



REPUBLIC OF BOTSWANA

Ministry of Finance

Recent Economic Developments and Prospects

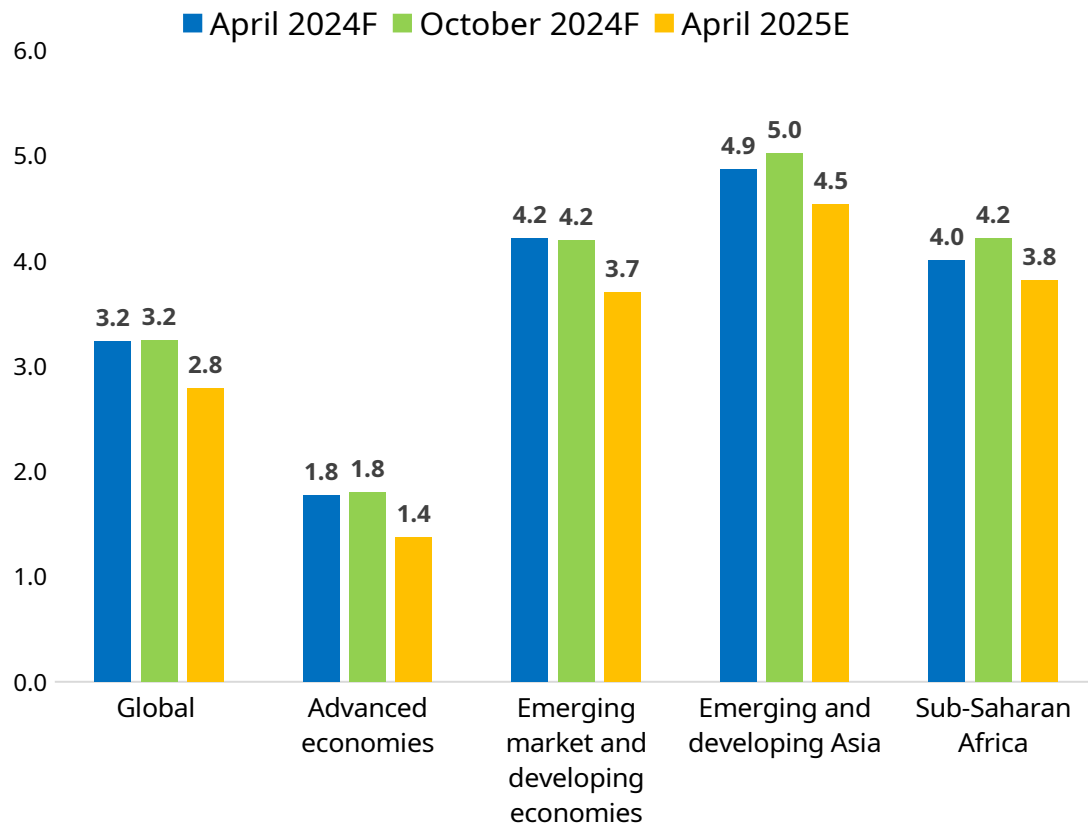


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Global Growth to moderate in 2025..

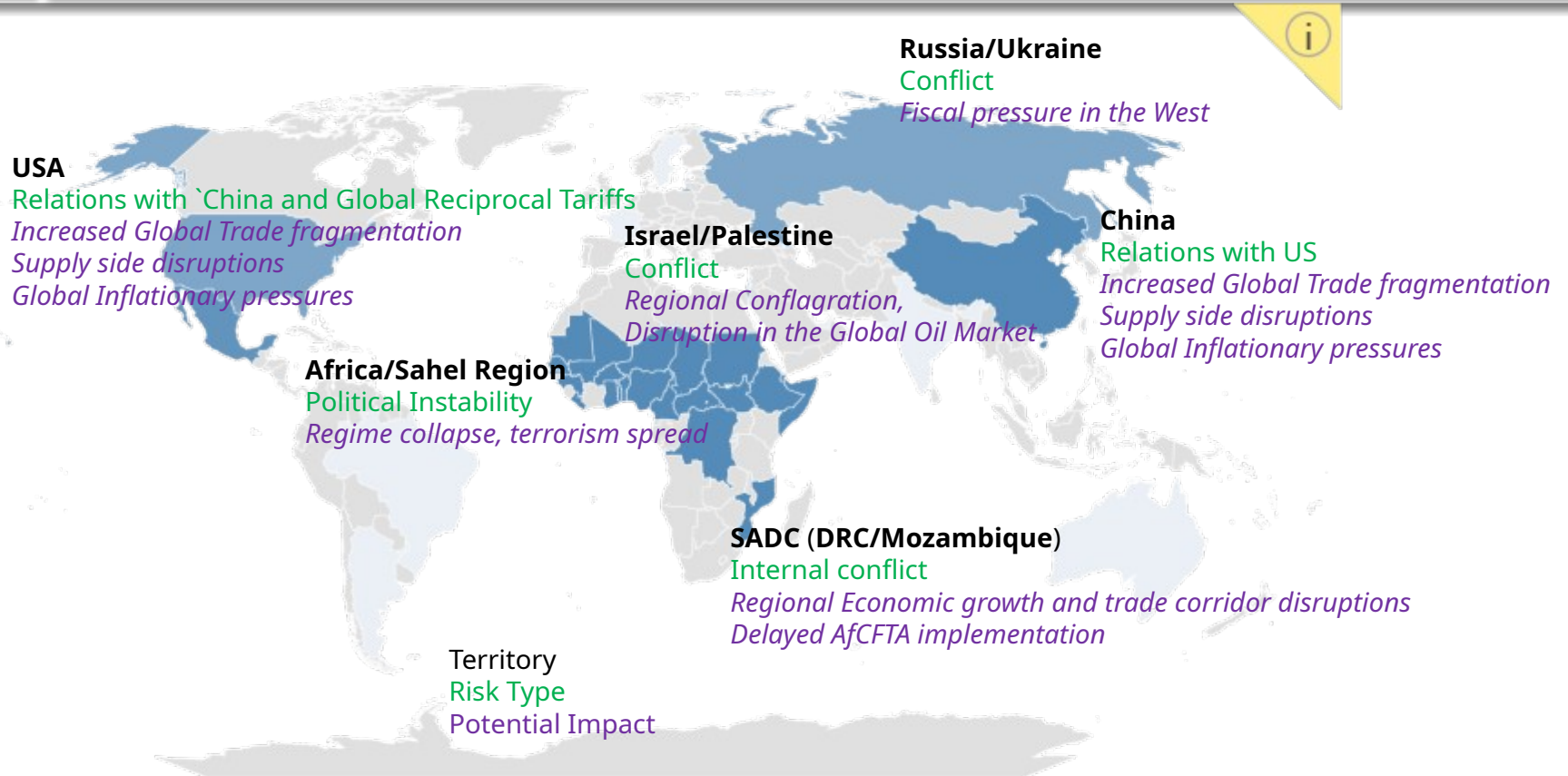
GDP growth forecast for 2025, %



Source: IMF

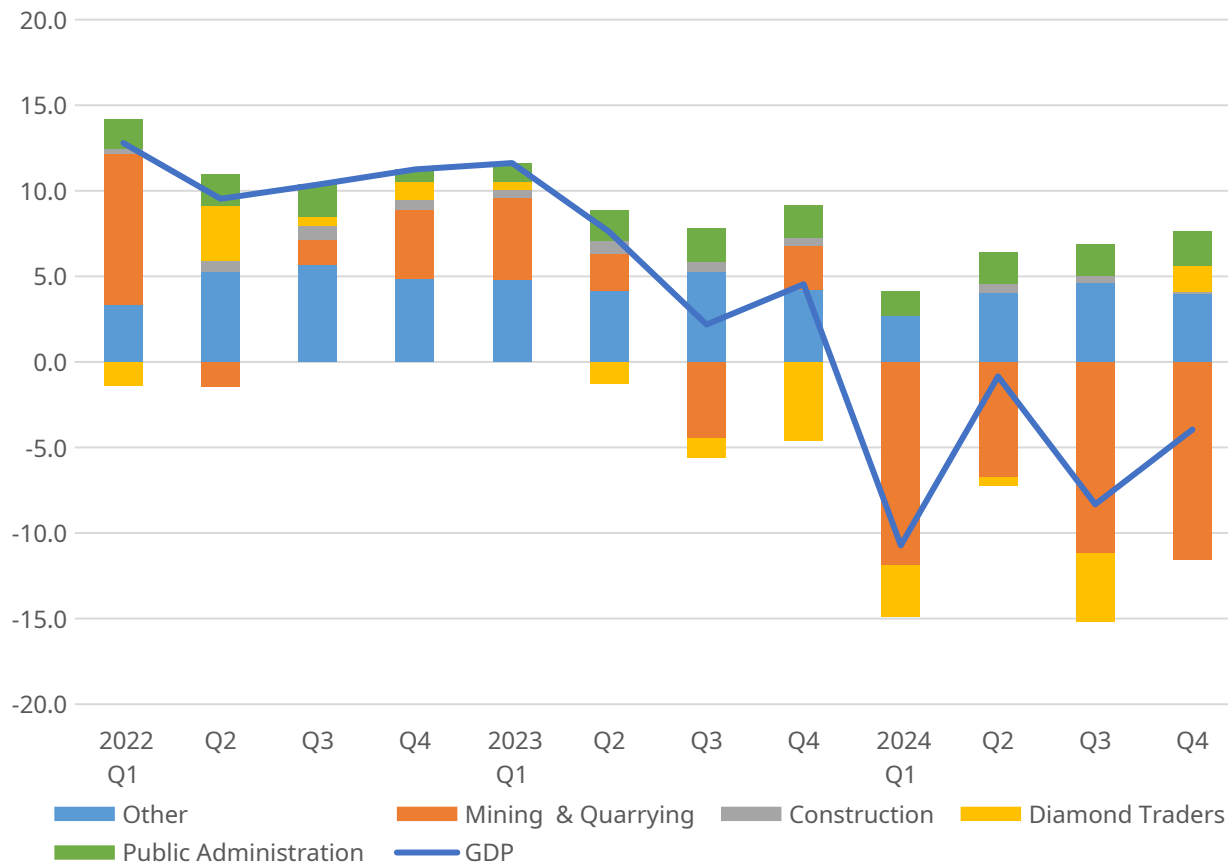
- ☐ Global growth has slowed down in recent years due to a series of shocks which include persistent geopolitical conflicts, recurring extreme weather events and high commodity prices.
- ☐ The IMF has revised global growth prospects down to 2.8%. Global growth is expected to pick up 3% in 2026.
- ☐ Global growth remain below the historical (2000–19) average of 3.7 percent.
- ☐ All economic jurisdictions are expected to slowdown in 2025. Growth is expected to improve in 2026.
- ☐ Asia remains one of the World's primary growth engine

Geopolitical economics and hotspots



Botswana entered a technical recession in Q2-2024 on diamond weakness

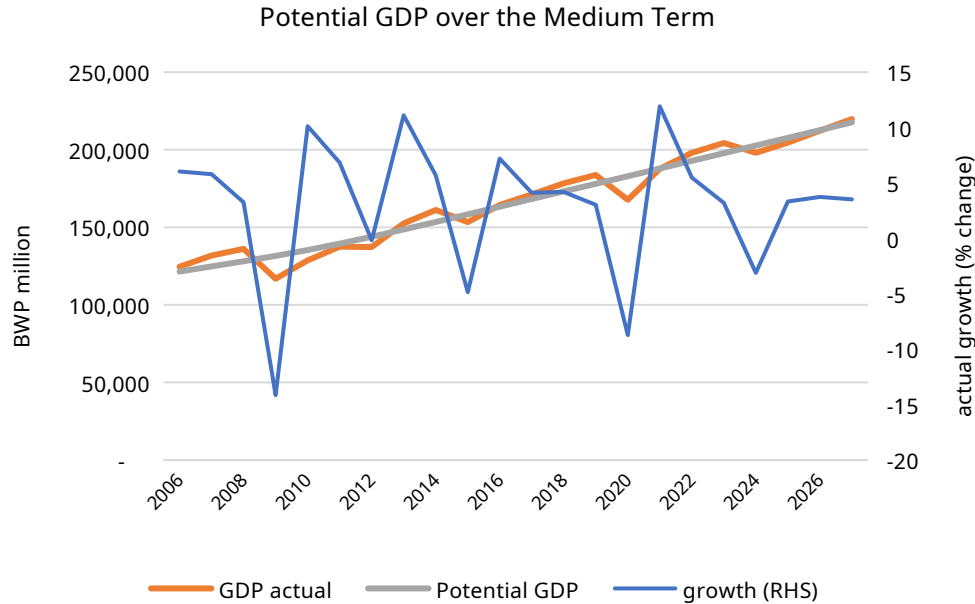
Contribution to growth, ppt



- ☐ Growth in 2024 was -3.0 percent compared to 3.2 percent in 2023
- ☐ Largely due to the prolonged downturn in the diamond market.
- ☐ This has resulted in a built up of inventories in the midstream – slowing uptake in the downstream activities;
- ☐ Growth in non-mining-non-diamond sector has not been sufficient to offset the decline
- ☐ Partly reflecting a lot of government footprint in the economy - which has crowded out private sector participation



GDP growth forecasts positive but not “strong” enough while productivity is low...

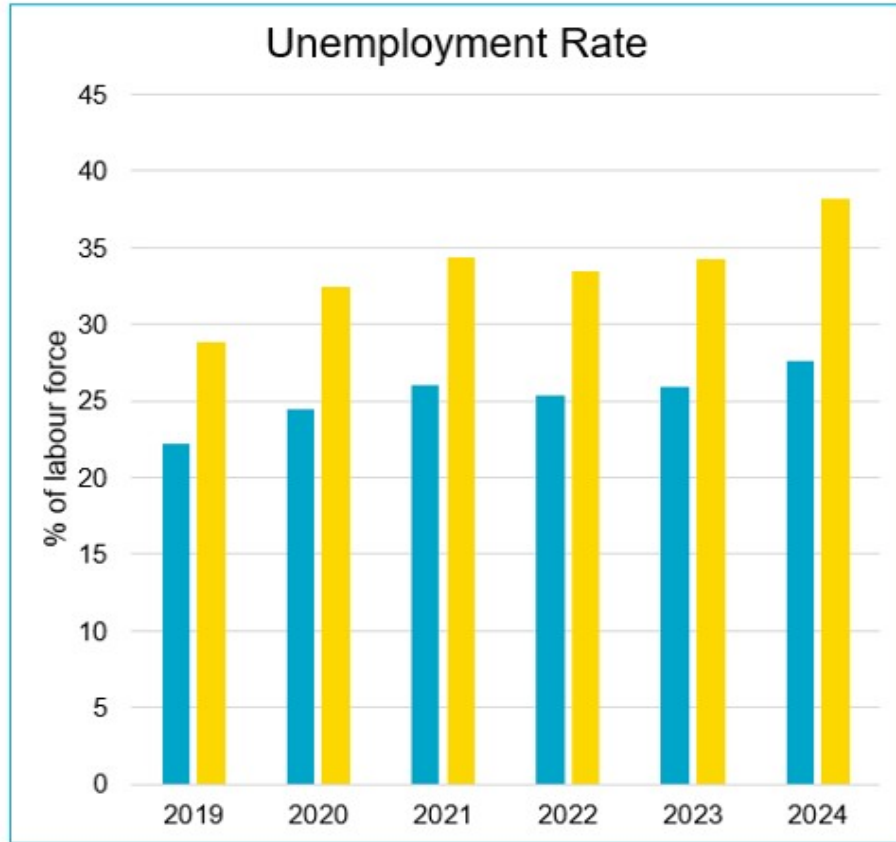


- The economy is projected to remain below potential in the medium term.
- Reflects negative private sector TFP growth, suggesting...
- Low efficiency in factors of production over time (*L, K, Technology/efficiency*).
- ...particularly employment and capital growth.
- Lower efficiency in capital also suggests **that capital accumulation has not been channelled towards productive investments** with high rates of return to capital.
- This inefficiency in the stock of capital has **not been sufficient to create job opportunities**.

	2006-2010	2011-2015	2016-2020	2018-2022
GDP	7.5	4.9	3.5	3.6
TFP	-1.4	-1.6	-2.2	-2.0
Employment (weighted growth)	1.5	0.4	2.4	1.6
Capital Stock (weighted growth)	7.4	6.0	4.1	4.0



Unemployment remains a growing concern...

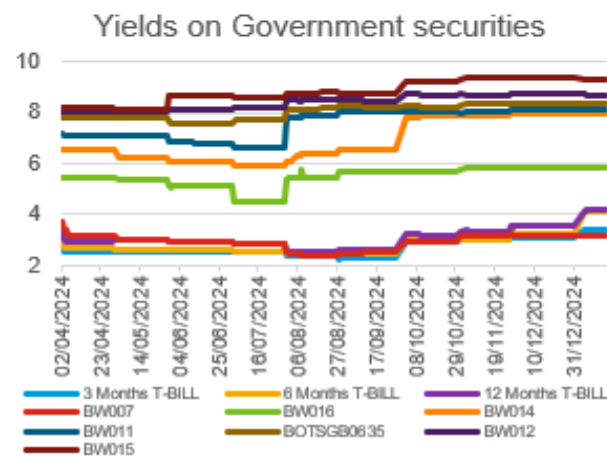
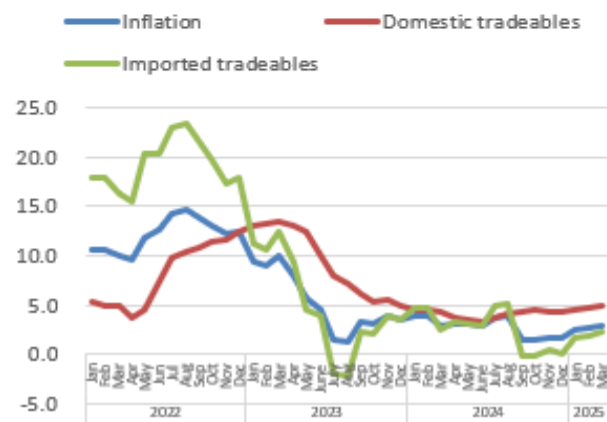
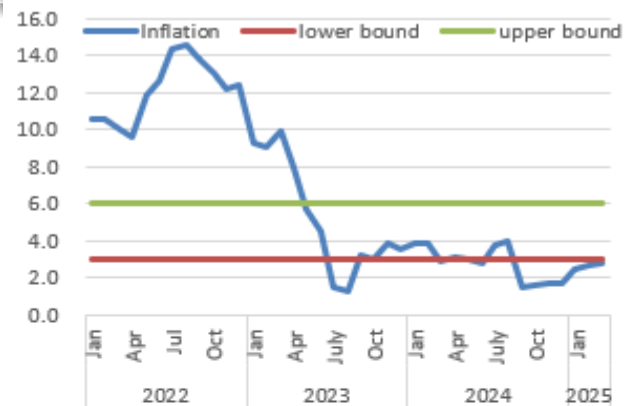


Source: Stat Bots

- Unemployment has risen over the years.
- Rising trend has persisted reflecting a number of factors: -
 - ❑ Structural economic dynamics – current economic model is or running its course. There is need for new growth sources.
 - ❑ Dependency on mining sector, which is capital intensive (diversification mainly towards non-tradeable sectors).
 - ❑ Slow pace in absorbing growing labour force
 - ❑ Dependence and dominance of the public sector has crowded out private sector led growth with negative TFP.
- Continued growth in this further reduces private sector competition and limits private sector growth and participation with implications for job creation



Inflation Developments ...



- The inflation rate has fallen from their historic highs in 2022.
 - Reaching 2.8% in March 2025.
- Inflation rate is expected to remain within the stability range of the Bank of Botswana objective range of 3-6% until 2025.
- Monetary Policy Rate was reduced from 2.65 to 1.90 in April 2025.
- Other market interest rates (Government securities) have however increased



Diamond Prospects: Uncertainty ahead – Mineral Prospects have been revised downwards since the latter part of 2023

Uncertainties emanating from measures imposed by G7 countries to enforce sanctions on Russian diamonds

Diamond price decline to clear inventory

Lower Consumer demand in major markets

Lab Grown diamonds continue to put pressure on natural diamonds

Divestment/ demerge of Anglo American from De Beers, after a 98-year partnership

Diamond production reduced in 2025... affecting mineral revenue

higher-than-normal levels of inventory in the midstream market, reaching 16 million carats as at end of December 2024.

Reciprocal tariffs by the US on major diamond markets economies

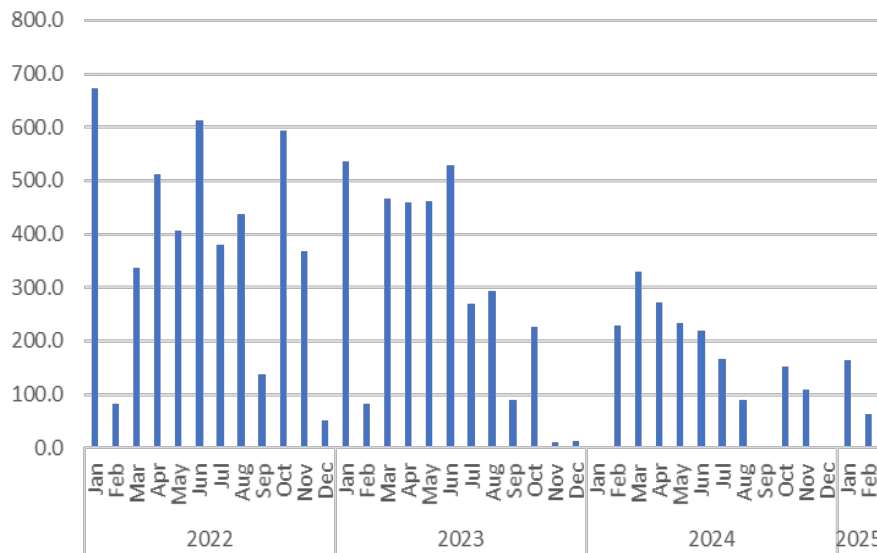
Evolving consumer preferences

Diamond-sector weakness – Cyclical or structural?

Cyclical

- Weak global demand
- Geopolitical tension/Tariffs (supply chain disruptions)
- Declining Prices
- Huge stockpile

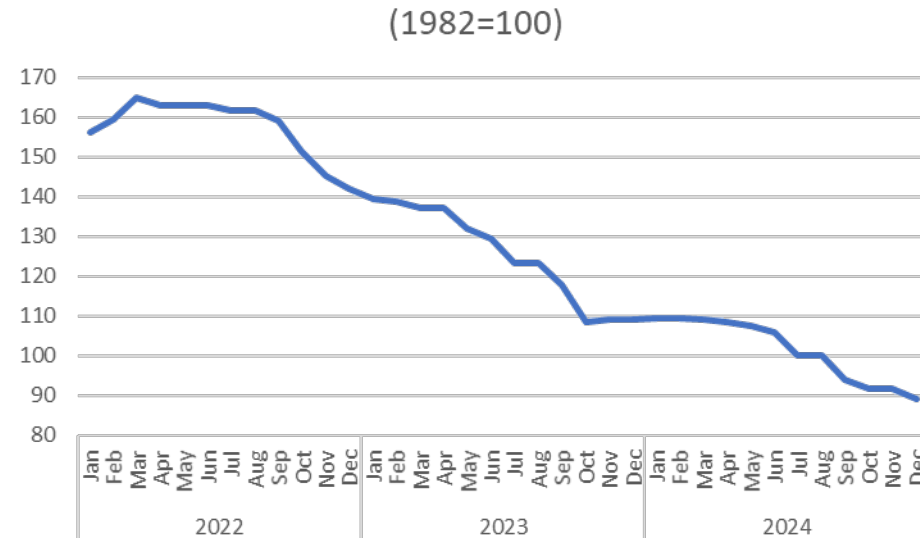
Diamond sales have been under pressure...
Diamond exports. USD mn



Structural

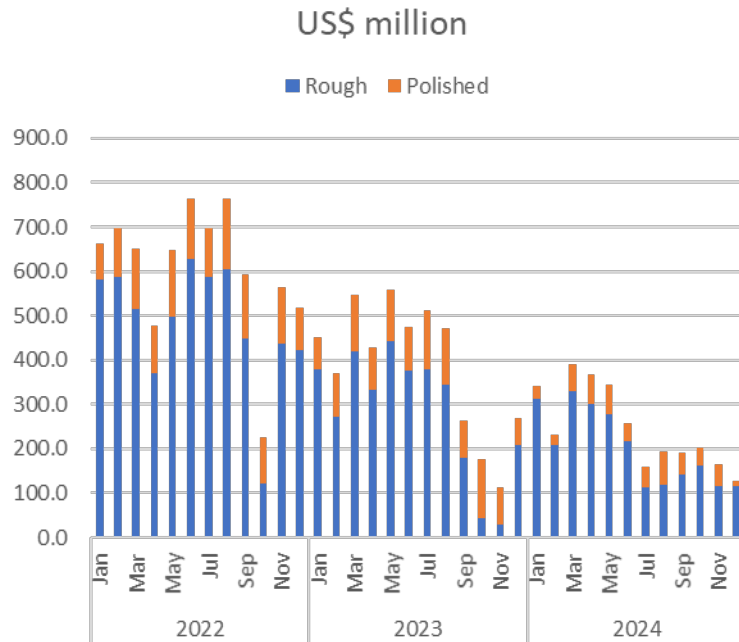
- Competition Lab-grown diamonds
- Changing consumer preferences
- Rising production costs

...despite significant price reductions
Diamond price index

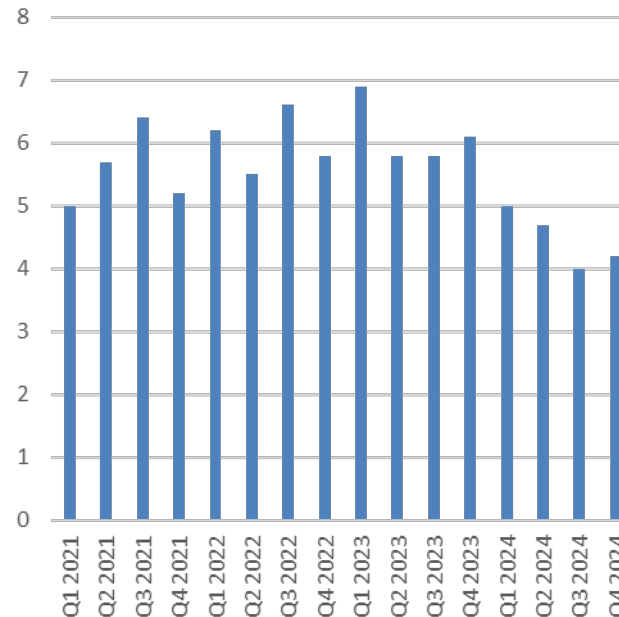


Diamond-sector weakness – Cyclical or structural?

Weak diamond demand weighs on exports



Diamond production, million carat



Significant adverse impact on:

Fiscus – given the current expenditure pressures.

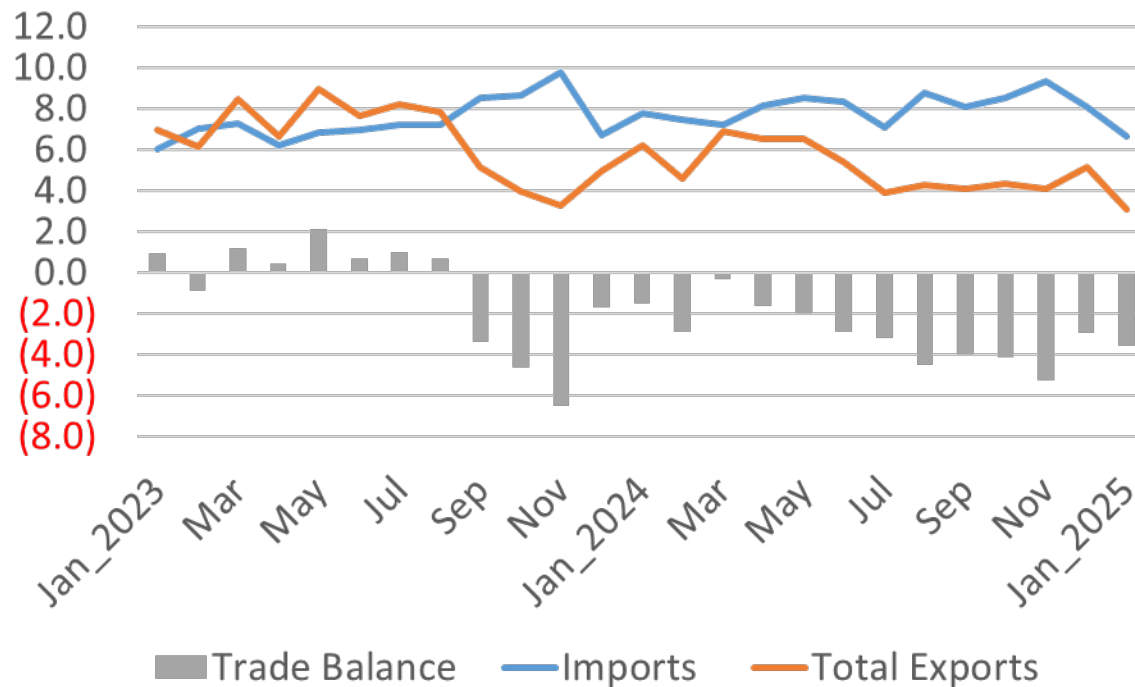
Balance of Payment position – given the low export diversification.

Foreign exchange reserves – Putting pressure on the current exchange mechanism which requires enough reserves to support the Peg.



External position weakening on lower mineral receipts...

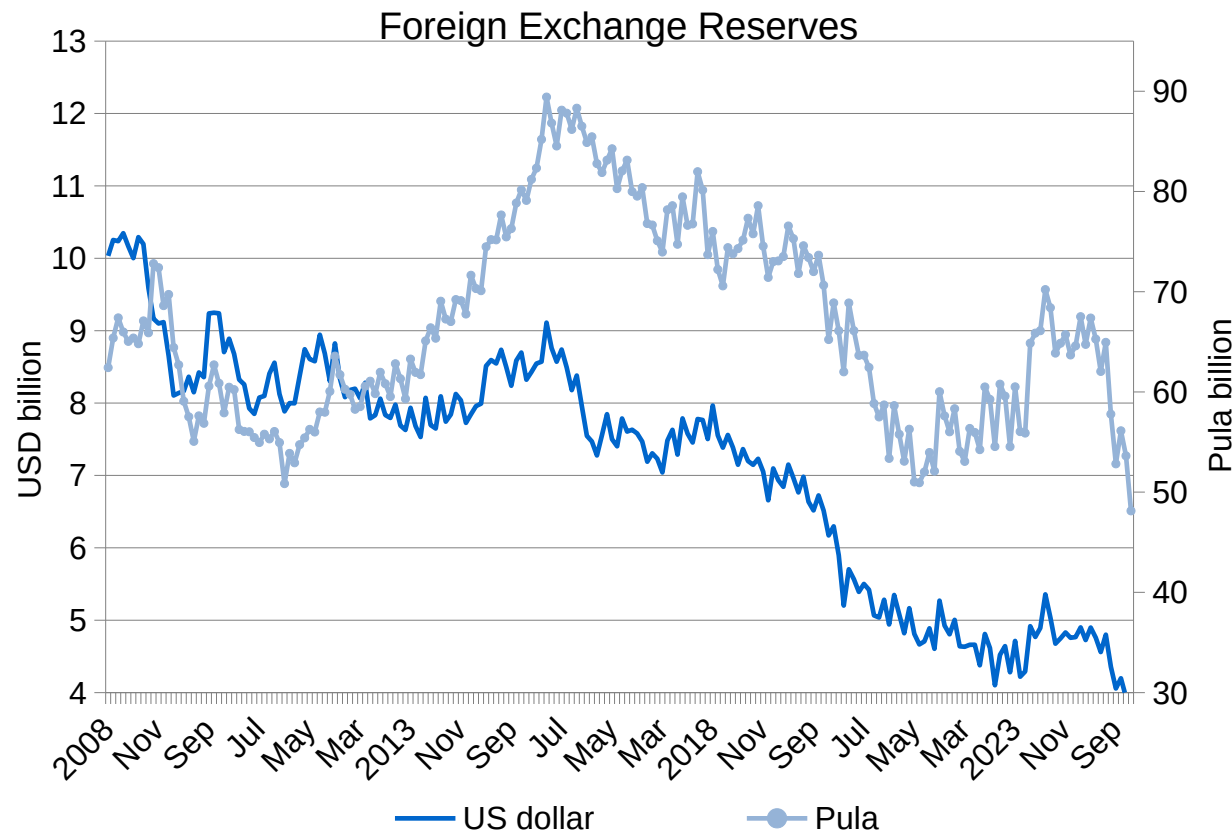
BWP Billion



- Trade Balance has been persistently in deficits
- Trend could continue into the rest of 2025, given projected low diamond receipts with implications on revenue, foreign reserves...
- ...and budget – **particularly development spending as much of raw materials for the Public Investment Programme is imported.**



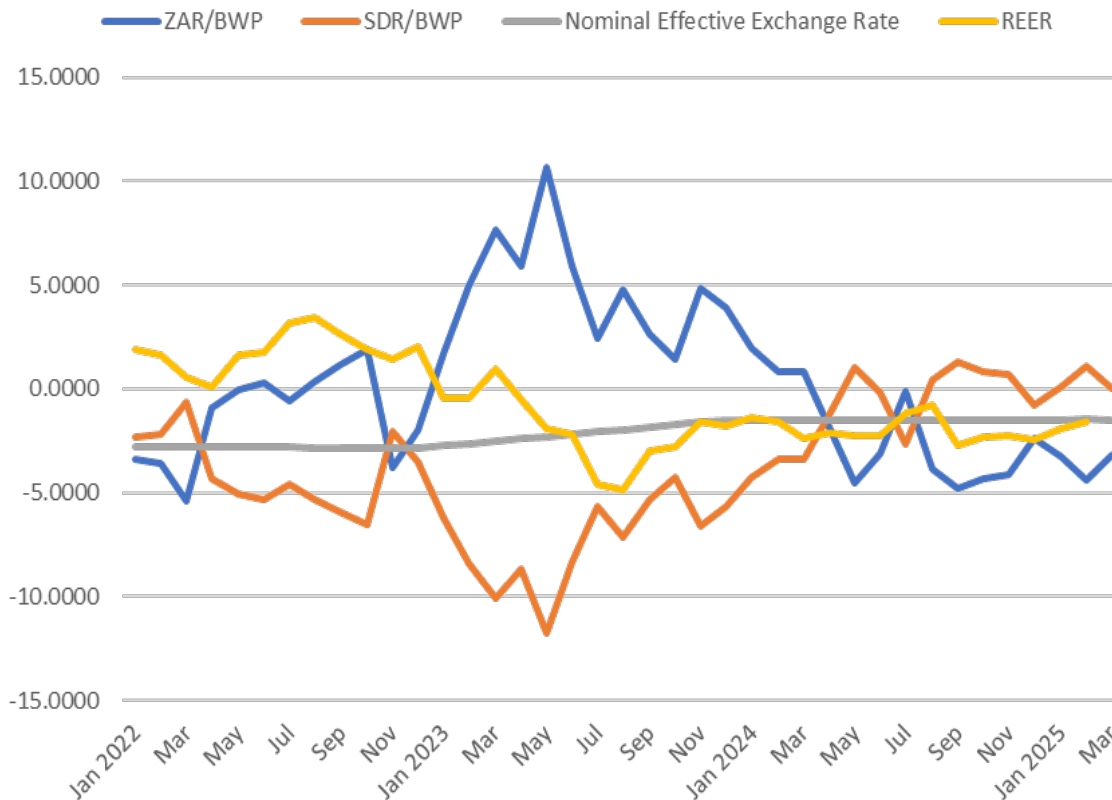
External position weakening on lower mineral receipts...



- ☐ Foreign Reserves remain low by historical standards.
- ☐ As at December 2024, the foreign exchange reserves stood at P48.1 billion or 3.5 billion US\$.
- ☐ This represents about 5.6 months of import cover of non-diamond goods and services
- ☐ Low reserves comprising ability to cushion VS future shocks
- ☐ Comprising sustainability of exchange rate regime



Lower Foreign Reserves putting pressure on Sustainability of Exchange Rate Policy...



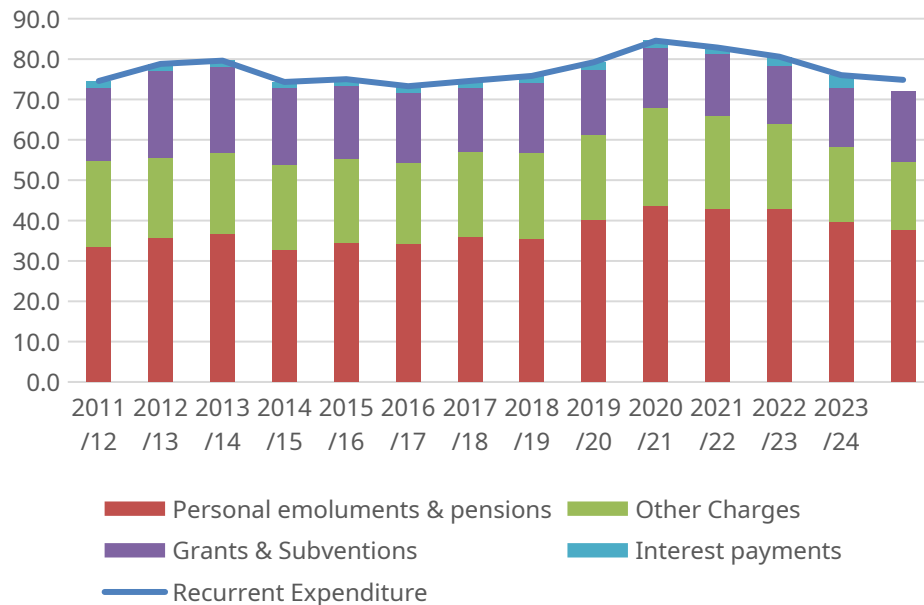
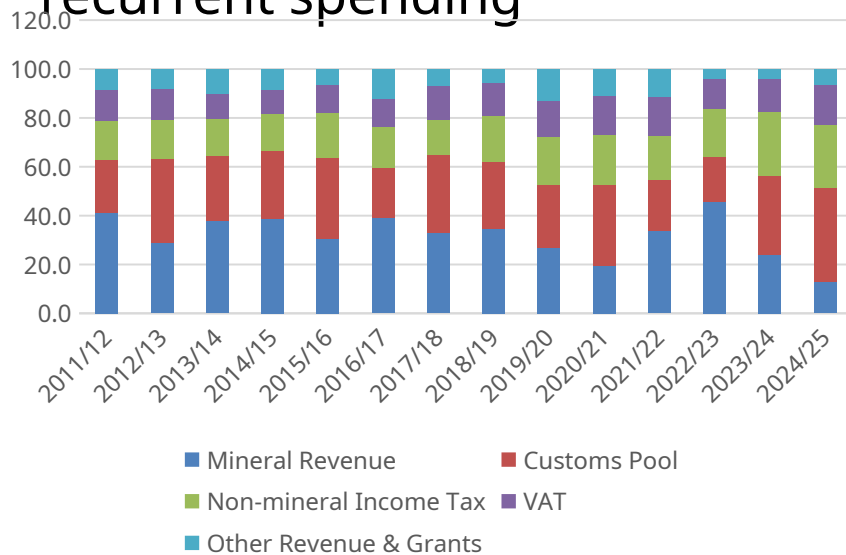
- In January 2025, Pula basket weights were changed to 50/50 (SDR/RSA), including implementation of an annual downward rate of crawl of 1.51 percent.
- Nominal effective exchange rate (NEER) depreciated in line with crawl.
- The real effective exchange rate (REER) depreciated by 1.6 percent in the same review period, **suggesting a gain in Botswana's export competitiveness, by this measure.**
- Overall sustainability of the current exchange rate framework is contingent on the adequate level of reserves needed to sustain the peg.

FISCAL DEVELOPMENTS & OUTLOOK



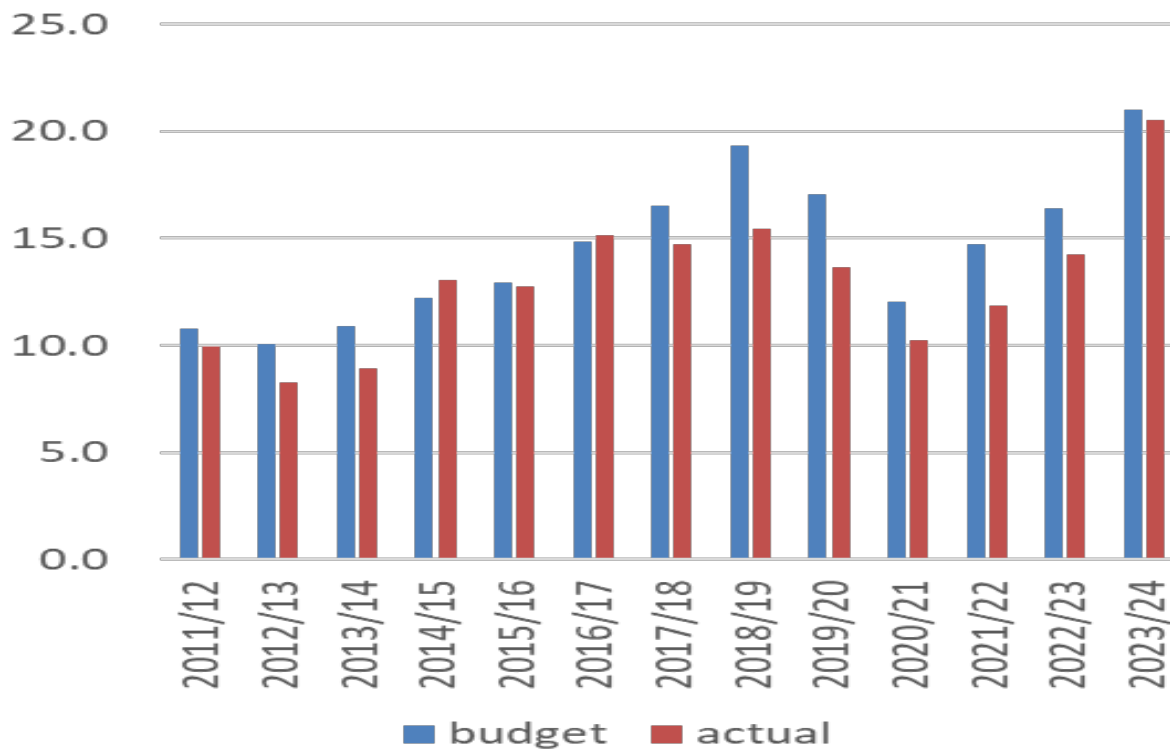
Fiscal position has deteriorated on lower revenue sources

Revenue Growth is largely Mineral Driven while wages dominate recurrent spending

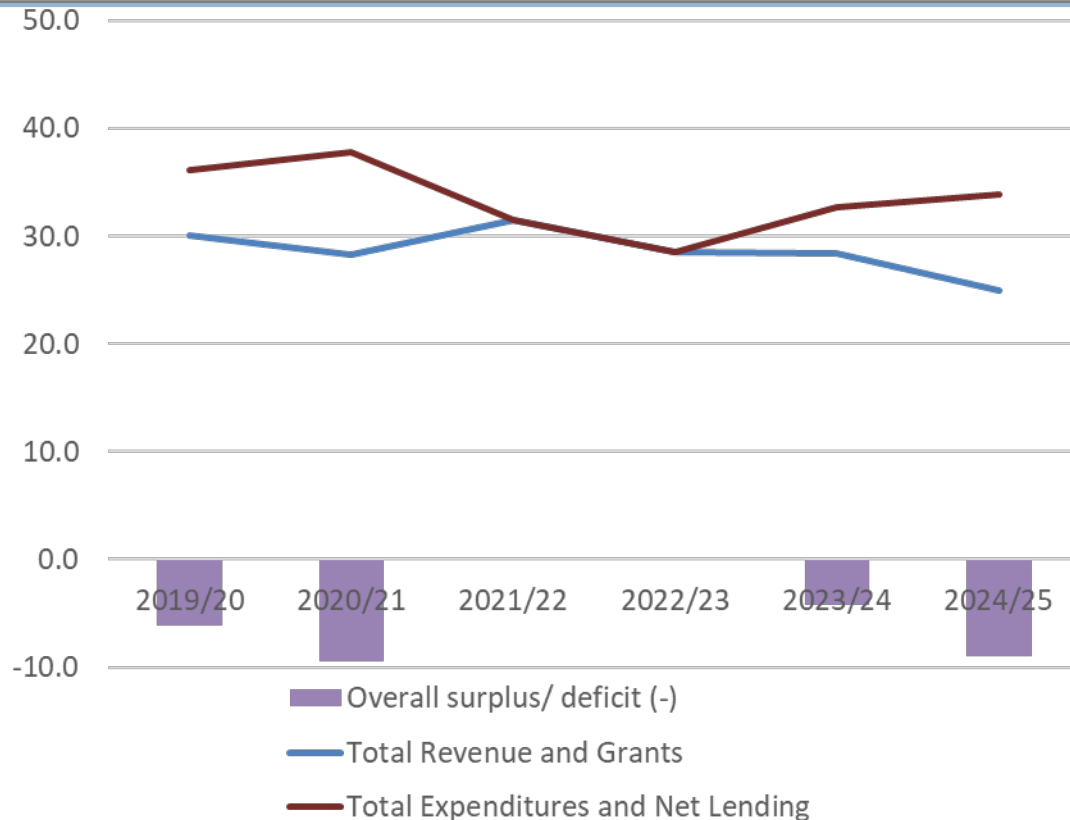


Fiscal position has deteriorated on inefficiency in spending

Development Budget consistently underspent – on average



Overall fiscal balance trends (% of GDP)

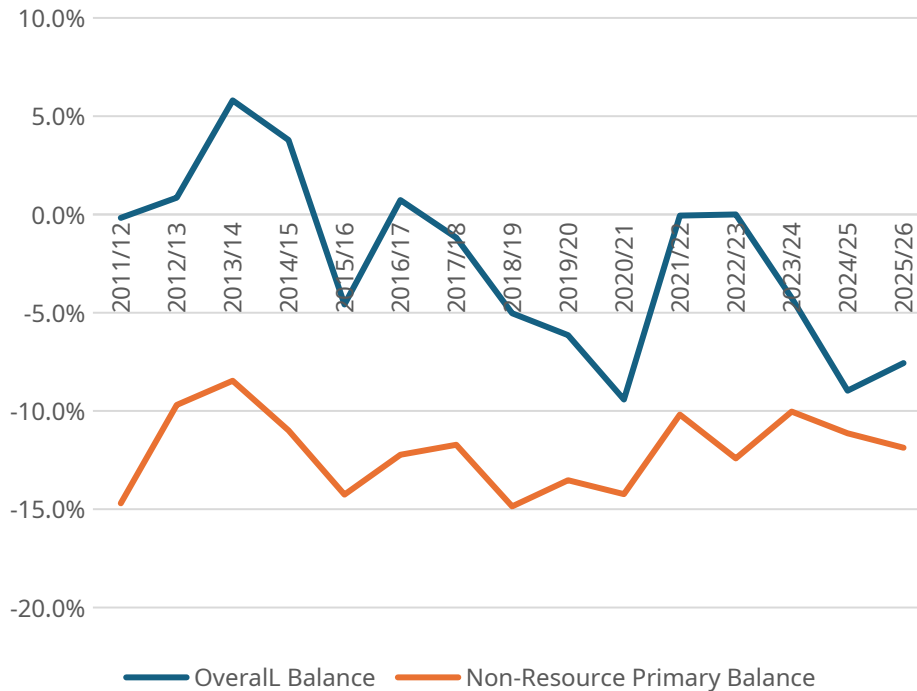


- Long-term downward trend in both revenues and spending – but faster decline for revenues.
- Emergence of structural deficits.
- Balanced budgets in 2021/22 and 2022/23
 - *But due to underspending on development budget – large deficits were planned.*
- There is also anticipation of budget deficits in 2024/25 and 2025/26.
- Achievement of fiscal sustainability pushed further into the future.

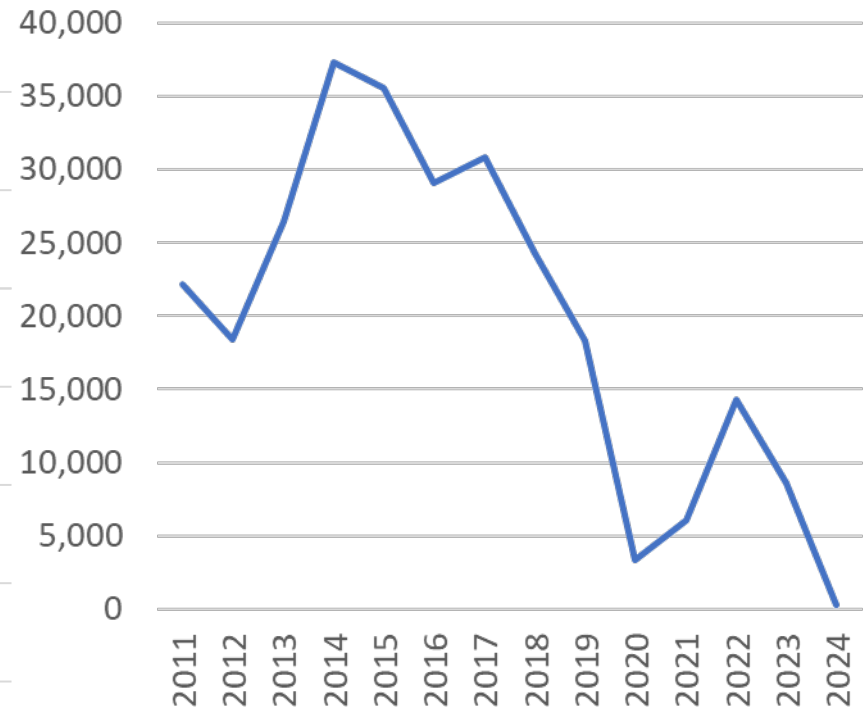


Fiscal position has deteriorated on more frequent deficits

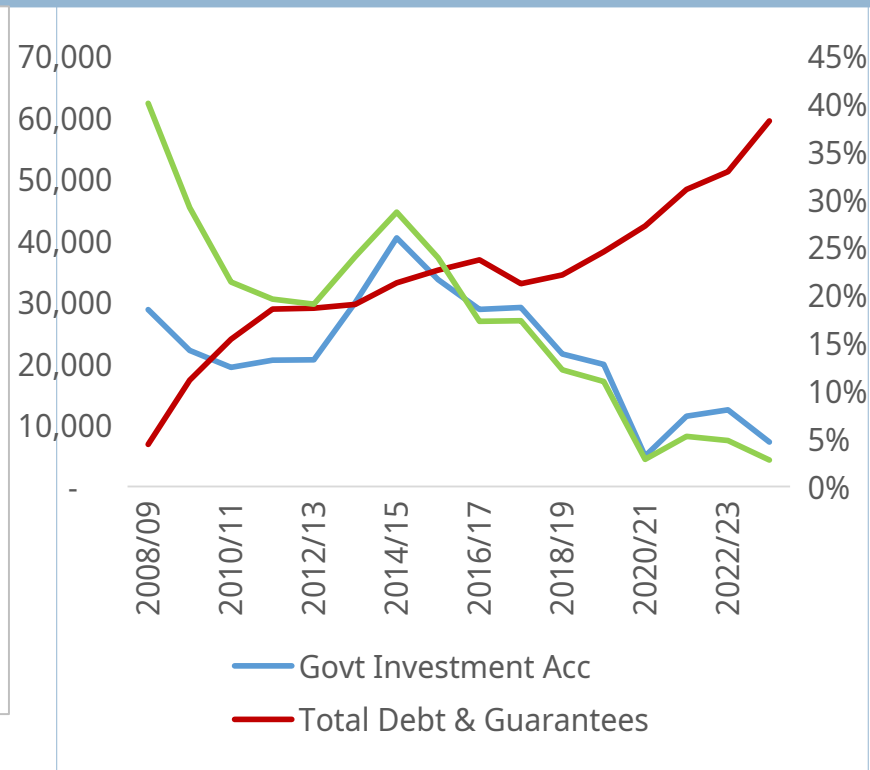
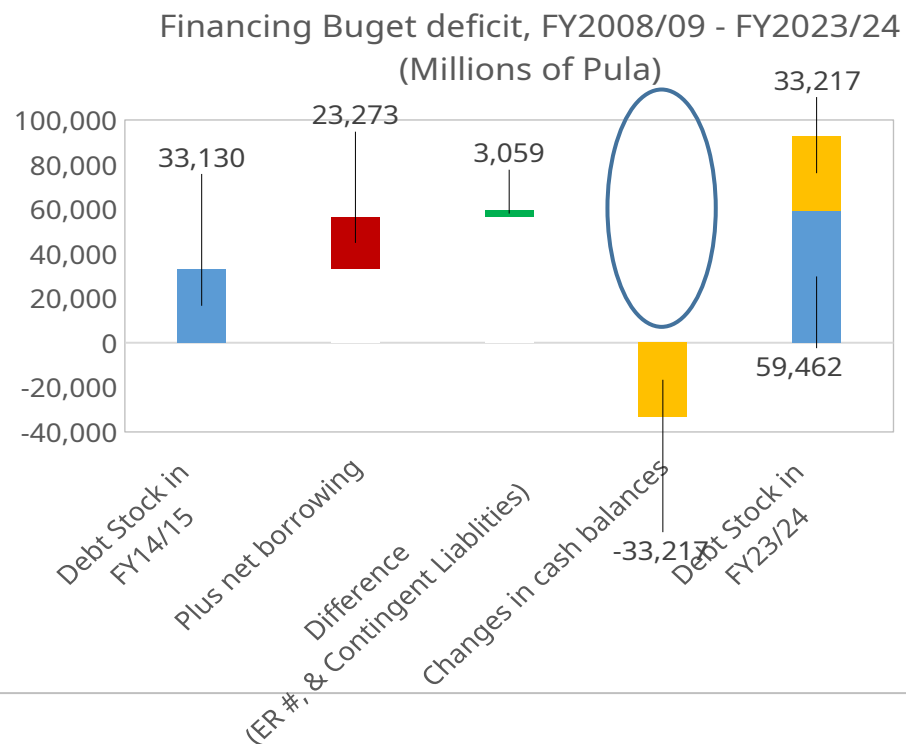
Fiscal deficits have become more frequent...
Fiscal balance, % of GDP



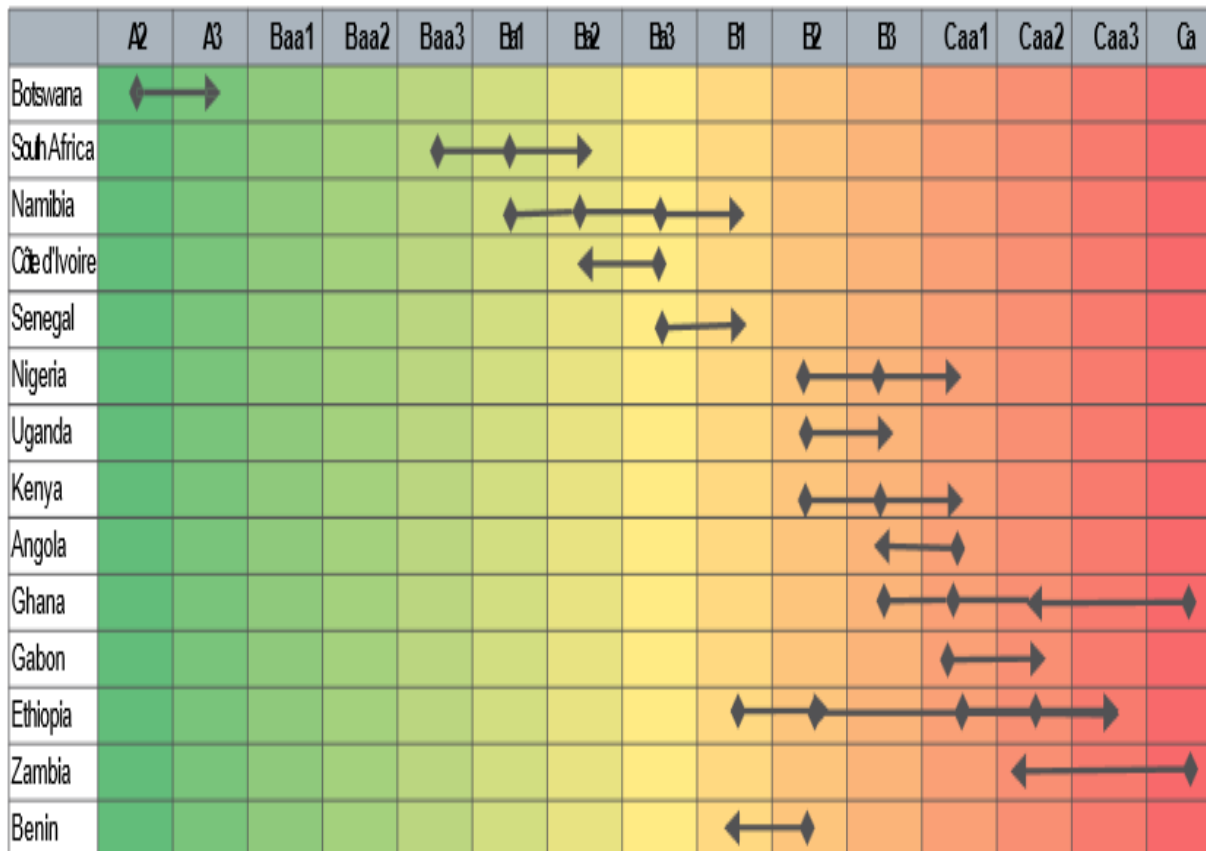
...largely financed by drawing down fiscal savings



Debt rising on lower buffers...



Botswana is the one of the highest-rated sovereign in Africa...



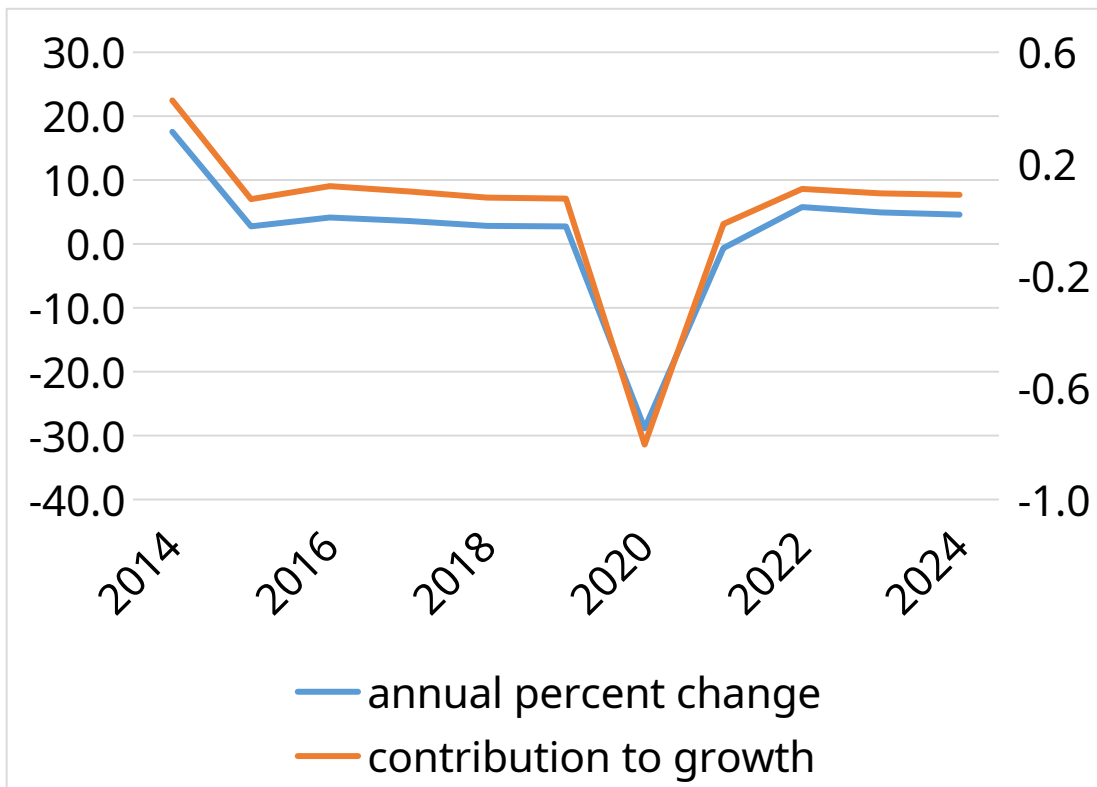
- ❑ But this has been slowly deteriorating owing to increasing vulnerabilities
- ❑ The outlook has recently been revised from stable to negative by both Moodys and S&P



TOURISM DEVELOPMENTS



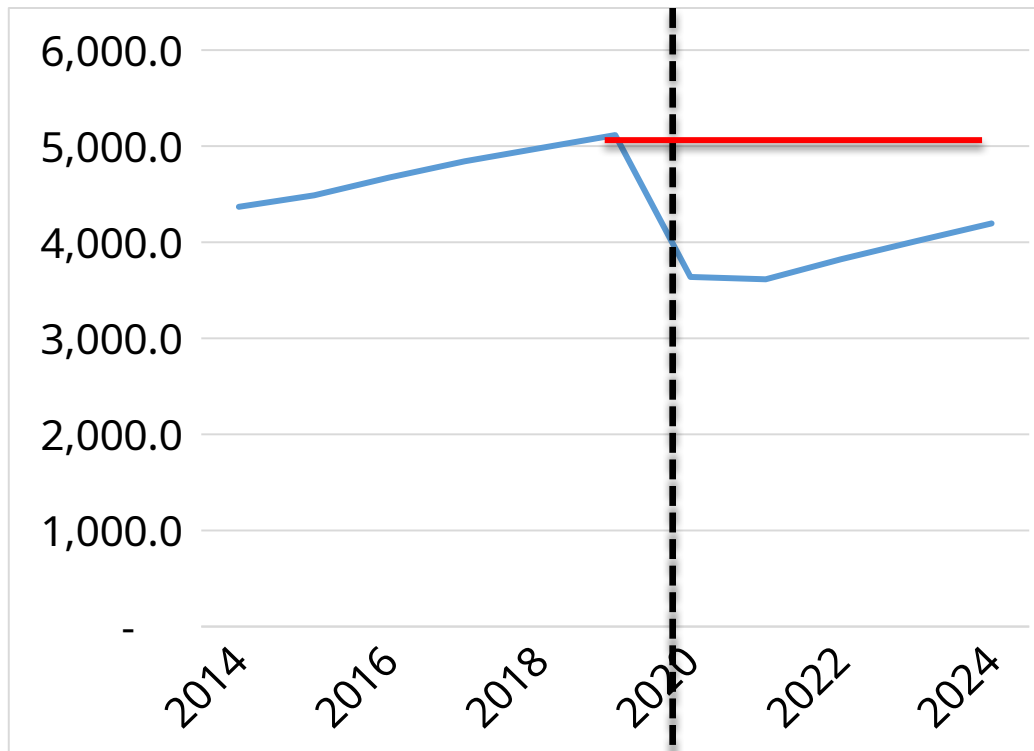
Tourism sector performance



- ❑ Accommodation and food services + travel agencies + air travel used as a proxy for tourism sector
- ❑ One of the highest performing sectors of the economy
- ❑ But contribution to growth remains weak
- ❑ ...with slowing growth over the past years



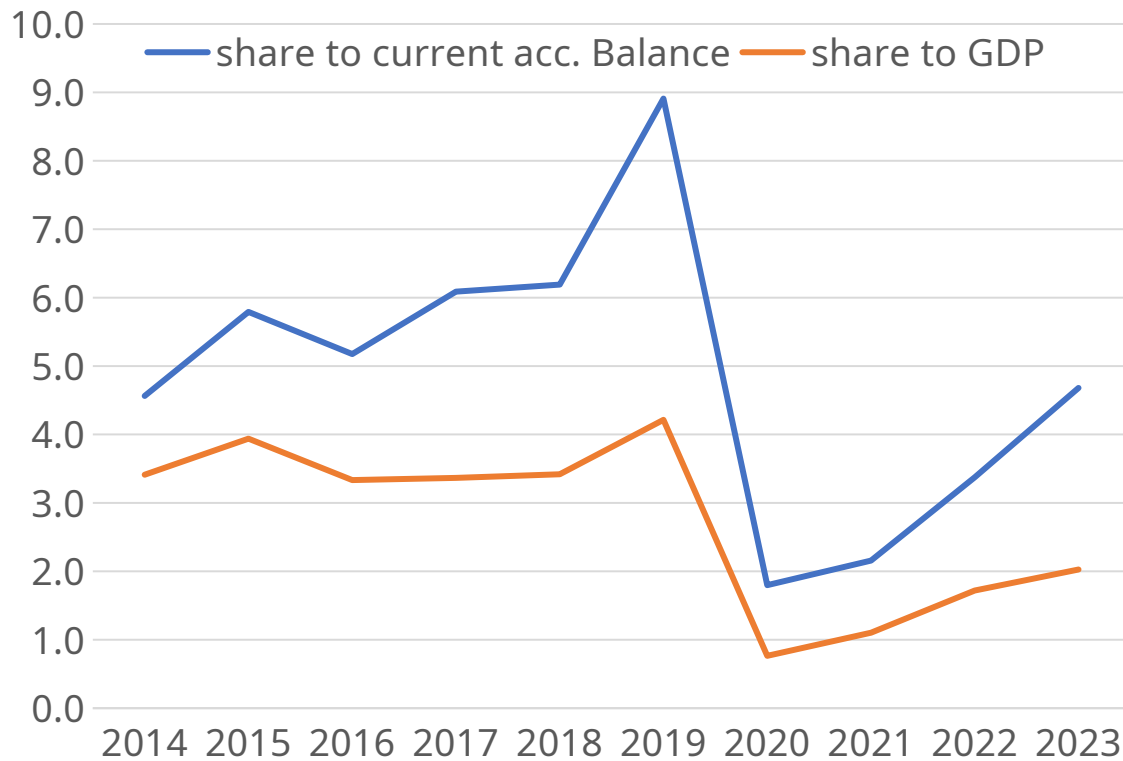
Tourism sector performance



- ☐ The sector has not yet recovered from the scarring effects of COVID-19
- ☐ Performance remains below pre-Crisis levels



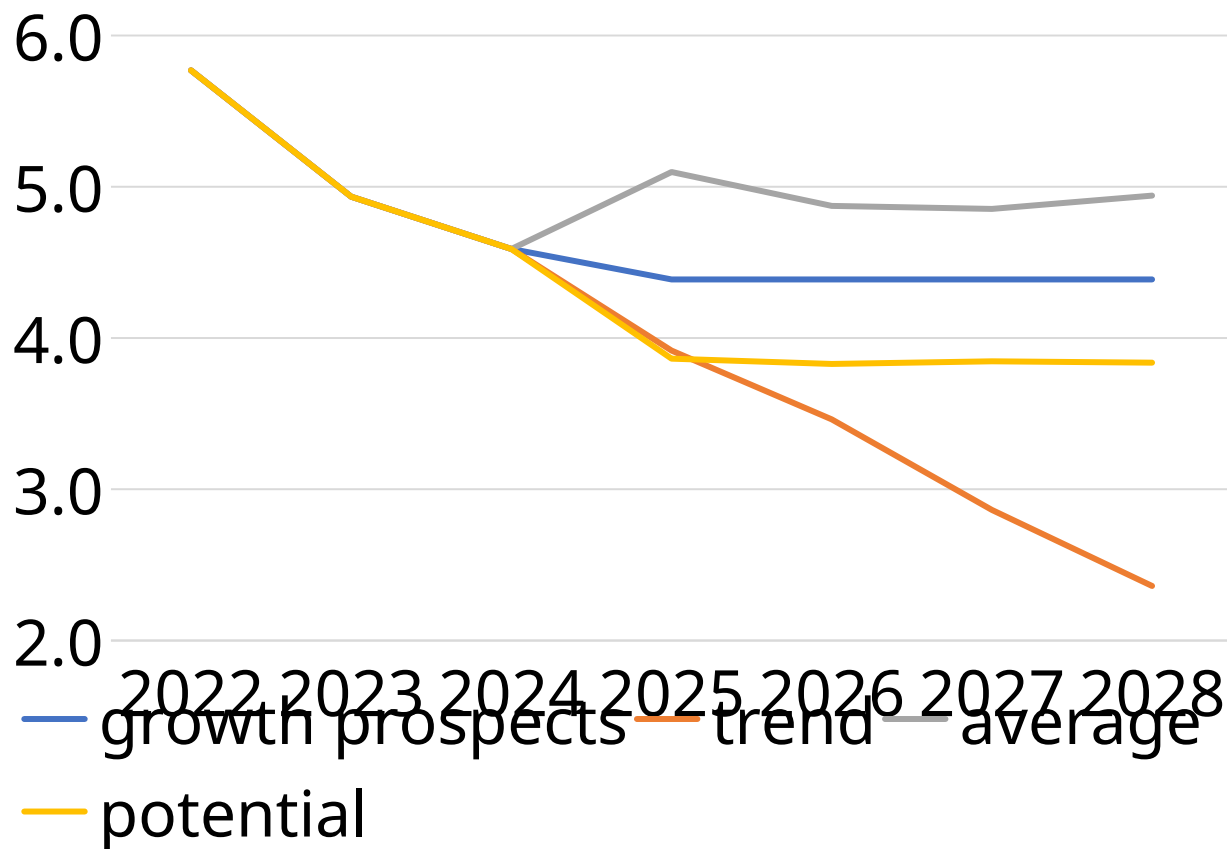
External position vs ROW (Travel)



- ❑ Scarring effects of COVID-19 also noticeable within travel services
- ❑ Performance remains below pre-Crisis levels



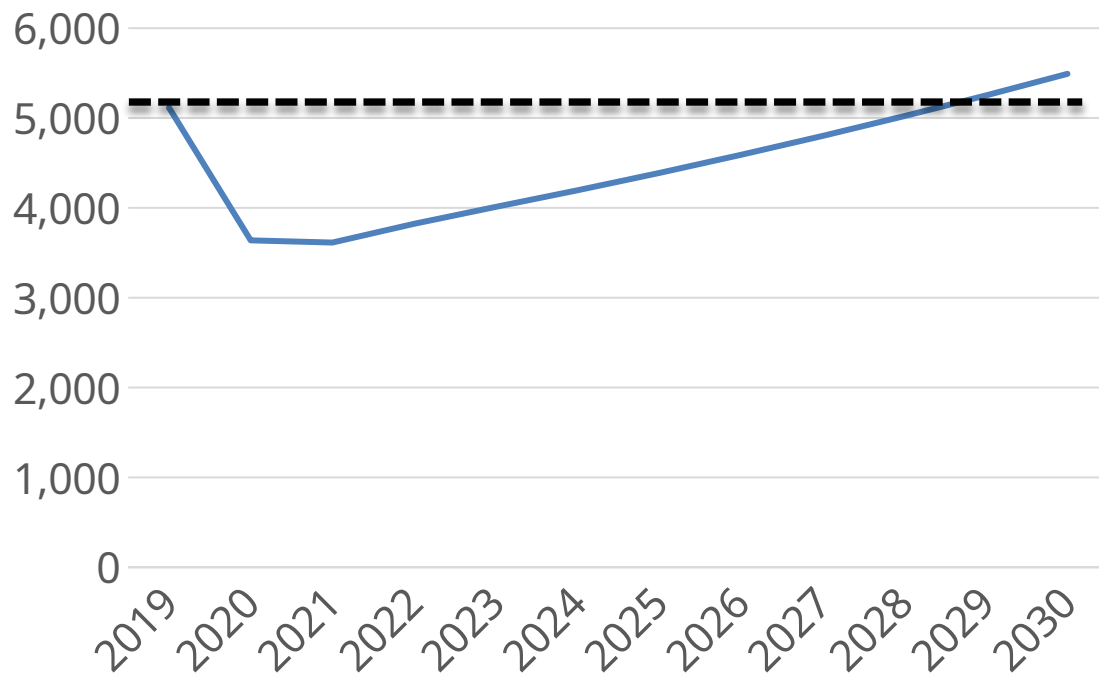
Tourism Prospects



- ☐ Prospects remain broadly stable and positive
- ☐ Growth anticipated to remain above potential
- ☐ But this remains low with room for much higher growth prospects



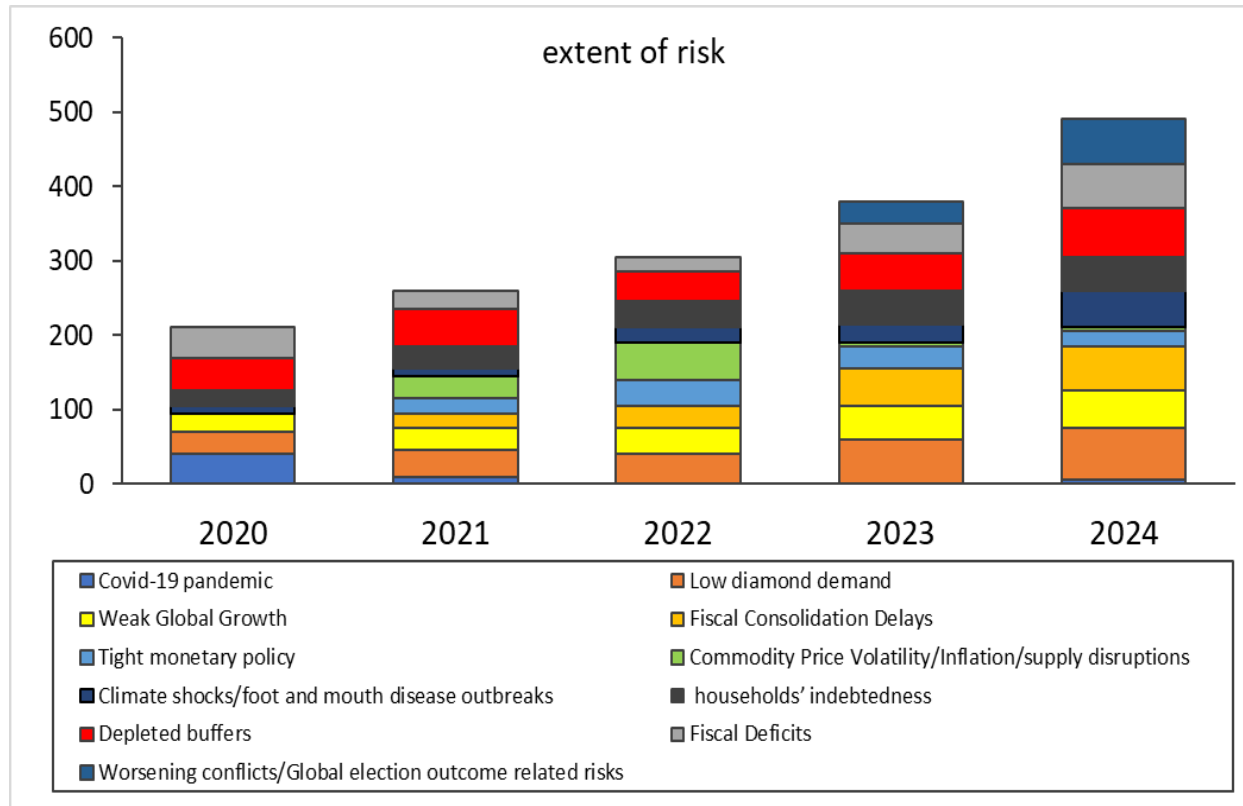
Tourism Prospects



- ☐ A prolonged V-shaped recovery anticipated
- ☐ The sector is not anticipated to recover to its pre-COVID levels at least until 2029



Macro-fiscal risks gradually building up



- Despite recovery from COVID-19 and recent commodity price shocks, other risks to the domestic economy have been gradually building up.
- The main risks are related to:
 - uncertainty in the diamond industry
 - Weak global growth
 - depleted buffers
 - widening fiscal and current account deficits
 - steadily rising debt levels.
 - Global Trade Wars



AGENDA FOR REFORM: BUILDING AN INCLUSIVE AND DEEP ECONOMY

Phase 1

Halting the financial haemorrhaging in Government

- ✧ Drive revenue maximisation and collection..
- ✧ Strengthen oversight and regulatory institutions to address structural and market barriers.
- ✧ Strengthen procurement model
- ✧ Transform Government machinery.

Phase 2

Stabilization and preparation for take-off

- ✧ Financial partner and Investor Framework.
- ✧ Transforming SOEs into high performance organizations
- ✧ Successful conclusion of De Beers Group negotiations.

Phase 3

Initial tangible steps of change

- Diversify the economy (tourism, manufacturing, information technology).
- Revamp low-income housing programme.
- Ramp up capacity to execute mega projects
- Energy Sector a key driver for diversification

Phase 4

Building a New Botswana

- Transform Creative Industry and Agriculture sector.
- Creation of Sovereign Wealth Fund and National Fund of Funds.
- Research and Development.

