



## **Press Release**

### **Monetary Policy Committee Meets**

**21 August 2025**

#### **Monetary Policy Rate maintained at 1.9 percent**

**At the meeting held on 21 August 2025, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 1.9 percent.**

The MPC met at a time when inflation outlook has significantly changed due to the necessary exchange rate parameter adjustments exacerbated by greater-than-anticipated market price setting for both exchange rate and retail prices. In addition, the recent interest rate adjustments by banks continue to counter the accommodative monetary policy stance. In the circumstance, inflation is projected to increase in the short term, averaging 3.5 percent in 2025 and 5.9 percent in 2026, but temporarily breach the upper bound of the objective range in the second quarter of 2026. Meanwhile, as previously indicated, in an environment where several commercial banks have concentrated funding, maintained significant part of their assets outside Botswana, as well as uneven liquidity distribution amongst banks, a macro-economy dependent on government spending has generated a liquidity squeeze. This has triggered a surge in wholesale deposit rates, as the severely affected banks bid aggressively to secure deposits/funding. Consequently, they increased their prime lending rates, with others not similarly affected following as well. This has led to a rise in the cost of borrowing for consumers and businesses. Of concern is that this happens in an environment of an accommodative monetary policy stance, necessitated by the prevailing

macroeconomic environment, notably, real gross domestic product (GDP) contraction.

As stated at the previous briefing, the domestic economy faces challenges relating to inadequate traction of policy initiatives, thus lack of economic diversification and weakening fiscal and external positions. Hence, the need for all policy frameworks to be aligned towards building economic resilience. Therefore, the Bank welcomes the recently launched Botswana Economic Transformation Programme (BETP), which is expected to bring rigour, agility and real-time decision making to development planning and project implementation. The BETP will also include high-impact and scalable projects, with potential to drive economic transformation. It is not the number of projects, but the impact they will have in the economy, which will be game-changing.

The global economy continues to experience heightened uncertainty due to shifting trade policies and geopolitical tensions. The United States of America (US) has imposed trade tariffs for all countries with a base rate of 10 percent. For Botswana, the import tariff rate for exports was set at 15 percent. One of the effects of this could be an adverse impact on Botswana's exports to the US. It is expected that the forthcoming October 2025 World Economic Outlook (WEO) publication by the International Monetary Fund (IMF) will provide comprehensive analysis of the likely implication of these developments on the global economy.

Regarding the domestic inflation trajectory, the increase is solely due to the aforementioned supply shocks, while demand conditions are subdued and non-inflationary. Thus, the projected reversion of inflation to within the 3 – 6 percent objective range in the medium term. This is further supported by measures undertaken to address the liquidity squeeze.

(a) Slashing the Primary Reserve Requirement from 2.5 percent to zero, which at the time released P1.8 billion to the banking sector;

- (b) increasing the term/maturity of the repos with commercial banks from overnight to up to 30 days, which helps banks in managing their liquidity over a longer horizon;
- (c) raising the threshold for trading of foreign currency with the commercial banks from a foreign currency equivalent of USD1 million to USD5 million, which preserves the official foreign exchange reserves by encouraging interbank trading for foreign currency and maintaining the Pula liquidity in the market;
- (d) increasing the foreign currency trading margins between the Bank and commercial banks to  $\pm 7.5$  percent, to enhance flexibility of the Pula exchange rate and encourage price discovery, as well as potential to accommodate an increase in Pula liquidity;
- (e) enhancing monitoring of foreign currency holdings and funds externalisation to promote Pula funding of domestic economic activity; and
- (f) consultations with commercial banks to discourage interest rate changes which are counter to the monetary policy stance and economic situation and other stakeholders to address unwarranted price increases.

It is considered that these interventions will have a stabilising effect. So far, this is evidenced by the uptake of longer-term repos, a pause in PLR hikes and reduced commercial banks foreign exchange trading with Bank of Botswana. Given that the current challenges are routed in structural features of the market and the economy, the overall impact of these measures cannot be long lasting. A sustainable, long-term solution requires broader interventions, including alternative and diversified sources of export earnings that would reduce reliance on diamond revenues and import substituting industries. Furthermore, the Bank continues to actively engage with the banking sector to manage liquidity pressures and mitigate risks to monetary policy transmission and going forward, appropriate prudential measures would be instituted to promote diversified funding and mitigate against the potential systemic risk to financial stability.

Overall, given these measures and policy intentions, the expectation is that all entities will respond appropriately to mitigate against proliferation of policies, which could be detrimental.

## **ECONOMIC ENVIRONMENT**

Botswana's real gross domestic product (GDP) contracted by 1.7 percent in the twelve months to March 2025, compared to a growth of 0.4 percent in the year to March 2024. The weak performance was mainly due to the significant contraction of the mining and generally subdued growth for the non-mining sectors.

According to the July 2025 WEO Update, global output is estimated to have expanded by 3.3 percent in 2024 and is forecast to grow by 3 percent in 2025 and 3.1 percent for 2026. The impact of tariff measures by the US and countermeasures by its trading partners, geopolitical tensions and high levels of policy uncertainty are expected to have a significant impact on global economic activity. The Ministry of Finance has revised real GDP growth forecasts for 2025 from a 3.3 percent growth to a contraction of 0.4 percent, a similar projection to that of the IMF. Meanwhile, the African Development Bank projects a growth of just 0.8 percent, down from 4 percent. Furthermore, the Ministry has revised growth forecasts for 2026 from 3.7 percent to 2.9 percent. The downward revisions mainly reflect the continued weak performance of the diamond industry, subdued global growth and the potential adverse effects of US tariffs.

## **INFLATION**

As reported by Statistics Botswana, headline inflation decreased from 2 percent in June 2025 to 1.1 percent in July 2025, remaining below the lower bound of the medium-term objective range of 3 – 6 percent. The decrease in inflation between June and July 2025 was mainly on account of the adjustment in electricity tariffs effected in July 2025, which reduced headline inflation by 0.64 percentage points. The MPC forecasts inflation to increase in the short term and temporarily breach the upper bound of the objective range in the second quarter of 2026. Inflation is expected to average 3.5 percent in 2025 and 5.9 percent in 2026.

Risks to the inflation outlook are assessed to be tilted to the upside. This is primarily due to market reaction following the recent widening of trading margins of the Pula, which led to an increase in prices of some goods and services, given the high import intensity of the Botswana economy. Additionally, potential cost-push pressures and second-round effects stemming from the recent increase in water and electricity tariffs for businesses are anticipated to further elevate the inflation projection. Inflationary pressures could also intensify if international commodity prices rise above forecast, global supply and logistics constraints persist, or if US tariffs exert upward pressure on costs. Conversely, inflation could be lower than projected if domestic and global economic activity remain subdued, fiscal space remains constrained, international commodity prices decline, or if administered prices change in ways not currently incorporated into the projection.

## **DECISION**

The economy is expected to continue to operate below full capacity in the short-to-medium term, though improving marginally into the medium term. This should not generate demand-driven inflationary pressures. Although inflation is expected to temporarily breach the upper bound of the objective range and risks to the inflation outlook are assessed to be on the upside, this is due to once-off supply shock which will ultimately dissipate. Therefore, there is scope for monetary policy to remain accommodative to support economic recovery and cushion the economy against the negative spillovers from the subdued global economic activity. Thus, the MPC decided as follows:

- (a) maintain the MoPR at 1.9 percent;
- (b) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos will be conducted at the MoPR of 1.9 percent;
- (c) the Standing Deposit Facility (SDF) rate is maintained at 0.9 percent, 100 basis points below the MoPR; and
- (d) the Standing Credit Facility (SCF) rate is maintained at 2.9 percent, 100 basis points above the MoPR.

## MEETINGS OF THE MPC

The MPC meetings for 2025 are scheduled as follows:

30 October 2025

4 December 2025

### Note to Editors

The MPC, chaired by the Governor, is a statutory committee established by the Bank of Botswana (Amendment) Act, 2022. The Committee comprises nine members, four of whom are external members.

Mr Cornelius K Dekop	—	Governor (Chairman)
Dr Kealeboga S Masalila	—	Deputy Governor
Mr Lesego C Moseki	—	Deputy Governor
Mr Innocent Molalapata	—	Director, Research and Financial Stability
Ms Baitshenotse N Mmopelwa	—	Director, Financial Markets
Prof Patricia Makepe	—	External Member
Dr Pinkie Kebakile	—	External Member
Dr Onkokame Mothobi	—	External Member
Dr Taufila Nyamadzabo	—	External Member

### Annex: Inflation Forecast Summary for August 2025 MPC Meeting

Inflation	Actual					Forecast									
	2024			2025		2025			2026					2027	
	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2
	3.1	1.7	2.8	2.6	2.1	3.9 (2.6)	5.4 (3.3)	3.5 (2.7)	5.6 (3.3)	7.2 (4.7)	6.0 (5.1)	4.9 (5.2)	5.9 (4.6)	3.8 (5.1)	2.7

*Note: Figures in parentheses represent the previous MPC forecast (June 2025)*

Factors contributing to the upward revision of the forecast include the following:

#### Domestically

1. Impact of the recent adjustment of exchange rate parameters

#### Externally

1. The expected depreciation of the Pula