

THE BOTSWANA ECONOMY: IMPACT AND RESPONSE TO THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

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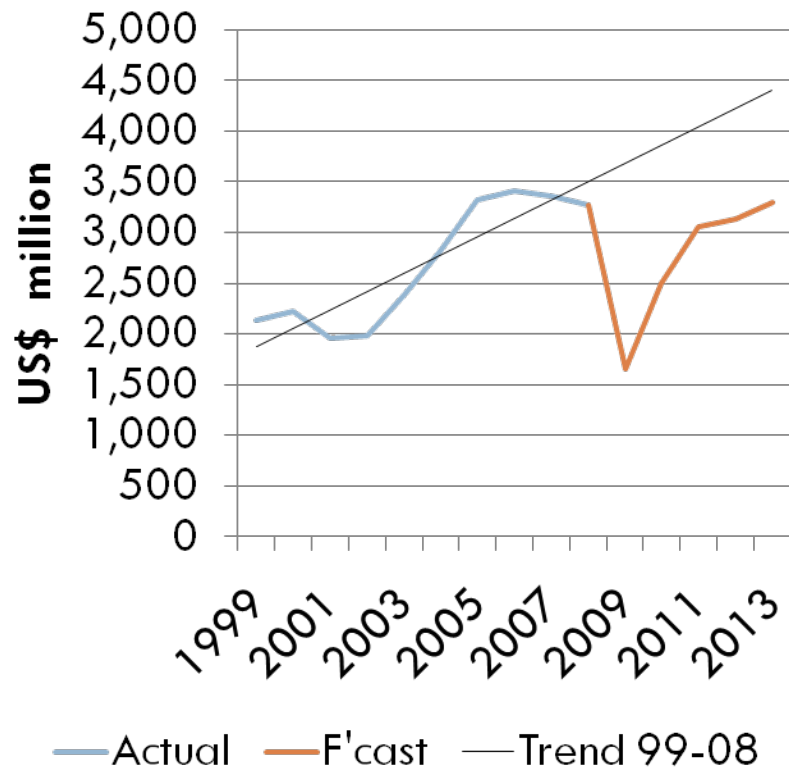
Impact of the Global Crisis

- Three phases
 - ▣ Financial crisis (systemic)
 - ▣ International financial flows/risk aversion
 - ▣ Economic crisis (collapse in real growth rates, trade flows)

	Systemic banking crisis	Cross-border financial flows	Growth & trade effects
Advanced countries	I		III
Emerging markets		II	III
Less-developed countries		II	III

Botswana diamond sales forecasts

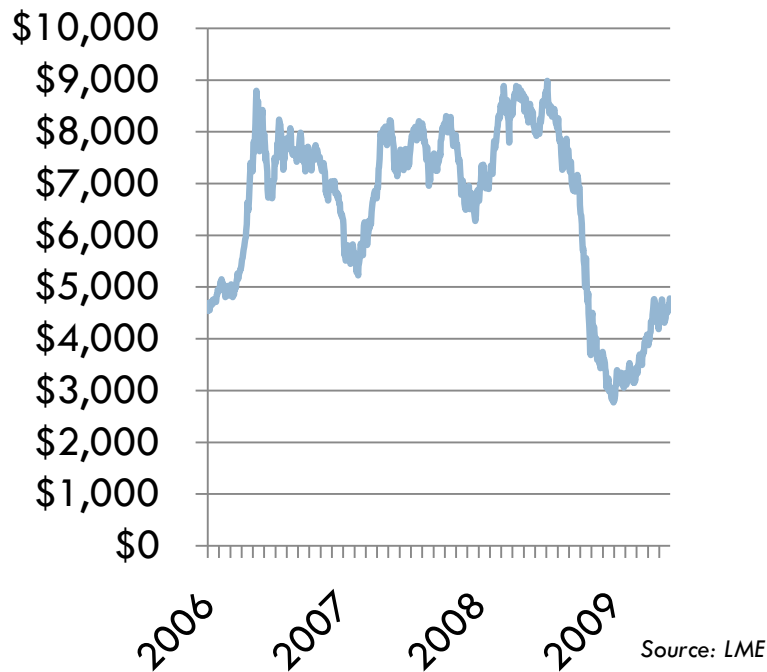
Sales Value – Historical & Forecast



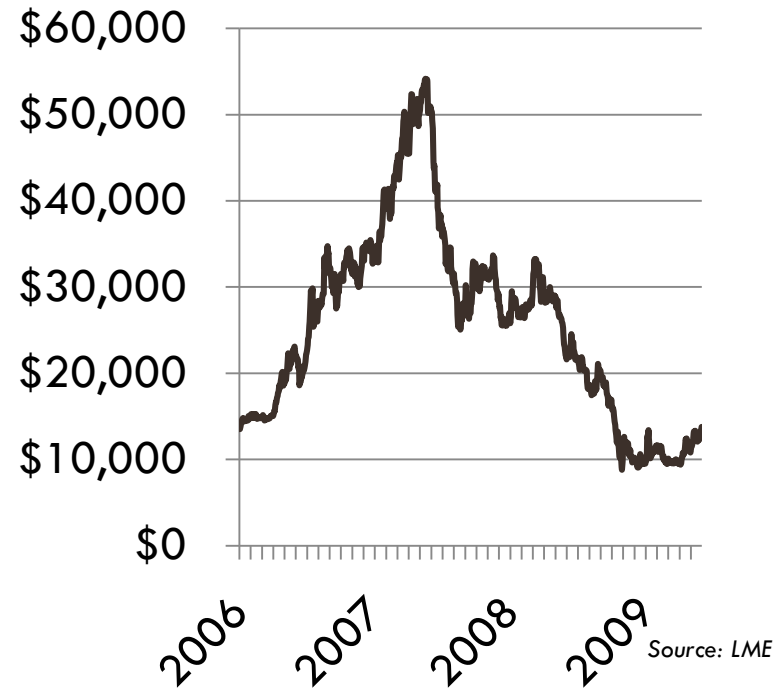
- Sales down by est. 50% in 2009 and 25% in 2010 (compared to 2007/8)
- Volumes likely to recover but prices will remain weak
- Hence total earnings below 2007 peak, and below trend, into medium term
- Implications for:
 - export earnings (diamonds 70%)
 - government revenues (40%)
- Short-term collapse combined with medium-term weakness

Minerals prices way down...but recovering

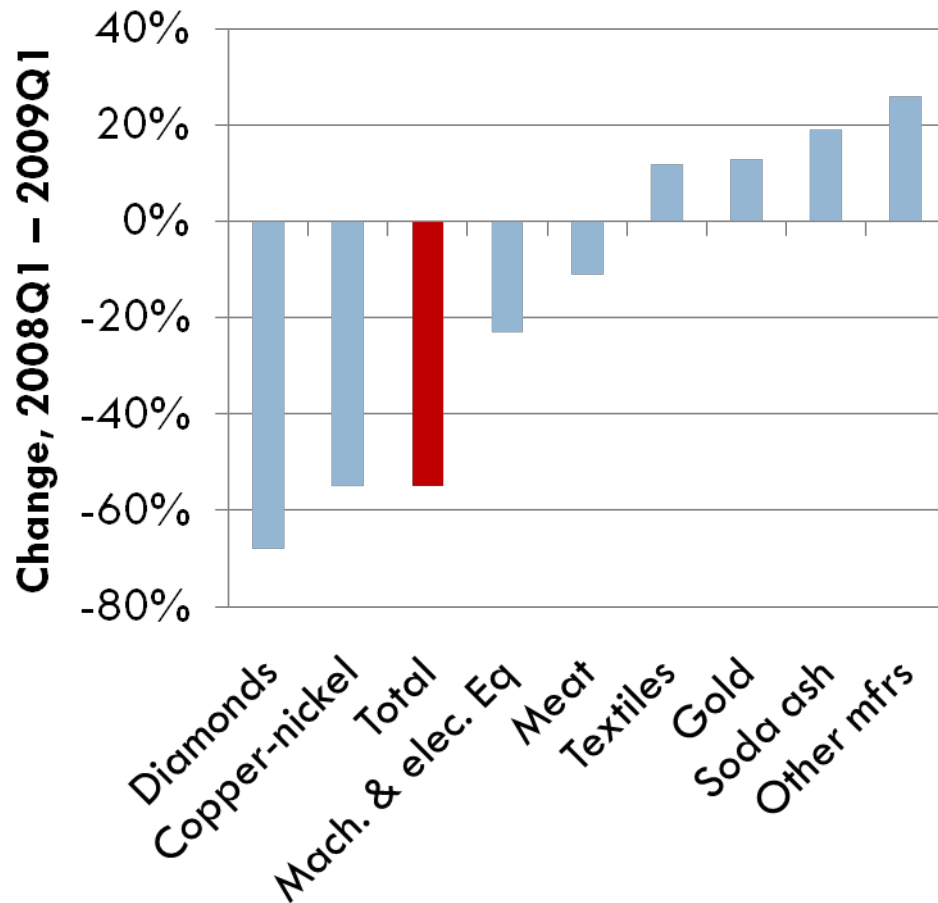
Copper (\$/tonne)



Nickel (\$/tonne)

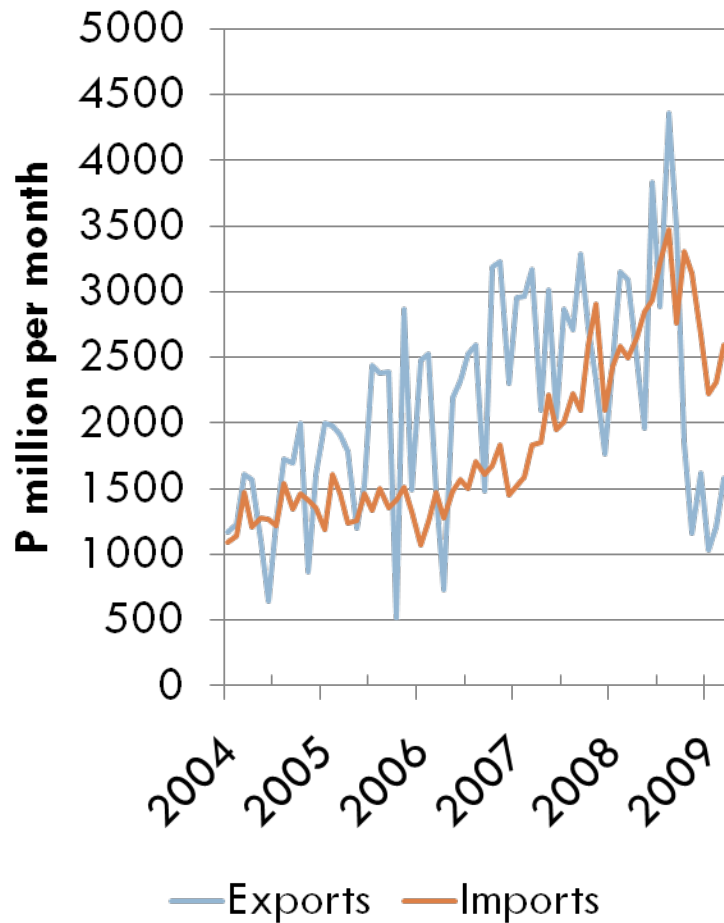


Major exports sharply lower



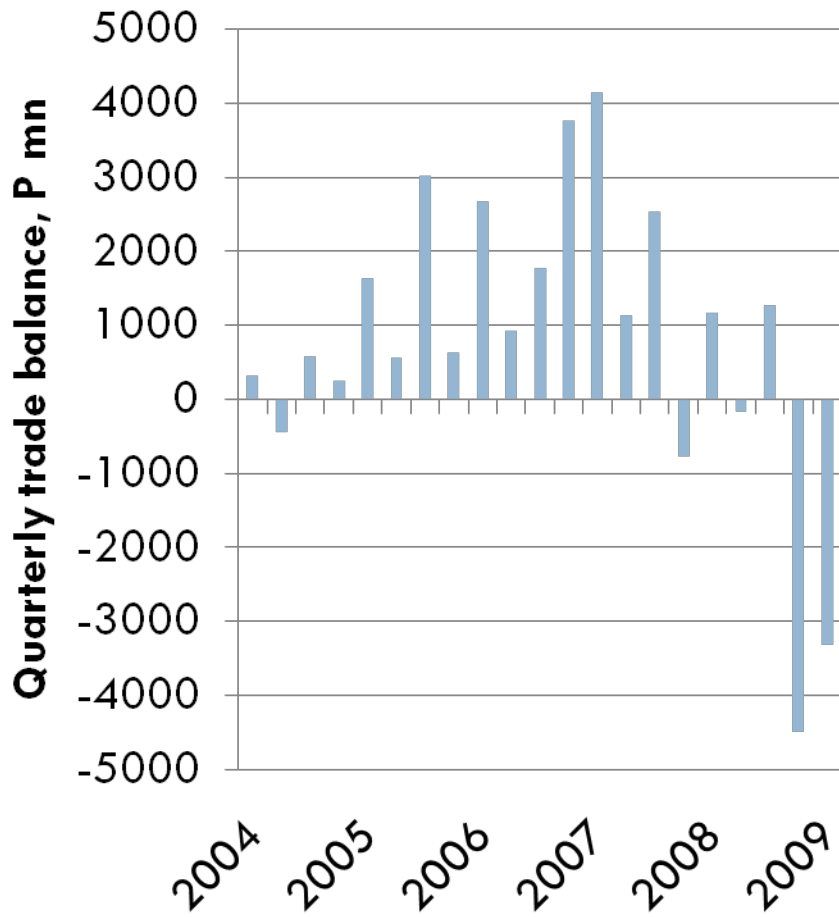
- 2008Q1 to 2009Q1
 - Diamonds down 68%
 - Copper-nickel down 55%
 - Total exports down 55%
- Better performance from textiles, gold, soda ash & misc. mfd goods, but still small share overall

Imports & Exports



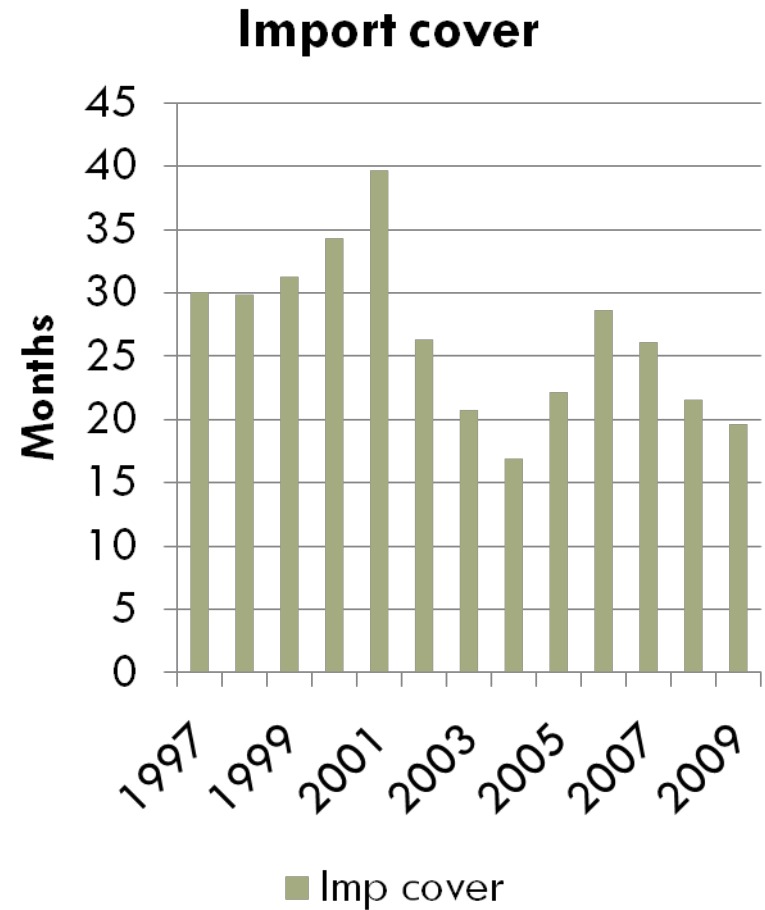
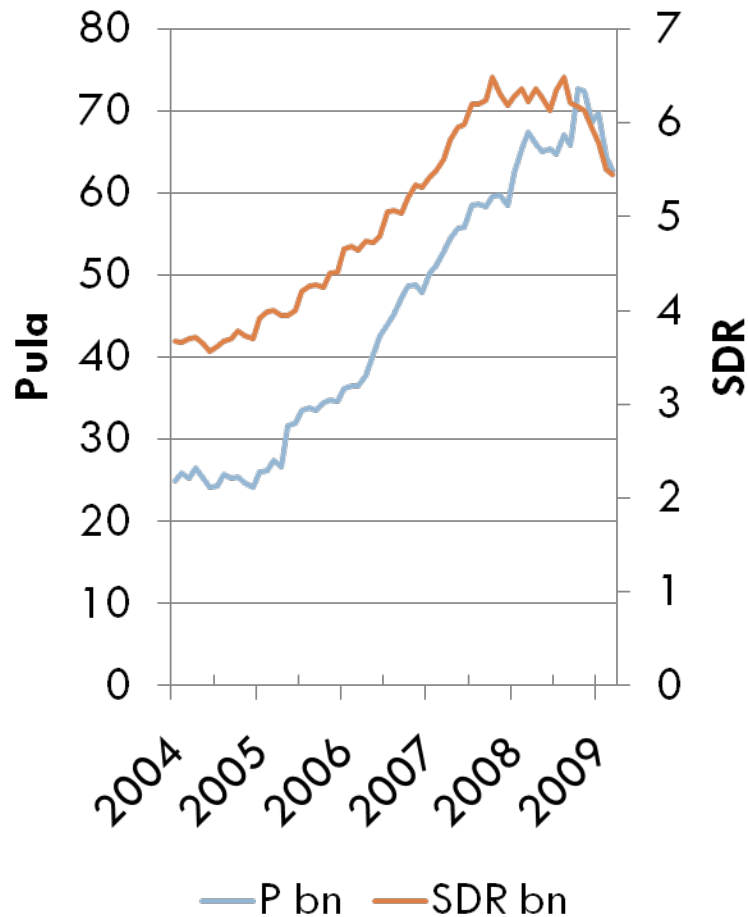
- Trend of steadily rising exports since devaluations sharply reversed since 2008Q3
- Import growth also reversed, due to lower oil prices and reduced consumption by mines, but reduction much less than that of exports

Balance of trade reversal

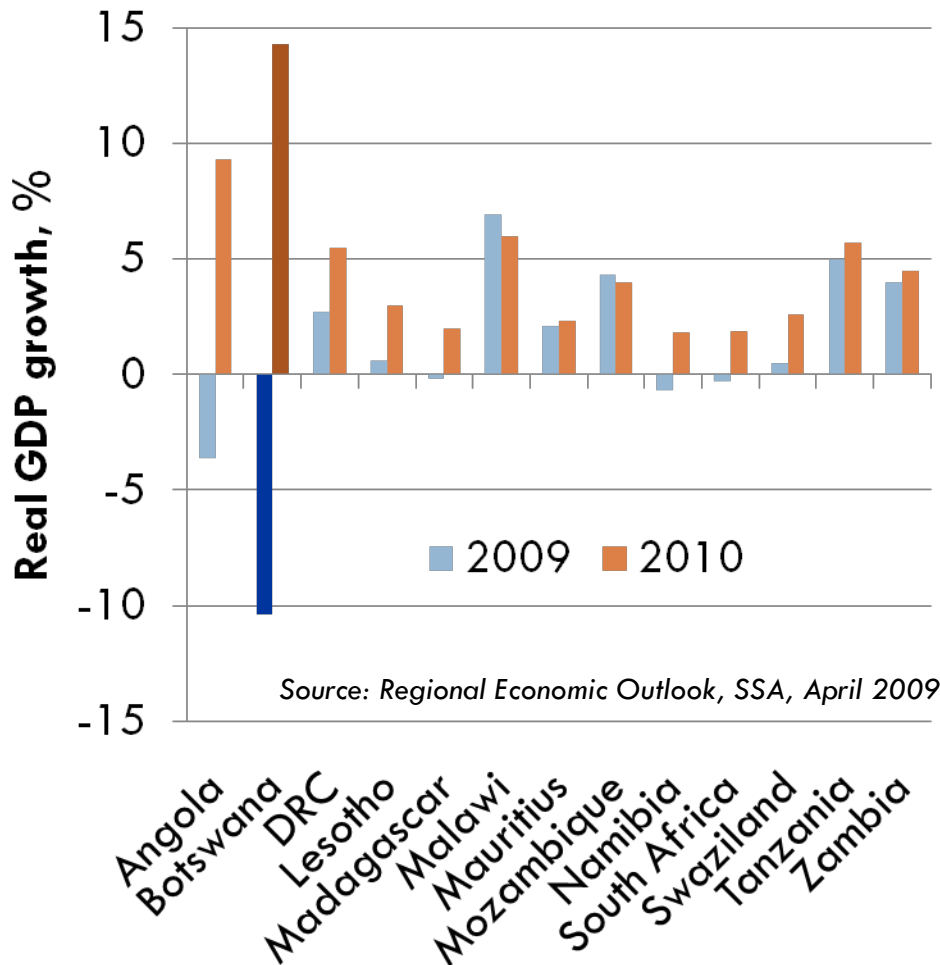


- As a result, balance of trade has turned sharply negative in last two quarters
- Has contributed to balance of payments deficit and running down of foreign exchange reserves

Foreign exchange reserves lower, but still respectable

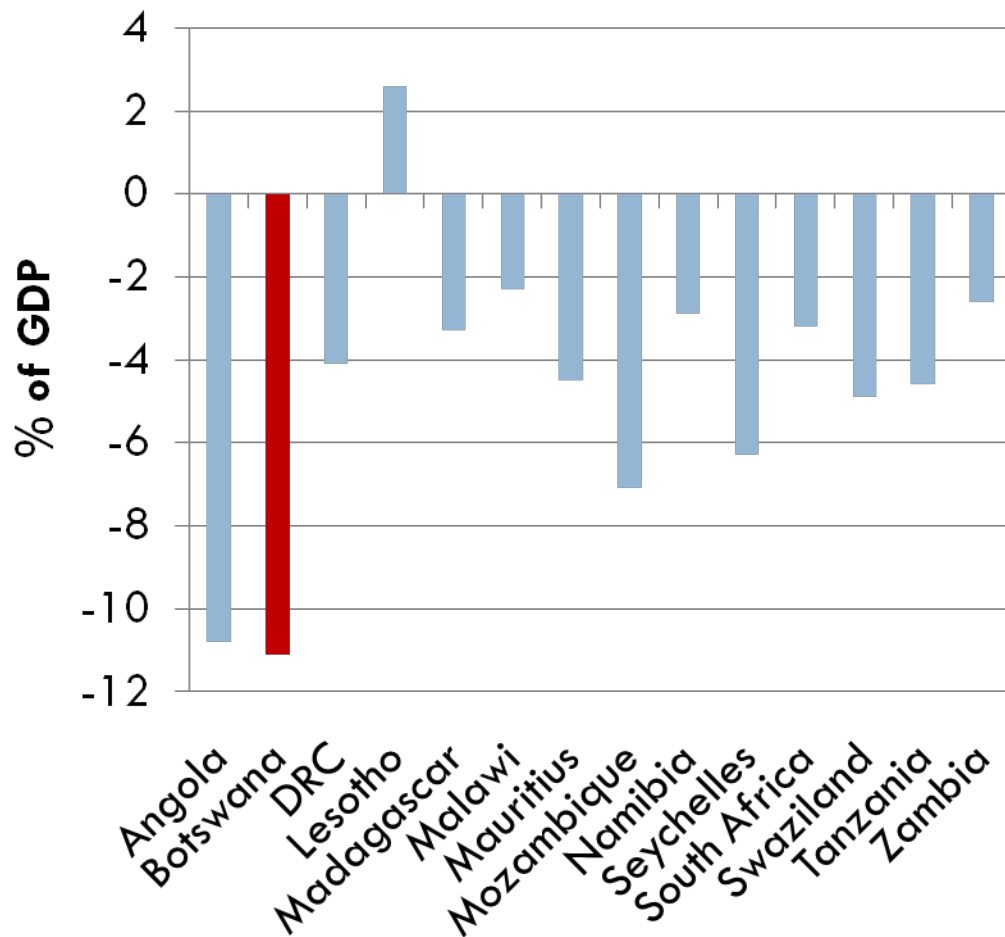


IMF GDP Growth Forecasts, 2009-10



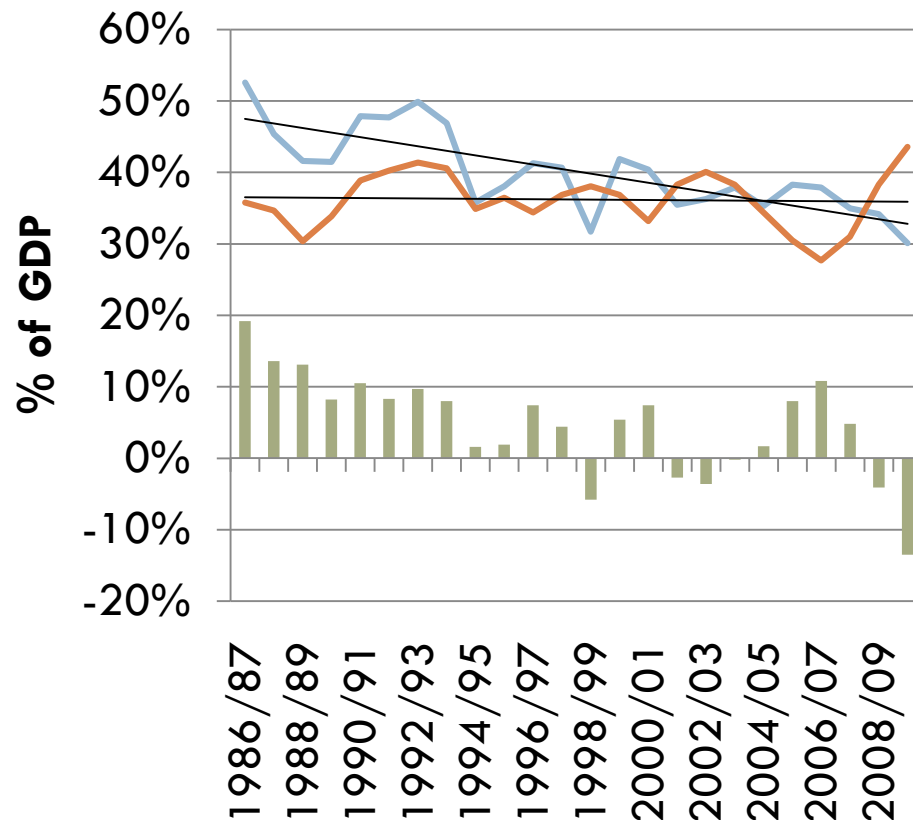
- Real GDP growth of -10.2% forecast for 2009 – lowest in SADC
- Driven by contraction in mineral sector - direct impact will be felt by mining & dependent activities
- Recovery in 2010 as diamond production picks up
- Impact on non-mining sector as yet unknown
 - ▣ Non-mining growth has been healthy
 - ▣ Ongoing government projects will support growth in short term
 - ▣ Support from lower interest rates
 - ▣ Likely weakness in other exports (esp. tourism)
 - ▣ Restricted credit from banks will constrain growth
- But overall, the economy will not feel like a -10% recession!

IMF Fiscal Balance Forecasts, 2009



- Fiscal deficit 11% of GDP – largest in SADC
- No immediate financing problem
 - ▣ Financed by borrowing & drawdown of accumulated savings (30% of GDP)
- Govt can use accumulated assets to cushion impact of crisis
- Problems more likely to arise in the medium term if deficits persist

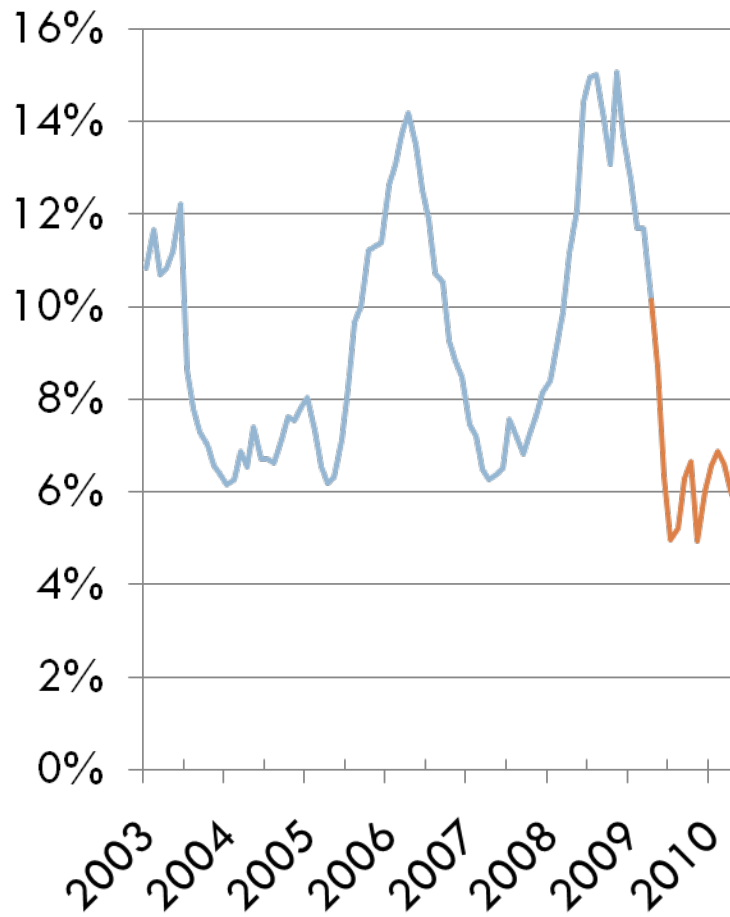
Long-term fiscal deterioration needs a response



- Large fiscal deficit driven by combination of longer-term trends and short-term impact of crisis:
 - Long-term decline in revenue (% of GDP)
 - Declining budget surpluses
 - Rapid increase in government spending in 2008/9 & 2009/10
 - Compounded by sharp drop in revenues (minerals, SACU)
- Requires fiscal policy response for sustainable budget

Balance/GDP
 Revenues/GDP
 Exp/GDP
 Revenue trend
 Spending trend

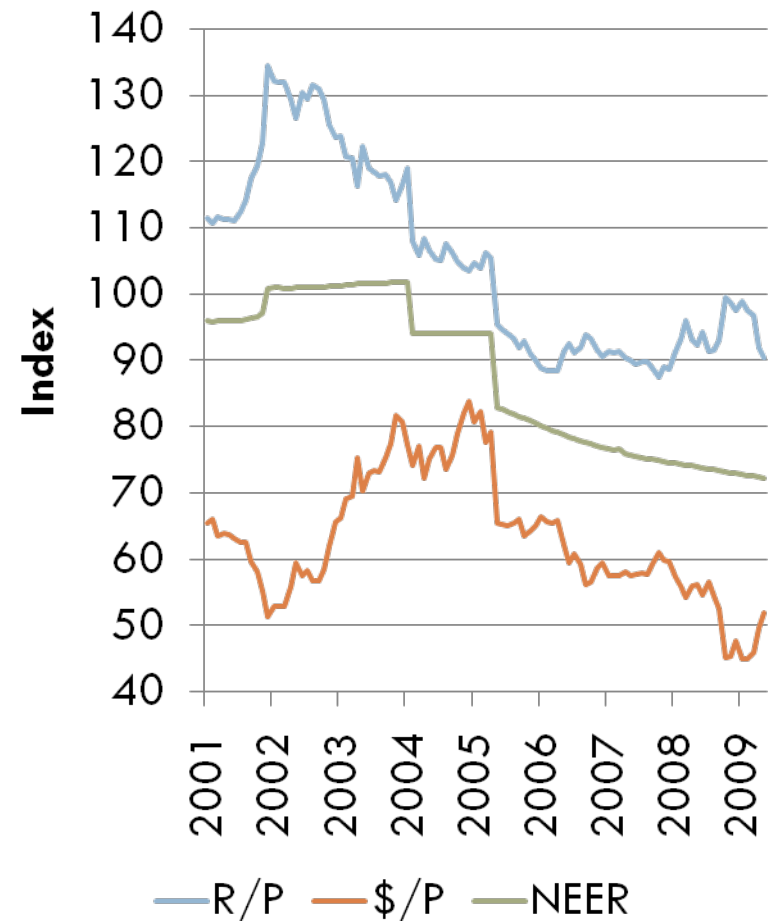
Inflation – set to decline further



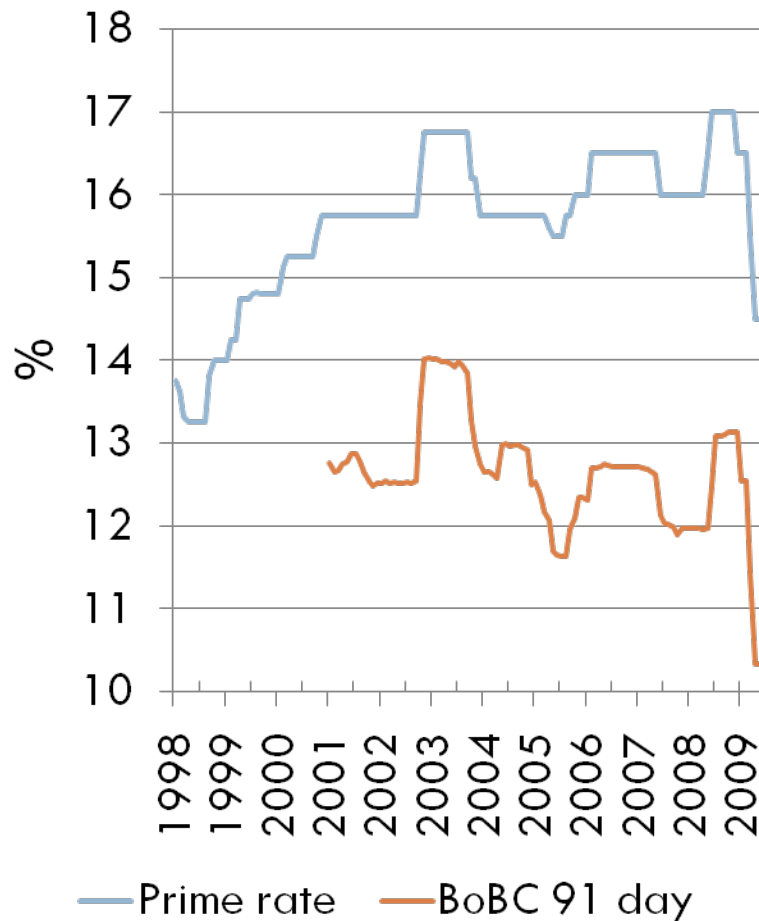
- Inflation has fallen rapidly since peaking at over 15%
- Heavily influenced by fuel prices
- Forecast to fall below 10% in May and finish 2009 around 6%

Policy responses: exchange rate

- Current policy entails peg to pula basket (ZAR + SDR), with gradual crawl
- No major change expected
- FX reserves large enough to support current arrangement
- Current policy (more or less) rules out devaluations
- Rate of crawl may be increased slightly to weaken currency given weaker exports



Policy responses: monetary policy



- Sharp fall in inflation plus weaker economy points to relaxation of monetary policy
- Interest rates reduced sharply in recent months – now lowest for a decade
- Prospect of further significant cuts in interest rates in 2009

Policy responses: fiscal policy

□ Implemented:

- Short-term spending cuts (approx 6% on 2009/10 budget – but still an increase in spending)
- Enforcement of stricter budget limits in NDP10 (2010-2016) to maintain sustainable budget
- Alternative sources of finance (e.g. \$1.5 bn from AfDB)

□ To be done:

- Re-establish discipline in public finances – especially prioritisation of public investments
- Fast-track reforms to boost private sector, to replace (smaller) government contribution to GDP growth

Summary

- Short-term impact of crisis quite severe:
 - Drop in export earnings
 - BoP deficit & falling fx reserves
 - Negative growth (recession)
 - Large budget deficit
- But cushioned by large fx reserves & government savings – time for adjustment
- Medium-term prospects
 - Growth recovery
 - Uncertainty over diamond prices/earnings – peak in production around 2017
 - Mineral earnings stagnant
 - Fiscal pressures
- Need to reform – crisis provides an opportunity:
 - Greater efficiency in public spending with focus on growth-enhancing investments
 - Further regulatory reform to support private sector



Thank You