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INFORMATION

April 13, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Botswana - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Botswana, which is proposed to be brought to the agenda for discussion on Wednesday, May 6, 1987. A draft decision appears on page 24.

Mr. Ballali (ext. 6939) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

BOTSWANA

# Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the 1987 Article IV Consultation with Botswana

Approved by A.D. Ouattara and S. Kanesa-Thasan

April 10, 1987

## I. Introduction

The 1987 Article IV consultation discussions with Botswana were held in Gaborone during the period January 29-February 13, 1987. The Botswana representatives included the Honorable P.S. Mmusi, Vice-President and Minister of Finance and Development Planning; Mr. D. Hudson, Acting Governor of the Bank of Botswana; Mr. B. Gaolathe, Permanent Secretary of the Ministry of Finance and Development Planning; and other senior officials of ministries and agencies concerned with economic and financial matters as well as representatives of the private sector. The staff representatives were Mr. D.T.S. Ballali (head), Ms. N. Calika, Mr. P. Young, Mr. B. Ames, and Ms. M. Duane (secretary) all of the African Department.

Botswana became a member of the Fund on July 24, 1968 and continues to avail itself of the transitional arrangements under Article XIV, Section 2. To date, the country has not made use of Fund resources. During the last Board discussion on Botswana, Executive Directors commended Botswana for the impressive economic and financial performance of recent years, which was due to both buoyant diamond exports and good economic management. They welcomed the authorities' flexible approach to exchange rate management and their initiatives to diversify the economy. They stressed the need to keep the growth of government current expenditure under constant review and supported the authorities' intentions to develop appropriate financial instruments to absorb the excess liquidity in the economy and to continue to move toward a judicious balance between the accumulation of foreign reserves and foreign borrowing.

The staffs of the Fund and the World Bank have cooperated closely in providing advice to Botswana on economic and financial issues and in the area of technical assistance. Summaries of Botswana's relations with the Fund and the World Bank Group appear in Appendices I and II.

## II. Recent Economic Developments and Policies

Throughout the 1970s and into the 1980s, Botswana's economy achieved impressive rates of growth, large balance of payments surpluses, low levels of debt service, and moderate rates of inflation (Table 1). Specifically, during the decade 1971-80 the annual rate of real GDP growth averaged slightly above 10 percent, as the output of diamonds rose to account for about one fourth of GDP, over one half the value of exports and one third of government revenue. This strong performance accelerated during the 1980s, as a result of a rapid expansion in the mining and export of diamonds, a substantial inflow of foreign capital, mainly on concessional terms, and prudent economic and financial policies pursued by the authorities (Chart 1).

### 1. Developments and policies during 1981-85

After a temporary slowdown in 1981, real GDP growth surged upwards to average over 14 percent per annum during the period 1982-85, mainly because of the opening of the Jwaneng diamond mine in 1982, which more than doubled value added in the mining sector; its share in real GDP increased from 32 percent (1981) to over 50 percent (1985). During the slump of 1981-85, Botswana accumulated large stocks of high quality diamonds, which were valued at the cost of production and accounted for in GDP in the year they were produced. Nonmining GDP, however, grew at an average annual real rate of about 5 percent over this period.

With the rapid expansion of the mining sector, the share of agriculture (including livestock) in GDP experienced a steady decline, from about 10 percent of GDP in 1981 to only 5 percent of GDP in 1985. The decline was particularly precipitous in 1982-83 because of the onset of the severe drought. During 1984-85, agricultural output began to recover, in response to some improvement in weather conditions, producer price incentives, and the accelerated provision of essential inputs under various government programs.

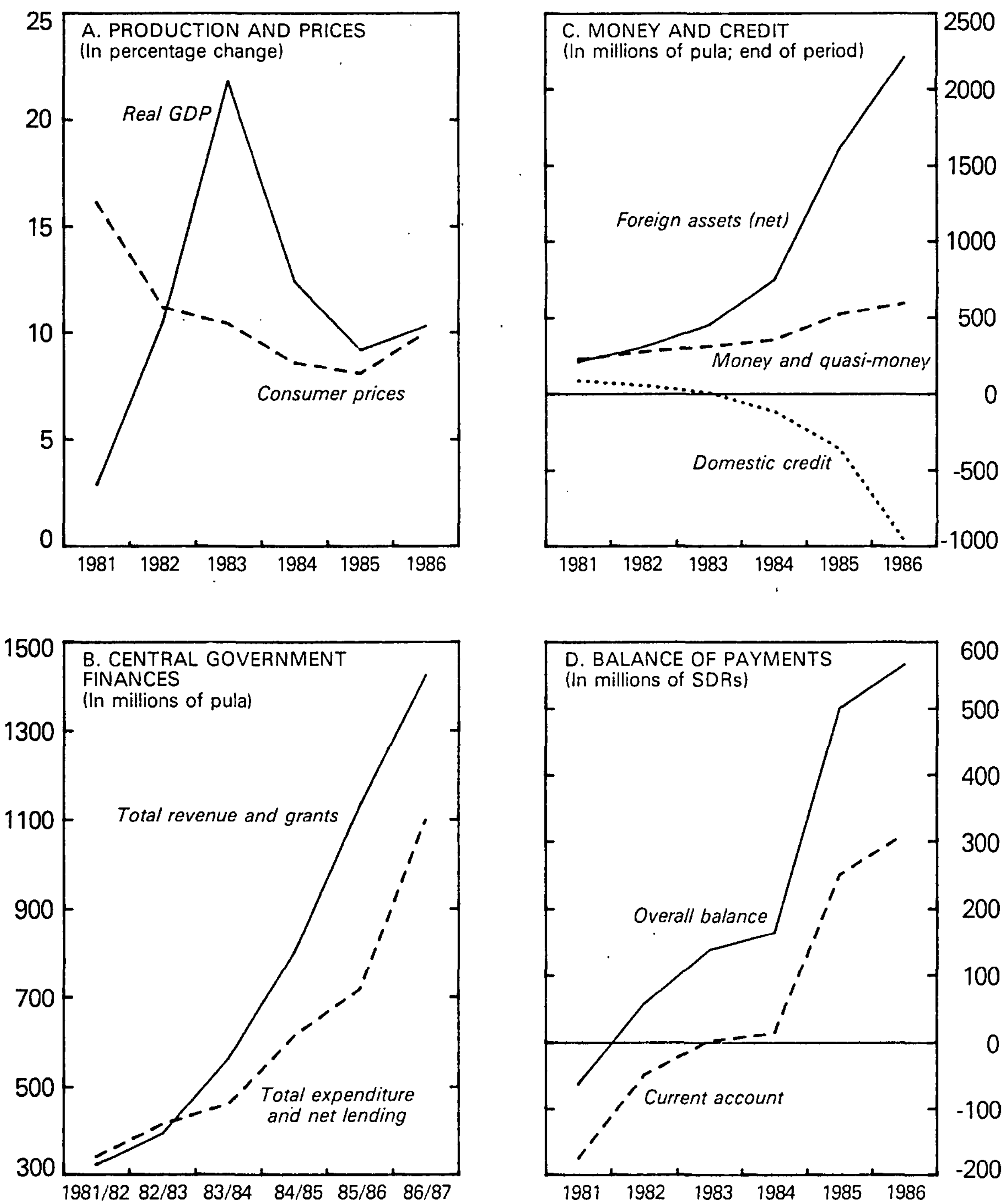
For reasons of food security, the authorities have attached great importance to agriculture, despite its small and decreasing share in total GDP. The authorities' producer price policy has aimed mainly at moving the country gradually toward self-sufficiency in foodgrains. At present, the policy consists of guaranteed minimum producer prices announced at the start of each season. Prices for oilseeds and pulses, which are mostly exported, are set according to the world market price, less the cost of marketing by the Botswana Agricultural Marketing Board (BAMB). For foodgrains, which are largely imported, the domestic producers are paid at a price equivalent to the landed cost of foodgrain imports plus a transportation cost differential. The price of sorghum has been maintained at a premium over maize to encourage production of this drought-resistant crop.

The period 1981-85 also saw a considerable increase in the importance of the mining sector to the government budget. Mineral-

CHART 1

BOTSWANA

# SELECTED ECONOMIC INDICATORS




Source: Data provided by the Botswana authorities.

Table 1. Botswana: Selected Economic and Financial Indicators, 1982-87

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 Est. | 1987 Proj. |
|---|---|---|---|---|---|---|---|
| | (Annual percent change, unless otherwise specified) | | | | | | |
| National income and prices | | | | | | | |
| GDP at constant prices | 2.9 | 10.5 | 21.8 | 12.4 | 9.2 | 10.3 | 8.7 |
| GDP deflator | -1.9 | 5.0 | 4.7 | 8.1 | 19.9 | 15.8 | 9.2 |
| Consumer prices | 16.1 | 11.2 | 10.4 | 8.6 | 8.1 | 10.0 | 10.0 |
| External sector (in terms of SDRs) | | | | | | | |
| Exports, f.o.b. | -18.3 | 23.0 | 42.5 | 11.3 | 5.4 | -- | 5.5 |
| Imports, f.o.b. | 26.3 | -9.5 | 8.8 | -0.3 | -14.0 | -- | 2.7 |
| Nominal effective exchange rate (depreciation -) | 2.9 | -8.9 | 2.5 | 7.8 | -9.1 | 3.0 | ... |
| Real effective exchange rate (depreciation -) | 4.7 | -7.9 | 0.9 | 3.1 | -12.6 | -1.9 | ... |
| Government budget 1/ | | | | | | | |
| Total revenue and grants | 5.0 | 22.0 | 43.0 | 42.6 | 41.2 | 25.5 | 0.4 |
| Of which: Customs Union | (2.3) | (9.6) | (37.2) | (-0.6) | (-4.2) | (29.7) | (22.5) |
| mineral revenue | (-23.8) | (29.1) | (95.0) | (94.3) | (54.4) | (34.6) | (4.2) |
| Total expenditure and net lending | 10.5 | 21.5 | 10.9 | 33.6 | 17.0 | 23.8 | 23.3 |
| Money and credit | | | | | | | |
| Domestic credit 2/ | 38.3 | 22.5 | 1.9 | -32.5 | -69.1 | -161.4 | ... |
| Government 3/ | -33.4 | 64.0 | 79.9 | 106.3 | 74.5 | 100.2 | ... |
| Private sector | 47.4 | 2.8 | 19.2 | 34.7 | 7.7 | 6.4 | ... |
| Money and quasi-money | -4.6 | 4.5 | 31.1 | 13.7 | 47.5 | 14.3 | ... |
| Interest rates (end of year) | | | | | | | |
| Bank of Botswana lending rate | 8.5 | 12.0 | 10.5 | 9.0 | 9.0 | 8.5 | ... |
| Commercial banks | | | | | | | |
| Prime lending rate | 11.0 | 14.5 | 13.0 | 11.5 | 11.5 | 10.0 | ... |
| Savings deposit rate | 7.5 | 11.0 | 9.5 | 8.0 | 8.0 | 7.5 | ... |
| | (In percent of GDP) | | | | | | |
| Central government budget deficit (-) 1/ | | | | | | | |
| Excluding grants | -7.7 | -7.1 | 4.5 | 10.2 | 18.8 | 19.4 | 9.9 |
| Including grants | -2.4 | -2.2 | 8.5 | 12.9 | 20.8 | 22.0 | 11.7 |
| Domestic bank financing | 0.8 | -4.4 | -9.8 | -15.1 | -21.5 | -22.7 | -13.0 |
| Foreign financing | 1.5 | 6.1 | 1.6 | 2.3 | 0.7 | 0.6 | 1.6 |
| External current account balance (-) | -22.0 | -5.4 | 0.2 | 0.9 | 13.7 | 13.3 | 11.1 |
| External debt 4/ | 18.6 | 24.7 | 23.0 | 30.7 | 24.1 | 20.0 | 19.0 |
| Debt service ratio (in percent of exports of goods and nonfactor services) | 1.4 | 2.5 | 7.7 | 7.7 | 5.5 | 4.2 | 4.0 |
| | (In millions of SDRs, unless otherwise specified) | | | | | | |
| Overall balance of payments (deficit -) | -62.0 | 50.1 | 117.8 | 125.1 | 259.2 | 256.8 | 278.7 |
| Gross official reserves (months of imports, f.o.b.) | 4.5 | 6.0 | 7.9 | 10.1 | 17.6 | 24.3 | 30.4 |

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

1/ Fiscal year beginning April 1.
2/ As a proportion of money and quasi-money.
3/ 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.
4/ Medium- and long-term, public and publicly guaranteed, disbursed and outstanding.

related revenue as a share of total revenue increased from 27.2 percent in 1981/82 (April-March) to 53.2 percent in 1985/86, and has displaced receipts from the Southern African Customs Union (SACU) as the single most important source of government revenue. Total revenue during this period grew at an average annual rate of 40.6 percent, with mineral-related revenues increasing by an average annual rate of 68.2 percent. Expenditure grew less rapidly. As a result, the overall fiscal balance strengthened continuously, moving from small deficits in 1981/82 and 1982/83 to large surpluses in 1983/84 and 1984/85 (Table 2). In 1985/86, the overall budget surplus was P 414.2 million (20.8 percent of GDP).

The successive budgetary surpluses resulted in a large buildup in government deposits and rising government claims on the banking system. Credit to the private sector grew at an average annual rate of 25.1 percent during 1981-84, but increased by only 7.7 percent in 1985, following a sharp drop in interest rates in South Africa and a switch to this source of financing by some of the major companies. 1/ As the Government became a net supplier of liquidity in the economy, there was a sharp decline in total bank credit. Money supply grew at an average annual rate of 24.6 percent per annum during 1981-85, owing to the strong growth in net foreign assets. The rate of inflation was reduced from 16.1 percent in 1981 to about 8.1 percent in 1985.

The evolution of the balance of payments has largely reflected the growth of the mining sector. After incurring a deficit in 1981, Botswana has subsequently generated substantial surpluses in its over all balance of payments. The overall surplus rose from SDR 50.1 mil lion (equivalent to 6.2 percent of GDP) in 1982 to an estimated SDR 259.2 million (27.3 percent of GDP) in 1985 (Table 3). The strong performance of Botswana's external sector during the period was reflected in the growth of gross official reserves, which increased from the equivalent of 6.0 months of imports (SDR 265.5 million) at the end of 1982 to 17.6 months of imports (SDR 714.9 million) at the end of 1985.

Over the years, Botswana has pursued a flexible exchange rate policy with the main objective of maintaining the country's external competitiveness (Chart 2). However, since 1985, the focus of the exchange rate policy has also included a renewed emphasis to limit the impact of imported inflation from South Africa, which supplies about 75 percent of total imports. To maintain Botswana's external competitiveness, in 1980 the authorities depreciated the pula and changed its peg from the U.S. dollar to a basket of currencies consisting of the South African rand and the SDR in equal amounts. During 1981-85, the yearly average real effective exchange rate of the pula depreciated by a cumulative 14.5 percent. The larger part of this depreciation occurred in January 1985, when the relative weight of the

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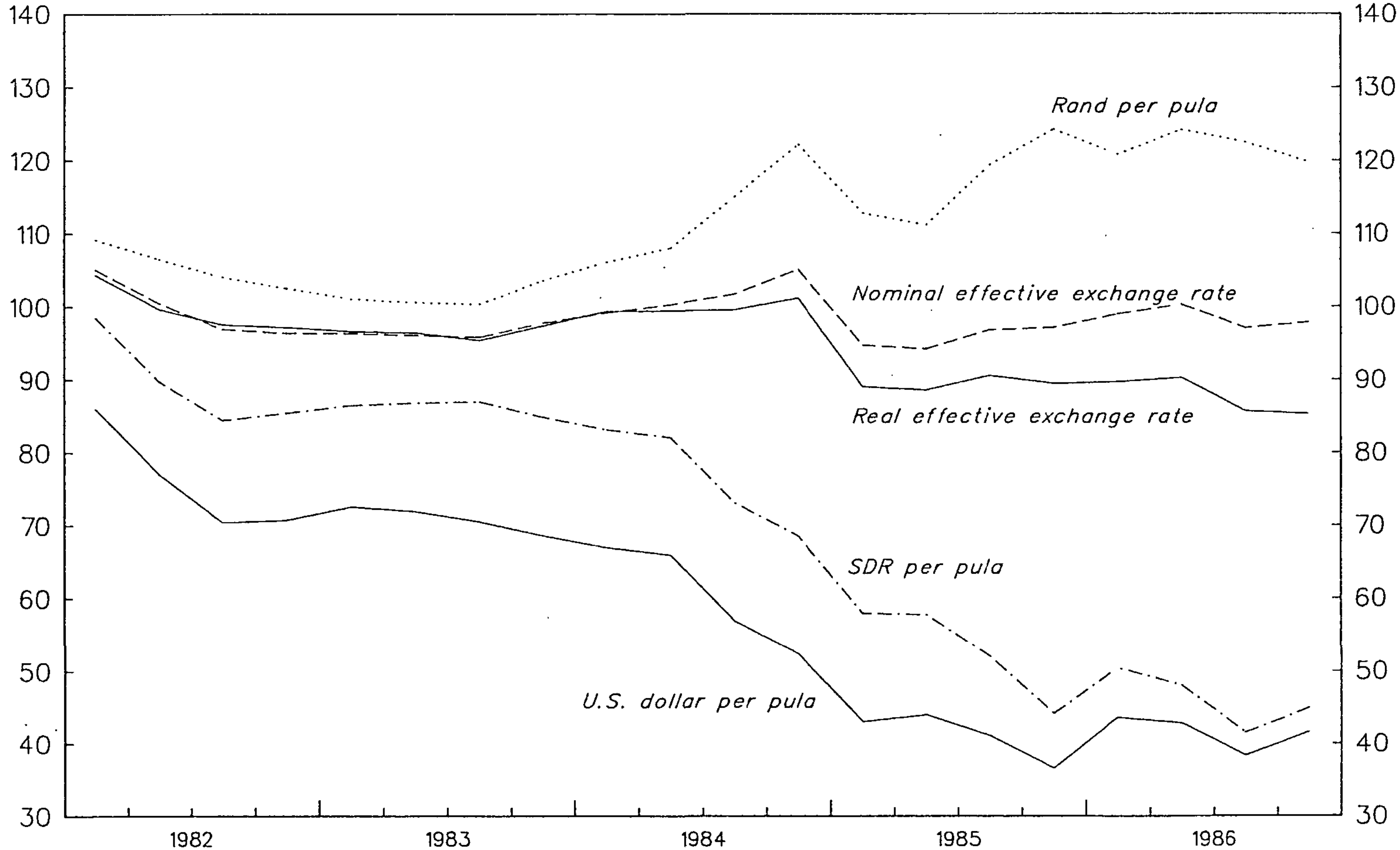
1/ Interest rates in South Africa were substantially negative in real terms, following the drop that began in mid-1985.

CHART 2

BOTSWANA

DEVELOPMENTS IN EXCHANGE RATE OF THE PULA, 1982–86

(1980=100)




Sources: IMF, *International Financial Statistics;* and staff estimates.

Table 2. Botswana: Summary of Overall Fiscal Operations of the Central Government, 1982/83-1987/88

(In millions of pula)

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 1/ Budget | 1986/87 1/ Rev. est. | 1986/87 1/ Exp. outturn | 1987/88 Budget |
|---|---|---|---|---|---|---|---|---|
| Total revenue and grants | 393.7 | 563.1 | 802.9 | 1,133.4 | 1,160.8 | 1,390.0 | 1,422.9 | 1,428.0 |
| Total revenue | 346.5 | 514.9 | 763.4 | 1,092.3 | 1,119.6 | 1,356.6 | 1,358.4 | 1,377.3 |
| Tax revenue | 220.0 | 308.5 | 420.6 | 485.5 | 695.4 | 755.3 | 755.3 | 780.1 |
| Of which: Customs Union receipts | (114.3) | (156.8) | (155.8) | (149.2) | (193.5) | (193.5) | (193.5) | (237.0) |
| mineral tax receipts | (40.4) | (61.5) | (168.4) | (231.5) | (385.8) | (431.2) | (431.2) | (413.8) |
| Nontax revenue | 126.5 | 206.4 | 342.8 | 606.8 | 424.2 | 601.3 | 603.1 | 597.2 |
| Of which: mineral income receipts | (59.0) | (132.3) | (208.1) | (349.8) | (300.0) | (351.0) | (351.0) | (401.1) |
| Grants | 47.2 | 48.2 | 39.5 | 41.1 | 41.2 | 33.4 | 64.5 | 50.7 |
| Total expenditure and net lending | 414.8 | 460.2 | 614.7 | 719.2 | 868.4 | 977.1 | 890.5 | 1,098.1 |
| Current expenditure | 227.5 | 272.7 | 344.6 | 432.3 | 494.3 | 563.3 | 501.9 | 632.7 |
| Wages and salaries | (101.7) | (109.2) | (143.6) | (171.9) | (203.4) | (220.3) | (201.8) | (235.9) |
| Interest | (11.0) | (13.1) | (19.2) | (26.5) | (28.1) | (28.0) | (28.0) | (41.5) |
| Other | (114.8) | (150.4) | (181.8) | (233.9) | (262.8) | (315.0) | (272.1) | (355.3) |
| Capital expenditure | 160.4 | 140.7 | 209.7 | 247.5 | 310.0 | 349.7 | 359.7 | 400.0 |
| Net lending | 27.0 | 46.8 | 60.4 | 39.4 | 64.1 | 64.1 | 28.9 | 65.4 |
| Overall surplus or deficit (-) | -21.1 | 102.9 | 188.2 | 414.2 | 292.4 | 412.9 | 532.4 | 329.9 |
| Financing | 21.1 | -102.9 | -188.2 | -414.2 | -292.4 | -412.9 | -532.4 | -329.9 |
| Foreign (net) | 58.9 | 20.0 | 33.8 | 13.2 | 52.0 | 35.4 | 15.4 | 46.3 |
| Drawing | (62.2) | (34.3) | (58.6) | (57.7) | (75.0) | (58.5) | (41.4) | (78.0) |
| Amortization | (-3.3) | (-14.3) | (-24.9) | (-44.5) | (-23.0) | (-23.1) | (-26.0) | (-31.7) |
| Domestic | -37.8 | -122.9 | -222.0 | -427.4 | -344.4 | -448.3 | -547.8 | -376.2 |
| Bank | (-42.7) | (-119.1) | (-221.3) | (-428.4) | (-341.4) | (-445.3) | ... | (-367.7) |
| Other | (4.9) | (-3.8) | (-0.7) | (1.0) | (-3.0) | (-3.0) | ... | (-8.5) |

Sources: Republic of Botswana, Financial Statements, Tables, and Estimates of Consolidated and Development Fund Revenues, 1984/85-1986/87; data provided by the Botswana authorities; and staff estimates.

1/ Excludes the accounting procedures adopted for Central Transport Organization in 1986/87.

Table 3. Botswana: Summary of Balance of Payments, 1981-86

(In millions of SDRs)

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| Exports, f.o.b. | 341.8 | 420.5 | 599.4 | 667.1 | 716.7 | 717.0 |
| Of which: diamonds | (137.2) | (215.7) | (395.8) | (467.4) | (540.0) | (557.3) |
| Imports, f.o.b. | -585.1 | -529.3 | -575.9 | -574.3 | -486.4 | -484.5 |
| Trade balance | -243.3 | -108.8 | 23.5 | 92.8 | 230.3 | 232.5 |
| Services and incomes: credit | 173.1 | 166.1 | 178.8 | 192.0 | 156.1 | 159.2 |
| Services and incomes: debit | -222.4 | -206.9 | -317.6 | -374.9 | -344.7 | -334.4 |
| Services and incomes (net) | -49.4 | -40.9 | -138.8 | -182.9 | -188.6 | -175.1 |
| Transfers (net) | 118.3 | 106.3 | 117.1 | 100.2 | 88.2 | 83.7 |
| Official (net) | 119.7 | 106.5 | 117.5 | 107.3 | 91.3 | 86.4 |
| Private (net) | -1.4 | -0.2 | -0.4 | -7.1 | -3.1 | -2.7 |
| Current account balance | -174.4 | -43.4 | 1.7 | 10.1 | 129.9 | 141.0 |
| Long-term capital (net) | 96.7 | 84.7 | 66.6 | 115.5 | 123.7 | 121.3 |
| Of which: | | | | | | |
| Direct private investment (net) | (75.8) | (19.2) | (23.5) | (61.5) | (51.4) | (58.2) |
| Long-term capital to Government (net) | (1.2) | (36.9) | (16.7) | (17.4) | (-7.0) | (23.2) |
| Long-term capital to parastatals (net) | (4.6) | (5.1) | (9.6) | (42.3) | (39.0) | (21.7) |
| Short-term capital (net) | -3.8 | -3.5 | 23.2 | -6.1 | -0.2 | -- |
| Errors and omissions (net) | 19.4 | 12.3 | 26.2 | 5.7 | 5.7 | -5.5 |
| Overall balance | -62.0 | 50.1 | 117.8 | 125.1 | 259.2 | 256.8 |
| Valuation adjustment | 11.6 | -2.2 | -5.3 | -21.4 | -26.0 | 9.2 |
| Change in gross official reserves | -50.4 | 47.9 | 112.5 | 103.7 | 233.2 | 266.1 |
| Memorandum items: | | | | | | |
| Current account balance to GDP | -22.0 | -5.4 | 0.2 | 0.9 | 13.7 | 13.3 |
| Gross official reserves | 217.7 | 265.5 | 378.0 | 481.7 | 714.9 | 980.9 |
| (Months of imports, f.o.b.) | 4.5 | 6.0 | 7.9 | 10.1 | 17.6 | 24.3 |
| Debt service ratio (percent of exports of goods and nonfactor services 1/ | 1.4 | 2.5 | 7.7 | 7.7 | 5.5 | 4.2 |
| Conversion rates: SDR per pula | 1.0180 | 0.8866 | 0.8533 | 0.7581 | 0.5177 | 0.4549 |

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

1/ Excludes accrued, but unpaid interest.

rand in the basket was raised from 50 to 75 percent, in response to a further depreciation of the rand. During 1985 the pula appreciated by 4.3 percent against the rand.

2. Developments and policies in 1986

In 1986 Botswana again experienced an impressive economic and financial performance, mainly as a result of a continued strong expansion in the mining sector, favorable developments in the pula/U.S. dollar exchange rate, and good economic management. Staff estimates indicate that real GDP grew by about 10 percent in 1986 against about 9 percent in the previous year, with the mining sector expanding by 12 percent in real terms and its share in GDP exceeding 50 percent. 1/ Agriculture recorded no real growth because of the effect of the continued drought on both cattle 2/ and crop production, and its share in GDP declined to about 4 percent. The rate of inflation, as measured by the national cost of living index, was contained at 10.0 percent in 1986 compared with 8.1 percent in 1985. As noted earlier, the authorities' exchange rate policy continued to be instrumental in limiting imported inflation from South Africa. 3/

After rising by 6.5 percent to 117,100 in 1985, formal employment is believed to have risen further in 1986. However, growth in formal employment has not kept pace with growth in real GDP because the bulk of GDP growth has occurred in the capital-intensive mining sector. Moreover, having declined by 13 percent from 18,900 in 1984 to 16,400 in 1985, employment of Batswana in South African mines most likely declined further in 1986.

In December 1985, the Salaries Review Commission, on the occasion of its periodic (every 4-5 years) review of wages and salaries, recommended that the salaries of upper-level civil servants be increased by at least 15 percent, and the starting wages of lower-level civil servants by 30 percent. In addition, the top salary scales (superscales) were to be pushed upwards with the introduction of a uniform 10 percent differential between these scales. The recommended increases were to compensate for the decline in real wages and ensure that the progression in the salary structure was commensurate with increased responsibility. The adjustments in the superscales were to alleviate

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1/ The Central Statistics Office (CSO) maintains national accounts data on a July-June year. On this basis, real GDP growth was 12.4 percent in 1985/86, 5.9 percent in 1984/85, and 20.2 percent in 1983/84. This compares with real GDP growth rates of 10.3 percent, 9.2 percent, and 12.4 percent for calendar years 1986, 1985, and 1984, respectively.

2/ Cattle production on the average comprises over 50 percent of total agricultural output. As a result of the drought, the national cattle herd was reduced from about 3.0 million in 1982 to an estimated 2.2 million in 1986.

3/ The rate of inflation in South Africa was 18.6 percent in 1986.

the compression between upper-level and lower-level salaries that had occurred during the period since the previous periodic review in 1980. The Government ultimately agreed to a salary and wage increase of 15 percent for upper-level civil servants and 20 percent for lower-level civil servants, as well as the recommended increases in the superscale salaries, which took effect at the beginning of the fiscal year 1986/87. The wage and salary increases did not, however, fully compensate for the increase in the cost of living that occurred since the 1980 salary review. In addition to the periodic salary review, the Ministry of Finance also reviews public sector wages and salaries annually and can recommend raises related to the increase in the cost of living that may have occurred during the preceding year. Private sector wage increases have tended to follow public sector wage increases.

Botswana's fiscal performance continued to strengthen markedly during 1986/87. The overall budgetary surplus is estimated to exceed P 500 million (22 percent of GDP) compared with surpluses of P 414 million in 1985/86 and P 292 million in the original budget estimates for 1986/87. As in the past, this record surplus reflects the continued increase in mineral revenues, as well as the cautious fiscal stance of the Government. Total revenue (including grants) is estimated to have risen to P 1.4 billion (59 percent of GDP), about 26 percent higher than in the previous fiscal year and 23 percent higher than in the original budget estimates. However, this rate of increase was less than those of the preceding three fiscal years, which averaged about 42 percent. Mineral revenue increased by 35 percent to about P 782 million (32 percent of GDP), accounting for about 58 percent of total revenue compared with 53 percent in 1985/86. Customs union receipts retained their share of total revenue at about 14 percent. Foreign grants rose to P 64 million (2.7 percent of GDP) in 1986/87 from P 41 million in 1985/86.

Total expenditure and net lending is estimated to have risen by 24 percent to P 891 million (37 percent of GDP) in 1986/87. Current expenditure increased by 16 percent, significantly less than the average rate of increase in the previous two years, and only about 2 percent more than was budgeted for 1986/87. This was the result of a deliberate policy to cut back on current expenditure. Expenditure on wages and salaries rose by about 17 percent, about 1 percent less than the budgeted amount. Other current expenditure (excluding interest payments) is estimated to have risen by 16 percent, 3 percent more than budgeted, primarily because of security measures being adopted in the light of the situation in southern Africa.

Capital expenditure rose by 45 percent in 1986/87 to P 360 million, (15 percent of GDP) about 16 percent more than in the original budget estimates. The increase was mainly with respect to expenditure on economic infrastructure and defense. Net lending is estimated to have fallen for the second consecutive year and to be about 55 percent below the original budget estimates, reflecting declining demand by parastatals for advances from the Government.

The sharp rise in the overall budget surplus in 1986/87 resulted in an increase of P 548 million in government deposits with the banking system, compared with an increase of P 428 million in 1985/86 and P 341 million in the original budget estimates. Net foreign financing was P 15 million, slightly higher than in 1985/86, but significantly less than the P 52 million in the budget.

The performance of nonfinancial public enterprises improved in 1986/87. The gross borrowing of public enterprises from the Public Debt Service Fund (PDSF) and the Revenue Stabilization Fund (RSF) declined, while disbursement of on-lent external loans to parastatals remained at about the same level as in 1985/86. 1/ The Botswana Housing Corporation and the Botswana Telecommunications Corporation continued to incur losses. Unlike in the previous three years, however, the Botswana Agricultural Marketing Board was expected to break even. On the other hand, the profits of the Botswana Power Corporation, the Botswana Meat Commission, the Water Utilities Corporation, and the Botswana Livestock Development Corporation increased.

On monetary and credit developments, the large budgetary surpluses in the fiscal years 1985/86 and 1986/87 resulted in a drop of P 618.5 million in net claims of the banking system on the Government during calendar year 1986. This large increase in government deposits, coupled with only a P 16.5 million increase in credit to the private sector (including parastatals and local governments), resulted in a reduction in total net domestic credit of P 602.0 million. However, as net foreign assets rose by P 600.9 million and other items (net) declined by P 75.7 million, broad money rose by P 74.6 million or by 14.3 percent.

Excess liquidity in the banking system persists, despite some decline in 1986. The excess liquidity is the direct result of the large yearly overall surpluses in the external balance, in the face of limited domestic absorptive capacity. The perceived lack of viable lending opportunities has been compounded by commercial banks' natural reluctance to provide substantial amounts of long-term lending and the Government's own lending program to the parastatals at rates below the prime rate. Another inhibiting factor to domestic borrowing has been the preference of some companies to borrow abroad, possibly encouraged in part by the exchange loss guarantee scheme provided by the Government to parastatals borrowing abroad.

Important changes were introduced in September 1986 which affected the structure of interest rates. As of September 8, 1986, the prime rate was no longer to be set by the Bank of Botswana, nor was it to serve as a floor rate for commercial bank lending. Commercial banks could henceforth freely set their own rates. At the same time, the

1/ Both the PDSF and the RSF are funded from the budget. The former lends long term and the latter short term to parastatals and local governments.

commercial banks reduced interest rates, on the average, by 15 percent. Another important measure introduced recently was one permitting nonresident companies to borrow from commercial banks up to an amount equal to three times the value of equity, after the first P 100,000. Previously, after the first P 100,000, local borrowing by nonresident companies had to be matched by the value of equity and shareholder loans and, if necessary, with the injection of offshore funds. It is too early to assess the impact of these measures on the problem of excess liquidity and on the effort to enhance competition in the commercial banking sector.

In terms of SDRs, the overall balance of payments surplus for 1986 was SDR 256.8 million against SDR 259.2 million the previous year. Exports increased by only SDR 0.3 million to SDR 717.0 million in 1986. 1/ Imports declined slightly in 1986 to SDR 484.5 million, although in volume terms imports rose, reflecting lower SDR prices for oil and other imports, particularly from South Africa and the United States. The services account showed an improvement, but transfers showed a decline. The external current account surplus improved slightly to SDR 141.0 million (13.3 percent of GDP) in 1986 from SDR 129.9 million in 1985. Total long-term net capital inflows were SDR 121.3 million in 1986 against SDR 123.7 million in 1985. Net inflows related to direct private investment rose by about SDR 6.8 million to SDR 58.2 million. Government long-term capital turned from a net outflow of SDR 7.0 million in 1985 to a net inflow of about SDR 23.2 million in 1986, practically all of which was from multilateral and bilateral sources. Long-term net capital inflow to parastatals contracted from SDR 39.0 million in 1985 to SDR 21.7 million in 1986, reflecting the completion of a number of large projects and the postponement of others, mainly because of an unfavorable economic and political climate in southern Africa. Official foreign exchange reserves rose to about SDR 1.0 billion at the end of 1986 (24 months of imports), having risen by SDR 266.0 million in the course of 1986.

In 1986 the authorities continued to manage the exchange rate in accordance with their stated policy. Early in the year, the relative weight of the rand in the basket was reduced from 75 percent to 65 percent, with a corresponding increase in the weight of the SDR, to reduce the effect of imported inflation from South Africa. The real effective exchange rate of the pula depreciated by 1.9 percent during 1986 (on a period average basis). The pula appreciated against the rand and the U.S. dollar by 4.2 percent and 1.1 percent, respectively, while it depreciated against the SDR by 12.7 percent during the year.

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1/ In terms of the U.S. dollar, the external sector showed a much stronger performance in 1986, reflecting the depreciation of the U.S. dollar against the SDR. For example, Botswana's overall balance of payments surplus rose to US$301.5 million from US$263.1 million in 1985. Exports rose from US$722.1 million in 1985 to US$841.7 million in 1986.

External public debt (government and government-guaranteed) rose by US$42.0 million in 1986 to reach US$252.5 million. 1/ Approximately two thirds of this debt is owed by the Central Government and the remainder by parastatals. The debt service ratio (excluding accrued, but unpaid interest) decreased to 4.2 percent of exports of goods and nonfactor services from 5.5 percent one year earlier.

## III. Report on the Discussions

The consultation discussions focussed on prospects and policies for 1987 and the medium term, covering production, price and incomes policies, fiscal and monetary policies, and exchange rate and other external policies. Notwithstanding the remarkable economic and financial performance of recent years and the comfortable external position, Botswana remains vulnerable to exogenous developments, which are mainly related to economic and political uncertainties in the region, the drought, and the country's marked dependence on a single commodity, diamonds. The key issue facing the authorities over the medium and long term, therefore, is how to diversify the economy, drawing upon the current large resources from diamonds.

### 1. Prospects and policies for 1987

Prospects for 1987 will depend on the strength of the diamond market, a continued improvement in weather conditions, and appropriate policy responses by the authorities to domestic and external factors, particularly with regard to exchange rates. Preliminary indications show that, without a further increase in diamond prices or sales from stocks, real GDP growth could slow down to about 7-8 percent per annum, mainly because the diamond mines are already producing at full capacity. However, if Botswana is able to sell significant amounts of diamonds from its large stocks, real GDP growth will be much higher. 2/ In the medium-term scenario (discussed below), real GDP growth is projected at 9.7 percent in 1987. The rate of inflation in 1987 is likely to be contained at present levels or even reduced somewhat, depending on the level of imported inflation. The recent budget statement announced a 10 percent wage and salary increase which took effect April 1, 1987, on account of the 10 percent increase in the national consumer price index during 1986. With the large periodic wage and salary increases already awarded last year, pressures on the general price level in 1987 should be moderate.

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1/ In terms of the SDR, the external debt rose by SDR 15.1 million to SDR 206.8 million. Over 85 percent of the debt is from multilateral and bilateral sources.

2/ As noted, during the slump of 1981-85, Botswana accumulated large stocks of high quality diamonds, which were valued at the cost of production. As stocks are run down (beginning in 1986), they are valued at the sale or market price and the difference entered as value added in the year of sale.

The 1987/88 budget was announced on February 18, 1987. It provides for a reduction in the overall budget surplus to about P 330 million. Total revenue and grants are estimated at P 1,428 million (51 percent of GDP), about the same nominal level as the estimated outturn for 1986/87. Mineral revenue is projected to increase by only 4 percent against 35 percent in 1986/87, to P 815 million, reflecting the levelling off of diamond production. Income tax revenue from nonmineral companies is budgeted to decline in 1987/88 from the expected outturn for 1986/87, while revenue from individual income tax is projected to increase by 9 percent. Customs union receipts are expected to increase by 22 percent to P 237 million, and other tax revenue is expected to remain at about the same level as in 1985/86. Nontax revenue (excluding mineral income receipts) is expected to decline by 22 percent to P 196 million, owing to an expected drop in property income, almost entirely profits from the Bank of Botswana. Total expenditure and net lending is to rise by nearly 23 percent to P 1,098 million (39 percent of GDP). Current expenditure is expected to increase by 26 percent to P 633 million. Expenditure on wages and salaries is expected to rise by about 17 percent, or P 34 million. Capital expenditure in 1987/88 is to rise by 11 percent to P 400 million (14 percent of GDP). Expenditure on social services is expected to account for 38 percent and economic services for 51 percent of total capital expenditure. Net lending is to rise to P 65 million from P 29 million in 1986/87.

A number of tax changes are contained in the new budget. However, taken together, these changes are intended to be revenue neutral in 1987/88. They include the introduction of a general sales tax, 1/ with a tax rate of 5 percent and a higher rate of 10 percent on luxury items; an increase from 35 percent to 40 percent in corporate tax for nonmineral companies; the withdrawal of all personal exemptions and deductions on individual income tax (except interest on owner-occupied home mortgage and pension contributions), in conjunction with an increase of the tax threshold from P 2,000 to P 5,000; and a reduction in the maximum marginal tax rate from 60 percent to 50 percent with a corresponding scaling down of other rates. These measures took effect on July 1, 1987. The budget statement also announced the abolition of secondary school fees beginning in 1988. Hitherto, primary education was free, while fees were charged for secondary education; at the same time, substantial educational allowances were provided to students who could not afford to pay the fees. The fiscal impact of this measure would be largely neutral because the revenue from fees was, to a large extent, offset by the education allowances.

On the external side, an overall balance of payments surplus of about SDR 279 million is projected for 1987. Exports are expected to rise by about 5 percent to SDR 757 million, while imports are projected to increase by nearly 3 percent to about SDR 497 million. The deficit on the services account is expected to widen and net transfers are projected to remain at the 1986 level.

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1/ The sales tax will not take effect until January 1988.

## 2. Medium-term prospects and policies

Medium-term prospects and policies were the main focus of the discussions with the authorities, particularly in view of the dilemma they face because of recent developments in the region. The authorities would prefer to accelerate their efforts to use efficiently the diamond resources to develop nonmining economic activity, so as to diversify the economy and create employment. At the same time, they are aware of the necessity to stay on guard against possible adverse effects on the economy that could result from the political and economic uncertainties in the region, a recurrence of a severe drought, or a sudden change in the world diamond market. However, with appropriate policies, and barring such adverse developments, Botswana's medium-term prospects continue to look very favorable. Both the balance of payments and the budget are projected to show substantial, though declining, surpluses, and the debt service ratio is projected to remain low through 1991.

### a. Production prospects and policies

The severe drought conditions that prevailed in 1982-85 eased in the past year, and it is expected that normal weather conditions will prevail through the medium term. The Botswana representatives indicated that foodgrain production would increase by 2,000 tons to 23,500 tons in 1986/87, and production is projected to rise by a further 10,000 tons in 1987/88. 1/ The authorities believe that foodgrain production will increase through the medium term, aided in part by output from a new rainfed agricultural area being developed at Pandamatenga in the northeast corner of the country. With the end of the drought, the authorities believe that the cattle herd will be rebuilt rapidly, with the national herd growing by about 200,000 head per year. Output in the agricultural sector is consequently projected to increase at an average annual rate of 6.7 percent over the medium term.

The Botswana representatives reported that diamond mining had now reached capacity production at 12.7 million carats a year. The medium-term projections assume no substantial change in the volume of production or in the gem quality mix. However, in view of the emerging recovery in the world diamond market, it is assumed that the diamond stocks would gradually be released into the market through the medium term. Copper-nickel matte production is projected to show no growth, owing to the ongoing slump in the world copper and nickel markets. Similarly, coal production is expected to stagnate, as a result of depressed prices and the projected slump in domestic copper-nickel matte production, the primary user of Botswana's coal. Overall, the mining sector is projected to grow by 6.6 percent a year in real terms.

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1/ Before the onset of the drought, foodgrain production reached a peak of 57,500 tons in 1980/81.

Manufacturing is projected to increase at an average annual rate of 9 percent through 1991. Beef production is expected to increase in real terms by 7 percent per year, as Botswana increases its output to fill its export quota to the EEC. The Botswana representatives indicated that the new abattoir under construction at Francistown would start production in early 1989 with a capacity of 80,000 tons a year, which would raise the BMC's production by 57 percent to 220,000 tons by 1991. Having resolved the problem with Zimbabwe over the export of Botswana textiles to that country, textile production and exports are projected to increase significantly over the medium term.

All the other sectors are projected to expand at an average annual rate of over 9 percent over the medium term.

b. Price and wage policies

The impact of South African inflation on domestic prices is assumed to continue to influence the authorities' policies throughout the medium term. However, the anticipated recovery of domestic food production should help to dampen domestic inflationary pressures. With the periodic (every 4-5 years) public sector wage increases having been awarded in 1986, the next review by the Salaries Commission is scheduled for 1990, with possible wage awards occurring in 1991. However, it is the Government's policy to adjust public sector wages annually to offset any possible decline in purchasing power. The Botswana representatives emphasized that between the periodic reviews, annual wage increases would not exceed the previous year's rate of inflation. It is assumed, therefore, that wage increases would lag the inflation rate by one year, and that inflation would decline gradually from 10 percent in 1986 to 7 percent by 1991, as a medium-term policy objective.

The Botswana authorities stressed that price incentives would continue to be used to encourage agricultural production and that they would continue to apply the existing formulae for determining the prices for the main staples, sorghum and maize. In Botswana, retail prices are mostly set in the market by competitive forces, although legislation to set specific trading margins at ex-factory, wholesale and retail levels has been in existence since 1973. Because these margins are neither monitored nor enforced, the authorities have proposed to reduce their legal scope significantly. The Botswana representatives indicated that, as a first step to the ultimate goal of complete elimination of retail margins, the Government will limit mark-up controls, ineffective as they may be, to only six essential products (maize meal, sorghum, flour, sugar, meat, and milk). Retail prices for petroleum products are officially determined in consultation with five petroleum companies that operate in Botswana. The Botswana representatives stated that the Government will continue to be involved in setting producer prices at the ex-factory level for soap, sugar, and flour because the production of these items was carried out by monopolies.

c. Fiscal policy

In recent years, the authorities have become increasingly concerned about the country's dependence on a single commodity as the main source of government revenue, especially in view of the projected levelling off of diamond revenue expected to occur early in the next decade. The combined impact of the drought and the slump in the diamond market during 1981-85 reinforced the authorities' belief in the need to broaden the tax base, improve the tax structure, and gradually increase the relative importance of nonmineral-related revenue, as the economy becomes more diversified in the medium and long term. In response to the authorities' request, an FAD technical assistance mission visited Botswana in September 1985. Its recommendations included the introduction of a broad-based sales tax on goods and services, modification of certain income tax concessions, and a realistic valuation of farm assets, and an increase in the company tax rate.

During the discussions, the Botswana authorities indicated to the staff representatives that proposals along the lines of the FAD recommendations would be introduced gradually over a two-year period, beginning with the fiscal year 1987/88. These proposals were to include the introduction of a general sales tax, an increase in company tax, withdrawal of certain deductions and exemptions related to individual income tax, and a market-related valuation of farm assets. As noted, the measures in the 1987/88 budget are broadly in line with these proposals. As a first step, the sales tax would cover mainly imported products and would become effective in January 1988. Implementation of a comprehensive general sales tax, to include also domestic manufactured products, would be completed in late 1989. The authorities agreed with the staff representatives that while these measures would not significantly raise revenue initially, they would serve as an important step toward the adoption of a system that would ensure fiscal stability in the medium and long term.

With regard to the fiscal outlook, under present policies and in the absence of unfavorable external developments, the medium-term projections indicate large budgetary surpluses through 1991 and beyond. In the circumstances, and in the light of a comfortable external position, the staff representatives asked the authorities about their plans to address growing domestic pressures to relax fiscal policies in order to address speedily infrastructural constraints to economic diversification. The Botswana representatives responded that some infrastructural activity was being accelerated, particularly in the areas of transportation and vocational training. However, they indicated that the authorities are committed to proceed slowly, partly because the current level of foreign exchange reserves might not, in their view, be adequate in the light of uncertainties in the region.

d. Monetary and credit policies

Medium-term monetary and credit policies will continue to be dominated by concerns over excess liquidity emanating from the balance of payments and budgetary surpluses, and by pressures to increase productive investment and to diversify the economy. The co-existence of excess liquidity and the scarcity of domestic long-term finance has compounded the problem. The authorities are in the process of taking a number of steps to ease the problem. A proposed refinancing scheme by the Bank of Botswana, developed with the technical assistance from the Fund, will facilitate increased long-term lending by commercial banks and other financial institutions. At the same time, steps are being taken to strengthen and expand the role of the National Development Bank and the Botswana Development Corporation. In December 1986, the Financial Institutions Act was amended with a view to facilitating the modernization of the financial sector and strengthening the capitalization of financial institutions. It also clarifies and reinforces the supervisory role of the Bank of Botswana vis-à-vis the nonbank financial institutions. In addition, proposals for amending the Bank of Botswana Act, to be presented to Parliament shortly, are intended to strengthen and widen the Bank's role in economic policy. The amendments to both acts were developed with technical assistance from the Fund.

e. Medium-term balance of payments outlook, 1987-91

On the basis of discussions with the Botswana representatives, the assumptions of the Sixth National Development Plan (NDP6), and other assumptions regarding export prices, a medium-term scenario, covering the period 1987-91, was developed by the mission and discussed in detail with the authorities. The projections assume that the exchange rate of the pula is maintained at its end-1986 level, and prices of diamonds increase at the same rate as the GNP deflator of industrial countries. It also assumes that Botswana will sell all its output of diamonds and, in addition, draw down its stocks at the rate equivalent to annual export volume increases of 6.6 percent through 1991. Moreover, it is assumed that the drought has been broken and that favorable weather conditions would prevail through the medium term. This is the base scenario that appears in Table 4.

Under these assumptions, real GDP would grow at an annual average rate of 8 percent through 1991. Total exports would rise from SDR 717 million in 1986 to SDR 1,131 million in 1991, an average annual growth rate of nearly 10 percent. Diamond exports would rise from SDR 557 million in 1986 to SDR 863 million in 1991. Beef exports would increase from SDR 65 million in 1986 to SDR 118 million in 1991, rising slowly in the first two years and accelerating later as weather conditions continue to improve and the cattle herd is rebuilt, and the Francistown abattoir comes on stream. Copper-nickel matte would show only a small increase, from SDR 51 million in 1986 to SDR 54 million in 1991; the volume of copper-nickel matte exports is assumed to stagnate at 52,000 tons, with export unit values increasing by only 1.1 percent

Table 4. Botswana: Summary of Balance of Payments, 1986-91

(In millions of SDRs)

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|
| | | Projections | | | | |
| Exports, f.o.b. | 717.0 | 756.5 | 833.9 | 921.4 | 1,019.8 | 1,130.6 |
| Imports, f.o.b. | -484.5 | -497.3 | -550.9 | -610.0 | -713.5 | -798.8 |
| Trade balance | 232.5 | 259.2 | 283.0 | 311.4 | 306.3 | 331.8 |
| Services and incomes: credit | 159.2 | 143.3 | 153.6 | 166.6 | 178.1 | 198.9 |
| Services and incomes: debit | -334.4 | -350.9 | -384.4 | -421.3 | -472.1 | -520.4 |
| Services and incomes (net) | -175.1 | -207.6 | -230.8 | -254.6 | -294.0 | -321.5 |
| Transfers (net) | 83.7 | 83.3 | 84.9 | 86.3 | 87.8 | 89.1 |
| Official (net) | 86.4 | 86.3 | 88.1 | 89.7 | 91.6 | 93.3 |
| Private (net) | -2.7 | -3.0 | -3.2 | -3.4 | -3.8 | -4.2 |
| Current account balance | 141.0 | 134.9 | 137.1 | 143.2 | 100.2 | 99.4 |
| Long-term capital (net) | 121.3 | 143.9 | 123.8 | 129.1 | 126.7 | 129.4 |
| Of which: | | | | | | |
| Direct private investment (net) | (58.2) | (60.2) | (63.6) | (67.2) | (71.1) | (75.4) |
| Long-term capital to Government (net) | (23.2) | (25.4) | (26.9) | (26.9) | (27.3) | (28.4) |
| Long-term capital to parastatals (net) | (21.7) | (32.6) | (18.6) | (16.0) | (20.2) | (27.8) |
| Short-term capital (net) | -- | -- | -- | -- | -- | -- |
| Errors and omissions (net) | -5.5 | -- | -- | -- | -- | -- |
| Overall balance | 256.8 | 278.7 | 260.9 | 272.3 | 226.9 | 228.8 |
| Valuation adjustment | 9.2 | -- | -- | -- | -- | -- |
| Change in gross official reserves | 266.1 | 278.7 | 260.9 | 272.3 | 226.9 | 228.8 |
| Memorandum items: | | | | | | |
| Current account balance to GDP | 13.3 | 11.1 | 9.7 | 8.7 | 5.2 | 4.5 |
| Gross official reserves | 980.9 | 1,259.7 | 1,520.6 | 1,792.9 | 2,019.8 | 2,248.6 |
| (Months of imports, f.o.b.) | 24.3 | 30.4 | 33.1 | 35.3 | 34.0 | 33.8 |
| Debt service ratio (percent of exports of goods and nonfactor services 1/ | 4.2 | 4.0 | 4.3 | 4.8 | 5.1 | 5.3 |
| Conversion rates: SDR per pula | 0.4549 | 0.4458 | 0.4458 | 0.4458 | 0.4458 | 0.4458 |

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

1/ Excludes accrued, but unpaid interest.

per year. Other exports are assumed to increase from SDR 65 million to SDR 138 million over the five-year period, an annual average increase of 16 percent, which reflects a gradual diversification of the structure of exports. Nonetheless, the share of diamonds in total exports would decline only marginally from about 78 percent of total exports in 1986 to about 76 percent in 1991.

Imports, which are estimated to have an income elasticity of slightly less than one, would rise from SDR 485 million in 1986 to SDR 799 million in 1991, an average annual increase of about 10 percent in SDR terms. Thus, the trade surplus would improve by SDR 100 million to SDR 332 million by 1991.

The deficit on the services account is projected to increase from SDR 175 million in 1986 to SDR 322 million in 1991. Net transfers are projected to increase only slightly by SDR 5 million to SDR 89 million by 1991. The current account surplus would thus decline from SDR 141 million in 1986 to about SDR 99 million in 1991. Net capital inflows, which were SDR 121 million in 1986, would rise to a peak of about SDR 144 million in 1987 and then decline to about SDR 129 million in 1991, partly because proposals for some large investment projects have been postponed because of regional uncertainties.

The overall balance of payments surplus, which was SDR 257 million in 1986, would rise to about SDR 279 million in 1987 and then decline to about SDR 229 million in 1991. Gross official foreign exchange reserves would rise by SDR 1.2 billion to SDR 2.2 billion, or the equivalent of 34 months of imports, in 1991. The debt service ratio would rise slowly from 4.2 percent to 4.5 percent of exports of goods and nonfactor services over the five-year period.

The mission also discussed the projected outturn of the balance of payments under alternative scenarios. A sensitivity analysis of the balance of payments was thus made under alternative sets of assumptions concerning the volume and price of diamond exports, and exchange rates. The results appear in Table 5. The first alternative scenario assumes that the world diamond market will not be strong enough to allow Botswana to sell any diamonds at all from its stocks during the period 1987-91. The results show the overall balance of payments surplus declining rapidly to only SDR 23 million in 1991 (against SDR 229 million in the base scenario case), reserves would stand at SDR 1.7 billion (25 months of imports), and the debt service ratio would rise to 6.7 percent. The second alternative scenario assumes no increase in both price and volume of diamond exports through 1991. The result is a rapid decline of the surplus in the overall balance of payments to a deficit by 1991, with reserves declining to 22 months of imports. In the third alternative scenario, diamond volume and price assumptions are the same as in the base scenario, but it is assumed that the authorities allow the pula to appreciate against the U.S. dollar by 5 percent per year beginning in 1988 (a cumulative appreciation of nearly 22 percent

Table 5. Botswana: Simulated Sensitivity Analysis of the Overall Balance of Payments, 1987-91

(In millions of SDRs; unless otherwise indicated)

| | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| No sales from diamond stocks | | | | | |
| Overall balance | 245.8 | 191.4 | 162.4 | 71.7 | 22.6 |
| Official foreign reserves | 1,226.7 | 1,418.1 | 1,580.5 | 1,652.2 | 1,674.8 |
| Reserves in months of imports | 29.6 | 30.9 | 31.1 | 27.8 | 25.2 |
| Debt service ratio (in percent) | 4.2 | 4.7 | 5.6 | 6.2 | 6.7 |
| No sales from stock and no price increase | | | | | |
| Overall balance | 231.7 | 162.2 | 116.9 | 9.2 | -57.3 |
| Official foreign reserves | 1,212.6 | 1,374.9 | 1,491.7 | 1,501.0 | 1,443.7 |
| Reserves in months of imports | 29.2 | 29.9 | 29.3 | 25.2 | 21.7 |
| Debt service ratio (in percent) | 4.3 | 5.0 | 5.9 | 6.8 | 7.4 |
| Pula appreciation against U.S. dollar - 5 percent | | | | | |
| Overall balance | 278.7 | 224.0 | 188.5 | 84.6 | 11.8 |
| Official foreign reserves | 1,259.7 | 1,483.7 | 1,672.2 | 1,756.8 | 1,768.5 |
| Reserves in months of imports | 30.4 | 30.7 | 29.7 | 25.5 | 21.9 |
| Debt service ratio (in percent) | 4.0 | 4.3 | 4.8 | 5.1 | 5.3 |

Source: Staff projections.

over the four-year period), 1/ as a policy instrument to reduce further the rate of inflation. The result is a decline in the overall balance of payments to a surplus of only SDR 12 million by 1991, with gross official reserves falling to SDR 1.8 billion (22 months of imports).

The sensitivity analysis for the three alternative scenarios take into account only the direct price (and revenue) effects. Any secondary quantity changes affecting import and export volumes along with capital flows, are not reflected in the results.

### 3. The Sixth National Development Plan (NDP6), 1985/86-1990/91

The NDP6 was approved by Parliament in late 1985 and had among its objectives a further increase in employment, the acceleration of rural development, and the diversification of the country's production and export base. Real GDP was envisaged to grow at an average annual rate of 4.8 percent (1985/86-1990/91), and formal sector employment by 5.7 percent. The agriculture, mining, manufacturing, and trade, hotels and restaurant sectors were together to contribute 60 percent to the growth of GDP. Inflation was to be maintained at 10 percent per annum throughout the period. The overall balance of payments surplus was projected to decline in constant 1985/86 values from 14.2 percent of GDP in 1985/86 to 3.1 percent by 1990/91. The overall budget balance of the Central Government was projected to decline from a surplus to a large deficit.

The NDP6 was prepared during 1984-85 when actual data were available only through 1982/83. Since then, there have been rapid and substantial changes in the key factors and assumptions underlying the plan. The protracted drought has adversely affected most of the programs intended to promote accelerated development in the rural areas. The diversification of the production and export base has been affected both by factors related to the drought and by the performance of the mineral sector, which exceeded all expectations. The plan's assumptions were therefore outdated from its inception. For example, mining value added in 1985/86 was P 1,005 million in contrast to the NDP6's projections of P 538 million. Similarly, value added for water and electricity was understated by 32 percent. On the whole, the economic and financial performance during the first two years of the plan has been much better than had been envisaged in the NDP6.

The Botswana representatives agreed that the base year (1985/86) projections did not anticipate such a strong expansion in diamond production, nor the substantial depreciation of the pula vis-à-vis the U.S. dollar. They pointed out, however, that the real growth rate assumptions for some of the individual sectors could still be applicable for the plan period as a whole. Nonetheless, they indicated that all assumptions and projections would be thoroughly examined and revised,

1/ Assuming that the authorities maintain the current composition of the basket and the peg for the pula, this would imply that the rand would appreciate against the U.S. dollar by 7.8 percent per year.

where necessary, during the upcoming mid-term review of the NDP6 sometime in mid-1987.

## IV. Staff Appraisal

Botswana continued to register an impressive economic and financial performance during 1986, the result of a strong performance by the mining sector, favorable developments in the pula/dollar exchange rate, and good economic management. Real GDP grew by about 10 percent in 1986 against about 9 percent the previous year. The rate of inflation was contained at 10 percent against 8 percent in 1985, mainly because the authorities managed their exchange rate policy in a manner that limited imported inflation from South Africa, while maintaining the country's external competitiveness. Likewise, Botswana's fiscal performance continued to strengthen markedly. The overall budget surplus in 1986/87 is estimated at over P 500 million (22 percent of GDP) compared with a surplus of P 414 million in 1985/86. As in the past, this record surplus reflects the continued increase in mineral revenues and the conservative fiscal stance of the Government. Net government claims on the banking system rose further resulting in a reduction of total net domestic credit in 1986. Despite this, broad money rose by P 75 million, or by 14 percent, because the external sector continued to perform strongly. The overall balance of payments surplus was SDR 257 million against SDR 259 million in 1985. Gross official reserves rose to about SDR 1.0 billion, the equivalent of 24 months of imports.

Prospects for 1987 will depend on the strength of the diamond market, a continued improvement in weather conditions, and appropriate policy responses by the authorities to domestic and external developments. Preliminary indicators show that real GDP growth could slow to about 8 percent, mainly because the diamond mines are now producing at full capacity. However, real growth could be higher if there were a significant increase in diamond sales from stocks. The overall budget surplus is projected to decline to 14.9 percent of GDP, while the overall surplus in the balance of payments is projected to reach a record level of SDR 279 million, raising official reserves to SDR 1.3 billion, or the equivalent of about 30 months of imports.

Botswana's medium-term balance of payments prospects are favorable. With present policies and favorable weather conditions, and on the assumption that the value of diamond exports will rise by about 10 percent per year (3.2 percent per annum price increases and 6.6 percent per annum volume increases from stocks), the overall balance of payments surplus would rise further in 1987 before declining gradually to about SDR 229 million in 1991. Reserves would rise to nearly three years of projected 1991 imports, reflecting the authorities' choice to build further reserves and to proceed slowly toward building the infrastructure. Real GDP growth rates associated with this scenario would average about 8 percent per annum through 1991.

Despite the present comfortable financial position, there are a number of areas which require close attention in the short and medium term. The large balance of payments and budgetary surpluses have resulted in excess liquidity in the economy which co-exists with an apparently severe shortage of long-term finance needed to support a balanced economic expansion. The authorities are in the process of taking a number of measures to ease the situation, including the proposed refinancing scheme by the Bank of Botswana. The domestic banking community has generally welcomed such a scheme as a means of facilitating long-term lending by commercial banks and other financial institutions. Regulations have been amended to allow increased access to domestic bank borrowing by nonresident companies. Steps are also being taken to strengthen the National Development Bank (NDB) and the Botswana Development Corporation (BDC). The staff welcomes these efforts as well as the measures being taken to strengthen the financial and banking system as a whole, particularly the role of the Bank of Botswana. However, these schemes alone are unlikely to reduce significantly the excess liquidity in the banking system.

To address the problem of the scarcity of long-term finance, it might be necessary to expand and strengthen the roles of the NDB and the BDC by much more than envisaged in the current plans. It may also be necessary to review critically the Government's own lending operations, including the appropriateness of providing concessional financing for the working capital of both profitable and nonprofitable parastatals. More importantly, the problem of excess liquidity has been compounded by the perceived absence of bankable projects, which is basically the result of the economy's narrow production base, low absorptive capacity, and the tendency of the large private and public sector companies to borrow abroad. It may be necessary for the authorities to find ways to encourage some of these companies to borrow domestically. For example, some large parastatals prefer to borrow abroad, partly because of the partial exchange loss guarantee provided by the Government. The staff urges the authorities to re-examine this issue with a view to abolishing government guarantees on foreign exchange losses for parastatals borrowing abroad.

The staff welcomes the authorities' cautious fiscal stance, which has been a major source of Botswana's financial stability. In the past, the authorities have attempted to be as realistic as possible with regard to the availability of resources for the budget. However, in the face of a stronger than anticipated growth in diamond production, government revenues have constantly been underestimated. Already, the mission believes that the revenue estimates for 1987/88 could be higher and the projected drop in the budget surplus might not be as precipitous as indicated. Barring major unfavorable external developments, the fiscal outlook under present policies indicates large, though declining, budgetary surpluses through the medium term. This outcome should not be taken for granted, however. The existence of continuous budgetary surpluses tends to elicit political pressures on the authorities for a relaxation of fiscal policies to allow a more rapid development of the country's infrastructure. The authorities are aware of the need to accelerate development of the nonmining sectors, but recognize the risks that could result from hasty action in this direction. The staff welcomes the authorities' orderly and co-ordinated approach toward the development of the infrastructure and urges the authorities to continue to be guided by their own principle that each project undertaken must be economically sound.

Over the medium and long term, the key question to policymakers is how to diversify the economy using the current large resources from diamond sales. The available options appear to be severely limited by Botswana's climatic conditions, the absorptive capacity of the economy, the size of the population, the level of skills, and the lack of direct access to the sea. In general, the lack of adequate infrastructure appears to be a major bottleneck to future balanced economic expansion. However, the process of easing the shortage of essential economic and social infrastructure requires undertaking large expenditure outlays which normally have a long gestation period. The areas of immediate attention appear to include the provision of housing, appropriate education, particularly vocational training, and the necessary infrastructure in areas that have potential for agricultural and industrial expansion. In Botswana's circumstances, there is no single sector (other than diamonds) that could have a significant impact. Thus, the process of economic diversification would have to rest on a number of diverse activities covering a wide range of sectors.

To achieve these objectives, the Botswana authorities will have to continue to place emphasis on providing the appropriate macroeconomic policies for a stable and balanced economic diversification, and a careful selection of investment projects. As indicated in the sensitivity analysis of the medium-term projections, Botswana's economic prospects are very sensitive to changes in the world market conditions for diamonds. The need to expand the nondiamond sectors requires maintaining the pula at a competitive level vis-à-vis Botswana's competitors and its trading partners. In the staff's view, the authorities will have to continue to strike a delicate balance between the need to enhance the country's competitiveness and the desire to maintain low rates of inflation.

The staff commends the authorities for maintaining an exchange and payments system that is free of restrictions, except for relatively liberal limits which apply to private and business travel and remittances abroad maintained in accordance with the transitional arrangements in Article XIV, Section 2.

In consideration of the authorities' request, and in the light of possible implications for the balance of payments of the current economic and political uncertainties in the region, the staff proposes that the next Article IV consultation with Botswana 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 1987 Article XIV consultation with Botswana and in the light of the 1987 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 free of restrictions on payments and transfers for current international transactions except for relatively liberal limits which apply to private and business travel and remittances abroad that are retained in accordance with the transitional arrangements in Article XIV, Section 2. The Fund encourages Botswana to remove these restrictions.

## BOTSWANA -Relations with the Fund
## (As of February 28, 1987)

I. Membership status

(a) Date of membership: July 24, 1968
(b) Status: Article XIV

### A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 22.1 million

| | Amount (In millions of SDRs) | Percent of quota |
|---|---|---|
| (b) Total Fund holdings of Botswana pula | 7.0 | 31.7 |
| (c) Use of Fund credit | -- | -- |
| (d) Reserve position in the Fund | 15.6 | 68.3 |

III. Current stand-by or extended arrangement and special facilities

Botswana has not made use of Fund resources to date.

| | Amount (In millions of SDRs) | Percent of allocation |
|---|---|---|
| IV. SDR Department | | |
| (a) Net cumulative allocation | 4.4 | 100.0 |
| (b) Holdings | 14.3 | 382.1 |
| V. Trust Fund loans outstanding | -- | -- |
| VI. Overdue obligations to the Fund | -- | -- |

## BOTSWANA - Relations with the Fund (continued)
## (As of February 28, 1987)

### B. Nonfinancial Relations

VII. Exchange rate arrangement

The exchange rate of the Botswana pula is determined on the basis of a basket consisting of the SDR and the South African rand. The intervention currency is the U.S. dollar. The representative rate on February 28, 1987 was P 1 = US$0.5838.

VIII. Last Article IV consultation and consultation cycle

The 1986 Article IV consultation discussions took place in Gaborone during January 17-31, 1986. The Executive Board discussed the reports (SM/86/65 and SM/86/79) on May 6, 1986. The following decision was taken:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Botswana, and in the light of the 1986 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 free of restrictions on payments and transfers for current international transactions except for relatively liberal limits which apply to private and business travel and remittances abroad that are maintained in accordance with Article XIV, Section 2. The Fund encourages Botswana to remove these remaining restrictions as soon as possible.

Botswana is on the standard 12-month cycle for Article IV consultation.

IX. Technical assistance

There are four experts recruited by the Central Banking Department, who are currently serving at the Bank of Botswana as Directors of Research and Operations, and Advisors for Bank Supervision, and Foreign Exchange and Exchange Control Operations. In March 1985, Botswana received a joint CBD-LEG mission that reviewed and redrafted both the Central Bank Act and the Financial Institutions Act. An advisory mission from the Central Banking Department visited Gaborone during May 5-18, 1985 to examine, and to suggest measures that might be taken to utilize the excess liquidity in the banking system. The mission also analyzed the adequacy

BOTSWANA - Relations with the Fund (concluded)
(As of February 28, 1987)

and effectiveness of monetary policy instruments available to the Bank of Botswana and suggested ways to increase the effectiveness of these instruments in regulating excess liquidity. A mission from the Fiscal Affairs Department visited Gaborone for three and a half weeks beginning September 3, 1985, to provide technical assistance to help the authorities identify areas in which the revenue base could be expanded.

BOTSWANA - Financial Relations with the World Bank Group

(As of December 31, 1986)

| | (Millions of U.S. dollars) | | |
|---|---|---|---|
| | Disbursed | Undisbursed | Total |
| Fully disbursed loans and credits | 119.77 | -- | 119.77 |
| Effective loans | 50.05 | 90.25 | 140.30 |
| Education | 13.00 | 34.50 | 47.50 |
| Power | 18.23 | 14.27 | 32.50 |
| Water supply | 18.24 | 0.46 | 18.70 |
| Development finance | 0.45 | 11.85 | 12.30 |
| Health | 0.22 | 10.78 | 11.00 |
| Livestock | -- | 10.70 | 10.70 |
| Technical assistance | -- | 7.60 | 7.60 |
| Total | 169.82 | 90.25 | 260.07 |
| Repayments and adjustment for exchange rate changes | -7.00 | | |
| Total borrower's obligation | 162.82 | | |

Source: World Bank Group.

## Botswana--Statistical Issues

### 1. Outstanding Statistical Issues

There is a generally well-established statistical base in Botswana. The main sources of statistics used in this report are the Central Statistics Office, the Bank of Botswana, and the Ministry of Finance and Development Planning.

#### a. Real sector data

A Bureau of Statistics technical assistance mission of November 1985 made a number of recommendations aimed at improving the currentness and quality of national accounts and general economic data. These recommendations are summarized in the staff report for the 1986 Article IV consultation (SM/86/65, 3/24/86). The mission found that progress had been made toward reducing the time lag for preparing official national accounts data from 18 months to 6 months. The construction of the consumer price index has been improved and the number of categories covered has been expanded.

#### b. Government finance

The available central government statistics include actual data through the 1985/86 fiscal year and provisional estimates for 1986/87. However, data only through fiscal year 1984 covering the derivation and statistical tables for the budgetary central government are included in the presentation for Botswana in the 1986 GFS Yearbook. No data are provided on the extrabudgetary operations of the central government or on operations of the local government.

The 1986 GFS Yearbook publishes for the first time provisional data for many countries but it does not do so for Botswana. The availability of such provisional data, even if they must include some estimates or projections, would be very useful for purposes of analysis and policy determination and hence would add appreciably to the usefulness of government finance data for Botswana in the GFS Yearbook.

#### c. Monetary accounts

Data on money and banking are generally available with a reporting lag of less than two months. A number of outstanding questions relating to money and banking statistics were discussed with the authorities by a technical assistance mission from the Bureau of Statistics in February 1985. Steps are being taken to implement some of these recommendations.

Botswana--Statistical Issues (continued)

d. External sector data

The authorities provided the mission with revised data on balance of payments through 1985 and provisional estimates for 1986. However, because of the heterogeneous nature of Botswana's main export commodity, viz., diamonds, and Botswana's membership in the Southern African Customs Union that requires little documentation of imports, no reliable terms of trade data are available. The export and import unit value indices calculated by the CSO suffer from a number of weaknesses and are usually published with a one-year time lag. The Bureau of Statistics mission of November 1985 made a number of useful recommendations aimed at improving the compilation of export and import trade price data.

The authorities are currently developing a computerized monitoring system for external debt. Comprehensive data on external debt should be available for the next Article IV consultation.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Botswana in the April 1986 issue of IFS. The data are based on reports sent to the Bureau of Statistics by the Bank of Botswana; these have been provided on a timely basis.

Status of IFS Data

| | | Latest Data in April 1987 IFS |
|---|---|---|
| Real Sector | - National Accounts | 1985 |
| | - Prices | October 1986 |
| | - Production (Mining) | Q2 1986 |
| | - Employment | n.a. |
| | - Earnings | n.a. |
| Government Finance | - Deficit/Surplus | Q1 1986 |
| | - Financing | Q1 1986 |
| | - Debt | 1984 |
| Monetary Accounts | - Monetary Authorities | October 1986 |
| | - Deposit Money Banks | October 1986 |
| | - Other Financial Institutions | n.a. |
| Interest Rates | - Bank Rate | February 1987 |
| | - Bank Deposit/Lending Rates | December 1986 |
| | - Bond Yields | n.a. |

Botswana--Statistical Issues (concluded)

| | | |
|---|---|---|
| External Sector | - Merchandise Trade | |
| | Values: Exports | Q2 1986 |
| | Imports | Q2 1986 |
| | Prices | n.a. |
| | - Balance of Payments | 1985 |
| | - International Reserves | December 1986 |
| | - Exchange Rates | February 1987 |

## Interlinkages Between Botswana and South Africa

South Africa continues to be Botswana's major trading partner, as well as the conduit for practically all of Botswana's overseas trade. Recent uncertainties regarding Botswana's ability to transport goods on the railways through South Africa have only served to highlight the importance of this vital trade link. Other possible transportation routes to the sea, including the route through Zimbabwe and Mozambique (the Beira corridor) are not viable alternatives at present. While funding for the Beira project is available, progress to date has been limited.

The attached table lists a variety of other indicators which highlight the dependence of the Botswana economy on developments in South Africa. The list is by no means exhaustive, 1/ but is meant to be indicative of recent trends. Most indicators imply a decreasing dependence on the South African economy, particularly with regard to the exchange rate and monetary policies and the direction of trade.

Regarding the direction of trade, the share of exports going to SACU countries (mostly South Africa) has steadily declined from 11.3 percent in 1982 to 5.1 percent in 1986. The share of imports coming from SACU countries (almost entirely from South Africa) has correspondingly declined from 86 percent in 1982 to about 75 percent in 1986. 2/ Thus, while Botswana remains highly dependent on South Africa for imports of both consumer goods and capital goods, there is a downward trend with a corresponding increase in the share of imports from Europe. Another indication of the trade links with South Africa is the number of tourists and businessmen that arrive annually. As a proportion of the total number of international arrivals, the share of South African visitors has ranged from 26 to 29 percent, although there are some indications that the share is showing a downward trend. The number of workers in South African mines has declined substantially in the last two years. In the most recent year for which data are available, the number of workers fell by over 2,000 to 16,397 in 1985, the equivalent of 14 percent of the total number of paid employees in Botswana, down from 19 percent in 1983. The value of the remittances of these workers as a share of exports of goods and nonfactor services fell from 1.0 percent in 1982 to 0.4 percent by 1985, and, as a share of GDP, they fell by half from 0.6 percent to 0.3 percent over the same period.

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1/ Ideally, one would also want to consider the number of South African companies operating in Botswana, the direction of trade by commodity, the interlinkages between the banking systems in each country, the relationship of the price structures, and other similar linkages.

2/ The share of imports from South Africa is exaggerated because it includes goods imported by South Africa and then re-exported to Botswana. However, unlike the origin of imports, the final destination of exports is known.

Customs union receipts have traditionally been a major source of government revenue. However, since fiscal year 1983/84, tax revenue from mineral companies has replaced the latter as the largest source of government revenue, as the share of customs union receipts in total government revenue has declined steadily from 33 percent in 1982/83 to an expected 14 percent in 1986/87, while the share of mineral receipts in the total has increased from 29 percent to 58 percent over the same period.

Many of the large companies operating in Botswana are South African. Debswana, the diamond mining company, is half owned by the Government and half owned by De Beers.

Table I. Botswana: Interlinkages with South Africa, 1982-86

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| Weights in currency basket | 0.5 SDR<br>0.5 Rand | 0.5 SDR<br>0.5 Rand | 0.5 SDR<br>0.5 Rand | 0.25 SDR 1/<br>0.75 Rand | 0.35 SDR 2/<br>0.65 Rand |
| | | | (In percent) | | |
| Change in exchange rate (rand/ pula, December to December) | -6.9 | 3.4 | 20.6 | -3.6 | -3.3 |
| Change in nominal effective 3/ rate (QIV to QIV) | -8.5 | 1.5 | 7.5 | -7.6 | 0.7 |
| Change in real effective rate 3/ (QIV to QIV) | -8.2 | 0.2 | 3.8 | -11.6 | -4.6 |
| Direction of trade | | | | | |
| Share of SACU exports 4/ | 11.3 | 8.3 | 8.8 | 5.6 | 5.1 |
| Share of SACU imports 4/ | 86.2 | 82.3 | 77.5 | 74.5 | 73.6 |
| South African visitors 5/ 6/ (percent of total) | 27.9 | 25.6 | 29.4 | 28.5 | ... |
| Employment in South African mines 5/ | | | | | |
| Total number | 18,437 | 18,691 | 18,916 | 16,397 | ... |
| Percent of paid employees | 18.4 | 18.6 | 17.2 | 14.0 | ... |
| Remittances (in thousands of rands) | 5,996 | 7,660 | 6,863 | 6,515 | ... |
| Percent of exports (goods and nonfactor services) | 1.0 | 0.9 | 0.6 | 0.4 | ... |
| Percent of GDP | 0.6 | 0.7 | 0.4 | 0.3 | ... |
| Receipts from SACU (in millions of pulas 7/ | 114.3 | 156.8 | 155.8 | 149.2 | 193.5 |
| (Percent of government revenue) | 33.0 | 30.5 | 20.4 | 13.7 | 14.2 |

Sources: Staff estimates, and various government publications (see below).

1/ Effective January 9, 1985.
2/ Effective January 20, 1986.
3/ IMF trade weights used for effective exchange rate calculations.
4/ South African Customs Union. Includes Botswana, Lesotho, Swaziland, and South Africa.
5/ Botswana Central Statistics Office, Statistical Bulletin.
6/ Includes visitors from Namibia.
7/ Botswana, Financial Statements, Tables, and Estimates of Consolidated and Development Fund Revenues. Values are for the fiscal year (April 1-March 31) which starts in calendar year shown, e.g., the value shown in 1982 is for the 1982/83 fiscal year.

## BOTSWANA - Basic Data

### Area, population, and GDP per capita

| | |
|---|---|
| Area | 581,370 square kilometers |
| Population: Total (1985 estimate) | 1,052,000 |
| Growth rate | 3.8 percent |
| GDP per capita (1985 estimate) | SDR 941 |

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 Est. | 1986/87 Proj. |
|---|---|---|---|---|---|
| **National accounts (July-June)** | (In millions of pula) | | | | |
| GDP at current market prices | 1,029.0 | 1,278.9 | 1,523.5 | 2,144.9 | 2,539.0 |
| GDP at constant (1979/80) market prices | 920.5 | 1,106.0 | 1,170.9 | 1,315.6 | 1,425.9 |

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| **Prices** | (Percentage change from preceding year) | | | | |
| National cost of living index | 11.2 | 10.4 | 8.6 | 8.1 | 10.0 |

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 Expected outturn |
|---|---|---|---|---|---|
| **Central government finance (April-March)** | (In millions of pula) | | | | |
| Total revenue and grants | 393.7 | 563.1 | 802.9 | 1,133.4 | 1,422.9 |
| Of which: Customs Union | (114.3) | (156.8) | (155.8) | (149.2) | (193.5) |
| mineral revenue | (99.4) | (193.8) | (376.5) | (581.3) | (782.2) |
| Total expenditure and net lending | 414.8 | 460.2 | 614.7 | 719.2 | 890.5 |
| Of which: current expenditure | (227.5) | (272.7) | (344.6) | (432.3) | (501.9) |
| capital expenditure | (160.4) | (140.7) | (209.7) | (247.5) | (359.7) |
| Overall surplus or deficit (-) | -21.1 | 102.9 | 188.2 | 414.2 | 532.4 |
| External financing | 58.9 | 20.0 | 33.8 | 13.2 | 15.4 |
| Domestic financing | -37.8 | -122.9 | -222.0 | -427.4 | -547.8 |

## BOTSWANA - Basic Data (concluded)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| **Money and credit (end-year)** | | | (In millions of pula) | | |
| Foreign assets (net) | 307.6 | 452.2 | 750.6 | 1,605.9 | 2,206.8 |
| Domestic credit | 53.3 | 5.8 | -115.0 | -360.2 | -962.2 |
| Claims on Government (net) | (-95.3) | (-171.4) | (-353.6) | (-617.1) | (-1,235.6) |
| Claims on private sector | (148.6) | (177.2) | (238.6) | (256.9) | (273.4) |
| Money and quasi-money | 237.0 | 310.8 | 353.5 | 521.4 | 596.0 |
| Money | (126.2) | (195.4) | (170.1) | (361.0) | (454.6) |
| Quasi-money | (110.8) | (115.4) | (183.4) | (160.4) | (141.4) |
| **Balance of payments 1/** | | | (In millions of SDRs) | | |
| Exports, f.o.b. | 420 | 599 | 667 | 716 | 717 |
| Of which: diamonds | (216) | (396) | (467) | (543) | (557) |
| Imports, f.o.b. | -529 | -576 | -574 | -486 | -485 |
| Trade balance | -109 | 23 | 93 | 230 | 232 |
| Services and incomes (net) | -41 | -139 | -183 | -189 | -175 |
| Transfers (net) | 106 | 117 | 100 | 88 | 84 |
| Current account balance | -43 | 2 | 10 | 130 | 141 |
| Private long-term capital | 19 | 24 | 61 | 51 | 58 |
| Official capital | 65 | 43 | 54 | 72 | 63 |
| Short-term capital and errors and omissions | 9 | 49 | -- | 6 | -6 |
| Overall balance | 50 | 118 | 125 | 259 | 257 |
| **Gross official foreign reserves (end-year)** | | | | | |
| Total | 266 | 378 | 482 | 715 | 980 |
| In number of months of imports, f.o.b. | 6.0 | 7.9 | 10.1 | 17.6 | 24.3 |
| **External debt** | | | | | |
| Debt service as percent of exports of goods and nonfactor services | 2.5 | 7.7 | 7.7 | 5.5 | 4.2 |

1/ Actual data for 1982-85 and estimates for 1986.