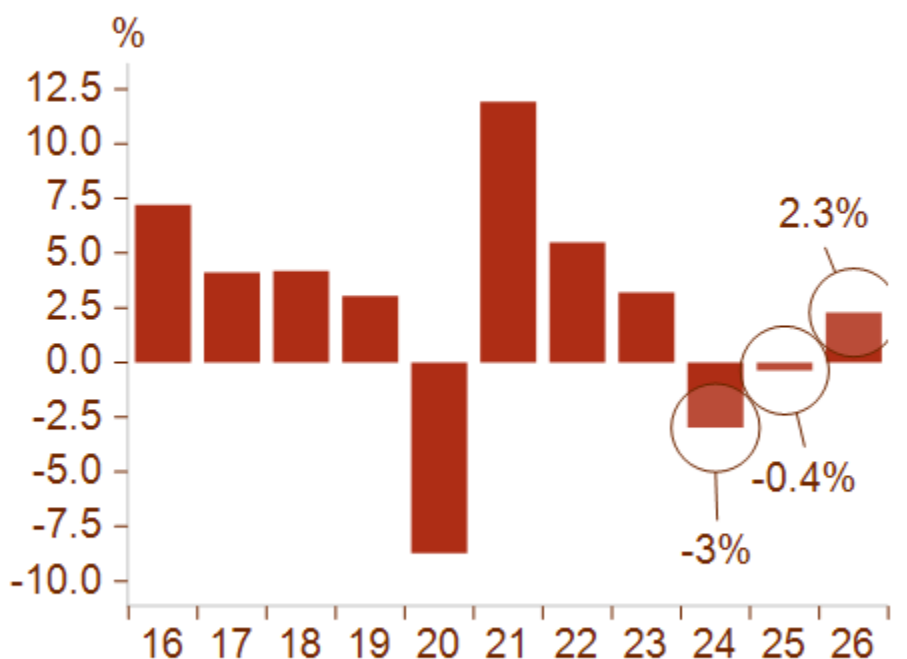


Botswana: Diamond market turmoil raises risks for undiversified economy | Credendo

Event

Botswana is negatively affected by a persistent drop in diamond prices of approximately 30% since 2022. The global diamond market does not show any signs of recovery and has likely taken an unalterable turn resulting from the rise in synthetic diamonds. Due to its high dependency on the diamond sector and lacking economic diversification, Botswana is expected to register its second contractionary year in a row in 2025.

Botswana: real GDP growth, % change



Source: IMF

Impact

The turmoil on the international diamond market is explained by a shift in consumer preference towards lab-grown diamonds, together with the global economic uncertainty, which is dampening luxury spending. Trump's 10% trade tariff to enter the US market (the world's largest sales market) and prospects for additional country-specific tariffs have exacerbated the crisis. The resulting downturn in diamond export revenues has led to a negative outlook for Botswana's business environment risk and short-term political risk classifications. The country relies on diamond exports for more than 86% of its current account revenues. This explains the increase in current account deficits and declining foreign exchange reserves, which fell by about 30% over the past year. Nevertheless, foreign exchange reserves still covered five months of imports in February 2025, performing as a buffer together with the country's extensive sovereign wealth fund worth 18% of

GDP in 2024. Inflation declined sharply to 1.7% in 2024 from its peak of 12% in 2022, and the financial sector is considered to be stable and resilient. The overall fiscal deficit jumped to more than 10% of GDP in 2024 and is set to reach 11% in 2025 due to lower public revenues linked to the diamond market slump and rising expenditure resulting from expansionary policies. After almost 15 years of balancing a gross public debt ratio of around 20% of GDP (equally divided between domestic and external debt liabilities), this ratio rose to 43% of GDP in 2024 and is projected to grow towards 54% by 2027. Although public debt levels will increase because the country has to deal with current headwinds, Botswana continues to be a net sovereign creditor with sustainable public finances. Moreover, its strong democratic and good governance credentials, stable institutions and healthy liquidity, and solvency indicators continue to justify favourable risk classifications compared to its regional peers.

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