



Republic of Botswana



THE 2016/17 BUDGET-IN-BRIEF

Ministry of Finance and Development Planning

Website: www.finance.gov.bw

February 2016

Background

- 2016/2017 Budget coincides with the end of the tenth National Development Plan (NDP 10), whose implementation was affected by the global financial crisis of 2008/09.
- The economy continues to face economic challenges, emanating from lower external demand due to: continued weak recovery of the global economy; lower commodity prices; and electricity and water shortages.
- Projected slowdown in the domestic economy resulted in Government adopting the Economic Stimulus Programme (ESP) to; boost economic growth, promote economic diversification, and create jobs.
- Preparation of the budget proposals is guided by priorities discussed during the Budget diPitso and presented in the 2016/2017 Budget Strategy Paper, which can be found at (<http://www.finance.gov.bw>).
- 2016/17 budget is also a transitional budget: from Vision 2016 to Vision 2036; and from the Millennium Development Goals (MDGs) to Sustainable Development Goals (SDGs).

Economic Review & Outlook

Global Economy

IMF *World Economic Outlook (January 2016)*

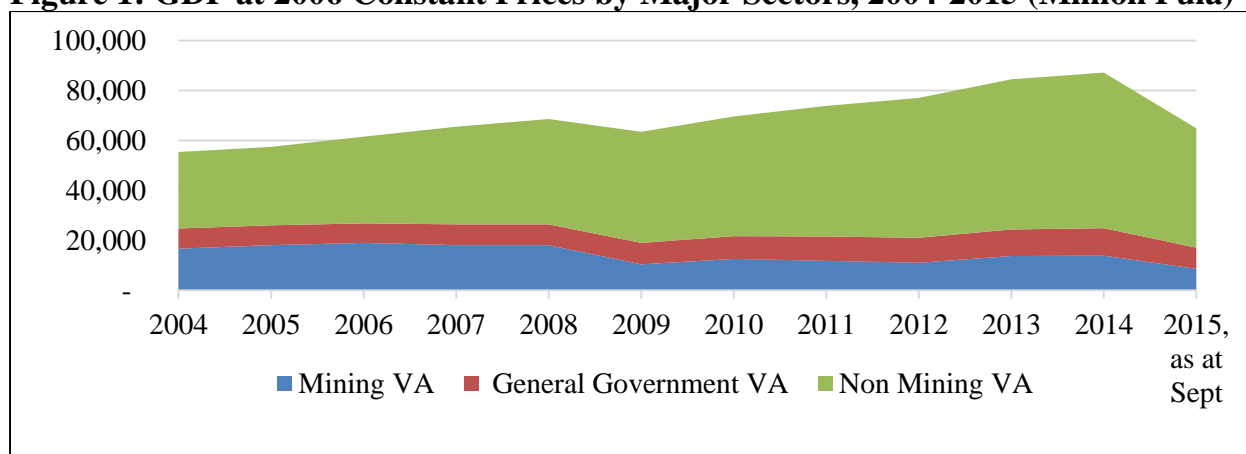
- Modest and uneven economic performance underpinned by the emerging market and developing economies.
- World output growth estimated at 3.1% in 2015, and projected at 3.4% in 2016 and 3.6% in 2017;
- Advanced economies growth estimated at 1.9% in 2015, and projected at 2.1% in both 2016 and 2017.
- Sub-Saharan Africa growth estimated at 3.5% in 2015, and projected at 4.0% in 2016 and 4.7% in 2017.
- Downside risks to these growth rates include; continued slowdown in the Chinese economy, weaker growth in oil exporting countries, and lower commodity prices.

Botswana Economy

GDP

- Estimated economic growth for 2015 is 1.0%, compared to 3.2% registered in 2014.
- Growth rates forecast to reach 4.2% in 2016 and 4.3% in 2017.
- GDP at current prices for FY 2014/15: P145.4 billion, and estimated to be P150.5 billion for FY 2015/16, and forecast to reach P159.9 billion for FY 2016/17.
- GDP at constant prices by major sectors is presented in Figure 1.

Figure 1: GDP at 2006 Constant Prices by Major Sectors, 2004-2015 (Million Pula)

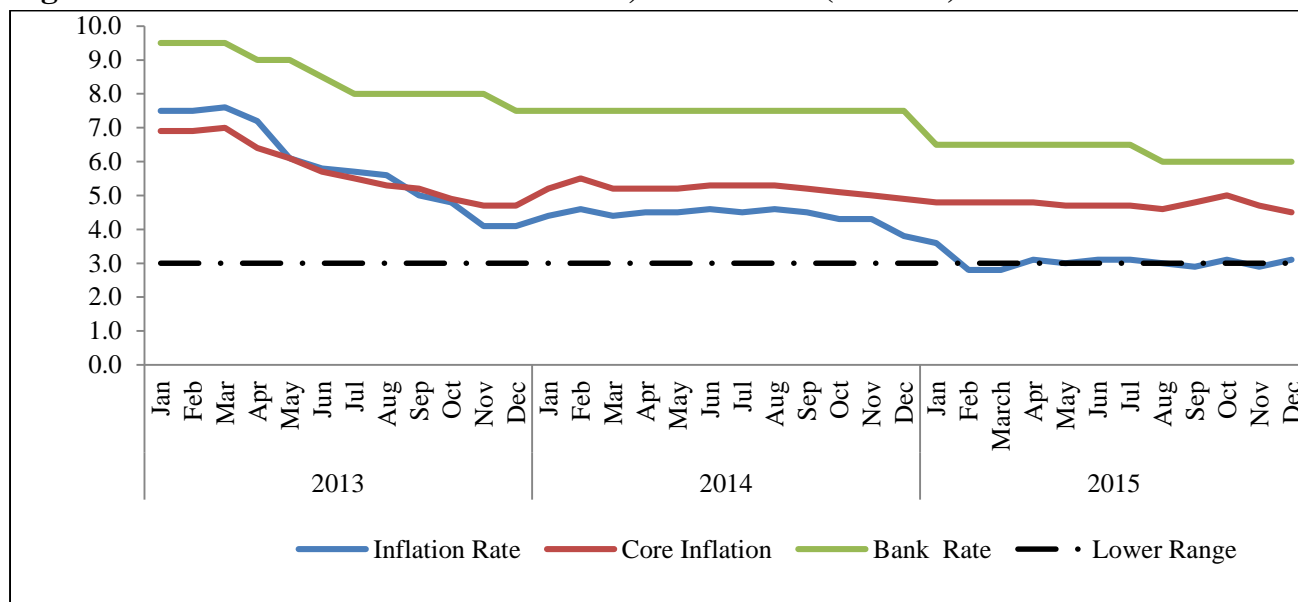


Source: MFDP, January 2016

Inflation and Monetary Policy

- Inflation fell from 3.8 percent in December 2014 to 3.1 percent in December 2015: with annual inflation remaining within the Bank of Botswana’s objective range of 3 - 6 percent during the period.
- External prices expected to remain low, exerting downward pressure on domestic prices.
- Bank Rate reduced from 6.5 percent in January 2015 to 6.0 percent in August 2015.
- Inflation outlook is therefore positive, and expected to continue being within Bank of Botswana’s objective range of 3 - 6 percent in 2016.

Figure 2: Bank Rate and Inflation Trends, 2013 - 2015 (Percent)

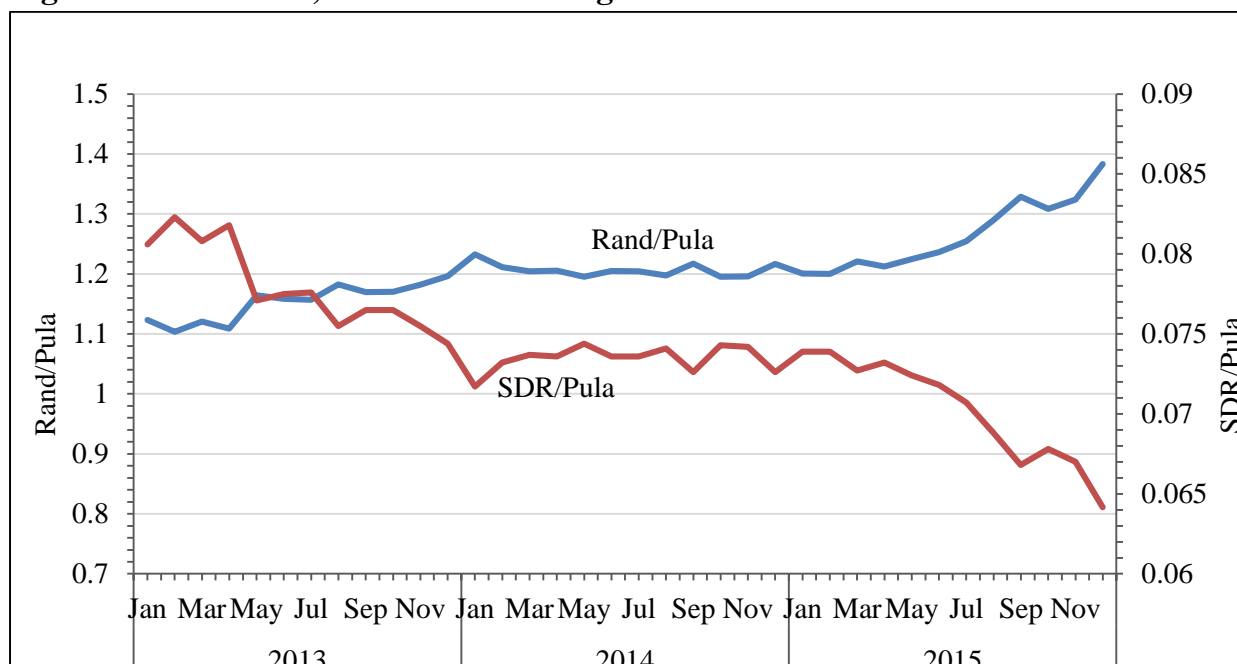


Source: MFDP, January 2016

Exchange Rates

- Exchange rate policy supports the export-oriented development strategy through ensuring stability of the real effective exchange rate.
- The Pula basket weights maintained at 50% Rand and 50% SDR for 2016, while the rate of crawl changed from zero to an upward crawl of 0.38 percent per annum.
- Year-on-year, the Pula appreciated by 13.6 percent against the Rand, while depreciating by 11.6 percent against the SDR by December 2015.

Figure 3: Rand/Pula, SDR/Pula Exchange Rates Trend

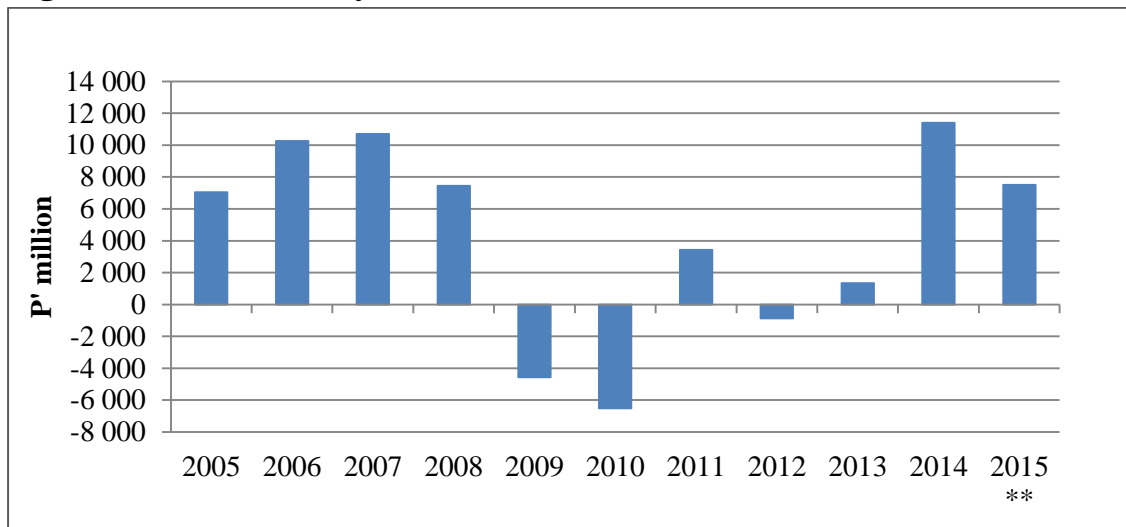


Source: MFDP, January 2016

Balance of Payments and Foreign Exchange Reserves

- Overall balance of payments for 2015 is estimated at P3.3 billion as at November 2015, from P11.4 billion in 2014.
- Current account surplus is estimated to fall from P22.9 billion in 2014 to P12.9 billion in 2015.
- Trade deficit is anticipated, due to a decrease in exports, relative to modest growth in imports in 2015.
- Foreign exchange reserves stood at P84.9 billion in December 2015, compared to P79.1 billion in December 2014. Expressed in SDR and USD terms, the foreign exchange reserves were equivalent to USD 7.5 billion, and SDR5.5 billion and these reserves were equivalent to 19 months of import cover of goods and services.

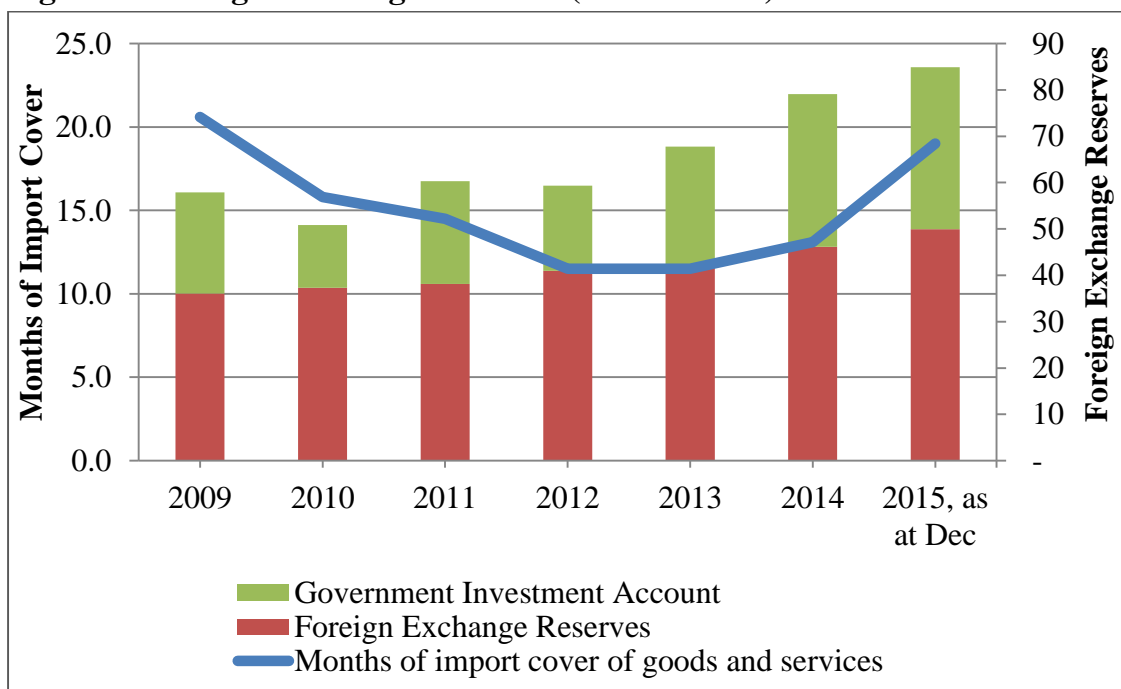
Figure 4: Balance of Payments (Million Pula)



Source: MFDP, January 2016. Note: ** denotes estimate as at November 2015

- Of the total reserves in December 2015, P35.0 billion was Government savings, as represented by the Government Investment Account.

Figure 5: Foreign Exchange Reserves (Million Pula)



Source: MFDP, January 2016

Performance of Public Enterprises

- Some State-owned enterprises registered positive performance, while others recorded operational losses in 2014 and 2015;
 - Botswana Development Corporation recorded a net profit of P202.2 million in 2015, compared to a net loss of P7.8 million in 2014.
 - Botswana Telecommunications Corporation Limited recorded a net profit of P146.8 million in 2015, compared to P140 thousand in 2014.
 - Botswana Communications Regulatory Authority recorded a net profit of P31.7 million in 2015, compared to P48.1 million in 2014.
 - Botswana Housing Corporation recorded a net profit of P9.8 million in 2015, down from P16.3 million in 2014.
 - Botswana Savings Bank recorded a net profit of P12.2 million in 2015, compared to P12.8 million in 2014.
 - Water Utilities Corporation recorded a net loss of P367.0 million in 2015, compared to a loss P361.0 million in 2014.
 - Air Botswana recorded a net loss of P165 million in 2015, compared to a loss of P100 million in 2014.
 - National Development Bank recorded a net loss of P37.2 million in 2015, compared to a net loss of P86.3 million in 2014.
 - Botswana Meat Commission recorded a net loss of P9.6 million in 2014, after recording a net profit of P25 million in 2013.

Development of Vision 2036 and Adoption of Sustainable Development Goals

- Development of the next vision, Vision 2036 is underway. A Presidential Task Team has been appointed to guide national consultations on the development of the new vision, and is expected to be launched in September 2016.
- United Nations adopted the Sustainable Development Goals (SDGs) in September 2015. These will be aligned with national priorities during the preparation of NDP 11.

Key Thematic Areas for 2016/17 Budget

- Investing in infrastructure development:
 - projects for water and electricity to be accorded top priority;
 - Government to embark on a number of projects in various districts to ensure security of water and improved waste water management;
 - Government to increase water storage capacities and construct new primary water pipelines;

- Government has set-up a world class Centre for Material Sciences to assist in the development of new materials in the water purification sector and air filtration;
 - Efforts being made to address technical issues facing Morupule B Power Station;
 - Morupule A Power Station to be refurbished through overhauling and repairing of various units;
 - More villages planned for electrification through the rural electrification programme; and
 - Government adopted a low cost solar technology for street lighting.
- Creating employment opportunities:
 - Government to use its spending to boost economic growth and create jobs in the country through;
 - *infrastructure backlog eradication;*
 - *road network and maintenance;*
 - *wildlife and tourism initiative; and*
 - *Continued implementation of EDD initiatives; creation of Special Economic Zones; and regulatory reforms and improving efficiency.*
- Strengthening human capital:
 - Substantial resources to be channelled towards education and training;
 - *an Education and Training Sector Strategic Plan (ETSSP) was adopted in 2015 to address the quality of existing Vocational Education and Training programmes; and*
 - *the standard of health to be improved through, among others, the implementation of the Medicines and Related Products Supply Chain Strategy in 2016.*
- Enhancing national security:
 - Efforts to combat crime include provision of capacity building in investigation, intelligence and forensics.
- Strengthening local governance:
 - Government to strengthen and foster its operations in providing local services and promote local participation through;
 - *Local Economic Development; and*
 - *Social Welfare Programmes.*

Budget for FY 2014/15 & 2015/16

2014/15 Budget Outturn

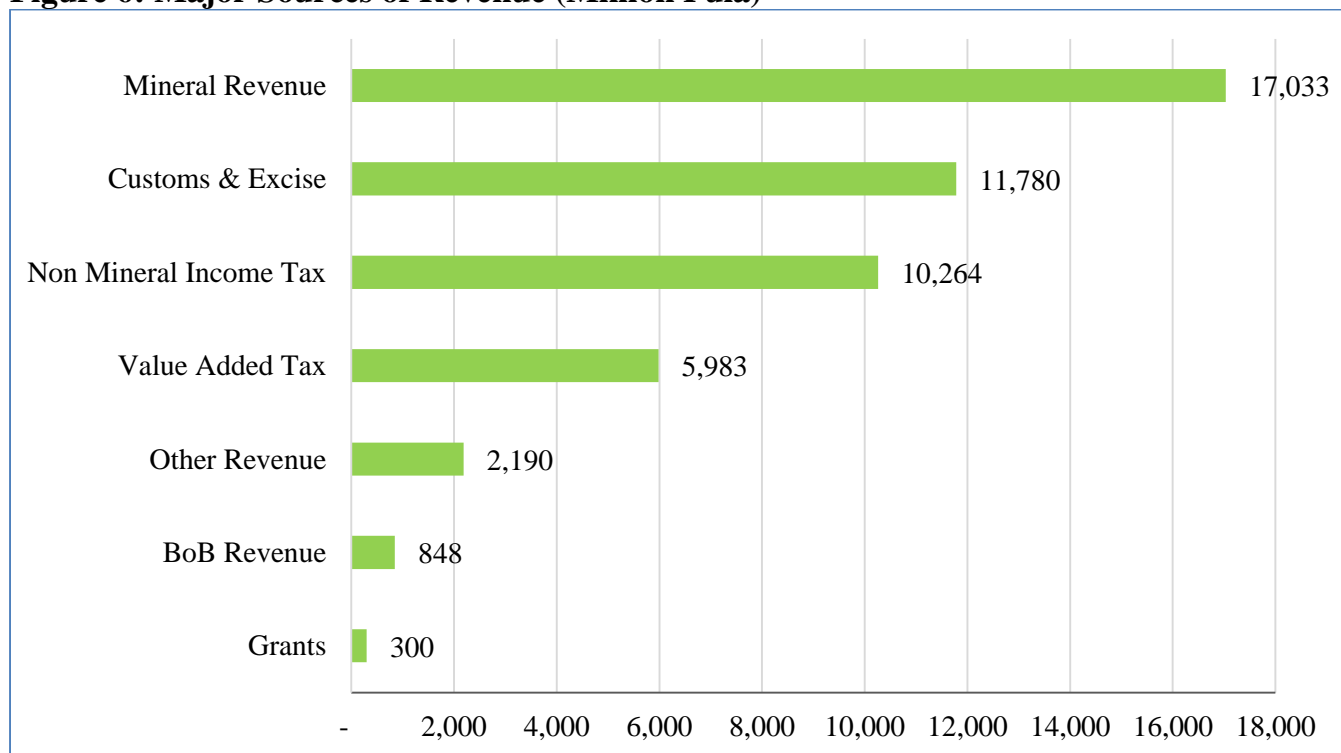
- Total Revenues and Grants: P55.90 billion.
- Total Expenditure and Net Lending: P50.56 billion.
- Overall budget surplus: P5.34 billion or 3.7% of GDP.

2015/16 Revised Budget Estimates

- Total Revenues and Grants: P51.76 billion.
- Total Expenditure and Net Lending: P55.96 billion.
- Overall budget deficit: P4.20 billion (vs. original budget surplus of P1.23 billion).

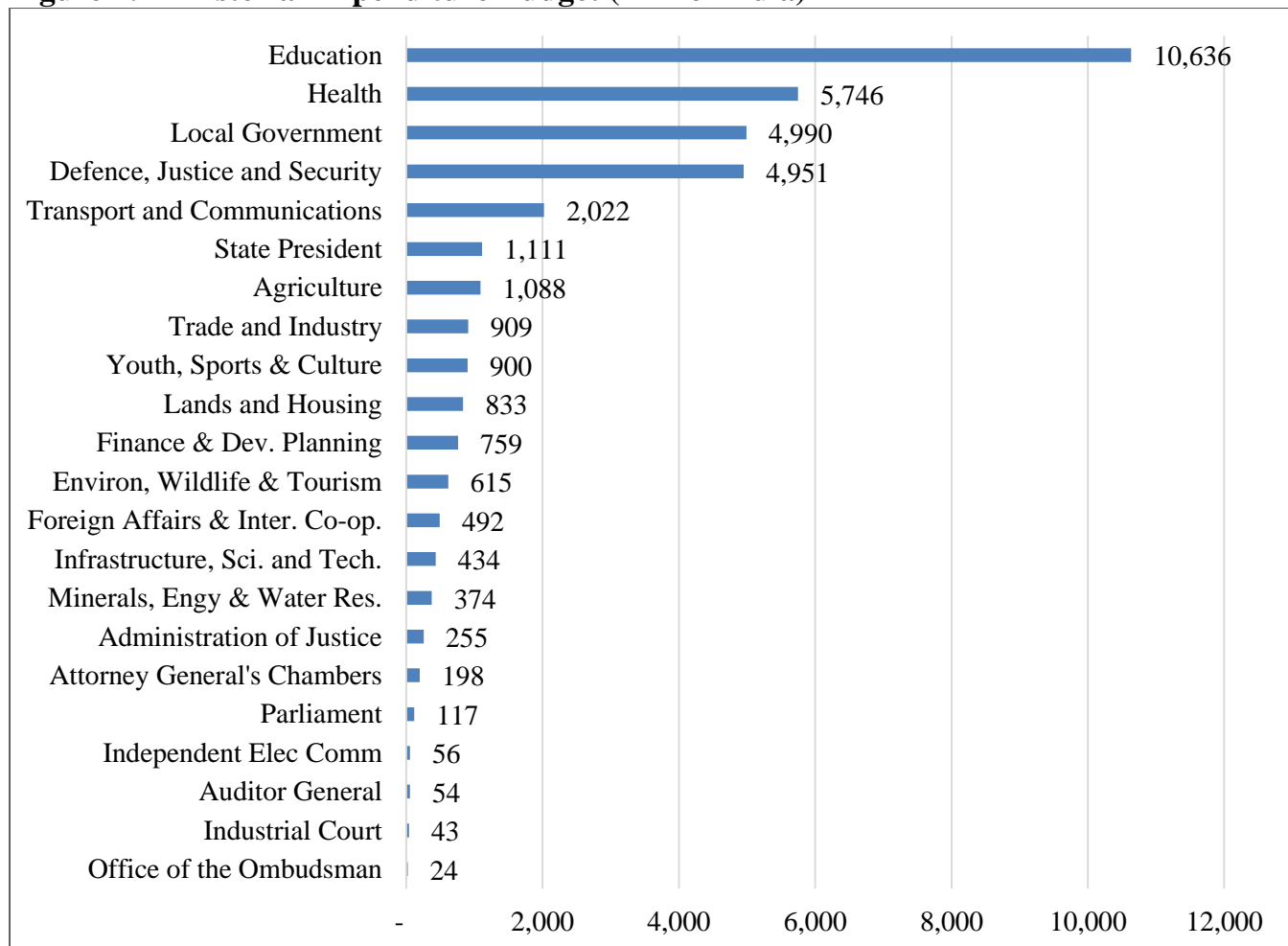
Budget Proposals for FY 2016/17

Figure 6: Major Sources of Revenue (Million Pula)



Source: MFDP, January 2016

Figure 7: Ministerial Expenditure Budget (Million Pula)



Source: MFDP, January 2016

Figure 8: Proposed Allocation of Development Budget (Million Pula)



Source: MFDP, January 2016

Proposed Ministerial Allocation of Development Budget

- Ministry of Defence, Justice and Security (P3.59 billion):
 - Provision of defence equipment, communication equipment, and infrastructure.
 - Construction of police stations at Mmathubudukwane, Maitengwe and Semolale, as well as staff houses.

- Ministry of Minerals, Energy and Water Resources (P3.43 billion):

The major energy infrastructure projects include;

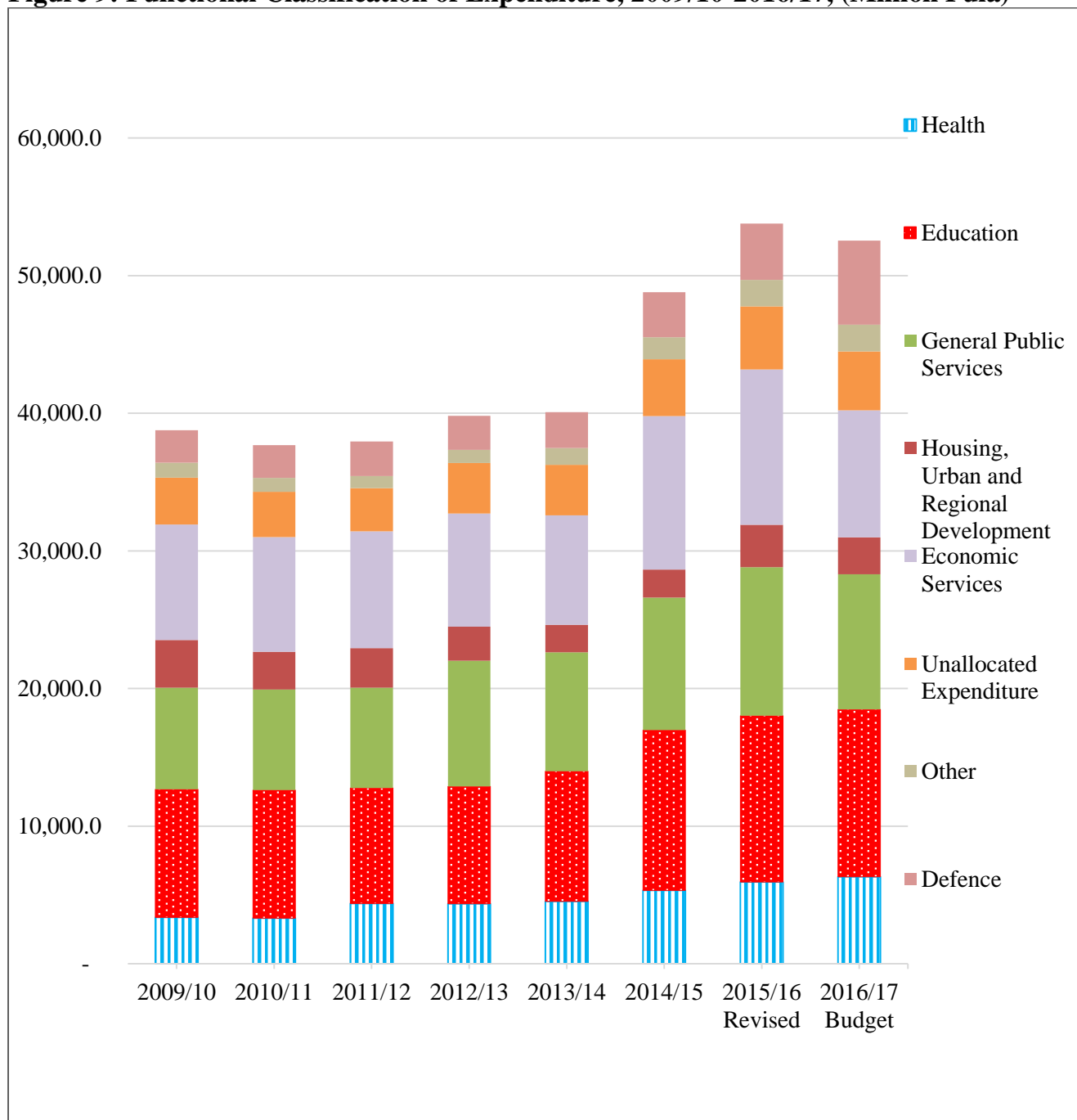
 - Morupule A Power Station rehabilitation (P135 million).
 - North-West Electricity Transmission Grid (P225 million).
 - Rakola sub-station (P256 million).
 - Emergency power supply (P1.35 billion).
 - Rural electrification (P257 million).

The water infrastructure projects include;

- North South Carrier II from Palapye to Mmamashia, Mahalapye and Palapye network extension, and Kanye-Molepolole NSC connection.
 - Maun Water and Sanitation, and Kanye Sanitation.
- Ministry of Transport and Communications, with a proposed budget of (P1.41 billion):
 - Development of ICT facilities (P174 million);
 - Kazungula and Mohebo bridges ;
 - Output Performance Road Contract for Mankodi-Jwaneng; Rakhuna-Mabule roads;
 - Traffic signals improvements and centralised traffic control in Gaborone; and
 - Road projects under the ESP (P565 million).
 - Ministry of Local Government and Rural Development (P1.22 billion):
 - Ipelegeng and Destitute Housing programme; and
 - Backlog eradication of primary schools classrooms and construction of customary courts (P315.04 million).
 - Ministry of Education and Skills Development (P1.09 billion):
 - Construction of teachers' houses, classrooms and laboratories under ESP (P440.4 million).
 - Ministry of Lands and Housing (P910.37 million):
 - Land Servicing (P338.4 million);
 - Land Administration and Processes, Capacity and System (P354 million); and
 - Acceleration of land servicing under ESP (P272.9 million).
 - Ministry of Agriculture (P813 million):
 - Grey water re-use, Lotsane irrigation project, Glenn Valley infrastructure rehabilitation, grading of roads, and Agricultural Service Centres (P35.00 million).
 - Ministry of Health (P741.8 million):
 - Upgrading of health facilities and construction of staff houses throughout the country.
 - Ministry of State President (P600.1 million):
 - Development of the DIS (P206 million); and
 - Additional poverty eradication package (P200 million, of which, P50 million is under ESP).

Expenditure by Function

Figure 9: Functional Classification of Expenditure, 2009/10-2016/17, (Million Pula)

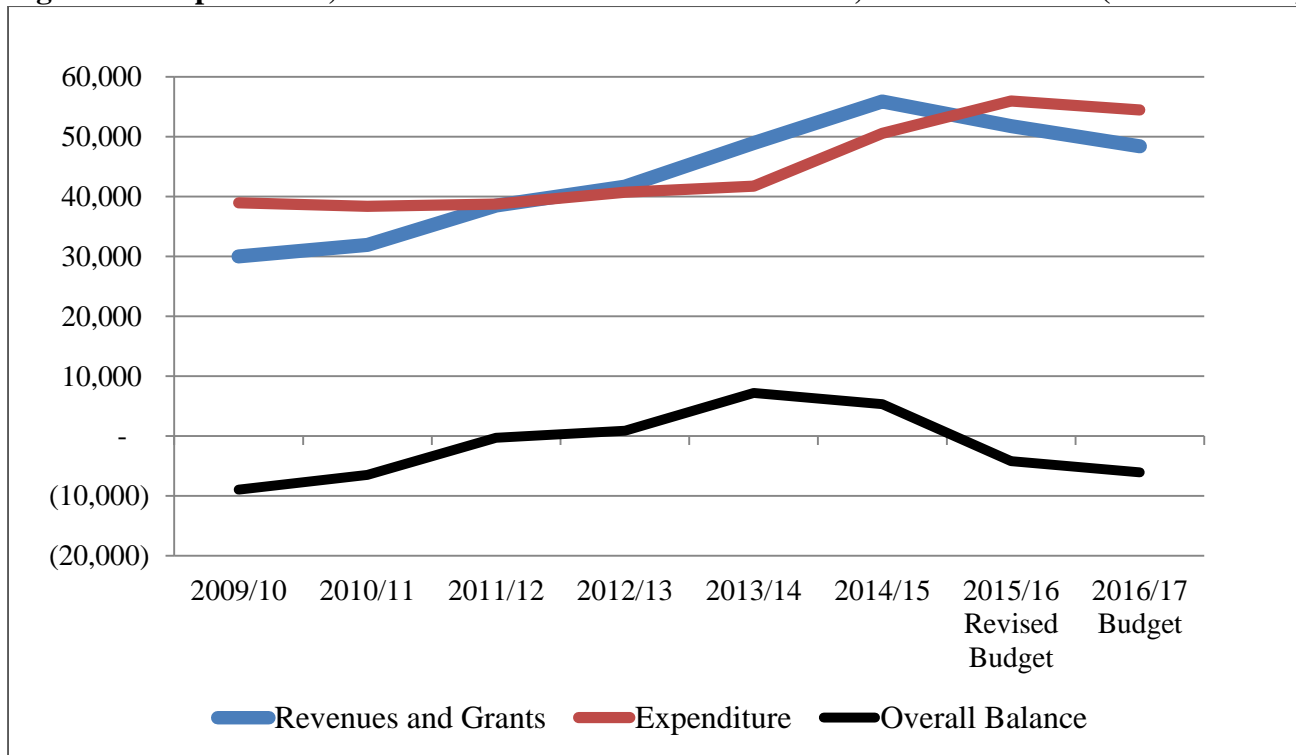


Source: MFDP, January 2016

Overall Cash Flow Balance

Total revenue and grants are estimated at P48.40 billion for FY 2016/17. The proposed total expenditure and net lending is P54.44 billion. The net result is a budget deficit of P6.05 billion or -3.8% of GDP. Figure 10 shows trend developments in total revenues, expenditures, and budget balances over the 2009/10-2016/17 financial years.

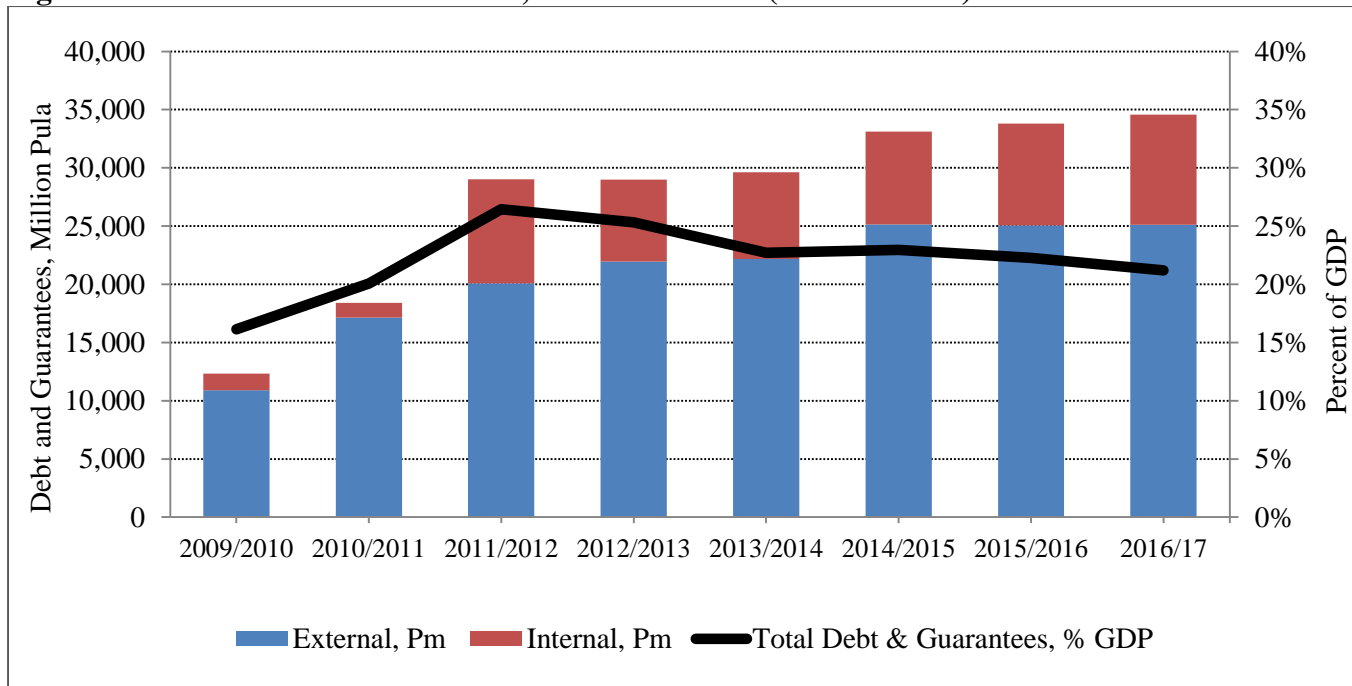
Figure 10: Expenditure, Revenue and Overall Balance Trends, 2009/10-2016/17 (Million Pula)



Source: MFDP, January 2016

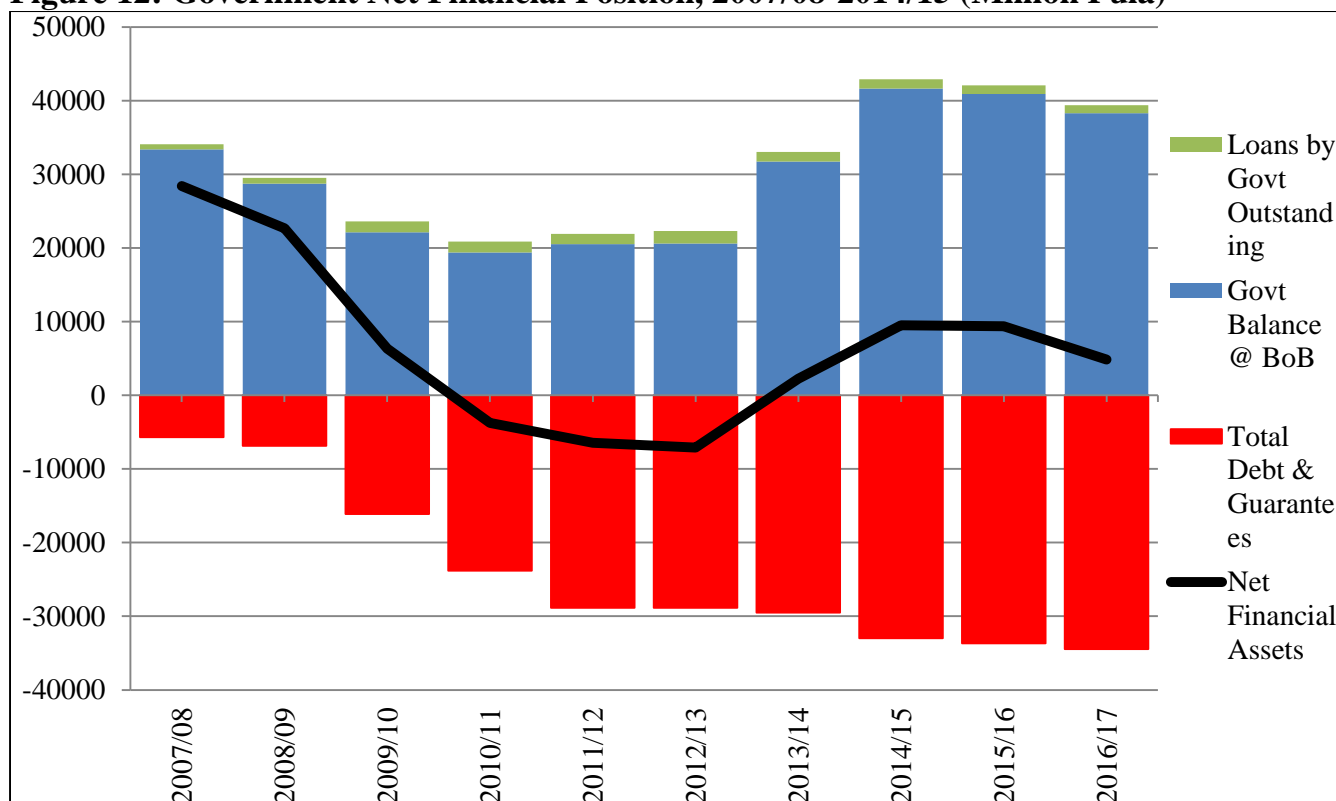
Debt

Figure 11: Government Debt Position, 2009/10-2016/17 (Million Pula)



Source: MFDP, January 2016

Figure 12: Government Net Financial Position, 2007/08-2014/15 (Million Pula)



Source: MFDP, January 2016

Conclusion

- Given economic challenges, emanating from lower external demand, the medium term fiscal outlook is a cause for concern.
- Ministries to exercise restraint in requesting for additional funding through supplementary budgets during the course of the financial year.
- Development projects should deliver on intended impact anchored on sustainable inclusive growth and economic diversification.
- Given the importance of the recently introduced Economic Stimulus Programme to *economic growth and job creation*, private contractors are expected to cooperate with Government in the delivery of the budget.
- Contractors should also demonstrate their social responsibility and ensure that projects are delivered on time; according to specifications; within budgets; and are of good quality.
- Land authorities throughout the country are expected to expedite the process of land allocation, as part of their social responsibility in the delivery of our development programmes and projects.

Table 1: GDP and Summary Government Budget (Million Pula and Percent)

	FY	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
GDP	GDP, current prices, FY	76,484	91,730	109,481	113,674	129,425	145,435	153,844	159,888
	growth rate GDP at current prices	3.6%	19.9%	19.4%	3.8%	13.9%	12.4%	5.8%	3.9%
	growth rate GDP at constant prices	-3.0%	7.3%	6.3%	5.0%	8.2%	3.2%	1.2%	4.5%
Budget								Revised Budget	Budget
	Revenues & Grants	30,023	31,909	38,486	41,658	48,951	55,904	51,764	48,398
	Total Expenditure & Net Lending Balance	39,489 -9,466	38,417 -6,508	38,667 -181	40,736 922	41,730 7,222	50,564 5340	55,961 -4,197	54,445 -6,046
Share of GDP	Revenues & Grants	39.3%	34.8%	35.2%	36.6%	37.8%	38.4%	33.6%	30.3%
	Total Expenditure & Net Lending	51.6%	41.9%	35.3%	35.8%	32.2%	34.8%	36.4%	34.1%
	Balance	-12.4%	-7.1%	-0.2%	0.8%	5.6%	3.7%	-2.7%	-3.8%

Source: MFDP, January 2016

Table 2: Government Net Financial Assets, end Financial Year (Million Pula and percent, 2009/10-2016/17)

Financial Year	Govt Balance @ BOB	Internal & External Debt	Debt Guarantees	Total Debt & Guarantees	Loans by Govt Outstanding	Net Debt	Net Financial Assets	GDP FY	Govt Bal @ BoB as a % of GDP	Net Fin. Assets as a % of GDP
	(1)	(2)	(3)	(4)=(2)+(3)	(5)	(6)=(4)-(5)	(7)=(1)-(6)	(8)	(9)=(1)/(8)	(10)=(7)/(8)
2009/10	22,136	13,775	2,318	16,093	1,485	14,608	7,528	76,484	28.90%	9.80%
2010/11	19,387	18,631	5,162	23,793	1,508	22,285	-2,898	91,730	21.10%	-3.20%
2011/12	20,553	21,619	7,249	28,868	1,368	27,500	-6,947	109,481	18.80%	-6.30%
2012/13	20,611	21,764	7,089	28,853	1,718	27,135	-6,524	113,674	18.10%	-5.70%
2013/14	31,745	22,650	6,831	29,481	1,321	28,160	3,584	129,425	24.50%	2.80%
2014/15	41,680	25,310	7,681	32,991	1,230	31,761	9,920	145,435	28.70%	6.80%
2015/16	40,927	25,031	8,639	33,670	1,154	32,516	8,411	150,483	27.20%	5.60%
2016/17	38,312	24,738	9,721	34,459	1,078	33,381	4,930	159,888	24.00%	3.10%

Source: MFDP, January 2016

Table 3: Stock of Debt and Guarantees, end Financial Year, 2009/10-2016/17 (Million Pula and percent)

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/17
External								
External Debt	9,288	12,573	14,290	15,556	15,776	17,981	17,060	16,162
External Guarantees	1,621	4,565	5,804	6,393	6,401	7,160	8,010	8,960
Total External	10,909	17,138	20,094	21,949	22,177	25,141	25,069	25,122
Internal								
Internal Debt	4,487	6,058	7,329	6,208	6,874	7,329	7,971	8,576
Internal Guarantees	697	596	1,445	696	430	520	629	761
Total Internal	5,184	6,654	8,774	6,904	7,304	7,849	8,600	9,337
Grand Total	16,093	23,793	28,868	28,853	29,481	32,991	33,670	34,459
GDP for FY	76,484	91,730	109,481	113,674	129,425	145,435	153,844	159,888
a. External Debt & G. / GDP (%)	14.3%	18.7%	18.4%	19.3%	17.1%	17.3%	16.3%	15.7%
b. Internal Debt & G. / GDP (%)	6.8%	7.3%	8.0%	6.1%	5.6%	5.4%	5.6%	5.8%
c. Total Debt & G. / GDP (%)	21.0%	25.9%	26.4%	25.4%	22.8%	22.7%	21.9%	21.6%

Source: MFDP, January 2016

Table 4: Medium Term fiscal Framework Outlook, 2013/14-2018/19 (Million Pula)*

	2013/14	2014/15	Revised 2015/16	Budget 2016/17	2017/18	2018/19
				Projections		
Total Revenue and Grants	48,951.3	55,904.2	51,763.9	48,398.1	53,783.8	57,183.2
Mineral Revenue	18,443.3	21,532.2	18,298.8	17,033.0	18,182.7	19,279.8
Mineral Tax	6,190.0	7,498.4	4,458.0	4,310.7	4,601.7	4,879.3
Mineral Royalties and Dividends	12,253.4	14,033.8	13,840.8	12,722.3	13,581.0	14,400.5
Customs & Excise Revenue	13,169.5	15,691.0	15,455.3	11,780.0	13,734.5	13,762.2
Non-mineral Income Tax	7,470.8	8,383.8	9,349.0	10,263.9	11,447.0	12,759.8
VAT	4,885.4	5,709.9	5,431.8	5,982.8	6,672.5	7,437.7
BOB Revenue	1,900.0	2,448.5	975.0	848.0	1,000.0	1,000.0
Other Revenue & Grants	3,082.2	2,139.0	2,254.0	2,490.4	2,747.0	2,943.7
Total Expenditures and Net Lending	41,729.7	50,563.9	55,961.1	54,444.5	57,936.0	59,108.6
Recurrent Expenditure	33,219.8	37,582.9	41,719.1	39,699.3	40,347.9	41,134.6
Personal emoluments & pensions	15,338.3	16,588.7	18,414.3	17,522.8	17,944.4	18,307.9
Grants & Subventions	8,330.6	10,596.8	11,763.0	11,193.5	10,968.7	10,968.7
Other Charges	8,863.4	9,695.8	10,762.9	10,241.8	10,830.1	11,271.5
Interest payments	687.5	701.7	778.9	741.2	604.7	586.6
Development Expenditure	8,908.7	13,072.0	14,318.0	14,821.2	17,664.0	18,050.0
Net Lending	-398.8	-91.0	-76.0	-76.0	-76.0	-76.0
Overall surplus/ deficit (-)	7,221.6	5,340.3	-4,197.2	-6,046.4	-4,152.2	-1,925.3
<i>as % of GDP</i>	<i>5.6%</i>	<i>3.7%</i>	<i>-2.7%</i>	<i>-3.8%</i>	<i>-2.4%</i>	<i>-1.0%</i>

Source: MFDP, December 2015

*The 2017/18 and 2018/19 projected budget figures are subject to annual review.

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