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Revised

May 25, 2021

**Statement by Mr. Mouminah, Ms. Alaqla, and Mr. Rawah on Botswana
(Preliminary)
Executive Board Meeting
May 27, 2021**

We thank staff for the well-written report and Ms. Mannathoko, Mr. Abdullahi, and Ms. Basutli for their informative Buff statement. We are in broad agreement with staff's analysis and policy recommendations and would like to make the following points.

1. The Botswana's authorities are to be commended for their decisive policy response to mitigate the socioeconomic fallout of the pandemic. The support measures, including the sizable fiscal package, are rightly focused on fighting the health crisis while providing protection to the most affected. It is indeed encouraging that Botswana entered crisis with large fiscal space thanks to the track record of very strong policies and policy frameworks along with the careful management of natural resources. In view of the downside risks and the still elevated uncertainty, we believe that the policy actions over the short-term should continue to be geared towards promoting economic recovery and countering the pandemic, including by ensuring successful rollout of vaccines.

2. Implementing fiscal consolidation together with a comprehensive fiscal reform over the medium-term should be prioritized to safeguard fiscal sustainability. Considering the large fiscal space, fiscal support measures should continue to be well-calibrated and targeted over the near-term, focusing on eligible segments, including the financially viable firms to mitigate the risks of scarring. Going forward, we underscore the importance of implementing a growth friendly fiscal consolidation underpinned by further revenue mobilization and spending efficiency enhancing measures. Here, we positively note the staff's assessment that the envisaged fiscal consolidation plan is appropriate to reduce the

deficit and rebuild buffers over the medium-term. Among others, we encourage the authorities to focus on advancing civil service reform and better align wage hikes with productivity as well as broadening the tax base and streamlining VAT exemptions. Moreover, we echo staff's view that strengthening the fiscal framework reforms is important to better anchor fiscal policy and improve credibility. In this context, we welcome the authorities' request for the Fund's technical assistance to help redesign and calibrate the fiscal rule. Separately, fiscal measures, over the medium-term, need to be carefully designed to minimize the impact on growth.

3. We positively note that the accommodative monetary policy has helped maintain adequate liquidity in the banking sector, however continued monitoring and stepped up supervisory operations are called for. In this context, existing vulnerabilities related to households and corporate indebtedness as well as a possible deterioration of banks' asset quality once support measures are rolled back warrant close monitoring and proactive policy actions to address associated risks. Also, it is important to ensure that all banks are encouraged to adequately provision should downside risk materialize. In addition, we commend the authorities for the ongoing efforts to promote credit information and collateral framework. Going forward, we encourage the authorities to step up their effort to further improve the AML/CFT framework, further deepen the financial markets, and foster financial inclusion. We also encourage staff to provide support to the authorities in these areas, if needed.

4. Finally, we welcome the authorities' commitment to structural reforms. Here, the successful implementation of the Economic Recovery and Transformation Plan (ETRP) could accelerate the much-needed structural transformation and pave the way towards diversified, digital, more inclusive and resilient economy.

With these remarks, we wish the authorities further success in their policy endeavors.