

AFRICA RISK CONSULTING

Botswana Monthly Briefing May 2023

Botswana Summary 9 May 2023

The monetary policy tightening cycle embarked on by the Bank of Botswana in 2022 appears to have come to an end as the central bank keeps interest rates on hold for the second consecutive time in 2023. The value of rough diamond sales by Debswana Diamond Company was flat in the first quarter of 2023 compared to the same period last year as the market take on a more cautious approach in view of global macroeconomic conditions. The base metals mining industry is on a strong rebound as Australia's Sandfire Resources starts to commission its new copper mine in the Kalahari Copperbelt. Botswana reclaims its spot as the most attractive mining destination in Africa and tenth in the world in the latest survey conducted by authoritative Canadian mining think-tank, Fraser Institute.

Central bank policy tightening cycle ends with inflation outlook benign

The **Bank of Botswana's (BoB)** (central bank) Monetary Policy Committee (MPC) held the monetary policy rate at 2.65% at its meeting on 28 April, the second consecutive time this year, citing a favourable inflation outlook and the need to support the economy.¹ The maintenance of the rate appears to be the end of the policy tightening cycle of 2022 that saw interest rates increased by a cumulative 151 basis points.

Inflation decreased from an average of 12.6% in the fourth quarter of 2022 to an average of 9.4% in the first quarter of 2023 but remained above the central bank's medium-term objective range of 3-6%. The inflation forecast for 2023 has now been revised downwards from the projections made in February due to some benign factors, although the bank did not give a specific new forecast for the year .

The decrease in inflation so far is due to the base effects associated with the increase in administered prices in the corresponding period in 2022 as well as the impact of the downward adjustment of domestic fuel prices in the first quarter of 2023.² The central bank projects that, while it will fluctuate, inflation will trend downwards and fall within the objective range in the second quarter of 2024.

The projected decrease in inflation in the medium term is also due to the expected decrease in global inflation and international commodity prices, as well as the projected appreciation of the pula against the **South African** rand. The rand makes up 45% of the basket of currencies that the pula is fixed to, and with headwinds facing the South African economy expected to weaken the rand, Botswana sees reduced imported inflation from its largest trading partner due to its stronger currency.

As the central bank projects a favourable inflation outlook, the business community's entrenched expectations of high inflation this year are also waning. The BoB's March 2023 **Business Expectations Survey**, published on 2 May, shows that businesses expect cost pressures to be subdued in the first quarter of 2023, attributable to the expected downward pressure on materials and transport costs, mainly due to relatively lower fuel prices.³ Nonetheless, the 100 business executives from 13 economic sectors sampled anticipate upward pressure on wages, mainly attributable to the expected increase in public sector wages in April 2023. The executive's

¹ [Reuters](#), 28 Apr 2023

² [Bank of Botswana](#)

³ [Bank of Botswana](#)

expectations of domestic inflation were lower compared to the previous survey, but are still above the bank's 3-6% objective range in both 2023 and 2024.

Debswana sales flat but De Beers less pessimistic about outlook

The value of rough diamond sales by **Debswana Diamond Company** was flat in the first three months of the year, dropping slightly by 1.4% to \$1.077 billion as weaker global macroeconomic conditions weighed on global demand for jewellery.⁴ This comes despite production increasing by 12% to 6.9 million carats. Debswana is jointly owned by the government and **De Beers**, a unit of **United Kingdom**-headquartered **Anglo-American**. De Beers takes up to 75% of Debswana production with the remaining 25% sold state-owned **Okavango Diamond Company (ODC)**.

Debswana diamond sales reached record highs in 2022 in a post-**Covid** recovery, but the market is seen correcting this year with headwinds facing the global economy. Debswana registered an 8% growth in output in 2022 to 24.1 million carats while sales reached record levels jumping 32% as Western buyers shunned **Russian** stones.⁵ The 2023 results have induced cautiousness along the value chain, with miners, manufacturers, jewellers, and retailers expecting a slow year.

The finance ministry authorities also predicted in March that the mining sector will stagnate at 0% growth in 2023 from a growth rate of 8,2 % in 2022 largely due to the softening in global macroeconomic conditions which could see a contraction in consumer spending and weaker demand for diamond jewellery.

However, notwithstanding seeing a subdued second half of 2022 and lower sales in its first two sales sights of the year, De Beers saw positive sentiment return in the third cycle of the year with the company saying it is less pessimistic than it was in December on the industry outlook.⁶ De Beers' first sales cycle of 2023 stood at \$454m, a drop of 31% from the corresponding period last year, while the second sight was down 24% to \$497m, but sales of \$540m in its third sales cycle held in **Gaborone** from 27 March to 11 April was only 4% lower than the same period last year. This was due to increased demand from one of its key markets, **China**, reopening after stringent Covid-19 protocols.

Diamonds provide Botswana with 30% of its annual revenues and over 70% of its foreign exchange earnings and the country is looking for a greater share of the mineral's earnings through a higher allocation of production from Debswana. De Beers and Botswana are renegotiating a sales agreement due to expire next month, with President **Mokgweetsi Masisi** (2018-present) having come out to say his government wants the 25% allocation to ODC significantly increased as the country believes it can earn more revenue from selling more diamonds independently from De Beers.

Base metals strong rebound as Sandfire open new copper mine

Australia's **Sandfire Resources** is in the process of commissioning its **Motheo** copper mine with the capacity to produce 3.2 million tonnes of ore and 60, 000 tonnes of copper per annum, establishing the **Kalahari Copperbelt** as a major new long-term copper mining hub.⁷ Sandfire's **Motheo** mine is the second copper mine to be developed in the **Kalahari Copperbelt** with **United States**-based **Cupric Canyon** having started production at its 3.6 million tonnes per annum **Khoemacau** copper mine at the end of June 2021.

Sandfire expects shipments to the market mid-year and thereafter the company will work to expand its production capacity to 5.2 million tonnes per annum and move to expand the production through a new processing plant and a new open pit mine.

The BoB's latest data shows that the value of copper and nickel exports tripled in 2022 to reach P3.9 billion (\$300m) with the value of base metal exports progressively growing across all quarters last

⁴ [Reuters](#), 28 Apr 2023

⁵ [Mmegi](#), 3 Feb 2023

⁶ [Sunday Standard](#), 17 Apr 2023

⁷ [Sandfire](#), 27 Apr 2023

year, starting at P653.4 million (\$50.3m) in the first three months of the year and ending the last three at P1.2 billion (\$92.3m).⁸

The trend supports other data indicating that much of the performance last year was due to Khoemacau copper mining, which spent 2022 ramping up to its nameplate output capacity of 65,000 tonnes per annum.

While Sandfire is looking to spend an additional \$72m to expand its Motheo mine, Khoemacau is also progressing technical studies into a \$700m expansion which will double copper output to 130,000 tonnes by 2026, a figure that would put Botswana within the top 30 copper producers in the world. Built for \$412m, Khoemacau is currently the country's sole producer of copper, as efforts are ongoing to resuscitate **BCL** mines and the **Mowana** operation, now known as **Kopano Copper Mine**.

Over its initial 12.5-year mine life, the Motheo mine is projected to deliver royalties to the government totalling \$70m and corporate income tax of over \$200m. The emerging copper belt buoyed by rising international copper prices will also help Botswana to diversify beyond its mainstay diamond mining.

... as Botswana reclaims spot as Africa's top mining investment destination

The **Canadian** think tank, the **Fraser Institute**, published its annual survey of mining companies on 4 May, with Botswana reclaiming its spot as the top mining investment destination in **Africa** as investors improved their perception of the country's policies. Botswana also ranks as the tenth most preferred mining jurisdiction in the world.⁹ The survey is an attempt to assess how mineral endowments and public policy factors such as taxation and regulatory uncertainty affect exploration investment.

Botswana, a perennial top performer in the annual survey, was dislodged to ninth position in Africa in the 2021 survey with countries such as **Morocco**, **Liberia**, and **Ghana** ranked higher, as investors were weary of the country's policies in protecting the environment, political stability as well as infrastructure concerns. The ongoing feud between Masisi and his predecessor **Ian Khama** (2008-2018) could be attributed to the deterioration of the political stability perception by investors in the 2021 survey.

The survey was circulated electronically to approximately 1,966 individuals between 23 August to 30 December 2022. Survey responses were tallied to rank provinces, states, and countries according to the extent that public policy factors encourage or discourage mining investment. An overall Investment Attractiveness Index (IAI) is constructed by combining the Best Practices Mineral Potential Index (BPMOI), which rates regions based on their geologic attractiveness, and the Policy Perception Index (PPI), a composite index that measures the effects of government policy on attitudes toward exploration investment.

A total of 62 mining jurisdictions were surveyed this year and Botswana's posted an IAI score of 82.75 points out of 100 to become the tenth most attractive mining destination in the world. In the last survey, Botswana's IAI had dropped to 48.61 points from 81.48 points in 2020 with its rank dropping to position 66 out of 84 countries surveyed in that year.

On policy, Botswana is the highest-ranked jurisdiction in Africa and the second-highest in the world. Botswana's increase in its PPI score (23 points) reflects decreased concerns over uncertainty concerning protected areas, infrastructure, political stability, labour regulations and employment agreements.

The decrease in uncertainty over protected areas may be attributed to the government's concerted effort to assure the global community that there is no oil drilling happening in the **Okavango Delta**, a

⁸ [Mmegi](#), 19 Apr 2023

⁹ [Fraser Institute](#), 4 May 2023

United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage site, or within its buffer as has been alleged by some environmentalists.¹⁰ The rise in perception of political stability in this year's rankings could be attributed to investors' becoming less weary about the political landscape in the country.

Planner

15 Jun **Gaborone (Botswana)** Monetary Policy Committee (MPC) meeting
 Jun 2023 **Gaborone (Botswana)** End of current **De Beers**-government diamond sales deal;
 July 2023 **Gaborone (Botswana)** 15th **United States-Africa** Business Summit;
 Nov 2023 **Gaborone (Botswana)** 2023/24 supplementary budget
 2024 **(Botswana)** Presidential elections.

Chronology

8 May 2023 **Gaborone (Botswana)** *Mmegi*. **BotswanaPost** is amongst 15 postal services recognised for best-implemented quality of service projects at the **Universal Postal Union** conference in **Berne (Switzerland)**;

4 May 2023 **Gaborone (Botswana)** *Mmegi*. **Statistics Botswana's** latest data shows that by December, the country had 1.8 million mobile money subscriptions, up from 1.65 million in December 2022;

2 May 2023 **Gaborone (Botswana)** *The Monitor*. Former president **Ian Khama's Botswana Patriotic Front (BPF)** party held its national conference and extraordinary conference on the 29 and 30 April where the party decided to formally join the **Umbrella for Democratic Change (UDC)** for the 2024 general election;

2 May 2023 **Bern (Switzerland)** *Swissinfo*. President **Mokgweetsi Masisi** holds political talks with Swiss interior minister **Alain Berset**, economics minister **Guy Parmelin** and foreign minister **Ignazio Cassis** during a state visit. A memorandum of understanding on future cooperation between the two countries was signed with health at the centre of Switzerland's bilateral cooperation with **Botswana**;

27 Apr 2023 **Gaborone (Botswana)** *Mmegi*. **Botswana** bids to host the 2027 **Confederation of African Football (CAF)**;

27 Apr 2023 **Gaborone (Botswana)** *Daily News*. The **Zambezi Watercourse Commission (ZAMCOM)** launches the **Programme for Integrated Development and Adaptation to Climate Change in the Zambezi River Basin** programme aimed at ensuring available resources in the eight countries, including **Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zambia** and **Zimbabwe**, are sufficient to match demand;

25 Apr 2023 **Gaborone (Botswana)** *Daily News*. Botswana hosts the **Forbes 30 under 30** summit with the participation of **Kenya's** vice president **Rigathi Gachagua** and **Namibia's** deputy president **Nangolo Mbumba**;

25 Apr 2023 **Maun (Botswana)** *tsodiloresources.com*. Maun high court hears arguments over a case in which **Canadian** company **Tsodilo Resources** is suing the government over a decision to not renew the company's iron ore prospecting license. Judgment will be delivered on 1 August;

21 Apr 2023 **Gaborone (Botswana)** *Mmegi*. **Serowe West** member of parliament, **Tshekedi Khama**, who is the brother of former president **Ian Khama**, has been disqualified as a legislator

¹⁰ [Sunday Standard](#), 1 May 2023

after missing two consecutive sittings of the **National Assembly**. Tshekedi Khama has been living in **South Africa** with his brother who fled the country in November 2021;

21 Apr 2023 **Gaborone (Botswana) Mmegi**. The **United States International Trade Commission (USITC)** finds that **Botswana** has the continent's lowest exports under the **African Growth and Opportunities Act (AGOA)** with the country's utilisation of the trade arrangement falling from 100% to 0%;

21 Apr 2023 **Gaborone (Botswana) Mmegi**. **International Monetary Fund (IMF)** lowers Botswana's growth prospects for 2023 to 3.7% from a forecast of 4% in October 2022;

21 Apr 2023 **Gaborone (Botswana) Sunday Standard**. Minerals and energy minister, **Lefoko Moagi**, tells parliament that state-owned **Botswana Power Corporation (BPC)** earned P113m (\$8.7m) in power exports for the financial year 2022/2023, significantly higher than P38.5m (\$2.9m) earned in 2018, the last time BPC exported electricity;

19 Apr 2023 **Gaborone (Botswana) Mmegi**. **Bank of Botswana** data shows exports of copper and nickel reached P3.9 billion (\$300m) in 2022, more than three times their level in 2021, as the industry powered back to life following years of no production;

18 Apr 2023 **Gaborone (Botswana) Daily News**. Foreign affairs ministry appoints author and veteran journalist **Andrew Sesinyi** as Botswana's high commissioner to **Kenya**, effective May;

17 Apr 2023 **Gaborone (Botswana) Mmegi**. **Alliance for Progressives (AP)** announces a decision to withdraw from cooperation talks with the **Botswana Congress Party (BCP)** and the **Botswana Labour Party (BLP)** ahead of the 2024 general elections. The three parties were expected to form an alliance and challenge the **Umbrella for Democratic Change (UDC)** coalition for the position of the country's biggest opposition party;

17 Apr 2023 **Gaborone (Botswana) Sunday Standard**. **Bank of Botswana** data shows the **Government Investment Account (GIA)**, which represents a portion of the country's foreign reserves that belong to the government, rose significantly from P9.5 billion (\$730.7m) in 2021 to P14.3 billion (\$1.1 billion) in 2021. Total foreign reserves reached P54.5 billion (\$4.2 billion) at the end of 2022, slightly lower than the opening balance of P58.3 billion (\$4.48 billion);

14 Apr 2023 **Gaborone (Botswana) Mmegi**. **New World Wealth's Africa Wealth Report** indicates that while the number of US dollar millionaires in Botswana dropped by 10% in the last decade, the country is expected to experience one of the continent's strongest growth rates of high-net-wealth individuals in the next 10 years;

14 Apr 2023 **Gaborone (Botswana) Mmegi**. Consultants advise **Canada's Premier Nickel Resources** to budget \$749,750 for various geological studies that will gauge the economic potential of establishing an open pit mine at the **Selkirk Mine**;

6 Apr 2023 **Gaborone (Botswana) Mmegi**. State-owned **Botswana Oil** holds meetings with **United States** entities as it tests investor appetite for its \$2.5 billion Coal to Liquids project, which is due to be developed with private capital. Botswana Oil expects that the envisaged plant could produce 12,000 barrels of oil per day or up to 80% of the country's annual fuel demand of 1.2 billion litres;

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