

# Diamond Demand Slump Tests Botswana's Resilience and Sparks Urgent Call for Reforms

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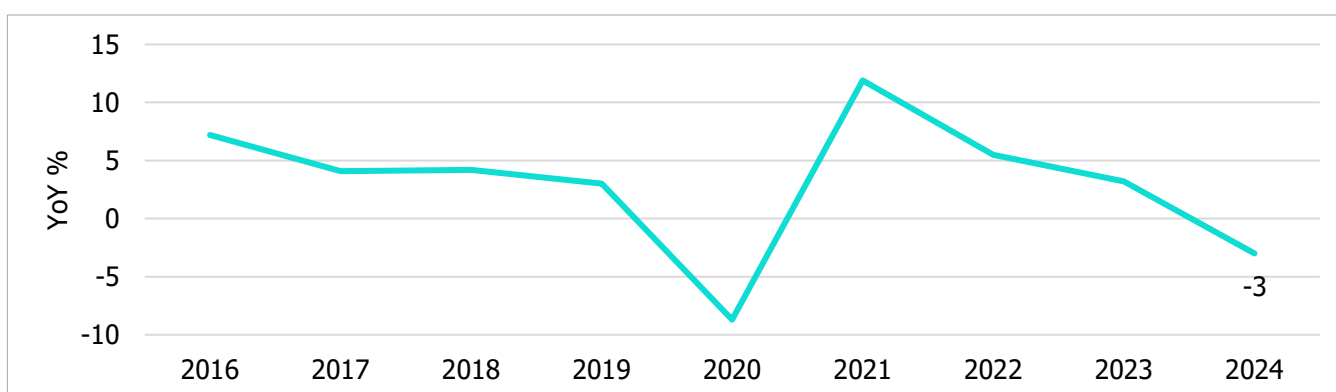
Till recently, among Africa's most stable and fiscally prudent economies, Botswana [rated CareEdge BBB+(Unsolicited)] now finds itself at a critical juncture, due to the ongoing shift in demand away from natural diamonds. The downturn in the industry coupled with the country's long-standing reliance on diamonds — its economic crown jewel for decades — is testing its economy and fiscal metrics like never before.

The response requires decisive policy actions in key areas such as fiscal consolidation, revenue and economic diversification, and the strategic management of sovereign assets.

## Recent Sharp Contraction in The Economy

In 2024 (CY24), Botswana's economy contracted by 3%, a sharp reversal from the 3.2% growth the previous year. At the heart of this downturn lies a notable 24.1% decline in the mining sector, primarily driven by falling diamond production and weakening global demand.

## GDP Growth Rates



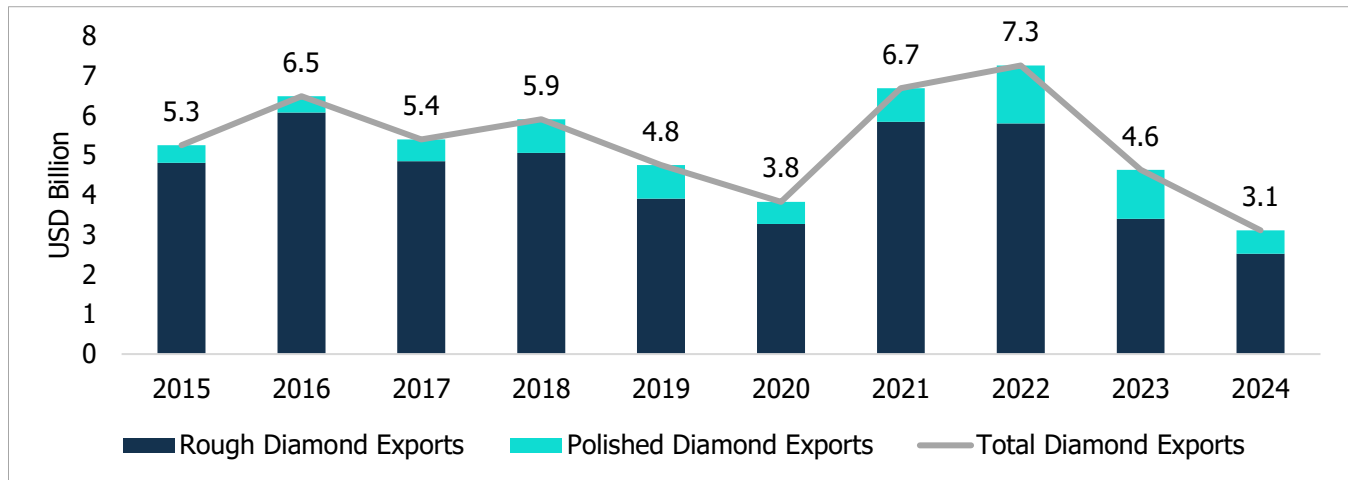
Source: World Economic Outlook, IMF (April 2025)

## ...Led By Demand Weakness in Natural Diamond Sector

The diamond industry, historically accounting for nearly 80% of Botswana's export revenues, faces structural headwinds. The rise of lab-grown alternatives, shifting consumer preferences, and geopolitical uncertainties have contributed to this 24.1% drop in diamond mining output in 2024.

As a result, the sector's exports declined to USD 3.1 billion in 2024, less than half of the peak in 2022. As a result, the sector's contribution to total merchandise exports of Botswana fell by 13.4% in 2024, sending ripples across the broader economy.

## Diamond Exports

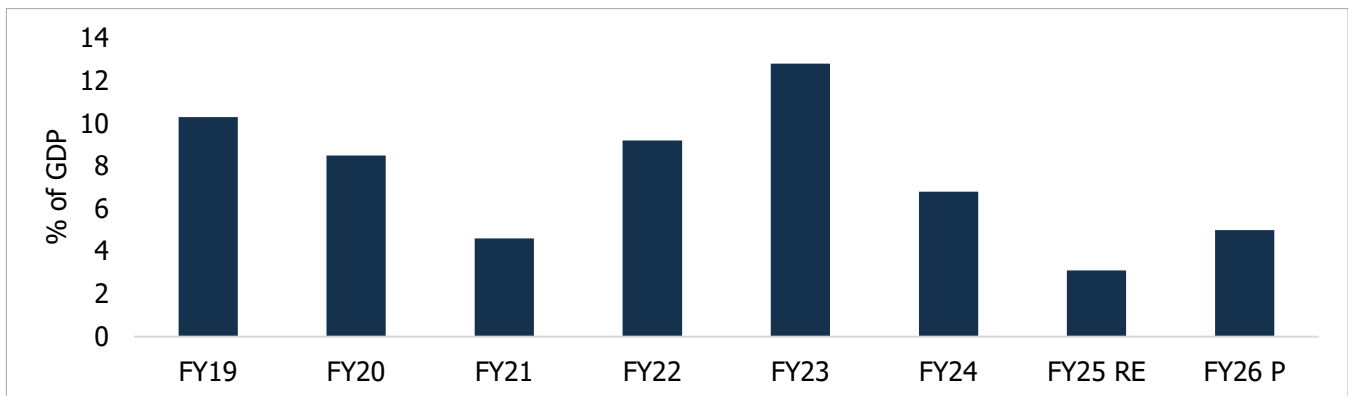


Source: Bank of Botswana

## ...And so have the Government Revenues...

The government's mineral sector revenues, generally exceeding one-third of total income, have fallen due to reduced global demand for diamonds. For FY25, mineral revenues have fallen to BWP 8.7 billion from the initial BWP 25.2 billion in the budget, now representing 3.1% of GDP. In FY26, there is an expectation that mineral revenues will increase to 5% of GDP, offering some financial relief for the government following recent declines linked to weaker diamond demand, although pressures on expenditure continue elevated.

## Government Mineral Revenues

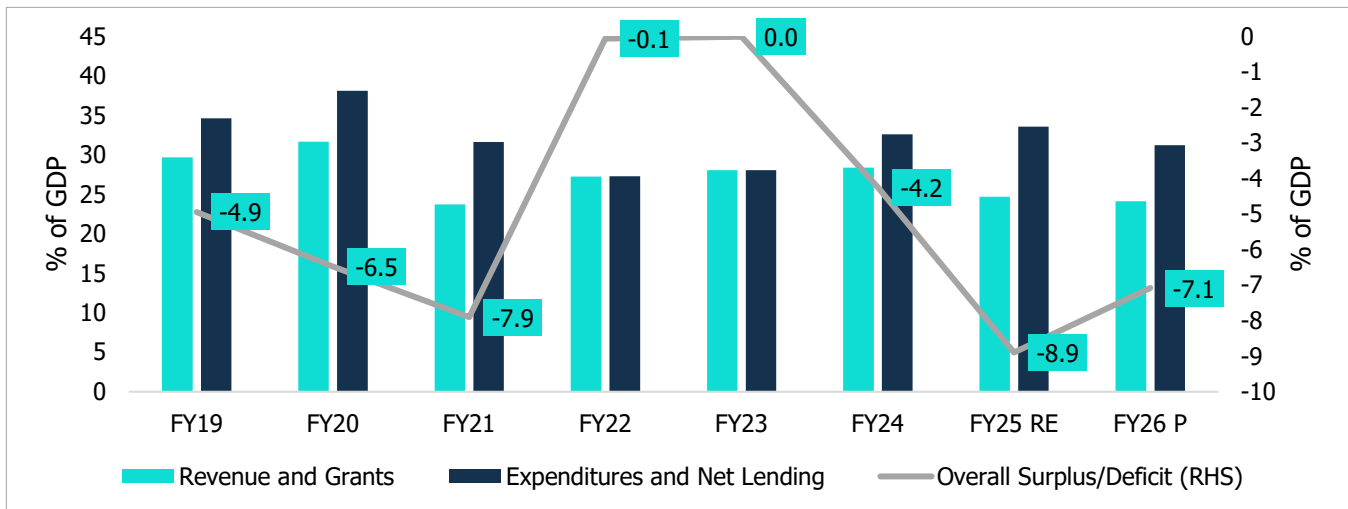


Source: Ministry of Finance, Botswana; Note: RE=Revised Estimates; P= Projections

## ...Leading to a Higher Fiscal Deficit in FY25, and Sharp Increase in Future Debt Levels

The recent fiscal performance has deteriorated, even deeper than in the pandemic year, as the country's economy is strongly linked to the diamond sector. The FY25 Budget, unveiled in February 2025, estimates a fiscal deficit of 8.9% of GDP—more than double the 4.2% deficit recorded in FY24- a stark contrast to the balanced budgets of FY22 and FY23. This deterioration is mainly due to a 51% year-on-year decline in mineral revenues.

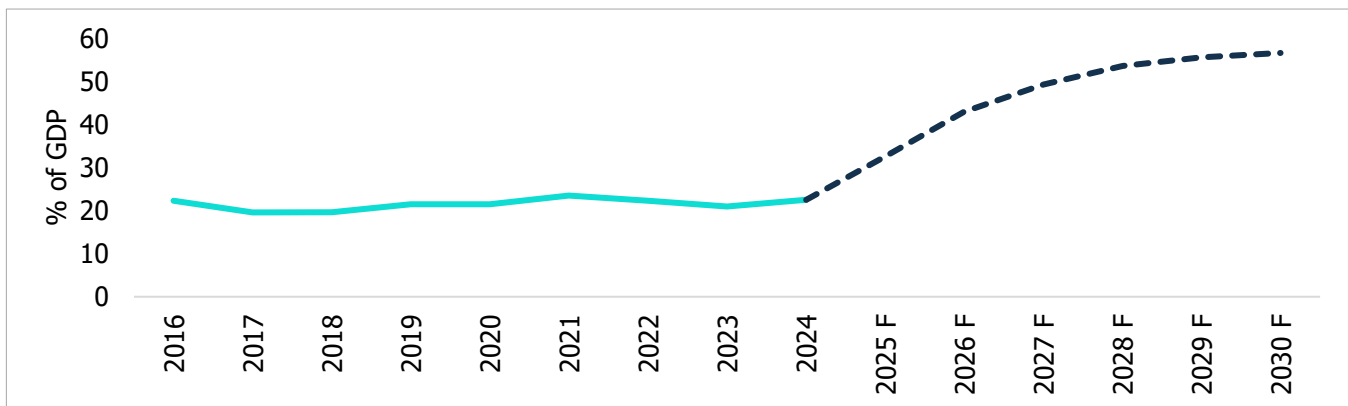
## Government Revenue, Expenditure & Fiscal Balance



Source: Ministry of Finance, Botswana; Note: RE=Revised Estimates; P= Projections

Botswana's gross general government (GGG) debt stands at 22.5% of GDP in 2024, with the IMF forecasting it to surge to 56.6% by 2030. This anticipated rise is attributed to growing fiscal pressures, elevated development expenditures, and dwindling fiscal buffers. While the current debt ratio is lower than that of regional counterparts, the swift escalation raises sustainability concerns, particularly in the absence of robust domestic revenue streams or spending reductions. It is vital to implement effective debt management and fiscal reforms to uphold investor confidence and support economic stability.

## Gross General Government Debt



Source: World Economic Outlook, IMF (April 2025); Note: F=Forecasts

## However, it is Not All Doom and Gloom

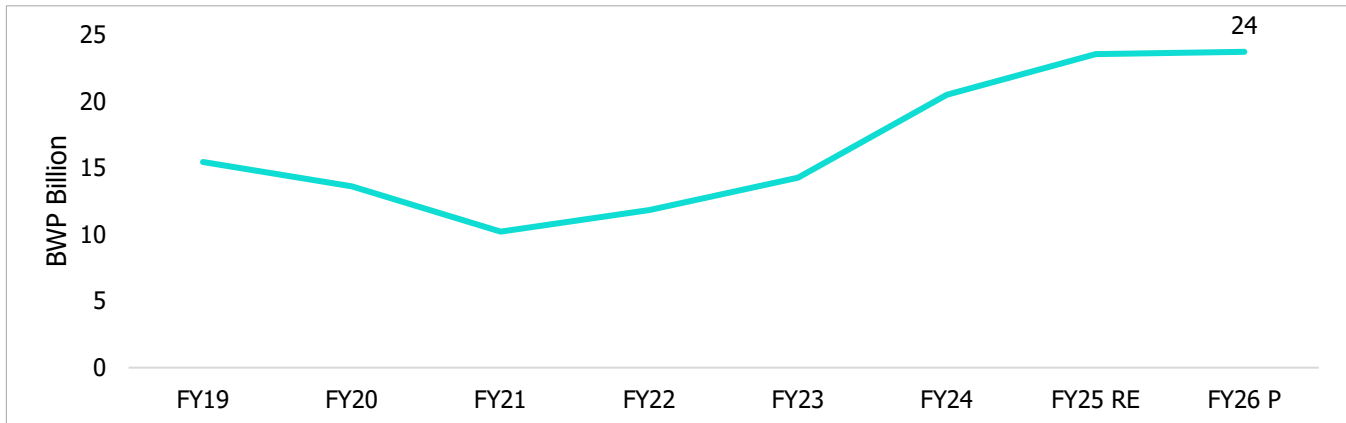
Yet, Botswana's story is not one of crisis alone—it is also one of resilience and reform.

Despite the economic contraction, the country benefits from strong institutional frameworks. Botswana has demonstrated prudent policymaking through effective fiscal management, transparent governance, and robust regulatory systems. It fares well in political stability and absence of violence or terrorism, as well as strong control of corruption. Its commitment to ethical leadership and careful stewardship of the sovereign wealth fund supports long-term fiscal sustainability and economic stability.

### Higher Expenditures Are Not Necessarily Unproductive and Wasteful

Crucially, much of the increased spending is not reactive but reform oriented. Investments are being channelled into long-term productivity-enhancing sectors, suggesting that the current fiscal strain, while significant, may be laying the groundwork for a more diversified and resilient economy. Examples include significant investments in modernizing agriculture to improve productivity and climate resilience, expanding renewable energy projects such as solar and wind farms, and significant infrastructure development.

### Development Expenditure of the Government

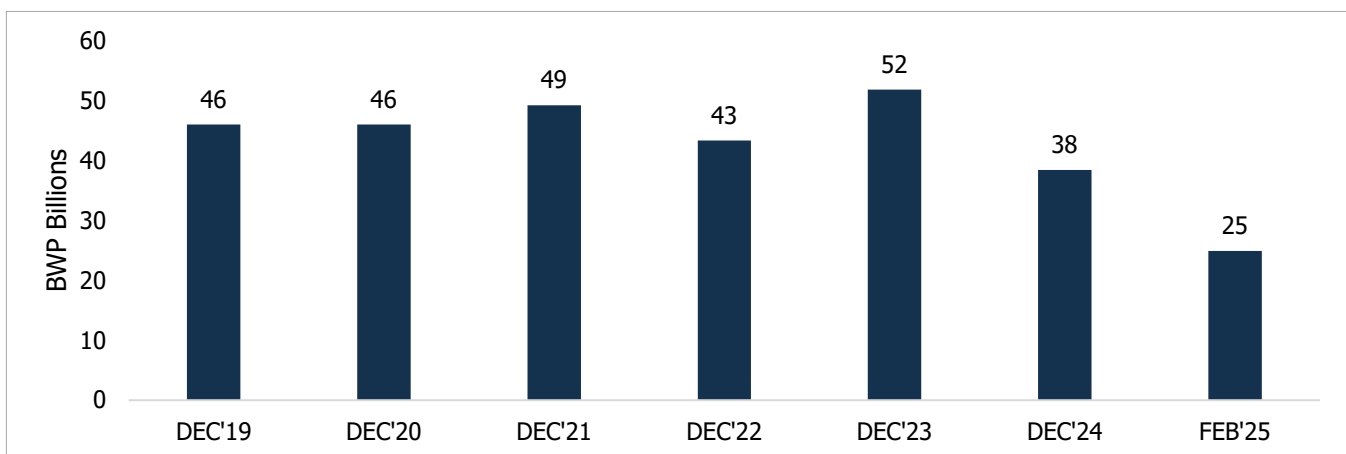


Source: Ministry of Finance, Botswana; Note: RE=Revised Estimates; P=Projections

### Buffer from Pula Fund (Reflecting Years of Prudent Policy Making) is still available, though Depleted

The Pula Fund, which serves as Botswana's sovereign wealth fund, saves excess mineral revenues to protect the economy from commodity price volatility and preserve wealth for future generations. It exemplifies disciplined fiscal policy, transparent management, and a long-term investment strategy, reinforcing Botswana's reputation for responsible resource management and fiscal stability. However, the Pula Fund has recently seen its assets depleted to BWP 24.9 billion (~USD 2 billion) by February 2025 from BWP 53.1 billion (~USD 4 billion) in June 2024. Once a symbol of the country's prudent fiscal management, the fund's depletion signals mounting pressure on public finances.

### Pula Fund

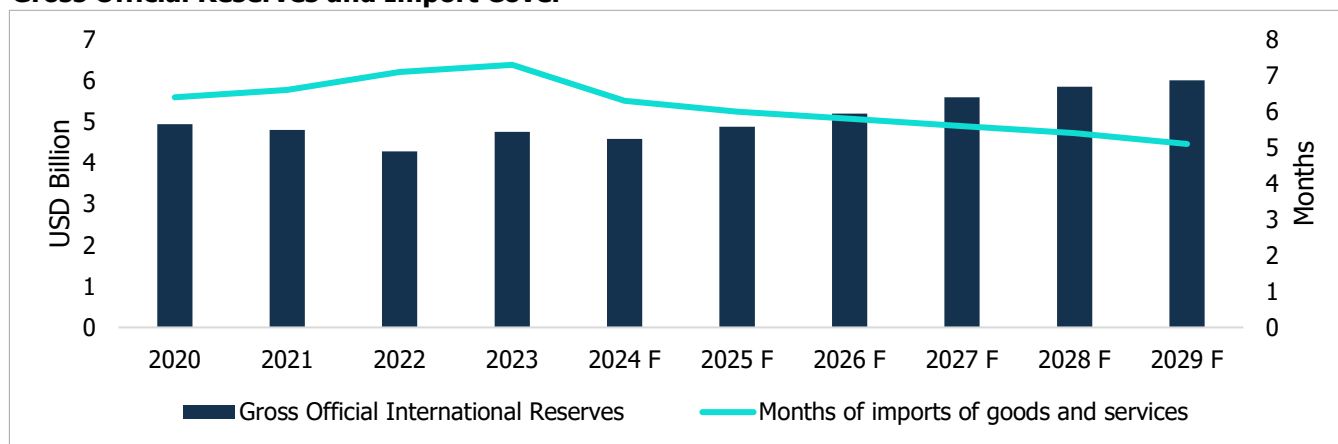


Source: Bank of Botswana

### Further, Cushion from Forex Reserves Exists, Though Lower than in the Past

Foreign exchange reserves have also declined, though they remain sufficient to cover 5.8 months of imports, providing a cushion as reforms take shape.

#### Gross Official Reserves and Import Cover



Source: Article IV, IMF (September 2024); Note: F=Forecast

### The government is Showing Signs of Structural Reforms to deal with the Situation

Encouragingly, the government is not standing still. A broad-based diversification agenda is already in motion. Sectoral strategies in tourism, agriculture, ICT, and healthcare are being supported through the National Development Fund, housing initiatives, and youth entrepreneurship programs. Reforms in renewable energy and skills development are also underway to build long-term economic resilience.

The success of these reforms in diversifying the country's economy and broadening the revenue pool of the government will be crucial to offset the structural dependence and weakness in the diamond industry.

#### In summary

While short-term fiscal pressures will likely persist, Botswana's reform momentum and policy credibility offer a path forward. As non-mining sectors begin to gain traction, the country has the potential to emerge from this downturn with a more balanced and sustainable economic foundation.

The road ahead is challenging. Without decisive corrective action, Botswana's economic and fiscal metrics deterioration could weigh on its credit profile. Key areas to watch include fiscal consolidation, revenue diversification, and the strategic management of sovereign assets.

In the face of adversity, Botswana is choosing transformation over stagnation. The coming years will test its institutions' strength and its policymakers' resolve—but with the right reforms, the nation can chart a new course toward inclusive and resilient growth.

Some key monitorables include the recovery speed of global diamond demand, which affects export revenues and fiscal receipts. The government's ability to control fiscal deficits and manage debt amid increasing expenditures is also crucial. CareEdge Global will watch the performance in FY25 and the direction from the Budget in FY26 on this front. Progress in economic diversification and structural reforms will also be important indicators of long-term resilience.

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