THE 2013/14 BUDGET IN BRIEF

Background

Preparation of the budget coincided with the preparation of the Mid-Term Review of NDP 10.

Budget proposals based on the Budget Strategy Paper ([http://www.finance.gov.bw](http://www.finance.gov.bw)) were discussed at National Stakeholders’ Conferences held in the second half of 2012.

Strategy:
- Return to high growth through increased productivity and competitiveness
- Constrain Government expenditure levels
- Ministries to focus on priority tasks within limited budget → every Pula of Government expenditure more productive than before

Economic Review

Global Economy

IMF World Economic Outlook (WEO), October 2012:
- projected World growth for 2012 = 3.3%; and for 2013 = 3.6%;
- anticipated growth of Major Advanced Economies, on which our diamond exports depend, = 1.3% in 2012 and 1.5% in 2013.

WEO Update in January 2013 further reduced projected growth rates for 2013 and 2014, and warned that significant downside risks remain.
**Botswana Economy**

**GDP**

- GDP in current prices for calendar year 2011 = P109.7 billion
- 2011 population = 2,038,228 → GDP per capita = P53,815 (US$7,168)
- Projected GDP in current prices for:
  - calendar year 2012 ≈ 120 billion
  - calendar year 2013 ≈ 130 billion
  - FY 2012/13 ≈ P122 billion.
- Projected GDP for remaining years of NDP 10 will be included in Mid Term Review
- Real economic growth estimated 2012 ≈ 6.1% and 2013 ≈ 5.9%.
- GDP at constant 2006 prices for Mining, Government, and the rest of the economy are sketched in the Chart.

![GDP in Constant Prices Chart](image)

**Inflation and Monetary Policy**
- CPI inflation declined from December 2011 rate of 9.2% (year-on-year) to 7.4% in December 2012.
- The Bank Rate maintained at 9.5%
• Inflation, excluding administered prices, persistently below CPI inflation and near upper band (6%) of Bank of Botswana medium term inflation objective.

![Inflation & Bank Rate](image)

**Exchange Rates**

Pula exchange rate is set by a crawling peg against basket of South African Rand and IMF’s SDR.

- Current rate of crawl = minus 0.16% per annum, intended to minimise the impact of the exchange rate adjustment on inflation
- Weights of the currencies in the basket:
  - 55% South African Rand; and
  - 45% SDR (made up of US$, €, £, ¥).

During 2012 the exchange rate of the Pula
- appreciated against the Rand by 0.4%, and
- depreciated against the SDR by 3.4%.
- real effective exchange rate appreciated by 1.7% (12 months to November 2012)
Balance of Payments and Foreign Exchange Reserves
Foreign exchange reserves at end 2012:
- P57.7 billion = US$7.4 billion = SDR4.8 billion;
- enough to finance 13 months of goods and services imports.

![Foreign Exchange Reserves Graph]

**Human Resources**
Wide range of programmes to create jobs and increase labour productivity: e.g., Internships; Youth Development Fund; LIMID; Youth Empowerment Scheme; Diamond Hub, Innovation Hub, and Economic Diversification Drive.

**Poverty Eradication**
- Government targets vulnerable and less fortunate by providing cash transfers, food baskets, feeding schemes, shelter, labour-based public works programmes, and affirmative action under the Remote Area Development Programme.
- Cash transfers increased in October 2012; e.g., allowance for over 90,000 old age pensioners increased from P220 to P250 per month.
- Revolving fund under Self Help Housing Agency requires timely repayments to finance additional loans.
**Improving Competitiveness**
Several initiatives under Economic Diversification Drive are bearing fruit: e.g., Government purchases from local manufacturers ≈ P1 billion FY 2012/13, compared to P1.9 billion in 2011/12.

**Financial Services**
- Good performance of the non-banking financial sector
- Financial Sector Development Strategy to: ensure robust stability; promote cost-effective access to finance; promote access for underserved; and deepen financial markets.

**Privatisation and Rationalisation**
- Phase 1 of the BTC privatisation completed in 2012.
- Privatisation of National Development Bank (NDB) is on-going
- Rationalisation of certain parastatals and public entities:
  - Botswana Export Development and Investment Authority and Botswana International Financial Services Centre merged in 2012 to form Botswana Investment and Trade Centre;
  - Merger of Botswana Postal Services and Botswana Savings Bank underway; and
  - Merger of Botswana Technology Centre and Rural Industries Promotions Company underway.
- Revised Privatisation Master Plan II for period 2013 to 2018 is being discussed within Government.

**Public Sector Reforms**
- Implementation of the Public Finance Management Programme on-going.
- Medium Term Fiscal Framework being developed to forecast Government revenue and expenditure over a three-year period.
- Public Procurement and Asset Disposal Board is implementing two projects to instil spending discipline.

**Local Governance**
Act amended to allow for collection of property rates in rural areas on a selective basis. This should enhance the revenue base of local authorities.
Combatting Crime and Corruption

- Corruption and Economic Crime Amendment, approved by Parliament in 2012, will strengthen DCEC.

Projects Development

- The design of the Kazungula Bridge has been completed.
- Dikgatlhong and Lotsane Dams were completed on schedule in 2012.
- Construction of Thune Dam is expected to be completed in April 2013.
- Other projects in FY 2013/14 include staff housing, construction of additional classrooms, magistrates’ courts and electrification of primary schools.
- As economy improves, some deferred projects will be considered.

Budget

2011/12 Budget Outturn

- Total Revenue and Grants for FY 2011/12 = P38.49 billion
- Total Expenditure and Net Lending = P38.67 billion
- Balance = deficit of P181 million compared to an earlier estimated deficit of P3.76 billion.

2012/13 Revised Budget Estimates

- Total Expenditure and Net Lending = P41.1 billion
- Revenue & Grants = P41.9 billion
- Budget surplus = P835 million (vs. estimated surplus of P1.15 billion announced in February 2012 Budget Speech).
Budget Proposals for FY 2013/14

**Revenues and Grants**

Total revenue and grants forecast = P44 billion.

Chart shows principal sources of revenue.
**Ministerial Expenditure Budgets**

Proposed Ministerial expenditures from the Consolidated Fund for recurrent items are shown below:
**Development Budget**

Proposed Ministerial Expenditures from Development Fund are shown below:

The major projects include:
- Ministry of Minerals, Energy and Water Resources (P2.98 billion)
  - Water Planning and Development (P1.32 billion)
  - Sewerage systems for Kanye and Molepolole (P469 million).
  - Major Village Water Supply (P225 million)
  - BPC finances [for emergency Power (at P300 million) as well as Morupule “A” and “B” Power stations at P160 million and P300 million respectively]

- Ministry of Transport and Communications (P1.85 billion)
  - Bitumen and Trunk Road project (P728 million),
  - Air infrastructure project (P636 million)
  - Development of ICT Facilities (P274 million)
- Ministry of Education and Skills Development (P1.18 billion),
  - At P997 million, the secondary schools project accounts for 82% of its total budget.

- Ministry of Local Government and Rural Development (P1.06 billion)

**Expenditure by Function**

The functional allocation of expenditure in the cash flow recurrent and development budgets combined for the past several years is shown below:
**Overall Cash Flow Balance**

Total Revenues and Grants for FY 2013/14 are forecast at P44 billion. Total Expenditure and Net Lending are proposed at P43.2 billion. The net result is a budget surplus amounting to P779 million.

A summary of the major items in the cash flow budget for the coming financial year, in the context of recent financial years, is set out in Table 1. The total revenues, expenditures, and budget balances for the past several years are shown graphically below:

![Expenditure, Revenue, & Overall Balance](chart.png)

**Updated Projections**

Projections for the next three financial years will be included in the Mid Term Review of NDP 10.
**Debt**

Internal and external debt (inclusive of guarantees) have remained well within the statutory caps on debt of 20 percent of GDP for each.

![Government Debt and Guarantees](image)

**Fiscal Legislation**

Several pieces of legislation have been amended and others are under review:

- Income Tax Act has been amended to enable Botswana to effectively exchange tax information with other tax jurisdictions.

- The Value Added Tax Act has also been amended by extending the definition of capital goods to include mining capital expenditures.

- Banking Act will be amended, to allow for disclosure of banking information by a relevant bank or person upon request by the BURS.
Conclusion

Context
- Considerable uncertainty in the world economy remains → uncertainty in:
  - prospects for the domestic economy; and
  - Government’s revenues.
- Government must:
  - remain ready to respond should another shock occur; and
  - continue to:
    - rebuild Government’s reserves; and
    - reduce our debt/GDP ratio.

Policy Focus
- Productivity, competitiveness, and diversification, with
- well-structured social safety nets for individuals.

How?
- Prioritisation of Government spending, to ensure efficiency and effectiveness in all Government and parastatal operations.
- Improved business climate to set the pace for future competitiveness and growth of private sector.
- Government to focus on provision of those goods and services that the private sector would not normally provide to society as a whole.

Expected Outcome for Final 3 Years of NDP 10
- Economy will continue its recovery.
- Real GDP to grow at an average rate of 5.7%.
- Unlikely to achieve aspiration of Vision 2016 of real GDP per capita in 2016 = triple that of 1996.
- Urgent to realise the reforms necessary to achieve our development goals.
- Further details will be provided in Mid-Term Review of NDP 10, to be discussed by Parliament in April.
## Table 1: Consolidated Cash Flow Presentation of Budget

(Pula, millions)

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<td>Non-Mineral Income Tax</td>
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<td>5,561</td>
<td>6,413</td>
<td>6,113</td>
<td>7,877</td>
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<td>Value Added Tax</td>
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<td>4,638</td>
<td>4,851</td>
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<td>Other Taxes</td>
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<td>250</td>
<td>298</td>
<td>322</td>
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<td>314</td>
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<td><strong>Non Tax Revenue</strong></td>
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<td>9,209</td>
<td>11,076</td>
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<td>BOB revenue</td>
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<td>1,000</td>
<td>700</td>
<td>864</td>
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<td>Recurrent</td>
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<td>769</td>
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<td>533</td>
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<td>Recurrent</td>
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<td>25,732</td>
<td>27,089</td>
<td>28,836</td>
<td>31,772</td>
<td>32,194</td>
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<td>Personal Emoluments</td>
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<td>Other Charges</td>
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<td>Public Debt Interest</td>
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<td>587</td>
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<td><strong>Overall Surplus (+) / Deficit (-)</strong></td>
<td>-4,696</td>
<td>-9,466</td>
<td>-6,508</td>
<td>-181</td>
<td>835</td>
<td>779</td>
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Table 2: Government Budget and GDP

(P, millions, current prices and %, FY 2008/09 to 2013/14 actual; and projected)

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<td>GDP, current prices, FY</td>
<td>74,423</td>
<td>76,861</td>
<td>98,613</td>
<td>112,699</td>
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<td>growth rate</td>
<td>7.6%</td>
<td>3.3%</td>
<td>28.3%</td>
<td>14.3%</td>
<td>8.7%</td>
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<tr>
<th>Budget</th>
<th>Revenues &amp; Grants</th>
<th>30,455</th>
<th>30,023</th>
<th>31,909</th>
<th>38,486</th>
<th>41,911</th>
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<td>Recurrent Expenditure</td>
<td>23,889</td>
<td>25,732</td>
<td>27,089</td>
<td>28,836</td>
<td>31,772</td>
<td>32,194</td>
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<tr>
<td>Development Expenditure</td>
<td>11,458</td>
<td>13,006</td>
<td>11,372</td>
<td>9,956</td>
<td>9,357</td>
<td>11,103</td>
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<tr>
<td>Net lending</td>
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<td>-44</td>
<td>-124</td>
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<td>-55</td>
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<td>Total Expend &amp; Net Lending</td>
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<td>39,489</td>
<td>38,417</td>
<td>38,667</td>
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<td>Balance</td>
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<td>-6,508</td>
<td>-181</td>
<td>835</td>
<td>779</td>
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<tr>
<th>Shares of GDP</th>
<th>Revenues &amp; Grants</th>
<th>40.9%</th>
<th>39.1%</th>
<th>32.4%</th>
<th>34.1%</th>
<th>34.2%</th>
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<td>Recurrent Expenditure</td>
<td>32.1%</td>
<td>33.5%</td>
<td>27.5%</td>
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<td>Development Expenditure</td>
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<td>Total Expend &amp; Net Lending</td>
<td>47.2%</td>
<td>51.4%</td>
<td>39.0%</td>
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<td>Balance</td>
<td>-6.3%</td>
<td>-12.3%</td>
<td>-6.6%</td>
<td>-0.2%</td>
<td>0.7%</td>
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* GDP for financial year is approximated by adjusting calendar year GDP using preliminary quarterly data that do not include estimated informal sector value added.
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<td><strong>External</strong></td>
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<td>External Debt</td>
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<td>Internal Debt</td>
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<td>6,482</td>
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<td>Total Internal</td>
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<td><strong>Grand Total</strong></td>
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<td>28,575</td>
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<td><strong>GDP for FY</strong></td>
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<td>112,699</td>
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<tr>
<td>a. External Debt &amp; G. / GDP (%)</td>
<td>14.6%</td>
<td>17.6%</td>
<td>17.7%</td>
<td>16.6%</td>
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<td>b. Internal Debt &amp; G. / GDP (%)</td>
<td>7.9%</td>
<td>7.6%</td>
<td>7.5%</td>
<td>6.8%</td>
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<tr>
<td>c. Total Debt &amp; G. / GDP (%)</td>
<td>22.5%</td>
<td>25.2%</td>
<td>25.3%</td>
<td>23.5%</td>
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