MONETARY POLICY REPORT

APRIL | 2026

STRATEGIC INTENT STATEMENTS

Vision

A trusted steward of the financial system - advancing stability and contributing to inclusive growth and economic prosperity.

Mission

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

Our Values

Agility

- We are proactive and respond swiftly and effectively to change.
- We are resilient and adapt our policies, processes, and operations in response to evolving economic, financial, and technological realities.

Collaboration

- We work together to achieve shared goals.
- We partner internally across departments and externally with stakeholders to leverage collective strengths and expertise.

Excellence

- We strive to be the best in all that we do.
- It is not just about meeting basic standards, but about consistently exceeding expectations and delivering timely, professional, and high-quality results.

Integrity

- We act with strong moral principles and honesty in all our engagements with our stakeholders.
- It is the foundation for building trust with employees, customers, and the public.

Transparency

- We engage openly, clearly, and take accountability for our actions.
- We ensure that policies, decisions, and operations are clear, accessible, and subject to appropriate scrutiny.

Monetary Policy Report April 2026

17938, Khama Crescent, Gaborone, Botswana
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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) regularly informs the public about the conduct of monetary policy. The Report supports the public's expectation of a transparent and accountable central bank in the execution of its monetary policy mandate as provided for in the Bank of Botswana (Amendment) Act, 2022.

The MPR reviews recent macroeconomic developments and assesses factors that are likely to influence the inflation path in the medium term, thereby informing the Bank's future policy decisions. 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. Consequently, as of April 2022, the Bank uses the Monetary Policy Rate (MoPR) as the main policy instrument 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 peg exchange rate mechanism, which seeks to maintain a stable real effective exchange rate (REER) that is conducive for macroeconomic stability and the international competitiveness of domestic producers' tradeable goods and services. The Ministry of Finance (MoF), in consultation with the Bank, recommends parameters for the exchange rate mechanism (weights of currencies within the Pula basket, the rate of crawl and the Pula trading margins) that determine the value of the Pula for approval by His Excellency, the President.

In evaluating policy options, the Bank implements a forward-looking monetary policy framework that places a central role on a medium-term inflation forecast. The Bank sets the policy to direct projected movements of inflation towards the medium-term objective range, while considering the prevailing rate of crawl of the exchange rate mechanism, prospects for economic growth and developments relating to the stability of the financial system. The policy horizon extends up to 3 years and is 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 through the MoPR and supported by open market operations. These include the auctioning of the Bank of Botswana Certificates (BoBCs) under a fixed-rate full allotment system, engaging in repo/reverse repo transactions with commercial banks (primary dealers), and the issuance of a one-month BoBC paper to manage structural liquidity issues and support the development 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 and provide underlying rationale. The Press Briefing allows for interaction with members of the media, facilitates transparency and enhances public understanding of the Bank's economic analysis and policy stance. Following the briefing, a Press Release is issued.

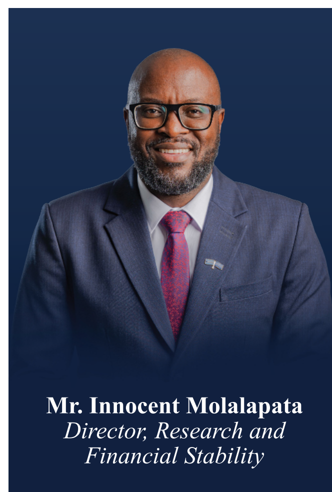
The first MPC meeting of the year, held in February, is accompanied by the issuance of the Monetary Policy Statement, which outlines inflation developments, policy performance and the likely policy posture for the ensuing year. Subsequently, the MPR is produced for the April, August and October meetings 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. Lesego Moseki
(Governor)

Dr. Kealeboga Masalila
(Deputy Governor)

Vacant
(Deputy Governor)


Mr. Innocent Molalapata
Director, Research and Financial Stability

Ms. Boitshenotse 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 2026, monetary policy is being implemented in a challenging domestic economic environment characterised by elevated inflationary pressures, owing to the upward adjustment of administered prices; subdued economic activity; tight liquidity conditions; and heightened uncertainty around traditional growth drivers. At the April 2026 meeting, the MPC assessed that the economy would continue to operate below full capacity in the short-to-medium term, which is likely to keep demand-driven inflationary pressures subdued. The MPC considered the need to recalibrate and reinforce policy transmission and signalling. Accordingly, the MPC decided to increase the Monetary Policy Rate by 200 basis points to 5.5 percent. Like the October 2025 adjustment, this was not monetary policy tightening but a recalibration to amplify the impact of the policy adjustments that have helped ease liquidity conditions.

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

Global economic activity remains subdued on account of the lagged effects of restrictive monetary policy stance adopted during 2024; persistent trade tensions and policy uncertainty, particularly surrounding the United States of America (US) trade policies; geopolitical conflicts; extreme weather conditions; and low underlying productivity growth. In response to moderating global demand, some central banks loosened policy, for example, Bank of Brazil and Bank of Russia, while some maintained their relatively low policy rates, thus resulting in a general easing of financial conditions.

According to the International Monetary Fund (IMF)'s April 2026 World Economic Outlook (WEO) report, global economic activity remained subdued and uneven across countries and regions in 2025. The global economy is projected to grow by 3.1 percent in 2026, down from 3.4 percent in 2025, and below the historical (2000-2019) annual average of 3.7 percent. This forecast represents a downward revision of 0.2 percentage points from the January 2026 WEO Update, owing to the ongoing geopolitical tensions in the Middle East and their impact on commodity markets, inflation expectations and financial conditions. For advanced economies, growth is forecast to decrease to 1.8 percent in 2026, from 1.9 percent in 2025, while growth in emerging market and developing economies (EMDEs) is expected to decelerate to 3.9 percent in 2026, from 4.4 percent in 2025.

Global inflationary pressures varied across regions in the fourth quarter of 2025. Inflation in advanced economies increased marginally from 3.3 percent in the third quarter of 2025 to 3.4 percent in the fourth quarter, due to the impact of US tariffs on prices of goods and services. Meanwhile, inflation for emerging market economies was constant at 2.5 percent in the same period, owing to lagged effects of tight monetary policy and squeezed household budgets. The United Nations' Food and Agriculture Organization (FAO) food price index increased in the first quarter of 2026, mainly due to higher energy and fertilizer prices stemming from the war in the Middle East.

Domestically, headline inflation averaged 4.1 percent in the first quarter of 2026, up from 2.6 percent in the same period in 2025, given the acceleration in the rate of price change for most categories of goods and services, notably transport, food and non-alcoholic beverages and miscellaneous goods and services. Looking ahead, inflation is projected to increase significantly and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026, largely driven by the impact of developments in the Middle East (see Box 1 on page 17). Inflation is projected to average 8.7 percent in 2026 before easing to 5.6 percent in 2027.

Real gross domestic product (GDP) contracted by 0.7 percent in 2025, representing a marked improvement from the contraction of 2.8 percent in 2024. The relatively low contraction in output was mainly attributable to the sustained growth in the non-mining sector while the downturn in the mining sector moderated, largely reflecting the improvement in the diamond mining performance. However, overall economic performance remains weak, constrained by subdued global economic conditions, structural challenges in the diamond sector, slow progress in economic transformation and low productivity.

The current account recorded an estimated surplus of P1.9 billion in the fourth quarter of 2025, compared to a deficit of P6.8 billion in the corresponding period in 2024. As at the end of February 2026, the official foreign exchange reserves were estimated at P55.3 billion, equivalent to 7.2 months of import cover, representing an increase of 18.2 percent from P48.6 billion in February 2025.

Annual growth in commercial bank credit slowed to 2.6 percent in February 2026, from 5.8 percent in February 2025, largely due to moderation in lending to households in the context of higher market interest rates. Lending to businesses, however, increased by 3.5 percent in the year to February 2026. Meanwhile, money supply (M2) increased by 2.9 percent in 2025, down from the 4.8 percent in 2024.

The exchange rate policy for 2026 maintains a 50:50 weighing between the South African rand and the IMF Special Drawing Rights (SDR), with a downward annual rate of crawl of 2.76 percent. In January 2026, asymmetric Pula trading margins for foreign exchange transactions with commercial banks were introduced, narrowing the buy margin from 7.5 percent to 3 percent relative to the central parity, while maintaining the sell margin at -7.5 percent. This adjustment is

intended to strengthen incentives for export proceeds conversion, improve foreign exchange market liquidity and support the preservation and potential accumulation of official foreign exchange reserves.

The nominal effective exchange rate (NEER) of the Pula depreciated by 2.5 percent year on year in April 2026. In March 2026, the REER depreciated by 1.2 percent year on year, due to the depreciation of the NEER, which outweighed the impact of higher domestic inflation relative to that of trading partner countries. This suggests a modest improvement in Botswana's export competitiveness, by this measure.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth remained subdued amid heightened uncertainty

According to the IMF's April 2026 WEO Report, the global economy is estimated to have expanded by 3.4 percent in 2025, unchanged from 2024 (Table 3.1). Growth was supported by investment related to technology, including artificial intelligence (AI); fiscal and monetary support; broadly accommodative financial conditions; and continued adaptability of the private sector. However, these tailwinds were offset by headwinds from shifting trade policies, policy uncertainty and, more recently, the war in the Middle East.

The US economic growth decelerated

In the US, output expanded at an annualised rate of 0.5 percent in the fourth quarter of 2025, lower than the 4.4 percent growth in the third quarter of 2025. The deceleration in real GDP reflected lower government spending, weaker exports and more moderate consumer spending, partly associated with disruptions arising from the 43-day government shutdown.

Euro area growth softened

In the euro area, GDP grew, year on year, by 1.2 percent in the fourth quarter of 2025, easing slightly from 1.4 percent in the third quarter of 2025. The growth underscored the bloc's continued resilience, supported by easing inflation and lower interest rates, despite headwinds from trade tensions and US tariffs on EU imports. Among the bloc's largest economies, Spain experienced the strongest growth of 2.6 percent, followed by France (1.2 percent), Italy (0.8 percent) and Germany (0.4 percent).

UK growth remained subdued

GDP in the United Kingdom (UK) grew by 0.1 percent in the fourth quarter of 2025, unchanged from the third quarter and slightly below market expectation of 0.2 percent. The growth was attributed to expansion in services, mostly manufacturing sector and an improvement in production output. UK GDP annual growth is estimated to have strengthened to 1.3 percent in 2025, from 1.1 percent in 2024.

Emerging markets' growth moderated

Output growth in emerging market economies generally softened in the fourth quarter of 2025, primarily due to trade policy uncertainty and trade barriers. The Chinese economy expanded by 4.5 percent in the fourth quarter of 2025, easing from 4.8 percent in the third quarter of 2025, weighed down by the continued property market slump and deflationary pressures, despite ongoing consumer subsidies. Nonetheless, output growth in the fourth quarter underscored the economy's resilience against multiple pressures following the pledge by leaders to sustain a proactive fiscal stance to spur activity. More recently, the Chinese economy expanded by 5 percent in the first quarter of 2026, up from 4.5 percent in the previous quarter, marking the fastest pace of growth in three quarters, supported largely by resilient export performance.

Meanwhile, the Indian economy grew by 7.8 percent year on year in the fourth quarter of 2025, decelerating from 8.4 percent in the previous quarter, but significantly above market expectations of a 7.2 percent growth. Although growth moderated, it remained strong, supported by government spending and resilient private consumption.

Table 3.1: Growth Estimates and Projections

	Estimate		Projections	
	2024	2025	2026	2027
Global	**3.4**	**3.4**	**3.1**	**3.2**
Advanced economies	**1.8**	**1.9**	**1.8**	**1.7**
USA	2.8	2.1	2.3	2.1
Euro area	0.9	1.4	1.1	1.2
UK	1.1	1.3	0.8	1.3
Japan	-0.2	1.2	0.7	0.6
EMDEs	**4.5**	**4.4**	**3.9**	**4.2**
China	5.0	5.0	4.4	4.0
Brazil	3.4	2.3	1.9	2.0
India	6.5	7.6	6.5	6.5
Russia	4.9	1.0	1.1	1.1
South Africa	0.5	1.1	1.0	1.3
Botswana	**-2.8**	**-0.7**	**4.7 (3.1)**	**2.2 (5.4)**

Source: IMF April 2026 WEO Report, while numbers in parenthesis are from the Ministry of Finance (MoF)

Growth in South African remained modest

Regionally, output in South Africa increased, quarter-on-quarter, by 0.4 percent in the fourth quarter of 2025, slightly higher than the downwardly revised 0.3 percent recorded in the third quarter, marking a fifth consecutive quarter of expansion. The growth is attributed to key industries including finance (1.4 percent), trade (0.9 percent), and personal services (0.4 percent). However, the manufacturing sector contracted (-0.6 percent).

Global commodity prices

Rough diamond prices decreased in the first quarter of 2026

The global rough diamond price index decreased by 4.5 percent from 123.1 points in the fourth quarter of 2025 to 117.5 points in the first quarter of 2026, mainly due to weak global demand, excess inventories, and persistent trade uncertainty. The rough diamond market continues to face structural pressures from other luxurious goods, especially lab-grown diamonds, which are increasingly competing with natural diamonds, especially in lower-value segments. Lab grown diamonds currently hold 20-25 percent of market share and are projected to account for

approximately 30-40 percent of the total diamond market by 2030, up from nearly zero in 2015.[1]

Similarly, the index declined by 2.7 percent from 118.2 points in February 2026 to 115 points in March 2026, driven by weakening demand in key consumer markets, such as the US and China, where retail sales of diamond jewellery remained subdued.

Polished diamond prices remained stable

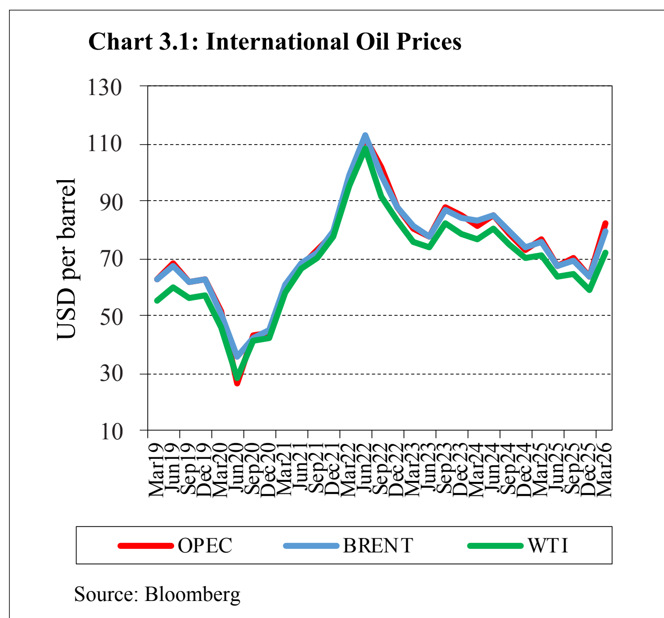
The global polished diamond price index remained at 83 points in the third quarter of 2025, same as in the second quarter. The index remained constant at 83 points between August and September 2025, due to weaker demand and a challenging global economic outlook.

Oil prices increased sharply in the first quarter of 2026

International oil prices increased in the first quarter of 2026 compared to the fourth quarter of 2025 (Chart 3.1), with the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) increasing by 28.6 percent, 25.4 percent and 21 percent, from an average of USD63.80 per barrel, USD63.66 per barrel and USD59.23 per barrel in the fourth quarter of 2025 to an average of USD82.06 per barrel, USD79.81 per barrel and USD71.64 per barrel, respectively, in the first quarter of 2026.The increase in oil prices was on account of heightened geopolitical tensions in the Middle East following military strikes by the US and Israel on Iran. These developments are important for the inflation outlook, given the potential pass-through to domestic fuel and transport prices.

Similarly, international oil prices increased month on month in March 2026, with Brent crude averaging USD101.56 per barrel, from USD71.11per barrel in February 2026.

Chart 3.1: International Oil Prices

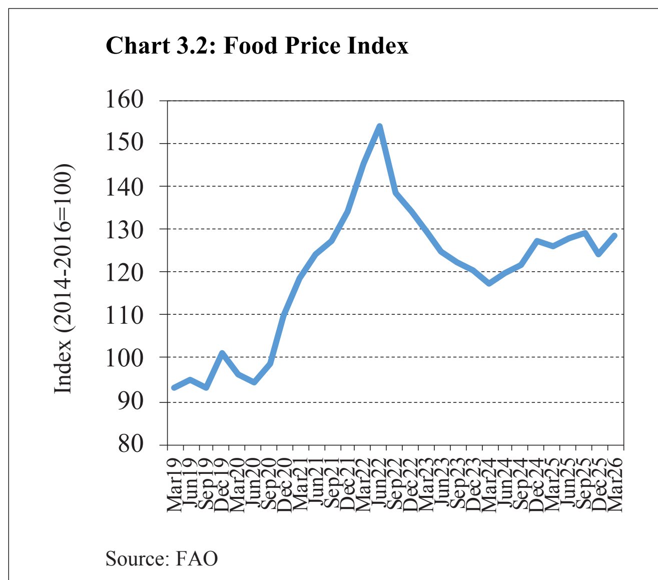


Source: Bloomberg

Food prices increased

According to FAO, the global food price index increased by 0.5 percent from an average of 125.4 points in the fourth quarter of 2025 to an average of 126 points in the first quarter of 2026 (Chart 3.2). The increase primarily reflects higher energy and fertilizer prices stemming from the war in the Middle East. Furthermore, prices for wheat, vegetable oils and meat increased due to tighter global supply owing to adverse weather in key exporting countries, supply disruptions in Russia and the wider Black Sea region, and higher feed costs. This points to a risk of renewed imported food inflation, particularly for net food- and energy-importing economies.

Chart 3.2: Food Price Index



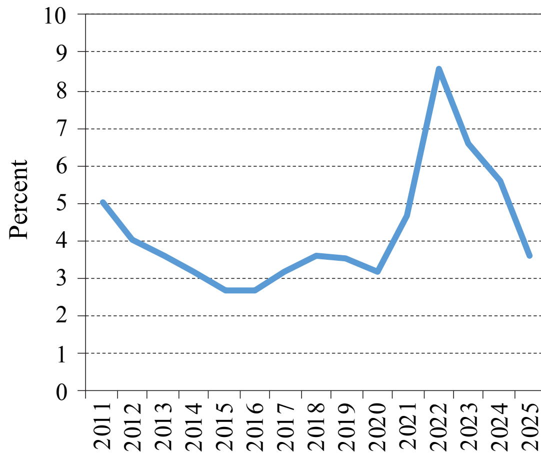
Source: FAO

Global inflation dynamics remained uneven

Global inflation eased from 5.8 percent in 2024 to 4.1 percent in 2025 (Chart 3.3). However, inflationary pressures varied across regions in the fourth quarter of 2025[2]. In advanced economies, inflation increased slightly from 3.3 percent in the third quarter of 2025 to 3.4 percent in the fourth quarter, partly reflecting the gradual pass-through of tariffs and other cost pressures. Meanwhile, inflation for emerging market economies remained broadly stable at 2.5 percent in the same period, on account of subdued food prices.

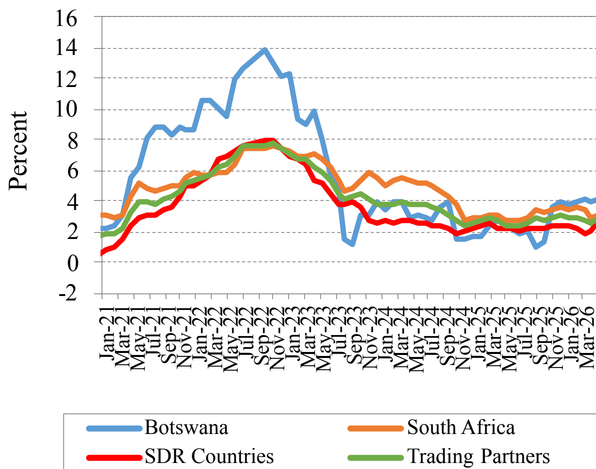
[1] The data is sourced from Paul Zimnisky Diamond Analytics.

[2] The quarterly inflation estimates are sourced from Bloomberg.



In South Africa, headline inflation decreased from 3.6 percent in the fourth quarter of 2025 to 3.2 percent in the first quarter of 2026, slightly above the South African Reserve Bank (SARB)'s 3 percent target point which, however, has a tolerance band of ± one percentage point.

The average trade-weighted inflation for Botswana's trading partner countries decreased from 3 percent in the fourth quarter of 2025 to 2.7 percent in the first quarter of 2026 (Chart 3.4).



Monetary policy divergence across the globe

In the most recent policy reviews, there was divergence in the monetary policy decisions (Table 3.2).

In April 2026, the US Federal Open Market Committee (FOMC) maintained its policy rate at 3.5 – 3.75 percent. The Fed assessed the economy to have expanded at a solid pace, while inflation remained elevated, in part, reflecting the recent increase in global energy prices. In assessing the appropriate stance of monetary policy, the FOMC noted its continued monitoring of incoming data and the implication for the economic outlook. The Committee affirmed its preparedness to adjust the monetary policy stance as appropriate if risks emerged that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.

The Bank of England (BoE) maintained its policy rate at 3.75 percent in April 2026. The BoE highlighted that the conflict in the Middle East had created significant uncertainty for global energy prices and noted the change in the inflation outlook, with inflation expected to be higher. However, the BoE warned that the impact would be greater depending on the scale and duration of the war and its effect on the global energy supply. While the BoE acknowledged that monetary policy could not influence global supply shocks, it was monitoring the situation very closely and aimed to ensure that the economic adjustment to those shocks occurred in a way that achieved the 2 percent inflation target sustainably.

The European Central Bank (ECB) maintained the deposit facility rate, the main refinancing operations rate and the marginal lending facility at 2 percent, 2.15 percent and 2.4 percent, respectively, in April 2026. The Council noted that the war in the Middle East had made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. The Governing Council reiterated its commitment to ensuring that inflation stabilises at its 2 percent target in the medium term and affirmed that it will follow a data-dependent approach to determining the appropriate monetary policy stance.

The Bank of Japan (BoJ) maintained the key short-term interest rate at 0.75 percent in April 2026, maintaining borrowing costs at their highest level since September 1995. BoJ assessed risks to the inflation outlook to be tilted to the upside, largely driven by the surge in energy prices amid the war in the Middle East and reiterated the need to pay due attention to their impact on Japan's economic activity and prices.

In emerging market economies, the Central Bank of Brazil (CBB) cut the policy rate by 25 basis points to 14.5 percent in April 2026. The CBB noted that the decision reflected uncertainty in the global environment due to escalation of the geopolitical conflict in the Middle East, which has altered global financial conditions. Risks to the inflation outlook remained tilted to the upside, reflecting uncertainty surrounding the duration of the war. The CBB indicated that it would monitor how domestic fiscal policy developments impacted monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty.

The Central Bank of Russia (CBoR) reduced the key policy rate by 50 basis points to 14.5 percent in April 2026. The CBoR noted that inflation expectations had eased since the previous meeting, which gave room for looser financial conditions. Nonetheless, the CBoR warned that the loosening cycle may not be extended due to rising pro-inflationary risks, specifically higher energy prices due to supply disruptions associated with the war in the Middle East.

In April 2026, 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. The decision came as the Chinese economy expanded by 5 percent in the first quarter of 2026, reducing the need for further stimulus measures.

In April 2026, the Reserve Bank of India (RBI) maintained the policy rate at 5.25 percent amid a weakening rupee and rising bond yields. The RBI assessed risks to the inflation outlook to be on the upside, driven by increased energy price pressures due to the war in the Middle East and potential weather disturbances affecting food prices. However, the stronger economic fundamentals of the Indian economy provided greater resilience to withstand shocks. RBI indicated that it would maintain the current policy stance, while remaining data-dependent to respond to evolving conditions.

The SARB maintained the repo rate at 6.75 percent at its March 2026 meeting and judged risks to the inflation outlook to be on the upside due to the ongoing Middle East war. Moreover, the SARB revised its policy guidance from two repo rate cuts in 2026 forecasted at the previous meeting to only one, guided by two possible war scenarios: a short-term two-month scenario and a prolonged one-year scenario, both of which implied the need for higher interest rates. 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.

Table 3.2: Monetary Policy Decisions

Central Bank	Latest Meeting	Current Policy Rate (Percent)	Change from Previous Meeting	Likely Policy Decision at the Next Meeting
Bank of Botswana	April 2026	5.5	Increased by 200 basis points	Key considerations will continue to be projections for inflation and impact on expectations; the need to support economic growth and recovery; and preserving policy transmission.
SARB	March 2026	6.75	No change	The SARB's MPC indicated that future policy decisions will be outlook dependent, responsive to data developments and sensitive to the balance of risks to the forecast.
US Federal Reserve	April 2026	3.5 – 3.75	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 affirmed its preparedness to adjust the monetary policy stance 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	April 2026	3.75	No change	The BoE will continue to monitor closely the risks of inflation persistence and decide on the appropriate degree of monetary policy restrictiveness at each meeting but acknowledged that a gradual approach to removing policy restraint remained appropriate.
ECB	April 2026	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	April 2026	0.75	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	April 2026	3.00	No change	The PBoC is likely to maintain a low LPR low until the economy has fully recovered.
Brazil	April 2026	14.50	Decreased by 25 basis points	The central bank highlighted that they would monitor how developments of domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty.
India	April 2026	5.25	No change	RBI indicated that it would maintain the current policy stance, while remaining data-dependent to respond to evolving conditions.
Russia	April 2026	14.50	Deceased by 50 basis points	CBoR noted that although inflationary pressures had eased, they remained high, with risks judged to be on the upside, and signalled that there might not be room for more cuts.

Source: Various central bank's websites

3.2 Domestic inflation environment

Headline inflation increased in the first quarter of 2026

Headline inflation increased in the first quarter of 2026, averaging 4.1 percent compared to 2.6 percent in the same quarter of 2025 (Chart 3.5 and Table 3.3). The rise in inflation was mainly due to the faster price increases across most categories of goods and services, notably food and non-alcoholic beverages, miscellaneous goods and services, and transport, which reflected base effects of the decrease in fuel prices in September 2024 as well as the impact of the increase in fuel price in September 2025.

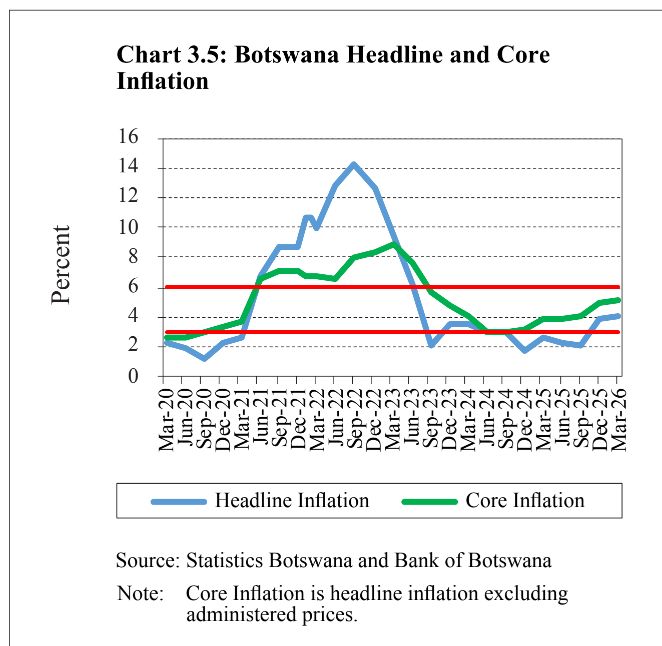


Chart 3.5: Botswana Headline and Core Inflation

Source: Statistics Botswana and Bank of Botswana

Note: Core Inflation is headline inflation excluding administered prices.

Inflation for both domestic and imported tradeables increased in the first quarter of 2026

Inflation for domestic tradeables increased from an average of 4.8 percent in the first quarter of 2025 to an average of 6.3 percent in the first quarter of 2026 (Chart 3.6), mainly due to an acceleration in price increases for food items. Imported tradeables inflation increased from an average of 2 percent to an average of 6.4 percent in the same period, mainly on account of an acceleration in the prices of food and vehicles. As a result, all tradeables inflation increased from an average of 2.7 percent in the first quarter of 2025 to an average of 6.4 percent in the first quarter of 2026. Inflation for non-tradeables decreased from an average of 2.5 percent to 0.6 percent in the same period.

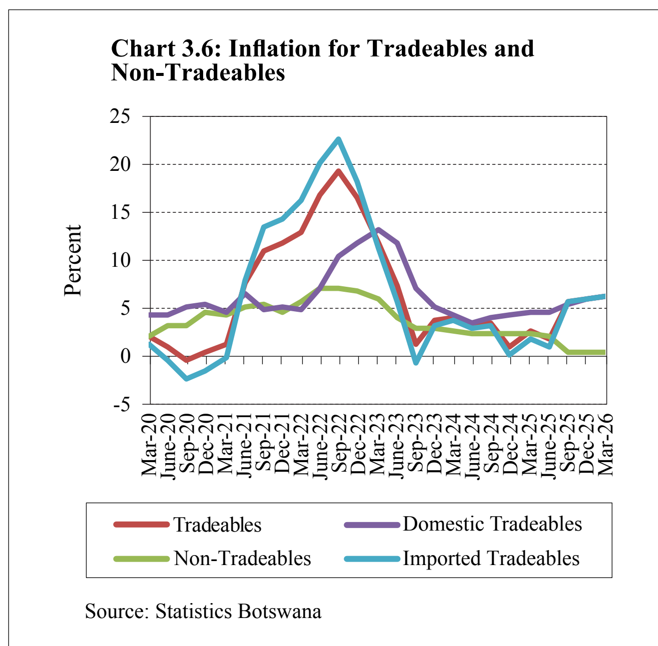


Chart 3.6: Inflation for Tradeables and Non-Tradeables

Source: Statistics Botswana

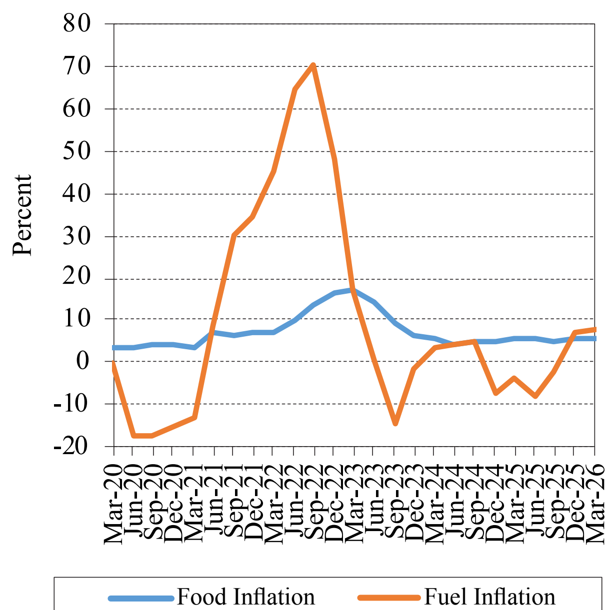
Generally, non-tradeables inflation has been on a downward trend since June 2022, mainly due to a slower pace of increases in some administered prices. Domestic tradeables inflation has generally trended upwards since June 2024, reflecting the general increase in food prices.

The divergence between tradeables and non-tradeables inflation suggests that recent inflation developments were driven predominantly by external and supply-side factors, rather than by broad-based domestic demand pressures.

Core inflation measures increased in the first quarter of 2026

Core inflation measures generally increased in the first quarter of 2026. Inflation excluding administered prices (CPIXA) averaged 5.2 percent in the first quarter of 2026, up from 3.8 percent in the first quarter of 2025 (Table 3.3), due to the increase in prices of food and non-alcoholic beverages, vehicles and school fees. Similarly, the trimmed mean inflation (CPITM) increased to 4.7 percent from 2.4 percent in the same period. Inflation excluding food and fuel increased to 3.2 percent in the first quarter of 2026, from 3.1 percent in the first quarter of 2025.

Overall, the increase in core inflation points to a broadening of underlying price pressures during the period under review. In addition to the effects of the adjustment of exchange rate parameters, the rise in core inflation also reflects the pass-through of higher costs in selected categories of goods and services. Nevertheless, subdued non-tradeables inflation and weak domestic demand conditions suggest that underlying inflationary pressures remain largely supply-driven rather than demand-induced.



Source: Statistics Botswana and Bank of Botswana

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

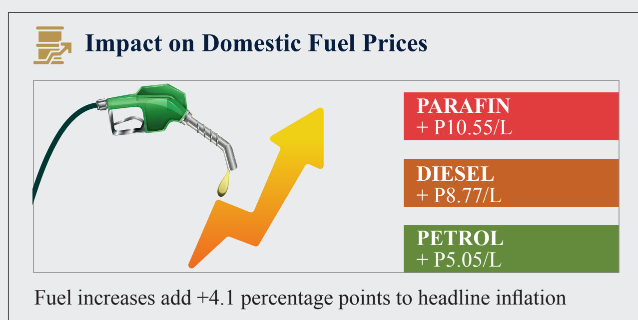
Category of commodities	Basket Weights	March 2026	Q1 2026	Q1 2025
Food and non-alcoholic beverages	13.6	5.8	5.8	5.5
Alcoholic beverages and tobacco	4.3	9.9	9.7	7.4
Clothing and footwear	6.0	4.0	4.1	4.0
Housing, water, electricity, gas and other fuels	17.5	-2.4	-2.6	1.0
Furnishing, h/h equipment and routine maintenance	4.9	4.4	4.7	2.0
Health	3.4	3.1	3.1	2.1
Transport	23.4	6.4	6.2	0.0
Communications	6.9	-1.2	-1.2	-0.1
Recreation and culture	2.8	1.5	1.3	2.1
Education	4.6	2.0	2.0	2.7
Restaurants and hotels	3.7	3.2	3.0	3.0
Miscellaneous goods and services	9.0	9.4	9.3	7.7
Annual Inflation (All items)	**100.0**	**4.2**	**4.1**	**2.6**
CPITM		4.8	4.7	2.4
CPIXA		5.3	5.1	3.8
CPIXFF		3.3	3.2	3.1

Source: Statistics Botswana and Bank of Botswana calculations

Box 1: Risks from Middle East Developments and Implications for Botswana's Inflation and Domestic Activity

The war in the Middle East, involving Israel, the United States of America and Iran, continues to pose risks to the global economy, particularly through energy markets and trade disruptions. A key vulnerability is the Strait of Hormuz, which handles approximately 20 percent of the oil and liquefied natural gas supplies. Furthermore, the route is essential for global trade in synthetic fertilizers and general merchandise. Disruptions to this transit route and attacks on energy infrastructure have already led to higher oil prices, increased shipping costs and renewed global inflationary pressures.

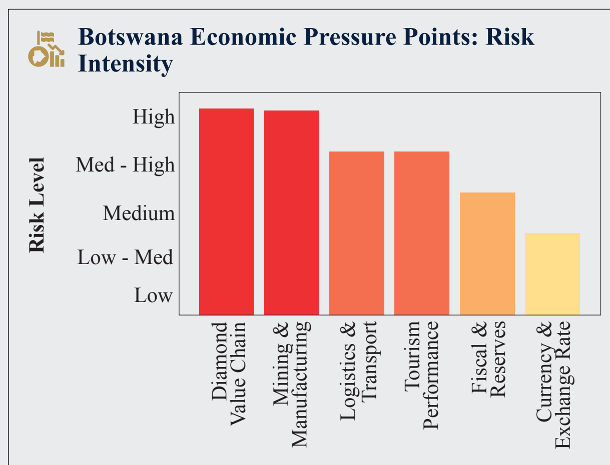
For Botswana, these developments are strongly inflationary. Domestic fuel prices were adjusted upwards on 28 March 2026.



In addition, the increase in public transport fares effective 1 April 2026 is expected to add a further 0.7 percentage points to headline inflation. These estimates, however, capture only the immediate price effects (first-round effects).

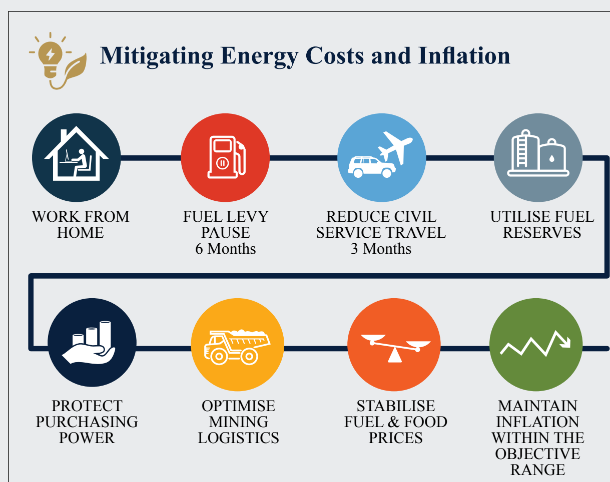
Indirect impacts arising from second-round dynamics, such as wage adjustments, shifts in inflation expectations and broader price-setting behaviour, could be significant. Higher global energy and fertiliser prices are also expected to raise food costs, particularly given that around 44 percent of food items in the Consumer Price Index (CPI) are imported tradeables, placing significant cost-of-living pressures on the most vulnerable households and contributing additional pressure on domestic inflation. Therefore, given the significant role of fuel in production and transport, the overall impact, once indirect and second-round effects are accounted for, is expected to be substantially higher than envisaged in February 2026. Against this background, inflation is expected to increase significantly, breaching the upper bound of the 3 – 6 percent medium-term objective range.

The growth outlook is also adversely affected. Heightened uncertainty, higher input costs and logistical disruptions pose downside risks to key sectors. The diamond industry faces continued weak demand and potential trade disruptions, while energy-intensive sectors, such as mining, manufacturing and transport are likely to experience rising costs, reduced profitability and delayed investment. Tourism may also weaken due to higher travel costs. In addition, exchange rate pressures transmitted through the depreciation of the Pula against the South African rand could place further strain on foreign exchange reserves.



From a financial stability perspective, higher inflation and borrowing costs may weaken household and corporate debt-servicing capacity, with possible implications for bank asset quality. Simultaneously, weaker fiscal performance may prompt increased domestic borrowing by the government, reinforcing the sovereign-bank nexus, and increasing balance sheet concentration risks. These developments could crowd out credit to the private sector and further delay economic recovery. While early signs of stress may emerge among vulnerable borrowers, the banking system remains resilient and well-capitalised to absorb potential shocks.

Amidst these uncertainties, globally, central banks have generally maintained a cautious stance, given the supply-driven nature of the shock. The Bank of Botswana will continue to monitor second-round effects using forward-looking indicators, particularly inflation forecasts, leading economic indicators and expectations, to ensure timely policy action if inflationary pressures become entrenched. To mitigate the inflationary impact of elevated energy costs, Botswana must prioritise strategic demand-side interventions.



Overall, while a temporary easing of tensions could moderate risks, the outlook remains uncertain. This underscores the importance of maintaining credible macroeconomic policies, preserving buffers and accelerating economic diversification to enhance resilience.

3.3 Recent domestic economic developments

GDP contraction moderated in 2025

Real gross domestic product (GDP) contracted by 0.7 percent in 2025, following a contraction of 2.8 percent in 2024 (Chart 3.8). The moderation in the contraction mainly reflected a less pronounced decline in diamond mining, alongside continued, albeit slower, growth in the non-mining sector. Nonetheless, overall economic performance remains weak, reflecting subdued global economic conditions, ongoing geopolitical tensions, including the conflicts in Ukraine and the Middle East, which have dampened demand for diamond jewellery and rough diamonds. Weak economic activity can also be attributed to the slow and muted impact of economic transformation initiatives so far and continuance of low productivity. These factors continue to constrain the pace of recovery and limit the economy's ability to generate sustained growth.

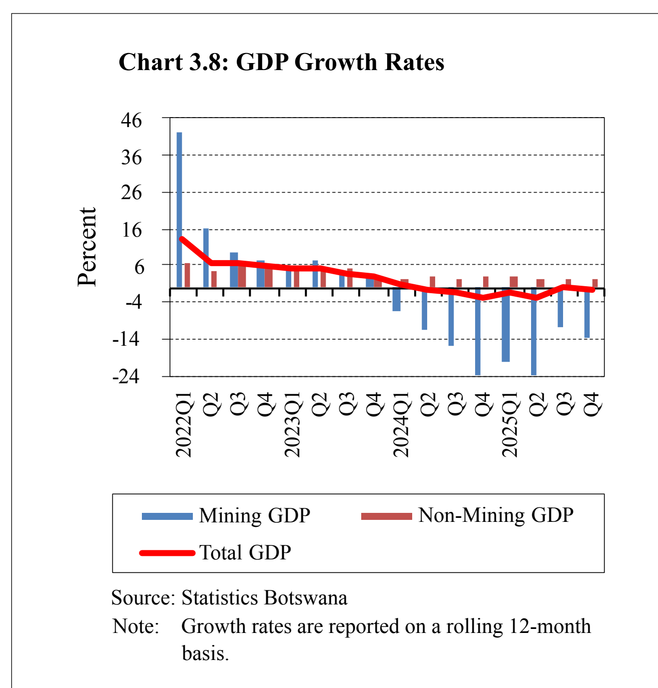
Non-mining GDP growth decelerated to 2 percent in 2025, compared to a higher growth of 3.1 percent in 2024. The slowdown in non-mining GDP growth was broad-based, mainly due to the deceleration in output growth for several sectors, namely, Wholesale and Retail; Accommodation and Food Services; Information and Communication Technology; Real Estate Activities; Professional, Scientific and Technical Activities; Public Administration and Defence; Education; Human Health and Social Work Activities; and Other Services. In addition, output contracted in Diamond Traders, Water and Electricity, and Construction sectors. Meanwhile, some sectors recorded improved performance, notably Agriculture; Transport and Storage; Finance, Insurance and Pension Funding; Administrative and Support Service Activities. Overall, the deceleration in non-mining activity suggests weakening domestic demand and highlights structural constraints that continue to limit the effectiveness of diversification efforts.

Mining sector GDP contracted by 14 percent in 2025, compared to a larger contraction of 23.9 percent in 2024. The lower pace of contraction was mainly due to the moderation in the decline of diamond mining, which contracted by 14.9 percent in 2025, following a steeper decline of 25.7 percent in the previous year. Despite this moderation, mining activity remains significantly constrained by weak global demand, elevated uncertainty and changing consumer preference, including the increasing penetration of lab-grown diamonds.

Output in other mining subsectors also declined, with soda ash and salt production declining by 19.5 percent and coal output contracting by 3.3 percent in 2025, compared to growth of 10.6 percent and 18.9 percent, respectively, in the previous period. The decline in soda ash and salt production was mainly due to weak global demand and subdued international prices in 2025, whereas the contraction in coal output was driven by lower coal demand associated with operational challenges at Morupule B power station. In contrast, copper and nickel production expanded by 1.7 percent in 2025 compared to a contraction of 13.8 percent in 2024. The improvement reflects a recovery in output at key sites, including Khoemacau Copper Mine and Sandfire Resources' Motheo Copper Mine, supported by improved operational performance and sustained global demand for base metals, particularly those linked to electric vehicle manufacturing.

Meanwhile, Statistics Botswana reported a year-on-year contraction of 5.4 percent in real GDP in the fourth quarter of 2025, compared to a lesser contraction of 1.9 percent in the corresponding quarter in 2024[3].

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, Government Final Consumption growth slowed down to 0.4 percent in 2025, from 4.8 percent in 2024. The deceleration was mainly driven by the contraction in Collective Consumption of 0.7 percent, following a stronger growth of 3.6 percent in 2024, as well as slower growth in Individual Consumption, which increased by 4.1 percent compared to 8.6 percent in the previous year. Overall, the moderation in Government Final Consumption reflects fiscal constraints, which limited the pace of public expenditure in 2025. The moderation in government spending also points to subdued demand pressures, which is generally consistent with a contained inflation outlook.

Similarly, Household Final Consumption growth decelerated to 0.6 percent in 2025, compared to 2.2 percent in 2024, reflecting subdued household spending amid rising economic uncertainty. The slowdown in household demand further indicates limited demand-driven inflationary pressures.

Gross Fixed Capital Formation (GFCF) contracted by 1.2 percent in 2025, compared to significant expansion of 4.9 percent in the previous year. The contraction in GFCF was mainly due to a decline in Transport Equipment and Buildings and Structures sub-sectors, which fell by 11.7 percent and 0.8 percent, respectively, from a growth of 15.6 percent and 1.2 percent in the previous year. Similarly, the Plant Machinery and Other Equipment sub-sector recorded a sharp slowdown, expanding by only 1 percent, down from 17.4 percent in 2024. Overall, the decline in GFCF reflects weaker investment activity across key asset categories during the year under review.

[3] Calculated as the current quarter over the corresponding quarter in the previous year.

By contrast, exports of goods and services increased by 14.8 percent in 2025, compared to a significant decline of 9.9 percent in 2024. The rebound was largely driven by higher diamond exports, reflecting improved demand for premium natural diamonds and rebalancing measures, including the sale of selected diamond assortments at discounted prices to stimulate market activity. Meanwhile, imports of goods and services declined by 19 percent in 2025, compared to a strong growth of 16.4 percent in 2024. The decline in imports partly reflects the depreciation of the Pula and exchange-rate policy adjustments in 2025, which increased the cost of imported goods and services and moderated import demand. Fiscal consolidation and restrained government spending also contributed to reduced import requirements. Overall, the combination of weaker domestic demand and improved net exports suggests limited inflationary pressures from the demand side.

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

	2024	2025 Q3	2025
Total GDP	**-2.8**	**0.1**	**-0.7**
By Sector:			
Mining and Quarrying	-23.9	-10.7	-14.0
Non-Mining	3.1	2.6	2.0
Agriculture, Forestry & Fishing	0.3	-0.1	1.4
Manufacturing	-2.5	-1.4	1.9
Water and Electricity	23.2	-8.6	-16.6
Construction	1.4	-0.1	-0.8
Wholesale & Retail	5.8	5.1	4.2
Diamond Traders	-32.3	-4.8	-17.6
Transport and Storage	1.7	2.4	2.3
Accommodation & Food Services	4.4	3.7	3.7
Information & Communication Technology	3.6	1.6	1.8
Finance, Insurance & Pension Funding	4.5	4.9	4.8
Real Estate Activities	3.6	3.6	2.4
Professional, Scientific & Technical Activities	4.2	3.4	3.3
Administrative & Support Activities	3.3	3.3	3.5
Public Administration & Defence	4.4	3.3	2.8
Human Health & Social Work	5.1	3.5	3.1
Education	7.1	5.5	4.9
Other services	4.0	2.8	2.2
By Type of Expenditure:			
Government Final Consumption	4.8	0.8	0.4
Household Final Consumption	2.2	1.3	0.6
Gross Fixed Capital Formation	4.9	1.0	-1.2
Exports of Goods and Services	-9.9	16.7 (17.8)	14.8
Imports of Goods and Services	16.4	-6.3 (-5.5)	-19.0

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

Economic activity remains sluggish despite the ongoing economic transformation drive, various policy initiatives, and generally accommodative monetary policy. This underscores the need for more concerted efforts to ensure that transformation initiatives gain traction and that the committed resources translate more effectively into tangible economic outcomes.

Diamond production decreased

Debswana Diamond Company production declined by 55.7 percent to 1.9 million carats in the fourth quarter of 2025, compared to 4.2 million carats produced in the corresponding period in 2024. The decline in production was primarily due to the maintenance shutdowns at the Jwaneng and Orapa mines. The Jwaneng plant was not operational for the entire quarter, while the Orapa plant operated only during October. Nonetheless, Debswana produced 15 million carats in 2025, in line with the production guidance for the year. For 2026, De Beers projects production of 21–26 million carats, which would represent a substantial increase relative to the 2025 outturn. However, this guidance may be revised as De Beers continues to monitor rough diamond trading conditions and align output with prevailing demand.

Production at Lucara Diamond Corporation (Karowe Mine) declined by 5.4 percent to 86 thousand carats in the fourth quarter of 2025, compared to 91 thousand carats produced in the corresponding period in 2024. The decrease reflects lower extraction of higher-grade ore, as evidenced by the reduction in the recovery of large, high-value diamonds. Nonetheless, Lucara produced 354 thousand carats in 2025, within its production guidance range of 330 – 360 thousand carats for the year. For 2026, Lucara projects output of 340 – 360 thousand carats, which is broadly unchanged from the 2025 outturn.

Budget deficit widens in the 2025/26 fiscal year

The preliminary budget outturn for the 2024/25 financial year indicates a lower deficit of P19 billion, or 7.3 percent of GDP, compared to P24.7 billion or 9 percent of GDP in the revised budget. The narrower deficit mainly reflects higher total revenue and lower expenditure, particularly development spending, consistent with Government's fiscal consolidation efforts.

The revised budget for the 2025/26 fiscal year projects a higher deficit of P25.5 billion, or 9.3 percent of GDP, compared to P22.1 billion, or 7.6 percent of GDP in the original budget. The wider deficit reflects a 5.7 percent downward revision in total revenue and grants, from P75.5 billion to P71.2 billion, mainly attributable to lower mineral revenues amid the ongoing weakness in the global diamond market. Meanwhile, total expenditure and net lending were marginally revised down, from P97.6 billion to P96.7 billion.

In the first ten months of the 2025/26 fiscal year (April 2025 – January 2026), total revenue amounted to P59 billion, representing a marginal increase of 0.4 percent compared to P58.8 billion in the corresponding period of 2024/25. The increase is mainly attributable to a rise in mineral and non-mineral income tax revenues. Mineral revenue increased due to the recovery in diamond sales, while non-mineral income tax revenue rose, mainly supported by strengthened tax administration measures introduced in the 2025 Budget.

Total expenditure and net lending amounted to P67.9 billion, reflecting a marginal decrease of 0.6 percent from P68.3 billion recorded in the first ten months of the 2024/25 fiscal year. As a result, the overall deficit for the period amounted to P8.9 billion, compared to a deficit of P9.5 billion in the previous corresponding period, indicating a relatively lower financing requirement.

For 2026/27, total expenditure and net lending are projected to increase by 7.1 percent to P103.6 billion, up from the revised estimate of P96.7 billion for 2025/26. Recurrent spending is expected to increase by 8.5 percent to P80.3 billion, accounting for 77.5 percent of total expenditure. The largest cost pressures stem from personal emoluments and pensions, which are projected to increase by 11.4 percent and account for 50.8 percent of recurrent spending. This is attributable to additional budgetary provisions for housing and upkeep allowances for public service employees, in line with the agreement between government and trade unions, salary increment creep and absorption of special constables into Regular Constable Cadre. Development expenditure is also set to increase, albeit modestly, by 2.3 percent to P23.4 billion from P22.8 billion estimated for 2025/26.

Total revenues and grants for the 2026/27 fiscal year are projected to increase by 8.4 percent to P77.2 billion, up from the revised estimate of P71.2 billion for 2025/26. Southern African Customs Union (SACU) receipts are expected to remain the largest revenue source, increasing to P26.8 billion in 2026/27 from P24.9 billion in 2025/26, and accounting for 34.7 percent of total revenues. Non-mineral income tax is projected to increase by 21.1 percent, rising from P16.3 billion to P19.8 billion. This growth is attributed to the proposed 2.5 percentage points increase in personal income tax for those earning more than P400 000 per annum, as well as the three percentage points increase in corporate income tax. Additionally, VAT is forecast to grow by 10.1 percent, reaching P15.1 billion, reflecting the proposed reductions in zero-rated items, as well as the introduction of VAT on digital and cross-border services. Mineral revenue is anticipated to broadly remain the same at P12.2 billion, compared to the P12.1 billion estimated for 2025/26, reflecting continued softness in the diamond market conditions.

Overall, the budget deficit for 2026/27 is projected at P26.4 billion, representing 8.9 percent of GDP, compared to the estimated P25.5 billion or 9.3 percent of GDP for 2025/26. The deficit is expected to be financed through a combination of domestic and external borrowing, with greater reliance on domestic debt instruments. However, of the total financing requirements, P18.6 billion or 6.3 percent of GDP remains unfinanced. With Government Investment Account balances at critically low levels, meeting the additional financing needs is projected to raise public debt to 44.7 percent of GDP by the end of 2026/27, resulting in the recalibration of the current statutory debt limit of 40 percent of GDP to 60 percent of GDP, which was approved by Parliament on 25 March 2026.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure And Net Lending	Budget Surplus/ Deficit
2024/25 Q1	**17 205**	**20 858**	**(3 653)**
2024/25 Q2	**14 504**	**19 745**	**(5 242)**
2024/25 Q3	**17 552**	**19 780**	**(2 228)**
2024/25 Q4	**20 348**	**28 233**	**(7 885)**
2024/25	**69 608**	**88 615**	**(19 007)**
2025/26 Q1	16 326	18 795	(2 469)
2025/26 Q2	17 584	21 323	(3 739)
2025/26 Q3	16 062	21 126	(5 064)
2025/26*	**71 223**	**96 703**	**(25 481)**
2026/27*	**77 224**	**103 579**	**(26 354)**

Source: Cash Flow Unit, Ministry of Finance
Note: "*" denotes a projection.

Meanwhile, the Bank has approved requests from Absa Bank Botswana Limited (Absa), First National Bank of Botswana Limited (FNBB), and Stanbic Bank Botswana Limited (Stanbic) to participate in a dual currency syndicated loan arrangement of P1.5 billion and USD250 million with the Government of Botswana, through the Ministry of Finance. The funding is intended to support the Government's 2025/26 budget-related expenditures, including fiscal deficit financing and infrastructure projects. However, the loan facilitation bill is yet to be presented to Parliament for approval.

Furthermore, in March 2026, Parliament approved several Loan Authorisation Bills, including P750 million and EUR400 million from Standard Chartered Bank and USD90 million from Stanbic Bank. In addition, USD31.5 million loan from the International Fund for Agricultural Development (IFAD) was authorised to finance the Botswana Livestock Commercialisation Project (BoLCoP)[4].

Labour Market Conditions Remain Challenging

Given continuance of output contraction in 2025, overall economic activity remains weak and below the level required to generate broad-based employment gains. Continued softness in the diamond sector, together with spillover effects to related industries and services, likely continued to weigh down on labour market conditions. As such, the modest improvement in formal sector employment observed in early 2024 may not have been sustained through 2025.

According to the preliminary 2024/25 Multi-Topic Household Survey (BMTHS) conducted by Statistics Botswana from November 2024 to November 2025, using a larger sample than the more Quarterly Multi-Topic Survey (QMTS), the unemployment rate is estimated at 21 percent, representing an increase of 3.4 percentage points from the 17.6 percent recorded in 2015/16, when a similar survey was last conducted. While both the labour force and total employment expanded over the period, employment growth lagged labour force growth, resulting in persistently high unemployment. Youth unemployment remains elevated at 28.9 percent in 2024/25 compared to 25.1 percent in 2015/16, underscoring ongoing challenges in labour absorption and the need for employment-intensive growth.

Similarly, the more recent QMTS[5] report for the first quarter of 2024, indicated an increase in the unemployment rate from 25.9 percent in the third quarter of 2023 to 27.6 percent in the first quarter of 2024.Youth unemployment rate also rose to 38.2 percent from 34.4 percent. Although formal sector employment increased modestly by 2.9 percent to 504 738, these gains appear insufficient to offset broader labour market pressures.

Other labour market indicators from the QMTS show that the structure of employment remains skewed towards the public sector, which continues to be the largest employer, with employment in public administration accounting for 30.3 percent of total formal sector employment. This was followed by education at 13.2 percent, and wholesale and retail and repair of motor vehicles at 12.6 percent. Consequently, personal emoluments account for a significant share of government expenditure, exceeding 50 percent of recurrent spending and about 13 percent of GDP, highlighting fiscal rigidities that may constrain future employment expansion. 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 assessment of the QMTS data points to weak employment elasticity of growth. Between the third quarter of 2019 and the first quarter of 2024, the total labour force, constituted by people aged 15 years and above, increased by 10.7 percent to 1 041 204 persons, while employment increased by only 1.2 percent, compared to average GDP growth of 2.7 percent during the same period. These trends indicate that economic growth has not translated effectively into job creation.

[4] BoLCoP is a large-scale agricultural commercialisation project owned by the Government of Botswana, with the Ministry of Lands and Agriculture serving as its lead implementing agency. The project is meant to help farmers transition from subsistence farming to commercial livestock production.

[5] 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 financial constraints, publication of the QMTS report has not been consistent, resulting in data gaps in labour force developments.

Since its inception in the third quarter of 2019, Statistics Botswana published the first QMTS (July-September 2019) Report in January 2020. This was followed by reports for the fourth quarter of 2019, first and fourth quarters of 2020, the fourth quarters of 2021 and 2022, as well as the third quarter of 2023. Therefore, the analysis compares the first quarter of 2024 with the third quarter of 2023.

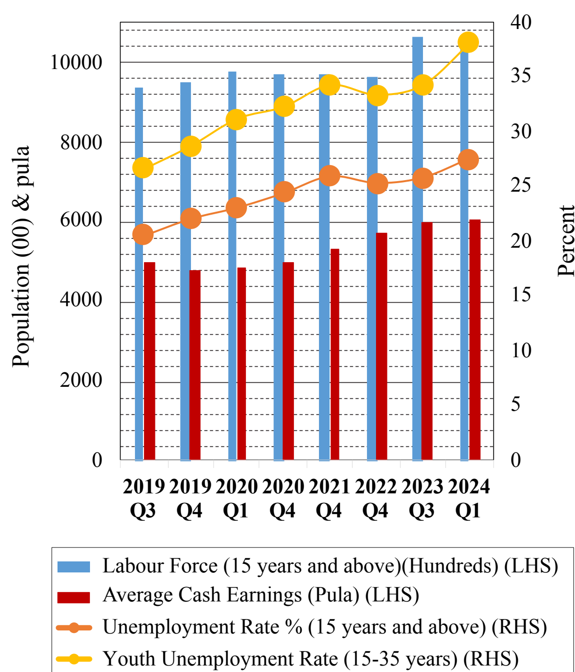
At 27.6 percent in the first quarter of 2024, the overall unemployment rate increased by 6.9 percentage points from the 20.7 percent recorded in the third quarter of 2019. Youth labour force (15–35 years) increased by 5.9 percent, to 509 683 persons in the first quarter of 2024, from 481 441 persons in the third quarter of 2019. The youth unemployment rate, which continues to be a national concern, increased to 38.2 percent in the first quarter of 2024, from 26.7 percent in the third quarter of 2019. Meanwhile, average earnings for all employees increased by P1 104, from the P4 989 estimated for the third quarter of 2019.

With the economy having contracted in 2024 and 2025, labour market conditions are likely to have deteriorated further in 2025. The slowdown in the diamond sector, a key driver of national output, export earnings and fiscal revenue, has had major spillover effects on mining-related industries and downstream services. As a result, the modest gains in formal sector employment observed in early 2024 may have since reversed.

Looking ahead, labour market conditions are expected to remain under pressure. Weak domestic demand, subdued profitability in the private sector, and continued uncertainty in the diamond industry are likely to constrain hiring. Firms may respond through hiring freezes or workforce adjustments, while fiscal pressures may limit the Government's capacity to expand employment. As a result, the absorption of new entrants into the labour force is expected to remain limited.

Overall, Botswana's labour market outlook remains challenging, reflecting structural rigidities, weak labour absorption capacity, and low productivity growth. Addressing these challenges will require sustained efforts to stimulate private sector-led growth, accelerate economic diversification, and enhance labour market efficiency to support inclusive and durable employment creation.

Chart 3.9: Trends in selected Labour Force Indicators

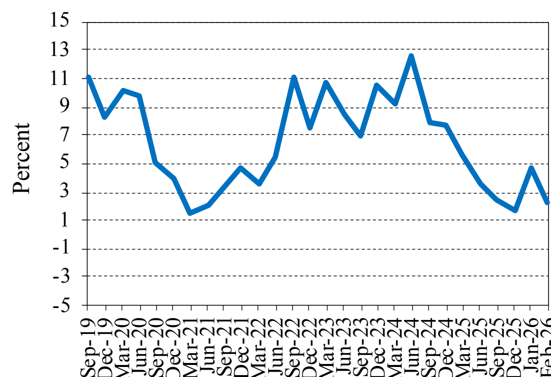


3.4 Monetary developments

Banking sector assets growth moderated

Annual growth in banking sector assets decelerated from 4.4 percent in February 2025 to 2.3 percent in February 2026 (Chart 3.10). The lower growth was attributed to reduced balances due from domestic banks, as well as the deceleration in loans and advances, which account for the largest proportion of commercial banks' assets (61.9 percent in February 2026). Meanwhile, holdings of BoBCs, balances in the standing deposit facility and operating account at Bank of Botswana increased. Overall, the growth in banking sector assets continued to be predominantly funded by customer deposits, which increased by 3.7 percent in the same period.

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



Source: Bank of Botswana

Liquidity conditions improved but remain tight

Average daily market liquidity increased from P5.841 billion in February 2026 to P7.476 billion in March 2026. The increase was mainly attributable to net Government spending, supported by SACU receipts and loans from domestic commercial banks. Despite this improvement, liquidity remains relatively tight, due to the concentration and uneven distribution feature of the market. The Bank continues to manage liquidity conditions through targeted refinancing monetary operation, aimed at enhancing liquidity distribution and supporting the effective transmission of monetary policy.

Credit growth decelerated amid tighter financial conditions

Annual growth in commercial bank credit was 2.6 percent in February 2026, down from 5.8 percent in the corresponding period in 2025 (Chart 3.11). The deceleration was primarily due to decreased lending to households, reflecting the possible impact of higher market interest rates, reduced loan disbursements and repayments of scheme loans. Growth in lending to the household sector stalled at zero percent in the year to February 2026, a significant slowdown compared to the 5.4 percent expansion in the corresponding period in 2025. This outcome was due to decreased lending for motor vehicle acquisition and unsecured personal loans, with annual growth slowing from 7.9 percent to -5.8 percent and 7.7 percent to zero percent, respectively, which more than

offset moderate increases in lending for credit cards and mortgages, from -2.1 percent to 5.8 percent and 0.2 percent to 0.8 percent, respectively. As a result, the share of the household credit in total lending by commercial banks declined to 62.6 percent in February 2026, from 64.3 percent in February 2025.

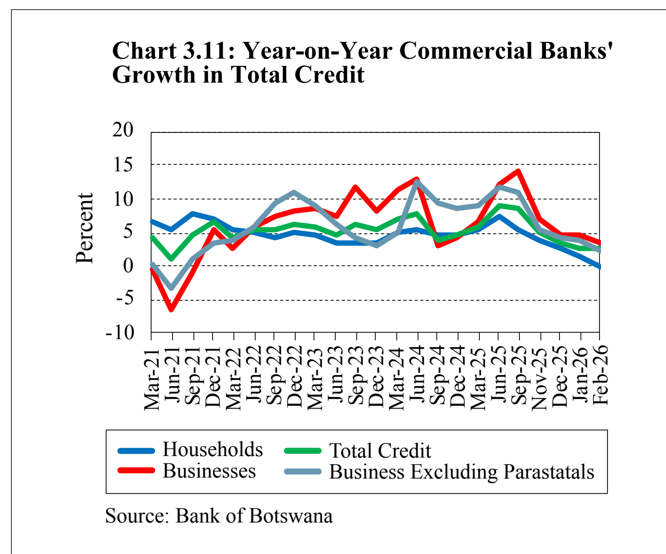


Chart 3.11: Year-on-Year Commercial Banks' Growth in Total Credit

Source: Bank of Botswana

Lending to the business sector increased by 3.5 percent in the year to February 2026, lower than the 6.5 percent expansion in the corresponding period in 2025. Likewise, growth in credit to businesses excluding parastatals decelerated to 2.3 percent in the year to February 2026, from 8.9 percent expansion in the corresponding period in 2025, mainly attributable to early loan repayments and reduction in overdraft utilisation by some companies in various sectors including agriculture, mining, electricity and water, construction, trade, transport and communications, finance and tourism. Meanwhile, lending to parastatals accelerated by 20.7 percent in the year to February 2026, compared to a decrease of 17.8 percent in the twelve months to February 2025, due to increased utilisation in term loans and loan disbursements. Furthermore, lending to the central government amounted to P1 185 million in February 2026 (1.3 percent of total commercial banks loans).

Despite these developments, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative at -3.1 percent in December 2025, suggesting limited risks of excessive 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. Consistent with this, the March 2026 Credit Conditions Survey (CCS) indicates that credit demand is expected to remain subdued, particularly among households and small and medium enterprises (SMEs). Credit supply is also expected to tighten further, especially for unsecured lending and SME segments, reflecting rising borrowing costs, elevated default risks and persistent economic uncertainty. Overall, credit conditions are expected to remain restrictive in the near term.

Money supply growth remained modest

M2 expanded by an annual rate of 2.9 percent in December 2025, lower than the 4.8 percent growth in the corresponding period in 2024 (Chart 3.12). The increase in M2 reflected the expansion in credit extended to the private sector, as well as the decrease in net foreign assets and government deposits at Bank of Botswana, during the period under review. Overall, money supply growth remained modest, consistent with subdued economic activity and constrained liquidity conditions.

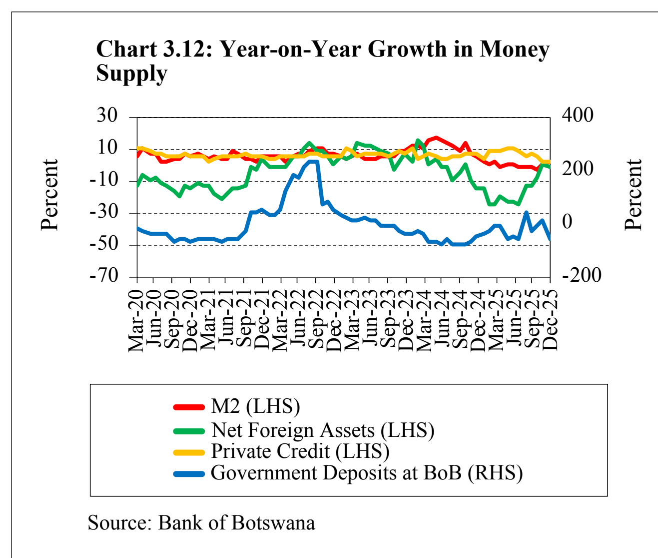


Chart 3.12: Year-on-Year Growth in Money Supply

Source: Bank of Botswana

The nominal BoBC yields decreased

The 7-day nominal BoBC yield (MoPR) increased from 1.90 percent in the first quarter of 2025 to 3.50 percent in the first quarter of 2026, due to a 160 basis points increase in the policy rate in October 2025. Similarly, the real interest rate on the 7-day paper improved from -0.72 percent to -0.58 percent in the same period, reflecting the larger increase in nominal yields compared to the inflation rate.

The stop-out yield on the 1-month BoBC, which was introduced in June 2022 to address structural liquidity issues and support the construction of the short-end of the yield curve, averaged 3.97 percent in the first quarter of 2026, an increase from an average of 2.24 percent in the corresponding period in 2025. However, the real rate of interest for the 1-month paper increased from an average of -0.39 percent to an average of -0.13 percent in the same period, reflecting the larger increase in nominal yields than in the inflation rate.

Credit Ratings

Sovereign rating downgraded but remain investment grade

On 13 March 2026, S&P Global Ratings (S&P) downgraded Botswana’s long-term foreign and local currency ratings from 'BBB' to 'BBB-', while the short-term ratings for both foreign and domestic currency debt were lowered from 'A-2' to 'A-3'. The outlook remains negative.

Despite the downgrade, Botswana’s sovereign ratings continue to be within the investment-grade category, albeit at the lowest notch. According to S&P, the downgrade reflects expectations of prolonged period of subdued global demand for diamonds, which continues to weigh down on Botswana's already constrained economy and public finances. S&P also highlighted the accumulation of fiscal pressures in recent years and the limited scope for rapid

fiscal consolidation under current conditions. The negative outlook reflects downside risks associated with persistent weakness in the diamond markets, which could further constrain economic activity and government revenue, thereby complicating consolidation efforts and potentially weakening both external and public sector balance sheets.

Notwithstanding these challenges, S&P emphasised that Botswana's credit profile continues to be supported by its strong institutional framework, which has historically underpinned prudent management of natural resource wealth and macroeconomic stability. Additional credit strength includes a relatively strong net external asset position and a moderate, albeit rising, level of public debt. The rating agency also recognised government's ongoing efforts to support economic diversification, including implementation of the National Development Plan 12 and the Botswana Economic Transformation Programme (BETP), which target priority sectors to broaden the country's economic base.

S&P indicated that an improvement of the outlook to stable could occur if there is a sustained recovery in the diamond market, alongside stronger economic growth, improved fiscal performance and stabilisation of external balances. Conversely, continued weakness in diamond demand, coupled with persistent fiscal pressures and limited progress on fiscal consolidation could result in a further downgrade.

Moody's conducted a sovereign credit review with no rating action

Moody's Investors Services (Moody's) conducted its regular sovereign credit review in March 2026. While no rating action was taken, the agency maintained Botswana's sovereign rating at 'Baa1' for long-term local and foreign currency debt, still at investment grade, but with a negative outlook. The maintenance of the rating reflects broadly similar considerations to those highlighted by S&P, including the impact of diamond market developments on fiscal and external positions, balanced against Botswana's strong institutional framework and track record of prudent macroeconomic management.

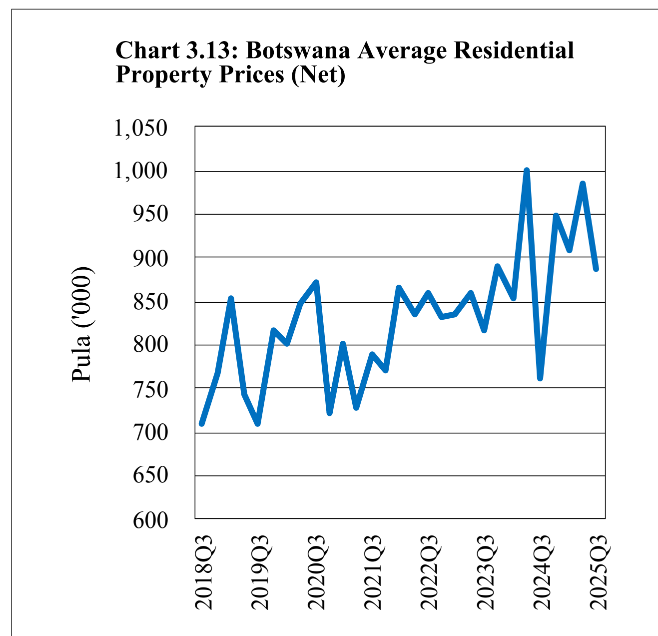
3.5 Asset market prices

Property market weakens in the third quarter of 2025

According to the 2025Q3 quarterly Riberry Report[6], the residential property market prices declined in the third quarter of 2025 compared to the second quarter of 2025. The average price for residential properties sold in the third quarter of 2025 was P888 055, a 9.9 percent decrease compared to the second quarter of 2025 (Chart 3.13). The decline is attributable to lower average prices in Greater Francistown, Selibe Phikwe and Greater Gaborone. However, the report highlights good demand for affordable prime located houses (rental prices up to P5 000 for and purchase prices between P400 000 – P1 million), amid restricted supply. In contrast, the supply of medium- to upper-end market houses, for both sale and rental, increased in the third quarter of 2025.

The weakening performance of the residential property market could be attributable to challenging economic conditions. Furthermore, the Bank's 2026Q1 (December 2025 – February 2026) Credit Conditions Survey Report indicates reduced demand for residential property loans, mainly due to higher pricing, reduced affordability and the government's announcement to discontinue GEMVAS. For the months of March to May 2026, demand for residential property loans is expected to continue to decrease as higher pricing on new loans continue to constrain borrower appetite.

Chart 3.13: Botswana Average Residential Property Prices (Net)



The demand for office space in the third quarter of 2025 remains reasonable, although it is slower than in the second quarter. There has been notable demand for office space in the new Central Business District, Showgrounds and Government Enclave. However, supply remains constrained, as reflected in the limited construction of office space. Although the short-term outlook for the office market appears positive, the prevailing subdued economic conditions are expected to exert downward pressure on the office property market going forward.

The retail market continues to exhibit sustained demand, particularly around Gaborone with two regional shopping centres at Mogoditshane (one involving Kweneng District Council and private developers/investors, and the A10 project by the GH Group at completion stage). Other areas such as Molepolole, Jwaneng, Ramotswa, Maun, Francistown, Selebi-Phikwe and Mahalapye, also reported good retail property demand, with one or two retail projects in the planning or construction stages. These properties will be largely occupied by well-established South African and local tenants.

The stock market indices increased in March 2026

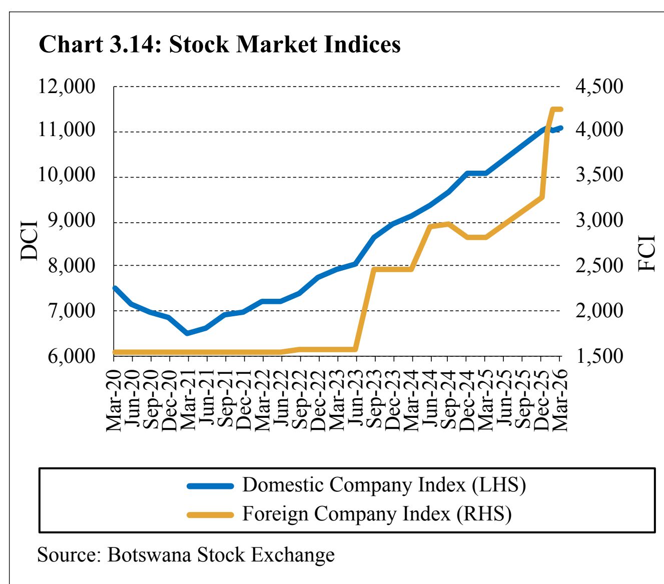
The Domestic Companies Index (DCI) increased by 9.8 percent in the twelve months to March 2026, albeit lower than the increase of 10.9 percent in the year to March 2025 (Chart 3.14). Despite a challenging trading environment

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

characterised by a downturn in the diamond market and a slowdown in economic activity[7], the DCI was supported by strong share price gains for Choppies (177.8 percent), RDCP (6.3 percent) and BTCL (37.7 percent). This indicates resilience in Botswana's domestic equities.

The Foreign Companies Index (FCI) increased by 50.3 percent in the year to March 2026, compared to an increase of 14.6 percent in the corresponding period in 2025 (Chart 3.14). The notable increase in the FCI during the period under review was due to the significant increase in the price for Anglo American PLC stock, which accounts for over 95 percent of the FCI market capitalisation and over 80 percent of Botswana Stock Exchange Limited market capitalisation. The drivers behind the price increase included strong dividend announcements, improved earnings outlook and investor confidence in the mining sector.

Chart 3.14: Stock Market Indices



Source: Botswana Stock Exchange

[7] 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.

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

The Bank implemented reforms to its monetary policy operations in April 2022 to enhance the effectiveness of policy transmission. These reforms replaced the Bank Rate with the Monetary Policy Rate (MoPR), defined as the yield on the 7-day Bank of Botswana Certificate (BoBCs), as the primary policy anchor. In addition, an interest rate corridor of ±100 basis points around the MoPR was introduced to guide short-term interest rate movements. The interest rate corridor is operationalised through two standing facilities: the Standing Deposit Facility (SDF), a non-collateralised facility set at 100-basis points below the MoPR to absorb excess liquidity; and the Standing Credit Facility (SCF), a collateralised tradeable facility set at 100-basis points above the MoPR to provide liquidity when needed and to prevent disruptive spikes in short-term rates. Together, these instruments are designed to improve monetary policy transmission by anchoring short-term interest rates closer to the policy rate, encouraging more predictable market behaviour.

Since their introduction, the reforms have strengthened the responsiveness of market interest rates to changes in the policy stance. The overnight uncollateralised interbank rates have remained well-anchored around the MoPR, and traded consistently within the established interest rate corridor, reflecting improved price discovery and alignment of liquidity conditions with policy objectives. Movements within the corridor have provided meaningful policy signals: interbank rate approaching the interest rate corridor ceiling indicate tightening liquidity conditions, while rates drifting toward the floor reflect a build-up of excess liquidity in the system.

However, persistent structural liquidity constraints have exerted upward pressure on yields at the short end of the yield curve. In particular, yields on the 3-month Treasury Bill have increased markedly, driven by tighter liquidity conditions and increased domestic borrowing requirements to finance fiscal deficits. This has resulted in a widening deviation from the MoPR, which has also translated into higher funding costs across the banking system. Consequently, commercial banks raised their prime lending rates by between 75 and 200 basis points, reflecting both tighter funding conditions and reliance on short-term wholesale deposits. To mitigate these pressures, the Bank extended the tenor of repo operations up to three months, providing banks with greater flexibility in liquidity management and reducing short-term funding risks. Despite these challenges, the financial system continues to exhibit resilience, with positive, albeit unevenly distributed, liquidity conditions indicating the capacity of the domestic financial system to absorb shocks

At the long end of the yield curve, Government bond yields have continued to trend upward, driven primarily by heightened market's fiscal concerns and elevated inflation expectations among market participants. Furthermore, the demand for long-term Government securities has remained subdued, partly due to competition from relatively attractive deposit rates offered by commercial banks. Notwithstanding these developments, long-term yields appear to be more closely aligned with the Pula-basket weighted yields than with the MoPR or expectations for future MoPR rates. This suggests that long-term pricing continues to be influenced more by exchange rate-adjusted return considerations, liquidity premia, and sovereign credit risk than by domestic monetary policy conditions. As a result, monetary policy transmission to longer-term interest rates remains relatively weak, underscoring the need for continued capital market development and measures to deepen market liquidity.

3.6 Balance of payments

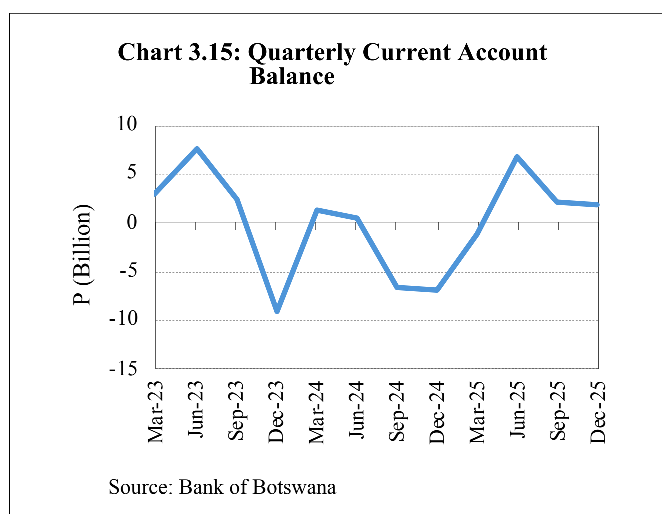
The Balance of Payments (BoP) was in deficit in the fourth quarter of 2025

The overall BoP is estimated to have recorded a deficit of P4.5 billion during the fourth quarter of 2025, an improvement from a deficit of P6.3 billion in the corresponding period in 2024. The narrower deficit reflected an improvement in the merchandise trade deficit, supported by the improvement in diamonds exports.

Current account was in surplus during the fourth quarter of 2025

The current account recorded a surplus of P1.9 billion in the fourth quarter of 2025, recording a substantial improvement from a deficit of P6.8 billion during the fourth quarter of 2024 (Chart 3.15). The surplus was largely driven by the secondary income account which recorded a surplus of P5.9 billion, supported by SACU receipts of P6.5 billion.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

Diamond exports rose by 37.4 percent to P12.5 billion in the fourth quarter of 2025, accounting for 70.6 percent of total exports. This represents a substantial increase from P9.1 billion (64.9 percent share) during the corresponding quarter in 2024. The increase in diamond exports was due to improved consumer demand for larger, higher-quality, and premium natural diamonds, as well as stock rebalancing initiatives by the De Beers Group, which involved accepting lower margins to facilitate the sale of specific assortment of rough diamonds.

Other export categories that contributed to the increase in exports include meat and meat products (112.4 percent), vehicles and transport equipment (51.5 percent), other goods (41.5 percent), copper (12 percent) and machinery and electrical equipment (6.5). In contrast, exports declined for live cattle (99.9 percent), iron and steel products (54.3 percent), plastics and plastic products (32.3 percent) and coal (27.3 percent).

On the imports side, commodities that contributed to the decrease in imports include diamonds (-63.1 percent), other goods (-23.1 percent), vehicles and transport equipment (-17.3 percent), metals and metal products (-16.1 percent), food, beverages and tobacco (-11.4 percent), textile and footwear (-9.6 percent) and furniture (-6.9 percent). However, imports that increased are; machinery and electrical equipment (8.6 percent), salt ores and related products (5.9 percent), and fuel (0.2 percent).

The merchandise trade account recorded a deficit of P2.9 billion in the fourth quarter of 2025, improving from a larger deficit of P11 billion. Total exports increased by 28.1 percent from P13.9 billion to P17.8 billion, while imports decreased by 17.2 percent from P25 billion to P20.7 billion. As a result, the merchandise trade deficit narrowed significantly to P2.9 billion in the fourth quarter of 2025, from a deficit of P11 billion in the corresponding period in 2024.

More recent data for January 2026 indicate a continued improvement, with, the merchandise trade account recording a deficit of P1.7 billion, from a larger deficit of P3.5 billion recorded in January 2025.

Total exports increased by 42.2 percent from P3.2 billion to P4.5 billion, while imports decreased by 7.5 percent from P6.7 billion to P6.2 billion over the same period.

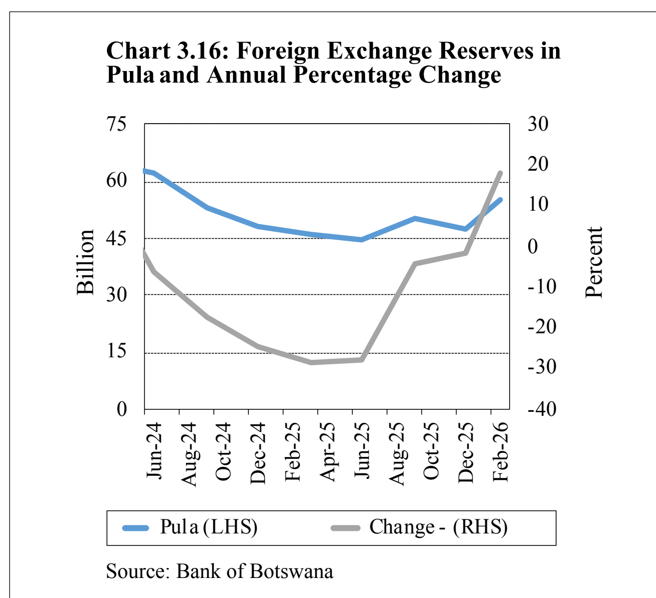
The financial account recorded a net outflow

The financial account is estimated to have recorded a net outflow of P5.5 billion during the fourth quarter of 2025, compared to a net inflow of P1.6 billion during the same period in 2024. This shift reflects increased loan repayments and an increased holdings of portfolio assets abroad.

Foreign exchange reserves increased

The foreign exchange reserves were estimated at P55.3 billion in February 2026, an increase of 18.2 percent from P46.8 billion in February 2025. (Chart 3.16).

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

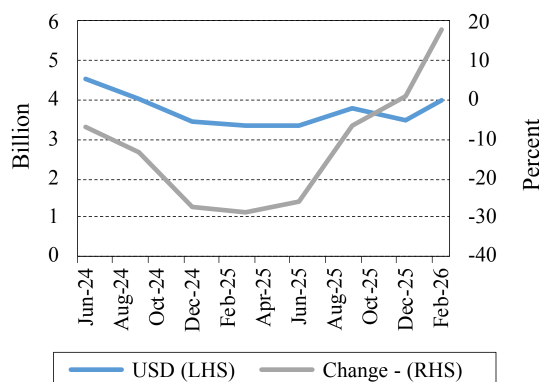


Source: Bank of Botswana

In foreign currency terms, the foreign exchange reserves increased to USD4 billion from P3.4 billion (Chart 3.17) and SDR2.9 billion from SDR2.6 billion during the same period.

The level of foreign exchange reserves in February 2026 was equivalent to 7.2 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

Exchange rate policy implementation and market developments

In 2026, the Bank continues to implement the exchange rate policy framework aimed at maintaining external competitiveness and supporting macroeconomic stability. This involves maintaining equal weights of 50 percent each for the South African rand and the SDR in the Pula basket, together with an annual downward rate of crawl of 2.76 percent.

The exchange rate flexibility has been progressively enhanced through a series of reforms to the Pula trading margins. In July 2025, the symmetric trading margins were widened significantly from ±0.5 percent to ±7.5 percent around the central parity. Building on this, asymmetric trading margins were introduced in January 2026 for foreign exchange transactions with commercial banks. Under this arrangement, the Bank buys foreign currency at a margin of 3 percent above the central parity[8] and sells at a margin of 7.5 percent below the central parity[9].

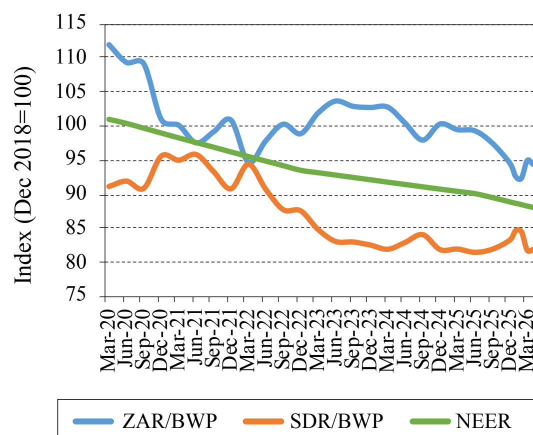
Preliminary evidence suggests that these reforms have improved price discovery in the foreign exchange market and encouraged greater participation by commercial banks in interbank trading. The wider and asymmetric margins have also reduced the need for frequent central bank intervention, thereby supporting a more market-based allocation of foreign exchange and contributing to the preservation of foreign exchange reserves. While the full impact of these measures is still unfolding, early developments are consistent with the Bank's objective of fostering a more flexible, efficient, and self-sustaining foreign exchange market, while maintaining alignment of the exchange rate with underlying economic fundamentals.

In the year to April 2026, the nominal Pula exchange rate depreciated by 6.7 percent against the South African rand and appreciated by 1.9 percent against the SDR (Chart 3.18). With respect to the SDR constituent currencies, the Pula appreciated by 15.6 percent against the Japanese yen, 2.6 percent against the US dollar, 2.1 percent against the British pound and 0.2 percent against the euro but depreciated by 3.3 percent against the Chinese renminbi.

During the same review period, the South African rand appreciated against the SDR and all its constituent currencies. Specifically, it strengthened by 23.9 percent against the Japanese yen, 10 percent against the US dollar, 9.4 percent against the British pound, 7.3 percent against the euro and 3.6 percent against the Chinese renminbi, resulting in an overall appreciation of 9.2 percent against the SDR.

The appreciation of the South African rand was supported by renewed hopes of peace talks between the US and Iran, following the extension of an initial two-week ceasefire agreement[10]. Additionally, sustained confidence in South Africa's fiscal consolidation efforts and monetary policy credibility, as well as increased portfolio inflows, provided fundamental support to the rand.

Chart 3.18: Nominal Exchange Rate Indices



Source: Bank of Botswana

NEER depreciated in April 2025

The Nominal Effective Exchange Rate (NEER) of the Pula depreciated by 2.5 percent in the year to April 2026 (Chart 3.19), consistent with the transition from an annual downward rate of crawl of 1.51 percent to 2.76 percent.[11].

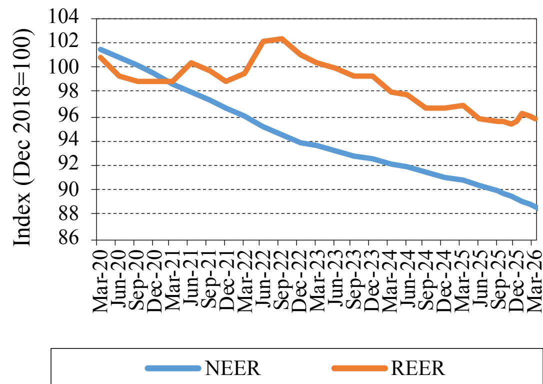
[8] Buying foreign currency at 3 percent above central parity (mid-rate) means that the Bank pays more Pula than the official rate when it purchases foreign currency from commercial banks. This encourages commercial banks to sell foreign currency to the Bank.

[9] Selling foreign currency at 7.5 percent below central parity means that the Bank provides fewer units of foreign currency per Pula when selling to commercial banks. This discourages excessive demand for foreign currency by commercial banks and supports foreign exchange reserve accumulation.

[10] The two weeks truce began on 8 April 2026, following a proposal from Iranian officials, which included reopening of the strategic Strait of Hormuz. The reopening of the Strait was expected to result in a fall in oil prices, consequently reducing inflationary risks for South Africa.

[11] 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 and was maintained in January 2026.

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER depreciated in March 2026

The Real Effective Exchange Rate (REER) depreciated by 1.2 percent, year on year, in March 2026 (Chart 3.19). This was due to the depreciation of the NEER (reflecting the rate of crawl), which more than offset the effect of higher domestic inflation relative to trading partner countries. The resulting REER depreciation indicates an improvement in Botswana’s export competitiveness by this measure.

With respect to bilateral movements against the Pula basket currencies, the real Pula exchange rate (based on headline inflation) depreciated by 3.5 percent against the South African rand and appreciated by 1.2 percent against the SDR. It also appreciated by 12.1 percent against the Japanese yen, 2.7 percent against the US dollar, 0.8 percent against the British pound and 0.1 percent against the Chinese renminbi, while depreciating by 2.3 percent against the euro.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains subdued, with growth for 2026 revised slightly downwards, while the 2027 projection remains unchanged in the April 2026 WEO report relative to the January 2026 WEO Update. The downward revision is largely on account of the disruptions arising from the war in the Middle East, specifically through its impact on commodity markets, inflation expectations and financial conditions. Nonetheless, these headwinds are partly offset by surging investment related to technology, including AI, continued fiscal and monetary support, relatively accommodative financial conditions, reduced tariff rates and adaptability of the private sector. Regarding price developments, global inflation is projected to increase, although price dynamics vary across countries and regions.

Global economic growth expected to remain below historical average

According to the April 2026 WEO report, global economic growth is forecast to remain subdued at 3.1 percent in 2026, down from 3.4 percent in 2025, before increasing slightly to 3.2 percent in 2027. The 2026/27 forecasts remain below the historical (2000-2019) annual average of 3.7 percent. The growth forecast for 2026 was revised downward by 0.2 percentage points, compared to the January 2026 WEO Update, based on the assumption that the war will subside by mid-year[12]. The downward revision is attributed to the ongoing war in the Middle East and heightened global uncertainty. The war poses a negative supply shock that has a direct effect on commodity price increases, raising the cost of all energy intensive goods and services, including fertilisers, chemicals, food, transportation and disrupting supply chains. However, these pressures are partially offset by several tailwinds, including a surge in technology-related investment including AI, continued fiscal and monetary support, and broadly accommodative financial conditions. Moreover, reduced tariff rates and the resilient adaptability of the private sector have provided a necessary cushion.

Overall, risks to the global economic outlook remain skewed to the downside. These are underscored by the escalation of the geopolitical tensions, which could worsen, as well as political strains that may erupt as trade related disputes become more intense. Moreover, re-evaluation of profit expectations regarding AI, stemming from more intense competition, could lead to a decline in investment. In addition, larger fiscal deficits and increasing public debt, with already eroded fiscal buffers, could put pressure on long-term interest rates and, in turn, on broader financial conditions.

For advanced economies, output is projected to grow by 1.8 percent in 2026, slightly lower than 1.9 percent in 2025, and moderate further 1.7 percent in 2027. Despite the overall subdued expansion, the 2026 growth forecast is supported by fiscal policy and the lagged impact of monetary policy rate easing in 2025, while the impact of higher trade barriers is also expected to gradually wane.

UK economic growth forecast to remain subdued

The UK economy is forecast to grow by 0.8 percent in 2026, a decline from 1.3 percent in 2025 and a downward revision of 0.5 percentage points from the January 2026 WEO update. The downward revision in growth is due to the ongoing Middle East war and a slower pace of monetary policy easing. In addition, growth prospects are weighed down by weaker domestic demand amid high interest rates and cost-of-living pressures, alongside tighter financial conditions, subdued business investment and elevated trade policy uncertainty.

Output growth for the US expected to increase

In the US, output is forecast to increase from 2.1 percent in 2025 to 2.3 percent in 2026, before easing to 2.1 percent in 2027. The growth forecast for 2026 is 0.1 percentage points lower than the January 2026 projection, reflecting a small negative impact from the war given that the US is a net energy exporter. Moreover, growth is supported by the near-term fiscal boost from tax incentives for corporate investment under the One Big Beautiful Bill Act of 2025[13].

Growth for the euro area forecast to decrease

In the euro area, economic growth is projected at 1.1 percent in 2026 and 1.2 percent in 2027 compared to 1.4 percent in 2025. The subdued outlook reflects the impact of elevated energy prices and continued geopolitical tensions, alongside the lingering effects of earlier shocks, including the Russia-Ukraine conflict, which continue to weigh on manufacturing activity, with additional pressure from the real appreciation of the euro relative to currencies of countries exporting similar products.

Emerging markets GDP growth projected to decline

Economic activity in emerging market and developing economies (EMDEs) is projected to expand by 3.9 in 2026 and 4.2 percent in 2027, lower than the estimated 4.4 percent growth in 2025. The 2026 growth forecast has been revised downward by 0.3 percentage points, reflecting the significant toll of the war on emerging Middle East countries and commodity-importing EMDEs. Moreover,

[12] Should the war persist with larger and more persistent increases in energy prices, global growth is expected to slow further to 2.5 percent in 2026, with inflation increasing to 5.4 percent.

[13] The One Big Beautiful Bill Act of 2025 supports near-term growth primarily through accelerated depreciation allowances, investment tax credits, and reductions in the effective corporate tax rate. These measures lower the user cost of capital, incentivising firms to bring forward planned investments and increase capital expenditure, thereby providing a short-term boost to output.

disruptions in the Middle East are expected to reduce tourism and remittance inflows, thereby weakening domestic demand in South and Southeast Asian economies.

In India, output is expected to expand by 6.5 percent in both 2026 and 2027, compared to 7.6 percent in 2025. The growth forecasts for 2026 and 2027 are 0.1 percentage points higher than the January 2026 WEO update, due to positive contributions from strong economic performance in 2025 carrying into 2026, as well as a reduction in US tariffs on Indian goods from 50 percent to 10 percent. These factors more than offset the negative impact of the Middle East conflict. Meanwhile, output for China is forecast to grow by 4.4 percent in 2026 and 4 percent in 2027, lower than the estimated expansion of 5 percent in 2025.

Growth prospects for the South African economy remain weak

Regionally, growth prospects for South Africa are expected to remain constrained, reflecting persistent structural challenges and external headwinds that have stifled economic momentum. The subdued economic outlook is primarily attributed to inefficiencies in key sectors, particularly energy and logistics. Persistent electricity supply instability, despite the suspension of load-shedding, and severe bottlenecks in freight rail and port operations, continue to constrain productivity and export capacity. These domestic challenges are compounded by external pressures, including higher US tariffs on South African exports and broader global trade uncertainty, which have dampened demand and investment. Thus, South African output growth is forecast to remain subdued at 1 percent in 2026 and 1.3 percent in 2027, compared to the 1.1 percent expansion in 2025.

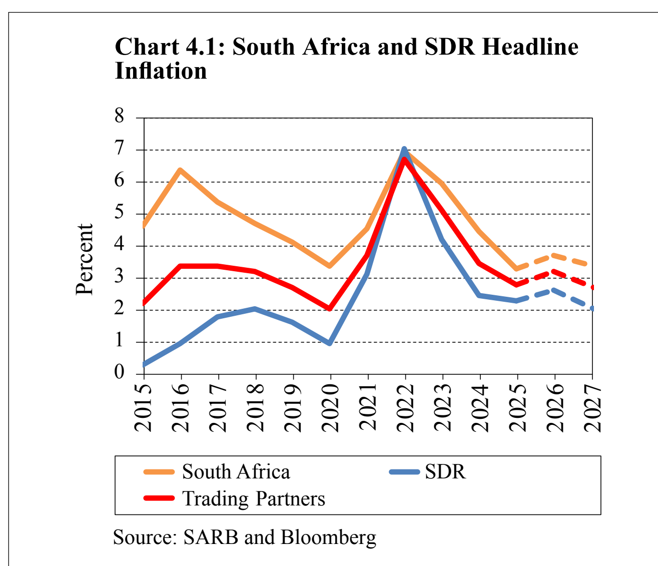
Meanwhile, in March 2026, the SARB's growth projections for 2026 and 2027 were unchanged at 1.4 percent, and 1.9 percent, respectively. The expected growth is supported by structural reforms, and positive credit extension.

Global inflation projected to increase

Globally, inflation is expected to increase in 2026, driven by higher energy and food prices, particularly for commodity-importing EMDEs. Inflation for advanced economies is forecast to increase from 2.5 percent in 2025 to 2.8 percent in 2026, while for emerging market economies, it is forecast to increase from 5.2 percent to 5.5 percent in the same period. Inflation is projected to decline in 2027 to 2.2 percent and 4.6 percent for advanced economies and EMDEs, respectively. Overall, global inflation is expected to increase from 4.1 percent in 2025 to 4.4 percent in 2026, before easing to 3.7 percent in 2027.

Meanwhile, the SARB forecasts South African inflation to average 3.7 percent and 3.3 percent in 2026 and 2027, respectively. The forecasts for 2026 and 2027 have been revised upward from 3.3 percent and 3.2 percent compared to the January 2026 projections, on account of higher oil prices due to disruptions associated with the Middle East war (Chart 4.1).

Chart 4.1: South Africa and SDR Headline Inflation



Source: SARB and Bloomberg

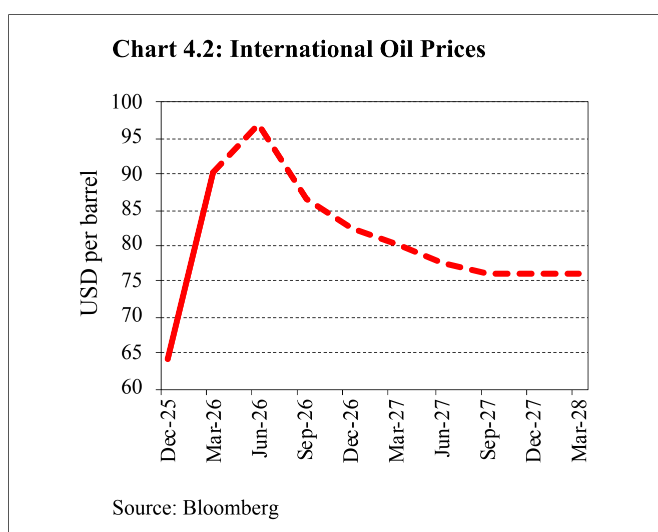
Diamond prices expected to trend downward

Diamond prices are expected to remain under pressure 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[14] have contributed to the decline in demand for diamonds and, consequently, diamond prices.

International oil prices forecast to increase in the short term

International oil prices are expected to remain volatile and elevated in the short term due to escalating geopolitical tensions in the Middle East, which have significantly disrupted the transportation and supply of global energy (Chart 4.2). These disruptions, particularly the closure of the Strait of Hormuz, have created a supply deficit that outweighs current production levels from other regions. While OPEC and its allies have outlined plans for modest production increases, the market remains tight and highly sensitive to further conflict-related shocks. As a result, prices are expected to stay elevated until there is a clear diplomatic resolution or a sustained recovery in global inventory levels. Overall, there is potential significant upward pressure from international oil prices on domestic inflation.

Chart 4.2: International Oil Prices



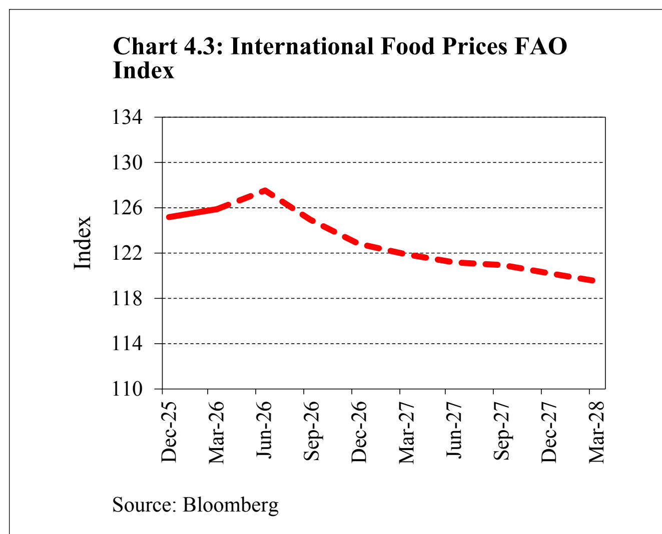
Source: Bloomberg

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

International food prices expected to increase in the short term

International food prices are expected to face renewed upward pressure in the short term. The anticipated increase in international food prices is on account of high energy and fertiliser costs, associated with the war in the Middle East, which are expected to lead to an increase in production and transport costs. In addition, adverse weather in some producing countries and renewed supply disruptions in Russia and the wider Black Sea region also contribute to the expected increase in food prices. Overall, the expected increase in international food prices will exert marginal upward pressure on domestic inflation in the short term.

Chart 4.3: International Food Prices FAO Index



Source: Bloomberg

In Southern Africa, food prices are expected to moderate, supported by improved crop production following the El Niño period. 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. However, the outbreak of Foot and Mouth Disease in the region is disrupting livestock movement, threatening export markets and deepening economic uncertainty for beef and dairy production, which may keep meat prices elevated.

4.2 Outlook for domestic economic activity

The Ministry of Finance forecasts GDP to rebound to 3.1 percent in 2026 and 5.4 percent in 2027.

Output growth projection revised upwards for 2026

Growth prospects remain subdued and well below the estimated 7 percent annual average growth required to elevate the country to high income status by 2036. The Ministry of Finance projects real GDP to rebound to a growth of 3.1 percent in 2026 and 5.4 percent in 2027, from an estimated contraction of 0.7 percent in 2025.[15] This recovery is expected to be driven primarily by stronger performance in non-mining sectors, supported by the implementation of economic diversification initiatives under NDP 12 and the BETP.

Key drivers of growth include large-scale renewable energy projects, agro-processing and livestock expansion, manufacturing value-chain development, digitalisation and financial services reforms, tourism sector revitalisation, and increased investment in mining of other ores with favourable demand prospects. These interventions, alongside infrastructure upgrades and youth empowerment programmes, are expected to stimulate private investment and support job creation. Furthermore, growth is expected to benefit from a moderate recovery in the mining sector as structural adjustments occur in the diamond industry. Efforts, such as intensified marketing of natural diamonds and the closure of the De Beers' Lightbox lab-grown diamond operation are anticipated to support diamond production and demand.

However, the growth trajectory remains subject to significant downside risks. These include a protracted downturn of the diamond industry and the possibility of a structural shift in global demand away from natural diamonds, both of which have contributed to persistently low diamond prices. In addition, global economic uncertainty, geopolitical conflicts (such as US/Israel-Iran war) and increasing economic fragmentation continue to weigh on the outlook.

Furthermore, erratic and severe weather patterns expose the country to climate-related physical, such as droughts and floods, and transition risks, with potential adverse implication for the fiscus and the productive capacity of the economy. These challenges underscore the need to accelerate economic diversification efforts and activities as encapsulated in various transformation initiatives and the targeted budget allocations for infrastructure and expansion of local production and beneficiation capacity.

Persistent slack in the economy is reflected in output remaining below potential output, alongside high unemployment, sluggish job creation and limited growth in real wages.

Furthermore, results from the Bank's March 2026 Business Expectations Survey (BES) indicate that firms are pessimistic about economic conditions over the 12-month period to March 2027, reflecting constrained operating conditions largely driven by the country's weakening fiscal position, characterised by lower government revenues and restrained spending. For the second quarter of 2026, firms expect modest growth of 1.4 percent, suggesting stabilisation in growth momentum.

[15] The outlook is aligned with the April 2026 IMF WEO, which projects a 4.7 percent growth in 2026.

Box 3: The Macroeconomic Effects of South Africa's Lower Inflation Target on Botswana

South Africa adopted an inflation-targeting framework in 2000, with a target range of 3 – 6 percent. While the South African Reserve Bank (the SARB) broadly maintained inflation within this range, outcomes frequently gravitated toward the upper band. From 2017, the SARB placed greater emphasis on the 4.5 percent midpoint of the target range, which contributed to a moderation in both inflation expectations and realised inflation. However, SARB's inflation outcomes and the target framework remained higher and wider than those of peer and trading partner countries. Reviews by the National Treasury and SARB concluded that the original target range was too high and too broad, recommending a lower target to better anchor inflation expectations and align the framework with international best practice. Accordingly, in November 2025, following months of signalling, the Minister of Finance in South Africa announced a new inflation target of 3 percent, with a tolerance band of ±1 percentage point.

This policy shift is expected to yield positive macroeconomic outcomes for South Africa. Lower and more predictable inflation should enhance policy credibility, reduce uncertainty, support investment and strengthen consumer confidence, thus supporting sustainable economic growth. The SARB anticipates that the new target will lower both inflation expectations and actual outcomes, thereby creating conditions for lower interest rates over time. Lower interest rates are expected to boost growth and support job creation. While the transition may entail short-term trade-offs, such as reduced nominal growth, the SARB maintains that the long-term benefits, including enhanced policy credibility and macroeconomic stability, will outweigh the costs.

Given Botswana's strong economic linkages with South Africa, this policy shift has macroeconomic implications. South Africa remains Botswana's largest trading partner, accounting for a substantial share of its imports and a significant portion of its non-mining exports. The high reliance on imports from South Africa exposes Botswana to imported inflationary pressures. Therefore, a sustained moderation in South African inflation due to the adoption of a lower target is expected to contribute to lower domestic inflation in Botswana. This will help preserve household purchasing power, especially for low-income groups that are most vulnerable to rising prices. This will provide space for accommodative monetary policy that will support household consumption and business investment in a way that promotes economic growth and employment creation. Furthermore, improved macroeconomic stability and growth prospects in South Africa may generate positive spillover effects for Botswana, particularly through increased demand for Botswana's exports. Overall, the shift to a lower inflation target in South Africa is expected to reinforce price stability and support medium-term growth prospects in Botswana.

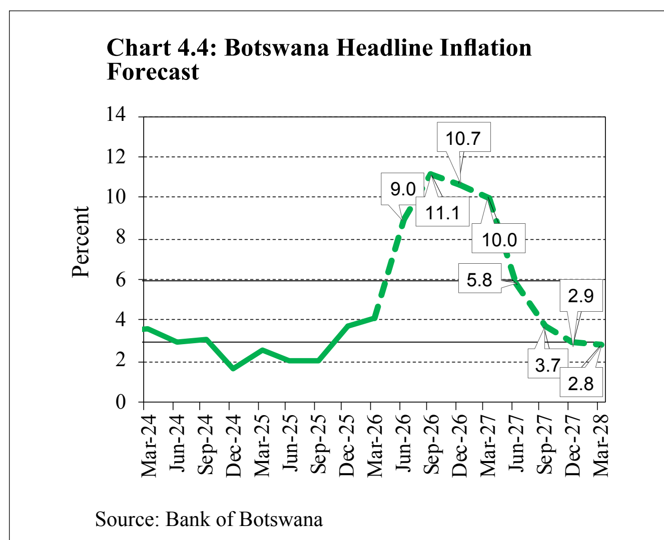
4.3 Monetary policy and inflation outlook

Inflation is projected to increase significantly and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026 mainly on account of the combined impact of recent increases in domestic fuel prices, public transport fares and medical aid premiums. The inflation forecast has been revised upwards compared to the February 2026 projection.

Inflation expected to breach the objective range

Inflation is forecast to rise sharply and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026 (Chart 4.4). The increase in inflation is mainly due to the combined impact of the increases in domestic fuel prices effected on 28 March 2026, public transport fares and medical aid premiums effected on 1 April 2026, as well as associated cost push pressures across the economy. Moreover, earlier adjustments to exchange rate policy parameters are assessed to contribute marginally to the expected increase in inflation, given the high import intensity of the Botswana economy. However, the direct market response to these adjustments is considered to have largely been absorbed. Nonetheless, inflation is expected to ease and gradually revert to within the objective range in the medium term (Chart 4.4), as the impact of the Middle East war on international oil prices subsides and associated pressures dissipate (Chart 4.8).

Chart 4.4: Botswana Headline Inflation Forecast

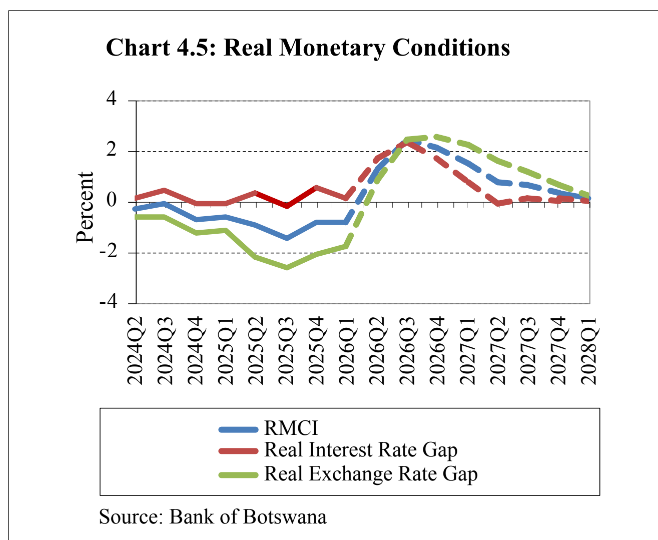


Source: Bank of Botswana

The projection also incorporates the maintenance of the Pula currency basket weights and the downward rate of crawl of 2.76 percent for 2026, as well as trading partner countries' inflation forecasts and developments in international food and oil prices.

According to the March 2026 BES, firms anticipate inflation to average 4.5 percent in 2026, thus remaining within the objective range, suggesting that inflation expectations were well anchored at the time of the survey. However, subsequent increases in international oil prices have led to upward adjustments in domestic fuel prices and increases in public transport fares. These developments are likely to exert upward pressure on inflation expectations. Accordingly, inflation expectations may adjust upward in subsequent survey rounds.

Chart 4.5: Real Monetary Conditions

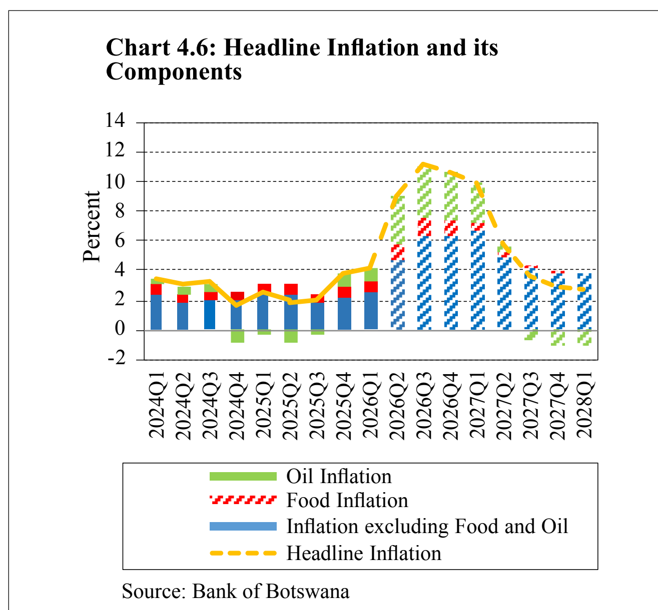


Source: Bank of Botswana

Oil and core inflation forecast to increase in the near

Oil inflation is expected to increase in the short term mainly due to the recent increase in domestic fuel prices. Inflation excluding food and fuel prices is also projected to increase in the short term (Chart 4.6), mainly on account of second round effects and cost push pressures as well as the expected improvement in non-mining economic activity.

Chart 4.6: Headline Inflation and its Components



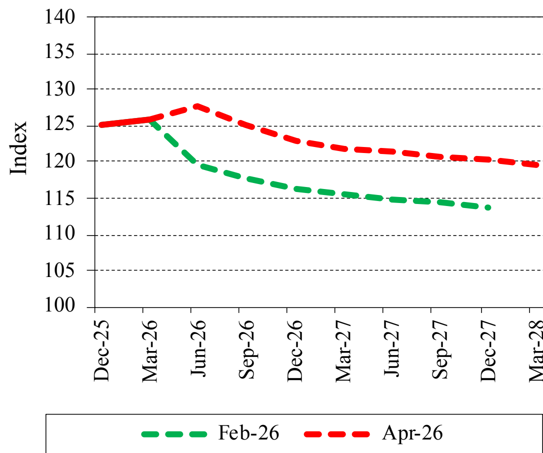
Source: Bank of Botswana

Forecasts for international food prices revised upward

Compared to the February 2026 forecast, international food price projections have been revised upward (Chart 4.7). The upward revision is mainly due to increases in prices for cereals, particularly wheat, driven by adverse weather conditions in parts of Europe and the United

States, as well as supply disruptions in Russia and the Black Sea region. These pressures are compounded by high energy costs, given the importance of oil as an input in food production and transportation. These factors more than offset the downward pressure from expectations of ample global supply of sugar driven by favourable production prospects in the US.

Chart 4.7: International Food Prices FAO Index

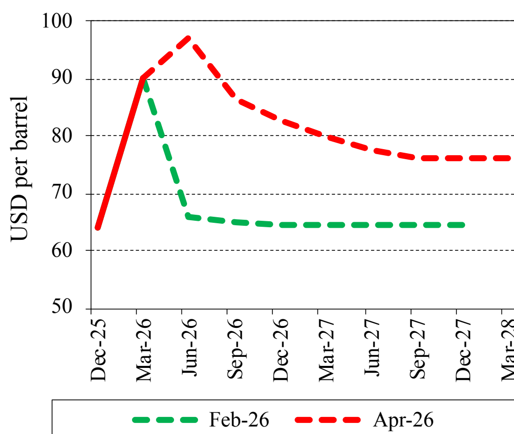


Source: Bloomberg

Forecasts for international oil prices revised upward

Similarly, compared to the February 2026 forecast, projections for international oil prices have been revised upward mainly due to reduced oil supply resulting from the US and Israel war on Iran (Chart 4.8). This conflict has disrupted Middle East supplies due to attacks on the region's oil infrastructure and significantly reduced tanker traffic in the Strait of Hormuz, a route that normally carries about 20 percent of global oil and gas supply. This has already forced the regional producers to reduce production, further tightening global supply.

Chart 4.8: International Oil Prices

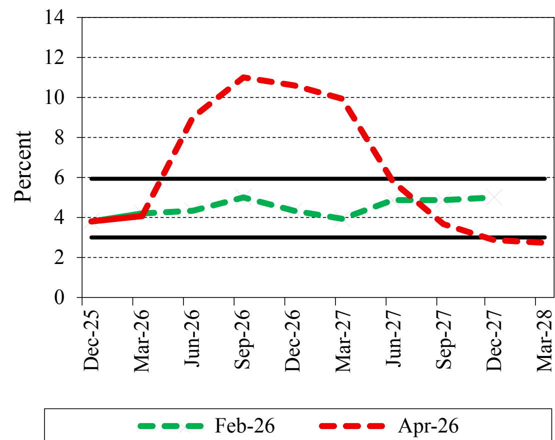


Source: Bloomberg

Inflation forecast revised upwards

Consistent with developments discussed above, the domestic inflation forecast has been revised upward relative to the February 2026 projection (Chart 4.9). This revision is mainly driven by the increase in domestic fuel prices effective 28 March 2026 following increased international oil prices because of the ongoing US-Israel military conflict with Iran. The military conflict has disrupted global supply chains and logistics causing shipping delays and raising global prices for goods and services, hence increasing inflationary pressures in Botswana.

Chart 4.9: Botswana Headline Inflation Forecast Revision



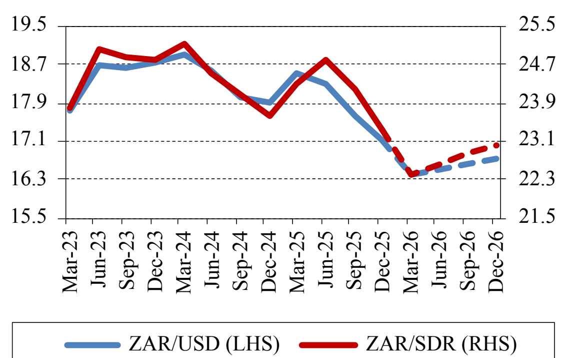
Source: Bank of Botswana

Exchange rate movements

The Pula exchange rate continues to be guided by movements in its currency basket and the predetermined annual rate of crawl. Once the basket composition and the rate of crawl are set, day-to-day fluctuations in the Pula against other currencies primarily reflect changes in cross exchange rates between the South African rand and the currencies comprising the SDR, weighted according to their respective shares in the composite currency basket.

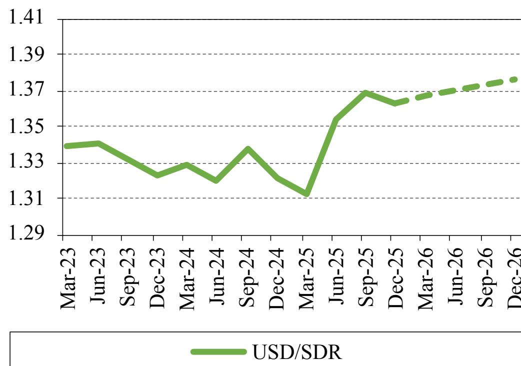
The South African rand is projected to depreciate against major international currencies over the next four quarters, largely reflecting heightened geopolitical tensions, global trade uncertainty, and renewed concerns about persistent global inflation. Although some improvement in investor sentiment has been supported by progress in structural reforms and macroeconomic policy discipline, underlying domestic challenges, including subdued growth, high unemployment and elevated public debt, continue to weigh on the currency.

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

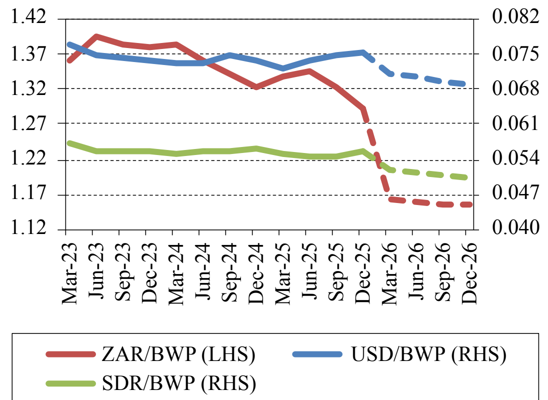


Source: Bloomberg

The US dollar is projected to depreciate against the SDR constituent currencies over the next four quarters (Chart 4.11), reflecting evolving global investment dynamics and heightened geopolitical risks. Market uncertainty has intensified following the economic implications of the US-Israel war with Iran and the broader escalation of tensions in the Middle East. Additional volatility has also arisen from trade frictions between the US and some European economies, including tariff threats linked to geopolitical disagreements. At the same time, speculation about portfolio rebalancing by European investors away from US assets has contributed to fluctuations in global financial markets. The dollar may also face pressure from a broader shift in international capital allocation, particularly as expectations of expansionary fiscal policy in Japan, under Prime Minister Sanae Takaichi, could support domestic growth and attract increased investment into Japanese assets. Nevertheless, as a traditional safe-haven currency, the US dollar may experience intermittent periods of strength during episodes of heightened uncertainty, which could partly offset the projected depreciation.

Domestically, the Pula is projected to depreciate against the South African rand and the SDR constituent currencies over the next four quarters (Chart 4.12). This outlook reflects both the anticipated depreciation of the rand against major international currencies and recent adjustments to Botswana's exchange rate policy parameters. While the rate of crawl exerts a gradual influence on the external value of the Pula, the widening of trading margins has had a more immediate impact on its market valuation. These revised parameters are expected to continue shaping the trajectory of the Pula as market participants progressively adjust to these changes, thereby helping to moderate the pace of depreciation over time. From an inflation perspective, the expected depreciation of the Pula, particularly against the rand is likely to exert upward pressure on domestic prices, given 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 on the upside

Overall, there is a greater risk of inflation being higher than currently projected mainly due to potential second round effects stemming from the recent increase in domestic fuel prices and possible additional increase in administered prices, in particular, electricity tariffs and public transport fares. In addition, the outbreak of Foot and Mouth Disease in Botswana in January 2026 and the resultant disease management measures in terms of livestock movement and slaughter restrictions in Botswana may lead to higher food inflation.

Furthermore, the proposed corporate income tax increase and the reduction in VAT zero-rated items announced in the 2026 Budget Speech may also lead to higher inflation. Externally, persistent disruptions in global supply for oil and gas due to the war in the Middle East, higher than expected international food prices, and ongoing logistical constraints could further elevate inflation. Increased global trade tensions and tariff measures also present additional upside risks.

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

5. ALTERNATIVE SCENARIO

The alternative scenarios assess the sensitivity of the inflation outlook to different trajectories of international brent crude oil prices, given the significant role of energy prices in shaping domestic inflation dynamics. The analysis focus on the direct (first-round) effects of oil price changes on inflation, as captured by the Bank's forecasting model, while recognising that additional indirect and second-round effects may arise.

5.1 International Oil Prices

The escalation of geopolitical tensions arising from the US and Israel war on Iran since 28 February 2026 has significantly disrupted global oil supply chains and contributed to a sharp increase in international oil prices. The disruptions have largely emanated from damage to oil infrastructure, reduced tanker traffic through the key shipping route of the Strait of Hormuz, and heightened uncertainty regarding future supply conditions.

Under the baseline projection, brent crude oil prices are expected to increase by 33.4 percent above the January 2026 level in the second quarter of 2026, reflecting the immediate impact of these disruptions. Thereafter, prices are projected to gradually moderate over the forecast horizon, as supply conditions improve and global markets adjust.

To assess the risks around this baseline, two alternative scenarios are considered. The first alternative scenario, which is a severe situation, assumes a prolonged escalation of geopolitical tensions, leading to sustained disruptions in global oil supply. Under this scenario, brent crude oil prices increase by 75 percent above the January 2026 level in the second quarter of 2026. Although prices gradually ease over time, they remain elevated at approximately 15 percent above the January 2026 level by the end of the forecast horizon, reflecting persistent supply constraints and heightened risk premia.

The second scenario assumes a moderate case where the conflict is resolved, allowing for a faster restoration of supply chains and normalisation of market conditions. Under this scenario, brent crude oil price increase by 20 percent above the January 2026 figure in the second quarter of 2026, before declining to the pre-war figure by the end of the forecast horizon.

The projected paths of international oil prices under the two scenarios are in Chart 5.2, along with the baseline projection.

5.2 Inflation Outcomes Under Alternative Scenarios

Compared to the baseline, the severe scenario results in higher and more persistent inflation profile during the first half of the forecast horizon (Chart 5.1). This reflects the direct pass-through of higher international oil prices to domestic fuel prices and other cost components captured in the model (Chart 5.2). Despite these pressures, inflation is projected to gradually moderate and to revert within the objective range in the second quarter of 2027.

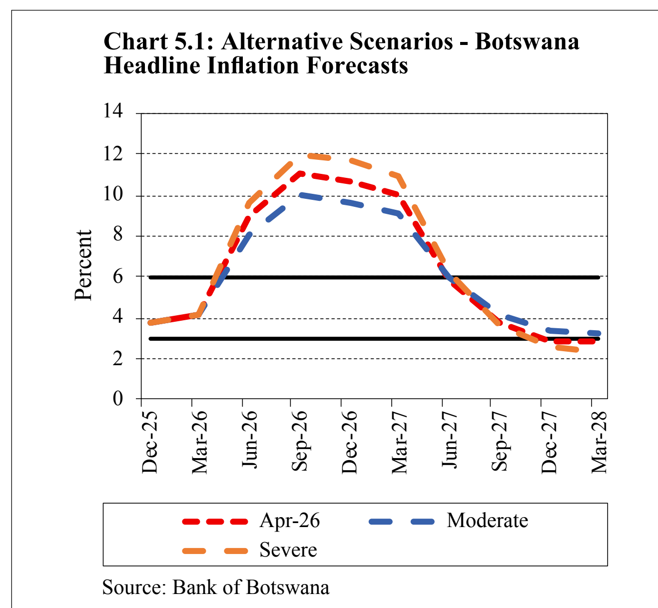
Under the moderate scenario, the inflation profile is lower than the baseline, reflecting a more contained increase in international oil prices. However, inflation still breaches the upper bound of the objective range in the second quarter of 2026, driven by the initial pass-through of higher oil prices, before easing and reverting within the objective range in the second quarter of 2027.

It is important to note that these projections primarily reflect the direct (first-round) effects of oil price changes. The model does not fully account for indirect or second-round effects, such as broader cost pass-through, wage adjustments, or inflation expectations dynamics. As a result, actual inflation outcomes, particularly under the severe scenario, could be higher and more persistent than indicated.

5.3 Policy implications

These scenarios highlight the sensitivity of the inflation outlook to developments in international oil markets and the importance of closely monitoring both global price dynamics and their transmission to domestic prices. While the model-based results suggest that inflationary pressures arising from oil price shocks are likely to be temporary, there remains a risk that indirect and second-round effects could amplify and prolong inflation beyond the paths presented in the scenarios.

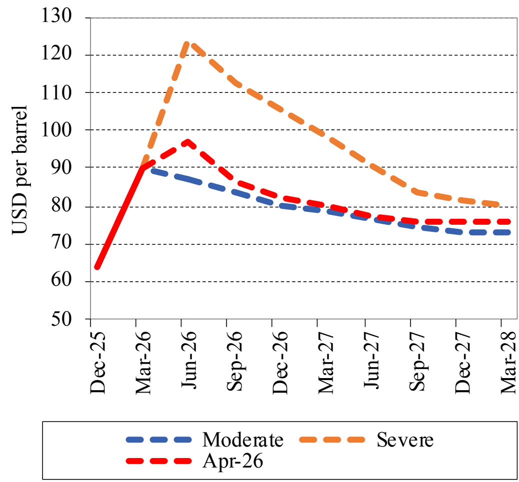
Chart 5.1: Alternative Scenarios - Botswana Headline Inflation Forecasts



Source: Bank of Botswana

In this context, monetary policy will need to remain forward-looking and data-dependent, with a focus on containing second-round effects and ensuring that inflation expectations remain anchored, while accommodating temporary supply-side shocks where appropriate.

Chart 5.2: International Oil Prices



Source: Bloomberg

6. APRIL 2026 MONETARY POLICY COMMITTEE DECISION

At the meeting held on 30 April 2026, the Monetary Policy Committee (MPC) of the Bank of Botswana increased the Monetary Policy Rate (MoPR) by 200 basis points from 3.5 percent to 5.5 percent. This policy decision is intended to strengthen policy transmission. Commercial banks are directed not to increase their Prime Lending Rates (PLRs).

Global and Domestic Context

The MPC convened at a time when the global economy continues to experience shifting trade relations, supply chain disruptions, heightened geopolitical tensions and persistent policy uncertainty. Global economic growth is expected to remain subdued in 2026. This is largely due to disruptions associated with the war in the Middle East, which continue to affect commodity markets, inflation expectations and financial conditions. In this context, leading central banks have generally maintained policy rates, while market expectations for rate cuts have diminished, as inflation risks remain tilted to the upside.

These external developments have increased the cost of living in Botswana and may undermine the recovery of the global diamond market, thereby weighing down on overall economic performance.

Real gross domestic product (GDP) contracted by 0.7 percent in 2025, improving from a contraction of 2.8 percent in 2024. The slower pace of contraction was mainly attributable to a smaller decline in diamond mining, while growth in the non-mining sector continued to be modest.

According to the International Monetary Fund's April 2026 World Economic Outlook report, global economic growth is expected to remain subdued at 3.1 percent in 2026, down from 3.4 percent in 2025. The modest growth reflects heightened uncertainty surrounding trade and constrained fiscal space. Meanwhile, consumption and investment continue to be resilient. Domestically, the Ministry of Finance projects a recovery to 3.1 percent growth in 2026. This is mainly on account of the envisaged stronger performance in non-mining sectors, as supported by the implementation of economic diversification initiatives under National Development Plan (NDP) 12 and the Botswana Economic Transformation Programme (BETP). Nevertheless, the growth outlook remains subject to downside risks, including livestock disease outbreaks, heightened geopolitical tensions, climate-related shocks and shifting trade patterns.

Inflation

Headline inflation increased slightly from 4 percent in February 2026 to 4.2 percent in March 2026, remaining within the medium-term objective range of 3 – 6 percent. The increase in inflation was due to higher rate of price increases for Transport and Food & Non-Alcoholic Beverages. The MPC forecasts inflation to increase significantly in the short term and breach the upper bound of the 3 – 6 percent objective range in the second quarter of 2026, mainly on account of the combined impact of recent increases in domestic fuel prices, public transport fares and medical aid premiums. Inflation is projected to average 8.7 percent in 2026 before easing to 5.6 percent in 2027.

Overall, there is a greater risk of inflation being higher than currently projected due to potential second-round effects stemming from the recent increase in domestic fuel prices and possible increase in administered prices (for example, electricity tariffs and public transport fares). Additionally, the outbreak of Foot and Mouth Disease in Botswana in January 2026 and the resultant disease management measures in terms of livestock movement and slaughter restrictions may lead to higher food inflation. Externally, the increases in prices for oil, gas, fertilisers and industrial inputs due to the war in the Middle East will continue to be inflationary if the war persists. The effect of tariff increases globally is also expected to heighten inflation risks. Inflation could, however, be lower than projected if domestic and global economic activity remains subdued, fiscal space remains tight, or if international commodity prices fall.

Decision

Domestic inflation is forecast to rise sharply in the near term and breach the upper bound of the 3 – 6 percent objective range, due to the increase in domestic fuel prices and associated cost-push pressures. Nonetheless, inflation is expected to ease and gradually revert to within the objective range in the medium term, if the impact of the Middle East war on international oil prices subsides. Moreover, the economy is expected to continue to operate below full capacity in the short-to-medium term, which is likely to keep demand-driven inflationary pressures subdued.

However, the MPC considered the need to recalibrate and reinforce policy transmission and signalling. Accordingly, the MPC decided to increase the Monetary Policy Rate. Like the October 2025 adjustment, this is not monetary policy tightening but a recalibration to amplify the impact of the policy adjustments that have helped ease liquidity conditions. This adjustment also helps to strengthen the effectiveness of the exchange rate parameter adjustments.

The Committee decided as follows:

(a) increase the MoPR by 200 basis points, from 3.5 percent to 5.5 percent;

(b) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos be conducted at the MoPR of 5.5 percent;

(c) increase the Standing Deposit Facility (SDF) rate to 4.5 percent, 100 basis points below the MoPR;

(d) increase the Standing Credit Facility (SCF) rate to 6.5 percent, 100 basis points above the MoPR; and

(e) maintain the existing directive instructing commercial banks not to increase their PLRs.

The Bank will continue to monitor developments closely and implement appropriate policy actions consistent with its mandate to maintain price stability and safeguard

financial system stability. The MPC's assessment is that the policy adjustments being made and communicated help to stabilise market liquidity and improve policy transmission. Notwithstanding, the Bank notes with concern that banks continue to increase lending interest rates, specifically widening the margins above the PLRs, undermining the policy intent. This points to persistent structural deposit concentration and uneven distribution of liquidity within the banking system. As part of the implementation of the Basel III standard, commercial banks will, by the end of the fourth quarter of 2026, be required to hold additional capital for deposit concentration risk. In the meantime, engagements with commercial banks aimed at ensuring alignment with the monetary policy posture continue.

Meetings of the MPC

The MPC meetings for 2026 are scheduled as follows:

18 June 2026
27 August 2026
29 October 2026
3 December 2026

Annex: Inflation Forecast Summary for April 2026 MPC Meeting

	Actual					Forecast									
	2025				2026	2026				2027					2028
	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1
Inflation	2.1	2.1	3.9	2.7	4.2 (4.2)	9.0 (4.4)	11.1 (5.1)	10.7 (4.4)	8.7 (4.5)	10.0 (4.0)	5.8 (4.9	3.7 (4.9	2.9 (5.0	5.6 (4.7)	2.8

Note: Figures in parentheses represent the previous MPC forecast (February 2026)

NOTE

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