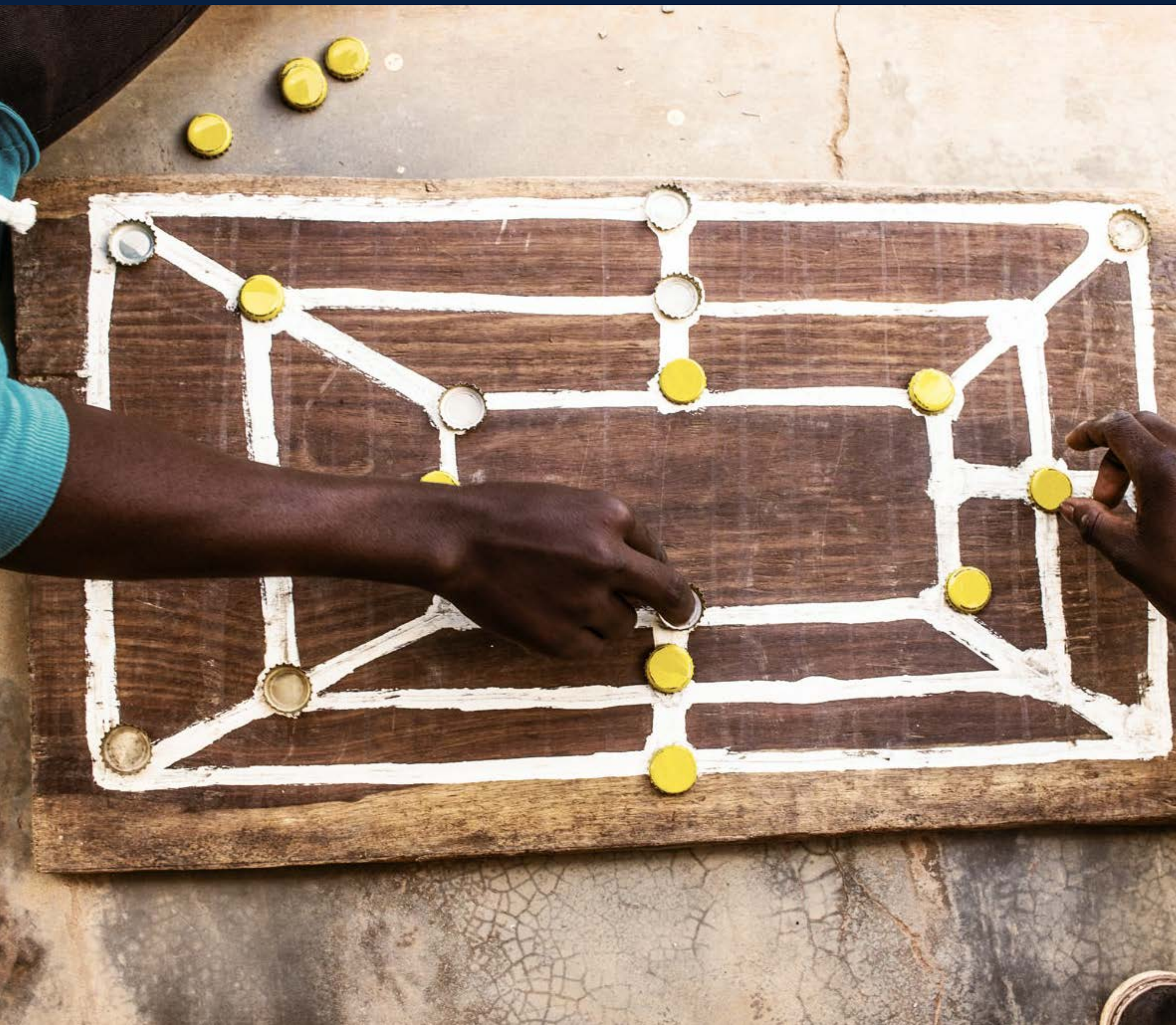
MONETARY POLICY REPORT

APRIL | 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
April 2025

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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 that comprise the Pula Basket and the rate of crawl) 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 with a central role for 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 24 for details on the impact of the policy reforms on monetary policy transmission and the yield curve).

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
Acting Director, Financial Markets

Professor Patricia Makepe
External Member

Dr. Pinkie Kebakile
External Member

Dr. Onkokame Mothobi
External Member

Dr. Taufila Nyamadzabo
External Member

2. EXECUTIVE SUMMARY

In 2025, monetary policy is being implemented in the context of projections for lower inflation in the short-to-medium term, due to subdued domestic and global economic activity; and anticipated lower international commodity prices and trading partner countries' inflation. At the April 2025 meeting, the MPC projected that the economy would continue to operate below full capacity in the short term and improve slightly in the medium term, thus not generating demand-driven inflationary pressures. Therefore, the state of the economy and the outlook for both domestic and external economic activity, as well as the market liquidity condition provided scope to maintain an accommodative monetary policy stance. Thus, the Bank maintained the MoPR at 1.9 percent at the April 2025 MPC meeting, following a cumulative 50-basis points policy rate cut in 2024.

The Bank's formulation and implementation of monetary policy focuses on entrenching expectations of low, sustainable and predictable level of inflation through a timely response to price developments. The Bank remains committed to responding appropriately to preserving price stability without undermining economic activity.

In 2024, global economic performance remained subdued on account of the prolonged effects of restrictive monetary policies implemented during 2024, withdrawal of fiscal support measures introduced during the COVID-19 pandemic, increasing geoeconomic fragmentation, extreme weather conditions and low underlying productivity growth. In addition, commodity prices, particularly for food and oil. In response, many central banks loosened monetary policy, leading to an easing of financial conditions.

According to the International Monetary Fund (IMF)'s January 2025 World Economic Outlook (WEO) Update, global economic activity remained low and uneven across countries and regions in 2024. The global economy is projected to grow by 3.3 percent in 2025, slightly higher than 3.2 percent in 2024, and lower than the historical (2000-2019) annual average of 3.7 percent. Moreover, the forecast for 2025 was 0.1 percentage points higher than the October 2024 WEO projection, mainly due to an upward revision for growth in the United States of America (US). For advanced economies, growth is forecast at 1.9 percent in 2025, a slight increase from 1.7 percent in 2024, while it is expected to remain at 4.2 percent in 2025, same as in 2024 for emerging market economies.

Global inflationary pressures are generally moderating in both advanced and emerging market economies, reflecting the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as the anticipated lower food and oil prices. Global inflation eased from 6.7 percent in 2023 to 5.7 percent in 2024. Meanwhile, international oil prices increased in the first quarter of 2025, due to deep production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and its allies. Furthermore, the US sanctions on Russia's energy sector, as well as its threats against Iran further contributed to the increase in international oil prices. Conversely, the United Nations' Food and Agriculture Organization (FAO) food price index decreased in the first quarter of 2025, mainly attributable to increased seasonal supply from some major commodity exporting countries.

Domestically, headline inflation averaged 2.6 percent in the first quarter of 2025, down from 3.6 percent in the first quarter of 2024, mainly due to the deceleration in the rate of annual price change for most categories of goods and services underpinned by subdued domestic demand amid the ongoing recession. Inflation is forecast to revert and be within the objective range from the fourth quarter of 2025 into the medium term. The projection takes into account the base effects associated with the adjustment of administered prices in 2024, the reduction in water tariffs effective April 2025, revision of the Pula currency basket weights to 50 percent for the South African rand and 50 percent for the Special Drawing Rights (SDR), maintenance of a downward rate of crawl of 1.51 percent for 2025, the projected appreciation of the Pula against the South African rand, trading partner countries' inflation forecasts and developments in international commodity prices (food and oil).

Botswana's real gross domestic product (GDP) contracted by 3 percent in 2024, compared to a growth of 3.2 percent in 2023. The performance mainly reflects the contraction in the mining sector and generally subdued growth for the non-mining sectors. Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the various ongoing economic transformation initiatives, continuance of low productivity and drought conditions, as well as challenges associated with limited fiscal space and sub-optimal performance of the Government Accounting and Budgeting System (GABS). 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 conflicts. The domestic economy is projected to rebound to a 3.3 percent growth in 2025, reflecting a combination of factors including base effects and continued growth in the non-mining sector. It is expected that effective implementation that include monitoring and evaluation of economic transformation reforms would be supportive of economic activity through facilitating expansion of productive capacity, accelerating the implementation of structural reforms and enhancing economic resilience in the medium term.

As at the end of February 2025, the foreign exchange reserves were estimated at P46.8 billion, a decrease of 30.7 percent from P67.5 billion in February 2024, which translated into 5.9 months of import cover of goods and services. The current account is estimated to have recorded a deficit of P8.2 billion in the fourth quarter of 2024, compared to a revised deficit of P9 billion in the corresponding period in 2023.

Commercial bank credit growth decelerated from 8 percent in February 2024 to 5.9 percent in February 2025, largely attributable to a lower utilisation of overdraft and revolving credit facilities by businesses, with credit to businesses excluding parastatals increasing by 8.9 percent in the year to February 2025, from 9.5 percent expansion in the corresponding period in 2024. Meanwhile, money supply (M2) rose by 4.8 percent in the year to December 2024, compared to 9.2 percent in December 2023.

For 2025, the Bank's implementation of the exchange rate policy entails the maintenance of an annual downward rate of crawl of 1.51 percent, which was first introduced in January 2023 and reflects the projected inflation differential between Botswana and its major trading partners. The Pula basket weights have been revised to equal weights of 50 percent each for the South African rand and the SDR, in response to trade patterns, marking a shift from the previous weights of 45 percent for the rand and 55 percent for the SDR, which had been in place since January 2017. Additionally, the Pula trading margins between the buy and sell rates have been widened from ± 0.125 percent to ± 0.5 percent to enhance currency flexibility. These adjustments aim to enhance the domestic industries competitiveness in both domestic and international markets. Consequently, the nominal effective exchange rate (NEER) of the Pula depreciated by 1.5 percent in the year to March 2025. In the year to February 2025, the REER depreciated by 1.6 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 subdued

According to the IMF's January 2025 WEO Update, the global economy is estimated to have grown by 3.2 percent in 2024, slightly lower than the 3.3 percent in 2023 (Table 3.1). The lower growth for 2024 was partly due to higher borrowing costs resulting from slower monetary policy easing in 2024, withdrawal of COVID-19 fiscal support amid high debt levels, geopolitical tensions, extreme weather conditions and low underlying productivity growth.

Meanwhile, growth outturn for the second half of 2024 was lower than expected, especially in China, due to weak domestic demand and, in India, because of the sharp slowdown in government spending.

The US economic growth decelerates

In the US, real output expanded by an annualised 2.4 percent in the fourth quarter of 2024, lower than the 3.1 percent growth in the third quarter of 2024. The deceleration in output growth was mainly driven by contraction in fixed investment, as investment in intellectual property products failed to rise. Furthermore, the slowdown was attributable to lower exports and private inventories. Meanwhile, personal consumption and residential investment were the main contributors to the country's growth in the same period.

Euro area GDP expanded

In the euro area, GDP grew by 1.2 percent in the fourth quarter of 2024, from the initial estimates of 0.9 percent. This marks an acceleration from the revised 1 percent growth in the third quarter, making it the fastest expansion since 2023. The growth was driven by lower borrowing costs and easing inflationary pressures. However, growth remained subdued because of weak external demand. Among the bloc's largest economies, Spain led with an output growth of 3.5 percent, followed by Netherlands, France and Italy at 1.8 percent, 0.6 percent and 0.6 percent, respectively, while growth in Germany contracted by 0.2 percent in the same period.

UK growth remained subdued

The UK's GDP expanded by 0.1 percent in the fourth quarter of 2024, following no growth in the third quarter, and beating market expectation of a 0.1 percent contraction. The higher growth was attributed to expansion in services, construction and manufacturing sectors. Meanwhile, subdued growth was mainly due to lower exports, mostly on account of a slowdown in export growth of fuels, machinery and transport equipment.

Emerging markets' growth increases

Output growth in emerging markets increased in the fourth quarter of 2024, primarily due to growth in China. The Chinese economy grew by 5.4 percent in the fourth quarter of 2024, higher than the 4.6 percent in the third quarter and also higher than the market expectation of 5 percent growth. The expansion of output in the fourth quarter of 2024 was on account of higher exports and a series of stimulus measures launched since September 2024 to boost economic activity.

Meanwhile, the Indian economy grew by 6.2 percent year on year in the fourth quarter of 2024, compared to a revised expansion of 5.6 percent in the third quarter of 2024, slightly missing the market expectation of 6.3 percent. The higher output was attributed to growth in private consumption and public expenditures.

South African economy expanded

Regionally, output in South Africa expanded by 0.6 percent in the fourth quarter of 2024, recovering from a revised contraction of 0.1 percent in the third quarter. While the growth fell short of the 0.9 percent forecast, it was enough to prevent the country from entering a recession. Three out of ten industries registered growth, led by agriculture (17.2 percent), trade (1.4 percent) and finance (1.1 percent). Seven industries performed poorly, with transport, storage and communication (-1 percent) and manufacturing (-0.6 percent) being the most significant negative contributors to growth.

Table 3.1: Growth Estimates and Projections

	Actual	Estimate	Projection	
	2023	2024	2025	2026
Global	**3.3**	**3.2**	**3.3**	**3.3**
Advanced economies	**1.7**	**1.7**	**1.9**	**1.8**
USA	2.9	2.8	2.7	2.1
Euro area	0.4	0.8	1.0	1.4
UK	0.3	0.9	1.6	1.5
Japan	1.5	-0.2	1.1	0.8
EMDEs	**4.4**	**4.2**	**4.2**	**4.3**
China	5.2	4.8	4.6	4.5
Brazil	3.2	3.7	2.2	2.2
India	8.2	6.5	6.5	6.5
Russia	3.6	3.8	1.4	1.2
South Africa	0.7	0.8	1.5	1.6
Botswana	**3.2**	**1.0 (-3.1)**	**5.2 (3.3)**	**4.8 (3.7)**

Source: IMF January 2025 WEO Update, while numbers in parenthesis are from the Ministry of Finance.
Note: EMDEs stands for emerging market and developing economies, while figures in parentheses are forecasts by the MoF.

Global commodity prices

Rough diamond prices decreased in the first quarter of 2025

The global rough diamond price index decreased by 6.2 percent from 134.3 points in the fourth quarter of 2024 to 125.9 points in the first quarter of 2025. The decline was mainly due to weaker demand by major end product consumers, such as China and the US. In addition, the demand for natural diamonds has been 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]

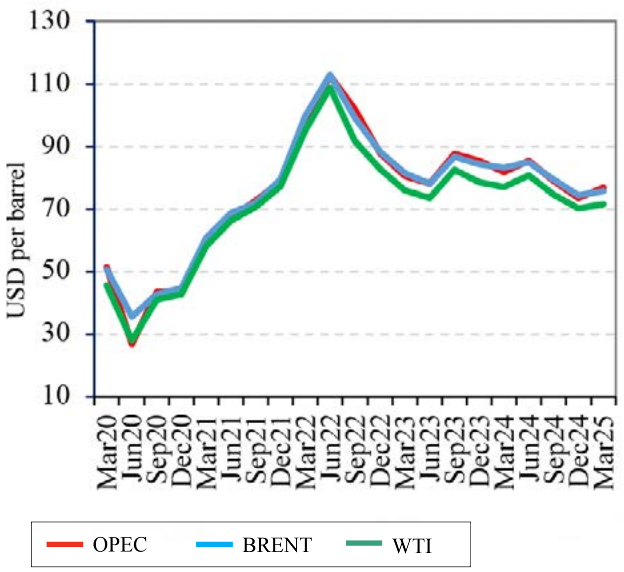
Polished diamond prices decreased in the fourth quarter of 2024

The global polished diamond price index decreased by 7.3 percent from 98 points in the third quarter of 2024 to 91 points in the fourth quarter, due to weaker demand and a challenging global economic outlook. Similarly, the global polished diamond price index decreased by 3 percent from 92 points in November to 89 points in December 2024.

Oil prices increased in the first quarter of 2024

International oil prices increased in the first quarter of 2025 compared to the fourth quarter of 2024 (Chart 3.1). The price of the OPEC reference crude oil basket, Brent crude and West Texas Intermediate (WTI) increased by 4.5 percent, 1.8 percent and 1.7 percent, from an average of USD73.45 per barrel, USD74.37 per barrel and USD70.30 per barrel in the fourth quarter of 2024 to an average of USD76.77 per barrel, USD75.71 per barrel and USD71.50 per barrel, respectively, in the first quarter of 2025. The increase in oil prices was, in part, due to a series of deep production cuts by OPEC and its allies, which were initiated in 2022 and concluded in March 2025, and significantly tightened supply.[2] Furthermore, new US sanctions on Russia's energy sector, targeting major companies and oil tankers, raised concerns about reduced Russia crude oil supplies. The US has also issued threats against Iran, further contributing to market instability. In addition, a decline in the US oil inventories exacerbated the increase in international oil prices in the same period.

Chart 3.1: International Oil Prices



Source: Bloomberg

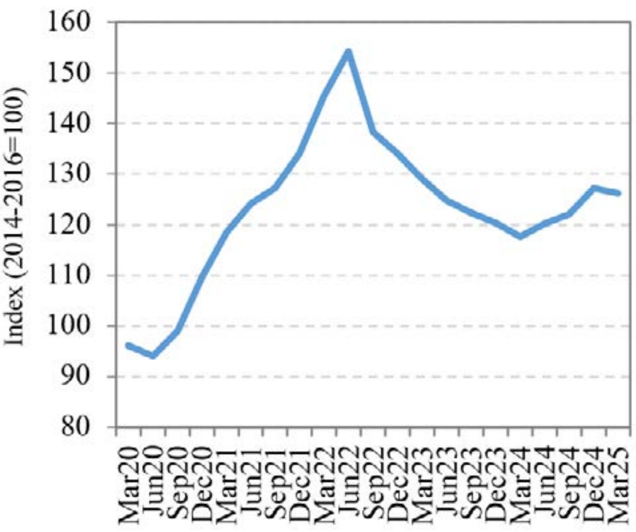
Food prices decreased in the first quarter of 2025

According to FAO, the global food price index decreased by 0.9 percent from an average of 127.3 points in the fourth quarter of 2024 to an average of 126.2 points in the first quarter of 2025 (Chart 3.2). The decrease was attributable to increased seasonal supply from some major commodity exporting countries, such as maize from Brazil and the US, vegetable oil in the US and South Asia, sugar in Thailand and Brazil, meat in Australia, as well as modest demand resulting from restrained global economic activity.

1 The data is sourced from Paul Zimnisky Diamond Analytics.

2 Meanwhile, eight members have agreed to start increasing crude oil output starting April 2025.

Chart 3.2: Food Price Index

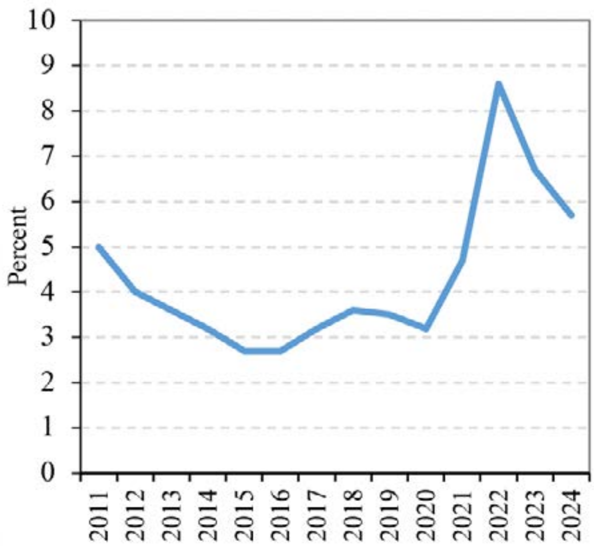


Source: FAO

Global inflation eased in the first quarter of 2025

Globally, inflationary pressures eased in the first quarter of 2025[3], mainly due to lower international commodity prices, particularly food, lagged effect of tight monetary policy and squeezed household budgets (Chart 3.3). Inflation for advanced economies was unchanged at 3.5 percent between the fourth quarter of 2024 and the first quarter of 2025. Meanwhile, inflation for emerging market economies decreased from 5.4 percent to 3.3 percent in the same period.

Chart 3.3: Global Inflation

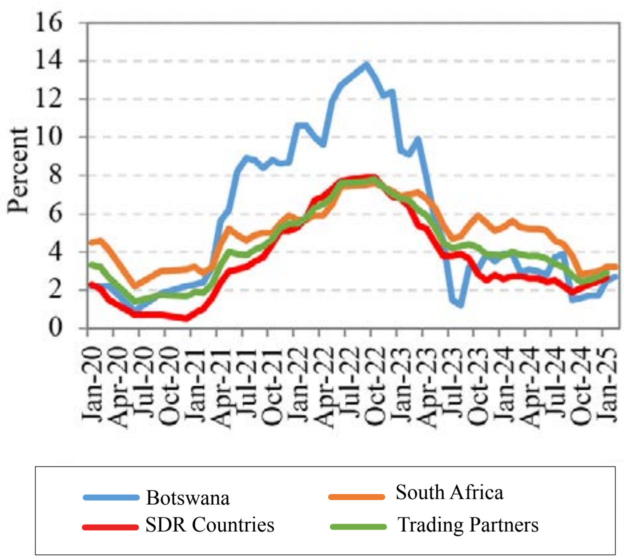


Source: IMF January 2025 WEO Update

In South Africa, headline inflation decreased from 4.3 percent in the third quarter of 2024 to 2.9 percent in the fourth quarter of 2024 and was below the South African Reserve Bank (SARB)'s target range of 3 – 6 percent. Meanwhile, headline inflation was 3.2 percent in February 2025, unchanged from January 2025.

The average trade-weighted inflation for Botswana's trading partners decreased from 3.1 percent in the third quarter of 2024 to 2.6 percent in the fourth quarter (Chart 3.4). Meanwhile, trade weighted inflation for Botswana's trading partners decreased slightly from 2.9 percent in January to 2.8 percent in February 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). The US Federal Open Market Committee (FOMC) maintained the policy rate at 4.25 – 4.5 percent in March 2025. FOMC indicated that it is committed to achieve maximum employment and inflation rate of 2 percent over the longer run, highlighting that unemployment has stabilised at a low level in recent months, while inflation remains somewhat elevated. Furthermore, the FOMC indicated that it will carefully assess incoming data, the evolving outlook and the balance of risks before any adjustments to the policy rate. In addition, the Committee will continue to reduce the speed of its quantitative easing, and beginning April 2025, the monthly redemption cap on Treasury securities will be reduced from USD25 billion to USD5 billion.

3 The quarterly inflation estimates are sourced from Bloomberg.

The Bank of England (BoE) maintained its policy rate at 4.5 percent in March 2025. The Bank noted substantial progress on disinflation over the past two years, as previous external shocks receded and as the restrictive stance of monetary policy curbed second-round effects and stabilised longer-term inflation expectations. Moreover, domestic price and wage pressures were observed to be moderating but remained somewhat elevated. The BoE will continue to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

The European Central Bank (ECB) reduced the refinancing rate, lending and deposit rates by 25 basis points to 2.65 percent, 2.90 percent and 2.5 percent, respectively, in March 2025, reflecting an improved inflation outlook and better transmission of policy. The Governing Council reaffirmed its determination to ensure that inflation returned to target over the medium term, and that it will keep interest rates sufficiently restrictive for an extended period until the target is achieved. The Council emphasised that future policy decisions will be dependent on economic data, 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 March 2025, keeping it at the highest level in 17 years, following three rate hikes since the central bank ended negative interest rates in March 2024. The BoJ indicated that there remained high uncertainties surrounding Japan's economic activity and prices, including the evolving situation regarding trade and other policies.

In emerging market economies, the Central Bank of Brazil (CBB) raised the policy rate by 100 basis points to 14.25 percent in March 2025, following another increase of the same magnitude in January 2025, amid a resilient economy, stronger labour market indicators and rising inflation. Consequently, the CBB indicated that another hike was expected in the May 2025 meeting, but would be by a lower magnitude, in light of the adverse scenario for inflation, the heightened uncertainty and the lags inherent to the ongoing monetary tightening cycle.

The Central Bank of Russia (CBoR) maintained the key policy rate at the record high of 21 percent in March 2025, in line with market expectations, as inflationary pressures, although easing, remained high. The CBoR stated that domestic demand continued to outstrip the current capacity levels that the Russian economy can achieve, driving an imbalance between aggregate supply and demand, and lifting inflation risks. The CBoR indicated that achieving the inflation target would require a long period of maintaining tight monetary conditions in the economy.

In March 2025, the People's Bank of China (PBoC) maintained the one year and five-year Loan Prime Rates (LPR) for the fifth consecutive month at 3.10 percent and 3.60 percent, respectively, amid yuan fluctuations and US President Donald Trump's aggressive trade policy to boost the US economy through import taxes. Meanwhile, the PBoC stated it would adjust its monetary policy at the appropriate time to support the subdued economy.

The SARB maintained the repo rate at 7.5 percent at its March 2025 meeting, following three consecutive cuts to boost economic activity. The SARB judged that, while inflation was well-contained in the short term, the medium-term outlook carried significant uncertainties and potential for upside risks, from domestic and global factors. 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 February 2025, the Reserve Bank of India (RBI) reduced the policy rate by 25 basis points to 6.25 percent, the first reduction since May 2020 and in line with market expectations. The decision brought borrowing costs to their lowest level since January 2023, aiming to counter slowing economic growth amid rising global trade uncertainty. The RBI projected headline inflation to average 4.2 percent in 2025, while risks to the inflation outlook were judged to be balanced.

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	April 2025	1.9	No change	No indication of the direction of policy.
SARB	March 2025	7.50	No change	With the latest inflation projection (March 2025), inflation is forecast to be 3.6 percent and 4.5 percent in 2025 and 2026, respectively. The risks to inflation in the medium-term are assessed to be on the upside. However, the SARB is expected to respond to new data and risks.
US Federal Reserve	March 2025	4. 25 – 4.50	No change	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 would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.
BoE	March 2025	4.50	No change	The BoE will continue to monitor closely the risks of inflation persistence and decide the appropriate degree of monetary policy restrictiveness at each meeting but acknowledged a gradual approach to removing policy restraint remained appropriate.
ECB	March 2025	2.65	Decreased by 25 basis points	The Council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.
BoJ	March 2025	0.50	No change	The BoJ's future conduct of monetary policy will depend on developments in economic activity and prices, as well as financial conditions going forward.
PBoC	March 2025	3.10	No change	The PBoC is committed to keeping liquidity adequate at a reasonable level, credit growing reasonably at a stable pace and ensure that the growth of money supply and the aggregate financing to the real economy are generally in line with the nominal GDP growth. Given this commitment, the PBoC is likely to keep the LPR low until the economy has recovered.
Brazil	March 2025	14.25	Increased by 100 basis points	The central bank highlighted that future interest rate adjustments will depend on inflation dynamics, projections, expectations and the balance of risks.
India	February 2025	6.25	Decreased by 25 basis points	RBI remains focused on bringing down inflation to the 4 percent target going forward, while supporting growth, amid rising global trade uncertainty.
Russia	March 2025	21.00	No change	CBoR noted that although inflationary pressures had eased, they remained high, with risks judged to be on the upside, and signalled that it will keep borrowing costs at a restrictive level for a long period to achieve its inflation target.

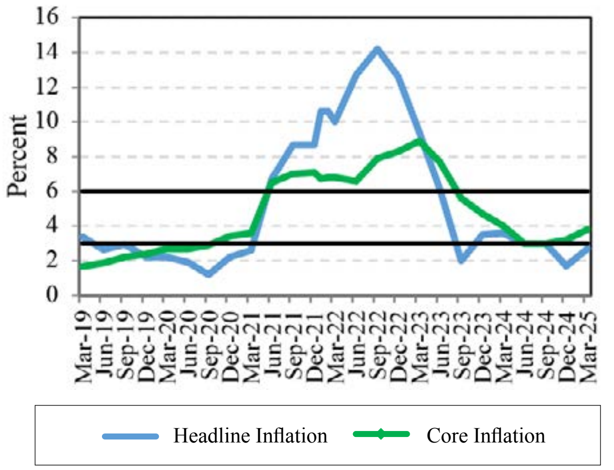
Source: Various central bank's websites

3.2 Domestic inflation environment

Headline inflation decreased in the first quarter of 2025

Headline inflation decreased in the first quarter of 2025, averaging 2.6 percent compared to 3.6 percent in the first quarter of 2024 (Chart 3.5 and Table 3.3). The decrease in inflation in the first quarter of 2025 was mainly due to the deceleration in the rate of annual price change for most categories of goods and services underpinned by subdued domestic demand amid the ongoing recession.

Chart 3.5: Botswana Headline and Core Inflation

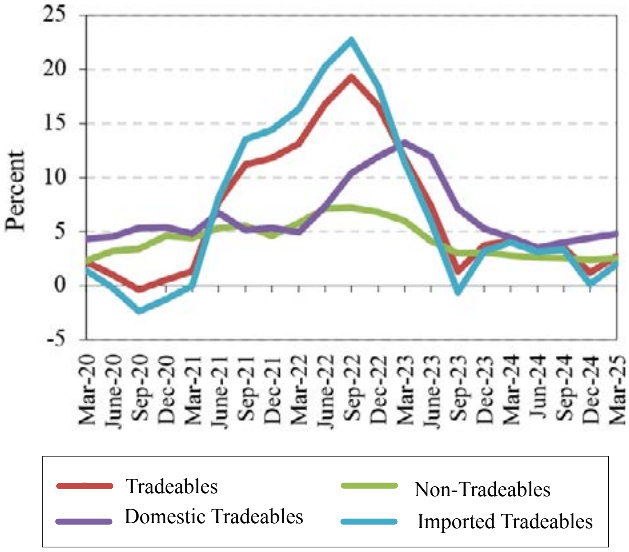


Source: Statistics Botswana and Bank of Botswana
Note: Core Inflation is headline inflation excluding administered prices.

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

Inflation for domestic tradeables increased from an average of 4.5 percent in the first quarter of 2024 to an average of 4.8 percent in the first quarter of 2025 (Chart 3.6), due to a broad-based increase in food prices. Imported tradeables inflation decreased from an average of 4 percent to an average of 2 percent in the same period, mainly on account of the decrease in domestic fuel prices in 2024. As a result, all tradeables inflation decreased from an average of 4.1 percent in the first quarter of 2024 to an average of 2.7 percent in the first quarter of 2025. Inflation for non-tradeables also decreased from an average of 2.8 percent to 2.5 percent in the same period.

Chart 3.6: Inflation for Tradeables and Non-Tradeables



Source: Statistics Botswana

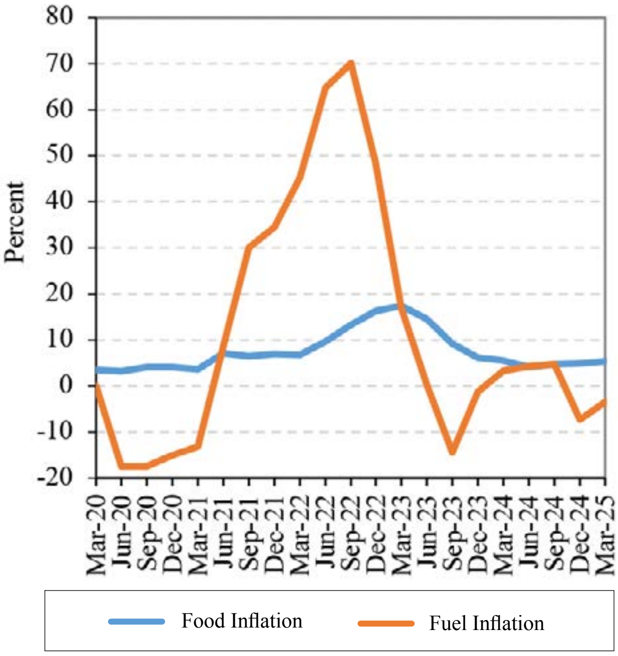
Generally, non-tradeables inflation has been on a downward trend since June 2022, mainly due to downward adjustment of some administered prices. Domestic tradeables inflation has increased since June 2024, reflecting the general increase in domestic food prices..

Core inflation measures decreased in the first quarter of 2025[4]

Inflation excluding administered prices (CPIXA) averaged 3.8 percent from 4 percent (Table 3.3), due to the decline in prices of food and non alcoholic beverages, as well as deceleration in prices of vehicles. Similarly, the trimmed mean inflation (CPITM) decreased to 2.4 percent in the first quarter of 2025, from 3.3 percent in the first quarter of 2024.

4 Food inflation increased from an average of 4.9 percent in the fourth quarter of 2024 to an average of 5.4 percent in the first quarter of 2025, while fuel inflation increased from an average of -7.3 percent to an average of -3.5 percent in the same period (Chart 3.7).

Chart 3.7: Food and Fuel Inflation



Source: Statistics Botswana and Bank of Botswana

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

Category of commodities	Basket Weights	March 2025	2025 Q1	2024 Q1
Food and non-alcoholic beverages	13.6	5.8	5.5	5.6
Alcoholic beverages and tobacco	4.3	7.6	7.4	5.8
Clothing and footwear	6.0	4.2	4.0	4.8
Housing, water, electricity, gas and other fuels	17.5	0.9	1.0	1.3
Furnishing, h/h equipment and routine maintenance	4.9	2.2	2.0	4.8
Health	3.4	2.1	2.1	1.7
Transport	23.4	0.4	0.0	2.5
Communications	6.9	0.1	-0.1	0.6
Recreation and culture	2.8	2.1	2.1	3.0
Education	4.6	2.6	2.7	1.4
Restaurants and hotels	3.7	2.8	3.0	5.7
Miscellaneous goods and services	9.0	7.7	7.7	8.6
Annual Inflation (All items)	**100.0**	**2.8**	**2.7**	**3.6**
CPITM		2.5	2.4	3.3
CPIXA		4.0	3.8	4.0

Source: Statistics Botswana and Bank of Botswana calculations

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. 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 2024

Real GDP contracted by 3 percent in 2024, compared to a growth of 3.2 percent in 2023 (Chart 3.8). The performance mainly reflects the significant contraction of the mining sector and generally subdued growth in the non-mining sectors.

Non-mining GDP growth decelerated to 2.8 percent in 2024, from a growth of 3.3 percent in 2023. The deceleration in non-mining GDP growth was mainly due to contraction in the output of the Agriculture, Forestry and Fishing (-0.3 percent), Diamond Traders (-34.1 percent) and Manufacturing sectors (-2.5 percent). Furthermore, the deceleration in output growth for some sectors, namely, Real Estate; Finance, Insurance and Pension Funding; Construction; Information and Communication Technology; Accommodation and Food Services; Transport and Storage; Professional, Scientific and Technical Activities; and Administrative and support service activities also contributed to the overall deceleration in the non-mining sector output growth.

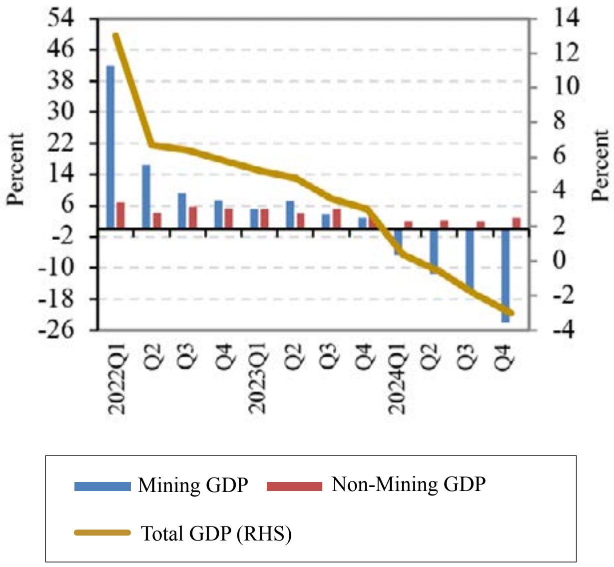
Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the various ongoing economic transformation initiatives (i.e., development of innovation hubs, infrastructure projects, economic diversification drive, including beneficiation in the mineral sector, National Transformation Strategy and enhancing the business environment); continuance of low productivity[5] and drought conditions; as well as challenges associated with limited fiscal space and sub-optimal performance of the GABS at the time, which caused disruptions in business operations, implementation of development projects and increased uncertainty in the conduct of fiscal policy.

Mining sector GDP contracted by 24.1 percent in 2024, a notable decline from a growth of 2.9 percent recorded in 2023. The contraction was mainly due to a combination of external factors, such as deterioration in global economic conditions, competition from other luxury goods in major markets and geopolitical events, which have negatively impacted demand for diamond jewellery and rough diamonds. Furthermore, output of the mining of copper and nickel, as well as gold and other metal ores contracted due to plant refurbishment and resource depletion as the lifespan of the Mupane Mine approaches the end, respectively, while output growth of other mining and quarrying subsector decelerated. However, output of mining of coal as well as soda-ash and salt increased in 2024.

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.

Year-on-year, real GDP contracted by 2 percent in the fourth quarter of 2024[6], compared to a growth of 2.3 percent in the corresponding period in 2023.

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 5.8 percent in 2024, compared to 4.8 percent growth in 2023. The increase in growth in GFC was largely due to a faster growth in the output of collective consumption[7], which accelerated to 5.4 percent from 3.5 percent in the review period.

Household final consumption grew by 1.9 percent in 2024, compared to a higher growth of 5.6 percent recorded in 2023. The deceleration in household final consumption reflected the deceleration in the non-profit institutions serving households (NPISH) and the household consumption expenditure in the period under review.

Gross fixed capital formation (GFCF) increased by 5.1 percent in 2024, compared to a lower growth of 4.2 percent in the previous year. The increase in GFCF was due to the expansion in investment in plant, machinery and other equipment.

5 According to Ministry of Finance's 2023 Research Note on Estimates of Total Factor Productivity, Botswana experienced declining total factor productivity growth rates, which have been negative since 2006.

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

7 Collective consumption expenditure comprises the expenditures made by general government on services that benefit households collectively, while individual consumption expenditure includes expenditure whose real consumer is identifiable and the ultimate benefit falls to households e.g., education and healthcare.

Exports of goods and services decreased by 10.4 percent in 2024, compared to a higher decrease of 12.4 percent in 2023. The imports of goods and services increased by 12.3 percent in 2024, compared to a contraction of 7.1 percent in 2023.

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

	2023 Q4	2024 Q3	2024 Q4
Total GDP	**3.2**	**-1.9 (-2.0)**	**-3.0**
By Sector:			
Mining and Quarrying	2.9	-16.0	-24.1
Non-Mining	3.3	1.9	2.8
Agriculture, Forestry & Fishing	1.8	0.5	-0.3
Manufacturing	1.9	-0.9	-2.5
Water and Electricity	-14.3	3.1	20.2
Construction	3.3	1.9	1.5
Wholesale & Retail	4.5	5.1	5.8
Diamond Traders	-26.8	-54.9	-34.1
Transport and Storage	3.8	2.1	1.7
Accommodation & Food Services	4.7	4.4	4.4
Information & Communication Technology	3.9	3.6	3.6
Finance, Insurance & Pension Funding	6.7	4.7 (4.1)	4.1
Real Estate Activities	5.4	3.9	3.6
Professional, Scientific & Technical Activities	4.9	4.8	4.2
Administrative & Support Activities	4.6	3.2	3.3
Public Administration & Defence	4.9	5.2	5.2
Human Health & Social Work	3.6	5.1	5.0
Education	6.6	5.6	5.4
Other services	3.5	3.5	4.0
By Type of Expenditure:			
Government Final Consumption	4.8	7.1	5.8
Household Final Consumption	5.6	2.8 (2.7)	1.9
Gross Fixed Capital Formation	4.2	4.3	5.1
Exports of Goods and Services	-12.4	-9.5 (-11.6)	-10.4
Imports of Goods and Services	-7.1	20.8 (18.6)	12.3

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

Diamond production decreased in the fourth quarter of 2024

Debswana Diamond Company production declined by 31 percent, to 4.2 million carats in the fourth quarter of 2024, compared to 6.1 million carats produced in the corresponding period in 2023, due to subdued global demand for diamonds. Debswana's production for 2024 amounted to 17.9 million carats, falling short of the target of 20.7 million carats. The production guidance for the larger De Beers Group was 29 – 32 million carats in 2024. However, the production guidance for 2025 has been revised downwards to 20 – 23 million carats from 30 – 33 million carats, reflecting the challenging rough diamond trading conditions.

Production at Lucara Diamond Corporation (Karowe Mine) decreased by 7.3 percent to 91 046 carats in the fourth quarter of 2024, from 98 177 carats produced in the corresponding period in 2023. The decrease is partly attributed to sluggish demand for rough diamonds and diamond jewellery. Meanwhile, Karowe Diamond Mine projects to produce 360 – 400 thousand carats in 2025, with an estimated sales of 400 – 420 thousand carats.

Budget deficit increase for the 2024/25 fiscal year

The revised budget estimates for 2024/25 indicate a further widening deficit to P24.7 billion (9 percent of GDP), compared to a deficit of P9 billion (3.2 percent of GDP) presented in the original budget. The deterioration is largely attributed to a significant decline in mineral revenues, which were revised downwards to P8.7 billion, from P25.2 billion in the original budget. As such, total revenue and grants declined to P68.7 billion in 2024/25 from P74.3 billion in 2023/24.

For 2025/26, the expenditure budget is expected to increase by P4.2 billion to P97.6 billion, compared to P93.4 billion in 2024/25, representing an increase of 4.5 percent. The proposed budget allocations maintain efforts to address the imperatives of economic transformation and inclusive growth. Consequently, the budget prioritises infrastructure development to unlock economic potential and facilitate transitioning to a high-income status.

Total revenue and grants for the 2025/26 fiscal year are projected at P75.5 billion, 9.9 percent higher than for 2024/25, as the diamond market is expected to recover in 2025[8]. SACU receipts, although projected to decline by 8.8 percent, 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 BoB revenue) at 26.1 percent, mineral income at 20.9 percent and value added tax (VAT) at 16 percent. As such, a lesser budget deficit of P22.1 billion or 7.6 percent of GDP is forecast for the 2025/26 fiscal year.

8 However, Debswana has recently revised downwards its diamond production and sales forecasts for 2025, which may lead to lower revenue and a wider deficit than currently projected for 2025/26.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure and Net Lending	Budget Surplus/ Deficit
2022/23 Q1	20 438	19 793	645
2022/23 Q2	17 264	18 287	-1 023
2022/23 Q3	17 670	16 386	1 283
2022/23 Q4	18 727	19 623	-896
2023/24 Q1	24 389	19 215	5 173

Source: Cash Flow Unit, Ministry of Finance

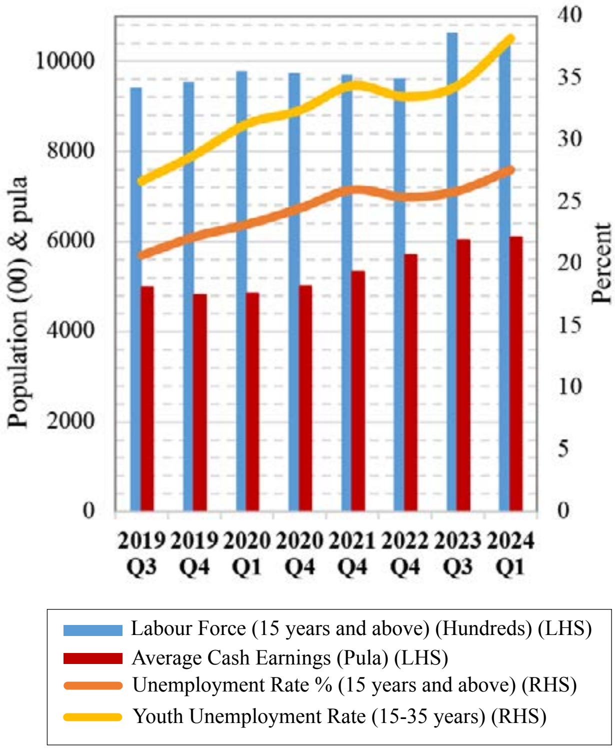
Labour Force and Wage Developments Trends[9]

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. 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 who are 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 over 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.

Chart 3.9: Trends in selected Labour Force Indicators



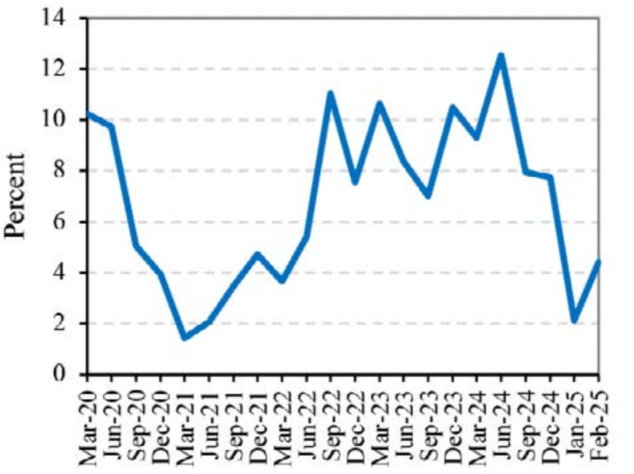
3.4 Monetary developments

Banking sector assets growth decelerated in February 2025

Annual banking sector assets' growth decreased from 10.1 percent in February 2024 to 4.4 percent in February 2025 (Chart 3.10). The lower growth was mainly driven by lower balances at Bank of Botswana (particularly cash, operating account and primary reserve requirements), BoBCs, and other assets. Loans and advances, which accounted for the largest proportion of commercial banks' assets (61.7 percent), increased by 5.9 percent in February 2025, lower than the 8 percent increase in February 2024. Overall, the growth in banking sector assets were predominantly funded by customer deposits, which decreased by 1.1 percent in the same period.

9 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 makes comparisons between the first quarter of 2024 and the third quarter of 2023.

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



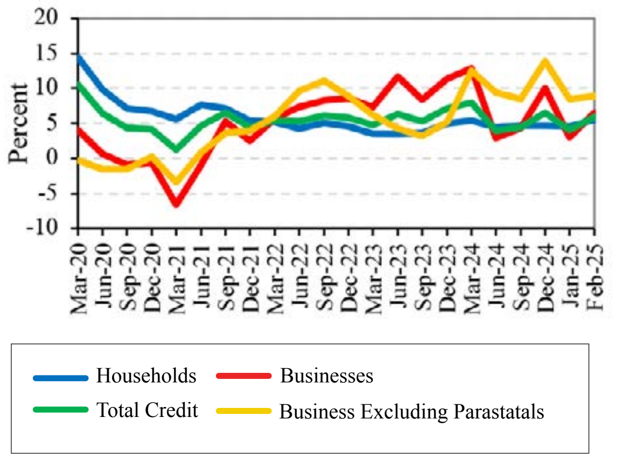
Source: Bank of Botswana

Average daily market liquidity increased from a shortage of P305 million in February 2025 to an excess of P764 million in March 2025. During February 2025, the market was largely subdued due to large foreign exchange outflows and a net issuance of Government securities, despite being partially offset by expenditure from Government. The increase in market liquidity during March 2025 was caused by an increase in net foreign exchange inflows, particularly due to the repatriation of funds by BPOPF, as well as a net redemption of a government bond (BOTSGB0325) thus stabilising market liquidity from the observed decline in February.

Credit growth decelerated in the year to February 2025

Commercial bank annual credit growth decelerated from 8 percent in February 2024 to 5.9 percent in February 2025 (Chart 3.11), largely attributable to a lower utilisation of overdraft and revolving credit facilities by businesses.

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



Source: Bank of Botswana

Lending to the business sector increased by 6.5 percent in the year to February 2025, lower than the 12.9 percent expansion in the corresponding period in 2024. This deceleration in growth was largely due to decreased utilisation of overdraft credit facilities. As a result, credit to parastatals decreased by 17.8 percent in the year to February 2025, compared to the 64.6 percent increase in the twelve months to February 2024. Credit to businesses excluding parastatals increased by 8.9 percent in the year to February 2025, lower than the 9.5 percent expansion in the corresponding period in 2024. This reduction in growth was mainly due to loan repayments and decreased use of overdrafts and revolving credit facilities across various sectors, including mining, tourism, transport and communications, as well as real estate.

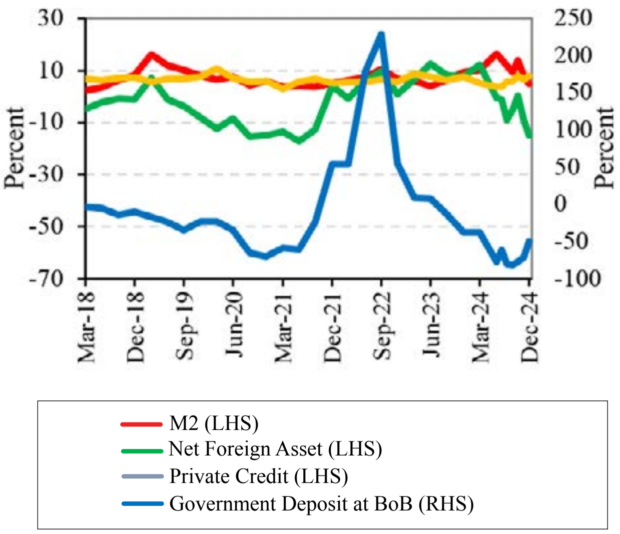
Annual growth in household credit was 5.5 percent in February 2025, the same as in February 2024. Within the household sector, there was a decrease in lending for motor vehicle acquisition (from 9.7 percent to 7.9 percent), property loans (from 8.5 percent to 0.01 percent) and credit card-based loans (from 2.3 percent to -2.1 percent) during the period under review. However, there was an increase in the growth of personal loans (loan take-up) from 4.2 percent to 7.8 percent, following the 75 basis points cumulative decrease in the MoPR since December 2023. The share of the household sector in total lending by commercial banks was 64.3 percent in February 2025 compared to 64.5 percent in February 2024.

Despite these developments, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative (-2.8 percent) in December 2024. This is well below the threshold of a positive 10 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.

Money supply growth decelerated in December 2024

Money supply (M2) grew by an annual rate of 4.8 percent in December 2024, lower than the 9.2 percent in the corresponding period in 2023 (Chart 3.12). The deceleration in money supply expansion was mainly due to a decrease in private credit. Meanwhile, a decrease in net foreign assets and public sector deposits at the Bank of Botswana had an expansionary effect on M2, hence partially offset the growth in M2.

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



Source: Bank of Botswana

The nominal BoBC yields decreased in the first quarter of 2025

The 7-day nominal BoBC yield (MoPR) decreased from 2.40 percent in the first quarter of 2024 to 1.90 percent in the first 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 -1.12 percent to -0.75 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 February and March 2025.

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 2.22 percent in the first quarter of 2025, a decrease from an average of 2.57 percent in the corresponding period in 2024. Conversely, the real rate of interest for the 1-month paper increased from an average of -3.44 percent to an average of -2.60 percent in the same period. Meanwhile, stop-out yield on the 1-month BoBC decreased, month on month, from 2.22 percent in February to 2.21 percent in March 2025.

S&P and Moody's affirm Botswana's sovereign credit ratings but revise down the economic outlook

On 14 March 2025, S&P Global Ratings (S&P) published an update of the sovereign credit rating for Botswana, affirming the country's 'BBB+' long-term and 'A-2' short-term foreign and domestic currency sovereign credit ratings. However, S&P revised economic outlook from stable to negative. The report attributed the negative outlook to weak global demand for diamonds and depressed prices, which are expected to continue to suppressing Botswana's exports and fiscal position. This situation is likely to delay government's fiscal consolidation agenda and the rebuilding of buffers. S&P highlighted that the credit ratings are supported by the country's strong institutional framework and the smooth transition of government following the free and fair elections in October 2024. This demonstrates the strength of democratic institutions and effective checks and balances. The agency also indicated that the commitment by Government to reducing unemployment, diversifying the economy and increasing social support, while maintaining fiscal prudence, also had a positive impact to the ratings. In addition, the rating agency expects the recently concluded deal between the Government and De Beers, extending mining rights to 2054, to significantly benefit Botswana. The strengthening of various sectors, including transportation, information and communications technology, tourism, infrastructure, as well as investments in agriculture and power generation, will further bolster the growth of non-mining sectors.

The ratings, however, could be raised if global demand and prices for diamonds rebound, leading to a sustainable improvement in the country's fiscal and external flows. Furthermore, a longer-term positive outlook could result from policy efforts aimed at diversifying Botswana's commodity-concentrated export and tax base. Conversely, a rating downgrade could arise if Botswana's fiscal and external performance proves materially weaker than anticipated.

On 4 April 2025, Moody's Investors Service (Moody's) released an update of the sovereign credit rating for Botswana. The rating agency affirmed the country's long-term local and foreign currency issuer ratings at "A3" for 2025 but downgraded the outlook on the country from stable to negative. The report attributed the negative outlook to weak global demand and depressed prices for diamonds, which will lead to a rapid increase in government debt and weakening debt affordability. Meanwhile, the affirmation of the A3 rating was supported by Botswana's moderate debt burden and strong debt affordability.

Moody's indicated that the negative outlook could return to stable if the fiscal buffers, public debt burden and debt affordability were to improve. However, this would require the adoption and implementation of effective fiscal consolidation measures or a prolonged recovery of the diamond sector. That notwithstanding, Moody's was clear that a rating upgrade was unlikely in the near term given the negative outlook on the back of weakening fundamentals. Conversely, a rating downgrade could arise if Government's policy responses failed to contain the deterioration in the debt burden and improve debt affordability. Additionally, evidence of financial constraints, highlighted by greater reliance on expensive funding sources that weaken debt affordability would lead to a rating downgrade. Lastly, Moody's indicated that a structurally weaker growth outlook or a material deterioration of the external position due to a more prolonged downturn in the diamond sector could also lead to a downgrade.

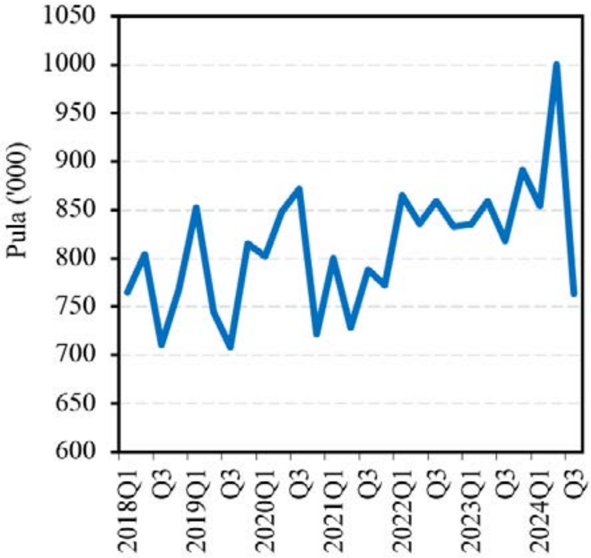
3.5 Asset market prices

Property market weakens in the third quarter of 2024

According to the latest (2024Q3) Riberry Report[10], the residential rental market showed signs of deterioration in the third quarter of 2024, compared to the second quarter of 2024. This is evident from the rising number of properties available for rent and declining house prices. However, the market still has reasonable demand and supply for low-end houses in prime locations, while middle-end houses to let experienced weaker demand.

Conversely, there is a deceleration in oversupply of upper-end properties, leading to a price stabilisation or potential price increases as the market is moving towards equilibrium. The average price for residential properties sold in the third quarter of 2024 was P763 000, a 24 percent decrease compared to the previous quarter (Chart 3.13).

Chart 3.13: Botswana Average Residential Property Prices (Net)



Source: 2024Q3 Riberry Report

The demand for office space remains reasonable and has improved slightly as Government has occupied some vacant properties. Despite a slower pace, there continues to be reasonable interest in office space within the Central Business District, Showgrounds and Government Enclave. In addition, there is limited construction of office space, which will most likely lead to excess demand for the same.

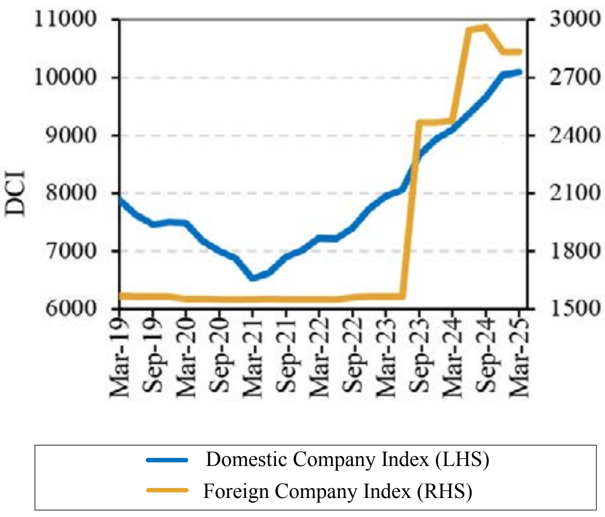
The retail market around Gaborone continues to experience steady demand, with two proposed regional shopping centers in Mogoditshane (one involving Kweneng District Council and private developers/investors, and the A10 project by the GH Group currently under construction). Other areas with moderate to strong demand include Molepolole, Jwaneng, Ramotswa, Maun, Francistown, Selebi-Phikwe, and Mahalapye. Most of these locations have one or two retail projects in the planning or construction stages, set to be anchored by well-known South African and Botswana national tenants.

Stock market indices increased

The Domestic Companies Index (DCI) increased by 10.9 percent in the twelve months to March 2025, down from an increase of 14.4 percent in the year to March 2024 (Chart 3.14). The increase was mainly due to the higher share prices for Sechaba, Standard Chartered Bank and Botswana Telecommunications Corporation, which increased by 38.9 percent, 31.6 percent and 29.3 percent, respectively, in the same period. The rise in share prices was a result of increased trading activity owing to stellar financial performance in 2024, high demand from key markets, effective marketing strategies and portfolio expansions.

The Foreign Companies Index (FCI) also increased by 14.6 percent in the year to March 2025, compared to an increase of 58.1 percent[11] in the corresponding period in 2024 (Chart 3.14). This increase was largely due to the year-on-year increases in the share prices for CA Sales Holdings Limited (77.3 percent) and New Gold (45.5 percent). The increase in CA Sales' share price was driven by growth in fixed and intangible assets, boosted by acquisitions and increased working capital. Meanwhile, New Gold's share price benefitted from improved performance of the bullion it is backed by.

Chart 3.14: Stock Market Indices



Source: Botswana Stock Exchange

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

11 The March 2025 increase was largely due to the year-on-year increase in the share prices for New Gold Issuer (RF) Limited (14.4 percent) and CA Sales Holdings Limited (34.1 percent) because of increased trading activity (since August 2023) and a significant increase in average daily turnover during March 2024

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

The Bank introduced reforms to monetary policy operations in April 2022. The transition included the discontinuation of the Bank Rate as the main anchor policy and the transition to the Monetary Policy Rate (MoPR) and introduction of an interest rate corridor with a 200-basis points width. The interest corridor comprises the Standing Deposit Facility (SDF), a non-collateralised facility used for excess liquidity management, at 100-basis points below the MoPR; and the Standing Credit Facility (SCF), a collateralised tradeable facility used for liquidity injection to ensure that liquidity shortages do not lead to payment system disruption or excessive spikes in short-term interest rates, at 100-basis points above the MoPR. The aim of the interest rate corridor is to enhance the efficacy of the monetary policy transmission by ensuring that short-term interest rates move within a reasonably close range around the MoPR.

The monetary policy reforms are now imbedded in the monetary policy operations. There has been some noticeable improvement in policy transmission, with the interest rate structure operating as expected. The overnight (uncollateralised) interbank trading continues to be priced around the MoPR rate; suggesting that liquidity conditions in the banking system are generally stable and monetary policy is functioning effectively. Generally, if the interbank rate approaches the ceiling of the interest rate corridor, it indicates tight liquidity, while if it nears the floor, it suggests excess liquidity in the system.

Yields on the shorter-end of the yield curve, particularly overnight interbank and Treasury Bills (T-Bills) rates, have responded positively to the changes in the MoPR. There was a strong correlation between the 3-month T-Bill rates and MoPR hikes in the second quarter of 2022. Short-term T-Bill yields continued to trend upward thereafter, reflecting inflation developments in 2022. The market began to correct and align rates with falling inflation levels throughout the second half of 2023. Meanwhile, the rate cuts in mid-2024 had limited impact on T-Bill yields due to the ample excess liquidity in the banking system. However, liquidity levels declined substantially from the third quarter of 2024, resulting in yields pickup and a divergence between the T-Bill rates and the MoPR.

The government securities market remains with upward pressure on yields, as shown by the low uptake of government securities at primary auctions. Generally, yields on bonds have responded marginally to policy changes, a reflection of the relatively slower response to policy changes by longer-dated instruments. The yield curve – other than for Bank of Botswana Certificates (BoBCs) and overnight interbank transactions – may then appear to be more aligned with the Pula-basket weighted yields, than being driven by the MoPR and expectations for future MoPR rates. As long as the exchange rate policy is expected to endure, investors with an international portfolio will look at the expected exchange rate-adjusted returns, and factor in liquidity premia (e.g., the US and South African government bond markets are more liquid than in Botswana), and credit risk (Botswana is likely to be viewed as stronger than South Africa, but not as strong as the US or some European issuers).

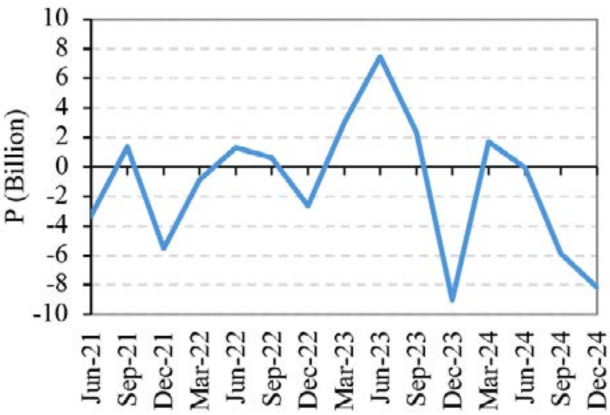
Commercial banks' reliance on wholesale deposits and short-term funding exposes them to funding liquidity risks. The wholesale deposits in Botswana are largely short term, with a high turn-over among corporate and non-bank financial institution depositors. This dynamic leads banks to offer competitive rates to attract and retain these deposits, especially when liquidity conditions are tight, or market uncertainty rises. Since wholesale deposits are often priced based on market conditions, rather than policy rates, this may distort policy transmission. Meanwhile developments on credit growth yielded a downward trend, despite an accommodative monetary policy stance, possibly reflecting the timid demand for credit in an environment of tepid economic activity.

3.6 Balance of payments

Current account was in deficit during the fourth quarter of 2024

The current account is estimated to have recorded a deficit of P8.2 billion in the fourth quarter of 2024, compared to a revised deficit of P9 billion in the corresponding period in 2023 (Chart 3.15). Exports of goods declined by 5.4 percent, from P12.2 billion to P11.5 billion, while imports of goods increased by 2.1 percent, from P24 billion to P24.5 billion, resulting in a trade deficit of P13 billion. The decrease in exports was primarily due to the poor diamond trade performance. However, the secondary income account, supported by SACU revenues, increased from P6 billion to P7 billion, mitigating what would have otherwise been a larger current account deficit.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

Diamond exports, which stood at P6.7 billion and accounted for 58.1 percent of total exports of goods in the fourth quarter of 2024, decreased from P7.6 billion and a share of 62.3 percent in the corresponding quarter during 2023. The decrease in diamond exports was due to weak global demand largely driven by economic challenges in key markets, such as China and the US.

Other commodities that contributed to a decline in exports include gold (100 percent), machinery and electrical equipment (4.5 percent), salt and soda ash (15.7 percent), vehicle and transport equipment (10.1 percent), textiles (6.5) and other goods (20.6 percent). However, these commodities collectively accounted for about 14 percent of total exports during the quarter. In contrast, exports that increased included live cattle (134.2 percent), iron and steel products (88.5 percent), coal (66.3 percent), plastic and plastic products (29.6 percent), copper (12 percent) and meat and meat products (9.3 percent).

The increase in imports was driven by increases across most commodities: diamond (5.5 percent), food, beverages and tobacco (4.8 percent), machinery and electrical equipment (22.1 percent), vehicles and transport equipment (19.9 percent) wood and paper products (8.1 percent), furniture (34.9 percent), salt ores and related products (21.4 percent) and other goods (22.3 percent).

In January 2025, the merchandise trade was in a deficit of P3.7 billion, with total exports and imports amounting to P3 billion and P6.7 billion, respectively.

The financial account recorded a net inflow in the fourth quarter of 2024

The financial account is estimated to have recorded a net inflow of P2.6 billion during the fourth quarter of 2024, compared to a net outflow of P0.4 billion recorded in the corresponding quarter during 2023. The net inflow was on account of foreign direct investment (FDI) inflows and repatriation of other investments held abroad.

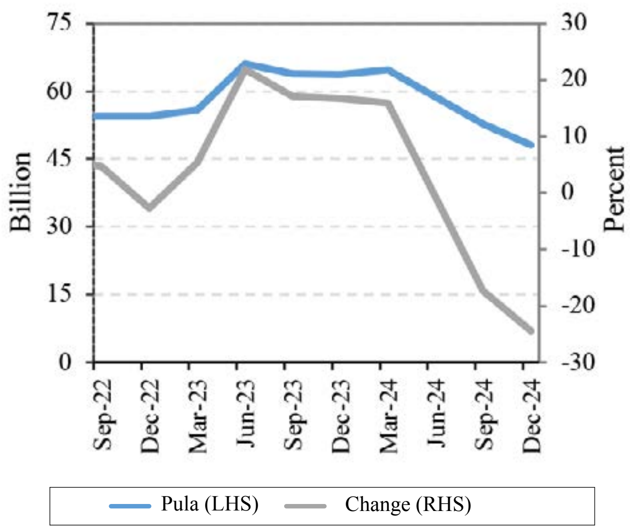
The BoP was in deficit in the fourth quarter of 2024

The overall BoP recorded a deficit of P6.3 billion during the fourth quarter of 2024, compared to a deficit of P3.4 billion during the same quarter in 2023. The deficit was attributable to the current account deficit.

Foreign exchange reserves decreased in December 2024

The foreign exchange reserves were estimated at P48.1 billion in December 2024, a decrease of 24.5 percent from P63.7 billion in December 2023 (Chart 3.16).

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

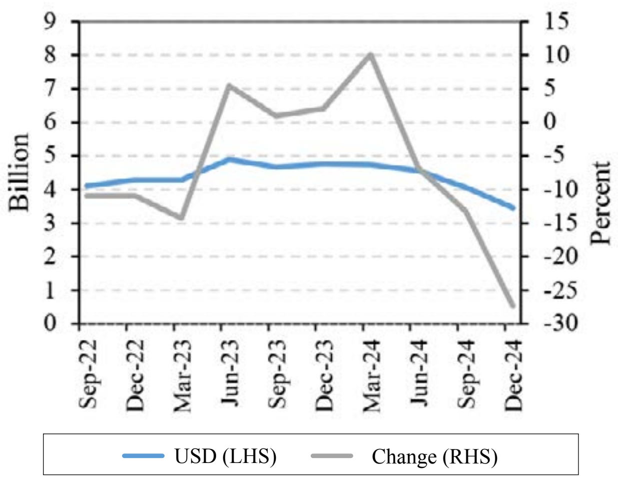


Source: Bank of Botswana

In foreign currency terms, the foreign exchange reserves were estimated at USD3.5 billion, a 27.1 percent decline from USD4.8 billion (Chart 3.17) and SDR 2.7 billion, a 22.9 percent decline from SDR3.5 billion during the same period. The level of foreign exchange reserves in December 2024 was equivalent to 6.1 months of import cover of goods and services.

The reserves were estimated at P46.8 billion in February 2025, a decrease of 30.7 percent from P67.5 billion in February 2024. In foreign current terms, the reserves were estimated at USD 3.4 billion, a 30.6 percent decline from USD 4.9 billion and SDR 2.6 billion, a 29.7 percent decline from SDR 3.7 billion during the same period. The level of reserves in February 2025 was equivalent to 5.9 months of import cover.

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



Source: Bank of Botswana

3.7 Exchange rate developments

For 2025, the Bank's implementation of the exchange rate policy entails the maintenance of an annual downward rate of crawl of 1.51 percent, which was first introduced in January 2023 and reflects the projected inflation differential between Botswana and its major trading partners. The Pula basket weights have been revised to equal weights of 50 percent each for the South African rand and the SDR, in response to trade patterns, marking a shift from the previous weights of 45 percent for the rand and 55 percent for the SDR, which had been in place since January 2017. Additionally, the Pula trading margins between the buy and sell rates have been widened from ± 0.125 percent to ± 0.5 percent to enhance currency flexibility. These adjustments aim to enhance the domestic industries' competitiveness in both domestic and international markets.

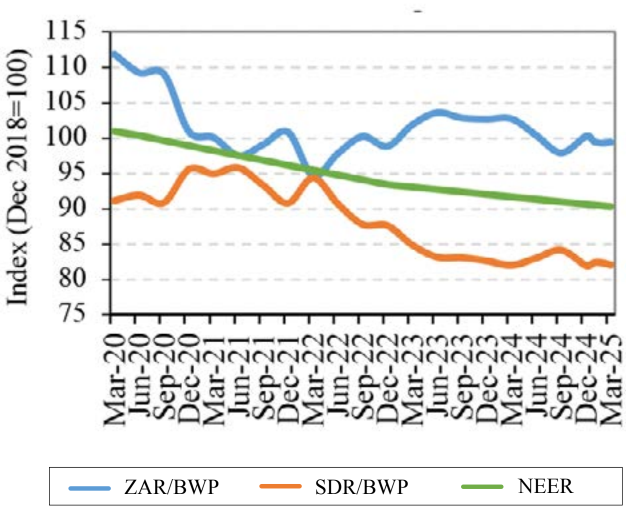
In the twelve months to March 2025, the nominal Pula exchange rate depreciated by 3.2 percent against the South African rand but remained relatively stable against the SDR (Chart 3.18). With respect to the SDR constituent currencies, the Pula appreciated by 0.4 percent against the US dollar and the Chinese renminbi, and by 0.3 percent against the euro, while it depreciated by 2.2 percent against the British pound and 1.3 percent against the Japanese yen. The movement of the Pula against the SDR constituent currencies largely reflects the performance of the South African rand against the SDR constituent currencies.

During the same review period, the South African rand appreciated against the SDR and all its constituent currencies. Specifically, it appreciated by 3.8 percent against the Chinese renminbi, 3.7 percent against the US dollar, 3.6 percent against the euro, 2 percent against the Japanese yen and 1 percent against the British pound. Overall, the rand appreciated by 3.4 percent against the SDR.

The South African rand strengthened in the year to March 2025, due to a significant 41.9 percent appreciation in gold prices, one of South Africa's major exports. The recent acceleration in gold prices can be attributed to flight to safety, amid uncertainties surrounding the US President Donald Trump's tariff plans.

The rand's strengthening was moderated by unfavourable investor sentiments towards the South African economy, as disagreements[12] over the 2025 budget proposal raised doubts about the government's ability to stabilise public debt, triggering a sell-off of rand denominated assets. Investors interpreted this as a sign of potential political and economic instability.

Chart 3.18: Nominal Exchange Rate Indices



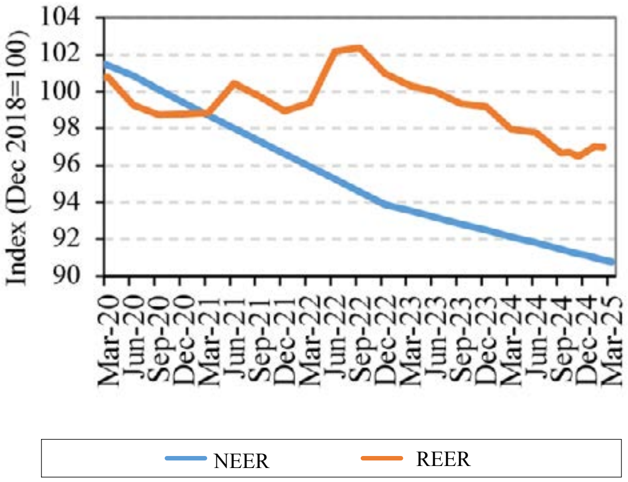
Source: Bank of Botswana

NEER depreciated in March 2025

The NEER of the Pula depreciated by 1.5 percent in the twelve months to March 2025 (Chart 3.19), consistent with the annual downward rate of crawl of 1.51 percent implemented effective January 2023.

12 On 12 March 2025, the Finance Minister, Mr Enoch Godongwana, presented a revised budget proposing a more gradual increase in the value-added tax (VAT): a 0.5 percentage point for each of the next two fiscal years, down from the initially proposed 2 percentage points increase for the current fiscal year. The Democratic Alliance which is the second-largest party in the government of national unity (GNU, and other political parties resisted this proposal.

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER depreciated in February 2025

The REER depreciated by 1.6 percent in the twelve months to February 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 4.9 percent against the South African rand and appreciated by 1.4 percent against the SDR. It appreciated by 4.3 percent against the euro, 4.2 percent against the Chinese renminbi and 0.2 percent against the British pound, while it depreciated by 1.2 percent against the Japanese yen and 0.5 percent against the US dollar.

Box 3: Classification and Choice of Exchange Rate Policy Regimes

A. Introduction

An exchange rate policy regime outlines how a country manages its domestic currency in relation to foreign currencies. These regimes range from flexible system or floating arrangements, where market forces (demand and supply) determine the currency's value, to fixed system or hard peg arrangements, where a currency is pegged to another currency or a basket of currencies. In between the fully flexible and the fully fixed, there are managed frameworks, which involve periodic interventions by the monetary authority (central bank) to stabilise the currency. The following classifications of exchange rate frameworks have been widely discussed in literature:

B. Exchange Rate Frameworks

Free-Floating: In a free-floating exchange rate regime, the value of the domestic currency is entirely determined by the supply and demand of the currency in the foreign exchange markets, without the intervention by the government or central bank. This means the exchange rate fluctuates freely based on market conditions, which include economic fundamentals, investor sentiment and trade balances. As such, there is greater autonomy for monetary policy, as the central bank's intervention in the foreign exchange market to maintain the value of the currency is not required. However, a free-floating exchange rate can lead to speculative attacks and requires deep, liquid financial markets to absorb external shocks without causing large fluctuations in the exchange rate.

Managed Float: A managed float exchange rate system is a hybrid framework where currency values are primarily determined by market forces, but the central bank intervenes periodically to stabilise excessive fluctuations. The central bank intervenes in the foreign exchange market to smooth out volatility, stabilise the currency, or to address external sector imbalances during periods of excessive volatility. Although the exchange rate remains largely market-determined, the central bank, when warranted, intervenes to limit short-term fluctuations or to achieve broader economic objectives, such as controlling inflation or stabilising the financial system. While the framework offers stability and reduces sudden shocks, it also risks market distortions if interventions are too frequent or unpredictable.

Crawling Bands: Under a crawling band framework, the currency is allowed to fluctuate within a predetermined range or band (a set margin of fluctuation) around a central rate, with the band periodically adjusted. The central bank sets an upper and lower limit for the exchange rate and intervenes if the currency moves beyond these boundaries. The width of the band typically depends on the country's economic conditions and the flexibility needed to adjust to external shocks. The key feature of a crawling band framework is that exchange rate flexibility is controlled by the width of the band. While still offering a degree of flexibility, this system imposes constraints on monetary policy, as maintaining the exchange rate within the band requires consistent management of foreign exchange reserves and policy measures. It is commonly used in economies transitioning from a fixed to a more flexible exchange rate system, such as those aiming to control inflation or maintain competitiveness.

Crawling Peg: A crawling peg is a system where the value of domestic currency is determined by linking it to a basket of currencies or a single currency and is allowed to adjust gradually at a fixed rate over time, in response to certain quantitative indicators, such as inflation differentials between trading partners. The currency is adjusted by small amounts over time, either in a pre-announced manner or based on forward-looking expectations, such as projected inflation. The gradual adjustment helps prevent sudden currency misalignments and allows for controlled depreciation or appreciation. Although maintaining a crawling peg provides stability, it may limit monetary policy autonomy because the authorities must ensure the domestic currency stays aligned with the peg, by intervening in the market by buying and selling foreign currencies.

Pegged Exchange Rates within Horizontal Bands: A pegged exchange rate within horizontal bands involves maintaining the value of the domestic currency within a narrow margin (typically ±1 percent) of a fixed central rate. The central rate acts as a reference point, and the exchange rate is kept within this range by the country's monetary authorities. The central bank intervenes in the foreign exchange market if the currency approaches the upper or lower limits of the band to maintain stability. The degree of monetary policy discretion in this system depends on the width of the band. The narrower the band, the less flexibility there is for domestic monetary policy. This framework offers a balance between exchange rate predictability and limited flexibility, helping to control inflation and support trade competitiveness. However, it requires sufficient foreign exchange reserves for intervention and can be vulnerable to speculative attacks if the market perceives the peg as unsustainable.

Currency Board Arrangement: A currency board arrangement is a system where there is a legal commitment to exchange the domestic currency for a specified foreign currency at a fixed exchange rate. This arrangement is supported by strict regulations, which limit the issuing authority's actions to ensure the fulfilment of this commitment. In practice, this means the domestic currency is only issued against foreign exchange and remains fully backed by foreign assets. As a result, traditional central bank functions, such as controlling the money supply and acting as a lender of last resort, are eliminated, leaving very little room for discretionary monetary policy.

Although this system provides strong exchange rate stability, controls inflation, and enhances investor confidence, it also restricts a country's ability to respond to economic shocks, as it cannot freely adjust interest rates or print money.

Exchange Arrangements with No Separate Legal Tender: Exchange arrangements with no separate legal tender refer to systems where the currency of another country is used as the sole legal tender (formal dollarisation), or where a country is part of a monetary or currency union that shares a common legal tender. Adopting such a system means the country completely relinquishes control of its domestic monetary policy to another country, and the central bank loses its authority to issue currency and transfers monetary decisions to the issuing country or the union's central authority.

C. Choosing an Exchange Rate Arrangement

Several factors influence a country's choice of the exchange rate regime. A thorough analysis of the key factors in selecting an exchange rate arrangement (Table below), as recommended by the IMF, helps countries to determine the best exchange rate system. For example, the IMF states that an adequate level of foreign exchange reserves, which enable direct interventions in the foreign exchange market, is necessary to maintain an exchange rate peg or keep the exchange rate within narrow bands.

Furthermore, the size of an economy influences the exchange rate arrangement, with larger economies typically benefiting from flexible exchange rates due to their greater capacity to manage monetary policy independently, and in contrast, smaller economies may struggle to maintain a fully independent monetary policy and may opt for a fixed exchange rate or a combination of a float with capital flow management measures. The type and frequency of economic shocks, whether external or domestic, also shape the decision on exchange rate arrangements. External shocks, such as fluctuations in global commodity prices or changes in international capital flows, may require more flexible exchange rates to absorb the impact and maintain competitiveness. Real shocks, such as changes in terms of trade, can lead to exchange rate depreciation, aiding the domestic industry.

Key Factors in Selecting an Exchange Rate Arrangement

Macroeconomic Initial Conditions	Characteristics of the Economy	Types of Shocks to the Economy
i. Inflation levels	**i.** Size of the economy	**i.** Real shocks
ii. External imbalances	**ii.** Trade openness	**ii.** Volatile capital flows
iii. Foreign exchange reserves	**iii.** Diversification of exports and output	
iv. Financial system vulnerabilities	**iv.** Political and trade integration	
v. Fiscal position	**v.** Flexibility of labour markets	
vi. Other macroeconomic policies	**vi.** Capital mobility	
	vii. Dollarisation	
	viii. Financial system developme	

Source: IMF

Botswana has been implementing the crawling peg framework since May 2005. In this system, the Bank of Botswana buys and sells foreign currencies to the market, at demand, to maintain the desired value of the domestic currency. As such, the country must maintain a significant amount of foreign exchange reserves. However, Botswana's foreign exchange reserves have been declining at a rapid rate, and this trend is expected to continue in the short-to-medium-term. The foreign exchange reserves are estimated at 6.5 months of import cover as at December 2024. The decline in reserves, coupled with the sluggish recovery of the diamond market and elevated import levels, poses a challenge to the long-term sustainability of the crawling peg system.

Given this situation, Botswana may need to consider transitioning to other exchange rate arrangements. Essentially, a more flexible exchange rate system would, in the current circumstances of effective foreign exchange shortage, allow the Pula to depreciate in line with the declining reserves, reducing the relative requirements for foreign currency in exchange for any Pula amount and, thus, help to preserve the official foreign exchange reserves. A range of available intermediate options for Botswana include the crawling bands regime, the managed float, and a free-floating regime, as explained in Part B, and considering the other factors illustrated and discussed in Part C.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains subdued and uneven across countries and regions. According to the January 2025 WEO Update, the growth forecast for 2025 is slightly higher than in 2024, compared to the October 2024 projection. Regionally, South Africa's growth prospects remain constrained due to tight credit conditions and structural bottlenecks in the economy. Regarding price developments, global inflation is projected to moderate further.

Global economic growth to remain subdued

According to the January 2025 WEO Update, published by the IMF, global economic growth is anticipated to remain subdued at 3.3 percent in 2025, slightly higher than 3.2 percent in 2024. The growth forecast for 2025 was 0.1 percentage points higher than the October 2024 projection, mainly due to an upward revision for growth in the US. However, the 2025/2026 forecasts are lower than the historical (2000-2019) annual average of 3.7 percent. The restrained growth is on account of cuts in production and shipping of commodities (particularly oil), civil unrest and conflicts in the Middle East and Central Asia, extreme weather conditions and low underlying productivity growth in Sub-Saharan Africa.

For advanced economies, output is projected to grow by 1.9 percent and 1.8 percent in 2025 and 2026, respectively, a slight increase from 1.7 percent in 2024. The 2025 growth forecast was revised upwards by 0.1 percentage points, while it was unchanged for 2026. The higher revision for 2025 was due to an upward revision in growth for the US.

Risks to the global economic outlook were assessed to be on the downside in the medium term, amid elevated policy uncertainty. These include an escalation in regional conflicts; monetary policy remaining tight for too long, which could weigh on investment and economic growth; a possible deeper growth slowdown in China; and the continued increase in protectionist policies.

UK economic growth to increase

The UK economy is forecast to grow from 0.9 percent in 2024 to 1.6 percent in 2025, supported by easing inflationary pressures, as the lagged negative effects of high energy prices wane, and anticipated lower interest rates. The 2025 growth projection is 0.1 percentage points higher than the October 2024 projection.

Output growth for US to decrease

In the US, output is forecast to slow down from 2.8 percent in 2024 to 2.7 percent in 2025, due to gradual fiscal tightening. However, output for the US in 2025 was revised upwards by 0.5 percentage points in the January 2025 WEO Update, in part, reflecting a positive carryover from 2024, less restrictive monetary policy stance, robust demand and labour markets, as well as accelerating investment. Growth for the US is forecast to decrease further to 2.1 percent in 2026.

Growth for the euro area to increase

In the euro area, economic growth is projected to increase slightly from 0.8 percent in 2024 to 1 percent in 2025, underpinned by stronger consumption, on the back of rising real wages and higher investment from easing financing conditions, amid gradual monetary policy loosening in 2025. Growth for the euro area is forecast to increase further to 1.4 percent in 2026.

Emerging markets GDP growth to remain constant

Growth in economic activity in emerging market and developing economies is expected to remain at 4.2 percent in 2025 same as in 2024, but slightly higher at 4.3 percent growth in 2026. Growth for 2025 was supported by upward revisions for major economies, such as China and Russia. Meanwhile, growth was unchanged for India, Brazil and Sub-Saharan Africa. The forecast for 2025 was unchanged but revised upwards by 0.1 percentage points for 2026 compared to the October 2024 forecast.

Output growth for China is forecast to slow down from 4.8 percent in 2024 to 4.6 percent in 2025 and 4.5 percent in 2026, largely due to weaker private investment and the ongoing property market crisis. The 2025 and 2026 growth forecast were revised upwards by 0.1 and 0.4 percentage points, respectively, from the October 2024 projection. The upgrade for 2025 reflects carryover from 2024 and the fiscal package announced in November 2024, largely offsetting the negative effect on investment from heightened trade policy uncertainty and property market drag on the Chinese economy. In India, the economy is expected to expand by 6.5 percent in both 2025 and 2026, the same as in 2024.

Growth prospects for the South African economy remain weak

Regionally, growth prospects in South Africa are expected to remain constrained due to the concerns over global trade tensions and US fiscal policy which kept economies cautious. As a result, emerging market economies, including South Africa, remained sensitive to these broader trade tensions and shifting geopolitical dynamics. Thus, South African output growth is forecast to remain subdued at 1.5 percent in 2025, from 0.8 percent in 2024, and to increase to 1.6 percent in 2026. The projection was unchanged for 2025 but revised upward by 0.1 percentage points for 2026, compared to the October 2024 projections.

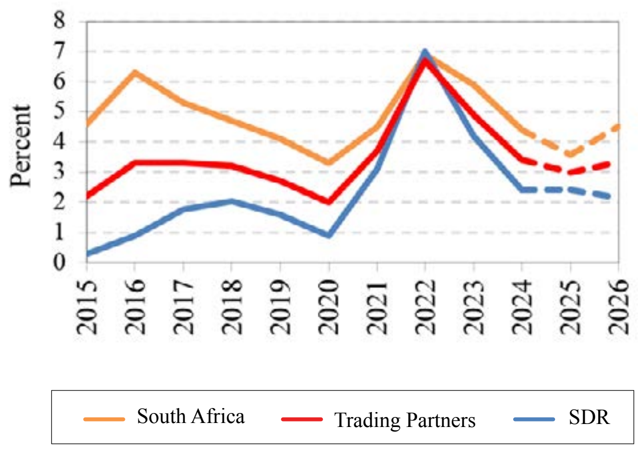
Meanwhile, in March 2025, the SARB revised slightly downwards the growth projection for 2025 by 0.1 percentage points to 1.7 percent, but maintained the projection for 2026 at 1.8 percent, compared to January 2025 forecasts. The downward revision in 2025 was supported by trade tensions and shifting geopolitical dynamics. Subdued growth prospects are mostly due to energy and logistical constraints, which continue to weigh on South African economic activity.

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 the anticipated lower food and oil prices. 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 2.1 percent in 2025, while for emerging market economies, it is forecast to decrease from 7.8 percent to 5.6 percent in the same period. Consequently, global inflation is expected to ease from 5.7 percent in 2024 to 4.2 percent in 2025.

Meanwhile, the SARB forecasts South African inflation to average 3.6 percent in 2025 and 4.5 percent in 2026 (Chart 4.1). The forecasts for 2025 and 2026 are 0.3 and 0.1 percentage points lower, respectively, compared to January projections.

Chart 4.1: South Africa and SDR Headline Inflation



Source: SARB and Bloomberg

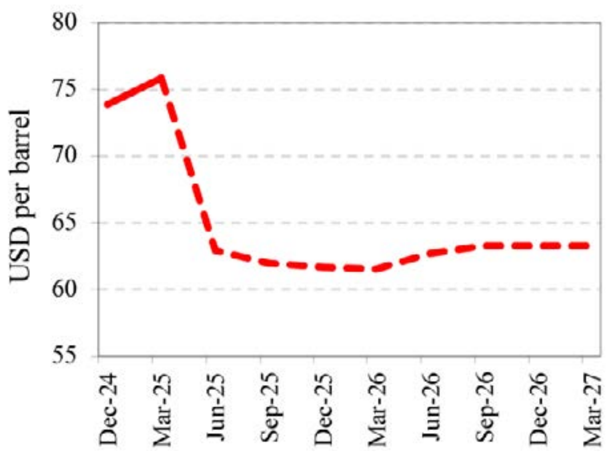
Diamond prices to trend downward

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 and the US. Moreover, the increased supply of lab grown diamonds and the growing popularity of gold as a safe heaven commodity[13] has contributed to the decline in diamond prices.

International oil prices to decrease

International oil prices are projected to decrease in the short-to-medium term (Chart 4.2). The projected decrease in oil prices is mainly driven by the expected increase in supply and a muted demand outlook. The US tariffs could slow economic growth and weaken demand, thus exerting downward pressure on international oil prices.

Chart 4.2: International Oil Prices



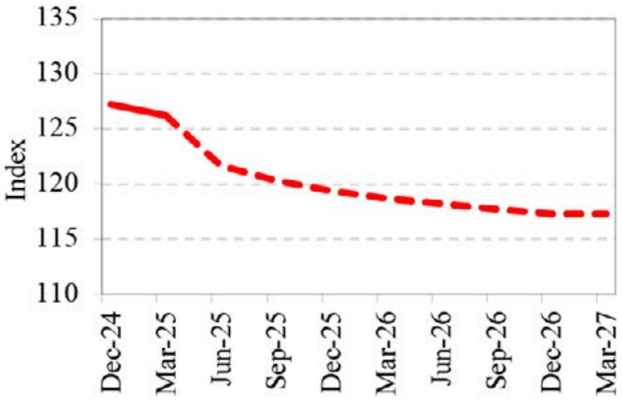
Source: Bloomberg

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

International food prices to decrease

Global food prices are expected to trend downwards in the short-to-medium term (Chart 4.3). The anticipated decline in international food prices is underpinned by the expected decline in international oil prices, an input in food production. Overall, this factor suggests potential downward pressure on domestic inflation from international food prices.

Chart 4.3: International Food Prices FAO Index



Source: Bloomberg
Note: Approximated using forecasts for international sugar and wheat 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, recent heavy rainfall in the region suggests that the 2024/25 season could be favourable, provided there are no severe floods that could negatively impact crop production. However, maize prices, the key staple food in Southern Africa, remain elevated, with several countries recording the highest prices ever at the start of 2025. This is largely due to tight domestic supplies following significant harvest reductions in 2024 because of the El Niño-induced drought. Upward pressure on prices is expected to persist at least until the second quarter of 2025, when the main harvest is anticipated to partly alleviate supply constraints. Overall, given the expected lower international food prices, there is potential downward pressure on domestic inflation in the short term.

4.2 Outlook for domestic economic activity

The Ministry of Finance (MoF) estimates GDP to rebound to 3.3 percent in 2025 from a contraction of 3 percent in 2024.

Output growth to rebound in 2025

According to the MoF, GDP growth is estimated to rebound and grow by 3.3 percent in 2025, reflecting a combination of factors including base effects and continued growth in the non-mining sector. Before the recent downward revision of the production guidance by Debswana, the diamond industry was also anticipated to recover in the latter part of 2025. Furthermore, the new agreement between Botswana and De Beers, entailing a ten-year sales agreement for Debswana's rough diamond production until 2033 and a 25-year extension of Debswana's mining licences to 2054 brings in some level of certainty in the market, making it a positive development for the diamond industry.

In addition to ongoing reforms and initiatives, the government has adopted additional reforms to stimulate non-mining sectors[14] capacity, accelerating economic transformation and enhance economic resilience in the medium term. Monetary policy also remains largely accommodative, therefore, conducive for financing of economic activity. 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. Furthermore, the below potential output in the short term aligns with the high unemployment rate of 27.6 percent recorded in the first quarter of 2024, from 25.9 percent in the third quarter of 2023 and the limited growth in real wages, as the average monthly wage in Botswana increased by only 1.1 percent, from P6,029 in the third quarter of 2023 to P6,093 in the first quarter of 2024.

The Bank's March 2025 Business Expectations Survey (BES) indicates that firms anticipate favourable business conditions that will support economic activity in the first and second quarters of 2025. However, this outlook is less optimistic compared to the previous quarter (Q4 2024), in part, due to the slow and muted impact of economic transformation initiatives so far. Additionally, the decline in global demand, economic uncertainty due to geopolitical conflicts, as well as competition from other luxury goods could be contributing to the reduced optimism among firms.

Nonetheless, firms were more optimistic about business conditions in the 12-month period to March 2026, compared to the first and second quarter of 2025, which could be attributed to government interventions aimed at supporting economic activity, including reforms to further improve the business environment.

Firms anticipate that GDP will grow by 1.9 percent in 2025, a significant improvement from the 3 percent contraction experienced in 2024. However, this expected growth is still slightly below the Ministry of Finance's projection of 3.3 percent for the same period. Furthermore, firms expect inflation to average 3.9 percent and 3.7 percent in 2025 and 2026, respectively, suggesting that inflation expectations are well anchored.

14 These include, 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.

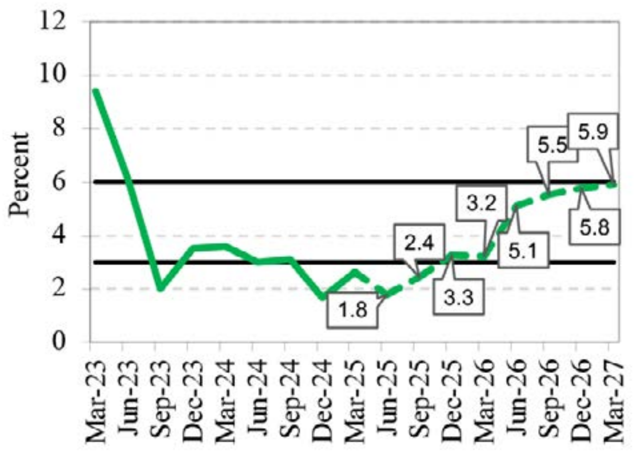
4.3 Monetary policy and inflation outlook

Inflation is expected to revert to the 3 – 6 percent objective range on a sustained basis from the fourth quarter of 2025. The inflation forecast is revised slightly downwards when compared to the February 2025 projection.

Inflation to be within the objective range

Inflation is expected to be within the 3 – 6 percent objective range in the fourth quarter of 2025 and remain within the objective range into the medium term (Chart 4.4), driven by the expected improvement of the non-mining sector, among other factors.

Chart 4.4: Botswana Headline Inflation Forecast

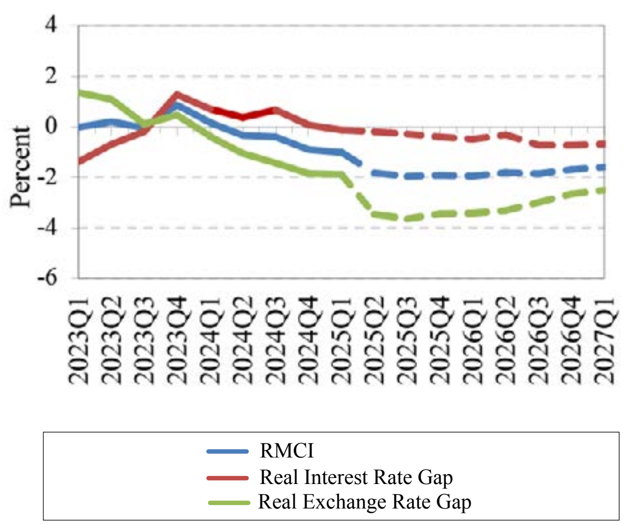


Source: Bank of Botswana

The projection considers the base effects associated with the adjustment of administered prices in 2024, the reduction in water tariffs, revision of the Pula currency basket weights to 50 percent for the South African rand and 50 percent for the SDR, maintenance of a downward rate of crawl of 1.51 percent for 2025, trading partner countries' inflation forecasts and developments in international commodity prices (food and oil).

Firms expect inflation to average 4.2 percent in 2025, thus remaining within the objective range, suggesting that inflation expectations are well anchored.

Chart 4.5: Real Monetary Conditions

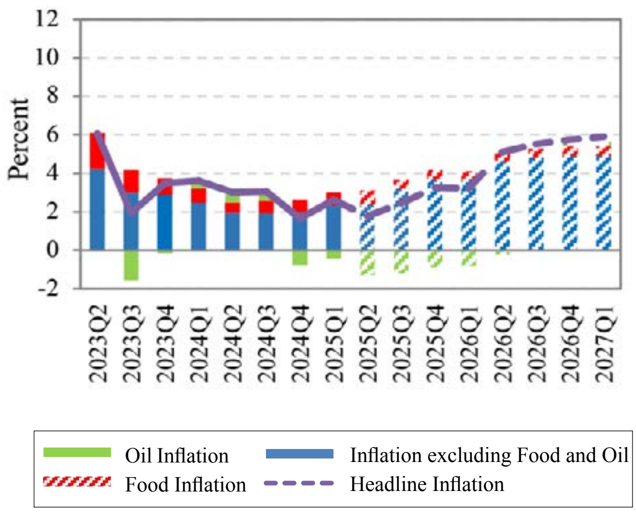


Source: Bank of Botswana

Core inflation to increase in the medium term

Inflation, excluding food and fuel prices, is expected to increase in the medium term (Chart 4.6), mainly on account of the expected improvement in non-mining economic activity.

Chart 4.6: Headline Inflation and its Components

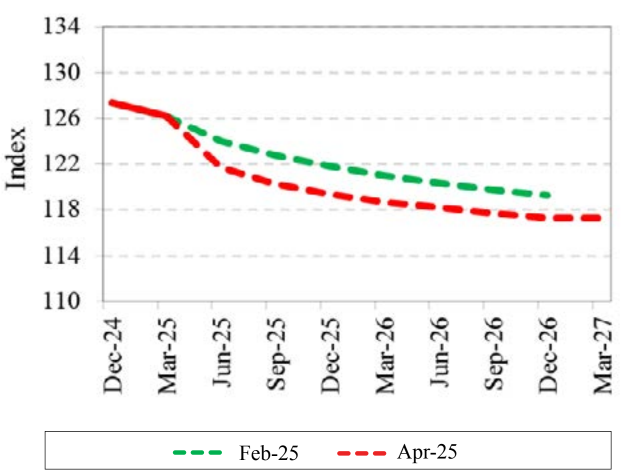


Source: Bank of Botswana

Forecasts for international food prices revised downward

Compared to the February 2025 forecast, international food prices have been revised downward (Chart 4.7). The downward revision is mainly due to lower forecasts for international oil prices, given that oil is a key input in food production.

Chart 4.7: International Food Prices FAO Index

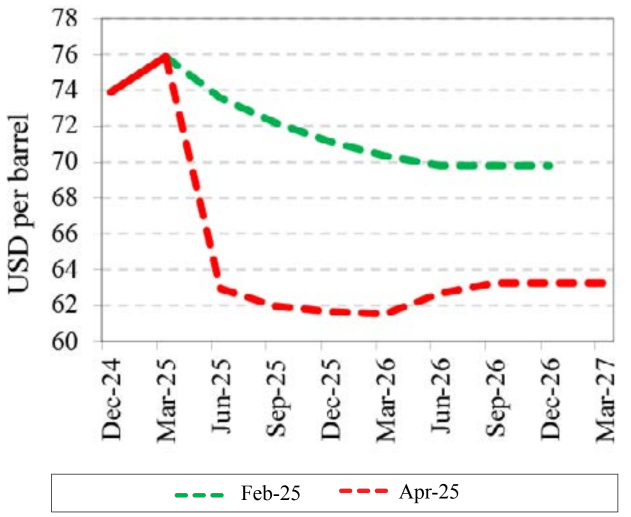


Source: Bloomberg

Forecasts for international oil prices revised downward

Relative to the February 2025 forecast, projections for international oil prices have been revised downward (Chart 4.8). The downward revision is mainly attributable to the US administration's uncertain trade policies. This development has increased economic uncertainty and will likely compromise business growth plans and possibly slow down the global economy. The slowdown in the global economy is expected to reduce oil demand and exert downward pressure on oil prices.

Chart 4.8: International Oil Prices



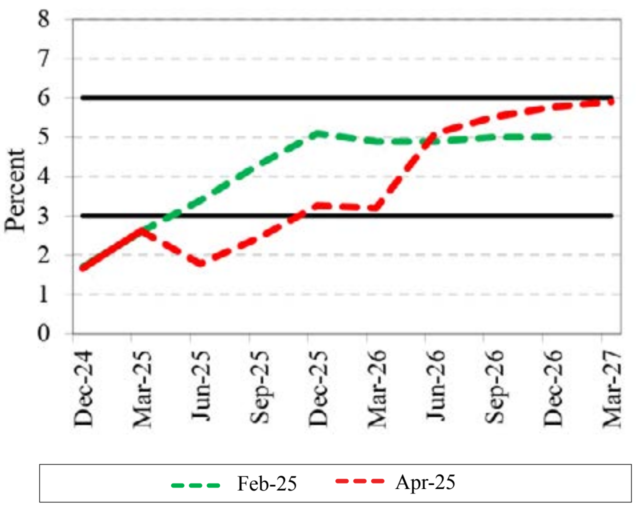
Source: Bloomberg

Overall, there is potential downward pressure on domestic inflation from the developments in international oil prices, compared to the February 2025 forecasts.

Inflation forecast revised slightly downwards

Compared to the February 2025 forecast, the domestic inflation projection is revised downwards in the short-term (Chart 4.9). The revision is on account of the decrease in water tariffs effective April 2025, the downward revision in international commodity prices, notable international oil prices, higher appreciation of the Pula against the rand and the downward revision in the South African inflation forecasts.

Chart 4.9: Botswana Headline Inflation Forecast Revision



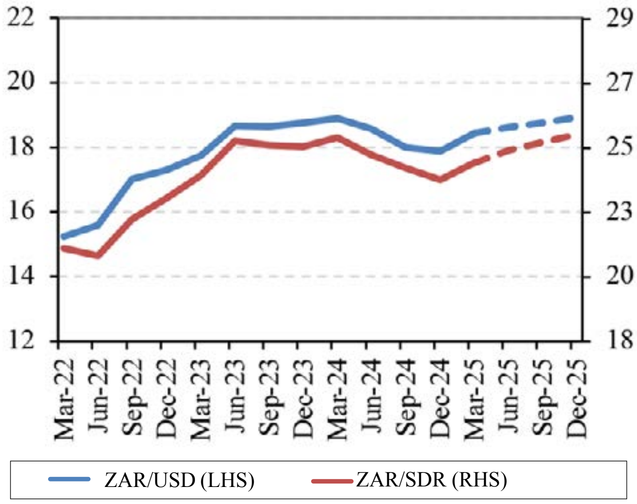
Source: Bank of Botswana

Exchange rate movements

The Pula exchange rate is influenced by the performance 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 weaken against major currencies due to several domestic factors, which are likely to dampen investor sentiment, including the persistently high unemployment rates; water shortages in some major towns and cities; as well as the underperformance of heavily indebted state-owned enterprises for which bailouts pose a threat to long-term fiscal sustainability and the ability of the state to provide public services and meet infrastructure needs. Moreover, disagreements about South Africa's 2025 budget proposal are expected to negatively impact the performance of the rand in the short term due to increased uncertainty surrounding fiscal policy and governance stability. The lack of consensus on the budget could signal potential political and economic instability, which may erode investor confidence in the GNU's transformation agenda to revitalise the economy and lead to capital outflows. Additionally, the US President, Donald Trump's tariff coupled with concerns about the US administration' stance on geopolitical matters, could lead to uncertainty in global markets. This could affect emerging market currencies, including the rand, which are particularly sensitive to these broader trade tensions and shifting geopolitical dynamics.

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

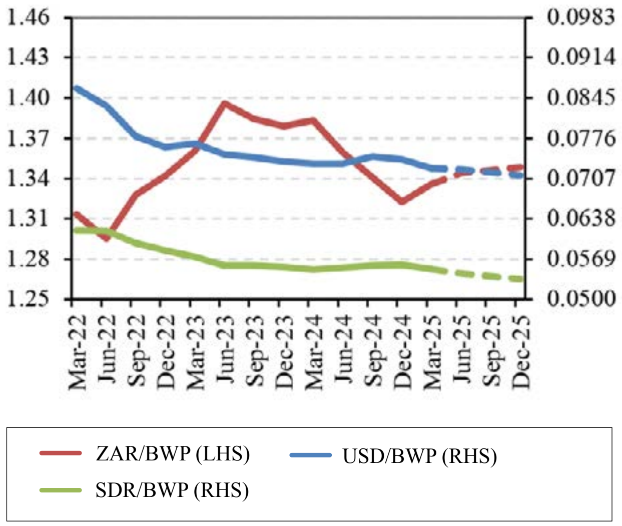
Source: Bloomberg

The US dollar is projected to depreciate against most major international currencies over the next four quarters (Chart 4.11 and Chart 4.12), mainly due to the ongoing impact of President Trump's tariffs, which have led to retaliatory measures and concerns over a potential trade war that could hinder US economic growth. However, as a safe-haven asset, the dollar may experience increased demand during times of geopolitical uncertainty, potentially mitigating its expected depreciation.

Forecast movements of other SDR constituent currencies imply a marginal appreciation of the SDR against the US dollar (Chart 4.12).

The forecast pressures on the rand are expected to lead to the appreciation of the Pula against the rand over the next four quarters (Chart 4.12). However, this appreciation is likely to occur at a lower magnitude than previously expected, due to the higher weight of the rand in the Pula currency basket. The anticipated depreciation of the South African rand against major international currencies is expected to exert downward pressure on the Pula against the SDR constituent currencies in the forecast horizon (Chart 4.12). On the inflation front, the projected appreciation of the Pula against the South African rand is expected to exert marginal downward pressure on domestic inflation.

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 balanced. Inflation could 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. Tariffs announced by the new US government and reciprocal tariffs from its trading partners 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. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection. Meanwhile, the recently announced budget for fiscal year 2025/26 is relatively modest, hence it is expected to have a muted impact on the inflation outlook.

5. APRIL 2025 MONETARY POLICY COMMITTEE DECISION

At the meeting held on 17 April 2025, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 1.9 percent.

The MPC met at a time when the global economy is experiencing heightened uncertainty due to shifting trade policies manifested by series of imposition of reciprocal trade tariffs.

For Botswana, the import tariff rate for exports to the United States of America (USA) was set at 37 percent, which, however, has been put on hold for 90 days. One of the effects of this could be an adverse impact on Botswana's exports to the USA. It is expected that the forthcoming April 2025 World Economic Outlook (WEO) publication by the International Monetary Fund (IMF) will provide comprehensive analysis of the likely trajectory of the global economy in this environment. Relatedly, recent developments have led to a significant drop in international oil prices, which, if sustained, could result in lower domestic inflation.

The domestic economy faces challenges relating to inadequate traction of transformation policy initiatives, thus lack of economic diversification and weakening fiscal and external position. The recent credit rating reviews by Moody's and S&P Global Ratings also allude to these factors. Hence, the need for all policy frameworks to be aligned towards building economic resilience. For example, fiscal policy in terms of enhanced resource mobilisation, rationalisation of expenditure and rebuilding fiscal and external buffers that enable continued policy discretion not influenced by any need for external support.

At the previous briefing, it was pointed out that the domestic economy was in a recession in 2024 but was projected to improve. However, there is possibility that this recovery may be muted. Indeed, the challenges faced now and those ahead require effective design and implementation of sound policies and achievement of high levels of productivity across all our initiatives and efforts to grow the economy. Notwithstanding, the MPC deliberations and decisions continue to be undertaken within the Bank's monetary policy framework as recently outlined in the 2025 Monetary Policy Statement.

Economic Environment

As reported by Statistics Botswana recently, the economy was in a recession in 2024, with real gross domestic product (GDP) contracting by 3 percent, compared to a growth of 3.2 percent in 2023. The 2024 performance was mainly due to the contraction in the mining sector and generally subdued growth in the non-mining sectors.

According to the January 2025 IMF WEO Update, global output is estimated to have expanded by 3.2 percent in 2024 and is forecast to grow by 3.3 percent in 2025 and 2026. The continuing geoeconomic fragmentation and restrictive trade policies have led to heightened economic uncertainty, which may undermine the anticipated global economic growth. For Botswana, projections at the time of the 2025 Budget Speech indicated that the economy would recover in 2025, growing by 3.3 percent. This projection was premised on the anticipated recovery in the diamond sector. As earlier indicated, recovery could be muted due to the ongoing global developments, which include growing competition from other luxury goods and economic challenges in key markets, are undermining the recovery in the diamond market.

Inflation

As reported by Statistics Botswana, headline inflation increased from 2.7 percent in February 2025 to 2.8 percent in March 2025, but remaining below the lower bound of the medium-term objective range of 3 – 6 percent. The increase in inflation was mainly due to increases in food and motor vehicle prices. The MPC forecasts inflation to remain low into the medium term, averaging 2.5 percent in 2025 and 4.9 percent in 2026. However, the risks to the inflation outlook are assessed to be balanced.

The MPC observes that inflation could be higher than projected if international commodity prices were to increase above current forecasts, and supply and logistical constraints in the global value chains were to persist. Reciprocal tariffs could also be inflationary. However, inflation could be lower than projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international oil prices beyond current forecasts. The inflation outcomes could also be affected by possible changes in administered prices that are not factored in the current projection.

Decision

As previously observed, the economy is expected to operate below full capacity in the short term, though improving slightly into the medium term. This should not generate demand-driven inflationary pressures. Thus, inflation is forecast to remain within the objective range in the medium term. Similarly, businesses expect inflation to be within the medium-term objective range, suggesting that inflation expectations are well anchored.

Given the current economic conditions and the outlook for both domestic and external economic activity, as well as the market liquidity condition, the MPC has decided as follows:

(a) maintain the MoPR at 1.9 percent;

(b) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos will be conducted at the MoPR of 1.9 percent;

(c) the Standing Deposit Facility (SDF) rate is maintained at 0.9 percent, 100 basis points below the MoPR; and

(d) the Standing Credit Facility (SCF) Rate is maintained at 2.9 percent, 100 basis points above the MoPR.

Meetings of the MPC

The MPC meetings for 2025 are scheduled as follows:
19 June 2025
21 August 2025
30 October 2025
4 December 2025

Annex: Inflation Forecast Summary for April 2025 MPC Meeting

	Actual					Forecast									
	2024				2025	2025				2026					2027
	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1
Inflation	3.0	3.1	1.7	**2.8**	2.6	1.8 (3.4)	2.4 (4.3)	3.3 (5.1)	**2.5 (3.9)**	3.2 (4.9)	5.1 (4.9)	5.5 (5.0)	5.8 (5.0)	**4.9 (5.0)**	5.1 (5.3)

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

Factors contributing to the downward revision of the forecast include the following:

Domestically
(a) Downward adjustment in water tariffs.

Externally
(a) Higher appreciation of the Pula against the South African rand.
(b) Downward revision in forecasts for international food and oil prices.
(c) Downward revision in forecasts for South Africa inflation in the short term.

NOTE

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