



Republic of Botswana

2018 BUDGET SPEECH

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Delivered to the National Assembly on 5th February 2018**

Website: www.finance.gov.bw

Price: P

Printed by the Government Printing and Publishing Services, Gaborone

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I. INTRODUCTION

1. **Madam Speaker**, I have the honour this afternoon to present to the National Assembly, the budget proposals for the financial year 2018/2019.

2. **Madam Speaker**, as this is the last financial statement delivered to this House under the leadership of His Excellency the President, Lieutenant General Dr. Seretse Khama Ian Khama, I would like to take a few moments to reflect on some of the achievements in the economic development space under his stewardship. Under His Excellency's leadership, Botswana was among the countries, which managed to withstand the impact of the 2008/2009 global economic and financial crisis. By maintaining an expansionary fiscal policy stance, the Government was able to save jobs, both within the public service and the private sector, while investing in critical economic and social infrastructure such as water, energy, roads, schools and health facilities. To ensure fiscal sustainability, the budget deficits, which emanated from the expansionary policy stance, were highly contained to the extent that instead of totalling P31.9 billion as originally projected over the entire NDP 10 period, the cumulative deficit was only P9.2 billion. Further, the adoption of the Economic Stimulus Programme in 2016/2017 aimed at boosting economic growth, promoting economic diversification and creating jobs amid weak recovery of both the global and domestic economy, was an example of forward looking and bold leadership by His Excellency the President.

3. Additional achievements during the past decade were in the areas of economic diversification, and reducing unemployment and poverty. Efforts to diversify the economy have yielded positive results during the past decade, to the extent that the share of the mining sector in the domestic output declined from 25 percent in 2008 to 20 percent in 2017, signifying a corresponding increase in the contribution of non-mining sectors over the same period. Growth of the non-mining sectors also reflects private sector response to macroeconomic policy decisions such as the reduction in corporate tax in July 2011, from 25 percent to 22 percent. Over the same period, the minimum income tax threshold was increased from P24 000 to P36 000 specifically to allow for an increase in personal disposable income necessary to enhance wealth creation, savings and participation in economic activities. Continued supportive monetary policy also resulted in the country's average inflation rate declining from 12.6 percent in 2008 to reach a low of 3.3 percent in 2017.

4. The rate of unemployment also declined from 26.2 percent in 2008 to 17.7 percent in 2016. Similarly, survey results published by Statistics Botswana in January 2018, show that the proportion of people living below the poverty datum

line has been declining over the years, from 19.3 percent in 2009/2010 to 16.3 percent in 2015/2016. In terms of abject poverty, that is, those earning below US\$1.25 per day, the rate declined from 6.6 percent in 2009/2010 to 3.3 percent in 2015/2016, or in a more relevant purchasing power terms of US\$1.90 per day, to 5.8 percent in the latter year. In 2017, Botswana also managed to maintain an “*A investment grade*” rating by both Standard & Poor’s and Moody’s Investors rating agencies. These ratings are necessary for attracting foreign direct investment, which is a prerequisite for economic growth and job creation in the economy.

5. All these noteworthy achievements, **Madam Speaker**, are indicative of good foresight on the part of His Excellency the President, who saw the virtues of prudent economic management and maintaining a strong economy as part of good governance.

6. **Madam Speaker**, the 2018/2019 budget proposals are part of Government’s efforts to achieve the goals and aspirations of the Eleventh National Development Plan (NDP 11) and those of Vision 2036. The strategic thrust for this budget is therefore to promote growth, enhance economic diversification, and create job opportunities, which are necessary to improve the standard of living of Batswana. Such a strategic thrust is pursued against the backdrop of strengthening growth in the global economy, particularly in advanced economies, which are the main sources of our export earnings, particularly from diamonds. Against this background, the growth outlook for the domestic economy is positive in the short to medium term.

7. Despite the positive outlook in the domestic economy, **Madam Speaker**, the fiscal situation remains tight, with a budget deficit projected for the 2018/2019 financial year. Hence, the need to continue to exercise judicious management of our financial resources. My Ministry will be working on; improving the efficiency of revenue collection, and exploring additional sources of revenues, while implementing measures to contain and promote efficiency in the management of our expenditure. I therefore implore all those responsible for collecting Government revenues as well as those accountable for spending them, to assist my Ministry in its pursuit of the objective of fiscal sustainability.

8. **Madam Speaker**, I will now review the global and domestic economic situation, which provides the context for the 2018/2019 budget proposals.

II. ECONOMIC REVIEW AND OUTLOOK

Global Performance and Outlook

9. Madam Speaker, the recovery of the global economy continues to strengthen, mainly driven by accelerated growth in investment, trade and industrial production, as well as improvements in business and consumer confidence. The improvement in global activity further reflects firmer demand growth in advanced economies and large emerging economies, particularly United States and China. In this regard, global output is projected to increase from 3.2 percent in 2016 to reach 3.7 percent in 2017 and 3.9 percent in 2018, according to the International Monetary Fund's (IMF) World Economic Outlook report of January 2018. Similarly, growth in advanced economies is projected to increase from 1.7 percent in 2016 to 2.3 percent in 2017, and remain at 2.3 percent in 2018, supported by accommodative financial conditions, strong business and consumer confidence in this group of economies.

10. The IMF also forecasts that the emerging market and developing economies will grow at a rate of 4.4 percent in 2016 and 4.7 percent in 2017, and reach 4.9 percent in 2018. This is attributable to the expected robust economic activities in China and other emerging European countries, especially Turkey and Poland, owing to supply side reforms such as expansionary policy mix. Sub-Saharan Africa economies will benefit from the recovery in the global economy, with growth forecast to increase from 1.4 percent in 2016 to 2.7 percent in 2017, and further to reach 3.3 percent in 2018. This was underpinned by recovery in commodity prices, which resulted in increased oil production in Nigeria and Angola.

Regional Performance and Outlook

11. Madam Speaker, economic growth for the Southern African Development Community (SADC) region is expected to improve and reach 3.3 percent in 2017, against 2.6 percent recorded in 2016. The improved regional activity is a reflection of rising global economic activity. However, this growth rate is still lower than the regional target of 7.0 percent.

12. The downside risk to the expected improved economic growth of the region is that inflationary pressures increased slightly from 10.3 percent in 2016 to 10.8 percent in 2017, against a regional target range of 3 to 7 percent, partly because of the stronger US dollar, compared to weaker regional currencies. However, the region's terms of trade improved on account of the recovery in the global economy and higher production in the agriculture sector as a result of favourable weather conditions during 2016/2017.

Domestic Performance and Outlook

13. Madam Speaker, the recovery in the global economy is expected to have major impact on the performance of the domestic economy during 2017 and 2018, as it provides a market for our exports.

Economic Growth and Outlook

14. Madam Speaker, as reported by His Excellency, the President in the 2017 State of the Nation Address, the domestic economy registered a growth rate of 4.3 percent in 2016, after contracting by 1.7 percent in 2015. This was mainly due to the improved performance of the mining sector because of increased demand for diamonds in the global economy, as well as continued good performance of the non-mining sectors, especially Trade, Hotels & Restaurants; Transport & Communications; and Finance & Business Services.

15. The domestic economic outlook remains positive, with growth rates of 4.7 percent and 5.3 percent expected in 2017 and 2018, respectively. The positive outlook for both the mining sector and non-mining sectors underpins these growth forecasts. Mining sector performance is expected to benefit from the recovery in the global economy, while that of non-mining sectors reflects the impact of Government's interventions in terms of policies and strategies to diversify the country's sources of growth.

Monetary Policy and Inflation

16. Madam Speaker, price stability is a necessary condition for promoting competitiveness of domestic industries and supports broader national objectives of sustainable economic growth and employment creation. Domestic annual inflation rate has remained low during 2017, hovering around the lower-end of the Bank of Botswana's objective range of 3 – 6 percent. During 2017, inflation rate declined from 3.1 percent in January to 2.9 percent in November, before increasing to 3.2 percent in December.

17. In support of Government's efforts to promote growth through investment, Bank of Botswana maintained an accommodative monetary policy stance during 2017, cutting the Bank Rate by 50 basis points in October 2017, from 5.5 percent, to 5.0 percent. The reduction in the Bank Rate is expected to encourage borrowing for investment purposes, and thus, contribute to the promotion of growth and creation of the much needed employment opportunities in the country.

Balance of Payments and Foreign Exchange Reserves

18. Madam Speaker, preliminary projections of the current account indicate a lower surplus of P16.6 billion in 2017, compared to the revised estimate of P19.9 billion for 2016. The lower surplus in 2017 was largely a result of the anticipated decrease of 4.2 percent in total exports of goods. On the other hand,

imports were expected to increase by around 5.0 percent in 2017, mainly due to larger imports of food, fuel, chemicals, rubber products, as well as of diamonds for aggregation purposes.

19. The overall balance of payments is forecast to be a surplus of P297 million in 2017 based on November data, compared to a provisional surplus of P2.8 billion for 2016. Meanwhile, the level of foreign exchange reserves decreased by 4.0 percent from P76.8 billion in December 2016 to P73.7 billion in December 2017. At this level, the foreign exchange reserves were equivalent to 16.1 months of imports of goods and services. Measured in terms of the US dollars and the IMF's Special Drawing Rights (SDR), the foreign reserves stood at USD7.5 billion or SDR5.3 billion in December 2017.

Exchange Rate Developments

20. Madam Speaker, exchange rate developments in the domestic economy continue to show stability, with the real effective exchange rate (REER) registering a marginal appreciation of 0.1 percent over the twelve months to October 2017. In the 12 months to December 2017, the Pula depreciated against the South African rand by 1.8 percent, while appreciating by 2.0 percent against the SDR.

Sovereign Credit Ratings

21. Madam Speaker, Botswana continues to be rated annually by major sovereign credit rating agencies of Standard and Poor's and Moody's Investor Service, as part of its effort to maintain a competitive economy. Such ratings entail the assessment of the country's various macroeconomic policies and indicators, with a view to determining the country's economic fundamentals. In this regard, it is pleasing to note that, both rating agencies maintained Botswana's "A" investment grade rating, (*i.e.*, A-/A-2 by Standard & Poor's and A2 by Moody's Investors), during 2017. Standard & Poor's even revised Botswana's economic outlook from a negative status to stable, reflecting the country's track record on prudent economic management. Such assessments are critical for giving investors an objective view of the domestic business environment, which is necessary for attracting foreign direct investment. In order to ensure continued favourable ratings in the future, it is imperative that Botswana continues to manage its economy and public debt prudently to avoid eroding its cash balances through unsustainable budget deficits.

Performance of State-Owned Enterprises¹

22. Madam Speaker, state-owned enterprises (SOEs) exist to support Government's development efforts. Hence, their performance is critical in achieving Government's broad development objectives of boosting economic

¹ Financial year for BMC ended on 31 December 2016, while for other SOEs ended in March 2017.

growth, promoting economic diversification, and creating employment opportunities. In addition, Government, like any other shareholder, expect a return on investment in some of these organisations. It is therefore important that these organisations are held accountable for the public resources entrusted to them by requiring them to provide a certain minimal return on capital, and contribute to economic growth and employment creation.

23. Meanwhile, performance of our state-owned enterprises was mixed during 2016/2017. Among those that registered positive performance during the year are: Botswana Telecommunications Corporation Limited, with a net profit of P237.3 million, compared to a net loss of P370.8 million in 2016; Botswana Housing Corporation with a net profit of P48.5 million in 2017, compared to P27.9 million in 2016; Botswana Communications Regulatory Authority with a net profit of P50.8 million in 2017, compared to P43.6 million in 2016; and Botswana Savings Bank (BSB) with a net profit of P15.5 million in 2017, compared to P12.8 million in 2016.

24. State-owned enterprises that made losses during the period under review included Botswana Meat Commission with a net loss of P229.7 million in 2016, compared to a net profit of P332.6 million in 2015. The net profit realised in 2015 was due to Government cash injection of P600 million. National Development Bank also recorded a net loss of P168.2 million in 2017, compared to a net loss of P21.2 million in 2016, whereas Botswana Power Corporation registered a net loss of P140.2 million in 2017, compared to a net loss of P99.6 million in 2016. Water Utilities Corporation (WUC) on the other hand, recorded a net loss of P137.6 million in 2017, from a net profit of P119.4 million in 2016, while Air Botswana, improved its performance with a net loss of P12.4 million in 2017, compared to a larger net loss of P86.1 million in 2016.

25. Madam Speaker, there were varied reasons for unsatisfactory performance by some of the state-owned enterprises during the period under review. For BPC and WUC, for example, there is a misalignment between the levels of tariffs charged relative to the mandates of these institutions. To address this, the current water tariffs charged by WUC are gradually being aligned with the water treatment and distribution expenses. Similarly, Government continues to review the BPC tariffs, with a view to maintaining a sustainable tariff structure that balances the need for cost recovery in the provision of power on one hand, and containing the costs of power on the other. The latter is critical given the role of electricity as an input into the production of goods and services in the economy. Performance of other SOEs were affected by continued difficult trading conditions within their respective sectors during the period under review. The National Development Bank in particular, recorded significant losses due to an increase in impairment on its old loan portfolio.

26. The continued loss making by some state-owned enterprises is a major concern to Government. In an effort to address this, Government established institutions such as Public Enterprise Evaluation and Privatisation Agency (PEEPA) and Botswana Accountancy Oversight Authority (BAOA). These institutions are expected to monitor the financial performance and governance of SOEs in meeting their objectives and targets, using information obtained from the audited financial statements and annual reports of such enterprises. Going forward, Government will work closely with PEEPA and BAOA to strengthen the performance monitoring mechanisms for State-Owned Enterprises to ensure that they deliver on their mandates, and that the country derives *value-for-money* from their existence.

III. STRATEGIC THRUST FOR 2018/2019 FINANCIAL YEAR

27. Madam Speaker, 2018/2019 is the second financial year in the implementation of NDP 11. As such, the proposed policies and strategies for implementation during the year, as well as the corresponding resource allocations, continue to be aligned to the national priorities of: *Developing Diversified Sources of Economic Growth; Human Capital Development; Social Development; Sustainable Use of Natural Resources; Consolidation of Good Governance and Strengthening of National Security; and Implementation of an Effective Monitoring and Evaluation System.*

28. To align annual budget allocations with national priorities, the 2018/2019 financial year focuses on the broad strategic intervention areas of: *promoting growth and economic diversification; investing in human capital for building an inclusive society; and maintaining a sustainable fiscal policy.* Addressing these areas through the 2018/2019 Government budget is expected to contribute to improved domestic environment for private sector investment, resulting in economic growth and creation of employment opportunities.

Promoting Growth and Economic Diversification

29. Madam Speaker, in an effort to create a conducive environment for promoting growth and economic diversification, Government will continue to focus on, among others, *the ease of doing business, and the development, and maintenance of economic infrastructure.*

30. With regard to the *ease of doing business*, Government remains committed to improving the country's ranking as it affects its ability to attract foreign direct investment, which is necessary for growth and economic diversification. In this regard, Government has embarked on several policy and regulatory reforms aimed improving Doing Business in the country. Among the major milestones achieved in 2017 was the adoption of Regulatory Impact Assessment Strategy, whose aim, among others, is to reduce the cost of doing business in the economy.

The objectives of the Regulatory Impact Assessment Strategy are to improve the regulatory environment, reduce administrative burden imposed by regulations, and build investor confidence in the legislation process. Other reforms implemented under the Doing Business Reforms Roadmap include improving electronic filing and payment of taxes and the online customs management system. These initiatives are expected to result in improvement of service delivery, reducing paper work and overall reduction in the cost and time of doing business, thereby enhancing overall competitiveness.

31. Additionally, policy reforms are currently underway in different areas of the economy such as procurement, land management and public finance management, all aimed at improving environment for doing business in the country. This is in recognition of the fact that supportive policies and efficient regulations are pre-requisites for investment, which is a necessary condition for economic growth and employment creation. Going forward in 2018/2019, Government will continue to pursue policies aimed at deregulation of the economy to create space for the private sector to play its role of being the engine of growth in a meaningful way.

32. Madam Speaker, Government recognises the critical need for the *development and maintenance of economic infrastructure* in promoting development in general, and economic growth in particular. Hence, a significant amount of the 2018/2019 budget is proposed for allocation to *energy, water, roads, information and communication technology infrastructure*. In the area of *energy*, Government will continue to invest in power generation, transmission and distribution. This is because, adequate power supply is a critical enabler for investment, as well as for improving the standard of living of Botswana. In this regard, an amount of approximately P2.0 billion has been proposed for allocation to the energy sector. Furthermore, Government has established an independent energy regulator, namely the Botswana Energy Regulatory Authority, which will ensure orderly development of the energy sector by encouraging participation of independent power producers in the generation of power, as well as promoting the goal of energy supply mix as espoused in NDP 11. These continued reforms and investment initiatives in the energy sector are aimed at stabilising the power supply in the economy and promoting economic growth and job creation.

33. With regards to the development of *water infrastructure*, Government will continue to prioritise investment in this area given the critical role of water supply as an input for economic growth and development. In this regard, an amount of P2.53 billion has been proposed for water development programmes and projects in the 2018/2019 budget to cover investment in the improvement of water supply networks, in particular, the pipelines to transfer water from dams and well-fields in the northern part of the country to the south to support economic activity.

Allow me, **Madam Speaker**, to thank this House once again for approving the Emergency Water Security and Efficiency Project Loan Authorisation Bill in March 2017, to raise P1.5 billion from the World Bank to finance the funding gap in the water sector.

34. Madam Speaker, development of the country's *road network* remains critical in the promotion of growth and economic diversification particularly in accessing high potential production areas and markets. A well-developed and maintained road network can contribute to efficiency in the distribution of goods and services within and outside the country, which is necessary for maintaining competitiveness of domestic entities in the global market. An amount of nearly P2 billion is proposed for improvement of the country's road network during 2018/2019. In addition, an amount of P1.5 billion from the Road Levy Collections Fund will be spent on road maintenance.

35. As Botswana moves to the next level of a knowledge-based economy, investment in *information and communications technology (ICT)* becomes critical. The development of an ICT backbone infrastructure is necessary for equitable and affordable access to broadband connectivity. It also provides an opportunity for reliable high-speed networks, which support e-government service and innovation among businesses. In recognition of the importance of the ICT in promoting growth and economic diversification, an amount of P461.35 million is proposed for allocation in the 2018/2019 budget to improve on the Government ICT infrastructure, including expansion of the Government Data Network and installing of ICT Infrastructure in Secondary Schools.

36. Madam Speaker, while it is critical to invest in new infrastructure projects to create a conducive environment for growth and economic diversification, it is equally important to ensure that the existing infrastructure is maintained in good condition in order to derive maximum benefits. A well-maintained road network, for example, can contribute to the efficient delivery of public services within the country, which, in turn, improves the standard of living of Botswana. In this regard, an amount of P2.23 billion, comprising Development Budget of P1.24 billion and Recurrent Budget of P987.71 million is proposed for allocation during 2018/2019 to cover maintenance of government facilities throughout the country, including urgent repairs to schools and health facilities.

Investing in Human Capital for Building an Inclusive Society

37. Madam Speaker, Government remains committed to building an inclusive society, in recognition of the fact that this is necessary for peace and prosperity of the nation. Hence, the focus on building an inclusive society is one of the broad-based strategic intervention areas for the 2018/2019 budget. This can

be achieved through investment in human capital and empowerment of citizens by developing strategies and initiatives that provide them with opportunities to live dignified lives.

38. A critical component of human capital development is investment in education, as it develops the human capabilities of individuals and prepares them to take advantage of opportunities created in the economy. In view of the nexus between human capital development and employment, Government has invested significantly in education and skills development over the past decades, with more than 25 percent of the total annual budget allocated to education and training. To this end, an amount of over P15 billion is proposed for education and training in the 2018/2019 budget. However, challenges related to the quality and relevance of education and training continue to affect the education sector.

39. To address some of these challenges, Government through the Botswana Qualification Authority (BQA) will be enforcing quality assurance measures as part of the strict implementation of its regulations in the education sector. Furthermore, the transformation of the Botswana College of Open and Distance Learning into the Botswana Open University in 2017 has increased access to tertiary education and training, which enhances inclusivity of the society. The expanded scope of the programmes offered by the Open University will cater for the diverse training needs of the economy.

40. Madam Speaker, another important component of building an inclusive society is investment in human health. Over the years, Government of Botswana has invested substantial amounts of its annual budgets on health as it considers this a basic need. As a continuation of the expenditure trend on health, an amount of P8.2 billion is proposed for this sector in the 2018/2019 budget to finance various programmes and projects, including the HIV/AIDS approved interventions such as the *Treat All* strategy. In addition, Government continues to review policies and strategies to improve on the country's health outcomes.

41. In addition to education and health, another important component of Government's strategy for building an inclusive society is the provision of decent housing and shelter. Availability of decent shelter is considered a basic human need as it promotes dignity. Hence, the Government will continue to implement housing programmes suitable for different segments of our society. Among the ongoing programmes are the SHHA Housing Scheme, Destitute Housing programme, Instalment Purchase Scheme, BHC Turnkey Development Scheme, to mention but a few. An amount of more than P250 million is proposed for allocation towards SHHA and Destitute Housing in the 2018/2019 budget. I wish to take this opportunity to commend His Excellency the President for his unwavering campaign for building houses for the needy in our society through

the Presidential Housing Appeal Initiative. This initiative has galvanised our society to be compassionate, especially towards the less privileged segment of the society. Houses built under this initiative have augmented Government's efforts towards building an inclusive society.

Maintaining a Sustainable Fiscal Policy

42. Madam Speaker, the country's medium term budget outlook remained uncertain, following the global financial crisis of 2008/2009, which affected the major markets for our exports, especially diamonds. Despite the recent signs of recovery in both the global and domestic economies, growth in Government revenues continues to be slow compared to the pressure on expenditure arising from unlimited societal needs. This scenario calls for a continued judicious management of our public resources in order to maintain fiscal sustainability as one of the objectives to achieve the goal of macroeconomic stability.

43. To achieve the objective of fiscal sustainability in the medium to long-term, Government is committed to continue implementing measures aimed at improving its revenue and expenditure management. On the revenue side, efforts are underway to increase efficiency of collection from existing sources, as well as expanding the revenue base by identifying additional potential alternative sources.

44. With respect to expenditure management, Government is committed to prudent management of its expenditure to ensure value-for-money from the limited financial resources. Thus, in the context of budget preparation and management, more emphasis will continue to be placed on: expenditure targeting; prioritising spending; aligning annual budgetary allocation to existing implementation capacity of executing Ministries, Departments and Agencies (MDAs); assessing the readiness of projects for implementation as part of the budgeting to avoid over provision under the development budget; and engaging the MDAs during implementation to ensure the quality of delivery of programmes and projects. These measures are aimed at ensuring that Government achieves the fiscal rules as stated in NDP 11. One of the main components of the fiscal rule is that, annual government expenditure as a percentage of the gross domestic product (GDP) should be restricted to 30 percent. The other is that total public debt as a percentage of GDP should be restricted to 40 percent. While in the proposed budget for 2018/2019, the Government expenditure's ratio to GDP is slightly above target (34 percent), the debt to GDP ratio is well below the target at 15.1 percent. This demonstrates Government's continued commitment to maintaining fiscal sustainability in the medium term.

IV. BUDGET REVIEWS AND PROPOSALS

2016/2017 Budget Outturn

45. Madam Speaker, the overall fiscal balance for the 2016/2017 financial year was a surplus of P1.12 billion, which was attributed to the improved performance of total revenues and grants and the slight underperformance of total expenditures. Total revenues and grants increased by P1.47 billion or 2.63 percent from P55.93 billion in the revised budget to the actual outturn of P57.40 billion. This was attributable to the better performance of mineral revenue and Bank of Botswana revenue.

46. Total expenditure and net lending for 2016/2017 amounted to P56.27 billion, or 1.3 percent lower than the revised budget estimate. Of the total amount, recurrent expenditure amounted to P41.17 billion compared to P39.66 billion in the revised budget, representing an increase of 3.8 percent. Development expenditure on the other hand underperformed by 6.9 percent to reach P15.16 billion at the end of the financial year, compared to the P16.28 billion figure in the revised budget.

2017/2018 Revised Budget Estimates

47. Madam Speaker, the revised total revenues and grants for 2017/2018 are estimated at P57.19 billion; of which, Customs and Excise contributes P17.06 billion, or 29.8 percent of the total; Mineral revenue accounts for P16.33 billion or 28.6 percent; Non-mineral income tax contributes P12.33 billion, or 21.6 percent; while the Value Added Tax (VAT) accounts for P8.11 billion, or 14.2 percent. The remaining 5.8 percent of total revenue will be contributed by other revenues, especially Bank of Botswana revenue.

48. The revised total expenditure and net lending for the 2017/2018 stand at P59.61 billion, representing a small increase of P61.92 million from the original budget of P59.54 billion. This is due to supplementary funding of P20.32 million and P41.60 million under the recurrent and development budgets, respectively, to improve on the capacity of the Ministry of Environment, Natural Resources Conservation and Tourism to address increased cases of human-elephant conflict. As a result, the revised budget balance for the financial year 2017/2018 is a deficit of P2.42 billion, or 1.3 percent of GDP.

2018/2019 Budget Proposals

49. Madam Speaker, I now present the budget proposals for the 2018/2019 financial year. I wish to preface my presentation by reiterating that, despite the

positive domestic economic outlook for the year, the fiscal situation remains uncertain, hence the need to exercise prudence in determining the level and type of expenditure planned for next financial year. To this end, as stated earlier, efforts have been made to align the budget allocations for 2018/2019 to the chosen strategic thrust for the year, thereby contributing to the NDP 11 theme of *“Inclusive Growth for the Realisation of Sustainable Employment and Poverty Reduction”*.

Total Revenues and Grants

50. Madam Speaker, total revenues and grants for 2018/2019 are estimated at P64.28 billion. Mineral revenue is the largest contributor to revenues at P24.59 billion, or 38.3 percent of the total. This represents a significant increase of 50.5 percent over the revised 2017/2018 budget figure, due to expected positive performance of diamond exports, underpinned by recovery of the global economy. Customs and Excise revenue is the second largest contributor at P14.83 billion, or 23.1 percent of the total. Compared to the 2017/2018 revised budget, this figure represents a significant decrease of 13.1 percent, due to the weaker-than-expected imports and household consumption in the region.

51. The Non-mineral income tax revenue is estimated at P13.36 billion, or 20.8 percent of total revenue. This amount represents an increase of 8.1 percent over the 2017/2018 revised budget figure of P12.35 billion, reflecting the projected growth in the value addition of non-mining sector. On the other hand, the Value Added Tax is estimated at P8.11 billion, or 12.6 percent of the total revenue.

Total Expenditure and Net Lending

52. Madam Speaker, total expenditure and net lending for 2018/2019 is estimated at P67.87 billion. Of this amount, 66.5 percent is earmarked for the Ministerial Recurrent Budget, 28.4 percent for Development Budget, while the remaining 5.1 percent is for Statutory Expenditure.

Ministerial Recurrent Budget

53. Madam Speaker, the proposed Ministerial Recurrent Budget amounts to P45.14 billion, showing a growth of P5.46 billion or 13.8 percent over the revised 2017/2018 budget. Out of the proposed Ministerial recurrent budget for the 2018/2019 financial year, P32.40 billion or 71.8 percent is allocated to five Ministries of: Basic Education; Health and Wellness; Local Government and Rural Development; Defence, Justice and Security; and, Tertiary Education Research, Science and Technology.

54. The largest share amounting to P7.97 billion or 17.7 percent of the total Ministerial Recurrent Budget, is proposed for allocation to the Ministry of Basic Education. This will primarily deliver on Government’s firm commitment to prioritise human capital development, as indicated in the National Development

Plan 11. This proposed provision caters for; payment of utilities, books, equipment, maintenance of facilities, food supplies in secondary schools, as well as other education-related commitments, including teachers' salaries and allowances.

55. The second largest share of P7.54 billion or 16.7 percent is allocated to Ministry of Health and Wellness. Whilst a substantial portion is for personal emoluments, the allocation also caters for drugs, medical specialist fees, ARV therapy and Government's contribution to Botswana Public Officers Medical Aid Scheme.

56. An amount of P6.28 billion or 13.9 percent, being the third largest share of the Ministerial Recurrent Budget is proposed for allocation to the Ministry of Local Government and Rural Development. The allocation includes the provision for Revenue Support Grants to District and Urban Councils. It also includes the provision for: maintenance of existing infrastructure; food supplies in primary schools; and social grants, mainly under the Orphan Care Programme and the Old Age Pension Scheme. This demonstrates Government's continued commitment to social protection and development, by providing services to the needy and vulnerable in our society.

57. Madam Speaker, Government remains steadfast in the provision of safety and security for Botswana. Therefore, the fourth largest share of P5.85 billion or 13.0 percent of the Ministerial Recurrent Budget is proposed for allocation to the Ministry of Defence, Justice and Security. The proposed allocation will cover operational costs, mainly under the Botswana Defence Force, Botswana Police Service, Department of Prisons and Rehabilitation and the new Office of the Receiver, as well as subvention to Legal Aid Botswana.

58. The Ministry of Tertiary Education, Research, Science & Technology is allocated the fifth largest share of P4.75 billion or 10.5 percent of the Ministerial Recurrent Budget. This will mainly cater for tertiary student scholarships and subventions to University of Botswana and Botswana International University of Science and Technology.

59. The sixth largest share of P1.97 billion or 4.4 percent is allocated to the Ministry of Transport and Communications. A major portion of the budget is earmarked for maintenance of roads, buildings, plant and equipment, including ICT infrastructure. The proposed budget will also cater for subvention to Civil Aviation Authority of Botswana for the replacement and maintenance of strategic assets, and to Botswana Post for Universal Service Obligations.

60. Other Ministries that are allocated significant amounts of the Ministerial Recurrent Budget are: Ministry of Presidential Affairs, Governance and Public Administration with P1.40 billion or 3.1 percent; Ministry of Agricultural Development and Food Security with P1.34 billion or 3.0 percent; Ministry of Investment, Trade and Industry with P1.05 billion or 2.3 percent; and Ministry of Youth Empowerment, Sport and Culture Development with P1.00 billion or 2.2 percent. The rest of the Ministries and Independent Departments share the remaining portion of the Ministerial Recurrent Budget amounting to P5.98 billion or 13.3 percent.

Statutory Expenditure

61. Madam Speaker, the proposed budget for Statutory Expenditure for the financial year 2018/2019 is P9.08 billion. This represents a substantial growth of P2.10 billion or 30.0 percent over the current year's budget. The proposed budget comprises Public Debt Service requirements, Pensions, Gratuities and Compensations, as well as Salaries and Allowances for specified officers. The growth is also due to the provision of P2 billion for a re-payment of Government bond (BW005), which matures in the next financial year. This allocation underscores the reliability of Botswana Government as a borrower.

Development Budget

62. Madam Speaker, the proposed Development Budget for 2018/2019 financial year is P19.31 billion. In implementing this budget, Government will continue to insist on quality in all projects. In that regard, Government will ensure consolidation of projects component to include all supporting infrastructure in order that facilities operate efficiently after completion. Other forms of project delivery such as Public Private Partnerships (PPPs) shall be pursued where appropriate, to take advantage of private sector capital and technology.

63. Madam Speaker, a significant portion of the proposed Development Budget of P3.29 billion or 17.0 percent, being the largest share, is proposed for the Ministry of Land Management, Water and Sanitation Services to support initiatives aimed at improving availability of water supply, as well as wastewater and sludge management. The water projects account for P2.51 billion or 77 percent of the Ministry's allocation. The main projects implemented are the North South Carrier 2 from Palapye – Mmamashia - Gaborone at P647.29 million, which is meant to provide adequate water to the southern part of Botswana, as well as the Botswana Emergency Water Security and Efficiency project funded through the recently approved loan of USD145.50 million from the World Bank. Water Utilities Corporation has been allocated an amount of P562.00 million to cover operational costs and restructuring of the Corporation. The remaining 23 percent of the Ministry budget goes towards land projects, particularly land servicing countrywide.

64. Madam Speaker, the second largest share at P2.78 billion or 14.4 percent is allocated to the Ministry of Defence, Justice and Security. This allocation is mainly to cater for provision of infrastructure and procurement of air assets, vehicles as well as defence and communication equipment for Botswana Defence Force; refurbishment of Botswana Police Service's facilities and construction of Police Stations at Mmathubudukwane, Maitengwe, Semolale and Block 10 in Gaborone; and rehabilitation of facilities for Department of Prisons and Rehabilitation.

65. The third largest share of P2.66 billion or 13.8 percent, is proposed for allocation to the Ministry of Transport and Communications, mainly to cover the construction and maintenance of transport related infrastructure such as roads, rail, and airports. A substantial provision is proposed for mega road and bridge projects including Kazungula and Mohembo bridges; construction of three intersections along the KT Motsete Drive in Gaborone; Mogoditshane- Gabane-Mmankgodi road; Gaborone – Boatile dualling; Mulambakwena-Tshesebe road; Dibete-Mookane-Machaneng road, as well as the Modernised and Centralised Traffic Control System for the Greater Gaborone area.

66. Madam Speaker, the fourth largest share is proposed for the Ministry of Mineral Resources, Green Technology and Energy Security at P2.52 billion or 13.1 percent, in order to promote efficient and optimal utilization of energy resources. Out of this amount, a total of P863.34 million or 34 percent of the budget is proposed for implementation of the North West Electricity Transmission Grid, which is now under implementation, after initial delays. The budget also caters for completion of Morupule A Power Station rehabilitation. In addition, Botswana Power Corporation has been allocated a total of P1.10 billion to cover its operational expenses and also to meet its debt service obligation for the Morupule B Power Station project.

67. An amount of P2.25 billion or 11.7 percent which is the fifth largest share, is recommended for the Ministry of Local Government and Rural Development, in order to continue implementation of the social protection programme and village infrastructure projects. The Primary School Backlog Eradication Programme including maintenance, accounts for P634.27 million or 28.2 percent of the Ministry's allocation, which shows an increase of P328.52 million or 107.5 percent over the current year's allocation. The budget also caters for Ipelegeng programme at P635.00 million or 28.2 percent and Community Development programme which has a budgetary provision of P570 million or 25.3 percent of the Ministry's development budget.

68. Madam Speaker, the rest of the Ministries and Independent Departments take the balance of the proposed development budget at P5.80 billion or 30.1

percent. Major projects covered by this amount include: construction of staff houses, as well as expansion and maintenance of public facilities; Integrated Support Programme for Arable Agriculture Development (ISPAAD) and Livestock Management and Infrastructure Development (LIMID); upgrading of health facilities; housing schemes such as Self Help Housing Agency (SHHA); and, poverty eradication scheme and destitute housing for the low income groups.

Overall Balance

69. Madam Speaker, given the estimated total revenues and grants of P64.28 billion and proposed total expenditure and net lending of P67.87 billion, the net result is a budget deficit of P3.59 billion or 1.8 percent of GDP for the financial year 2018/2019. Despite this budget deficit, Government continues to rein in on expenditure so that the country returns to a sustainable fiscal position in the medium to long-term. To finance the expected budget deficits, Government will be guided by the Medium Term Debt Management Strategy (2017/2018 – 2019/2020), which provides options on the financing of a budget deficit depending on underlying causes of such a deficit. For example, a temporary budget deficit can be financed through a mix of borrowing and drawing down on Government cash balances at the Bank of Botswana, while a deficit arising from adverse changes in the country's terms of trade or significant shock in one of the domestic revenue sources would require structural adjustment measures to restore stability in the economy. In our assessment of the causes of the projected budget deficit for 2018/2019, the deficit is temporary; hence, Government will finance it through a combination of drawing down on existing loans, as well as on Government cash balances.

V. FISCAL LEGISLATION

70. Madam Speaker, as indicated in the 2017 Budget Speech, my Ministry continues to work on the simplification of the country's tax administration by developing a Tax Administration Act to improve on the efficiency of tax revenue collection. Progress in drafting this legislation has been slow, but it is expected to be completed during the next financial year. Meanwhile, my Ministry is also working on the review of the Income Tax Act to introduce Transfer Pricing Rules. Review of the layman's drafts of the Bills is ongoing and the plan is to have the laws approved by Parliament in 2018.

71. Madam Speaker, in an effort to comply with international standards, Government is undertaking a review of the Botswana International Financial Services Centre tax regime in order to remove any perception that Botswana is a tax haven. The review will be undertaken as part of the Income Tax (Amendment) Bill scheduled for presentation to Parliament during 2018. Another ongoing review of the fiscal legislation relates to the Financial Intelligence Act and Regulations to address the shortcomings identified by the Mutual Evaluation

Review for Botswana by the Eastern and Southern Africa Anti-Money Laundering Group in May 2017. Our intention is to have all the proposed amendments approved by Parliament during the course of 2018.

VI. CONCLUSION

72. Madam Speaker, in conclusion, I wish to reiterate that, despite the positive domestic economic outlook, the country's fiscal position remains tight. This calls for continued efforts to mobilize domestic revenues and judicious management of our expenditure in order to achieve the objective of fiscal sustainability. Failure to improve on collections of existing revenues, coupled with continued pressure on expenditure, may result in my Ministry resorting to other options in order to avoid the country running budget deficits for extended period, which is not sustainable. In this regard, I would like to once again appeal to all those responsible for public finance; whether as revenue collecting agencies, or spending ministries, departments and agencies, to exercise utmost due care in line with the requirements of the country's financial legislations and the Constitution of Botswana. Going forward, Government shall be stepping-up the enforcement of the financial rules and regulations to ensure accountability in the use of the public financial resources.

73. Madam Speaker, I wish to take this opportunity once again to express my sincere thanks to His Excellency the President, Lieutenant General Dr. Seretse Khama Ian Khama, for the support accorded to my Ministry in general and to me personally. I was fortunate to have a supportive Head of State who understood that prudent economic management was part of good governance. Without his support, some of the achievements in the area of economic development that I enumerated at the beginning of my speech would not have been possible. We have no doubt that his successor, His Honour the Vice President, will continue to support our Ministry in the delivery of its mandate, especially the need to ensure fiscal sustainability as the basis for good governance in general, and macroeconomic stability in particular.

74. Madam Speaker, as I end my address, I would like to extend our thanks to our development partners, both bilateral and multilateral, who continue to support us in the development of this country. We remain indebted to their support to our development endeavours.

75. Madam Speaker, I now move that the **Appropriation (2018/2019) Bill, No. 1 of 2018** be read for the second time.

76. I thank you, Madam Speaker.