



BIDPA

Briefing

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Special Briefing - Budget 2000 - March

The 2000 Botswana Budget

Overview

The main feature of the 2000 Budget Speech was that the rate of growth of government spending will be only 3% in 2000/01 (compared with an estimated 26% in the current year). This would be a cut of 4% in real terms. If implemented, it would sharply reduce the rate of growth of GDP. However, there was a similar announcement last year, while government spending continued to increase at more than 20%, compared with the 12% announced in the 1999 Budget Speech. The new forecast for the current year is for a surplus, thanks to a dramatic recovery in the diamond market. There were no changes in direct taxes. Some specific indirect taxes, whose value had been eroded by inflation, will have their real value restored. Other tax changes were minor. The budget forecast a small surplus for 2000/01, but this will only be achieved if the global demand for gem diamonds remains strong, and if the rate of growth of spending really is reduced to 3%. Civil service salaries will be increased by 6%, which is below the current rate of inflation, but the lowest paid will receive an increase of 12%.

The Government has decided to establish a funded pension scheme for the public service; in the short and medium term, this is not expected to have a significant impact on the economy.

Introduction

Most of the changes announced in the 2000 Budget Speech were relatively minor. Of greater importance for the economy are the rates of increase of government spending, which continued at more than 20% in the current year. This follows similar increases in the previous three or four years. That is a major explanation of why the economy continues to grow at about 8%.

In sharp contrast, the budget estimates for 2000/01 are for an increase in total government spending of less than 3% (a fall of 4% in real terms). If implemented, this would generate a major slowdown in the rate of growth of the economy.

There were no major changes in direct taxes in this year's budget, and nothing so dramatic as last year's abolition of exchange controls. That can only be done once.

The Budget Speech announced higher taxes on alcoholic beverages, wines, spirits and mineral waters, but only to restore them to between 10% and 15% of value as they were in 1995.

Inflation had reduced them to between 5% and 6% of value. It would be a logical and useful development if these specific taxes could be converted to percentages based on value, as with sales tax.

An increase of 6% in civil service salaries was announced. This is slightly below the 6.9% rate of inflation at the end of 1999. There was no increase announced in the budget last year, but there had been an increase of 25% in mid-1998. The allowances for old age pensioners, World War II veterans, and destitutes will also be increased by 6%. Government workers on the lowest salaries will receive a minimum of P600 per month, an increase of 12%.

The Government has decided to establish a Contributory Funded Pension Scheme for the public service. The Government will contribute 15%, and the employee 5% of salary. It will apply to new entrants, with existing employees and pensioners given a two-year period to opt for the scheme. It is planned to introduce the scheme in 2000/01. At a very rough calculation, it would remove something like a third of the foreign exchange reserves, to be placed in a separately administered pension fund. There is no shortage of development finance in the private sector at present, but in the future, and to the extent that the fund is invested domestically, it might prove a useful source of long term finance. In the short and medium term, it is more of an accounting exercise than something which will have an impact on the economy.

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Minor changes in the Income Tax Act included:

- the Commissioner may spread back lump sum payments over three years for tax purposes, if the taxpayer does not exercise the option to spread back over six years
- expatriates will not be taxed on investment income from outside Botswana
- the Government will pay interest on overpaid tax and delayed tax refunds
- provisions to prevent money laundering will be strengthened.

Table 1
Total government spending
(P billion, current prices)

Year ending March	1997	1998	1999	2000 budget estimate	2000 revised estimate	2001 budget estimate
Govt spending	6.1	7.4	9.1	10.9	11.4	11.7
Annual % change	+17.3	+21.5	+22.4	+20.0	+25.9	+2.8 ^(a)

It was confirmed that Value Added Tax (VAT) will be introduced in April 2001. Being a member of the Southern African Customs Union should allow a minimum of formalities at borders between Customs Union members. The best long term solution is harmonisation of indirect taxes among Customs Union members.

Impact on economic growth of the Budget

Having grown at more than 20% for several years, total government spending is budgeted to increase by less than 3% in 2000/01.

However, the same thing was supposed to have happened in the current budget year. What actually happened was quite

different. Growth was almost exactly the same as in the previous year, and spending in the current year was not cut back at all (see Table 1).

Government spending growth above 20% a year is unsustainable. In real terms, the annual increases were between 12% and 18% in the three years ending in March 2000. This is significantly faster than GDP growth, twice as fast in the current year. This is directly contrary to expressed government intentions, which are to reduce the role of government in the economy. In particular, it will be more difficult

to attract foreign investment if the Government's share of the economy is increasing.

A second point is that over-rapid increases in government spending "crowd out" the private sector. Thirdly, government has been overspending its medium-term development plans, as set out in NDP8. Development spending in 2000/01 will more than exhaust the amount remaining from the Plan estimates, with two years of the Plan to run.

For these reasons, government spending cannot continue to grow at 20% each year. The bad news is that reducing the rate of growth of government spending will reduce GDP growth, and the growth of employment. There is some scope for running modest

budget deficits, financed by running down government balances, but this cannot continue indefinitely.

From surplus to deficit, and back to surplus again?

In the 1998/99 budget year, the government budget was in deficit for the first time in 16 years. In the event, the outturn was not quite as bad as expected a year ago. Although government revenue was even worse than forecast, the Government seriously overestimated the extent of its own overspending. In combination, this delivered a deficit of P1278 million, against

the revised estimate of P1465 in the 1999 Budget Speech.

In the current budget year (1999/00), revenue has turned out to be much more than expected. The diamond market recovered to an all-time record for sales by the Central Selling Organisation of De Beers. This is more than enough to offset higher estimates of expenditure. The net result is an expected budget surplus of P510 million, compared with the original budget forecast of a deficit of P400 million.

Estimates for the 2000/01 budget are that it will have a small surplus of P47 million (see Table 2). These estimates include, however, the expectation that mineral revenue will be almost as large as last year (which benefited from the marketing of

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Table 2
Budget overall
(P billions)

	1999	2000 original estimate	2000 revised estimate	2001 budget estimate
Revenue and grants	7.7	10.5	11.9	11.8
Total spending	9.1	10.9	11.4	11.7
Surplus/deficit	- 1.4	- 0.4	+ 0.5	+ 0.0

diamond jewellery to celebrate the millennium). The budget estimate also includes a major cut in the growth of government spending, which was promised but not delivered last year. *There must be some doubt, therefore, that a balanced budget will be achieved.*

One can understand that spending ministries are reluctant to admit that they will underspend their estimates, but economic analysis of expenditure trends in MFDP should be able to provide better estimates of actual expenditure, with less than two months of the

change from surplus to deficit, or from deficit to surplus, by running down or increasing its balances at the Bank of Botswana (which are very large in relation in relation to the recent deficit).

Table 3
Budget 1998/99: revised estimates, and eventual outturn
(P million)

	Original Estimates (Feb 1998)	Revised Estimates (Feb 1999)	Eventual Outturn (Mar 1999)	Difference between Feb and March
Revenue	9060	8271	7689	-582
Total spending	8864	9736	8966	-770
Deficit/surplus	+196	-1465	-1278	+187

The large difference between revised estimates and actual outturn

The very high degree of error in the revised estimates presented in the Budget Speech in February 1999, compared with the outturn less than two months later, is extraordinary. Revised estimates of spending presented in February were P0.7 billion higher than the actual outturn about six weeks later. The only plausible explanation that comes to mind is that the Ministry adds original estimates to supplementary estimates, and presents "revised estimates" which are simply the total of all authorised spending, without any attempt to estimate what might actually be spent (Table 3).

budget year to run. Without such analysis, understanding the impact of the budget on the economy is made extremely difficult.

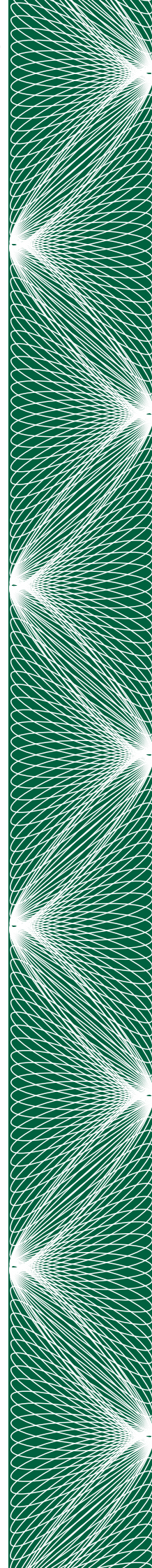
Impact on the economy of budget deficits and surpluses

In most countries, it would be of enormous importance whether the budget was in deficit or surplus. That is not the case in Botswana, in the short and medium term, if the change is caused by fluctuations in external sources of revenue. In 1998/99, some 76% of total revenue was from sources which did not affect domestic spending power (mineral revenue, customs revenue, Bank of Botswana revenue, and grants). The Government can absorb a

Financial impact of the budget deficit

One impact of the 1998/99 budget deficit in Botswana was that the Government's balances at the Bank of Botswana stopped rising. It was the first time for many years that this happened. With the budget now back in surplus, there is every reason to believe that the Government's bank balances have started to increase again.

The budget deficit also meant that the foreign exchange reserves increased only marginally in 1998, and fell slightly in the first eight months of 1999. They increased thereafter in line with the recovery of diamond export revenues.



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Allocation of spending

The table at the end of this BIDPA Briefing shows the growth rates of the main spending categories for the current year, and the apparent growth rates for 2000/01. Total spending is budgeted to increase by only 3% next budget year, so quite a few spending categories show reduced allocations. The difficulty is that it seems unlikely that spending growth will really be reduced from 26% to 3%. If spending increases faster than 3%, then growth rates for most expenditure categories will be

positive not negative.

Nevertheless, it is significant that the growth rate forecast for spending on health is positive and by far the largest (32%), reflecting the growing problem of AIDS. Spending on defence is budgeted to increase by 19%, which is hard to understand. It is also significant that spending on education is budgeted to increase at 12%, which will raise its share of total spending from 22% in the current year, to 25% in 1999/00. While Botswana has no significant comparative economic advantage apart from diamonds, the income stream

from diamonds makes it possible for the government to create a comparative advantage, by developing a trained and educated workforce. Research shows consistently that successful exporting, of both services and manufactured goods, is strongly correlated with above-average levels of education. It is also worth noting that spending on "General administration" is budgeted to decrease by 1%, compared with an increase in the current year of 34%, which would have been worrying if it had been repeated.

Government Budget

(P million)	Actuals			Revised 1999/00	Estimates 2000/01	Growth		Share of total 2000/01
	1996/97	1997/98	1998/99			1999/00	2000/01	
Revenue & grants								
Mineral	3640	4681	3187	6546	6288	105%	-4%	53%
Customs pool	896	1186	1261	1929	2249	53%	17%	19%
Non-mineral income tax	385	537	739	737	852	0%	16%	7%
General sales tax	248	328	401	529	578	32%	9%	5%
BOB profits	1700	947	1217	1200	860	-1%	-28%	7%
Other revenues	525	602	873	981	947	12%	-3%	8%
Total revenue	7395	8281	7678	11922	11777	55%	-1%	100%
Spending								
General services	1633	2028	2486	3164	3328	27%	5%	28%
General administration	911	1082	1230	1644	1628	34%	-1%	14%
Public order	253	320	444	665	684	50%	3%	6%
Defence	469	626	812	856	1015	5%	19%	9%
Social services	2481	3044	4005	4775	5000	19%	5%	43%
Education	1518	1786	2275	2580	2879	13%	12%	25%
Health	299	411	468	576	758	23%	32%	6%
Housing & infrastr.	503	555	670	992	967	48%	-3%	8%
Other soc. services	161	292	591	626	396	6%	-37%	3%
Economic services	1605	1899	1908	2503	2365	31%	-6%	20%
Electricity & water	332	704	451	654	638	45%	-2%	5%
Roads	276	322	391	590	529	51%	-10%	5%
Agriculture etc.	513	379	484	496	499	2%	1%	4%
Industry promotion (inc. FAP)	136	161	309	330	273	7%	-17%	2%
Other econ. services	348	333	317	433	427	37%	-2%	4%
Local govt.grants	564	654	801	973	1098	21%	13%	9%
Net lending	(191)	(218)	(46)	(3)	(60)	-93%	1900%	-1%
Total spending	6093	7406	9065	11412	11730	26%	3%	100%
Surplus/(deficit)	1302	875	(1387)	510	47			
as % of GDP								
Surplus/(deficit)	7.4%	4.3%	-6.0%	1.9%	n/a			
Govt. spending	33.8%	36.3%	38.9%	42.9%	n/a			

Source: MFDPA Financial Statements and Tables 1999, and BIDPA estimates

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