econsult

ECONOMIC review

FOURTH QUARTER OCT-DEC 2025

compiled by
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COMMENTARY

UNCERTAINTY AND ECONOMIC WEAKNESS PERSIST

Introduction

The fourth quarter of 2025 saw a continuation of the economic stress and uncertainty that has characterized the year as a whole. Most of the macro-economic stress points – notably low economic growth, rising interest rates and serious fiscal pressures – remain, although there have been some positive developments regarding inflation and the foreign exchange reserves. In many areas of necessary policy action and reform, however, messaging and implementation remain unclear.

Economic Growth

The national accounts data release for 2025Q3 GDP generated an incredible amount of excitement, with its announcement that the annual growth in quarterly GDP reached 8.2%. This was interpreted by many as a clear sign of recovery from recession. However, this is overstated; quarterly GDP data needs to be interpreted very carefully. The quarterly results tend to be very volatile, and the data on growth (in real GDP) are very sensitive to diamond production.

What is very clear is that quarterly diamond production jumped sharply in 2025 Q3, driving the 8.2% GDP growth. But this was an exception, and followed a sharp drop in diamond production in Q2, as both Jwaneng and Orapa mines were on reduced production for care and maintenance for most of that quarter. The jump in Q3 was not unexpected and compensated for the decline in Q2, and was necessary to bring production back on track to meet the annual target of around 15-16 mcts, which remains unchanged.

Table 1: Diamond production and GDP

	Diamond production (mcts)	Annual growth in quarterly GDP	Annual growth in annual GDP
2024 Q3	4,098	-4.0%	-1.7%
2024 Q4	4,338	-1.9%	-2.8%
2025 Q1	4,665	-0.3%	-1.6%
2025 Q2	2,736	-5.2%	-2.8%
2025 Q3	6,127	8.2%	0.1%

Source: calculations based on data from Statistics Botswana (national accounts and mineral production)

The volatility in quarterly GDP is one of the reasons that we prefer to focus on annual GDP, which is much more stable and representative of underlying trends. By this measure, annual GDP growth was a modest 0.1% in 2025 Q3, up from -2.8% in the previous quarter – still a welcome improvement, and the first positive figure since the first quarter of 2024. But it is still likely that GDP growth for the year as a whole will be negative – we expect it to be in the range of -0.5% to -1%.

Diamonds

Indications are that the global diamond industry was reasonably stable during the last quarter of 2025, albeit still with a high level of uncertainty. The problems of low prices, excess inventory, shifting consumer demand, US tariff uncertainty, and high levels of competition from synthetic (lab-grown) diamonds have continued to weigh on demand for natural diamonds such as those produced and exported from Botswana. It appears that peak season demand in the US (in November and December) was reasonable, at least showing a modest increase in spending on diamond jewellery – even though synthetics continue to gain market share. Demand in India is growing strongly, while China remains weak. Overall, however, there are no signs of sustained, robust recovery in the diamond industry. Much remains dependent on the implementation of strong marketing initiatives for natural diamonds, as proposed under the Luanda Accord by diamond producing nations and major companies in the industry, but which has been slow to take off, in part due to ongoing uncertainty over the future of De Beers.

The impact of the changed market environment can be seen in the updated feasibility study for the Lucara's underground project at the Karowe diamond mine in central Botswana. The Karowe mine is renowned for producing large, high-value diamonds that have a much higher value per carat than those of most other diamond mining companies. Nevertheless, the reserves to be mined in the underground project have been re-assessed at prices between 16% and 26% lower than in the previous (2023) feasibility study, with a 30% reduction in the volume of reserves that are economically viable to mine. While the underground project is moving ahead, this illustrates the challenging economics of diamond mining, even in in market segments that are much less exposed to direct competition from synthetic diamonds.

Meanwhile there has been no significant change in the US tariff position with regard to diamonds. Polished diamonds that are directly exported from Botswana to the USA face a 15% tariff, while those that are exported in rough form for cutting and polishing elsewhere face a tariff of 50% if processed in India. This offers some potential for the expansion of Botswana's cutting and polishing sector, although impediments including the costly training levy and severe restrictions on work permits for skilled workers will need to be addressed for this to be realised. And it is unlikely that serious investment decisions will be made until the US tariff regime has stabilised.

Negotiations have been taking place with the USA seeking tariff exemption for Botswana diamonds, and seemingly these have been making good progress. At least the USA has agreed in principle that diamonds can be exempt from import tariffs for selected countries. However, further progress is likely to be hampered by the announcement in January 2026 that Botswana is seeking closer relations with Russia with respect to exploitation of diamonds and other minerals. This will make it much more difficult to reach a favourable conclusion with the USA in these days of the "FAFO" doctrine.

Foreign Trade and Reserves

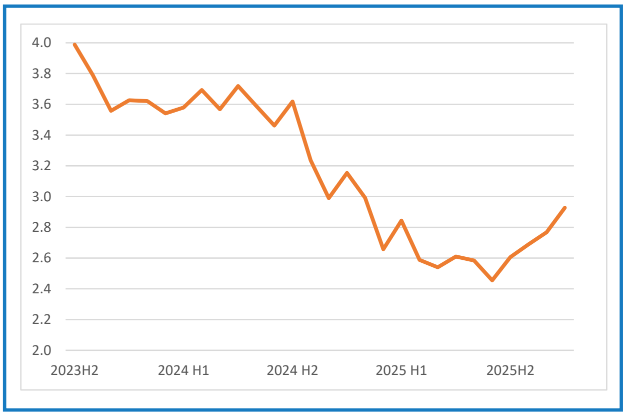
There has been a slight improvement in the foreign trade position through to November 2025, with an increase of 11% in total exports in January to November as compared to the same period in 2024. This was mainly due to a 14% increase in diamond exports. Given that the volume of diamond production was 3% lower in 2025 than in 2024 (for the January – September period, for which data is available), and that diamond prices were some 20% lower, the increase in the value of exports indicates that there were significant sales of diamonds from the stockpiles accumulated by Debswana, De Beers and the Okavango Diamond Company.

At the same time imports were lower during the first eleven months of 2025, by 11%, almost entirely due to a very sharp reduction in diamond imports, which were down by almost half. This is likely to be a temporary reduction - reflecting high diamond stockpiles - given Botswana's key role as a diamond trading hub. Nevertheless the combination of higher exports and lower imports has helped the balance of trade, which has improved from a deficit of P31.4 billion in the first eleven months of 2024 to a smaller deficit of P15.1 billion in 2025, which has in turn helped to take some pressure off of the foreign exchange reserves.

On a positive note, there has been some stabilization of the foreign exchange reserves, which had been declining rapidly during 2024 and into the first half of 2025. There was a welcome recovery in the reserves in the second half of 2025, from an all-time low of SDR2.5 billion (USD3.4 billion, BWP 45.0bn) in June 2025 to SDR2.9 billion (USD3.9 bn, BWP 55.4 bn) in October 2025. There are many reasons for this, not least inflows from two substantial offshore loans, from the African Development Bank (AfDB) and the OPEC Fund, totalling USD500 million (SDR370 million) in the third quarter, which account for almost all of the increase in the reserves. However, the improvement in the trade balance and the associated slowdown in government spending (which has a high import component) will have also made a positive contribution to the foreign exchange reserve position.

Nevertheless, the reserves are still lower than they were 12 months earlier, so the reserves position is still under pressure at around 5 months of import cover. The level of the reserves will be one of the main economic indicators to watch over the next 6-12 months, particularly whether the recent improvement marks a sustainable turnaround or was just a blip driven by external borrowing. This has huge implications for the sustainability of current exchange rate policy and level of the Pula basket peg.

Figure 1: Foreign Exchange Reserves (SDR bn)



Source: Bank of Botswana

Exchange Rates

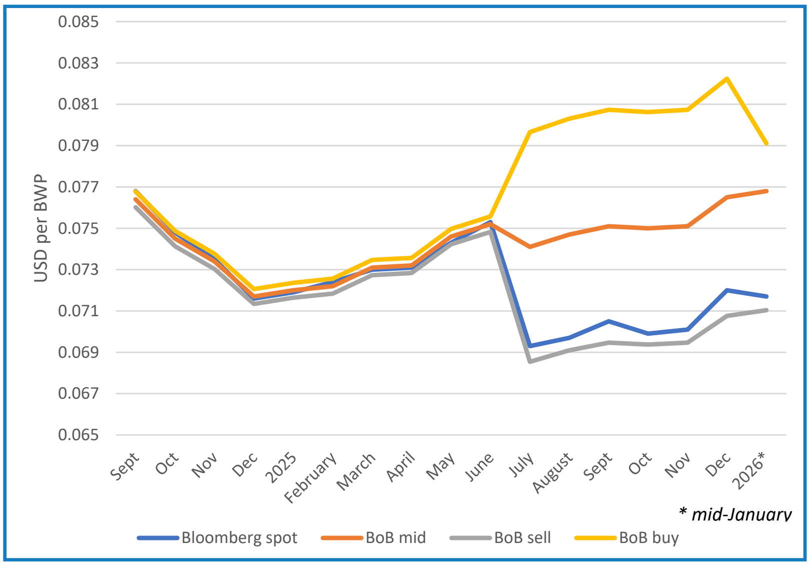
In a much-anticipated announcement just before the end of the year, the Bank of Botswana and Ministry of Finance announced a modest change to the exchange rate mechanism with effect from January 1st 2026. When the previous change happened in July 2025, the biggest development was that the BoB's buy/sell spread on foreign currency transactions with the banks was increased from +/-0.5% to +/-7.5%, a huge increase. This penalized both importers (for whom it represented a de facto devaluation of the pula) and exporters (for who it was a de facto revaluation), leaving both worse off. The recent change has reduced the BoB's spread for buying foreign exchange to 3%, thereby establishing an asymmetric band. This reduces, but does not eliminate, the penalty for exporters in the exchange rate mechanism. But it is welcome that Government has partially reversed the earlier move, implicitly acknowledging that it had an adverse impact on encouraging export-led growth.

The downward rate of crawl has, however, been maintained at 2.76%, despite strong arguments for an increase to, say, 5%. This seems to have been driven by fears of higher inflation from any increase in the downward rate of crawl. Nevertheless, it means that the challenge of dealing with the overvaluation of the Pula, and the need to bring it to a level that is more consistent with changed balance of payments dynamics in a world of structurally lower diamond revenues, remains unresolved. The stabilisation of the foreign exchange reserves since the middle of 2025 has taken some of the immediate pressure off to deal with this overvaluation, but the longer-term problem remains.

Besides the changes to the exchange rate mechanism in July and December 2025, the dominant driver of bilateral exchange rates has been the weakness of the US dollar and the strength of the SA rand. This has tended to mitigate they devaluation of the Pula against the USD during the year, but has accentuated the devaluation against the SA rand. In practice, the Pula has lost around 12% of its value against the ZAR during 2025, which has an impact on import prices. Of this, around 7% is due to the change in exchange rate policy, and 5% due to the strength of the rand.

Given the dramatic widening of official spreads, the mid exchange rates published by the BoB are no longer representative of market conditions. Nor are the public rates published by the banks. One of the objectives of the July changes was to create space for a more market-determined exchange rate to emerge, and this has to some extent been achieved. However, public information on market rates is not easy to obtain, and is generally only available to institutions. Spot rates from Bloomberg indicate that the market rate for the BWP has dropped sharply and is close to the lower end of the new wider BoB spread. This is not surprising, and reflects the structural shortage of foreign exchange (FX) in the market which is pushing the value of FX up and the value of the BWP down. It would be helpful if the BoB began publishing market exchange rates rather than its non-market related mid-rate, in order to enable closer monitoring of developments in the FX market.

Figure 2: BWP exchange rate vs. USD – BoB and Market (Bloomberg) Rates



*Source: BoB, Bloomberg, Econsult

Financial Sector

The financial sector remains under stress from liquidity challenges, although this has eased slightly in recent months, with higher interest rates serving to reverse the earlier decline in deposits. Notwithstanding higher interest rates, credit growth has remained at a reasonable rate of 7.1% over the year to October. This is higher than a year earlier, but there is evidence of a tightening of credit conditions towards the end of this period, over the past quarter. This may reflect a rise in non-performing loans (NPLs), as arrears on bank credit have begun to rise and in the third quarter of 2025 reached the highest level since early 2023.

As a result of rising interest rates the banks have experienced a decline in net interest income, down 16% over the four months from July to October 2025 compared to the previous year. This reflects the increasing cost of deposits that are needed to finance bank lending, and the fact that BoB has restricted the banks from passing this higher cost of funding to borrowers. But this has been more than compensated by a huge rise in non-interest income, which is in turn the result of the BoB's changes to foreign exchange dealing margins in July. These changes essentially gave a windfall gain to the banks, with the result that non-interest income was up 62% in July-October compared to the previous year. The same result of massively increased trading income will no doubt show up when the BoB's own financial results are released in the coming months.

Looking ahead, the Government is seeking to raise a huge loan (reported to be up to P5 billion) from the banks and pension funds in the coming months to finance the budget deficit, in part because debt issues (bonds and T-bills) have fallen below target. If it proceeds (it will require both the consent of BoB and an Act of Parliament), this will further drain liquidity from the financial sector and could lead to crowding out of private sector lending.

Inflation, Monetary Policy and Interest Rates

Inflation

Inflation increased modestly during the fourth quarter of 2025, from 3.7% in September to 3.9% in December. The increase in inflation was much less than we earlier anticipated would be the impact of exchange rate changes, via the price of imports. It appears that higher inflation for some commodity groups, notably imported goods, has been offset by lower inflation on water, electricity, communications and services such as health and education. Even commodity groups that are largely imported have seen relatively benign inflation around 5%, which is less than might have been expected given the devaluation of the Pula.

Global developments with regard to fuel prices should help to contain inflation. Oil prices have been on a downward trend over the past year, with a global oil supply glut dominating over occasional spikes related to geo-political risks. The weakness of the USD dollar has also helped to contain fuel prices in consuming countries. We expect the next movement in Botswana fuel prices to be downward.

Looking ahead, we expect inflation to rise slowly and to briefly surpass the top of the BoB's inflation objective range around the middle of 2026, before falling back in the second half of the year. We predict inflation to be 5.2% for 2026 as a whole.

Monetary policy

The BoB Monetary Policy Committee (MPC) met twice during the quarter, in late October and early December. At the October meeting, the MPC increased the monetary policy rate (MoPR) by 1.6%, from 1.9% to 3.5%. This was presented as a technical adjustment, and commercial banks were instructed not to increase their prime lending rates in response.

The upward move in the MoPR was not unexpected, and reflected – as we have pointed out in previous issues of this Review – the fact that the MoPR had been set at an inappropriately low level when the monetary policy regime was changed in 2022 and the MoPR replaced the Bank Rate as the main indicator of the BoB's monetary policy stance. Given that the October change was a technical adjustment and not a reflection of monetary policy tightening, it was not unreasonable for the BoB to instruct banks not to change their own lending rates.

At the December meeting the MoPR was maintained at 3.5%, which was probably appropriate given the relatively weak inflationary pressures. However, the BoB surprisingly continued to direct banks not to increase their PLRs. Surprising, because the BoB had liberalised interest rates back in 2023, allowing banks to set their own PLRs. It appears that this liberalisation has now been reversed and central bank control of interest rates has been re-asserted, even though BoB has not provided a formal notification of the policy change.

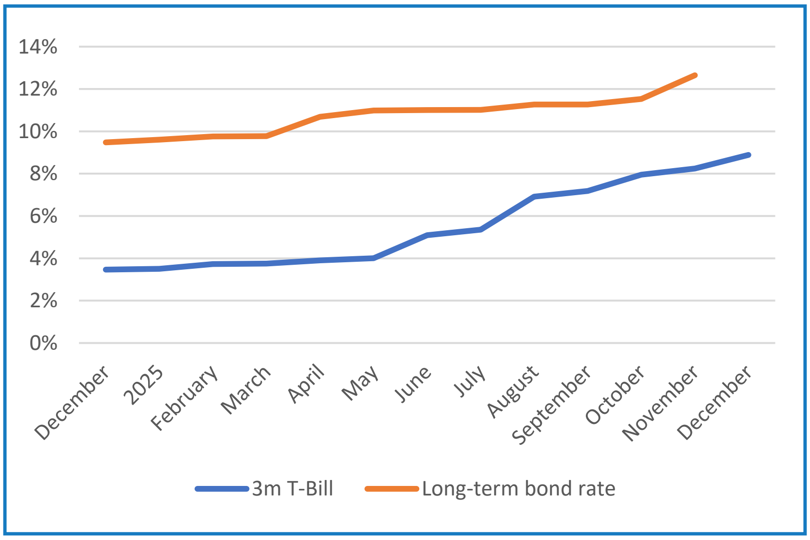
Even with the increase in the MoPR, it is doubtful that this will be sufficient to re-connect the BoB's policy stance with the market. As it stands the monetary policy transmission mechanism is ineffective as interest rates are moving regardless of the policy stance manifested in the MoPR. As the IMF notes, the policy rate needs to be closer to 7.5% to be consistent with the crawling peg exchange rate.

Interest Rates

While the Bank of Botswana likes to blame the banks for rising interest rates – which presumably lies behind the re-introduction of interest rate controls – the real driver of higher interest rates is government. This is very clear from the results of monthly auctions of government bonds and Treasury Bills, where rates have been creeping up throughout the year as government tries to meet its annual borrowing target for deficit financing.

For instance, the interest rate on long-term government bonds rose from 9.48% in December 2024 to 12.65% in November 2025. More striking is the increase in the interest rate on 3 month T-Bills, which rose from 3.47% to 8.89% over the same period. Government borrowing rates underpin the determination of interest rates throughout the financial sector, particularly bank lending rates, as government is competing with the private sector for loanable funds. If banks are not able to charge market-related interest rates while government keeps borrowing at ever-higher rates, the inevitable result will be a reduction in credit availability for the private sector, both firms and households.

Figure 3: Interest Rates on Government Debt (T-Bills and bonds), 2025



Source: Bank of Botswana

Other developments

In other developments during the quarter, Moodys downgraded Botswana's long-term credit rating by one notch to Baa1. This was expected, especially following the earlier downgrade by Standard and Poors. While Botswana's credit rating remains investment grade, the Moodys outlook (as with S&P) is negative. Moodys citied the usual concerns about lack of economic diversification, the risks of continued diamond dependence in the light of structural change in the natural diamond market, depleted government financial buffers, and lack of concerted reforms to stabilise the budget. Moodys did, however, project a negative 6% growth figure for 2025, which we believe is vastly overstated.

The IMF released its annual Article IV report on the Botswana economy during the quarter. As expected, the Fund highlighted the need for concerted fiscal adjustment to bring the budget onto a sustainable path as well as far-reaching structural reforms to boost non-diamond growth. The necessary reform programme includes "stepped-up fiscal consolidation efforts through stricter public wage bill control, rationalization of capital spending, and improved efficiency of subsidies and SOEs, alongside higher domestic revenue mobilization ….. combined with monetary tightening and structural reforms to diversify the economy." Without this, they noted that growth would remain slow, public debt would increase, and international reserves would be depleted, possibly requiring a faster pace of exchange rate depreciation.

Outlook

As almost all commentators have noted, the economic outlook remains highly uncertain. While most forecasts are for an improvement in GDP growth next year, this partly reflects the slowing of the diamond market downturn and its stabilisation or even growth from a low base. The economy will continue to be driven by the non-mining private sector, other mining (outside of diamonds) and government. Sentiment through much of the non-mining private sector remains gloomy, with weak domestic demand, increased costs (from wages, utility prices and exchange rate weakness), and pressurised household budgets. Government's ability to drive economic activity will be restricted, due to fiscal pressures and the need to implement reforms on both the expenditure and revenue sides of the budget. Putting off such reforms may ease the short-term pain, but at the cost of much greater distress in the medium term.

In terms of growth outlook, the IMF are projecting 2.7% GDP growth for Botswana in 2026 and 3.8% in 2027. We consider that these figures are over-optimistic and based on a projected recovery in diamond mining output that seems unlikely at this stage. Our projection is that growth in 2026 will be closer to 1.5%. However this may be revised when Anglo and De Beers provide their 2025 results update and 2026 production guidance in early February. It is also dependent on the fiscal outturns and projections that will be announced in the Budget Speech on February 9th. Further ahead there are hopes that growth will get an uplift as some of the projects included in the Botswana Economic Transformation Plan (BETP) move towards implementation, but this is more likely to have an impact from 2027 onwards rather than in 2026.

Botswana's possible purchase of De Beers shares

As is well-known, Anglo American plc has announced its intention to dispose of its 85% shareholding in De Beers (the remaining 15% is owned by the Government of Botswana), as part of its corporate rationalisation and restructuring. The sale process is taking a while, reflecting a number of complications in the deal, including the weak state and uncertain future of the global natural diamond market, the fact that De Beers has been making losses, and a lack of clarity over the plans of GoB, which has the right of first refusal in the sale of Anglo's share of De Beers.

It is believed that Anglo would prefer a direct sale to new owners rather than a sale through a public offering on a major stock exchange. GoB has also stated its intention to be a buyer, although there is a lack of clarity as to whether this means simply an increased stake (from the current 15%), acquiring a controlling stake (buying 35%+1), or a full acquisition (buying 85%).

Determining the best approach from Botswana's perspective is a complex issue on which there are many different views both inside and outside the country. The IMF has advised GoB against increasing their stake in De Beers, given the precarious fiscal situation and Botswana's already high dependence on the diamond sector.

There are several key issues that need to be borne in mind when considering the possible purchase of additional shares in De Beers:

1. The primary objective should be to revive and restructure De Beers and its operations to address the current challenges and future demands of the global natural diamond industry. Which coalition of owners would be best placed to achieve this?
2. GoB is financially constrained and is not in a position to make a significant share purchase from its own financial resources. Borrowing to buy De Beers shares (a leveraged buy-out) would be difficult and risky given other debt constraints.
3. GoB already has an effective 50% economic interest in De Beers (much bigger than its direct 15% shareholding). The financial case for buying additional shares has not been clearly demonstrated.
4. The primary challenge facing the Botswana economy is to diversify and reduce dependence on the diamond mining industry.

De Beers is primarily a mining company, with Debswana as its major mining operation, in which GoB already has a 50% direct stake and an 84% economic interest. A valuation of De Beers various components is shown below:

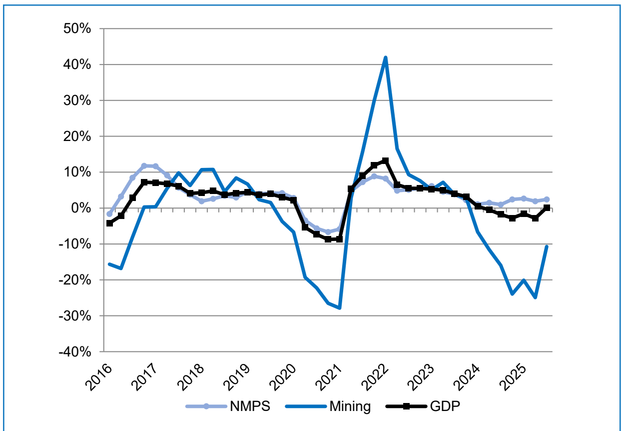
ASSET CATEGORY	ESTIMATED CONTRIBUTION
Mining operations	70-75%
Element Six (technology)	15-20%
Exploration	5-10%
Trading	5-10%

Source: https://discoveryalert.com.au/strategic-portfolio-transformation-asset-divestitures-2026/

Based on these valuation components, and GoB's current shareholdings in De Beers and Debswana, GoB already has an effective economic interest in De Beers of 50% (hence raising the question of how much more economic value would result from buying a larger shareholding).

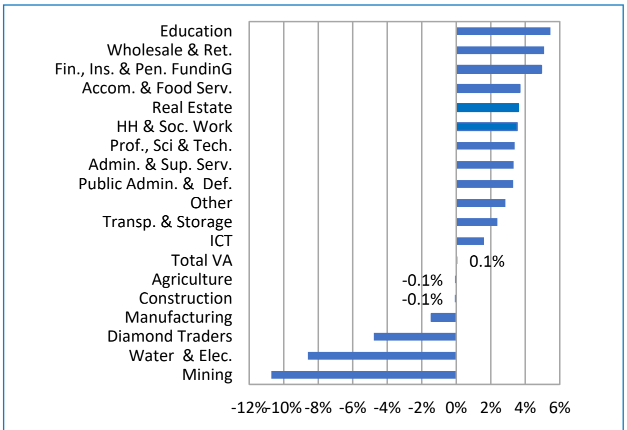
Restructuring and reviving De Beers requires inputs from a range of stakeholders that could comprise a viable new ownership coalition. This includes governments (of the major producing countries as the ultimate owners of the unmined resources); diamond mining industry expertise; luxury goods marketing expertise; and financiers with deep pockets (De Beers has significant upcoming financial needs, including meeting ongoing losses and future capital requirements for life of mine extension and natural diamond marketing). This suggests that GoB should focus on building the best new ownership coalition for De Beers, rather than acquiring a controlling stake. GoB's stake could plausibly be raised from 15% to 26%, which would give it a blocking minority, to protect its interests, but beyond this it is questionable whether there are likely to be significant gains that would be greater than the huge financial and business risks, if these are not widely shared amongst new owners.

ANNUAL GDP GROWTH



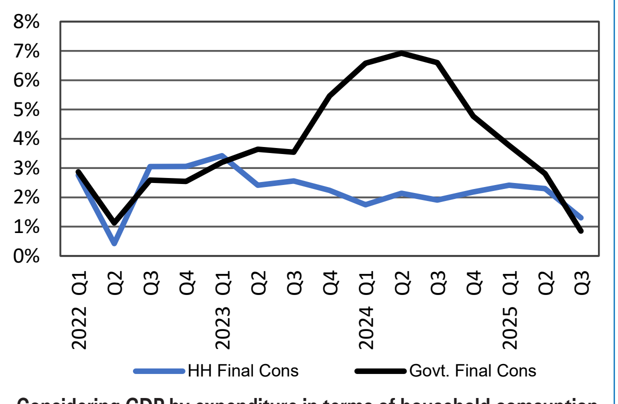
The economy bounced back to recovery in the third quarter of 2025, with real GDP recording a modest 0.1% year-on-year growth. This follows a significant 2.8% contraction in Q2 2025. This rebound is attributable to a substantial narrowing of the contraction in the mining sector, which improved from 24.9% in Q2 to -10.7% in Q3. Non-mining private sector growth also improved, expanding by 2.4% y-o-y in Q3 up from 1.9% y-o-y in Q2, demonstrating resilience. However, economic recovery remains fragile and heavily dependent on the rebound of the global demand for rough diamonds. This persistent volatility highlights the economy's vulnerability to diamond industry fluctuations and demonstrates the urgent need for a structural shift toward economic diversification and export-led growth to ensure long-term sustainable growth.

SECTORAL GDP GROWTH



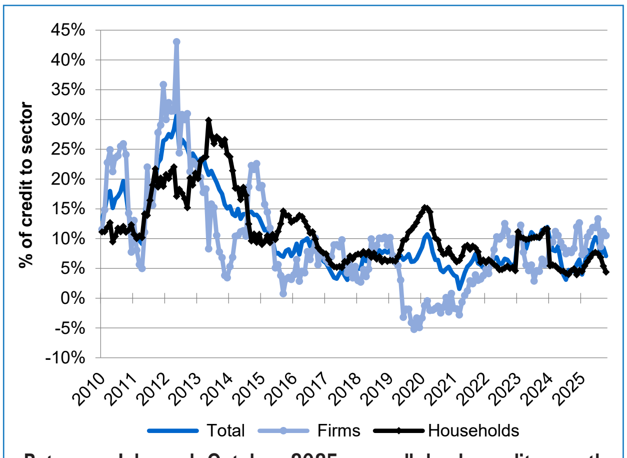
Sectoral economic performance was divided between the struggling industrial sector and the resilient service sector. Industry-related sectors such as Mining (-10.7%) and Water & Electricity (-8.6%), significantly underperformed with marginal declines from Manufacturing (-1.4%) and Construction (-0.1%). In contrast, the fastest growth came from service sectors with strong performances in Education (5.5%), Wholesale & Retail (5.1%) and Finance, Insurance & Pension Funding (4.9%). Public Administration & Defence had a solid growth of 3.3%, reflecting the continued role of government spending in the economy. Sectoral economic performance highlight the dualistic economic structure where there is a robust service-led expansion and a struggling industry base sector.

REAL GROWTH OF CONSUMPTION EXPENDITURE (ANNUAL)



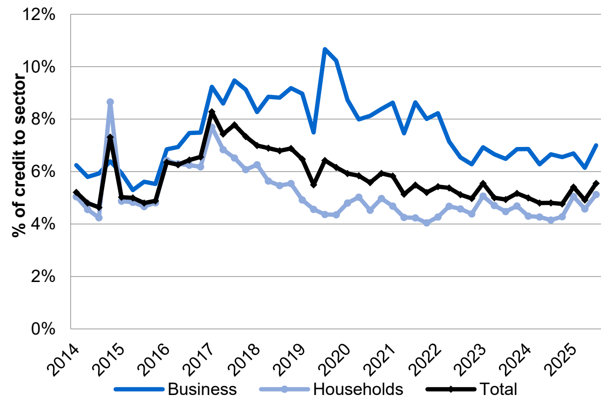
Considering GDP by expenditure in terms of household comsuption spending and government consumption spending, there is a notable sharp decline in Q3 2025. Both household consumption spending and government final consumption declined sharply to 1.3% y-o-y and 0.8% y-o-y in Q3 2025, respectively. This contraction reflects the prolonged challenging economic conditions and tightining household and government budgets, reducing overall consumption expenditure.

ANNUAL CREDIT GROWTH



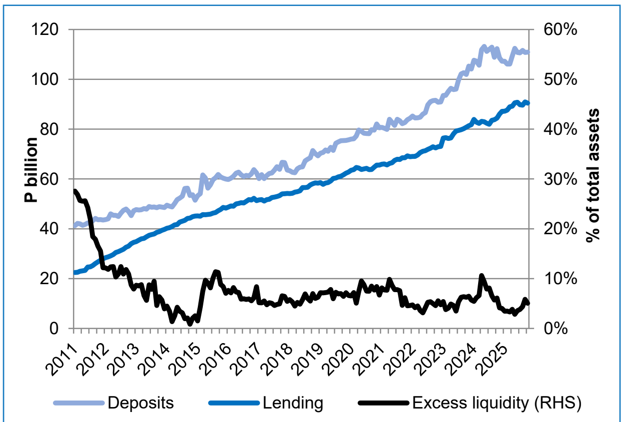
Between July and October 2025, overall bank credit growth experienced a notable decline, falling from 9.6% to 7.1%. The slowdown was driven by a significant decrease in both household and business segments as the liquidity crunch and rising borrowing cost take effect. Household credit growth fell sharply from 7.5% in July to 4.4% in October, driven by mortgage loans and credit cards, which had marginal annual growth of 0.6% and 0.4%, respectively. Similarly, growth of credit to firms decelerated from 13.3% to 10.5%, signifying cautious borrowing amid challenging economic conditions. The slowdown of credit growth was particularly apparent in the last three months of the period.

ARREARS ON BANK LENDING



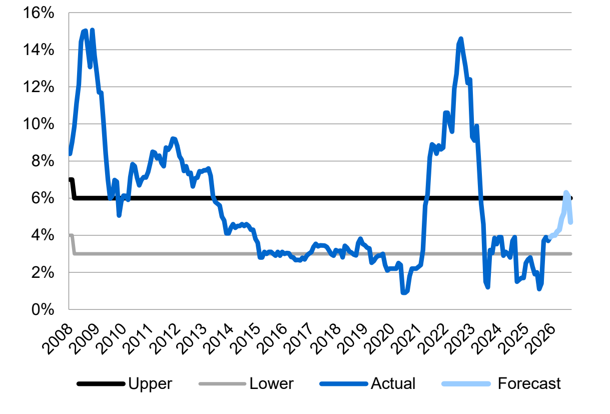
Total arrears as a proportion of total banking assets rose during the third quarter of 2025, reflecting the prevailing economic headwinds. Total arrears rose to 5.6% from 4.9% in Q2 2025. This was driven by increases in both arrears on businesses and households. Business arrears recorded an increase to 7% in Q3 2025, up from 6.1% in Q2 2025. Similarly, household arrears rose from 4.6% to 5.1%.

BANK DEPOSITS, LENDING & LIQUIDITY



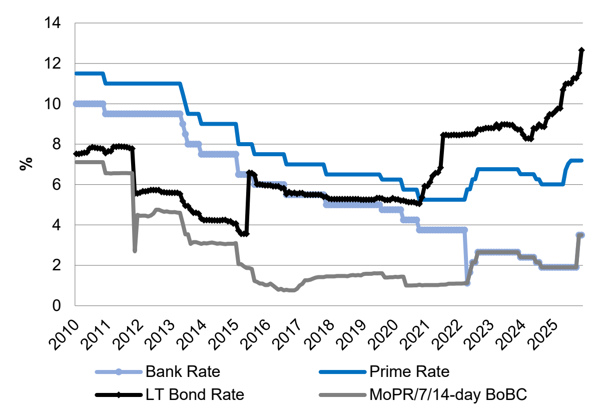
Excess liquidity in the banking system improved from 3.8% in July to 5% in October 2025, providing some relief to liquidity constraints. During the 3-month period, both deposits and lending grew slowly, by 0.3% and 0.7%, respectively. The expansion of the deposit base is notable as it happened during a period of challenging income squeeze in the economy. The marginal increase in bank lending aligns with the broader conservetive caution by borrowers in tight economic conditions and high interest rate environment.

INFLATION AND FORECAST



The headline inflation rate increased over the quarter to 3.9% in December 2025, up from 3.7% in September. Inflation increased because of the Transport index group which contributed 1.6% to annual inflation rate. Movements across other indices were generally stable, recording marginal changes of less than 1%. The Imported Tradables inflation rate rose to 6.1%, hence, driven by the rising costs of imports following devaluation of the exchange rate. Looking ahead, inflation is forecast to continue rising and surpass the upper bound of the BoB's 3-6% objective range in the first half of 2026.

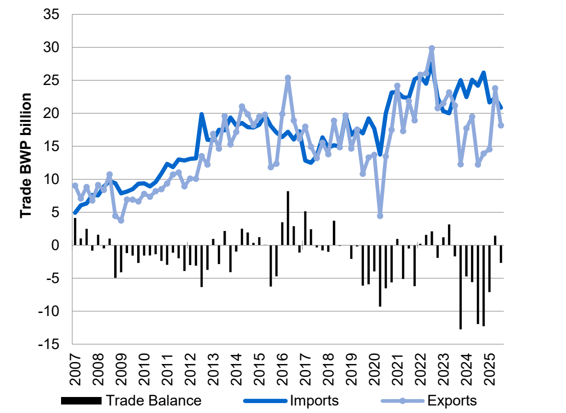
INTEREST RATES



The Bank of Botswana's (BoB) Monetary Policy Committee (MPC) maintained its accommodative monetary stance in December 2025, holding the Monetary Policy Rate (MoPR) at 3.5%. This decision aligns with expectations that the economy will continue to operate below its full potential, suggesting that domestic demand is unlikely to influence inflation pressures. However, the outlook on inflation is complex; there is a heightened risk of higher inflation driven by domestic and external factors while the BoB expects the rate to remain within objective range in the medium-term. In contrast to the low MoPR, government bond yields continue to rise due to sustained government borrowing. The long-term government bond rate (BW012) rose to 12.65% in November 2025 from 11.27% in August 2025.

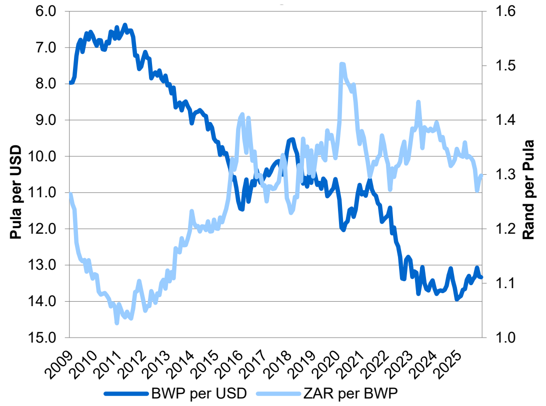
KEY ECONOMIC VARIABLES

INTERNATIONAL TRADE



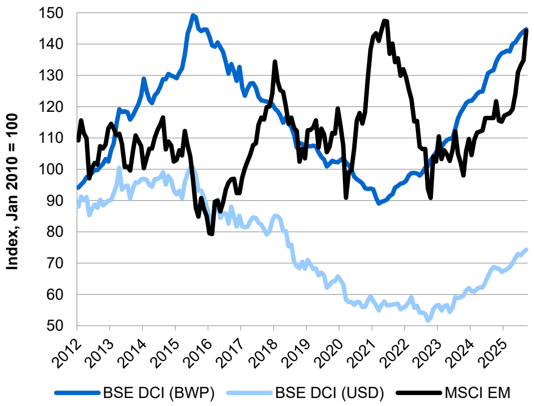
International trade shifted back into deficit in the third quarter, from a small surplus in Q2, attributable to export volatility. The trade balance shifted from a marginal surplus of P1.45 billion in Q2 2025, worsening to a deficit of P2.68 billion in Q3. Trade performance was driven by a sharp decline in exports by 23.6% from P23.79 billion in Q2 to P18.17 billion in Q3, largely reflecting the continued structural slump and sluggish global demand in the diamond industry. Imports also decreased by 6.7% to P20.86 billion in Q3, but insufficient to offset the steeper drop in export earnings. The widening trade gap emphasizes the economy's vulnerability to fluctuations in diamond exports which are the highest foreign exchange earning commodity.

EXCHANGE RATES



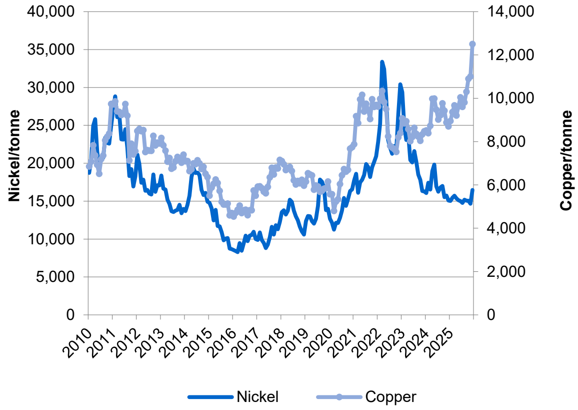
Foreign exchange markets experienced heightened volatility during the final quarter of 2025, driven in part by global instability stemming from ongoing geopolitical conflicts and continued US dollar weakness. Consequently, the Pula had mixed results, strengthening against the US dollar and weakening against the rand. Specifically, the Pula depreciated by 0.9% against the rand, closing Q4 2025 at ZAR1.2979, down from ZAR1.3094 at the end of Q3 2025. The Pula-US dollar exchange rate moved from 13.32 at the end of Q3 to 13.33 by close of Q4, representing an appreciation of 0.1%. Note that the rates quoted refer to Bank of Botswana mid-rates, not market rates.

STOCK MARKETS



The Botswana Stock Exchange's (BSE) Domestic Company Index (DCI) maintained a robust upward trajectory. The DCI rose by 4% and 3.8% in Pula and US dollar terms, respectively. This quarterly gain builds on an impressive performance for the BSE throughout the year, rising by 9.8% in Pula terms and 14.8% in US dollar terms. The domestic bounce mirrored international benchmark markets, the MSCI World and MSCI Emerging Markets indices. They registered significant gains in 2025 with the MSCI World and MSCI Emerging Market indices rising by 19.5% and 30.6%, respectively.

COPPER & NICKEL PRICES



There is a notable interest in demand for base metals like copper and nickel for their importance in the global energy transition. Copper prices surged by 43.6% over the year to reach USD12,503 per tonne. The surge in copper prices was also influenced by shortages in supply due to disruptions at major mines. Conversely, nickel phased a challenging environment of excess market supply pushing prices downwards during the year. However, a late-year recovery saw nickel prices rebound at the end of December 2025. The rising price of copper reinforces the interest in Botswana's growing copper mining sector, and the metal's position as Botswana's second largest export commodity. Nickel is important for the production of lithium batteries essential for electric vehicles and renewable energy storage, and there is also interest in re-opening the BCL and Tati nickel mines that closed in 2016.

NEWS HIGHLIGHTS

3rd October	Botswana: AAAS Energy and ChillMine to build green-powered data center campus. (Ecofin Agency)	A partnership between AAAS Energy and ChillMine is set to build a green-powered data centre campus in Botswana for AI and cloud services. The project will reduce hosting costs, enhance reliability, create jobs, and expand Botswana's digital economy. Botswana has over six data centres and is experiencing fast growth, giving it an edge to compete with larger markets. The campus will be a key component of the Energy Hub and Industrial Park.
3rd October	Lotus Expands Drilling at Letlhakane Uranium Project in Botswana. (Ecofin Agency)	Lotus Resources has launched a four-month drilling program to expand Letlhakane's 113 million pound uranium resource. The prefeasibility study estimated a USD465 million mine capable of producing three million pounds of uranium annually over 10 years. Lotus targets combined production of six million pounds of uranium per year from Letlhakane and its Kayelekera mine in Malawi.
4th October	Botswana offers U.S. duty-free access to its diamonds in exchange for 0% tariff. (CediRates)	Botswana is close to finalizing an agreement with the U.S. to allow duty-free diamond imports, providing economic relief to its diamond-reliant economy, which is currently affected by a 15% U.S. tariff on diamonds exported from Botswana. This tariff has strained economic stability and employment, as diamond sales have declined by 50%. In August 2025, a 37% tariff was imposed on imports from Botswana due to trade imbalances, prompting President Duma Boko to urge for zero tariffs. In negotiations, Botswana is proposing to grant U.S. companies priority access to its minerals in exchange for tariff removal, while also advocating for local mineral processing to enhance value addition. The government aims to strengthen trade relations by streamlining permits and accepting U.S. product standards, emphasizing its strategic importance in the global diamond market.
4th October	U.S. Tariff exemption boosts Antwerp, challenges Botswana, India. (Sunday Standard)	The U.S. tariff exemption on polished diamonds from the EU significantly benefits Antwerp's diamond sector, enhancing its competitive edge as the only major trading hub with tariff-free access to the world's largest diamond consumer market. This presents challenges for diamond producers like Botswana and India. India which polishes approximately 90% of global diamonds, faces a 50% tariff on exports to the U.S., threatening its competitiveness in the market. Similarly, Botswana's exports are impacted because the majority of its diamonds are exported to India. This implies that Botswana diamonds face a 15% tariff on direct exports to the USA and an additional 35% tariff for exports via India, making Botswana diamonds more expensive. This shift emphasizes the complexities of international trade and the profound impact of tariff policies.
7th October	Botswana opens talks with TikTok to address monetization barriers. (Business Tech Africa)	The government has begun discussions with TikTok to address monetization restrictions affecting local creators. The Ministry of Youth, Sport and the Arts highlighted the impact of TikTok's policies on local income opportunities. Batswana creators face challenges in monetization as they do not have direct access to TikTok's Creator Rewards Program and often depend on unreliable sources like live gifts or brand partnerships. Botswana's actions may inspire other African nations facing similar challenges, emphasizing the need for policy changes and clearer paths to monetization inclusion within the digital economy.

9th October	Anglo American draws Botswana into USD5 billion De Beers sale talk. (Mining.com)	Anglo American has announced it will negotiate with shortlisted bidders for the sale of its shares in De Beers alongside with Botswana's government. Anglo holds an 85% stake and Botswana government holds 15%. This sale will involve direct talks rather than traditional methods and is expected to conclude in six months, with a spin-off possible if negotiations fail. The government's role follows criticism from President Duma Boko on Anglo's management of De Beers, which recorded a USD189 million loss in 2024. While Anglo values De Beers at about USD5 billion, analysts estimate it may sell for USD3 to USD4 billion. Angola's Endiama has expressed interest in a minority stake through a pan-African consortium. Anglo emphasized the importance of regional interest in considering proposals for the best business outcome.
9th October	Clock is ticking on Luanda Accord, says AWDC. (IdexOnline)	The Antwerp World Diamond Centre (AWDC) has expressed frustration over delays in the USD100 million global campaign to promote natural diamonds, as per the Luanda Accord. The Luanda Accord requires African diamond producers to contribute one percent of their rough export sales to fund promotions by the Natural Diamond Council (NDC). AWDC leaders urge swift action to implement the campaign, highlighting that continued delays undermine the collective commitment among stakeholders and hinder efforts to restore consumer trust in natural diamonds amid competition from lab-grown diamonds.
10th October	Jindal finalises P15 billion funding for Mmamabula. (Mmegi)	The Jindal Mmamabula Energy Project has reached a major milestone by securing P15 billion from Indian lenders. This marks a milestone in Botswana's foreign direct investments, totalling around P18 billion, leading to over 1,800 jobs and P650 million in local contracts. Jindal plans to construct a 300 MW coal-fired power plant under a 30-year Power Purchase Agreement with Botswana Power Corporation. The plant is expected to start operations in 2028, with projected investments surpassing P28 billion by the end of construction.
13th October	Over P388 billion budget proposed for NDP 12. (Daily News)	The government has presented the draft National Development Plan 12 (NDP 12) focusing on robust monitoring and evaluation frameworks. The government intends to shift from a process-based to a results-oriented public service culture, addressing service delivery challenges and improve efficiency. The plan includes a P388 billion development budget for 2025/26 to 2029/30, enhancing data availability and capacity building for performance monitoring. Key sectors targeted include mining, energy, agriculture, and tourism, alongside addressing high unemployment rates of 27.6% overall and 38.2% among youth. NDP 12 aims for private sector-led growth, economic diversification, and transformative measures such as increased student allowances and pensions.

16th October	Government moves to up equity stake in Serowe gas project. (The Monitor)	The government, through Minerals Development Company Botswana (MDCB), is increasing its investment in Botala Energy's Serowe Coal Bed Methane (CBM) Project to P35 million, following a non-binding term sheet agreement. The CBM project, integral to Botswana's strategy for domestic energy supply and reducing import dependence, involves a phased development with 108 wells and an anticipated liquefied natural gas (LNG) plant capable of producing 3.5 petajoules annually. MDCB plans to invest P30 million for a 15% equity stake in Botala Gas (Pty) Ltd and P5 million for a 1% royalty on production. The investment will support the initial pilot wells and a bankable feasibility study, reflecting increasing government confidence in the project's commercial potential.
17th October	ODC sets first contract diamond sales for November. (Botswana Guardian)	Okavango Diamond Company (ODC) will begin selling diamonds to contracted buyers in November 2025, as part of a new agreement with De Beers that increases ODC's production allocation from 25% to 30%, aiming for 40% by the end of the ten-year deal. Managing director, Mr Mmetla Masire, announced the intention to conduct pilot sales in November, following a temporary halt in sales to manage surplus in the industry.
17th October	Moody's cuts Botswana's rating by a notch to 'Baa1' amid diamond industry slump. (Reuters)	Moody's downgraded Botswana's credit rating to 'Baa1' from 'A3', citing challenges in adapting to the downturn in the diamond industry and rising government debt. The economy is struggling due to global economic uncertainty and competition from lab-grown diamonds. This has widened Botswana's current account deficit and pushed foreign exchange reserves to historic lows, with Moody's predicting a further 6% economic contraction in 2025. This comes after Standard & Poor's lowered Botswana's rating to 'BBB', anticipating continued weak demand and prices for diamonds, while maintaining a 'negative' outlook.
29th October	NexMetals seeks USD46.5 million capital raise to revive Botswana nickel production. (Ecofin Agency)	NexMetals Mining plans to launch USD46.5 million equity placement by November 2025, to fund Selebi and Selkirk nickel projects in Botswana. The proceeds will primarily finance the first milestone payment under the Asset Purchase Agreement for these mines, with additional advancements in exploration and development activities. NexMetals acquired these mines from BCL Limited between 2021 and 2022. The firm aims to restart production, which has been dormant since 2016, following updated resource estimates of 250,000 tonnes of nickel at Selebi and 108,000 tonnes at Selkirk. This initiative is part of broader efforts to reinvigorate Botswana's mineral output, which is traditionally dominated by diamonds.

4th November	Khoemacau expansion gathers steam as P3bn poured into project. (The Monitor)	The Khoemacau Copper Mine expansion is advancing swiftly with over P3 billion in funding. The project is important to contribute in Botswana's ambition to become a regional copper leader, targeting a production rate of 130,000 tonnes annually. The expansion includes a new processing plant and three underground mines, boosting output from the existing Zone 5. Major investments are directed towards feasibility studies and essential infrastructure, with completed environmental assessments and ongoing land acquisition for mining. The feasibility study is set to finish by November 2025, with copper production expected by December 2027, reflecting strengthened confidence in Botswana's mining sector against rising global copper demand.
4th November	Botswana commits to AfCFTA operationalisation. (Daily News)	Botswana is dedicated to implementing the African Continental Free Trade Area (AfCFTA) as part of its National Development Plan (NDP12), while also participating in the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Chief Negotiator Mr. Pazha Butale highlighted the country's AfCFTA National Implementation Strategy aimed at boosting exports and regional trade. Key sectors identified include agro-processing, textiles, pharmaceuticals, and automotive. Initiatives like electronic certificates of origin have improved intra-SADC exports and trade facilitation. Infrastructure projects like the Kazungula Bridge enhance connectivity. The Botswana Investment and Trade Centre (BITC) promotes exports through various programs, with plans for trade missions and e-commerce collaborations targeting the Chinese market. Major non-diamond export products include meat, citrus fruits, and automotive components.
4th November	BoB ups rates, orders banks to stay put. (Business Monitor)	Bank of Botswana (BoB) has instructed commercial banks to maintain the prevailing prime lending rates (PLRs) following a 160 basis points increase in its Monetary Policy Rate (MoPR), from 1.9% to 3.5%. This decision aims to strengthen monetary policy and protect foreign exchange reserves without immediately increasing borrowing costs, which might strain households and businesses amid tightening liquidity. The BoB's previous rate stagnation since August 2024 and this recent adjustment coincide with concerns over rising lending rates from banks, which could hamper private sector borrowing. The central bank's interventions have recently improved market functioning, although inflation has increased slightly, posing potential risks to economic stability. The BoB emphasizes the need for stronger fiscal discipline to sustain reserves in the future.
14th November	BDC leads P700 million Radisson hotel development. (Mmegi)	The Botswana Development Corporation (BDC) is investing approximately P700 million in the first five-star Radisson Hotel in Gaborone, set to commence in April 2026. The hotel will have 150 luxury rooms, a rooftop pool, and various amenities. A management agreement with Radisson Hotel Group aims to leverage their expertise. The project is expected to generate approximately 3,000 construction jobs and 400 permanent positions, enhancing local tourism and the economy, while meeting the demand for upscale accommodation in Gaborone.

15th November	India & Botswana seal new cooperation deals in Health & Technology. (Digital Health News)	During President Droupadi Murmu's state visit to Botswana, cooperation was enhanced in health and digital transformation, with a roadmap to strengthen bilateral ties. Botswana expressed interest in India's digital public infrastructure and e-governance. A Memorandum of Understanding in the health sector was signed to ensure access to affordable medicines, including essential ARV medicines. Additionally, Botswana pledged support for India's cheetah reintroduction under Project Cheetah. The visit highlighted India's commitment to Botswana and the African region, described by Botswana's President as historic, and aimed to foster deeper collaborations across various sectors.
17th November	Tribeca Investment Fund backs Botswana's emerging copper industry. (Ecofin Agency)	Botswana is pushing investment in copper in response to rising global demand. Tribeca Investment Partners has invested AUD4 million in Cobre Limited, which aims to develop a new environmentally friendly copper mine using In-Situ Copper recovery technology. Located in the Kalahari Copper Belt, Cobre holds significant mineral resources, with support from major companies like BHP and MMG, highlighting Botswana's potential beyond diamond mining.
18th November	Strong Q3 for Lucara amid market shifts. (Jewellery Net)	Lucara Diamond Corp reported strong Q3 2025 results, with revenues of USD51.2 million from 101,422 carats sold, marking a 16% year-over-year increase when compared to revenues of USD44.3 million from 116,221 carats sold in Q3 2024. Revenue growth was partly driven by a 37% increase in sales through its partnership with HB Trading BV. CEO William Lamb acknowledged robust operations but mentioned financial constraints, with the company seeking additional funding. Lucara expects challenges in natural diamond prices due to market changes and decreasing lab-grown diamond costs, despite price stability for large, premium natural diamonds due to sluggish global supply growth.
23rd November	Govt repays P2.5 billion Central Bank loan. (Sunday Standard)	Botswana's government has repaid a P2.5 billion overdraft to the Bank of Botswana, with total foreign assets rising to approximately P50.5 billion by the end of September 2025. Despite this increase, reserves are still lower than previous months, down roughly P4.7 billion since January 2025. Additionally, government savings are declining, highlighting ongoing challenges in financial management.
23rd November	Every day we firefight… things seem to be collapsing almost everywhere. (The Patriot)	The Permanent Secretary (PS) for the Ministry of Finance has expressed concern over the government's strained fiscal position as diamond revenues continues to underperform amid a global market nearing its breaking point. This downturn, driven by subdued demand, falling prices, and competition from lab-grown diamonds, has severely impacted a critical revenue source, forcing the government to deplete its savings and accumulate debt to fund the budget. Consequently, the government is struggling to meet its financial obligations, prompting the implementation of fiscal measures such as centralising GPOs and cutting travel and overtime expenditures. The PS emphasised that containing the government's high appetite for spending will require strict prioritisation and uncomfortable decisions to ensure long-term stability.

23rd November	Gov't picks Scheepers to steer troubled BAMB. (Sunday Standard)	Botswana's government has appointed Lilian Costa Scheepers to lead the Botswana Agricultural Marketing Board (BAMB) and address long-standing operational challenges such as payment delays and inefficiencies. Scheepers, known for her extensive agricultural experience, is expected to revitalize the board and improve its functionality, enabling better service to the agricultural community.
23rd November	Govt seeks to strengthen food security with Lemang Dijo. (Sunday Standard)	Government has unveiled a new agricultural support scheme, Lemang Dijo, aimed at strengthening Botswana's food security and reducing the country's heavy dependence on imports. The initiative, set to begin in the 2025/26 ploughing season, is being rolled out by the Ministry of Lands and Agriculture as part of a broader push to rebuild resilience across the farming sector. The program provide 100% subsidy on pesticides and tillage services for one hectare per farmer.
28th November	Botswana, Oman Agree on 500-MW Solar Project in New Energy Partnership. (Ecofin Agency)	Botswana is advancing renewable energy development to enhance electricity supply, extend electrification, and reduce its carbon footprint. Botswana and Oman have signed strategic agreements that include a 500-MW solar photovoltaic project. The energy partnership includes fuel-storage infrastructure, petroleum product trade, and large-scale solar development. Botswana aims for universal electricity access by 2030 and to increase the share of renewable energy in the country's power mix from 8% to 50% through expanded solar and wind initiatives.
28 November	Cash-strapped BR expects P25 million loss. (Mmegi)	State-owned Botswana Railways (BR) anticipates a financial loss of P25 million this year, an improvement from last year's P90 million loss attributed to maintenance budget backlogs and governance issues. The CEO, Dominic Ntwaagae, highlighted that this improvement results from cost containment and better management. BR focuses on freight service, primarily for bulk-good transporters like mines, but has struggled with dilapidated locomotives and wagons. Complaints from soda ash miner Botash regarding transport capacity have led to a commercial agreement to enhance delivery capabilities. Currently, Botash produces about 280,000 tonnes of soda ash annually, below its capacity of 300,000 tonnes, due to transportation limitations.
28th November	BoFiNet launches Botswana's first Tier III-Certified data centre, setting a regional benchmark. (News&All)	Botswana Fibre Networks (BoFiNet) has launched the Digital Delta Data Centre (DDDC), the country's first Tier III-certified carrier-neutral data centre, marking a pivotal milestone in Botswana's digital transformation. DDDC, conceived in 2016, aims to support Botswana's digital ecosystem and position it as a regional hub. BoFiNet's Acting CEO highlighted the company's role in enhancing data sovereignty and service reliability. The migration of government systems to the DDDC is expected to improve service delivery and foster private sector innovation, aligning with Botswana's digital-first agenda and enhancing national productivity and regional competitiveness.

NEWS HIGHLIGHTS

3rd December	BHC posts stronger half-year earnings. (Sunday Standard)	Botswana Housing Corporation (BHC) has swung back to profitability in the first half of the 2025 financial year, reporting a profit after tax of P32.2 million after posting a loss at the end of FY in March 2025. This is attributable to cost containment, improved arrears collection and a reversal of earlier impairments for the stronger performance.
4th December	NexMetals Mining raises CAD80 million securing titles on two Botswana critical metal projects. (Digital Journal)	NexMetals Mining has confirmed ownership of its Selebi and Selkirk Cu-Ni-Co-PGE assets in Botswana following an CAD80 million equity financing led by Condire Investors LLC. This funding will enable a USD25 million milestone payment to secure the title, significantly increasing institutional ownership from 30% to 75% and reducing previous debts. The company aims to advance its metallurgical processes to lower costs and produce distinct copper and nickel concentrates, positioning itself advantageously in a secure mining area.
11th December	Private sector on life support. (The Voice)	Government spending cuts have drastically reduced Government Purchase Order (GPOs) issuance from P1.6 billion in May 2025 to P400 million by October 2025, causing a liquidity crisis for the private sector, particularly small and medium enterprises (SMEs) reliant on state contracts. Naledi Madala, Senior Policy Advisor, emphasized the necessity of cuts for restoring fiscal discipline. Economist, Dr. Keith Jefferis, warned that while fiscal consolidation is crucial, it reveals the fragility of Botswana's economy, which still heavily relies on government support and diamonds. Prospects focus on high-impact investments under the Botswana Economic Transformation Programme (BETP) aimed at fostering a private sector-led economy, with calls for consistent policies and legislative reforms to ensure sustainable growth amidst economic changes.
13th December	Study delayed as Namibia, Botswana push Trans-Kalahari Railway. (Namibia Press Agency)	Namibia and Botswana have extended the completion deadline for the Trans-Kalahari Railway feasibility study from April 2026 to June 2026 to finalize technical assessments. The joint ministerial committee continues to oversee the project, emphasizing its potential to transform connectivity. Both countries are committed to the project’s success, with the next committee meeting scheduled for February 2026 in Swakopmund.

14th December	BSB shocked into the red. (Sunday Standard)	The Botswana Savings Bank (BSB) has warned its investors to expect a major downturn in its interim performance. The bank anticipates losses for the half year results ended 30 September 2025. In a cautionary issued by the bank, losses of between P3 million and P4 million should be expected. This compares with a profit after tax of P52.8 million in the corresponding period in 2024.
14th December	Lucara signs final contract for Karowe expansion. (Sunday Standard)	Lucara Diamond Corp. has signed the final contract required to advance the Karowe Underground Project (UGP), awarding Group R Mining and Exploration Botswana responsibility for all underground lateral development that will connect the mine's production and ventilation shafts to the kimberlite orebody. The agreement represents a decisive step in Lucara's plan to extend the life of Botswana's most lucrative diamond operation well into the next decade.
15th December	IMF warns Botswana not to buy De Beers. (Rapaport)	The International Monetary Fund (IMF) has advised Botswana against increasing its 15% stake in De Beers due to the country's economic challenges and heavy reliance on the diamond sector. The IMF's Article IV Consultation report, highlighted the volatility in the diamond market, predicting further economic contraction and high unemployment, especially among youth. The need for Botswana to diversify its economy is critical, given diminished demand for natural diamonds, which is more severe than previously expected. The report follows IMF staff discussions with Botswana officials, concluded in September 2025, and was published alongside related documents in November 2025.
31st December	Pula Exchange Rate in 2026. (Bank of Botswana)	The Ministry of Finance and the Bank of Botswana have approved asymmetric Pula trading margins to bolster export competitiveness and economic stability. The BoB has reduced the foreign currency purchase spread from commercial banks from 7.5% to 3%, aiming to boost local exporters' earnings and encourage the conversion of export proceeds into Pula. The annual rate of crawl was maintained at 2.76% to preserve the competitiveness of exports against imports. Similarly, the Pula basket weights of 50% for the South African Rand and 50% for the Special Drawing Rights (SDR) was maintained. These measures are designed to enhance domestic industry competitiveness, support price stability, which maintain inflation within the 3-6% target range. The exchange rate will be reviewed biannually, with the next assessment scheduled for June 2026.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2020	2021	2022	2023	2024	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4
Annual Economic Growth											
GDP	%	-8.7	11.9	5.8	3.2	-2.8	-2.8	-1.6	-2.8	0.1	..
Mining	%	-26.5	29.8	7.5	2.9	23.9	-23.9	-20.1	-24.9	-10.7	..
Non-mining private sector	%	-6.7	8.8	5.5	2.2	2.4	2.4	2.7	1.9	2.4	..
GDP current prices	P bn	171.39	207.74	251.36	263.92	261.58	64.08	64.87	69.05	67.54	..
GDP 2016 prices	P bn	167.72	187.63	198.01	204.36	198.68	49.63	49.52	47.77	52.98	..
Money & Prices											
Inflation	%	2.2	8.7	12.4	2.9	1.7	1.7	2.9	2.0	3.7	3.9
Prime lending rate	%	5.25	5.25	6.76	6.51	6.01	6.01	6.01	7.22	7.19	7.19
Monetary Policy Rate (MoPR)	%	3.75	3.75	2.65	2.40	1.90	1.90	1.90	1.90	1.90	3.5
Trade & Balance of Payments											
Exports - total goods	P bn	49.12	82.28	102.52	78.11	63.34	13.91	14.55	23.79	18.17	..
Exports - diamonds	P bn	43.30	74.13	89.30	62.00	40.37	9.05	9.61	18.51	13.26	..
Balance of payments	P bn	-20.06	-2.87	4.49	1.65	-20.91	-6.28	-2.01	-2.34	..	..
Foreign Exchange (d)											
Exchange rate BWP per USD	end	10.79	11.74	12.77	13.72	13.68	13.95	13.68	13.30	14.18	13.89
Exchange rate ZAR per BWP	end	1.356	1.355	1.328	1.380	1.333	1.347	1.333	1.334	1.229	1.195
FX reserves	$ bn	4.941	4.806	4.22	4.77	3.46	3.46	3.37	3.38	3.80	..
FX reserves	P bn	53.36	56.02	54.53	63.69	48.13	48.13	46.35	44.96	50.52	..
FX reserve import cover	months	7.7	6.0	5.0	7.2	4.8	4.8	..	..	..	..
Financial Sector											
Deposits in banks	P bn	80.40	84.21	90.73	103.88	107.05	107.05	105.98	110.48	110.34	..
Bank credit	P bn	65.55	68.92	73.05	81.80	87.13	87.13	88.97	90.8	90.931	..
BSE index		6,879	7,010	7,726	9,096	10,049	10,049	10,092	10,403	10,611	11,030
Business Indicators											
Diamond production (a)	mn cts	16.87	22.70	24.48	25.10	18.32	4.34	4.67	2.74	6.13	..
Copper production (b)	'000t	..	11.74	44.27	54.81	48.76	12.11	11.42	13.20	11.12	..
Electricity consumption	GWh	3,842	3,928	4,265	4,736	4,813	1,207	1,099	1,087	1,128	..
Crude oil (Brent)	$/bar	51.22	77.24	82.82	86.17	74.58	74.58	77.23	68.15	68.52	61.35
Employment (formal)				Q3 2023	Q1 2024						
Government		152,973	152,225	143,022	150,872	154,128					
Parastatals		18,933	21,056	18,674	19,012	20,028					
Private sector		305,810	321,176	324,680	320,977	330,582					
Total		477,716	494,457	486,376	490,861	504,738					
Govt Budget		2021/22 (e)	2022/23 (f)	2023/24 (g)	2024/25 (h)	2025/26 (i)					
Revenues	P bn	68.57	74.10	74.26	69.89	75.49					
Spending	P bn	68.68	74.10	85.37	81.65	97.61					
Balance	P bn	-0.11	0.00	-11.11	-11.76	-22.12					
Public debt & guarantees	P bn	48.26	53.42	59.46	77.27	74.24					
Govt deposits at BoB	P bn	12.82	14.02	8.76	8.28	..					
GDP	P bn	218.01	259.34	261.89	263.70	282.21					
Revenues	%GDP	31.5%	28.6%	28.4%	26.5%	26.7%					
Spending	%GDP	31.5%	28.6%	32.6%	31.0%	34.6%					
Balance	%GDP	0.0%	0.0%	-4.2%	-4.5%	-7.8%					
Public debt & guarantees	%GDP	22.1%	20.6%	22.7%	29.3%	26.3%					
Govt deposits at BoB	%GDP	5.9%	5.4%	3.3%	3.1%	..					

Sources: BoB; MFED; Statistics Botswana; Department of Mines; BSE; US Energy Information Administration; Bloomberg; World Bank; Econsult

Notes:
(a) Figures include production from Lucara Diamonds (Karowe mine) and Debswana. In 2016 and 2017, figures also include production from Gem Diamonds (Ghaghoo) and Lerala mines. (no longer operational)
(b) Copper production starting Q2 2017 for Mowana mine and Q2 2022 for Khoemacau
(c) Numbers in Italics reflect revisions from the previous review.
(d) Exchange rate figures from BoB until June 2025, thereafter from Bloomberg. FX reserve cover from World Bank
(e) – (g) Actual

BUDGET PREVIEW

Introduction

The fiscal position and government's policy response to fiscal pressures remains central to Botswana's economic prospects. For a country that has had government playing a central role over many years, due in part to the (well-managed) fiscal contribution of diamond revenues, and the extent of state activities that this has facilitated, the future is very uncertain. The now widely understood fact that diamond revenues have shifted to a structurally lower level, which may at best show gradual but only partial recovery, requires government to be downsized and to play a facilitating rather than direct role in productive activities in the economy.

In any economy, fiscal policy is critical, for instance, where spending is allocated, and how revenues are raised. But from a macroeconomic perspective the overall levels of revenues, spending and the budget balance, and how any budget deficit is to be financed are the most important issues. These have huge implications for macroeconomic stability, trends in public debt and the magnitude of debt service obligations, as well as the level of the foreign exchange reserves, the sustainability of the exchange rate peg, the value of the Pula and inflation.

The overriding requirement is for "fiscal consolidation", to stabilise the budget through reducing and re-orienting spending, raising revenues and most importantly, reducing the budget deficit to a sustainable level – one that is consistent with future revenue expectations and a financing path that will not involve unsustainable accumulation of public debt.

2025 Budget Developments

As noted above, the dominant feature influencing fiscal policy remains declining mineral revenues – historically the largest single source of fiscal revenues – and the policy response to this. The weak initial policy response to the diamond market downturn, which essentially assumed that the downturn was temporary and government could spend its fiscal buffers to ride through the dip, was arguably one of the reasons why the BDP lost the 2024 election, leading to the first change of political power in Botswana's history.

The new UDC government had to produce its first budget within a few weeks of taking office. The February 2025 Budget acknowledged the challenging fiscal position but did not implement any significant moves towards the fiscal consolidation that is widely agreed to be an essential policy response to the adverse structural developments in the country's fiscal position.

A year on, the UDC government has now had time to take stock of economic and fiscal trends, observe the impact of measures that have been implemented, and assess the viability of its deficit financing strategy.

The Mid-year Budget Statement (MYBS), presented to Parliament in December 2025, provided an update on the previous budget year and the preliminary fiscal outcome. The MYBS was further fleshed out in the 2026 Budget Strategy Paper (BSP), released in mid-January 2026.
The MYBS and BSP provided preliminary information on the fiscal outturn for the most recently completed full fiscal year, 2024/25. The fiscal deficit was stated to be P11.8 billion (4.4% of GDP), compared to the revised budget deficit (at the time of the February 2025 budget) of P15.3 billion (5.7% of GDP).

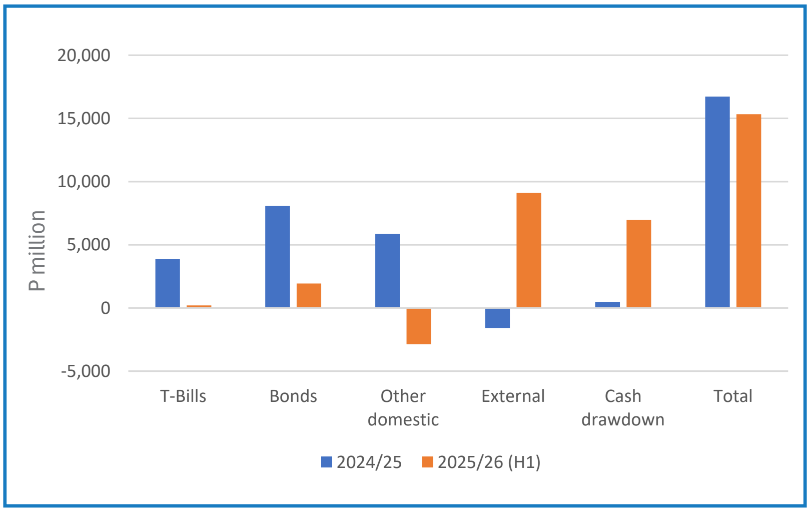
However, as the MYBS noted, these are preliminary results that may well change as the data is finalised. Our projection is that the final numbers will show a larger deficit in the region of P16.7 billion (6.2% of GDP). The reason for this is straightforward, in that official published data from the Ministry of Finance and Bank of Botswana show that P16.7 billion of financing was used during the 2024/25 financial year - a number that should be very close to the final deficit. This financing comprised additional borrowing and the use of government financial balances at the Bank of Botswana. It is also worth noting that the IMF estimated the 2024/25 deficit to be even higher, at P18.9 billion (7.1% of GDP).

Looking at the current (2025/26) financial year, the MYBS and the BSP also provided some figures for the preliminary outturn for the first half of the year (April to September 2025). It also provided information on some of the measures being implemented to reduce spending and the projected deficit, which was projected at P22.1 billion (7.9% of GDP) in the February 2025 budget. These austerity measures include reduced spending on travel and overtime in the public service, not starting any new development projects, and slowing down the issuance of government purchase orders (GPOs). As a result, the estimated budget deficit for the first half of the financial year is given as P4.25bn.

For the whole financial year, the BSP projects that the deficit will be P9.2 billion. This would indicate a reduction in the overall deficit to a more manageable 3.1% of GDP.

However, as with the reported preliminary estimate for 2024/25, the projected deficit for 2025/26 is questionable once one looks at the use of financing by the Government. Data from the Ministry of Finance and the Bank of Botswana shows that in the six months from April-September 2025, a total of P15.3 billion of financing was used, comprising P8.4 billion of additional borrowing and P6.9 billion of cash drawdown from BoB. This is somewhat higher than the financing used in the first half of the previous financial year.

Figure 1: Use of Financing by Government, 2024/25 and 2025/26 (H1)



Source: calculations based on data Bank of Botswana (balance sheet), Ministry of Finance (debt statistics)

Overall, it seems likely that the real fiscal position is worse than that put forward by the MoF in both 2024/25 and 2025/26.

Financing the budget deficit has been a huge challenge. Reliance on domestic borrowing through bond and T-bills has been ineffective; out of the annual target of P10 billion in domestic issuance, only P3.1 billion had been raised by December, nine months into the financial year. Indications are that Government is hoping to borrow extensively from the banks and pension funds over the coming months, which would of course put an intense squeeze on the banking system and its ability to lend. When this was proposed previously in the aftermath of COVID-19, the Bank of Botswana did not approve the plan, because of concerns about the impact on lending to the private sector. It will be interesting to see whether BoB takes a different position this time.

Budget Outlook 2026/27

The Budget Strategy Paper (BSP) released in January 2026 lays out critical issues and risks related to the current fiscal position and long-term fiscal sustainability. As we have pointed out on several previous occasions, the BSP acknowledges that the current fiscal path is unsustainable, given the new environment with structurally lower mineral revenues. Keeping on the same path will inevitably lead to rapid debt accumulation, interest payments taking up an ever-increasing share of expenditure, and an eventual debt crisis. Clearly this requires overall rationalisation of spending, as well as concerted revenue mobilisation.

On the spending side, rationalisation needs to go much further than recent measures that have involved trimming some relatively small expenditure categories (travel, overtime), delaying other expenditures (reducing GPO issuance, building up arrears and delaying some new development projects). But this doesn't create a long-term solution, which has to involve reducing the government wage and salary bill, rationalising social spending with better targeting, and addressing the development budget and focusing it on high impact projects that will genuinely help to improve growth prospect. The BSP also makes it clear that government is at risk of running out of money – with results such as being unable to pay salaries – unless urgent measures are taken to rein in the deficit.

The Development Budget conundrum

The development budget is a particular problem, in part because past development spending has been incredibly inefficient and wasteful. Projects have been badly designed and implemented, but also there have been too many low-return, low-impact projects adopted that cannot possibly generate economic gains – too many development projects act as a drag on growth rather than boosting growth. Essentially there has been no screening or appraisal of proposed development projects that would facilitate the targeting of high-impact projects in line with an agreed budget ceiling.

The draft NDP12 Public Investment Plan (PIP) illustrates this problem. The proposed PIP of P378 billion over the five years from 2025/26 to 2029/30 is a fantasy. NDP12 proposes a development budget of P54.24 billion for the coming fiscal year (2026/27). This level of proposed spending is completely unrealistic, and could not possibly be implemented or financed. It is to be hoped that this does not appear in the final 2026/27 budget when it is presented on February 9th. Realistically, a sustainable overall budget for the 2026/27 financial year cannot include development budget financing of more than around P17 billion, unless recurrent spending is drastically reduced through workforce reductions.

More generally, the claims by many politicians and commentators that the overall budget should devote a higher proportion of spending to development projects is ill-informed and does not stand up to logical scrutiny. Budgetary arithmetic makes it clear that, over time, the proportion of the budget devoted to recurrent spending has to rise (and that for development spending to fall), if only because every development project generates new, permanent recurrent spending commitments (e.g. road maintenance, teachers' salaries).

The challenge is to refocus the development budget on high-return projects by proper project appraisal and prioritise – as is stated as an objective in the BSP – but this essentially means that for budget sustainability and boosting economic growth, the development spending budget must become both smaller and much more effective, generating higher socio-economic returns while spending less.

Debt concerns

Several commentators have stated that concerns about Botswana's level of public debt are over-stated, as the overall level of debt is relatively low both compared to the country's statutory debt limit and by international standards.

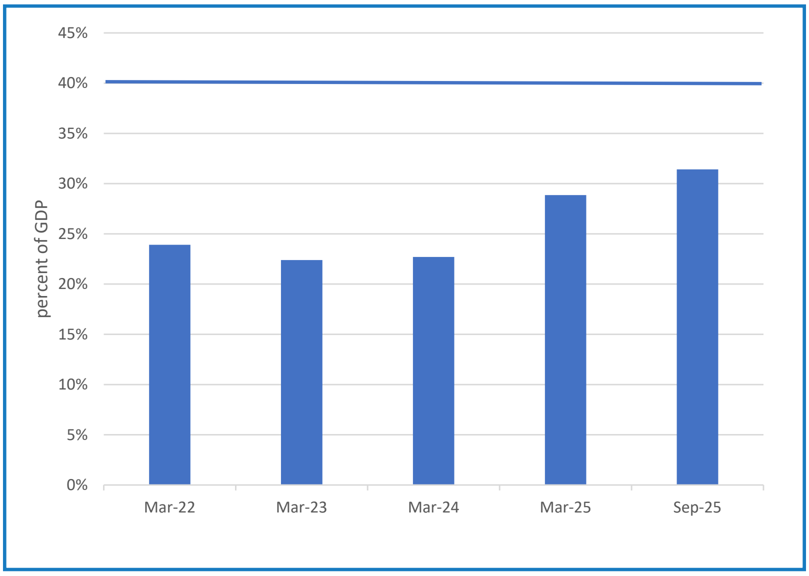
However this misses the point, which is that it is not the level of debt that is the issue for Botswana but its trajectory; a sustainable debt can easily become an unsustainable debt if new borrowing is excessive. Botswana's public debt is currently (September 2025) estimated at 32% of GDP. This is well below the statutory limit of 40% of GDP, and the SADC guideline maximum of 60% of GDP. But even level of debt is increasing rapidly- as recently as March 2024 it was only 22.7% of GDP. And it is worth remembering that the only reason that Botswana has relatively low public debt is because years of budget deficits have been financed by drawdowns from government's savings (the GIA) rather than by borrowing, but those savings are now exhausted. Going forward, even one year of a large budget deficit (say 9% of GDP), would take us beyond the statutory limit.

Certainly the law could be changed to raise the statutory debt limit. But this doesn't solve the problem. If the budget has an unsustainable deficit that is not being addressed, raising the debt limit just means that this behaviour can continue for longer. But when the new debt limit eventually bites, as it will if there are no fiscal reforms, this happens at a higher level of debt and requires a higher debt burden to be managed and there is a greater risk of a debt crisis. The risk is that raising the debt limit will just accommodate further fiscal slippage.

While the IMF considers that a modest increase in the debt limit (to 50% of GDP) could be justified, they note that this must be tied to a new fiscal framework with an explicit fiscal consolidation programme with reforms such as a legally-binding expenditure rule to contain long-term spending pressures.

Finally on the debt front, it is well known that Government has built up sizeable arrears in terms of payments due to suppliers and other parties, but these figures are not well understood even inside government, and are certainly not publicised. The Minister of Transport stated in mid-January that Government owes P15 billion to roads contractors. This figure seems exceptionally high, and if correct, would indicate an even higher level of arrears across government as a whole. Government needs to get on top of the arrears situation, not least by ensuring that it has accurate information on the level of arrears that it has incurred, and which constitute hidden debt. It should also include arrears alongside its publication of data on public debt outstanding.

Figure 2: Public Debt (as % of GDP)

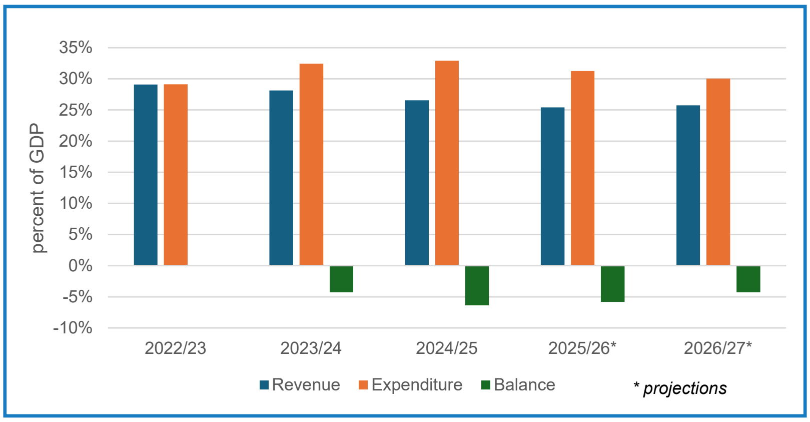


Source: MoF, Econsult

In this environment it is difficult to make predictions about what the 2026/27 Budget will look like. Prudence and sustainability would suggest a budget with clear signs of fiscal consolidation, meaning a smaller budget deficit in relation to GDP in 2026/27 than in 2025/26, based on realistic revenue and expenditure forecasts.

The figure below shows budget trends in recent years as well as a projected budget for 2026/27 that would be consistent with fiscal sustainability – with a deficit of well below 5% of GDP. Essentially this requires that spending is held at the estimated level that it has been at over the past three years, in the range of P85-P90 billion. Anything more than this, or a larger deficit, would indicate that the commitments to fiscal sustainability are not being adhered to.

Fig.3 Budget Outturns and Projection for 2026/27 (% of GDP)



Source: MoF, Econsult estimates/projections

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