

**EXECUTIVE
BOARD
MEETING**

SM/20/52
Supplement 1

February 24, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Botswana—Staff Report for the 2019 Article IV Consultation—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Monday, March 9, 2020
Publication:	Yes*
Questions:	Mr. N'Diaye, AFR (ext. 39751) Mr. Jardak, AFR (ext. 38304) Mr. Peralta Alva, AFR (ext. 34452)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme, World Trade Organization

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



BOTSWANA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

February 21, 2020

Prepared BY

African Department in Consultation with the Statistics
Department

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RELATIONS WITH THE FUND

As of November 30, 2019

Membership Status:

Joined July 24, 1968; Article VIII

General resources account

	<u>SDR</u> <u>(million)</u>	<u>Percent of</u> <u>Quota</u>
Quota	197.20	100.0
Fund holdings of currency	157.44	79.84
Reserve position in Fund	39.77	20.17

SDR Department

	<u>SDR</u> <u>(million)</u>	<u>Percent of</u> <u>Quota</u>
Net cumulative allocation	57.43	100.0
Holdings	59.20	103.09

Outstanding Purchases and Loans

None

Financial Arrangements

None

Project Obligations to Fund

None

Implementation of HIPC Initiative

Not Applicable

Implementation of Multilateral Debt Relief Initiative

Not Applicable

Implementation of Catastrophe Containment and Relief

Not Applicable

Exchange Rate Arrangement

The exchange rate of the Botswana Pula is a crawling peg arrangement against a weighted basket of currencies comprising the SDR and the South African Rand. As of January 16, 2020, the exchange rate of the U.S. dollar to the Pula was US\$1= P10.72, and that of the South African rand to the Pula was R1=P0.74.

As of November 17, 1995, Botswana accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. The exchange rate regime is free of restrictions and multiple currency practices.

Article IV Consultation

Botswana is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on August 28, 2018.

IMF Technical Assistance 2018-December 2019

Department	Dates	Purpose
Fiscal Affairs Department	Jan-18	AFRITAC South: FAD joint Customs and Tax strategy setting mission
	Mar-18	AFRITAC South: PFM Skills Audit
	May-18	AFRITAC South: Regional SEM on strengthening the Adm. & Excises (Offsite)
	Jun-18	AFRITAC South Regional PFM Advisor
	Aug-18	AFS Move towards IPSAS: Public Asset Management, COA and IFMIS
	Nov-18	AFS Risk Management and oversight of SOEs
	Nov-18	AFS: Audit capacity of LTU for specialized sectors further strengthened through guidance and training
	Feb-19	AFS: Customs control during the clearance process more effectively ensures accuracy of declarations
	Feb-19	AFS: Customs control during the clearance process more effectively ensures accuracy of declarations
	Feb-19	AFS: Isora Follow up Mission
	Apr-19	AFS PIMA follow up
	Apr-19	AFS PIMA follow up
	Apr-19	AFS Professional attachment program MOFED and MINFIN BWA
	May-19	AFS SOEs and fiscal risks
	May-19	AFS SOEs and fiscal risks
	Jun-19	AFS: To strengthen capacity of the LTU for finance sector audits
	Jun-19	AFS: To strengthen capacity of the LTU to enhance accuracy of reporting by taxpayers
	Jul-19	AFS: Central Verification Unit and advance Rulings
	Sep-19	AFS PIM
	Sep-19	AFS PIM - strategic planning component
	Sep-19	AFS PIM
	Nov-19	AFS Accounting and Fiscal Reporting
	Nov-19	AFS Accounting and fiscal reporting
Legal Department	Jul-18	TA in Fiscal Law: Follow-up Mission--Income Tax, VAT and Tax Procedures
	Feb-19	AML/CFT Diagnostic Scoping Mission
	Feb-19	TA on Fiscal Tax Law: VAT and Income Tax
	Apr-19	TA on Fiscal Tax Law: VAT and Income Tax
	May-19	TA mission to strengthen the AML/CFT framework of the Bank of Botswana and the NBFIRA
	Jul-19	TA in Central Bank Law
	Aug-19	Strengthen AML/CFT Supervisory Frameworks of Bank of Botswana and NBFIRA
	Oct-19	TA in Banking Law

Monetary and Capital Markets Department	Jan-18	Macroprudential Policy and Financial Stability
	Mar-18	AFRITAC South: Implementation of Pillar 2
	Jun-18	Stress Testing
	Jul-18	TA Needs Assessment: Central Bank Governance
	Sep-18	AFS: BOTSWANA FPAS
	Sep-18	AFS: Botswana FPAS
	Nov-18	AFS: Training and Capacity Building for NPS
	Nov-18	AFS: Training and Capacity Building for NPS
	Mar-19	AFS: Botswana MPIO
	Mar-19	AFS: Botswana MPIO
	Apr-19	AFS: WAH Botswana Offsite FPAS Mission
	Sep-19	AFS: Basel III Implementation
	Sep-19	AFS: Basel III Implementation
	Sep-19	WAH: Botswana Offsite mission
	Sep-19	WAH - AFS: Strengthening the NTF Framework and Implementing an Upgraded Database, Data Process
	Oct-19	AFS: Botswana FPAS (NTF and Database)
	Oct-19	AFS Botswana: Strengthening the NTF Framework and Implementing an Upgraded Database, Data Process
Statistics Department	Mar-18	AFRITAC South: Organization of secondment for AFRITAC South countries
	Apr-18	AFRITAC South: Consumer Prices/Producer Price
	Jun-18	Balance of Payments Statistics
	Feb-19	AFS: Consumer Prices/Producer Price - Disseminate data and metadata (PPI)
	Feb-19	AFS: National Accounts- Development of methodology
	Jul-19	External Sector Statistics
	Aug-19	Government Finance Statistics (EDDI2)
	Aug-19	AFS: National Accounts- Rebased national accounts

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
<p>General. Data provision has some shortcomings in national accounts, fiscal, monetary, and external sector statistics, but is broadly adequate for surveillance.</p>
<p>National Accounts: In October 2012, Statistics Botswana (SB) updated the base year of GDP to 2006 and, in 2015, revised the national accounts to include new mines. A new rebasing exercise is ongoing and rebased estimates should be published by December 2020. Areas for further improvements include the coverage of national accounts surveys, the improvement of quarterly GDP estimates, and the estimation of GDP deflators. TA is provided by the IMF's AFRITAC South.</p>
<p>Price Statistics. The monthly consumer price index (CPI) is available on a timely manner on the SB's website. The index is comprehensive and provides breakdowns between urban and rural price data and between prices of tradable and non-tradable goods and services. A re-based CPI was first published in October 2016 with an index reference period of September 2016. The weights are derived from the 2009/10 Botswana Core Welfare Indicator Survey. A Multi-Topic Household Survey was conducted during 2015-16. The Survey will support the upcoming re-basing of the CPI. Compilation challenges include the eventual inclusion of owner-occupied housing costs in the CPI. The development of producer prices is being assisted by AFRITAC South, but progress has been slow.</p>
<p>Government Finance Statistics (GFS). The Ministry of Finance and Economic Development compiles cash-based quarterly and annual budgetary central government data following the <i>Government Finance Statistics Manual 2014</i>. Since 2018, data are available on expenditure by classification of functions of government (COFOG) but there is still no balance sheet data compiled, and no data are compiled for extrabudgetary institutions, consolidated central government, or consolidated general government. There has been data quality improvements for the budgetary central government allowing the breakdown of transfers expense to distinguish grants, subsidies, social benefits, and other expense but challenges remain with proper distinction between current and capital outlays in the development budget. Ongoing work for the development of a revised chart of accounts would help further improve data quality and efforts undertaken recently to collect data for government entities other than the budgetary central government would help broadening the scope of GFS to include local governments and extrabudgetary units.</p>
<p>Monetary and Financial Statistics (MFS). The Bank of Botswana (BoB) compiles MFS data using standardized report forms consistent with the <i>Monetary and Financial Statistics Manual</i>. The data currently covers the accounts of the central bank and other depository corporations. The BoB is seeking to expand the coverage of MFS to include the operations of other financial corporations such as pension funds, insurance companies, and non-money market funds.</p> <p>The BoB reports data on several series and indicators to the Financial Access Survey (FAS), including the two indicators adopted by the UN (commercial bank branches per 100,00 adults and ATMs per 100,000 adults) to monitor Target 8.10 of the Sustainable Development Goals.</p>

Financial Sector Surveillance. The BoB compiles and reports to STA quarterly data on financial soundness indicators, which include 12 core and 11 encouraged indicators for deposit-takers.

External Sector Statistics. Annual balance of payments (BOP) data with a quarterly breakdown is published in the Botswana Financial Statistics and the BoB's Annual Report in an aggregated format. Preliminary balance of payments data is disseminated within two months of the end of the reporting period, while revised (final) data becomes available after nine months. The BoB also compiles and disseminates the annual international investment position (IIP), with quarterly IIP data produced for internal use only.

The concepts, structure, and definitions of the BOP and IIP statistics follow the fifth *Balance of Payments Statistics Manual* (BPM5). Source data are broadly adequate, but the International Transaction Reporting System (ITRS) data—as opposed to alternative annual balance of payments survey on financial account items—is unreliable. Data compilation, estimation, and adjustments mostly employ sound techniques; improvements have been made in techniques applied for estimating flows from stock and in improving the coverage of cross-border transactions associated to diamond industry. However, the methods used for estimating missing data such as unrecorded trade and f.o.b. /c.i.f. adjustment factors to import values need revision.

Good progress has been made in recent years in reducing the errors and omissions ranging from 50 to 80 percent for reference years 2009–2017; however, their level remains large. The main factors that would contribute to further reducing errors and omissions include (i) adjustments of import of goods from neighbor countries for their reporting on free-on-board (f.o.b.) valuation basis; (ii) further fine-tuning of estimation model for travel services; (iii) increase in coverage of current and capital transfers by including data on government grants and TA/investment projects; and (iv) coverage of foreign assets of assets managers, pension funds, and insurance companies.

II. Data Standards and Quality

Botswana has implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS). It disseminates fourteen of the fifteen data categories defined in Table 1 on its National Summary Data Page (NSDP). Periodicity and timeliness of data dissemination on the NSDP are largely in accordance with Botswana's metadata—albeit with some shortcomings, especially for the timeliness of central government gross debt and labor market indicators. Botswana should continue building capacity to disseminate data on general government operations and external debt. Areas for improvement include timeliness and periodicity of central government gross debt and BOP data. Its data ROSC was published on March 27, 2007.

III. Reporting to the IMF's Statistics Department

The BoB reports monetary data for publication in *International Financial Statistics* using *Standardized Report Forms* and quarterly FSIs for deposit-takers and real estate markets. Annual balance of payments and IIP data are reported to STA. The Ministry of Finance reports cash-based budgetary central government data on an annual basis to the IMF's *Government Finance Statistics Yearbook*.

Table 1. Botswana: Table of Common Indicators Required for Surveillance
(As of January 16, 2020)

	Date of Latest Observation	Date Received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange rates	Jan/2020	15/1/2019	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ²	Aug 2019	11/7/2019	M	M	M
Reserve/base money	Aug 2019	11/7/2019	M	M	M
Broad money	Sep 2019	11/6/2019	M	M	M
Central bank balance sheet	Aug 2019	11/7/2019	M	M	M
Consolidated balance sheet of the banking system	Aug 2019	11/7/2019	M	M	M
Interest rates ³	Oct 2019	11/6/2019	M	M	M
Consumer price index	Jul/ 2019	6/14/2018	M	M	M
Revenue, expenditure, balance, and composition of financing ⁴ —general government ⁵	2018	Oct/2019	A	A	A
Revenue, expenditure, balance, and composition of financing ⁴ —budgetary central government	Sept/2019	Oct/2019	A/Q/M	Q	Q
Stocks of central government and central government-guaranteed debt ⁶	2018	Oct/2019	A/Q	A/Q	A/Q
External current account balance	Dec/2018	5/23/2019	A	A	A
Exports and imports of goods	Dec/2018	May 201901/13/2018	A	A	A
GDP/GNP	2019Q3	December 2020	A/Q	A/Q	A/Q
Gross external debt	2018Q4	December 2020	A/Q	A	A

¹ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially determined, including discount, money market, treasury bill, notes, and bond rates.

⁴ Foreign, domestic banks, and domestic nonbank financing.

⁵ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁶ Including currency and maturity composition.