



REPUBLIC OF BOTSWANA

DEVELOPMENTS IN THE GLOBAL ECONOMY &  
IMPLICATIONS FOR BOTSWANA

BY

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## **The Global Economy**

1. Recent developments of the debt situation in United States of America (USA) and some European countries such as Spain, Portugal, Greece and Italy and Euro area as a whole remains a threat to growth prospects of the world economy. Most of these countries have high and unsustainable levels of debt relative to national incomes. The unstable political situation in the major oil producing countries, particularly the Middle East and North Africa is also not helping the situation.
2. In the USA for example, there are already signs that the economy is entering another recession with GDP currently showing an expansion of only 1.3 percent and consumer spending up by only 0.1 percent in the second quarter of 2011. Home prices, an important indicator of the US economy, have also fallen to 2002 levels and could fall further by 10 percent if current trends persist. Other economic variables such as unemployment and inflation are also on the rise with investment opportunities yielding less and less.
3. Similarly growth in the Euro area is forecast to slow down to be just about 0.2 percent in 2012. In particular the UK is expected to grow by a mere 0.5 percent in 2012 with unemployment expected to rise to about 9.1 percent by 2013 from 8.3 percent in 2011.
4. I should point out that pressure is already mounting to quickly restore credit market and consumer confidence in the US and Euro area. The longer it takes to restore these, the greater the risk of adverse economic consequences that could spread to the rest of the world, including Botswana, resulting in a possible double-dip recession.

## **Implications for Botswana of Incidences in Euro area and USA:**

5. It is important to note that what is happening in the USA and Euro area has profound implications for our economy. Even though recently there have been signs of domestic economic recovery with annual real GDP in the second quarter of 2011 showing positive growth rates, we should be efficient and effective with our spending initiatives. This is because most of our revenue comes from exports, particularly diamonds, to the USA and Euro area. Hence any slowdown in economic activity in these countries will negatively affect our economy as well.
6. We have already seen that sales of diamonds in the last two months to December 2011 have been reduced significantly by almost 65 percent from previous levels of August and September. There is no guarantee that this trend will be reversed in the near future unless the situation improves in the USA and Euro area.
7. I must emphasise that, a constrained external trade and global competitiveness, reduced revenues and reserves, and overall lowered demand for exports imply that should a double dip recession occur, Botswana will find it difficult to sustain the current levels of development and expenditure. Hence;
  - Reduced spending and increased efficiency in delivery of goods and services should be intensified. This might mean suspending some development projects until such time that the economy has fully recovered.
  - It might also mean depleting the reserves even further in order to sustain maintenance of critical economic activities such as roads, health facilities, energy and water. This would however, leave the country vulnerable to future shocks to the economy

- Balancing the budget in the coming years might become more and more difficult with risk of increased deficits with the possibility of downward revision of Botswana's credit rating
- Poverty might increase even further and the gains on unemployment reversed as economic activity slows down.

8. Even though the list is not exhaustive, these are some of the realities which we are likely to face with a possible economic down-turn. I must point out that I will further update the nation on some of these issues during the 2012 Budget Speech presentation to Parliament on February 1<sup>st</sup> next year.

9. Thank you