

Deepening Integration in SADC: Macroeconomic Convergence Issues for Botswana

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Keith Jefferis

Structure of Presentation

- Botswana Convergence Results in Regional Context
- Botswana Recommendations
- Impact of Regional Integration on Botswana
- SADC Macro Convergence Programme Issues

Baseline Study for SADC Macroeconomic Convergence Programme Under FIP: Overview of Preliminary Results

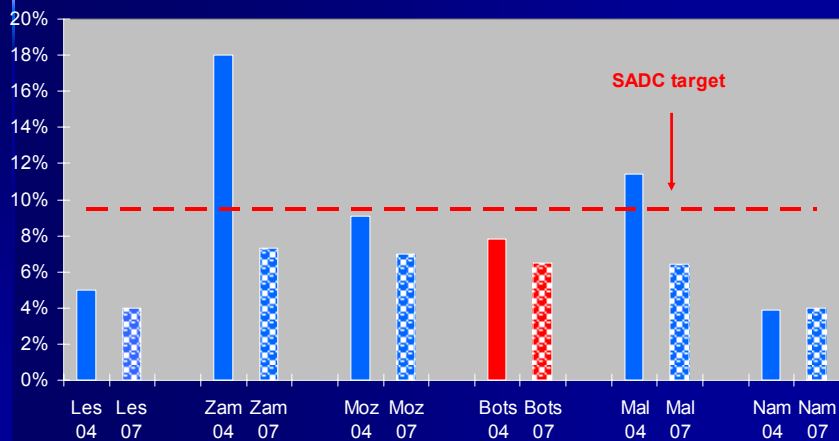
Primary Macroeconomic Convergence Indicators

Year	2008	2012	2018
Inflation	<9.5%	<5%	<3%
Deficit/GDP	>5%	>3%	>1%
Debt/GDP	<60%	<60%	<60%
Current Ac/GDP	<9%	<9%	<3%

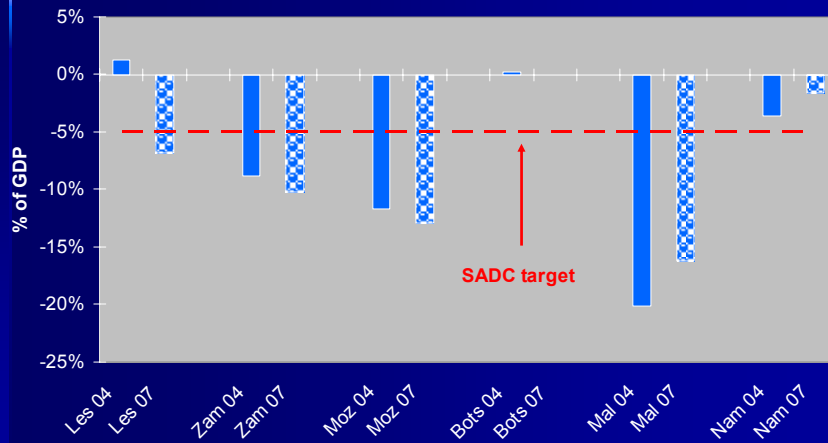
Secondary Macroeconomic Convergence Indicators

Year	2008	2012	2018
Econ growth	7%	7%	7%
FX res (imp. cover, m)	3	6	6
CB cred to gov (% rev)	10%	5%	5%
Dom. S (% GDP)	25%	30%	35%
Dom. I (% GDP)	30%	30%	30%

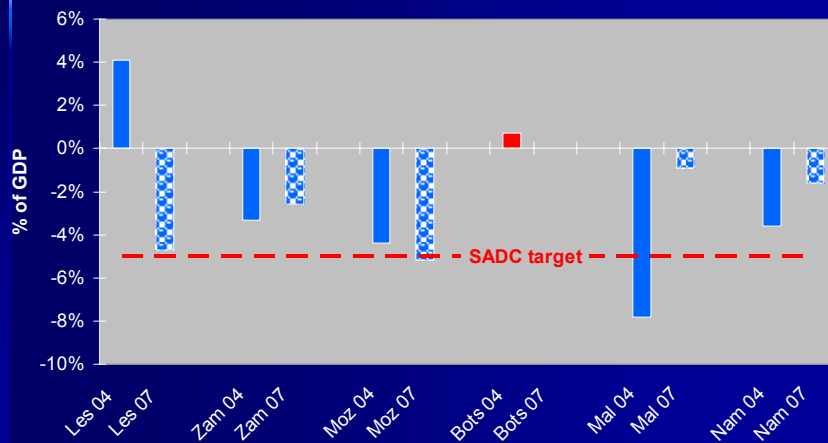
Inflation



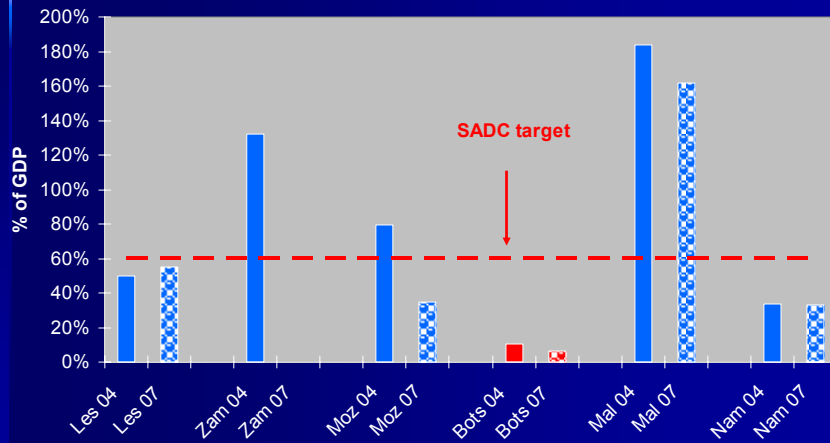
Budget balance (excl. grants)



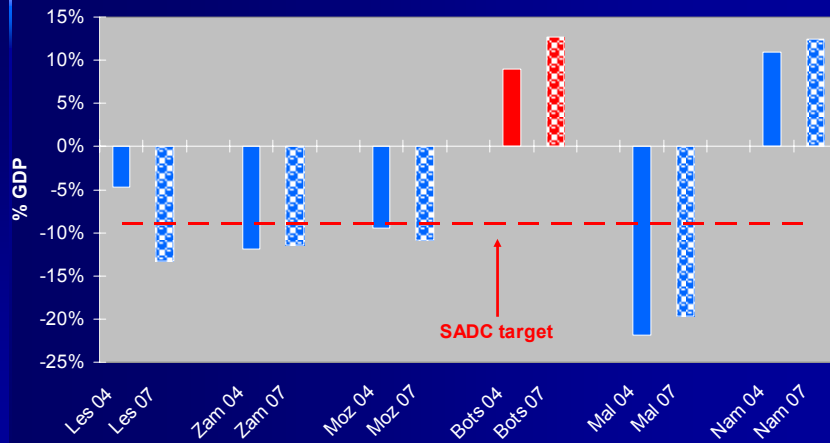
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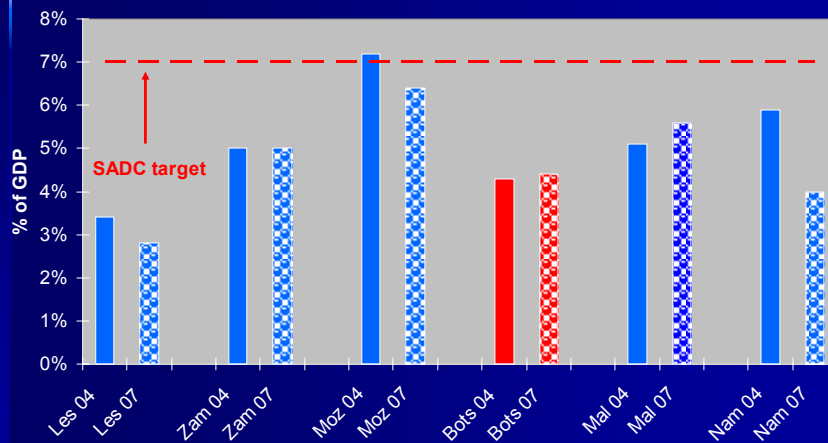
Public Debt



Current Account of BoP



GDP growth



Country Responses

- Considerable variation:
 - Degree of integration of SADC convergence programme into policy framework
 - Degree of attention devoted to convergence issues
 - Openness to discussion of difficult / critical issues
 - Willingness to question aspects of SADC convergence programme

Country Responses

- Considerable variation:
 - Availability of macroeconomic data, especially for official forecasts
 - Availability of independent reports / commentary / analysis
 - Capacity to continue convergence monitoring

Botswana Findings

- Botswana's convergence performance good, due to long-term economic record
- No major macroeconomic imbalances
- Will meet primary convergence targets
- BUT - concerns about long-term growth prospects
- Several worrying findings

Botswana weaknesses

- Poor quality of macro data in some areas
- Lack of updated, publicly available macro forecasts/projections
- Sensitivity to (constructive) critical comment – major contrast with IMF programme countries

Botswana Recommendations

Key Economic Challenges

- Boosting investment and long-term economic growth
- Reducing poverty & unemployment
- Managing impact of HIV/AIDS
- Ensuring fiscal sustainability
- Promoting economic diversification
- Facilitating new sources of exports

Key Constraints

- Real exchange rate - overvalued
- Inflation & interest rates – too high
- Impact of HIV/AIDS – growth, fiscal
- Productivity – too low
- High costs of doing business
 - Unavoidable (location, water)
 - Manageable (bureaucracy)
- Complacency/slow policy implementation

Policy Recommendations

- All govt. policies to focus more on efficiency, productivity and competitiveness
- Improve economic flexibility and adaptability
- Inflation a key problem – linked to productivity
- Resolve exchange rate and monetary policy conflicts (active MP and pegged XR)
- Strengthen trade policy formulation

Policy Recommendations

- Resolve FIAS, WBDB issues
 - Business licensing, Land
 - Skills & Recruitment, Work permits
- Speed up deregulation and privatisation
- Improve trade policy coherence
 - Trade facilitation
 - Liberalisation vs. protectionism
 - Use SACU to promote interests

Impact of Regional Integration

Impact & Relevance of Regional Integration

- Trade growth important for Botswana
- But smaller SACU members will not be main beneficiaries of SADC trade integration
- Botswana's main gains from:
 - Liberalisation of trade in services (non-SACU)
 - Trade facilitation, NTBs, administrative barriers
 - Reduction of SACU tariffs vs. region and RoW

Implications of Long-term Regional Integration Plans

- SADC Customs Union
 - Revenue distribution, compensation
 - Expand SACU?
- SADC Common Market
 - Labour mobility?
- SADC Monetary Union
 - too big and dissimilar?
 - XR and monetary policy implications
 - expand CMA?

Outstanding Issues – SADC Macro Convergence Programme

Questions and Problems

- Purpose of convergence programme / indicators?
 - SADC FIP, but beyond that?
 - monetary union requires convergence, but not general regional economic integration;
 - can provide useful regional peer review mechanism (alt to IMF/WB), but what sanction?
 - indicators seen as “imported” (Maastricht), need further thought and refinement

Questions and Problems

- General regional economic integration requires macroeconomic stability:
 - supports higher growth
 - reduces regional risk and uncertainty, boosts investment flows
 - will lead to passive convergence
 - but other constraints to intra-regional trade (NTBs, slow liberalisation) more of a problem
- Slow progress on FTA undermines credibility of broader integration, along with overlapping RIAs

Questions and Problems

- Strict, active convergence not needed for general economic (trade etc.) integration
- Only needed for monetary union, but this is far distant;
- Both timetable and MU process lack credibility; not on policy radar screen
- Monetary union needs further analysis on desirability, feasibility and timetable
- If pursued, needs policy convergence (exchange rate & monetary policy) as well as indicator convergence

Thank You