



## **Press Release**

### **Monetary Policy Committee Meets**

**30 October 2025**

#### **Monetary Policy Rate Recalibrated to Support Transmission and Strengthen Market Signalling**

**At the meeting held on 30 October 2025, the Monetary Policy Committee (MPC) of the Bank of Botswana increased the Monetary Policy Rate (MoPR) by 160 basis points from 1.9 percent to 3.5 percent. However, commercial banks are directed not to increase their Prime Lending Rates (PLRs) in response. This policy decision is intended to reinforce policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity. Secondly, to compliment the adjustment of exchange rate parameters in July 2025, which was intended to preserve the official foreign exchange reserves, as well as signal the intent to support the external balance.**

#### **Global and Domestic Context**

The MPC met at a time when the global economy continues to experience heightened uncertainty due to geopolitical tensions, shifts in trade policy and subdued global growth. These developments, combined with weaker diamond market, have placed pressure on Botswana's fiscal and external buffers, thereby weighing on overall economic performance, contributing to recent credit rating downgrades by S&P Global Ratings and Moody's Investors Service. Despite the downgrades, Botswana's rating remains within the investment-grade category, reflecting continued confidence in the country's institutional strength and

macroeconomic management framework. Greater fiscal support, economic diversification, and productivity-enhancing reforms, consistent with the Botswana Economic Transformation Programme (BETP) and National Development Plan (NDP) 12, provide a pathway for rating stabilisation and potential improvement. This should be reinforced by maintenance of macroeconomic policy measures that are conducive to investor confidence, attracting capital (alleviating capital outflows) and policy commitment to retaining trust in the local currency. This explains policy decisions that follow.

As previously communicated, the Bank has implemented targeted liquidity support measures to address tight domestic liquidity conditions. These measures include longer-term repo operations, a pause in prime lending rate (PLR) increases and efforts to enhance foreign exchange market functioning. These interventions are helping to stabilise market liquidity, as evidenced by increased uptake of longer-tenure instruments and more active interbank foreign exchange trading. However, the structural drivers of the current liquidity pressures cannot be solved by monetary policy alone. The Bank continues to work closely with commercial banks to support liquidity management, orderly market functioning and financial system resilience. Therefore, going forward, to address potential financial stability risks and improve policy transmission, commercial banks with high deposit concentration could be required to hold additional capital as part of the transition to implementation of new supervisory requirements under Basel III.

The adjustment of the exchange rate policy parameters in July 2025 helped stabilise foreign exchange reserves at around six months of import cover; anchored the Pula's external value; increased foreign exchange interbank market activity from an average of P2.4 billion to about P3 billion per month and reduced official foreign exchange sales by the Bank of Botswana from approximately P4 billion to P2.8 billion per month, thus preserving them. However, sustaining stability and prospective recovery of foreign exchange reserves will require stronger related fiscal policy responses and greater economic diversification amid weaker diamond sector performance.

## **ECONOMIC ENVIRONMENT**

Botswana's real gross domestic product (GDP) contracted by 3percent in the twelve months to June 2025, a sharper decline compared to the 0.6 percent contraction in the year to June 2024. The weak performance was mainly due to the downturn in mining output and generally subdued non-mining activity.

According to the October 2025 World Economic Outlook (WEO), global economic growth is forecast to remain subdued at 3.2 percent in 2025, slightly below the 3.3 percent for 2024. The forecast for 2025 is 0.2 percentage points higher than the July 2025 projection, mainly on account of milder-than-expected tariff impact; quicker-than-anticipated private sector adjustment through front loading of imports and supply chain diversification; improved global financial conditions; and fiscal expansion in some major economies. For Botswana, the Ministry of Finance projects a real GDP contraction of 0.4 percent in 2025 while the IMF projects a 0.9 percent contraction. Furthermore, the Ministry and IMF forecast a growth of 2.9 percent and 2.3 percent for 2026, respectively. The subdued performance is mainly due to the continuing weak diamond market, subdued global growth and the potential adverse effects of US tariffs.

## **INFLATION**

As reported by Statistics Botswana, headline inflation averaged 2.1 percent in the third quarter of 2025, lower than the 3.1 percent in the corresponding quarter of 2024. Headline inflation increased significantly from 1.4 percent in August to 3.7 percent in September 2025, reverting to the medium-term objective range of 3 – 6 percent. The rise in inflation between August and September 2025 was mainly due to the increase in domestic fuel prices effected on 15 September 2025, which increased headline inflation by 0.93 percentage points. The MPC forecasts inflation to increase in the medium term from an average of 2.7 percent in 2025 to 5.9 percent in 2026.

Risks to the inflation outlook are assessed to be tilted to the upside. This is primarily due to the potential cost-push pressures and second-round effects stemming from the increase in water and electricity tariffs for businesses as well as the increase in domestic fuel prices. Inflation could also be higher than projected if international commodity prices were to increase above current forecasts and supply, as well as logistical constraints in the global value chains persist. Additionally, any further tariff increases globally are expected to be inflationary. On the downside, inflation may be lower than projected if domestic and global economic activity remain subdued, fiscal space remains tight, or if international commodity prices fall. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current 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. Inflation is expected to temporarily breach the upper bound of the objective range and risks to the inflation outlook are assessed to be tilted on the upside. However, inflation is projected to be within the medium-term objective range in the medium-term suggesting maintenance of a broadly accommodative monetary policy stance that would support economic activity, especially implementation of economic transformation initiatives as indicated in the BETP and NDP12.

Nevertheless, the MPC decided to increase the policy rate in order to:

- (a) reinforce policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity; and
- (b) compliment the adjustment of exchange rate parameters, intended to preserve the official foreign exchange reserves.

To clarify, this is not monetary policy tightening but a recalibration to amplify the impact of the related liquidity support measures towards enabling market and balanced distribution of liquidity, as well as to support the Pula exchange rate and preservation of foreign exchange reserves and external balance.

The Committee therefore decided as follows:

- (a) increase the MoPR by 160 basis points, from 1.9 percent to 3.5 percent;
- (b) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos to be conducted at the MoPR of 3.5 percent;
- (c) increase the repo maturity further from up to one month to up to three months to ensure adequate short-term liquidity, reduce rollover risk and foster stability in money market conditions;
- (d) increase the Standing Deposit Facility (SDF) rate to 2.5 percent, 100 basis points below the MoPR;
- (e) increase the Standing Credit Facility (SCF) rate to 4.5 percent, 100 basis points above the MoPR; and
- (f) reduce the Credit Facility (CF) Rate to 6.5 percent (300 basis points above MoPR), to reduce precautionary holding of liquidity and help foster a more active and efficient interbank market.

Commercial banks are directed **not to** increase their current PLRs to ensure that the adjustment supports monetary policy transmission without increasing the cost of credit. The Bank will continue to monitor developments closely and implement appropriate policy actions consistent with its mandate to maintain price stability and safeguard financial system stability.

The effectiveness of policy transmission (impact on economic activity) is also influenced significantly by the extent of use of the banking system and the financial sector generally. Thus, access to financial services, and cost of banking and financial services are important for policy transmission. In this regard, the Bank continuously monitors the extent and level of banking charges and fees and their impact on access and use of banking services to promote economic activity, welfare and traction of economic transformation initiatives.

## MEETINGS OF THE MPC

The next MPC meeting is scheduled for 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 October 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    | Q3  |
|           | 3.1    | 1.7 | 2.8            | 2.6  | 2.1 | 2.1   | 4.1      | 2.7            | 4.4   | 6.1   | 6.9   | 6.0   | 5.9            | 5.4   | 4.4   | 3.2 |
|           |        |     |                |      |     | (3.9) | (5.4)    | (3.5)          | (5.6) | (7.2) | (6.0) | (4.9) | (5.9)          | (3.8) | (2.7) |     |

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