

2017 Budget Speech Synopsis.

Yesterday, on 6 February 2017, the Minister of Finance and Developmental Planning, Honourable Kenneth Matambo delivered the 2017/18 Budget Speech to the National Assembly.

Key takeaways from the communiqué included:

Economic Review and Outlook

- Global growth of 3.1% projected for 2016 (2015: 3.2%), expected to reach 3.4% in 2017 underpinned by continued positive growth of 4.5% in emerging markets and developing economies.
- The domestic economy contracted by 1.7% in 2015, compared to a positive growth rate of 4.1% recorded in 2014, mainly due to the weak performance of the mining sector. However, it is expected to have recovered to a growth rate of 2.9% for 2016, and forecast to reach 4.2% in 2017.
- The domestic annual rate of inflation has remained slightly below the Bank of Botswana's objective range of 3% - 6% during 2016. The rate of inflation declined from 3.1% in December 2015 to 3.0% in December 2016. In the medium term, the domestic inflation outlook remains positive, due to low domestic demand and continued stability in global oil prices.
- The preliminary balance of payments projections for 2016 point to a surplus of BWP 5.0bn, compared to a deficit of BWP 57.0m recorded in 2015. Exports are expected to have grown by 21%, while imports are expected to have fallen by 9% in 2016, mainly as a result of the slight recovery in the diamond market and depressed domestic demand for imports.
- As at the end of December 2016, foreign exchange reserves stood at BWP 76.8bn (USD 7.2bn and SDR 5.3bn), equivalent to 17 months of import cover of goods and services. This was a 9.5% y-o-y decrease compared to BWP 84.9bn (USD 7.5bn and SDR 5.5bn) in December 2015.

Priority areas for 2017/2018 financial year

- 2017/2018 budget marks the beginning of the eleventh National Development Plan (NDP 11) and contains six priority areas. These are:
 1. Development of Diversified Sources of Economic Growth and Revenues
 - Strategies are in place to promote the provision of basic infrastructure such as; ICT, electricity, and water supply, all critical to improve the ease of conducting business.
 - Provision of land servicing as well as residence and work permits to improve investments and job opportunities.
 - Local businesses are expected to benefit from the servicing of 37, 000 plots under ESP with particular emphasis on design and building of waterlines and storm water drainage, upgrading of sewerage and water schemes, debushing and grubbing, gravelling and/or paving.
 - Following the provisional closure of the BCL mine in October 2016, government has developed a strategy to revitalise Selebi Phikwe region, whose main elements are: agricultural production and related value chains; tourism and related services; and establishing the region as a Special Economic Zone, focusing on renewable energy generation, green technology, and ICT.
 - Diversify government revenues by considering proposals by the Taxation Review Committee which include; adjusting various taxes, levies, permits and licences and reviewing some tax expenditures such as VAT exemptions.
 2. Monitoring and Evaluation.
 - Government, in collaboration with the World Bank, is developing a National Monitoring and Evaluation System to be implemented during the 2017/2018 financial year. The system is expected

to assist Government to: strengthen the implementation processes of programmes and policies; track achievement of national development goals; and facilitate evidence-based decision-making in resource allocations.

3. Human Capital Development;

- To facilitate efficiency and effectiveness of the education system there has been a separation of ministerial portfolios, with the creation of two Ministries: Basic Education; and Tertiary Education, Research, Science and Technology.
- In the area of tertiary education, priority during the 2017/2018 financial year will be on ensuring that there is a direct link between skills development and the needs of the domestic job market.

4. Social Development;

- Additional packages have been added to the menu of social protection measures, which include; the Layers Project, Fisheries and Aquaculture projects, and the Kgalagadi Sand Building Blocks. Efforts are being made to support people living with disabilities through various programmes and schemes, such as specific assistance to graduates living with disabilities to find employment within Government,
- Implementation of the Disability Cash transfer which targets people with severe disabilities is also ongoing.

5. Sustainable Use of Natural Resources

- A notable initiative is the Wealth Accounting and Valuation of Ecosystems Services (WAVES) programme whose main objective is to take stock of available natural resources and provide economic indicators for their use or depletion.

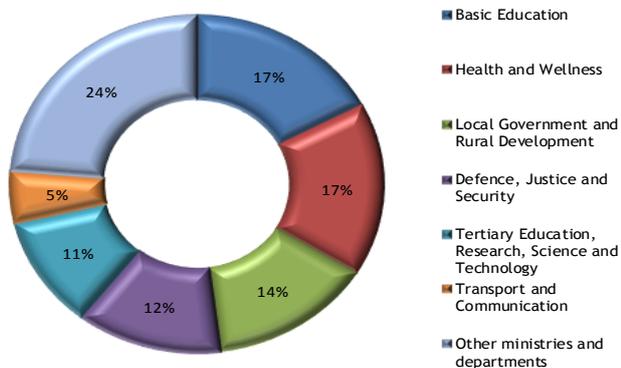
6. Consolidation of Good Governance and Strengthening of National Security

- Completion of ongoing construction of new police stations and housing, refurbishment of prison facilities and improvements to infrastructure, construction of houses for army personnel, purchase of vehicles and upgrading of equipment for the BDF to enhance security capabilities.

Budget Review and Proposal

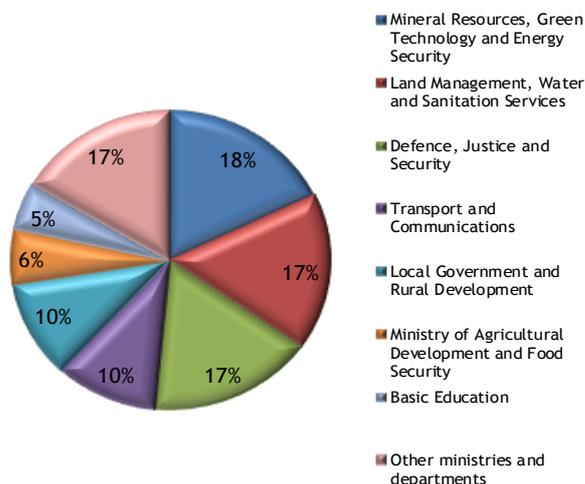
- A significant budget deficit of BWP 6.99bn (-4.7% of GDP) was recorded in 2015/2016, compared to a surplus of BWP 5.34bn (3.7% of GDP in 2014/2015). Total revenues and grants amounted to BWP 47.42bn, which comprised mainly of BWP 34.88bn in tax revenue and BWP 12.40bn in non-tax revenue. As a result of the weak global diamond market conditions during the year, non-tax revenue underperformed by 24.3%.
- The 2017/2018 total revenues and grants estimate amounts to BWP 57.19bn, while total expenditure and net lending is estimated at BWP 59.54bn, resulting in a projected budget deficit of BWP 2.35bn (1.43% of GDP).
- Ministerial Recurrent Budget for the 2017/2018 financial year amounts to BWP 39.66bn, which represents an increase of BWP 2.32bn or 6.2% over the 2016/2017 revised budget.
- Development Budget for the 2017/2018 financial year is BWP 16.52bn, an 11.62% y-o-y increase.

Breakdown of Recurrent Budget



Source: 2017 Budget Speech

Breakdown of Developmental Budget



Source: 2017 Budget Speech

Noting the above, the fiscal measures of increased government spending may stimulate domestic demand which would in turn anchor market activity. Furthermore, job creation would increase disposable incomes which would have a positive effect on corporate earnings and improve overall investor participation. We expect the economy to continue to pick up in 2017, underpinned by an expected increase in demand for Botswana's mineral exports on account of an improved global economy. The improved macroeconomic environment should have a knock - on effect on the stock market and facilitate market growth.