

Botswana: Selected Issues and Statistical Appendix

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BOTSWANA

Selected Issues and Statistical Appendix

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Approved by African Department

September 13, 2002

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I. FISCAL IMPLICATIONS OF HIV/AIDS TREATMENT IN BOTSWANA¹

A. Introduction

1. Botswana faces the highest HIV/AIDS incidence rate in the world. According to the July 2002 UNAIDS Report (UNAIDS, 2002), the number of adults (15-49 age group) infected with the virus increased from an estimated 33.2 percent in 1996 to 38.8 percent in 2001. The social and economic consequences include an overburdened health system, a deteriorating public education system, and a threat to the hitherto impressive improvements in the standards of living of Botswana people. The country has slipped down the human development index ranking of 173 nations, falling from a high of 71 in 1996 to 122 in 1999 and 2000.² Life expectancy in particular has fallen from 67 years in 1996 to 47 years in 1999, and is projected to drop to 29 years in 2010.³

2. Over the last several years, the government has responded with well-targeted interventions designed to combat the spread of the disease and provide needed assistance to victims and their families. Budget allocations to the health sector have seen large increases in the last two years, and is projected to rise by 50 percent in the current fiscal-year, 2002/2003. An aggressive education and public enlightenment campaign has been underway for several years, and an antiretroviral therapy has begun on a pilot basis in the major cities. The government's effort to draw on support from the domestic private sector, as well as the international donor community, has also yielded positive results. Against this backdrop, the aim of the present study is to provide medium-term estimates of the cost of government's current anti-HIV/AIDS policies and programs, and thereby throw light on the policy challenges that Botswana authorities face in combating the crisis.

B. Background

3. The extensive and growing literature on the economic and social impact of HIV/AIDS has so far not given detailed attention to the long-term fiscal implications of government efforts to combat the crisis. A staff study on the macroeconomic impact of HIV/AIDS in Botswana in the 2001 Selected Issues and Statistical Appendix (SM/01/72) touched on this issue only briefly. That study assumed that health-related spending due to AIDS would rise by 1.6-2 percentage points of GDP over ten years under moderately-priced treatment options. Far more important was the paper's finding on the likely impact of HIV/AIDS on economic growth. The paper indicated that as result of the negative impact of HIV/AIDS on growth, the Botswana economy could be 33-40 percent smaller in size in 2010 than it would have been in

¹ Prepared by Mzwanele Mfunwa.

² Botswana Human Development Report 2000: UNDP.

³ Same source as above.

the absence of HIV/AIDS. A similar study by the Botswana Institute of Policy Analysis (BIDPA 2000), suggested that the impact on the recurrent health budget could be very large. In particular, the study suggested that such a health spending could quadruple (to about 10 percent of GDP) after ten years.

C. Initiatives to Fight the HIV/AIDS Pandemic

4. The government has accorded the pandemic the highest priority, and set an ambitious target for combating the crisis. The stated goal is an “AIDS-free generation of Botswana” by 2016 (NACA 2001). To provide the coordination necessary for the effective mobilization of support from all stakeholders and the international community, a national AIDS coordinating agency (NACA) has been established in the office of the President.

5. International support for the anti-AIDS campaign has taken various forms. A joint government-private sector organization, the Botswana Comprehensive HIV/AIDS Partnership, involving U.S. drug companies, namely, Merck & Co., and Bristol-Myers Squibb Co., as well as the Gates Foundation, together are to contribute a combined sum of US\$ 100 million over the next five years. Merck, in addition, has undertaken to donate antiretroviral medicines for the treatment of infected patients. To help build capacity, the U.S. government’s Center for Disease Control and Prevention has sent a number of professionals to assist the government’s effort. Harvard University is assisting the government’s HIV reference laboratory, and a number of universities and hospitals in Europe and the United States are providing other forms of assistance.

6. The domestic private sector is contributing to the prevention, treatment, and family support programs of the government. The most extensive of these private sector initiatives is by the mining company Debswana, which is partly government-owned. Debswana operates two hospitals for its approximately 6,200 workers and pays 90 percent of the cost of antiretroviral treatment for its employees who are not covered by a medical insurance plan, including wife or husband (*Economist*, 2002). Also, the procurement policy of the company requires that all its suppliers have an HIV/AIDS policy.

D. Current Programs and Cost Estimates

7. Botswana’s comprehensive HIV/AIDS program aims to achieve by year 2010: (i) a 50 percent reduction of new infections; (ii) a 95 percent rate of access to basic, intermediate, and advanced care; and (iii) a 50 percent reduction of the impact of HIV/AIDS on the population. The programs currently being undertaken can be grouped under two broad areas: prevention, and treatment, care and support (see Box).

Anti-HIV/AIDS Programs

Prevention activities include the following:

- an Information, Education, and Communication (IEC) program targeted at the general population, youth with a special emphasis on life skills in school curricula, a teacher capacity-building project, radio drama, and workplace programs, including counseling;
- a condom promotion through social marketing and free distribution through health facilities;
- a prevention of mother-to-child transmission project (PMTCT);
- treatment of sexually transmitted diseases;
- vaccine trials through the Botswana Harvard AIDS Partnership;
- a total community mobilization (TCM) project that links clients to prevention, treatment, care, and support programs and also provides interpersonal communication for clarification of any myths and misconceptions; and
- a voluntary counseling and testing program, which also links clients to prevention and other programs.

Treatment, care and support activities comprise the following:

- prevention of TB;
- treatment of opportunistic infections;
- an antiretroviral therapy program;
- community home-based care for the terminally ill; and
- orphan care and support.

8. The 2002/03 budget provides P 326.4 million (about 1 percent of GDP) for identified HIV/AIDS spending, including P 28.5 million for antiretroviral treatment (Table I.1). A significant upward revision in the resources allocated to AIDS programs is, therefore, likely over the coming years as the programs become fully operational and the number of patients enrolling for treatment rises.

Table I.1. Botswana: HIV/AIDS Programs, 1999/2000 - 2002/03
(In thousands of pula)

	1999/00	2000/01	2001/02	2002/03
Antiretroviral (ARV) therapy	...	...	...	28,500
Infrastructure and training for ARV program	...	...	...	47,300
Prevention of mother-to-child transmission	2,626	12,967	11,924	55,700
Costs of home-based care	5,930	9,851	11,780	34,900
Orphan care	28,688	39,141	46,813	90,800
Education and prevention	5,878	10,534	29,300	69,200
Total	43,122	72,493	99,817	326,400

Source: Botswana authorities.

E. Deriving a Cost Estimate of HIV/AIDS Treatment

Assumptions underlying estimates

9. A key uncertainty in estimating future budget implications of HIV/AIDS is the cost of advanced antiretroviral therapy. Uncertainties arise from the cost of the drugs themselves and from the number of patients who will receive them.

10. To simplify the analysis, we assume that ARV drug costs remain unchanged in current price terms. Thus, the cost to the government would be P600 per patient per month. This estimate includes the provision of some HIV medications by their manufacturers at reduced or no cost. Capital costs are assumed to rise sharply and in rough proportion to the number of new patients entering treatment.

11. Estimates of the number of prospective AIDS patients are based on demographic and epidemiological projections by the International Programs Center of the U.S. Bureau of the Census. These projections of population and death due to AIDS (without antiretroviral therapy) are derived by fitting a demographic and epidemiological model to the available observations on HIV prevalence, mainly from blood tests at antenatal clinics. The number of patients receiving antiretroviral therapy are then projected using AIDS-related mortality rates (in the absence of treatment). More specifically, the number of patients in antiretroviral (ARV) treatment programs is based on the assumption that patients would, on average, reach the threshold “virus load” at which treatment starts, two years before they would die in the absence of treatment, and that antiretroviral therapy would prolong their lives by an average of five years.

12. Two scenarios are considered: (i) The baseline scenario assumes that advanced antiretroviral drugs are gradually introduced, as related infrastructure is put in place; and (ii) a fast-implementation scenario that assumes the government is able to achieve a 95 percent treatment rate of infected patients much sooner, by 2003. Thus, the only difference in assumptions is the coverage rate, with the number of HIV-positive patients falling sick remaining the same in both cases.

The results: gradual expansion—versus fast implementation—of HIV/AIDS programs

13. Under the baseline scenario, the cost of providing advanced treatment would build over time (Table I.2). Costs would increase to 3¾ percent of GDP by 2008, the end of the NDP-9 planning cycle, and exceed 5 percent of GDP by 2010. The number of patients receiving ARV treatment would rise from fewer than 10,000 in 2002 to over 225,000 by 2010 and would therefore prolong the lives of many of those infected. The number of AIDS deaths would rise through 2004, before declining. However, AIDS deaths would rise at the period because those who began treatment in the early phase of the program would begin to die. This pattern follows from the assumption that ARV treatment prolongs life for five years.

Table I.2. Botswana: Estimated Costs of HIV/AIDS Treatment, 2001-2010

Scenario 1: Baseline (Gradual Expansion of Program)							
	AIDS Deaths w/o ARVs 1/	AIDS Deaths w/ ARVs	New Patients 1/ New Patients Receiving Treatment (%)	New Patients Receiving ARV Treatment	Total Number Receiving ARV Treatment	Total Costs (P millions)	Total Cost in % of GDP
2001			36,833	10	3,683	3,683	
2002	33,409		40,074	10	4,007	7,691	
2003	36,833	33,150	43,091	30	12,927	20,618	0.2
2004	40,074	36,067	44,044	40	17,618	38,236	0.6
2005	43,091	30,164	44,893	50	22,447	60,682	1.0
2006	44,044	26,426	45,633	60	27,380	88,062	1.5
2007	44,893	22,447	46,271	75	34,703	122,765	2.1
2008	45,633	21,937	46,825	85	39,801	158,883	2.9
2009	46,271	15,575	45,785	90	41,207	196,082	3.7
2010	46,825	19,951	44,895	95	42,650	225,805	4.5
						1,700	5.1
Scenario 2: Fast Implementation							
	AIDS Deaths w/o ARVs 1/	AIDS Deaths w/ ARVs	New Patients 1/ New Patients Receiving Treatment (%)	New Patients Receiving ARV Treatment	Total Number Receiving ARV Treatment	Total Costs (P millions)	Total Cost in % of GDP
2001			36,833	10	3,683	3,683	
2002	33,409		40,074	10	4,007	7,691	
2003	36,833	33,150	43,091	95	40,936	48,627	0.2
2004	40,074	36,067	44,044	95	41,842	90,469	1.4
2005	43,091	2,155	44,893	95	42,648	133,117	2.3
2006	44,044	2,202	45,633	95	43,351	176,469	3.2
2007	44,893	2,245	46,271	95	43,957	220,426	4.2
2008	45,633	5,965	46,825	95	44,484	261,227	5.1
2009	46,271	6,321	45,785	95	43,496	300,715	6.0
2010	46,825	43,278	44,895	95	42,650	302,429	6.8
						2,182	6.6

1/ Based on projections by International Programs Center at the US bureau of census.

14. Our results are consistent with those of the 2000 BIDPA study, which found that, if Botswana provided generous treatment for HIV/AIDS patients in line with international standards, the cost of this treatment could amount to 5-6 percent of GDP by 2011.

15. The fast-implementation scenario assumes that advanced ARV drugs are provided to 95 percent of those infected and needing treatment by 2003. The number of patients receiving treatment rises sharply from under 10,000 in 2002 to over 48,600 in 2003 and to 300,000 by the year 2010. AIDS deaths would fall sharply in the near term as treatment extended the life expectancy of those with high viral loads from two to seven years. Deaths, however, would rise sharply in 2010 as those who began treatment in 2003 died. Costs of the treatment are estimated to reach 6 percent of GDP by 2008 and 6½ percent by 2010, resulting in cumulative total costs of P 12 billion over the 2003-10 period.

16. The two scenarios provide an estimate of the range of costs of providing ARV therapy. The baseline scenario assumes a measured pace of implementation not because this is a desired policy, but as an illustration of a possible outcome if time is required to expand the

current pilot program. It would seem reasonable to assume that actual costs will depend on the availability of hospitals, laboratories, and skilled health professionals. These resources will take time to develop.

17. On the other hand, it would be desirable to provide ARV therapy to all those in need as quickly as possible. Putting aside the question of feasibility, the fast-implementation scenario indicates that costs would be higher than in the slower implementation baseline case, but they could be financed utilizing existing resources, including continued support from the donor community.

18. The provision of ARV therapy is only one part of the government's action plan. When other health-related expenses are included, HIV/AIDS spending is estimated to expand from 8 percent of total health expenditure to just under 70 percent in 2010 (Table I.3). Its share of total central government spending would rise from under 1 percent to 14 percent.

Sensitivity analysis

19. The cost estimates in both scenarios are sensitive to a few assumptions in addition to those described above. For example, both scenarios assume that all eligible patients will seek out ARV therapy. This may not be the case if individuals are reluctant to be tested for the HIV virus or identify themselves to family and co-workers as HIV-positive by undertaking the treatment regime. Another variable is private sector participation. Both scenarios assume that the full burden of treatment is borne by the public sector. Costs to the government would be reduced to the extent that private firms take over treatment for their own employees. The diamond mining company, Debswana, has already begun providing HIV/AIDS treatment to its employees and their spouses. The fiscal impact of this action, however, is limited because Debswana is partly government owned.

F. Conclusions

20. Estimates of the impact of HIV/AIDS on Botswana's government finances are based on many assumptions and simplifications. Nevertheless, the cost of treating HIV/AIDS patients is likely to be very high, around 10 percent of GDP, by 2010 (using the baseline estimates). And, estimates presented above do not include indirect costs such as increased sick leave. In view of the potential magnitude involved, it would seem prudent to study further the budget implications, perhaps in the context of NDP-9.

Table I.3. Botswana: Central Government AIDS Expenditure, 1999 - 2010 1/
(Baseline Scenario)

	HIV/AIDS Expenditure/Total Health Expenditure	Health Expenditure/Total Expenditure	Health Expenditure/GDP 2/
	(In percent)		
1999	7.9	0.4	2.2
2000	6.8	0.6	3.8
2001	11.5	0.7	2.8
2002	24.7	2.1	3.9
2003	29.9	2.7	4.7
2004	38.6	4.0	5.6
2005	46.6	5.5	6.6
2006	53.2	7.3	7.9
2007	59.3	9.4	9.5
2008	63.5	11.2	11.0
2009	66.7	12.8	12.5
2010	68.8	14.0	14.0

Source: Botswana authorities and staff estimates and projections.

1/ Fiscal year, March-April. AIDS expenditure includes provision of ARV, and all other AIDS programs.

2/ Constant 2001 prices.

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II. BOTSWANA'S APPROACH TO MEDIUM-TERM FISCAL MANAGEMENT ⁴

A. Introduction

21. In many respects, Botswana's National Development Plan (NDP) is a textbook example of a medium-term expenditure framework (MTEF).⁵ However, despite its long-running success in fiscal planning, there is some evidence to suggest that the coordination of macroeconomic policies could be improved. Looking forward, the looming demands of HIV/AIDS and possible declines in Southern African Customs Union (SACU) revenue may require new procedures and policy benchmarks. Nevertheless, the design and implementation features of the NDP framework offer a useful example of a working MTEF to the developing member countries of the IMF.

B. Concept of a Medium-Term Expenditure Framework

22. A medium-term expenditure framework provides a platform for integrating policymaking, planning, and budgeting in a way that leads to more efficient budget outcomes. At a very general level, a MTEF contributes to improved efficiency by (i) creating a transparent and predictable fiscal regime conducive to high growth and macroeconomic stability; (ii) matching the allocation of public resources with policy priorities within and among sectors; and (iii) imposing hard budget constraints on line ministries and agencies while providing them with sufficient autonomy in their choice of methods for achieving their objectives.

23. An MTEF has two main components. The first is a set of policy objectives derived from principles that seek to guarantee prudent fiscal management.⁶ The second is a set of policy actions for attaining those objectives.⁷ Countries have approached the setting of policy objectives in a variety of ways, reflecting their peculiar experiences and circumstances. A common element, nonetheless, is the emphasis on transparency as a vital principle for establishing confidence in a fiscal framework. Hence, the chosen fiscal rule needs to be clearly

⁴ Prepared by Patrick Akatu.

⁵ The term "medium-term fiscal strategy (MTFS)" is also used in the literature.

⁶ One such principle that seeks to achieve improved levels of public savings is the "golden rule," which requires that current expenditures be financed from revenue.

⁷ The description of an MTEF given here, while generally applicable, may be more representative of the practices in advanced economies than in African countries and other developing countries, where the main focus of reform efforts has been on achieving better linkage between sectoral and intersectoral spending priorities within the available resource envelope.

defined in writing. Transparency also would govern the setting of annual fiscal policy objectives, the implementation of fiscal policy, and the publication of public accounts.

24. An enabling legislation—typically called a *fiscal responsibility law*—has proved to be a vital instrument for institutionalizing the commitment to a rules-based fiscal arrangement and the transparency of the MTEF regime. Its provisions most commonly include the following:

- a qualitative set of principles of sound fiscal management that should be followed in preparing medium-term budgets;
- a requirement that the Minister(s) responsible for preparing and implementing budgets provide regular fiscal strategy statements to parliament and the public that demonstrate how the actual medium-term proposals presented by the government adhere to those principles of sound fiscal management; and
- specification of a set of public documents that make available a defined set of information to parliament and the general public that allows them to make judgments about the adequacy of the fiscal strategy presented by the minister and the government.

25. In broad terms, the development of an MTEF begins with the formulation of a medium-term fiscal framework comprising macroeconomic projections, and projections for revenue, expenditure, financing, and debt. These projections, together with the defined policies and priorities, form the basis for the formulation of an MTEF from which the fiscal stance is subsequently derived.

C. Experience of some African Countries with Medium-Term Expenditure Frameworks

26. The literature on MTEFs indicates that they have proliferated in developing and transition countries since the late 1990s, with Africa in the forefront. African countries account for somewhat over half of the existing MTEFs (about 25 in various stages of implementation), and they started earlier than developing countries in other regions, including transition countries, in preparing them.⁸ According to the Le Houerou and Taliercio, the World Bank has been involved in the decisions of many African countries to adopt and implement a MTEFs, many of which came about as a result of public expenditure reviews. MTEFs now feature in the formulation of poverty reduction strategy papers as the underlying statement of policy objectives and, in the tracking of poverty-related expenditure from debt relief, in the implementation of the Poverty Reduction and Growth Facility arrangement of the Fund, and also the World Bank's new lending instrument, the Poverty Reduction Credit. The adoption of a medium-term approach to public expenditure management has by no means

⁸ Phillipe Le Houerou and Robert Taliercio, "Medium-Term Expenditure Frameworks: From Concept to Practice—Preliminary Lessons for Africa," World Bank, Africa Region Working Paper No. 28 (Washington: World Bank, 2002).

been limited to the developing world. Indeed, medium-term frameworks have been adopted by several industrial countries to provide a coherent strategy for managing public finances. Among these, the United States, the United Kingdom, Canada, Australia, and New Zealand all have three-year medium-term frameworks that are submitted to the legislature as part of the budget documents. Continental European countries, including Germany, Austria, Norway, and Sweden, also follow such a medium-term approach.

27. In their study of METFs in Africa, Houerou and Taliercio⁹ found a number of shortcomings in the design of the frameworks, the organizational and administrative processes involved, and the arrangements for legitimizing and building the necessary consensus for the success of the METFs. Among the salient weaknesses were a general lack of comprehensiveness, characterized by partial coverage of economic sectors, the exclusion of capital expenditures by a majority of the countries, and the focus on the central level of government. In a good number of the countries, the MTEFs were not meaningfully integrated into the annual budget process but were undertaken as parallel exercises. As regards political backing, only a minority of the countries submitted their MTEFs to both cabinet and parliament for approval. In a few cases, the Ministry of Finance promulgated the MTEF without recourse to higher political approval. Furthermore, the MTEF in most cases was managed by the Ministry of Finance without much overlap with other authority structures, and only in few did civil society play a role. These observed shortcomings in the MTEF design in the countries studied led the authors to conclude with justification that the MTEFs were in general of limited usefulness in controlling aggregate spending and fiscal deficits. In addition, the MTEFs lacked the political support and broad social consensus that would have enhanced their capability to effect change.

28. Given its broad objectives, an MTEF is expected to contribute to (i) improved fiscal and macroeconomic balance; (ii) inter-sectoral and intrasectoral resource allocation closely in line with priorities; greater budgetary predictability for line ministries; (iii) more efficient use of public resources; (iv) greater political accountability for public expenditure outcomes; and (v) more credibility of budgetary decision making. Against the four benchmarks for which some information was available, Le Houerou and Taliercio did not find much support for the potential benefits of the MTEFs in the African cases examined. This lack of success is attributed to the weak initial conditions in these countries with regard to not only budget formulation—with which the MTEF is concerned—but also capacities for budget execution and auditing, including reporting.

29. The broad conclusions of the study lent support to widely held views about the prerequisites for success of the MTEFs. Prominent among these are (i) a good macro-fiscal model; (ii) a sound budget foundation, whose main elements include budget execution that complies with the approved budget, (iii) the publication of quarterly budget execution reports based on the same classification system as the budget; and (iv) publication of external audit reports backed by sanctions for misappropriation of resources.

⁹ Ibid.

D. Review of the Budget Process in Botswana

30. Since independence in 1966, Botswana has used a series of multiyear plans to guide fiscal policy. The current NDP—the eighth in the series—is a six-year plan set to end in March 2003. The link between the central government’s annual budgets and the NDP is very close. In each year, capital expenditure allocations in the budget are derived directly from the investment program in the plan.¹⁰ Similarly, the aggregate provision for current spending is arrived at as an annual ceiling within which allocations to line ministries and agencies are made. The plan itself is based on projections from a macroeconomic model, the Macroeconomic Model of Botswana, which provides forecasts of all major macroeconomic aggregates. In the periodic reviews of each plan, account is taken of the strategic policy priorities within and between sectors and any changes during the course of the implementation. The process is also sufficiently flexible in allowing agencies to pace both their capital and current outlays within their approved investment programs and current spending ceilings. In addition, the planning process involves broad consultation and discussion, including with civil society, the close involvement of a broad-based cabinet committee in decision making, and approval by parliament.

31. As regards the fiscal policy regime, the plan defines a broad fiscal objective consistent with achieving an efficient allocation of resources. In particular, the size of the government’s expenditure program, is fixed in principle at a level compatible with the overall supply of resources in order to avoid crowding out private sector investment and undermining the objective of macroeconomic stability. The plans also affirm the need for fiscal prudence on a long-term basis.

32. The specific goal, as stated in the NDP-8, is to maintain a sustainable fiscal position. This is defined as a fiscal outcome in which the nonmining revenue of government is at least equal to the total of the “noninvestment recurrent expenditure” of the government.¹¹ In that situation, the government would be able to devote its revenue from mining—a depleting resource—to public investment aimed at expanding and diversifying the country’s production base. Adherence to this rule has generated budget surpluses in most years, resulting in a buildup of substantial reserves.

33. From the foregoing it can be seen that, Botswana’s approach to public resource management is clearly in line with the sound practices outlined above. The annual budget cycle is based on a long-term perspective, and allows for the effective coordination of the country’s overall and sectoral development priorities. The planning framework described in

¹⁰ The investment spending programs are, however, reviewed periodically. At such reviews, new projects and programs are brought into the plan, existing projects modified, and implementation speeded up or delayed.

¹¹ Noninvestment recurrent expenditure is defined recurrent expenditure other than recurrent outlays on education and health.

the NDP-8 appears to provide an effective mechanism for aligning the government's spending program with changing priorities, especially in the context of the midterm review of each plan, and the process of consultation and approval seems to ensure that policies will have the necessary political legitimacy and broad support. Finally, macroeconomic stability and fiscal prudence are achieved through the use of a macro economic framework and adherence to a fiscal rule intended to guarantee fiscal sustainability.

34. Botswana's outstanding economic performance over nearly three decades also suggests that the country's implementation of a succession of medium-term public expenditure programs has made a positive contribution to its macroeconomic track record. Real GDP growth averaged close to 9 percent between 1974/75 (July-June) and 2001/02, inflation has largely been kept in line with developments in South Africa, which is the country's major source of imports, and prudence in the use of receipts from diamonds has generally been accompanied by fiscal and current account surpluses, which, in turn, have enabled the buildup of a high international reserve levels (Figure II.1). International reserves in recent years have hovered around 30 months of imports. In addition, monetary and exchange rate policies have been largely successful in reducing inflation. As regards spending priorities, the most significant feature of resource allocation in the budget has been the relatively large share of social spending, especially on education. Spending on education averaged 24 percent of total spending in the five-year period ended 2001/2002 (April-March), and social spending as a whole 41 percent. The respective shares of general public services and economic services were held almost constant.

35. While the medium-term fiscal frameworks have contributed to prudent policies that have underpinned Botswana's impressive economic performance, the fiscal projections themselves have deviated quite significantly from actual outcomes. Both revenue and expenditure outturns have most of the time been considerably higher than projected in the plan (Figure II.2). Apart from the normal uncertainties that are associated with estimating budget revenue and expenditure, the deviations also reflect the addition of new projects to the plan, as well as modifications to projects already in the plan including changes to take account of increased costs. These changes prompt the authorities to make to annual reviews of the macroeconomic framework to ensure that the goal of macroeconomic stability is not jeopardized. However, updates to the medium-term macroeconomic projections that are done in the context of the annual budget are not published, making it difficult to relate the revenue and expenditure program in the plan to the spending figures in the budget.

Figure II.1. Botswana: Selected Economic Indicators

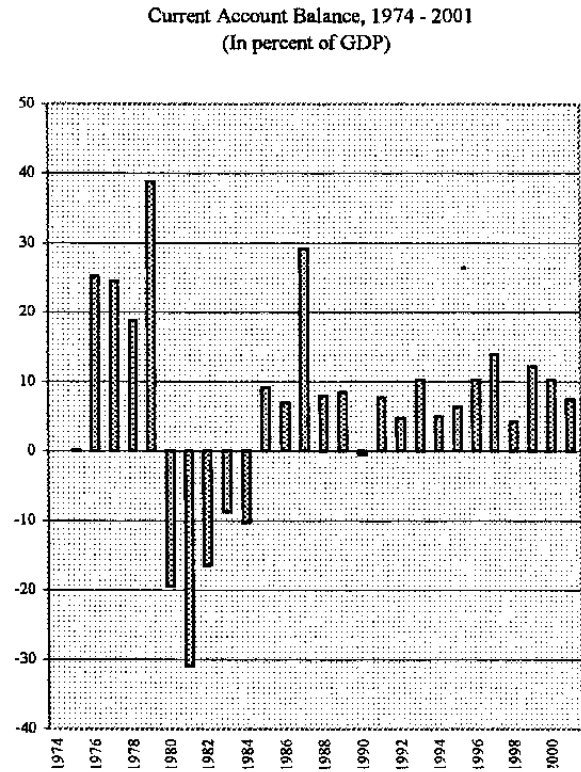
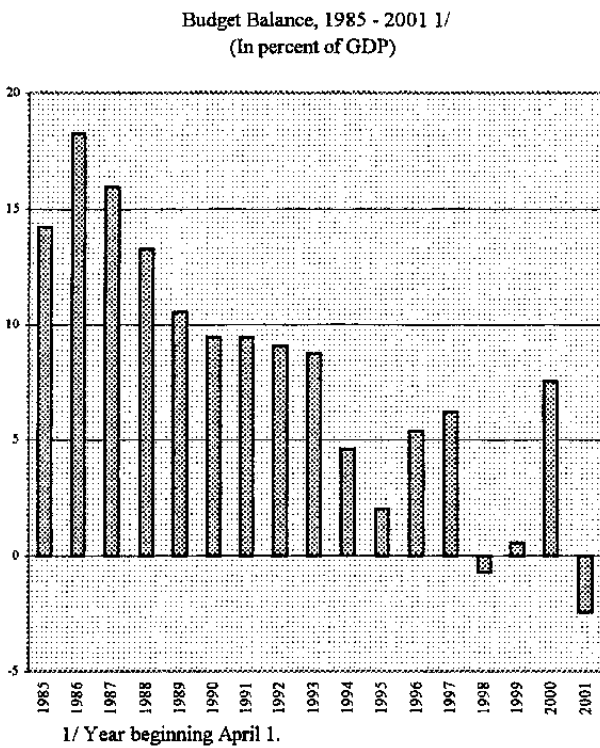
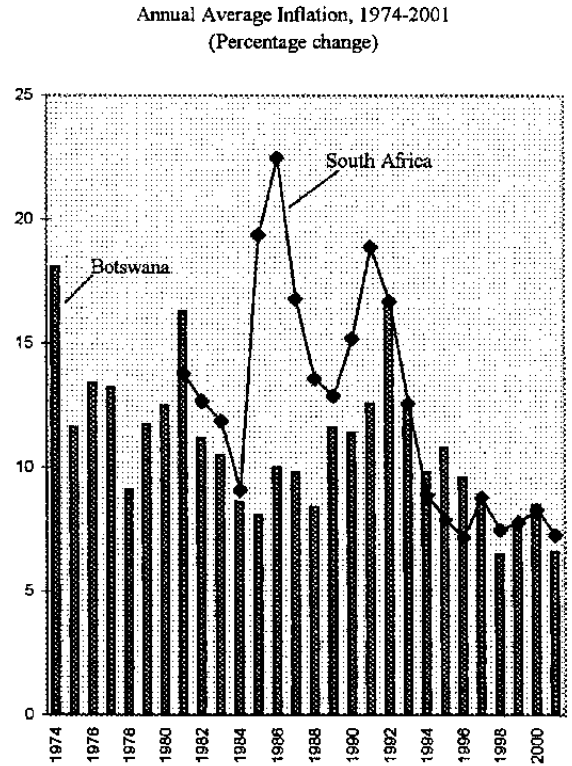
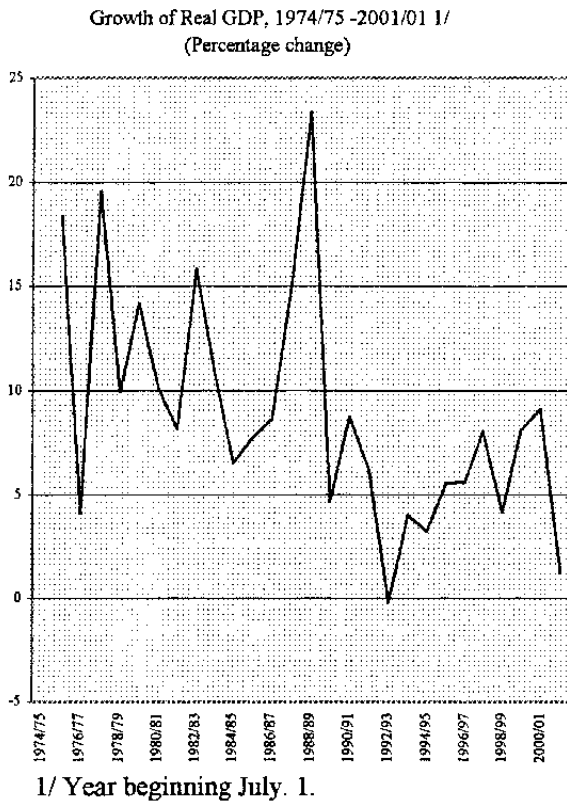
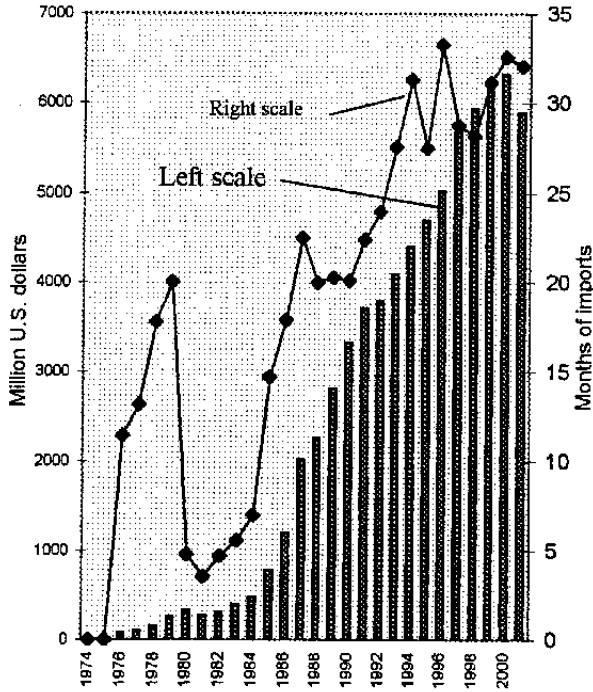
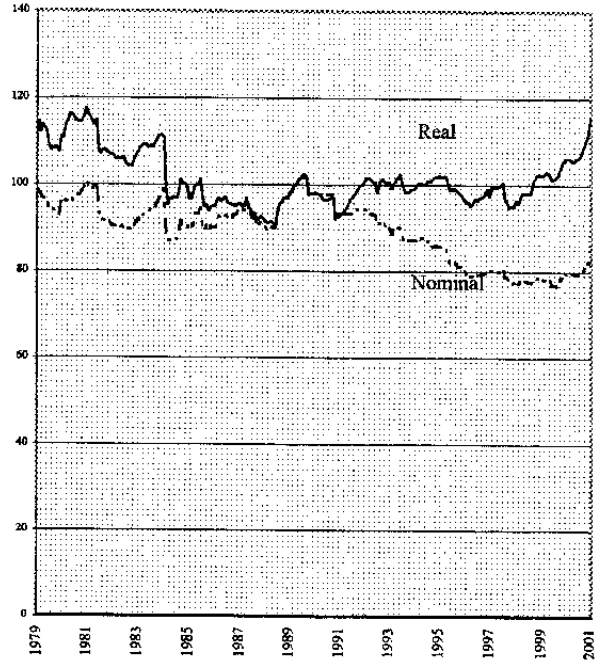


Figure II.1. Selected Economic Indicators (concluded)

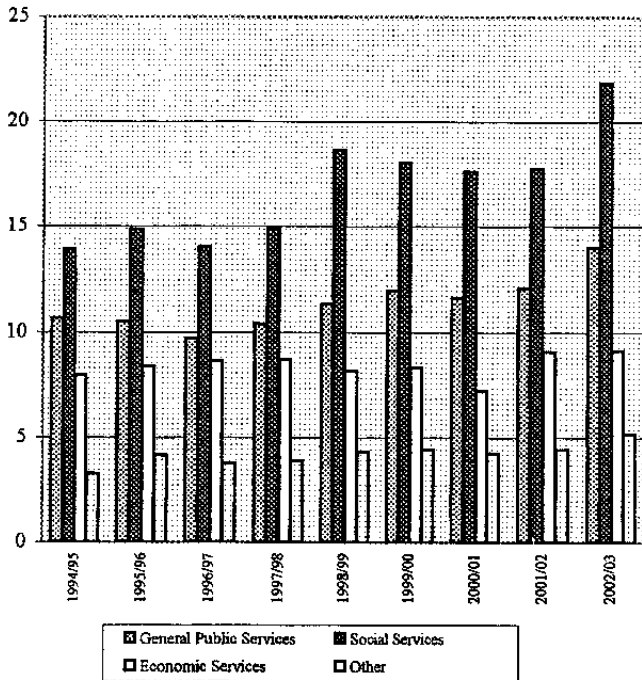
International Reserves, 1974 - 2001



Nominal and Real Effective Exchange Rates, Dec. 1979 - Dec. 2001
(1990=100)

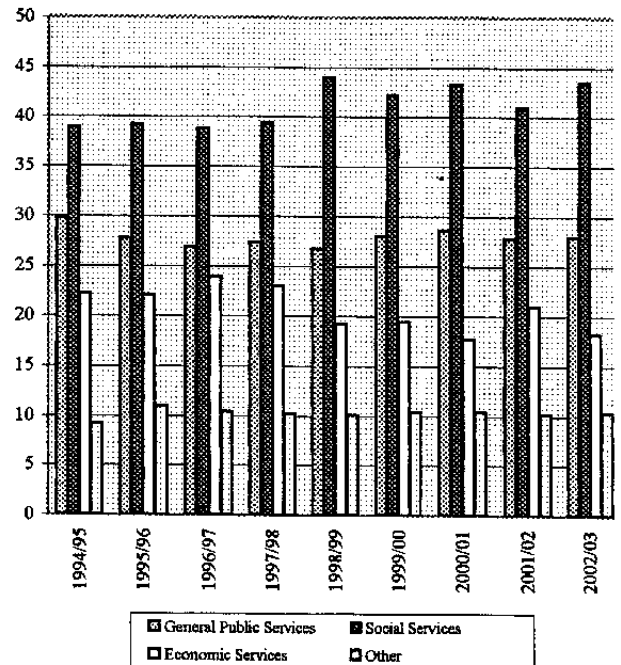


Functional Classification of Central Government Expenditure, 1994/95 - 2002/03 2/
(In percent of GDP)



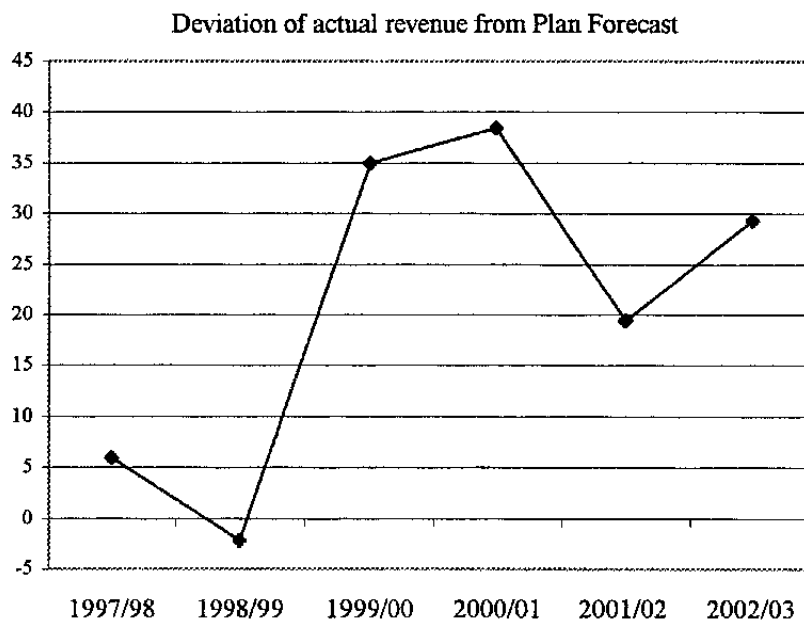
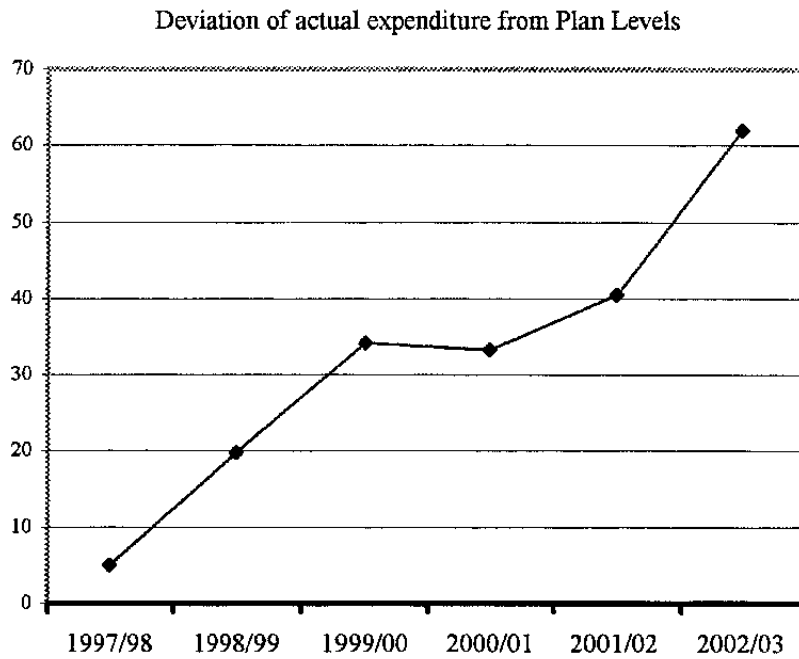
2/ Year beginning April 1.

Sectoral Shares of Central Government Expenditure, 1994/95 - 2002/03 2/
(In percent of total expenditure)



2/ Year beginning April 1.

Figure II.2. Botswana: Deviation of Actual Revenue and Expenditure from Plan Levels, 1997/98 - 2002/03 1/
(In percent)



1/ Year beginning April 1. 2002/03 data are budget estimates.

E. Enhancements to Botswana's Approach

36. While Botswana's NDP approach has been a clear success, there are, nevertheless, possible modifications that would contribute to greater effectiveness. These include adopting a new fiscal rule that could accommodate fiscal pressures that may emerge over the coming years; improving the coordination of monetary and fiscal policies; disseminating more comprehensive information on the budget, including the underlying near- and medium-term programs; and moving toward an outcome-oriented budget process.

37. The fiscal policy rule in place has so far proved to be prudent. Recurrent expenditure other than those on education and health is to be funded from nonmineral revenue, allowing mineral revenue to be devoted to investment spending. However, this rule has limitations that are likely to become more of a constraint:

- First, as progress is made in implementing public sector capital projects and programs and recurrent spending grows, there is no guarantee that the growth in nonmineral revenue will keep pace. Indeed, indications of this failure to keep pace were apparent from projections in the NDP-8 document. Moreover, since all expenditure on health is classified as investment spending under the present fiscal rule, adherence to the rule will not guarantee that nonhealth spending will adjust to accommodate the growth in HIV/AIDS expenditure over the coming years.
- Second, Botswana has so far continued to accumulate reserves through surpluses in the budget. This prudent posture will enable the government to finance a reasonable level of budget deficits without increasing its gross debt for some time. However, large deficits accompanied by a rapid drawing on the accumulated reserves could be perceived by markets and the wider public as a change in the prudent policy stance. In the circumstances, one possible rule could be to set a single-year limit on the level of the overall budget deficit. Another approach, which would take into account Botswana's unique net foreign assets position, might be to set annual ceilings on the net use of the surpluses. Over the medium term, such a rule could be institutionalized as an anchor for a rules-based fiscal regime, akin to the practice in many advanced countries.

38. The authorities confirm that the macroeconomic framework of the plan is updated annually and, as underlying assumptions change, with a view to ensuring the mutual consistency of the macroeconomic targets. However, there are indications that the coordination of policies has weakened in recent years. One such indication is the buildup of Bank of Botswana certificates, which were issued by the bank to contain the excessive growth of liquidity caused by an overly expansionary fiscal stance. The resulting mix of policies has contributed to high real interest rates, which are inimical to the desired growth in private investment.

39. The annual revisions to the medium-term program are presently not published. This makes it difficult for market participants to relate the annual budget to the six-year plans and come to a proper understanding of the longer-term fiscal outlook. Making budget information

available to international investors in an easily understood framework has become even more important, in light of the government's plan by to take advantage of its long track record of sound public finance management and resulting domestic and international confidence by issuing a long-term bond and developing financial markets. A medium-term framework, published annually, is a mechanism that has been used by many countries and could serve the purpose in Botswana's case.

40. The regular overbudgeting of capital spending creates room for inefficiency in the implementation of the public projects. The pressure to implement at a pace that exceeds the available supervisory capacity makes it easier for firms that undertake these projects to get away with substandard performance. While there are no indications of this occurring, there remains a need for a more conservative capital expenditure program, based on a more realistic estimate of human resources availability.

41. Finally, while the top-down control of recurrent expenditure is an important factor for efficiency at the operational level, the existing budget system is mainly input oriented, with performance measured by expenditure outlays. There is therefore, room for improving efficiency through reform that would shift the focus of the system to the analysis of output and outcomes.

III. BOTSWANA'S EXCHANGE RATE COMPETITIVENESS¹²

A. Introduction

42. The exchange rate of the Botswana pula is determined with reference to a weighted basket of currencies comprising the SDR and the South African rand. The exchange rate policy aims to keep the nominal effective exchange rate (NEER) of the pula constant. The Bank of Botswana seeks specifically to achieve a rate of inflation that, at a minimum, will maintain relative stability in the real effective exchange rate (REER) in support of the broader national objectives of economic diversification and export competitiveness.¹³ This objective, however, has been complicated by the recent developments in the rand. This section briefly reviews the evolution of Botswana's exchange rate arrangement and then discusses the impact of recent exchange rate developments on its external competitiveness. It appears that the significant appreciation of the pula in real effective terms since mid-2000, mainly as a result of sharp depreciation of the rand against the SDR, has adversely affected the country's competitiveness.

B. Evolution of Exchange Rate Arrangement, 1976-2000¹⁴

43. Botswana attained monetary independence in 1976 by introducing its own currency—the pula.¹⁵ The pula, like the rand at the time, was initially pegged to the U.S. dollar, resulting in a stable relationship between the pula and the currencies of Botswana's two major trading partners. However, the pula and the rand started to diverge following the introduction of a floating exchange rate regime in South Africa in 1979. As the pula depreciated against the rand, concerns about imported inflation prompted the authorities to adopt a peg to a currency basket in June 1980, with weights of 50 percent for both the SDR (as a convenient proxy for the major world currencies) and the rand. Botswana has maintained the basket peg since then, although the authorities have occasionally changed the composition of the basket and made discretionary adjustments to the peg when circumstances required.

44. The pula was devalued against the basket in 1982, 1984, and 1985, either in response to external shocks or in order to maintain external competitiveness. In 1986, the authorities

¹² Prepared by Shuang Ding.

¹³ See Bank of Botswana, *Monetary Policy Statement – 2002*, Gaborone, Botswana: Bank of Botswana, 2002.

¹⁴ For details of evolution of exchange rate arrangement before 1998, see Hassanali Mehran and others, *Botswana – Selected Issues and Statistical Appendix*, IMF Staff Memorandum No. 98/59, Washington, International Monetary Fund.

¹⁵ Botswana continued to use the South African rand even after it gained political independence in 1966.

introduced a new basket of currencies—including the rand and the SDR—with undisclosed weights.¹⁶ In 1987, the authorities implemented a policy to maintain a broadly stable real exchange rate against the rand that in practice entailed discretionary adjustments in the rate of the pula relative to the currency basket. Since then, changes in the nominal exchange rate have been consistent with a policy of maintaining a stable real exchange rate for the pula against the currencies of Botswana's major trading partners (Figure III.1).¹⁷

45. The pula has followed a depreciating path of the rand relative to the U.S. dollar since early 1980s, reflecting the large weight of the rand in the basket and apparent periodic interventions to keep Botswana's nonmineral exports competitive in the rand area (Figure III.2). The exchange rate rarely moved out of the range of 1.25–1.35 rand per pula from 1994 to August 2000, feeding market speculation that the pula was effectively linked to the rand (Figure III.3).

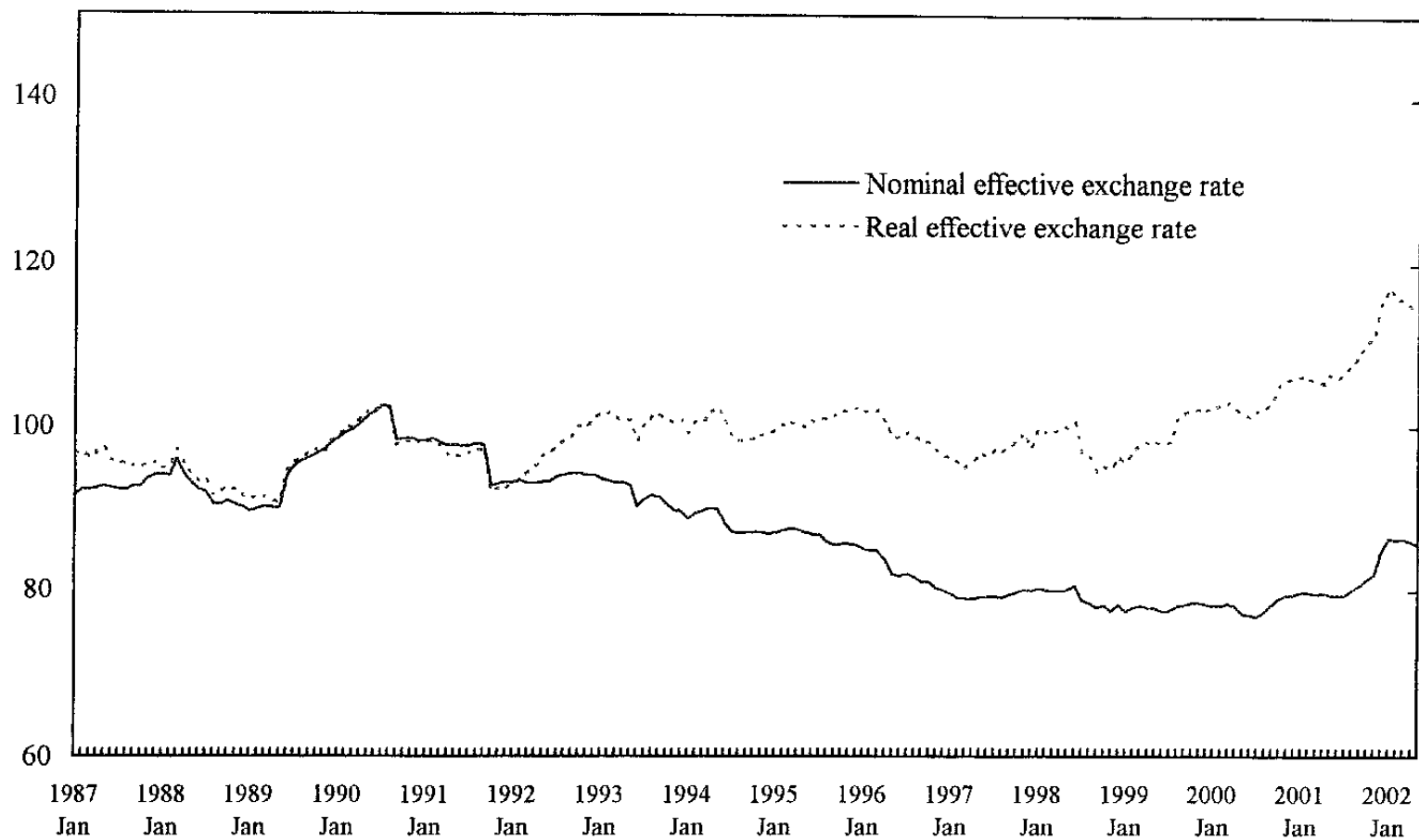
46. Botswana's choice of a pegged exchange rate regime can be justified because it is a small, open economy that is attempting to avoid the "Dutch disease." In this case, a mineral-led appreciation would erode the competitiveness of nonmineral exports and run counter to the objective of economic and export diversification.¹⁸ In addition, the basket peg—rather than a peg to the rand—can minimize imported inflation and currency fluctuations associated with tracking the rand. However, it appears that the basket peg had not been strictly implemented before mid-2000, as evidenced by the stable relationship between the pula and the rand. Nevertheless, by changing either the nominal exchange rate against the basket or the currency weights in the basket, Botswana appears to have achieved over time a relatively stable REER that has helped its nonmineral goods compete in the rand area.

¹⁶ The Zimbabwe dollar was introduced into the basket in September 1991; it was subsequently withdrawn in June 1994.

¹⁷ The consumer price index-based REER is calculated using the IMF Effective Exchange Rate Facility, based on weights that are broadly consistent with Botswana's nondiamond trade.

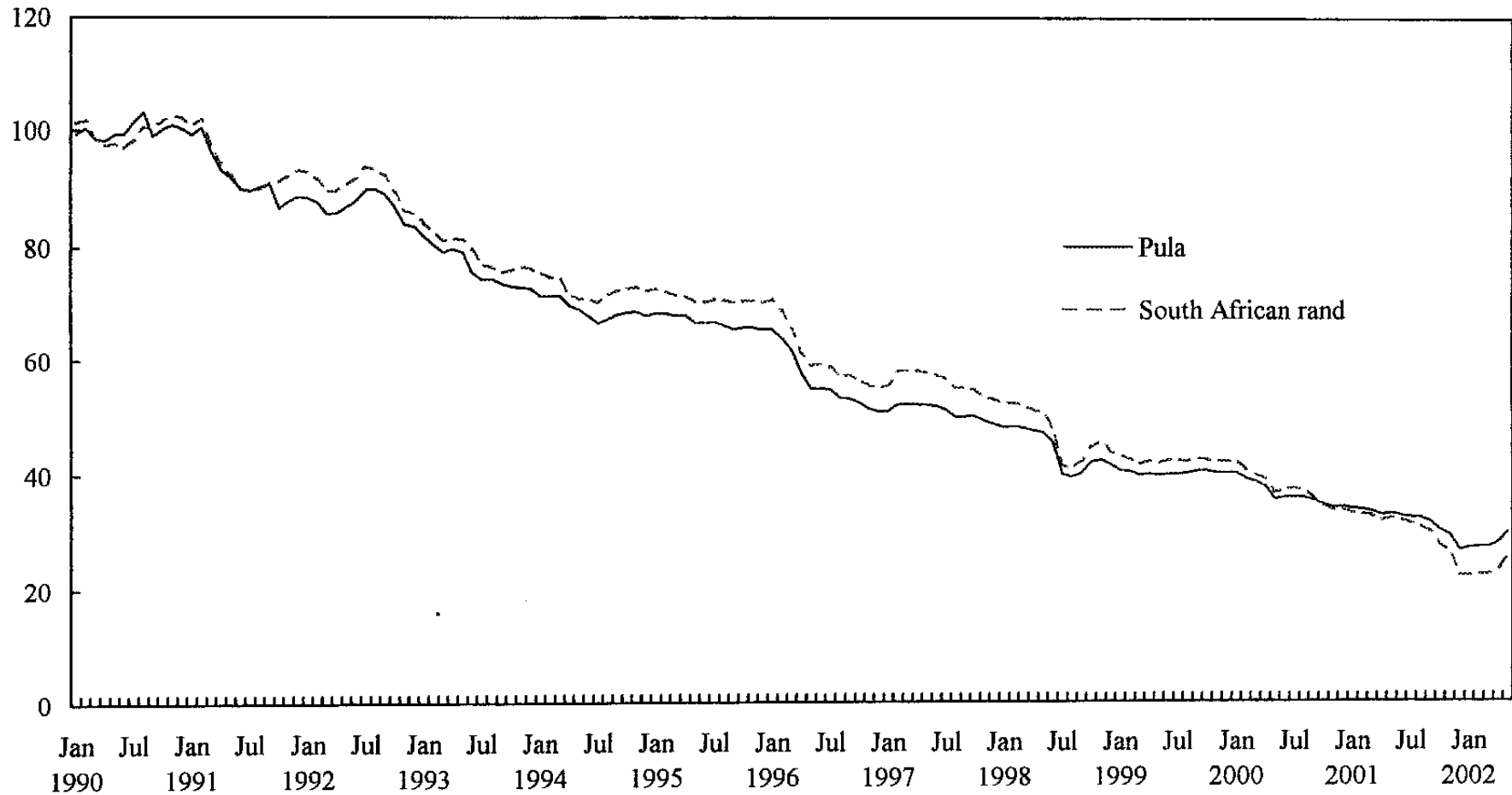
¹⁸ See Jacob K. Atta and others, "Exchange Rate Policy and Price Determination in Botswana," African Economic Research Consortium Research Paper No. RP93, Nairobi, Kenya: African Economic Research Consortium, 1999.

Figure III.1. Botswana: Effective Exchange Rate of Pula, January 1987-May 2002
(Index, 1990=100)



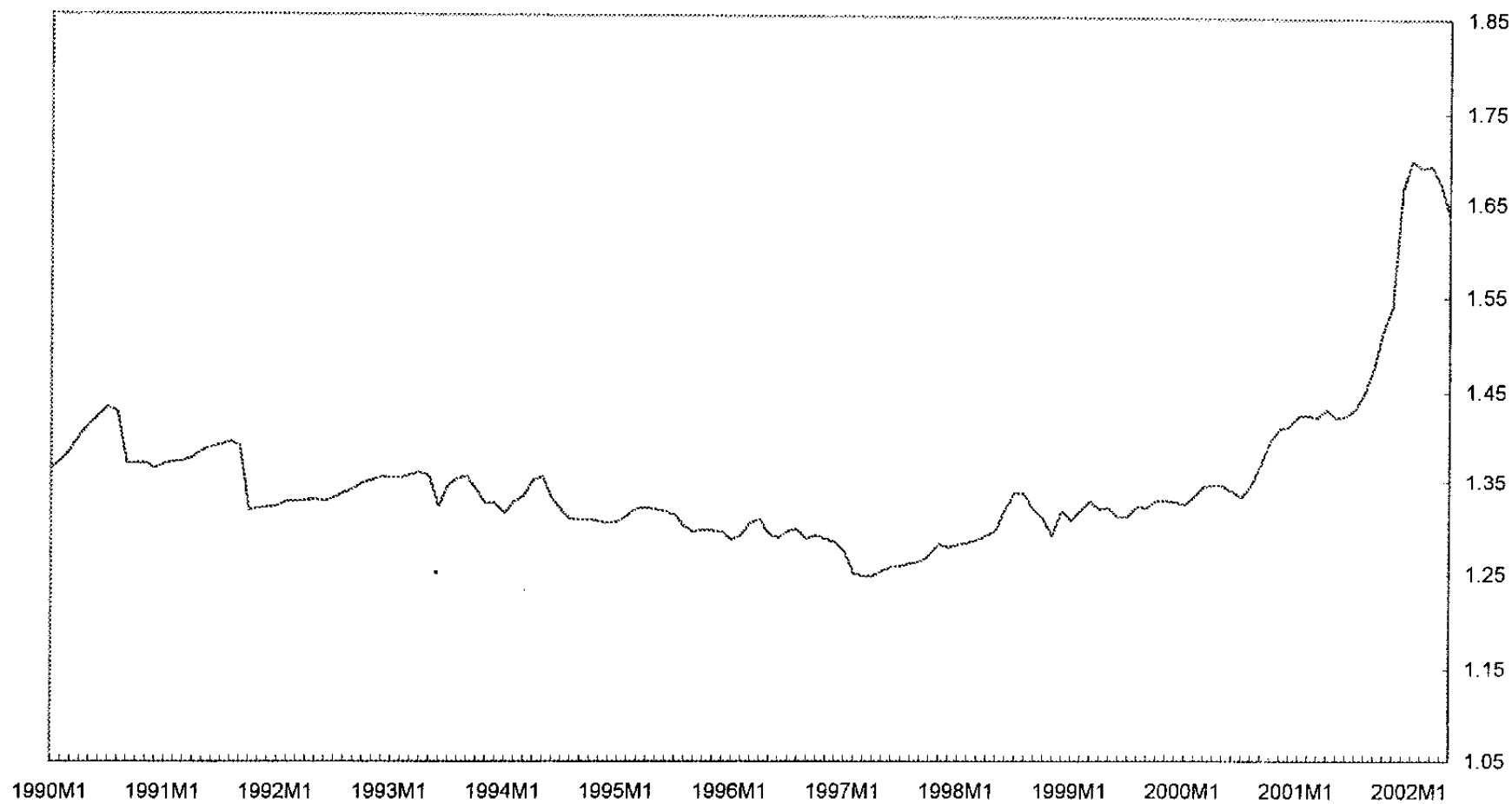
Source: International Monetary Fund, EER Facility.

Figure III.2. Botswana: Exchange Rate Index, January 1990-May 2002
(U.S. dollars per national currency, 1990=100)



Source: International Monetary Fund, Economic Data Sharing System.

Figure III.3. Botswana: Bilateral Exchange Rate, January 1990-May 2002
(South African rand per pula)



Source: International Monetary Fund, Economic Data Sharing System.

C. Exchange Rate Regime, Rand Volatility, and Competitiveness, 2000-02

47. Botswana appears to have moved away from its apparent *de facto* rand targeting in the second half of 2000, as the rand depreciated sharply against major currencies. In September 2000, the pula appreciated outside the band of 1.25-1.35 against the rand, and kept appreciating against the rand throughout 2001. It appears that the authorities began to allow the basket mechanism to function without intervention and no longer devalued the pula to ensure a stable bilateral exchange rate with the rand. In consequence, the pula appreciated to 1.74 rand per pula at end-2001, before easing to 1.68 rand per pula at the beginning of September 2002.

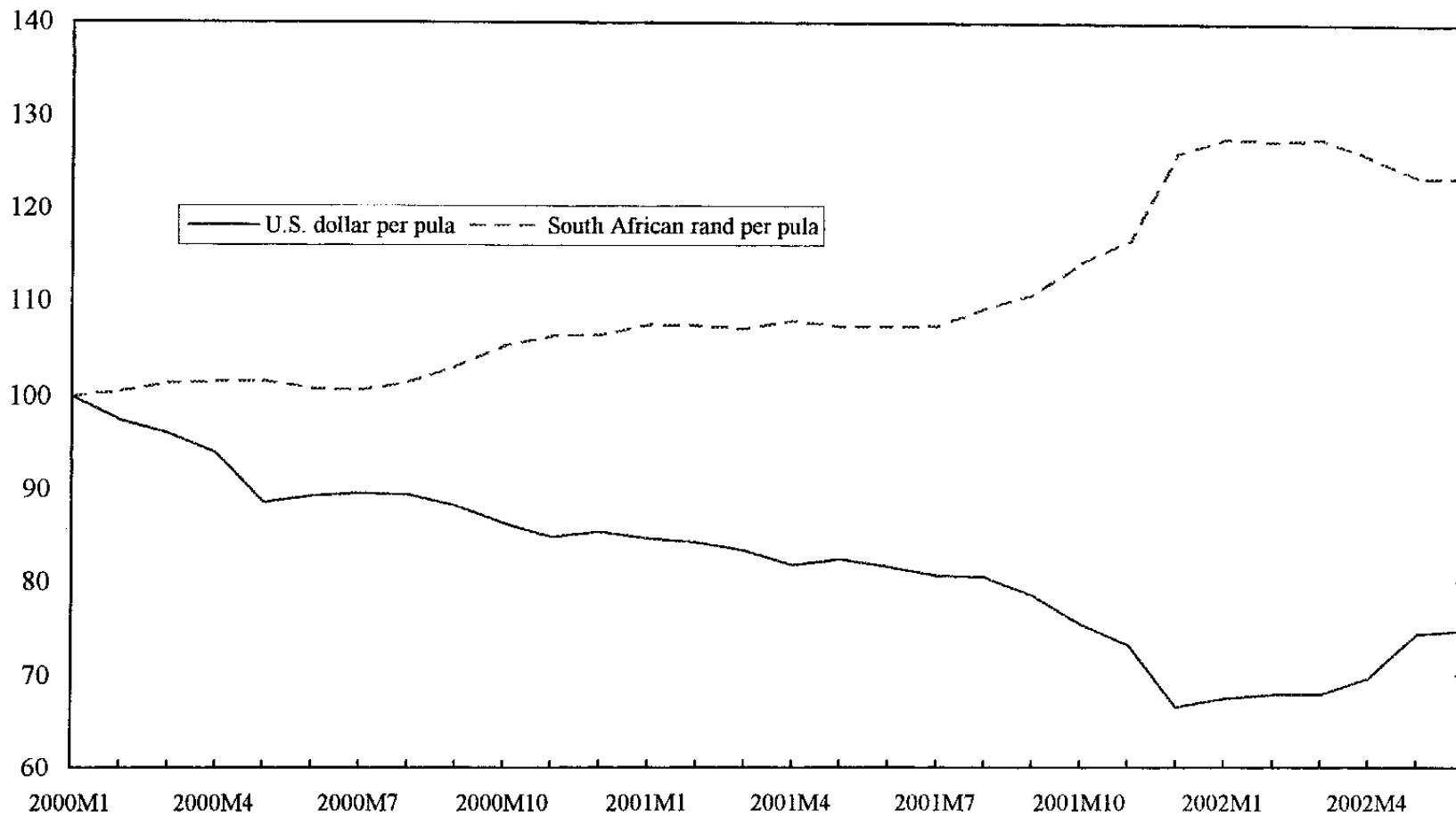
48. As the basket mechanism was allowed to operate through end-December 2001, the effective value of the pula rose. This follows from the fact that the basket is calculated based on the arithmetic average method, so that currency weights in the basket are variable and decreasing weight is given to a depreciating currency.¹⁹ As a result of the depreciation of the rand in 2001, its effective weight in the basket fell significantly and the rand and SDR became almost evenly weighted in the basket. This caused an almost symmetric movement of pula's exchange rates relative to the rand and the U.S. dollar (Figure III.4). The pula, therefore, appreciated in effective terms because the effective index is a geometric weighted average of exchange rate indices in Botswana's major trading partners, with a weight of roughly three-fourth assigned to South Africa.

49. It is clear that Botswana lost competitiveness over the period from September 2000 to December 2001. Owing to the nominal appreciation of the pula against the rand, the REER of the pula appreciated by 11 percent over this period, indicating a significant loss of competitiveness.²⁰ In addition, the internal terms of trade, as measured by the ratio of the price index of tradables to the price index of nontradables, fell during the same period, also pointing

¹⁹ The basket comprises specified units of the rand and the SDR. The composition of the basket will remain the same regardless of subsequent exchange rate changes, until the authorities decide to change it deliberately. Since the currency units are fixed under this method, an increase in the value of a component currency means an increase in the share of that currency in the basket. For a detailed description of the valuation of the currency basket based on arithmetic average and geometric average methods, see Shinji Takagi, "Pegging to a Currency Basket", *Finance & Development*, Vol. 23, September 1986, pp. 41-44.

²⁰ The rand has a weight of 75.7 percent in the IMF's calculation of the effective exchange rate. The NEER during the same period rose by nearly 9 percent.

Figure III.4. Botswana: Bilateral Exchange Rates, January 2000-May 2002
(Index, January 2000=100)



Source: International Monetary Fund, Economic Data Sharing System.

to a weakening of the external competitive position (Figure III.5).^{21, 22} Output growth in the manufacturing sector also slowed, perhaps reflecting the over 20 percent appreciation of the pula against the rand, as South Africa is Botswana's major competitor in manufactures.

50. There is anecdotal evidence that the sharp depreciation of the rand through mid-2002 has not brought about a commensurate fall in prices of imports from South Africa, owing in part to the market expectation that the authorities would intervene again to bring the exchange rate back to the historical range of 1.25–1.35 rand per pula. It has also been suggested that retailers have a tendency to not pass the benefit of lower prices on to their customers. Taken together, the exchange rate pass-through is unlikely to be complete, and a substantial appreciation against the rand would hurt Botswana's external competitiveness, as the lower domestic inflation rate relative to South Africa would be insufficient to compensate for the nominal appreciation against the rand.

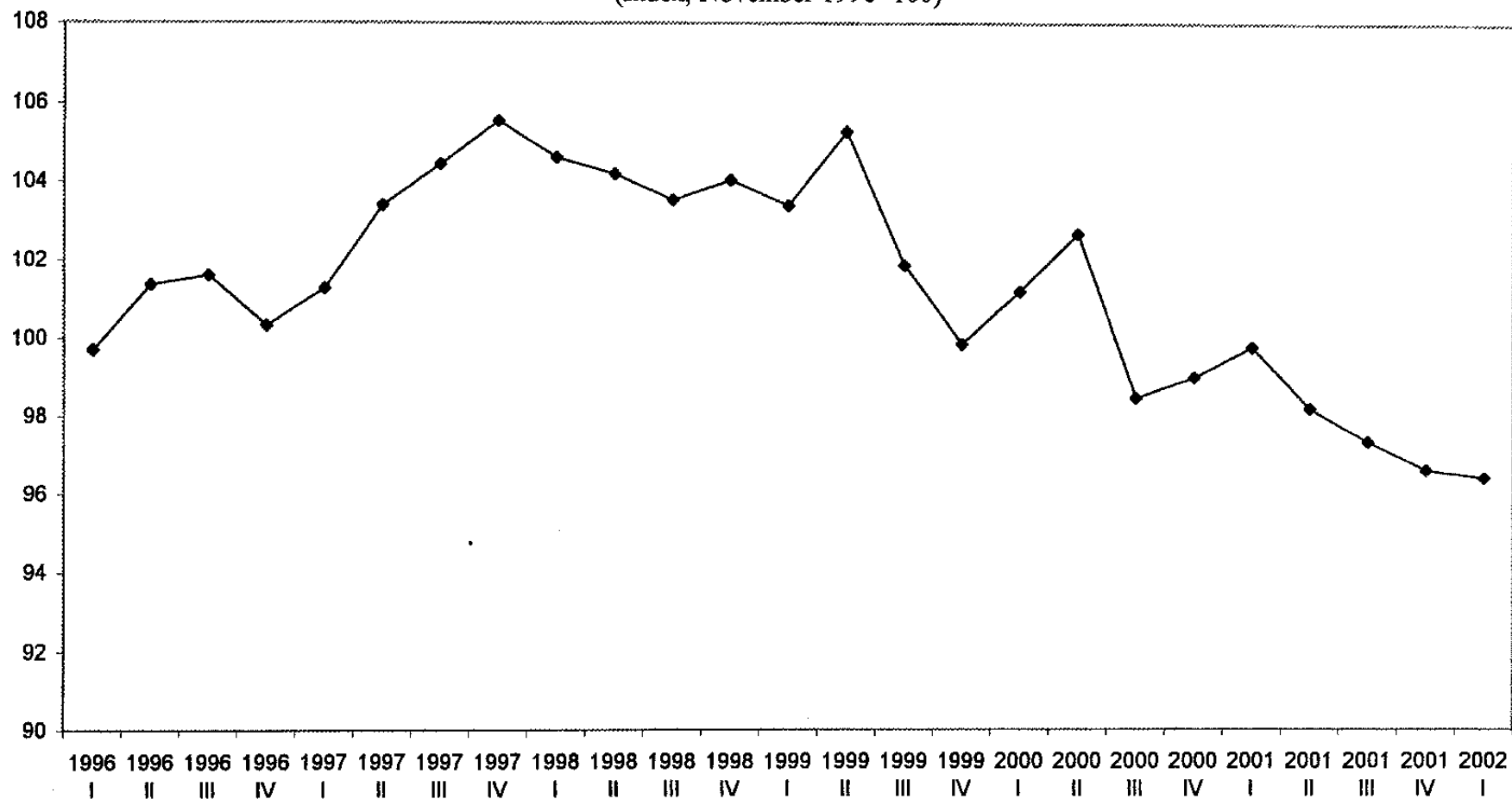
51. The loss of competitiveness is aggravated by Botswana's trade structure. As shown in Figure III.6, more than 80 percent of Botswana's exports—mainly diamonds—go to Europe, while imports from the rand area—dominated by food, intermediate goods, and capital equipment—account for about three fourths of its total imports. Because diamond production in Botswana is leveling off due to technical factors, the pula's depreciation against advanced economy currencies is not expected to substantially boost production of diamonds and export earnings (in foreign currency terms). However, Botswana's nonmineral exports are competing with those from the rand area, both in local and third markets.²³

²¹ A fall in the ratio of the price index of tradables to the price index of nontradables (P_T/P_N) reduces the incentive to produce tradables. It would also increase the domestic consumption of tradables relative to nontradables.

²² Real exchange rate based on normalized unit labor costs in manufacturing is widely regarded as the preferred indicator of external competitiveness. No such data can be constructed owing to a lack of data on labor costs.

²³ For example, the textile industry of Botswana faces competition from the rand area.

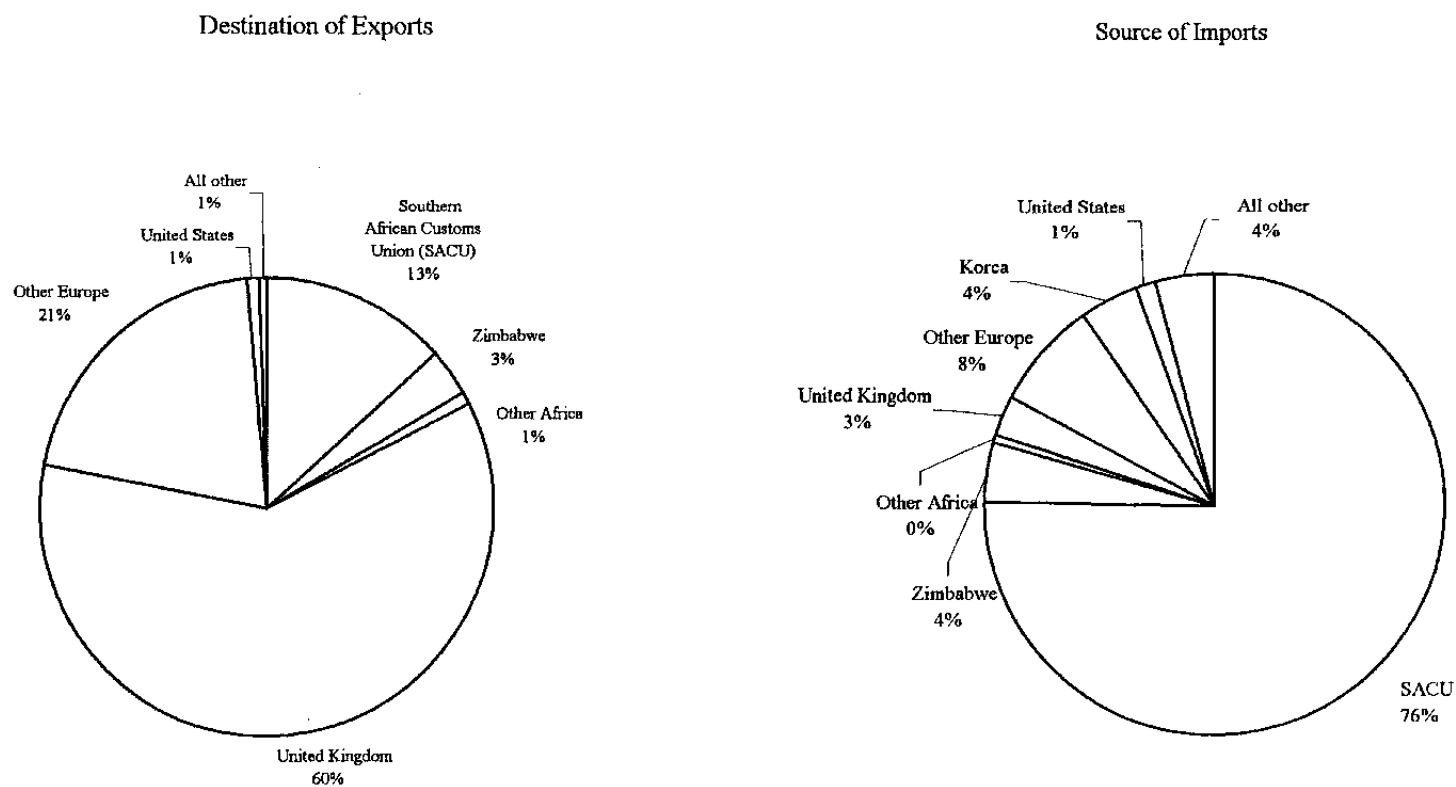
Figure III.5. Botswana: Internal Terms of Trade, 1996:Q1-2002:Q1 1/
 (Index, November 1996=100)



Source: Central Statistics Office; and Fund staff estimates.

1/ The ratio of the price index of tradables to the price index of nontradables.

Figure III.6. Botswana: Direction of Trade, 1996-2000
(In percent of total)



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

As a result of the pula's real appreciation against the rand, Botswana is most likely to lose competitive ground to the rand area, thus dampening the authorities' plan to broaden the export base and diversify the economy in general.

52. More recently, since the beginning of 2002, both the rand and the pula have generally been appreciating against the U.S. dollar. As of end June 2002, the rand and the pula had risen by 18 percent and 12 percent relative to the U.S. dollar, respectively. As a result, the pula depreciated by more than 5 percent against the rand. Taking into account the slightly higher inflation rate in South Africa, the real depreciation of the pula relative to the rand should be somewhat larger than nominal but insufficient to recoup the loss of competitiveness in 2001.

D. Conclusions

53. Policymakers in Botswana are constantly confronted with decisions on the trade-off between price stabilization and competitiveness of exports. The authorities have tried to strike a balance by pegging the pula to a basket of the rand and SDR, while assigning a dominant weight to the rand and following the rand movement closely through discretionary adjustment. For most of the period since 1990, this arrangement has served Botswana well, and the authorities had been quite successful in achieving a stable REER before mid-2001.

54. It appears that sometime in 2000, the authorities decided to give up an effective targeting of the rand and follow the basket mechanism more closely. However, given the way currency weights are designed and the dramatic movement of cross exchange rates, the basket peg can no longer guarantee a stable NEER, and the REER appreciated quickly during the second half of 2001. The movements of both the REER and the bilateral real exchange rate relative to the rand indicate loss of external competitiveness, especially in view of the trade structure of Botswana.

55. A reversion to the rand-biased intervention to restore competitiveness could undermine the hard-won credibility of the government's determination to implement strictly the basket peg arrangement.

IV. BOTSWANA—PENSION FUND ARRANGEMENTS AND ASSET MARKET DEVELOPMENTS²⁴

A. Introduction

56. In 2001, the Botswana government began to convert the existing state pension system from a defined benefit (DB) system to a defined contribution (DC) scheme. Accrued pension assets of those employees opting for the new system were transferred to private pension fund managers for investment in Botswana and abroad. In the same year, the Botswana Stock Exchange index rose by over 69 percent. The large infusion of capital from private pension funds appears to have contributed significantly to the rise in asset prices. There is a danger that as more funds are transferred to private pension managers, the local investment requirement of 30 percent could become binding thereby distorting investment decisions and fueling further asset price inflation.

B. Description of Pension Arrangements

57. On April 1, 2001 the government of Botswana started a new *defined contribution* fund—the Botswana Public Officers Pension Fund, to replace the existing Government Pension Scheme, which is a *defined benefit* pension fund, providing benefits based on service and salary. All current government employees are being given the option to transfer to the new fund by March 31, 2003. All future new government employees would be required to join the new scheme as a condition of service. The new defined contribution pension scheme would provide benefits that are primarily determined by the amount of the contributions and the investment returns earned on those contributions.

58. By the end of the 2001/02 financial year, over 22,000 government employees had opted for the new Fund, and P 2.6 billion (approximately 8 percent of GDP) had already been transferred from government deposits at the central bank to pension managers. The 2002/03 budget provides for an additional P 5 billion to be transferred. These are mostly benefits accrued under the old system.

59. The major difference between the old defined benefit scheme and the new defined contribution scheme is that instead of getting benefits based on service and salary, the employee would get benefits primarily determined by the amount of the contributions and the investment returns earned on those contributions. According to the new pension scheme, members are required to contribute 5 percent of their monthly salary into the fund. They can make additional voluntary contributions of up to 10 percent of their salary. For members who had been on the old scheme, their actuarial reserve value would be transferred to the new fund as an opening balance. All contributions are fully tax-deductible. In addition, the employer would pay an amount equal to 15 percent of the monthly salary directly into the fund.

60. Three major benefits are often cited for DC schemes over DB arrangements.²⁵ First, the increased incentive to save, thereby leading to increased investment, and faster economic

²⁴ Prepared by Tushar Poddar.

growth. Some extra saving will also flow abroad, boosting national income through investment returns on national wealth. This benefit is especially valuable for smaller economies with fewer domestic investment opportunities. The second benefit is through the labor market as incentives to retire will be reduced if retirement incomes depend on personal savings. Hence people on the defined contribution scheme tend to work longer. Third, there is more efficient use of capital as management concentrates on shareholder value. The increased capital encourages broader and deeper capital markets and effective corporate governance. Among the arguments against a defined contribution scheme is that it exposes pensioners to management risk through incompetence or fraud in the management of their assets, and investment risk due to stock market fluctuations.

C. Evolution of Asset Prices in Botswana

61. The Botswana Stock Exchange witnessed a large increase in 2001, with the domestic share index increasing from 1453 to 2,455, an increase of 68.9 percent. The market capitalization of the stock market increased by almost 70 percent. As Figure IV.1 shows, this is the largest increase in the stock market since its inception in 1989.

62. There is a vast literature measuring the extent of over or under valuation of a stock market. Here we qualitatively consider the factors which may be driving the Botswana stock price increase. A simple formula which captures some of the primary determinants of asset prices can be expressed as the following:²⁶

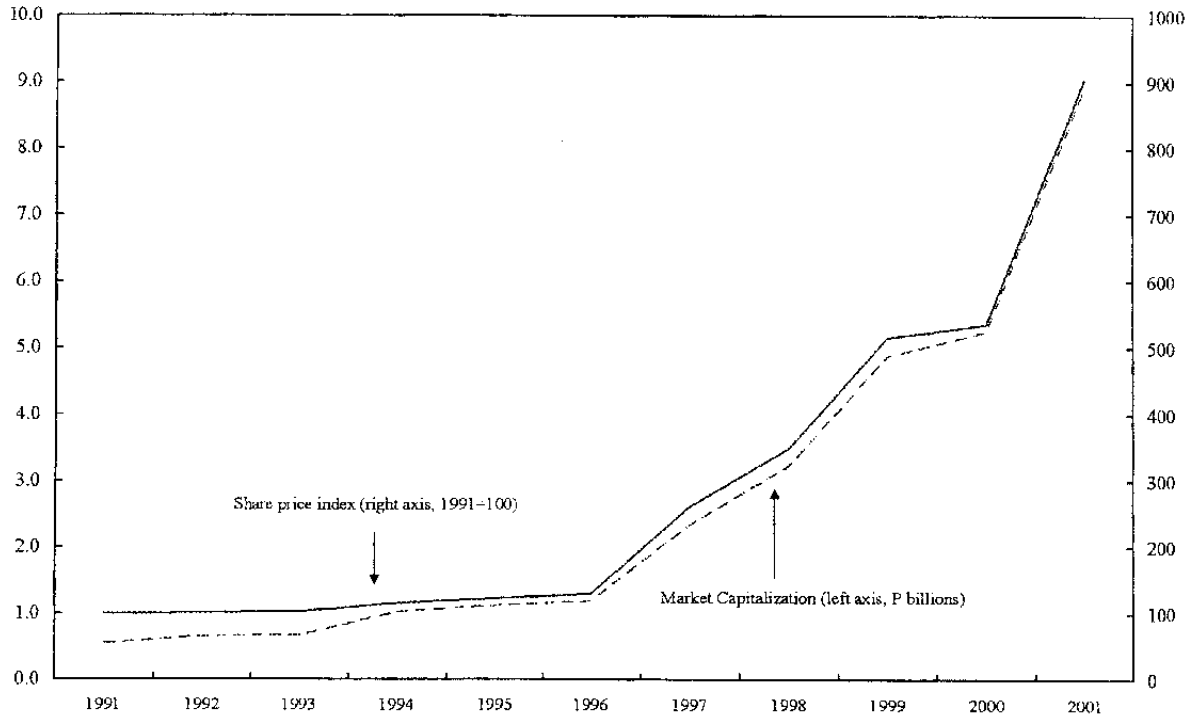
$$P_t = \frac{D_t(1+g)}{i + \rho - g}$$

where P_t is the price of the asset; D_t is the dividends it pays; g is the growth rate of dividends; i is the risk free interest rate, and ρ is the equity risk premium. Thus, equity prices should rise when the risk-free interest rate or investors' risk premium falls, and/or the growth of earnings increases.

²⁵ There is a large theoretical literature on the economic effects of these two alternative pension arrangements. See Nicholas Barr, "Reforming Pensions: Myths, Truths, and Policy Choices," IMF Working Paper 00/139 (Washington: IMF, 2000) and Richard Disney, "Crises in Public Pension Programmes in OECD Countries: What Are the Reform Options?" *Economic Journal*, Vol. 110 (February 2000), pp. F1-F23 for a review of the arguments for and against the two pension arrangements.

²⁶ This formula is known as the "Gordon Equation" after Myron J. Gordon, *The Investment, Financing and Valuation of the Corporation* (Homewood, Illinois: Irwin, 1962).

Figure IV.1. Botswana: Stock Exchange Developments, 1991-2001



63. The large increase in equity prices does not appear to be entirely based on economic fundamentals. As Table IV.1 shows, dividend yields in 2001 were not substantially different from those in 2000, an average of 5.4 compared to 4.9 in 2000. If we make the assumption that earnings growth is related to the growth rate of the real economy, then the earnings profile has actually undergone a decline. Botswana's economy grew by only 1.2 percent in 2001, and the growth potential in the medium term appears to have declined to about 3.5 percent due to a plateauing of diamond production. Prime lending rates remained unchanged during the year, whereas prime real interest rates increased from 6.7 percent in end-December 2000 to 9.4 percent by end-December 2001. The equity risk premium should have increased, affected

Table IV.1. Botswana Stock Exchange: Total Listings, 1991-2001

	Shares Traded			Market Capitalization (P million)	Dividend Yield (In Percent)	Share Index (June 1989=100)	
	Number of Transactions	Volume (thousand)	Value (P million)				
End of							
1991	105	442.0	1.7	545.0	4.7	271.7	
1992	107	1,209.3	3.3	657.0	5.3	273.9	
1993	98	3,189.6	11.2	668.0	5.8	278.7	
1994	381	7,238.6	16.1	1,024.0	5.2	312.9	
1995	87	4,293.4	10.4	1,120.0	6.5	332.8	
1996	51	360.4	1.0	1,189.0	7.5	352.2	
1997	119	13,000.4	55.2	2,336.0	4.8	708.5	
1998	125	4,217.6	10.5	3,225.0	5.0	946.7	
1999	Mar	133	1,553.8	7.7	3,375.0	5.2	990.3
	Jun	150	2,835.0	15.8	3,446.0	5.1	1,033.5
	Sep	188	2,972.1	15.6	3,882.0	3.7	1,417.1
	Dec	153	2,177.6	8.0	4,874.0	3.8	1,399.3
2000	Jan	207	3,143.1	15.3	4,842.0	3.9	1,389.0
	Feb	235	1,215.6	9.6	4,994.0	4.0	1,432.7
	Mar	234	4,461.6	19.6	5,127.0	3.8	1,470.8
	Apr	111	1,972.2	12.5	5,198.0	3.7	1,491.3
	May	221	6,079.5	31.2	5,212.0	6.0	1,491.2
	Jun	196	7,212.9	33.6	5,172.0	6.1	1,434.7
	Jul	145	11,136.4	99.0	5,405.0	4.0	1,499.4
	Aug	175	3,200.2	15.0	5,650.0	4.8	1,566.5
	Sep	129	1,266.1	8.3	5,320.0	5.4	1,475.1
	Oct	122	1,957.2	10.5	5,296.0	5.4	1,467.8
	Nov	152	2,347.6	8.8	5,146.0	5.7	1,426.3
	Dec	70	2,585.0	14.0	5,244.0	5.6	1,453.5
2001	Jan	108	953.5	5.2	5,248.2	5.6	1,452.0
	Feb	148	2,770.7	11.3	5,848.1	6.1	1,617.8
	Mar	209	3,815.4	14.4	6,263.2	5.5	1,732.7
	Apr	180	3,218.5	18.4	6,534.0	5.4	1,791.1
	May	170	2,771.5	16.6	7,048.7	5.2	1,938.5
	Jun	193	8,992.3	46.4	7,370.2	5.7	2,036.0
	Jul	242	3,601.3	25.0	7,806.7	5.4	2,153.4
	Aug	356	6,209.4	33.3	8,021.6	5.1	2,212.3
	Sep	266	6,572.6	64.5	8,028.6	5.4	2,214.2
	Oct	287	13,774.8	77.7	8,366.5	5.1	2,305.8
	Nov	33	7,005.8	42.2	8,629.1	5.1	2,378.2
	Dec	226	5,725.1	45.1	8,909.2	4.9	2,455.4

Source: Botswana Stock Exchange.

by the global slump in equity prices, as well as the effects of September 11. Hence, economic fundamentals have not changed as dramatically as the share price increase would warrant.

64. There seems to be some evidence to suggest that the change to a DC pension scheme and funding of past liabilities rather than economic fundamentals is driving the asset price boom. The total market capitalization of the BSE at the end of 2000 was about P 5.2 billion. Out of this only about 40-50 percent of the stock values are free float, or tradable. There are only 29 securities listed on the exchange and the counters are thin and illiquid.²⁷ Under the DB scheme, government deposits were invested in foreign reserves. With the change in system, there has been a large inflow of funds to private fund managers (already P 2.5 billion), and consequently a big increase in demand for domestic assets.²⁸ Figure 2 suggests that pension funds hold 37 percent of their total assets in Botswana equities. Hence the stock market received a large infusion of capital relative to its size in 2001.

D. Impact of Local Investment Regulation

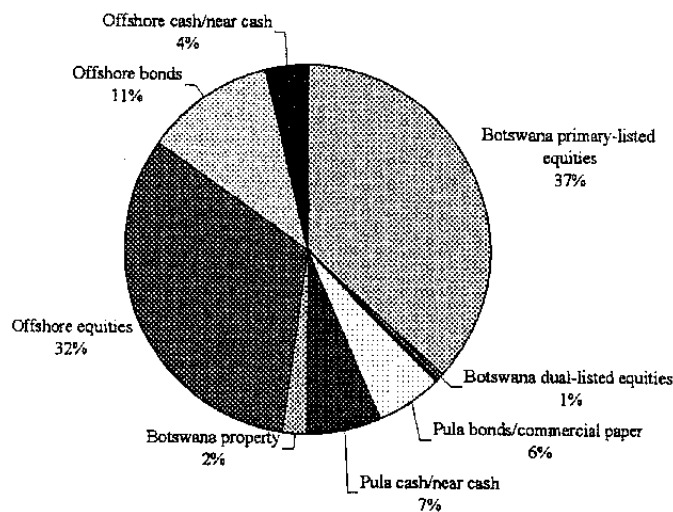
65. One of the primary benefits of a DC pension system is that it can encourage financial deepening in bond and equity markets. There is evidence from Chile that moving from a pay-as-you-go system to a fully funded scheme significantly enhanced the development of financial markets.²⁹ The key issue is whether the economy is able to absorb the extra liquidity due to the pension regime switch. First, there appear to be limited opportunities for investment in the economy: banks are flush with liquidity, and investment in Bank of Botswana certificates has risen since the change-over began. Second, as far as the stock market is concerned, there has not as yet been a significant demand from new firms to list on the stock exchange. Third, the fixed income market remains underdeveloped with little new issuance of debt by firms. Deepening of financial markets has yet to occur in Botswana, although future development cannot be ruled out. The government is planning a debt issue, which could stimulate the private market.

²⁷ Botswana's stock market turnover ratio ranked 85 among 105 countries in 1999. Ratios were calculated in dollar terms by dividing total 1999 value traded by average market capitalization for 1998 and 1999. See Standard & Poor's *Emerging Stock Markets Factbook 2000* (May 2000) for further details. Furthermore, the volume of shares trades in 2001 was 68.4 million, which was not a large increase on the 1997 volume of 60.8 million.

²⁸ Correspondingly, there was a trend-breaking decline in end-year foreign reserves from US\$6,319 million to US\$5,897 million in 2001.

²⁹ See Robert Holzmann "Pension Reform, Financial Market Development, and Economic Growth: Preliminary Evidence from Chile." IMF Working Paper, 96/94 (Washington: IMF, 1996).

Figure IV.2. Botswana: Pension Fund Asset Distribution, May 31, 2002



66. Among the arguments against a DC scheme is that such an arrangement exposes pensioners to investment risk due to stock market fluctuations. Regulations on minimum local investment could raise risks to pensioner in three ways. First, they could limit the warranted diversification of the portfolio to reduce portfolio risk. Second, the optimal investment choice could be distorted as the fund manager is prevented from seeking the highest risk adjusted return. Third, to the extent that domestic investment requirements fuel a domestic asset price bubble, they could raise the exposure of pensioners to investment risk and the deleterious effects of a sudden fall in the stock market. A related concern is that sharp swings in stock prices can increase financial fragility which reduces the system's capacity to channel funds from savers to borrowers, thus raising the cost of capital, restricting the access to liquid funds for innovative entrepreneurs, and thereby impeding financial sector deepening.

67. Figure IV.2 shows the distribution of assets under 159 pension and provident fund managers. As the chart shows, the total assets held abroad is 47 percent as at May 31, 2002. Hence the constraint of a maximum of 70 percent overseas investment is currently nonbinding. However, this aggregate figure masks variation in the distribution of assets across pension funds. In discussions with pension fund managers, it was indicated to Fund staff that the constraint on overseas investment was indeed binding for some. Looking forward, this constraint could become binding in the aggregate if domestic investment opportunities continue to be limited and more funds are transferred to private fund managers.

E. Risks of Asset Price Inflation

68. Although the stock market plays a relatively less important role in Botswana's economy compared to other emerging markets,³⁰ it is important to review, the risks of asset price inflation. Here we discuss theoretically the major channels through which a stock market bubble can affect the real economy.³¹ Normally, asset price inflation is led by a wave of optimism contributing to an underestimation of risk, over extension of credit, and buoyant consumer expenditures. When expectations realign with fundamentals, the imbalances built up during the boom are corrected abruptly, as excessive optimism gives way to excessive pessimism, causing costly disruptions to both the financial system and the real economy. The transmission channels from stock prices to economic activity work through its effects on consumption, investment, and financial fragility, and we consider each of these in turn.

Asset prices and consumption

69. Equity prices affect private consumption through three main channels:

- Since consumption spending is a function of households' lifetime wealth, and financial assets are an important part of wealth, a fall in stock prices is likely to reduce consumption.
- Consumption in any given period is a function of peoples' expectations about their wage income. When real asset prices fall, they affect such expectations by signaling slower growth of real incomes in the future. Hence current consumption will be reduced.
- Since the market value of equity holdings affect the household's borrowing capacity to finance current consumption, stock price falls will have a further negative impact on aggregate consumption.

70. In Botswana, to the extent that the new DC scheme transfers pension assets to individuals, which are then invested in the stock market, a larger portion of the pensioner's wealth is in the form of financial assets than previously. Hence, falls in the stock market could reduce consumption to a larger extent than under the DB system.

³⁰ The end-2001 stock market capitalization-to-GDP ratio of Botswana was about 28. This is at the lower end of market capitalization-to-GDP ratios of emerging markets, which are largely spread between 10 and 100. See Standard & Poor's *Emerging Stock Markets Factbook 2000* for more on this.

³¹ This section draws on Chapter III, "Asset Prices and the Business Cycle," IMF *World Economic Outlook*, May 2000.

Asset prices and investment

71. Equity prices can theoretically affect investment through three channels:
- A decrease in asset prices increases the cost of new capital relative to existing capital, causing investment to fall.
 - Falling stock prices indicate lower future output growth. Since private fixed investment is driven by future output growth,³² current investment will decline.
 - Falling stock prices will worsen firms' and banks' balance sheets, inducing banks to charge a higher finance premium on loans, hence raising the cost of capital.³³
72. In Botswana, the stock market is currently not a major source of capital for firms.³⁴ Hence the impact on investment of a fall in equity prices is likely to be muted. However, if the new pension scheme does encourage more firms to raise capital through new listings on the stock exchange, then the negative impact on investment of stock market falls will be increased.

Asset prices and financial fragility

73. Greater exposure to stock price developments implies that sharp swings in stock prices have a major impact on the balance sheets of financial institutions. One direct channel is through revaluations of non-loan assets and changes in earnings accruing from brokerage fees on the value of asset transactions. In Botswana, commercial banks are likely to be largely unaffected by a drop in equity prices because of the structure of their assets and their level of compliance with prudential regulations.
74. Under generalized asset price deflation, these effects are reinforced by the falling value of loan collateral. As financial institutions try to sell those assets at fire sale prices, the negative impact on asset markets and banks' balance sheets can become self-reinforcing. The combination of these effects can create a "credit crunch" worsening the contractionary effects

³² The so-called flexible accelerator model. See Dale Jorgenson, "Capital Theory and Investment Behaviour," *American Economic Review*, Vol. 53 (May 1963). Also see Mullins and Wadhvani, "The Effect of the Stock Market on Investment," *European Economic Review*, Vol. 33 (May 1989)

³³ See Bernanke, Gertler, and Gilchrist, "The Financial Accelerator and the Flight to Quality," *Review of Economics and Statistics*, Vol. 78 (February 1996).

³⁴ As of July 1, 2002, there were over 6,000 firms listed as VAT traders, but only 16 domestic firms were listed on the stock exchange. Furthermore, there were no new listings of firms in 2001.

triggered by the original drop in asset prices. Given the level of development of Botswana's financial system, there is little reason to expect a significant impact on Botswana's economy through this channel if asset prices fall.

Table 1. Botswana: GDP by Type of Expenditure at Current Prices, 1995/96-2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	(In millions of pula)					
Total consumption	8,721.5	10,025.7	11,589.1	13,515.7	15,365.6	17,986.3
General government	4,006.7	4,711.0	5,452.9	6,578.8	7,524.5	9,268.1
Central government	3,560.7	4,194.9	4,853.6	5,840.6	6,709.6	8,217.7
Local government	446.0	516.1	599.3	738.2	814.9	1,050.4
Private	4,714.7	5,314.7	6,136.1	6,936.8	7,841.1	8,718.2
Total investment	3,371.0	4,603.9	6,056.1	7,917.2	4,681.3	4,610.9
Gross fixed capital formation	3,632.4	4,275.9	5,170.1	6,263.3	6,744.5	6,701.6
Public	1,672.0	2,239.6	2,695.5	3,333.2	2,934.5	3,371.9
Private	1,960.4	2,036.3	2,474.6	2,930.1	3,810.0	3,329.7
Change in stocks	-261.4	328.0	885.9	1,653.8	-2,063.2	-2,090.7
Net exports of goods and services	2,111.4	3,110.6	2,517.4	90.9	5,315.8	6,755.3
Exports of goods and services	7,411.6	9,881.6	11,392.8	10,051.5	15,318.5	16,510.3
Of which: exports of goods	6,766.2	9,158.5	10,304.4	8,559.9	13,636.7	14,748.8
Imports of goods and services	-5,300.2	-6,771.0	-8,875.4	-9,960.6	-10,002.7	-9,755.0
Of which: imports of goods	-4,526.8	-5,926.3	-7,761.6	-8,571.2	-8,446.0	-8,135.6
Gross domestic savings 2/	5,482.4	7,714.5	8,573.5	8,008.1	9,997.1	11,366.2
Public	1,553.2	2,405.7	3,461.9	2,961.6	2,339.2	5,080.8
Private	3,929.2	5,308.8	5,111.6	5,046.5	7,657.9	6,285.4
Resource gap	2,111.4	3,110.6	2,517.4	90.9	5,315.8	6,755.3
Total GDP	14,203.9	17,740.2	20,162.6	21,523.7	25,362.7	29,352.5
	(In percent of GDP)					
Total consumption	61.4	56.5	57.5	62.8	60.6	61.3
General government	28.2	26.6	27.0	30.6	29.7	31.6
Central government	25.1	23.6	24.1	27.1	26.5	28.0
Local government	3.1	2.9	3.0	3.4	3.2	3.6
Private	33.2	30.0	30.4	32.2	30.9	29.7
Total investment	23.7	26.0	30.0	36.8	18.5	15.7
Gross fixed capital formation	25.6	24.1	25.6	29.1	26.6	22.8
Public	11.8	12.6	13.4	15.5	11.6	11.5
Private	13.8	11.5	12.3	13.6	15.0	11.3
Change in stocks	-1.8	1.8	4.4	7.7	-8.1	-7.1
Net exports of goods and services	14.9	17.5	12.5	0.4	21.0	23.0
Exports of goods and services	52.2	55.7	56.5	46.7	60.4	56.2
Of which: exports of goods	47.6	51.6	51.1	39.8	53.8	50.2
Imports of goods and services	-37.3	-38.2	-44.0	-46.3	-39.4	-33.2
Of which: imports of goods	-31.9	-33.4	-38.5	-39.8	-33.3	-27.7
Gross domestic savings 2/	38.6	43.5	42.5	37.2	39.4	38.7
Public	10.9	13.6	17.2	13.8	9.2	17.3
Private	27.7	29.9	25.4	23.4	30.2	21.4
Resource gap	14.9	17.5	12.5	0.4	21.0	23.0

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 1993/94 Prices, 1995/96-2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	(In millions of pula)					
Consumption	7,287.0	7,676.2	8,390.4	8,729.9	9,245.6	10,091.6
Public	3,404.8	3,681.6	3,970.0	4,193.9	4,538.0	5,200.0
Private	3,882.2	3,994.6	4,420.4	4,535.9	4,707.6	4,891.6
Total investment	2,668.0	3,441.0	4,124.7	5,613.4	3,168.8	2,859.6
Gross fixed capital formation	3,008.3	3,185.6	3,723.3	4,393.4	4,459.1	4,094.4
<i>Of which: General government</i>	1,346.4	1,547.9	2,300.5	2,246.8	2,333.5	2,013.8
Changes in stocks	-340.3	255.4	401.5	1,220.0	-1,290.3	1,234.8
Net exports of goods and services	1,803.9	1,869.1	1,111.5	-686.2	2,199.6	2,799.7
Exports of goods and services	6,206.5	6,985.5	7,405.6	5,951.8	8,320.4	8,321.9
Imports of goods and services	-4,402.6	-5,116.4	-6,294.1	-6,638.0	-6,120.8	-5,522.2
Net errors and omissions	270.6	-282.6	102.0	638.6	836.9	1,114.9
GDP at constant prices	12,029.5	12,703.7	13,728.6	14,295.6	15,450.9	16,865.8
	(Annual percentage change)					
Consumption	2.3	5.3	9.3	4.0	5.9	9.2
Public	4.5	8.1	7.8	5.6	8.2	14.6
Private	0.4	2.9	10.7	2.6	3.8	3.9
Total investment	-5.4	29.0	19.9	36.1	-43.5	-9.8
<i>Of which: Gross fixed capital formation</i>	163.1	5.9	16.9	18.0	1.5	-8.2
Net exports of goods and services	35.9	3.6	-40.5	-161.7	-420.5	27.3
Exports of goods and services	9.2	12.6	6.0	-19.6	39.8	0.0
Imports of goods and services	1.0	16.2	23.0	5.5	-7.8	-9.8
GDP at constant prices	5.5	5.6	8.1	4.1	8.1	9.2

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.

Table 3. Botswana: GDP by Type of Economic Activity at Current Prices, 1995/96-2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	(In millions of pula)					
Agriculture	588	602	689	654	665	716
Mining	4,800	6,908	7,665	6,693	8,389	10,287
Manufacturing	616	727	883	1,011	1,128	1,240
Water and electricity	276	320	371	458	568	692
Construction	884	1,017	1,154	1,360	1,424	1,563
Trade and hotels	1,435	1,784	2,018	2,339	2,735	3,198
Transport	514	575	667	814	935	1,089
Banking, insurance, and business services	1,615	1,775	2,079	2,410	2,761	3,159
General government	2,122	2,478	2,919	3,751	4,105	4,654
Social and personal services	610	682	746	870	994	1,090
Adjustment items	744	872	972	1,163	1,660	1,666
GDP at current prices	14,204	17,740	20,163	21,524	25,363	29,353
	(In percent of total GDP)					
Agriculture	4.1	3.4	3.4	3.0	2.6	2.4
Mining	33.8	38.9	38.0	31.1	33.1	35.0
Manufacturing	4.3	4.1	4.4	4.7	4.4	4.2
Water and electricity	1.9	1.8	1.8	2.1	2.2	2.4
Construction	6.2	5.7	5.7	6.3	5.6	5.3
Trade and hotels	10.1	10.1	10.0	10.9	10.8	10.9
Transport	3.6	3.2	3.3	3.8	3.7	3.7
Banking, insurance, and business services	11.4	10.0	10.3	11.2	10.9	10.8
General government	14.9	14.0	14.5	17.4	16.2	15.9
Social and personal services	4.3	3.8	3.7	4.0	3.9	3.7
Adjustment items	5.2	4.9	4.8	5.4	6.5	5.7
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 1993/94 Prices, 1995/96-2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	(In millions of pula)					
Agriculture	490	453	480	443	405	424
Mining	4,076	4,311	4,722	4,588	5,142	6,149
Manufacturing	573	594	626	661	684	695
Water and electricity	257	269	295	334	371	396
Construction	747	788	822	917	939	955
Trade and hotels	1,193	1,359	1,423	1,502	1,596	1,707
Transport	438	456	498	579	594	624
Banking, insurance, and business services	1,352	1,368	1,501	1,636	1,707	1,757
General government	1,855	2,009	2,196	2,333	2,474	2,637
Social and personal services	531	558	575	618	645	654
Adjustment items	519	539	592	684	893	869
GDP at constant prices	12,029	12,704	13,729	14,296	15,451	16,866
<i>Of which</i> : Nonmining private GDP	7,953	8,393	9,007	9,707	10,309	10,717
	(Annual percentage change)					
Agriculture	6.6	-7.5	5.9	-7.6	-8.7	4.9
Mining	4.5	5.8	9.5	-2.8	12.1	19.6
Manufacturing	7.8	3.7	5.4	5.7	3.5	1.6
Water and electricity	0.2	4.6	9.9	12.9	11.3	6.7
Construction	3.3	5.5	4.3	11.5	2.4	1.6
Trade and hotels	9.8	13.9	4.7	5.6	6.2	7.0
Transport	0.4	4.3	9.1	16.2	2.6	5.0
Banking, insurance, and business services	9.7	1.2	9.7	9.0	4.3	2.9
General government	5.2	8.3	9.3	6.3	6.0	6.6
Social and personal services	5.4	5.0	2.9	7.5	4.4	1.3
Adjustment items	2.1	3.8	9.9	15.5	30.6	-2.7
GDP at constant prices	5.5	5.6	8.1	4.1	8.1	9.2
<i>Of which</i> : Nonmining private GDP	6.1	5.5	7.3	7.8	6.2	4.0

Sources: Central Statistics Office; and Fund staff estimates.

1/ National accounts year beginning July 1.

Table 5. Botswana: Beef Sales, 1995/96-2000/01 1/

	1995/96	1996/97	1997/98	1998/99
Boneless beef sales by category				
	(In thousands of tons)			
Gross sales	19	19	21	18
	(In millions of pula)			
Gross sales	208	238	247	205
Beef sales by country				
	(In thousands of tons)			
Total	19	19	21	...
United Kingdom	5	8	12	...
South Africa	4	3	5	...
Other	10	8	5	...
	(In millions of pula)			
Total	208	238	247	241
United Kingdom	78	127	138	135
South Africa	34	28	35	20
Other	97	84	74	86
Memorandum item:				
	(In thousands)			
Total cattle processed	146	127	163	140

Source: Botswana Meat Commission.

1/ Year beginning October 1.

Table 6. Botswana: Mineral Production and Value, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Diamonds							
Volume (in millions of carats)	17	18	20	20	21	25	26
Copper-nickel matte							
Value (in millions of pula) 1/	558	736	759	456	558	801	...
Volume (in thousands of tons)	50	53	42	37	39	46	31
Unit value (in pula per ton)	11,184	13,793	18,021	12,343	14,195	17,595	...
Coal							
Value (in millions of pula) 1/	25	21	25	30	26	30	...
Volume (in thousands of tons)	898	765	775	924	945	947	702
Unit value (in pula per ton)	28	27	32	32	27	31	...
Soda ash							
Value (in millions of pula) 1/	98	52	132	137	106	122	...
Volume (in thousands of tons)	202	118	200	190	229	190	177
Unit value (in pula per ton)	487	442	658	720	463	639	...
Salt							
Value (in millions of pula) 1/	39	12	37	30	19	32	...
Volume (in thousands of tons)	392	108	185	140	168	185	126
Unit value (in pula per ton)	99	110	202	212	115	175	...

Source: Central Statistics Office.

1/ Estimated value of production.

Table 7. Botswana: Agricultural Producer Prices, 1995/96-1999/2000 1/
(Pula per ton)

	1995/96	1996/97	1997/98	1998/99	1999/00
Sorghum	380	319	422	486	574
White maize	464	437	437	466	644
Pulses	695	737	797	783	876
Sunflower seeds	620	310	625	625	728
Shelled groundnuts	1,361	1,116	1,356	1,356	1,491

Source: Botswana Agricultural Marketing Board.

1/ Crop year beginning April 1.

Table 8. Botswana: Formal Sector Employment, 1995/96-2000/01 1/
(Number of employees, unless otherwise indicated)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Private and parastatal	147,000	131,100	139,700	153,100	157,800	166,500
Private	134,000	118,000	126,200	137,600	141,400	153,000
Parastatal	13,700	13,100	13,500	15,500	16,500	13,500
Agriculture	4,500	3,800	4,000	5,400	5,500	6,000
Mining and quarrying	8,300	8,600	8,600	8,300	8,200	8,300
Manufacturing	23,700	23,500	23,100	28,000	28,400	30,900
Electricity and water	2,700	2,600	2,700	2,700	3,700	2,900
Construction	22,600	19,400	25,100	27,500	28,400	28,500
Commerce	45,700	4,100	43,300	44,500	45,600	49,900
Transport and communications	8,800	8,400	8,500	9,800	10,200	10,100
Finance and business services	17,600	15,600	15,800	17,200	17,400	19,200
Community and personal services	9,800	3,700	3,900	4,200	4,400	4,300
Education	4,000	4,400	4,700	5,600	6,100	6,500
General government	86,300	95,700	101,900	104,000	104,500	106,400
Central government	70,100	77,900	83,100	84,900	85,700	85,400
Local government	16,200	17,800	18,800	19,100	18,800	21,000
Total	233,300	226,800	241,600	257,100	262,300	272,900
Memorandum item:						
Migrant workers employed in South African mines (in thousands)	12.3	11.9	12.7	13.1	...	...

Sources: Central Statistics Office.

1/ Data for September of first year listed, except 1996/97 whose data are for March 1997.

Table 9. Botswana: Statutory Minimum Hourly Wage Rates, 1995-2001 1/

	1995	1996	1997	1998	1999	2000	2001
	(In thebe) 2/						
Manufacturing, service, and repair trades	135	145	159	175	190	205	225
Building, construction, exploration, and quarrying	135	145	159	175	190	205	225
Hotel, catering, and entertainment	135	145	159	175	190	205	225
Garages, motor trade, and road transport	135	145	159	175	190	205	225
Wholesale distributive trade	129	139	152	165	180	205	225
Retail distributive trade	121	131	143	155	170	185	205
Retail and wholesale nightwatchmen	113	123	135	150	165	180	200
Other nightwatchmen	113	123	135	150	165	180	200
	(Annual growth rate, in percent)						
Manufacturing, service, and repair trades	8.0	7.4	9.7	10.1	8.6	7.9	9.8
Building, construction, exploration, and quarrying	8.0	7.4	9.7	10.1	8.6	7.9	9.8
Hotel, catering, and entertainment	8.0	7.4	9.7	10.1	8.6	7.9	9.8
Garages, motor trade, and road transport	8.0	7.4	9.7	10.1	8.6	7.9	9.8
Wholesale distributive trade	8.4	7.8	9.4	8.6	9.1	13.9	9.8
Retail distributive trade	8.0	8.3	9.2	8.4	9.7	8.8	10.8
Retail and wholesale nightwatchmen	8.7	8.8	9.8	11.1	10.0	9.1	11.1
Other nightwatchmen	8.7	8.8	9.8	11.1	10.0	9.1	11.1

Source: Central Statistics Office.

1/ Data for May.

2/ 100 thebe = 1 pula.

Table 10. Botswana: Average Monthly Cash Earnings by Sector, 1995-2001 1/

	1995	1996	1997	1998	1999	2000	2001
	(In pula)						
Private and parastatal	678	815	871	1,067	1,243	1327	1405
Agriculture	276	267	291	346	383	346	405
Mining and quarrying	1,170	1,238	1,354	1,950	2,249	2,470	2,786
Manufacturing	570	617	633	632	785	977	810
Electricity and water	1,311	1,371	1,857	2,043	3,166	3,330	3,194
Construction	595	656	794	754	776	749	847
Commerce	565	604	623	867	950	1,004	1,121
Transport and communications	1,159	1,251	1,255	1,725	2,318	2,553	2,631
Finance and business services	1,250	1,301	1,348	1,593	2,059	2,156	2,339
Community and personal services	775	808	912	1,249	1,445	1,748	1,488
Education	1,594	1,617	1,889	1,983	2,261	2,296	2,878
Local government	877	947	964	1,190	1,496	1,698	1,829
Central government	1,068	1,134	1,170	1,566	1,733	1,900	2,224
Total	862	923	969	1,251	1,428	1,546	1,701
	(Annual percentage change)						
Private and parastatal	-2.4	20.2	6.9	22.5	16.5	6.8	5.9
Agriculture	18.5	-3.3	9.0	18.9	10.7	-9.7	17.1
Mining and quarrying	4.4	5.8	9.4	44.0	15.3	9.8	12.8
Manufacturing	3.4	8.2	2.6	-0.2	24.2	24.5	-17.1
Electricity and water	0.6	4.6	35.4	10.0	55.0	5.2	-4.1
Construction	4	10.3	21.0	-5.0	2.9	-3.5	13.1
Commerce	20.5	6.9	3.1	39.2	9.6	5.7	11.7
Transport and communications	4.6	7.9	0.3	37.5	34.4	10.1	3.1
Finance and business services	-0.2	4.1	3.6	18.2	29.3	4.7	8.5
Community and personal services	21.1	4.3	12.9	37.0	15.7	21.0	-14.9
Education	4	1.4	16.8	5.0	14.0	1.5	25.3
Local government	5.3	8.0	1.8	23.4	25.7	13.5	7.7
Central government	5.0	6.2	3.2	33.8	10.7	9.6	17.1
Total	9.9	7.1	5.0	29.1	14.1	8.3	10.0

Source: Central Statistics Office.

1/ Data are for March, except 1999, which are for September. Figures for 2001 are preliminary.

Table 11. Botswana: Consumer Price Index of Tradables and Nontradables, January 1999-June 2002
(November 1996 = 100, unless otherwise indicated)

	All Items Index	Inflation (percent change)	Non- tradables Index	Inflation (percent change)	Domestic Tradables Index	Inflation (percent change)	Imported Tradables Index	Inflation (percent change)	All Tradables Index	Inflation (percent change)
Weights	100.00		29.24		23.79		46.97		70.76	
1999 Jan.	116.4	6.7	114.4	8.2	114.1	5.6	118.9	6.6	117.3	6.3
Feb.	117.5	7.4	114.7	8.3	115.5	6.5	120.2	7.2	118.6	7.0
Mar.	118.9	7.8	115.4	8.3	117.0	6.8	122.0	8.3	120.3	7.7
Apr.	119.7	7.2	115.7	6.4	117.7	5.6	123.3	8.4	121.4	7.5
May	120.1	7.0	115.9	6.7	118.5	5.9	123.5	7.8	121.8	7.1
Jun.	120.5	7.2	115.6	5.7	118.9	6.4	124.2	8.4	122.4	7.7
Jul.	120.7	6.9	115.9	5.7	119.0	5.8	124.6	8.3	122.7	7.5
Aug.	123.2	8.5	123.2	11.0	119.9	6.5	125.3	8.4	123.5	7.7
Sep.	124.0	9.1	124.5	11.9	120.2	6.7	126.3	9.2	124.2	8.4
Oct.	124.6	9.0	125.1	12.2	120.4	6.4	126.9	9.0	124.7	8.1
Nov.	124.7	8.5	125.1	12.1	120.8	6.2	126.9	7.8	124.8	7.3
Dec.	125.0	8.4	125.1	12.0	121.8	6.7	127.1	7.9	125.3	7.5
2000 Jan.	126.1	8.3	125.6	9.8	122.5	7.4	128.8	8.3	126.7	8.0
Feb.	127.0	8.1	126.2	10.0	123.1	6.6	129.2	7.5	127.2	7.2
Mar.	128.2	7.8	126.7	9.8	126.8	8.4	130.2	6.7	129.1	7.3
Apr.	129.8	8.4	127.1	9.8	127.3	8.2	133.1	8.0	131.2	8.0
May	130.6	8.7	128.5	10.9	127.6	7.7	133.8	8.4	131.7	8.1
Jun.	131.3	8.9	129.3	11.9	127.9	7.6	134.5	8.3	132.3	8.1
Jul.	133.2	10.4	134.3	15.8	128.1	7.6	135.2	8.5	132.8	8.2
Aug.	133.5	8.4	134.8	9.4	128.4	7.1	135.5	8.2	133.1	7.8
Sep.	133.9	8.0	136.0	9.3	128.6	7.0	135.4	7.2	133.1	7.1
Oct.	135.0	8.4	136.2	8.9	128.9	7.1	137.4	8.3	134.6	7.9
Nov.	135.3	8.5	136.3	9.0	129.2	6.9	137.9	8.7	135.0	8.1
Dec.	135.6	8.5	136.4	9.1	129.5	6.3	138.2	8.8	135.3	7.9
2001 Jan.	136.2	8.0	136.8	8.9	129.9	6.0	139.1	8.0	136.0	7.4
Feb.	136.4	7.4	138.8	9.4	130.6	6.1	139.2	7.8	136.3	7.2
Mar.	137.6	7.3	137.3	8.4	133.2	5.0	140.0	7.6	137.7	6.7
Apr.	138.2	6.5	137.6	8.3	133.9	5.2	140.7	5.7	138.4	5.5
May	140.1	7.3	143.2	11.4	134.6	5.5	141.3	5.6	139.1	5.6
Jun.	140.5	7.1	143.7	11.2	135.0	5.5	141.6	5.3	139.4	5.4
Jul.	141.1	5.9	143.9	7.2	135.3	5.7	142.5	5.4	140.0	5.5
Aug.	141.6	6.0	144.0	6.8	135.6	5.6	143.3	5.7	140.6	5.7
Sep.	142.1	6.1	145.1	6.7	135.8	5.6	143.7	6.1	140.9	5.9
Oct.	142.8	5.8	146.5	7.5	136.1	5.6	144.2	4.9	141.4	5.1
Nov.	143.2	5.8	146.8	7.7	136.9	6.0	144.5	4.8	141.9	5.1
Dec.	143.4	5.8	147.0	7.7	137.1	5.9	144.7	4.6	142.1	5.1
2002 Jan.	143.9	5.7	148.2	8.3	137.7	6.0	144.7	4.0	142.4	4.7
Feb.	144.1	5.7	148.4	8.4	138.5	6.0	144.6	3.8	142.5	4.6
Mar.	146.0	6.1	149.0	8.5	143.0	7.4	145.5	3.9	144.7	5.1
Apr.	147.8	6.9	153.0	11.2	145.0	8.3	145.9	3.7	145.7	5.2
May	148.2	5.8	153.1	7.0	145.6	8.2	146.3	3.5	146.2	5.1
Jun.	148.8	5.9	153.6	6.9	146.0	8.2	147.0	3.8	146.8	5.3

Source: Central Statistics Office.

Table 12. Botswana: Cost of Living Index, 1991-2002

(November 1996=100, unless otherwise indicated)

	Food	Alcohol and Tobacco	Clothing and Footwear	Housing	Fuel and Power	Furniture etc.	Household Operation	Health, Personal Care	Transport, etc.	Leisure	Education	Other	All Items Index	Annual Inflation (percent change)
Weights	25.5	13.5	5.8	12.2	2.6	5.1	3.9	5.7	19.7	1.6	3.8	0.6	100	
1991 Dec.	55.8	60.8	52.9	56.7	80.1	57.8	60.3	52.2	57.4	66.4	55.1	57.9	57.5	12.6
1992 Dec.	66.8	69.6	65.1	66.7	83.5	65.8	71.4	58.0	66.0	76.8	60.1	68.5	67.0	16.5
1993 Dec.	72.9	75.4	74.5	75.0	89.7	72.0	76.7	86.6	75.6	80.7	76.4	73.1	75.5	12.7
1994 Dec.	80.7	81.9	83.7	83.3	94.2	78.4	84.8	90.6	85.0	89.5	81.6	85.0	82.9	9.8
1995 Dec.	89.7	91.7	91.9	90.4	93.8	93.3	93.0	94.5	94.1	95.2	91.0	93.3	91.8	10.8
1996 Dec.	100.7	100.3	101.1	100.0	103.5	101.6	100.4	100.4	100.5	99.6	100.0	100.6	100.6	9.6
1997 Dec.	109.9	111.2	109.7	103.5	105.4	110.4	110.0	104.7	108.1	103.2	105.2	106.7	108.4	7.8
1998 Dec.	116.0	122.5	113.5	110.2	106.3	116.0	118.2	107.7	113.2	107.4	123.9	119.7	115.3	6.4
1999 Dec.	122.1	134.9	117.4	126.0	118.5	123.7	129.2	116.8	123.2	109.8	141.0	128.6	125.0	8.4
2000 Dec.	127.1	146.9	120.6	145.5	145.2	134.4	141.9	120.7	142.2	111.3	143.2	134.5	135.6	8.5
2001 Dec.	132.3	158.9	125.7	158.7	149.5	136.7	153.2	123.8	149.0	116.0	147.6	139.3	143.4	5.7
2000 Jan.	122.7	134.9	117.8	126.2	125.4	124.1	129.4	117.5	126.9	110.2	141.8	128.7	126.1	8.3
Feb.	124.0	136.3	118.3	127.0	125.7	124.3	130.7	117.9	127.5	110.3	143.0	129.9	127.0	8.1
Mar.	125.0	140.8	118.6	127.7	125.9	124.6	133.3	117.9	127.6	110.8	143.0	133.4	128.2	7.8
Apr.	126.5	141.9	118.1	127.8	133.2	129.1	133.6	117.9	131.5	110.4	143.0	133.9	129.8	8.4
May	126.9	142.9	118.6	128.7	135.1	129.6	133.8	118.0	134.3	109.8	143.0	135.4	130.6	8.7
June	127.3	143.3	118.7	129.3	135.2	130.0	136.7	118.6	135.3	109.3	143.6	135.6	131.3	9.0
July	128.0	143.6	118.9	143.2	137.0	130.6	137.4	119.1	135.6	109.7	143.6	133.3	133.2	10.4
Aug.	127.9	144.1	119.1	144.1	137.8	131.9	137.7	119.7	135.6	110.9	143.2	134.0	133.5	8.4
Sep.	127.3	144.4	119.3	145.2	137.8	132.7	140.6	119.9	136.7	111.3	143.2	134.3	133.9	8.0
Oct.	127.4	145.4	119.5	145.3	145.8	133.0	141.1	120.5	141.0	111.3	143.2	134.3	135.0	8.3
Nov.	127.2	146.7	120.4	145.5	145.3	133.5	141.4	120.6	141.1	111.9	143.2	134.5	135.3	8.5
Dec.	127.1	146.9	120.6	145.5	145.2	134.4	141.9	120.7	142.2	111.3	143.2	134.5	135.6	8.5
2001 Jan.	127.5	147.0	120.8	143.0	145.6	134.5	142.4	120.7	144.0	111.5	145.4	134.5	136.2	8.0
Feb.	128.2	147.7	121.2	143.7	145.4	134.7	143.0	120.9	142.7	111.3	145.6	134.9	136.4	7.4
Mar.	128.4	153.8	122.0	144.6	144.9	134.7	143.6	120.9	142.4	112.4	147.6	137.6	137.6	7.4
Apr.	128.5	155.3	122.6	144.9	144.9	135.4	143.5	121.2	143.9	113.4	147.6	137.2	138.2	6.5
May	129.1	156.4	123.0	155.6	144.9	135.6	143.8	122.6	144.3	114.3	147.7	137.5	140.1	7.3
June	129.3	156.8	123.2	156.1	146.7	136.0	147.4	122.7	144.4	114.6	147.7	138.1	140.5	7.0
July	129.8	157.3	123.7	156.2	147.8	136.4	147.5	122.8	145.8	114.6	147.8	137.5	141.1	5.9
Aug.	130.1	157.5	124.5	156.4	148.9	136.7	148.1	123.1	146.8	115.5	147.6	138.1	141.5	6.0
Sep.	130.3	158.4	124.7	157.8	149.5	136.8	150.0	123.7	147.0	115.7	147.6	138.3	142.1	6.1
Oct.	131.4	158.2	125.0	157.9	149.7	137.0	151.1	123.7	148.7	116.0	147.6	138.5	142.8	5.8
Nov.	131.9	158.9	125.8	158.1	149.5	137.5	152.4	123.9	149.0	116.3	147.6	139.1	143.2	5.9
Dec.	132.3	158.9	125.7	158.7	149.5	136.7	153.2	123.8	149.0	116.0	147.6	139.3	143.4	5.7
2002 Jan.	132.9	159.2	125.9	159.0	149.5	137.5	153.8	124.1	148.2	117.5	158.2	139.4	143.9	5.7
Feb.	133.4	159.6	126.2	159.0	149.4	139.7	154.6	124.4	146.9	117.8	158.2	145.9	144.1	5.6
Mar.	135.0	165.1	126.5	160.3	149.4	139.5	155.1	124.4	148.5	118.1	158.5	151.8	146.0	6.1
Apr.	136.3	166.8	126.7	168.8	149.5	139.8	155.5	125.0	148.5	119.6	158.5	152.2	147.8	6.9
May	136.9	167.0	127.0	169.0	149.6	141.5	155.5	125.2	148.6	120.2	158.5	152.4	148.2	5.8
June	137.8	167.1	127.4	169.1	151.5	141.7	157.1	127.1	148.6	120.3	158.5	153.9	148.8	5.9

Source: Central Statistical Office.

Table 13. Botswana: Central Government Operations, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 Preliminary
	(In millions of pula)					
Total revenue and grants	7,394.8	8,281.3	7,677.6	11,963.1	14,115.1	12,611.0
Total revenue	7,311.8	8,169.2	7,539.9	11,837.1	14,050.5	12,553.1
Tax revenue	5,198.5	6,767.3	5,639.5	9,937.8	12,077.6	10,583.0
Mineral revenue	3,640.1	4,681.1	3,186.6	6,687.3	8,367.8	6,879.0
Trade and excise taxes 2/	896.2	1,186.1	1,261.3	1,931.2	2,188.4	1,731.9
General sales tax	248.4	327.9	400.5	483.7	523.8	607.2
Other	413.7	572.3	791.1	835.6	997.6	1,365.0
Nontax revenue	2,113.3	1,401.8	1,900.4	1,899.3	1,973.0	1,970.0
Interest	235.4	251.7	208.6	166.3	205.2	183.5
Property income	1,740.3	984.2	1,252.9	1,232.2	1,194.7	1,098.4
Other	137.6	165.9	438.9	500.8	573.1	688.2
Grants	83.0	112.1	137.7	126.1	64.5	58.0
Total expenditure and lending	6,020.4	7,304.2	8,957.4	10,427.5	11,536.5	13,348.1
Current expenditure	3,971.9	4,826.6	6,157.3	7,047.9	8,383.1	9,627.2
Wages and salaries	1,376.7	1,686.4	2,153.2	2,418.7	2,743.3	3,456.2
Interest	91.4	86.2	92.8	92.5	83.1	94.6
Other	2,503.8	3,054.0	3,911.3	4,536.7	5,556.7	6,076.3
Capital expenditure	2,239.6	2,695.5	2,934.5	3,451.0	3,134.6	3,679.7
Net lending	-191.1	-218.0	-134.4	-71.4	18.8	41.3
Primary balance (deficit -)	1,465.8	1,063.4	-1,187.0	1,628.1	2,661.6	-642.5
Overall balance (deficit -)	1,374.4	977.1	-1,279.8	1,535.6	2,578.6	-737.1
Financing	-1,374.4	-977.1	1,279.8	-1,535.6	-2,578.6	737.1
Foreign (net)	85.1	86.2	27.9	-35.2	-178.4	-165.2
Drawing	230.1	234.4	194.1	130.1	12.5	59.8
Amortization	-145.0	-148.2	-166.2	-165.3	-191.0	-225.0
Domestic	-1,459.4	-1,063.3	1,251.9	-1,500.4	-2,400.2	902.3
	(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	43.9	42.3	36.2	49.0	49.8	40.7
Total revenue	43.4	41.8	35.6	48.5	49.6	40.5
Tax revenue	30.8	34.6	26.6	40.7	42.6	34.1
Mineral revenue	21.6	23.9	15.0	27.4	29.5	22.2
Trade and excise taxes 2/	5.3	6.1	6.0	7.9	7.7	5.6
General sales tax	1.5	1.7	1.9	2.0	1.8	2.0
Other	2.5	2.9	3.7	3.4	3.5	4.4
Nontax revenue	12.5	7.2	9.0	7.8	7.0	6.4
Interest	1.4	1.3	1.0	0.7	0.7	0.6
Property income	10.3	5.0	5.9	5.0	4.2	3.5
Other	0.8	0.8	2.1	2.1	2.0	2.2
Grants	0.5	0.6	0.7	0.5	0.2	0.2
Total expenditure and lending	35.7	37.3	42.3	42.7	40.7	43.0
Current expenditure	23.6	24.7	29.1	28.9	29.6	31.0
Wages and salaries	8.2	8.6	10.2	9.9	9.7	11.1
Interest	0.5	0.4	0.4	0.4	0.3	0.3
Other	14.9	15.6	18.5	18.6	19.6	19.6
Capital expenditure	13.3	13.8	13.9	14.1	11.1	11.9
Net lending	-1.1	-1.1	-0.6	-0.3	0.1	0.1
Primary balance (deficit -)	8.7	5.4	-5.6	6.7	9.4	-2.1
Overall balance (deficit -)	8.2	5.0	-6.0	6.3	9.1	-2.4
Financing	-8.2	-5.0	6.0	-6.3	-9.1	2.4
Foreign (net)	0.5	0.4	0.1	-0.1	-0.6	-0.5
Drawing	1.4	1.2	0.9	0.5	0.0	0.2
Amortization	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7
Domestic	-8.7	-5.4	5.9	-6.1	-8.5	2.9
Memorandum item:						
GDP (fiscal year, in millions of pula)	16,856.1	19,557.0	21,183.4	24,403.0	28,355.1	31,022.0

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

1/ Fiscal year beginning April 1.

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

Table 14. Botswana: Components of Central Government Revenue, 1996/97-2001/02 1/

(In millions of pula)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 Preliminary
Tax revenue	5,198.5	6,767.3	5,639.5	9,937.8	12,077.6	10,583.0
Mineral revenue	3,640.1	4,681.1	3,186.6	6,687.3	8,367.8	6,879.0
Trade and excise taxes 2/	896.2	1,186.1	1,261.3	1,931.2	2,188.4	1,731.9
General sales tax	248.4	327.9	400.5	483.7	523.8	607.2
Nonmineral income tax	385.0	537.3	739.3	780.2	925.3	1,454.3
Export duties	0.4	0.4	0.1	0.1	0.1	0.1
Taxes on property	5.6	7.3	11.2	11.5	15.9	0.1
Motor vehicle tax	15.3	17.9	25.9	27.4	40.2	48.3
Business and professional licenses	6.4	8.2	11.6	13.8	13.8	14.5
Nontax revenue	2,113.3	1,401.8	1,900.4	1,899.3	1,973.0	1,970.0
Interest	235.4	251.7	208.6	166.3	205.2	183.5
Property income	1,740.3	984.2	1,252.9	1,232.2	1,194.7	1,098.4
Fees, charges, and reimbursements	111.6	133.5	378.0	447.9	508.1	641.7
Sale of fixed assets and land	26.0	32.5	60.8	52.8	65.0	46.5
Grants	83.0	112.1	137.7	126.1	64.5	39.0
Recurrent	8.3	1.6	1.3	0.0	0.0	0.0
Development	74.7	110.5	136.4	126.0	64.5	39.0
Total revenue and grants	7,394.8	8,281.3	7,677.6	11,963.1	14,115.1	12,611.0

Source: Ministry of Finance and Development Planning.

1/ Fiscal year beginning April 1.

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

Table 15. Botswana: Economic Classification of Central Government Expenditure, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 Preliminary
	(In millions of pula)					
Total expenditure and net lending	6,020.4	7,304.2	8,957.4	10,427.5	11,536.5	13,348.1
Current expenditure	3,971.9	4,826.6	6,157.3	7,047.9	8,383.1	9,627.2
Expenditure on goods and services	3,880.5	4,740.4	6,064.5	6,955.4	8,300.0	9,508.1
Wages and salaries	1,376.7	1,686.4	2,153.2	2,418.7	2,743.3	2,966.1
Other purchases of goods and services 2/	2,503.8	3,054.0	3,911.3	4,536.7	5,556.7	6,542.0
Interest payments	91.4	86.2	92.8	92.6	83.1	105.2
Capital expenditure and net lending	2,048.0	2,478.0	2,800.0	3,379.6	3,153.4	3,734.9
Capital expenditure	2,240.0	2,696.0	2,935.0	3,451.0	3,134.6	3,679.7
Net lending	-191.0	-218.0	-134.0	-71.4	18.8	41.3
Gross lending	104.0	68.0	42.0	110.0	120.0	100.0
Repayment	-295.0	-286.0	-176.0	-181.4	-101.2	-44.8
	(Percent share of total expenditure)					
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0
Current expenditure	66.0	66.1	68.7	67.6	72.7	72.0
Expenditure on goods and services	64.5	64.9	67.7	66.7	71.9	71.2
Wages and salaries	22.9	23.1	24.0	23.2	23.8	22.2
Other purchases of goods and services 2/	41.6	41.8	43.7	43.5	48.2	49.0
Interest payments	1.5	1.2	1.0	0.9	0.7	0.8
Capital expenditure and net lending	34.0	33.9	31.3	32.4	27.3	28.0
Capital expenditure	37.2	36.9	32.8	33.1	27.2	27.6
Net lending	-3.2	-3.0	-1.5	-0.7	0.2	0.4
Gross lending	1.7	0.9	0.5	1.1	1.0	0.7
Repayment	-4.9	-3.9	-2.0	-1.7	-0.9	-0.3

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

1/ Fiscal year beginning April 1.

2/ Includes subsidies and transfers from 1997/98 onward.

Table 16. Botswana: Functional Classification of Central Government Expenditure, 1996/97 -2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01	2000/01	2001/02 Preliminary
(In millions of pula)								
General public services	377.0	452.1	504.9	716.1	881.2	760.6	996.9	708.2
General administration	144.5	177.1	199.2	250.0	286.9	252.8	336.8	258.0
Public order and safety	79.6	107.0	44.7	270.9	285.0	258.4	241.1	146.2
Defense	153.0	167.9	261.1	195.2	309.3	249.4	419.0	304.0
Social services	823.7	967.3	1,295.0	1,439.6	1,335.7	1,161.3	1,861.9	1,383.4
Education	499.5	559.6	666.2	662.9	567.4	499.2	742.0	508.5
Health	57.6	109.6	95.4	92.4	145.8	96.8	403.3	177.6
Housing and urban and regional development	226.8	255.2	283.5	290.4	325.0	298.0	535.2	398.7
Other community and social services	39.9	42.9	249.9	393.9	297.6	267.4	181.4	298.6
<i>Of which: food and social welfare programs</i>	26.4	4.7	115.3	146.5	124.3	117.7	10.0	142.1
Economic services	1,038.7	1,276.2	1,047.1	1,288.8	1,409.1	1,211.1	1,842.6	1,663.9
Agriculture, forestry, and fishing	317.6	135.0	90.9	79.5	116.9	99.7	127.5	109.1
Mining	43.9	34.2	167.3	84.5	36.5	27.8	82.8	339.7
Roads, other transport, and communications	171.8	221.0	252.9	401.0	460.4	424.8	691.2	523.7
Electricity and water supply	271.9	633.7	331.3	509.5	516.8	412.5	709.4	363.5
Commerce, industry, and other	233.4	252.3	204.7	214.3	278.5	246.3	231.8	327.9
Unallocated	0.1	0.0	0.5	6.4	1.3	1.6	8.0	6.2
Total	2,239.6	2,695.5	2,847.5	3,450.8	3,627.2	3,134.6	4,709.4	3,761.7
(Percent share of total expenditure)								
General public services	16.8	16.8	17.7	20.8	24.3	24.3	21.2	18.8
General administration	6.5	6.6	7.0	7.2	7.9	8.1	7.2	6.9
Public order and safety	3.6	4.0	1.6	7.9	7.9	8.2	5.1	3.9
Defense	6.8	6.2	9.2	5.7	8.5	8.0	8.9	8.1
Social services	36.8	35.9	45.5	41.7	36.8	37.0	39.5	36.8
Education	22.3	20.8	23.4	19.2	15.6	15.9	15.8	13.5
Health	2.6	4.1	3.3	2.7	4.0	3.1	8.6	4.7
Housing and urban and regional development	10.1	9.5	10.0	8.4	9.0	9.5	11.4	10.6
Other community and social services	1.8	1.6	8.8	11.4	8.2	8.5	3.9	7.9
<i>Of which: food and social welfare programs</i>	1.2	0.2	4.1	4.2	3.4	3.8	0.2	3.8
Economic services	46.4	47.3	36.8	37.3	38.8	38.6	39.1	44.2
Agriculture, forestry, and fishing	14.2	5.0	3.2	2.3	3.2	3.2	2.7	2.9
Mining	2.0	1.3	5.9	2.4	1.0	0.9	1.8	9.0
Roads, other transport, and communications	7.7	8.2	8.9	11.6	12.7	13.6	14.7	13.9
Electricity and water supply	12.1	23.5	11.6	14.8	14.2	13.2	15.1	9.7
Commerce, industry, and other	10.4	9.4	7.2	6.2	7.7	7.9	4.9	8.7
Unallocated	0.0	0.0	0.0	0.2	0.0	0.1	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Development Planning.

1/ Fiscal year beginning April 1.

Table 17. Botswana: Summary of Operations of Nonfinancial Public Enterprises, 1997-2001 1/

	(In millions of pula)				
	1997	1998	1999	2000	2001
	(In millions of pula)				
Operating revenue	1,215	1,481	1,557	1,611	...
Net profit/loss	196	316	379	433	...
Long-term debt outstanding	1,808	1,813	2,208	2,094	...
Equity	2,746	52,552	3,097	4,393	...
Capital employed	4,092	4,825	5,915	6,105	...
Fixed assets	3,512	3,554	5,269	5,531	...
	(In percent, period average, unless otherwise indicated)				
Return on capital employed	6.4	12.0	7.1	3.3	...
Return on equity	3.2	9.2	8.9	3.5	...
Net profit-to-sales ratio	8.0	17.0	20.7	17.6	...
Debt-to-equity ratio	38.7	29.1	38.2	35.4	...
Memorandum item:					...
Operating revenue (in percent of GDP)	7.2	7.6	7.4	6.6	...

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 April-March fiscal years, except for the Botswana Livestock Development Corporation, for which data cover January-December fiscal years, and the Botswana Meat Commission, for which data cover October-September fiscal years.

Table 18. Botswana: Monetary Survey, 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002 Apr.
(In millions of pula; end of period)								
Net foreign assets	12,213.0	18,657.7	22,321.2	27,747.3	30,051.3	35,110.5	43,074.8	39,288.9
Bank of Botswana	12,115.5	18,355.6	21,636.5	26,502.4	28,866.8	33,900.4	41,211.5	37,514.5
Commercial banks	97.5	302.1	684.6	1,245.0	1,184.5	1,210.1	1,863.3	1,774.4
Net domestic credit	-4,747.2	-5,509.5	-13,543.1	-16,178.7	-16,131.3	-19,383.5	-22,573.2	-19,020.7
Net claims on the government	-6,523.2	-7,305.5	-15,440.5	-19,137.0	-20,307.2	-24,309.3	-28,031.8	-24,764.9
Bank of Botswana	-6,506.5	-7,266.6	-15,406.9	-19,122.0	-20,255.8	-24,205.1	-27,972.0	-24,704.8
Commercial banks	-16.7	-38.9	-33.6	-15.0	-51.4	-104.2	-59.8	-60.0
Claims on nongovernment	1,776.1	1,796.0	1,897.3	2,958.3	4,175.9	4,925.7	5,458.6	5,744.2
Claims on parastatals	94.7	70.5	61.4	266.7	527.6	458.1	479.9	451.2
Claims on the private sector	1,681.4	1,725.5	1,835.9	2,691.6	3,648.2	4,467.7	4,978.8	5,293.0
Other items (net)	-4,780.3	-9,958.5	-4,674.5	-5,847.1	-6,692.0	-8,398.5	-10,884.8	-10,366.0
Of which								
Valuation adjustment 1/	-405.9	-3,496.8	-832.4	-3,719.4	-1,043.0	-4,564.6	-10,257.8	-1,522.5
Money plus quasi money	2,685.6	3,189.9	4,103.5	5,721.6	7,228.2	7,328.5	9,616.7	9,902.5
Money	829.3	950.9	1,037.8	1,513.0	1,774.6	1,896.6	2,350.7	2,429.2
Quasi money 2/	1,856.3	2,239.0	3,065.7	4,208.6	5,453.7	5,431.9	7,266.0	7,473.2
Memorandum items:								
Broad money (M3)	3,189.6	4,158.5	4,987.5	6,710.0	8,649.4	8,557.0	10,919.2	11,681.6
Of which								
Bank of Botswana certificates	504.1	968.6	883.9	988.4	1,421.2	1,228.6	1,302.5	1,779.1
Broad money (M4)	3,408.6	4,454.7	5,469.3	7,649.4	9,745.0	9,669.1	12,064.9	12,861.9
Of which								
Foreign currency accounts	219.0	296.2	481.8	939.4	1,095.6	1,112.0	1,145.6	1,180.3
(Annual change as a percent of beginning-of-year money stock)								
Net foreign assets 3/	14.4	52.8	19.6	24.3	98.9	16.8	22.7	-2.7
Net domestic credit	-3.2	16.1	145.8	19.5	180.5	20.2	16.5	-7.3
Of which								
Claims on the government (net)	-3.3	12.0	111.4	23.9	170.1	19.7	15.3	-6.8
Claims on the private sector	-0.8	2.6	6.4	46.6	115.8	22.5	11.4	-5.7
Money plus quasi money	12.3	18.8	28.6	39.4	140.5	1.4	31.2	9.8

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 19. Botswana: Summary Accounts of Bank of Botswana, 1995-2002 1/

(In millions of pula; end of period)

	1995	1996	1997	1998	1999	2000	2001	2002 Apr.
	(in millions of pula)							
Foreign assets	12,115.5	18,355.6	21,636.5	26,502.4	28,866.8	33,900.4	41,211.5	37,514.5
Pula Fund	4,247.9	5,394.2	17,654.1	23,561.9	24,453.7	28,711.6	32,175.9	30,600.6
Liquidity portfolio	7,673.2	12,689.6	3,721.3	2,545.2	4,074.9	4,833.4	8,533.8	6,437.5
Matched assets/liability portfolio	0.0	17.1	11.9	18.5	16.3	22.6	29.6	37.2
Fund accounts	194.4	254.8	249.2	376.7	321.9	332.7	472.2	439.1
Holding of SDRs	113.5	150.4	156.1	203.4	178.3	208.8	276.7	258.7
Reserve position	84.5	97.3	90.3	173.0	143.6	124.0	194.9	180.2
Valuation Adjustment	-3.7	7.0	2.8	0.3	0.0	0.0	0.6	0.3
Loans and advances to financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed assets	96.7	98.5	100.0	108.0	122.0	131.1	129.3	127.2
Other assets	1,159.3	-16.2	-6.1	1.5	1.8	2.4	0.1	1.4
Assets = liabilities	13,371.4	18,437.9	21,730.4	26,611.9	28,990.7	34,033.9	41,340.9	37,643.1
Reserve money	405.4	453.4	572.0	707.3	807.9	857.3	969.5	942.2
Currency in circulation	318.5	355.9	417.1	497.7	606.8	606.5	701.1	662.9
Currency outside banks	222.7	247.1	275.7	352.7	403.7	427.0	481.4	508.8
Pula currency in banks	95.9	108.8	141.4	145.0	203.2	179.5	219.7	154.1
Bankers' deposits	86.8	97.5	155.0	209.6	201.1	250.8	268.4	279.3
Private sector time deposits	47.8	46.7	62.7	25.7	171.9	183.4	183.8	237.2
Bank of Botswana certificates outstanding	1,963.8	2,815.7	3,308.2	3,246.2	4,230.2	3,712.4	5,147.7	5,922.9
Bankers	1,459.7	1,847.1	2,424.2	2,257.8	2,809.0	2,483.8	3,845.2	2,209.6
Others	504.1	968.6	883.9	988.4	1,421.2	1,228.6	1,302.5	3,713.3
Government deposits	6,506.5	7,266.6	15,406.9	19,122.0	20,255.8	24,205.1	27,972.0	24,704.8
Capital and reserves	2,922.8	6,085.5	1,866.0	3,201.6	3,387.3	4,353.7	6,629.7	5,640.9
Paid-up capital	3.6	3.6	25.0	25.0	25.0	25.0	25.0	25.0
General reserve	234.1	5,754.6	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0
Revaluation reserve	2,685.2	327.4	241.0	1,576.6	1,762.3	2,728.7	5,004.7	4,015.9
Other liabilities	1,525.2	1,770.1	514.7	309.0	137.7	722.1	438.2	195.1

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 adjustments in the liquidity portfolio and revaluation reserves.

Table 20. Botswana: Summary Accounts of Commercial Banks, 1995-2002

(In millions of pula; end of period)

	1995	1996	1997	1998	1999	2000	2001	2002 May
Commercial bank reserves	166.2	176.7	270.9	330.5	353.2	229.0	262.6	201.5
Cash	95.9	108.8	141.4	145.0	203.2	179.5	219.7	134.2
Balances at Bank of Botswana	70.3	67.9	129.5	185.5	150.0	49.5	42.9	67.4
Foreign assets	196.4	453.8	805.1	1,416.5	1,345.6	1,434.9	2,230.9	2,008.0
Claims on monetary authorities	831.9	1,192.4	1,571.9	1,322.2	1,717.7	1,197.1	1,874.1	2,130.8
Credit to domestic economy	1,657.1	1,698.2	1,838.5	2,742.0	4,061.0	4,804.8	5,395.2	5,805.0
Claims on local governments	2.6	1.7	1.9	14.5	14.9	2.4	0.7	0.0
Claims on parastatals	94.7	70.5	61.4	266.7	527.6	458.1	479.9	478.0
Claims on private sector	1,559.7	1,626.0	1,775.1	2,460.9	3,518.4	4,344.3	4,914.6	5,327.0
<i>Of which</i>								
Claims on households	781.8	849.5	943.0	1,389.5	1,995.0	2,429.6	2,947.9	3,154.8
Other assets	843.2	1,076.6	1,205.6	1,721.7	1,640.8	1,715.5	1,444.6	1,052.7
Fixed assets	93.1	110.6	113.2	129.4	158.6	166.6	175.5	175.8
Others 1/	750.1	966.0	1,092.4	1,592.3	1,482.2	1,548.9	1,269.2	876.9
Assets = liabilities	3,694.7	4,597.6	5,692.0	7,533.0	9,118.3	9,381.3	11,207.5	11,198.2
Demand deposits of the public	606.6	703.8	762.1	1,160.3	1,370.9	1,469.6	1,869.3	1,883.8
Time and savings deposits	1,808.5	2,192.4	3,003.1	4,182.9	5,281.8	5,248.5	7,082.2	6,891.6
Liabilities to other banks	98.9	151.7	120.4	171.6	161.1	224.8	367.7	412.1
Liabilities to Bank of Botswana	0.0	0.0	2.4	0.0	0.0	0.0	0.0	0.0
Government deposits	19.4	40.4	35.5	29.4	66.1	106.5	60.5	56.7
Capital and reserves	337.3	401.8	463.9	567.9	732.1	842.7	1,059.4	1,129.4
Other liabilities	824.1	1,107.7	1,304.5	1,420.9	1,506.3	1,489.1	768.4	824.7

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 21. Botswana: Selected Financial Ratios and Aggregates of Commercial Banks, 1995-2001

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

	1995	1996	1997	1998	1999	2000	2001
Liquid assets 1/							
Required	493	263	330	449	528	581	676
Actual	1,034	1,409	1,853	1,771	1,070	1,609	2,613
Excess	541	1,146	1,523	1,322	1,542	1,028	1,937
Ratio of actual to required	2.1	5.4	5.6	3.9	2.0	2.8	3.9
Primary reserves 2/							
Required	80	95	107	146	172	189	220
Actual	70	68	237	332	322	238	263
Excess	-10	-27	130	186	150	49	43
Ratio of actual to required	0.9	0.7	2.2	2.3	1.9	1.3	1.2
Deposit liabilities	2,465	2,972	3,841	5,424	6,757	6,912	9,234
Credit	1,779	1,799	1,900	2,965	4,191	4,933	5,462
Ratio of credit to deposit liabilities	0.7	0.6	0.5	0.5	0.6	0.7	0.6

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, BoB certificates, 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 22. Botswana: Selected Interest Rates, 1995- 2001

(In percent; end of period)

	1995	1996	1997	1998	1999	2000	2001
Bank of Botswana							
Lending rate (bank rate)	13.0	13.0	12.5	12.5	13.3	14.3	14.3
Public Debt Service Fund 1/							
Financial parastatals	12.1	12.1	12.1	12.1	12.1	13.8	13.8
Nonfinancial parastatals	14.6	14.6	14.6	14.6	14.6	16.3	16.3
Commercial banks							
Deposit rates							
Savings accounts	5.8	7.7	7.6	7.1	7.3	8.7	8.4
Call deposits	9.3	9.1	9.3	9.1	8.7	9.7	9.5
31 days' notice	9.5	8.8	8.8	8.1	8.5	8.5	9.3
88 days' notice	9.7	9.6	9.6	8.5	9.2	10.2	9.8
Fixed deposits							
6 months	10.5	10.0	9.8	9.0	9.8	10.3	10.4
12 months	10.5	10.3	9.9	9.1	10.4	10.7	10.6
Prime lending rate	14.5	14.5	14.0	14.0	14.8	15.8	15.8
Botswana Building Society							
Deposit rates							
Indefinite period paid-up shares	10.5	10.0	10.0	9.0	8.5	10.0	10.0
Subscription shares	10.0	9.0	9.5	8.0	7.0	8.5	8.5
Fixed-time deposits							
Ordinary savings accounts	2.0	2.0	2.5	2.0	2.0	2.5	2.5
Special savings accounts	8.0	8.0	8.0	7.0	7.0	7.5	7.5
Lending rates							
Mortgage loans 2/	15.0	14.5	14.5	14.0	14.0	14.5	14.5
Short-term loans 3/	17.5	17.5	17.5	17.0	17.0	17.0	17.0
Botswana Savings Bank							
Ordinary savings accounts	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Special savings accounts	6.5	7.5	7.5	7.5	7.5	7.5	7.5

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 23. Botswana: Distribution of Commercial Bank Credit by Economic Activity, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
(In millions of pula; end of period)							
Agriculture	25	35	34	29	19	30	51
Mining	55	50	16	59	182	280	39
Manufacturing	145	138	147	192	220	200	264
Construction	90	60	54	135	83	100	131
Electricity and water	11	7	8	16	112	35	42
Transport and communications	60	82	90	145	208	146	181
Trade	163	175	189	261	212	493	390
Business services	277	284	292	387	526	593	801
Finance	26	9	6	2	12	21	37
Other business	49	38	58	78	80	147	98
Financial parastatals	95	71	61	267	528	458	480
Local government	3	2	2	14	15	2	1
Central government	3	2	0	0	0	0	0
Households	782	849	943	1,380	1,995	2,430	2,948
Total	1,784	1,802	1,900	2,965	4,192	4,933	5,462
(In percent of total)							
Agriculture	1.4	1.9	1.8	1.0	0.5	0.6	0.9
Mining	3.1	2.8	0.8	2.0	4.3	5.7	0.7
Manufacturing	8.1	7.7	7.7	6.5	5.2	4.0	4.8
Construction	5.0	3.3	2.8	4.6	2.0	2.0	2.4
Electricity and water	0.6	0.4	0.4	0.5	2.7	0.7	0.8
Transport and communications	3.4	4.6	4.7	4.9	5.0	3.0	3.3
Trade	9.1	9.7	9.9	8.8	5.1	10.0	7.1
Business services	15.5	15.8	15.4	13.1	12.5	12.0	14.7
Finance	1.5	0.5	0.3	0.1	0.3	0.4	0.7
Other business	2.7	2.1	3.1	2.6	1.9	3.0	1.8
Financial parastatals	5.3	3.9	3.2	9.0	12.6	9.3	8.8
Local government	0.2	0.1	0.1	0.5	0.4	0.0	0.0
Central government	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Households	43.8	47.1	49.6	46.5	47.6	49.3	54.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Botswana.

Table 24. Botswana: Sources of Commercial Bank Deposits, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
(In millions of pula; end of period)							
Government	269	258	295	339	346	470	669
Central	19	40	36	29	66	106	61
Local	250	218	259	310	280	364	609
Parastatals	324	307	500	685	855	617	823
Private enterprises	1,232	1,637	2,176	3,371	3,926	3,425	5,571
Households	641	770	871	1,030	1,629	2,401	2,171
Total	2,465	2,972	3,842	5,424	6,757	6,912	9,233
(In percent of total)							
Government	10.9	8.7	7.7	6.3	5.1	6.8	7.2
Central	0.8	1.4	0.9	0.5	1.0	1.5	0.7
Local	10.1	7.3	6.7	5.7	4.1	5.3	6.6
Parastatals	13.1	10.3	13.0	12.6	12.7	8.9	8.9
Private enterprises	50.0	55.1	56.6	62.1	58.1	49.5	60.3
Households	26.0	25.9	22.7	19.0	24.1	34.7	23.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Botswana.

Table 25. Botswana: Auctions of Bank of Botswana Certificates, January 1999-December 2001 1/

	Allotted (Millions of pula)	Reserved for Bank of Botswana (Millions of pula)	Stop-Out Price 2/ (In pula)	Effective Interest Rate (In percent)
1999				
January	452.7	124.3	92.1	11.7
February	546.1	119.9	94.3	11.6
March	575.1			
April	968.8	181.3	94.7	12.1
May	482.7	137.3	96.4	12.0
June	393.7	186.3	93.4	12.2
July	610.0	110.1	93.6	12.3
August				
September	623.0	27.0	94.2	12.2
October	538.6	41.4	88.6	12.9
November	408.0	122.1	94.3	12.5
December	838.3	141.7	93.4	12.6
2000				
January	569.9	70.1	92.8	12.8
February	806.1	93.9	91.5	13.3
March	224.8	175.2	95.2	12.9
April	430.6	9.4	91.1	13.2
May	447.3	42.7	93.4	13.1
June	...	...	...	...
July	704.6	75.4	92.1	12.2
August	471.7	80.3	92.9	13.3
September	265.9	144.1	93.1	13.2
October	750.0	0.0	94.7	13.2
November	349.2	220.8	92.8	13.3
December	456.4	173.6	91.4	13.5
2001				
January	476.2	23.8	91.9	13.5
February	434.4	75.6	91.9	13.4
March	174.5	225.5	99.1	12.8
April	424.4	0.0	98.2	12.9
May	672.1	339.9	97.0	13.1
June	1,568.9	1,440.1	98.2	13.1
July	1,214.0	0.0	99.2	12.7
August	1,116.8	443.2	97.0	13.1
September	2,000.8	789.2	98.2	12.9
October	2,075.2	47.7	96.9	12.9
November	1,623.5	576.5	97.2	12.8
December	1,032.1	617.9	97.0	12.8

Source: 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 Bank of Botswana certificates will be entertained by the Bank of Botswana.

Table 26. Botswana: Value of Outstanding Bank of Botswana Certificates, January 1999-February 2002 1/

(in millions of pula; end of period)

	Commercial Banks	Other Financial Institutions	Other Private Sector	Total
1999				
January	2,243	328	628	3,199
February	2,309	333	716	3,358
March	2,162	321	515	2,997
April	2,532	323	521	3,377
May	2,434	336	665	3,435
June	2,662	338	556	3,556
July	2,280	365	529	3,174
August	2,303	415	592	3,310
September	2,379	463	510	3,351
October	2,427	460	523	3,410
November	2,494	534	555	3,583
December	2,809	561	861	4,230
2000				
January	2,567	562	926	4,055
February	2,481	557	1,070	4,109
March	2,400	565	702	3,667
April	2,715	573	868	4,156
May	2,628	632	993	4,252
June	2,728	562	584	3,874
July	2,870	577	687	4,134
August	2,909	530	938	4,376
September	2,706	509	780	3,995
October	2,549	516	972	4,037
November	2,443	520	1,152	4,115
December	2,484	492	736	3,712
2001				
January	2,715	479	994	4,188
February	2,648	430	1,218	4,296
March	2,923	510	807	4,240
April	2,757	419	1,025	4,201
May	2,948	364	947	4,258
June	3,575	379	1,042	4,996
July	3,512	359	1,370	5,242
August	3,401	452	1,360	5,213
September	3,683	488	757	4,928
October	3,581	612	920	5,113
November	3,539	646	966	5,151
December	3,845	645	658	5,148
2002				
January	3,445	689	904	5,038
February	3,907	683	1,096	5,686

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

1/ Total market value, excluding interest.

Table 27. Botswana: Balance of Payments, 1995-2001 1/

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

	1995	1996	1997	1998	1999	2000	2001 2/ Est.
Current account balance	300	494	722	205	618	547	389
Trade balance	555	750	896	78	785	905	663
Exports, f.o.b.	2,161	2,218	2,822	2,073	2,658	2,683	2,326
<i>Of which</i>							
Diamonds	1,437	1,441	1,586	2,104	1,480	2,119	2,236
Imports, f.o.b.	-1,606	-1,468	-1,926	-1,995	-1,874	-1,778	-1,663
<i>Of which</i>							
Food, beverages, and tobacco	-305	-294	-297	-297	-305	-294	-264
Chemical and rubber products	-177	-178	-205	-201	-203	-203	-176
Metal and metal products	-166	-153	-241	-228	-190	-151	-164
Machinery and electrical equipment	-300	-280	-398	-480	-463	-463	-401
Services	-184	-181	-231	-235	-156	-223	-202
Transportation	-149	-140	-175	-165	-162	-174	-155
Travel	17	16	43	72	87	25	26
Other services	-52	-56	-99	-143	-81	-73	-73
Income	-32	-253	-145	120	-262	-352	-277
Compensation of employees	13	-14	-10	-15	-26	-37	-37
Investment income	-46	-239	-134	135	-236	-315	-240
<i>Of which</i>							
Earnings on reserves	-346	441	545	531	348	282	285
Current transfers	-39	179	202	242	252	218	205
Capital and financial account	-19	49	23	-172	-223	-162	-205
Capital account	14	6	17	32	21	38	18
Financial account	-34	42	6	-204	-244	-201	-223
Direct investment	30	72	96	92	35	55	55
Portfolio investment	-31	-5	-33	-52	-35	-43	-43
Other investment	-33	-25	-57	-244	-244	-213	-231
<i>Of which</i>							
Net government long-term borrowing	-12	-20	51	22	-26	-32	-17
Other net private long-term borrowing	-4	13	-10	28	2	2	2
Short-term borrowing	36	58	72	20	46	46	60
Net errors and omissions 3/	-14	-212	-97	233	-107	-295	-606
Reserve assets (increase -) 3/	-295	-331	-647	-266	-289	-89	421
Memorandum items:							
Current account balance (in percent of GDP)	6	10	14	4	12	10	7
Trade balance (in percent of GDP)	12	16	17	2	15	17	13
End-of-year gross official reserves (in months of imports of goods and services)	4,696 27	5,028 33	5,675 29	5,941 28	6,229 31	6,319 33	5,897 32
Exchange rates							
U.S. dollars per pula (period average)	0.36	0.30	0.27	0.24	0.22	0.20	0.17
U.S. dollars per pula (end of period)	0.35	0.27	0.26	0.22	0.22	0.19	0.14

Sources: Botswana authorities; and Fund staff estimates.

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

2/ 2001 figures are preliminary.

3/ Includes valuation adjustment.

Table 28. Botswana: Value of Principal Exports and Imports, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
(In millions of U.S. dollars)							
Diamonds	1,441	1,597	2,104	1,480	2,119	2,236	1,937
Nondiamond	434	438	428	366	395	393	337
Meat	85	85	68	74	58	55	73
Copper nickel	201	125	94	73	88	108	70
Textiles	52	59	68	72	54	48	43
Soda ash	25	23	42	40	43	41	40
Vehicles							
Other	71	147	155	106	152	141	110
Total exports, f.o.b.	1,875	2,035	2,532	1,845	2,514	2,629	2,274
Food, beverages, and tobacco	305	294	297	297	305	294	264
Wood and paper products	145	127	140	155	177	161	153
Textile and footwear	144	129	146	136	129	121	112
Chemical and rubber products	177	178	205	201	203	203	176
Fuel	98	111	127	103	107	103	81
Metal and metal products	166	153	241	228	190	151	164
Machinery and electrical equipment	300	280	398	480	463	463	401
Vehicle and transport equipment	357	245	452	368	297	258	257
Other goods	223	221	255	296	326	332	282
Total imports, c.i.f.	1,915	1,739	2,263	2,265	2,198	2,086	1,891
(In percent of total)							
Diamonds	76.9	78.5	83.1	80.2	84.3	85.0	85.2
Nondiamond	23.1	21.5	16.9	19.8	15.7	15.0	14.8
Meat	4.5	4.2	2.7	4.0	2.3	2.1	3.2
Copper nickel	10.7	6.1	3.7	4.0	3.5	4.1	3.1
Textiles	2.8	2.9	2.7	3.9	2.1	1.8	1.9
Soda ash	1.3	1.1	1.7	2.1	1.7	1.6	1.8
Vehicles							
Other	3.8	7.2	6.1	5.8	6.1	5.4	4.8
Total exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food, beverages, and tobacco	15.9	16.9	13.1	13.1	13.9	14.1	14.0
Wood and paper products	7.6	7.3	6.2	6.9	8.1	7.7	8.1
Textile and footwear	7.5	7.4	6.5	6.0	5.9	5.8	5.9
Chemical and rubber products	9.2	10.2	9.1	8.9	9.3	9.7	9.3
Fuel	5.1	6.4	5.6	4.6	4.9	4.9	4.3
Metal and metal products	8.7	8.8	10.7	10.1	8.6	7.2	8.7
Machinery and electrical equipment	15.7	16.1	17.6	21.2	21.1	22.2	21.2
Vehicle and transport equipment	18.6	14.1	20.0	16.3	13.5	12.4	13.6
Other goods	11.6	12.7	11.3	13.1	14.8	15.9	14.9
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Botswana authorities.

Table 29. Botswana: External Trade Indicators, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 2/
Values (in millions of pula)						
Exports of goods	9,158	10,304	8,560	12,426	13,649	13,519
Exports of services	723	1,088	1,492	1,682	1,657	1,988
Total exports (goods and services)	9,882	11,393	10,052	14,108	15,307	15,507
Imports of goods	-5,926	-7,762	-8,571	-8,774	-9,047	-9,666
Imports of services	-845	-1,114	-1,389	-2,189	-2,793	-3,161
Total imports (goods and services)	-6,771	-8,875	-9,961	-10,963	-11,840	-12,827
Volume (1993/94 prices, millions of pula)						
Exports of goods	6,436	6,632	4,959	6,662	7,342	6,931
Exports of services	550	773	994	1,032	1,143	1,079
Total exports (goods and services)	6,986	7,405	5,952	7,694	8,485	8,010
Imports of goods	-4,448	-5,458	-5,656	-5,322	-5,776	-5,718
Imports of services	-670	-835	-981	-1,391	-1,509	-1,494
Total imports (goods and services)	-5,118	-6,293	-6,637	-6,713	-7,285	-7,212
Price indices (1993/94=100)						
Exports of goods	142.3	155.4	172.6	186.5	185.9	195.0
Exports of services	131.5	140.9	150.1	163.0	145.0	184.2
Total exports (goods and services)	141.5	153.9	168.9	183.4	180.4	193.6
Imports of goods	133.2	142.2	151.6	164.9	156.6	169.0
Imports of services	126.2	133.4	141.6	157.3	185.1	211.6
Total imports (goods and services)	132.3	141.0	150.1	163.3	162.5	177.9

Source: National accounts data.

1/ Year beginning July 1

2/ Preliminary.

Table 30. Botswana: Direction of Trade, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
(In millions of pula)							
Exports, f.o.b.	5,941	8,142	10,391	8,693	12,228	13,649	13,519
Southern African Customs Union (SACU)	1,277	1,490	1,485	1,494	1,271	1,419	1,405
Zimbabwe	182	251	383	249	291	325	322
Other Africa	49	51	114	111	137	153	152
United Kingdom	2,223	4,424	5,840	4,830	8,130	9,076	8,989
Other Europe	2,147	1,827	2,444	1,870	2,221	2,479	2,455
United States	52	78	102	90	86	97	96
All other	11	22	23	48	91	102	101
Imports, c.i.f.	5,307	5,743	8,256	9,804	10,164	9,047	9,666
SACU	3,925	4,481	5,982	7,402	7,783	6,928	7,402
Zimbabwe	293	329	368	375	397	353	377
Other Africa	18	23	38	54	27	24	26
United Kingdom	135	148	163	321	272	243	259
Other Europe	319	241	580	644	664	591	632
Korea, Republic of	377	250	785	457	264	235	251
United States	107	74	89	135	188	167	179
All other	132	197	251	418	569	506	541
(In percent of total)							
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Southern African Customs Union (SACU)	21.5	18.3	14.3	17.2	10.4	10.4	10.4
Zimbabwe	3.1	3.1	3.7	2.9	2.4	2.4	2.4
Other Africa	0.8	0.6	1.1	1.3	1.1	1.1	1.1
United Kingdom	37.4	54.3	56.2	55.6	66.5	66.5	66.5
Other Europe	36.1	22.4	23.5	21.5	18.2	18.2	18.2
United States	0.9	1.0	1.0	1.0	0.7	0.7	0.7
All other	0.2	0.3	0.2	0.6	0.7	0.7	0.7
Imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
SACU	74.0	78.0	72.5	75.5	76.6	76.6	76.6
Zimbabwe	5.5	5.7	4.5	3.8	3.9	3.9	3.9
Other Africa	0.3	0.4	0.5	0.5	0.3	0.3	0.3
United Kingdom	2.5	2.6	2.0	3.3	2.7	2.7	2.7
Other Europe	6.0	4.2	7.0	6.6	6.5	6.5	6.5
Korea, Republic of	7.1	4.4	9.5	4.7	2.6	2.6	2.6
United States	2.0	1.3	1.1	1.4	1.8	1.8	1.8
All other	2.5	3.4	3.0	4.3	5.6	5.6	5.6

Source: Customs and Excise Department.

Table 31. Botswana: Public Sector External Debt, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
	(In millions of U.S. dollars; end of period)						
Total external public debt 1/	519.7	446.7	512.3	467.9	464.1	435.5	359.8
Bilateral loans	130.7	140.8	148.4	130.2	132.7	129.2	124.5
United States	21.7	31.8	39.4	21.2	23.7	20.2	15.5
United Kingdom	24.0	24.0	24.0	24.0	24.0	24.0	24.0
China	16.0	16.0	16.0	16.0	16.0	16.0	16.0
France	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Belgium	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Kuwait	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Germany	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nigeria	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Japan	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Saudi Arabia	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Multilateral loans	377.8	296.9	355.5	331.3	325.2	287.6	220.9
African Development Bank 2/	220.0	184.7	217.7	188.5	183.5	78.9	64.4
African Development Fund	0.0	0.0	0.0	0.0	0.0	83.3	60.1
Arab Bank for Economic Development in Africa	13.7	20.0	19.8	18.7	20.2	17.8	13.7
European Economic Community	0.0	0.0	0.0	0.0	0.0	0.0	0.0
European Investment Bank	30.1	29.9	58.1	66.9	72.8	63.7	48.9
International Bank for Reconstruction and Development	96.4	45.9	42.7	29.3	26.0	17.5	13.5
International Development Association	9.2	9.5	10.2	9.0	10.1	8.6	6.6
International Fund for Agriculture Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nordic Development Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nordic Investment Bank	0.0	0.0	0.0	13.1	6.9	13.3	10.2
Organization of Petroleum Exporting Countries	8.4	7.0	7.0	5.7	5.7	4.4	3.4
UN Capital Development Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.8	1.6	1.5	0.0	0.0	0.0	0.0
Export credits	9.4	7.4	6.9	6.4	6.2	18.6	14.3
Memorandum items:							
	(In percent)						
Total external public debt							
(in percent of GDP)	10.4	9.0	9.5	9.4	10.3	8.9	8.0
(in percent of exports of goods and services)	20.5	18.2	16.3	19.7	17.3	15.8	15.6

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

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

2/ African Development Bank/Fund for 1999.

Table 32. Botswana: External Debt-Service Payments and Disbursements, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
(In millions of U.S. dollars)							
Central government							
Disbursed outstanding debt	548.8	481.2	533.9	556.3	530.5	498.1	481.6
Disbursements	36.4	20.3	63.1	55.8	42.0	22.2	19.4
Principal repayments	44.3	34.3	39.8	35.3	36.0	33.3	34.4
Interest payments	30.5	27.7	28.9	32.0	33.4	31.8	29.9
Other charges	2.0	1.4	0.9	0.2	0.1	0.0	0.0
Total debt service	76.7	63.4	69.5	67.5	69.4	65.1	64.3
Public corporations							
Disbursed outstanding debt	-60.5	62.5	51.0	69.7	32.1	23.9	19.0
Disbursements	-12.9	6.1	1.4	23.8	1.1	1.0	0.9
Principal repayments	17.3	5.3	4.0	0.0	12.3	5.0	3.4
Interest payments	7.3	2.1	5.6	4.6	6.3	2.9	2.2
Other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service	24.5	7.5	9.6	4.6	18.6	7.8	5.6
Public and publicly guaranteed							
Disbursed outstanding debt	488.3	543.7	584.9	626.0	562.6	522.1	500.6
Disbursements	23.6	26.4	64.4	79.6	43.1	23.1	20.3
Principal repayments	61.5	39.6	43.7	35.3	48.3	38.2	37.8
Interest payments	37.7	29.9	34.5	36.6	39.7	34.7	32.0
Other charges	2.0	1.5	0.9	0.2	0.1	0.0	0.0
Total debt service	101.2	70.9	79.2	72.1	88.1	73.0	69.8
Memorandum items:							
(In percent of exports of goods and services)							
Debt-service ratios	4.2	3.0	2.6	3.0	2.9	2.4	2.6
Central government	3.2	2.7	2.3	2.8	2.3	2.2	2.4
Public corporations	1.0	0.3	0.3	0.2	0.6	0.3	0.2

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

Table 33. Botswana: Average Terms of New Public Sector External Borrowing, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Interest rate (in percent a year)	3.4	2.1	2.3	2.3	2.3	2.3	2.3
Maturity (in years)	22.4	14.1	14.5	14.5	14.5	14.5	14.5
Grace period (in years)	6.4	4.7	4.7	4.7	4.7	4.7	4.7
Grant element (in percent)	21.0	38.4	40.7	40.7	40.7	40.7	40.7

Source: Ministry of Finance and Development Planning.

Table 34. Botswana: Developments in the Exchange Rate of the Pula, 1990-2002

(Index, 1990=100, unless otherwise indicated; period average)

	Effective Exchange Rate		Bilateral Exchange Rates 1/		
	Real	Nominal	South African rand	U.S. dollar	Zimbabwe dollar
1990	100.00	100.00	1.39	0.54	1.32
1991	96.03	96.80	1.37	0.49	1.79
1992	97.20	93.80	1.35	0.47	2.42
1993	100.81	91.90	1.35	0.41	2.68
1994	99.85	88.40	1.32	0.37	3.04
1995	100.94	86.80	1.31	0.36	3.13
1996	99.40	82.50	1.29	0.30	3.01
1997	96.99	79.48	1.26	0.27	3.32
1998	97.86	79.27	1.31	0.24	5.60
1999	99.43	78.09	1.32	0.22	8.28
2000	103.24	78.21	1.36	0.20	8.71
2001	108.14	80.64	1.47	0.17	9.42
1996 I	101.97	85.20	1.29	0.34	3.24
1996 II	99.45	82.70	1.30	0.30	2.95
1996 III	98.94	81.70	1.29	0.29	2.91
1996 IV	97.39	80.50	1.29	0.28	2.96
1997 I	95.80	79.30	1.26	0.28	3.08
1997 II	96.46	79.20	1.25	0.28	3.17
1997 III	97.29	79.40	1.26	0.27	3.20
1997 IV	98.39	80.00	1.28	0.27	3.80
1998 I	99.56	80.20	1.28	0.26	4.51
1998 II	100.20	80.30	1.30	0.25	4.39
1998 III	96.10	78.50	1.33	0.21	5.01
1998 IV	95.62	78.10	1.31	0.23	8.27
1999 I	97.05	77.90	1.32	0.22	8.41
1999 II	98.17	77.80	1.32	0.21	8.19
1999 III	100.26	78.00	1.32	0.22	8.26
1999 IV	102.25	78.50	1.33	0.22	8.27
2000 I	102.81	78.33	1.34	0.21	8.08
2000 II	101.83	77.50	1.34	0.20	7.48
2000 III	102.66	77.60	1.35	0.19	8.99
2000 IV	105.67	79.42	1.41	0.19	10.13
2001 I	106.04	79.82	1.42	0.18	10.02
2001 II	106.03	79.62	1.43	0.18	9.77
2001 III	107.97	80.22	1.45	0.17	9.52
2001 IV	112.52	82.89	1.58	0.15	8.53
2002 I	116.31	86.63	1.69	0.15	8.09
2002 II	...	...	1.65	0.16	...

Source: IMF, *International Financial Statistics*.

1/ Foreign currency per Botswana pula. Increase in value indicates an appreciation of the pula.

Botswana: Summary of the Tax System, 2002

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. Income accruing to residents from investments and business abroad 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, except for nonresident contractors is 3 percent of total amount payable under the contract. For nonresident contractors, withholding tax 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 rate of 5 percent and an additional tax rate of 10 percent. Nonmanufacturing firms are liable to a company tax rate of 15 percent and an additional tax rate of 10 percent.</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>
1.2 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 are subject to withholding tax.</p>	<p>Exemption or lower rate is available under double-taxation agreement with some countries.</p>	<p>The entertainment fee rate is 10 percent.</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</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 12,500 and a maximum rate of</p>

Botswana: Summary of the Tax System, 2002

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.4 Personal Income tax	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. Incomes from investments or business outside Botswana will be deemed to have accrued from a source in Botswana.	<p>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 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. This is the only allowance for personal expenditure.</p>	<p>25 percent above P 100,000.</p> <p>The tax table for resident individuals has a zero rate on income up to P 25 000; thereafter, the rates increase from 5 percent to a top rate of 25 percent on income above P 100 000. For nonresident individuals, the tax table has an initial rate of 5 percent on income up to P 43 750, rising to a maximum of 25 percent on income above P 100,000. This also applies to trusts and deceased estates.</p>
2. Social security tax	There is no social security tax.		
3. Taxes on property			
3.1 Local rates	A tax on the market value of unimproved real property located in the major towns.	Government buildings used for nonprofit public services, and buildings used for	The tax is determined per town and is different for unimproved real property.

Botswana: Summary of the Tax System, 2002

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2 Capital transfer tax	A tax on the value of gifts or inheritance in any year, assessed on the donee. Tax year is July-June.	religious or cultural activities. Gifts or inheritances between spouses; gifts received in any year not exceeding P 5,000; household chattels of deceased not exceeding P 15,000; and livestock included in income for income tax purposes.	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.
3.3 Transfer duty	A tax on the transfer of real property, payable by the purchaser.	Value up to P 20,000 exempt for citizens, including any company of which more than one-half of the shares are owned by citizens.	Rate for citizens is 5 percent of the value over P 20,000. Non-citizens pay 30 percent for urban property and 10 percent for rural property.
4. Taxes on goods and services			
4.1 Value-Added Tax (VAT)	Tax is levied on goods and services, both imported and locally produced. Persons with annual turnover exceeding P 250,000 are required to register for VAT. Voluntary registration by persons whose turnover is below P 250,000 may be allowed. Auctioneers are required to register regardless of size of turnover.	Education services, public medical services, prescription drugs, rental of residential accommodation, imports by a registered person to operate a VAT manufacturing warehouse or an international centre for financial services, import of goods under the terms of Schedule 4 of the Customs and Excise Duty Act as well as personal allowances under item 407.02.	There is an ad valorem of rate of 10 percent which is applicable to all standard rated supplies except for zero rated goods and services as defined under Schedule 1 of the Value-Added Tax Act. Zero rated supplies are: Petrol, diesel, paraffin, maize meal, and sorghum meal. Exports are also zero rated.
4.2 Selective Excises	Specified duties are payable by the importer or manufacturer of selected items, such as alcoholic and nonalcoholic beverages and tobacco.	Exported goods.	Rates are those set by SACU, with proceeds pooled under the customs agreement. Rates vary and are on specific bases.
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.	These rates apply: X from P 10 to P 65, according to weight of vehicle; X from P 3 to P 432, according to weight of vehicle and trailer; and X from P 710 to P 6,232, according to weight of vehicle.

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.

Botswana: Summary of the Tax System, 2002

Tax	Nature of Tax	Exemptions and Deductions	Rates
5. Taxes on goods and services			
5.1 Customs	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.	There exist free trade agreements with Lesotho, Malawi, Namibia, South Africa, Swaziland, and Zimbabwe.	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 (<i>BS</i>), calculated as $BS = 1.42 \frac{(A+B+C)H}{DEFG}$ where $\frac{H}{DEFG}$ = the 'all duty rate'; <i>A</i> = c.i.f. value of Botswana's imports; <i>B</i> = value of Botswana's production and consumption of excisable goods; <i>C</i> = excise duty actually paid on <i>B</i> ; <i>D</i> = c.i.f. value of customs area imports; <i>E</i> = customs duties actually paid on <i>D</i> ; <i>F</i> = value of excisable goods produced and consumed in the customs area; <i>G</i> = excise duty actually paid on <i>F</i> , and <i>H</i> = total customs and excise duty pool.
5.2 Export taxes	A tax on exported livestock and products thereof, and on game products.	None.	Low specific rates.

Sources: Tax, and Customs and Excise Departments.