Staff Newsletter of the Bank of Botswana • Volume 11, No. 4 • August 2004

Banknotes

Inside

the Governor Receives Awards

In the last 12 months the Governor of the Bank of Botswana has received a number of awards in recognition of her personal and professional achievements. She was voted the **2003 Central Bank Governor of the Year for Sub-Saharan Africa** by *Euromoney* using a poll of international investors, bankers and other financial and capital market institutions. The award was presented to her at the annual meetings of the World Bank and International Monetary Fund held in Dubai late last year. This follows a similar award (**Central Bank Governor of the year (2002) for Africa and the Middle East**) by the Financial Times magazine, *The Banker*.

In February 2004, she was named **Vanguard Woman Leader of Botswana** by the Botswana USA Embassy.

Furthermore, the Prime Minister of the United Kingdom, the Rt Honourable Tony Blair, has appointed her to the Commission for Africa. The Commission, which is chaired by the Prime Minister, was launched in London in May 2004. It will identify global trends influencing Africa's development and propose ways in which Africa can be supported to take best advantage of the opportunities of the 21st century. The Commission aims to generate increased support for the G8 Africa Action Plan, the New Partnership for Africa's Development (NEPAD) and other processes contributing to poverty reduction in Africa.


The Governor, Ms Linah Mohohlo Displaying the 2003 Central Bank Governor of the Year for Sub-Saharan Africa Award

Governor Mohohlo will join sixteen other Commissioners drawn from developed countries and Africa who have a deep interest in African affairs. These include Prime Minister Meles Zenawi of Ethiopia, President Benjamin Mkapa of Tanzania, Rt Honourable Gordon Brown (UK Chancellor of the Exchequer), Mr Trevor Manuel (Minister of Finance for South Africa), Mr Ralph Goodale (Minister of Finance for Canada), Mr Michel Camdessus (former Managing Director of the International Monetary Fund) and Mr K Y Amoako (Executive Secretary of the Economic Commission for Africa).

The Governor has attributed these recognitions to the dedication, hard work and support of Bank staff. This is what she said to Bank Staff recently:

"It is partly through your exceptional performance that I have been honoured on a number of occasions both nationally and internationally. I am eternally grateful for your support; we did it together".

Banknotes and the staff of the Bank commend the Governor for the recognitions.

The Bank of Botswana 2003 Annual Report Theme Chapter

Competitiveness, efficiency and profitability of the banking system have increasingly become important public concern issues in Botswana. The public rightly believes that it deserves access to banking services that are affordable and of high quality while an efficient financial sector that complies with international standards is essential for Botswana to participate effectively in the international economy. The small size of the economy is seen by many as ideal for non-competitive practices to flourish and the extraction of abnormal profits by banks. While these issues were

The Deputy Director of the RD, Dr Kealeboga Masalila presenting the *Theme* chapter of the Annual Report

discussed briefly in the ***2001 Annual Report***, it was recognised then that a more detailed analysis was warranted before strong conclusions could be drawn about the health or otherwise of banking in Botswana, hence the choice of the theme *'Competition, Efficiency and Productivity in the Banking Sector'* for the ***2003 Annual Report***. The 2003 Report analyses the issues in more detail while recognising that competitiveness, efficiency and stability in banking are highly complex issues and not easily amenable to the simple answers that are often demanded. Hence, to some extent the report raises as many questions as it answers, emphasising the amount of research that remains to be done.

The Report sets the scene with an overview of what economic theory says about efficiency and competition, including a review of several stylised economic models of different market structures, such as perfect competition, monopoly and contestable markets. This is useful in illustrating how market structures can impact on the extent and manner in which businesses compete and are efficient. Features of markets that are particularly relevant to the banking industry are highlighted in this part of the Report. This is followed by an overview of banking in Botswana, with a particular focus on the period since the early 1990s, including an assessment of various dimensions of competitiveness. Relevant comparisons are made with other countries. Some of the principal conclusions are summarised below.

The banking sector in Botswana is oligopolistic

As in many other countries, the banking sector is oligopolistic, consisting of a small number of large suppliers with sufficient power to significantly influence the market individually. Banking in Botswana has been characterised by continuous rationalisation through mergers and acquisitions which demonstrates the importance of economies of scale. Even for a much larger market, the natural market structure for banking is likely to be one of oligopoly where a few large service providers are dominant. In the UK, for example, the 4 largest banks dominate the market, and in Canada the 5 biggest banks control 65 percent of the market. In South Africa, the big 6 banks account for 80 percent of the market.

Competitiveness on the rise

Although it is commonly believed that banking in Botswana is characterised by lack of competition and collusive behaviour among the banks, evidence suggests otherwise. The old duopoly (a situation where the market is dominated by two major suppliers) of Barclays and Standard Chartered has been largely eroded as new entrants have gained a firm foothold in the market. Consumers have benefited from this through product innovation and more transparent pricing practices, a process that can be expected to continue.

The banking sector continues to be very profitable and features a relatively large interest rate spread

Rising profitability is considered by some to indicate that the banking sector in Botswana is not competitive, which should lead to lower levels of profitability of individual banks. However, in the case of Botswana, the increase in profitability may reflect competitive

By Sabata Legwaila and Pontsho Mochipisi

pressures as banks innovate into a wider range of products, unbundled services targeted towards specific customers with higher income earning capacity, improved cost attribution and cost savings as well as the country's sound economic performance. There has also been an increase in efficiency among the banks, as indicated by the slower rate of increase in costs compared to the growth in income and assets, stemming from enhanced use of modern technology. The rate of profitability within the banks is demonstrated by relatively large interest rate spreads and high rates of return on capital and assets, which significantly exceed the international norm. However, one outcome of this analysis is a recognition of the complexity involved in determining competitiveness, and it demonstrates that this cannot be easily revealed by simple summary statistics, such as the spread between representative interest rates.

The current regulatory structure has served Botswana well during the development of the financial sector over the past two decades

Although regulation and supervision of the banking sector is vital, it may also be a barrier to potential new entrants because of the high standards required. The analysis has, however, stressed that not all banking regulations necessarily restrict competition, as in some instances measures can be put in place which both support prudential supervision and promote competition; for example, prudential requirements *for corporate governance, accountability and transparency*. It is also clear that the regulatory environment in Botswana has been more competition-friendly within a broader national objective of promoting financial sector development. New market participants are actively encouraged provided they possess the requisite resources and expertise to maintain the integrity of the financial system.

Competition and Regulation – is there a trade-off?

The analysis concluded that the regulatory framework has so far not stifled competition, rather, regulation combined with a favourable macroeconomic environment and growth in incomes, has supported growth of the banking system and the financial sector generally. However, *any system of prudential supervision must involve some trade off between competition and* financial stability as some regulations are bound to have a restrictive impact on the former. The objective is to strike the optimum balance between a completely unsupervised banking sector and the accompanying risks of financial instability and excessive regulation that stifles growth and innovation in the sector.

> ***The public rightly believes that it deserves access to banking services that are affordable and of high quality***

Financial stability supports economic growth

The theme chapter concludes, in part, that the financial sector remains stable with well-capitalised and profitable banks, which augurs well for supporting the broader national objectives of macroeconomic balance, economic diversification and sustainable development through providing the needed services and facilitating the transmission of monetary policy. Moreover, while the public legitimately calls for more improvement in services and reduction in the relative costs of banking, there has been some very visible improvements. Banking now features significant automation and some increase in competition, which facilitates enhanced access to services, international linkages, choice of providers for individual services and awareness of associated costs.

The Annual Report can be accessed on the Bank website (www.bankofbotswana.bw)

The Director of Research Department, Mr Andrew Motsomi, presenting the *Operations of the Bank* and the *Review of Economic Development* Parts of the 2003 Annual Report during one of the briefings.

The 2004 Monetary Policy Statement

By Joshua Sibonge

Introduction

MPS – A communication tool

The conduct of monetary policy is an important element of macroeconomic management and complements other policies, including fiscal policy (government budget, funding and spending decisions) and exchange rate policy. In particular, it can sometimes be used to offset the negative effects of unrestrained fiscal expansion. The main objective of monetary policy is the control of inflation and, therefore, contribute to broader macroeconomic balance and conditions for sustainable growth. The annual Monetary Policy Statement (MPS) is a vehicle through which the monetary policy framework, which incorporates the objective and the instruments used to achieve the objective, is communicated to the stakeholders.

The Monetary Policy Framework

Framework has three elements:
Instruments: Bank Rate; Open Market operations
Demand Indicators/Intermediate Target: Credit growth, increase in government spending
Objective: Low stable inflation

The monetary policy objective of low and stable inflation is required to support and maintain international competitiveness of domestic producers of goods and services, by achieving inflation that at a minimum is no higher than the average inflation for trading partner countries. In pursuit of the inflation objective, the Bank uses interest rates to affect the cost of credit and, therefore, indirectly influences the demand for goods and services, since excessively high demand compared to supply is inflationary. The Bank also monitors growth in government spending, which is one of the key determinants of demand, and may need to use monetary policy to offset the impact of excessive fiscal expansion or contraction. Monetary policy also responds to other sources of inflation such as foreign price changes, increases in administered prices and changes in taxes on goods and services to the extent that they can lead to a sustained increase in inflation either directly or through higher inflation expectations.

Domestic Inflation Trends and Influences in 2003

Inflation fell in the second half of the year and was close to the objective

Inflation rose to a peak of 12.2 percent in June 2003, before it slowed down considerably to 6.4 percent in December 2003 and was only marginally higher than the upper limit of the Bank's objective of 4-6 percent for the year. The decrease in inflation was largely the result of the falling away, in the second half of the year, of the impact of the July 2002 introduction of VAT in the calculation of price changes while inflationary pressures eased in 2003, in particular the moderation in annual growth rates for credit growth and government expenditure, coupled with low global inflation. The annual growth in commercial bank credit dipped to 10 percent in 2003 from 21.3 percent in 2002, against the backdrop of restrictive monetary policy and restrained fiscal expansion. In particular, the absence of an upward salary adjustment for the civil service during the year constrained growth in overall incomes, thereby limiting households' access to credit. The average inflation for Botswana's trading partners fell to 3.5 percent in December 2003 from 7.1 percent in 2002, mostly reflecting the considerable deceleration in inflation in South Africa due to the appreciation of the rand and the tight monetary stance in that country since 2002.

Monetary Policy Measures in 2003

Bank Rate cut in the last quarter of 2003

In the light of the deceleration in credit growth and the positive global inflation outlook, monetary policy was eased towards the end of 2003 and the Bank Rate was cut twice by half a percentage point, in each instance, in October and to 14.25 percent in December. The commercial banks accordingly adjusted their deposit and lending rates. Real rates of interest rose despite the downward adjustment of interest rates by commercial banks due to the significant decline in inflation; for example, the real prime rate was 8.8 percent while the real three-month BoBC middle rate was 6 percent in December 2003.

Open market operations supported the monetary policy stance and were used to sterilise excess liquidity, mostly caused by the government funding of the Public Officers Pension Fund. The relatively high BOBC yield attracted funds from alternative financial investments, but towards the end of the year the volume of outstanding BOBCs had fallen as a result of portfolio adjustments to longer maturity bonds and external investments while expectations of a further decline in inflation resulted in an inverted yield curve.

Inflation Outlook for 2004

Mixed prospects but, on balance, inflation likely to increase in 2004

The inflation outlook for Botswana in 2004 is mixed for a number of reasons. Positively, global inflationary pressures are forecast to remain moderate while in South Africa inflation is expected to remain low in 2004. Moreover fiscal policies as , the 2004 Budget

Speech appears contractionary, with total recurrent and development expenditure projected to increase by 5.3 percent in the 2004/05 fiscal year compared to 9.4 percent in 2003/04.

Nevertheless, the increase in the public servants' salaries, by an average of 15 percent in April 2004, is likely to heighten consumer demand, facilitated by enhanced access to credit, while the 7.5 percent devaluation of the Pula in February 2004 will push up prices of imported goods, resulting in generally higher prices in the economy.

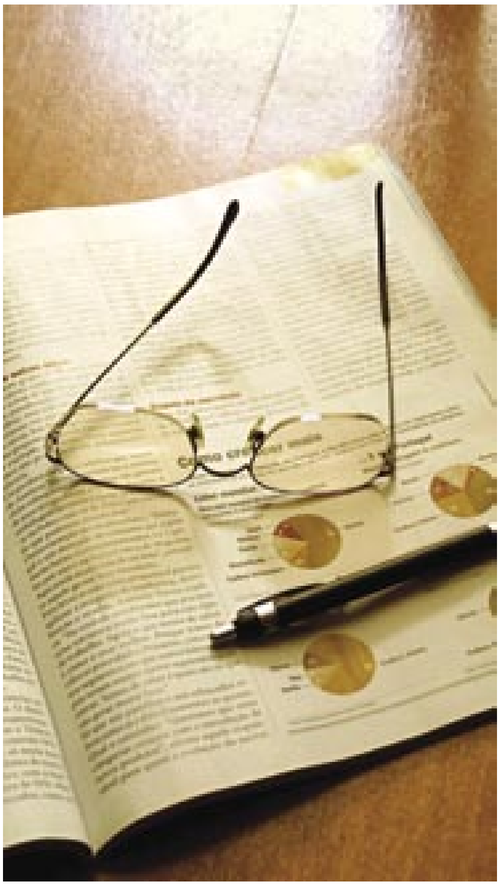
'Monetary Policy is likely to remain restrictive until inflation falls'

The Monetary Policy stance in 2004

Inflation objective range widened and upper limit raised

As indicated above, the objective of monetary policy is to contain inflation to a level that ensures stability in the real effective exchange rate. Determination of the inflation objective is, in turn, based on the assessment of inflation for trading partners. Although the forecast inflation for the trading partners' inflation is lower in 2004, the Bank could not reduce the inflation objective in recognition of the possible inflationary impact of the devaluation. Any attempt by the Bank to fully neutralise the inflationary impact of the devaluation would be costly in terms of employment and output in the short term. For this reason, the Bank set an inflation objective of 4-7 percent for 2004, a range which will permit the economy to adjust to the higher imported inflation generated by the devaluation without jeopardising the potential gains in competitiveness for which the devaluation was intended to achieve. Importantly, the widening of the inflation objective range is not synonymous with easing of monetary policy; rather, it was a tactical response to a range of specific factors having a bearing on inflation in 2004.

The range for the growth rate in commercial bank credit considered consistent with the inflation objective is 12-15 percent, determined on the basis of the Bank's expectation of growth in the non-mining sector of the economy and the desired inflation range as well as an allowance for financial deepening as the economy grows.



Conclusion

Monetary policy likely to remain restrictive until inflation falls and/or credit growth remains moderate

There are a number of factors which combined will determine the level and direction of inflation in 2004. Among these are the benign global inflation outlook, subdued inflationary pressures in South Africa, restrained fiscal expansion domestically, increases in administered prices (fuel, public housing (BHC) rentals, water and electricity tariffs, transport fares, etc.) as well as the ultimate impact of the devaluation of the Pula. In the context of the Bank's Monetary Policy framework and the policy stance, the reaction to inflation and developments in demand indicators will also influence demand conditions and inflation expectations and ultimately the level of inflation in the medium term.

The Bank of Botswana Hosts the Committee of Central Bank Governors Meeting

By Chepete Chepete

On Friday April 30, 2004, the Bank of Botswana hosted the Committee of Central Bank Governors (CCBG) meeting. The CCBG is an arm of the Southern African Development Community (SADC) and is currently chaired by Mr. Tito Mboweni, Governor of the South African Reserve Bank. The meeting, attended by Governors from all 13 SADC member states, was held at the Gaborone International Conference Centre.

Among the issues discussed by Governors were: the Harmonization of Legal and Operational Frameworks of SADC Central Banks; Payment, Clearing and Settlement Systems in member states; Exchange Controls, and Banking Supervision.

From Left to Right:
Seated: Dr CM Fundanga *Zambia*; Ms LK Mohohlo *Botswana*; Mr B Gaolathe *MFDP*; Mr TT Mboweni *South Africa*; Mr DTS Ballalli *Tanzania*; Dr AA Maleiane *Mozambique*.
Standing: Mr N Diambwana *(Deputy Governor), Democratic Republic of Congo*; Mr EE Ngalande *Malawi*; Dr A Muchanga *SADC*; Ms SG Mduli *(Deputy Governor), Swaziland*; Mr R Basant Roi *Mauritius*; Dr G Gono *Zimbabwe*; Dr AC Mauricio *Angola;* Mr EM Matekane *Lesotho;* Mr T Alweendo *Namibia.*

The Governors were welcomed to Botswana by the host, Governor Mohohlo, who informed the guests that she had always waited for the day Botswana would be able to host the CCBG meeting so that she would have an opportunity to reciprocate the good hospitality she received from other Governors in their respective countries during previous meetings. She noted that CCBG meetings gave an opportunity for productive discussion of issues of mutual interest to members as well as renew and strengthen informal links at both institutional and individual levels.

The Governor introduced the Minister of Finance and Development Planning, Honourable Gaolathe to officially open the meeting. She informed the meeting that the Minister was novice neither to matters of finance and economics nor CCBG issues as he was himself a former Governor and hence had been a member of the Committee, and had worked in the Ministry of Finance for some 15 years.

Opening the meeting, Honaourable Gaolathe informed the meeting that CCBG was one of the most important organs under the auspices of SADC and that the country was proud to host it. He explained to the meeting that SADC Ministers of Finance and Investment had received, with satisfaction, a progress report on the activities of the Committee. He outlined some of the common objectives of SADC and CCBG as: promoting deeper integration among members; integration of SADC into the world economy; promoting balanced and equitable development; eradicating poverty, and; promoting gender equality, all of which form the basis of the SADC Indicative Strategic Development Plan. The Minister appealed to Governors to broaden their activities and participate in SADC National Committees so as to reach other stakeholders sharing the same objectives.

Looking at the Agenda for the meeting, the Minister expressed satisfaction that Governors were due to discuss relevant and pivotal issues, such as the harmonisation of legal and operational frameworks, the payment, clearance and settlement systems and the coordination of training of central bank officials, for both regional economic integration and expansion of intra-regional trade.

He observed that there were challenges facing the Committee such as the achievement of macroeconomic stability among SADC members. He noted that some countries had managed to stabilize some economic variables while others were still battling to do so, giving, as an example, inflation. He also noted that macroeconomic stabilisation was a pre-requisite for macroeconomic convergence in the region, which would help to boost regional and economic relationships, and more generally support regional economic integration. The Minister noted that central banks had an important role to play in achieving macroeconomic stability and convergence, and added that a greater degree of central bank independence would assist in achieving these objectives.

The Chairman of the CCBG, Mr. Tito Mboweni, thanked both the Minster and Governor Mohohlo for their kind words. He added that he was always happy to visit Botswana due to the strength of the economy, which he believed was in no small part due to the role that the Governor and former Governors of the central bank played in the economic governance of the country.

A Review of the 2004 Budget Speech

By Pelani Siwawa-Ndai

Introduction

Presented to Parliament on February 9, 2004, the 2004 Budget Speech, the second in the NDP 9 series, had as its theme *Improving Economic Performance: A Vehicle for Sustainable and Diversified Growth*. This review of the 2004 Budget Speech takes a monetary policy approach to analysing the economic impact of the 2004/05 Budget. The review also reflects on the Budget proposals within the overall context of the NDP 9 development strategy, which is to achieve budgetary sustainability by the end of the Plan period while creating conditions for rapid private sector development that leads to further and more enduring economic diversification.

The 2004/05 Budget was announced against the backdrop of several unresolved major economic issues constituting the policy thrust for NDP 9, among them economic diversification, employment creation, macroeconomic stability and public sector reform. Annual budget proposals are designed to contribute to the resolution of these challenging economic matters. The 2004/05 Budget recognises this and focuses on improving economic performance, which Government considers critical for the achievement of the NDP 9 revenue projections and thus its broader national policy goals.

NDP 9 Projections Versus Actual Outcomes

As a starting point, it would be useful to briefly consider NDP 9 projections of fiscal developments which the annual budgets attempt to realise and the economic setting in which they were developed, as well as to compare them with the actual outcomes of the relevant macroeconomic aggregates. In terms of fiscal developments, the NDP 9 strategy is to achieve balanced and sustainable budgets through expenditure control and the efficient and effective collection of revenue, in particular from Value Added Tax (VAT) and cost recovery measures, such as fees and charges, as well as from the new Southern African Customs Union (SACU) revenue formula effective 2004/05. NDP 9 projects annual average VAT revenue growth of 32.8 percent, with the bulk of this increase occurring in 2003/04 when VAT revenue is forecast to rise more than two-fold to surpass non-mineral income tax revenue as the major source of domestic revenue. While NDP 9 projects VAT revenue growth in 2004/05 to remain flat, the 2004/05 Budget estimates VAT revenue to be 20 percent higher than in 2003/04. However, this is still significantly lower, both in level and growth terms, relative to the NDP 9 projected level for that year and the annual average increase for the Plan period. Thus, the Plan projections, which were inevitably uncertain, now appear to have been over-optimistic.

With regard to revenue from cost recovery measures, NDP 9 forecasts average growth of 87.1 percent per annum (from a very low base), a substantial part of which is expected to occur in 2003/04 and, to a lesser extent, in 2004/05. In view of the importance Government attaches to cost recovery measures, it is perhaps surprising that the 2004/05 Budget provides no specific target for revenue from this source, and little is said about it except for a brief mention that additional transport user charges will be increased while road tolls will be introduced during 2004/05. The very absence of any concrete measures announced in the Budget coupled with the fact that the two general measures mentioned have been under consideration for a long time, make it difficult to see how effective this aspect of the strategy will be in the current fiscal year. At 9.6 percent, growth of budgeted fees and charges – a small proportion of which is revenue from cost recovery measures – for 2004/05 compares poorly with estimated rates of growth of revenue from other domestic sources.

With overall revenue projected to increase faster than overall expenditure during NDP 9, moderate surpluses are expected. Budget estimates for the first two years of NDP 9 – 2003/04 and 2004/05 – indicate that a small deficit and surplus, respectively, are anticipated.

In terms of economic performance, NDP 9 projects overall real aggregate supply (GDP) growth of 5.5 percent per annum, which compares with the 2004 Budget Speech forecast of 5 percent for 2003/04 and 2004/05 and a preliminary estimate for the first half of 2003/04 of 4.5 percent. Aggregate demand is projected to increase rapidly, with real investment rising by 8.7 percent per annum (compared with a preliminary estimate of 2.1 percent growth for real investment in the first half of 2003/04). Investment is expected to be driven by the non-mining private sector, with foreign direct investment (FDI) expected to play a significant role. Real total consumption expenditure, the other component of aggregate demand, is projected to increase at an annual average rate of 4.8 percent during NDP 9, driven by private sector consumption expenditure, forecast to rise by 7.7 percent a year. However, preliminary national accounts data show that real *total* and *private sector* consumption expenditure rose faster than projected rates of growth, at 11.4 percent and 8.0 percent, respectively, in the first half of 2003/04 compared to the same period a year ago. In 2004/05, inflation concerns may cause the growth of consumption expenditure to fall if monetary policy is tightened, a possibility recognised by the Bank of Botswana in its Monetary Policy Statement (MPS) for 2004 (Refer to an article in this issue of Banknotes on the MPS).

An annual average increase in employment of 5.5 percent is projected, much of it expected to come from the non-mining private sector as the economy diversifies. Data for 2003 suggests that, at 2.6 percent and 3.4 percent, total and non-mining private sector employment rose more slowly than projected and that, in fact, the former has risen by no more than 3.0 percent in each of the past eight years, excluding 2000 when a sharp increase was recorded. Public sector employment growth is projected at 2.4 percent per annum on average during NDP 9, and actually grew at an annual rate of 2.3 percent in 2003.

The conclusion is that lower rates of growth of employment, real GDP, real investment and domestically generated government revenue than the Plan projections remain the major practical challenges that Government faces and will need to address in future budgets.

Budget Proposals for 2004/05 and the Revised 2003/04 Budget

The proposed budget for 2004/05 and the revised budget for 2003/04 are approximately in balance from a conventional budget balance point of view, as noted above. However, from a monetary policy perspective, what is of interest is the impact of the Budget on aggregate demand. The conventional budget balance is not helpful in this regard, as it includes foreign-sourced revenues and foreign spending, which are not *directly* relevant from an aggregate demand perspective. Hence an alternative measure, the domestic budget balance, which includes only domestically sourced revenues and domestic expenditures, is more relevant. Such a measure shows that fiscal policy is a major contributor to aggregate demand, with sizeable deficits in 2002/03-2004/05. However, measured relative to GDP, the magnitude of the deficits has declined over this period and hence fiscal policy is less expansionary than it has been in the past, which is supportive of monetary policy.

Thus, the rate of growth of the domestic budget balance is generally in the right direction and should help reduce inflationary pressures. However, there remains a long-term need for the reduction of government spending as a proportion of GDP, in order to make the fiscal position sustainable as the economy diversifies away from diamonds. Further expenditure control is needed as raising taxes in the current regional environment of relatively low taxes could put the country at a disadvantage in relation to attracting FDI which is a major component of investment promotion efforts. Further expenditure control would also help to make fiscal policy consistent with the inflation objectives of the Bank. Spreading the fiscal adjustment over the medium- to long-term will help the private sector step in to fill the gaps occasioned by the slowing of the growth rate of government expenditure.

The desirability of the fiscal position can also be seen from trends in the sustainability ratio, which is the ratio of non-investment recurrent expenditure (recurrent expenditure less expenditure on education, training and health) to non-mineral revenue and shows the extent to which non-mineral revenue finances total government expenditure. The long-standing policy objective is for the sustainability ratio to be below 1, indicating that mineral revenues (derived from asset sales) are not being used to fund recurrent spending. In terms of this measure, the fiscal position in 2004/05 is unsustainable, as was the case in the last three years of NDP 8. A slight improvement in sustainability is seen in the first year of NDP 9, 2003/04.

But even if government expenditure growth is currently not a major concern, certain other aspects of the 2004/05 Budget are still relevant from a monetary policy perspective. The public service salary increase effected in April 2004, and domestic cost increases likely to arise from the 7.5 percent devaluation of the Pula in early February 2004, may fuel inflation. In its 2004 MPS, the Bank indicated that it intended to contain any spill-over on inflation from these two sources for reasons of maintaining macroeconomic stability.

The almost balanced Budgets for 2003/04 and 2004/05 were achieved as a result of extra revenue and expenditure measures being undertaken, such as cuts in both recurrent and development expenditure and, on the revenue side, the sale of public assets and the withdrawal of dividends from profitable parastatals. How the budgets are managed in future poses a serious challenge to the Government because some of these measures will not be available again, hence a need to find more sustainable ways of financing the budgets. The privatisation process is moving at a slow pace and if there was expectation of revenue from public asset sales through the process, the proceeds will likely be delayed. Moreover, the slow take-off of the privatisation process means that the anticipated growth of private sector activity will also be delayed, implying less diversification and perhaps slower economic growth than is forecast. Thus the spectre of raising income and/or consumption taxes is increasingly real because *substantial* expenditure cuts, while perhaps welcome from a monetary policy perspective, could not continue to be effected in the short term without causing unwanted bottlenecks elsewhere in the economy.

Conclusion

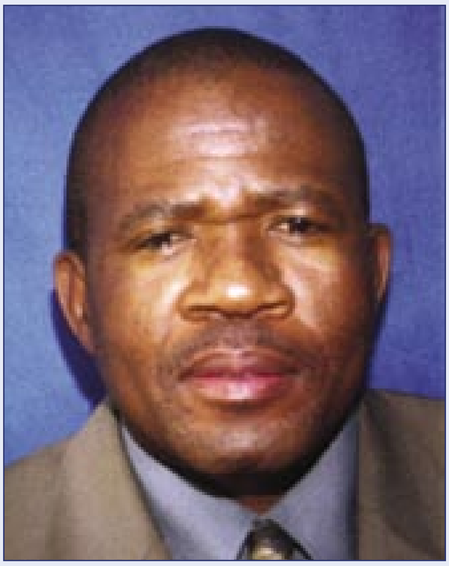
The outlook for the 2004/05 Budget is mixed, as there are both positive and negative aspects. In the short term, construction and manufacturing sectors may experience some adjustment problems because of their reliance on government custom and largely domestic market focus. If the market shrinks with the slow withdrawal of Government (a significant player), this could mean a slowing of these sectors' own output growth. Other sectors may do well because of higher consumption expenditure due to public sector salary increases. Therefore the overall effect on the economy is not clear-cut. But if the slowing of government expenditure growth is not matched by increased private sector activity, there could be shortfalls in the expected rates of growth of output, investment and employment of the non-mining private sector. As a result, rates of growth of income-based government revenues could slow down and threaten the sustainability of the fiscal position.

The Bank Promotes Staff to Senior Positions

The Bank of Botswana recently rewarded long service and hard work by promoting three staff members to senior positions in the Bank. These are Messrs Julius Ghanie, Sholo Matale and Dr. Kealeboga Masalila who were promoted to the positions of Director (Information Technology Department), Deputy Director (Banking Supervision Department) and Deputy Director (Research Department), respectively.

Mr. Julius Ghanie was born in Kanye but attended his primary school at Ranaka, his home village, before moving to Lobatse for his secondary school education at Lobatse Secondary School. He did his BSc Part I at the University of Botswana and later transferred to the University of Edinburgh in the United Kingdom and obtained a BSc (Honours) degree in Computer Science in 1992.

Mr. Ghanie joined the Botswana Railways as a Trainee Computer Programmer in September 1992, the position he held for five months before he became a full Programmer. He left Botswana Railways in December 1994 to join the Bank of Botswana as Systems Analyst in the Information Technology Department and was promoted to the positions of Senior Systems Analyst and Systems Manager in 1998 and 2000, respectively. Mr. Ghanie had been Acting Director of the Information Technology Department since February 2003 and was appointed Director in March 2004.



Mr. Sholo Matale graduated from the University of Botswana with Bachelor of Commerce (Bcom) degree in 1986. In 1992, Mr. Matale obtained an MBA (International Banking and Finance) from the University of Birmingham in the United Kingdom

Before joining the Bank of Botswana as an Assistant Bank Examiner in July 1988, Mr. Matale worked as an Urban Industrialisation Officer with the Gaborone City Council from 1986 to 1988. In 1992 he was promoted to the position of Supervisor in the then Financial Institutions Department. Two years later, he was promoted to position of Assistant Manager, Financial Institutions Department and was transferred to the then International Department. Mr. Matale was transferred back to Financial Institutions Department in 1998 before being promoted to Principal Bank Examiner position in 1999. He joined Senior Management on July 1, 2003 when he was promoted to the post of Deputy Director.

Dr. Kealeboga Masalila obtained a Bachelor of Commerce degree in 1984 from the University of Botswana, a Master of Philosophy in Monetary Economics from the University of Glasgow in 1989 and a Doctor of Philosophy degree in Economics from the University of Manchester in 2000. In addition, Dr Masalila has worked for the African Department of the International Monetary Fund on a six months' attachment in 2003.

After completing his Bachelor of Commerce in 1984, Dr. Masalila joined the Minstry of Commerce and Industry where he worked as an Assistant Commercial Officer. He joined the Bank in September 1985 as an Assistant Research Officer in the Research Department. He was promoted to the position of Research Officer in 1986. In 1992 he was rotated to the then Financial Institutions Department as Bank Examiner and subsequently promoted to the position of Senior Bank Examiner in 1993. Dr Masalila relocated to the Research Department in 1995 as Senior Research Officer and was promoted to the position of Principal Research Officer in 1996. He was elevated to the position of Deputy Director of Research Department with effect from March 1, 2004.

Sharing Great Ideas With Great People!

By Lekgoanyana Keolopile

There are four (4) types of people in the world.

Those who watch things happen (these are spectators)
They sit on the stands and either cheer or keep quiet.

Those who let things happen (these are the care-less)
They see something awful happening, they don't bother to stop it because they say, well none of my business or it does not concern me; why should I bother.

Those who ask what happened (these are more or less similar to the care-less category)
They don't seek to be informed. They are a burden in that they bring in yesterday's stuff into today, or they pour new wine into an old bottle. They discuss yesterday when we discuss today and plan for tomorrow.

Finally, those who make things happen (these are the movers and shakers or participators)
Very few people are found in here because these ones take full responsibility of what they do. They are key players in the mountains of societies. By the way, every society/nation has got five mountains, namely; the mountains of culture, religion, education & information, politics and economy. These people have clearly defined their mountains and are ready to climb though the climbing is not always easy, as it has never been easy in the history of mankind. You may go up a hill, but it's not easy to climb a mountain. There is often resistance but they keep on going. These people change constitutions, nations, fight racism with such an unshakeable determination and bring a nation excessively separate in ideas, culture, and interests together. The means they use are as pure as the ends they seek. They are champions!