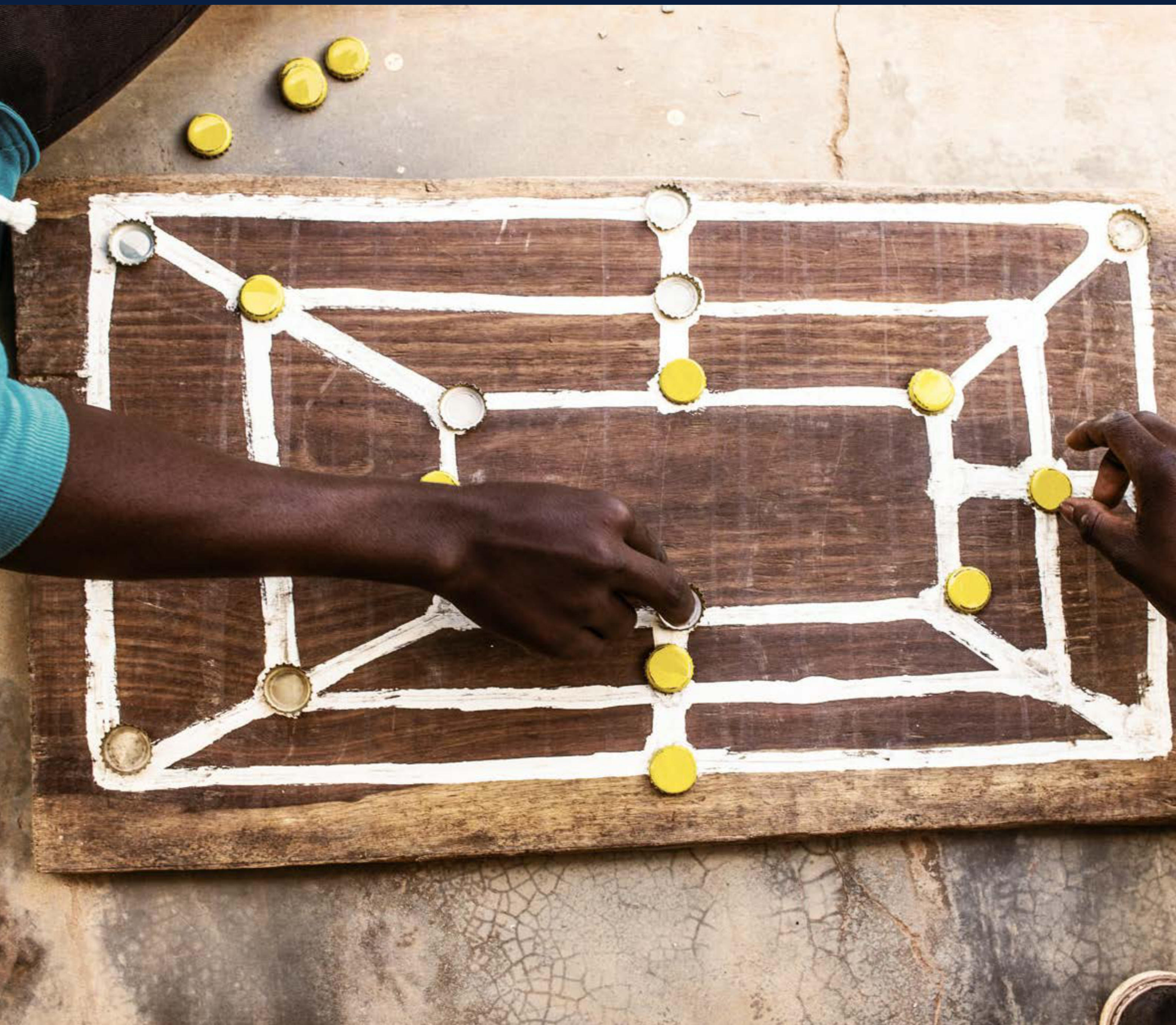
MONETARY POLICY REPORT

AUGUST | 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
August 2026

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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) 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 27 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)

Dr. Agnes Khunwana
(Deputy Governor)

Ms. Boitshenotse Mmopelwa
Director, Financial Markets

Dr. Matlhodi Serero
Acting Director, Research and Financial Stability

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, largely arising from the upward adjustment in administered prices; subdued economic activity; and heightened uncertainty surrounding traditional growth drivers. At the August 2026 meeting, the MPC assessed that, while inflation was projected to remain above the 3 – 6 percent objective range in the near term, economic growth was expected to continue to be subdued due to adverse external developments and modest progress made thus far in implementing transformative initiatives. The MPC judged that the outlook warranted maintaining a policy stance that balanced support for economic activity with the need to manage inflation expectations. Accordingly, the Bank maintained the MoPR at 5.5 percent.

The Bank remains committed to formulating and implementing monetary policy in a manner that entrenches expectations of a 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 continues to be shaped by two opposing shocks: the negative supply-side impact of the war in the Middle East and the ongoing positive momentum from the global technology cycle, particularly artificial intelligence (AI). While headline inflation had generally been on a downward trend since early 2024, it has recently risen for three consecutive months, driven by rising energy prices. Consequently, in contrast to the broad easing of financial conditions observed in 2025, the global monetary policy environment has become less accommodative. Against a backdrop of elevated inflationary pressures and subdued economic activity, central banks face difficult policy trade-offs; with some maintaining relatively tight policy stances to prevent the de-anchoring of inflation expectations, while others are compelled to raise nominal policy rates in response to the renewed inflationary pressures.

According to the International Monetary Fund (IMF)'s July 2026 World Economic Outlook (WEO) Update, global economic activity remained subdued and uneven across countries and regions, with the outlook pointing to a moderation in global growth in 2026. The global economy is projected to grow by 3 percent in 2026, down from 3.5 percent in 2025, and below the historical (2000-2019) annual average of 3.7 percent. This forecast represents a downward revision of 0.1 percentage points from the April 2026 WEO projection, reflecting the continued adverse effects of the conflict in the Middle East, which has intensified disruptions to global trade, supply chains and energy markets, leading to weaker economic activity, particularly in energy-importing economies with limited integration into the global technology value chain (see Box 1 for the implications of the conflict on Botswana). For advanced economies, growth is forecast to decrease from 1.9 percent in 2025, to 1.7 percent in 2026, while growth in emerging market and developing economies (EMDEs) is expected to decelerate from 4.5 percent to 3.8 percent in the same period.

Global inflationary pressures increased across regions in the second quarter of 2026. In advanced economies, inflation increased from 3.1 percent in the first quarter of 2026 to 4 percent in the second quarter, largely reflecting higher energy prices, which raised costs, particularly in the transport and logistics sector. Similarly, inflation for emerging market economies increased from 3 percent to 3.5 percent in the same period, owing to higher import costs, especially for food and fuel. The United Nations' Food and Agriculture Organization (FAO) food price index increased in the second quarter of 2026, mainly due to higher energy and fertiliser prices stemming from the war in the Middle East.

Domestically, headline inflation averaged 10.6 percent in the second quarter of 2026, up from 2.1 percent in the same period in 2025, mainly due to the upward adjustments in domestic fuel prices, public transport fares and medical aid premiums. In addition, the increase in inflation reflected the base effect associated with the decrease in water tariffs for low-consumption households in May 2025. Looking ahead, inflation is projected to remain above the upper bound of the 3 – 6 percent objective range in the near term, mainly on account of the combined impact of relatively higher domestic fuel prices and the recent increase in electricity tariffs, as well as the associated second-round effects. Thereafter, inflation is expected to ease and revert to within the objective range, supported by the current monetary policy stance, subdued domestic demand conditions and the dissipating impact of the earlier upward adjustments in administered prices from the inflation calculation.

Real gross domestic product (GDP) grew marginally by 0.2 percent in the twelve months to March 2026, compared to a contraction of 1.6 percent in the year to March 2025. The improvement in economic activity was underpinned by a slower contraction in mining output and a recovery in other non-mining sectors, including Diamond Traders, Manufacturing and Agriculture. 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 a deficit of P31 million in the first quarter of 2026, compared to a larger deficit of P1.1 billion in the corresponding period in 2025. As at the end of June 2026, the official foreign exchange reserves were P59.1 billion, equivalent to 7.8 months of import cover of goods and services and representing an increase of 31.3 percent from P45 billion in June 2025.

Commercial bank credit contracted by 1.6 percent in the year to June 2026, compared to an expansion of 10.3 percent in the corresponding period in 2025.This largely reflected lower lending to both businesses and households. Lending to the household sector contracted by 4.5 percent in the year to June 2026, a significant slowdown compared to the 7.7 percent expansion in June 2025, while lending to businesses contracted by 2.7 percent from a 14.9 percent expansion in the same period.   Meanwhile, money supply (M2) increased by 4.9 percent year on year in May 2026, compared to an increase of 0.8 percent in the corresponding period in 2025.

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, the 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 2.7 percent in the twelve months to July 2026. However, the REER appreciated by 3.6 percent year on year in June 2026, as higher domestic inflation relative to Botswana's trading partners more than offset the competitiveness gains from the weaker nominal exchange rate. Consequently, Botswana's external price competitiveness softened, although the exchange rate framework remained broadly consistent with economic fundamentals and supportive of competitiveness and growth.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth remained subdued amid heightened uncertainty

According to the IMF's July 2026 WEO Update, the global economy is estimated to have expanded by 3.5 percent in 2025, unchanged from 2024 (Table 3.1). Growth was supported by investment related to technology, including AI; fiscal and monetary support; broadly accommodative financial conditions; and continued adaptability of the private sector. However, these tailwinds were offset by headwinds arising from changes in trade policies, policy uncertainty and, more recently, the war in the Middle East.

The US economic growth moderated

In the US, output expanded at an annualised rate of 1.5 percent in the second quarter of 2026, lower than the 2.1 percent growth in the first quarter of 2026. The moderation in growth was mainly attributed to the slowdown in government spending, as well as the deceleration in exports and investment.

Euro area growth accelerated

In the euro area, GDP grew by 1 percent year on year in the second quarter of 2026, from an upwardly revised 0.5 percent in the first quarter of 2026. The increase in growth was supported by AI-related investment and resilient government spending, which helped offset the adverse effects of higher energy prices associated with the conflict in the Middle East. Among the bloc's largest economies, Spain recorded the strongest growth at 2.7 percent, followed by Italy (1 percent), Germany (0.9 percent) and France (0.7 percent).

UK growth remained subdued

GDP in the United Kingdom (UK) grew by 0.6 percent in the first quarter of 2026, above the revised 0.1 percent (from 0.2 percent) in the fourth quarter of 2025. The growth was attributed to expansion in services, wholesale and retail trade, and manufacturing sectors, which more than offset declines in mining, quarrying and water supply sectors.

Emerging markets' growth moderated

Output growth in EMDEs improved moderately in the first quarter of 2026, supported by resilient domestic demand, stronger performance among technology-related exporters, and improved external demand in some economies, despite persistent trade policy uncertainty and heightened geopolitical tensions. The Chinese economy grew by 4.3 percent year on year in the second quarter of 2026, moderating from 5 percent growth in the first quarter and falling short of market expectations of 4.5 percent. The slowdown reflected weaker demand, subdued private investment and a prolonged downturn in the property market, which more than offset continued support from resilient exports related to AI.

Meanwhile, the Indian economy grew by 7.8 percent year on year in the first quarter of 2026, slowing from an upwardly revised 8 percent in the fourth quarter of 2025, but above market expectations of 7.2 percent growth. Although growth moderated, it remained robust, supported by strong domestic demand, resilient private consumption, increased government expenditure on infrastructure and public investment, as well as continued expansion in the manufacturing and services sectors. In addition, improved credit growth, favourable labour market conditions and sustained digital and technology-driven economic activity, further supported India's solid economic performance.

Table 3.1: Growth Estimates and Projections

	Estimate		Projections	
	2024	2025	2026	2027
Global	**3.5**	**3.5**	**3.0**	**3.4**
Advanced economies	**1.9**	**1.9**	**1.7**	**1.8**
USA	2.8	2.1	2.3	2.2
Euro area	1.0	1.4	0.9	1.2
UK	1.0	1.4	1.0	1.3
Japan	-0.2	1.1	0.6	0.7
EMDEs	**4.5**	**4.5**	**3.8**	**4.5**
China	5.0	5.0	4.6	4.1
Brazil	3.4	2.3	2.4	2.2
India	7.1	7.7	6.4	6.7
Russia	4.9	1.0	1.1	1.1
South Africa	0.5	1.1	1.1	1.3
Botswana	**-2.8**	**-0.7**	**4.7 (3.1)**	**2.2 (5.4)**

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

Growth in South Africa remained modest

Regionally, output in South Africa increased quarter on quarter, by 0.5 percent in the first quarter of 2026, slightly higher than 0.4 percent recorded in the fourth quarter of 2025, marking a sixth consecutive quarter of expansion. Growth was mainly driven by key sectors including agriculture (3.9 percent), finance (0.9 percent) and trade (0.7 percent).

Global commodity prices

Rough diamond prices decreased in the second quarter of 2026

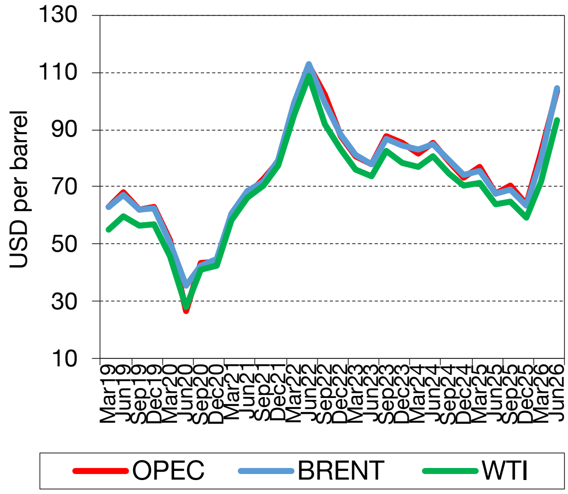
The global rough diamond price index decreased by 10.4 percent, from 117.5 points in the first quarter of 2026 to 105.3 points in the second quarter, mainly due to weak global demand, excess inventories and persistent trade uncertainty. The rough diamond market continues to face structural pressures from competing luxurious goods, especially lab-grown diamonds, which are increasingly substituting for 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]

Oil prices increased in the second quarter of 2026

International oil prices increased in the second quarter of 2026 compared to the first quarter of 2026 (Chart 3.1). The prices of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) increased by 26.3 percent, 29.7 percent and 16.7 percent, respectively, in the second quarter of 2026. The corresponding average prices increased from USD 82.04 per barrel, USD 80.51 per barrel and USD 79.87 per barrel, respectively, in the first quarter to USD 103.59 per barrel, USD 104.45 per barrel and USD 93.21 per barrel, respectively, in the second quarter. 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.

However, international oil prices decreased month on month in July 2026, with Brent crude averaging USD83.42 per barrel, from USD85.38 per barrel in June 2026. Oil prices decreased in late July primarily due to a temporary pause in military strikes between the US and Iran amid diplomacy talks, which eased immediate fears of severe supply disruptions in the Middle East. In addition, the broader contraction in global oil demand led by a decrease in consumption from China contributed to the decrease in oil prices. The subsequent decline in international oil prices was mirrored domestically through the recent fuel price reductions on 7 July 2026.

Chart 3.1: International Oil Prices



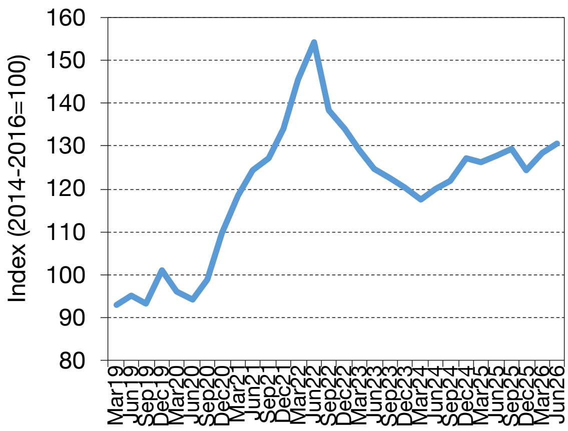
Source: Bloomberg

Food prices increased

According to FAO, the global food price index increased by 3.7 percent from an average of 126.1 points in the first quarter of 2026 to an average of 130.7 points in the second quarter of 2026 (Chart 3.2). The increase primarily reflects higher energy and fertiliser 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.

In July 2026, the FAO food price index increased further to 131.1 points, from 130.4 points in June, driven mainly by higher cereal, vegetable oil and sugar prices reflecting adverse weather conditions in several key producing countries, higher energy prices and continued disruptions to the Black Sea export flows.

Chart 3.2: Food Price Index



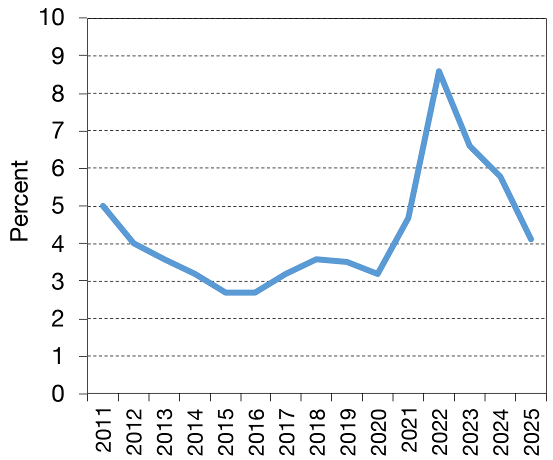
Source: FAO

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

Global inflation increased across regions in the second quarter

Global inflation eased from 5.8 percent in 2024 to 4.1 percent in 2025 (Chart 3.3). However, inflation increased across regions in the second quarter of 2026[2]. In advanced economies, inflation increased from 3.1 percent in the first quarter of 2026 to 4 percent in the second quarter of 2026, partly reflecting the increase in commodity prices, particularly oil prices, and the gradual pass-through of tariffs and other cost pressures. Similarly, inflation for emerging market economies increased from 3 percent to 3.5 percent in the same period, reflecting their dependence on energy and fertiliser imports.

Chart 3.3: Global Inflation

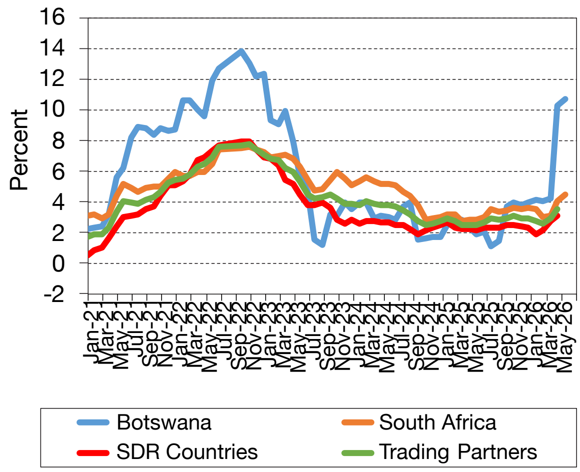


Source: IMF January 2026 WEO Update

In South Africa, headline inflation increased from 3.2 percent in the first quarter of 2026 to 4.5 percent in the second quarter of 2026, above the South African Reserve Bank (SARB)'s 3 percent target point which, however, has a tolerance band of plus or minus one percentage point.

The average trade-weighted inflation for Botswana's trading partner countries increased from 2.7 percent in the first quarter of 2026 to 3.8 percent in the second quarter of 2026 (Chart 3.4). Meanwhile, trading partner countries inflation was constant at 3.9 percent between May 2026 and June 2026.

Chart 3.4: Botswana Inflation and International Inflation



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

Monetary policy divergence across the globe

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

In July 2026, the US Federal Open Market Committee (FOMC) maintained its policy rate at 3.5 – 3.75 percent. The FOMC assessed the economy to have expanded at a solid pace, despite elevated uncertainty, partly stemming from the conflict in the Middle East. Inflation remained elevated, in part, reflecting the recent increase in global energy prices. In determining the appropriate stance of monetary policy, the FOMC noted that it would continue to monitor incoming data and assess its implications for the economic outlook. The Committee reaffirmed its commitment to achieving price stability and maintain ample reserves in the banking system.

The Bank of England (BoE) maintained its policy rate at 3.75 percent in July 2026. The BoE noted that the conflict in the Middle East, and its impact on energy prices and the UK economy, remained the dominant source of uncertainty for the inflation outlook. Inflation fell slightly more than expected to 2.6 percent in June 2026 but was expected to increase due to higher energy prices. However, subdued demand, tighter financial conditions and labour market slack were expected to mitigate the second-round effects of higher energy prices. The BoE noted that, while monetary policy could not directly influence global supply shocks, it would ensure that inflation returned to the 2 percent target over the medium term.

The European Central Bank (ECB) maintained its three key interest rates in July 2026, with the deposit facility, main refinancing operations, and marginal lending facility rates unchanged at 2.25 percent, 2.40 percent, and 2.65 percent, respectively. The decision reflected softer inflation, as prices for energy, food and services increased at a slower pace, with wages rising moderately. While the energy price outlook remains broadly consistent with June projections, the Council noted continued volatility and elevated

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

uncertainty, with the full impact of the energy shock yet to materialise. The Governing Council reaffirmed its commitment to stabilising inflation at its 2 percent medium-term target.

The Bank of Japan (BoJ) maintained its short-term policy rate at 1 percent in July 2026, the highest level since September 1995. The BoJ assessed risks to the inflation outlook to be tilted to the upside and projected inflation to rise above its 2 percent target. The Bank indicated that it would continue to monitor developments closely and could further tighten monetary policy if economic activity and inflation evolved as projected.

In emerging market economies, the Central Bank of Brazil (CBB) cut the policy rate by 25 basis points to 14 percent in August 2026. The CBB noted that the decision was taken amid heightened uncertainty in the global environment due to the conflict in the Middle East and the uncertainty over monetary policy in advanced economies. However, the central bank noted resilient domestic economic activity, supported by a strong labour market. The CBB assessed risks to the inflation outlook to remain tilted to the upside and indicated that future policy decisions will depend on incoming economic data to ensure that inflation converges to target.

The Central Bank of Russia (CBoR) reduced the key policy rate by 25 basis points to 14 percent in July 2026. The CBoR noted that underlying inflation remained close to its 4 percent target, despite monetary conditions remaining moderately tight. While the recent increase in fuel prices was assessed as temporary, the CBoR cautioned that the pace of further policy easing would depend on inflation dynamics and inflation expectations, particularly amid rising fiscal deficit risks.

In August 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, respectively. The decision reflected a cautious approach stemming from the Middle East conflict, despite the recent slowdown in economic growth. Meanwhile, consumer and producer price pressures have intensified due to higher energy costs and supply chain disruptions.

In August 2026, the Reserve Bank of India (RBI) maintained the policy rate at 5.25 percent. The RBI assessed risks to the inflation outlook to be tilted to the upside, reflecting uncertainties surrounding global geopolitical developments, elevated energy prices, and potential weather-related disruptions to food prices. However, strong domestic demand and resilient economic activity continued to support the growth outlook. The RBI indicated that it would maintain its current policy stance, with future decisions remaining data-dependent and responsive to evolving domestic and global economic conditions.

The SARB maintained the repo rate at 7 percent at its July 2026 meeting, citing slightly improved inflation outlook and weaker growth. The decision was aimed at reaffirming its objective of steering inflation towards the 3 percent target range. However, the SARB's MPC warned that renewed conflict in the Middle East, which has driven up oil and fertiliser prices, could warrant further tightening if higher fuel costs spill over into food prices and core inflation. Overall, the 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	August 2026	5.5	No change	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	July 2026	7.00	No change	The SARB's MPC indicated that future policy decisions will be outlook dependent, responsive to data developments and sensitive to the balance of risks to the forecast.
US Federal Reserve	July 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 should risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.
BoE	July 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, while acknowledging that a gradual approach to removing policy restraint remains appropriate.
ECB	July 2026	2.40	No change	The Council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.
BoJ	July 2026	1.00	No change	The BoJ's future conduct of monetary policy will depend on developments in economic activity and prices, as well as financial conditions.
PBoC	August 2026	3.00	No change	The PBoC is likely to maintain a low LPR low until the economy has fully recovered.
Brazil	August 2026	14.00	Decreased by 25 basis points	The CBB 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	August 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	July 2026	14.00	Deceased by 50 basis points	CBoR noted that, although inflationary pressures had eased, they remained high, with risks judged to be on the upside. It signalled that the pace of further policy easing would depend on inflation dynamics and inflation expectations.

Source: Various central banks' websites

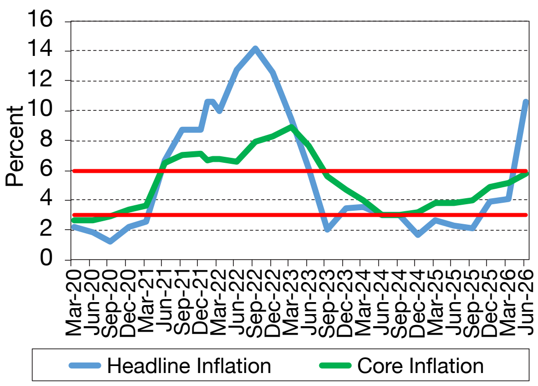
3.2 Domestic inflation environment

Headline inflation increased in the second quarter of 2026

Headline inflation increased in the second quarter of 2026, averaging 10.6 percent compared to 2.1 percent in the same quarter of 2025 (Chart 3.5 and Table 3.3). The significant increase in inflation was mainly due to the upward adjustments in domestic fuel prices effected on 28 March 2026, as well as the increase in public transport fares and medical aid premiums on 1 April 2026, which collectively added 6.26 percentage points directly to inflation in April. The increase in inflation also reflected the base effect associated with the decrease in water tariffs for low-consumption households in May 2025, which had lowered inflation by 0.23 percentage points at the time.

Headline inflation decreased to 9.4 percent in July 2026, remaining above the medium-term objective range of 3 – 6 percent, and was significantly higher than the 1.1 percent recorded in July 2025. The decrease in inflation between June and July 2026 was mainly due to the decrease in domestic fuel prices effected on 7 July 2026, which decreased headline inflation by 2.3 percentage points.

Chart 3.5: Botswana Headline and Core Inflation

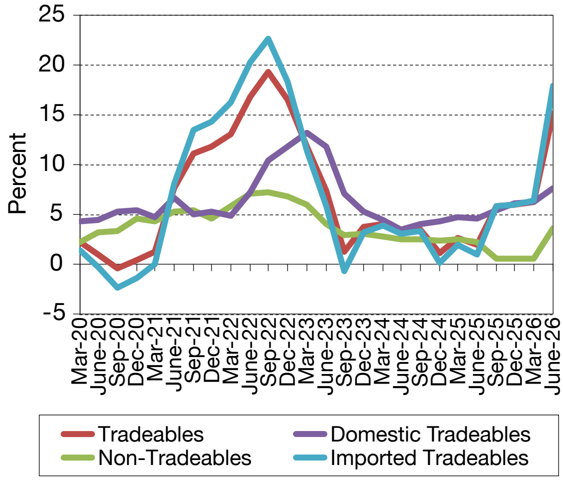


Source: Statistics Botswana and Bank of Botswana
Note: Core Inflation is headline inflation excluding administered prices.

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

Inflation for domestic tradeables increased from an average of 4.6 percent in the second quarter of 2025 to an average of 7.7 percent in the second quarter of 2026 (Chart 3.6), mainly due to an acceleration in food price increases. Imported tradeables inflation increased from an average of 1.1 percent to an average of 17.9 percent in the same period, mainly due to the upward adjustment in domestic fuel prices. As a result, all tradeables inflation increased from an average of 2 percent in the second quarter of 2025 to an average of 15.2 percent in the second quarter of 2026. Meanwhile, inflation for non-tradeables increased from an average of 2.2 percent to 3.6 percent in the same period, due to the base effect arising from the reduction in water tariffs for low-consumption households and the cost-push pressures associated with the recent increase in administered prices. Meanwhile, in July 2026, inflation for domestic tradeables and non tradeables increased to 8.1 percent and 5.6 percent, while imported tradeables and all tradeables inflation decreased to 13.3 percent and 11.9 percent, respectively.

Chart 3.6: Inflation for Tradeables and Non-Tradeables



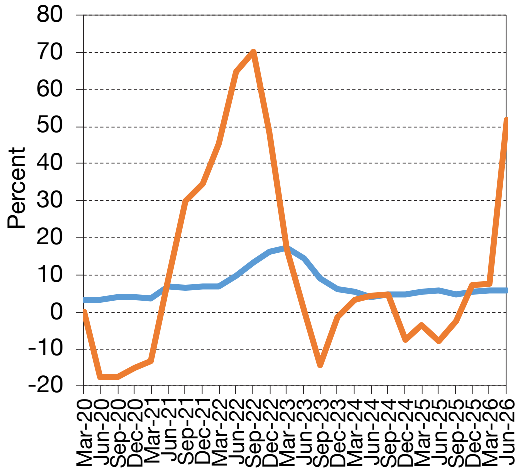
Source: Statistics Botswana

Core inflation measures increased in the second quarter of 2026

Core inflation measures generally increased in the second quarter of 2026. Inflation excluding administered prices (CPIXA) averaged 5.8 percent in the second quarter of 2026, up from 3.9 percent in the second quarter of 2025 (Table 3.3), due to increases in prices of food and non-alcoholic beverages, motor vehicles and medical aid premiums. Similarly, the trimmed mean inflation (CPITM) increased to 9 percent from 2 percent in the same period. Inflation excluding food and fuel increased to 5.3 percent in the second quarter of 2026, from 3 percent in the second 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, weak domestic demand conditions suggest that the underlying inflationary pressures remain largely supply-driven rather than demand-induced. In July 2026, CPITM, CPIXA and CPIXFF were 8.4 percent, 6.3 percent and 6.6 percent, respectively.

Chart 3.7: Food and Fuel Inflation



Source: Statistics Botswana and Bank of Botswana

Table 3.3: Annual Inflation by Categories of Goods and Services (Percent)

Category of commodities	Basket Weights	July 2026	Q2 2026	Q2 2025
Food and non-alcoholic beverages	13.6	6.6	5.7	5.7
Alcoholic beverages and tobacco	4.3	10.7	10.5	6.8
Clothing and footwear	6.0	5.1	4.8	3.6
Housing, water, electricity, gas and other fuels	17.5	3.9	-0.8	0.2
Furnishing, h/h equipment and routine maintenance	4.9	5.2	5.0	2.7
Health	3.4	4.5	4.0	2.2
Transport	23.4	19.9	28.5	-1.8
Communications	6.9	-1.1	-1.0	0.1
Recreation and culture	2.8	2.2	1.7	2.6
Education	4.6	2.1	2.1	2.6
Restaurants and hotels	3.7	5.3	4.8	2.8
Miscellaneous goods and services	9.0	11.7	11.0	7.8
Annual Inflation (All items)	**100.0**	**9.4**	**10.6**	**2.1**
CPITM		8.4	9.0	2.0
CPIXA		6.3	5.8	3.9
CPIXFF		6.6	5.3	3.0

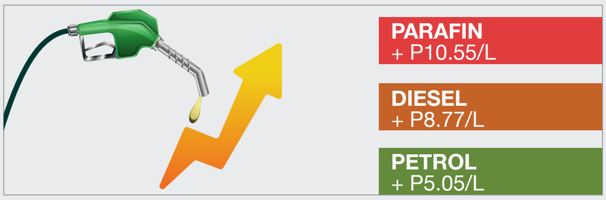
Source: Statistics Botswana and Bank of Botswana calculations

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 (US) 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 fertilisers 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, given the higher weight of fuel (10 percent) in the Consumer Price Index (CPI). Higher global energy and fertiliser prices are also expected to raise food costs, particularly given that around 44 percent of food items in the CPI are imported tradeables, placing significant cost-of-living pressures on the most vulnerable households and contributing additional pressure on domestic inflation. Domestic fuel prices were adjusted upwards on 28 March 2026, with the adjustment contributing 4.8 percentage points to headline inflation in April 2026.

Impact on Domestic Fuel Prices (March 2026)



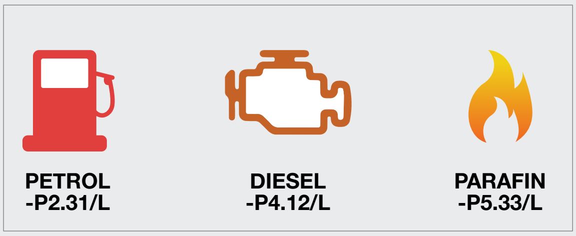
Fuel increases add +4.8 percentage points to headline inflation

In addition, the increase in public transport fares effective 1 April 2026 added a further 0.8 percentage points to headline inflation. These estimates, however, capture only the immediate price effects (first-round effects). Given the critical role of fuel in production and transport, the overall economic impact will be substantially higher once indirect effects (such as higher costs for manufactured goods and services) and second-round effects such as workers demanding higher wages and businesses raising profit margins to offset cost-of-living pressures are fully realised.

Against this background, inflation increased significantly, breaching the 3–6 percent medium-term objective range and averaging 10.6 percent in the second quarter of 2026.

However, recent developments in international oil prices have been characterised by a volatile mix of events, including peace talks between the US and Iran in June 2026, an abrupt collapse of the ceasefire in early-July and resumption of diplomatic talks in late-July. The extension of the ceasefire and renewed diplomatic efforts reduced fears of prolonged supply disruptions, resulting in a significant decrease in oil prices. Consequently, domestic fuel prices were adjusted downwards on 7 July 2026, subtracting 2.3 percentage points from headline inflation in July 2026.

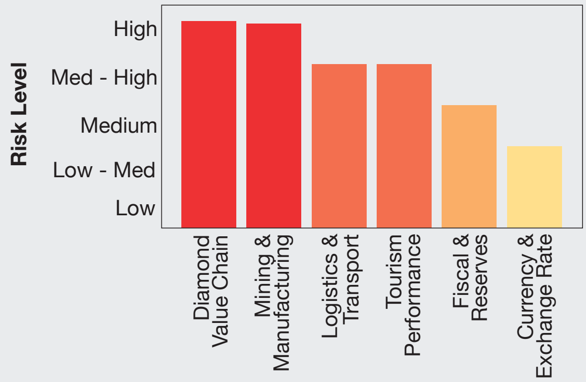
Impact on Domestic Fuel Prices (July 2026)



Fuel decrease subtracts 2.3 percentage points to headline inflation.

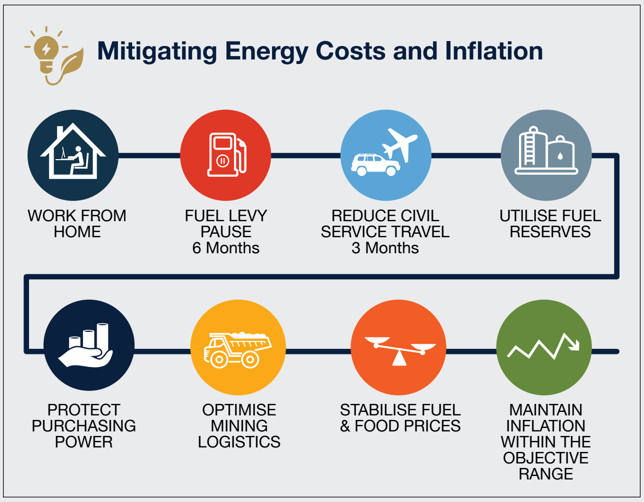
The growth outlook is also adversely affected. Heightened uncertainty, higher input costs and logistical disruptions pose downside risks to key sectors. The diamond industry faces continued weak demand and potential trade disruptions, while energy-intensive sectors, such as mining, manufacturing and 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.

Botswana Economic Pressure Points: Risk Intensity



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 as a long-lasting solution is sought. 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 growth improved slightly in the first quarter of 2026

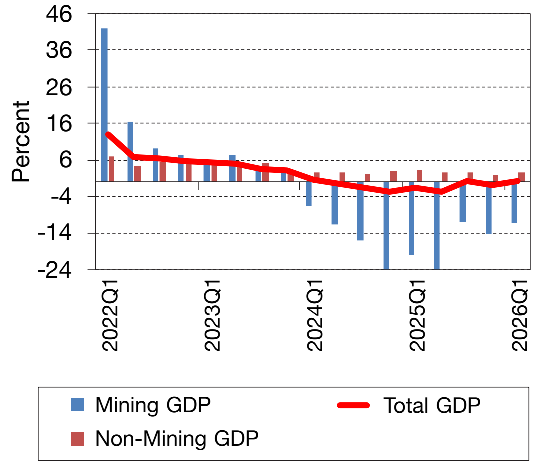
Real gross domestic product (GDP) grew marginally by 0.2 percent in the twelve months to March 2026, compared to a contraction of 1.6 percent in the year to March 2025. The improvement in economic activity was underpinned by a lower contraction in mining output and a recovery in other non-mining sectors, including Diamond Traders, Manufacturing and Agriculture. 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, as well as continuance of low productivity. These factors continue to constrain the economy's capacity to generate sustained growth.

Non-mining GDP grew by 2.5 percent in the twelve months to March 2026, lower than the 3.2 percent in the corresponding period in 2025. The deceleration in non-mining GDP growth was mainly driven by a contraction in the Construction sector and slower output growth across several sectors, including Water and Electricity; Education; Wholesale and Retail; Real Estate; Public Administration and Defence; Human Health and Social Work Activities; Other Services; Information and Communication Technology; Professional, Scientific and Technical Activities; Finance, Insurance and Pension Funding; and Administrative and Support Services Activities. Meanwhile, some sectors recorded improved performance, notably Diamond Traders, Manufacturing, Transport and Storage, and Agriculture. Overall, the deceleration in non-mining activity suggests subdued domestic demand and highlights structural constraints that continue to limit the effectiveness of diversification efforts.

Mining sector GDP contracted by 11.3 percent in the year ending March 2026, compared to a larger decline of 20.1 percent in the corresponding period in 2025. The lower pace of contraction was mainly driven by a slower decline in diamond mining output, with the contraction easing from 21.5 percent to 12.3 percent over the period. The lower contraction reflected increased production, supported by stronger global demand for diamonds, particularly premium-quality stones. Copper and nickel output recovered from a contraction of 8.6 percent to a growth of 1.5 percent, supported by higher global prices amid increasing demand associated with electric vehicle production, renewable energy systems, electricity grid expansion, and data centre development. Similarly, Soda Ash output rebounded from a contraction of 11.2 percent to a growth of 5.4 percent during the review period, driven by the return of the Botash Mine to full operational capacity. Meanwhile, output for coal contracted, consistent with a deceleration in electricity supply owing to operational capacity challenges at Morupule B Power Station.

Meanwhile, Statistics Botswana rep orted a year-on-year growth of 3.5 percent in real GDP in the first quarter of 2026, compared to a contraction of 0.3 percent in the corresponding quarter in 2025[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 (GFC) remained flat in the twelve-month period to March 2026, compared to 3.8 percent growth in the corresponding period in 2025. This reflected a contraction in collective consumption, which declined from a growth of 3.4 percent to a contraction of 1.7 percent during the review period, reflecting reduced government revenues. Overall, the moderation in GFC reflects fiscal constraints that limited the pace of public expenditure in the first quarter of 2026. The moderation in government spending also points to subdued domestic demand pressures. However, inflation remains elevated, reflecting the influence of supply-side factors.

Household Final Consumption contracted by 0.4 percent in the twelve-month period ending March 2026, from a growth of 2.4 percent recorded in the corresponding period in 2025. The slowdown was due to a contraction in Household Consumption Expenditure and a deceleration in Non-Profit Institutions Serving Households (NPISH[4]) Consumption. This reflected weaker household purchasing power amid elevated cost of living pressures, tighter credit conditions and subdued real disposable income growth during the review period.

Gross Fixed Capital Formation contracted by 4.8 percent in the year to March 2026, compared to a

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

[4] Non-profit organisations that provide goods and services to households free or at prices that are not economically significant, and whose main resources come from voluntary contributions or transfers, such as Non-Government Organisations (NGOs), foundations, religious organisations and community-based organisations.

growth of 4.9 percent in the previous year. The decline was due to the contraction in expenditure for Buildings and Structures, Transport Equipment, and Plant Machinery and Other Equipment. This was attributable to subdued private sector investment, delays in the implementation of major public investment projects and tighter financing conditions amid liquidity constraints during the review period.

By contrast, Exports of Goods and Services rebounded to 6.2 percent in the twelve months to March 2026, compared to a contraction of 11.1 percent in the previous year. The recovery reflected improved performance in diamond trading, supported by stronger global demand for premium natural diamonds. Meanwhile, Imports of Goods and Services contracted by 21.2 percent in the year ending March 2026, compared to a growth of 10.3 percent in thecorresponding period in 2025. The decline in imports reflected lower import demand for capital and intermediate goods, particularly in line with subdued investment activity, higher import costs and weaker domestic economic activity. 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)

	2025 Q1	2025 Q4	2026 Q1
Total GDP	**-1.7 (-1.6)**	**-0.7**	**0.2**
By Sector:			
Mining and Quarrying	-20.2(20.1)	-14.0	-11.3
Non-Mining	3.0(3.2)	2.0	2.5
Agriculture, Forestry & Fishing	-1.9(-1.4)	1.4	1.4
Manufacturing	-1.8(-2.0)	1.9	2.9
Water and Electricity	15.5(18.1)	-16.6	3.9
Construction	1.4	-0.8	-1.1
Wholesale & Retail	6.1	4.2	3.9
Diamond Traders	-29.3(27.6)	-17.6	5.6
Transport and Storage	0.6	2.3	2.8
Accommodation & Food Services	3.9	3.7	3.9
Information & Communication Technology	3.4	1.8	2.2
Finance, Insurance & Pension Funding	4.3(4.5)	4.8	3.9
Real Estate Activities	3.6	2.4	1.8
Professional, Scientific & Technical Activities	3.8	3.3	3.1
Administrative & Support Activities	3.2	3.5	2.9
Public Administration & Defence	5.2(4.4)	2.8	2.6
Human Health & Social Work	4.6	3.1	2.9
Education	5.4(7.0)	4.9	4.5
Other services	4.1	2.2	2.3
By Type of Expenditure:			
Government Final Consumption	4.9(3.8)	0.4	0.0
Household Final Consumption	1.7(2.4)	0.6	-0.4
Gross Fixed Capital Formation	4.9	-1.2	-4.8
Exports of Goods and Services	-14.1(-11.1)	14.8 (13.6)	6.2
Imports of Goods and Services	9.4(10.3)	-19.0 (-19.9)	-21.2

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 and various policy initiatives. 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 increased

Debswana Diamond Company production increased by 107 percent in the second quarter of 2026 to 5.5 million carats, from 2.7 million carats in the second quarter of 2025. The stronger performance was driven by improved mining operations, following the completion of an extended maintenance at Orapa and the processing of higher-grade ore at Jwaneng, which boosted overall production. Meanwhile, Debswana's rough diamond production guidance for 2026 was revised upwards from 15 million carats to 18 million carats, owing to improved global demand for premium natural diamonds. However, for De Beers, production guidance for 2026 remains unchanged at 21-26 million carats, although the company continues to monitor rough diamond trading conditions to align output with prevailing demand. Production at Lucara Diamond Corporation (Karowe Mine) increased slightly by 0.7 percent in the second quarter of 2026 to 83.1 thousand carats, from 82.6 thousand carats in the second quarter of 2025. The increase was supported by higher ore processing volumes, including ore from continued open-pit mining and run-of-mine stockpiles. Production guidance for 2026 remains unchanged at 340 – 360 thousand carats.

Budget deficit narrows in the 2025/26 fiscal year

Preliminary estimates for the 2025/26 fiscal year indicate that total revenue and grants amounted to P69.5 billion, broadly unchanged from P69.6 billion recorded in the 2024/25 budget. This represents a marginal decline of approximately 0.2 percent, reflecting offsetting dynamics across major revenue streams. In particular, mineral revenue more than doubled, increasing by 106.8 percent, while non-mineral income tax increased by 3.1 percent in 2025/26, compared to the 2024/25 budget outturn. However, these gains were partly offset by a 9.4 percent decline in Southern African Customs Union (SACU) revenues during the review period. The surge in mineral revenues was primarily driven by higher diamond sales, supported by improving global demand for premium natural diamonds. Total expenditure and net lending stood at P86.3 billion, representing a 2.6 percent decrease from P88.6 billion recorded in 2024/25. Recurrent expenditure remained broadly unchanged, with a marginal decline of 0.4 percent, while development expenditure decreased by 11.7 percent, largely reflecting delayed project implementation due to revenue constraints. As a result, the overall budget deficit stood at P16.8 billion in 2025/26 or 6.2 percent of GDP, compared to a deficit of P19 billion or 7.3 percent of GDP in 2024/25. This points to a modest reduction in financing needs and marks a second consecutive year of decline in the fiscal deficit as a share of GDP, suggesting some progress towards fiscal consolidation.

For 2026/27, total revenues and grants are projected at P77.2 billion, compared to preliminary estimates of P69.5 billion for 2025/26. Meanwhile, total expenditure and net lending are projected to increase to P103.6 billion, from P86.3 billion for 2025/26. Overall, the budget deficit for 2026/27 is projected at P26.4 billion, representing 8.9 percent of GDP, compared to the estimated P16.8 billion or 6.2 percent of GDP in 2025/26. The 2026/27 deficit is expected to be financed through a combination of domestic and external borrowing, with greater reliance on domestic debt instruments, facilitated by the recalibration of the statutory debt limit from 40 percent of GDP to 60 percent. However, given the constrained fiscal space, the projected deficit for 2026/27 could be revised.

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	15 867	18 795	(2 928)
2025/26 Q2	17 584	21 173	(3 590)
2025/26 Q3	16 065	20 333	(4 269)
2025/26Q4	19 968	25 978	(6 010)
2025/26	**69 484**	**86 280**	**(16 796)**
2026/27*	**77 224**	**103 579**	**(26 354)**
2027/28*	**82 598**	**104 362**	**(21 764)**

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

Meanwhile, the Bank 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 syndicated loan arrangement with the Government of Botswana, through the Ministry of Finance. The loan facility amounts to USD270 million, and the Loan Authorisation Bill was tabled and approved by Parliament in August 2026. The funding is intended to support the Government's budget-related expenditures in the short- and medium-term. Another Bill to authorise a USD170 million loan facility from OPEC was also presented to Parliament and approved, and is earmarked to finance the 2026/27 budget deficit.

Furthermore, in March 2026, Parliament approved several Loan Authorisation Bills, including loan facilities from Standard Chartered Bank, in particular, P750 million for budget support, which has since been disbursed and a EUR600 million for water projects, which is yet to be disbursed. In addition, Parliament approved a USD31.5 million loan from the

International Fund for Agricultural Development (IFAD) to finance the Botswana Livestock Commercialisation Project (BoLCoP)[5], which is yet to be disbursed.

Labour Market Conditions Remain Challenging

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 Quarterly Multi-Topic Survey (QMTS), the unemployment rate was 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 remained 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[6] 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, approximately 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.

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 market, 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.

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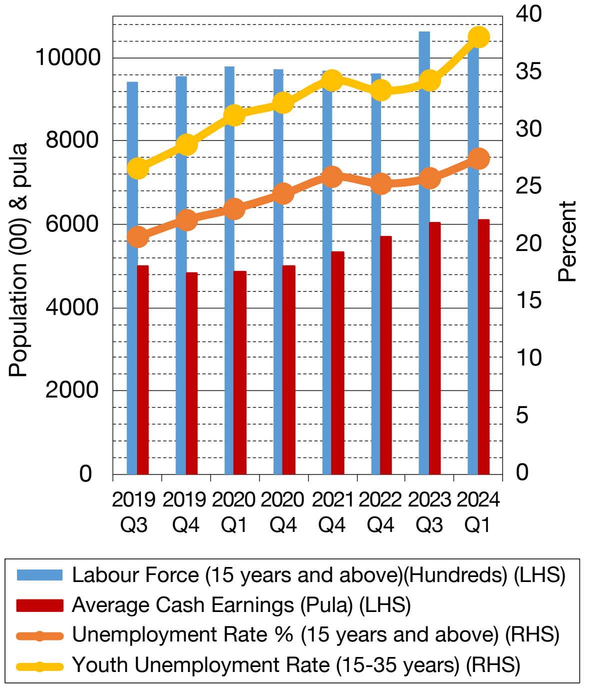
5 BoLCoP is a large-scale agricultural commercialisation project owned by the Government of Botswana, with the Ministry of Lands and Agriculture serving as its lead implementing agency. The project is meant to help farmers transition from subsistence farming to commercial livestock production.

6 The QMTS is conducted by Statistics Botswana, and its report is supposed to be published on a quarterly basis. However, due to some challenges, including movement restrictions to contain the COVID-19 pandemic and financial constraints, publication of the QMTS report has not been consistent, resulting in data gaps in labour force developments. Since its inception in the third quarter of 2019, Statistics Botswana published the first QMTS (July-September 2019) Report in January 2020. This was followed by reports for the fourth quarter of 2019, first and fourth quarters of 2020, the fourth quarters of 2021 and 2022, as well as the third quarter of 2023. Therefore, the analysis compares the first quarter of 2024 with the third quarter of 2023.

Chart 3.9:Trends in selected Labour Force Indicators

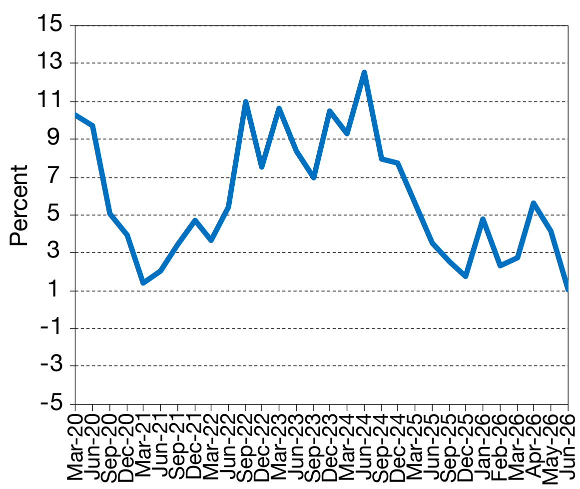


3.4 Monetary developments

Banking sector assets decelerated

Annual growth in banking sector assets decelerated from 3.4 percent in June 2025 to 1.1 percent in June 2026 (Chart 3.10). The deceleration was driven by decreased growth of balances due from domestic and foreign banks, fixed assets, as well as loans and advances. Meanwhile, there was a contraction in the growth of loans and advances which account for the largest proportion of commercial banks' assets (60.3 percent in June 2026). Overall, growth in banking sector assets continued to be predominantly funded by customer deposits, which increased by 3.1 percent in the same period.

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



Source: Bank of Botswana

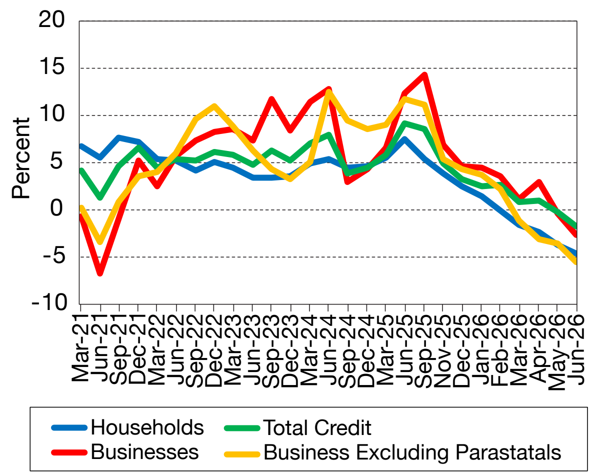
Liquidity conditions improve

Average daily market liquidity increased from P10.325 billion in June 2026 to P10.612 billion in July 2026. This increase was mainly attributable to net Government spending, supported by inflows of SACU funds and funds raised from the Government note issuance programme. Notwithstanding, market liquidity remains broadly stable. The Bank continues to manage liquidity conditions through targeted refinancing monetary operations, aimed at enhancing liquidity distribution and supporting the effective transmission of monetary policy.

Credit contracted amid tighter financial conditions

Commercial bank credit contracted by 1.6 percent in the year to June 2026, from a 10.3 percent expansion in the corresponding period in 2025 (Chart 3.11). The decline was primarily due to decreased lending to both households and businesses, reflecting the possible impact of higher market interest rates, reduced loan disbursements, reduced demand for credit and repayments of scheme loans. Lending to the household sector contracted by 4.5 percent in the year to June 2026, a significant slowdown compared to the 7.7 percent expansion in the corresponding period in 2025. This outcome was due to loan repayments and reduced utilisation of unsecured personal loans (10.9 percent to -5.9 percent), residential property loans (0.5 percent to –0.3 percent) and motor vehicle acquisition (7.7 percent to -11.9 percent), which more than offset the moderate increase in lending for credit cards from -0.2 percent to 5.3 percent. As a result, the share of household credit in total lending by commercial banks declined to 61.4 percent in June 2026, from 63.2 percent in June 2025.

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



Source: Bank of Botswana

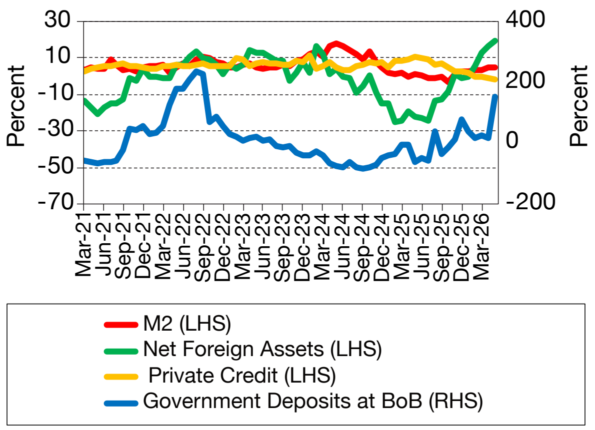
Lending to the business sector contracted by 2.7 percent in the year to June 2026, from a 14.9 percent expansion in the corresponding period in 2025. Likewise, growth in credit to businesses excluding parastatals contracted by 5.5 percent in the year to June 2026, from 11.6 percent expansion in the corresponding period in 2025. The decline was mainly attributable to repayment of revolving term loan and overdraft facilities in the agriculture, mining, construction, trade, finance, real estate and tourism sectors. Meanwhile, lending to parastatals accelerated by 24.6 percent in the year to June 2026, compared to 60.6 percent recorded in the twelve months to June 2025, largely driven by decreased utilisation of revolving credit facilities and repayment of term loans. Furthermore, lending to the central government amounted to P1 995 million in June 2026 (2.2 percent of total commercial banks' loans) compared with no lending recorded in June 2025. This remains relatively low compared with lending to households and businesses and, therefore, does not currently pose a significant risk of crowding out private-sector credit. However, a sustained increase in government borrowing could raise banks' exposure to the public sector and potentially compete with private-sector credit for available bank funding.

In line with the moderation in credit activity, the credit-to-GDP gap, which assesses the build-up of credit-related vulnerabilities, is estimated to have remained negative at 4.2 percent in the first quarter of 2026, indicating limited risks of credit growth that could overheat the economy. Meanwhile, concerns over the fiscal position are likely to weigh on credit growth prospects as banks may adopt more stringent lending standards.

Money supply growth remained modest

M2 expanded by 4.9 percent year-on-year in May 2026, compared to an increase of 0.8 percent in the corresponding period in 2025 (Chart 3.12). Net foreign assets and government deposits at Bank of Botswana increased by P10 922 million (19.1 percent) and P3 188 million (151.9 percent), respectively, during the period under review. However, credit extended to the private sector decreased by P1 593 million (1.6 percent) in the same period. Overall, money supply growth remained modest, consistent with subdued economic activity and constrained, though now stabilising, liquidity conditions.

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



Source: Bank of Botswana

The nominal BoBC yields increased

The 7-day nominal BoBC yield (MoPR) increased from 1.90 percent in the second quarter of 2025 to 4.83 percent in the second quarter of 2026, following a 200-basis points policy rate increase in April 2026. However, the real interest rate on the 7-day paper decreased significantly from -0.75 percent to -5.2 percent in the same period, reflecting the larger increase in the inflation rate compared to nominal yields.

Meanwhile, month on month, the 7-day nominal BoBC yield was constant at 5.50 percent between June and July 2026. The real rate of interest for the 7-day BoBC increased from -4.7 percent in June to -3.6 percent in July 2026, reflecting the decrease in the inflation rate.

The stop-out yield on the 1-month BoBC, which was introduced in June 2022 to address structural liquidity issues and support the construction of the short-end of the yield curve, averaged 5.32 percent in the second quarter of 2026, an increase from an average of 2.24 percent in the corresponding period in 2025. In contrast, the real rate of interest for the 1-month paper decreased from an average of 0.17 percent in the second quarter of 2025 to an average of -4.76 percent in the second quarter of 2026, reflecting the larger increase in the inflation rate compared to nominal yields.

Meanwhile, the stop-out yield on the 1-month BoBC decreased marginally, month on month, from 6.06 percent in June 2026 to 6.05 percent in July. The real rate of interest for the 1-month paper increased from -4.21 percent to -3.06 percent in the same period, reflecting the higher decrease in the inflation rate than the nominal yield.

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 a 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 maintained rating with negative outlook

Similarly, 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.

The next round of credit ratings will be completed in September 2026.

3.5 Asset market prices

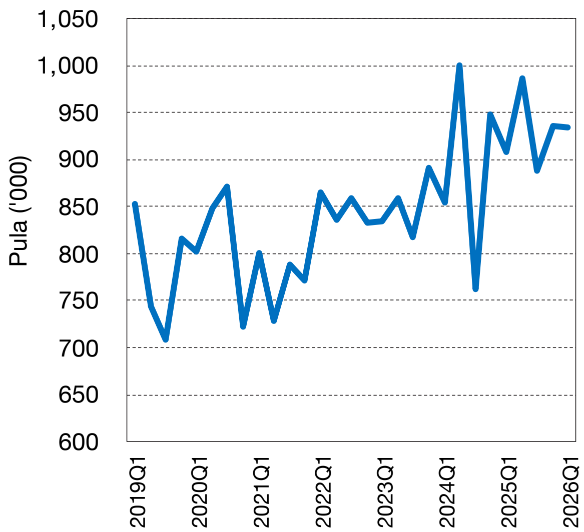
Property market prices decline slightly in the first quarter of 2026

According to the 2026Q1 quarterly Riberry Report[7], residential property prices declined slightly in the first quarter of 2026 compared to the fourth quarter of 2025. The average net price of residential properties sold in the first quarter of 2026 declined by 0.2 percent to P933 488, compared with P935 342 recorded in the preceding quarter (Chart 3.13). The decline is attributable to lower average residential property prices across most residential segments, including Lobatse, Selebi Phikwe, Central, Jwaneng, Maun, and Greater Gaborone. Nonetheless, demand remained concentrated in the low- and medium-cost residential segments for both sales and rentals. However, demand for high-end residential properties was subdued, largely reflecting the high-interest rate environment, which continued to constrain affordability and borrowing capacity for higher-value properties. The divergence between strong activity in low- and medium-cost and weaker performance in the upper-end market points to a segmented property market, with demand increasingly concentrated in properties that offer greater affordability.

In addition, the report highlights a growing preference for apartment living, with apartments accounting for a significant proportion of residential property sales during the period under review. This suggests a gradual shift in consumer preferences away from standalone houses towards multi-residential developments driven by affordability considerations, convenience and changing household needs. The median age of residential property buyers increased to 46 years during the quarter, which is the highest level recorded since 2021. This suggests that the current market activity is increasingly supported by more established buyers with greater financial capacity in the current lending environment.

Furthermore, the Bank's Credit Conditions Survey Report for the second quarter of 2026 (March – May 2026) indicates that demand for residential property loans remained broadly unchanged. At the same time, lending conditions tightened, reflecting heightened economic pressures and rising defaults. This tightening is consistent with the developments in the residential property market, where demand has increasingly shifted towards more affordable properties. For the months of June to August 2026, demand for residential property loans is expected to decline, reflecting continued affordability constraints.

Chart 3.13: Botswana Average Residential Property Prices (Net)



The demand for office space in the first quarter of 2026 remained reasonable, although it was slower than in the fourth quarter of 2025. 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.

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

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 in future.

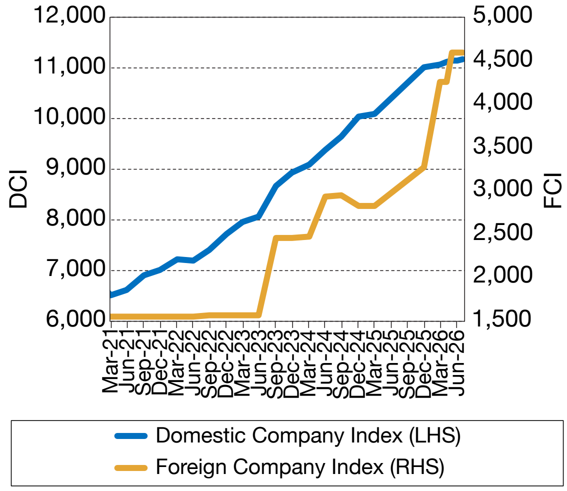
The retail market continues to exhibit sustained demand, particularly for destination and transport node malls in and around Gaborone. These include two regional shopping centres at Mogoditshane (one involving Kweneng District Council and private developers/investors, and the A10 project by the GH Group now completed). 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 are expected to be occupied by well-established South African and local tenants.

The stock market indices increased in July 2026

The Domestic Companies Index (DCI) increased by 6.6 percent in the twelve months to July 2026, albeit lower than the 9.6 percent increase recorded in the year to July 2025 (Chart 3.14). Despite a challenging trading environment, characterised by a downturn in the diamond market and a slowdown in economic activity[8], the DCI was supported by strong share price gains for Choppies (112.9 percent), BTCL (28.9 percent), and Primetime (18 percent). This indicates some level of resilience in retail, telecommunications and property segments of Botswana's domestic equities.

The Foreign Companies Index (FCI) increased by 61.8 percent in the year to July 2026, compared to a contraction of 3.8 percent in the corresponding period in 2025 (Chart 3.14). The notable increase in the FCI was due to the significant increase in the price for Anglo American PLC stock, which accounts for 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

[8] 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 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.

Persistent structural liquidity constraints exerted upward pressure on yields at the short end of the yield curve. In particular, yields on the 3-month Treasury Bill (T-Bill) increased markedly, driven by tighter liquidity conditions and increased domestic borrowing requirements to finance fiscal deficits. This resulted in a widening deviation from the MoPR, which translated into higher funding costs across the banking system. Consequently, commercial banks raised their Prime Lending Rates (PLR) by between 75 and 200 basis points, reflecting both tighter funding conditions and reliance on short-term wholesale deposits. Similarly, Government bond yields at the long end rose significantly, driven primarily by the market's heightened fiscal concerns and elevated inflation expectations by participants. To mitigate these pressures, the Bank implemented several liquidity enhancing measures, including reducing the Primary Reserve Requirements rate (PRR) to zero and extended the tenor of repo operations up to three months, providing banks with greater flexibility in liquidity management and reducing short-term funding risks. Additionally, the Bank issued a moratorium on increases in the PLR and also increased the MoPR in an effort to improve transmission of monetary policy and curb volatility in money markets.

However, following interventions by the Bank to curtail the tight liquidity conditions, market liquidity has been broadly stable, reflecting reduced pressures emanating from the decreased foreign exchange outflows. Resultantly, costs of funding for commercial banks have eased, as reflected by the gradual softening of wholesale deposit rates across the banking sector. Commercial banks continue to rely on wholesale deposits as a source of funding, as they offer flexible financing, although it is inherently less stable, more sensitive to market sentiment, and heightens exposure to roll-over risk. Furthermore, yields across the maturity spectrum have eased downwards, particularly across the short and middle maturities, which implies effective monetary policy transmission. The decrease in the front end was largely driven by improved liquidity in the banking system, which encouraged investors to channel excess funds into T-Bills, thereby exerting downward pressure on yields at primary auctions. 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. Nevertheless, commercial banks sustained strong balance sheets, supported by adequate capital buffers and sound asset quality, underscoring the financial system's continued strength and capacity to absorb shocks even under less accommodative liquidity conditions.

3.6 Balance of payments

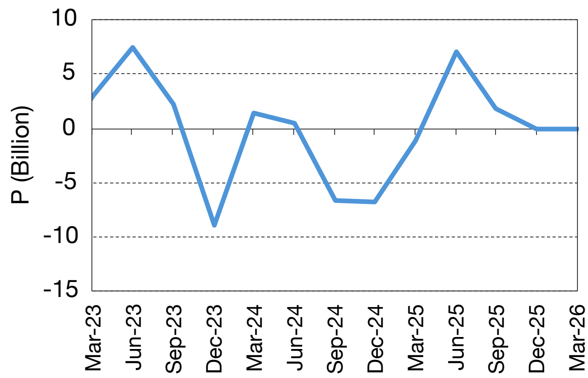
The Balance of Payments (BoP) was in a surplus in the first quarter of 2026

The overall BoP is estimated to have recorded a surplus of P6 billion during the first quarter of 2026, compared to a deficit of P2 billion in the corresponding period in 2025. The surplus was supported by an improvement in financial account inflows, which mainly reflected a reduction in portfolio investment assets.

Current account was in deficit during the first quarter of 2026

The current account narrowed from a deficit of P1.1 billion in the first quarter of 2025 to a deficit of P31 million in the first quarter of 2026 (Chart 3.15), mainly reflecting an improvement in the primary income account. The primary income account improved from a deficit of P1.6 billion to a surplus of P85 million, mainly due to a significant decline in investment income payments to foreign investors, alongside an increase in investment income receipts. The current account was further supported by narrower services deficit and a higher secondary income surplus of P7.1 billion, largely attributable to SACU receipts of P6.5 billion.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

During the same period, goods exports declined by 0.7 percent from P14.6 billion to P14.5 billion. Imports, on the other hand, increased by 3.4 percent, from P20.6 billion to P21.3 billion.

Diamond exports declined by 3.1 percent to P9.4 billion in the first quarter of 2026, from P9.7 billion during the corresponding quarter in 2025. The decline reflected weaker global demand for diamonds, coupled with lower diamond prices. Diamond exports accounted for 64.4 percent of total goods in the first quarter of 2026, down from 66.2 percent in the corresponding quarter in 2025.

Other commodities that contributed to the decrease in exports include salt and soda ash (12.6 percent), coal (43.7 percent), iron and steel products (14.5 percent) and live cattle (100 percent). In contrast, exports increased for copper (1.6 percent), machinery and electrical equipment (24.8 percent), vehicles and transport equipment (13.8 percent), meat and meat products (264.1 percent), plastic and plastic products (16.1 percent), textiles (2.7 percent), aviation fuel (5.8 percent) and other goods (3.9 percent).

On the imports side, diamonds are the only commodity group that contributed to the increase in imports (148.2 percent). However, imports reduced for fuel (9.1 percent), machinery and electrical equipment (14.4 percent), food, beverages and tobacco (17 percent), chemicals and rubber products (10 percent), vehicles and transport equipment (17.3 percent), metals and metal products (36 percent), textiles and footwear (16.6 percent), wood and paper products (20.9 percent), salt ores and related products (14.6 percent), furniture (28.5 percent), and other goods (32.4 percent).

More recent data for May 2026 indicate a merchandise trade deficit of P3.3 billion, compared with a deficit of P1.2 billion recorded in May 2025. Total merchandise exports decreased by 34.2 percent, from P7.3 billion to P4.8 billion, while merchandise imports decreased by 4.7 percent, from P8.5 billion to P8.1 billion over the same period.

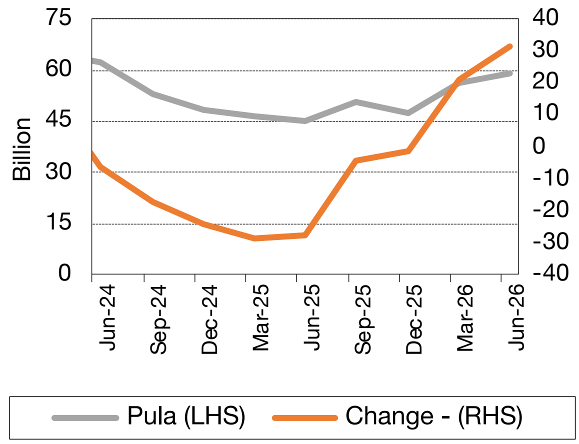
The financial account recorded a net inflow in the first quarter of 2026

The financial account recorded a net inflow of P2.2 billion during the first quarter of 2026, compared to a net outflow of P269 million in the corresponding period in 2025. The turnaround was primarily driven by a reduction in portfolio investment abroad.

Foreign exchange reserves increased in June 2026

The foreign exchange reserves were P59.1 billion in June 2026, representing an increase of 31.3 percent from P45 billion in June 2025 (Chart 3.16).

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

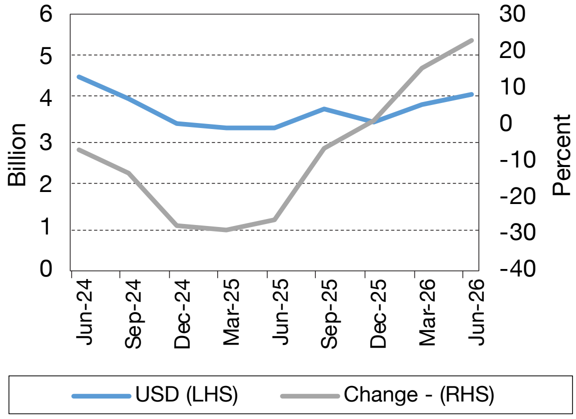


Source: Bank of Botswana

In foreign currency terms, the foreign exchange reserves increased from USD3.4 to USD4.2 billion (Chart 4.12) and from SDR2.5 billion to SDR3.1 billion during the same period.

The level of foreign exchange reserves in June 2026 was equivalent to 7.8 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 continued to implement the exchange rate policy framework to preserve external competitiveness while supporting macroeconomic stability. Consistent with the policy parameters approved for the year, the Pula remains pegged to a currency basket comprising the South African rand and the SDR, each with a weight of 50 percent, while the annual downward rate of crawl was maintained at 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 to promote greater market participation and improve the functioning of the foreign exchange market. Building on these reforms, asymmetric trading margins were introduced in January 2026 for foreign exchange transactions with commercial banks. Under this framework, the Bank purchases foreign currency at 3 percent above the central parity[9] and sells foreign currency 7.5 percent below the central parity[10]. This asymmetric pricing structure provides stronger incentives for commercial banks to source foreign exchange from the interbank market and encourages exporters to sell foreign currency to the domestic banking system, thereby supporting reserve accumulation while maintaining exchange rate competitiveness.

Preliminary evidence suggests that these reforms have strengthened price discovery in the foreign exchange market and encouraged greater participation by commercial banks in interbank trading. The wider and asymmetric trading margins have also increased the cost of transacting directly with the Bank, thereby creating stronger incentives for market participants to source foreign exchange through the interbank market. Consequently, the Bank's direct participation in the market has declined, supporting a more market-based allocation of foreign exchange, while helping to preserve official foreign exchange reserves. Although the full effects of the reforms will become clearer over time, early outcomes indicate that they are advancing the Bank's objectives of enhancing exchange rate flexibility, improving the efficiency and resilience of the foreign exchange market and maintaining an exchange rate that remains broadly aligned with macroeconomic fundamentals.

On a year-on-year basis, the nominal Pula depreciated by 6.6 percent against the South African rand but appreciated by 1.3 percent against the SDR in July 2026 (Chart 3.18). Against the SDR constituent currencies, the local currency appreciated by 9.8 percent against the Japanese yen, 1.9 percent against the US dollar, 1.2 percent against the euro and 0.5 percent against the British pound, while it depreciated by 4.6 percent against the Chinese renminbi.

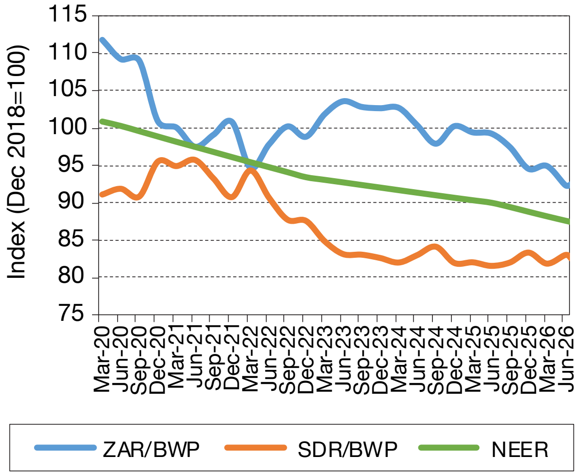
During the same review period, the South African rand appreciated against the SDR and all its constituent currencies. Specifically, it strengthened by 17.6 percent against the Japanese yen, 9.1 percent against the US dollar, 8.4 percent against the euro, 7.6 percent against the British pound and 2.2 percent against the Chinese renminbi, resulting in an overall appreciation of 8.4 percent against the SDR.

The appreciation of the South African rand was supported by the weaker US dollar as global risk sentiment improved following the de-escalation of tensions in the Middle East, which encouraged investors to shift towards higher-yielding and emerging market assets. In addition, easing concerns over global supply chain disruptions and a modest recovery in prices of South Africa's key precious metal exports improved the country's terms of trade, providing further support to the rand. The currency also benefited from continued confidence in South Africa's fiscal consolidation efforts and the credibility of its monetary policy framework.

[9] 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.

[10] 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.

Chart 3.18: Nominal Exchange Rate Indices

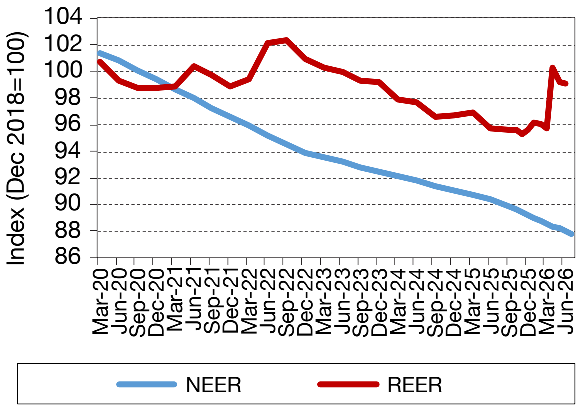


Source: Bank of Botswana

NEER depreciated in July 2026

The NEER of the Pula depreciated by 2.7 percent in the year to July 2026 (Chart 3.19), consistent with the annual downward rate of crawl of 2.76 percent implemented for 2026.

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER appreciated in June 2026

The REER appreciated by 3.6 percent, year-on-year, in June 2026 (Chart 3.19), as higher domestic inflation relative to trading partner countries more than offset the competitiveness gains from the depreciation of the NEER. This implies a deterioration in Botswana's external price competitiveness.

With respect to bilateral movements against the Pula basket currencies, the real Pula exchange rate (based on headline inflation) depreciated by 2 percent against the South African rand but appreciated by 9.6 percent against the SDR. Relative to the SDR constituent currencies, the Pula appreciated by 23.2 percent against the Japanese yen, 12.4 percent against the British pound, 11.3 percent against the euro, 7.4 percent against the US dollar and 4.4 percent against the Chinese renminbi.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains subdued, with growth revised slightly downwards for 2026 and slightly upwards for 2027 relative to the April 2026 WEO projection. The 2026 downward revision reflects the continued adverse effects of the Middle East conflict, which is partly offset by the accelerated momentum in AI-driven investment and technological activity. Regarding price developments, global inflation is projected to increase, although price pressures vary across countries and regions.

Global economic growth expected to remain below historical average

According to the July 2026 WEO update, global economic growth is forecast to remain subdued at 3 percent in 2026, down from 3.5 percent in 2025, before increasing slightly to 3.4 percent in 2027. The 2026/2027 forecasts remain below the historical (2000-2019) annual average of 3.7 percent. The growth forecast for 2026 was revised downward by 0.1 percentage points, compared to the April 2026 WEO report. The downward revision is on account of continued adverse effects of the conflict in the Middle East, which has intensified disruptions to global trade, supply chains and energy markets, leading to weaker economic activity, particularly in energy-importing economies with limited integration into the global technology value chain.

Overall, risks to the global economic outlook remain skewed to the downside. These are underscored by the potential escalation of the Middle East conflict, which could intensify commodity price volatility, disrupt global supply chains, fuel inflationary pressures, and tighten global financial conditions. In addition, increasing trade fragmentation could weaken global economic activity further, while exerting upward pressure on prices. A possible correction in technology-driven expectations and eroded policy buffers, could also weigh on growth.

For advanced economies, output is projected to grow by 1.7 percent in 2026, slightly lower than 1.9 percent in 2025, and to increase slightly to 1.8 percent in 2027, reflecting the adverse effects of elevated energy prices and heightened geopolitical tensions on economic activity. However, the outlook remains uneven across economic bloc, with net energy exporters benefiting from favourable terms of trade, while net energy importers are dragged by higher energy costs.

UK economic growth forecast to remain subdued

The UK economy is forecast to grow by 1 percent in 2026, a decline from 1.4 percent in 2025, as higher energy prices dampen consumer spending and increase production costs, while tighter financial conditions and elevated uncertainty weigh on consumption and investment. However, the forecast is 0.2 percentage points higher than the April 2026 WEO projection, reflecting stronger-than-expected economic activity in early 2026.

Output growth for the US expected to increase slightly

In the US, output is forecast to increase from 2.1 percent in 2025 to 2.3 percent in 2026, before easing slightly to 2.2 percent in 2027. The growth trajectory is underpinned by expansionary fiscal policy, accommodative financial conditions, and continued technology-related investment. In addition, the economy is expected to experience limited effects from the Middle East war, owing to its net energy exporter status.

Growth for the euro area forecast to decrease

Growth for the euro area is projected at 0.9 percent in 2026 and 1.2 percent in 2027, compared to 1.4 percent in 2025. The subdued outlook primarily reflects a sizeable negative carryover effect from the first quarter of 2026 and the negative impact of elevated energy prices, which persist despite fiscal support measures.

Emerging markets GDP growth projected to moderate

Economic activity in EMDEs is projected to moderate to 3.8 percent in 2026, from 4.5 percent in 2025, before recovering to 4.5 percent in 2027. The forecast for 2026 is 0.1 percentage points lower than the April 2026 WEO. The revision is heterogeneous, reflecting differences across EMDEs in terms of commodity dependence, exposure to geopolitical developments, reliance on remittance and tourism inflows, sensitivity to global financial conditions, and integration into global technology value chains.

In India, output is projected to expand by 6.4 percent in 2026 and 6.7 percent in 2027, following growth of 7.7 percent in 2025. The growth forecast for 2026 was revised downwards by 0.1 percentage points from the previous projection, reflecting strong pass-through of higher global oil prices to domestic fuel prices, given India's dependence on imported energy. Nevertheless, India remains one of the fastest-growing economies, supported by resilient private consumption, and continued expansion in the services sector.

Meanwhile, output for China is forecast to grow by 4.6 percent in 2026 and 4.1 percent in 2027, lower than the estimated expansion of 5 percent in 2025. The moderation in growth is due to the adverse effects of higher global oil prices, persistent uncertainty, and ongoing structural challenges, which are expected to weigh on economic activity.

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 1.1 percent in 2026, the same as in 2025, and to increase slightly to 1.3 percent in 2027.

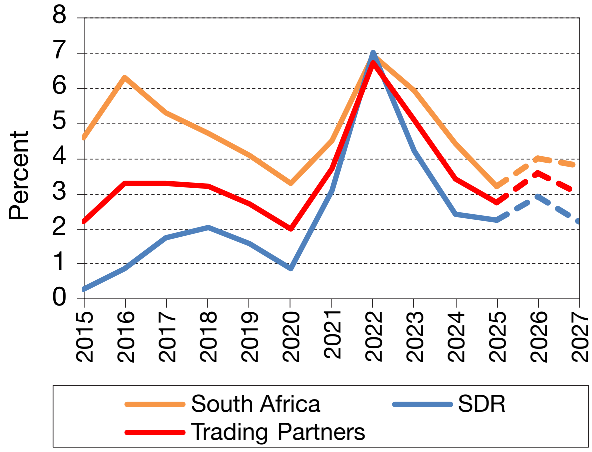
Meanwhile, the SARB forecast South African output growth at 1.4 percent in 2026, before increasing slightly to 1.7 percent in 2027. The SARB revised its 2026 growth projection upwards from 1.2 percent, while leaving the 2027 projection unchanged. Despite stronger-than-expected growth in the first quarter, activity is anticipated to moderate in the second and third quarters, amid a sharp decline in consumer confidence and weakening business sentiment.

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 3 percent in 2026, while for emerging market economies, it is forecast to increase from 5.2 percent to 5.8 percent in the same period. However, inflation is projected to decline in 2027 to 2.4 percent in advanced economies and 4.8 percent in EMDEs. Overall, global inflation is expected to increase from 4.1 percent in 2025 to 4.7 percent in 2026, before easing to 3.9 percent in 2027.

Meanwhile, the SARB forecast South African inflation to average 4 percent and 3.8 percent in 2026 and 2027, respectively. The forecast for 2026 was revised downwards while that of 2027 was revised upwards from the June projections of 4.4 percent and 3.7 percent, respectively. The upward revision for the 2026 projection is on account of higher fuel prices resulting from 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

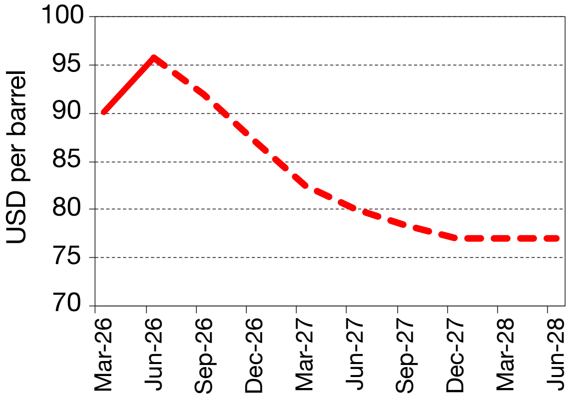
Diamond prices are expected to remain under pressure in the short term due to weak global demand, largely driven by economic challenges in key markets, such as China. Moreover, the increased supply of lab-grown diamonds and the growing popularity of gold as a safeheaven commodity[11], have contributed to the decline in demand for diamonds and, consequently, diamond prices.

International oil prices forecast to decrease in the short term

International oil prices are expected to decrease in the short term, owing to improved expectations of increased oil supply as OPEC and its allies (OPEC+) continued to unwind the voluntary production cuts introduced in 2023, alongside easing concerns over prolonged supply disruptions associated with the conflict in the Middle East. Moreover, OPEC+ subsequently approved a further increase in production, reinforcing expectations of higher global oil supply. However, continued uncertainty surrounding the Strait of Hormuz and disruptions to oil shipments remain and therefore there is potential upward pressure from international oil prices on domestic inflation.

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

Chart 4.2: International Oil Prices

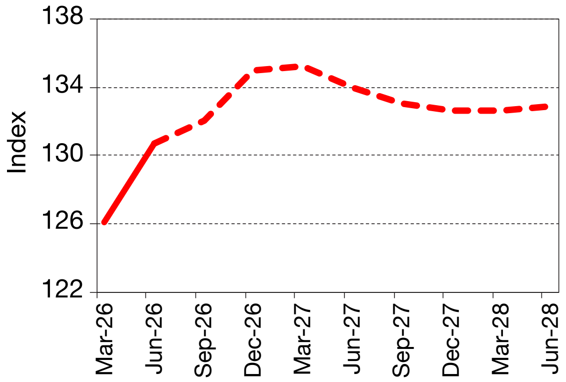


Source: Bloomberg

International food prices to moderate going forward

International food prices are expected to moderate going forward, mainly supported by improved global food production. However, the emergence of El Niño conditions during the second half of 2026 presents an upside risk to food prices, particularly in Southern Africa, where the phenomenon is associated with below-average rainfall. Consequently, while the medium-term outlook remains for lower international food prices, adverse weather conditions could limit the moderation and exert upward pressure on domestic food inflation.

Chart 4.3: International Food Prices FAO Index



Source: Bloomberg

In Southern Africa, food prices are expected to moderate, supported by improved crop production. Furthermore, recent heavy rainfall in the region has generally improved crop conditions and raised expectations for a favourable 2025/26 harvest, although excessive rains and localised flooding may have adversely affected production. Domestically, food price developments are likely to reflect recent supply-side shocks, including the outbreak of Foot and Mouth disease, which has resulted in livestock movement and slaughter restrictions aimed at containing the spread of the disease. These restrictions, though easing, could contribute to higher food inflation in the short term.

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 to rebound in 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 a contraction of 0.7 percent in 2025[12]. This rebound is expected to be driven by the recovery in the mining sector and continued growth in non-mining sectors, supported by the implementation of economic diversification initiatives under NDP 12 and the BETP. Nevertheless, delays in the implementation of the BETP suggest that actual growth may fall below projections.

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 increased demand for premium stones, intensified marketing of natural diamonds and closure of the De Beers' Lightbox lab-grown diamond operation.

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 shocks, such as droughts and floods, and transition risks, with potential adverse implications 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, 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, alongside high unemployment, sluggish job creation and limited growth in real wages.

Furthermore, results from the Bank's June 2026 Business Expectations Survey (BES) indicate that firms are pessimistic about economic conditions in the second and third quarters of 2026. The cautious outlook is consistent with the country's weakened fiscal position, characterised by lower government revenue and constrained cash flows, thereby limiting the pace of government spending. Nevertheless, firms expressed optimism about business conditions in the 12-month period to June 2027. This improved sentiment could be attributable to the anticipated benefits from government initiatives aimed at supporting economic recovery and improving the business environment, including measures and proposals outlined in NDP 12.

[12] 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 and support investment and strengthen consumer confidence, 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.

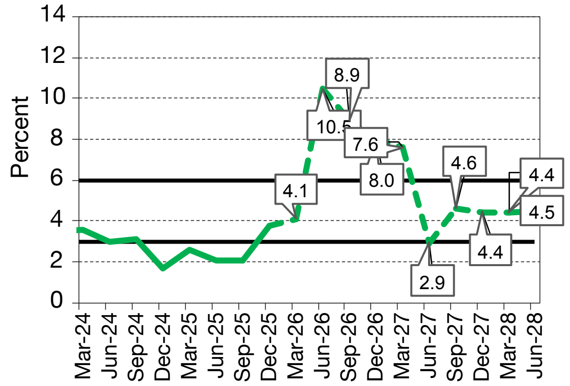
4.3 Monetary policy and inflation outlook

Inflation is projected to remain above the 3 – 6 percent objective range in the near term mainly on account of the combined impact of relatively higher domestic fuel prices, the recent increase in electricity tariffs and the associated second-round effects. The inflation forecast has been revised downwards compared to the June 2026 projection.

Inflation is forecast to remain above the objective range in the near term

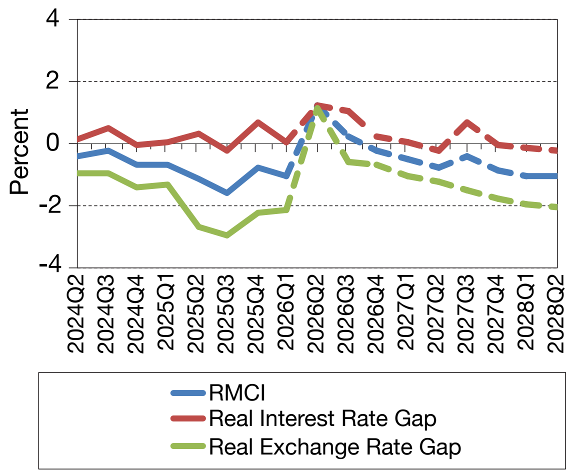
Inflation is forecast to remain above the 3 – 6 percent objective range in the near term (Chart 4.4). This is mainly due to the persistence of the impact of the increases in domestic fuel prices effected on 28 March 2026, public transport fares and medical aid premiums adjusted on 1 April 2026, as well as associated cost-push pressures across the economy. The projected high inflation is also on account of the increase in electricity tariffs which is estimated to directly add 0.22 percentage points to headline inflation in the third quarter of 2026. Nonetheless, inflation is expected to ease and gradually revert to within the objective range in the medium term, supported by the current monetary policy stance (Chart 4.5), subdued domestic demand conditions and the dissipating impact of the earlier upward adjustments in administered prices from the inflation calculation.

Chart 4.4: Botswana Headline Inflation Forecast



Source: Bank of Botswana

Chart 4.5: Real Monetary Conditions



Source: Bank of Botswana

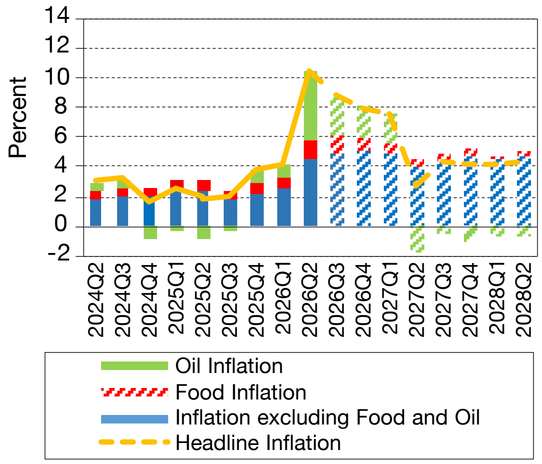
The projection also incorporates the most recent reduction in domestic fuel prices effected on 7 July 2026, which reduced inflation by 2.3 percentage points. Furthermore, the projection accounts for the downward rate of crawl of 2.76 percent for 2026, trading partner countries' inflation forecasts and developments in international food and oil prices.

According to the June 2026 Business Expectations Survey, firms anticipate inflation to average 4.3 percent in 2026, thus remaining within the objective range, suggesting that inflation expectations were well anchored at the time of the survey. However, this outlook is likely to be adjusted upwards going forward should inflationary pressures persist, particularly those stemming from increased energy prices and the associated second round effects.

Oil inflation forecast to decrease

Oil inflation is expected to decrease mainly due to the recent reduction in domestic fuel prices. Meanwhile, inflation excluding food and fuel is projected to increase in the short term, due to the expected increase in electricity tariffs and associated second round effects. However, these price pressures are expected to moderate over the medium term as the effects of the tariff adjustment gradually dissipate (Chart 4.6).

Chart 4.6: Headline Inflation and its Components

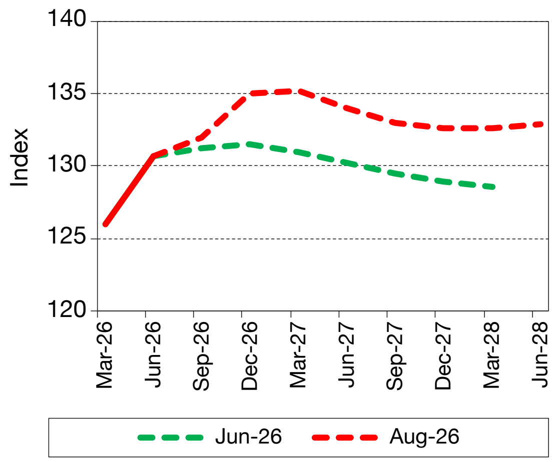


Source: Bank of Botswana

Forecasts for international food prices revised upward

Compared to the June 2026 forecast, international food price projections have been revised upward (Chart 4.7). The upward revision reflects growing concerns over continued disruptions to Black Sea export flows and damage to export infrastructure. These concerns have been further intensified by recent heatwaves, which adversely affected crop yields in several major wheat-producing countries. The expected higher food prices are also compounded by high energy costs, given the importance of oil as an input in food production and transportation.

Chart 4.7: International Food Prices FAO Index

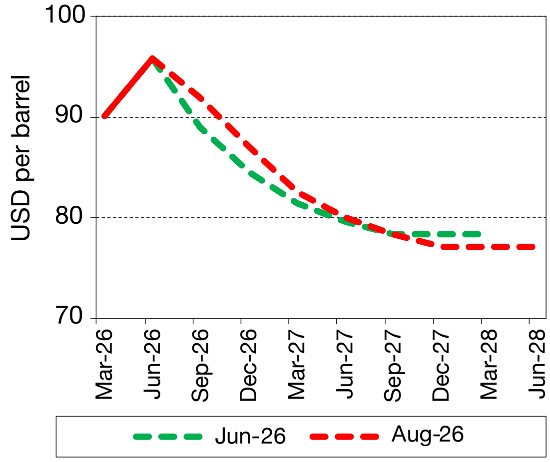


Source: Bloomberg

Forecasts for international oil prices revised upward

Compared to the June 2026 forecast, projections for international oil prices have been revised upward in the near term. The upward revision is mainly driven by the heightened tensions between the US and Iran, which have increased concerns about the global supply of oil (Chart 4.8). The Middle East tensions remain elevated, with reduced possibility of a near-term resolution to the conflict. A significant drawdown in global inventories due to continued disruptions in the Strait of Hormuz has also contributed to elevated projections for global oil prices.

Chart 4.8: International Oil Prices

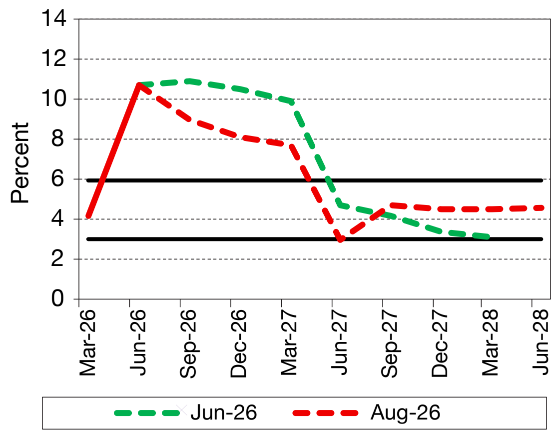


Source: Bloomberg

Inflation forecast revised downwards

Domestic inflation forecast has been revised downward relative to the June 2026 projection (Chart 4.9). The downward revision is mainly on account of the reduction in domestic fuel prices effected on 7 July 2026.

Chart 4.9: Botswana Headline Inflation Forecast Revision

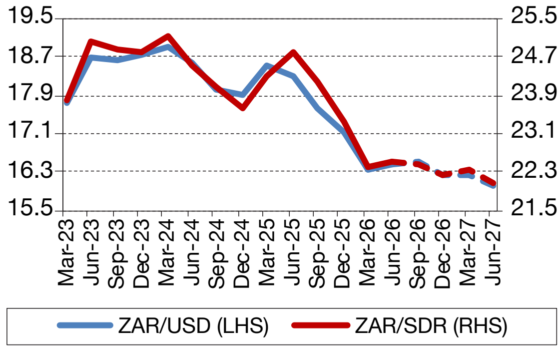


Source: Bank of Botswana

Exchange rate movements

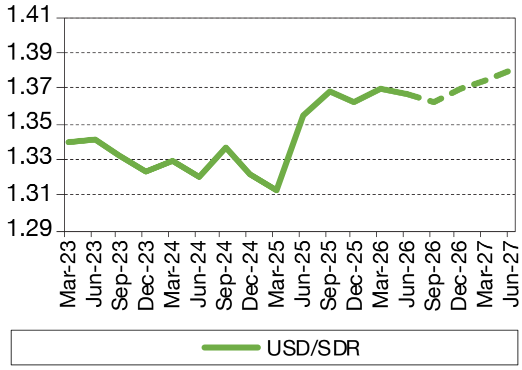
The South African rand is expected to appreciate against major international currencies over the next four quarters (Chart 4.10), supported by positive domestic developments and an improving macroeconomic outlook. In June 2026, Fitch Ratings upgraded South Africa's long-term foreign-currency sovereign credit rating from BB- to BB, while maintaining a stable outlook. The upgrade reflected improvements in fiscal fundamentals, including prudent fiscal management, progress towards fiscal consolidation, stronger revenue collection and enhanced expenditure control. Although the rating remains below investment grade, the upgrade is expected to strengthen investor confidence, support capital inflows and improve access to financing by lowering the Government's borrowing costs. In addition, the rand is expected to benefit from weaker US dollar and the anticipated de-escalation of tensions in the Middle East, which could encourage a shift towards higher-yielding and emerging market assets, further supporting demand for the currency.

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

Chart 4.11: USD against SDR

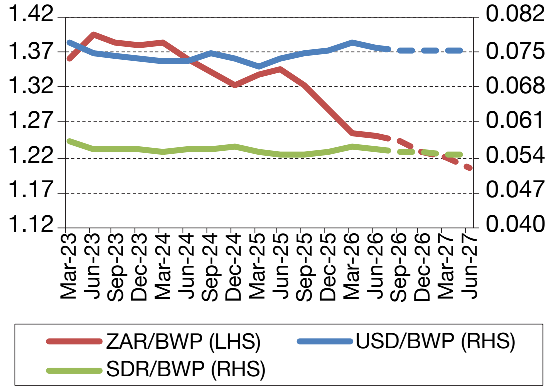


Source: Bloomberg

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 an improvement in global risk sentiment following the de-escalation of the conflict in the Middle East. As geopolitical tensions ease, investor confidence is expected to shift towards higher-yielding and emerging market assets. Although the conflict has contributed to increased market volatility, the anticipated depreciation of the US dollar is exacerbated by the expectation that the Fed will maintain interest rates for longer, even as inflation moderates. Consequently, investors are expected to gradually rebalance their portfolios towards other major currencies, reducing demand for the US dollar.

Domestically, the Pula is projected to depreciate against the South African rand but strengthen against the SDR constituent currencies over the next four quarters (Chart 4.12). The anticipated depreciation of the Pula against the rand reflects the expected strengthening of the South African rand against major currencies, which carries a substantial weight in Botswana's exchange rate basket. Consequently, the Pula is expected to strengthen against major international currencies, supported by the anticipated weakening of the US dollar and improved global risk sentiment. From an inflation perspective, the projected depreciation of the Pula, particularly against the South African rand, is likely to exert some upward pressure on domestic inflation, reflecting Botswana's significant reliance on imports from South Africa.

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



Source: Bloomberg and BoB calculations

Risks to the inflation outlook 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 relatively higher domestic fuel prices and an increase in electricity tariffs. Furthermore, the ongoing Foot and Mouth disease management measures in terms of livestock movement and slaughter restrictions in Botswana may lead to higher food inflation in the short term. Moreover, the recent forecasts indicating the potential occurrence of El Nino present an additional upside risk to inflation. If the weather phenomenon materialises, it could lead to droughts, heatwaves, and excessive rainfall in affected regions, adversely impacting agricultural production and food supply, thereby exerting upward pressure on food prices. Externally, rising prices for oil, gas, fertilisers, and industrial inputs resulting from the ongoing war in the Middle East will continue to exert inflationary pressures, should the conflict persist. 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. The inflation outcomes could also be affected by possible changes in administered prices that are not factored in the current projection.

5. ALTERNATIVE SCENARIOS

The alternative scenarios evaluate the inflation outlook based on potential adjustments to domestic fuel prices consistent with the July 2026 slate balance, and possible future developments in international oil prices.

5.1 Fuel price adjustment based on July Slate Balance

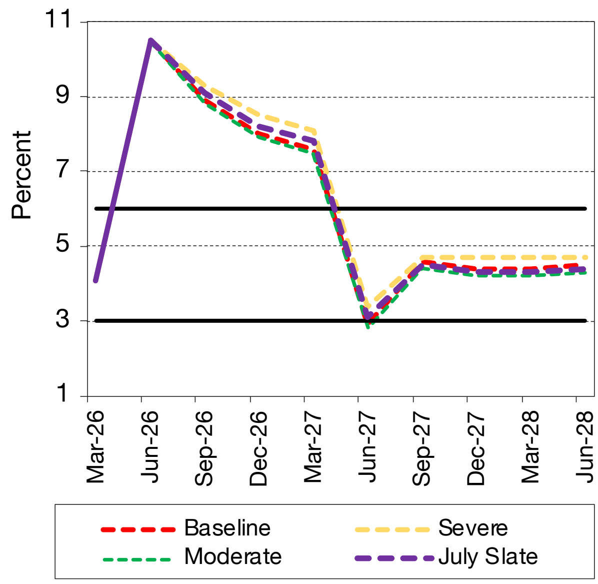
The first alternative scenario evaluates the inflation outlook based on potential changes to domestic fuel price based on the domestic fuel unit price slate balance as at the end of July 2026. The slate balance released by Botswana Energy Regulatory Authority (BERA) recorded an over recovery of P0.23 for petrol, and under-recovery balances of P1.70 for diesel and P2.18 for paraffin as at the end of July 2026. If domestic fuel prices are adjusted by the balances, the adjustment is expected to reduce headline inflation by 0.26 percentage points in September 2026.

5.2 International oil price assumptions

The second scenario accounts for uncertainty surrounding the Middle East conflict and its potential impact on international oil prices. It evaluates how oil prices might deviate from current projections under two possible outcomes; (a) an escalation of the conflict (severe case) or (b) a de-escalation (moderate case). Under the conflict escalation case, Brent crude oil prices are assumed to increase by 20 percent relative to the baseline forecast for international oil prices, while under the de-escalation case, Brent crude oil prices are assumed to decrease by 10 percent relative to the baseline.

The July 2026 Slate scenario and the severe scenario show a slightly higher inflation projection profile in the near term compared with the baseline forecast. Meanwhile, the inflation projection profile for the moderate case is relatively similar to the baseline forecast. Going into the medium term, inflation in all the three scenarios follow a similar trajectory, with inflation reverting to the objective range.

Chart 5.1: Domestic Fuel and International Oil Price scenarios: Botswana Headline Inflation forecasts



Source: Bank of Botswana

6. AUGUST 2026 MONETARY POLICY COMMITTEE DECISION

At the meeting held on 27 August 2026, the Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 5.5 percent.

Global and Domestic Context

The MPC convened at a time when the global economy continues to face challenges arising from evolving trade relations, supply chain disruptions and geopolitical tensions, particularly the conflict in the Middle East and its implications for energy markets. Consequently, global inflationary pressures are expected to remain elevated in the short term, reflecting higher commodity prices and continued uncertainty about the duration and resolution of the conflict. However, this is in the context of continued subdued global economic growth.

Overall, external developments have contributed to an increase in the cost of living in Botswana and may undermine the recovery of the global diamond market, thereby dampening domestic economic performance.

Real gross domestic product (GDP) grew marginally by 0.2 percent in the twelve months to March 2026, compared with a contraction of 1.6 percent in the year to March 2025. The improvement was underpinned by a slower contraction in mining output and a recovery in some non-mining sectors, including Diamond Traders, Manufacturing and Agriculture. However, economic performance remains weak, constrained by subdued global conditions, structural changes in the international diamond markets, slow progress in economic transformation and low productivity.

According to the International Monetary Fund's July 2026 World Economic Outlook Update, global growth is projected at 3 percent in 2026, down from 3.5 percent in 2025. The outlook is supported by resilient consumption and investment, although continuing uncertainty around trade, industrial and fiscal policies could undermine growth prospects.

Domestically, the Ministry of Finance projects a recovery in economic activity, with real GDP growth of 3.1 percent in 2026, mainly supported by a recovery in mining and sustained growth in non-mining sectors, underpinned by economic diversification initiatives under National Development Plan 12 and the Botswana Economic Transformation Programme (BETP). It is important, however, to highlight that any delay in implementing the BETP could slow economic transformation and, therefore, realised growth could fall below projections. Furthermore, the growth outlook remains subject to downside risks which include livestock disease outbreaks, geopolitical tensions, climate-related shocks and changing trade patterns.

Inflation

Headline inflation decreased from 10.7 percent in June 2026 to 9.4 percent in July 2026 but remained above the 3 – 6 percent medium-term objective range. The decline was mainly due to the downward adjustment of domestic fuel prices effected on 7 July 2026, which reduced headline inflation by 2.3 percentage points. The MPC expects inflation to remain above the objective range up to the first quarter of 2027 (near term), mainly due to supply-side factors, including fuel price pressures, higher electricity tariffs and related cost-push effects. Inflation is projected to average 7.9 percent in 2026 before easing to 4.9 percent in 2027.

Overall, risks to the inflation outlook are tilted to the upside, mainly reflecting potential second-round effects stemming from the relatively higher domestic fuel prices and electricity tariffs. Additionally, the ongoing Foot and Mouth Disease situation and related livestock movement and slaughter restrictions in Botswana, although recently eased, could add to short-term food inflation. Forecasts of a possible El Niño present an additional upside risk. Externally, elevated oil, gas and fertiliser prices linked to the Middle East conflict could sustain inflationary pressures, while international food prices may rise above current forecasts. In addition, heightened global trade tensions and tariff measures pose further upside risks to inflation. However, inflation could be lower than projected if domestic and global economic activity remains subdued, fiscal space remains constrained, or international commodity prices decline. Changes in administered prices not included in the current projection could also affect the inflation outcome.

Against this background, continued vigilance and careful management of inflation expectations are necessary to ensure that inflation reverts to the medium-term objective range.

Liquidity

Domestic liquidity has improved since the last quarter of 2025, supported by increased government funding and spending, higher diamond receipts, and adjustments to monetary policy operations. This has moderated funding costs and improved prospects for policy transmission, particularly following the recalibration of the MoPR.

Decision

The MPC projects that inflation will remain above the 3 – 6 percent objective range in the near term, while growth remains subdued amid adverse external developments. This outlook requires a data-driven monetary policy stance that supports economic activity while managing inflation expectations. The MPC assessed that policy measures implemented and communicated to date have helped ease liquidity conditions, enhanced monetary policy transmission and supported stability in the foreign exchange market.

Accordingly, the Committee unanimously decided to:

(a) maintain the Monetary Policy MoPR at 5.5 percent;
(b) conduct 7-day Bank of Botswana Certificates auctions, repos and reverse repos at the MoPR of 5.5 percent;
(c) maintain the Standing Deposit Facility (SDF) rate at 4.5 percent, 100 basis points below the MoPR;
(d) maintain the Standing Credit Facility (SCF) rate at 6.5 percent, 100 basis points above the MoPR; and
(e) maintain the moratorium on commercial banks' Prime Lending Rates.

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

Meanwhile, following the mid-year review, the Pula exchange rate framework parameters were maintained as follows:

(a) the currency basket weights (50:50 South African rand and IMF Special Drawing Rights);
(b) the downward rate of crawl at 2.76 percent; and
(c) trading margins being that Bank of Botswana buys foreign currency from commercial banks at 3 percent above central parity and sells at 7.5 percent below the central parity.

At these levels, the parameters help to moderate exchange rate volatility, support the competitiveness of domestic industries and remain aligned to the commitment of price stability to maintain inflation within the 3 – 6 percent objective range in the medium term. The Bank notes that the business community continues to highlight the exchange rate as one of the challenges to doing business. This concern reflects the high import intensity and orientation of local businesses. However, in an economy that needs to increase production, diversify and generate employment opportunities, it is desirable to maintain an exchange rate policy framework that promotes international price competitiveness of local producers in export markets and against imports. Such a framework also helps in accumulation of foreign exchange reserves that are needed to finance imports as may be necessary. Ultimately, the strength of the Pula is anchored on capability to earn foreign exchange through exports by local producers. Moreover, consumption and supply choices relating to imports vis-à-vis locally produced goods and services are also critical to the viability of domestic producers and service providers.

Meetings of the MPC

The MPC meetings for 2026 are scheduled as follows:

29 October 2026
3 December 2026

Annex: Inflation Forecast Summary for August 2026 MPC Meeting

	Actual					Forecast									
	2025			2026		2026			2027					2028	
	Q3	Q4	**Annual Average**	Q1	Q2	Q3	Q4	**Annual Average**	Q1	Q2	Q3	Q4	**Annual Average**	Q1	Q2
Inflation	2.1	3.9	**2.7**	4.1	10.6	8.9 (10.8)	8.0 (10.4)	**7.9** **(9.0)**	7.6 (9.8)	2.9 (4.6)	4.6 (4.1)	4.4 (3.3)	**4.9** **(5.5)**	4.4 (3.0)	4.5

Note: Figures in parentheses represent the previous MPC forecast (June 2026)
The downward revision of the forecast is mainly due to the decrease in domestic fuel prices.

NOTE

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