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PRESS RELEASE

PULA EXCHANGE RATE ADJUSTMENT

Exchange Rate Policy parameters adjusted to support economic growth and preserve foreign exchange reserves

1. In accordance with Section 21 of the Bank of Botswana Act, the Framework for determining the external value of the Pula shall be determined by the President on the recommendation of the Minister of Finance, after consultation with the Bank of Botswana.

2. The Ministry of Finance (MoF), in collaboration with the Bank of Botswana (the Bank), therefore, regularly assesses the exchange rate policy framework to ensure its intended impact on the Botswana economy. In this regard, the key objective of the exchange rate policy is to maintain international competitiveness of domestic producers of goods and services. This essentially means ensuring that, when adjusted for the exchange rate, the prices of Botswana produced goods and services remain comparable to those in external markets and for imports. Currently, this is achieved through a crawling peg exchange rate framework, which incorporates the following features:

   (a) The Pula is pegged to a basket of currencies determined using Botswana's trading patterns. This basket includes the South African Rand and the International Monetary Fund's (IMF) Special Drawing Rights (SDR), which itself comprises the US Dollar, the Japanese Yen, the Chinese Renminbi, the Euro, and the British Pound;

   (b) An annual rate of crawl is applied, designed to approximate the difference in inflation rates between Botswana and its trading partner countries. This mechanism helps to maintain the similarity of exchange rate adjusted prices over time); and

(c) Equal margins are established around the central bilateral exchange rates at which the Bank of Botswana trades (buys and sells) foreign currency with commercial banks.

3. Successful operation of this exchange rate framework fundamentally relies on the availability of sufficient foreign exchange reserves. These reserves enable the Bank of Botswana to provide foreign currencies to the market, on demand, at the published exchange rates (determined based on the exchange rate framework).

4. The current economic environment is characterised by several key factors, including:

(a) subdued economic performance, as indicated by GDP contraction in both 2024 and 2025;

(b) a sharp decline in mining (diamond) output and low growth rates in the non-mining sector, underscoring a continued reliance on mining for overall economic growth and a general lack of diversification and productivity in other sectors;

(c) significant decrease in the official foreign exchange reserves, mainly due to lower export earnings, while the demand for imports remains high; and

(d) apart from the official foreign exchange reserves, commercial banks and other entities hold a considerable amount of foreign currency.

5. Therefore, in the current circumstances, key considerations in reviewing the exchange rate parameters are to maintain and enhance the competitiveness of domestic industries and potential to improve economic diversification and growth prospects, and preserving official foreign exchange reserves, in part by facilitating greater access and use of foreign currency in the market. Against this background, the President has approved the following changes:

(a) revise the current annual downward rate of crawl from 1.51 percent to 2.76 percent, with a view to enhancing international price competitiveness of domestic producers of goods and services, while being consistent with maintenance of inflation within the objective range of 3 – 6 percent;

(b) increase the Pula trading margin between the buy and sell rates for currencies quoted by the Bank of Botswana from ± 0.5 percent around the central rate to a margin of ± 7.5 percent. This is intended to preserve foreign exchange reserves and promote the development of an interbank foreign exchange market, thereby moderating the reliance of commercial banks on the Bank of Botswana for foreign currency trade (purchases and sales). Thus, in addition, the Bank of Botswana recently increased the threshold for foreign currency trading with the commercial banks from USD1 million to USD5 million; and

(c) maintain the prevailing Pula currency basket weights of 50 percent for the South African rand and 50 percent for the SDR. This should continue to moderate the volatility of the Pula against any individual currency, with the larger singular weight with respect to the South African rand helping to promote the competitiveness of domestic goods and services in the South African market, a close and important trading partner.

6. Overall, these adjustments are necessary to sustain domestic industry competitiveness, enhance external sustainability, and safeguard the official foreign reserves, thereby strengthening the resilience of the exchange rate regime and continuance of policy discretion. However, it remains crucial to address structural issues and policy implementation constraints that hinder productivity, accelerated economic diversification and desirable higher rates of inclusive economic growth. It is evident that a concerted effort is required from the Government and its agencies, the private sector and households to implement policies and actions that will safeguard the overall resilience of the domestic economy. Meanwhile, continued monitoring of the exchange rate policy will be maintained and appropriate measures will be implemented to ensure a sustainable exchange rate framework that positively impact economic performance.

7. These changes are effective 11 July 2025.

8. The next review of the exchange rate policy is scheduled for December 2025.

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PERMANENT SECRETARY