econsult

ECONOMIC review

FIRST QUARTER JAN-MAR 2024

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COMMENTARY

HIGH STAKES IN 2024

Introduction

As we move through 2024, economic issues are increasingly dominated by the ongoing election cycle, in the lead up to the national election expected to be held in the fourth quarter of the year. This was evident in the 2024 Budget presented in February, which entails a large proposed boost in spending, notwithstanding uncertainties over revenues and the prospects for the diamond industry more generally. But it is also apparent in various policy initiatives, several of which seem focused on short-term populist measures rather than the long-term economic needs of the country and its population. At the same time, the reported economic growth rate of 2.7% for 2023 came in well below expectations, with both government and the IMF earlier projecting growth of 3.2% for the year. On a positive note, inflation has continued to decline, at a faster rate than had been expected, although this has partly been achieved by keeping fuel and electricity prices artificially low.

Diamonds

The diamond industry remains the main determinant of economic conditions in Botswana, given its contribution to economic output (GDP) and hence growth, government revenues and the balance of payments. As pointed out in the previous Review, the global diamond industry finished 2023 struggling under the weight of three adverse developments: competition from synthetic (lab-grown) diamonds, increasingly penetrating core diamond markets; sluggish economic recovery in China; and the disruptive impact of proposed measures to be implemented by the G7 countries to enforce sanctions against Russian diamond sales.

Fortunately, there has been some recovery from the dire position that the industry was in during the last quarter of 2023, albeit a somewhat limited one. Certainly the downward trend in sales that was seen during the final sales cycles of 2023 has not continued; however, diamond sales through De Beers in the first three sales cycles of 2024 remain well down on the equivalent period in 2023. Overall, sentiment seems to be that the diamond market is stabilising and is on the cusp of a rebound, although sales in 2024 are still likely to be lower than in 2023. All the factors that were highlighted earlier continue to weigh down on the market, but the main concern relates to the G7 sanctions regime. This has now been partially implemented, and remains a point of serious contention between the G7 countries, along with Belgium, and developing country diamond producers, which are mainly in Africa.

The G7 regime requires the details of all rough diamonds over a certain size to be individually entered into a blockchain so that their origin can be recorded and traced through the entire value chain. However, the problem is that the G7 proposals require that the initial recording has to be physically done in Antwerp, Belgium, so that all rough diamonds have to be physically transported there. This adds to costs and undermines Botswana's model of aggregating diamonds from Canada, South Africa and Namibia along with Botswana diamonds, before being sold to manufacturers and wholesalers through sights held in Gaborone. Furthermore, Botswana has the capacity and technology to do the initial blockchain entries without the diamonds being shipped to Antwerp and back. The Government of Botswana has been taking the lead in engaging with the G7 on behalf of other producing countries, and has have positive feedback from some, but not all, G7 countries. As it stands, the G7 regime poses a significant threat to the Botswana economy.

Meanwhile the risk level in the global economy remains elevated, due to conflicts in Europe (Russia-Ukraine) and the Middle East (Israel-Gaza-Iran). Global oil prices rose steadily throughout the first quarter of 2024, although have now stabilised somewhat despite ongoing disruptions to supply routes. On a positive note, the IMF in its most recent World Economic Outlook concluded that the global economy has shown more resilience to shocks than expected, and has largely shrugged off the concerns about stagflation that were prominent as growth slowed and inflation rose, along with monetary tightening, during 2022 and early 2023. The IMF has made small upward revisions to its forecasts for global growth, now projected 3.2% in both 2024 and 2025. Nevertheless, the Fund also notes that projected global growth over the next five years is at its lowest for several decades.

Domestic Economy

Inflation and Interest Rates

Inflation fell to 2.9% in March 2024, just below the bottom end of the Bank of Botswana's 3%-6% inflation objective range. This has been largely driven by the stabilisation of fuel prices, as well as declining global and regional inflation rates, and hence is in line with broader trends. It is encouraging that inflation has been coming in consistently below forecasts in recent months, and while an uptick in inflation is expected through the rest of 2024, it should remain within the BoB range. Fuel prices may now generate an increase in inflation rather than a decrease, due to higher global prices and increased local tax (the NPF levy), with a price rise already implemented in April and another likely in May. Regional drought conditions, alongside the extended vegetable import ban, will push up food prices further.

One concern is that the main inflationary pressures are now being generated domestically, with inflation for domestic tradeables (which are mostly commodities with broadly market-determined prices, rather than regulated prices) at 4.3% in March, meaning that there are mainly domestic (rather than external) inflationary pressures. A second concern is that inflation is being kept artificially low, as some administered (regulated) prices are not being adjusted to reflect costs of supply or production. For instance, the domestic price of petrol has lagged rising global fuel prices, requiring subsidies from the National Petroleum Fund. The regulated price of electricity is also well below the cost of production (and is also exceptionally low by international standards), requiring huge tariff subsidies to Botswana Power Corporation (BPC) from the budget. While the cost of the subsidy in the 2024/25 financial year is not explicitly stated in the budget documents, it is understood to be around P1.5 billion for the year, which will be funded by Government borrowing.

Declining inflation has enabled the BoB to maintain the monetary policy rate (MoPR) at 2.4%, hence there has been no change in commercial bank lending rates. However, interest rates on government T-Bills and bonds have been declining, presumably reflecting excess bank liquidity and pension fund assets that need to be invested domestically. A key test will be whether this trend can be maintained (or alternatively, reversed) once Government significantly increases the pace of domestic borrowing and T-bill/bond issuance, as indicated in the Government Borrowing Strategy for 2024/25.

Economic Growth

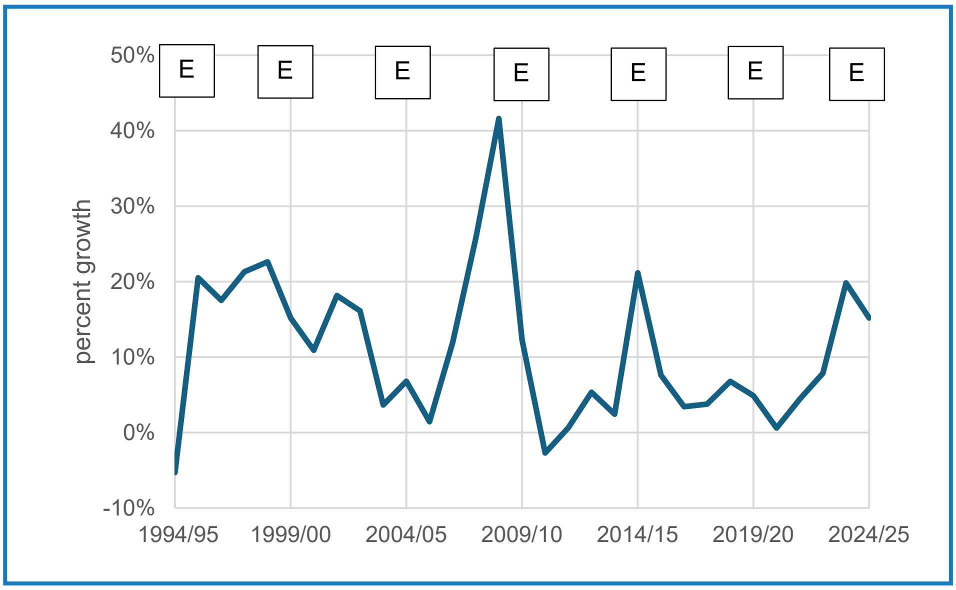
GDP growth in 2023 came in at 2.7%, well below the rate of 3.2% that had been projected by both the Ministry of Finance and the IMF. The poor growth outturn was partly due to the diamond sector (mining, trading and cutting & polishing) contracting by 1.2% during the year, due to the weak global diamond market. But the slowdown was broader than this, with the non-diamond private sector slipping from 4.9% growth in 2022 to 3.6% in 2022. Obviously this is far below the rate deemed necessary to achieve the objective of high-income country status by 2036, of 5.7% a year.

The disappointing growth outturn should not be surprising, however. While there is a high-level commitment to pursuing export-led growth, as is essential for a small open economy, too many policies have been focused on inward-looking protectionism, which has the opposite outcome and leads to higher prices and decreased efficiency and competitiveness. There are also increasing barriers to inflows of foreign direct investment, notwithstanding commitments to "openness". Encouraging inward FDI is of course an essential component of export-led growth. A further barrier to growth is the large size of the public sector, much of which is characterised by inefficiency, thereby reducing the potential for productivity growth in the economy. There is a particular problem with many state-owned enterprises (SOEs), where the need for reform, restructuring and possible privatisation has been continually avoided, allowing their inefficiency, low productivity and dependence on government bail-outs, at taxpayer expense, to continue indefinitely, and drag down the economy as a whole. Further inefficiencies are evident with public investment in both infrastructure and human capital. Finally, there is excessive and growing regulation, implemented in a manner that is not business-friendly, and an unwillingness to commence the Regulatory Impact Assessments (RIAs) that have long been promised before introducing new regulations.

The 2024 Budget

The 2024 Budget was delivered on February 5th, and is intended to be a transformative, "game changing" budget, with an emphasis on, amongst other things, infrastructure investment, digital transformation, enhanced social welfare provision, and support for the informal sector. The Budget is discussed in more detail in the Special Feature in this Review. We note, however, that it proposes major increases in both revenues and spending, both of which may be considered to be over-ambitious, particularly given the high level of uncertainty regarding prospects for the diamond sector in 2024. It also entails a further budget deficit, again postponing the fiscal consolidation that is required to return the country to a path of fiscal sustainability. There is also a huge planned increase in domestic government borrowing, which may be challenging to achieve. Overall, the Budget clearly follows a pattern of pre-election boosts to spending that has been apparent over much of the past two decades (see figure 1).

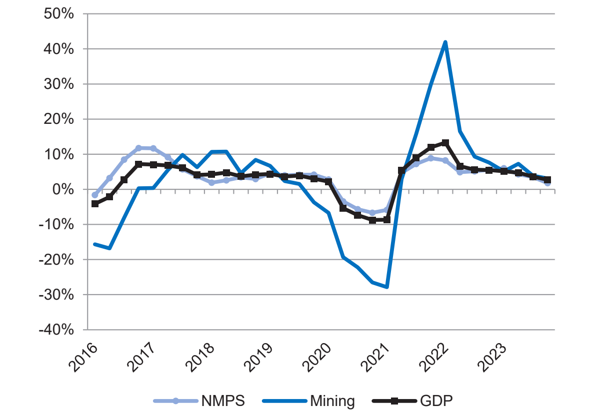
Figure 1: Growth of Government Spending (%) and the Electoral Cycle



Note: "E" denotes Election Year

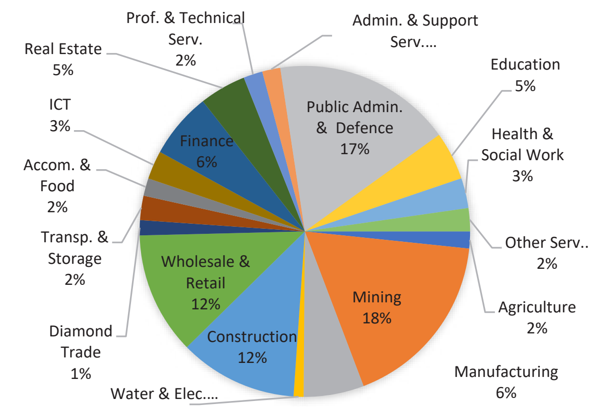
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



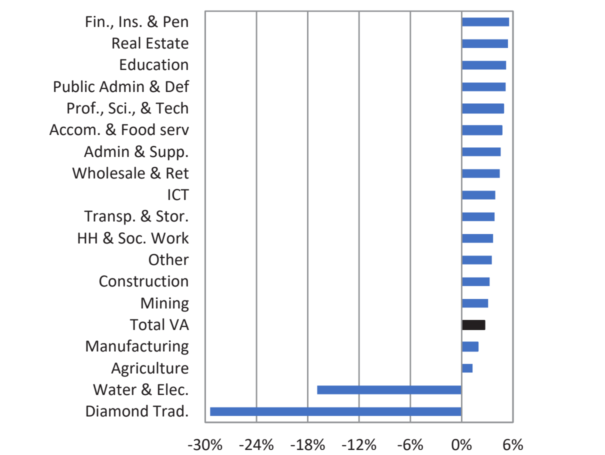
The global diamond market performed poorly in 2023 because of the subdued demand for rough diamonds. Consequently, the Botswana economy slowed during 2023. Real GDP growth was 2.7% in the twelve months to December 2023, compared to 5.5% recorded in 2022. This reflected a slowdown in both mining and non-mining private sector (NMPS) growth. Real growth in the mining sector experienced a sharp decrease from 7.6% 2022 to 3.1% in 2023, and the NMPS year-on-year growth declined to 1.8% down from 5.6% during the period. While a slowdown in GDP growth in 2023 was expected, the outturn was well below the recent forecast of 3.2% by the Ministry of Finance.

SECTORAL GDP SHARES 2023



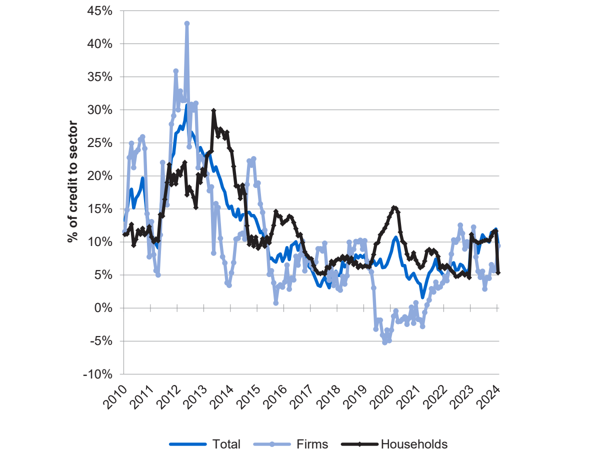
The structure of GDP in terms of economic sectors did not change much in 2023. As in 2022, the largest four sectors of the economy are Mining, Public Administration & Defence, Construction and Wholesale & Retail with shares of 17.6%, 17.5%, 11.9% and 11.6%, respectively. While mining remains (just) the largest sector of the economy, its share of GDP fell from 21.3% of GDP in 2022. Other economic sectors experienced small changes in their share of total output, and their order/ranking either remained the same or changed by one or two places.

SECTORAL GDP GROWTH



All sectors except Diamond Traders and Water & Electricity recorded positive output growth in 2023. The highest growth rate was in Finance, Insurance & Pension Funding which recorded growth of 5.6% in 2023 up from 1.9% in 2022. This was driven by improved performances in Central Banking and Monetary Intermediation & Financial Services sub-sectors. The major contraction in the Diamond Traders sector was due to the subdued demand for diamonds during the year. The important Agriculture and Manufacturing sectors recorded disappointingly low growth, suggesting that policy efforts to promote the sectors through protectionist policies are not working.

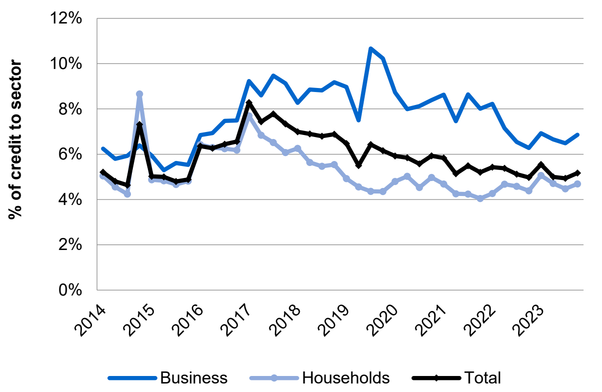
ANNUAL CREDIT GROWTH



Annual bank credit growth slowed in January 2024, falling to 9.7% from 11.5% in October 2023. The decrease is attributable to decreases in the growth of credit to households. Household credit growth decreased to 5.4%, down from 10.8% during the period under consideration. There was a deterioration in household mortgage loans during the period; however, this largely reflect the stabilisation of commercial bank data in the calculations following the inclusion of BBS Bank in the banking data in January 2023. Conversely, growth of credit to firms rose from 6.6% in October 2023 to 9.4% in January 2024.

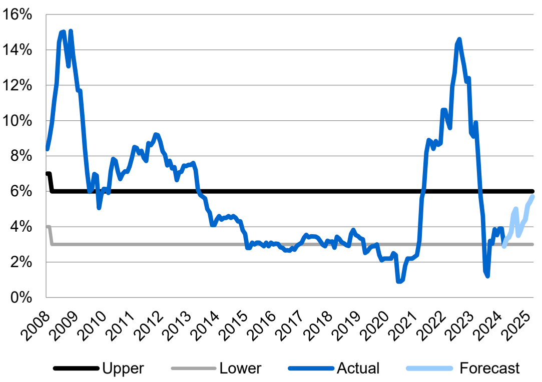
KEY ECONOMIC VARIABLES

ARREARS ON BANK LENDING



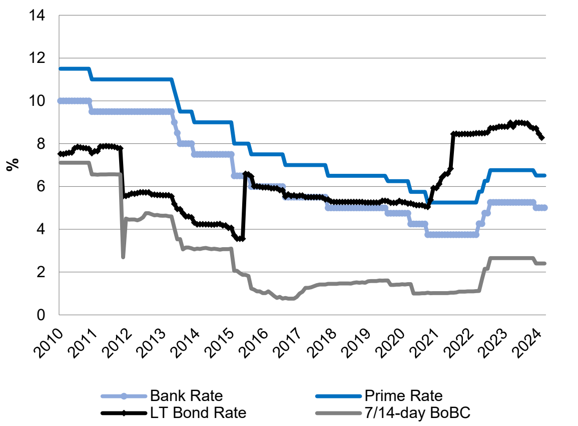
Total arrears as a proportion of outstanding bank credit increased marginally during the year from 5.0% in 2022 to 5.2% in 2023. The increase in arrears during 2023 has been driven by the uptick in household and business arrears which rose from 4.4% and 6.3% in 2022 to 4.7% and 6.9% 2023. Overall, however, the level of arrears on bank credit remains low by historical standards.

INFLATION AND FORECAST



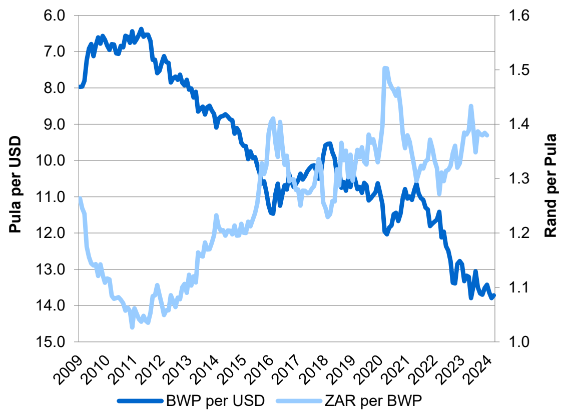
Annual inflation decreased to 2.9% in March 2024, down from 3.9% in December 2023. The decrease in inflation was driven by the Transport index group because of less pressure from international fuel prices. Inflation is forecast to increase but remain within the Bank of Botswana's 3-6% medium term objective range. Inflationary risks likely to come from possible upward adjustment of administered prices – both fuel and electricity are currently being sold below cost - and possibly higher international fuel prices because of the instability in the Middle East.

INTEREST RATES



The Bank of Botswana's Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 2.40% following their first meeting of 2024, held in February. Subsequently, the bank Prime Lending Rate remained unchanged at 6.51%. The Bank remains positive on the medium-term inflation outlook as the economy is anticipated to operate below full capacity, hence not generating demand-driven inflationary pressures. The 7/14-day BoBC rate was 2.40% in Q1 2024 while the long-term government bond rate (BW012) declined to 8.29% in February 2024, down from 8.72% in November 2023. However, the increase in government bond issuance programmed for 2024/25 is likely to push up rates.

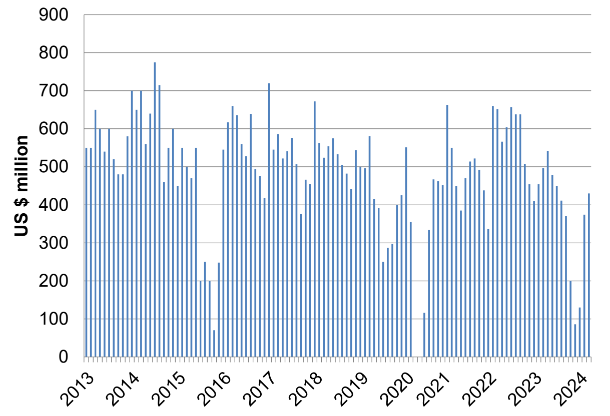
EXCHANGE RATES



The foreign exchange market was much calmer during the first quarter of 2024. In line with underlying trends, the Pula weakened against the US dollar and strengthened against Rand. The Pula-US dollar exchange rate was 13.72 at the end of Q1 2024, from 13.42 at the end of Q4 2023, representing a depreciation of 2.2%. The Pula appreciated by 0.1% against the rand, ending Q1 2024 at ZAR1.383, up from ZAR1.3796 at the end of Q4 2023.

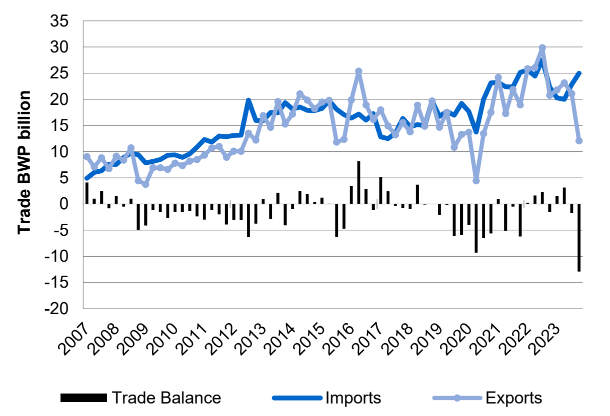
KEY ECONOMIC VARIABLES

DE BEERS DIAMOND SALES



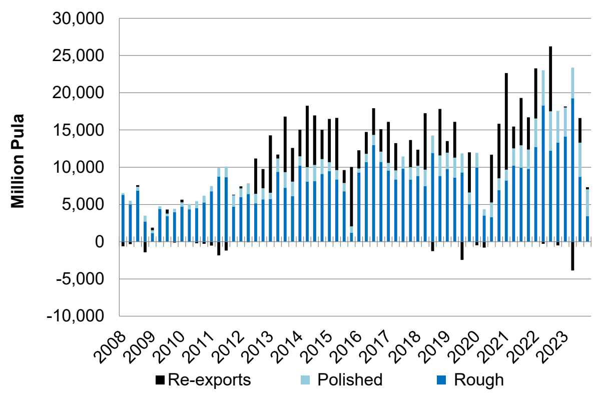
The demand for rough diamonds improved during Q1 2024, with the first two sales cycles of the year registering a sharp increase in diamond sales value when compared to the previous quarter (Q4 2023). De Beers Global Sightholder Sales (DBGSS) nearly quadrupled and recorded sales valued at USD804 million during Q1 2024 up from USD216 million in Q4 2023. The improvement in the demand for rough diamonds during Q1 was driven by manufacturers restocking inventories as well as increased demand for diamond jewellery in the Indian market. The industry expects the market to gradually improve in 2024. However, the level of uncertainty in the market remains high.

INTERNATIONAL TRADE



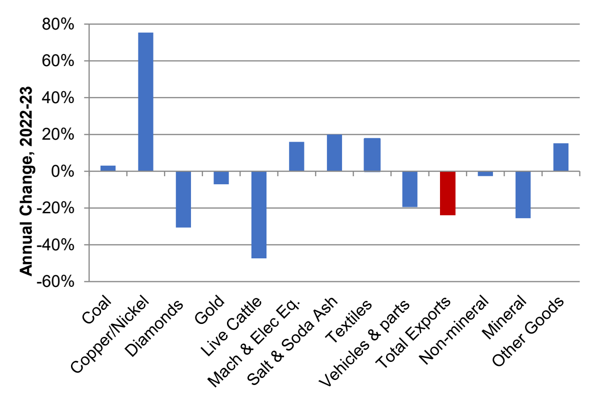
Generally, international trade activity slowed during the year to December 2023. The value of both imports and exports recorded in 2023 was lower than in the previous year, driven by the decrease in diamond imports and exports. Total imports decreased by 11.8% from P99.90 billion in 2022 to P88.12 billion in 2023. The value of exports fell much more, by 23.8% from P102.52 billion to P78.14 billion during the same period. The higher value of imports over exports has resulted in a trade deficit of P9.98 billion in 2023, from a trade surplus of P2.62 billion in 2022. International trade performance during 2024 is reflective of the dominance of diamonds, thus, urgent actions towards export diversification are imperative.

DIAMOND EXPORTS



The global diamond market experienced a subdued demand for rough diamonds and diamond jewellery during 2023. Botswana diamond exports decreased across all categories during the year and almost collapsed during the last quarter of the year. Total diamond exports registered a year-on-year decrease of 31.0% between 2022 and 2023, from P89.30 billion to P61.61 billion, respectively. A quarter-on-quarter comparison shows that total diamond exports fell by 55.9% between Q4 and Q3 2023. In other categories, diamond exports decreased for polished and re-exports by 10.3% and 100.9%, respectively, between 2022 and 2023. There was a significant decline for Botswana rough exports by 19.5% from P56.55 billion in 2022 to P45.52 billion in 2023, and by 60.5% between Q4 and Q3 2023.

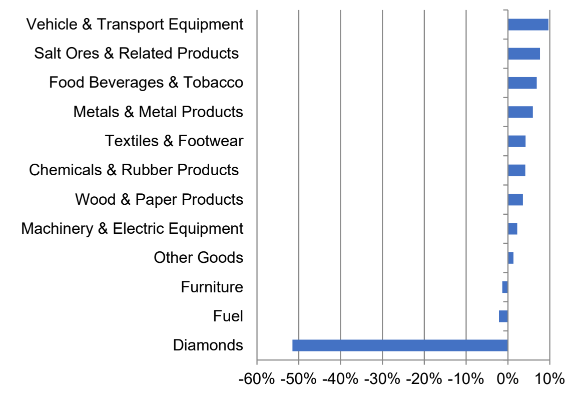
EXPORT GROWTH



Overall export performance in 2023 was poor, with a decline in the value of all major categories of exports, both mineral and non-mineral. Non-mineral export commodities fell by 2.6% in 2023, down from 38.8% growth in 2022. The worst performing non-mining export sectors were Live Cattle and Vehicles & Parts, which fell by 47.4% and 19.5%, respectively. Exports of mineral commodities fell by 25.6%, with Diamonds having the biggest contraction of 30.6%. However, copper exports continued to boom, growing by 75% year-on-year. The poor performance of the export sector demonstrates the urgent need to increase the competitiveness and diversification of Botswana's exports and reduce the dominance of diamonds.

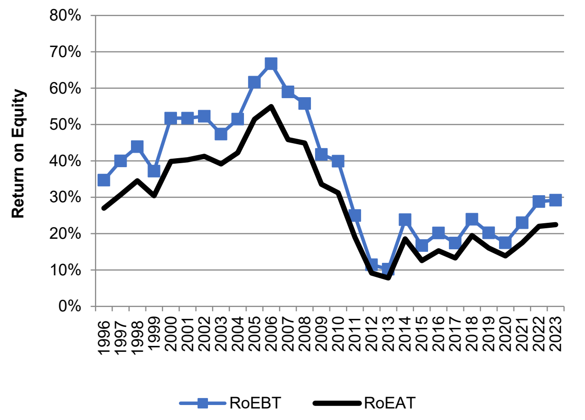
KEY ECONOMIC VARIABLES

IMPORT GROWTH



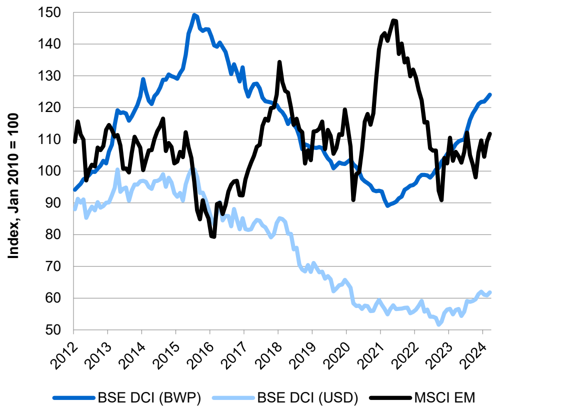
Total imports registered a decrease in year-on-year growth in 2023. This was driven by Fuel, Furniture and Diamonds which all fell during the period. Diamonds recorded the largest decrease and fell significantly by 51.5% from P27.30 billion in 2022 to P13.23 billion in 2023. Other categories of imports increased between 2022 and 2023, with notable increases in Vehicles & Transport Equipment by 9.7% year-on-year up from minus 11.9%. Other categories of imports grew as expected, in line with the overall growth of the economy.

BANK PROFITABILITY



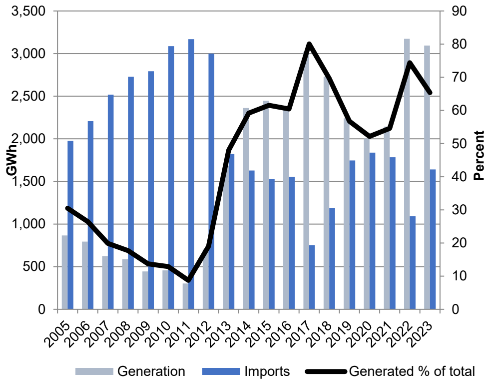
Bank profitability, as measured by the return on equity (RoE), improved marginally in the 12 months to December 2023. The low level of arrears during 2023, coupled with the increase in total credit during the year, have had a positive impact on bank profitability. Post tax (RoEAT) bank profitability rose to 22.5% in 2023, up from 22.0% in 2022. Monetary policy provided a conducive environment for credit uptake given favorable interest rate conditions in the banking sector.

STOCK MARKETS



The Botswana Stock Exchange (BSE)'s Domestic Companies Index (DCI) continued to improve during the first quarter of 2024. The DCI rose by 1.9% in Pula terms while decreasing by 0.3% in USD terms; largely reflective exchange rate differentials. The DCI was 9096.18 in March. The international stock markets also performed well during the quarter with the MSCI World Index rising 8.5% and the MSCI Emerging Markets Index increasing by 1.9%. Traded activity during the quarter was from Wholesale & Retail and Real Eastate sectors. Notwithstanding the recovery in the DCI, it remains well below its 2015 peak in both BWP and USD terms.

ELECTRICITY



Domestic generation of electricity decreased by 2.5% y-o-y to 3,095 GWh in 2023 down from 3,173 GWh in 2022. This was augmented by the volume of electricity imported during the same period which increased substantially by 50.3% to 1,641 GWh. Total electricity consumed in 2023 rose by 11.0% to 4,736 GWh, up from 4,265 GWh in 2022. The decease in the generation of own power is attributable to operational challenges at Morupule B power station during the year. Interestingly, the increase in overall electricity consumption was far higher than the rate of real economic growth.

NEWS HIGHLIGHTS

9th January	Giyani Metals submits MLA for K.Hill. (Mining Review)	Giyani Metals Corp. has received the Environmental Authorisation (EA) for its proposed K.Hill manganese mine. This has enabled the company to finalise the Mineral Licensing Application (MLA) for the project, which was submitted to the Department of Mines at the end of 2023.
10th January	Debswana board approves key development phase for Jwaneng underground project. (DiamondWorld)	The Board of Debswana has approved a USD1 billion (P13.6 billion) investment for the Exploration Access Development Phase of the Jwaneng underground diamond mine, paving the way for the mine to transition from open pit to underground operations. The investment will establish a drilling platform for comprehensive sampling of kimberlite pipes and develop essential infrastructure. The project will be developed in two phases, Phase 1 and Phase 2, to support long-term future production in an environment of tightening long-term diamond supply. The Jwaneng Mine, which has produced nearly 11 million carats annually since 1982, employs 2100 permanent employees and 3200 contractors.
15th January	Confidence in diamonds. (Avi Krawitz)	The diamond industry has seen significant progress in recent years, with three major mines, Jwaneng, Karowe and Ekati, announcing plans or funding for life extension projects. A new fund was established to finance small-scale mining in Southern Africa, with Bonas Group partnering with Delgatto Diamond Fund to sell on behalf of junior and mid-sized miners. The partnership provides liquidity for the miners, a change from the 2023 downturn when demand slumped, and lenders grew cautious about the diamond market. The announcements have set a positive tone for the diamond market, as investors seem willing to invest in the industry and the mines that produce them. The market's outlook has improved in 2024, reflecting the industry's resilience and the value of diamonds.
16th January	Lotus poised to be major uranium player with Kayelekera restart, Letlhakane optimisation. (Mining Weekly)	Lotus Resources, a leading global uranium player, has completed preliminary work programmes following the acquisition of A-Cap. Lotus has 241-million pounds of uranium oxide at Kayelekera (in Malawi) and Letlhakane (in Botswana). The company plans to use its uranium expertise to develop Letlhakane, one of the world's largest undeveloped uranium resources. The Letlhakane resource update is planned for the first half of this year, and a beneficiation metallurgical test work programme is underway.
19th January	BSB profits up 147% despite challenges. (Mmegi)	Botswana Savings Bank (BSB) reported pre-tax profits of P3.7 million in the half year to September 2023, despite a challenging business environment. The growth was attributed to higher fee and commission income, primarily driven by improved savings account performance. Despite a 5% year-on-year increase in expenses, the bank's focus remains on digitisation.
29th January	World Bank forecasts resilient Botswana growth in 2024. (Sunday Standard)	The World Bank predicts 4.1% economic growth for Botswana in 2024, despite economic uncertainties and a constrained economy reliant on government spending and diamond revenues. The country's GDP experienced a slowdown in 2023, because of weaknesses in the diamond industry. The prospects for improved economic growth hinge on the global diamond industry's recovery in 2024 and the unveiling of an expanded 2024/2025 national budget.

29th January	PNRL reports encouraging results at BCL mine. (Sunday Standard)	Premium Nickel Resources Limited (PNRL) secured a C$34 million (P343 million) financing in 2023 to partially restore the BCL mine, based on positive drilling results and higher-grade zones related to conductive massive sulphide Ni-Cu-Co mineralization. The proceeds will advance exploration and resource development.
29th January	Diamond industry gears up for tighter controls. (Rapaport)	The diamond industry is set to undergo significant changes in 2024 due to new sanctions on Russia. The G7 countries will require companies to prove their goods were sourced from non-Russian production if they wish to sell diamonds into the group. The sanctions aim to limit Russia's ability to fund its illegal war, with diamonds being a significant concern. The European Commission (EC) emphasized the goal of reducing revenue from diamonds, which fuels Moscow's war machine against Ukraine.
5th February	Government seeds new Chema Chema with P200 million. (Mmegi)	The government plans to seed the Chema Chema Fund with P200 million to transform the informal sector and support entrepreneurs and small businesses. The initiative is expected to boost economic growth and create job opportunities in Botswana. The government also plans to establish an Intellectual Property (IP) motshelo scheme and an Intellectual Property ideas incubation centre to support indigenous research and innovation, empower Batswana to own and protect their intellectual property assets.
5th February	Botswana forecasts economic rebound, budget focus on infrastructure. (Reuters)	According to the Ministry of Finance, the economy is expected to recover in 2024, from a projected growth of 3.8% year-on-year in 2023 to 4.2% growth. This is based on the anticipated recovery of the global economy and a rebound in the international market for diamonds. Contained in the 2024 budget speech, the government plans to increase spending on infrastructure development projects by about 33% in the 2024/25 fiscal year. The proposed budget will address a wide range of infrastructure gaps, especially projects in the water, transport and energy sectors.
5th February	Ms Serame proposes over P102 billion budget expenditure. (Mmegi)	The Minister of Finance has proposed budget expenditure of P102.28 billion for 2024/25 FY. The budget includes P72.61 billion for the recurrent budget and P29.77 billion for the development budget. The increase in the proposed budget reflects increased fiscal spending to support public investment as part of the second Transitional National Development Plan (TNDP). The recurrent budget proposed at P63.74 billion has been increased by 5.7% to cater for salary adjustments for public officers, social welfare benefits, and termination benefits for councillors. The budget also covers provisions for increases in council wards, councillors, and Members of Parliament, as well as maintenance of facilities. The Ministry of Education and Skills Development is allocated the largest share of the recurrent budget at P15.54 billion, covering teachers' salaries, operational costs for state-owned enterprises, and the Institute of Health Sciences. The Ministry of Local Government and Rural Development receives P9.48 billion for upgrading sub-districts and a projected growth in council members and wards.

NEWS HIGHLIGHTS

6th February	Botswana resumes diamond auctions after glimmers of market recovery. (Reuters)	Okavango Diamond Company resumed diamond auctions in January after a two-month halt in the last quarter of 2023 due to excess inventory. Demand for mined diamonds has slowed due to high interest rates in the US, China's slow recovery from the pandemic, and competition from lab-grown diamonds. Botswana's economy relies heavily on diamond sales, and the company plans another auction this month as the market shows signs of improvement. At the January auction, 70% of the stones on offer were sold.
6th February	De Beers, Botswana flag concerns to G7 on diamond sanctions. (Reuters)	De Beers and Okavango Diamond Company are urging the G7 to consider unintended consequences as they prepare to impose the second phase of a ban on Russian diamonds. A new system to trace the origin of gems will be introduced later in 2024, but there are questions over how a diamond's country of origin should be checked and where it should be done. Belgium and the G7 countries have proposed that the checks take place in Antwerp. De Beers stated that while the company understands and supports the need for G7 sanctions, it emphasizes the importance of achieving desired results without creating harmful side effects.
7th February	Botswana sets aside USD65 million to buy 24% stake in gem trader HB Antwerp. (Mining.Com)	Botswana has set aside approximately P890 million (USD65 million) to buy shares in Belgian diamond trader HB Antwerp. The deal would value the Belgian company at USD275 million, with HB Antwerp recording USD251 million revenue in 2022. Botswana sees the deal as an opportunity to benefit further from the diamond downstream industry, including cutting and polishing.
7th February	Prospects of passenger train resurgence emerge. (Sunday Standard)	Botswana is considering the reintroduction of passenger train services, which have been dormant since November 2019. Diplomatic dialogues with neighbouring South Africa and Zimbabwe are underway to explore collaboration opportunities for the revitalized passenger train. The goal is to enhance regional connectivity, stimulate trade, and contribute to the nation's economic development.
10th February	Another big year for De Beers. (Avi Krawitz)	The De Beers Group's fourth quarter and full year production report revealed declines in the diamond market in 2023. Sales volume went down by 19% to 27.4 million carats, production down by 8% to 31.9 million carats, and the average price dropped by 25% to $156 per carat. Production exceeded sales by 4.5 million carats, leading to a build-up of inventory especially during the last quarter of the year when manufacturers scaled back from rough purchases. The production guideline for 2024 is set at 29 million to 32 million carats, and the company already has about 4.5 million carats inventory. The company is also investing in Angola, to advance alluvial mining and enhance social development. There is pressure on De Beers from shareholders, who are assessing its carrying value. A change in the market's fortunes and De Beers' efforts to compensate for lower production will be necessary to raise its value.

NEWS HIGHLIGHTS

14th February	Chobe Holdings sees surge in luxury travel demand. (The Gazette)	Chobe Holdings Limited reports a surge in demand for luxury travel experiences due to evolving international travel trends and flexible work arrangements. The company is optimistic about the future, citing a robust recovery from the pandemic-induced downturn. Online tour operators are experiencing a recovery, and Chobe is shifting its focus to enhancing Revenue per Available Room (RevPAR) to capitalize on the strong demand experienced in 2023.
16th February	Absa, Stanbic partner in historic R680m sustainable funding deal. (Mmegi)	Absa Bank Botswana and Stanbic Bank Botswana have partnered to lend ZAR680 million to Norsad, a sub-Saharan credit firm, to support financial inclusion, women, and youth programs under a historic sustainable-linked funding arrangement, marking the first such deal in the local market.
19th February	Lucara re-enters diamond sales agreement with HB Antwerp. (Miningmx)	Lucara Diamond Corp has re-entered a diamond sales agreement with HB Group for goods larger than 10.8 carats from the Karowe mine in Botswana, five months after severing an agreement due to financial breaches. The agreement, extended for 10 years, is expected to ensure cash flow and stability.
20th February	FNBB reports strong 28% growth in half-year profit before tax. (Business Weekly)	First National Bank Botswana (FNBB) reported a 28% year-on-year increase in profit before tax to P879 million for the half-year ended 31 December 2023, outpacing a 16% growth in expenses. Gross Interest income soared by 26%, driven by rate hikes and customer advances. The bank also saw a 24% growth in funds deployed into investment securities. Net Non-Interest Revenue experienced a modest 4% growth, driven by transaction volumes, accounts, and customer growth.
1st March	Government raises P1.28 billion debt. (Mmegi)	The Bank of Botswana (BoB) raised P1.28 billion in debt for government recently, while strong demand from bidders meant yields continued to fall in the monthly auction of Treasury Bills and bonds. The auction held on February 2024 saw bids worth P1.2 billion for a P400 million, three-month Treasury Bill (T-Bill) and bids worth P1.9 billion for the P450 million offered under the six-month T-Bill. The three bonds on offer, with maturities ranging from 2029 to 2043, attracted more moderate bidding but were all oversubscribed.
13th March	De Beers Sales Improve, but still down at February Sight. (Rapaport)	De Beers' rough-sales cycle in February 2024 raised USD430 million, a 13% decrease in proceeds compared to 2023, but a 15% increase from the USD374 million reported at the first sight of the year. The recovery is primarily due to demand from the diamond jewellery market, which is growing in India but sluggish in China. The retail segment in other top countries remains slow, however, De Beers expects a gradual recovery in rough-diamond demand.
14th March	Lucara submits technical report for Karowe mine expansion. (Mining Review)	Lucara Diamond Corp. has filed a technical report for the updated feasibility study on its underground expansion project at the Karowe Diamond Mine in Botswana, prepared by JDS Energy and Mining Inc. The underground expansion is expected to double mine life and generate significant revenue and cash flow until 2040.

14th March	Tlou on track to sell power to BPC. (The Patriot)	Tlou Energy is on track to get gas fired power into the grid in Botswana before the end of 2024. The Lesedi Power Project, located at Tlou's Lesedi operations base, is expected to generate approximately USD10 million in revenue per annum. The government of Botswana is supportive of Tlou's power, and it may sell electricity regionally via the Southern African Power Pool. The company is aiming to be a vertically integrated gas to power company, owning 100% of both the upstream and downstream sides of the operation.
18th March	P300m Phikwe Citrus project first harvest milestone. (Weekend Post)	Botswana's Selebi Phikwe Citrus project has reached its first harvest milestone, exporting to the UAE and Saudi Arabia. The project, which has employed 1,000 people and created business opportunities, has met market access requirements for countries like the EU, Canada, China, the Philippines, UAE, and Saudi Arabia. The project's success is a result of collaboration between government departments and agencies.
18th March	World Bank ranks Botswana low on women economic empowerment. (Weekend Post)	Botswana's ranking on the World Bank Women, Business and the Law 2024 index is low, indicating gender gaps hindering women's economic participation. The country ranks 154 out of 189 countries, with a score less than the average global score of 77.1 and regional score of 74.1. Despite legislative efforts (Succession Act, Employment Act amendments, and the Abolition of Marital Power Act), gaps like equal remuneration, maternity leave policies, and workplace harassment remain. Botswana can leverage momentum for reform in the region to address these legal barriers, as women currently have only two-thirds of men's workplace rights and that economies have established less than two-fifths of the systems needed for full implementation.
20th March	G7 sanctions will harm Botswana's diamond development, officials say. (Rapaport)	Botswana's diamond trade is facing a potential reversal due to the Group of Seven (G7) import restrictions targeting Russian diamonds. The proposal to establish a single-node location for diamonds to verify G7 compliance would be a logistical nightmare for producer countries, causing delays and additional costs. The G7 sanctions, which include a ban on direct imports of diamonds from Russia, were extended to Russian-origin diamonds polished in a third country. A blockchain-enabled traceability system will be implemented in the final stage, requiring diamond verification in Antwerp. Botswana is petitioning the G7 to allow such verification in producer countries, particularly Botswana, to ensure its processes can be adjusted to meet G7 requirements. The country is concerned about the impact of the sanctions on its diamond industry and the economy, which accounts for an estimated 20% of GDP. The government expects its new sales agreement with De Beers to further elevate the country's standard of living.
22nd March	Gov't bond issuance ceiling raised to P55 billion. (Mmegi)	Legislators approved an increase in the government bond programme limit from P30 billion to P55 billion, allowing the Ministry of Finance to raise more debt locally to finance budget deficits. The increase will also support the development of the capital market.

25th March	Okavango becomes first non-mining member of NDC (Rapaport)	Okavango Diamond Company (ODC) has joined the Natural Diamond Council (NDC), becoming its first member outside of the mining industry. ODC aims to use the membership to raise awareness about Botswana's natural diamond industry.
26th March	BPOPF ups shareholding in Tlou Energy. (BSE)	The Botswana Public Officers Pension Fund (BPOPF) has increased its equity stake in Tlou Energy to 16.63%, acquiring 61.3 million additional shares worth 5.65 million Australian dollars (A$). This brings BPOPF's total equity in Tlou to approximately 208.5 million shares. Tlou Energy offered 379.6 million shares, with applications for 32.5 million raising A$1.1 million.
26th March	Botswana: work starts on the country's largest solar farm at Mmadinare. (Afrik21)	Botswana has launched the 120 MW Mmadinare solar farm, a move towards decarbonising the country's electricity mix. The project, developed by Norwegian company Scatec, will be built in two phases and will require an investment of P1.4 billion (approximately USD104 million). The plant will prevent around 48,000 tonnes of CO2 emissions and supply power to around 20,000 homes. Scatec's division in South Africa will provide operation and maintenance services. The project is part of Botswana's commitment to sustainability, energy independence, and economic growth.
29th March	Botswana Oil secures 90% petroleum products importation. (Mmegi)	Botswana is allowing majority citizen-owned companies to hold a 10% stake in the importation of petroleum products, aiming to promote citizen empowerment in an industry dominated by foreign multinational firms. Effective from 1st April 2024, Botswana Oil (BOL), a state-owned company, will import 90% of the country's fuel and on-sell to the existing multinational oil companies that are operating in the country and have previously imported for themselves. This follows an announcement by the Botswana Energy Regulatory Authority (BERA) that all existing petroleum product import licenses will lapse on 31 March 2024. The number of local companies owning petroleum trucks is expected to increase to 200.
31st March	Selebi Phikwe citrus farm boosts SPEDU economy. (Sunday Standard)	The Selibe Phikwe Citrus Farm project in SPEDU has generated over P120 million in benefits for businesses over three years. President Mokgweetsi Masisi emphasized the global demand for citrus products, private sector involvement, and opportunities in the industry's value chain. The farm produces mandarin oranges, lemons, and grapefruit, and targets both local and international markets.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2017	2018	2019	2020	2021	2022	2023	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1
Annual Economic Growth													
GDP	%	4.1	4.2	3.0	-8.7	11.9	5.8	2.7	5.2	4.8	3.6	2.7	..
Mining	%	6.3	8.4	-3.7	-26.5	29.8	7.5	3.1	5.1	7.3	3.9	3.1	..
Non-mining private sector	%	3.7	2.9	4.2	-6.7	8.8	5.5	1.8	6.0	4.3	3.4	1.8	..
GDP current prices	P bn	166.65	173.73	179.90	171.39	207.74	251.73	263.71	66.83	70.11	64.99	61.78	..
GDP 2016 prices	P bn	171.18	178.35	183.76	167.72	187.63	198.01	203.42	52.14	50.29	50.73	50.27	..
Money & Prices													
Inflation	%	3.2	3.5	2.2	2.2	8.7	12.4	2.9	9.9	4.6	3.2	3.5	2.9
Prime lending rate	%	6.50	6.50	6.25	5.25	5.25	6.76	6.51	6.76	6.76	6.76	6.51	6.51
BoBC 7/14-day	%	1.45	1.52	1.41	1.04	1.10	2.65	2.40	2.65	2.65	2.65	2.40	2.40
Trade & Balance of Payments													
Exports - total goods	P bn	61.67	67.17	56.33	49.12	82.28	102.52	78.14	21.80	23.15	21.10	12.09	..
Exports - diamonds	P bn	54.38	60.41	51.01	43.30	74.13	89.22	61.61	18.17	19.52	16.60	7.32	..
Balance of payments	P bn	-4.28	-4.20	-12.02	-20.06	-2.87	4.49	..	-1.70	7.54	-0.77	..	..
Foreign Exchange													
Exchange rate BWP per USD	end	9.87	10.73	10.63	10.79	11.74	12.77	13.72	13.18	13.48	13.66	13.42	13.72
Exchange rate ZAR per BWP	end	1.256	1.344	1.330	1.356	1.355	1.328	1.380	1.381	1.392	1.382	1.380	1.380
FX reserves	$ bn	7.502	6.657	6.171	4.941	4.806	4.22	..	4.29	4.89	4.68	..	..
FX reserves	P bn	73.69	71.43	65.23	53.36	56.02	54.53	..	55.89	66.11	63.87	..	..
Financial Sector													
Deposits in banks	P bn	63.58	69.27	75.71	80.54	84.36	90.93	103.87	95.18	96.02	102.45	103.87	..
Bank credit	P bn	54.18	58.33	62.77	65.55	68.92	73.05	81.80	76.27	79.23	80.20	81.80	..
BSE index		8,860	7,854	7,495	6,879	7,010	7,726	9,096	7,954	8,055	8,662	8,930	9,096
Business Indicators													
Diamond production (a)	mn cts	22.96	24.38	23.67	16.87	22.70	24.48	25.10	6.99	5.92	5.94	6.24	..
Copper production (b)	'000t	1.24	1.46	0.00	..	11.74	44.27	54.81	14.87	14.10	13.08	12.76	..
Electricity consumption	GWh	3,772	3,919	3,906	3,842	3,928	4,265	4,736	1,166	1,125	1,272	1,173	..
Crude oil (Brent)	$/bar	66.73	50.57	67.77	51.22	77.24	82.82	86.17	79.19	74.51	95.86	77.69	86.17
Employment (formal) (d)													
Government		129,009	156,785	156,785	152,973	152,225	143,022						
Parastatals		19,444	23,497	23,497	18,933	21,056	18,674						
Private sector		193,745	250,778	305,242	305,810	321,176	324,680						
Total		342,198	431,060	485,524	477,716	494,457	486,376						

Government Budget		2019/20 (e)	2020/21 (f)	2021/22 (g)	2022/23 (h)	2023/24 Revised (i)	2024/25 Budget (j)	2025/26 Projection (k)
Revenues	P bn	54.30	49.37	68.57	*74.10*	*81.67*	*93.58*	*95.42*
Spending	P bn	65.40	65.79	68.68	*74.10*	*88.79*	*102.28*	*100.11*
Balance	P bn	-11.10	-16.41	-0.11	*0.00*	*-7.13*	*-8.69*	*-4.68*
Public debt & guarantees	P bn	38.18	42.37	48.26	*53.42*	*61.56*	*72.49*	*72.95*
Govt deposits at BoB	P bn	19.86	6.20	12.82	*14.02*	..	..	..
GDP	P bn	180.94	174.24	218.02	*259.41*	*279.33*	*299.06*	*329.46*
Revenues	%GDP	30.0%	28.3%	31.5%	*28.6%*	*29.2%*	*31.3%*	*29.0%*
Spending	%GDP	36.1%	37.8%	31.5%	*28.6%*	*31.8%*	*34.2%*	*30.4%*
Balance	%GDP	-6.1%	-9.4%	0.0%	*0.0%*	*-2.6%*	*-2.9%*	*-1.4%*
Public debt & guarantees	%GDP	21.1%	24.3%	22.1%	*20.6%*	*22.0%*	*24.2%*	*22.1%*
Govt deposits at BoB	%GDP	11.0%	3.6%	5.9%	*5.4%*	..	..	..

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

THE 2024 BUDGET

Introduction

The 2024 Budget, for the financial year running from April 2024 to March 2025, was presented to Parliament on February 5th. This year's budget was particularly important, given the prevailing economic circumstances, intensifying fiscal sustainability pressures, and of course it being an election year. In this feature article, we discuss the key features of the 2024 Budget and assess its likely impact.

Economic Background to the Budget

The economic background to the Budget has been somewhat challenging. Internationally, the impact of the COVID-19 pandemic, Russia's invasion of Ukraine and the sharp rise in inflation and interest rates has been dissipating, but is still being felt. Regionally, most neighbouring and SADC countries have been suffering from very slow economic growth and high debt burdens. Domestically, some of these problems are also apparent, with slowing economic growth and a lack of export diversification, alongside continued high unemployment and inequality. And in recent years, questions have been raised about the sustainability of Botswana's public finances, the emergence of structural budget deficits, the depletion of government savings alongside rising public debt, and the quality and efficiency of government spending. Finally, a critical element has been the sharp slowdown in the global diamond market in 2023, and uncertainty about recovery in 2024, which has major implications for the largest single source of government revenues.

Of course, the Budget should not be expected to address all of Botswana's economic and social challenges; that is not its job – rather, that is the task of the National Development Plan and various policy initiatives. But the Budget does have to provide financing, where necessary. Strictly speaking, the Budget is simply a one-year plan for government revenues, spending and financing, upon which a request for authorisation of the spending plans by Parliament is presented (and, hopefully, approved).

However, the Budget is closely connected to the wider economy. The level of revenues flowing to government to finance budget expenditure depends on economic activity. The amount of spending and how it is allocated influences the pattern of economic activity and growth. The overall fiscal balance (budget deficit or surplus) and how it is financed (from savings or by borrowing) is a fundamental contributor of macroeconomic stability and sustainability. Budgets can stimulate the economy by boosting aggregate demand or financing essential public goods, but can also cause an economic drag if public spending is inefficient, or if excessive borrowing causes interest rates to rise and "crowds out" the private sector.

Budget Priorities

The Budget Speech highlighted nine development priorities, as follows:

- Infrastructure & Spatial Planning
- Sustaining livelihoods
- Agriculture development
- Business environment reforms and value chain development
- Research and development
- Innovation and digital transformation
- Green transition
- Education and human capital development
- Tourism development

Not all of these priorities are equal in budgetary terms. Some require significant budgetary allocations, especially those related to the provision of public infrastructure or public services, while others are better promoted through policy reforms.

Overall budget trends

As Figure 1 shows, the combined impact of the two budgets in the Transitional National Development Plan (TNDP) period – i.e. the 2023/24 and 2024/25 budgets – is a projected reversal of some long-term budgetary trends. Over the past decade or more both revenue and spending have been declining (as a share of GDP), but in these two years both revenue, and particularly spending, are projected to increase[1].

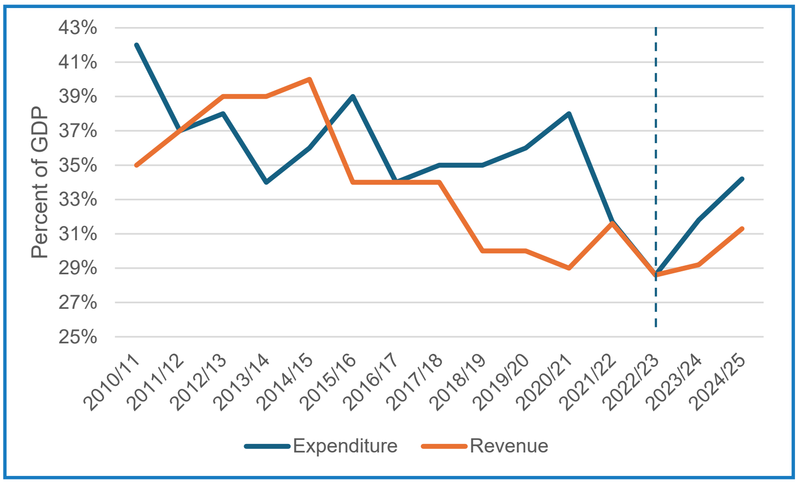
Revenue is projected to increase from 28.6% to 31.3% of GDP over the two years. With mineral revenues under pressure due to the weakness of the diamond market, this is an ambitious projection. The Budget forecasts only a

[1] All data presented here is based on the documents released at the time of the Budget in February 2024. These are draft proposals and are subject to change during the process of Parliamentary debate and approval. Final budget amounts may differ from the draft.

small decrease in mineral revenues in 2024/25, assuming that the diamond market will begin to recover from the previous year's poor performance, as data from early 2024 indicates.

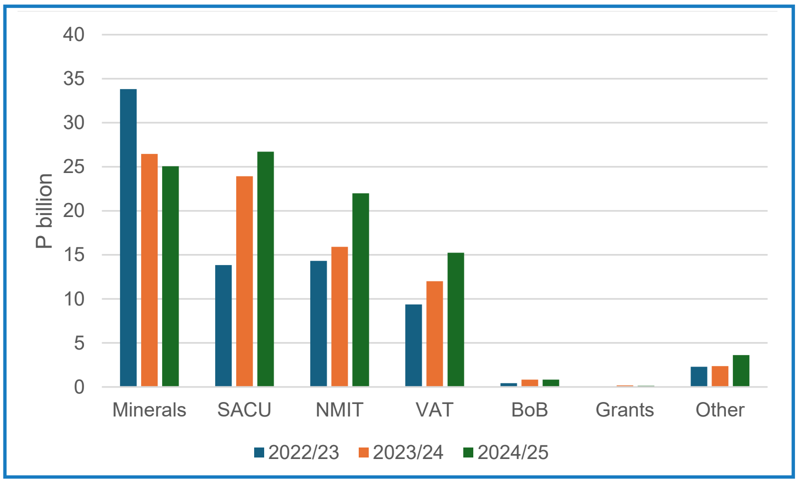
But more strikingly, the Budget forecasts a massive increase in collections from Non-Mineral Income Tax (NMIT) – comprising income and withholding taxes paid by non-mining companies and individuals – which are set to rise by 38% in 2024/25 (see Figure 2). Given that there are no new taxes or increases in tax rates, this assumes a huge improvement in tax collection efficiency and targeting of non-compliant taxpayers. There is no information in the Budget Speech as to where these efforts will be directed, but an obvious target would be activities that are largely cash-based, including some trading entities (wholesale and retail), property rentals, and public transport operators that do not issue tickets or receipts (combis and taxis). In addition there will be a small contribution from "fiscal drag", as wage and salary increases take some taxpayers into higher tax brackets.

Figure 1: Revenue and Expenditure Trends and Projections



Source (all figures): 2024 Budget documents (www.finance.gov.bw), Financial Statements & Tables and Budget in Brief

Figure 2: Revenue Projections, 2022/23 - 2024/25

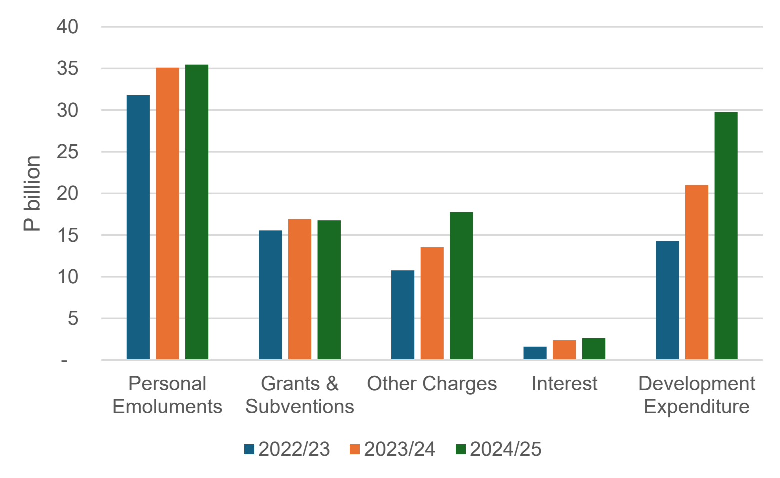


The budget also projects a 27% increase in VAT collections, again with no increase in tax rates or reduction of exemptions. This is also ambitious, although less so than the NMIT projections. VAT collections also include the Fuel Levy, and for half of the previous year (2023/24) this was diverted away from BURS and into the National Petroleum fund (NPF) to subsidise fuel prices. In 2024/25, it is assumed that the Fuel Levy will flow to BURS for the whole year, thereby lifting VAT collections. But the Fuel Levy is a relatively small proportion of the total, and the projected overall increase also assumes a sharp improvement in collection efficiency – and it is not clear how this will come about. There is a commitment to finally introduce electronic billing machines – after promising them for many years – but this welcome development is only likely to benefit BURS revenue collection in the following (2025/26) financial year.

Overall, it is questionable whether the projected increase in revenues can be achieved, unless there is a much stronger turnaround and improvement in the global diamond market than currently seems likely.

While the Budget projects a major increase in revenues, it includes an even larger increase in expenditure, from 28.6% to 34.2% of GDP over the two years. This is only partially matched by an increase in revenues, and hence entails a large fiscal stimulus, amounting to 3% of GDP. Most of the increase in spending is due to higher development spending, for which the budget allocation is set to more than double over two years, from P14.3 billion in 2022/23 to P29.8 billion in 2024/25 (whether it will be possible to spend all of this money is another matter) (see Figure 3). There is very little increase in the allocation for personal emoluments (wages, salaries and pensions) of government employees, and for grants and subventions. The latter may be difficult to achieve given the inevitable demand for bail-outs from ailing state-owned enterprises and subsidies for electricity and water to keep tariffs low in an election year. It is worth noting that while projected spending on interest on public debt is rising, it is still projected to be very low in comparison to many other countries.

Figure 3: Major Expenditure Categories, 2022/23 - 2024/25



How is spending allocated?

There is always great interest in the functional allocation of government spending, across different economic and social activities (which is different from, although related to, the allocations by Ministry)[2]. Typically in Botswana the largest allocation goes to Education – which averaged 22.5% of total spending over the NDP 11 period (2017/18 – 2022/23). This was followed by General Public Services (18.8%), Economic Services (17.3%) and Health (13.6%). The new fiscal year (2024/25) shows quite a different allocation, however. General Public Services is now the largest budget recipient (24.2%), followed by Economic Services (20.2%), Education in 3rd place (18.1%) and Health at 9.9% (see Figure 4).

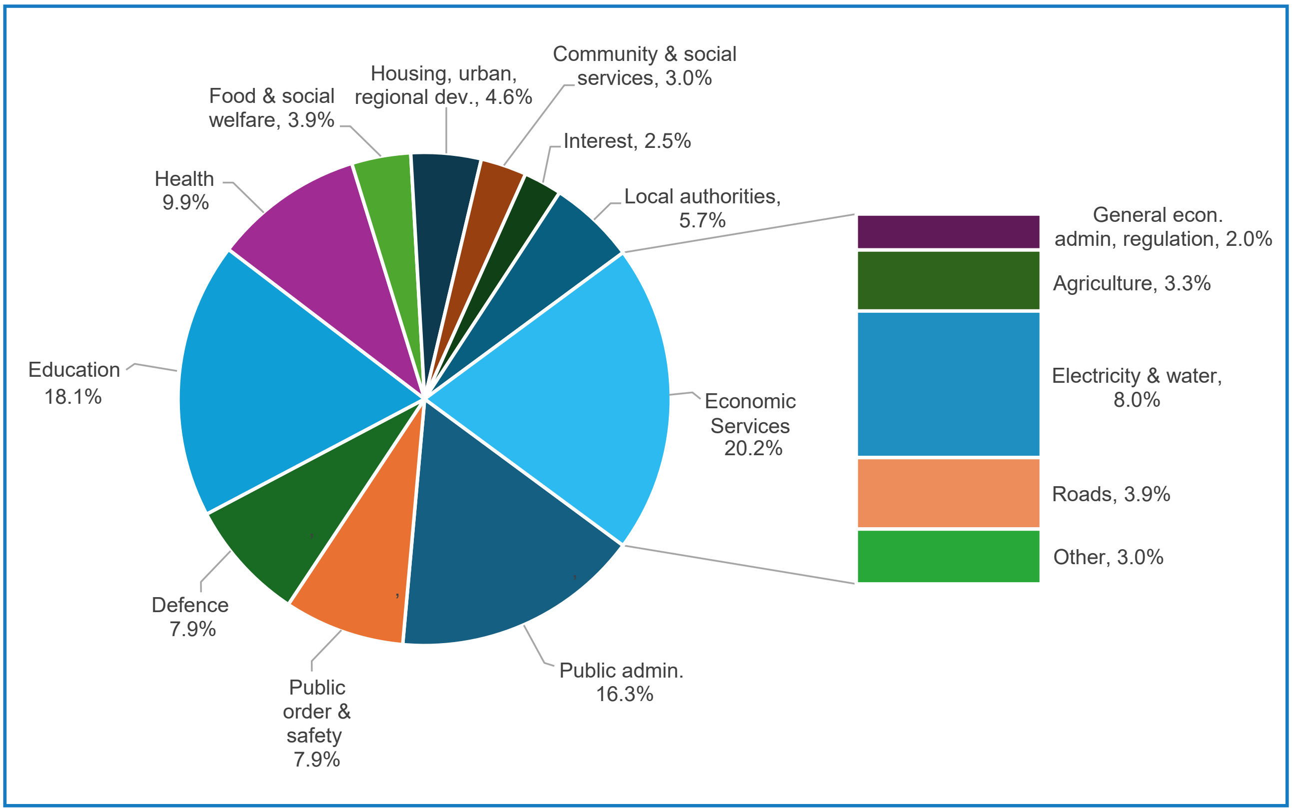
The above classifies spending on a functional basis by size, but it is also helpful to look at changes in allocations – even small functional activities may be boosted by large increases in allocations. The overall increase in budgeted spending in 2024/25 over the previous year is 15.2% (for some reason the Budget Speech quoted 23.5%, but this is incorrect). The biggest increases in 2024/25 will be enjoyed by the following activities:

- General public administration (including strategic investments such as the purchases of Tati land and shares in HB Antwerp);
- Defence;
- Food and social welfare;
- Housing, urban and regional development;
- Community and social services;
- General economic administration, technical and regulation (including digital infrastructure and services);
- Roads;
- Promotion of commerce and industry.

Clearly these increased budget allocations are to a large extent in line with the budget priorities noted earlier. Astute observers may note that Agriculture is not included above, but this is largely because the sector has already had a large increase in its budget allocation, in the 2023/24 financial year. One of the most important sectors, Health, has a reduced allocation, but this presumably reflects the scaling down of COVID-related spending which has been very high in recent years.

[2] The functional classification of spending is in line with the guidelines in the IMF Government Finance Statistics Manual.

Figure 4: Functional Allocation of Spending, 2024/25 (% of total)



To what extent does the overall budget and its allocation address economic needs and priorities, and promote much-needed economic transformation? Clearly some of the increase in development budget – if it can be effectively implemented – will help to boost economic growth; for instance, infrastructure designed to support trade, especially cross-border trade – such as major roads, bridges, border crossings, railways etc., as well as digital infrastructure. But a considerable proportion of development spending is focused on meeting social needs; while this is important, it is also expensive and unlikely to stimulate economic growth in the short run.

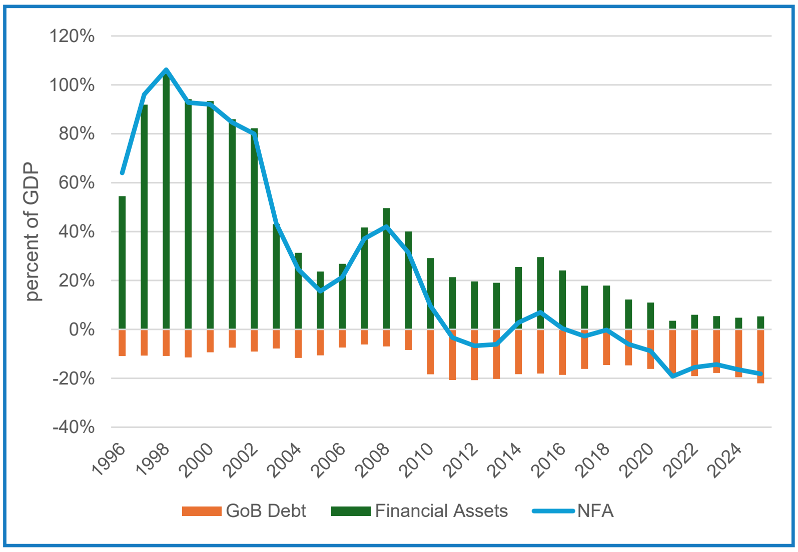
One aspect of the budget that has received particular attention is the Chema Chema Fund, which has been set up as a revolving fund to provide credit to informal sector and micro enterprises. This has generated lots of excitement, and its original allocation of P200 million has been increased to P500 million. The Fund will be administered by the Citizen Entrepreneurial Development Agency (CEDA), and there are expected to be many applications and a push to provide loans to beneficiaries as quickly as possible. Making loans will be relatively easy. However, the real test of the will come later: first, how effective has it been at supporting the creation or growth of sustainable small enterprises and jobs; and second, how much of the loan amounts disbursed is repaid – given that this is intended to be a revolving fund, such repayments are essential. The degree of repayment is of course related to the sustainability of the borrowing enterprises. The performance on these two criteria will determine whether the Chema Chema Fund has a positive economic impact. Certainly it is to be hoped that it is more effective than the SMME Fund established in the early 2000s, which gave out small-scale unsecured loans with similar intentions. This fund largely disappeared when the initial amounts were disbursed and were not repaid.

Financing and Sustainability

One of the major concerns in recent years has been long-term budget sustainability. This follows the switch from structural budget surpluses in in the period up to the late 2000s to structural deficits since that time. This is in turn because fiscal expenditure has not been reduced in line with declining revenues, making the current fiscal trajectory unsustainable. This is reflected in the long-term decline in Government's Net Financial Assets (NFA) (roughly equivalent to government savings minus debt) (Figure 5). Between 2008 and 2022, NFA declined from plus 40% to minus 20% of GDP – a decline of 60% of GDP.

The current level of the NFA is not in itself a concern, as public debt is still relatively low. But the trend is unsustainable; its impact is disguised by the fact that deficits have mainly been financed by running down savings rather than borrowing. But if cumulative deficits had been financed by borrowing, this would have been equivalent to a rise in public debt from 10% to 70% of GDP, which would have set alarm bells ringing. Hence the frequent references to the need for "fiscal consolidation", both in the Ministry of Finance's annual Budget Strategy Papers and IMF Article IV reports on Botswana.

Figure 5: Government Net Financial Assets



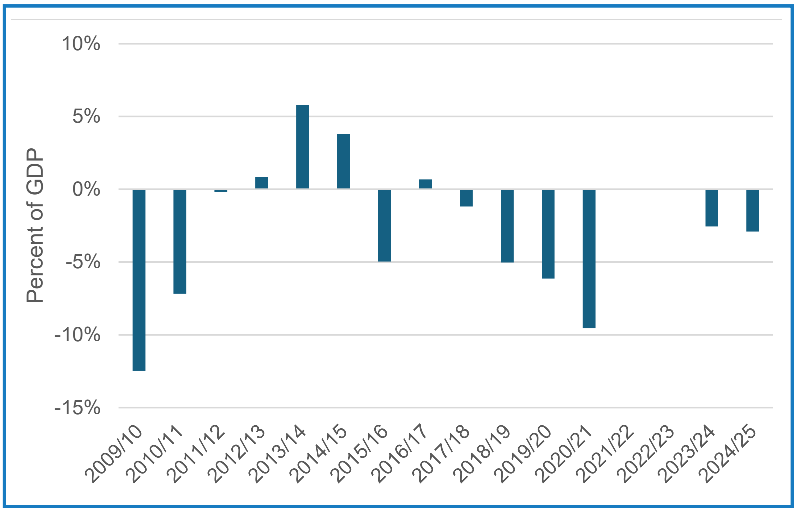
What does that mean, in practice? From a long-term perspective, sustainability has to reflect two things. First, that revenues are in secular decline, as diamond deposits get deeper and more expensive to mine (and hence the profitability of diamond mining declines, and along with it, tax and other government revenues from the industry). Second, that on current estimates, the existing mines will be exhausted at some time between the mid-2040s and early 2050s (i.e. 20-25 years from now), at which point diamond fiscal revenues will drop to near zero (the "fiscal cliff"). Ideally, we should be saving a (considerable) portion of diamond revenues to build up government savings in a new Sovereign Wealth Fund, which can provide an income stream that can (partially) replace mineral revenues when the major diamond deposits are exhausted. This was proposed back in NDP 11, which put forward a new Fiscal Rule to save 40% of mineral revenues in the form of financial assets, and use the other 60% for development spending. The rule was never implemented, but given the urgency of implementing a strategy for long-term fiscal sustainability, it is essential that it be revived as quickly as possible. The plan to introduce such a Fiscal Rule was noted in the 2024 Budget Strategy Paper. To make sure it moves from just a statement of intent to a practical action, this needs statutory backing, most likely through a new Act of Parliament.

Budget outturns show that the two most recent completed budget years for which actual data are available – 2021/22 and 2022/23 – resulted in more or less balanced budgets (Figure 6). This was not the intention – the approved budgets for both years included significant deficits – and the more favourable outturns resulted from above-budget revenues and, to a lesser extent, underspending on the development budget. Although this de facto fiscal consolidation was welcome, it would have been better if it had been planned into the budget from the beginning.

The revised and proposed budgets for 2023/24 and 2024/25 again show budget deficits (hence planned fiscal consolidation is being postponed again). However, these planned deficits may not be reflected in practice. The ongoing problems with the Government Accounting and Budgeting System (GABS) mean that there is actually considerable uncertainty over the true revenue and expenditure position[3] . And as noted above, our view is that both revenue and expenditure projections for 2024/25 are over-estimated, so the final budget deficit figure is difficult to estimate. But the point remains that a planned balanced budget (or a small budget surplus) needs to be targeted to get the budget on to a sustainable path.

[3] The final budget data for 2022/23 have still not been published, a year after the end of the relevant time period.

Figure 6: Budget Balance (Surplus/Deficit) (% of GDP)



The deficit must, of course, be financed. This can be done by either drawing down on savings, or borrowing, whether domestically or externally. The financing plan for the projected deficit of P8.7 billion for 2024/25 entails full reliance on domestic borrowing. In fact the projected borrowing is higher than the deficit itself, due to the needs of amortising some external debt, as well as a plan to partially rebuild the Government Investment Account (GIA). No significant new external borrowing is programmed.

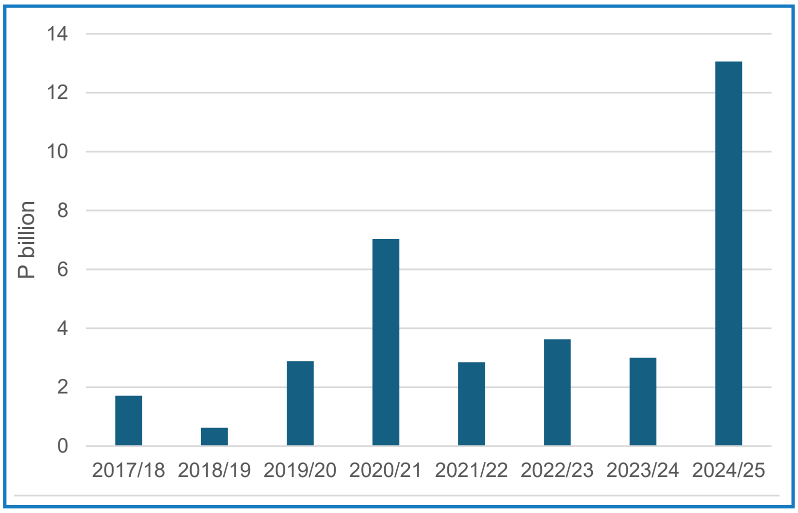
Table 1: Budget Financing, 2023/24 and 2024/25 (P million)

FINANCING ITEM	2023/24 (ACTUAL)	2024/25 (PLANNED)
Budget Deficit	**-7,126**	**-8,695**
Pula bond maturity	-2,691	-2,217
External debt amortisation	-1,843	-1,817
Other	-260	-100
Total financing requirement	**-11,919**	**-12,829**
External borrowing	7,253	162
T-Bill issuance (net)	879	4,000
Short-dated bonds	-67	3,500
Long-dated and IL bonds	4,718	7,750
Total financing	**12,783**	**15,412**
Change in GoB balances	1,080	2,583
Domestic borrowing (net)	2,839	13,033

Source: Ministry of Finance, Government Borrowing Strategy for 2024/25

The projected net borrowing requirement of P13 billion in one year is substantial, and compared to total outstanding domestic public debt of around P30 billion at the end of the 2023/24 financial year. This would be by far the largest annual debt issuance in Botswana's history, and compares with an annual figure of around P3 billion in recent years (see Figure 7). Government may, therefore, struggle to raise P13 billion through the issuance of bonds and treasury bills during the year, at least not without having to pay higher interest rates on its debt. There is an expectation that the banks will trade in some of their holdings of Bank of Botswana Certificates (BoBCs) in exchange for Treasury Bills, which pay a slightly higher interest rate. Some of the required issuance will be taken up when government starts to issue inflation-linked bonds or "linkers" (in contrast to the existing fixed-interest bonds), as pension funds and asset managers have unmet demand for such instruments. Government seems to be hoping that with the pension funds required to repatriate funds from offshore as the ceiling on external asset holdings is reduced, they will have no choice but to buy government bonds. To some extent this is true, but the anticipated inflow in 2024/25 from the required repatriation is far from sufficient to provide an additional P10 billion of demand for Government bonds. Furthermore, forcing pension funds to buy government bonds by leaving them with no other options is hardly in the interest of pension fund members and pensioners, who are best served when their pension contributions are invested in a diversified portfolio of assets, both domestic and external.

Figure 7: Issuance of Government Domestic Debt (Pbn, net)



Conclusion

The 2024 Budget is a "High Stakes" budget. It aims to be a stimulus, transformative budget, largely through a massive increase in the development budget for infrastructure, investments in strategic assets, innovations such as the Chema Chema Fund, and continued digital rollout. There are associated risks, of course. A more cautious approach would have noted the high level of uncertainty in the global diamond market and hence Government's fiscal revenues, and perhaps reined in spending to build up financial buffers and the capacity to deal with economic shocks, rather than further depleting them. The attempt to rapidly ramp up spending in the face of well-known implementation constraints could drive up prices and therefore be inflationary, perhaps even to the extent of necessitating a monetary policy response and higher interest rates. There is a financing risk, in that Government may not be able to increase its borrowing as much as proposed, which would constrain its ability to spend.

As noted in our Commentary, the budget also fits into a pattern of ramping up spending immediately prior to an election that has been evident in Botswana for some time. Most of the elections over the past 20 years have been preceded by a spending boom, whereas this less the case in the prior years.

Overall, achieving positive and transformative results through public spending cannot be achieved simply by spending more money. There are well-identified inefficiencies in both development spending (public investment)[4] and in investment in human capital (health, education and social welfare), where the results are not commensurate with the current level of spending – which in many cases is already relatively high by international standards. These need to be urgently addressed to ensure an overall increase in the efficiency of public sector spending, especially as the ability to spend will remain constrained into the future.

[4] See, for instance, the IMF Public Investment Management Assessments (PIMA) for Botswana, 2017 and 2022.

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