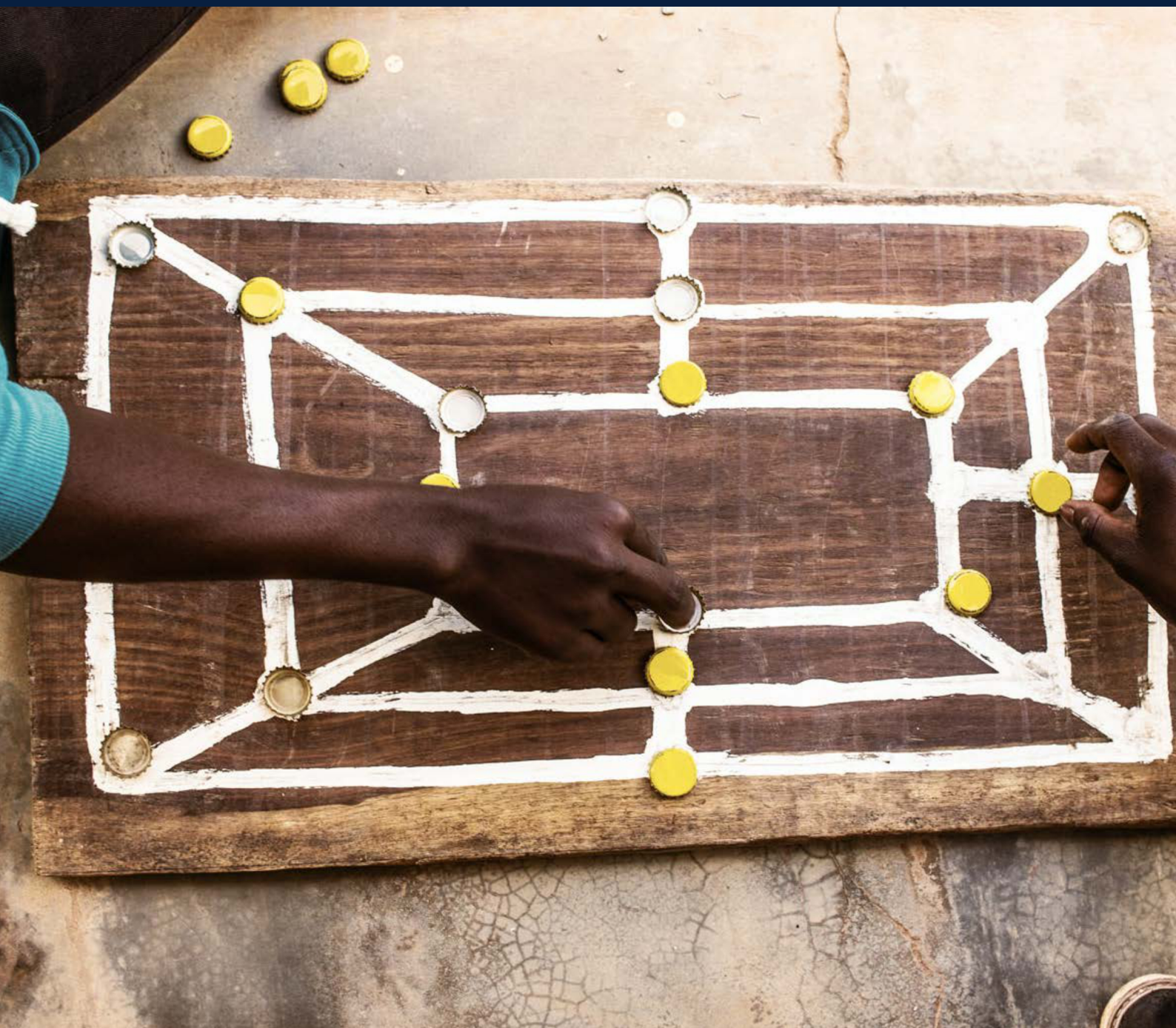
MONETARY POLICY REPORT

OCTOBER | 2026



STRATEGIC INTENT STATEMENTS



Vision

A trusted steward of the financial system - advancing stability and contributing to inclusive growth and economic prosperity.



Mission

To safeguard price and financial stability, strengthen trust in the national currency and payment systems and promote inclusive and sustainable economic development through sound policy, regulation and strategic advice.



Our Values



Agility

- We are proactive and respond swiftly and effectively to change.
- We are resilient and adapt our policies, processes, and operations in response to evolving economic, financial, and technological realities.



Collaboration

- We work together to achieve shared goals.
- We partner internally across departments and externally with stakeholders to leverage collective strengths and expertise.



Excellence

- We strive to be the best in all that we do.
- It is not just about meeting basic standards, but about consistently exceeding expectations and delivering timely, professional, and high-quality results.



Integrity

- We act with strong moral principles and honesty in all our engagements with our stakeholders.
- It is the foundation for building trust with employees, customers, and the public.



Transparency

- We engage openly, clearly, and take accountability for our actions.
- We ensure that policies, decisions, and operations are clear, accessible, and subject to appropriate scrutiny.



Monetary Policy Report
October 2026

17938, Khama Crescent, Gaborone, Botswana
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1. PREFACE

1.1 Purpose of the report

The Monetary Policy Report (MPR) is the main medium through which the Bank of Botswana (the Bank) regularly informs the public about the conduct of monetary policy. The Report supports the public's expectation of a transparent and accountable central bank in the execution of its monetary policy mandate as provided for in the Bank of Botswana (Amendment) Act, 2022.

The MPR reviews recent macroeconomic developments and assesses factors that are likely to influence the inflation path in the medium term, thereby informing the Bank's future policy decisions. In this respect, the MPR promotes an understanding of the conduct of monetary policy to anchor public expectations of a low, predictable and sustainable level of inflation.

1.2 Monetary policy framework

The primary objective of the Bank's monetary policy is to achieve price stability, which, in the Botswana context, is a sustainable level of annual inflation, as measured by the consumer price index (CPI), that is within the medium-term objective range of 3 – 6 percent. Consequently, as of April 2022, the Bank uses the Monetary Policy Rate (MoPR) as the main policy instrument to influence short-term market interest rates to steer the economy through business cycles, thus contributing to sustainable economic growth. The policy is also formulated with a view to safeguarding the stability of the financial system. The monetary policy framework is anchored on the crawling peg exchange rate mechanism, which seeks to maintain a stable real effective exchange rate (REER) that is conducive for macroeconomic stability and the international competitiveness of domestic producers' tradeable goods and services. The Ministry of Finance (MoF), in consultation with the Bank, recommends parameters for the exchange rate mechanism (weights of currencies within the Pula basket, the rate of crawl and the Pula trading margins) for approval by His Excellency, the President.

In evaluating policy options, the Bank implements a forward-looking monetary policy framework that places a central role on a medium-term inflation forecast. The Bank sets the policy to direct projected movements of inflation towards the medium-term objective range, while considering the prevailing rate of crawl of the exchange rate mechanism, prospects for economic growth and developments relating to the stability of the financial system. The policy horizon extends up to 3 years and is evaluated on a rolling basis, because monetary policy affects price developments with an estimated lag of up to four quarters. A proactive approach to setting policy necessitates a continuous review of the inflation outlook.

The monetary policy stance is signalled through the MoPR and supported by open market operations. These include the auctioning of the Bank of Botswana Certificates (BoBCs) under a fixed-rate full allotment system, engaging in repo/reverse repo transactions with commercial banks (primary dealers), and the issuance of a one-month BoBC paper to manage structural liquidity issues and support the development of the short-end of the yield curve (see Box 2 on page 28 for details on monetary policy implementation and operations framework).

1.3 Decision-making process

Monetary policy decisions are made by the Monetary Policy Committee (MPC), which comprises nine members: four external members appointed by the Minister of Finance and five internal members. The internal members are the Governor, two Deputy Governors, the head of department responsible for economic research and the head of department responsible for treasury operations. The MPC meets at least six times a year to determine the monetary policy stance.

1.4 Announcement of the monetary policy decision

The Governor holds a press briefing shortly after each MPC meeting to announce the monetary policy decision and provide underlying rationale. The press briefing allows for interaction with members of the media, facilitates transparency and enhances public understanding of the Bank's economic analysis and policy stance. Following the briefing, a press release is issued.

The first MPC meeting of the year, held in February, is accompanied by the issuance of the Monetary Policy Statement, which outlines inflation developments, policy performance and the likely policy posture for the ensuing year. Subsequently, the MPR is produced for the April, August and October meetings and is published on the Bank's website (www.bankofbotswana.bw) within a week of the announcement of a policy decision.

BANK OF BOTSWANA'S MONETARY POLICY COMMITTEE



Mr. Lesego Moseki
(Governor)



Dr. Kealeboga Masalila
(Deputy Governor)



Dr. Agnes Khunwana
(Deputy Governor)



Ms. Boitshenotse Mmopelwa
Director, Financial Markets



Dr. Matlhodi Serero
Acting Director, Research and Financial Stability



Professor Patricia Makepe
External Member



Dr. Pinkie Kebakile
External Member



Dr. Onkokame Mothobi
External Member



Dr. Taufila Nyamadzabo
External Member

2. EXECUTIVE SUMMARY

In 2026, monetary policy is being implemented in a challenging domestic economic environment characterised by elevated inflationary pressures, largely arising from the upward adjustment in administered prices (mostly due to the increase in international oil prices); subdued economic activity; and heightened uncertainty surrounding traditional growth drivers. At the October 2026 meeting, the MPC assessed that, while inflation was projected to remain above the 3 – 6 percent objective range in the near term, growth remains subdued amid adverse external developments. The MPC judged that the outlook continued to require a data-driven monetary policy stance that supports economic activity while managing inflation expectations. Accordingly, the Bank maintained the MoPR at 5.5 percent.

The Bank remains committed to formulating and implementing monetary policy in a manner that entrenches expectations of a low, stable and predictable level of inflation, while remaining responsive to emerging price developments. Price stability remains the Bank's primary objective and foundation for sustainable economic growth.

Global economic activity continues to be shaped by two opposing shocks: the adverse supply-side effects of the war in the Middle East and the ongoing positive momentum generated by the global technology cycle, particularly artificial intelligence (AI). Although global inflation had generally been on a downward trend since early 2024, it rose earlier in 2026, driven by higher energy prices, in the advent of the war in the Middle East. Consequently, in contrast to the broad easing of financial conditions observed in 2025, the global monetary policy environment has become less accommodative. Against a backdrop of elevated inflationary pressures and subdued economic activity, central banks face difficult policy trade-offs. Some are maintaining relatively tight policy stances to prevent inflation expectations from becoming de-anchored, while others have been compelled to raise nominal policy interest rates in response to the renewed inflationary pressures.

According to the International Monetary Fund (IMF)'s October 2026 World Economic Outlook (WEO), global economic activity remains subdued and uneven across countries and regions, with global growth projected to moderate in 2026. The global economy is projected to grow by 3.1 percent in 2026, down from 3.5 percent in 2025, and below the historical annual average of 3.7 percent recorded in the period 2000-2019. The 2026 growth forecast represents an upward revision of 0.1 percentage points from the July 2026 WEO Update projection, due to the better-than-expected global economic activity in the first half of 2026, despite the ongoing war in the Middle East and persistent trade tensions. For advanced economies, growth is forecast to increase from 2 percent in 2025 to 2.1 percent in 2026 and to decelerate from 4.5 percent to 3.7 percent in the same period for emerging market and developing economies (EMDEs).

Inflationary pressures diverged across regions in the third quarter of 2026. In advanced economies, inflation edged up from 2 percent in the second quarter of 2026 to 2.1 percent in the third quarter, largely reflecting persistent energy-related price pressures, higher refinery margins and supply-side disruptions. In contrast, inflation for emerging market economies decreased from 4.3 percent to 4.1 percent in the same period, supported by contained food inflation and continued effects of relatively tight monetary policies. Meanwhile, the United Nations' Food and Agriculture Organization (FAO) food price index increased in the third quarter of 2026, mainly driven by higher prices for cereals, sugar and vegetable oils. The higher prices reflected adverse weather conditions, concerns over crop yield prospects and disruptions to international trade and transportation, particularly through the Black Sea and Strait of Hormuz.

Domestically, headline inflation averaged 8.8 percent in the third quarter of 2026, up from 2.1 percent in the same period in 2025, mainly due to the persistent impact of higher fuel prices and increase in electricity tariffs effected on 1 August 2026. Looking ahead, inflation is projected to remain above the upper bound of the 3 – 6 percent objective range in the near term, mainly on account of persistence of this impact, as well as the associated second-round effects. Thereafter, inflation is expected to ease and revert to within the objective range, supported by the current monetary policy stance, subdued domestic demand conditions and the dissipating impact of the earlier upward adjustments in administered prices from the inflation calculation.

Real GDP grew by 3.7 percent in the twelve months to June 2026, following a contraction of 2.9 percent in the year to June 2025. The recovery in economic activity was underpinned by stronger performance in mining sector output. However, overall economic performance remains weak, constrained by subdued global economic conditions, structural challenges in the diamond sector, slow progress in economic transformation and low productivity.

The current account recorded a deficit of P1.4 million in the second quarter of 2026, compared to a surplus of P7 billion in the corresponding period in 2025. As at the end of July 2026, the official foreign exchange reserves amounted to P63.2 billion, equivalent to 8.3 months of import cover of goods and services and representing an increase of 32.2 percent from P47.8 billion in July 2025.

Commercial bank credit contracted by 2.3 percent in the year to August 2026, compared to an expansion of 7.3 percent in the corresponding period in 2025. Lending declined for both businesses and households. For

the household sector, the contraction was 4.3 percent in the year to August 2026, a significant reversal of the 6.8 percent expansion in August 2025. Similarly, lending to businesses contracted by 1.2 percent, following an expansion of 8.1 percent in the corresponding period in 2025. Meanwhile, money supply (M2) grew by 4.2 percent year on year in June 2026, compared to an increase of 0.4 percent in the corresponding period in 2025.

The exchange rate policy for 2026 maintains a 50:50 weighting between the South African rand and the IMF Special Drawing Rights (SDR), with a downward annual rate of crawl of 2.76 percent. In January 2026, asymmetric Pula trading margins for foreign exchange transactions with commercial banks were introduced, narrowing the buy margin from 7.5 percent to 3 percent relative to the central parity, while maintaining the sell margin at -7.5 percent. This adjustment and positioning is intended to strengthen incentives for export proceeds conversion, improve foreign exchange market liquidity and support the preservation and potential accumulation of official foreign exchange reserves.

The nominal effective exchange rate (NEER) of the Pula depreciated by 2.75 percent in the twelve months to September 2026. In contrast, the real effective exchange rate (REER) appreciated by 2.58 percent year-on-year in August 2026, as higher domestic inflation relative to Botswana's trading partners more than offset the competitiveness gains from the nominal depreciation. Consequently, Botswana's external price competitiveness moderated, although the exchange rate framework remained broadly aligned with economic fundamentals and continued to support competitiveness and economic growth. In addition, it is observed that the appreciation of the REER reflects significantly higher inflation in Botswana than in the trading partner countries that is an attribute of the relatively high weight of fuel in the consumer price index and may not necessarily indicate generally higher relative inflation (and lack of competitiveness) across the range of goods and services.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth remained subdued amid heightened uncertainty

According to the IMF's October 2026 WEO, the global economy is estimated to have expanded by 3.5 percent in 2025, unchanged from 2024 (Table 3.1). Growth was supported by technology-related investment, particularly in AI; fiscal and monetary policy support; broadly accommodative financial conditions; and continued adaptability of the private sector. However, these tailwinds were offset by headwinds arising from changes in trade policies, policy uncertainty and, more recently, the war in the Middle East.

US economic growth expanded

In the US, real GDP expanded at an annualised rate of 3.4 percent in the third quarter of 2026, from a growth of 2.2 percent (revised from 2.5 percent) in the second quarter. The expansion was primarily driven by increases in investment, consumer spending and government expenditure that were partially offset by a decrease in exports.

Euro area growth accelerated

In the euro area, GDP grew by 0.6 percent year-on-year in the second quarter of 2026, from a downwardly revised 0.4 percent in the first quarter of 2026. The improvement was driven largely by a sharp rebound in Ireland's GDP, which surged by 10.2 percent following a contraction of 7.8 percent in the first quarter. In addition, growth was supported by resilient household consumption and government spending, alongside improved activity in the industrial and services sectors, particularly information and communication services. However, investment remained subdued and changes in inventories weighed on growth. Among the bloc's largest economies, Spain recorded the strongest growth at 0.7 percent, followed by Germany (0.3 percent) and Italy (0.9 percent).

UK growth remained subdued

GDP in the United Kingdom (UK) grew by 0.5 percent in the second quarter of 2026, revised upward from the previously estimated 0.4 percent, following a 0.6 percent growth in the first quarter. Growth was mainly supported by the services sector, particularly professional, scientific and technical activities, as well as information and communication services. In addition, growth was broad-based, with positive contributions from manufacturing, construction and services, while business investment strengthened. Moreover, real household disposable income per head increased by 1 percent, supporting household purchasing power.

Emerging markets' growth moderated

Output growth in EMDEs improved moderately in the second quarter of 2026, supported by resilient domestic demand, stronger performance among technology-related exporters, and improved external demand in some economies, despite persistent trade policy uncertainty and heightened geopolitical tensions.

The Chinese economy grew by 4.5 percent year-on-year in the third quarter of 2026, up from 4.3 percent in the second quarter and above market expectations of 4.4 percent. Growth was supported by recent policy easing and resilient exports, particularly of AI-related components, high-tech manufactured goods and electric vehicles.

The Indian economy grew by 7.8 percent year-on-year in the second quarter of 2026, unchanged from the previous quarter and in line with market expectations. The robust growth was supported by stronger private investment and household consumption, as well as solid performance in manufacturing and financial services. Moreover, resilient exports contributed to economic activity despite heightened global trade and geopolitical uncertainties.

Table 3.1: Growth Estimates and Projections

	Estimate		Projections	
	2024	2025	2026	2027
Global	**3.5**	**3.5**	**3.1**	**3.4**
Advanced economies	**1.9**	**2.0**	**2.1**	**1.8**
USA	2.8	2.3	2.3	2.3
Euro area	1.0	1.2	1.1	1.2
UK	1.0	1.2	1.3	1.2
Japan	-0.2	1.2	0.7	0.7
EMDEs	**4.5**	**4.5**	**3.7**	**4.4**
China	5.0	5.0	4.5	4.0
Brazil	3.4	2.3	2.2	1.9
India	7.1	7.8	7.0	7.0
Russia	4.9	1.0	0.9	0.9
South Africa	0.5	1.1	1.0	1.3
Botswana	**-2.8**	**-0.7**	**4.4 (3.8)**	**2.2 (4.1)**

Source: IMF October 2026 WEO, while numbers in parenthesis are from the Ministry of Finance (MoF)

Growth in South Africa remained modest

Regionally, output in South Africa decreased quarter on quarter, by 0.2 percent in the second quarter of 2026, reversing the revised 0.4 percent growth recorded in the first quarter and worse than the expected 0.1 percent decline. This marked the first economic downturn since the third quarter of 2024. Three of the ten sectors contracted; mining (-3 percent); trade, catering and accommodation

(-1.9 percent); and manufacturing (-1.8 percent), while the rest of the sectors expanded.

Global commodity prices

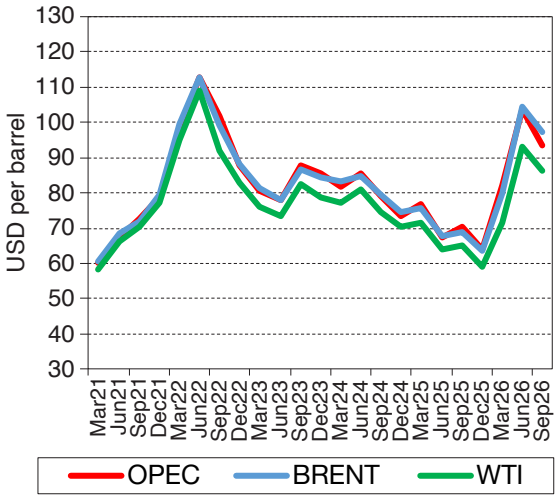
Rough diamond prices decreased in the third quarter of 2026

The global rough diamond price index decreased by 8 percent, from 105.3 points in the second quarter of 2026 to 96.9 points in the third quarter, mainly due to weak global demand, excess inventories and persistent trade uncertainty. The rough diamond market continued to face structural pressures from competing luxurious goods and the lab-grown diamonds, which are increasingly substituting for natural diamonds, especially in lower-value segments. Lab-grown diamonds currently hold 20 - 25 percent of market share and are projected to account for approximately 30 - 40 percent of the total diamond market by 2030, up from nearly zero in 2015.

Oil prices decreased in the third quarter of 2026

International oil prices decreased in the third quarter of 2026 compared to the second quarter of 2026 (Chart 3.1). The price of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 9.9 percent (from USD 103.59 per barrel to USD 93.34 per barrel), 7.1 percent (from USD 104.45 per barrel to USD 97.05 per barrel) and 7.5 percent (from USD 93.21 per barrel to USD 86.23 per barrel), respectively, in the third quarter of 2026. The decrease in oil prices largely reflected a gradual easing of the supply disruptions experienced earlier in the year. In addition, the recovery in crude oil production and exports from the Middle East, including improved shipments through the Strait of Hormuz and the use of alternative export routes, reduced supply concerns and the geopolitical risk premium embedded in prices. Furthermore, higher OPEC and its allies' production targets increased expectations of greater oil availability. Moreover, elevated fuel prices, weaker economic activity and subdued oil consumption, particularly in Asia, weighed on global demand. These developments more than offset intermittent upward pressure arising from the continued US-Iran conflict and disruptions to regional shipping.

Chart 3.1: International Oil Prices

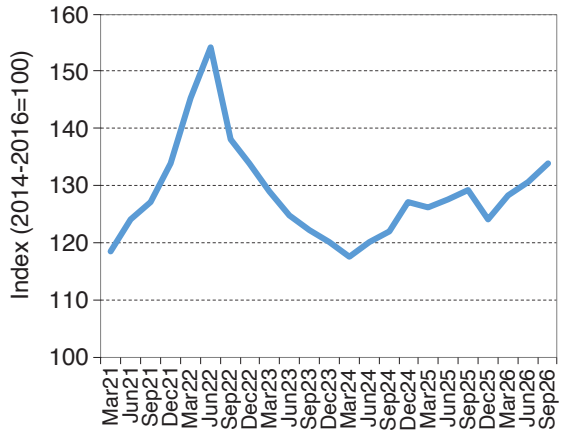


Source: Bloomberg

Food prices increased

According to FAO, the global food price index increased by 2.4 percent from an average of 130.7 points in the second quarter of 2026 to an average of 133.9 points in the third quarter of 2026 (Chart 3.2). The increase was mainly driven by higher prices for cereals, sugar and vegetable oils, reflecting adverse weather conditions, concerns over crop prospects and disruptions to international trade and transportation, particularly through the Black Sea and Strait of Hormuz. In addition, rising concerns over El Niño conditions also heightened risks to agricultural supply, particularly for sugar and rice. Nonetheless, the increase was partly moderated by lower international prices for meat and dairy products.

Chart 3.2: Food Price Index

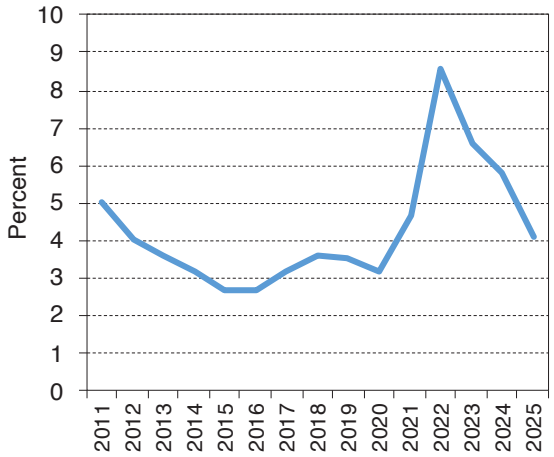


Source: FAO

Inflation diverged across regions in the third quarter

Global inflation eased from 5.8 percent in 2024 to 4.1 percent in 2025 (Chart 3.3). However, inflation varied across regions in the third quarter of 2026[1]. In advanced economies, inflation increased from 2 percent in the second quarter of 2026 to 2.1 percent in the third quarter of 2026, mainly reflecting higher energy prices, despite the decline in international oil prices on a quarterly basis. The increase was also supported by higher refining margins and supply-side disruptions, while underlying inflationary pressures remained relatively contained. Conversely, inflation for emerging market economies decreased from 4.3 percent to 4.1 percent in the same period, reflecting contained food inflation and the continued effects of relatively tight monetary policies.

Chart 3.3: Global Inflation

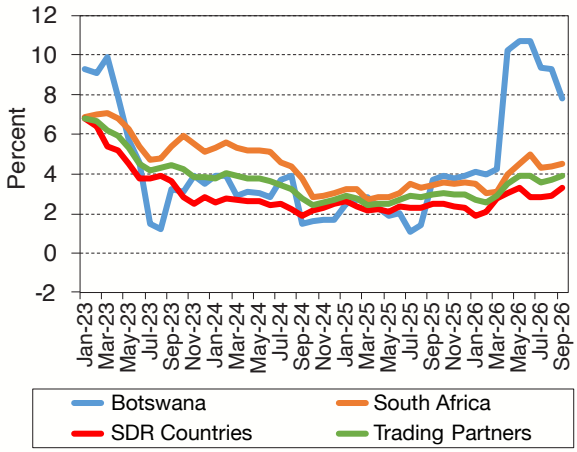


Source: IMF October 2026 WEO

In South Africa, headline inflation decreased slightly from 4.5 percent in the second quarter of 2026 to 4.4 percent in the third quarter of 2026, above the South African Reserve Bank (SARB)'s 3 percent target point which, however, has a tolerance band of plus or minus one percentage point.

The average trade-weighted inflation for Botswana's trading partner countries decreased slightly from 3.8 percent in the second quarter of 2026 to 3.7 percent in the third quarter of 2026 (Chart 3.4).

Chart 3.4: Botswana Inflation and International Inflation



Source: Statistics Botswana, Bank of Botswana, Statistics South Africa and Bloomberg

Monetary policy diverged across the globe

In the most recent policy reviews, there was divergence in the monetary policy decisions (Table 3.2).

In October 2026, the US Federal Open Market Committee (FOMC) maintained its policy rate at 3.75 – 4 percent. The decision was in line with market expectations. The FOMC noted that economic activity was expanding at a solid pace, supported by resilient domestic spending. Meanwhile, labour-market conditions remained relatively stable, as employment gains broadly kept pace with labour force growth and the unemployment rate changed slightly. Meanwhile, the FOMC noted that inflation remained elevated, and that accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the 2 percent target.

The Bank of England (BoE) maintained the policy interest rate at 3.75 percent in September 2026. The BoE noted that the prolonged conflict in the Middle East had pushed crude and refinery energy prices higher and increased volatility, contributing to a rise in UK inflation to 3.1 percent in August 2026, with further increases expected in coming quarters. Meanwhile, the BoE noted that, while monetary policy could not directly influence global supply shocks, it would ensure that inflation returned to the 2 percent target over the medium term. The BoE also agreed to reduce its stock of government bond purchases to zero through a multi-year programme, unwinding holdings at an average annual pace of £46 billion through 2034.

The European Central Bank (ECB) maintained its three key interest rates in October 2026, keeping the deposit facility, main refinancing operations and marginal lending facility rates unchanged at 2.5 percent, 2.65 percent and 2.9 percent, respectively. The ECB noted that the conflict in the Middle East continued to fuel inflationary pressures, with inflation expected to remain well above its 2 percent target for an extended period. Moreover, the Governing

[1] The quarterly inflation estimates are sourced from Bloomberg.

Council reaffirmed its commitment to stabilising inflation at its 2 percent medium-term target.

The Bank of Japan (BoJ) kept its short-term policy rate unchanged at 1.25 percent in October 2026, following two consecutive hikes in June and September 2026. The Bank indicated further rate increases, noting that underlying inflation had aligned with the 2 percent target for the first time since the target was set in 2013, while financial conditions remain accommodative.

In emerging market economies, the Central Bank of Brazil (CBB) cut the policy rate by 25 basis points to 13.75 percent in September 2026, in line with market expectations. The CBB noted that the decision was taken amid heightened uncertainty in the global environment due to the conflict in the Middle East and the uncertainty over monetary policy in advanced economies. However, the central bank noted gradual moderation in economic activity, particularly in more cyclical sectors, although activity remains resilient and the labour market remains tight. The CBB assessed risks to the inflation outlook to remain tilted to the upside and indicated that future policy decisions will depend on incoming economic data to ensure that inflation converges to target.

The Central Bank of Russia (CBoR) maintained the key policy rate at 14 percent in October 2026, to support economic activity, and in line with market expectations. The CBoR noted that Ukrainian strikes on Russian energy infrastructure disrupted refinery operations, pushed crude-processing rates to multi-year lows and contributed to fuel shortages, raising gasoline prices and transportation costs across the economy. The CBoR cautioned that future policy decisions would depend on inflation dynamics and inflation expectations.

In October 2026, the People's Bank of China (PBoC) maintained the one year and five-year Loan Prime Rates (LPR) at 3 percent and 3.5 percent, respectively, for the seventeenth consecutive month. The decision reflected a stronger-than-expected economic growth which reduced the immediate need for support from the central bank.

In October 2026, the Reserve Bank of India (RBI) increased the policy rate by 25 basis points to 5.5 percent. The RBI noted that global geopolitical developments remained a challenge. However, the Indian economy remained robust, with growth broad-based and expected to remain resilient. The RBI assessed risks to the inflation outlook to be tilted to the upside, reflecting uncertainties surrounding elevated energy prices. The RBI shifted to a calibrated tightening stance, indicating that near-term rate cuts were unlikely and that future action would depend on evolving conditions and the outlook, with either a rate increase or a pause under consideration.

The SARB raised its repo rate by 25 basis points to 7.25 percent at its September 2026 meeting, reflecting renewed upside risks to inflation. The decision was primarily driven by rising fuel prices, persistent global supply disruptions associated with geopolitical conflicts, elevated services inflation and increasing inflation expectations. The SARB was particularly concerned about the potential for the prolonged supply shock to generate second-round effects and entrench inflation at elevated levels. Therefore, the rate increase was intended to reinforce the disinflation process, anchor inflation expectations and ensure that inflation returns to the Bank's 3 percent target over the medium term. Overall, the MPC indicated that future policy decisions will be outlook dependent, responsive to data developments and sensitive to the balance of risks to the forecast.

Table 3.2: Monetary Policy Decisions

Central Bank	Latest Meeting	Current Policy Rate (Percent)	Change from Previous Meeting	Likely Policy Decision at the Next Meeting
Bank of Botswana	October 2026	5.5	No change	Key considerations will continue to be projections for inflation and impact on expectations, the need to support economic growth and recovery and preserving policy transmission.
SARB	September 2026	7.25	Increased by 25 basis points	The SARB's MPC indicated that future policy decisions will be outlook dependent, responsive to data developments and sensitive to the balance of risks to the forecast.
US Federal Reserve	October 2026	3.75 – 4.00	No change	FOMC indicated that the accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the 2% target.
BoE	September 2026	3.75	No change	The BoE will continue to monitor closely the risks of inflation persistence and decide on the appropriate degree of monetary policy restrictiveness at each meeting, while acknowledging that a gradual approach to removing policy restraint remains appropriate.
ECB	October 2026	2.65	No change	The Council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.
BoJ	October 2026	1.25	No change	The BoJ indicated further rate increases, noting that underlying CPI inflation had aligned with the 2% target for the first time since the target was set in 2013, while financial conditions remain accommodative.
PBoC	October 2026	3.00	No change	The PBoC is likely to maintain a low LPR in the near term.
Brazil	September 2026	13.75	Decreased by 25 basis points	The CBB highlighted that they would monitor how developments of domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty.
India	October 2026	5.50	Increased by 25 basis points	RBI changed its stance to calibrated tightening, signalling that given the current conditions, rate cuts were off the table in the near term and policy action ahead could only be a rate hike or a pause, depending on the evolving conditions and the outlook.
Russia	October 2026	14.00	No change	CBoR noted that inflationary pressures remained high, with risks judged to be on the upside. It signalled that future policy decisions would depend on inflation dynamics and inflation expectations.

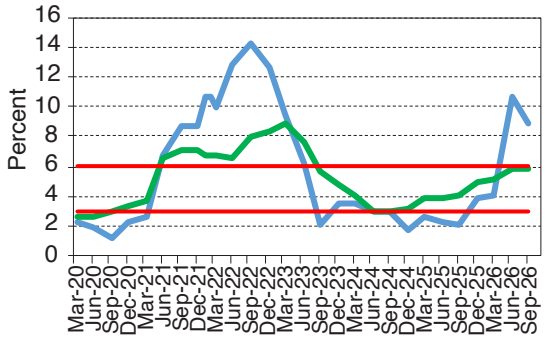
Source: Various central banks' websites

3.2 Domestic inflation environment

Headline inflation increased in the third quarter of 2026

Headline inflation increased in the third quarter of 2026, averaging 8.8 percent, compared to 2.1 percent in the same quarter of 2025 (Chart 3.5 and Table 3.3). The significant increase in inflation was mainly due to pressures emanating from higher domestic fuel prices implemented earlier in the year, which raised transport costs and contributed to imported inflation, as well as the increase in electricity tariffs effected on 1 August 2026. In addition, food supply disruptions associated with foot and mouth disease control measures added to the increase in inflation in the third quarter of 2026. These developments were compounded by base effects arising from the decrease in electricity tariffs in July 2025.

Chart 3.5: Botswana Headline and Core Inflation

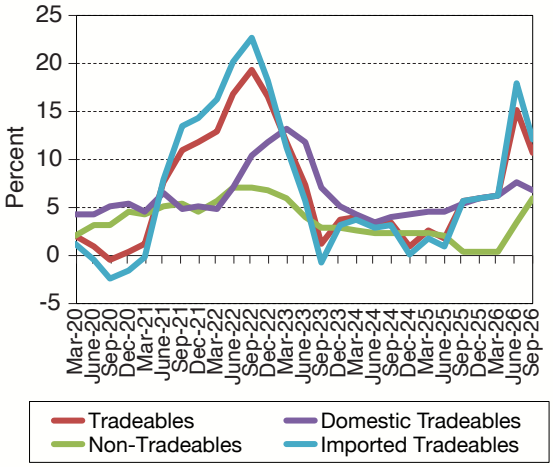


Source: Statistics Botswana and Bank of Botswana
Note: Core Inflation is headline inflation excluding administered prices.

Inflation for both domestic and imported tradeables increased in the third quarter of 2026

Inflation for domestic tradeables increased from an average of 4.7 percent in the third quarter of 2025 to an average of 7 percent in the third quarter of 2026 (Chart 3.6), mainly due to an acceleration in food price increases. Imported tradeables inflation increased from an average of 2.6 percent to an average of 12.1 percent in the same period, mainly due to higher prices of motor vehicles. As a result, all tradeables inflation increased from an average of 3.1 percent in the third quarter of 2025 to an average of 10.7 percent in the third quarter of 2026. Meanwhile, inflation for non-tradeables increased from an average of 0.4 percent to 6 percent in the same period, due to upward adjustments in administered prices, notably electricity tariffs implemented in August 2026. In addition, base effects associated with reductions in electricity tariffs in 2025 contributed to the higher year-on-year rate.

Chart 3.6: Inflation for Tradeables and Non-Tradeables



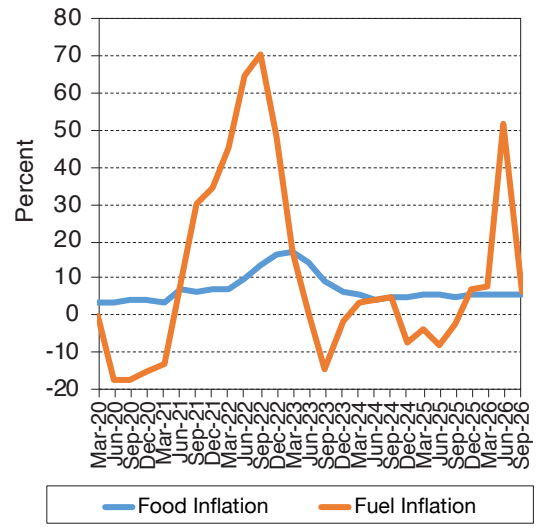
Source: Statistics Botswana

Core inflation measures increased in the third quarter of 2026

Core inflation measures generally increased in the third quarter of 2026. Inflation excluding administered prices (CPIXA) averaged 5.8 percent in the third quarter of 2026, up from 3.9 percent in the third quarter of 2025 (Table 3.3), due to increases in prices of food and motor vehicles. Similarly, the trimmed mean inflation (CPITM) increased to 8 percent, from 2.4 percent in the same period.

Overall, the increase in CPIXA points to a broadening of underlying price pressures during the period under review. In addition to the effects of the adjustment of exchange rate parameters, the rise in core inflation also reflects the pass-through of higher costs in selected categories of goods and services. Nevertheless, weak domestic demand conditions suggest that the underlying inflationary pressures remain largely supply-driven rather than demand-induced.

Chart 3.7: Food and Fuel Inflation



Source: Statistics Botswana and Bank of Botswana

Table 3.3: Annual Inflation by Categories of Goods and Services (Percent)

Category of commodities	Basket Weights	September 2026	Q3 2026	Q3 2025
Food and non-alcoholic beverages	13.6	4.5	5.7	4.9
Alcoholic beverages and tobacco	4.3	8.5	9.7	7.0
Clothing and footwear	6.0	4.4	4.8	3.4
Housing, water, electricity, gas and other fuels	17.5	4.8	4.5	-3.6
Furnishing, h/h equipment and routine maintenance	4.9	4.2	4.8	3.7
Health	3.4	3.8	4.1	2.2
Transport	23.4	15.0	18.2	0.7
Communications	6.9	-0.9	-0.9	0.1
Recreation and culture	2.8	3.6	3.0	1.9
Education	4.6	2.1	2.1	2.6
Restaurants and hotels	3.7	5.0	5.2	2.8
Miscellaneous goods and services	9.0	11.0	11.4	7.9
Annual Inflation (All items)	**100.0**	**7.8**	**8.8**	**2.1**
CPITM		7.4	8.0	2.4
CPIXA		5.3	5.8	3.9

Source: Statistics Botswana and Bank of Botswana calculations

3.3 Recent domestic economic developments

GDP growth improved in the second quarter of 2026

Real GDP grew by 3.7 percent in the twelve months to June 2026, following a contraction of 2.9 percent in the year to June 2025. The recovery in economic activity was underpinned by stronger performance in mining sector output. Nonetheless, overall economic performance remains below potential, reflecting subdued global economic conditions, ongoing geopolitical tensions, including the conflicts in Ukraine and the Middle East, which have dampened demand for diamond jewellery and rough diamonds. Weak economic activity can also be attributed to the slow and muted impact of economic transformation initiatives so far, as well as continuance of low productivity. These factors continue to constrain the economy's capacity to generate sustained growth.

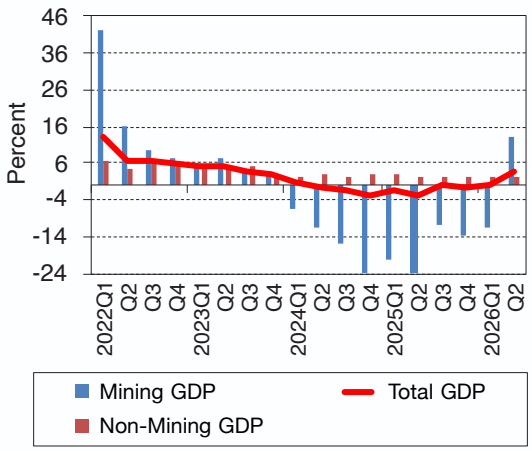
Non-mining GDP grew by 1.9 percent in the twelve months to June 2026, down from 2.5 percent in the corresponding period in 2025. The deceleration in non-mining output was mainly driven by a contraction in the Construction and Agriculture, Forestry and Fishing sectors, as well as the slower growth across most sectors (Table 3.4). Overall, the deceleration in non-mining activity suggests subdued domestic demand and highlights structural constraints that continue to limit the effectiveness of diversification efforts.

Mining sector GDP grew by 13.5 percent in the year ending June 2026, reversing the 24.9 percent contraction recorded in the corresponding period of 2025. The recovery was driven primarily by a rebound in diamond mining output, which increased by 15.4 percent in the year to June 2026, following a contraction of 27 percent in the corresponding period in 2025. This improvement reflected higher production levels supported by stronger global demand, particularly for premium-quality diamonds. In contrast, output declined across all non-diamond mining sub-sectors, including Coal, Copper and Nickel, Gold and Other Metal Ores, Soda Ash and Salt, Other Mining and Quarrying, and Mining Support Services. Consequently, the recovery in the mining sector was not broad-based, underscoring Botswana's continued reliance on diamond mining as the primary driver of growth in the sector. The sustained weakness in non-diamond mining activities suggests the persistence of structural, operational, investment, and market-related challenges that continue to constrain growth in these sub-sectors. Coal mining has been affected by infrastructure bottlenecks at Morupule Coal Mine, while copper and nickel production continued to face investment and development challenges at Khoemacau Copper Mine, despite favourable long-term demand prospects. Similarly, the decline in mining support services points to subdued exploration and mine development activity.

Meanwhile, Statistics Botswana reported that real GDP grew by 8.7 percent year-on-year in the second

quarter of 2026, representing a stronger rebound from the 5.2 percent contraction recorded in the corresponding quarter in 2025[2].

Chart 3.8: GDP Growth Rates



Source: Statistics Botswana
Note: Growth rates are reported on a rolling 12-month basis.

In terms of GDP by expenditure, Government Final Consumption (GFC) contracted by 0.1 percent in the twelve-month period to June 2026, compared with the growth of 2.8 percent in the corresponding period in 2025. This contraction reflected a decline in collective consumption, which shifted from growth of 2.7 percent to a contraction of 1.8 percent during the review period, reflecting reduced government revenues.

Household Final Consumption contracted by 2.7 percent in the 12-month period ending June 2026, from a growth of 2.3 percent in the corresponding period in 2025. The decline was due to a contraction in Household Consumption Expenditure and a deceleration in Non-Profit Institutions Serving Households (NPISH[3]) Consumption. This reflected weaker household purchasing power amid elevated cost-of-living pressures, tighter credit conditions and subdued real disposable income growth during the review period.

Gross Fixed Capital Formation (GFCF) contracted by 1.8 percent in the year to June 2026, compared to a growth of 1.3 percent in the previous year. The decline was due to contraction in investment on buildings and structures, transport equipment, plant, machinery and other equipment, and mineral prospecting. This was attributable to subdued private sector investment, delays in the implementation of major public investment projects and tighter financing conditions.

By contrast, Exports of Goods and Services rebounded to 9.5 percent in the twelve months to June 2026, following a contraction of 12.7 percent in the previous year. The recovery reflected improved performance in diamond trading, which boosted goods exports amid stronger global demand for premium natural diamonds. Meanwhile, Imports of Goods and Services contracted by 14.7 percent in the year ending June 2026, compared to a decline of 0.9 percent in the corresponding period in 2025. The decline in imports was attributable to lower demand for capital and intermediate goods amid subdued investment activity, higher import costs (leading to reduced demand) and weaker domestic economic activity, as well as reduction in electricity imports following increased domestic power generation. Fiscal consolidation and restrained government spending also contributed to reduced import requirements. Overall, the combination of weaker domestic demand and improved net exports suggests limited inflationary pressures from the demand side.

[2] Calculated as the current quarter over the corresponding quarter in the previous year.

[3] Non-profit organisations that provide goods and services to households free or at prices that are not economically significant, and whose main resources come from voluntary contributions or transfers, such as Non-Government Organisations (NGOs), foundations, religious organisations and community-based organisations.

Table 3.4: Real GDP Growth by Sector and Expenditure (Percent)

	2025 Q2	2026 Q1	2026 Q2
Total GDP	**-2.9(-3.0)**	**0.2**	**3.7**
By Sector:			
Mining and Quarrying	-24.9(-25.1)	-11.3	13.5
Non-Mining	2.5(2.4)	2.5	1.9
Agriculture, Forestry & Fishing	-1.2(-1.6)	1.4	-5.0
Manufacturing	-2.5(-2.4)	2.9	0.6
Water and Electricity	9.3(7.5)	3.9	5.8
Construction	0.7	-1.1	-1.6
Wholesale & Retail	6	3.9	3.6
Diamond Traders	-40.1(-41.1)	5.6	23.2
Transport and Storage	0.9	2.8	1.9
Accommodation & Food Services	3.9	3.9	3.8
Information & Communication Technology	2.7	2.2	2.2
Finance, Insurance & Pension Funding	4.7(4.5)	3.9	3.1
Real Estate Activities	3.9	1.8	1.3
Professional, Scientific & Technical Activities	3.6	3.1	3.2
Administrative & Support Activities	3.4	2.9	2
Public Administration & Defence	4.1(4.7)	2.6	2.1
Human Health & Social Work	4.1	2.9	2.8
Education	6.3(5)	4.5	4.2
Other services	3.5	2.3	2.3
By Type of Expenditure:			
Government Final Consumption	2.8(2.3)	0.0	-0.1
Household Final Consumption	2.3(1.6)	-0.3(-0.4)	-2.7
Gross Fixed Capital Formation	-0.3(1.3)	-4.8	-1.8
Exports of Goods and Services	-12.7(-8.8)	7(6.2)	9.5
Imports of Goods and Services	-0.9(0.7)	-20.7(-21.2)	-14.7

Source: Statistics Botswana and Bank of Botswana Calculations.
Note: Figures in brackets are earlier estimates which have now been revised.

Economic activity remains sluggish despite the ongoing economic transformation drive and various policy initiatives. This underscores the need for more concerted efforts to ensure that transformation initiatives gain traction and that the committed resources translate more effectively into tangible economic outcomes.

Diamond production increased

Debswana Diamond Company production decreased by 20 percent in the third quarter of 2026 to 4.8 million carats, from 6 million carats in the third quarter of 2025, primarily driven by planned plant maintenance at Orapa Mine. Meanwhile, Debswana's rough diamond production guidance for 2026 was revised upwards from 15 million carats to 18 million carats, owing to improved global demand for premium natural diamonds. For De Beers, production guidance for 2026 was revised to 25-28 million carats from the previous 21-26 million carats, reflecting the assumption of full ownership of the Gahcho Kué mine. Meanwhile, De Beers' third-quarter sales increased by 91.2 percent to 8.7 million carats from 4.6 million carats, reflecting improved global demand for premium natural diamonds across the US and India amid geopolitical uncertainty and competition from lab-grown diamonds. Nevertheless, the company continues to monitor rough diamond trading conditions to align output with prevailing demand. Production at Lucara Diamond Corporation (Karowe Mine) increased slightly by 0.7 percent in the second quarter of 2026 to 83.1 thousand carats, from 82.6 thousand carats in the second quarter of 2025. The increase was supported by higher ore processing volumes, including ore from continued open-pit mining and run-of-mine stockpiles. Production guidance for 2026 remains unchanged at 340 – 360 thousand carats.

Budget deficit narrows in the 2025/26 fiscal year

Preliminary estimates for the 2025/26 fiscal year indicate that total revenue and grants amounted to P69.5 billion, broadly unchanged from P69.6 billion recorded in the 2024/25 budget. This represents a marginal decline of approximately 0.2 percent, reflecting offsetting dynamics across major revenue streams. In particular, mineral revenue more than doubled, increasing by 106.8 percent, while non-mineral income tax increased by 3.1 percent in 2025/26, compared to the 2024/25 budget outturn. However, these gains were partly offset by a 9.4 percent decline in Southern African Customs Union (SACU) revenues during the review period. The surge in mineral revenues was primarily driven by higher diamond sales, supported by improving global demand for premium natural diamonds. Total expenditure and net lending stood at P86.3 billion, representing a 2.6 percent decrease from P88.6 billion recorded in 2024/25. Recurrent expenditure remained broadly unchanged, with a marginal decline of 0.4 percent, while development expenditure decreased by 11.7 percent, largely reflecting delayed project implementation due to revenue constraints. As a result, the overall budget deficit stood at P16.8 billion in 2025/26 or 6.2 percent of GDP, compared to a deficit of P19 billion or 7.3 percent of GDP in 2024/25. This points to a modest reduction in financing needs and marks a second consecutive

year of decline in the fiscal deficit as a share of GDP, suggesting some progress towards fiscal consolidation.

In the first four months of the 2026/27 fiscal year (April – July 2026), total revenue amounted to P34.7 billion, representing a 33.2 percent increase from the P26 billion recorded in the corresponding period of 2025/26. The increase was mainly attributable to a rise in non-mineral income tax revenue and SACU receipts. Total expenditure and net lending stood at P30.4 billion, reflecting an increase of 12 percent, from P27.2 billion recorded in the first four months of the 2025/26 fiscal year. The increase was largely driven by higher recurrent expenditure, which increased by 18.1 percent during the review period. Meanwhile, development expenditure declined by 18.7 percent, partly reflecting government consolidation efforts. Consequently, the overall surplus for the period stood at P4.3 billion, compared to a deficit of P1.1 billion recorded in the previous corresponding period. For the whole of the 2026/27 fiscal year, total revenues and grants are projected at P77.2 billion, compared to preliminary estimates of P69.5 billion for 2025/26. Meanwhile, total expenditure and net lending are projected to increase to P103.6 billion, from P86.3 billion for 2025/26. Overall, the budget deficit for 2026/27 is projected at P26.4 billion, representing 8.9 percent of GDP, compared to the estimated P16.8 billion or 6.2 percent of GDP in 2025/26. The 2026/27 deficit is expected to be financed through a combination of domestic and external borrowing, with greater reliance on domestic debt instruments, facilitated by the recalibration of the statutory debt limit from 40 percent of GDP to 60 percent. However, given the constrained fiscal space, the projected deficit for 2026/27 could be revised.

Box 1 discusses fiscal dominance, highlighting the relevant indicators for Botswana.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure And Net Lending	Budget Surplus/ Deficit
2024/25 Q1	17 205	20 858	(3 653)
2024/25 Q2	14 504	19 745	(5 242)
2024/25 Q3	17 552	19 780	(2 228)
2024/25 Q4	20 348	28 233	(7 885)
2024/25	**69 608**	**88 615**	**(19 007)**
2025/26 Q1	15 867	18 795	(2 928)
2025/26 Q2	17 584	21 173	(3 590)
2025/26 Q3	16 065	20 333	(4 269)
2025/26 Q4	19 968	25 978	(6 010)
2025/26	**69 484**	**86 280**	**(16 796)**
2025/26 Q1	**24 735**	**22 227**	**2 508**
2026/27*	**77 224**	**103 579**	**(26 354)**
2027/28*	**82 598**	**104 362**	**(21 764)**

Source: Cash Flow Unit, Ministry of Finance
Note: "*" denotes a projection.

Meanwhile, the Bank approved requests from Absa Bank Botswana Limited (Absa), First National Bank of Botswana Limited (FNBB), and Stanbic Bank Botswana Limited (Stanbic) to participate in a syndicated loan arrangement with the Government of Botswana, through the Ministry of Finance. The loan facility amounts to USD270 million and has been gazetted in preparation for debate in Parliament by end of August 2026. The funding is intended to support the Government's budget-related expenditures, including fiscal deficit financing and infrastructure projects. Another gazetted loan facility, expected to be considered for approval by Parliament, is the USD170 million facility from OPEC, earmarked for budget support.

Furthermore, in March 2026, Parliament approved several Loan Authorisation Bills, including loan facilities from Standard Chartered Bank, in particular, P750 million for budget support, which has since been disbursed and a EUR600 million for water projects, which is yet to be disbursed. In addition, Parliament approved a USD31.5 million loan from the International Fund for Agricultural Development (IFAD) to finance the Botswana Livestock Commercialisation Project (BoLCoP)[4], which is yet to be disbursed.

Labour Market Conditions Remain Challenging

According to the preliminary 2024/25 Multi-Topic Household Survey (BMTHS) conducted by Statistics Botswana from November 2024 to November 2025, using a larger sample than the Quarterly Multi-Topic Survey (QMTS), the unemployment rate was estimated at 21 percent, representing an increase of 3.4 percentage points from the 17.6 percent recorded in 2015/16, when a similar survey was last conducted. While both the labour force and total employment expanded over the period, employment growth lagged labour force growth, resulting in persistently high unemployment. Youth unemployment remained elevated at 28.9 percent in 2024/25, compared to 25.1 percent in 2015/16, underscoring ongoing challenges in labour absorption and the need for employment-intensive growth.

Similarly, the more recent QMTS[5] report for the first quarter of 2024 indicated an increase in the unemployment rate from 25.9 percent in the third

[4] BoLCoP is a large-scale agricultural commercialisation project owned by the Government of Botswana, with the Ministry of Lands and Agriculture serving as its lead implementing agency. The project is meant to help farmers transition from subsistence farming to commercial livestock production.

[5] The QMTS is conducted by Statistics Botswana, and its report is supposed to be published on a quarterly basis. However, due to some challenges, including movement restrictions to contain the COVID-19 pandemic and financial constraints, publication of the QMTS report has not been consistent, resulting in data gaps in labour force developments. Since its inception in the third quarter of 2019, Statistics Botswana published the first QMTS (July-September 2019) Report in January 2020. This was followed by reports for the fourth quarter of 2019, first and fourth quarters of 2020, the fourth quarters of 2021 and 2022, as well as the third quarter of 2023. Therefore, the analysis compares the first quarter of 2024 with the third quarter of 2023.

quarter of 2023 to 27.6 percent in the first quarter of 2024.Youth unemployment rate also rose to 38.2 percent from 34.4 percent. Although formal sector employment increased modestly by 2.9 percent to 504 738, these gains appear insufficient to offset broader labour market pressures.

Other labour market indicators from the QMTS show that the structure of employment remains skewed towards the public sector, which continues to be the largest employer, with employment in public administration accounting for 30.3 percent of total formal sector employment. This was followed by education at 13.2 percent, and wholesale and retail and repair of motor vehicles at 12.6 percent. Consequently, personal emoluments account for a significant share of government expenditure, approximately 50 percent of recurrent spending and about 13 percent of GDP, highlighting fiscal rigidities that may constrain future employment expansion. Meanwhile, the formal sector average monthly earnings were estimated at P6 865 for citizens, P14 080 for non-citizens and P7 143 for all employees in the first quarter of 2024. The average monthly earnings for all employees were estimated to have increased by 1.1 percent or P64 to P6 093 in the first quarter of 2024, from P6 029 in the third quarter of 2023.

A longer-term assessment of the QMTS data points to weak employment elasticity of growth. Between the third quarter of 2019 and the first quarter of 2024, the total labour force, constituted by people aged 15 years and above, increased by 10.7 percent to 1 041 204 persons, while employment increased by only 1.2 percent, compared to average GDP growth of 2.7 percent during the same period. These trends indicate that economic growth has not translated effectively into job creation.

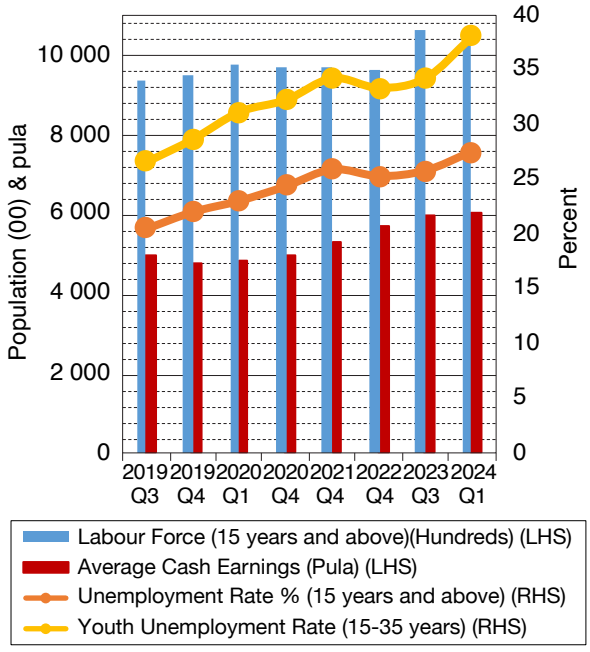
At 27.6 percent in the first quarter of 2024, the overall unemployment rate increased by 6.9 percentage points from the 20.7 percent recorded in the third quarter of 2019. Youth labour force (15–35 years) increased by 5.9 percent, to 509 683 persons in the first quarter of 2024, from 481 441 persons in the third quarter of 2019. The youth unemployment rate, which continues to be a national concern, increased to 38.2 percent in the first quarter of 2024, from 26.7 percent in the third quarter of 2019. Meanwhile, average earnings for all employees increased by P1 104, from the P4 989 estimated for the third quarter of 2019.

With the economy having contracted in 2024 and 2025, labour market conditions are likely to have deteriorated further in 2025. The slowdown in the diamond market, a key driver of national output, export earnings and fiscal revenue, has had major spillover effects on mining-related industries and downstream services. As a result, the modest gains in formal sector employment observed in early 2024 may have since reversed.

Looking ahead, labour market conditions are expected to remain under pressure. Weak domestic demand, subdued profitability in the private sector, and continued uncertainty in the diamond industry are likely to constrain hiring. Firms may respond through hiring freezes or workforce adjustments, while fiscal pressures may limit the Government's capacity to expand employment. As a result, the absorption of new entrants into the labour force is expected to remain limited.

Overall, Botswana's labour market outlook remains challenging, reflecting structural rigidities, weak labour absorption capacity, and low productivity growth. Addressing these challenges will require sustained efforts to stimulate private sector-led growth, accelerate economic diversification, and enhance labour market efficiency to support inclusive and durable employment creation.

Chart 3.9:Trends in selected Labour Force Indicators



Box 1: Assessing Fiscal Dominance in Botswana

Fiscal dominance broadly refers to a situation in which fiscal conditions constrain the conduct of monetary policy, limiting the central bank's ability to pursue price stability. A narrower empirical definition characterises fiscal dominance as central bank lending to government for fiscal purposes in excess of applicable statutory limits. It may arise when persistent fiscal deficits or rising public debt generate substantial financing requirements, while alternative sources of funding become insufficient or costly, increasing reliance on central bank financing or creating pressure on monetary policy to accommodate fiscal needs. In such circumstances, monetary policy effectiveness, credibility and independence may be compromised, particularly if fiscal pressures constrain adjustments to policy rates adjustment in response to inflation or create expectations that government deficits will be financed through monetary expansion. It is important to distinguish fiscal dominance from large budget deficits, rising public debt, or substantial central bank holdings of government debt. Although these developments may signal fiscal vulnerabilities, they do not by themselves constitute fiscal dominance. Rather, they indicate potential risks that warrant close monitoring, particularly where fiscal pressures threaten to constrain the independent conduct of monetary policy.

Figure 1: Fiscal Dominance Indicators and Risk Assessment

Indicator	2024	2025	2026	Risk Assesment	Risk Level
Public Debt/GDP (%)	22.7	30.7	33.4	While public debt remains below the statutory threshold of 60 percent of GDP, it has risen rapidly in recent years, increasing from 22.7 percent of GDP in 2023/24 to 33.4 percent in 2025/26. This 10.7 percentage point increase over three years exceeds the average annual debt expansion observed over the past preceding five years, 2018/19 – 2022/23 (2.1 percent) and highlights the importance of continued vigilance. The debt ceiling was recently raised from 40 percent to 60 percent of GDP in anticipation of debt reaching 44.7 percent of GDP in 2026/27. The higher ceiling provides additional borrowing headroom but does not necessarily weaken fiscal discipline because it is accompanied by credible fiscal consolidation and enhanced debt management framework. Meanwhile, debt stood at 33.9 percent of GDP in the second quarter of 2026/27.	
Fiscal Deficit/GDP (%)	-4.3	-7.3	-6.1	Relative to the average fiscal deficit of 4.1 percent of GDP recorded over the preceding five years, the average deficit over the past three years was higher, at 5.9 percent of GDP. The deficit widened from 4.3 percent of GDP in 2023/24 to 7.3 percent in 2024/25, before narrowing to 6.1 percent in 2025/26, indicating increased government borrowing requirements.	
Primary Balance/GDP (%)	-3.3	-6.0	-4.8	Persistent primary deficits over the past three years indicate continued government borrowing needs and increased pressure on domestic financing, thereby potentially heightening fiscal dominance risks.	
Interest Payments/ Revenue (%)	3.4	4.7	5.0	The interest-to-revenue ratio has trended upward over recent years, indicating a gradual increase in the debt-service burden. While interest payments as a share of government revenue remained relatively low, the ratio has risen above the average of 2.1 percent recorded over 2018/19 – 2022/23. This upward trend points to the need for prudent management of borrowing requirements and financing costs. Encouragingly, the debt-service burden eased to 3.1 percent in the first quarter of 2026/27.	
Domestic Debt/Total Debt (%)	53.9	66.7	64.9	Domestic debt as a share of total public debt has remained above its average of 43.5 percent recorded over the preceding five years, signalling a growing reliance on domestic borrowing and the potential for increased competition for domestic financial resources. This trend continued in 2026, with the share of domestic debt in total public debt rising from 64.9 percent in March to 68.7 percent in September.	

Central Bank Credit to Government/Revenue (%)	N/A	4.0	4.4	There is occasional government borrowing from the central bank in accordance with the statutory provisions and accordingly repaid. At any point, the ratio of central bank credit to government was within the statutory limit of 5 percent. To the extent that this continues to be the case, there are no adverse implications for monetary policy independence.	🟠
Inflation (%)	2.8	2.7	7.9*	Inflation in 2024 and 2025 remained below the lower bound of the objective range, indicating subdued inflationary pressures. However, the projected increase to 7.9 percent in 2026, together with the average inflation rate of 7.8 percent recorded between January and September 2026, points to a re-emergence of inflationary pressures, with inflation rising above the objective range and historical norms.	🟠
Inflation Expectations (%)	5.4	3.8	7.2	With inflation expectations remaining within the objective range and well anchored in the preceding years, inflation is expected to average 7.2 percent in 2026 before moderating to 4.9 percent in 2027, indicating that inflation expectations remain well anchored within the 3–6 percent objective range.	🟢
Monetary Policy Rate (%)	1.9	3.5	5.5	The consistent adjustment of the Monetary Policy Rate (MoPR) in response to evolving inflationary conditions indicates that monetary policy decisions continue to be guided by macroeconomic objectives rather than fiscal financing needs, even though the latest increase to 5.5 percent increase in the MoPR was a technical adjustment, and not due to inflationary pressures. This points to the preservation of monetary policy independence and suggests a low risk of fiscal dominance.	🟢
Commercial Bank Credit Growth (%)	6.5	3.3	-2.3	Commercial bank credit growth decelerated from 6.5 percent in 2024 to 3.3 percent in 2025 before contracting by 2.3 percent in August 2026. The slowdown suggests weaker private-sector demand and tighter credit conditions amid subdued economic activity. Although increased reliance on domestic government borrowing could potentially constrain the availability of credit to the private sector, current developments appear to reflect broader economic conditions rather than clear evidence of fiscal dominance, with Government borrowing only 0.9 percent of total bank lending in August 2026.	🟠
Government Securities/ Domestic Debt (%)	93.7	81.4	80.3	While government securities as a share of domestic debt fell from 93.7 percent in 2023/24 to 80.3 percent in 2025/26, the ratio increased to 82.9 percent in the second quarter of 2026/27. The recent increase points to a modest rise in the government's reliance on market-based domestic financing instruments. However, because borrowing continues to occur through market channels and remains unaccompanied by direct monetary financing, the evidence does not suggest the presence of fiscal dominance in Botswana, although emerging financing pressures should be closely monitored.	🟢
Government Bond Yield-MoPR Spread (%)	4.5	5.5	5.8	The widening government bond yield-MoPR spread, points to higher borrowing costs and growing fiscal pressures. However, the persistence of a positive market-determined spread indicates that government borrowing continues to be priced by financial markets rather than facilitated through monetary accommodation. As such, while fiscal-dominance risks may be increasing, there is no conclusive evidence that Botswana has entered a regime of fiscal dominance. Moreover, given policy intervention, changes to monetary operations and fiscal consolidation efforts, yields have recently moderated. Thus, the earlier increase was a short-term response to constrained and unevenly distributed liquidity rather than an indication of fiscal dominance.	🟠

Note:
- * Represents a projection
- Fiscal years 2023/24, 2024/25 and 2025/26 are presented as 2024, 2025 and 2026, respectively.
- A 5-year bond yield is used as it sits in the medium-term part of the yield curve, where fiscal, inflation and monetary-policy-related expectations are more clearly reflected than in the very short-term periods.

Risk Classification Key:
- 🟢 **Low:** Limited evidence of a fiscal-dominance channel
- 🟠 **Moderate:** Potential channel warrants monitoring
- 🔴 **Elevated:** Stronger evidence of potential monetary-policy constraint

In conclusion, the available evidence suggests that Botswana is not currently experiencing fiscal dominance. While public debt, fiscal deficits, domestic borrowing and government financing requirements have risen in recent years, there is no indication that fiscal pressures have materially constrained the Bank of Botswana's conduct of monetary policy or resulted in the Bank financing government spending beyond applicable statutory limits. Monetary policy remains responsive to inflation developments, inflation expectations are well anchored, and central bank credit to government remains within the legal ceiling. Nevertheless, persistent deficits, increasing reliance on domestic financing and emerging pressures on financial markets warrant continued vigilance and appropriate response to preserve macroeconomic stability and monetary policy independence.

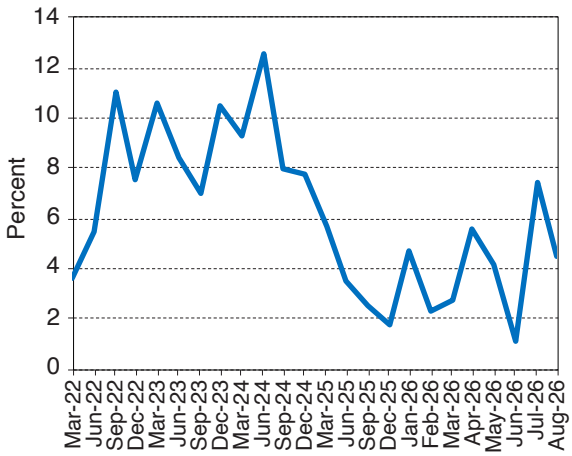
Several ongoing reforms and policy initiatives contribute to the mitigation of fiscal-dominance risks. These include fiscal consolidation measures, such as expenditure rationalisation, zero-based budgeting, procurement reforms and enhanced expenditure controls; revenue-enhancing reforms under the Income Tax Amendment Act, Value Added Tax Act and Tax Administration Act; prudent debt management within the 60 percent debt ceiling; and efforts to diversify financing sources through public-private partnerships and the commercialisation of state-owned enterprises. At the same time, the Bank's commitment to operational independence, transparent reporting of government borrowing, and adherence to statutory limits on temporary advances to government provide important safeguards against monetary financing. Collectively, these measures should strengthen fiscal sustainability, preserve monetary policy credibility and contain the risk of fiscal dominance over the medium term.

3.4 Monetary developments

Banking sector assets accelerated

Annual growth in banking sector assets accelerated from 1.2 percent in August 2025 to 4.5 percent in August 2026 (Chart 3.10). The acceleration was driven by increased growth of Bank of Botswana Certificates (BoBCs), balances at Bank of Botswana (standing deposit facility), debt securities and other assets (intra-bank balances, accounts receivables, cash in process of collection and other domestic investments). Meanwhile, there was a contraction in the growth of loans and advances, which account for the largest proportion of commercial banks' assets (57.8 percent in August 2026). Overall, growth in banking sector assets continued to be predominantly funded by customer deposits, which increased by 6 percent in the same period.

Chart 3.10: Year-on-Year Commercial Banks' Growth in Total Assets



Source: Bank of Botswana

Liquidity conditions improve

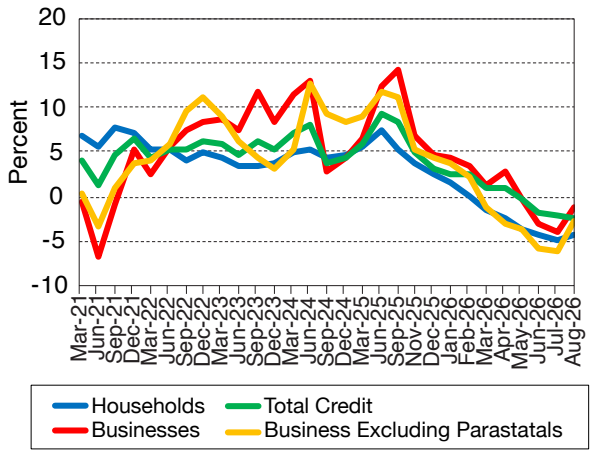
Average daily market liquidity remained broadly unchanged, at P10.8 billion in August 2026 and P10.789 billion in September 2026. Liquidity has remained elevated, mainly attributable to net Government spending, supported by funds raised through the Government note issuance programme.

The Bank continues to manage liquidity conditions through targeted refinancing monetary operations, aimed at enhancing liquidity distribution and supporting the effective transmission of monetary policy.

Credit contracted across sectors

Commercial bank credit contracted by 2.3 percent in the year to August 2026, following a 7.3 percent expansion in the corresponding period in 2025 (Chart 3.11). The decline was primarily due to decreased lending to both households and businesses, reflecting the possible impact of higher market interest rates, reduced loan disbursements, reduced demand for credit and repayments of scheme loans. Lending to the household sector contracted by 4.3 percent in the year to August 2026, compared with growth of 6.8 in the corresponding period in 2025. This contraction was due to loan repayments and reduced utilisation of residential property loans (0.9 percent to -0.3 percent), unsecured personal loans (9.6 percent to -5.5 percent), and motor vehicle acquisition (3.2 percent to -12.3 percent), which more than offset the moderate increase in lending for credit cards (1.3 percent to 4.4 percent). As a result, the share of household credit in total lending by commercial banks declined to 62.9 percent in August 2026, from 64.1 percent in August 2025.

Chart 3.11: Year-on-Year Commercial Banks' Growth in Total Credit



Source: Bank of Botswana

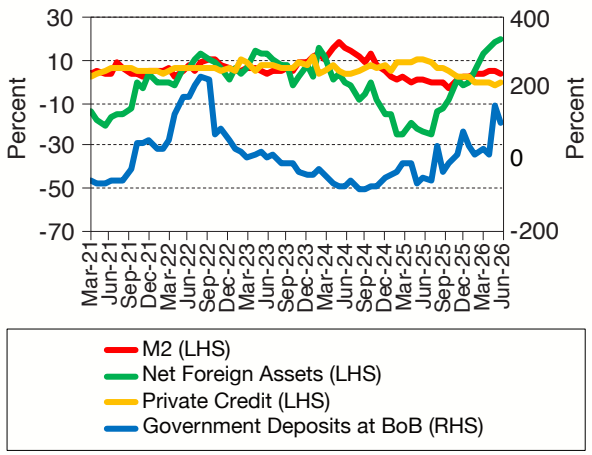
Lending to the business sector contracted by 1.2 percent in the year to August 2026, from 8.1 percent expansion in the corresponding period in 2025. Likewise, growth in credit to businesses excluding parastatals contracted by 2.8 percent in the year to August 2026, from 8.6 percent expansion in the corresponding period in 2025. The decline was mainly attributable to repayment of overdraft facilities and loans in the agriculture, mining, manufacturing, construction, trade, electricity and water, finance, business services, real estate and tourism sectors. Meanwhile, lending to parastatals accelerated by 17.2 percent in the year to August 2026, compared to 2.7 percent recorded in the twelve months to August 2025, largely driven by loan drawdowns. Furthermore, lending to the central government amounted to P750 million in August 2026, representing 0.9 percent of total commercial banks' loans, compared with no lending recorded in August 2025. This remains relatively low compared with lending to households and businesses and, therefore, does not currently pose a significant risk of crowding out private-sector credit. However, a sustained increase in government borrowing could raise banks' exposure to the public sector and potentially compete with private-sector credit for available bank funding.

In line with the moderation in credit activity, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative at 4.5 percent in the second quarter of 2026, indicating limited risks of credit growth that could overheat the economy. Meanwhile, concerns over the fiscal position are likely to weigh on credit growth prospects as banks may adopt more stringent lending standards.

Money supply growth remained modest

M2 expanded by 4.2 percent year on year in June 2026, compared to an increase of 0.4 percent in the corresponding period in 2025 (Chart 3.12). Net foreign assets and government deposits at Bank of Botswana increased by P11 152 million (20.4 percent) and P2 364 million (107.7 percent), respectively, during the period under review. However, credit extended to the private sector decreased by P744 million (0.8 percent) in the same period. Overall, money supply growth remained modest, consistent with subdued economic activity and constrained, though now stabilising, liquidity conditions.

Chart 3.12: Year-on-Year Growth in Money Supply



Source: Bank of Botswana

Meanwhile, inflation was expected to remain above the 3 – 6 percent objective range in the near term, averaging 7.9 percent in 2026, before easing to 4.9 percent in 2027. The MPC noted that liquidity conditions had improved since the last quarter of 2025, supported by increased government funding and spending, higher diamond receipts, and adjustments to monetary policy operations. Consequently, the Committee judged that the maintenance of the current policy stance was necessary to balance support for economic activity with the need to manage inflation expectations and ensure a return of inflation to the medium-term objective range.

The nominal BoBC yields increased

The 7-day nominal BoBC yield (MoPR) increased from 1.90 percent in the third quarter of 2025 to 5.5 percent in the third quarter of 2026, following a 200-basis points policy rate increase in April 2026. However, the real interest rate on the 7-day paper decreased significantly from -0.15 percent to -3.07 percent in the same period, reflecting the larger increase in the inflation rate compared to nominal yields.

The stop-out yield on the 1-month BoBC, which was introduced in June 2022 to address structural liquidity issues and support the construction of the short-end of the yield curve, averaged 6.04 percent in the third quarter of 2026, an increase from an average of 2.25 percent in the corresponding period in 2025. In contrast, the real rate of interest for the 1-month paper decreased from an average of 0.19 percent in the third quarter of 2025 to an average of -2.58 percent in the third quarter of 2026, reflecting the larger increase in the inflation rate compared to nominal yields.

Credit Ratings

S&P Global Ratings (S&P) maintained sovereign ratings for Botswana

On 11 September 2026, S&P Global Ratings (S&P) maintained Botswana's long-term foreign and local currency ratings at 'BBB-' and the short-term ratings for both foreign and domestic currency debt at 'A-3'. The outlook remains negative.

While the outlook remains negative, Botswana's sovereign ratings continue to be maintained within the investment-grade category, reflecting confidence in the country's underlying credit strengths. According to S&P, the affirmed ratings reflect both the challenges facing the economy (weak diamond market and modest economic diversification), and the impact of policy responses and recalibrations, which have contributed to continued macroeconomic stability and improvements in fiscal and external positions. S&P also highlighted that, as a result of these policy responses, a smaller fiscal deficit was recorded in 2025 and the foreign exchange reserve position improved.

Notwithstanding these challenges, S&P emphasised that Botswana's credit profile continues to be supported by its strong institutional framework, which has historically underpinned prudent management of natural resource wealth and macroeconomic stability. Additional credit strength includes a relatively strong net external asset position and comparatively low government debt burden. The rating agency also noted that, given the need to safeguard and improve Botswana's investment-grade rating, it is important to continue strengthening institutional capacity and maintaining sound policy frameworks that support macroeconomic stability and sustainable economic growth. In addition, there is a need to accelerate the implementation of the BETP and strengthen fiscal consolidation, economic diversification, industrialisation and domestic resource mobilisation. S&P reiterated that continued progress in these areas would help rebuild fiscal buffers, enhance long-term fiscal sustainability and strengthen Botswana's economic resilience.

Moody's upgrades outlook from negative to stable

Meanwhile, on 25 September 2026, Moody's Investors Service (Moody's) adjusted Botswana's long-term local and foreign currency issuer ratings down by one notch, from Baa1 to Baa2, while the outlook was upgraded from negative to stable. The ratings remain within the investment-grade category, reflecting balanced risks, with prospects for both stronger and fiscal implementation and a sustained recovery in mining activity, offsetting potential revenue and financing pressures. Moreover, Moody's observed that Botswana continues to benefit from strong credit fundamentals including effective institutions, sound macroeconomic management, a

resilient external position. Moreover, Moody's also recognised Government's fiscal consolidation efforts and other reforms to strengthen domestic resource mobilisation.

3.5 Asset market prices

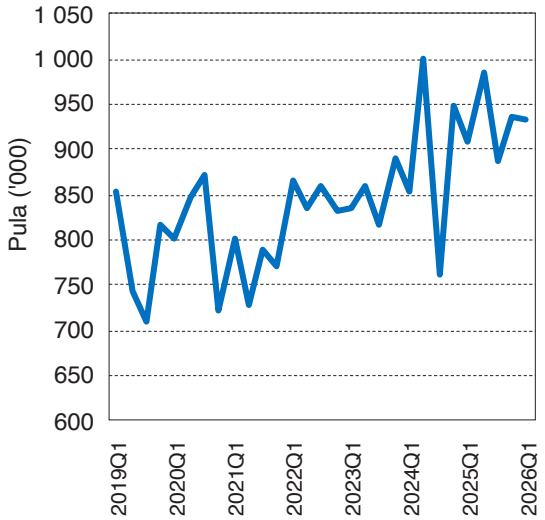
Property market prices decline slightly in the first quarter of 2026

According to the 2026Q1 quarterly Riberry Report[6], residential property prices declined slightly in the first quarter of 2026 compared to the fourth quarter of 2025. The average net price of residential properties sold in the first quarter of 2026 declined by 0.2 percent to P933 488, compared with P935 342 recorded in the preceding quarter (Chart 3.13). The decline is attributable to lower average residential property prices across most residential segments, including Lobatse, Selebi Phikwe, Central, Jwaneng, Maun, and Greater Gaborone. Nonetheless, demand remained concentrated in the low- and medium-cost residential segments for both sales and rentals. However, demand for high-end residential properties was subdued, largely reflecting the high-interest rate environment, which continued to constrain affordability and borrowing capacity for higher-value properties. The divergence between strong activity in low- and medium-cost and weaker performance in the upper-end market points to a segmented property market, with demand increasingly concentrated in properties that offer greater affordability.

In addition, the report highlights a growing preference for apartment living, with apartments accounting for a significant proportion of residential property sales during the period under review. This suggests a gradual shift in consumer preferences away from standalone houses towards multi-residential developments driven by affordability considerations, convenience and changing household needs. The median age of residential property buyers increased to 46 years during the quarter, which is the highest level recorded since 2021. This suggests that the current market activity is increasingly supported by more established buyers with greater financial capacity in the current lending environment.

Furthermore, the Bank's Credit Conditions Survey Report for the third quarter of 2026 (June – August 2026) indicates that demand for residential property and remortgaging loans remained broadly unchanged, although some moderation was observed following the temporary suspension of certain schemes. At the same time, lending conditions tightened as affordability assessments and credit scoring practices remained stringent.

Chart 3.13: Botswana Average Residential Property Prices (Net)



The demand for office space in the first quarter of 2026 remained reasonable, although growth was slower than in the fourth quarter of 2025. There has been notable demand for office space in the new Central Business District, Showgrounds and Government Enclave. However, supply remains constrained, as reflected in the limited construction of office space. Although the short-term outlook for the office market appears positive, the prevailing subdued economic conditions are expected to exert downward pressure on the office property market in future.

The retail market continues to exhibit sustained demand, particularly for destination and transport node malls in and around Gaborone. These include two regional shopping centres at Mogoditshane (one involving Kweneng District Council and private developers/investors, and the A10 project by the GH Group now completed). Other areas such as Molepolole, Jwaneng, Ramotswa, Maun, Francistown, Selebi-Phikwe and Mahalapye, also reported good retail property demand, with one or two retail projects in the planning or construction stages. These properties are expected to be occupied by well-established South African and local tenants.

The stock market indices increased in September 2026

The Domestic Companies Index (DCI) increased by 6 percent in the twelve months to September 2026, albeit lower than the 9.9 percent increase recorded in the year to September 2025 (Chart 3.14). Despite a challenging trading environment, characterised by a downturn in the diamond market and a slowdown in economic activity[7], the DCI was supported by strong share price gains for Choppies (112.9 percent), BTCL

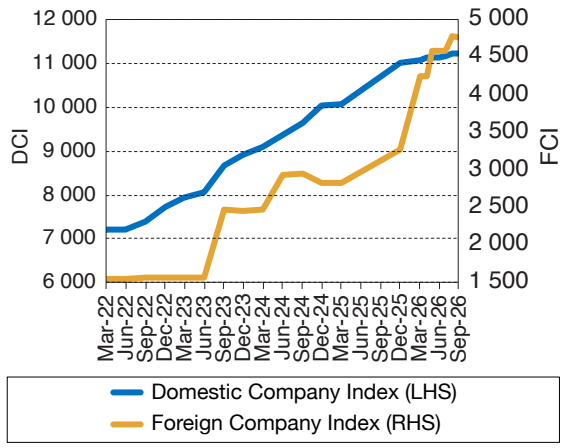
[6] This is a quarterly report produced by independent valuers, Riberry Botswana (Pty) Ltd.

[7] The economic contraction has a direct impact on investor sentiment, which perceives higher risks and leads to capital outflows and lower valuations of listed companies. In addition, other economic sectors are indirectly affected by lower consumption spending and investment. This broad decline leads to a decrease in share prices, ultimately resulting in lower DCI growth.

(25.9 percent), and Primetime (18 percent). This indicates some level of resilience in retail, telecommunications and property segments of Botswana's domestic equities.

The Foreign Companies Index (FCI) increased by 67.7 percent in the year to September 2026, following a contraction of 3.8 percent in the corresponding period in 2025 (Chart 3.14). The notable increase in the FCI was due to the significant increase in the price for Anglo American PLC stock, which accounts for over 80 percent of Botswana Stock Exchange Limited market capitalisation. The drivers behind the price increase included strong dividend announcements, improved earnings outlook and investor confidence in the mining sector.

Chart 3.14: Stock Market Indices



Source: Botswana Stock Exchange

Box 2: The Impact of the Policy Reforms on Monetary Policy Transmission and the Yield Curve

The Bank implemented reforms to its monetary policy operations in April 2022 to enhance the effectiveness of policy transmission. These reforms replaced the Bank Rate with the Monetary Policy Rate (MoPR), defined as the 7-day Bank of Botswana Certificate (BoBCs), as the primary policy anchor. In addition, an interest rate corridor of ±100 basis points around the MoPR was introduced to guide short-term interest rate movements. The interest rate corridor is operationalised through two standing facilities: the Standing Deposit Facility (SDF), a non-collateralised facility set at 100-basis points below the MoPR to absorb excess liquidity; and the Standing Credit Facility (SCF), a collateralised tradeable facility set at 100-basis points above the MoPR to provide liquidity when needed and to prevent disruptive spikes in short-term rates. Together, these instruments are designed to improve monetary policy transmission by anchoring short-term interest rates closer to the policy rate, encouraging more predictable market behaviour.

Since their introduction, the reforms have strengthened the responsiveness of market interest rates to changes in the policy stance. The overnight uncollateralised interbank rates have remained well-anchored around the MoPR, and traded consistently within the established interest rate corridor, reflecting improved price discovery and alignment of liquidity conditions with policy objectives. Movements within the corridor have provided meaningful policy signals: interbank rate approaching the interest rate corridor ceiling indicate tightening liquidity conditions, while rates drifting toward the floor reflect a build-up of excess liquidity in the system.

Persistent structural liquidity constraints exerted upward pressure on yields at the short end of the yield curve. In particular, yields on the 3-month Treasury Bill (T-Bill) increased markedly, driven by tighter liquidity conditions and increased domestic borrowing requirements to finance fiscal deficits. This resulted in a widening deviation from the MoPR, which translated into higher funding costs across the banking system. Consequently, commercial banks raised their Prime Lending Rates (PLR) by between 75 and 200 basis points, reflecting both tighter funding conditions and reliance on short-term wholesale deposits. Similarly, Government bond yields at the long end rose significantly, driven primarily by the market's heightened fiscal concerns and elevated inflation expectations by participants. To mitigate these pressures, the Bank implemented several liquidity enhancing measures, including reducing the Primary Reserve Requirements rate (PRR) to zero and extended the tenor of repo operations up to three months, providing banks with greater flexibility in liquidity management and reducing short-term funding risks. Additionally, the Bank issued a moratorium on increases in the PLR and also increased the MoPR in an effort to improve transmission of monetary policy and curb volatility in money markets.

However, following interventions by the Bank to curtail the tight liquidity conditions, market liquidity has been broadly stable, reflecting reduced pressures emanating from the decreased foreign exchange outflows. Resultantly, costs of funding for commercial banks have eased, as reflected by the gradual softening of wholesale deposit rates across the banking sector. Commercial banks continue to rely on wholesale deposits as a source of funding, as they offer flexible financing, although it is inherently less stable, more sensitive to market sentiment, and heightens exposure to roll-over risk. Furthermore, yields across the maturity spectrum have eased downwards, particularly across the short and middle maturities, which implies effective monetary policy transmission. The decrease in the front end was largely driven by improved liquidity in the banking system, which encouraged investors to channel excess funds into T-Bills, thereby exerting downward pressure on yields at primary auctions. Notwithstanding these developments, long-term yields appear to be more closely aligned with the Pula-basket weighted yields than with the MoPR or expectations for future MoPR rates. This suggests that long-term pricing continues to be influenced more by exchange rate-adjusted return considerations, liquidity premia, and sovereign credit risk than by domestic monetary policy conditions. As a result, monetary policy transmission to longer-term interest rates remains relatively weak, underscoring the need for continued capital market development and measures to deepen market liquidity. Nevertheless, commercial banks sustained strong balance sheets, supported by adequate capital buffers and sound asset quality, underscoring the financial system's continued strength and capacity to absorb shocks even under less accommodative liquidity conditions.

3.6 Balance of payments

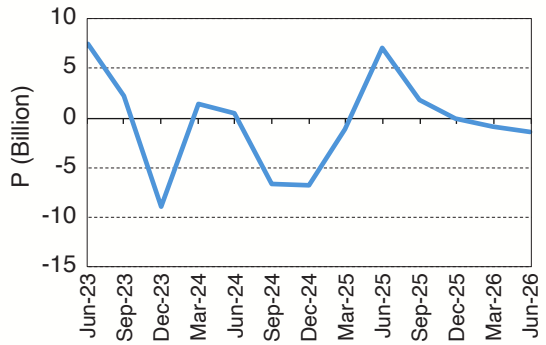
The Balance of Payments (BoP) was in surplus in the second quarter of 2026

The overall BoP is estimated to have recorded a surplus of P1.5 billion during the second quarter of 2026, compared to a deficit of P2.3 billion recorded in the corresponding quarter of 2025. The turnaround was largely supported by a significant decline in financial account net outflows, partly offsetting the deterioration in the current account.

Current account was in deficit during the second quarter of 2026

The current account deteriorated from a surplus of P7 billion in the second quarter of 2025 to a deficit of P1.4 billion in the second quarter of 2026 (Chart 3.15), mainly reflecting the worsening of the merchandise trade balance, following a significant decline in merchandise exports against an increase in imports. However, the deterioration was partially offset by the secondary income account, which recorded a surplus of P6.1 billion, supported by SACU receipts of P6.6 billion.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

During the same period, merchandise exports declined by 31.5 percent, from P23.8 billion to P16.3 billion. Imports, on the other hand, increased by 9 percent, from P21.3 billion to P23.2 billion.

Diamond exports declined by 49.3 percent, from P18.5 billion in the second quarter of 2025 to P9.4 billion in the corresponding quarter of 2026. The decline reflected subdued conditions in the global diamond market, characterised by weak demand for natural diamonds and competition from lab-grown diamonds, which exerted downward pressure on rough diamond sales. Diamond exports accounted for 57.5 percent of total goods in the second quarter of 2026, down from 77.7 percent in the corresponding quarter in 2025.

Other commodities that contributed to the decrease in exports include salt and soda ash (8.2 percent), coal (10 percent), vehicle & transport equipment (23.8 percent), iron & steel products (2.8 percent), meat & meat products (92.9 percent), and live cattle (100 percent). The decline in meat and meat products was largely attributable to the effects of foot and mouth disease, which restricted access to export markets.

In contrast, exports increased for copper (44.7 percent), machinery and electrical equipment (24.5 percent), plastic and plastic products (64.5 percent), textiles (5.5 percent), aviation fuel (131.6 percent) and other goods (36 percent).

With regards to merchandise imports, the increase was mainly driven by fuel (13.7 percent), machinery and electrical equipment (27.9 percent), diamonds (26.6 percent), vehicles and transport equipment (16.5 percent) and chemicals & rubber products (3.3 percent). However, the increase was moderated by a decline in imports of food, beverages and tobacco (8.6 percent), metals and metal products (17 percent), textiles and footwear (8.5 percent), wood and paper products (10.1 percent), salt ores and related products (8.4 percent), furniture (21.5 percent), and other goods (11.2 percent).

Merchandise data for August 2026 indicate a widening of the trade deficit to P2.5 billion, from P1.5 billion recorded in the corresponding period of 2025. The increase in the trade deficit reflected a relatively stronger growth of 18.3 percent in merchandise imports, from P6.9 billion to P8.2 billion, compared to a 5 percent increase in merchandise exports, from P5.5 billion to P5.8 billion, over the same period.

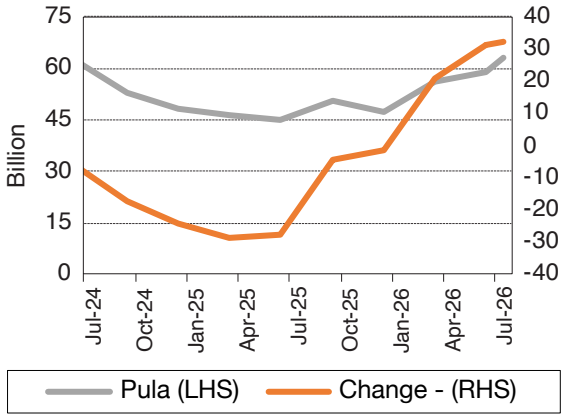
The financial account recorded a net outflow in the second quarter of 2026

The financial account recorded a net outflow of P531 million during the second quarter of 2026, compared to a net outflow of P6.6 billion in the corresponding quarter of 2025. The net outflow was mainly driven by portfolio investment outflows of P8.7 billion, reflecting increased investments abroad by resident pension funds. However, the outflow was offset by higher inflows of about P9.4 billion, comprising P4.8 billion in direct investment liabilities, mainly in the form of loans extended by foreign parent companies to their resident subsidiaries, as well as increased other investment liabilities, reflecting loans from unrelated companies.

Foreign exchange reserves increased in July 2026

The foreign exchange reserves amounted to P63.2 billion in July 2026, representing an increase of 32.2 percent from P47.8 billion in July 2025 (Chart 3.16). The increase was mainly attributable to SACU revenues, as well as gains from exchange rate movements and changes in asset prices.

Chart 3.16: Foreign Exchange Reserves in Pula and Annual Percentage Change

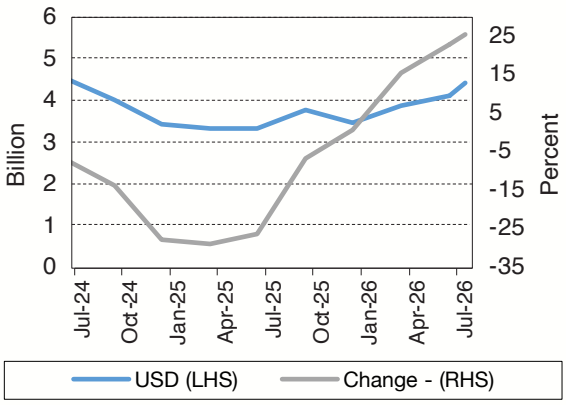


Source: Bank of Botswana

In foreign currency terms, the foreign exchange reserves increased from USD3.5 to USD4.4 billion (Chart 3.17) and from SDR2.6 billion to SDR3.3 billion during the same period.

The level of foreign exchange reserves in July 2026 was equivalent to 8.3 months of import cover of goods and services.

Chart 3.17: Foreign Exchange Reserves in US Dollars and Annual Percentage Change



Source: Bank of Botswana

3.7 Exchange rate developments

Exchange rate policy implementation and market developments

In 2026, the Bank continued to implement the exchange rate policy framework to preserve external competitiveness while supporting macroeconomic stability. Consistent with the policy parameters approved for the year, the Pula remains pegged to a currency basket comprising the South African rand and the SDR, each with a weight of 50 percent, while the annual downward rate of crawl was maintained at 2.76 percent.

The exchange rate flexibility has been progressively enhanced through a series of reforms to the Pula trading margins. In July 2025, the symmetric trading margins were widened significantly from ±0.5 percent to ±7.5 percent around the central parity to promote greater market participation and improve the functioning of the foreign exchange market. Building on these reforms, asymmetric trading margins were introduced in January 2026 for foreign exchange transactions with commercial banks. Under this framework, the Bank purchases foreign currency at 3 percent above the central parity[8] and sells foreign currency 7.5 percent below the central parity[9]. This asymmetric pricing structure provides stronger incentives for commercial banks to source foreign exchange from the interbank market and encourages exporters to sell foreign currency to the domestic banking system, thereby supporting reserve accumulation while maintaining exchange rate competitiveness.

Preliminary evidence suggests that these reforms have strengthened price discovery in the foreign exchange market and encouraged greater participation by commercial banks in interbank trading. The wider and asymmetric trading margins have also increased the cost of transacting directly with the Bank, thereby creating stronger incentives for market participants to source foreign exchange through the interbank market. Consequently, the Bank's direct participation in the market has declined, supporting a more market-based allocation of foreign exchange, while helping to preserve official foreign exchange reserves. Although the full effects of the reforms will become clearer over time, early outcomes indicate that they are advancing the Bank's objectives of enhancing exchange rate flexibility, improving the efficiency and resilience of the foreign exchange market and maintaining an exchange rate that remains broadly aligned with macroeconomic fundamentals.

On a year-on-year basis, the nominal Pula depreciated by 5.8 percent against the South African rand but appreciated by 0.4 percent against the SDR in September 2026 (Chart 3.18). With respect to the SDR constituent currencies, the local currency appreciated by 5 percent against the Japanese yen, 2.7 percent against the euro and 0.8 percent against the British pound, while it depreciated by 6.2 percent against the Chinese renminbi and 0.1 percent against the US dollar. These movements reflected the relative performance of the rand and major international currencies, alongside the operation of Botswana's crawling peg exchange rate framework.

During the same review period, the South African rand appreciated against the SDR and its constituent currencies, except the Chinese renminbi, against which it depreciated by 0.4 percent. It strengthened by 11.5 percent against the Japanese yen, 9.1 percent against the euro, 7.1 percent against the

[8] Buying foreign currency at 3 percent above central parity (mid-rate) means that the Bank pays more Pula than the official rate when it purchases foreign currency from commercial banks. This encourages commercial banks to sell foreign currency to the Bank.

[9] Selling foreign currency at 7.5 percent below central parity means that the Bank provides fewer units of foreign currency per Pula when selling to commercial banks. This discourages excessive demand for foreign currency by commercial banks and supports foreign exchange reserve accumulation.

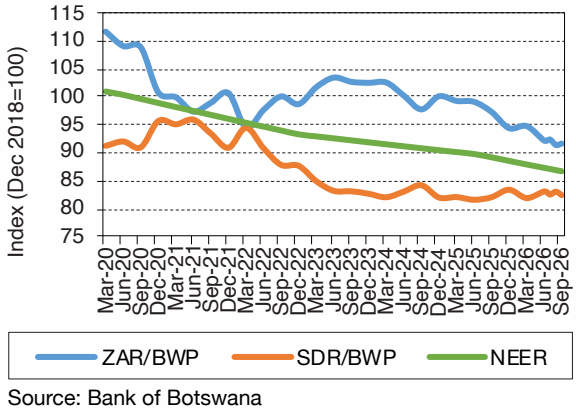
British pound and 6.1 percent against the US dollar. Consequently, the rand appreciated by 6.7 percent against the SDR, reflecting the impact of some positive domestic and international economic developments that favoured its performance against major international currencies.

These developments included increases in commodity prices, positive economic data and monetary policy developments. Gold, one of South Africa's key export commodities, gained approximately 10 percent year on year in September 2026, rising from USD3 751.65 per ounce in September 2025 to USD4 143.59 per ounce in September 2026. These firm prices supported South Africa's export earnings and foreign currency inflows, thereby contributing to the rand's appreciation.

Moreover, favourable domestic developments, including improved manufacturing and investor sentiment, a lower-than-expected producer inflation and a trade surplus outweighed the risk-off sentiment propelled by escalating geopolitical tensions. Nevertheless, the demand for the rand remains constrained by intensified inflation and growth risks, subdued business activity, as well as persistent logistics bottlenecks that continue to increase input costs for businesses.

On the monetary policy front, the rand continued to benefit from the attractiveness to carry-trade investors as the SARB increased its key repo rate by 25 basis points to 7.25 percent in September 2026. The increased repo rate underscores the central bank's commitment to bringing inflation back to its 3 percent target. The resulting capital inflows provided additional support to the rand and contributed to its appreciation.

Chart 3.18: Nominal Exchange Rate Indices

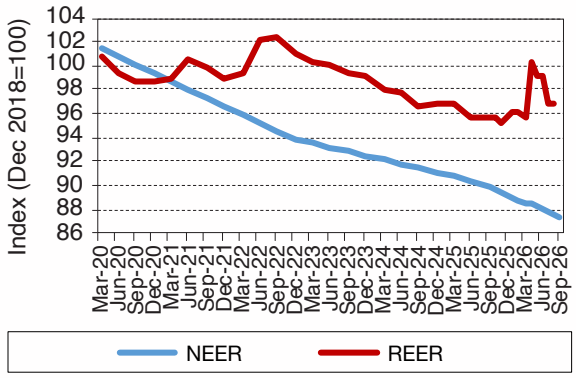


Source: Bank of Botswana

NEER depreciated in September 2026

The NEER of the Pula depreciated by 2.75 percent in the year to September 2026 (Chart 3.19), consistent with the annual downward rate of crawl of 2.76 percent implemented for 2026.

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER appreciated in August 2026

The REER appreciated by 2.58 percent, year on year in August 2026 (Chart 3.19), as higher domestic inflation relative to trading partner countries more than offset the competitiveness gains from the depreciation of the NEER. This implies a moderate deterioration in Botswana's external price competitiveness by this measure.

With respect to bilateral movements against the Pula basket currencies, the real Pula exchange rate (based on headline inflation) depreciated by 2.8 percent against the South African rand but appreciated by 8.2 percent against the SDR. Relative to the SDR constituent currencies, the Pula appreciated by 18.8 percent against the Japanese yen, 8.7 percent against the euro, 7.7 percent against the US dollar, 7.6 percent against the British pound and 4.2 percent against the Chinese renminbi.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains subdued, with growth revised slightly upwards for 2026 reflecting stronger-than-expected economic activity in the first half of the year, robust investment in AI and technology-related demand, and the resilience of global supply chains. Regarding price developments, global inflation is projected to increase, although price pressures vary across countries and regions.

Global economic growth expected to remain below historical average

According to the October 2026 WEO, global economic growth is forecast to remain subdued at 3.1 percent in 2026, down from 3.5 percent in 2025, before increasing to 3.4 percent in 2027. The 2026/2027 forecasts remain below the historical annual average of 3.7 percent recorded in the period 2000-2019. The growth forecast for 2026 was revised upward by 0.1 percentage points, compared to the July 2026 WEO Update report, on account of stronger-than-expected economic activity in the first half of the year, robust investment in AI and technology-related demand, as well as the resilience of global supply chains. The adverse effects of the Middle East conflict were partly mitigated by the rerouting of trade flows, the release of inventories, increased supply from alternative sources and fiscal support in some economies. Nevertheless, persistent geopolitical tensions, elevated energy prices and trade policy uncertainty continue to weigh on the global economic outlook.

Overall, risks to the global economic outlook remain skewed to the downside. These are underscored by the possibility of an escalation of geopolitical conflicts, particularly in the Middle East, renewed trade tensions and persistent disruptions to energy supplies. In addition, disruptions to energy infrastructure, cyberattacks, or extreme weather events could amplify these risks.

For advanced economies, output is projected to grow by 2.1 percent in 2026, slightly higher than the 2 percent expansion in 2025, supported by resilient domestic demand, investment in AI and technology, and stronger-than-expected economic activity in some economies. Growth is, however, projected to moderate to 1.8 percent in 2027, as elevated energy prices, geopolitical tensions and trade policy uncertainty weigh on consumption, investment and external demand.

UK economic growth forecast to remain subdued

The UK economy is forecast to grow by 1.3 percent in 2026, a slight increase from 1.2 percent in 2025. The forecast is 0.3 percentage points higher than the July 2026 projection, reflecting increased investment and exports in AI-related and technology-intensive sectors. However, elevated energy prices, high borrowing costs and persistent inflationary pressures are expected to constrain domestic demand and limit the pace of economic expansion. However, growth is expected to slow down to 1.2 percent in 2027, as higher energy prices and long-term interest rates weigh on consumption and investment.

Output growth for the US forecast to remain unchanged

In the US, economic growth is projected to remain steady at 2.3 percent in both 2026 and 2027, unchanged from 2025, supported by robust private consumption, expansionary fiscal policy, accommodative financial conditions, and continued investment in technology-related business activities.

Growth for the euro area forecast to decrease

Growth for the euro area is projected at 1.1 percent and 1.2 percent for 2026 and 2027, respectively, from 1.2 percent in 2025. The subdued outlook reflects persistently high energy prices arising from geopolitical tensions in the Middle East, weak consumer confidence and continued inflationary pressures, which are expected to constrain household consumption and business investment. The modest recovery in 2027 reflects a gradual adjustment to these challenges.

Emerging markets GDP growth projected to moderate

Economic activity in EMDEs is projected to moderate to 3.7 in 2026, from 4.5 percent in 2025, before recovering to 4.4 percent in 2027. The forecast for 2026 is 0.1 percentage points lower than in the July 2026 WEO Update. The revision is heterogeneous, reflecting differences across EMDEs in terms of commodity dependence, exposure to geopolitical developments, reliance on remittance and tourism inflows, sensitivity to global financial conditions, and integration into global technology value chains.

In India, output is projected to expand by 7 percent in both 2026 and 2027, from a growth of 7.8 percent in 2025. However, growth forecast for 2026 was revised upwards by 0.6 percentage points from the July 2026 projection, reflecting stronger-than-expected economic momentum, supported by resilient domestic demand and robust services activity, alongside favourable demographic dynamics, an expanding domestic market and continued structural reforms.

Meanwhile, output for China is forecast to grow by 4.5 percent and 4 percent in 2026 and 2027, respectively, lower than the estimated expansion of 5 percent in 2025, as higher global oil prices, together with protracted uncertainty and structural headwinds are expected to weigh on economic activity.

Growth prospects for the South African economy remain weak

Regionally, growth prospects for South Africa are expected to remain constrained, reflecting persistent structural constraints that continue to weigh on economic activity. These include electricity supply challenges, inefficiencies in transport and logistics infrastructure, particularly rail and ports, and weak fixed investment, which constrain productivity, industrial output and export competitiveness. In addition, high unemployment, elevated public debt and limited fiscal space constrain domestic demand and the Government's ability to support growth through increased expenditure. Uncertainty surrounding global trade and subdued external demand also pose risks to manufacturing and mineral exports. Consequently, despite ongoing structural reforms and improvements in electricity supply and logistics, the pace of economic expansion is expected to remain limited. Thus, South African output growth is forecast to remain subdued at 1 percent in 2026, down from 1.1 percent in 2025, but to increase slightly to 1.3 percent in 2027.

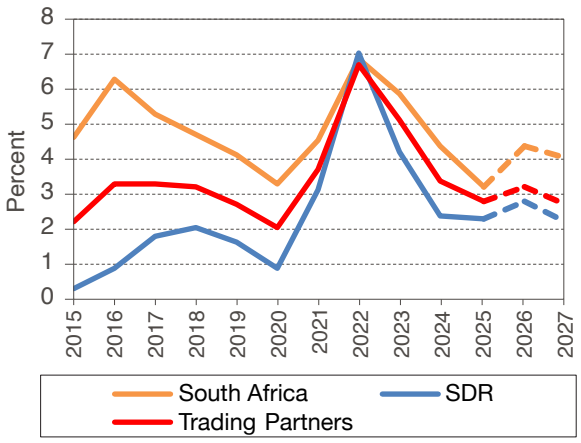
Meanwhile, the SARB forecast South African output growth at 1.2 percent in 2026, before increasing slightly to 1.7 percent in 2027. The SARB revised its 2026 growth projection downwards from 1.4 percent, while leaving the 2027 projection unchanged. The downward revision reflects weaker-than-expected economic activity, lower mining and manufacturing output, weaker net exports, and the adverse effects of higher fuel and transportation costs arising from the Middle East conflict.

Global inflation projected to increase

Globally, inflation is expected to increase in 2026, driven by higher energy and food prices, particularly for commodity-importing EMDEs. Inflation for advanced economies is forecast to increase from 2.5 percent in 2025 to 3.1 percent in 2026, while for emerging market economies, it is forecast to increase from 5.2 percent to 5.7 percent in the same period. However, inflation is projected to slow down to 2.7 percent in advanced economies and 5.1 percent in EMDEs in 2027. Overall, global inflation is expected to increase from 4.1 percent in 2025 to 4.7 percent in 2026, before easing to 4.1 percent in 2027.

Meanwhile, the SARB forecast South African inflation to average 4.4 percent and 4 percent in 2026 and 2027, respectively. The forecast for 2026 and 2027 was revised upwards from the July projections of 4 percent and 3.8 percent, respectively. The upward revision for the 2026 projection is on account of higher fuel prices resulting from disruptions associated with the Middle East war (Chart 4.1).

Chart 4.1: South Africa and SDR Headline Inflation



Source: SARB and Bloomberg

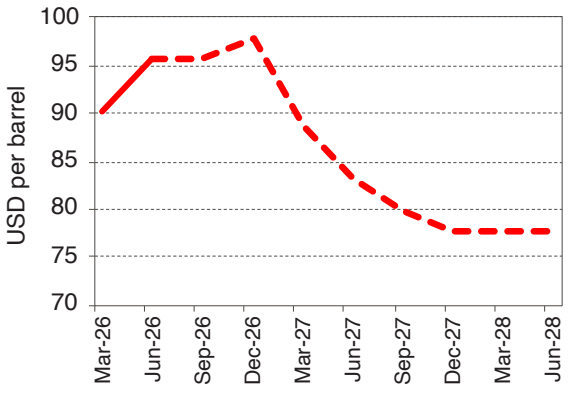
Diamond prices expected to trend downward

Diamond prices are expected to remain under pressure in the short term due to weak global demand, largely driven by economic challenges in key markets, such as China. Moreover, the increased supply of lab-grown diamonds and the growing popularity of gold as a safe-heaven commodity[10], have contributed to the decline in demand for diamonds and, consequently, diamond prices.

International oil prices forecast to increase in the short term

International oil prices are projected to rise in the short term before decelerating over the medium term. This upward trajectory is primarily attributed to a re-escalation of geopolitical tensions following the breakdown of temporary ceasefires, and the broader spread of conflict in the Middle East, which continues to disrupt global supply.

Chart 4.2: International Oil Prices



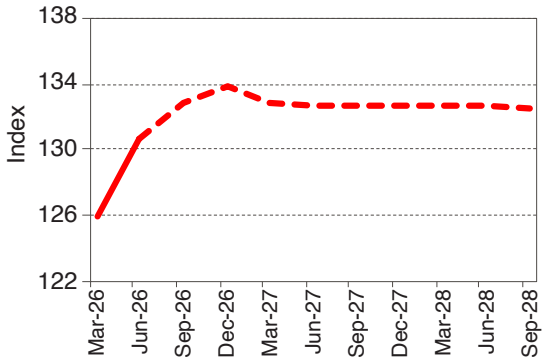
Source: Bloomberg

[10] Gold is regarded as a safe-haven asset, particularly in times of high inflation, economic uncertainty and geopolitical tensions.

International food prices forecast to increase in the short term

International food prices are expected to remain elevated in the near term, reflecting heightened risks to global food supply from adverse weather conditions, geopolitical tensions and disruptions to major trade routes. In addition, the emergence of El Niño conditions during the second half of 2026 presents an upside risk to food prices, particularly in Southern Africa, where the phenomenon is associated with below-average rainfall. However, relatively ample global cereal stocks and historically high production levels are expected to provide some moderation to price pressures over the medium term. Nevertheless, the outlook remains subject to significant upside risks, particularly from further weather-related disruptions and geopolitical developments.

Chart 4.3: International Food Prices FAO Index



Source: Bloomberg

In Southern Africa, food price developments will depend on the balance between favourable crop conditions following recent rainfall and the potential adverse effects of El Niño on the upcoming agricultural season. While improved rainfall has supported crop conditions and expectations for a favourable 2025/26 harvest, excessive rainfall and localised flooding may have affected production in some areas. Domestically, food prices are also likely to be influenced by supply-side constraints arising from the outbreak of Foot-and-Mouth disease, which has resulted in livestock movement and slaughter restrictions. Although these restrictions are easing, they could continue to exert upward pressure on food prices in the short term.

4.2 Outlook for domestic economic activity

The Ministry of Finance revised the 2026 GDP projections upward from 3.1 percent to 3.8 percent.

Output growth projection to rebound in 2026

Growth prospects remain subdued and well below the estimated 7 percent annual average growth required to elevate the country to high-income status by 2036. Nevertheless, the Ministry of Finance has revised its real GDP growth projection for 2026 upward from 3.1 percent to 3.8 percent, following a contraction of 0.7 percent in 2025.[11] The upward revision reflects stronger-than-anticipated economic performance in the first half of 2026, underpinned by higher diamond production and continued growth in non-mining sectors, supported by ongoing economic diversification initiatives under NDP 12 and the BETP.

Key drivers of growth include large-scale renewable energy projects, agro-processing and livestock expansion, manufacturing value-chain development, digitalisation and financial services reforms, tourism sector revitalisation, and increased investment in mining of other ores with favourable demand prospects. These interventions, alongside infrastructure upgrades and youth empowerment programmes, are expected to stimulate private investment and support job creation. Furthermore, growth is expected to benefit from increased demand for premium stones, intensified marketing of natural diamonds and closure of the De Beers' Lightbox lab-grown diamond operation.

However, the growth trajectory remains subject to significant downside risks. These include a protracted downturn of the diamond industry and the possibility of a structural shift in global demand away from natural diamonds, both of which have contributed to persistently low diamond prices. In addition, global economic uncertainty, geopolitical conflicts (such as US/Israel-Iran war) and increasing economic fragmentation continue to weigh on the outlook.

Furthermore, the potential occurrence of El Niño events (see Box 3), which can exacerbate drought conditions and contribute to erratic weather patterns, exposes the country to climate-related physical risks, such as droughts and floods, as well as transition risks. These risks could adversely affect agricultural production, the productive capacity of the economy and fiscal performance through increased government expenditure on drought relief and disaster response. These challenges underscore the need to accelerate economic diversification efforts and activities as encapsulated in various transformation initiatives, the targeted budget allocations for infrastructure, and expansion of local production and beneficiation capacity.

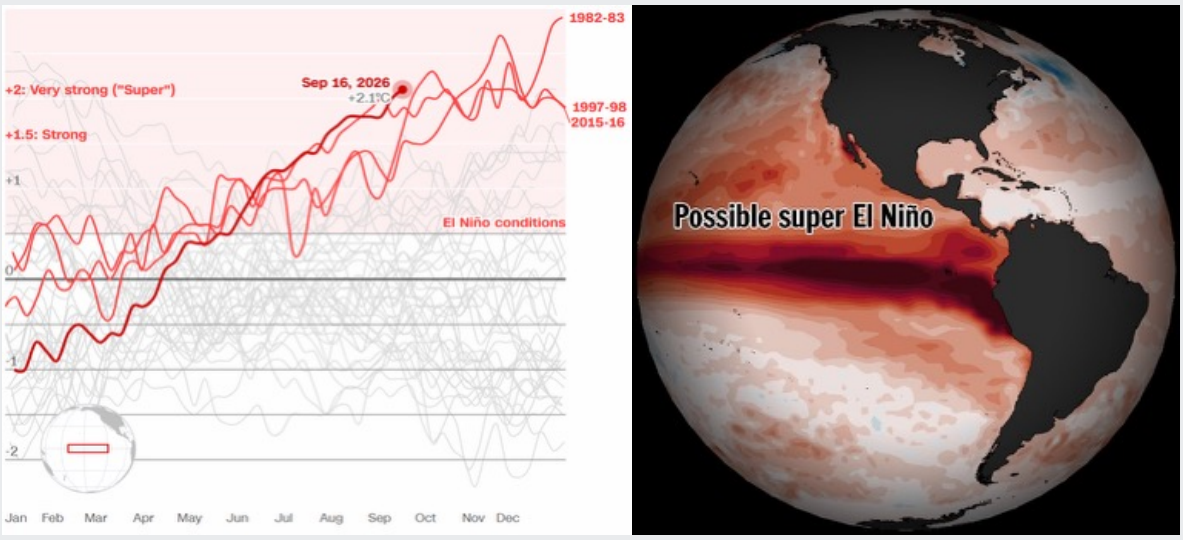
Persistent slack in the economy is reflected in output remaining below potential, alongside high unemployment, sluggish job creation and limited growth in real wages. Furthermore, results from the Bank's September 2026 Business Expectations Survey (BES) indicate that firms are pessimistic about economic conditions in the third and fourth quarters of 2026. The negative outlook possibly reflects perceptions about the country's fiscal position, characterised by lower government revenue and constrained cash flows, thereby limiting the pace of government spending. Nevertheless, firms expressed optimism about business conditions in the 12-month period to September 2027. This improved sentiment could be attributable to the anticipated benefits from government initiatives aimed at supporting economic recovery and improving the business environment, including measures and proposals outlined in NDP 12 and BETP.

[11] The revised projection remains below the IMF's revised estimate of 4.4 percent growth in 2026.

Box 3: The 2026/27 Super El Niño – Potential Macroeconomic Implications for Botswana and Monetary Policy Considerations

The developing 2026/27 El Niño weather phenomenon presents a significant downside risk to the global economic outlook. Recent climate assessments indicate that the event is already underway and intensifying, with forecasts pointing to a breach of the upper bound of ±2 degrees Celsius intensity threshold in September 2026, officially upgrading the event to a Super El Niño. This event hits a global economic system already strained by geopolitical conflicts and inflationary pressures. Therefore, the macroeconomic fallout triggers three cascading crises, in the main, global food price shocks, supply chain and trade disruptions, and vulnerability in the energy sector.

Figure 1: Strengthening El Niño Conditions



Source: National Oceanic and Atmospheric Administration

SADC: the key regional transmission corridor

The regional outlook makes the global shock particularly relevant for Botswana. The August 2026 SADC Climate Services Centre seasonal outlook projects below-normal rainfall across much of central and southern SADC during October – December 2026, including Botswana, Namibia, Zimbabwe, southern Zambia, parts of Mozambique, most of South Africa, Eswatini and Lesotho. Drier conditions are expected to persist into January – March 2027 across Botswana and several neighbouring economies, alongside above-average temperatures across much of the region.

Why this matters for Botswana: The Department of Meteorological Services has predicted an over 95 percent probability that the current El Niño will continue through to March 2027, with peak intensity expected between November 2026 and January 2027. As a result, the onset of an El Niño poses a threat predominantly to the country's agricultural stability and national water security, ultimately raising concerns about high food prices and low household incomes. The resultant below-normal rainfall and elevated temperatures are expected to reduce crop yields, weaken livestock conditions and increase demand for water and animal feed. This would negatively affect incomes and employment of households dependent on the agricultural sector, while at a macroeconomic level, inflationary pressures are expected to emanate from the country's increased demand for imported food. As a net importer, higher food and fuel import prices could therefore increase imported inflation and place additional pressure on the domestic price level. Botswana's inflation is already at 7.8 percent in September 2026, above the medium-term objective range of 3 – 6 percent. Meanwhile, the anticipated water shortages may also increase production costs for businesses, while higher electricity, transport and agricultural input costs could generate second-round effects on domestic prices.

Consequently, the 2026/27 El Niño could generate a stagflation-type shock: simultaneously weakening real economic activity, while increasing inflation. This could create a challenging environment for the implementation of monetary policy, as tighter monetary conditions can help contain demand and anchor inflation expectations but cannot directly address rainfall shortages or agricultural supply disruptions.

These risks are also particularly relevant to Botswana's external position, given that foreign exchange earnings have been on a downward trend, reduced exports and increased imports will place an additional pressure on the import bill, further depleting foreign exchange reserves, which are necessary for sustaining the country's exchange rate framework. Therefore, in order to effectively manage price developments, monetary policy should remain data-dependent and focused on the persistence of inflation rather than the initial supply shock itself.

Accordingly, the Bank will utilise its forward-looking tools to monitor and analyse climate-related shocks. Priority will be given to incorporating alternative El Niño scenarios into the Bank's macroeconomic forecasting framework, covering mild, moderate and severe drought outcomes. These scenarios will quantify potential effects on inflation, output, imports, the exchange rate, household purchasing power and financial-sector credit quality. Moreover, particular attention will be given to the possibility of simultaneous food-price and growth shocks, which could create difficult monetary-policy trade-offs.

Finally, the El Niño episode highlights the importance of integrating climate risks into macroeconomic and financial-stability surveillance. Financial institutions with significant exposure to agriculture, households and small businesses could face higher credit risks if drought reduces borrowers' incomes and repayment capacity. Climate stress-testing should therefore assess the implications of severe drought scenarios for non-performing loans, bank capital and liquidity.

Overall assessment: The 2026/27 El Niño should be treated as a macroeconomic and financial-stability shock rather than solely a climatic event. The Bank would, therefore, continue to strengthen its forecasting mechanism, scenario analysis, regional surveillance and communication, while maintaining a monetary-policy stance guided by the persistence and breadth of inflationary pressures. Timing would be of essence because for 2026, monetary policy is conducted in an environment of elevated inflation, with headline inflation being above the 3 – 6 percent medium-term objective range since the second quarter of the year, suggesting that an additional food and supply shock could complicate the process of returning inflation to its medium-term objective.

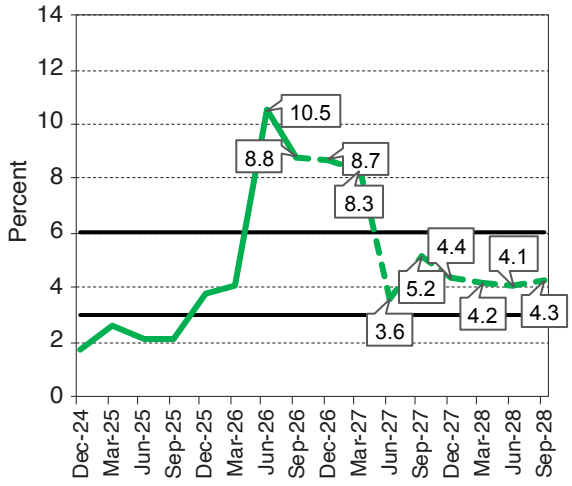
4.3 Monetary policy and inflation outlook

Inflation is projected to remain above the 3 – 6 percent objective range for the remainder of 2026, mainly on account of the combined impact of higher domestic fuel prices and electricity tariffs and the associated second-round effects. The inflation forecast has been revised slightly upwards compared to the August 2026 projection.

Inflation is forecast to remain above the objective range for the rest of 2026

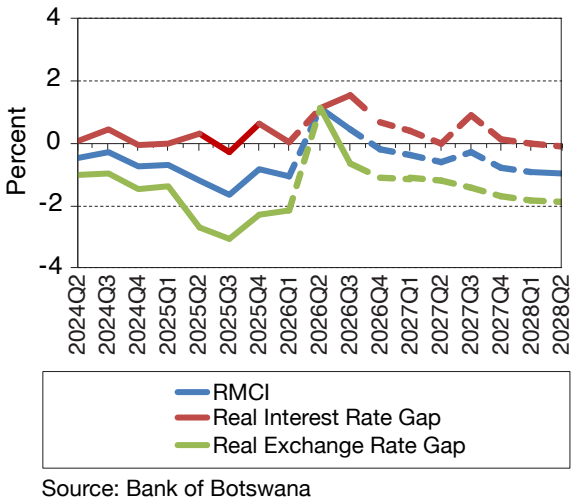
Inflation is forecast to remain above the 3 – 6 percent objective range in the last quarter of 2026 and the first quarter of 2027 (Chart 4.4), mainly reflecting the sustained impact of elevated domestic fuel prices and electricity tariffs, alongside the associated second-round cost pressures across the economy. Nonetheless, inflation is expected to revert to within the objective range in the second quarter of 2027, supported by the current monetary policy stance (Chart 4.5), subdued domestic demand conditions and the dissipating impact of the earlier upward adjustments in administered prices from the inflation calculation.

Chart 4.4: Botswana Headline Inflation Forecast



Source: Bank of Botswana

Chart 4.5: Real Monetary Conditions



Source: Bank of Botswana

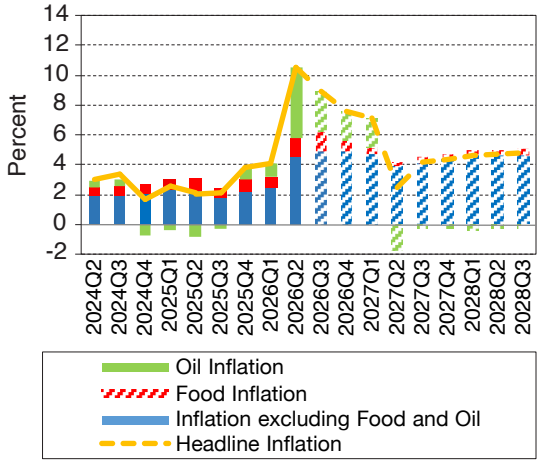
The projection also incorporates the impact of the recent increase in domestic fuel prices effected on 23 October 2026, which is expected to increase inflation by 1.5 percentage points. Furthermore, the projection accounts for the downward rate of crawl of 2.76 percent for 2026, trading partner countries' inflation forecasts and developments in international food and oil prices.

According to the September 2026 BES, firms anticipate inflation to average 7.2 percent in 2026, up from 4.3 percent in the previous survey. The anticipated increase in cost pressures reflects expected increases in operating costs, exchange-rate-related import costs, as well as the potential pass-through to the prices for goods and services following the income tax increases implemented in July 2026. Firms expect inflation to moderate and fall within the 3 – 6 percent medium-term objective range in 2027, indicating that inflation expectations remain well anchored. However, this outlook remains subject to upside risks, particularly if external pressures, including elevated global commodity prices, and domestic supply-side cost pressures persist.

Oil inflation forecast to decrease

Oil inflation is expected to continue to decrease, reflecting the reduction in domestic fuel prices in July 2026 and the dissipation of the impact of the increase in domestic fuel prices in March 2026. Meanwhile, inflation excluding food and fuel is projected to remain significant in the forecast horizon, driven by the increase in cost of imports, increase in administered prices (electricity tariffs and domestic fuel prices) and the associated second-round effects (Chart 4.6).

Chart 4.6: Headline Inflation and its Components

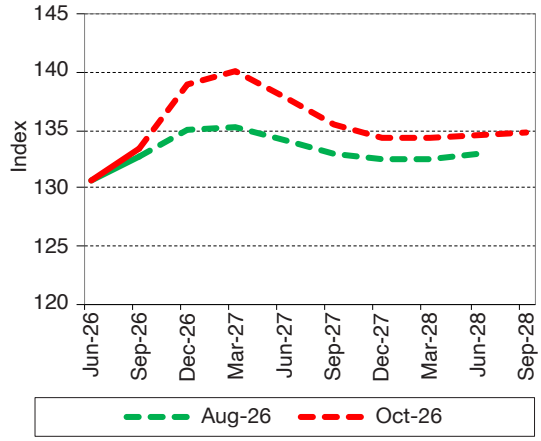


Source: Bank of Botswana

Forecasts for international food prices revised upward

Compared to the August 2026 forecast, international food price projections have been revised upward (Chart 4.7). The upward revision in international food prices is mainly due to higher prices for crop-based commodity groups. World wheat and maize prices increased mainly due to logistics and trade disruptions in Black Sea region, which affected global supplies for cereals. Sugar prices also increased, mainly driven by prospects for reduced global sugar supplies for the 2026/27 season, reflecting a reduction in the area planted in the European Union, adverse weather conditions and forecasts for lower production amid the strengthening El Niño conditions.

Chart 4.7: International Food Prices FAO Index

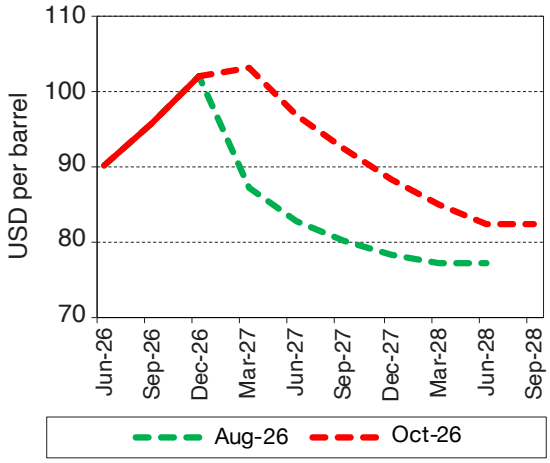


Source: Bloomberg

Forecasts for international oil prices revised upward

Compared to the August 2026 forecast, projections for international oil prices have been revised upward in the near term. The upward revision is mainly driven by the heightened tensions between the US and Iran, which have increased concerns about the global supply of oil (Chart 4.8). The Middle East tensions remain elevated, with reduced possibility of a near-term resolution to the conflict. A significant drawdown in global oil inventories, amid continued disruptions in the Strait of Hormuz and attacks on Saudi Arabia's refineries and oil pipelines, has also contributed to higher projections for global oil prices.

Chart 4.8: International Oil Prices

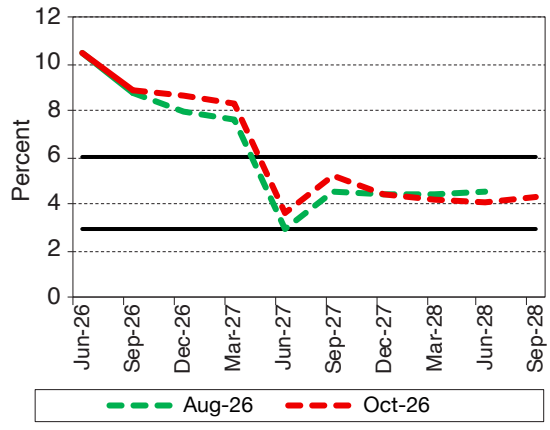


Source: Bloomberg

Inflation forecast revised slightly downwards

The domestic inflation forecast has been revised slightly upward in the near term compared to the August 2026 projection (Chart 4.9). This revision is mainly due to the recent increase in domestic fuel prices effected on 23 October 2026.

Chart 4.9: Botswana Headline Inflation Forecast Revision



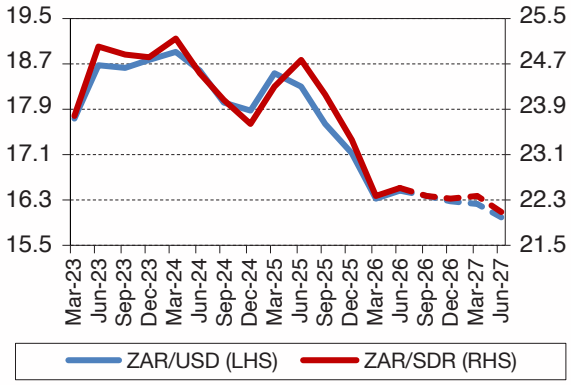
Source: Bank of Botswana

Exchange rate movements

The outlook for the Pula exchange rate over the next four quarters will continue to be shaped by global financial conditions and regional developments, particularly movements in the South African rand, given its significant weight in the Pula currency basket.

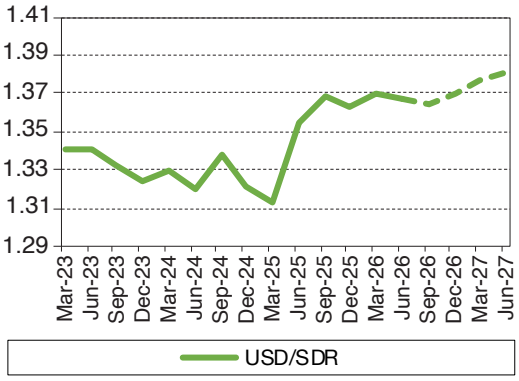
The rand is projected to strengthen against major currencies (Chart 4.10), supported by improved investor confidence following South Africa's sovereign credit rating upgrade by Fitch Ratings, favourable regional fundamentals and improved global risk sentiment. The anticipated de-escalation of tensions in the Middle East is also expected to encourage capital flows towards emerging-market assets.

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

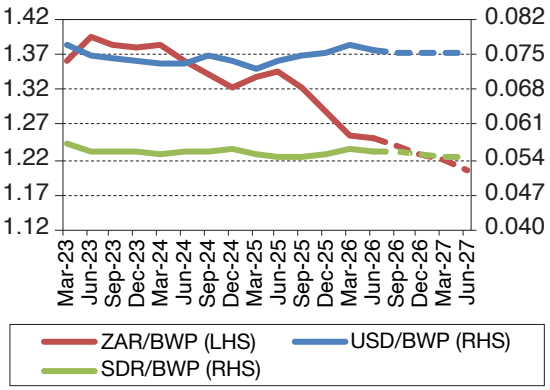


Source: Bloomberg

Meanwhile, the US dollar is projected to depreciate against the SDR constituent currencies over the next four quarters (Chart 4.11), reflecting improving global risk sentiment, reduced safe-haven demand amid easing geopolitical tensions, moderating US inflation and expectations of eventual monetary policy easing. These developments are expected to narrow the US dollar's interest rate advantage and encourage investment flows towards higher-yielding assets. However, a prolonged restrictive monetary policy stance by the Federal Reserve could provide some support to the US dollar and moderate the pace of depreciation.

Domestically, the Pula is projected to depreciate against the South African rand but strengthen against the SDR constituent currencies over the next four quarters (Chart 4.12). The anticipated depreciation of the Pula against the rand reflects the expected strengthening of the South African rand against major currencies, which carries a substantial weight in Botswana's exchange rate basket. Consequently, the Pula is expected to strengthen against major international currencies, supported by the anticipated weakening of the US dollar and improved global risk sentiment. From an inflation perspective, the projected depreciation of the Pula, particularly against the South African rand, is likely to exert some upward pressure on domestic inflation, reflecting Botswana's significant reliance on imports from South Africa.

Chart 4.12: BWP Exchange Rates against ZAR, USD and SDR



Source: Bloomberg and BoB calculations

Risks to the inflation outlook on the upside

Overall, there is a greater risk of inflation being higher than currently projected mainly due to the recent increase in domestic fuel prices and potential second-round effects stemming from the higher electricity tariffs and possible additional increase in administered prices, in particular, public transport fares. Furthermore, the increasing domestic fuel price slate under-recoveries pose an upside risk as they are likely to lead to a larger increase in domestic fuel prices in the near term. Moreover, the recent forecasts indicating the potential occurrence of El Nino present an additional upside risk to the inflation outlook. If the weather phenomenon materialises, it could lead to droughts, heatwaves and excessive rainfall in affected regions, adversely impacting agricultural production and food supply, thereby exerting upward pressure on food prices. Externally, elevated prices for oil, gas, fertilisers, and industrial inputs resulting from the ongoing conflict in the Middle East will continue to exert inflationary pressures, as the conflict persists. Additionally, the increased global trade tensions and tariff measures are expected to heighten inflation risks.

However, inflation could be lower than projected if domestic and global economic activity remains subdued, fiscal space stays constrained, or if international commodity prices decline. The inflation outcomes could also be affected by possible changes in administered prices that are not factored in the current projection.

5. OCTOBER 2026 MONETARY POLICY COMMITTEE DECISION

At the meeting held on 29 October 2026, the Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 5.5 percent.

Global and Domestic Context

The Monetary Policy Committee (MPC) convened against a backdrop of global economic resilience, despite challenges arising from shifting trade relations, supply chain disruptions and geopolitical tensions, particularly the ongoing conflict in the Middle East. Technology-related investment and demand, together with global supply adjustments, including rerouting of trade flows and the release of inventories, help mitigate the adverse effects of the conflict. Meanwhile, there is upward pressure on prices globally that could result in inflation remaining high in the short term. This is due to higher commodity prices and continued uncertainty surrounding the duration and resolution of the conflict.

Overall, external developments have contributed to an increase in the cost of living in Botswana and may undermine the recovery of the global diamond market, thereby weighing on domestic economic performance.

Economic Environment

Real gross domestic product (GDP) grew by 3.7 percent in the twelve months to June 2026, compared with a contraction of 2.9 percent in the corresponding period ending June 2025. The recovery in economic activity was underpinned by a stronger performance of the mining sector. Nevertheless, overall economic performance remains weak, constrained by subdued global economic conditions, slow progress in economic transformation and low productivity. However, structural changes in the diamond sector continue to be a challenge for the economy.

According to the International Monetary Fund's October 2026 World Economic Outlook report, global growth is projected to remain subdued at 3.1 percent in 2026, down from 3.5 percent in 2025. Persistent geopolitical tensions, elevated energy prices and trade policy uncertainty continue to weigh on the global economic outlook.

Domestically, the Ministry of Finance projects an economic recovery in 2026 and 2027, with growth forecast at 3.8 percent and 4.1 percent, respectively. The anticipated recovery reflects stronger-than-anticipated economic performance in the first half of 2026, underpinned by higher diamond production. Meanwhile, growth in other sectors varied, but overall continues to be modest. It is expected that speedy implementation of the economic diversification initiatives under the National Development Plan 12 and Botswana Economic Transformation Programme could fast-track economic transformation with a positive impact on economic growth. The growth outlook remains subject to downside risks, such as heightened geopolitical tensions, climate-related shocks, El Niño events, and heightened global trade fragmentation.

Inflation

Headline inflation decreased from 9.3 percent in August 2026 to 7.8 percent in September 2026, remaining above the 3 – 6 percent medium-term objective range. The decline was mainly due to base effects associated with the increase in domestic fuel prices on 15 September 2025, which had added 0.93 percentage points to headline inflation. The MPC expects inflation to remain above the objective range because of higher cost of fuel and electricity and revert in the second quarter of 2027. Inflation is projected to average 8.1 percent in 2026 before moderating to 5.4 percent in 2027.

Overall, risks to the inflation outlook are tilted to the upside mainly due to potential second-round effects stemming from the relatively higher domestic fuel prices and electricity tariffs, as well as the under-recovery in domestic fuel prices. Moreover, El Niño effects including below-normal rainfall, droughts, heatwaves, crop failure and livestock deaths present an additional upside risk to the inflation outlook. Externally, elevated prices for oil, gas, fertilisers and industrial inputs, resulting from the ongoing conflict in the Middle East, are expected to continue exerting upward pressure on inflation. Additionally, the increased global trade tensions and tariff measures are expected to heighten inflationary pressures. However, inflation could be lower than projected if domestic and global economic activity remains subdued, fiscal space remains tight, or if international commodity prices fall. The inflation outcome could also be affected by changes in administered prices that are not factored in the current projection.

Against this background, continued vigilance and careful management of inflation expectations are necessary to ensure that inflation reverts to the medium-term objective range.

Liquidity

Domestic liquidity has improved since the last quarter of 2025, supported by increased government funding and spending, increased diamond receipts, and adjustments to monetary policy operations. This has moderated funding costs, potentially lowering lending interest rates with improved prospects for policy transmission.

Decision

The MPC projects that inflation will remain above the 3 – 6 percent objective range in the near term, while growth remains subdued amid adverse external developments. This outlook continues to require a

data-driven monetary policy stance that supports economic activity while managing inflation expectations. The MPC assessed that policy measures implemented and communicated to date have helped ease liquidity conditions, enhanced monetary policy transmission and supported stability in the foreign exchange market.

Accordingly, the Committee unanimously decided to:

(a) maintain the MoPR at 5.5 percent;
(b) conduct 7-day Bank of Botswana Certificates auctions, repos and reverse repos at the MoPR of 5.5 percent;
(c) maintain the Standing Deposit Facility (SDF) rate at 4.5 percent, 100 basis points below the MoPR;
(d) maintain the Standing Credit Facility (SCF) rate at 6.5 percent, 100 basis points above the MoPR; and
(e) lift the moratorium on changes in the commercial banks' Prime Lending Rates.

The lifting of the moratorium is a general policy posture to maintain a liberalised market. Under the current environment involving moderation of funding costs and increasing liquidity the expectation is that the liberal posture will lead to a decrease in Prime Lending Rates.

The Bank will continue to monitor developments and implement appropriate policy actions consistent with its mandate to maintain price stability and safeguard financial system stability.

Meetings of the MPC

The last MPC meeting for 2026 is scheduled for 3 December 2026

Annex: Inflation Forecast Summary for October 2026 MPC Meeting

	Actual					Forecast									
	2025		2026			2026		2027					2028		
	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3
Inflation	3.9	**2.7**	4.1	10.6	8.9	8.7 (8.0)	**8.1** **(7.9)**	8.3 (7.6)	3.6 (2.9)	5.2 (4.6)	4.4 (4.4)	**5.4** **(4.9)**	4.2 (4.4)	4.1 (4.5)	4.3

Note: Figures in parentheses represent the previous MPC forecast (August 2026)
The upward revision of the forecast is mainly due to the increase in domestic fuel prices.

NOTE

NOTE

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