

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing July 2024

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#### Botswana Summary 4 July 2024

*Statistics Botswana reports on 28 June that real gross domestic product (GDP) contracted by 5.3% in the first quarter of the year largely due to lower production and trading of diamonds. The Bank of Botswana (central bank) Monetary Policy Committee (MPC) cuts the key Monetary Policy Rate (MoPR) by 25 basis points to 2.15% in a bid to boost economic activity. Minerals and energy minister Lefoko Moagi says on 12 June that Botswana and United Kingdom-based De Beers are set to sign a final new sales and marketing deal by mid-July*

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#### Real GDP shrink on diamond market headwinds

**Statistics Botswana** announced on 28 June that real gross domestic product (GDP) fell by 5.3% in the first quarter of the year, the biggest economic contraction since the **Covid-19** pandemic largely due to lower diamond production and trading. In the same period in 2023, the economy grew by 5.3%.

Diamond trading fell by 46.8% in the first quarter, as sales from **United Kingdom (UK)**-headquartered **De Beers** continue to be sluggish. De Beers holds ten sales in a year in **Gaborone**.<sup>1</sup> De Beers confirmed on 26 June that proceeds from its fifth rough-sales cycle of the year continued to fall, totalling \$315m in June, down 31% from \$412m recorded in the same period in 2023. This figure is 18% lower than the \$383m the company reported at its May cycle and 29% lower than April's total of \$406m. De Beers still expects the market to take a few years to recover, with the slowdown continuing in the short term.<sup>2</sup> Sales at De Beers and the government's joint venture, **Debswana Diamond Company (Debswana)**, also fell by 48.3% in the first quarter.<sup>3</sup>

Mining production was also down 24.8% in the period largely due to lower diamond output. Diamond production in carats decreased by 27.3% primarily due to production configuration changes implemented at Debswana. The configuration changes were in response to higher-than-average inventory levels in the market.<sup>4</sup>

Gold was also lower as the **Mupane Gold Mine** continues to experience challenges with its mining schedule following the termination of the contract service for the extraction company. Coal production also decreased as the state-owned **Botswana Power Corporation (BPC)** required less coal due to the **Morupule B** power plant remediation. The mining sector overall contributes to a third of national output and between 30% and 40% of revenues. Mining is also responsible for 75% of foreign exchange earnings. Other economic sectors that shrank in the period included water and electricity and manufacturing, which contracted by 10.7%, and 0.8% respectively.

In February, finance minister **Peggy Serame** projected the country would expand by 4.2% from 2.7% in 2023, supported by expectations of an improved performance in the diamond sector.<sup>5</sup> However, Botswana is unlikely to attain its projected growth due to unfavourable global economic conditions, geopolitical events, and domestic structural constraints. At this point, authorities will be forced to revise their 4.2% growth forecast for the year.

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<sup>1</sup> Bloomberg, 28 June 2024

<sup>2</sup> Rapaport, 26 Jun 2024

<sup>3</sup> Reuters, 31 May 2024

<sup>4</sup> Bloomberg, 28 June 2024

<sup>5</sup> Reuters, 18 Jun 2024

### ...as central bank cuts key rate to boost flagging economy

At a meeting on 13 June, the **Bank of Botswana (BoB)** (central bank) **Monetary Policy Committee (MPC)** reduced the **Monetary Policy Rate (MoPR)** by 25 basis points from 2.4% to 2.15% citing that the benign inflationary outlook allowed for an expansionary policy.<sup>6</sup> Headline inflation was 3.1% in April before it lowered slightly to 3% in May, and it is projected to remain within the objective range of between 3% and 6% into the medium term.

The economy is expected to operate below full capacity in the short term and, therefore, not generate demand-driven inflationary pressures with MPC forecasting an annual inflation rate of 3.6% in 2024 and 4.5% in 2025. Similarly, businesses also expect inflation to be within the medium-term objective range; thus, inflation expectations are aligned with the inflation objective.<sup>7</sup>

The cut in the key lending rate is expected to boost credit growth through lower borrowing costs for both households and businesses. The MPC observed that inflation could be higher than projected if international commodity prices increase beyond current forecasts, supply and logistical constraints persist and geoeconomic fragmentation escalates.

Furthermore, inflation may be heightened by possible upward adjustments in prices controlled by the government (administered prices) that are not factored in the current projection and any increase in domestic food prices due to the prevailing **El Niño**-induced drought conditions in southern Africa. However, these upside risks are offset by the possibility of weaker domestic and global economic activity, as well as any decrease in international commodity prices.

The central bank's expansionary monetary policy is expected to support the government's equally expansionary fiscal policy adopted through a stimulus budget.<sup>8</sup> Serame announced this stimulus budget in February which proposed spending over P100 billion (\$7.41 billion) for the first time in the country's history with significant investments earmarked for infrastructure development in the roads, water, energy and agriculture sectors (*see ARC Briefing Botswana Feb 2024*).

### De Beers deal set to be signed this month

Minerals and energy minister **Lefoko Moagi** told attendees of the **Future of Mining Summit** on 12 June that government and De Beers will sign its final new sales and marketing deal by mid-July, marking the end of protracted negotiations. The deal was placed in the spotlight again when De Beers' parent company, UK-based **Anglo American**, announced on 14 May it would sell or demerge the diamond company.<sup>9</sup>

After a drawn-out negotiating process, De Beers and Botswana eventually agreed on an in-principle deal last June with the heads of the agreement signed in September (*see ARC Briefing Botswana Jul 2023*). The signing of the final agreement will pave the way for the country to immediately start enjoying the benefits of the new terms. Under the terms of the new deal, Botswana will get a higher allocation of rough diamonds from Debswana to state-owned **Okavango Diamond Company (ODC)** and a \$750m investment by De Beers into other economic sectors over the next ten years.<sup>10</sup> Immediately after signing the deal, ODC's share of Debswana will rise from 25% to 30% and De Beers will also deposit \$75m into the development fund for investments into other economic sectors.

Botswana is also looking to increase its stake in De Beers, which is currently 15%, once Anglo puts up the shares for sale. President **Mokgweetsi Masisi** (2018-present) told attendees of **the Jewelers**

<sup>6</sup> Mmegi, 17 Jun 2024

<sup>7</sup> CNBC Africa, 13 Jun 2024

<sup>8</sup> Reuters, 5 Feb 2024

<sup>9</sup> Africa Intelligence, 20 Jun 2024

<sup>10</sup> Bloomberg, 1 Jul 2024

**Circular Keystone (JCK)** trade show on 6 June that De Beers derives 70% of its value from Botswana and it would only be logical if the country were to take up more shareholding in the company.<sup>11</sup>

However, Botswana would need a mining company to partner with in the transaction to replace Anglo as a technical partner, but not too many mining giants are interested in diamond mining at the moment due to the headwinds the industry is facing.

Another option that has been touted is that in the absence of an interested buyer, Anglo might seek to list De Beers through an **Initial Public Offer (IPO)**, preferably on the UK's **London Stock Exchange (LSE)**. In February 2024, Anglo announced a \$1.6 billion write-down of De Beers' book value, and the company is now valued by its owner at \$7.6 billion.<sup>12</sup> The government, which has seen its revenues dented by the 2023 diamond market weakness, might not have enough resources to take up a significant shareholding in De Beers. However, it could facilitate resources from the country's cash-flush pension funds.

### Planner

20 – 21 Jul 2024 **Gaborone (Botswana)** **Botswana Democratic Party** primaries  
 22 Aug 2024 **Gaborone (Botswana)** Monetary Policy Committee (MPC) Meeting  
 Oct 2024 **(Botswana)** General elections.  
 Dec 2024 **Gaborone (Botswana)** Supplementary Budget

### Chronology

3 Jul 2024 **Gaborone (Botswana)** *Daily News* President **Mokgweetsi Masisi** says **Botswana Oil** has initiated discussions with **Namibia Petroleum Corporation** to explore the possibilities of establishing shared oil storage facilities in **Walvis Bay**;

2 Jul 2024 **Gaborone (Botswana)** *Sunday Standard*. Hundreds of businesses are feared to be on the brink of collapse while thousands of job losses are imminent due to late payments from the government caused by the prolonged operational glitches of the **Government Accounting and Budgeting System (GABS)**;

1 Jul 2024 **Gaborone (Botswana)** *Daily News*. President **Mokgweetsi Masisi** embarks on a working visit to **Namibia** from 2 – 5 July at the invitation of his counterpart, **Nangolo Mbumba**;

1 Jul 2024 **Gaborone (Botswana)** *Mmegi*. Court of appeal rules that the **Directorate of Intelligence and Security (DIS)** broke the law in 2022 when it took over and barricaded the offices of the corruption-busting agency, the **Directorate on Corruption and Economic Crime (DCEC)**;

1 Jul 2024 **Gaborone (Botswana)** *Mmegi*. The **Bank of Botswana** (central bank) is redoubling its efforts to attract foreign investors for the government's P55 billion (\$4.1 billion) domestic debt programme and has started talks with international payments and settlements platforms to ease the transactions;

28 Jun 2024 **Gaborone (Botswana)** *Mmegi*. The **Mercer 2024 Cost of Living Index** ranks Gaborone as one of the world's cheapest cities in the world to live in, taking into account the cost of food, transport, and accommodation;

28 Jun 2024 **Gaborone (Botswana)** *Defenseweb*. The **United States** delivers a **C-130H Hercules** cargo aircraft to Botswana to enhance the country's ability to support military,

<sup>11</sup> Reuters, 6 Jun 2024

<sup>12</sup> JCK Online, 22 Feb 2024

humanitarian, and emergency response missions in a handover that coincided with the **Africa Chiefs of Defence Conference** held in Gaborone;

25 Jun 2024 **Gaborone (Botswana)** *Daily News*. President **Mokgweetsi Masisi** opens the **African Chiefs of Defence Conference**, expressing concern over the prevalence of military coups in Africa and highlighting the challenges they pose to civilian-led democratic governance;

25 Jun 2024 **Gaborone (Botswana)** *Daily News*. **United Kingdom**-based **Anglo American** CEO **Duncan Wanblad** visits President **Mokgweetsi Masisi** to discuss the future of the company's unit, **De Beers**, which is being put up for sale;

24 Jun 2024 **Gaborone (Botswana)** *Daily News*. The **Economic Committee of Cabinet (ECC)** meets to examine key proposed laws due to be tabled before parliament, including the **Public Service Bill, Employment and Labour Relations Bill**, the re-enactment of the **Electronic Services and Transactions Bill** and the **Medical Aid Funds Bill**;

23 Jun 2024 **Gaborone (Botswana)** *Daily News*. President **Mokgweetsi Masisi** says Botswana will compile and submit for consideration a bid to host a conference of the **Convention on International Trade in Endangered Species on Wild Fauna and Flora (CITES)** in efforts to further put the country's wildlife conservation story across;

21 Jun 2024 **Gaborone (Botswana)** *Mmegi*. **African Export-Import Bank**, the continent's primary trade finance institution, says it is still open to extending credit to Botswana despite the failure of negotiations for a \$1.5 billion funding package in 2022;

21 Jun 2024 **Gaborone (Botswana)** *Mmegi*. **Swiss-based Institute of Management Development's (IMD)** latest global competitiveness ranking ranks Botswana's comparative competitiveness four notches higher to position 55, the highest-ranked African country;

18 Jun 2024 **Paris (France)** *Daily News*. President **Mokgweetsi Masisi** participates in the launch of the **Africa Vaccine Manufacturing Accelerator (AVMA)** programme, also holding bilateral talks with his French counterpart **Emmanuel Macron**;

18 Jun 2024 **Gaborone (Botswana)** *Reuters*. **Debswana Diamond Company** reports a fatality at its **Jwaneng** mine following an accident involving a crane and drill rig;

14 Jun 2024 **Gaborone (Botswana)** *Mmegi*. **Canada-based Premium Nickel Resources Limited (PNRL)**, which is overseeing the revitalisation of **BCL Ltd** assets, exceeded its P148.2m (\$10.9m) fundraising goal, securing P271.8m (\$20.1m) to revive mining operations;

14 Jun 2024 **Gaborone (Botswana)** *Mmegi*. **Ethiopian Airlines** makes its first flight between **Addis Ababa** and Botswana's tourism hub of **Maun**. The airline will fly the new route three times a week;

14 Jun 2024 **Gaborone (Botswana)** *Mmegi*. The **Botswana Defence Force (BDF)** and **Namibia Defence Force (NDF)** launch a joint **Civil Military Cooperation (CIMIC)** to curb cross-border crime;

13 Jun 2024 **Gaborone (Botswana)** *Daily News*. Transport and public works minister **Eric Molale** says the government plans to set up a dry port at **Mosetse** while awaiting the construction of a railway line from **Kazungula** to **Livingstone** in **Zambia**;

12 Jun 2024 **Gaborone (Botswana)** *Reuters*. **Chinese miner MMG Ltd** will invest \$700m to double production at Botswana's **Khoemacau** copper mine as part of a growth strategy to secure the critical metal;

10 Jun 2024 **Gaborone (Botswana)** *Mmegi*. Court of appeal orders that **Debswana Diamond Company** pay \$2.85m to **Liftoff Investments** following a contractual dispute between the two;

10 Jun 2024 **Gaborone (Botswana)** *Miningmx*. President **Mokgweetsi Masisi** tells a political rally that Botswana is in talks to increase its shareholding in **United Kingdom**-

headquartered **De Beers**, which would allow Botswana to play a central role in selecting a new investor at De Beers;

9 Jun 2024 **Gaborone (Botswana)** *Sunday Standard*. The **Botswana Energy Regulatory Authority (BERA)** announces that the prices of aviation fuel, including **Jet A1** and aviation gasoline, are no longer regulated as of 4 June marking the end of a regulatory era that began in October 2013;

6 Jun 2024 **Gaborone (Botswana)** *Daily News*. State-owned **Okavango Diamond Company (ODC)** becomes the first non-mining diamond company to join the **Natural Diamond Council (NDC)** to support the natural diamond industry and spread awareness of Botswana diamonds.

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