Relationship between mining revenue, government consumption, exchange rate and economic growth in Botswana

Relación entre ingreso minero, consumo del gobierno, tipo de cambio y crecimiento económico en Bostwana

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Abstract

This study empirically investigates the dynamic relationships between mining revenue, government consumption, exchange rate and economic growth in Botswana. Quarterly data from 1994 to 2012 were analysed through the use of unrestricted vector autoregressive (VAR) modelling consisting of impulse response functions, variance decomposition and VAR Granger causality. The impulse response functions showed the positive and negative response to mining shocks while variance decomposition indicates that mining revenue defines the variability in economic growth and government consumption. The empirical results also suggest that mining revenue and exchange rate granger cause economic growth while government consumption is caused by mining revenue and economic growth. These observations reveal how vulnerable the economy of Botswana is to external shocks. We conclude that, although mining sector has a significant role in the economy of Botswana,
it is necessary for the government to adopt further structural reforms that promote non-mining sector development to diversify the export.

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**Keywords:** Botswana; Economic growth; Natural resource curse; VAR; VAR Granger Causality

**Introduction**

Precedents and theory have reaffirmed what has now become well established as the ‘resource curse’ a pattern that has seen resource-endowed countries becoming less wealthy and less governed than their resource-scarce counterparts. According to Auty (1993), the resource curse refers to the paradox that countries and regions with an abundance of natural resources, specifically point-source non-re-
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