

**EXECUTIVE
BOARD
MEETING**

SM/20/52
Correction 2

March 25, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached corrections to SM/20/52 (2/24/20) have been provided by the staff:

Evident Ambiguity

Pages 1 and 61

Questions: Mr. N'Diaye, AFR (ext. 39751)
Mr. Jardak, AFR (ext. 38304)
Mr. Peralta Alva, AFR (ext. 34452)



BOTSWANA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

February 21, 2020

KEY ISSUES

The Staff Report was prepared by an IMF staff team for the Executive Board's consideration on March 9. The staff report reflects discussions with the Botswana authorities in November 2019 and is based on the information available as of February 21, 2020. It focuses on Botswana near- and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity, and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Botswana and globally.

Outlook and risks. GDP growth is forecasted to pick up to 4.4 percent in 2020 and 5.6 percent in 2021 as the diamond industry recovers somewhat, and a new copper mine comes on stream. Growth will ease back to around 4 percent over the medium term. Risks to the outlook include faster-than-anticipated slowdown in key trading partners, shifts in consumer preferences to synthetic diamonds, and climate shocks.

Fiscal policy. The size and pace of the planned adjustment are consistent with Botswana's fiscal space, but the composition of the adjustment should protect efficient capital and social spending. Furthermore, given that buffers are being eroded, it is critical that consolidation starts as envisaged in FY2020, as it would help start addressing external imbalances and contribute to a gradual rebuilding of buffers over the medium term. Achieving the authorities' plans would require additional revenue and spending measures beyond those included in the staff's baseline. These measures need to be carefully calibrated to minimize the impact on competitiveness, growth, and the most vulnerable.

Monetary and exchange rate policies. The Bank of Botswana (BoB) accommodative monetary policy stance is appropriate. Looking forward, the BoB should use the flexibility afforded by its current exchange rate regime to facilitate the economy's adjustment to the persistent decline in mineral revenue and SACU transfers, and structural transformation. To strengthen the monetary transmission mechanism and deepen the domestic financial market, there is a need to develop the secondary market for government securities, leverage Fintech, facilitate the attachment of collateral, and improve credit information.



INTERNATIONAL MONETARY FUND



Appendix III. Draft Press Release

Press Release No. 20/xx
FOR IMMEDIATE RELEASE
[Month dd, yyyy]

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Botswana

On March xx, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ for Botswana.

Please note: The Staff Report was prepared by an IMF staff team for the Executive Board's consideration on March 9. The staff report reflects discussions with the Botswana authorities in November 2019 and is based on the information available as of February 21, 2020. It focuses on Botswana near- and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity, and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Botswana and globally. We direct you to the attached documents that includes preliminary staff recommendations with regard to the COVID-19 global outbreak.

Persistently lower mineral revenues and SACU proceeds and delays in the needed fiscal adjustment, including the large increase in the wage bill, have contributed to a moderately overvalued exchange rate and eroded buffers and savings for future generations. These challenges, together with a severe drought, have contributed to slower real GDP growth and a deterioration in the fiscal and external balances in 2019.

Growth is expected to pick up in the near-term mostly driven by the mining sector. Yet, over the medium term, absent bold reforms, growth will remain around 4 percent, a level that is insufficient to achieve the authorities' objectives of reducing unemployment and

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.