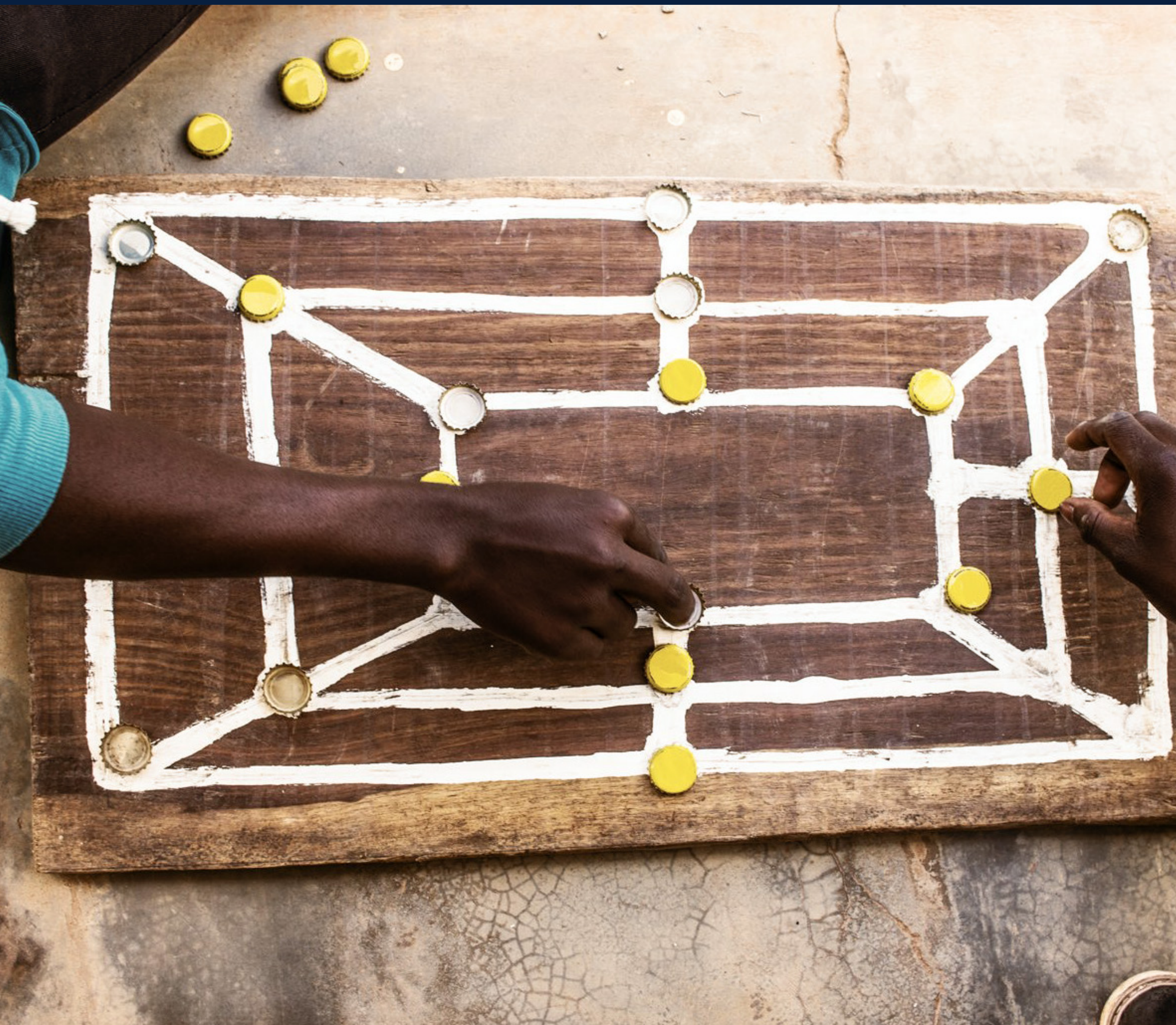
MONETARY POLICY REPORT

AUGUST | 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 August 2025

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1. PREFACE

1.1 Purpose of the report

The Monetary Policy Report (MPR) is the main medium through which the Bank of Botswana (the Bank) informs the public about the conduct of monetary policy on a regular basis. It serves to meet the public's expectation of a transparent and accountable central bank in fulfilling the monetary policy mandate set out in the Bank of Botswana (Amendment) Act, 2022.

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

1.2 Monetary policy framework

The primary objective of the Bank's monetary policy is to achieve price stability, which, in the Botswana context, is a sustainable level of annual inflation, as measured by the consumer price index (CPI), that is within the medium-term objective range of 3 – 6 percent (see Box 1 on page 17 for the determination of the monetary policy inflation objective range for Botswana). Consequently, as of April 2022, the Bank uses the Monetary Policy Rate (MoPR) to influence short-term market interest rates to steer the economy through business cycles, thus contributing to sustainable economic growth. The policy is also formulated with a view to safeguarding the stability of the financial system. The monetary policy framework is anchored on the crawling band exchange rate mechanism, which seeks to maintain a stable real effective exchange rate (REER) that is conducive for macroeconomic stability and the international competitiveness of domestic producers' tradeable goods and services. The Ministry of Finance (MoF), in consultation with the Bank, recommends parameters for the exchange rate mechanism (weights of currencies within the Pula basket, the rate of crawl and the Pula trading margins) that determine the value of the Pula for approval by His Excellency, the President.

In evaluating policy options, the Bank implements a forward-looking monetary policy framework 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 26 for details on monetary policy implementation and operations framework).

1.3 Decision-making process

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

1.4 Announcement of the monetary policy decision

The Governor holds a Press Briefing shortly after each MPC meeting to announce the monetary policy decision. The Press Briefing allows for interaction with members of the media and facilitates understanding of the Bank's economic analysis and policy stance. Following the briefing, a Press Release is issued to inform the public of the Committee's decision regarding the MoPR and the rationale behind the policy choice.

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

BANK OF BOTSWANA'S MONETARY POLICY COMMITTEE

Mr. Cornelius Dekop
Governor (Chairman)

Dr. Kealeboga Masalila
(Deputy Governor)

Mr. Lesego Moseki
(Deputy Governor)

Mr. Innocent Molalapata
Director, Research and Financial Stability

Ms. Baitshenotse Mmopelwa
Director, Financial Markets

Professor Patricia Makepe
External Member

Dr. Pinkie Kebakile
External Member

Dr. Onkokame Mothobi
External Member

Dr. Taufila Nyamadzabo
External Member

2. EXECUTIVE SUMMARY

In the first half of 2025, monetary policy was implemented in the context of projections for lower inflation in the short-to-medium term, due to subdued domestic and global economic activity as well as anticipated lower international commodity prices and trading partner countries' inflation. At the August 2025 meeting, the MPC projected that the economy would continue to operate below full capacity in the short-to-medium term, though improving marginally into the medium term, thus not generating demand-driven inflationary pressures. Although inflation is expected to temporarily breach the upper bound of the objective range and risks to the inflation outlook are assessed to be on the upside, this is due to a once-off supply shock, which will, ultimately, dissipate. Therefore, the state of the economy and the outlook for both domestic and external economic activity provided scope to maintain an accommodative monetary policy stance. Thus, the Bank maintained the MoPR at 1.9 percent at the August 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.

Global economic performance remains subdued on account of the lagged effects of restrictive monetary policies implemented during 2024; trade tensions and policy uncertainty, particularly surrounding the United States of America (US) trade policies; geopolitical tensions; extreme weather conditions; and low underlying productivity growth. In response, many central banks loosened monetary policy, leading to an easing of financial conditions.

According to the International Monetary Fund (IMF)'s July 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 percent in 2025, lower than 3.3 percent in 2024, and below the historical (2000-2019) annual average of 3.7 percent. Moreover, the forecast for 2025 was 0.2 percentage points higher than the April 2025 WEO projection, mainly reflecting stronger-than-expected front-loading in anticipation of higher tariffs; lower average effective US tariff rates than announced in April; an improvement in financial conditions due to a weaker US dollar; and fiscal expansion in some major economies. For advanced economies, growth is forecast at 1.5 percent in 2025, a decrease from 1.8 percent in 2024. Meanwhile, growth in economic activity in emerging market and developing economies (EMDEs) is expected to decline to 4.1 percent in 2025, from 4.3 percent in 2024.

Global inflationary pressures are generally moderating in both advanced and emerging market economies, reflecting the slower pace of monetary policy easing, as well as the anticipated lower international commodity prices, particularly food and oil. Global inflationary pressures eased in the second quarter of 2025 compared to the first quarter: from 3.4 percent to 3.2 percent for advanced economies; and from 3.4 percent to 2.9 percent for emerging market economies. Similarly, international oil prices decreased in the second quarter of 2025, driven by subdued oil demand. Conversely, the United Nations' Food and Agriculture Organization (FAO) food price index increased in the second quarter of 2025, mainly reflecting tighter seasonal supply from some major commodity exporting countries, such as meat from Brazil and dairy products from New Zealand.

Domestically, headline inflation averaged 2.1 percent in the second quarter of 2025, lower than the 3 percent in the second quarter of 2024, mainly due to the deceleration in the rate of annual price changes of the transport category, emanating from the base effects associated with the increase in domestic fuel prices in 2024, as well as the decrease in water tariffs. In addition, the decrease in inflation was on account of subdued domestic demand amid the ongoing recession. Inflation is forecast to increase in the short term and temporarily breach the upper bound of the medium-term objective range in the second quarter of 2026. This is mainly due to the necessary exchange rate parameter adjustments exacerbated by greater-than-anticipated market price setting for both exchange rate and retail prices.

Botswana's real gross domestic product (GDP) contracted by 1.7 percent in the twelve months to March 2025, compared to a growth of 0.4 percent in the year to March 2024. The performance mainly reflects the contraction in the mining sector and generally subdued growth for the non-mining sectors. The contraction in the mining sector is mainly due to a combination of external factors, such as subdued global demand, global economic uncertainty and geopolitical events, that have negatively impacted demand for luxury goods, such as diamonds. Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the ongoing economic transformation initiatives so far, continuance of low productivity and prior drought conditions, as well as challenges associated with limited fiscal space. Growth prospects remain subdued and well below the long-term growth rate required to transition to high income status by 2036.

The current account recorded a deficit of P0.6 billion in the first quarter of 2025, compared to a surplus of P1.7 billion during the corresponding period in 2024. As at the end of June 2025, the foreign exchange reserves amounted to P45 billion, a decrease of 27.4 percent from P62 billion in June 2024, which translated into 5.7 months of import cover of goods and services.

Commercial bank credit growth accelerated from 3.9 percent in June 2024 to 10.3 percent in June 2025, largely attributable to the increased growth in lending to the business sector and households. Lending to the business sector increased by 14.9 percent in the year to June 2025, higher than the 2.9 percent in the corresponding period in 2024, while lending to the household sector increased by 7.7 percent in the year to June 2025, higher than the 4.5 percent expansion in the corresponding period in 2024. Credit to businesses excluding parastatals increased by 11.6 percent in the year to June 2025, higher than the 9.4 percent expansion in the corresponding period in 2024. Moreover, credit to parastatals increased by 60.6 percent in the year to June 2025, compared to the 43.8 percent decrease in the twelve months to June 2024. Meanwhile, money supply (M2) increased by 0.8 percent in the year to May 2025, lower than 18 percent expansion recorded in May 2024.

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

The nominal effective exchange rate (NEER) of the Pula depreciated by 1.5 percent in the year to July 2025. In the year to June 2025, the REER depreciated by 2.1 percent, due to the depreciation of the NEER (the rate of crawl) and the lower inflation in Botswana compared to its trading partner countries, suggesting a gain in Botswana's export competitiveness, by this measure.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth subdued

According to the IMF's July 2025 WEO Update, the global economy is estimated to have grown by 3.3 percent in 2024, a decrease from a growth of 3.5 percent in 2023 (Table 3.1). The subdued 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.

The US economic growth accelerates

In the US, real output expanded by an annualised 3 percent in the second quarter of 2025, rebounding from a contraction of 0.5 percent in the first quarter of 2025, and surpassing market expectation of a 2.4 percent rise. The expansion primarily reflected a 30.3 percent fall in imports, following a 37.9 percent increase in the prior quarter, when businesses and consumers rushed to stockpile goods ahead of expected price increases following a series of tariff announcements. Moreover, consumer spending rose modestly supported by pre-emptive purchases of goods like vehicles, ahead of tariff hikes.

Euro area GDP expanded

In the euro area, GDP grew, year on year, by 1.4 percent in the second quarter of 2025, lower than the expansion of 1.5 percent in the first quarter of 2025 but was higher than market expectations of a 1.2 percent growth. The slower growth was attributable to fading front-loading effects from the previous quarter when imports to the US increased significantly ahead of the anticipated higher prices induced by tariffs. In addition, the impact of US tariffs implemented in July 2025, including a 15 percent levy on most EU goods, dampened trade and investment, particularly in export-reliant economies like Germany. Moreover, persistent uncertainty from unresolved US-EU trade deal and geopolitical risks further constrained business confidence and spending. Among the Bloc's largest economies, expansions were recorded in Spain (2.4 percent), Netherlands (1.5 percent), France (0.7 percent), Italy (0.4 percent) and Germany (0.4 percent).

UK growth remained subdued

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

Emerging markets' growth increased

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

Meanwhile, the Indian economy grew by 7.4 percent year on year in the first quarter of 2025, compared to an upwardly revised expansion of 6.4 percent in the fourth quarter of 2024, significantly above market expectations of 6.7 percent. The increase in output was driven by growth in manufacturing, construction, private consumption and public expenditures. Moreover, lower international food and oil prices contributed positively to consumption, while lower interest rates spurred investment.

Table 3.1: Growth Estimates and Projections

	Estimate		Projection	
	2023	**2024**	**2025**	**2026**
Global	**3.5**	**3.3**	**3.0**	**3.1**
Advanced economies	**1.8**	**1.8**	**1.5**	**1.6**
USA	2.9	2.8	1.9	2.0
Euro area	0.5	0.9	1.0	1.2
UK	0.4	1.1	1.2	1.4
Japan	1.4	0.2	0.7	0.5
EMDEs	**4.7**	**4.3**	**4.1**	**4.0**
China	5.4	5.0	4.8	4.2
Brazil	3.2	3.4	2.3	2.1
India	9.2	6.5	6.4	6.4
Russia	4.1	4.3	0.9	1.0
South Africa	0.8	0.5	1.0	1.3
Botswana	**3.2**	**-3.0**	**-0.4 (-0.4)**	**2.3 (2.9)**

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

South African economy expanded

Regionally, output in South Africa increased by 0.1 percent in the first quarter of 2025, lower than the 0.4 percent recorded in the fourth quarter of 2024. Only four out of ten industries registered growth, led by agriculture (15.8 percent), transport (2.4 percent) and finance (0.2 percent). Six industries contracted, with mining (-4 percent) and manufacturing (-2 percent) being the most negative contributors to growth.

Global commodity prices

Rough diamond prices increased in the second quarter of 2025

The global rough diamond price index increased by 1.1 percent from 125.9 points in the first quarter of 2025 to 127.2 points in the second quarter. The increase in prices was mainly due to resurgence in consumer demand in key global markets, notably the US and China and strategic supply adjustments by major producers. Strong holiday sales in these regions created a positive momentum for the rough diamond market. Nonetheless, the rough diamond market continues to be impacted by increased competition from other luxurious goods, especially lab-grown diamonds, which are gaining popularity as a substitute product. Lab grown diamonds currently hold 20-25 percent of market share and are projected to account for approximately 30-40 percent of the total diamond market by 2030, up from nearly zero in 2015.[2]

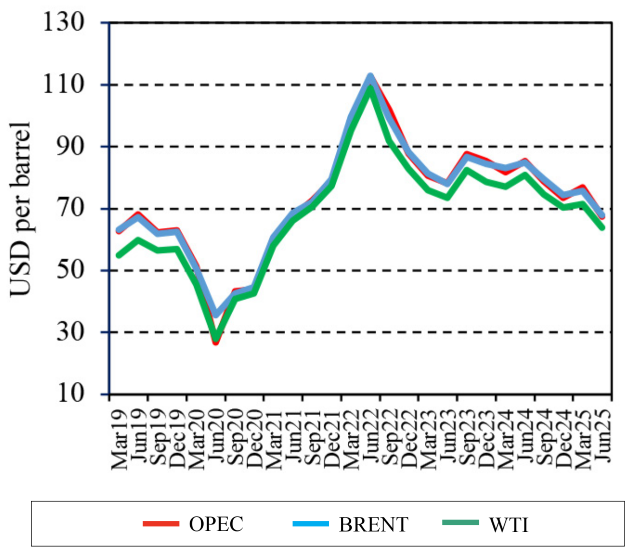
Polished diamond prices decreased in the first quarter of 2025

The global polished diamond price index decreased by 8.1 percent from 90.9 points in the fourth quarter of 2024 to 83.5 points in the first quarter of 2025, due to weaker demand and a challenging global economic outlook. However, the global polished diamond price index was unchanged at 84 points between March and April 2025.

Oil prices decreased in the second quarter of 2025

International oil prices decreased in the second quarter of 2025 compared to the first quarter of 2025 (Chart 3.1). The price of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 12 percent, 10.3 percent and 10.5 percent, from an average of USD76.70 per barrel, USD75.62 per barrel and USD71.43 per barrel in the first quarter of 2025 to an average of USD67.47 per barrel, USD67.86 per barrel and USD63.91 per barrel, respectively, in the second quarter of 2025. The decrease in oil prices was mainly driven by OPEC and its allies' decision to increase supply, as well as concerns about potential global economic slowdown fuelled by trade tensions, which reduced expectations of oil demand. Furthermore, the increase in US crude oil production in April 2025, as well as the ceasefire between Israel and Iran reduced the premium associated with potential disruptions to oil supply, thus contributing to the decrease in oil prices in the second quarter of 2025.[3]

Chart 3.1: International Oil Prices



Source: Bloomberg

Food prices increased in the second quarter of 2025

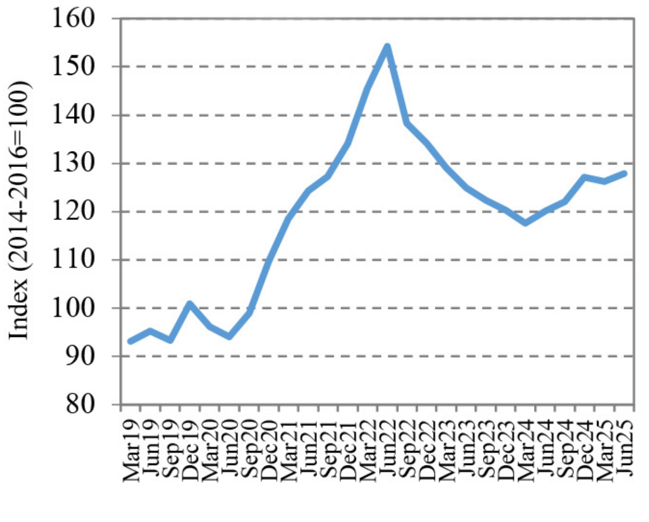
According to FAO, the global food price index increased by 1.3 percent from an average of 126.2 points in the first quarter of 2025 to an average of 127.8 points in the second quarter of 2025 (Chart 3.2). The increase mainly reflected tighter seasonal supply from some major commodity exporting countries, such as meat from Brazil and dairy products from New Zealand. Higher food prices were also attributable to the increase in vegetable oil prices, underpinned by strong global import demand amid increased price competitiveness.

Similarly, the food price index increased by 1.6 percent, from an average of 128 points in June to an average of 130.1 points in July 2025. This increase was mainly driven higher bovine meat prices, underpinned by strong import demand. The increase in food prices also reflects higher vegetable oil prices, due to continued robust global import demand for palm oil, firm feedstock demand for soy oil from the biofuel sector in the Americas and tightening supplies for sunflower in the Black Sea region.

2 The data is sourced from Paul Zimnisky Diamond Analytics.

3 On 6 August 2025, President Trump signed an executive order imposing an additional 25 percent tariff on India over its purchases of Russian oil and raising the total tariff on Indian imports to the US to 50 percent.

Chart 3.2: Food Price Index

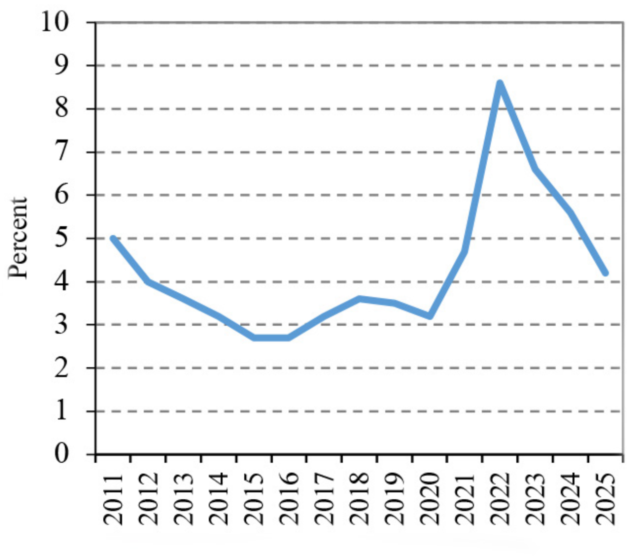


Source: FAO

Global inflation eased in the second quarter of 2025

Global inflation eased from 6.6 percent in 2023 to 5.6 percent in 2024 (Chart 3.3). Inflationary pressures eased, globally, in the second quarter of 2025 compared to the first quarter[4], mainly due to lower international commodity prices, particularly oil, lagged effect of tight monetary policy and squeezed household budgets. Inflation for advanced economies decreased from 3.4 percent in the first quarter of 2025 to 3.2 percent in the second quarter. Meanwhile, inflation for emerging market economies decreased from 3.4 percent to 2.9 percent in the same period.

Chart 3.3: Global Inflation

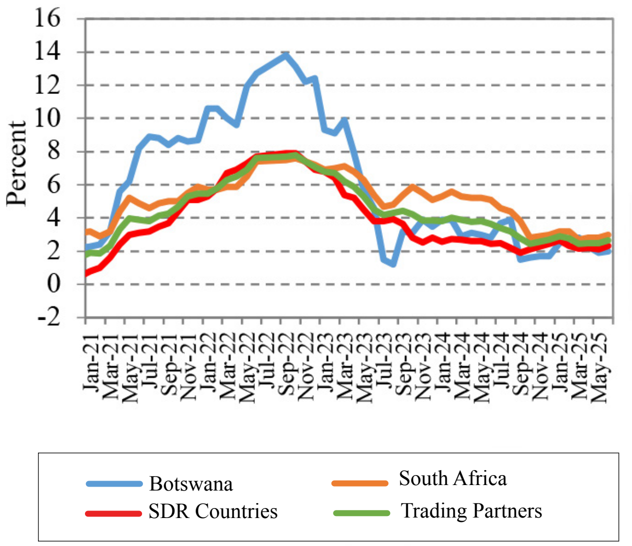


Source: IMF July 2025 WEO Update

In South Africa, headline inflation decreased from 3 percent in the first quarter of 2025 to 2.8 percent in the second quarter of 2025, breaching the lower bound of the South African Reserve Bank (SARB)'s target range of 3 – 6 percent. Headline inflation was 3 percent in June 2025, an increase from 2.8 percent recorded in May 2025.

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

Chart 3.4: Botswana Inflation and International Inflation



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

Monetary policy divergence across the globe

In the most recent policy reviews, there was divergence in the monetary policy decisions (Table 3.2). In July 2025, the US Federal Open Market Committee (FOMC) maintained the policy rate at 4.25 – 4.5 percent for a fifth consecutive meeting. In assessing the appropriate stance of monetary policy, the FOMC will continue to monitor the implications of incoming information for the economic outlook. The Committee is prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment. In addition, the Committee will continue reducing its holdings of treasury securities and agency debt, as well as agency mortgage-backed securities.

The Bank of England (BoE) decreased its policy rate by 25 basis points to 4 percent in August 2025, the lowest since March 2023. The BoE indicated that it would continue to closely monitor the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

4 The quarterly inflation estimates are sourced from Bloomberg.

The European Central Bank (ECB) maintained the deposit facility, the main refinancing operations, and the marginal lending facility at 2 percent, 2.15 percent and 2.4 percent, respectively, in July 2025, marking the end of its easing cycle after eight cuts over the past year that brought borrowing costs to their lowest levels since November 2022. The Governing Council implemented a wait-and-see approach, as they evaluate the impact of lingering trade uncertainty and the potential fallout from proposed US tariffs on economic growth and inflation. The Council emphasised that future policy decisions will be dependent on economic data, especially in an environment of exceptional uncertainty; underlying inflation trends; and the effectiveness of monetary policy.

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

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

The Central Bank of Russia (CBoR) reduced the key policy rate by 200 basis points to 18 percent in July 2025, as inflationary pressures eased, although remaining high. The CBoR observed that disinflationary pressures had intensified beyond expectations since the last policy decision in June, necessitating looser financial conditions to attend to growth concerns. The CBoR indicated that achieving the inflation target would require a long period of maintaining tight monetary conditions in the economy.

In July 2025, the People's Bank of China (PBoC) maintained the one year and five-year Loan Prime Rates (LPR) at 3 percent and 3.5 percent, respectively, following a 10 basis points cut in May 2025. The decision came amid mounting signs of slowing growth momentum, weighed down by US tariffs, sluggish domestic demand and a prolonged property slump.

The SARB reduced the repo rate by 25 basis points to 7 percent at its July 2025 meeting and judged risks to the inflation outlook to be balanced. Overall, the SARB's MPC indicated that future policy decisions will be outlook dependent, responsive to data developments and sensitive to the balance of risks to the forecast.

In August 2025, the Reserve Bank of India (RBI) maintained the policy rate at 5.5 percent, following a larger-than-expected 50 basis points cut in June 2025. The borrowing costs are at their lowest level since August 2022, aiming to counter slowing economic growth amid easing inflation and the recent US tariff announcement, which imposed a 25 percent duty on Indian imports. Given the cumulative 100 basis points easing of the policy rate since February 2025, the RBI judged that monetary policy had limited space to further support growth, hence the monetary policy stance was maintained as neutral.

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	August 2025	1.9	No change	No indication of the direction of policy.
SARB	July 2025	7.00	Decreased by 25 basis points	According to the latest (July 2025) projection, inflation is forecast at 3.3 percent for 2025 and 2026. The risks to inflation in the medium-term are assessed to be balanced. However, the SARB is expected to respond to new data and risks.
US Federal Reserve	July 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 will be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.
BoE	August 2025	4.00	Deceased by 25 basis points	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	July 2025	2.15	No change	The Council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.
BoJ	July 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	July 2025	3.10	No change	The PBoC is likely to keep the LPR low until the economy has recovered.
Brazil	July 2025	15.00	No change	The central bank highlighted that future interest rate adjustments will depend on inflation dynamics, projections, expectations and the balance of risks.
India	August 2025	5.50	No change	RBI judged that monetary policy had limited space to further support growth, hence maintained the monetary policy stance as neutral.
Russia	July 2025	18.00	Deceased by 200 basis points	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

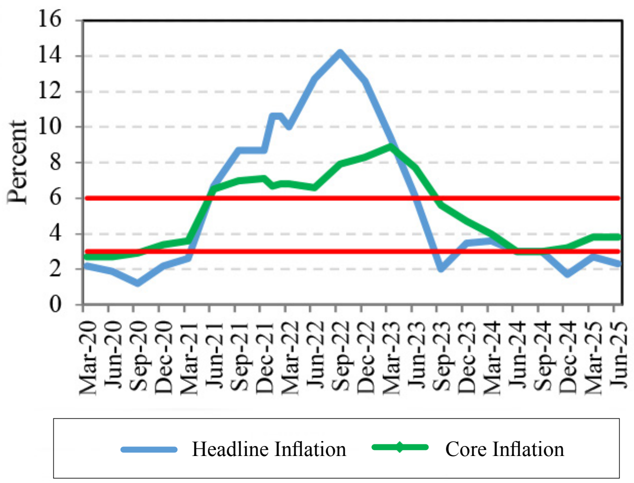
3.2 Domestic inflation environment

Headline inflation decreased in the second quarter of 2025

Headline inflation decreased in the second quarter of 2025, averaging 2.1 percent compared to 3 percent in the second quarter of 2024 (Chart 3.5 and Table 3.3). The decrease in inflation in the second quarter of 2025 was mainly on account of the deceleration in the rate of annual price changes of the transport category, emanating from the base effects associated with the increase in domestic fuel prices in 2024, as well as the decrease in water tariffs, which decreased inflation by 0.48 percentage points and 0.23 percentage points, respectively. In addition, the decrease in inflation was on account of subdued domestic demand amid the ongoing recession.

Similarly, headline inflation decreased from 2 percent in June to 1.1 percent in July 2025, remaining below the lower bound of the medium-term objective range of 3 – 6 percent, and was significantly lower than the 3.7 percent recorded in July 2024. The decrease in inflation between June and July 2025 was mainly on account of the adjustment in electricity tariffs effected in July 2025[5], which reduced headline inflation by 0.64 percentage points. Furthermore, inflation decreased on account of the deceleration in the annual price changes of some categories of goods and services, notably Food & Non-Alcoholic Beverages and Transport.

Chart 3.5: Botswana Headline and Core Inflation



Source: Statistics Botswana and Bank of Botswana

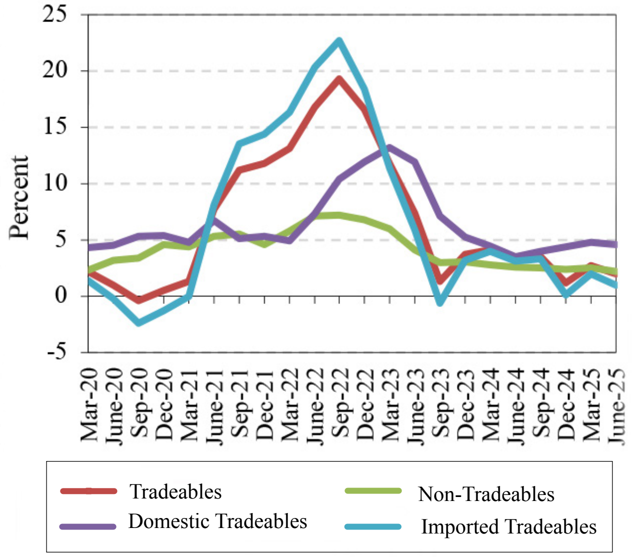
Note: Core Inflation is headline inflation excluding administered prices.

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

Inflation for domestic tradeables increased from an average of 3.5 percent in the second quarter of 2024 to an average of 4.6 percent in the second quarter of 2025 (Chart 3.6), due to a broad-based increase in food prices. Imported tradeables inflation decreased from an average of 3.1 percent to an average of 1 percent in the same period, mainly on account of the base effects associated with the increase in domestic fuel prices in 2024. As a result, all tradeables inflation decreased from an average of 3.2 percent in the second quarter of 2024 to an average of 2 percent in the second quarter of 2025. Inflation for non-tradeables also decreased from an average of 2.6 percent to 2.2 percent in the same period.

Meanwhile, in July 2025, domestic tradeables, non tradeables, imported tradeables and all tradeables inflation decreased to 4 percent, 0.3 percent, 0.7 percent and 1.6 percent, respectively.

Chart 3.6: Inflation for Tradeables and Non-Tradeables



Source: Statistics Botswana

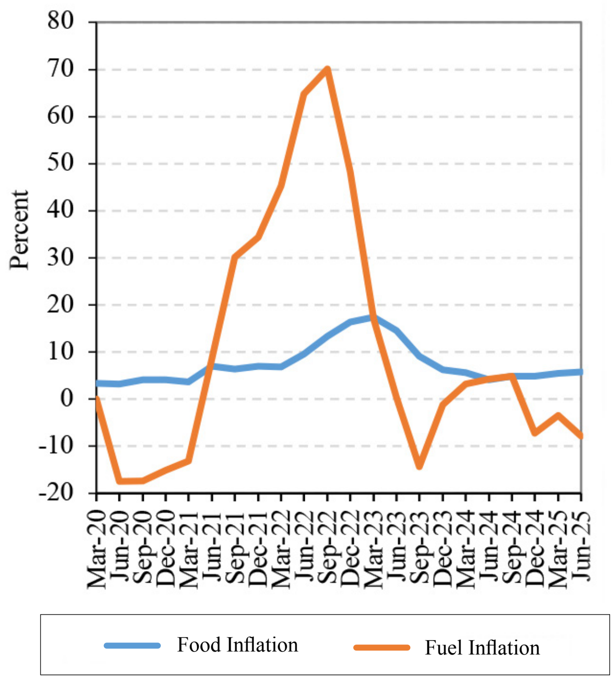
Generally, non-tradeables inflation has been on a downward trend since June 2022, mainly due to downward adjustment of some administered prices. Domestic tradeables inflation has increased since June 2024, reflecting the general increase in domestic food prices.

5 Electricity tariffs were reduced by 30 percent for domestic customers consuming less than 200 kWh per month, while for all other customer categories, the tariffs were increased by an average of 24 percent.

Divergent core inflation measures in the second quarter of 2025[6]

Inflation excluding administered prices (CPIXA) averaged 3.9 percent from 2.9 percent (Table 3.3), due to the increase in prices of food and non alcoholic beverages, as well as acceleration in prices of vehicles. Conversely, the trimmed mean inflation (CPITM) decreased to 2 percent in the second quarter of 2025, from 2.8 percent in the second quarter of 2024.

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	July 2025	Q2 2025	Q2 2024
Food and non-alcoholic beverages	13.6	4.3	5.7	4.1
Alcoholic beverages and tobacco	4.3	6.4	6.8	4.9
Clothing and footwear	6.0	3.4	3.6	4.4
Housing, water, electricity, gas and other fuels	17.5	-4.2	0.2	0.4
Furnishing, h/h equipment and routine maintenance	4.9	3.4	2.7	3.4
Health	3.4	2.3	2.2	0.8
Transport	23.4	-1.9	-1.8	2.5
Communications	6.9	0.1	0.1	0.4
Recreation and culture	2.8	2.3	2.6	1.5
Education	4.6	2.6	2.6	1.5
Restaurants and hotels	3.7	2.8	2.8	4.0
Miscellaneous goods and services	9.0	7.5	7.8	8.4
Annual Inflation (All items)	**100.0**	**1.1**	**2.1**	**3.0**
CPITM		1.4	2.0	2.8
CPIXA		3.5	3.9	2.9

Source: Statistics Botswana and Bank of Botswana calculations

6 Food inflation increased from an average of 5.4 percent in the first quarter of 2025 to an average of 5.7 percent in the second quarter of 2025, while fuel inflation decreased from an average of -3.5 percent to an average of -7.8 percent in the same period. Meanwhile, food inflation decreased from 5.4 percent in June 2025 to 4.3 percent in July, while fuel inflation was unchanged at -7.8 percent, in the same period (Chart 3.7).

Box 1: Monetary Policy Inflation Objective Range for Botswana

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

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

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

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

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

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

Some Inflation Targets in SADC and Africa

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

Source: Central Bank Websites

1 Consumer price index (CPI) represents the cost of living of a representative household in Botswana relative to a chosen/specified base period. The current base period is September 2018. The index is constructed by Statistics Botswana based on regular monthly surveys of prices of a basket of goods and services across the country. In principle, the changes in consumer prices (inflation) are a result of demand and supply dynamics.

2 Phetwe M., and Molefhe L. (2016). Inflation and Economic Growth: Estimation of a Threshold level of inflation in Botswana. *Bank of Botswana Research Bulletin, 29(1):13–23*.

3.3 Recent domestic economic developments

GDP contracted in the first quarter of 2025

Real GDP contracted by 1.7 percent in the twelve months to March 2025, compared to a growth of 0.4 percent in the year to March 2024 (Chart 3.8). The performance mainly reflects the contraction in the mining sector and generally subdued growth for the non-mining sectors.

Non-mining GDP grew by 3 percent in the 12-month period to March 2025, compared to a lower growth of 2.4 percent in the corresponding period in 2024. The growth in non-mining GDP mainly reflected the increase in the output of the Water and Electricity; Wholesale and Retail; Human Health and Social Work; Information and Communication Technology; Public Administration and Defence; and Other Services sectors, while others, namely Construction; Transport and Storage; Real Estate; Accommodation and Food Services; Finance, Insurance and Pension Funding; Professional, Scientific and Technical Activities; Administrative and Support Service Activities; and Education sectors decelerated. Meanwhile, output in the Diamond Traders (-29.3 percent), Agriculture, Forestry and Fishing (-1.9 percent) and Manufacturing (-1.8 percent) sectors declined. The contraction in the output of the Diamond Traders sector is attributable to deteriorating global economic conditions and geopolitical events, which also led to contraction in output of the Manufacturing sector.

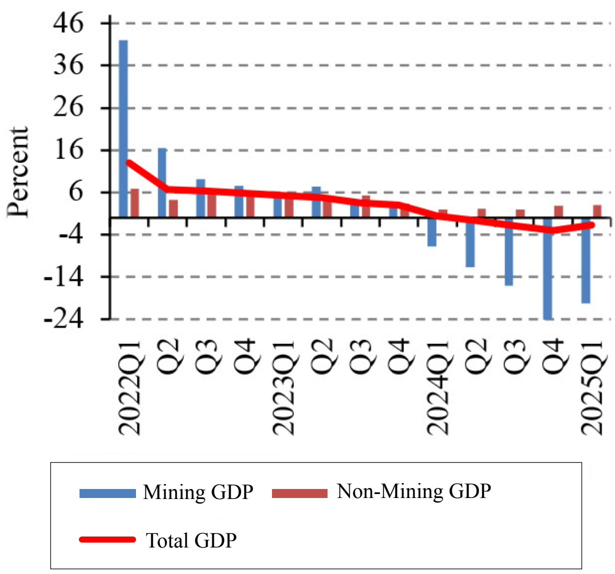
Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the ongoing economic transformation initiatives[7] so far, continuance of low productivity and prior drought conditions, as well as challenges associated with limited fiscal space. Thus, the need for concerted efforts to accelerate traction of transformation initiatives and impact of resource commitments.

Mining sector GDP contracted by 20.2 percent in the year ending March 2025, compared to a smaller decline of 6.7 percent recorded in the year to March 2024 (Table 3.4). This reflects slower growth in output across most sub-sectors, led by diamond mining, which contracted by 21.5 percent, compared to a smaller decline of 6.8 percent in the previous period. The contraction in the sector is due to deteriorating global economic conditions, and geopolitical events that have negatively impacted demand for luxury goods, such as diamonds. Furthermore, output of the mining of copper and nickel, soda-ash and salt, as well as gold and other metal ores contracted in the review period. The contraction in copper and nickel, soda-ash and salt reflect the general slowdown in global economic activity, which has dampened demand across commodity markets. The decline in output of gold is due to resource depletion, as the Mupane Mine has reached the end of its lifespan and there has not been any production in the past twelve months. Meanwhile, output growth of other mining and quarrying sub-sector decelerated. However, output of mining of coal and mining support service activities increased in the year to March 2025, consistent with the increase in local electricity production and the continued exploration for new minerals in the review period, respectively.

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.

Meanwhile, Statistics Botswana reported a contraction of 0.3 percent in real GDP, year year-on-year in March 2025, compared to a contraction of 5.2 percent in the corresponding period in 2024[8].

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 4.9 percent in the twelve-month period to March 2025, compared to a growth of 6 percent in the corresponding period in 2024. The deceleration in growth in GFC was largely due to a slower growth in the output of individual consumption[9], which decelerated to 3.8 percent from 12 percent in the previous period.

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

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

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

Household Final Consumption (HFC) grew by 1.7 percent in the 12-month period ending March 2025, down from a growth of 4.7 percent recorded in the corresponding period ending in March 2024. The slowdown in HFC was due to a deceleration in household consumption expenditure sub-sector, attributable to a reduction in food imports, as well as reduced spending in health and telecommunications by households.

Gross Fixed Capital Formation (GFCF) increased by 4.9 percent in the year to March 2025, compared to a slightly lower growth of 4.4 percent in the previous year. The increase in GFCF was due to the expansion in investment in plant, machinery and equipment.

Exports of goods and services contracted by 14.1 percent in the 12-month period to March 2025, compared to a lower decrease of 8.3 percent in the corresponding period ending March 2024. The imports of goods and services increased by 9.4 percent in the year ending March 2025, compared to a lower growth of 3.2 percent in the corresponding period ending March 2024.

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

	2024 Q1	2024 Q4	2025 Q1
Total GDP	**0.4**	**-0.3**	**-1.7**
By Sector:			
Mining and Quarrying	-6.7	-24.1	-20.2
Non-Mining	2.4	2.8	3.0
Agriculture, Forestry & Fishing	2.1	-0.3	-1.9
Manufacturing	0.5	-2.5	-1.8
Water and Electricity	-20.3	20.3	15.5
Construction	2.6	1.4 (1.5)	1.4
Wholesale & Retail	4.1	5.8	6.1
Diamond Traders	-40.5	-34.1	-29.3
Transport and Storage	3.3	1.7	0.6
Accommodation & Food Services	4.4	4.4	3.9
Information & Communication Technology	3.2	3.6	3.4
Finance, Insurance & Pension Funding	6.8	4.2 (4.1)	4.3
Real Estate Activities	5.2	3.6	3.6
Professional, Scientific & Technical Activities	5.3	4.2	3.8
Administrative & Support Activities	4.6	3.3	3.2
Public Administration & Defence	5.2	5.2	5.2
Human Health & Social Work	4.0	5.0	4.6
Education	6.0	4.0 (5.4)	5.4
Other services	3.3	4.0 (3.5)	4.1
By Type of Expenditure:			
Government Final Consumption	6.0	4.9 (5.8)	4.9
Household Final Consumption	4.7	1.9	1.7
Gross Fixed Capital Formation	4.4	5.0 (5.1)	4.9
Exports of Goods and Services	-8.3	-4.4 (-10.4)	-14.1
Imports of Goods and Services	3.2	18.1 (12.3)	9.4

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

Diamond production decreased

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

Production at Lucara Diamond Corporation (Karowe Mine) increased by 10.9 percent to 90 500 carats in the first quarter of 2025, from 81 611 carats produced in the corresponding period in 2024. The increase was mainly attributable to a higher number of special stones recovered (greater than 100 carats in weight). However, the volume of carats sold declined by 22.1 percent, suggesting that a portion of the output was added to stockpiles during the period.

Budget deficit narrows in the 2024/25 fiscal year

The budget outturn for 2024/25 indicates a lower deficit of P7.8 billion (2.8 percent of GDP), compared to a deficit of P11.1 billion (4.2 percent of GDP) presented in the original budget (Table 3.5). The lower budget deficit in 2024/25 reflects expenditure cuts (both recurrent and development), consistent with fiscal consolidation in response to reduced government revenue. Total expenditure and net lending decreased by 8.9 percent to P77.7 billion, while total revenue and grants declined by 5.7 percent to P69.9 billion. This highlights the continued pressure on government finances.

For 2025/26, the expenditure budget is expected to increase by 25.6 percent to P97.6 billion, compared to P77.7 billion realised in 2024/25, mainly driven by a 21.9 percent increase in recurrent expenditure (75.8 percent of total spending). The proposed budget allocations seek to address the imperatives of economic transformation and inclusive growth. Nonetheless, the expansionary budget for fiscal year 2025/26 is likely to be revised downwards in line with the 2024/25 budget outturn, to reflect current economic challenges. Meanwhile, the budget prioritises infrastructure development to unlock economic potential and facilitate transitioning to a high-income status. However, this would require an annual growth rate of at least 7 percent during the remainder of the Vision 2036 period, which is, however, likely to be constrained by the current prolonged slump in the diamond market.

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

For the first quarter of fiscal year 2025/26, total revenue amounted to P18.7 billion, representing an increase of 8.6 percent compared to P17.2 billion recorded in the corresponding period of 2024/25. Total expenditure and net lending stood at P20.2 billion, reflecting a decline of 9 percent from P22.2 billion recorded in the first quarter of 2024/25. As a result, the overall fiscal deficit narrowed to P1.1 billion in the first quarter of 2025/26, compared to a deficit of P5 billion recorded in the previous corresponding period. The lower budget deficit in the first quarter of 2025/26 is in line with government's fiscal consolidation efforts.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure and Net Lending	Budget Surplus/ Deficit
2023/24 Q1	24 046	19 215	4 831
2023/24 Q2	17 520	22 110	(4 590)
2023/24 Q3	16 174	21 078	(4 904)
2023/24 Q4	16 519	22 965	(6 445)
2023/24	**74 152**	**85 366**	**(11 107)**
2024/25 Q1	17 188	22 154	(4 966)
2024/25 Q2	13 579	19 124	(5 545)
2024/25 Q3	16 054	17 763	(1709)
2024/25 Q4	23 068	18 697	4 371
2024/25	**69 889**	**77 738**	**(7 849)**
2025/26 Q1	18 659	20 168	(1 051)

Source: Cash Flow Unit, Ministry of Finance

Labour Force and Wage Developments Trends[10]

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.

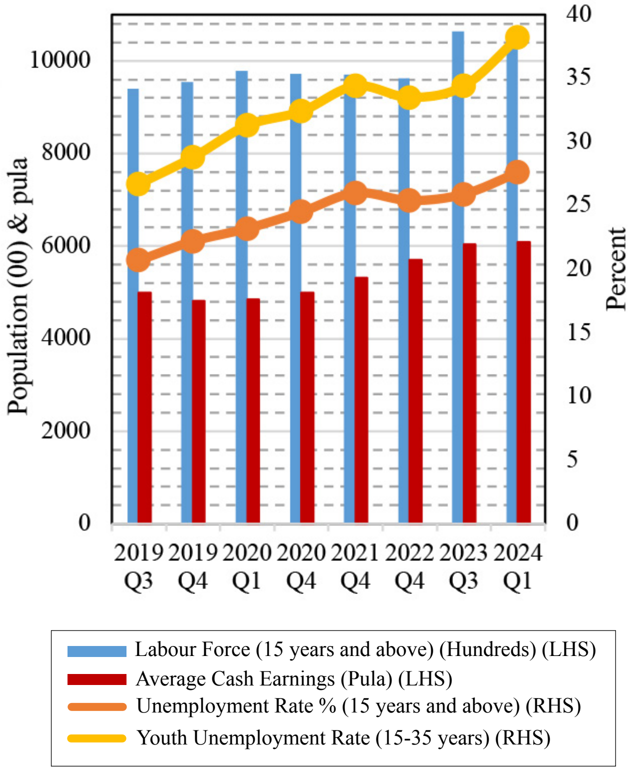
Regarding other indicators, the survey shows that Government remains the largest employer, with employment in public administration accounting for 30.3 percent of total formal sector employment. This is followed by education at 13.2 percent, as well as wholesale and retail and repair of motor vehicles 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.

As the economy has since contracted in 2024 and the first quarter of 2025, the employment situation is now expected to worsen. The struggles in the diamond industry, a cornerstone of Botswana's economy, are having a ripple effect, putting immense pressure on mining-related jobs and a range of secondary industries. This is likely to reverse any small gains in formal sector employment that were seen in early 2024.

Looking ahead, the trend is likely to be one of increased unemployment and underemployment. The private sector, facing reduced demand and profits, will likely resort to hiring freezes or layoffs. Furthermore, with a contracting economy putting pressure on government revenue, the public sector, the largest employer, may not be able to sustain its current employment levels, making a hiring freeze highly probable. This will further exacerbate the challenge of absorbing new entrants into the labour force. The combination of a shrinking economy and pre-existing structural issues means that Botswana's employment landscape is set to face a period of significant stress, with policymakers facing the difficult task of stimulating job creation in a constrained environment.

Chart 3.9: Trends in selected Labour Force Indicators



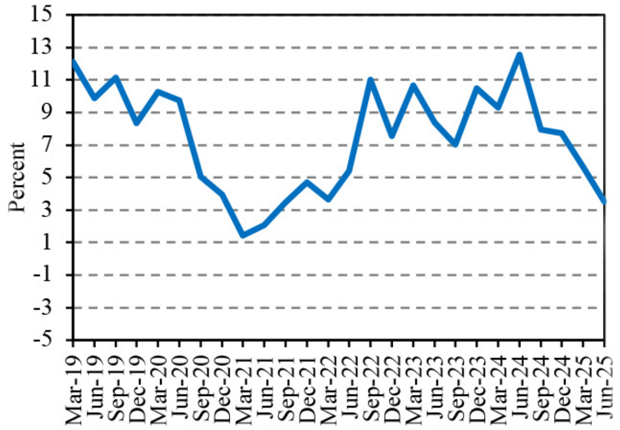
10 The QMTS is conducted by Statistics Botswana and its report is supposed to be published on a quarterly basis. However, due to some challenges, including movement restrictions to contain the COVID 19 pandemic and financial constraints, publication of the QMTS report has not been consistent, resulting 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.

3.4 Monetary developments

Banking sector assets growth decelerated in June 2025

Annual banking sector assets' growth decreased from 12.6 percent in June 2024 to 3.5 percent in June 2025 (Chart 3.10). The lower growth was mainly driven by lower balances for BoBCs, balances due from foreign banks and other assets. Loans and advances, which accounted for the largest proportion of commercial banks' assets (61.9 percent), increased by 10.3 percent in June 2025, higher than the 3.9 percent increase in June 2024. Overall, the growth in banking sector assets was predominantly funded by customer deposits, although they decreased by 0.4 percent in the same period.

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



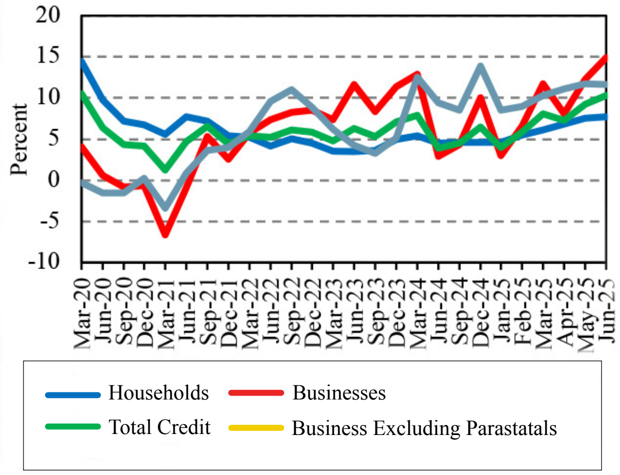
Source: Bank of Botswana

Average daily market liquidity increased from P1.718 billion in June 2025 to P3.745 billion in July 2025. The increase in market liquidity was mainly attributable to net Government expenditure spurred by SACU funds, as well as loan inflows. The Bank continues to intervene appropriately by injecting liquidity through repos and the Standing Credit Facility, as the market continues to experience shortage of liquidity. There has been early success with introducing longer-term repos of up to 30 days, which has helped stabilise the market and provide liquidity over longer periods.

Credit growth accelerated in the year to June 2025

Commercial bank annual credit growth accelerated from 3.9 percent in June 2024 to 10.3 percent in June 2025 (Chart 3.11), largely attributable to the increased growth in lending to the business sector and households.

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



Source: Bank of Botswana

Lending to the business sector increased by 14.9 percent in the year to June 2025, higher than the 2.9 percent expansion in the corresponding period in 2024. Credit to parastatals increased by 60.6 percent in the year to June 2025, compared to the 43.8 percent decrease in the twelve months to June 2024, due to increased utilisation of overdraft facilities. Credit to businesses excluding parastatals increased by 11.6 percent in the year to June 2025, higher than the 9.4 percent expansion in the corresponding period in 2024, mainly attributable to loan uptake and increase in utilisation of overdraft facilities by some companies in various sectors including mining, trade, water and electricity, tourism and hotels as well as business services.

Annual growth in household credit increased by 7.7 percent in the year to June 2025, higher than the 4.5 percent expansion in the year to June 2024. The growth in household credit was attributable to the increase in the growth of lending for unsecured personal loans (from 6.6 percent to 10.9 percent), motor vehicle acquisition (from 6.1 percent to 7.7 percent) and property (from -0.1 percent to 0.5 percent) due to loan disbursements. However, there was a decrease in lending for credit cards (from 1.5 percent to -0.2 percent) during the period under review. The share of the household sector in total lending by commercial banks was 63.2 percent in June 2025, compared to 64 percent in June 2024.

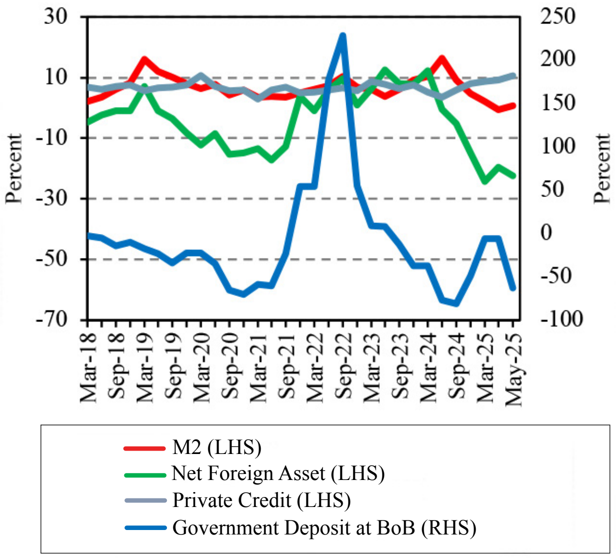
Despite these developments, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative, indicating limited risks of credit growth that could overheat the economy. However, growing concerns about the fiscal position are likely to dampen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

According to the June 2025 Credit Conditions Survey (CCS)[11] commercial banks maintain a cautiously optimistic outlook for the June–August 2025 period, expecting modest loan growth in both secured corporate and unsecured credit card lending. In contrast, secured household lending and unsecured non-credit card lending are expected to decline slightly. Despite the expected growth in certain segments, overall credit availability is projected to decrease. This decline is largely attributed to tighter liquidity conditions and less favourable credit pricing.

Money supply growth decelerated in May 2025

M2 grew by an annual rate of 0.8 percent in May 2025, lower than the 18 percent in the corresponding period in 2024 (Chart 3.12). The deceleration in growth of money supply was mainly due to the decrease in net foreign assets, which was partially offset by the lower increase in net domestic claims (credit to the private sector increased but was offset by increase in net claims on central government).

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



Source: Bank of Botswana

The nominal BoBC yields decreased

The 7-day nominal BoBC yield (MoPR) decreased from 2.32 percent in the second quarter of 2024 to 1.90 percent in the second 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 -0.63 percent to -0.16 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 June and July 2025. The real rate of interest for the 7-day BoBC increased from -0.10 percent in June to 0.79 percent in July 2025, reflecting the decrease in inflation.

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 2.24 percent in the second quarter of 2025, a decrease from an average of 2.41 percent in the corresponding period in 2024. Conversely, the real rate of interest for the 1-month paper increased from an average of -0.46 percent to an average of 0.17 percent in the same period, reflecting the decrease in the inflation rate. Meanwhile, the stop-out yield on the 1-month BoBC decreased, month on month, from 2.24 percent in June 2025 to 2.22 percent in July. The real rate of interest for the 1-month paper increased from 0.24 percent to 1.13 percent in the same period, reflecting the decrease in inflation.

Credit ratings

S&P Global Ratings and Moody's affirmed Botswana's sovereign credit rating but revised down the economic outlook

On 14 March 2025, S&P Global Ratings (S&P) published an update of the sovereign credit rating for Botswana, which affirmed the country's 'BBB+' long-term and 'A-2' short-term foreign and domestic currency sovereign credit ratings but revised down the economic outlook from stable to negative. Similarly, 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 Government of Botswana's long-term local and foreign currency issuer ratings at "A3" for 2025 but downgraded the outlook on the country from stable to negative. Botswana's credit ratings, therefore, remain firmly investment grade. The agencies indicated that the negative outlook is due to weak global demand for diamonds and depressed prices that will continue to suppress Botswana's exports and fiscal position, thus, delaying government's fiscal consolidation agenda and the rebuilding of buffers. However, the ratings could be raised if global demand and prices for diamonds rebound, leading to a sustainable improvement in the country's fiscal and external flows. Conversely, a rating downgrade could arise if Botswana's fiscal and external performance proves materially weaker than anticipated. S&P conducted its routine sovereign credit rating review for Botswana on 11 – 13 August 2025 and is expected to release the updated ratings in early September. Meanwhile, consultations by Moody's are likely to take place in mid-September 2025.

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

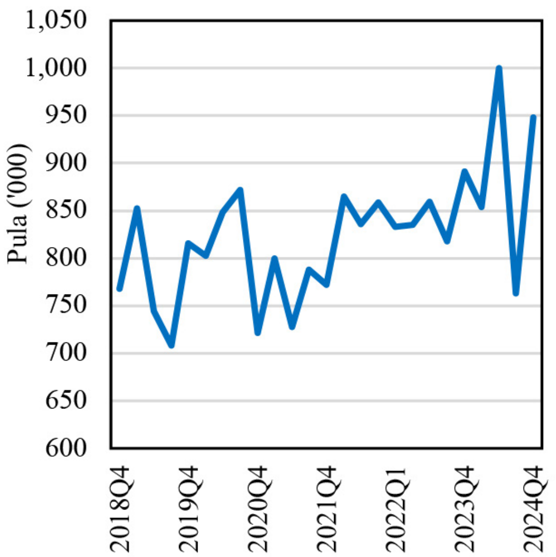
3.5 Asset market prices

Property market recovers in the fourth quarter of 2024

According to the latest (2024Q4) quarterly Riberry Report[12], the residential rental market showed signs of recovery in the fourth quarter of 2024, compared to the third quarter. The report indicates high demand for affordable prime located houses (up to P5 000 for rentals and P400 000 - P800 000 for purchase), amid limited supply. For medium end to upper market houses, the supply increased from early 2022, plateaued in early 2024, and decelerated by mid-to-late 2024. The average price for residential properties sold in the fourth quarter of 2024 was P947 639, a 24.3 percent increase compared to the third quarter of 2024, attributable to the increase in the number of high valued properties traded in the quarter under review (Chart 3.13).

However, the current liquidity squeeze is expected to put significant pressure on the property market moving forward. While the fourth quarter of 2024 showed some positive trends, a shortage of credit in the banking system will likely lead to tighter mortgage lending conditions and reduced buyer activity, particularly in the high-end market. According to the Bank's Credit Conditions Survey for the second quarter of 2025, some commercial banks reported slightly reduced demand for residential property loans by households, while for others, demand remained unchanged during the March – May 2025 period. The Survey projects a further decline in household demand for residential property loans for the June-August 2025 period, citing tighter lending conditions. This projected decrease in demand for residential property loans may translate into reduced demand for residential properties and, thus, exert downward pressure on property prices.

Chart 3.13: Botswana Average Residential Property Prices (Net)



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

The demand for office space remains reasonable and has improved slightly within the Central Business District, Showgrounds and Government Enclave, as the Government has occupied some properties which were vacant. However, ongoing construction of office space is limited, and this will most likely lead to excess demand for the same, in the future.

The retail market around Gaborone continues to experience steady demand, with two proposed regional shopping centres 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 local tenants.

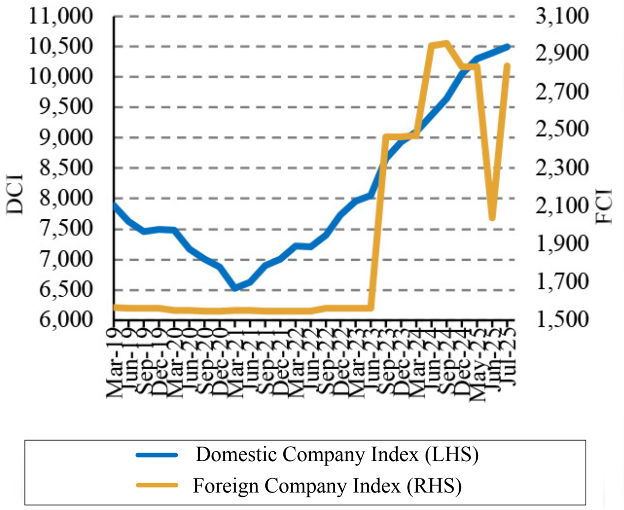
The domestic stock market index increased, while the foreign companies index decreased in July 2025

The Domestic Companies Index (DCI) increased by 9.6 percent in the twelve months to July 2025, albeit lower than the increase of 16.1 percent in the year to July 2024 (Chart 3.14). The lower growth of the DCI during the period under review can be attributed to the significant downturn in the diamond market and the economic contraction.[13]However, the growth of 9.6 percent in July 2025 was mainly due to the higher share prices for BBS Bank Limited, Standard Chartered Bank, Sefalana and Choppies, which increased by 40 percent, 31.3 percent, 27.1 percent and 34.6 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) decreased by 3.8 percent in the year to July 2025, compared to an increase of 86.8 percent in the corresponding period in 2024 (Chart 3.14). The notable decline in the FCI during the period under review is due to the significant drop in the price for Anglo American PLC stock in October 2024, which accounts for over 80 percent of Botswana Stock Exchange Limited market capitalisation. The drivers behind the price drop included falling commodity prices due to a global industrial slowdown, operational challenges in key mining sites, significant asset impairments, restructuring plans and logistical issues in South Africa.

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

Chart 3.14: Stock Market Indices



Source: Botswana Stock Exchange

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

The Bank introduced reforms to monetary policy operations in April 2022. The reforms included the designation of the Bank of Botswana Certificate (BoBCs) rate as the anchor policy rate, Monetary Policy Rate (MoPR), replacing the Bank Rate and the introduction of an interest rate corridor with a 200-basis points width. The interest rate 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 noticeable improvement in policy transmission, with the interest rate structure operating as expected. The overnight (uncollateralised) interbank trading continues to be priced within the interest rate corridor and around the MoPR. 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 Treasury Bills (T-Bills) rates, have responded positively to the changes in the MoPR. There is a strong correlation between the 3-month T-Bill rates and MoPR movements. Other drivers of short-term T-Bill yields are inflation expectations, as seen in 2022 when rates trended upwards before correcting and aligning with falling inflation levels throughout the second half of 2023. The rate cuts in mid-2024 had limited impact on T-Bill yields due to the ample excess liquidity in the banking system. However, recently liquidity levels declined substantially from the third quarter of 2024, resulting in yields picking up and diverging from the MoPR. This divergence also occurred with deposit and lending rates, offered by commercials banks, in the last quarter of 2024 and early 2025. The sharp decline in liquidity prompted the Bank of Botswana to react through reducing the Primary Reserve Requirement rate to zero and increasing the tenor of the Repos to a maximum of 1 month. These measures are expected to relieve pressure caused by dipping liquidity levels.

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 securities are non-responsive to the monetary policy stance, mainly owing to the current liquidity situation. 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, other than driven by MoPR and expectations for future MoPR rates. As long as the exchange rate policy is expected to endure, foreign investors 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). There does indeed appear to be a good correlation for bond yields between Government of Botswana bonds, and the Pula-basket weighted average yield curve.

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 distorts 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

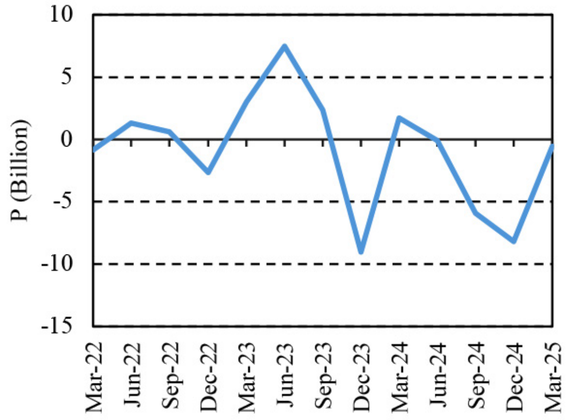
The Balance of Payments (BoP) was in deficit in the first quarter of 2025

The overall BoP recorded a deficit of P2 billion during the first quarter of 2025, the same level as in 2024. The deficit was primarily attributable to the decline in diamond exports.

Current account in deficit during the first quarter of 2025

The current account was in a deficit of P0.6 billion in the first quarter of 2025, compared to a surplus of P1.7 billion during the corresponding period in 2024 (Chart 3.15). The deficit was on account of a negative trade balance. Exports of goods declined by 17 percent, from P17.6 billion to P14.6 billion, while imports of goods declined by 2.1 percent, from P21.4 billion to P20.5 billion, resulting in a trade deficit of P5.9 billion. The decrease in exports was largely due to the contraction in diamond trade. Meanwhile, the secondary income account, supported by SACU revenues, increased from P6.8 billion to P6.9 billion, mitigating the current account deficit.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

Diamond exports, which stood at P9.6 billion and accounted for 66 percent of total exports of goods in the first quarter of 2025, decreased by 27.8 percent from P13.3 billion and a share of 74.7 percent during the corresponding quarter in 2024. The decrease in diamond exports was due to weak global demand largely driven by changing market dynamics as well as economic challenges in key markets, such as China and the US.

Other commodities that contributed to a decline in exports include machinery and electrical equipment (5.4 percent), salt and soda ash (10 percent), live cattle (66.4 percent), and meat and meat products (62 percent). However, these commodities collectively accounted for about 7.7 percent of total exports during the quarter. In contrast, exports that increased include copper (24.1 percent), coal (40.6 percent), plastic and plastic products (5.6 percent), vehicles and transport equipment (21.2 percent), textiles (12.7 percent), iron and steel products (31 percent) and other goods (7 percent).

The decrease in imports was driven by the following commodities: fuel (11.8 percent), diamond (32.2 percent), chemicals and rubber products (10.5 percent), wood and paper products (0.1 percent) and salt ores and related products (7.3 percent).

In May 2025, the merchandise trade was in a surplus of P0.9 billion, with total exports amounting to P8.7 billion and imports to P7.8 billion.

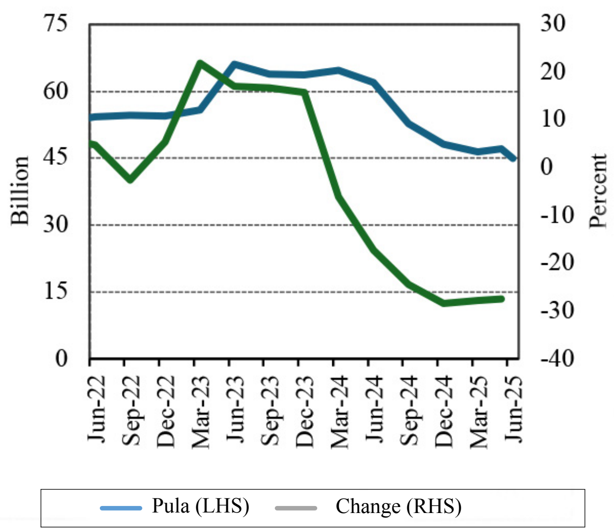
The financial account recorded a net inflow in the first quarter of 2025

The financial account recorded a net inflow of P3.6 billion during the first quarter of 2025, compared to a net outflow of P6.8 billion during the same period in 2024. The net inflow reflected a contraction in foreign assets holding, potentially resulting from the repatriation of assets and poor performance of global capital markets during the first quarter of the year.

Foreign exchange reserves decreased in June 2025

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.

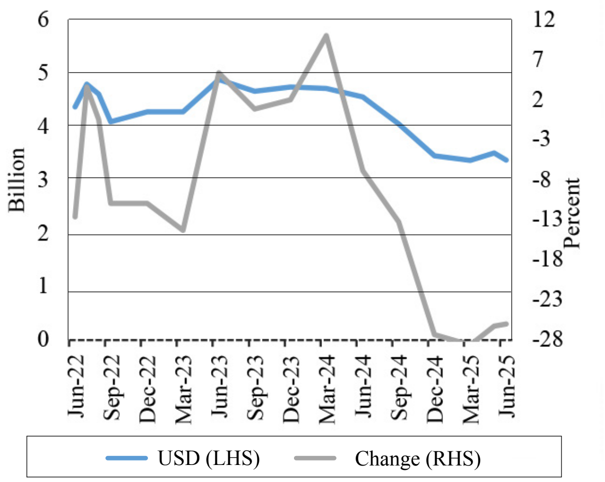
Chart 3.16: Foreign Exchange Reserves in Pula and Annual Percentage Change



Source: Bank of Botswana

In foreign currency terms, the foreign exchange reserves were estimated at USD3.4 billion, a 26.1 percent decline from USD4.6 billion (Chart 3.17) and SDR 2.5 billion, a 28.6 percent decline from SDR3.5 billion during the same period. The level of foreign exchange reserves in June 2025 was equivalent to 5.7 months of import cover of goods and services.

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



Source: Bank of Botswana

3.7 Exchange rate developments

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

The recent adjustments to Botswana's exchange rate policy have important implications for market participants. The widening of the foreign exchange trading margins from ±0.5 percent to ±7.5 percent introduces greater variability in the exchange rates quoted by commercial banks. As a result, importers requiring foreign currency may experience increased volatility and potentially higher costs, particularly during periods of elevated demand or decreased market liquidity. This added uncertainty necessitates more proactive foreign exchange risk management by importing companies. Conversely, exporters stand to benefit from the broader trading margins. The increased flexibility allows them to strategically time their currency conversions and negotiate more favourable exchange rates when converting foreign earnings into Pula. This could enhance export revenues and improve profitability, especially in a depreciating Pula environment. Overall, these policy measures aim to encourage a more active and competitive interbank foreign exchange market, thereby reducing the commercial banks' day-to-day reliance on the Bank of Botswana for foreign currency liquidity. In doing so, the adjustments support the Bank's broader objective of preserving official foreign exchange reserves, which have come under pressure due to elevated import demand and constrained external inflows.

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

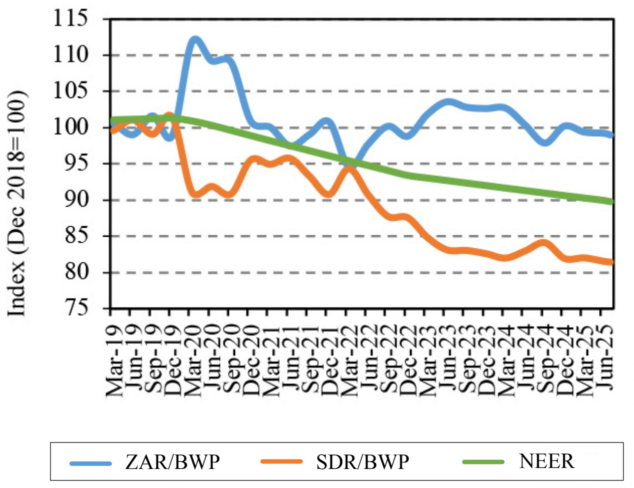
In the twelve months to July 2025, the nominal Pula exchange rate depreciated by 1.8 percent against the SDR and 1.2 percent against the South African rand (Chart 3.18). With respect to the SDR constituent currencies, the Pula depreciated by 5.1 percent against the euro, 2.8 percent against the British pound, 2.2 percent against the Japanese yen and 0.1 percent against the Chinese renminbi, while it appreciated by 0.5 percent against the US dollar.

During the same review period, the South African rand depreciated by 0.6 percent against the SDR and recorded mixed performance against the SDR constituent currencies. Specifically, it depreciated by 3.9 percent against the euro, 1.6 percent against the British pound and 1 percent against the Japanese yen, while it appreciated by 1.7 percent against the US dollar and 1.2 percent against the Chinese renminbi.

The demand for the South African rand weakened in the year to July 2025, as investors shifted away from risky emerging market assets toward safer havens. This was triggered by South Africa's failure to conclude a favourable trade deal with the United States ahead of the 1 August 2025 deadline. Despite intensive negotiations, including a proposal to purchase US liquefied natural gas and commit USD 3.3 billion in investments into American industries, the Trump administration confirmed 30 percent reciprocal tariffs on South African exports. While the reduction from the initial threat of 35 percent lessens the impact on South African exports, the tariff remains restrictive for trade. In addition, President Trump announced a punitive 50 percent tariff specifically targeting copper exports. These measures are expected to significantly strain the country's key commodity sectors and further erode investor confidence in the rand.

In response to persistent global economic uncertainty and subdued domestic inflation, the SARB reduced its policy rate by 25 basis points to 7 percent. The rate cut is intended to ease borrowing costs and stimulate economic activity, reaffirming the SARB's commitment to supporting growth and reinforcing confidence in the rand. However, the potential benefits of this monetary easing may be dampened by the negative impact of the forthcoming US tariffs, which pose significant downside risks to trade and investor sentiment.

Chart 3.18: Nominal Exchange Rate Indices

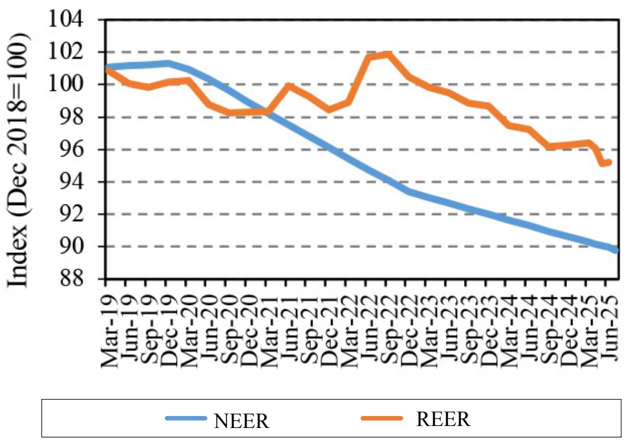


Source: Bank of Botswana

NEER depreciated in July 2025

The NEER of the Pula depreciated by 1.5 percent in the twelve months to July 2025 (Chart 3.19), consistent with the implementation of a downward rate of crawls of 1.51 percent and 2.76 percent[14].

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER depreciated in June 2025

The REER depreciated by 2.1 percent in the twelve months to June 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 2.1 percent against the SDR and 2 percent against the South African rand. It depreciated by 9.2 percent against the Japanese yen, 6.9 percent against the British pound and 6.3 percent against the euro, while it appreciated by 2.8 percent against the Chinese renminbi and 2.1 percent against the US dollar.

Box 3: The Pula Exchange Rate Policy Review - July 2025

Background of the Exchange Rate Framework Review

In the context of Botswana's crawling peg exchange rate arrangement for the Pula, the Ministry of Finance and the Bank of Botswana, through the Exchange Rate Committee (ERC), conduct a semi-annual review of the exchange rate framework. The framework is characterised by three key features: (i) a peg to a currency basket comprising the South African rand and the IMF's Special Drawing Rights (SDR), each with a 50 percent weight; (ii) symmetric margins around central exchange rates, which guide the Bank of Botswana's buying and selling of foreign currency with commercial banks; and (iii) a predetermined rate of crawl. These reviews aim to ensure that the Pula exchange rate remains aligned with the policy objective of maintaining a stable and competitive real effective exchange rate (REER). This supports the international competitiveness of Botswana's producers, thereby promoting export performance, import substitution and overall economic growth.

The effective operation of Botswana's exchange rate framework relies on the availability of adequate foreign exchange reserves, which enable the Bank of Botswana to supply foreign currency to the market on demand, at published exchange rates determined by the framework. However, the June 2025 review highlighted growing concerns about the sustainability of the current arrangement, driven by a notable decline in official foreign exchange reserves.

July 2025 Pula Exchange Rate Adjustments

Given the current economic conditions, the President approved adjustments to key exchange rate policy parameters in July 2025. The annual downward rate of crawl was revised from 1.51 percent to 2.76 percent, aimed at strengthening the international price competitiveness of domestic producers of goods and services, while remaining consistent with the medium-term inflation objective range of 3 – 6 percent. In addition, the Pula trading margins between the Bank's quoted buy and sell rates were widened from ±0.5 percent to ±7.5 percent. This adjustment is intended to reduce the incentive for commercial banks to source foreign exchange directly from the Bank, thereby promoting greater reliance on the interbank market. The Bank of Botswana will continue to play a central role in safeguarding economic stability and addressing any misalignments in the domestic foreign exchange market.

The widening of trading margins in the interbank foreign exchange market has increased the cost of acquiring foreign currency for authorised dealers, with these higher costs likely to be passed on to consumers. This can result in elevated prices for imported goods and services, contributing to inflationary pressures and eroding purchasing power, especially for essential imports. Businesses that are heavily reliant on foreign currency, such as bureaux de change and importers, may experience rising input costs and reduced competitiveness. However, this reflects a necessary trade-off: the policy aims to preserve official foreign exchange reserves and avoid the more severe consequences of reserve depletion, which could impair the country's capacity to meet external obligations and maintain currency stability. Yet, the effectiveness of these policy adjustments is being partially constrained by a market structure that does not yet fully support the smooth transmission of policy signals. Limited liquidity, shallow interbank participation, and a lack of price discovery mechanisms reduce the responsiveness of market participants to policy changes, thereby weakening the intended impact.

Despite these challenges, the adjustments are designed to promote the long-term sustainability of the external sector, preserve macroeconomic stability, and enhance the resilience of the exchange rate framework. The Exchange Rate Committee (ERC) will continue to monitor developments and consider further refinements to strengthen market functioning and support a more effective and transparent policy transmission mechanism.

Transparency and Market Information

The announcement of the Pula exchange rate parameters and any subsequent adjustments is intended to promote transparency and reinforce the credibility of the exchange rate framework. In this regard, publicly disclosing the trading margins and rate of crawl allows market participants and the public to make informed decisions and plan investments and transactions based on clear, predictable and accessible information.

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

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains broadly restrained but revised slightly upwards for 2025 in the July 2025 WEO Update compared to the April 2025 projection. The upward revision is largely on account of stronger-than-expected front-loading in anticipation of higher tariffs; lower average effective US tariff rates than announced in April; an improvement in financial conditions; and fiscal expansion in some major economies. Regarding price developments, global inflation is expected to continue to decline, due to weak demand and falling energy prices. Regionally, South Africa's growth prospects remain constrained due to structural bottlenecks and concerns over global trade tensions and US' restrictive trade policy.

Global economic growth to remain subdued

According to the July 2025 WEO Update, global output growth is forecast at 3 percent for 2025, slightly lower than 3.3 percent in 2024 and to increase marginally to 3.1 percent in 2026. The growth forecasts for 2025 and 2026 were revised upward by 0.2 and 0.1 percentage points, respectively, compared to the April 2025 projection. The upward revision was largely due to front-loading of trade activity, particularly a surge in exports to the US ahead of anticipated tariff hikes, which temporarily boosted economic activity, especially in Europe and Asia. In addition, growth improved as trade tensions eased slightly, following the US' partial reversal of some tariffs, reducing its effective tariff from 24 percent to 17 percent and a pause in escalation with China, which stabilised global trade flows. Additionally, fiscal stimulus in major economies is expected to offset some of the drag from trade uncertainty. However, the 2024/2025 forecasts are lower than the historical (2000-2019) annual average of 3.7 percent.

Overall, risks to the global economic outlook remain skewed to the downside. These include, among others, a rebound in effective tariff rates, disorderly market corrections amid higher uncertainty, worsening fiscal sustainability, geopolitical tensions, effects of global fragmentation, and weak productivity.

For advanced economies, output is projected to grow by 1.5 percent and 1.6 percent in 2025 and 2026, respectively, lower than 1.8 percent in 2024. Despite the overall subdued expansion, the 2025 and 2026 growth forecasts were revised upward by 0.1 percentage points, due to easing financial conditions, including a weaker US dollar, which helped mitigate monetary tightening pressures and support export competitiveness in some regions. In addition, the revision is on account of reduced US tariff rates, which eased trade tensions slightly, benefiting export-reliant economies like Germany and Japan. Fiscal expansion in major economies, such as the US through the One Big Beautiful Bill Act (OBBBA) tax reform, is also expected to provide a near-term boost through tax incentives for corporate investments.

UK economic growth subdued

The UK economy is forecast to grow by 1.2 percent in 2025 (0.1 percentage points higher than the April 2025 projection), from 1.1 percent in 2024. The upward revision in growth is due to an increase in exports to the US, which provided a short-term boost to economic activity in early 2025. However, growth in the UK remains subdued because of the ongoing trade disruptions, tight fiscal policies and weak business investment. In addition, labour market constraints, including rising unemployment and elevated wage pressures, further dampen growth prospects.

Output growth for US to decrease

In the US, output is forecast to slow down from 2.8 percent in 2024 to 1.9 percent in 2025 but increase slightly to 2 percent in 2026. The growth forecast for 2025 is 0.1 percentage points higher than the April projection, due to relatively lower tariffs than those announced in April 2025 and loose financial conditions. The fiscal stimulus from the OBBBA, which extended tax cuts and broader spending, offset the drag from trade uncertainty. The US economy, however, faces mounting headwinds, including tariff-induced inflation, slowing labour market momentum and weakening consumer demand as higher prices erode purchasing power.

Growth for the euro area to increase

In the euro area, economic growth is projected to increase slightly from 0.9 percent in 2024 to 1 percent in 2025, largely driven by strong GDP outturn in Ireland. The upward revision for 2025 reflects a historically large increase in Irish pharmaceutical exports to the US, resulting from front-loading and the opening of new production facilities. The forecast for 2026 is unchanged at 1.2 percent compared to the April projection, owing to the dissipating effect of past interest rate hikes and rising real incomes, which is expected to support demand overtime.

Emerging markets GDP growth to decline

Economic activity in EMDEs is projected to expand by 4.1 and 4 percent in 2025 and 2026, respectively, slightly lower than an estimated expansion of 4.3 percent in 2024, mainly due to deeper scarring effects from recent shocks, including the shift in US trade policy, cuts in development assistance financing, geopolitical tensions, narrow fiscal space and increased debt levels following the COVID-19 pandemic. The forecast was, however, revised upwards by 0.4 percentage points for 2025 and by 0.1 percentage points for 2026, compared to the April 2025 forecast, due to stronger-than-expected activity in China. Meanwhile, growth in the Sub-Saharan Africa region is expected to remain unchanged at 4 percent in 2024 and 2025 due to offsetting trends in the region's two largest economies, Nigeria and South Africa.

In India, output is expected to expand by 6.4 percent in 2025 and 2026, compared to 6.5 percent in 2024, supported by private consumption and more benign external environment, including reduced global trade tensions, which eased pressure on India's exports. The growth forecast for 2025 is 0.2 percentage points higher than the April 2025 forecast on account of easing trade tensions after the US partially rolled back tariffs. Meanwhile, output for China is forecast to grow by 4.8 percent and 4.2 percent in 2025 and 2026, respectively, lower than an estimated expansion of 5 percent in 2024. The forecast for 2025 is 0.8 percentage points higher than the previous forecast driven by stronger-than-expected economic activity in the first half of the year and the significant easing of the US-China tariffs' conflict.

Growth prospects for the South African economy remain weak

Regionally, growth prospects in South Africa are expected to remain constrained, reflecting persistent structural challenges and external headwinds that have stifled economic momentum. The subdued economic outlook is primarily attributed to inefficiencies in key industries, particularly in energy and logistics, where ongoing electricity supply instability, despite the suspension of load-shedding and severe bottlenecks in freight rail and port operations, continue to hamper productivity and export capacity. These domestic challenges are compounded by external pressures, including higher US tariffs on South African exports and broader global trade uncertainty, which have dampened demand and investment. Additionally, political tensions within the Government of National Unity and fears of retaliatory US trade actions over land reform policies have further eroded business confidence. Thus, South African output growth is forecast to remain subdued at 1 percent in 2025 and 1.3 percent in 2026, although higher than 0.5 percent expansion in 2024.

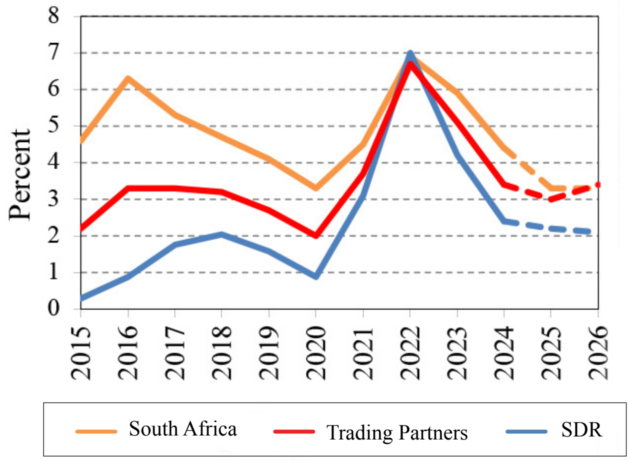
Meanwhile, in July 2025, the SARB revised downwards the growth projection for both 2025 and 2026, to 0.9 percent and 1.3 percent, from 1 percent and 1.5 percent, respectively. The downward revision is supported by weak economic performance in key sectors, such as mining and manufacturing, alongside persistent supply-side constraints, such as logistics inefficiencies and electricity disruptions.

Global inflation to moderate

Globally, inflation is expected to moderate further in 2025, reflecting the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as due to the anticipated lower international commodity prices particularly oil and food. Moreover, the expected decrease in inflation is due to the anticipated broad-based decrease in core inflation across regions. Thus, inflation for advanced economies is forecast to ease from 2.6 percent in 2024 to 2.5 percent in 2025, while for emerging market economies, it is forecast to decrease from 7.7 percent to 5.4 percent in the same period. Overall, global inflation is expected to ease from 5.6 percent in 2024 to 4.2 percent in 2025.

Meanwhile, the SARB forecasts South African inflation to average 3.3 percent in 2025 and 2026. The forecast for 2025 is unchanged, while for 2026, it was revised downward by 0.9 percentage points, compared to the May 2025 projections, on account of the expected stronger exchange rate and lower world oil prices (Chart 4.1).

Chart 4.1: South Africa and SDR Headline Inflation



Source: SARB and Bloomberg

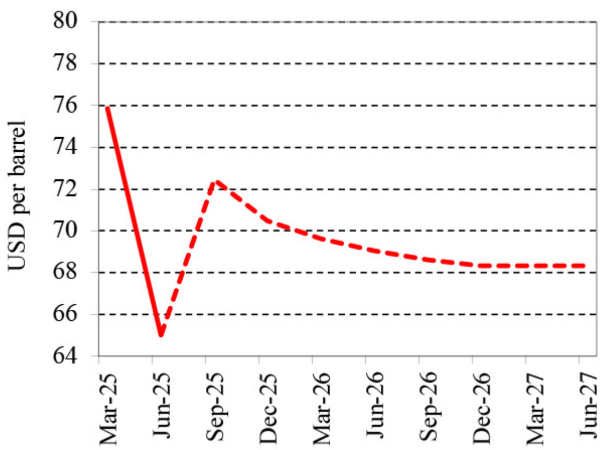
Diamond prices to trend downwards

Diamond prices are expected to continue trending downward in the short term due to weak global demand, largely driven by economic challenges in key markets, such as China. Moreover, the increased supply of lab grown diamonds and the growing popularity of gold as a safe heaven commodity[15] has contributed to the decline in diamond prices.

International oil prices to decrease

International oil prices are expected to rise in the third quarter of 2025, then trend downward and stabilise in the medium term (Chart 4.2). The initial rise is underpinned by lower oil inventories, declining spare capacity and production constraints in Russia. The projected decrease into the medium term is mainly driven by the expected increase in oil production by OPEC and its allies from August 2025 and the anticipated subdued global demand for oil. The US tariffs, although lower on average than previously announced, could slow economic growth and weaken demand, thus exerting downward pressure on international oil prices.

Chart 4.2: International Oil Prices

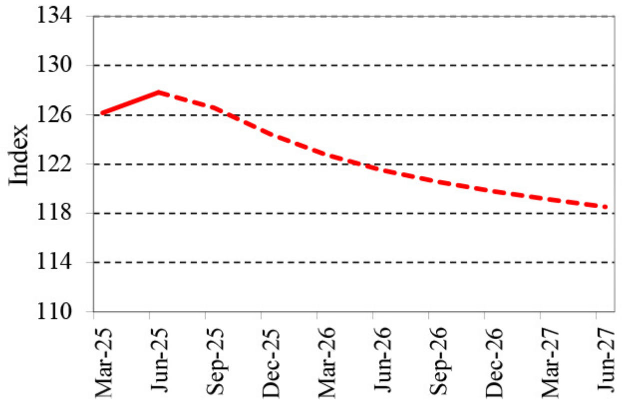


Source: Bloomberg

International food prices to decrease into the medium term

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

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 2025/26 season could be favourable, provided the rains did not negatively impact crop production. For example, in Botswana, prices may ease owing to an expected bumper harvest for sorghum, with at least 65000 tonnes anticipated at Pandamatenga, against an annual sorghum demand of 60000 tonnes.

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

4.2 Outlook for domestic economic activity

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

Output growth projection revised downwards for 2025

The Ministry of Finance has revised its GDP growth forecast for 2025 from 3.3 percent to a contraction of 0.4 percent[16], reflecting the continued weak performance of the diamond industry, subdued global growth, and the potential adverse effects of the US tariffs. Additionally, the prevailing liquidity shortage, stemming from the Government's precarious fiscal position, is expected to weigh on domestic output. These factors have led to a restrictive monetary policy stance, as reflected in higher prime lending rates by commercial banks, which are likely to further constrain economic activity. Nonetheless, 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 is expected to bring in some level of certainty in the market, making it a positive development for the diamond industry in the medium term.

In addition to ongoing reforms[17] and initiatives, the government launched the Botswana Economic Transformation Programme (BETP) on 15 July 2025, which is expected to bring rigour, agility and real-time decision making to development planning and project implementation. The BETP will include high-impact and scalable projects from all segments of society, with potential to drive economic transformation.

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

Furthermore, the below potential output 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.

Meanwhile, the Bank's June 2025 Business Expectations Survey (BES) indicates that firms anticipate business conditions to remain unchanged in the third quarter of 2025. However, firms were less optimistic about business conditions in the 12-month period to June 2026, which could be attributed to the country's weakening fiscal position, characterised by declining revenues and constrained public expenditure, mainly due to reduced diamond export earnings. As a result, firms anticipate the domestic economy to expand slightly by 0.9 percent in 2025, lower than the 1.9 percent anticipated in the previous survey.

16 The outlook is aligned with the April 2025 IMF WEO, which also projects a 0.4 percent contraction in 2025, while the African Development Bank projects a growth of 0.8 percent.

17 These includes, amongst others, the National Housing Programme (Bonno); youth empowerment programmes to encourage youth entrepreneurship and innovation; economic diversification focusing on sectors, such as tourism, agriculture, manufacturing and value-addition, IT and health care through establishing a National Development Fund, developing sectoral strategies and expanding infrastructure; job creation and skill development; public reform; and efficient resource management.

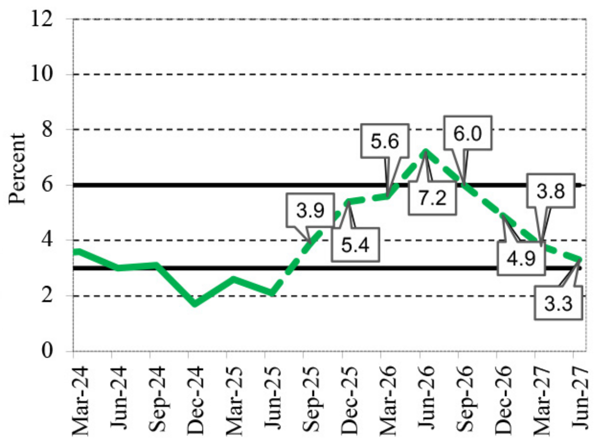
4.3 Monetary policy and inflation outlook

Inflation is expected to temporarily breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026, mainly due to the exchange rate parameter adjustments.

Inflation to breach the objective range

Inflation is forecast to increase and temporarily breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026 (Chart 4.4), mainly due to the necessary exchange rate parameter adjustments exacerbated by greater-than-anticipated market price setting for both exchange rate and retail prices. Specifically, the increase in the trading margins at which the Bank buys and sells foreign currency from/to commercial banks resulted in an increase in prices of some goods and services, given the high import intensity of the Botswana economy. However, inflation is expected to decline and revert to the objective range in the third quarter of 2026, partly on account of restrictive monetary conditions in the forecast horizon (Chart 4.5).

Chart 4.4: Botswana Headline Inflation Forecast

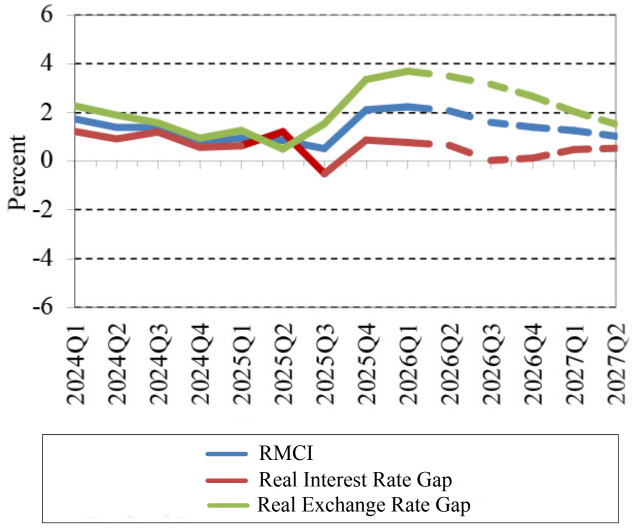


Source: Bank of Botswana

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

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

Chart 4.5: Real Monetary Conditions

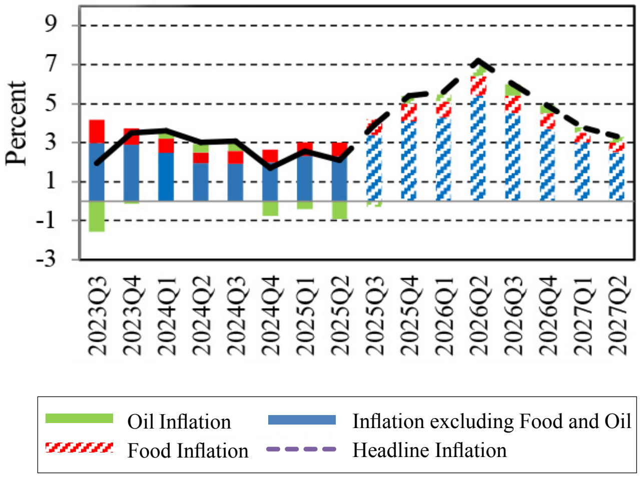


Source: Bank of Botswana

Core inflation to increase in the medium term

Inflation, excluding food and fuel prices, is expected to increase in the short term (Chart 4.6), mainly on account of the unintended market responses to the recent increase in the Pula trading margins and the expected improvement in the non-mining sector.

Chart 4.6: Headline Inflation and its Components

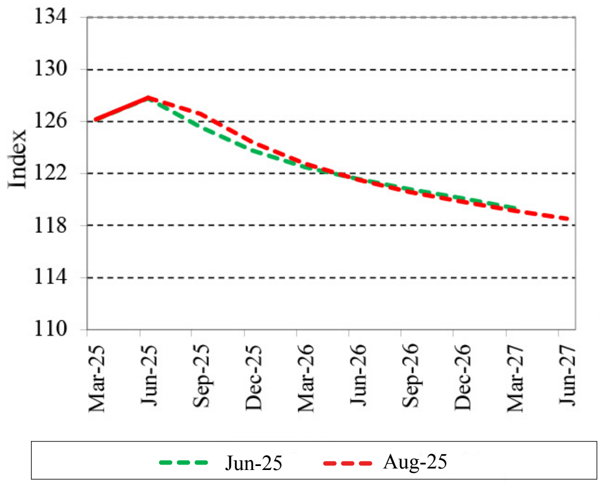


Source: Bank of Botswana

Forecasts for international food prices unchanged

Compared to the June 2025 forecast, international food prices remain broadly unchanged (Chart 4.7).

Chart 4.7: International Food Prices FAO Index

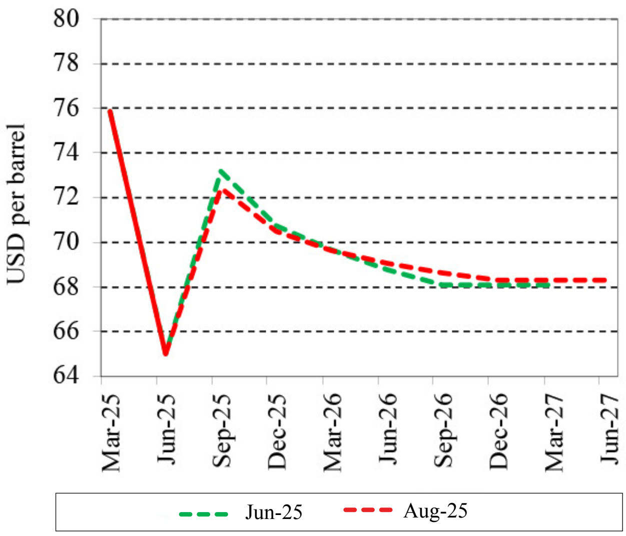


Source: Bloomberg

Forecasts for international oil prices also broadly unchanged

Projections for international oil prices are also broadly unchanged compared to the June 2025 forecast (Chart 4.8).

Chart 4.8: International Oil Prices

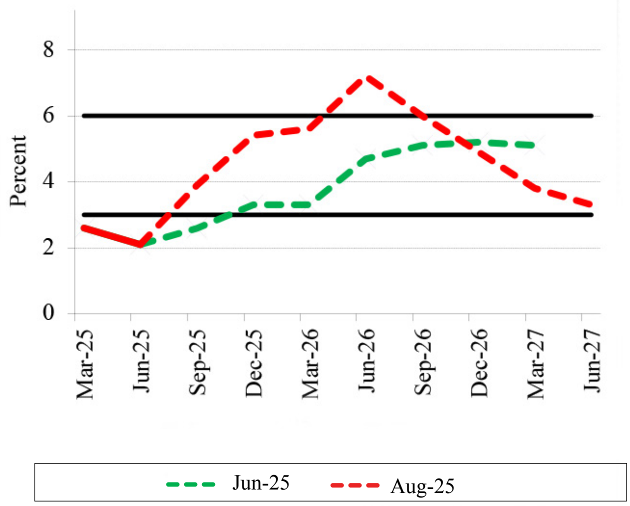


Source: Bloomberg

Inflation forecast revised upwards

Compared to the June 2025 forecast, the current domestic inflation projection has been revised upward (Chart 4.9). The revision is mainly on account of the unintended market responses to the recent increase of the Pula trading margins.

Chart 4.9: Botswana Headline Inflation Forecast Revision



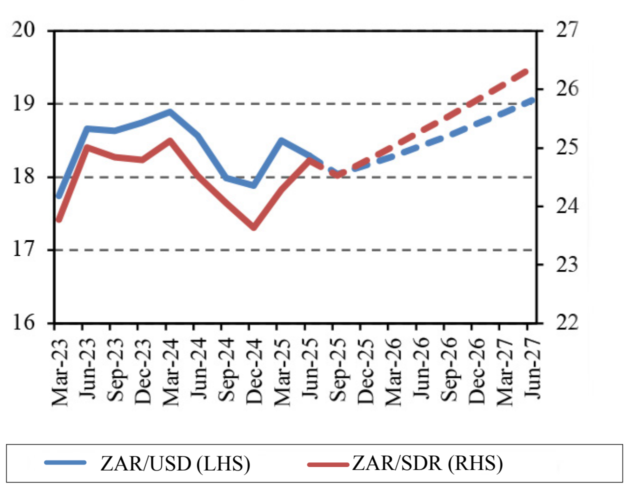
Source: Bank of Botswana

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.

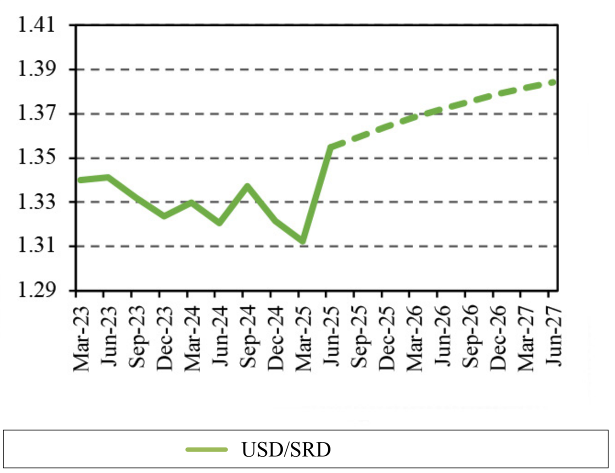
The South African rand is projected to appreciate against major international currencies in the short term, particularly in the third quarter of 2025. This anticipated appreciation is supported by rising gold prices, as investors increase demand for safe-haven assets amid escalating geopolitical tensions and heightened global economic uncertainty. The rand is, however, expected to depreciate in the medium term, reflecting the impact of persistent structural constraints within the domestic economy. These include a combination of subdued GDP growth, high unemployment and the resurgence of rotational power outages. Although Eskom has provided some assurance regarding a stable power supply during the winter months, the ongoing instability in the country's energy infrastructure continues to negatively impact productivity and investment confidence in the long run.

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

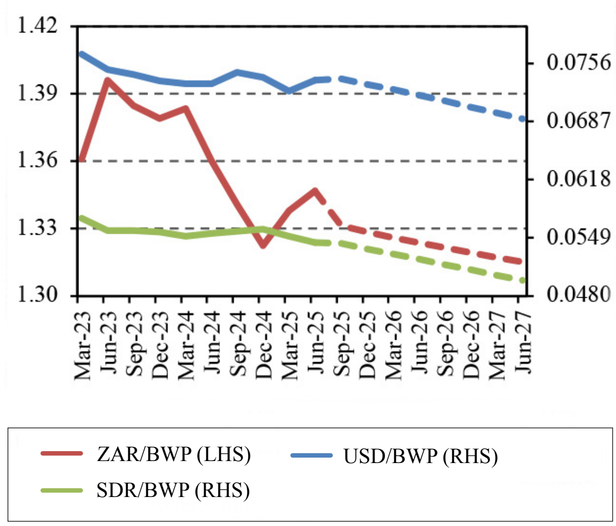


Source: Bloomberg

The US dollar is projected to depreciate against the SDR constituent currencies over the next four quarters (Chart 4.11), mainly due to concerns over US trade policy and fiscal risks. President Trump announced plans to issue trade-related letters, potentially enabling the imposition of unilateral tariffs and increasing uncertainty in global markets. On the fiscal front, the recent approval of a substantial tax cuts and spending bill by the House of Representatives is expected to widen the federal budget deficit by over USD 3 trillion. Additionally, the dollar is anticipated to weaken as demand for the safe-haven currency declines, with investors shifting towards higher-yielding emerging market assets following easing geopolitical tensions between Israel and Iran. However, as a traditional safe-haven asset, the dollar may experience intermittent periods of increased demand during episodes of geopolitical uncertainty, which could partially offset its expected depreciation.

Domestically, the Pula is projected to depreciate against the South African rand into the medium term (Chart 4.12). This outlook is largely influenced by the anticipated short-term appreciation of the rand against major international currencies, as well as recent adjustments to the exchange rate policy parameters. While the rate of crawl exerts a gradual influence on the value of the Pula, the widening of trading margins has had a more immediate impact on its market valuation. The revised parameters are expected to continue guiding the Pula's trajectory, with market participants progressively adjusting to these changes, thereby moderating the pace of depreciation (Chart 4.11). On the inflation front, the expected depreciation of the Pula against the rand is likely to contribute to upward pressure on domestic inflation, reflecting Botswana's significant reliance on imports from South Africa.

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



Source: Bloomberg and BoB calculations

Risks to the inflation outlook

Overall, risks to the inflation outlook are assessed to be tilted to the upside. This is primarily due to the unintended market responses to the recent adjustment of exchange rate parameters. Additionally, the potential cost-push pressures and second-round effects stemming from the recent increase in water and electricity tariffs for businesses may also add to inflationary pressures. Inflation could also be higher than projected if international commodity prices were to increase above current forecasts and supply, as well as logistical constraints in the global value chains, persist. Furthermore, the effects of US tariffs are also expected to be inflationary. However, inflation could be lower than currently projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international commodity prices. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection.

5. AUGUST 2025 MONETARY POLICY COMMITTEE DECISION

At the meeting held on 21 August 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 inflation outlook has significantly changed due to the necessary exchange rate parameter adjustments exacerbated by greater-than-anticipated market price setting for both exchange rate and retail prices. In addition, the recent interest rate adjustments by banks continue to counter the accommodative monetary policy stance. In the circumstance, inflation is projected to increase in the short term, averaging 3.5 percent in 2025 and 5.9 percent in 2026, but temporarily breach the upper bound of the objective range in the second quarter of 2026. Meanwhile, as previously indicated, in an environment where several commercial banks have concentrated funding, maintained significant part of their assets outside Botswana, as well as uneven liquidity distribution amongst banks, a macro-economy dependent on government spending has generated a liquidity squeeze. This has triggered a surge in wholesale deposit rates, as the severely affected banks bid aggressively to secure deposits/funding. Consequently, they increased their prime lending rates, with others not similarly affected following as well. This has led to a rise in the cost of borrowing for consumers and businesses. Of concern is that this happens in an environment of an accommodative monetary policy stance, necessitated by the prevailing macroeconomic environment, notably, real gross domestic product (GDP) contraction.

As stated at the previous briefing, the domestic economy faces challenges relating to inadequate traction of policy initiatives, thus lack of economic diversification and weakening fiscal and external positions. Hence, the need for all policy frameworks to be aligned towards building economic resilience. Therefore, the Bank welcomes the recently launched Botswana Economic Transformation Programme (BETP), which is expected to bring rigour, agility and real-time decision making to development planning and project implementation. The BETP will also include high-impact and scalable projects, with potential to drive economic transformation. It is not the number of projects, but the impact they will have in the economy, which will be game-changing.

The global economy continues to experience heightened uncertainty due to shifting trade policies and geopolitical tensions. The United States of America (US) has imposed trade tariffs for all countries with a base rate of 10 percent. For Botswana, the import tariff rate for exports was set at 15 percent. One of the effects of this could be an adverse impact on Botswana's exports to the US. It is expected that the forthcoming October 2025 World Economic Outlook (WEO) publication by the International Monetary Fund (IMF) will provide comprehensive analysis of the likely implication of these developments on the global economy. Regarding the domestic inflation trajectory, the increase is solely due to the aforementioned supply shocks, while demand conditions are subdued and non-inflationary. Thus, the projected reversion of inflation to within the 3 – 6 percent objective range in the medium term. This is further supported by measures undertaken to address the liquidity squeeze.

(a) Slashing the Primary Reserve Requirement from 2.5 percent to zero, which at the time released P1.8 billion to the banking sector;
(b) increasing the term/maturity of the repos with commercial banks from overnight to up to 30 days, which helps banks in managing their liquidity over a longer horizon;
(c) raising the threshold for trading of foreign currency with the commercial banks from a foreign currency equivalent of USD1 million to USD5 million, which preserves the official foreign exchange reserves by encouraging interbank trading for foreign currency and maintaining the Pula liquidity in the market;
(d) increasing the foreign currency trading margins between the Bank and commercial banks to -/+7.5 percent, to enhance flexibility of the Pula exchange rate and encourage price discovery, as well as potential to accommodate an increase in Pula liquidity;
(e) enhancing monitoring of foreign currency holdings and funds externalisation to promote Pula funding of domestic economic activity; and
(f) consultations with commercial banks to discourage interest rate changes which are counter to the monetary policy stance and economic situation and other stakeholders to address unwarranted price increases.

It is considered that these interventions will have a stabilising effect. So far, this is evidenced by the uptake of longer-term repos, a pause in PLR hikes and reduced commercial banks foreign exchange trading with Bank of Botswana. Given that the current challenges are routed in structural features of the market and the economy, the overall impact of these measures cannot be long lasting. A sustainable, long-term solution requires broader interventions, including alternative and diversified sources of export earnings that would reduce reliance on diamond revenues and import substituting industries. Furthermore, the Bank continues to actively engage with the banking sector to manage liquidity pressures and mitigate risks to monetary policy transmission and going forward, appropriate prudential measures would be instituted to promote diversified funding and mitigate against the potential systemic risk to financial stability.

Overall, given these measures and policy intentions, the expectation is that all entities will respond appropriately to mitigate against proliferation of policies, which could be detrimental.

Economic Environment

Botswana's real gross domestic product (GDP) contracted by 1.7 percent in the twelve months to March 2025, compared to a growth of 0.4 percent in the year to March 2024. The weak performance was mainly due to the significant contraction of the mining and generally subdued growth for the non-mining sectors.

According to the July 2025 WEO Update, global output is estimated to have expanded by 3.3 percent in 2024 and is forecast to grow by 3 percent in 2025 and 3.1 percent for 2026. The impact of tariff measures by the US and countermeasures by its trading partners, geopolitical tensions and high levels of policy uncertainty are expected to have a significant impact on global economic activity. The Ministry of Finance has revised real GDP growth forecasts for 2025 from a 3.3 percent growth to a contraction of 0.4 percent, a similar projection to that of the IMF. Meanwhile, the African Development Bank projects a growth of just 0.8 percent, down from 4 percent. Furthermore, the Ministry has revised growth forecasts for 2026 from 3.7 percent to 2.9 percent. The downward revisions mainly reflect the continued weak performance of the diamond industry, subdued global growth and the potential adverse effects of US tariffs.

Inflation

As reported by Statistics Botswana, headline inflation decreased from 2 percent in June 2025 to 1.1 percent in July 2025, remaining below the lower bound of the medium-term objective range of 3 – 6 percent. The decrease in inflation between June and July 2025 was mainly on account of the adjustment in electricity tariffs effected in July 2025, which reduced headline inflation by 0.64 percentage points. The MPC forecasts inflation to increase in the short term and temporarily breach the upper bound of the objective range in the second quarter of 2026. Inflation is expected to average 3.5 percent in 2025 and 5.9 percent in 2026.

Risks to the inflation outlook are assessed to be tilted to the upside. This is primarily due to market reaction following the recent widening of trading margins of the Pula, which led to an increase in prices of some goods and services, given the high import intensity of the Botswana economy. Additionally, potential cost-push pressures and second-round effects stemming from the recent increase in water and electricity tariffs for businesses are anticipated to further elevate the inflation projection. Inflationary pressures could also intensify if international commodity prices rise above forecast, global supply and logistics constraints persist, or if US tariffs exert upward pressure on costs. Conversely, inflation could be lower than projected if domestic and global economic activity remain subdued, fiscal space remains constrained, international commodity prices decline, or if administered prices change in ways not currently incorporated into the projection.

Decision

The economy is expected to continue to operate below full capacity in the short-to-medium term, though improving marginally into the medium term. This should not generate demand-driven inflationary pressures. Although inflation is expected to temporarily breach the upper bound of the objective range and risks to the inflation outlook are assessed to be on the upside, this is due to once-off supply shock which will ultimately dissipate. Therefore, there is scope for monetary policy to remain accommodative to support economic recovery and cushion the economy against the negative spillovers from the subdued global economic activity. Thus, the MPC 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:
30 October 2025
4 December 2025

Annex: Inflation Forecast Summary for August 2025 MPC Meeting

	Actual					Forecast									
	2024			2025		2025			2026					2027	
	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2
Inflation	3.1	1.7	**2.8**	2.6	2.1	3.9 (2.6)	5.4 (3.3)	**3.5 (2.7)**	5.6 (3.3)	7.2 (4.7)	6.0 (5.1)	4.9 (5.2)	**5.9 (4.6)**	3.8 (5.1)	2.7

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

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

Domestically

1. Impact of the recent adjustment of exchange rate parameters

Externally

1. The expected depreciation of the Pula

NOTE

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