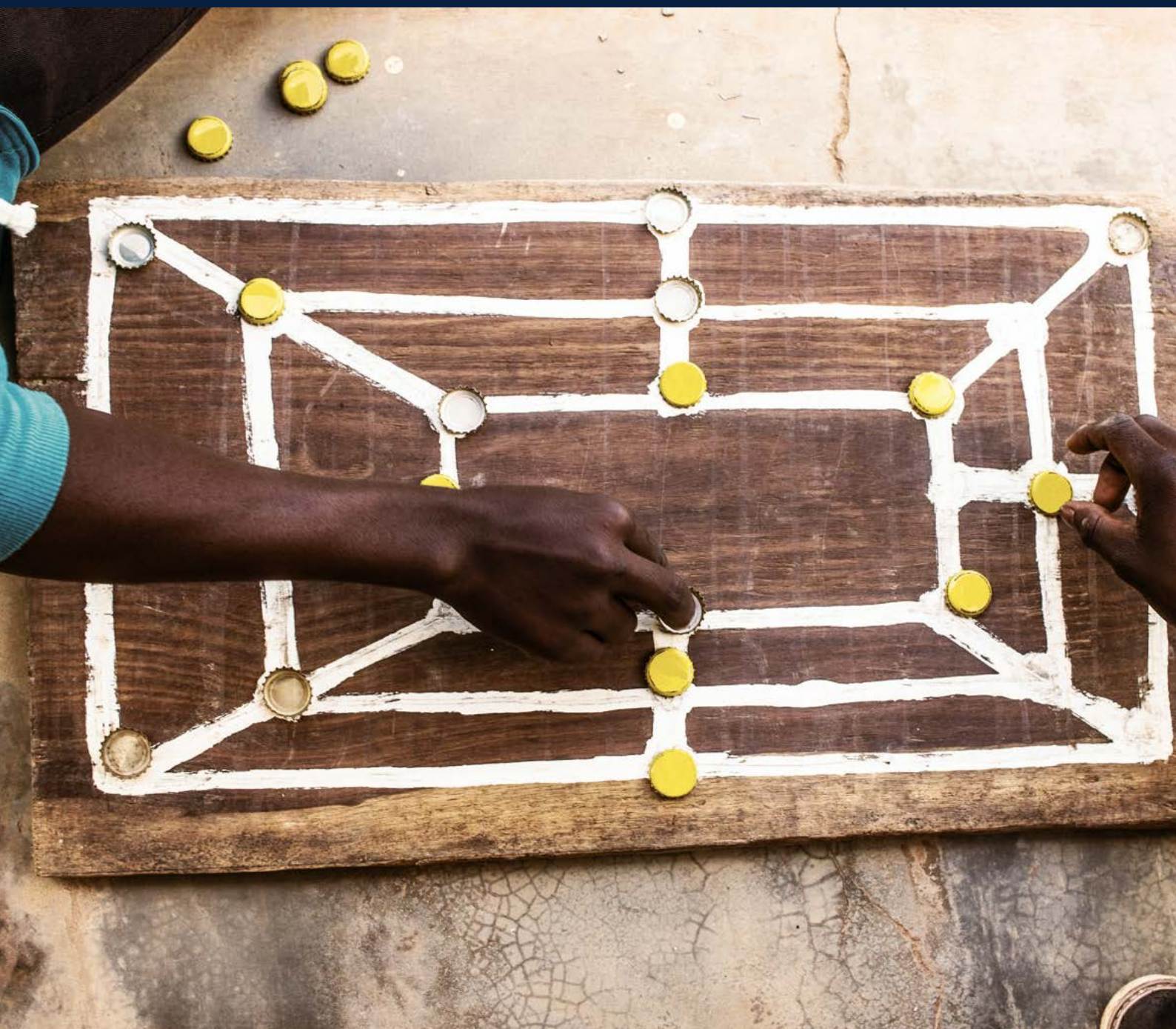




MONETARY POLICY REPORT

OCTOBER | 2025



STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
- a safe, sound and stable financial system;
- an efficient payments mechanism;
- public confidence in the national currency;
- sound international financial relations; and to provide:
 - efficient banking services to its various clients; and
 - sound economic and financial advice to Government



Monetary Policy Report

October 2025

17938, Khama Crescent, Gaborone, Botswana
Tel: 360 6000 | Website: www.bankofbotswana.bw

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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) informs the public about the conduct of monetary policy on a regular basis. It serves to meet the public's expectation of a transparent and accountable central bank in fulfilling the monetary policy mandate set out in the Bank of Botswana (Amendment) Act, 2022.

The MPR reviews macroeconomic performance and assesses factors that are likely to influence the inflation path in the medium term and, in turn, the Bank's future policy choices. 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 (see Box 1 on page 17 for the determination of the monetary policy inflation objective range for Botswana). Consequently, as of April 2022, the Bank uses the Monetary Policy Rate (MoPR) 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 band 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) that determine the value of the Pula 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 is up to 3 years and 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 by the MoPR. To support this signal, the Bank conducts open market operations, which entail, primarily, auctioning of the Bank of Botswana Certificates (BoBCs) through a fixed rate full allotment system, engaging in repo/reverse repo transactions with commercial banks (primary dealers), and issuing a one-month BoBC paper to address structural liquidity issues and support the construction of the short-end of the yield curve (see Box 2 on page 26 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. The Press Briefing allows for interaction with members of the media and facilitates understanding of the Bank's economic analysis and policy stance. Following the briefing, a Press Release is issued to inform the public of the Committee's decision regarding the MoPR and the rationale behind the policy choice.

The first MPC meeting of the year, held in February, is accompanied by the issuance of the Monetary Policy Statement, through which the Bank reports on inflation trends, 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. Cornelius Dekop
Governor (Chairman)



Dr. Kealeboga Masalila
(Deputy Governor)



Mr. Lesego Moseki
(Deputy Governor)



Mr. Innocent Molalapata
Director, Research and
Financial Stability



Ms. Baitshenotse Mmopelwa
Director, Financial Markets



Professor Patricia Makepe
External Member



Dr. Pinkie Kebakile
External Member



Dr. Onkokame Mthobi
External Member



Dr. Taufila Nyamadzabo
External Member

2. EXECUTIVE SUMMARY

In the first half of 2025, monetary policy was implemented in the context of projections for lower inflation in the short-to-medium term, due to subdued domestic and global economic activity as well as anticipated lower international commodity prices and trading partner countries' inflation. At its August 2025 meeting, the MPC projected that the domestic economy would continue to operate below full capacity in the short-to-medium term, with only marginal improvement expected in the medium term. Consequently, demand-driven inflationary pressures were not anticipated. Although inflation was expected to temporarily breach the upper bound of the 3 – 6 percent medium term objective range and risks to the inflation outlook were assessed to be on the upside, this was due to a one-off supply shock. Accordingly, the MPC maintained an accommodative monetary policy stance and left the MoPR unchanged at 1.9 percent, for the sixth consecutive meeting, following a cumulative rate cut of 50-basis points in 2024.

The Bank remains committed to formulating and implementing monetary policy in a manner that entrenches expectations of low, sustainable, and predictable level of inflation, while responding to emerging price developments. The Bank continues to prioritise price stability as a foundation for sustainable economic growth.

Global economic activity remains subdued on account of the lagged effects of restrictive monetary policy stance adopted during 2024; persistent trade tensions and policy uncertainty, particularly surrounding the United States of America (US) trade policies; geopolitical conflicts; extreme weather conditions; and low underlying productivity growth. In response to slowing global demand, many central banks loosened monetary policy, resulting in a general easing of financial conditions.

According to the International Monetary Fund (IMF)'s October 2025 World Economic Outlook (WEO), global economic performance remains uneven across countries and regions in 2025. The global economy is projected to grow by 3.2 percent in 2025, slightly lower than 3.3 percent in 2024, and below the historical (2000-2019) annual average of 3.7 percent. However, the forecast was revised upward by 0.2 percentage points relative to the July 2025 WEO Update projection, reflecting the front-loading of imports in the first half of the year; restructuring of supply chains to redirect trade flows; and the new trade agreements that partially offset previously announced tariff measures. For advanced economies, growth is forecast to decline to 1.6 percent in 2025, from 1.8 percent in 2024, while emerging market and developing economies (EMDEs) are expected to grow by 4.2 percent, down slightly from 4.3 percent in 2024.

Global inflationary pressures varied across regions in the third quarter of 2025. Inflation in advanced economies increased from 3.2 percent in the second quarter of 2025 to 3.3 percent in the third quarter, due to higher global food and oil prices, as well as the impact of US tariffs on goods and services. Meanwhile, inflation for emerging market economies decreased from 2.9 percent to 2.5 percent in the same period, owing to lagged effect of tight monetary policy and squeezed household budgets. The United Nations' Food and Agriculture Organization (FAO) food price index increased in the third quarter of 2025, mainly reflecting tighter seasonal supply from some major commodity exporting countries and the increase in vegetable oil prices, underpinned by strong global demand.

Domestically, headline inflation averaged 2.1 percent in the third quarter of 2025, down from 3.1 percent in the same period in 2024, mainly due to the decrease in water and electricity tariffs. The decline in inflation was further supported by subdued domestic demand amid the ongoing recession. However, inflation is forecast to increase and breach the upper bound of the objective range in the second quarter of 2026. This is mainly due to the impact of market response to the recent exchange rate parameter adjustments and the increase in domestic fuel prices effected on 15 September 2025.

Botswana's real gross domestic product (GDP) contracted by 3 percent in the twelve months to June 2025, a larger decline than the 0.6 percent contraction recorded in the year to June 2024. The performance mainly reflects the contraction in the mining sector and generally subdued growth for the non-mining sectors. The contraction in the mining sector is mainly due to a combination of external factors, such as subdued global demand, global economic uncertainty and geopolitical events, that have negatively impacted demand for luxury goods, such as diamonds. Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the ongoing economic transformation initiatives so far, continuance of low productivity and prior drought conditions, as well as challenges associated with limited fiscal space. Growth prospects remain subdued and well below the long-term growth rate required to meet Botswana's target of achieving high income status by 2036.

The current account recorded a surplus of P6.7 billion in the second quarter of 2025, compared to a surplus of P0.5 billion during the corresponding period in 2024. As at the end of August 2025, the official foreign exchange reserves amounted to P49.3 billion, 14.7 percent from P57.8 billion in August 2024, which translated into 6.2 months of import cover of goods and services.

Commercial bank credit growth accelerated from 4.5 percent in September 2024 to 8.5 percent in September 2025, primarily due to increased lending to the business sector and households. Lending to the business sector increased by 14.2 percent in the year to September 2025, higher than the 4.3 percent in the corresponding period in 2024, while lending to the household sector increased by 5.4 percent in the year to September 2025, higher than the 4.3 percent expansion in the corresponding period in 2024. Credit to businesses excluding parastatals increased by 11.1 percent in the year to September 2025, higher than the 8.5 percent expansion in the corresponding period in 2024. Moreover, credit to parastatals increased by 57.6 percent in the year to September 2025, compared to the 31.7 percent decrease in the twelve months to September 2024. Meanwhile, money supply (M2) increased by 0.9 percent in the year to July 2025, lower than the 14.2 percent expansion recorded in July 2024.

For 2025, the Bank's implementation of the exchange rate policy entails the Pula basket weights of 50 percent each for the South African rand and the IMF Special Drawing Rights (SDR). In addition, a downward annual rate of crawl of 1.51 percent was adopted in January 2025, followed by a further adjustment to 2.76 percent effected on 11 July 2025. Furthermore, effective 11 July 2025, the Pula trading margins between the buy and sell rates were widened from ± 0.5 percent to ± 7.5 percent to encourage the development of an active interbank foreign exchange market and reduce commercial banks' dependence on the Bank for foreign currency transactions, thereby helping preserve foreign exchange reserves held at the Bank.

The nominal effective exchange rate (NEER) of the Pula depreciated by 1.7 percent in the year to September 2025. In the year to August 2025, the REER depreciated by 3.1 percent, due to the depreciation of the NEER (the rate of crawl) and the lower inflation in Botswana compared to its trading partner countries, suggesting a gain in Botswana's export competitiveness, by this measure.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth remains subdued

According to the IMF's October 2025 WEO, the global economy is projected to expand by 3.2 percent in 2025, a slight decrease from the growth of 3.3 percent in 2024 (Table 3.1). The modest slowdown ongoing headwinds from uncertainty and protectionism, although the impact of tariff shocks has been smaller than originally announced.

The US economic growth accelerates

In the US, real output expanded by an annualised 3.8 percent (third estimate) in the second quarter of 2025, rebounding from a revised contraction of 0.6 percent in the first quarter of 2025, and surpassing market expectation of a 2.4 percent rise. The expansion was primarily driven by consumer spending, supported by pre-emptive purchases of goods such as vehicles, ahead of tariff hikes, and by reduced imports following prior stockpiling.

Euro area GDP expanded

In the euro area, GDP grew, year on year, by 1.5 percent in the second quarter of 2025, slightly higher than the initial estimate of 1.4 percent growth, but lower than the upwardly revised 1.6 percent expansion in the first quarter of 2025. The slower growth was attributable to fading front-loading effects from the previous quarter when imports to the US increased significantly ahead of the anticipated higher prices induced by tariffs. In addition, the impact of US tariffs implemented in July 2025, including a 15 percent levy on most EU goods, dampened trade and investment, particularly in export-reliant economies like Germany. Moreover, persistent uncertainty from unresolved US-EU trade deal and geopolitical risks further constrained business confidence and spending. Among the Bloc's largest economies, expansions were recorded in Spain (2.8 percent), France (0.8 percent), Italy (0.4 percent) and Germany (0.2 percent).

UK growth remained subdued

GDP growth in the United Kingdom (UK) was 0.3 percent in the second quarter of 2025, lower than the 0.7 percent growth in the first quarter and beating market expectation of a 0.1 percent increase. The growth was attributed to expansion in services, mostly administrative and support service activities and the construction sector.

Emerging markets' growth increased

Output growth in emerging markets increased in the second quarter of 2025, led by China and India. The Chinese economy grew by 5.2 percent in the second quarter of 2025, easing from a 5.4 percent expansion in the first quarter, but exceeded market expectations of 5.1 percent growth. The expansion of output in the second quarter was supported by the ongoing fiscal stimulus, as well as higher exports as firms accelerated shipments

ahead of anticipated tariffs at the time. China's economic growth slowed in the third quarter of 2025, growing by 4.8 percent, as problems in the property market persisted and trade tensions with the US intensified.

Meanwhile, the Indian economy grew by 7.8 percent year on year in the second quarter of 2025, accelerating from 7.4 percent from the previous period, significantly above market expectations of a 6.6 percent growth. The increase in output was driven by growth in manufacturing, construction, private consumption and public expenditures. Moreover, lower international food and oil prices contributed positively to consumption, while lower interest rates spurred investment.

Table 3.1: Growth Estimates and Projections

	Estimate		Projection	
	2023	2024	2025	2026
Global	3.5	3.3	3.2	3.1
Advanced economies	1.7	1.8	1.6	1.6
USA	2.9	2.8	2.0	2.1
Euro area	0.4	0.9	1.2	1.1
UK	0.4	1.1	1.3	1.3
Japan	1.2	0.1	1.1	0.6
EMDEs	4.7	4.3	4.2	4.0
China	5.4	5.0	4.8	4.2
Brazil	3.2	3.4	2.4	1.9
India	9.2	6.5	6.6	6.2
Russia	4.1	4.3	0.6	1.0
South Africa	0.8	0.5	1.1	1.2
			-0.9	2.3
Botswana	3.2	-3.0	(-0.4)	(2.9)

Source: IMF October 2025 WEO, while numbers in parenthesis are from the Ministry of Finance (MoF).

South African economy expanded

Regionally, output in South Africa increased by 0.8 percent in the second quarter of 2025, higher than the 0.1 percent recorded in the first quarter, marking the strongest quarterly growth since the second quarter of 2023. The growth is attributed to key industries including mining (3.7 percent), agriculture, forestry and fishing (2.5 percent), and manufacturing (1.8 percent), each contributing 0.2 percentage points to GDP growth. However, two industries contracted, being construction (-0.3 percent) and transport, storage and communication (-0.8 percentage points).

Global commodity prices

Rough diamond prices increased in the third quarter of 2025

The global rough diamond price index increased slightly by 0.4 percent from 127.2 points in the second quarter of 2025 to 127.7 points in the third quarter, supported by proactive production cuts by major miners and a general stabilisation of market conditions after a period of decline. Nonetheless, the rough diamond market continues to be impacted by increased competition from other luxurious goods, especially lab-grown diamonds, which are gaining popularity as a substitute product. 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 2015.¹

Polished diamond prices remained stable

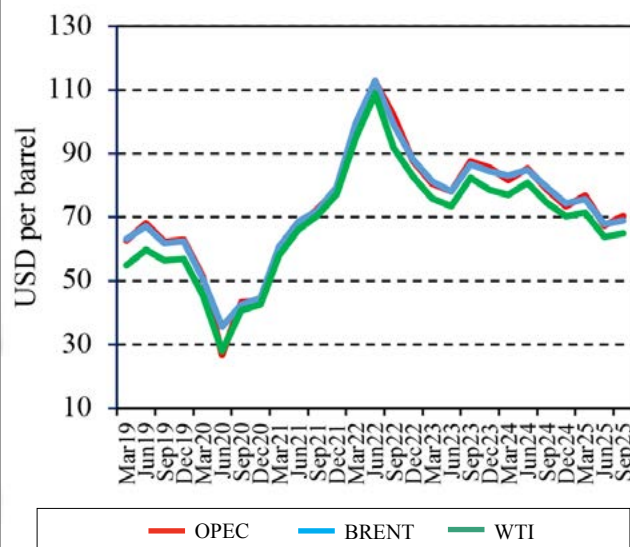
The global polished diamond price index was 84 points in the second quarter of 2025, unchanged from the first quarter. The index declined from 84 points in June to 83 points in July and August 2025, due to weaker demand and a challenging global economic outlook.

Oil prices increased in the third quarter of 2025

International oil prices increased in the third quarter of 2025 compared to the second quarter (Chart 3.1), with the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) increasing by 4.4 percent, 1.8 percent and 2 percent, from an average of USD67.39 per barrel, USD67.86 per barrel and USD63.81 per barrel in the second quarter of 2025 to an average of USD70.38 per barrel, USD69.09 per barrel and USD65.06 per barrel, respectively, in the third quarter of 2025. Price pressures stemmed from lower oil inventories, and production constraints in Russia and Iran due to a combination of geopolitical factors and sanctions by the US. Moreover, US's punitive tariff on India for purchasing Russian oil contributed to the relatively tight supply.²

However, international oil prices decreased marginally month on month in September 2025, with Brent crude averaging USD 67.95 per barrel, from USD68.20 per barrel in August 2025. The decrease in oil prices was due to a broadly oversupplied market amid weak demand and continued growth in US shale oil production.

Chart 3.1: International Oil Prices

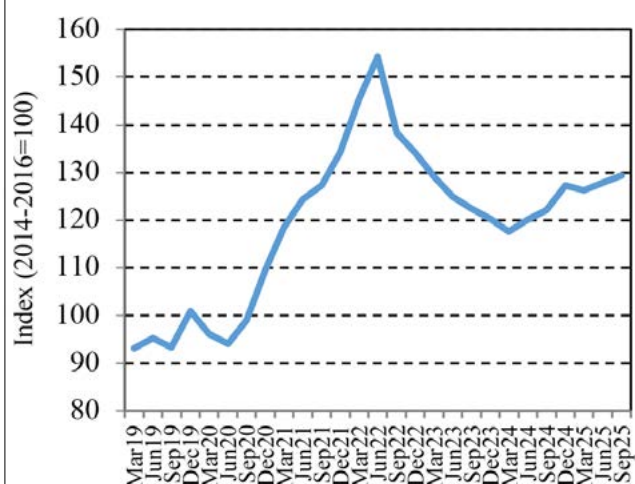


Source: Bloomberg

Food prices increased in the third quarter of 2025

According to FAO, the global food price index increased by 1.3 percent from an average of 127.8 points in the second quarter of 2025 to an average of 129.4 points in the third quarter (Chart 3.2). The increase primarily reflected tighter seasonal supply from some major commodity exporting countries, such as meat from Brazil and dairy products from New Zealand. Higher food prices were also attributable to the increase in vegetable oil prices, underpinned by strong global import demand amid increased price competitiveness.

Chart 3.2: Food Price Index



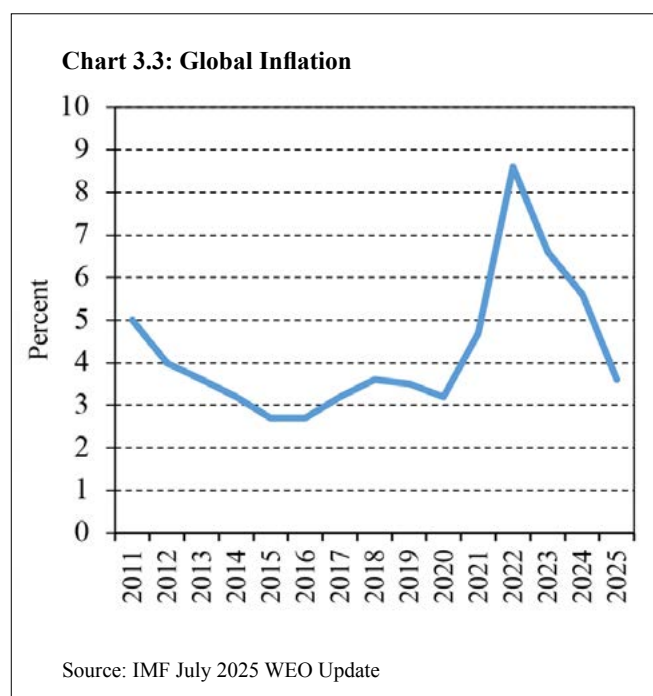
Source: FAO

¹ The data is sourced from Paul Zimmisky Diamond Analytics.

² On 6 August 2025, President Trump signed an executive order imposing an additional 25 percent tariff on India over its purchases of Russian oil and raising the total

Global inflationary pressures varied across regions in the third quarter of 2025

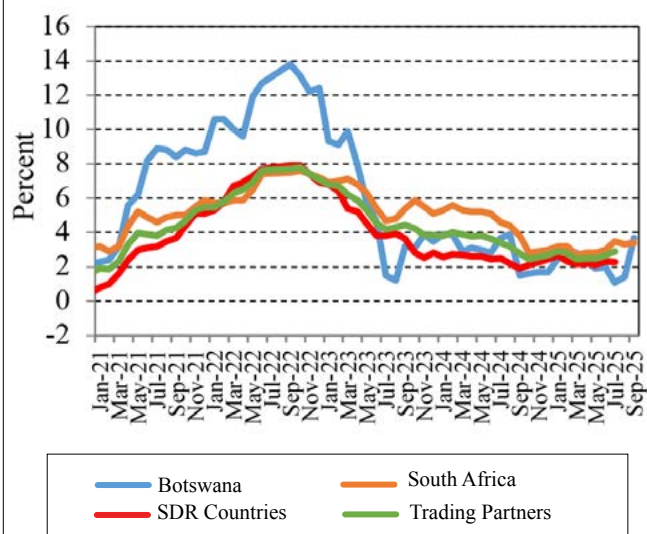
Global inflation eased from 6.6 percent in 2023 to 5.6 percent in 2024 (Chart 3.3). Inflationary pressures varied across regions in the third quarter of 2025³. Specifically, inflation for advanced economies increased from 3.2 percent in the second quarter of 2025 to 3.3 percent in the third quarter due to higher global food and oil prices, as well as the impact of US tariffs on goods and services. Meanwhile, inflation for emerging market economies decreased from 2.9 percent to 2.5 percent in the same period owing to lagged effect of tight monetary policy and squeezed household budgets.



In South Africa, headline inflation decreased from 3 percent in the first quarter of 2025 to 2.9 percent in the second quarter, breaching the lower bound of the South African Reserve Bank (SARB)'s target range of 3 – 6 percent. Headline inflation rose slightly to 3.4 percent in September 2025, from 3.3 percent recorded in August 2025.

The average trade-weighted inflation for Botswana's trading partner countries decreased from 2.7 percent in the first quarter of 2025 to 2.5 percent in the second quarter of 2025 (Chart 3.4). Meanwhile, trading partner countries inflation increased slightly from 2.7 percent in July to 2.9 percent in August 2025.

Chart 3.4: Botswana Inflation and International Inflation



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

Monetary policy divergence across the globe

In the most recent policy reviews, there was divergence in the monetary policy decisions (Table 3.2). In October 2025, the US Federal Open Market Committee (FOMC) cut the policy rate by 25 basis points to 3.75 – 4 percent. 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 is 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. In addition, the Committee 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.

The Bank of England (BoE) maintained its policy rate at 4 percent in September 2025, the lowest since March 2023. The BoE indicated that it would continue to closely monitor the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

The European Central Bank (ECB) maintained the deposit facility, the main refinancing operations and the marginal lending facility at 2 percent, 2.15 percent and 2.4 percent, respectively, in September 2025, marking the end of its easing cycle after eight cuts over the past year that brought

³ The quarterly inflation estimates are sourced from Bloomberg.

borrowing costs to their lowest levels since November 2022. The Governing Council implemented a wait-and-see approach, as they evaluate the impact of lingering trade uncertainty and the potential fallout from proposed US tariffs on economic growth and inflation. The Council emphasised that future policy decisions will be dependent on economic data, especially in an environment of exceptional uncertainty, underlying inflation trends and the effectiveness of monetary policy.

The Bank of Japan (BoJ) maintained the key short-term interest rate at 0.5 percent in September 2025, the highest level since 2008 and aligning with market expectations. This followed three rate hikes since the central bank ended negative interest rates in March 2024. The BoJ indicated that it would conduct monetary policy in response to developments in economic activity, prices and financial conditions.

In emerging market economies, the Central Bank of Brazil (CBB) maintained the policy rate at 15 percent in September 2025, amid a resilient economy, stronger labour market indicators and rising inflation. The Committee highlighted that future interest rate adjustments will depend on inflation dynamics, projections, expectations and the balance of risks.

The Central Bank of Russia (CBoR) reduced the key policy rate by 50 basis points to 16.5 percent in October 2025, as inflationary pressures eased, although remaining high. Despite the cut, the CBoR reiterated that monetary conditions were expected to remain restrictive in the medium term due to persistent upside risks to inflation in the Russian economy. Consumer inflation expectations remained elevated amid the high levels of food inflation. The CBoR indicated that achieving the inflation target would require a long period of maintaining tight monetary conditions in the economy.

In October 2025, 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 a fifth consecutive month since a 10 basis points cut in May 2025. The decision came amid mounting signs of slowing growth momentum, weighed down by US tariffs, sluggish domestic demand and a prolonged property slump.

The SARB maintained the repo rate at 7 percent at its September 2025 meeting and judged risks to the inflation outlook to be balanced. Overall, 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.

In October 2025, the Reserve Bank of India (RBI) maintained the policy rate at 5.5 percent for the second consecutive time, following a larger-than-expected 50 basis points cut in June 2025. Given the cumulative 100 basis points easing of the policy rate since February 2025, the RBI judged that monetary policy had limited space to further support growth, hence the monetary policy stance was maintained as neutral. The borrowing costs are at their lowest level since August 2022, aiming to counter slowing economic growth amid easing inflation and the imposition of tariffs by the US on Indian imports.

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 2025	3.5	Increased by 160 basis points	No indication of the direction of policy. The increase was not monetary policy tightening but a recalibration to strengthen the impact of the related liquidity support measures towards enabling market and balanced distribution of liquidity, as well as to support the Pula exchange rate and preservation of foreign exchange reserves and external balance.
SARB	September 2025	7.00	No change	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 2025	3.75-4	Deceased by 25 basis points	In assessing the appropriate stance of monetary policy, the FOMC will continue to monitor the implications of incoming information for the economic outlook. The Fed Chairman indicated that a December 2025 cut is possible although not guaranteed.
BoE	September 2025	4.00	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 but acknowledged that a gradual approach to removing policy restraint remained appropriate.
ECB	October 2025	2.15	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 2025	0.50	No change	The BoJ's reaffirmed its commitment to continue raising borrowing costs if the economy follows its projections.
PBoC	October 2025	3.00	No change	The PBoC is likely to maintain a low LPR until the economy has fully recovered.
Brazil	September 2025	15.00	No change	The central bank highlighted that future interest rate adjustments will depend on inflation dynamics, projections, expectations and the balance of risks.
India	October 2025	5.50	No change	RBI judged that monetary policy had limited space to further support growth, hence maintained the monetary policy stance as neutral.
Russia	October 2025	16.50	Deceased by 50 basis points	CBoR signalled that it will keep borrowing costs at a restrictive level for a long period to achieve its inflation target.

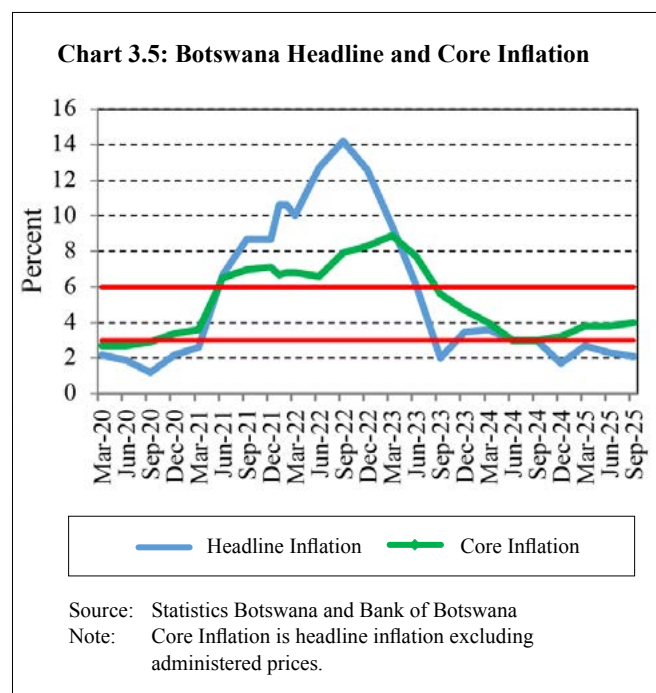
Source: Various central bank's websites

3.2 Domestic inflation environment

Headline inflation decreased in the third quarter of 2025

Headline inflation decreased in the third quarter of 2025, averaging 2.1 percent compared to 3.1 percent in the same quarter of 2024 (Chart 3.5 and Table 3.3). The decrease in inflation was mainly on account of the decrease in water and electricity tariffs for low-consumption households, as well as the deceleration in the rate of annual price changes of some categories of goods and services, notably Clothing and Footwear, and Transport. In addition, the decrease in inflation was attributed to subdued domestic demand amid the ongoing recession.

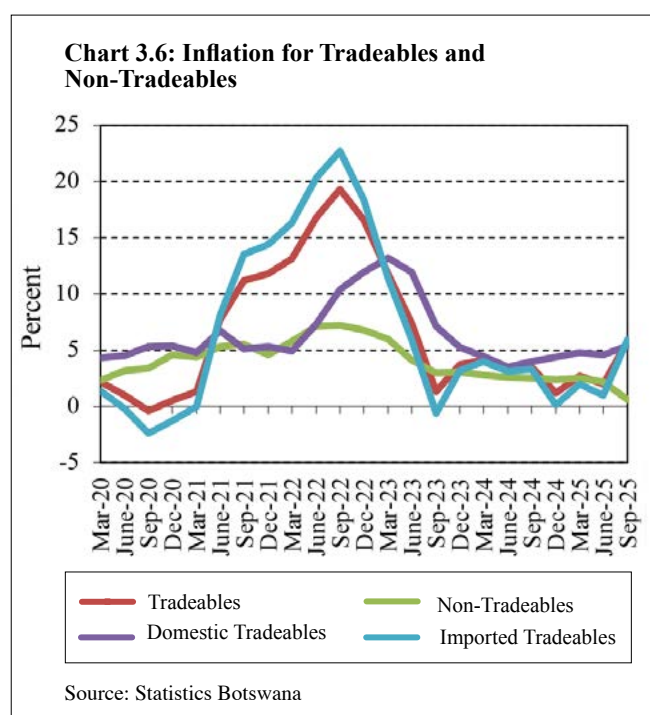
However, headline inflation increased significantly from 1.4 percent in August to 3.7 percent in September 2025, reverting to the medium-term objective range of 3 – 6 percent, and was higher than the 1.5 percent recorded in September 2024. The increase in inflation was mainly due to the upward adjustment in domestic fuel prices implemented on 15 September 2025, which added 0.93 percentage points to inflation. The increase was also driven by the base effect associated with the decrease in fuel prices on 11 September 2024, which had lowered inflation by 0.8 percentage points at the time. Further upward pressure came from accelerated annual price changes of some categories of goods and services, notably Transport, and Alcoholic Beverages and Tobacco, reflecting adjustments in exchange rate parameters.



Prices for domestic tradeables increased while imported tradeables decreased in the third quarter of 2025

Inflation for domestic tradeables increased from an average of 4 percent in the third quarter of 2024 to an average of 4.7 percent in the third quarter of 2025 (Chart 3.6), mainly due to a broad-based increase in food prices and higher cost of cement. Imported tradeables inflation decreased from an average of 3.3 percent to an average of 2.6 percent in the same period, mainly on account of the net cumulative impact of adjustments in domestic fuel prices and associated base effects over the review period. As a result, all tradeables inflation decreased from an average of 3.5 percent in the third quarter of 2024 to an average of 3.1 percent in the third quarter of 2025. Inflation for non-tradeables also decreased from an average of 2.5 percent to 0.4 percent in the same period.

Meanwhile, in September 2025, domestic tradeables increased to 5.4 percent, while non tradeables, imported tradeables and all tradeables inflation decreased to 0.6 percent, 5.9 percent and 5.8 percent, respectively.



Generally, non-tradeables inflation has been on a downward trend since June 2022, mainly due to the downward adjustment of some administered prices. Domestic tradeables inflation has increased since June 2024, reflecting the general increase in domestic food prices.

Divergent core inflation measures in the third quarter of 2025⁴

Inflation excluding administered prices (CPIXA) averaged 4 percent in the third quarter of 2025, up from 3 percent in the third quarter of 2024 (Table 3.3), due to the increase in prices of food and non-alcoholic beverages, as well as acceleration in prices of vehicles, reflecting the adjustment of exchange rate parameters. Conversely, the trimmed mean inflation (CPITM) decreased to 2.4 percent in the third quarter of 2025, from 2.9 percent in the third quarter of 2024. In September 2025, CPITM and CPIXA CPIXFF were 2.4 percent and 4 percent, respectively.

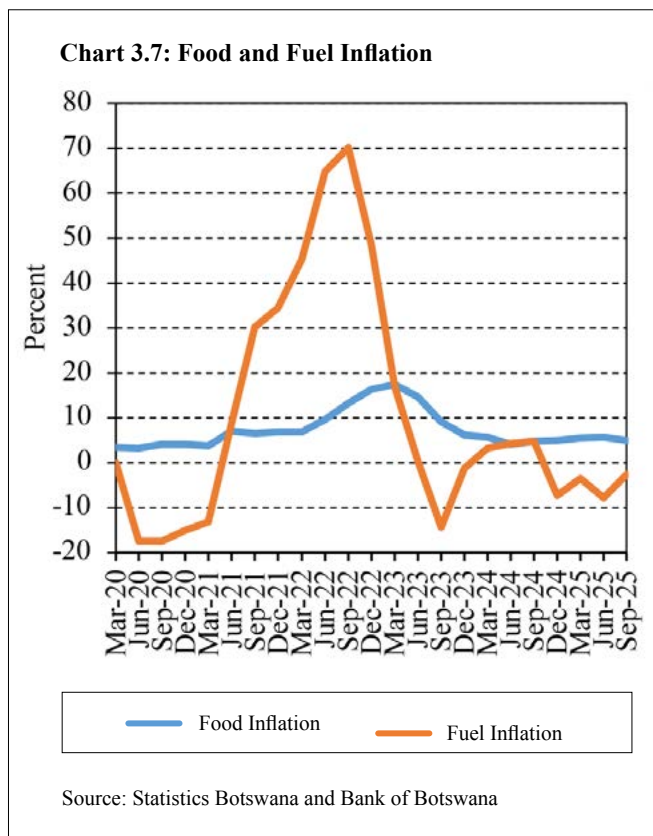


Table 3.3: Annual Price Changes for Categories of Goods and Services (Percent)

Category of commodities	Basket Weights	September 2025	Q3 2025	Q3 2024
Food and non-alcoholic beverages	13.6	5.4	4.9	4.8
Alcoholic beverages and tobacco	4.3	8.1	7.0	5.4
Clothing and footwear	6.0	3.5	3.4	4.2
Housing, water, electricity, gas and other fuels	17.5	-3.0	-3.7	0.5
Furnishing, h/h equipment and routine maintenance	4.9	4.1	3.7	2.3
Health	3.4	2.3	2.2	2.0
Transport	23.4	5.7	0.8	2.8
Communications	6.9	0.1	0.1	0.2
Recreation and culture	2.8	1.5	1.9	0.9
Education	4.6	2.6	2.6	1.5
Restaurants and hotels	3.7	2.9	2.8	3.2
Miscellaneous goods and services	9.0	8.5	8.0	7.8
Annual Inflation (All items)	100.0	3.7	2.1	3.1
CPITM		4.2	2.4	2.9
CPIXA		4.5	4.0	3.0

Source: Statistics Botswana and Bank of Botswana calculations

⁴ Food inflation decreased from an average of 5.7 percent in the second quarter of 2025 to an average of 4.9 percent in the third quarter of 2025, while fuel inflation increased from an average of -7.8 percent to -2.6 percent in the same period. Meanwhile, food inflation increased from 5 percent in August 2025 to 5.4 percent in September, while fuel inflation also increased from -7.7 percent to 7.8 percent in the same period (Chart 3.7).

Box 1: Monetary Policy Inflation Objective Range for Botswana

The primary objective of monetary policy is to maintain price stability, defined as a low, stable and predictable level of inflation. A key aspect of monetary policy is defining the target range or objective range for the inflation rate (measured using the consumer price index¹). This helps make central bank actions and communication to be transparent and predictable, which reduces uncertainty and enhances economic stability.

There are multiple factors that are taken into consideration when determining the objective range. These include an analysis of the historical movement of inflation over the years, the relationship between inflation and economic growth and a comparative analysis with trading partners. The historical movement of inflation gives an idea of the long-term trend of inflation and influences inflation expectations of businesses and households over time. Historical inflation trends often also shape the perceived credibility of the central bank. A track record of successfully managing inflation bolsters a central bank's reputation, while past failures can make it difficult to convince the public of the central bank's commitment to new targets.

The relationship between inflation and economic growth is generally viewed as demonstrating some threshold effects. That is, up to a certain inflation level, there may be little or no negative impact on growth. However, once inflation surpasses this threshold, it can become detrimental to economic growth. Moreover, stable and predictable inflation creates a favourable environment for long-term investments. When inflation is volatile or too high, it introduces uncertainty into the decision-making process of firms and individuals. Such unpredictability can deter investments, as businesses find it harder to project returns and costs. In the case of households, it might discourage savings and erode purchasing power, hence resulting in lower demand and economic activity.

Using a threshold model in the case of Botswana, Phetwe and Molefhe (2016)² estimated the threshold level of inflation at 6.9 percent using quarterly data for the period 1994 to 2014. These results imply that inflation below the threshold level has a positive effect on GDP growth while inflation above the threshold has a negative effect on economic growth. This study demonstrated that the inflation objective that was below the threshold was appropriate.

In 2023, an evaluation was done to ascertain the relevance of the 3 – 6 percent objective range given the changes over the years, including the changes in the consumer price index basket. The 2023 review estimated the same threshold model used by Phetwe and Molefhe, but with an updated dataset extending to 2022Q4. The updated analysis confirmed the current medium-term objective range of 3 – 6 percent suitable to define price stability in Botswana, estimating a threshold inflation rate of 5.4 percent for total GDP growth and 5.8 percent for non-mining GDP growth.

Regionally, most target ranges are consistent with the Southern African Development Community (SADC)'s convergence guide of 3 – 7 percent (see Table below). Across Africa, some central banks with inflation targeting regimes and forward-looking monetary policies have inflation targets that are single digits. Botswana's current medium-term objective range of 3 – 6 percent is in line with the SADC guide and consistent with those prevailing across Africa.

Some Inflation Targets in SADC and Africa

Country	Inflation Target/Objective (Percent)
South Africa	3 – 6
Mauritius	2 – 5
Tanzania	5
Zambia	6 – 8
Mozambique	<10
Uganda	5
Ghana	8 (±2)
Kenya	5 (±2.5)

Source: Central Bank Websites

- 1 Consumer price index (CPI) represents the cost of living of a representative household in Botswana relative to a chosen/specified base period. The current base period is September 2018. The index is constructed by Statistics Botswana based on regular monthly surveys of prices of a basket of goods and services across the country. In principle, the changes in consumer prices (inflation) are a result of demand and supply dynamics.
- 2 Phetwe M., and Molefhe L. (2016). Inflation and Economic Growth: Estimation of a Threshold level of inflation in Botswana. *Bank of Botswana Research Bulletin*, 29(1):13–23.

3.3 Recent domestic economic developments

GDP contracted in the second quarter of 2025

Real GDP contracted by 3 percent in the twelve months to June 2025, a larger decline than the 0.6 percent contraction recorded in the year to June 2024 (Chart 3.8). The performance mainly reflects the contraction in the mining sector and generally subdued growth for the non-mining sectors.

Non-mining GDP grew by 2.4 percent in the 12-month period to June 2025, slightly below the 2.5 percent growth recorded in the previous corresponding period. The growth in non-mining GDP was mainly due to an increase in the output of the Water and Electricity, Wholesale and Retail, and Other Services sectors. However, several sectors including Human Health and Social Work; Information and Communication Technology; Public Administration and Defence; Construction; Transport and Storage; Real Estate; Accommodation and Food Services; Finance; Insurance and Pension Funding; Professional, Scientific and Technical Activities; Administrative and Support Services; and Education, experienced a deceleration in output growth. Meanwhile, output in the Agriculture, Forestry and Fishing, Diamond Traders, and Manufacturing sectors declined. The contraction in the output of the Diamond Traders sector is attributable to the deteriorating global economic conditions and geopolitical events, which also led to contraction in output of the Manufacturing sector.

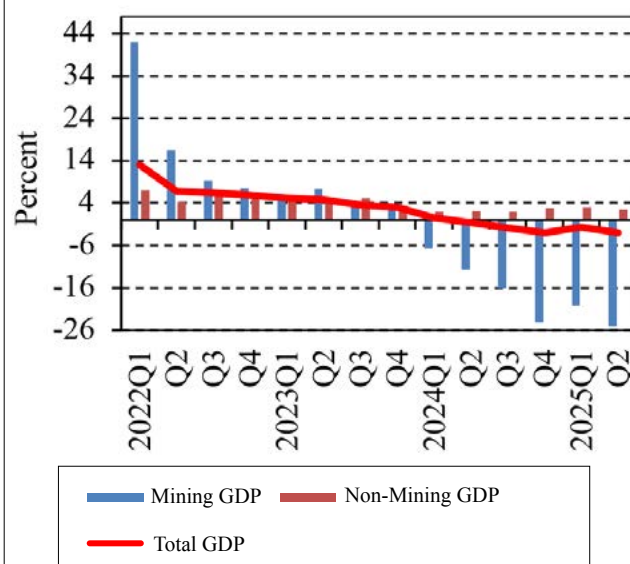
Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the ongoing economic transformation initiatives⁵ so far, continuance of low productivity, prior drought conditions, and challenges associated with limited fiscal space, thus, the need for concerted efforts to accelerate traction of transformation initiatives and impact of resource commitments.

Mining sector GDP contracted by 25.1 percent in the year to June 2025, compared to a smaller decline of 11.7 percent recorded in the year to June 2024 (Table 3.4). The sharper downturn was primarily driven by a 27 percent decline in diamond mining output in the year to June 2025 compared to a contraction of 12.2 percent recorded in the year to June 2024, reflecting weaker global demand and geopolitical tensions which negatively affected demand of luxury goods, such as diamonds. Furthermore, mining support services output contracted by 1 percent, compared to a 0.3 percent growth recorded in the year to June 2024. Meanwhile, output of the mining of soda ash and salt decelerated to 5.9 percent from an expansion of 10.5 percent recorded in the previous corresponding period, following a scheduled maintenance and a temporary shutdown at the Botash plant during the period under review. Additionally, growth in other mining and quarrying output decelerated

to 0.7 percent, down from 2.3 percent expansion recorded in the year to June 2024. However, coal as well as copper and nickel mining output expanded by 26.1 percent and 3.9 percent, from a contraction of 16.7 percent and 11.9 percent, respectively, recorded in the year to June 2024. The rebound in coal mining output was partly attributed to the resumption of operations at Masama Coal Mine in February 2024 with improved cost efficiency, following a six-month halt due to significant drop in coal prices. Copper and nickel output also increased due to the scaling up of operations at key mining sites, including Khoemacau Copper Mine, Sandfire Resources' Motheo Copper Mine, and Kopano Copper, amid rising global demand for copper, driven by the critical role it plays in the energy transition from fossil fuels to cleaner sources (e.g., copper is used in the manufacturing of electric cars).

Meanwhile, Statistics Botswana reported a contraction of 5.3 percent in real GDP, year-on-year in June 2025, compared to a contraction of 0.4 percent in the corresponding period in 2024⁶.

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, growth in Government Final Consumption (GFC) was 2.3 percent in the twelve-month period to June 2025, a notable slowdown from the 6.6 percent in the corresponding period in 2024. The deceleration in growth in GFC was largely due to a decline in the output of individual consumption⁷, which decreased to 2.3 percent from 13.1 percent expansion in the previous period. Furthermore, collective consumption decelerated to 4 percent, slightly down from the 4.7 percent expansion

⁵ Ongoing economic transformation initiatives include digital transformation, public-private partnerships, special economic zones and enhancement of the business environment.

⁶ Calculated as the current quarter over the corresponding quarter in the previous year.

⁷ Individual consumption expenditure includes expenditure whose real consumer is identifiable, and the ultimate benefit falls to households e.g., education and healthcare.

recorded in the previous corresponding period, indicating a modest reduction in spending on services delivered to the public at large amid challenging liquidity conditions for the Government.

Household Final Consumption grew by 1.6 percent in the year to June 2025, easing from the 4.2 percent growth recorded in the previous corresponding period. This moderation is attributable to subdued household consumption expenditure, which decelerated to 1.6 percent, down from 4.3 percent expansion recorded in the prior corresponding period, in part, attributable to cautious consumer demand amid rising economic uncertainty.

Gross Fixed Capital Formation decelerated to 1.3 percent in the year to June 2025, compared to the 5.6 percent growth recorded in the previous corresponding period. This is attributable to the deceleration on investment in building structures to 0.7 percent, compared to 1.7 percent growth recorded in the year to June 2024, largely due to slower rollout of infrastructure projects. Furthermore, investment in transport equipment also decelerated to 0.7 percent, a steep decline from the 42.2 percent surge in the prior corresponding period. Similarly, investment in plant, machinery, and other equipment slowed to 3.9 percent, down from 11.6 percent expansion recorded in the year to June 2024, indicating restrained capital spending in productive sectors.

Exports of goods and services contracted by 8.8 percent in the year to June 2025, from the 6.2 percent contraction recorded in the previous corresponding period. This sharper contraction is, in part, attributable to weaker global demand, lower diamond export volumes, and logistical constraints affecting trade flows. Meanwhile, imports of goods and services grew by just 0.7 percent, a significant slowdown from the 14.8 percent growth observed in the prior corresponding period. The deceleration in import growth is partly attributed to heightened uncertainty in the natural diamond market, which has led to a substantial decline in imports of rough diamonds for aggregation. Additionally, subdued domestic demand and a broader deceleration in economic activity have further contributed to the contraction in imports.

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

	2024 Q2	2025 Q1	2025 Q2
Total GDP	-0.6	-1.8 (-1.7)	-3.0
By Sector:			
Mining and Quarrying	-11.7	-20.2	-25.1
Non-Mining	2.5	2.4 (3.0)	2.4
Agriculture, Forestry & Fishing	1.7	-1.9	-1.6
Manufacturing	-0.2	-2.1 (-1.8)	-2.4
Water and Electricity	-5.9	20.2 (15.5)	7.5
Construction	2.3	1.4	0.7
Wholesale & Retail	4.4	6.1	6.0
Diamond Traders	-39.5	-29.3	-41.1
Transport and Storage	2.9	0.6	0.9
Accommodation & Food Services	4.2	4.0 (3.9)	3.9
Information & Communication Technology	3.3	3.4	2.7
Finance, Insurance & Pension Funding	5.6	4.3	4.5
Real Estate Activities	4.5	3.6	3.9
Professional, Scientific & Technical Activities	5.4	3.8	3.6
Administrative & Support Activities	3.9	3.3 (3.2)	3.4
Public Administration & Defence	5.2	5.2	4.7
Human Health & Social Work	4.8	4.6	4.1
Education	5.8	5.4	5.0
Other services	3.3	4.1	3.5
By Type of Expenditure:			
Government Final Consumption	6.7	4.9	3.6
Household Final Consumption	4.2	1.7	1.6
Gross Fixed Capital Formation	5.6	4.9	1.3
Exports of Goods and Services	-6.2	-5.8 (-14.1)	-8.8
Imports of Goods and Services	14.8	13.1 (9.4)	0.7

Source: Statistics Botswana and Bank of Botswana Calculations.

Note: Figures in brackets are earlier estimates which have now been revised.

While global developments are a significant influence on domestic economic performance, it is also notable that sluggish economic activity occurs despite the economic transformation drive and resultant commitment of resources and policy initiatives, as well as largely accommodative monetary policy. Thus, the need for concerted efforts to accelerate traction of transformation initiatives and impact of resource commitments.

Diamond production decreased

Debswana Diamond Company production declined by 43.7 percent to 2.7 million carats in the second quarter of 2025, compared to 4.7 million carats produced in the corresponding period in 2024. This is in line with the downward revision of production guidance earlier in the year, mainly attributable to subdued global demand for diamonds. Debswana revised its 2025 production target to 15 million carats, down from 18 million carats. Similarly, De Beers Group revised its production guidance downward to 20 – 23 million carats, from an earlier estimate of 30 – 33 million carats. These downward revisions mainly reflect the challenging rough diamond trading conditions, stemming from deteriorating global economic conditions and heightened geopolitical tensions.

Production at Lucara Diamond Corporation (Karowe Mine) fell by 10.7 percent to 82 555 carats in the second quarter of 2025, from 92 419 carats produced in the corresponding period in 2024. The decrease was mainly due the lower extraction of high-quality ore.

Budget deficit narrows in the 2024/25 fiscal year

The preliminary budget outturn for 2024/25 indicates a lower deficit of P11.8 billion (4.4 percent of GDP), compared to a deficit of P24.7 billion (9 percent of GDP) presented in the original budget (Table 3.5). The lower budget deficit in 2024/25 reflects expenditure cuts (both recurrent and development), consistent with fiscal consolidation in response to reduced government revenue. Total expenditure and net lending decreased by 12.6 percent to P81.7 billion, while total revenue and grants slightly increased by 1.7 percent to P69.9 billion.

For the first quarter of fiscal year 2025/26, total revenue amounted to P17.1 billion, representing a marginal decline of 0.6 percent compared to P17.2 billion recorded in the corresponding period of 2024/25. Total expenditure and net lending stood at P20.2 billion, reflecting a decline of 3.4 percent from P20.1 billion recorded in the first quarter of 2024/25. As a result, the overall deficit slightly narrowed to P3 billion in the first quarter of 2025/26, compared to a deficit of P3.7 billion recorded in the previous corresponding period. The lower budget deficit in the first quarter of 2025/26 is in line with government's fiscal consolidation efforts.

For July 2025, total revenue amounted to P10.4 billion, with SACU receipts contributing 59 percent of the total at P6.2 billion. Meanwhile, total expenditure and net lending amounted to P6.9 billion, of which recurrent expenditure constituted P5.1 billion, representing 74 percent of the total. As a result, an overall budget surplus of P3.5 billion was recorded.

For 2025/26, the expenditure budget is expected to increase by 25.6 percent to P97.6 billion, compared to P81.7 billion realised in 2024/25, mainly driven by a 14.5 percent and 39.5 percent increase in recurrent and development expenditure, respectively. The proposed budget allocations seek to address the imperatives of economic transformation and inclusive growth. Nonetheless, the expansionary budget for fiscal year 2025/26 is likely to be revised downwards in line with the 2024/25 preliminary budget outturn, to reflect current economic challenges. Meanwhile, the budget prioritises infrastructure development to unlock economic potential and facilitate transitioning to a high-income status. However, this would require an annual growth rate of at least 7 percent during the remainder of the Vision 2036 period, which is, however, likely to be constrained by the current prolonged slump in the diamond market.

Total revenue and grants for the 2025/26 fiscal year are projected at P75.5 billion, 8 percent higher than for 2024/25. However, since Debswana has revised downward its diamond production and sales forecasts for 2025, this may lead to lower revenue and a wider deficit than currently projected. Southern African Customs Union (SACU) receipts remain the largest source of government revenue for 2025/26 at P24.4 billion or 32.3 percent of the total, followed by non-mineral income tax (including Bank of Botswana revenue at P700 million) at 26.1 percent, mineral income at 20.9 percent and value added tax (VAT) at 16 percent. Therefore, the projected budget outcome for 2025/26 is a deficit of P22.1 billion or 7.6 percent of GDP.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure and Net Lending	Budget Surplus/Deficit
2023/24 Q1	24 046	19 215	4 831
2023/24 Q2	17 520	22 110	(4 590)
2023/24 Q3	16 174	21 078	(4 904)
2023/24 Q4	16 519	22 965	(6 445)
2023/24	74 152	85 366	(11 107)
2024/25 Q1	17 188	20 886	(3 697)
2024/25 Q2	13 579	19 760	(6 181)
2024/25 Q3	16 054	19 804	(3 750)
2024/25 Q4	23 068	21 202	1 866
2024/25	69 889	81 652	(11763)
2025/26 Q1	17 139	20 168	(3 029)
2025/26*	75 488	97 606	(22 118)

Source: Cash Flow Unit, Ministry of Finance

Note: "*" denotes a projection.

Labour Force and Wage Developments Trends⁸

According to Statistics Botswana's Quarterly Multi-Topic Survey (QMTS) report for the first quarter of 2024, the unemployment rate increased to 27.6 percent in the first quarter of 2024, from 25.9 percent in the third quarter of 2023 (Chart 3.9). Youth unemployment rate also rose to 38.2 percent from 34.4 percent. The survey highlights a 2.9 percent increase in formal sector employment, to 504 738, from 490 625 in the previous period.

Regarding other indicators, the survey shows that Government remains the largest employer, with employment in public administration accounting for 30.3 percent of total formal sector employment. This is followed by education at 13.2 percent, as well as wholesale and retail and repair of motor vehicles at 12.6 percent. Consequently, personal emoluments constitute over 50 percent of the government recurrent budget, and about 13 percent of GDP. 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 decreased by 1.1 percent or P64 to P6 093 in the first quarter of 2024, from P6 029 in the third quarter of 2023.

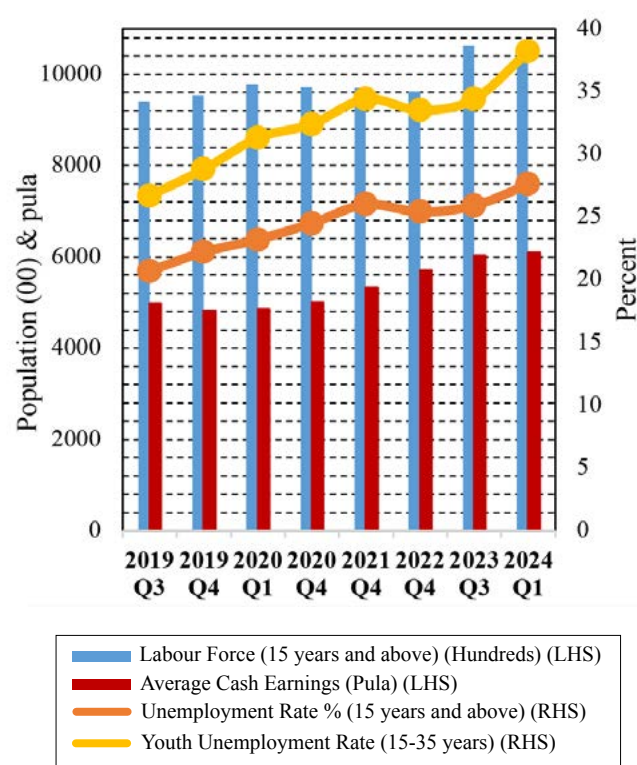
A longer-term trend analysis of the QMTS data from the third quarter of 2019 to the first quarter of 2024 shows that the total labour force, constituted by people aged 15 years and above, increased by 10.7 percent to 1 041 204 persons, from 940 546 persons. Over the same period, the employed labour force increased by 1.2 percent, which is lower than the average GDP growth of 2.7 percent during the same period, suggesting that the pace of job creation is lower than that of economic expansion. 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 contracting in 2024 and in the first half of 2025, labour market conditions are expected to deteriorate further. The diamond industry slowdown, 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 are likely to be reversed.

Looking ahead, the labour market is expected to be characterised by rising unemployment, underemployment and weaker labour absorption. The private sector, facing reduced demand and profits, will likely resort to hiring freezes and retrenchments. At the same time, fiscal pressures stemming from lower revenue collection may limit the Government's ability to sustain current employment levels, making a public sector hiring freeze highly probable. This will further exacerbate the challenge of absorbing new entrants into the labour force.

Overall, Botswana's employment outlook remains challenging, reflecting structural rigidities, weak labour absorption capacity, and low productivity growth. Policymakers face the urgent task of stimulating job creation, supporting economic diversification, and enhancing labour market resilience in an increasingly constrained fiscal environment.

Chart 3.9: Trends in selected Labour Force Indicators



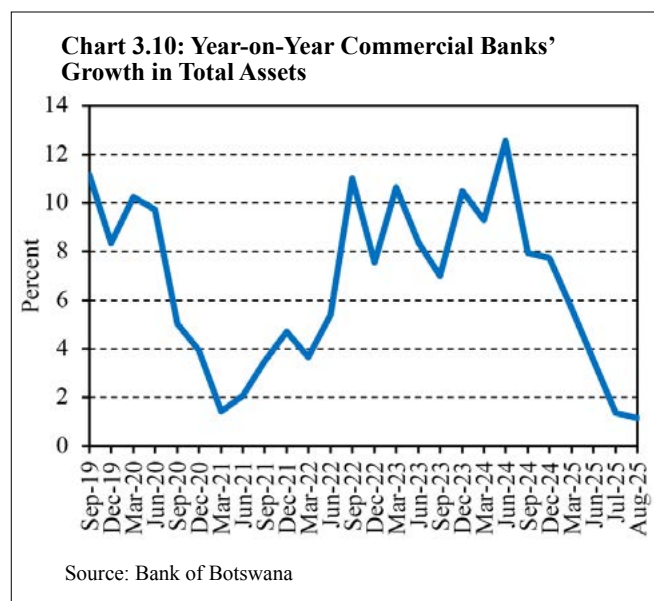
Source: Statistics Botswana

⁸ 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.

3.4 Monetary developments

Banking sector assets' growth decelerated in September 2025

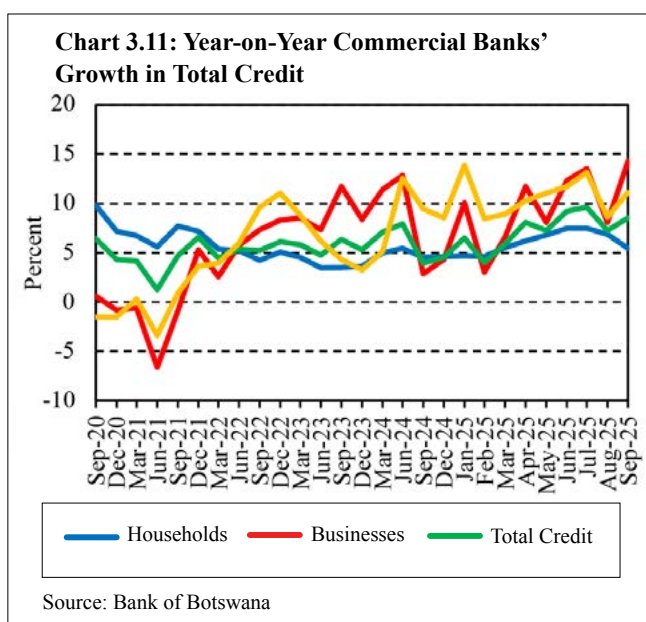
Annual banking sector assets' growth decreased from 7.9 percent in September 2024 to 2.5 percent in September 2025 (Chart 3.10). The lower growth was mainly driven by lower balances for BoBCs, balances due from foreign banks, debt securities, other assets and balances at bank of Botswana operating account. Loans and advances, which accounted for the largest proportion of commercial banks' assets (62.2 percent), increased by 8.5 percent in September 2025, higher than the 4.5 percent increase in September 2024. Overall, the growth in banking sector assets was predominantly funded by customer deposits, which increased by 1.8 percent in the same period.



Average daily market liquidity increased from P2.644 billion in August 2025 to P3.93 billion in September 2025. The increase in market liquidity was mainly attributable to net Government expenditure. However, excess market liquidity remains relatively subdued, mainly caused by the slowdown in the diamond sector which continues to weigh on external inflows. Nonetheless, the recent interventions by the Bank have, to some extent, stabilised the market by injecting liquidity through term repos.

Credit growth accelerated in the year to September 2025

Commercial bank annual credit growth accelerated from 4.5 percent in September 2024 to 8.5 percent in September 2025 (Chart 3.11), primarily due to increased lending to the business sector and households.



Lending to the business sector increased by 14.2 percent in the year to September 2025, higher than the 4.3 percent expansion in the corresponding period in 2024. Credit to parastatals increased by 57.6 percent in the year to September 2025, compared to the 31.7 percent decrease in the twelve months to September 2024, due to loan drawdowns. Credit to businesses excluding parastatals increased by 11.1 percent in the year to September 2025, higher than the 8.5 percent expansion in the corresponding period in 2024, mainly attributable to increased utilisation of overdraft facilities by some companies in various sectors including manufacturing, electricity and water, trade, business services as well as real estate.

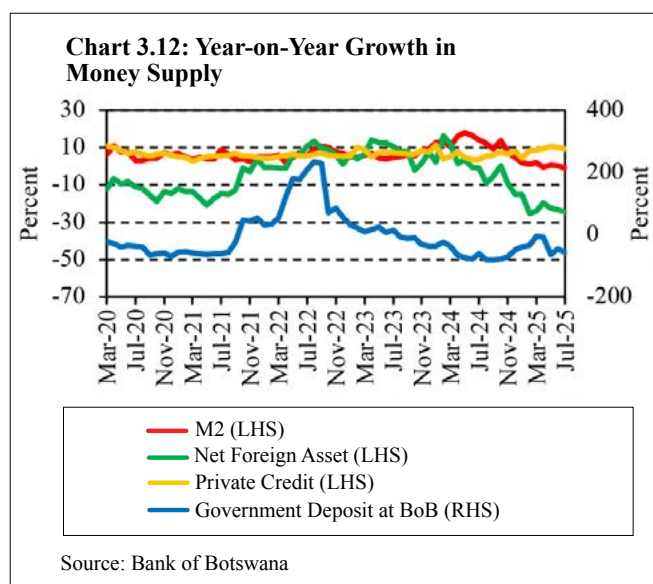
Annual growth in household credit increased by 5.4 percent in the year to September 2025, higher than the 4.6 percent expansion in the year to September 2024. The growth in household credit was attributable to the increase in the growth of lending for unsecured personal loans (from 7 percent to 7.7 percent) and credit card-based loans (from 0.4 percent to 3.2 percent) due to loan utilization of personal loans by various schemes and loan drawdowns. However, there was a decrease in lending for motor vehicle acquisition (from 8.2 percent to 2.4 percent) during the period under review. The share of the household sector in total lending by commercial banks was 63.2 percent in September 2025, compared to 65 percent in September 2024.

Despite these developments, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative at -1.9 percent, indicating limited risks of credit growth that could overheat the economy. However, growing concerns about the fiscal position are likely to dampen previously positive sentiments about credit growth as banks may implement more stringent credit standards amid liquidity strain and stagnant public sector wages.

According to the September 2025 Credit Conditions Survey (CCS)⁹, commercial banks maintain a cautiously optimistic outlook for the September - November 2025 period, expecting modest loan growth in both secured corporate and secured household lending. In contrast, unsecured credit card lending and unsecured non-credit card lending are expected to decline slightly. Despite the expected growth in certain segments, overall credit availability is projected to decrease. This decline is largely attributed to tighter liquidity conditions and less favourable credit pricing.

Money supply growth declines in July 2025

M2 contracted by an annual rate of 0.9 percent in July 2025, significantly lower than the 14.2 percent growth in the corresponding period in 2024 (Chart 3.12). The decline in M2 reflects a contraction in overall liquidity within the financial system. Simultaneously, the decrease in net foreign assets and government deposits at Bank of Botswana points to the weakening external buffers. In contrast to the decline in M2, private credit expanded indicating that banks are still actively lending.



The nominal BoBC yields decreased

The 7-day nominal BoBC yield (MoPR) decreased from 1.98 percent in the third quarter of 2024 to 1.90 percent in the third quarter of 2025, due to a cumulative 50-basis points policy rate cut by the MPC in June and August 2024. Conversely, the real rate of interest on the 7-day paper increased from -1.01 percent to -0.15 percent in the same period, reflecting the decrease in the inflation rate. Meanwhile, month on month, the 7-day nominal BoBC yield was constant at 1.90 percent between August and September 2025. The real rate of interest for the 7-day BoBC decreased from 0.49 percent in August to -1.74 percent in September 2025, reflecting the increase in the inflation rate.

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 2.25 percent in the third quarter of

2025, a decrease from an average of 2.29 percent in the corresponding period in 2024. Conversely, the real rate of interest for the 1-month paper increased from an average of -0.71 percent to an average of 0.19 percent in the same period, reflecting the larger decrease in the inflation rate compared to the nominal rates. Meanwhile, the stop-out yield on the 1-month BoBC decreased, month on month, from 2.26 percent in August 2025 to 2.24 percent in September. The real rate of interest for the 1-month paper decreased from 0.85 percent to -1.41 percent in the same period, reflecting the increase in the inflation rate.

Credit ratings

Moody's Investors Service and S&P Global Ratings downgrade Botswana's long-term sovereign credit rating but maintained the negative economic outlook

On 17 October 2025, Moody's Investors Service (Moody's) downgraded the country's long-term local and foreign currency issuer ratings, from 'A3' to 'Baa1', while maintaining the outlook at negative. Similarly, on 12 September 2025, S&P Global Ratings (S&P) downgraded Botswana's long-term sovereign credit ratings for both foreign and local currency debt from 'BBB+' to 'BBB'. However, the short-term ratings for foreign and domestic currency debt were affirmed at 'A-2', and the outlook remains negative. Despite the downgrades, Botswana's rating remains within the investment-grade category, reflecting continued confidence in the country's institutional strength and macroeconomic management framework.

According to the rating agencies, the revisions are on account of structural challenges in the diamond industry which have moderated economic activity, placed pressure on both fiscal and external buffers, and contributed to a gradual increase in Government debt. Notwithstanding, Botswana's robust institutional framework and disciplined policy environment remain important anchors for economic stability during the transition toward a more diversified economic structure. The ratings could be raised if economic growth, as well as fiscal and external performance improved significantly, among others, due to a sustained rebound in the diamond markets. In addition, the pace of domestic economic diversification remains a central determinant of long-term growth prospects and foreign exchange generation, particularly as the economy gradually reduces its reliance on diamonds. Against this background, effective implementation of policy measures aimed at fiscal consolidation, maintenance of strong policy coordination, as well as, over the medium term, tangible progress in economic transformation involving export and revenue diversification, could reinforce the sovereign credit profile. This is consistent with responses by government relating to enhancing the management of government finances, preserving the official foreign exchange reserves, as well as the Botswana Economic Transformation Programme and strategies in the National Development Plan 12. The next round of ratings is expected during the first quarter of 2026.

⁹ The CCS gathers commercial banks' views on credit demand and its availability for households and businesses.

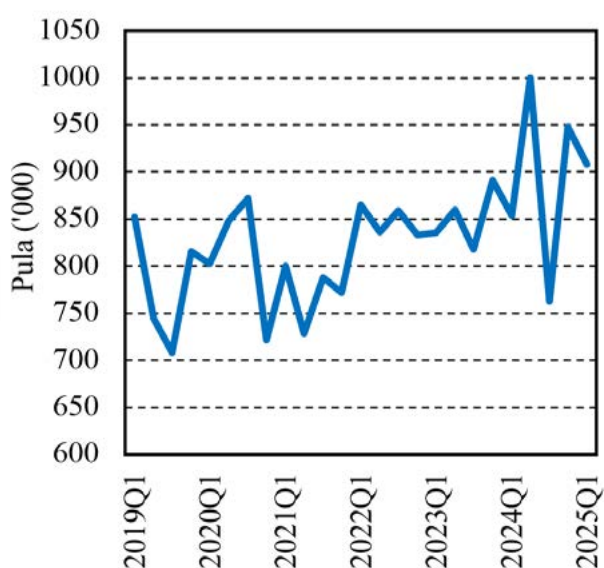
3.5 Asset market prices

Property market weakens in the first quarter of 2025

According to the latest (2025Q1) quarterly Riberry Report¹⁰, the residential property market weakened in the first quarter of 2025 compared to the fourth quarter of 2024. The average price for residential properties sold in the first quarter of 2025 was P907 622, a 4.2 percent decline compared to the fourth quarter of 2024 (Chart 3.13). The decline is attributable to lower average prices in Selibe Phikwe, Lobatse, the central region and Greater Gaborone, with the latter showing signs of market stagnation. However, the report highlights sustained demand for affordable prime located houses (rental prices up to P5 000 for and purchase prices between P400 000 - P800 000), amid limited supply. In contrast, the supply for medium- to upper-end houses, both for purchase and rental, increased in the first quarter of 2025.

The subdued performance of the residential property market could be partly attributed to tight liquidity conditions. A shortage of credit in the banking system has resulted in tighter mortgage lending conditions and reduced buyer activity, particularly in the high-end segment. According to the Bank's third Credit Conditions Survey of 2025 (June-August), most commercial banks reported slightly reduced demand for residential property loans by households. Furthermore, the Survey suggests that household demand for residential property and remortgaging is expected to remain unchanged in the September-November 2025 period, primarily due to persistent household cash flow constraints under the prevailing macroeconomic conditions.

Chart 3.13: Botswana Average Residential Property Prices (Net)



Source: Riberry Report

Despite decelerating in the first quarter of 2025, the demand for office space remains reasonable. There has been a significant increase in the occupancy of previously vacant office space in the Central Business District, Showgrounds, and Government Enclave. However, with limited new office developments underway, the supply is expected to remain restricted. 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 going forward.

The retail market continues to show resilience, particularly around Gaborone where steady demand persists. Two regional shopping centres are underway in Mogoditshane (one involving Kweneng District Council and private developers/investors, and the A10 project by the GH Group currently under construction). Other towns and villages, including Lobatse, Jwaneng, Letlhakane, Francistown, Selebi-Phikwe, Mahalapye and Maun, also report moderate to strong retail property demand, with one or two retail projects in the planning or construction stages in most of these areas. These projects are largely anchored by well-established South African and local tenants.

The domestic stock market index increased, while the foreign companies index decreased in September 2025

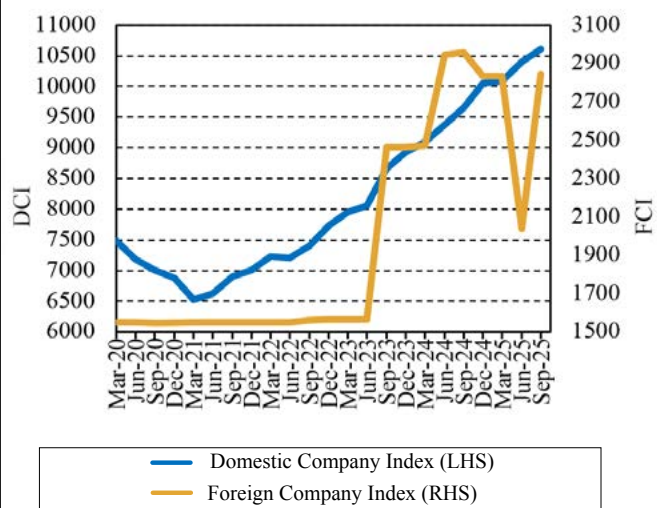
The Domestic Companies Index (DCI) increased by 9.9 percent in the twelve months to September 2025, albeit lower than the increase of 11.4 percent in the year to September 2024 (Chart 3.14). Despite a challenging trading environment characterised by a downturn in the diamond market and a slowdown in economic activity¹¹, the DCI was supported by strong share price gains for BBS Bank Limited (40 percent), Choppies (34.6 percent), Sefalana (20 percent) and Standard Chartered Bank (24.1 percent). The rise in share prices reflects improved corporate earnings in 2024, strong sales performance in key markets, enhanced marketing strategies and portfolio expansion initiatives.

Meanwhile, the Foreign Companies Index (FCI) decreased by 3.8 percent in the year to September 2025, compared to an increase of 20 percent in the corresponding period in 2024 (Chart 3.14). The notable decline in the FCI during the period under review is due to the significant drop in the price for Anglo American PLC stock in October 2024, which accounts for over 80 percent of Botswana Stock Exchange Limited market capitalisation. The drivers behind the price drop included falling commodity prices due to a global industrial slowdown, operational challenges in key mining sites, significant asset impairments, restructuring plans and logistical constraints in South Africa.

¹⁰ This is a quarterly report produced by independent valuers, Riberry Botswana (Pty) Ltd.

¹¹ 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.

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 monetary policy operations in April 2022 to enhance the effectiveness of policy transmission. The reforms replaced the Bank Rate with the Monetary Policy Rate (MoPR) defined as the 7-day Bank of Botswana Certificate (BoBCs), as the anchor policy rate. 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 meant 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.

However, persistent structural liquidity constraints have led to upward pressure on yields at the short end of the yield curve. In particular, the 3-month Treasury Bill has increased markedly, driven by tighter liquidity conditions and increased domestic borrowing requirements to finance fiscal deficits. This has resulted in a widening deviation from the MoPR, which has also translated into higher funding costs across the banking system. Consequently, commercial banks have also raised their prime lending rates by between 75 and 200 basis points, reflecting both tighter funding conditions and reliance on short-term wholesale deposits. In response to these pressures, the Bank extended the repo tenure to a maximum of one month, providing banks with an additional liquidity management tool and easing short-term funding risks. Despite these challenges, the system continues to exhibit resilience, with positive, albeit being low, levels of excess liquidity indicating the capacity of the domestic financial system to absorb liquidity shocks.

At the long end of the yield curve, government bond yields have continued to trend upward, due mainly to the market's fiscal concerns and higher inflation expectations. Furthermore, demand for long-term Government securities has remained subdued amid competition from commercial banks offering higher deposit rates. Notwithstanding, long-term yields remain better aligned with the Pula-basket weighted yields than with the MoPR or expectations for future MoPR rates. This indicates 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. As a result, monetary policy transmission to longer-term rates remains relatively weak, underscoring the need for continued capital market development and measures to deepen market liquidity.

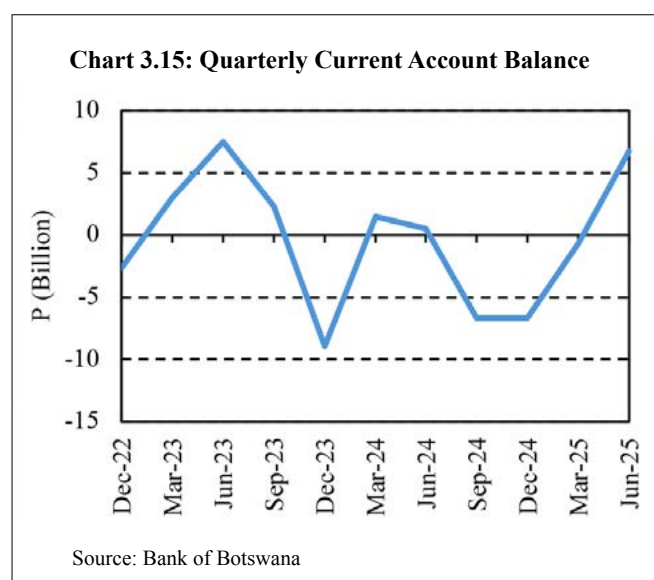
3.6 Balance of payments

The Balance of Payments (BoP) was in deficit in the second quarter of 2025

The overall BoP recorded a deficit of P2.3 billion during the second quarter of 2025, compared to a deficit of P2.8 billion in the corresponding period in 2024. The narrower deficit reflected improved exports revenues, though payments for imports and other external financial obligations such as loan repayments continued to exert pressure during the period.

Current account in surplus during the second quarter of 2025

The current account recorded a surplus of P6.7 billion in the second quarter of 2025, compared to a surplus of P0.5 billion during the corresponding period in 2024 (Chart 3.15). The substantial surplus was due to a 22.1 percent increase in exports of goods, from P19.5 billion to P23.8 billion, against an 11.7 percent decline in imports of goods, from P24 billion to P21.2 billion, resulting in a trade surplus of P2.6 billion.



Diamond exports, which stood at P18.5 billion and accounted for 77.7 percent of total exports of goods in the second quarter of 2025, increased by 29.4 percent from P14.3 billion and a share of 73.4 percent during the corresponding quarter in 2024.

The increase in diamond exports was driven by an increased consumer demand for rough diamonds, particularly in the United Arab Emirates and India. The increase was also driven by the De Beers Group “stock rebalancing initiatives,” where lower margins were accepted for specific assortments of rough diamonds. Despite the revenue growth, the company still anticipates a loss for the first half of 2025 due to these margin-focused sales and other prevailing diamond market challenges.

Other commodities that contributed to an increase in exports include copper (11.1 percent), vehicle and transport equipment (24.2 percent) and other goods (16.5

percent). In contrast, exports that decreased include live cattle (78 percent), coal (30.5 percent), plastic and plastic products (12.7 percent), machinery and electrical equipment (6.8 percent), textiles (6 percent), salt and soda ash (4.8 percent).

On the imports side, commodities that contributed to the decrease in imports include diamonds (46.6 percent), machinery and electrical equipment (14.8), chemicals and rubber products (9.2 percent), textile and footwear (8.8 percent), metal and metal products (4.6 percent), food, beverages and tobacco (3.8 percent), vehicles and transport equipment (1.5 percent) and other goods (2.7 percent). The imports categories that increased include fuel (18.2 percent) and salt ores and related products (12.9 percent).

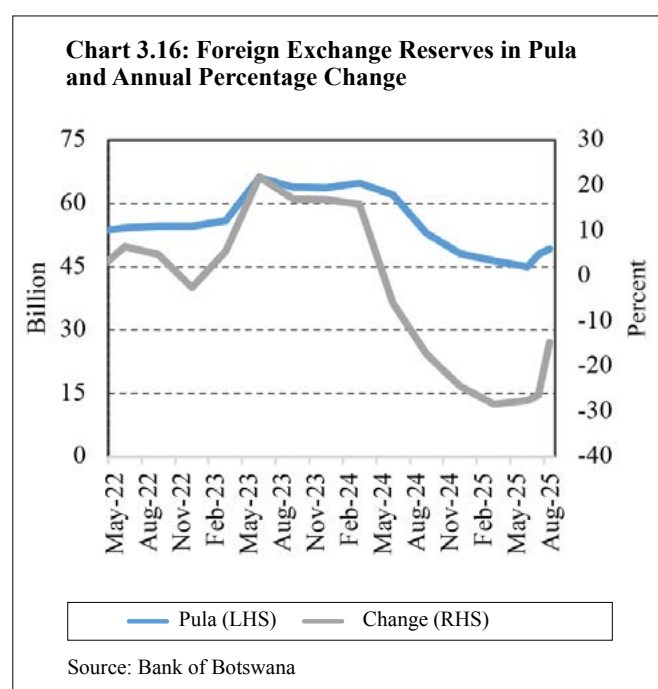
The latest data for August 2025, indicates a merchandise trade deficit of P1.2 billion, with total exports and imports amounting to P5.1 billion and P6.3 billion, respectively.

The financial account recorded a net outflow in the second quarter of 2025

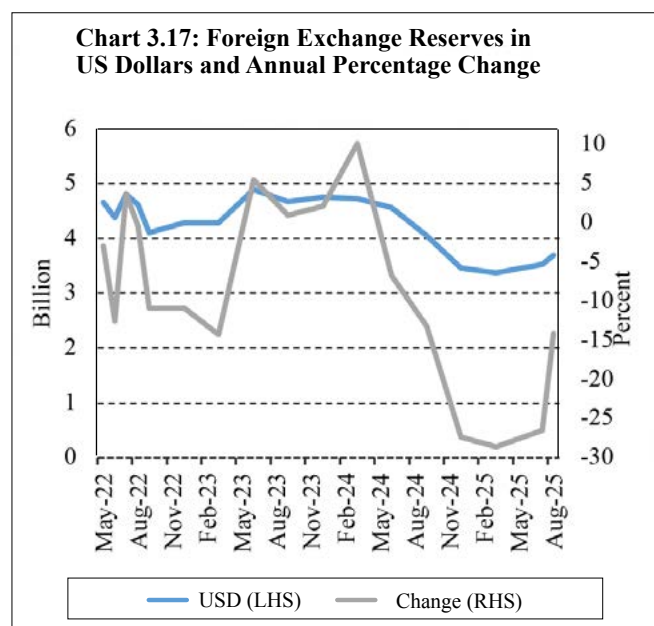
The financial account recorded a net outflow of P6.2 billion during the second quarter of 2025, compared to a smaller net outflow of P0.2 billion during the same period in 2024. The larger net outflow resulted from an increase in offshore equity investments by local pension funds investors, reflecting favourable global equity market performance in the second quarter of 2025.

Foreign exchange reserves decreased in August 2025

The foreign exchange reserves amounted to P49.3 billion in August 2025, a decrease of 14.7 percent from P57.8 billion in August 2024 (Chart 3.16). The decline in foreign exchange reserves was due to lower exports earnings, as well as increased foreign exchange outflows to meet the import bill and other external financial obligations.



In foreign currency terms, the foreign exchange reserves were USD3.7 billion, a 15.9 percent decline from USD4.4 billion (Chart 3.17) and SDR2.7 billion, a 15.6 percent decline from SDR3.2 billion during the same period. The level of foreign exchange reserves in August 2025 was equivalent to 6.2 months of import cover of goods and services.



3.7 Exchange rate developments

For 2025, the Bank's implementation of the exchange rate policy entails adjusting the Pula basket weights to an equal split of 50 percent each for the South African rand and the SDR. This represents a shift from the January 2017 allocation of 45 percent for the rand and 55 percent for the SDR, reflecting evolving trade patterns. Additionally, an annual downward rate of crawl of 1.51 percent was maintained in January 2025, before being increased to 2.76 percent on 11 July 2025. Furthermore, the Pula trading margins between the buy and sell rates were widened from ± 0.125 percent to ± 0.5 percent effective January 2025, with a further significant increase to ± 7.5 percent implemented on 11 July 2025.

These policy adjustments have important implications for market participants. The widening of the foreign exchange trading margins introduces greater variability in the exchange rates quoted by commercial banks, potentially increasing costs and exchange rate volatility for importers, particularly during periods of elevated demand or low market liquidity. This environment necessitates more proactive foreign exchange risk management by importers. Conversely, exporters may benefit from the increased flexibility, as broader trading margins enable them to strategically time their currency conversions and negotiate more favourable exchange rates when converting foreign earnings into Pula. This could enhance export revenues and improve profitability, especially in a depreciating Pula environment. Overall, the adjustments are intended to encourage a more active and competitive interbank foreign exchange market, reducing the commercial banks' day-to-

day reliance on the Bank of Botswana for foreign currency liquidity and supporting the preservation of official foreign exchange reserves, which have been under pressure due to elevated import demand and constrained external inflows (see Box 3 on page 35 for more information about the July 2025 Pula exchange rate parameters adjustments).

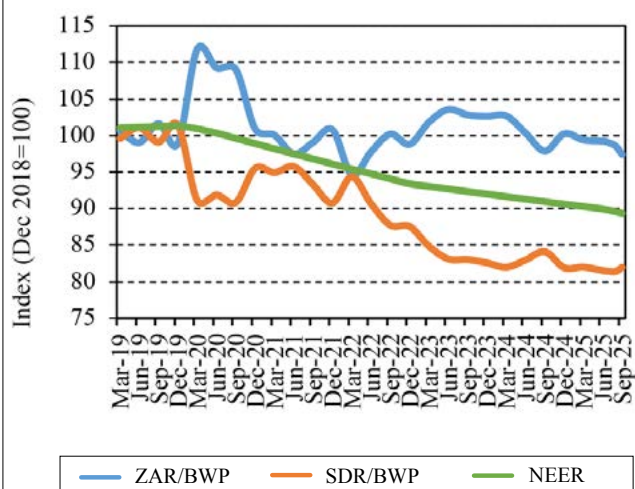
It is important to note that the exchange rates referenced in this report reflect mid-rates, which is the average of bid and ask prices at which the Bank of Botswana transacts with commercial banks. While this offers a fair benchmark of the Pula's value, actual transaction rates in the market may vary more significantly under the new ± 7.5 percent trading margin, giving customers greater room to negotiate competitive rates with their foreign exchange service providers.

In the twelve months to September 2025, the nominal Pula exchange rate depreciated by 2.5 percent against the SDR and 0.5 percent against the South African rand (Chart 3.18). With respect to the SDR constituent currencies, the Pula depreciated by 5.9 percent against the euro, 1.7 percent against the US dollar and 1.4 percent against the British pound, while it appreciated by 2.4 percent against the Japanese yen and 0.4 percent against the Chinese renminbi.

During the same review period, the South African rand depreciated by 2.1 percent against the SDR and recorded mixed performance against the SDR constituent currencies. Specifically, it depreciated by 5.5 percent against the euro, 1.2 percent against the US dollar and 1 percent against the British pound, while it appreciated by 2.9 percent against the Japanese yen and 0.8 percent against the Chinese renminbi.

The performance of the South African rand over the year to September 2025 was influenced by a combination of factors, including global trade developments. The rand was partially supported by rising gold prices, as investors sought safe-haven assets amid escalating geopolitical tensions and global economic uncertainty. However, heightened uncertainty over the renewal of the African Growth and Opportunity Act (AGOA) weighed on investor sentiment and trade expectations, exerting downward pressure on the rand. Gains were further tempered by ongoing trade frictions, including a 30 percent tariff on a broad range of South African exports to the United States, leaving the rand exposed to external shocks and shifts in global market sentiment.

Chart 3.18: Nominal Exchange Rate Indices



Source: Bank of Botswana

REER depreciated in August 2025

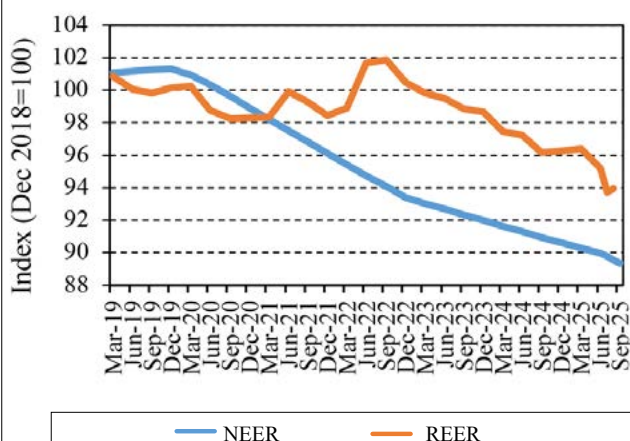
The REER depreciated by 3.1 percent in the twelve months to August 2025 (Chart 3.19), due to the depreciation of the NEER (rate of crawl) and the lower inflation in Botswana than its trading partner countries, suggesting a gain in Botswana's export competitiveness, by this measure.

With respect to bilateral movements against the Pula basket currencies, the real Pula exchange rate (using headline inflation) depreciated by 3.3 percent against the SDR and 2.5 percent against the South African rand. It depreciated by 6.3 percent against the euro, 5.3 percent against the British pound, 2.2 percent against the US dollar and 0.6 percent against the Japanese yen, while it appreciated by 1.6 percent against the Chinese renminbi.

NEER depreciated in September 2025

The NEER of the Pula depreciated by 1.7 percent in the twelve months to September 2025 (Chart 3.19), consistent with the transition from an annual downward rate of crawl of 1.51 percent to 2.76 percent¹².

Chart 3.19: Nominal and Real Effective Exchange rates

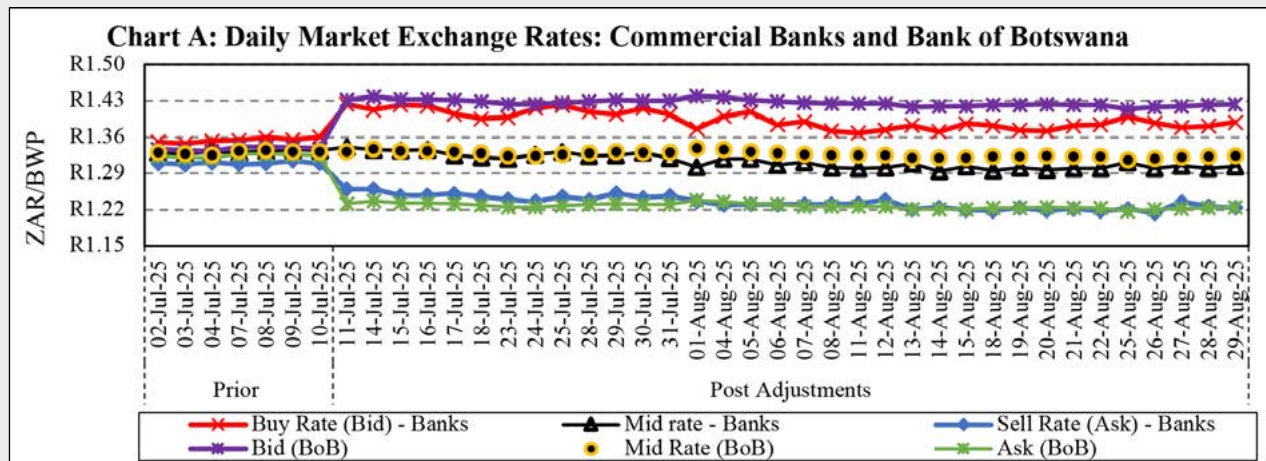


Source: Bank of Botswana

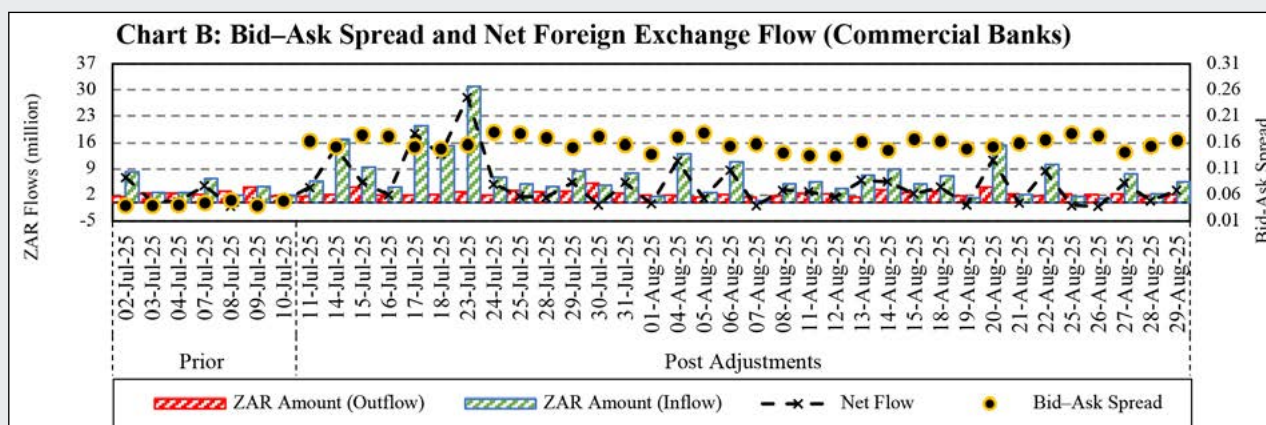
¹² The implementation of the 1.51 percent downward rate of crawl ceased on Thursday, 10 July 2025 and was replaced by a new, more depreciative rate of 2.76 percent, which took effect on 11 July 2025.

Box 3: Foreign Exchange Market Developments Following The July 2025 Exchange Rate Policy Parameter Adjustments

Market developments indicate that the exchange rate parameter adjustments implemented on 11 July 2025 have contributed to a more flexible and competitive foreign exchange environment in Botswana. Specifically, widening the Pula trading margins from ± 0.5 percent to ± 7.5 percent and increasing the downward rate of crawl to 2.76 percent, have expanded the operational space for commercial banks. These changes have, to a significant degree, enabled banks to quote exchange rates that more closely reflect prevailing market conditions and customer demand, thereby improving price discovery and enhancing overall market efficiency.



Analysis of aggregated daily ZAR/BWP trading activity across eight commercial banks (Chart A) shows that, while foreign exchange pricing by banks remains anchored within the Bank of Botswana's stipulated trading margins, the dispersion in quoted rates across banks has increased since the parameter adjustments. This development is indicative of active competition and deeper market participation. From a customer perspective, this variability in quotations provides opportunities for both corporate and individual clients to compare and negotiate more favourable pricing based on transaction size, timing and relationship dynamics. Overall, these outcomes are consistent with the policy objective of fostering a more market-oriented foreign exchange regime, with exchange rates increasingly influenced by competitive forces rather than routine central bank interventions.



Following the July 2025 adjustments, the average bid-ask spread widened from 0.05 to approximately 0.16, reflecting the transition toward more market-based pricing and increased interbank trading activity. Net foreign exchange flows remained positive, supported by robust ZAR inflows and a sustained demand for the Pula, while outflows in ZAR remained relatively contained. These developments suggest that the policy changes are helping to preserve the external value of the Pula, while broadening the channels through which price signals are created in the market.

Furthermore, foreign exchange sales by the Bank to commercial banks declined from an average of P4 billion per month prior to the adjustment to about P2.8 billion per month thereafter. During the same period, interbank trading volumes increased from P2.4 billion to P2.7 billion. This shift reflects increasing liquidity and self-sufficiency within the interbank market, reducing reliance on the central bank as the primary supplier of foreign currency. Consequently, official foreign exchange reserves have remained broadly stable, averaging just over P47 billion, equivalent to around six months of import cover.

Taken together, these developments indicate that the July 2025 exchange rate parameter adjustments are broadly achieving their intended objectives, namely: promoting a competitive and well-functioning foreign exchange market, supporting market-based exchange rate formation and safeguarding the sustainability of Botswana's external position.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains subdued but was revised slightly upwards for 2025 in the October 2025 WEO compared to the July 2025 WEO Update projection. The upward revision is largely on account of milder-than-expected tariff impacts; quicker-than-anticipated private sector adjustment through front loading of imports and supply chain diversification; lower effective US tariff rates; improved global financial conditions; and fiscal support in some major economies. Regarding price developments, global inflation is projected to continue moderating, although price dynamics vary across countries. Regionally, South Africa's growth prospects remain constrained due to structural bottlenecks.

Global economic growth to remain below historical average

According to the October 2025 WEO, global output growth is forecast at 3.2 percent for 2025, slightly lower than 3.3 percent in 2024, and to decrease further to 3.1 percent in 2026. The growth forecast for 2025 was revised upward by 0.2 percentage points, compared to the July 2025 projection. The upward revision reflected a more resilient performance than earlier expected, owing to agility of the private sector, which front-loaded imports in the first half of the year and speedily reorganised supply chains to redirect trade flows. Moreover, the negotiation of trade deals between various countries and the US and the overall restraint from the rest of the world, which by and large kept the trading system open, was positive for growth. However, the 2025/2026 forecasts are lower than the historical (2000-2019) annual average of 3.7 percent.

Overall, risks to the global economic outlook remain tilted to the downside. These include, among others, prolonged policy uncertainty, which could dampen consumption and investment; and further escalation of protectionist measures, including non-tariff barriers, which could disrupt supply chains and stifle productivity growth. In addition, worsening fiscal vulnerabilities and financial market fragilities, including an abrupt repricing of tech stocks driven by disappointing artificial intelligence related results could threaten financial stability.

For advanced economies, output is projected to grow by 1.6 percent in 2025 and 2026, lower than 1.8 percent in 2024. Despite the overall subdued expansion, the 2025 growth forecast was revised upward by 0.1 percentage points, due to easing financial conditions, including a weaker US dollar and less severe tariff impacts following the negotiation of trade deals between various countries and the US, and the overall restraint from the rest of the world. In addition, the revision is on account of fiscal expansion in some major economies such as the US.

UK economic growth subdued

The UK economy is forecast to grow by 1.3 percent in 2025 (0.1 percentage points higher than the July 2025 projection), from 1.1 percent in 2024. The upward revision in growth is due to stronger than expected activity in the first half of 2025 reflecting resilience in domestic demand and exports performance supported by the UK-US trade deal announced in May 2025. However, growth in the UK remains subdued because of the tight fiscal policies and weak business investment. In addition, labour market constraints, including rising unemployment and elevated wage pressures, further dampen growth prospects.

Output growth for US to decrease

In the US, output is forecast to slow down from 2.8 percent in 2024 to 2 percent in 2025 but to increase slightly to 2.1 percent in 2026. The growth forecasts for 2025 and 2026 are 0.1 percentage points higher than the July projection, owing to milder than expected tariff impact, looser financial conditions, and ongoing fiscal support from the One Big Beautiful Bill Act, which extended tax cuts and infrastructure spending, offsetting some trade uncertainty. The US economy, however, faces mounting headwinds, including tariff-induced inflation, slowing labour market momentum, and weakening consumer demand as higher prices erode purchasing power.

Growth for the euro area to increase

In the euro area, economic growth is projected to increase slightly from 0.9 percent in 2024 to 1.2 percent in 2025 (a 0.2 percentage point upward revision from the July 2025 forecast), largely driven by the fiscal expansion in Germany which has provided a boost to economic activity within the region. In 2026, growth is forecast to decrease to 1.1 percent, owing to trade tariffs and elevated uncertainty, as well as geopolitical factors in Europe which is anticipated to dampen sentiment, leading to reduced investment and consumption.

Emerging markets GDP growth to decline

Economic activity in EMDEs is projected to expand by 4.2 and 4 percent in 2025 and 2026, respectively, slightly lower than the estimated expansion of 4.3 percent in 2024, mainly due to deeper scarring effects from recent shocks, including the shift in US trade policy and prolonged uncertainty, cuts in development assistance financing, geopolitical tensions, narrow fiscal space and increased debt levels following the COVID-19 pandemic. The forecast for 2025 was, however, revised upwards by 0.1 percent, due to an upward revision in growth for India. Moreover, stronger-than-expected outturn in the first half of the year due to front-loading in international trade in some emerging economies led to an upward revision. Meanwhile, growth in the Sub-Saharan Africa region is expected to remain subdued at 4.1 percent in 2025, the same as in 2024, an upward revision of 0.1 percentage points from the July 2025 projection, reflecting offsetting trends in the region. Whereas growth in Nigeria was revised upward on account of supportive domestic factors, many other economies saw significant downward revisions because of the changing international trade and official aid landscape, and exposure to higher US tariffs. Growth is projected at 4.4 percent in 2026.

In India, output is expected to expand by 6.6 percent in 2025 and 6.2 percent in 2026, compared to 6.5 percent in 2024, supported by private consumption and more benign external environment, and carryover from a strong first quarter more than offsetting the increase in the US effective tariff rate on imports from India since July. The growth forecast for 2025 is 0.2 percentage points higher than the July 2025 forecast on account of a more favourable external environment than in the July 2025 forecast. Meanwhile, output for China is forecast to grow by 4.8 percent and 4.2 percent in 2025 and 2026, respectively, lower than the estimated expansion of 5 percent in 2024. The forecast for 2025 remained unchanged from the previous forecast.

Growth prospects for the South African economy remain weak

Regionally, growth prospects for South Africa are expected to remain constrained, reflecting persistent structural challenges and external headwinds that have stifled economic momentum. The subdued economic outlook is primarily attributed to inefficiencies in key industries, particularly in energy and logistics, where ongoing electricity supply instability, despite the suspension of load-shedding and severe bottlenecks in freight rail and port operations, continue to hamper productivity and export capacity. These domestic challenges are compounded by external pressures, including higher US tariffs on South African exports and broader global trade uncertainty, which have dampened demand and investment. Thus, South African output growth is forecast to remain subdued

at 1.1 percent in 2025 and 1.2 percent in 2026, although higher than the 0.5 percent expansion in 2024.

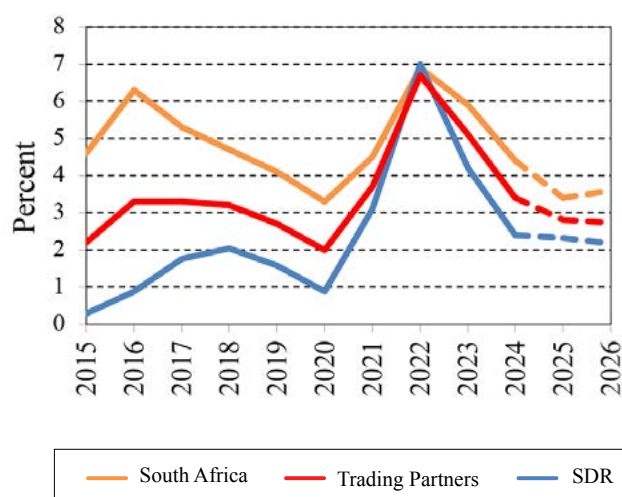
Meanwhile, in September 2025, the SARB revised upwards the growth projection for both 2025 and 2026, to 1.2 percent and 1.4 percent, from 0.9 percent and 1.3 percent, respectively. The upward revision is supported by modest output gains, with the help of structural reforms, as well as positive credit extension.

Global inflation to moderate

Globally, inflation is expected to moderate further in 2025, reflecting the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as due to the anticipated lower international commodity prices particularly oil and food. Moreover, the expected decrease in inflation is due to the anticipated broad-based decrease in core inflation across regions. Thus, inflation for advanced economies is forecast to ease from 2.6 percent in 2024 to 2.5 percent and 2.2 percent in 2025 and 2026, respectively, while for emerging market economies, it is forecast to decrease from 7.9 percent to 5.3 percent and 4.7 percent in the same period. Overall, global inflation is expected to ease from 5.8 percent in 2024 to 4.2 percent in 2025 and 3.7 percent in 2026.

Meanwhile, the SARB forecasts South African inflation to average 3.4 percent and 3.6 percent in 2025 and 2026, respectively. The forecasts for 2025 and 2026 have been revised upwards from 3.3 percent compared to the July 2025 projections, on account of higher electricity, food and services prices (Chart 4.1).

Chart 4.1: South Africa and SDR Headline Inflation



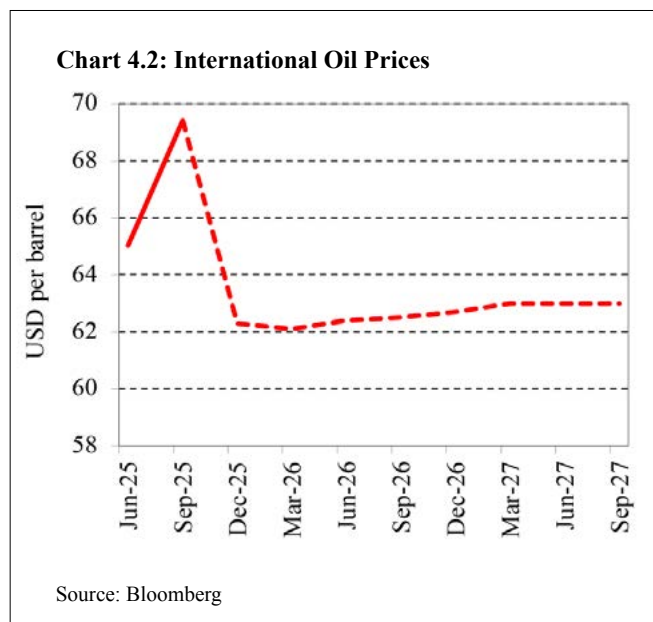
Source: SARB and Bloomberg

Diamond prices to trend downwards

Diamond prices are expected to continue trending downward 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 haven commodity¹³ has contributed to the decline in demand for diamonds, and consequently, diamond prices.

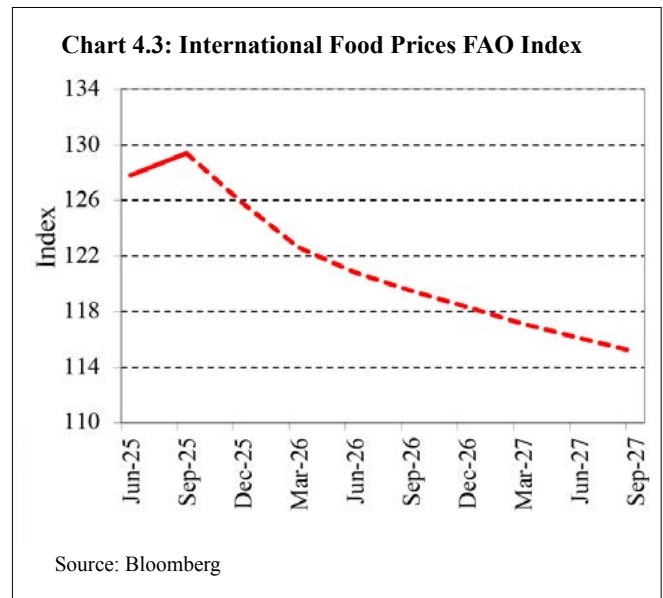
International oil prices to decrease

International oil prices are expected to decrease in the fourth quarter of 2025 (Chart 4.2). The decrease in oil prices is underpinned by an over supplied market and sluggish demand outlook, which more than offset the positive effect induced by the commencement of the US' monetary policy easing cycle. The US tariffs, although lower on average than previously announced, could slow economic growth and weaken demand, thus exerting downward pressure on international oil prices. Notwithstanding, the effectiveness of further US sanctions on Russian's oil consumers, particularly India and China, could stifle the market, thus adding upward pressure on oil prices.



International food prices to decrease into the medium term

Global food prices are expected to trend downward into the medium term (Chart 4.3). The anticipated decrease in international food prices is underpinned by improved global food supply conditions, particularly for grains, and the projected subdued global economic growth. Furthermore, the projected decrease in international oil prices in the short term is expected to contribute to lower food prices.



In Southern Africa, food prices are expected to decrease as the impact of drought conditions caused by the El Nino weather phenomenon begin to subside. Furthermore, the 2024/2025 heavy rainfall season resulted in good harvests in 2025, particularly cereals, which is expected to exert downward pressure on food prices. For example, in Botswana a bumper harvest for sorghum and cow peas has been recorded, with at least 65000 tonnes (against an annual sorghum demand of 60000 tonnes) harvest at Pandamatenga.

¹³ Gold is regarded as a safe-haven asset, particularly in times of high inflation, economic uncertainty and geopolitical tensions.

4.2 Outlook for domestic economic activity

The Ministry of Finance forecasts GDP to a contract by 0.4 percent in 2025.

Output growth projection revised downwards for 2025

The Ministry of Finance has revised its GDP growth forecast for 2025 from 3.3 percent to a contraction of 0.4 percent¹⁴, reflecting weaker-than-expected domestic economic momentum. The revision is mainly attributable to the sustained downturn in the diamond industry, subdued global growth, and the potential adverse effects of the US tariffs. Domestically, tight liquidity conditions, arising from the fiscal pressures and constrained Government cash flows, are expected to dampen economic activity. These challenges have led to a tightening in monetary conditions, as reflected by increases in prime lending rates by commercial banks, which may further constrain economic activity.

Despite the weaker short-term outlook, recent developments in the diamond sector provide some medium-term stability. The new agreement between Botswana and De Beers, entailing a ten-year sales agreement for Debswana's rough diamond production to 2033 and a 25-year extension of Debswana's mining licences to 2054, has strengthened investor confidence and is expected to support future production planning and investment in the diamond value chain.

In addition, the economic reform agenda has gained momentum¹⁵. On 15 July 2025, the government launched the Botswana Economic Transformation Programme (BETP), a result-driven initiative designed to accelerate implementation of strategic projects and unlock private sector-led growth.

Following the economic and social laboratories, 186 projects were shortlisted from a pool of 6 925 submissions, of which 60 high impact projects were assessed and considered ready for implementation, while 87 were identified for facilitation in the medium term. Of the high impact projects, 13 were presented to potential domestic investors during a roadshow held on 2 September 2025. These included projects on rail and road infrastructure development, water supply systems, electricity connection, mining (battery-grade manganese), manufacturing (e.g., aluminium products), airports expansion and healthcare facilities development. Another roadshow targeting foreign investors, is scheduled before the end of the year.

However, the growth trajectory remains uncertain due to downside risks, including weaker global demand and adverse impact of the geopolitical tensions, including the Russia-Ukraine war. Emerging risks, among others, include changes in consumer preferences that also pose downside risks and relate to the protracted downturn of the diamond industry or a structural shift in the demand for natural diamonds, which has led to low diamond prices. These risks underscore the need to accelerate economic diversification efforts and activities as encapsulated in various transformation initiatives and the targeted budget allocations for infrastructure and expansion of local production and beneficiation capacity.

Persistent slack in the economy is reflected in below potential output, alongside high unemployment, which rose to 27.6 percent in the first quarter of 2024, from 25.9 percent in the third quarter of 2023, amid sluggish job creation and limited growth in real wages.

Meanwhile, the business sentiment mirrors the fragile economic conditions. The Bank's September 2025 Business Expectations Survey (f) indicates a weakening outlook, with firms citing constrained government spending and unfavourable exchange rate as major constraints. As a result, firms anticipate the domestic economy to expand slightly by 0.7 percent in 2025, lower than the 0.9 percent anticipated in the previous survey, highlighting deteriorating private sector confidence.

14 The outlook is aligned with the October 2025 IMF WEO, which projects a 0.9 percent contraction in 2025, while the African Development Bank projects a growth of 0.8 percent.

15 These includes, amongst others, the National Housing Programme (Bonno); youth empowerment programmes to encourage youth entrepreneurship and innovation; economic diversification focusing on

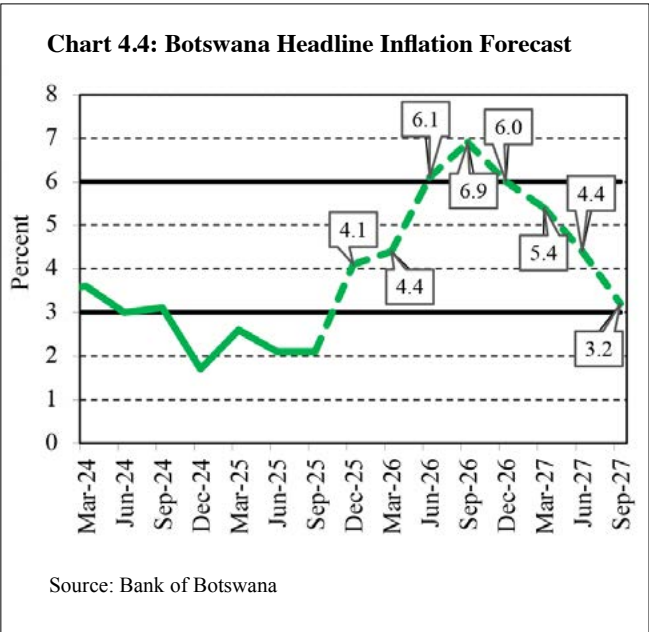
sectors, such as tourism, agriculture, manufacturing and value-addition, IT and health care through establishing a National Development Fund, developing sectoral strategies and expanding infrastructure; job creation and skill development; public reform; and efficient resource management.

4.3 Monetary policy and inflation outlook

Inflation is expected to rise and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026, mainly on account of market response to adjustment of exchange rate parameters and the impact of the recent increase in domestic fuel prices.

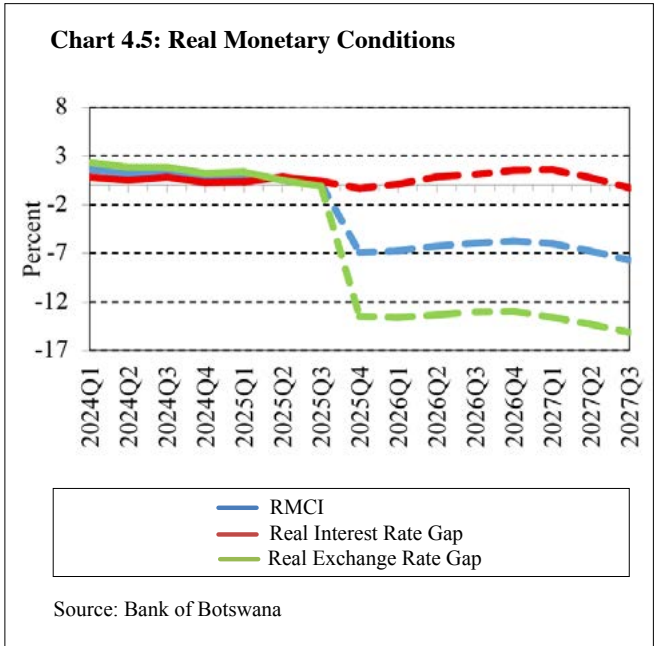
Inflation to breach the objective range

Inflation is forecast to increase and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026 (Chart 4.4). The rise in inflation is mainly due to the market response to the recent adjustment of exchange rate parameters. Specifically, the increase in the trading margins at which the Bank buys and sells foreign currency from/to commercial banks resulted in an increase in prices of some goods and services, given the high import intensity of the Botswana economy. Additionally, the rise in inflation is due to the increase in domestic fuel prices effected on 15 September 2025 and associated cost push pressures. The accommodative real monetary conditions in the forecast horizon also contribute to the rise in inflation (Chart 4.5). Nonetheless, inflation is expected to ease and revert to within the objective range in the medium term, supported by stabilising exchange rate dynamics and prudent monetary policy management.



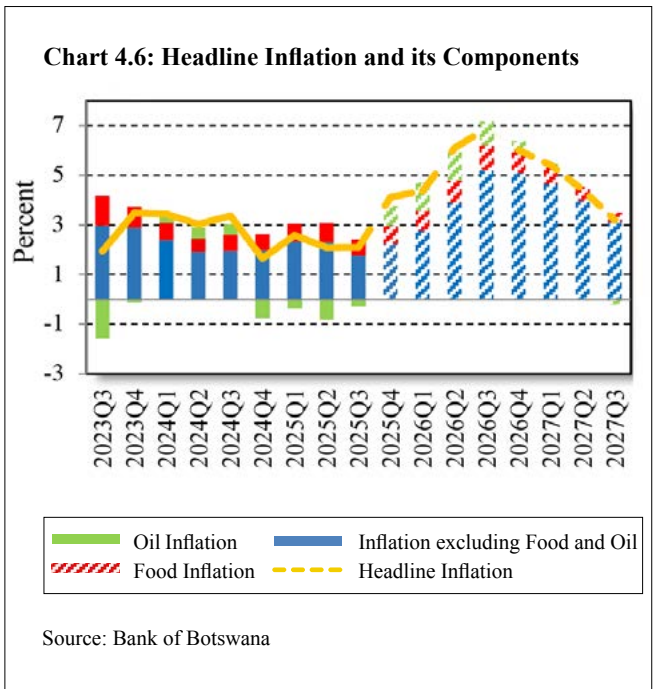
The projection also considers the impact of adjustments of administered prices, the increase in the downward rate of crawl from 1.51 percent to 2.76 percent, trading partner countries' inflation forecasts and developments in international food and oil prices.

According to the June 2025 BES, firms expect inflation to average 3.4 percent and 4.1 percent in 2025 and 2026, respectively, thus remaining within the objective range, suggesting that inflation expectations are well anchored. However, given the recent exchange rate adjustments and utility tariffs, businesses are likely to expect a higher inflation in the September 2025 BES.



Core inflation to increase in the medium term

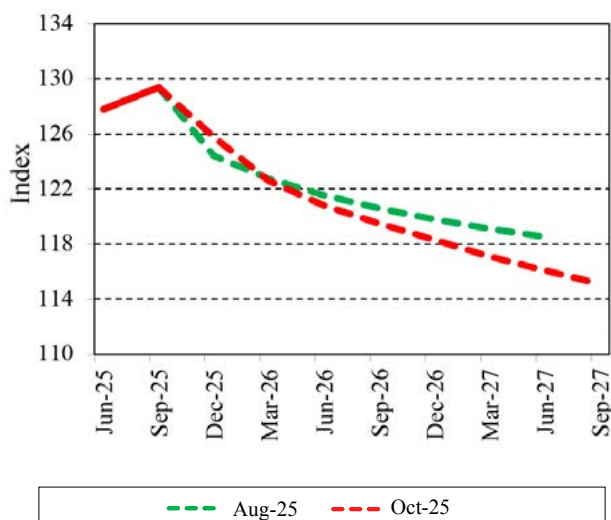
Inflation, excluding food and fuel prices, is expected to increase in the short term (Chart 4.6), reflecting the secondary effects of higher import costs following the exchange rate adjustments and the expected improvement in the non-mining sector.



Forecasts for international food prices revised downward in the medium term

Compared to the August 2025 forecast, international food prices have been revised upward in the short term (Chart 4.7). The upward revision is mainly due to concerns about sugar production outlook in Brazil, driven by reduced sugarcane yields. Additionally, stronger global demand for sugar, especially from China is adding to price pressures. This more than offsets the downward pressure stemming from the ample global wheat supply and subdued demand, which is weighing on international wheat prices and, consequently, international food prices. However, food prices have been revised downward in the medium term reflecting the steep downward revision in forecasts for international oil prices.

Chart 4.7: International Food Prices FAO Index

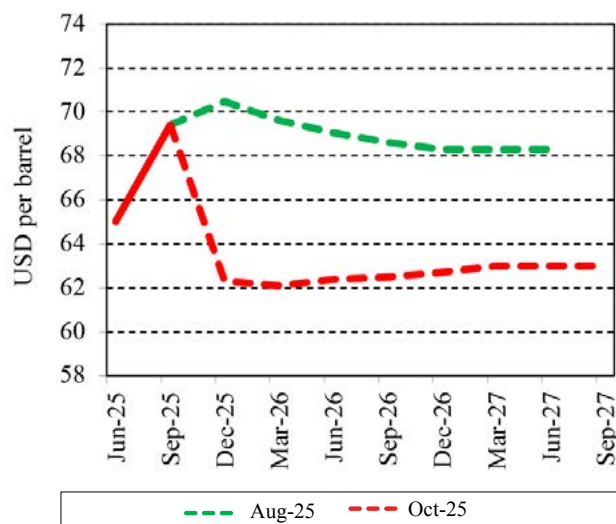


Source: Bloomberg

Forecasts for international oil prices revised downward

Compared to the August 2025 projection, international oil prices have been significantly revised downward, underpinned by the expected excess supply following the announcement by OPEC+ countries to increase production by 137 000 barrels per day starting in October 2025 (Chart 4.8). Although this is a small increase, the move signals that OPEC+ countries may continue raising output despite expectations of flat demand growth.

Chart 4.8: International Oil Prices

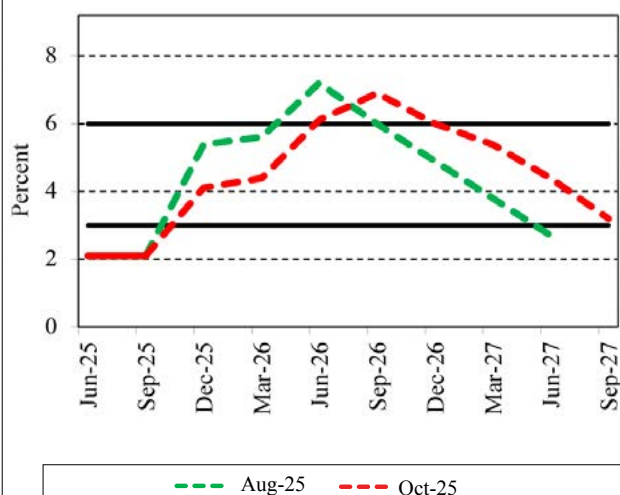


Source: Bloomberg

Inflation forecast revised downwards in the short term

Compared to the August 2025 forecast, domestic inflation projection has been revised downward in the short term (Chart 4.9). This revision is mainly due to a lower-than-expected inflation outturn in the third quarter of 2025, as the pass-through from the exchange rate adjustment was weaker than initially anticipated. The downward revisions of international oil prices and trading partners inflation forecasts have also contributed to the relatively low domestic inflation forecast in the short term. However, inflation is revised upwards in the medium term mainly due to accommodative monetary policy conditions than previously projected.

Chart 4.9: Botswana Headline Inflation Forecast Revision



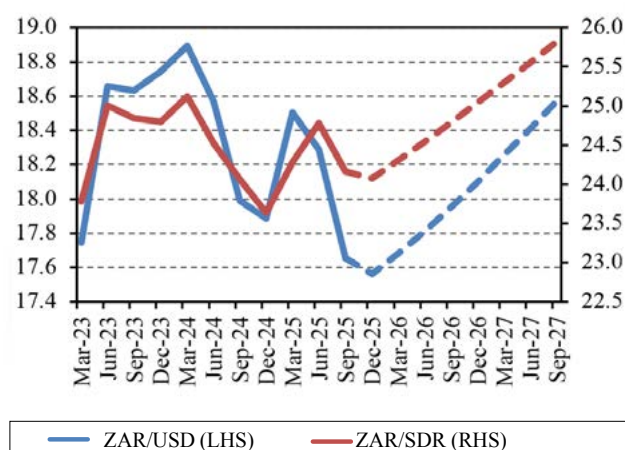
Source: Bank of Botswana

Exchange rate movements

The Pula exchange rate continues to be influenced by movements of its basket of currencies and the predetermined annual rate of crawl. Once the composition of the currency basket and the rate of crawl are established, the daily fluctuations in the Pula's value against other currencies are a result of movements in the cross rates of the South African rand and the SDR constituent currencies against each other, as well as their relative weights within the composite currency basket.

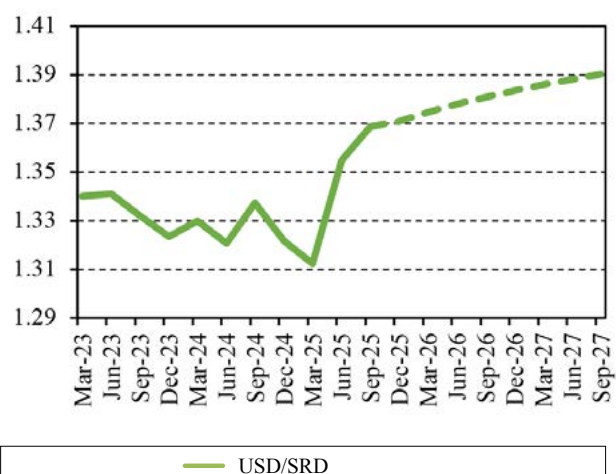
The South African rand is projected to appreciate against major international currencies in the fourth quarter of 2025 (Chart 4.10), supported by rising gold prices, as investors seek safe-haven assets amid heightened geopolitical uncertainty. The rand is, however, expected to depreciate from early 2026 into the medium term, reflecting the impact of persistent structural constraints within the domestic economy. These include a combination of subdued GDP growth, high unemployment and the resurgence of rotational power outages. Although Eskom has provided some assurance regarding a stable power supply during the winter months, the ongoing instability in the country's energy infrastructure continues to negatively impact productivity

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

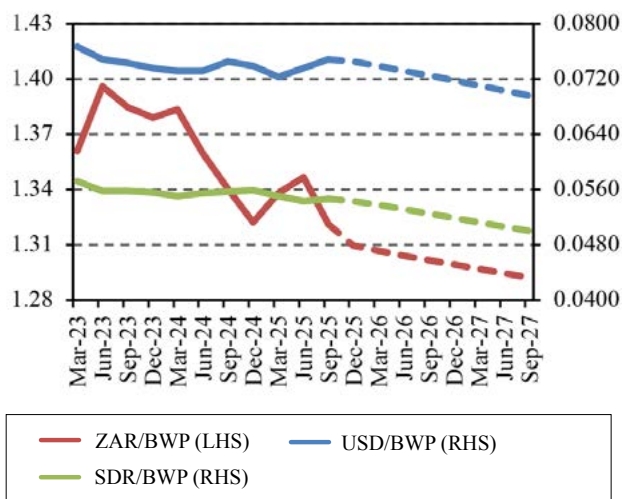


Source: Bloomberg

The US dollar is projected to depreciate against the SDR constituent currencies over the next four quarters (Chart 4.11), mainly due to concerns of the economic impact of the newly implemented tariffs, US trade policy and fiscal policy. President Trump reaffirmed a 10 percent baseline global tariff and imposed reciprocal duties of up to 41 percent on countries without trade agreements with the US. Additionally, he announced a 40 percent tariff on goods deemed to have been transhipped to avoid existing duties, heightening trade tensions. On the fiscal policy, the US did pass the Trump administration's mega bill, but there is no obvious growth positive fiscal thrust after accounting for tariff revenue. However, as a traditional safe-haven asset, the dollar may experience intermittent periods of increased demand during episodes of geopolitical uncertainty, which could partially offset its expected depreciation.

Domestically, the Pula is projected to depreciate against the South African rand into the medium term (Chart 4.12). This outlook is influenced by the anticipated short-term appreciation of the rand against major international currencies, as well as recent adjustments to the exchange rate policy parameters. While the rate of crawl exerts a gradual influence on the value of the Pula, the widening of trading margins has had a more immediate impact on its market valuation. The revised parameters are expected to continue guiding the Pula's trajectory, with market participants progressively adjusting to these changes, thereby moderating the pace of depreciation (Chart 4.12). On the inflation front, the expected depreciation of the Pula against the rand is likely to contribute to 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

Overall, risks to the inflation outlook are assessed to be on the upside. This is primarily due the potential cost-push pressures and second-round effects stemming from the recent increase in water and electricity tariffs for businesses as well as the increase in domestic fuel prices. Additionally, the unintended consequences of the recent adjustments of the exchange rate parameters may also add higher inflationary pressures than currently anticipated. Inflation could also be higher than projected if international commodity prices were to increase above current forecasts and supply, as well as logistical constraints in the global value chains, persist. Furthermore, the effects of US tariffs are also expected to be inflationary.

However, inflation could be lower than currently projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international commodity prices than currently projected. Furthermore, the recent downgrade of Botswana's long-term sovereign credit ratings for both local and domestic currency debt from BBB+ to BBB is likely to have a negative impact on economic activity, thus exerting downward pressure on the inflation outlook. The inflation outcomes could also be affected by possible changes in administered prices that are not factored in the current projection.

5. OCTOBER 2025 MONETARY POLICY COMMITTEE DECISION

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

The MPC met at a time when the global economy continues to experience heightened uncertainty due to geopolitical tensions, shifts in trade policy and subdued global growth. These developments, combined with weaker diamond market, have placed pressure on Botswana's fiscal and external buffers, thereby weighing on overall economic performance, contributing to recent credit rating downgrades by S&P Global Ratings and Moody's Investors Service. Despite the downgrades, Botswana's rating remains within the investment-grade category, reflecting continued confidence in the country's institutional strength and macroeconomic management framework. Greater fiscal support, economic diversification, and productivity-enhancing reforms, consistent with the Botswana Economic Transformation Programme (BETP) and National Development Plan (NDP) 12, provide a pathway for rating stabilisation and potential improvement. This should be reinforced by maintenance of macroeconomic policy measures that are conducive to investor confidence, attracting capital (alleviating capital outflows) and policy commitment to retaining trust in the local currency. This explains policy decisions that follow.

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

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

of foreign exchange reserves will require stronger related fiscal policy responses and greater economic diversification amid weaker diamond sector performance.

Economic Environment

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

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

Inflation

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

Risks to the inflation outlook are assessed to be tilted to the upside. This is primarily due to the potential cost-push pressures and second-round effects stemming from the increase in water and electricity tariffs for businesses as well as the increase in domestic fuel prices. Inflation could

also be higher than projected if international commodity prices were to increase above current forecasts and supply, as well as logistical constraints in the global value chains persist. Additionally, any further tariff increases globally are expected to be inflationary. On the downside, inflation may be lower than projected if domestic and global economic activity remain subdued, fiscal space remains tight, or if international commodity prices fall. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection.

Decision

The economy is expected to continue to operate below full capacity in the short-to-medium term, though improving marginally into the medium term. This should not generate demand-driven inflationary pressures. Inflation is expected to temporarily breach the upper bound of the objective range and risks to the inflation outlook are assessed to be tilted on the upside. However, inflation is projected to be within the medium-term objective range in the medium-term suggesting maintenance of a broadly accommodative monetary policy stance that would support economic activity, especially implementation of economic transformation initiatives as indicated in the BETP and NDP12.

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

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

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

The Committee therefore decided as follows:

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

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

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

Meetings of the MPC

The MPC meetings for 2025 are scheduled as follows:

4 December 2025

Annex: Inflation Forecast Summary for October 2025 MPC Meeting

	Actual						Forecast									
	2024			2025			2025		2026					2027		
	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3
Inflation	3.1	1.7	2.8	2.6	2.1	2.1 (3.9)	4.1 (5.4)	2.7 (3.5)	4.4 (5.6)	6.1 (7.3)	6.9 (6.0)	6.0 (4.9)	5.9 (5.9)	5.4 (3.8)	4.4 (2.7)	3.2

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

NOTE

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