FOR AGENDA

SM/84/11

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January 9, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Botswana - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Botswana. A draft decision appears on page 14.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Rothman on ext. (5)8512.

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INTERNATIONAL MONETARY FUND

BOTSWANA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the
1983 Article IV Consultation with Botswana

Reviewed by the Committee on Article IV Consultations

Approved by Oumar B. Makalou and S. Kanesa-Thasan

January 9, 1984

I. Introduction

The 1983 Article IV consultation discussions with Botswana were held in Gaborone during the period November 3-16, 1983. The Botswana representatives included The Honorable P.S. Mmusi, Vice-President and Minister of Finance and Development Planning; Mr. C. Kikonyogo, the Governor of the Bank of Botswana; Mr. B. Gaolathe, Permanent Secretary of the Ministry of Finance and Development Planning; Mr. P.T. Nteta, Director of Financial Affairs; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. S. Rothman (head), D. Scheuer, T. Oyama, U. Gunjal, and Mrs. I. Uston (secretary), all of the African Department. Messrs. J.B. Zulu and N. Sangaré (Executive Director for Botswana) attended some of the policy discussions.

Botswana continues to avail itself of the transitional arrangements under Article XIV.

II. Recent Economic and Financial Developments and Policies

During the decade ended 1980 Botswana recorded rapid economic growth--real gross domestic product (GDP) increased by somewhat over 10 percent per annum--associated principally with rising output and sales of diamonds, which presently contribute about one quarter of GDP, two thirds of export earnings, and about one quarter of total budgetary receipts. Also, there was substantial expansion in the livestock sector, the second largest productive activity, which accounts for about 9 percent of GDP and 14 percent of export earnings. Over this period the authorities exercised prudent economic and financial management, and the marked gains in domestic activity occurred within the context of financial stability and a comfortable balance of payments position. In addition to buoyant exports, Botswana benefited from large capital inflows,

obtained mainly on concessional terms. By end-1980 the Government had built up a large net creditor position with the banking system, and Botswana's international reserves afforded an ample cushion (Table 1).

Subsequently, however, as a result of slackened world demand for diamonds, real GDP growth decelerated from 13 percent in 1980 to 6 percent in 1981. Lower diamond sales were also chiefly responsible for a sharp increase in 1981 in the external current account deficit (excluding official transfers), from 22 percent of GDP to 38.5 percent, and for the first overall balance of payments deficit (SDR 61 million) since 1972. Moreover, owing mainly to a sharp drop in mineral-related revenues, the central government budget position (including grants) turned from virtual equilibrium in the fiscal year 1980/81 (April-March) to a deficit equivalent to 2.5 percent of GDP in 1981/82.

In 1982, in view of continued unfavorable external prospects, the authorities took a number of measures to dampen domestic consumption and import demand, while encouraging additional capital inflows. There were major increases in interest rates, including an adjustment in the commercial banks' prime lending rate to 14.5 percent, and in the required liquid asset ratios of the banks. The interest rate increases paralleled moves in South Africa, with which Botswana has close trade and financial links, 1/ and, combined with the deceleration in inflation, helped turn Botswana's interest rates positive in real terms. Measures taken in the areas of prices and wages included upward adjustments in selected public utility tariffs and a freezing of wage scales except for those in the private sector earning the minimum wage. Also, in May 1982 the pula 2/ was depreciated by 10 percent. In the fiscal field, a number of measures were implemented. Of particular importance, in September sales taxes were introduced for the first time (on spirits and petroleum products).

Reflecting in part the success of these policy adjustments but, more importantly, fortuitous factors unique to Botswana--namely, the opening of the large Jwaneng diamond mine in mid-1982 and Botswana's enlarged share in De Beers' purchasing arrangement--Botswana's economic and financial performance since the last Article IV consultation discussions (June 1982) has been highly favorable compared with that of most other developing countries.

During 1982-83, despite the persistence of severe drought, growth in real GDP is estimated to average about 11 percent per annum. The bulk of the increase in GDP over this period is projected to be contributed by the mining sector, but an appreciable addition to domestic activity will also be made by the livestock sector. Moreover, consumer

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1/ Botswana is a member of the Southern African Customs Union (together with South Africa, Lesotho, and Swaziland). In addition, about 85 percent of Botswana's imports are received from South Africa (although part of this originates outside South Africa).

2/ The pula is linked to a basket that consists of the SDR and the South African rand in equal amounts. At end-November 1983 P 1 = SDR 0.8321.

Table 1. Botswana: Selected Economic and Financial Indicators, 1980-83

	1980	1981	1982	1983 Est.
	(Annual percent change, unless otherwise specified)			
National income and prices				
GDP at constant prices	12.9	6.2	8.8	13.4
GDP deflator	8.7	-2.9	5.6	12.1
Consumer prices	13.8	15.8	11.5	10.0
External sector (in terms of SDRs)				
Exports, f.o.b.	22.5	-18.4	21.6	40.1
Imports, f.o.b.	35.4	26.3	-9.6	10.6
Nominal effective exchange rate (depreciation -)	-1.1	3.8	-8.9	-0.7 1/
Real effective exchange rate (depreciation -)	-1.7	4.3	-7.9	-2.3 1/
Government budget 2/				
Total revenue and grants	23.4	5.0	22.0	36.1
Of which: Customs Union	27.2	2.3	9.6	38.2
mineral revenue	32.0	-23.7	29.1	86.3
Total expenditure and net lending	35.5	10.5	21.2	31.1
Money and credit				
Domestic credit	1.9	700.9	-38.3 3/	-32.5 3/
Government 4/	14.4	-33.4	64.0	49.3
Private sector	12.9	47.4	2.8	20.0
Money and quasi-money	19.0	-4.6	7.9	23.6
Interest rates (end of year)				
Bank of Botswana lending rate	5.75	8.5	12.0	10.5 5/
Commercial banks				
Prime lending rate	9.0	11.0	14.5	13.0 5/
Savings deposit rate	3.5	7.5	11.0	9.5 5/
	(In percent of GDP)			
Central government budget deficit (-) 2/				
Excluding grants	-5.3	-7.9	-7.3	-5.0
Including grants	-0.2	-2.5	-2.2	-0.6
Domestic bank financing	0.6	1.6	-5.0	-1.2
Foreign financing	1.5	1.6	6.4	1.8
Gross domestic investment	45.2	46.2	36.5	...
Gross domestic savings	27.5	16.3	14.1	...
External current account deficit (-)				
Excluding grants	-22.2	-38.5	-21.6	-16.1
Including grants	-8.4	-22.8	-7.3	-4.1
External debt	16.2	18.3	26.5	28.4
Debt service ratio (in percent of exports of goods and services and private transfers)	1.6	1.4	2.6	3.6
	(In millions of SDRs, unless otherwise specified)			
Overall balance of payments (deficit -)	71.9	-61.0	50.1	60.0
Gross official reserves (months of imports, c.i.f.)	6.6	4.2	5.7	6.3

Sources: Data provided by the Botswana authorities; and staff estimates.

1/ October 1983.

2/ Fiscal years (April-March).

3/ Changes in domestic credit were negative due to large increases in the Government's net creditor position vis-à-vis the banking system. See footnote 4.

4/ The Government of Botswana is a net creditor vis-à-vis the banking system; the percentages shown are the changes in this net creditor position.

5/ November 1983.

price inflation has been trending downward, from nearly 12 percent for the 12-month period ending June 1982 to 8.5 percent for the year ending September 1983.

In the financial area, the 1982/83 budgetary outturn was considerably better (an overall deficit equivalent to 2.2 percent of GDP) than had been envisaged (a deficit of 10.4 percent of GDP) at the time of the previous Article IV consultation mission, and only a small deficit (less than 1 percent of GDP) is now estimated for 1983/84. Also, the Government has been increasing its net creditor position with the banking system; at end-September 1983 government deposits were equivalent to about three months of estimated 1983/84 total budgetary outlays. The dominant factor in the improved fiscal situation has been sharply increased mineral-related revenues, which, over the two years 1982/83-1983/84, will have increased by about 140 percent. Although private sector credit and monetary expansion were modest in 1982--with respective increases of 3 percent and 8 percent--during the course of 1983 there has been a much quickened pace in both. At end-September 1983 private sector credit and money plus quasi-money were 29 percent and 18 percent above their respective levels a year earlier.

In the two years 1982-83 the external trade deficit has declined markedly and is estimated at only SDR 2 million for 1983 (Table 2). As in the production and budgetary areas, the improved performance in the external sector reflects mainly the rising diamond sales, which, over the two-year period, will have increased by an estimated SDR 237 million. An estimated SDR 200 million of this increase is associated with Botswana's increased share in De Beers' purchasing arrangement arising from the production of the Jwaneng mine. The declining trade deficits have resulted in reduced current account imbalances (estimated at the equivalent of 16 percent of GDP, excluding official transfers, in 1983) and in overall balance of payments surpluses in both 1982 (SDR 50 million) and 1983 (an estimated SDR 60 million). For end-1983 Botswana's international reserves are projected at the equivalent of six months of imports. Also, Botswana has maintained a very low debt service ratio, which is estimated at 4 percent for 1983.

In the period May 1982-October 1983 the pula depreciated by 1 percent against the SDR, but appreciated by 1 percent against the rand. During the same period the nominal and real effective exchange rates both depreciated by about 3 percent.

Botswana maintains an exchange system that is virtually free of restrictions on payments and transfers for current international transactions, and there have been no changes in the system since the last Article IV consultation discussions.

The bulk of Botswana's external debt has been effected on concessional terms by the Government and other public sector institutions, and the contracting of such debt is closely controlled by the Ministry of Finance and Development Planning.

Table 2. Botswana: Balance of Payments and External Debt, 1981-88

	1981	1982	1983 Est.	1984	1985	1986	1987	1988
				Projections				
				(In millions of SDRs)				
Exports, f.o.b.	342	416	583	639	692	749	819	895
Of which: diamonds	(137)	(216)	(374)	(413)	(454)	(500)	(550)	(605)
Imports, f.o.b.	-585	-529	-585	-649	-703	-755	-812	-873
Trade balance	-243	-113	-2	-10	-11	-6	7	22
Services and private transfers (net)	-51	-52	-147	-210	-243	-281	-310	-336
Official transfers (net)	120	109	111	115	116	122	132	139
Current balance	-174	-55	-38	-105	-138	-165	-171	-175
Capital account and errors and omissions (net)	113	105	98	122	136	149	163	176
Overall balance	-61	50	60	17	-2	-16	-8	1
Memorandum items:				(In percent)				
Current account deficit relative to GDP:								
Including official transfers	22.8	7.3	4.1	9.5	11.1	11.9	11.0	10.0
Excluding official transfers	38.5	21.6	16.1	19.9	20.4	20.7	19.4	18.0
External public debt relative to GDP	18.3	26.5	28.4	32.1	40.2	47.2	49.0	47.9
Debt service payments relative to exports of goods and services and private transfers	1.4	2.6	3.6	5.5	7.3	8.2	9.5	10.0
Gross official reserves: In number of months of imports, c.i.f. (end of year)	4.2	5.7	6.3	6.0	5.5	4.9	4.4	4.1

Sources: Data provided by the Botswana authorities; and staff estimates and projections.

III. Report on the Discussions

1. Prospects for 1984

Based for the most part on present policies, the staff representatives projected that for 1984 both a further improvement in the budgetary position and another balance of payments surplus could well be recorded. Government receipts will benefit from another sharp rise (about 40 percent) in mineral-related revenues, mainly in the form of income tax payments from Debswana (the diamond mining company) relating to the large increase in sales and profits in 1983. On the other hand, expenditure growth is expected to be considerably lower than in the past two years, reflecting principally an anticipated deceleration in development outlays. A small overall budgetary surplus (perhaps P 5 million) is thus projected for 1984/85.

The external trade deficit is forecast to widen slightly as export growth moderates to about 10 percent following the extraordinarily large increase (40 percent) in 1983. Import growth is projected to remain unchanged (at 11 percent), based on the assumption that the authorities will successfully curtail the growth in private sector credit. The services account will likely deteriorate sharply as a result of substantially increased mineral royalty and dividend payments abroad--a deterioration that is projected to continue over the medium term--and the current account deficit is now forecast to increase to about 20 percent of GDP. Nevertheless, with an anticipated marked pickup in net capital inflows (both private and official), an overall surplus in 1984 of SDR 20 million is now envisaged.

Despite the relatively comfortable budgetary and external positions currently envisaged for 1984, the consultation discussions touched upon certain adjustments, notably in the monetary and credit areas, that may be required during the course of the year. However, the focus of the discussions was on a medium-term course of economic and financial management that would enable Botswana to achieve satisfactory growth and maintain a viable external position.

2. External sector prospects and policies

The balance of payments outlook through 1988 was examined in detail. The staff representatives' projections, which are summarized in Table 2, took into account Botswana's need to maintain a relatively comfortable reserve level, and thus posited approximate equilibrium in the balance of payments as a major target. The projections were based mainly on the following assumptions: (1) export growth of about 9 percent per annum; (2) a steady rise in payments for services, reflecting increased dividend payments in the diamond sector and growing interest payments by the public sector; (3) an increase in official transfers (exclusive of emergency food aid and receipts from the Customs Union) of about 6 percent annually, i.e., no increase in real terms; and (4) an

annual increase of 16 percent in gross capital inflows to the public sector. Permissible import growth (about 8 percent per annum) was derived as a residual. Thus, although another overall surplus could well be recorded in 1984, the staff representatives stressed that strains could emerge in the years beyond unless import growth was kept in check. The implied permissible increase in real imports over the 1984-88 period is only about 4 percent per annum, well below the rate required to sustain the pace of economic growth in recent years. The necessary restraint on imports reflects mainly the fact that diamond production in Botswana is expected to reach a plateau in 1984, and future increases in diamond exports will be determined entirely by developments in the world diamond market--a market that may show only modest growth through the 1980s. The Botswana representatives were somewhat more optimistic than the staff representatives concerning the medium-term outlook for diamond exports and thus for permissible import growth. Their forecast was for an increase of about 17 percent per annum in value terms, compared with the staff representatives' conservative projection of 10 percent, which was based on the assumption of moderate real growth and price increases in the industrial countries.

There are presently under consideration large coal and soda-ash projects, but the staff representatives cautioned that, even if both projects proceed according to the most optimistic schedules, export earnings from them would not accrue until near the end of the decade. Regarding the coal project, which would have a maximum annual capacity of 7.5 million tons, a final feasibility report is expected to be prepared by mid-1984, and a final decision to proceed would be made by mid-1985. Construction could start by early 1986, with exports possibly commencing in 1988. A major unresolved question concerns the construction and financing of an adequate transport route, which, under the Government's joint venture agreement with Shell Coal, is the responsibility of the Government. Whereas a rail link to the east through South Africa or Mozambique would involve only about 150 km of track and would not be very costly, it is not likely to be sufficient to accommodate the 7.5 million ton annual production level. To transport that output, a very costly (in excess of US$1 billion) railway to the west to Walvis Bay would be required and is under consideration. A possible soda-ash project is being studied by British Petroleum. A plant with an annual production capacity of 300 thousand tons is being considered, with South Africa envisaged as the principal buyer. However, the Botswana representatives noted a major impediment to a decision to proceed with the project--namely, that South Africa itself was considering a soda-ash project. They believed that the issue called for negotiations between the two countries before South Africa made a final decision. In terms of current market prices and assuming maximum production levels, the coal and soda-ash projects could, taken together, yield about SDR 500 million per annum in export earnings.

Although movements in the nominal and real effective exchange rates subsequent to the corrective action of May 1982 did not suggest a present need for a further discretionary adjustment in the pula, the

staff representatives advised that, given the less buoyant outlook for mineral exports over the next several years, the authorities continue to monitor closely the appropriateness of the rate to help restrain import growth and promote non-mineral exports. The Botswana representatives concurred with this view and added that they considered the exchange rate a flexible instrument and were not committed to support any particular rate.

The staff representatives emphasized the need to continue a prudent approach to debt management, and, in this regard, cited with some uneasiness their projection of a sharp rise in Botswana's debt service ratio through 1988. While the level projected for that year (10 percent) did not appear excessive, there were no assurances that the debt service burden would not continue to rise rapidly beyond 1988. The Botswana representatives replied that developments in the debt service burden were being kept under careful review, and, while no absolute threshold figure had been established, a level of 10 percent could well trigger consideration of scaling-back further borrowing.

3. Financial policies

a. Budgetary policies

Although, as discussed above, a small budgetary surplus was projected by the staff reprsentatives for 1984/85, it was emphasized that, with the tapering off of diamond production, satisfactory outturns in future years will require major efforts to expand the revenue base. No major initiatives were being envisaged for 1984/85. The staff representatives stressed, however, that for the medium term measures to expand the tax base must be implemented, as budgetary receipts continue to be highly dependent upon mineral exports and the Customs Union, which together will account for about 70 percent of 1983/84 revenues. The staff representatives commended the authorities for planning a shift in the composition of total expenditure toward recurrent outlays to provide for the adequate maintenance of development projects. Nevertheless, the authorities' projections of growth in total expenditure (about 15 percent per annum through 1989/90) only underlined the need for substantial revenue initiatives.

The Botswana representatives, while agreeing with the staff representatives' assessment, pointed out that there did not seem to be much scope for significant measures to broaden the revenue base. A sales tax was introduced in 1982 (which will contribute about 1.5 percent of total revenues in 1983/84), along with measures to extend the taxation of gains made in the transfer of business assets, discontinue the generous system of capital allowances, and phase in a quarterly payments system for company taxes. In 1983 the standard values for livestock, which affect the taxation of income from livestock, were increased. Nonetheless, they believed that any significant increases in

revenues would depend crucially on the extent of diversification achieved in the economy--especially if the coal and soda-ash projects materialize--but added that perhaps there was some room for increasing the contribution of the livestock sector to revenues, which at present was not reflective of its importance to the economy.

b. Monetary and credit policies

The staff representatives noted with concern the recent acceleration in private sector credit expansion and increasing interest rate differentials (now about 5 percentage points) that have emerged since mid-1983 between Botswana and South Africa. The differentials have resulted from a reduction of about 1.5 percentage points in Botswana's rates in February 1983, in response to the improvement in diamond exports and weak private sector activity, and increases since June in South African rates. The staff representatives recommended that for 1984 private sector credit expansion be curtailed sharply to help contain the growth of imports to their forecast level. It was further proposed that the authorities continue to utilize the flexible management of bank reserves and upward adjustments in interest rates as the principal tools to ensure adequate restraint.

The Botswana representatives shared the mission's view that the growth of credit to the private sector should be moderated, but noted that it may be difficult to achieve a moderation through the manipulation of reserves, as the banks currently had a large amount of excess liquidity. Moreover, they advanced arguments for a possible reduction in interest rates or at least no increase for the moment. They cited in particular the current prime lending rate (13 percent), which was considered too high in view of the reduced rate of inflation, the need to promote investment, and the requirements of the agricultural sector during the drought. In addition, they pointed to Botswana's currently high level of international reserves. While the staff representatives fully appreciated the domestic considerations, it was noted that non-resident companies had already begun to take advantage of the rate differentials by borrowing in Botswana and transferring funds abroad, and that it would be unfortunate for foreign exchange to be dissipated in this manner.

4. Development planning and sectoral policies

A mid-term review of the six-year (1979/80-1984/85) National Development Plan V (NDP V) was completed in July 1983. It assessed progress and provided forecasts of manpower and financial requirements to guide the formulation of priorities and programs for NDP VI. During the first four years of NDP V annual average GDP growth at constant consumer prices 1/ (7 percent) is estimated to have fallen short of the plan's target (11 percent), due mainly to the

1/ Under NDP V, real growth rates of GDP are expressed in terms of constant consumer prices rather than constant factor prices.

slackened world market for diamonds, the present drought, and the outbreak of hoof-and-mouth disease in 1980. As a consequence, for the entire plan period real economic growth is now projected to average about 4 percentage points per annum below the original target (10 percent). In terms of investment expenditure, implementation as a percent of NDP V targets averaged about 70 percent through 1981/82. The major shortfalls were in the rail transport, commerce and industry, and agriculture areas, whereas water development proceeded at close to the anticipated pace and the implementation rate in the social services was close to 80 percent. The mid-term review anticipated a pickup in the overall implementation rate, but this now appears unlikely in view of actual investment outlays in 1982/83-1983/84 and preliminary estimates for 1984/85.

Apart from the proposed coal and soda-ash projects, the mission's discussions on sectoral policies focused on the agricultural and manufacturing sectors, whose contributions to GDP are about 10 percent and 9 percent, respectively. The combined output of staple foods (maize and sorghum) normally amounts to only about one third of domestic requirements, but the deficiency is much greater, as presently (about 85 percent), in periods of drought. The Botswana representatives stated that the gap between production and consumption for maize and sorghum was being met, as in the past, through imports from South Africa and also from aid received under the World Food Program. It should be noted, however, that imports necessitated by the drought are estimated at less than 2 percent of total 1983 imports.

The authorities continue to put emphasis on price incentives to encourage crop production. Producer prices have been announced on a preplanting basis since October 1980, but, due to the drought, it has been as yet difficult to ascertain the impact of this system. At the time of the mission, prices for the 1983/84 crop year were about to be announced and would take into account the following two major considerations: increases for most crops would not significantly exceed the current rate of inflation, and the practice of aligning the domestic maize price with the landed cost of maize imports from South Africa would be maintained. There are at present no consumer subsidies for food crops.

For the livestock sector, the authorities have also put emphasis on appropriate price incentives. In 1982 a system of seasonal variations in cattle prices paid by the Botswana Meat Commission (BMC) was introduced, aimed at evening out the throughput rate during the year. For 1983 the schedule of advance prices averaged about 12.5 percent above that for 1982. As with crop preplanting prices, the drought has made it difficult to assess the effect of the seasonal pricing system. Considerable progress has been made in the implementation of measures to control hoof-and-mouth disease, and no outbreak has occurred since 1980. In addition, the livestock sector has been helped by the opening, in 1983, of a second abattoir.

The manufacturing sector in Botswana is still in its early stages of development. Since the end of 1981, however, 105 new units (employing ten or more persons) have come into existence; these establishments are concentrated in textiles, building materials, and foodstuffs. The Botswana representatives commented that the introduction in 1982 of the Financial Assistance Policy (FAP)--a system of providing subsidized loans and grants to promote small- and medium-scale activities--was providing a stimulus for new enterprises.

The Botswana representatives stated that administrative encumbrances were being lessened. Licensing procedures for new enterprises were being applied in a liberal manner, with typically over 90 percent of applicants receiving approval. The guiding principle of licensing policy was to encourage the growth of units in activities where shortages were being experienced and to prevent the establishment of units in activities in which the extent of the market was unlikely to justify an expansion in production. Foreign investment was actively being sought, and the Botswana representatives referred to the country's political stability, its standing commitment to liberal foreign exchange and import policies, and its access to markets, particularly in the southern African region, as positive factors, which should over time encourage foreign development of the industrial base.

5. Price and wage policies

Presently, apart from public utility tariffs, there are only three consumer items subject to absolute price ceilings--sugar, petroleum, and certain beef products. For other items the Government has set maximum percentage markups which, however, are not monitored closely. The staff representatives noted that Botswana had benefited from not having resorted to a rigid price control system, and encouraged the continuation of the flexible pricing policy.

The authorities have pursued a pragmatic wage policy over the past few years, with the wage freeze adopted in 1982/83 during a period of required austerity followed by a modest increase in wage scales (8 percent) in 1983/84, when conditions permitted. In practice, changes in the wage rates are established for the public sector and subsequently accepted by the private sector. The staff representatives considered the recent flexible wage policy appropriate, but cautioned that adequate restraint should be maintained, not only to contain budgetary outlays but also to ease cost pressures on Botswana's productive enterprises.

IV. Staff Appraisal

Since the previous Article IV consultation discussions, Botswana's economic and financial performance has been highly favorable compared with that of most other develping countries. Although the economy has benefited importantly from fortuitous factors unique to Botswana--namely, the opening of a new diamond mine and enhanced diamond marketing arrangements--positive developments have reflected also the success of timely and significant policy adjustments in the monetary, fiscal, incomes policy, and exchange rate areas. Thus, despite a severe drought, a rapid rate of economic growth has been maintained; both the fiscal and external positions have strengthened; and inflationary pressures have eased.

It is currently envisaged that for 1984 relatively comfortable budgetary and external positions will be maintained. Nonetheless, the authorities should continue to pursue cautious economic and financial policies, not only to promote satisfactory economic growth in future years but also to enable Botswana to maintain a viable external position and its relatively high standing in the international community as a well-managed and creditworthy country.

Regarding the balance of payments, strains could emerge in the medium term, particularly as diamond production in Botswana is expected to reach a plateau and export earnings from potential new sources (coal and soda-ash) are not likely to accrue until near the end of the decade. Thus, import growth will have to be restrained, which will require not only appropriate demand management policies but also a close monitoring of the appropriateness of the exchange rate and its continued use as a flexible policy instrument. A prudent approach to debt management should be maintained. In view of the rapid increase in the debt service ratio projected through 1988, there would appear to be a need for some specific institutional mechanism in Botswana to ensure that further rapid debt increases do not occur that could call into question the country's debt servicing capacity. The authorities are to be commended for their continued commitment to an exchange system that is virtually free of restrictions on payments and transfers for current international transactions.

With the anticipated tapering off of diamond production, measures to expand the revenue base in the medium term, apart from the diamond sector, must be implemented, and, in this respect, a more appropriate contribution from the livestock sector warrants serious examination. The authorities' plan for a shift in the composition of total expenditure to provide for the adequate maintenance of existing projects should promote a more effective pattern of resource use, but their projections for the growth in total expenditure through the end of the 1980s only underscores the need for substantial revenue action.

In the monetary and credit area, the growth in private sector credit should be substantially curtailed in 1984 to help contain imports to their forecast level. It is proposed that the authorities continue the flexible management of bank reserves and an active interest rate policy as the principal instruments to ensure appropriate credit restraint. Moreover, careful consideration should be given to reducing the large interest rate differentials that have recently emerged between Botswana and South Africa. While there may be valid domestic reasons for deferring such an action, it would be unfortunate if the persistence of these differentials led to a significant and avoidable loss in Botswana's international reserves.

The authorities have shown considerable flexibility in setting agricultural producer prices and have maintained a flexible pricing system for consumer goods and services. In addition, over the past few years they have pursued a pragmatic wage policy, according due emphasis to the need for restraint. The approaches adopted in these areas should be continued.

It is noted that the authorities have accepted that the Article IV consultation be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Botswana, in the light of the 1983 Article IV consultation with Botswana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Botswana continues to maintain an exchange system that is virtually free of restrictions on payments and transfers for current international transactions.

BOTSWANA - Relations with the Fund
(As of December 31, 1983)

Date of membership:	July 24, 1968
Status:	Article XIV
Quota (Under Eighth Review):	SDR 22.1 million (effected)
SDR/Local currency equivalent (November 30, 1983):	P 1 = SDR 0.8321
Intervention currency and the rate (November 30, 1983):	U.S. dollar; P 1 = US$0.8742
Fund holdings of local currency:	48.9 percent of quota
Holdings of SDRs:	SDR 7.26 million, or 165 percent of net cumulative allocation (SDR 4.4 million)
Trust Fund:	Nil (Botswana did not qualify due to lack of a balance of payments need.)
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	US$788,874
Gold distribution (four distributions):	4,278.867 fine ounces
Technical assistance:	An expert recruited by the Central Banking Department is currently serving at the Bank of Botswana as Director of Bank Supervision. An expert recruited by the Fiscal Affairs Department is serving as a Tax Advisor in the Ministry of Finance and Development Planning.

The last Article IV consultation discussions with Botswana were held in Gaborone during the periods April 22-May 6, 1982 and May 31-June 8, 1982. The staff report (SM/82/173) and the recent economic developments paper (SM/82/181) were discussed by the Executive Board on September 20, 1982. The decision adopted was as follows:

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with Botswana, in the light of the 1982 Article IV consultation with Botswana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Botswana continues to maintain an exchange system that is virtually free of restrictions on payments and transfers for current international transactions.

BOTSWANA - Financial Relations with the World Bank Group

Botswana has had 20 IBRD/IDA loans and credits totaling US$295 million, of which IDA loans have amounted to US$15 million. There are currently in effect nine loans for roads, education, water supply, and a power station. Loans are being considered for a number of projects, including for family health improvement, roads, and education.

BOTSWANA - Basic Data

Area, population, and GDP per capita

Area	581,370 square kilometers
Population: Total (1982 mid-year estimate)	860,000
Growth rate	3.8 per cent
GDP per capita (1982)	SDR 884

National accounts (July-June)	1979/80	1980/81	1981/82	1982/83	1983/84 Est.
	(In millions of pula)				
GDP at current market prices	689.4	762.4	737.2	978.1	1,175.5
GDP at constant (1979/80) market prices	689.4	768.3	779.7	905.3	1,005.3

Prices	1979	1980	1981	1982	1983 Est.
	(Percentage change from preceding period)				
Cost-of-living index	12.6	13.8	15.8	11.5	10.0
Import unit value	18.9	23.2	14.5	10.7	5.0

Central government finance (April-March)	1979/80	1980/81	1981/82	1982/83	1983/84 Budget	1983/84 Est.
	(In millions of pula)					
Total revenue and grants	249.1	307.3	322.8	393.7	454.1	535.9
Of which: Customs Union	80.2	102.0	104.3	114.3	158.5	158.0
mineral revenue	76.6	101.1	77.1	99.5	129.7	185.4
Total expenditure and net lending	228.0	309.0	341.4	413.7	500.2	542.3
Of which: current expenditure	122.0	166.8	200.0	226.3	285.2	286.2
capital expenditure	88.1	104.6	108.6	156.6	170.0	201.4
Overall surplus or deficit (-)	21.1	-1.7	-18.6	-20.0	-46.1	-6.4
External financing	12.0	10.9	11.8	58.9	20.6	20.6
Domestic financing	-33.1	-9.2	6.8	-38.9	25.5	-14.2

BOTSWANA - Basic Data (concluded)

	1979	1980	1981	1982	1983 Est.
			(In millions of pula)		
Money and credit (end-year)					
Foreign assets (net)	212.5	254.5	217.7	312.5	382.5
Domestic credit	10.6	10.8	86.5	53.3	36.0
Claims on Government (net)	(-76.3)	(-87.3)	(-58.1)	(-95.3)	(-142.3)
Claims on private sector 1/	(86.9)	(98.1)	(144.6)	(148.6)	(178.3)
Money and quasi-money	199.0	236.9	225.9	243.8	301.4
Money	(82.1)	(90.6)	(114.1)	(132.9)	(...)
Quasi-money	(116.9)	(146.3)	(111.8)	(110.9)	(...)
Of which: private sector deposits with central bank	50.2	91.3	30.3	13.9	...
			(In millions of SDRs)		
Balance of payments					
Exports, f.o.b.	342	419	342	416	583
Of which: diamonds	(175)	(235)	(137)	(216)	(374)
meat and related products	(69)	(31)	(66)	(77)	(84)
Imports, f.o.b.	-342	-463	-585	-529	-585
Trade balance	--	-44	-243	-113	-2
Services (net)	-71	-114	-49	-51	-141
Transfers (net)	100	98	118	109	105
Current account balance	29	-60	-174	-55	-38
Private long-term capital	81	100	90	59	70
Official capital	-10	15	1	41	28
Short-term capital, allocation of SDRs, and errors and omissions	-10	17	22	5	--
Overall balance	90	72	-61	50	60
Gross official foreign reserves (end-period)					
Total	203	269	218	266	326
In number of months' imports, c.i.f.	6.7	6.6	4.2	5.7	6.3
External public debt					
Debt service as percent of exports of goods and services and private transfers	1.6	1.6	1.4	2.6	3.6

1/ Includes parastatals and local governments.