REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE

NBFIRA Non-Bank Financial Institutions Regulatory Authority

FINANCIAL STABILITY REPORT

OCTOBER | 2025

FINANCIAL STABILITY COUNCIL

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TABLE OF CONTENTS

LIST OF TABLES, CHARTS, FIGURES AND BOXES iii

ABBREVIATIONS v

ACKNOWLEDGEMENT vii

PREFACE viii

1. EXECUTIVE SUMMARY 1

2. GLOBAL FINANCIAL STABILITY 3

3. REGIONAL FINANCIAL STABILITY 8

4. DOMESTIC FINANCIAL STABILITY 10

5. SOVEREIGN RISKS 15

6. CREDIT AND LEVERAGE RISKS 16
(a) Commercial Bank Credit 16
(b) Household Borrowing 18
(c) Non-Financial Corporates Credit 21
(d) Property Market Credit 21

7. LIQUIDITY AND FUNDING RISK 23
(a) Banking Sector Liquidity and Funding 23
(b) Interbank Funding 24
(c) Foreign Currency Funding 24
(d) Capital Markets – Equity Funding 25
(e) Capital Markets – Bond Market Funding 28

8. CONTAGION RISK 29

9. BANKING SECTOR RISK ANALYSIS 33
(a) Asset Quality and Performance 33
(b) Stress Test Scenarios 35
(c) Stress Test Results 36

10. PAYMENTS AND SETTLEMENT RISKS 40

11. REGULATORY AND OTHER DEVELOPMENTS 42

12. CONCLUSION AND OUTLOOK 46

LIST OF TABLES, CHARTS, FIGURES AND BOXES

CHARTS

Chart 4.1:	Botswana Financial Cycle Indicators	14
Chart 6.1:	Credit to GDP Gaps	17
Chart 6.2a:	Sectoral Loans to GDP	17
Chart 6.2b:	Sectoral Loans to Total Loans	17
Chart 6.3a:	Distribution of Household Assets	18
Chart 6.3b:	Total Household Net Worth	18
Chart 6.4a:	Growth in Household Debt	19
Chart 6.4b:	Contribution to Credit Growth	19
Chart 6.4c:	NPL Ratio	19
Chart 6.4d:	Composition of Household Credit	19
Chart 6.5a:	Mortgage Loans	22
Chart 6.5b:	Commercial Real Estate Loans	22
Chart 6.6:	Distribution of Mortgages by LTV	22
Chart 7.1a:	Banks FX Exposure	25
Chart 7.1b:	FX Volatility	25
Chart 7.2a:	Market Capitalisation	26
Chart 7.2b:	BSE Trading	26
Chart 7.2c:	Liquidity Ratio	26
Chart 7.2d:	DCI	26
Chart 7.2e:	FCI	26
Chart 7.2f:	Market Volatility	26
Chart 7.3a:	Bonds Nominal Values	28
Chart 7.3b:	Bond Yields	28
Chart 7.3c:	Number of Bonds	28
Chart 7.3d:	Bond Indices	28
Chart 7.3e:	Corporate Spread	28
Chart 7.3f:	Bonds Volatility	28
Chart 8.1a:	Structure of the Financial System in 2016	31
Chart 8.1b:	Structure of the Financial System in December 2024	31
Chart 8.1c:	Financial System Assets	31
Chart 8.1d:	Financial Assets to GDP	31
Chart 9.1a:	Capital Adequacy	34
Chart 9.1b:	Asset Quality	34
Chart 9.1c:	Liquidity	34
Chart 9.1d:	Profitability	34
Chart 9.2a:	Concentration Shock	38
Chart 9.2b:	Sectoral Shock	38
Chart 9.2c:	Overall NPL Shock	38
Chart 9.2d:	NPL Ratio	38
Chart 9.2e:	Liquidity Test	38
Chart 9.2f:	Interest Shock	38
Chart 9.3a:	D-SIBS CAR Scenario	39
Chart 9.3b:	D-SIBs Scenario - Capital Needs	39
Chart 10.1a:	EFTs	41
Chart 10.1b:	BISS Transactions	41

FIGURES

Figure 1.1: Summary of Risk Assessment.......... 2
Figure 4.1: Botswana Financial System Heatmap 13
Figure 8.1: Macro-Financial Linkages (June 2025).......... 32

BOXES

Box 1: Summary of the 2025 Financial Stability Benchmarks Report.......... 7
Box 2: Summary of the 2024/25 Household Indebtedness Survey 20
Box 3: Capital Raising by Local Authorities Through Issuance of Municipal Bonds.......... 45

ABBREVIATIONS

AI	Artificial Intelligence
AGC	Attorney General's Chamber
AML	Anti-Money Laundering
BETP	Botswana Economic Transformation Programme
BISS	Botswana Interbank Settlement System
BoE	Bank of England
BSEL	Botswana Stock Exchange Limited
CAR	Capital Adequacy Ratio
CDD	Customer Due Diligence
CET 1	Common Equity Tier 1
CFT	Combating the Financing of Terrorism
CIU	Collective Investment Units
COFC	City of Francistown Council
CorpI	Corporate Bond Index
CPF	Counter Proliferation Financing
CRE	Commercial Real Estate
CSDB	Central Securities Depository of Botswana
DCI	Domestic Company Index
DCTRI	Domestic Company Total Return Index
DISB	Deposit Insurance Scheme of Botswana
D-SIBs	Domestic Systemically Important Banks
D-SIFIs	Domestic Systemically Important Financial Institutions
D-SIIs	Domestic Systemically Important Insurers
DSTI	Debt-Service-to-Income
DTI	Debt-to-Income
ECB	European Central Bank
EFTs	Electronic Funds Transfers
ELA	Emergency Liquidity Assistance
EMDEs	Emerging Market and Developing Economies
EMs	Emerging Markets
EPS	Electronic Payment Services
ESG	Environmental, Social and Governance
ETFs	Exchanges Traded Funds
EU	European Union
FATF	Financial Action Task Force
FCI	Foreign Company Index
FIA	Financial Intelligence Agency
Fintech	Financial Technology
FMIs	Financial Market Infrastructures
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSC	Financial Stability Council
FSDS	Financial Sector Development Strategy
FSR	Financial Stability Report
FSSA	Financial System Stability Assessment
FX	Foreign Exchange
GCC	Gaborone City Council
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
GovI	Government Bond Index

IMF	International Monetary Fund
LTV	Loan-to-Value
MLGTA	Ministry of Local Government and Traditional Affairs
MMFs	Money Market Funds
MoF	Ministry of Finance
MoPR	Monetary Policy Rate
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPR	Monetary Policy Report
MSMEs	Micro, Small, and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NCO	National Coordination Office
NFCs	Non-Financial Corporates
NFIRS	National Financial Inclusion Roadmap and Strategy
NGFS	Network for Greening the Financial System
NIIP	Net International Investment Position
NMMFs	Non-Money Market Funds
NPLs	Non-Performing Loans
NWDC	Northwest District Council
OFCs	Other Financial Corporations
PLR	Prime Lending Rate
RHS	Right Hand Side
RMCI	Real Monetary Conditions Index
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCAV	FSB Standing Committee on Assessment of Vulnerabilities
SDR	Special Drawing Rights
STR	Suspicious Transactions Report
SSA	Sub-Saharan Africa
UK	United Kingdom
USA	United States of America
USD	United States Dollar
VASPs	Virtual Assets Service Providers
VIX	Volatility Index
WEO	World Economic Outlook
ZAR	South African Rand

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The October 2025 issue of the Financial Stability Report (FSR) was prepared by the Bank of Botswana (the Bank) in collaboration with member institutions of the Financial Stability Council (FSC/Council) viz., Ministry of Finance (MoF), the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), the Financial Intelligence Agency (FIA), the Deposit Insurance Scheme of Botswana (DISB) and the Botswana Stock Exchange Limited (BSEL). The Report was approved for publication by the FSC, a statutory body established by the Bank of Botswana (Amendment) Act, 2022 and consisting of five members, being the Governor of the Bank of Botswana (Chairperson); Permanent Secretary of the Ministry of Finance; Chief Executive Officer, NBFIRA; Director General, FIA; and Director, DISB, while the Chief Executive Officer, BSEL, is an observer member, thus a non-voting member.

PREFACE

Purpose of the Report

The Financial Stability Report (FSR) provides an assessment of the vulnerabilities that could elevate risks to the stability and resilience of the Botswana financial system by the FSC. The Report provides analytical and performance updates for the financial sector, examining its impact on economic activity and welfare. It encourages public discourse and engagement on financial stability issues and provides information to support stakeholders' interests and self-reflection on financial risk assessment processes. The FSR is published twice a year (that is, in May and October) following discussion and approval at the FSC meetings.

Macroprudential Policy Framework

The primary objective of the macroprudential policy framework is to limit systemic risk and its transmission to the broader economy. This is predicated on the observation and understanding that the financial system is interconnected and vulnerable to contagion risk, resulting in crises emanating from the financial sector that can rapidly spill over into the real economy. At the same time, sectoral or broader economic weaknesses could adversely affect the financial system and trigger instability or cause a systemic financial crisis. In turn, this can lead to widespread disruption in the provision of financial services, with serious negative consequences for macroeconomic stability and the real economy.

To limit systemic and spill-over or contagion risks, financial sector regulators pursue a variety of key intermediate objectives, among others: minimising and mitigating excessive credit growth and leverage; mitigating and preventing significant maturity mismatches and market illiquidity; controlling structural vulnerabilities in the financial system that arise through interlinkages; limiting direct and indirect exposure concentrations from domestic systemically important financial institutions (D-SIFIs); reducing the systemic impact of misaligned incentives with a view to reducing moral hazard; monitoring systemic risks from activities outside the banking system and implementing appropriate policy responses to contain such risks; as well as strengthening the resilience of the financial system and related infrastructure to mitigate aggregate shocks.

Given the structure of the Botswana economy, the macroprudential policy framework views the external sector vulnerabilities of the domestic economy through trade shocks and capital outflows as having the greatest potential for elevated financial stability risks. There are also potential risks to the stability of the domestic financial system emanating from economic and trade policy shifts and related disruptions induced by geopolitical tensions and economic fragmentation, as well as continued exposure to cyber threats due to the increasing integration of technology in finance, and the prevalence of climate-related financial risks. The FSR provides an analysis of these vulnerabilities, where they persist and their interaction, as well as the potential impact and response to spillovers from regional and global financial stability developments and trends. Macroprudential indicators, complemented by financial soundness and macroeconomic indicators, are used to assess risks to and within the financial system. Relevant and appropriate macroprudential policy instruments and tools are available for intervention during periods of financial instability. The instruments and policy tools would be adjusted accordingly and timeously to mitigate the envisaged threats, and such interventions would be communicated through FSC circulars.

Decision-Making Process

The FSC, a multi-agency statutory body, was established under Section 20 (54B) of the Bank of Botswana (Amendment) Act, 2022, to, among others, collaborate and share information on policy and other related issues that strengthen the resilience of the financial system and make it more robust against financial stability risks. The FSC takes prompt action in response to a perceived build-up of systemic risks; ensures a coordinated response to financial stability issues that may require cross-agency collaboration and information sharing and communicates systemic risk warnings in order to promote financial stability. The Governor chairs the FSC, and the Bank acts as the secretariat.

The work of the FSC was previously governed by a memorandum of understanding signed in February 2019, which has since been adapted into the FSC Charter.

Announcement of Macroprudential Policy Decisions

Proceedings of the FSC are communicated through a Press Release, shortly after a Council meeting, to inform the public of the discussions and conclusions regarding the stability of the domestic financial system. The Press Release further highlights the key risks in the financial system and recommendations to address such vulnerabilities. Policy decisions are communicated through a circular to all affected financial institutions. The circular provides a brief description that links the identified risk to the intermediate objective and explains how the measures taken are expected to mitigate the risk.

1. EXECUTIVE SUMMARY

1.1 **The October 2025 International Monetary Fund (IMF) Global Financial Stability Report (GFSR) highlights calmer financial markets and rebounding asset prices since April 2025, although underlying vulnerabilities have intensified, keeping global financial stability risks elevated.** The GFSR projects a more complex and interconnected risk landscape, marked by stretched asset valuations, rising sovereign debt burdens, and deepening fragilities in foreign exchange markets and non-bank financial institutions (NBFIs). Emerging risks from stablecoins, private credit expansion, and retail investor exposure are gaining prominence, while the sovereign-bank nexus in emerging markets is becoming more entrenched. Stress tests reveal persistent vulnerabilities in the banking sector, particularly in relation to NBFI exposures and valuation losses. Under these circumstances, the IMF calls for cautious policy adjustments, credible fiscal consolidation, stronger oversight of NBFIs and digital assets, as well as enhanced foreign exchange (FX) market resilience through improved data transparency and liquidity backstop interventions. Relatedly, the July 2025 Financial Stability Board (FSB) letter to the G20 and the July 2025 Bank of England (BoE) Financial Stability Report stress the importance of building and strengthening resilience amid elevated global risks.

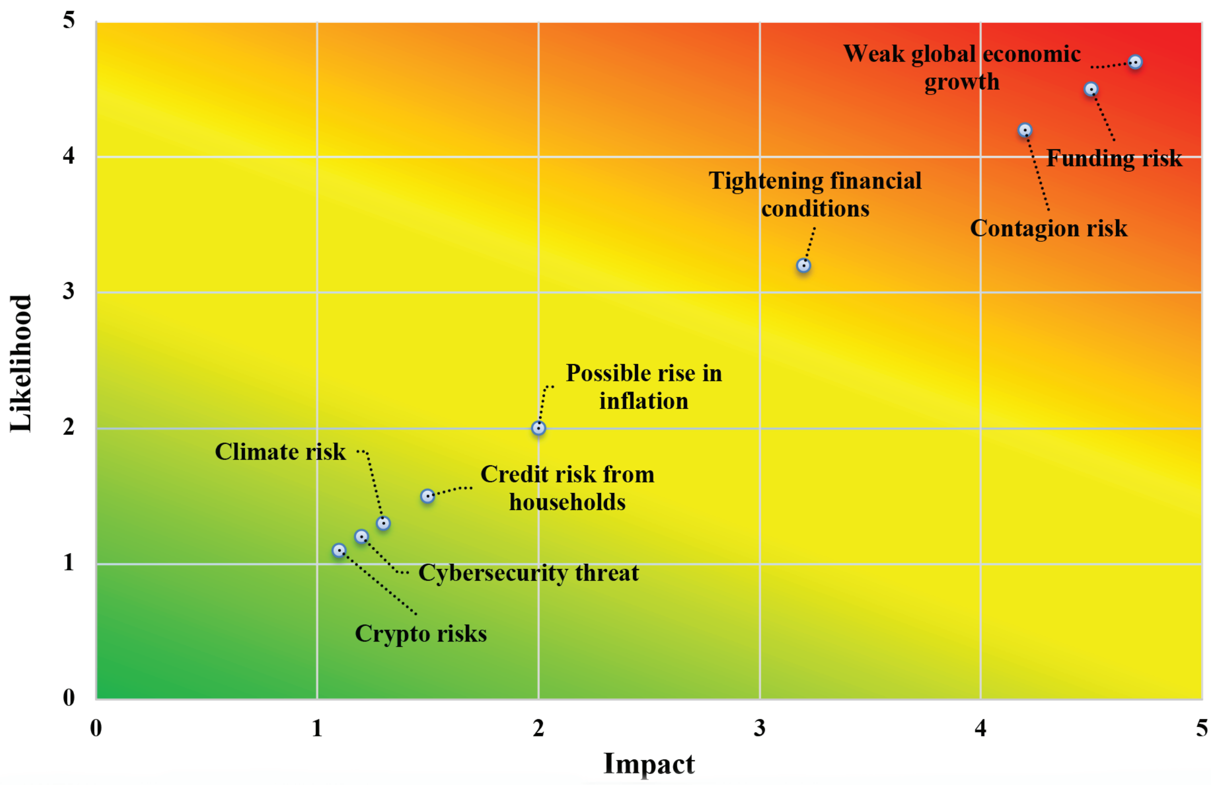
1.2 **Regional financial stability risks in sub-Saharan Africa (SSA) remain moderate** but susceptible to amplification from global headwinds, including trade policy uncertainty, as well as fiscal pressures. Structural vulnerabilities such as high public debt, financial system concentrations, and climate-related exposures continue to weigh on resilience, compounded by concerns over Financial Action Task Force (FATF) greylisting. While the IMF notes some easing in financial conditions, persistent global fragilities, reflected in steepening yield curves and shifting investor sentiment, underscore the need for proactive debt management, multilateral cooperation, and regulatory vigilance.

1.3 **Botswana's domestic macroeconomic environment remains uncertain, shaped by fiscal pressures stemming from weak diamond market performance and constrained public revenues.** These conditions have led to historically low excess liquidity in the banking sector, at P764 million in March 2025; however, average daily market liquidity increased to P1.557 billion in the second quarter of 2025, spurred mainly by government expenditure financed by Southern African Customs Union (SACU) receipts. In response, the Bank of Botswana implemented several liquidity-enhancing measures, including reducing the primary reserve requirement to zero, extending the maturity of repurchase agreements (repo) to 30 days, and adjusting foreign currency trading margins. These interventions have helped to stabilise liquidity conditions, evidenced by increased uptake of longer-term repos, improved interbank activity and a pause in prime lending rate hikes. Banks continue to meet minimum liquidity requirements, with a ratio of 17.8 percent in June 2025, although structural vulnerabilities such as high deposit concentration and elevated funding costs persist. Foreign exchange risk exposure remains minimal, and exchange rate volatility has declined, contributing to overall financial system stability. However, the underlying structural features of the economy and market, such as asset and funding concentration and deep interconnections, pose contagion risk that could be triggered by liquidity, leverage or external sector shocks.

1.4 **Recent financial stability indicators suggest that banks, NBFIs and financial market infrastructures (FMIs) remain broadly resilient and robust.** The banking sector is characterised by strong capital adequacy position, stable liquidity buffers, and low levels of non-performing loans (NPLs). Profitability has improved considerably, underpinned by several drivers such as non-interest income or service fees and cost containment measures. NBFIs, including pension funds, insurance firms, and asset managers, continue to grow in scale and influence, though they face operational and market risks linked to digital transformation, product concentration, and valuation pressures. Interconnectedness across sectors has increased, underscoring the need for enhanced supervisory coordination. FMIs continue to be robust and ably support large volumes of electronic payments and clearing.

1.5 **Despite prevailing resilience, the domestic financial system faces a constellation of risks that warrant close and continuous monitoring** (Figure 1.1). Underlying vulnerabilities relate to weak economic growth, constrained fiscal space, and low export revenues due to low sales of diamonds and persistent structural bottlenecks that could dampen investment and worsen the external position. Financial sector-specific vulnerabilities pertain to funding risk driven by tightening liquidity conditions and elevated refinancing pressures among financial institutions, as well as elevated contagion risk, considering concentrated exposures and interlinkages across banking, non-bank financial institutions, and public sector entities. Household credit risk is contained but remains sensitive to shifts in employment dynamics and debt servicing capacity. Risks from crypto assets, climate-related exposures, and cybersecurity threats are currently assessed as low-impact and low-likelihood, though their latent potential to escalate remains non-negligible. In response, macroprudential authorities are expected to enhance scenario analysis and stress testing frameworks to better capture systemic interlinkages and localised vulnerabilities. Strategic coordination across regulators and institutions remains essential in monitoring risks and liquidity-related developments, including distribution and price discovery, to inform timely intervention that safeguards financial stability.

Figure 1.1: Summary of Risk Assessment



2. GLOBAL FINANCIAL STABILITY

Global financial stability risks elevated

2.1 The October 2025 GFSR finds that despite a rebound in asset prices and easing financial conditions since April 2025, global financial stability risks remain elevated. While markets appear calm on the surface, underlying vulnerabilities have intensified. Asset valuations are increasingly stretched, sovereign debt burdens are rising, and structural fragilities in foreign exchange markets and NBFIs are becoming more pronounced. Compared to the previous report, the current assessment highlights a more complex and interconnected risk environment, with emerging threats from digital finance, private credit, and geopolitical shifts. The IMF's Growth-at-Risk metric has improved slightly yet still signals a 5 percent probability that global growth could fall below 0.5 percent in 2026, underscoring persistent downside risks. The report identifies several key financial stability risks, which are discussed below.

2.2 Equity markets have rebounded strongly since the April 2 tariff shock, with the S&P 500 forward price-to-earnings ratio reaching the 96th percentile. Valuations are increasingly concentrated in a handful of artificial intelligence (AI)-related stocks, the "Magnificent 7", which now account for 33 percent of the index. IMF models estimate a 10 percent overvaluation relative to fundamentals. Meanwhile, sovereign debt levels continue to rise, particularly in advanced economies. The United States (US) fiscal deficit is projected to increase by USD3–3.5 trillion under the One Big Beautiful Bill Act, steepening yield curves and widening swap spreads. Emerging markets (EMs) face similar pressures, with median swap spreads declining by 50 basis points over the past decade, amplifying fiscal costs and weakening monetary transmission.

Liquidity strains and innovation are reshaping financial fault lines

2.3 The FX market, though deep and liquid, is increasingly vulnerable to macro financial shocks. The US dollar has depreciated by 10 percent year-to-date, decoupling from interest rate differentials and prompting a surge in hedging demand. Jurisdictions with large US dollar exposures and shallow FX markets are experiencing wider covered interest parity deviations. Empirical analysis shows that uncertainty shocks, such as spikes in the exchange volatility index (VIX) or MOVE indices, significantly raise FX swap activity, widen bid-ask spreads, and increase excess return volatility. These effects are more pronounced in EMs and in currencies with high NBFI participation and concentrated dealer networks.

2.4 IMF stress tests reveal that 18 percent of global banks would fall below the 7 percent Common Equity Tier 1 (CET1) threshold under a stagflation scenario, rising to 21 percent when NBFI shocks are included. US and European banks hold USD4.5 trillion in NBFI exposures, with some institutions exceeding their Tier 1 capital. Liquidity mismatches persist, and valuation losses from bond yield spikes could erode CET1 ratios by up to 2.5 percentage points in North America. While interest margins remain resilient, banks are increasingly exposed to long-duration risks and to contagion from less-regulated financial entities.

Stablecoins and private credit deepen risks in already strained emerging market debt systems

2.5 Stablecoins, now approaching a USD300 billion market cap, are reshaping cross-border flows and financial intermediation. Their expansion poses risks of currency substitution, reduced monetary policy effectiveness, and fire-sale contagion from reserve asset runs. Regulatory frameworks are evolving, with the US Stablecoins Act and European Union Markets in Crypto-Assets Regulation providing oversight, but systemic risks remain. Meanwhile, private credit markets are expanding rapidly, especially through retail-facing semiliquid vehicles such as perpetual business development companies. These structures introduce liquidity and procyclicality risks, particularly during downturns.

2.6 Emerging markets and developing economies (EMDEs) with strong fundamentals are increasingly financing themselves in local currencies, improving resilience to global shocks. However, weaker EMDEs face rising debt burdens, with real interest rates exceeding growth rates, complicating fiscal consolidation. Frontier economies are turning to opaque private funding arrangements, such as bilateral loans and sukuk issuances, amid high yields and looming maturity walls. The sovereign-bank nexus is intensifying, with banks holding increasing amounts of government debt, raising contagion risks and undermining financial sector stability.

2.7 Convenience yields for US Treasuries are eroding, particularly cross-border, raising concerns about their safe-asset status. Repo market resilience has improved through central clearing and ample reserves, but vulnerabilities remain. Investment funds and ETFs now hold 45 percent of US high-yield bonds, increasing liquidity mismatch and contagion risks. ETF sensitivity to S&P 500 returns is rising, amplifying cross-asset volatility. Simulations suggest that forced sales under stress scenarios could reach USD300 billion, overwhelming dealer capacity and triggering disorderly market conditions.

Macro-financial uncertainty strains FX markets in emerging economies with high NBFI exposure

2.8 The IMF further contends that macro-financial uncertainty can significantly stress the global FX market. Heightened uncertainty, measured by indicators like the VIX, raises funding costs, impairs liquidity, and increases exchange rate volatility. This is particularly true for emerging market currencies and currencies with high NBFI participation. The report highlights that structural shifts, such as the increased involvement of NBFIs and the growing use of derivatives, while beneficial for efficiency, can also make the global FX market more vulnerable to shocks due to their volatility and less stringent supervision.

2.9 Another key finding is that the impact of uncertainty shocks is amplified by underlying market fragilities. Specifically, countries with larger dollar funding gaps in their banking sector experience more significant effects on their cross-currency basis and exchange rate volatility. Similarly, markets with high dealer concentration or a large share of NBFI activity are more susceptible to volatility and liquidity issues during stress events.

2.10 Furthermore, the IMF emphasises that operational disruptions, like outages at critical payment systems or trading venues, can severely impair market liquidity and increase volatility, highlighting the need for robust financial infrastructure. Countries with highly concentrated and interlinked financial sector, coupled with increasing public debt, face increased vulnerability to stress in the FX market.

IMF calls for enhanced and expanded macroprudential supervision

2.11 Considering the above risks, the IMF urges policymakers to strengthen surveillance, enhance liquidity and capital buffers, and reduce operational and settlement risks to improve FX market resilience. It also recommends preserving central bank independence, implementing Basel III standards, and enhancing oversight of NBFIs and stablecoins. FX market surveillance should be strengthened through improved data transparency, systemic risk monitoring, and broader adoption of payment-versus-payment systems. EMDEs should deepen local bond markets, improve primary dealer frameworks, and manage non-resident participation cautiously. Fiscal consolidation and credible medium-term frameworks are essential to reduce sovereign risks and maintain safe-asset status. The IMF also calls for robust financial safety nets, including expanded central bank swap lines and adequate international reserves, to buffer against FX market stress.

2.12 The Central Banking Institute, through its 2025 Financial Stability Benchmarks Report further advocates for the expansion of macroprudential policy toolkits and application of innovation through AI to improve analytical assessments and risk detection (Box 1).

BoE provides a cautiously resilient outlook for the United Kingdom (UK) financial system

2.13 The BoE's July 2025 FSR offers a UK anchored view of financial resilience amid a turbulent global backdrop. While the October 2025 GFSR highlights elevated systemic risks stemming from stretched asset valuations, FX market fragilities, and rising sovereign debt burden, the BoE report underscores the UK financial system's ability to absorb rather than amplify shocks. Both reports acknowledge the April 2025 tariff shock and subsequent market volatility, yet the BoE notes that UK core markets remained orderly, supported by robust operational resilience and stable funding conditions. The BoE finds UK banks to be well-capitalised, liquid, and profitable, with strong asset quality and capacity to support the real economy even under adverse scenarios.

2.14 Where the GFSR flags emerging risks from stablecoins and private credit as global disruptors, the BoE takes a more measured stance, recognising the growing role of private markets in UK corporate financing but emphasising the need for enhanced transparency, valuation standards, and systemic risk monitoring. Both reports converge on the vulnerabilities posed by leveraged NBFIs, particularly hedge funds and private equity firms, and the potential for disorderly unwinds in stressed conditions. However, the BoE provides more granular analysis of UK-specific exposures, such as hedge fund repo borrowing and the resilience of liability-driven investment funds, while also highlighting the importance of safe innovation, regulatory efficiency, and productive finance in supporting sustainable growth. Overall, the BoE's July 2025 FSR underscores the UK's relative resilience, albeit with a clear recognition of the need to remain vigilant amid shifting global dynamics.

The G20 warns against growing sovereign debt

2.15 The G20's July 2025 communique reinforced the need to address high public debt and fiscal pressures by pursuing growth-oriented macroeconomic policies and rebuilding fiscal buffers. There is a commitment to address debt vulnerabilities in low- and middle-income countries and strengthen the implementation of the G20 Common Framework for debt treatment. The G20 also endorsed a document outlining steps for debt treatment and called for enhanced debt transparency from all stakeholders.

Economic growth prospects revised down

2.16 High sovereign debt levels could spill over to the banking and non-financial institutions sector through increased exposure to government debt instruments and direct private borrowing, posing a threat to financial stability in case of extended sovereign distress. Relatedly, an IMF Working Paper 25/59[1] provides a direct link between fiscal policy and sovereign debt vulnerabilities in EMDEs, noting that a 1 percentage point increase in expected primary deficits results in a persistent increase in 10-year domestic bond yields by approximately 36 basis points over 2.5 years. This effect is magnified when there is a greater reliance on domestic banks for deficit financing, a phenomenon described as the sovereign-bank nexus. This implies that fiscal vulnerabilities can directly transmit into higher borrowing costs and financial sector risks, especially for major EMDEs.

2.17 Without decisive reforms, fiscal shocks could destabilise financial systems and hinder recovery, and, as such, the IMF urges countries to adopt credible medium-term fiscal consolidation, broaden tax bases, strengthen public financial management, and pursue timely debt restructuring.

The Euro area faces growth strain and rising financial risks

2.18 The European Central Bank (ECB) Economic Bulletin of September 2025 underscores two primary concerns affecting financial stability in the euro area: weakening economic momentum and tightening financing conditions. Growth projections have been revised downward due to subdued consumer demand, sluggish industrial output, and external headwinds such as slower global trade. This deceleration is compounded

1 M. Nose and J. Menkulasi (2025), "Fiscal Determinants of Domestic Sovereign Bond Yields in Emerging Market and Developing Economies." IMF Working Paper 25/59.

by elevated inflation, particularly in services, which continues to erode real incomes and dampen investment appetite. Meanwhile, tighter credit standards and rising interest rates have led to a marked decline in loan demand across households and firms, hindering monetary policy transmission. These dynamics suggest a fragile macro-financial environment where economic stagnation could amplify vulnerabilities in the banking and corporate sectors.

2.19 From a financial stability perspective, the Bulletin highlights growing risks in real estate markets, NBFIs, and sovereign debt sustainability. Property valuations in some regions remain stretched despite cooling demand, raising concerns of revaluations and their impact on bank balance sheets. NBFIs, particularly investment funds and insurers, face liquidity mismatches and market volatility that could transmit shocks across asset classes. Additionally, fiscal pressures are mounting as governments contend with higher debt servicing costs and limited fiscal space, especially in countries with elevated debt-to-gross domestic product (GDP) ratios. The ECB stresses the importance of preserving financial resilience through targeted macroprudential measures and vigilant monitoring of systemic risks.

Underlying vulnerabilities in the non-bank financial sector

2.20 The FSB, in a press release on 9 July 2025, published recommendations to address financial stability risks created by leverage in NBFI, which the G20 endorsed at its July 2025 meeting. The ECB's May 2025 Financial Stability Review also identified financial markets vulnerability due to elevated valuations and low non-bank liquidity buffers, underscoring the growing interconnectedness of NBFIs with the traditional financial sector and creating new channels for contagion. An FSB report from 19 June 2025, on vulnerabilities in non-bank commercial real estate (CRE) investors identified three key vulnerabilities: liquidity mismatches in open-ended property funds, high financial leverage in some real estate investment trusts and property funds, and valuation opacity due to the illiquid nature of the market. The FSB notes that these risks can spill over into the banking sector, as banks are the primary debt providers for non-bank CRE investors. The report also noted considerable data gaps that impede the monitoring of financial institutions' exposure to the CRE market and related vulnerabilities, making proactive oversight difficult.

NBFI risks demand attention and intervention

2.21 In recognition of the potential vulnerabilities arising from the NBFI, the September 2025 IMF Global Financial Stability Note underscores the growing systemic importance and vulnerabilities of NBFIs, which account for nearly 50 percent of global financial assets, mostly in market-based finance and cross-border capital flows, especially in emerging markets. The Note highlights amplifications by poor liquidity combined with financial leverage on asset fire sales, investor runs and market illiquidity, amplifying market stress across markets and borders. Without proactive measures, liquidity stress and market dysfunction in NBFIs could undermine credit provision, disrupt core funding markets, and trigger broader financial instability, especially in jurisdictions with limited fiscal space or high exposure to volatile capital flows.

2.22 Therefore, the IMF calls for central banks to identify systemically important NBFIs and markets that may require support and be prepared to intervene when market dysfunction threatens financial stability. Consequently, central banks must expand their operational toolkits, including three main instruments: market interventions (such as repo lending and asset purchases); contingent liquidity facilities (mechanisms that allow eligible NBFIs to access liquidity under defined conditions), and emergency liquidity assistance for systemically important institutions. Moreover, enhance prudential regulation and supervision to mitigate excessive risk, by addressing and closing data gaps that hinder systemic risk assessments.

Box 1: Summary of the 2025 Financial Stability Benchmarks Report

Overview

The 2025 Financial Stability Benchmarks report by Central Banking Institute provides an in-depth analysis of central banks' preparedness and challenges in safeguarding financial stability amid global trade tensions and rising cyber threats. Data was collected from 46 central banks worldwide, with the largest representation from Europe at 37 percent. The findings reveal that cyber-attacks remain the most significant risk to financial stability, with an average risk score of 3.0 out of five and 63 percent of respondents reporting an increase in incidents. Tariffs follow closely as the second-highest risk, scoring 2.8, with 70.5 percent of central banks having analysed their potential impact. In contrast, risks associated with the banking and non-bank sectors are perceived as relatively lower, with scores of 2.3 and 2.2, respectively. Anti-money laundering and counter-terrorism financing risks have also risen in 14 percent of jurisdictions, particularly in low and lower-middle-income countries.

Staffing and Resources

Staffing and resource adequacy remain critical issues. On average, financial stability departments employ 23.6 full-time equivalent staff, representing 2.1 percent of total central bank personnel. However, 34.1 percent of central banks report insufficient staffing, while 27.9 percent cite inadequate non-staff resources. The average annual salary for financial stability employees stands at USD49 791, with a range from USD10 669 to USD109 199. Departmental budgets average USD2.3 million, a decline from USD2.8 million in 2024, even as salaries have grown modestly.

Policy and Tools

Policy coordination between monetary and financial stability functions is common, with 83.7 percent of central banks adopting this approach. Nevertheless, 41.3 percent of respondents express the need for additional macroprudential tools. Loan-to-value ratio caps are the most widely used instruments, while debt-to-income caps remain largely unused despite being available. The neutral level of the counter-cyclical capital buffer averages 0.6 percent across jurisdictions, ranging from zero to 2.5 percent. Meanwhile, 91.1 percent of jurisdictions have deposit insurance schemes, with an average coverage limit of USD51 679.

Technology and AI

Technology adoption is progressing, though unevenly. About 37.2 percent of financial stability teams use AI, primarily for document preparation. Applications in areas such as anti-money laundering and sentiment analysis remain rare, at just seven percent. Larger teams are more likely to integrate AI into their workflows compared to smaller teams.

Stress Testing

Stress-testing practices are robust for banks, with 95.7 percent of central banks conducting such tests, while only 29.5 percent extend these exercises to non-bank sectors. Transparency varies, as 79.5 percent of respondents publish aggregate stress-test results, but only 4.5 percent disclose outcomes for individual institutions. Additionally, 61.4 percent share the scenarios used in these tests.

Recommendations

To strengthen financial stability, the report recommends enhancing cyber resilience through simulation exercises and dedicated response teams, expanding macro-prudential toolkits, and addressing resource gaps, particularly in low-income jurisdictions. It also advocates for structured AI adoption to improve analytics and risk detection, greater transparency in stress-testing, and continued monitoring of tariff impacts and geopolitical risks.

3. REGIONAL FINANCIAL STABILITY

SSA risks are shaped by global developments

3.1 SSA faces moderate but persistent financial stability risks, which are increasingly shaped by external global developments. The IMF's October 2025 GFSR highlights that elevated sovereign debt levels and rising debt servicing costs continue to strain the fiscal space across the region. Many countries remain vulnerable to rollover risks due to their reliance on market-based borrowing and narrow investor bases. These structural weaknesses are compounded by limited macroprudential frameworks and shallow domestic financial markets, which reduce the region's capacity to absorb external shocks.

3.2 Global financial conditions have tightened, and the region is particularly exposed to spillovers from rising interest rates, trade fragmentation, and FX market volatility. The IMF notes that SSA currencies are vulnerable to covered interest parity deviations and dealer concentration, which can amplify exchange rate pressures. In addition, the region's exposure to commodity price fluctuations and geopolitical tensions further increases macroeconomic uncertainty, especially for frontier markets with limited buffers and high external financing needs.

SSA faces increased risks to financial stability

3.3 The IMF's October 2025 Regional Economic Outlook for SSA presents a subdued economic picture, with growth projections for 2025 revised down to 3.5 percent from an earlier forecast of 4.1 percent. This marks a significant 0.6 percentage point decrease in expected growth, reflecting persistent global headwinds, including elevated commodity price volatility and tighter global financial conditions. Inflation is projected to remain a significant concern, with the regional average forecast at 18.5 percent for 2025, which is a modest decrease from the 20.3 percent recorded in 2024, yet still substantially above pre-pandemic levels. Furthermore, high public debt levels are projected to persist, with the median public debt-to-GDP ratio reaching 65 percent by end-2025, an increase from 58 percent in 2023, continually constraining the fiscal space and limiting government's ability to respond effectively to economic shocks and invest in critical development initiatives.

3.4 These economic projections have several implications for the SSA financial stability. The sustained high and projected inflation could lead to a significant depreciation of local currencies and increased financial market instability, potentially triggering capital outflows. Tighter global financial conditions, combined with high public debt, are expected to push up borrowing costs further, increasing the risk of debt distress, with an estimated 15 countries at high risk of debt distress in 2025, which is an increase from 12 countries in 2023. Banking sectors, while generally robust, face increased NPL risks as businesses and households grapple with the effects of high inflation and slower economic growth, potentially leading to a projected increase in the average NPL ratio to 9.2 percent in 2025, up from 8.5 percent in 2024. The interconnectedness of these challenges suggests a heightened need for prudential oversight and robust regulatory frameworks to safeguard the stability of the African financial system.

Subdued economic growth in South Africa

3.5 The October 2025 Regional Economic Outlook for SSA specifically notes that South Africa's economic performance continues to be hampered by structural rigidities and persistent energy supply issues. Growth projections for the country remain subdued at 1.2 percent for 2025, a marginal increase from 0.8 percent in 2024, but significantly below its potential and the regional average. High unemployment elevated public debt, and socio-political factors further contribute to its slower recovery and limit its capacity to drive regional economic momentum.

Multi-pronged policy approach needed to address risks

3.6 To address these risks and enhance financial stability, the report implicitly advocates for a multi-pronged policy approach. Fiscal consolidation remains paramount to reduce debt vulnerabilities and rebuild buffers, with a projected average fiscal adjustment of 2.5

percent of GDP over the medium term for many highly indebted countries, a similar call to previous outlooks but with increased urgency. Monetary policy must remain vigilant in combating inflation through appropriate interest rate adjustments and liquidity management to bring inflation closer to target ranges, ideally below 10 percent by 2026, a target that has remained elusive in recent years. Structural reforms aimed at diversifying economies, improving governance, and strengthening institutions are crucial for fostering long-term resilience and attracting sustainable investment, with a focus on improving the business environment to attract an additional 1.5 percent of GDP in foreign direct investment.

3.7 Furthermore, the IMF calls for strengthened policy frameworks, including enhanced debt transparency, sound fiscal management, and improved domestic revenue mobilisation. The report emphasises the importance of building resilient financial systems through targeted regulatory reforms and capacity development. International support, particularly concessional financing and technical assistance, remains critical to help countries navigate the current risk environment and safeguard financial stability across the region.

4. DOMESTIC FINANCIAL STABILITY

There is need to foster market resilience

4.1 Botswana's financial system remains broadly stable, but risks are rising as economic and global pressures persist. The economy contracted by 2.8 percent in the first quarter of 2025, and growth for the year is expected to fall below the projected -0.4 percent, mainly due to the prolonged downturn in the diamond industry. To address fiscal challenges, Government has introduced austerity measures-such as travel and overtime restrictions, centralised procurement, and wage bill controls, while advancing the Botswana Economic Transformation Programme (BETP) to diversify into tourism, agriculture, manufacturing, and digitalisation. These steps are critical for long-term resilience and highlight the need for a financial system that can withstand shocks and support economic transformation.

4.2 Global financial conditions add to these challenges. Heightened market volatility and tighter global liquidity increase Botswana's vulnerability, given its reliance on diamond exports and the need to raise external financing. At the same time, structural weaknesses including dependence on mineral revenues, continue to pressure the banking sector. Liquidity strains have already prompted the Bank to reduce the primary reserve requirement to zero in December 2024 to stimulate credit. These developments reinforce the urgency of strengthening market resilience and liquidity management to safeguard financial stability.

Technical adjustments to the Pula exchange rate implemented

4.3 Mounting downward pressures on foreign exchange reserves led to an accelerated rate of crawl depreciation of 2.76 percent annually from 1.51 percent and widening of the Pula trading margins of foreign currencies with commercial banks from ± 0.5 percent to ±7.5 percent. These measures, while aimed at cushioning the financial system, expose the economy to the risk of imported inflation and underscore the fragility of monetary transmission. The liquidity crunch and reduced fiscal and foreign exchange buffers paint a picture of deepening macroeconomic and fiscal financial strain amid Botswana's structural dependence on mineral revenues.

Overall financial stability is intact, but risks are tilted upward due to global vulnerabilities

4.4 Consistent with the overall assessment of domestic financial stability conditions, the heatmap indicates that the financial system is broadly stable, though the overall balance of risks is tilted to the upside. This profile is consistent with a global backdrop that, while appearing calm on the surface, retains significant vulnerabilities. International assessments continue to flag stretched asset valuations in key markets, renewed sensitivity of sovereign bond yields to fiscal positions, and deeper links between banks and non-bank financial institutions. In such an environment, even modest swings in global risk appetite can abruptly tighten financing conditions for small, open economies like Botswana without a domestic trigger. The composite tone captured by the heatmap, therefore, remains elevated relative to pre-shock periods and aligns with the latest global surveillance (Figure 4.1).

External financial conditions are the main transmission channel for risk

4.5 Global-to-domestic spillovers are presently most visible through the foreign-exchange and domestic debt markets, and the heatmap's cross-market segments appropriately reflect this with a sustained elevation in externally driven pressures. When global uncertainty rises, FX liquidity can thin quickly, bid-ask spreads widen, and the cost of hedging and cross-currency funding tends to increase; the evidence shows these effects are typically stronger in emerging markets and quickly spill over to local money and bond markets. Even during periods of improved sentiment, longer-maturity bond yields can remain volatile as investors reassess term premia in light of fiscal concerns, leaving a fragile equilibrium that can reverse abruptly and pass through to domestic pricing. The heatmap's signal on these channels is thus well grounded in international evidence on how shocks propagate through FX and sovereign debt markets in line with research by the IMF and BIS[2].

2 IMF blog, "Economic Uncertainty Can Test the Resilience of the Foreign Exchange Market," 7 October 2025; BIS, Quarterly Review, March and September 2025.

Macroeconomic risks are elevated due to weak growth, fiscal pressures, and external imbalances

4.6 The macroeconomic risk band in the heatmap remains elevated above its long-run average, reflecting ongoing adjustment pressures as the economy responds to subdued diamond demand and shifting global consumption trends. Weakness in mining and trading activity has contributed to a broader slowdown, while fiscal and external buffers have softened, with reserve cover and external balances moderating. The outlook remains cautious, hinging on gradual global demand recovery and credible fiscal consolidation. Key risks include export concentration, structural shifts in consumer preferences, and reduced resilience due to buffer erosion. Reserve adequacy concerns and sensitivity to fiscal and external pressures further heighten financing risks, reinforcing the need for sustained policy discipline.

4.7 Industry developments reinforce this cautious stance. Producer guidance for 2025 points to deliberately lower rough-diamond output, subdued trading, and pricing pressure as the midstream rebalances inventories[3]. Supply ranges have been adjusted to match slower demand, supporting market stability but implying a more gradual pass-through to domestic growth, current-account receipts, and fiscal revenue. The sustained tone in the heatmap's macro and real-sector contagion signals aligns with this patient industry path, underscoring the importance of close monitoring and adaptive policy responses.

Liquidity and funding risks in the banking sector have increased

4.8 The banking panel of the heatmap continues to indicate sound capital and steady earnings with solvency-related signals remaining subdued while flagging rising liquidity strain and risks to market functioning. Domestic assessments in the first half of the year highlighted the critical structural issue of unusually low system liquidity coupled with high funding concentration. Crucially, NBFIs, including pension and insurance funds, are a major source of wholesale deposits for the banking system. This reliance has generally led to increased funding costs for banks, putting upward pressure on the prime lending rate and constraining credit availability. This means that liquidity stress originating in the NBFI sector (e.g., from global asset price shocks or redemption pressures) can quickly translate into a loss of short-term funding for banks, leading to divergence in market rates and magnifying the impact of external shocks. The heatmap's higher liquidity risk signal is therefore consistent with both local diagnostics and the global evidence base on concentrated wholesale funding.

NBFIs are a structural source of systemic risk

4.9 Signals related to non-bank financial intermediation remain prominent on the heatmap, reflecting this sector's dual role as both an institutional investor and a critical, yet potentially volatile, funding source for the banking sector. Globally, the non-bank sector's activities, particularly those involving liquidity transformation (offering investors easy access to cash despite holding fewer liquid assets) and pockets of leverage-pose the primary risk. The analytical concern is twofold: first, that NBFI redemptions can force fire-sales of assets, destabilising bond markets; and second, that massive and sudden withdrawals of NBFI deposits from banks can directly trigger a major funding shortfall in the banking system, exacerbating the already high funding costs. Given the high degree of NBFI-to-bank funding linkages in Botswana, strengthening NBFI liquidity management practices is essential to protect bank funding stability, which is appropriately highlighted by the heatmap's emphasis on this cluster.

Proactive supervision and a shift toward risk-based enforcement

4.10 The NBFIRA regulatory enforcement and supervisory strategy emphasises early intervention and continuous monitoring, hence, contributes to a more proactive regulatory

3 https://www.debeersgroup.com/news-insights/latest-group-news/2025/production-report-for-the-second-quarter-of-2025

environment that supports financial stability. While the total number of enforcement actions declined markedly from 89 in 2024 to 33 in 2025, the value of monetary penalties rose significantly to P6.4 million, reflecting a targeted focus on high risk entities. The insurance sector accounted for the highest share of sanctions, followed by retirement funds and non-bank lenders, with capital markets registering the fewest. Notably, retirement fund sanctions increased due to intensified fit and proper reviews linked to governance non compliances. Overall, the period saw a reduction in severe enforcement measures such as licence cancellations, warnings, and directives, with no suspensions or closures recorded, signalling a lower risk profile across the NBFI sector.

Rising transaction alerts highlight evolving financial crime risks

4.11 During the period from April to August 2025, the Financial Intelligence Agency (FIA) received 360 Suspicious Transaction Reports (STRs) valued at P139.1 million, marking an increase from 338 STRs worth P68.1 million in the preceding period. The majority of STRs originated from the banking sector, which accounted for 310 reports totalling P135.5 million. Other reporting entities included micro-lenders, bureaux de change, and legal professionals. The predominant predicate offences were illegal deposit-taking, tax evasion, and fraud. Notably, the FIA observed emerging patterns such as the use of high-value cash in gambling, personal accounts for business transactions, and drug-related financial activity. These trends underscore the evolving nature of money laundering and terrorist financing risks, reinforcing the importance of timely and diverse STR submissions in safeguarding financial system integrity.

The economy continues to perform below potential

4.12 The heatmap in Figure 4.1 shows moderate-to-high stress levels, driven by a GDP contraction of 3 percent in the twelve months to June 2025, compared to a contraction of 0.6 percent in the year to June 2024. Global GDP growth has been revised upward; however, geopolitical tensions and policy unpredictability remain key downside risks to the domestic outlook. Consequently, the Ministry of Finance has revised its GDP forecast for 2025 from 3.3 percent growth to a contraction of 0.4 percent as structural fragilities persist. These include concentrated banking sector funding and continued reliance on diamonds. External shocks, such as global economic uncertainty, drought in 2024, and flooding in March 2025, compound these vulnerabilities, reinforcing the need for proactive systemic risk management. In relation to financial stability, this underscores the urgency of a holistic analysis of systemic vulnerabilities, particularly in non-bank financial institutions (i.e., insurers), alongside transmission channels such as cross-border spillovers and sectoral shocks. Mitigation responses should focus on macroprudential oversight, enhanced transparency, and targeted structural reforms to reinforce resilience.

Policy priorities should focus on strengthening resilience

4.13 To mitigate these systemic risks, Botswana must adopt a multifaceted strategy that addresses the interconnected vulnerabilities across sectors. Central to this is economic diversification to reduce over-reliance on diamond exports and enhance resilience. Expanding key sectors such as eco-tourism, sustainable agriculture, and value-added manufacturing, in alignment with national development goals, can foster more robust and shock-resistant economic foundations.

4.14 Furthermore, enhancing the financial sector's resilience requires targeted improvements in liquidity management, particularly reducing dependence on wholesale funding for banks and NBFIs, and strengthening capital buffers to absorb shocks. As recommended in the IMF's 2024 Article IV report, the establishment of an Emergency Liquidity Assistance (ELA) facility remains critical to underpin systemic stability. Supportive fiscal and monetary policies are also essential for sustaining price stability and rebuilding fiscal buffers to mitigate future shocks. By addressing these interconnected risks, Botswana can mitigate transmission channels, such as NFC defaults impacting banks and households, and reinforce financial stability amid ongoing economic challenges.

BoB signals potential capital requirements for deposit-concentrated banks

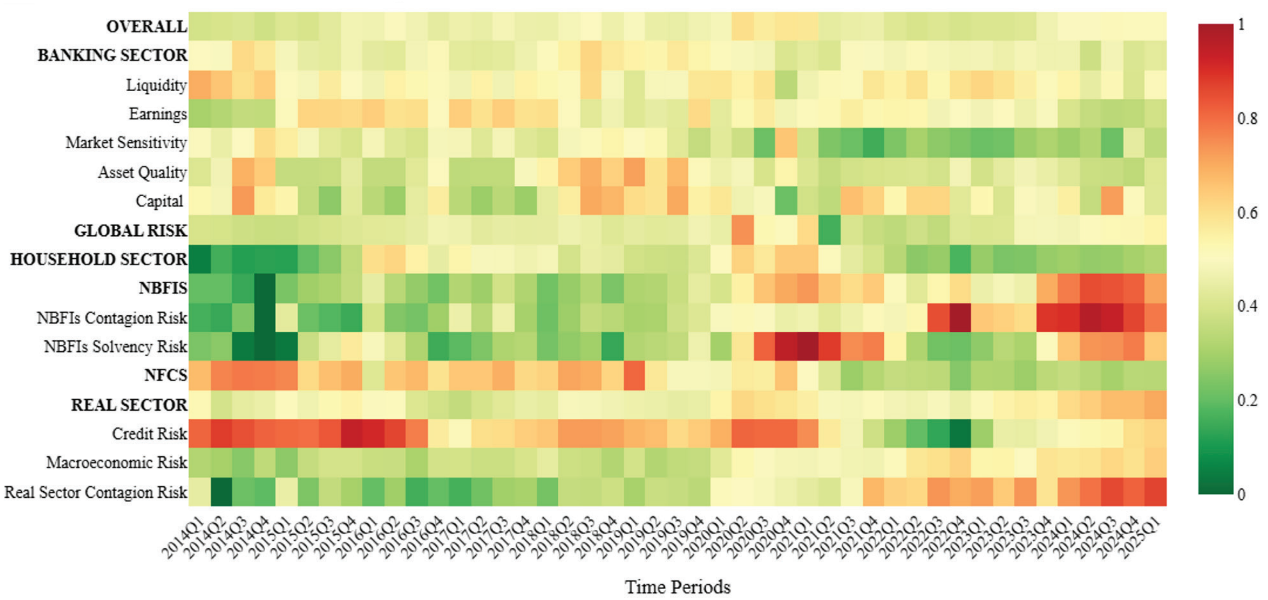
4.15 In its October 2025 meeting, the Monetary Policy Committee (MPC) of the Bank of Botswana recalibrated the Monetary Policy Rate (MoPR), raising it by 160 basis points to 3.5 percent, while instructing commercial banks not to adjust their Prime Lending Rates. This strategic move aims to enhance monetary policy transmission and preserve foreign exchange reserves, complementing the July 2025's exchange rate parameter adjustments. The decision reflects a broader regulatory shift to recalibrate the policy mechanism, support liquidity distribution, strengthen market signalling, and safeguard financial stability amid global uncertainties, subdued domestic growth, and recent credit rating downgrades. In line with evolving supervisory frameworks, the Bank signalled potential capital requirements for banks with high deposit concentration, aligning with Basel III implementation. These developments underscore the Bank's commitment to macroeconomic stability and resilience, reinforcing the importance of the regulatory landscape in maintaining financial stability.

BETP ignites a bold transformation agenda

4.16 On 15 July 2025, President Advocate Duma Gideon Boko launched the BETP, a strategic initiative designed to inject rigour, agility, and real-time decision-making into national development planning. The BETP is a government-led initiative aimed at promoting more private sector-inclusive development planning and implementation of national projects, with technical support from PEMANDU Associates through the Big Fast Results methodology. This partnership offers global benchmarking and expertise, while preserving domestic leadership and accountability. The launch also served as a national call to action, inviting bold, scalable proposals from international investors, SMEs, cooperatives, youth, and the informal sector.

4.17 The BETP's "True North" vision is to transition Botswana into a high-income, digitally enabled, export-driven, and economically diversified nation. It identifies six economic focus areas: agriculture, manufacturing, financial services, digitalisation, infrastructure, and tourism, and three social pillars: healthcare, education, and social protection as prospective drivers of economic prosperity. From a financial stability perspective, the BETP's inclusive and multi-sectoral approach is likely to enhance

Figure 4.1: Botswana Financial System Heatmap



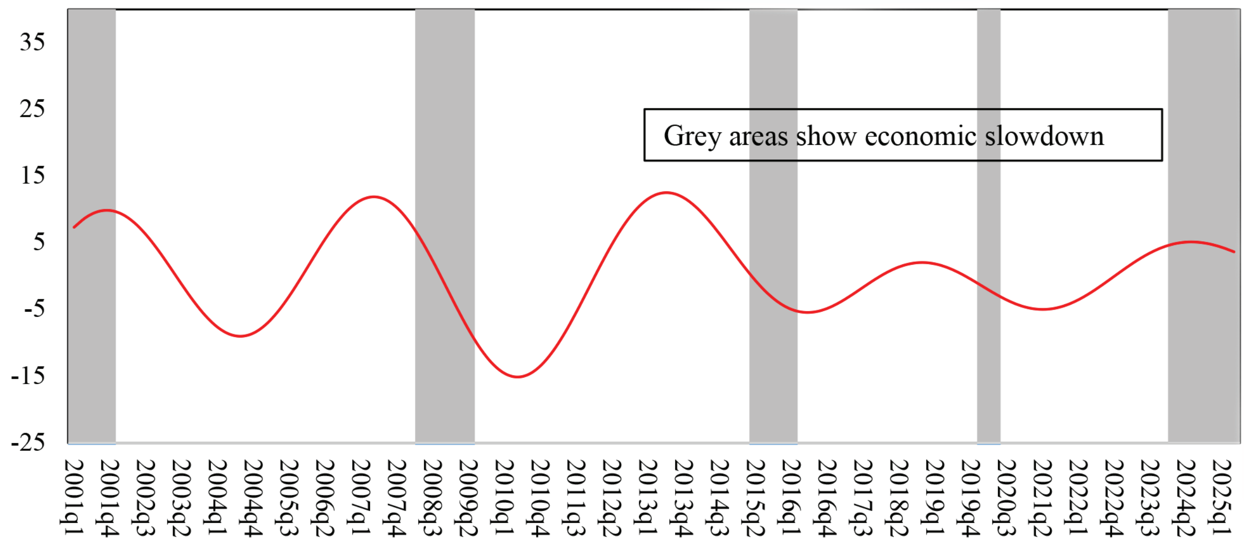
systemic resilience by diversifying economic drivers and reducing overreliance on traditional sectors. Ultimately, these efforts will broaden the asset base, improve liquidity conditions and reinforce investor confidence in Botswana's economic profile.

Financial cycle evolution signals systemic deterioration

4.18 The financial cycle is trending downward (Chart 4.1), reflecting weakening financial conditions after a brief period of improvement. This shift signals tightening liquidity, increasingly stringent credit standards, and heightened uncertainty amid fiscal pressures and subdued economic activity. The downward trend suggests that risk appetite is diminishing, and banks may increasingly prioritise balance sheet resilience over credit expansion. This softening is exacerbated by a severe, persistent liquidity squeeze in the banking system, driven by net foreign exchange outflows and reduced government spending, which is a primary source of systemic liquidity. Combined with persistent liquidity shortages and reliance on central bank support, the cycle's weakening underscores fragility in the financial system.

4.19 The softening cycle raises concerns about credit risk, particularly given elevated household indebtedness and weak income growth, which could translate into rising defaults and pressure on bank profitability. Liquidity constraints may intensify funding risks, while fiscal consolidation could further dampen credit demand, potentially leading to slower credit growth as banks apply tighter lending criteria. Based on the trajectory of the financial cycle, it is likely that there will be slower credit growth, potential deterioration in asset quality, and increased reliance on emergency liquidity facilities in the short-term. Proactive measures such as strengthening macroprudential buffers, enhancing contingency planning, and supporting economic diversification will be critical to safeguard financial stability as the cycle trends downward.

Chart 4.1: Botswana Financial Cycle Indicators



5. SOVEREIGN RISKS

Macroeconomy fragile as diamond industry slumps

5.1 While the domestic macroeconomic environment remains supportive of financial stability, rising sovereign vulnerabilities, marked by diminished fiscal and external buffers, pose an escalating risk. Real GDP contracted by 5.3 percent in the second quarter of 2025, marking the sixth consecutive quarterly contraction, compared to the same quarter in the previous year. The downturn has been driven by a 37.8 percent decline in the diamond sector, amid weak demand for diamonds from China and the US, as well as increasing competition from lab-grown diamonds. In comparison, the non-mining sector expanded by only 1.4 percent.

5.2 Growth prospects for Botswana remain subdued, falling well below the long-term growth rate required to transition Botswana to high-income status by 2036. According to the June 2025 Business Expectations Survey, firms anticipate business conditions and economic performance to improve by 0.9 percent in 2025, a recovery from the 3 percent contraction for 2024, and surpassing the Ministry of Finance's projections of 0.4 percent contraction for 2025. Firms in the mining and quarrying sector expect business conditions to remain neutral in the third quarter of 2025, while those in manufacturing are optimistic, anticipating favourable conditions to support economic activity. This cautious outlook is likely to be linked to the country's weaker fiscal position, characterised by lower revenues, constrained cash flow, and, therefore, a restrained pace of spending. Overall, the country remains vulnerable to external sector shocks that could undermine domestic financial stability through the significant role of the public sector in business performance and household incomes.

Debt structure signals rising short-term pressures amid cautious borrowing stances

5.3 Botswana's fiscal year 2025/26 debt profile reflects a moderate overall debt-to-GDP ratio of 29 percent (P79 billion), with domestic debt at 18.8 percent of GDP, outweighing external debt at 10.22 percent. The external debt stock of P23.6 billion is overwhelmingly multilateral at 93 percent, with no new disbursements recorded during the period, suggesting a cautious external borrowing stance. However, the maturity structure reveals that over 85 percent of external debt has less than 20 years remaining, and nearly P10 billion is due within the next decade. This concentration of short to medium-term maturities could elevate rollover risks if global financing conditions tighten. Domestic debt, totalling P49.4 billion, is heavily skewed toward bonds at 69 percent and treasury bills at 20 percent, with P12.5 billion maturing within one year, posing liquidity management challenges. The reliance on short term instruments and temporary advances from the Bank underscores the need for a more balanced debt strategy.

5.4 The absence of external disbursements and the relatively high interest component of external debt service, at 56 percent, suggest growing cost pressures, especially if concessional financing remains limited. Financial stability implications include potential stress on the banking sector if government refinancing needs crowd out private credit or if sovereign risk perceptions deteriorate. To safeguard stability, Botswana must continue anchoring its debt strategy in transparency, medium-term fiscal planning, and proactive liability management, particularly as global interest rates and climate-related shocks pose external vulnerabilities.

Botswana's sovereign credit rating downgraded but maintains investment grade status

5.5 In October 2025, Moody's Ratings downgraded Botswana's long-term domestic and foreign currency issuer ratings from A3 to Baa1, maintaining a negative outlook. This followed S&P Global Ratings' September 2025 downgrade of Botswana's long-term debt rating from BBB+ to BBB, also with a negative outlook. Both agencies cited the structural downturn in the diamond industry, responsible for roughly 30 percent of GDP and 90 percent of exports, as the primary driver of deteriorating fiscal and external buffers. Moody's highlighted the depletion of the Government Investment

Account, rising debt levels projected to peak at 40 percent of GDP, and the government's limited progress in economic diversification as key concerns. The negative outlook reflects the risk of further credit deterioration if policy responses remain insufficient. In this context, continued fiscal prudence is essential, aligning with the Ministry of Finance's introduction of a three-year Medium Term Debt Strategy in the 2024/25 financial year.

5.6 The downward revision in ratings reinforces the need to maintain robust institutions and sound policy frameworks that deliver and support macroeconomic stability, economic diversification, and sustainable economic growth. Furthermore, it underscores the importance of the traction of the ongoing economic structural transformation and policy reforms by the government. It is observed that these efforts are necessary to accelerate economic diversification and industrialisation; rebuild fiscal buffers; reduce dependence on commodity-based revenues; enhance fiscal sustainability; and strengthen overall economic growth and resilience

Rising risks underscore the urgency for fiscal reform and economic diversification

5.7 Foreign exchange reserves amounted to P47.8 billion in July 2025, which is a decrease of 26.3 percent from P64.9 billion in July 2024. In foreign currency terms, the foreign exchange reserves were USD3.5 billion (July 2024: USD4.8 billion) and SDR2.6 billion (July 2024: SDR3.6 billion). This level of foreign exchange reserves was equivalent to 6.1 months of import cover of goods and services. The decline in foreign exchange reserves reflects subdued capital inflows and increased public expenditure against limited export earnings accrued to the government. This heightened vulnerability can exacerbate financial stability risks; therefore, deliberate and concerted fiscal consolidation efforts are required to help restore buffers, hence anchor external sector, macroeconomic, and financial stability.

5.8 The country's narrow economic base, which relies on the diamond sector, remains a core economic vulnerability, with the sector's downturn undermining growth, exports, and fiscal revenues. Without significant economic growth, fiscal performance, and policy measures to diversify the country's commodity-dependent economy, Botswana faces the threat of further downgrade, which would increase borrowing costs and deepen financial strain. This has pushed the government towards untested domestic and external borrowing, raising concerns about liquidity pressures and debt affordability, especially as reliance on costlier commercial loans grows, further jeopardising financial stability.

6. CREDIT AND LEVERAGE RISKS

(a) Commercial Bank Credit

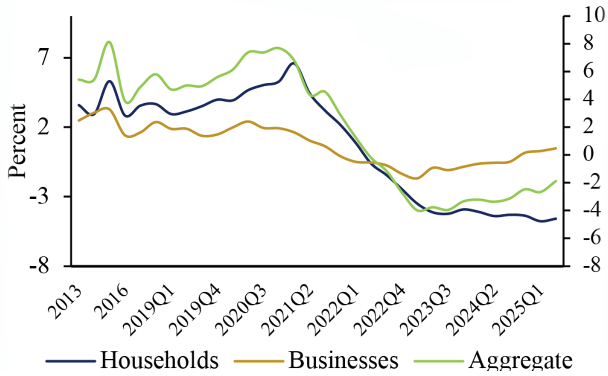
Growth in overall commercial bank credit decelerates

6.1 Annual growth in commercial bank credit increased to 8.5 percent in September 2025 from 4.5 percent in the corresponding period in 2024. The acceleration in credit growth was attributable to increased utilisation of overdraft and revolving credit facilities by businesses, notably parastatals, as well as an increase in the acquisition of mortgage and motor vehicle loans by households. Meanwhile, credit quality increased slightly, with an overall NPLs ratio of 3.4 percent in September 2025, compared to the 3.6 percent in September 2024.

6.2 Household borrowing remains a key driver of total credit with a growth of 5.4 percent year-on-year in September 2025, an increase from 4.6 percent in September 2024 (Chart 6.4a). Motor vehicle and personal or unsecured loans were the significant drivers of growth in credit to households. The more expensive unsecured loans continue to dominate household credit at 70 percent (Chart 6.4d), which presents a potential channel of debt distress in the event of loss of employment, or sudden and sharp tightening of financial and borrowing conditions (for example, an increase in interest rates). Overall, household credit accounted for 63.2 percent of total credit, compared to 36.8 percent for business credit (Chart 6.2b).

6.3 Credit developments currently pose limited risks to financial stability as shown by a negative credit-to-GDP gap. The gap was -1.9 percent in the second quarter of 2025, indicating the absence of rapid and excessive credit growth that could cause a credit bubble, but rather suggestive of room for prudent credit extension to sustain economic activity (Chart 6.1). The credit-to-GDP gap is calculated as the credit-to-GDP ratio less its long-term average or trend. A gap of 10 percent is a reference threshold, and any value above this threshold indicates excessive and rapid credit growth that could overheat the economy.

Chart 6.1: Credit to GDP Gaps



Composition of Banking Sector Loans[1]

Household loans dominate commercial banks' loan portfolio

Chart 6.2a: Sectoral Loans to GDP

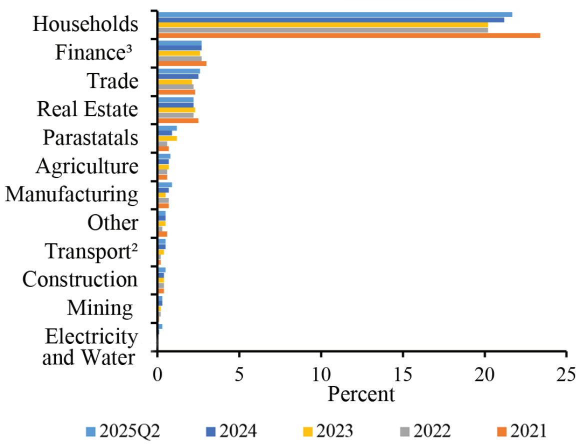
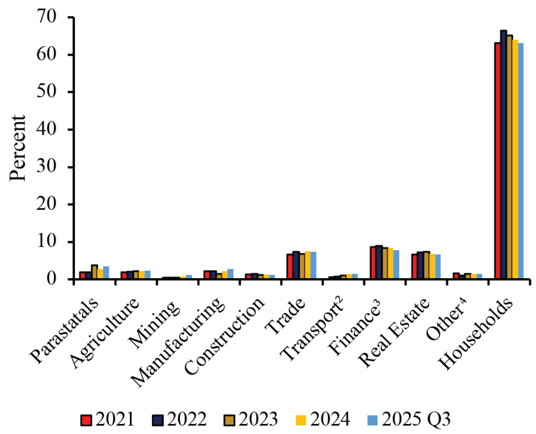


Chart 6.2b: Sectoral Loans to Total Loans



Notes:

[1] Sectoral contributions are calculated as a percentage of total commercial banks loans.

[2] Transport and Communications.

[3] Finance and Business Services.

[4] Other includes Tourism and Hotels.

Source: Bank of Botswana

(b) Household Borrowing

Unsecured borrowing drives household debt

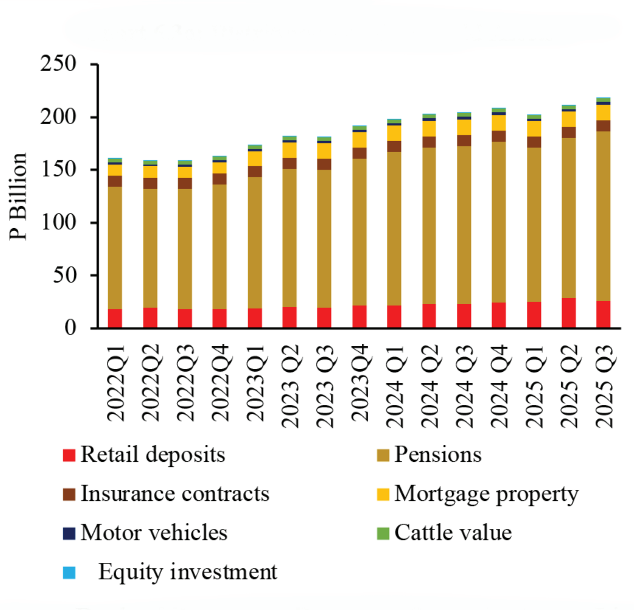
6.4 Household debt grew by 5.4 percent in September 2025, driven by personal loans, which contributed 5.3 percentage points to the total household debt growth while the other loan categories drove the remaining 0.1 percentage points. This trend showcases the historical dynamics of household debt, where most of the borrowing has been by public sector employees with deductions from source scheme arrangements. This arrangement increases repayment and recovery rates, but the current macroeconomic conditions marred by growing fiscal pressures, presents a challenge for banks in the treatment of household loans under the expected credit loss models. In addition, failure by the government to process timely third-party payments amid growing fiscal pressures could disrupt banks' liquidity and general solvency. As such, the continued dominance of unsecured borrowing in household credit presents growing structural vulnerabilities with the potential to amplify credit losses in case of insurmountable fiscal strain and failure.

6.5 On the other hand, households are net savers when considering their non-discretionary contractual long-term pension savings and other assets (Chart 6.3a). Pension assets are important for mortgage debt relief under the Retirement Funds Act of 2022 but also improve the long-term financial welfare of households and in general, underpin wealth creation and financial security for retirees. Chart 6.3b indicates a positive net worth of households, which indicates a healthy financial standing. The estimated net worth of households as a percentage of GDP was relatively unchanged at 55.6 percent in the second quarter of 2025 compared to 55.8 percent in the second quarter of 2024, reflecting a higher increase in net worth compared to the growth in GDP.

Household Net Worth Estimation

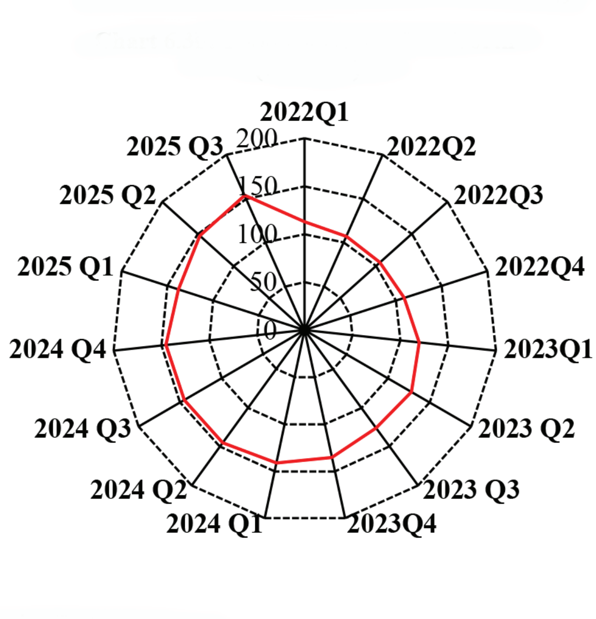
Pension savings dominate household assets

Chart 6.3a: Distribution of Household Assets



Households' net worth is increasing

Chart 6.3b: Total Household Net Worth (P Billion)



Source: Bank of Botswana, Botswana Stock Exchange Limited and Statistics Botswana

Household Debt Analysis

Personal loans (other) are the major driver of household credit growth

Chart 6.4a: Growth in Household Debt

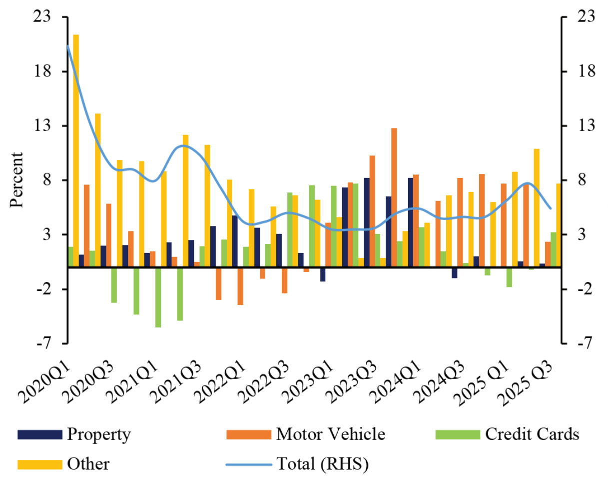
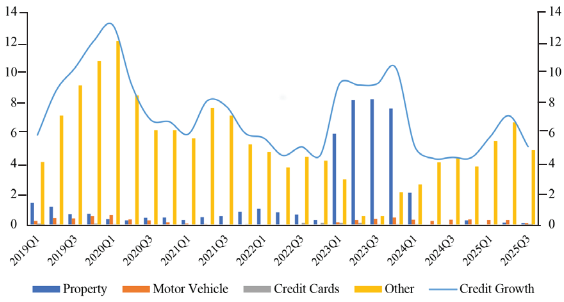
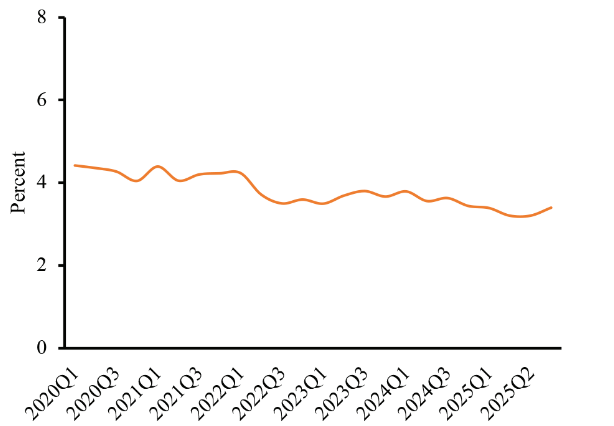


Chart 6.4b: Contribution to Credit Growth



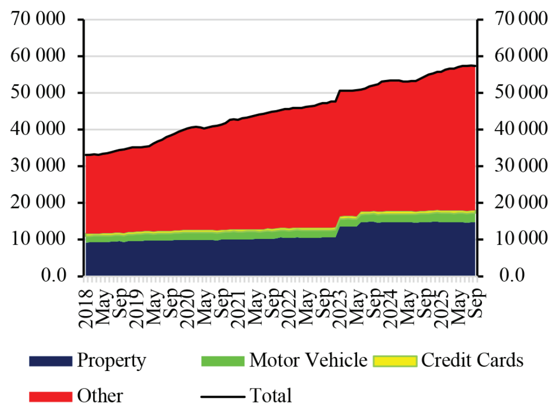
Both the debt burden and default rates are decreasing

Chart 6.4c: NPL Ratio



Personal loans dominate household debt

Chart 6.4d: Composition of Household Credit (P'Million)



Box 2: Summary of the 2024/25 Household Indebtedness Survey

Introduction

The Household Indebtedness Survey Report 2024/25, conducted by the Bank, provides a comprehensive analysis of household borrowing trends across commercial banks, micro-lenders, and hire purchase institutions. The survey aims to monitor credit developments in the household sector, inform financial policy, and support macroprudential regulation. It draws on data from nine commercial banks, one statutory bank, ten micro-lenders, and a hire purchase group with 61 stores, supplemented by secondary sources such as the Quarterly Multi-Topic Survey from Statistics Botswana. The report is particularly relevant in the context of Botswana's challenging economic environment, marked by declining diamond demand, global trade shifts, and constrained government spending. These factors have led to liquidity pressures and a projected GDP contraction of 0.4 percent in 2025, raising concerns about financial stability and household debt sustainability.

Summary of Results

The survey reveals that total household debt rose to P68.6 billion in December 2024, a 12 percent increase from the previous year. This comprises P59.6 billion in commercial bank loans, P8.5 billion in micro-lender loans, and P509 million in hire purchase loans. As a share of GDP, household debt increased to 26 percent, although it remains lower than in South Africa and Mauritius.

Demographically, individuals aged 36–49 years hold the largest share of loans and exhibit the highest employment-to-population ratio. Men account for 56 percent of total lending, but women now secure larger average bank loans than men, reversing historical trends due to rising earnings, increased formal sector participation, and entrepreneurship. In microlending, men have seen significant growth in loan amounts, likely tied to capital-intensive microenterprises.

Debt-to-income (DTI) ratios vary across age and gender. The lowest DTIs are found among individuals under 25, while the highest are among males aged 66 and above, suggesting borrowing near or post-retirement. Middle-aged borrowers show elevated DTIs due to financial obligations such as housing, education, and retirement planning. These patterns align with economic theories like the life cycle and permanent income hypotheses.

Average loan amounts also reflect employment and income dynamics. Banks lend the most to the 36–49 age group, with average loans of P245 488.00. Micro-lenders favour younger and middle-aged borrowers, while hire purchase loans average P7 795.00 across all age groups. Income-wise, bank loans are concentrated among households earning P15 001–P25 000 per month, a shift from the previous year's focus on slightly lower income brackets. Micro-lender loans follow a similar pattern. Lower-income earners exhibit higher DTIs, indicating elevated credit risk despite smaller loan amounts.

Conclusion

The 2024/25 Household Indebtedness Survey highlights the complex interplay between economic conditions, borrower demographics, and institutional lending practices in Botswana. While household debt is rising, it remains within manageable levels compared to regional peers. The shift in lending patterns toward higher-income and middle-aged borrowers reflects prudent risk management by financial institutions. Gender dynamics in borrowing are evolving, with women increasingly accessing larger loans due to improved earnings and employment opportunities. Elevated DTI ratios among older males and lower-income groups underscore the need for targeted financial literacy and inclusion strategies. As Botswana navigates economic headwinds, the insights from this survey will be crucial for shaping policies that promote responsible borrowing, financial stability, and inclusive growth.

(c) Non-Financial Corporates Credit

Corporate sector exposures increase

6.6 Total commercial bank credit to the non-financial corporate sector increased from P26.1 billion in September 2024 to P31 billion in September 2025. As a result, the proportion of corporate loans to total commercial banks' credit rose marginally from 31.2 percent to 34.1 percent. Relative to GDP, bank credit to the corporate sector was 11.5 percent in June 2025 from 9.9 percent and remains low by regional standards. Overall, corporate sector credit dynamics in Botswana between 2017 and 2025 show a disconnect from real economic activity, highlighting vulnerabilities that have the potential to propagate through concentration and leverage, rather than broad-based credit expansion. Mining and construction economic activity is highly volatile but attracts limited credit, so shocks in these sectors transmit mainly through external channels such as commodity prices and foreign investment, leading to fiscal stress and liquidity squeeze. In contrast, trade and real estate sectors dominate the corporate loan book, exposing banks to domestic demand shocks, while the sharp rise in electricity and water sector credit reflects infrastructure financing that introduces project-specific risk. Strengthening resilience requires tighter capital requirements for infrastructure exposures, enhanced liquidity monitoring, limits on concentrated lending, forward-looking provisioning, and the gradual integration of countercyclical buffers supported by improved data infrastructure.

(d) Property Market Credit

Limited risks from commercial real estate

6.7 Commercial real estate (CRE) credit growth was unchanged at P5.8 billion in September 2024 to P6 billion in September 2025 and constituted 6.3 percent of total loans (Chart 6.5b). The CRE sector recorded a moderate NPL ratio of 1 percent in September 2025 and poses limited risks to domestic financial stability. There are, however, outstanding concerns about concentration (location) risk, given that most loans finance properties in or around Gaborone[4].

Mortgage lending short of development needs

6.8 Residential real estate loans were relatively unchanged between September 2024 and 2025 at P15.5 billion, constituting 25.1 percent and 16.1 percent of total household credit and total credit, respectively (Chart 6.5a). These proportions are very low compared with South Africa and Namibia, where mortgages constituted 61 percent and 70 percent, respectively, of total household loans, which suggests that the level of domestic housing finance is not commensurate with the needed development and growth path to fill the apparent need for housing, as well as the financing gap. At the same time, growth in incomes could be restrained relative to the increase in residential house prices over the years (possibly reflecting limited housing stock in various categories, or availability of land and affordability of building materials).

Limited credit risk from mortgage lending

6.9 Credit risk in the mortgage sub-sector remains low, with commercial banks maintaining moderate loan-to-value (LTV) ratios, although the ratios have reached 105 percent in some isolated cases (Chart 6.6). The moderate LTV ratios, as well as security in the form of property, limit the expected losses of banks from mortgage credit default. The proportion of impaired mortgage loans to total mortgage loans declined from 6.3 percent in December 2023 to 5.7 percent in December 2024, reflecting in part the diminishing adverse effects of the COVID-19 pandemic on households. Overall, given the limited exposure as well as the self-secured nature of real estate facilities, vulnerabilities in the sector pose minimal risk to financial stability, but prospective developments require continuous close monitoring and assessment.

4 Bank of Botswana Residential Property Price Index Report (Second quarter of 2024) and Riberry Property Market Report for the third quarter of 2024.

Property Market Developments

Mortgages as a percentage of both total loans and household loans and the NPL ratio are stable

The proportion of CRE loans to total loans is stable and the NPL ratio is modest

Chart 6.5a: Mortgage Loans

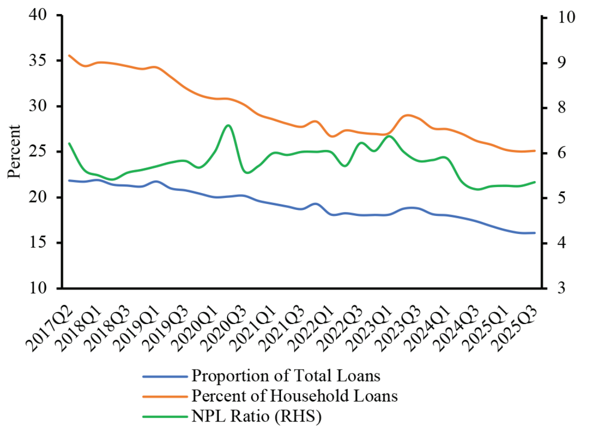


Chart 6.5b: Commercial Real Estate Loans

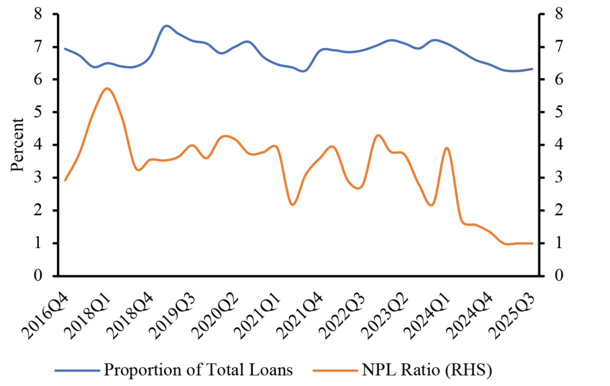
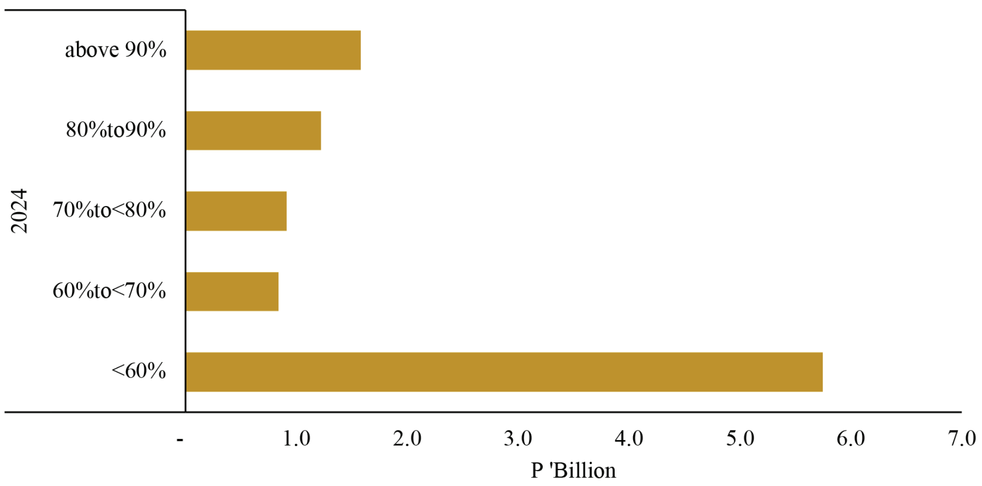


Chart 6.6: Distribution of Mortgages by LTV



7. LIQUIDITY AND FUNDING RISK

(a) Banking Sector Liquidity and Funding

Market liquidity remains subdued

7.1 During the second quarter of 2025, average daily market liquidity increased from P1.037 billion recorded in the first quarter of 2025 to P1.557 billion, albeit remaining below historical levels. The increase was mainly attributable to Government expenditure spurred by SACU funds and loan inflows from external creditors such as the African Development Bank and the OPEC Fund for International Development. However, the limited fiscal space in an economy heavily dependent on government spending continues to constrain market liquidity.

7.2 Under these circumstances, the Bank of Botswana has implemented multiple interventions to support market liquidity, first by slashing the primary reserve requirement to zero, which at the time released about P1.8 billion into the market; secondly, by extending the maturity of repurchase agreements (repos) with commercial banks from overnight to 7 days and further to 30 days. The extended maturity of repos is expected to aid effective liquidity risk management by enhancing the predictability of banks' liquidity projections and asset/liability maturity mapping over a longer horizon. Furthermore, the Bank raised the threshold for trading foreign currency with commercial banks from USD1 million to USD5 million, in an effort to preserve the official foreign exchange reserves and encourage interbank trading for foreign currency. In addition, the foreign currency trading margins between the Bank and commercial banks were increased to -/+7.5 percent to enhance the flexibility of the Pula exchange rate and encourage the potential to accommodate an increase in Pula liquidity. The Bank also had consultations with commercial banks to discourage interest rate changes that undermine the accommodative monetary policy stance, following upward adjustments to the prime lending rates of banks. It is considered that these interventions will have a stabilising effect, and currently, this is evidenced by the uptake of longer-term repos, a pause in prime lending rate hikes, and reduced commercial bank foreign exchange trading with the Bank.

7.3 Given that the current challenges are rooted in structural features of the market and economy, the overall impact of these measures cannot be long-lasting. Going forward, the Bank would institute appropriate prudential measures to promote diversified funding and mitigate against the potential systemic risk to financial stability. Nonetheless, banks maintained adequate liquidity positions, with a liquidity ratio of 15.9 percent in August 2025, supported by the onshoring of pension funds.

Deposit concentration exposes banks to funding risks

7.4 The banking sector remains vulnerable to funding risk arising from a concentrated deposit base. Commercial banks' funding structure is concentrated on a few wholesale deposits as reflected in the top 20 deposits[5] to total deposits ratio of 40 percent in September 2025 from 43 percent in December 2024. The downward movement is mainly attributable to previously repatriated pension funds being deployed into long-term assets. Though a decline, concentration funding remains high and continues to suggest high funding costs due to the inherent volatility and expensive nature of wholesale deposits.

7.5 That notwithstanding, the banking industry continues to demonstrate healthy levels of credit intermediation, with an intermediation ratio[6] of 80.3 percent in August 2025 (2024:81.3 percent). The rate of intermediation has shown marginal growth in the first half of 2025 and has remained above the 50 – 80 percent range since December 2024, continuing to support enduring economic growth.

5 Banks are statutorily required to report their 20 largest depositors as a monitoring tool to track vulnerabilities from wholesale funds

6 Measured as a ratio of loans to deposits, the financial intermediation ratio measures the extent to which funds (excess) are made available to those who need them.

(b) Interbank Funding

Non-D-SIBs dominate the interbank lending market

7.6 Interbank trading decreased from P37.9 billion in the first quarter of 2025 to P34.4 billion in the second quarter of 2025. Similarly, Domestic Systemically Important Banks (D-SIBs) participation in total interbank borrowing decreased from 63.8 percent to 33.5 percent, while participation in total interbank lending declined from 11.6 percent to 8.4 percent in the same period. Generally, interbank activity remained high as banks maintained interbank relations to navigate the prevailing low liquidity conditions, and this supports the efforts by the Bank to support intermediation activity in the short term.

(c) Foreign Currency Funding

US dollar funding risks remain limited

7.7 Domestic commercial banks' exposure to foreign exchange risks is highly limited and poses minimal threat to overall financial stability. This is reflected in both the overall net foreign exchange position and the US dollar net open position of the banks. The absolute net open position of banks increased from P208 million in September 2024 to P248 million in September 2025, representing 1 percent of unimpaired capital, and remained significantly within the prudential limit of 30 percent (Chart 7.1a). At the same time, the Pula equivalent absolute net exposure of the domestic banking system to the US dollar increased from P78 million in September 2024 to P303 million in September 2025, translating into 2 percent of the industry's unimpaired capital and therefore showing limited risks from US dollar funding.

Exchange rate volatility is high but falling

7.8 In the year to September 2025, the nominal Pula exchange rate depreciated by 2.6 percent against the Special Drawing Rights (SDR) and by 0.5 percent against the South African Rand. The depreciation against the SDR was driven by weaker performance against the Euro and British Pound, which declined by 6.3 percent and 1.5 percent, respectively. Conversely, the Pula appreciated against the Japanese Yen and Chinese Renminbi by 2.3 percent and 0.4 percent, respectively. Volatility of the Pula against the Rand continued to decline since January 2025 (Figure 7.1b), showing signs of exchange rate stability and consequent stabilisation of import and export pricing expectations, thereby reinforcing domestic financial system resilience. However, foreign exchange rate volatility remains elevated against historical trends.

(d) Capital Markets – Equity Funding

Market capitalisation and liquidity improves

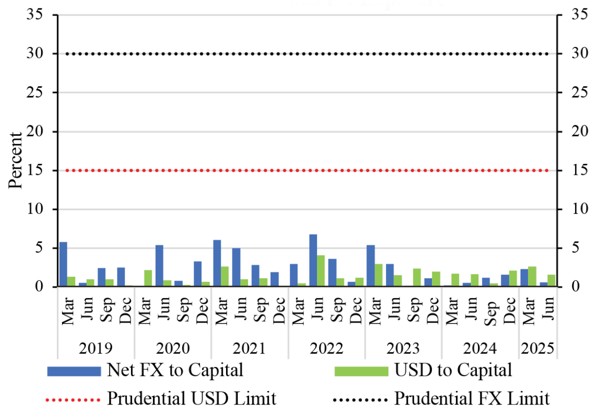
7.9 The total equity market value of domestic listed companies gained 10.9 percent, year on year, to P57.5 billion in September 2025 (2024: P51.8 billion) (Chart 7.2a). The gains largely reflect the increased participation of institutional investors in their efforts to place repatriated pension funds. In that respect, and coupled with good company fundamentals, some share counters experienced significantly positive valuations, with the top five gainers as follows: Choppies (34.6 percent), Standard Chartered (24.1 percent), Sefalana (20.0 percent), Turnstar (16.5 percent) and Sechaba (15.6 percent).

7.10 Turnover for traded equities on the stock exchange increased significantly in 2025 (Chart 7.2b), supported by the net valuation gains, and this momentum is expected to be sustained in the medium term, leading to improved market liquidity (Chart 7.2c). Furthermore, the pension funds transition mandates have fuelled the surge in liquidity as repatriated funds are deployed into long-term assets in efforts to achieve an even split between offshore and onshore investments by December 2027. Coupled with BSEL's market awareness campaigns, this led to a surge in the liquidity ratio from 1.9 in September 2024

Foreign Currency Funding and Exposure

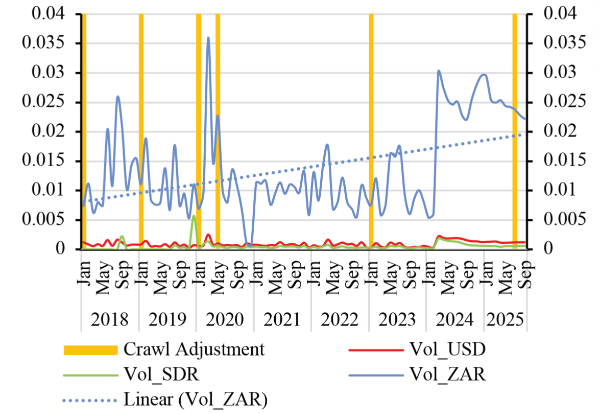
Banks FX exposure is well below the prudential limits

Chart 7.1a: Banks FX Exposure



ZAR exchange rate volatility is high

Chart 7.1b: FX Volatility



Source: Bank of Botswana

to 10.4 in September 2025. Elevated liquidity levels facilitate easy entry and exit in the stock market without causing material price changes. This enhances investors' ability to trade efficiently and confidently, reducing the risk of selling at a discount during market downturns or buying at inflated prices. Such flexibility encourages participation by retail investors, supports price stability, and facilitates fair price discovery in the market. However, the uncertain macroeconomic outlook due to mounting fiscal pressures could undermine domestic market sentiment if the global diamond market does not recover as expected.

The domestic stock market is profitable but volatile

7.11 Profitability in the domestic market continues to maintain an upward trajectory as demonstrated by a sustained appreciation in the domestic company total return index (DCTRI) of 16.1 percent in September 2025 in comparison to an appreciation of 21.7 percent in the corresponding period in 2024[7]. Furthermore, developments in market capitalisation in the twelve months to September 2025 translated into a stronger performance of the domestic company index (DCI) (Chart 7.2d). On the other hand, volatility[8] in the stock market has abated in the first three quarters of 2025, for both primary and secondary listings. Notwithstanding, stock market volatility remains elevated in comparison to historical averages, potentially reflecting the inherently risky nature of equity markets (Chart 7.2f).

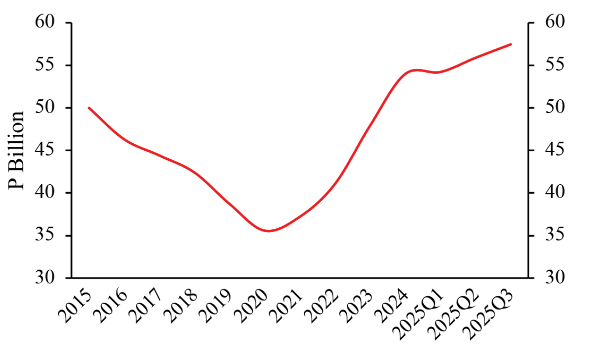
7 The DCTRI shows gains (or losses) in equity positions due to market capitalisation appreciation (or depreciation) and dividend returns.

8 Measured as the 12-month standard deviation of the DCI.

Stock Market Developments

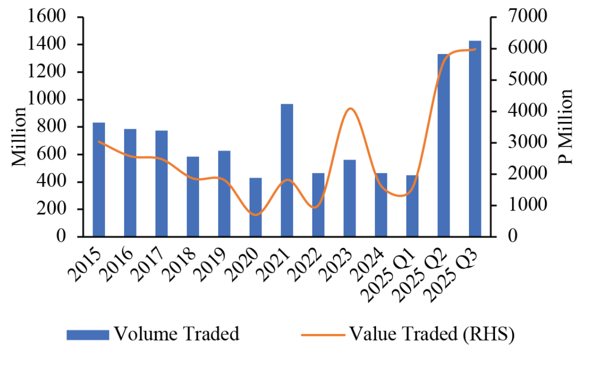
Stock market capitalisation is increasing

Chart 7.2a: Market Capitalisation



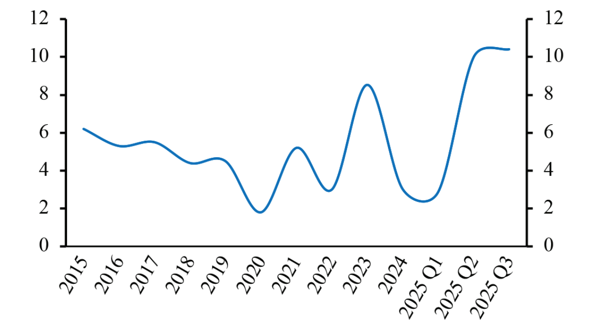
BSE trade by value and volume is increasing

Chart 7.2b: BSE Trading



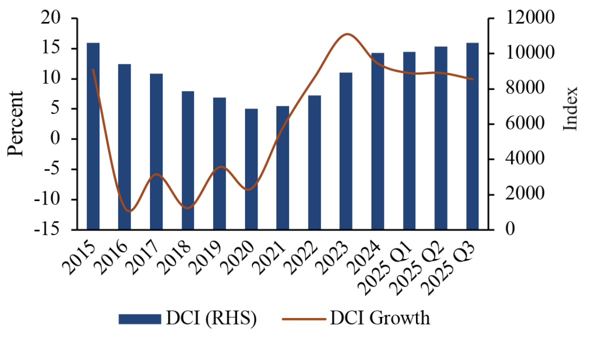
Liquidity in the BSE is stable

Chart 7.2c: Liquidity Ratio

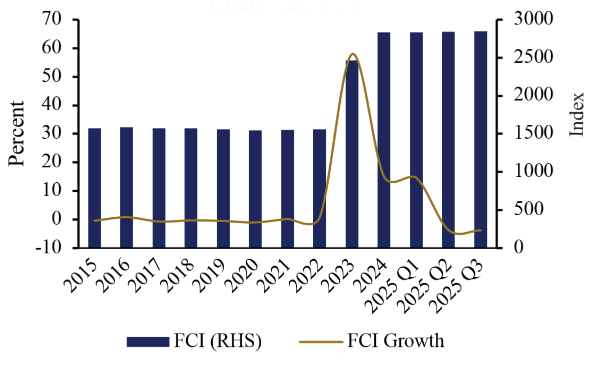


The DCI is growing at a lower pace

Chart 7.2d: DCI

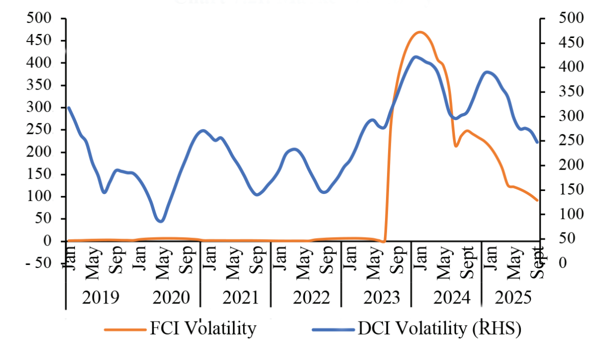


The Foreign Company Index is stable



Stock market volatility decreasing

Chart 7.2f: Market Volatility



Source: Botswana Stock Exchange Limited

(e) Capital Markets – Bond Market Funding

Government bonds drive market capitalisation

7.12 Bond market capitalisation increased by 13.6 percent to P39.5 billion in the twelve months to September 2025 from P34.8 billion in September 2024, owing to the issuance of additional tranches of existing government bonds amid growing financing needs (Chart 7.3a). The nominal value of government bonds rose by 17.9 percent from P28.8 billion to P34.0 billion. Though the local bond market recorded new corporate listings, these were offset by the nominal value of maturing corporate bonds, translating to a decrease in valuations of 7.1 percent to P5.5 billion in September 2025.

7.13 The proportion of government bonds in the nominal value of the fixed income market was 86.0 percent in September 2025 from 82.9 percent in September 2024, indicative of increased government funding needs. It is also in the context of the ongoing commitment by the government to deepen and develop the domestic capital markets. Consistent with this, the stock exchange signed a Memorandum of Understanding (MoU) with the Gaborone City Council (GCC) to explore the issuance of municipal bonds. In the current challenging economic environment, municipal bonds provide an alternative to traditional government funding and emphasise the role of the capital markets in addressing infrastructure gaps and diversifying funding sources at a time of mounting fiscal pressure. Furthermore, the issuance of such debt instruments would reduce reliance on government intervention. Nevertheless, a sustained dominance of government securities has the potential to crowd out capital funding for the private sector and may need to be proportionately scaled down as capital markets mature.

Bonds yield spread tightening

7.14 The spread between average yields on corporate and government bonds decreased from 0.24 percent in September 2024 to -3.01 percent in September 2025, largely driven by the increasing yields on government bonds, which are reflective of sovereign risk pricing by the market. Furthermore, yields on corporate bonds also increased during the twelve months, albeit at a slower pace, indicative of a growing risk premium required by fixed-income investors.

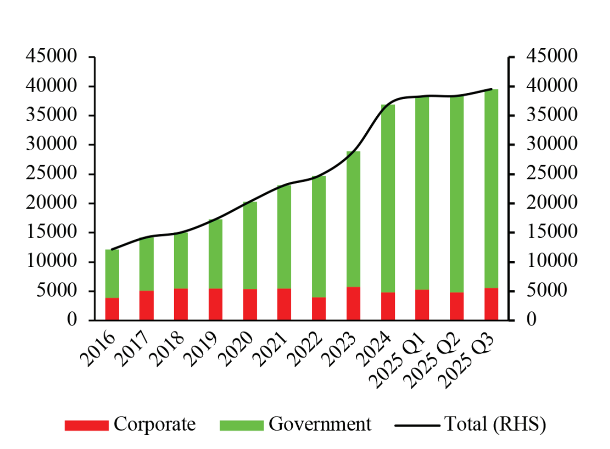
Bond market volatility is high

7.15 The riskiness of all bonds remains high as reflected in the relatively high volatility of the bond indices compared to historical figures (Chart 7.3f). The potential for tightening of funding in the bond market, therefore, remains, especially considering the uncertain macroeconomic environment and deteriorating fiscal position. However, the generally accommodative financial conditions domestically, as judged from the real monetary conditions index (RMCI), present funding opportunities in the money markets that could augment any shortfall in capital market funding.

Bond Market Developments

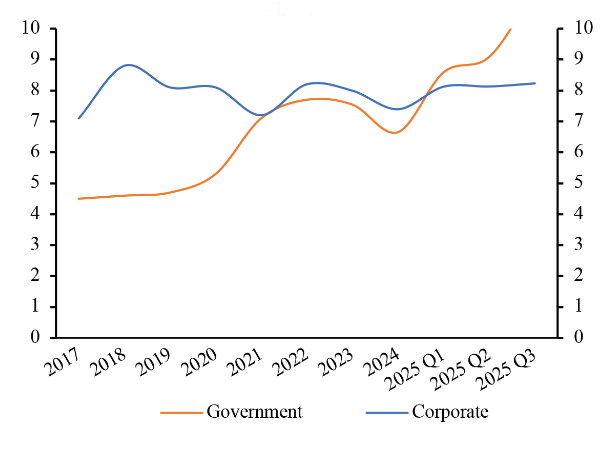
Government bonds dominate the bonds market

Chart 7.3a: Bonds Nominal Values (P Million)



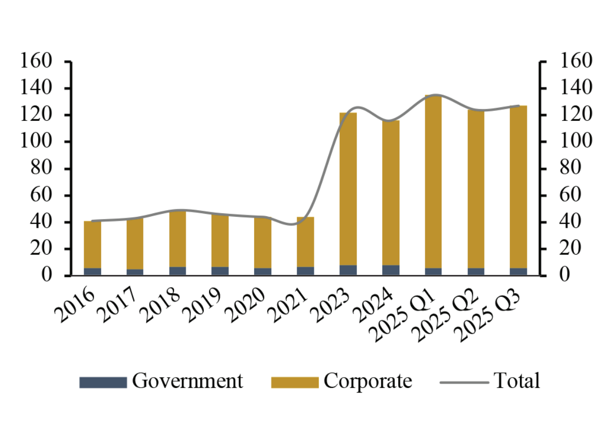
Bonds yields still above pre-COVID-19 levels, indicating higher uncertainty

Chart 7.3b: Bond Yields



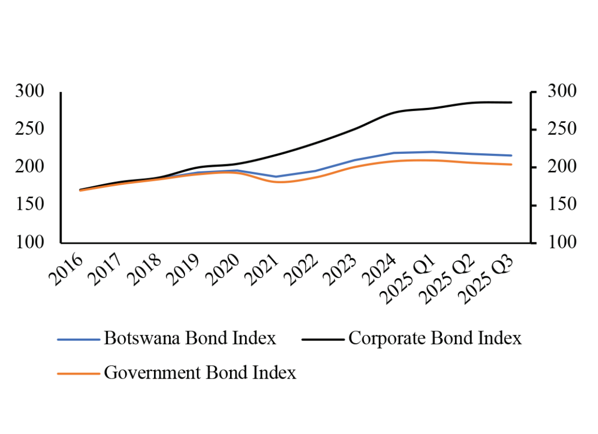
Corporates have many low-value bonds listed on the BSE

Chart 7.3c: Number of Bonds



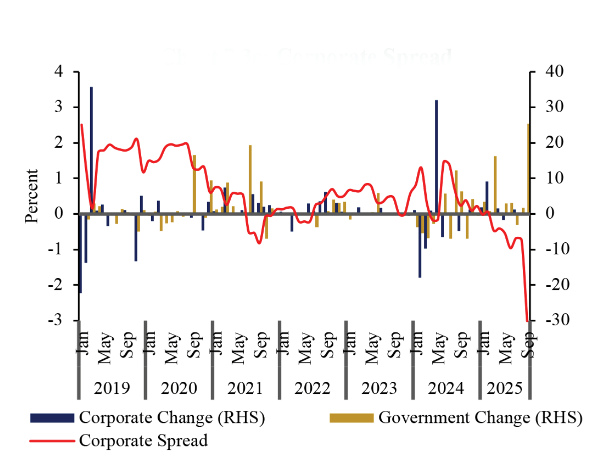
Bond indices are trending upwards

Chart 7.3d: Bonds Indices



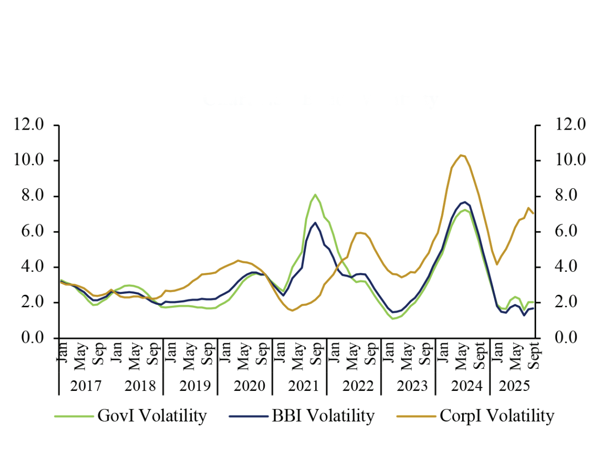
The corporate spread is narrowing

Chart 7.3e: Corporate Spread



Bond market volatility is declining

Chart 7.3f: Bonds Volatility



Source: Botswana Stock Exchange and Bank of Botswana Calculations

8. CONTAGION RISK

Systemically important institutions are sound

8.1 The designation of systemically important institutions for 2025 reflects continuity from the previous years. First National Bank Botswana and Absa Bank Botswana Limited remain classified as D-SIBs, while NBFIRA continues to recognise Botswana Life Insurance Limited, Hollard Insurance Company of Botswana, and Continental Reinsurance Company as Domestic Systemically Important Insurers (D-SIIs). These institutions have the potential to disrupt the entire financial system when faced with operational difficulties or insolvency, and, therefore, targeted supervisory measures should be implemented to promote systemic stability. The Bank is developing specific regulatory requirements for D-SIBs, while NBFIRA has enhanced its supervisory framework for D-SIIs. Both D-SIBs and D-SIIs are well-capitalised, liquid, and solvent and present a limited risk to the stability of the domestic financial system.

Significant interlinkages pose a risk of contagion

8.2 Strong interlinkages persist in the financial system, with the banking sector as the anchor of the system. The banking sector has substantial exposure to households (Figure 8.1), who in turn are significantly exposed to NBFIs through pension assets. Furthermore, a significant amount of NBFI assets (55.3 percent) was held abroad, exposing NBFIs to external financial and economic shocks. NBFIs are also inter-linked with the rest of the financial system through multiple channels, such as deposits held with banks, funding avenues and capital markets activities.

8.3 As of July 2025, the net lending position of NBFIs to commercial banks (deposits held with banks less loans from banks) increased by 24 percent to P28 billion compared to December 2024. Pension funds and asset management companies also hold equity positions in other sectors of the economy through their investment strategies. These interlinkages present an opportunity for risks that could easily spread across sectors and thus, elevate the risk of contagion in the domestic financial system. In view of the potential risks of cascading shocks due to interconnectedness, the FSC continues to strengthen regulatory and legislative frameworks to mitigate the potential for propagation of idiosyncratic, sectoral or institutional shocks to the whole of the financial system.

The insurance sector is highly concentrated and interconnected

8.4 Insurance companies play an important role in the stability of financial systems. They are major investors in financial markets, maintain growing linkages between the banks, and by nature, cushion the market for extreme events associated with high financial costs. Moreover, they support the financial stability of households and firms by assuring their risks. The insurance sector continues to become more interconnected, with rising amounts of risks mitigating across entities. Domestically, insurance services are highly concentrated in D-SIIs, and this has the potential to cascade losses in the event of distress in any of the D-SIIs, which could impair the provision of insurance services, with negative consequences for the economy.

8.5 The insurance sector can be a source of vulnerability for the financial system, as the failure of an insurer can trigger financial instability. Increased interlinkages make it increasingly challenging to assess how risk could propagate through the system, highlighting the importance of the regulators (NBFIRA) to continue monitoring, supervising, and assessing risks confronting the insurance sector, especially D-SIIs.

8.6 According to December 2024 data, Life insurers dominate the industry, with a market share of 82.3 percent (P20.9 billion) against the 11.1 percent (P2.8 billion) for general insurers and 6.5 percent (P1.7 billion) for reinsurers. The data shows that life insurance and the overall insurance sector assets are highly concentrated in the top 5 biggest life insurers at 96.7 percent of life insurance assets and 79.9 percent of total insurance sector assets, which made up 9.6 percent of GDP in 2024.

8.7 Furthermore, a large part of the industry's assets (63.9 percent) is invested through Collective Investment Units (CIUs), with the largest proportion of the funds going to asset managers (68.8 percent), with the local CIUs, comprising both money market funds and non-money market funds (MMFs and NMMFs). Furthermore, life insurers are exposed to local CIUs (at 55 percent) than both general insurers and reinsurers. Local NMMFs hold 91 percent of the life insurance industry assets, hence pose a low risk of asset and liability mismatch since NMMFs invest in long-term assets. General insurance is equally exposed to Botswana residents (31 percent), commercial banks, statutory banks, and the Savings and Credit Cooperative Society (31 percent). About 41 percent of reinsurance companies' assets are held by residents. That notwithstanding, the risk-based supervision and regulatory approach currently applied by NBFIRA is effective in mitigating the risks identified in the NBFIs sector.

Financial sector assets increase

8.8 The total assets of banks and NBFIs increased by 17.8 percent, reaching P345 billion in 2024, up from P293 billion in 2023. Growth in NBFIs' financial assets, primarily pension funds, was driven by improved global financial market performance. In 2023, the NBFIs sector accounted for the largest share of financial assets at 58 percent, compared with 54 percent of the banking sector. The size of the entire financial system represented approximately 131 percent of GDP in December 2024, compared with 121 percent in December 2023, demonstrating the significant contribution of the financial sector to the economy.

Structure of the Financial System

The structure of the financial system has not changed significantly since 2016

Chart 8.1a: Structure of the Financial System in 2016

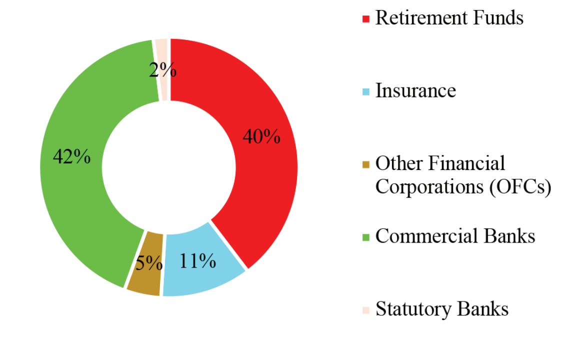
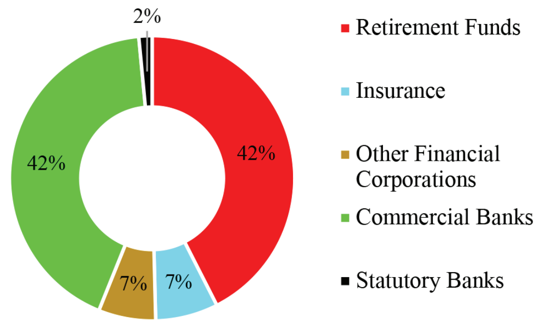


Chart 8.1b: Structure of the Financial System in December 2024



Retirement funds and commercial bank assets are relatively high

NBFIs have the largest proportion to GDP owing to the relatively large retirement funds

Chart 8.1c: Financial System Assets

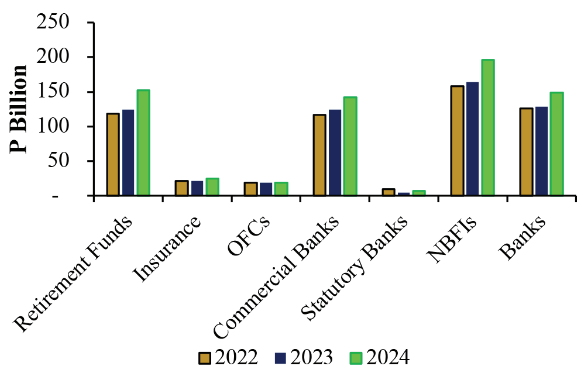
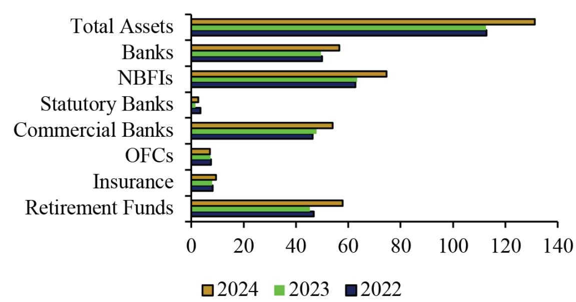


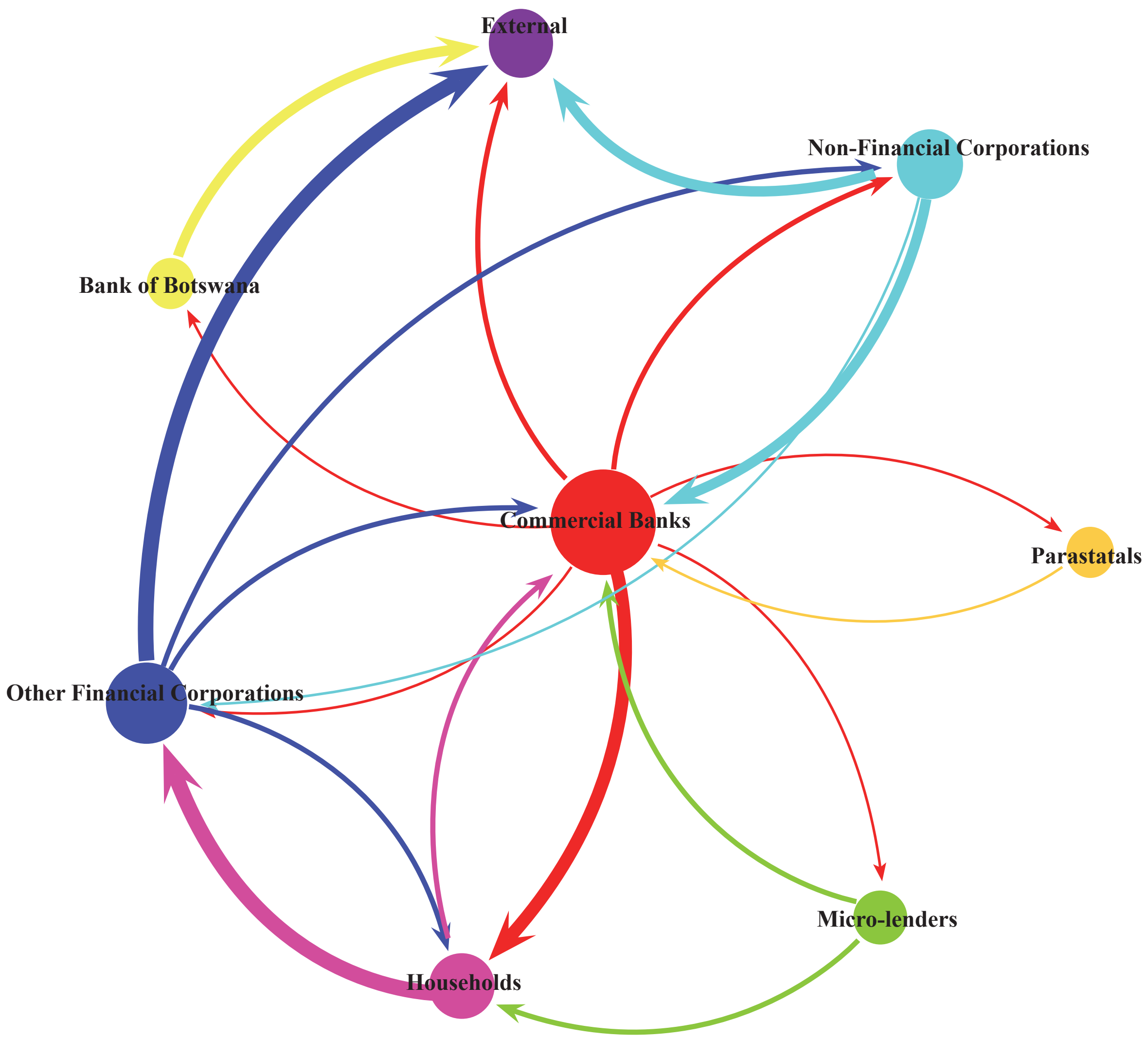
Chart 8.1d: Financial Assets to GDP (Percent)



Financial Sector Inter-linkages

Banks are highly interconnected with the rest of the financial system

Figure 8.1: Macro-Financial Linkages (June 2025)



Notes:

1. A large node indicates a higher degree of interconnectedness across the financial system.
2. Thicker edges show a higher proportion of funds flowing out of the sector relative to the financial system.
3. Balances from the Bank to the external sector represent net foreign assets.
4. Balances from other financial corporations to the external sector are pension fund assets invested offshore.
5. Balances from commercial banks to the external sector are commercial banks' balances due from foreign banks.
6. For Other Financial Corporations, 78 percent are retirement funds assets.

Source: Bank of Botswana

9. BANKING SECTOR RISK ANALYSIS

(a) Asset Quality and Performance

9.1 The Botswana banking sector continues to demonstrate robust financial health and a proactive approach to adapting to the evolving financial landscape. Capital adequacy ratios remain above the prescribed minimum threshold of 12.5 percent, indicating a healthy level of capitalisation and resilience to absorb potential losses (chart 9.1a). Furthermore, analysis of recent financial reports shows an active adoption of digital technologies and a commitment to customer-centricity.

Banks have sufficient capital buffers

9.2 Banks demonstrate consistent profitability, with several institutions reporting growth in profit after tax for June 2025. This strong financial performance is driven by a combination of factors, including effective asset and liability management, diversified income streams, and cost optimisation measures. The sector also boasts strong capitalisation levels, with capital adequacy ratios well above the regulatory requirements at 19.2 percent in September 2025 against the prudential limit of 12.5 percent. This robust capitalisation provides a significant buffer against potential losses and enhances the sector's resilience to economic shocks, contributing to overall financial stability.

Banks continue to adopt customer-centric products

9.3 The banking sector is actively embracing digital transformation by enhancing digital platforms, expanding mobile and internet banking services, and launching innovative solutions to enhance customer experience and promote financial inclusion. This proactive approach to digitalisation positions the sector for continued growth and adaptability in a rapidly evolving technological landscape. Banks are also increasingly prioritising customer-centricity, offering tailored products and services, and enhancing the customer experience to build stronger relationships and maintain market share in a maturing financial system. The increasing reliance on technologies and interconnectedness exposes the sector to cyber vulnerabilities, and therefore, commensurate robust cybersecurity measures and continuous investment in security infrastructure are essential to mitigate cyberattacks and maintain the integrity of the financial system.

Concentration risk in the banking sector is a concern

9.4 Despite the noted positive trends, the banking sector faces challenges that require careful consideration and proactive measures. Concentration risk remains a concern, with the four largest banks dominating the market (77 percent of total assets as at the end of December 2024, of which 44 percent is the two D-SIBs). This necessitates continuous monitoring of systemic risk and policies to encourage greater competition within the sector and for the diversification of the banks' funding and lending bases. NPLs, while generally on a declining trend (chart 9.1b), still require close monitoring, particularly in the household sector, given the ongoing fiscal strain. This is critical as government employees are the biggest borrowers from banks, according to the Household Indebtedness Survey Report of 2024/25.

Investor confidence is high in listed banks

9.5 An analysis of BSE data indicates strong investor confidence in the banking sector, reflected by an average equity price gain of 12.2 percent over the twelve months to June 2025. The top-performing listed bank recorded a gain of 32.8 percent, while the lowest remained flat. Overall, these results signal positive investor sentiments and suggest that the banking sector remains profitable (chart 9.1d) though lower than the previous highs.

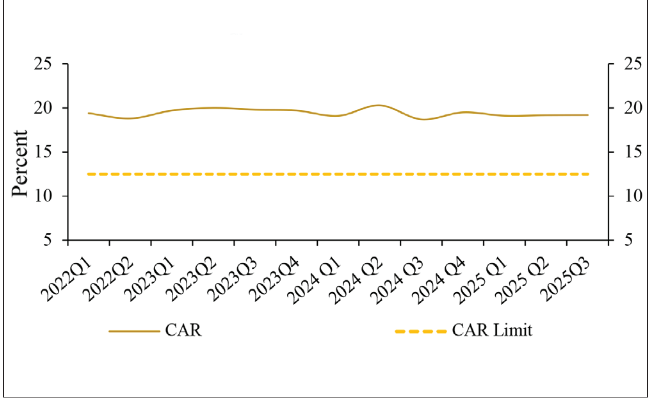
The Deposit Insurance Fund increases

9.6 Total insurable deposits were estimated at P79.2 billion as at June 2025, translating to 64.9 percent of total deposit liabilities of member institutions. This was a 10.5 percent increase from P71.7 billion of total insurable deposits as at 30 June 2024. Subsequently, between 31 March 2025 and 30 June 2025, the Deposit Insurance Scheme of Botswana (DISB) generated a surplus of P36.7 million, driven by premium contributions received from member institutions and investment returns earned during the period. This surplus, together with deferred income, contributed to an increase in the total Fund Balance and Liabilities, which stood at P129.5 million as at 30 June 2025 (compared to P40.98 million in December 2024). Additionally, in efforts to preserve the Fund capital and maintain liquidity, DISB invested P85 million in treasury securities bills and treasury bonds of varying maturities. The target fund ratio, which is a measure of fund balance as a percentage of estimated total insurable deposits, was still very low when compared to the recommended minimum of 2 percent. All member institutions were profitable, and none were considered distressed as at 30 June 2025.

Banking Sector Financial Soundness Indicators

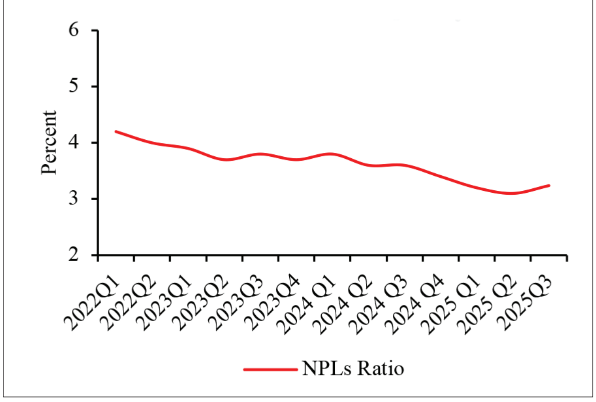
Banks are adequately capitalised

Chart 9.1a: Capital Adequacy



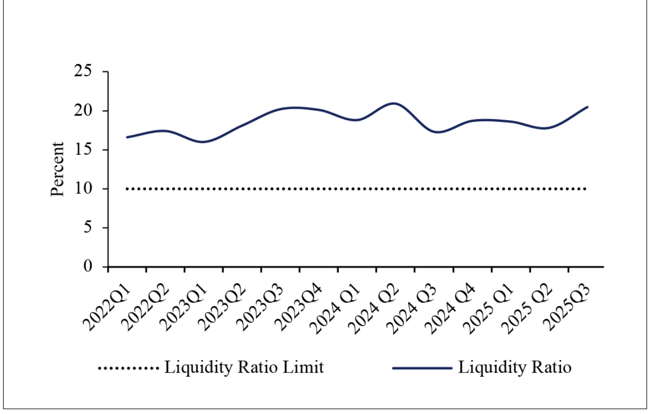
The NPLs ratio is stable

Chart 9.1b: Asset Quality



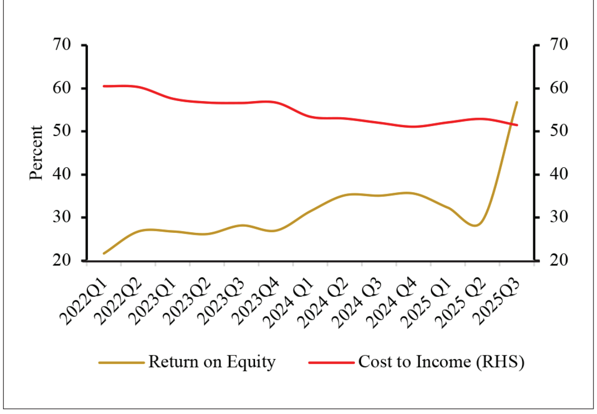
Banks are liquid

Chart 9.1c: Liquidity



Banks are highly profitable, and costs are declining

Chart 9.1d: Profitability



Source: Bank of Botswana

(b) Stress Test Scenarios

9.7 Stress test scenarios assess the resilience of Botswana's banking sector using the June 2025 data. Global, regional and domestic factors contributing to the stability of the domestic financial system are considered, with a view to identifying prevailing risks and vulnerabilities of the banking sector. Of interest in the stress test scenarios is the impact on the resilience of banks, from the poor performance of the diamond sector, household indebtedness, climate-induced vulnerabilities, and a combination of systemic risk factors, including contagion risk and exposure to systemically important banks.

9.8 Botswana's financial system has enduring interlinkages with the diamond industry. The diamond sector has historically fuelled economic growth and development, but it has also created a significant concentration risk. The stress test simulates a scenario where global demand for diamonds plummets, perhaps due to a global recession or a shift in consumer preferences towards alternative luxury goods. This shock reverberates through the economy, impacting government revenues, employment, and ultimately, the ability of borrowers to repay their loans.

9.9 Under these circumstances, a ripple effect is conceivable and could entail diamond mines scaling down operations, leading to job losses in mining and related sectors. In turn, household incomes could decline, impacting consumer spending and putting pressure on businesses, particularly those reliant on domestic demand. This scenario translates into higher NPLs for banks, eroding their profitability and capital buffers. The stress test reveals that while banks can withstand a moderate decline in diamond revenues, a severe and prolonged downturn could push some institutions below regulatory capital requirements.

Impact of potential employment losses

9.10 Botswana faces a growing challenge of concentrated, unsecured household sector borrowing. This concentration risk raises concerns about the resilience of the banking sector to household income shocks. The stress test simulates a scenario where unemployment rises and real incomes stagnate, due to a global economic slowdown.

9.11 In this scenario, households will struggle to service their debt obligations, leading to an increase in NPLs, particularly in the unsecured lending segment.

Intensifying climate risks could destabilise the financial system

9.12 Botswana is highly susceptible to climate change, with increasing frequency and intensity of droughts posing a significant threat to the agricultural sector and the broader economy. The stress test incorporates scenarios where prolonged droughts lead to crop failures, livestock losses, and water shortages, impacting livelihoods and economic activity.

9.13 These climate-related shocks can affect the banking sector through various channels. For instance, reduced agricultural output can impact the income of farmers and businesses reliant on agriculture, leading to loan defaults. Additionally, droughts can strain government resources, potentially limiting its ability to support the economy and the financial sector in times of stress. The stress test underscores the need for banks to integrate climate risk assessments into their lending practices and develop strategies to manage the financial implications of climate change.

Contagion risk could have negative outcomes for the financial system

9.14 The stress test goes beyond analysing individual banks to assess the interconnectedness within the financial system and the potential for systemic risk. This involves considering the linkages between banks, NBFIs, and other sectors of the economy. For instance, a shock originating in the insurance sector, such as a surge in claims related to drought-induced crop failures, could potentially spill over into the banking sector through reduced insurance payouts and increased credit risk.

9.15 The stress test also examines the potential for contagion effects, where the distress of one bank could trigger problems in others. This is particularly relevant for D-SIBs, whose failure could have significant repercussions for the entire financial system. The stress test results highlight the importance of close monitoring of D-SIBs, targeted supervisory measures, including capital buffers, and effective contingency plans to mitigate systemic risk.

(c) Stress Test Results

Banks are resilient but susceptible to severe credit shocks

9.16 The results of credit shocks indicate that commercial banks are generally resilient to stress, save for severe credit shocks that could result in significant prudential capital breaches. Under the system-wide moderate scenario, where an additional 10 percent of performing loans are assumed to become NPLs, bank capital adequacy levels decline to 10.4 percent, breaching the prudential capital adequacy requirement of 12.5 percent. The industry capital position, however, worsens to 0.8 percent in the severe scenario, where 20 percent of performing loans are assumed to become NPLs. As a result, the asset quality declines, with the ratio of NPLs to total loans rising from a baseline of 3 percent to 12.8 percent and 22.4 percent under moderate and severe scenarios, respectively (Chart 9.2d).

9.17 Regarding sectoral shocks, under the moderate scenario, banks' capital adequacy ratio drops to 8 percent, while the NPL ratio rises to 15.7 percent. In the severe scenario, the capital adequacy ratio decreases further to 3.4 percent, and credit quality worsens significantly with an NPL ratio of 19.8 percent. Concerning credit concentration shocks, banks stay resilient with a capital adequacy ratio of 13.3 percent under the assumption that the largest borrower defaults for each bank (moderate scenario). The ratio declines further to 10.3 percent under the severe scenario, which assumes a default by the two largest counterparties.

9.18 Under the moderate concentration shock, D-SIBs are resilient, with a capital adequacy ratio above the prudential limit at 14.6 percent and 12.5 percent for the overall NPL shock. For the severe concentration and overall NPL shocks, the capital adequacy ratio falls to 12 percent and 9.7 percent, respectively (Chart 9.2a).

9.19 In general, credit risk tests show that the overall NPLs shock has more prominence in the capital and asset quality position of banks than other shocks. Nevertheless, credit stress tests do not consider credit mitigation measures, such as underlying collateral.

Banks are resilient to liquidity shocks

9.20 In the liquidity risk test, banks show resilience to a liability run in the moderate stress scenario, and all banks can withstand liability drawdowns for 11 days. Under severe stress conditions, all banks would be able to withstand drawdowns for 2 days. The results show that dependence on wholesale deposits is prevalent in both bank categories, with a range of 25 to 62 percent of total customer deposits. Therefore, there is a need for banks to diversify their portfolios to mitigate liquidity risks.

9.21 However, the scenarios do not consider the availability of liquidity support provided by the Bank through the Credit Facility, nor liquidity support available from related companies or holding banks. Accordingly, stress test results should not be interpreted to mean that banks would default under these conditions.

Bank profitability to increase with a policy rate decrease

9.22 Results of the moderate interest rate shock indicate that a fall in the policy rate by 100 basis points would lead to an increase in interest income by P37 million, with an accompanying potential gain of P40 million from the repricing of government bonds. Overall, banks' capital adequacy ratio would increase by 0.79 percentage points in the moderate interest rate shock scenario. For the severe scenario, banks would gain P55 million from interest earnings and P60 million from the repricing of bonds, leading to an improvement of 0.83 percentage points for the capital adequacy ratio (Chart 9.2f).

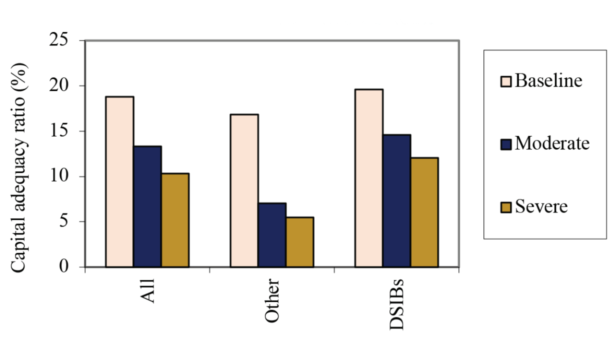
9.23 The increase in profit reflects the banking industry's negative cumulative repricing gap over the next 12 months, where interest-earning liabilities exceed interest-earning assets in the stress horizon. Meanwhile, D–SIBs record a loss in profit as they have a positive cumulative repricing gap where interest earning assets exceed interest earning liabilities, thus eroding profitability. Therefore, banks would gain from a fall in funding costs. Overall, domestic banks are highly liquid and can afford to hold bonds to maturity; therefore, there is limited risk stemming from the potential repricing of government bonds.

June 2025 Stress Test Results

Credit Shocks

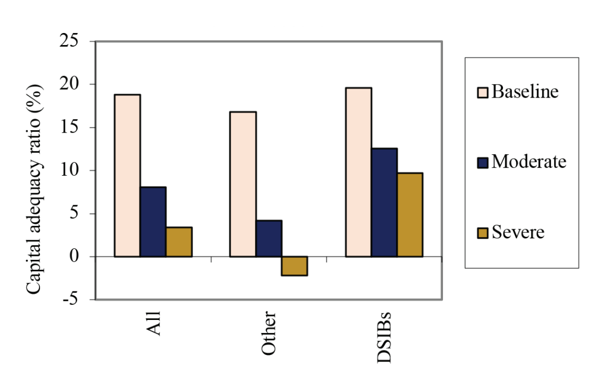
Banks are generally resilient to credit concentration shocks

Chart 9.2a: Concentration Shock



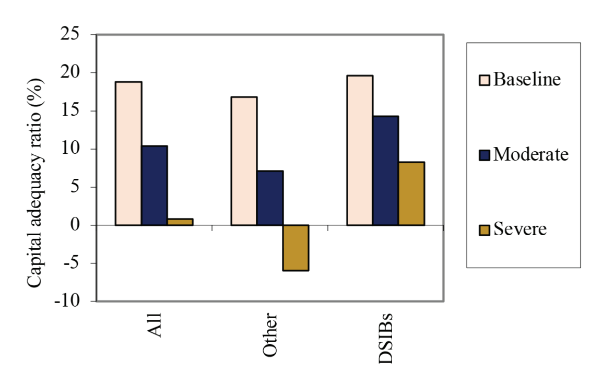
Severe sectoral shocks would lead to a significant breach in CAR

Chart 9.2b: Sectoral Shock



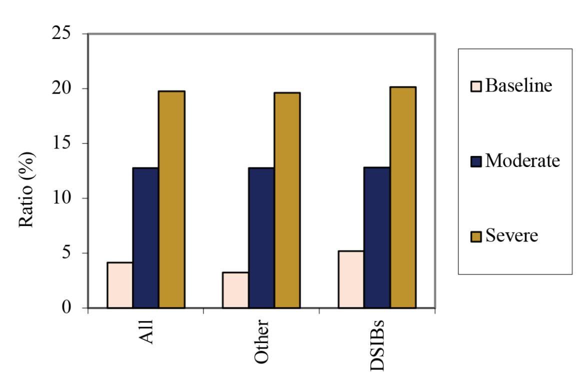
A severe aggregate credit shock would deplete banks' capital

Chart 9.2c: Overall NPL Shock



The NPL ratio for the aggregate credit shock increases significantly in the severe scenario

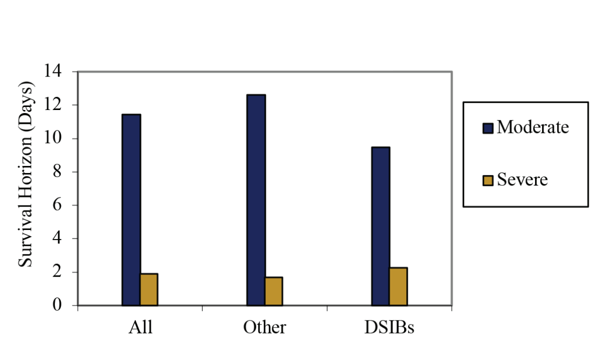
Chart 9.2d: NPL Ratio



Liquidity and Interest Rate Shocks

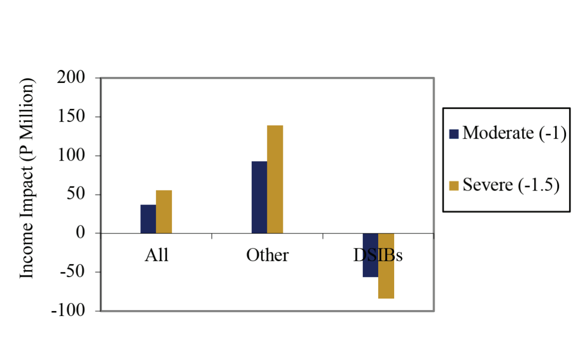
Banks have low survival horizon under a severe liquidity shock

Chart 9.2e: Liquidity Test



Bank profitability to increase with a policy rate decrease

Chart 9.2f: Interest Shock



Banks are resilient to a combination of shocks

9.24 Considering a combination of shocks for scenario analysis, D-SIBs breach the prudential limit with a capital adequacy ratio of 6.9 percent in the moderate scenario, and they are also insolvent in the severe scenario with a capital adequacy ratio of 4.2 percent (Chart 9.3a).

9.25 To capitalise D-SIBs, shareholders would have to inject capital amounting to P3.6 billion in the moderate scenario and P4.8 billion in the severe scenario. Given that credit mitigants are excluded from the stress test scenario, and the loss given default is assumed to be 100 percent, D-SIBs are judged to be resilient to a combination of shocks, although susceptible to extreme shocks. To link liquidity risk and solvency of the D-SIBs, it is assumed that D-SIBs are closed out of funding markets if the capital adequacy ratio under stress scenario falls below set hurdle rates. Hurdle rates are set at 8 percent for customer deposits, 10 percent for short-term funding, and 4 percent for long-term funding. Under these assumptions, D-SIBs are closed out of short-term funding markets and customer deposits in the moderate scenario and severe scenario, and there is loss of short-term funding amounting to P3.8 billion and P7.1 billion, respectively. Consequently, banks would experience no liquidity shortfall in both the moderate and severe scenarios.

D-SIBs Scenario Analysis

Severe stress scenario completely erodes D-SIBs' capital base

D-SIBs need significant capital injection to recapitalise under severe stress conditions

Chart 9.3a: D-SIBs CAR Scenario

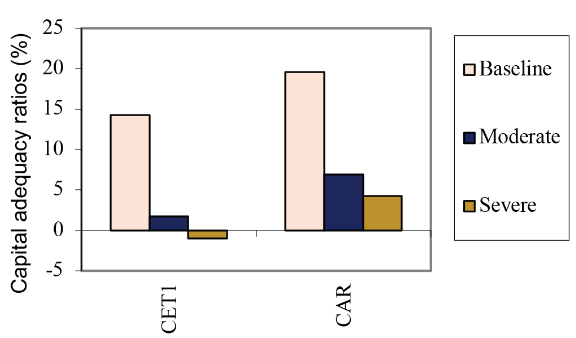
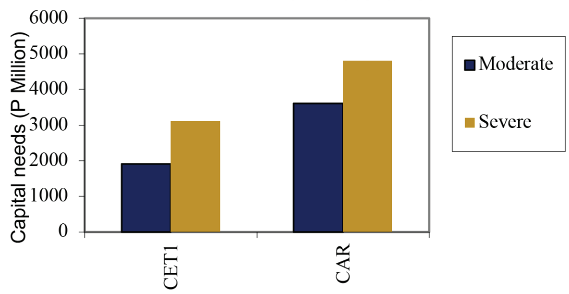


Chart 9.3b: D-SIBs Scenario - Capital Needs



10. PAYMENTS AND SETTLEMENT RISKS

Interconnected digital platforms heighten the risk of contagion

10.1 The continued expansion of Botswana's electronic payments ecosystem, reflected in rising EFT volumes and values, signals growing public trust in digital financial services and improved transactional efficiency. With 23 EPS providers and over 1 500 authorised agents nationwide as of December 2024, the infrastructure supports financial inclusion and aligns with national transformation goals. However, this rapid digitalisation also introduces new systemic vulnerabilities. The increasing reliance on interconnected digital platforms heightens exposure to cyber threats, operational disruptions, and third-party risks, particularly in the absence of robust cybersecurity protocols and real-time monitoring systems.

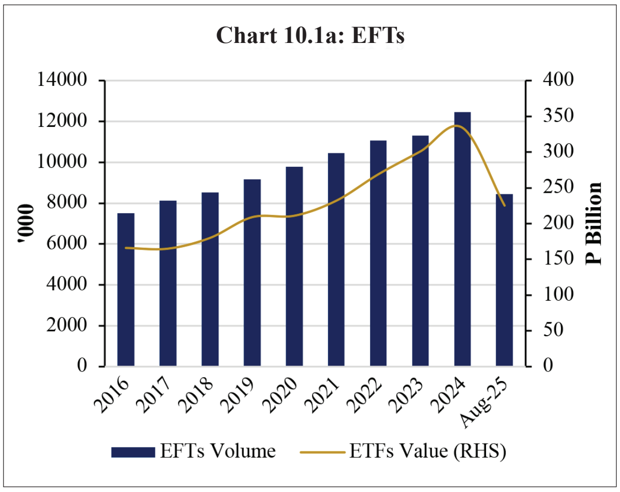
10.2 While FMIs such as Botswana Interbank Settlement System (BISS) and central securities depositories remain stable, the divergence in transaction trends, EFTs rising while BISS remains flat, suggests a shift in transactional preferences toward retail and mobile-based platforms. This shift could reduce visibility and oversight in high-frequency, low-value transactions, complicating risk detection and mitigation. Moreover, the concentration of digital activity among a few dominant EPS providers may introduce single-point-of-failure risks, especially if these entities lack adequate cyber resilience or redundancy frameworks.

10.3 From a financial stability perspective, the implications of rising digitalisation are multifaceted. The growing reliance on electronic payment platforms introduces heightened operational risks, where a cyber breach or system failure in a major EPS provider could disrupt payment flows, trigger liquidity bottlenecks, and erode confidence across the financial system. Given the interconnected nature of financial market infrastructures, a disruption in one segment, such as mobile payments, could spill over into banking and securities settlement systems, amplifying systemic stress. Furthermore, repeated outages or data breaches may erode consumer trust in digital platforms, potentially reversing gains in financial inclusion and increasing reliance on cash-based transactions, which are more difficult to monitor and regulate. These evolving risks also place pressure on regulators to strengthen supervisory frameworks, including mandatory cyber stress testing, incident reporting protocols, and coordinated crisis response mechanisms. Without proactive governance, the digitalisation of finance could become a source of instability rather than resilience

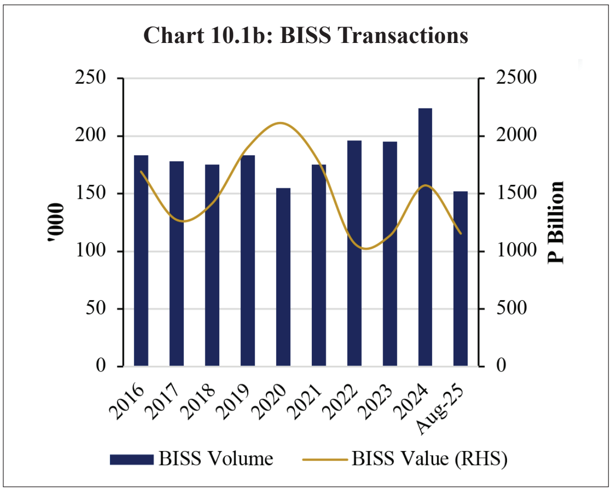
10.4 To safeguard financial stability in the face of rising digitalisation and cyber risk, Botswana must strengthen its digital risk governance across the financial sector. This includes establishing a comprehensive National Cyber Resilience Framework tailored for financial institutions, enhancing real-time transaction monitoring and anomaly detection systems, and promoting interoperability and redundancy across electronic payment platforms to reduce single-point-of-failure risks. Sector-wide cyber drills involving FMIs, electronic payment service providers, and regulators should be conducted regularly to test crisis response capabilities. Additionally, expanding consumer protection measures, such as robust data privacy protocols and efficient dispute resolution mechanisms, will be essential to maintain public trust in digital financial services. These coordinated efforts will help mitigate operational disruptions, contain contagion channels, and reinforce systemic resilience as Botswana's financial ecosystem becomes increasingly digitised.

Payments and Settlement Systems Indicators

EFTs volume and value are trending upwards



BISS transactions volume and value are largely stable



Source: Bank of Botswana

11. REGULATORY AND OTHER DEVELOPMENTS

Modernising Botswana's financial regulatory framework

11.1 Recent years have seen Botswana undertake wide-ranging regulatory reforms aimed at strengthening the resilience, integrity, and inclusiveness of its financial system. Central to these developments is the Banking Act, 2023 which came into effect on 15 August 2025, supported by a suite of regulations including the Banking (Amendment) Regulations, 2025; Banking (Deposit-Taking Institutions) Regulations, 2025; and Banking (Appeals Tribunal), 2025. The Banking Act and its associated regulations aim to strengthen prudential oversight, clarify institutional mandates, and streamline supervisory processes, particularly for deposit-taking institutions and dispute resolution mechanisms. Complementary reforms such as the Collective Investment Undertaking (Licensing, Recognition and Exemption) Regulations, 2024; and the Electronic Payment Services Regulations, 2024, further extend the regulatory perimeter to encompass emerging financial products and digital payment ecosystems, fostering innovation while safeguarding consumer interests. Collectively, these reforms are expected to bolster financial stability by mitigating regulatory arbitrage, improving transparency, and reinforcing public confidence in the integrity and adaptability of Botswana's financial system.

Strengthening financial system resilience

11.2 Furthermore, the Government is working on several initiatives to grow the financial sector. Notably, the five-year Financial Sector Development Strategy (FSDS) is being drafted for completion before the year ends, to provide a coherent framework for deepening and diversifying Botswana's financial sector. Following the release of the National Financial Inclusion Strategy and Roadmap, the FinMark Trust embarked on surveys on financial inclusion and digital payments, with preliminary results already presented to the Steering Committee in the first half of 2025. These strategies aim to promote financial stability, inclusion, and integrity of Botswana's financial system.

Transitional intervention to help Botswana navigate short-term fiscal pressures

11.3 In response to Botswana's challenging fiscal situation, the Government proposed a bill on 16 July 2025, to authorise a loan of up to USD 304 million from the African Development Bank - a one-year general budget support operation for fiscal year 2025/26 intended to help Botswana navigate short-term fiscal pressures. Additionally, parliament approved a USD 200 million loan from the OPEC Fund. The loans are intended to fund the Governance and Economic Resilience Support Programme (GERSP), which focuses on enhancing the country's fiscal and financial stability, strengthening government frameworks, and improving economic resilience.

Legal reforms to strengthen NBFIs oversight

11.4 The NBFIRA Act, 2023, provides a refreshed statutory foundation for sector-wide supervision including strengthening of operational resilience and regulatory oversight of the NBFI sector. Complementing this, the Related Party Transactions Guidelines for NBFIs commenced on 30 September 2023, enhancing governance and transparency. The Virtual Assets Regulations and accompanying rules are under review to align with emerging digital finance trends. In the health financing space, the Medical Aid Fund Bill, passed during the 2025 winter session, is awaiting Presidential assent, while the Health Insurance Bill, designed to accommodate for-profit medical aid models, is in early drafting. The Insurance Industry Act is undergoing revision to keep pace with the sector's rapid evolution, ensuring regulatory relevance. These reforms collectively aim to modernise the legal framework, promote market integrity and safeguard financial stability.

11.5 The Non-Bank Lenders Bill, 2025, was tabled on 8 August 2025 and seeks to regulate credit providers operating outside the traditional banking system, including micro-lenders and fintech platforms. Its primary objective is to promote financial inclusion by enabling safe, transparent, and accessible lending options for underserved populations. The bill introduces licensing requirements, supervisory protocols, and consumer protection measures to curb predatory lending and informal credit risks. It also mandates data privacy standards and reporting obligations to improve market discipline. From a financial stability standpoint, the bill helps formalise and monitor a growing segment of the credit market that often operates with limited oversight. By integrating non-bank lenders into the regulatory perimeter, it reduces systemic vulnerabilities and enhances credit intermediation. The bill fosters innovation in credit delivery while ensuring that financial integrity and consumer welfare are preserved. Ultimately, the bill strengthens Botswana's financial architecture by balancing inclusion with prudential safeguards.

Legal infrastructure to support Botswana's digital transformation

11.6 Meanwhile, the Digital Services Bill, 2025, and the Cybersecurity Bill, 2025, were both passed by Parliament on 8 August 2025 under the Communications and Innovation sector, aiming to modernise Botswana's digital governance landscape. The Digital Services Bill establishes a regulatory framework for online platforms, digital transactions, and data-driven innovation, promoting fair competition and consumer protection. The Cybersecurity Bill complements this by providing legal mechanisms to safeguard national digital infrastructure, combat cybercrime, and enforce cybersecurity standards. Together, these bills support Botswana's digital transformation under the BETP, enabling secure digitalisation and fostering investor trust. From a financial stability perspective, they help mitigate systemic risks linked to data breaches, digital fraud, and operational disruptions in financial institutions. By enhancing transparency, accountability, and institutional coordination, these bills strengthen the resilience of payment systems, digital financial services, and fintech ecosystems. They also align Botswana with global best practices, ensuring regulatory readiness for cross-border digital finance. The bills encourage innovation while embedding safeguards that protect consumers and financial markets. Their successful implementation will be critical to sustaining confidence in Botswana's evolving digital economy.

BSEL unlocks financing access

11.7 The BSEL signed an MoU with GCC on 12 August 2025 to explore the issuance of municipal bonds, which marked a strategic pivot in urban development financing, with significant implications for financial stability (See Box 3).

11.8 The approval of the centralisation of Government bonds custody, clearing, and settlement at the Central Securities Depository of Botswana (CSDB), along with their trading on the BSE, on 26 September 2025, opens Government bonds to retail investors. The reform introduces unitisation, allowing smaller denominations and broader participation. This is especially important given the persistent undersubscription in auctions, such as the August 2025 auction which raised only P54 million of the targeted P600 million. By integrating these bonds into the BSE ecosystem, the reform enhances transparency, liquidity, and market depth.

A regulatory sandbox for digital assets and tokenisation launched

11.9 The BSEL and NBFIRA have launched a regulatory sandbox for digital assets and tokenisation, aimed at fostering innovation in a secure and controlled environment. Tokenisation allows fractional ownership of traditional assets, improving accessibility and operational efficiency. The sandbox will enable testing of digital assets and stablecoins, while allowing regulators to refine frameworks to mitigate systemic risks. This initiative aligns Botswana's financial markets with global digital finance trends and supports cross-border investment. The sandbox is expected to attract diverse investor classes and open up previously illiquid assets.

11.10 Complementing these domestic reforms, the SADC Financial Integration Project is advancing efforts to harmonise listing, trading, and settlement standards across the region. Coordinated by the Committee of SADC

Stock Exchanges, the initiative includes the development of a regional Real Time Gross Settlement framework and a hub-and-spoke platform to interconnect member exchanges. The pilot phase of the hub-and-spoke platform is scheduled for the first quarter of 2026 and aims to facilitate cross-border capital flows. These efforts will deepen regional market connectivity and enhance liquidity across SADC markets. The successful implementation of all these reforms will be key to enhancing market efficiency, reducing concentration risks, and ensuring long-term financial stability in an increasingly digital and interconnected financial landscape.

The BoB safeguards market integrity and consumer protection

11.11 The Bank continues to ensure that commercial banks, credit bureaus, and other entities under its purview operate and conduct their business ethically and contribute to a conducive financial stability environment.Banks promote transparency and market integrity through the monthly publication of deposit and interest rates. The Bank remains vigilant in monitoring market conduct to safeguard consumer protection and public confidence, with six complaints received in 2025, four resolved, and two outstanding. Meanwhile, delays in operationalising the newly licensed Micro-Finance Credit Bureau pose short-term risks to credit data availability.

Box 3: Capital Raising by Local Authorities Through Issuance of Municipal Bonds

Introduction

Local authorities in Botswana play a crucial role in service delivery, including infrastructure development, education, health, and community services. However, their operations are largely dependent on central government, and they have not tapped into the capital markets to raise funding. The BSEL, in collaboration with the Ministry of Local Government and Traditional Affairs (MLGTA) and Councils has embarked on a drive to promote and support the issuance of Municipal Bonds to enable councils to raise capital independently in the capital markets.

Collaborative Arrangements

Following the signing of an MoU between BSEL and GCC on 12 August 2025 to assist the latter with technical work and enable the issuance of this instrument, the BSEL, through the MLGTA, hosted a presentation to the leadership of all District, Town and City Councils in Botswana on 18 August 2025. The BSEL has since engaged bilaterally with the City of Francistown Council (COFC) and the Northwest District Council (NWDC) during September 2025 and the objective is to sign MoUs with these two Councils. To pilot municipal bond issuance, the BSEL will start with these three Councils (GCC, COFC and NWDC) under prudent monitoring and evaluation.

Bilateral engagements with other Councils have also been scheduled. There is an ongoing workstream to look into the necessary legislative amendments to facilitate the de-linking of local authorities' finances from central government finances, so that municipal bonds do not contribute to the national debt-to-GDP ratio.

Conclusion

By enabling municipalities to access capital markets through instruments like municipal bonds, the initiative offers a pathway to fund critical infrastructure independently of constrained public budgets. This shift not only aligns with national urban transformation goals but also introduces new actors and instruments into Botswana's financial ecosystem, potentially deepening market liquidity and diversifying investment portfolios. However, it also necessitates robust governance, transparent financial reporting, and sound risk management to safeguard investor confidence and prevent fiscal slippage at the local level. If executed prudently, the partnership is expected enhance resilience, stimulate inclusive growth, and reinforce the financial system's capacity to support long-term development.

12. CONCLUSION AND OUTLOOK

12.1 The domestic macroeconomic environment remains broadly stable, yet several vulnerabilities warrant continued policy attention. Structural constraints, including high youth unemployment, limited private sector diversification, and uneven productivity, continue to weigh on inclusive growth. While inflation has moderated and fiscal buffers remain adequate, household indebtedness and sectoral credit concentration pose latent risks to financial stability. The pace of fiscal consolidation and the effectiveness of public investment will be critical in sustaining macroeconomic resilience. Strengthening domestic revenue mobilisation, enhancing labour market flexibility, and deepening capital market development are essential for long-term economic transformation.

12.2 Globally, financial stability risks remain elevated amid persistent inflationary pressures, geopolitical fragmentation, and tightening monetary conditions. Advanced economies face policy trade-offs between inflation control and growth support, while emerging markets contend with capital outflows, currency volatility, and constrained access to external financing. Regionally, Southern Africa continues to grapple with climate-related shocks, fiscal stress, and shallow financial markets. These dynamics amplify cross-border spillovers and underscore the importance of regional coordination, macroprudential vigilance, and adaptive regulatory frameworks.

12.3 Looking ahead, Botswana's financial system is expected to remain resilient, supported by sound regulatory oversight and proactive risk management. However, the evolving risk landscape, marked by digital transformation, climate risk, and systemic interconnectedness, requires sustained reform momentum. FSC and sectoral regulators must continue to enhance surveillance tools, strengthen supervisory capacity, and foster stakeholder engagement. The outlook is cautiously optimistic: with strategic alignment, institutional agility, and inclusive financial sector development, Botswana is well-positioned to navigate emerging challenges and seize opportunities for sustainable growth.

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