Email: info@hei.com.na
Website: www.hei.com.na
Tell: +264-61-307-728
Address: 04 Stauch Street, Klein Windhoek, Windhoek, Namibia

Botswana's Pula Fund: From Resource Wealth Preservation to a Test of Economic Resilience

1. Introduction

Botswana has long been cited as a strong African example of prudent natural-resource management. Since independence, the country has leveraged substantial diamond wealth to support economic development, build public infrastructure and accumulate financial assets. This transformation was supported by comparatively stable institutions, prudent fiscal management and a deliberate approach to converting part of the country's finite mineral wealth into long-term savings. A key component of this strategy was the establishment of the Pula Fund in 1994, designed to preserve part of diamond-derived wealth for future generations through a longer-term investment portfolio.

The Pula Fund therefore represents more than a financial asset; it reflects Botswana's broader model of converting non-renewable resource revenues into lasting national wealth. Importantly, the Fund is part of the Bank of Botswana's foreign-exchange reserve-management architecture rather than a separate pool that should be added to gross official reserves. Foreign-exchange reserves in excess of expected medium-term needs are transferred to the Pula Fund for longer-term investment. This arrangement enabled Botswana to convert periods of strong external surpluses, supported substantially by diamond earnings, into a longer-horizon reserve portfolio.

However, Botswana's economic model is now facing a more challenging environment. The economy remains heavily dependent on diamonds, while weaker global natural-diamond demand has reduced export earnings and placed pressure on growth, government finances and the overall foreign-exchange reserve position. Recent declines in gross reserves and in the Pula Fund component of the reserve portfolio illustrate the risks of relying on accumulated external wealth when the underlying source of foreign-exchange earnings is under sustained pressure.

While mining's share of GDP has declined over time, this does not necessarily imply that Botswana has achieved sufficient economic or external diversification. The country's long-term challenge is not simply to reduce the relative contribution of mining to GDP, but to develop alternative sectors capable of generating sustainable employment, government revenue and, most importantly, foreign-exchange earnings. Without sufficiently competitive alternative export sectors, Botswana remains vulnerable to prolonged weakness in the global diamond market.

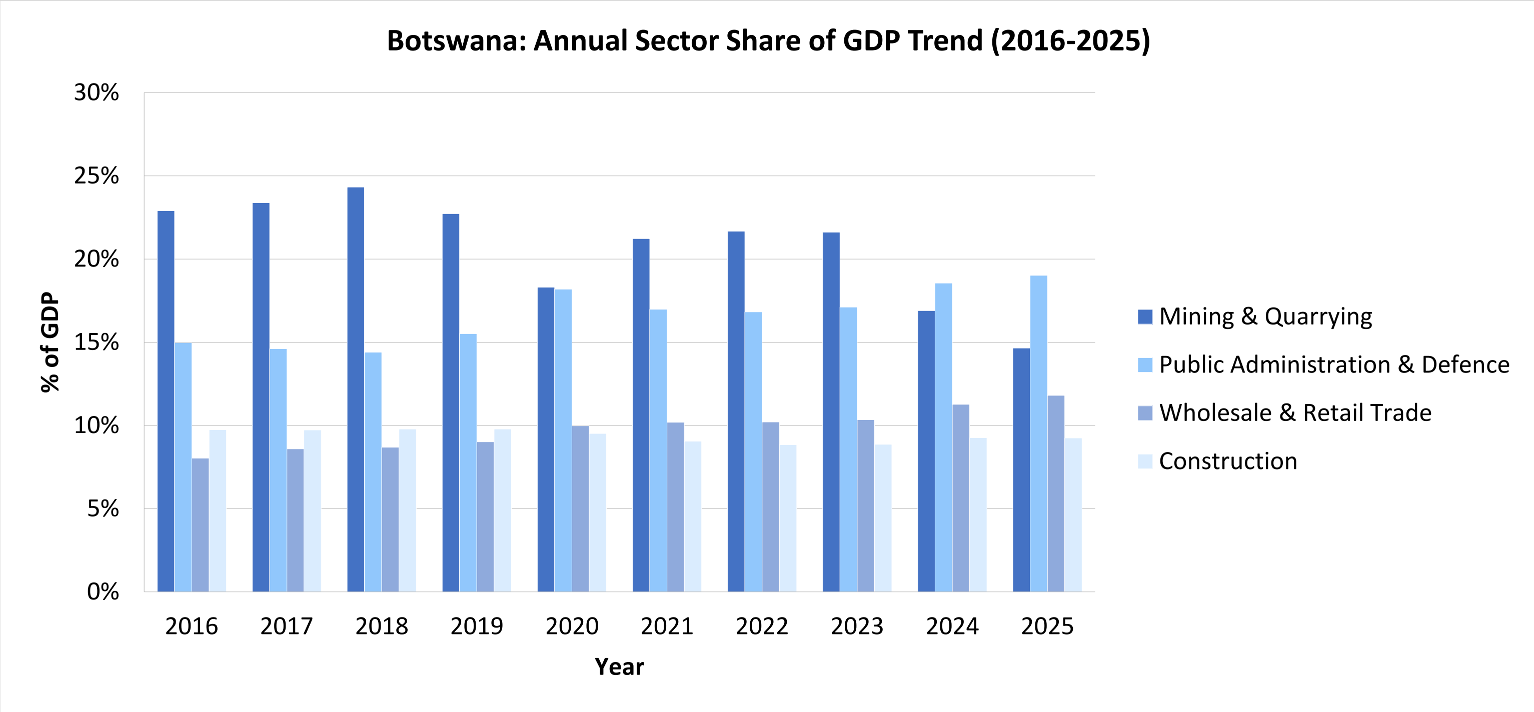
This raises an important question for the country's medium- to long-term outlook: can Botswana successfully transition from a diamond-dependent economy while preserving the reserve buffers accumulated during the period of strong mineral revenues? The answer will depend on the pace of economic diversification, the recovery or continued weakness of the diamond sector, the sustainability of the country's external position and its ability to preserve the Pula Fund's long-term capital base within the reserve-management framework.

The analysis examines Botswana's changing economic structure, diamond and total export performance, the evolution of the Pula Fund within the reserve-management framework and the outlook for gross official reserves. Together, these indicators assess diversification progress, external vulnerability and the country's capacity to absorb economic shocks.

2. Analysis

The evolution of Botswana's economic structure between 2016 and 2025 provides an important starting point for assessing the country's diversification efforts.

Figure 1: Botswana – Annual Sector Share of GDP, 2016–2025



Source: Bank of Botswana

The data indicate a substantial decline in the relative importance of Mining and Quarrying, whose contribution to GDP fell from 22.9% in 2016 to 14.6% in 2025. The decline was particularly pronounced after 2023, with mining's GDP share falling from 21.6% in 2023 to 16.9% in 2024 and 14.6% in 2025.

At first glance, the decline in mining's GDP share could be interpreted as evidence of economic diversification. However, Figure 1 should be treated as an indicative GDP-composition measure rather than a complete diversification assessment. The reduction in mining's share has occurred alongside gains in Public Administration and Defence and Wholesale and Retail Trade, rather than a broad-based expansion of productive, export-oriented sectors.

Public Administration and Defence increased its share of GDP from 15.0% in 2016 to 19.0% in 2025, making it larger than Mining and Quarrying by 2025. Wholesale and Retail Trade also increased steadily, from 8.0% to 11.8% over the same period. Construction, meanwhile, remained relatively stable at around 9-10% of GDP.

Broader sector data reinforce the need for caution. Between 2016 and 2025, manufacturing's share of GDP fell from 6.5% to 5.5%, agriculture from 2.0% to 1.7%, and accommodation and food services from 2.6% to 2.0%, while transport remained broadly unchanged at about 1.8%. Finance, insurance and pension funding increased from 4.7% to 5.4%, but the overall pattern does not yet show a broad replacement of mining by internationally tradable sectors. The GDP evidence is therefore consistent with partial, rather than complete, structural diversification.

The distinction is important because Botswana's external sector remains heavily dependent on diamonds. A lower mining share of GDP does not necessarily mean that the country has proportionately reduced its dependence on mining for exports and foreign-exchange earnings.

Taken together with the export evidence below, the GDP data point to a partial rather than complete diversification story. Mining has become less dominant within GDP, but Botswana has not yet developed a sufficiently broad base of internationally competitive sectors to replace diamonds as a source of foreign exchange. This leaves the economy vulnerable to external shocks originating in the global diamond market.

The Pula Fund within Botswana's Reserve-Management Framework

The Pula Fund is central to understanding Botswana's approach to managing natural-resource wealth. Established in 1994, the Bank of Botswana describes it as a long-term investment portfolio. Foreign-exchange reserves that exceed expected medium-term needs are transferred to the Pula Fund and invested under longer-term guidelines. The Fund is therefore part of Botswana's reserve-management architecture, not an additional buffer that should be added on top of gross official reserves.

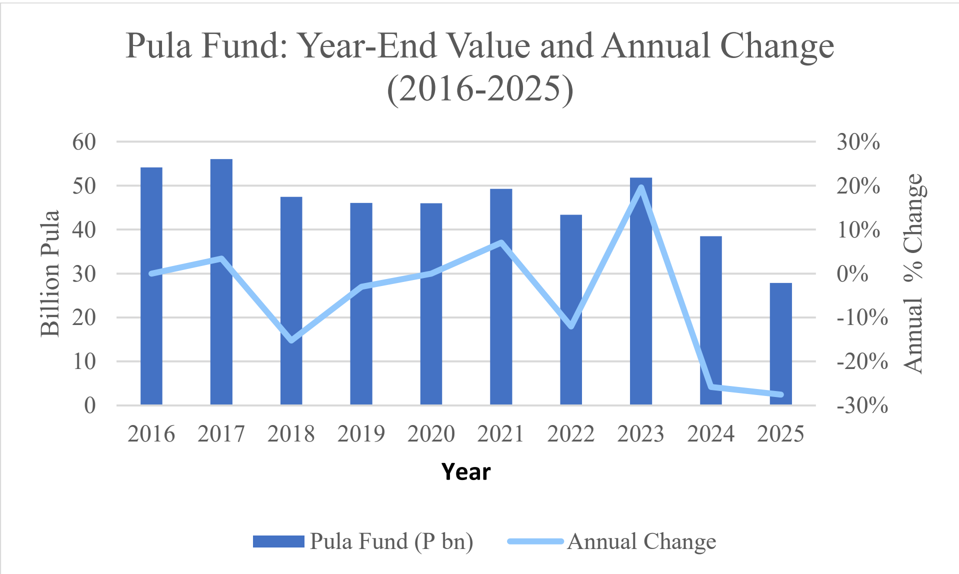
The Fund remains important because Botswana's diamond resources are finite, while a diversified portfolio of financial assets can generate returns beyond the life of mineral production. Its value, however, can change because of investment and exchange-rate valuation, as well as transfers and withdrawals linked to the broader reserve position.

For country-risk analysis, the key issue is therefore not simply the size of the Pula Fund, but the interaction between:

Diamond receipts and other foreign-exchange inflows -> balance of payments -> gross official reserves -> allocation between liquidity needs and the Pula Fund -> investment/valuation and transfers/withdrawals -> fiscal and external resilience.

A deterioration in export earnings can therefore reduce reserve accumulation and increase pressure on the same reserve pool from which the Pula Fund is financed.

Figure 2: The Pula Fund - Year-End Value, 2016-2025



Source: Bank of Botswana annual financial statements; 2025 value is as at 31 December 2025.

The Pula Fund data show considerable fluctuations over the period under review. The Fund increased from approximately P54.2 billion in 2016 to P56.0 billion in 2017, before declining to about P46.0 billion by 2019. It recovered to around P49.3 billion in 2021 before falling again in 2022.

The strongest annual increase occurred in 2023, when the Fund rose to approximately P51.83 billion, an increase of about 19.6%. This movement should not be attributed to investment performance alone: Pula

Fund values can also reflect exchange-rate and market valuation effects as well as transfers and withdrawals. The 2023 increase is therefore best interpreted as the net effect of these factors rather than evidence of a single driver.

The subsequent deterioration is more significant from a country-risk perspective. The Pula Fund fell from P51.83 billion at end-2023 to P38.46 billion at end-2024, a decline of about 25.8%, and then to P27.87 billion at 31 December 2025, a further year-on-year decline of about 27.5%. The 2025 observation is taken from the Bank of Botswana's Statement of Financial Position as at 31 December 2025, making it directly comparable with the annual year-end series.

The sharp movement highlights an important distinction: the Pula Fund can cushion shocks, but because it forms part of the reserve system it is not insulated from withdrawals, valuation changes or broader balance-of-payments pressures. During periods of weaker diamond earnings, demands on the reserve system can rise at the same time as the capacity to replenish the long-term portfolio weakens.

Export Performance: Diamonds versus Total Exports

The comparison between diamond and total export growth highlights Botswana's continued dependence on diamonds for external earnings. Following positive growth in 2023, export performance deteriorated sharply in 2024 and 2025 as the natural-diamond market weakened. IMF data show diamond exports growing by 8.0% in 2023 before contracting by 36.9% in 2024 and 29.2% in 2025; total exports grew by 14.7% in 2023 and then fell by 27.4% and 14.2%, respectively. The IMF links the natural-diamond downturn to weak demand, particularly in China and the United States, competition from lab-grown diamonds, alternative luxury spending and elevated inventories.

This is particularly significant when viewed alongside the GDP data. Although mining's share of GDP has declined, the export data show that Botswana remains highly dependent on diamonds for foreign-exchange generation. Under the IMF's 2025 Article IV baseline, diamond exports are projected to decline by a further 12.8% in 2026 and total exports by 6.2%, followed by a rebound of 28.8% and 15.0%, respectively, in 2027. The projected recovery therefore remains heavily dependent on diamonds, underlining their continued importance to the external economy.

The key implication is that Botswana's diversification challenge extends beyond reducing mining's share of GDP. The country needs to develop alternative export sectors capable of generating foreign exchange and reducing pressure on gross official reserves and the long-term Pula Fund portfolio when diamond revenues weaken.

Figure 3: Diamonds versus Total Exports

Source: Bank of Botswana; IMF, Botswana: 2025 Article IV Consultation, Country Report No. 25/325.

Figure 3 shows that Botswana's total export cycle remains closely tied to diamonds. Diamond export growth has generally displayed larger swings than total exports, amplifying both rebounds and downturns. The particularly sharp contractions in 2024-2026 show that non-diamond exports provide some offset, but not enough to prevent severe diamond weakness from driving overall export performance.

Botswana's Foreign Reserve Position: 2016–2030

According to IMF Country Report No. 25/325 (Botswana: 2025 Article IV Consultation), gross official reserves stood at US$4.76 billion at end-2023 and US$3.55 billion at end-2024. The IMF staff baseline then projects reserves of US$3.06 billion in 2025, US$2.55 billion in 2026 and US$0.53 billion by 2030. Import cover falls from 7.0 months in 2023 and 5.4 months in 2024 to a projected 4.4 months in 2025 and 0.6 months by 2030. The 2023-2024 figures are historical observations, while 2025 onward are IMF staff estimates/projections rather than realised outcomes.

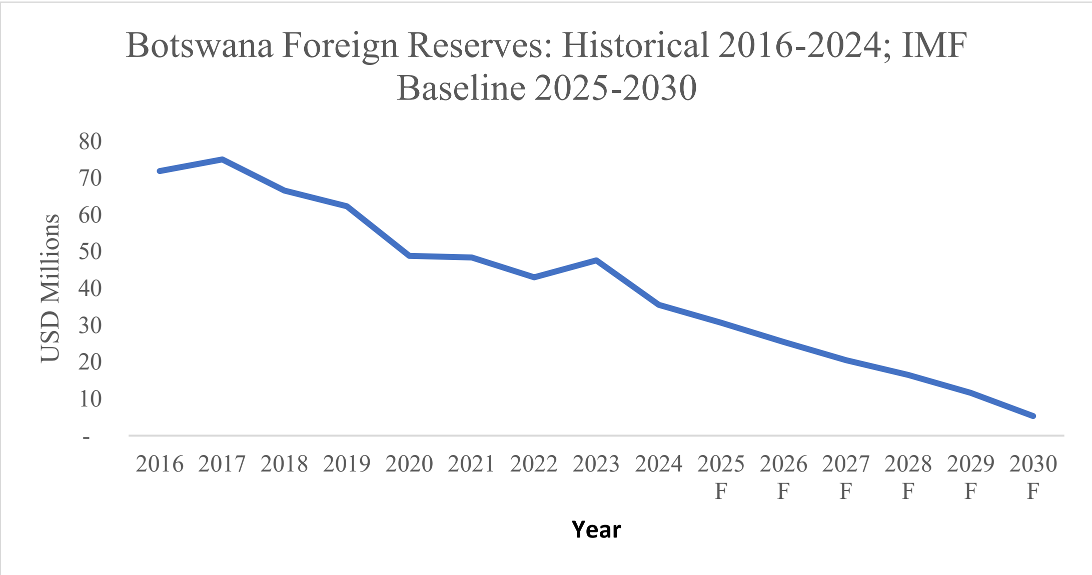
The IMF baseline reserve decline is closely linked to Botswana's dependence on diamonds. Weak diamond exports reduce foreign-exchange inflows while persistent trade and current-account deficits place pressure on accumulated external assets. The projection therefore reflects a broader imbalance between the foreign exchange Botswana earns and the foreign exchange required to finance imports and other external obligations, rather than simply lower investment returns.

These reserve projections also have implications for the Pula Fund, but the relationship must be interpreted without double counting. Gross official reserves encompass Botswana's reserve assets, while the Pula Fund is the long-term investment portfolio within the reserve-management framework. The Pula Fund should therefore not be added to gross reserves as a second independent buffer. A sustained deterioration in external inflows can constrain the reserve system as a whole and reduce the capacity to preserve or rebuild the long-term portfolio.

It is important to emphasise that the 2025-2030 figures shown here are the IMF staff baseline estimates/projections published in the 2025 Article IV Consultation, not inevitable outcomes. The report also presents a more resilient scenario in which stronger policy adjustment and improved economic conditions stabilise the external position. The baseline is therefore best read as a risk scenario showing the scale of potential reserve erosion if diversification, fiscal adjustment and export recovery are insufficient.

The projected reserve path strengthens the broader analysis of Botswana's economic outlook. Botswana still benefits from reserve assets accumulated during decades of strong diamond revenues, but the IMF baseline shows that the reserve-management system - including the Pula Fund component - would come under increasing strain if diamond earnings remain weak and alternative sources of foreign exchange do not expand.

Figure 4: Botswana – Gross Official Reserves, 2016–2030



Source: IMF, Botswana: 2025 Article IV Consultation, Country Report No. 25/325; Bank of Botswana. Note: 2016-2024 historical; 2025-2030 IMF staff estimates/projections.

3. Outlook

Botswana enters the next decade with meaningful institutional strengths, although comparative claims should be stated precisely. Transparency International's 2025 Corruption Perceptions Index gives Botswana a score of 58/100 and ranks it 41st out of 182 countries globally; within Sub-Saharan Africa, only Seychelles and Cabo Verde score higher, while Rwanda records the same score. Botswana's established reserve-management framework and long experience managing the Pula Fund are additional institutional assets, even as the country's financial buffers face greater pressure.

Nevertheless, the country's development model is facing a critical transition. The recent decline in diamond revenues has exposed the extent to which economic growth, fiscal performance, export earnings, foreign reserves and sovereign wealth accumulation remain interconnected. Diamond dependence continues to represent Botswana's most significant structural vulnerability.

Over the medium term, the outlook will largely depend on three factors.

First, developments in the global diamond market will remain important. The IMF assesses the natural-diamond downturn as reflecting both cyclical and potentially structural forces. Weak demand - especially in China and the United States - elevated inventories and softer luxury spending are cyclical or market factors that could improve, while the rapid growth of lab-grown diamonds and changing consumer preferences raise the risk of more persistent structural pressure. The IMF baseline assumes a gradual partial recovery from 2026, but uncertainty remains high (IMF Country Report No. 25/325, Annex VI).

Second, the pace of economic diversification will be crucial. Sustainable growth will require stronger contributions from sectors capable of generating exports, employment and productivity gains, including financial services, logistics, tourism, manufacturing and knowledge-based industries. A shift toward a more private-sector-led growth model will be essential.

Third, Botswana's ability to preserve and rebuild its overall foreign-exchange reserve position, including the Pula Fund long-term portfolio, will play an important role in maintaining macroeconomic stability. Continued reserve depletion would reduce the country's capacity to absorb future shocks, while stabilisation and rebuilding of the reserve system would strengthen long-term resilience.

Overall, Botswana retains meaningful institutional and financial assets, but the country is approaching a pivotal stage in its economic development. The success of diversification efforts over the coming years will determine whether the Pula Fund remains primarily a long-term wealth-preservation portfolio or is increasingly drawn on as part of the response to prolonged diamond-sector weakness.

Botswana's experience demonstrates both the strengths and limitations of natural-resource-led development. The country successfully transformed diamond wealth into public infrastructure and reserve assets, including the long-term Pula Fund portfolio. Yet the recent decline in mining activity, export earnings, gross reserves and the Pula Fund component highlights the risks associated with continued dependence on a single commodity.

While Botswana has achieved some diversification within GDP, the evidence suggests that export diversification remains limited. The country's economic resilience will therefore depend on its ability to generate new sources of foreign exchange before diamond revenues decline further. The coming decade is likely to be defined not by the success of Botswana's past resource management model, but by the effectiveness of its transition beyond it.