Republic of Botswana

DRAFT

2025/2026 BUDGET STRATEGY PAPER

MINISTRY OF FINANCE

4th DECEMBER 2024

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I. INTRODUCTION

1. The 2025/2026 Financial Year budget marks the first year of the twelfth National Development Plan (NDP 12). As part of the budget preparation for the year, a Budget Strategy Paper (BSP) has been prepared to guide the process. The BSP also presents a medium-term strategic perspective on implementing an inclusive, people-centred and transformational budget. In addition, the Paper outlines budget priorities while considering the prevailing local, regional and global macroeconomic conditions. It further provides a summary analysis of the economy, anticipated Government revenue and expenditure, public debt, discussion of fiscal strategies as well as an assessment of anticipated risks and their proposed interventions. The BSP also facilitates engagement and enhances understanding amongst stakeholders on the broader macro-fiscal issues that guide both the budgeting process and the prioritisation of budget allocations.

2. The Paper also outlines the 2025/2026 identified national priorities which are aimed at attaining accelerated, inclusive, diversified, export and private sector-led economic growth. These priorities are anchored on and aligned to the National Transformation Strategy (NTS), Vision 2036 as well as the regional and global agendas such as the African Union's Agenda 2063 and United Nations' Agenda 2030 on Sustainable Development Goals. In this regard, the proposed budget priorities for 2025/2026 include; **Building an Inclusive Economy; Improving Quality of Life; Modernising and Transforming Infrastructure; Innovation and Digital Transformation.**

3. Therefore, during the 2025/2026 financial year, Government will come up with innovative ways to expand the economy by tapping into global market value chains, attracting foreign investment, enhancing competitiveness, and generating foreign exchange earnings. This will be achieved through building an inclusive economy that leverages on a private sector-led growth model. Further, this model will create an opportunity for citizen-owned businesses to actively participate in the economy and unlock economic opportunities that will expand the country's productive capacity and accelerate economic transformation.

II. MACROECONOMIC DEVELOPMENTS

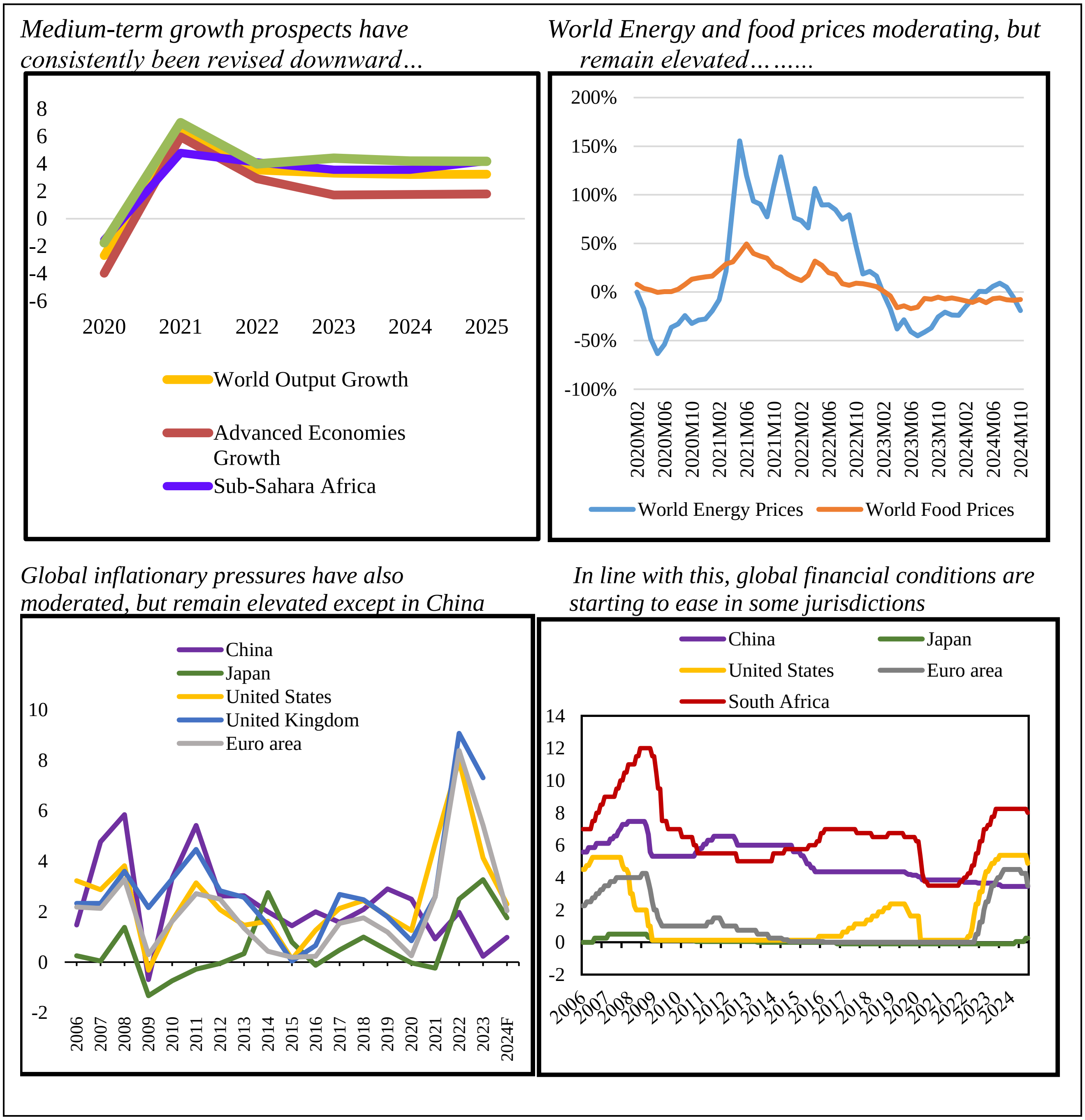
Global Economic Review and outlook

4. The global economy has faced a series of shocks over the last four (4) years which include the COVID-19 Pandemic; Geo-political conflicts; Extreme Weather Events and Supply Chain disruptions. These shocks have had a negative impact across most economic jurisdictions. It is against this background, among others, that the October 2024 World Economic Outlook (WEO) of the International Monetary Fund (IMF) estimates global growth to remain broadly unchanged at 3.2 percent in both 2024 and 2025. This growth is lower than the 3.3 percent registered in 2023.

5. With respect to Advanced Economies, the WEO expects growth in this region to be flat at 1.8 percent in both 2024 and 2025 from 1.7 percent in 2023. Emerging Markets and Developing Economies (EMEs) are projected to grow by 4.2 percent during the same period from 4.4 percent recorded in 2023. The Sub-Saharan African region is estimated to grow by 3.6 percent in 2024 before picking up to 4.2 percent in 2025, as the effects of climate related shocks, subside **(Figure 1)**.

6. Risks to the global growth profile remain skewed to the downside and could derail a much faster recovery. Among these is the renewed potential spikes in commodity prices as a result of climate shocks, regional conflicts and broader geopolitical tensions. In addition, financial market turbulence could resurface, prompting sizable price corrections. It is expected that this could lead to a contagion effect and increase risks to financial stability by, among other things, triggering sovereign debt stress in emerging markets. On the upside, a loose fiscal policy stance, artificial intelligence and stronger structural reforms could spur productivity and stimulate growth.

Figure 1: World Economic Developments and Projections



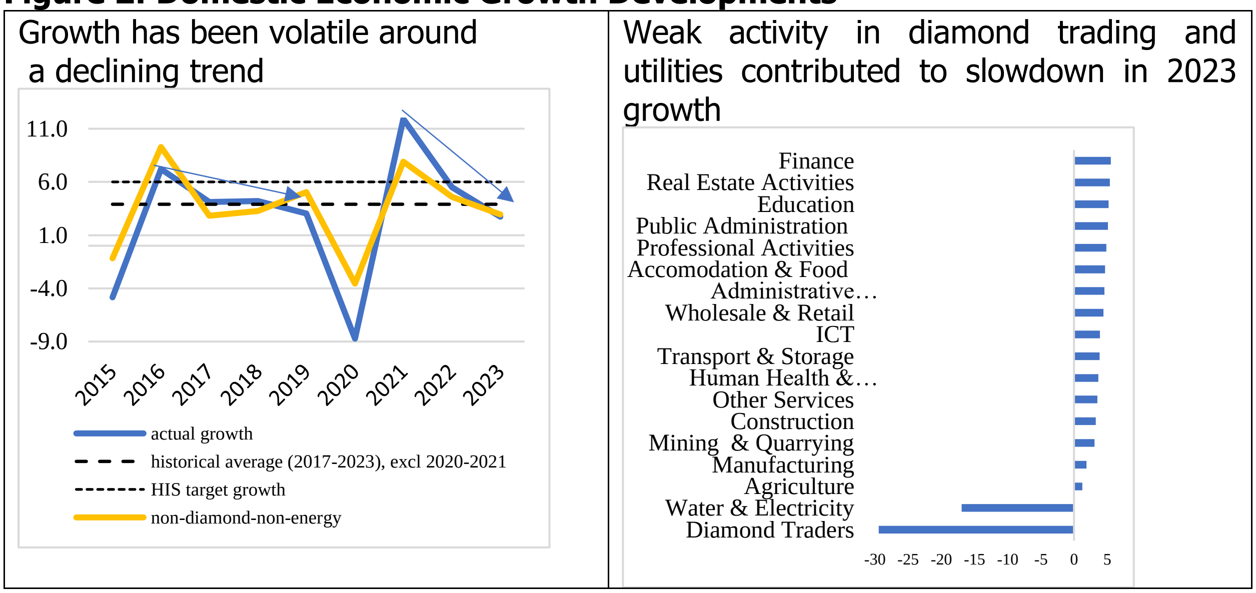
Source: IMF, World Bank 2024

Domestic Economic Review and Outlook

Economic growth

7. The impact of subdued global demand has adverse effects on the domestic economy. Real GDP slowed down to 2.7 percent in 2023 from 5.5 percent in 2022. This mainly reflects weak performance in diamond trading activities and water & electricity sectors due to lower demand for rough diamonds and energy supply shortages largely driven by ongoing maintenance works at the Morupule B power plant, respectively (Figure 2). The weak demand in the diamond sector continued into 2024 as discussed in the section on Diamond Market. In this regard, the latest data from Statistics Botswana indicates that the economy fell on average by 2.9 percent during the first half of 2024 from 4.3 percent in the same period of 2023 **(Figure 2)**.

Figure 2: Domestic Economic Growth Developments



Source: Statistics Botswana; MoF estimates, 2024

8. During the year, the agricultural sector is expected to remain subdued due to the prevailing drought conditions while other non-mining sectors are expected to maintain a positive growth momentum in line with historical trends. Overall, growth in 2024 is expected to take a contractionary path, significantly lower than the earlier projection of 4.2 percent in February 2024. Notwithstanding, the non-mining sector is anticipated to slightly cushion the economy against a steeper decline. This is predicated on Government's efforts aimed at strengthening economic resilience through the diversification drive, banking sector reforms, Meetings, Incentives, Conferences and Exhibitions (MICE) strategy on growing the tourism sector as well as agriculture support initiatives, to name a few. The domestic economy is anticipated to rebound in 2025, reflecting a combination of base effects, the global recovery in the major diamond export markets, and continued growth in the non-mining sector.

Total Factor Productivity

9. Earlier publications[1] from the Ministry of Finance suggest that much of the slowdown in domestic growth over the past years has also been largely driven by declining productivity growth suggesting lower efficiency in the factors of production over time. The data shows that average Total Factor Productivity (TFP) deteriorated and has remained elevated at -2.0 percent. As per the Botswana New Drivers of Inclusive Growth report of May 2024, Botswana will need to increase its productivity by an average of 2 percent per year or more to become a high-income country by 2036. Going forward, to achieve this, there is need to ensure that reforms aimed at growing the economy translate into high productivity levels while at the same time ensuring that capital accumulation is channelled towards productive investments with high rates of return to capital.

Diamond Market

Diamond Production

10. At a global level, diamond production has slowed down in recent years, and remains below pre-COVID levels, with other major producing countries recording negative growth on average **(Annex 1).** De Beers recently lowered its production guidance for 2024 to 26 – 29 million carats from 29 – 32 million carats in response to the higher-than-average levels of inventory carried over from 2023. In line with this, Debswana revised its 2024 production profile by 6 million carats or 25.2 percent from 23.8 million carats to 17.8 million carats. Production data shows that Debswana rough diamond production declined to 13.7 million carats in the three quarters of the year compared to 18.5 million carats in the same period in 2023, representing a decline of 25.9 percent.

Diamond Sales

11. The difficulties in midstream activities were noticeable in the latter part of 2023. These were characterised by a self-imposed two (2) month import ban of diamonds in India, a cancellation of De Beers' two (2) online sights, and suspension of Okavango Diamond Company (ODC) sales in the last two months of 2023. Together, these developments resulted in an accumulation of inventories in the midstream market, which was estimated at about 11.4 million carats in 2023 over the average allowable stock of 6.5 million carats. The economic pressures in the diamond market continued into 2024, and were worsened by uncertainties emanating from competition from lab-grown diamonds (LGDs)[2]; evolving consumer preferences, lower diamond prices and G7 sanctions on Russian diamonds, among others. Data for the first five (5) sights of the year showed that sales declined by almost 20 percent when compared to the same sight sales in 2023. On a positive note, the first four (4) sight sales in 2024 when compared to the last three sights of 2023 (8-10) shows a distinct trend toward a recovery in the market after months of slow demand.

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[1] Ministry of Finance (2023) Research Note on Total Factor Productivity https://www.finance.gov.bw/images/Research/Research_Notes/Estimates_of_Total_Factor_Productivity.pdf

[2] Lab-grown diamonds account for about 20 percent of the total diamond market from zero in 2015, translating to approximately US$7 billion of lost revenue for the natural-diamond market in 2023.

Prospects

12. Prospects for the diamond market remain uncertain. On one hand, the market may pick up as a result of positive growth in the major diamond consuming markets of US and China. This may also be supported by the decision by De Beers to halt the production of synthetic diamonds for its Lightbox consumer brand, strong marketing for natural polished diamonds and a pick-up in demand around the holiday season. However, the extent of the recovery in the diamond market will depend to a large extent on how fast the over-supply in the market is reduced against the hesitancy and cautious approach by buyers to purchase rough diamonds. Together with competition from synthetics, this could squeeze Botswana's share in the diamond market. Furthermore, the continued decline in diamond prices continues to put pressure on the value of De Beers including uncertainty on its future sale following the decision by the major shareholder Anglo American to restructure its portfolio with more focus on copper and iron ore[3]. To this end, De Beers recently merged its August and October 2024 sights into one sale in September 2024. Prospects, therefore, suggest a possibility of a U-shaped recovery rather than a V-shaped one over the medium term, unless there is a sharp improvement in demand.

13. From a long run perspective, this poses future fiscal sustainability challenges given the potential impact on mineral revenue, fiscal buffers and government's net asset position with adverse implications on debt sustainability. Despite the challenges in the diamond space, opportunities exist in the mineral economy, which require a strategy to reposition the country in line with the global shift towards other minerals such as copper and iron ore.

Inflation and Monetary Policy

14. Inflation has fallen faster than anticipated from the recent global energy price surge of 2022. Much of this has been due to a faster deceleration in fuel prices, which has exerted downward pressure on domestic inflation. In this regard, headline inflation breached the lower bound of the Bank of Botswana's objective range of 3-6 percent, recording 1.6 percent in October 2024 from 3.1 percent in the same month of the previous year. Imported inflation[4] also declined, recording 0.2 percent from 2.3 percent over the same period. Food inflation on the other hand, has moderated but remains elevated for some commodities reflecting, in part, the effects of regional drought conditions. **(Figure 3).** Of concern to the inflation outlook however, is a general increase in prices of construction inputs, such as price of cement and steel. The combined impact of the increase in construction inputs is expected to have adverse effects on the input costs for the construction industry, further raising costs for consumers and development projects. Nonetheless, inflationary pressures are expected to be accommodative over the medium term.

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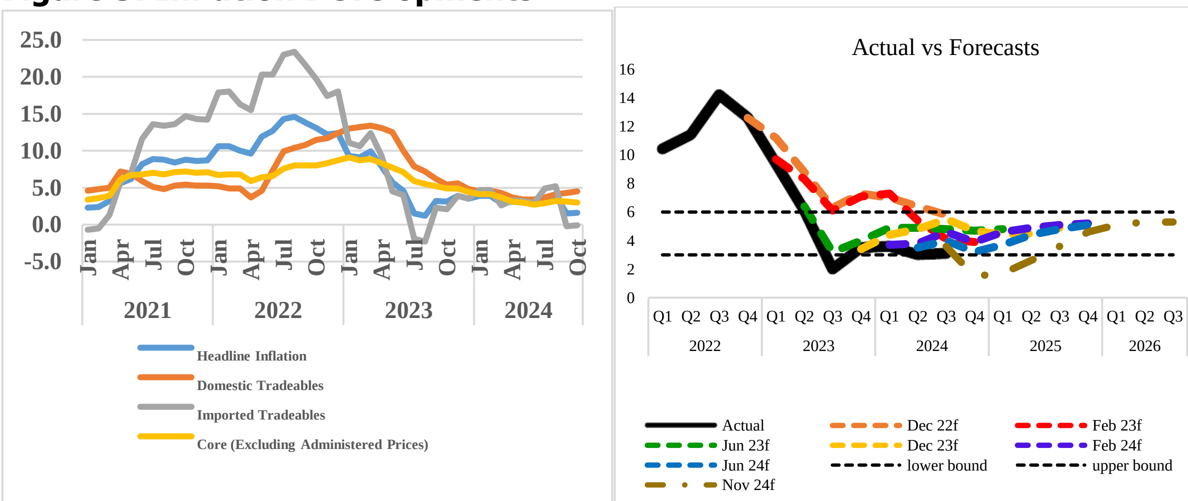
3 Demand for copper is set to boom because of its use in electric cars, electricity transmission and data centres. 60 percent of copper output is used in electric vehicles.

4 This accounts for 43 percent of the consumer price index basket weight.

Figure 3: Inflation Developments



Source: Statistics Botswana; Bank of Botswana, 2024

15. Consistent with low inflationary pressures, the Bank of Botswana maintained the Monetary Policy Rate at 1.9 percent in November 2024. At the bank level, the prime lending rate, mortgage rate and deposit rates, which somewhat move one-to-one with the policy rate may, in the short-term remain unchanged at 6.01 percent and 8.69 percent, respectively, in line with the current monetary policy stance. On the Government side, yields on short term government securities (Bank of Botswana Certificates/T-Bills) declined from 5.08 percent in December 2023 to 2.70 percent in September 2024.

Exchange Rates

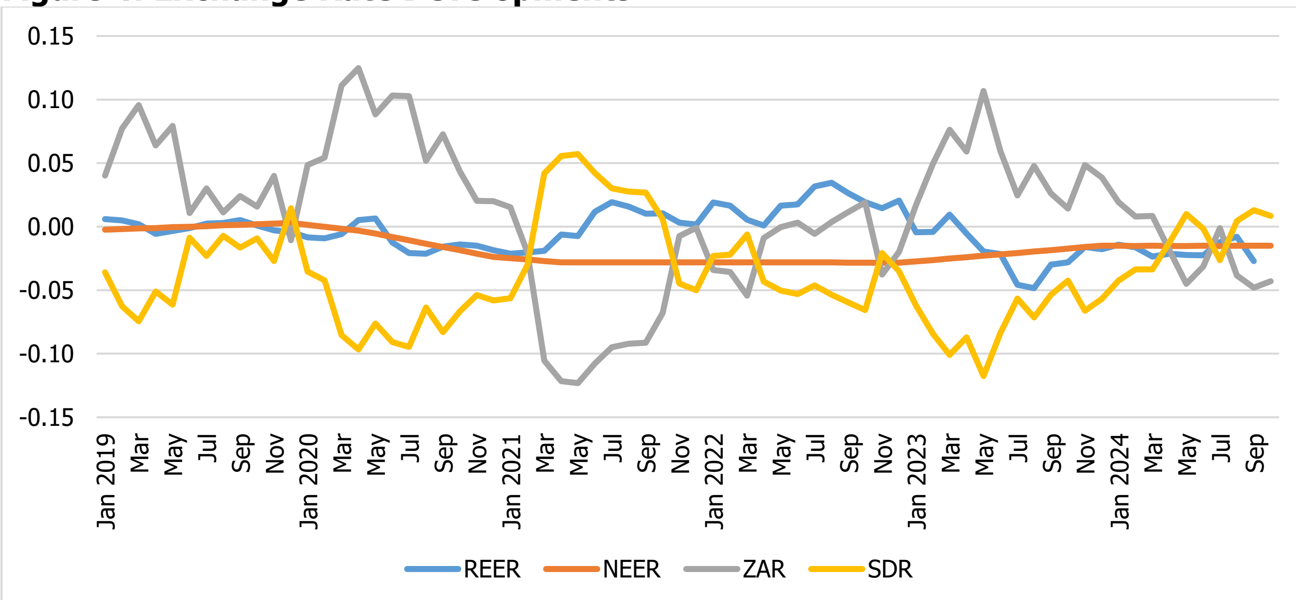
16. Implementation of exchange rate policy continued to be in line with maintaining a stable inflation-adjusted trade-weighted exchange rate of the Pula and maintaining price stability goal in Botswana. In January 2024, the Pula basket weights were maintained at 45 percent for the South African Rand (ZAR) and 55 percent for the Special Drawing Rights (SDR), including implementation of an annual downward rate of crawl of 1.51 percent.

17. Consistent with the annual downward rate of crawl, the nominal effective exchange rate (NEER) of the Pula depreciated by 1.5 percent over the twelve months to October 2024. Against the constituent currencies, the nominal Pula bilateral exchange rate depreciated by 4.3 percent against the ZAR but appreciated by 0.9 percent against the SDR.

18. Within the SDR constituent currencies, the Pula appreciated by 4.0 percent against the Japanese yen, 2.1 percent against the US dollar and 0.2 percent against the Euro. Furthermore, the Pula depreciated by 4.3 percent against the British pound and 0.3 percent against the Renminbi yuan during the same period. On the other hand, the real effective exchange rate (REER) depreciated by 2.7 percent in the twelve months to September 2024.

The depreciation of the REER during this period was in line with the depreciation of the NEER and the lower inflation differential between Botswana and trading partner countries, suggesting a slight gain in Botswana's export competitiveness **(Figure 4).**

Figure 4: Exchange Rate Developments



Source: Bank of Botswana, September 2024

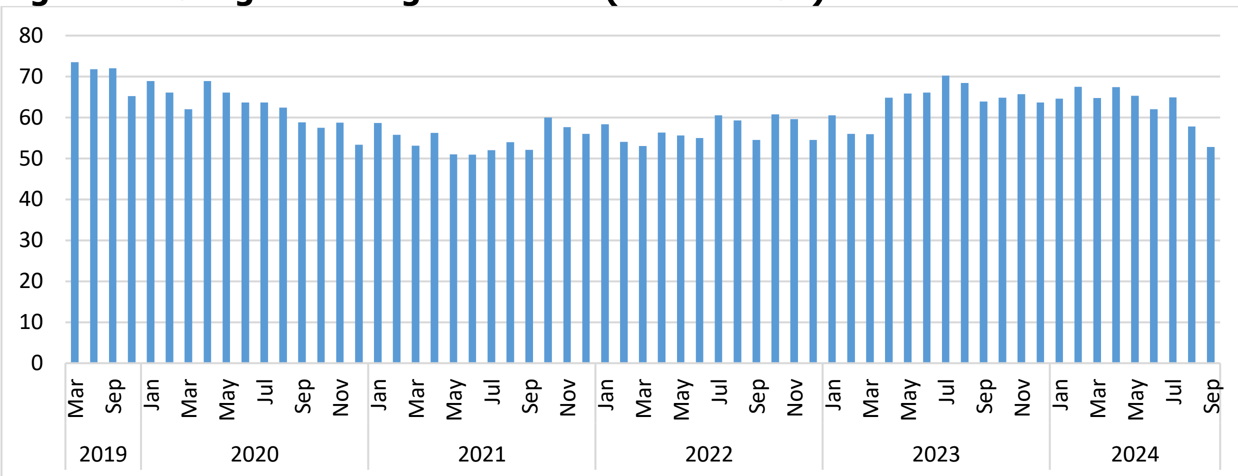
Balance of Payments and Foreign Exchange Reserves

19. The current account continues to underpin external sector developments, with much of this driven to a large extent by developments in the diamond market. Since 2019, the current account has been in persistent deficits, due to disrupted global trade and economic activity. While the trend has continued through to 2023, higher SACU transfers have somewhat offset against a wider current account deficit. On the other hand, the financial account recorded net inflows due to foreign direct investment inflows in 2023, while portfolio outflows increased owing to strong performance in the equity markets. The latest provisional figures indicate that the current account recorded a cumulative deficit of P5.7 billion in the first half of 2024, compared to a cumulative surplus of P7.7 billion in the same period last year, due to weak diamond exports. Overall, the balance of payments declined from a cumulative surplus of P4.8 billion recorded in 2023 during the first half of 2023 to a deficit of P4.9 billion, during the same review period in 2024.

20. Despite the deficit recorded in the Balance of Payments, the level of foreign reserves has recovered albeit at a slower pace. Botswana's foreign reserves have historically been robust, providing economic stability and resilience. As at September 2024, reserves stood at P52.8 billion compared to P57.8 billion in the same month in 2023. The level of reserves during this period primarily reflected the decline in inflows from diamond receipts.

The level of reserves in September 2024 was equivalent to around 6.7 months of import cover of non-diamond goods and services compared to 8.8 months in September 2023. However, this may weaken over the short term as diamond receipts decline alongside weak global demand and lower export earnings. **(Figure 5).**

Figure 5: Foreign Exchange Reserves (BWP Million)



Source: Bank of Botswana, 2024

Unemployment, Poverty and Inequality

21. Over the years, the domestic economy has struggled to absorb the growing labour force. The rate of unemployment increased in 2023 and 2024 to 25.9 percent and 27.6 percent, respectively from 25.4 percent in 2022, as per the latest Quarterly Labour Force Survey released in the first quarter of 2024. Youth unemployment increased to 38.2 percent in 2024 from 34.4 percent in 2023. The rising unemployment level reflects inefficiency in the factors of production over the years; an inward-looking private sector; a large public sector and State-Owned Enterprises which dominate several sectors of the economy with limited space for private sector participation and competition. This has been exacerbated by the slow pace at which the economy is transitioning away from a mineral led economy towards a more labour-intensive growth model.

22. Poverty and inequality levels have remained relatively high over the years even though the poverty headcount has declined from 41.7 in 1985 to 14.3 in 2022. While the share of people living below the international poverty line has declined, this remains well above that of other upper-middle income countries which is estimated at less than 5. Similarly, the level of inequality in the country as measured by the Gini coefficient has been high and declining at a slower pace in contrast to the decline among peers[5].

[5] Botswana's Gini coefficient fell from 64.7 in 2004 to 53.3 in 2015 but remained higher than peers which stood at 39.8 in 2015.

23. Beyond this, the high poverty and inequality levels have been aggravated by other factors related to the slow progress in the implementation of the country's new National Social Protection Framework (NSPF). This delayed implementation has limited the impact of social protection programmes on poverty and inequality with much of the social assistance programmes displaying high administrative costs and significant leakages.

24. Forecasts from the Ministry of Finance suggest that with the current macroeconomic fundamentals, the unemployment rate will decline to 25.1 percent by 2030, down from 27.6 percent in 2024. However, at this rate, unemployment remains above the target rate of 10 percent, required to reduce poverty and inequality. As such, accelerating the implementation of strategic priorities of agriculture, manufacturing and tourism as espoused in the National Transformation Strategy and Botswana New Drivers of Inclusive Growth, could bolster growth and competition in the private sector, expanding the labour market and more importantly helping to absorb the growing labour force.

25. Over and above these sectors is the need to leverage on internet connectivity and digitalisation initiatives in the ICT sphere where much of the youth are engaged in order to provide opportunities for unlocking the country's underlying dynamism and creativity. Addressing gender and urban-rural disparities by ensuring that females have equal access to higher-skilled and better-paid jobs will be crucial for the implementation of NDP12 and for achieving more inclusive and sustainable economic growth with a positive bearing on poverty and inequality. Relatedly, enhancing the efficiency of the current social protection system by leveraging on some of the available programmes (e.g. the tertiary scholarship and sponsorship programme where these are found to benefit only around 2 percent of the population) and redistributing funds towards lower education levels where there exist higher marginal benefits to poorer communities could have significant socio-economic outcomes.

III. FISCAL DEVELOPMENTS

Budget Outturn for 2023/2024

26. The preliminary budget outturn for 2023/2024 financial year shows a decrease from financial year 2022/2023. Total revenues and grants for the 2023/2024 period amounted to P73.76 billion compared to P74.07 billion registered in financial year 2022/2023. An amount of P24.21 billion was collected in the form of Customs and Excise revenue making it the largest contributor to total revenue and grants, 101 percent of its revised budget. Revenue from mineral operations for the April 2023 to March 2024 period amounted to P17.08 billion, this was lower than the previous year and mainly attributed to reduced prices and low rough diamond sales during the period. This consists of P4.77 billion in mineral tax and P12.31 billion in mineral royalties and dividends, which is only 64 percent of the revised budget estimate.

27. Non-Mineral Income Tax recorded P15.29 billion or 96 percent of the revised budget, the strong performance against the revised budget estimate is attributed to the 5 percent salary adjustments for the public sector during the year. Value Added Tax (VAT) amounted to P13.99 billion or roughly 117 percent of the budget, this was due to the readjustment of the VAT rate during the year from 12 percent to 14 percent. This amount comprises P12.42 billion in Value Added Tax, P1.44 billion in fuel levy, P22.24 million in plastic levy and P100.25 million in sweetened beverages levy. Other revenues which are made up of property income, sale of property and fees, charges and sundry items collected P2.34 billion or 99 percent of the revised estimate, while revenue received from Bank of Botswana stood at 100 percent of the revised budget collecting P829 million by end of March 2024.

28. Total Expenditure and Net Lending amounted to P85.50 billion, lower than the revised budget of P89.65 billion or 95.4 percent for the 2023/2024 financial year. Recurrent expenditure for the year amounted to P64.90 billion, attaining 95.5 percent of the revised budget of P67.93 billion, while development expenditure for the same period amounted to P20.50 billion or 93.7 percent of its revised budget estimate.

29. This performance resulted in an overall fiscal deficit of P11.73 billion or 4.5 percent of GDP for the 2023/2024 financial year.

Budget Performance from April to September 2024

30. The weaker-than expected activities in the diamond market has put pressure on the fiscal revenues, particularly mineral revenue. To this end, the fiscal outturn in the 2024/2025 financial year is expected to be subdued, recording a much wider deficit than anticipated earlier in February 2024. In this regard, for Financial Year 2024/2025, Total Revenues and Grants are now estimated at P77.2 billion, largely affected by a significant drop in mineral revenue, which has been revised downwards to P8.7 billion from P25.2 billion in the original budget. On the other hand, Total Expenditure and Net Lending is estimated at P95.7 billion. This is consistent with Government's decision of August 2024 to reprioritise spending by reducing the recurrent budget and the development budget by 4 percent and 22 percent, respectively, in response to the unfavourable revenue profile. In view of the foregoing, the deficit is expected to widen to P18.6 billion (6.7 percent of GDP) from P9.1 billion (3 percent of GDP) in the original budget.

31. The latest preliminary data shows that as at the end of September 2024, mineral revenue stood at P3.84 billion compared to an estimate of P12.59 billion in the original budget, representing an under collection of P8.75 billion or 69.5 percent. Mineral revenue was lower by about P8.5 billion when compared to the first half of 2023/2024. The data also show that other revenue items such as SACU receipts performed in line with expectations. For instance, SACU revenue stood at P13.62 billion during the first half of the year compared to P13.36 billion in the original budget. On the other hand, VAT was P5.88 billion compared to an estimate of about P7.57 billion in the original budget, representing an under collection of about P1.69 billion.

Non-mineral income tax collections were P9.62 billion, representing a decline of P1.74 billon compared to the original budget estimate of P10.99 billion in the original budget.

32. Total Expenditure and Net Lending stood at P38.87 billion (or 42 percent of its adjusted budget estimate of August 2024). As at September 2024, development spending stood at 44 percent in line with expectations. The low performance in spending arose mainly due to late start of projects. This is a result of lack of timely preparation of preliminary requirements towards implementation.

33. In this connection, the deficit of P4.2 billion (-1.52 percent of GDP) has been recorded for the first half of the 2024/2025 financial year. These latest projections show that, if this projected expenditure profile is maintained and taking into consideration the actual expenditure as at September 2024, the overall budget deficit for the 2024/2025 financial year will be P18.68 billion (-6.75 percent of GDP), which is more than the approved threshold of -4 percent of GDP.

34. On account of the prevailing budget performance the revised outlook points to a significant mismatch between the anticipated expenditure and the relatively lower expected revenue. To close this gap, additional stringent public expenditure control measures over and above those implemented in August 2024 are necessary to ensure fiscal sustainability in the short-term. Therefore, further reductions in both the recurrent and the development expenditure is necessary in order to deal with this challenging fiscal situation. Delays in implementing targeted fiscal consolidation measures will prolong the budget deficits into the medium term and contribute to the deterioration in the Government's Net Financial Asset position, thereby compromising plans to accumulate fiscal buffers, which are currently well below historical levels. For illustrative purposes, the balance in the Government Investment Account (GIA) was P6.5 billion as at July 2024, compared to P19.1 billion in the same month in 2023. As of end of September, 2024 the GIA balance was P1.2 billion compared to P12.6 billion in September, 2023.

35. In light of this untenable situation there is a pressing need to introduce further interventions to be effected in the 2025/2026 financial year to steer the budget towards a sustainable fiscal path. This would entail improving appraisal, design, costing and implementation of projects, clamping down on corruption and wastage as well as substantially improving on our domestic revenue mobilisation and collection. A concerted effort must also be made to re-prioritize activities, projects and programmes to align them to the objectives of National Transformation Strategy and Vision 2036 to ensure value-for-money (return on investment).

IV. NATIONAL PRIORITIES AND STRATEGIC OBJECTIVES FOR 2025/2026

36. The 2025/2026 budget priorities are aligned to the national priorities identified in the National Transformation Strategy (NTS) and has also taken into account the priorities of the New Administration. According to the NTS, the priority sectors include mining, tourism, agriculture, manufacturing, trade, sport & creative industries, transport and logistics, finance, real estate and business services. The alignment of these key sectors and the national priorities will play a significant role in ensuring that the economy accelerates towards the 6 percent growth target and reach an unemployment target of 5 percent required to transition to high-income status by 2036. Central to these priorities is an inclusive growth model which recognises the need to create more space for private sector participation in the economy. Therefore, the priorities are expected to support a shift to a private sector led growth model geared towards creating decent jobs, accelerating economic diversification and improving quality of lives.

37. The proposed budget priorities for 2025/2026 include: Building an Inclusive Economy; Improving Quality of Life; Modernising and Transforming Infrastructure; and Digital Transformation. The budget will, therefore, be deployed to drive these inter-connected priorities. Concomitantly, Government will continue to implement financial sector reforms whose successful execution will be anchored on digital transformation to change the way financial services are provided, used, and regulated. Likewise, Green Transition as a policy imperative will be integral to the pursuit of economic growth and environmental conservation. It is therefore, imperative that the country is ready for green transition, including its ability to reduce, reuse, and recycle materials for sustainable and environmentally friendly production, as well as extensive use of solar energy during the 2025/2026 financial year.

38. Strengthening implementation, monitoring and evaluation of Government projects, programmes and policies will also be a core element of the 2025/2026 budget strategy. By integrating these elements Government intends to enhance spending quality and effectiveness.

Building an Inclusive Economy

39. Government will build a diversified and inclusive economy characterised by decent jobs, high levels of productivity and equitable distribution of wealth that empowers all citizens. Central to this growth model is building the capacity of the private sector as well as potential and current exporters to enhance their competitiveness and link them to new clients. In addition, Government will continue to enter into different free trade agreements, while maintaining membership to the regional blocks to promote the intra-regional, inter-regional and international trade necessary to diversify the economy and create decent jobs.

40. Government will continue to promote expansion of the private sector through free trade agreements such as the Southern Africa Development Community-Economic Partnership

Agreement (SADC-EPA) and African Continental Free Trade Area (AfCFTA). Through these Agreements, the local producers will be exposed to competition and increased access to larger export global markets as they allow free movement of business-persons and investments. The need to improve the country's global competitiveness by increasing the current level of exports and diversifying the country's export base cannot be overemphasised. Further to this commitment is an urgent need to boost non-diamond exports to reduce the vulnerabilities associated with relying heavily on diamonds for foreign exchange inflows. Government has therefore identified impactful sectors with the potential to create jobs, diversify the economy, promote private sector and export-led inclusive growth.

41. Government's continued efforts to engage in and negotiate favourable trade agreements will serve as vital catalysts, to unlock numerous global value chains opportunities for the private sector. This will lead to more job opportunities as firms expand their operations; support the achievement of rapid economic growth; integrate into targeted segments of global industries; enhance knowledge and technological transfers which will improve their capabilities and lead to industrial upgrading and reduce poverty, hence sustained economic growth and prosperity for the country.

Improving Quality of Life

42. Government will in the 2025/2026 financial year support and prioritise inclusive policies, strategies and initiatives that will enhance quality of life for all citizens regardless of their socio-economic status. This multifaceted approach to improving quality of life will, among others, include creation of decent jobs, transforming the education system, improving healthcare system, modernising infrastructure as well as improving social welfare programmes. Furthermore, Government will build equity and social infrastructure by providing national housing programme, implementing youth empowerment programmes and launching citizens feedback platforms among others.

43. Government's focus on prioritizing sectors like tourism, agriculture, and manufacturing during the 2025/2026 financial year is a strategic step toward economic diversification and sustainable job creation. These sectors hold significant potential for addressing challenges of the current employment landscape which is characterized by job insecurity and prevalence of informal employment. Therefore, creating more sustainable and diverse job opportunities is crucial for lifting people out of poverty and improving their overall economic status.

44. Government will, in the financial year 2025/2026, improve access to inclusive, equitable and quality education as well as explore new learning opportunities at all levels. On that account, Government will enhance access to early childhood and pre-primary education; transform the Technical and Vocational Education and Training system and make it a viable alternative path of learning experience; develop a systems approach to address the issue of skills mismatch; and align education curriculum to the needs of the modern world to produce the required technical and soft skills.

This inclusive system will ensure that all students, regardless of their abilities or backgrounds, have equal access to quality learning opportunities; that appropriate educational resources are provided and also that the necessary infrastructure is provided and maintained. Skills development is integral to creating jobs by addressing existing gaps in competencies, enhancing employability as well as fostering economic growth through increased productivity and innovation. Reforms in the education system will therefore be introduced to align and position the country to become a knowledge economy that is characterized by high levels of globally competitive skills.

45. Government will also, among others, enhance quality of life by improving access to quality health care services to maintain the well-being of citizens by ensuring the health facilities are adequately staffed and equipped. With a growing population and increasing healthcare needs, resources will be allocated to propel implementation of various policies and initiatives geared towards enhancing the health sector. These policies and initiatives include introducing a national mandatory health insurance scheme, improving healthcare infrastructure and technology to modernize and enhance the efficiency of healthcare delivery, training of healthcare professionals as well as the provision of essential medicines and equipment. Through these initiatives, Government aims to prevent diseases, strengthen and promote primary health care, develop essential health care packages, strengthen innovative diagnostic and therapeutic services, enhance access to quality pharmaceutical services, establish autonomous health regulatory and oversight bodies to supervise and regulate health service standards among other intentions.

Modernising and Transforming Infrastructure

46. Government will modernise and transform infrastructure to drive real economic development including but not limited to investment in transportation networks, water infrastructure projects, electricity infrastructure, and telecommunications systems. These investments will enhance Botswana's competitiveness and efficiency, particularly in the ICT sector, to better penetrate the global market. Further, more resources will be allocated to address infrastructure deficiencies in sectors such as tourism, manufacturing and agriculture which have been targeted to drive economic diversification.

47. Significant efforts will be made to modernise our road infrastructure to facilitate regional trade. Substantial investment is still required in rail infrastructure to support the growth of the minerals sector, specifically coal and iron ore. Additionally, air transport infrastructure needs enhancement, as the lack of long-haul connections pose a constraint to the development of key sectors like tourism, finance, and business services. A regional and spatial planning approach to infrastructure development, particularly in transport network services will therefore be adopted. This strategy aims to expose Botswana’s economy to greater regional integration and transform the country into a transport hub for the SADC region.

48. In an effort to achieve a balance between economic development and ecological preservation, Government will implement a sustainable and environmentally friendly infrastructural resource plan. This entails adopting economic development practices and implementing projects that minimize carbon emissions, promote resource conservation, and encourage use of renewable energy sources. In this context, Botswana is committed to its obligations under the Nationally Determined Contribution (NDC), through ongoing climate change resilient projects to reduce greenhouse gas emissions. Some of the envisaged projects include; 100MW Solar stations for both Selebi-Phikwe, Letlhakane and Jwaneng as well as Ecosystem and Livelihood Resilience project co-financed by Green Climate Fund.

Innovation and Digital Transformation

49. This priority has a great potential to boost efficiency in the provision of services and significantly deliver the outcomes outlined in Vision 2036 across all the four pillars. Therefore, Government will continue to accelerate digital transformation and position Botswana among the leaders in the global digital economy through the Fourth Industrial Revolution (4IR). A crucial aspect of this transformation will be universal connectivity ensuring free working internet to all government institutions and community centres.

50. Further, the implementation of the African Union's Digital Transformation Strategy which aims to harness digital technologies and innovation to transform Africa's economies, augments existing efforts by Government to attain digital revolution for socio-economic development. To align with this Strategy and to position Botswana as a hub for cutting-edge technology, Government will continue to support a culture of entrepreneurship in the creation of innovative products and services aligned with SDGs, focusing on thematic areas such as mining, development of indigenous knowledge, biotech and clean technology.

V. MEDIUM TERM PROJECTIONS

Medium Term Fiscal Forecasts

51. In 2025/2026 financial year, Total Revenues and Grants are projected at P85.4 billion. Specifically, Mineral revenues is expected to reach P17.2 billion. SACU receipts are anticipated to decline to P23.3 billion from the P26.7 billion projected in the 2024/2025 financial year. However, this may be revised up or down depending on the direction of the adjustments expected in December 2024, and the performance of the Pula against the Rand. Other revenue gains are also expected to come from revenue administration measures with much of the revenue loss from traditional sources expected to be compensated for by efficiency in collections at BURS. Against this, VAT and Non-Mineral Income Tax (NMIT) collections are expected to register P16.7 billion and P23.6 billion, as part of a deliberate strategy to mobilise domestic revenue sources.

Meanwhile, revenue income from Bank of Botswana is projected at P700 million over the coming year in line with expected pre-set dividend income from Government savings invested in global financial markets.

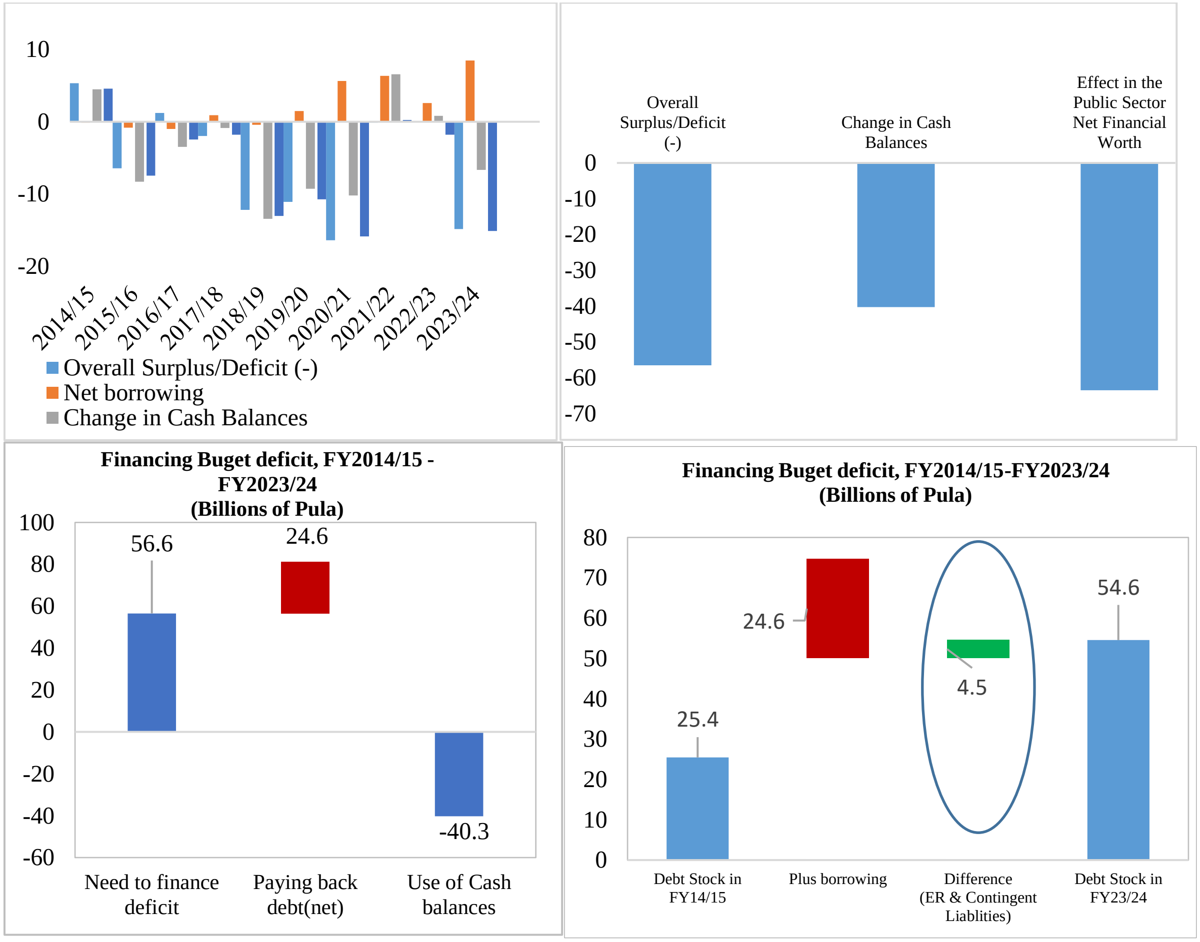
52. On the other hand, Total expenditure and net lending is estimated at P96.7 billion. Out of this, Recurrent expenditure is expected to reach P71.8 billion while development expenditure is estimated at P25.1 billion, in line with the start of the new planning period for NDP 12. Overall, the budget deficit is anticipated to narrow to P11.3 billion (3.6 percent of GDP) in the 2025/2026 financial year. This deficit is expected to be financed by different sources including domestic and external borrowing, with little drawdown on the GIA.

53. It is worth noting that, while improvement in the medium-term outlook is expected, it will depend on a number of factors such as a strong recovery in the diamond market, strong domestic revenue mobilization measures to cushion any unprecedented shortfall in mineral revenues. In addition, it will require a strong commitment to the Government fiscal consolidation plan. A continuous postponement of the fiscal consolidation plan will delay any efforts aimed at accumulating buffers, compromising fiscal sustainability in the process. In addition, it will require a public investment programme which largely focus on projects with highest returns to achieve a better growth-investment nexus. This will reduce, among others, capital channelled towards unproductive investments with low contributions to growth. This low contribution to growth may also be exacerbated by the high import content of public spending which is estimated at 50 percent [6] suggesting that for every pula spent, 50 percent of this is spent on imports **(Annex 2)**.

54. In the midst of all this, the fiscal position has weakened with Government deposits at historically low levels. The GIA stood at P1.2 billion as at September 2024 compared to P12.6 billion in the same month in 2023. As indicated in **Figure 6**, Government cash balances have significantly declined, a direct result of persistent budget deficits in past years. This has led to increasing financing requirements through which the budget was funded by accumulation of debt, and drawdown in cash balances which reduced government's net financial assets. Exchange rate pressures, and to some extent contingent liabilities, have also contributed to public debt growth during the period.

[6] IMF (2024) Botswana Article IV Report.

Figure 6: Budget Balance and Financing Implications (BWP Billions)



Source: Ministry of Finance, 2024

Public Sector Debt Dynamics and Outlook

55. Currently, the stock of total public debt (including sovereign guarantees) stood at P70.5 billion as at end of September 2024 (preliminary data). This is constituted by P27.2 billion which is owed to external lenders, and P43.2 billion owed to domestic lenders. As at September 2024, total public debt stood at 25.5 percent of GDP, well below the statutory limit of 40 percent of GDP. To this end, Botswana's public debt levels remain sustainable in the medium term.

56. Total public debt is projected to rise notably in 2024/2025 from the previous financial year, largely influenced by a projected 23.36 percent increase in the stock of domestic debt. The P55 billion Bond Issuance Programme which was approved by the National Assembly in March 2024, will provide a significant proportion of financing for the 2024/2025, 2025/2026 as well as the 2026/2027 fiscal budgets. As Government implements an inward-looking resource mobilisation policy, the uptake of external debt will be reduced.

57. Presently, domestic debt constitutes 56.02 percent of total Government debt, and this trajectory will persist in the medium-term with the projected uptake of additional domestic debt. This will provide increased resilience of the portfolio to foreign currency risk, particularly the US Dollar which constitutes over 90 percent of external debt. It will also offset the portfolio's vulnerability to variable benchmark reference rates brought on by external debt which is mostly linked to the Secured Overnight Reference Rate (SOFR). On the downside, the increasing composition of domestic debt over external debt may contribute to higher debt service costs. **Table 1** illustrates the preliminary medium-term debt profile until 2026/2027.

58. Debt to GDP ratio is projected to decline gradually over the medium-term with the ratio of public debt and guarantees projected to reach 23.15 and 22.86 percent of GDP in the 2025/2026 and 2026/2027 financial years respectively. With the domestic economy anticipated to rebound in 2025, a decrease in the debt ratio is inevitable. However, with a likely budget deficit of 6.7 percent of GDP projected for Financial Year 2024/2025, expenditure commitments will put more pressure on the total financing requirement for the year. As such, additional resources will have to be raised from both the domestic and external markets, in order to meet the residual financing requirements during this financial year as well as for the 2025/2026 financial year.

Table 1: Botswana Central Government Debt Profile (Pula Millions)

Financial Year	2023/24	2024/25 (Projections)	2025/26 (Projections)	2026/27 (Projections)
GDP	**261,522**	**278,069**	**312,425**	**341,660**
Disbursed Outstanding Debt External	22,086	20,316	18,686	16,658
Disbursed Outstanding Debt Domestic	30,035	37,051	45,033	53,033
Domestic Guarantees	1,965	3,648	3,575	3,503
External Guarantees	5,232	5,127	5,025	4,924
Debt Service	**20,042**	**18,886**	**17,581**	**17,401**
External Principal Repayments	1,855	1,932	2,416	2,374
Domestic Principal Repayments	15,641	14,235	12,018	12,000
External Interest Payments	1,103	1,193	1,082	971
Domestic Interest Payments	1,443	1,527	2,065	2,056
Total Disbursed Outstanding Debt (DOD)	**52,122**	**57,367**	**63,719**	**69,691**
DOD including Guarantees	**59,319**	**66,142**	**72,319**	**78,119**
Total Debt /GDP including Guarantees	**22.68%**	**23.79%**	**23.15%**	**22.86%**
External /GDP including Guarantees	10.45%	9.15%	7.59%	6.32%
Domestic /GDP including Guarantees	12.24%	14.64%	15.56%	16.55%
Total Debt Service /GDP	**7.66%**	**6.79%**	**5.63%**	**5.09%**
Principal Repayments/GDP	6.69%	5.81%	4.62%	4.21%
Interest Payments/GDP	0.97%	0.98%	1.01%	0.89%

Source: Ministry of Finance, 2024

VI. RISKS TO MACROECONOMIC OUTLOOK

59. Risks to the current macro-fiscal outlook remain skewed to the downside. While global growth prospects are positive, with stable growth expected in 2024 and 2025, it remains below historical trends. Inflation in some jurisdictions is decelerating at a slow pace especially in the US. This suggests prospects for rate cuts in some of the major central banks will be prolonged, with interest rates anticipated to remain elevated until the US Fed stabilizes within its target. This increases the risk of a prolonged recovery in growth from its subdued levels.

60. An intensified fallout from geopolitical tensions in the Middle East and Ukraine, escalating trade tensions and increased policy uncertainty could worsen the energy crisis and supply disruptions. Further to this, export restrictions and escalation of trade tariffs coupled by worsening disruptions in major shipping routes and extreme weather events could lead to resurging commodity price spikes triggering a re-tightening of global policy rates in economies with accommodative monetary policies while amplifying monetary policy conditions in economies that had maintained tight policy stances.

61. On the domestic front, risks are also skewed to the downside. The main risk is related to uncertainties in the diamond industry, particularly a decline in the diamond market which is still struggling with clearing accumulated inventories. This has large adverse implications on public finances and the potential to widen fiscal and current account deficits, and slow the accumulation of fiscal and external buffers and increase public debt.

62. Weak economic activity in the utilities sector, due to recurring electricity generation challenges at the Morupule B pose challenges to the domestic economy. It is important to note that while the electricity sub-sector accounts for a lower share in value addition, the importance of electricity cuts across the economy as it has a bearing on daily operations of all economic sectors including mining, industry, service sector and households. On the other hand, the adverse impact of El Nino induced drought conditions, continues to pose challenges to the agriculture sector with implications on additional funding requirements for drought related activities.

63. On the fiscal front, continued delays in implementing fiscal consolidation reforms could prolong budget deficits and contribute to the decline in the Government's Net Financial Asset (NFA) position, thereby compromising plans to accumulate fiscal buffers. The 2024/25 budget deficit is more than double the amount that was anticipated at the start of the year. This suggests much larger borrowing requirements than was initially anticipated, which presents a financing risk to Government. In the past, the strategy has been to draw down from Government savings (in the Government Investment Account) to finance budget deficits. This option is no longer available due to low cash balances at Bank of Botswana.

64. On a more optimistic view, positive prospects in the US could promote a faster recovery in the diamond market. Domestically, a much faster implementation of structural reforms, adoption of a credible fiscal consolidation plan and digitalisation could accelerate the diversification drive and promote faster broad-based and resilient economic growth, supported by the finalisation of the agreement between the Government of Botswana and De Beers alongside the establishment of the Diamonds for Development Fund.

VII. FISCAL STRATEGY

65. In the medium-term, Government will continue to implement fiscal consolidation measures of bringing total Government expenditure down to a sustainable level of less than 30 percent of GDP. Specifically, focus will be on reducing the public sector wage bill, grants and subventions, and accelerating the implementation of State-Owned Enterprises reforms together with other cost containment measures. While Government has put measures in place to improve the efficiency of public spending, equally, reducing dependence on mineral revenues through economic diversification and private sector-led growth model is vital. The declining mineral revenue trend will in the medium to long-term, expose Botswana's vulnerability to external shocks. In response, Government will revamp efforts to stimulate revenue growth with alternative sources as well as create sustainable financial assets that will restore the GIA to levels enough to absorb future shocks.

66. In an effort to enhance spending discipline, Government will revamp the current fiscal strategy by expediting the adoption and implementation of a new fiscal rule. The main objective of this rule will be to achieve fiscal sustainability by spending less and saving more financial assets for future generations and as well as replenish fiscal buffers.

Public Expenditure Efficiency

67. Government will put in place several interventions as a commitment to fiscal discipline and long-term fiscal sustainability. This will involve rationalisation of public expenditure to identify and remove expenditure overlaps, prioritising essential and value-adding services, as well as conducting regular audits to identify inefficiencies or any irregularities in spending. The growth of the Government's recurrent expenditure will be managed to create fiscal space for productive investment by maintaining more development-oriented spending which is consistent with the 70:30 rule of recurrent to development expenditure. While the aim is to curb wasteful spending over the medium term, a sustainable expenditure path that is responsive to the needs of the country will be central to the 2025/2026 budget, especially considering that all projects and programmes will be ongoing.

68. Furthermore, intensive monitoring and evaluation will be deployed to determine the impact of spending, so as to be able to direct resources from where they are having the least benefit to those projects and programmes which deliver adequate returns and are positively impactful. Other measures towards improving expenditure efficiency include improving productivity in the public sector to deliver more with less resources, improve operational efficiency in public procurement processes, utilize e-services to deliver Government commitments and clamping down on corruption.

69. Government remains committed to improving the efficiency of public spending, especially given the constricting fiscal space. The Development Manager Model is intended to address implementation challenges and enhance efficiency in the delivery of development projects. The model is reinforced by the rigorous implementation of the Three-Stage Project Appraisal Process, ensuring that projects proposed undergo thorough screening in order to maximize productivity gains, efficiency, and effectiveness before their inclusion in both the Plan and the budget. This model, though relatively new to this country will have to be urgently and rigorously re-examined to accurately assess its efficacy. This is so because initial assessments have shown that project costs arising from the DM model have tended to be prohibitively high, compared to projects costs of the conventional method.

70. Additionally, Government will, as part of ongoing budget reforms, continue to entrench zero-based budgeting (ZBB) and Budget Options in the budgeting process to enhance fiscal discipline. The improvements encompass a range of strategies aimed at both maximising revenue and reducing spending in order to obviate potential budget deficits over time. The approach aims at improving the costing of budgetary requirements by Ministries, Departments, and Agencies, particularly for the operational budget, which constitutes over 70 percent of the national budget.

Public Private Partnerships

71. It is important to create an enabling environment in order to ensure sustainability of contracts for projects delivered through Public Private Partnerships, instil confidence in the market and improve speed of delivery. This will be done by finalizing the draft Public Private Partnership Bill and subsequent submission to Parliament for approval. Projects delivered through PPP will be realigned to focus on those that have high impact on the economy and are able to at the least partially sustain their operations. This is to ensure that they will raise and maximise revenue by charging user fees where feasible and appropriate as well as utilise the existing assets to improve bankability of projects. Revenue could also be raised through asset recycling, whereby the existing assets are handed to the private sector to operate.

72. Furthermore, some Government Departments and State-Owned Entities have in their possession, properties with high value that could be utilized to raise funding and/or use their value to contribute to the viability as well as affordability of PPP projects and thereby reduce dependency on Central Government. It is expected such an approach will result in an increase in the scope of projects as well as reduce the need for Government support and exposure to risk for the public sector. A few combined projects are better than isolated individual projects since it will amongst others, ensure economies of scale in project formulation and implementation.

Revenue Maximisation

73. To bolster its revenue maximization efforts, Government is implementing various policy and administrative measures aimed at diversifying and expanding the revenue base while improving operational efficiencies. One of the key initiatives is the introduction of Value Added Tax (VAT) on remote services. To further curb leakages and maximize revenue, the Botswana Unified Revenue Service (BURS) is rolling out Electronic Invoicing (E-Billing) for efficient VAT collection, with the pilot phase of a three-year project scheduled for completion in March 2025. These e-service platforms are aimed at enhancing tax compliance for both individuals and businesses, fostering a business-friendly environment and encouraging investment. Simplification of tax laws is also expected to boost tax revenue collections.

74. As part of ongoing revenue maximisation endeavours, Government continues to implement domestic revenue mobilisation through, among others, implementation of user fees and service charges while gradually reducing dependence on mineral revenue. Government will evaluate existing revenue sources and identify additional non-traditional sources.

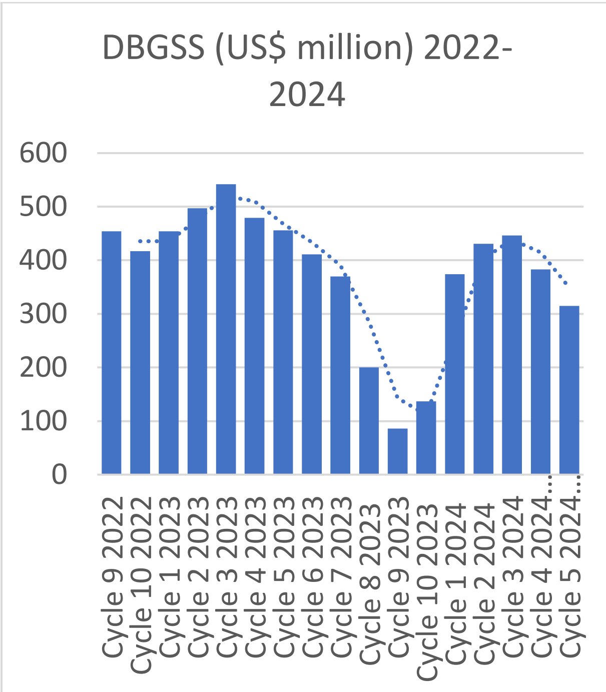
VIII. SUMMARY AND CONCLUSION

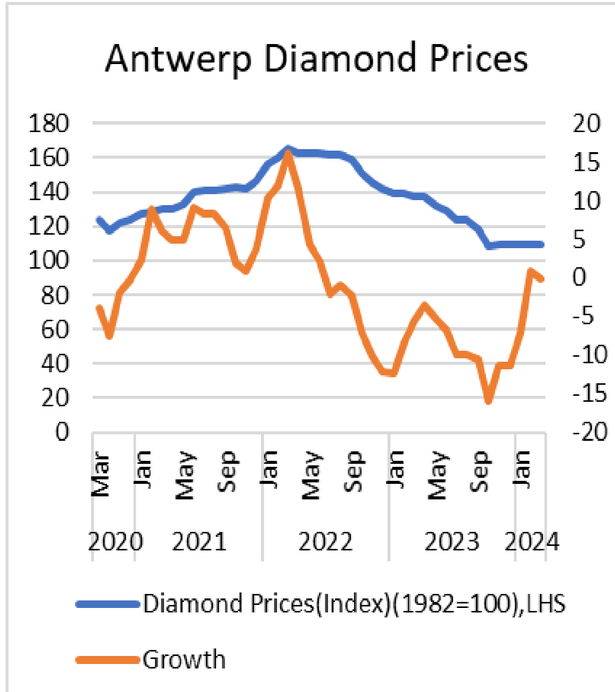
75. Botswana continues to face structural challenges, slow growth, and the lingering impacts of global shocks arising from high global inflation, COVID-19 pandemic and prolonged supply chain challenges emanating from the ongoing geo-political tensions. These external shocks are expected to continue to have spill-over effects on Botswana's economic growth and fiscal condition.

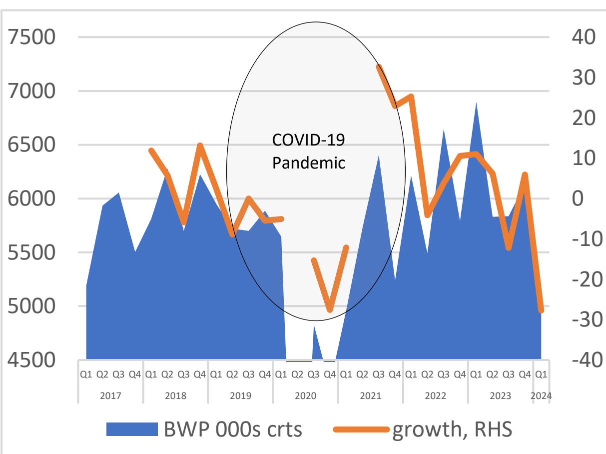
76. In view of the prevailing global and domestic macroeconomic developments, particularly the current unfavourable fiscal position, implementation of fiscal consolidation measures will be heightened to rein-in unsustainable budget deficits and increasing public debt levels. Therefore, Government will implement strategies for efficient revenue collection and expand the revenue base as well as improving spending quality. This is expected to facilitate restoration of fiscal sustainability.

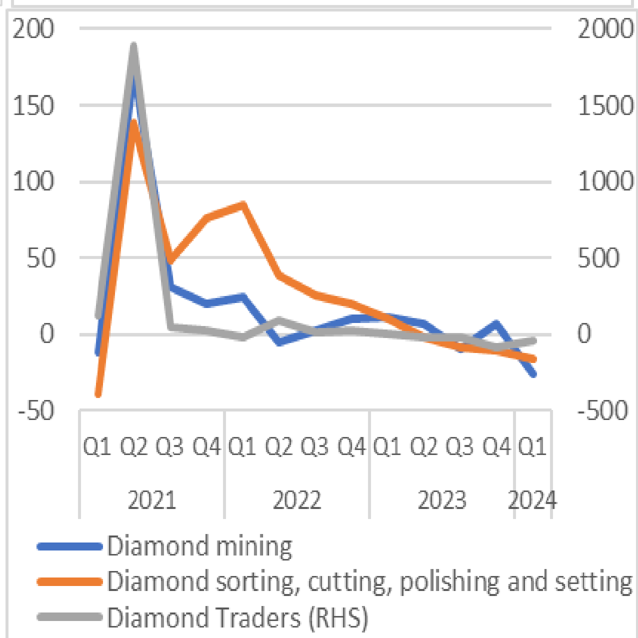
77. In recognition of the challenges presented by over-reliance on diamonds, the Government will pursue policies and programmes aimed at spurring export diversification. As we chart the course for the 2025/2026 financial year, Government remains committed to fiscal responsibility, quality service, good governance and the pursuit of long-term economic stability, in an effort to build a sustainable and prosperous future for all Batswana.

Annex 1: Developments in the Domestic Diamond Market



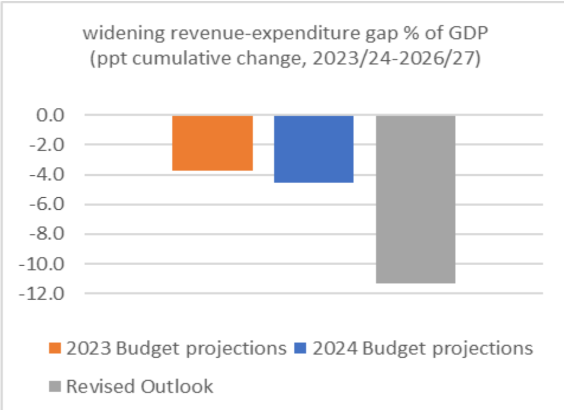


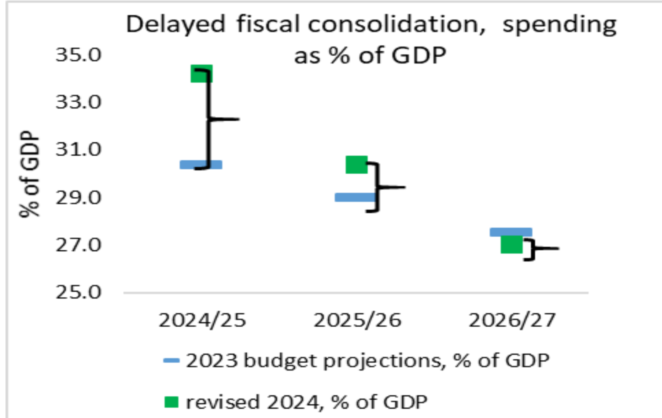


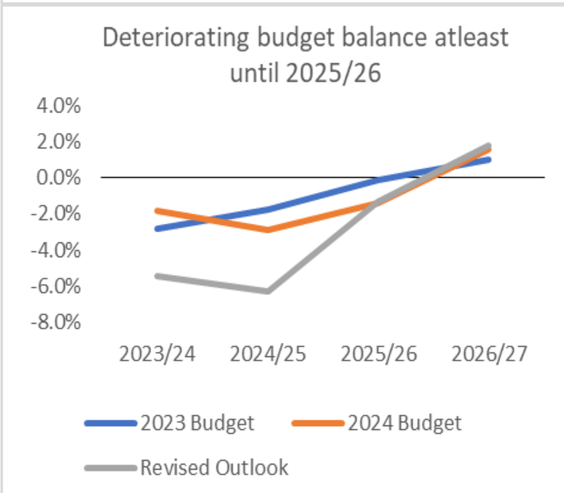


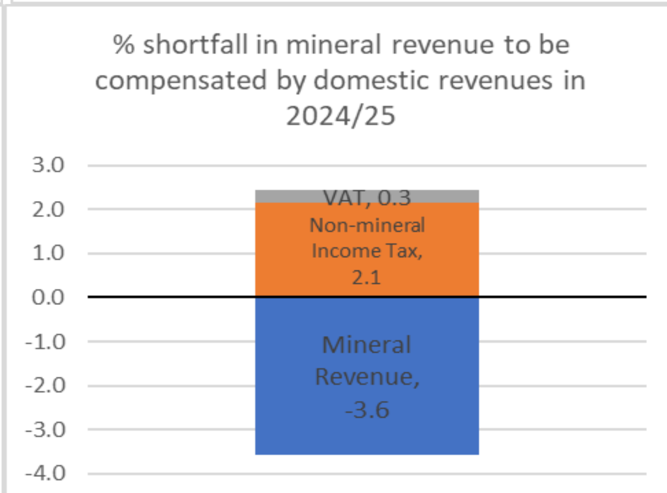
Source: De Beers; Statistics Botswana; Bank of Botswana, 2024

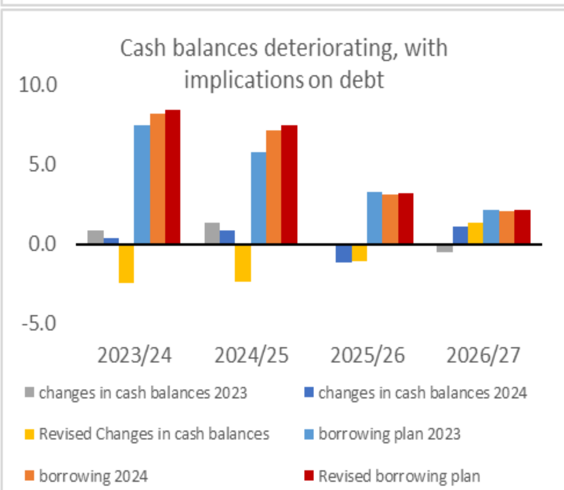
Annex 2: Budget Outlook

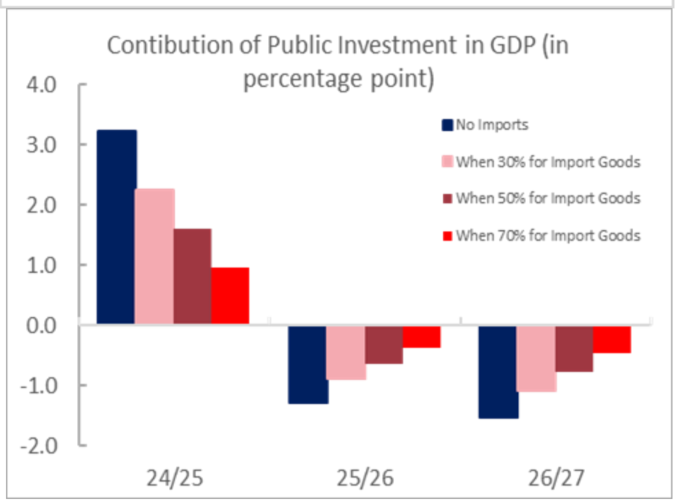












Source: MoF, 2024

Annex 3: Medium Term Fiscal Framework, 2022/23 – 2029/30 (Baseline)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total Revenue and Grants	**74,098**	**73,763**	**77,157**	**85,433**	**92,492**	**99,122**
Mineral Revenue	33,815	17,083	8,702	17,187	18,845	20,076
Mineral Tax	10,900	4,774	2,991	4,937	5,413	5,766
Mineral Royalties and Dividends	22,915	12,310	5,710	12,251	13,432	14,310
Customs & Excise Revenue	13,845	24,213	26,711	23,303	24,993	26,524
Non-mineral Income Tax	14,319	15,287	21,997	23,573	25,509	27,524
VAT	9,372	13,987	15,150	16,660	18,190	19,924
BOB Revenue	425	829	838	700	700	700
Other Revenue & Grants	2,322	2,365	3,760	4,010	4,255	4,373
Total Expenditures and Net Lending	**74,099**	**85,493**	**95,837**	**96,848**	**100,216**	**103,872**
Recurrent Expenditure	**59,714**	**64,896**	**69,940**	**71,801**	**74,037**	**76,510**
Personal emoluments & pensions	31,777	35,103	35,197	36,743	37,900	39,255
Other Charges	10,769	10,335	16,310	16,099	16,824	17,581
Grants & Subventions	15,553	16,912	15,811	15,811	16,286	16,774
Interest payments	1,615	2,545	2,621	3,147	3,027	2,900
Development Expenditure	**14,281**	**20,498**	**25,897**	**25,140**	**26,271**	**27,454**
Fixed Capital	11,709	16,806	21,233	20,612	21,540	22,509
Others	2,525	3,624	4,579	4,445	4,645	4,854
Net Lending	**104**	**100**	**-94**	**-93**	**-92**	**-91**
Overall Balance	**-1.27**	**-11,730**	**-18,680**	**-11,416**	**-7,724**	**-4,750**
Overall Balance as % of GDP	0.0%	-4.5%	-6.7%	-3.7%	-2.3%	-1.3%
Non-Resource Primary Balance	**-32,201**	**-26,268**	**-24,760**	**-25,456**	**-23,542**	**-21,926**
Non-Resource Primary Balance as % of GDP	-12.4%	-10.0%	-8.9%	-8.1%	-6.9%	-5.9%
GDP at current prices	**259,410**	**261,522**	**278,069**	**312,425**	**341,660**	**372,562**

Source: MoF, November 2024