



EXTERNAL SECTOR STATISTICS BULLETIN

DECEMBER 2024



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DEFINITIONS

Balance of Payments (BoP) Term	Definition
Balance of Payments	<i>A record of all international financial transactions made between residents of a country and non-residents in a given period, usually a year. There are three main categories of BoP: the current account, the capital account, and the financial account.</i>
International Investment Position (IIP)	<i>A record of holdings of foreign assets by residents and holding of domestic assets by non-residents (liabilities).</i> <i>The difference between the assets and liabilities is the net IIP (NIIP), a measure of the financial conditions or creditworthiness of a country.</i>
Residency	<i>For statistical purposes, an individual who lives or intends to live in an economy for more than a year is a resident of that country regardless of the individual's citizenship or nationality.</i> <i>Enterprises established in an economic territory are regarded as residents of that economy.</i>
Current Account	<i>Shows flows of goods, services, primary income, and secondary income between residents of a country and non-residents.</i>
Trade Balance	<i>The difference between a country's exports and imports of goods and services.</i>
Financial Account	<i>Records transactions that involve financial assets and liabilities that take place between residents of a country and non-residents.</i>
Foreign Exchange Reserves	<i>Foreign currency denominated assets held by monetary authorities.</i>

1. INTRODUCTION

1.1 Foreword

This bulletin is intended to provide readers with insights on Botswana's external sector developments focusing on international transactions patterns as captured by the current and financial accounts of the balance of payments (BOP) as well as the net international investment position, all of which provide a measure of the country's financial health and credit worthiness.

The statistics presented and discussed in this bulletin are compiled in accordance with the Balance of Payments and International Investment Position Manual Six (BPM 6) of the International Monetary Fund (IMF), accessible at www.bankofbotswana.bw/publications.

1.2 Executive summary

Botswana's current account was in deficit from Q3 2023 until Q4 2024. This was attributable to merchandise trade deficit as the country's imports exceeded exports. Exports declined due to low demand for diamonds by end consumer markets in the United States and China, in particular.

The country's financial account, which records capital inflows and outflows associated with foreign investments, is generally driven by portfolio investment (PI) and foreign direct investment (FDI). Although FDI accounts for the largest portion of capital inflows, in recent years, these inflows have been primarily comprising debt from parent companies rather than new investments in the form of equity. Capital outflows are, on the other hand, dominated by portfolio investments which mainly comprise pension funds' assets.

Botswana's net international investment position (NIIP) has remained positive for years indicating that foreign assets exceed foreign liabilities, thus making the country a net creditor to the rest of the world. As at the end of 2024, the NIIP stood at P53.9 billion compared to P69.1 billion in the prior year. Foreign exchange reserves which accounted for 25.8 percent of foreign assets stood at P48.1 billion at the end of 2024, constituting 6.1 months of import cover for goods and services.

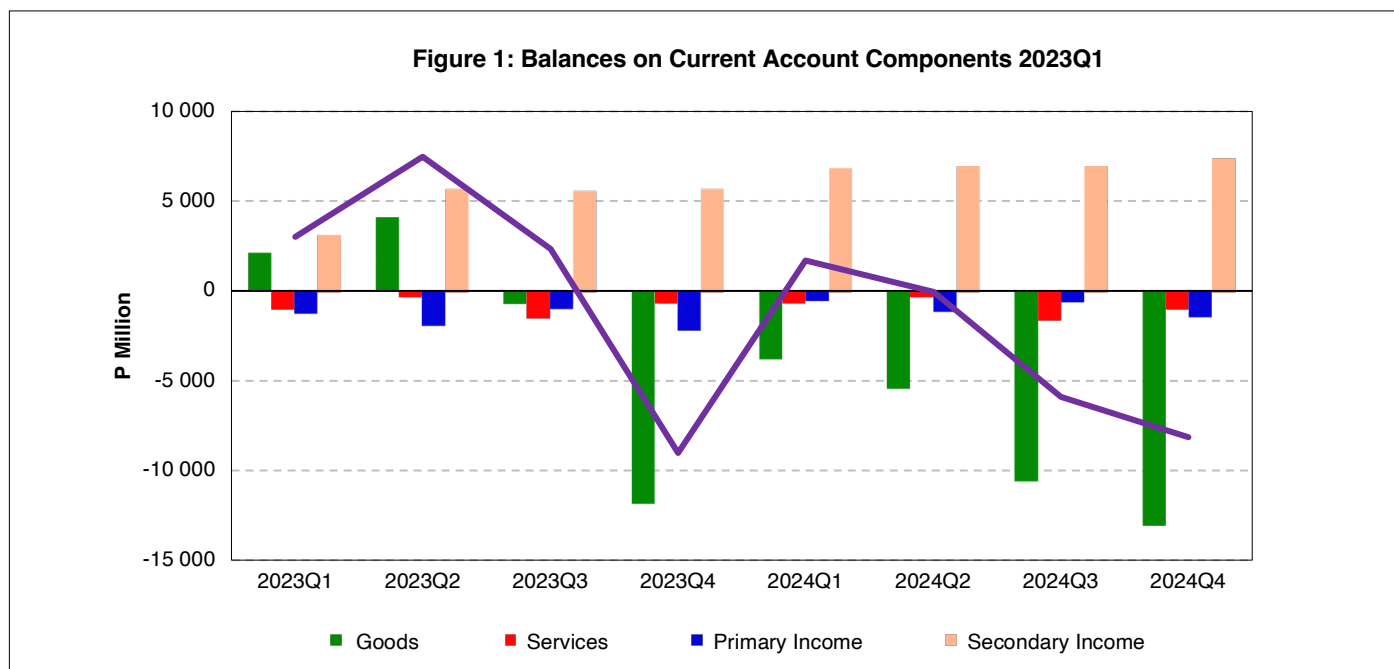
The country's total external debt was sustainable during the 2019 to 2023 period, with the public debt meeting the statutory external debt threshold of 20 percent of GDP. The positive NIIP and manageable external debt, places Botswana in a good financial position. However, it must be noted that the country's heavy reliance on diamond exports makes it susceptible to external instabilities.

2. CURRENT ACCOUNT

2.1 Current Account Balance

The current account balance moved from a surplus of P3 billion in Q1 2023 to a deficit of P9 billion in Q4 2023, largely due to a sharp decline in the value of exports, against an increase in imports (Figure 1). The deficit substantially changed to a surplus of P1.7 billion in Q1 2024 before deteriorating to a deficit of P8.1 billion in Q4 2024. The global diamond market was characterised by weakened demand, large inventories and declining prices, which negatively affected the country's rough diamond sales. Diamond exports decreased from P7.3 billion in Q3 2024 to P6.7 billion in Q4 2024, while diamond imports increased from P3.5 billion to P5.1 billion over the same period. Consequently, this contributed to the large trade deficit of P13 billion and a current account deficit of P8.1 billion in Q4 2024.

The secondary income surplus increased marginally from P6.9 billion in Q3 2024 to P7.3 billion in Q4 2024. The SACU receipts, which are the major contributor to secondary income, amounted to P7 billion in the last quarter of 2024, slightly higher than the P6.9 billion received in Q3 2024. The primary income account remained in deficit due to dividends payments and retained earnings¹, which are the main drivers of investment income outflows from Botswana to foreign investors. Notably, the mining sector companies account for a significant share of dividends paid to foreign investors. During the period under review, the services account remained in deficit, confirming Botswana's position as a net importer of services. Services imported include freight of imported goods, telecommunications, computer and information services, government not included elsewhere (GNIE), and other business services, such as mining, architectural and engineering, advertising, marketing and legal fees.



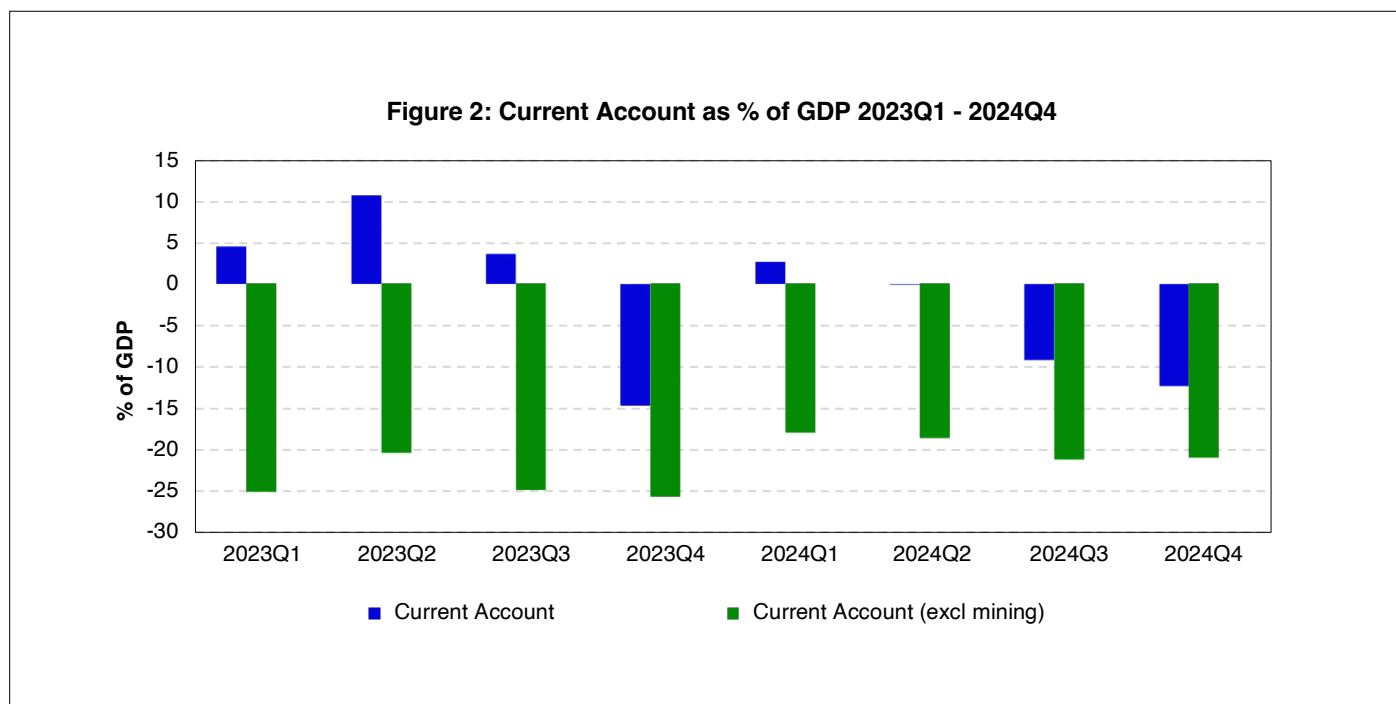
Source: Bank of Botswana

¹ The retained earnings are in deficit (negative) in this period, resulting from net income losses incurred. In comparison, when net income profits are realised, retained earnings will be in surplus (positive).

2.2 Current Account

During the period Q1 2023 to Q4 2024, the current account, registered the largest deficit in Q4 2023 at 14.5 percent of GDP (Figure 2). The deficit changed to a surplus during Q1 2024 and thereafter regressed. In Q4 2024, the current account deficit accounted for 12.2 percent of GDP, up from 9 percent of GDP in the previous quarter. The deterioration of the current account was a result of unfavourable performance of the rough diamond market.

The non-mining current account registered deficits from Q1 2023 to Q4 2024. The largest deficit at 25.5 percent of GDP, was in Q4 2023, but narrowed slightly over the following two quarters (Q1 and Q2 2024). In Q3 2024 and Q4 2024 the deficit accounted for 21 percent and 20.4 percent, respectively.



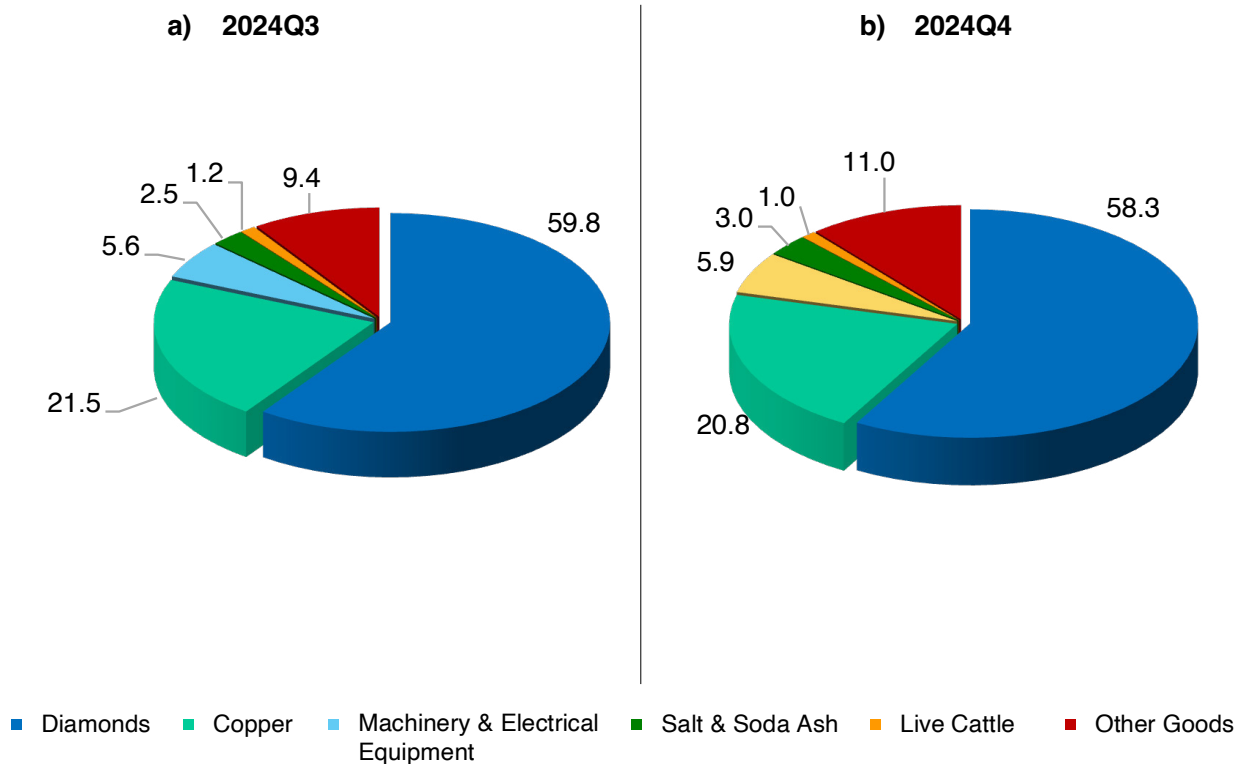
Source: Bank of Botswana

2.3 Exports of Goods by Commodity

Diamonds dominated total goods exports, accounting for 59.8 percent and 58.3 percent in Q3 and Q4 of 2024, respectively (Figure 3). Copper contributed 21.5 percent and 20.8 percent while salt and soda ash accounted for 2.5 percent and 3 percent of total exports over the same period.

Botswana's leading non-mining exports, machinery and electrical equipment, made up 5.6 percent and 5.9 percent of total exports, in Q3 and Q4 2024, respectively.

Figure 3: Exports by Commodity (Percent)



Source: Bank of Botswana

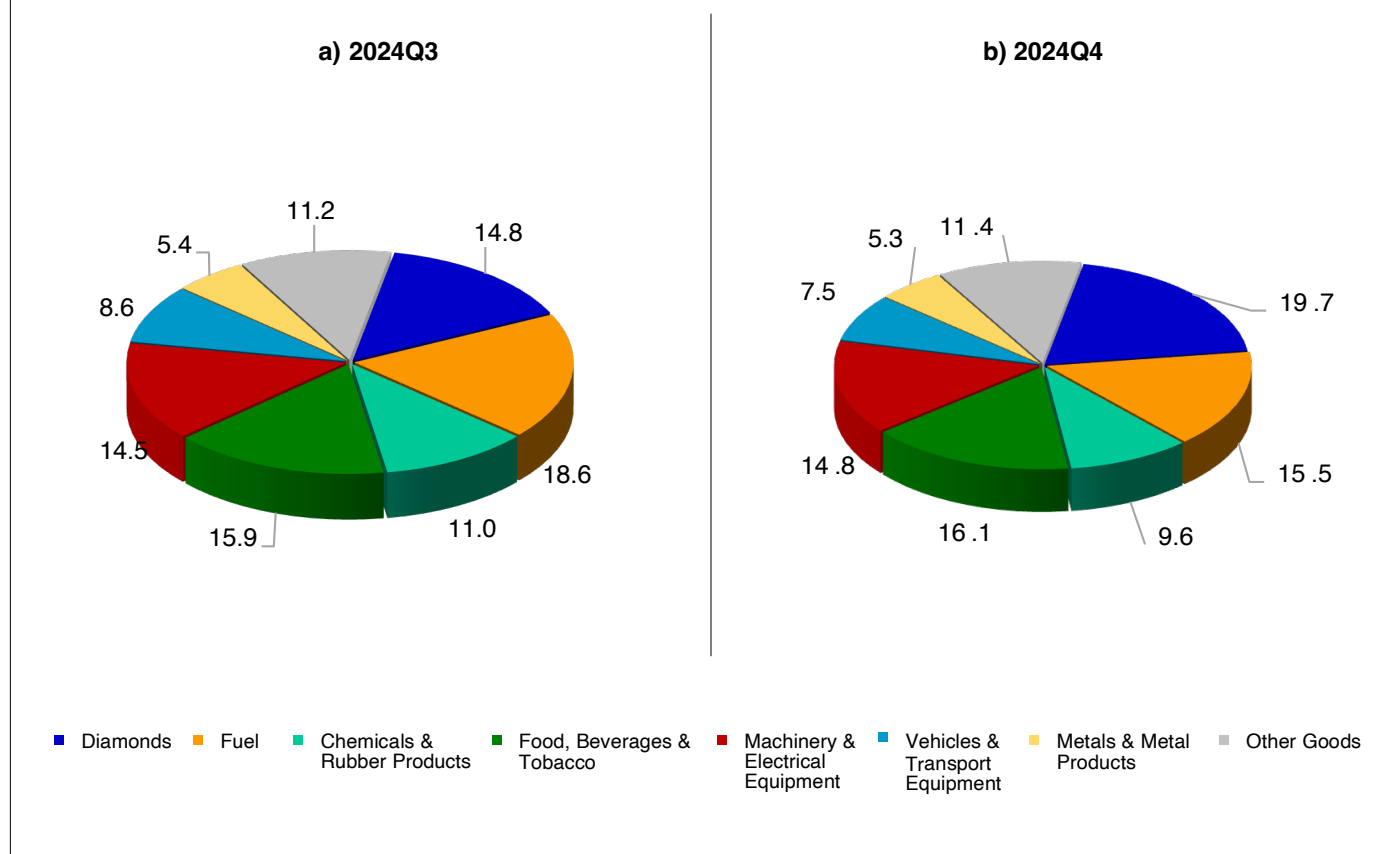
2.4 Imports of Goods by Commodity

Unlike exports, the composition of imports is spread across a variety of commodities. On average, fuel accounted for the largest share of total imports, at 18.6 percent in Q3 2024 and 15.5 percent in Q4 2024 (Figure 4). The second largest imported commodity, food, beverages and tobacco, accounted for 15.9 percent and 16.1 percent in Q3 and Q4 2024, respectively.

Diamond imports accounted for 14.8 percent and 19.7 percent of imports in Q3 and Q4 2024, respectively. These are mainly imported for aggregation activities². The share of machinery and electrical equipment was 14.5 percent and 14.8 percent while chemicals and rubber products accounted for 11 percent and 9.6 percent, respectively during the same periods. Fuel, machinery and electrical equipment and chemicals commodities serve as key inputs in various infrastructure and construction projects in the country (e.g. Jwaneng Mine Cut 9, Tshele Hills Oil Storage, Nata-Gweta Road).

²DeBeers Global Sightholder Sales Botswana imports diamonds from rough diamonds producing countries (Canada, South Africa and Namibia) for aggregation and resale to various buyers.

Figure 4: Imports by Commodity (Percent)



Source: Bank of Botswana

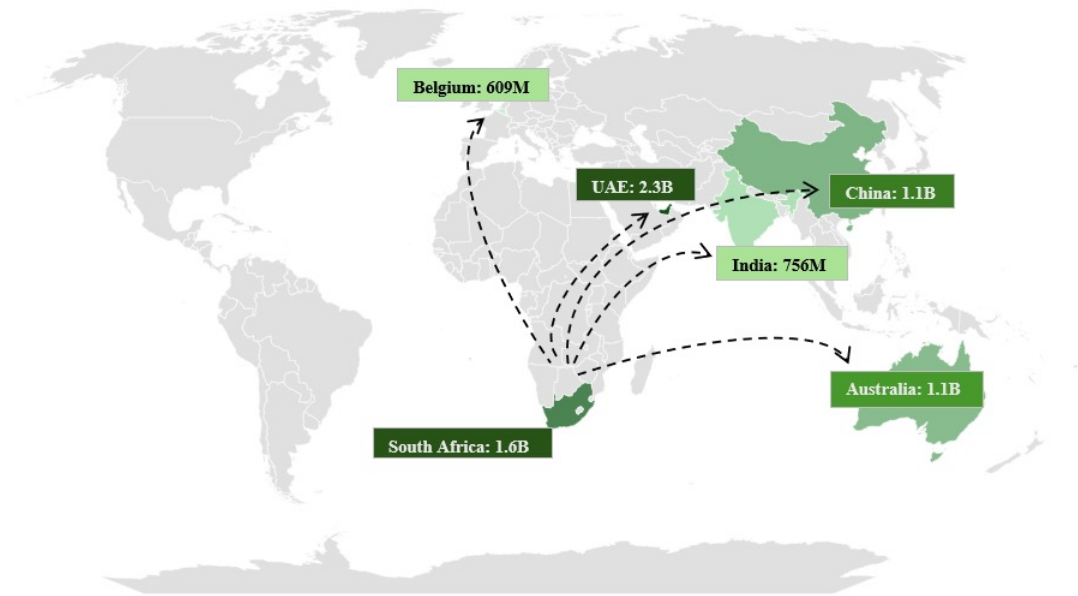
2.5 Direction of Trade

Due to the dominance of diamonds in merchandise exports, Botswana's leading export trading partners are primarily diamond traders. Most of these partner countries import Botswana's rough diamonds for resale or further processing. In Q4 2024, Botswana's main exports destinations were the United Arab Emirates, China, India, South Africa and Australia (Figure 5a). Exports to United Arab Emirates and India were predominantly diamonds while exports to South Africa, China and Australia included machinery and electrical equipment, and copper, respectively.

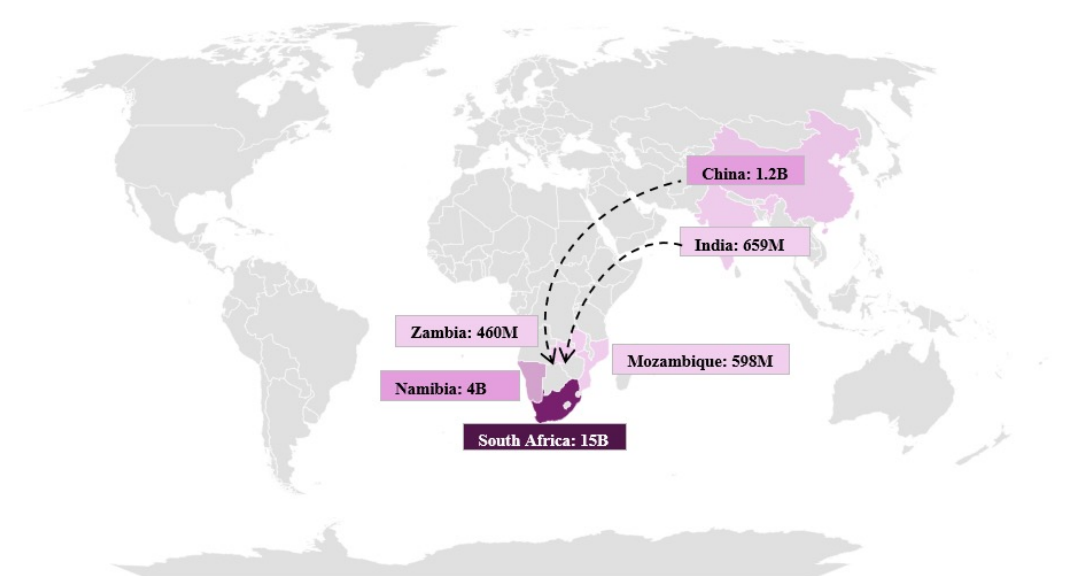
Botswana's main import trading partners are South Africa, Namibia, and China (Figure 5b). In Q4 2024, total imports from South Africa accounted for 54.5 percent of the import bill, and mainly consisted of food, fuel, machinery and electrical equipment as well as chemicals and rubber products. Diamond imports accounted for a larger share of imports from Namibia, while the share of diamond imports from South Africa was relatively small. China mainly supplied machinery and electrical equipment.

Figure 5: Trade by Region in Pula (Q4, 2024)

a) Exports



b) Imports

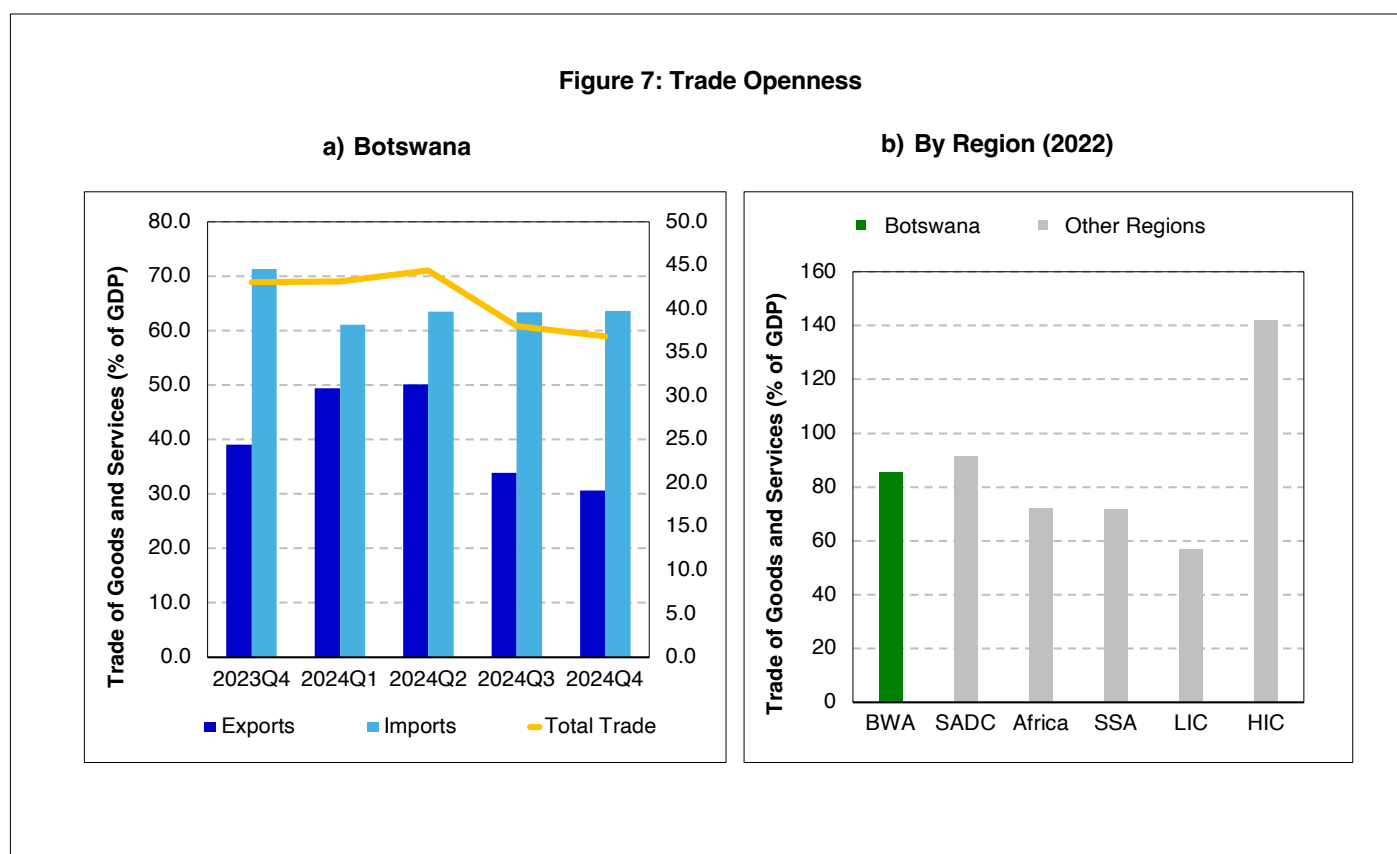


Source: Bank of Botswana

2.6 Trade Openness³

Trade openness measures the extent to which a country is open to and involved in global trade. Botswana's trade openness, measured as the sum of exports and imports of goods and services as a percentage of GDP, was 59 percent in Q4 2024, 1.8 percent lower than the 60.8 percent recorded in Q3 2024 (Figure 7a), as activity generally declined in 2024.

The latest annual data of 2022 on global competitiveness shows Botswana with a trade openness index of 85.5 percent (Figure 7b), substantially below the 141 percent of High-Income Countries (HIC), and slightly below the SADC region average (91.5 percent). However, Botswana's trade openness remains above Sub-Saharan Africa (SSA) average (71.9 percent) and Africa (72.1 percent).



Source: Bank of Botswana

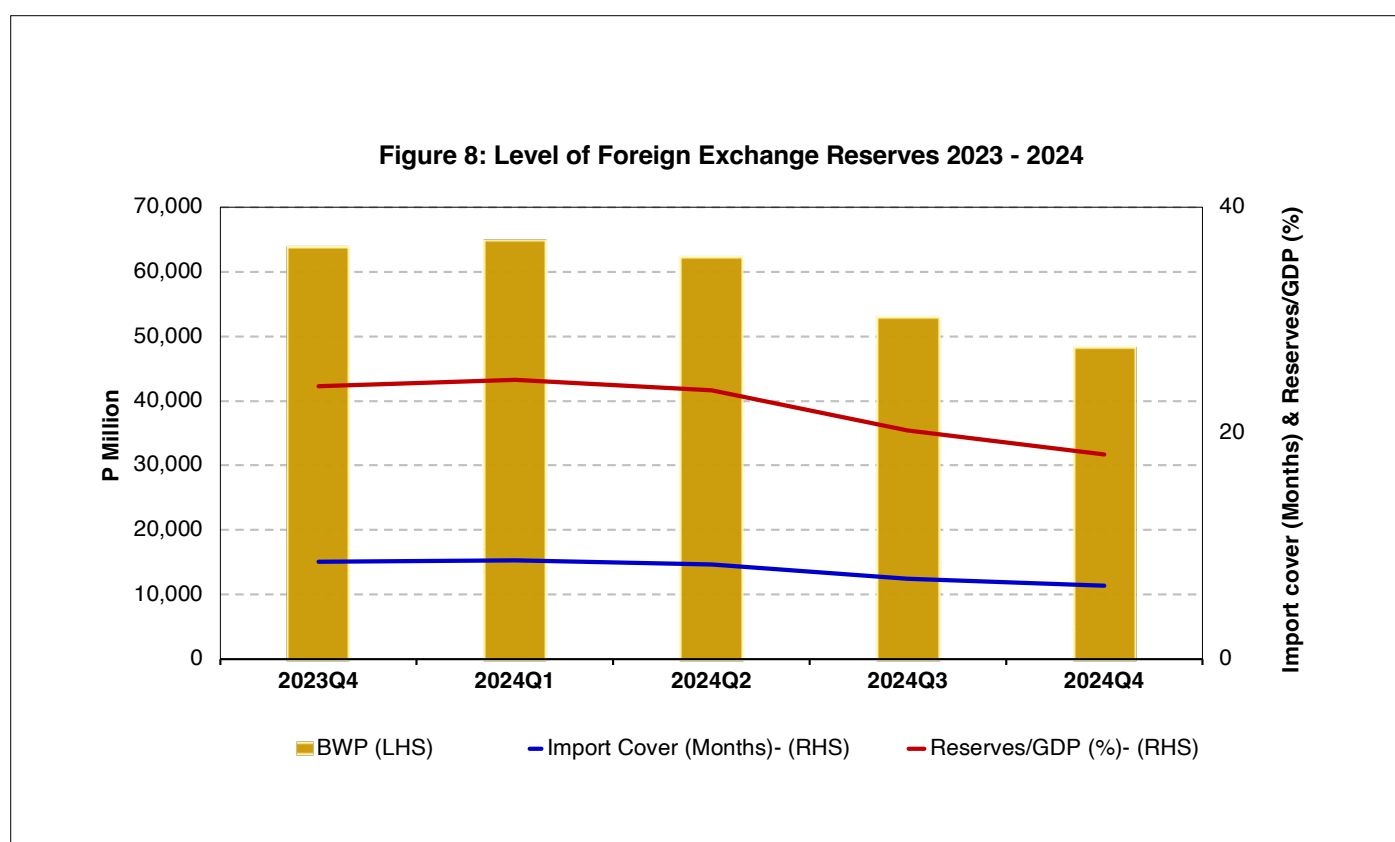
³ Countries with trade openness indices between 40 percent and 100 are typically seen as moderately open. An index above 100 percent indicates a highly open country with total exports and imports exceeding GDP, examples of these include Singapore, Hong Kong and Luxembourg.

3. INTERNATIONAL RESERVES AND FINANCIAL FLOWS⁴

3.1 Foreign Exchange Reserves

Botswana's main sources of foreign exchange include proceeds from diamond exports, SACU revenues and external borrowings. The country's stock of reserves decreased by 24.5 percent from P63.7 billion at the end of Q4 2023 to P48.1 billion at the end of Q4 2024 (Figure 8). While earnings from diamond exports continued to decline due to the ongoing challenges in the diamond industry, SACU receipts increased, helping cushion the reserves.

The months of import cover⁵ fell from 8.6 at the end of 2023 to 6.1 at the end of 2024. However, the import cover was above the Southern African Development Committee (SADC)'s macroeconomic convergence threshold of 3 months.



Source: Bank of Botswana

⁴ The international financial flows analysis is currently annual. This is because the data is sourced from the annual BOP survey, which has a lag of one year. The quarterly survey was introduced in 2023. However, the response rate was substantially low, making the data unreliable for analysis.

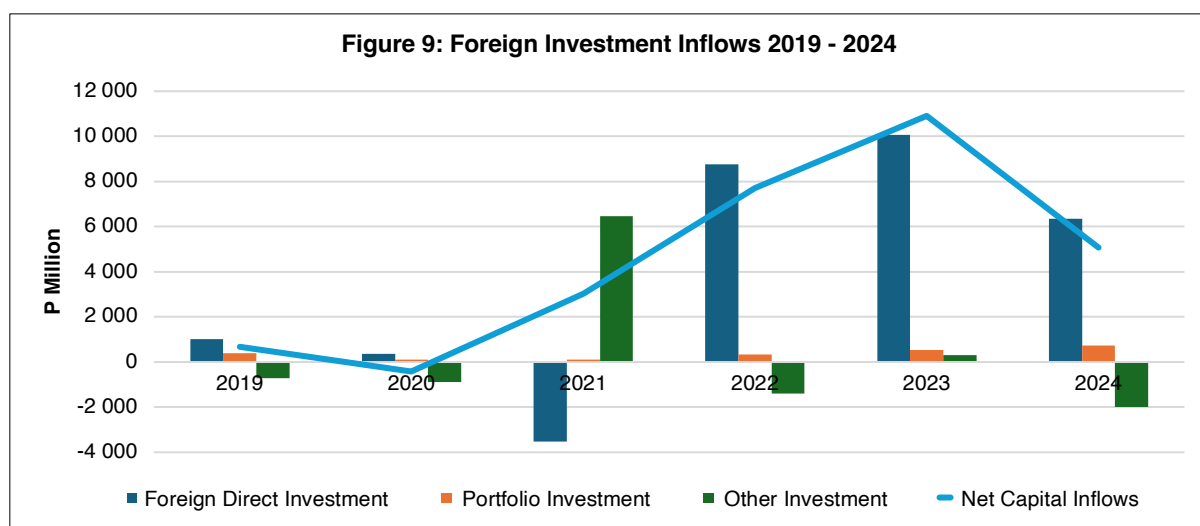
⁵ Import cover refers to the number of months a country's current foreign reserves can continue funding imports of goods and services.

3.2 Foreign Investment Inflows

Foreign investment inflows are generally classified into foreign direct investment (FDI), portfolio investment (PI) and other investments⁶ (OI). In 2019, the country received investment inflows amounting to P674 million (Figure 9), however during the Covid-19 pandemic in 2020 capital investments declined by P420 million mainly due to a contraction in the investment category, other investments, and a drop in FDI inflows. In 2021 there was a notable shift in the trajectory, which was mainly influenced by an increase in other investments inflows, particularly the SDR allocations⁷. Other investments inflows, which amounted to P6.5 billion more than offset the P3.5 billion decrease in FDI inflows leading to a net inflow of P3 billion. The FDI decrease was due to substantial revenue losses by local subsidiaries, which led to the contraction of the overall shareholder equity.

In 2022, the country received FDI inflows amounting to P8.8 billion (3.5 percent of GDP), comprising intercompany loans, reinvested earnings and new equity, while a decline of P1.4 billion was recorded in other investments category. This resulted in total investment inflows of P7.7 in 2022. During 2023, all investment categories collectively attracted P10.9 billion worth of capital inflows, with P10.1 billion (3.8 percent of GDP) attributable to FDI. In 2024, FDI remained positive but lower at P6.3 billion (2.4 percent of GDP) while other investment contracted by about 2 billion (-0.8 percent of GDP) leading to net capital inflows of P5.1 billion (1.9 percent of GDP).

Other investments inflows, which include among others financial derivatives, loans and bank deposits by non-residents, declined due to repayment of external loans by Government; this compares with P0.3 billion increase in 2023. Portfolio investment inflows, which represent investments in capital markets were considerably low throughout the period under review. The country received portfolio investment amounting to P346 million in 2022, which increased to P541 million in 2023 and P737 million in 2024.



Source: Bank of Botswana

⁶ Other investments include financial derivatives, currency and deposits, loans, trade credits/advances and accounts payables.

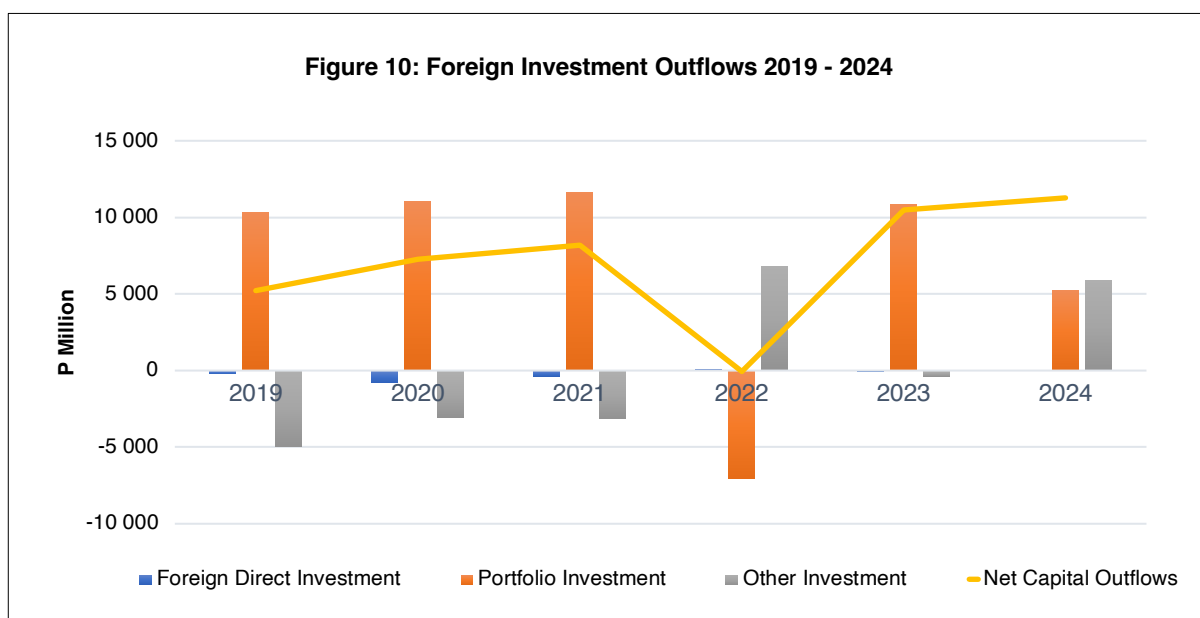
⁷ SDRs are international reserve assets created by the International Monetary Fund (IMF) to supplement official reserves of its member countries. In 2021, the IMF made some SDR allocations intended to support countries struggling with the impact of the COVID-19 crisis and Botswana was allocated about P3.4 billion worth of SDRs.

3.3 Foreign Investment Outflows

Botswana's investments abroad trended upwards between 2019 and 2021, increasing from P5.2 billion to P8.2 billion during the period (Figure 10). The increase in foreign investments was primarily driven by the growth in portfolio assets, which increased from P10.4 billion to P11.7 billion. The portfolio assets growth was on account of increased returns in the global equity markets. Portfolio assets are primarily owned by local pension funds and they are composed of investments in equity, debt, cash and near cash instruments as well as alternative investments.

Meanwhile, in 2022, there was a shift in the trajectory as the country recorded negative outflows⁸ of P61 million, largely influenced by a decline of P7 billion in portfolio investment. The decline in portfolio assets was a result of losses owing to the poor performance of equity as financial markets reacted to escalating geopolitical tensions including the Russia/Ukraine war. A shift was observed during the following year as the country's assets abroad increased by P10.5 billion. Equity markets outperformed prior expectations, leading to an increase of P10.9 billion in portfolio investments abroad. The improvement in performance was influenced by falling inflation in developed economies.

In 2024, net outflows increased by P11.3 billion owing to increases across all investment categories. Other investment category increased by P5.9 billion while portfolio assets increased by P5.3 billion. The lessened increase in portfolio investments during 2024 was attributable to among others, implementation of pension funds investment rule, which mandated local pension funds to increase the limit on domestic investments from 30 percent to 50 percent and thereby reducing foreign held investments.



Source: Bank of Botswana

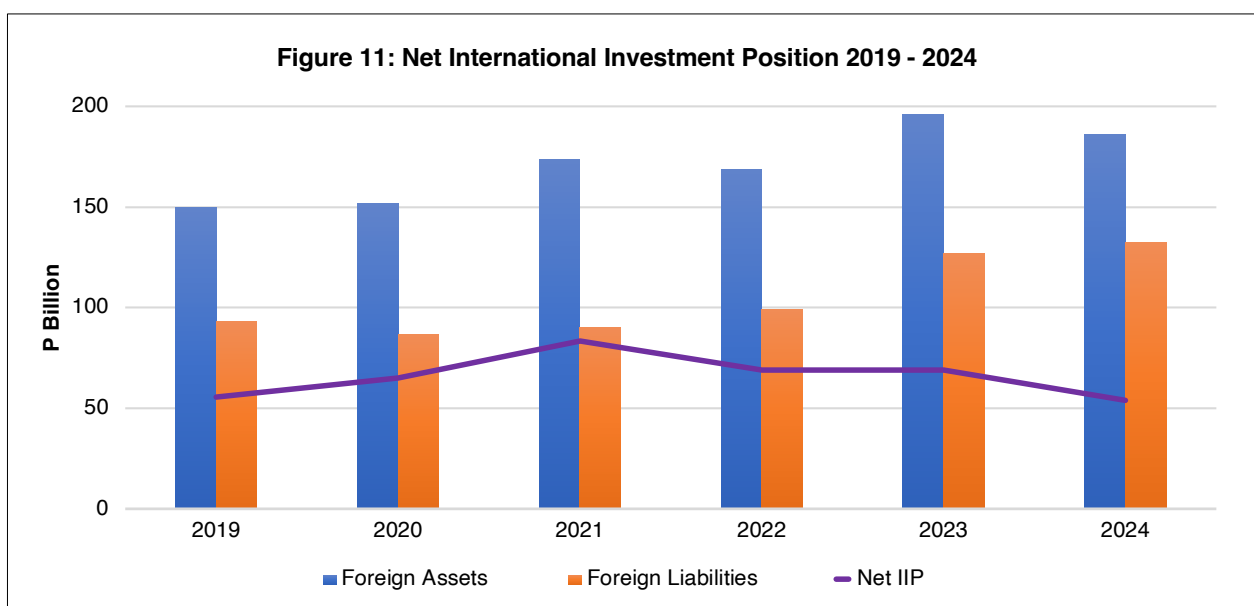
⁸A negative outflow indicates a net decrease in assets, and this may be due to the repatriation of assets or a decline in the value of assets held abroad.

3.4 Net International Investment Position (NIIP)

Botswana has systemically maintained a positive NIIP over the years, indicating that the country's total foreign assets exceeded its liabilities to the rest of the world, making Botswana a net creditor (Figure 11). At the end of 2024, the NIIP amounted to P53.9 billion, a decrease (22 percent) from the P69.1 billion recorded in the previous year. The 2024 position resulted from a rise in foreign liabilities.

Foreign assets decreased by 16.4 percent from P196 billion (2023) to P182 billion (2024), which are dominated by portfolio investments and foreign exchange reserves, accounting for 47 percent and 26 percent respectively (Figure 11b). Portfolio investments rose by 6.4 percent from P82.5 billion in 2023 to P87.8 billion in 2024, driven by improved investment returns, particularly from foreign equity.

Foreign liabilities increased by 4.3 percent, from P126.9 billion (2023) to P132.4 billion between (2024), mostly arising from an increase in the country's stock of FDI. FDI which accounted for 69 percent of the foreign liabilities (Figure 11c), increased by 4.7 percent from P87.3 billion in 2023 to P91.4 billion in 2024. The increase was mainly due to intercompany loans extended to locally based subsidiaries for operational purposes. Other investment, which accounted for about 30 percent of foreign liabilities, increased from P38.8 billion to P39.9 billion in 2024. Loans and bank deposits by non-residents, which jointly accounted for about 81 percent of other investment contributed the most to the increase in indebtedness.



Source: Bank of Botswana

Figure 11a: Composition of Foreign Assets in 2024 - in percent

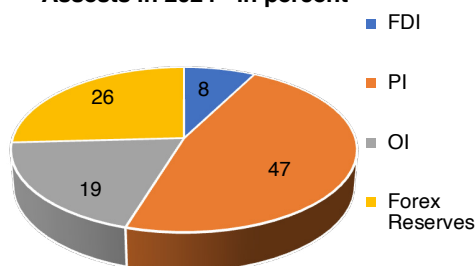
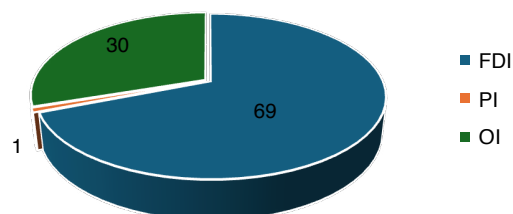


Figure 11b: Composition of Foreign Liabilities in 2024 - in percent



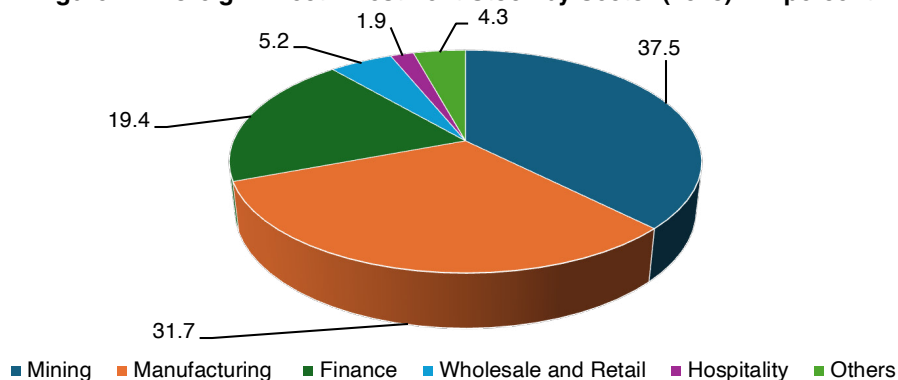
Source: Bank of Botswana

3.5 Foreign Direct Investment by Economic Activity⁹

The mining sector accounted for the largest share of the country's stock of FDI in 2023, further affirming its role as the dominant sector in the economy. The sector attracted FDI stock amounting to P32.8 billion, representing 37.5 percent of the total FDI stock as at the end of 2023 (Figure 12). The sector's dominance is further reflected in its presence within the manufacturing sector (through diamond value chain activities).

The manufacturing sector, which is dominated by diamond polishing activities, received P27.7 billion worth of FDI stock, making it the second largest recipient with a 31.7 percent share of FDI in 2023. The finance sector, consisting mainly of commercial banks, attracted FDI stock amounting to P17 billion, a share of 19.4 percent in total FDI stock. The wholesale and retail sector received P4.5 billion in FDI stock, accounting for 5.2 percent of total FDI while the hospitality sector had P1.7 billion worth of FDI, constituting 1.9 percent of FDI. The FDI stock from all other sectors, which include transportation, storage and communication, construction, real estate, electricity, gas and water collectively amounted to P3.7 billion, accounting for 4.3 percent of total FDI.

Figure 12: Foreign Direct Investment Stock by Sector (2023) - in percent



Source: Bank of Botswana

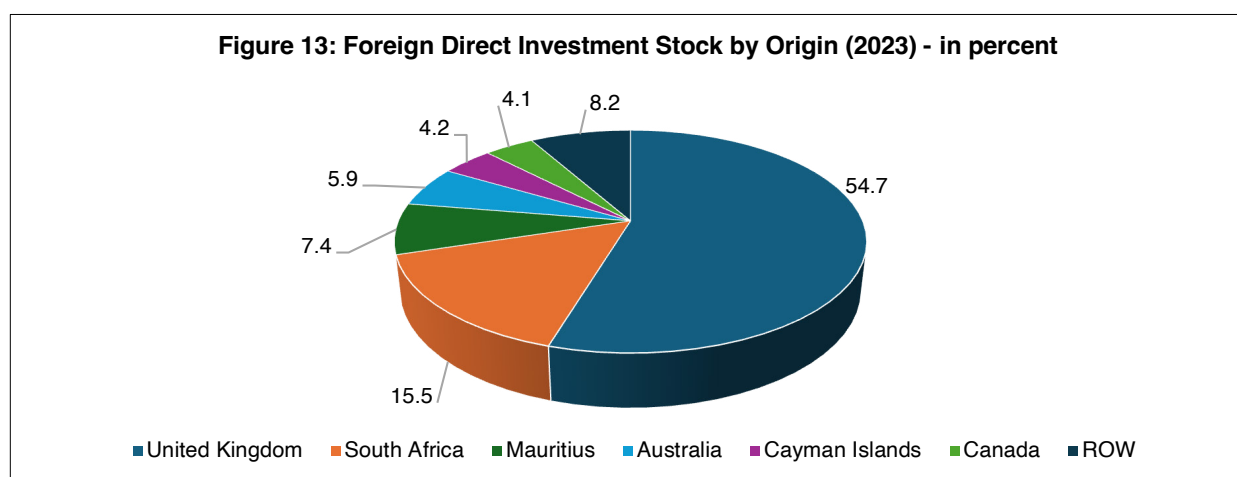
⁹ Outward FDI is not covered in the Bulletin to maintain confidentiality of enterprises reporting the data.

3.6 Foreign Direct Investment by Country

Europe, particularly the United Kingdom (UK), has continued to lead as the major source of FDI in Botswana. With FDI stock amounting to P47.7 billion, it accounted for 54.7 percent of the country's total FDI as at the end of 2023 (Figure 13). FDI from European countries is mainly concentrated in the mining sector.

South Africa was the second largest source of FDI stock in 2023. FDI attracted from South Africa was P13.5 billion, accounting for 15.5 percent of total FDI. Investments attracted from South Africa were spread across the finance, wholesale and retail as well as manufacturing sectors. The stock of FDI from Mauritius amounted to P6.5 billion or 7.4 percent of total FDI and this was spread across the mining, finance, wholesale and retail as well as information and communication sectors.

As at the end of 2023, Australia accounted for 5.9 percent or P5.1 billion worth of FDI and this was mainly across the mining, and wholesale and retail sectors. FDI originating from Cayman Islands and Canada amounted to P3.7 billion (4.2 percent) and P3.5 billion (4.1 percent) of total FDI, respectively, with both countries' investments concentrated in the mining sector. The remaining P7.2 billion, which accounted for 8.2 percent of the total FDI stock was from various countries.

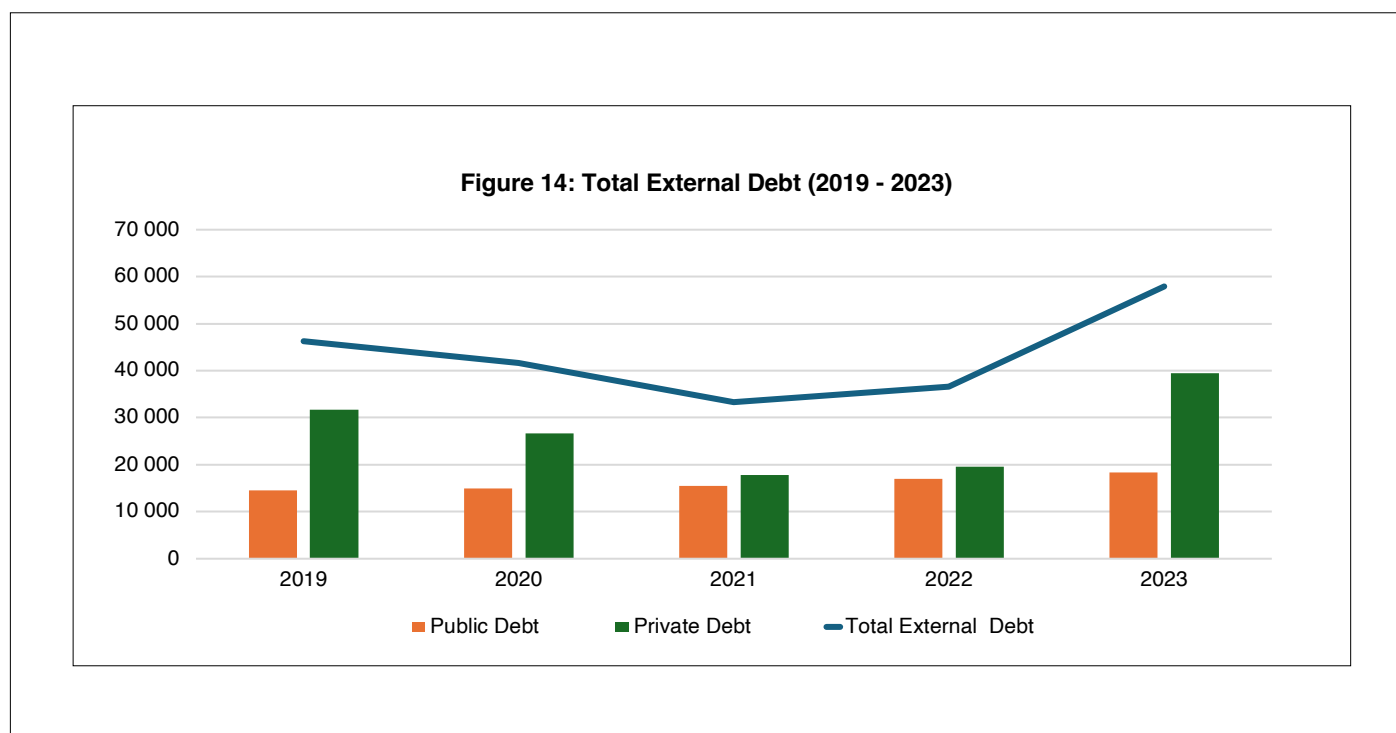


Source: Bank of Botswana

3.7 Botswana's External Debt¹⁰

Botswana's external borrowings averaged about P43.1 billion between 2019 and 2023. The country's total external debt declined from P46.2 billion in 2019 to P33.3 billion in 2021 (Figure 14) before increasing to P36.6 billion (14.6 percent of GDP) in 2022 and to P57.9 billion (21.9 percent of GDP) in 2023. Private sector debt accounted for a larger portion of the total external debt during this period. Debt sourced by the private sector decreased from P31.7 billion in 2019 to P17.8 billion in 2021 and then rose to P19.6 billion in 2022, increasing further to P39.5 billion in 2023. The debt mainly comprised intercompany loans sourced to fund operation, predominantly within the mining industry.

Public external debt averaged P16 billion between 2019 and 2023, with the lowest debt recorded in 2019 at P14.5 billion and the highest in 2023 at P18.4 billion. These loans were sourced from foreign Governments and international organisations to fund Government development projects such as the expansion of road networks and electricity, water supply and sanitation infrastructure. As at the end of 2023 Government external debt was approximately 9 percent of GDP, remaining below the statutory external debt threshold of 20 percent of GDP.



Source: Bank of Botswana

¹⁰ External debt analysis is in terms of positions or stock and not flows. Public debt data is sourced from the Ministry of Finance while private debt is derived from the BOP foreign private capital survey administered to some enterprises and parastatals in Botswana.

4. CONCLUSION

Botswana's current account performance closely mirrored trends in the global diamond markets during the period under review. The country recorded surpluses during the first two quarters of 2023 when global demand for rough diamonds was high, and a downward spiral of deficits thereafter, as the global market experienced weakened demand for rough diamonds amid an oversupply of both polished and rough diamonds.

The dwindling diamond receipts, low levels of foreign exchange reserves and consequently low months of import cover highlight the country's vulnerabilities associated with dependence on a single export commodity.



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