



**Republic of Botswana**

**THE 2017/18 BUDGET-IN-BRIEF**

**Ministry of Finance and Economic Development**

**Website: [www.finance.gov.bw](http://www.finance.gov.bw)**

**February 2017**

## **Background**

- The 2017/2018 Budget Proposal forms the first instalment of the six budgetary outlays for the implementation of NDP 11 approved on 1<sup>st</sup> December 2016.
- NDP 11 identified several national priorities that have to be pursued in the medium term through allocation of the budget to address the three development challenges of unemployment, poverty and income inequality.
- The 2017/2018 Budget Proposal recognises these development challenges as key to promoting inclusive growth in the economy.
- Like its predecessor, the 2017/2018 budget proposal was prepared under an environment of;
  - economic uncertainty,
  - persistent subdued global growth, and
  - weak global demand for commodities, and weak commodity prices.
- To this end, the 2017/2018 budget proposal underscores the need to exercise prudent financial management during NDP 11.

## **Economic Review & Outlook**

- The outcome of the global, regional, and domestic economic performance forms the basis for estimating the available financial resources, of which, Government is able to use in undertaking planned programmes and projects.

### ***Global Economy***

#### *IMF World Economic Outlook (January 2017)*

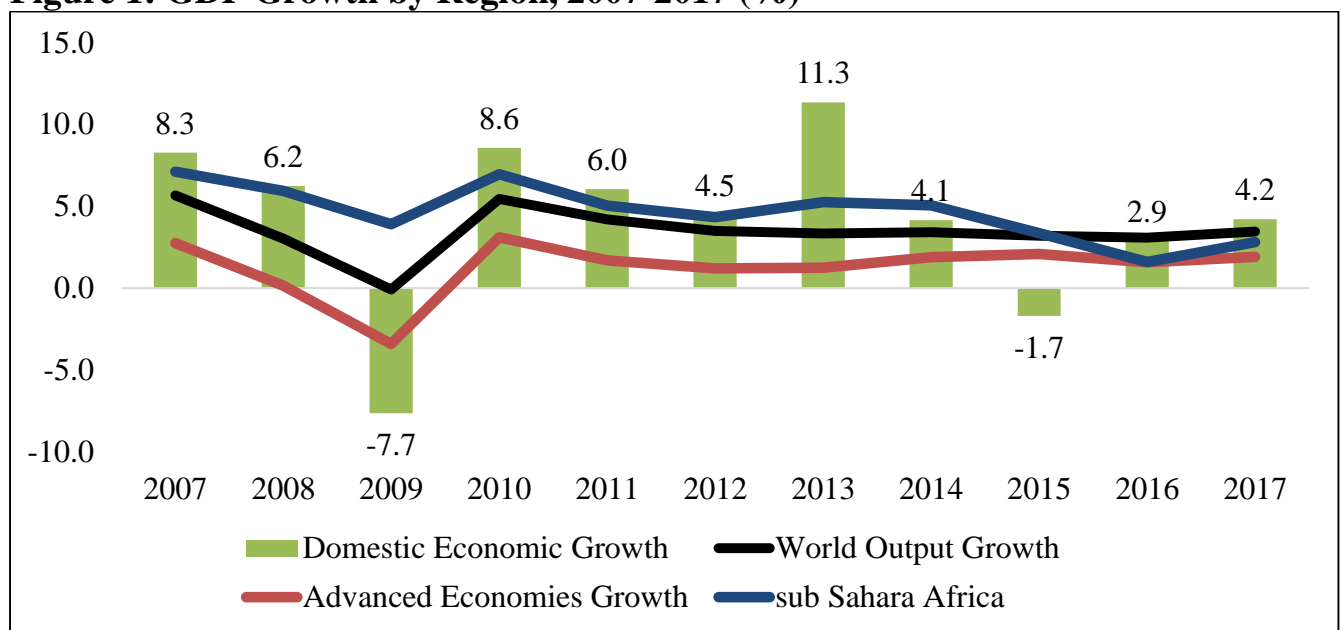
- Global growth is estimated at 3.1% in 2016 and 3.4% in 2017;
- Economic activity anticipated to improve in advanced economies and Sub-Saharan Africa;
  - Growth estimated at 1.6% and 1.9% in 2016 and 2017, respectively for advanced economies.
  - For Sub-Saharan Africa, growth is forecast at 1.6% and 2.8% in 2016 and 2017, respectively.
- Emerging market economies growth is estimated at 4.1% and 4.5% in 2016 and 2017, respectively.

## Domestic Economy

### GDP

- Growth in the domestic economy is expected to improve from a decline of 1.7% in 2015 to reach 2.9 % in 2016 (Fig. 1), which is slightly lower than the SADC regional projected growth of 3.1% during the same year.
- Domestic growth in 2016 will be underpinned by an anticipated slight improvement in the mining and water & electricity sectors.
- The performance of the domestic economy is however subject to downside risks associated with the expected performance of the global economy.

**Figure 1: GDP Growth by Region, 2007-2017 (%)**



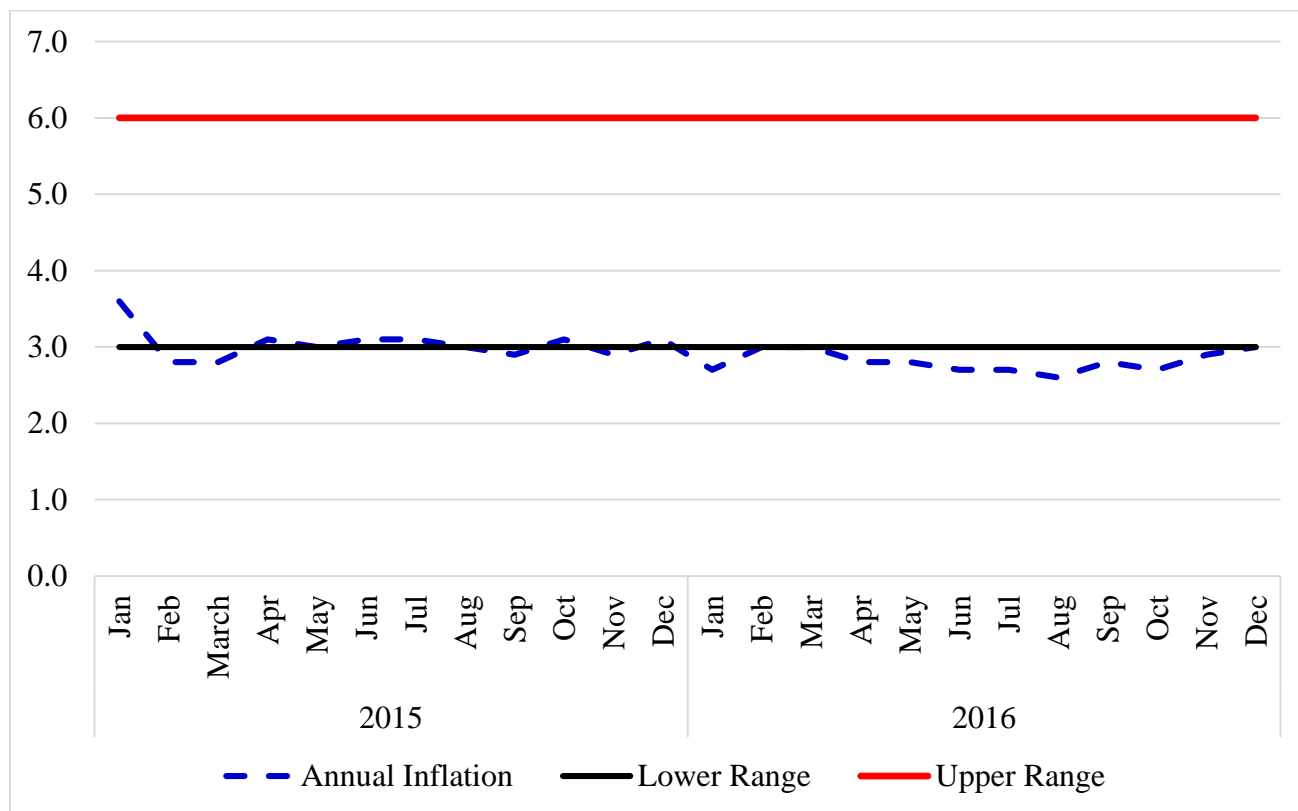
Source: World Economic Outlook (January 2017), MFED (January 2017)

### Inflation and Monetary Policy

- Inflation was 3.0 percent in December 2016, a slight decline from 3.1 percent the same month during the previous year.
- Domestic inflation has remained within the Bank of Botswana objective range of 3-6 percent during 2016 (Figure 2).
- The low inflation reflects price stability and therefore macroeconomic stability, which are important for international competitiveness of domestic industries, economic growth and job creation.
- Domestic inflation outlook is anticipated to remain positive, owing to continued low domestic demand pressures and stability in global oil prices.

- An accommodative monetary policy stance was maintained, with the Bank Rate reduced from 6.0 percent in July 2015 to 5.5 percent in August 2016 and remained at that level for now.

**Figure 2: Domestic Inflation by Major Sub Components, 2015 Jan- 2016 Dec (%)**

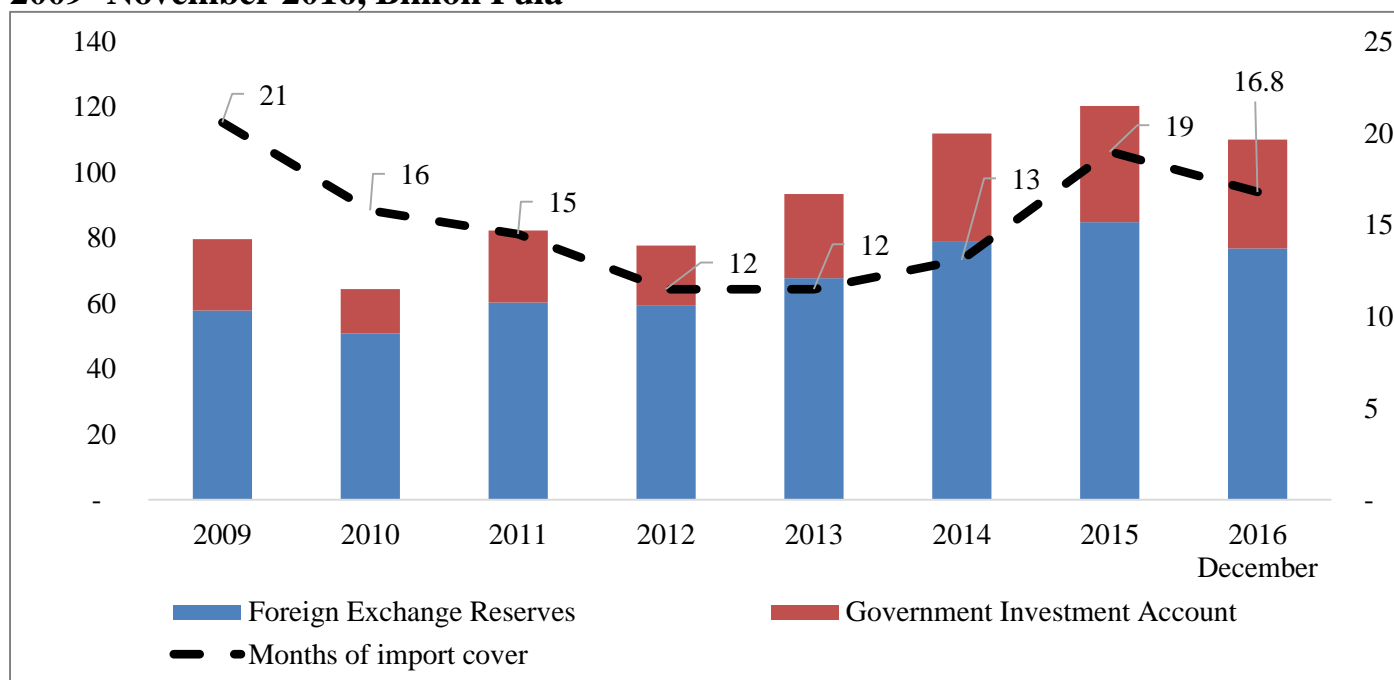


Source: Statistics Botswana, January 2017

### **Foreign Exchange Reserves**

- As at the end of December 2016, foreign exchange reserves stood at P76.8 billion, compared to P84.9 billion in December 2015 (Figure 3).
  - Reserves represent 17 months of import cover of goods and services.
  - Of the total reserves, the Government Investment Account (GIA) was P33.3 billion in November, 2016, a decline from P35.5 billion in December 2015.

**Figure 3: Foreign Exchange Reserves, Govt. Investment Account, Import Cover, 2009- November 2016, Billion Pula**

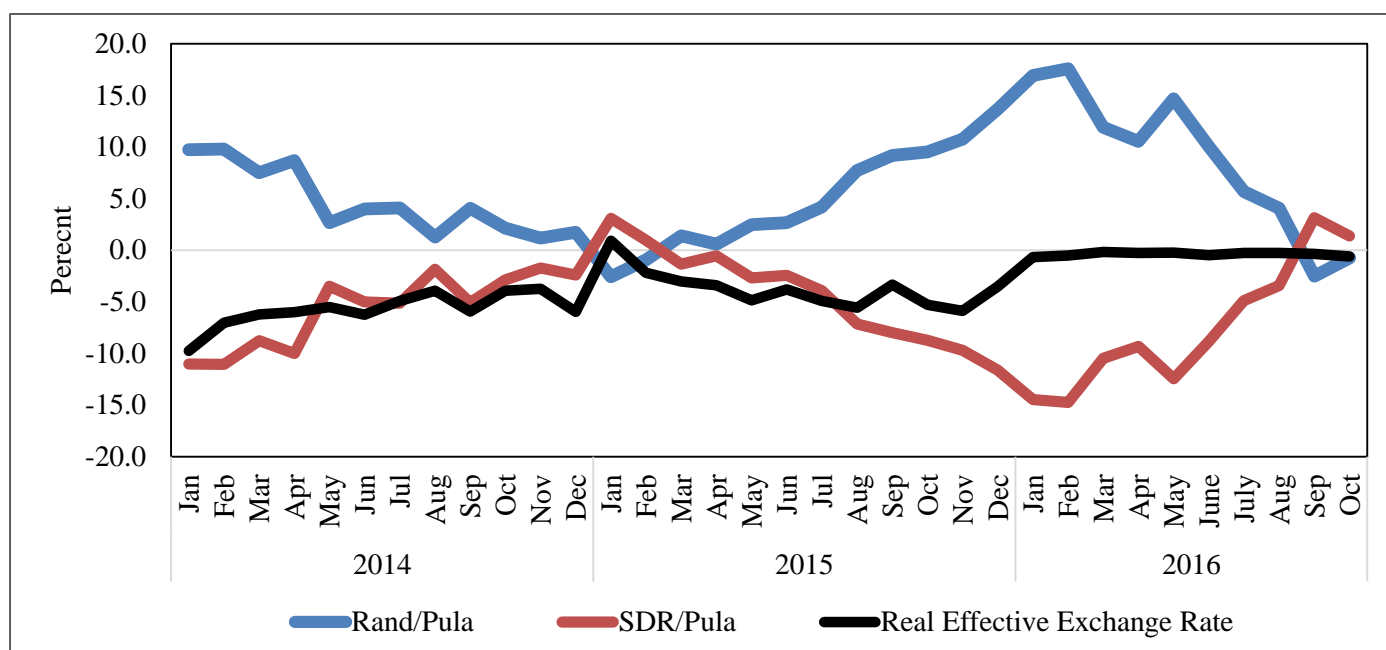


Source: Bank of Botswana, January 2017

### Exchange Rates

- The Pula exchange rate mechanism is managed through a rate of crawl based on the inflation differential between Botswana and its trading partners.
- Regular adjustments of the Pula basket weights are also reviewed in line with Botswana's trade patterns.
- To this end, as from the 1<sup>st</sup> January 2017, the Pula basket weights were revised from 50% rand and 50% SDR to 45% rand and 55% SDR.
- The rate of crawl has also been changed from an upward crawl of 0.38 percent per annum in 2016 to 0.26 percent for 2017.
- In the ten months to October 2016, the Pula depreciated against the South African rand by 6.1 percent, while appreciating by 7.1 percent against the SDR (Figure 4).
- The Real Effective Exchange Rate (REER) on the other hand depreciated by 0.6 percent in the ten months to October 2016, compared to an appreciation of 1.4% registered for the same period in the previous year (Figure 4).
- The depreciation of the REER reflects the low domestic inflation environment relative to inflation in the country's trading partners.

**Figure 4: Trend in Exchange Rates (2014 -2016)**



Source: Bank of Botswana, January 2017

## PRIORITY AREAS FOR 2017/2018 FINANCIAL YEAR

- Through the NDP 11, the country settled for six national priority areas for the medium term. These formed the basis for formulating the 2017/2018 budget proposals and subsequent budgets.
- The priority areas are: (i) *Development of Diversified Sources of Economic Growth and Revenues*; (ii) *Human Capital Development*; (iii) *Social Development*; (iv) *Sustainable Use of Natural Resources*; (v) *Consolidation of Good Governance and Strengthening of National Security*; and (vi) *Monitoring and Evaluation*.

(i) *Developing Diversified Sources of Economic Growth and Revenue*; Promoting export diversification and export led growth to be the main objective going forward. This will be achieved through;

- Development of an efficient Information and Communications Technology infrastructure,
- Identifying potential alternative sources of electricity supply,
- Undertaking projects that will provide adequate water supply,
- Implementation of a Land Policy and Servicing and promoting land allocation,
- Strengthening implementation of the Local Economic Development programme to promote growth and employment creation at local level as well generate revenue for Local Authorities, and

- Diversifying the revenue base away from Mining and Customs & Excise revenue, and towards more sustainable and reliable sources.
- (ii) *Human Capital Development: To facilitate the efficient and effectiveness of the education system through;*
- Continuing with provision of basic education,
  - Strengthening the linkage between skills development and the needs of the job market, and
  - Implementation of Education and Training Sector Strategic Plan.
- (iii) *Social Development: To achieve Government's objective of eradicating abject poverty through;*
- Increasing social protection measures,
  - Supporting People Living with Disabilities through various programmes and schemes,
    - Accelerating accessibility to Government programmes and services, and
    - Ensuring efficient and effective use of social safety funds.
- (iv) *Sustainable Use of Natural Resources: To ensure environmental protection and sustainable management of natural resources through;*
- Continuation of the Wealth Accounting and Valuation of Ecosystems Services (WAVES) programme.
- (v) *Consolidation of Good Governance and Strengthening of National Security: To invest and improve on the national safety and security of the country through;*
- Fostering participatory democracy,
  - Promoting transparency and accountability of the public sector, and
  - Building Capacity amongst safety and security agencies.
- (vi) *Monitoring and Evaluation: To strengthen the implementation processes of programmes and policies and facilitate evidence-based decision-making through;*
- Strengthening implementation capacity of projects and programmes, and
  - Developing a National Monitoring and Evaluation System.

## **Budget Reviews and Proposals**

### ***2015/2016 Budget Outturn***

- A budget deficit of P6.99 billion, or -4.7 percent of GDP, of which;
  - Total Revenues and Grants: P47.42 billion, comprising;
    - P14.44 billion as Mineral revenue,
    - P15.82 billion as Customs & Excise,
    - P8.69 billion as Non-mineral Income tax,
    - P5.55 billion as VAT, and the remaining balance as other revenues.
  - Total Expenditure and Net Lending: P54.41 billion, comprising;
    - P40.41 billion as Recurrent Expenditure,
    - P12.77 billion as Development Expenditure, and
    - P1.22 billion as equity injection and net lending to State Owned Enterprises.

### ***2016/2017 Revised Budget Estimates***

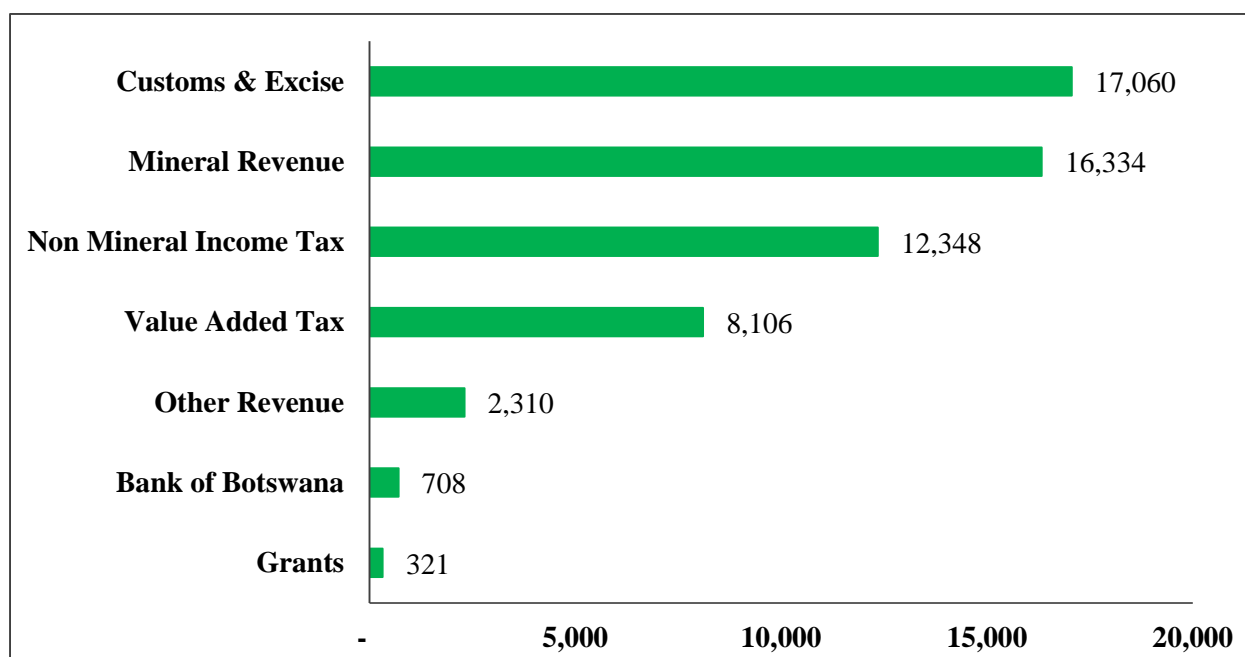
- A budget deficit of P1.11 billion, or -0.7 percent of GDP, of which;
  - Total Revenues and Grants amounting to P55.93 billion, comprising;
    - P20.85 billion as Mineral revenue,
    - P11.52 billion as Customs & Excise,
    - P11.47 billion as Non-mineral Income tax,
    - P7.53 billion as VAT, and the remaining balance as other revenues.
  - Total Expenditure and Net Lending amounting to P57.03 billion, comprising;
    - P39.66 billion as Recurrent Expenditure,
    - P16.28 billion as Development Expenditure, and
    - P1.09 billion as equity injection and net lending to State Owned Enterprises.

### ***2017/18 Budget Proposals***

- A budget deficit of P2.36 billion, or 1.4 percent of GDP, of which;
  - Estimated Total Revenues and Grants amounting to P57.19 billion, (Figure 5) comprising;
    - P17.06 billion as Customs & Excise,
    - P16.33 billion as Mineral revenue,
    - P12.35 billion as Non-mineral Income tax,
    - P8.11 billion as VAT, and the remaining balance as other revenues.



**Figure 5: Major Sources of Revenue, 2017/2018 FY (Million Pula)**



Source: MFED, January 2017

### **Total Expenditure and Net Lending**

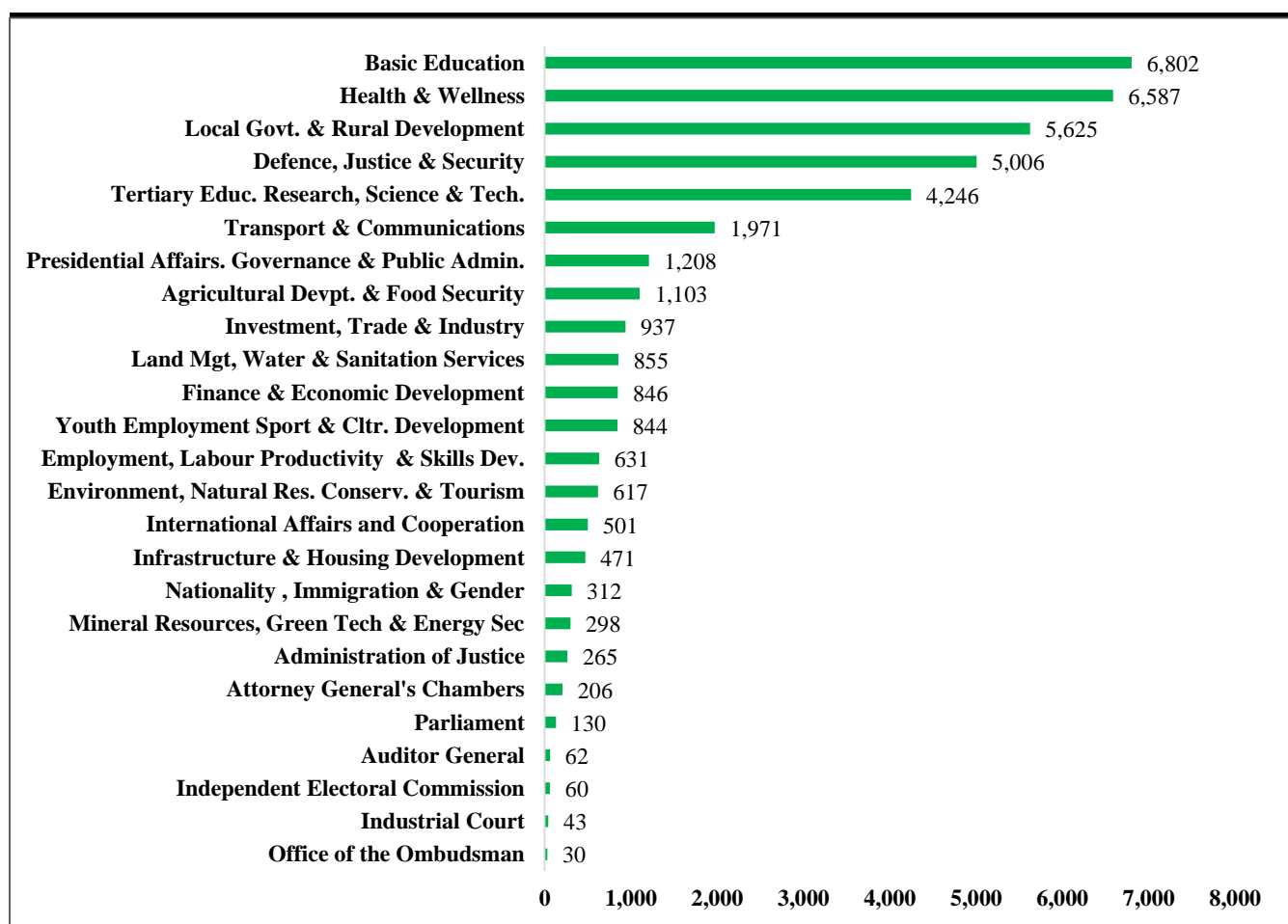
- Proposed Total Expenditure and Net Lending amounting to P59.54 billion, made up of;
  - P43.07 billion as Recurrent Expenditure,
  - P16.52 billion as Development Expenditure, and
  - - P47.5 million as Net Lending

### **Proposed Ministerial Recurrent Budget**

- A total of P39.66 billion; or 71.3% of total Recurrent Budget is proposed as Ministerial Recurrent Budget (Figure 6) to be allocated to five Ministries of:
  - Basic Education, P6.80 billion (17.2%) to implement the Education and Training Sector Strategic Plan (ETSSP);
  - Health and Wellness, P6.59 billion (16.6%)
    - Provision of; drugs, dressings vaccines, anti-retroviral therapy, replacement of obsolete medical equipment, and
    - Implementation of the Treat All Strategy on HIV/AIDS;
  - Local Government and Rural Development, P5.62 billion (14.2%)
    - Revenue Support Grants to Urban and District Councils.
    - Maintenance of the existing infrastructure.
    - Provision for food supplies and the Old Age Pension Scheme;
  - Defence, Justice and Security, P5.01 billion (12.6%)
    - Operational costs including maintenance of assets and fuel costs;

- Tertiary Education Research, Science and Technology, P4.25 billion (P10.7%)
  - Provision for student financing for tertiary institutions.
  - Subventions to parastatals;
- Other Ministries and Independent Departments share the balance; P11.39 billion:
  - Ministry of Transport and Communications (P1.97 billion or 5.0%) ;
  - Ministry of Presidential Affairs, Governance and Public Administration (P1.21 billion or 3.0 %);
  - Ministry of Agricultural Development and Food Security (P1.10 billion or 2.8 %);
  - Ministry of Investment, Trade and Industry (P936.85 million or 2.4 %); and
  - Ministry of Land Management, Water and Sanitation Services (P855.33 million or 2.2 %).

**Figure 6: Ministerial Recurrent Budget for 2017/2018 (Million Pula)**



Source: MFED, January 2017

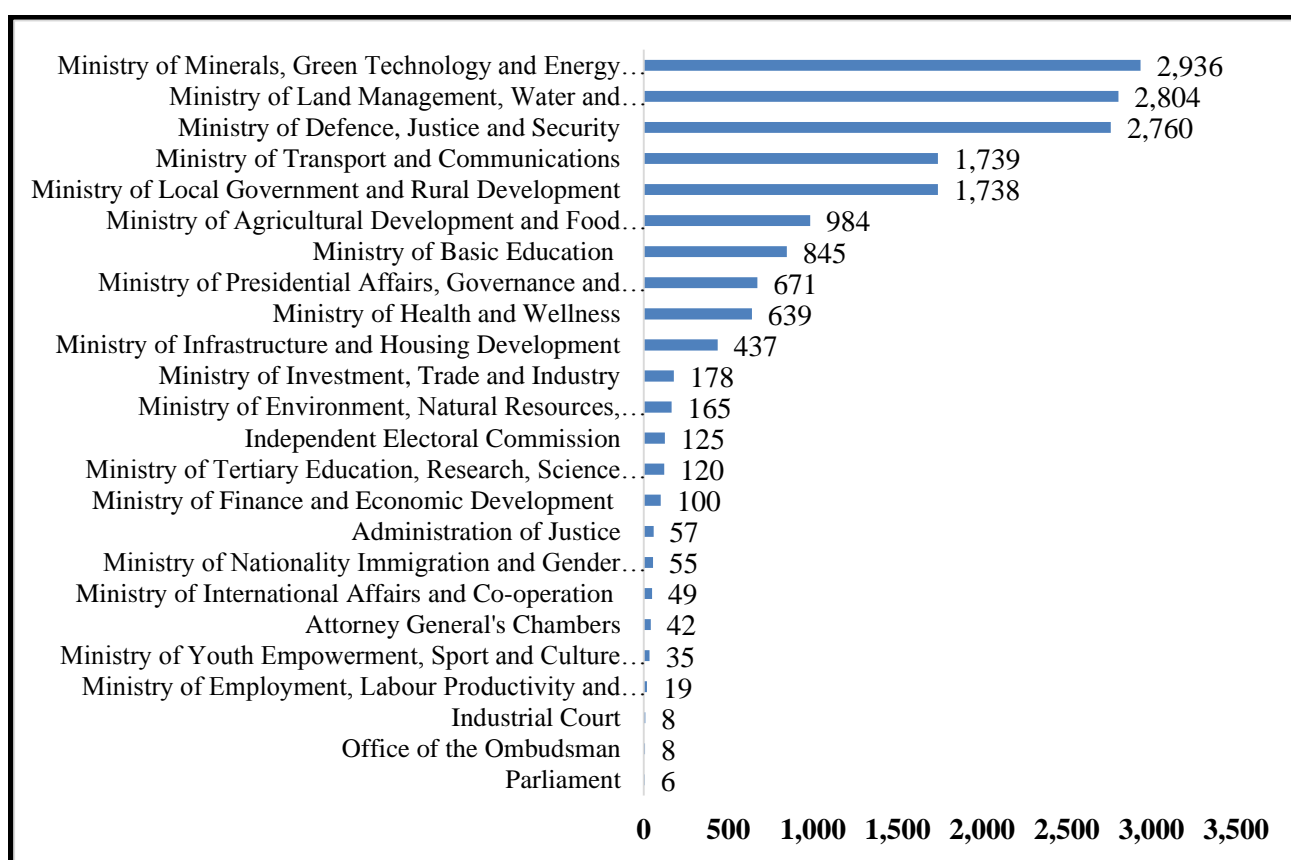
- Proposed Statutory Expenditure amounts to P6.98 billion, mainly;
  - Servicing of debt obligations, as well as pensions gratuities and salaries for Specified Officers.

### **Proposed Allocation of the Development Budget**

- Ministry of Mineral Resources, Green Technology and Energy Security (P2.94 billion, or 17.8 percent). Major projects comprise:
  - North West Transmission grid,
  - Morupule A Power Plant Rehabilitation,
  - Rakola substation construction; and
  - P1.46 billion allocation to Botswana Power Corporation for operational costs
- Ministry of Land Management, Water and Sanitation Services (P2.80 billion, or 17.0 percent):
  - Implementation of water projects such as North-South Carrier II and reticulation of water from Thune Dam to nearby villages;
  - Land servicing; and
  - Implementation of the Land Administration, Procedure, Capacity and Systems (LAPCAS).
- Ministry of Defence, Justice and Security (P2.76 billion, or 16.7 percent):
  - Completion of construction of new Police stations and housing;
  - Refurbishment of prison facilities;
  - Improvements to infrastructure; and
  - Purchase of vehicles and upgrading of equipment for BDF.
- Ministry of Transport and Communications (P1.74 billion, or 10.5 percent):
  - Government Data Networks Phase III;
  - School Connectivity project;
  - Kazungula and Mohembo Bridge construction; and
  - Rehabilitation of Mmankgodi to Jwaneng as well as Rakhuna to Mabule roads.
- Ministry of Local Government and Rural Development (P1.74 billion, 10.5 percent):
  - Social protection programmes;
  - Construction of additional facilities for primary schools;
  - Provision of village infrastructure for Kang, Tutume and Gabane;
  - Ipelegeng and destitute housing; and
  - Community development projects in each of the 57 Constituencies around the country.
- Ministry of Agricultural Development and Food Security (P983.71 million, or 5.9 percent):
  - Integrated Support Programme for Arable Development (ISPAAD);

- Livestock Management and Infrastructure Development (LIMID);
- Agriculture Service Support Programme; and
- Pandamatenga Agricultural Infrastructure Development.
- Ministry of Basic Education (P844.94 million or 5.1 percent):
  - P731.95 million is for provision of additional ICT facilities in secondary schools and construction of staff houses; and
  - Other major projects include the development of outcome based curriculum and career paths.
- The remaining Ministries and Departments share the balance of P2.70 billion. Major projects include:
  - Construction and upgrading of health facilities;
  - Extension of magistrate courts, security at Parliament, Revenue Offices;
  - Establishment of Special Economic Zones;
  - Development of a Leather Park;
  - Refurbishment of Botswana Missions;
  - Procurement of electronic voting machines; and
  - Refurbishment of existing facilities country wide.

**Figure 7: Proposed Allocation of Development Budget (Million Pula)**



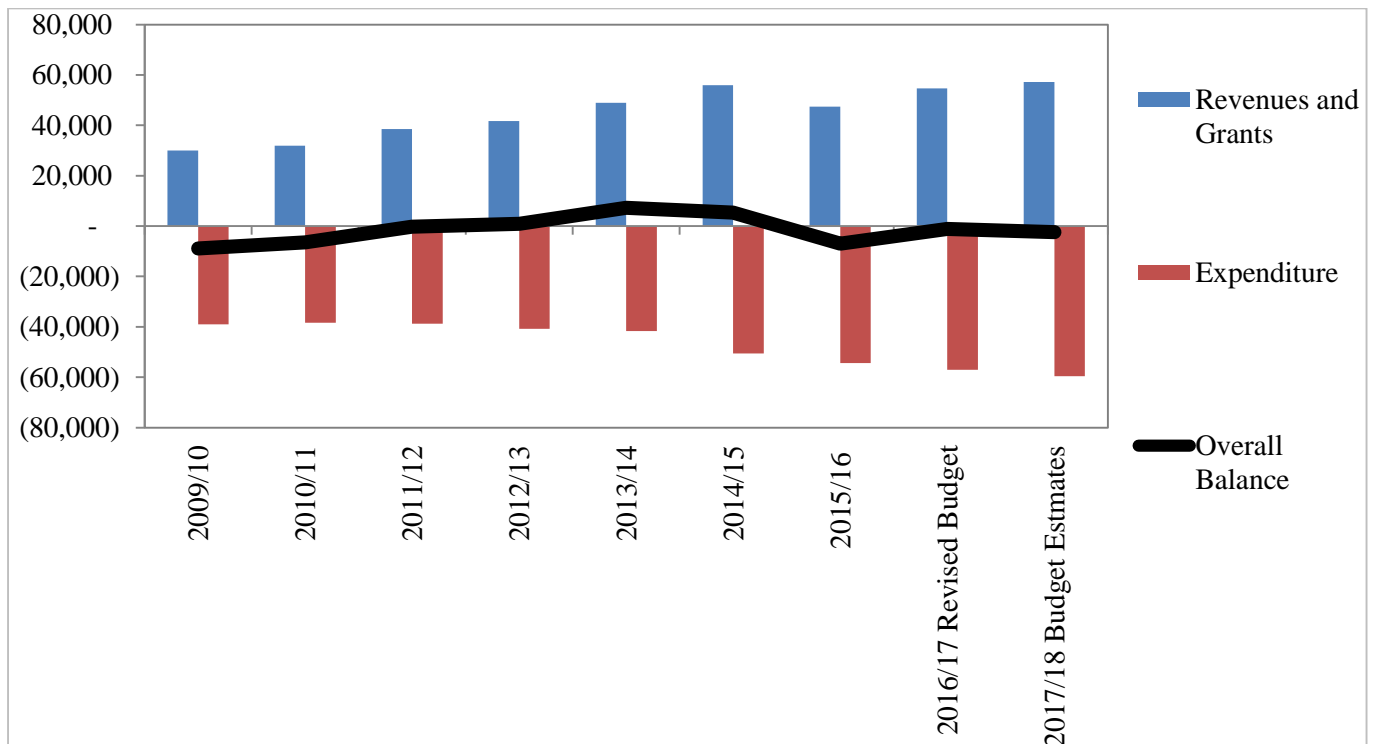
Source: MFED, January 2017

## Expenditure, Revenue and Overall Balance Trends

### Overall Cash Flow Balance

- Total revenues and grants are estimated at P57.19 billion, while the proposed total expenditure and net lending is estimated at P59.54 billion, resulting in a projected budget deficit of P2.35 billion, or -1.4% of GDP (Figure 8).

**Figure 8 Expenditure, Revenue and Overall Balance Trends, 2009/10-2017/18 (Million Pula)**

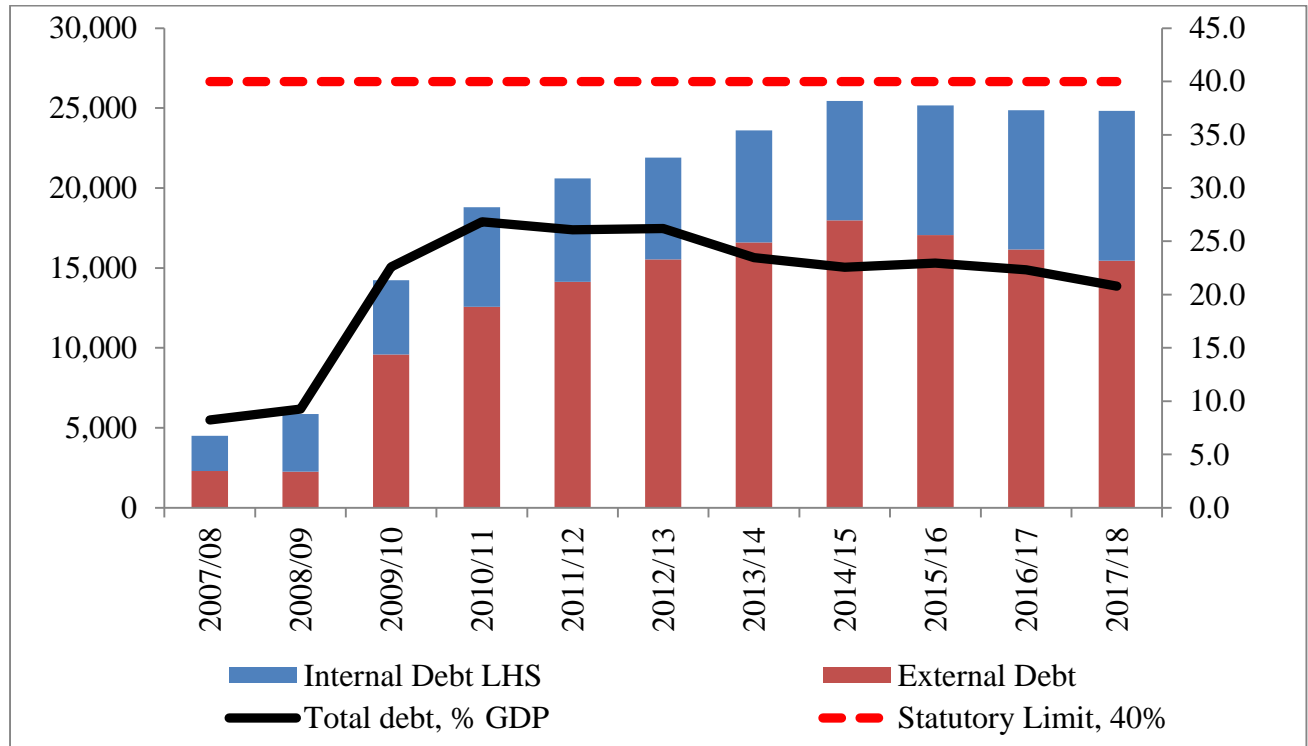


Source: MFED, January 2017

## Debt

- Total debt continues to remain within the statutory debt/GDP limit of 40 percent (Figure 9).

**Figure 9: Government Debt Position, 2007/08-2017/18**

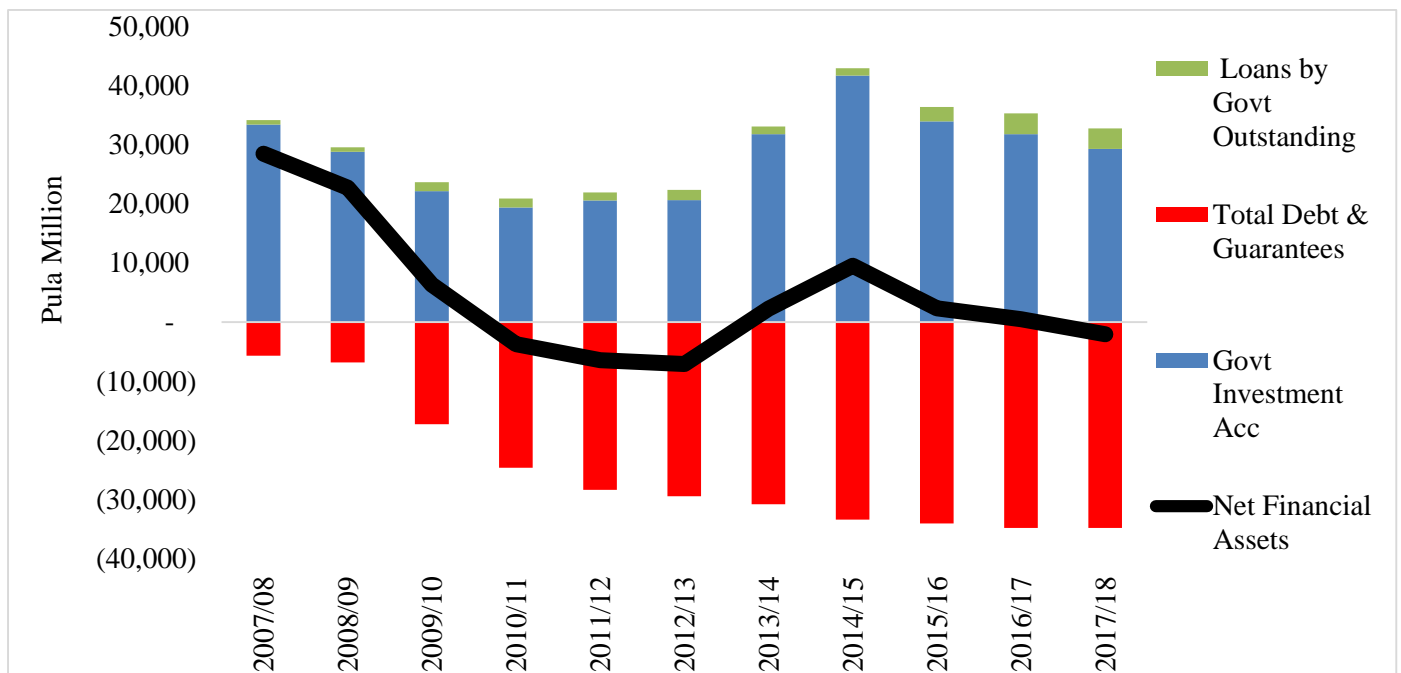


Source: MFED, January 2017

## Government Net Financial Position

- 2017/18 net financial position projected to decline (-1.2% of GDP), signalling unsustainable debt path. (Figure 10). There is therefore need to restore it to positive levels.

**Figure 10: Government Net Financial Position, 2007/08-2017/18 (Million Pula)**



Source: MFED, January 2017

## Fiscal Legislation

- Considering the volatility of the major sources of revenue, Government will continue to execute prudent financial management. In addition, the following are under consideration;
  - Amendment of Income Tax Act and Value Added Tax Act to come up with a Tax Administration Act.
  - Introduction of Transfer Pricing rules in the Income Tax Act.
  - Inclusion of sale of property by a Deputy Sheriff as a taxable supply in Value Added Tax Act.
  - Amendment of Income Tax to deduct tax on Director's fees where such a Director is working as a Director for several companies.
  - Impose a minimum penalty for non-filers in order to encourage compliance and minimize the tax gap.

## Conclusion

- Continued low growth in government revenues, and increased expenditure pressure, have put the country's fiscal position under serious stress.
- 2017/2018 budget proposals point to a budget deficit, which is a third consecutive deficit in the last three years.
- Government is however committed to fiscal sustainability in the medium term. Emphasis is put on the need to:
  - Restore budget balances in the medium to long term.
  - Broaden the country's domestic revenue base and reduce reliance on diamond revenue.
  - Implement policies, strategies and programmes aimed at developing diversified sources of economic growth, and contain expenditure.
- Government to tighten expenditure controls, continue pursuing complementary efforts to strengthen public management controls and ensure efficiency and effectiveness on public spending.



## Annex

**Table 1: GDP and Summary Government Budget (Million Pula), 2012/13-2017/18**

	FY	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
						<b>Projections</b>	
<b>GDP</b>	<b>GDP, current prices,</b>	<b>112,256</b>	<b>131,221</b>	<b>148,027</b>	<b>148,353</b>	<b>156,094</b>	<b>167,374</b>
	<b>Growth rate (%)</b>	<b>3.2</b>	<b>16.9</b>	<b>12.8</b>	<b>0.2</b>	<b>5.2</b>	<b>7.2</b>
<b>Budget</b>						<b>Revised Budget</b>	<b>Proposed Budget</b>
	<b>Revenues &amp; Grants</b>	<b>41,658</b>	<b>48,951</b>	<b>55,904</b>	<b>47,420</b>	<b>55,926</b>	<b>57,187</b>
	<b>Total Expenditure &amp; Net Lending</b>	<b>40,736</b>	<b>41,730</b>	<b>50,564</b>	<b>54,411</b>	<b>57,031</b>	<b>59,544</b>
	<b>Budget Balance</b>	<b>922</b>	<b>7,222</b>	<b>5340</b>	<b>-6991</b>	<b>-1,106</b>	<b>-2,357</b>
<b>Share to GDP (%)</b>	<b>Revenues &amp; Grants</b>	<b>37.1</b>	<b>37.3</b>	<b>37.8</b>	<b>32.0</b>	<b>35.8</b>	<b>34.2</b>
	<b>Total Expenditure &amp; Net Lending</b>	<b>36.3</b>	<b>31.8</b>	<b>34.2</b>	<b>36.7</b>	<b>36.5</b>	<b>35.6</b>
	<b>Budget Balance</b>	<b>0.8</b>	<b>5.5</b>	<b>3.6</b>	<b>-4.7</b>	<b>-0.7</b>	<b>-1.4</b>

*Source: MFED, January 2017*

**Table 2: Government Net Financial Assets, as at end Financial Year, 2012/13-2017/18 (P million)**

<b>Financial Year</b>	<b>Govt Investment Acc</b>	<b>Internal &amp; External Debt</b>	<b>Debt Guarantees</b>	<b>Total Debt &amp; Guarantees</b>	<b>Loans by Govt Outstanding</b>	<b>Net Debt</b>	<b>Net Financial Assets</b>	<b>GIA as % of GDP</b>	<b>Net Fin. Assets as % of GDP</b>	<b>Total Debt as % of GDP</b>
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)=(2)+(3)</b>	<b>(5)</b>	<b>(6)=(4) -(5)</b>	<b>(7)=(1) -(6)</b>	<b>(8)</b>	<b>(9)</b>	<b>(10)</b>
<b>2012/13</b>	20,611	21,901	7,520	29,422	1,718	27,705	-7,094	18.4	-6.3	26.2
<b>2013/14</b>	31,744	23,609	7,181	30,790	1,321	29,470	2,275	24.2	1.7	23.5
<b>2014/15</b>	41,680	25,447	7,951	33,398	1,230	32,169	9,512	28.2	6.4	22.6
<b>2015/16</b>	33,915	25,162	8,895	34,057	2,454	31,603	2,313	22.9	1.6	23.0
<b>2016/17</b>	31,734	24,862	9,963	34,826	3,546	31,280	454	20.3	0.3	22.3
<b>2017/18</b>	29,249	24,824	9,963	34,787	3,498	31,289	-2,040	17.5	-1.2	20.8

Source: MFED, January 2017

**Table 3: Stock of Debt and Guarantees, as at end Financial Year, 2010/11-2017/18 (Million Pula)**

Financial Year	2010/11	2011/12	2012/13	2013/14	2014/2015	2015/16	2016/17	2017/18
	Actual						Projected	
<b>External</b>								
External Debt	12,573	14,124	15,544	16,591	17,981	17,060	16,162	15,463
External Guarantees	4,565	5,804	6,393	6,401	7,160	8,010	8,960	8,960
Total External	17,138	19,927	21,937	22,992	25,141	25,069	25,122	24,423
<b>Internal</b>								
Internal Debt	6,217	6,484	6,358	7,018	7,466	8,102	8,701	9,362
Internal Guarantees	1,261	1,953	1,128	781	792	886	1,004	1,004
Total Internal	7,478	8,437	7,486	7,799	8,257	8,988	9,704	10,365
<b>Grand Total</b>	<b>24,616</b>	<b>28,364</b>	<b>29,423</b>	<b>30,791</b>	<b>33,399</b>	<b>34,058</b>	<b>34,827</b>	<b>34,788</b>
<b>GDP for FY</b>	<b>91,730</b>	<b>108,807</b>	<b>112,256</b>	<b>131,221</b>	<b>148,027</b>	<b>148,353</b>	<b>156,094</b>	<b>167,374</b>
External Debt & G. / GDP (%)	18.7	18.3	19.5	17.5	17.0	16.9	16.1	14.6
Internal Debt & G. / GDP (%)	8.2	7.8	6.7	5.9	5.6	6.1	6.2	6.2
Total Debt & G. / GDP (%)	26.8	26.1	26.2	23.5	22.6	23.0	22.3	20.8

*Source: MFED, January 2017*

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**Gaborone**