MONETARY POLICY STATEMENT | 2026



STRATEGIC INTENT STATEMENTS AND CORE VALUES

VISION

A trusted steward of the financial system, advancing stability, inclusive growth, and transformative central banking.

MISSION

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

CORE VALUES

- **Agility:** We respond proactively, swiftly and effectively to change.
- **Collaboration:** We work together to achieve shared goals.
- **Excellence:** We pursue the highest standards in everything we do.
- **Integrity:** We act with honesty, fairness, and the highest ethical standards.
- **Transparency:** We engage stakeholders and ourselves openly, clearly, and with accountability.

MONETARY POLICY STATEMENT 2026

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25 February 2026

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1. INTRODUCTION

1.1 The Monetary Policy Statement (MPS) is published at the beginning of each year to inform stakeholders about the principles and considerations that guide monetary policy formulation and implementation by the Bank of Botswana (the Bank). In the context of Botswana's evolving landscape, the MPS assumes heightened significance as the primary tool through which the Bank articulates its strategic response to domestic and global developments, while reinforcing its commitment to price, exchange rate and financial stability. Accordingly, the Bank, through the MPS, reviews trends in economic growth, financing conditions and inflation, as well as the respective outlook and, in turn, assesses policy performance, and outlines the policy choices that will guide the economy towards sustainable macroeconomic stability and resilience. The MPS, together with the subsequent Monetary Policy Reports (MPRs) published during the year, and the media briefings after each Monetary Policy Committee (MPC) meeting, serve to meet the public's expectation of a transparent and accountable central bank. This approach is consistent with the enhanced governance and policy certainty framework enshrined in the Bank of Botswana (Amendment) Act, 2022, and underscores the Bank's resolve to anchor confidence during a period of economic transition and renewal.

1.2 The 2026 MPS, therefore, reports on economic and policy developments in the preceding year, a period marked by significant adjustments aimed at restoring macroeconomic balance and strengthening policy transmission. It evaluates the factors driving price developments and their impact on inflation in Botswana. In addition, there is an assessment of economic and financial developments that are likely to influence the medium-term inflation trajectory and the Bank's policy choices in 2026. Thus, price developments and policy options are assessed within the context of a forward-looking monetary policy framework, which entails policy responses to projected deviation of inflation from the medium-term inflation objective range of 3 – 6 percent and any anticipated adverse implications for financial stability. In this respect, the MPS promotes a clear understanding of the prospective conduct of monetary policy to anchor and align public expectations with the objective of a low, predictable and sustainable level of inflation, which is essential for inclusive growth and resilience as the economy transitions.

1.3 In 2025, global economic growth remained subdued on account of lagged effects of globally generalised restrictive monetary policy adopted in 2024; persistent trade tensions and policy uncertainty, particularly surrounding policy choices by the United States of America (US); geopolitical conflicts; extreme weather events; and weak underlying productivity growth. Consequently, growth remained modest and uneven across countries and regions. According to the January 2026 World Economic Outlook (WEO) Update of the International Monetary Fund (IMF), global economic growth is estimated at 3.3 percent in 2025, the same as in 2024, and below the historical (2000 – 2019) annual average of 3.7 percent. In general,

economic growth was lower in advanced economies than in emerging market and developing economies (EMDEs). Meanwhile, global inflation is estimated to have moderated from 5.8 percent in 2024 to 4.1 percent in 2025[1], consistent with subdued economic activity and easing cost pressures.

1.4 For Botswana, the Ministry of Finance estimates the economy to have contracted by 0.4 percent in 2025, an improvement from the sharper decline of 2.8 percent in 2024[2]. Inflation remained below the lower bound of the medium-term objective range for most of the year, before reverting to the range from September 2025, and averaged 2.7 percent for the year. The subdued inflation outcome was due to lower fuel prices, the reduction in water and electricity tariffs (for low-income households), as well as modest domestic demand with government spending, in particular, adversely affected by weaker diamond receipts. Looking ahead, inflation is projected to remain within the 3 – 6 percent objective range in the medium term, although risks to the inflation outlook are assessed to be tilted to the upside.

1.5 The Bank maintained an accommodative monetary policy stance during 2025, consistent with subdued inflationary pressures and well-anchored inflation expectations. In October 2025, however, the Bank increased the Monetary Policy Rate (MoPR) by 160 basis points from 1.9 percent to 3.5 percent. This adjustment was not intended to signal monetary policy tightening but, rather, it was a strategic recalibration aimed at strengthening monetary policy transmission, improving liquidity management and supporting the preservation of foreign exchange reserves. In that regard, commercial banks were instructed to not increase their prime lending rates (PLRs). The action reflects policy flexibility in support of macro-financial stability during a period of economic transition.

1.6 Exchange rate policy developments in 2025 further reinforced the strategic policy recalibration in response to evolving economic and financial conditions. In January 2025, the Pula currency basket weights were adjusted from 45 percent South African rand (ZAR) and 55 percent Special Drawing Rights (SDR) to equal weights of 50 percent each. The annual downward rate of crawl was maintained at 1.51 percent in January 2025 and subsequently increased to 2.76 percent in July 2025 to align the exchange rate with relative inflation developments and preserve external competitiveness. Trading margins were also widened from ±0.125 percent to ±0.5 percent in January 2025 and further to ±7.5 percent in July 2025, thereby enhancing flexibility, supporting market-driven price discovery and easing pressure on official foreign exchange reserves. As a result, the real effective exchange rate (REER) depreciated by 1.1 percent in 2025, reflecting a nominal exchange rate adjustment larger than the inflation differential between Botswana and its trading partner countries.

1 In advanced economies, inflation decreased from 2.6 percent in 2024 to 2.5 percent in 2025, and from 7.9 percent to 5.2 percent for emerging market economies in the same period.

2 According to data published by Statistics Botswana, real gross domestic product (GDP) grew by 0.1 percent in the twelve months to September 2025, a modest recovery from the 1.7 percent contraction in the year to September 2024.

2. MONETARY POLICY FRAMEWORK

2.1 The monetary policy framework provides the foundation for the formulation and implementation of monetary policy. The primary objective of Botswana's monetary policy is to achieve price stability, which is defined as a sustainable level of inflation that is within the medium-term objective range of 3 – 6 percent. In addition to fulfilling this primary mandate, the Bank contributes to the stability of the financial system, thus maintenance of a stable, sound and competitive market-based financial system. A low and predictable level of inflation, alongside conducive monetary and financial conditions, foster effective savings mobilisation, productive investment and international competitiveness of domestic producers, ultimately contributing to broader national objectives of sustainable and inclusive economic development. To complement monetary policy effectiveness, the Bank facilitates and supports coherent and well-coordinated policy mix, which is particularly important as Botswana pursues economic transformation, export diversification and deeper participation in regional and global value chains.

2.2 The monetary policy framework is forecast-based and has a medium-term outlook guiding the Bank's response to projected inflation, while also considering developments relating to stability of the financial system and prospects for economic growth. To this end, in formulating an appropriate policy stance, the Bank factors in projections of real monetary conditions[3], relevant domestic and international economic and financial developments, and their impact on the output gap[4] and, ultimately, inflation.

2.3 The Bank recognises that effective communication is essential to sustaining and reinforcing transparency, predictability and accountability in the conduct of monetary policy, particularly during periods of economic adjustment. Clear communication fosters market participation, influences expectations, strengthens policy credibility and supports effective policy transmission. In this regard, and in addition to the MPS, which is published in February, the Bank publishes three MPRs annually, following the April, August and October MPC meetings, as well as MPC meeting dates in December for the year ahead. Following each meeting of the MPC, the Governor delivers a statement at a media briefing, which is circulated to media houses, to communicate the Bank's policy stance, as well as rationale, and facilitate timely dissemination of information.

3 The real monetary conditions index (RMCI), which reflects the state of real monetary conditions, measures the relative looseness or tightness of monetary conditions and gauges the likely effect that monetary policy has on the economy through changes in the exchange rate and interest rates. The RMCI combines, through a weighted average, deviations of the real exchange rate and real interest rate from their respective trend values.

4 The output gap refers to the difference between actual output and long-term trend output (as an indicator of the productive capacity of the economy). A negative (positive) output gap means that the actual level of output for a given period is below (above) the trend level for that period, thus indicating that the economy is operating below (above) its estimated potential.

2.4 Monetary policy formulation and implementation entail determination of the MoPR, the rates for the Standing Credit Facility (SCF) and the Standing Deposit Facility (SDF), the latter two form the interest rate corridor, at each of the six MPC meetings in a year. In turn, the MoPR (yield on the 7-day Bank of Botswana Certificates (BoBCs)) is used to conduct monetary operations, the activity in which commercial banks have an option to access the SCF and SDF facilities at their discretion, in addition to using the interbank market. Furthermore, to manage liquidity, the Bank conducts repurchase agreements (repos) at the prevailing signalling rate, the MoPR. Accordingly, monetary operations and liquidity management are implemented in a manner that supports orderly market functioning, encourages intermediation, and strengthens the transmission of policy signals to the broader economy.

2.5 Overall, the monetary policy framework reflects the Bank's commitment to a modern, transparent and forward-looking policy regime that is responsive to evolving economic conditions. By anchoring inflation expectations, supporting exchange rate stability and safeguarding the soundness of the financial system, monetary policy contributes to a solid foundation for Botswana's economic renewal, resilience and long-term prosperity.

3. IMPLEMENTATION OF MONETARY POLICY AND RELATED ECONOMIC DEVELOPMENTS IN 2025

(a) External Developments

3.1 At the global level, several central banks loosened monetary policy in 2025 to support economic activity against the backdrop of an anticipated economic slowdown and a continued improvement in the inflation outlook (Appendix, Table A1). In advanced economies, central banks continued support of the balance-sheet normalisation introduced during earlier periods of stress. Thus, tapering and, in some instances, unwinding of asset purchase programmes (Appendix, Table A1). Major central banks, including the US Federal Reserve (Fed), Bank of England (BoE), European Central Bank (ECB), People's Bank of China (PBoC) and Central Bank of Russia (CBoR) reduced the policy interest rates in response to moderating inflationary pressures and slowing growth. Some central banks, however, such as the Reserve Bank of India (RBI) (Appendix, Table A1), faced renewed inflationary pressures and adopted a tightening stance. Overall, monetary policy developments in 2025 were characterised by cautious and differentiated easing across countries, reflecting variations in domestic inflation dynamics, financial stability considerations and the pace of economic recovery.

3.2 Global economic growth remained modest and uneven across countries and regions in 2025. Global GDP is estimated to have expanded by 3.3 percent, unchanged from 2024 (Table 3.1). In advanced economies, output growth remained subdued at 1.7 percent in 2025, slightly lower than 1.8 percent in 2024, owing to restrained global demand. This was despite easing financial conditions, including a weaker US dollar and reduced tariff pressures, following the negotiation of trade agreements between various countries and the US. By contrast, economic activity in EMDEs is estimated to have expanded by 4.4 percent in 2025, slightly higher than the 4.3 percent growth in 2024, supported by stronger domestic demand, resilient investment and improved global trade. Stable commodity prices and targeted policy interventions anchored economic activity, while moderate inflation and broadly accommodative financial conditions supported consumption and business confidence, contributing to the modest acceleration in growth.

Table 3.1: Real GDP Growth Rates (Percent)

	Estimate		Projection	
	2024	2025	2026	2027
Global	**3.3**	**3.3**	**3.3**	**3.2**
Advanced economies	**1.8**	**1.7**	**1.8**	**1.7**
USA	2.8	2.1	2.4	2.0
Euro area	0.9	1.4	1.3	1.4
UK	1.1	1.4	1.3	1.5
Japan	-0.2	1.1	0.7	0.6
EMDEs	**4.3**	**4.4**	**4.2**	**4.1**
China	5.0	5.0	4.5	4.0
Brazil	3.4	2.5	1.6	2.3
India	6.5	7.3	6.4	6.4
Russia	4.3	0.6	0.8	1.0
South Africa	0.5	1.3	1.4	1.5
Botswana	**-2.8**	**-0.9 (-0.4)**	**2.3 (3.1)**	**4.6 (5.4)**

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

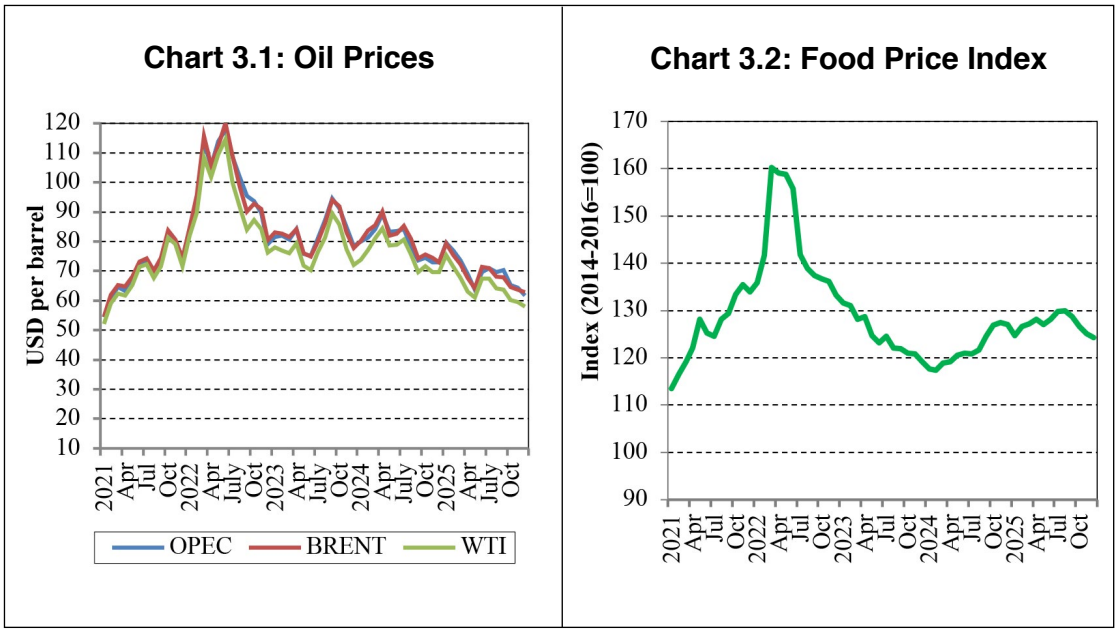
3.3 Global inflation is estimated to have moderated from 5.8 percent in 2024 to 4.1 percent in 2025. This moderation, which involved a broad-based decrease in core inflation across regions, was mainly due to the slower pace of monetary policy easing since 2024, which kept interest rates at relatively high levels. Lower international oil prices also contributed to the easing of global inflation. The decline in oil prices was primarily driven by the decision of the Organization of the Petroleum Exporting Countries (OPEC) and its allies to increase supply, as well as

concerns about a global economic slowdown in the context of heightened trade tensions. Therefore, the price of OPEC reference crude oil basket, Brent crude and West Texas Intermediate (WTI), decreased by 12.8 percent, 14.4 percent and 14.5 percent in 2025, respectively, compared to 2024 (Chart 3.1).

3.4 Conversely, the international food prices index increased by 4.3 percent from 122 points in 2024 to 127.2 points in 2025 (Chart 3.2), largely due to sustained upward pressure in key commodity groups. The increase in food prices in 2025 was due to tight global supplies and seasonal production constraints in major producing regions, compounded by adverse weather and supply disruptions. The higher prices were primarily with respect to vegetable oils, dairy products and meat, which more than offset the decline in cereals and sugar. Robust biofuel and import demand also contributed to price pressures. Notwithstanding the annual increase in average Food and Agriculture Organization (FAO) index, prices moderated in the fourth quarter of 2025, supported by favourable production and harvests, while global demand remained subdued. Overall, elevated global food prices exerted upward pressure on domestic inflation in 2025.

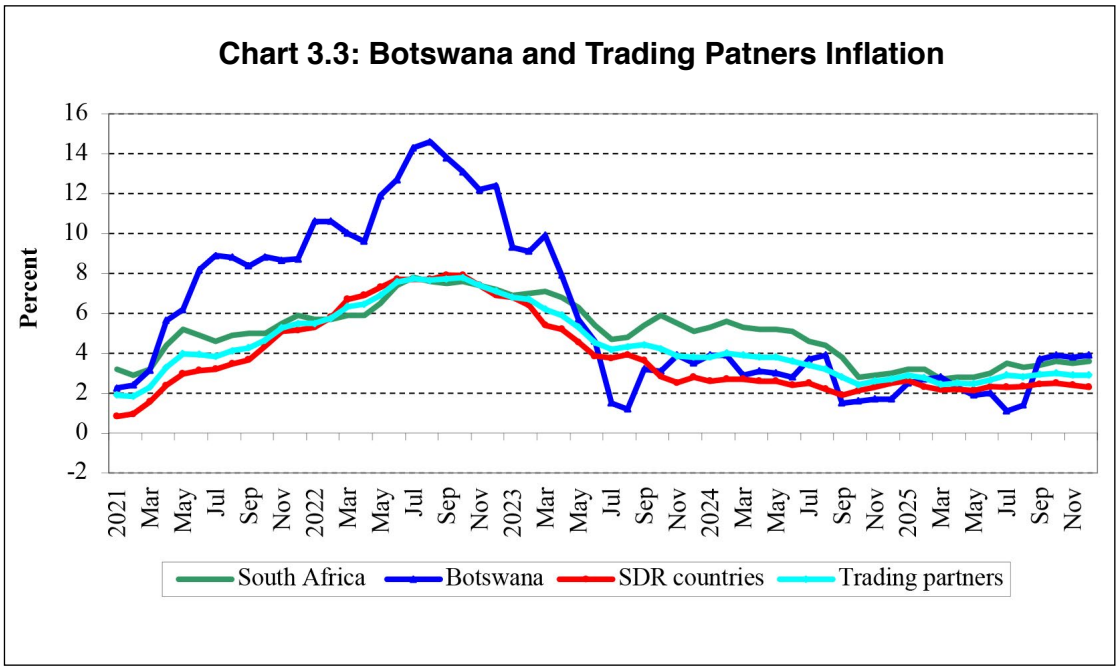
3.5 Inflation in the SDR countries (USA, UK, Japan, euro area and China) decreased from an average of 2.4 percent in 2024 to 2.3 percent in 2025. Similarly, average headline inflation in South Africa decreased from 4.4 percent in 2024 to 3.2 percent in 2025. Consequently, the trade weighted average inflation[5] for Botswana's trading partner countries decreased from 3.3 percent to 2.8 percent in the same period (Chart 3.3).

5 The trade-weighted average inflation comprises South Africa's headline inflation and average SDR countries' inflation.



Source: OPEC and US Energy Information Administration

Source: Food and Agriculture Organization



Source: Statistics Botswana and Bloomberg

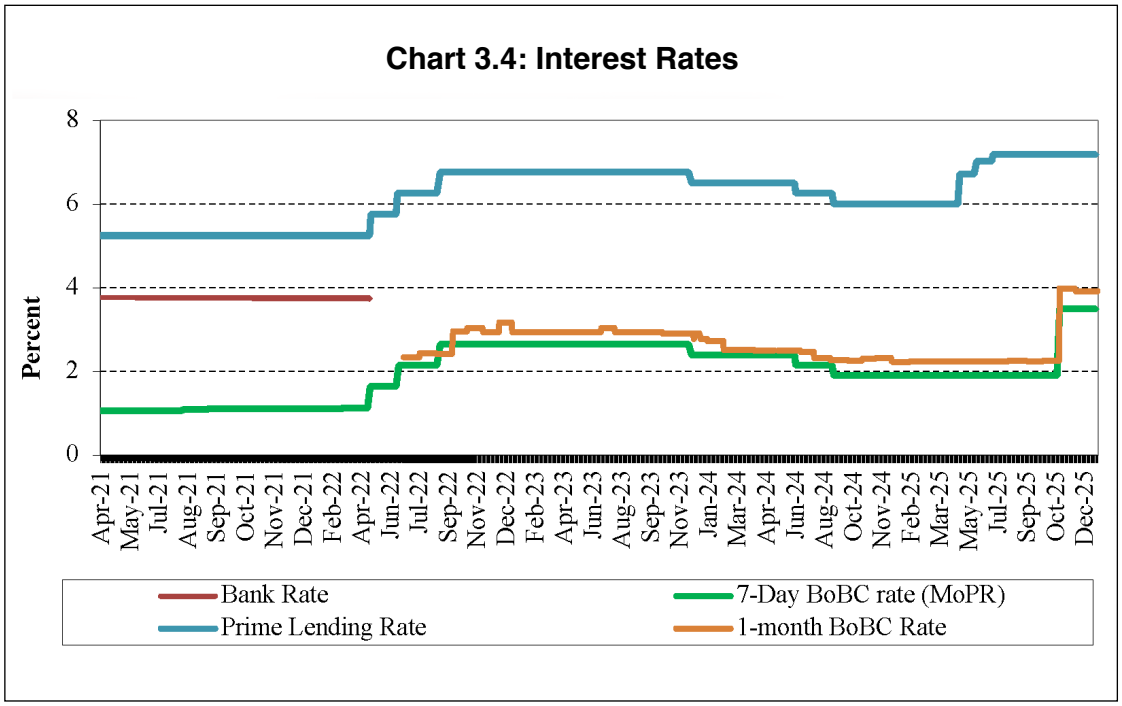
(b) Monetary Policy Implementation in Botswana

3.6 In 2025, monetary policy was implemented against a challenging domestic environment characterised by weak growth, changing liquidity dynamics and heightened uncertainty around traditional growth drivers. However, the inflation outlook for the short-to-medium term remained favourable due to subdued domestic and global economic activity, easing international commodity prices and moderating inflation in trading partner countries. These conditions provided

scope to maintain an accommodative monetary policy to support economic activity, including that resulting from the economic transformation initiatives. Accordingly, the Bank maintained the MoPR at 1.9 percent during the first four MPC meetings of 2025, following a cumulative 50-basis points policy rate cut in 2024. The stance was consistent with the Bank's commitment to support economic recovery, while preserving price stability during a period of structural change in the economy.

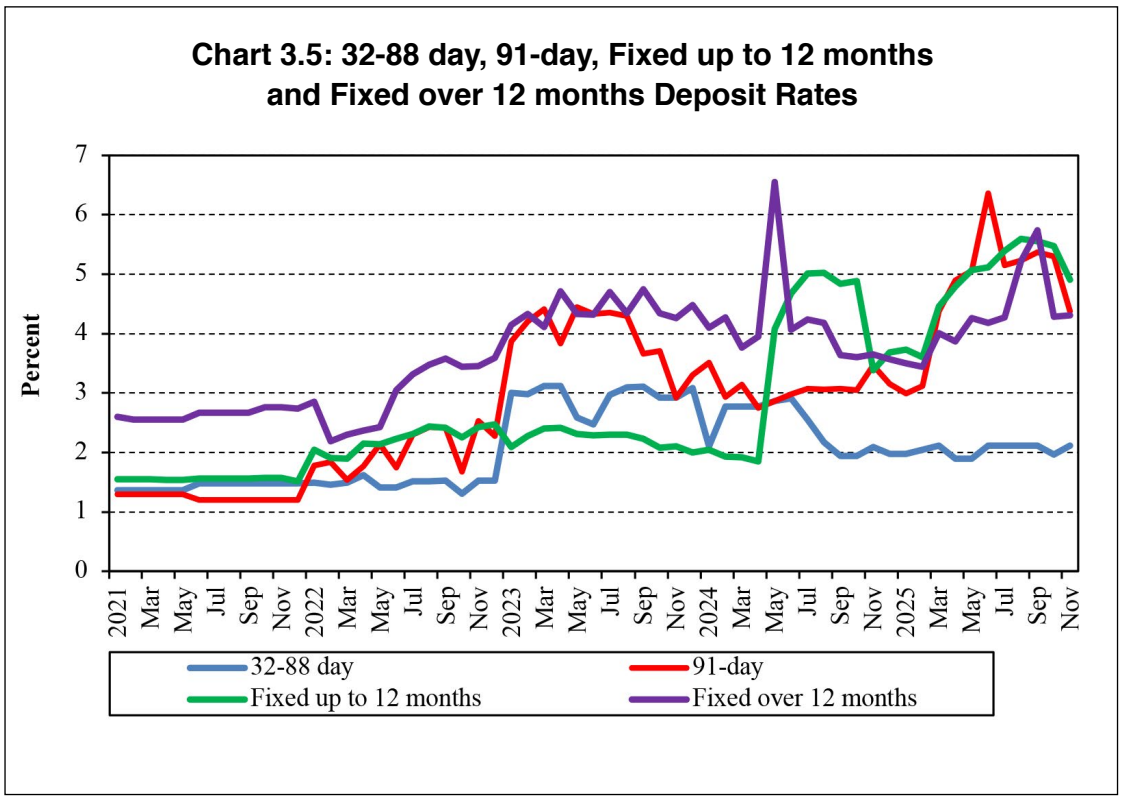
3.7 Monetary policy implementation in 2025 was, however, tested by unprecedented and persistent lower liquidity levels. This was largely driven by a slower fiscal injection into the banking system, reflecting reduced diamond-related revenues and subdued government spending following persistently weak diamond sales since the fourth quarter of 2024. In turn, the lower liquidity levels elevated the funding concentration and uneven liquidity distribution challenges. Thus, intensified competition for deposits, with wholesale deposit interest rates rising markedly and contributing to upward pressure on prime lending rates (PLRs), thereby creating a disconnect between monetary policy stance and market lending conditions. Notably, the average PLR of commercial banks rose from 6.01 percent in December 2024 to 7.19 percent in December 2025, with potential implications for credit accessibility and affordability and growth prospects at a critical juncture for economic transformation.

3.8 In response to the widening disconnect between the policy stance and market lending conditions, the MPC increased the MoPR by 160 basis points to 3.5 percent, while simultaneously directing commercial banks not to raise their PLRs further, with a view to preserving credit affordability and avoiding an excessive tightening of financial conditions. The decision was therefore a policy recalibration, rather than a tightening bias, aimed at reinforcing the effectiveness of the monetary policy framework and restoring orderly transmission, particularly in relation to the monetary operations tools and distribution of market liquidity. The policy decision also complemented the adjustment of exchange rate parameters effected in July 2025 to preserve the official foreign exchange reserves and safeguard external balance, key pillars of macroeconomic stability in the new economic landscape.



Source: Bank of Botswana and commercial banks.

Notes:
1. The 7-day BoBC was introduced on April 30, 2019, replacing the 14-day BoBC, while the issuance of the 91-day BoBC rate was discontinued in October 2020.
2. On 28 April 2022, the Bank Rate was discontinued and replaced with the MoPR.



Source: Commercial banks.

3.9 Open market operations (OMOs) remained the Bank's primary instrument for liquidity management and implementation of MPC decisions in 2025. Consistent with the Bank's monetary policy implementation framework, weekly BoBC auctions were used to mop up excess liquidity[6], while repos were deployed to inject liquidity into the banking system. These operations supported alignment of short-term money market interest rates with the desired monetary policy stance, thereby supporting price stability and enhancing policy credibility.

3.10 The Bank continued to assess the effectiveness of its monetary policy implementation framework to ensure its relevance in a changing financial and economic environment. In this regard, the monetary policy reforms introduced in 2022 continued to yield positive outcomes, with the interbank market rate consistently trading within the standing facilities corridor. The policy reforms enhanced stability in short-term money market rates and strengthened policy transmission by ensuring a clearer and more predictable signalling, an important foundation for confidence as Botswana enters a new phase of economic adjustment.

3.11 Notwithstanding these improvements, structural features of the commercial banks' funding profile continue to pose challenges. Funding remains uneven across institutions and is concentrated in large, highly mobile corporate deposits and those managed by asset managers. This concentration heightened competition for wholesale funding, exerted upward pressure on deposit interest rates, hence raising banks' overall funding costs. Against this backdrop and following PLR increases ranging between 75 and 175 basis points earlier in 2025, the Bank issued a directive prohibiting further increase in PLRs.

3.12 The deposit concentration and uneven liquidity distribution challenges, manifesting in weakened policy transmission, necessitated additional interventions to support efficient OMOs and safeguard the effectiveness of monetary policy transmission. Therefore, to alleviate funding pressures and enhance liquidity predictability, the maturity of the repo facility was progressively extended. Repo tenure evolved from overnight to seven days to one month and, ultimately, to maturities of up to three months. The introduction of longer-dated repos was positively received by market participants, as it provided a more stable and cost-effective funding option, reduced rollover risks and enabled banks to better manage cash flows in a low-liquidity environment.

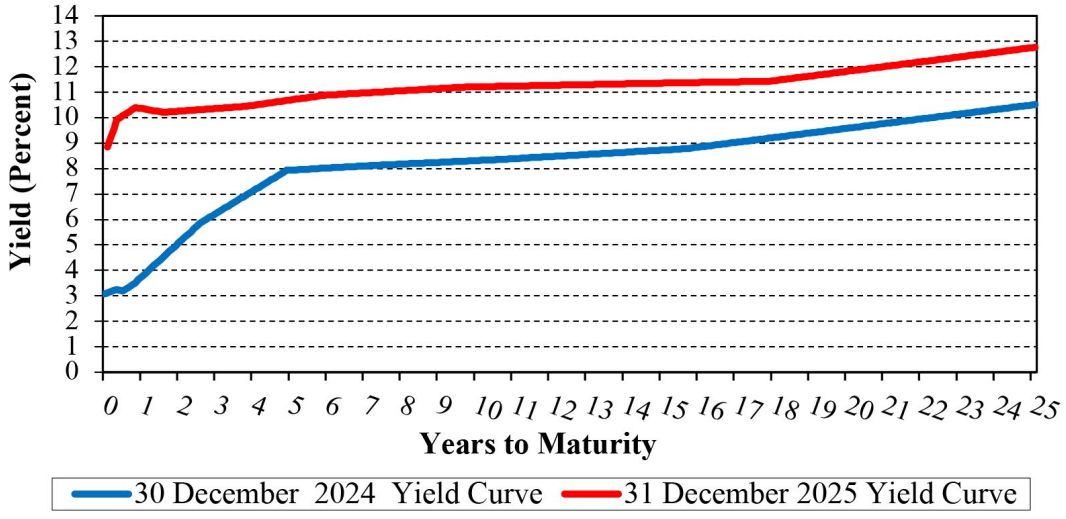
3.13 In addition, the Credit Facility rate was reduced from 9.9 percent (800 basis points above the MoPR) to 6.5 percent (300 basis points above the MoPR). This adjustment was aimed at discouraging liquidity hoarding as a precautionary measure by banks and encouraging more active participation in the interbank market. By narrowing the spread between the policy interest rate and the Credit Facility, the Bank sought to foster a more efficient distribution of liquidity among banks, deepen interbank trading and strengthen overall monetary policy transmission.

6 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the SDF, money absorbed through BoBCs, outstanding reverse repos less repos, SCF and the Credit Facility. This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the PRR accounts.

3.14 The yield curve anchored to the 7-day BoBCs rate remained upward-sloping, albeit steeper at the shorter end (transition from the one-month BoBCs to the 3-month Treasury Bills (T-bills). The government securities market was subdued in 2025 compared to the previous years, characterised by low uptake and upward pressure on yields at primary auctions. Following sustained underperformance of government securities auctions, a two-day domestic investor roadshow was held in September 2025, jointly organised by the Ministry of Finance and the Bank, in collaboration with the Botswana Stock Exchange Limited and the Botswana Bond Market Association. The roadshow provided a platform for constructive engagement with investors and primary dealers, helping to align issuance strategies with market expectations and to identify reforms to enhance auction performance. Encouragingly, positive net issuances were realised in subsequent auctions in September and October 2025, signalling renewed investor confidence. Henceforth, sustained market engagement will remain central to deepening the domestic bond market and supporting effective fiscal and monetary policy coordination.

3.15 A comparison of BoBCs, T-bill and government bond yields (yield curve) as at the end of 2024 and 2025 indicates that yields generally increased across the maturity spectrum. The increase in the yields as demanded by investors at bond auctions largely reflected lower liquidity levels (including uneven distribution) and increased government funding requirements (Chart 3.6).

Chart 3.6: Yield curves for 30 December 2024 and 31 December 2025



Source: Bank of Botswana.

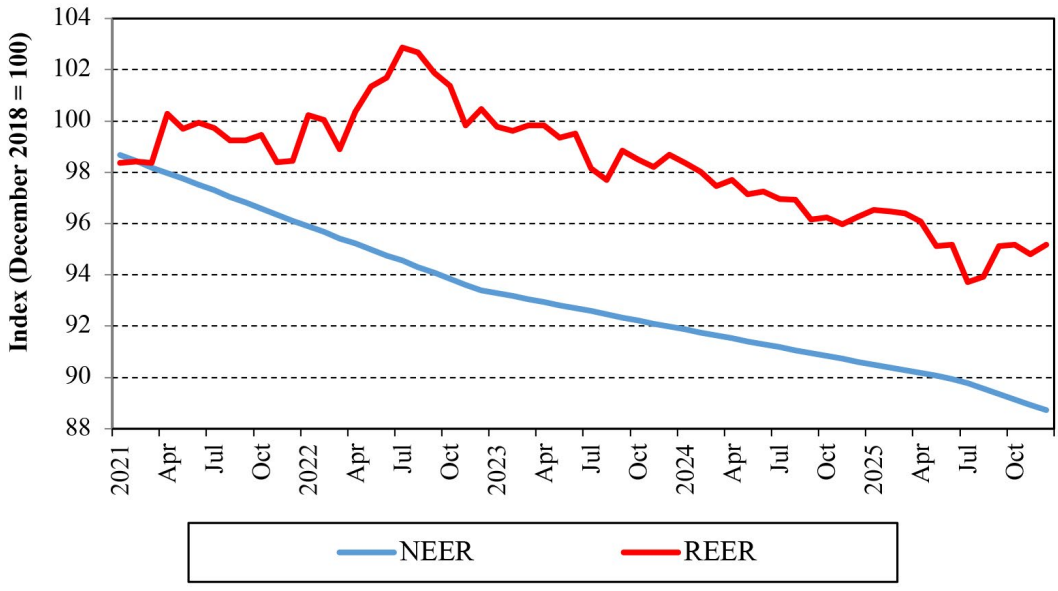
3.16 In the context of strengthening the financial safety net to reinforce resilience and credibility in an evolving macroeconomic environment, the Bank, in collaboration with the Ministry of Finance, is developing an emergency liquidity assistance (ELA) framework for commercial banks. The framework will establish clear eligibility criteria, collateral requirements, governance structures, and risk mitigation measures to enable timely and effective liquidity support to solvent institutions, while safeguarding the Bank's balance sheet and minimising moral hazard. This initiative marks a crucial enhancement of Botswana's financial stability architecture, strengthening crisis preparedness and reinforcing confidence in the financial system as monetary and exchange rate policies adapt to current challenges.

(c) Implementation of Exchange Rate Policy

3.17 Implementation of the exchange rate policy in 2025 was aligned with the objective of maintaining a stable and competitive inflation-adjusted trade-weighted exchange rate of the Pula, a strategy designed to safeguard both economic stability and external competitiveness (see Box 1). To achieve this, the Bank implemented the policy using the Pula basket weights of 50 percent each for the ZAR and the SDR. An annual downward rate of crawl of 1.51 percent was implemented from January 2025, followed by an adjustment to 2.76 percent in July 2025. This shift was complemented by a widening of the Pula trading margins around the central parity with respect to the buy and sell rates. Initially set at ± 0.125 percent, the margins widened to ± 0.5 percent in January 2025 and further to ± 7.5 percent from 11 July 2025. These strategic measures were intended to enhance exchange rate flexibility, support the development of an active interbank foreign exchange market, reduce reliance on the Bank for foreign-currency transactions and preserve official foreign exchange reserves.

3.18 Consequently, the trade weighted nominal effective exchange rate (NEER) of the Pula depreciated by 2.1 percent in 2025. More notably, the REER depreciated by 1.1 percent, reflecting a nominal depreciation that more than offset the positive inflation differential between Botswana and its trading partner countries (that is, the rate of crawl was larger than the inflation differential between Botswana and the trade partner countries). This depreciation is indicative of some easing in real exchange rate pressures, ultimately contributing to a modest improvement in external competitiveness of domestic firms.

Chart 3.7: Nominal and Real Effective Exchange Rates



Source: Bank of Botswana.

3.19 Despite the positive responses to policy recalibration/adjustments, the current exchange rate policy framework remains closely linked to the maintenance of adequate foreign exchange reserves, which have been under significant pressure in recent years due to weaker receipts from diamond exports and with the import requirements remaining elevated. Foreign exchange reserves declined from P84.9 billion (18.3 months of import cover) in 2015 to an estimated P47.4 billion (6 months of import cover) in December 2025. This decline in the foreign exchange reserves underscores a key vulnerability for the sustainability of Botswana's exchange rate framework. However, the exchange rate parameter adjustments implemented in July 2025 contributed to a reduction in foreign exchange sales by the Bank of Botswana, as well as an increase in market trading, and supported the preservation of the official foreign exchange reserves, which stabilised at around 6 months of import cover in the second half of 2025. Fluctuations were largely due to the quarterly Southern African Customs Union (SACU) receipts and government external borrowings, (including financing from the African Development Bank (AfDB) and the OPEC Fund), as well as occasional large outflows. Notwithstanding, rebuilding external buffers remains important and will require strengthening external sector resilience and maintaining fiscal sustainability, including through diversified growth in export earnings and fiscal consolidation involving both enhanced domestic resource mobilisation and rationalisation and reinforcing control of government expenditure.

BOX 1: THE PULA EXCHANGE RATE FRAMEWORK EXPLAINED

Definition of Exchange Rate

An exchange rate is the price of one currency expressed in terms of another. It indicates how much of a foreign currency can be obtained/bought for a unit of domestic currency, or conversely, how much domestic currency is needed to acquire a unit of foreign currency.

Exchange Rate Policy Frameworks

An exchange rate policy framework refers to the set of rules and practices used by a country to manage the value of its currency in relation to foreign currencies within the global foreign exchange market.

Exchange rate policy frameworks range from fully flexible to fully fixed, with various managed options in between. In a flexible exchange rate framework, the exchange rate is freely determined by the market on the basis of demand and supply, and sentiments about the economy. In a fixed exchange rate regime, the domestic currency is linked to another currency or a basket (combination) of other currencies. In between flexible and fixed exchange rates, there is a range of, usually managed, exchange rate frameworks, such as crawling bands or crawling pegs which allow limited, guided adjustments over time.

Botswana's Exchange Rate Policy Framework

From 2005, Botswana adopted and implemented a crawling peg exchange rate policy framework that has **three** key attributes.

First, the Pula is fixed to a basket of foreign currencies, namely the SDR (comprising, the US dollar, British pound, euro, Japanese yen and Chinese Renminbi) and the South African rand.

Second, is the weight of these currencies in the Pula basket (proportions that each of these currencies contribute to the value of the Pula).

Third, is the annual rate of crawl, which is the pace at which the exchange rate is allowed to gradually depreciate or appreciate. This amount typically reflects the inflation differential between Botswana and its trading partner countries.

Botswana's Exchange Rate Policy Objective

The policy objective is to maintain price competitiveness of local producers for similar products in both the domestic and international markets by equalising the

exchange rate-adjusted prices. In general, this is done through adjusting the nominal Pula exchange rate by an amount that reflects the differences in inflation between Botswana and the trading partner countries. That is, **the rate of crawl**.

For example, if a bag of potatoes is currently P100 in Botswana and R130 in South Africa at an exchange rate of P1 = R1.30, and assuming transport costs are not embedded in the price, Botswana's producers face similar market price as South African producers and are therefore competitive. If, however, inflation in Botswana rises to be 5 percentage points higher than in South Africa, this competitiveness is eroded, hence Botswana producers will be disadvantaged as it would be cheaper to purchase the same bag of potatoes in South Africa, holding all other things constant. Therefore, to maintain competitiveness, the Pula exchange rate needs to adjust downward by 5 percent (**rate of crawl**), thereby maintaining a stable REER.

The exchange rate and competitiveness must also reflect the structure of Botswana, not only in goods and services, but also in cross -border investment flows. Botswana's major trading partners are South Africa and the countries whose currencies make up the IMF Special Drawing Rights (SDR) basket, namely, the USA, UK, euro area, China and Japan. This underpins the Pula currency basket comprising 50 percent South African rand and 50 percent SDR. These proportions are based on observed historical trade pattern and are reviewed semi-annually to ensure continued relevance. Moreover, pegging the Pula to a basket rather than a single currency helps to smooth fluctuations, moderating volatility against any single currency. This explains why during periods of sharp movements in the rand or other currencies; the Pula tends to remain relatively stable.

2026 Pula Exchange Rate Parameters

In Botswana's crawling peg exchange rate framework, the Ministry of Finance, in collaboration with the Bank of Botswana, conducts semi-annual reviews to ensure that the Pula exchange rate remains aligned with the objective of maintaining a stable and competitive REER. This supports the competitiveness of domestic producers in international markets and underpins economic growth.

For 2026, inflation in Botswana is expected to exceed that of trading partner countries. Accordingly, the annual downward rate of crawl is maintained at 2.76 percent, implemented through small daily adjustments that cumulatively reach this target over a twelve-month period. The Pula currency basket weights remain at 50 percent South African rand and 50 percent for the SDR, moderating volatility against the South African rand and supporting competitiveness in Botswana's key trading partner market.

To further enhance export competitiveness, asymmetric Pula trading margins were introduced. The Bank of Botswana buy rate was reduced from 7.5 percent to 3 percent relative to the central parity, while the sell rate remained at -7.5 percent. This adjustment is expected to increase the amount of Pula received by exporters when they convert their foreign-currency earnings, thereby encouraging the timely repatriation and conversion of export proceeds into Pula. It should also stimulate more active trading within the interbank foreign exchange market, reducing dependence on the Bank for the supply of foreign currency. Collectively, these measures aim to strengthen export competitiveness, support external sustainability and reinforce the credibility and resilience of the crawling peg regime.

The Benefits of the Crawling Peg Framework for Botswana

The current crawling peg framework provides several benefits for Botswana, which are as follows:

(a) it affords the flexibility needed to make timely adjustments to address deterioration in international price competitiveness of the domestic industry;
(b) adjustments occur gradually; therefore, the framework avoids sharp or disruptive exchange rate movements, thereby supporting overall financial and economic stability;
(c) the preannounced rate of adjustment provides predictability, allowing households, businesses and investors greater confidence in making their economic plans and decisions as the pace of exchange rate adjustment is known in advance and maintained for a full year;
(d) the framework complements the overarching monetary policy goal of maintaining price stability, ensuring consistency between exchange rate management and the inflation objective; and
(e) the use of a currency basket moderates volatility by preventing excessive movements of the Pula against any single currency, thereby contributing to a more stable external environment.

In contrast, alternative exchange rate arrangements could present the following disadvantages:

(a) For a small, undiversified economy like Botswana, with irregular and lumpy foreign exchange flows, a floating exchange rate regime could lead to large exchange rate fluctuations, which may disrupt price determination and economic activity. In addition, sustained exchange rate movements, especially appreciation, could undermine competitiveness of the non-mining sector and hinder diversification efforts;

(b) A fixed hard peg may often require adjustments that are large and discrete, which can have destabilising disruptive impact. For example, a large devaluation with significant inflationary impact; and

(c) A peg to a single currency would expose the Pula to fluctuations and shocks in that currency, potentially leading to policy responses that are inconsistent with the needs of the domestic economy at the time.

Limits of Exchange Rate Adjustments on Industry Competitiveness

While deliberate exchange rate adjustments may provide short-term gains in price competitiveness, achieving the desired long-term benefits requires adequate production capacity and productivity improvements in the domestic industry. In addition, for government institutions, there should be effective implementation of plans and programmes. Overall, therefore, there is need for general entrenchment and traction of structural transformation and policy reforms, as these are fundamental to industrialisation and productivity improvements that would enhance competitiveness of domestic producers within a low inflation environment.

Transparency and Market Information

The announcements of the Pula exchange rate parameters and any adjustments are intended to enhance transparency and maintain integrity of the framework. In this regard, by making information about the Pula basket weights and rate of crawl publicly available, both the market and the general public can plan investments and transactions based on reliable and transparent data, which supports informed economic decisions.

(c) Fiscal Policy

3.20 According to the 2026/27 Budget Speech, the overall budget deficit for 2025/26 has been revised upwards by 15.2 percent, from P22.1 billion (7.6 percent of GDP) estimated in the original budget, to P25.5 billion (9.3 percent of GDP). This revision was driven by a 5.7 percent downward adjustment in total revenue and grants, from P75.5 billion to P71.2 billion, mainly reflecting a 23.4 percent downward revision in mineral revenue from P15.8 billion to P12 billion. Similarly, non-mineral income tax was revised downwards by 14.2 percent, from P19 billion to P16.3 billion. In contrast, VAT was revised upwards by 13.3 percent from P12.1 billion to P13.7 billion, while SACU revenues were revised upwards by 2.6 percent, from P24.4 billion to P25 billion. Meanwhile, total expenditure and net lending were revised downwards by 0.9 percent from P97.6 billion to P96.7 billion, owing to a 3.8 percent downward revision in development expenditure from P23.8 billion to P22.9 billion, while the original recurrent expenditure estimates were unchanged at P74 billion. The upward revision in the fiscal deficit estimate

signals that overall economic performance remains weak, reflecting subdued global economic conditions. Although geopolitical tensions, including the conflict in Ukraine, have contributed to volatility in the diamond market, the recent decline in demand for diamond jewellery and rough diamonds is more strongly linked to broader economic challenges, increased competition from synthetic diamonds, and weakened consumer demand in key markets such as China.

3.21 Despite these challenges, government has embarked on a fiscal consolidation drive to support short- to medium-term fiscal sustainability, reported to be yielding results. The effort entails strengthening prudent mobilisation and management of public resources and, among others, involve improved tax administration, stronger revenue collection, and efficiency-focused spending reforms.

3.22 Government's deficit financing strategy remains broadly unchanged. As of December 2025, total Government debt (including sovereign guarantees) was estimated at P90 billion (33 percent of GDP), driven mainly by domestic debt at P56 billion (20.5 percent of GDP), breaching the domestic statutory limit of 20 percent, while external debt was at P34 billion (12.5 percent of GDP). Given the estimates for budget deficits, the debt is estimated to reach 38.8 percent of GDP by end of 2025/26 and breach the statutory debt limit by end of 2026/27 at 44.7 percent of GDP, which would require recalibration of the current statutory debt limit of 40 percent of GDP. In this environment, maintenance of an appropriate deficit financing plan and debt management framework are important for cost effective raising of finance and continuance of fiscal sustainability. Government, therefore, remains committed to closely monitoring short-to-medium term fiscal needs, debt risks and maintaining its capacity to borrow cost effectively, as well as meeting repayment obligations.

(d) Employment and Wage Developments

3.23 According to Statistics Botswana, unemployment remains high at 27.6 percent and significantly higher among the youth (38.2 percent), illustrating the scale of the challenge the budget and economic transformation initiatives seek to address. Elevated unemployment, especially among young people and graduates, remains a significant structural challenge, underscoring the urgent need for sustainable job creation. The Government, through the Botswana Economic Transformation Programme (BETP) and the Twelfth National Development Plan (NDP 12), is advancing economic diversification to foster private sector–led growth. At the same time, skills development and education reforms, including strengthened Technical and Vocational Education and Training (TVET) aim to better align the labour force with evolving market demands.

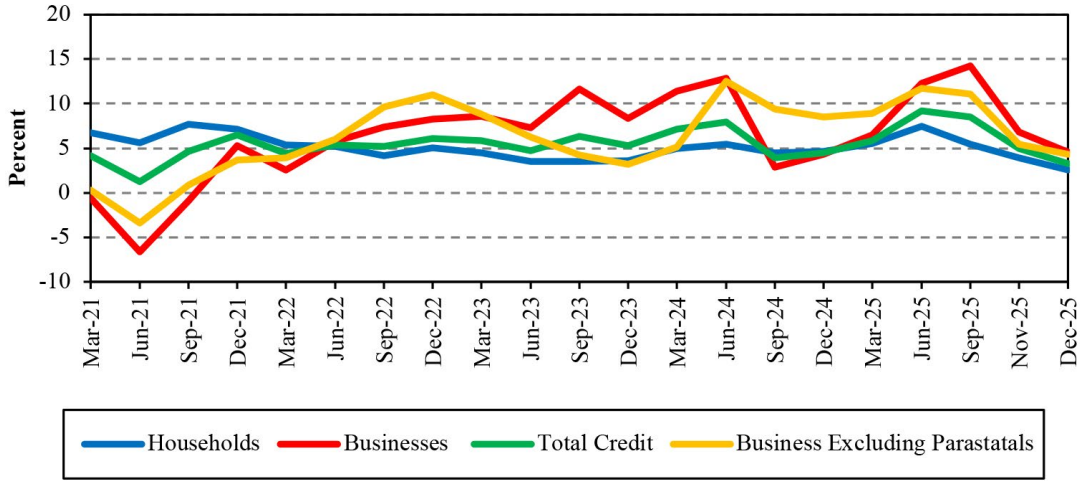
3.24 The 2026/27 Budget does not provide for any wage increases for the public service; therefore, no demand-driven inflationary pressures are expected from public sector wages. Instead, the Budget emphasises fiscal discipline, including measures to contain the rising government wage bill through audits and stricter controls on wage expenditure.

3.25 Overall, Botswana's employment outlook remains challenging, reflecting structural rigidities, weak labour absorptive capacity, and low productivity growth. Therefore, as the country navigates the constrained fiscal environment, there is an urgent need to address structural constraints, accelerate economic diversification and, generally, enable job creation. These priorities are essential not only to counteract structural rigidities but also to ensure long-term financial stability and unconstrained conduct of macroeconomic policies.

(e) Credit and Financial Stability Review

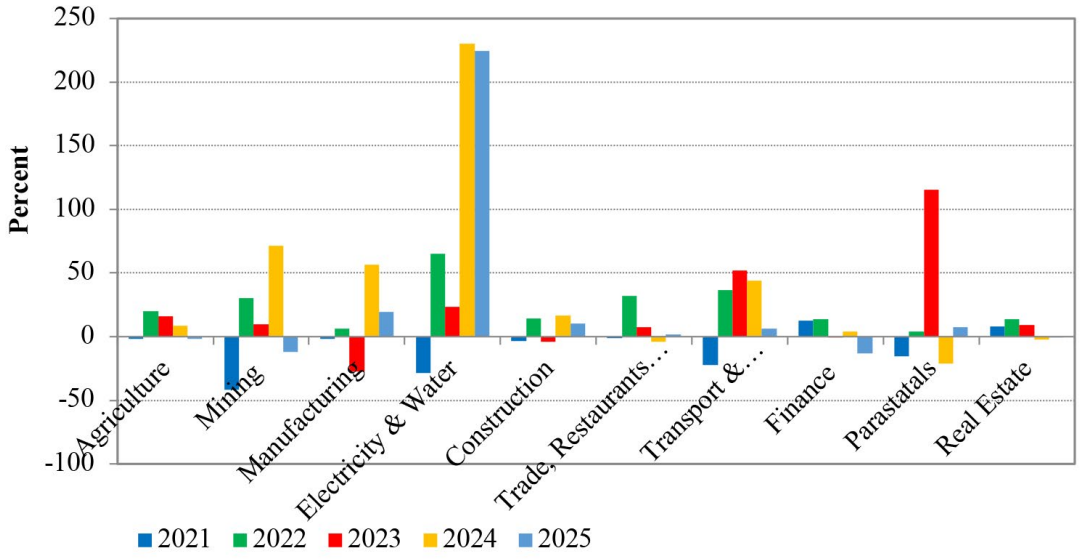
3.26 Annual growth in commercial bank credit decelerated to 3.3 percent in 2025 from 6.5 percent in 2024, signalling tighter credit conditions (Chart 3.8). The slower growth in commercial bank credit was indicative of the decrease in loan demand by both businesses and households. Annual credit expansion for businesses decelerated to 4.6 percent in 2025 from 10 percent in 2024, in the context of constrained economic activity and liquidity distribution challenges that also manifested in an increase in market interest rates. Lower rates of increase in credit were mostly with respect to trade, finance, transport and communications, agriculture, construction, manufacturing and mining sectors (Chart 3.9). Meanwhile, annual growth in credit to businesses excluding parastatals was 4.3 percent in 2025, a sharp decline from 13.9 percent growth in 2024. Given largely subdued economic activity, it would be necessary to continue to pursue policy and operational improvements and recalibrations to foster appropriate transmission of an accommodative policy stance that reflects in easier monetary conditions.

Chart 3.8: Year-on-Year Commercial Banks' Growth in Total Credit



Source: Bank of Botswana.

Chart 3.9: Annual Growth of Commercial Banks Business Credit by Industry



Source: Bank of Botswana.

3.27 For households, annual credit growth slowed to 2.6 percent in 2025, from 4.6 percent in 2024. The lower annual increase in household credit was due to a decline in rates of growth for unsecured personal loans, mortgages and motor vehicle loans from 6 percent to 3.9 percent, 1 percent to zero, and 8.6 percent to -2.4 percent, respectively, during the period under review. This was mainly attributable to reduced loan disbursements owing to tighter lending conditions. Growth in credit card loans, however, increased from -0.7 percent to 4.2 percent. Overall, the share of mortgages in total household credit decreased from 26.9 percent to 25.9 percent, while the share of unsecured personal loans in total household credit decreased slightly from 64.2 percent to 63.6 percent owing to utilisation of individual term loans in the period under review.

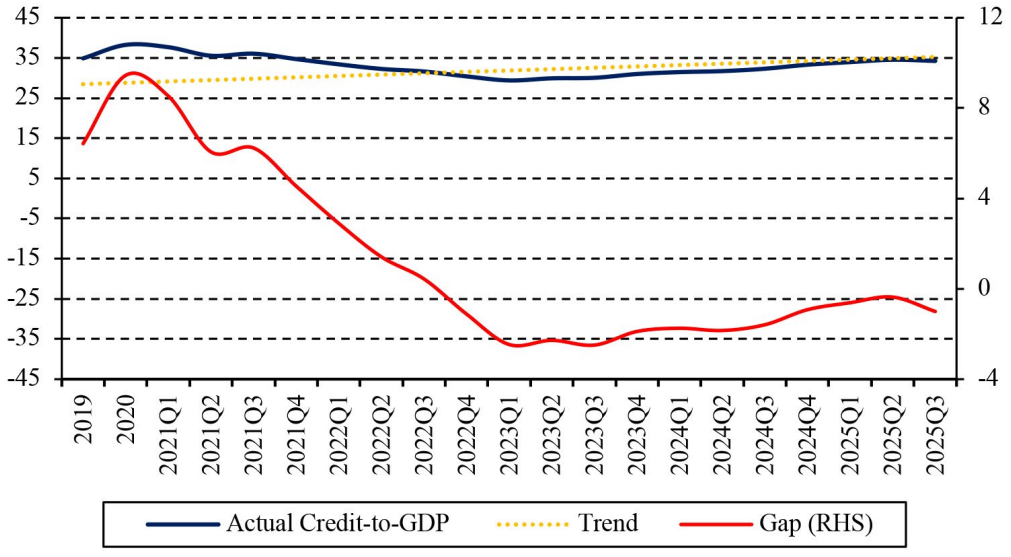
3.28 Despite the slowdown, in general, credit growth remains broadly supportive of economic activity. Notably, the credit-to-GDP ratio increased slightly in 2025 (Table 3.2), indicating the steadily growing importance of credit in supporting economic activity, albeit remaining comparatively low by global trends (Appendix, Table A2). In this context, there continues to be scope for prudent credit extension to enhance support for economic activity. Credit developments do not pose limited risks to financial stability as indicated by a negative credit-to-GDP gap (Chart 3.10). The gap was at minus 2.2 percent in September 2025, indicating the absence of rapid and excessive credit growth that could cause a credit bubble.

Table 3.2: Commercial Bank Credit-to-GDP Ratio

	Percent of GDP				
	2021	2022	2023	2024	2025[2]
Total Commercial Bank Credit[1]	**33.1**	**30.4**	**31.0**	**33.1**	**34.0**
Business	**11.2**	**10.5**	**10.8**	**11.9**	**12.4**
Parastatals	0.7	0.6	1.2	0.9	1.2
Agriculture	0.6	0.6	0.7	0.7	0.8
Mining	0.1	0.2	0.2	0.3	0.2
Manufacturing	0.7	0.7	0.5	0.7	0.8
Construction	0.4	0.4	0.4	0.4	0.4
Trade	2.3	2.2	2.1	2.5	2.5
Transport and Communications	0.2	0.2	0.4	0.5	0.5
Finance and Business Services	3.0	2.7	1.1	1.2	0.9
Real Estate	2.3	2.2	2.3	2.2	2.2
Households	**21.9**	**20.2**	**20.2**	**21.2**	**21.6**
Retail Credit[3]	16.9	14.7	14.6	15.5	16.0
Mortgage	5.1	5.4	5.6	5.7	5.6

Source: Commercial banks, Statistics Botswana and Bank of Botswana calculations.
Notes: 1. Although not shown in the table, electricity and water, other and non resident sub sectors are included in the business credit-to-GDP ratio.
2. Data covering the twelve months to September 2025.
3. Includes motor vehicle, personal and credit card loans.

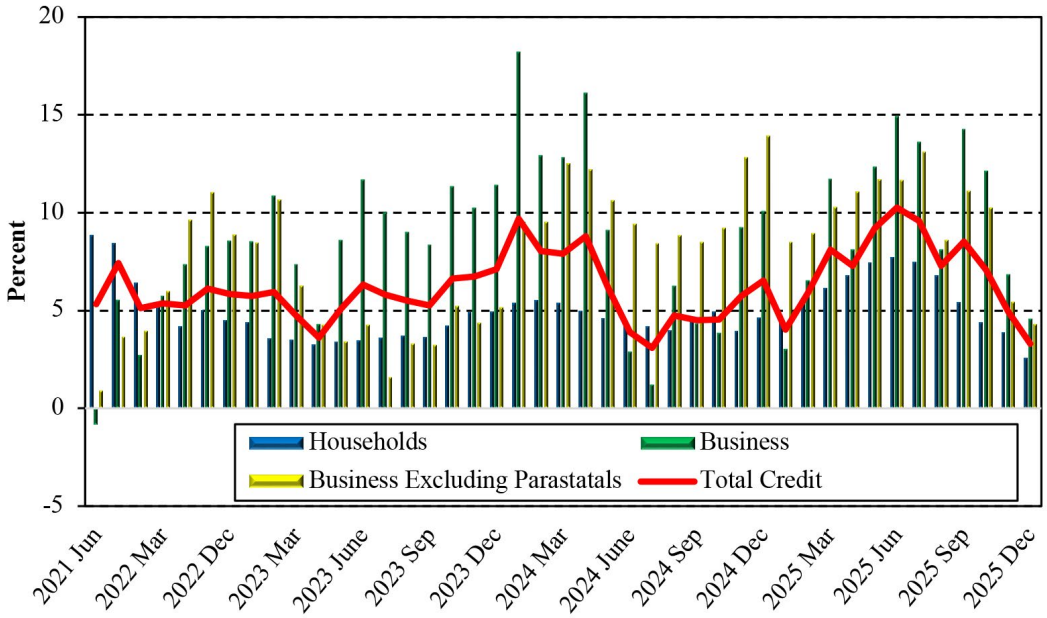
Chart 3.10 : Aggregate Credit to GDP Gap (Percent)



Source: Bank of Botswana.

3.29 The annual growth in deposits at commercial banks increased modestly to 3.3 percent in 2025 from 3 percent in 2024. There were contrasting movements across deposit categories. Household deposits growth slowed sharply, expanding by only 5.3 percent compared with a much stronger growth of 12.9 percent in the previous year, while business deposits (excluding parastatals) rebounded significantly, shifting from a contraction of 0.6 percent to a notable increase of 7.2 percent (Chart 3.11). Deposits in foreign-currency accounts increased by 1.1 percent in the same period. The financial intermediation ratio, representing the relationship between bank lending and deposits, remained constant at 81.2 percent in 2025, the same as in 2024, indicating that banks were using deposits to support lending, even amidst subdued economic activity.

Chart 3.11: Household and Business Credit Annual Growth Rates (Percent)



Source: Commercial banks.

3.30 In 2025, the Financial Stability Council (FSC) assessed that the financial system was resilient, robust, safe, sound and continued to provide a range of financial services to support the economy. This resilience was underpinned by strong policy frameworks, effective regulatory and supervisory structures, robust financial market infrastructures, as well as sustained profitability across both banks and non-banks. The FSC, however, noted risks associated with subdued economic growth, liquidity distribution, climate change and sectoral vulnerabilities. These risks underscore the need for continued vigilance and policy coordination, particularly in the calibration of monetary and exchange rate policies, to preserve financial stability and strengthen the system's capacity to support sustainable and inclusive growth in the period ahead.

3.31 Banks' asset quality remained strong in 2025 as reflected in maintenance of a low non-performing loans (NPLs) ratio (declining from 3.4 percent in December 2024 to

3.3 percent in December 2025). Nonetheless, vulnerabilities persist because of the high share of unsecured lending, which accounted for 68.3 percent of household credit and 43.4 percent of total commercial bank credit in December 2025. This credit composition exposes households to repayment challenges in the event of a sharp increase in borrowing costs and heightens credit risk for banks should there be significant employment losses amid weak economic performance. Although these risks are partly mitigated by the predominance of lending to public sector employees, credit assessments based on verified income, and by insurance coverage for employment-related loan defaults, they remain a concern. Overall, capital adequacy, asset quality, liquidity and profitability indicators continue to meet prudential requirements, underscoring the soundness and stability of the banking system (Table 3.3). This provides policymakers with a degree of flexibility to pursue supportive monetary and exchange rate policies, while remaining attentive to evolving financial stability risks.

Table 3.3: Selected Performance Indicators of the Banking Sector

Capital Adequacy (Percent)	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025
Core Capital to Unimpaired Capital	66.5	64.9	70.4	72.3	73.0	70.8
Tier 1 Capital to Risk-Weighted Assets[1]	12.5	12.7	13.5	13.9	14.0	14.0
Capital Adequacy Ratio (CAR)[2]	18.7	19.5	19.1	19.2	19.2	20.3
Asset Quality (Percent)						
NPLs to Gross Loans	3.6	3.4	3.2	3.1	3.2	3.3
NPLs Net of Specific Provisions to Unimpaired Capital	9.1	9.3	8.1	7.3	7.6	7.1
Specific Provisions to NPLs	49.3	49.3	49.9	52.6	52.9	55.1
Liquidity (Percent)						
Liquid Assets to Deposits (Liquidity Ratio)[3]	17.3	18.7	18.6	17.8	20.5	19.8
Advances to Deposits (Intermediation Ratio)	77	81.3	83.8	82.0	82.1	81.2
Profitability/Efficiency (Percent)						
Return on Average Assets (ROAA)	3.7	3.7	3.6	3.2	5.3	4.5
Return on Equity (ROE)	35.1	35.6	32.3	29.3	56.8	49.2
Cost to Income	52	51.1	52.1	52.9	51.5	51.7

Source: Bank of Botswana.
1. Prudential lower limit is 7.5 percent – Basel II/III.
2. Prudential lower limit is 12.5 percent.
3. The minimum statutory requirement is 10 percent.

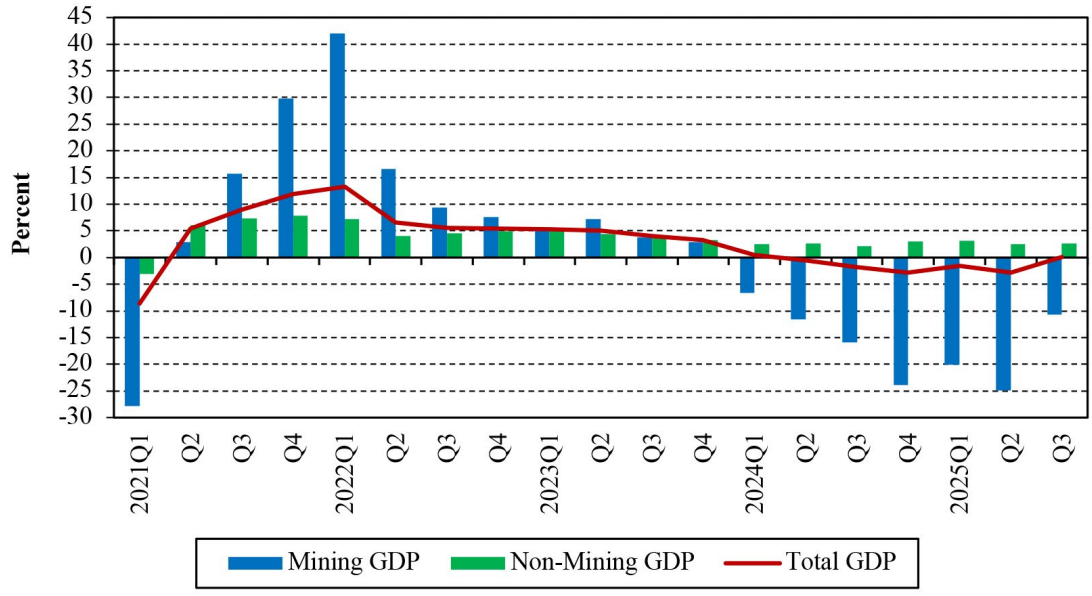
(f) Output and Price Developments

3.32 According to Statistics Botswana, real GDP in Botswana grew by 0.1 percent in the twelve months to September 2025, marking a modest recovery from the 1.7 percent contraction in the corresponding period of 2024 (Chart 3.12). While this turnaround signals an incipient stabilisation of economic activity, the pace of growth remains weak and fragile. The recovery was largely supported by growth in non-mining activities. Non-mining GDP grew by 2.6 percent in the year to September 2025, slightly higher than the 2.1 percent growth in the corresponding period in 2024. While most non-mining sectors grew, the expansion was generally modest, against the background of continuance of low productivity, prior drought conditions, and challenges associated with limited fiscal space. The low productivity and overall growth continue despite economic transformation initiatives[7], suggesting the need to improve implementation to achieve desired impact. Thus, the need to accelerate traction of transformation initiatives as outlined in NDP12 and the BETP.

3.33 The mining sector contracted by 10.7 percent in the year to September 2025, an improvement from the 15.9 percent decline in the year to September 2024. The smaller contraction was largely attributable to diamond mining, which declined by 11.4 percent in the year to September 2025, compared with a larger contraction of 17 percent in 2024. The natural diamond market for Botswana continues to be challenged by competition from substitutes, amidst weaker global demand. The persistent weakness in mining output underscores Botswana's exposure to external shocks and reinforces the need for export-led economic diversification supported by maintenance of an appropriate macroeconomic policy framework, and related macroeconomic stability.

7 Ongoing economic transformation initiatives include digital transformation, public-private partnerships, special economic zones and enhancement of the business environment.

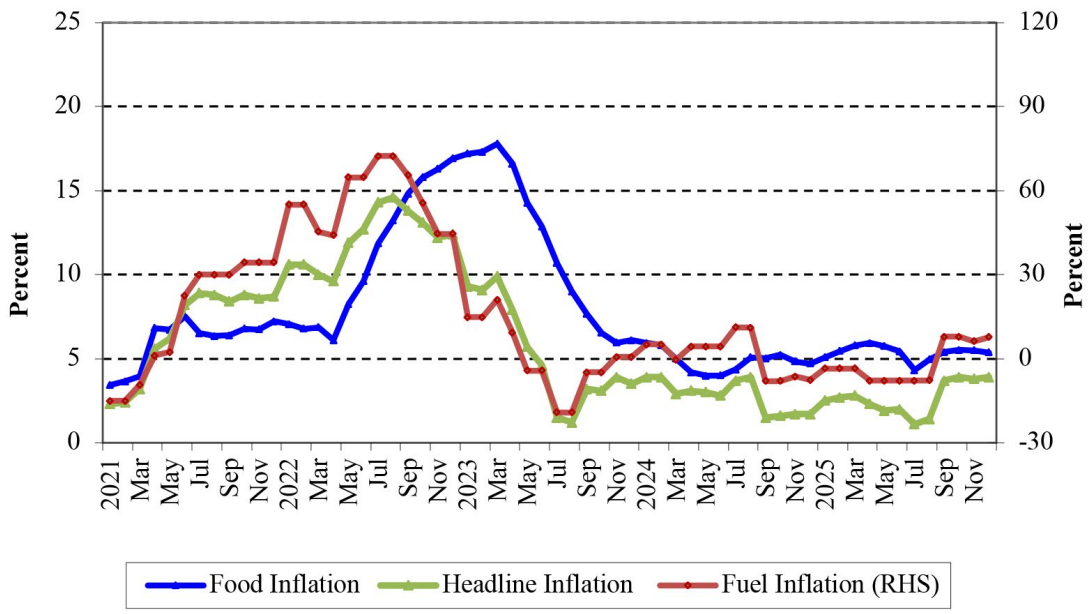
Chart 3.12: Annual Real GDP Growth Rates



Source: Statistics Botswana and Bank of Botswana calculations.

3.34 In 2025, inflation remained predominantly below the lower bound of the medium-term objective range of 3 – 6 percent, before reverting to the objective range from September 2025 (Chart 3.13). Thus, inflation averaged 2.7 percent in 2025, slightly lower than the 2.8 percent in 2024. These developments reflect a benign inflation environment that provided monetary policy space to support economic stabilisation during a period of weak growth. The lower inflation outcome in 2025 was mainly on account of the decrease in water and electricity tariffs for low-consumption households, as well as the decrease in fuel prices that resulted from the implementation of unitary pricing of petroleum products effected on 8 November 2025. In addition, subdued domestic demand amid the ongoing recession exerted further downward pressure on prices. Notwithstanding the overall low inflation environment, food price inflation increased from 4.8 percent in 2024 to 5.4 percent in 2025 owing to a broad-based increase in prices of fish; milk products; fruits; as well as coffee, tea and cocoa sub-commodity groups. Regarding core inflation measures, the 16 percent trimmed mean inflation increased from an average of 2.7 percent in 2024 to an average of 2.8 percent in 2025, while inflation excluding administered prices increased from 3.3 percent to 4.1 percent in the same period.

Chart 3.13: Headline, Food and Fuel Inflation



Source: Statistics Botswana.

4. OUTPUT AND INFLATION OUTLOOK

(a) Global Economic Prospects

4.1 The IMF's January 2026 WEO Update projects global economic growth to remain subdued at 3.3 percent in 2026, unchanged from 2025 and below the historical (2000 – 2019) annual average of 3.7 percent. Notably, the forecast for 2026 was revised upwards by 0.2 percentage points from the October 2025 WEO, reflecting stronger-than-expected economic momentum across major economies, underpinned by resilient consumption, stronger investment, and improved supply-side adjustments. Sustained investment in technology-intensive sectors, including digital infrastructure and artificial intelligence, has supported near-term productivity gains and lifted output prospects, while easing inflationary pressures and broadly supportive global financial conditions have helped preserve household purchasing power and business confidence. In addition, trade disruptions and geopolitical fallouts proved less damaging to near-term growth than previously anticipated, allowing global economic activity to carry more momentum into 2026. The growth forecast for 2027 was, however, left unchanged, as these positive developments are assessed to be largely cyclical and front-loaded, with underlying structural constraints, such as weak medium-term productivity growth, elevated debt levels, and persistent geopolitical risks, continuing to limit potential growth over the medium term.

4.2 Overall, risks to the global economic outlook remain skewed to the downside. While near-term growth prospects have improved modestly, heightened policy uncertainty, particularly surrounding trade, industrial and fiscal policies, continues to pose risks to consumption and private investment decisions. Further escalation of protectionist measures, including non-tariff barriers, could disrupt global supply chains, fragment trade flows, and weigh down on medium-term productivity growth. In addition, elevated fiscal vulnerabilities in several economies and lingering financial market fragilities heighten the risk of adverse spillovers, especially in the event of tighter global financial conditions. Of particular concern is the possibility that anticipated productivity gains from artificial intelligence may not materialise, which could undermine market confidence and threaten financial stability. These risks, combined with persistent geopolitical tensions, continue to weigh down on the global outlook despite recent signs of resilience.

4.3 Growth in advanced economies is projected at 1.8 percent in 2026, a slight increase from 1.7 percent 2025. In the US, real GDP growth is forecast to increase slightly from 2.1 percent in 2025 to 2.4 percent in 2026 owing to easing inflationary pressures and gradual normalisation of monetary policy, which could improve financial conditions and support consumption and investment, while the impact of earlier higher trade barriers is projected to wane gradually. Growth in the euro area is, however, forecast to decrease from 1.4 percent in 2025 to 1.3 percent in 2026, largely driven by weak external demand and subdued global trade, which are likely to limit export growth and fiscal consolidation efforts, as governments move to rebuild buffers and comply with fiscal rules, thus reducing public spending. Meanwhile, for the UK economy, growth is forecast at 1.3 percent in 2026 from 1.4 percent in 2025. The subdued outlook reflects the continued impact of tight fiscal policies and weak business investment, which constrain domestic demand and capital formation. In addition, labour market challenges, including rising unemployment and elevated wage pressures, are expected to further dampen economic activity.

4.4 For EMDEs, growth is expected to moderate to 4.2 percent in 2026, from an estimated expansion of 4.4 percent in 2025. The anticipated slowdown in growth is mainly due to lower growth prospects for India and China, as well as the combined effects of tight global financial conditions, elevated debt vulnerabilities and softer external demand. Growth in India is expected to ease from 7.3 percent in 2025 to 6.4 percent in 2026, largely due to weaker export growth and fiscal consolidation pressures, which could limit the government's ability to sustain high levels of public expenditure. Economic growth in China is also forecast to slow down from 5 percent in 2025 to 4.5 percent in 2026, reflecting prolonged structural headwinds and weak domestic consumption, fuelled by slow income growth. Despite this, the lower effective US tariff rates on Chinese goods because of a year-long trade truce of November 2025 are expected to have a positive effect on growth.

4.5 Global inflationary pressures are projected to moderate further in 2026, reflecting the cumulative effects of the slower pace of monetary policy easing implemented since 2024, which kept interest rates at relatively high levels, as well as the anticipated decline in international commodity prices, particularly of oil and

food. Moreover, continued unwinding of supply-side pressures and anticipated broad-based decrease in core inflation across regions could moderate inflationary pressures. Thus, inflation for advanced economies is forecast to ease from 2.5 percent in 2025 to 2.2 percent in 2026, while for EMDEs, it is forecast to decrease from 5.2 percent to 4.8 percent in the same period. Overall, global inflation is expected to ease from 4.1 percent in 2025 to 3.8 percent in 2026.

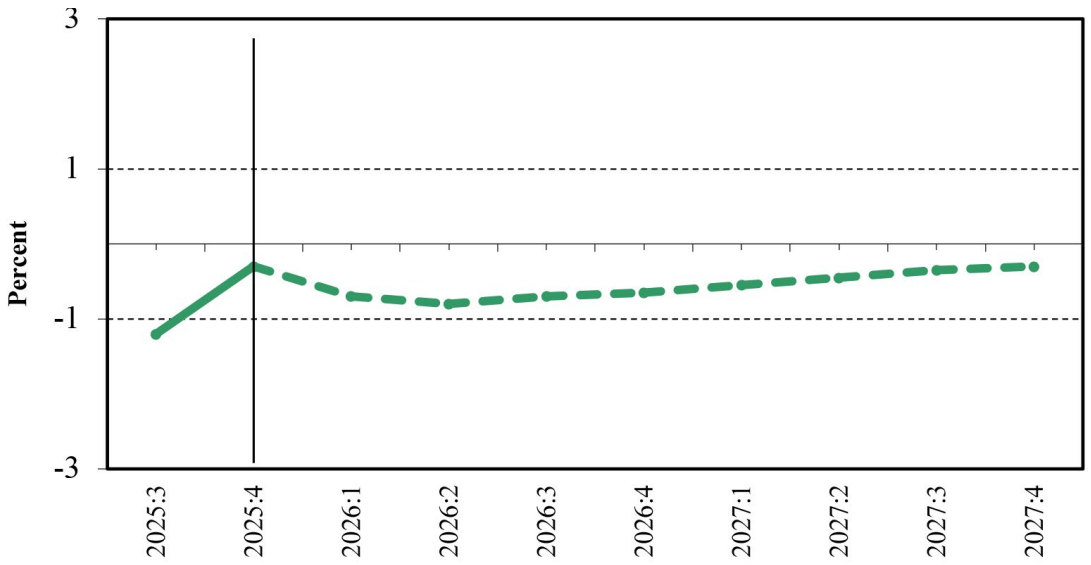
(b) Domestic Economic Prospects

4.6 Growth prospects remain subdued and well below the estimated 7 percent annual average growth required to lift the country to high income status by 2036. Botswana's real GDP is projected to rebound to a growth of 3.1 percent in 2026, from an estimated contraction of 0.4 percent in 2025. This recovery is expected to be driven primarily by stronger performance in non-mining sectors, supported by the implementation of economic diversification initiatives under NDP 12 and the BETP. Key drivers 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 ores with promising demand prospects. These interventions, alongside infrastructure upgrades and youth empowerment programmes, are expected to stimulate private investment and job creation. Furthermore, growth is expected to be bolstered by a moderate recovery in the mining sector as structural changes occur in the diamond industry. Efforts, such as intensified marketing of natural diamonds and the closure of the De Beers' Lightbox lab-grown diamond operation are anticipated to support diamond production and demand.

4.7 The implementation of these transformation initiatives is expected to persist through the medium term, providing a foundation for sustained economic recovery and a positive growth outlook (Chart 4.1). Although risks to the inflation outlook remain tilted to the upside, inflation is expected to be within the objective range in the medium term. This outlook supports maintaining a broadly accommodative monetary policy stance that would support economic activity, especially implementation of economic transformation initiatives.

4.8 As outlined in NDP 12, government has faced persistent budget deficits over the past five years, compounded by declining diamond revenues. Therefore, the fiscal consolidation strategy under NDP 12 focuses on establishing a sustainable level of expenditure growth without eroding fiscal buffers or increasing debt excessively, as well as identifying alternative growth drivers in non-mining sectors. Government's reliance on borrowing has increased, with the debt-to-GDP ratio rising to 32.8 percent in December 2025, up from 25.8 percent in December 2024. In the circumstances, the statutory Government debt limit would require an upward recalibration of the current statutory debt limit of 40 percent of GDP. This trajectory highlights mounting fiscal pressures and underscores the need for prudent debt management framework and macroeconomic policy alignment to safeguard financial stability and maintain policy flexibility in support of economic transformation.

Chart 4.1: Botswana Non-Mining Output Gap



Source: Bank of Botswana.

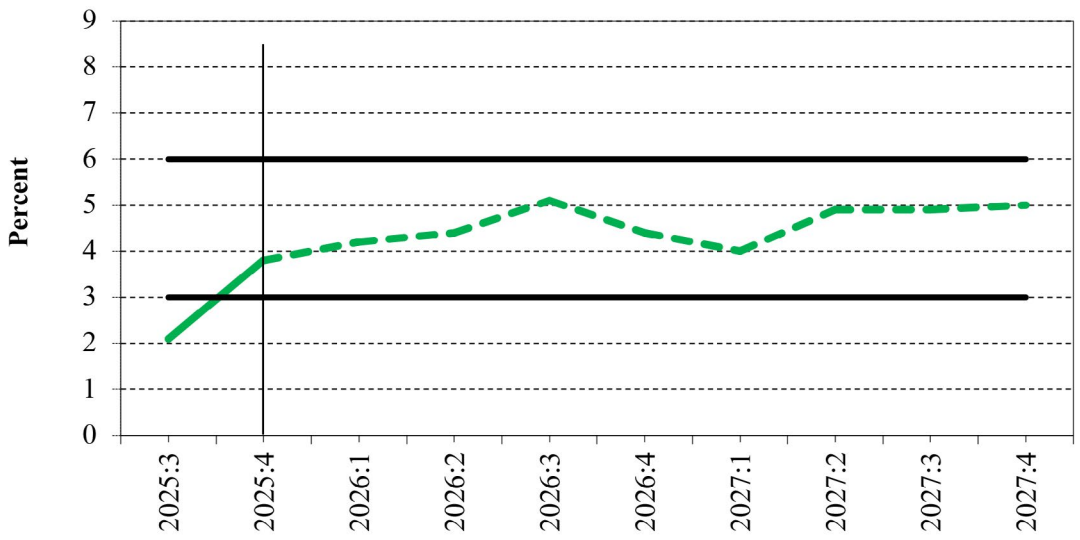
4.9 Inflation in Botswana is forecast to be higher than in the trading partner countries in 2026, necessitating a downward rate of crawl of the Pula exchange rate (NEER) to maintain stability of the REER. Maintaining REER stability is critical to safeguarding the competitiveness of domestic goods and services, supporting economic activity and promoting export performance. In this context, an annual downward rate of crawl of 2.76 percent for the NEER has been maintained for 2026. The Pula currency basket weights have also been retained at equal weights of 50 percent ZAR and 50 percent SDR to support the competitiveness of domestic goods and services in the South African market, Botswana's major trading partner.

4.10 Inflation is forecast to generally rise in the near term but to remain within the 3 – 6 percent objective range into the medium term, supported by stabilising exchange rate dynamics and prudent monetary policy management (Chart 4.2). The anticipated increase is due to a combination of cost-push pressures, second-round effects and base effects associated with adjustments in administered prices. The earlier adjustment of exchange rate parameters is also assessed to contribute marginally to the expected increase in inflation, given the high import intensity of the Botswana economy, although the direct market response to that adjustment is considered to have largely been absorbed. The projection also considers the maintenance of the Pula currency basket weights and the downward rate of crawl of 2.76 percent for 2026, as well as the relatively low projections for trading partner countries' inflation and international commodity prices. According to the December 2025 Business Expectations Survey, firms expect inflation to remain within the objective range in 2026, implying that inflation expectations are

well anchored. These developments provide policy space to maintain a supportive monetary policy stance, ensuring that price stability is preserved, while facilitating economic activity and competitiveness under the ongoing economic transformation agenda.

4.11 Overall, there is a greater risk of inflation being higher than currently projected mainly due to the proposed 46 percent[8] increase in electricity tariffs by Botswana Power Corporation in April 2026, which would have a notable inflationary impact, if it materialises. The anticipated increase in public transport fares is also expected to be inflationary. In addition, the outbreak of foot and mouth disease in Botswana in January 2026 and the resultant disease management measures through livestock movement and slaughter restrictions, may lead to higher food inflation. Furthermore, the proposed reduction in VAT zero-rated items in the 2026 Budget Speech may lead to higher inflation. Externally, international commodity prices could rise above current forecasts, and logistical constraints may persist. The effect of tariff increases globally is also expected to heighten inflation risks. Inflation could, however, be lower than projected if domestic and global economic activity remains subdued, fiscal space remains tight, or if international commodity prices fall.

Chart 4.2: Annual Headline Inflation Forecasts for the Medium Term



Source: Bank of Botswana.

8 A weighted average of an increase in tariffs for domestic (68 percent), government (41 percent), commercial (40 percent) and mining (40 percent) categories.

5. 2026 MONETARY POLICY STANCE

5.1 An evaluation of the determinants of inflation and factors influencing financial stability suggests that inflation will remain within the objective range in the medium term. This outlook reflects the expected moderation in international commodity prices, subdued domestic and global economic activity, and well-anchored inflation expectations. Moreover, the current levels of credit growth to both businesses and households are considered sustainable, supporting economic activity without generating excessive financial risk. Overall, the recent and prospective developments in both domestic and external economic activity suggest that the prevailing accommodative monetary policy stance remains appropriate for maintaining price stability, while supporting economic growth. In the context of projected higher inflation in Botswana than in the trading partner countries and an economy operating below potential in the short term, a measured depreciation of the Pula against trading partners remains consistent with maintaining domestic industry competitiveness and supporting growth prospects. Accordingly, implementation of the exchange rate policy will entail a 2.76 percent downward rate of crawl in 2026.

5.2 The Bank will continue to respond appropriately to changes in banking system liquidity conditions using relevant instruments, guiding the determination of market interest rates to ensure effective transmission of the monetary policy stance. The Bank will also support the development and functioning of the interbank market to facilitate efficient redistribution of liquidity among banks. Furthermore, the Bank promotes financial stability through prudential and market conduct supervision of commercial and statutory banks, as well as through coordinated oversight of the broader financial system. These measures, alongside prudent management and productive allocation of financial resources, are intended to support growth-enhancing intermediation, while safeguarding the resilience of the banking sector.

6. CONCLUSION

6.1 Domestic inflation averaged 2.7 percent in 2025, remaining below the lower bound of the medium-term objective range of 3 – 6 percent for the most part of 2025, reflecting a benign inflation environment that provided monetary policy space to support economic stabilisation during a period of weak growth. The lower inflation outcome in 2025 was mainly on account of the decrease in water and electricity tariffs for low-consumption households, as well as the decrease in fuel prices that resulted from the implementation of unitary pricing of petroleum products effected on 8 November 2025. In addition, the lower inflation was attributed to subdued domestic demand amid the ongoing recession.

6.2 Inflation is expected to generally rise in the near term but to remain within the 3 – 6 percent objective range into the medium term. The Bank's formulation and implementation of monetary policy will continue to focus on entrenching expectations of low, predictable and sustainable inflation, through a timely response to price developments, while ensuring that credit and other market developments are in line with durable stability of the financial system. The Bank remains committed to monitoring economic and financial developments to safeguard price and financial stability, without undermining sustainable economic growth.

6.3 Broadly, the Bank contributes to macroeconomic stability and policy congruence through the pursuit and attainment of its primary objectives and coordination with relevant institutions on matters relating to price and financial stability, as well as the stability of the inflation-adjusted trade-weighted exchange rate. As Botswana navigates a complex environment characterised by low foreign exchange reserves, fiscal consolidation and expenditure pressures, exchange rate adjustment and liquidity pressures, policy calibration necessarily places a premium on coherence, credibility and effective transmission. At the same time, this adjustment phase presents an opportunity to reposition the narrative from vulnerability to resilience, through policy innovation, strategic reform and disciplined rebuilding of buffers. By focusing and delivering on its specific roles, the Bank contributes to the maintenance of a conducive environment for structural reforms and transformation initiatives to gain traction, thereby improving prospects for higher, more diversified growth needed for the transition of the economy to high-income status. Given that monetary policy is accommodative, immediate implementation of transformation initiatives and structural reforms are expected to raise prospects for faster growth and economic diversification. In this context, sustained improvements in productivity and innovation (including greater production capacity) of industry, alongside stronger effectiveness of support institutions and service providers, will be indispensable for enhancing growth prospects for the economy in an environment of price and financial stability.

APPENDIX

Table A1: 2025 Monetary Policy Decisions

Central Bank	Policy Rate as at December 2025	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2026
United States Federal Reserve	3.5–3.75 percent	2	Decreased by 75 basis points	The Federal Open Market Committee (FOMC) decided to conclude the reduction of its holdings of treasury securities and agency debt, as well as agency mortgage-backed securities on 1 December 2025.	In assessing the appropriate stance of monetary policy, the FOMC will continue to monitor the implications of incoming information for the economic outlook. The Committee will be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.
Bank of England (BoE)	3.75 percent	2	Decreased by 100 basis points	On 5 November, the stock of UK government bonds held for monetary policy purposes was £555 billion.	The BoE stated that its monetary policy will continue to remain restrictive for sufficiently long until the risks to inflation, returning sustainably to the 2 percent target in the medium term, have dissipated further. 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 but acknowledged that a gradual approach to removing policy restraint remained appropriate.
European Central Bank[9]	2.15 percent	2	Decreased by 100 basis points	The Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP) portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.	The Council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.

9 The ECB has three key policy rates. These are the interest rate on the main refinancing operations, as well as the interest rates on the marginal lending facility and the deposit facility. The interest rate presented above is on the main refinancing operations.

Central Bank	Policy Rate as at December 2025	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2026
Bank of Japan (BoJ)	0.75 percent	2	Increased by 50 basis points	The BoJ provided forward guidance that it would slowly reduce the pace of corporate bond buying before fully stopping it. It shifted from negative interest rates to a 0-0.1 percent short-term rate range and now conducts JGB purchases without a specific yield target, planning a phased reduction from current levels to about JPY 2.7 trillion monthly in January-March 2026 and JPY 2.1 trillion by early 2027, through quarterly cuts of JPY 400 billion in early 2026 and then JPY 200 billion cut thereafter, to steadily unwind its roughly USD 5 trillion balance sheet.	The BoJ's future conduct of monetary policy will depend on developments in economic activity and prices, as well as financial conditions going forward.
Bank of Botswana	3.5 percent	3–6	Increased by 160 basis points	Not applicable	The policy adjustment was a recalibration to reinforce monetary policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity following a disconnect between policy rate and market interest due to a liquidity squeeze.
South African Reserve Bank (SARB)	6.75 percent	3–6	Decreased by 100 basis points	Not applicable	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.
People's Bank of China (PBOC)	3.0 percent	3	Decreased by 10 basis points	Not applicable	The PBoC is likely to maintain a low LPR until the economy has fully recovered.
Central Bank of Brazil	15.00 percent	4.5 ± 1.5	Increased by 275 basis points	Not applicable	The central bank highlighted that future interest rate adjustments will depend on inflation dynamics, projections, expectations and the balance of risks.

Central Bank	Policy Rate as at December 2025	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2026
Reserve Bank of India (RBI)	5.25 percent	4 ± 2	Increased by 100 basis points	Not applicable	RBI remains focused on bringing down inflation to the 4 percent target going forward, while supporting growth. Thus, RBI judged that monetary policy had limited space to further support growth, hence maintained the monetary policy stance as neutral.
Central Bank of Russia (CBoR)	16.00 percent	4	Decreased by 400 basis points	Not applicable	CBoR noted that although inflationary pressures had eased, they remained high, with risks judged to be on the upside, and signalled that it will keep borrowing costs at a restrictive level for a long period to achieve its inflation target.

Source: Surveyed central banks' websites.

Table A2: Credit to Private Sector by Banks (Percent of GDP)

	2022	2023	2024
United States of America	51.1	49.2	46.8
United Kingdom	128.6	119.4	112.6
China	186.2	194.7	231.0
Chile	82.6	79.9	74.9
Rwanda	22.8	22.6	22.5
Mauritius	72.4	67.1	69.8
Namibia	54.1	50.1	48.2
Kenya	31.2	31.6	…
South Africa	58.4	57.6	57.5
Botswana	**29.8**	**30.0**	**32.8**

Source: World Bank's World Development Indicators.

Notes:

1. Domestic credit to the private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises.
2. Data for 2025 is not available.

NOTES

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MONETARY POLICY COMMITTEE MEETING DATES FOR 2026

Date	Venue
26 February 2026	Bank of Botswana
30 April 2026	Bank of Botswana
18 June 2026	Bank of Botswana
27 August 2026	Bank of Botswana
29 October 2026	Bank of Botswana
3 December 2026	Bank of Botswana

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