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### **Botswana: Selected Issues and Statistical Appendix**

This Selected Issues and Statistical Appendix report on Botswana was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Botswana or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

BOTSWANA

**Selected Issues and Statistical Appendix**

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Approved by the African Department

September 17, 1999

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## I. RECENT ECONOMIC DEVELOPMENTS<sup>1</sup>

### A. Background

1. Since the discovery of diamonds at the end of the 1960s, Botswana's economy has undergone dramatic changes. The efficient exploitation of mineral resources, coupled with the pursuit of prudent financial policies, has enabled the country to establish an impressive growth record. During the past two decades, real per capita GDP increased by almost 5 percent a year; it reached US\$3,419 in 1997/98 (national accounts year basis; July-June; Figure I.1). The authorities have struck a balance in the use of mineral revenues by investing part of them abroad and investing in domestic infrastructure and social services, such as education and health. Spending on education and health increased by 170 percent in real terms between 1980/81 and 1998/99, and Botswana's social indicators have improved considerably (Table I.1). The under-5-years mortality rate has declined significantly and is now less than a third of the average for sub-Saharan Africa, while the incidence of child malnutrition is less than half of that for the subcontinent. The adult literacy rate is almost 70 percent, nearly all children attend primary school, and school enrolment at the secondary has been expanding rapidly. In addition, the share of the population living below the poverty line fell from 59 percent in 1985 to 47 percent in 1993.

Table I.1. Botswana: Social Indicators, 1971-96

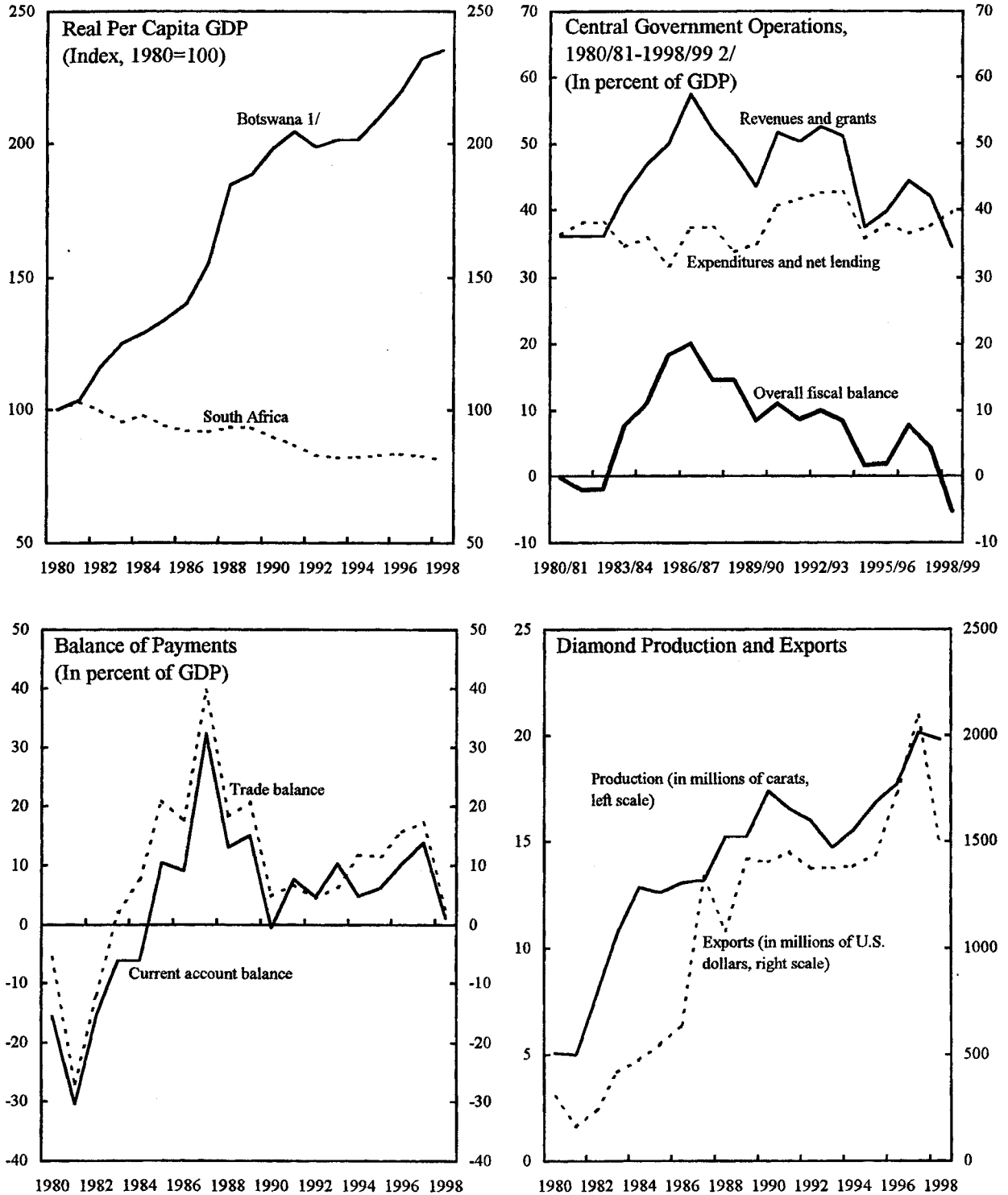
	1971	1981	1991	1996
Population (in thousands)	597	941	1,327	1,496
Formal sector employment (in percent of total labor force)	31	31	53	46
Under-5-years mortality rate (out of one thousand)	151	109	56	56
Under-5-years malnutrition rate (in percent)	...	25	14	13
Adult literacy rate (in percent)	...	34	54	69
Primary net enrolment rate (in percent)	42	86	94	97
Junior secondary net enrolment rate (in percent)	7	12	35	45
Senior secondary net enrolment rate (in percent)	1	4	14	20
Memorandum item:				
Real per capita GDP (in U.S. dollars) 1/	572	1,546	3,043	3,278

Sources: UNDP, *Botswana Human Development Report 1997*; Botswana authorities; and Fund staff estimates.

1/ At 1990 prices, using 1990 exchange rates.

<sup>1</sup> Prepared by Mr. Almekinders, Ms. Kawakami, and Mr. Yuguda.

Figure I.1. Botswana: Selected Economic Indicators, 1980-98



Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.

2/ Fiscal year beginning April 1.

2. The diamond sector continues to be the mainstay of the Botswana economy. It accounts for about one-third of GDP, more than 45 percent of government revenue, and about 75 percent of export earnings. During the 1990s, Botswana's share of global diamond sales of the Central Selling Organization (CSO) of De Beers ranged between 30 percent and 45 percent (Appendix I).

3. The sharp increase in diamond sales from the mid-1970s onward improved Botswana's overall fiscal and external positions considerably. Between 1983/84 and 1989/90 (fiscal year basis; April-March), fiscal surpluses averaged more than 13 percent of GDP. In conjunction with the strong budgetary position, the external current account recorded surpluses from 1985 onward, and rising overall balance of payments surpluses resulted in a rapid increase in official reserves, which at end-1998 amounted to US\$5.9 billion, equivalent to 29 months of imports of goods and services.

4. Botswana's trade system can be characterized as moderately open.<sup>2</sup> The country maintains close economic and financial links with South Africa. As a member of the Southern African Customs Union (SACU),<sup>3</sup> it has duty-free access to the South African market. Botswana is also a member of the Southern African Development Community (SADC),<sup>4</sup> which aims, inter alia, at establishing a free trade area over an eight-year period.

#### **B. Growth, Employment, and Inflation**

5. After averaging 7½ percent a year in 1995/96-1997/98 (July-June), real GDP growth slowed to an estimated 4 percent in 1998/99 (Table I.2), mainly on account of the decline in diamond output, which shifted toward lower-quality diamonds. The nonmining private sector grew by an estimated 8 percent in 1998/99, reflecting a broad-based expansion in most sectors of the economy.

6. Following rapid growth during the 1970s and 1980s,<sup>5</sup> diamond production averaged about 16 million carats during 1990-94 and increased to 17½ million carats during 1995-96.

---

<sup>2</sup> On the Fund's 10-point scale of trade restrictiveness, Botswana ranks 6. Countries with a rank of 1 have the most liberalized trade systems.

<sup>3</sup> The other members are Lesotho, Namibia, South Africa, and Swaziland.

<sup>4</sup> All SACU members are members of SADC. Non-SACU SADC members are Angola, the Democratic Republic of the Congo, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia, and Zimbabwe.

<sup>5</sup> Diamond production in Botswana started in 1971 at the Orapa mine, and annual output averaged 2½ million carats in the early 1970s. With the opening of the Letlhakane mine in 1977, the expansion of the Orapa mine in 1978, and the commencement of production at the Jwaneng mine in 1982, output increased to 11 million carats in 1983 and to 15 million carats

(continued...)

The strong demand for diamonds in the mid-1990s prompted the start in October 1996 of the Orapa 2000 project, which is expected to increase mining output to about 26½ million carats by the year 2000.<sup>6</sup> Production capacity has been further boosted by the introduction of continuous operations at the Orapa and the Letlhakane mines, which involved extending operations from five to seven days a week.

7. The nonmining private sector continued to perform well across all sectors except agriculture, which has suffered from adverse climatic conditions, ongoing urbanization, and, more recently, cattle lung disease.<sup>7</sup> The finance, transport, and construction sectors are estimated to have recorded double-digit growth rates in 1998/99. The expansion of the government sector moderated somewhat, following a period of strong growth during 1996/97-1997/98.

Table I.2. Botswana: Sectoral Real GDP Growth, 1995/96-1998/99 1/  
(Annual percentage change)

	1995/96	1996/97	1997/98	1998/99 Est.
Agriculture	-0.4	-0.2	-1.2	1.0
Mining	9.9	5.8	9.5	-2.0
Manufacturing	6.5	5.2	4.7	5.0
Water and electricity	-0.9	4.9	9.8	9.0
Construction	2.7	5.6	4.3	10.0
Trade and hotels	7.3	10.6	8.4	8.0
Transport	5.9	12.9	9.3	10.0
Financial	5.5	7.1	7.0	10.0
General government	4.5	9.1	11.0	4.0
Total GDP	6.6	7.2	8.3	4.0
Nonmining private GDP	5.1	7.5	6.7	8.0

Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.

by the late 1980s. The expansion of the Jwaneng mine in 1995 added another 1 million carats to output.

<sup>6</sup> The Orapa 2000 project, which aims at doubling annual production of the Orapa mine to about 12 million carats, is the largest diamond project ever undertaken by the De Beers group.

<sup>7</sup> In 1996, all cattle (about 320,000) in the Ngamiland area were destroyed in an effort to prevent the cattle lung disease from spreading to other regions.



8. Real domestic demand grew by 15½ percent in 1997/98, notably reflecting a strong increase in private consumption, which was stimulated by sizable wage increases in the public sector (Table I.3). Public investment also rose substantially, reflecting the accelerated implementation of development projects under the Eighth National Development Plan (NDP8).<sup>8</sup> In 1998/99, real domestic demand also rose sharply, on account of both strong consumption and investment demand.

Table I.3. Botswana: Real Domestic Demand, 1995/96-1998/99 1/  
(Annual percentage change)

	1995/96	1996/97	1997/98	1998/99 Est.
Real GDP	6.6	7.2	8.3	4.0
Real domestic demand	0.6	1.7	15.6	18.0
Consumption	2.5	-3.8	16.5	12.5
Public	4.9	7.6	10.4	16.0
Private	0.3	-14.5	23.7	8.8
Investment	-3.8	15.0	13.7	29.6
Public	7.0	-6.4	29.2	8.5
Private (including changes in stocks)	-13.0	37.2	2.8	48.3
Net exports of goods and services	61.2	38.4	-22.0	-82.5

Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.

9. Botswana lacks time series data on unemployment. Unemployment data are available for 1984/85 and 1995/96 from labor force surveys, as well as for 1981 and 1991 from population censuses. The unemployment rate, which stood at 10 percent of the total labor force in 1981, increased to 17 percent in 1984, reflecting sluggish economic growth in the first half of the 1980s. Unemployment subsequently declined to 14 percent in 1991, as the economic boom in the late 1980s created many jobs; during 1988-91, formal sector employment increased by 11½ percent a year (Table I.4). Since 1992, however, employment growth has not kept pace with the growing labor force. During 1992-98, formal sector employment increased by only 1 percent a year, mainly reflecting the expansion of government employment, which more than offset the decline in private sector employment. According to the latest 1995/96 Labor Force Survey, published in March 1998, unemployment was 21½ percent in 1995/96. The accelerated migration into urban areas has

<sup>8</sup> The NDP8 envisaged development expenditure to the tune of 12½ percent of GDP in 1997/98 and a gradual tapering off to about 5 percent of GDP in 2001/02-2002/03.

exacerbated the unemployment problem in recent years, which is concentrated among the youth, particularly in the age group of 15-24 years.<sup>9</sup>

Table I.4. Botswana: Formal Sector Employment, 1982-98 1/  
(In thousands)

	1982	1985	1988	1991	1995	1996	1997	1998
Private and parastatal	65.7	71.2	104.4	154.3	146.0	147.7	134.2	139.5
Private	...	63.6	93.8	142.5	132.6	134.0	120.4	125.9
<i>Of which:</i> mining and quarrying	7.1	7.3	7.3	7.8	8.4	8.3	8.6	8.7
manufacturing	7.2	9.9	15.3	26.0	23.4	23.7	23.8	24.0
construction	13.6	11.5	20.7	33.8	22.1	22.6	22.7	22.5
commerce	16.6	18.3	26.3	41.0	44.9	45.7	40.1	43.1
financial	5.7	6.8	10.1	16.1	17.5	17.6	17.0	16.9
Parastatal	...	7.6	10.6	11.8	13.4	13.7	13.8	13.6
General government	34.4	45.6	56.5	68.5	85.3	86.3	93.1	100.0
Central government	27.7	36.8	46.0	55.5	69.4	70.1	76.5	81.8
Local government	6.7	8.8	10.5	13.0	15.9	16.2	16.6	18.2
Total	100.1	116.8	160.9	222.8	231.2	234.1	227.3	239.5

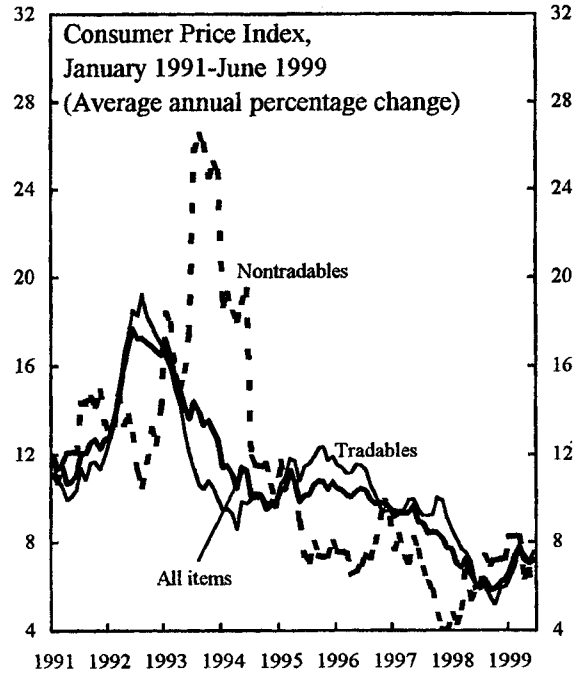
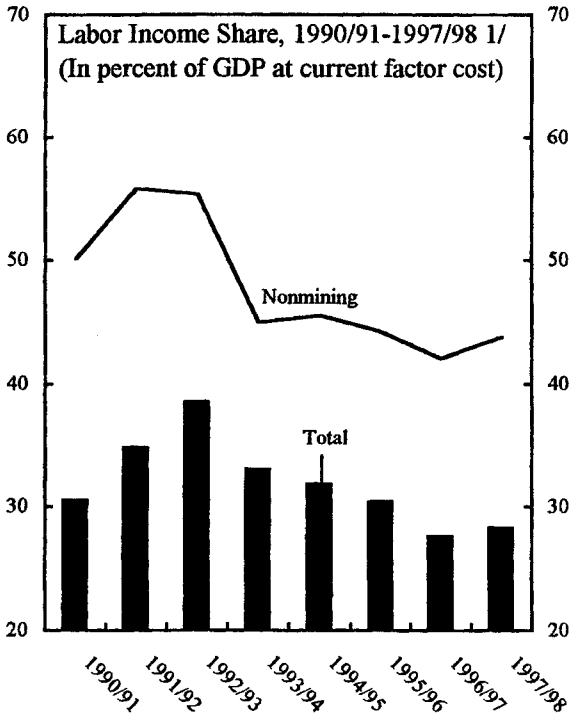
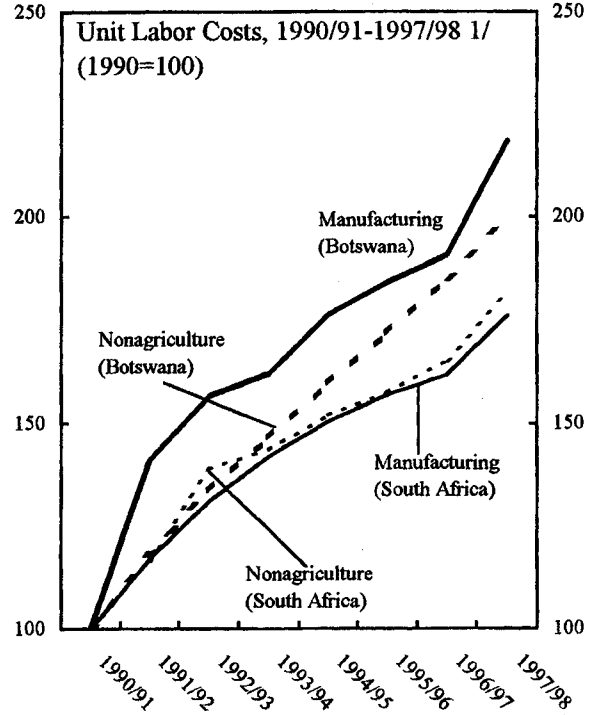
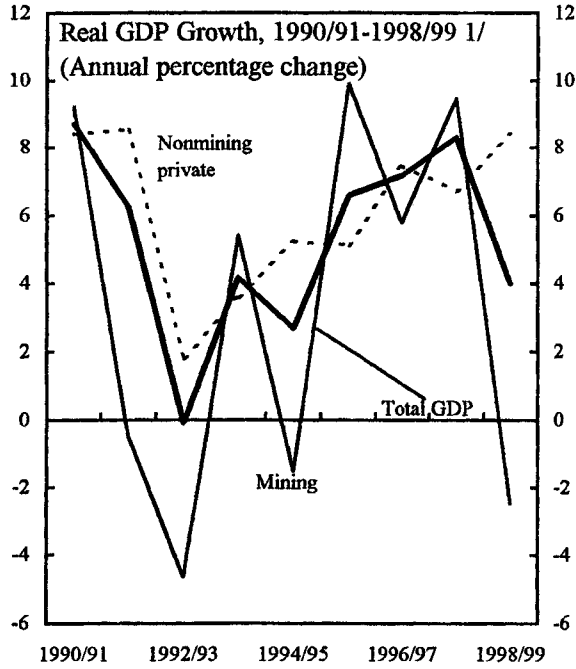
Source: Botswana authorities.

1/ Data for 1982 were for August, for 1985 for September, and from 1988 onward for March.

10. Wage increases in the public and private sectors remained generally in line with consumer price inflation in the 1990s. They stayed well below labor productivity gains, as reflected in the decline in the labor income share during 1991/92-1996/97 (July-June); this share fell by about 7 percentage points to 28 percent in 1996/97 for the overall economy, and about 14 percentage points to 42 percent in 1996/97 for the nonmining private sector (Figure I.2). During 1990-97, unit labor costs of the nonagricultural sector in Botswana rose by 8.8 percent a year, compared with 10.3 percent in South Africa. In the manufacturing sector, however, they increased by 11.8 percent a year, considerably more than in South Africa (8.4 percent). In 1997/98, compensation in the public and private sectors rose by 29.1 percent and 22.5 percent, respectively. In July 1998, a further 25 percent wage increase was awarded to civil servants, with most parastatals following suit.

<sup>9</sup> More than half the population lives in the greater Gaborone area.

Figure I.2. Botswana: Growth, Employment, and Inflation, 1990-99



Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.

11. Consumer price inflation has decelerated steadily since 1993, closely following price developments in South Africa. It reached a 13-year low of 5.9 percent in July 1998, mainly because the slowing of tradable prices more than offset the acceleration of nontradable prices that began in early 1998. As inflation in South Africa edged up to about 9 percent during the second half of 1998, tradable prices in Botswana picked up toward late 1998, and overall inflation amounted to 7 percent in August 1999.

### C. Public Finances

#### Overview

12. The importance of the diamond sector for the Botswana economy is also reflected in the fiscal accounts. Fiscal revenue from the mining sector grew significantly over the years to a high of more than 31 percent of GDP in 1986/87 (April-March), constituting 55 percent of government revenue in that year (Figure I.3).<sup>10</sup> The sharp increase in mineral revenue led to a substantial improvement in Botswana's overall fiscal position, and sizable fiscal surpluses were recorded from 1983/84 onward. These surpluses allowed the government to accumulate large balances with the Bank of Botswana. Another important and growing source of fiscal revenue has been the profit transfers from the central bank, which averaged almost 5 percent of GDP during the 1980s, and has risen to an average of almost 8 percent of GDP during the 1990s.

13. Revenue has increased from 42 percent of GDP in the 1980s to 44½ percent in the 1990s, which is more than double the average for sub-Saharan Africa. Government spending also has expanded substantially, from 36 percent of GDP in the 1980s to almost 40 percent in the 1990s. The overall fiscal surplus has averaged 5 percent of GDP in the 1990s, compared with an overall deficit of about 6½ percent of GDP for sub-Saharan Africa in the same period (Table I.5).

Table 1.5. Botswana: Selected Fiscal Indicators in Sub-Saharan Africa, 1980-98  
(In percent of GDP)

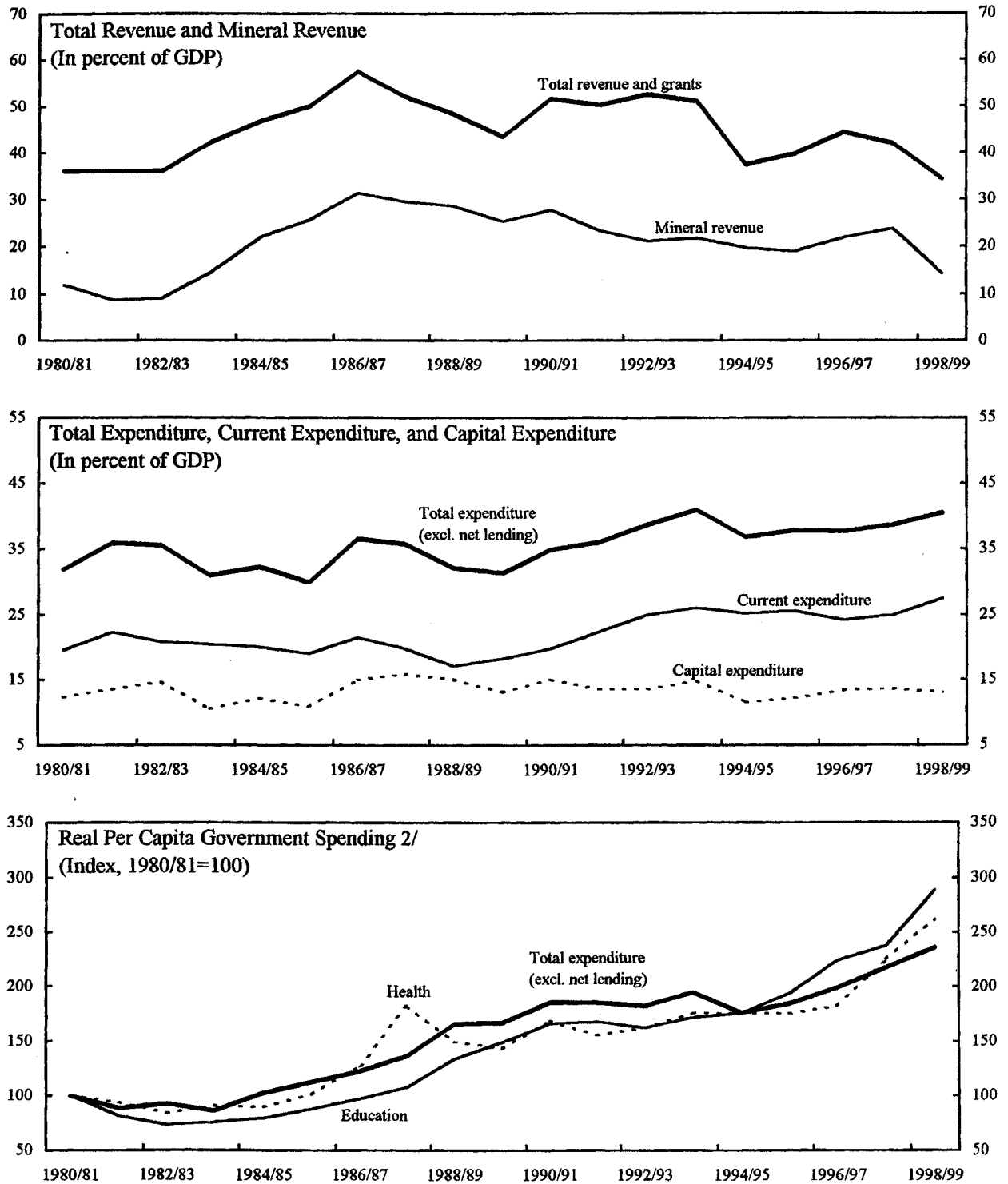
	Botswana		Namibia		South Africa		Sub-Saharan Africa	
	1980-89	1990-98	1980-89	1990-98	1980-89	1990-98	1980-89	1990-98
Overall fiscal balance 1/	5.9	4.7	-11.3	-3.9	-4.1	-5.4	-6.8	-6.3
Revenue 1/	41.7	44.5	26.4	33.4	22.8	23.6	20.5	20.3
Expenditure	35.8	39.8	37.7	37.3	26.9	28.9	26.5	26.6

Source: Fund staff estimates.

1/ Excluding grants.

<sup>10</sup> The mineral revenue accruing to the government consists of a royalty (10 percent of gross sales), company income tax (25 percent of profits), and dividends.

Figure I.3. Botswana: Selected Fiscal Indicators, 1980/81-1998/99



Sources: Botswana authorities; and Fund staff estimates.

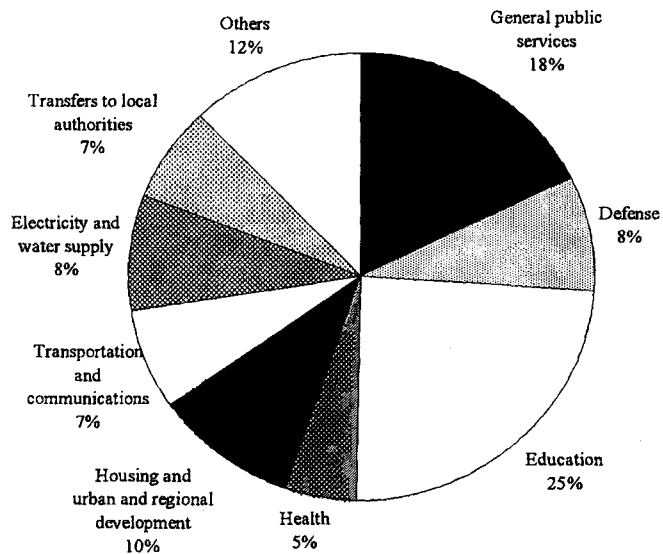
1/ Fiscal year beginning April 1.

2/ Actual spending, except for 1998/99, which is based on the revised 1998/99 budget.

14. Public investment has been maintained at high levels at around 12 percent of GDP in the second half of the 1990s to build and improve infrastructure. In 1997/98, a quarter of total expenditure was allocated to education, followed by housing and urban and regional development (10 percent), electricity and water (8 percent), and transportation and communications (7 percent).

### Functional Classification of Expenditure, 1997/98 1/

(In percent of total expenditure)



Source: Ministry of Finance and Development Planning.

1/ Fiscal year beginning April 1.

### The 1998/99 budget outcome

15. The fiscal position in 1998/99 (April-March) deteriorated sharply and deviated markedly from the original budget. While the original budget for 1998/99 projected a fiscal surplus equivalent to 1 percent of GDP (Table I.6), three supplementary budgets approved by

parliament allowed for additional spending of P 1 billion, equivalent to 4.6 percent of GDP,<sup>11</sup> and revenue projections were revised downward by almost P 800 million. Thus, the projected fiscal balance moved from a surplus of 1 percent of GDP to a deficit of 7¼ percent. The preliminary fiscal outturn of a deficit of 5¼ percent of GDP was somewhat better than envisaged in the revised budget, as some of the planned capital outlays were not executed owing to bottlenecks in project implementation. The deterioration in the fiscal position in

Table I.6. Botswana: Revenue and Expenditures, 1995/96-1999/2000 1/  
(In percent of GDP)

	1995/96	1996/97	1997/98	1998/99		1999/00	
				Original Budget	Revised Budget	Prel.	Budget
Total revenue and grants	39.8	44.3	42.0	40.8	37.3	34.5	42.1
Total revenue	39.6	43.8	41.5	40.4	36.6	33.9	41.4
Tax revenue	29.3	31.2	34.4	30.9	28.1	25.4	32.2
<i>Of which:</i> mineral revenue	18.9	21.8	23.8	20.6	17.8	14.4	19.4
SACU receipts 2/	6.0	5.4	6.0	5.8	5.7	5.7	7.9
general sales tax	1.6	1.5	1.7	1.6	1.7	1.8	1.8
Nontax revenue	10.3	12.7	7.1	9.5	8.4	8.5	9.3
<i>Of which:</i> property income	7.8	10.4	5.0	6.5	5.4	5.8	6.2
<i>Of which:</i> BoB revenue 3/	7.7	10.2	4.8	1.9	5.2	5.7	6.0
Grants	0.3	0.5	0.6	0.4	0.7	0.6	0.7
Total expenditure and net lending	37.9	36.5	37.6	39.9	44.5	39.8	43.7
Current expenditure	25.6	24.2	25.0	26.1	29.7	27.5	28.6
<i>Of which:</i> wages and salaries	8.9	8.3	8.6	8.8	10.2	10.8	10.1
Capital expenditure	12.2	13.4	13.7	13.9	15.0	13.0	15.1
Overall balance (deficit -)	2.0	7.8	4.4	0.9	-7.3	-5.3	-1.6

Sources: Botswana authorities; and Fund staff estimates.

1/ Fiscal year beginning April 1.

2/ Receipts from Southern African Customs Union.

3/ Transfers from Bank of Botswana.

<sup>11</sup> The first supplementary budget, which was submitted to parliament in July 1998, included the costs of food supplies (P 67 million) and labor-intensive public works (food-for-work programs to the tune of P 88 million) that were initiated in response to the drought, as well as increased cost estimates for development projects following the completion of the 1998 project review exercise. The second supplementary budget (November 1998) was mainly to take account of the wage increase that had become effective in July 1998, whereas the third supplement (February 1999) covered miscellaneous increases in current expenditure.

1998/99 reflected the steep decline in revenue and grants, which fell by 7½ percentage points of GDP from the 1997/98 fiscal outturn on account of lower mineral revenue. The sales tax and the nonmineral income tax held up well, buoyed by the strong growth of domestic demand and economic activity in the nonmining private sector. Income tax collection was also favorably affected by the tax amnesty, which expired on March 31, 1999.

16. Notwithstanding the substantial additional spending authorizations, total expenditure was broadly in line with original budget limits, as higher current outlays were offset by lower capital expenditure. The fiscal deficit of P 1.2 billion was financed domestically by drawing down the government's cash deposits with the Bank of Botswana.

#### **The budget for 1999/2000**

17. The government budget for 1999/2000, which was presented to parliament on February 8, 1999, aims at reducing the overall budget deficit (including grants) to 1½ percent of GDP. Total revenue and grants are projected to increase by 37 percent, mainly on account of higher mineral revenues and transfers from the SACU. As the transfer from the SACU revenue pool is calculated on import and excise data from two fiscal years earlier, owing to the time lag in data availability, the increase in SACU receipts of 2 percentage points of GDP in 1999/2000 reflects imports and consumption of excisable goods in Botswana in 1997, which increased by 31 percent in U.S. dollar terms. While the larger transfer from SACU is certain to materialize, the budgeted 52 percent increase in mineral revenue hinges on a strong recovery of the global diamond market. Total expenditure and net lending are budgeted to grow by 23 percent, consisting of a 30 percent increase in development expenditure and a 17 percent increase in recurrent expenditure. The budget does not envisage civil service salary increases in 1999/2000. To achieve the planned increase in development expenditure, the authorities will need to improve the implementation capacity, as the construction sector is currently operating at full capacity and one-fourth of the development budget is allocated for the construction of primary schools and village infrastructure. Another one-fifth of the development budget is allocated for building roads and improving rural access to telecommunications.

#### **D. Monetary Developments**

18. Monetary developments and policies in Botswana during the 1990s have been driven by the authorities' twin objectives of achieving positive real interest rates and controlling excess liquidity<sup>12</sup> within the banking system. The problem of excess liquidity originated in the 1980s when increasing inflows of mineral revenues and the resultant large current account surpluses led to an excessive growth in the money supply against the backdrop of exchange controls and a pegged exchange rate.

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<sup>12</sup> This refers to the holding of liquid assets by banks in excess of statutory or prudential requirements.



19. To reduce excess liquidity in the banking system, the Bank of Botswana (BoB) assumed the role of deposit-taker of last resort when it introduced a call deposit facility for commercial banks in 1976. However, this instrument failed, mainly because the real call rate was negative. Consequently, banks opted to intermediate the excess funds by lending at slightly better—but still negative—real prime rates, which, coupled with a considerable flow of government lending to the parastatals, led to a surge in credit.<sup>13</sup> In order to reign in credit expansion and reduce excess liquidity, the BoB introduced its own paper, the Bank of Botswana Certificates (BoBCs) in May 1991 and allowed the market to determine the level of interest rates, thereby making it an attractive investment opportunity for overliquid banks.<sup>14</sup> The BoBCs are short-term discount instruments, ranging from three months to nine months in maturity, and are sold at periodic auctions.<sup>15</sup> They are highly liquid and can be rediscounted at any time at the BoB. The auctioning of BoBCs became the main instrument of monetary policy,<sup>16</sup> as well as the primary tool for mopping up excess liquidity, while the BoB adopted the maintenance of positive real interest rates as an intermediate target of monetary policy. Since 1991, the issues of BoBCs have increased significantly, reflecting the rise in excess liquidity (Table I.7).

#### **Credit developments in 1998**

20. Monetary developments in 1998 were characterized by a strong expansion of bank credit to the private sector, which rose by 46 percent in 1998, compared with 6 percent in 1997 (Figure I.4). Aided by the substantial salary increases in the civil service and parastatals,<sup>17</sup> credit to households grew by 46 percent. Credit to the parastatals more than tripled, as the government encouraged public enterprises to borrow from the banking system

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<sup>13</sup> Annual rates of credit expansion between 1988 and 1992 exceeded 30 percent (including a 55 percent growth rate in 1990).

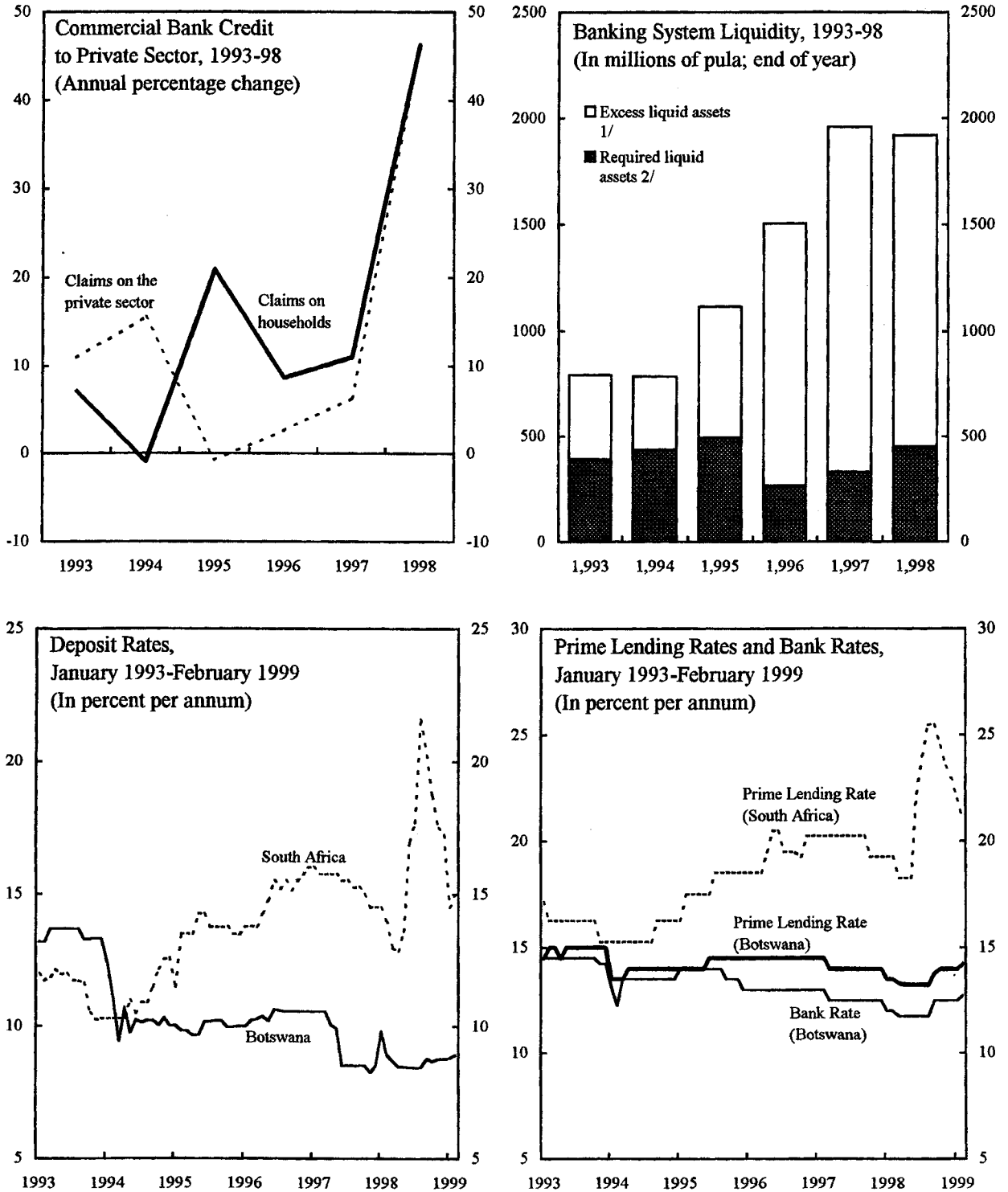
<sup>14</sup> The call deposit facility was abolished in August 1991.

<sup>15</sup> Nonresidents are not permitted to buy BoBCs. Among residents, BoBCs are held by banks either as own investments or on behalf of their customers, as well as by nonbank financial institutions and private sector entities. Auctions are held irregularly throughout the year. In 1998, 12 auctions were held.

<sup>16</sup> Policy signals are transmitted to the financial sector through the stop-out price—the price below which no bid for BoBCs will be entertained by the BoB—applied at BoBC auctions.

<sup>17</sup> These wage increases eased the access of many workers to consumer loans.

Figure I.4. Botswana: Selected Monetary Indicators, 1993-99



Source: Bank of Botswana.

1/ Excess liquid assets defined as actual liquid assets minus required liquid assets.

2/ Required liquid assets are 10 percent of commercial banks' daily average deposit balances.

Table I.7. Botswana: Selected Financial Ratios and Aggregates of Commercial Banks, 1995-99  
(End of period; in millions of pula, unless otherwise indicated)

	1995	1996	1997	1998				1999
				Mar.	Jun.	Sep.	Dec.	Mar.
<b>Liquid assets</b>								
Required 1/	493	263	330	352	374	407	449	453
Actual	1,114	1,504	1,960	2,030	2,276	2,288	1,917	1,849
Excess (actual minus required)	621	1,241	1,630	1,678	1,902	1,882	1,468	1,396
Ratio of actual to required	2.3	5.7	5.9	5.8	6.1	5.6	4.3	4.1
<b>Primary reserves</b>								
Required 2/	80	86	107	114	122	132	146	147
Actual	70	68	129	200	177	220	186	345
Excess (actual minus required)	-10	-18	22	86	56	88	40	197
Ratio of actual to required	0.9	0.8	1.2	1.8	1.5	1.7	1.3	2.3
<b>Deposit liabilities</b>								
Credit	2,465	2,972	3,841	4,255	4,815	5,374	5,424	5,536
Credit (in percent of deposit liabilities)	72	61	49	47	48	50	55	58

Source: Bank of Botswana (BoB).

1/ Required liquid assets are 10 percent of commercial banks' daily average deposit balances. Eligible liquid assets include cash, current account balance with the BoB in excess of the primary required reserve, balances due from domestic banks, foreign notes and coins, BoBCs, and private sector bills eligible for discount at the BoB.

2/ Primary required reserves, consisting of current account balances with the BoB, are 3.25 percent of average daily deposit balances.

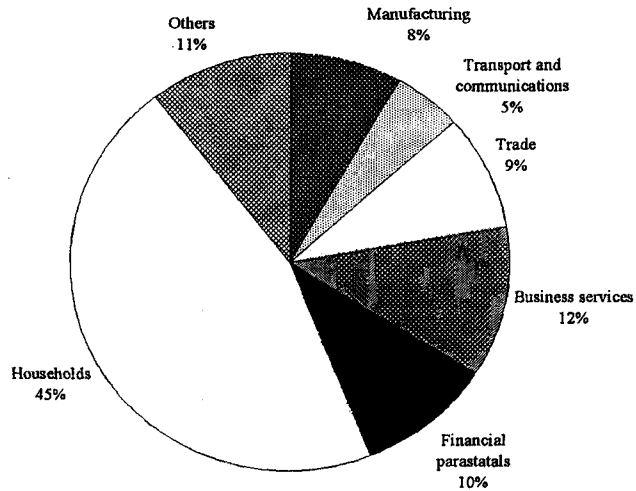
on commercial terms rather than from the Public Debt Service Fund (PDSF).<sup>18</sup> Private sector credit from nonbank financial institutions<sup>19</sup> rose more moderately in 1998, increasing by 14 percent, compared with 27 percent in 1997.

<sup>18</sup> The PDSF was created initially for the purpose of servicing the government's debt, but later it became the main source of loan capital for the country's state enterprises. Each year, parastatals were invited to submit a list of projects for funding. Successful proposals have until recently been funded on better-than-commercial terms.

<sup>19</sup> The nonbank financial intermediaries include the Botswana Development Corporation (BDC), the National Development Bank (NDB), the Botswana Building Society (BBS), the Botswana Savings Bank (BSB), Tswelelo Limited, and ULC Limited. Tswelelo Limited is wholly owned by the BDC and provides venture capital financing to small and medium-sized

(continued...)

Distribution of Commercial Bank Credit, March 1999



Source: Bank of Botswana

21. The deceleration of inflation in late 1997 and early 1998 prompted the central bank to lower the central bank rate by 50 basis points in January 1998 and by 25 basis points in March 1998 to 11¾ percent. However, as inflationary pressures began to emerge from the sizable depreciation of the South African rand vis-à-vis major foreign currencies, the BoB raised the central bank rate in September 1998 by 75 basis points to 12½ percent, and by 25 basis points and 50 basis points in January and March 1999, respectively. Commercial bank prime lending rates, which follow closely movements in the central bank rate, were lowered marginally to 13¼ percent in April 1998 and subsequently raised to 14¾ percent in April 1999.

22. As a result of the rapid expansion of loans, the ratio of actual to required liquid assets fell from 5.9 at end-1997 to 4.3 at end-1998, and further to 4.1 in March 1999. Also, credit in percent of deposit liabilities, which had declined steadily during the past few years, rose in the second half of 1998 and reached 58 percent at end-March 1999, from 49 percent at end-1997.

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enterprises, while ULC Limited is privately owned and specializes in hire-purchase and lease financing.

23. As commercial banks expanded their lending operations in 1998, they reduced their holdings of BoBCs (Table I.8). The total outstanding market value of BoBCs declined by 4 percent to P 3.3 billion at end-1998. In 1999, the BoB introduced repurchase agreements (repos) and the secured lending facility (SLF) as additional tools for short-term liquidity management. Repo transactions will enable banks to sell their holdings of BoBCs, or other eligible securities, to the BoB to obtain overnight or longer-term liquidity, while the SLF will enable banks to borrow from the BoB to meet unanticipated daily clearing imbalances.

Table I.8. Botswana: Value of Outstanding Bank of Botswana Certificates (BoBCs), 1994-98  
(End of period; in millions of pula)

	1994	1995	1996	1997	1998
Commercial banks	972	1,509	1,981	2,541	2,317
Own BoBCs	...	851	1,255	1,633	1,364
Held on behalf of customers	...	658	726	909	954
Other financial institutions	15	16	30	39	45
Nonbank private sector	510	509	982	885	966
Total	1,496	2,034	2,993	3,465	3,328

Source: Bank of Botswana.

### Financial sector

24. Botswana's five commercial banks, which are all foreign owned, are well capitalized, and only 1 percent of the aggregate loan portfolio is nonperforming. The BoB conducts regular off-site and on-site inspections.<sup>20</sup> The statutory minimum capital adequacy ratio is 8 percent, but in 1998 the BoB directed commercial banks to raise capital levels to 15 percent of risk-weighted assets as a precautionary measure against risks associated with the full liberalization of exchange controls, as well as possible Year 2000 computer problems. The recent full liberalization of exchange controls prompted the BoB to issue new guidelines on foreign currency exposure of banks in February 1999, which stipulated that (i) the maximum net foreign currency exposure for a bank must not, at any time, exceed 30 percent of the bank's unimpaired capital; and (ii) within this overall limit, the maximum net foreign

<sup>20</sup> The BoB's prudential supervision of the financial sector is presently limited to banks, while the nonbank financial institutions are supervised by other agencies. The government's financial parastatals—the National Development Bank, the Botswana Savings Bank, and the Botswana Building Society—are supervised by the Ministry of Finance and Development Planning, which is also responsible for the oversight of the activities of insurance and related businesses, mutual funds, stockbrokers, the stock exchange, and pension funds. Credit unions are supervised by the Ministry of Agriculture.

currency exposure is 15 percent for any of the four major currencies (the U.S. dollar, the South African rand, the British pound sterling, and the euro) and 5 percent for all other currencies.

25. The Botswana Stock Exchange continued to perform well in 1998. Market capitalization amounted to P 3.2 billion during the year, a 38 percent increase from the previous year. Two companies were listed during 1998 to bring the total number of listed domestic companies to 14. In addition, one company was added to the list of dual-listed stocks,<sup>21</sup> bringing the total number of foreign companies to 9. The domestic companies index increased by 34 percent, while the foreign companies index fell by 15 percent due to a decline in De Beers' share prices related to the sluggishness of the global diamond market.

### **E. External Sector Developments**

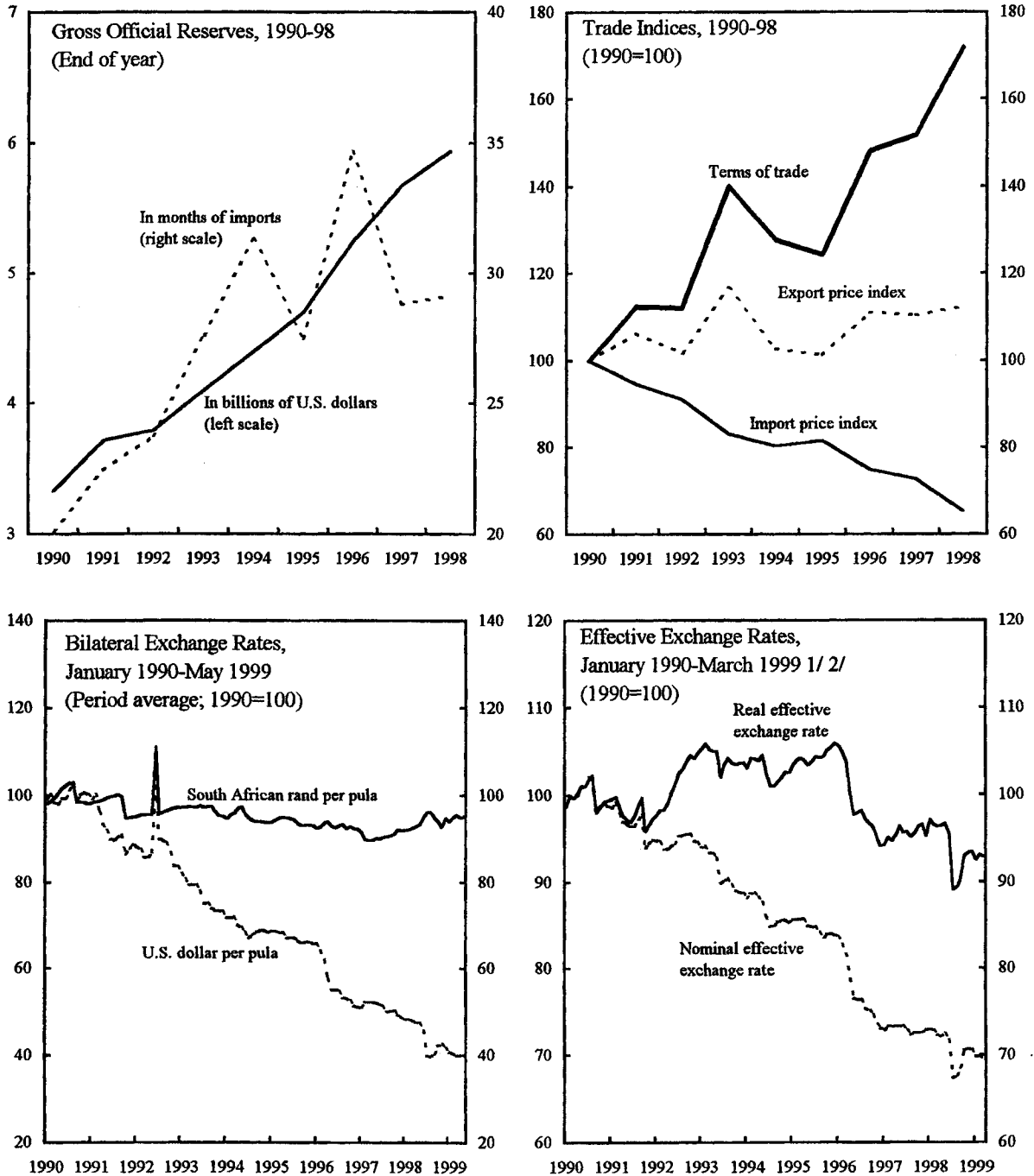
26. Botswana's external position has improved steadily over the past two decades. Since 1982, a combination of rapid export growth, prudent fiscal management, and earnings from the sustained accumulation of financial resources has allowed the country to continue running current account surpluses. These increasing surpluses, together with the significant inflows in the financial account, have led to a rapid buildup in international reserves (Figure I.5). Botswana's international reserves rose from a modest US\$293 million in 1982 (4½ months of imports) to US\$3.3 billion (20 months of imports) in 1990. At the end of 1998, foreign exchange reserves stood at US\$5.9 billion. The rapid growth in exports was fueled by the strong increase in the production of diamonds, which accounted for more than 75 percent of exports during the 1980s.

27. Botswana exports diamonds in rough form through the Central Selling Organization (CSO), the marketing arm of De Beers. Sales of diamonds by Botswana have been subject to a sales quota established by the CSO to deal with weak demand for diamonds and increased competition from suppliers outside the cartel. The CSO initially reduced its purchases from its contracted suppliers, including Botswana, to 75 percent of production in September 1992. Following an improvement in market conditions, this quota was gradually raised to 85 percent in 1993, and remained in effect through 1994-95. Conditions in the diamond market deteriorated rapidly in 1998, leading the CSO to reintroduce a sales quotas—initially at 80 percent in February 1998 and subsequently lowered to 75 percent in October 1998. As a result, diamond exports fell sharply, by almost 30 percent in 1998 in U.S. dollar terms.

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<sup>21</sup> Since March 1997, the Botswana Stock Exchange has allowed the dual listing of companies.

Figure I.5. Botswana: Selected External Indicators, 1990-99



Sources: Bank of Botswana and Fund staff estimates.

1/ Using multilateral weights (1990-95 average) with percentage shares assigned to countries as follows: South Africa (47 percent), United States (39 percent), United Kingdom (9 percent), and Zimbabwe (5 percent).

2/ Based on relative consumer prices.

28. The weakening of the diamond market in 1998 had a pronounced effect on the balance of payments. The external current account surplus was reduced from 14 percent of GDP in 1997 to 1 percent in 1998, with the surplus in the trade account falling from 17 percent to 3 percent of GDP (Table I.9). The acceleration of construction activity following the implementation of some large development projects<sup>22</sup> also put pressure on the current account, leading to a steep increase in imports in 1997. Reflecting ongoing work on these projects, imports increased by a further 3 percent in 1998.<sup>23</sup> The terms of trade (in U.S. dollar terms) in 1998 are estimated to have improved by 13 percent, as the import price index declined significantly, owing to the substantial depreciation of the South African rand vis-à-vis the U.S. dollar.

Table I.9. Botswana: Selected External Indicators, 1980-98  
(In millions of U.S. dollars, unless otherwise indicated)

	1980	1985	1990	1995	1996	1997	1998
Current account balance	-165	117	-19	300	495	721	55
Trade balance	-58	234	184	555	750	895	142
Exports, f.o.b.	545	728	1,795	2,160	2,218	2,820	2,132
<i>Of which: diamonds</i>	303	551	1,405	1,437	1,721	2,095	1,477
Imports, f.o.b.	-603	-494	-1,611	-1,605	-1,468	-1,924	-1,990
Memorandum items:							
Current account balance (in percent of GDP)	-15.6	10.5	-0.5	6.3	10.4	13.9	1.1
Trade balance (in percent of GDP)	-5.5	20.9	4.9	11.6	15.7	17.2	2.8
End-of-year gross official reserves	344	783	3,331	4,695	5,238	5,675	5,941
(in months of imports of goods and services)	5.0	15.1	20.1	27.5	34.7	28.8	29.1

Sources: Botswana authorities; and Fund staff estimates.

29. The financial account balance fell from a surplus of US\$6 million in 1997 to a deficit of US\$54 million in 1998 as the increase in direct investment inflows was more than offset by an increase in other investment outflows, notably repayments on government long-term borrowing. International reserves rose by US\$266 million during 1998 to US\$5.9 billion at year's end, equivalent to 29 months of imports.

<sup>22</sup> Including the expansion of the Orapa mine (Orapa 2000 project), the construction of the North South Carrier Water Project, and the establishment of a vehicle assembly plant.

<sup>23</sup> The five largest imported commodities—vehicle and transport equipment, machinery and electrical equipment, food, metal and metal products, and chemical and rubber products—constituted 70 percent of total imports.



30. The Botswana government has continued the process of liberalizing exchange controls (Box I.1). Reflecting the strong track record of prudent financial policy implementation, the successive liberalization of exchange controls did not have a significant negative impact on capital outflows during 1998. In February 1999, all the remaining exchange controls were eliminated, which resulted in the full convertibility of the currency for both current and capital account transactions.

**Box I.1. Exchange System Liberalization**

Botswana embarked on a major exchange control liberalization in January 1995: all restrictions on current account transactions were eliminated, and the country accepted the obligations of Article VIII of the Fund's Articles of Agreement. In addition, permanent residents were allowed to make offshore capital investments; pension funds and related institutions were allowed to invest up to 70 percent (up from 50 percent) of their assets offshore; foreign stocks were allowed to be dually listed on the Botswana Stock Exchange; and Botswana banks were permitted to open Foreign Currency Accounts (FCAs) for both residents and nonresidents. Effective February 1997, nonbank financial institutions were permitted to conduct foreign exchange transactions. As of February 1999, all the remaining regulations on capital account transactions were abolished, including the requirement of Bank of Botswana's approval for residents to take up pensions from abroad, and the surrender requirement for foreign exchange received in payment for exports of goods and services.

31. The exchange rate of the pula, which is determined on the basis of a basket in which the South African rand has a significant weight, depreciated in nominal and real effective terms by some 3 percent and 2 percent, respectively, in 1998. The sharp depreciation of the South African rand in 1998 also caused the pula to depreciate significantly vis-à-vis the U.S. dollar, by 14½ percent. The depreciation of the pula against the Japanese yen and the ECU was even higher, at 25 percent and 19 percent, respectively.

32. Botswana's membership in the SACU gives its exports duty-free access to the South African market at the cost of the loss of discretion over its external trade regime.<sup>24</sup> A trade agreement has been concluded between the European Union (EU) and South Africa: EU tariffs will be abolished over ten years, with the main reductions coming in years three to six,

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<sup>24</sup> Botswana cannot unilaterally reduce its tariffs applicable to trade with non-SACU countries.

while South African tariffs will be phased out over twelve years.<sup>25</sup> <sup>26</sup> Negotiations on a new SACU agreement are still ongoing, notably with respect to the following outstanding issues: (i) the revision of the revenue-sharing formula; (ii) the establishment of a SACU administrative secretariat; and (iii) the implementation of sectoral tariff policies affecting individual countries. Botswana's dependence on revenue from the SACU pool is relatively low: customs and excise duties now contribute only 15 percent of government revenue, compared with one-third in 1980.

#### **F. Public Enterprise Performance and Privatization**

33. The main nonfinancial parastatals comprise the Botswana Agricultural Marketing Board, the Botswana Livestock Development Corporation, the Botswana Housing Corporation, the Botswana Meat Commission, the Botswana Power Corporation, the Botswana Telecommunications Corporation, and the Botswana Water Utilities Corporation. As most of the nonfinancial parastatals have been profitable, and pay taxes and dividends to the government (Table I.10), they have not been a burden on the budget. However, considering that privatization could increase the efficiency of operations and relieve the government's administrative and management burden, the authorities have recently initiated a program of privatization for parastatals.

34. A task force including private and public sector representatives submitted a white paper on privatization to the government in July 1998, in which the various modalities of privatization were reviewed, including the financing, legal, and regulatory changes needed. The white paper also laid out a timetable and possible candidates for privatization.<sup>27</sup> It also recommended the establishment of the Public Enterprise Monitoring and Privatization Agency (PEMPA), an autonomous public agency, to oversee the privatization process.

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<sup>25</sup> The bilateral trade agreement between the EU and South Africa will cover about 95 percent of South African exports and about 86 percent of EU exports.

<sup>26</sup> Botswana's exports have preferential access to the EU under the Lomé Convention.

<sup>27</sup> The list includes all the parastatals under the supervision of the Ministry of Works, Transport, and Communications (Botswana Railways, Botswana Telecommunications Corporation, Botswana Postal Services, and Air Botswana), as well as that ministry's Roads Department and Central Transport Organization. All financial parastatals except the BoB are among the candidates for privatization including the Botswana Development Corporation, the National Development Bank, the Botswana Building Society, and the Botswana Savings Bank. Agricultural parastatals, such as the Botswana Meat Commission and the Botswana Agricultural Marketing Board, are also listed.

Table I.10. Botswana: Consolidated Income Statement of Nonfinancial Public Enterprises,  
1994/95-1997/98 1/  
(In millions of pula, unless otherwise indicated)

	1994/95	1995/96	1996/97	1997/98 Est.
Operating revenues	1,024	1,104	1,175	1,283
Sales of goods and services	1,023	1,104	1,175	1,282
Subsidy from government	2	1	1	1
Operating expenses	780	870	891	956
<i>Of which:</i> wages and salaries	218	237	235	255
purchases of goods and services	388	432	444	508
consumption of fixed capital	162	177	198	194
Operating surplus or deficit	244	234	285	327
Nonoperating surplus or deficit	-153	-163	-113	-44
Income before taxes	91	71	172	253
Direct taxes due	9	10	7	12
Income after tax	82	61	165	241
Distribution of income to government	31	10	29	29
Retained earnings	54	51	136	142
<b>Memorandum items:</b>				
Operating balance (in percent of GDP)	2	1	1	1
Wage bill (in percent of operating expenses)	28	27	26	27

Source: Bank of Botswana.

1/ Data cover fiscal year April-March, except for the Botswana Livestock Corporation (January-December) and Botswana Meat Commission (October-September).

### **The Structure of the World Diamond Market**

35. De Beers, a diamond conglomerate founded in 1888, consists of De Beers Consolidated Mines Limited (DBCML), based in South Africa, and De Beers Centenary AG (DBCAG), based in Switzerland. The DBCML manages the South African interest of the group, while the DBCAG manages the group's interests outside South Africa, including the 50 percent participation in Debswana in Botswana and Namdeb in Namibia (the remainders of the shares are held by the respective governments).<sup>28</sup>

36. By value, Botswana is the largest producer of diamonds, followed by Russia, South Africa, Angola, Namibia, and Australia. The De Beers group—with 20 mining operations in Botswana, South Africa, Namibia, and Tanzania—accounts for more than 50 percent of world production. By volume, Botswana is the second-largest producer after Australia, followed by Russia (estimated at 25 percent of world production), South Africa, the Democratic Republic of the Congo, and Namibia. In 1998, the De Beers group produced 31 million carats of diamonds, with Botswana alone accounting for 20 million carats. Botswana produces mainly gem diamonds for jewelry. Smaller producers include Canada, Chile, China, Ghana, Lesotho, and Sierra Leone.

37. The producers of the De Beers group voluntarily subscribe to exclusive sales through the Central Selling Organization (CSO). In addition, De Beers has trade arrangements with producers outside the group, including Almazy Rossi-Sakha (ARS), the main Russian producer, and Broken Hill Proprietary Company Limited (BHP) group—Australia's largest industrial and natural resources company—for its mining operations in northwest Canada. The agreement between the CSO and each producer is on a pro rata basis, whereby the CSO allocates a certain percentage of its worldwide purchases to the group's producers, as well as to other producers. In 1996, the CSO processed 72 percent of global diamond output by carat and 73 percent by value, down from 85 percent in 1990. The CSO purchases rough diamonds from producers at 90 percent of the standard selling prices (SSV). The diamonds are sort into different categories according to size, shape, quality, and color.

38. Although the CSO has held a strong grip on the market, leakage of sales outside the CSO, mainly from Russia and Angola has—at times—been a destabilizing factor. In the early 1990s, De Beers reached a trade agreement with the ARS, which had been flooding the market by selling its large stockpile accumulated during the former Soviet Union era. A new 13-month agreement came into effect in December 1997, which was extended in December 1998 to end-2001, stipulating that ARS would sell a minimum of US\$550 million through the CSO of its planned production of US\$1.5 billion. An upper limit has been set at 26 percent of CSO global sales, or US\$1 billion. As a result, up to two-thirds of Russia's

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<sup>28</sup> Debswana came under the control of an equal partnership between De Beers and the Botswana government in 1975 when the government's shareholding in the company was raised from the initial 15 percent to 50 percent.

production will be sold through the CSO. Also, in March 1998, De Beers signed a three-year agreement with the BHP to purchase 35 percent of its diamond production from northwest Canada.

39. At various times, the CSO has imposed quotas on its purchases from the mining companies. In September 1992, when world demand was sluggish and supply abundant, owing to increased sales by Russia and Angola, the CSO imposed a quota of 75 percent of production; the level was raised to 80 percent in May 1993 and to 85 percent in July 1993, where it stayed until 1995. Most recently, a quota of 80 percent was introduced in February 1998, which was subsequently lowered to 75 percent in October 1998.

40. The largest consumer of gem diamonds is the United States. Its imports of gem diamonds increased by more than 10 percent a year during 1993-98, generating 46 percent of world demand in 1998. Japan is the second-largest consumer, although its imports fell precipitously during 1995-98 owing to its prolonged recession. The Asian crisis in mid-1997 exacerbated the already weakened global diamond market. As a result, diamond sales of the CSO declined by 4 percent in 1997. In 1998, diamond sales by the CSO fell by 28 percent to US\$3.3 billion, the worst since 1992. However, sales in the first half of 1999 increased by 44 percent over the first half of 1997, reflecting the recovery of the Asian economies.

Diamond Production and Sales, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998
	(In millions of carats)							
Total production of De Beers group	27.6	27.1	25.7	27.1	27.2	28.4	31.0	31.3
Botswana (Debswana)	16.5	16.0	14.7	15.6	16.8	17.7	20.1	19.8
South Africa (De Beers Consolidated)	9.9	9.6	9.8	10.2	9.1	9.4	9.6	9.7
Namibia (Namdeb)	1.2	1.6	1.1	1.3	1.3	1.3	1.4	1.3
Others	...	...	...	...	...	...	0.1	0.6
	(In millions of U.S. dollars, unless otherwise indicated)							
Total sales of Central Selling Organization (CSO)1/	3,927	3,417	4,366	4,250	4,531	4,834	4,640	3,345
January-June	2,084	1,787	2,543	2,580	2,540	2,748	2,880	1,700
July-December	1,843	1,630	1,823	1,670	1,991	2,086	1,760	1,645
Exports of Botswana	1,455	1,374	1,379	1,384	1,437	1,721	2,095	1,477
(as percentage of CSO sales)	37.1	40.2	31.6	32.6	31.7	35.6	45.2	44.2

Sources: Bank of Botswana, *Annual Report 1998*; and De Beers, *1998 Annual Report*.

1/ Including sales of diamonds purchased from outside the De Beers group.

## II. SOURCES OF ECONOMIC GROWTH<sup>29</sup>

### A. Introduction

41. Botswana experienced impressive growth over the past two decades, averaging 11 percent during 1982/83-1989/99 (July-June), before moderating to 5 percent during 1990/91-1996/97 with the slowing of the expansion of the mining sector. A key challenge in the period ahead is to maintain this strong economic performance by achieving growth rates consistently higher than the rate of population growth, thereby raising per capita income and reducing poverty.<sup>30</sup> To better understand how this objective might be achieved, this paper analyzes the growth process during the 1982/83-1996/97 period by assessing the contribution of capital, labor, and technological progress, both at the macroeconomic and sectoral levels.

42. An important aspect in examining Botswana's recent growth performance is to determine whether the growth process has been intensive or extensive, where intensive growth denotes technology/efficiency-driven growth and extensive growth is achieved by employing more factor inputs. This distinction is important because, with intensive growth, a higher growth rate can be sustained with the same factor inputs. The remainder of this paper is organized as follows. Section B discusses the growth accounting framework, Section C analyzes the sources of aggregate and sectoral growth, and Section D provides a cross-country comparison of total factor productivity (TFP) and marginal productivity of capital. Section E analyzes the effects of improving the quality of factors of production on TFP, while Section F presents some preliminary conclusions.

### B. Growth Accounting Framework

43. The growth accounting framework is based on a Cobb-Douglas production function, defined as:

$$Y_t = A_t K_t^\alpha L_t^{1-\alpha}, \quad (1)$$

where  $Y$  is output,  $A$  is a technological parameter,  $K$  is the amount of capital used,  $L$  is the amount of labor used, and  $\alpha$  is the factor share parameter, with a value between 0 and 1.

From equation (1), it can be derived how output increases over time:

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<sup>29</sup> Prepared by John Matovu and Lamido Yuguda.

<sup>30</sup> Despite the rapid economic growth, a large proportion of the population remains poor. According to the 1993/94 Household Expenditure Survey, 47 percent of the population lived below the poverty line.

$$\frac{\Delta Y}{Y} = \frac{\Delta A}{A} + \alpha \frac{\Delta K}{K} + (1 - \alpha) \frac{\Delta L}{L} . \quad (2)$$

Equation (2) states that the growth rate of output is composed of the growth rate of technological progress in total factor productivity (TFP), the growth rate of capital stock, and the growth rate of labor supply, where the capital and labor factors are weighted by their shares in the production process. The growth equation also leads to an interpretation that explains long-run growth. Given that effective labor supply is bounded, and higher capital growth than labor growth would lead to diminishing returns to capital, higher growth can only be achieved by increasing TFP. The estimate of TFP is derived from equation (2) as:

$$\frac{\Delta A}{A} = \frac{\Delta Y}{Y} - \alpha \frac{\Delta K}{K} - (1 - \alpha) \frac{\Delta L}{L} . \quad (3)$$

44. The key variables used to estimate TFP are therefore capital stock, labor supply, output, and factor shares. There are two main methods used to estimate factor shares. The first method relies on the national accounts statistics, where factor shares are estimated by measuring the share of income that is distributed to each factor of production. This methodology, however, suffers from a number of weaknesses, including the lack of data on compensation to workers (other than formal sector employees) and its implicit assumption of perfectly competitive capital and labor markets. The second approach relies on estimates of factor shares calculated by regressing the growth rate of output on the growth rate of each input and a constant, where the estimate of each factor share is the estimated coefficient of the relevant input and the constant in the regression can be viewed as an estimate of the growth rate of TFP. This methodology, unfortunately, also suffers from a number of weaknesses, including the assumption that factor shares remain constant over time or across countries.<sup>31</sup> Estimates of TFP, however, are quite sensitive to changes in the value of capital shares ( $\alpha$ ).

45. To avoid these problems, Sarel (1997) estimates capital shares in five Association of South East Asian Nations (ASEAN) countries, using internationally comparable data from the Summers-Heston database to estimate capital and labor factor shares and assuming that technological factor shares are determined by the industrial structure of the economy and, possibly, its level of development. A comparison of Sarel's sectoral shares and those derived from the 1992/93 Social Accounting Matrix (SAM) of Botswana shows some differences (Table II.1). This study relies on shares derived from the 1992/93 SAM.

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<sup>31</sup> The weaknesses of these two approaches are examined in detail in Sarel (1997).

Table II.1. Botswana: Capital Shares in Botswana and ASEAN Countries

	Botswana 1/	ASEAN Countries 2/
Agriculture	0.200	0.275
Mining	0.823	0.601
Manufacturing	0.157	0.308
Total	0.383	0.315

Sources: Sarel (1997); and Fund staff estimates.

1/ Derived from the 1992/93 Social Accounting Matrix.

2/ Sarel (1997).

### C. Sources of Aggregate and Sectoral Growth

46. This section summarizes the results of applying the growth accounting framework discussed above to Botswana. Growth is attributed to changes in factors of production (capital and labor) and TFP for four distinct periods during 1982/83-1996/97, both at sectoral (agriculture, mining, and manufacturing) and aggregate levels.

#### Overall economy

47. Botswana sustained high economic growth during the 1980s, averaging 11 percent per annum (Table II.2). During the first half of the decade, growth was mainly driven by capital accumulation, which averaged 6.7 percent a year, and a strong growth in employment, which averaged 3.2 percent a year. Technological progress during this period, however, was slow, with TFP growing by only 1 percent on average per year. The subsequent period, 1986/87-1989/90, witnessed a strong improvement in TFP, which grew at an annual average rate of 5.6 percent. This improvement, combined with strong growth of capital (averaging 13.3 percent a year), led to significantly higher average output growth of 12.8 percent.

Table II.2. Botswana: Aggregate Growth of Capital, Labor, and TFP, 1982/83-1996/97 1/  
(Average annual percentage change)

	1982/83-1985/86	1986/87-1989/90	1990/91-1993/94	1994/95-1996/97
Capital	6.7	13.3	9.5	7.3
Labor	3.2	3.6	4.0	4.1
Output	10.5	12.8	4.8	5.5
TFP	1.0	5.6	0.0	0.2
Labor productivity growth	7.0	8.9	0.8	1.3

Source: Fund staff estimates.

1/ National accounts year beginning April 1.



48. Output growth moderated during 1990/91-1993/94 to 4.8 percent when TFP growth stagnated, and the growth of capital, although still high, slowed to 9.5 percent. During the most recent period (1994/95-1996/97), overall growth picked up to 5.5 percent a year, largely on account of sustained growth in factor inputs. During 1990/91-1996/97, the growth of labor inputs at 4 percent a year helped to moderate the slowdown in output growth.

### Mining

49. At independence in 1966, the mineral industry's contribution to GDP was negligible. Since the discovery of diamonds in the late 1960s, mining operations have continued to expand. The mining sector now contributes more than one-third of real GDP, with diamond mining accounting for more than 90 percent of all the mining activities.<sup>32</sup> In value terms, Botswana is the largest producer of diamonds in the world. The rapid growth of diamond mining is the primary factor behind Botswana's impressive growth in real per capita output, which increased from US\$572 in 1971 to US\$3,278 in 1996. Diamonds also contribute about 75 percent of Botswana's export earnings and more than 45 percent of central government revenue. However, given the highly capital-intensive production process, the mining sector provides less than 4 percent of formal sector employment, and annual labor growth in the sector averaged only 1-2 percent during the 1982-97 period, despite strong output growth over the period (Table II.3).

50. During 1982/83-1985/86, the mining sector grew by an impressive 17 percent per year, mainly driven by the coming onstream of new capacity, which was reflected in sizable TFP growth, averaging 19 percent per year. Meanwhile, employment growth was weak, and the capital stock fell by 3 percent annually (Figure II.1). During the 1986/87-1989/90 period, output growth in the mining sector slowed to more sustainable levels (6½ percent per year), notwithstanding moderate growth in capital and a modest pickup in labor growth. The sharp decline in TFP growth during 1986/87-1989/90 was the main explanation for the deceleration of output growth.

Table II.3. Botswana: Growth of Capital, Labor, and TFP in Mining Sector, 1982/83-1996/97 1/  
(Average annual percentage change)

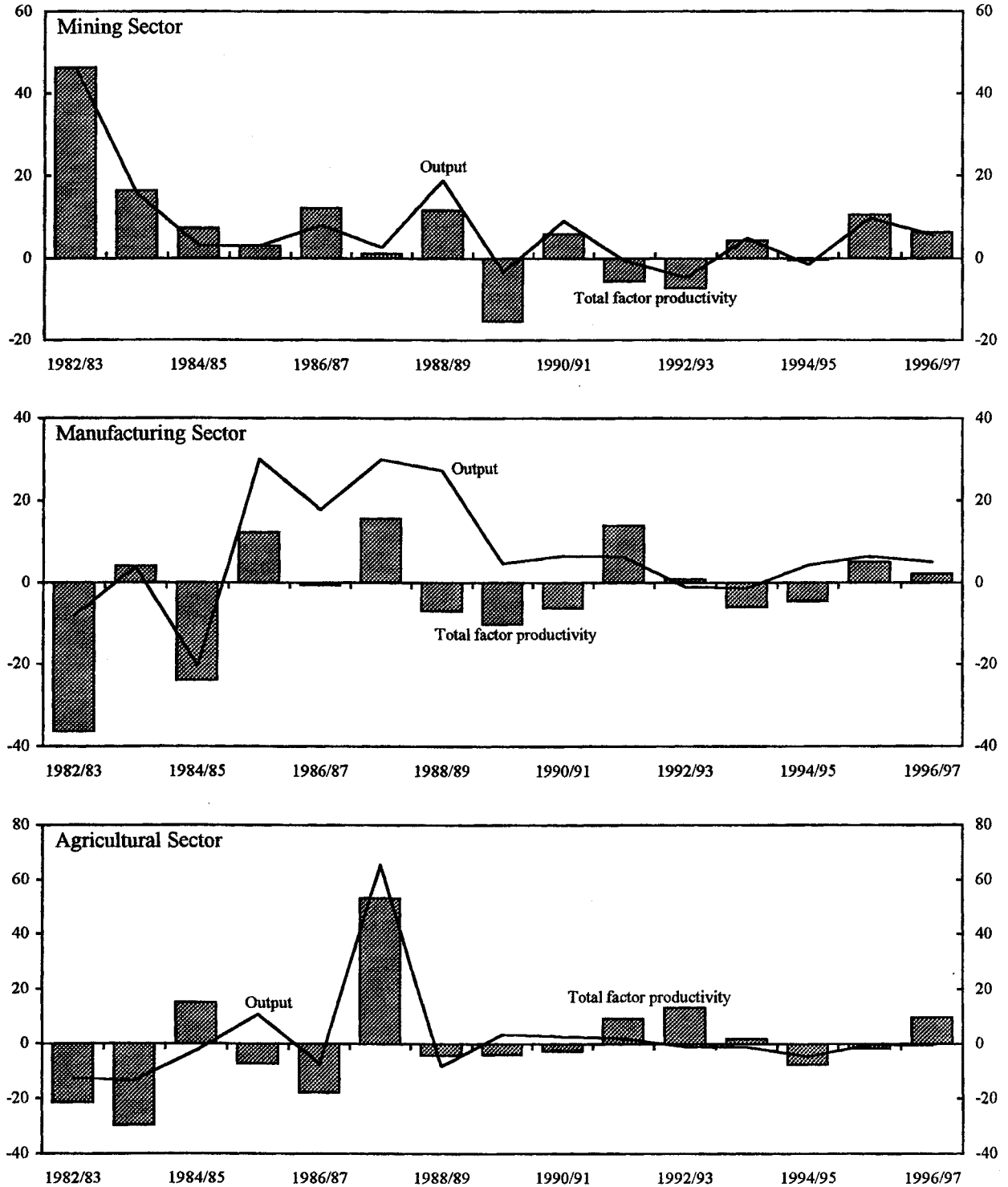
	1982/83-1985/86	1986/87-1989/90	1990/91-1993/94	1994/95-1996/97
Capital	-2.9	5.6	4.3	-2.2
Labor	1.4	2.1	0.7	1.2
Output	17.1	6.7	2.4	4.7
TFP	19.3	1.7	-1.3	6.3
Labor productivity growth	15.5	5.0	2.0	3.4

Source: Fund staff estimates.

1/ National accounts year beginning April 1.

<sup>32</sup> The other activities include copper-nickel matte, soda ash, and coal mining.

Figure II.1. Botswana: Output and Productivity, 1982/83-1996/97 1/  
(Annual percentage change)



Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.

51. Output growth slowed further during 1990/91-1993/94, as TFP declined by 1½ percent annually and capital growth moderated to 4½ percent, partially reflecting sluggish world demand and the imposition of a sales quota by the De Beers Central Selling Organization. During 1994/95-1996/97, an improvement in efficiency in the mining sector (annual TFP growth averaged 6½ percent) and a pickup in world demand fueled average annual output growth of 4½ percent.

### Manufacturing

52. Initially, Botswana's manufacturing sector consisted of the beef industry and a few import-substituting industries. In an effort to broaden the production base and encourage labor-intensive industries in the 1980s, the authorities embarked on a vigorous promotion of both export industries and labor-intensive manufacturing activities through incentive schemes such as the Financial Assistance Policy (FAP), the Local Preferential Scheme (LPS), and the Selebi-Phikwe Regional Development Project. The FAP provides financial support to firms in the form of grants for the promotion of labor-intensive activities in the export-or import-substituting industries. The LPS promotes the government purchase of locally produced goods, provided that the price differential with imported items does not exceed 40 percent of local content costs. These incentive schemes have recorded some success as additional investment in manufacturing has been stimulated and the export of nontraditional goods has increased since the late 1980s and early 1990s. Notable among nontraditional exports are textiles and motor vehicles. Vehicle exports, mostly to South Africa, increased from US\$38 million in 1993 to an estimated US\$331 in 1998. The manufacturing sector's contribution to formal sector employment was 10 percent in 1998.

53. As a result of these efforts, which began in earnest in the late 1980s, the lackluster performance of the manufacturing sector during the first half of the 1980s was followed by average annual growth of 20 percent during the 1986/87-1989/90 period (Table II.4). This robust growth was realized through a high rate of capital accumulation (23½ percent per year), as well as through substantial employment creation (19 percent per year), despite stagnant TFP growth.

Table II.4. Botswana: Growth of Capital, Labor, and TFP in Manufacturing Sector, 1982/83-1996/97 1/  
(Average annual percentage change)

	1982/83-1985/86	1986/87-1989/90	1990/91-1993/94	1994/95-1996/97
Capital	5.9	23.4	10.6	8.5
Labor	15.1	19.2	-1.8	2.6
Output	1.4	20.0	2.9	5.3
TFP	-12.3	0.1	2.7	1.8
Labor productivity growth	-10.8	1.0	6.0	2.9

Source: Fund staff estimates.

1/ National accounts year beginning April 1.

54. The combination of high growth rates and slow technological progress in the manufacturing sector may partially reflect the effects of the government's FAP. The incentives offered under this scheme (especially the 80 percent labor cost support for the initial five years of operations) may have encouraged manufacturing firms to overemploy labor during the eligibility period, thus increasing output at the cost of a decline in productivity. Hence, Botswana's increased growth in manufacturing was mainly due to extensive use of factors of production. In contrast to the developments during the 1980s, employment creation in the manufacturing sector declined by almost 2 percent during the period 1990/91-1993/94 while capital accumulation slowed considerably. These developments led to a stagnation of output, even though TFP growth improved modestly during this period. The low growth rate of the manufacturing sector during this period is partially explained by the poor performance of the textile industry, which was adversely affected by trends in export markets, particularly Zimbabwe, where demand was reduced temporarily by the drought and the devaluation of the Zimbabwe dollar.<sup>33</sup> In 1994/95-1996/97, the sector started to recover, following the diversification of the textile market and the initiation of new export products, such as assembled motor vehicles. This most recent period saw a moderate increase in employment creation and almost 2 percent annual TFP growth, while capital growth continued strong at 8½ percent per year.

### **Agriculture**

55. The agricultural sector's contribution to Botswana's real GDP declined significantly from about 40 percent at independence in 1966 to 30 percent in the mid-1970s, and to only 3 percent in 1996/97. This decline reflects the enormous expansion of output in the mining and government sectors, and rapid urbanization. Despite this sharp decline, the sector still provides income and employment for the majority of the population. The agricultural sector in Botswana comprises two distinct subsectors: the traditional subsector, which practices mainly mixed subsistence farming, with individually managed arable holdings and communal grazing of livestock, and a commercial subsector, which uses modern farming techniques. The commercial subsector tends to specialize in cattle production, although cereal production is also an important activity. The main cereal crops are sorghum, maize, and millet. Other crops include groundnuts, sunflowers, and horticultural products. Successive periods of drought are frequent in Botswana. As a result, food crop production covers less than one-third of local consumption even in drought-free years, making Botswana a net importer of cereals. On the other hand, Botswana is a net exporter of beef, with beef processing accounting for over 80 percent of agricultural output, more than 95 percent of which is exported. The Botswana Meat Commission's abattoir at Lobatse processes 800 head of cattle and 500 small ruminants per day, making it the largest in Africa.

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<sup>33</sup> Apart from external factors, other constraints inhibiting the expansion of the manufacturing sector include the shortage of serviced land and high rents, high utility and transportation costs, and low labor productivity.

56. The growth accounting framework seems to provide some explanation for the disappointing performance of the agricultural sector in recent years. Following a strong recovery from drought in the late 1980s, annual output declined by 1 percent during the 1990/91-1996/97 period, as labor declined by 7 percent a year (Table II.5). The contraction in output and the strong decline in employment during the 1990s is partly explained by the limited agricultural opportunities in Botswana, which, in turn, are due to the small arable land base,<sup>34</sup> as well as by the strong urban migration bias resulting from the attraction of significantly higher manufacturing, services and public sector incomes.

Table II.5. Botswana: Growth of Capital, Labor, and TFP in Agricultural Sector, 1982/83-1996/97 1/  
(Average annual percentage change)

	1982/83-1985/86	1986/87-1989/90	1990/91-1993/94	1994/95-1996/97
Capital	7.5	4.6	2.2	10.8
Labor	5.9	7.3	-7.4	-6.7
Output	-4.4	13.4	0.7	-1.7
TFP	-10.6	6.6	6.2	1.4
Labor productivity growth	-6.0	5.1	9.9	6.2

Source: Fund staff estimates.

1/ National accounts year beginning April 1.

57. Despite the disappointing performance in the agricultural sector in the 1990s and the continuing decline in employment, the improvement in TFP during the 1990/91-1993/94 period and the boost in capital expenditure in 1994/95-1996/97 have been encouraging. These developments likely reflect the recent movement away from traditional forms of agriculture activities toward more capital-intensive farming, and could prove to be the source for higher agricultural sector output over the medium term if the decline in labor can be mitigated.

#### D. Cross-Country Comparisons

58. Table II.6 below provides a cross-country comparison of Botswana's growth and TFP performance with a number of strong-performing Asian countries, as well as with the United States and South Africa. The table highlights the strong performance of the Asian countries during the past two decades, attributable to both their relatively high TFP growth and high capital accumulation. At the same time, the low growth rate of the United States over the same period can be seen to partially reflect its modest growth in TFP. The long period of economic contraction in South Africa is also partially explained by the decline in TFP over the period, although the decline in output continued in recent years despite an improvement in TFP.

<sup>34</sup> Only 5 percent of land in Botswana is arable.

59. Botswana's economic performance far outstripped that of the Asian countries over the past two decades, both in terms of output and TFP growth.<sup>35</sup> More recently, however, TFP growth fell sharply in Botswana, while increasing in all of the other countries shown. Nonetheless, Botswana was able to maintain strong, though lower, GDP growth, largely on account of sizable capital accumulation. Excluding the mining sector, Botswana still achieved higher growth rates, which indicates that not only the mining sector was driving the growth process.

Table II.6. Botswana: Comparison of Output and TFP Growth with Selected Countries, 1978-96 1/  
(Average annual percentage change)

	1978-96		1991-96	
	Growth in Output	TFP Growth	Growth in Output	TFP Growth
Botswana	9.0	3.0	4.7	0.6
Botswana (excluding mining sector)	8.4	3.5	5.5	1.0
Indonesia	4.7	1.2	5.1	2.2
Malaysia	4.5	2.0	5.4	2.0
Philippines	0.2	-0.8	1.6	0.7
Singapore	5.1	2.2	4.9	2.5
Thailand	5.2	2.0	6.5	2.3
United States	1.1	0.3	1.3	0.6
South Africa	-0.3	0.2	-1.5	1.6

Sources: Sarel (1997); and Fund staff estimates.

1/ Output and TFP data for Botswana are based on national accounts years beginning July 1.

60. It should be noted that TFP has its limitations as a measure of productivity and should be interpreted with care, particularly as it is not directly observable and must be calculated as a residual after relevant values of  $\frac{\Delta K}{K}$  and  $\frac{\Delta L}{L}$  have been estimated. It is therefore sensitive to the accuracy of the measurement of capital, labor, and  $\alpha$ . These considerations make cross-country comparisons of TFP measures difficult to the extent that they are based on different accounting and empirical methodologies. Consequently, marginal productivity of capital (*MPK*) can be viewed as an alternative measure of efficiency, as it measures rates of return to investment. Hence, *MPK* can be useful in cross-country comparisons as capital flows tend to

<sup>35</sup> These high growth rates in Botswana were mainly driven by the mining sector, whose average growth rate over this period was more than 16 percent.

take advantage of the relative returns. Using the same production function, *MPK* can be expressed as  $\alpha(Y/K)$ .<sup>36</sup>

61. Table II.7 below provides a cross-country comparison of *MPK* and profit shares for the same group of countries considered in Table II.6. It suggests that Botswana's returns on capital were particularly high during the 1978-96 period. Although the rate declined somewhat in recent years, it was still much higher than the Asian countries on average, as well as much higher than that of the United States and South Africa. Improvements in TFP should help maintain this high rate of return.

Table II.7. Marginal Product of Capital and Profit Shares in Botswana and Selected Countries, 1978-96 1/  
(In percent)

	Marginal Product of Capital		Profit Shares	
	1978-96	1991-96	1978-96	1991-96
Botswana	24.5	22.5	40.4	38.3
Indonesia	20.8	15.4	32.2	32.2
Malaysia	15.0	14.1	32.6	32.6
Philippines	16.3	15.2	29.7	29.7
Singapore	13.0	12.9	34.8	34.8
Thailand	18.7	16.8	29.5	29.5
United States	10.9	10.2	28.1	28.1
South Africa	12.1	12.8	35.6	36.7

Sources: Sarel (1997); and Fund staff estimates.

1/ Data for Botswana are based on national accounts years beginning July 1.

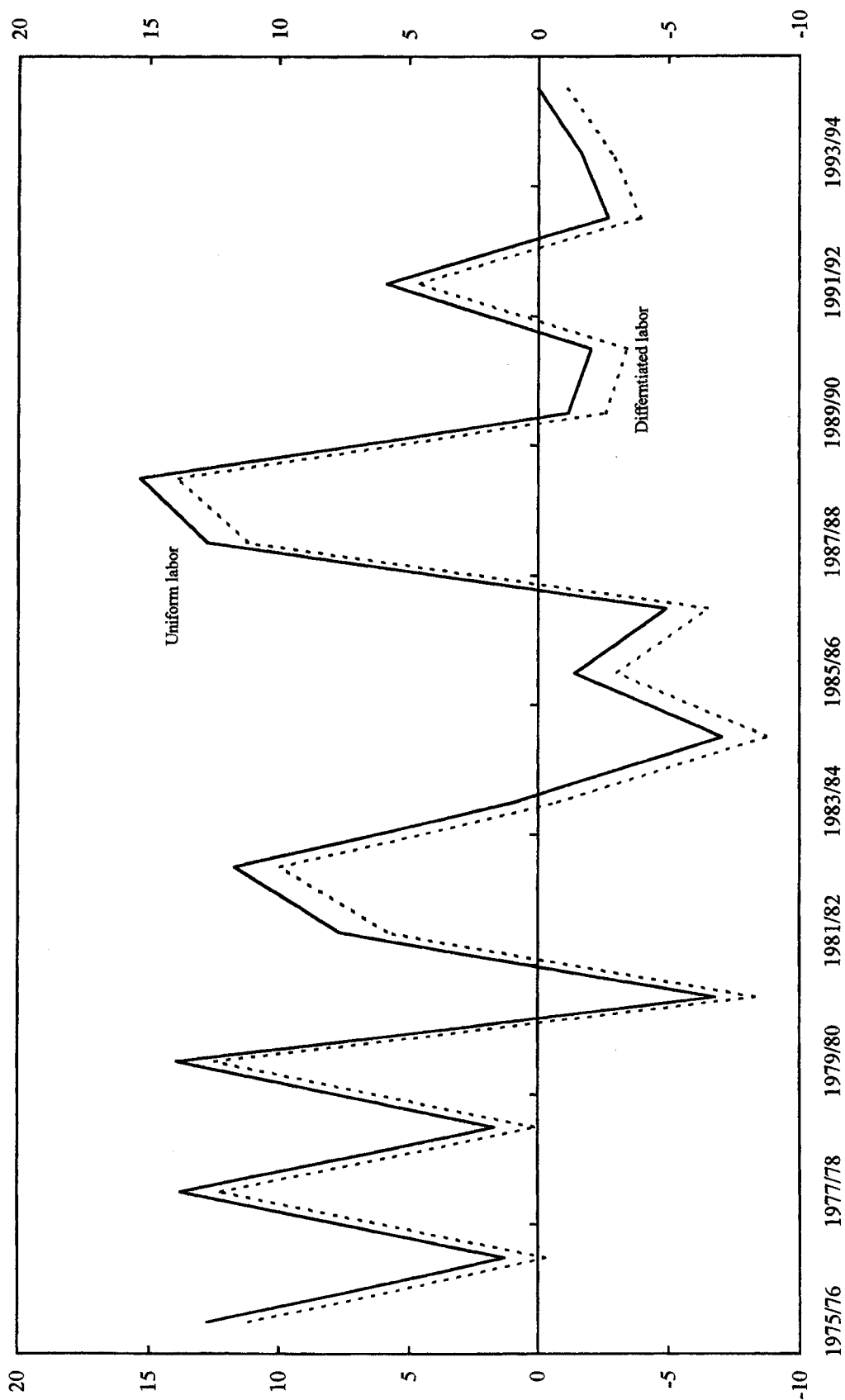
### E. The Quality of Labor, Capital, and Total Factor Productivity

62. The measurement and interpretation of TFP is difficult, as productivity improvements could be the result of increases in the quality of inputs rather than increases in the efficiency of their utilization. For this reason, Jorgenson and Griliches (1967) and Jorgenson, Gollop, and Fraumeni (1987) suggest disaggregating inputs by quality classes, so as to isolate the effect of improvements in labor or capital quality in growth accounting exercises and thereby avoid an overestimation of technological progress.

63. Taking account of these concerns by differentiating between skilled and unskilled labor, we indeed find that part of the growth process can be attributed to improvement in the skills of the labor force. The values of TFP found after making this differentiation are consistently lower than those obtained when the labor force is aggregated (Figure II.2).

<sup>36</sup> By definition, *MPK* is equal to the partial derivative of the production function with respect to *K*.

Figure II.2. Botswana: TFP of Uniform and Differentiated Labor, 1975/76-1994/95 1/  
(Annual percentage change)



Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning July 1.



Between 1975/76 and 1994/95, the total labor force increased on average by 3 percent a year. Over the same period, the average growth rates of skilled and unskilled labor were 7½ percent and 1½ percent, respectively.<sup>37</sup> This differential may be attributable to the government's heavy investment in education, which has improved remarkably the educational attainment of the Botswana labor force. Between 1979/80 and 1997/98, education spending averaged 22 percent of the government's recurrent outlays and 14 percent of development expenditure.

64. The calculation of TFP also does not take into account the expected profile of returns from different investments, even though computed TFP is quite sensitive to the timing of the expected returns. This issue is important in the case of Botswana and requires further analysis.<sup>38</sup> The low level of TFP in the early 1980s may, for example, reflect the fact that significant investment in infrastructure was being made without a corresponding immediate growth in real output.

#### F. Conclusion

65. Botswana has succeeded in laying the basis for a prosperous economy. The impressive growth rates witnessed since independence have for the most part been made possible by significant increases in the capital stock and the growth of the labor force, as well as by substantial technological progress. The considerable capital accumulation reflects the government's prudent use of its mineral revenues to promote productive investment and encourage economic diversification. Although not as important as the increases in factor inputs in explaining Botswana's growth performance, TFP growth was nonetheless significant and was comparable to those of the rapidly growing Asian countries. In a cross-country comparison with a number of Asian countries, the United States and South Africa, Botswana's TFP growth and marginal productivity of capital were shown to be much higher over the past two decades and partially explained by higher economic growth during this period. Government policies have played a prominent role in the growth process, especially in stimulating the growth of factor inputs in the manufacturing sector, and help explain fluctuations in TFP for both the economy as a whole and individual sectors. However, the effect of some policies has been ambivalent: while subsidizing labor in the manufacturing sector led to considerably higher employment, this policy may also have been an impediment to productivity in this sector. The recent improvement in TFP of the manufacturing sector is an indication that employment and productivity objectives can be achieved while sustaining growth. Although productivity in the agricultural sector has improved lately, expansion of

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<sup>37</sup> The differentiation of the labor force into skilled and unskilled workers is done on the basis of whether or not individuals have completed more than primary school. No such differentiation on the basis of the health status of workers is available for Botswana. If such were available it would have been possible to estimate the effect on productivity of the changing health profile of the workforce.

<sup>38</sup> See Bank of Botswana (1996) and Bingana and Wright (1998).

this sector remains limited, owing to Botswana's small natural resource base. Finally, the differentiation of different types of labor according to skills shows that the sustained growth has been partly achieved as a result of allocating substantial resources to education and health.

### Data Sources

Table II.8. Botswana: Capital Stock at Constant 1985/86 Prices, 1981/82-1996/97 1/  
(In millions of pula)

	Agriculture	Mining	Manufacturing	Other	Aggregate Capital
1981/82	47.3	883.2	102.4	1,812.3	2,845.2
1982/83	53.4	874.7	112.6	1,972.2	3,013.0
1983/84	56.6	841.7	119.8	2,157.0	3,175.1
1984/85	59.1	798.2	122.1	2,509.9	3,489.5
1985/86	63.0	783.3	128.4	2,711.9	3,686.6
1986/87	63.0	764.3	146.4	2,992.3	3,966.0
1987/88	64.4	749.5	176.4	3,468.8	4,459.1
1988/89	68.4	833.3	232.3	4,070.2	5,204.2
1989/90	75.2	963.6	295.9	4,722.4	6,057.2
1990/91	80.6	1,046.6	364.3	5,380.0	6,871.5
1991/92	84.5	1,081.6	408.0	5,956.8	7,531.0
1992/93	86.3	1,119.8	433.1	6,427.4	8,066.6
1993/94	81.8	1,139.9	437.7	7,024.3	8,683.8
1994/95	90.7	1,138.0	469.5	7,572.2	9,270.4
1995/96	100.2	1,104.5	512.1	8,261.3	9,978.1
1996/97	111.3	1,066.9	559.1	8,982.0	10,719.3

Source: Central Statistics Office.

1/ National accounts year beginning July 1.

Table II.9. Botswana: Formal Sector Employment, 1981/82-1996/97 1/  
(In thousands)

	Agriculture	Mining	Manufacturing	Other	Total
1981/82	4.2	7.1	7.2	80.1	98.6
1982/83	4.5	7.2	9.8	77.5	99.0
1983/84	5.4	7.5	9.5	86.0	108.4
1984/85	4.0	7.3	9.9	93.7	114.9
1985/86	4.9	7.5	12.2	103.8	128.4
1986/87	5.6	7.0	14.7	120.7	148.0
1987/88	6.5	7.5	16.4	136.8	167.2
1988/89	6.0	7.6	22.2	151.6	187.4
1989/90	6.4	8.1	24.3	167.9	206.7
1990/91	6.7	7.7	26.3	185.6	226.3
1991/92	5.9	8.3	22.0	186.3	222.5
1992/93	4.7	8.4	20.8	190.7	224.6
1993/94	4.6	8.3	22.1	192.1	227.1
1994/95	4.6	8.1	24.2	192.8	229.7
1995/96	4.5	8.3	23.7	193.5	230.0
1996/97	3.7	8.6	23.8	187.7	223.8

Source: Botswana Central Statistics Office.

1/ National accounts year beginning July 1.

Table II.10. Botswana: Labor Force by Skill Factor, 1981/82-1996/97 1/  
(In thousands)

	Skilled Labor Force	Unskilled Labor Force	Total Labor Force
1981/82	71,904	253,151	325,055
1982/83	77,986	257,187	335,173
1983/84	84,583	261,286	345,869
1984/85	91,738	265,451	357,189
1985/86	99,499	269,682	369,181
1986/87	107,915	273,982	381,897
1987/88	117,044	278,349	395,393
1988/89	126,945	282,786	409,731
1989/90	137,683	287,294	424,977
1990/91	149,330	291,873	441,203
1991/92	161,962	296,526	458,488
1992/93	175,662	301,253	476,915
1993/94	190,521	306,055	496,576
1994/95	206,638	310,933	517,571
1995/96	...	...	538,274
1996/97	...	...	559,805

Source: Botswana authorities.

1/ National accounts year beginning July 1.

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### III. DIVERSIFICATION AND EMPLOYMENT GROWTH<sup>39</sup>

#### A. Introduction

66. Botswana has experienced strong economic growth during the last two decades, but its economic base has remained narrow. The mineral sector has been the mainstay of the economy, generating more than one-third of GDP and 70 percent of export earnings. In contrast, the share of the agricultural sector in GDP declined steadily, falling from 11 percent during 1979/80-1983/84, to about 3 percent in 1997/98 (Table III.1). The manufacturing sector, however, maintained its share in GDP relatively constant at 5 percent by growing at a rapid pace during the 1980s and the second half of the 1990s, reflecting, inter alia, strong investment growth. Despite strong growth, Botswana has experienced persistent and rising unemployment, owing not only to the weaknesses in the agricultural sector but also to the lack of adequate employment creation in the nonagricultural sectors. Consequently, the government has promoted diversification of the economic structure in order to reduce dependence on the diamond sector and create employment opportunities for a rapidly growing labor force. This has been a particular challenge in view of the decline in agricultural employment.

67. This paper examines the diversification initiatives undertaken by Botswana and the extent to which diversification and employment creation have been achieved. The paper is structured as follows. Section B provides the background to the unemployment problem, Section C summarizes Botswana's policy initiatives to diversify and create sustainable employment, and Section D analyzes the extent to which diversification and employment creation objectives have been achieved, as well as the limitations to diversification. Section E provides some concluding remarks.

#### B. Trends in Employment and Unemployment

68. Notwithstanding the high growth rates during the past two decades, employment growth has been insufficient to absorb the rapidly growing labor force, and unemployment has remained high. While the trends in unemployment have been mixed over the past two decades,<sup>40</sup> the most recent estimate for 1995/96 shows the national unemployment rate rising to 22 percent.<sup>41</sup> The persistent high unemployment remains a major cause of the high

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<sup>39</sup> Prepared by John Matovu.

<sup>40</sup> Unemployment data are derived from the population censuses of 1981 and 1991, and the labor force surveys (LFS) of 1984/85 and 1995/96. The Central Statistics Office also produces biannual employment surveys which cover only paid formal sector employees.

<sup>41</sup> Including discouraged workers, the unemployment rate was 35 percent.

Table III.1. Botswana: Sectoral Real GDP, 1979/80-1997/98 1/

	1979/80- 1983/84	1984/85- 1988/89	1989/90- 1993/94	1994/95	1995/96	1996/97	1997/98
	(In percent of GDP)						
Agriculture	10.9	5.8	4.6	4.1	3.9	3.4	3.1
Mining	29.3	45.5	38.2	33.3	34.1	37	37.6
Manufacturing	5.9	5.2	4.9	4.9	5.0	4.9	4.8
General government	15.7	13.7	15.3	15.3	14.9	14.2	14.5
	(Average annual percentage change)						
Agriculture	-8.4	11.7	1.3	-4.6	-0.4	-0.2	-1.2
Mining	28.7	7.2	1.2	-1.5	9.9	5.8	9.5
Manufacturing	10.6	16.9	3.2	4.3	6.5	5.2	4.7
General government	10.6	12.7	9.6	3.6	4.5	9.1	11.0
Total GDP	11.1	12.1	4.8	2.7	6.6	7.2	8.3

Source: Central Statistics Office.

1/ National accounts year beginning July 1.

69. Table III.2 shows changes in the labor force participation rate over the period 1981-95. After increasing robustly from 1981 to 1984, it fell precipitously between 1984 and 1991. This sharp decline was partly explained by the rapid expansion in the rates of school enrollment during the period. For example, between 1985 and 1991 school enrollment rose from 17 percent to 22 percent of the population. The decline in the participation rate from its peak (63 percent in 1984) was also partly explained by the increase in the proportion of discouraged workers, which usually moves in line with rising levels of unemployment

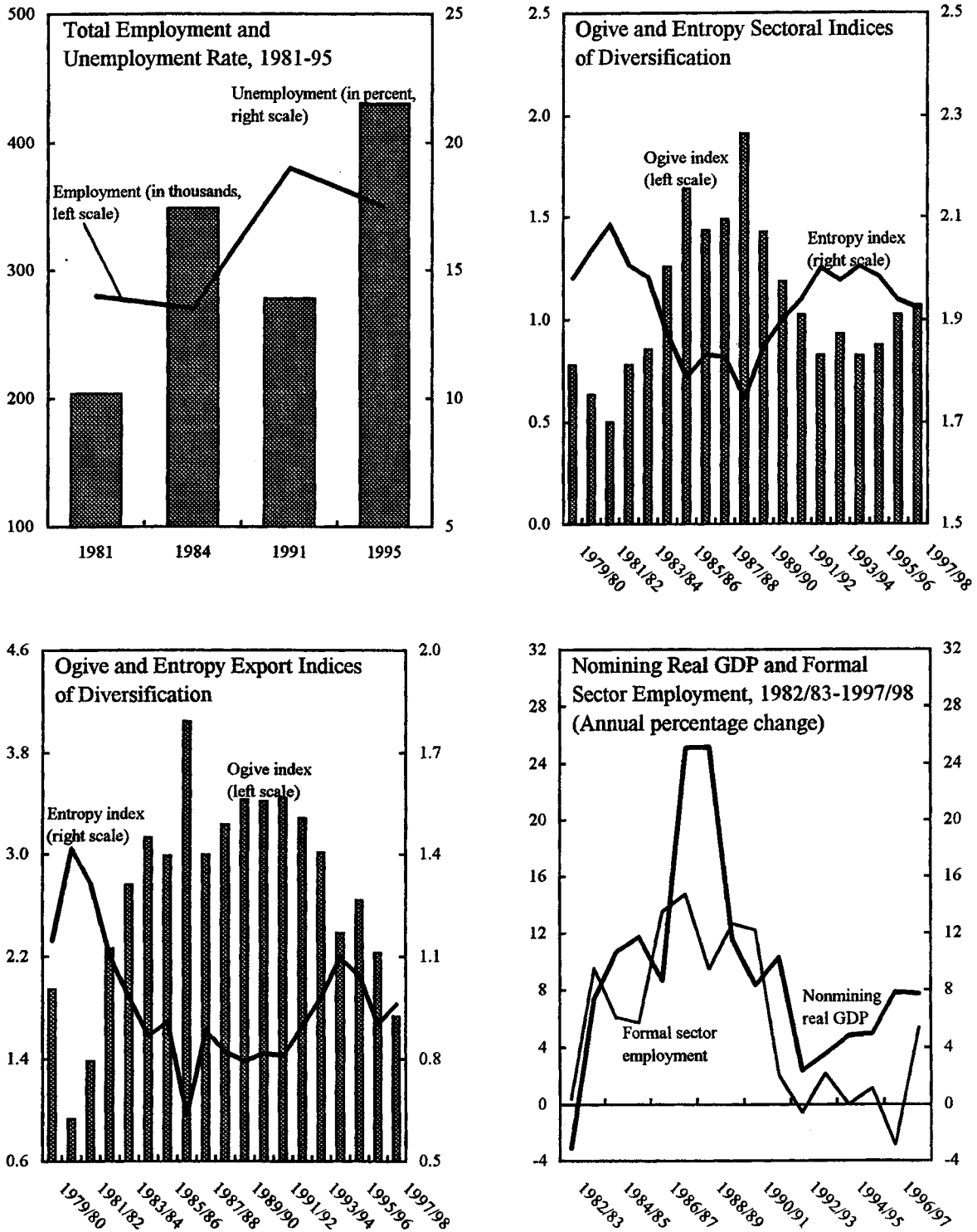
Table III.2. Botswana: Labor Force and Labor Force Participation Rate, 1981-95  
(In thousands, unless otherwise indicated)

	1981	1984	1991	1995
Population 12 years and over	568.7	583.2	859.2	950.8
Participating population	315.5	367.9	441.2	528.1
Male	191.0	172.8	271.4	271.2
Female	124.5	195.2	169.8	256.9
Labor force participation rate (in percent)	55	63	51	56

Source: Central Statistics Office.

70. There has been an upward trend in the unemployment rate over the past two decades, as it rose from 10 percent in 1981 to over 21 percent in 1995. A notable exception was the period between 1984 and 1991, when the rate fell temporarily (Figure III). This pattern was

Figure III. Botswana: Diversification and Employment Growth, 1979/80-1997/98 1/



Sources: Botswana authorities; and Fund staff estimates.

1/ National accounts year beginning April 1.



consistent with overall economic developments. The drought and sluggish growth in the first half of the 1980s were followed by an economic boom in the late 1980s, which led to a sharp increase in employment between 1984 and 1991. This boom was followed by a slowing of growth and stagnating employment growth in subsequent years.

71. The key constraint to employment creation in Botswana has been structural, as the sectors where the economy has a natural advantage in production, such as diamond mining, are not labor intensive. Moreover, in contrast with many other sub-Saharan African countries, arable agriculture, where labor-intensive techniques may still be an efficient method of production, shows little potential for further development in Botswana.

72. In 1964, the composition of the workforce was largely agricultural, with almost 91 percent employed in subsistence agriculture. In contrast, less than 4 percent of the total workforce was employed in industry, and 5½ percent in the services sector.<sup>42</sup> In 1971, agriculture continued to dominate, with over 86 percent of those employed engaged in agriculture. However, by 1981, employment opportunities had decreased by almost 40 percent; meanwhile, employment in both the industrial and services sectors of the economy had almost tripled since 1971, effectively offsetting the job losses in agriculture. In 1991, the transformation of the workforce was continuing: employment opportunities in agriculture had decreased by another 37 percent during the decade, while those in industry and services had increased by 207 percent and 93 percent, respectively. With the rapid decline of agricultural activity continuing in the 1990s, the 1995/96 Labor Force Survey estimated that only 14 percent of the active labor force was employed in traditional agriculture.

73. The low participation rates in agricultural activities have put additional pressure on other sectors, especially the formal sector, to be the source of job creation. About 45 percent of the active labor force is currently employed in the formal sector. As employment in the formal agricultural sector was declining and the mining sector's contribution to employment generation was limited, the public sector was the largest contributor to employment growth over the past decade, growing by 6 percent annually during 1987-97 (Table III.3). Public sector employment growth was mainly driven by the significant expansion of the education system.<sup>43</sup>

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<sup>42</sup> The industry sector comprises mining, manufacturing, water and electricity, construction and transport and communications.

<sup>43</sup> During 1990 and 1995, employment in education grew by 11 percent, which accounted for 56 percent of the growth in employment by central government during the period.

Table III.3. Botswana: Formal Sector Employment, 1990-98, 1/  
(In thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	6.5	6.7	6.1	5.9	5.3	4.5	4.5	3.7	4.0
Mining and quarrying	7.8	7.8	7.6	8.4	7.9	8.4	8.3	8.6	8.7
Manufacturing	23.3	26.0	25.5	22.1	21.7	23.4	23.7	23.8	24.0
Electricity and water	2.1	2.5	2.6	2.6	2.5	2.6	2.7	2.5	2.7
Construction	29.3	33.8	33.8	28.3	26.7	22.1	22.6	22.7	22.5
Commerce	35.7	41.0	40.9	40.7	45.9	44.9	45.7	40.1	43.1
Transport and communication	8.1	9.1	10.2	9.8	9.0	9.0	8.8	8.7	9.0
General government	63.0	68.5	72.2	80.7	81.8	85.3	86.3	93.1	100.0
Finance and others	22.7	27.4	28.6	27.7	30.4	31.2	31.5	24.0	25.6
<b>Total</b>	<b>198.5</b>	<b>222.8</b>	<b>227.5</b>	<b>226.2</b>	<b>231.2</b>	<b>231.4</b>	<b>234.1</b>	<b>227.3</b>	<b>239.5</b>

Source: Botswana authorities.

1/ Data for March.

### C. Policies to Diversify and Create Employment

74. Several policy initiatives have been undertaken to diversify the economy and create sustainable employment. The policies can be categorized as follows: first, are the regulatory instruments governing the establishment of enterprises; second, are the direct incentives provided by government to promote employment.

75. The Industrial Development Act of 1968 has been the main instrument of regulating and promoting industrial development in Botswana. One of the objectives of the IDP was initially to promote import substituting industries. With the exception of the traditional exports in the mining sector, the export drive did not take off until the late 1980s.<sup>44</sup> However, due to the continued increase in unemployment that prevailed in the early 1980s, the IDP was revised in 1984 to promote the creation of productive employment for citizens, training of new workers for jobs with higher productivity, and dispersion of industrial activities to rural areas. The IDP was further revised in 1997 to provide an enabling environment for highly productive and efficient export industries. As the IDP was not particularly tailored for Small, Medium and Micro Enterprises (SMME), a policy framework for the development of SMMEs was approved by Parliament in 1998. The framework sets out the guiding principles and objectives of developing SMMEs which include: creating an environment within which SMMEs will grow; encouraging competitive and sustainable SMMEs; promoting the development of vertical integration and horizontal linkages between SMMEs and primary

<sup>44</sup> The only nontraditional export which was developed during this period were textile products.

industries in agriculture, mining and tourism; fostering citizen entrepreneurship; creating sustainable employment opportunities; and, discouraging dependence of SMMEs on government.

76. In addition to creating a conducive environment for diversification, government has also created several incentive schemes to promote sustainable employment opportunities in the nonmining sector. The Financial Assistance Policy (FAP) is currently the main government initiative to stimulate productive employment and diversify the economy. This policy was introduced in 1982, and substantially revised in 1995.<sup>45</sup> In a recent evaluation of FAP, the government concluded that the program had succeeded in creating jobs for the unskilled in a cost effective manner. However, the report also identified several weaknesses including: low survival rate of small scale enterprises; the negative effects of the program on labor productivity; and, early closure of firms when the grant expires. Apart from FAP, other incentives which have been used to promote employment and diversification are: Local Preference Scheme, the Selebi-Phikwe Regional Development Program, and the Arable Lands Development Program (Box III.1). In addition to the above incentives, government has also introduced the vocational training program to address the high unemployment rate among school leavers. This program is mainly intended to reduce the mismatch between the type of skills acquired in school and those required by the changing economy.

#### **D. Measures and Limitations of Diversification**

77. The twin objectives of Botswana's diversification policy have been to reduce the dependence on the mining sector and to create employment in the nonmining sector.

##### **Sectoral diversification**

78. The degree of diversification can be considered a function of the distribution of individual sectoral shares. When using measures of concentration to describe the degree of diversification, it is assumed that a lower level of concentration would lead to increased stability or growth. Popular measures of concentration include the Ogive index and the

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<sup>45</sup> Revisions to the FAP in 1995 included: raising equity contributions from investors; increasing the size of projects classified as small scale; and, greater monitoring of employee training programs for which grants are given.

### **Box III.1. Diversification and Employment Incentives**

1. **Financial Assistance Policy:** This scheme provides prospective employers with grants based on the size and location of new investment, the number of unskilled workers employed, and the cost of training programs. These grants are limited to a period of five years. The financial assistance is provided to entrepreneurs in manufacturing, small-scale mining, mineral processing, agriculture (other than beef production), and tourism. The incentives for small-scale businesses (currently defined as those with investment in fixed assets of P 75,000 or less) are confined to citizen-owned firms. Incentives for medium- and large-scale businesses are available to all eligible firms, irrespective of citizenship.
2. **Local Preference Scheme (LPS):** The LPS was introduced in 1976 and modified in 1986. Its main objective was to direct a substantial share of purchases by the central and local governments and parastatals to local manufacturers. The scheme was aimed at increasing production in Botswana and encouraging the use of local raw materials and labor in manufacturing. Local firms that qualified for the LPS were given special preference over foreign firms, when tendering for government contracts. In 1997, the LPS was replaced by a new Local Procurement Program, whose main purpose was to channel a proportion of orders for central government supplies to locally based small, medium, and micro enterprises.
3. **Selebi-Phikwe Regional Development Program (SPRDP):** This program was established in 1988 and its main objective was to promote diversification by encouraging investment in nonmining economic activities in the Selebi-Phikwe area, which was totally dependent on copper-nickel mining. This scheme involved a reduction of the corporate tax rate to 15 percent for 20 years. The evaluation of the SPRDP in 1992 found that the location of the area remained a strong disincentive for potential investors, although the program had attracted some export-oriented foreign investors. Subsequently, the SPRDP was integrated into the Trade and Investment Promotion Agency after the corporate tax was reduced to 15 percent for all manufacturers regardless of location.
4. **Arable Lands Development Program (ALDP):** In order to improve the productive capacity of farmers, the government introduced the ALDP in 1982. The program was designed to assist farmers with on-farm investment packages. In addition, the government aimed at maintaining a high and sustainable level of cattle production through improved livestock management and husbandry techniques, land conservation, and a more efficient land tenure system.

entropy index. The Ogive index measures deviations from an equal distribution of sectoral (export) shares among sectors and is given as follows:

$$Ogive = \sum_{n=1}^N \frac{(X_n - 1/N)^2}{1/N}, \quad (1)$$

where  $N$  is the total number of sectors (or export commodities) being considered,  $1/N$  is assumed to be the "ideal" share of earnings for each commodity, and  $X_n$  is the actual share of each commodity in total exports. Perfect diversification is defined as an equal distribution of sectoral shares ( $X_n$  equals  $1/N$  for each commodity), and in this case the Ogive index would be equal to zero. A more unequal distribution of export shares results in a higher Ogive measure.<sup>46</sup> An alternative measure for diversity is the entropy index, which can be expressed as

$$Entropy = \sum_{n=1}^N -X_n \ln X_n, \quad (2)$$

where  $X_n$  is the sectoral (export) share of total output (exports). If the economic activities are concentrated in a single sector (commodity), then  $X_n=1$ , and hence the value of the entropy index equals zero. If there is equal distribution among the  $N$  sectors, then the entropy index achieves a maximum value,  $\ln(N)$ , which indicates perfect diversity.

79. When these two indices are applied on the sectoral shares of GDP in Botswana, little progress has been made in diversifying Botswana's economic base. The concentration of activity in the mining sector and overreliance on diamond exports continues to be high. Figure III shows diversification trends in Botswana during the period 1979/80-1997/98. Both indices show that Botswana's economy was most diversified during 1979/1980-1983/84, a period when mining contributed 30 percent of the GDP. The Ogive index for this period was 0.71, while the entropy index was 2.02 (Table III.4).<sup>47</sup> However, during the period 1984/85-1988/89, when the share of mining was on average 45 percent of GDP, the two indices worsened. The Ogive index increased by 20 percent, while the entropy index declined by 2.5 percent. Since 1995/1996, the two indices have shown a greater diversification of the economic base, mainly reflecting the expansion of the manufacturing sector.

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<sup>46</sup> The Ogive index is sensitive to the benchmark used as a basis for calculating deviations, as well as the level of aggregation (i.e. the chosen number of sectors  $N$ ).

<sup>47</sup> For perfect diversification, the entropy index assumes a value of  $\ln(10)=2.3028$ .

Table III.4. Botswana: Aggregate Sectoral Diversification Indices, 1979/80-1997/98

	1979/80- 1983/84	1984/85- 1988/89	1989/90- 1993/94	1994/95	1995/96	1996/97	1997/98
	(In unites indicated)						
Ogive index	0.7	1.5	1.1	0.8	0.9	1.0	1.1
Entropy index	2.0	1.8	0.4	2.0	2.0	1.9	1.9
	(Average annual percentage change)						
Ogive index	6.4	19.5	-12.5	-11.6	6.4	17.1	4.5
Entropy index	0.1	-2.5	2.5	1.4	-1.0	-2.3	-0.8

Source: Fund staff estimates.

### Employment creation

80. The 1995 Labor Force Survey shows a continued decline in employment opportunities in traditional agriculture to less than 15 percent of the total labor force. As previously discussed, the weaknesses of the agricultural sector, mainly due to poor climatic conditions and limited arable land, have contributed significantly to unemployment and poverty. In addition, government schemes to improve productivity in the agricultural sector have also been largely unsuccessful.<sup>48</sup> Given the difficulties of the relative decline in the agricultural sector, diversification initiatives have been mainly tailored to increasing employment in nonagricultural sectors, especially manufacturing and services. Initiatives in these areas—nonmining and non-agriculture—have been partially achieved, as portrayed in the formal sector employment data.

81. Between 1983 and 1992, annual aggregate employment growth in the formal sector was 8½ percent (Table III.5). However, employment growth during the period 1993-97 stagnated, largely reflecting the contraction in the construction and agricultural sectors. Development of the manufacturing sector has been the most promising route for economic diversification and job creation, and it has been favored with concessionary tax rates, as well as a variety of incentives under the Financial Assistance Policy (FAP). As a result, this sector has demonstrated fairly high employment growth rates since 1980, particularly during the period 1983-87, when employment grew by more than 15 percent on average.

<sup>48</sup> These schemes include expenditure on rural infrastructure, agricultural development programs and extension services.

Table III.5. Botswana: Formal Sector Employment, 1983-97 1/  
(Average annual percentage change)

	1983-87	1988-92	1993-97
Agriculture	5.9	1.0	-8.9
Mining	-0.3	3.5	0.7
Manufacturing	15.3	8.4	1.6
Construction	4.4	12.6	-5.8
Services	11.4	12.9	-1.1
General government	8.9	7.8	3.9
<b>Total</b>	<b>8.5</b>	<b>8.5</b>	<b>0.1</b>

Sources: Central Statistics Office; and Fund staff estimates.

1/ Data for March.

82. While employment has increased, labor productivity in the manufacturing sector has been on a declining trend since the early 1980s, except for a temporary increase in the mid-1990s (Table III.6). One possible cause of this long-term decline has been the gradual change in the composition of output in this sector toward more labor-intensive products and techniques. Other sectors that are targeted by the FAP, such as trade, hotels and restaurants and finance, have witnessed declines in labor productivity as well.

Table III.6. Botswana: Labor Productivity, 1982/83-1997/98 1/  
(Average annual percentage change)

	1982/83- 1985/86	1986/87- 1989/90	1990/91- 1994/95	1995/96	1996/97	1997/98
Manufacturing	-2.2	0.7	-3.3	14.2	-3.7	-0.9
Trade, hotels, and restaurants	-13.4	14.3	8.1	-0.3	18.0	-19.8
Finance	-28.0	85.9	-22.8	2.7	4.5	-3.1
<b>Total</b>	<b>-5.5</b>	<b>4.3</b>	<b>3.0</b>	<b>4.8</b>	<b>3.5</b>	<b>-6.2</b>

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.

### Limitations of diversification

83. Botswana's potential for diversification is limited by its natural resource base, geographical location, shortage of skilled labor, and the small size of its domestic market. Botswana's climate is mostly arid or semiarid, with mean annual rainfall ranging from over

650 millimeters in the northeast to less than 250 millimeters in the extreme southwest. The incidence of rain is highly variable both in time and space, and drought is a recurring hazard. With less than five percent of the land arable and a large variation of the incidence of rain and recurring droughts, diversification and employment creation in the agricultural sector has remained limited. In addition, livestock production is constrained by a growing shortage of grazing land and by periodic droughts. In recent years, Botswana has not been able to fulfill its quota to the EU market as a consequence of droughts and the need to rebuild the herds afterward.<sup>49</sup> Beef exports are also vulnerable to outbreaks of disease, including foot-and-mouth disease (now largely prevented by the use of quarantine fences) and cattle lung disease, which led to a marked drop in beef exports in 1996.

84. Another limitation to the diversification of the economic base is the shortage of skilled labor. Since the 1970s, high priority has been given to spending on education; as a result, the proportion of skilled labor increased from 16 percent of the labor force in 1975 to 40 percent in 1995 (Table III.7). While the unskilled labor force increased at a rate of 1 percent per year between 1975 and 1995, skilled labor increased at an 8 percent rate during the same period. Despite extensive spending on education, there is still high unemployment among school leavers and low levels of self-employment, which suggests a mismatch between the type of skills acquired in school and those required by the rapidly expanding economy.

Table III.7. Botswana: Skilled and Unskilled Labor Force, 1975-95

	1975	1980	1985	1990	1995
	(In thousands)				
Skilled labor	46.9	62.6	91.7	137.7	206.6
Unskilled labor	242.6	248.1	265.5	287.3	310.9
	(In percent of total labor input)				
Skilled labor	16.2	20.1	25.7	32.4	39.9
Unskilled labor	83.8	79.9	74.3	67.6	60.1

Source: Central Statistics Office.

85. The *Africa Competitiveness Report 1998*<sup>50</sup> ranks Botswana third in competitiveness of the 23 African countries used in the survey. While Botswana scored highly in several factors that are important for competitiveness, the report also identified some weaknesses,

<sup>49</sup> Botswana's quota for beef exports to the EU market is presently 18,916 tons per annum.

<sup>50</sup> World Economic Forum, 1998, *The Africa Competitiveness Report* (Lausanne, Switzerland: Harvard Institute for International Development).



including (i) the lack of investment protection for foreign investors; (ii) the high costs of utilities, especially electricity; and (iii) the limited supply of educated workers. Another key factor for maintaining competitiveness is realigning wages and productivity. The highly productive mining industry supports the relatively high—by developing country standards—wage levels in the mining and the public sectors. When extended to manufacturing and services sectors, these wage levels are above what the productivity of these sectors can support. Those high wages also make it more difficult to develop labor-intensive manufacturing, as the existing policies aim to do.

86. The small size of the domestic market is also a factor limiting diversification. Botswana's population is estimated at 1.5 million, of which about 75 percent still live outside formally established urban areas. The limited rural income base and dispersed population both constrain the expansion of the domestic market. In addition, being a land-locked country has also partially slowed the development of industry because the cost of accessing distant markets is high. The lack of direct access to sea ports results in high transportation costs and a dependency on transit routes through South Africa. Road and rail transportation is costly, making some domestic products more expensive than imported products from South Africa, where local manufacturers source most of their raw materials and equipment. Finally, the high cost of utilities renders some of Botswana's products expensive in the domestic, regional, and international markets. This high cost is partly explained by the small, widely dispersed population.

### **E. Conclusion**

87. The primary objective of economic diversification in Botswana has been to create productive and sustainable employment opportunities in the nonmining sectors. A number of policy initiatives have been undertaken to attain this objective. The overall effectiveness of these initiatives can be analyzed on two fronts. At a sectoral level, the concentration of activity in the mining sector and the overreliance on diamond exports continue to be high. However, the objective of creating employment opportunities in the nonmining sectors has been partially achieved in the manufacturing sector. However, labor productivity in the manufacturing sector has been generally on a decline, owing to the intensive use of labor. The analysis also finds that the public sector has continued to be the largest contributor to employment growth, which may not be sustainable over the longer term.

88. A significant part of the employment creation and diversification problems are structural, as they reflect the weaknesses in the agricultural sector, the shortage of skilled labor, the mismatch of skills between the labor force leaving the agricultural sector for other sectors, the high wage levels compared with other countries in the region (with the exception of South Africa), the small size of the domestic market, the shortage of serviced industrial land, and the high cost of utilities. However, continued emphasis on the diversification of production and employment—as well as more effective efforts to limit the decline in employment opportunities in the agricultural sector—will be necessary to alleviate the persistently high unemployment rate.

Botswana: Summary of the Tax System, December 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on income and profits			
1.1 Company	<p>A tax on company profits earned in Botswana during the tax year (July 1-June 30). Profits of the Botswana Meat Commission are determined according to a special formula equivalent to a turnover tax. There is a withholding tax on dividends. Since the introduction of a two-tier system of company tax in tax year 1990/91, distributions to resident and nonresident shareholders are treated alike—the net dividend being tax exempt in the hands of the shareholders. To avoid multiple deduction of tax on dividends, dividends paid to an associated company are not subject to withholding tax. Where permission has been granted by the Bank of Botswana to any person to make investments or carry out business outside Botswana, the income accruing thereof will be deemed to have accrued from a source in Botswana.</p>	<p>Except for farming, mining, and prospecting, losses are deductible from profits of five subsequent tax years only. The cost of machinery and buildings is written off on an equal basis, while an initial allowance of 25 percent is granted in the case of new industrial buildings and improvements other than repairs. Accelerated capital allowances are available to farming and mining trades.</p>	<p>Since tax year 1990/91, a two-tier system operates in respect of resident companies, consisting of a base tax and an additional company tax (ACT) against which withholding tax (WHT) on dividends is set off. The WHT is 15 percent of the gross dividend. Where ACT chargeable for a tax year is in excess of the WHT, the excess is payable in that tax year and carried forward to the next year as a setoff against the WHT. The rate of tax on nonresident companies is 25 percent. The rate of withholding tax for nonresident contractors is 20 percent of cost, net of costs of materials used. There are special tax and royalty arrangements with mining companies. Manufacturing companies are liable to a company tax of 5 percent and an additional tax of 10 percent. Nonmanufacturing firms are liable to a company tax of 15 percent and an additional tax of 10 percent.</p>
1.2 Withholding tax on certain income of nonresident individuals and companies	<p>Interest, royalties, management and consultancy fees, entertainers' fees, and amounts due on construction contracts paid to nonresident contractors are also subject to withholding tax.</p>	<p>Exemption or lower rate is available under double-taxation agreement with some countries.</p>	<p>Rates: The rate of withholding tax is currently 15 percent on the gross payment for cases other than construction contracts and entertainment. This is the final tax.</p>
1.3 Capital gains	<p>A tax on realization on or after July 1, 1982 of gains on business assets; on shares in, or debentures of, a company, and on residential property.</p>	<p>Gains on the principal private residence owned by an individual, and shares and debentures of a public company. For immovable property acquired before July 1, 1982, the cost of acquisition is inflated annually by 10 percent, but a resulting loss is not allowed. In the case of immovable property acquired on or after July 1, 1982, the cost of acquisition is inflated by the difference between the national cost of living index for the month in which the acquisition took place and the national cost of living index for the month in which disposal took place. Capital gains arising on transfer of properties in the course of a merger or</p>	<p>The entertainment fee rate is 10 percent.</p> <p>For companies, chargeable gains are included in taxable income. For any other person, the net aggregate gains, i.e., gains less losses, are not aggregated with incomes from other sources but are taxed under a separate table, which has a zero-rate band of P 10,000 and a maximum rate of 25 percent above P 80,000.</p>

Botswana: Summary of the Tax System, December 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.4 Personal income tax	<p>A tax on income from domestic sources received by residents and nonresidents. There is a pay-as-you-earn (PAYE) withholding system on employment income, and employees with no other sources of income or noncash employment benefits need not file tax returns. (See description of company income tax, above, for other withholding taxes applicable to individuals). Husband and wife are taxed as separate individuals. Where permission has been granted by the Bank of Botswana to any person to make investments or carry out business outside Botswana, the income accruing thereof will be deemed to have accrued from a source in Botswana.</p>	<p>reconstruction of companies in a group is deferred until the property is disposed of outside the group.</p> <p>Business income is computed in the same way as business profits. Losses from one source cannot be setoff against other income, except that, on election, a farmer (but not a farming company) may offset farming losses against other income in the same tax year. A balance loss can be carried forward for setoff against future farming profits. Individuals can carry back farming losses to the preceding two years. Farmers can get immediate deduction for the cost of capital works. They may also elect to average income over a three-year period. Resident individuals are entitled to an allowance for contributions to approved pension funds or to approved retirement annuity funds or schemes, not exceeding 15 percent of earned income or P 9,000, whichever is less. This is the only allowance for personal expenditure.</p>	<p>The tax table for resident individuals has a zero rate on income up to P 20,000; thereafter, the rates progress from 5 percent to a top rate of 25 percent on income above P 80,000. For nonresident individuals, the tax table has an initial rate of 5 percent on income up to P 35,000, rising to a maximum of 25 percent on income above P 80,000. This also applies to trusts and deceased estates.</p>
2. Social security tax	<p>There is no social security tax.</p>		
3. Taxes on property			
3.1 Local rates	<p>A tax on the market value of unimproved real property located in the major towns.</p>	<p>Government buildings used for nonprofit public services, and buildings used for religious or cultural activities.</p>	<p>The tax is determined per town and is different for unimproved real property.</p>
3.2 Capital transfer tax	<p>A tax on the value of gifts or inheritance in any year, assessed on the donee. Tax year is July-June.</p>	<p>Gifts or inheritances between spouses; gifts received in any year not exceeding P 5,000; gifts or inheritance from a spouse not exceeding P 5,000; household chattels of deceased not exceeding P 15,000; and livestock included in income for income tax purposes.</p>	<p>The tax rate rises from 2 percent on the first P 100,000 of taxable value received by an individual to a maximum of 5 percent on taxable values in excess of P 200,000. A 12.5 percent rate applies to both resident and nonresident companies.</p>
3.3 Transfer duty	<p>A tax on the transfer of real property, payable by the purchaser.</p>	<p>There is an exempt threshold of P 20,000 for citizens, including any company of which more than one-half of the shares are owned by citizens.</p>	<p>Rate for citizens is 5 percent of the value over P 20,000. Noncitizens pay 5 percent for urban property and 10 percent for rural property.</p>

Botswana: Summary of the Tax System, December 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
4. Taxes on goods and services	4.1 Sales tax	<p>Tax is levied at the importer/manufacturers level on most consumer goods, including motor vehicles and office equipment. Selective services have also been brought under the tax.</p>	<p>Exempted items are plant and machinery, raw materials, books, stationery, staple foods, and medicines. Services (other than professional services, such as accounting and auditing, architecture, car rental, garage services, legal services, management and consultancy, professional engineering, and real estate including hotels, dry cleaners, and hair salons) are exempt. Exports are also exempt.</p>	<p>An ad valorem rate of 10 percent applies in respect of goods and services, except for tobacco products (at 15 percent). Varying specific rates are applied only on fuel and alcoholic and nonalcoholic beverages:</p>																	
			<table border="1"> <thead> <tr> <th data-bbox="354 871 381 903">Item</th> <th data-bbox="354 903 381 976">Thebe per liter</th> </tr> </thead> <tbody> <tr> <td data-bbox="381 934 406 966">Petrol</td> <td data-bbox="381 934 406 966">11.0</td> </tr> <tr> <td data-bbox="406 934 430 966">Mixed alkylenes</td> <td data-bbox="406 934 430 966">11.0</td> </tr> <tr> <td data-bbox="430 934 454 966">Diesel</td> <td data-bbox="430 934 454 966">6.0</td> </tr> <tr> <td data-bbox="454 934 479 966">Traditional beer</td> <td data-bbox="454 934 479 966">8.0</td> </tr> <tr> <td data-bbox="479 934 503 966">Beer malt</td> <td data-bbox="479 934 503 966">30.0</td> </tr> <tr> <td data-bbox="503 934 527 966">Natural Still wine</td> <td data-bbox="503 934 527 966">70.0</td> </tr> <tr> <td data-bbox="527 934 552 966">Fortified still wine</td> <td data-bbox="527 934 552 966">90.0</td> </tr> <tr> <td data-bbox="552 934 576 966">Fermented beverages</td> <td data-bbox="552 934 576 966">40.0</td> </tr> </tbody> </table>	Item	Thebe per liter	Petrol	11.0	Mixed alkylenes	11.0	Diesel	6.0	Traditional beer	8.0	Beer malt	30.0	Natural Still wine	70.0	Fortified still wine	90.0	Fermented beverages	40.0
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			<p>Exported goods.</p>																		
			<p>Specified duties are payable by the importer or manufacturer of selected items, such as alcoholic and nonalcoholic beverages and tobacco.</p>																		
			<p>4.2 Selective excises</p>																		

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.3 Motor vehicle taxes	Specific tax rates that vary according to type or weight, or both, of vehicle.	Public transport vehicles pay lower annual license fees, based on passenger capacity.	<p>These rates apply:</p> <ul style="list-style-type: none"> <li>• from P 10 to P 65, according to weight of vehicle;</li> <li>• from P 3 to P 432, according to weight of vehicle and trailer; and</li> <li>• from P 710 to P 6,232, according to weight of vehicle.</li> </ul>
5. Taxes on goods and services			<p>Notes: For SACU members, trailers are excluded; and for vehicles in transit, there is a minimum charge of P 40 and a maximum charge of P 340 per single trip.</p>
5.1 Customs	<p>A tax on all goods imported into Botswana. A three-column tariff schedule based on the Harmonized Commodity Description and Coding System, with general and preferential rates, is used. Preferential treatment is given to goods from the European Union, Canada, and the United States. The taxes are contributed to the common customs union pool with Lesotho, Namibia, South Africa, and Swaziland. Botswana's share is calculated according to a fixed formula.</p>	<p>There exist free trade agreements with Lesotho, Malawi, Namibia, South Africa, Swaziland, and Zimbabwe.</p>	<p>Both specific and ad valorem rates are used. Ad valorem rates, charged on the normal price of the goods, predominate, and vary from 0 percent to 57.5 percent. South Africa collects the taxes and pays Botswana's share (<math>BS</math>), calculated as</p> $BS = 1.42 \frac{(A + B + C)H}{DEFG}$ <p>where <math>\frac{H}{DEFG}</math> = the "all duty rate";</p> <p><math>A</math> = c.i.f. value of Botswana's imports;  <math>B</math> = value of Botswana's production and consumption of excisable goods;  <math>C</math> = excise duty actually paid on <math>B</math>;  <math>D</math> = c.i.f. value of customs area imports;  <math>E</math> = customs duties actually paid on <math>D</math>;  <math>F</math> = value of excisable goods produced and consumed in the customs area;  <math>G</math> = excise duty actually paid on <math>F</math>; and  <math>H</math> = total customs and excise duty pool.</p> <p>Low specific rates.</p>
5.2 Export taxes	A tax on exported livestock and products thereof, and on game products.	None.	

Sources: Tax, and Customs and Excise Departments.

Table 1. Botswana: GDP by Type of Expenditure at Current Prices, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
(In millions of pula)						
Total consumption	6,698	7,393	8,212	9,293	11,647	14,009
General government	3,180	3,604	4,175	4,925	5,873	7,378
Central government	2,869	3,253	3,765	4,444	5,302	6,640
Local government	310	351	410	481	571	738
Private	3,518	3,789	4,037	4,368	5,774	6,631
Total investment	2,840	3,502	3,648	4,689	5,747	7,218
Gross fixed capital formation	2,750	3,074	3,547	4,177	5,047	5,712
Public	1,377	1,540	1,828	2,104	2,470	2,842
Private	1,372	1,534	1,718	2,073	2,577	2,870
Changes in stocks	91	428	102	512	700	1,506
Net exports of goods and services	1,434	1,357	2,342	3,521	3,035	1,555
Exports of goods and services	5,422	5,975	7,510	10,111	11,485	11,311
<i>Of which</i> : exports of goods	4,848	5,341	6,766	9,167	10,402	10,044
Imports of goods and services	-3,988	-4,618	-5,168	-6,590	-8,450	-9,756
<i>Of which</i> : imports of goods	-3,536	-4,002	-4,257	-5,953	-7,755	-8,952
Gross domestic savings 2/	4,274	4,859	5,990	8,210	8,781	8,774
Public	1,799	1,051	1,723	2,601	2,132	686
Private	2,475	3,808	4,266	5,609	6,650	8,088
Total GDP	10,972	12,252	14,202	17,503	20,428	22,783
(In percent of total GDP)						
Total consumption	61.0	60.3	57.8	53.1	57.0	61.5
General government	29.0	29.4	29.4	28.1	28.7	32.4
Central government	26.1	26.6	26.5	25.4	26.0	29.1
Local government	2.8	2.9	2.9	2.7	2.8	3.2
Private	32.1	30.9	28.4	25.0	28.3	29.1
Total investment	25.9	28.6	25.7	26.8	28.1	31.7
Gross fixed capital formation	25.1	25.1	12.9	12.0	12.1	12.5
Public	12.6	12.6	12.9	12.0	12.1	12.5
Private	12.5	12.5	12.1	11.8	12.6	12.6
Changes in stocks	0.8	3.5	0.7	2.9	3.4	6.6
Net exports of goods and services	13.1	11.1	16.5	20.1	14.9	6.8
Exports of goods and services	49.4	48.8	52.9	57.8	56.2	49.6
<i>Of which</i> : exports of goods	44.2	43.6	47.6	52.4	50.9	44.1
Imports of goods and services	-36.3	-37.7	-36.4	-37.7	-41.4	-42.8
<i>Of which</i> : imports of goods	-32.2	-32.7	-30.0	-34.0	-38.0	-39.3
Gross domestic savings 2/	39.0	39.7	42.2	46.9	43.0	38.5
Public	16.4	8.6	12.1	14.9	10.4	3.0
Private	22.6	31.1	30.0	32.0	32.6	35.5

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.

2/ GDP minus consumption.

Table 2. Botswana: GDP by Type of Expenditure at Constant 1985/86 Prices, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
(In millions of pula)						
Consumption	2,916	3,008	3,083	2,966	3,455	3,886
Public	1,381	1,421	1,491	1,605	1,771	2,055
Private	1,535	1,587	1,592	1,361	1,684	1,831
Gross investment	1,187	1,310	1,260	1,449	1,648	2,135
Public	577	575	642	600	776	841
Private (including changes in stocks)	610	735	619	849	872	1,294
Net exports of goods and services	565	475	766	1,059	826	145
Exports of goods and services	2,309	2,309	2,624	3,220	3,398	3,066
Imports of goods and services	-1,744	-1,834	-1,859	-2,160	-2,572	-2,921
Gross domestic expenditure	4,103	4,318	4,343	4,415	5,103	6,022
GDP at constant prices	4,668	4,793	5,109	5,474	5,929	6,166
(Annual percentage change)						
Consumption	3.2	3.1	2.5	-3.8	16.5	12.5
Public	7.5	2.8	4.9	7.6	10.4	16.0
Private	-0.5	3.4	0.3	-14.5	23.7	8.8
Gross investment	-5.5	10.4	-3.8	15.0	13.7	29.6
Public	-2.2	-0.4	11.6	-6.4	29.2	8.5
Private (including changes in stocks)	-8.5	20.6	-15.9	37.2	2.8	48.3
Net exports of goods and services	41.9	-15.9	61.2	38.4	-22.0	-82.5
Gross domestic expenditure	0.5	5.2	0.6	1.7	15.6	18.0
GDP at constant prices	4.2	2.7	6.6	7.2	8.3	4.0

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning in July.

Table 3. Botswana: GDP by Type of Economic Activity at Current Prices, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
(In millions of pula)						
Agriculture	484	508	550	603	635	691
Mining	3,922	4,075	4,846	6,469	7,682	8,242
Manufacturing	507	603	704	866	988	1,116
Water and electricity	241	271	272	316	366	428
Construction	715	779	883	1,017	1,153	1,358
Trade and hotels	1,708	2,096	2,491	3,020	3,528	4,097
Transport	408	489	561	687	792	933
Banking, insurance, and business services	812	1,010	1,167	1,354	1,529	1,809
General government	1,707	1,880	2,117	2,490	2,970	3,302
Social and personal services	470	541	611	682	786	809
GDP at current prices	10,972	12,252	14,202	17,503	20,428	22,783
(In percent of total GDP)						
Agriculture	4.4	4.1	3.9	3.4	3.1	3.0
Mining	35.7	33.3	34.1	37.0	37.6	36.2
Manufacturing	4.6	4.9	5.0	4.9	4.8	4.9
Water and electricity	2.2	2.2	1.9	1.8	1.8	1.9
Construction	6.5	6.4	6.2	5.8	5.6	6.0
Trade and hotels	15.6	17.1	17.5	17.3	17.3	18.0
Transport	3.7	4.0	4.0	3.9	3.9	4.1
Banking, insurance, and business services	7.4	8.2	8.2	7.7	7.5	7.9
General government	15.6	15.3	14.9	14.2	14.5	14.5
Social and personal services	4.3	4.4	4.3	3.9	3.8	3.5
GDP at current prices	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.



Table 4. Botswana: GDP by Type of Economic Activity at Constant 1985/86 Prices, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
(In millions of pula)						
Agriculture	199	190	189	189	186	188
Mining	1,585	1,562	1,716	1,816	1,988	1,948
Manufacturing	283	295	315	331	346	364
Water and electricity	122	129	128	134	147	161
Construction	261	265	272	288	300	330
Trade and hotels	737	794	852	943	1,022	1,104
Transport	213	226	240	271	296	325
Banking, insurance, and business services	332	360	382	406	433	476
General government	725	751	785	856	950	988
Social and personal services	211	220	230	242	260	282
GDP at constant prices	4,667	4,793	5,108	5,474	5,929	6,166
Nonmining private GDP at constant prices	2,357	2,480	2,607	2,802	2,991	3,229
(Annual percentage change)						
Agriculture	-0.9	-4.6	-0.4	-0.2	-1.2	1.0
Mining	5.4	-1.5	9.9	5.8	9.5	-2.0
Manufacturing	-0.6	4.3	6.5	5.2	4.7	5.0
Water and electricity	14.9	6.2	-0.9	4.9	9.8	9.0
Construction	3.7	1.6	2.7	5.6	4.3	10.0
Trade and hotels	5.5	7.8	7.3	10.6	8.4	8.0
Transport	1.3	6.4	5.9	12.9	9.3	10.0
Banking, insurance, and business services	4.9	8.6	6.0	6.4	6.5	10.0
General government	3.4	3.6	4.5	9.1	11.0	4.0
Social and personal services	1.8	4.3	4.5	5.0	7.7	8.0
GDP at constant prices	4.2	2.7	6.6	7.2	8.3	4.0
Nonmining private GDP at constant prices	3.6	5.2	5.1	7.5	6.7	8.0

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.

Table 5. Botswana: Beef Sales, 1993/94-1997/98 1/

	1993/94	1994/95	1995/96	1996/97	1997/98
<b>Boneless beef sales by category</b>					
	(In thousands of tons)				
Gross sales	23	20	19	19	21
	(In millions of pula)				
Gross sales	215	240	208	238	247
<b>Beef sales by country</b>					
	(In thousands of tons)				
Total	23	20	19	19	21
United Kingdom	6	6	5	8	12
South Africa	6	6	4	3	5
Other	11	8	10	8	5
	(In millions of pula)				
Total	215	240	208	238	247
United Kingdom	72	85	78	127	138
South Africa	39	36	34	28	35
Other	104	119	97	84	74
<b>Memorandum item:</b>					
	(In thousands)				
Total cattle processed	159	167	146	127	163

Source: Botswana Meat Commission.

1/ Year beginning October 1.

Table 6. Botswana: Mineral Production and Value, 1993-98

(In units indicated)

	1993	1994	1995	1996	1997	1998
<b>Diamonds</b>						
Volume (in millions of carats)	15	16	17	18	20	20
<b>Copper-nickel matte</b>						
Value (in millions of pula) 1/	338	444	558	736	759	456
Volume (in thousands of tons)	51	51	50	53	42	37
Unit value (in pula per ton)	6,662	8,628	11,184	13,793	18,021	12,343
<b>Coal</b>						
Value (in millions of pula) 1/	25	26	25	21	25	30
Volume (in thousands of tons)	890	900	898	765	775	924
Unit value (in pula per ton)	28	28	28	27	32	32
<b>Soda ash</b>						
Value (in millions of pula) 1/	41	81	98	52	132	137
Volume (in thousands of tons)	126	174	202	118	200	190
Unit value (in pula per ton)	322	464	487	442	658	720
<b>Salt</b>						
Value (in millions of pula) 1/	5	22	39	12	37	30
Volume (in thousands of tons)	98	186	392	108	185	140
Unit value (in pula per ton)	54	119	99	110	202	212

Source: Central Statistics Office.

1/ Estimated value of production.

Table 7. Botswana: Agricultural Producer Prices, 1993/94-1998/99 1/

(In pula per ton)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Sorghum	351	341	380	319	422	486
White maize	366	366	464	437	437	466
Pulses	645	645	695	737	797	783
Sunflower seeds	385	593	620	310	625	625
Shelled groundnuts	1,423	1,093	1,361	1,116	1,356	1,356

Source: Botswana Agricultural Marketing Board.

1/ Crop year beginning in April 1.

Table 8. Botswana: Formal Sector Employment, 1993-98 1/

(In thousands)

	1993	1994	1995	1996	1997	1998
Private and parastatal	145.5	149.4	146.0	147.7	134.2	139.5
<i>Of which</i>						
Private	131.8	136.2	132.6	134.0	120.4	125.9
Parastatal	13.7	13.2	13.4	13.7	13.8	13.6
Agriculture	5.9	5.3	4.5	4.5	3.7	4.0
Mining and quarrying	8.4	7.9	8.4	8.3	8.6	8.7
Manufacturing	22.1	21.7	23.4	23.7	23.8	24.0
Electricity and water	2.6	2.5	2.6	2.7	2.5	2.7
Construction	28.3	26.7	22.1	22.6	22.7	22.5
Commerce	40.7	45.9	44.9	45.7	40.1	43.1
Transport and communication	9.8	9.0	9.0	8.8	8.7	9.0
Finance and business services	16.8	17.6	17.5	17.6	17.0	16.9
Community and personal services	8.2	9.6	10.1	9.8	3.6	3.9
Education	2.6	3.1	3.6	4.0	3.4	4.8
General government	80.7	81.8	85.3	86.3	93.1	100.0
Central government	65.8	66.4	69.4	70.1	76.5	81.8
Local government	14.9	15.4	15.9	16.2	16.6	18.2
Total	226.2	231.2	231.3	234.0	227.3	239.5
Memorandum item:						
Migrant workers employed in South African mines	13.2	12.3	12.7	13.0	12.0	...

Sources: Central Statistics Office.

1/ Data for March.

Table 9. Botswana: Statutory Minimum Wage Rates, 1993-98 1/

	1993	1994	1995	1996	1997	1998
			(In thebes per hour)			
Manufacturing, service, and repair trades	125	125	135	145	159	175
Building, construction, exploration, and quarrying	125	125	135	145	159	175
Hotel, catering, and entertainment	125	125	135	145	159	175
Garages, motor trade, and road transport	125	125	135	145	159	175
Wholesale distributive trade	119	119	129	139	152	165
Retail distributive trade	112	112	121	131	143	155
Retail and wholesale nightwatchmen	104	104	113	123	135	150
Other nightwatchmen	104	104	113	123	135	150
			(Annual percentage change)			
Manufacturing, service, and repair trades	8.7	0.0	8.0	7.4	9.7	10.1
Building, construction, exploration, and quarrying	8.7	0.0	8.0	7.4	9.7	10.1
Hotel, catering, and entertainment	8.7	0.0	8.0	7.4	9.7	10.1
Garages, motor trade, and road transport	8.7	0.0	8.0	7.4	9.7	10.1
Wholesale distributive trade	9.2	0.0	8.4	7.8	9.4	8.6
Retail distributive trade	9.8	0.0	8.0	8.3	9.2	8.4
Retail and wholesale nightwatchmen	10.6	0.0	8.7	8.8	9.8	11.1
Other nightwatchmen	10.6	0.0	8.7	8.8	9.8	11.1

Source: Central Statistics Office.

Table 10. Botswana: Average Cash Earnings by Sector, 1993-98 1/

	1993	1994	1995	1996	1997	1998
(Estimated monthly cash earnings, in pula)						
Private and parastatal	611	695	678	815	871	1,067
Agriculture	183	233	276	267	291	346
Mining and quarrying	971	1,121	1,170	1,238	1,354	1,950
Manufacturing	492	551	570	617	633	632
Electricity and water	1,152	1,303	1,311	1,371	1,857	2,043
Construction	474	572	595	656	794	754
Commerce	449	469	565	604	623	867
Transport and communication	1,009	1,108	1,159	1,251	1,255	1,725
Finance and business services	967	1,253	1,250	1,301	1,348	1,593
Community and personal services	636	640	775	808	912	1,249
Education	1,397	1,533	1,594	1,617	1,889	1,983
Local government	773	833	877	947	964	1,190
Central government	1,006	1,016	1,067	1,134	1,170	1,566
Total	799	799	878	923	969	1,251
(Annual percentage change)						
Private and parastatal	14.0	13.7	-2.4	20.2	6.9	22.5
Agriculture	10.2	27.3	18.5	-3.3	9.0	18.9
Mining and quarrying	23.1	15.4	4.4	5.8	9.4	44.0
Manufacturing	8.6	12.0	3.4	8.2	2.6	-0.2
Electricity and water	18.0	13.1	0.6	4.6	35.4	10.0
Construction	21.9	20.7	4.0	10.3	21.0	-5.0
Commerce	4.4	4.5	20.5	6.9	3.1	39.2
Transport and communication	7.3	9.8	4.6	7.9	0.3	37.5
Finance and business services	12.1	29.6	-0.2	4.1	3.6	18.2
Community and personal services	20.9	0.6	21.1	4.3	12.9	37.0
Education	32.3	9.7	4.0	1.4	16.8	5.0
Local government	20.6	7.8	5.3	8.0	1.8	23.4
Central government	28.8	1.0	5.0	6.3	3.2	33.8
Total	31.6	0.0	9.9	5.1	5.0	29.1

Source: Central Statistics Office.

1/ Data are for March.

Table 11. Botswana: Consumer Price Index of Tradables and Nontradables, 1993:Q1-1999:Q2

	All Items	Nontradables	Tradables	Internal Terms of Trade 1/	All Items	Nontradables	Tradables	Internal Terms of Trade 1/
	(Period average, November 1996=100)				(Annual percentage change)			
Weights	100.0	24.7	75.3		100.0	24.7	75.3	
1993 I	68.8	66.1	69.2	104.6	16.3	17.3	15.8	-1.3
1993 II	71.2	69.0	71.2	103.3	14.2	16.1	13.1	-2.6
1993 III	73.5	75.5	72.7	96.2	13.9	26.1	10.8	-12.1
1993 IV	75.1	76.7	74.5	97.1	13.1	24.9	10.4	-11.6
1994 I	76.6	78.6	75.7	96.4	11.3	18.8	9.4	-7.9
1994 II	79.1	81.9	77.9	95.1	11.0	18.8	9.4	-7.9
1994 III	81.0	84.3	79.9	94.9	10.2	11.6	10.0	-1.4
1994 IV	82.4	84.8	81.7	96.3	9.8	10.6	9.7	-0.8
1995 I	84.8	87.4	84.2	96.3	10.7	11.2	11.1	-0.1
1995 II	87.2	89.3	86.7	97.1	10.2	9.0	11.3	2.1
1995 III	89.5	90.6	89.5	98.7	10.5	7.5	11.9	4.1
1995 IV	91.2	91.3	91.5	100.2	10.6	7.6	12.0	4.1
1996 I	93.6	94.0	93.7	99.7	10.3	7.6	11.4	3.5
1996 II	96.1	95.3	96.6	101.4	10.3	6.8	11.4	4.4
1996 III	98.5	97.5	99.0	101.6	10.0	7.6	10.7	2.9
1996 IV	100.0	99.8	100.1	100.3	9.7	9.3	9.5	0.1
1997 I	102.2	101.3	102.6	101.3	9.3	7.8	9.5	1.6
1997 II	105.9	102.6	106.1	103.4	10.2	7.6	9.8	2.0
1997 III	106.9	103.6	108.2	104.4	8.6	6.3	9.2	2.8
1997 IV	108.2	104.1	109.8	105.5	8.1	4.3	9.7	5.2
1998 I	109.6	106.1	111.0	104.6	7.2	4.7	8.2	3.3
1998 II	112.1	108.9	113.5	104.2	5.9	6.1	6.9	0.8
1998 III	113.4	110.6	114.5	103.5	6.0	6.8	5.9	-0.9
1998 IV	114.8	111.6	116.1	104.0	6.2	7.2	5.7	-1.4
1999 I	117.6	114.8	118.7	103.4	7.3	8.3	7.0	-1.2
1999 II	120.1	115.7	121.8	105.3	7.1	6.3	7.4	1.0

Sources: Central Statistics Office; and Fund staff estimates.

1/ Ratio of price index of tradables to price index of nontradables.



Table 12. Botswana: Cost of Living Indices by Commodity, January 1996-June 1999

(Twelve-month percentage change)

	Food, Beverages and Tobacco	Clothing and Footwear	Household Effects and Fuel	Other Goods	All Items
Weights	39.0	5.8	23.8	31.4	100.0
1996					
January	11.6	9.8	9.4	9.1	10.5
February	11.8	10.1	9.0	8.5	10.4
March	11.6	10.7	8.2	9.2	10.2
April	11.7	11.2	8.4	7.6	10.1
May	12.3	11.3	8.0	7.7	10.3
June	12.1	11.8	8.7	8.2	10.5
July	12.2	11.4	8.6	8.4	10.4
August	12.5	11.1	8.9	6.4	9.9
September	12.4	10.1	8.3	6.7	9.8
October	11.8	10.2	9.8	6.4	9.8
November	11.6	10.0	9.4	7.1	9.8
December	11.3	10.0	9.8	7.0	9.6
1997					
January	11.1	9.6	9.5	6.4	9.2
February	11.2	9.9	9.5	7.9	9.3
March	10.8	9.9	8.9	7.7	9.3
April	10.9	10.2	9.2	7.7	9.3
May	11.0	9.9	9.1	10.0	9.7
June	10.8	9.2	7.9	8.6	9.0
July	10.7	9.2	7.5	7.6	8.9
August	9.8	9.3	6.8	7.6	8.4
September	10.2	8.7	6.9	7.3	8.5
October	10.7	10.5	5.7	7.8	8.4
November	10.2	10.0	5.8	6.8	8.2
December	9.7	8.5	5.4	6.5	7.8
1998					
January	9.2	8.4	5.4	7.2	7.7
February	8.8	8.3	4.6	6.2	7.0
March	8.6	7.6	4.5	6.7	6.9
April	8.5	8.5	5.7	6.7	7.3
May	8.0	8.3	5.5	4.2	6.6
June	6.9	7.2	5.7	4.1	6.1
July	6.9	5.8	5.5	4.2	5.9
August	7.0	5.3	5.5	6.2	6.4
September	6.0	4.6	5.6	5.8	5.9
October	5.9	2.6	5.5	6.0	5.9
November	7.0	3.3	5.9	5.9	6.2
December	7.2	3.5	5.7	6.1	6.4
1999					
January	7.4	3.7	5.5	6.2	6.7
February	8.4	2.9	6.1	6.6	7.4
March	9.1	3.2	6.5	6.1	7.8
April	8.3	2.6	4.9	6.0	7.2
May	7.9	2.4	5.0	5.9	7.0
June	8.0	2.1	4.5	6.5	7.2

Source: Central Statistics Office.

Table 13. Botswana: Cost of Living Indices for Tradable and Nontradable Goods, January 1996-June 1999

(Twelve-month percentage change)

	Nontradables	Domestic Tradables	Imported Tradables	All Tradables	All Items
Weights	24.7	29.8	45.5	75.3	100.0
1996					
January	7.6	10.9	11.8	11.5	10.5
February	7.6	10.7	11.6	11.4	10.4
March	7.5	10.8	11.4	11.2	10.2
April	6.5	11.5	11.1	11.2	10.1
May	6.7	12.2	11.2	11.6	10.3
June	7.0	12.2	11.2	11.5	10.5
July	7.4	12.5	10.7	11.3	10.4
August	7.3	12.8	9.4	10.6	9.9
September	8.0	12.7	9.0	10.2	9.8
October	9.1	12.0	8.4	9.6	9.8
November	9.9	11.5	8.2	9.4	9.8
December	9.0	10.9	8.6	9.4	9.6
1997					
January	7.7	10.7	8.8	9.5	9.2
February	8.3	10.8	8.8	9.4	9.3
March	7.3	10.4	9.0	9.5	9.3
April	7.1	10.0	9.8	9.9	9.3
May	8.2	9.3	10.2	9.9	9.7
June	7.6	9.1	9.6	9.5	9.0
July	6.8	8.6	9.6	9.2	8.9
August	6.2	7.5	10.0	9.2	8.4
September	5.8	7.6	10.1	9.2	8.5
October	4.7	7.7	11.2	10.0	8.4
November	4.1	7.6	11.0	9.9	8.2
December	4.0	7.2	10.1	9.1	7.8
1998					
January	4.8	6.6	9.6	8.6	7.7
February	4.3	6.2	9.2	8.2	7.0
March	5.0	5.6	8.7	7.7	6.9
April	7.1	6.4	8.1	7.5	7.3
May	5.4	6.2	7.6	7.2	6.6
June	5.9	5.1	6.7	6.2	6.1
July	6.1	5.3	6.3	6.1	5.9
August	7.4	5.3	6.3	6.0	6.4
September	7.0	4.9	5.8	5.5	5.9
October	7.2	5.2	5.2	5.2	5.9
November	7.2	5.8	6.0	5.9	6.2
December	7.3	5.9	6.0	6.0	6.4
1999					
January	8.2	5.6	6.6	6.3	6.7
February	8.3	6.5	7.2	6.9	7.4
March	8.3	6.8	8.2	7.7	7.8
April	6.4	5.6	7.7	7.4	7.2
May	6.7	5.9	7.8	7.1	7.0
June	5.7	6.4	8.4	7.6	7.2

Source: Central Statistics Office.

Table 14. Botswana: Central Government Operations, 1993/94-1999/2000 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99			1999/00 Budget
						Original budget	Revised budget 2/	Prel.	
(In millions of pula)									
Total revenue and grants	5,359	4,472	5,464	7,395	8,281	9,060	8,271	7,654	10,475
Total revenue	5,173	4,397	5,427	7,312	8,169	8,967	8,113	7,520	10,308
Tax revenue	3,677	3,633	4,020	5,198	6,767	6,854	6,239	5,629	8,002
Mineral revenue	2,279	2,349	2,591	3,640	4,681	4,576	3,951	3,187	4,836
Trade and excise taxes 3/	822	712	829	896	1,186	1,298	1,265	1,262	1,973
General sales tax	137	169	219	248	328	346	381	408	438
Other	439	402	380	414	572	634	642	772	755
Nontax revenue	1,496	764	1,407	2,113	1,402	2,112	1,873	1,891	2,306
Interest	204	201	232	235	252	252	212	183	235
Property income	1,117	453	1,064	1,740	984	1,432	1,192	1,295	1,543
Other	175	111	112	138	166	428	469	413	527
Grants	187	76	37	83	112	94	158	134	168
Total expenditure and lending	4,481	4,277	5,194	6,092	7,406	8,864	9,882	8,832	10,876
Current expenditure	2,734	3,011	3,510	4,044	4,929	5,796	6,595	6,100	7,122
Wages and salaries	1,029	1,102	1,227	1,377	1,686	1,946	2,274	2,401	2,523
Interest	79	84	92	91	86	103	103	92	101
Other	1,626	1,825	2,191	2,576	3,156	3,746	4,218	3,606	4,498
Capital expenditure	1,558	1,378	1,672	2,240	2,696	3,621	3,333	2,890	4,330
Net lending	189	-112	13	-191	-218	125	-46	-158	-2
Primary balance (deficit -)	957	280	361	1,394	961	300	-1,508	-1,086	-300
Overall balance (deficit -)	878	196	270	1,302	875	197	-1,611	-1,179	-400
Financing	-878	-196	-270	-1,302	-875	-197	1,611	1,179	400
Foreign (net)	51	-22	-46	85	86	-104	6	12	-137
Drawing	142	101	67	230	234	44	154	177	28
Amortization	-91	-123	-113	-145	-148	-148	-148	-165	-165
Domestic	-930	-174	-224	-1,387	-961	-93	1,605	1,167	537
(In percent of GDP, unless otherwise indicated)									
Total revenue and grants	51.1	37.5	39.8	44.3	42.0	40.8	37.3	34.5	42.1
Total revenue	49.3	36.8	39.6	43.8	41.5	40.4	36.6	33.9	41.4
Tax revenue	35.1	30.4	29.3	31.2	34.4	30.9	28.1	25.4	32.2
Mineral revenue	21.7	19.7	18.9	21.8	23.8	20.6	17.8	14.4	19.4
Trade and excise taxes 3/	7.8	6.0	6.0	5.4	6.0	5.8	5.7	5.7	7.9
General sales tax	1.3	1.4	1.6	1.5	1.7	1.6	1.7	1.8	1.8
Other	4.2	3.4	2.8	2.5	2.9	2.9	2.9	3.5	3.0
Nontax revenue	14.3	6.4	10.3	12.7	7.1	9.5	8.4	8.5	9.3
Interest	1.9	1.7	1.7	1.4	1.3	1.1	1.0	0.8	0.9
Property income	10.6	3.8	7.8	10.4	5.0	6.5	5.4	5.8	6.2
Other	1.7	0.9	0.8	0.8	0.8	1.9	2.1	1.9	2.1
Grants	1.8	0.6	0.3	0.5	0.6	0.4	0.7	0.6	0.7
Total expenditure and lending	42.7	35.8	37.9	36.5	37.6	39.9	44.5	39.8	43.7
Current expenditure	26.1	25.2	25.6	24.2	25.0	26.1	29.7	27.5	28.6
Wages and salaries	9.8	9.2	8.9	8.3	8.6	8.8	10.2	10.8	10.1
Interest	0.8	0.7	0.7	0.5	0.4	0.5	0.5	0.4	0.4
Other	15.5	15.3	16.0	15.4	16.0	16.9	19.0	16.2	18.1
Capital expenditure	14.9	11.5	12.2	13.4	13.7	16.3	15.0	13.0	17.4
Net lending	1.8	-0.9	0.1	-1.1	-1.1	0.6	-0.2	-0.7	0.0
Primary balance (deficit -)	9.1	2.3	2.6	8.4	4.9	1.4	-6.8	-4.9	-1.2
Overall balance (deficit -)	8.4	1.6	2.0	7.8	4.4	0.9	-7.3	-5.3	-1.6
Financing	-8.4	-1.6	-2.0	-7.8	-4.4	-0.9	7.3	5.3	1.6
Foreign (net)	0.5	-0.2	-0.3	0.5	0.4	-0.5	0.0	0.1	-0.5
Drawing	1.4	0.8	0.5	1.4	1.2	0.2	0.7	0.8	0.1
Amortization	-0.9	-1.0	-0.8	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7
Domestic	-8.8	-1.5	-1.6	-8.3	-4.9	-0.4	7.2	5.3	2.2
Memorandum item:									
GDP (fiscal year, in millions of pula)	10,490	11,932	13,714	16,678	19,697	22,194	22,194	22,194	24,874

Sources: Ministry of Finance and Development Planning, and Fund staff estimates.

1/ Fiscal year beginning April 1.

2/ The revised budget includes the supplementary budgets of July 1998, November 1998, and February 1999.

3/ Trade and excise taxes are received from the revenue pool of the Southern African Customs Union (SACU).

Table 15. Botswana: Components of Central Government Revenue, 1993/94-1999/2000 1/

(In millions of pula)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99		1999/00
						Original budget	Revised budget 2/	Prel. Budget
Tax revenue	3,677	3,633	4,016	5,198	6,767	6,854	6,239	5,629
Mineral revenue	2,279	2,349	2,591	3,640	4,681	4,576	3,951	3,187
Trade and excise taxes 3/	822	712	829	896	1,186	1,298	1,265	1,262
General sales tax	137	169	219	248	328	346	381	408
Nonmineral income tax	421	387	357	385	537	600	607	438
Export duties	0	0	1	0	0	0	0	716
Taxes on property	6	4	4	6	7	6	5	0
Motor vehicle tax	4	7	14	15	18	18	20	5
Business and professional licenses	7	4	1	6	8	8	8	22
								9
Nontax revenue	1,496	764	1,411	2,113	1,402	2,112	1,873	1,891
Interest	204	201	232	235	252	252	212	183
Property income	1,117	453	1,064	1,740	984	1,432	1,192	1,295
Fees, charges, and reimbursements	128	93	103	112	133	403	443	1,543
Sale of fixed assets and land	47	18	13	26	32	25	26	493
								34
Grants	187	76	37	83	112	94	158	134
Recurrent	1	40	5	8	2	0	0	0
Development	185	35	32	75	110	94	158	168
Total revenue and grants	5,359	4,472	5,464	7,395	8,281	9,060	8,271	7,654
								10,475

Source: Ministry of Finance and Development Planning.

1/ Fiscal year beginning April 1.

2/ The revised budget includes the supplementary budgets of July 1998, November 1998, and February 1999.

3/ Trade and excise taxes are received from the revenue pool of the Southern African Customs Union (SACU).

Table 16. Botswana: Economic Classification of Central Government Expenditure, 1993/94-1999/2000 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99		1999/00 Prel. Budget	
						Original budget	Revised budget 2/		
(In millions of pula)									
Total expenditure and net lending	4,481	4,277	5,195	6,092	7,406	8,864	9,882	8,832	10,876
Current expenditure	2,734	3,011	3,510	4,044	4,928	5,796	6,595	6,100	7,122
Expenditure on goods and services	1,985	2,173	2,534	2,822	3,987	4,857	5,656	...	6,035
Wages and salaries	1,029	1,102	1,227	1,377	1,686	1,946	2,274	2,401	2,523
Other purchases of goods and services 3/	956	1,071	1,307	1,446	2,301	2,911	3,382	...	3,511
Interest payments	79	84	92	91	86	103	103	92	101
Subsidies and transfers	670	753	884	1,130	...	...	...	...	...
Pensions	...	60	403	131	185	...	...	...	...
Transfers to local authorities	313	358	403	472	568	711	711	...	820
Financial Assistance Policy grants	31	36	72	72	102	125	125	...	168
Other	...	299	320	455	...	...	...	...	...
Capital expenditure and net lending	1,748	1,266	1,685	2,048	2,478	3,068	3,287	2,732	3,753
Capital expenditure	1,558	1,378	1,672	2,240	2,696	3,087	3,333	2,890	3,756
Net lending	189	-112	13	-191	-218	-19	-46	-158	-2
Gross lending	281	103	113	104	68	59	59	...	72
Repayment	-92	-215	-101	-295	-286	-77	-105	...	-75
(In percent of total expenditure and net lending)									
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current expenditure	61.0	70.4	67.6	66.4	66.5	65.4	66.7	69.1	65.5
Expenditure on goods and services	44.3	50.8	48.8	46.3	53.8	54.8	57.2	...	55.5
Wages and salaries	23.0	25.8	23.6	22.6	22.8	22.0	23.0	27.2	23.2
Other purchases of goods and services 3/	21.3	25.1	25.2	23.7	31.1	32.8	34.2	...	32.3
Interest payments	1.8	2.0	1.8	1.5	1.2	1.2	1.0	1.0	0.9
Subsidies and transfers	14.9	17.6	17.0	18.6	...	...	...	...	...
Pensions	...	1.4	7.8	2.2	2.5	...	...	...	...
Transfers to local authorities	7.0	8.4	7.8	7.7	7.7	8.0	7.2	...	7.5
Financial Assistance Policy grants	0.7	0.8	1.4	1.2	1.4	1.4	1.3	...	1.5
Other	...	7.0	6.2	7.5	...	...	...	...	...
Capital expenditure and net lending	39.0	29.6	32.4	33.6	33.5	34.6	33.3	30.9	34.5
Capital expenditure	34.8	32.2	32.2	36.8	36.4	34.8	33.7	32.7	34.5
Net lending	4.2	-2.6	0.2	-3.1	-2.9	-0.2	-0.5	-1.8	0.0
Gross lending	6.3	2.4	2.2	1.7	0.9	0.7	0.6	...	0.7
Repayment	-2.1	-5.0	-1.9	-4.8	-3.9	-0.9	-1.1	...	-0.7

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

1/ Fiscal year beginning April 1.

2/ The revised budget includes the supplementary budgets of July 1998, November 1998, and February 1999.

3/ Includes subsidies and transfers from 1997/98 onwards.

Table 17. Botswana: Functional Classification of Central Government Expenditure, 1993/94 -1999/2000 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Budget	1999/00 Budget
(In millions of pula)							
General public services	738	821	976	1,164	1,344	1,909	2,213
General administration	590	659	791	911	1,039	1,425	1,545
Public order and safety	148	162	186	253	306	484	668
Defense	473	453	462	469	639	869	850
Social services	1,777	1,697	2,039	2,364	3,112	4,147	4,484
Education	816	938	1,167	1,518	1,842	2,364	2,438
Health	202	228	257	299	391	535	567
Housing and urban and regional development	535	416	406	386	746	902	1,039
Other community and social services	226	116	210	161	133	346	440
<i>Of which: food and social welfare programs</i>	77	68	83	96	...	...	...
Economic services	1,068	826	1,147	1,460	1,815	2,014	1,949
Agriculture, forestry, and fishing	217	253	283	514	333	442	469
Mining	118	89	247	60	85	197	131
Roads, other transport, and communications	353	260	278	421	566	614	597
Electricity and water supply	265	124	252	304	632	496	488
Commerce, industry, and other	116	100	87	161	199	266	265
Unallocated	426	480	567	636	706	947	1,098
Public debt interest	79	85	92	91	100	103	101
Transfers to local authorities	316	359	403	472	534	719	830
Financial assistance policy (FAP) grants	31	36	72	72	72	125	168
<b>Total</b>	<b>4,482</b>	<b>4,277</b>	<b>5,192</b>	<b>6,092</b>	<b>7,616</b>	<b>9,885</b>	<b>10,594</b>
(In percent of total)							
General public services	16.5	19.2	18.8	19.1	17.7	19.3	20.9
General administration	13.2	15.4	15.2	15.0	13.6	14.4	14.6
Public order and safety	3.3	3.8	3.6	4.2	4.0	4.9	6.3
Defense	10.6	10.6	8.9	7.7	8.4	8.8	8.0
Social services	39.7	39.7	39.3	38.8	40.9	41.9	42.3
Education	18.2	21.9	22.5	24.9	24.2	23.9	23.0
Health	4.5	5.3	4.9	4.9	5.1	5.4	5.3
Housing and urban and regional development	11.9	9.7	7.8	6.3	9.8	9.1	9.8
Other community and social services	5.0	2.7	4.0	2.6	1.7	3.5	4.2
<i>Of which: food and social welfare programs</i>	1.7	1.6	1.6	1.6	...	...	...
Economic services	23.8	19.3	22.1	24.0	23.8	20.4	18.4
Agriculture, forestry, and fishing	4.8	5.9	5.5	8.4	4.4	4.5	4.4
Mining	2.6	2.1	4.8	1.0	1.1	2.0	1.2
Roads, other transport, and communications	7.9	6.1	5.4	6.9	7.4	6.2	5.6
Electricity and water supply	5.9	2.9	4.9	5.0	8.3	5.0	4.6
Commerce, industry, and other	2.6	2.3	1.7	2.6	2.6	2.7	2.5
Unallocated	9.5	11.2	10.9	10.4	9.3	9.6	10.4
Public debt interest	1.8	2.0	1.8	1.5	1.3	1.0	0.9
Transfers to local authorities	7.1	8.4	7.8	7.8	7.0	7.3	7.8
Financial assistance policy (FAP) grants	0.7	0.8	1.4	1.2	0.9	1.3	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Finance and Development Planning.

1/ Fiscal year beginning April 1.

Table 18. Botswana: Consolidated Income Statement of Nonfinancial Public Enterprises, 1993/94-1997/98 1/

(In millions of pula, unless otherwise indicated)

	1993/94	1994/95	1995/96	1996/97	1997/98 2/ Est.
Operating revenues	974	1,024	1,104	1,175	1,283
Sales of goods and services	973	1,023	1,104	1,175	1,282
Subsidy from government	1	2	1	1	1
Operating expenses	726	780	870	891	956
Wages and salaries	207	218	237	235	255
Purchases of goods and services	395	388	432	444	508
Consumption of fixed capital	140	162	177	198	194
Taxes due in course of production	0	15	18	13	0
Change in inventories	-16	-3	6	1	-1
Operating surplus or deficit	248	244	234	285	327
Nonoperating revenues	58	66	69	109	78
Nonoperating expenses	166	219	231	222	122
Income before taxes	140	91	71	172	253
Direct taxes due	11	9	10	7	12
Income after tax	128	82	61	165	241
Distribution of income to government	24	31	10	29	29
Prior-year depreciation adjustment	1	-3	0	0	0
Retained earnings	103	54	51	136	142
Memorandum item:					
Operating balance (in percent of GDP)	2.1	1.8	1.4	1.4	1.5

Source: Bank of Botswana.

1/ Includes the Botswana Agricultural Marketing Board, the Botswana Livestock Development Corporation, the Botswana Housing Corporation, the Botswana Meat Commission, the Botswana Power Corporation, the Botswana Telecommunications Corporation, and the Botswana Water Utilities Corporation. Data cover fiscal year April-March, except for the Botswana Livestock Development Corporation, for which data cover fiscal year January-December, and the Botswana Meat Commission, for which data cover fiscal year October-September.

2/ The data for 1997/98 exclude the Botswana Housing Corporation.

Table 19. Botswana: Monetary Survey, 1993-99

	1993			1994			1995			1996			1997			1998			1999		
	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.	Jan.	Mar.	Jun.
Net foreign assets	10,525	12,027	19,392	13,346	19,392	22,303	23,940	26,363	27,919	27,728	27,827	27,725	26,485	26,478	26,499	26,485	26,478	26,499	26,485	26,478	26,499
Bank of Botswana	10,509	11,961	19,091	13,249	19,091	21,619	23,067	25,280	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643	26,643
Commercial banks	17	66	301	97	301	684	874	1,082	1,276	1,243	1,350	1,227	1,243	1,350	1,227	1,243	1,350	1,227	1,243	1,350	1,227
Net domestic credit	-4,066	-4,874	-5,446	-4,701	-5,446	-13,500	-15,069	-16,042	-16,419	-16,277	-15,907	-15,481	-19,227	-19,093	-18,928	-19,227	-19,093	-18,928	-19,227	-19,093	-18,928
Net claims on the government	-5,626	-6,717	-7,242	-6,477	-7,242	-15,398	-17,078	-18,346	-19,083	-19,212	-19,083	-18,907	-19,212	-19,083	-18,907	-19,212	-19,083	-18,907	-19,212	-19,083	-18,907
Bank of Botswana	-5,598	-6,705	-7,204	-6,460	-7,204	-15,364	-17,054	-18,310	-19,050	-19,212	-19,050	-18,907	-19,212	-19,050	-18,907	-19,212	-19,050	-18,907	-19,212	-19,050	-18,907
Commercial banks	-28	-12	-39	-17	-39	-34	-24	-36	-33	-15	-3	-21	-15	-3	-21	-15	-3	-21	-15	-3	-21
Claims on nongovernment	1,560	1,843	1,797	1,776	1,797	1,898	2,008	2,304	2,665	2,951	3,186	3,447	2,67	320	351	267	320	351	267	320	351
Claims on parastatals	94	148	70	95	70	61	52	139	203	268	286	3096	2,684	2,866	3,096	2,684	2,866	3,096	2,684	2,866	3,096
Claims on the private sector	1,466	1,695	1,726	1,682	1,726	1,836	1,956	2,165	2,462	2,684	2,866	3,096	2,684	2,866	3,096	2,684	2,866	3,096	2,684	2,866	3,096
Other items (net)	-4,373	-4,795	-11,099	-6,235	-11,099	-5,243	-4,943	-5,921	-6,795	-6,693	-6,947	-6,990	-7,603	-7,982	-7,816	-7,603	-7,982	-7,816	-7,603	-7,982	-7,816
Of which	-6,111	-7,504	-14,881	-8,547	-14,881	-5,335	-5,395	-6,972	-7,656	-7,603	-7,982	-7,816	-7,603	-7,982	-7,816	-7,603	-7,982	-7,816	-7,603	-7,982	-7,816
Valuation adjustment 1/																					
Money plus quasi-money	2,086	2,358	2,848	2,410	2,848	3,560	3,928	4,400	4,706	4,759	4,973	5,255	4,759	4,973	5,255	4,759	4,973	5,255	4,759	4,973	5,255
Money	700	785	886	818	886	969	1,177	1,233	1,319	1,320	1,530	1,481	1,320	1,530	1,481	1,320	1,530	1,481	1,320	1,530	1,481
Quasi money 2/	1,386	1,573	1,962	1,592	1,962	2,591	2,752	3,168	3,386	3,439	3,443	3,774	3,439	3,443	3,774	3,439	3,443	3,774	3,439	3,443	3,774
Memorandum items:																					
Broad money (M3)	2,589	2,880	4,489	3,537	4,489	5,316	5,569	6,098	6,603	6,679	6,906	7,271	6,679	6,906	7,271	6,679	6,906	7,271	6,679	6,906	7,271
Of which																					
Bank of Botswana certificates	502	522	1,641	1,127	1,641	1,756	1,641	1,697	1,898	1,920	1,933	2,016	1,920	1,933	2,016	1,920	1,933	2,016	1,920	1,933	2,016
Broad money (M4)	3,224	3,701	4,785	3,756	4,785	5,798	6,121	6,760	7,545	7,618	7,914	8,291	7,618	7,914	8,291	7,618	7,914	8,291	7,618	7,914	8,291
Of which																					
Foreign currency accounts	67	97	296	219	296	482	552	662	942	939	1,008	1,020	939	1,008	1,020	939	1,008	1,020	939	1,008	1,020
Annual change as a percent of beginning-of-year money stock)																					
Net foreign assets 3/	-7.0	5.2	11.7	11.7	11.7	437.4	...	...	...	88.7	...	...	...	...	...	...	...	...	...	...	...
Net domestic credit	-20.3	-38.8	7.4	-30.9	-30.9	-282.8	...	...	...	-78.0	...	...	...	...	...	...	...	...	...	...	...
Claims on the government (net)	-29.1	-52.3	10.2	-31.7	-31.7	-286.4	...	...	...	-107.6	...	...	...	...	...	...	...	...	...	...	...
Claims on the private sector	7.8	10.9	-0.5	1.9	1.9	3.9	...	...	...	33.7	...	...	...	...	...	...	...	...	...	...	...
Money plus quasi-money	12.4	13.0	18.1	2.2	18.1	25.0	...	...	...	23.0	...	...	...	...	...	...	...	...	...	...	...
Other items (net)	39.7	46.6	-16.9	61.0	61.0	-129.6	...	...	...	23.0	...	...	...	...	...	...	...	...	...	...	...

Sources: Bank of Botswana, and Fund staff estimates.

1/ Equivalent to the revaluation profit (loss) for the year reported on the books of the Bank of Botswana.  
 2/ Includes private deposits at the Bank of Botswana but excludes holdings of Bank of Botswana certificates.  
 3/ Excludes the effect of foreign assets valuation adjustments.



Table 20. Botswana: Summary Accounts of Bank of Botswana, 1993-99 1/

(In millions of pula; end of period)

	1993		1994		1995		1996		1997		1998			1999		
											Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Foreign assets	10,509	11,961	13,249	19,091	21,619	23,067	25,280	26,643	26,485	26,478	26,499					
Balances at foreign banks 2/	2,506	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Treasury bills and securities 2/	7,857	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pula Fund	0	2,810	4,248	5,394	17,654	19,753	22,369	23,191	23,562	24,419	24,348					
Liquidity portfolio	0	7,702	7,540	12,690	3,721	3,033	2,629	3,147	2,545	1,686	1,803					
Matched assets/liability portfolio 3/	0	1,283	1,258	0	0	0	0	0	0	0	0					
Fund accounts	146	166	203	239	243	280	283	305	378	373	348					
Holding of SDRs	86	101	119	141	153	154	156	160	205	167	165					
Reserve position	59	65	85	97	90	127	127	146	173	206	182					
Loans and advances to financial institutions	0	0	0	0	0	0	0	0	0	0	0					
Fixed assets	50	84	97	99	100	101	101	103	108	113	117					
Other assets	15	18	24	17	12	106	23	276	19	17	25					
Assets = liabilities	10,575	12,062	13,369	19,206	21,730	23,274	25,404	27,022	26,612	26,608	26,641					
Reserve money	395	392	405	453	572	661	570	960	707	844	657					
Currency in circulation	275	303	319	356	417	385	421	460	498	484	495					
Currency outside banks	180	195	223	247	276	298	328	365	353	367	385					
Pula currency in banks	95	108	96	109	141	88	93	96	145	117	110					
Bankers' deposits	120	89	87	98	155	276	150	499	210	360	163					
Private sector time deposits	36	46	48	47	63	32	27	31	26	57	55					
Bank of Botswana certificates outstanding	1,203	1,451	1,954	2,816	3,308	3,210	3,459	3,629	3,246	2,997	3,556					
Bankers	701	928	1,460	1,847	2,424	2,461	2,688	2,539	2,258	2,162	2,662					
Others	502	522	504	969	884	749	771	1,090	988	835	894					
Government deposits	5,598	6,705	6,460	7,204	15,364	17,054	18,310	19,050	19,212	19,090	18,907					
Capital and reserves	2,152	2,923	3,320	6,086	1,866	2,155	2,874	3,165	3,202	3,366	3,236					
Paid-up capital	4	4	4	4	25	25	25	25	25	25	25					
General reserve	226	234	272	327	1,600	1,600	1,600	1,600	1,600	1,600	1,600					
Revaluation reserve	1,922	2,685	3,045	5,755	241	530	1,249	1,540	1,577	1,741	1,611					
Other liabilities	1,191	547	1,172	1,833	558	162	164	187	219	254	230					

Source: Bank of Botswana.

1/ Effective January 1997, in accordance with the new Bank of Botswana Act, the balance sheet was reclassified resulting in adjustments in the Pula Fund and government deposits, with corresponding adjustment in the liquidity portfolio and revaluation reserves.

2/ Effective January 1994, balances with foreign banks, as well as treasury bills and securities, have been broken down into "Pula Fund," "Liquidity portfolio," and "Matched assets/liability portfolio."

3/ Effective December 1996, the item "Matched assets/liability portfolio" has been discontinued.

Table 21. Botswana: Summary Accounts of Commercial Banks, 1993-99

(In millions of pula; end of period)

	1993	1994	1995	1996	1997	1998			1999	
						Mar.	Jun.	Sep.	Dec.	Mar.
Commercial bank reserves	204	166	173	198	286	322	279	327	346	476
Cash	105	114	103	130	157	122	102	107	160	132
Balances at Bank of Botswana	99	53	70	68	129	200	177	220	186	345
Foreign assets	146	166	189	432	790	1,030	1,287	1,425	1,400	1,581
Credit to domestic economy	1,563	1,847	1,779	1,799	1,900	2,011	2,314	2,675	2,975	3,204
Claims on local governments	3	4	3	2	2	3	10	10	14	18
Claims on parastatals	94	148	95	71	61	52	139	203	267	320
Claims on private sector	1,466	1,695	1,682	1,727	1,836	1,956	2,164	2,462	2,693	2,866
<i>Of which</i>										
Claims on households	604	647	782	850	943	1,003	1,069	1,240	1,380	1,459
Other assets	735	1,191	1,582	2,158	1,803	1,950	2,115	2,056	1,789	1,503
Fixed assets	120	112	93	111	113	113	113	118	129	131
Others 1/	615	1,079	1,489	2,048	1,689	1,837	2,002	1,938	1,659	1,372
Assets = liabilities	2,648	3,370	3,723	4,587	4,778	5,312	5,994	6,484	6,508	6,764
Demand deposits of the public	1,211	1,424	1,667	2,064	2,663	3,106	3,608	4,016	4,087	4,140
Time and savings deposits	795	794	779	868	1,143	1,122	1,161	1,315	1,308	1,375
Savings deposits	337	349	344	379	422	436	445	479	500	521
Time deposits	457	445	435	489	721	686	716	836	808	855
Liabilities to other banks	68	79	76	118	112	187	182	112	126	194
Liabilities to Bank of Botswana	0	3	0	0	2	0	0	2	0	0
Government deposits	31	16	19	40	35	27	46	43	29	21
Capital and reserves	244	308	337	402	464	490	536	536	568	609
Other liabilities	299	746	845	1,094	358	380	462	459	391	426

Source: Bank of Botswana.

1/ Comprises other investments: balances due from domestic banks, bills purchased and discounted, Bank of Botswana certificates, and other unclassified assets.

Table 22. Botswana: Selected Financial Ratios and Aggregates of Commercial Banks, 1993-99

(In millions of pula, unless otherwise indicated; end of period)

	1993	1994	1995	1996	1997	1998			1999
						Mar.	Jun.	Sep.	
Liquid assets 1/									
Required	389	435	493	263	330	352	374	407	449
Actual	794	787	1,114	1,504	1,960	2,030	2,276	2,288	1,917
Excess	405	351	621	1,241	1,630	1,678	1,902	1,882	1,468
Ratio of actual to required	2.0	1.8	2.3	5.7	5.9	5.8	6.1	5.6	4.3
Primary reserves 2/									
Required	91	71	80	86	107	114	122	132	146
Actual	99	53	70	68	129	200	177	220	186
Excess	8	-18	-10	-18	22	86	56	88	40
Ratio of actual to required	1.1	0.7	0.9	0.8	1.2	1.8	1.5	1.7	1.3
Deposit liabilities	2,006	2,218	2,465	2,972	3,841	4,255	4,815	5,374	5,424
Credit	1,612	1,847	1,779	1,799	1,900	2,011	2,314	2,675	2,965
Ratio of credit to deposit liabilities	0.8	0.8	0.7	0.6	0.5	0.5	0.5	0.5	0.5

Source: Bank of Botswana.

1/ Required liquid assets are 10 percent of commercial banks' daily average deposit balances. Eligible liquid assets include cash, current account balance with the Bank of Botswana (BoB) in excess of the primary required reserve, balances due from domestic banks, foreign notes and coins, Bank of Botswana certificate and private sector bills eligible for discount at the BoB.

2/ Primary required reserves, consisting of current account balances with the BoB, are 3.25 percent of average daily deposit balances.

Table 23. Botswana: Selected Interest Rates, 1993- 99

(In percent, end of period)

	1993	1994	1995	1996	1997	1998	1999 March
<b>Bank of Botswana</b>							
Lending rate (bank rate)	14.25	13.50	13.00	13.00	12.50	12.50	13.25
<b>Public Debt Service Fund 1/</b>							
Financial parastatals	12.10	12.10	12.10	12.10	12.10	12.10	...
Nonfinancial parastatals	14.60	14.60	14.60	14.60	14.60	14.60	...
<b>Commercial banks</b>							
Deposit rates							
Savings accounts	12.25	9.50	5.75	7.69	7.59	7.09	7.09
Call deposits	12.50	10.50	9.25	9.13	9.25	9.06	9.06
31 days' notice	12.50	12.40	9.50	8.75	8.75	8.13	8.63
88 days' notice	12.50	12.40	9.65	9.56	9.56	8.54	8.81
Fixed deposits							
6 months	13.50	11.80	10.53	10.02	9.76	9.03	9.03
12 months	14.00	12.00	10.50	10.28	9.91	9.13	9.13
Prime lending rate	15.00	14.50	14.50	14.50	14.00	14.00	14.25
<b>Botswana Building Society</b>							
Deposit rates							
Indefinite period paid-up shares	11.50	11.50	10.50	10.00	10.00	9.00	7.50
Subscription shares	11.00	11.00	10.00	9.00	9.50	8.00	7.00
Fixed-time deposits							
Ordinary savings accounts	2.00	2.00	2.00	2.00	2.50	2.00	1.50
Special savings accounts	11.00	11.00	8.00	8.00	8.00	7.00	6.00
Lending rates							
Mortgage loans 2/	15.00	15.00	15.00	14.50	14.50	14.00	14.00
Short-term loans 3/	16.50	16.50	17.50	17.50	17.50	17.00	17.00
<b>Botswana Savings Bank</b>							
Ordinary savings accounts	5.00	3.50	3.50	3.50	3.50	3.50	3.50
Special savings accounts	9.00	6.50	6.50	7.50	7.50	7.50	7.50

Source: Bank of Botswana.

1/ In 1991, a two-tier rate structure was introduced, with the lower rate applying to financial parastatals and the higher rate to nonfinancial parastatals.

2/ Loans over P 50,000 are charged an additional percentage point.

3/ Interest rates on short-term loans vary according to the security offered by the borrower.





Table 26. Botswana: Auctions of Bank of Botswana Certificates, January 1996-February 1999 1/

	Allotted (In millions of pula)	Reserved for Bank of Botswana	Stop-Out Price 2/ (In pula)	Interest Rate (In percent)	
				Simple	Effective
1996					
January	0.0	0.0	0.0	0.0	0.0
February	257.6	7.5	97.1	11.9	12.4
March	710.7	179.3	94.0	12.3	12.7
April	260.0	0.0	93.8	12.3	12.6
May	455.0	0.0	91.4	12.7	12.9
June	497.5	2.6	96.0	12.0	12.5
July	420.0	0.0	92.8	12.5	12.8
August	449.0	11.5	90.0	13.0	13.1
September	567.3	22.7	91.6	12.8	13.0
October	843.0	0.0	90.4	13.0	13.1
November	0.0	0.0	0.0	0.0	0.0
December	636.1	0.0	90.6	12.9	13.1
1997					
January	300.0	0.0	88.3	13.3	13.3
February	0.0	0.0	0.0	0.0	0.0
March	490.7	49.4	92.9	12.3	12.5
April	125.0	0.0	93.4	12.2	12.5
May	429.0	111.0	94.1	12.1	12.5
June	794.0	124.3	94.5	12.1	12.5
July	366.6	15.5	93.9	12.3	12.6
August	144.7	15.3	91.5	12.5	12.6
September	724.3	36.7	93.1	12.2	12.4
October	529.9	196.1	92.9	12.2	12.4
November	397.0	0.0	93.9	11.9	12.2
December	521.3	78.7	93.0	12.0	12.2
1998					
January	592.1	207.9	94.8	11.1	11.4
February	445.5	89.5	96.9	10.9	11.3
March	243.8	256.2	96.0	10.4	10.7
April	411.9	0.0	95.0	10.3	10.6
May	247.4	252.7	95.3	10.1	10.4
June	339.7	28.3	96.2	10.2	10.5
July	439.0	0.0	95.0	10.2	10.4
August	0.0	0.0	0.0	0.0	0.0
September	1,493.3	184.7	94.6	10.6	10.9
October	457.8	76.2	94.1	10.9	11.1
November	431.4	158.7	95.7	10.7	11.0
December	0.0	0.0	0.0	0.0	0.0
1999					
January	452.7	124.3	92.1	11.5	11.7
February	546.1	119.9	94.3	10.8	11.6

Sources: Bank of Botswana.

1/ In any month with more than one auction, the stop-out price and interest rates are arithmetic averages.

2/ The stop-out price is the price below which no bid for BoBCs will be entertained by the Bank of Botswana.

Table 27. Botswana: Value of Outstanding Bank of Botswana Certificates, January 1996-April 1999 1/

(In millions of pula; end of period)

	Commercial Banks	Other Financial Institutions	Other Private Sector	Total
<b>1996</b>				
January	1,481	15	444	1,941
February	1,465	15	396	1,876
March	1,505	16	458	1,978
April	1,625	15	512	2,152
May	1,793	18	592	2,403
June	1,693	19	691	2,403
July	1,766	19	601	2,386
August	1,751	19	676	2,446
September	1,718	22	743	2,482
October	1,857	22	809	2,688
November	1,889	25	773	2,687
December	1,847	28	941	2,816
<b>1997</b>				
January	1,999	29	849	2,876
February	2,033	30	893	2,956
March	1,982	30	1,024	3,036
April	2,151	32	952	3,135
May	2,271	31	1,012	3,315
June	2,226	31	1,115	3,372
July	2,273	34	700	3,007
August	2,186	34	775	2,995
September	2,357	35	871	3,263
October	2,489	38	735	3,262
November	2,546	36	873	3,455
December	2,424	37	848	3,308
<b>1998</b>				
January	2,681	40	779	3,500
February	2,675	41	814	3,530
March	2,461	42	708	3,210
April	2,619	41	480	3,140
May	2,727	41	599	3,366
June	2,688	43	728	3,459
July	2,514	44	644	3,202
August	2,459	45	812	3,316
September	2,539	39	1,051	3,629
October	2,461	39	891	3,391
November	2,343	42	884	3,268
December	2,258	44	945	3,246
<b>1999</b>				
January	2,243	45	911	3,199
February	2,309	47	1,002	3,358
March	2,162	52	783	2,997
April	2,532	51	793	3,376

Sources: Bank of Botswana, *Annual Report* and *Financial Statistics*.

1/ Based on the discounted value.



Table 28. Botswana: Balance of Payments, 1993-98 1/

(In millions of U.S. dollars, unless otherwise indicated)

	1993	1994	1995	1996	1997	1998 Est.
Current account balance	427	212	300	495	721	55
Trade balance	267	510	555	750	895	142
Exports, f.o.b.	1,722	1,874	2,160	2,218	2,820	2,132
<i>Of which</i>						
Diamonds	1,379	1,384	1,437	1,721	2,095	1,477
Vehicles and parts	38	112	345	345	324	331
Imports, f.o.b.	-1,455	-1,364	-1,605	-1,468	-1,924	-1,990
<i>Of which</i>						
Food	-260	-240	-256	-248	-253	-261
Chemical and rubber products	-134	-132	-148	-150	-175	-181
Metal and metal products	-148	-128	-139	-129	-205	-212
Machinery and electrical equipment	-252	-240	-252	-236	-339	-351
Vehicle and transport equipment	-193	-164	-299	-207	-385	-398
Services	-134	-136	-184	-181	-230	-240
Transportation	-131	-129	-149	-140	-175	-197
Travel	41	48	17	16	43	54
Other services	-45	-54	-52	-57	-99	-98
Income	294	-224	-32	-253	-145	-82
Compensation of employees	14	16	13	-14	-10	-12
Investment income	279	-240	-46	-239	-134	-70
<i>Of which</i>						
Earnings on reserves	458	136	360	438	545	528
Current transfers	1	62	-39	179	201	236
<i>Of which</i>						
Southern African Customs Union (SACU)	...	...	176	176	237	252
Capital and financial account	45	60	-19	49	23	-36
Capital account	85	19	14	6	17	18
Financial account	-40	41	-34	42	6	-54
Direct investment	-296	-24	30	72	104	167
Portfolio investment	0	0	-31	-5	-33	-57
Other investment	256	65	-33	-25	-65	-164
<i>Of which</i>						
Net government long-term borrowing	67	6	-12	-20	51	-39
Other net private long-term borrowing	45	62	32	32	-13	87
Short-term borrowing	81	-19	36	58	71	62
Reserve assets (increase -) 2/	-804	-537	-465	-1,752	-696	-1,152
Net errors and omissions 2/	332	265	185	1,209	-48	1,133
Memorandum items:						
Current account balance (in percent of GDP)	10.3	4.9	6.3	10.4	13.9	1.1
Trade balance (in percent of GDP)	6.5	11.8	11.6	15.7	17.2	2.8
End-of-year gross official reserves (in months of imports of goods and services)	4,097 27.6	4,401 31.3	4,695 27.5	5,238 34.7	5,675 28.8	5,941 29.1
Exchange rates						
U.S. dollars per pula (period average)	0.41	0.37	0.36	0.30	0.27	0.24
U.S. dollars per pula (end of period)	0.39	0.37	0.35	0.27	0.26	0.22

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

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

2/ Includes valuation adjustment.

Table 29. Botswana: Value of Principal Exports and Imports, 1993-98

	1993	1994	1995	1996	1997	1998
(In millions of U.S. dollars)						
Diamonds	1,379	1,384	1,437	1,721	2,095	1,477
Nondiamond	401	465	706	728	751	729
Meat	66	64	65	62	63	79
Copper nickel	91	96	118	134	127	61
Textiles	39	66	53	59	68	39
Soda ash	21	14	8	21	30	32
Vehicles	38	112	345	345	324	331
Other	147	113	117	107	138	187
<b>Total exports, f.o.b.</b>	<b>1,780</b>	<b>1,849</b>	<b>2,143</b>	<b>2,449</b>	<b>2,846</b>	<b>2,206</b>
Food, beverages, and tobacco	315	288	305	292	297	306
Wood and paper products	96	95	145	126	140	144
Textile and footwear	128	146	144	129	146	150
Chemical and rubber products	163	159	177	176	205	211
Fuel	113	93	98	110	127	125
Metal and metal products	179	153	166	152	241	249
Machinery and electrical equipment	307	288	300	278	398	410
Vehicle and transport equipment	235	197	357	243	452	465
Other goods	227	218	222	220	253	265
<b>Total imports, c.i.f.</b>	<b>1,768</b>	<b>1,637</b>	<b>1,914</b>	<b>1,727</b>	<b>2,260</b>	<b>2,326</b>
(In percent of total)						
Diamonds	77	75	67	70	74	67
Nondiamond	23	25	33	30	26	33
Meat	4	3	3	3	2	4
Copper nickel	5	5	6	5	4	3
Textiles	2	4	2	2	2	2
Soda ash	1	1	0	1	1	1
Vehicles	2	6	16	14	11	15
Other	8	6	5	4	5	8
<b>Total exports, f.o.b.</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>101</b>	<b>102</b>	<b>103</b>
Food, beverages, and tobacco	18	18	16	17	13	13
Wood and paper products	5	6	8	7	6	6
Textile and footwear	7	9	8	7	6	6
Chemical and rubber products	9	10	9	10	9	9
Fuel	6	6	5	6	6	5
Metal and metal products	10	9	9	9	11	11
Machinery and electrical equipment	17	18	16	16	18	18
Vehicle and transport equipment	13	12	19	14	20	20
Other goods	13	13	12	13	11	11
<b>Total imports, c.i.f.</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Botswana authorities.

Table 30. Botswana: External Trade Indices (in U.S. Dollar Terms), 1993-98

	1993	1994	1995	1996	1997	1998
	(Index, 1990=100)					
Export value index	99.8	103.7	120.1	137.3	159.5	123.7
Export volume index	85.7	101.1	118.6	123.7	144.7	110.1
Export price index	116.5	102.6	101.3	111.0	110.3	112.4
Import value index	90.9	84.2	98.4	88.8	116.2	119.7
Import volume index	109.4	104.8	120.7	118.6	159.8	183.1
Import price index	83.1	80.3	81.5	74.9	72.7	65.4
Terms of trade	140.2	127.8	124.2	148.2	151.7	171.9
	(Annual percentage change)					
Export value index	2.2	3.9	15.9	14.3	16.2	-22.5
Export volume index	-10.7	18.0	17.4	4.3	17.0	-23.9
Export price index	14.4	-11.9	-1.3	9.6	-0.6	1.9
Import value index	-6.0	-7.4	16.9	-9.8	30.8	3.0
Import volume index	2.9	-4.2	15.1	-1.8	34.8	14.6
Import price index	-8.7	-3.3	1.5	-8.1	-3.0	-10.1
Terms of trade	25.3	-8.9	-2.8	19.3	2.4	13.3

Source: Botswana authorities; and Fund staff estimates.

Table 31. Botswana: Direction of Trade, 1993-98

	1993	1994	1995	1996	1997	1998 Est.
(In millions of pula)						
Exports, f.o.b.	4,312	4,965	5,942	8,142	10,391	9,324
Southern African Customs Union (SACU)	379	691	1,277	1,490	1,485	1,333
Zimbabwe	135	134	182	251	383	343
Other Africa	57	49	49	51	114	102
United Kingdom	639	1,245	2,223	4,424	5,840	5,240
Other Europe	3,083	2,801	2,147	1,827	2,444	2,193
United States	14	35	52	78	102	91
All other	4	10	11	22	23	21
Imports, c.i.f.	4,285	4,407	5,307	5,735	8,256	9,839
SACU	3,541	3,437	3,925	4,474	5,982	6,972
Zimbabwe	196	259	293	329	368	418
Other Africa	17	23	18	23	38	61
United Kingdom	112	110	135	147	163	161
Other Europe	192	260	319	241	580	915
Korea, Republic of	...	92	378	250	785	699
United States	141	83	107	74	89	152
All other	85	144	132	196	251	460
(In percent of total)						
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
Southern African Customs Union (SACU)	8.8	13.9	21.5	18.3	14.3	14.3
Zimbabwe	3.1	2.7	3.1	3.1	3.7	3.7
Other Africa	1.3	1.0	0.8	0.6	1.1	1.1
United Kingdom	14.8	25.1	37.4	54.3	56.2	56.2
Other Europe	71.5	56.4	36.1	22.4	23.5	23.5
United States	0.3	0.7	0.9	1.0	1.0	1.0
All other	0.1	0.2	0.2	0.3	0.2	0.2
Imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0
SACU	82.6	78.0	74.0	78.0	72.5	70.9
Zimbabwe	4.6	5.9	5.5	5.7	4.5	4.2
Other Africa	0.4	0.5	0.3	0.4	0.5	0.6
United Kingdom	2.6	2.5	2.5	2.6	2.0	1.6
Other Europe	4.5	5.9	6.0	4.2	7.0	9.3
Korea, Republic of	...	2.1	7.1	4.4	9.5	7.1
United States	3.3	1.9	2.0	1.3	1.1	1.5
All other	2.0	3.3	2.5	3.4	3.0	4.7

Sources: Customs and Excise Department; and Fund staff estimates.

Table 32. Botswana: Public Sector External Debt, 1993-98

	1993	1994	1995	1996	1997	1998
(In millions of U.S. dollars; end of period)						
Total external public debt 1/	613	620	619	477	478	483
Bilateral loans	137	161	167	128	112	114
United States	27	26	26	25	24	23
United Kingdom	24	22	18	17	0	0
China	16	40	47	13	20	18
France	1	1	2	1	1	1
Belgium	1	1	2	1	1	1
Kuwait	14	14	18	14	13	11
Germany	1	1	0	0	0	0
Nigeria	7	7	6	7	7	6
Japan	39	44	42	45	43	53
Saudi Arabia	6	5	5	3	3	2
Multilateral loans	464	450	447	348	366	368
African Development Bank	165	165	150	141	127	123
African Development Fund	85	94	96	82	80	86
Arab Bank for Economic Development in Africa	14	20	23	21	19	19
European Economic Community	21	18	33	31	30	33
European Investment Bank	39	26	37	6	44	52
International Bank for Reconstruction and Development	92	77	60	31	20	13
International Development Association	12	12	12	11	11	10
International Fund for Agriculture Development	2	2	2	2	1	1
Nordic Development Fund	2	4	5	5	5	5
Nordic Investment Bank	13	13	11	3	17	16
Organization of Petroleum Exporting Countries	7	8	9	8	7	6
UN Capital Development Fund	11	10	8	6	4	3
Commercial banks	8	5	3	1	0	0
Export credits	4	3	2	1	0	0
Memorandum items:						
				(In percent)		
Total external public debt						
(in percent of GDP)	16	15	13	11	10	10
(in percent of exports of goods and services)	34	30	26	22	16	22

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

1/ Government and government-guaranteed disbursed outstanding debt, with original maturity of one year and more.

Table 33. Botswana: External Debt-Service Payments and Disbursements, 1993-98

	1993	1994	1995	1996	1997	1998
(In millions of U.S. dollars)						
<b>Central government</b>						
Disbursements	67	54	22	43	8	35
Principal repayments	35	40	48	43	39	33
Interest payments	27	27	33	24	29	32
Other charges	1	2	2	1	1	0
Total debt service	63	69	84	69	69	66
<b>Public corporations</b>						
Disbursements	0	2	2	6	1	24
Principal repayments	16	18	13	5	4	0
Interest payments	7	8	4	2	6	5
Other charges	0	0	0	0	0	0
Total debt service	23	25	17	7	10	5
<b>Public and publicly guaranteed</b>						
Disbursements	67	56	24	49	10	59
Principal repayments	51	58	62	48	43	33
Interest payments	34	35	38	27	34	37
Other charges	1	2	2	1	1	0
Total debt service	86	95	101	76	79	70
<b>Memorandum items:</b>						
(In percent of exports of goods and services)						
Debt-service ratios	4.5	4.6	4.2	3.2	2.6	3.0
Central government	3.3	3.4	3.5	2.9	2.3	2.8
Public corporations	1.2	1.2	0.7	0.3	0.3	0.2

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

Table 34. Botswana: Average Terms of New Public Sector External Borrowing, 1993-97

	1993	1994	1995	1996	1997
Interest rate (in percent a year)	2.7	2.9	3.4	2.1	2.3
Maturity (in years)	23.6	16.0	22.4	14.1	14.5
Grace period (in years)	6.2	4.1	6.4	4.7	4.7
Grant element (in percent)	31.7	16.5	21.0	38.4	40.7

Source: Ministry of Finance and Development Planning.

Table 35. Botswana: Developments in the Exchange Rate of the Pula, 1990-99

(Index, 1990=100; period average)

	Effective Exchange Rate 1/		Bilateral Exchange Rate			
	Real	Nominal	South African Rand	U.S. Dollar	SDR	Zimbabwe Dollar
1990	100.0	100.0	100.0	100.0	100.0	100.0
1991	98.0	96.8	101.8	108.7	109.5	76.9
1992	101.5	94.8	102.8	113.4	117.6	54.5
1993	104.2	91.2	103.1	130.2	134.0	49.2
1994	102.8	86.6	105.1	144.3	152.3	43.3
1995	104.3	84.7	106.3	149.0	166.6	42.1
1996	99.0	77.3	107.5	178.7	191.0	43.9
1997	95.5	72.9	110.2	196.2	198.9	40.3
1998	94.0	70.8	106.4	227.1	227.1	25.6
1996 I	104.8	82.7	107.4	156.6	169.0	40.5
1996 II	98.6	77.2	107.2	178.9	190.5	45.6
1996 III	97.4	75.6	107.4	185.8	198.7	45.1
1996 IV	95.2	73.7	107.9	193.5	205.8	44.4
1997 I	94.7	73.2	110.5	192.7	197.7	43.5
1997 II	95.8	73.3	111.1	192.0	195.5	41.6
1997 III	95.5	72.5	110.3	197.9	198.8	41.1
1997 IV	96.0	72.7	108.9	202.3	203.5	35.1
1998 I	96.7	72.7	108.3	207.2	205.5	29.3
1998 II	96.3	72.1	106.7	213.1	210.4	30.0
1998 III	89.5	67.8	104.4	250.5	247.4	27.2
1998 IV	93.3	70.6	106.4	237.7	245.3	15.9
1999 I	92.9	69.7	106.5	240.4	246.8	15.5

Source: IMF, *International Financial Statistics*.

1/ Using multilateral weights (1990-95 average) with South Africa (47 percent), United States (39 percent), United Kingdom (9 percent), and Zimbabwe (5 percent).