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REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE
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PRESS RELEASE

PULA EXCHANGE RATE IN 2026

Reaffirmation of commitment to support Botswana's export competitiveness and ensure long-term economic stability

1. In accordance with Section 21 of the Bank of Botswana Act, the Framework for determining the external value of the Pula shall be determined by the President on the recommendation of the Minister of Finance, after consultation with Bank of Botswana.

2. The Ministry of Finance (MoF), in collaboration with the Bank of Botswana (the Bank), therefore, continuously reviews the exchange rate policy framework to ensure that it delivers its intended outcomes for the Botswana economy. At the core of this framework is the strategic objective of enhancing and safeguarding competitiveness of the domestic industry. This entails ensuring that adjusted for exchange rate movements, the prices of Botswana produced goods and services remain competitive against imports and in the international markets. The crawling peg exchange rate framework is the primary policy instrument through which this objective is operationalised, and it incorporates the following key features:

   (a) The Pula is pegged to a basket of currencies determined using Botswana's trading patterns. This basket includes the South African Rand and the International Monetary Fund's (IMF) Special Drawing Rights (SDR), which comprises the US Dollar, the Japanese Yen, the Chinese Renminbi, the Euro, and the British Pound;

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(b) An annual rate of crawl is applied, designed to approximate the difference in inflation between Botswana and its trading partner countries, to ensure that relative price movements do not erode external competitiveness. This mechanism helps to maintain price parity over time by adjusting for currency fluctuations; and

(c) Trading margins are established around the central bilateral exchange rates at which the Bank of Botswana trades (buys and sells) foreign currency with commercial banks. The margins may be adjusted as necessary to support the intended exchange rate policy stance and broader policy objectives.

3. The effective operation of the crawling-peg exchange rate framework depends on the availability of sufficient foreign exchange reserves. These foreign exchange reserves enable the Bank of Botswana to meet market demand for foreign currency at the published exchange rates as determined by the framework. Thus, insufficient official foreign exchange reserves would constrain the sustainability of the exchange rate framework and the Bank's ability to supply foreign currency.

4. Accordingly, in July 2025, in response to sustained erosion of the official foreign exchange reserves, key policy parameter adjustments were implemented to support the sustainability of the exchange rate framework and to ensure that the Bank remains well-positioned to manage external vulnerabilities and preserve market stability. The annual downward rate of crawl was increased from 1.51 percent to 2.76 percent to align the exchange rate with relative inflation developments and prevent an erosion of external competitiveness. In addition, trading margins were widened from ±0.5 percent to ±7.5 percent. This symmetric margin structure allows for greater flexibility in market-driven exchange rate movements and reduce pressure on official foreign exchange reserves.

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5. These adjustments have yielded positive outcomes, most notably, a reduction in foreign exchange sales by the Bank of Botswana to commercial banks. This also induced a shift toward a more market-driven foreign exchange environment, as commercial banks increasingly source and trade foreign currency through interbank and other market-based channels.

6. The July 2025 policy parameter adjustments were, therefore, essential to preserving the official foreign exchange reserves, maintaining the stability and integrity of our financial system, and ensuring uninterrupted support for import related economic activity. Nonetheless, official foreign exchange reserve levels remain constrained. Thus, the continued need to rebuild and safeguard Botswana's external balance position and, in turn, anchoring the external value of the Pula and further enhancing the competitiveness of domestic producers.

7. It is observed that the July 2025 policy adjustments represented a necessary calibrated transition that successfully reduced reliance on the Bank of Botswana for foreign exchange supply and strengthened interbank price discovery. Nevertheless, there continues to be scope for further refinement of the policy parameters to promote alignment of market incentives and responses with broader policy objectives. Under the current symmetric margin structure, exporters receive fewer Pula per unit of foreign currency when converting proceeds, which may dampen export competitiveness and the incentive to domesticate foreign currency earnings. Against this background, the President has approved the following measures:

   (a) Implementation of asymmetric/unequal Pula trading margins, by reducing the rate at which the Bank of Botswana buys foreign currency from commercial banks (buy rate) from 7.5 percent to 3 percent from the central parity, while maintaining the rate at which the Bank sells foreign currency to commercial banks (sell rate) at -7.5 percent from the central parity. This adjustment will potentially enable local exporters to earn more Pula per unit of foreign currency, strengthening incentive to convert export proceeds into Pula, and increasing the supply of foreign currency. Maintaining the sell rate at -7.5 percent will continue to encourage active interbank trading and limit reliance on the central bank to provide foreign exchange. Overall, this is expected to support foreign exchange reserve preservation and potential accumulation;

(b) Maintenance of the current annual downward rate of crawl at 2.76 percent, based on updated forecast inflation differential between Botswana and its trading partner countries. This will preserve domestic industry competitiveness in external markets and against imports, while supporting price stability, that is maintaining inflation within the 3 – 6 percent objective range; and

(c) Maintenance of the Pula currency basket weights of 50 percent for the South African Rand and 50 percent for the SDR to moderate the volatility of the Pula against the South African Rand and support the competitiveness of domestic goods and services in the South African market, a close and important trading partner.

8. Collectively, these measures strengthen local industry competitiveness, enhance external sustainability, and safeguard the official foreign reserves, thereby reinforcing the resilience of the exchange rate regime and preserving policy discretion. Notwithstanding, it is important to observe that the greater imperative is to address structural constraints that hinder productivity, economic diversification and inclusive growth, which ultimately determine the long-term value of the Pula. Achieving this demands a coordinated effort by the Government and its agencies, the private sector and households to implement policies and undertake actions that support overall economic resilience.

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The Ministry of Finance and the Bank of Botswana will continue to monitor developments closely and make timely, appropriate measures to ensure a sustainable framework that underpins long-term economic performance. Concurrently, all stakeholders must take decisive, urgent actions and collaborate to advance reforms that drive productivity, strengthen domestic production, thus improve competition against imports and promote export performance, and secure Botswana's economic future.

9. These changes are effective 1st January 2026.

10. The next review of the exchange rate policy is scheduled for June 2026.

Boniface G. Mphetlhe
ACTING PERMANENT SECRETARY