GLOBAL INFLATION AND ECONOMIC SLOWDOWN: MACROECONOMIC POLICY OPTIONS FOR BOTSWANA

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July 31, 2008

Outline

- Brief review of international economic environment & Botswana's recent growth experience
- Review of macroeconomic policy options:
  - Monetary and exchange rate policies
  - Trade policies
  - Fiscal policies
- Policy choices & recommendations:
  - To address current challenges
  - To support long-term economic objectives of diversification, openness and competitiveness

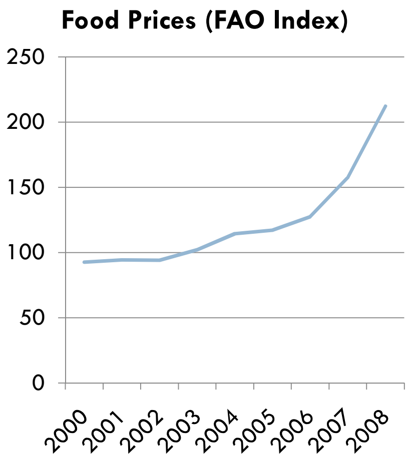
International Economic Environment

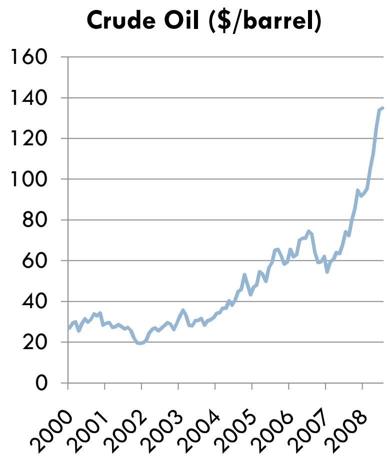
- Past several years:
  - High global growth and low global inflation
- Next few years:
  - Low global growth and high inflation
- How should Botswana respond to the changed global economic environment?
  - Short-term policy responses
  - Long-term structural reforms

International Economic Environment

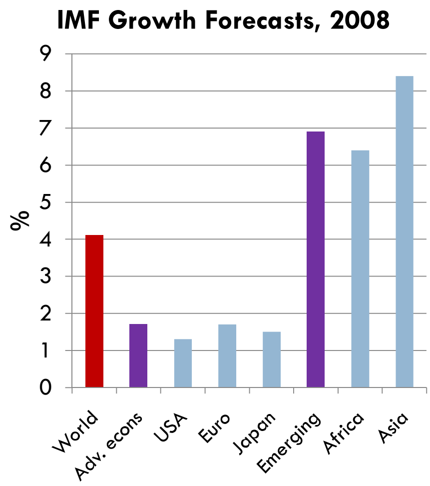
Economic Issue	Cause
Rising inflation	Higher food and fuel prices
Credit crunch and financial sector distress	Sub-prime crisis; risk aversion
Growth slowdown	Reduced credit availability & higher costs Weak business and consumer confidence
Macroeconomic imbalances	Balance of payments, currencies
Monetary policy challenges	Need to balance demands of reducing inflation and supporting growth

Food and Fuel Prices, 2000-2008





Global Growth Slowdown



- Global growth forecasts: 4.1% in 2008, 3.9% in 2009 (IMF)
- Developed countries relatively slow-growing at 1.7%
- Emerging / developing much faster growth at 6.9%

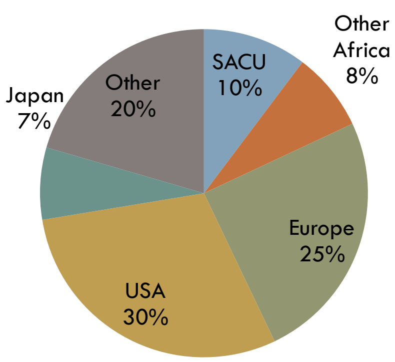
Impact on Botswana – Actual or Potential

Impact	Cause
Rising inflation	Import prices
Reduced real income	Terms of trade shift (higher import costs relative to export earnings)
Poverty alleviation challenges	Poor are more affected by food price increases
Agricultural potential boosted	Higher food prices
Export slowdown	Global economy
Reduced economic growth	Reduced real incomes, reduced export growth, higher interest rates

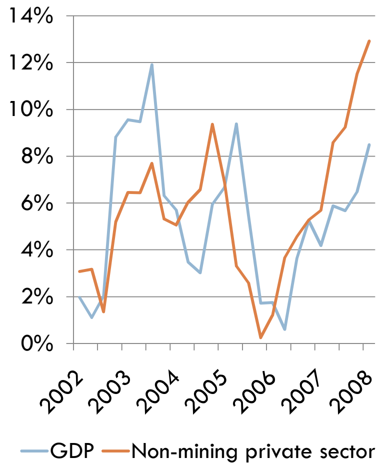
Impact of Global Slowdown

- Botswana is vulnerable to slowdown in US and global growth:
  - Export-dependent economy
  - US is largest market for our major export (diamonds)
  - Copper-nickel dependent upon global growth
  - Majority of exports to slow-growing developed economies

Direction of Exports, 2007

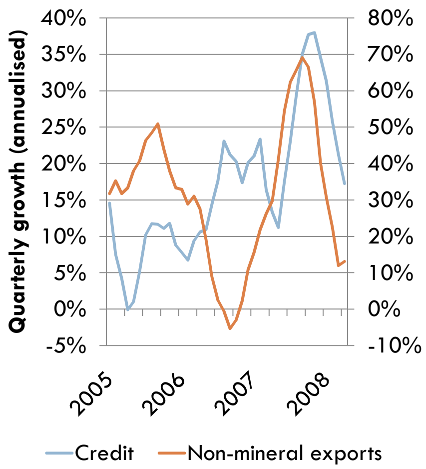


Botswana Growth Rates, 2002-08



- Healthy recovery in GDP growth from slowdown in 2005-6
- Particularly strong in non-mining private sector – evidence of diversification

Botswana Growth Rates - Recent



- Forward-looking leading indicators of quarterly growth:
  - Bank credit
  - Non-mineral exports
- Recent downturns
- Suggest that growth may be slowing

The Broader Context: Botswana's Challenges

Objective	Achieved through:
Speedy economic diversification (reduced dependence upon diamond revenues)	Diversification based on export-led growth
Sustainable economic growth	Focus on wealth creation not wealth distribution
Employment creation and poverty reduction	Private sector-led development
Citizen empowerment through excellence	Strategic, economically-driven government investment
Achieving a more efficient and productive economy	Policy changes and structural reforms
Building an internationally competitive economy	Fully embracing the principles of economic openness
	Implementing BEAC Strategy

Monetary & Exchange Rate Policies

Exchange Rate and Monetary Policy Framework

- Closely linked as both impact on inflation and competitiveness
- Not independent of each other – only certain policy combinations are sustainable
- Current issues:
  - How to address global developments using current policies?
  - Is the current framework sustainable in the longer-term?
  - Does the current framework address long-term needs of achieving sustainable low inflation, international competitiveness, and economic openness?

Exchange Rate and Monetary Policy Framework

- Distinguish between <u>policy framework</u> and <u>policy implementation</u>
- Two key institutions: Government (MFDP) and BoB
- Policy framework: Government determines, with BoB advice
- Monetary Policy implementation (interest rates) – BoB decides independently
- Exchange Rate (Pula basket) – BoB implements on Govt instructions

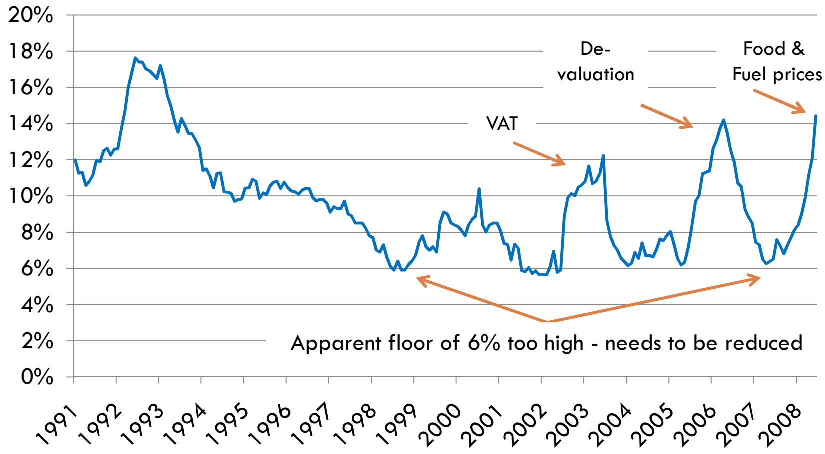
Exchange Rate Policy Implementation

- Crawling peg has been successful at supporting competitiveness
- Main problem is lack of transparency:
  - Composition of pula basket
  - Rate of crawling peg
- Both important for generating investor confidence and helping expectations formation
- Can be calculated by experts so not much gained by keeping secret

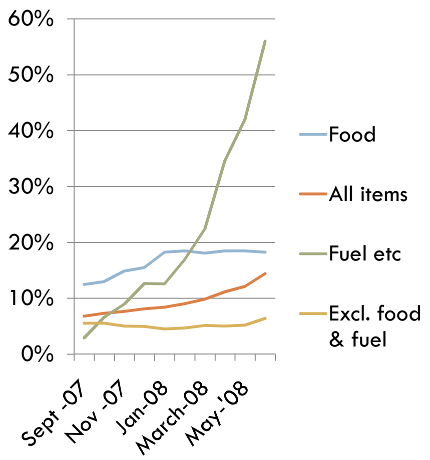
Inflation and Monetary Policy Implementation

- Sharp increase in inflation, from 6.5% in June 2007 to 14.5% in June 2008
- Further increases likely (July fuel price increase), with a peak around 16% expected – although depends on international oil prices
- Compares with previous inflation peaks:
  - 14.2% in April 2006
  - 17.6% in June 1992
  - 18.2% in January 1981
  - 24.7% in December 1973
- Highest rate for 16 years
- Highest rate since monetary policy has been actively focused on containing inflation
- Compares with current BoB inflation objective of 3%-6%

Inflation, 1991-2008



Recent Inflation by Category



- Rising inflation almost entirely due to food and fuel prices
  - Contributed 10.1% of June's inflation of 14.5%
  - 33% of CPI basket but 70% of current inflation
- Inflation excl. food & fuel has been steady around 5%-6%, although rising in June due to higher public transport fares, electricity etc.

Determinants of Inflation

Primary

- International price changes
- Food & fuel
  - will drive inflation down just as they have driven it up
- Other import prices
  - e.g. electricity, construction materials, motor vehicles
- Tax changes

Primary factors will determine whether inflation rises to 16%, or higher, or falls to single digits within 12 months

Secondary

- Domestic demand pressures
- Administered prices
- Wage increases
- Fiscal pressures (government spending)
- Monetary policy
- Structural reforms

Secondary factors will help to determine whether, when inflation does fall, it comes down to close to 6%, or stays higher at, say 8%

Policy Responses

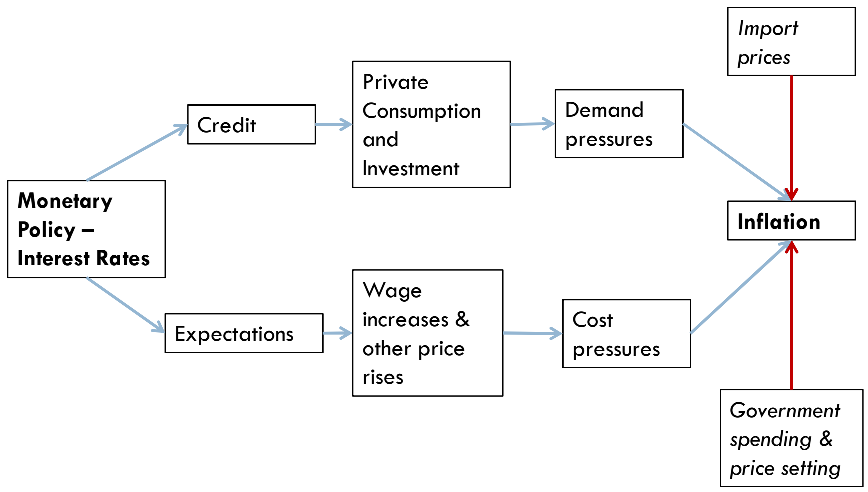
- Monetary Policy
- Exchange Rate Policy
- Trade and Industrial Policy
- Structural reforms

While BoB has primary responsibility to control inflation, only one of these four policy areas is under BoB's control

- Monetary Policy
  - the use of interest rates and other tools to control inflation

Key issue:
How effective is monetary policy in influencing inflation, especially when it is primarily imported?

How Monetary Policy Works



Effectiveness of Monetary Policy

- Monetary Policy will only have an impact on inflation if these links are strong and effective – otherwise the impact of interest rate changes will be lost
- Questions:
  - What are the relative magnitude of different determinants of inflation, especially those that are not subject to monetary policy influences?
  - How responsive is credit to interest rates, and how much does credit affect overall demand?
  - Are expectations of inflation affected by interest rates?
  - Have interest rates historically had an impact on inflation?
  - If yes, how long does it take for that impact to work?

Issues to consider

- Impact on prices
  - Which prices can monetary policy affect?
- Appropriateness of Monetary Policy stance
  - Have interest rates been responsive to economic conditions?
- Credibility
  - Is there confidence in the operation of monetary policy?

Impact on Prices

Inflation is measured through the CPI basket, which has four categories of commodities, each of which is affected differently by monetary policy

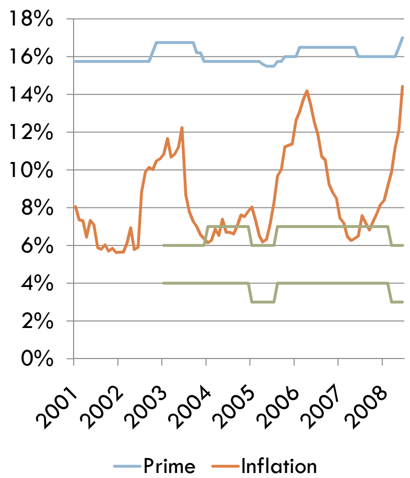
Category	Example	Influence of monetary policy	% of CPI basket
Imported tradeables (IT)	Vehicles, fuel, most food	None	45%
Domestic tradeables (DT)	Beer, maize	Limited	24%
Non-tradeables – regulated/administered prices (NT – R)	Public transport fares, govt. school fees	None	10%
Non-tradeables – market prices (NT – M)	Private house rentals	Yes	21%

Impact on Prices

- Implications
  - Monetary policy has limited *direct* influence on inflation when it is primarily imported – as now
  - Difficult to affect overall inflation as policy only affects a small share of consumption items
  - There is an *indirect* influence, through "second round" effects, but those channels may be weak
  - Price increases on majority of items are outside of central bank control (i.e. direct first-round effects outweigh indirect second round effects), so achievement of inflation targets is difficult

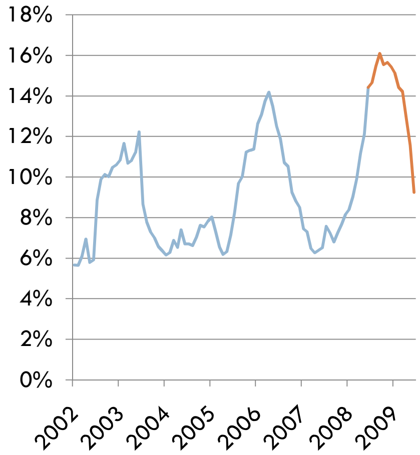
Monetary Policy Stance

- Interest rates at their highest ever level in Botswana
- Appropriate for interest rates to be raised when inflation is rising:
  - but starting from too high a level
- Interest rates not reduced sufficiently when low inflation
- Lower interest rates would have given more scope for raising them when inflation is rising
- Interest rates should be responsive to real economic conditions:
  - but growth data are weak and delayed
  - hence not well reflected in policy



Inflation Prospects

- Inflation set to peak in next three months
- Will then fall rapidly if international food & fuel prices stop rising
- Single digits (<10%) by mid-2009
- Liquor tax could add 5-6%
- Main movements will be independent of monetary policy



Conclusions – Monetary Policy Implementation

- Short-term: interest rates are high, but there should be caution about raising further
  - Monetary policy will not be the main determinant of inflation increases or declines when import-driven
  - Scope for raising interest rates when inflation is rising is limited due to high starting level
- Process of setting the inflation objective needs to be reviewed – involve government
- Needs more co-ordination between BoB and government on monetary and fiscal policy

Exchange Rate and Monetary Policy Framework

Exchange Rate Policy	
Fixed	• Monetary union • Fixed peg
Semi-fixed	• Crawling peg
Intermediate	• Managed float
Flexible	• Free float

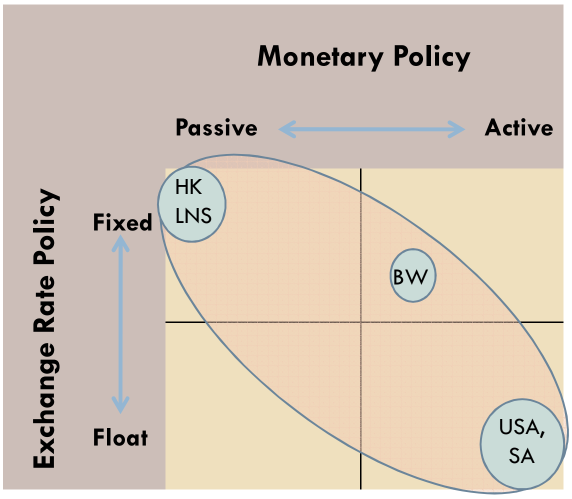
Monetary Policy	
Passive	• Interest rates set internationally
Intermediate	• Mixture of active & passive
Active	• Inflation Targeting • Money supply

Exchange Rate and Monetary Policy Combinations

		Monetary Policy	
		Passive ⟷	**Active**
Exchange Rate Policy	**Fixed**	**Y**	**N** [conflicting objectives]
	Float	**N** [no inflation anchor]	**Y**

- Viable policy combinations:
  - Fixed XR + passive monetary policy
  - Floating XR + active monetary policy
- Other combinations not sustainable in long term

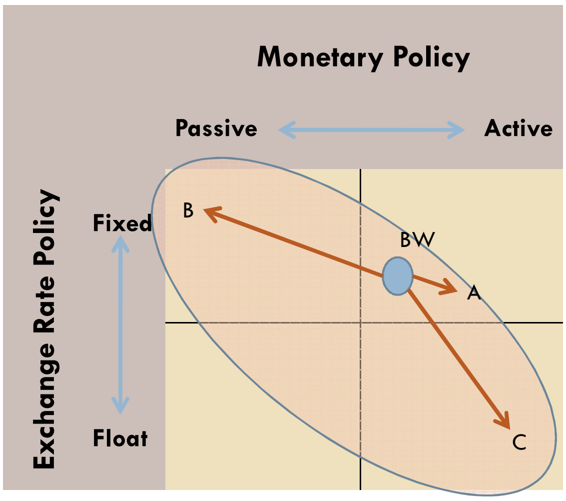
Exchange Rate and Monetary Policy Combinations



- Botswana's current policy (BW) is towards the edge of the viable space
- Combines fixed (but adjustable) exchange rate and active interest rate policy
- Pushing in opposite directions
- Policy has been accommodated by favourable fiscal position

HK=Hong Kong; LNS=Lesotho, Namibia, Swaziland; SA=South Africa; BW=Botswana

Exchange Rate and Monetary Policy Combinations



- Policy is moving towards A – a more active monetary policy but with still limited XR flexibility
- Long-term sustainability needs a move to B or C

Exchange Rate and Monetary Policy Combinations

- Questions re. potential long-term options:
  - Is inflation targeting appropriate for Botswana?
  - Is a floating pula feasible?
  - Should Botswana join proposed SADC currency union?
- Needs active consideration of pros and cons of different options, in terms of:
  - Supporting an open economy
  - Achieving low inflation, competitiveness and macroeconomic stability
- Long-term decisions needed on entire monetary and exchange rate policy framework

Monetary Policy & Inflation

- Current upsurge in inflation is likely to be short-lived
- Monetary policy has a role to play, but cautiously
- Needs more co-ordination between BoB and govt.
- Lower long-term inflation will be mainly driven by structural reforms to raise productivity
- Appropriate combination of exchange rate and monetary policy needs careful consideration to determine the best option for Botswana

Trade Policy

The International Food Crisis – What Role Can Trade Policy Play?

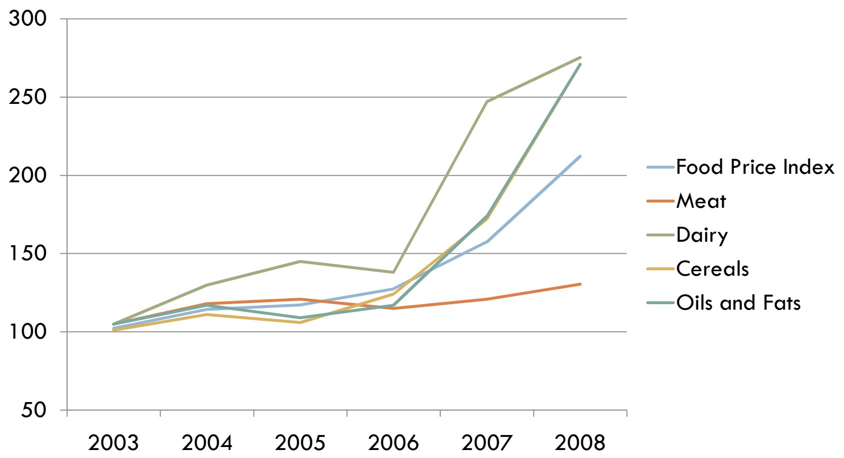
Context: Botswana's Trade Agenda

- EU – SADC (-) EPA Negotiations
  - ☑ Interim EPA (Nov 2007): secured future of Botswana's beef industry; export opportunities
  - Final EPA (Dec 2008): enhance integration in global value chains
- Regional level
  - ☑ SADC FTA
  - Implement the SACU 2002 Agreement
- WTO/Doha Development Agenda
- International Fuel and Food Crisis

Overview

- Change in food prices on world markets
- … and the impact on Botswana
- How should trade policy be adapting to the crisis?
- What is the current status of trade policy in Botswana?
- Has the crisis revealed institutional flaws in our trade policy process?

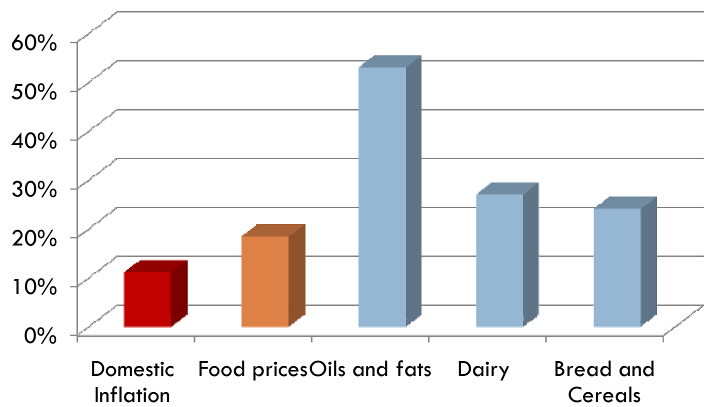
International food prices rising across the board (Price increase 2003 – 08)



Food prices over the longer term….

- Expect higher prices to bring about an increase in global supply and reduction in demand
- Price increases for some food items are flattening out
- However, unlikely to see prices fall in the near future
- … and some analysts expect prices to keep rising
- *Present opportunities for agriculture in Botswana*

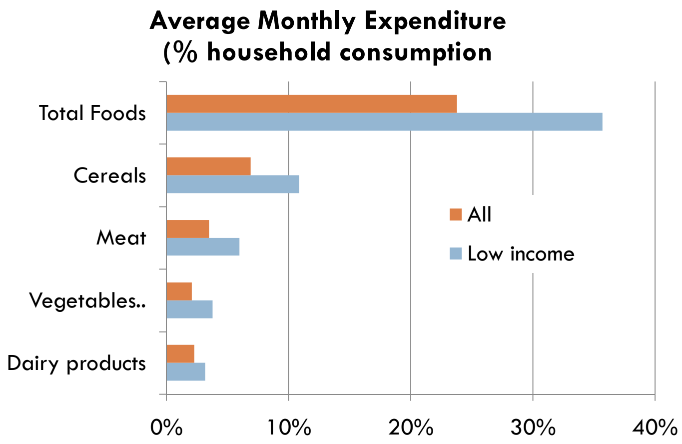
Impact on domestic inflation in Botswana



CPI (April 2008)

Source: CSO

Hitting the poorest the hardest



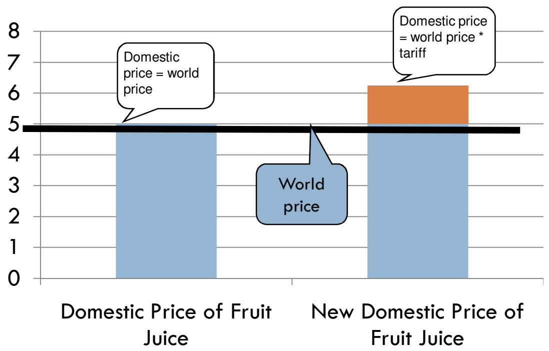
Source: HIES 2002/03

What role (tariff) trade policy?

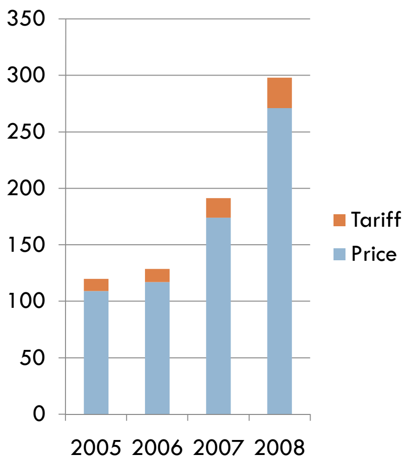
- Reducing tariffs reduces the price paid by consumers
- …And is of greatest benefit to those in greatest need
- Several countries have cut import tariffs on food items in response to the food crisis
  - Mauritius: all food items zero rated
  - Kenya: 35% tariff on maize and wheat flour now 0%

Impact of a tariff on the price the consumer pays?

- An import tariff is a customs tax paid when a product is imported.
- E.g. a tariff of 25% on fruit juices will mean a litre of juice costing 5 Pula on world markets will now cost Pula 6.25 in Botswana



The tariff's impact in Pula terms is greater the higher the price



For example, there is a 10% tariff on imports of sunflower oil from outside of SACU

As the price of oils and fats increases, so does the pula value of the duty.

Current situation in Botswana

- Trade policy operates at two levels
- Southern African Customs Union (SACU)
  - Sets Common External Tariff for Botswana, Lesotho, Namibia, South Africa and Swaziland
  - A new, democratic SACU is currently "under construction"
- National level

SACU level

- Some key tariffs are self adjusting: higher world prices lead to lower tariffs (Maize)
- However, many food items are heavily taxed
- Unaware of any attempts by BLNS to seek changes in the Common External Tariff
- But not only tariffs are important: need also to ensure competition within SACU (Price fixing cartels in South Africa)

SACU Tariffs on food items: some examples

- Beef, meat 15–40%
- Pork 15-40%
- Butter up to max 79%
- Potatoes 30%
- Jams 30%
- Fruit Juices 25%
- Wheat flour 20%
- Pasta 20-30%
- Prepared foods (cereals) 5-25%
- Tomatoes 15%
- Onions 15%
- Pineapples 15%
- Sweetcorn 10%
- Sunflower oil 10%
- Maize flour 5%
- Oranges 4%

Botswana level

- Trade restrictions imposed by Botswana are on food items
- Little analysis of the impact of these measures but at best very mixed

Trade restrictions

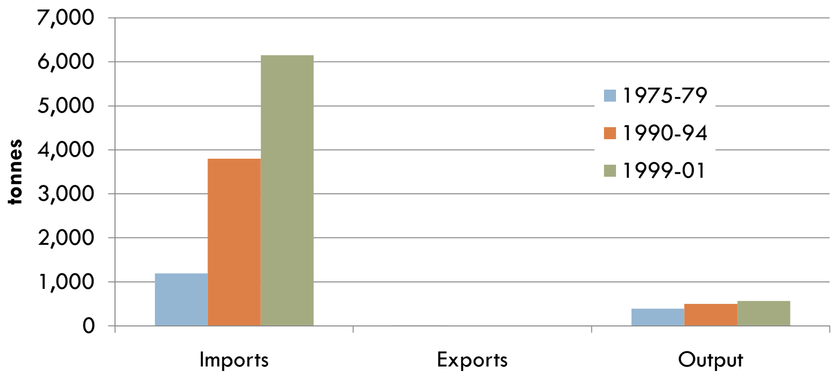
Restrictions include

- Poultry (2002)
- Eggs (early 1990's)
- Oranges and selected horticultural products (late 1970's)
- Bread (2003)

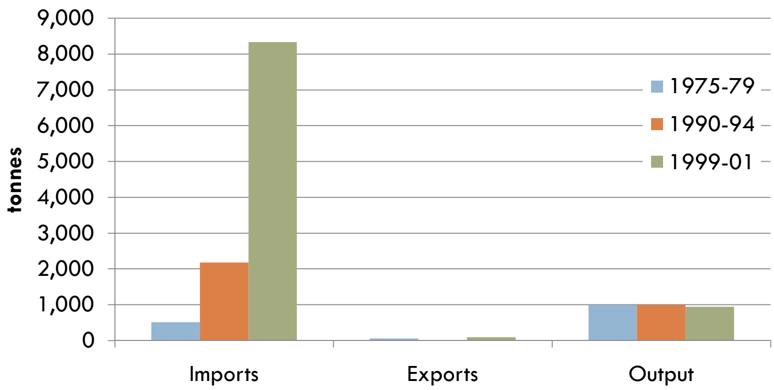
Infant industry tariff under SACU (8 years)

- UHT Milk (2008)

Impact of restrictions: oranges



Impact of restrictions: onions



Impact of restrictions: poultry

- Restrictions on poultry have been credited with creating an estimated 3000 jobs
- May have reached its limit
- Evidence of shortages in some parts of the countries
- And higher prices discourage value added activities such as food processing

Possible impact of UHT tariff?

- Prices:
  - Prices up from an average 7.50 to 9.95 Pula
  - Domestic producer's factory price is unchanged, but retail mark up and limited availability in stores means consumers may not be able to buy at this price
- Direct employment
  - Between 60 – 100 direct jobs
- Long term impact on dairy industry?
  - Currently most milk is imported
  - But may change over time

Possible impact of UHT tariff?

- Potential cost to households?
  - "Worst case": could be as high as Pula 20.8 million p.a. in total
  - But retailers may not be able to pass on the full increase; and consumers will buy less
- Potential cost per job?
  - "Worst case": between Pula 200,000 & 346,000 p.a. (direct employment)
  - Compares with estimated cost to South African consumers of Rand 665,000 per job created by protectionist measures in the Tobacco industry, and Rand 162,000 in the Footwear industry
- Hits the poorest hardest, already hard hit:
  - Dairy prices increased by 25% (May 2008)
  - Long life milk c.2% of household expenditure in rural areas; 0.6% for cities and towns

This is NOT to say businesses in Botswana don't need assistance

- SACU markets are often distorted and oligopolistic
- But tariffs/ restrictions are a blunt, anti-poor form of support
- Other approaches more effective and efficient?
  - e.g. effective regional competition policies
  - Restructuring of SACU tariffs
  - Direct subsidy

- *The UHT Tariff is in contravention of international obligations: at the WTO Botswana bound tariffs on UHT to be no greater than 20%*

Systemic issues?

- Botswana Level
  - Monitoring and review mechanism for trade restrictions
    - Cost benefit is changing all the time
  - Full cost benefit analysis of trade measures before imposed
    - Impact on poverty and inequality taken into account
    - Compatibility with international obligations (WTO, SADC..)
- SACU Level
  - Implementation of new SACU Agreement (tariffs, industrial, agricultural and competition policies)
  - BLNS lobbying

Conclusions

- Households are hard hit by the international food crisis
- The poorest are being hit hardest of all
- Following the examples of Mauritius and Kenya in reducing tariffs on food items could help alleviate the situation in Botswana
- But requires tariff reduction at the SACU level and a rethink of Botswana's trade restrictions
- The international food crisis has revealed systemic issues that need to be addressed for Botswana's long-term benefit

Trade Policy - Summary

Trade Policy – responding to higher international food prices

- The global economic landscape has changed with higher relative food prices here to stay; have our policies responded?
- Following the examples of Mauritius and Kenya in reducing tariffs on food items could help alleviate the impact of the food crisis
- But requires tariff reduction at the SACU level and a rethink of Botswana's trade restrictions
- Make SACU work – use the new agreement
- Tariff policy alone is not enough; broader challenges include regional competition policy to make markets more efficient

Trade Policy – protection

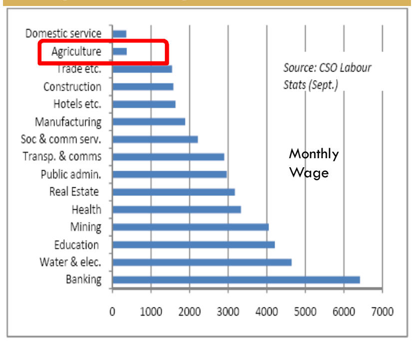
- Higher food prices increase the potential for domestic agricultural production – offering higher returns for some crops
- But increased agric. production should not be pursued at all costs – must be based on long-term viability
- Infant industry protection for agriculture and food processing:
  - is expensive (raises prices)
  - hits those least able to pay (the poor) the hardest
  - may shift resources to unproductive activities and can contribute to an unsustainable economy
  - may be difficult to remove
- Need to introduce a monitoring and review mechanism for national trade restrictions and conduct full CBA for any new measures proposed – weighing costs and benefits – and ensure any protection is strictly time-limited

UHT Infant Industry Protection: UHT

High direct cost

- Potential cost per job?
  - Could be between P200,000 and P350,000 per job per year (direct employment)
- Hits the poorest hardest, already hard hit:
  - Dairy prices increased by 25% (May 2008)
  - Long life milk c.2% of household expenditure in rural areas

More broadly applied: trapped in low productivity; unsustainable



Namibia UHT plant: IIP imposed in 2001, now request to 2012. What will be different this time?

Trade policy – support for global integration

- Long-term growth and diversification must be based on integration with the global economy, requiring:
  - Increased openness (more imports and exports)
  - Improved competitiveness
  - Keeping domestic costs down
  - Moving resources into activities which can be internationally competitive
- Domestic protection can undermine this objective, unless judiciously applied

Fiscal Policy

Fiscal Policy

- Government expenditure is an important component of the economy:
  - Contributes 45% of total consumption and investment
  - Major influence on demand and inflation
  - Contributes to growth, but also instability (when volatile)
  - Generates dependence (esp. for citizen-owned firms)
- Strong fiscal position provides cushion for longer-term adjustments

Fiscal Policy Issues

- Long-term fiscal sustainability issues
  - given long-term expected decline in mineral revenues
- Appropriate expenditure choices to support growth and competitiveness
  - Need to improve quality of government spending

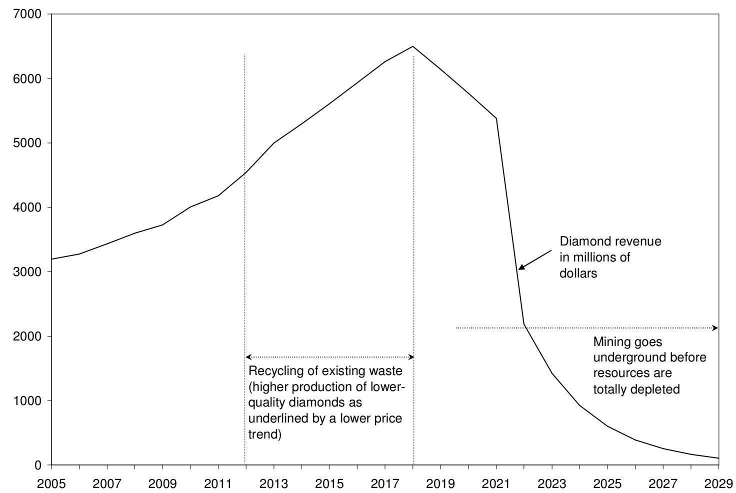
Long-term fiscal sustainability

- Fiscal Rule (NDP9)
  - Expenditure targeted at 40% of GDP
  - Spending matched to average revenues
  - No savings/surpluses (or deficits) planned over a budget cycle
  - Revenues at 40% of GDP reflect high profitability of diamond mining, and high tax rate applied

Long-term fiscal sustainability

- Long-term prospects
  - Revenues at 25-30% of GDP – typical for middle income country
  - Declining diamond mining profits and production
  - Lower profits and tax take on new mining ventures and other economic activities
  - Government spending will have to be cut, relative to the size of the economy

Long-term Mineral Revenues



Source: IMF (based on Govt. data)

Long-term fiscal sustainability

- Implications
  - Govt. should save when revenues are strong
  - Build up cash balances to earn income
  - To smooth the adjustment process and avoid a crunch later
  - Should be reflected in NDP10, so that NDP11 does not become a "fiscal crisis management" plan
  - Savings and reserves become a cushion for adjustment, not a source of funds for short-term spending

Long-term fiscal sustainability

- NDP10
  - fiscal position through to 2016 is quite favourable
  - but NDP10 should not aim to spend all revenues
  - should deliberately target budget surpluses
  - expenditure should decline as % of GDP
  - should deliberately aim to build government savings at BoB and foreign exchange reserves – not just a residual as at present, i.e save before spending
  - consider long-term reserve management issues or potential Sovereign Wealth Fund

Long-term fiscal sustainability

- Impacts
  - politically unpopular – perhaps - but economically essential in the long-term
  - reduce dependence of private sector on government
  - limited long-term growth impact, as much govt. spending is economically inefficient
  - more stability and fewer capacity constraints in spending programmes
  - reduced inflation pressures
  - reduced excess liquidity and easier monetary management

Public Expenditure Choices

- Public investment plays a crucial role in:
  - Providing economic & social infrastructure
  - Raising productivity and economic growth
  - Meeting social needs
- But depends on:
  - Rational selection of projects against objective criteria
  - Focus on generating returns from investment
  - Ensuring projects driven primarily by economic criteria if investment is to lead to higher growth
  - Considering long-term expenditure and human resource implications of investments
  - Saving, if insufficient projects available

Public Expenditure Choices

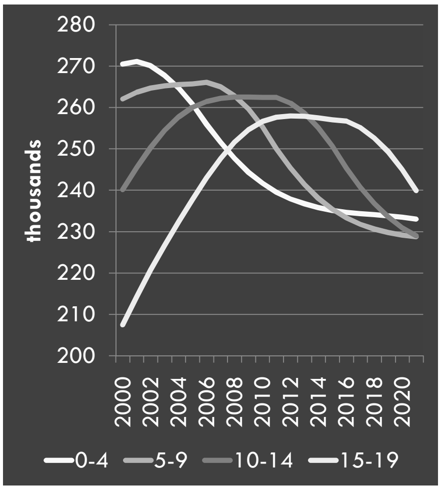
- Currently, quality and productivity of public investment is diminishing, due to:
  - Lack of adequate project appraisal
  - Being driven increasingly by social and political criteria rather than economic needs

Social imperatives have tended to shape development priorities, not the realities of an increasingly competitive and global market environment (BEAC)

Public Expenditure Choices

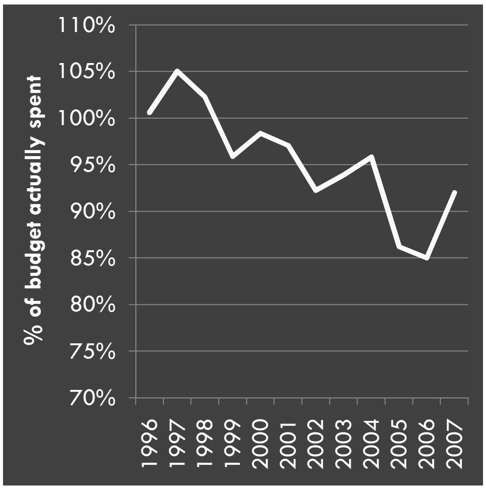
- Investment is now in increasingly remote rural infrastructure (roads, schools, health, water etc.), but:
  - Serving fewer and fewer people
  - Increasingly high cost (per capita)
  - No significant economic returns (low productivity)
  - No discernible impact on poverty, which remains concentrated in rural areas
  - Rural-urban migration continues
  - Majority of Batswana are urban dwellers
  - Doesn't reflect demographic trends

E.g. Trends in Child Age Cohorts



- Numbers of children in different age cohorts peaking and then falling in next few years
- Effect likely to be more pronounced in rural areas due to migration
- Implications for resource planning (esp. education)
- No's of primary school enrolments already falling
- How many more rural schools do we need?

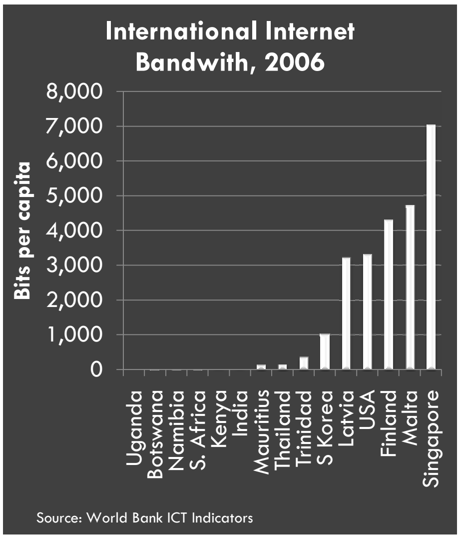
Expenditure Budget Efficiency



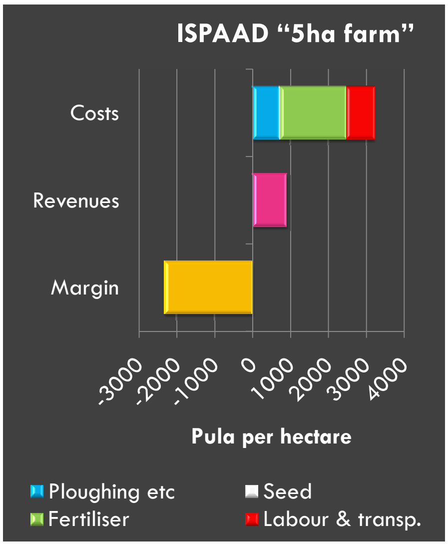
- Progressive decline in proportion of budget actually spent
- Particularly a problem with development budget – only 67% spent in 2006/07
- Some improvement in 2007/08

Expenditure choices: IT capacity – needed but inadequate

	Bits/capita	GNI/capita
Uganda	4	300
Botswana	16	5,570
Namibia	18	2,023
South Africa	19	5,390
Kenya	21	580
India	24	820
Mauritius	153	5,430
Thailand	156	3,050
Trinidad	370	12,500
S Korea	1,028	17,690
Latvia	3,230	8,100
USA	3,307	44,710
Finland	4,311	41,360
Malta	4,729	15,310
Singapore	7,052	28,730

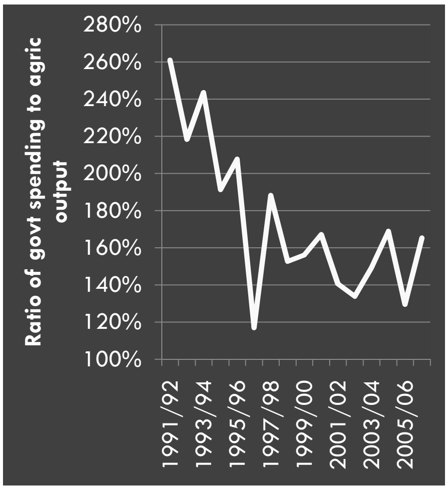


Expenditure choices: traditional agriculture – unsustainable spending



- Approximate costs and revenues for small-scale (<5ha) rainfed maize production
- Revenues cover only 27% of costs
- With 77% govt subsidy of costs, 5ha farmer makes P700 a year after expenses – while govt pays P12300
- Model is loss-making, with permanent dependence on govt – hence unsustainable
- Programme benefits seed & fertiliser supplies, tractor owners

Declining Efficiency of Agricultural Spending



- In 1991/92, P100 in spending by government on agriculture supported P260 in agricultural output
- In 2005/06, it was half that (P130)
- Spending needs to be re-focused on productive agricultural activities

Neglect of crucial economic infrastructure.....electricity, telecomms

- Electricity
  - Inadequate investment in electricity supplies
  - Electricity shortages now causing reduced productivity and threatening new investment
  - Raising costs of doing business
  - Likely to reduce economic growth
- Telecommunications
  - Inadequate national and international IT links
  - High cost of bandwidth
  - Worse then SA, no comparison with Asian countries
  - Deters investment in financial and other services
  - Inhibits economic diversification

And roads …. while some agricultural spending is wasted

- Roads
  - Towns and key trunk routes neglected, rural areas over-provided (relative to economic need)
  - Insufficient attention paid to maintenance of existing infrastructure
- Agriculture
  - Schemes such as ISPAAD are primarily social schemes and not economically viable
  - But will simply keep small farmers in a poverty trap …
  - and are an inefficient form of social support
  - ISPAAD budget would finance increase in OAP from P220 to P400 a month

Implications for public expenditure choices

- Focus on projects/investments with economic potential, especially those supporting global competitiveness
- Don't set investment (development) spending targets for the sake of it
- Change the balance between recurrent and development spending
- Re-establish project appraisal and project selection based primarily on economic returns
- Social investments should be focused on poverty alleviation
- If no projects, don't spend
- Public finance and project management needs to be improved
- Build up much larger financial assets prior to decline of mineral revenues

Fiscal Policy

- Current healthy fiscal position provides cushion to support long-term change, but should not encourage complacency
- Long-tem fiscal sustainability requires lower govt. expenditure, relative to size of economy
- Accumulation of financial assets now will help adjustment to lower future revenues
- Quality of spending needs to improve, with more focus on economic needs

Questions?