econsult

ECONOMIC review

SECOND QUARTER APR-JUN 2025

compiled by
KEITH JEFFERIS

COMMENTARY

THE ECONOMY NAVIGATES CHOPPY WATERS, LIKELY TO PERSIST THROUGH THE REST OF 2025

Introduction

The second quarter of 2025 saw an intensification of the economic stresses that have been building for some time. The slowdown in global diamond sales is increasingly having a spillover impact outside of the diamond sector, through its impact on supply chains, employment, government finances, interest rates and banking liquidity. The need to stabilise government finances is becoming increasingly urgent, as well as implementing a range of structural reforms that will underpin diversification based on private sector export-led growth.

COMMENTARY

Economic Growth

GDP growth data for the first quarter of 2025 showed some largely expected changes from growth in 2024. While the economy was still in recession in Q1 of 2025, the pace of economic contraction has slowed, which is a welcome improvement. Quarterly GDP was 0.3% lower than in the first quarter of 2024, compared to annual contraction of 3.0% in 2024.

However, in contrast to 2024, where there was a sharp contrast between the strongly contracting diamond sector (-26.7% growth) and the reasonably robust non-diamond private sector (+4.1%), the diamond and non-diamond segments of the economy converged in the first quarter. Diamond sector output in Q1 was 9.8% lower than in Q1 2024, while the non-diamond diamond sector only grew by 1.5%.

Diamonds

The slowdown in the global diamond industry that has been evident since 2023 largely continued into the second quarter of 2025, albeit with some signs of modest recovery. The same factors that have been apparent for some time – competition from lab-grown diamonds (LGDs), weak demand in China, and the impact of sanctions on Russian diamonds – have been compounded by the uncertainty resulting from the new US tariff regime. Following the announcement of increased US tariffs in April, and their subsequent suspension – now until 1st August 2025 – the level of the final tariffs to be imposed on various US trading partners remains unclear. This has caused uncertainty amongst diamond exporters, with a surge in diamond exports to the US in April in an attempt to beat the introduction of the tariffs, followed by caution and a holding back of exports. In addition, it has become apparent that weak demand in China has not only led to a drop in diamond exports to that country, but diamonds previously imported have now been re-exported back to global markets, contributing to the global supply glut.

There have been important impacts of this in Botswana. Debswana announced that it would temporarily close its two mines for a period of three months, in order to assist in rebalancing supply with demand. It has also been undertaking a voluntary redundancy exercise to align employment levels with lower anticipated production. Debswana's diamond production in Q2 was 2.651 mcts, a reduction of 42% from 4.752 mcts in Q1.

However, there remains a contentious issue around how to deal with the high levels of inventory in the diamond supply chain, as a result of low sales. In the case of other commodities, the normal expectation would be for excess supply to cause prices to fall, leading to reduced supplies and higher demand to rebalance the market at a lower price level. In the diamond market this only happens to a limited extent, with a reluctance on the part of some producers to sell off diamonds at low prices, which it is thought would undermine the status of diamonds as a "luxury" commodity. However, there is pressure from Government on Debswana and De Beers to make more efforts to sell off stockpiles of diamonds – implicitly, regardless of the price – in order to bring in fiscal revenues. It remains to be seen how this tension will play out.

However, the news from the diamond industry is not all bad. There is apparently strong demand for larger diamonds – 5 carats and above – leading to good sales in that segment of the market, which notably does not face significant competition from LGDs. De Beers diamond sales in Q2 2025 were 14% higher in value terms than in the same quarter in 2024. Furthermore Botswana benefitted from a jump in diamond exports in April, although it is unclear how sustainable this will be, as it may have just reflected a surge in exports to the USA prior to the new US tariffs coming into effect.

Looking further ahead, a significant investment in the marketing of natural diamonds is planned, with Botswana playing a central role, with the intention of supporting and growing demand for diamonds in the luxury segment.

Trade and Foreign Exchange Reserves

Trade data for the first four months of 2025 showed the continuation of poor export performance in the first quarter of the year, leading to a large trade deficit. While the outturn was worse than the comparable first quarter of 2024, it was slightly better than the previous quarter (2024 Q4). However, the April results were better, reflecting the jump in diamond exports. This resulted in a small monthly trade surplus in April – the first since August 2023.

The foreign exchange reserves increased slightly in April, to P48.5 billion, up from P46.3billion in March. This may have been partly attributable to the trade surplus, but is more likely to have been the result of quarterly SACU revenues of approximately P6 billion received in early April.

There is no clarity yet on the outcome of US tariff policy with regard to Botswana. The proposed tariff on exports to the US of 37%, due to come into effect on August 1st, 2025, may yet still change. Discussions are ongoing between the Government of Botswana the US Trade Representative to find an amicable outcome whereby the tariff imposed on Botswana can be reduced to a much lower level – and, critically, zero on diamonds – in return for concessions on to the US trade-related issues such as non-tariff barriers.

Inflation

Inflation has continued at moderate levels, rising slightly to 2.0% in June. Higher inflation for some commodity groups, such as food and beverages, is still being offset by fuel price reductions over the past year. Core inflation excluding administered prices is significantly higher, at 3.9%, indicating some underlying price pressures.

The inflation outlook has, however, been transformed by the exchange rate adjustments in July, with the de facto devaluation certain to push up import prices in the coming months. We predict that over the next 12 months, inflation will rise above the upper end of the BoB inflation objective range of 3-6%, and will reach 8-9%, which may in turn lead to an increase in the BoB's monetary policy rate.

Financial Sector

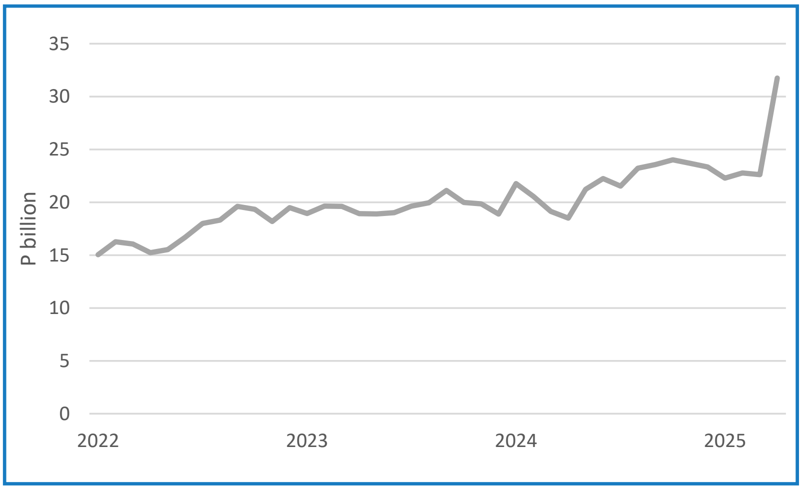
The banking sector continued to experience liquidity stresses through to April 2025, with excess liquidity persisting at lower levels than in 2024. While there was a release of liquidity in April 2024 when BoB reduced the required reserves ratio to zero, this was soon exhausted. However, BoB continued to support the banks by providing liquidity through repurchase agreements (repos). However, the underlying problem of a contraction of deposits in the banking system persisted. This in turn reflected the high level of borrowing by government.

Notwithstanding the shortage of banking liquidity, there was a small upturn in the annual rate of growth of bank credit in the year to April 2025, to 7.3%. This reflected higher credit growth to both households (+6.8%) and firms (11.1%), although offset by a sharp contraction in bank lending to parastatals, and conflicts somewhat with anecdotal evidence of a reluctance by banks to extend credit.

One factor that may impact on future bank lending is evidence of rising arrears on outstanding loans. Arrears increased from 4.3% of loans outstanding in December 2024 to 5.1% in March 2025, and applied to both households and businesses. This is unsurprising and is consistent with reports of more difficult business conditions and delays in the settlement of government payments obligations to suppliers. Nevertheless, arears remain at relatively low level by historical standards.

One interesting development in the banking system in April was a huge jump in the value of foreign currency accounts (FCAs) held at banks. The overall value of FCAs – which are mainly held in US dollars - jumped by 40% in one month, to reach 29% of total deposits held in the banking system. Assuming that this is sustained (rather than being a data error), this may have reflected expectations of exchange rate changes, well before their actual implementation in July.

Figure 1: Foreign Currency Account Balances



Source: Botswana Economic and Financial Statistics

Interest Rates

In a major development during the quarter, many banks increased their Prime Lending Rates (PLRs), despite the fact that the bank of Botswana's Monetary Policy Rate (MoPR) remained unchanged. The banks have been allowed to do this since 2023 when the BoB dropped the prior requirement for PLRs to be tied to the MoPR. The fact that the banks finally took advantage of this after two years of being able to do so reflects the seriousness of the liquidity squeeze, and the need for the banks to attract deposit inflows by paying higher interest rates on deposits. This in turn required an increase in lending interest rates, to preserve their net interest margin.

This change also reflects rising capital market interest rates. Increased government borrowing has pushed up the interest rate that it needs to pay on treasury bills and bonds, attracting funds held by pension funds and other institutions, leading to an outflow of deposits from the banking system. The banks therefore have to offer higher interest rates, to compete with Government for available funds.

Fiscal Developments

The Government budget remains under severe pressure, with a lack of available cash to finance spending commitments. In part this reflects the gap between projected revenue and budgeted spending in the 2025/26 Budget, with expected revenues only covering around 70% of approved spending. The gap has to be filled by borrowing. While Government has negotiated external loans with the African Development Bank and the OPEC Fund, these require Acts of Parliament for authorisation, and have not yet been disbursed.

With regard to domestic borrowing, Government held three regular monthly auctions during the quarter. These auctions offered a total of P3.9 billion of bonds and T-Bills (net of maturities) to the market. Unfortunately uptake was poor, despite higher interest rates, and Government only raised a total of P1.1 billion, or 29% of the targeted amount. This contributed to the shortage of funding to finance government spending.

The Government Investment Account (GIA), representing savings held at the BoB, started the quarter (and the new financial year) at a reasonable level of P7 billion, thanks to late drawdowns of loans from the BPOPF and BoB in March. However, this balance appears to have been drawn down quickly, with less than P1 billion remaining at the end of May, despite the receipt of some P6billion in SACU revenues in April.

As a result of fiscal liquidity pressures, Government announced that it would suspend the issuance of GPOs for the procurement of goods and services during July, due to the lack of available funding to settle these GPOs when they become due.

Outlook

The next few months are likely to be bumpy for the Botswana economy, with a continuation of recent stresses, as well as new ones such as the expected jump in inflation due to recent exchange rate changes. With regard to GDP growth for 2025, our forecast is that it will be in the range of -1% to 0%, i.e. a further small contraction or, at best, flat GDP. This mainly reflects the impact of a further contraction in diamond mining output during the year. However, it would be an improvement on 2024's 3% contraction.

Much will depend on developments in the diamond sector, which are still subject to a great deal of uncertainty and perhaps tension between short-term and long-term objectives. For instance, there are commitments to intensified marketing of natural diamonds as a luxury commodity, alongside proposals to sell off slow-moving diamond inventory, presumably by lowering prices.

The fiscal and liquidity pressures that have been causing problems in recent months may be eased to some extent with the anticipated drawdown of external loans that look likely to be finalised shortly. However, it is still necessary for government to stabilise the budget and reduce the deficit by cutting spending in the near future.

July 2025 Exchange Rate Changes

Although they occurred after the end of Q2, the changes to exchange rate policy implemented on July 10th 2025 are important enough to warrant inclusion in this issue of the Review.

Essentially the changes involved (i) an increase in the downward rate of crawl of the Pula against the basket from 1.51% a year to 2.76% (an increase of 1.25% a year), and (ii) an increase of the trading band for Bank of Botswana (BoB) sales and purchases of foreign currency with the banks from 1% to 15% around BoB's quoted mid-rate.

Much of the discussion of the changes and their impact focused on the "devaluation" of the Pula. But these changes did not involve a conventional devaluation, which would be implemented through a significant downward adjustment in the value of the Pula against the basket (as in 2004 and 2005). But this was not done. The small increase in the downward rate of crawl, implemented on a daily basis over a year, would not generally be considered to be a devaluation.

Usually a devaluation is implemented to change the relative price of domestic goods and services vis a vis those produced externally. A devaluation therefore makes imports more expensive (and hence encourage domestic production for import substitution) and encourages exports (by making them more competitive and profitable for exporters). Aside from this, the effect of a conventional devaluation is higher inflation due to the increase in import prices.

The impact of the dramatic widening of the BoB trading band is to make foreign currency purchases from BoB more expensive (by 7%), leading to a similar increase in import prices, and an estimated 4% jump in inflation. However, unlike a conventional devaluation, the changes also penalise exporters, because foreign currency sales to the BoB now receive 7% fewer Pula for the value of their dollars or rands. In that sense, the changes achieve the worst of both worlds, with all of the costs of a devaluation but none of the benefits. They entail an anti-export bias, which is the opposite of what Botswana needs.

Why were the changes implemented? The Ministry of Finance and BoB have cited three objectives. First, to manage a depreciation of the Pula to address its current overvaluation. Second, to move towards a more flexible, market determined exchange rate and to reduce the rigidities in the current system. Third, to slow (or reverse) the rapid decline in the foreign exchange reserves, which threatens economic stability and the stability of the Pula.

While these objectives are all important and necessary, how likely is it that they will be achieved? The minimal depreciation of the Pula through the higher rate of crawl – now 2.76% a year – is s step in the right direction, although insignificant relative to the amount of current overvaluation – estimated by the IMF to be 10-15%. The widening of the band, although resulting in a devaluation for importers, will not contribute to reducing the overvaluation due to its opposite and negative impact on exporters, and the fact that it does not involve a change in the mid-rate of the BoB trading band. So the overvaluation problem remains.

However, the changes are likely to stimulate the emergence of a more active interbank foreign exchange market. Banks now have an incentive to compete for foreign exchange purchases from exporters (which are relatively scarce) by offering more attractive rates than BoB, and will then sell either to other banks or to importers. This will help to reduce (but probably not eliminate) the negative impact of the changes on exporters, as banks are likely to buy foreign currencies at a lower spread than the BoB's new 7.5%. However, there is unlikely to be similar competition on the selling side, as the banks will still source most of their foreign exchange from the BoB (sourced from SACU revenues, government's share of Debswana revenues, or from the reserves), and hence will be obliged to pay the BoB's new wider spread.

Will the changes help to slow down (or even reverse) the decline in the reserves? This is unlikely. Yes, there may be some reduction in imports, which are now more expensive, that will reduce the demand for foreign exchange. However, the demand for imports is inelastic, at least in the short term, so this impact is likely to be small. At the same time, BoB will receive smaller inflows of foreign currencies into the reserves. Exporters now have incentive to keep funds offshore, perhaps to sell directly to importers, or to keep in foreign currency accounts at Botswana banks. Exchanging their foreign currency for Pula, which would support the reserves, is now less attractive. Furthermore the instability and uncertainty created by the sudden change in policy and the reduction in the Pula value of foreign currency inflows is likely to discourage inflows of foreign direct investment, which will also lead to lower reserves.

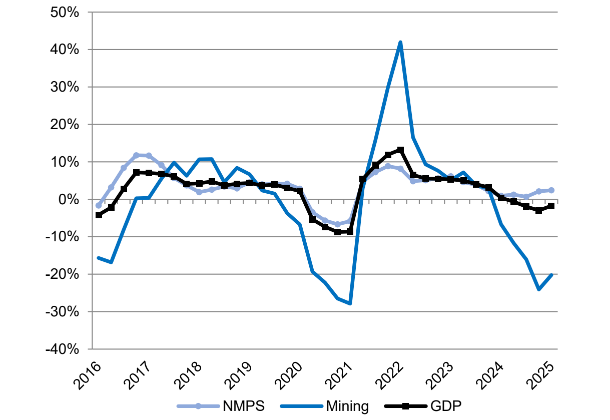
The BoB seems to believe that the banks are sitting on large amounts of foreign currencies that these changes will somehow "unlock" and reduce pressure on the reserves. This is misguided. The banks do have significant foreign currency assets, but these are held to match their liabilities in their customers foreign currency accounts. These balances are not available for trading, and indeed if they did sell these foreign currencies for Pula, it would lead to a dangerous increase in asset-liability mismatches that neither the regulator (BoB) nor banks' own risk management policies would tolerate.

As we explain in the Twin Deficits Feature later in this review, the main driver of the decline in reserves is government's bloated budget deficit. If it really is intended to safeguard the reserves, the quickest and most effective way to do so is by cutting government spending and reining in the deficit.

When the crawling peg was introduced in 2005 following two step devaluations, the intention was to bring predictability into exchange rate policy and to engineer any changes in the exchange rate through small but continuous gradual changes, using the crawl, and avoid the need for sudden changes in the value of the Pula. This worked well for 20 years, and it is unfortunate that the recent changes have reverted to the old system of sudden shocks, which will undermine policy credibility and consistency.

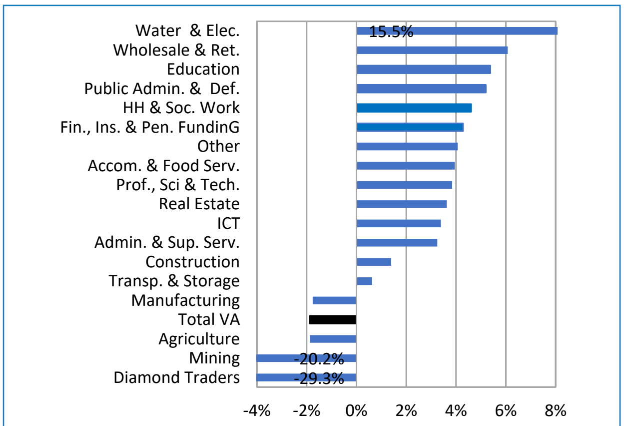
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



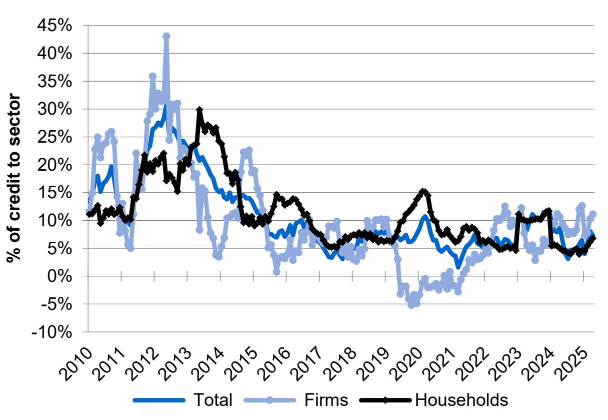
Overall GDP growth improved in the first quarter of 2025. Year-on-year GDP growth improved to minus 1.7% from minus 3% at the end of 2024. The improvement in real growth is attributable to mining sector performance during the first three months of 2025. Mining sector growth improved from minus 24.1% in Q4 2024 to minus 20.2% in Q1 2025. The non-mining private sector (NMPS) showed resilience and expanded by 2.4% in Q1 2025, from 2.1% in Q4 2024. The outlook for growth during 2025 is essentially flat. The Ministry of Finance and the International Monetary Fund (IMF) forecast negative 0.4% growth in 2025. Conversely, the World Bank anticipate a rebound in 2025 and forecast 0.6% growth. Economic recovery is underpinned by expectations of gradual improvement in the global diamond market.

SECTORAL GDP GROWTH



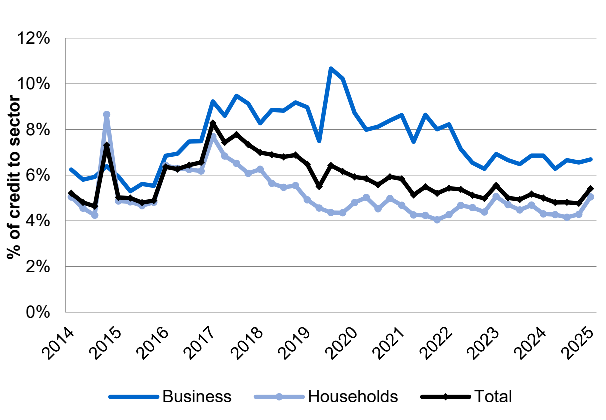
Economic performance across sectors was mixed, with many experiencing only marginal changes between Q4 2024 and Q1 2025. The services sectors remained the economy's steadfast anchor, with most sectors recording positive annual growth in Q1 2025. In contrast, critical sectors such as Diamond Traders, Mining, Agriculture, and Manufacturing registered declines of 29.3%, 20.2%, 1.9%, and 1.8%, respectively. The underperformance of these industry-related sectors is particularly concerning given their vital role in an export-led economy. Annual growth in the diamond sector (mining, trading, cutting and polishing) improved slightly to minus 22.4%, while the non-diamond private sector slowed to 3.8% growth, indicating some convergence between the diamond and non-diamond sectors.

ANNUAL CREDIT GROWTH



Annual bank credit growth increased significantly between January and April 2025, to 7.3% y-on-y in April, up from 4% y-on-y in January. The increase in credit growth was driven by a significant increase in credit for both firms and households. Credit to firms registered 11.1% y-on-y growth in April 2025 up from 7.3% y-on-y in January. Similarly, growth of credit to households rose to 6.8% y-o-y in April, from 4.5% in January. Overall, household credit dominated total credit at 63.6% against the 35.9% for business credit. Credit to parastatals contracted. The uptick in credit growth was somewhat surprising given persistent liquidity constraints in the banking system,

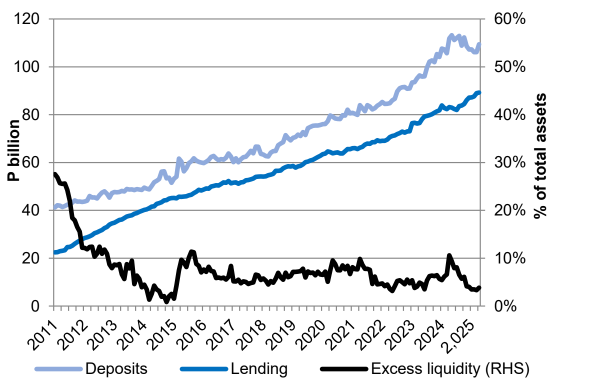
ARREARS ON BANK LENDING



Total arrears as a proportion of total banking assets increased during the first quarter of 2025, to 5.4% from 4.8% in Q4 2024. Arrears were driven by the rise in both household and business arrears, which rose from 4.3% and 6.6% in Q4 2025 to 5.1% and 6.7% in Q1 2025. The increase in total arrears was consistent with reports of tightening economic conditions and a deteriorating business environment. It may be in part due to delays in payments to suppliers by Government.

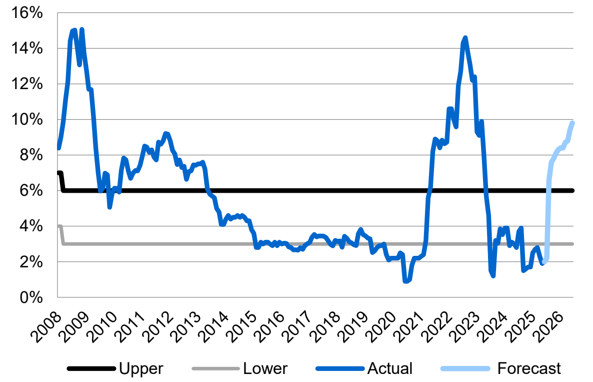
KEY ECONOMIC VARIABLES

BANK DEPOSITS, LENDING & LIQUIDITY



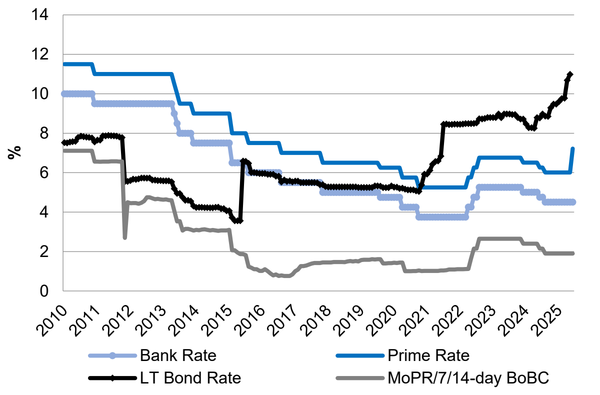
Bank liquidity increased marginally in April 2025. Excess liquidity rose to 3.8% of total assets in April, from 3.5% in Janurary 2025. The increase in liquidity was driven by the rise in customer deposits during the period. Bank deposits rose by 2% (P2.14 billion) between January and April 2025. Bank lending also increased during the same period by 2.3% (P2.02 billion). It may also be that the small jump in deposits and liquidity is being driven by the repatriation of assets by pension funds as well as the payout of a matured government bond.

INFLATION AND FORECAST



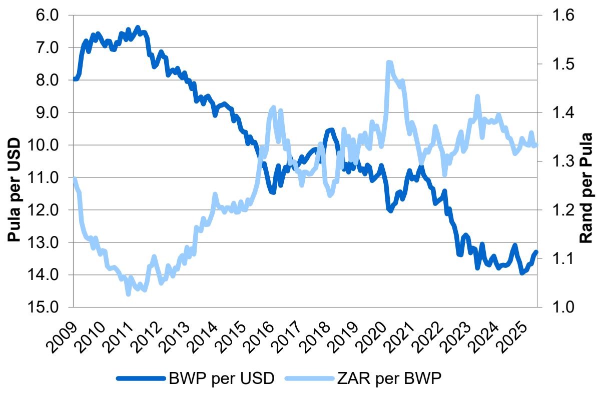
Annual inflation in Q2 2025 remained well below the Bank of Botswana's lower limit of 3%, and was 2% in June 2025. The Transport group index continued to move downwards, declining 1.7% year-on-year in Q2. The recent adjustment to the exchange rate policy will push up annual inflation. Inflation is expected to rise rapidly, breaching the 6% upper bound of the BoB's objective range.

INTEREST RATES



During Q2, the Bank of Botswana's (BoB) Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 1.9% in June. The decision aligned with the prevailing economic conditions, including a contraction in real GDP, a positive medium-term inflation outlook and existing market liquidity constraints. On the contrary, government bond yields continued to rise, reflecting the government borrowing appetite. The long-term government bond rate (BW012) rose to 10.98% in May 2025 from 9.76% in February 2025. Furthermore, commercial banks, for the first time since the BoB liberalized interest rates in April 2023, increased their prime lending rates by margins ranging from 75 to175 basis points.

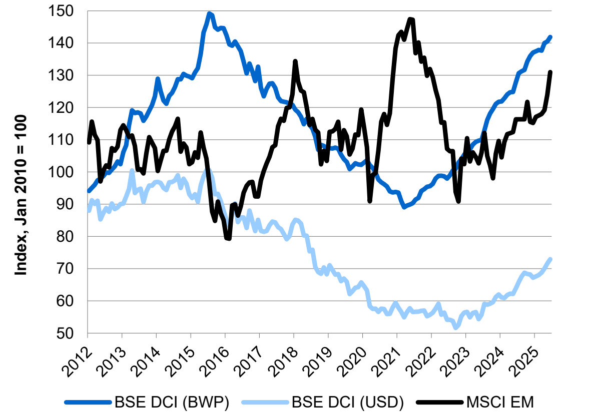
EXCHANGE RATES



Movements in the exchange rate were generally stable during the second quarter of 2025. The Pula gained against the US dollar and ended Q2 with Pula-US dollar exchange of 13.29 compared to 13.67 at the end of Q1. Conversely, the Pula depreciated against the South African rand by 0.1%, closing the quarter at ZAR1.3337 from ZAR1.3327 in March. In July 2025, a decision was taken to revise the annual downward rate of crawl from 1.51% to 2.76% while maintaining the Pula currency basket weights. The adjustment was made to support economic growth by enhancing price competitiveness of domestic goods and preserving foreign exchange reserves.

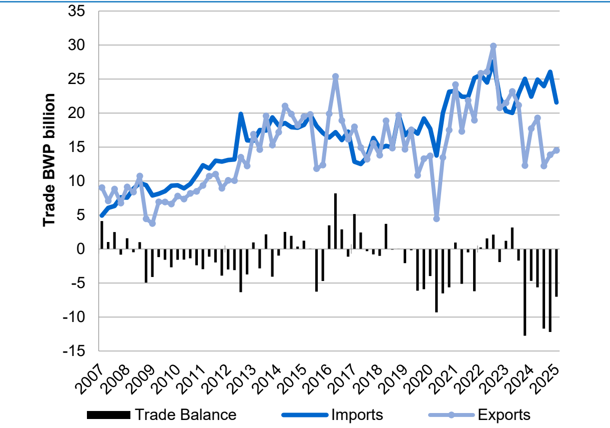
KEY ECONOMIC VARIABLES

STOCK MARKETS



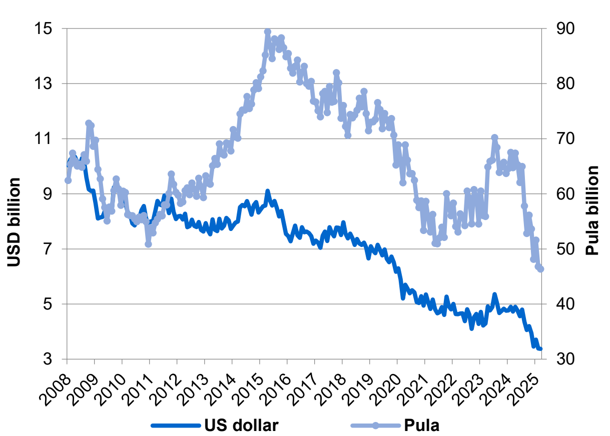
The Botswana Stock Exchange's (BSE) Domestic Company Index (DCI) strengthened in Q2 2025. The DCI rose by 3.1% and 6% in Pula and Dollar terms, respectively. Overall, the BSE performed generally well throughout the first half of 2025, increasing by 11% in Pula terms and 14.2% in Dollar terms. The MSCI World Index and MSCI Emerging Markets Index both increased by 11% in Q2 2025. It is likely that increased domestic share prices are being driven by inflows of funds repatriated from abroad by pension funds, chasing limited scrip in a market that has seen little in the way of new listings.

INTERNATIONAL TRADE



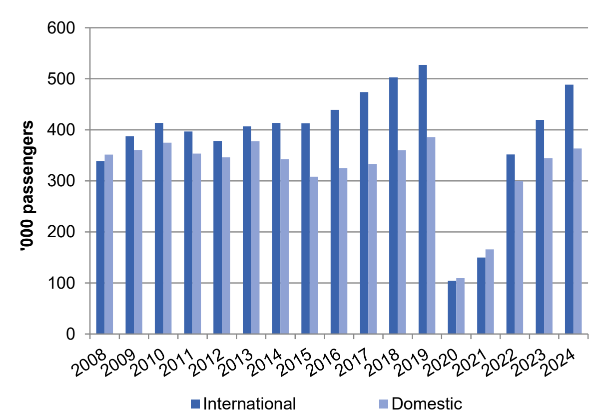
International trade activity generally slowed in Q1 2025. Despite this, total exports registered a marginal improvement, increasing by 4.7% from P13.87 billion in Q4 2024 to P14.52 billion in Q1 2025. This growth was primarily driven by a 6.6% rise in diamond exports during the period, compared to Q4 2024, as the global diamond market showed some signs of recovery in the first quarter, reinforcing expectations for improved performance in 2025 following a challenging 2024. Conversely, total imports declined significantly by 17.3%, falling from P26.07 billion to P21.55 billion. The higher value of imports relative to exports ultimately resulted in a trade deficit of P7.02 billion in Q1 2025.

FOREIGN EXCHANGE RESERVES



Foreign exchange reserves experienced a moderate decline of 3.7% in Q1 2025, falling from P48.13 billion at the end of 2024 to P46.35 billion, making their lowest level in Pula terms since 2006. This downward trend was also observed in other currencies during Q1 2025, with reserves decreasing by 2.4% and 4.4% in US dollar and SDR terms, respectively. The continuous decline in reserves, evident since 2015 and particularly sharp between 2024 and Q1 2025, is deemed unsustainable given their crucial role in supporting the Pula exchange rate mechanism. In response, the Bank of Botswana has adjusted the implementation of exchange rate policy, although whether this change will have the desired effect is open to question.

AIR PASSENGER TRAFFIC



Air passenger traffic had a robust growth for the the third consecutive year post the Covid-19 pandemic. The number of air passenger movements at all Botswana airports rose by 11.6% in 2024 when compared to 2023. International air passenger traffic recorded the highest number of air passenger movements, increasing by 16.5% during the year, while domestic air passenger traffic decreased by 5.6%. Sir Seretse Khama International Airport (SSKIA) accounts for 47.5% of the total number of air passenger movements in Botswana, followed by Maun (36.8%), Kasane (12.7%) and Francistown (3%).

NEWS HIGHLIGHTS

1st April	BPOPF extends P3 billion loan to government. (Daily News)	Botswana Public Officers Pension Fund (BPOPF) has agreed to extend a P3 billion loan to the government, following negotiations. The loan, with a seven-year maturity and a fixed interest rate of 11% per annum, will help meet local investment requirements and be deposited into the Development Fund. The government faces financial challenges and can no longer draw from savings as they are depleted.
4th April	Moody's Ratings changes Botswana's outlook to negative from stable; affirms A3 ratings. (Bank of Botswana)	Moody's Ratings has changed the outlook on the Government of Botswana to negative from stable and affirmed Botswana's long-term issuer ratings at A3, citing a negative outlook due to a prolonged downturn in the diamond industry. This downturn will affect government revenue, deplete fiscal buffers, and lead to a rapid increase in government debt and weakening debt affordability. The government is expected to implement fiscal consolidation measures and improve borrowing access by leveraging domestic savings. The country's local and foreign currency country ceilings remain unchanged at Aa3 and A1, respectively. The government's limited track record in mobilizing large-scale financing increases risks.
9th April	Government to rescue Minergy coal. (Daily News)	The Botswana government has proposed a rescue plan for Minergy Coal to improve its solvency status by converting the government's debt into equity. Minergy owes the government a total of P716 million held through convertible quasi debt instruments between the Minerals Development Company Botswana (MDCB) and the Botswana Development Corporation (BDC). This would allow Minergy Coal to raise capital for the medium to long term while operations continue. Minergy Coal is the owner and operator of the Masama Coal Mine near Medie and is listed on the Botswana Stock Exchange (BSE).
13th April	Mmamabula–Lephalale railway project gains investor interest. (Travel news Africa)	The Mmamabula-Lephalale rail link, a joint venture between Transnet and Botswana Railways, is set to transform the region's trade landscape by linking Botswana's Mmamabula coalfields with South Africa's Lephalale district. The project, expected to boost regional trade, will facilitate transport of coal, copper, iron ore, manganese, and soda ash. The project's economic benefits include increased business travel and tourism opportunities. However, investors require clear government commitments and guarantees for its long-term success.
18th April	Botswana warns U.S. tariff could hurt exports amid rising global uncertainty. (Africa Press)	Botswana's central bank has warned that a 37% import tariff on its exports to the US could negatively impact the country's trade sector. The tariff has been suspended for 90 days to allow time for negotiations, but adds to global economic uncertainty. The Bank also highlighted challenges in implementing economic transformation policies and maintaining a 1.9 percent monetary policy rate.
22nd April	Perenti to exit Khoemacau copper mine in Botswana. (Mining Weekly)	Australian mining services group Perenti will end its involvement at MMG's Khoemacau copper mine in Botswana by the end of June. The company's underground mining arm, Barminco, has operated at the mine since 2019. Perenti's MD and CEO, Mark Norwell, said the company appreciated the opportunity to work on the mine and wished MMG well with their expansion plans. All on-site equipment will be sold to Khoemacau Copper Mining, a subsidiary of Hong Kong-listed MMG.

NEWS HIGHLIGHTS

22nd April	ABSA's profits surge to P1 billion. (Mmegi)	Absa Bank of Botswana reported a 27% increase in profits before tax in 2024, primarily due to improved net interest income, higher fee and commission income, and disciplined cost management. The bank's Retail and Business Banking (RBB) was the strongest performer, with 37.4% profit before tax growth. Corporate and Investment Banking (CIB) also saw steady growth, with 12.6% profit before tax increase. The bank maintained a strong balance sheet position, with total assets increasing by 3.7% and loans and advances to customers growing by 5.1%.
25th April	MMG Khoemacau reports solid Q1 copper output despite heavy rainfall. (The Project Magazine)	Khoemacau Copper Mining reported a 4% increase in copper production in Q1 2025, primarily due to higher ore grades and despite record rainfall in Botswana. The company plans to increase copper production to 60,000 tonnes annually by 2026/27, focusing on higher-grade areas and operational flexibility. The company plans to eventually expand its capacity to 130,000 tonnes per annum.
30th April	NIU Group invests over P2.4 billion in Tati mine. (The Project Magazine)	NIU Group, led by Austrian investor Cevdet Caner, has acquired and restarted the Tati Mine in Botswana, aiming to generate over P57 billion in revenue over 10 years. The acquisition is a significant foreign investment in Botswana, boosting the country's GDP by approximately P34 billion. Tati will increase output and efficiency in compliance with Botswana's regulatory norms, contributing to Botswana's economic future. The workforce is expected to grow to over 400 direct employees, with up to 3,000 indirect jobs projected at peak operations.
9th May	GIA plummets as deficit now seen at P29 billion. (Mmegi)	Botswana's government has reduced its savings in the Government Investment Account (GIA) to a mere P250 million due to widening deficits and dwindling revenues from diamonds. The government has been forced to draw down heavily on the GIA to meet its budgetary requirements and has failed to replenish the account due to low mineral sales. Econsult researchers predict that the budget deficit will reach P29 billion this year, above the government's own forecasts of P22 billion. The government will have to finance its budget deficit through borrowing domestically and internationally, which may edge Botswana closer to its statutory debt limits, which are set at 40% of GDP.
6th May	Econsult predicts zero GDP growth for 2025. (Mmegi)	Botswana's economic growth is expected to remain flat for 2025, largely due to a sluggish diamond market and increasing budgetary deficits. Econsult predicts that the country's mainstay sectors will face international market headwinds. The GDP growth outlook is highly uncertain, with a projected zero percent growth. The diamond market's recovery is further strained by the US President Trump's plans to impose import tariffs. Credit rating agencies Moody's and Standard and Poor's have maintained Botswana's credit rating but changed its outlook from stable to negative.
6th May	Botswana's Mupane gold mine to be sold. (Bizcommunity)	Botswana's Mupane Gold Mine, located 50km east of Francistown, is under liquidation due to financial difficulties. Bids are due in June 2025. The mine has four licenses, varying gold grades, and 15.9 million tons of tailings. It has a 350tph crushing circuit and 200tph milling plant.

NEWS HIGHLIGHTS

7th May	African Development Bank supports Botswana's automotive industry. (New Business Ethiopia)	Botswana's Delta Automotive Technologies is undergoing further transformation into a major manufacturing entity, producing wiring harnesses for Volkswagen and Nissan vehicles. The company, which is based in Lobatse, has received strategic financing from the African Development Bank. Delta currently produces 120 vehicle harness sets for Volkswagen South Africa per day, with plans to triple output by 2027. The company is also connecting communities to global value chains, providing skills to the people of Botswana and connecting Botswana's workforce to global value chains. Delta Automotive Technologies has become a major driver of local economic empowerment, with 95% of its workforce being Botswana nationals.
11th May	Lucara chops guidance amid viability concerns. (Rapaport)	Lucara Diamond Corp. has revised its 2025 revenue forecast downwards due to a shift to lower-grade ore and heavy rainfall. The miner expects 2025 revenue to be between USD150 million and USD160 million, and output from its Karowe mine in Botswana to be between 330,000 and 360,000 carats. Sales volume will be between 240,000 and 370,000 carats versus the initial 400,000 to 420,000 carats.
16th May	More lending rates to rise on liquidity squeeze. (Mmegi)	More banks are set to increase the interest rates they charge on loans, while others intend to narrow their lending to clients with the highest returns, as a long-running liquidity crisis in the banking sector tightens its grip. For the first time since the Bank of Botswana liberalised interest rates in April 2023, several banks have increased their lending rates beginning April 2025. The increases in the lending rates range from 75 to 115 basis points, and other banks are expected to adjust their lending rates given the liquidity squeeze in the banking sector.
16th May	African Development Bank approves USD304 million loan to support Botswana's fiscal stability and economic reforms. (African Development Bank Group)	The African Development Bank has approved a USD304 million loan to Botswana to help manage fiscal challenges and implement key governance and economic reforms. The funding will finance the Governance and Economic Resilience Support Programme (GERSP), a one-year general budget support operation for the 2025/2026 fiscal year. The program aims to strengthen fiscal sustainability, stimulate economic growth, and support micro, small, and medium enterprises.
21st May	Lucara secures USD28 million in emergency funding amid revenue drop and underground expansion challenges. (Diamond World)	Lucara Diamond Company is drawing down up to USD28 million in emergency funds to support its underground mine expansion at the Karowe mine, following a sharp decline in first-quarter earnings and a downward revision of its full-year revenue forecast for 2025.
30th May	Feasibility study underway for Trans-Kalahari Railway project. (APA news)	The Trans-Kalahari Railway Project has appointed a consultant to assess its feasibility, with construction expected to begin in 2027 if results are favourable. The project aims to enhance regional trade and connectivity between Botswana and Namibia, facilitating cross-border commerce.

NEWS HIGHLIGHTS

3rd June	The Pula's Paradox: Commercial Bank Autonomy, Liquidity Squeeze, and Monetary Policy Efficacy in Botswana. (BWTechZone)	Botswana's commercial banks have increased lending rates despite the Bank of Botswana's (BoB) Monetary Policy Committee (MPC) keeping the Monetary Policy Rate (MoPR) unchanged since August 2024. The decision by the BoB to deregulate the commercial bank prime rate allows banks greater autonomy in setting lending rates, despite the MoPR remaining unchanged. The rationale behind the hikes is driven by cost of funds management, risk premium adjustments, and the development of the interbank market, which encourages a more robust and responsive interbank market. The BoB has granted commercial banks greater autonomy in setting lending rates to promote a market-driven interest rate environment and deepen the interbank market. However, this raises questions about the policy's effectiveness in achieving macroeconomic objectives, such as price stability and supporting economic growth. Higher interest rates can lead to increased debt servicing costs, reduced consumer spending, and increased risk of loan delinquencies and non-performing loans. The current setup challenges the traditional understanding of monetary policy relevance and effectiveness in Botswana, necessitating a re-evaluation of transmission channels and the need for complementary tools.
6th June	Public debt pile nears domestic limit. (Mmegi)	Botswana's debt pile is nearing its limit for domestic borrowings, at P42.6 billion or 18.7% of GDP. The government, through the Bank of Botswana (BoB), has been raising funds due to the diamond downturn and commitments like salaries and outstanding invoices. The government is focusing on external financiers to alleviate the fiscal crisis but cautions against borrowing without considering the long-term consequences. Economist Keith Jefferis warns that the government's borrowing strategies will impact other players in the economy, leading to increased capital costs.
6th June	Debswana curbs diamond production as weak demand persists. (Mining.com)	Debswana Diamond Company is temporarily halting production at some mines due to a global diamond market downturn since the second half of 2023. The temporary stoppages are expected to deliver cost savings across fuel, electricity, and production consumables. Moreover, production guidance will be reduced to 15 million carats in 2025 from 18 million carats in 2024. The company, which accounts for 90% of Botswana's diamond sales, reported a 46% drop in sales revenues in 2024.
10th June	ODC joins Tracr amidst provenance push. (Mmegi)	Okavango Diamond Company (ODC) has joined Tracr, a platform for tracking and tracing the source of diamonds developed by De Beers. The move comes as the global diamond industry faces mounting regulatory pressure - particularly from G7 countries - to provide verifiable proof of origin amidst ongoing sanctions on Russian diamonds and growing scrutiny of supply chains.
13th June	Foreign reserves' drop threatens pula value. (Mmegi)	The drop in foreign exchange reserves, which fell P18.4 billion between March 2024 and March 2025, has triggered concerns about the value of the Pula and the possibility of sudden shocks to the national currency. The prolonged decline in diamond receipts, coupled with steady imports and the lack of other strong foreign currency earners, has meant a slide in the reserves over the year.

NEWS HIGHLIGHTS

16th June	Botswana's Debswana to approach capital markets to fund Jwaneng underground project. (Reuters)	Debswana Diamond Company is seeking to tap international capital markets to fund its USD6 billion Jwaneng underground project, despite dwindling revenues. Debswana has previously financed its capital projects from internally generated funds or shareholder injections. It is working on acquiring an international credit rating to access capital markets. The underground project will prolong the lifespan of Jwaneng Mine to 2054, while open pit mining is anticipated to reach economic limit around 2034.
17th June	Giyani seeks USD225 million loan Botswana manganese project. (Ecofin Agency)	Giyani Metals is seeking a USD225 million loan from the US Export-Import Bank (EXIM) to support the K.Hill project in Botswana, which is set to produce 80,000 tons of high-purity monohydrate manganese sulphate per year over a 57-year mine life. The funding is contingent on successful supply agreements with American companies, a strategy to diversify its minerals supply chains. The loan is expected to be finalized by Q1 2026.
17th June	China grants Botswana zero-tariff access. (Mmegi)	Botswana, along with several other African countries, has secured zero-tariff access to the Chinese market under new trade concessions announced at the Forum on China-Africa Cooperation (FOCAC) meetings. The move forms part of Beijing's broader effort to strengthen economic ties with Africa and increase the continent's share of exports to China. The zero-tariff arrangement will allow a wide range of goods originating from Botswana and other qualifying countries on the continent to enter China duty-free. Whilst the full scope of eligible products is yet to be published, sectors expected to benefit include beef, leather, horticultural produce, textiles and other non-mineral goods.
20th June	Botswana slips in global competitiveness rankings. (Mmegi)	Botswana has seen a decline in global competitiveness, as other countries outpace it in reforms. The World Competitiveness Ranking by the International Institute for Management Development (IMD) showed that the country has dropped to a ranking of 59 out of 69 countries in 2025, falling from a ranking of 55 out of 67 countries in 2024. The IMD report revealed that Botswana's overall competitiveness score declined to 46.12 in 2025, compared to 50.31 recorded in the previous year, reflecting a drop in performance across key economic indicators, Economic Performance, Government Efficiency, Infrastructure and Business Efficiency.
20th June	Bank of Botswana maintains Monetary Policy Rate. (Bank of Botswana)	At the MPC meeting held on June 19th, the BoB held the policy interest rate steady at 1.9%, contrary to some expectations of a reduction. The Bank noted that monetary policy remains "accommodative". while the inflation outlook is well within the parameters of the 3-6% BoB inflation objective. The BoB MPC meeting came during a busy week for central banks on the monetary policy front. The US Federal Reserve and the Bank of England both maintained unchanged policy rates, while Norges Bank (Norway's central bank) reduced its policy rate for the first time in five years. Meanwhile, the Swiss National Bank also reduced its policy rate, which is now zero percent and possibly heading for negative territory.

NEWS HIGHLIGHTS

22nd June	Botswana signs on to global pact to reignite demand for natural diamonds. (Sunday Standard)	Botswana, alongside Angola, Namibia, Sierra Leone, and the Democratic Republic of Congo, has signed "The Luanda Accord", a coalition of diamond-producing countries that will collectively contribute one percent of their annual sales revenue to a fund managed by the Natural Diamond Council (NDC). This initiative marks the most significant coordinated effort to promote natural diamonds globally since De Beers' iconic "A Diamond is Forever" campaign. It aims to revitalize the narrative around natural diamonds and counter the growing competition from lab-grown diamonds. The accord has received strong support from major diamond trading centers, including Antwerp, India, and Dubai. Botswana's annual contribution to this fund is estimated to be over P400 million.
27th June	Botswana secures USD200 million OPEC Fund loan. (Mmegi)	The OPEC Fund has approved a USD200 million (approximately P2.7 billion) loan to Botswana government, a deal sealed during the Vice President and Minister of Finance Mr Ndaba Gaolathe's recent engagement in Austria. Mr Gaolathe attended the OPEC Fund's Development Forum earlier this month as part of his engagements with investors and funding partners. A statement released by the OPEC Fund says the loan complements a package from the African Development Bank which approved USD304 million in funding for Botswana in April.
27th June	BSE promotes municipal bond market. (Botswana Guardian)	The Botswana Stock Exchange (BSE) is positioning municipal bonds as a viable alternative to fund infrastructure and service delivery for local councils struggling with budget cuts. The proposed model would involve councils issuing bonds through the BSE, reducing reliance on central investors and allowing them to unlock new financing by leveraging their own balance sheets.
27th June	BBS turns to borrowing as loans outpace deposits. (Mmegi)	BBS advanced loans of P4.6 billion against customer deposits of P4.5 billion last year, stretching the bank's books amidst a tightening fiscal environment in the country's financial sector. The bank's loans-to-deposit ratio stood above 100%, indicating that the bank had maxed out its deposits on lending and now had to turn to external sources for funding of other loans. Whilst the bank demonstrated robust growth in its loan book and profitability metrics in 2024, it faced pressures in its cash reserves as it lent more than deposits and registered a drop in its liquid assets nearing the prudential requirement set by Bank of Botswana. The banks executive in a recently released 2024 annual report posted on the Botswana Stock Exchange revealed that they would turn to borrowing and diversifying their income streams to improve their liquidity and increase their loan to deposit ratio.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2020	2021	2022	2023	2024	2024Q3	2024Q4	2025Q1	2025Q2
Annual Economic Growth										
GDP	*%*	-8.7	11.9	5.8	3.2	-3.0	-1.9	-3.0	-1.7	..
Mining	*%*	-26.5	29.8	7.5	2.9	-24.1	-16.1	-24.1	-20.2	..
Non-mining private sector	*%*	-6.7	8.8	5.5	2.2	2.1	0.7	2.1	2.4	..
GDP current prices	*P billion*	171.39	207.74	251.36	263.92	263.2	65.24	64.40	69.37	..
GDP 2016 prices	*P billion*	167.72	187.63	198.01	204.36	198.25	48.87	49.49	49.44	..
Money & Prices										
Inflation	*%*	2.2	8.7	12.4	2.9	1.7	1.5	1.7	2.9	2.0
Prime lending rate	*%*	5.25	5.25	6.76	6.51	6.01	6.01	6.01	6.01	7.22
BoBC 7/14-day	*%*	1.04	1.10	2.65	2.40	1.90	1.90	1.90	1.90	1.90
Trade & Balance of Payments										
Exports - total goods	*P billion*	49.12	82.28	102.52	77.89	61.68	12.22	13.47	14.52	..
Exports - diamonds	*P billion*	43.30	74.13	89.30	62.00	40.37	7.32	8.88	9.30	..
Balance of payments	*P billion*	-20.06	-2.87	4.49	1.65	-20.91	-9.86	-6.28	..	..
Foreign Exchange										
Exchange rate BWP per USD	**end**	10.79	11.74	12.77	13.72	13.68	13.09	13.95	13.68	13.30
Exchange rate ZAR per BWP	*end*	1.356	1.355	1.328	1.380	1.333	1.316	1.347	1.333	1.334
FX reserves	*$ billion*	4.941	4.806	4.22	4.77	3.46	4.56	3.46	3.37	..
FX reserves	*P billion*	53.36	56.02	54.53	63.69	48.13	52.82	48.13	46.35	..
Financial Sector										
Deposits in banks	*P billion*	80.54	84.36	90.93	104.12	107.24	108.85	107.24	106.12	..
Bank credit	*P billion*	65.55	68.92	73.05	81.80	87.13	83.80	87.13	88.97	..
BSE index		6,879	7,010	7,726	9,096	10,049	9,653	10,049	10,092	10,403
Business Indicators										
Diamond production (a)	*mn cts*	16.87	22.70	24.48	25.10	18.32	4.10	4.34	4.67	..
Copper production (b)	*'000t*	..	11.74	44.27	54.81	48.76	13.00	12.11	11.42	..
Electricity consumption	*GWh*	3,842	3,928	4,265	4,736	4,813	1,224	1,207	1,099	..
Crude oil (Brent)	*$/bar*	51.22	77.24	82.82	86.17	74.58	72.35	74.58	77.23	68.15

Employment (formal) (d)				Q3 2023	Q1 2024
Government	152,973	152,225	143,022	150,872	154,128
Parastatals	18,933	21,056	18,674	19,012	20,028
Private sector	305,810	321,176	324,680	320,977	330,582
Total	477,716	494,457	486,376	490,861	504,738

Govt Budget		2021/22 (g)	2022/23 (h)	2023/24 (i)	2024/25 Revised (j)	2025/26 Budget (k)
Revenues	*P billion*	68.57	74.10	*74.26*	*68.69*	*75.49*
Spending	*P billion*	68.68	74.10	*85.37*	*93.42*	*97.61*
Balance	*P billion*	-0.11	0.00	*-11.11*	*-24.73*	*-22.12*
Public debt & guarantees	*P billion*	48.26	53.42	*59.46*	*77.27*	*74.24*
Govt deposits at BoB	*P billion*	12.82	14.02	8.76	8.28	..
GDP	*P billion*	*218.01*	*259.34*	*261.89*	*267.79*	*292.39*
Revenues	*%GDP*	31.5%	28.6%	*28.4%*	*25.7%*	*25.8%*
Spending	*%GDP*	31.5%	28.6%	*32.6%*	*34.9%*	*33.4%*
Balance	*%GDP*	0.0%	0.0%	*-4.2%*	*-9.2%*	*-7.6%*
Public debt & guarantees	*%GDP*	22.1%	20.6%	*22.7%*	*28.9%*	*25.4%*
Govt deposits at BoB	*%GDP*	5.9%	5.4%	3.3%	3.1%	..

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

ADDRESSING BOTSWANA'S "TWIN DEFICITS

Introduction

Botswana's current macroeconomic problems are manifesting in a number of different ways: slow (or negative) GDP growth, a lack of jobs and high unemployment, reduced government revenues, and lower export earnings. In this article we focus on the latter two issues, specifically the "twin deficits" on the government budget and the balance of payments, which are closely related. These deficits in turn lead to changes in Government's financial position, specifically declining savings and rising debt, as well as the country's external account, balance of payments and declining foreign exchange reserves. Trends in these deficits appear to be unsustainable, and need to be addressed, and we will consider some of the policy options available as well as the implications of not doing so.

Fiscal balances

Government finances are a critical component of the macroeconomy. Government spending contributes to aggregate demand and is one of the components of expenditure on GDP. Public investment supports future economic growth. All spending has to be financed, whether by taxation, other sources of government revenues derived from domestic or external sources, by the drawdown of accumulated savings, or by borrowing.

In recent years, large budget deficits have been realised or projected for 2024/25 and 2025/26. This is particularly due to much reduced mineral revenues caused by the slowdown in the diamond industry. However, it is not a new phenomenon, and the budget has been in deficit for 10 of the last 15 years. This is due to a combination of long-term structural changes in the economy and public finances, as well as the recent diamond downturn.

Budget deficits were initially financed by drawdown of savings held in the Government Investment Account (GIA) at the Bank of Botswana. The GIA is now largely depleted, and deficits are being financed by borrowing, leading to the accumulation of public debt.

Why are fiscal revenues in long-term decline?

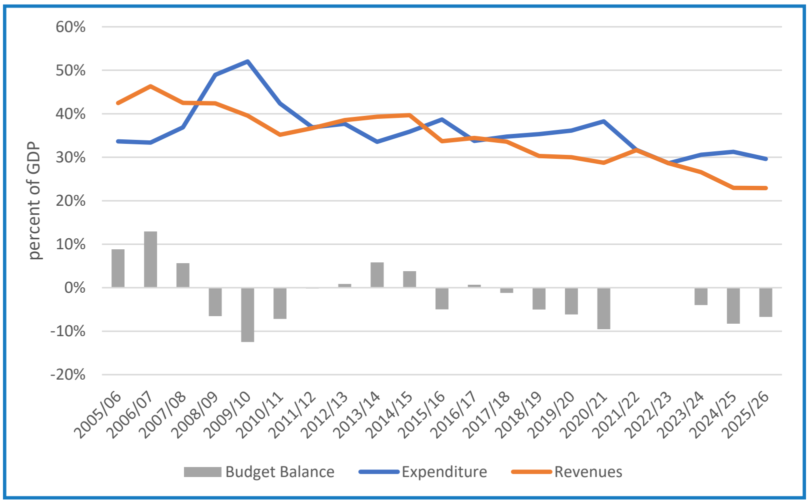
The long-term decline in fiscal revenues is largely the result of the changing structure of the economy, with a reduced share of GDP for the highly taxed diamond sector, and has long been expected. As a simplified example suppose that the economy comprises the diamond sector, taxed at 70%, the non-diamond private sector, taxed at 20%, and government, taxed at 0%. The diamond sector has a high effective tax rate due to the mining specific tax and royalty regime and the fact that government owns 50% of Debswana (historically a very profitable company). At its peak, diamonds accounted for around 50% of GDP. With the non-diamond private sector accounting for 35% of GDP and government 15%, tax revenue accounts for 42% of GDP. But as the structure of the economy changes, with diamonds down to 20%, the non-diamond private sector up to 60% (i.e. diversification is taking place), and government at 20%, the average tax take declines to 26% of GDP, even with no change in tax rates.

Table 1: Illustration of impact of structural change on tax revenues

SHARE OF GDP			
Sector	Tax rate	Peak diamonds (undiversified)	Low diamonds (diversified)
Diamonds	70%	50%	20%
Non-diamond private sector	20%	35%	60%
Government	0%	15%	20%
Average tax take (% of GDP)		42%	26%

Note: taxes include taxation of profits, other mineral revenues, and taxation of employee incomes

Figure 1: Long-term budget trends

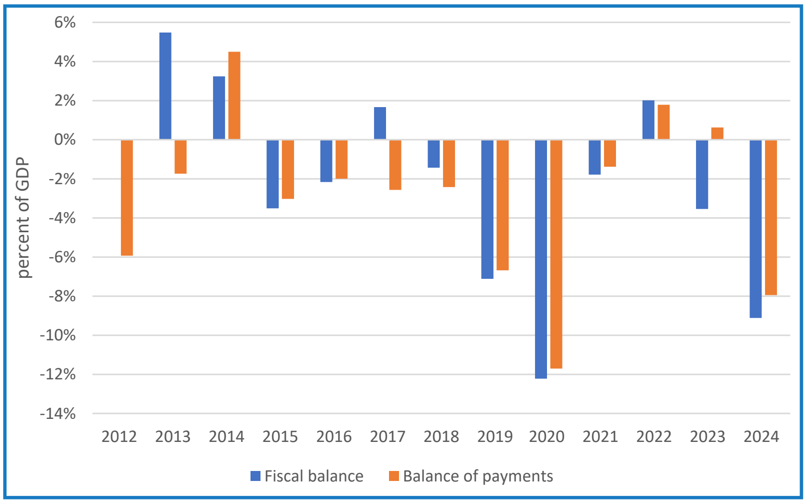


Source: Ministry of Finance, Financial Statements and Tables

External balance

The fall in diamond exports has had an even larger impact on the balance of payments than on the government budget. Whereas fiscal mineral revenues have on average accounted for 39% of government revenues over 2001 to 2022, diamond export earnings have accounted for 80% of goods export earnings over the same period. Diamond exports fell by 36% in US dollar terms in 2023 and a further 37% in 2024. This pushed the balance of trade into a deficit of P33billion in 2024. Other elements of the balance of payments compensated to some extent. In the rest of the current account there was a deficit on services trade, a surplus on the income and transfers accounts and an outflow on the financial (capital) account. The overall balance of payments experienced a deficit of P21billion in 2024. This has to be financed by drawing down the foreign exchange reserves, which fell by 24% in Pula terms in 2024, and 27% in US dollar terms.

Figure 2: "Twin Deficits": Fiscal Balance and Balance of Payments (% GDP)



Source: calculations based on data from Botswana Economic and Financial Statistics (BoB)

The fiscal balance and the balance of payments deficits are closely related. This is not surprising, given that the decline in diamond exports impacts on both overall exports and government fiscal revenues. A drop in diamond sales leads to sharply reduced profits for Debswana, the taxation of which is the main source of fiscal mineral revenues. Furthermore, government spending has a very high import component – assumed by the IMF to be 50 percent[1] - so higher government spending also leads to higher imports. Hence the strong relationship between the balance of payments and fiscal accounts on both the revenue and spending sides.

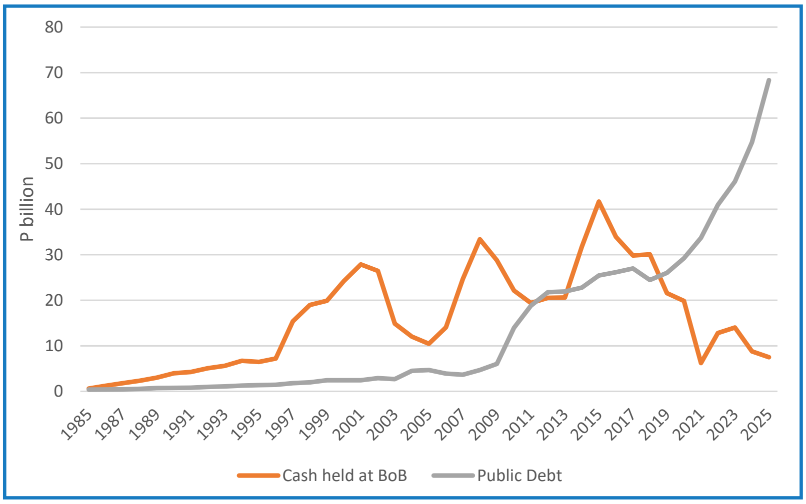
What do these trends mean? Deficits on the two income accounts (the government budget and the balance of payments) have to reflect in the two corresponding balance sheets – for government and the economy/country as a whole.

Government financial balances

Fiscal deficits have historically been financed by the drawdown of government savings held at the BoB (mainly in the GIA). By 2024, however, these had largely been exhausted, and continued deficits meant the rapid accumulation of public debt.

[1] IMF (2024) Country Report 24/287, Botswana Selected Issues, p.16

Figure 3: Government Financial Assets and Liabilities (Cash and Debt)



Source: Bank of Botswana and Ministry of Finance

Fortunately, Botswana has historically had a low level of government debt, with relatively low borrowing costs, and hence the cost of debt interest has not been a major burden on the government budget. This situation could change quickly, however, with both the quantum of debt and the cost of debt increasing. For instance, the level of debt (including guarantees) relative to GDP increased from 22.7% of GDP in March 2024 to 28.9% of GDP in March 2025.

Government's borrowing costs are also rising as it seeks more debt. The interest rate on long-term government bonds has more than doubled from 5.25% in 2018 to 10.98% in May 2025, and the exceptional seven-year loan raised from the BPOPF has an interest rate of 11%, well above the rate on the closest equivalent government bond. And the effective interest rate on external borrowing will increase as the Pula weakens. With rising interest rates and rising debt levels, those costs of debt service will increase and take an ever-larger share of government spending, squeezing out other spending.

The legal framework for government borrowing is contained in the Stock, Bond and Treasury Bills Act (2005). This imposes legal limits on public debt, whereby public debt and guarantees is not permitted to exceed 40% of GDP, made up of separate limits of 20% of GDP each on domestic and external debt (and guarantees). Any issuance of debt or guarantees in excess of these limits is not legally authorised.

These limits are quite low by global standards, but have the advantage of (if observed) of preventing an unsustainable trend of ever-increasing borrowing from getting completely out of hand and leading to the type of debt crisis that other countries have faced.

While it would be possible to change the law and raise the limit on public debt, this would not be wise – raising the debt limit would enable the government to borrow more, but would not make the budget sustainable and would just enable the continuation of an unsustainable trend for longer and lead to an increase in public debt to more dangerous levels.

Nevertheless, the rapid increase in debt in the 2024/25 financial year and the levels of medium-term spending projected in the Medium-Term Fiscal Outlook released with the 2025 Budget indicate that debt will continue to rise rapidly and will soon reach the statutory limits. Domestic borrowing had reached 19.2% of GDP in March 2025, is projected to reach the 20% cap during the current financial year – which will limit the government's ability to legally issue further bonds and T-Bills during the year to finance its budget deficit (our estimate is that GoB will only be able to issue P5 billion of the projected P10 billion bonds and T-Bills this year before reaching the legal limit).

The projected pivot to external borrowing during the year, as laid out in the Annual Borrowing Programme, will help to finance the fiscal deficit, but there is still likely to be an overall financing shortfall – i.e. government will not be able to fund its projected / budgeted spending – we estimate a financing shortfall of around P8 billion. The suspension of issuance of Government Purchase Orders (GPOs) in July indicates that this financing shortfall is already biting.

This is not to say that borrowing is necessarily bad. Public borrowing to finance investment that will boost the productive capacity of the economy is fine – just as firms borrow to finance capital investment. That does not mean all borrowing is sensible, however, and borrowing becomes problematic when it is used in the following ways:

(i) to finance unproductive, wasteful or low return investment projects;
(ii) to finance recurrent spending, such as the public sector wage bill;
(iii) to increase debt to a level where debt service becomes unsustainable and a debt spiral results, leading to default.

Borrowing of this kind seems to be what is happening, unless there is serious restructuring of the budget. Our estimate of the projected budget deficit in 2025/26 - around P30 billion is larger than the development budget, meaning part of borrowing (or drawdown of remaining savings) would be used to finance recurrent spending. Second, much of the development budget spending is unproductive and wasteful, and not invested in high return projects. Third, the pace of debt increase implied in the medium-term budget is clearly unsustainable, and not consistent with legal limits.

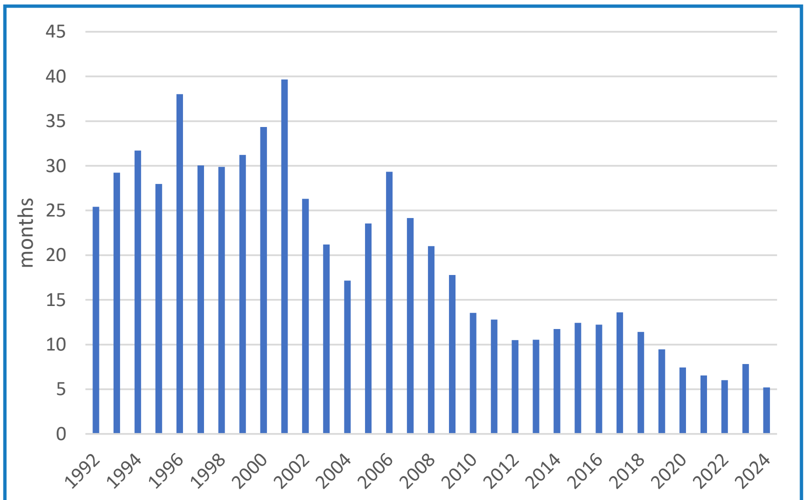
There have been suggestions in some quarters that we need not worry about borrowing, because it will stimulate the economy during a recession, but these are misguided. Many countries have found this to their cost – for instance Zambia and Ghana have recently experienced debt distress, while Namibia and South Africa have found that debt interest payments make up large proportions of government spending. And as discussed below, such borrowing will simply lead to even larger balance of payments deficits, and faster depletion of foreign exchange reserves, in part because such a high proportion of government spending flows out through spending on imports.

External balance

As noted above the imbalance on the external account – the balance of payments - is closely linked to fiscal deficits. Balance of payments deficits have to be financed by drawing down the foreign exchange reserves. These have declined from a peak of USD10.3 billion in 2008 to USD3.5 billion in April 2025. The reserves are important for many reasons, one of which is underpinning the Pula exchange rate peg. Under the peg arrangement, the BoB undertakes to buy or sell foreign currencies to authorized dealers (the banks) at its quoted rates, which are derived from the basket formula and movements in the exchange rates of the currencies in the basket.

By the end of 2024, import cover had declined to just over 5 months, from a peak of 40 months in 2001. There is no hard and fast rule about the level of reserves needed to support a pegged exchange rate, but the common rule of thumb is that below 3 months of reserves, the peg may become unsustainable. If the decline in reserves continues, which is likely, the Pula exchange rate mechanism will need to move towards a more market-determined arrangement, which would be very different to the current state of affairs. The July 2025 exchange rate mechanism revisions, discussed elsewhere in this Review, were an attempt – albeit not well designed – to move in this direction.

Figure 4: Import Cover (months)



Source: calculations based on balance of payments data (BoB)

Furthermore, the current value of the Pula is based on historically high levels of diamond export revenues. With lower levels of diamond revenues expected in future as a result of structural change in the market, and a current huge imbalance between foreign exchange inflows and outflows, the future value of a market-determined Pula is likely to be lower than its current value[2] . Hence a depreciation of the Pula will be necessary, whether implemented gradually through an accelerated crawling peg or more suddenly during a change of exchange rate regime. A weaker Pula will help to support the competitiveness of other exports and import substitutes.

Reining in the "twin deficits".

While the immediate source of the recent fiscal and balance of payments problems is the sharp downturn in the diamond market since the recent peak in 2022, it is really the culmination of longer-term trends and a failure to adjust. Mineral fiscal and export revenues have been declining for years relative to GDP as the diamond industry has matured. But there has been insufficient adjustment in government spending in response, and insufficient attention to the price competitiveness of Botswana's producers to support export diversification.

While efforts are under way to reinvigorate diamond exports, this is not a variable the government can directly control – much depends on the market and consumer response to enhanced marketing of natural diamonds, as well as exogenous issues such as US tariffs. Similarly with export diversification, government can create a supportive enabling environment, but this will take several years to pay off.

Immediate action is needed to stabilize the situation, however, and in the short term the only policy instrument that can be directly controlled is the government budget. There is no option – if Botswana wishes to transition to a sustainable path avoid twin debt and exchange rate crises – but to bring expenditure under control and reduce it to match structurally lower

[2]Analysis by the IMF in 2023 indicated that the Pula was significantly overvalued, even prior to the downturn in diamond revenues and the acceleration of structural change in the industry, and that a depreciation of 20-30% was required (IMF Country Report 23/318, Botswana Selected Issues).

revenues, though "fiscal consolidation". This mainly involves reducing the budget deficit through reducing spending and increasing revenues. We have proposed specific options for doing so in previous issues of the Review.

However, fiscal consolidation is not just about saving or raising money. It is also about using the opportunity to reform government structures and processes, and to improve efficiency. For instance, many if not most projects financed under the development budget have never been through any proper evaluation of feasibility or return on investment. They are also prone to very weak initial costing and cost control during execution, and are therefore prone to cost escalation. Public money is therefore spent on projects with low or negative returns on investment, and it is not surprising that such projects fail to boost economic growth. Proper project appraisal and prioritization, with limited funds focused on projects yielding the highest socio-economic returns, will enable both a reduction in expenditure and a better impact on growth, development and productivity. Needless to say, this also requires that the politicisation of project choices – a pervasive characteristic of the development budget in recent years – must be eliminated at all costs. This challenge has to be addressed by political leadership. In the interim it would be wise to halt all new development budget commitments, until projects have been through an adequate evaluation.

A second area with huge scope for efficiency gains and cost saving is the widespread digitization of public services. Despite many years of commitment to e-Government, the practical impact has been minimal, with very few significant public services available online, the government IT system regularly being regularly offline or slow, and physical attendance and queuing at government offices still required for the vast majority of interactions with the public sector. There is huge scope for the proper digitisation of public services, as other countries have shown. This would improve the quality and efficiency of public services, reduce the scope for arbitrary decision-making and corruption, improve transparency, and reduce costs. It would also have the advantage of boosting the broader digital ecosystem and supporting the growth of firms providing digital services in the economy.

Conclusions

Botswana is experiencing "twin deficits" on the fiscal budget and the balance of payments. This has resulted in the depletion of Government financial savings held at the Bank of Botswana, a rapid increase in public debt, and the running down of the nation's foreign exchange reserves. The cause of this is long-term structural change in the economy, with a gradual reduction in the relative importance and size of the diamond industry, alongside a failure to reduce the size of government spending accordingly and to diversify exports. This long-term trend has been accentuated by the weakness in the global diamond market over the past two years. The trends are unsustainable and if not addressed, the outcome is likely to be debt and exchange rate crises at some point in the future, alongside slower economic growth.

Dealing with this problem requires a range of structural changes to boost export-led growth, and reduce government spending. These include addressing the over-valuation of the Pula, addressing regulatory constraints to the private sector and the inefficiencies of bloated state-owned enterprises, and dealing with the excessive size and inefficiency of government. The immediate challenge is to significantly reduce government spending, which will help to prevent the unsustainable accumulation of public debt as well as reduce the pace of depletion of the foreign exchange reserves. With respect to the changes in exchange rate policy in early July that were in part aimed at slowing or reversing the depletion of the reserves, the analysis in this article shows that it is the reduction in the budget deficit that is required to address this problem. In the medium term, government needs to run budget surpluses if meaningful buffers are to be accumulated that will support adjustment to future economic shocks, and/or build up a new sovereign wealth fund.

PO Box 45016, Gaborone, Botswana

tel [+267] 390 0575
fax [+267] 390 0585

email keith@econsult.co.bw
www.econsult.co.bw

The Econsult Economic Review is sponsored by BIFM, Botswana's largest asset manager. All content and commentary in the Review is produced by Econsult and should not be attributed to BIFM.