econsult

ECONOMIC review

FIRST QUARTER JAN-MAR 2025

compiled by
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COMMENTARY

GLOBAL HEADWINDS AND RISING UNCERTAINTY REINFORCE THE NEED FOR DOMESTIC POLICY REFORMS

Introduction

The early months of 2025 (extending beyond the first quarter into April) have brought considerable uncertainty to an economy that contracted in 2024 and looks set to, at best, experience little or no growth in 2025. The impact of the tariffs announced by the United Staes government in April is likely to be highly disruptive, especially to the diamond sector. Domestically, government finances remain under pressure, in part due to low mineral revenues, with large deficits and borrowing requirements squeezing the capital market and driving up interest rates. Downward adjustments to spending and additional revenue mobilisation will be required to stabilise the budget and keep government borrowing on a sustainable trajectory. The private sector is awaiting detailed policy pronouncements from the new government to improve the investment climate for both domestic and foreign investors, and hence to boost growth and job creation.

GDP growth

Final GDP growth figures for 2024 revealed that the economy contracted by 3.0%, a sharp turnaround from 3.3% growth recorded in 2023. The economic contraction was not unexpected, and was almost entirely caused by the slowdown in the diamond industry, which caused output from mining, trading, cutting & polishing and exporting all to fall. On the bright side, the performance of the non-diamond private sector remained robust, with overall growth of 4.1% in 2024. Hence the economy was characterised by a diamond sector in deep recession, and a non-diamond sector that was largely unaffected. Of course the diamond contraction has important macroeconomic impacts, besides dragging down the overall growth rate – it affects exports, the balance of payments, foreign exchange reserves, government revenues and debt, and these will in due course have an impact on the rest of the economy.

Diamonds

At the beginning of 2025, the global diamond market appeared to be stabilising after a very poor 2024, and there were expectations of a modest recovery. Nevertheless, the same factors that have weighed on the market since 2023 continue to be worrying – competition from lab-grown diamonds and weak demand from China. Combined with a high level of inventory throughout the diamond value chain, this has resulted in poor prospects for diamond mining. De Beers reduced its 2025 production guidance downwards to 20-23 million carats (mcts) (previously 30-33 mcts), and Debswana reduced its 2025 production target to 15 mcts, down from 18 mcts production in 2024. This will have a substantial impact on Botswana's growth outlook for 2025. Anglo American announced that De Beers sales for the first quarter of 2025 were 44% lower than in the same period in 2024, due to a 38% fall in average prices and a 4% fall in carats sold. Debswana production was 8% down year-on-year.

In recent weeks (technically after the end of the quarter covered by this Review, but so important that it has to be included), the industry received a severe blow from the tariffs imposed globally by the United States. The tariffs, which will apply to diamonds from Botswana and India (where many of Botswana's diamonds are processed), threaten to undermine the industry by significantly increasing prices for natural diamonds and diamond jewellery in the US market (over 50% of the global market), reducing profits throughout the value chain (and hence revenues to the Government of Botswana) and require large amounts of cash for the payment of import tariffs. This is in an industry that traditionally operates on credit until final sales are made, hence requiring a revision of long-standing business models and the provision of more working capital. The impact of the US tariffs on Botswana is discussed in more detail in the Box below. Overall, the impact on the diamond market and global trade could well be of a similar magnitude as the COVID-19 shock in 2020-21.

Foreign Trade and Reserves

As a result of the sluggish performance of diamonds, Botswana's exports dropped sharply in 2024, with total goods exports down 21% in 2024, and diamond exports down 31%. This resulted in a huge trade deficit, rising to P35.5 billion in 2024, up from P10.3 billion in 2023. While this trade deficit was to some extent offset by surpluses elsewhere on the balance of payments (notably receipts from SACU), the foreign exchange reserves fell from P68.7 billion at the end of 2023 to P48.1 billion in 2024, the largest annual percentage fall in the reserves for more than 20 years. We estimate import cover to now be below 6 months of goods and services, the lowest level of import cover since the early 1980s. This trend cannot continue and will require a policy adjustment unless there is a sharp improvement in the diamond market (which is now much less likely given the US tariffs).

Government Finances

Government finances have also been hard-hit by the diamond market and export slowdown, which have compounded problems arising from an unsustainable fiscal policy over many years. Fiscal mineral revenues are now estimated at P8.7 billion for the 2024/25 financial year, compared to the P25.0 billion projected in the 2024 Budget. The estimated budget deficit for the year has accordingly blown out from P8.7 billion to P24.7 billion.

Government has faced severe challenges in financing a deficit of this magnitude, and had to draw down the final savings balances that underpinned government liquidity in the past. The Government Investment Account (GIA) fell to a paltry P250 million in December 2024, down from P8.6 billion a year earlier. Domestic bond issuance slightly undershot the original net borrowing target of P9 billion, and government in the end had to use unconventional financing measures, including borrowing from the Botswana Public Officers Pension Fund (BPOPF) and taking an overdraft from the Bank of Botswana, and even so it is believed that there was a significant increase in payments arrears to suppliers.

Interpreting government financial data has become much more difficult since the Ministry of Finance has stopped publishing the usual quarterly debt data (last published in June 2024) and quarterly budget data (last published in June 2023).

The 2025 Budget has done little to move away from this unsustainable trajectory, and (as in the 2024 Budget under the previous government) included some quite unrealistic projections about a recovery in mineral revenues. Spending is still projected to increase, and there is still a huge budget deficit, but with a greater financing role for external borrowing than in 2024/25. Now that the GIA has been depleted, deficits have to be financed entirely by borrowing; the result is a rapid increase in the level of public debt that is set to hit the statutory debt limit within the next 1-2 years. The can has been kicked down the road and tough decisions avoided, but they will be required sooner or later. [see Feature article].

Inflation and Interest Rates

Inflation continues to be one area of the economy that is not causing problems. Consumer price inflation rose from 1.7% at the end of 2024 to 2.8% in March 2025 – a slight increase driven mainly by rising food and beverage prices, offset by falling fuel costs. Inflation remains below the lower end of the Bank of Botswana's 3-6% objective range. Prospects for inflation remain well-contained, although with high uncertainty – the US tariffs (and Chinee retaliatory tariffs) will push up global prices for many commodities, but this may be offset by the deflationary impact of those tariffs on global economic activity.

The BoB has kept the monetary policy rate constant, but this has not prevented many interest rates from rising, under the pressure of higher government borrowing. Yields on bonds have been rising as debt issuance has increased, surpassing 10% for the first time. The combination of increased government borrowing and reduced diamond sales revenues have also drained liquidity from the banking system, with the result that banks have been competing intensely for deposits and paying extremely high interest rates for short-term (1-3 month) funds, which will have an impact on lending rates while the liquidity shortage persists.

Outlook

The GDP growth outlook for 2025 is highly uncertain. Our current estimate is that GDP will be flat, with zero percent growth. The projected further reduction in diamond output will drag down overall growth, as in 2024, offsetting hoped-for positive growth in the non-diamond sector. The uncertainty surrounding the impact of the new US tariffs, both on the US diamond market and global growth more broadly, makes a less favourable outcome a distinct possibility. The IMF, for instance, is projecting -0.4% growth for Botswana in 2025. Two major credit rating agencies – Moody's and Standard and Poor's – maintained Botswana's credit rating but changed the outlook from stable to negative, an indication that a downgrade is a distinct possibility. These conclusions were reached before the US tariffs were announced. Both reflect the fact that the balance of payments and fiscal accounts are currently on an unsustainable path.

This adds pressure for long-needed economic reforms to improve the business climate and boost private sector growth. Now that the new government has been in office for almost six months, the hope is that it will introduce specific reforms to stimulate growth across a range of sectors – such as those proposed in the previous issue of this review at the end of 2024 – and move beyond good intentions and generalities. Critical measures include regulatory reforms, liberalisation of immigration rules, opening up of borders, reform of restrictive public procurement rules, and dealing with inefficient state-owned enterprises that are crowding out the private sector. There is also uncertainty over the proposed increase of over 150% in the minimum wage, which would inevitably cause an increase in unemployment and inflation. A lack of clarity over if, when and how it will be implemented is one of the things said to be holding back investment. The fact that weak government finances preclude significant increases in spending makes the need for structural reforms to boost both domestic and foreign direct investment even more pressing.

The Impact of US tariffs on Botswana

Introduction

The announcement by the US Government in early April of swingeing so-called “reciprocal” tariffs to be imposed on almost all countries globally has upended the global trading system and, according to the Managing Director of the IMF, led to a level of global trade uncertainty that is “off the charts”. The uncertainty is of course partly due to the fact that the US tariff regime destination is unknown, with the imposition, suspension and variation of the actual and proposed tariffs. But, at the time of writing, the tariffs levied on Botswana currently amount to 10% and at the end of the 90-day suspension in July will rise to 37%.

The 37% figure has been billed as a “reciprocal” tariff, supposedly matching (with a 50% discount) the tariff levied by Botswana on imports from the US. But a quick interrogation of the formula used to calculate the reciprocal tariff shows that it has nothing to do with the tariff levied by Botswana on US imports, but is simply based on the trade balance between Botswana and the US (the same formula used to calculate the tariffs to be levied on all countries). In fact the Botswana tariff levied on US imports (the SACU tariff, given that Botswana is part of the customs union) is an average of 8%. So the tariff to be levied by the US on Botswana exports is many times higher than the tariff levied by Botswana and SACU on US exports.

Botswana’s exports to the USA

What about the impact of these tariffs on Botswana? There are three channels through which they will operate. The first is the direct impact of tariffs on Botswana’s direct exports to the US. The second is the impact on Botswana’s exports to the US that are routed through other countries. The third is the indirect impact resulting from the impact of the tariffs on US and global economic growth.

On the face of it, the immediate impact of the tariffs (currently 10%, but to rise to 37% in July), should not be too big. Over 2022-24, Botswana’s exports to the USA averaged US$450.3 million a year, around 8% of Botswana’s total exports. Almost all of this was exports of diamonds. Over the same period, Botswana’s imports from the USA averaged US$72.6 million a year, most of which comprised machinery and equipment, and diamonds. If the tariff only applies to 8% of Botswana’s exports, the impact could be manageable. However, the indirect impacts (see below) are likely to be much bigger.

Besides diamonds, other exports to the US are fairly small. In the past, textile exports have been important, but these have largely disappeared. The Selebi-Phikwe citrus project has been targeting the US market. But given the importance of export diversification to Botswana, a 37% tariff barrier will make the country’s products uncompetitive in the US and effectively rules that country out as an export market, unless the bilateral “reciprocal” tariff can be negotiated significantly downward.

Direct and indirect impact on diamond exports

The second channel is the impact of tariffs on Botswana’s diamonds exported to the US via third countries, notably diamonds that are exported to India for cutting and polishing. The US accounts for 50% or more of the global market for diamond jewellery. Assuming that this applies to Botswana’s diamonds, total exports to the US (direct and indirect) amount to an average of US$2.3 billion over 2022-24, or 40% of total exports, much larger than direct exports.

Currently, Botswana's diamond exports to the US face a 10% tariff, whether direct or indirect (up from zero). From July, unless the proposed tariff regime changes, they will face tariffs of 37% (if direct from Botswana) or 26% (if indirect via India). The impact will be to raise diamond prices, which will reduce demand, and/or reduce profit margins in the industry. The impact on demand is particularly worrying, especially given the weakness of the diamond market in recent years, and the hopes for recovery in 2025. Lower profit margins, which would feed back to diamond mining, would reduce government's fiscal revenues from the sector. Finally, the tariff differential between Botswana and India will make it unviable to cut and polish diamonds in Botswana – where margins are already wafer thin – and instead it is likely that US-bound diamonds will be cut and polished in India. This threatens the many jobs in diamond cutting and polishing in Botswana.

A further point is that currently a significant proportion of diamonds and diamond jewellery are imported to the US on "memo". This means the payment for the diamonds (from the importer to the manufacturer) only occurs when the diamonds are actually sold in the US. But the tariffs would be due on the value when the diamonds are imported, not when they are sold, hence, importers would be required to tie up a lot of money in tariff payments potentially for a long time before the diamonds are sold. This provides another disruption to the conventional diamond trading model, increasing costs further.

Impact on economic activity

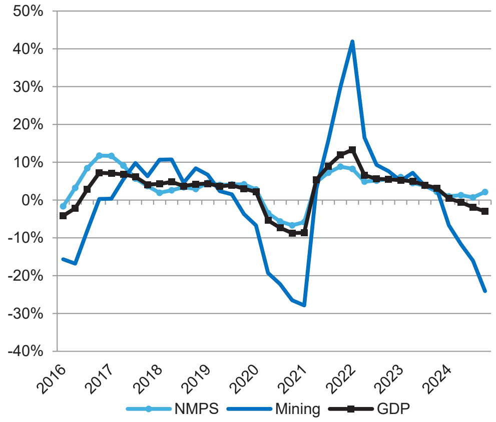
Most economists and international institutions expect the US tariffs to have a large and negative impact on global trade (which is now expected to contract) and US economic activity (with the odds of both recession and higher inflation rising steadily). This will provide a double whammy on the demand for Botswana diamonds in the US, with the impact of higher diamond prices compounded by weaker general demand with US living standards under pressure.

In the short term, uncertainty over tariff levels and their impact has led diamond traders and manufacturers to hold back on purchases, which will delay the unwinding of excess inventory levels that have been carried over from 2024. Overall, the impact on the diamond sector will be negative at all levels – mining, trading and cutting & polishing – even if the magnitude is difficult to forecast at this stage, and will weigh on economic recovery in Botswana.

More generally, the effective closure of the US market to Botswana and many other countries reinforces the need to develop a range of other export markets. For Botswana, this includes markets where we already have favourable trade agreements in place (SACU, the SADC Free Trade Area, the African Continental Free Trade Area (AfCFTA), and preferential trade agreements with the EU and the UK), and other markets where trade agreements could be negotiated (e.g. in Asia). Of course, there may be scope to negotiate with the US for more favourable treatment in the next couple of months. This is complicated by the fact that it is unclear what concessions the US is seeking (especially given the relatively low existing tariff level of 8% on US exports to SACU), as well as the fact that any tariff reductions or even a broader trade agreement with the US would have to be negotiated at the SACU level rather than by individual member states. More generally, the US may seek the rolling back of other regulations that prevent or restrict US firms for participating in economic activities in Botswana, such as the rules restricting access to public procurement.

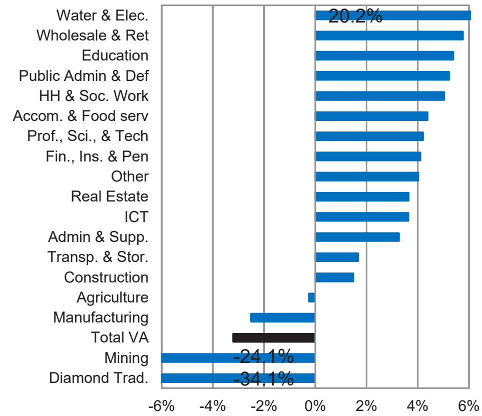
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



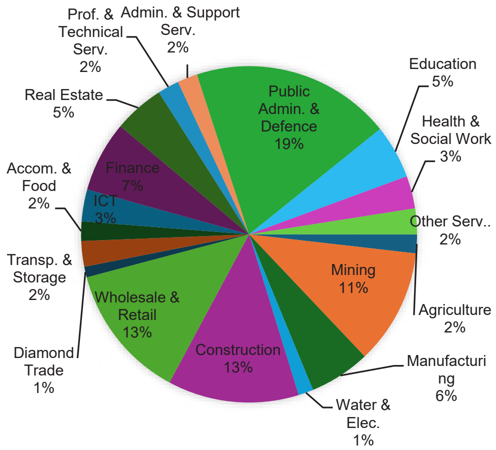
The economy contracted in 2024 recording GDP growth of negative 3.0% year-on-year, down from 3.2% year-on-year growth recorded in 2023. Economic performance was in line with expectations of lower growth attributable to the contraction of the mining sector. Growth in the mining sector fell significantly to minus 24.1% y-o-y down from 2.9% y-o-y in 2023. The slowdown in mining sector growth is because of the subdued global demand for rough diamonds, competition from synthetic diamonds, high inventory in the diamond value-chain and weakened demand in key markets. Non-mining private sector growth was largely unchanged at 2.1% y-o-y in 2024, somewhat cushioning the economy against mining sector contraction. The rate of economic growth is far below the rate necessary to achieve a high-income status by 2036, of around 6% per year.

SECTORAL GDP GROWTH



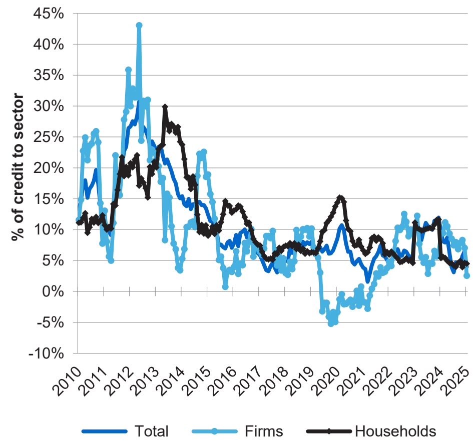
Economic performance across sectors of the economy was consistent with the overall economic conditions. Several sectors recorded lower growth in 2024 when compared to 2023. Industry related sectors (Agriculture, Manufacturing, Mining and Diamond Trade) recorded lower growth in 2024 than in 2023, contracting by 0.3%, 2.5%, 24.1% and 34.1% year-on-year, respectively. On the other hand, sectors that had improved growth during the period were Wholesale & Retail, Public Administration & Defence, Education, and Health & Social Work. Notable improvements were registered in Water & Electricity which rose to 20.2% y-o-y in 2024 from minus 14.3% in 2023. It was service sectors that helped to cushion the slowdown in economic growth; however, this is not sustainable as a long-term driver of growth as they are largely inward-looking sectors.

SECTORAL GDP SHARES



The structure of the economy in terms of economic sectors changed for the top four sectors in 2024. The largest sector of the economy was Public Administration & Defence, with a share of 19% of GDP, at current prices. It is followed by Wholesale & Retail and Construction with equal shares of 13% of GDP. The share of Mining in GDP declined to 11%, becoming the fourth largest sector in 2024, from 17% of GDP in 2023. Mining's share in GDP reduced because of the decline in diamond and copper output, and decreased diamond prices and sales.

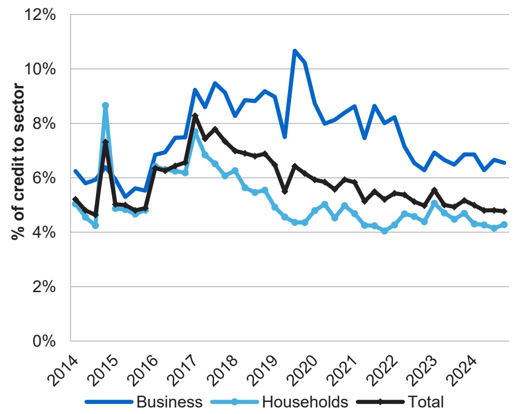
ANNUAL CREDIT GROWTH



Annual bank credit growth slowed to 4% in January 2025, from 4.5% in October 2024. This was driven by a fall in the growth of debt taken up by both businesses and households. Annual credit growth to households declined to 4.5% in January from 5% in October, while the annual growth of bank credit to firms decreased to 2.6% from 7.9% during the same period. Commercial banks have been applying caution when providing lending given the liquidity constraints in the banking system. The evidence suggests that the rapid increase in government borrowing is crowding out lending to the private sector.

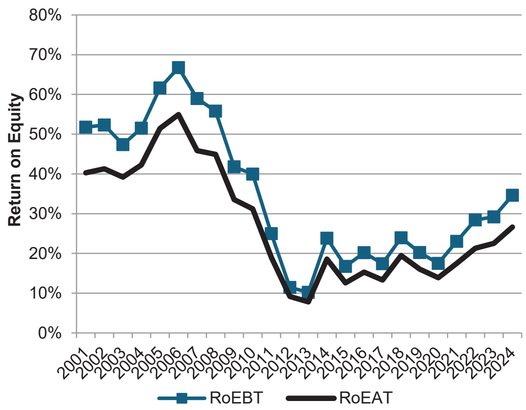
KEY ECONOMIC VARIABLES

ARREARS ON BANK LENDING



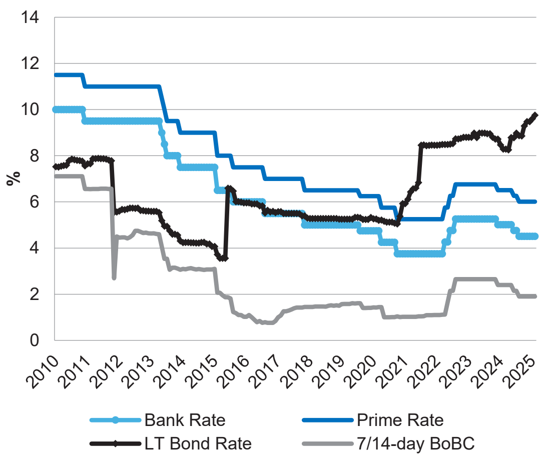
Total arrears on bank lending as a proportion of total banking assets declined during 2024, reaching its lowest level since the fourth quarter of 2015. Total arrears declined from 5.2% in 2023, to 4.8% in 2024. This was driven by a decline in arrears on lending to households and businesses. Household arrears declined from 4.7% in 2023, down to 4.3% in 2024 while arrears on lending to businesses also fell from 6.9% to 6.6% during the same period. The decrease in arrears on bank lending signifies households and businesses are still servicing their debt obligations.

BANK PROFITABILITY



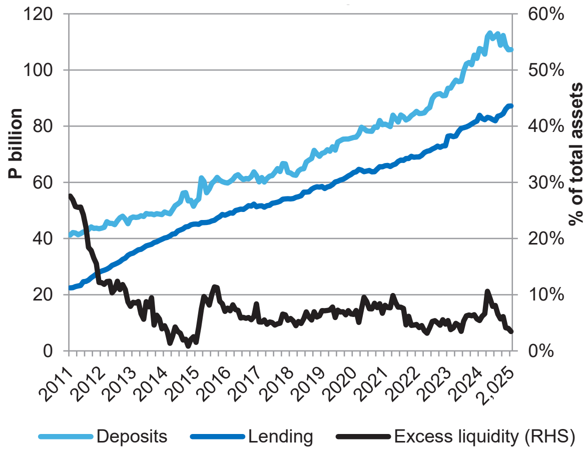
Bank profitability, as measured by the return on equity (RoE) increased in the year ended December 2024. Post tax (RoEAT) bank profitability rose to 26.7% in 2024, up from 22.6% in 2023. A combination of factors contributed to the increase in bank profitability. These are the reduction in arrears during 2024, and hence a reduction in provisions for bad and doubtful debts, an increase in net interest income, and high interest rate spread.

INTEREST RATES



At the meeting held in February 2025, the Bank of Botswana's Monetary Policy Committee (MPC) decided to maintain the Monetary Policy Rate (MoPR) at 1.90%. The Bank considers the medium-term inflation outlook to be positive and remain within the objective range of 3-6%. Similarly, the 7/14-day BoBC rate and the commercial bank Prime Lending Rate remained unchanged at 1.90% and 6.01%, respectively. However, the long-term government bond rate (BW012) increased to 9.76% in February 2025, up from 9.48% in November 2024, reflecting increased government borrowing.

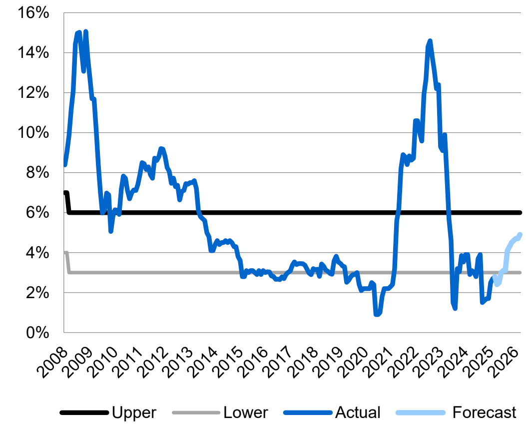
BANK DEPOSITS, LENDING & LIQUIDITY



Bank liquidity has been steadily declining in recent months. Excess bank liquidity slowed to 3.5% of total assets in January 2025, down from 6.1% in October 2024. This reflected an increase in bank lending as compared to a contraction in deposits during the period. Bank lending was valued at P87.20 billion in January 2025, up by 3.3% (P2.75 billion) from P84.45 billion in October 2024. During the same period, bank deposits fell by 4.5% (P5.06 billion) to P17.25 billion. While there is still some "excess" liquidity across the banking system as a whole, much of this is in US dollars, hence, not available for Pula lending.

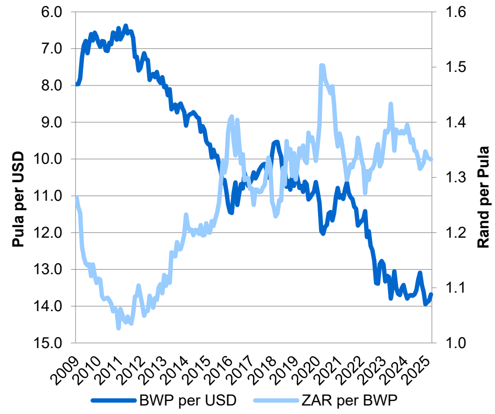
KEY ECONOMIC VARIABLES

INFLATION AND FORECAST



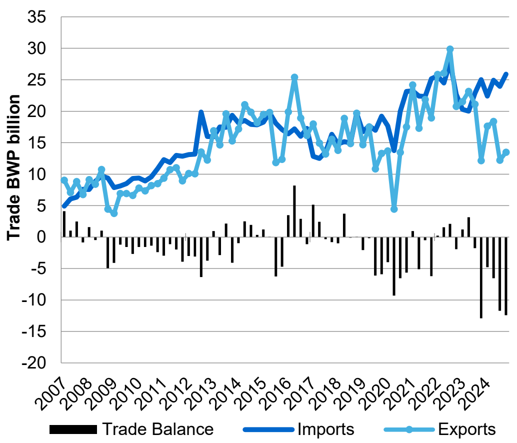
Headline inflation in the first quarter of 2025 increased to 2.8% from 1.7% in December 2024, but remaining below the lower the lower limit of the Bank of Botswana inflation range of 3-6%. Group indices were relatively stable recording changes less than 1% during the quarter. It is expected that inflation will gradually increase during 2025 but remain within the objective range. Upside risks to inflation result from the impact of tariff increases from the US and other countries, while downside risks emanate from the impact of these tariffs on global economy activity and slower growth.

EXCHANGE RATES



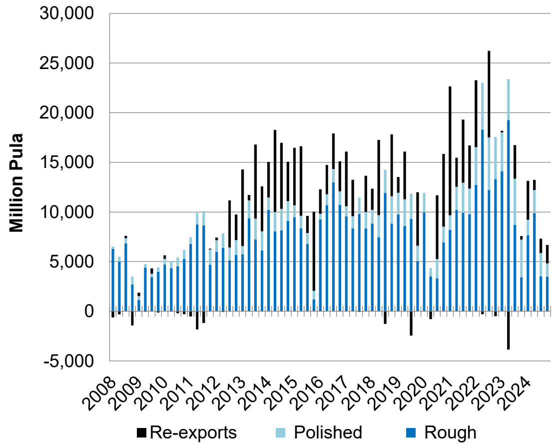
Exchange rates have been characterized by much volatility during the first quarter of 2025, attributable in part to the global instability resulting from US tariff policy. As a result, the Pula strengthened against the US dollar while weakening against rand. The Pula depreciated by 1.1% against the rand, ending Q1 2025 at ZAR1.333, down from ZAR1.347 at the end of Q4 2024. The Pula-US dollar exchange rate was 13.68 at the end of Q1 2025, up from 13.94 at the end of Q4 2024, representing an appreciation of 1.9%.

INTERNATIONAL TRADE



Trade performance in the year to December 2024 was characterised by weakened demand for minerals, particularly diamonds. Compared to 2023, the value of imports was higher in 2024 whilst the value of exports was lower. Total imports increased by 10.1% from P88.19 billion in 2023 to P97.14 billion in 2024 whilst exports declined by 20.8% from P77.90 billion to P61.68 billion. The trade deficit widened to P35.46 billion in 2024, compared P10.30 billion in 2023. The main driver of international trade activity during the year was diamonds, contributing to the fall in overall exports, and the increase in total imports.

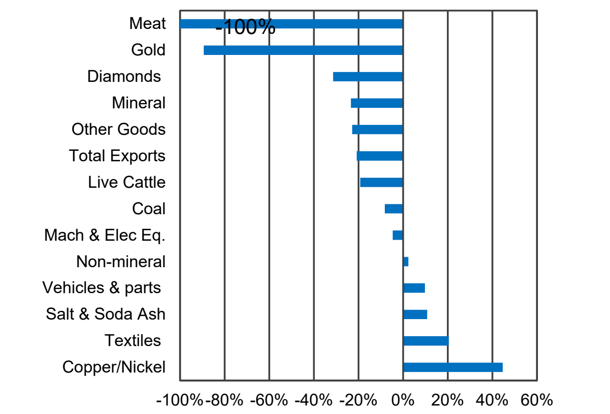
DIAMOND EXPORTS



The subdued global demand for rough diamonds and diamond jewellery during 2023 continued in 2024. The global diamond market was generally depressed, recording much lower sales values in 2024 compared to 2023, as diamond prices decreased. Botswana diamond exports decreased across several categories and declined by almost half during the second half of the year. Total diamond exports registered a year-on-year decrease of 34.9% between 2023 and 2024, from P62.00 billion to P40.37 billion, respectively. In other categories, diamond exports decreased for polished and increased for re-exports. Polished exports decreased by 54.1% y-o-y to a value of P7.55 billion, significantly lower than P16.45 billion in 2023. On the other hand, re-exports significantly increased, from P24.89 million to P8.24 billion, between 2023 and 2024. There was a significant decline for Botswana rough exports by 46% y-o-y from P45.52 billion in 2023 to P24.57 billion in 2024.

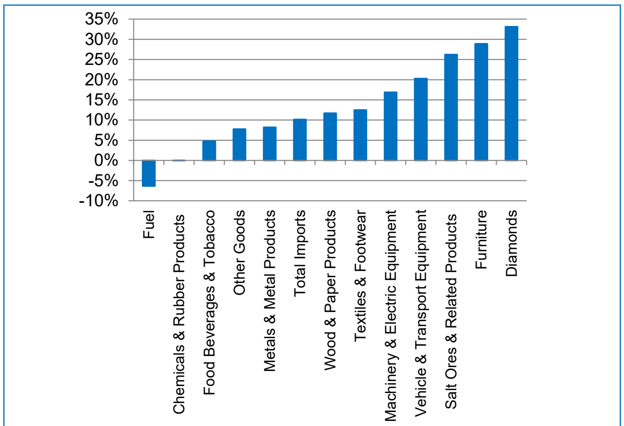
KEY ECONOMIC VARIABLES

EXPORT GROWTH



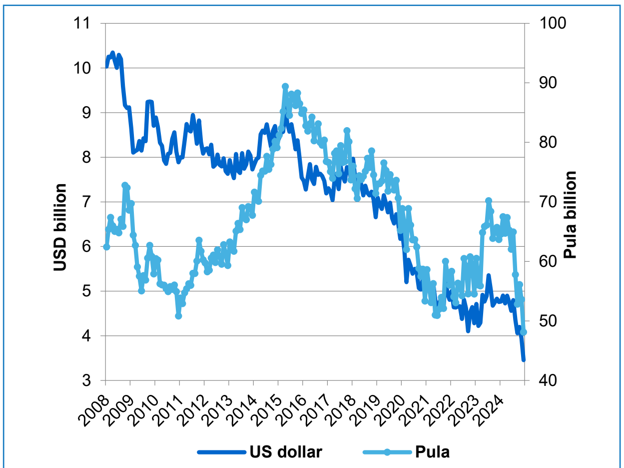
Overall export performance in 2024 was poor, with most categories of exports declining. Exports of minerals fell by 23.4%, with gold and diamonds having the biggest contractions of 89.3% and 31.4%, respectively. Copper, however, was the best performer, with exports growing by 45%. The poor performance of the export sector in 2024 demonstrates the urgent need to increase the competitiveness and diversification of Botswana's exports. Policies promoting the expansion of these sectors should be put at the for-front while discouraging protectionist policies which are anti-competitive. Non-mineral export commodities grew marginally by 2.4% in 2024.

IMPORT GROWTH



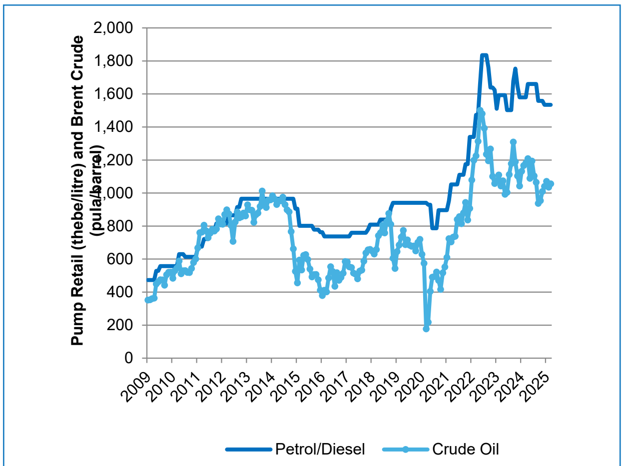
Imports registered increased year-on-year growth across most categories in 2024, the exceptions being Fuel and Chemical & Rubber Products. Total imports grew by 10.1% in 2024, compared to minus 11.7% growth in 2023. The main driver of growth was Diamonds, registering growth of 33.1%, up from minus 51.5% in 2023.

FOREIGN EXCHANGE RESERVES



Foreign exchange reserves declined sharply between 2024 and 2023, by 24.4% to P48.13 billion down from P63.69 billion. This is the lowest level of the reserves since 2006. The reserves also declined in other currencies, by 27.4% and 25% in US dollar and SDR terms, respectively in 2024. The downward trend in the reserves is unsustainable and requires policy changes to restore them to sustainability. Most importantly, the reserves play a critical role in supporting the Pula exchange rate mechanism, which will not be sustainable if the trend of declining reserves is not reversed.

FUEL PRICES



Domestic fuel prices have held constant since they were last adjusted in August 2024. However, there is a downward trend represented by both local and international fuel prices, almost reaching prive levels before Russia's invasion in Ukraine. Following the Russia-Ukraine war, international fuel prices spiked and reached the highest level of USD125.53 per barrel in May 2022. While fuel producers made efforts to keep prices high, market forces were at play bring prices close to pre-Russin-Ukrain war levels.

NEWS HIGHLIGHTS

17th January	Gov't works on critical minerals strategy. (Mmegi)	Botswana plans to develop a critical minerals strategy and value chain to prepare for the next wave of mining. The Minister of Minerals and Energy, Ms Bogolo Kenewendo, noted the importance of preparing for the green transition. Botswana has several critical mineral deposits sought after in the transition to green energy. These include copper, nickel, cobalt and manganese deposits, which have all been exploited in the past, as well as known deposits of platinum. These deposits could support more than 100 years of mining in Botswana.
23rd January	South African giant went from crown jewel to problem child. (Daily Investor)	De Beers has seen its value plummet due to declining diamond prices and subdued sales. The rise of lab grown diamonds has also impacted the industry. In 2024, De Beers cut diamond prices by 10% to boost demand. Anglo American had earlier slashed De Beers' value by R30 billion due to lower diamond sales and profits. The decline in demand and increasing supply due to man-made alternatives is causing a perfect storm for diamond miners.
24th January	U.S. freezes nearly all foreign aid program funding after Trump order. (Sunday Standard)	The State Department has ordered a freeze on funding for nearly all U.S. foreign assistance, with exceptions for emergency food programs and military aid to Israel and Egypt. This order threatens to halt billions of US dollars in funded projects globally, including health, education, development, job training, anti-corruption, and security assistance. Botswana would be affected as it receives assistance through USAID and PEPFAR for HIV/AIDS programmes.
25th January	Giyani Metals gains Special Economic Zone license for Botswana manganese plant – ICYMI. (Proactive Investor)	Giyani Metals Corp has secured a Special Economic Zone (SEZ) license for its commercial manganese plant site in Botswana, providing fiscal benefits such as a reduced tax rate of 5% for the first 10 years. The license, which is for 50 years, is expected to benefit the company's K. Hill Project. The demonstration plant in Johannesburg is nearing production, and Giyani plans to host an investor site visit in February. The company is also preparing for offtake discussions and project construction.
31st January	Gov't hits record P4.6 billion debt target. (Mmegi)	The Bank of Botswana raised P4.6 billion for government in the capital market in January, the highest amount ever raised in a single monthly auction. The funds are critical for plugging the budget deficit, which is expected to grow from P8.7 billion to over P18 billion due to the diamond market downturn. The interest rates payable by Government have generally been rising as the note issuance programme has progressed during the year. It has also resulted in competition for liquidity in the financial market, and the latest auction adds more pressure to the liquidity crunch.
7th February	Stop the bleeding, Econsult urges gov't. (Mmegi)	Econsult Botswana has warned that the new government in Botswana needs to cut spending to avoid a deficit of P18.7 billion this financial year. The government is currently meeting only half of this shortfall through domestic capital market borrowings. Econsult suggests halting expansionary expenditure to stabilize the economy and implementing spending cuts, such as reducing subsidies to local authorities and re-evaluating the public service wage bill.

NEWS HIGHLIGHTS

10th February	Botswana sees 3.3% growth in 2025 amid upturn in diamond market. (Financial Times)	According to the 2025 Budget Speech, Botswana's economy is expected to grow 3.3% this year, following a contraction in 2024, due to an expected recovery in the global diamond market. The country, the world's leading producer of diamonds, is focusing on expanding key sectors like tourism, agriculture, manufacturing, and energy.
11th February	AfDB grants PPRA P3.7 million grant. (Mmegi)	The African Development Bank has awarded a USD265,600 grant to the Public Procurement Regulatory Authority (PPRA) for the development of Standardised Bidding Packages (SBP). The SBPs are crucial documents used in procurement, providing clear instructions and provisions to bidders. The grant also covers stakeholder training on SBPs. The PPRA aims to enhance compliance, standardisation, and transparency in procurement, preventing wastage and promoting value for money.
20th February	Anglo American slashes De Beers value by USD2.9 billion. (Rapaport)	Anglo American has reduced De Beers' book value by a further USD2.88 billion due to weak diamond demand. The move comes one year after a USD1.56 billion write-down in 2023. De Beers' carrying value on the Anglo balance sheet is now estimated at USD4.1 billion. The miner's rough-price index dropped 20% in 2024, and revenue fell 23% to USD3.29 billion. De Beers reported a net loss of USD288 million for the 12-month period. Output declined 22% to 24.7 million carats due to a slowdown in demand and higher-than-normal inventory levels. The miner expects to produce between 20 million and 23 million carats in 2025 – down from its earlier guidance of 30-33 million carats - but plans to increase production over the next two years.
23rd February	Large-Stone sales send Lucara revenue surging. (Rapaport)	Lucara Diamond Corp.'s revenue increased by 18% to USD203.9 million in 2024, driven by the sale of two massive rough stones from its Karowe mine in Botswana. The company's profit for the year was USD39.9 million, compared to a net loss of USD20.2 million in 2023. The company expects revenue to reach USD225 million in 2025, driven by increased demand for larger diamonds and long-term demand for natural diamonds.
24th February	Premium Nickel to raise P350m for BCL revival. (Mmegi)	Premium Resources plans to raise 36 million Canadian dollars (P350.3 million) to develop its base metal project and advance exploration. The company is planning to re-open part of the former BCL mine in Selebi-Phikwe as primarily a nickel mine.
26th February	Botswana launches first satellite BOTSAT 1. (Daily News)	Botswana has launched its first satellite, BOTSAT-1, marking a significant milestone for the nation and Africa's growing space community. The satellite will enable support to precision farming, land use monitoring, natural disaster early warning systems, climate change tracking, deforestation, and biodiversity. BIUST spearheaded the research, engineering, and capacity-building efforts, fostering the development of future space scientists and engineers.

NEWS HIGHLIGHTS

27th February	Chema Chema loans now grant. (Daily News)	President Duma Boko has cancelled Chema Chema loans due to low repayment rates. The government spent P200 million on the programme, but only 2% of borrowers paid back their loans on schedule. Boko urged business owners to adopt the new Chema Chema co-operative model, encouraging SMEs to collaborate rather than work as individual entities. The new model allows businesses to pool resources, increase financial strength, and form specialized co-operatives.
3rd March	Business Botswana not ready for P4,000.00 minimum wage. (The Voice)	Business Botswana has pushed back hard against the proposed P4,000 minimum wage, warning that its immediate implementation could cripple businesses, force many to shut down, and trigger job losses.
3rd March	Giyani produces first battery-grade manganese from Botswana project. (Mining.Com)	Giyani Metals Corp., the developer of the K. Hill Battery-Grade Manganese Project in Botswana, has produced High Purity Manganese Oxide (HPMO) at its Johannesburg Demonstration Plant. HPMO is a precursor to produce High Purity Manganese Sulphate Monohydrate (HPMSM), required for certain electric vehicle and energy storage system batteries. The company plans to produce both HPMO and HPMSM to maintain pace with the rapidly developing battery market and serve most potential future battery types. The Demo Plant is on track to produce HPMSM during Q1 2025. The commercial advantages of producing multiple battery-grade manganese products are significant, as the battery market is growing rapidly.
6th March	Botswana, De Beers sign diamond deal. (The Patriot)	Botswana and De Beers Group have renewed their diamond partnership, extending mining licenses for another 25 years and securing a decade-long sales deal. The agreement, described as "groundbreaking" by De Beers CEO Al Cook, ensures Debswana continues to operate and invest in Botswana's diamond sector. The deal grants a 25-year extension to Debswana's mining licenses, allowing the company to extract long-term value from its existing operations and future mining expansion projects. Additionally, the agreement includes a renewed 10-year sales contract for Debswana's rough diamond production, with a possible five-year extension upon meeting specific criteria. The Diamonds for Development Fund, aimed at accelerating economic diversification, job creation, and sustainable growth in Botswana, will be established with an initial investment of BWP 1 billion. De Beers will also invest in a diamond jewellery manufacturing facility, grading laboratory, and diamond vocational training institute.
9th March	BHP earns right to take 75% stake in Cobre's Botswana projects. (Rapaport)	BHP has acquired a 75% stake in Australia's Cobre's Kitlanya projects in Botswana for USD25 million in exploration funding. The deal follows Cobre's selection in BHP's Xplor program last year. Cobre will receive at least USD5 million in committed funding within two years, with a planned USD7 million budget for exploration expenditure.

13th March	Scatec begins commercial operations at new solar power plant in Botswana. (Solar Quarter)	Scatec ASA has started commercial operations at the first 60 MW of its 120 MW Mmadinare Solar Cluster in Botswana, marking its first power plant in the country. The plant will generate revenue through a 25-year power purchase agreement with Botswana Power Corporation. Scatec plans to reduce its long-term economic interest by bringing in additional equity partners.
13th March	Mobile Money madness! (The Voice)	Mobile money services in Botswana have seen a significant increase in the annual value of transactions from P26.5 billion to P33.5 billion between March 2023 and March 2024, despite a decline in subscriber numbers. These services cater to the unbanked population and are offered by mobile network companies Orange, Mascom, Botswana Telecommunications Limited, and BotswanaPost. Orange dominates the market with 78% of customers, followed by Mascom's MyZaka.
14th March	Lotus Resources confirms Botswana's Letlhakane Uranium potential. (African Mining Market)	Lotus Resources has completed its scoping study for the Letlhakane uranium project and confirmed the mine's potential to produce approximately 3 million pounds of uranium oxide per year. The study estimates Letlhakane holds 45 million pounds of uranium resources, with 29 million pounds mineable over 10-year lifespan, and USD465 million in capital required.
14th March	Botswana aims for 1.5 GW of solar power to accelerate green transition. (FinsWorld)	Botswana is aiming to secure 1.5 GW of solar power capacity as part of its transition to renewable energy sources. The country's solar potential will contribute to carbon reduction targets and align with international climate protocols. The government is seeking investments from private sector and international entities to develop infrastructure and technology.
14th March	Botswana outlook revised to negative from stable on external and fiscal pressures; 'BBB+/A-2' Ratings Affirmed. (S&P Global)	S&P Global has revised its outlook on Botswana from stable to negative but affirmed the country's sovereign credit rating of 'BBB+/A-2'. According to the agency, Botswana's fiscal consolidation efforts will remain challenging due to weak global demand for diamonds and depressed prices. The country's economy contracted by 3.3% in 2024, primarily due to a significant drop in diamond demand, prices and output. Net government debt is expected to rise to 19% of GDP by 2028. Botswana's diamond sector represents about 70% of exports, a third of the government's fiscal receipts, and about a quarter of GDP. The country's economy is expected to rebound to positive growth from 2025 as global diamond demand improves and domestic government expenditure supports domestic demand. The Umbrella for Democratic Change (UDC) coalition won the elections in October 2024, promising to create jobs and diversify the economy away from the diamond sector. However, the diamond industry remains a dominant source of export and fiscal revenues, leaving Botswana vulnerable to global diamond market fluctuations in the next few years. The new administration plans to widen social support on pensions and health, enhance job creation, and implement tax reforms to fund the programs.

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14th March	Botswana's government puts diamond trader deal on back burner. (Mining Weekly)	Botswana's deal to acquire a 24% stake in Belgian gem trader HB Antwerp, proposed by the previous government but never completed, may not progress. The deal was seen as a model to challenge the country's decades-long partnership with De Beers. However, HB Antwerp states that it still aims to conclude the deal with Botswana
15th March	Botswana targets rich young Americans with big, natural diamonds. (Rapaport)	Botswana, the world's largest diamond producer, is promoting its natural diamonds to wealthy young Americans. The country is using luxury advertising strategies, including social media influencers and high-end online jewellery seller The Clear Cut. Botswana is aiming to counter synthetics, which have reduced prices for cheaper stones. The Debswana joint venture between De Beers and Botswana saw diamond sales drop 46% last year. Synthetic stones also profit from the narrative that gem mining has financed civil wars.
20th March	Botswana among top African countries that never borrowed from IMF. (The Street Journal)	Botswana has maintained financial independence without borrowing from the IMF. It's diamond mining wealth, effective fiscal policies, and strong governance have allowed it to sustain economic stability without IMF financial assistance. With a projected GDP growth of 3.6% in 2025, Botswana's commitment to macroeconomic stability and long-term development planning ensures financial autonomy.
21st March	Gov't seeks P3.1 billion in fresh funding round. (Mmegi)	The Bank of Botswana (BoB) is set to seek P3.1 billion in debt for the government in the March auction. This follows the failure of the inaugural inflation-linked bond auction. This aimed to raise P750 million, but only attracted seven bids worth P220 million, with bid yields of up to 10.5%. The increased debt appetite has tightened liquidity in the capital market.
25th March	Botswana considering new 615 MW coal-fired power plant. (Engineering News)	Botswana is considering constructing a 615 MW coal-fired power station near its main generation plant to address issues with the 600 MW Morupule B power station. The country also plans to consider other baseload generation options if remedial works fail, with an implementation timeline of 18-24 months.
25th March	Govt slashes water tariffs by 30%. (Mmegi)	President Duma Boko has announced a 30% cut in water tariffs for households to lower living costs and economic pressures. The move aims to provide affordable water to ordinary citizens while ensuring sustainability for government agencies. This will be balanced to some extent by a 40% increase in water tariffs for government agencies. The Water Utilities Corporation (WUC) is struggling with mounting debts and is owed millions of pula by consumers and businesses. There are concerns about the financial health of WUC and its ability to manage its financial challenges, which may intensify as a result of the tariff reduction.

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27th March	Anglo American in talks with banks regarding De Beers IPO – report. (Rapaport)	Anglo American is pursuing a dual-track process to exit De Beers, a diamond miner, by seeking a direct buyer and also preparing for an initial public offering. The move is part of Anglo's restructuring plan to divest from the miner and focus on core businesses. De Beers is the last targeted division still looking for a buyer. The company has signed a new 10-year sales agreement with the Government of Botswana, which owns 15% of the miner but is considering raising its stake. Selling De Beers may be challenging due to the weak diamond market and a shift towards gold in Hong Kong and China.
27th March	Debswana closes Letlhakane tailings and Jwaneng modular plants. (The Projects Magazine)	Debswana Diamond Company will cease production at its Letlhakane Tailings Plant and Jwaneng Modular Plant by March 2025, as part of a strategic restructuring to address market challenges in the global diamond industry. The company will prioritize open pit operations and processing plants, redeploying affected employees. Debswana’s production target for 2025 has been revised downwards to 15 million carats from the previous target of 18 million carats.
28th March	Flo-tek readies for BSE listing. (Mmegi)	Flo-tek, a leading PVC pipe and tank manufacturer, plans to list on the Botswana Stock Exchange (BSE) in the next two years, becoming one of the first homegrown SMEs to list on the exchange's main board. Established in 1998, Flo-tek has grown from a family-run business to a nationwide household name in the provision of pipes, tanks, and associated materials. The listing project leader, Arun Iyer, hopes the listing process will be broad-based and involve a wide range of investors.
28th March	Gov’t weighs options as tariffs become ‘unsustainable’. (Mmegi)	The Botswana Energy Regulatory Authority (BERA) is reviewing a tariff study to determine the path to cost-reflective tariffs for electricity. The Government believes subsidizing electricity is becoming unsustainable, as current tariffs do not cover the cost incurred by the Botswana Power Corporation (BPC) for the generation and procurement of electricity. The BPC's financial requirements for 2025-2026 would require a 38% increase in tariffs. The government has been providing billions of Pula to cover this gap. This year the BPC faces additional challenges from escalating import costs and the ongoing Morupule B defects remediation project.
31st March	Botswana seeks new Eskom power deal as supply crisis deepens. (Bloomberg)	Botswana government officials are to meet with officials from South Africa to address the availability and cost of electricity imports from Eskom. Botswana has been facing an electricity crisis caused by breakdowns at its main plant, Morupule B, resulting in blackouts lasting many hours. A further issue to be addressed is Botswana's debt to Eskom, which is reported to have risen to 2.6 billion pula (USD189.5 million).

MACRO-ECONOMIC DATA

Key Economic Data	unit	2017	2018	2019	2020	2021	2022	2023	2024	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Annual Economic Growth														
GDP	%	4.1	4.2	3.0	-8.7	11.9	5.8	3.2	-3.0	0.4	-0.6	-1.9	-3.0	..
Mining	%	6.3	8.4	-3.7	-26.5	29.8	7.5	2.9	-24.1	-6.7	-11.7	-16.1	-24.1	..
Non-mining private sector	%	3.7	2.9	4.2	-6.7	8.8	5.5	2.2	2.1	1.0	1.3	0.7	2.1	..
GDP current prices	P billion	166.65	173.73	179.90	171.39	207.74	251.36	263.92	263.14	64.73	68.77	65.24	64.40	..
GDP 2016 prices	P billion	171.18	178.35	183.76	167.72	187.63	198.01	204.36	198.25	49.58	50.30	48.87	49.49	..
Money & Prices														
Inflation	%	3.2	3.5	2.2	2.2	8.7	12.4	2.9	1.7	2.9	2.8	1.5	1.7	2.9
Prime lending rate	%	6.50	6.50	6.25	5.25	5.25	6.76	6.51	6.01	6.51	6.26	6.01	6.01	6.01
BoBC 7/14-day	%	1.45	1.52	1.41	1.04	1.10	2.65	2.40	1.90	2.40	2.15	1.90	1.90	1.90
Trade & Balance of Payments														
Exports - total goods	P billion	61.67	67.17	56.33	49.12	82.28	102.52	77.89	61.68	17.61	18.38	12.22	13.47	..
Exports - diamonds	P billion	54.38	60.41	51.01	43.30	74.13	89.30	62.00	40.37	13.14	13.23	7.31	6.68	..
Balance of payments	P billion	-4.28	-4.20	-12.02	-20.06	-2.87	4.49	1.65	..	-2.01	-2.76	-9.86	..	..
Foreign Exchange														
Exchange rate BWP per USD	end	9.87	10.73	10.63	10.79	11.74	12.77	13.72	13.68	13.72	13.68	13.09	13.95	13.68
Exchange rate ZAR per BWP	end	1.256	1.344	1.330	1.356	1.355	1.328	1.380	1.333	1.380	1.349	1.316	1.347	1.333
FX reserves	$ billion	7.502	6.657	6.171	4.941	4.806	4.22	4.77	3.46	4.73	4.56	4.56	3.46	..
FX reserves	P billion	73.69	71.43	65.23	53.36	56.02	54.53	63.69	48.13	64.75	62.05	52.82	48.13	..
Financial Sector														
Deposits in banks	P billion	63.58	69.27	75.71	80.54	84.36	90.93	104.12	107.24	105.67	111.21	108.85	107.24	..
Bank credit	P billion	54.18	58.33	62.77	65.55	68.92	73.05	81.80	87.13	82.30	82.35	83.80	87.13	..
BSE index		8,860	7,854	7,495	6,879	7,010	7,726	9,096	10,049	9,096	9,375	9,653	10,049	10,092
Business Indicators														
Diamond production (a)	mn cts	22.96	24.38	23.67	16.87	22.70	24.48	25.10	18.32	5.08	4.81	4.10	4.34	..
Copper production (b)	'000t	1.24	1.46	0.00	..	11.74	44.27	54.81	48.76	12.43	11.22	13.00	12.11	..
Electricity consumption	GWh	3,772	3,919	3,906	3,842	3,928	4,265	4,736	4,813	1,201	1,181	1,224	1,207	..
Crude oil (Brent)	$/bar	66.73	50.57	67.77	51.22	77.24	82.82	86.17	74.58	86.17	87.26	72.35	74.58	77.23
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 (i)	2024/25 Revised (j)	2025/26 Budget (k)
Revenues	P billion	54.30	49.37	68.57	74.10	74.26	68.69	75.49
Spending	P billion	65.40	65.79	68.68	74.10	85.37	93.42	97.61
Balance	P billion	-11.10	-16.41	-0.11	0.00	-11.11	-24.73	-22.12
Public debt & guarantees	P billion	38.18	42.37	48.26	53.42	59.32	66.14	72.32
Govt deposits at BoB	P billion	19.86	6.20	12.82	14.02	8.76	..	..
GDP	P billion	180.94	174.24	218.01	259.34	261.89	278.07	312.43
Revenues	%GDP	30.0%	28.3%	31.5%	28.6%	28.4%	24.7%	24.2%
Spending	%GDP	36.1%	37.8%	31.5%	28.6%	32.6%	33.6%	31.2%
Balance	%GDP	-6.1%	-9.4%	0.0%	0.0%	-4.2%	-8.9%	-7.1%
Public debt & guarantees	%GDP	21.1%	24.3%	22.1%	20.6%	22.6%	23.8%	23.1%
Govt deposits at BoB	%GDP	11.0%	3.6%	5.9%	5.4%	3.3%	..	..

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

THE 2025 BUDGET AND GOVERNMENT'S FISCAL CHALLENGES

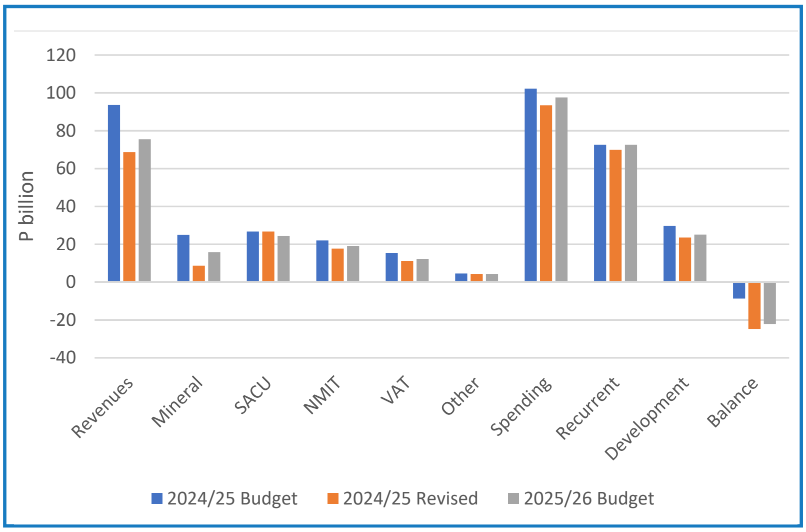
Introduction

The 2025 Budget was delivered on February 10th by the Minister of Finance and Vice President, His Honour Ndaba Gaolathe. This Budget was particularly significant as the first presented by the new Government, following the victory of the Umbrella for Democratic Change (UDC) in the October 2024 general election, and the first change of ruling party in Botswana since Independence in 1966. The Budget therefore presented the new Government with an opportunity to set out its programme in terms of expenditure priorities and the implementation of some of its manifesto commitments, particularly in terms of improving social welfare and reinvigorating economic growth. At the same time it provided an opportunity for the new ruling coalition to demonstrate its commitment to implementing a credible and sustainable economic and fiscal policy programme, especially given its high level of political capital following its election success. This was particularly important given the widespread perception that the previous government had not been acting responsibly in respect of public finances – which may have been one of the factors contributing to its loss in October 2024 - and the weak policy response to the downturn in the diamond market since mid-2023.

A disappointing budget outturn for 2024/25

The 2025 Budget presented estimates of the 2024/25 financial year outturn, for revenue, spending and the budget balance. As expected, the outturn was much less favourable than the budget that been presented a year earlier. Revenues fell short of the 2024 Budget projections by 27%, due mainly to a sharp downturn in mineral revenues, which came in at only P8.7 billion, compared to a budget projection of P25.0 billion. There were also lower than expected collections from non-mineral income tax (19% below budget) and VAT (26%).

Figure 1: Revenues and Expenditure – 2024/25 and 2025/26 Budgets



Source: Ministry of Finance

In response to the under-performance of revenues, there were some small reductions in expenditure as compared to the original budget. The Budget estimated that overall spending would 91% of the approved amount, with a 4% reduction in recurrent spending and a 21% reduction in development spending. As we pointed out last year, the 2024's proposed P29.8 billion development budget, with its 42% increase on the previous year, was neither desirable nor plausible, and in the event the increase in development spending came in at only 14.9%. However, it is likely that this expenditure figure under-estimates the true amount, due to the accumulation of significant arrears on unpaid invoices that are not included in the budgeted expenditure amount, which is cash-based.

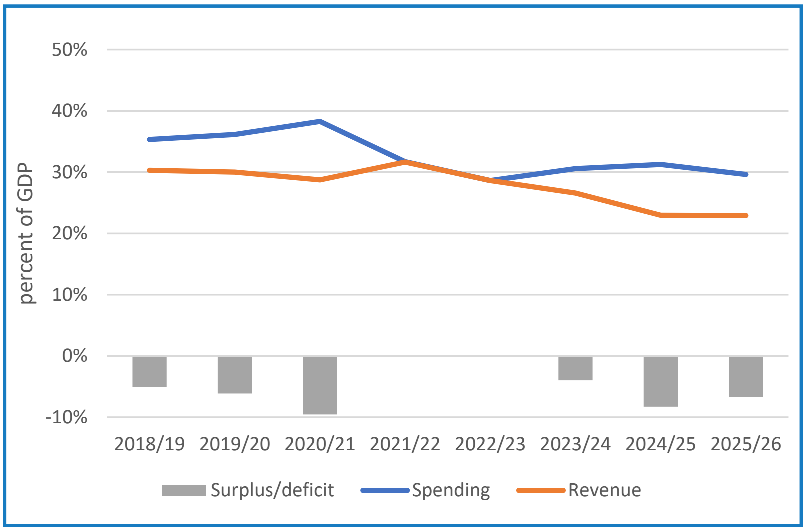
With a huge fall in revenues and only a small reduction in spending, the inevitable result was a blow-out of the budget deficit. This is now estimated to come in at P24.7 billion, compared to the budgeted P8.7 billion. As we discuss below, financing this huge deficit has proved to be a major challenge.

Budget Projections for 2025/26

The 2025/26 Budget includes a modest Increase in total spending – up 4.5%, although this is actually down slightly relative to GDP, from 31% to 30%. This is a move in the right direction, although not by enough to restore fiscal sustainability.

The Budget optimistically projects a 10% increase in total revenues, based on a highly ambitious 81% increase in mineral revenues. Even so, projected revenues in the 2025 Budget are still only 23% of GDP, way below what has until recently been seen as the "norm" of 30% of GDP, and historical revenues of 40% of GDP. The Budget also includes a slightly reduced but still extremely large budget deficit, at P22.1 billion.

Figure 2: Budget 2025/26 - Revenue, Spending & Budget Balance (% GDP)



Source: Ministry of Finance, Financial Statements & Tables

Subsequent developments confirm that this ambitious increase in mineral revenues is unlikely to be achieved. Debswana has announced a reduction in projected output from 18 million carats (mcts) in 2024 to 15 mcts in 2025. Given this, the projected increase in mineral revenues is implausible, given that mineral revenues are largely derived from the taxation of Debswana output and profits. And even if mineral revenues come in at the same level in 2025/26 as in 2024/25 (itself optimistic given the planned reduction in diamond output), the projected deficit balloons from P22.1 billion to P29.2 billion (9% of GDP).

In these circumstances the government should announce cuts in spending during the year, ideally at the promised mid-year budget review.

Financing Challenges

One reason that spending cuts will be required is that government is facing significant financing challenges. As noted, the budget deficit for 2024/25 ballooned from an estimated P8.7 billion at the time of the 2024 Budget to P24.7 billion a year later. The Annual Borrowing Programme (ABP), published for the first time in April 2024, was based on the initial deficit projection and anticipated P13 billion of net new domestic borrowing through T-Bill and bond issuance, as well using part of this to rebuild domestic financial buffers (the Government Investment Account).

Table 1

BWP millions	*2024/2025 (projected) [1]*	*2024/2025 (estimated) [2] [3]*	*2025/26 (estimated) [2] [3]*
Financing Needs			
Budget deficit	8,695	24,751	*29,190*
Other	100	100	210
Financing Availability			
Net foreign borrowing	-1,655	-1,770	*13,845*
Net domestic borrowing - bonds & T-Bills	13,033	*12,597*	*10,000*
Net domestic borrowing – other [4]		*12,259*	*2,554*
GIA / cash drawdown	-2,583	*1,763*	*3,000*

[1] Ministry of Finance, Annual Borrowing Programme 2024/25

[2] Ministry of Finance, 2025 Budget documents

[3] Econsult Botswana (figures in italics). [4] Includes loans from BPOPF and BoB

With an increase of P16 billion in the size of the budget deficit during 2024/25, the original borrowing target proved to be inadequate, as well as very challenging to achieve. Monitoring the level of outstanding and new borrowing is proving difficult, given that the Ministry of Finance has stopped publishing reasonably up-to-date debt data (the most recent one currently available is for June 2024, now more than nine months old). However, tracking of auction data published by Bank of Botswana suggests that Government managed to raise a net P8.4 billion through bond issuance during the year, against a target of P9.0 billion.

To help meet its borrowing needs, Government attempted to introduce a new borrowing instrument in the form of inflation-linked bonds (ILBs). These are used in many countries to provide a capital market instrument with different risk and return characteristics to conventional bonds, and a hedge against inflation. The market had earlier indicated an appetite for ILBs, not least because some pension funds have been holding South African ILBs as an alternative to Botswana ILBs. However, the inaugural ILB auction was not a success, with few bids and unrealistic pricing, and in the end the auction was cancelled and no ILBs were issued. This reflects a number of factors, including the current low rate of inflation (appetite for ILBs is higher when inflation is a concern), a lack of financial market liquidity due to the high level of conventional bond issuance, and the very short notice of the auction given to banks and institutions, which left no time for them to mobilise resources to invest in ILBs through the liquidation of other assets.

With the increase in the size of the deficit, borrowing challenges in the domestic capital market and no significant new external borrowing, Government was forced to use unconventional means to finance its deficit. At the end of March 2025, Government secured a medium-term (7 year) loan from the Botswana Public Officers Pension Fund (BPOPF). Also, Government took an overdraft from Bank of Botswana – this is allowed under BoB Act, but has never been done before. It is also understood that GoB accumulated significant arrears on payments due to suppliers – amounts that are not included in the government accounts, which are compiled on a cash basis, thereby causing total debt numbers to be under-recorded. And the GIA, rather than being restored as per the ABP, was partially depleted.

The unprecedented level of domestic borrowing and bond issuance by Government has inevitably had an impact on financial markets. Notably, banking sector liquidity has dropped sharply, with the Bank of Botswana providing overnight liquidity through repo (repurchase) operations on a daily basis. Interest rates have also been rising. It is costing government more and more to borrow by issuing bonds, while at the short end banks have had to pay higher rates to bring in deposits. Government borrowing is "crowding out" the private sector.

Financing the 2025/26 Budget

We anticipate further borrowing challenges during the new 2025/26 financial year. The domestic market will be hard-pressed to be able to absorb a similar net issuance as it did in 2024/25 – pension fund investments are not growing all that fast with stagnant employment and a sluggish economy – and the amounts repatriated from offshore under PFR2 requirements – approx. P4.5 billion a year of which some 20-25% would be expected to flow into government bonds - is small in comparison to borrowing needs.

Last year there was no significant external borrowing, although discussions have been taking place with various external lenders including the African Development Bank as well as other multilateral and sovereign lenders. During 2025/26, significant external borrowing will be required if the budget deficit is to be financed. While this should be possible – the current level of external debt is very low – such borrowing entails significant risks given the need to repay in foreign currency and the increasing cost of debt service as the Pula weakens and a credit rating downgrade looms.

While it should still be possible for Government to borrow to finance the deficit, this does not mean that it will escape cash flow problems. This problem has become increasingly serious during 2024 as Government runs out of money at the end of each quarter and has to delay payments to suppliers and handing over deductions from payroll to beneficiaries such as unions, insurance, medical aids and banks, until SACU transfers arrive in the first week of each quarter. It has been clearly demonstrated in 2024 and early 2025 that Government cannot easily increase domestic borrowing to meet spending needs, and arranging external financing is a lengthy process with uncertain timing. As Moody's points out, Government liquidity risk has risen, following the depletion of the GIA which had always been available to meet spending needs in the past.

Of more concern is the debt trajectory. Borrowing headroom due to a low level of outstanding debt can quickly disappear in the face of huge debt-financed budget deficits. For instance, the Ministry of Finance reported that public debt and guarantees amounted to 22.7% of GDP at the end of the 2023/24 financial year. We estimate that public debt will have increased to 28.5% of GDP by March 2025, and further to 36.9% of GDP by March 2026 if no corrective measures are taken (the MoF projections of debt levels published alongside the Budget (in the "Budget in Brief") are much lower, but are not plausible).

Figure 3: Public Debt Projections (% of GDP)

Source: MoF and Econsult

This means that the debt trajectory is likely to reach the statutory limit of 40% of GDP within the next two years. Moodys credit rating agency estimates that the statutory limit will be reached more quickly, by March 2026. It is possible that the statutory limit on domestic borrowing and guarantees of 20% of GDP will be reached in the next 12 months. At this point, Government's ability to borrow will be legally constrained, and debt will only be able to increase at the same rate as GDP (to keep the ratio of debt to GDP constant). This in turn means that Government will not be able to finance the level of spending projected in the Medium-Term Fiscal Framework, and will be required to reduce spending below the levels in the MTFF.

Conclusion

The new Government was unfortunate to inherit a distressed fiscal situation with falling revenues, bloated spending, rising debt and depleted government cash balances. This is only partly due to the weak state of the global diamond market and under-performing mineral revenues, but is fundamentally due to an unsustainable fiscal policy over many years, with a reluctance to cut government spending (and the size of government) down to a level that is consistent with fiscal revenues that have long been in structural decline. In other words, fiscal stress is largely structural, and not a passing phenomenon that will disappear with a recovery in diamond markets.

As we have said before in several previous issues of the Review, there is no option but to cut spending and achieve the fiscal consolidation that will put government finances back on a sustainable path. The 2025 Budget made references to the need to do this, but contained little in the way of concrete actions to do so. Yes, borrowing can be increased, for a while, to finance large deficits, but borrowing addresses the symptoms of the problem, not the cause, and will in due course eventually lead to problems of its own. We have written about the necessary actions previously – reducing the size of the public sector wage bill, reducing subsidies and subventions to state-owned enterprises, other parastatals and local authorities, improving efficiency and cutting corruption in public procurement, focusing on high-return development projects and making use of private finance, as well as enhanced revenue generation. None of these are easy, but are essential. And is better to do them as part of a properly designed fiscal consolidation programme, rather than continually putting them off and having no choice but to do them when the budget runs into a brick wall.

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