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May 25, 2021

**Statement by Ms. Senich and Mr. Sturm on Botswana
(Preliminary)
Executive Board Meeting
May 27, 2021**

We thank staff for their report and Ms. Mannathoko and Ms. Basutli for their informative Buff statement. The COVID-19 pandemic dealt a severe shock to Botswana's economy, worsening inequality and elevating high unemployment. The economy experienced one of the sharpest contractions in Sub-Saharan Africa, driven by the sudden stop in tourism and the sharp decline in mineral exports. We appreciate the authorities' economic, social, and health responses to the pandemic and note the authorities' record of sound governance and steady development in the period leading up to it. We broadly agree with staff recommendations and offer the following comments.

We welcome the authorities' medium-term fiscal framework and the intent to maintain fiscal support through well-targeted measures until the economy recovers. We agree with staff on the importance of robust and swift implementation of the authorities' fiscal plans, which will be necessary to durably place fiscal policy on a sustainable footing and rebuild buffers. In this regard, we strongly encourage the authorities to carry through on civil service reforms to tackle the long-standing fiscal drag from the wage bill and to reduce contingent liabilities through reforms to state-owned enterprises. We welcome the extensive and effective cooperation between the authorities and the Fund on technical assistance, including fiscal and debt issues with a focus on developing the government bond markets.

We welcome the authorities' Economic Recovery and Transformation Plan to shift toward private sector-led and more inclusive growth as well as the recent passage of separate climate change legislation. Enhancing competitiveness, reducing the role of the state sector, and improving the business climate are critical to unlocking private sector-led growth to support job creation and economic diversification. We generally agree with the thrust of staff's recommendations, noting that reducing Botswana's dependence on cyclically-vulnerable commodities will ultimately reduce vulnerability to business-cycle

shocks and support job creation. *Can staff elaborate on the authorities' view toward staff advice on economic diversification? Given the ongoing effects of the pandemic and risks of additional COVID-19 waves, how do staff assess the outlook of tourism-related businesses if these effects persist?*

Considering that Botswana remains on the grey list of the Financial Action Task Force (FATF), we echo staff's recommendations and urge the authorities to address remaining strategic deficiencies in its AML/CFT framework. In addition to financial risks from remaining on the grey list, staff note that the 6-month loan repayment moratorium, loans restructuring, and guaranteed loans to affected sectors may have delayed the deterioration in asset quality.