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ECONOMIC review

FOURTH QUARTER OCT-DEC 2024

compiled by
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COMMENTARY

FINAL QUARTER OF 2024 BRINGS POSITIVE POLITICAL AND POLICY CHANGES IN THE FACE OF CONTINUED DIAMOND MARKET HEADWINDS

Introduction

The final quarter of 2024 has been one of the most momentous in Botswana's history, with the defeat of the Botswana Democratic Party (BDP) in the general election held in late October, and the election of the Umbrella for Democratic Change (UDC) coalition to government. Outgoing President Mokgweetsi Masisi was duly replaced by President Duma Boko in a peaceful transition and handover of power.

The new government has however come into office at a very difficult time, with continued malaise in the global diamond industry and an unsustainable fiscal position bequeathed by the outgoing government. Economic growth has turned negative and foreign exchange reserves are declining. The new Government will need to make some tough fiscal choices to restore fiscal sustainability. They will need to implement structural reforms – notably those that do not come with big expenditure commitments – to reinvigorate economic growth and export diversification. Much of this Review is devoted to discussions of the challenges and opportunities facing the Government on the fiscal and reform fronts.

Economic Growth

The economic downturn experienced through 2024 intensified in the third quarter of the year, with year-on-year growth in overall GDP declining to minus 2.0%. This was not entirely unexpected, and was driven by further declines in diamond production and sales. Given the size of the diamond sector (mining, cutting & polishing, and trading), this has a huge negative impact on the overall GDP numbers. But in reality, the economy consists of two separate segments, being a poorly performing diamond sector (-21.6% annual growth) and non-diamond private sector that continues to grow (3.7% annual growth). There is considerable variation across different economic sectors, with the public sector, retail and wholesale trade, non-diamond manufacturing, tourism and professional services doing well, and agriculture and construction performing poorly.

Diamond Sector

Unfortunately the ability to keep up to date with diamond market developments has been undermined by the decision by De Beers to no longer publish the results of individual diamond sights (sales events), which are scheduled to take place ten times a year. Preliminary sales values have traditionally been available shortly after each sight. This practice was ceased after June 2024, to be replaced with the publication of quarterly results by Anglo American (De Beers' parent company). These, however, are produced only with a longer time lag, and the latest results available in January 2025 relate to July 2024 sales. In a market that is stressed and uncertain, this inhibits the ability to analyse and forecast from a policy perspective.

The malaise afflicting the global diamond sector, which started in the second half of 2023, has continued through the second half of 2024, with reduced diamond sales volumes and lower prices. By extension this impacts Botswana's exports, GDP and government revenues. As we have discussed previously, there are many reasons for this, but the dominant ones are weak overall market demand and the increased penetration of the market by synthetic (lab-grown) diamonds at the expenses of natural (mined) diamonds. While the largest global market for diamond jewellery – the USA – is showing resilience with some limited growth, the second largest market – China – is exceptionally weak. The combination means that demand for natural diamonds has faltered. Over the first three quarters of 2024, diamond sales by De Beers were down by 40% year-on-year. Production at De Beers mines (in Botswana, Namibia, Canada and South Africa) was reduced by 21% over this period, with Debswana, as the largest contributor to De Beers production, bearing the brunt with a 26% reduction in mining output. The higher impact on Botswana largely reflects the weakness of the Chinese market, which has historically been a major destination for Jwaneng goods.

The inevitable result of production being reduced by less than sales is an accumulation of unsold stocks of diamonds. De Beers are reported to have accumulated a stockpile of diamonds worth US$2 billion, the largest since the global financial crisis in 2008. This is a huge stockpile, in the context of "normal" De Beers total annual sales of US$4-5 billion. What it means is that even when the market recovers, it will take time to feed through to increased demand at the level of mining, given the need to clear the stockpiles being held by De Beers and other participants in the diamond value chain.

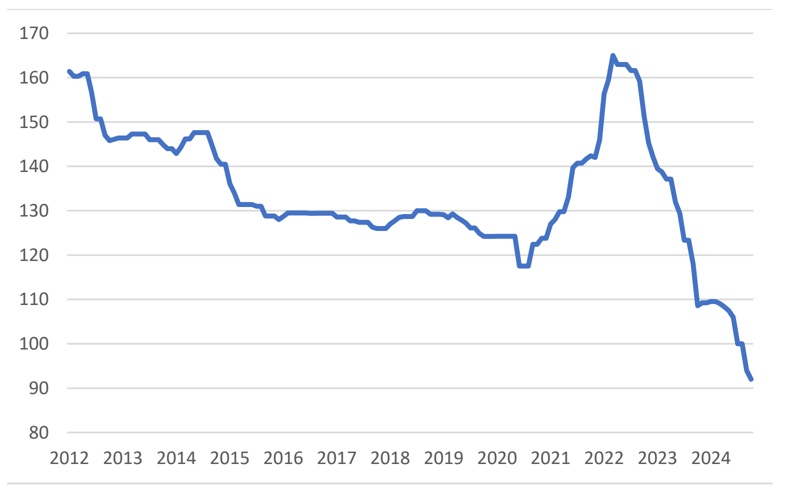
Botswana has also felt a severe impact in the manufacturing (cutting and polishing) sector. Over the years, more than 40 factories had been established in Botswana – largely due to the work be De Beers to "incentivize" their sightholders to set up operations in Botswana, notwithstanding the challenges involved in doing so. However, the tough market conditions in 2023 and 2024, with lower prices and reduced volumes, have made it difficult for these factories to operate at a profit, and almost all of them have either temporarily closed or reduced operations to a minimal care-and-maintenance level.

What are the prospects for 2025? The first test for the diamond trade was last quarter sales in the crucial US market, where reports suggest that "holiday sales [matched] the industry's modest expectations". De Beers have cut their sightholder allocations for 2025 by 20-30%, indicating that there are expectations of continued weak demand. Industry expectations are for a recovery in the second half of 2025.

Even when conditions improve, however, it may be unrealistic to expect a strong recovery of the kind that has followed previous diamond market downturns. Recovery may be tepid, at best. There is increasing evidence that the market for natural diamonds is experiencing a structural change, rather than a short-term dip, and this needs to be reflected in the policy measures undertaken in Botswana.

On a positive note, the new Government announced its intention to quickly finalise the long-outstanding new agreement with De Beers, covering mining leases, distribution of diamond sales by Debswana to De Beers and Government, and support for economic diversification. This had been held up under the previous Government, which was using it as a political football. Although the new Government said that it would be finalised within "days or weeks" this has not quite happened, with a few outstanding issues remaining to be resolved. Nevertheless, we expect the deal to be signed before the end of the first quarter of 2025, which will provide an important confidence boost to the broader diamond industry.

Figure 1: Diamond Prices (Antwerp Diamond Index, 1982 = 100)



Source: Bank of Botswana

Trade and Exchange Rates

The weak diamond market has inevitably affected Botswana's exports. Total exports amounted to P50.8 billion over the first ten months of in the same period in 2024, down 27% from P69.7 bn in the same period in 2023. This was mainly due to lower diamond exports, compounded by reduced exports of gold, live cattle and machinery. But it was not all bad news, with significantly higher exports of copper, iron & steel products, meat, plastics, soda ash and textiles. Hence on the export front, there is a similar picture to the sectoral growth figures, with a contracting diamond sector alongside reasonably robust performance in many other economic sectors.

The sharp drop in exports led to a huge increase in the balance of trade deficit, from P2.1 billion in January-October 2023 to P28.5 billion in 2024. This has inevitably had an impact on the foreign exchange reserves, which reached US$4.1 billion in September 2024. This is the lowest level of the foreign exchange reserves in US dollar terms since 1993. The downward trend in the reserves is unsustainable, and will require changes in the macroeconomic policy framework to restore sustainability. The cuts in government spending that are necessary to restore fiscal sustainability will also help to stabilise the foreign exchange reserves.

One of the areas where changes are needed is in the exchange rate policy framework. Government introduced some small changes as a result of its regular semi-annual review of the framework. These included a shift in the currency weights in the Pula Basket from 45% ZAR/55% SDR to 50% ZAR/50% SDR. The annual rate of downward crawl of the Pula against the basket was maintained at 1.51%, where it has been for the past two years. Finally, the BoB's trading band for foreign currency transactions with its Authorised Dealers (banks) was widened from 0.125% to 0.5% around the mid-rate.

The changes were not well understood, with many people concerned that the change in basket weights involved a devaluation. This was incorrect, as changes in the weights do not impact the exchange rate at the time of the change. The downward crawl does involve a very gradual devaluation, as it has done for many years. The impact of the change in weights will result in slightly less volatility in the Pula-Rand exchange rate, which will benefit firms involved in trade with South Africa, which is Botswana's major trading partner.

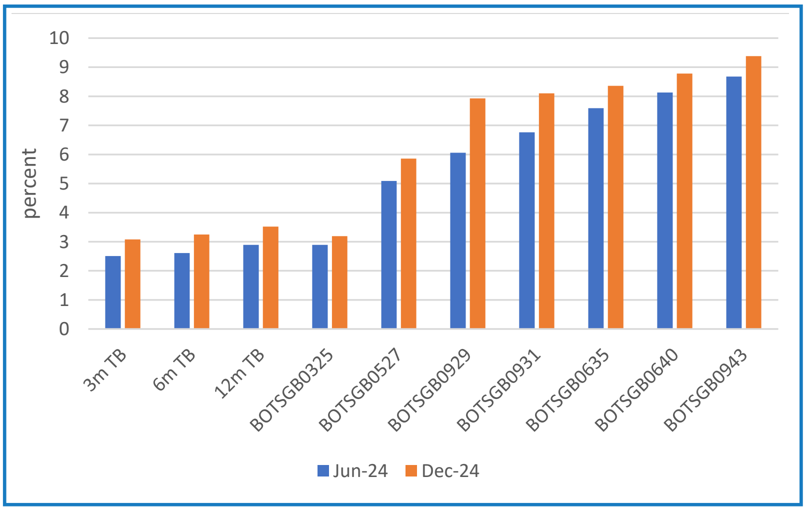
The exchange rate framework entails a fixed (but adjustable) exchange rate for the Pula, which is not subject to market forces. In the longer-term it will be necessary for the Pula to move towards a more market-determined exchange rate. The widening of the BoB dealing margin is a step in this direction, and provides an incentive for banks to trade amongst themselves prior to trading with BoB, supporting the emergence of an interbank foreign exchange market. It will be important for BoB to compile data on interbank foreign exchange trading, and to publish that data, so that the evolution of the interbank foreign exchange market can be tracked.

Inflation and Interest Rates

Inflation has continued at very subdued levels, coming in at 1.7% in December, well below the lower end of the Bank of Botswana's 3-6% inflation objective range. This low inflation largely reflects reduced fuel prices. We expect inflation to pick up in 2025, but to remain fairly stable with the lower half of the BoB range as long as there are no shocks from global fuel prices. While there are some pressures from higher regional food prices, notably for maize, the lifting of the vegetable import ban will help to offset this and bring food prices and inflation down.

The BoB maintained the Monetary Policy Rate (MoPR) at 1.90%, where it has been unchanged since August 2024. While there may be expectations of a reduced policy rate, given the low inflation rate, the BoB may be holding fire given that at present, the main inflationary pressures are arising from the domestic economy, where monetary policy has its main impact. Notwithstanding reductions in the policy rate this year, other interest rates have been rising. Both short-term T-Bill rates and long-term government bond rates have increased over the second half of the year, due to the pressure of increased government borrowing.

Figure 2: Government T-Bill and Bond Interest rates, June and December 2024



Source: Bank of Botswana

Financial Sector

The financial sector has experienced some stress in the second half of the year, with slow growth in lending and volatility in the deposit base. Notwithstanding the faster growth of deposits than lending, bank liquidity has been declining. Banks have been stepping up their purchases of Government bonds and T-Bills, reflecting the higher interest rates on offer as borrowing has jumped. This suggests that government borrowing may be "crowding out" bank lending to the private sector. In response to emerging liquidity issues, the BoB reduced the primary reserve requirement from 2.5% to zero, to release liquidity to the banking system.

There has also been some volatility from readjustments of pension fund assets. The regulator requires that pension funds repatriate 3% of their total asset holdings from offshore each year. However, the local market cannot provide suitable investments for these funds, which initially sit in bank accounts but are then redeployed due to the low earnings on offer from banks (at the margin, determined by the monetary policy rate). The inflow of pension fund assets has probably helped government to borrow more cheaply than it would have done otherwise to meet its deficit financing requirement. But it has also led to a stock market bubble. The repatriation requirement may need to be revisited, at least until new investment opportunities emerge, otherwise the cost may be further financial market instability, stock and property market bubbles, and reduced returns for pension fund members.

Government Budget

The Government budget has remained under severe pressure, as we have pointed out in previous issues of the Review. This is the result of sharply reduced diamond revenues, the bloated pre-election expenditure programme, and the failure to undertake any meaningful fiscal adjustments even when it became clear that mineral revenues were going to seriously under-perform in the current fiscal year. Normally the Budget Strategy Paper for the coming fiscal year provides an update to current fiscal projections, and is typically released around September. This year the BSP was held back until after the elections, perhaps because there was a reluctance to admit how bad the fiscal situation was. The 2025/26 BSP was finally released in December, and indicates that the projected deficit for the 2024/25 fiscal year is now P18.7 billion, compared to a budgeted deficit of P8.7 billion.

Table 1: Fiscal Projections, 2024/25 (P mn)

ITEM	FEB 2024 BUDGET	DEC 2024 BSP	CHANGE
Total revenue	93,445	77,157	-16,288
Minerals	25,052	8,702	-16,350
SACU	26,711	26,711	0
Non-mineral income tax	21,997	21,997	0
VAT	15,235	15,150	-85
Total expenditure	102,278	95,837	-6,441
Personal emoluments	35,462	35,197	-265
Grants & subventions	16,773	15,811	-962
Development	29,766	25,879	-3,887
Balance	8,695	18,680	9,985

Source: Ministry of Finance

The huge deficit is of concern for a number of reasons. First, the Annual Borrowing Programme released back in April 2024 was designed to fund a deficit of P8.7 billion, and has never been updated to show how the much larger deficit will now be funded. Second, the larger deficit is putting pressure on government borrowing, with the bond market failing to deliver the targeted borrowing amounts in recent months, notwithstanding higher interest rates. Third, the combination of the larger deficit and constrained bond issuance has put pressure on the Government Investment Account, which fell to its lowest ever level of P1.2 billion in September, before showing a small recovery in October once the quarterly SACU funds were received. We should also note that while the BSP shows that revenues from VAT and non-mineral income tax are slated to come in on target, information elsewhere in the BSP suggests that they are significantly under-performing, perhaps leading to an even larger deficit.

Clearly, what happened was that the massive shortfall on mineral revenues, leading to an overall revenue shortfall of 17%, was not matched by spending cuts, which have only been reduced by a projected 6%. Hence the deficit blowout and serious liquidity problems in government, which has struggled to make some payments as they fell due.

Overall, the fiscal legacy left by the outgoing administration provides an inauspicious starting point for the new government, which has to stabilise the fiscal position – i.e. to "stop the bleeding" – before even thinking about implementing their ambitious manifesto commitments. Our feature later in this Review considers the fiscal and economic challenges and options facing the new government in more detail.

The 2025 Budget to be presented in early February will be much awaited, to see how the fiscal constraints will be addressed while implementing some of the manifesto commitments and implementing structural economic reforms. After the severe deterioration of the fiscal position during 2024, with no policy response from the previous government, the 2025 Budget should include a commitment to introduce a mid-year budget review and statement to Parliament, which is common elsewhere, so that fiscal adjustments can be undertaken if required by changing economic or budgetary circumstances.

Other Developments

Amongst the positive moves by the new government was the announcement that the vegetable import ban imposed in 2022 and extended in 2024 will be lifted, in phases. The ban, while ostensibly introduced to improve food security, actually had the opposite effect, as it led to higher prices, reduced food affordability, serious supply shortages, and lower quality products – all of which reduce food security. The negative impact on households, particularly poor households, was serious, and was almost certainly one of the factors that led to the decisive defeat of the ruling BDP at the 2024 general election. It has also negatively impacted the tourism sector and the retail industry. The move had been introduced without sufficient prior consultations, was in contravention of the official National Agricultural Development Policy, was not evidence-based, and had no meaningful mechanism in place for monitoring its impact or adjusting its implementation when problems arose. It was also illegal under the Southern African Customs Union (SACU) Agreement, hence contrary to Botswana's more general commitment to the rule of law, and unsurprisingly led to a worsening of relations with Botswana's major trading partner, South Africa, and was contrary to the trade liberalisation policies entailed in other initiatives such as the Africa Continental Free Trade Area. We hope that going forward, policy initiatives will be evidence-based with proper prior analysis and mechanisms for impact evaluation, rather than being introduced on a whim. However, the fact that Government subsequently restricted cement imports indicates that there is still a problem with policy consistency.

Outlook

The immediate economic outlook at the start of 2025 continues to be somewhat downbeat with continued uncertainty over the timing and magnitude of recovery in the global diamond market. This poses major economic challenges for Botswana, entailing fiscal adjustment, "belt tightening", and extensive policy reforms. None of this will be easy, and it will take time for the benefits of reform to play out.

However, the likelihood of the necessary reforms being implemented has increased with the election of the new government in October 2024. There has been a very positive response in the private sector to the election of the UDC coalition government, in anticipation of an improved policy environment, notwithstanding the cuts that will be necessary in the government budget. These cuts would have been necessary regardless of the party in power, but with the new government there is more likelihood that policies to boost export-led growth and diversification will be implemented in the national interest. Nevertheless, policy needs to be consistent in order to build business confidence. Positive statements and commitments can easily be undermined, for instance by the introduction of new import restrictions and threats to not issue or renew work permits for foreign teachers in private schools, both of which undermine private sector competitiveness.

Overall, we expect GDP growth in 2025 to show a good recovery from the contraction in 2024. While much depends on the dynamics of the diamond sector which are very difficult to predict, we anticipate a recovery in GDP growth to 3-4% in 2025.

Coal and Climate

In December 2024 Botswana finally submitted its updated Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC). This is a requirement for states that signed up to the COP21 Paris Agenda to spell out how they intend to respond to climate change through mitigation efforts (to reduce greenhouse gas emissions) and adaptation efforts (to respond to climate change).

The updated NDC re-affirms Botswana's commitment to reduce greenhouse gas (GHG) emissions by 15% below the business-as-usual (BAU) case by 2030 (note that this is still an increase in absolute GHG emissions, but at a slower growth rate than under BAU).

Unfortunately the NDC doesn't fully explore the implications of achieving this reduction in terms of the energy (power generation) sector. The BAU case involves 1200MW of coal-fired power generation (the existing 600MW at Morupule B and the new 600MW project at Mmamabula). The NDC lower-emissions pathway involves cutting GHG emissions from power generation by around 25%, through the substitution of renewable energy (photovoltaic (PV) solar, concentrated solar power (CSP) and wind) in place of coal. This in turn requires the closure of approximately 300MW of existing/planned coal-fired power generation.

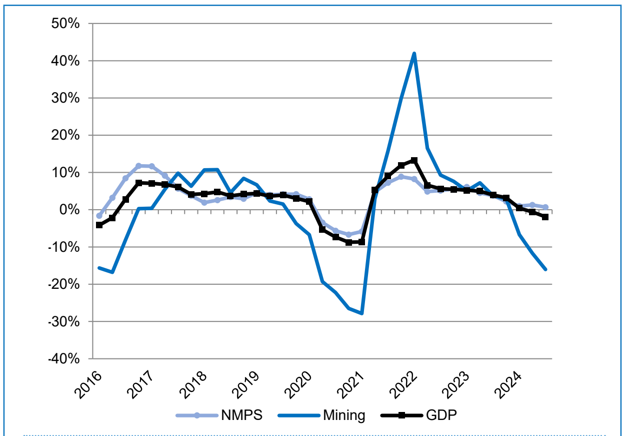
This raises the question of whether there is sufficient "joined up" thinking in Government. On the face of it, it appears that the Ministry of Minerals and Energy and the Botswana Power Corporation are pursuing one track (more coal-fired power), with the Ministry of Environment and Tourism on a different track (less coal); i.e., they are heading in different directions.

Given that Government and BPC have committed to the development of the new 600MW coal-fired power station at Mmamabula by Jindal, there is a risk that Government has made an international commitment to the UNFCCC that will be difficult or impossible to achieve.

However, all is not lost. BPC's Morupule B power station has never performed consistently at anything like its 600MW nameplate capacity. Most of the time, only one or two of its four units are functional (with the result that the electricity generated there has been extremely expensive, given construction, operational, repair and rehabilitation costs). Hence the commitment to the UNFCC for a lower GHG emission path could be met by closing the inefficient Morupule B power station ahead of schedule, in whole or in part, before 2030.

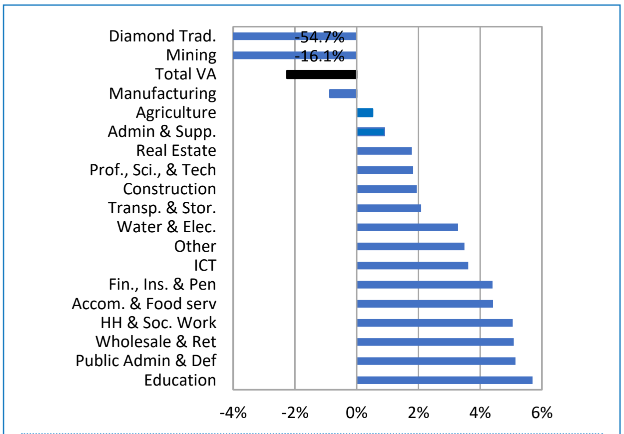
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



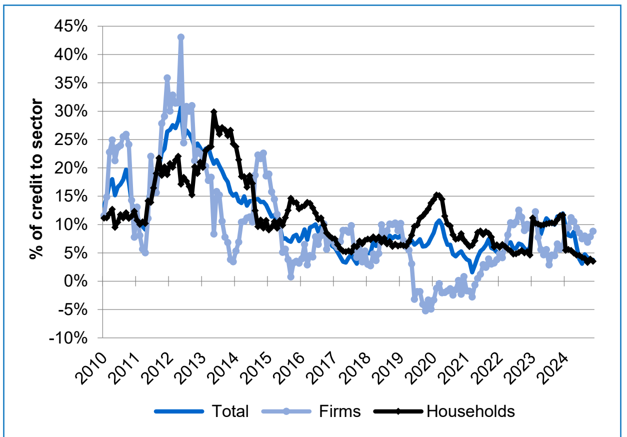
Overall, economic growth continued its steady decline during the third quarter of 2024. GDP contracted by 1.9% in the year to Q3 2024, down from a contraction of 0.6% in Q2 2024. The slowdown is mainly due to subdued global demand for rough diamonds, following increasing competition from synthetic diamonds and weak demand in China. Growth in the mining sector fell to minus 16.1% year-on-year in Q3 2024, down from minus 11.7% year-on-year in Q2 2024. Non-mining private sector growth also declined during the period, from 1.3% y-o-y to 0.7% y-o-y in Q3. The economy is strongly correlated with the mining sector performance, especially rough diamonds, and requires urgent intervention to grow other economic sectors.

ANNUAL SECTORAL GROWTH



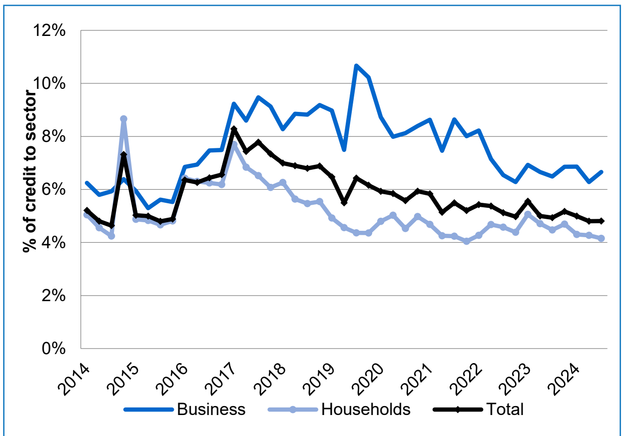
Consistent with the overall economic conditions, most economic sectors recorded lower growth in Q3 2024 than in Q2. The worst-performing sectors of the economy during the period were Mining, Diamond Traders and Manufacturing, contracting by 16.1%, 54.7% and -0.9% year-on-year, respectively. Notable improvements were registered in Water & Electricity which rose to 3.3% y-o-y in Q3 from minus 5.6% y-o-y in Q2, and Wholesale & Retail recording growth of 5.1% up from 4.4% y-o-y in Q2. Three sectors that are all or mainly Government (Public Administration & Defence, Education, and Health & Social Work)) were amongst the fastest growing. This helps to cushion the slowdown in other sectors but is not sustainable.

ANNUAL CREDIT GROWTH



Annual bank credit growth rose modestly to 3.8% in October 2024, from 3.1% in July. This was driven by the growth of credit to firms which rose from 3.1% in July to 8.8% in October. Credit growth to businesses is encouraging as it indicates business growth and reinvestment into the economy. Household credit growth fell marginally to 3.5% in October compared to 4.2% in July. Overall, the share of household credit to total credit is at 65.2% whilst that of businesses is 34.4%, as of October 2024.

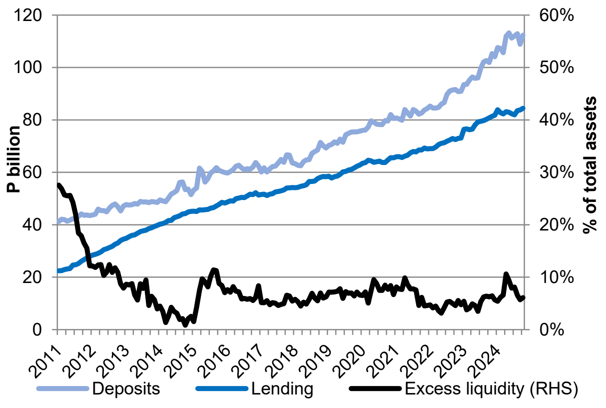
ARREARS ON BANK LENDING



Arrears on bank lending remained unchanged at 4.8% in Q3 2024. Arrears on lending to businesses and to households offset each other during the period. Arrears on lending to businesses rose marginally to 6.7% while those on households declined marginally to 4.2% in Q3 2024 compared to Q2 2024

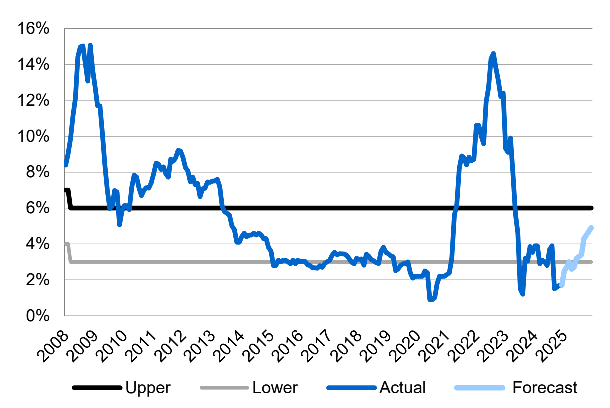
KEY ECONOMIC VARIABLES

BANK DEPOSITS, LENDING & LIQUIDITY



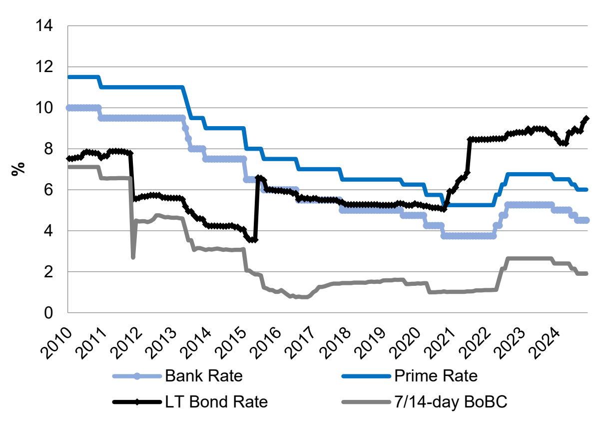
Bank excess liquidity fell to 6.1% of assets in October 2024, down from 8.1% in July. This is attributable to the increase in bank lending by 3.1% to P84.45 billion up from P81.94 billion during the period. Bank deposits in October amounted to P112.31 billion, marginally by 0.2% from P112.04 billion during the same period. The Bank of Botswana took a preventative measure to improve banking sector liquidity and reduced the Primary Reserve Requirement (PRR) from 2.5% to 0%. The PRR is a monetary policy tool used to manage structural liquidity by way of requiring commercial banks to hold a proportion of their deposits at the central bank.

INFLATION AND FORECAST



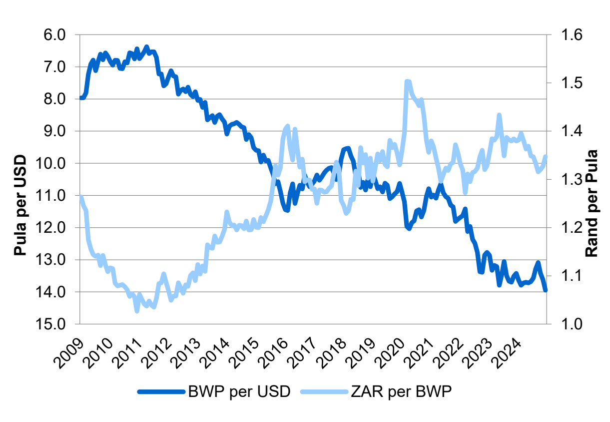
Inflation in December 2024 remained below the lower limit of the Bank of Botswana's objective range of 3-6%. Headline inflation in December 2024 was 1.7%, a marginal increase from 1.5% in September 2024. The main driver of lower inflation rate was the Transport index group because of the reduction in global and domestic fuel prices. Inflation is forecast to linger around the lower bound of the objective range in the short-term and gradually increase but remain well within the objective range over the next 12 months. The recently announced lifting of the import ban on vegetables is also expected to positively impact inflation, as in the recent past annual inflation has been driven by domestic factors rather than external factors.

INTEREST RATES



The Bank of Botswana's Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 1.90%, hence, the 7/14-day BoBC rate and the Prime Lending Rate were unchanged at 1.90% and 6.01%, respectively. However, the long-term government bond rate (BW012) increased to 9.48% in November 2024, up from 8.87% in August 2024, reflecting increased government borrowing.

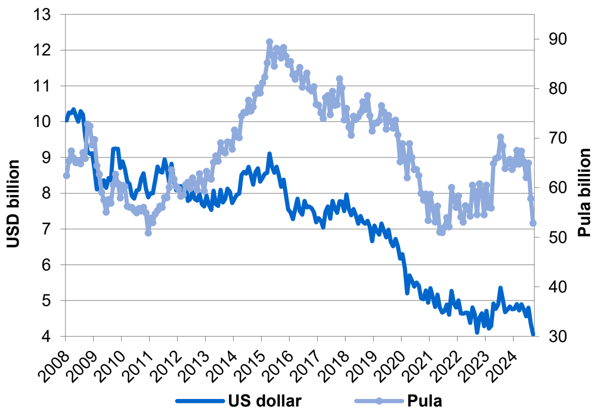
EXCHANGE RATES



Foreign exchange rate trends were reversed during the fourth quarter of 2024, with the Pula weakening against the US dollar and gaining ground against the Rand. The Pula depreciated by 6.6% against the US dollar, ending Q4 2024 at 13.95 BWP per USD, from 13.09 in Q3. The Pula strengthened by 2.4% against the rand, to ZAR1.3471 per BWP at the end of Q4, from ZAR1.3155 in Q3. The Pula recorded a historical low exchange rate against the US dollar in January 2025, reaching 14.14 BWP per USD. The US dollar strengthened against many currencies ahead of the inauguration of United States' President, Mr Donald Trump. The Pula exchange rate policy parameters were also reviewed in December 2024. The Pula currency weights were revised to equal weights of 50% for the Rand and 50% for the Special Drawing Right (SDR), from 45% for the Rand and 55% for the Special Drawing Right (SDR) and maintained a downward rate of crawl of 1.51% per annum against the basket.

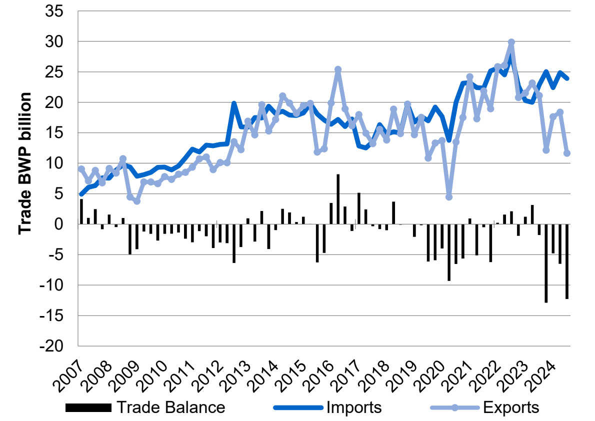
KEY ECONOMIC VARIABLES

FOREIGN EXCHANGE RESERVES



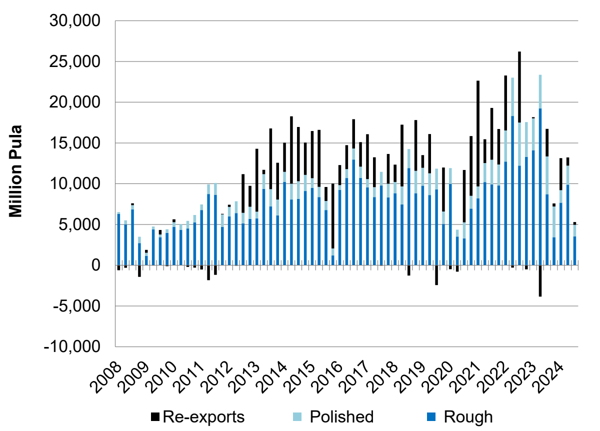
Foreign exchange reserves declined sharply, by 14.9% and 11% in Pula and US dollar terms, respectively, during the third quarter of 2024. Foreign exchange reserves amounted to P52.82 billion and USD4.06 billion at the end of September 2024. The reserves also decreased for the SDR by 13.6% to SDR2.99 billion during the same period. The fall in the reserves reflects the balance of payments deficit and is of concern given the critical role of the reserves in underpinning the Pula exchange rate mechanism.

INTERNATIONAL TRADE



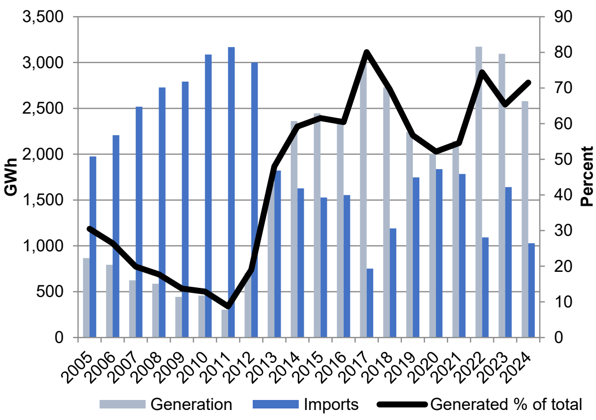
The latest data from Statistics Botswana show that trade slowed in the third quarter of 2024, decreasing for all categories of imports and exports. Total exports fell by 36.7% to P11.63 billion in Q3 2024 from P18.38 billion in Q2 2024 while total imports decreased by 3.9% to P23.91 billion from P24.88 billion during the same period. The trade deficit widened further to P12.28 million from P6.51 billion in the previous quarter. Trade slowed for both exports and imports because of the slowdown in diamond trade.

DIAMOND EXPORTS



The subdued global demand for rough diamonds continued in Q3 2024. Total diamond exports recorded a decrease of 59.9% in Q3 to P5.31 billion, down from P13.23 billion in Q2. Diamond exports fell across all categories of polished, re-exports and Botswana rough by 39.2%, 65.5% and 64.2%, respectively. The same challenges of lower demand, competition from synthetic diamonds and subdued growth in major exporting countries remain in the global market.

ELECTRICITY



Domestic generation of electricity continued to increase as local production from the Morupule power stations improved. Total electricity generated was 988.3 GWh in Q3 2024, up from 799.5 GWh in Q2 2024, an increase of 23.6%. Total electricity consumed during the same period increased by 3.6% to 1,224.4 GWh, up from 1,181.3 GWh. Conversely, the volume of imported electricity during the same period fell by 38.2% to 236.1 GWh, down from 381.8 GWh in the previous quarter.

NEWS HIGHLIGHTS

4th October	Airport City SEZ is set to accelerate economic growth, create jobs, and bolster exports. (Botswana Guardian)	Botswana's President Mokgweetsi Masisi has officially launched the Airport City Special Economic Zone (SEZ), marking a significant step towards a fully operational SEZ with modern factories and amenities. The SEZ covers over 800 hectares and will include key economic activities such as diamond beneficiation, specialist automotive, cargo, freight and logistics, plastics injection molding, and pharmaceutical manufacturing. SEZA is constructing four investor factory shells at a cost of P135 million.
8th October	Botswana Oil declares P10m dividend to gov't. (Mmegi)	Botswana Oil Limited (BOL) has declared its first dividend to its shareholder, the Government of Botswana, amounting to P10 million. The dividend was announced at an event to launch the 90% import mandate and citizen transporters. Minerals and Energy Minister Lefoko Moagi expressed confidence in BOL's future, predicting it would grow revenues to approximately P15 billion with profits ranging between P400 million and P500 million. The company has also entered a landmark CEEP partnership with Debswana, enabling citizen-owned transporters to deliver petroleum products to mines.
10th October	ODC calls off auction sales. (The Voice)	Botswana's Okavango Diamond Company (ODC) has cancelled one of its scheduled sales due to low demand and high inventory levels in the diamond industry. The company, which holds ten auctions annually to sell its 25% allocation from Debswana, had planned rough viewings from 3 to 13 December and a spot auction on 16 December 2024. The diamond market has been facing challenges, with several producers reducing sales to mitigate oversupply issues.
11th October	Botswana's banking sector grows by 14.2%. (The Gazette)	The banking sector in Botswana experienced asset growth in 2023, but the financial intermediation ratio eased from 80.5% to 78.6%. Customer deposits rose by 14.5%, enabling the sector to expand loans and financial services. Job growth within commercial and statutory banks rose by 1.5% between 2023 and 2022. However, the sector faces challenges in credit quality, with total past-due loans rising 16.4% and the net ratio of non-performing loans rising from 8.3% to 8.7% during the period. Despite these challenges, the banking sector's profitability surged, with aggregate after-tax profit rising by 18.3%.
22nd October	Air volumes increase as tourism warms up. (Mmegi)	In Q2 2024, air passenger volumes in Botswana increased by 39% to 224,485 travelers, due to tourism-related activities. Maun International Airport and Kasane International experienced increases of 66% and 88.1%, respectively.
30th October	Debswana diamond sales fall over 50% in first nine months of 2024. (Mining Weekly)	Debswana Diamond Company experienced a 52% drop in rough diamond sales in the first nine months of 2024, due to the global diamond market downturn. The country's GDP is expected to face challenges given the downturn in global rough diamond demand. Ahead of the general elections on the 30 October 2024, top issues of discussion are high levels of unemployment, poverty and sluggish economic performance.

1st November	Botswana voters kick out ruling party of six decades. (CNBC Africa)	Botswana's voters have handed the Botswana Democratic Party (BDP) a shock defeat, expressing anger over economic stagnation linked to a decline in the diamond trade. Duma Boko, the 54-year-old leader of the Umbrella for Democratic Change (UDC) coalition, will replace President Mokgweetsi Masisi, who conceded defeat after his party lost by a landslide, for the first time in 58 years. Analysts blamed mounting economic grievances, particularly among young people, for the downfall of the BDP. Botswana's economy has depended on the export of a single commodity, diamonds. Analysts blamed the downturn in the global diamond market for the downfall of the BDP. The UDC won 36 seats in parliament, against the 31 needed for a majority, and the BDP was in last place out of four parties, with four seats. The UDC has put forward ambitious policy proposals, including more than doubling the minimum wage, improving social services, and creating a more independent judiciary.
1st November	Masisi concedes massive defeat: Boko wins in landmark Botswana election ending 58 years of BDP rule. (Forbes Africa)	Botswana's President Dr Mokgweetsi E.K Masisi conceded defeat in the parliamentary elections held on October 30, after the country rejected its long-serving governing party, the Botswana Democratic Party (BDP). The BDP, which has governed the country since 1966, stood at fourth place terms of MPs elected. The country has faced economic challenges, with the state coffers depleted for the first time in over four decades. Masisi, who has been President since 2018, will step aside and participate in a smooth transition process ahead of inauguration. The UDC emerged victorious, winning 36 seats in parliament.
1st November	Botswana's new president aims to clinch De Beers diamond sales pact soon. (Reuters)	Botswana's new president, Duma Boko, is seeking to conclude talks for a new diamond sales pact with De Beers. The deal, agreed in principle last year, would see the Botswana Government's share of diamonds sold by the Debswana joint venture increase to 50% over the next decade. Anglo American is looking to divest De Beers company as part of a broader restructuring of its business.
4th November	Turnstar reports revenue growth and expansion. (The Gazette)	Turnstar Holdings Limited reported a 11.5% growth in rental income for the six-month period ending 31 July 2024, despite rising expenses. Operating costs soared by 13.9%, due to higher maintenance and utility expenses. Despite these heightened costs, Turnstar's revenue reached P173.03 million in the six months to 31 July 2024, up from P155.20 million in the corresponding half-year period.
6th November	Tataki Mining confirmed as buyer of Tati Nickel mine assets. (Sunday Standard)	After years of anticipation, the acquisition of Tati Nickel's Phoenix Mine has been finalised, with Tataki Mining Company (Pty) Ltd emerging as the buyer of the mine's core assets. Behind this purchase is NIU Mining (Botswana), a subsidiary of Mauritius-based NIU Mining Financing Ltd, which operates under the umbrella of NIU Invest (SE), a European investment firm with offices in Berlin and London.
6th November	Botala powers up Botswana. (Sunday Standard)	Botala Energy Ltd has increased its coal bed methane (CBM) resources by 42% at its Serowe project, demonstrating its potential to meet regional demand for natural gas. The company also secured a tender for a 4MW solar project in Serowe, integrating with its 20MW hybrid gas-solar setup. The company also received environmental approval to develop the Leupane Energy Hub and Industrial Park in Palapye.

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7th November	Diamond market dares to believe in Botswana's new president. (Rapaport)	Botswana's new president, Duma Boko, has improved relations with the diamond industry, despite strained negotiations over a new sales deal. Boko's conciliatory tone suggests he will engage with partners to ensure the agreement is signed. De Beers, a major player in the industry, has a neutral political stance, stating its partnership with Botswana is a source of pride. However, Boko's proposal to raise the minimum wage to BWP 4,000 per month could put pressure on the country's diamond polishing factories.
14th November	Lucara cuts revenue guidance amid lack of large stones. (Rapaport)	Lucara Diamond Corp. has revised its full-year revenue forecast to USD160 to USD180 million for 2024 from the previous forecast of USD220 to USD250 million, attributable to a decrease in large rough stone production and a slowdown in demand. The company maintains an output and sales volume of 345,000 to 375,000 carats and expects an underground project expenditure to decrease to USD80 million than the initial projection of USD100 million because of deferral of certain costs to 2025.
17th November	De Beers hopes to seal Botswana deal in 'days and weeks.' (Rapaport)	De Beers CEO Al Cook expects to finalize talks on a sales agreement with Botswana's new president, Duma Boko, in days or weeks. The negotiations involve a contract governing miner access to the country's rough-diamond production. Both parties agreed to "stand shoulder to shoulder" in marketing natural diamonds.
18th November	US retail offers hope for recovery. (Rapaport)	The global diamond trade is expected to recover from its current predicament following positive end-of-year jewelry retail sales. Consumer confidence rebounded in October 2024, with The Conference Board's index rising 10% from September 2024. The National Retail Federation predicts sales across all retail categories will grow 2.5% to 3.5% in November-December 2024, a record for the two-month season. Independent jewelers saw a 15% increase in gross sales in October, while the diamond category rose 12%. The diamond trade relies on robust US jewelry sales to stimulate the global wholesale market and compensate for China's weakness.
18th November	Lucara names 2,488 carats and 1,094 carats diamonds. (Mining weekly)	Lucara Diamond Corp has named two diamonds from its Karowe mine in Botswana, Motswedi and Seriti, respectively, as significant discoveries. Motswedi, a 2,488 carats diamond, symbolizes a water spring, while Seriti, a 1,094 carats diamond, signifies aura or presence in Setswana. These diamonds represent Lucara's commitment to discovering and preserving geological treasures and are two of six diamonds weighing over 1,000 carats to recovered at the mine since its inception.
19th November	State of the Nation Address 2024: Botswana's vision for a corruption-free future. (Botswana Youth)	President Duma Boko delivered a State of the Nation Address in Gaborone, highlighting measures to strengthen democratic institutions and public trust. He emphasized the government's commitment to combating corruption and establishing an independent anti-corruption agency. Boko also called for citizen participation in shaping policies. The proposals are seen as a step towards bolstering Botswana's democratic reputation.

19th November	Let us embrace founding principles-President. (Daily News)	President Duma Boko has called for a collective vision to open new possibilities and ambitions in Batswana. In his first State-of-the-Nation Address, Boko emphasized the importance of democracy, unity, development, self-reliance, and botho as pillars of the nation's founding principles. He urged the nation to work together to build a robust economy and thriving society, transforming challenges into opportunities and dreams into reality.
22nd November	New cargo clearing system causes Botswana border backlog. (Southern Africa Freight News)	Botswana's Unified Revenue Service (BURS) has introduced a new in-transit cargo clearing procedure, leading to increased delays for cross-border truck traffic and border queues. The new Unique Consignment Reference (UCR) system has increased the time and effort required for cargo clearance, causing delays and increased costs for clearing agents. Private-sector transport stakeholders argue that BURS and its South African counterpart, the SA Revenue Service, often ignore industry when implementing new regulations.
25th November	Medical Aid funds on life support: Members check out as bills check in. (Sunday Standard)	Botswana's medical aid funds are facing financial challenges due to rising costs and stagnant incomes. Contributions to these funds have declined significantly to P1.64 billion in 2023 down from P2.27 billion in 2022, indicating a struggle for members to maintain subscriptions. Claims surged to P2.16 billion in 2022, before decreasing to P1.58 billion in 2023. This has raised concerns about member retention and the viability of the funds, which rely on broad membership bases to share risks and maintain operational efficiency. Industry stakeholders are urging medical aid funds to reexamine pricing models and explore measures to alleviate financial strain on members. The new government plans to implement Universal Health Care through insurance for all, aiming to create a more inclusive and efficient healthcare system. This could have a major impact on private medical aid funds.
27th November	Botswana to become certifier in G7 Russian diamond ban. (Mining.com)	Botswana will join Antwerp as an origin certifier for rough diamonds for export to the G7, which banned Russian stone imports from January 2024. The addition is expected to salvage the implementation of the ban, which would otherwise have had all diamonds go through Europe's diamond hub in Antwerp for verification. The G7 diamond technical team is working to address any identified gaps.
29th November	Botswana's solar dream. (The Voice)	Botswana aims to become Africa's solar energy powerhouse, producing over 8,000 megawatts of power for export. According to the Vice President, Ndaba Gaolathe, the country has one of the highest solar radiation exposure rates in the world, with 3,200 hours of sunshine per year. The government plans to unbundle Botswana Power Corporation, encourage innovation, and create global power companies capable of lighting Africa. The government also plans for solar photovoltaic, solar concentrated, wind-generated, and battery energy storage.

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29th November	Bank of Botswana statement on the intent to explore sale of the wealth and retail banking business of Standard Chartered Bank of Botswana Limited. (Bank of Botswana)	Standard Chartered Bank Botswana Limited is considering selling its wealth and retail banking business and maintain corporate and investment banking services with a focus on cross-border business. The bank plans to identify a buyer and commits to ensure no service disruptions for personal banking customers during the transition. The transition, scheduled for June 2026, will be subject to regulatory approval by the Bank of Botswana. Stanchart assures the public that it is compliant with all statutory and prudential requirements.
4th December	De Beers CEO champions Botswana's diamond sustainability vision. (Weekend Post)	Al Cook, CEO of De Beers Group, emphasized the importance of finalizing the diamond sales agreement between Botswana and De Beers at the FACETS 2024 plenary. He praised Botswana's natural resources, stability, and commitment to ethical diamond recovery. Cook also announced De Beers' pursuit of partnerships with sightholders and polished diamond producers to expand its influence. He emphasized the significance of ethical mining practices, biodiversity conservation, and the positive economic impact of diamonds on communities. Cook's vision for the diamond industry combines tradition and transformation.
9th December	Botswana has not borrowed from Chinese policy banks for almost two decades. (London School of Economics blog)	Botswana's expectations as a borrower and China's loan offering have been difficult to bridge, according to Sara Van Hoeymissen. Botswana stopped borrowing from Chinese policy banks after 2006 and concluded its last loan agreement with a for-profit Chinese lender in 2009. The country's policymakers view China's loan offering as unattractive because of the requirement to collaborate with a Chinese contractor for the construction of infrastructure financed through a Chinese loan. However, Botswana has strong diplomatic relations with China and has established strategic partnership in the areas of industry, agriculture, mining, clean energy, education, and health.
15th December	Some sightholders lose supply as De Beers reduces allocations. (Rapaport)	De Beers has reduced rough-diamond allocations for 2025 and plans to offer fewer goods overall. Around ten sightholders will not get rough allocation in 2025 but will retain their sightholder status. The total value of allocations in 2025 will be 20% to 30% lower than in 2024, reflecting a drop in production volume and weakening prices.
17th December	Government warns of austerity measures. (Mmegi)	The Botswana Ministry of Finance plans to implement austerity measures in the medium-term, including reducing the civil service wage bill and cutting grants and subventions. The measures aim to safeguard the economy against future shocks and mitigate public debt risks. The government will also accelerate reforms of State-Owned Enterprises and implement cost-containment measures. The 2024-25 budget is expected to incur a deficit of up to P18.6 billion, compared to the original budgeted deficit of P8.7 billion.

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17th December	Government to clamp down on hoarding of prospecting licenses. (Mmegi)	The government is aiming to combat the hoarding of mineral prospecting licenses, a practice that has stifled growth in the mining sector and limited the contribution of mineral resources to the national economy. The current system allows companies and individuals to secure licenses without immediate plans to develop the allocated areas, limiting the contribution of mineral resources to the national economy. The government's proposed reforms could significantly reshape the industry landscape in the coming years. The mining cadastre, an online database of mineral resources and rights, was launched in November 2022 to clamp down on speculative licenses holding. However, the manual system has been exploited by speculative holders who hold onto rights without meaningful exploration.
31st December	Pula exchange rate in 2025. (Bank of Botswana)	The President of Botswana has approved the reviewed exchange rate policy framework for 2025, as advised by the Ministry of Finance and the Bank of Botswana on the 31 December 2024. The approved changes to the Pula exchange rate framework include revising the currency basket weights of 45 percent for the South African rand and 55 percent for the SDR, to equal weights of 50 percent to the South African rand and 50 percent to the SDR, maintaining an annual crawl rate of 1.51%, and increasing the Pula trading margin from ± 0.125% around the central rate to a margin of ± 0.5% to promote an inter-bank foreign exchange market. The review is intended to maintain stability of the inflation adjusted exchange rate against trading partners (real effective exchange rate) to support competitiveness of local firms with respect to imports and in external markets. These changes are effective from 1 January 2025.
31st December	De Beers sitting on largest diamond inventory since 2008, FT reports. (Mining.com)	De Beers has built up its largest stockpile of diamonds since the 2008 financial crisis, valued at around USD2 billion. Despite facing headwinds like a slumping Chinese economy and cheaper lab-grown diamonds, De Beers CEO Al Cook remains optimistic about a turnaround, despite a less optimistic outlook from McKinsey which suggest that lab-grown diamonds could take over the market.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2017	2018	2019	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3	2024Q4
Annual Economic Growth												
GDP	%	4.1	4.2	3.0	-8.7	11.9	5.8	3.2	0.4	-0.6	-1.9	..
Mining	%	6.3	8.4	-3.7	-26.5	29.8	7.5	2.9	-6.7	-11.7	-16.1	..
Non-mining private sector	%	3.7	2.9	4.2	-6.7	8.8	5.5	2.2	1.0	1.3	0.7	..
GDP current prices	P bn	166.65	173.73	179.90	171.39	207.74	251.36	263.92	64.73	68.77	65.16	..
GDP 2016 prices	P bn	171.18	178.35	183.76	167.72	187.63	198.01	204.36	49.58	50.30	48.83	..
Money & Prices												
Inflation	%	3.2	3.5	2.2	2.2	8.7	12.4	2.9	2.9	2.8	1.5	1.7
Prime lending rate	%	6.50	6.50	6.25	5.25	5.25	6.76	6.51	6.51	6.26	6.01	6.01
BoBC 7/14-day	%	1.45	1.52	1.41	1.04	1.10	2.65	2.40	2.40	2.15	1.90	1.90
Trade & Balance of Payments												
Exports - total goods	P bn	61.67	67.17	56.33	49.12	82.28	102.52	77.89	17.61	18.38	11.63	..
Exports - diamonds	P bn	54.38	60.41	51.01	43.30	74.13	89.30	62.00	13.14	13.23	5.31	..
Balance of payments	P bn	-4.28	-4.20	-12.02	-20.06	-2.87	4.49	1.65	-2.01	-2.76	..	..
Foreign Exchange												
Exchange rate BWP per USD	end	9.87	10.73	10.63	10.79	11.74	12.77	13.72	13.72	13.68	13.09	13.95
Exchange rate ZAR per BWP	end	1.256	1.344	1.330	1.356	1.355	1.328	1.380	1.380	1.349	1.316	1.347
FX reserves	$ bn	7.502	6.657	6.171	4.941	4.806	4.22	4.77	4.73	4.56	4.56	..
FX reserves	P bn	73.69	71.43	65.23	53.36	56.02	54.53	63.690	64.75	62.05	52.82	..
Financial Sector												
Deposits in banks	P bn	63.58	69.27	75.71	80.54	84.36	90.93	103.87	105.67	111.21	108.85	..
Bank credit	P bn	54.18	58.33	62.77	65.55	68.92	73.05	81.80	82.30	82.35	83.55	..
BSE index		8,860	7,854	7,495	6,879	7,010	7,726	9,096	9,096	9,375	9,653	..
Business Indicators												
Diamond production (a)	mn cts	22.96	24.38	23.67	16.87	22.70	24.48	25.10	5.08	4.81	4.10	..
Copper production (b)	'000t	1.24	1.46	0.00	..	11.74	44.27	54.81	12.43	11.22	13.00	..
Electricity consumption	GWh	3,772	3,919	3,906	3,842	3,928	4,265	4,736	1,201	1,181	1,224	..
Crude oil (Brent)	$/bar	66.73	50.57	67.77	51.22	77.24	82.82	86.17	86.17	87.26	72.35	74.58
Employment (formal) (d)								Q3 2023				
Government		129,009	156,785	156,785	152,973	152,225	143,022	150,872	154,128			
Parastatals		19,444	23,497	23,497	18,933	21,056	18,674	19,012	20,028			
Private sector		193,745	250,778	305,242	305,810	321,176	324,680	320,977	330,582			
Total		342,198	431,060	485,524	477,716	494,457	486,376	490,861	504,738			

Govt Budget		2019/20 (e)	2020/21 (f)	2021/22 (g)	2022/23 (h)	2023/24 Preliminary (i)	2024/25 Revised (j)	2025/26 Projection (k)
Revenues	P bn	54.30	49.37	68.57	74.10	73.76	77.16	85.43
Spending	P bn	65.40	65.79	68.68	74.10	85.49	95.84	96.85
Balance	P bn	-11.10	-16.41	-0.11	0.00	-11.73	-18.68	-11.42
Public debt & guarantees	P bn	38.18	42.37	48.26	53.42	59.32	66.14	72.32
Govt deposits at BoB	P bn	19.86	6.20	12.82	14.02	8.76	..	..
GDP	P bn	180.94	174.24	218.02	259.41	261.52	278.07	312.43
Revenues	%GDP	30.0%	28.3%	31.5%	28.6%	28.2%	27.7%	27.3%
Spending	%GDP	36.1%	37.8%	31.5%	28.6%	32.7%	34.5%	31.0%
Balance	%GDP	-6.1%	-9.4%	0.0%	0.0%	-4.5%	-6.7%	-3.7%
Public debt & guarantees	%GDP	21.1%	24.3%	22.1%	20.6%	22.7%	23.8%	23.1%
Govt deposits at BoB	%GDP	11.0%	3.6%	5.9%	5.4%	3.4%	..	..

Sources: BoB; MFED; Statistics Botswana; Department of Mines; BSE; US Energy Information Administration; Bloomberg; Econsult

Notes:
(a) Figures include production from Lucara Diamonds (Karowe mine) and Debswana. In 2016 and 2017, figures also include production from Gem Diamonds (Ghaghoo) and Lerala mines. (no longer operational)
(b) Copper production starting Q2 2017 for Mowana mine and Q2 2022 for Khoemacau
(c) Numbers in Italics reflect revisions from the previous review.
(d) Employment figures up to 2018 are not comparable with those from 2019 onwards due to changed methodology of data collection and reporting
(e) – (h) Actual

CHALLENGES AND OPPORTUNITIES FACING THE NEW GOVERNMENT

Introduction

The general election of October 30th 2024 led to the first change of ruling party in Botswana in the 58 years since Independence in 1966. The new President, Advocate Duma Boko, is the leader of the Botswana National Front (BNF) and was the candidate of the Umbrella for Democratic Change (UDC) coalition that won the election. The new Vice President, Ndaba Gaolathe, has also been appointed Minister of Finance.

The UDC's manifesto contained a number of ambitious commitments relating to reviving economic growth, improved health and education, job creation, social welfare benefits and minimum wages. Many of these commitments represent worthwhile proposals to address some of the economic and social challenges facing Botswana. However, the new government has found itself taking power at a time of extreme economic stress, partly reflecting the problems afflicting the diamond industry for the past 18 months, but also the consequences of unsustainable fiscal policies stretching back for more than a decade and a failure to undertake meaningful reforms to address competitiveness and productivity concerns, and policies that have inhibited both domestic and foreign direct investment in economic and export diversification.

In this feature we present proposals for the economic agenda of the new administration. A significant part of the discussion relates to government finances – revenues, spending and financing, as that is where the immediate challenges lie. We also cover some of the economic reforms needed to boost growth and job creation.

The Economic Environment Facing the New Government

Twin Fiscal Crises

As noted, the new government has taken office at a very difficult time. The immediate challenges include a fiscal liquidity crisis; unsustainable long-term fiscal trends with wasteful government spending; an economy mired in low growth, in technical recession and with limited medium/long-term growth prospects; many poorly-conceived policies; an inefficient and bloated public sector; persistent problems of inequality, poverty, unemployment; and a need to bring about the structural reforms and policy changes – some painful - that will support higher growth and job creation.

The immediate challenge is to "stop the bleeding" and make sure that Government is still able to meet critical spending needs, such as paying salaries. The fiscal challenge can be seen in the table below, showing that budgeted expenditure exceeds revenues by more than P2 billion a month currently. Of this, around half is financed by domestic borrowing (issuance of bonds and T-Bills), leaving a cash shortfall of around P1 billion a month, but with no accumulated savings left to plug this gap.

Table 1: 2024/25 Estimated Monthly Fiscal Budget

BUDGET ITEM	AVERAGE MONTHLY AMOUNTS	COMMENT
Total spending	P8.0b/m (o/w wages P3b/m)	Reduced from P8.5b/m
Regular revenues (Income tax, VAT)	P2.8b/m	
SACU	P6.7b/q (P2.2b/m eq)	Received 1st week of each quarter
Mineral revenues	P0.75b/m	Highly variable on a monthly basis due to diamond sales; only 1/3 of originally budgeted level this FY
Cash deficit	P2.1b/m	
Targeted bond issuance	P1.1b/m	Recent auctions have fallen short
Cash shortfall	P1.0b/m	Previously financed by GIA drawdowns. GIA now substantively depleted.

However, this fiscal challenge is not just a short-term one resulting from depressed mineral revenues. The greater challenge arises from a long-term structural problem whereby government spending has been consistently higher than revenues over many years, leading to structural budget deficits. The fact that these have been financed by drawing down accumulated savings from the Government Investment Account (GIA) rather than by borrowing has hidden the problem to some degree. Now that the savings have been depleted, continued deficits can only be financed by borrowing, and if continued the trend would immediately lead to debt escalation and eventually to a debt crisis.

Fiscal Consolidation

The term "fiscal consolidation" is widely used in terms of addressing fiscal challenges. What it means, essentially, is the government revenue generation and spending need adjustment – up and down respectively – to move the overall fiscal balance to a level that is sustainable in the long term. What that means in Botswana's case is that there should be a budget surplus generated to enable the restoration of fiscal savings to absorb shocks and cushion the adverse fiscal impact of the depletion of our diamonds. The need for fiscal consolidation should be one of the central messages of the 2025 Budget. This will be a good opportunity for the new government to establish and reinforce its credibility, in contrast to the previous government which often preached fiscal consolidation, but repeatedly postponed actually doing it.

A high-level objective should be to run a surplus budget to restore the fiscal savings buffers that have been depleted. At a minimum, there should be a firm commitment to achieve a balanced budget over the lifetime of the new Parliament, or during NDP12. While the coming fiscal year – 2025/26 – may have a fiscal deficit, this should be kept as small as possible, and nowhere near the P18 billion or more projected for the 2024/25 fiscal year. The Budget will also need to be cautious in terms of a possible non-recovery or only partial recovery in diamond revenues – indeed it would be mistake to assume that diamond revenues will resume to historical levels in the near future, if at all.

Reducing spending

What can be done to reduce spending and increase revenues? On the spending side, reforms could include the following:

Drastically reducing expenditure on development projects. Project that have not been contracted should be suspended; no new projects should be committed unless they have been through a proper appraisal process and interrogation of costs, and demonstrate positive socio-economic returns; and there should be a general shift away from new infrastructure towards maintenance of existing infrastructure (see Box). Where possible, Public-Private Partnerships (PPPs) should be used to reduce the burden on the budget and improve project design, execution and operation.

Reducing subventions to state-owned enterprises (SOEs), especially revenue-generating SOEs that should be able to cover their own expenses. This will require reforms to tariffs, operations, management and ownership, including partial or full privatisation. Obvious candidates for financial savings through reduced subventions include Botswana Power Corporation (ending of expensive tariff subsidies), Air Botswana, and the Botswana Meat Commission.

Reduced subventions to local authorities, who should be required to collect the outstanding rates levies that they are owed (over P625 million as at March 2021, when they were last reported).

Introducing **means-testing of tertiary education scholarships,** which disproportionately benefit higher income households; this would help to save some government spending by requiring those households to make a contribution to the cost of those scholarships.

The public sector salary bill accounts for over 35% of total spending and is far above a sustainable level. While it is difficult to reduce this in the short term, it must be reduced in the medium to long term by cutting the size of public sector employment and containing wage and salary levels, given that most public officers already earn higher salaries than those in equivalent jobs in the private sector.

Government should also revisit the decision to **buy shares in diamond company HB Antwerp;** this would cost almost P1 billion, and yet there has never been a convincing case presented to the public.

There also needs to be interrogation of the additional costs incurred from the requirement that **public procurement be undertaken from 100% citizen-owned companies,** which undoubtedly leads to reduced competition, corruption and rent-seeking behaviour, leading to higher prices paid by Government, and also inhibits inward FDI.

Revenue Mobilisation

Government revenues can be increased through a mixture of tax changes and improved collections. There have been frequent assessments that Botswana's overall tax take (apart from mineral and SACU revenues) is low relative to GDP. The burden of increased taxes should of course fall mainly on higher income households, given the high levels of poverty and inequality in Botswana. Options to be considered include:

- Introducing a new **higher-rate income tax** band (e.g. on those earning more than, say, P350,000 a year);
- **Reviewing VAT exemptions** with a view to eliminating those that mainly benefit higher-income households (e.g. VAT exemptions for private school fees);
- Increasing **fuel duty** (to align it with the VAT rate, which it is intended to mimic);
- Introducing a new **national property tax.**
- There should also be **more efficient tax collection,** including by introducing the long-awaited e-billing for VAT, and improved enforcement of tax collection on rental income.
- **Disposing of public sector assets,** either through outright sale where they are no longer needed by government (such as the state's shareholding in BTCL), or through sale-and-leaseback arrangements for assets such as government buildings and the national electricity grid. These would provide funds for recycling into new infrastructure, as well as generating investment opportunities for the private sector (including pension funds).

There is also merit in pursuing carbon taxation (which is needed for the energy transition). While this could bring in some revenues, the net impact may not be great as some of this will be needed to compensate those who may be adversely affected.

Financing manifesto commitments

The new government has made some ambitious commitments in its election manifesto and in President Boko's inaugural State of the Nation Address. Several of these relate to increased social welfare provisions, including a significant increase in allowances for tertiary students on government scholarships, a more than doubling of the old age pension, increasing the minimum wage to P4,000 a month (from around P1,500), increasing the Ipelegeng allowance (public social employment scheme), as well as reductions in water and electricity tariffs. All of these would have a fiscal cost, particularly the increase in the old age pension. **There is no fiscal space for unfunded spending commitments** – in other words these cannot just be added to government spending. All would have to be paid for by reducing spending elsewhere (over and above the spending cuts required just to stabilise the budget), and/or raising new revenues.

Of these proposals, **the proposed increase in the old age pension** would probably have the most beneficial impact in terms of improving the living standards of vulnerable households and reducing poverty. As noted, this would be expensive, although the cost could be partially offset by introducing means-testing. Increased tertiary student allowances seems more questionable, given that the system is already very generous, and would need to be balanced by means-testing and increased parental contributions by medium- and high-income households.

Proposals to reduce water and electricity tariffs would be extremely expensive if implemented across the board, and again are highly questionable given that both water and electricity are already subsidised and sold below the cost of production. If anything, tariffs should be higher to reduce the fiscal burden of subsidies to BPC and WUC and to provide appropriate incentives to reduce consumption. Households already benefit from highly subsidised portions of their monthly consumption – the first 200kwh of electricity and 15m3 of water – and any further subsidies should be focused on this, which has the main benefit for low-income households (although it also benefits high-income households).

The proposed **increase in the minimum wage** would not mainly impact government, as wages in the public sector are already well above those in the private sector for less-skilled workers and relatively few public sector workers (an estimated 15-20% of the total) earn less than P4,000 a month. The impact on the private sector would be massive, however. Labour-intensive industries such as retail, security and agriculture would be the hardest hit, and a reduction in jobs would be the inevitable result, as would increases in prices and inflation. Many firms would retrench and some would over time switch to more capital-intensive methods of production. The impact could be particularly severe on exporting firms, which are intended to provide the foundation of future growth and diversification, but which do not have the leeway to increase their prices as a result of higher wage bills.

While there is an argument for increasing the minimum wage as part of a strategy to reduce poverty and inequality and to support low-income households, this has to be done gradually to minimise the risk of some households being pushed further into poverty through unemployment, or being forced into the informal sector. It will also be more difficult for the private sector to grow and create new jobs, especially in export activities, if one of the main operational costs is increased sharply. Higher wages make the need for productivity gains even more pressing, and will also increase the pressure for a weaker exchange rate to support competitiveness.

The new Government has also committed to introducing a universal health insurance scheme, to provide low-cost housing finance, grants for small businesses and targeted incentives and subsidies for firms in key sectors. A lot of thought will need to go into how these are structured and where the money to pay for them will be found.

Structural and Other Reforms

While Government will need to deal with both short-term and long-term fiscal issues as a high priority, it also needs to make progress with the structural reforms needed to boost economic growth and job creation, which have been lacklustre in recent years.

Export-led growth and economic openness. For a small country, growth has to be export-led, based on competitive industries producing goods and services. Pursuing an inward-looking, import substitution approach as has been the case in recent years, is unlikely to lead to a dynamic fast-growing economy. Botswana needs an outward-looking approach based on exports (and imports), domestic and foreign direct investment, and integration into global and regional value chains. A number of things need to change in order to promote this: there should be an outward-looking rather than inward-looking approach to policy, with openness to trade in goods, services, capital and labour; attracting FDI; deeper regional integration and harmonisation of standards; making more use of trade agreements; removing the anti-export bias that exists in many current policies, so that firms have an incentive to produce for exports rather than focusing on the domestic market; and avoiding import bans, which penalise households and reduce competitiveness. The exchange rate of the Pula – which is arguably overvalued – will need to be reviewed.

Another priority should be to open up immigration, to investors & entrepreneurs, skilled workers, retirees, students and medical tourists. Related improvements that would help growth include making visa-on-arrival and speedy online visa processing a reality for all nationalities; establishing transparent and objective paths to residence and citizenship; and ensuring that corruption is eliminated from the above processes.

Export-led growth will typically involve beneficiation. Sometime this will beneficiation of local raw materials, but not necessarily; it may be imported materials or inputs that are beneficiated. Imports are an essential part of exporting. Export-led growth requires greater integration into value chains (regional or global). Investment should be encouraged in such activities, It also requires borders to be "thinner" (easier and quicker to cross for people, goods and traffic) rather than "thicker". Inefficient borders where trucks may have to queue for two or three days, add costs to trade and undermine competitiveness. The main commercial border posts should be open for 24 hours. Export development should be the driver of policy, rather than import substitution and self-sufficiency.

The new Government has already committed to the **Green Transition,** involving an accelerated shift towards renewable energy. This can support the export-led growth agenda, with Botswana's large potential for solar energy generation and export to the region, as well as the large increase in demand for electricity as the transition to electric vehicles takes place. Private sector investment and funding can be expected to finance most of this. Government's role is to ensure a conducive policy framework, including regional policies, and to support the development of the national electricity grid and cross-border connections. Increasing the proportion of renewable energy fed into the national grid is a critical part of this, as is mini-grids and standalone solar solutions for off-grid communities. The introduction of carbon pricing/taxation and carbon trading can play an important role. Extensive support is available from development partners, including through the World Bank/African Development Bank Mission 300 initiative and USAID's Power Africa.

Projects or Potholes?

As we have written elsewhere in this Review, some tough decisions are required about where constrained government spending should be deployed. Given the lack of sustainability in fiscal policy over the past years, and now with more pressures arising from prolonged weakness in diamond revenues, choices are necessary.

One of the main reasons for the current fiscal crisis is that the development budget – mainly money allocated to public sector projects – has ballooned in recent years, even with government revenues declining. There have been many problems with the development programme – rising too fast, poor value for money due to overpriced and badly implemented projects, and money being allocated to projects that have not been through any kind of appraisal or cost-benefit analysis to determine which ones are likely to yield the highest returns to the nation. There is no rational basis for the prioritization required to ensure that high priority, high return projects can be implemented first when funds are limited (as they always will be). The lack of appraisal makes it likely that many of the chosen development projects actually provide negative returns. And as any student of economics or finance knows, no firm or country will grow by investing in projects that yield negative returns.

Looking ahead, it is essential that projects are screened on the basis of sensible and well-informed appraisals before being included in the National Development Plan and hence being allocated money in the Budget. Until this process is in place, very few new projects should be added to the development programme.

But there is more to it than this. We have been very good at spending lots of money on "hardware" – infrastructure projects such as roads, schools, health facilities, water pipelines etc. However, we have been much less successful at providing the "software" – the systems, supplies and people needed to make the infrastructure work effectively and deliver the anticipated benefits.

A particular problem arises from the lack of maintenance of this expensive hardware. Many – if not most - public facilities are not maintained properly. Roads have potholes, water pipes leak, while schools and health facilities are crumbling. Failure to maintain public assets means that they cannot effectively deliver the services intended and furthermore will require expensive rehabilitation or replacement earlier than they should, further reducing the "return on investment" from public projects.

So a high priority for the new government should be to reallocate resources from new projects to maintenance of existing ones. Fix the potholes, get the streetlights and traffic lights working, make sure that Government IT and accounting systems function properly, and fix buildings and equipment in the health and education sectors. Make sure that gravel roads are graded regularly (rather than spending large sums of money on tarring them).

This will require a change of approach. Maintenance is often viewed as being unattractive and mundane, without the glamour of new construction. Maintenance budgets are often viewed as dispensable in favour of more deserving causes. But spending on maintenance saves significant future costs, and not spending on maintenance wastes past investments. Often capital investments are "forgotten" once they are completed, but that is a mistake. Effective preventative maintenance should be built into all projects. Furthermore, maintenance requires effective information and monitoring systems, so that actions can be undertaken promptly when problems are detected. All things that are common in the private sector, but which seem to be a struggle for government. And it does not always require extra budgetary allocations; the Road Levy Fund, for instance, financed by a tax on fuel and intended to finance road maintenance, typically has large unspent balances.

The bottom line is that to fully realise economic growth from public spending, greater attention is required in preserving the investments in infrastructure through efficient and effective maintenance.

Targeted Infrastructure Investment. While there needs to be caution in adding projects to the budget, clearly some infrastructure investments are needed. As noted above, potential investments needed to be properly evaluated and prioritised prior to being undertaken. But there are some areas that should be targeted. These include:

Trade-focused transport links: export-led growth cannot happen if borders and related transport infrastructure are inefficient. Cross-border transport links need further development, including new rail connections and road and bridge connections, while bottlenecks need to be removed for the main domestic truck roads. Border infrastructure, regulations, and IT systems need to be dramatically improved, so that inbound and outbound trucks can cross the border quickly, through 24 hour one-stop border posts.

Many commitments have been made in the past to **improve public transport,** but little has been done in practice, resulting in overload of urban infrastructure by cars. The lack of efficient public transport needs to be addressed, as it is required to improve mobility and reduce transport costs for households, and as part of the national commitment to reduce GHG emissions. On a related issue, investment will be required to support the inevitable transition to electric vehicles (EVs), such as a national EV charging infrastructure.

A further priority is investment in the capacity and resilience of the **national electricity grid** and its ability to cope with renewable energy generation. And if large-scale electricity exports are to become a reality, greater capacity is required in cross-border connectivity.

There has been huge investment in the **national digital infrastructure,** with an improvement in connectivity. The priority now should be making sure that government digital infrastructure now works properly, and bringing an immediate end to the problems of failing government service delivery due to "system e down". All ministries and public enterprises must be required to have functional, accessible and meaningful websites and use them as their primary means of engaging with their customers.

State-owned enterprises (SOEs) have long been a problem in terms of inefficient operations, poor performance and financial burden on government, even those that are meant to be revenue-generating. Far-reaching reforms are required, at ownership, governance and operational levels. Many SOEs have been hindered by inappropriate CEO appointments, sometimes for political reasons, acting rather than substantive CEO appointments for long periods of time, political interference in operational matters, and a lack of understanding of the appropriate roles of management, boards and the shareholder. Examples of obvious candidates for SOE reform include:

- **BTCL** – sell government's 51% stake and fully privatise, including allowing international investment.
- **Air Botswana** – sell 49% to a strategic partner who would also be responsible for management.
- **Botswana Meat Commission (BMC)** – it's not at all clear what its role is or why it needs to exist. Should government really be running a butchery? It has been the main cause of the death spiral afflicting the once-thriving cattle industry.
- **Botswana Vaccine Institute (BVI)** - sell 50% of GoB shares to a strategic investor, aiming to replicate (and build on) the successful Debswana model.
- There has been a proliferation of **Regulatory Authorities,** many of which are largely financed by taxpayers through subventions. These need to be rationalised, and reformed to operate in a way that supports the private sector rather than provide obstacles.

Other essential reforms, many of which relate to actually implementing things that have been promised in the past but never delivered. These include:

Introduction of proper public e-services, such that public interaction with government can be almost entirely done online via resilient systems, rather than waiting in long queues in inefficient government offices.

Regulatory reform: getting rid of many regulations, especially those that inhibit business and the private sector. Regulatory impact assessments (RIAs) should be introduced; all regulations have costs as well as (anticipated) benefits, and these need to be thought through in advance. New regulations that affect the private sector should not be introduced without prior consultation. Requirements for licences by private sector need to be rationalised and reduced, by abolishing them or combining micro-licence categories into broader more general licences.

Mindset change: treating the private sector, including the foreign-owned private sector, as a partner and not as an enemy.

Reforming social welfare. Social welfare programmes account for a significant proportion of GDP and public spending, but could be more effective. Targeting is poor, in the sense that many of the beneficiaries of social welfare programmes are non-poor, while many poor households do not benefit adequately. Many social welfare programmes are outdated and inefficient. There is a need for programme reform and modernisation, and much better targeting of social welfare support on poor households. A first step is to get the single social registry (SSR) up and running, as this will identify social welfare recipients across multiple schemes, and to introduce proxy means testing (PMT) to identify the needy. Both the SSR and PMT are ready to operate, but their implementation has been delayed for reasons that are unclear.

Many expensive agricultural support programmes are de facto social welfare schemes, but are an inefficient way to support poor households. Alongside social welfare reform, **agricultural support schemes** should be redesigned to focus on commercial agriculture, not subsistence, to build efficient production at scale, and links between farmers and retailers;

Conclusion

The change of government in November 2024 provides a great opportunity for the types of reforms and "reset" that has long been needed to reinvigorate the private sector and economic growth. Policies that have been holding back growth, perhaps because they benefited a few rent-seekers and vested interests rather than the whole economy, can easily be jettisoned. The changes required to improve productivity and competitiveness, increase economic openness, create jobs and reduce inequality, reduce corruption and improve the efficiency of the public sector can be introduced, with a renewed political will. This does not mean that those changes will be easy, but they can and must be done.

But this must all be done against a very tight fiscal backdrop, with some tough decisions needed to restore fiscal sustainability. These will be difficult, but are required to ensure that macroeconomic and fiscal stability is restored in order to provide a sound basis for faster and equitable growth.

Information and Accountability

The new Government has committed to making the public sector more efficient and accountable. In doing so it will need to address (i) lack of urgency in implementation/action across government generally, as well as (ii) transparency and accountability. There is a need for a sense of urgency across the entire public sector – ministries, local authorities and parastatals – and accompanying accountability and reporting requirements. The public should have recourse – an expanded ombudsman? – in the case of non-performance on this front.

One of the frustrating areas that this applies to is the slow pace of implementing legislation that has been passed by Parliament. For instance, the new Banking Act passed back in 2023 is still not in force, even though it has huge implications for the banking and financial sector, both in terms of managing risks and instability, competition and financial deepening. It is still awaiting Regulations, which have been under preparation for more than a year. Other more recent examples of approved but unimplemented legislation include the Citizenship Amendment Act (formalising the right to dual citizenship for some, but not all, citizens) and the Access to Information Act. As a matter of good practice, draft Regulations should be prepared at the same time as the Bill, so that they can be approved as soon as the Act is gazetted and the Act can commence promptly.

The Access to Information Act is particularly important as it gives the nation the right to access information from public institutions, which is critical for accountability and transparency. At present, the default response in the public sector is often to refuse to release information/data, but this needs to be reversed such that the default is to provide information in response to requests from the public. There are many examples of disclosure of information that would be in the public interest but which are not currently available – for instance, many parastatals/SOEs will not or cannot provide their annual reports or financial statements, as we highlighted in the last Review. It is also very difficult to get administrative data from ministries and public institutions, even when there is no sensitivity around the data. For instance, the Companies and Intellectual Property Agency (CIPA) cannot provide data on the number of registered companies in the country, which is an important indicator of economic activity. Surprisingly, local authority (including land board) annual accounts are not generally available public documents. Central government financial accounts are published, but generally with extremely long delays[1].

Once the three-stage appraisal process is introduced for public projects, it should also be the case that those appraisals (providing the basis for public investment decisions) are public documents.

Finally, one way to improve transparency and accountability in the opaque minerals sector would be to join the Extractive Industries Transparency Initiative (EITI), which government has long resisted but would be a worthwhile move to move to the best international standards of disclosure in the industry.

[1] For instance, the latest published Annual Statement of Accounts for central government are for the financial year ending March 2022, and the latest Auditor-General's Report on the government accounts are for 2020-21.

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