

BANK OF BOTSWANA

2026 MONETARY POLICY STATEMENT

by
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Distinguished Guests, I stand before you this morning to present the Bank of Botswana 2026 Monetary Policy Statement. We are honoured to have you join us this morning. Your presence today demonstrates a shared commitment to informed and data driven dialogue towards advancing Botswana's economic resilience and long-term prosperity.

Distinguished Guests, Ladies and Gentlemen, the 2026 Monetary Policy Statement comes at a pivotal juncture in Botswana's economic journey. The domestic economy is adjusting to lower diamond revenue, tighter market liquidity conditions and a constrained fiscal environment, while the global landscape remains characterised by policy uncertainty and changing trade dynamics.

The Monetary Policy Statement has traditionally been presented as a formal exposition of economic developments, inflation dynamics and the Bank's policy stance. Last year, the Bank introduced a fireside chat format to complement this presentation. The intention was to deepen engagement, enhance transparency and provide space for broader perspectives and reflections on policy analysis, approaches and impact.

The positive reception of that initiative has encouraged us to institutionalise this format. Accordingly, this is the second Monetary Policy Statement to be accompanied by a fireside conversation, a platform designed to strengthen dialogue and reinforce the Bank's commitment to openness and accountability and, indeed, taking the Bank to the people. The fireside chat allows for professionals from outside the Bank to proffer their opinions on policy and the broader economy. The question-and-answer session provides opportunity for wider engagement. These engagements are valuable and enriching to us, allowing us to assess alignment with our policy posture.

Distinguished Guests, the theme for today's fireside chat is **'A New Dawn for Botswana: Implications for Monetary,**

Exchange Rate and Financial Stability Policies.' The fireside chat is not separate from the Monetary Policy Statement; it is supplementary and a continuation, offering an opportunity for engagement. While the Statement outlines the technical assessment, economic projections and policy stance, the fireside dialogue provides an opportunity to engage, in an open forum, on perspectives regarding our monetary, exchange rate and financial stability frameworks, including their impact and alternatives.

Similar to the previous years, the 2026 Monetary Policy Statement evaluates our policy performance, assesses our strategic priorities, and, in turn, articulates how the Bank intends to navigate the complex environment we are in. Notwithstanding the complex and uncertain economic and policy environment, it is imperative that our policies remain forward-looking, evidence based and aligned with Botswana's broader development aspirations. **Distinguished Guests**, the 2026 Monetary Policy Statement sets out the foundations for doing exactly that and represents a critical aspect of policy formulation and contribution to the desired inclusive and sustainable economic growth.

Distinguished Guests, it helps in this regard, to reiterate the Bank's role; that, as provided for in the Bank of Botswana (Amendment) Act of 2022, the primary mandate is to achieve and maintain domestic price stability. Simply put, preserving the purchasing power of the Pula. The complementary responsibility is to promote financial stability, provided that doing so does not conflict with the primary objective.

Central to the Bank's pursuit of price stability is the medium-term inflation objective of 3 – 6 percent, which serves as the benchmark for calibrating monetary policy decisions and anchoring inflation expectations. In fulfilling this, monetary policy formulation also considers developments relating to stability of the financial system and prospects for sustainable economic growth. **Distinguished Guests**, a sound and resilient financial system is critical for effective transmission of monetary policy signals, facilitating the flow of funds and liquidity, as well as risk mitigation in support of productive economic activity. In this regard, price stability, together with conducive monetary and financial conditions, foster effective mobilisation of savings, productive investment, prudent allocation of credit, international

competitiveness of domestic firms and, ultimately, sustained economic growth.

Botswana's exchange rate policy framework remains a critical pillar of macroeconomic stability. The Pula is managed under a *crawling-band* arrangement that allows the exchange rate to adjust gradually in line with inflation differentials and evolving economic fundamentals, thereby helping maintain external competitiveness while cushioning the economy from adverse global shocks. **Distinguished Guests**, any adjustments are undertaken at half yearly intervals and publicly announced in the interest of transparency that enables informed economic decisions.

Director of Ceremonies, Distinguished Ladies and Gentlemen, Dear Colleagues, the 2026 MPS reports on economic and policy developments in 2025, a year marked by significant policy adjustments aimed at restoring macroeconomic balance and strengthening policy transmission. It also evaluates factors driving price developments. In addition, there is an assessment of economic and financial developments that are likely to influence the medium-term inflation trajectory and the Bank's policy choices in 2026.

In 2025, the global economy remained subdued due to the lagged effects of restrictive monetary policy stance adopted in 2024, persistent trade tensions and policy uncertainty, particularly surrounding policy choices by the United States of America, geopolitical conflicts, extreme weather events, and weak underlying productivity growth. Consequently, growth remained modest and uneven across countries and regions. Thus, according to the International Monetary Fund's World Economic Outlook, global economic growth is estimated at 3.3 percent in 2025, the same as in 2024.

Global inflation moderated from 5.8 percent in 2024 to 4.1 percent in 2025, consistent with subdued economic activity and easing cost pressures. This moderation, which involved a broad-based decrease in core inflation across regions, was mainly due to the slower pace of monetary policy easing since 2024, which kept interest rates at relatively high levels. Lower international oil prices also contributed to the easing of global inflation.

For Botswana, as the **Honourable Vice President and Minister of Finance** indicated in the 2026 Budget Speech, the domestic economy is estimated to have contracted by 0.4

percent in 2025, an improvement from a larger contraction of 2.8 percent in 2024. This moderation in downturn is mainly due to stronger performance in non-mining sectors. However, domestic economic conditions remained challenging, particularly due to lower diamond revenues, constrained fiscal injections, tighter liquidity conditions and generalised low productivity.

At a global level, monetary policy in 2025 involved cautious and differentiated easing across countries, reflecting variations in inflation dynamics and pace of economic recovery, as well as financial stability considerations. Several central banks loosened monetary policy in 2025 to support economic activity against the backdrop of an anticipated economic slowdown and a continued improvement in the inflation outlook. Some central banks, however, such as the Reserve Bank of India, faced renewed inflationary pressures and adopted a tightening stance.

Esteemed Guests, regarding domestic monetary policy in 2025, implementation was against a challenging environment characterised by weak growth, changing liquidity dynamics and heightened uncertainty around traditional growth drivers. The Bank maintained the

Monetary Policy Rate (MoPR) at 1.9 percent during the first four Monetary Policy Committee (MPC) meetings of 2025, following a cumulative 50-basis points policy rate cut in 2024. **Distinguished Ladies and Gentlemen**, this stance was consistent with the Bank's commitment to support economic recovery, while preserving price stability during a period of structural change in the economy. However, monetary policy implementation was tested by unprecedented and persistent lower liquidity levels, largely driven by a slower fiscal injection into the banking system, reflecting reduced diamond earnings and related subdued government spending. In turn, the lower liquidity level elevated the funding concentration and uneven liquidity distribution challenges. Thus, intensified competition for deposits resulted in wholesale deposit interest rates rising markedly and contributing to upward pressure on prime lending rates (PLRs), which rose from 6.01 percent in December 2024 to 7.19 percent. This created a disconnect between monetary policy stance and market lending conditions, with potential implications for credit affordability and growth prospects at a critical juncture for the economic transformation.

To address the disconnect, the Monetary Policy Committee recalibrated the Monetary Policy Rate upward by 160 basis points to 3.5 percent, while simultaneously directing commercial banks not to raise their PLRs further, with a view to preserving credit affordability and avoiding an excessive tightening of financial conditions. This action was therefore not a tightening bias, but a corrective recalibration aimed at reinforcing the effectiveness of monetary policy framework and restoring orderly transmission, particularly in relation to the monetary operations tools and distribution of market liquidity.

Distinguished Guests, the monetary operations reforms introduced in 2022 continued to yield positive outcomes, with the interbank market rate consistently trading within the standing facilities corridor, thus an appropriate anchor for monetary policy transmission.

Open market operations (OMOs) in 2025 were conducted in an environment of structurally tighter liquidity conditions relative to previous years. Excess liquidity moderated, largely reflecting foreign exchange outflows and slower government spending amid persistently weak diamond revenues. Notwithstanding, excess liquidity continued to

persist in the system, and liquidity mopping dominated the conduct of open market operations through Bank of Botswana Certificates.

However, as I have already alluded to, structural features of the commercial banks' funding profile, such as deposit concentration and uneven liquidity distribution continue to pose challenges and manifested in weakened policy transmission. This, therefore, necessitated additional interventions to support efficient open market operations and safeguard the effectiveness of monetary policy transmission. Thus, the tenure on the Repurchase Agreements (Repo) was progressively extended, from overnight to three months to improve funding predictability, support asset–liability matching and reduce rollover risk. In addition, the Credit Facility rate was reduced from 800 basis points to 300 basis points above the Monetary Policy Rate to discourage precautionary liquidity holdings. These measures aimed to enhance liquidity distribution, stabilise short-term funding conditions, and reinforce monetary policy transmission.

Parallel to implementation of monetary policy, the Bank also implements on behalf of Government, the exchange rate

policy. In 2025, the policy was aligned with the objective of maintaining a stable and competitive inflation-adjusted trade-weighted exchange rate of the Pula, a strategy designed to safeguard both economic stability and external competitiveness of domestic industries. To achieve this, the Pula basket weights of 50 percent each for the ZAR and the SDR were maintained. An annual downward rate of crawl of 1.51 percent was implemented from January 2025, followed by an adjustment to 2.76 percent in July 2025. This shift was complemented by a widening of the Pula buy and sell trading margins around the central parity. The margins were widened from ± 0.125 percent to ± 0.5 percent in January 2025 and further to ± 7.5 percent from 11 July 2025. These strategic measures yielded important positive outcomes. First, the widening of trading margins and increasing the rate of crawl allowed the Pula to adjust more smoothly to appropriate valuation levels given our external sector performance; thus, preserving competitiveness and without undermining maintenance of inflation within the 3 – 6 percent objective range. Second, the broader trading band encouraged greater market-based allocation of foreign currency and facilitated the development of price discovery in the interbank foreign exchange market. This lowered structural reliance on the Bank for foreign exchange

transactions and in turn, reduced pressure on official foreign exchange reserves. Third, these measures strengthened confidence in the sustainability and credibility of the exchange rate framework, reinforcing Botswana's macroeconomic resilience during the challenging period. Collectively, the July reforms enhanced the economy's capacity to adjust to external shocks while safeguarding stability.

As reported in the October 2025 Financial Stability Report, vulnerabilities and risks emanating from credit developments and monetary policy posture remain contained. Therefore, the domestic financial system remains resilient, robust, safe, sound and continued to provide a range of financial services to support the economy and that it is well supported by macroeconomic policies and regulatory frameworks.

Looking ahead to prospective economic developments in 2026, global economic growth is expected to remain subdued at 3.3 percent in 2026, unchanged from 2025. While near-term growth prospects have improved modestly, underpinned by resilient consumption and investment, heightened policy uncertainty, particularly surrounding

trade, industrial and fiscal policies, continues to pose risks to consumption and private investment decisions.

Regarding price developments, global inflation is projected to moderate further in 2026, reflecting the cumulative effects of the slower pace of monetary policy easing implemented since 2024, which kept interest rates at relatively high levels, as well as the anticipated decline in international commodity prices, particularly oil.

As mentioned by the Honourable Vice President and Minister of Finance in the 2025 Budget Speech, Botswana's real GDP is projected to expand by 3.1 percent in 2026, from an estimated contraction of 0.4 percent in 2025. It is anticipated that recovery in the mining sector and effective implementation of the economic transformation reforms would be supportive of economic activity, through facilitating expansion of productive capacity, accelerating economic transformation and enhancing resilience. Monetary policy also remains largely accommodative, given the projections for low inflation into the medium term, therefore, conducive for financing of economic activity.

Inflation is forecast to generally rise in the near term but to remain within the 3 – 6 percent objective range into the medium term, supported by stabilising exchange rate dynamics and prudent monetary policy management. It is notable, in this regard, through the December 2025 Business Expectations Survey, that the business community expected inflation to remain within the objective range in 2026, implying that inflation expectations are well anchored.

As already indicated, inflation is forecast to be within the medium-term objective range and inflation expectations are well anchored. Moreover, the recent and prospective developments for both domestic and external economic activity suggest that the economy will operate below capacity in the short term. If this situation persists, then it may allow for accommodative monetary policy in 2026.

For 2026, asymmetric trading margins on the exchange rate framework were introduced, reducing the rate at which the Bank of Botswana buys foreign currency from commercial banks from 7.5 percent to 3 percent relative to the central parity, while the sell rate remains unchanged at -7.5 percent. This adjustment enables exporters to realise more Pula per unit of foreign currency, thereby strengthening incentives

for foreign currency inflows and supporting the preservation and potential accumulation of official foreign exchange reserves. Furthermore, the annual downward rate of crawl was maintained at 2.76 percent for 2026, consistent with updated forecasts of inflation differentials between Botswana and its trading partner countries. Similarly, the composition of the Pula currency basket was also maintained at 50 percent for the South African rand and 50 percent for the IMF's Special Drawing Rights, to moderate the volatility of the Pula against the South African rand and support the competitiveness of Botswana's goods and services in the South African market, which remains a key trading partner.

As I conclude, **Distinguished Ladies and Gentlemen**, I wish to underscore that the Bank is committed to maintaining price and financial stability. By focusing and delivering on its specific roles, the Bank contributes to the maintenance of a conducive environment for structural reforms and transformation initiatives to gain traction, potentially leading to higher rates of economic growth needed to transition the economy to high income status. Given that monetary policy is accommodative and banks are being directed to be in alignment with respect to lending interest

rates, immediate implementation of transformation initiatives and structural reforms are expected to raise prospects for faster growth and economic diversification. Against this background, enhanced productivity/innovation of industry and effectiveness of support institutions and service providers would help improve growth prospects for the economy in an environment of price and financial stability.

The Botswana economy stands at a defining moment, at the intersection of the end of the glory days of the diamond era and the dawn of new opportunities in the horizon. However, we must remember that opportunities are like a rainbow. They don't last forever. If we don't seize them, they pass, just like the rainbow. To reach our True North, each of us, and I mean each of us must recognise the opportunities within our sphere and act decisively. Progress will not be driven by a single institution or sector. It will require collective effort, shared responsibility and coordinated action.

At the Bank of Botswana, together with the broader banking sector, we have already started implementing the recommendations of the Botswana Economic Transformation Programme and other initiatives that we

consider critical for strengthening the economy. We remain committed to playing our part. Monetary policy alone, however, cannot generate sustainable long-term growth. Our role is to provide a stable and enabling macroeconomic environment, one that supports credit extension, financial intermediation and the ease of doing business.

The call is, therefore, for all stakeholders, public and private, to play their part. No contribution is too small, each effort matters, and together those efforts will determine whether we simply observe the rainbow or move decisively toward it.

**Distinguished Ladies and Gentlemen,
I thank you for your kind attention.**