

AFRICA RISK CONSULTING

Botswana Monthly Briefing December 2024

Botswana Summary 10 December 2024

President Duma Boko's (2024-present) new administration faces a liquidity crisis as expenditure commitments far outweigh revenues, with the budget deficit set to more than double to 6.75%. The Bank of Botswana (central bank) reduces its Primary Reserve Requirements (PRR) from 2.5% to 0% in a bid to boost liquidity in the banking sector. United Kingdom-based De Beers says it has witnessed an unexpected jump in diamond sales over the holiday season as the company moves to finalise its long-delayed sales and marketing deal with Botswana.

New government highlights economic struggles

President **Duma Boko's** (2024-present) new administration is facing a liquidity crisis as expenditure commitments far outweighs revenues. The country's new finance minister and vice president **Ndaba Gaolathe** – a **United States (US)**-trained economist and finance expert - told legislators on 5 November that the government has been spending, particularly in the second half of this year, approximately P8 billion (\$592.5m) per month against receipts of only about P2 billion (\$148.1m) per month.¹ Gaolathe accused the previous administration of not reducing spending even when it became apparent that revenues from diamonds were seriously underperforming in the second half of 2023 and into 2024.

Most of the revenue decline is driven by the shortfall in mineral revenues, estimated to be P8.75 billion (\$648.1m) during the first half of the financial year. The 2024 budget was optimistic in its P25.05 billion (\$1.86 billion) mineral revenue projections and had high expenditure commitments, which were maintained even when savings in the **Government Investment Account (GIA)** were declining rapidly. As of September 2024, the GIA balance stood at only P1.2 billion (\$88m), compared to P12.6 billion (\$933m) in September 2023. The decline has been driven by low inflows compared to high outflows as the government continues to meet its statutory obligations while providing critical public goods and services, in the process reducing government's cash balances.²

Gaolathe also announced that **Debswana Diamond Company**, the mining joint venture between **United Kingdom**-headquartered **De Beers** and government, lowered its production guidance for 2024 from 23.8 million carats to 17.9 million carats. This is about a six million carats from what was projected at the beginning of the year. Diamond sales have been weak throughout 2024, despite a slight uptick over the holiday season (see below), suggesting that prospects remain uncertain in the short to medium term. Over the first nine months of 2024, diamond sales by De Beers were 40% lower than the equivalent period in 2023.

Resultantly, total real GDP is now projected to decline by -1.7 % in 2024, as compared to the 4.2% that was projected in the February 2024 budget speech. Gaolathe underscored that the projected growth may even be lower if downside risks to growth worsen.³ These risks include further disruptions in the diamond market, and extreme weather conditions including drought.

However, in the absence of any materialisation of these risks, Gaolathe anticipates growth to rebound in 2025 and move towards the medium-term potential growth rate of between 4% and 5%. This

¹ Daily News, 8 Dec 2024

² Bloomberg, 6 Dec 2024

³ Reuters, 6 Dec 2024

projection is in line with anticipated global recovery, particularly in the major markets for diamonds, and would be helped by continued growth in Botswana's non-mining sector.

With low revenues set against high spending plans, the 2024/25 budget is now seen posting a wider deficit of 6.75% of GDP, a sharp increase from the 2.8% projected in the February and well above the approved statutory threshold of 4% of GDP. The government is aiming to finance this shortfall through various sources such as the issuance of domestic government securities - bonds and treasury bills - as well as other possible borrowing from domestic and external markets.

Banking sector liquidity tightens

The **Bank of Botswana** (central bank) on 5 December reduced its **Primary Reserve Requirements (PRR)** from 2.5% to 0% in a bid to boost liquidity in the banking sector which has significantly tightened due to lower than usual government spending as national revenues weaken due to lower revenue.

The PRR is a monetary policy tool used to manage structural liquidity by way of requiring banks to hold a proportion of their deposits at the central bank. The PRR can be reduced in instances where there is a structural shortage in liquidity and vice versa, when there is structural excess liquidity.

Central bank governor **Cornelius Dekop** said liquidity in the banking sector has fallen from P20 billion (\$1.48 billion) in May 2024 to as low as P1.7 billion (\$125.9m) in early December as spending by the government, which is the biggest player in the economy, has significantly reduced due to lower diamond revenues.⁴

Due to the tight liquidity conditions in the sector, banks increased their lending rates, a development which goes against the accommodative monetary policy stance the central bank adopted at the start of the year. The bank adopted the accommodative monetary policy to boost the economy, but it has since reduced the monetary policy rate twice by a cumulative 50 basis points this year.

The reduction in the PRR will see the central bank release at least P3.1 billion (\$229.6m) to commercial banks for lending to their customers in a bid to boost economic activity. At its meeting, the central bank's **Monetary Policy Committee (MPC)** also decided to maintain the monetary policy rate at 1.9% as the economy is expected to operate below full capacity in the short term and recover marginally in the medium term, not generating demand-driven inflationary pressures.⁵

Headline inflation increased slightly from 1.5% in September to 1.6% in October 2024, remaining below the lower bound of the medium-term objective range of between 3% and 6%. The marginal increase in inflation was mainly due to the broad-based increase in food prices. The MPC forecasts inflation to remain low into the medium term, averaging 2.9% in 2024, 3.3% in 2025 and 4.9% in 2026. The MPC observed that inflation could be lower than projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international oil prices beyond current forecasts.

De Beers sees market rebound as it finalises deal with Botswana

Speaking at the **FACETS** diamond conference in **Antwerp (Belgium)** on 26 November, De Beers CEO **Al Cook** reported that early indications were that retail demand for diamond jewellery was better than the diamond giant had expected this season.⁶ Traditionally for De Beers, the period between thanksgiving in the **United States (US)** and the **Chinese New Year** in January, represents the strongest sales period for diamond jewellery. The diamond giant annually focuses its marketing efforts on this holiday season, spending upwards of \$100m annually to create demand.

⁴ Business Weekly, 6 Dec 2024

⁵ Reuters, 5 Dec 2024

⁶ Mmegi, 29 Nov 2024

For De Beers this year's holiday season marketing is more critical than ever as the broader natural diamond industry needs higher sales to reduce the glut in the retail market that has caused a prolonged downturn in the industry, forcing producers such as Botswana to sharply reduce output this year (see above).

Speaking after attending FACETS 2024, newly appointed minerals and energy minister **Bogolo Joy Kenewendo**, an economist who is a former trade and industry minister, said that it was only a matter of days before the government and De Beers sign the protracted diamond marketing deal between them. Signing the deal will go a long way in restoring relation between the two partners but also instil confidence on the global diamond market which has been weak for the past two years.⁷

Kenewendo also announced that following deliberations, the **G7** granted Botswana a diamond certification node, meaning that the country's diamonds will no longer have to pass through Antwerp for certification before they reach the markets. In a bid to stop diamonds mined in **Russia** from entering the bloc, the G7 this year put measures that would have seen all diamonds go through Antwerp for verification, backed by a new tracing system.

But Botswana and other producing countries and the mining companies in Africa rallied against the plans as they feared they would place a costly and administrative burden on them while also discouraging investments.⁸ The new measures, Botswana argued, will further disrupt the trade of natural diamonds by complicating supply chains, at a point when demand is already under heavy pressure.

In a joint statement released on 27 November, Botswana and the G7 diamond said a technical team is now working on a roadmap to address any identified gaps, aiming to have the export certification node fully operational in Botswana as soon as possible next year.⁹

2025 outlook

As Botswana's new government takes shape, 2025 will be a big test for the inexperienced administration as they take over an economy that is faced with significant cashflow, growth and employment challenges. The global diamond market's sharp downturn that started in 2023, and continued in 2024, is expected to spill over into 2025. The imminent signing of the new sales and marketing deal between De Beers and Botswana will be key but it remains to be seen if it will instil market confidence that can lead to a recovery in the global market.

Planner

Dec 2024 **Gaborone (Botswana)** Supplementary Budget
 3-6 Feb 2025 **Cape Town (South Africa)** Mining Indaba 2025
 Feb 2025 **Gaborone (Botswana)** 2025/26 National Budget Speech

Chronology

6 Dec 2024 **Gaborone (Botswana)** *Mmegi*. **United Kingdom**-headquartered **De Beers** says Botswana could have the industry's next mega-mine and under its soon-to-be-finalised deal with the government, it will be partnering with the state in local exploration.

6 Dec **Gaborone (Botswana)** *Mmegi*. State-owned **Botswana Oil Limited (BOL)** reports record revenue of P2.6 billion (\$192m) in the 2022/2023 financial year, an increase from the P570m (\$42.2m) achieved in the previous year, largely due to its lucrative partnership with **Debswana Diamond Company**;

⁷ Daily News, 1 Dec 2024

⁸ Reuters, 6 Feb 2024

⁹ Rapaport, 27 Nov 2024

6 Dec 2024 **Gaborone (Botswana)** *Mmegi*. Court of appeal sentences former permanent secretary to the president, **Carter Morupisi**, to seven years in prison on money laundering and corruption charges after he appealed an earlier conviction by a lower court that had only imposed a fine and suspended three-year sentence on him;

6 Dec 2024 **Gaborone (Botswana)** *Mmegi* The country's listed commercial banks are amongst the biggest gainers on the **Botswana Stock Exchange (BSE)** thus far this year, led by the local unit of **United Kingdom's Standard Chartered Bank**, whose share price had risen by 32.3% as at the end of November;

27 Nov 2024 **Gaborone (Botswana)** *Reuters*. **United Kingdom**-based lender **Standard Chartered Bank** announces that it is exploring a potential divestment of its wealth and retail banking operations in Botswana, **Uganda** and **Zambia** as the banking giant looks to free up capital amid a broad shake-up;

26 Nov 2024 **Gaborone (Botswana)** *Mmegi*. **Australia**-headquartered **Tlou Energy** says its 10MW **Lesedi project**, Botswana's first **gas-to-power** project, is over 90% complete, with the **Serowe** extension ready for commissioning;

26 Nov 2024 **Gaborone (Botswana)** *Daily News*. The **Botswana Congress Party (BCP)**, the main opposition party in parliament, unveils its shadow cabinet with party leader, **Dumelang Saleshando** indicating this will play a strong and effective oversight role on the ruling party;

25 Nov 2024 **Antwerp (Belgium)** *Daily News*. President **Duma Boko** arrives in **Antwerp** at the invitation of the **Antwerp World Diamond Centre (AWDC)** for a two-day working visit and to officiate the third edition of the international **2024 FACETS Diamond Conference**;

25 Nov 2024 **Gaborone (Botswana)** *Daily News*. Minister for state president, **Moeti Mohwasa** says there were ongoing reforms to transform the government to be more productive and it will prioritise amendments to the **Directorate of Corruption and Economic Crime (DCEC) Act** and the **Electoral Act**;

21 Nov 2024 **Gaborone (Botswana)** *Daily News*. **Botswana Unified Revenue Services (BURS)** says **Kazungula Bridge One Stop Border Post (OSBP)** collects a total of over P266m (\$19.7m) this year a 19.9 % increase from the prior period;

20 Nov 2024 **Harare (Zimbabwe)** *Daily News*. President **Duma Boko** attends the **Southern African Development Community (SADC) Extraordinary Heads of State and Government Summit** which is expected to deliberate on **Mozambique's** post-election violence and the ongoing conflict in the **Democratic Republic of Congo (DRC)**;

20 Nov 2024 **Gaborone (Botswana)** *Mmegi*. **Botswana Stock Exchange (BSE)** notes that activity in the traditionally quiet secondary bond market has ballooned this year, with a 66.7% increase in trades to P5 billion (\$370.3m) in the year to 31 October, compared to the same period last year;

20 Nov 2024 **Gaborone (Botswana)** *Daily News*. **Schweppes Holding Africa** managing director **Charles Msipa** says **Schweppes Zimbabwe Limited** is set to establish a citrus farm and juice processing business in Botswana within the next six months;

19 Nov 2024 **Gaborone (Botswana)** *VOA*. Anti-corruption protestors present a petition to trade minister **Tiroeane Ntsima**, urging government to prosecute former officials accused of looting public funds;

18 Nov 2024 **Gaborone (Botswana)** *Sunday Standard*. Botswana's cash balances have severely deteriorated, with government deposits held at the **Bank of Botswana** falling to a thirty-year low of P750m (\$55.5m) in September this year from P12 billion (\$888.8m) at the same time last year, according to the latest data from the central bank;

18 Nov 2024 **Gaborone (Botswana)** *Sunday Standard*. **Canada's Lucara Diamond Corp.** reports an 8% revenue decline in the first nine months of 2024, as the global **diamond** market grapples with weaker demand, with revenues falling to \$125.1m, down from \$136.1m in the same period last year;

18 Nov 2024 **Gaborone (Botswana)** *Sunday Standard*. **Statistics Botswana** reports annual inflation rate inched higher in October, reaching 1.6% from the 1.5% recorded in September;

18 Nov 2024 **Gaborone (Botswana)** *Daily News*. **Debswana Diamond Company** managing director **Andrew Motsomi** says that as the company's five-year strategy comes to an end this year, it will hold off implementing another long-term strategy due to the current depressed state of the global diamond market and will instead devise a transitional strategy;

15 Nov 2024 **Gaborone (Botswana)** *Mmegi*. Bidders participating in the government's P55 billion (\$4 billion) domestic debt programme are increasingly demanding higher rates of return, resulting in the last four auctions only raising 72% of the targeted funds;

14 Nov 2024 **Gaborone (Botswana)** *Reuters*. President **Duma Boko** appoints **Bogolo Joy Kenewendo** as minerals and energy minister as his new administration takes shape;

12 Nov 2024 **Gaborone (Botswana)** *Bloomberg*. **Jersey-based investment management firm Ocorian Ltd** says in its latest Africa family office report that Botswana's push to diversify its economy away from mining and into financial services positions it to compete with **Mauritius** as an African hub for high net-worth individuals and families;

11 Nov 2024 **Gaborone (Botswana)** *Reuters*. President **Duma Boko** says vice president **Ndaba Gaolathe** will double as finance minister, announcing the first ministerial positions in his cabinet;

8 Nov 2024 **Gaborone (Botswana)** *Mmegi*. The **International Monetary Fund (IMF)** maintains its projection that Botswana will experience 1% growth this year, as the recovery of diamonds from their slump takes longer than expected;

8 Nov 2024 **Gaborone (Botswana)** *Mmegi*. **Bank of Botswana** (central bank) announces that the government raised about three-quarters of the P3.7 billion (\$274.1m) in debt it was seeking from the capital market at the latest auction on 25 October, as funding costs rose across the notes and treasury bills on offer;

8 Nov 2024 **Gaborone (Botswana)** *BBC*. President **Duma Boko** announces that Botswana will legalise its large population of undocumented **Zimbabweans**, saying they are already in the country providing skilled work and need access to amenities;

7 Nov 2024 **Gaborone (Botswana)** *Mmegi*. **Bank of Botswana** (central bank) keeps its monetary policy rate unchanged at 1.9%, citing upside risks to the inflation outlook despite the economy operating below capacity;

6 Nov 2024 **Gaborone (Botswana)** *Sunday Standard*. In the twelve months to October 2024, the pula depreciated by 4.3% against the **South African** rand but strengthens by 0.9% against the **International Monetary Fund's (IMF) Special Drawing Rights (SDR)**. Within the SDR basket, the pula appreciated by 4 % against the **United States (US)** dollar, 2.1 % against the **Japanese** yen, and 0.2% against the euro, while declining against the **British** pound by 4.3 % and the **Chinese** Renminbi by 0.3 %;

5 Nov 2024 **Gaborone (Botswana)** *Mmegi*. **Canada's North Arrow** announces that it had successfully raised \$2.2m as part of earning a 60% equity interest in the **Kraaipan Gold Project** in the southern district of the country whose licences are held by **Rockman Resources**;

5 Nov 2024 **Gaborone (Botswana) Mmegi.** Botswana records a trade deficit for eleven straight months for the period from September 2023 to August 2024, as the value of imports continues to outweigh exports which have been significantly weakened by lower diamond sales;

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