

Linah K Mohohlo: Global economic developments impacting Botswana

Address by Mrs Linah K Mohohlo, Governor of the Bank of Botswana, at the Global Expo Botswana 2009, Gaborone, 4 November 2009.

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It is my honour and privilege to be a part of the festivities marking the 2009 Global Expo Botswana, which is the country's premier international business-to-business exhibition.

At the outset, let me extend a special welcome to exhibitors and visitors from overseas and those from sister countries in the region. Please feel at home in our midst.

This year's Expo comes at an opportune time when the state of the global economy is on a stabilization phase, and, therefore, calling for closer economic, trade and entrepreneurial interaction in order to sustain recovery.

At this moment of optimism in the global recovery, this year's Global Expo assumes greater importance more than ever before. The Expo presents an opportunity for exploring new avenues for investment and trade, so that we can continue to uplift and improve our collective standard of living. It is, therefore, my hope and desire that potential investors will seek opportunities for investment on their own or by partnering with their domestic counterparts. At the same time, domestic entrepreneurs should be able to widen their horizon and acquire new ways of doing business; they should learn from their foreign and domestic counterparts and develop market networks. It is also my desire that you will in, the end, develop life-long personal friendships that will enrich your experiences as individuals and families.

I find it appropriate, therefore, that the theme for Global Expo Botswana 2009 is "**Unlocking Opportunities in the Current Global Recession**". This theme calls on us to reflect on the current weak global economy, it call on us to reflect on the lessons learned as well as on emerging trends; it also affords us the opportunity to prevent history from repeating itself from an economic perspective, here at home and globally.

As part of addressing the theme, I believe it is relevant that I highlight some **global economic developments**, as they impact on our economy.

Since last year, the world economy has experienced the worst recession since the Great Depression of the 1930s.

Although the immediate cause of the economic recession was the 2007 collapse of the mortgage market in the United States of America, its depth and spread reflected deeper global economic and trade imbalances that had not been addressed. The recession was particularly severe in advanced economies which, as a group, are forecast to decline by an overall 3.4 percent this year. Fortunately, the emerging and developing economies are expected to register a growth rate of 1.7 percent in 2009; this is, nonetheless, a much slower rate of expansion compared to the 6 percent achieved the previous year.

The global recession has severely affected international trade. According to the International Monetary Fund, the volume of trade will decline by a steep 11.9 percent this year. The reason for this is simple. Rapid economic growth in many countries, especially during the last two decades since the end of the cold war, depended on export performance. When the importing countries began to experience an economic downturn, their demand for exports declined at a faster rate than the slowdown on growth. That is why there is now a global consensus that at a time of economic recession, all efforts should be made to encourage, and not restrict, trade so that countries can bail each other out. Global Expo Botswana answers this call.

The good news is that, while it has been severe, the recession has been less deep and lasted a shorter period than many had initially feared. This fortunate outcome is due to the unprecedented coordination of fiscal and monetary policies that were put in place by all the major economies. It is now clear that these efforts have begun to bear fruit, to the extent that a 3.1 percent global economic expansion is forecast for next year.

Such is the optimism for global recovery that policy makers are now discussing how best to wind-down the stimulus packages, as the international economy progressively returns to more normal performance. In fact, countries that were moderately in recession – Australia and Norway – have begun to tighten monetary policy. France and Germany have realised positive economic growth for almost two successive quarters. Similarly, the world's largest economy, the United States of America, grew at an estimated annualised 3.5 percent in the third quarter of 2009, a significantly faster rate than expected, and it was the first economic expansion in two years. Thanks to China for continuing on its robust economic growth path. All these economic expansion statistics are encouraging, even for the domestic economy, as luxury sectors such as diamond mining and tourism should derive benefit. Unfortunately, the United Kingdom continues to experience constraints to economic recovery, but it is expected to be out of the woods in due course.

With respect to developments in the domestic economy, you are aware that Botswana did not escape the effects of the global recession. However, the on-going global economic recovery has led to a rebound of economic activity, particularly in the third quarter, compared to the first half of the year, when there was no diamond production.

In addition to the beneficial effect of the on-going recovery of the world economy, government spending and the easing of monetary policy contributed to a strong expansion of the non-mining sector, which enabled the overall economy to grow by 1.3 percent in the third quarter of this year. This suggests that the underlying trend in economic activity remains positive, partly because the Government was able to implement a fiscal stimulus by drawing on the savings that were accumulated when revenues were buoyant.

As a result of the world economic upturn, diamond production has resumed in response to a steady revival of overseas demand for rough diamonds; and it is expected that this trend will continue in the second half of the year. The resumption of diamond exports has also led to surpluses in the current account of the balance of payments in recent months, so much so that the foreign exchange reserves are now increasing after months of consistent decline.

As intimated earlier, the Bank of Botswana lent support to the domestic economic recovery by easing monetary policy. To this end, the Bank Rate was reduced from 15.5 percent in December 2008 to the current level of 11 percent. It is important to emphasise that the Bank remains vigilant in monitoring inflation trends, to ensure that the medium term inflation objective of 3–6 percent is adhered to, despite some transient spikes in prices, which pushed inflation to 7 percent in September. After all it is the Bank's policy to stabilise inflation at a low and sustainable level in order to promote long-term economic growth and diversification.

Needless to add, the world economy remains fragile. For a strong rebound in economic activity to be sustained, there is need to learn from the current crisis and to take corrective measures, if we are to avoid a recurrence of the recent economic and financial turmoil.

At a global level, there is discussion of the need to create a new economic order. Towards this end, the G20 is no longer an obscure talking shop for finance ministers and central bank governors of advanced economies. Although there is practically no developing country participation, we should take comfort from the fact that it has now been transformed into a serious forum for world leaders to take collective global decisions. It is also expected to assume the responsibility for policy coordination, a role that has, until now, been played by the G8. After years of virtually fruitless discussions, there are now signs of progress in the long overdue **reforms** to the governance and functions of the Bretton Woods institutions, the World Bank and International Monetary Fund.

However, less progress has been made on reforms of the regulation and supervision of financial institutions. And yet, there is a need to curb the excessive risk-taking by these institutions. After all, it was their behaviour which threatened the collapse of the global financial system in 2008, that then triggered the recession. Similarly, there is little sign of reviving the global trading system under the Doha Round of trade talks. And yet it is clear that even-handed trade relations that could emerge through these negotiations could boost world trade and fulfill the G20 commitment to discourage countries from pursuing policies that restrict trading through protectionist measures.

Here at home, one of the main lessons derived from the global financial turmoil and economic recession is that reliance on the one dominant sector is far from safe. Clearly a concerted effort towards **diversifying** the economy is even more urgent, and the Government needs to partner with the private sector in this endeavour.

Many of the building blocks are already in place for diversified investment and development. We have macroeconomic stability; we have strong and robust structures for sound policy formulation; we have no exchange controls; and the banking system is stable, soundly managed and offers diverse products. These positive attributes have been consistently recognised by the sovereign credit rating agencies and other international organisations.

At international level, the country scores highly in indicators of international competitiveness, such as The Heritage Foundation's "economic freedom", the World Bank's "ease of doing business", the World Economic Forum's "global competitiveness", and Transparency International's "corruption perception index".

As you will readily agree, despite these impressive scores, there remain challenges in attracting foreign direct investment outside the mining sector. Therefore, the time has come to address the remaining constraints to broadbased investment. In particular, the cost of doing business in Botswana is high compared to other landlocked countries. Businesses should lobby for necessary changes that reduce production costs, but not seek generous subsidies or clamour for imposition of additional obstacles that favour a particular interest group. Equally important, businesses should not always look up to the Government for solutions to their problems, as such an approach tends to entrench a culture of dependency. All-in-all, business should embrace the benefits that accrue from increased productivity in a global economic environment. It is only this path that will sustain our country's long-run broad-based economic and social prosperity.

I had the pleasure of touring the exhibits earlier today, and was very impressed by the wide range of products on display. I am also encouraged that, despite the current difficult economic conditions, organisers are optimistic that transactions will surpass last year's fifty million Pula mark by an estimated ten million Pula. This suggests a rebound of consumer confidence in the region. Of equal importance, the organisers have appropriately arranged an investment forum, buyer-seller meetings, and several workshops. These events will contribute significantly to the achievement of the objectives of Global Expo Botswana 2009. I would like to take this opportunity to encourage exhibitors and visitors to patronise and participate in the events.

I also wish to encourage members of the public to patronise the exhibition especially on Saturday when, I am reliably informed, there will be cultural performances, various delicious cuisines and other complementary activities that will, no doubt, make Global Expo Botswana 2009 a memorable experience.

Director of Ceremonies, Distinguished Ladies and Gentlemen, I wish to conclude by wishing all exhibitors and visitors fruitful business negotiations in the next four days of the Exposition. I also commend the organisers for a sterling job in putting together this event; you make the city of Gaborone and the country proud.

The Acting President, Honourable Ministers, Distinguished Ladies and Gentlemen, it is now my honour and privilege to declare Global Expo Botswana 2009 officially open.

I thank you for your attention.