-162	-155	-166	-181
Liabilities	-78	546	-113	103	-19	-156	-146	-134	-143	-144
Net Errors and Omissions	458	533	-27	-61	0	0	0	0	0	0
Overall Balance	-1,751	-259	363	122	-170	292	319	402	252	162
	(Percent of GDP)									
Current Account	-10.3	-1.7	-1.2	-0.6	-2.0	1.5	1.2	1.2	0.6	0.2
Trade balance	-13.2	-3.5	2.7	-2.4	-6.9	-0.9	0.2	0.3	0.0	0.0
Exports of goods	28.8	39.6	40.8	29.5	27.5	33.8	35.7	37.2	38.1	38.0
Of which: diamonds	24.9	35.7	35.5	23.4	21.2	27.5	29.2	30.5	31.2	30.9
Imports of goods	41.9	43.1	38.1	31.8	34.5	34.7	35.5	36.8	38.2	38.1
Of which: diamonds	13.5	15.4	10.8	4.9	6.9	7.9	8.9	9.9	10.9	11.0
Memo: Diamond trade balance	11.4	20.3	24.7	18.4	14.3	19.6	20.4	20.6	20.3	19.9
Services balance	-6.0	-4.0	-2.3	-1.9	-1.4	-1.2	-1.2	-1.1	-1.1	-1.1
Income balance	0.1	-1.0	-6.6	-4.0	-2.6	-3.4	-3.6	-3.8	-3.9	-3.9
Current transfers balance	8.7	6.7	5.0	7.6	9.0	6.9	5.8	5.8	5.6	5.3
Financial Account	-4.5	-2.5	3.1	1.6	1.1	-0.1	0.1	0.3	0.3	0.3
Direct investment	0.7	-1.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Portfolio investment	-6.4	-5.6	2.9	-4.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Other investment	1.3	4.6	-3.3	2.5	-0.3	-1.6	-1.3	-1.1	-1.1	-1.1
Net Errors and Omissions	3.1	2.8	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (increase reserves +)	-11.7	-1.4	1.8	0.6	-0.9	1.3	1.3	1.5	0.9	0.5
	(Annual percentage change, unless otherwise indicated)									
Total exports of goods and services	-25.3	68.8	13.0	-28.4	-2.9	33.2	14.8	12.1	10.5	8.5
Of which: diamonds	-21.8	80.0	7.9	-37.2	-6.5	43.5	16.1	12.5	10.4	7.9
Total imports of goods and services	-2.3	23.1	-4.9	-18.4	9.1	10.7	11.6	11.5	11.3	8.7
Terms of Trade	-1.9	27.3	-9.8	-5.3	-17.5	28.8	5.6	3.0	2.8	2.8
<i>Memorandum Items:</i>										
End-of-Year Reserves (US\$ millions)	4,944	4,806	4,281	4,757	4,587	4,879	5,198	5,600	5,852	6,014
Months of Imports of Goods and Services ²	6.4	6.6	7.1	7.3	6.3	6.0	5.8	5.6	5.4	5.1
Months of Non-Diamond Imports	9.3	8.7	8.2	8.8	7.9	7.8	7.6	7.5	7.2	7.1
Nominal GDP (US\$ millions)	14,930	18,751	20,322	19,396	19,966	22,115	24,139	26,055	28,110	30,598
Source: Bank of Botswana; IMF staff estimates.										
¹ This table is based on calendar years.										
² Based on imports of goods and services for the following year.										

Table 3a. Botswana: Central Government Operations, FY2020–FY2029¹
(Billions of pula, otherwise indicated)

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
							Projection			
Total Revenue and Grants	46.2	63.4	74.1	75.4	79.2	91.0	99.1	108.6	113.2	119.3
Total revenue	46.2	63.4	74.1	75.4	79.2	90.9	99.1	108.5	113.1	119.3
Tax revenue	38.2	46.2	49.4	60.1	66.6	69.6	74.7	82.0	85.6	91.1
Income taxes	13.4	20.4	25.2	21.0	23.2	29.7	33.2	35.9	36.7	39.2
Mineral	3.3	7.9	10.9	6.8	5.7	10.9	12.3	13.2	12.2	12.4
Nonmineral	10.1	12.5	14.3	14.3	17.4	18.8	20.8	22.8	24.5	26.8
Taxes on goods and services ²	7.8	11.0	9.4	13.9	15.5	16.9	18.6	20.3	22.1	24.2
Customs Union receipts ³	16.5	14.1	14.0	24.3	27.0	22.1	22.1	24.9	25.8	26.5
Other	0.5	0.7	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.1
Nontax revenue	8.0	17.2	24.7	15.3	12.6	21.3	24.4	26.5	27.5	28.2
Mineral royalties and dividends	6.3	15.4	22.9	13.0	10.4	19.0	21.9	23.7	24.5	24.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure and Net Lending	65.8	68.7	74.1	88.0	96.0	96.4	100.7	106.8	111.1	117.2
Current expenditure	55.6	56.9	59.7	67.6	72.0	75.4	79.4	84.3	89.0	94.1
Wages and salaries	28.7	29.6	31.8	35.1	35.5	35.9	37.7	39.6	41.6	43.6
Interest	1.2	1.2	1.6	2.3	2.7	3.4	3.9	4.2	4.6	5.2
Other	25.7	26.2	26.3	30.1	33.9	36.1	37.8	40.6	42.8	45.3
Of which: grants and subsidies	16.0	15.7	15.6	17.1	17.0	17.5	18.3	19.2	20.1	21.1
Capital expenditure	10.2	11.8	14.3	20.3	23.8	20.9	21.2	22.4	22.0	23.0
Net lending	0.0	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary Balance (deficit -)	-19.3	-4.6	1.2	-11.1	-14.8	-2.8	1.4	4.9	5.7	6.2
Overall Balance (A)	-19.6	-5.3	0.0	-12.6	-16.7	-5.5	-1.6	1.7	2.1	2.1
Financing (B)	19.6	5.3	0.0	12.6	16.7	5.5	1.6	-1.7	-2.1	-2.1
Foreign (net)	-1.6	3.7	1.4	4.5	-1.8	-2.2	-1.9	-1.8	-1.8	-1.1
Drawing	0.2	5.1	3.2	4.7	0.2	0.2	0.3	0.4	0.4	0.6
Amortization	-1.5	-1.5	-1.7	-0.1	-1.8	-2.3	-2.1	-2.1	-2.1	-1.6
IMF transactions (net) ⁴	-0.2	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Issuance	12.1	12.8	12.8	11.8	17.0	17.2	12.4	17.3	20.1	26.7
Amortization	-5.0	-10.0	-9.8	-9.0	-6.0	-9.3	-8.3	-11.9	-12.1	-18.8
Change in cash balance (- increase)	10.2	-6.6	-1.2	5.3	7.5	-0.2	-0.6	-5.3	-8.3	-8.9
Other domestic financing	4.0	5.4	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum Items:</i>										
Non-Mineral non-SACU Balance ⁵	-45.7	-42.7	-47.8	-56.6	-59.9	-57.5	-57.9	-60.1	-60.3	-61.8
Total central government debt ⁶	33.7	40.9	46.1	53.5	63.4	69.6	71.9	75.9	82.3	89.6
Government deposits with the BoB	6.2	12.8	14.0	8.7	1.2	1.4	2.0	7.3	15.6	24.5
GDP (fiscal year; billions of pula)	180.3	218.8	254.4	265.7	280.6	315.6	346.5	377.1	410.4	446.7

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

¹ This table is based on fiscal years. The fiscal year runs from April 1 to March 31. For instance, FY2023 runs from April 1, 2023 to March 31, 2024.

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 excise taxes.

⁴ These transactions reflect Botswana's SDR allocation and contribution to the IMF's General Resource Account (GRA).

⁵ The non-mineral non-SACU balance is computed as the difference between non-mineral non-SACU revenue and total expenditure.

⁶ Excludes guarantees. Debt data measured at end of fiscal year.

Table 3b. Botswana: Central Government Operations, FY2020–FY2029¹
(Percent of GDP, unless otherwise indicated)

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
							Projection			
Total Revenue and Grants	25.6	29.0	29.1	28.4	28.2	28.8	28.6	28.8	27.6	26.7
Total revenue	25.6	29.0	29.1	28.4	28.2	28.8	28.6	28.8	27.6	26.7
Tax revenue	21.2	21.1	19.4	22.6	23.7	22.1	21.6	21.8	20.9	20.4
Income taxes	7.4	9.3	9.9	7.9	8.3	9.4	9.6	9.5	8.9	8.8
Mineral	1.8	3.6	4.3	2.5	2.0	3.5	3.6	3.5	3.0	2.8
Nonmineral	5.6	5.7	5.6	5.4	6.2	6.0	6.0	6.0	6.0	6.0
Taxes on goods and services ²	4.3	5.0	3.7	5.2	5.5	5.4	5.4	5.4	5.4	5.4
Customs Union receipts ³	9.1	6.5	5.5	9.1	9.6	7.0	6.4	6.6	6.3	5.9
Other	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	4.4	7.8	9.7	5.7	4.5	6.8	7.0	7.0	6.7	6.3
Mineral royalties and dividends	3.5	7.0	9.0	4.9	3.7	6.0	6.3	6.3	6.0	5.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure and Net Lending	36.5	31.4	29.1	33.1	34.2	30.6	29.1	28.3	27.1	26.2
Current expenditure	30.9	26.0	23.5	25.4	25.7	23.9	22.9	22.4	21.7	21.1
Wages and salaries	15.9	13.5	12.5	13.2	12.6	11.4	10.9	10.5	10.1	9.8
Interest	0.7	0.5	0.6	0.9	1.0	1.1	1.1	1.1	1.1	1.2
Other	14.3	12.0	10.3	11.3	12.1	11.4	10.9	10.8	10.4	10.1
Of which: grants and subsidies	8.9	7.2	6.1	6.4	6.1	5.5	5.3	5.1	4.9	4.7
Capital expenditure	5.7	5.4	5.6	7.7	8.5	6.6	6.1	5.9	5.4	5.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary Balance (deficit -)	-10.7	-2.1	0.5	-4.2	-5.3	-0.9	0.4	1.3	1.4	1.4
Overall Balance (A)	-10.9	-2.4	0.0	-4.7	-6.0	-1.7	-0.5	0.5	0.5	0.5
Financing (B)	10.9	2.4	0.0	4.7	6.0	1.7	0.5	-0.5	-0.5	-0.5
Foreign (net)	-0.9	1.7	0.5	1.7	-0.6	-0.7	-0.5	-0.5	-0.4	-0.2
Domestic (net)	11.8	0.7	-0.5	3.0	6.6	2.4	1.0	0.0	-0.1	-0.2
<i>Memorandum Item:</i>										
Non-Mineral non-SACU Balance ⁴	-25.3	-19.5	-18.8	-21.3	-21.3	-18.2	-16.7	-15.9	-14.7	-13.8
Total central government debt ⁵	18.7	18.7	18.1	20.1	22.6	22.1	20.7	20.1	20.0	20.0
Government deposits with the BoB	3.4	5.9	5.5	3.3	0.4	0.4	0.6	1.9	3.8	5.5
GDP (fiscal year; billions of pula)	180.3	218.8	254.4	265.7	280.6	315.6	346.5	377.1	410.4	446.7

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

¹ This table is based on fiscal years. The fiscal year runs from April 1 to March 31. For instance, FY2023 runs from April 1, 2023 to March 31, 2024.

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 excise taxes.

⁴ The non-mineral non-SACU balance is computed as the difference between non-mineral non-SACU revenue and total expenditure.

⁵ Excludes guarantees. Debt data measured at end of fiscal year.

Table 4. Botswana: Monetary Survey, 2020–2029¹
(Billions of pula, end of period, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Projection									
Net Foreign Assets	63.0	65.2	65.8	71.0	69.3	76.0	82.8	90.6	96.6	101.5
Bank of Botswana	51.9	51.4	49.8	58.7	56.4	60.4	64.9	70.6	74.2	76.5
Assets	53.3	56.0	54.5	63.7	61.3	65.4	69.9	75.6	79.2	81.5
Liabilities	-1.4	-4.6	-4.7	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Commercial banks	11.0	13.8	16.0	12.3	12.9	15.6	17.8	20.0	22.4	25.0
Assets	14.3	17.6	20.6	19.1	19.8	22.4	24.7	26.9	29.3	31.9
Liabilities	-3.3	-3.9	-4.6	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9
Net Domestic Assets	21.2	22.6	27.2	34.3	42.5	47.0	52.2	57.1	65.3	75.9
Net domestic credit	66.7	70.0	68.3	82.4	104.9	124.3	139.0	151.3	163.7	176.8
Net claims on the government	-0.5	0.1	-4.7	3.6	19.5	29.9	34.4	35.3	35.1	34.3
Bank of Botswana	-7.0	-10.8	-16.7	-10.5	-3.5	-1.8	-2.3	-6.4	-14.0	-22.7
Commercial banks	6.4	10.8	12.0	14.1	23.0	31.7	36.7	41.7	49.1	57.0
Claims on parastatals	0.9	0.4	0.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Claims on nongovernment	66.2	69.6	72.5	76.5	83.1	92.2	102.3	113.7	126.3	140.2
Claims on the private sector	67.9	71.6	74.9	79.1	85.8	95.2	105.7	117.3	130.3	144.6
Other financial institutions	-1.7	-2.0	-2.5	-2.6	-2.7	-3.0	-3.3	-3.6	-4.0	-4.3
Other items (net)	-45.4	-47.4	-41.1	-48.1	-62.4	-77.3	-86.8	-94.2	-98.3	-100.9
Monetary Base	6.6	6.1	5.7	7.6	8.3	9.1	9.9	10.9	11.9	13.0
Broad Money (M2)	89.8	94.3	100.7	110.1	119.7	131.3	143.5	156.6	171.1	186.9
Money	23.5	24.4	24.9	31.1	33.8	37.1	40.5	44.2	48.3	52.8
Currency	2.4	2.4	2.3	2.3	2.5	2.8	3.1	3.3	3.6	4.0
Current deposits	21.1	22.0	22.6	28.8	31.3	34.3	37.5	40.9	44.7	48.8
Quasi-money	66.2	69.9	75.8	79.0	85.9	94.2	102.9	112.4	122.8	134.1
<i>Memorandum Items:</i>										
Velocity (GDP to M2)	1.9	2.2	2.5	2.4	2.3	2.3	2.4	2.4	2.3	2.3
Velocity (non-mineral GDP to M2)	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Money Multiplier	13.5	15.6	17.6	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Base Money (annual % change)	-3.8	-8.8	-5.3	33.1	8.7	9.7	9.3	9.2	9.3	9.3
Broad Money (annual % change)	5.9	5.0	6.8	9.3	8.7	9.7	9.3	9.2	9.3	9.3
Claims on the private sector (annual % change)	5.3	5.4	4.7	5.6	8.5	11.0	11.0	11.0	11.0	11.0
Private sector claims to GDP	39.7	34.4	29.8	30.0	31.6	30.9	31.2	31.8	32.4	33.1

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

¹ This table is based on calendar years.

Table 5. Botswana: Financial Soundness Indicators, 2016–2023¹
(Percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023
Capital Adequacy								
Capital to assets	8.4	8.8	8.9	8.9	9.2	8.6	8.9	8.7
Regulatory capital to risk-weighted assets	19.2	21.9	17.9	18.5	20.0	17.4	19.8	19.6
Regulatory tier I capital to risk-weighted assets	13.2	15.0	13.2	13.4	13.8	12.5	12.9	13.2
Nonperforming loans net of provisions to capital	12.0	12.4	16.2	10.0	8.1	9.7	8.6	9.0
Asset Quality								
Large exposure to capital	214.6	131.3	153.6	115.5	92.8	117.7	131.2	109.7
Nonperforming loans to total gross loans	4.9	5.3	5.4	4.8	4.3	4.2	3.8	3.7
Bank provisions to nonperforming loans	51.5	53.7	42.7	59.0	60.2	56.6	51.0	49.0
Earnings and Profitability								
Trading income to total income	0.0	0.0	3.6	4.3	5.3	6.0	6.4	9.3
Return on assets	2.3	1.9	2.8	2.3	1.9	1.2	3.2	3.1
Return on equity	15.4	12.4	18.7	15.6	12.5	5.8	21.3	22.7
Interest margin to gross income	61.4	61.6	57.2	56.2	55.7	45.9	53.1	54.2
Noninterest expenses to gross income	57.1	59.9	58.5	58.1	61.6	71.1	57.0	56.9
Personnel expenses to noninterest expenses	43.2	44.5	44.4	45.4	45.2	46.4	45.3	47.3
Liquidity								
Liquid assets to total assets	16.3	13.4	14.3	14.7	14.7	12.7	13.4	12.2
Liquid assets to short-term liabilities	20.0	16.4	17.7	18.0	18.1	15.4	15.6	14.2
Customer deposits to total (non-interbank) loans	121.6	117.3	118.8	120.6	122.3	122.4	124.2	127.3
Exposure to Foreign Exchange Risk								
Net open position in foreign exchange to capital	3.5	5.7	8.1	5.0	3.8	2.3	5.0	2.7
Foreign currency-denominated loans to total loans	7.5	7.0	7.8	6.2	4.9	3.5	3.6	4.7
Foreign currency-denominated liabilities to total liabilities	14.6	14.0	14.4	12.7	14.9	22.2	31.2	27.4

Sources: Bank of Botswana and IMF staff calculations.

¹ This table is based on calendar years.

Annex I. Debt Sustainability Analysis

Figure 1. Botswana: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low reflecting low levels of vulnerability in the medium-term, and long-term.
Near term 1/	N/A	N/A	N/A
Medium term	Low	Low	Medium-term risks are assessed as low reflecting the relatively low debt ratio, the medium-term fiscal adjustment, and the strength of institutions. Debt is projected to stabilize as a share of GDP, due to the medium-term fiscal consolidation plan (starting in FY2025) and the negative interest-growth differential. Medium-term liquidity risks, as measured by the Gross Financing Needs (GFN) module, are low, given the low government financing needs and the relatively low share of government debt in total commercial banks assets. The assessment also holds in the scenarios with adverse commodity price shocks or a natural disaster. The Debt fanchart module shows a low risk rating as improvement in the fiscal balance results in the stabilizing path of debt.
Fanchart	Low	...	
GFN	Low	...	
Stress test	Comm. Prices Nat. Disast.	...	
Long term	...	Low	Long-term risk in the baseline scenario is low as fiscal surpluses contribute to the stabilization of debt-to-GDP ratio. One risk stems from a long-term decline in diamond production, which may result in lower mineral revenues and higher debt. Reducing potential risks from declining long-term diamond production will require accelerating diversification reforms.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
<p>Commentary: Botswana is assessed to have a low overall risk of sovereign stress. The projected stabilization of the debt-to-GDP ratio depends on the successful implementation of the planned fiscal consolidation, which is fairly ambitious but achievable by international standards. The baseline long-term risk outlook is low, but negative shocks to commodity revenues may put upward pressure on debt issuance. Reducing potential risks from declining long-term diamond production will require accelerating diversification reforms.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Figure 2. Botswana: Debt Coverage and Disclosures

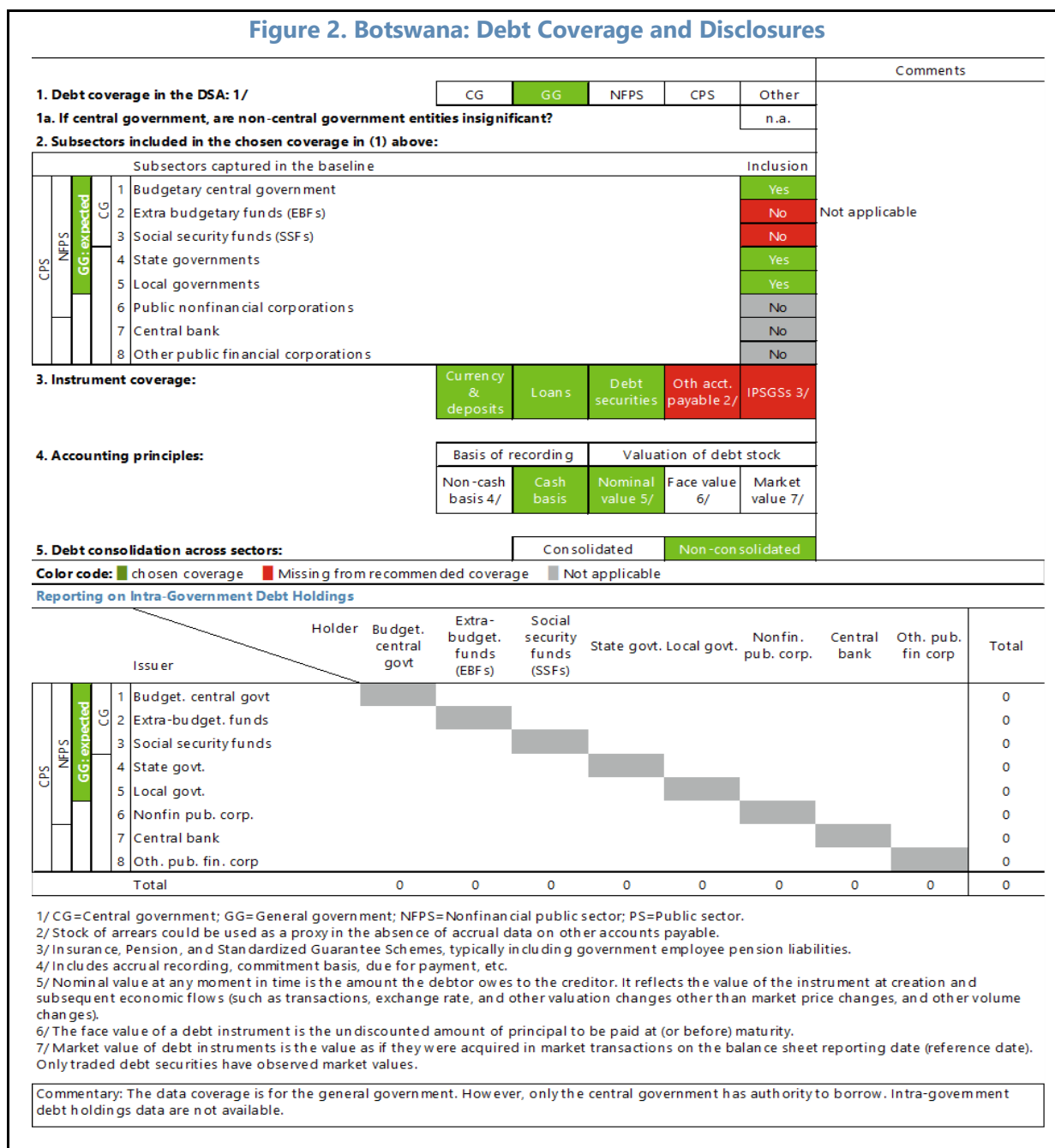
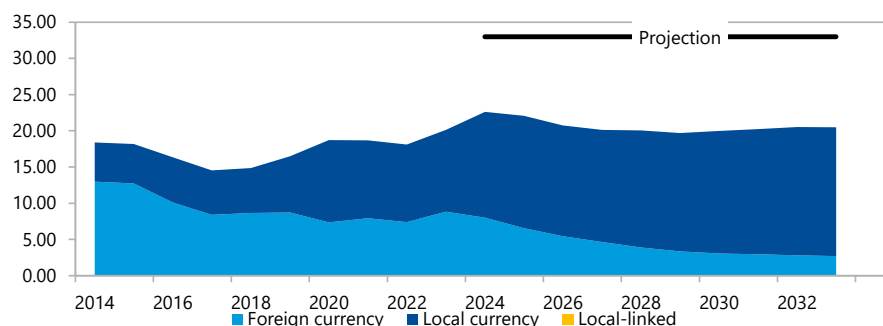


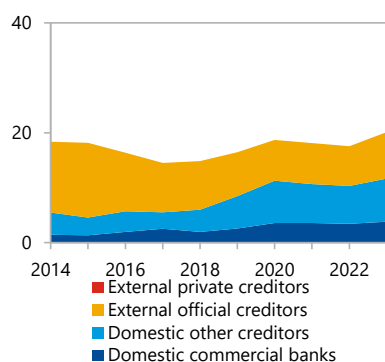
Figure 3. Botswana: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



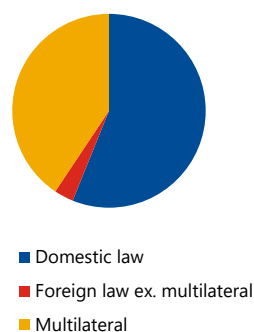
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



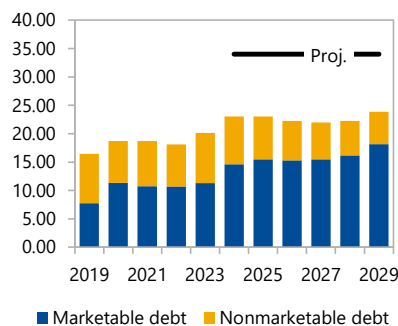
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



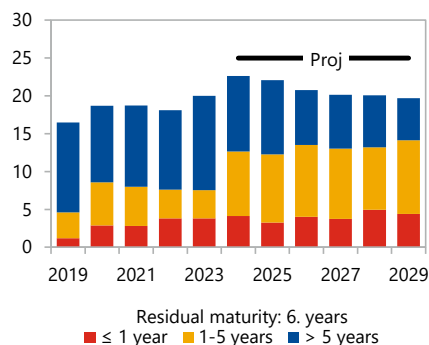
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

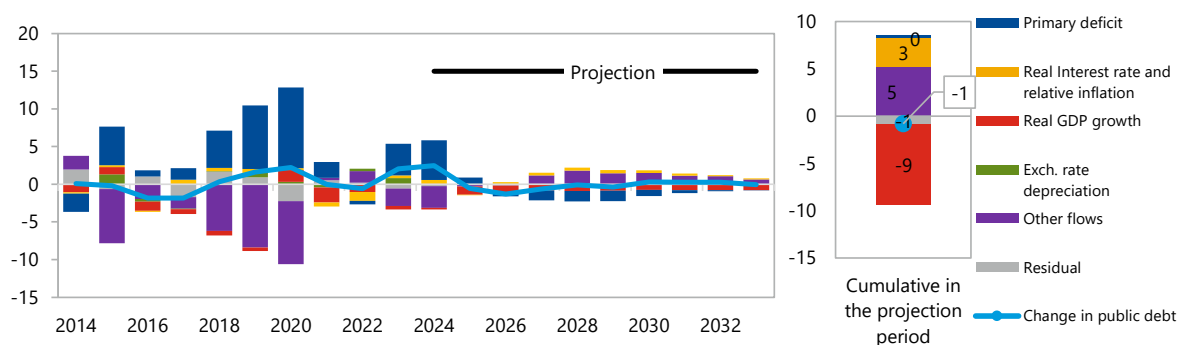
Commentary: Since 2018, an increasing share of Botswana’s debt has been held by domestic banks and other domestic creditors (e.g. pension funds), while the share of external official creditors has declined. The share of foreign debt in total public debt is projected to keep declining over the medium-term as domestic debt markets deepen and pension funds increasingly repatriate some of their assets domestically. As external loans tend to have longer maturities, the composition of debt will pivot towards short and medium-term debt.

Figure 4. Botswana: Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public Debt	20.1	22.6	22.1	20.8	20.1	20.1	19.7	20.0	20.2	20.5	20.5
Change in Public Debt	2.0	2.5	-0.6	-1.3	-0.6	-0.1	-0.4	0.3	0.2	0.3	0.0
Contribution of identified flows	2.6	2.7	-0.4	-1.2	-0.6	0.0	-0.3	0.3	0.3	0.3	0.0
Primary deficit	4.2	5.3	0.9	-0.4	-1.3	-1.4	-1.4	-0.8	-0.4	-0.1	0.0
Noninterest revenues	28.1	28.0	28.6	28.4	28.5	27.3	26.5	26.7	26.4	26.1	25.9
Noninterest expenditures	32.3	33.2	29.5	27.9	27.2	25.9	25.1	25.9	26.0	26.0	25.9
Automatic debt dynamics	0.7	0.4	-1.2	-0.7	-0.4	-0.4	-0.4	-0.4	-0.5	-0.6	-0.7
Real interest rate and relative inflation	0.4	0.6	-0.1	0.3	0.3	0.4	0.4	0.4	0.3	0.1	0.1
Real interest rate	0.5	0.6	-0.5	0.1	0.2	0.3	0.3	0.3	0.2	0.1	0.1
Relative inflation	-0.1	0.0	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.4	-0.2	-1.1	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Real exchange rate	0.8	...	...	...	...	...	...	...	...	...	...
Other identified flows	-2.3	-2.9	-0.2	0.0	1.2	1.8	1.5	1.5	1.1	1.1	0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0
Other transactions	-2.0	-2.6	0.1	0.2	1.4	2.1	1.7	1.5	1.1	1.1	0.6
Contribution of residual	-0.6	-0.3	-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Gross Financing Needs	8.2	8.7	5.4	3.4	3.3	2.9	4.1	4.4	5.5	5.1	5.1
of which: debt service	4.3	3.7	4.8	4.1	4.8	4.6	5.7	5.2	5.9	5.2	5.1
Local currency	4.0	3.0	3.9	3.4	4.2	4.0	5.3	4.9	5.8	5.1	5.0
Foreign currency	0.3	0.8	0.9	0.7	0.6	0.6	0.4	0.3	0.2	0.2	0.1
Memo:											
Real GDP growth (percent)	2.5	1.0	5.2	4.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	2.2	2.0	7.7	5.0	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Nominal GDP growth (percent)	4.3	5.6	12.5	9.8	8.8	8.8	8.8	8.8	8.9	8.9	8.9
Effective interest rate (percent)	5.0	5.0	5.4	5.6	5.8	6.1	6.4	6.3	5.8	5.0	5.0

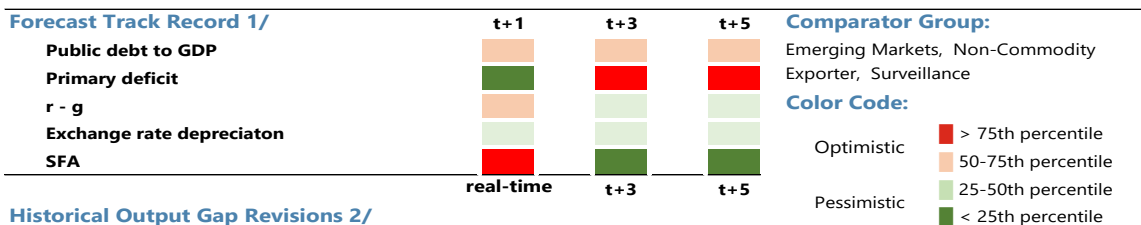
Contribution to Change in Public Debt

(Percent of GDP)



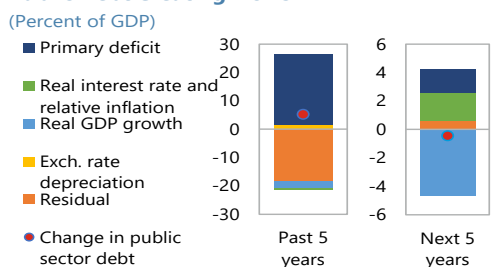
Commentary: Over the past 5 years, the authorities have limited the debt increase by drawing down on cash reserves. The strong post-pandemic recovery helped to close the fiscal deficit by FY2022. The authorities will finance the widening deficits in FY2023-24 by reducing their deposits, as the stock of domestic debt is nearing nominal debt limits. From FY2025, the authorities plan to implement a medium-term fiscal adjustment and reach fiscal surpluses. The negative interest-growth differential, along with the improved fiscal position, will contribute to the projected accumulation of fiscal buffers and stabilization of debt over the medium-term.

Figure 5. Botswana: Realism of Baseline Assumptions

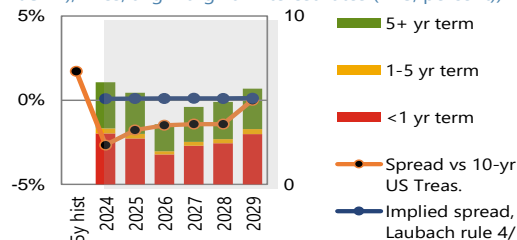


Historical Output Gap Revisions 2/

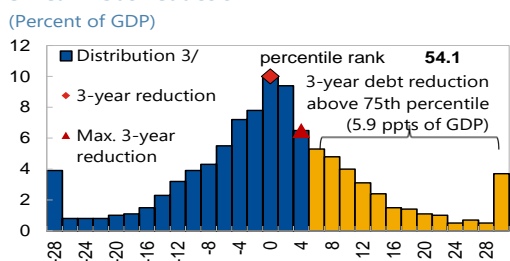
Public Debt Creating Flows



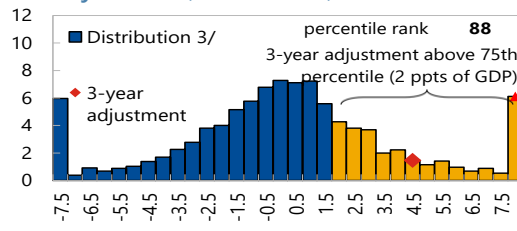
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



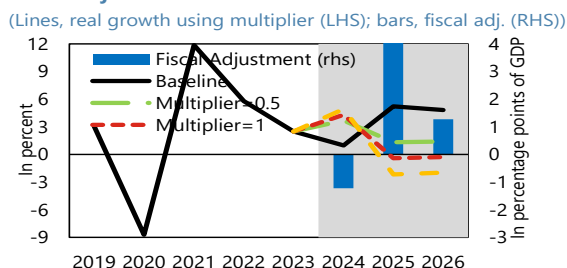
3-Year Debt Reduction



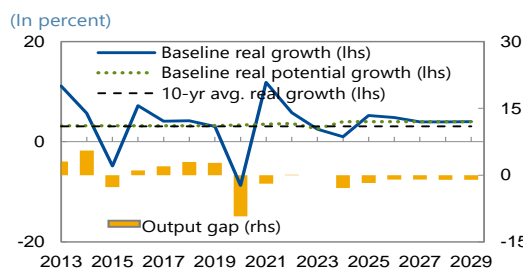
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: Botswana's improvement in debt level is realistic when measured against international comparators. The growth outlook is in line with historical averages. Regarding the credibility of adjustment, fiscal consolidation is quite ambitious by international standards, although a large share of the improvement in fiscal balance in FY2024-FY2026 comes from the projected increase in mineral revenues as global demand for rough diamonds is expected to recover over the next two years. Furthermore, experience shows that significant fiscal adjustments following mining sector downturns are common in Botswana. For instance, the fiscal balance improvements that followed the previous diamond market shocks (e.g. during the Global Financial Crisis, the end of commodity cycle in 2015, or the CoVID-19 pandemic) were larger than the 3-year fiscal adjustment currently projected under the baseline. There is also large untapped potential from revenue-enhancing measures, which is not factored in our projections, since the authorities' medium-term fiscal adjustment plan is mostly expenditure-based. Finally, the growth outlook is in line with historical averages, and consistent with staff estimate of potential growth. Despite the projected fiscal consolidation, growth is expected to rebound in 2025 as diamond production recovers after a steep contraction in 2024.

Source : IMF Staff.

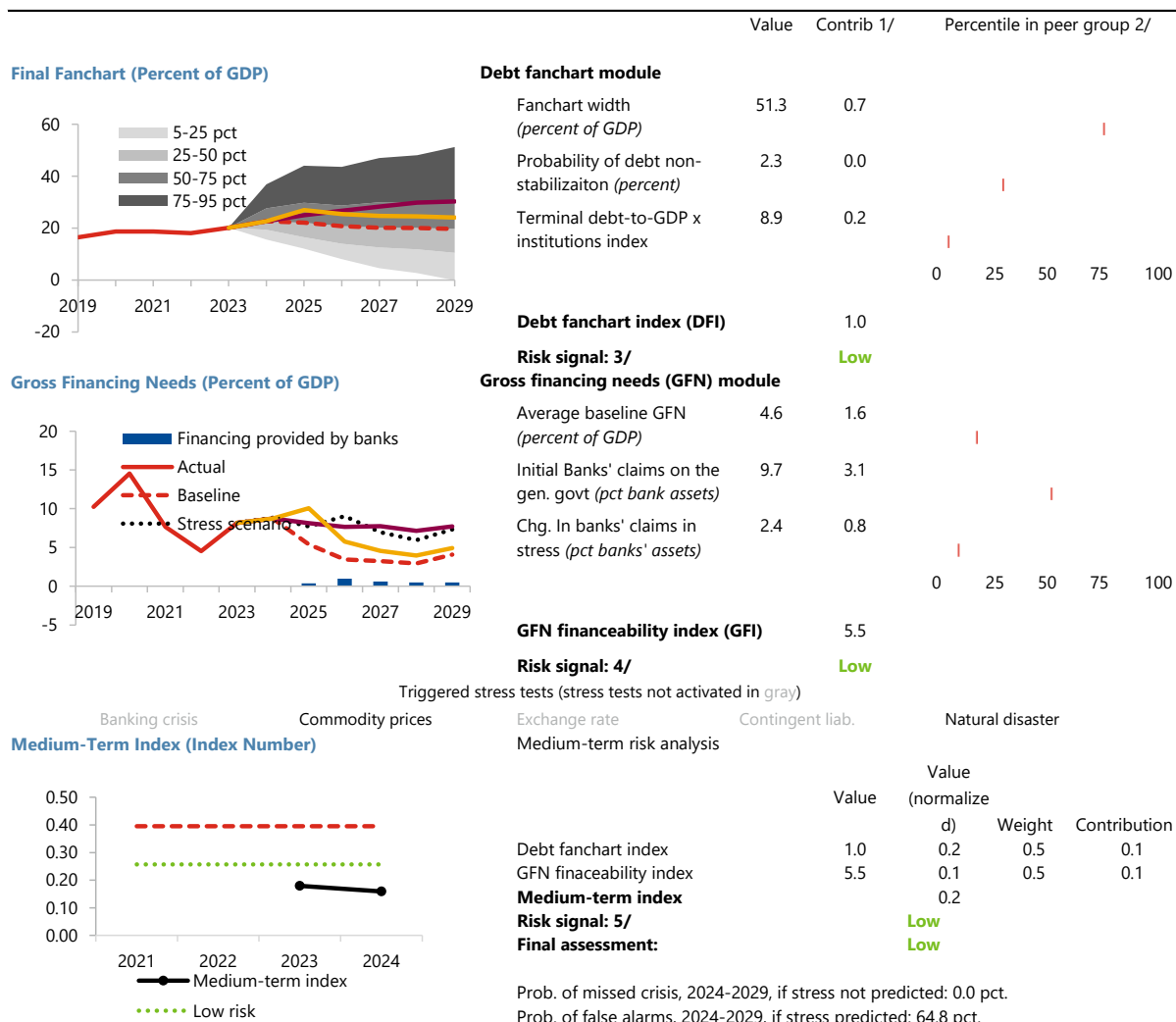
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Botswana: Medium-Term Risk Analysis



Commentary: The medium-term index points to an overall low risk assessment as the Debt fanchart and Gross financing needs modules are both signaling low risk. The Debt fanchart module assessment is driven by the low level of debt in the medium term and an overall good quality of institutions. The fanchart width is quite wide (at about the 75th percentile), reflecting high historic volatility of the diamond market, which translates into volatile growth and primary balances. The liquidity risks captured by the GFN finance ability index are low reflecting low gross financing needs and limited exposure of domestic banks to the sovereign. To test the robustness of the baseline and reflect Botswana's vulnerabilities, a commodity price shock or a natural disaster shock are applied to the model. Under both scenarios, gross financing needs trend downwards over the medium-term and the path of debt is stable or declining. The authorities, however, need to be proactive in managing public debt to ensure that roll-over risks remain low over the medium-term.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
 2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
 3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
 4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
 5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Botswana: Long-Term Risk Analysis

Botswana: Triggered Modules

Large amortizations

Pensions
Health

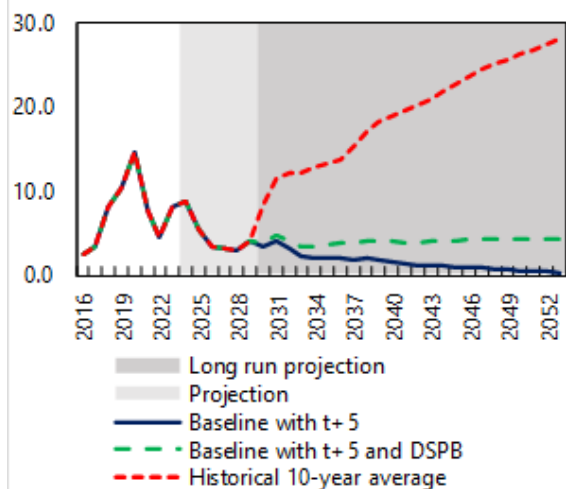
Climate change: Adaptation
Climate change: Mitigation

Natural Resources

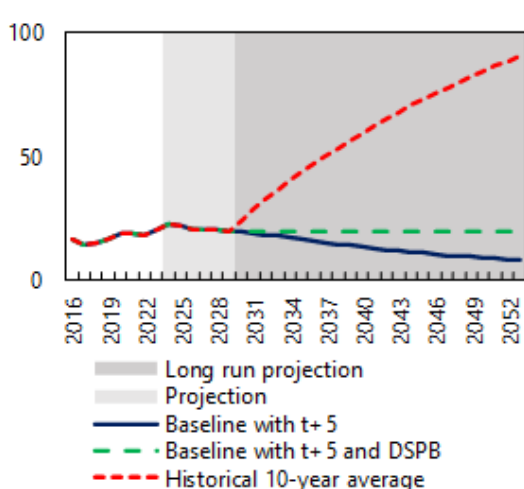
Botswana: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Red
	Amortization-to-GDP ratio	Red
	Amortization	Red
Overall Risk Indication		Green

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

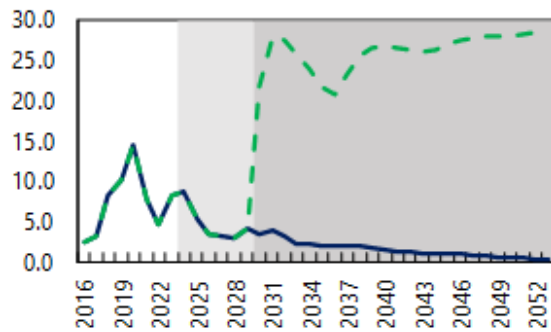


Commentary: The overall long-run risk indicator is low. Under the baseline, debt stabilizes, reflecting primary surpluses that are used to accumulate fiscal buffers. If historical averages are used in the projections, then debt could reach 90 percent of GDP in the long term. This simulation, however, reflects historically elevated gross financing needs during the pandemic years which were covered primarily by depleting cash deposits. One source of risks stems from amortization, where large, lumpy future repayments may pose a roll-over risk.

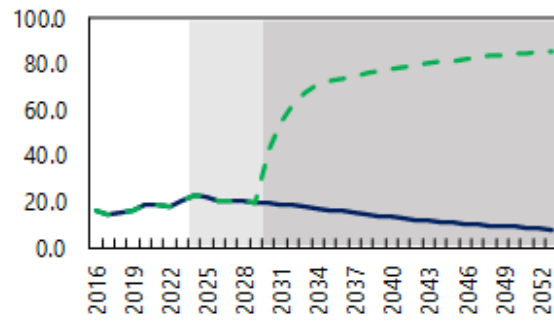
Figure 7. Botswana: Long-Term Risk Analysis (concluded)

Botswana: Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: One source of risk is declining diamond production leading to lower mineral revenue. Over the long-term, if commodity revenues start to decline with falling diamond production, the baseline scenario may be too optimistic, and public debt may reach almost 90 percent of GDP by 2050. Accelerating diversification reforms could reduce the risks associated with declining long-term diamond production.

Annex II. External Stability Assessment

Overall Assessment: *The external position of Botswana in 2023 is broadly in line with the level implied by fundamentals and desirable policies. Despite the weak diamond market, the current account deficit narrowed to 0.6 percent of GDP in 2023 from 1.2 percent of GDP in 2022, due to strong customs union revenues and lower outward repatriation transfers from diamond re-export activities. The current account is initially projected to recover in 2025 (in line with a diamond market rebound) before weakening over the medium term, mostly due to falling SACU revenues.¹ In line with long-term trends, the net international investment position (NIIP) is projected to weaken as a result of declining FX reserves.*

Potential Policy Responses: *Fiscal consolidation and structural reforms to strengthen competitiveness and promote diversification will be key to support the external position in the medium term. The real effective exchange rate (REER) targeting regime has served the country well in delivering relatively stable inflation. While a crawling regime remains well-suited to Botswana's economic and financial characteristics, small adjustments could help support price competitiveness and enhance the consistency with monetary policy, for instance by calibrating the nominal crawl rate to support the inflation objective (rather than to compensate the inflation differential with the main trading partners) or by modifying the weights used in the REER calculation to mirror trade patterns more closely, as discussed in the 2023 Article IV report.²*

Foreign Assets and Liabilities: Position and Trajectory

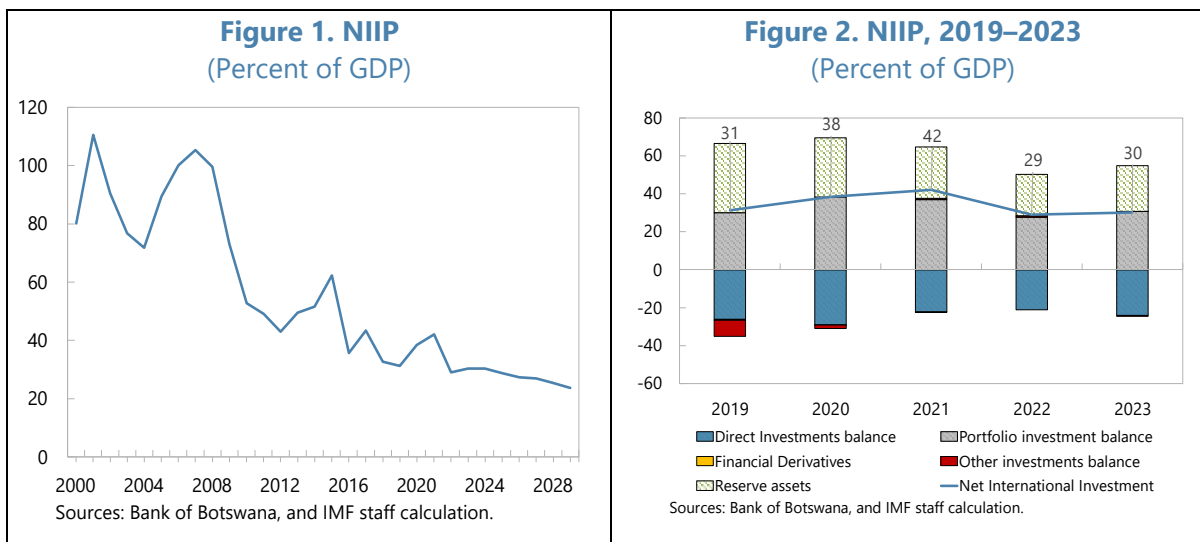
Background. From a peak of 105 percent of GDP in 2007, the NIIP has declined substantially over time due to decreasing reserve assets (Figures 1 and 2). Botswana's NIIP improved slightly in 2023 to 30 percent of GDP from 29 percent in 2022 (the lowest level on record). Higher external portfolio investment and a recovery in FX reserves pushed up gross assets from 67 percent of GDP in 2022 to 71 percent in 2023. In 2023, almost half of gross assets were portfolio investment, and one-third were reserve assets. Gross liabilities rose to 41 percent of GDP in 2023 from 38 percent of GDP, partly because of upward revisions to direct investment in Botswana, which accounts for 70 percent of liabilities. As shown in Figure 2, the NIIP in 2023 was composed of a net portfolio balance (31 percent of GDP), reserve assets (24 percent of GDP), and a negative direct investment balance (-24 percent of GDP). Foreign reserves improved in 2023 to USD 4.8 billion, largely reflecting valuation gains. At the end of the year, the reserve coverage was 7.3 months of imports, slightly up from 7.1 months of imports at end-2022.

Assessment. Botswana is a net creditor country, but the NIIP is projected to fall further to 24 percent of GDP by 2029, as reserve assets decline. There are no large gross liabilities. External debt remains very low and consists of long-term multilateral and bilateral borrowing.

¹ SACU transfers are calculated from the IMF staff forecast of South African customs and excise revenues, using the revenue-sharing formula of the 2002 SACU Agreement. In the medium term, SACU revenues are projected to decline as a percentage of GDP because of slower growth of imports into the SACU region.

² See 2023 SIP on "Botswana Selected Issues: Botswana's Real Effective Exchange Rate Targeting Regime: Taking Stock and Looking Forward."

Foreign Assets and Liabilities: Position and Trajectory



2023 (% GDP)	NIIP: 30	Gross Assets: 71	Debt Assets: 45	Gross Liab.: 41	Debt Liab.: 19
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Current Account

Background. The current account (CA) reached a high of 20 percent of GDP in 2006, before spiking again to a post-GFC high of 11.5 percent in 2014. Since 2015, however, the current account balance has averaged -0.4 percent of GDP (against an average surplus of 6 percent between 2000 and 2014). The decline is primarily due to a deterioration of the diamond trade balance, reflecting lower locally-sourced diamond exports.

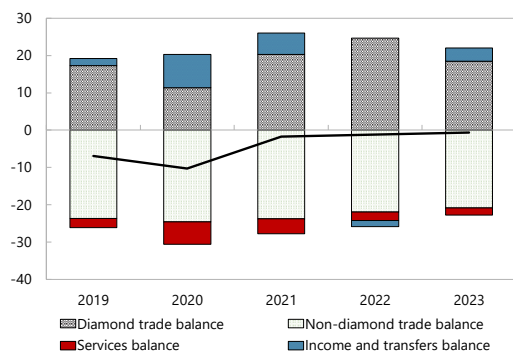
Despite a sharp deterioration in the trade balance, Botswana’s CA improved to -0.6 percent of GDP in 2023 from -1.2 percent of GDP in 2022. The trade balance fell from a surplus of 2.7 percent of GDP in 2022 to -2.4 percent of GDP in 2023 because of the diamond market slowdown (Figures 3 and 4). This deterioration was offset by higher current transfers (i.e., Southern African Customs Union receipts) and a stronger income balance (from lower repatriation of returns related to diamond re-exports). The services trade deficit narrowed from 2.3 percent of GDP in 2022 to 1.9 percent in 2023, indicative of the continued recovery in travel receipts.

Assessment. Table 1 presents the results of four models. Under the CA model and the commodity investment module, the external position of Botswana in 2023 is estimated to be broadly in line with fundamentals and desirable policies. The investment module is better suited to Botswana, a developing country with large investment needs, compared to the consumption model, which requires larger savings in the medium-term and is more applicable to high-income economies.³

³ The investment module has been tailored to Botswana’s export concentration in diamonds.

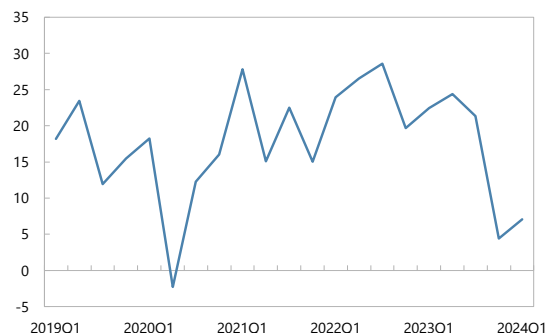
Current Account

Figure 3. Current Account
(Percent of GDP)



Sources: Bank of Botswana, and IMF staff calculation.

Figure 4. Diamond Trade Balance
(Percent of GDP)



Sources: Bank of Botswana, and IMF staff calculation.

Table 1. Botswana: Model Estimates for 2023
(Percent of GDP)

	CA model 1/ (in percent of GDP)	REER model 1/	Consumption Module 2/	Investment Module 2/
CA-Actual	-0.6		-0.6	-0.6
Cyclical contributions (from model) (-)	0.0			
Natural disasters and conflicts (-)	-0.1			
Adjusted CA	-0.5			
CA Norm (from model) 3/	0.0		-3.9	0.3
Adjusted CA Norm	0.0			
CA Gap	-0.5	4.1	3.3	-0.9
o/w Relative policy gap	0.0			
Elasticity	-0.3			
REER Gap (in percent)	1.7	-13.9	-11.0	3.0

1/ Based on the EBA-lite 3.0 methodology

2/ Based on the commodity module of the EBA-lite 3.0 methodology.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Since May 2005, the monetary authorities have aimed at stabilizing the REER in relation to Botswana’s main trading partners. At the beginning of the year, the authorities announce the ‘crawl rate’ of the NEER that offsets the projected gap in CPI inflation between Botswana and a trade-weighted basket of currencies over the coming 12 months.^{4,5} In January 2024, the authorities maintained the nominal crawl depreciation rate of the Pula at 1.5 percent for the year.

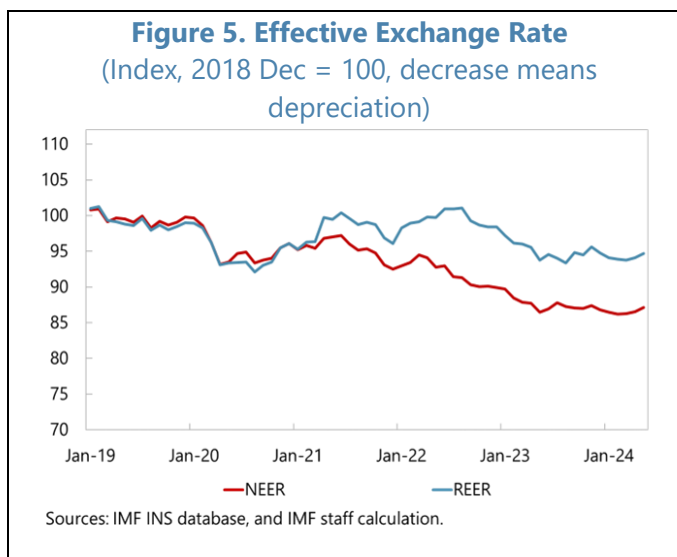
⁴ The basket—composed of the South African Rand (weighted at 45 percent) and the SDR (55 percent)—broadly reflects the composition of trade between Botswana and its key trading partners.

⁵ The crawl rate can be changed in the event of large and unexpected shocks.

Real Exchange Rate

Botswana's REER, as measured by the IMF, depreciated in 2023 by 4.4 percent (Figure 5). This was due to a weakening of the nominal effective exchange rate and Botswana's CPI inflation being lower than its trading partners.

Assessment. The CA model suggests that the Pula is broadly in line with fundamentals, and that the REER would need to depreciate slightly (about 1.7 percent) for the CA deficit to be in line with the norm. The REER model suggests that the Pula would need to appreciate by 13.9 percent for the CA gap to be reduced to the norm; however, the relative fit of the REER model is poor, supporting staff's preference for the use of the CA model. The implicit REER gap of the investment model (3.0) is in line with the CA model.



The REER targeting regime has served the country well delivering relatively stable inflation and a crawling regime remains well suited to Botswana's economic and financial characteristics. Challenges remain from a slow deterioration of export performance, stalled diversification, and a decline in foreign exchange reserves over the past two decades. Small changes to the current regime could support price competitiveness and mitigate the risk of tension between monetary policy and exchange rate policy objectives, for instance by calibrating the nominal crawl rate to support the inflation objective (rather than to compensate the inflation differential with the main trading partners) or by modifying the weights used in the REER calculation to mirror trade patterns more closely, as discussed in the 2023 SIP on the exchange rate regime.

Capital and Financial Accounts: Flows and Policy Measures

Background. Botswana has historically had large financial account deficits, mainly because of external investments by pension funds, and other investment outflows. Botswana is a global diamond hub, where diamonds are imported for sales events to allow buyers from different countries to inspect the new diamond batches. These diamonds are then re-exported, with part of the profits repatriated overseas. The financial account has strengthened since the pandemic, reflecting lower external portfolio investment, upward revisions to domestic FDI, and smaller foreign dividend payments from the diamond sector. Despite a recent normalization of portfolio outflows, the financial account remained in surplus in 2023 (at 1.6 percent of GDP from a 3.1 percent of GDP surplus in 2022). This remained above the average deficit of 2.5 percent of GDP since 2000.

Capital and Financial Accounts: Flows and Policy Measures

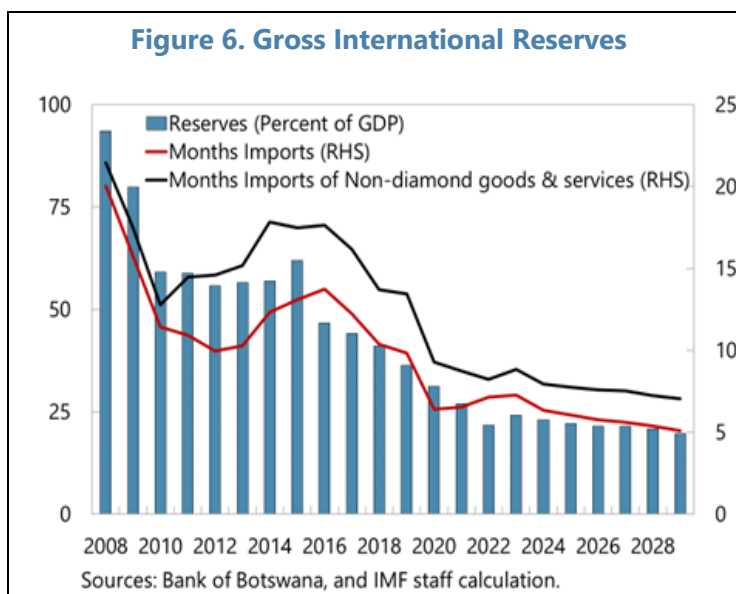
Assessment. Botswana has low vulnerabilities related to capital flows, given low external debt (largely to multilateral institutions and long-term in nature), and low feedthrough from international financial conditions to capital flows, partly due to the nature of investors (e.g., “buy-and-hold” pension funds with a long-term investment horizon). In addition, amendments to the Retirement Funds Act,⁶ which require pension funds to gradually increase the share of their domestically held assets, are likely to reduce future portfolio outflows.

FX Intervention and Reserves Level

Background. The BoB’s FX reserves are divided between two main accounts: the Liquidity Portfolio (which the central bank is required to maintain by the BoB Act) and the Pula Fund (which is the excess or residual from the Liquidity Portfolio). The Liquidity Portfolio is primarily a money market and fixed income fund that provides a buffer for short- and medium-term trade and capital account requirements. The benchmark level for the Liquidity Portfolio is reviewed from time to time; it is currently set at 3 months of import cover (in the authorities’ definition, which is based on current year imports excluding diamonds). This means that FX reserves up to 3 months of imports are allocated to and invested in the Liquidity Portfolio. This Portfolio is split into the Liquidity Investment Tranche (LIT) and the Transaction Balance Tranche (TBT). The TBT caters for any short term needs for foreign currency, while the LIT provides further support for medium term funding. In contrast, the Pula Fund is a long-term investment portfolio in foreign assets, with higher risks and returns. Assets in excess of what is needed for reserves adequacy (i.e., above 3 months of imports) are invested long-term in the Pula Fund, with investment decisions made in consultation with the Ministry of Finance.

The BoB’s international reserves rose to USD 4.8 billion or 7.3 months of imports at end-2023, from USD 4.3 billion or 7.1 months in 2022

(Figure 6). The increase in reserves largely reflects revaluation gains, estimated at USD 552 million, from the increase in the value of equities and bonds held by the central bank. Botswana has a crawling pegged exchange rate, with a standing facility where the monetary authorities commit to buy and sell foreign exchange within a narrow daily range; there are no discretionary foreign exchange interventions. The authorities are considering establishing a new SWF to manage government savings invested in foreign assets (see SIP attached to this report).



⁶ The amendments to the 2022 Retirement Fund Act require pension funds to reduce the maximum share of offshore investments from 70 percent to 50 percent of total assets between 2023 and 2027.

FX Intervention and Reserves Level

Assessment. End-2023 reserves, which are held mostly in the Pula fund, are adequate, representing about 236 percent of the ARA metric and increased from 198 percent in 2022. At end-2023, the ARA metric corresponded to 3.1 months of imports. Reserve coverage is expected to remain above this threshold over the medium term. The reserve management strategy of the authorities appears sound and prudent. As discussed in the SIP, careful design of the new SWF and the new fiscal rule will be key to ensure that any reallocation of FX from the Pula fund to the new SWF does not undermine the central bank's reserve position. In staff's view, external stability would be safeguarded by combining a budget rule supporting a medium-term fiscal surplus with a financing fund model for the SWF.

Annex III. Risk Assessment Matrix¹

Source of Risks	Likelihood	Expected Impact if Realized	Possible Policy Response
Global Risks			
Abrupt global growth slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn. In EMDEs, a new bout of global financial tightening leads to spiking risk premia and sudden capital stops. An intensified fallout from Russia's war in Ukraine could worsen the energy crisis and supply disruptions.	Medium	High. Lower global growth may affect demand and prices for diamond and other commodity exports (e.g., copper) and slow tourism. A slowdown in neighboring countries could lower SACU revenues, affecting fiscal balances, foreign reserves, and putting pressure on the Pula.	Apply countercyclical fiscal policy, while continuing with a credible fiscal consolidation in the medium term. Accelerate structural agenda to enhance competitiveness and diversify the economy to build resilience against external shocks. Consider reform options to strengthen the role of the exchange rate as external shock absorber.
Commodity (oil and food) price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations causes recurrent commodity price volatility.	High	Medium. Botswana is an oil and food importer. Commodity price volatility could lead to price and real sector volatility, budgetary pressures, and exacerbate the cost-of-living. The large share of South African imports (with regulated petroleum prices and a large agriculture sector), administered prices, and the crawling peg exchange rate could help limit sharp swings in prices.	Stand ready to adjust monetary policy cautiously if medium-term inflation projections change significantly and there are signs of second-round effects. Provide targeted, short-term fiscal support to vulnerable households to cushion the impact of higher food prices.
Systemic financial instability caused by high interest rates and risk premia amid economic slowdowns and political uncertainty (from elections) in advanced economies trigger market dislocations, with adverse cross-border spillovers.	Medium	Low. Concerns about the global financial system could prompt investors to reduce exposure to EMDEs. Risk-off sentiment and rising risk premiums for African bonds could strain financing options, although Botswana's external borrowing needs are limited, and capital flows display low mobility.	Continue consolidating public finances, improving domestic revenue mobilization, and deepening domestic financial market. Implementation of FSAP recommendations could reinforce the resilience of the financial sector and help mitigate financing risks (especially bank's liquidity risks).
Domestic Risks			
Delays in implementing fiscal consolidation and economic diversification reforms due to political economy constraints, capacity limitations, or reform fatigue.	Medium	High. Higher public debt and/or further erosion of government deposits would undermine fiscal sustainability as well as macroeconomic and external stability. Lack of economic diversification would erode growth potential over time (due to depletion of diamonds, competition of lab diamonds, and Dutch disease effects), and perpetuate high inequality and unemployment.	Advance fiscal reform by defining medium-term fiscal targets for fiscal policy. Achieve these targets by improving efficiency of domestic revenue collection and better prioritizing spending, while preserving capital projects with high returns and social spending. Reinvigorate the reform agenda by accelerating some key reforms like SOE reform, digitalization, or trade integration.
Extreme climate events. Botswana is exposed to highly variable rainfall, which leads to floods and droughts, causing severe economic damage and amplify supply disruptions.	High	Medium. More frequent or severe weather events could disrupt water provision and reduce crop production, tourism activity, weaken strategic sectors (e.g., mining), and have adverse effects on the poor, including from higher inflation. Could also increase fiscal deficits, lower growth, and impact poverty.	Implement climate change mitigation and adaptation measures, including low-carbon energy generation. Adapt spatial development strategies to long-term climate challenges and constraints. Develop local capacity to access climate finance (including from international sources), by developing a pipeline of climate projects and actions.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. Assessment of the 2023–24 Fiscal Expansion

1. The authorities plan to double the capital budget between FY2022 and FY2024, at a time when mineral revenues are falling sharply. Even assuming some under-execution of capital spending, staff estimate that the fiscal deficit will increase by 6 percent of GDP over two years. The deficit excluding mining and SACU revenues—a more accurate measure of fiscal stimulus—will expand by 2.6 percent of GDP.

2. This annex uses a methodology inspired by Carnot (2014) to assess the appropriateness of the fiscal stance.¹ The recommended fiscal stance, defined as the “optimal” fiscal impulse between two periods, can be estimated as the weighted average of a sustainability component and a countercyclical component. This approach, which is akin to a Taylor rule for fiscal policy, has two elements:

- The medium-term *sustainability component* is the fiscal effort needed to bring today’s deficit to a sustainable level, absent any cyclical consideration. This term is commonly referred to as “primary gap” in the literature (when the variable is the primary balance).
- The short-term *stabilization component* is the recommended fiscal policy response to cyclical conditions—abstracting from fiscal sustainability considerations and assuming unchanged monetary policy. This component can be estimated as the fiscal impulse (or adjustment) needed to close either the output gap or the gap between growth and potential growth, assuming a specific fiscal multiplier. In this annex, we measure the output gap using an HP filter applied to non-mining GDP (excluding the effect of the fiscal stimulus), given fiscal policy’s negligible impact on mining.

$$\begin{aligned} \text{Fiscal stance} &= \text{optimal fiscal impulse between FY2022 and FY2024} \\ &= \alpha \cdot (\text{sustainability component}) + (1 - \alpha) \cdot (\text{stability component}) \end{aligned}$$

3. The fiscal impulse is measured as the change in the fiscal balance excluding mineral and SACU revenues. This is because SACU revenues, being externally sourced, do not exert any drag on domestic activity (e.g., a decrease in the fiscal deficit due to higher SACU revenues does not have a contractionary effect). Mining revenues are also excluded, since they do not really constitute a tax on residents and private demand (a large part of these revenues is comprised of dividends paid by Debswana to the government).

4. For the *sustainability component*, we assume gradual convergence towards the 1 percent of GDP surplus target over two years (as estimated in Annex V). This could be achieved at a pace of 0.5 percent of GDP consolidation a year over two years (given that FY2022 recorded a budget balance). Note that this is also the average pace of adjustment in the medium-term budget framework of the authorities.

¹ Carnot, N. 2014. “Evaluating Fiscal Policy: A Rule of Thumb.” Economic Paper 526, European Commission, Brussels.

5. For the *stability component*, we estimate that a 4.8 percent of GDP stimulus over two years would be sufficient to offset the 2.4 percent widening of the non-mining output gap. In staff forecasts, the non-mining output gap deteriorates by 2.4 percent between 2022 and 2024 (excluding the effect of the projected fiscal expansion). Assuming a fiscal multiplier of 0.5,² a 4.8 percent of GDP stimulus would be needed to offset this deterioration.

6. Overall, depending on the relative weight between the sustainability and the stability components, a fiscal relaxation of 1.9 to 3.4 percent of GDP spread over two years seems warranted given the deterioration of cyclical conditions. If the authorities put equal weights on both components, this would translate into a recommended fiscal expansion of 1.9 percent of GDP ($1.9 = 0.5 * (-1) + 0.5 * (+4.8)$). If the authorities assign a 75 percent weight to stability, then the stimulus would be 3.4 percent of GDP ($3.35 = 0.25 * (-1) + 0.75 * (+4.8)$). Staff's estimated 2.6 percent of GDP change in the non-mining/non-SACU deficit falls within this range.

7. The projected fiscal expansion between FY2022 and FY2024 seems broadly appropriate, provided that the authorities under-execute their capital budget in line with previous years. Staff projections assume an execution rate of 80 percent of capital expenditure based on past experience. If the authorities implemented fully the budgeted envelope, the fiscal stimulus would seem excessive, given cyclical conditions.

² See estimates of multipliers in Arizala and others (2017), "The Impact of Fiscal Consolidations on Growth in sub-Saharan Africa," IMF Working Paper WP/17/281.

Annex V. Estimates of Medium-Term Fiscal Benchmarks

1. This annex updates the 2023 Article IV report’s calculation of fiscal targets. Compared to last year, we provide a broader set of results. First, the annex computes targets for both the overall and primary balance—the latter being more relevant if interest revenues are expected to increase significantly in the future.¹ Second, we assume that asset return differs from the interest rate on debt (while these were assumed to be equal in the 2023 Article IV report calculations), which seems a more reasonable assumption in the context of the creation of a new SWF, where savings can be invested in higher-yield assets. Third, when a methodology (like the Permanent Income Hypothesis) does not offer an overall balance target, we calculate the overall balance-equivalent to be able to compare the various approaches using the same variable.

2. The analysis is based on the following working assumptions:

- Gross debt is 20 percent of GDP and assets represent 5 percent of GDP, with net debt equal to 15 percent of GDP at end FY2023. Gross interest bill is 1 percent of GDP. Mineral revenues are estimated at 10 percent of GDP. We assume that the debt ratio is constant in the future. Nominal GDP growth is 8.5 percent (equal to 4 percent real growth plus 4.5 percent midpoint inflation target). The ratio of non-resource GDP to total GDP is assumed to be 80 percent.
- A 5 percent effective interest rate on debt (1 percent of GDP of interest bill divided by 20 percent of GDP gross debt ratio) is used as proxy for average debt costs.
- The return on financial assets depends on the investment strategy of the SWF. Under a “risky strategy,” we assume for illustrative purposes that all investments are in rand (as an example of a higher-risk and higher-return investment), with a return of long-term bonds of 10 percent, and no currency depreciation (since Botswana has a REER exchange rate regime, and the central bank inflation targets are identical in Botswana and South Africa); thus, the return in pula terms is calibrated at 10 percent. Under a “prudent strategy”, we assume that half of the investment is in South Africa and half is in US/euro. For US/euro, we assume a neutral real rate of 1.5 percent plus an inflation target of 2 percent plus a depreciation against the pula of 2.5 percent (reflecting the gap between the inflation targets of the respective central banks), meaning a 6 percent nominal return in pula. Under the prudent strategy, the weighted average South Africa-US/euro is therefore a return of 8 percent in pula terms.

3. The annex simulates three main scenarios. The *first scenario* requires the least fiscal effort, and targets a stabilization of net debt ratio at its end-FY2023 value. The calibration is based on the

¹ Indeed, setting overall balance targets when interest revenue goes up means that expenditure is allowed to increase over time, which may not be warranted.

standard debt-stabilization formulas.² Under this scenario, there is no meaningful accumulation of assets in a SWF. The *second scenario* assumes that the government builds a financial precautionary buffer to accommodate future shocks (insurance motive). This buffer should be sufficiently large to absorb any revenue shortfalls and prevent large cuts to public expenditure when negative shocks hit the country. The 2022 IMF TA report on “Strengthening the Fiscal Rule Framework” estimated that a buffer of 10 to 20 percent of non-resource GDP (equivalent to 8 to 16 percent of GDP) would be adequate to protect the budget against major economic shocks over several years (either 3 years or a full National Development Plan). We assume that the buffer would be accumulated over 10 years. Finally, the *third scenario* estimates fiscal targets necessary to transfer wealth across generations (intergenerational equity motive). In the Permanent Income Hypothesis (PIH) framework, this is operationalized by estimating total net wealth (defined as net financial wealth plus resource wealth³) and computing the fiscal balance that would stabilize net wealth going forward—either in percent of GDP or in real terms. The formulas can be found in Eyraud, Gbohoui and Medas (2023).⁴ All the results are summarized in Table 1. More information is provided in the SIP on the SWF.

Table 1. Botswana: Medium-Term Deficit Targets

	Overall balance	Primary balance	Non-resource primary balance
Scenario 1 ³	-1.2% of GDP	-0.5% of GDP	n/a
Scenario 2 with buffer of 8% of GDP; prudent investment strategy	-0.1% of GDP	0.2% of GDP	n/a
Scenario 2 with buffer of 8% of GDP; risky investment strategy	-0.1% of GDP	0.0% of GDP	n/a
Scenario 2 with buffer of 16% of GDP; prudent investment strategy	1.1% of GDP	1.0% of GDP	n/a
Scenario 2 with buffer of 16% of GDP; risky investment strategy	1.1% of GDP	0.8% of GDP	n/a
Scenario 3 ; constant wealth ratio, prudent investment strategy	9% of GDP ¹	n/a	0.2% of GDP
Scenario 3 ; constant wealth ratio, risky investment strategy	6% of GDP ¹	n/a	-2.8% of GDP
Scenario 3 ; constant wealth in real terms, prudent investment strategy	2-4% of GDP ²	3-5% of GDP ²	7-9 of non-resource GDP ²

1/ The overall balance target is based on the non-resource primary balance ratio (last column) combined with today's interest and resource revenue ratios. This target would change over time.

2/ This method estimates real wealth. The three columns show the corresponding GDP ratios for overall balance, primary balance, and non-resource primary balance in the medium term.

3/ For scenario 1, we assume a return on assets of 5 percent, since there is no SWF.

² See, Escolano, J. 2010. “A Practical Guide to Debt Dynamics, Fiscal Sustainability, and Cyclical Adjustment of Budgetary Aggregates.” IMF Technical Notes and Manuals 2010/02.

³ Resource wealth is the net present value of future resource revenues until full depletion of resources.

⁴ L. Eyraud, W. Gbohoui, and P. Medas, 2023, “A New Fiscal Framework for Resource-Rich Countries,” IMF Working Paper WP/23/230.

- 4. This exercise shows that the authorities need to generate fiscal surpluses in the medium term if they wish to accumulate meaningful financial buffers.** The calibration of the fiscal targets varies significantly depending on the policy objective and the interest-growth differential assumption. Whereas net debt stabilization would be consistent with a 1 percent of GDP deficit, achieving the insurance objective requires a surplus of 1 percent of GDP. The intergenerational equity objective is much more demanding, requiring a surplus of 2–4 percent of GDP to stabilize wealth in real terms, and even larger surpluses to stabilize wealth as a percentage of GDP. Although achieving a fiscal surplus is in line with the authorities' medium-term budget plans, this represents a significant tightening in the fiscal position relative to the past. By comparison, over the past five years (FY2020-FY2024), the fiscal deficit averaged 4.6 percent of GDP. In the five years before the pandemic (FY2015-FY2019), the deficit averaged 3.8 percent of GDP.
- 5. The fiscal surplus target should be re-estimated periodically.** Best practice is to recalibrate fiscal rules every 3–5 years, taking into account changes in the economic environment, including export prices, external demand, and the frequency of severe shocks. For instance, a fiscal target could be enshrined in a fiscal rule for the duration of the next NDP.

Annex VI. Follow-up On the Financial Sector Assessment Program (FSAP) Recommendations

Recommendation	Authorities' Actions	Time*
Systemic Risk Analysis		
Introduce the Basel III liquidity standards to strengthen systemic liquidity monitoring (¶16)	The BoB, with the assistance from the IMF, has drafted guidelines on the Liquidity Coverage Ratio. The guidelines will be presented to the Regulatory Policy Committee, although a meeting date has not been scheduled. The Net Stable Funding Ratio will be implemented in due course.	MT–LT
Conduct regular stress testing of large insurers' and retirement funds' concentrated bank exposures to monitor and detect financial stability risks (¶18)	Recommendation prioritized to be included in the ongoing financial sector development strategy for Botswana.	MT
Implement data management systems for stress testing and interconnectedness; updated and standardized reporting frameworks for both banks and non-bank financial institutions (¶19)	The BoB data management system project is not yet complete. As a result, the system has not been linked with the stress testing framework.	ST
Develop data quality and granularity to enhance stress-testing framework to include sensitivity tests for credit risk, including to household debt and corporate indebtedness (¶19)	This will be completed in the medium term after completion of the ongoing IMF TA on an enhanced stress testing framework supported by other BoB work. The first phase of the TA Mission, which was to incorporate macroeconomic elements in the stress testing framework for the banking sector is partly achieved, as a stress testing tool containing the solvency, liquidity and macroblock modules has been developed. The next step is to produce manuals/supporting documents and provide training on the operationalization of the model, with the final step being to expand the stress testing framework to include the non-bank financial sector (to offer a holistic view of risks to domestic financial stability). Concurrently, the Bank recently joined the Global Institute on Macroprudential Modelling to tap into resources that can assist with the development of a macro stress testing framework.	ST–MT
Strengthen the liquidity management framework to include upgraded forecasting tools, streamlined access to refinancing facilities (¶30) and comprehensive collateral schedule (¶31)	The Liquidity Forecasting Unit is well-staffed and working with new modelling techniques. It has also expanded its quantitative approach to include more autonomous factors that affect liquidity along with increasing the forecasting window to provide longer-term forecasts. Commercial banks continue to access the Standing Deposit Facility (SDF) and the Standing Credit Facility (SCF) for their daily liquidity management. The Credit Facility (CF) is available to commercial banks for daylight credit to support settlement in the Botswana Interbank Settlement System. The CF also continues to serve as an automatic facility that aids close-of-day settlement. Aligning the penalty rate on the Primary Reserve Requirements accounts to the CF rate is still under review. Allowing access to the Standing Credit Facility after the interbank market closes is also being explored. Internal discussions relating to treatment of government bonds as high-quality liquid assets (HQLA) for management of liquidity by banks are ongoing.	ST

Recommendation	Authorities' Actions	Time*
Develop the interbank repo market by ensuring the legal framework supports enforceability and title transfer of securities under relevant Master Agreement (¶130)	On the interbank market, the bank successfully signed a Memorandum of Understanding (MoU) with Frontclear in early December 2023. Work with Frontclear is continuing with workshops being conducted with the market. This initiative will help to identify and assess the developmental challenges to the interbank market including legal and regulatory issues (GMRA and ISDA), close out netting and Tradeclear Feasibility. Further, by providing a guarantee on the entire market, it will greatly increase participation and address segmentation. The BoB and commercial banks are currently in the process of inputting information onto the Money Market Diagnostic Framework.	MT
Financial Sector Oversight		
Align prudential requirements for corporate governance and management of risks with Basel principles, and improve offsite and onsite tools (¶125)	The BoB developed and issued to the market the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana on 14 November 2022 for implementation on 14 May 2023. The Bank will begin work on improving the off-site and on-site tools for corporate governance, with the assistance of AFRITAC South as part of its regional corporate governance regulation and supervision initiative, and potentially through additional TA from the IMF. The BoB will also undertake a review of their risk management guidelines to ensure alignment with Basel principles on banking risk areas. The FSC Technical Working Group (TWG) is currently working on corporate governance frameworks for banks and non-bank financial institutions in an effort to identify gaps, align them with best international standards and practices, as well as strengthen and harmonize corporate governance standards in the financial sector.	ST
Revise risk-based supervision approach and bank rating methodology, making them more forward-looking and adaptive to emerging risks (¶125)	The BoB has commenced work on enhancing its risk-based supervision (RBS), as well as bank rating methodology with TA from the IMF AFRITAC South in June 2024. The TA included, among others, a review of the on-site examination and off-site monitoring processes. A guided on-site examination will be conducted later in 2024 to assist the BoB in implementing recommended reforms. Furthermore, AFRITAC South, as part of the overall work on risk-based supervision, is expected to assist the BoB in evaluating the current arrangement wherein staff members are responsible for the conduct of both off-site monitoring and on-site examination of banks, and to determine suitability of the arrangement in achieving a robust risk-based supervision approach. Overall, the FSAP recommendation of revising risk-based supervision approach and bank rating methodology was addressed by seeking technical assistance from AFRITAC South to review the RBS and the on-site and off-site examination processes.	MT
Establish legal basis and set-up regulatory and supervisory frameworks to implement consolidated supervision for banks and banking groups (¶125)	The re-enacted Banking Act, 2023 provides for consolidated supervision. In addition, the BoB has drafted the Guidelines for Supervision of Financial Conglomerates to provide the scope and manner of supervision of banking groups on a consolidated basis—thus implementing the requirements of Core Principle 12 of the Basel Core Principles for Effective Banking Supervision.	MT

Recommendation	Authorities' Actions	Time*
Enhance supervisory methodologies and build capacity for covering Pillar 2 risks in the Supervisory Review and Evaluation Process (¶25). Impose tailored Pillar II capital buffer requirements for banks with low capital and high dividends payout ratios (¶21)	Implementation of Pillar 2 began in September 2018. A follow-up IMF TA mission would be beneficial to assist with capacity building for Pillar 2, the full implementation of which remains a challenge owing to limited understanding of the pillar. A large part of the Pillar 2 reform will be covered by the proposed reform to the risk-based approach and risk-rating process. Following this work, a follow-up mission could also assist with the quantification model that would be used for requiring banks to hold additional capital, where necessary.	ST-MT
Augment supervisory resources and strengthen supervisory capacity by increasing the number of risk specialists (¶27)	The planned IMF TA mission includes a review of the structure of the department and advice on the approach to building risk specialists. The BoB is in the process of hiring an examiner with information technology qualifications to improve supervisory oversight of IT risk.	MT
Operationalize AML/CFT risk-based toolkit for banks and NBFIs, including for covering novel risks from virtual assets (¶26)	The BoB employs an AML/CFT off-site monitoring tool of banks and onsite examination. The off-site monitoring tool is used to identify banks with higher ML/TF risks. An on-site examination schedule is designed based on results generated from the off-site tool. For NBFIRA, this will be covered in the financial sector development strategy for Botswana.	MT
Enhance macroprudential tool kit to address liquidity vulnerabilities in financial institutions, to consider credit-based household sector tools, and to establish capital buffers (¶28)	Efforts to expand the macroprudential toolkit are ongoing and anchor on refining the data templates to aid policy development. In particular, the BoB has been given a fresh mandate on supervision of credit bureaus, which presents opportunities for the Bank to develop information templates that will address household data gaps. It is expected that new templates will address granularity of data and unveil hidden vulnerabilities in the household sector. A financial cycle for Botswana was also estimated in 2023 and will help in tracing the behavior of agents across the financial cycle, while also informing macroprudential policy actions at different points in the financial cycle.	MT
Financial Safety Net and Crisis Management		
Establish the operational framework for emergency liquidity assistance once the Bank of Botswana Amendment Act comes into effect (¶32)	The BoB has requested IMF technical assistance for the ELA framework.	ST-MT
Align legal framework for the Botswana Deposit Insurance Scheme with sound practices and address gaps in the regulatory framework to develop strategic and operational plan for implementation of deposit insurance (¶32–33)	Section 43A of the Bank of Botswana (Amendment) Act, 2022 makes provision for establishment, through regulations, of a deposit insurance scheme for Botswana. The BoB's Deposit Insurance Scheme Regulations, which came into operation on 21 July 2023, operationalizes the Scheme. The regulations provide for: establishment of the Deposit Insurance Scheme of Botswana, Deposit Insurance Fund and Deposit Insurance Committee (i.e., governing body of the Scheme); types of deposits covered; funding sources for the fund; and staff of the Scheme.	ST-MT

Recommendation	Authorities' Actions	Time*
Align legal framework for the Botswana Deposit Insurance Scheme with sound practices and address gaps in the regulatory framework to develop strategic and operational plan for implementation of deposit insurance (¶132–33)	To date, the Scheme has full a staff complement as per its organizational structure, headed by a Director; the Minister of Finance has appointed all private/independent members of the governing body effective April 1, 2024 for a four-year term each; the Scheme has issued membership certificates to all licensed banks and the Botswana Savings Bank (i.e. member institutions) and collected once-off membership fee from each of the member institutions. Public education initiatives have also been carried out through the national radio and tv and pamphlet printed for distribution to members of the public. The Scheme has also produced its 2023 inaugural Annual Report. Finally, work has commenced to draft a standalone Deposit Insurance Scheme law.	ST–MT
Expand supervisory memoranda of understanding with all home country regulators to include resolution plans and issues, and prepare a contingent resolution plan for foreign subsidiaries (¶132)	Development of crisis management and bank resolution has been incorporated in the work program of the Financial Stability Council (FSC).	MT
Expand the remit of the Financial Stability Council to coordinate and develop the framework for crisis preparedness and management; oversee recovery and resolution planning, to conduct stress testing and simulations, develop manuals, and implement a communications strategy (¶133)	The FSC is currently working on developing a crisis preparedness and management framework. A Technical Working Group (TWG) of the FSC was established to drive work in this area and the general work program of the FSC. The TWG undertakes technical assessments on priority areas with a view to enhancing understanding of financial stability risks, developing macroprudential policy tools, crisis prevention and resolution framework, and other tools and initiatives aimed at ensuring the stability and resilience of the domestic financial system. The TWG has scheduled development of crisis management and bank resolution framework into the medium term.	MT
Financial Development Issues		
Strengthen line-ministries oversight of development finance institutions (DFIs) by: (i) improving performance monitoring, (ii) establishing a results framework to track outcomes, and (iii) introducing a regulatory framework specifically designed for DFIs (¶138)	The Presidential Directive CAB 5SP (B) 2021 REV. 1, dated 30th March 2022 directed that the Bank to be transitioned into an AgriBank. In 2022, to address milestones in this reform process, the Bank submitted to the Ministry the NDB's Project Business Case and Project Initiation Document for consideration, which were both ultimately signed off. The approval of the documents enabled NDB to commence the procurement of a Transactional Advisor whose costs were to be borne by the Bank. The project will be governed through a Project Steering Committee membership of which the Ministry is represented. The Bank has further requested the Ministry to present an update of the NDB Transformation Journey/Roadmap in May 2024. The Bank will brief the Ministry on the project and unpack the findings of the Contextual Assessment report.	ST
*ST = short term (1–3 years), MT = medium term (3–5 years)		

Annex VII. Botswana’s Diamond Agreement with De Beers

1. A new 10-year marketing and sales agreement between the government of Botswana and De Beers is expected to be signed by end-September 2024.¹ An agreement-in-principle was reached in July 2023, with the Head of Terms signed in October 2023. The agreement has four key aspects: (1) Debswana’s mining license will be extended by 25 years through 2054 and its sales agreement will be extended by 10 years up to 2033;² (2) the Diamond Trading Company Botswana (DTCB)³ (on behalf of Debswana) will be able to increase the share of rough diamonds it sells to Botswana’s state-owned Okavango Diamond Company (ODC) from 25 percent currently to 30 percent once the agreement is signed, rising to 50 percent by the tenth year; (3) De Beers Group will invest up to Pula 10 billion (equivalent to almost 4 percent of 2023 GDP) over 10 years in the Diamond for Development Fund (DDF) with an initial contribution of Pula 1 billion (US\$75 million); and (4) De Beers will give Botswana the opportunity to partner in new diamond exploration in designated areas of mutual interest such as in Botswana, Brazil, and Canada.

2. The Diamonds for Development Fund (DDF) is expected to be managed by an independent board to help finance investment in other sectors of Botswana’s economy. DDF’s investment strategy is reported to include economic diversification within Botswana for life beyond mining. To complement the authorities’ economic diversification, the DDF is expected to invest in sectors beyond diamond mining such as smart agriculture, tourism, water, and energy.

3. The 2024 De Beers Agreement will prolong the economic partnership with Botswana and has the potential to support the authorities’ diversification efforts. The first aspect—the extension of Debswana’s mining license and sales agreement—is a positive development to continue a successful relationship, lengthen the mining time horizon, and create more certainty for all stakeholders. For example, De Beers will invest in the existing Jwaneng and Orapa mines to allow mining of diamonds further underground, extending the use of these mines to 2035 and 2050, respectively. The second key aspect (DTCB increasing the share of rough diamonds it sells to ODC) could develop local value chains, provided that ODC successfully builds up its internal capacity to expand sales to domestic cutters and polishers. Third, the DDF, if implemented on the basis of economic principles, presents opportunities to support and accelerate Botswana’s long term economic diversification. It will be important that the final details of this development fund be open and transparent, focus on projects that create local jobs, and avoid quasi-fiscal extrabudgetary operations (e.g. if some projects that would normally be part of the budget are outsourced to the DDF). Lastly, giving the authorities the option to engage in joint diamond exploration could give Botswana a global reach and generate potential additional revenue streams beyond the life of the country’s existing diamond mines.

¹ Once the agreement is signed, it will be sent to Anglo American shareholders for approval.

² Debswana is a 50–50 joint venture between the government of Botswana and De Beers formed in 1969.

³ DTCB is a 50-50 joint venture partnership between the government of Botswana and De Beers, which sorts and values Debswana’s diamond production.

Annex VIII. Capacity Development

1. This annex takes stock of recent Fund capacity development (CD) activities and updates the near-term CD strategy. AFRITAC South (AFS), as well as the Monetary and Capital Markets Department (MCM), the Fiscal Affairs Department (FAD), the Statistics Department (STA) and the Legal Department (LEG) are the main Fund CD providers to Botswana. Other CD activities such as training, workshops, online courses, and supported peer learning are also provided by AFS, headquarter staff from FAD, MCM, STA, LEG, and ICD, and a peripatetic advisor to the Bank of Botswana (Simon Gray).

Capacity Development Assessment

2. Fund CD has been well integrated with surveillance priorities and has largely focused on strengthening core macroeconomic competencies of the Ministry of Finance, tax authority, central bank, and financial sector supervision and regulation bodies. The two Selected Issues Papers produced for this Article IV on the creation of a sovereign wealth fund and the reform of social protection and the August 2023 SIP on reforming the SOE sector provided a timely analysis in line with the authorities' technical assistance (TA) needs. Recent CD over the past five years has addressed a range of areas, including central bank operations, financial regulation and supervision, quality of statistics and data reporting, and AML/CFT. In the fiscal area, for instance, TA was delivered on fiscal rules, Public Investment Management Assessment (PIMA) Update and Climate PIMA in 2022, revenue administration, and on fiscal risk management frameworks including training on the State-Owned Enterprises (SOE) health check and stress test tools and review of the Public Financial Management (PFM) legal framework in 2023–24.

Key Achievements Include:

- **Fiscal.** The Ministry of Finance updated drafting instructions for the PFM Act, reflecting some of the key CD recommendations. Following a TADAT assessment in 2021 and AFS CD, the organizational structure and compliance risk management of the large taxpayer unit was strengthened, and the capacity of the taxpayer services function was developed.
- **Monetary and financial.** The Financial Sector Stability Assessment (FSSA) was published in September 2023, with technical annexes published in early 2024. With MCM and AFS, the monetary operation framework was renewed (2021), the guidelines on the liquidity coverage ratio and liquidity risk management regulation were finalized, and annual borrowing plans and the medium debt management strategy were improved (2023). The regulatory framework for cybersecurity risk was strengthened, a strategy for the national payment system was formulated, and the local bond market was further developed (2022).
- **Legal.** The implementation of the legal and regulatory framework has been further strengthened with LEG TA since Botswana was removed from the Financial Action Task Force International Co-operation Review Group "grey list" in 2021, with the development and implementation of customized risk-based tools and manuals for both Bank of Botswana and

the Non-Bank Financial Regulatory Authority to facilitate AML/CFT supervision of financial and nonfinancial institutions, respectively. The income tax and valued added tax laws were rewritten, and a new tax administration law was drafted in 2024, with ongoing LEG TA since 2016. The Banking Bill and the Bank of Botswana Amendment Act, both passed in 2023, strengthened the Financial Stability Council, clarified the mandate of the central bank, and set out arrangements for handling bank resolutions. The Botswana Deposit Insurance Scheme (BDIS) was also introduced (2023).

- **Statistics.** The producer price index (PPI) was developed and improved, and a provisional consumer price index (CPI) with owner occupier housing costs was compiled with STA in 2023. With the implementation of TA recommendations, the quality of national accounts, price, and external sector statistics was enhanced. Improvements include a reduction of net errors and omissions and the expansion of the central bank's monetary and financial statistics coverage to other financial corporations in 2022.

3. Cooperation between the IMF and Botswana on TA and training continues to be strong. The authorities expressed appreciation for the continued and extensive CD provided by the Fund. They have shown ownership of the reform processes and have generally followed up on TA recommendations. Some progress has been made with implementation of the FSAP recommendations (see Annex VI). Progress has been slower in implementing recommendations related to fiscal risk management particularly for SOEs, while the fiscal rule previously designed for Botswana remains to be implemented.

4. Several large projects and initiatives are planned for 2024–25, in response to the authorities' requests. TA on debt sustainability analysis (DSA) forecasting and policy analysis system (FPAS) are ongoing. On monetary policy operation and financial market development, TA to the central bank is being provided on an ongoing basis by a long-term peripatetic advisor. TA on the macro-fiscal framework and fiscal risk management will continue. The current AML/CFT capacity development project and related technical assistance is planned to continue until end-2024 to facilitate the full implementation of risk-based tools, including supervision manuals for the BoB and NBFIRA. LEG expects to support implementation of the tax law reform package—to be enacted in 2024—including by assisting with drafting accompanying regulations. A new regional advisor was appointed in March 2024 to help improve government finance and public sector debt statistics, and assistance in the areas of real and external sector statistics is ongoing. The Fund stands ready to support the authorities' goal to subscribe to the IMF's Special Data Dissemination Standard (SDDS) once the authorities meet the timeliness and frequency requirements, primarily by publishing data on general government operations and external debt.

Capacity Development Priorities

5. The CD objectives listed below are consistent with the country's macroeconomic priorities. The CD Strategy developed for the 2023 Article IV consultation remains broadly appropriate. CD should continue to support the authorities' goals of building fiscal buffers,

enhancing public financial management, improving monetary policy effectiveness, developing domestic financial markets, and strengthening financial supervision.

6. To support these CD objectives, the authorities expressed interest in TA and training in several areas in 2024–25. Areas of interest for near-term TA include tax gap estimation, GDP rebasing, updating and expanding the PPI basket, strengthening the compilation and dissemination of balance of payments (BOP) and international investment position (IIP) statistics. The authorities may request assistance to undertake a comprehensive review of income tax and VAT, develop a fintech strategy (including a CBDC feasibility study), and draft legislations such as the payment law.

Surveillance Priorities	CD Objectives
Domestic Revenue Mobilization and Administration	<ul style="list-style-type: none"> - Provide comprehensive review of the domestic tax system - Assist with tax legal framework according to international best practices and facilitate finalization and enactment of impending tax law reforms - Provide training on best practices of revenue forecasting
Public Financial Management	<ul style="list-style-type: none"> - Organizational review of the Ministry of Finance - Strengthen the fiscal risk management framework (i.e., identification, monitoring and management of all fiscal risks) - Review of the IFMIS strategy
Fiscal and Debt Management Framework	<ul style="list-style-type: none"> - Provide training for building DSA capacity - Build capacity in the development of medium-term debt strategy (MTDS) and annual borrowing plans - Provide follow-up TA on local currency bond market development - Strengthen the macro-fiscal framework and establish fiscal costs from climate change and natural disasters
Central Bank Operations	<ul style="list-style-type: none"> - Develop and strengthen the central bank's capacity to provide Lender of Last Report (LOLR) - Strengthen efficient implementation of monetary policy under the existing regime
Financial Supervision and Regulation	<ul style="list-style-type: none"> - Basel II-III framework implementation - Design optimal arrangements regarding fintech, including a feasibility study for CBDC
Monetary and Macprudential Policy Implementation and Operations	<ul style="list-style-type: none"> - Build capacity to effectively communicate the monetary policy mandate and objectives - Assist with drafting of Central Bank/Macprudential Oversight Law - Strengthen crisis preparedness and bank resolution framework - Assist with the structural and legal form of the Deposit Protection Fund
Improve the Timeliness and Quality of Statistics	<ul style="list-style-type: none"> - Prepare national account rebasing (September 2024) - Update and strengthen compilation and dissemination of external account and price statistics, including quarterly BOP and IIP statistics and enhancing source data - Expand the coverage of government finance statistics to include extrabudgetary entities and local governments and improve source data for better classification of current and capital expenditures transactions - Expand and update the PPI
Implement a sound and effectiveness risk-based approach to AML/CFT supervision of financial and non-financial institutions	<ul style="list-style-type: none"> - Strengthen the risk-based supervisory frameworks of BoB and NBFIRA for AML/CFT supervision - Develop risk-based tools for identifying, assessing, controlling, and monitoring money laundering or terrorist financing risks within financial institutions and non-bank financial institutions - Develop risk-based supervision manuals for conducting AML/CFT onsite inspections of financial and nonbank financial institutions - Establish risk profiles and supervisory strategies for supervision of financial institutions and non-bank financial institutions

Annex IX. Authorities' Responses to Past Recommendations

	2023 Article IV Recommendations	Authorities' Responses
Fiscal Policy	Implement planned fiscal consolidation, preferably supported by an expenditure rule.	The authorities project a wider deficit in FY2024, but still intend to implement a strong fiscal consolidation in the following two years. The authorities are considering the introduction of a fiscal rule to save a share of mineral revenue, possibly invested in a new SWF.
Monetary Policy	Stand ready to raise the policy rate if inflation risks materialize.	The authorities have reduced interest rates by 50 bps since December 2023, in response to lower inflation risks and a wider output gap. The monetary stance is appropriate, given that inflation is projected to remain within the objective range over the medium term.
Financial Sector Development	Implement proposals to deepen the interbank and bond markets and improve monetary policy transmission. Operationalize the frameworks for emergency liquidity assistance, deposit insurance, and bank resolution.	The authorities are engaging with the recommendations from the 2023 FSAP and IMF TA reports. To support bond market development, the authorities have started publishing an annual Government Borrowing Strategy and Government Securities Auction Calendar since 2023. A new deposit insurance scheme was introduced in July 2023. The authorities are drafting guidelines for the resolution framework. The BoB has requested IMF technical assistance for the ELA framework. To develop the interbank market, the authorities have signed an agreement with a private company to provide guarantees for interbank trades. Preparations for implementation of Basel III regulatory standards are well advanced.
Financial Regulation and Supervision	Maintain close financial oversight, enhance crisis preparedness, and adopt a bank resolution framework.	Financial oversight has been strengthened with the introduction of the BoBAA (2022) which formalizes and gives additional powers to the Financial Stability Council. Amendments to the Banking Act, which will create a stronger legal basis for financial stability oversight, was approved by Parliament in April 2023. The AML/CFT regime has been strengthened, and supervisory authorities like the BoB and the NBFIRA are moving towards a risk-based approach to supervision of financial institutions.
Structural Policies	Implement plans to diversify production, increase the relative size of the private sector and enhance resilience to external shocks, including by trade facilitation and integration, SOE reform, and more efficient climate-resilient infrastructure investment and targeted support for highly productive export-oriented sectors.	The 2024 Budget proposed a significant increase in infrastructure investment. The 2023 IMF PIMA Update found that additional efforts are required to improve the efficiency of investment. Reform of the SOE sector remains a policy priority, but progress to privatize these entities has been limited. Import restrictions on certain goods (e.g., vegetables) continue. The 2023 IMF C-PIMA report found that climate-related public investment initiatives are generally at early stages of implementation. In April 2024, Botswana commenced trading under the AfCFTA. The new agreement between the government and De Beers could develop downstream activities along the diamond value chain, while the Diamonds for Development Fund is expected to finance projects in sectors beyond diamond mining, like agriculture, tourism, water, and energy. The authorities are preparing the new NDP to be launched after the end-2024 elections.

Annex X. Data Issues

Table 1. Botswana: Data Adequacy Assessment for Surveillance

1. Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	B	B	A	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	B	A	A		
Granularity 3/	B		A	B	B		
Consistency			B	B		A	
Frequency and Timeliness	A	A	C	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data provision is broadly adequate for surveillance, with some shortcomings including narrow sector coverage of global finance statistics (GFS) data which is limited to Budgetary Central Government.</p>							
<p>Changes since the last Article IV consultation. BOP data for 2021-23 were revised and net errors and omissions reduced to reflect i) the 2022 BOP survey and ii) the 2022 Foreign Capital Survey with improved data accuracy and increased coverage of transactions from commercial banks. The process to rebase the national accounts to update the 2016 benchmark estimates is progressing and the major surveys required for rebasing are planned. Statistics Botswana (SB) is reviewing and finalizing the questionnaires to be used in the Census of Economic Establishments (CEE), sample design and IT processing system. There has been a decline in the quality of fiscal reporting with increased lag to receive fiscal sector data due to technical problems with the budget information system (GABS). This has prevented the finalization of the FY2023 accounts. The authorities are taking actions to upgrade the system by end-2024.</p>							
<p>Corrective actions and capacity development priorities. STA provided technical assistance to support moving the authorities in expanding institutional sector coverage of GFS to consolidated government data, but this has not yet been implemented. TA is ongoing on updating/development of the PPI and on rebasing the annual national accounts.</p>							
<p>Use of data and/or estimates different from official statistics in the Article IV consultation. The team supplements official data with diamond production and price data from the largest diamond mining company.</p>							
<p>Other data gaps. The household survey lacks information on income and consumption, hindering the ability to compute recent measures of poverty and inequality. The C-PIMA noted that the main data gap to address is to mitigate climate risk on infrastructure asset management by mapping the location and climate vulnerability of major infrastructure assets to damage from natural disasters and severe climate conditions, including details of the current condition of each asset and its hazard exposure and vulnerability. Areas for improvement on gender data include data on literacy and education, financial usage, and asset ownership. The authorities do not publish information on SOEs, although TA was delivered on SOE fiscal risk analysis. The TA recommendation that SOEs provide financial information to the Ministry of Finance on a regular basis has not yet been implemented.</p>							

Table 2. Botswana: Data Standards Initiatives

Botswana participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since January 2016.

Table 3. Botswana: Table of Common Indicators Required for Surveillance
(As of July 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Botswana ⁸	Expected Timeliness ^{6,7}	Botswana ⁸
Exchange Rates	May-24	5/31/24	A/M	A/M	D	M	...	same day
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Apr-24	7/13/24	M	A/M	M	M	1M	3M
Reserve/Base Money	Apr-24	7/13/24	M	A/M	M	M	2M	3M
Broad Money	Apr-24	7/13/24	M	M	M	M	1Q	3M
Central Bank Balance Sheet	Apr-24	7/13/24	M	M	M	M	2M	3M
Consolidated Balance Sheet of the Banking System	Apr-24	7/13/24	M	M	M	M	1Q	3M
Interest Rates ²	Jun-24	7/9/24	M	M	M	M	...	5D
Consumer Price Index	Jun-23	7/13/24	A/Q/M	A/Q/M	M	M	2M	2W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	NA	NA	NA	NA	NA	NA	...	...
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Jul-23	11/1/23	A/Q/M	A/Q/M	Q	M	1Q	6W
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec-23	3/31/24	A/Q	A/Q	Q	Q	2Q	1Q
External Current Account Balance	Dec-23	3/1/24	A/Q	A/Q	Q	A	1Q	3Q
Exports and Imports of Goods and Services	Mar-24	6/1/24	A/Q	A/Q	M	M	12W	2M
GDP/GNP	Mar-23	7/1/24	A/Q	A/Q	Q	Q	1Q	3M
Gross External Debt	Mar-23	6/1/23	A	A	Q	...	2Q	...
International Investment Position	Dec-23	3/1/24	A	A	A	A	3Q	9M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



BOTSWANA

July 25, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by

African Department

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RELATIONS WITH THE FUND

(As of June 30, 2024)

Membership Status:

Joined July 24, 1968; Article VIII

General Resources Account

	<u>SDR</u> <u>(million)</u>	<u>Percent of</u> <u>Quota</u>
Quota	197.20	100.0
Fund holdings of currency	145.33	73.70
Reserve position in Fund	51.88	26.31

SDR Department

	<u>SDR</u> <u>(million)</u>	<u>Percent of</u> <u>Quota</u>
Net cumulative allocation	246.44	100.00
Holdings	252.12	102.30

Outstanding Purchases and Loans

None

Financial Arrangements

None

Project Obligations to Fund

None

Implementation of HIPC Initiative

Not Applicable

Implementation of Multilateral Debt Relief Initiative

Not Applicable

Implementation of Catastrophe Containment and Relief

Not Applicable

Exchange Rate Arrangement

The exchange rate of the Botswana Pula is a crawling peg arrangement against a weighted basket of currencies comprising the SDR and the South African Rand. As of June 30, 2024, the exchange rate of the U.S. dollar to the Pula was US\$1 = P13.62, and that of the South African rand to the Pula was R1 = P0.74.

Botswana has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation

Botswana is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on August 28, 2023.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: <https://www.worldbank.org/en/country/botswana>
- African Development Bank (AfDB): <https://www.afdb.org/en/countries/southern-africa/botswana>
- IMF Regional Technical Assistance Center for Southern Africa (AFRITAC South): <http://www.southafritac.org/>
- Japan International Cooperation Agency (JICA): <https://www.jica.go.jp/english/overseas/botswana/office/index.html>
- OPEC Fund for International Development (OFID): <https://opecfund.org/operations/countries-a-z/africa/botswana>