econsult

ECONOMIC review

FIRST QUARTER JAN-MAR 2026

compiled by
KEITH JEFFERIS

COMMENTARY

HOPES OF RECOVERY DAMPENED BY WAR IN THE MIDDLE EAST

Introduction

The year started with expectations of an improvement economic activity and emergence from the recession that the economy has experienced in 2024 and 2025. However, the outbreak of the US-Israel-Iran war in February has transformed the global economic environment. The sharp increase in fuel prices will feed through to inflation, reduced real incomes and a likely growth slowdown in many countries. The reduction in fuel supplies has been described as the biggest energy shock to hit the world for 50 years, or more, and there is no clear indication as to its likely duration. While all countries will be affected, the impact will be largest on fuel importing countries such as Botswana.

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Economic Growth

With the release of GDP data for the fourth quarter of 2025, GDP growth for the whole of the year was minus 0.7%. While the economy was therefore still in recession, the result was an improvement over 2024, when the economy contracted by 2.8%.

The main driver of the overall negative growth rate was the diamond sector (mining, cutting & polishing and trading), which contracted by 14.1%. While disappointing, this was an improvement on 2024, when the contraction was 26.5%. After two years of negative growth, the diamond sector only accounted for 8.5% of GDP in 2025, down from 22% as recently as 2022.

Although there was a relative improvement (slower contraction) in the diamond sector, most sectors of the economy grew more slowly in 2025 than in 2024. Overall, the non-diamond private sector only grew by 2.0% in 2025 a sharp drop from 4.4% in 2024, showing the spreading impact of economic slowdown across the economy. Many businesses have reported increasingly challenging economic conditions, with limited growth and rising costs.

Diamonds

Botswana's diamond production contracted again in 2025, by 15% in volume terms, to 15.5 million carats. This compares to a recent peak of 25.1 mcts in 2023. However, in what may appear to be a contradiction, diamond exports rose by 24% in USD value terms during the year. The explanation is that some of the sales came from accumulated stockpiles – we estimate around 4 mcts - marking a welcome drawdown of excessive levels of inventory. Another positive development was the reduction of US tariffs on diamond imports to 10%, following the Supreme Court ruling against the Trump administration, which will help with regard to diamond pricing in the US market.

More generally, there has been an improvement in pricing and demand at the upper end of the diamond market, especially for larger stones, where natural diamonds dominate. However, the ongoing war in the middle east and the high level of uncertainty over future GDP growth prospects has created a setback to hopes of further recovery during the current year. This may mean that Debswana's plans to increase output will now be scaled back, or at least put on hold. Our GDP growth projections for 2026 will be trimmed as a result.

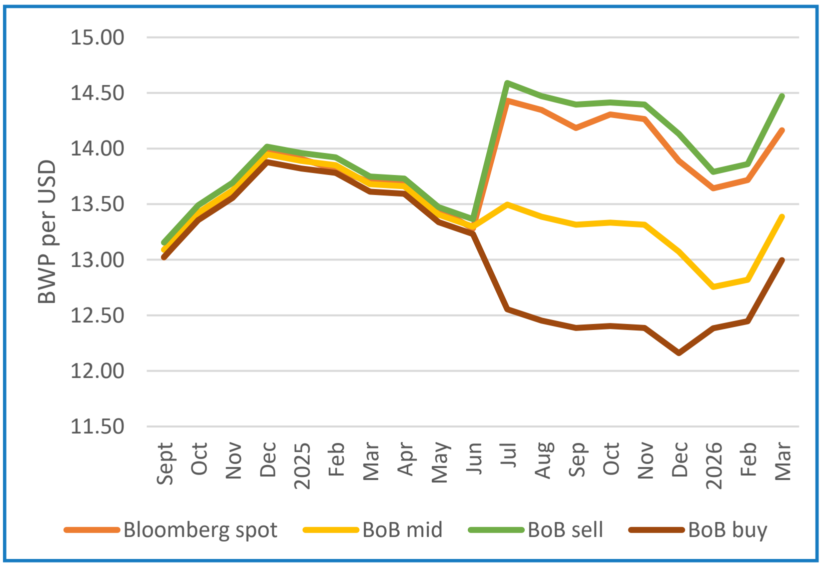
Foreign Trade and Reserves

There were positive developments on the foreign trade front during 2025. After a very difficult trade performance in 2024, there was an increase in exports and a decrease in imports in 2025, both largely driven by diamond performance. Total exports (in BWP terms) were up 17%, while imports were down 11%. Diamond exports and imports changed by plus 23% and minus 48% respectively.

The result was a very welcome narrowing of the balance of trade deficit, from P34.5 billion in 2024 to P12.5 billion in 2025. This has in turn helped to slow down the depletion of the foreign exchange reserves. While official figures for the reserves have not yet been published, the Budget Speech quoted a figure of P47.4 billion at the end of the year. This is only marginally below the figure of P48.1 billion at the end of 2024. Besides the narrowing of the trade deficit, the reserves were also boosted by external borrowing of USD500 million during the year. While the underlying trend in the reserves is still downwards, the slowdown in the rate of decline is welcome, and takes some pressure off of the exchange rate peg.

Nevertheless, the pressure on the Pula is still there. If we look at Bloomberg market rates, over the 12 months to the end of March 2026, the Pula depreciated by 3.3% against the US dollar and 9.8% against the South African rand. The latter change is one of the factors driving inflation up, although the impact of exchange rate weakness on inflation has been less than expected.

Fig. 1 Exchange Rate – Pula vs US dollar



Source: BoB, Bloomberg

COMMENTARY

Trade figures for January and February 2026 show a further improvement in exports, which were up 22% in Pula terms compared to the same period in 2025, driven mainly by higher diamond exports. However, this was more than offset by higher imports, mainly diamond imports – which was expected given the large drop in diamond imports in 2025. As a result, the trade deficit increased to almost P6 billion over the two months.

Inflation

Inflation increased marginally during the first quarter, up from 3.9% in December 2025 to 4.2% in March 2026. However, this is set to change. The large increases in fuel prices at the end of March, driven by the sharp rise in global oil prices as a result of the war in the Middle East, came too late for the March CPI price survey, so it is not yet reflected in the published inflation figures. The March price adjustments were substantial, with petrol up 33%, diesel 54%, and paraffin 81%. Botswana has a very high weight for fuel in the CPI basket, reflecting the amount of driving done in a large country with a low population density. Hence, the impact of fuel price increases on inflation will be large, much larger than in many other countries.

We expect that the fuel price increases alone with add four percentage points to inflation in April. The temporary waiving of some fuel levies will not have any immediate impact, but may do when the next monthly review is due at the end of April. Taking the fuel price increase into account, along with other associated increases such as higher public transport fares and the inevitable impact of higher transport costs on other prices, inflation is expected to rise to over 10% when April figures are released in mid-May and to remain in double digits for the next 12 months, depending of course on what happens to global fuel prices.

Interest Rates and the Financial Sector

Interest rates have continued on their divergent path, with no change in policy rates while capital market and some bank interest rates continue to rise under pressure from ever-higher government borrowing rates. The Bank of Botswana's Monetary Policy Rate has remained unchanged at 3.50%, and the average commercial bank prime lending rate (PLR) has also remained stable. Although the PLR is in principle deregulated, BoB has made it clear that it would not currently permit any bank to raise its prime rate.

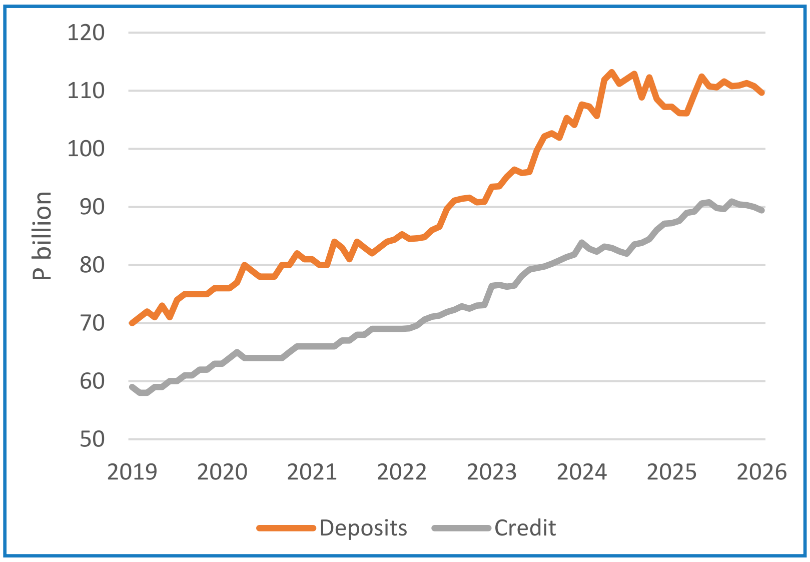
But the MoPR is of limited relevance in the current environment and has lost traction in the financial sector. Of far more relevance is interest rates on government bonds and treasury bills. These have continued to rise in the first quarter, with an apparent change in policy at bond/T-Bill auctions. Prior to December, auction practice from the BoB and government appeared to be to restrict the pace of interest rate increases, but with the inevitable result that auctions did not clear and some bonds/T-Bills were left unsold, with government failing to raise its targeted borrowing.

Since January, however, the urgency of raising the full allotment from bond auctions has become much more apparent, due to government funding constraints. All three monthly bond auctions in 2026 have cleared, with all of the securities on offer being sold, but at the cost of even higher interest rates. The 3-month T-Bill rate reached an eye-watering 10.9% in March, up from 3.75% a year earlier, while the 25 year long bond rate increased to 13.3%. Even with these higher rates, government did not reach the borrowing target laid out in the 2025/26 Annual Borrowing Plan, and had to hastily arrange a borrowing package with local banks, with interest rates up to 13.7%. These rates inevitably affect the banking sector, as government rates provide the risk-free benchmark against which all other rates are calibrated. As a result, bank lending rates have risen to levels that are higher than at any point over the past decade. At these rates, borrowing is becoming unaffordable, especially for investment by individuals (mortgages) or firms.

Banks

Unsurprisingly, there has been a sharp contraction in credit growth, with annual growth dropping to 2.5% in January 2026. Perhaps more seriously, over the three months to January, bank credit actually contracted, with annualized growth of minus 4.4% over this period. This presumably reflects a combination of reduced demand for credit from firms and households (due to high interest rates and uncertainty over future economic conditions), as well as restricted credit supply from the banks. This is driven by the availability of loanable funds from deposits, as bank deposits also contracted over this period. Indeed, bank deposits have shown no increase since early 2024.

Figure 2: Bank Deposits and Lending, Pmn, 2019-26



Source: Bank of Botswana

Tightening credit conditions have led to a decline in bank profitability during 2025. Compared to the previous year, there was a decline in net interest income as deposit interest rates (the cost of funding) increased sharply, which was not matched by an increase in interest income on loans, despite higher lending rates. Banks did benefit from an increase in fee income, which is likely to have been driven by higher commissions on foreign exchange trading following the BoB's change of policy in July last year, but this was not enough to offset the fall in net interest income, leading to an overall fall in profits.

Outlook

The outlook for the Botswana economy for the rest of 2026 is dominated by three trends. First, potential recovery in the diamond sector. Second, ongoing economic trends and initiatives in the non-diamond sector, such as the Botswana Economic Transformation Plan (BETP). Third, the ongoing US-Israel-Iran war, and the associated global energy shock. As of April 2026, it is the third trend that is dominant.

As a result, forecasting GDP growth for 2026 is challenging, especially as there is no real indication of how long the disruptions associated with the war will last. The IMF has forecast a relatively optimistic 4.7% growth rate for Botswana in 2026, based largely on a recovery in diamond production. However, this forecast was made prior to the outbreak of war in the middle east and now looks ambitious. With the negative impact on the global economy, this forecast now needs to be trimmed. Diamond demand may not increase as much as earlier anticipated, with pressure on real incomes. Our projection is that nonetheless there will still be a recovery in GDP growth from -0.7% in 2025 to 3.7% in 2026. This is driven by a forecast 9% growth in the diamond sector and 2% in the non-diamond private sector.

As we noted above, inflation is set to rise to over 10% due to the increase in fuel prices. This will impact on real incomes for all Botswana households, and will put pressure on sectors such as wholesale and retail trade, and financial services, which rely on consumer spending to a large extent. And it may well be that the tourism sector will be adversely impacted by reduced international visitor numbers, given the sharp increase in air travel costs due to higher aviation fuel prices, as well a reduced domestic and regional discretionary spending. However, other sectors will be more affected by domestic factors, notably the limited availability and high cost of bank credit, driven by continued high government borrowing; these include real estate services and construction.

The agricultural sector has been hit by domestic factors unrelated to the war, with the spreading outbreak of foot and mouth disease in the cattle herd. This has necessitated restrictions on cattle movement and slaughter, and the suspension of beef exports, which will have a negative impact on the Botswana Meat Commission (BMC) and cattle farmers more generally.

Rising global fertilizer prices due to the war will have a longer term impact on the arable farming sector, but this will mainly be relevant next season (2026/27). In the short term, it is fortunate that Southern Africa is expecting a bumper maize harvest, which should mean that prices will stay relatively low during the current year.

Higher fuel prices as a result of the middle east war affect all countries, even those that are fuel exporters. Fuel is a global market, with global prices, and even countries that mainly use their own fuel production (such as the USA) are experiencing higher prices.

Nevertheless, fuel importing countries are more vulnerable to the global supply shock. This is partly a macroeconomic impact, as their fuel import bills will rise. In Botswana's case, fuel represents the largest single category of imports reported by Statistics Botswana, with total fuel imports valued at P16.9 billion in 2025, or around 6% of GDP. If global fuel prices rise by 50% and this is maintained for a full year, the cost to Botswana would be huge, around P8.5 billion, or some 3% of GDP. This would increase the balance of trade deficit and reduce the foreign exchange reserves by the same amount. With the reserves at around P47 billion at the end of 2025, this is a large negative impact.

A second impact on fuel importing countries is potential supply disruption. Higher prices is one thing, as long as access to fuel imports is maintained. But if the global flow of fuel supplies is physically disrupted, it is possible that physical shortages could result in some locations. So far, this has not happened in Botswana, or southern Africa more generally. Luckily Botswana has three fuel import channels: regionally, from South Africa, and from global markets via two import channels, that is Walvis Bay (Namibia) and Matola (Mozambique). So far, supplies through these channels have held up well.

What does the economic shock of the Middle East war – particularly the global energy shock - mean in terms of policy for Botswana? There are two obvious implications, with the objective of reducing dependence of imported fuels and associated supply disruptions. The first is that Botswana should move forward with planned strategic fuel storage facilities. The major strategic storage facility at Tshele Hills north of Gaborone has been on the drawing board for at least a decade, but with little progress. Smaller facilities are being constructed at Francistown and Ghanzi. Adequate strategic storage would not protect Botswana from fuel price increases in the event of market disruption, but it would help guard against potential supply disruptions and shortages.

The second is that Botswana needs to reduce its dependence on imported fuels, in part by developing an electric mobility strategy that result in reduced usage of petrol and diesel. One impact of the war and the fuel supply shock globally is an acceleration in the ongoing shift towards electric vehicles (EVs) in many countries. Botswana needs to develop an EV strategy, particularly the provision of charging infrastructure. The country also needs a proper urban public transport strategy, based around EVs. These two measures would be very effective in reducing dependence on imported fuels and vulnerability to future fuel shocks, as well as supporting Botswana’s commitments towards reducing carbon emissions.

The 2026 Budget: A Curate's Egg

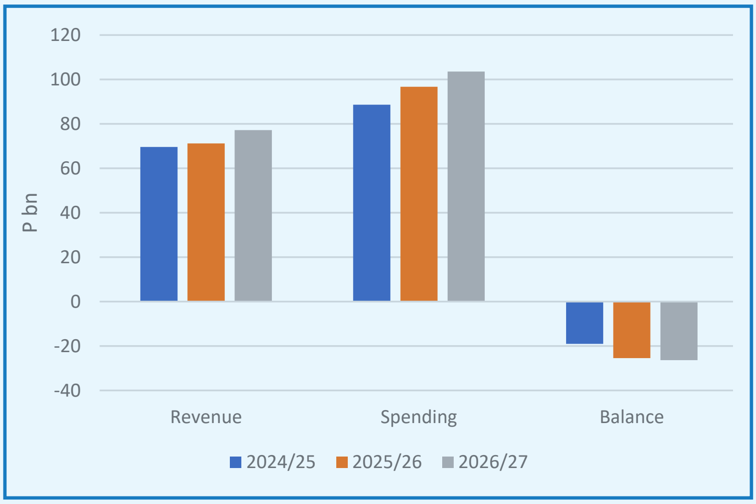
The 2026 Budget was presented on February 9th. As we highlighted in the last Review, there were high expectations of the Budget, that it would set out a path of fiscal consolidation involving reducing spending in line with structurally lower revenues, reducing the budget deficit and ensuring that public debt was on a sustainable path. Whereas the 2025 Budget was presented very soon after the new UDC government had taken office, this year's budget came after a period of more than a year in office, when they had a chance to fully reflect on the dire fiscal position they had inherited, appreciate the consequences of not undertaking necessary fiscal adjustments, and reforming spending in a way that supports the country's longer-term structural reform objectives.

On one level, the 2026 Budget recognizes the importance of fiscal consolidation and ensuring debt sustainability. Para 112 states that "the 2026/2027 fiscal strategy, places fiscal consolidation, discipline and the rebuilding of buffers at the centre of our policy approach. We will broaden our revenue base, enhance compliance and improve the efficiency of tax administration, while ensuring that public spending is firmly aligned with national priorities, anchored on value for money, accountability and results. Together, these reforms will strengthen debt sustainability, restore fiscal resilience and advance economic transformation in a manner that is both inclusive and sustainable".

But is this reflected in the actual budget plans? It seems not. The budget as presented envisages a continued high level of spending in 2026/27 (35% of GDP, similar to 2025/26) and a huge budget deficit (9% of GDP) – although as we explain the Debt Feature later in this Review, both of those figures could be underestimates due to implausibly low budget figures for debt interest payments. Public debt is projected to continue increasing sharply, requiring the lifting of the statutory limit on debt, and raising questions about debt sustainability. Revenue projections do not show any significant improvement. The 2026/27 budget anticipates that revenues will only cover 75% of spending, resulting in a huge financing gap.

There is a promise of fiscal consolidation in the future – according to the Medium-Term Fiscal Framework (MTFF) the budget deficit should reach a more manageable level in 2028/29. However, previous experience suggests that commitments made for 2-3 years into the future are never realised, but are perpetually postponed.

Fig.3 Budget Aggregates, 2024/25 – 2026/27 (P bn)



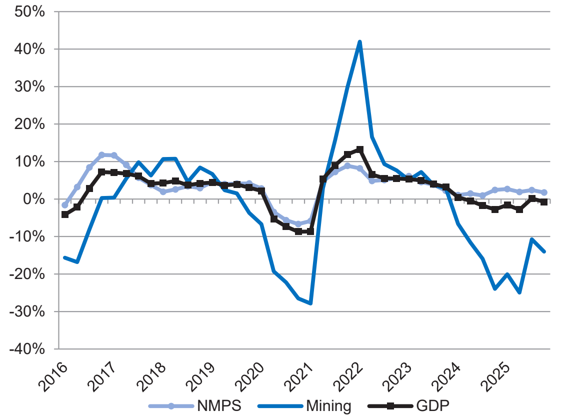
Source: Ministry of Finance

Note: 2024/25 – Preliminary Actuals; 2025/26 – Revised Budget; 2026/27 – Budget

The lack of fiscal and debt sustainability is acknowledged in the Budget Speech itself. The Minister of Finance stated that "this [financing requirement] reflects a structurally overstretched fiscal framework, in which expenditure commitments persistently exceed available and realistic realisable resources. Such misalignment is fiscally unsustainable over the medium to long term and underscores the urgent need for more credible, disciplined and prudent fiscal planning" [para 156]. It also notes that the anticipated budget deficit for 2026/27 of P26.35 billion remains largely unfinanced. It is clear that the Ministry of Finance has not yet managed to sell the need for fiscal discipline to the rest of Government.

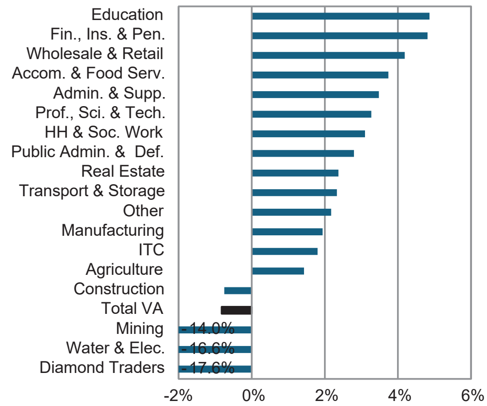
KEY ECONOMIC VARIABLES

ANNUAL GDP GROWTH



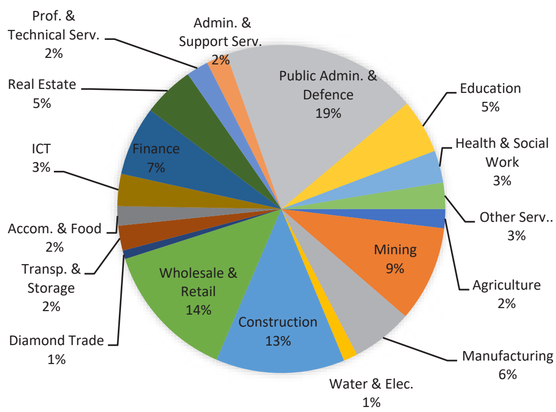
Economic performance showed modest recovery relative to the contraction recorded in the previous year. Real GDP growth in 2025 was negative 0.7%, up from negative 2.8% in 2024. The recovery is attributable to a substantial reduction in the contraction in the mining sector, which improved from -23.9% in 2024 to -14% in 2025. However, non-mining private sector growth slowed from 2.4% year-on-year in 2024 to 1.8% in 2025. Growth is well below long-term target whilst recovery remains fragile.

SECTORAL GDP GROWTH



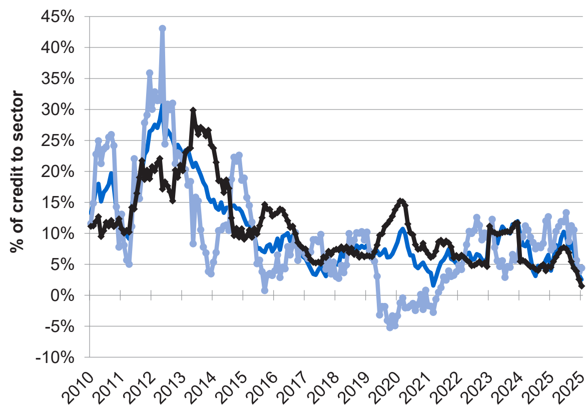
In 2025, economic growth slowed across most economic sectors. Industry-related sectors continue to lag with significant contractions in Water & Electricity (-16.6%). Mining (-14%), Diamond Traders (-17.6%), Agriculture (1.4%) and Manufacturing (1.9%) showed weak expansion. Services sectors remained more resilient, cushioning the weaker production-oriented industries. The divergence between industry and services sectors is visible, highlighting structural imbalances in the economy

SECTORAL GDP SHARES 2025



Economic output shifted significantly in 2025, reflecting a decade-long decline in the share of Mining which has traditionally been the backbone of the economy. The share of Mining is down to 9% due to persistent underperformance in the diamond industry. Public and service sectors have gained dominance, reflecting a major structural shift. Public Administration & Defence (19%) is the largest sector of the economy, followed by Wholesale & Retail (14%), Construstion (13%), and Finance, Insuarance & Pension Funding (7%).

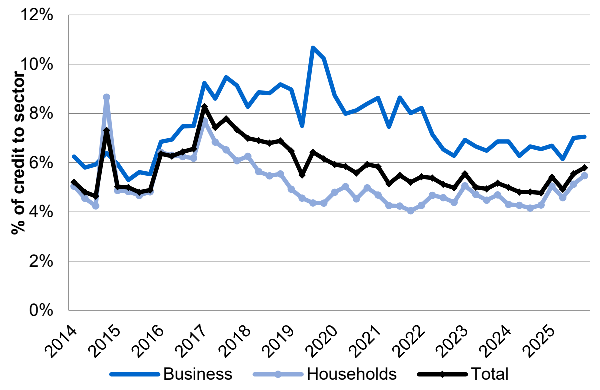
ANNUAL CREDIT GROWTH



Total bank credit growth has fallen sharply between October 2025 and January 2026, from 7.1% to 2.5%. Both households and businesses continue to experience notable declines, consistent with the rising cost of living, weaker business confidence and higher interest rates. Household credit growth declined from 4.4% in October to 1.5% in January, driven largely by the slowdown in mortgage loans. Business credit growth decelerated from 10.5% to 4.4%. This broad slowdown aligns with Bank of Botswana's Business Expectations Survey, which indicates that firms anticipate rising interest rates, further dampening credit demand.

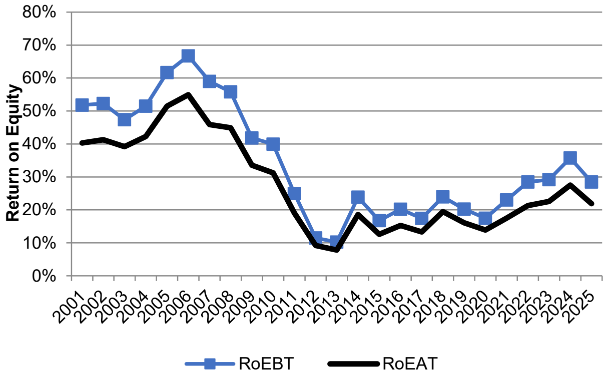
KEY ECONOMIC VARIABLES

ARREARS ON BANK LENDING



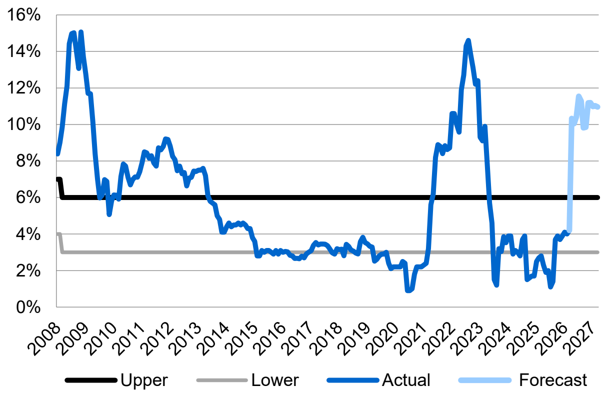
Total arrears across the banking sector rose significantly in 2025, driven by rising pressure on both businesses and households. By December 2025, total arrears reached 5.8% of bank credit, up from 4.8% in the same period of 2024. This upward trend was particularly pronounced in the household sector, where arrears jumped from 4.3% to 5.5% year-on-year, likely reflecting the impact of rising interest rates. While business arrears remained higher in absolute terms, increasing slightly from 6.6% to 7.1%, the sharpest acceleration occurred in the latter half of 2025, signaling a broad deterioration in credit quality across the economy

BANK PROFITABILITY



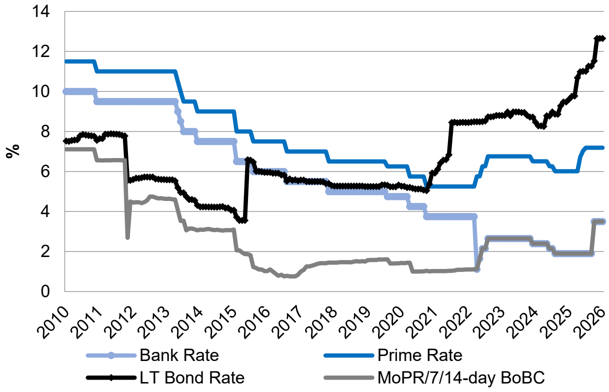
Bank profitability, as measured by the return on equity (RoE), declined in 2025, reversing the steady growth trend observed since 2020. Both Return on Equity Before Tax (RoEBT) and Return on Equity After Tax (RoEAT) saw a notable downturn, with RoEBT falling from a peak of approximately 36% in 2024 to around 29% in 2025. This correction aligns with the broader economic environment of rising arrears and slowing credit growth, suggesting that increased provisioning and the higher interest costs of deposits are beginning to weigh on bank margins. Despite the decline, profitability remains significantly higher than the historic lows seen a decade ago.

INFLATION AND FORECAST



Inflation in the first quarter of 2026 increased marginally, continuing the gradual upward movement observed in recent quarters. The increase reflects a slight build-up in price pressures following the low inflation environment seen in H1 2025. Inflation in Q1 2026 was 4.2% up from 3.9% in Q4 2025. Despite this rise, inflation remains within the central bank's objective range, indicating that price developments are still contained. However, inflation is forecast to increase sharply from April, due to the impact of the fuel price increases in later March. Inflation is likely to reach double digits and surpass the 6% upper objective range by a wide margin.

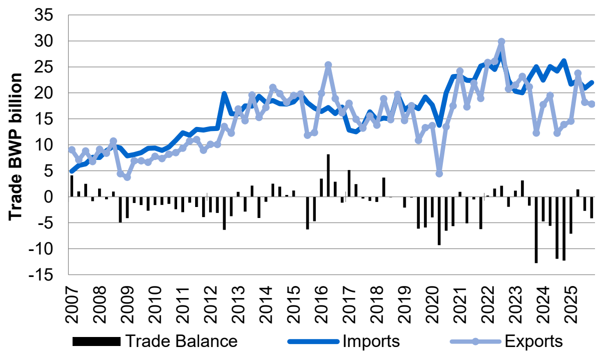
INTEREST RATES



The Bank of Botswana's (BoB) Monetary Policy Committee (MPC) continued to maintain an accommodative monetary stance in February 2026, 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, high government borrowing. The long-term government bond rate (BW012) has steadied at 12.65% in January 2026, after a dramatic two-year surge driven by higher government borrowing.

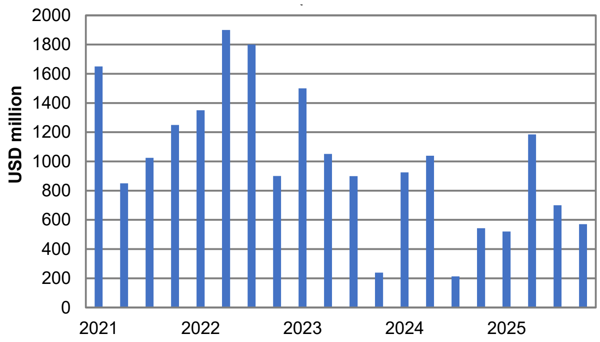
KEY ECONOMIC VARIABLES

INTERNATIONAL TRADE



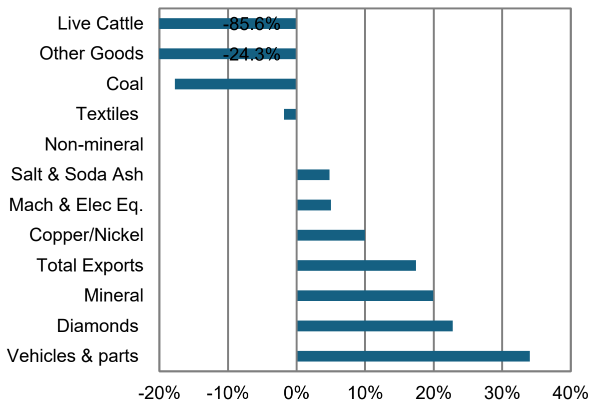
The trade balance remains in persistent deficit, though the gap narrowed in 2025 compared to the huge deficit in 2024. Trade performance was driven by increase in exports of 17.4% from P63.34 billion in 2024 to P74.39 billion in 2025, alongside a decline in imports. Imports decreased by 11.2% to P86.90 billion, down from P97.89 billion during the period. In both instances, diamonds were the main driver, increasing by 22.8% for exports while decreasing by 48.4% for imports. The ongoing deficit reflects the structural reliance on the diamond industry and its sensitivity to global market shifts.

DE BEERS QUARTERLY SALES



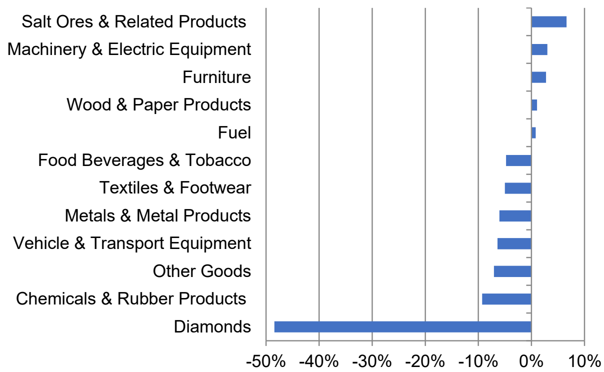
De Beers' quarterly sales through 2025 reflect a diamond market under significant structural strain, with performance remaining far below the 2021-2022 peak sales. Although there was a technical spike in Q2 2025 which increased sales to USD1.185 billion, the broader trend has been one of stagnation, as average diamond prices also fell. This downturn is driven by consumer preferences in the bridal market (the main market segment for diamonds) where lab-grown diamonds increasingly dominate natural stones. There are several other challenges such as high polished inventory levels and new geopolitical trade barriers. De Beers' has responded to market conditions by reducing production guidance for 2026 to 21-26 million carats.

EXPORT GROWTH



Total exports showed resilience in 2025, recording overall growth of 17.4%. This performance was bolstered by strong gains in Vehicles & parts (34%), and Minerals (19.9%), especially Diamonds (22.8%) and Copper/Nickel (10%). These gains were partially offset by sharp contractions in other areas, specifically Live Cattle and Coal, which fell by 85.6% and 17.8%, respectively. Live cattle exports were banned during 2025, after several years of buoyant performance. The ban was intended to boost beef exports, but this was not successful during 2025, as meat exports only rose by 9.4%. While some export segments performed poorly during the year, there are encouraging results from a range of products that are in line with the policy objective of diversified export-led growth.

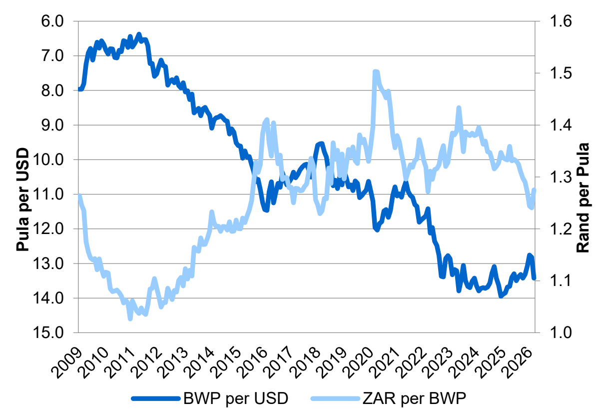
IMPORT GROWTH



Import growth was characterized by a significant contraction in high-value categories, most notably Diamonds, which saw a decline of nearly 50%. Reductions were also visible in Chemicals & Rubber Products (9.3%) and Vehicle & Transport Equipment (6.4%). Conversely, growth was concentrated in essential or industrial inputs, with Salt Ores & Related Products increasing by roughly 7%, and modest gains in Machinery & Electrict Equipment (3%), Furniture (2.7%), and Fuel (0.8%). The broad decline in most import categories suggests a decreasing domestic demand for luxury and capital-intensive goods as the cost of living increases.

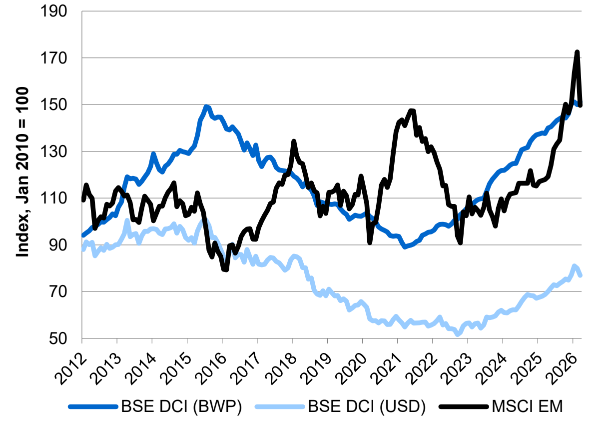
KEY ECONOMIC VARIABLES

EXCHANGE RATES



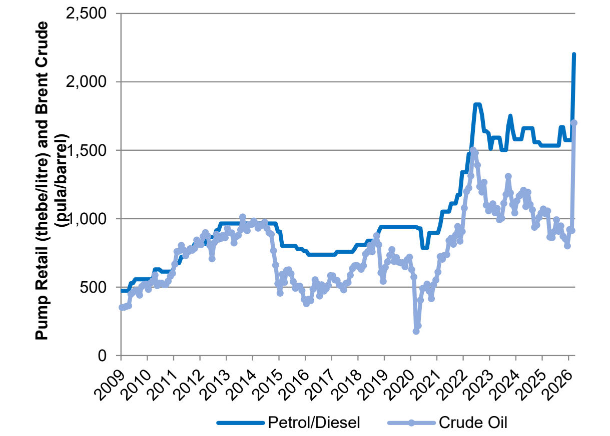
Volatility in the foreign exchange market continued in 2026, primarily characterized by a sustained weakening of the Pula against the US Dollar (USD) and fluctuating performance against the South African Rand (ZAR). In terms of the Bank of Botswana's mid rates, the Pula weakened against the US dollar and ended Q1 2026 with Pula-US dollar exchange rate of 13.42 from 13.07 in Q4 2025. Conversely, the Pula strengthened against the Rand by 0.4% to ZAR1.2752 from ZAR1.2701. In terms of the spot rate quoted by Bloomberg, the BWP/USD rate moved from 13.89 to 14.16 over the quarter.

STOCK MARKETS



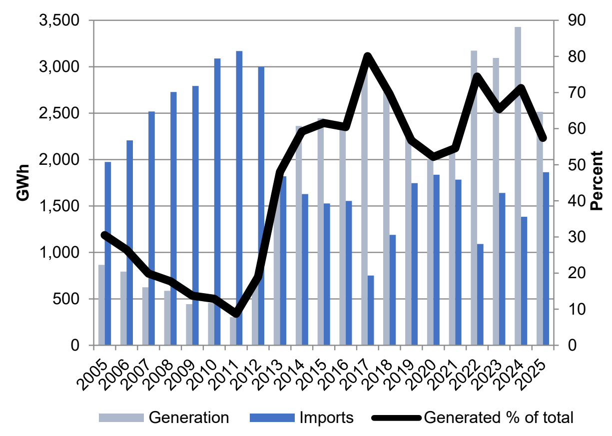
The Botswana Stock Exchange Domestic Company Index (BSE DCI) continued an upward momentum going into 2026, with the BWP-denominated index climbing to its highest level in over a decade. The DCI outperformed the MSCI World and Emerging Markets (EM) index, which fell by 3.9% and 0.5%, respectively. However, a widening gap persists between the BWP and USD-denominated performance of the BSE DCI, reflecting the impact of Pula depreciation against the US Dollar. This divergence suggests that while domestic equity value is rising in local terms, currency headwinds continue to dampen returns for international investors.

FUEL PRICES



Fuel prices in early 2026 reached record highs, driven by a dramatic surge in both global crude oil and domestic retail costs. Brent Crude rose to approximately P1,700 per barrel, a sharp rise from the relatively stable levels seen throughout 2024. This global pressure triggered an even more aggressive rise in domestic Petrol/Diesel pump retail prices, which skyrocketed to an average of P22.03 thebe per litre by early 2026. This vertical climb in energy costs represents a significant inflationary shock to the economy, directly feeding into the "rising costs of living" and mounting price pressures previously identified in the inflation and credit growth forecasts.

ELECTRICITY



In 2025, there was a notable shift toward a greater reliance on imports as domestic generation lagged. Total electricity generated fell from 3,428 GWh in 2024 to 2,515 GWh in 2025, a significant drop that forced a corresponding surge in imports to nearly 1,900 GWh to meet national demand. Consequently, electricity generated as a percentage of total consumption - which had been on a recovery trend since 2020 - sharply declined from over 70% in 2024 to around 57% in 2025. This downturn in self-sufficiency underscores the production-oriented "lag" noted in earlier sectoral analyses and highlights the ongoing vulnerability of the domestic power infrastructure at Morupule power plants. However, there is a greater drive for both solar power production and new coal-fired generation capacity which is anticipated to bolster national supply and exports

1st January	BoB reviews Pula Exchange Rate. (Daily News)	In a bid to enhance Botswana's export competitiveness and ensure economic stability, the Ministry of Finance and the Bank of Botswana have revised the exchange rate framework and implemented asymmetric Pula trading margins. The Central Bank reduced its margin on purchases of foreign currency from commercial banks from 7.5% to 3%, aiming to increase the earnings of local exporters per unit of foreign currency and encourage conversion of export proceeds into Pula. The downward rate of crawl is maintained at 2.7%, reflecting inflation differentials. While maintaining the sell side margin 7.5%, the government seeks to foster interbank trading, reducing reliance on the central bank, and supporting foreign exchange reserves. These measures aim to bolster domestic industry competitiveness, maintain price stability within a 3-6% inflation target, and enhance the resilience of the exchange rate regime.
4th January	Botswana pitches ‘golden passport’ scheme as diamond sales fall. (Financial Times)	Botswana is planning to introduce a “golden passport” program requiring a one-off investment of up to USD100,000 for citizenship, with the aim of generating approximately USD500 million over five years. However, worries exist regarding its popularity and implementation, as guidelines are yet to be defined. Recent economic challenges due to a slump in diamond exports have led the government to seek alternative revenue sources. The change will require Parliament to approve amendments to the Citizenship Act.
4th January	Botswana courts Russian investors amid U.S. diamond trade talks. (Business Insider)	Botswana plans to establish an embassy in Moscow and is encouraging Russian investments in its mining sector, particularly in diamonds and rare earths. Botswana and Russia are significant diamond producers, with past collaborations including the Kristall Production Corporation and Norilsk Nickel in Botswana. Concurrently, Botswana is negotiating with the U.S. to reduce import tariffs on its diamonds, which currently face significant barriers, while offering access to its critical minerals in exchange. This dual strategy seeks to bolster Botswana's economy amid declining diamonds sales.
7th January	Lucara’s rough reserves, prices tumble amid low demand. (Rapaport News)	An updated feasibility study for the Karowe mine underground project reveals a 16% price decline for its most valuable rough over the past two years, to USD695 per carat in September 2025, down from USD828 in June 2023. Total reserves for the underground sector have dropped by 30% to 3.7 million carats from 5.2 million carats in 2023, attributable to focusing mining efforts on more profitable areas.

NEWS HIGHLIGHTS

7th January	BDC extends USD10 million lifeline to Letshego. (Sunday Standard)	Botswana Development Corporation (BDC) has approved a USD10 million seven-year loan to Letshego Africa Holdings, aimed at enhancing lending in social-impact sectors like housing, education, and healthcare. This aligns with BDC's impact investment strategy that aims for both financial returns and social outcomes. BDC's managing director emphasized this funding as an investment in the resilience of households, focusing on partnerships that deliver both financial sustainability and developmental impact. Letshego's CEO noted that the loan enhances liquidity during a challenging market phase, contrasting sharply with recent high borrowing costs faced in local capital markets. This transaction also marks an active strategy for BDC following portfolio restructuring, as it returned to profitability in June 2025 amidst ongoing liquidity pressures.
12th January	Botswana's debt profile shows moderate risk amid economic pressures. (The Business Weekly & Review)	Botswana's fiscal year 2025/26 shows a debt-to-GDP ratio of 29% (P79 billion), with domestic debt at 18.8% and external debt at 10.2%. External debt, largely multilateral, totals P23.6 billion, and is projected to increase significantly, despite tightening global financing conditions. With a contracting economy and reduced fiscal revenues, the government has implemented austerity measures and is pursuing the Botswana Economic Transformation Programme (BETP) to bolster resilience and diversify the economy. Risks include heightened market volatility, rising debt service costs, and potential stress on the banking sector due to government refinancing needs.
29th January	Shumba to begin mobilisation for construction of the 100MW Tati Solar PV project during Q1 2026. (The Project Magazine)	Shumba Energy Ltd has made significant progress with its Tati Solar Photovoltaic (PV) Project, a 100MW facility located in Francistown, Botswana. A major milestone was reached in Q4 2025 with the execution of the Engineering, Procurement and Construction (EPC) contract, securing a construction partner and providing cost certainty. Construction mobilisation began in Q1 2026. The project's carbon credit validation is on schedule for Gold Standard certification in 2026, enhancing its environmental profile.
29th January	HMS Bergbau AG: Own coal mine in Botswana starts production. (EQS News)	HMS Bergbau AG has acquired 51% of Maatla Resources in Botswana, which holds a mining license for metallurgical coal over 45 km^2. Maatla is establishing a coal mine and processing plant in a developed coal mining area, with confirmed coal resources exceeding 94 million tonnes. Production of high-energy export coal has begun, with plans to reach 1.2 million tonnes annually in open-cast mining, and an eventual target of 3.6 million tonnes. According to the CEO, Dennis Schwindt, there is a growing global demand for coal, particularly from Africa, and Botswana has an advantage because of economic climate for their operations.

NEWS HIGHLIGHTS

9th February	Botswana projects economic rebound but spiralling debt. (Reuters)	Botswana's economy is set to grow by 3.1% in 2026 after two years of contraction. The budget deficit projected to widen to P26.35 billion pula, or 8.9% of GDP, in 2026/27. This deficit highlights a fiscal framework where expenditures exceed realistic resources. The debt-to-GDP ratio may exceed the statutory ceiling of 40%, and is projected to reach an estimated 38.8% by March 2026 and 44.7% by March 2027. The Minister of Finance emphasized the necessity for economic diversification away from diamond dependency, which traditionally contribute significantly to fiscal revenue and foreign exchange.
10th February	Botswana economic slowdown demands structural reforms. (Daily News)	Botswana's economic slowdown is widespread, with weak productivity and fragile private-sector growth, necessitating diversification beyond diamonds. During the delivery of the 2026 Budget Speech, the Minister of Finance, Mr Ndaba Gaolathe, noted an economic contraction of 2.8% in 2024, with continued decline into 2025, reflecting weakened diamond activity and challenges in non-mining sectors like manufacturing and construction. A rebound to 3.1% growth is expected in 2026, but structural reforms are crucial. Total Factor Productivity (TFP) growth has declined to -1.0% due to aging infrastructure and regulatory issues. The government aims to promote private-sector growth through the Botswana Economic Transformation Programme (BETP), focusing on skills development, infrastructure and private investment. Inflation rose to 3.9% in December 2025, driven by utility and fuel price increases, with expectations to surpass the central bank's target range temporarily in 2026. Without significant reforms, Botswana may face deeper economic downturns linked to fluctuations in diamond revenues.
11th February	Botswana’s state-owned diamond company turns to contract sales to manage tough market. (CNBC Africa)	In response to a tough global diamond market characterised by surplus supply, diminished demand, and the rise of lab-grown diamonds, Okavango Diamond Company (ODC) aims to increase the sale of diamonds through contracts. ODC began contract sales following a new agreement with De Beers in February 2025, after which it piloted these sales with 14 customers, after which they increased to 32. The company plans to sell about 50% of its diamond allocation from Debswana via contracts, with the remainder going through auctions and strategic partners.
12th February	Release signs lease agreement for a 21 MW solar plant at Motheo copper mine in Botswana. (Scatec)	Release and Tshukudu Metals Botswana have signed a seven-year lease for a 21 MW solar power project at the Motheo copper mine in western Botswana. The solar project intends to support the Motheo mine’s decarbonization objectives by supplying sustainable electricity for their copper or processing. The plant is anticipated to be operational by the end of 2026, produce about 40 GWh a year and meet about 30% of Motheo's electricity needs. Release is owned by Scatec ASA (68%) and Climate Fund Managers (32%). This accomplishment strengthens Scatec's position in the area and helps the growth of Release's mining portfolio in Africa.

NEWS HIGHLIGHTS

21st February	Africa's largest diamond miner posts USD511 million loss amid weak Chinese demand and U.S. tariff pressures. (Business Insider Africa)	De Beers reported a loss of USD511 million in 2025 due to weak demand from China, U.S. tariffs, and declining prices, with rough diamond production down 12%. Operations in Botswana, South Africa, and Namibia faced challenges, prompting cautious production strategies. Total revenue remained stable at around USD3.5 billion, but lower prices and the impact of tariffs, especially on Indian exports, have created market uncertainties. The company is focusing on cost control and restructuring. Market outlook remains gloomy. Trading conditions are expected to persist, though inventory normalization could provide some stability. Production for 2026 is expected to align with demand.
22nd February	Anglo American slashes De Beers' value by nearly half. (Rapaport News)	Anglo American has reduced the carrying value of De Beers to USD2.3 billion from USD4.1 billion, marking the third cut in three years due to lower diamond price forecasts. De Beers' revenue rose 6% to USD3.49 billion in 2025, but sales volumes remained low despite a 23% increase in rough-diamond sales. The company's rough-price index fell significantly, affecting average selling prices, which dropped by 7%. De Beers' underlying loss increased to USD739 million, and Anglo's group net loss reached USD3.74 billion, largely due to De Beers' net impairment losses of USD2.3 billion before tax.
26th February	Botswana Meat Commission records P54 million Profit. (Daily News)	In the 2025 financial year, the Botswana Meat Commission (BMC) reported a profit of P54.3 million, recovering from a P132 million loss in 2024, primarily due to a 22% increase in cattle throughput and improved operational efficiency. Despite the positive financial turnaround, the BMC has more recently faced challenges from a Foot and Mouth Disease outbreak, which limited local slaughter and halted exports. Moving forward, BMC plans to prepare for export resumption, enhance maintenance, and upgrade aging infrastructure while dealing with high operational costs and market uncertainties.
27th February	NDB returns to profit as new strategy targets green growth. (Sunday Standard)	The National Development Bank (NDB) has posted a net profit of P13.1 million for the 2024/25 financial year, marking it a second consecutive year of profitability as the lender positions itself for expansion under the new 2025-2030 strategy. Under the new strategy, branded Motlhala Wa Pula, Modi wa Isago (Path of Rain, Path of Hope), the bank aims to evolve into a hybrid institution combining its developmental mandate with stronger commercial banking capabilities.

NEWS HIGHLIGHTS

28th February	Government seeks stake in MMG's Khoemacau Copper Mine amid copper surge. (Weekend Post)	The government is negotiating with MMG to secure shareholding in its Khoemacau Copper Mine. The interest is sparked by recent surge in global copper prices, compounded by rising demand from renewable energy industries, electric vehicle manufacturing and other industries. The government declined an earlier opportunity to acquire shares in 2015 at the time the mine was licenced, in accordance with the Mines and Minerals Acts. However, recent shifts in the copper market has sparked renewed interest.
6th March	BoB to 'penalise' banks for wholesale deposit concentration. (Mmegi)	The Bank of Botswana (BoB) will impose charges on commercial banks with high concentrations of wholesale depositors to control rising interest rates, which are significantly above the Prime Lending Rate, and inconsistent with the maintenance of an accommodative monetary stance. The charges will take the form of additional capital requirements, aiming to address the structural imbalances linked to rising interest rates and inflation threats within the financial sector. The changes align with Basel III requirements, noting that maintaining concentrated deposit portfolios poses systemic risks to financial stability.
6th March	Business expectations plunge as credit, inflation fears rise. (Mmegi)	According to the Bank of Botswana's Business Expectations Survey, firms expect challenging trading conditions with rising input and borrowing costs in the short term. Business confidence has declined, with businesses anticipating even tougher conditions in the coming years. Cost pressures, especially for materials, utilities, rent, and transport, are compounded by liquidity constraints and reduced government spending. There is also concern regarding increased borrowing costs due to anticipated monetary policy tightening and rising interest rates from commercial banks, which elevate loan costs for businesses.
6th March	BVI kickstart new P300 million plant. (Mmegi)	The Botswana Vaccine Institute (BVI) is progressing with a P300 million facility upgrade set for completion by 2027. The upgrades will include a new blending and filling laboratory and an antigen bank. The upgrades aim to enhance production capacity and replace aging and high-maintenance infrastructure with Good Manufacturing Practice (GMP) compliant facilities. BVI currently serves Southern Africa region, with the Foot and Mouth (FMD) vaccine representing 86% of sales and plans to diversify its product offerings and expand its market footprint.

NEWS HIGHLIGHTS

6th March	Government expands infant industry protection measures. (Mmegi)	Following extensive negotiations with the Southern African Customs Union (SACU), Botswana has expanded the list of businesses protected under the Infant Industry Protection (IIP) Act, to shield local manufacturers from foreign competition through higher import tariffs. Although intended to boost domestic production, these protectionist measures have faced criticism for potentially raising prices and undermining export capabilities, raising concerns about their effectiveness and the implications for regional integration, particularly as Botswana depends on customs revenue for financing.
9th March	New survey shows unemployment rate climbing. (Sunday Standard)	Botswana's unemployment rate has increased, reflecting continued pressure in the country's labour market as more people enter the workforce. According to the preliminary results from Statistics Botswana's 2024/25 Botswana Multi Topic Household Survey, unemployment rate among people aged 15 years and above has risen from 17.6% recorded in the 2015/16 to 21% in 2024/25.
10th March	De Beers sale gets cheaper, though not easier. (Mining Mx)	The significant reduction in the valuation of De Beers by its owner, Anglo American, has made it potentially more attractive for bidders. Despite this, analysts caution against assuming a quick sale, as the diamond market faces challenges from lab-grown alternatives. Anglo's CEO, Duncan Wanblad, indicated that there could be a phased sale of its stake in De Beers, emphasizing the complexity of the market and involvement of key shareholders, including the Botswana government. Numerous interested parties include governments and former De Beers executives. However, concerns about financing and collaborative governance arise, suggesting that a consortium led by an experienced CEO like Gareth Penny might be necessary for success. The sale could mirror previous asset divestitures by Anglo, balancing immediate returns with future potential. De Beers' storied legacy continues to hold significant appeal in the diamond industry.
13th March	BPC's P2.5 billion bailout raises questions ahead of tariff decision. (Mmegi)	As Botswana awaits the Botswana Energy Regulatory Authority's decision on a proposed electricity tariff hike, recent revelations reveal that the government injected P2.5 billion into the Botswana Power Corporation to maintain its operations. The proposed average tariff increase of 46% from April 2026 has faced strong opposition from the business community, who argue it may undermine the industrial base amidst a weak economy and rising living costs. The tariff hike could result in domestic consumers seeing a 68% increase, significantly impacting production costs and competitiveness. The Minister of Minerals and Energy noted that current tariffs remain below supply costs, creating a financial burden on the corporation and government, and that imported electricity now makes up about 35% of the country's supply amidst rising regional prices.

13th March	Botswana ratings lowered to 'BBB-/A-3' on fiscal pressures tied to weak global diamond demand; Outlook Negative. (S&P Global)	S&P Global Ratings has downgraded Botswana's long-term sovereign credit ratings to 'BBB-' from 'BBB', with a negative outlook. The short-term ratings were also lowered to 'A-3' from 'A-2'. The downgrade is driven by weak global diamond demand, adversely affecting Botswana's economy, which is heavily reliant on the diamond sector. The report forecasts a modest recovery with GDP growth of 2.5% in 2026, following contractions in 2024 and 2025. The fiscal outlook remains gloomy, projecting a fiscal deficit of 8.9% of GDP for 2026/2027. Botswana's foreign exchange reserves have decreased significantly, prompting policy changes by the Bank of Botswana to stabilize them. Key challenges include reliance on diamond exports and vulnerabilities to global market shifts, especially with the rise of lab-grown diamonds. Despite these challenges, strong institutional frameworks and prudence in managing resources support Botswana's investment-grade ratings.
13th March	Cheetah Cement Botswana embarks on major expansion. (Mmegi)	Cheetah Cement Botswana is undertaking an expansion to boost local cement production, aiming for self-sufficiency and job creation. The company has secured a 19-hectare site in Matabele to build a new plant with an 800,000 tonnes per annum capacity, exceeding Botswana's demand of 600,000 tonnes. The facility will use advanced technology to enhance energy efficiency and lower carbon emissions. It will source raw materials like fly ash and nickel slag locally. Overall, this initiative will create employment, enhance domestic production, support infrastructure development, and demonstrate confidence in Botswana's economic growth.
13th March	Government seeks P3 billion loan from commercial banks. (Mmegi)	The Minister of Finance plans to seek parliamentary approval to raise USD216.6 million (approximately P2.95 billion) from three local banks: First National Bank Botswana, Stanbic Bank Botswana, and Absa Bank Botswana, amid increasing fiscal pressures and a growing budget deficit. This borrowing requires parliamentary endorsement as per statutory public borrowing regulations.
16th March	Lucara raises P4.7 billion bonds to fund Karowe expansion. (Sunday Standard)	Lucara Diamond Corp has raised USD350 million, about P4.7 billion, through a private placement of senior secured bonds, securing the final financing needed for the Karowe Underground Project in Botswana. The financing is crucial for the completion of the underground expansion, which is expected to extend the mine’s operational life to 2038 and extraction of about 4.5 million carats of diamonds.

16th March		Air Botswana has discontinued three routes, Gaborone-Durban, Gaborone-Windhoek, Maun-Cape Town, due to financial losses estimated at P44.5 million. These routes were introduced between 2024 and 2025, to strengthen regional connectivity and increase revenue generation. However, Air Botswana experienced challenges including weak passenger demand, competition from large airlines, and operational disruptions. These undermined the airline's commercial viability. Air Botswana will continue to seek other revenue alternatives such as cargo operations.
20th March	Banks' profits slowdown in tough 2025. (Mmegi)	Commercial banks' profits fell by about 9%, to P3.79 billion in 2025 from P4.14 billion in 2024, marking the end of a four-year growth streak, largely due to increased provisions for bad debts amid wider economic pressures.
20th March	De Beers cuts around 30% of sightholders. (JCK Online)	De Beers has informed over 20 of its 69 sightholders that they will no longer be clients starting 1 July 2026. This reduction in clients was anticipated, but the extent of the cuts exceeds expectations. Notably, there are now only a few sightholders remaining in New York City and Israel, which were once prominent diamond markets.
24th March	Procurement spend hits P33.5bn amid reform pressure. (Mmegi)	The recent National Public Procurement Pitso highlighted the significant scale of Botswana's public procurement, which processed P33.5 billion last year, emphasizing its crucial role in the economy amidst ongoing concerns about compliance and execution inefficiencies. It was strongly noted that there is pressure on procurement to deliver value beyond mere compliance in a constrained fiscal environment. As the government seeks greater efficiency and tighter spending, the deficiencies in the existing procurement system have drawn attention, especially regarding compliance and project execution. It was stressed that procurement needed to enhance citizen economic participation while acting as a critical fiscal tool for economic transformation.

26th March	Gaolathe tables Bill to increase debt ceiling to 60%. (Daily News)	The Minister of Finance introduced a Bill to raise Botswana's public debt ceiling from 40% to 60% of GDP, emphasizing its importance for macroeconomic sustainability and debt management. He noted that rising public debt has necessitated reliance on domestic markets for financing, particularly during economic shocks. The amendment aims to provide flexible financing for essential services while ensuring fiscal discipline. The Leader of the Opposition, Mr. Dumelang Saleshando, supported the amendment but called for a fiscal consolidation plan to prevent future unmanageable debt and accountability measures for wasteful spending.
31st March	Botswana Eyes Stake in Angola's Lobito Refinery to Boost Energy Security. (Angolian Mining Oil and Gas)	Botswana is considering the acquisition of a 30% stake in Angola's Lobito Oil Refinery, aiming to enhance its energy security amidst global fuel supply concerns. This initiative is part of Botswana's strategy to diversify its economy, which has historically relied on diamond mining, especially as it seeks to mitigate vulnerabilities from global supply disruptions. The Lobito project, led by Angola's Sonangol, is projected to process about 200,000 barrels per day, with an estimated cost of around USD6 billion. Additionally, Botswana is considering direct fuel procurement agreements with Sonangol to further strengthen its energy position.
31st March	Fuel hike lands hard as inflation pressures build. (The Monitor)	Households in Botswana are experiencing a cost-of-living squeeze due to substantial fuel price increases set by the Botswana Energy Regulatory Authority (BERA). Unleaded petrol increased by P5.05 per litre, diesel by P8.77, and illuminating paraffin by P10.55, mainly driven by rising global oil prices. This surge is expected to elevate transport and food prices, leading to heightened inflation, which will soon affect the entire economy. The government is also contemplating hikes in electricity tariffs and commuter fares, increasing financial strain on households. The Bank of Botswana forecasts inflation to rise to 5.3% this year as a result of these fuel price increases.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2020	2021	2022	2023	2024	2025	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1
Annual Economic Growth												
GDP	%	-8.7	11.9	5.8	3.2	-2.8	-0.7	-1.6	-2.8	0.1	-0.7	..
Mining	%	-26.5	29.8	7.5	2.9	23.9	-14.0	-20.1	-24.9	-10.7	-14.0	..
Non-mining private sector	%	-6.7	8.8	5.5	2.2	2.4	1.8	2.7	1.9	2.4	1.8	..
GDP current prices	P bn	171.39	207.74	251.36	263.92	261.58	269.08	64.87	69.05	67.54	67.62	..
GDP 2016 prices	P bn	167.72	187.63	198.01	204.36	198.68	197.22	49.52	47.77	52.98	46.95	..
Money & Prices												
Inflation	%	2.2	8.7	12.4	2.9	1.7	3.9	2.9	2.0	3.7	3.9	4.2
Prime lending rate	%	5.25	5.25	6.76	6.51	6.01	7.19	6.01	7.22	7.19	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	3.5
Trade & Balance of Payments												
Exports - total goods	P bn	49.12	82.28	102.52	78.11	63.34	74.38	14.55	23.79	18.19	17.85	..
Exports - diamonds	P bn	43.30	74.13	89.30	61.90	43.96	53.92	9.61	18.51	13.26	12.54	..
Balance of payments	P bn	-20.06	-2.87	4.49	1.65	-20.91	..	-2.01	-2.34	4.58	..	..
Foreign Exchange (d)												
Exchange rate BWP per USD	end	10.79	11.74	12.77	13.72	13.95	13.33	13.68	13.30	14.18	13.33	13.42
Exchange rate ZAR per BWP	end	1.356	1.355	1.328	1.380	1.347	1.2979	1.333	1.334	1.229	1.2979	1.28
FX reserves	$ bn	4.941	4.806	4.22	4.77	3.46	..	3.37	3.38	3.80	..	..
FX reserves	P bn	53.36	56.02	54.53	63.69	48.13	47.40	46.35	44.96	50.52	47.40	..
FX reserve import cover	months	7.7	6.0	5.0	7.2	4.8	6.0	..	..	..	..	..
Financial Sector												
Deposits in banks	P bn	80.40	84.21	90.73	103.88	107.05	110.78	106.12	110.76	110.81	110.78	..
Bank credit	P bn	65.55	68.92	73.05	81.80	87.13	89.99	88.97	90.8	90.931	89.99	..
BSE index		6,879	7,010	7,726	9,096	10,049	11,030	10,092	10,403	10,611	11,030	11,083
Business Indicators												
Diamond production (a)	mn cts	16.87	22.70	24.48	25.10	18.32	15.50	4.67	2.74	6.13	1.97	..
Copper production (b)	'000t	..	11.74	44.27	54.81	48.76	48.82	11.42	13.20	11.12	13.09	..
Electricity consumption	GWh	3,842	3,928	4,265	4,736	4,813	4,379	1,099	1,087	1,128	1,065	..
Crude oil (Brent)	$/bar	51.22	77.24	82.82	86.17	74.58	126.69	77.23	68.15	68.52	61.35	126.69

Employment (formal)	2020	2021	2022	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 Revised (i)	2026/27 Budget (j)
Revenues	P bn	68.57	74.10	74.26	69.61	71.22	77.22
Spending	P bn	68.68	74.10	85.37	88.62	96.70	103.58
Balance	P bn	-0.11	0.00	-11.11	-19.01	-25.48	-26.36
Public debt & guarantees	P bn	48.26	53.42	59.46	91.63	90.03	105.70
Govt deposits at BoB	P bn	12.82	14.02	8.76	8.28	..	..
GDP	P bn	218.01	259.46	261.51	262.03	272.64	295.79
Revenues	%GDP	31.5%	28.6%	28.4%	26.6%	26.1%	26.1%
Spending	%GDP	31.5%	28.6%	32.6%	33.8%	35.5%	35.0%
Balance	%GDP	0.0%	0.0%	-4.2%	-7.3%	-9.3%	-8.9%
Public debt & guarantees	%GDP	22.1%	20.6%	22.7%	35.0%	33.0%	35.7%
Govt deposits at BoB	%GDP	5.9%	5.4%	3.4%	3.2%	..	..

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

IS BOTSWANA'S PUBLIC DEBT SUSTAINABLE?

Introduction

In recent months the issue of Botswana's mounting public debt levels has become increasingly topical. This is especially the case with the legal moves to raise the permitted ceiling on government borrowing, as well as numerous bills to approve a range of different loans, both domestic and external. The starting point is, fortunately, a relatively low level of sovereign debt. However, debt is now increasing at a much faster rate than in the past. Furthermore, the cost of debt – in terms of interest rates payable – is also rising rapidly. Both of these factors mean that the question of debt sustainability, which has not traditionally been a major policy concern in Botswana, now needs to be seriously considered. Recent credit rating downgrades illustrate the importance of ensuring that debt levels remain manageable, in order not to lose the country's coveted Investment Grade credit rating.

Background

The permitted level of public borrowing is regulated under the Stock, Bond and Treasury Bills Act. Until recently, this imposed an upper limit of 40% of GDP for the total of public debt and debt guarantees. Public debt comprises several different elements, including:

External debt (non-Pula denominated), mainly official loans from governments or official multilateral financing institutions such as the World Bank and African Development Bank.

Domestic debt (Pula denominated), mainly:
- Treasury Bills (T-Bills, with maturities of up to one year)
- Government Bonds (with maturities of up to 25 years)
- Direct loans from financial institutions such as banks and pension funds
- Borrowing from the Bank of Botswana (short-term)

Debt guarantees involve a formal guarantee provided by government to borrowing by a non-government entity, typically by state-owned enterprises

While the issuance of T-Bills and bonds is authorized under a programme whose upper limit is set by Parliament, all other loans need to be authorized by individual Acts of Parliament. Debt guarantees need to be reported to Parliament, but do not require Parliamentary approval.

The overall debt limit (40% of GDP) has historically comprised separate tranches of 20% of GDP each for external debt and domestic debt.

Notwithstanding this upper limit, the historical level of public debt has typically been well below 40% of GDP. For most of the 1990s and 2000s, public debt hovered around 10% of GDP. It then jumped significantly following the Global Financial Crisis (GFC) in 2009, to 20% of GDP in 2010, and stayed at around 20% of GDP through to the early 2020s. Indeed, from a peak of 25% of GDP in 2016, debt was on a gradual downward trend through to 2023, when it was 21%.

Recent Debt Developments

Since the 2023/4 financial year, government's fiscal position has been deteriorating steadily. From a roughly balanced budget in 2022/23, budget deficits have been increasing steadily, as diamond revenues have declined but spending has been increased. Historically, budget deficits had been largely financed by drawing down savings from the Government Investment Account (GIA) held at the Bank of Botswana. Government's cash balances at the BoB (which mainly comprise the GIA and the government Remittances Account) declined from a peak of P41.7 billion in March 2015 to P1.8bn in September 2025. With the GIA largely depleted (the balance was less than P0.5 billion in September 2025), deficits now have to be financed by new borrowing.

The combination of increased budget deficits and depleted cash savings has resulted in a steady increase in borrowing, which is set to continue. Public debt and guarantees amounted to 30% of GDP in March 2025 and an estimated 38% of GDP in March 2026. As a proportion of GDP, public debt has doubled between March 2023 and March 2026.

With large budget deficits projected to continue – 9% to 10% of GDP in the 2026/27 financial year - debt will inevitably continue increasing. Hence the need to raise debt limit from the 40% of GDP that has been in place for decades, and which would otherwise be breached during the 2026/27 financial year, to a new ceiling of 60% of GDP. In this feature, we discuss whether the debt trajectory is unsustainable, or whether, as some argue, the fact that we are starting from a lower level of debt than many other countries, means that there is nothing to worry about.

The Cost of Debt

What is meant by debt sustainability? While there is no single definition, it can be broadly understood to mean a situation where a government can meet all of its debt service obligations – for debt repayment and the payment of interest – without requiring major cuts in essential government spending, going into default, or requiring major debt restructuring. While many people adhere to the level of public debt to GDP as the key indicator of debt sustainability, this is misleading and simplistic. There is no single figure for the public debt to GDP ratio that makes debt sustainable below that figure and unsustainable above it. Sustainability depends on many things, including the type of debt (e.g. maturity and time of repayment), the currency of the debt (local currency or foreign currency), and the cost of debt (interest rate, and whether the cost is fixed or variable). It also depends on the structure of the economy, particularly sources of foreign currency (for servicing of external debt), the level of inflation; the nature of the government budget (whether in surplus or deficit), and whether the government has financial assets as well as debt liabilities.

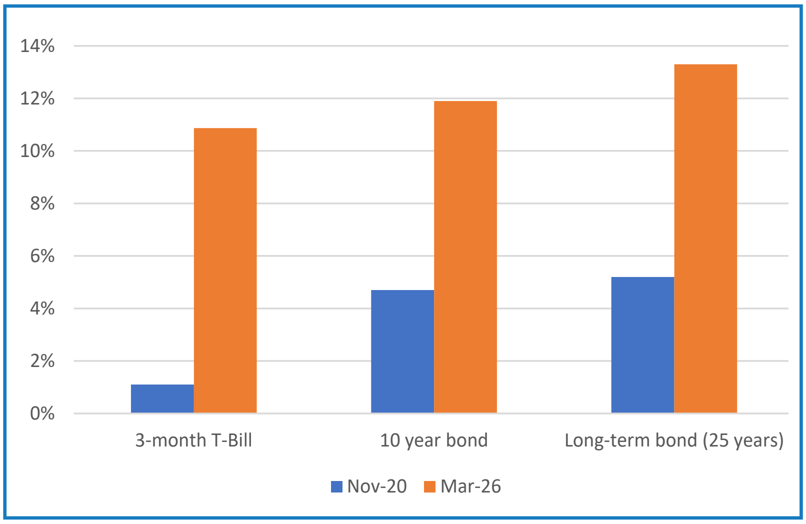
So a level of debt to GDP that is unsustainable in one country may be sustainable in another. Japan, for instance, has one of the highest public debt to GDP ratios in the world, at well over 200%, but does not experience debt sustainability problems. This is because the debt is largely in domestic currency, bears a very low interest rate, and is willingly provided by a population with a high savings propensity. But in other countries, a much lower debt-to-GDP level can crowd out other spending. For instance, South Africa has a debt to GDP level around 75%, which can lead to debt interest being the largest single item of government spending, accounting for over 21% of revenues.

In Botswana the discussion has focused on the rising level of debt to GDP, and what the impact will be of raising the debt ceiling. This is important, and we will discuss further below, but there has been very little discussion of the cost of debt. Whether the interest rate on government debt is below 2% (as in Japan) or 12% (as in Botswana) makes a huge difference to debt sustainability.

Botswana has traditionally been able to borrow at relatively low cost. When the first 25-year government bond (BOTSGB0943) was issued in September 2018, the yield was 5.2% - an exceptionally low interest rate for such a long-term government bond, reflecting GoB's investment grade credit rating and favourable balance sheet. When the 3-month T-Bill was introduced in 2020, the yield was 1.08% - well below the rate of inflation.

However the rapid ramp up in government borrowing since 2023 has led to a huge increase in interest rates. By March 2026, the 3-month T-Bill had a yield of 10.33%, while the new 25-year bond (BOTSGB1150) had a yield of 13.3%. And a five-year loan of P750 million from Standard Chartered Bank, agreed in March 2026, bears an interest rate of 13.7%.

Figure 1: Interest Rates on T-Bills and Bonds, 2020 and 2026



Source: Bank of Botswana

At these interest rates, the cost of debt servicing rises dramatically, and becomes a major determinant of debt sustainability, alongside the level of debt. As Table 1 shows, higher borrowing at higher interest rates can quickly have a dramatic impact on the burden of interest payments on the budget. In Scenario 2 in the illustration below, debt interest payments would amount to 5% of GDP (equivalent to the size of the tourism sector) and 20% of public spending (equivalent to spending on public education).

Table 1: Illustration of the Impact of Borrowing and Interest Rates on the Budget

Indicator	Unit	Scenario 1	Scenario 2
Level of debt	% of GDP	20%	40%
Interest rate	%	5%	12.5%
Interest cost	% of GDP	1%	5%
Interest cost	% of spending	4%	20%

Source: Econsult

The fact that the interest rate on new debt has risen sharply is a warning sign, but does not mean that the total cost of debt has risen by this amount, given that there still remains a large amount of historical debt issued at lower interest rates. It is also the case that external debt tends to bear lower interest rates – although of course this is somewhat misleading, as the face value of external debt rises whenever the exchange rate depreciates, which is equivalent to a "hidden" interest cost.

Historical effective interest rate on government borrowing. The Government of Botswana (GoB) has traditionally been able to borrow at low interest rates. This partly reflects the use of concessional borrowing for external loans, which carry below-market interest rates, and the avoidance of market-based external debt. Domestically, borrowing rates have been low due to the low level of borrowing and the high demand from institutions such as pension funds and insurance companies for government debt. While GoB does not publish explicit data on the interest cost of its debt, implied interest rates can be calculated from budget expenditure and debt data. This shows that back in 2014/15 the implied interest cost of government borrowing was 2.9%, but by 2024/25, ten years later, it had risen to 5.5%.

Based on recent interest rates of domestic and external borrowing, our projection is that the effective interest rate – not including the cost of exchange rate depreciation – will increase further to an estimated 7.5% by 2027/28.

Interest burden historically relatively small. Over the 30 years from 1990 to 2020, interest payments averaged 1.4% of government spending, and were consistently below 2%. By 2024/25, interest payments had risen to 3.7% of spending. These figures are low and indicate that interest payments have not been significantly squeezing out other government spending. This contrasts with South Africa, where interest payments have been at times the largest component of government spending, as large or larger than education and social spending.

However, this will not be the case in future. With rising levels of debt and rising interest rates, the interest burden on the budget will inevitably increase. However, official budget figures do not reflect this. Data included in the 2026 Budget documents indicate that interest payments are projected to fall going forward, after reaching a peak in 2024/25. They also indicate that the effective overall interest rate on government debt will fall from 5.5% in 2024/25 to 2.2% in 2027/28. This is not credible, and is way below our estimate of 7.5%

Our revised projections, based on the anticipated increase in debt levels and recent data on actual interest rates on new borrowing indicate that interest costs are likely to be much higher than this. Our projections indicate that interest costs will increase to 9.7% of total spending, approximately P10.1 billion in 2027/28. This is of a similar size as the current public health budget.

Debt Sustainability

Is the current and projected debt situation in Botswana sustainable? As noted above, the determination of debt sustainability is complex, depending on a range of factors. However, if we take a simple approach based on debt stability – i.e. that public debt should be stable as a percentage of GDP, rather than increasing to potentially unsustainable levels – there is a simple rule of thumb commonly employed in the analysis of debt dynamics. This essentially states that if the real rate of interest on government borrowing is greater than the real rate of growth of the economy (GDP), the government needs to run a primary budget surplus (the budget balance excluding interest payments).

Our estimate is that the average interest rate on government debt will increase to 7.5% by 2027/28. Based on the mid-point of the BoB inflation objective range of 4.5%, the real interest on debt will be around 3%. There is a reasonable prospect that growth in the coming years will fall below this range – we estimate average annual GDP growth of 1.7% between 2026 and 2030. Hence a small primary budget surplus (around 0.5% of GDP) would be required to keep debt stable.

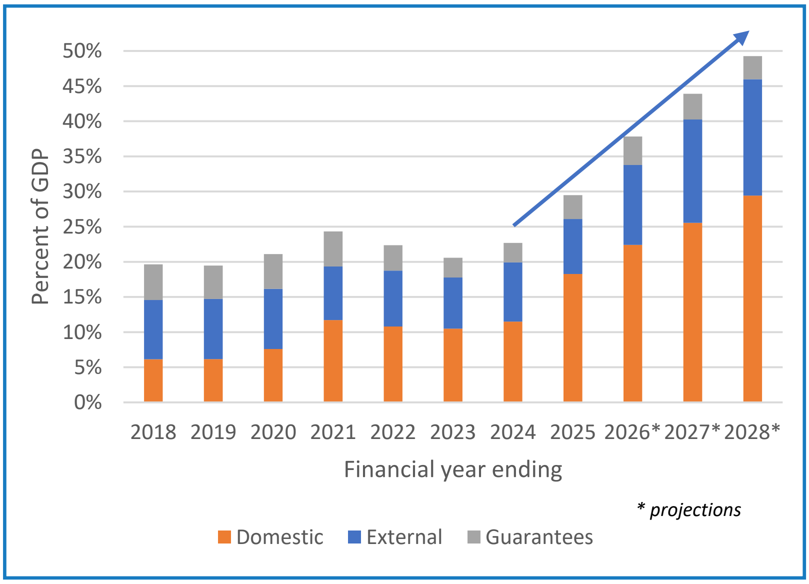
However, the official projections show that the budget balance is likely to be far from this. Government is not running a primary budget surplus, or even a balanced budget, as debt sustainability would require. Ministry of Finance projections indicate primary budget deficits of 8.2% of GDP in 2025/26, 7.9% in 2026/27 and 5.9% in 2027/28. When combined with our higher estimates of interest payments, these will drive a rapid increase in debt (including guarantees), from 30% of GDP in 2024/25 to 50% in 2027/28 – clearly not a sustainable trend.

These projections do not indicate an imminent debt crisis, with debt remaining at a manageable level, at least for the next two years. However, debt interest costs will take up an increasing proportion of budget expenditure, and will increasingly squeeze out other essential spending. There may not be a debt crisis in this period, but there is certainly a debt problem.

Nevertheless the trend is unsustainable, and it would not take long for debt to reach crisis levels at this rate of increase. With continued budget deficits of this magnitude, after a decade debt would exceed 100% of GDP – perhaps even sooner if government's borrowing costs continue to rise.

The challenge is therefore to reverse or a least significantly slow down this trend of increasing debt. This can only be done by reducing the budget deficit. With little expectation of a significant increase in revenues, this can only be achieved by a reduction in spending. Despite commitments to do so, there is no sign of this so far, with projected spending remaining at 35% of GDP in 2026/27, little change from an estimated 35.5% of GDP in 2025/26, and higher than the 34% of GDP recorded in 2024/25. The inevitable conclusion is that without meaningful expenditure restraint – bringing spending down below 30% of GDP – Botswana could face a debt crisis within the next 5-10 years.

Figure 2: Public Debt and Guarantees – Actual and Projected (% of GDP)



Source: MoF, Econsult

It is important to note that these debt projections do not include any additional borrowing that may be necessary to finance other initiatives that have been floated, including purchasing additional shares in De Beers, taking a stake in a proposed oil refinery in Angola, or financing the new Sovereign Wealth Fund. Nor do the guarantees include sovereign underwriting of projects such as electricity offtake agreements or projects implemented under public-private partnership (PPP) arrangements.

Financing Stress

One thing that may hold back the increase in debt is the difficulty that GoB is facing in ramping up its borrowing at the desired pace. For instance, in the 2025/26 financial year, Government aimed to borrow P10 billion domestically, via P2 billion in T-Bills and P8 billion in medium and long-term bonds. By December – three-quarter of the way through the financial year – it had only raised P3.1 billion. The pace of borrowing was ramped up in the last quarter of the financial year, by allowing auctions to clear and interest rates to rise, taking the total for the year up to P8.1 billion. Bond sales in particular fell way short of the P8 billion total, raising only P3.9 billion, while T-Bills came to the rescue with sales of P4.2 billion against the P2 billion target. But overall, GoB has fallen well short of its intended borrowing for the year, with limited progress towards meeting the target of P16 billion in external borrowing put forward in the 2025/26 Annual Borrowing Programme back in April 2025.

As a result, Government had to reactivate the short-term borrowing facility with BoB, which provided P2.8 bn in November, after a previous advance had been cleared back in September. More strikingly, Government negotiated a loan package with local banks in March 2026, comprising the following:

Table 2: Proposed Financing from Commercial Banks, March 2026

Source	Currency	Amount (mn)	BWP mn equiv	Term	Interest Rate
Stanbic	USD	90	1,178	6m	SOFR+2.5%
Stanchart	BWP	750	750	5y	13.7%
ABSA, FNBB, Stanbic	USD	216.67	2,836	10y	SOFR+2.25%
Stanchart-MIGA (Trade)	EUR	200	3,082	1y	EURIBOR+1.4%
Stanchart	EUR	400	6,163	15y	EURIBOR+1.6%
Total			**14,009**		

Note: SOFR – Secured Overnight Financing Rate

Source: Ministry of Finance

For the first time, government has borrowed from domestic institutions in foreign currency. This reflects the lack of domestic Pula liquidity, while at the same time the banks have plenty of foreign currency liquidity stemming from foreign currency deposits.

The medium-term budget presented in February 2026 implies that total borrowing over the next two financial years – 2026/27 and 2027/28 – could rise to a massive P56 billion. This figure is based on the projected primary budget deficit over this period of P42 billion, and our estimate of interest costs of P17 billion .

Raising P56 billion in loan finance over two years will be a major challenge. Domestic markets appear to be almost exhausted in terms of their appetite for government debt. According to NBFIRA data, pension funds did not increase their holdings of government bonds at all in 2025, with total government bond holdings of only P16 billion (around 10% of their total assets).

The Annual Borrowing Programme for 2026/27 published by the Bank of Botswana anticipates new borrowing of P33 billion during the financial year. This includes raising P12 billion through bond and T-Bill issuance, and a further P6 billion from domestic financial institutions, along with P15 billion of new external borrowing.

With the anticipated difficulties in raising debt from domestic capital markets, Government is likely to be increasingly dependent upon borrowing from external lenders in foreign currencies, which obviously carries exchange rate risk.

Conclusion

Botswana is at a turning point with regard to public debt, and is at the juncture between historically low debt levels and debt service costs, and a potential high debt future. There is a strong likelihood, based on current debt trends, that interest payments on public debt will start squeezing out other priority areas of government spending.

Of course there is an argument that high levels of spending, even if financed by increasing debt, will help to boost future economic growth. This could be the case if the spending was well-targeted on growth enhancing initiatives. But with spending (and borrowing) devoted to maintaining a very large public sector workforce, and on development projects that have not been prioritised in terms of return on investment, it is more likely that high levels of debt will act as a drag on growth. This can already be seen through the impact of government borrowing on interest rates, hence crowding out much-needed private sector investment.

Overall the need for public spending reform remains critical – with lower levels of spending, and hence smaller deficits and lower borrowing needs – in order to avoid a potentially dangerous debt spiral. This needs to be combined with a better targeting of public spending on growth-enhancing initiatives.

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