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GRAY/23/5760

August 24, 2023

Statement by Mr. Stephan and Ms. Hein on Botswana
(Preliminary)
Executive Board Meeting
August 28, 2023

We thank staff for the insightful report and broadly concur with the appraisal. We thank Mr. Nakunyada and Ms. Basutli for their helpful Buff statement.

We commend Botswana for the significant progress made in economic development during the last two decades, supported by good governance and prudent policies. This success story, which stands in stark contrast to the "resource curse" experienced by many peer countries, presents important lessons that deserve close attention.

Nevertheless, fiscal and external buffers have been trending downwards for several years, and the outlook heavily depends on the trajectory of international diamond prices. On the latter, we note that supply and demand uncertainty in the diamond market has also increased due to Russia's war of aggression against Ukraine. Moreover, the key challenge remains the necessary structural transformation of the economy considering the expected depletion of diamond reserves in the coming decades.

Against this backdrop, we broadly concur with staff's assessment and policy recommendations. We agree that medium-term consolidation remains essential to halt the decline in fiscal buffers. In addition, we share staff's caution against the short-term expansionary stance in an environment of closed output gaps and elevated inflation. We further support staff's recommendation that the authorities should stand ready to tighten monetary policy if inflationary pressures reoccur.

We commend the authorities for their efforts to transform the economic growth model, with a focus on private sector development (incl. SOE reform) and diversification from the diamond sector. We also acknowledge staff's advice on potential adjustments to Botswana's industrial policy to increase its effectiveness. In this context, we note staff's discussion of specific criteria for policy guidance on active industrial policies in the presence of market failures (para. 37). *Could staff kindly provide further details on the referenced research and clarify whether the discussion in the report corresponds to staff's general view on industrial policies?*

Lastly, we note that despite solid growth and strides in economic development and poverty reduction, unemployment and inequality remain high. The staff references this issue twice in the report but does not delve deeper into the underlying causes and potential remedies. *Additional comments by staff would be welcome.*