INTERNATIONAL MONETARY FUND

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BOTSWANA

December 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOTSWANA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Botswana, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 19, 2025, consideration of the staff report that concluded the Article IV consultation with Botswana.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 19, 2025, following discussions that ended on September 26, 2025, with the officials of Botswana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 4, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Botswana.

The documents listed below have been or will be separately released.

Selected Issues

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PRESS RELEASE

PR 25/410

IMF Executive Board Concludes 2025 Article IV Consultation with Botswana

FOR IMMEDIATE RELEASE

- Botswana's economic outlook has deteriorated markedly over the last twelve months as the decline in the demand for natural diamonds has been sharper—and is expected to be more persistent—than anticipated. As a result, economic activity is expected to contract by 1 percent this year, before gradually recovering over the medium term.
- The authorities have begun taking steps to address the difficult economic situation, including the adoption of the Botswana Economic Transformation Program, some fiscal consolidation measures, and adjustments to monetary and exchange rate policies.
- Unless additional fiscal consolidation and economic diversification reforms are adopted and monetary policy is tightened, public debt could rise sharply over the medium term while persistent external current account deficits and external outflows would contribute to a further decline in reserves.

Washington, DC – November 19, 2025: The Executive Board of the International Monetary Fund (IMF) completed the 2025 Article IV Consultation with Botswana.[1]

With the natural diamond sector continuing to face strong headwinds, Botswana's economic activity contracted by 3 percent in 2024. Mining output and diamond trading fell further while non-mineral growth declined to 2.8 percent, with continued growth in construction and tourism offsetting contraction in manufacturing and agriculture. Unemployment, which amounted to 28 percent in 2024Q1 (including 38 percent among the youth), has likely remained elevated. Inflation has remained near the lower bound of Bank of Botswana's objective range of 3–6 percent and amounted to 3.7 percent y-o-y in September 2025. Declining diamond exports and weak capital inflows have contributed to a further decline in international reserves, to $3.5 billion (about 5 months of imports) at end-July 2025.

The authorities have begun taking steps to address the difficult economic situation. They notably launched the Botswana Economic Transformation Program (BETP) to promote private sector-led growth and are expected to articulate their medium-term strategy through the forthcoming five-year National Development Plan (NDP). In the face of sharp fiscal pressures, the authorities have adopted some fiscal consolidation measures. The Bank of Botswana has adjusted its exchange rate policy to support economic growth and preserve foreign exchange reserves and has increased its monetary policy rate from 1.9 to 3.5 percent.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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Looking ahead, economic activity is projected to contract by a further 1 percent in 2025 before recovering gradually over the medium term as demand for natural diamonds is expected to recover partly. Inflation is expected to rise over the coming months, as the recent exchange rate depreciation passes through to consumer prices, but is forecast to stay within the objective range in the near and medium term. The current account deficit is projected to increase to 6 percent of GDP on account of lower exports and SACU revenue before declining gradually over the medium term.

After increasing to 7.1 percent of GDP in FY24/25 on account of lower mineral revenue, the fiscal deficit is expected to widen to over 8 percent of GDP in FY25/26 amid an expected persistence of weak mineral revenue flows and limited identified austerity measures. Unless additional fiscal consolidation and economic diversification reforms are adopted and monetary policy is tightened, public debt could rise sharply over the medium term while persistent external current account deficits and external outflows would contribute to a further decline in reserves.

Executive Board Assessment[2]

Executive Directors stressed that Botswana's macroeconomic outlook has deteriorated markedly owing to a prolonged and sharp contraction in the diamond sector, the erosion of policy buffers, heightened debt vulnerabilities, and longstanding structural challenges. Against this challenging background, Directors stressed the importance of a well-coordinated policy mix and swift implementation of structural reforms to address macroeconomic imbalances, preserve stability, and foster more diversified and resilient growth. They called for close alignment of the authorities' economic transformation plan with the long-term National Development Plan, supported as needed by the Fund and other development partners.

Directors urged the authorities to adopt an ambitious medium-term fiscal consolidation plan to rebuild buffers and strengthen medium-term sustainability while protecting priority investment and social spending. They generally agreed that a temporary, well-specified increase in the statutory debt ceiling tied to the consolidation plan and supporting structural reforms is warranted to balance sustainability and growth considerations. Directors emphasized the need to broaden the tax base and improve tax administration to support non-mineral revenue mobilization. They also called for expenditure measures aimed at reducing the public wage bill, simplifying and better targeting social benefits, and enhancing the management of SOEs. Progress is also needed on PFM reforms, including strengthening cash, public investment, and debt management.

Directors called for monetary policy tightening to better support the crawling peg, reduce capital outflows, and bolster international reserves. They concurred that technical adjustments to the crawling peg framework along with enhanced central bank communication could help support competitiveness. While welcoming the progress made in strengthening the financial sector stability framework, Directors stressed the need for heightened vigilance to mitigate financial sector risks, including sovereign exposures, household indebtedness, and interconnectedness with NBFIs. They called for swift adoption of the remaining FSAP

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

recommendations to support liquidity and market functioning, improve monetary transmission, and enhance financial sector resilience. It will also be important to close AML/CFT gaps.

Directors underscored the importance of structural reforms to foster diversified private-sector-led growth, job creation, and climate resilience. Implementing labor market and energy reforms and enhancing access to finance, governance, land administration, and the business climate are key priorities. Directors also stressed the need to improve data quality, especially regarding government finance statistics.

Botswana: Selected Economic and Social Indicators, 2022–30[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Projection						
			(Annual percent change, unless otherwise indicated)						
National Income and Prices									
Real GDP	5.5	3.2	-3.0	-1.0	2.7	3.8	4.1	4.0	4.0
Mineral	7.6	2.9	-24.1	-13.5	3.6	8.6	7.4	5.0	5.0
Nonmineral	4.9	3.3	2.8	1.5	2.5	3.0	3.5	3.8	3.8
GDP per capita (US dollars)[2]	8,329	7,826	7,678	8,088	8,726	9,371	9,993	10,807	11,667
Consumer prices (average)	12.2	5.1	2.8	3.4	4.8	4.5	4.5	4.5	4.5
Diamond production (millions of carats)	24.5	25.1	17.9	14.8	15.3	16.9	18.3	19.3	20.3
Money and Banking									
Monetary Base	-5.3	87.9	-31.2	13.8	7.6	6.7	7.6	8.3	8.3
Broad money (M2)	6.8	9.3	4.8	13.8	7.6	6.7	7.6	8.3	8.3
Credit to the private sector	4.7	5.6	9.2	5.2	6.8	7.4	7.2	7.2	7.2
			(Percent of GDP, unless otherwise indicated)						
Investment and Savings									
Gross investment (including change in inventories)	26.8	30.3	37.2	36.0	33.0	31.7	30.1	28.9	28.6
Public	5.4	7.2	6.8	6.4	6.3	6.3	6.3	6.3	6.3
Private	21.4	23.1	30.4	29.6	26.7	25.4	23.8	22.6	22.3
Gross savings	26.7	31.1	33.0	30.0	28.8	28.9	28.0	26.9	26.5
Public	3.9	2.3	-1.4	-3.5	-3.8	-3.2	-3.0	-2.7	-2.7
Private	22.8	28.8	34.4	33.6	32.6	32.2	30.9	29.6	29.2
Central Government Finances[3]									
Total revenue and grants	29.1	28.2	26.1	24.1	24.9	25.5	26.2	26.8	27.2
SACU receipts	5.4	9.2	10.5	9.0	8.7	8.9	8.4	8.0	8.3
Mineral revenue	13.3	6.7	1.9	3.0	3.8	3.8	4.8	5.6	5.6
Total expenditure and net lending	29.1	32.4	33.2	32.9	32.9	33.0	33.4	33.8	34.2
Overall balance (deficit –)	0.0	-4.3	-7.1	-8.8	-8.0	-7.5	-7.2	-7.0	-7.0
Non-mineral non-SACU primary balance[4]	-18.1	-19.2	-18.5	-19.0	-18.2	-17.5	-17.3	-17.0	-17.0
Net debt	15.5	19.2	30.0	38.0	43.0	47.4	50.8	53.9	56.7
Total central government debt[5]	21.0	22.5	33.1	40.7	46.0	50.4	53.9	56.9	59.7
Government deposits with the BoB[6]	5.5	3.3	3.1	2.8	3.0	3.0	3.0	3.0	3.0
External Sector									
Trade balance	2.7	-2.3	-11.3	-12.3	-9.9	-8.5	-7.5	-6.8	-6.9
Current account balance	-0.6	1.5	-4.2	-6.0	-4.2	-2.8	-2.1	-2.0	-2.0
Overall Balance	1.8	0.6	-8.0	-2.5	-2.5	-2.2	-1.7	-1.9	-2.2
Nominal effective exchange rate (2018=100)[7]	90.8	86.4	85.9	-	-	-	-	-	-
Real effective exchange rate (2018=100)[7]	99.2	94.9	93.9	-	-	-	-	-	-
Terms of trade (2005=100)	164.7	124.8	104.9	76.9	86.6	100.4	107.5	114.2	116.8
External central government debt[5]	7.5	8.4	9.0	14.4	14.8	15.5	15.6	15.5	15.1
Gross official reserves (end of period, millions of USD)	4,281	4,757	3,549	3,064	2,545	2,046	1,651	1,161	532
Months of imports of goods and services[8]	7.1	7.0	5.4	4.4	3.5	2.6	1.9	1.3	0.6
Months of non-diamond imports[8]	8.2	8.3	6.3	5.3	4.2	3.2	2.3	1.6	0.7
Percent of GDP	21.8	24.2	18.9	16.1	12.2	9.3	6.9	4.5	1.9

Sources: Botswana authorities and IMF staff estimates and projections.

[1] This table is based on calendar years unless otherwise indicated.

[2] Population estimates from World Bank, World Development Indicators. Projections starting 2025 are 10-year moving averages.

[3] Fiscal variables are based on fiscal years (starting on April 1).

[4] The non-mineral non-SACU primary balance is computed as the difference between non-mineral non-SACU revenue and total expenditure (excl. interest payment).

[5] Includes guarantees. Debt data measured at end of fiscal year.

[6] Government deposits with the BoB include Government Investment Account as well as other accounts. Deposits data measured at end of fiscal year.

[7] For 2022-2023, both effective exchange rates are from IMF INS database.

[8] Based on imports of goods and services for the following year.

INTERNATIONAL MONETARY FUND

BOTSWANA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

November 4, 2025

KEY ISSUES

Context. Botswana finds itself at a critical juncture, as weak demand for natural diamonds has increased the need to diversify sources of growth. Economic activity is expected to continue contracting this year, reflecting a further drop in diamond production and in non-mineral activity. Inflation is low and expected to stay within the objective range. The financial sector remains sound, though banking sector liquidity has tightened due to the contraction in the diamond sector; increased government financing and higher capital outflows. Despite some austerity measures, the fiscal deficit is expected to increase to more than 8 percent of GDP this year. Unless additional fiscal consolidation measures are adopted, public debt could rise sharply. Given the weak outlook for diamond exports, the current account balance is forecast to remain in deficit in the next few years, contributing to a further decline in international reserves.

Policy Recommendations:

- **Fiscal Policy.** Fiscal consolidation is needed to stabilize public debt over the medium term. Revenue mobilization efforts should focus on broadening the tax base and improving tax administration. On the spending side, efforts should focus on reducing the wage bill, simplifying and better targeting the social support system, streamlining and improving efficiency of capital spending, enhancing the management of SOEs, and strengthening public procurement.

- **Monetary Policy.** Monetary policy needs to be tightened to better support the crawling peg. Its transmission needs to be strengthened through measures to deepen the interbank, credit, and government bond market.

- **Financial Sector.** Quick implementation of the remaining FSAP recommendations will help reduce financial sector risks and improve monetary policy transmission. In the near term, measures aimed at enhancing liquidity and market functioning are key. Medium-term reforms should focus on bolstering financial sector resilience.

- **Structural policies.** Given the sharp downturn in the resource sector, bottlenecks to private sector-led growth and job creation need to be addressed urgently, with a focus on improving SME credit access, labor market flexibility, trade liberalization, governance reforms, and land ownership reform.

- **Data issues.** Further improvements in the quality and provision of data are necessary to facilitate surveillance and economic analysis.

Approved By
Andrea Richter Hume (AFR) and Koshy Mathai (SPR)

Discussions for the 2025 Article IV consultation took place in Gaborone from September 15–26, 2025 between the IMF team and the Botswana authorities. Primary counterparts included Mr. Ndaba N. Gaolathe, Vice President and Minister of Finance, Mr. Cornelius Dekop, Governor of the Bank of Botswana, and Ms. Emma Peloetletse, Permanent Secretary to the President. The IMF team comprised Messrs. Martin (head) and Meyer-Cirkel, and Mmes. Rahman-Garrett and Tiedemann (all AFR). Ms. Basutli (OED) participated in the discussions. Mmes. Ticha, Paulaviciene, and Mr. Trejo Guevara (all AFR) provided research and editorial assistance for the preparation of this report.

CONTEXT

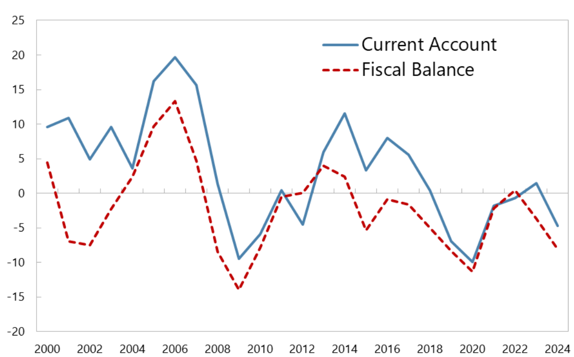
ANNEXES

CONTEXT

1. **Botswana's macroeconomic outlook has deteriorated markedly.** The decline in demand for natural diamonds has been sharper—and is expected to be more persistent—than anticipated. It has contributed to a sharp economic contraction in 2024, to the persistence of high unemployment, particularly among the youth, and to sizeable increases in the fiscal and current account deficits (Text Figure 1).

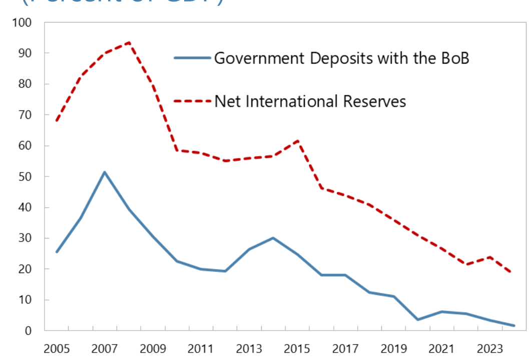
2. **Coming after years of declining fiscal and external buffers, this recent further deterioration leaves Botswana at a critical juncture** (Text Figure 2). The deterioration is partly due to external shocks, including the 2008 Global Financial Crisis, the 2014 diamond market downturn, and the 2020 Covid-19 pandemic.[1] But it also reflects continued delays in responding to changing economic conditions, notably by advancing fiscal consolidation and adopting reforms to foster economic diversification. With external reserves declining rapidly and fiscal buffers all but depleted, action is needed urgently to arrest this deterioration and stabilize the macroeconomic outlook.

Text Figure 1. Fiscal and External Balances
(Percent of GDP)



Source: Botswana authorities and IMF staff calculations.

Text Figure 2. Fiscal and External Buffers
(Percent of GDP)



Source: Botswana authorities and IMF staff calculations.

3. **The new government—in office since November 2024—has begun taking steps to address the difficult economic situation.** The Umbrella for Democratic Change (UDC), the first opposition coalition to win since independence in 1966, has pledged to deliver higher wages, increased pensions, and broader access to economic opportunities. They have launched the Botswana Economic Transformation Program (BETP) and are expected to articulate their medium-term strategy through the forthcoming five-year National Development Plan (NDP). However, the deteriorating outlook and declining diamond revenues are constraining the

[1] See Designing a Sovereign Wealth Fund for Botswana: Issues and Policy Options, Botswana—Selected Issues, IMF Country Report No. 24/287.

government's ability to deliver on these ambitious pledges. In the face of sharp fiscal pressures, the authorities have initiated austerity measures.

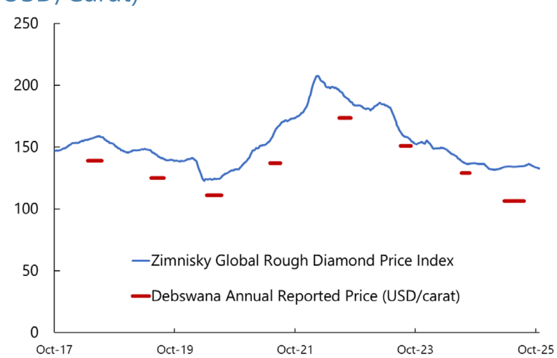
4. Implementation of the 2024 Article IV recommendations has been mixed (Annex VIII). The authorities have started to roll out a framework to tax digital services (VAT Amendment Bill, August 2025), and taken measures to contain current spending and better prioritize capital spending. Progress on other key fiscal and public financial management (PFM) reforms has been more limited. The authorities also implemented some of the Financial Sector Assessment Program (FSAP) recommendations, including those related to bond market development and the deposit insurance scheme (Annex V). Legal and supervisory frameworks were improved, though key reforms have still to be fully implemented.

RECENT ECONOMIC DEVELOPMENTS

5. The diamond sector has continued to face strong headwinds. Demand for natural diamonds declined abruptly in 2023–24, reflecting increased competition from artificial diamonds and alternative luxury spending, and lower demand from China (Text Figures 3–4, Annex VI). Producers initially only adjusted partially their output. With demand failing to recover and stocks reaching record levels, they decided in early 2025 to reduce production further.

Text Figure 3. Real-Time Zimnisky Rough Diamond Price Index

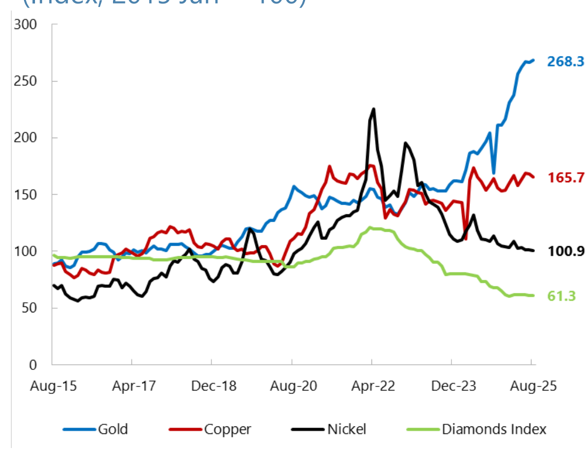
(Index for Zimnisky; Dec 2007 =100; Price in USD/Carat)



Sources: Zimnisky, Debswana, and IMF staff calculations. For more information: https://www.paulzimnisky.com/roughdiamondindex

Text Figure 4. Selected Commodity Prices

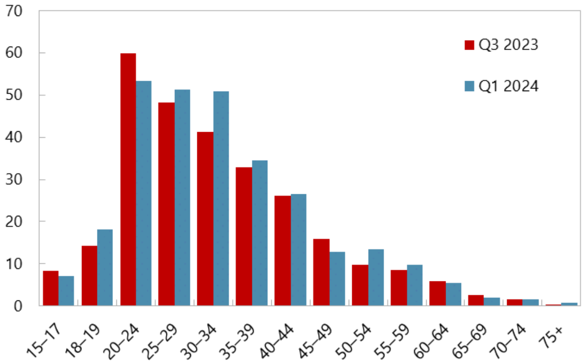
(Index, 2015 Jan = 100)



Sources: Botswana Financial Statistics, and IMF staff calculations.

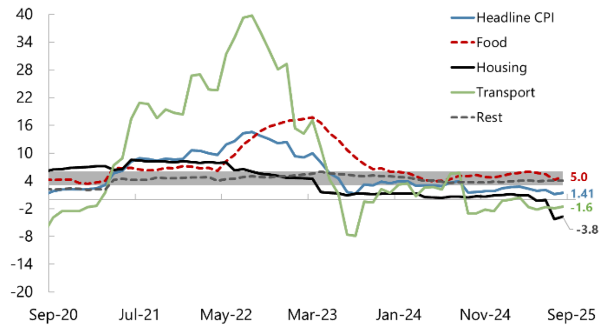
6. As a result, economic activity contracted by 3 percent in 2024. Mining output declined by 24 percent and diamond trading by 34 percent. Non-mineral growth declined further, to 2.8 percent, with activity contracting in manufacturing and agriculture and growing only moderately in construction. Unemployment has likely remained elevated, especially for the youth. The latest data (2024Q1) reported overall and youth unemployment of 27.6 and 38.2 percent, respectively (Text Figure 5). Inflation has remained below the lower bound of Bank of Botswana's (BoB) objective range of 3–6 percent and amounted to 1.4 percent y-o-y in August 2025 (Text Figure 6).

Text Figure 5. Unemployment Rate by Age Group
(Percent)



Source: Statistics Botswana, Quarterly Multi-Topic Survey: Labor Force Module Quarter 1, 2024 and IMF staff calculations.

Text Figure 6. Consumer Price Index by Main Item
(Percent Change, Y-o-Y)



Sources: Haver Analytics and IMF staff calculations. The shaded area reflects the target inflation range of 3–6 percent.

7. **To broaden the country's economic base and accelerate growth, President Duma Gideon Boko launched the BETP in July 2025 and a new sovereign wealth fund (SWF) in September 2025.** The BETP aims to foster private sector-led investment that would allow Botswana to reach high-income status by 2036. A consultative process identified about 200 priority projects; it also surfaced key bottlenecks to investment and growth. Most of the projects are expected to be financed primarily by the private sector, though some public-private partnerships (PPPs) are envisioned. The new SWF could channel public resources, including from government mineral revenue, into strategic investments.

8. **The overall fiscal deficit widened significantly in FY24/25, largely reflecting weaker mineral revenue.** It is estimated at 7.1 percent of GDP (compared to an estimated 4.3 percent of GDP for FY23/24), as the sharp decline in mineral revenue was only partly offset by an increase in Southern African Customs Union (SACU) receipts and in other revenue and lower investment spending.[2] In September S&P downgraded Botswana's rating from BBB+ to BBB, while in October Moody's downgraded it from A3 to Baa1.

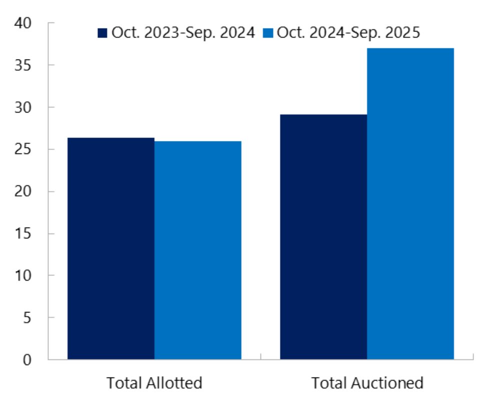
9. **The fiscal deficit has become increasingly difficult to finance, and the government has incurred rising payment delays.** Higher borrowing by the government and the tightening of liquidity conditions in the second half of 2024 contributed to a weak uptake in T-bill and government bond auctions (Text Figure 7)[3]. The uptake in T-bills has improved since June

[2] Technical problems with the Integrated Financial Management Information System (IFMIS) have compromised the Ministry of Finance's ability to monitor budget execution. They are expected to be resolved fully in the coming months, allowing finalization of the FY23/24 and FY24/25 fiscal accounts.

[3] There were 13 auctions and an average allotment size of about P2bn, in both periods, but the auctioned amount increased from an average of P2.2bn to P2.8bn between the earlier and most recent period.

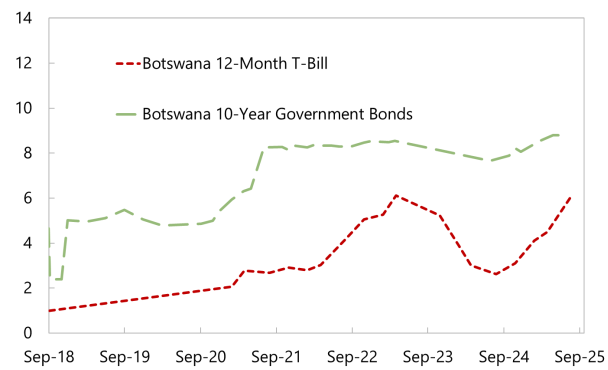
2025 as the cut-off yields were raised (Text Figure 8), but appetite for government bonds at current yields remains limited. As a result, the government had to delay some payments, including third-party payments, payments to suppliers, and transfers to State Owned Enterprises (SOEs).[4] To ease pressures, it has sought financing from external creditors, securing budget support from the African Development Bank ($304 million) and OPEC ($200 million) and discussing potential additional financing from these creditors as well as with the World Bank, Japan International Cooperation Agency, and Kuwait Fund for Arab Economic Development.

Text Figure 7. Sovereign Bond Uptake
(Billions Pula; Period Total)



Source: BoB Government Securities Auctions.

Text Figure 8. Sovereign Bill and Bond Yields
(Percent)



Source: Bloomberg and IMF staff calculations.

10. Faced with these financing pressures, the authorities have taken first steps to rein in current spending and better prioritize investment spending. They have notably centralized procurement processes and strengthened the prioritization of capital projects. The transfer of procurement responsibilities from line ministries to the Ministry of Finance is expected to generate an estimated 1.2 ppt of GDP in recurrent spending savings this fiscal year. Complementary measures—such as reductions in transfers to SOEs and preparations for a World Bank–supported expenditure review to identify wage bill inefficiencies—are geared towards identifying further saving channels (though are not expected to impact spending this fiscal year).

11. Declining diamond exports and weak capital inflows have contributed to a further decline in international reserves, to $3.5 billion (about 5 months of imports) at end-July 2025. After registering a surplus of 1.5 percent of GDP in 2023, the external current account returned to a deficit of 4.2 percent of GDP in 2024, as a sharp decline in the diamond trade balance was only partly offset by a significant increase in copper exports, a lower income deficit, and higher SACU revenue. Despite an improvement in portfolio investment stemming primarily from the mandated repatriation of some pension fund assets, the financial account also

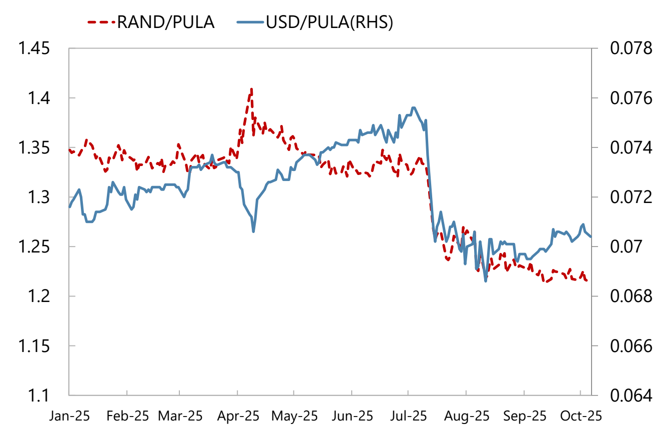
[4] Third-party payments correspond to the part of the public employees' salaries withdrawn by the government to directly pay their mortgages and utilities.

deteriorated, reflecting lower foreign direct investment (FDI), a further reduction of the government's external debt, but also a further increase in commercial banks' deposits abroad in a context of increased uncertainty. Concerns about the sustainability of current policies might have contributed to a further increase in errors and omissions, to 1.6 percent of GDP, which likely reflected unrecorded capital outflows.

12. While monetary policy has remained accommodative, monetary conditions have tightened. The Monetary Policy Rate has been held at 1.9 percent since August 2024, reflecting the BoB's focus on domestic considerations, most prominently the contraction in economic activity and the muted medium-term inflation outlook. Monetary conditions have, however, tightened markedly, with wholesale deposit and primary lending rates rising significantly, pointing to a misalignment between the policy stance and market conditions.

13. The authorities adjusted its exchange rate policy to support economic growth and preserve foreign exchange reserves. Based on its assessment of a 5–10 percent overvaluation of the Pula, the BoB increased in July the rate of depreciation of the Pula against its currency basket from 1.51 percent to 2.76 percent, while widening the trading band from ±0.5 percent to ±7.5 percent. The market rate of the Pula has since depreciated by 6.3 percent against the U.S. dollar and 8.9 percent against the rand (Text Figure 9). At the same time, average monthly foreign exchange purchases by commercial banks from the BoB have declined from BWP4 billion to BWP2.6 billion, contributing to a stabilization of international reserves.

Text Figure 9. Exchange Rates
(LHS: South Africa Rand/Pula; RHS: U.S. Dollar/Pula)

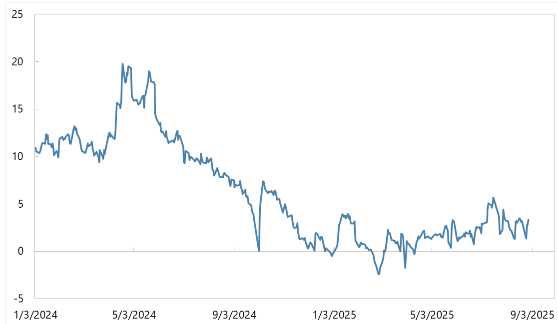


Source: Bloomberg and IMF staff calculations.

14. The non-bank financial institution (NBFI) system continues to be strong and resilient, with total financial assets growing by 12 percent in 2024, to about 71 percent of GDP. This growth is largely driven by retirement funds, which account for 80 percent of NBFI assets. The number of licensed NBFIs rose from 869 in March 2024 to 980 in March 2025, with non-bank lenders showing the largest increase. The repatriation of foreign assets by pension funds is progressing as mandated.

15. While the banking sector remains well capitalized and profitable, liquidity has tightened. As of July 2025, the banking sector's capital adequacy ratio stood at 20 percent—well above the 12.5-percent regulatory threshold—while non-performing loans declined slightly, to 3.3 percent. However, household debt has doubled to around 22 percent of GDP between 2007 and June 2025, driven by unsecured, short-term personal loans. BoB's measures— including the reduction of its reserve requirement from 2.5 to 0 percent and the lengthening of the duration of its liquidity injections from overnight to one month—have helped contain liquidity pressures. Hence, following a sharp drop from April 2024 to March 2025—which was driven by declining reserves linked to the contraction in the diamond market, the accommodative fiscal stance, and capital outflows—net liquidity has stabilized (Text Figure 10). As commercial banks have competed for liquidity, wholesale deposit rates and primary lending rates have, however, increased significantly. Despite these tight liquidity conditions, credit growth continued to rise in the first half of 2025, driven by lending to corporates Panel Figure 4). While still relatively low, the banks' sovereign exposure has increased significantly since mid-2024, to about 16 percent of assets, due to increased government borrowing (see Text Figure 11).

Text Figure 10. Net Liquidity, 2024–25
(Billions of Pula)



Source: Bank of Botswana.
Notes: Net liquidity comprises commercial banks' balances with the central bank. It may be negative when the sum of liabilities (incl. repos and credit facility usage) exceeds the sum of assets (incl. account balances and BoBC holdings).

Text Figure 11. Commercial Bank Sovereign Exposure
(Percent of total assets)

Source: Bank of Botswana.
Notes: Sum of T-Bills and Debt Securities Over Total Assets.

16. The authorities have made notable progress in strengthening the financial sector stability framework. As planned, the Liquidity Coverage Ratio and Capital Buffer guidelines should be fully operational by end-2025. The Emergency Liquidity Assistance (ELA) framework and a comprehensive stress testing framework are expected for the first half of 2026, while the Net Stable Funding Ratio remains pending. The revised 2023 Banking Act, which strengthens the legal basis for financial stability oversight and monetary operations, was enacted into law in May 2023 and promulgated in August 2025.

17. The BoB and Non-Bank Financial Institutions Regulatory Authority (NBFIRA) have made significant progress with developing their AML/CFT supervisory frameworks. The country is in the process of finalizing its latest national risk assessment, which will guide national and institutional priorities. Both the BoB and NBFIRA are implementing their risk based supervisory programs to address vulnerabilities, particularly in newly regulated sectors and among licensees with less capacity. Work is ongoing on assisting regulated institutions in their assessments of money laundering and terrorism financing risks and improving collection of information on beneficial owners of legal persons and arrangements and politically exposed persons.

OUTLOOK AND RISKS

18. Economic activity is projected to contract further in 2025 and inflation to pick up. Mining activity contracted in first half of 2025, and non-mining activity remains subdued, reflecting government spending restraint and payment delays. As a result, GDP is projected to contract by about 1 percent in 2025. Inflation is expected to rise over the coming months, reaching around 5 percent y-o-y by end-2025, as exchange rate depreciation passes through to consumer prices. The current account deficit would increase to 6 percent of GDP on account of lower exports and SACU revenue.

Box 1. Lab-Grown Diamonds

Lab-grown diamonds are identical chemically and physically to naturally mined diamonds and cannot be differentiated by the naked eye. Specialized equipment is required to identify different growth patterns and inclusions to identify lab-grown from natural diamonds.

Synthetic diamonds were first made by General Electric (GE) in the 1950s for industrial purposes. GE created gem quality lab-grown diamonds in 1971, although these were too expensive, yellowish and had metallic inclusions to be able to compete with natural diamonds, and were used for industrial application through 1991.[1] With technological improvements, falling production costs, elimination of imperfections, and the ability to create larger-carat stones, lab-grown diamonds emerged in the diamond market landscape around 2015 with under 1 million rough carats; in 2025, they are expected to produce 25 million rough carats for jewelry.[2] The main suppliers of lab-grown diamonds are Chinese and Indian manufacturers.

The U.S. accounts for over three-fourths of the world's demand for lab-grown diamonds, with most consumers preferring lab-grown diamonds over natural diamonds due to the lower price point.[3,4] Broadly, high-end retailers that historically only sold natural diamonds (like Tiffany and Bulgari) continue to do so, while more mid-market brands that have historically sold other man-made gems also sell lab-grown diamonds.

Wholesale lab-grown diamond prices have fallen by 90 percent since 2019, allowing lab-grown diamonds to be sold at lower prices for relatively high gross margins in the retail market, of around 80 percent, according to diamond industry analyst Zimnisky. High gross margins have underpinned their rapid growth in distribution in the U.S. If the trend of falling prices for lab-grown diamonds continue, retail stores could have less incentive to distribute lab-grown diamonds.

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[1] Amanda Butcher and Andrew Fellows, A Brief History of Lab-Grown Diamonds, International Gem Society, updated July 10, 2025.

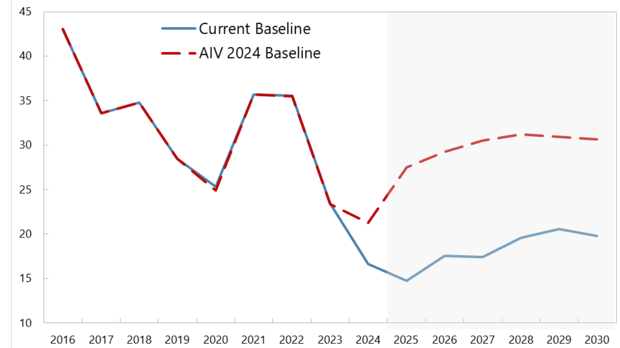
[2] Paul Zimnisky's State of the Diamond Market, Volume 9, Issue 2, October 2025.

[3] Paul Zimnisky's State of the Diamond Market, Volume 9, Issue 3, November 2025.

[4] The price differential between lab-grown and natural diamonds grows with the size of the stone. According to Zimnisky, a one-carat natural diamond sells for approximately $4,220, while a lab-grown one sells for $800; a three-carat natural diamond sells for about $55,255, while a lab-grown one is $3,735.

19. Demand for natural diamonds is expected to recover partly over the medium term. Major producers anticipate a gradual but durable recovery to start in 2026, supported by renewed marketing efforts to differentiate natural and lab-grown diamonds (Box 1). Reflecting the U.S. tariffs imposed on Botswana (15 percent) and on countries exporting polished Botswana diamonds (28 percent in trade-weighted terms), and heightened uncertainty, production will pick up gradually only. The substantial downward revision of the diamond sector's medium-term prospects relative to last year's Article IV, which assumed exports would recover sharply this year (Text Figure 12) drives similar revisions in the projections of key macro variables, including exports, terms of trade, and economic growth.

Text Figure 12. Diamond Exports
(Percent of GDP)



Source: Botswana authorities and IMF staff calculations.

20. The speed of recovery will also depend on the pace of fiscal consolidation and economic diversification reforms. Under staff's baseline scenario—assuming neither additional fiscal consolidation nor a significant acceleration in business environment reforms beyond the recent austerity measures and the reforms envisaged by the revenue administration as part of their medium-term strategy—non-mineral growth would recover only gradually over the medium term and remain well below the pre-pandemic average of 5.1 percent. Inflation would stabilize near the mid-point of BoB's objective range. The current account deficit would narrow over the medium term as diamond exports recover.

21. Without additional policy action, debt is likely to increase quickly while international reserves would gradually be depleted. Under the baseline scenario, while a partial recovery of mineral revenue would contribute to a decline of the fiscal and current account deficits over the medium term, public debt would increase substantially, to near 60 percent of GDP by 2030 (Annex I), while international reserves would be gradually depleted over the medium term.

22. Even this difficult baseline outlook remains subject to substantial downside risks. As discussed in the Risk Assessment Matrix (Annex III), the recovery in the diamond market remains uncertain. This risk is compounded by the fact that the government has expressed interest in increasing its 15-percent participation in De Beers. Domestically, the possible further postponement of fiscal consolidation efforts is a substantial downside risk, as such efforts have been repeatedly delayed. If downside risks related to Botswana's exports were to materialize, the authorities may need to undertake additional consolidation measures to compensate for weaker revenue, and consider allowing a faster pace of depreciation. Staff also cautioned the authorities against increasing their stake in De Beers, given the fiscal situation and Botswana's already high dependence on the diamond sector.

23. An upside scenario would materialize if the authorities embarked on a comprehensive adjustment path, combining ambitious fiscal consolidation and far-reaching structural reforms to foster economic diversification. As outlined in Box 2, Annex IV, and in the next section, such reforms would help boost growth, contain public debt, and preserve an adequate level of international reserves.

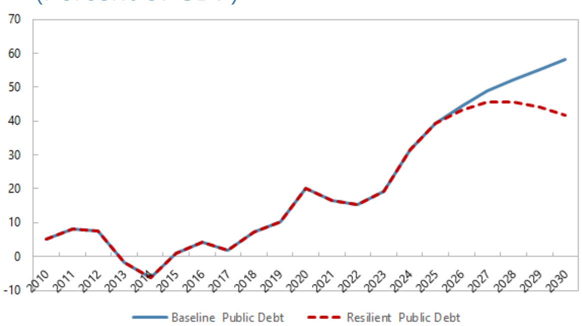
Authorities' Views

24. The authorities broadly agreed with the baseline outlook and the balance of risks. On growth, they view the Botswana Economic Transformation Plan (BETP) as a game changer for economic diversification and inclusive growth. As a result, they have a higher baseline growth forecast than staff. They also identified agriculture, manufacturing, tourism and financial services as key drivers of growth, while also emphasizing the potential of the non-diamond mining sector, especially copper. The authorities broadly agreed with the staff's macroeconomic framework, related projections and the risks outlined.

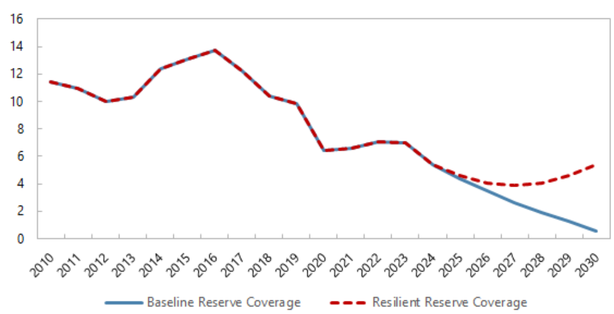
Box 2. Ambitious Reforms for a Resilient Scenario (Details in Annex IV)

An illustrative scenario based on ambitious reforms shows how fiscal sustainability and external resilience could be strengthened. 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, this adjustment path keeps debt below 50 percent of GDP through 2030, stabilizes the external account near balance, and rebuilds reserves to more than 5 months of imports. Although non-mineral growth is lower than in the baseline in the near term, the adjustment fosters stronger investor confidence, higher FDI, and more sustainable growth in the medium term. The figures below show a few key macroeconomic variables and their expected dynamics under the baseline and resilient scenarios—highlighting how the adjustment scenario quickly restores a path to sustainability.

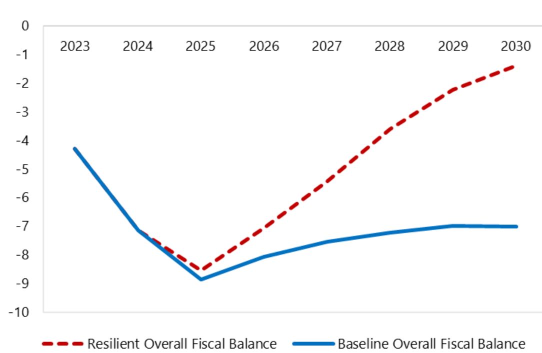
Net Public Debt, 2010–30
(Percent of GDP)



Reserve Coverage, 2010–30
(Months of imports)



Overall Fiscal Balance, 2023–30
(- = deficit, Percent of GDP)



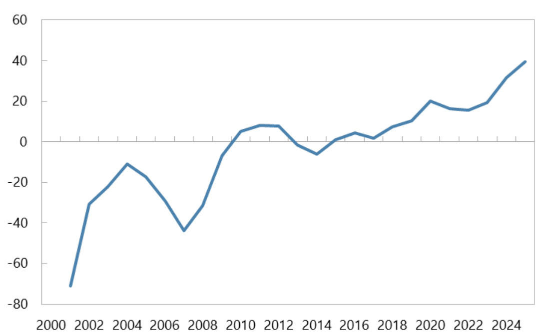
POLICY DISCUSSIONS

The baseline scenario illustrates the dangers Botswana faces if long-standing fiscal and structural problems are left unaddressed. The austerity measures taken by the government and the BETP are welcome first steps to avoid such a scenario. These should now be complemented by a bold agenda of reforms, including fiscal consolidation, monetary tightening, enhancements to the exchange rate regime, and impactful structural transformation initiatives. The NDP will provide an important opportunity to set out such an agenda, which could help stabilize public debt and bolster international reserves, shore up investor confidence, and unlock sustained non-mineral growth.

A. Preserving Fiscal Sustainability

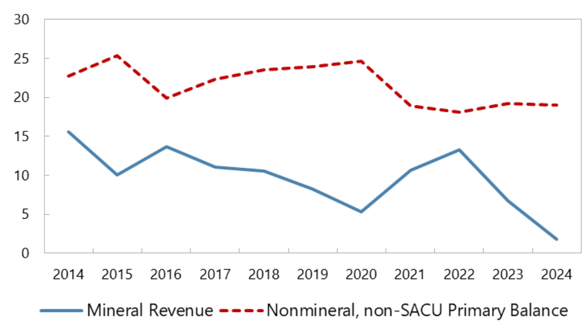
25. Fiscal buffers have been depleted. Since the turn of the century, Botswana's fiscal space has fallen substantially (Text Figure 13). From a net creditor position (amounting to 71 percent of GDP in 2001), the government has moved into a net debtor position, as Botswana had to face a number of crises but also because the level of spending has not fully adjusted to the steady decline in mineral revenue (Text Figure 14). This depletion of fiscal buffers means that the fiscal path of the past is no longer feasible. In the absence of corrective measures, net debt is projected to exceed 40 percent of GDP by end-FY25/26.

Text Figure 13. Government Net Debt
(Percent of GDP)



Source: Botswana authorities and IMF staff calculations.

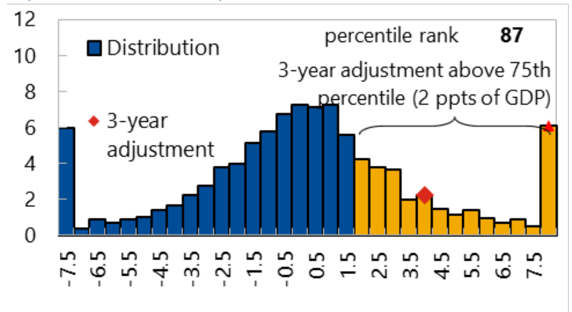
Text Figure 14. Primary Deficit and Mineral Revenue
(Percent of GDP)



Source: Botswana authorities and IMF staff calculations.

26. To safeguard macroeconomic stability by stabilizing public debt and international reserves, an ambitious and well-sequenced fiscal consolidation is needed. Such a plan must be sufficiently ambitious to stabilize public debt over the medium term while avoiding an overly abrupt adjustment that could unduly stifle growth (see Annex X for fiscal multiplier discussion). Under the resilient scenario (Box 2 and Annex IV), consolidation of 4.7 ppts of GDP over the next three years (about 4.2 ppts in cyclically adjusted terms, Text Figure 15), and 6.4 ppts by 2030, would keep public debt under 50 percent of GDP and place it on a firm downward path while preserving fiscal space to respond to potential shocks. This adjustment—while sizeable—has been successfully achieved in other emerging markets.[5]

Text Figure 15. Three-Year Adjustment in Cyclically Adjusted Primary Balance
(Percent of GDP)



Note: Data cover annual observations from 1990 to 2019 for market access economies included in the IMF DSA framework. Percent of sample in vertical axis.

Source: Botswana authorities and IMF staff calculations.

27. Additional efforts will be required on both the expenditure and revenue sides. The fiscal consolidation measures already implemented by the new government (estimated to yield 1.2 ppt GDP)—focused on containing spending and closing expenditure leakages—were warranted and have helped restore a measure of fiscal discipline. However, it is now critical to shift the focus towards addressing structural fiscal weaknesses, including persistently low non-mineral revenue, a high wage bill, a complex and insufficiently targeted social support system, and high transfers to SOEs. Fiscal consolidation should proceed gradually over the next three years to put debt firmly on a downward trajectory while supporting growth (Text Table 1). On the expenditure side, the adjustment would rely on reducing efficiency gaps: (i) reducing capital (Text Figure 16) and wage bill spending by about 1.0 and 2.6 percentage points of GDP respectively; and (ii) reducing transfers and subsidies (by about 0.6 percentage points of GDP).

Text Table 1. Major Fiscal Consolidation Components
(Percent of GDP)

	FY25/26	FY28/29	FY30/31
Revenue side			
Nonmineral Income Tax	6.5	7.5	8.0
Taxes on goods and services	4.6	5.1	5.2
Expenditureside			
Wages and salaries	13.6	11.5	11.0
Grants and subsidies	6.0	5.4	5.4
Capital spending	6.0	5.5	5.0

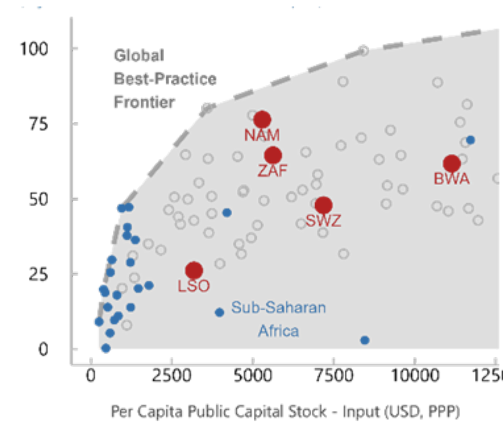
Source: Staff projections.

28. Tax policy and tax administration measures could contribute to an increase of 2 ppt of GDP of non-mineral revenue over the medium term. Measures to broaden the revenue base include streamlining exemptions on zero-rated VAT goods and services, replacing the CIT

[5] See also: Escolano, J., Jaramillo, L., & Mulas-Granados, C. (2018). *How much is a lot? The maximum size of fiscal adjustments*. Journal of Applied Economics, 21(1), 137–159. https://doi.org/10.1080/15140326.2018.1526870

holidays in Special Economic Zones with less costly investment tax credits, enhancing the progressivity of the PIT, improving reliance on recurrent property taxes and eliminating the distortive transfer duty on immovable property, countering international tax avoidance, taxing passive income more fully, introducing a carbon tax, strengthening compliance enforcement—starting with the large taxpayer unit—and upgrading the revenue administration's customer service strategy.

Text Figure 16. Public Infrastructure vs Investment, 2022
(Hybrid Infrastructure Index – Output)



Source: Making Public Investment More Efficient, IMF (2015). Note: The hybrid indicator combines physical and survey-based indicators into a synthetic index of the coverage and quality of infrastructure networks.

29. There is scope to reduce the wage bill. It absorbs more than 13 percent of GDP and about 58 percent of total tax revenues—well above levels observed in most peer countries (Text Figure 17). Its elevated size reflects both relatively high compensation levels and the large number of public employees.[6] This has constrained fiscal space for growth-enhancing investment and social spending, while creating rigidities that complicate adjustment during downturns. Adoption of a comprehensive medium-term wage strategy could help gradually bring the wage bill to about 11 percent of GDP, closer to peer countries (Text Figure 18). Such a strategy could encompass hiring restraint, careful management of promotions and allowances, and alignment of wage growth with productivity gains. Structural reforms such as the implementation of a coherent pay and grade system, the modernization of human resource management systems, and the strategic reallocation of staff toward priority sectors would also be needed. The expenditure review and wage bill audit being prepared with World Bank support should help identify measures to guide this adjustment. Careful sequencing and communication of the civil service reform will be essential to convey the reasons for it being done.

30. Improving the targeting of social protection programs should help lower its cost and improve its efficiency. Botswana spends over 3 percent of GDP on its social protection programs, above the average for Upper Middle-Income countries (less than 2 percent of GDP).[7] In addition, the social security system is complex and costly to administer.[8] To increase its efficiency, a simplified, more adaptable and scalable system with modernized delivery and targeting methods, including means-tested conditional cash transfers, is recommended. The establishment, with World Bank assistance, of a digital single social registry will help to centralize the collection, management, and use of data for potential beneficiaries. Targeting financing away

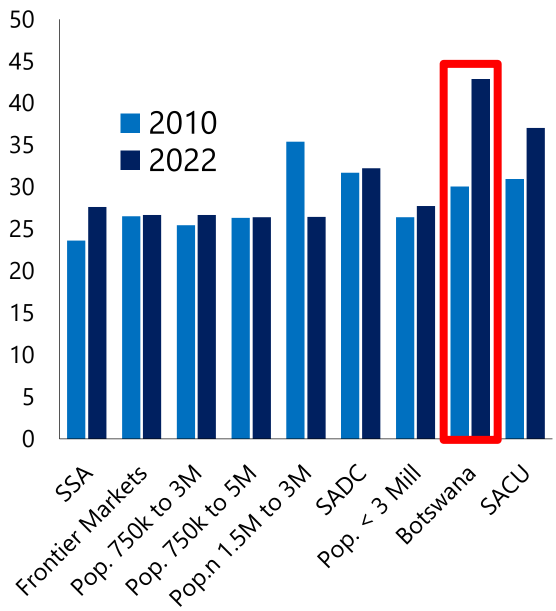
[6] The substantial wage bill increase from FY22/23 to FY24/25 is mostly explained by the upward revision of the minimum wage, by over 23 percent for most sectors and 38 percent for the agriculture sector.

[7] See Botswana Social Protection Programs and Systems Review: Policy Brief, World Bank, 2022.

[8] See Reforming Botswana's Social Security System, Botswana—Selected Issues, IMF Country Report No. 24/287.

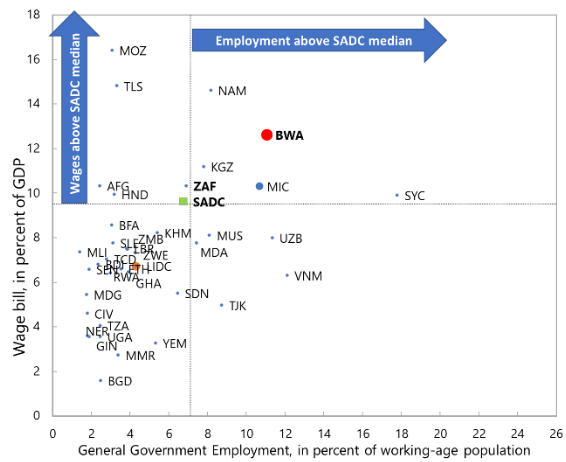
from regressive programs towards more progressive programs such as social pensions, destitute persons, and secondary school feeding, would also help to reduce poverty and inequality.

Text Figure 17: Wage Bill Spending Across Comparator Country Groups
(Percent of General Government Expenditure)



Source: IMF, Fiscal Affairs Department.

Text Figure 18. General Government Employment to Working-Age Population and Wage Bill to GDP in LIDC and SADC



Note: LIDC = Low Income Developing Countries.
Source: IMF Expenditure Assessment Tool and IMF FAD Government Wage Bill and Employment Dataset.

31. Improving the management and efficiency of SOEs will reduce budgetary costs and lower fiscal risks. Fiscal support to SOEs remains substantial, with low returns to the government as shareholder and elevated risks for the budget.[9] In the short term, priority should be given to analyzing the financial situation of SOEs, identifying those that could be privatized, and establishing a single unit responsible for monitoring performance, enhancing governance, and implementing policy and legal reforms. In the medium term, implementing a reform strategy to limit overlap between SOEs, mandate commercial functions with public disclosure and transparent costs, and strengthen the independence of SOE Board members and management, through targeted legal reform, could increase efficiencies and help level the playing field for private companies.

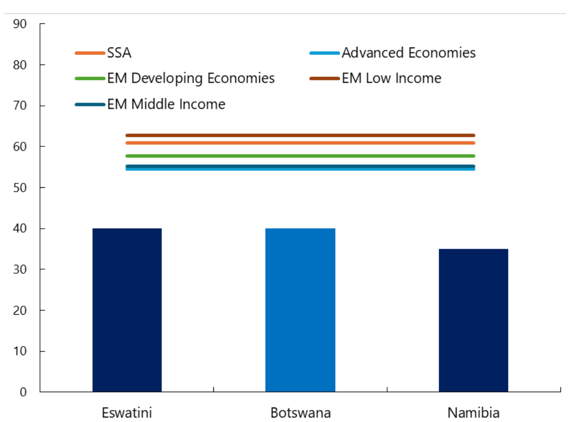
32. Further strengthening of PFM will be an essential complement to fiscal consolidation. It is urgent to strengthen cash and debt management to ensure that the government's obligations to its employees and suppliers are met on time. This requires better budget monitoring—redesigning the chart of accounts, restoring reliable and standardized

[9] See Reforming the SOE Sector in Botswana, Botswana—Selected Issues, IMF Country Report No. 23/318.

financial reporting across all government entities, and advancing accrual-based accounting—along with enhanced spending efficiency and fiscal oversight. Weaknesses in public investment management must also be addressed by strengthening legal and institutional frameworks, improving project selection, appraisal, and monitoring systems, and building capacity. Restructuring the Ministry of Finance will further strengthen macro-fiscal policy management, improve budget coordination, and enhance its capacity to implement PFM reforms (see accompanying Selected Issues Paper on past fiscal TA).

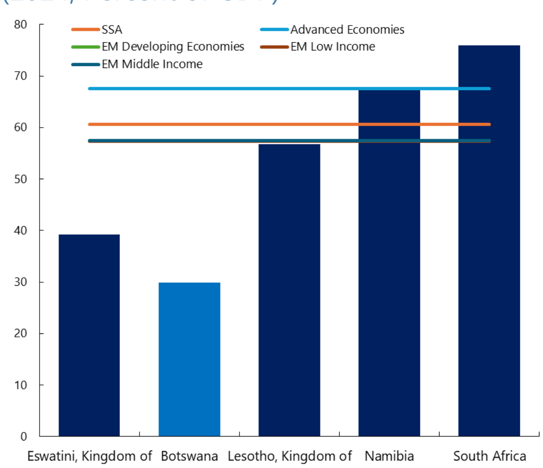
33. Implementing this fiscal strategy will most likely also require raising the statutory debt ceiling. This ceiling is currently set at 40 percent of GDP under the Stock, Bonds and Treasury Bills Act of 2005. Given the strong public recognition of the ceiling as a fiscal anchor, staff recommended retaining it but increasing its level to 50 percent of GDP to provide adequate room for a gradual fiscal consolidation while maintaining sufficient fiscal space to respond to adverse shocks. While increasing the ceiling's level might raise some credibility risks in the short term, staff considers that they are outweighed by the substantial negative impact of the much steeper fiscal consolidation that would be necessary over the next two years to keep public debt under the current ceiling (Annex X). It is, however, essential that any increase in the ceiling be explicitly tied to the adoption of the recommended fiscal consolidation plan and supporting structural reforms, to ensure that higher borrowing capacity does not lead to fiscal slippages. Even after the recommended increase, the new ceiling would remain below those in peer countries (Text Figure 19), and below the effective indebtedness ratio of peer countries (Text Figure 20). This fiscal framework could be supported by complementary reforms such as the adoption of an expenditure rule to contain long-term spending pressures and allowing automatic stabilizers to operate during downturns. If the recovery in the diamond sector proves stronger than currently anticipated, additional mineral revenue should be saved to rebuild financial buffers and strengthen resilience against shocks.

Text Figure 19. Public Debt Ceiling
(Most Recent Value; Percent of GDP)



Sources: Country authorities and IMF staff calculations.

Text Figure 20. Public Debt
(2024; Percent of GDP)



Sources: Country authorities and IMF staff calculations.

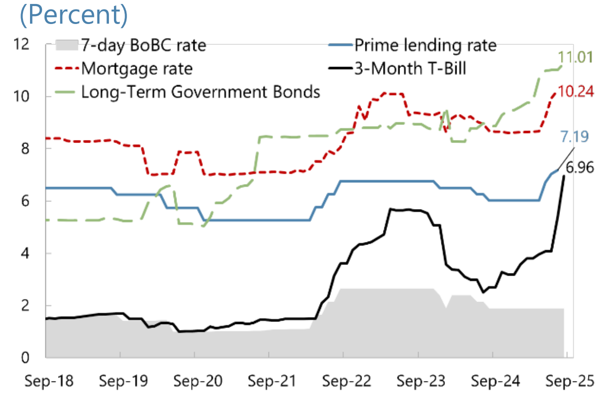
Authorities' Views

34. The authorities broadly concurred with staff's assessment and recommendations and agreed on the need to strengthen domestic revenue mobilization and streamline government spending. On the revenue side, they plan to prioritize the enhancement of digital infrastructure to improve tax compliance, broaden the tax base, and improve the ability to tax online businesses. On the expenditure side, they recognized the need to improve governance and efficiency, simplify and better target social programs, restructure state-owned enterprises (SOEs) and reduce wasteful spending. They also emphasized the potential for a greater role for the private sector in financing social and infrastructure projects, including through public-private partnerships (PPPs) once the legal framework and administrative capacity are in place. While capacity constraints were acknowledged as a hindrance to some reforms, the authorities highlighted that measures to strengthen institutional and technical capacity are ongoing. Although they agreed that the debt ceiling will likely need to be raised, they emphasized that it should be done in a way that does not unleash the public sector's entrenched "culture of spending." Accordingly, they supported modifying the ceiling in a targeted manner, accompanied by measures to reduce the deficit, and possibly be time bound.

B. Strengthening the Monetary and Financial Sector Policy Frameworks

35. The decline in Botswana's international reserves—driven by the contraction in the diamond market, the accommodative fiscal stance, and capital outflows—underscores the need for monetary policy tightening. Although inflation and growth remain subdued, ongoing capital outflows might hint that investors are reacting to heightened risk perceptions and concerns about the sustainability of current policies. In this context, increasing the policy rate (currently at 1.9 percent) toward its interest rate parity level of about 7.5 percent will signal forcefully that monetary policy is supportive of the crawling peg.[10] Since the interest rate parity condition likely includes a non-zero premium reflecting Botswana's country risk, which would otherwise continue to weigh on reserve accumulation and exchange rate stability, the policy rate may need to exceed 7.5 percent. This should increase confidence in the Pula and encourage investment in domestic assets, easing exchange rate pressures. Given the current misalignment between the policy rate and deposit

Text Figure 21. Lending Rates
(Percent)



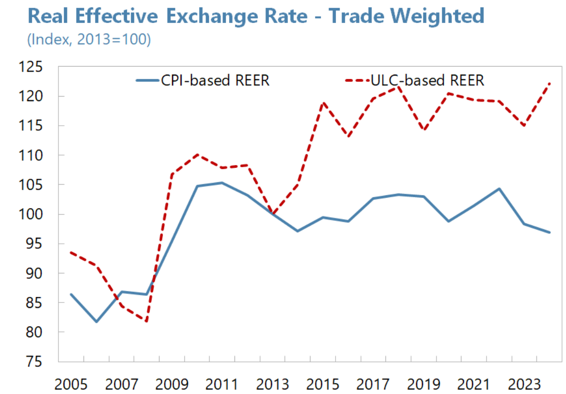
Sources: Haver Analytics and Bank of Botswana. The rates are calculated as the average of the mid-points of the ranges reported by the commercial banks.

[10] The interest rate parity level is estimated as the sum of: (i) the weighted average of the policy rates of the countries whose currencies are included in the basket; and (ii) the rate of the planned exchange rate depreciation.

and lending rates (Text Figure 21), such an increase should have a limited impact on credit conditions and hence on economic growth. In time, it should, however, help strengthen the transmission mechanism by bringing the monetary policy rate closer to interest parity while boosting liquidity though reduced net capital outflows. It is also worth emphasizing, however, that monetary policy alone cannot effectively address the underlying macroeconomic imbalances, which stem primarily from the decline in diamond revenue and accommodative fiscal stance.

36. The real effective exchange rate (REER) targeting regime has served the country well in delivering relatively stable inflation. At the same time, it has resulted in a steady loss of external competitiveness over the last decade. While BoB's REER estimate has been relatively stable, a trade-based REER index based on non-diamond exports and unit labor costs to measure inflation in trading partners points to a 22-percent appreciation of the price of tradables in Botswana since 2013 (Text Figure 22). The external stability assessment also indicates that Botswana's external position in 2024 was weaker than the level implied by fundamentals, with an estimated 10.5 percent overvaluation of the exchange rate (Annex II). In this context, some technical adjustments to the REER framework[11]—such as adjusting the basket weights to better reflect the structure of trade, or using different price indices, such as unit labor costs, to better reflect the relative price of traded goods—along with enhanced central-bank communication on these issues could complement fiscal, monetary, and structural policies in supporting Botswana's medium-term competitiveness.

Text Figure 22. Real Effective Exchange Rates, Trade-Weighted
(Index 2013=100)



Sources: Haver Analytics; IMF staff calculations.

37. The financial sector faces mounting pressures. Delays in third party payments are translating into delays on mortgage and other loan payments. The growing share of privately employed borrowers heightens banks' credit risk, especially during economic downturns. The recent decline in diamond prices contributed to weakened repayment capacity among mining companies. Moreover, the growing interconnectedness between banks and non-bank financial institutions (NBFIs)—especially through pension fund financing of government deficits—warrant, close monitoring given the potential for spillovers if the macro-economic environment deteriorates further. The recent increase in commercial banks' exposure warrants close monitoring, particularly if fiscal or financial conditions were to deteriorate.

[11] See Botswana's Real Effective Exchange Rate Targeting Regime: Taking Stock and Looking forward , Botswana—Selected Issues, IMF Country Report No. 23/318.

38. The BoB and NBFIRA have advanced the rollout of risk-based supervisory frameworks and ongoing efforts to strengthen institutional and entity-level capacity should continue. Compliance among designated non-financial businesses and professions (DNFBPs) remains uneven. To address this, the authorities should consider further outreach and guidance to facilitate the implementation of key AML/CFT requirements. At the same time, emerging cases of unregulated public solicitation for foreign exchange and cryptocurrency trading highlight the need for coordinated enforcement and regulatory clarity. In the extractive sectors, enhancing the capacity of the Ministry of Minerals and Energy to oversee licensing, ownership, and revenue flows is essential to safeguard Botswana's mineral sector and its financial integrity.

39. Implementing the remaining FSAP recommendations aimed at enhancing the soundness of the financial sector and monetary policy transmission is critical. Despite efforts to strengthen monetary policy transmission, structural impediments continue to limit its effectiveness and pose financial sector risks. To enhance financial sector resilience, the following FSAP recommendations should be prioritized (Annex V):

- **Short-term reforms should focus on enhancing liquidity and market functioning.** These include: (i) treating longer-term government bonds as statutory liquid assets;[12](ii) strengthening liquidity management—via Basel III standards and modernizing Bank of Botswana operations; and (iii) finalizing the legal and operational framework for interbank repo operations. At the same time, staff do not see a need for the BoB to offer FX swaps as they would expose it to significant foreign exchange risks.

- **Medium-term measures should focus on enhancing financial sector resilience.** This includes strengthening crisis preparedness by operationalizing frameworks for emergency liquidity assistance, and bank resolution. Additionally, enhancing the macroprudential toolkit in line with international best practices will help reduce funding volatility.

Authorities' Views

40. The authorities agreed that monetary policy plays a critical role in supporting the exchange rate peg. Given Botswana's open capital account, they acknowledged that a significant increase in the policy rate was a plausible policy option, helpful towards retaining confidence in the Pula and improving monetary policy transmission. However, they favored a gradual approach, expressing concerns about the potential adverse effects of a sizeable rate hike amid a contracting economy.

C. Structural Reforms to Boost Economic Potential

41. Botswana's increasing reliance on the diamond sector and reduction in economic diversification reflects considerable private sector impediments. Key structural constraints

[12] This measure would allow banks to use these bonds for repo operations, thereby facilitating their access to liquidity.

hinder progress, including limited access to finance, corruption, land tenure issues, and unreliable electricity supply, as revealed by the 2023 World Bank Enterprise Survey (see Selected Issue Paper "Addressing Growth Bottlenecks in Botswana"). A quantitative evaluation of reform gaps compared with advanced and emerging economies reveals substantial shortcomings, particularly in terms of labor market rigidity, business regulation, and governance. Closing half of the gaps in governance, business regulation, and the external sector could raise GDP growth by 1.2 percent in the short term and 2.0 percent in the medium term, while labor market reforms could increase employment by approximately 3–4 percent.

42. Hence, the success of the BETP will depend on the adoption of broader reforms to improve the business climate and unlock private sector growth. These include: (i) strengthening financial intermediation to expand credit access—particularly for SMEs—to support entrepreneurship and diversification; (ii) labor market reforms to reduce rigidities and raise employment; (iii) trade and external sector liberalization to boost competitiveness and export diversification; (iv) governance and regulatory reforms to enhance transparency, curb corruption, and improve the efficiency of public spending and service delivery; and (v) accelerating land titling and registration to unlock collateral for investment and facilitate private-sector growth. These reforms would enable a decisive shift from state-driven to market-enabled growth, laying the foundation for more resilient, inclusive, and diversified development.

43. The BETP should be embedded in a comprehensive NDP that articulates Botswana's medium- and long-term economic strategy. Such an approach would help avoid ad hoc measures—such as the export and import restrictions on key grains announced in September 2025—which risk disrupting food supply, raising prices, disproportionately hurting low-income households, and creating policy uncertainty that deters much-needed investment in agriculture. Strengthening the PPP framework would also help reduce the associated fiscal risks.

44. Growing climate-related macroeconomic risks, alongside fiscal strain from electricity subsidies, call for better targeted adaptation policies and energy sector reforms. Accelerating the implementation of adaptation measures and reducing subsidies to the electricity sector could help mitigate the medium- and long-term impact on output. The government has targeted a 50 percent share of renewable energy generation in Vision 2036 and aims for universal electricity access and net energy exporter status by 2030. Under its Nationally Determined Contribution (NDC), the country has pledged a 15 percent reduction in greenhouse gas emissions relative to a business-as-usual scenario by 2030. Staff recommended aligning the tax structure with the green agenda, including applying the standard VAT rate to diesel and petrol and introducing a low-level carbon price that increases over time. The envisaged development of a framework on carbon trading should be approached with caution as experience has shown that these credits could be sold at unduly low prices if a sufficiently robust framework is not in place.[13] Carbon taxes are a simpler, more cost-effective and transparent way to raise revenues and foster low carbon technological development.

Authorities' Views

45. The authorities plan to move decisively to address structural growth bottlenecks. The consultations ("labs") conducted under the BETP have helped refine viable project proposals and identify the main bottlenecks, along with legislative and regulatory measures necessary to address them. A comprehensive package of legislative measures is expected to be submitted to Parliament in November 2025 for approval. The authorities also noted that, with support from the World Bank, they are strengthening the legislative framework and administrative capacity for public-private partnerships (PPPs). In terms of energy policy, they emphasized the government's commitment to promoting renewable energy development. They also agreed that a cautious approach to carbon pricing is warranted to avoid the potential pitfalls.

OTHER SURVEILLANCE ISSUES

46. Data provided to the Fund has some shortcomings that somewhat hamper surveillance. While the authorities continue to improve statistics with Fund support, including to rebase the national accounts, significant data gaps in government finance statistics need to be addressed urgently. Major disruptions due to system failures since August 2023 have significantly affected budget implementation and fiscal reporting for FY23/24 and FY24/25 fiscal accounts (Annex IX). Botswana publishes thirteen of the fifteen recommended data categories under enhanced General Data Dissemination System (e-GDDS). The authorities should continue ongoing efforts to address the remaining coverage, timeliness, and frequency requirements for several categories, including producing general government operations, producer price index and production index, rebasing of national accounts, improving external sector statistics, continue to advance IIP, and regular publication of external debt to be able to subscribe to the IMF's Special Data Dissemination Standards (SDDS).

47. Fund capacity development (CD) to strengthen core macroeconomic competencies has been well integrated with surveillance priorities (Annex VII). Planned CD should support the authorities' efforts to enhance PFM, improve monetary policy effectiveness, strengthen financial supervision and regulation, promote a risk-based AML/CFT supervisory framework, and improve data quality.

Authorities' Views

48. The authorities recognized the significant shortcomings in the current data reporting. They emphasized that they are actively working to enhance data collection and

[13] According to COP26 Article 6, countries must make corresponding adjustments in NDCs when selling carbon credits. A country that sells voluntary credits must cut emissions by the same amount more in the future, which could increase the mitigation burden on less developed countries.

processing methods and highlighted that fully addressing the technical problems faced by IFMIS was a priority.

STAFF APPRAISAL

49. **The contraction of the diamond sector has been more severe than previously anticipated, clouding Botswana's macroeconomic outlook.** Decreased diamond production and a further slowdown in non-mineral activity are expected this year, with the economy only recovering gradually over the medium term as demand for natural diamonds partially recovers, and growth in non-mineral sectors picks up. Inflation has remained low but is expected to rise towards the end of 2025, as the recent depreciation of the exchange rate is partly passed through to consumer prices.

50. **The structural nature of this shock and the relatively low level of fiscal and external reserves call for immediate action.** In past years, Botswana's ample reserves provided room to absorb shocks; this also delayed adopting the fiscal consolidation and economic diversification reforms that had long been identified as necessary to promote more broadly-based and inclusive growth. Given the weak outlook for the diamond sector and eroded external and fiscal buffers, these reforms cannot be postponed further without jeopardizing fiscal and external sustainability.

51. **The new five-year NDP should include a three-pronged medium-term strategy to address macroeconomic imbalances and foster growth.** Fiscal consolidation measures are required to reduce the fiscal deficit and stabilize public debt. Monetary policy needs to be tightened to better support the peg, reduce capital outflows, and preserve an adequate level of international reserves. Economic diversification reforms are necessary to promote private sector-led growth and job creation and to attract foreign investment.

52. **Given financing pressures, decisive fiscal consolidation is needed in the near term.** Botswana needs to urgently adopt a medium-term fiscal consolidation plan aimed at reversing increasing deficits, rebuilding buffers, and strengthening medium-term sustainability. Broadening the tax base and improving tax administration can bolster revenue. On the expenditure side, key priorities include reducing the wage bill, which is significantly higher than that of comparable countries; simplifying and better targeting the social support system; and enhancing the management of SOEs to reduce their budgetary burden. Given Botswana's high fiscal multipliers, these efforts should be gradual to allow for a gradual recovery of economic activity.

53. **Structural fiscal reforms can contribute to consolidation, spending efficiency and financial management transparency.** Strengthened public procurement can help reduce costs and increase the efficiency of public investment. Strengthening cash and debt management and introducing accrual-based budgeting will be key to ensuring that the government controls its spending and meets its obligations on time. The acceleration of digitalization and other tax administration reforms is necessary to boost non-mineral revenue.

54. Tighter monetary policy is needed to support the peg. The relatively low policy rate has contributed to rising capital outflows and to the decline in international reserves; addressing its misalignment and bringing it closer to interest parity is therefore recommended. Strengthening liquidity management and improving banking sector resilience remain priorities to safeguard financial stability.

55. Implementation of the remaining FSAP recommendations will help reduce financial sector risks and improve monetary policy transmission. While the banking sector remains sound and well capitalized, its liquidity has declined substantially. In the short term, it is important to take measures aimed at enhancing liquidity and market functioning, while medium-term reforms should focus on enhancing financial sector resilience.

56. Reducing structural bottlenecks is imperative to foster economic diversification and job creation. Key bottlenecks include limited access to finance for SMEs, governance shortcomings, rigid labor markets, land ownership problems, and excessive red tape. Addressing these constraints—along with strengthening the regulatory framework and administrative capacity for PPPs and digital transformation—will be vital to boost productivity and competitiveness, thereby supporting sustained and inclusive growth.

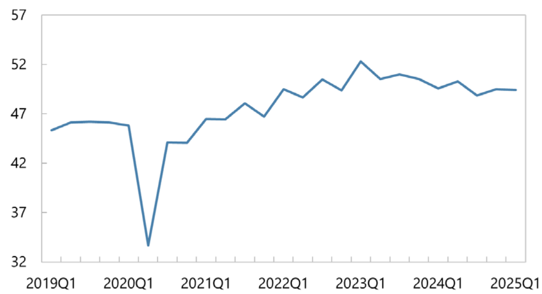
57. Further improvements are necessary in the quality and provision of data to facilitate surveillance and economic analysis. Efforts to address the technical problems faced by IFMIS should be prioritized to allow the government to closely monitor fiscal developments and better inform debt and cash management decisions. Meeting the remaining coverage, timeliness, and frequency requirements will also be key to subscribing to SDDS.

58. Staff recommends that the next Article IV consultation with Botswana be held on the standard 12-month cycle.

Figure 1. Botswana: Real Sector Developments

Economic activity declined in 2024…

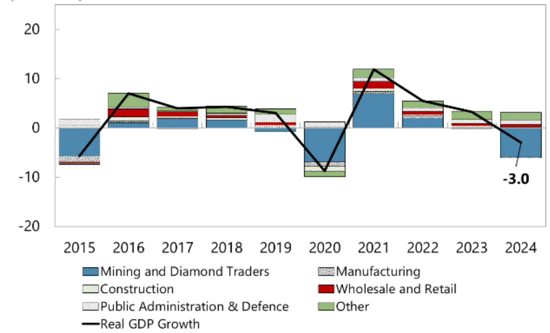
Real GDP
(Billion Pula, in Constant 2016 Prices)



Sources: GDP Quarterly Release in Statistics Botswana.

…reflecting a drop in diamond production.

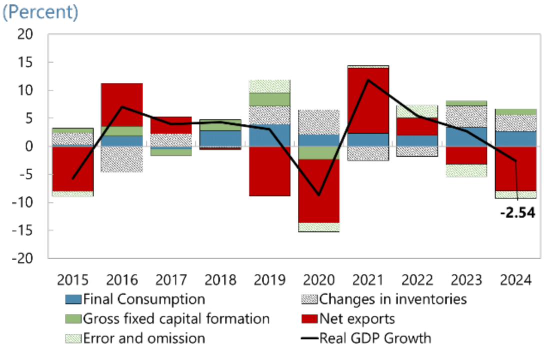
Real GDP Growth Breakdown by Selected Sectors
(Percent)



Sources: Botswana Financial Statistics, and IMF staff calculation.

The decline in growth was driven by lower net exports.

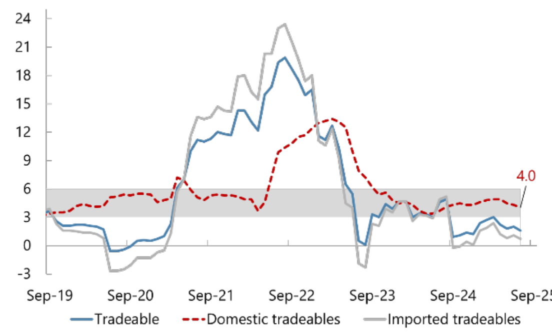
Real GDP Growth Breakdown by Type of Expenditure
(Percent)



Sources: Botswana Financial Statistics, and IMF staff calculation.

Inflation has moderated as tradeable prices have slowed…

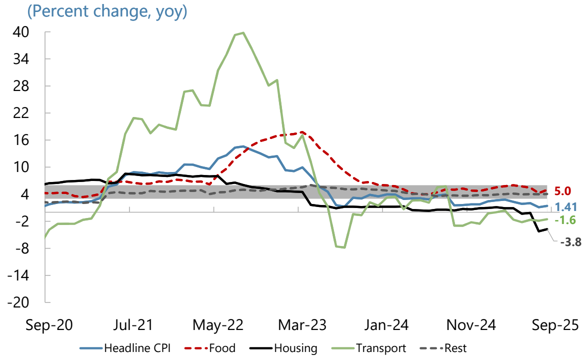
Consumer Price Index: Tradeable Goods
(Percent change, yoy)



Sources: Haver Analytics/Bank of Botswana.

while food prices have slowed down.

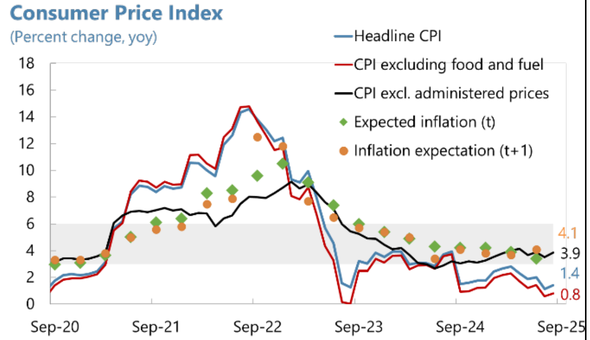
Consumer Price Index by Main Items
(Percent change, yoy)



Sources: Haver Analytics, and IMF staff calculation.

Inflation expectations remain well anchored.

Consumer Price Index
(Percent change, yoy)

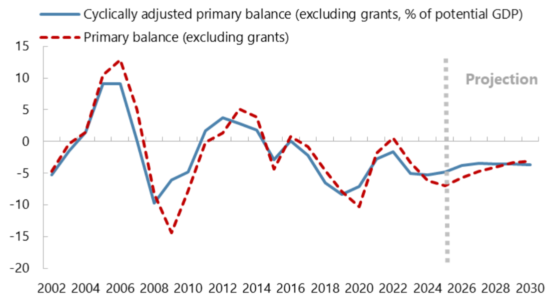


Sources: Botswana Business Expectations Survey, Haver Analytics, and IMF staff calculation.

Figure 2. Botswana: Fiscal Sector Developments

The fiscal deficit is expected to continue to widen in FY25/26…

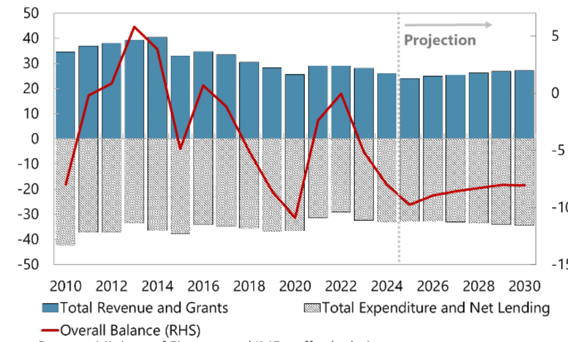
Primary Fiscal Balance
(Percent of Fiscal Year GDP)



Sources: Ministry of Finance, and IMF staff calculations

…before starting to narrow over the medium term.

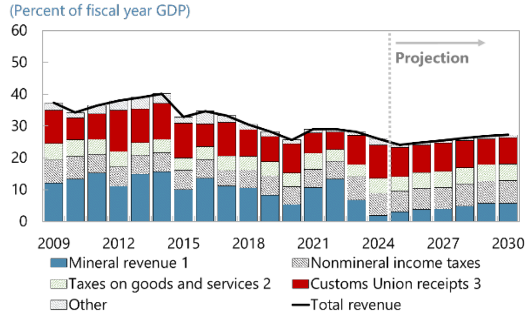
Fiscal Balance
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.

Mineral revenues are expected to recover only gradually and partly…

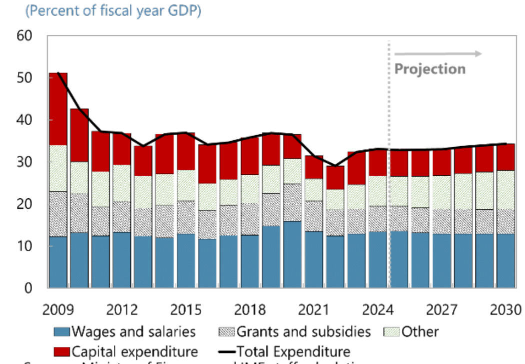
General Government Revenue
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.
1/Mineral income taxes + mineral royalties and dividend.
2/VAT.
3/SACU revenue.

…while the expenditure ratio would gradually increase, reflecting higher interest payments.

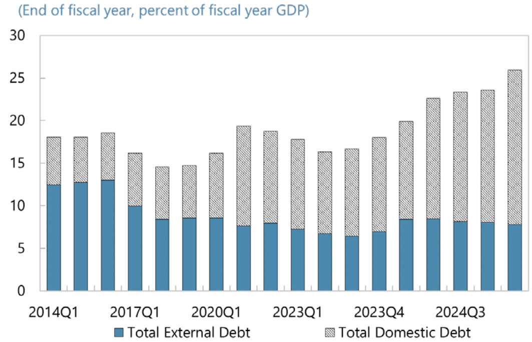
General Government Expenditure
(Percent of fiscal year GDP)



Sources: Ministry of Finance, and IMF staff calculation.

External and domestic debt started increasing.

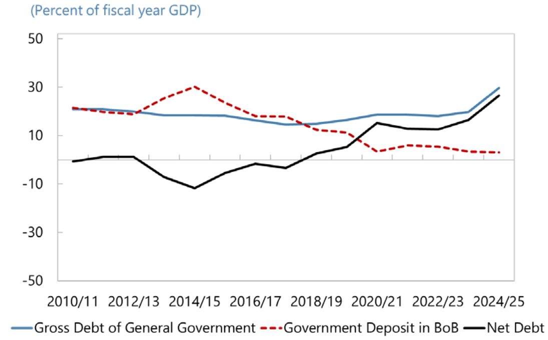
General Government Debt
(End of fiscal year, percent of fiscal year GDP)



Sources: Botswana Financial Statistics, and IMF staff calculation.

Government net debt dynamics are increasing rapidly.

Government Net Debt
(Percent of fiscal year GDP)

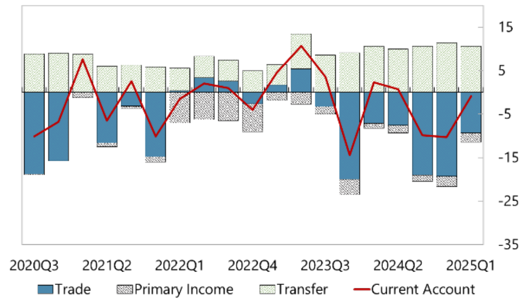


Sources: Botswana Financial Statistics from Bank of Botswana.

Figure 3. Botswana: External Sector Developments

The current account deficit widened in 2024....

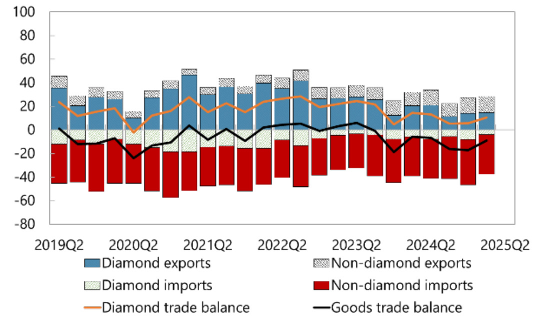
Current Account
(Percent of quarterly GDP)



Sources: Haver Analytics/Bank of Botswana and Statistics Botswana, and IMF staff calculation.

....reflecting a deteriorating diamond trade balance...

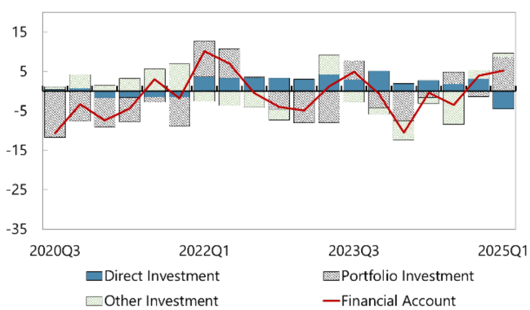
Goods and Diamond Trade
(Percent of GDP)



Sources: Haver Analytics/Statistics Botswana, and IMF staff calculation.

The financial account moved into deficit in 2024, with lower FDI inflows and increased commercial banks' deposits abroad.

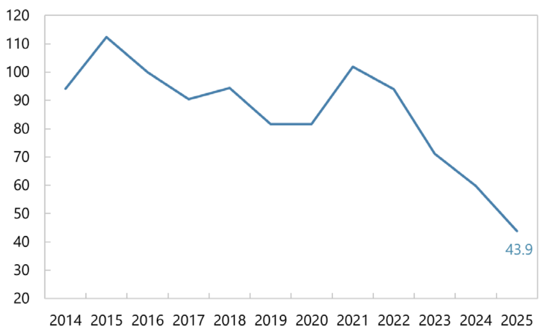
Financial Account
(Percent of quarterly GDP)



Sources: Haver Analytics/Bank of Botswana and Statistics Botswana, and IMF staff calculation.

Terms of trade weakened in 2024 with a decline in diamond export prices.

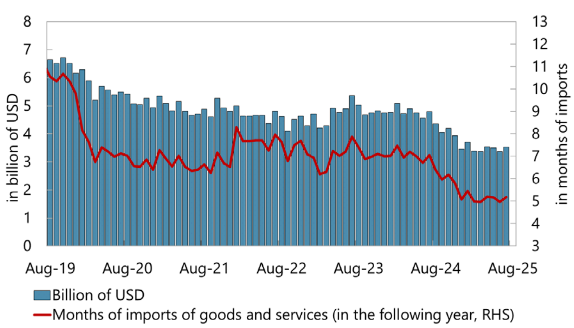
Terms of Trade
(Index, 2016=100)



Sources: Kimberley Process, and IMF staff calculation.

Foreign reserves declined sharply, with import coverage at about 5 months.

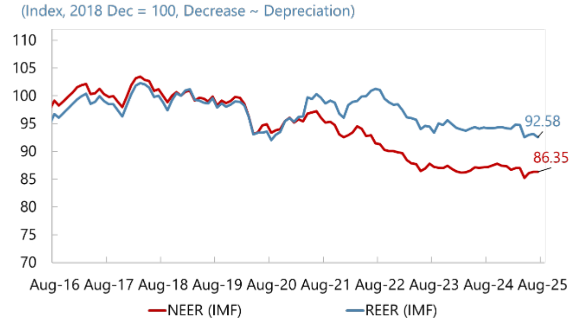
Monthly Foreign Reserves



Sources: Haver/Botswana Financial Statistics, International Merchandise Trade Statistics, and annual import numbers from team's framework.

The real effective exchange rate depreciated moderately by August 2025, reflecting sustained external pressures.

Botswana Effective Exchange Rate
(Index, 2018 Dec = 100, Decrease ~ Depreciation)

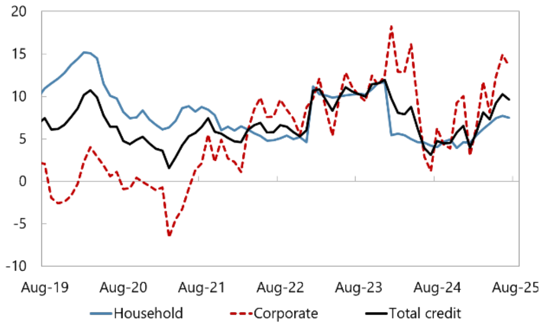


Sources: Botswana Financial Statistics (BFS), Haver, CEIC Data, IMF INS database, and IMF staff calculation.

Figure 4. Botswana: Financial Sector Developments

Credit growth continued to rise in the first half of 2025, driven by lending to corporates.

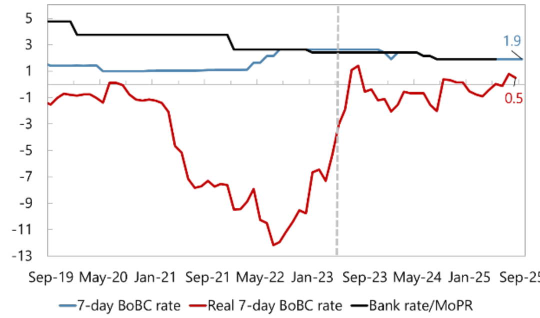
Credit Growth
(Percent change, yoy)



Sources: Haver Analytics.

The policy rate has remained unchanged since August 2024, and is negative in real terms.

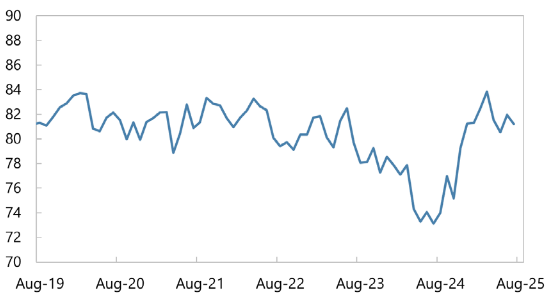
Policy Rates
(Percent per annum)



Sources: Haver Analytics/Bank of Botswana.

The growth in credit has outpaced that of deposits…

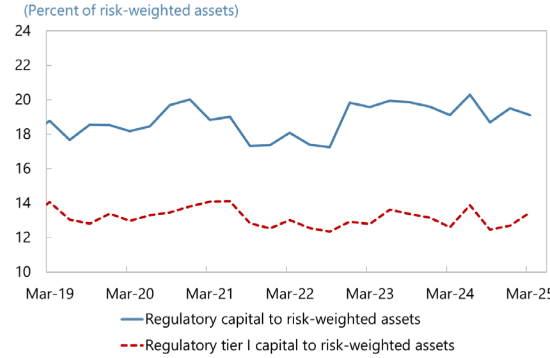
Loan-to-deposit Ratio
(Percent of total deposit)



Sources: Botswana Financial Statistics.
Note: Total loan and advances includes all loans and advances outstanding by government, households and business.

…. while the banking sector remains well-capitalized in 2025Q1.

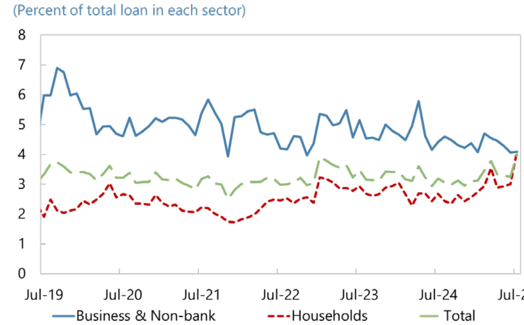
Capital Adequacy
(Percent of risk-weighted assets)



Sources: IMF FSI Database.

Non-performing loans remain low overall, despite a recent rise in household NPLs …

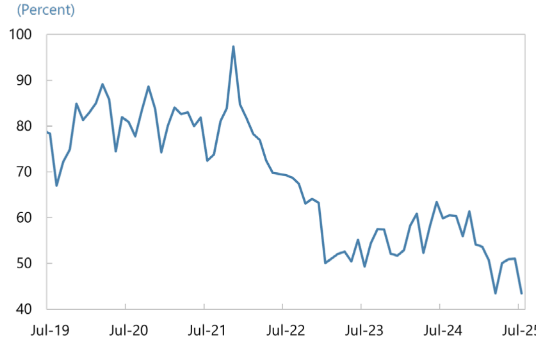
Non-performing Loan by Sector
(Percent of total loan in each sector)



Sources: Botswana Financial Statistics.
Note: Non-performing loan is defined as arrears over 30 days net of provisions.

….while provisioning continued to decline.

Provisions to Total Non-performing Loans
(Percent)



Sources: Botswana Financial Statistics.

Table 1. Botswana: Selected Economic and Social Indicators, 2022–2030[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Projection						
			(Annual percent change, unless otherwise indicated)						
National Income and Prices									
Real GDP	5.5	3.2	-3.0	-1.0	2.7	3.8	4.1	4.0	4.0
Mineral	7.6	2.9	-24.1	-13.5	3.6	8.6	7.4	5.0	5.0
Nonmineral	4.9	3.3	2.8	1.5	2.5	3.0	3.5	3.8	3.8
GDP per capita (US dollars)[2]	8,329	7,826	7,678	8,088	8,726	9,371	9,993	10,807	11,667
Consumer prices (average)	12.2	5.1	2.8	3.4	4.8	4.5	4.5	4.5	4.5
Diamond production (millions of carats)	24.5	25.1	17.9	14.8	15.3	16.9	18.3	19.3	20.3
Money and Banking									
Monetary Base	-5.3	87.9	-31.2	13.8	7.6	6.7	7.6	8.3	8.3
Broad money (M2)	6.8	9.3	4.8	13.8	7.6	6.7	7.6	8.3	8.3
Credit to the private sector	4.7	5.6	9.2	5.2	6.8	7.4	7.2	7.2	7.2
(Percent of GDP, unless otherwise indicated)				(Percent of GDP, unless otherwise indicated)					
Investment and Savings									
Gross investment (including change in inventories)	26.8	30.3	37.2	36.0	33.0	31.7	30.1	28.9	28.6
Public	5.4	7.2	6.8	6.4	6.3	6.3	6.3	6.3	6.3
Private	21.4	23.1	30.4	29.6	26.7	25.4	23.8	22.6	22.3
Gross savings	26.7	31.1	33.0	30.0	28.8	28.9	28.0	26.9	26.5
Public	3.9	2.3	-1.4	-3.5	-3.8	-3.2	-3.0	-2.7	-2.7
Private	22.8	28.8	34.4	33.6	32.6	32.2	30.9	29.6	29.2
Central Government Finances[3]									
Total revenue and grants	29.1	28.2	26.1	24.1	24.9	25.5	26.2	26.8	27.2
SACU receipts	5.4	9.2	10.5	9.0	8.7	8.9	8.4	8.0	8.3
Mineral revenue	13.3	6.7	1.9	3.0	3.8	3.8	4.8	5.6	5.6
Total expenditure and net lending	29.1	32.4	33.2	32.9	32.9	33.0	33.4	33.8	34.2
Overall balance (deficit –)	0.0	-4.3	-7.1	-8.8	-8.0	-7.5	-7.2	-7.0	-7.0
Non-mineral non-SACU primary balance[4]	-18.1	-19.2	-18.5	-19.0	-18.2	-17.5	-17.3	-17.0	-17.0
Net debt	15.5	19.2	30.0	38.0	43.0	47.4	50.8	53.9	56.7
Total central government debt[5]	21.0	22.5	33.1	40.7	46.0	50.4	53.9	56.9	59.7
Government deposits with the BoB[6]	5.5	3.3	3.1	2.8	3.0	3.0	3.0	3.0	3.0
External Sector									
Trade balance	2.7	-2.3	-11.3	-12.3	-9.9	-8.5	-7.5	-6.8	-6.9
Current account balance	-0.6	1.5	-4.2	-6.0	-4.2	-2.8	-2.1	-2.0	-2.0
Overall Balance	1.8	0.6	-8.0	-2.5	-2.5	-2.2	-1.7	-1.9	-2.2
Nominal effective exchange rate (2018=100)[7]	90.8	86.4	85.9	-	-	-	-	-	-
Real effective exchange rate (2018=100)[7]	99.2	94.9	93.9	-	-	-	-	-	-
Terms of trade (2005=100)	164.7	124.8	104.9	76.9	86.6	100.4	107.5	114.2	116.8
External central government debt[5]	7.5	8.4	9.0	14.4	14.8	15.5	15.6	15.5	15.1
Gross official reserves (end of period, millions of USD)	4,281	4,757	3,549	3,064	2,545	2,046	1,651	1,161	532
Months of imports of goods and services[8]	7.1	7.0	5.4	4.4	3.5	2.6	1.9	1.3	0.6
Months of non-diamond imports[8]	8.2	8.3	6.3	5.3	4.2	3.2	2.3	1.6	0.7
Percent of GDP	21.8	24.2	18.9	16.1	12.2	9.3	6.9	4.5	1.9

Sources: Botswana authorities and IMF staff estimates and projections.

[1] This table is based on calendar years unless otherwise indicated.

[2] Population estimates from World Bank, World Development Indicators. Projections starting 2025 are 10-year moving averages.

[3] Fiscal variables are based on fiscal years (starting on April 1).

[4] The non-mineral non-SACU primary balance is computed as the difference between non-mineral non-SACU revenue and total expenditure (excl. interest payment).

[5] Includes guarantees. Debt data measured at end of fiscal year.

[6] Government deposits with the BoB include Government Investment Account as well as other accounts. Deposits data measured at end of fiscal year.

[7] For 2022-2023, both effective exchange rates are from IMF INS database.

[8] Based on imports of goods and services for the following year.

Table 2. Botswana: Balance of Payments, 2022–2030[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Prel.			Projection			
					(millions of U.S. dollars)				
Current Account Balance	-130	284	-814	-1,134	-874	-617	-502	-530	-575
Trade balance	548	-450	-2,197	-2,351	-2,044	-1,895	-1,787	-1,766	-1,942
Exports, f.o.b.	8,294	5,755	4,665	4,283	5,009	5,448	6,057	6,826	7,356
Diamonds	7,220	4,553	3,224	2,811	3,620	3,883	4,676	5,335	5,572
Other raw materials	406	601	841	959	878	991	852	937	1,123
Other	668	601	600	512	511	574	529	554	661
Imports, f.o.b	-7,746	-6,204	-6,862	-6,634	-7,053	-7,343	-7,844	-8,592	-9,298
Diamonds	-2,205	-954	-1,310	-1,143	-1,419	-1,543	-1,615	-1,795	-1,941
Other	-5,542	-5,251	-5,552	-5,492	-5,635	-5,800	-6,228	-6,796	-7,357
Services	-359	-261	-354	-300	-302	-314	-337	-371	-394
Transportation	-318	-268	-294	-255	-233	-205	-214	-213	-217
Travel	378	459	462	506	529	566	603	638	678
Other services	-420	-451	-522	-552	-598	-674	-726	-796	-855
Income	-1,336	-489	-341	-385	-443	-492	-539	-626	-686
Current transfers	1,011	1,472	2,064	1,903	1,916	2,084	2,161	2,234	2,447
SACU receipts	1,125	1,590	1,971	1,811	1,822	1,983	2,052	2,115	2,319
Capital and Financial Account	628	43	-511	649	354	118	107	40	-53
Direct investment	698	743	464	457	517	558	622	676	732
Portfolio investment	595	-760	-356	-377	-419	-479	-554	-621	-685
Other investment	-665	60	-619	569	256	39	39	-15	-100
Assets	-552	27	-438	-16	-91	-130	-140	-152	-166
Liabilities	-113	35	-180	585	347	169	179	137	66
Net Errors and Omissions	-135	-205	-304	0	0	0	0	0	0
Overall Balance	363	122	-1,542	-485	-519	-499	-395	-490	-629
					(Percent of GDP)				
Current Account	-0.6	1.5	-4.2	-6.0	-4.2	-2.8	-2.1	-2.0	-2.0
Trade balance	2.7	-2.3	-11.3	-12.3	-9.9	-8.5	-7.5	-6.8	-6.9
Exports of goods	40.8	29.6	24.1	22.5	24.2	24.4	25.3	26.3	26.1
Of which: diamonds	35.5	23.5	16.7	14.8	17.5	17.4	19.5	20.5	19.8
Imports of goods	38.1	32.0	35.4	34.8	34.1	32.9	32.8	33.1	33.0
Of which: diamonds	10.8	4.9	6.8	6.0	6.9	6.9	6.7	6.9	6.9
Memo: Diamond trade balance	24.7	18.5	9.9	8.8	10.6	10.5	12.8	13.6	12.9
Services balance	-1.8	-1.3	-1.8	-1.6	-1.5	-1.4	-1.4	-1.4	-1.4
Income balance	-6.6	-2.5	-1.8	-2.0	-2.1	-2.2	-2.3	-2.4	-2.4
Current transfers balance	5.0	7.6	10.7	10.0	9.3	9.3	9.0	8.6	8.7
Financial Account	3.1	0.2	-2.6	3.4	1.7	0.5	0.4	0.2	-0.2
Direct investment	3.4	3.8	2.4	2.4	2.5	2.5	2.6	2.6	2.6
Portfolio investment	2.9	-3.9	-1.8	-2.0	-2.0	-2.1	-2.3	-2.4	-2.4
Other investment	-3.3	0.3	-3.2	3.0	1.2	0.2	0.2	-0.1	-0.4
Net Errors and Omissions	-0.7	-1.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (increase reserves +)	1.8	0.6	-8.0	-2.5	-2.5	-2.2	-1.7	-1.9	-2.2
					(Annual percentage change, unless otherwise indicated)				
Total exports of goods and services	14.7	-27.4	-14.2	-6.2	15.0	8.6	10.4	11.9	7.7
Of which: diamonds	8.0	-36.9	-29.2	-12.8	28.8	7.3	20.4	14.1	4.4
Total imports of goods and services	-4.9	-17.8	12.6	-3.1	6.1	4.6	6.8	9.3	8.0
Terms of Trade	-7.8	-24.2	-15.9	-26.7	12.7	15.9	7.1	6.2	2.3
Memorandum Items:									
End-of-Year Reserves (US$ millions)	4,281	4,757	3,549	3,064	2,545	2,046	1,651	1,161	532
Months of Imports of Goods and Services[2]	7.1	7.0	5.4	4.4	3.5	2.6	1.9	1.3	0.6
Months of Non-Diamond Imports[2]	8.2	8.3	6.3	5.3	4.2	3.2	2.3	1.6	0.7
Nominal GDP (US$ millons)	20,321	19,411	19,356	19,042	20,678	22,332	23,930	25,983	28,135

Source: Bank of Botswana; IMF staff estimates.

[1] This table is based on calendar years.

[2] Based on imports of goods and services for the following year.

Table 3a. Botswana: Central Government Operations, FY22/23–FY30/31[1]

	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31
			Projection						
	(Billions of pula, unless otherwise indicated)								
Total Revenue and Grants	74.0	74.2	68.6	65.2	73.0	81.3	90.8	100.9	110.9
Total revenue	74.0	74.1	68.5	65.2	73.0	81.3	90.8	100.9	110.9
Tax revenue	49.3	59.2	60.7	58.4	63.3	71.1	77.5	85.3	94.0
Income taxes	25.2	24.1	19.9	20.6	22.5	25.5	29.5	34.3	37.6
Mineral	10.9	4.8	1.7	2.9	3.1	3.8	5.4	7.6	8.2
Nonmineral	14.3	19.3	18.3	17.7	19.5	21.7	24.1	26.7	29.4
Taxes on goods and services [2]	9.4	10.1	12.4	12.5	14.4	16.1	17.7	19.6	21.3
Customs Union receipts [3]	13.8	24.2	27.6	24.5	25.5	28.5	29.3	30.2	33.9
Other	0.8	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.2
Nontax revenue	24.7	14.9	7.8	6.8	9.7	10.2	13.3	15.6	17.0
Mineral royalties and dividends	22.9	12.9	3.4	5.2	8.0	8.4	11.4	13.6	14.7
Grants	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure and Net Lending	74.1	85.5	87.4	89.1	96.5	105.6	116.2	127.6	140.1
Current expenditure	59.7	64.9	70.3	71.9	78.1	85.5	94.3	103.8	114.3
Wages and salaries	31.8	34.0	35.2	36.6	38.7	41.2	44.7	48.4	52.7
Interest	1.6	2.5	2.7	5.2	6.8	9.2	11.5	14.0	16.5
Other	26.3	28.4	32.4	30.1	32.5	35.1	38.1	41.4	45.1
Of which: grants and subsidies	15.6	15.8	16.1	16.2	17.4	18.8	20.4	22.1	24.0
Capital expenditure	14.3	20.5	17.0	17.1	18.4	20.0	21.8	23.7	25.7
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary Balance (deficit -)[4]	1.1	-9.6	-19.3	-19.1	-17.1	-15.4	-14.3	-13.1	-13.0
Overall Balance (A)	-0.1	-11.3	-18.8	-23.9	-23.6	-24.3	-25.4	-26.7	-29.1
Financing (B)	0.1	11.3	18.8	23.9	23.6	24.3	25.4	26.7	29.1
Foreign (net)	-1.1	5.5	-1.9	14.6	4.6	4.7	4.9	4.0	3.0
Domestic (net)	1.2	5.8	20.7	9.4	19.0	19.7	20.6	22.7	26.2
Memorandum Items:									
Non-Mineral non-SACU Primary Balance[5]	-46.2	-50.6	-48.6	-51.3	-53.3	-55.9	-60.0	-64.1	-69.4
Total central government debt[6]	53.4	59.3	87.2	110.4	138.0	165.3	191.3	219.4	249.5
Government deposits with the BoB	14.0	8.8	4.2	3.4	7.9	9.6	10.5	11.4	12.4
GDP (fiscal year; billions of pula)	254.5	263.6	263.3	270.8	293.0	319.1	346.2	375.9	407.9

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] This table is based on fiscal years. The fiscal year runs from April 1 to March 31.

[2] Refers to sales tax and VAT.

[3] SACU receipts consist of external trade and excises on imported goods as well as a development component derived from

[4] The primary balance excludes also BoB related interest/dividend payments.

[5] The non-mineral non-SACU primary balance is computed as the difference between non-mineral non-SACU revenue and non-interest expenditure.

[6] Includes guarantees. Debt data measured at end of fiscal year.

Table 3b. Botswana: Central Government Operations, FY22/23–FY30/31[1]

	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31
				Projection					
	(Percent of GDP, unless otherwise indicated)								
Total Revenue and Grants	29.1	28.2	26.1	24.1	24.9	25.5	26.2	26.8	27.2
Total revenue	29.1	28.1	26.0	24.1	24.9	25.5	26.2	26.8	27.2
Tax revenue	19.4	22.5	23.0	21.6	21.6	22.3	22.4	22.7	23.0
Income taxes	9.9	9.1	7.6	7.6	7.7	8.0	8.5	9.1	9.2
Mineral	4.3	1.8	0.6	1.1	1.0	1.2	1.6	2.0	2.0
Nonmineral	5.6	7.3	6.9	6.5	6.6	6.8	7.0	7.1	7.2
Taxes on goods and services [2]	3.7	3.8	4.7	4.6	4.9	5.0	5.1	5.2	5.2
Customs Union receipts [3]	5.4	9.2	10.5	9.0	8.7	8.9	8.4	8.0	8.3
Other	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	9.7	5.7	3.0	2.5	3.3	3.2	3.8	4.2	4.2
Mineral royalties and dividends	9.0	4.9	1.3	1.9	2.7	2.6	3.3	3.6	3.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure and Net Lending	29.1	32.4	33.2	32.9	32.9	33.0	33.4	33.8	34.2
Current expenditure	23.5	24.6	26.7	26.6	26.6	26.7	27.1	27.5	27.9
Wages and salaries	12.5	12.9	13.4	13.5	13.2	12.9	12.9	12.9	12.9
Interest	0.6	1.0	1.0	1.9	2.3	2.8	3.2	3.6	3.9
Other	10.3	10.8	12.3	11.1	11.1	11.0	11.0	11.0	11.0
Of which: grants and subsidies	6.1	6.0	6.1	6.0	5.9	5.9	5.9	5.9	5.9
Capital expenditure	5.6	7.8	6.4	6.3	6.3	6.3	6.3	6.3	6.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary Balance (deficit -)[4]	0.4	-3.6	-7.3	-7.0	-5.8	-4.8	-4.1	-3.5	-3.2
Overall Balance (A)	0.0	-4.3	-7.1	-8.8	-8.0	-7.5	-7.2	-7.0	-7.0
Financing (B)	0.0	4.3	7.1	8.8	8.0	7.5	7.2	7.0	7.0
Foreign (net)	-0.4	2.1	-0.7	5.4	1.6	1.5	1.4	1.1	0.7
Domestic (net)	0.5	2.2	7.9	3.5	6.5	6.1	5.8	5.9	6.3
Memorandum Item:									
Non-Mineral non-SACU Primary Balance[5]	-18.1	-19.2	-18.5	-19.0	-18.2	-17.5	-17.3	-17.0	-17.0
Total central government debt[6]	21.0	22.5	33.1	40.7	46.0	50.4	53.9	56.9	59.7
Government deposits with the BoB	5.5	3.3	3.1	2.8	3.0	3.0	3.0	3.0	3.0
GDP (fiscal year; billions of pula)	254.5	263.6	263.3	270.8	293.0	319.1	346.2	375.9	407.9

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] This table is based on fiscal years. The fiscal year runs from April 1 to March 31.

[2] Refers to sales tax and VAT.

[3] SACU receipts consist of external trade and excises on imported goods as well as a development component derived

[4] The primary balance excludes also BoB related interest/dividend payments.

[5] The non-mineral non-SACU primary balance is computed as the difference between non-mineral non-SACU revenue and non-interest expenditure.

[6] Includes guarantees. Debt data measured at end of fiscal year.

Table 4. Botswana: Monetary Survey, 2022–2030

	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections			
				(Billions of pula, end of period)					
Net foreign assets	65.8	71.0	60.7	48.8	42.8	37.7	34.1	29.3	22.7
Bank of Botswana	49.8	58.7	43.1	36.4	29.2	22.2	16.6	9.7	0.7
Assets	54.5	63.7	48.1	41.3	34.2	27.2	21.6	14.6	5.7
Liabilities	-4.7	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Commercial banks	16.0	12.3	12.2	12.4	13.7	15.5	17.5	19.6	22.0
Assets	20.6	19.1	19.0	19.3	20.5	22.3	24.3	26.5	28.8
Liabilities	-4.6	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9
Net domestic assets	34.9	39.1	64.3	77.8	97.6	120.9	145.3	171.9	202.2
Net domestic credit	76.0	90.4	118.6	135.2	158.1	184.5	212.0	241.6	275.1
Net claims on the government	-4.7	3.6	25.0	37.2	53.7	73.0	92.9	114.6	139.4
Bank of Botswana	-16.7	-10.5	-5.4	-4.8	-5.6	-6.5	-7.3	-8.1	-9.1
Commercial banks	12.0	14.1	30.3	41.9	59.3	79.5	100.3	122.8	148.5
Claims on parastatals	0.5	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Claims on nongovernment	80.2	84.6	91.9	96.3	102.6	109.7	117.3	125.3	133.9
Claims on the private sector	74.9	79.1	86.4	90.9	97.1	104.3	111.8	119.8	128.4
Other financial institutions	5.3	5.4	5.5	5.4	5.5	5.4	5.5	5.4	5.5
Other items (net)	-41.1	-51.3	-54.4	-57.4	-60.5	-63.6	-66.7	-69.8	-72.9
Monetary Base	5.7	10.8	7.4	8.4	9.1	9.7	10.4	11.3	12.2
Broad money (M2)	100.7	110.1	125.0	126.5	140.4	158.5	179.4	201.1	224.9
Money	24.9	31.1	33.6	37.1	39.9	42.6	45.8	49.6	53.8
Currency	2.3	2.3	2.8	1.8	2.0	2.1	2.3	2.5	2.7
Current deposits	22.6	28.8	30.8	35.2	37.9	40.5	43.6	47.2	51.1
Quasi-money	75.8	79.0	81.8	94.1	101.3	108.1	116.3	126.1	136.5
Memorandum items:									
Nominal GDP (bn pula)	251	264	263	266	283	308	336	365	398
Nominal non-mineral GDP (bn pula)	200	221	235	245	263	284	307	333	361
Velocity (GDP to M2)	2.5	2.4	2.1	2.1	2.0	1.9	1.9	1.8	1.8
Velocity (non-mineral GDP to M2)	2.0	2.0	1.9	1.9	1.9	1.8	1.7	1.7	1.6
Money Multiplier	17.6	10.2	16.9	15.0	15.5	16.4	17.2	17.8	18.4
Base Money (annual % change)	-5.3	87.9	-31.2	13.8	7.6	6.7	7.6	8.3	8.3
Broad Money (annual % change)	6.8	9.3	4.8	13.8	7.6	6.7	7.6	8.3	8.3
Claims on the private sector (annual % change)	4.7	5.6	9.2	5.2	6.8	7.4	7.2	7.2	7.2
Private sector claims to GDP	29.8	30.0	32.9	34.2	34.3	33.9	33.3	32.8	32.3
Bank credit to the private sector (annual % change)	37.4	35.8	36.8	37.1	36.9	36.8	36.5	36.0	35.6

Sources: Bank of Botswana and IMF staff estimates and projections.

Table 5. Botswana: Financial Soundness Indicators, 2017–2025[1,2]

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Percent, unless otherwise indicated)								
Capital Adequacy									
Capital to assets	8.8	8.9	8.9	9.2	8.6	8.9	8.7	8.3	9.0
Regulatory capital to risk-weighted assets	21.9	17.9	18.5	20.0	17.4	19.8	19.6	19.5	19.1
Regulatory tier I capital to risk-weighted assets	15.0	13.2	13.4	13.8	12.5	12.9	13.2	12.7	13.5
Nonperforming loans net of provisions to capital	12.4	16.2	10.0	8.1	9.7	8.6	9.0	8.2	7.8
Asset Quality									
Large exposure to capital	131.3	153.6	115.5	92.8	117.7	131.2	109.7	112.5	108.9
Nonperforming loans to total gross loans	5.3	5.4	4.8	4.3	4.2	3.8	3.7	3.4	3.2
Bank provisions to nonperforming loans	53.7	42.7	59.0	60.2	56.6	51.0	49.0	49.3	49.9
Earnings and Profitability									
Trading income to total income	0.0	3.6	4.3	5.3	6.0	6.4	9.3	8.4	8.9
Return on assets	1.9	2.8	2.3	1.9	1.2	3.2	3.1	3.9	3.6
Return on equity	12.4	18.7	15.6	12.5	5.8	21.3	22.7	36.5	8.3
Interest margin to gross income	61.6	57.2	56.2	55.7	45.9	53.1	54.2	57.1	56.3
Noninterest expenses to gross income	59.9	58.5	58.1	61.6	71.1	57.0	56.9	51.1	52.1
Personnel expenses to noninterest expenses	44.5	44.4	45.4	45.2	46.4	45.3	47.3	45.8	45.9
Liquidity									
Liquid assets to total assets	13.4	14.3	14.7	14.7	12.7	13.4	12.2	12.6	12.2
Liquid assets to short-term liabilities	16.4	17.7	18.0	18.1	15.4	15.6	14.2	15.3	15.1
Customer deposits to total (non-interbank) loans	117.3	118.8	120.6	122.3	122.4	124.2	127.3	122.8	119.2
Exposure to Foreign Exchange Risk									
Net open position in foreign exchange to capital	5.7	8.1	5.0	3.8	2.3	5.0	2.7	9.3	1.2
Foreign currency-denominated loans to total loans	7.0	7.8	6.2	4.9	3.5	3.6	4.7	4.1	3.7
Foreign currency-denominated liabilities to total liabilities	14.0	14.4	12.7	14.9	22.2	31.2	27.4	33.9	32.0

Sources: Bank of Botswana and IMF staff calculations.

[1] This table is based on calendar years.

[2] Data for 2025 reflect developments up to March 2025, based on the latest available Financial Soundness Indicators.

Annex I. Debt Sustainability Analysis

Figure 1. Botswana: Risk of Sovereign Stress

Horizon		Mechanical signal	Final assessment	Comments
Overall		...	**Moderate**	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the near term and moderate to high levels in the medium and long terms.
Near term 1/				
Medium term		**High**	**Moderate**	Under the baseline scenario, one of the medium-term mechanical signals indicates a high risk of sovereign stress as the measures currently adopted by the authorities would be insufficient to avoid a sharp increase in debt. More specifically, the Debt fanchart module shows a high risk rating as ongoing and projected weakness in the fiscal balance results in a steep increase in the public debt-to-GDP ratio. Medium-term liquidity risks, as measured by the Gross Financing Needs (GFN) module, are moderate, given the increasing government financing needs and the relatively low share of government debt in total commercial banks' assets. The medium-term risk of sovereign stress is assessed as moderate, as the authorities have the option of reducing significantly the risk of sovereign stress by adopting an ambitious agenda of macroeconomic and structural reforms, such as those underpinning the resilient scenario. Under such a scenario, debt would stabilize at less than 50 percent of GDP over the medium term. Annex IV delineates a resilient scenario that would allow the debt trajectory to look much more benign.
	Fanchart	**High**	...	
	GFN	**Moderate**	...	
	Stress test	Comm. Prices Nat. Disast.	...	
Long term		...	**Moderate**	The long-term risk under the baseline scenario is moderate, reflecting the authorities' potential to implement resilient policies that would place public debt on a sustainable downward trajectory. However, significant risks arise from the prolonged decline of the diamond sector, which could lead to reduced mineral revenues and increased debt levels. Mitigating these risks will necessitate accelerating structural reforms aimed at economic diversification.
Sustainability assessment 2/		Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline				No

DSA Summary Assessment

Commentary: Botswana is assessed to have a moderate overall risk of soverein stress. While, under the baseline scenario, the reforms envisaged by the authorities would be insufficient to stabilize the public debt-to-GDP ratio, the implementation of a more ambitious set of reforms, such as those recommended under the resilient scenario, would be sufficent to do so.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Botswana: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

					Subsectors captured in the baseline	Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

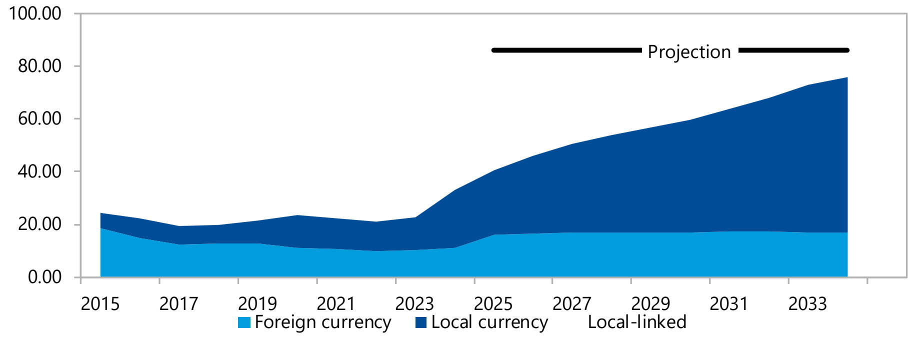
					Holder / Issuer	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The data coverage is for the general government. However, only the central government has authority to borrow. Intra-government debt holdings data are not available. The lack of data on account payables has become more consequential now that the government has been faced difficulties in financing the fiscal deficit.

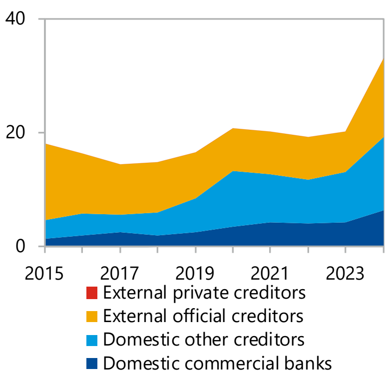
Figure 3. Botswana: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



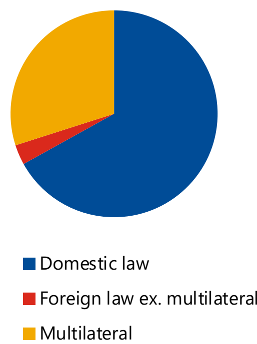
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



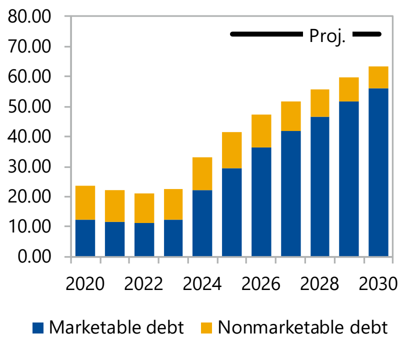
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



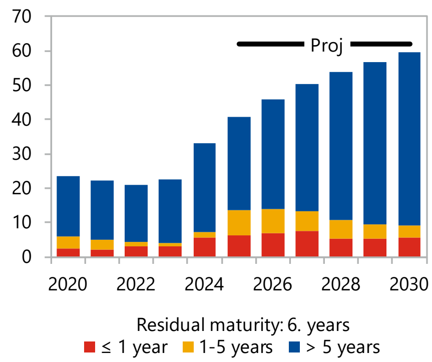
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: An increasing share of Botswana's debt is held by domestic banks and other local creditors, such as pension funds, while the portion held by external official creditors has declined. Under the baseline scenario, where fiscal policy is viewed as less credible and sustainable, reliance on external financing is expected to remain limited, reinforcing greater dependence on domestic borrowing. As domestic debt markets deepen and pension funds continue repatriating assets, the share of foreign debt in total public debt is projected to decline over time. This shift will lead to a debt profile characterized by shorter maturities and higher rollover risks. By contrast, in a scenario of comprehensive and credible reforms—such as those outlined in the resilient scenario—fiscal sustainability would be strengthened, borrowing needs reduced, market confidence restored, and access to longer-term external financing improved.

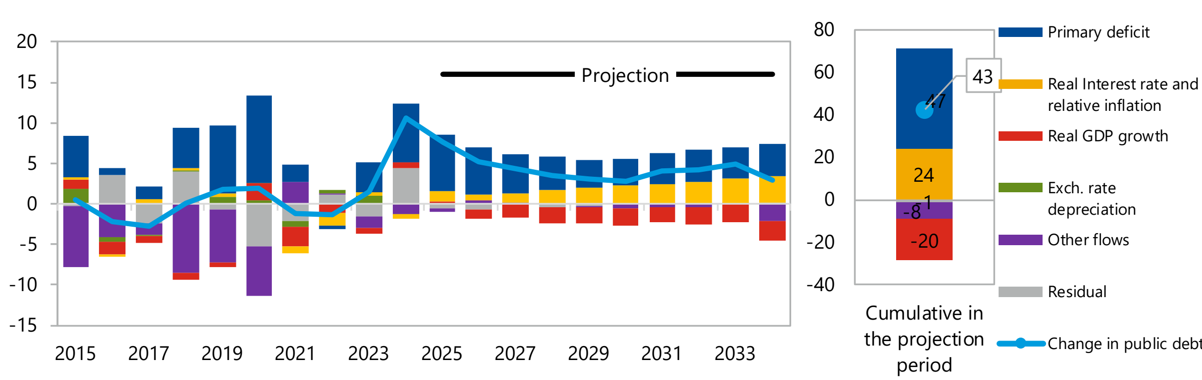
Figure 4. Botswana: Baseline Scenario

(Percent of GDP, unless otherwise stated)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public Debt	33.1	40.7	46.0	50.4	53.9	56.9	59.7	63.8	68.0	72.8	75.8
Change in Public Debt	10.6	7.6	5.3	4.4	3.4	3.0	2.8	4.1	4.2	4.9	3.0
Contribution of identified flows	6.2	8.2	6.0	4.3	3.9	3.3	2.7	4.1	4.1	4.8	2.9
Primary deficit	7.3	7.0	5.8	4.8	4.1	3.5	3.2	3.9	3.9	4.0	4.0
Noninterest revenues	24.8	24.0	24.8	25.4	26.1	26.7	27.1	26.4	26.4	26.4	26.4
Noninterest expenditures	32.2	31.0	30.6	30.2	30.3	30.2	30.3	30.3	30.4	30.4	30.4
Automatic debt dynamics	0.1	1.5	-0.2	-0.5	-0.3	-0.1	0.0	0.5	0.6	0.8	1.0
Real interest rate and relative inflatio	-0.6	1.2	0.8	1.2	1.7	2.0	2.2	2.4	2.7	3.0	3.4
Real interest rate	-0.6	1.2	0.4	0.7	1.3	1.6	1.8	1.9	2.2	2.5	2.9
Relative inflation	0.0	0.0	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Real growth rate	0.7	0.3	-1.1	-1.7	-2.0	-2.1	-2.2	-1.9	-2.0	-2.2	-2.4
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.2	-0.4	0.4	0.0	0.1	-0.1	-0.5	-0.4	-0.4	0.0	-2.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.3	0.5	0.1	0.2	0.0	-0.5	-0.3	-0.4	0.0	-2.1
Contribution of residual	4.4	-0.5	-0.7	0.1	-0.4	-0.3	0.1	0.0	0.1	0.1	0.1
Gross Financing Needs	13.5	14.4	13.8	14.5	15.3	13.5	14.5	16.8	18.5	19.3	20.7
of which: debt service	7.4	7.5	8.1	9.7	11.3	10.1	11.3	12.9	14.6	15.3	16.7
Local currency	6.7	6.4	6.9	8.4	10.0	8.9	10.1	11.5	13.1	13.7	15.2
Foreign currency	0.7	1.0	1.2	1.3	1.3	1.2	1.2	1.4	1.5	1.6	1.5
Memo:											
Real GDP growth (percent)	-3.0	-1.0	2.7	3.8	4.1	4.0	4.0	3.3	3.3	3.3	3.3
Inflation (GDP deflator; percent)	2.5	2.2	5.1	5.0	4.2	4.5	4.5	4.7	4.7	4.7	4.7
Nominal GDP growth (percent)	-0.1	2.9	8.2	8.9	8.5	8.6	8.5	8.2	8.2	8.2	8.2
Effective interest rate (percent)	0.0	6.0	6.2	6.7	7.1	7.6	7.9	8.3	8.5	8.8	9.0

Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Over the past ten years, the authorities have contained debt acccumulation by drawing down their cash reserves. The sharp drop in diamond revenues in FY24/25 has significantly worsened the fiscal outlook. If fiscal consolidation efforts are limited to those envisaged under the baseline scenario, debt could soon exceed the statutory limit and reach around 60 percent of GDP over the medium term.

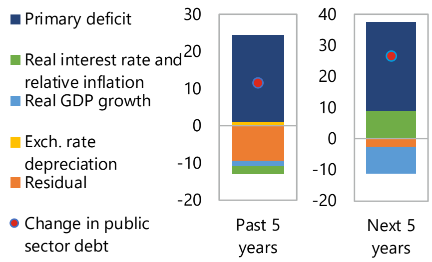
Figure 5. Botswana: Realism of Baseline Assumptions

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

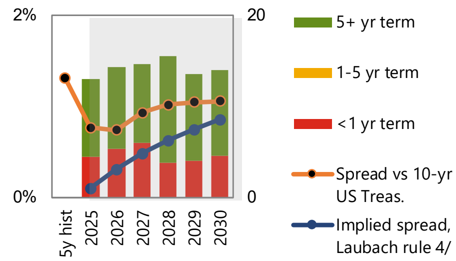
Comparator Group:
Emerging Markets, Non-Commodity Exporter, Surveillance

Color Code:
Optimistic: > 75th percentile; 50-75th percentile
Pessimistic: 25-50th percentile; < 25th percentile

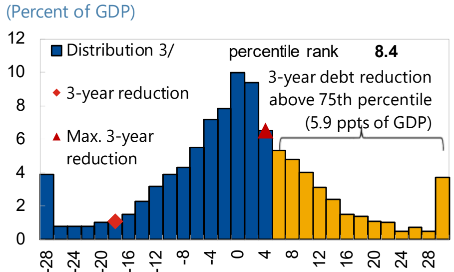
Public Debt Creating Flows
(Percent of GDP)



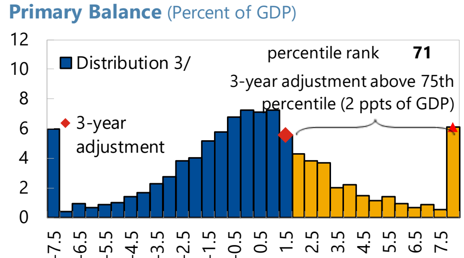
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



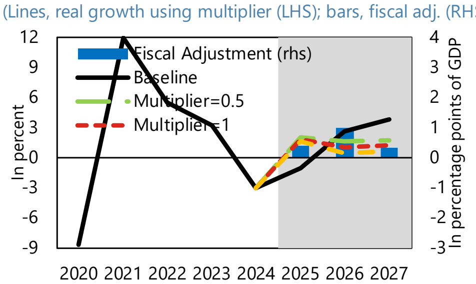
3-Year Debt Reduction
(Percent of GDP)



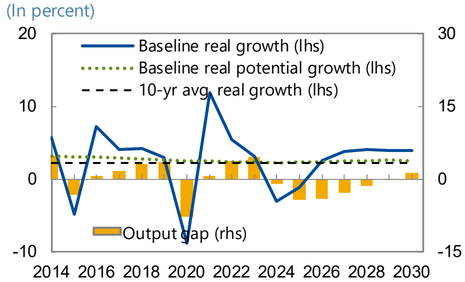
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: Under the baseline, the limited fiscal measures envisaged would slow, but not reverse, the rising debt trend. While growth is expected to gradually recover, Botswana's economic prospects remain overly dependent on the diamond sector, and without substantial diversification, growth is unlikely to match past performance. The planned 3-year adjustment is smaller than previous post-shock consolidations and only partially captures revenue-enhancing potential. Absent stronger policy action, debt is projected to continue increasing.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

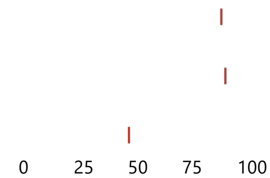
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

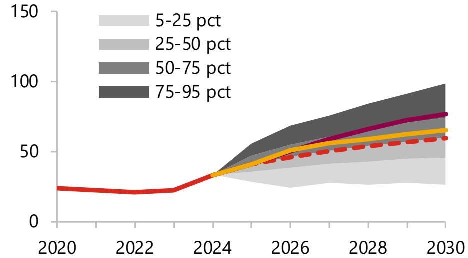
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Botswana: Medium-Term Risk Assessment

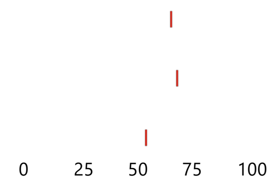
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	72.2	1.0	
Probability of debt non-stabilizaiton *(percent)*	99.9	0.8	
Terminal debt-to-GDP x institutions index	28.2	0.6	
Debt fanchart index (DFI)		2.5	
Risk signal: 3/		**High**	



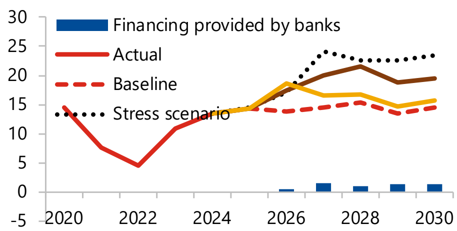
Final Fanchart (Percent of GDP)



	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	14.3	4.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	13.1	4.2	
Chg. In banks' claims in stress *(pct banks' assets)*	10.3	3.4	
GFN financeability index (GFI)		12.6	
Risk signal: 4/		**Moderate**	



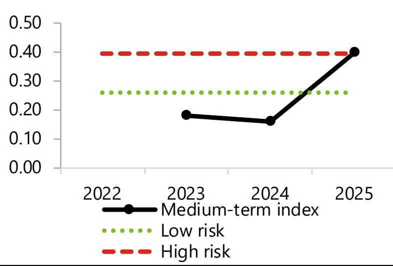
Gross Financing Needs (Percent of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	2.5	0.6	0.5	0.3
GFN finaceability index	12.6	0.2	0.5	0.1
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 54.5 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 9.1 pct.

Commentary: The medium-term index points to an overall moderate risk assessment as the debt fanchart is signalling High and gross financing needs model is signaling Moderate risk. The debt fanchart module assessment is driven particularly by the width of the forecasted distribution and the probability of non-stabilization. The fanchart width is quite wide (above the 75th percentile), reflecting the high historic volatility of the diamond market, which translates into volatile growth and primary balances. The liquidity risks captured by the GFN finance ability index are moderate reflecting moderate gross financing needs and increasing exposure of domestic banks to the sovereign. To test the robustness of the baseline and reflect Botswana's vulnerabilities, a commodity price shock (brown) or a natural disaster shock (yellow) are applied to the model. Under both scenarios, gross financing needs trend downwards over the medium term and the path of debt is stable or declining. The authorities, however, need to be proactive in managing public debt to ensure that roll-over risks remain low over the medium term.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Botswana: Long-Term Risk Analysis

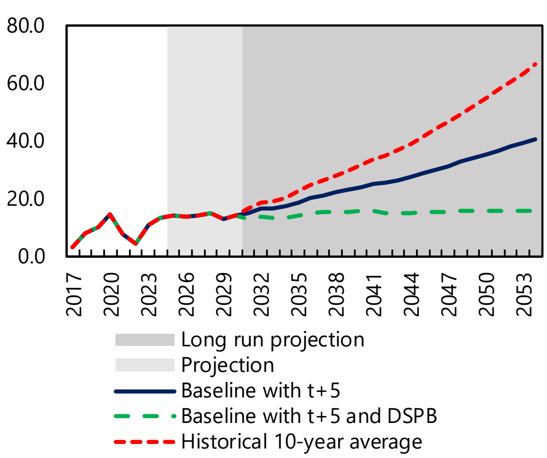
Botswana: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	**Natural Resources**
	Health	Climate change: Mitigation	

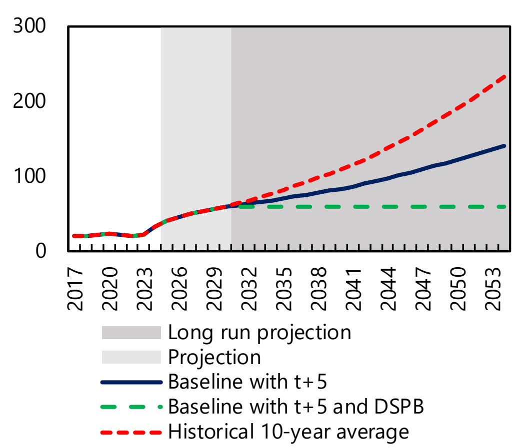
Botswana: Long-Term Risk Assessment: Large Amortization

Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The overall long-run risk indicator is moderate, as the authorities have the potential to implement resilient policies that would place public debt on a sustainable downward path. Nonetheless, under the baseline scenario, public debt does not stabilize due to persistent primary deficits. Furthermore, very long-term projections that incorporate historically elevated gross financing needs—primarily financed by depleting cash deposits—indicate a risk that debt could surpass 100 percent of GDP if historical averages persist. These risks primarily stem from the potential long-term decline of the diamond sector, underscoring the urgent need to accelerate economic diversification reforms. With its higher human capital stock, solid institutional framework, and strategic position amid strong Sub-Saharan African economies, Botswana is well placed to address these debt sustainability challenges.

Annex II. External Stability Assessment

Overall Assessment: *The external position of Botswana in 2024 is assessed as weaker than the level implied by fundamentals and desirable policies. After registering a surplus of 1.5 percent of GDP in 2023, the external current account returned to a deficit of 4.2 percent of GDP in 2024, as a sharp decline in the diamond trade balance was only partly offset by a lower income deficit and higher SACU revenue. The current account deficit is projected to further increase in 2025, to 6 percent of GDP, owing mainly to a further decline in net exports of diamonds and lower SACU revenue, before gradually improving over the medium term to a deficit of about 2 percent of GDP along with the partial recovery in diamond exports. In line with long-term trends, the net international investment position (NIIP) is projected to continue weakening in the near term, reflecting primarily declining international reserves.*

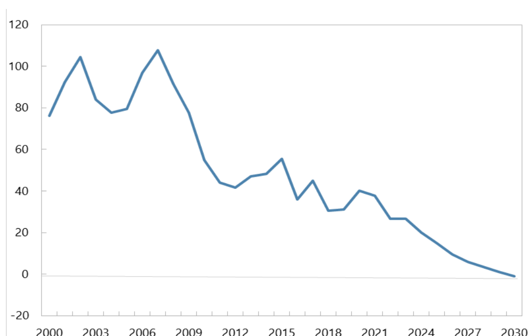
Potential Policy Responses: *Tighter fiscal and monetary policies, along with structural reforms to strengthen competitiveness and promote diversification, will be key to support the external position and stem the decline in reserves in the near to medium term. While the real effective exchange rate (REER) targeting regime has historically served the country well, delivering relatively stable and subdued inflation, its effectiveness has recently declined with a loss of external competitiveness. Small technical changes to the crawling peg regime could help support price competitiveness and reduce inflation volatility, while a significant tightening of monetary policy would help support the peg.*[1]

Foreign Assets and Liabilities: Position and Trajectory

Background. Since it reached a peak of 105 percent of GDP in 2007, Botswana's NIIP has declined substantially over time, reflecting a sharp decline in reserve assets as a percent of GDP (Figures 1 and 2). This decline continued in 2024, to 21 percent of GDP (the lowest level on record) from 26 percent of GDP at end-2023. External portfolio investment increased to 33 percent of GDP in 2024 from 31 percent in 2023, while reserve assets declined to 18 percent of GDP, from 24 percent of GDP in 2023, and the direct investment balance worsened from -27 to -29 percent of GDP. Foreign reserves fell to USD 3.5 billion at end-July 2025, bringing down the reserve coverage to about 5 months of imports from 7 months of imports at end-2023.

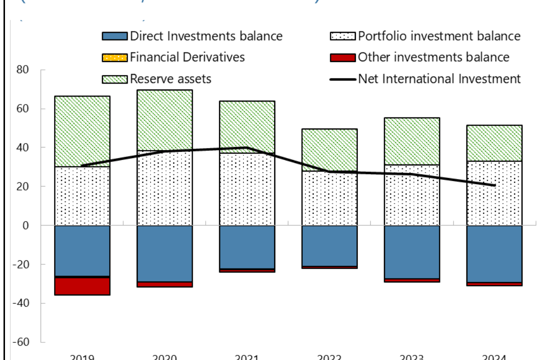
Assessment. While Botswana is currently a net creditor country, it is projected to become a net debtor country under the baseline scenario, with the baseline NIIP falling from 16.5 percent of GDP in 2025 to 0.7 percent of GDP by 2030, with reserve assets expected to be largely depleted by then. External debt currently remains low, consisting of long-term multilateral and bilateral borrowing. Under the Resilient scenario (Annex IV), the implementation of fiscal consolidation and other policy measures would help ensure debt sustainability (Annex I), with Botswana remaining a net creditor (with a NIIP projected at about 4 percent of GDP in 2030) and international reserves rising to more than 5.4 months of imports.

Figure 1. Net International Investment Position
(Percent of GDP)



Source: Bank of Botswana; and IMF staff calculations.

Figure 2. Net International Investment Position
(2019–2024; Percent of GDP)



Source: Bank of Botswana; and IMF staff calculations.

2024 (% GDP)	NIIP: 20.5	Gross Assets: 70.9	Debt Assets: 43.0	Gross Liab.: 50.4	Debt Liab.: 31.6

[1] See Botswana's Real Effective Exchange Rate Targeting Regime: Taking Stock and Looking Forward—Selected Issues, IMF Country Report No. 23/318."

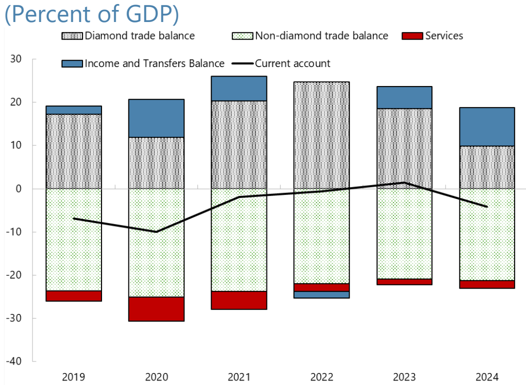
Current Account

Background. The current account balance (CAB) averaged 6 percent of GDP between 2000 and 2014. However, it has since averaged -0.5 percent of GDP, largely due to a deterioration of the diamond trade balance. The CAB worsened to a deficit of -4.2 percent of GDP In 2024 from a surplus of 1.5 percent of GDP in 2023, as a sharp decline in the diamond trade balance was only partly offset by a lower income deficit and higher SACU revenue. The trade balance deficit widened to -11.3 percent of GDP in 2024 from -2.3 percent of GDP in 2023 as the diamond trade balance declined from 18.5 to 9.9 percent of GDP (Figures 3 and 4). SACU revenue increased from 8.2 to 10.2 percent of GDP while the income deficit narrowed to -1.8 percent of GDP (reflecting a lower repatriation of returns related to diamond re-exports) from -2.5 percent of GDP in 2023. The services trade deficit widened from -1.3 percent of GDP in 2023 to -1.8 percent of GDP in 2024. The CA deficit is expected to widen to about 6 percent in 2025 due to lower diamond exports and a decline in SACU revenue, before narrowing over the medium term to about 2 percent of GDP, as diamond exports partly recover.

Assessment. Table 1 presents the results of the four EBA-lite models. The CA model and the commodity consumption module both suggest that the Botswana's external position was weaker in 2024 than the level implied by fundamentals and desirable policies. The commodity investment module indicates that the external position is substantially weaker.[2]

Figure 3. Current Account

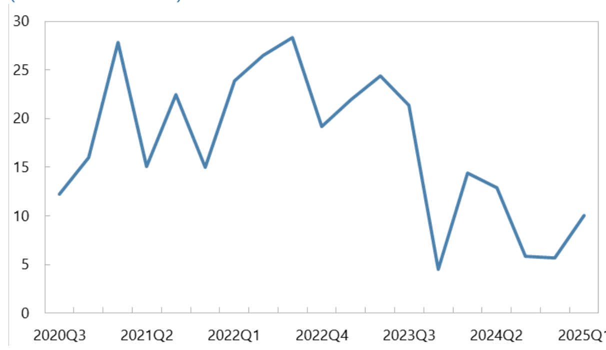
(Percent of GDP)



Source: Bank of Botswana; and IMF staff calculations.

Figure 4. Diamond Trade Balance

(Percent of GDP)



Source: Bank of Botswana; and IMF staff calculations.

Table 1. Botswana: Model Estimates for 2024

(Percent of GDP)

	CA Model 1/ (in percent of GDP)	**REER Model** 1/	**Commodity Consumption Module** 2/	**Commodity Investment Module** 2/
CA-Actual	**-4.2**		**-4.2**	**-4.2**
Cyclical contributions (from model) (-)	0.1			
Natural disasters and conflicts (-)	0.0			
Adjusted CA	**-4.3**			
CA Norm (from model) 3/	**-1.2**		**-1.7**	**0.8**
Adjusted CA Norm	**-1.2**			
CA Gap	**-3.0**	**4.4**	**-2.5**	**-5.0**
o/w Relative policy gap	-0.9			
Elasticity	-0.3			
REER Gap (in percent)	**10.5**	**-15.3**	**8.8**	**17.2**

1/ Based on the EBA-lite 3.0 methodology

2/ Based on the commodity module of the EBA-lite 3.0 methodology.

3/ Cyclically adjusted, including multilateral consistency adjustments.

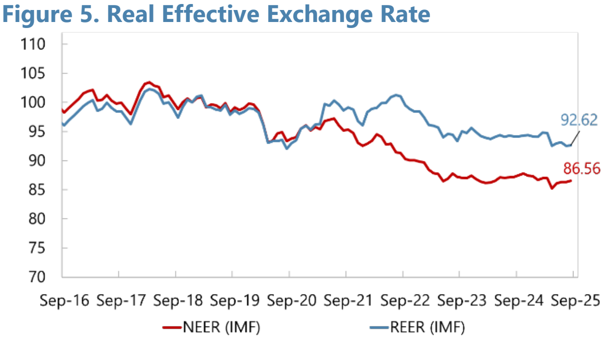
[2] The investment module has been tailored to Botswana's export concentration in diamonds.

Real Exchange Rate

Background. Since May 2005, the monetary authorities have implemented a crawling peg, under which the exchange rate is set relative to a basket of currencies in a way aimed at stabilizing the REER.[3] To do so, at the beginning of each year, the authorities announce the 'crawl rate' that will be applied to the exchange rate over the next twelve months, which is determined to offset the projected differential in CPI inflation between Botswana and the countries represented in the basket. In July 2025, the authorities increased the 2025 nominal downward rate of crawl of the Pula from 1.51 percent to 2.76 percent and increased the width of the trading band from a narrow range of +/- 0.5 percent around the central rate to +/- 7.5 percent. Botswana's REER, as measured by the IMF, depreciated in 2024 by 1 percent while the NEER depreciated by 0.6 percent
(Figure 5).

Assessment. The CA model suggests that, at end-2024, the Pula was overvalued compared to fundamentals, and that the REER would need to depreciate by 10.5 percent for the CA deficit to be in line with the norm. The REER model suggests that the Pula would need to appreciate by 15.3 percent for the CA gap to be reduced to the norm; however, the relative fit of the REER model is poor, supporting staff's preference for the use of the CA model. The implicit REER gaps of the commodity investment model (17.2) and commodity consumption module (8.8) are in line with the CA model. Overall, the REER targeting regime has delivered low and stable inflation and helped mitigate "Dutch disease" risks faced by commodity exporters with flexible exchange rates. However, it has allowed some appreciation of the real exchange rate over time and challenges have increased from a slow deterioration of export performance, stalled diversification, and a decline in foreign exchange reserves over the past two decades. Policy recommendations to maintain the crawling peg include fiscal consolidation, monetary tightening to support the peg, and ambitious structural reforms to address growth bottlenecks to promote inclusive growth and economic diversification. The current regime could be strengthened by adjusting the basket weights so that they better reflect the structure of Botswana's trade and relevant partners, particularly its non-diamond trade. This could help prevent a further loss of competitiveness in relation to main trading partners, such as South Africa, especially for manufactured goods. In addition, the use of different price indices, such as unit labor costs, could better reflect the relative price of traded goods.

Figure 5. Real Effective Exchange Rate



Sources: Botswana Financial Statistics (BFS), Haver, CEIC Data, IMF INS database, and IMF staff calculation.

Capital and Financial Accounts: Flows and Policy Measures

Background. Botswana has historically had large financial account deficits, largely reflecting external investments by pension funds, and other investment outflows. Botswana is a global diamond hub, where diamonds are produced and imported for sales events to allow buyers from different countries to inspect the new diamond batches. These diamonds are then exported, with part of the profits of the imported diamonds repatriated overseas. After registering a small surplus (0.2 percent of GDP) in 2023 on account of high FDI inflows, the financial account deteriorated in 2024 to a deficit of 2.6 percent of GDP. This deterioration reflected declines in FDI (from 3.8 to 2.4 percent of GDP) and in the "other investment" balance (from 0.3 to -3.2 percent of GDP, reflecting in part an increase in the commercial banks' deposits with their affiliates abroad), which were only partly offset by a narrowing of the portfolio deficit (from 3.9 to 1.8 percent of GDP) as pension funds reduced their foreign investments, as mandated. The financial account is expected to improve in 2025 to 3.4 percent of GDP as the government's external borrowing increases. Over the medium term, it is forecast to be broadly balanced as FDI inflows would be broadly offset by portfolio outflows.

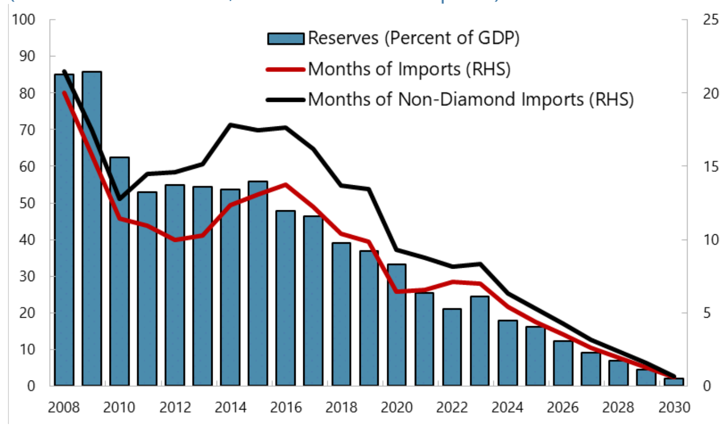
[3] The basket is composed of the South African Rand (50 percent weight) and the SDR (50 percent weight) to reflect the composition of trade between Botswana and its key trading partners.

Capital and Financial Accounts: Flows and Policy Measures

Assessment. Botswana historically had low vulnerabilities related to capital flows, owing to low external debt (largely to multilateral institutions and long-term in nature) and low feedthrough from international financial conditions to capital flows, partly due to the nature of investors (e.g., a long-term investment horizon from "buy-and-hold" pension funds). However, capital outflows have increased in response to the interest rate differentials, as commercial banks have gradually accumulated foreign exchange deposits abroad, notably in South Africa. On the other hand, the amendments to the Retirement Funds Act,[4] which require pension funds to gradually increase the share of their domestically held assets, contributed to lower portfolio outflows in 2024, and could continue to do so through 2027, when 50 percent of pension fund assets are mandated to be invested domestically. Furthermore, the government is engaged closely with multilateral and bilateral creditors to seek external budgetary and project finance to help finance the budget deficit.

FX Intervention and Reserves Level

Figure 6. Gross International Reserves
(LHS: Percent of GDP; RHS: Months of Imports)



Sources: Bank of Botswana; and IMF staff calculations.

Background. The BoB's FX reserves are divided between two main accounts: the Liquidity Portfolio (which the central bank is required to maintain by the BoB Act) and the Pula Fund (which is the excess or residual from the Liquidity Portfolio). The Liquidity Portfolio is primarily a money market and fixed income fund that provides a buffer for short- and medium-term trade and capital account requirements. Its benchmark level is reviewed from time to time and is currently set at 3 months of import cover (in the authorities' definition, which is based on current year's imports excluding diamonds). This means that FX reserves up to 3 months of imports are allocated to and invested in the Liquidity Portfolio. This Portfolio is split into the Transaction Balance Tranche (TBT), which caters for any short-term needs for foreign currency, and the Liquidity Investment Tranche (LIT), which provides further support for medium term funding. In contrast, the Pula Fund is a long-term investment portfolio in foreign assets, with higher risks and returns. with investment decisions made in consultation with the Ministry of Finance. The BoB's international reserves fell to USD 3.5 billion at end-July 2025, from USD 4.8 billion in 2023 (Figure 6). The decline in reserves largely reflects the trade deficit from the deterioration of diamond exports, a financial account deficit from weaker FDI and other investment outflows.

Assessment. A deterioration in diamond exports and capital outflows contributed to the recent decline in reserves. End-2024 reserves, which are held mostly in the Pula fund, represent about 143 percent of the ARA metric, down from 215 percent in 2023. Under the baseline scenario, reserves are expected to be largely depleted by 2030. While the authorities' reserve management strategy appears sound and prudent, in staff's view, urgent action is needed to launch fiscal consolidation and monetary tightening to reduce the interest rate differential with key trading partners, stem capital outflows, and bolster reserves, and safeguard external stability as illustrated in the resilient scenario, where the ARA in 2030 is projected at around 118 percent.

[4] The amendments to the 2022 Retirement Fund Act require pension funds to reduce the maximum share of offshore investments from 70 percent to 50 percent of total assets between 2023 and 2027. It is currently under CFM assessment.

Annex III. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Possible Policy Response
Global Conjunctural Risks			
• **Escalating Trade Measures and Prolonged Uncertainty**. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium.** Higher tariffs and trade barriers in key markets) could affect demand and prices for diamond and other commodity exports (e.g., copper).	Accelerate structural reforms to diversify the economy to build resilience against external shocks and enhance competitiveness. Consider technical changes to the exchange rate regime to support competitiveness and strengthen the role of the exchange rate as an external shock absorber, including gradual exchange rate devaluation when appropriate. Leverage trade integration, including within SSA to mitigate shocks in the medium term.
• **Commodity (oil and food) price volatility.** A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations causes recurrent commodity price volatility.	**High**	**Medium.** Botswana is an oil and food importer. Commodity price volatility could lead to price, exchange rate and real sector volatility, budgetary pressures, and exacerbate the cost-of-living. The large share of South African imports (with regulated petroleum prices and a large agriculture sector), administered prices, and the crawling peg exchange rate could help limit sharp swings in prices through a downward adjustment to maintain competitiveness.	Adjust monetary policy if inflation pressures arise due to potential second-round effects of July monetary policy measures. Maintain adequate foreign exchange reserves, continue flexible management of the crawling peg regime, enhance FX market transparency and communication, and allow timely fuel price adjustment at the pump. Provide targeted, short-term fiscal support to vulnerable households to cushion the impact of higher food prices and strengthen fiscal buffers to absorb external shocks.
• **Financial Market Volatility and Correction** caused by high interest rates and risk premia amid economic slowdowns and political uncertainty (from elections) in advanced economies trigger market dislocations, with adverse cross-border spillovers.	**Medium**	**Low.** Concerns about the global financial system could prompt investors to reduce exposure to EMDEs. Risk of large sentiment shifts and rising risk premiums for African bonds could strain financing options, given Botswana's rising external borrowing needs.	Consolidate public finances, improve domestic revenue mobilization, deepen the domestic financial market, and align monetary policy to exchange rate framework and external conditions. Continue implementation of FSAP recommendations could reinforce the resilience of the financial sector and help mitigate financing risks (especially bank's liquidity risks).
Global Structural Risk			
Climate change. Botswana is exposed to severe climate events, such as highly variable rainfall, which leads to floods and droughts, impacting lives and livelihoods of a significant part of the population dependent on small-scale or subsistence farming.	**High**	**Medium.** More frequent or severe weather events could disrupt water supply, reduce crop yields, and harm tourism and strategic sectors such as mining. These shocks would undermine food security, increase inflation, and disproportionately affect the poor and vulnerable populations, deepening existing inequalities.	Implement climate change mitigation and adaptation measures, including low-carbon energy generation and climate-resilient agricultural practices. Adapt spatial development strategies to account for long-term climate challenges, such as changing rainfall patterns and land degradation, to strengthen food security and rural livelihoods.
Global rough diamond prices. A continued decline in global rough diamond prices could hamper Botswana's prospects for a diamond market recovery.	**Medium**	**High.** A prolonged decline in rough diamond prices could delay the country's recovery in exports of diamonds and efforts to rebuild fiscal and external buffers.	The authorities may need to expedite the reforms necessary to promote economic diversification, enhance revenue mobilization and streamline spending, while considering allowing a faster realignment of the currency.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment: "low" (below 10 percent), "medium" (10-30 percent), and "high" (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities. Risks may interact and materialize jointly. The conjunctural shocks reflect shorter-term risks (12-18 months) while structural risks are more persistent.

Source of Risks	Likelihood	Expected Impact if Realized	Possible Policy Response
		Domestic Risk	
Delayed fiscal consolidation	**Medium**	**High.** With the depletion of fiscal buffers, further delays in fiscal consolidation would lead to an increase in public debt and a decline in international reserves, significantly larger than those already projected under the baseline scenario.	With fiscal buffers now depleted, there is no obvious substitute for consolidation efforts. Delays will have to be offset in the future by larger and more front-loaded fiscal adjustment and economic diversification efforts, which may have to be accompanied by a rapid revaluation of the exchange rate.
Impaired Monetary Policy Transmission amid liquidity stress	**Medium**	**High.** A misalignment between the policy rate and market rates could signal liquidity stress, which could impair monetary transmission, increase volatility in short-term interest rates and reduce the effectiveness of central bank interventions.	Monetary policy tightening is warranted to address the decline in reserves—driven by diamond market contraction, an accommodative fiscal stance, and capital outflows. Strengthen monetary policy communication to anchor expectations and improve transmission. Enhance liquidity forecasting and management frameworks to reduce volatility. Deepen interbank markets and improve transparency in pricing mechanisms.

Annex IV. Resilient Scenario – A Path to Macroeconomic Stability and External Resilience in Botswana

Botswana stands at a crossroads, facing a choice between maintaining current policies or pursuing a comprehensive reform agenda to safeguard macroeconomic stability and external resilience. This annex outlines a scenario that offers a more resilient path, supported by well-calibrated adjustment measures of targeted fiscal consolidation, monetary tightening, and structural reforms to safeguard debt sustainability and strengthen the external position.

1. Botswana's resilient scenario is anchored in a comprehensive policy package designed to restore macroeconomic stability and build long-term resilience. The package includes: (i) targeted fiscal consolidation to reduce public debt and rebuild fiscal buffers through expenditure rationalization and enhanced domestic revenue mobilization; (ii) monetary tightening to safeguard interest rate parity and reduce capital outflows, thereby supporting the exchange rate regime and preserving external buffers; and (iii) structural reforms aimed at facilitating economic diversification, improving public investment efficiency, and fostering private sector development.

2. Fiscal consolidation reforms would be calibrated to minimize the impact on growth. Capital expenditure—an area with significant potential for efficiency gains (Text Figure 16 of Staff Report)— would be somewhat lower than in the MTFF (about 5 percent of GDP in the outer years, compared to 6.3 percent under the baseline). Reducing the wage bill from 13.4 percent of GDP to 11 percent of GDP (closer to the regional average) would *apply insights from an upcoming World Bank expenditure review, which will provide guidance on possible efficiency gains. Allowing to combine wage restraint with structural reform efficiently will safeguard against broader economic impact*. Subsidies and transfers would be streamlined, including through better targeting of social assistance and reforms aimed at strengthening SOEs' performance and reducing their fiscal burden. On the revenue side, the resilient scenario assumes some additional effort to mobilize "non-mineral income tax", which is relatively low compared to peers.[1] Based on these measures, public debt by end-2030 would be 46 percent of GDP (compared to 61 percent under the baseline). A more pronounced fiscal consolidation effort, allowing the debt level to remain below the legal 40 percent threshold, is not recommendable due to its large contractionary. Botswana's fiscal multiplier and the related consolidation tradeoffs are discussed in greater detail in Annex X.

3. While growth would be lower in the near term, the reform package could deliver higher and more sustainable growth over the lower term. Compared to the baseline, greater fiscal consolidation would lower non-mineral growth between 2025 and 2027 by about one percentage point cumulatively, but deliver 0.5 ppt higher growth in the outer years (though still 1 ppt below a 20-year historical average). Specifically, this results in growth declining by 0.3 ppt in 2025, 0.5 ppt in 2026, and 0.1 ppt in 2027, before the positive impact of economic reform reverses the trend, enabling the reform scenario to deliver higher growth rates in the medium term. The

[1] See also Article IV 2017, SIP (link).

pickup in growth is driven by reforms that reduce bottlenecks and by an increase in investor confidence.

4. **A credible reform package will allow Botswana's Treasury to issue more external debt with longer maturity and lower interest rates.** In the coming years, domestic banks and pension funds will be critical financiers of Botswana's high deficits. External official creditors may play a supporting role, as they have started to do, while external bond markets remain a last resort unless reforms strengthen credibility. This tilt toward domestic financing will increase rollover and interest rate risks, especially if fiscal consolidation is delayed. In the resilient scenario, a larger capacity to source advantageous external financing is assumed, allowing external financing to be 1.4 ppt of GDP higher than in the baseline.

5. **The resilient scenario entails a markedly stronger external position compared to the baseline.** Improved investor confidence and macroeconomic stability delivers higher FDI, a broadly balanced current account and a substantial buildup in foreign exchange reserves—raising import coverage to more than 5 months by 2030. These improvements significantly bolster Botswana's external buffers, reducing vulnerability to external shocks and reinforcing the sustainability of the macroeconomic framework. Under the baseline, persistent current account deficits result in almost fully depleted reserves by 2030.

Figure 1. Non-Mineral Primary Fiscal Balance
(Percent of GDP)

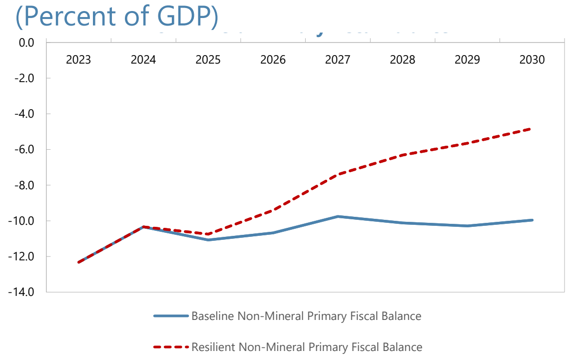


Figure 2. Net Public Debt
(Percent of GDP)

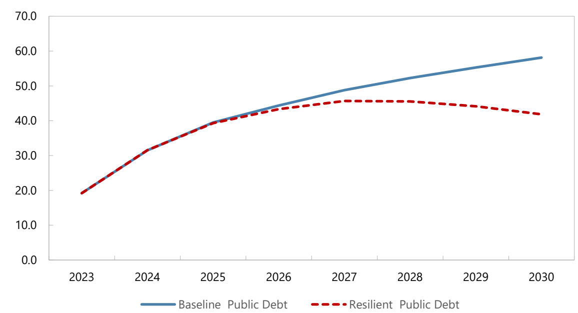


Figure 3. Current Account
(Percent of GDP)

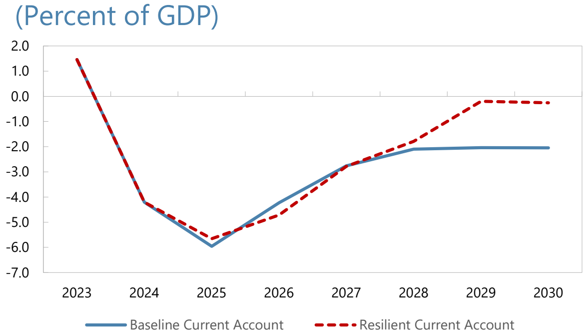
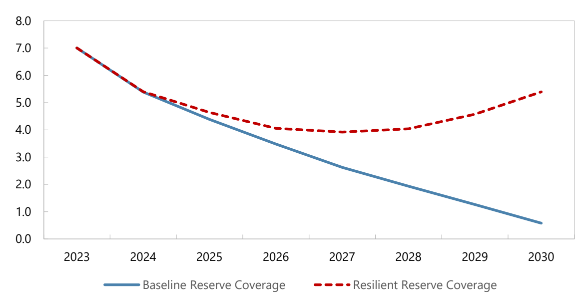


Figure 4. Reserve Coverage
(Months of Imports)



Sources: IMF staff projections.

Table 1. Botswana: Resilient Scenario—Selected Economic and Social Indicators, 2022–2030[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.			Projection			
				(Annual percent change, unless otherwise indicated)					
National Income and Prices									
Real GDP	5.5	3.2	-3.0	-1.3	2.2	3.7	4.1	4.2	4.4
Mineral	7.6	2.9	-24.1	-13.5	3.6	8.6	7.4	5.0	5.0
Nonmineral	4.9	3.3	2.8	1.2	2.0	2.8	3.5	4.0	4.3
GDP per capita (US dollars)[2]	8,329	7,826	7,678	8,066	8,664	9,301	9,926	10,762	11,677
Consumer prices (average)	12.2	5.1	2.8	3.4	4.8	4.5	4.5	4.5	4.5
Diamond production (millions of carats)	24.5	25.1	17.9	14.8	15.3	16.9	18.3	19.3	20.3
Money and Banking									
Monetary Base	-5.3	87.9	-31.2	13.4	7.1	6.7	7.7	8.6	8.9
Broad money (M2)	6.8	9.3	4.8	13.4	7.1	6.7	7.7	8.6	8.9
Credit to the private sector	4.7	5.6	9.2	5.7	8.3	7.9	8.5	9.1	9.7
				(Percent of GDP, unless otherwise indicated)					
Investment and Savings									
Gross investment (including change in inventories)	26.8	30.3	37.2	35.5	33.6	32.8	32.3	30.5	31.0
Public	5.4	7.2	6.8	6.2	5.9	5.8	5.6	5.4	5.1
Private	21.4	23.1	30.4	29.3	27.7	27.0	26.7	25.1	26.0
Gross savings	26.7	31.1	33.0	29.8	28.8	30.0	30.5	30.3	30.8
Public	3.9	2.3	-1.4	-3.5	-3.2	-1.6	0.0	1.2	1.9
Private	22.8	28.8	34.4	33.4	32.1	31.6	30.5	29.1	28.9
Central Government Finances[3]									
Total revenue and grants	29.1	28.2	26.1	24.2	25.2	26.0	26.9	27.7	27.8
SACU receipts	5.4	9.2	10.5	9.1	8.8	9.0	8.5	8.1	8.1
Mineral revenue	13.3	6.7	1.9	3.0	3.8	3.9	4.9	5.6	5.6
Total expenditure and net lending	29.1	32.4	33.2	32.7	32.3	31.4	30.5	29.9	29.2
Overall balance (deficit –)	0.0	-4.3	-7.1	-8.5	-7.0	-5.4	-3.6	-2.2	-1.4
Non-mineral non-SACU balance[4]	-18.1	-19.2	-18.5	-18.7	-17.1	-15.5	-14.0	-12.9	-12.3
Net debt	15.5	19.2	31.5	39.3	43.3	45.7	45.5	44.1	41.9
Total central government debt[5]	21.0	22.5	33.1	42.2	46.3	48.7	48.6	47.2	44.9
Government deposits with the BoB[6]	5.5	3.3	1.6	2.9	2.9	3.0	3.0	3.0	3.0
External Sector									
Trade balance	2.7	-2.3	-11.3	-12.1	-10.5	-8.6	-7.3	-5.2	-5.2
Current account balance	-0.6	1.5	-4.2	-5.7	-4.7	-2.8	-1.8	-0.2	-0.3
Overall Balance	1.8	0.6	-8.0	-1.5	-1.6	0.2	1.3	2.9	2.6
Nominal effective exchange rate (2018=100)[7]	90.8	86.4	85.9	-	-	-	-	-	-
Real effective exchange rate (2018=100)[7]	99.2	94.9	93.9	-	-	-	-	-	-
Terms of trade (2005=100)	164.7	124.8	104.9	76.9	86.6	100.4	107.5	114.2	116.8
External central government debt[5]	7.5	8.4	9.0	14.4	15.9	18.5	19.8	20.9	21.2
Gross official reserves (end of period, millions of USD)	4,281	4,757	3,549	3,260	2,941	2,990	3,294	4,037	4,757
Months of imports of goods and services[8]	7.1	7.0	5.4	4.6	4.1	3.9	4.0	4.6	5.4
Months of non-diamond imports[8]	8.2	8.3	6.3	5.6	4.9	4.8	4.9	5.8	6.3
Percent of GDP	21.8	24.2	18.9	17.2	14.2	13.7	13.8	15.7	16.9

Sources: Botswana authorities and IMF staff estimates and projections.

[1] This table is based on calendar years unless otherwise indicated.

[2] Population estimates from World Bank, World Development Indicators. Projections starting 2025 are 10-year moving averages.

[3] Fiscal variables are based on fiscal years (starting on April 1).

[4] The non-mineral non-SACU balance is computed as the difference between non-mineral non-SACU revenue and total expenditure.

[5] Includes guarantees. Debt data measured at end of fiscal year.

[6] Government deposits with the BoB include Government Investment Account as well as other accounts. Deposits data measured at end of fiscal year.

[7] For 2020-2023, both effective exchange rates are from IMF INS database.

[8] Based on imports of goods and services for the following year.

Annex V. Follow-Up on the Financial Sector Assessment Program (FSAP 2023) Recommendations[1]

Recommendation	Authorities' Actions	Time*
Systemic Risk Analysis		
Introduce the Basel III liquidity standards to strengthen systemic liquidity monitoring	The Bank of Botswana (BoB), with assistance from the IMF, has drafted guidelines on the Liquidity Coverage Ratio. The guidelines were presented at the Regulatory Policy Committee meeting of 20 September 2024 and approved with subsequent dissemination to banks, and an ongoing review of their comments. These guidelines were officially released on 1 May 2025, with an implementation date set for 1 December 2025. The Net Stable Funding Ratio will be implemented in due course.	MT–LT
Conduct regular stress testing of large insurers' and retirement funds' concentrated bank exposures to monitor and detect financial stability risks	Recommendation prioritized to be included in the ongoing Financial Sector Development Strategy (FSDS), which is a national roadmap for improving financial inclusion, stability, and innovation for Botswana in collaboration with the World Bank, which is expected to be finalized by 2029. In parallel, the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) is enhancing its data collection tools to enable the collection of granular data needed for stress testing non-bank financial institutions (NBFIs).	MT
Implement data management systems for stress testing and interconnectedness; updated and standardized reporting frameworks for both banks and non-bank financial institutions	The Bank of Botswana's data management system project is still in progress, which has delayed its connection to the stress-testing framework. The implementation has taken longer than anticipated due to some developmental challenges.	ST
Develop data quality and granularity to enhance stress-testing framework to include sensitivity tests for credit risk, including to household debt and corporate indebtedness	This will be completed in the medium term after completion of the ongoing IMF technical assistance (TA) on an enhanced stress testing framework supported by other BoB work. The first phase of the TA Mission, which aimed to incorporate macroeconomic elements into the stress testing framework for the banking sector is partly achieved, as a stress testing tool containing the solvency, liquidity and macroblock modules has been developed. The next step is to produce manuals/supporting documents and provide training on the operationalization of the model, with the final step being to expand the stress testing framework to include the non-bank financial sector (to offer a holistic view of risks to domestic financial stability). Concurrently, the Bank recently joined the Global Institute on Macroprudential Modelling to tap into resources that can assist with the development of a macro stress testing framework.	ST–MT

[1] This material is based on information provided by the Ministry of Finance and Bank of Botswana.

Recommendation	Authorities' Actions	Time*
Strengthen the liquidity management framework to include upgraded forecasting tools, streamlined access to refinancing facilities (¶30) and comprehensive collateral schedule	The Liquidity Forecasting Unit at BoB is well-staffed and working with new modelling techniques. It has also expanded its quantitative approach to include more autonomous factors that affect liquidity along with increasing the forecasting window to provide longer-term forecasts. Commercial banks continue to access the Standing Deposit Facility (SDF) and the Standing Credit Facility (SCF) for their daily liquidity management. The Credit Facility (CF) is available to commercial banks for daylight credit to support settlement in the Botswana Interbank Settlement System. The CF also continues to serve as an automatic facility that aids close-of-day settlement. Aligning the penalty rate on the Primary Reserve Requirements accounts to the CF rate is still under review. Allowing access to the Standing Credit Facility after the interbank market closes is also being explored. Internal discussions regarding the treatment of government bonds as high-quality liquid assets (HQLA) for liquidity management by banks are ongoing. Owing to the low liquidity levels, the Bank has increasingly intervened by injecting liquidity into the market through repos. The tenure of the repos have been increased to up to a month to lower risk of funding disruptions. On the interbank market, the bank successfully signed a Memorandum of Understanding (MoU) with Frontclear in early December 2023. Since then, collaboration has continued through workshops with market participants to identify and assess developmental challenges in the interbank market, including legal and regulatory issues (e.g., GMRA and ISDA), close-out netting, and Tradeclear feasibility. Following the submission of the Money Market Diagnostic Framework (MMDF) report by Frontclear, the next phase involves Tradeclear training for both the Bank and commercial banks, alongside the implementation of key recommendations. These efforts were taking place while awaiting the enactment of the amended Banking Act, which is expected to facilitate close-out netting and title transfer. This initiative is also expected to enhance market participation and reduce segmentation by providing a market-wide guarantee. The BoB and commercial banks are currently in the process of inputting information into the Money Market Diagnostic Framework.	ST
Develop the interbank repo market by ensuring the legal framework supports enforceability and title transfer of securities under relevant Master Agreement	On the interbank market, the BoB and commercial banks successfully signed a Memorandum of Understanding (MoU) with Frontclear in early December 2023. Since then, collaboration has continued through workshops with market participants to identify and assess developmental challenges in the interbank market, including legal and regulatory issues (e.g., GMRA and ISDA), close-out netting, and Tradeclear feasibility. Following the submission of the Money Market Diagnostic Framework (MMDF) report by Frontclear, the next phase involves Tradeclear training for both the Bank and commercial banks, alongside the implementation of key recommendations. These efforts are taking place while awaiting the enactment of the amended Banking Act, which is expected to facilitate close-out netting and title transfer. This initiative is also expected to enhance market participation and reduce segmentation by providing a market-wide guarantee. The BoB and commercial banks are currently in the process of inputting information into the Money Market Diagnostic Framework.	MT

Recommendation	Authorities' Actions	Time*
Financial Sector Oversight		
Align prudential requirements for corporate governance and management of risks with Basel principles, and improve offsite and onsite tools	The BoB developed and issued the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana on 14 November 2022 for implementation on 14 May 2023. The BoB will begin work on improving the off-site and on-site tools for corporate governance, with the assistance of AFRITAC South as part of its regional corporate governance regulation and supervision initiative, and potentially through additional TA from the IMF. To further support this process, the BoB has trained two bank examiners on corporate governance on-site and off-site supervision. The BoB will also undertake a review of their risk management guidelines to ensure alignment with Basel principles on banking risk areas The FSC Technical Working Group (TWG) is currently working on corporate governance frameworks for banks and non-bank financial institutions in an effort to identify gaps, align them with best international standards and practices, as well as strengthen and harmonize corporate governance standards in the financial sector.	ST
Revise risk-based supervision approach and bank rating methodology, making them more forward-looking and adaptive to emerging risks	The BoB has started work on enhancing its risk-based supervision (RBS), as well as bank rating methodology with TA from the IMF AFRITAC South in June 2024. The TA included, among others, a review of the on-site examination and off-site monitoring processes combined with reporting and risk-rating frameworks for banks. Following the training, a guided on-site examination on interest rate risk in the banking book (IRRBB) and liquidity risk was conducted in October 2024. To support informed regulatory decisions, ratings for inherent risk and risk management practices were not assigned during the examination as examiners were still familiarizing themselves with several concepts, particularly IRRBB. The TA mission recommended that the Bank develop a standalone risk rating model covering key banking risk areas and supervisory assessments, which is still in progress. The Bank is awaiting technical assistance from AFRITAC South for this development. Overall, the FSAP recommendation to revise the RBS approach and bank rating methodology was addressed by seeking TA from AFRITAC South to review both on-site and off-site examinations.	MT
Establish legal basis and set-up regulatory and supervisory frameworks to implement consolidated supervision for banks and banking groups	The re-enacted Banking Act 2023, which commenced on 15 August 2025, provides for consolidated supervision. In addition, the BoB has drafted the Guidelines for Supervision of Financial Conglomerates to provide the scope and manner of supervision of banking groups on a consolidated basis—thus implementing the requirements of Core Principle 12 of the Basel Core Principles for Effective Banking Supervision.	MT
Enhance supervisory methodologies and build capacity for covering Pillar 2 risks in the Supervisory Review and Evaluation Process (¶25). Impose tailored Pillar II capital buffer requirements for banks with low capital and high dividends payout ratios	Implementation of Pillar 2 began in September 2018. A follow-up IMF TA mission would be beneficial to assist with capacity building for Pillar 2, the full implementation of which remains a challenge owing to limited understanding of the pillar. A large part of the Pillar 2 reform will be covered by the proposed reform to the risk-based approach and risk-rating process. Following this work, a follow-up mission could also assist in developing a quantification model that would be used to require banks to hold additional capital, where necessary. The BoB is in the process of requesting a TA mission on Pillar 2.	ST-MT
Augment supervisory resources and strengthen supervisory capacity by increasing the number of risk specialists	Following insights from 2024 AFRITAC South TA mission, which concluded that the Bank would benefit from risk specialization, the Bank has decided to implement targeted on-site examinations instead of full-scope assessments to enhance its analytical capabilities in key risk areas. Additionally, the recruitment process is at a final stage at Bank's Human Capital Department.	MT

Recommendation	Authorities' Actions	Time*
Operationalize AML/CFT risk-based toolkit for banks and NBFIs, including for covering novel risks from virtual assets	The BoB employs an AML/CFT off-site monitoring tool of banks and onsite examination. The off-site monitoring tool is used to identify banks with higher ML/TF risks. An on-site examination schedule is designed based on results generated from the off-site tool. For NBFIRA, this will be covered in the financial sector development strategy for Botswana and remains pending.	MT
Enhance macroprudential tool kit to address liquidity vulnerabilities in financial institutions, to consider credit-based household sector tools, and to establish capital buffers	Efforts to expand the macroprudential toolkit are ongoing and anchor on refining the data templates to aid policy development. In particular, the BoB has been given a fresh mandate on supervision of credit bureaus, which presents opportunities for the Bank to develop information templates that will address household data gaps. It is expected that new templates will address granularity of data and unveil hidden vulnerabilities in the household sector. A financial cycle for Botswana was also estimated in 2023, which will help in tracing the behavior of agents across the financial cycle and inform macroprudential policy actions at different points in the cycle.	MT
Financial Safety Net and Crisis Management		
Establish the operational framework for emergency liquidity assistance (ELA) once the Bank of Botswana Amendment Act comes into effect	In September 2024, the BoB hosted a TA mission for the ELA framework and has received the final aide-memoire. An ELA Taskforce has been formed and is working on areas such as signing a MoU with the ministry and other operational issues to develop a framework with a December 2025 timeline.	ST–MT
Align legal framework for the Botswana Deposit Insurance Scheme with sound practices and address gaps in the regulatory framework to develop strategic and operational plan for implementation of deposit insurance	Section 43A of the Bank of Botswana (Amendment) Act, 2022 makes provision for establishment, through regulations, of a deposit insurance scheme for Botswana. The BoB's Deposit Insurance Scheme Regulations, which came into operation on 21 July 2023, operationalizes the scheme. The regulations provide for: establishment of the Deposit Insurance Scheme of Botswana, Deposit Insurance Fund and Deposit Insurance Committee (i.e., governing body of the Scheme); types of deposits covered; funding sources for the fund; and staff of the scheme.	ST–MT
Align legal framework for the Botswana Deposit Insurance Scheme with sound practices and address gaps in the regulatory framework to develop strategic and operational plan for implementation of deposit insurance	To date, the Scheme has full a staff complement as per its organizational structure, headed by a Director; the Minister of Finance has appointed all private/independent members of the governing body effective April 1, 2024 for a four-year term each; the scheme has issued membership certificates to all licensed banks and the Botswana Savings Bank (i.e. member institutions) and collected once-off membership fee from each of the member institutions. Public education initiatives have also been carried out through the national radio and tv and pamphlet printed for distribution to members of the public. The scheme has also produced its 2023 inaugural Annual Report. Finally, work has commenced to draft a standalone Deposit Insurance Scheme law.	ST–MT

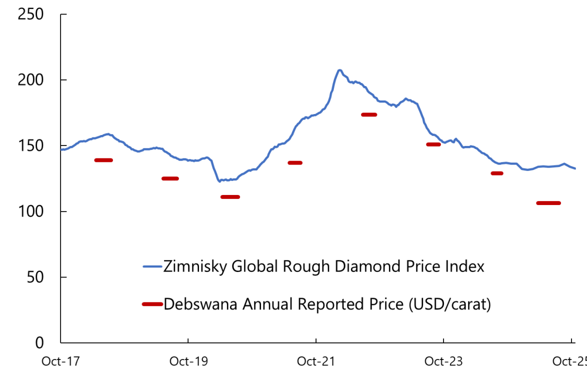
Recommendation	Authorities' Actions	Time*
Expand supervisory memoranda of understanding with all home country regulators to include resolution plans and issues, and prepare a contingent resolution plan for foreign subsidiaries	Development of crisis management and bank resolution has been incorporated in the work program of the Financial Stability Council (FSC). A working group has been established, consisting of representatives from Prudential Authority and Payments Oversight Department(PAPOD), Research and Financial Stability Department (RFSD), and *Deposit Insurance Scheme of Botswana* or *Development and Investment Strategy Board (*DISB), to focus on developing the bank resolution and crisis management framework. Additionally, frameworks for non-bank entities are planned for development in the medium term.	MT
Expand the remit of the Financial Stability Council to coordinate and develop the framework for crisis preparedness and management; oversee recovery and resolution planning, to conduct stress testing and simulations, develop manuals, and implement a communications strategy	The FSC is currently working on developing a crisis preparedness and management framework. A Technical Working Group (TWG) of the FSC was established to drive work in this area and the general work program of the FSC. The TWG undertakes technical assessments on priority areas with a view to enhancing understanding of financial stability risks, developing macroprudential policy tools, crisis prevention and resolution framework, and other tools and initiatives aimed at ensuring the stability and resilience of the domestic financial system. The TWG has scheduled development of crisis management and bank resolution framework into the medium term, supported by a task force aiming for completion within two to three years. The framework and manual are expected to be completed by the end of 2025.	MT
Financial Development Issues		
Strengthen line-ministries oversight of development finance institutions (DFIs) by: (i) improving performance monitoring, (ii) establishing a results framework to track outcomes, and (iii) introducing a regulatory framework specifically designed for DFIs	The Presidential Directive CAB 5SP (B) 2021 REV. 1, dated 30th March 2022 directed that the Bank to be transitioned into an AgriBank. In 2022, to address milestones in this reform process, the Bank submitted to the Ministry the NDB's Project Business Case and Project Initiation Document for consideration, which were both ultimately signed off. The approval of the documents enabled NDB to commence the procurement of a Transactional Advisor whose costs were to be borne by the Bank. The project will be governed by a Project Steering Committee of which the Ministry is a member. The Bank has further requested the Ministry to present an update of the NDB Transformation Journey/Roadmap in May 2024. The Bank will brief the Ministry on the project and unpack the findings of the Contextual Assessment report.	ST
*ST = short term (1–3 years), MT = medium term (3–5 years)		

Annex VI. Recent Developments in the Diamond Sector

1. The landscape for natural diamonds has become increasingly challenging since the post-pandemic rebound. Following record diamond jewelry demand in 2021–22, the natural diamond market has faced a sharp downturn, driven by a global economic slowdown, with weak demand especially in China and the U.S., renewed competition from lab-grown diamonds and other luxury spending, and a pronounced demand recession in China, historically the world's second-largest consumer market.[1] As a result, De Beers and other industry players have reported higher than normal levels of inventory in the midstream sector, built up after the post-pandemic boom, which in turn has led to a reduction in orders and subdued prices.[2]

Figure 1. Real-Time Zimnisky Rough Diamond Price Index

(Index for Zimnisky; Price in USD/carat)



Sources: Zimnisky and IMF staff calculations. For more information: https://www.paulzimnisky.com/roughdiamondindex

2. The rapid growth of lab-grown diamonds, along with shifting consumer preferences, raises the risk of a structural change, rather than a cyclical downturn. Lab-grown diamonds can sell at the retail level for up to 90 percent less than the price of similar natural diamonds and their market share has correspondently risen to over a fifth of global diamond jewelry sales in 2024.[3] A shift in the consumer preferences of younger generations away from luxury purchases also presents a downside risk to the demand for natural diamonds.

3. The new agreement signed in February 2025 prolongs the close economic partnership between the government and De Beers.[4] The marketing and sales agreement has four key terms. First, there is a new 10-year sales agreement through 2035 for Debswana's rough diamond

[1] In 2024, India was estimated to be the second largest consumer market for diamond jewelry with 10 to 12 percent of global diamond jewelry sales, while China was the third largest consumer market with 8 to 10 percent of global sales (Paul Zimnisky).

[2] The natural diamond value chain is composed of upstream activities (exploration and mining), midstream (sorting, cutting, polishing, jewelry design and manufacturing), and downstream (retail jewelry).

[3] Paul Zimnisky's State of the Diamond Market, Volume 8, Issue 9, May 2025.

[4] De Beers moved its rough diamonds auction sales to be conducted fully in Botswana in 2025 after closing its Singapore site. De Beers brings its rough diamonds mined globally to Gaborone to be sold and distributed at ten auctions each year to its sight holders, about 80 selected entities who are authorized to purchase rough diamonds in bulk. De Beers has also opened a division to polish diamonds (in Botswana), in collaboration with its sight holders, to increase wholesale distribution.

production with De Beers.[5] Second, the agreement includes an extension of mining licenses by 25 years to 2054 to ensure a steady supply of Botswana's rough diamonds to De Beers.[6] Third, Botswana's state-owned Okavango Diamond Company (ODC) was offered a rising share of Debswana's rough diamonds to purchase from 25 percent to 30 percent in July 2025 rising to 50 percent by around 2033.[7] Fourth, De Beers Group will invest up to BWP 10 billion over 10 years, with an initial contribution of BWP 1 billion (US$75 million), in the Diamond for Development Fund, which will support Botswana's economic diversification efforts.

4. Anglo American plans to divest its stake in De Beers and U.S. tariffs increases are sources of uncertainty.[8] As part of a broader restructuring to focus on its copper business, Anglo American announced in May 2024 that it would divest its 85 percent stake in De Beers through a sale or public listing.[9] Bids of potential buyers are being shortlisted by Anglo American in fall 2025 and a public listing could also be considered, extending the divestment process to 2026. The government has expressed interest in increasing its share, currently of 15 percent, in the company. Evolving U.S. tariffs on countries involved in transforming natural rough diamonds into jewelry to be sold in the U.S. also contribute to heightened uncertainty.[10]

5. Efforts are underway to promote natural diamonds and distinguish them from lab-grown ones. On the marketing front, De Beers increased its budget in June 2025 to the highest level in a decade to promote natural diamonds, noting their provenance, safe, ethical and sustainable production. This was followed by the Luanda Accord, a commitment by leading African diamond producing countries and major industry players to contribute one percent of annual rough diamond revenues from 2026 to finance a global marketing campaign managed by the National Diamond Council.[11] The campaign will leverage traceability and provenance block technology used

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[5] Debswana, founded in 1968, is a joint venture equally owned by the government of Botswana and De Beers. Debswana runs four mines: Jwaneng (which has two plants), Orapa, Letlhakane, and Damtshaa.

[6] Debswana is proceeding with key components of a US$1 billion expansion project to convert its flagship Jwaneng mine from an open pit mine to an underground mine, extending the economic life of the mine to 2054. At the same time, Debswana is pursuing measures to reduce its operating and capital expenditure costs, including cutting labor costs, temporarily pausing production at Jwaneng Modular Plant from May 2025, and keeping Letlhakane and Damtshaa closed until market conditions justify restoration of additional capacity.

[7] The Diamond Trading Company Botswana (DTCB), which sorts and values Debswana's diamond production, will offer a rising share of rough diamonds to ODC to purchase each year.

[8] The diamond sector accounted for about 80 percent of Botswana's exports from 2012–2023, and for about two thirds of exports in 2024.

[9] Anglo American wrote down the value of De Beers to about US$ 4.1 billion in February 2025 with an impairment charge of US$2.9 billion, following an impairment charge of US$1.6 billion in 2024.

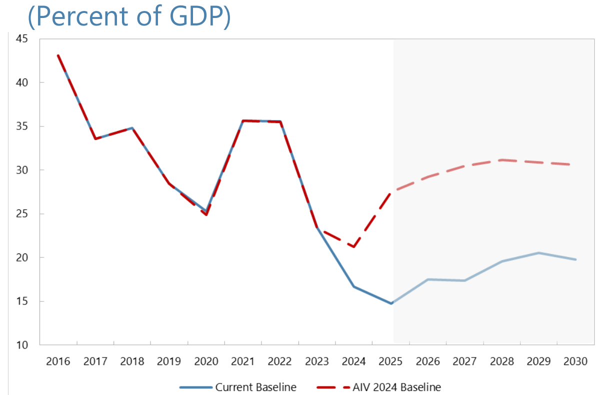
[10] The last country destination of significant transformation of rough diamonds before it enters the U.S. would determine the tariff rate. For example, rough diamonds are mined in Botswana, largely polished in India and could be set in jewelry in Antwerp. If the country already has a reciprocal trade agreement in place with the U.S. then an additional tariff may not apply. Hence, in September 2025, the trade agreement between the E.U. and the U.S. concluded that natural polished diamonds originating in the E.U. (e.g. polished in Antwerp) can be imported at 0 percent duty instead of the 15 percent tariff.

[11] The Luanda Accord was announced in June 2025 by Angola, Botswana, Namibia, South Africa, the Democratic Republic of Congo, as well as stakeholders including De Beers Group and the Antwerp World Diamond Centre.

by De Beers in Botswana to track diamonds from the mine, through cutting and polishing, to store shelves.[12] To allow consumers to more easily distinguish natural and lab-grown diamonds, De Beers has started providing jewelers with its Diamond Proof device, with similar technology being used by other retailers.

6. Demand for natural diamonds is expected to gradually recover over the medium term, although amidst heightened uncertainty. Although more gradual than the one envisaged at the time of the 2024 Article IV consultation (Figure 2), a partial recovery is forecast over the medium term, as efforts to differentiate natural and lab-grown diamonds are assumed to gradually bear fruit. This is more likely to be the case if lab-grown diamonds prices continue to fall and, in contrast to natural diamonds, are no longer considered a luxury good. Downside risks relate to a potential further decline in demand if differentiation efforts are unsuccessful. At the same time upside risks stem from a potential slow recovery of demand in China, stability in the U.S. market and continued growth in India.

Figure 2. Diamond Exports Projections
(Percent of GDP)



Sources: Country Authorities and IMF staff calculations.

[12] De Beer's rough diamonds above one carat now have a single country of origin listed on Tracr, a blockchain tool developed by De Beers. ODC also joined the platform in 2025 to register their diamonds.

Annex VII. Capacity Development

1. **This annex takes stock of recent Fund capacity development (CD) activities and updates the near-term CD strategy.** AFRITAC South (AFS), as well as the Monetary and Capital Markets Department (MCM), the Fiscal Affairs Department (FAD), the Statistics Department (STA) and the Legal Department (LEG) are the main Fund CD providers to Botswana. Other CD activities such as training, workshops, online courses, and supported peer learning are also provided by AFS, headquarter staff from FAD, MCM, STA, LEG, and ICD, and a peripatetic advisor to the Bank of Botswana (Simon Gray) until November 2024.

A. Capacity Development Assessment

2. **Fund CD has been well integrated with surveillance priorities and has largely focused on strengthening core macroeconomic competencies of the Ministry of Finance, tax authority, central bank, and financial sector supervision and regulation bodies.** Recent CD over the past five years has addressed a range of areas, including central bank operations, financial regulation and supervision, the quality of statistics and data reporting, and implementation of the AML/CFT risk based supervisory tools for banks, bureau de change, e-payment institutions and life insurance companies For example, TA was delivered to strengthen fiscal reporting, including to address operational issues with the Government Accounting and Budgeting System (GABS), on the Emergency Liquidity Assistance (ELA) framework, data dissemination and rebasing national accounts in 2024–25. The Selected Issues Paper produced for this Article IV on past fiscal TA provides a timely reminder of the key recommendations.

B. Key Achievements Include:

- **Fiscal.** The Ministry of Finance updated drafting instructions for the PFM Act, reflecting some of the key CD recommendations. TA was delivered to assess the MoF's organizational arrangements for the main PFM functions in February 2025 and on revenue forecasting for Botswana Unified Revenue Service (BURS) in April 2025.

- **Monetary and financial.** A two-year peripatetic expert program to strengthen the implementation of monetary policy and promote financial market development concluded in November 2024. The Financial Sector Stability Assessment (FSSA) was published in September 2023, with technical annexes published in early 2024. With MCM and AFS, significant progress was made to address the shortcomings identified in the FSAP, specifically to introduce Pillar II, progress in implementation of Basel III liquidity framework (the liquidity coverage and Net Stable Funding ratios) and enhance the capacity of banking supervisors to conduct effective on-site examinations as well as strengthen the financial stability safety nets with the introduction of a state-of-the art ELA and collateral frameworks.

- **Statistics.** With the implementation of TA recommendations, the quality of national accounts, price, and external sector statistics was enhanced. Improvements include production of the first draft of quarterly external debt statistics, and extension of government finance statistics coverage beyond the central government. Public sector debt statistics were assessed using the Fund's Data Quality Assessment Framework in May 2025.

- **Legal.** The implementation of the legal and regulatory framework has been further strengthened with LEG TA with the development and implementation of customized risk-based supervisory AML/CFT tools and manuals for both Bank of Botswana and the Non-Bank Financial Regulatory Authority. These tools have assisted the authorities to develop institutional risk profiles and implement supervisory measures to monitor and address potential ML/TF exposures within all the financial institutions supervised by the BoB and the insurance companies and asset managers supervised by NFIRA. The income tax and valued added tax laws were rewritten, and a new tax administration law was drafted in 2024, with ongoing LEG TA since 2016. The Banking Bill and the Bank of Botswana Amendment Act, both passed in 2023, strengthened the Financial Stability Council, clarified the mandate of the central bank, and set out arrangements for handling bank resolutions. The Botswana Deposit Insurance Scheme (BDIS) was also introduced (2023).

3. **Cooperation between the IMF and Botswana on TA and training continues to be strong.** The authorities expressed appreciation for the extensive CD provided by the Fund. They have shown ownership of the reform processes and have broadly followed up on TA recommendations. For example, as a result the AML/CFT supervisory programs for both BoB and NFIRA will be planned using institutional profiles as a road map for determining the scope, duration, and resource allocation for future supervisory activities. However, progress has been slower to implement the near-term measures on fiscal reporting to address the shortcomings of the IFMIS, including preparation of interim financial reports using existing data, and to harmonize a uniform budget classification and chart of accounts across the budgeting and accounting system and recurrent and development budgets. These shortcomings somewhat hamper surveillance, particularly in the fiscal sector.

4. **Several projects and initiatives are planned for 2025–26, in response to the authorities' requests.** The Fund stands ready to support the authorities' goal to enhance fiscal sustainability and improve fiscal reporting, continue implementation of Pillar II and the Basel III liquidity standards, and review the central bank's draft Payment Oversight guidelines, and complete the ELA and collateral framework development. The authorities' goal to subscribe to the IMF's Special Data Dissemination Standard (SDDS) is welcome, once they meet the timeliness and frequency requirements, primarily by publishing data on general government operations and external debt. The AML/CFT capacity development project and related technical assistance concluded in end–2024 with the full implementation of risk-based tools, including information collection templates and supervision manuals. LEG expects to continue supporting implementation of the tax law reform package—to be enacted in [end-2025]—including by assisting with drafting accompanying regulations.

C. Capacity Development Priorities

5. The CD objectives listed below are consistent with the country's macroeconomic priorities. The CD Strategy developed for the 2024 Article IV consultation remains broadly appropriate. CD should continue to support the authorities' goals to improve fiscal reporting, increase domestic revenue mobilization, support mineral revenue forecasting, increase the effectiveness of monetary policy and develop financial markets, and strengthen statistics and provide adequate data to conduct surveillance.

6. To support these CD objectives, the authorities expressed interest in TA and training in several areas in 2025–26. Areas of interest for near-term TA in the fiscal area include expenditure rationalization, with containment of public wage bill, development and implementation of a fiscal rules framework, and strengthening public investment management through peer-to-peer studies. For statistics CD, the authorities are interested in the areas of government financial statistics, national accounts rebasing, price statistics, strengthening the compilation and dissemination of balance of payments (BOP) and international investment position (IIP) statistics.

Surveillance Priorities	**CD Objectives**
Domestic Revenue Mobilization and Administration	• Provide comprehensive review of the domestic tax system • Assist with tax legal framework according to international best practices and facilitate finalization and enactment of impending tax law reforms • Provide training on best practices of revenue forecasting, including mineral revenues • Assistance with tax gap estimation and analysis, to inform the development of compliance improvement plans to reduce the compliance gap
Public Financial Management	• Fiscal rules framework and related legal framework • Macrofiscal framework including debt sustainability analysis • Follow up support on the organizational review of the Ministry of Finance • Strengthen public investment management • Strengthen the fiscal risk management framework (i.e., identification, monitoring and management of all fiscal risks including climate change, SOEs, PPPs and contingent liabilities) • Follow up support on strengthening the IFMIS and financial reporting
Fiscal and Debt Management Framework	• Provide training for building DSA capacity • Build capacity in the development of medium-term debt strategy (MTDS) and annual borrowing plans • Provide follow-up TA on local currency bond market development • Strengthen the macro-fiscal framework and establish fiscal costs from climate change and natural disasters
Expenditure Policy	• Expenditure rationalization, including containment of public wage bill. • Enhance education and health spending efficiency.
Financial Supervision and Regulation	• Basel III liquidity framework implementation • Enhancement of risk-based supervision framework and overall Pilar II • Bank resolution and Payment Systems Oversight
Monetary and Macroprudential Policy Implementation and Operations	• Build capacity to effectively communicate the monetary policy mandate and objectives • FPAS follow up • Supervision of liquidity risk • Complete the ELA and collateral framework operationalization
Improve the Timeliness and Quality of Statistics	• Improve budget monitoring data • Undertake national account rebasing targeted for FY28/29, with workplan by end-2025. • Update and strengthen compilation and dissemination of external accounts and price statistics, including disseminating quarterly IIP statistics and enhancing source data • Expand the coverage of government finance statistics to include extrabudgetary entities and local governments and improve source data for better classification of current and capital expenditures transactions • Review FSIs for deposit takers to ensure alignment with the latest standards and expand coverage to other financial corporations.

Annex VIII. Authorities' Responses to Past Recommendations

	2024 Article IV Recommendations	Authorities' Responses
Fiscal Policy	Strengthen domestic revenue mobilization, rationalize public expenditure—particularly by containing the wage bill and improving the efficiency of capital spending—and enhance public financial management systems. Reinforce the medium-term fiscal framework and revise the fiscal anchor to bolster fiscal credibility and guide policy over the medium term.	The authorities have taken initial steps to start the taxation of digital services: the Botswana's 2025 VAT Amendment Bill (August 2025) introduces VAT on remote services, electronic fiscal devices, and reverse charge rules to modernize the tax system and improve compliance amid declining mineral revenues. Furthermore, capital spending has been partially contained through under-execution. However, other recommendations remain unaddressed, including upgrading essential public finance data management systems, identifying and operationalizing a suitable fiscal anchor, and establishing a credible medium-term fiscal framework (MTFF) to guide fiscal policy and strengthen fiscal discipline.
Monetary Policy	Stand ready to raise the policy rate if inflation risks materialize. Monetary policy should remain data-dependent, with a continued focus on anchoring inflation expectations within the medium-term objective range.	The Bank of Botswana reduced the monetary policy rate cumulatively by 50 basis points to 1.9 percent in August 2024 since inflation was below the objective range and given global and domestic economic uncertainties, including fluctuating international oil prices. The authorities consider their monetary stance as appropriate, given that inflation is projected to remain within the objective range.
Financial Sector Development	Implement proposals to deepen the interbank and bond markets and improve monetary policy transmission. Implement the frameworks for emergency liquidity assistance, deposit insurance, and bank resolution.	The authorities continue to implement the 2023 FSAP recommendations with IMF TA. To foster the development of the interbank market, they are establishing the regulatory framework in collaboration with Frontclear. Preparations for implementation of Basel III regulatory standards are well advanced with the Liquidity Coverage Ratio and Capital Buffer guidelines fully operational by end-2025. The Emergency Liquidity Assistance (ELA) framework and a comprehensive stress testing framework are expected to be finalized in the first half of 2026, while the Net Stable Funding Ratio remains pending.
Financial Regulation and Supervision	Maintain close financial oversight, enhance crisis preparedness, and adopt a bank resolution framework.	The revised 2023 Banking Act, which strengthens the legal foundation for financial stability oversight and monetary operations, was enacted in May 2023 and formally promulgated in August 2025. The AML/CFT regime has been strengthened with the operationalization of a risk-based toolkit for banks and NBFIs, and supervisory authorities are moving towards a risk-based approach to supervision of financial institutions. The BoB is enhancing its supervisory capacity through targeted training and recruitment, including for IT risk oversight.

	2024 Article IV Recommendations	Authorities' Responses
Structural Policies	Implement plans for economic diversification, increase the relative size of the private sector and promote inclusive growth by supporting horizontal (cross-cutting) rather than sectoral reforms in the national plan and restructuring SOEs. To support the vulnerable, make social protection more efficient with programs that are more scalable in response to shocks, introduce a single social registry, and reallocate funds from tertiary to lower education levels. To promote financial inclusion, support small entrepreneurs by improving access to credit to foster job creation.	The authorities recognize the need for more inclusive growth and economic diversification. The new De Beers agreement and the Diamonds for Development Fund aim to support sectors beyond mining, such as agriculture and tourism. However, major private sector constraints remain unaddressed, including limited access to finance, weak institutions, labor market issues, land rights challenges, and SOEs crowding out private investment. The authorities launched the Botswana Economic Transformation Program (BETP) in July 2025 to stimulate private sector-led investments in six economic and three social areas assessed to have significant potential for wealth and job creation.

Annex IX. Data Issues

Table 1. Botswana: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	C	B	A	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	D	A	A		
Granularity 3/	B		A	B	B		
			B		A		
Consistency			C	B		C	
Frequency and Timeliness	A	A	D	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment.
Data provision has some shortcomings that somewhat hamper surveillance, particularly in the fiscal sector, where technical problems with the government accounting and budget information system have negatively impacted the authorities' capacity to accurately and timely monitor and report on budget execution since August 2023. The overall rating has accordingly been changed to "C", reflecting lack of progress in improving fiscal data (GFMIS), which is of particular concern in a context of depleted fiscal buffers, payment delays, and domestic arrears accumulation.

Changes since the last Article IV consultation.
National Accounts: The process to rebase the national accounts with 2024 as a base year is progressing, with data collection taking place from August 2025-March 2026. Statistics Botswana (SB) is reviewing and finalizing the questionnaire to be used in the Census of Economic Establishments (CEE), sample design and IT processing system.
Prices. The authorities are introducing Computer Assisted Personal Interview methods for CPI price collection.
Fiscal: The authorities are extending government finance statistics coverage beyond the budgetary central government, following TA in September 2024. There has been a significant decline in the quality of fiscal reporting since August 2023 due to technical problems with the government accounting and budget information system (GABS). This has prevented the timely reporting of the FY23/24 and FY24/25 data. The authorities are making progress with system upgrades to facilitate budget execution and fiscal reporting, though progress has been slow.
External: The BoB submitted the draft Quarterly External Debt Statistics in March 2025, and some data inconsistencies need to be addressed. Implementation of the recommendations from the BOP and IIP technical assistance mission from October 2024 continues, with ongoing adoption of the Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7).

Corrective actions and capacity development priorities.
Data to monitor and report on budget execution has been significantly hampered since August 2023, with technical problems with the Integrated Financial Management Information System (IFMIS) used in GABS. STA and FAD proposed some interim solutions in the spring of 2025, which have still to be implemented.
TA is ongoing on updating/development of the PPI and on rebasing the annual national accounts.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.
The team supplements official data with diamond production and price data from the largest diamond mining company.

Other data gaps.
The government is not adequately monitoring payment delays or potential payment arrears.
The household survey lacks information on income and consumption, hindering the ability to compute recent measures of poverty and inequality.
Although GFS data was compiled and TA was delivered on SOE fiscal risk analysis, the compiled annual GFS data have not been disseminated for 2010-2022.

Table 2. Botswana: Data Standards Initiatives

Botswana participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since January 2016.

Table 3. Botswana: Table of Common Indicators Required for Surveillance

As of October 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Botswana[8]	Expected Timeliness[6,7]	Botswana[8]
Exchange Rates	Jun-25	Sep-25	M	M	D	M	...	same day
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jul-25	Oct-25	M	M	M	M	1M	3M
Reserve/Base Money	Jul-25	Oct-25	M	M	M	M	2M	3M
Broad Money	Jul-25	Oct-25	M	M	M	M	1Q	3M
Central Bank Balance Sheet	Jul-25	Oct-25	M	M	M	M	2M	3M
Consolidated Balance Sheet of the Banking System	Jul-25	Oct-25	M	M	M	M	1Q	3M
Interest Rates[2]	Sep-25	Oct-25	M	M	M	M	...	5D
Consumer Price Index	Sep-25	Oct-25	M	M	M	M	2M	2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Sep-23	Oct-23	NA	NA	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Sep-23	Oct-23	NA	NA	Q	M	1Q	6W
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Apr-25	May-25	Q	Q	Q	Q	2Q	1Q
External Current Account Balance	Dec-24	Jul-25	Q	Q	Q	A	1Q	3Q
Exports and Imports of Goods and Services	Mar-25	Sep-25	Q	Q	M	M	12W	2M
GDP/GNP	Jun-25	Oct-25	Q	Q	Q	Q	1Q	3M
Gross External Debt	Mar-25	May-25	A	A	Q	...	2Q	...
International Investment Position	Dec-24	Jul-25	A	A	A	A	3Q	9M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex X. Fiscal Multipliers: Literature Review and Evidence from Botswana[1]

Botswana needs to undertake a sizable and urgent fiscal consolidation to reverse increasing deficits, rebuild buffers, and align with medium-term sustainability goals. The scale and transmission of this adjustment will be shaped by structural features: heavy reliance on diamond revenues, high import dependence, a narrow private sector, a crawling-peg exchange rate, strong institutions, and a high unemployment rate. These country-specific factors weaken the relevance of estimated cross-country panel multipliers and motivate the use of a Botswana-specific structural VAR estimate of the primary balance multiplier, better capturing the country's unique fiscal transmission channels.

A. General Literature on Fiscal Multipliers

1. Understanding fiscal multipliers is essential for designing effective fiscal policy. Country characteristics, including debt levels, monetary policy frameworks, institutional quality, private sector demand size and structural features will influence the size and shape of an output reaction to fiscal policy changes. Fiscal multipliers measure the short-term impact of discretionary fiscal policy on output and are typically defined as the ratio of the change in output to an exogenous change in the fiscal balance, relative to their respective baselines (Batini et al., 2014). This concept is central to assessing the macroeconomic implications of fiscal expansions or consolidations, particularly in low- and middle-income countries where structural and institutional features shape the transmission of fiscal policy.

Table 1. Botswana: Fiscal Multipliers over the Business Cycle
(from Batini and others, 2014)

	Spending		
	Expansion	Linear	Recession
Auerbach and Gorodnichenko (2012a), United States, 6 quarters	0	0.4	1.7
Auerbach and Gorodnichenko (2012b), OECD, first year	–0.2	0.2	0.5
Auerbach and Gorodnichenko (2014), Japan, 4 quarters[a]	1	1.2	2.4
Batini and others (2012), 4 quarters[b]	0.82	0.93	2.08
Baum and others (2012), 4 quarters[c]	0.72	0.79	1.22
Canzoneri and others, 2012, DSGE, United States, impact multiplier	0.89	1.3	2.25
Hernandez de Cos and Moral-Benito (2013), Spain, 4 quarters[d]	0.6	0.65	1.3
Owyang, Ramey, Zubairy (2013), United States, 2 year multipliers[e]	0.7	N/A	0.8
Owyang, Ramey, Zubairy (2013), Canada, 2 year multipliers[e]	0.4	N/A	1.6

[a]Using deviation of output from HP trend as measure of business cycle.
[b]Average of all countries in sample (including euro area).
[c]Average of G6 in sample.
[d]Using output gap to define expansions and recessions.
[e]Regimes reflect high and low employment.

2. The global financial crisis and subsequent episodes of large-scale fiscal adjustment revived interest in the size and variation of fiscal multipliers. Blanchard and Leigh (2013) show that underestimating fiscal multipliers contributed to systematic forecast errors in the aftermath of the crisis, leading to excessively optimistic growth projections during consolidation.

[1] This Annex has been produced in collaboration with RES and FAD, counting on input from Alexis Meyer-Cirkel, Adrian Peralta, Aiko Mineshima, Nikhil Patel, and Shuvam Das.

This experience underscored the need to incorporate credible multiplier estimates into policy advice, particularly during downturns. However, operational use of multipliers remains limited due to the inherent difficulty in estimating them. The two-way relationship between fiscal policy and output, anticipation effects, and noisy fiscal indicators introduce biases that complicate econometric estimation (Ilzetzki, Mendoza, and Végh, 2013; Auerbach and Gorodnichenko, 2012).

3. The empirical literature has identified several structural and cyclical factors that influence the size of the fiscal multiplier. On the structural side, key determinants include trade openness, labor market rigidity, the size and automaticity of stabilizers, the exchange rate regime, the level of public debt, and the overall quality of public financial management (Batini et al., 2014; Kraay, 2012). More open economies, for example, tend to exhibit smaller multipliers due to import leakages (Ilzetzki, 2011). Similarly, countries with flexible exchange rates or weak public financial institutions are less likely to experience large multiplier effects. On the cyclical side, the business cycle position plays a critical role: multipliers tend to be larger during recessions and when monetary policy is unresponsive, as public spending is more likely to crowd in private demand in such environments (Auerbach and Gorodnichenko, 2012; Riera-Crichton, Végh, and Vuletin, 2015).

4. The magnitude of the multiplier also varies significantly depending on the type of fiscal instrument used. Earlier literature estimated that spending multipliers were generally higher than revenue multipliers. Within spending, public investment typically has a higher multiplier than current expenditures, given its direct effect on productive capacity and private sector productivity (Agénor, 2010; Batini et al., 2014), but that relationship also weakens in the context of weak institutional quality and low efficiency in public investment spending. Conversely, tax multipliers were seen to be smaller, as households often save a portion of their increased disposable income. Among taxes, increases in corporate income taxes have been shown to be the most detrimental to growth, followed by labor, indirect, and property taxes (Arnold et al., 2011). More recent literature though (Ramey 2019) has brought new light into the whole multiplier discussion and finds that tax multipliers estimated with time series methods has shown multipliers larger than one.

Estimated Fiscal Multipliers in Low Income Countries

Study	Countries	Business Cycle	Multiplier			
			Spending			Taxes
			Linear	Investment	Current	Linear
IMF (2018)	Nigeria		1.0			
Elkhdari, Souissi,and Jewell (2018)	Algeria		0.6			
IMF (2016)	South Africa		0.9			
IMF (2015)	Uganda		0.2			
Ilzetzki (2011)	LICs		0.4			-0.8
Riera Crichton, Vegh and Vuletin (2014)	LICs	Expansion	0.3			
		Recession	0.8			
Sheremirov and Spirovska (2019)	LICs and Developed	Expansion	0.3			
		Recession	1.7			
Kraay (2014)	LICs	Expansion	0.1			
		Recession	0.7			
Kalonji, MacDonald and Sow (2018)	Cameroon			1.1	2.0	-0.4
Arizala, Gonzalez-Garcia, Tsangarides, and Yenice (2017)	Sub-Saharan Africa			0.7	0.5	
David (2017)	Paraguay			2.0	0.9	
Matheson and Pereira (2016)	Brazil			0.5		-0.5
Ilzetzki, Mendoza, and Vegh (2013)	LICs			1.6	0.2	
Gonzalez-Garcia, Lemus, and Mrkaic (2013)	LICs			0.6	0.4	0.5
Kraay (2012)	LICs			0.5	0.4	

Note: The figures show the effects of increases in spending and public revenue, thus expected signs are positive and negative

5. **Fiscal multipliers in Emerging Markets and Low-Income Countries (LICs) vary widely across countries and spending types.** Linear spending multipliers typically range from 0.2 in Uganda (IMF, 2015) to 1.0 in Nigeria (IMF, 2018), with higher values often observed for capital spending—for example, 2.0 in Paraguay (David, 2017). Tax multipliers are generally negative and modest, typically between –0.4 and –0.8. Multipliers also depend on the business cycle: estimates rise during recessions—up to 1.7—while they remain low during expansions, at 0.1–0.3 (Sheremirov and Spirovska, 2019; Riera-Crichton, Végh, and Vuletin, 2015; Kraay, 2014). These findings underscore the importance of a plethora of factors, including institutional quality, expenditure composition, other macro-fiscal characteristics and general economic conditions in shaping the effectiveness of fiscal policy in LICs.

6. **The existing empirical literature draws on a variety of methodologies, including structural vector autoregressions (SVARs), narrative identification techniques, and natural experiments.** Recent advances have integrated high-frequency data and alternative identification strategies, such as proxy SVARs or sign restrictions based on policy motives. However, significant gaps remain, especially for LICs and EMEs, where data limitations and institutional differences complicate estimation (Elkhdari, Souissi, and Jewell, 2018; Gonzalez-Garcia, Lemus, and Mrkaic, 2013). This literature review underscores that fiscal multipliers are neither fixed nor uniform across countries and time. Instead, they depend critically on country-specific features, cyclical conditions, and policy design. Accordingly, IMF advice should reflect these nuances, particularly in contexts of fiscal consolidation or stimulus, where ignoring multipliers can lead to suboptimal or even counterproductive outcomes (Arizala et al., 2017).

7. **Beyond the short term, fiscal policy can influence growth through multiple channels.** Public spending—especially on infrastructure and human capital—can raise potential output by boosting private sector productivity and facilitating technological diffusion (IMF, 2015; Agénor, 2010). Conversely, poorly targeted or inefficient expenditure can hinder growth, particularly if financed through distortionary taxes or if it worsens existing supply bottlenecks (Moreno-Dodson, 2012). On the revenue side, tax reductions may stimulate growth by strengthening incentives for investment and labor supply, but their effectiveness depends on the broader macroeconomic context, including the credibility of the fiscal framework and the stance of monetary policy (IMF, 2015). While estimates of fiscal multipliers typically focus on the near-term impact, it is important to remember that the design and context of fiscal measures will shape not only the size and duration of their output effects but also their contribution to the economy's long-term growth potential.

B. New Methodology and Empirical Estimates for Botswana

8. **Before starting with the empirical estimates, it is important to delineate the macro-fiscal-structural conditions of the country, which will influence the multiplier as discussed.** Botswana's fiscal position has weakened, with deficits expanding continuously and eroding once-ample reserves, while diamond revenues face structural and cyclical pressures. Debt remains moderate at under 30 percent of GDP but is rising, making a timely, credible consolidation

plan essential to rebuild buffers and preserve policy space. Structurally, Botswana is a small, open economy—SACU and diamond exports dominate external earnings—operating under a crawling-peg exchange rate regime that limits monetary policy flexibility and heightens the importance of fiscal discipline. Institutional quality is high by regional standards, with strong rule of law and governance indicators, but the labor market remains rigid, marked by centralized collective bargaining and high youth unemployment.

9. Applying new estimation techniques is crucial to eliminating potential bias problems. Traditional estimation approaches face challenges from policy endogeneity, anticipation effects, and noisy fiscal data—especially in emerging and developing economies. Recent research has addressed these obstacles using narrative identification and structural econometric techniques (Romer and Romer (2010, 2019), but the lack of scalable estimation methods has historically constrained their use in operational work. Most country-specific estimates require time-consuming manual classification of fiscal actions, which limits the scope of existing studies. In response, a new approach is being developed by the IMF's Fiscal Affairs and Research Departments leveraging artificial intelligence (AI) to construct a large-scale database of exogenous fiscal actions, enabling multiplier estimation across more than 140 economies.

10. The AI-based methodology addresses several longstanding challenges in fiscal policy analysis. First, it mitigates endogeneity concerns by focusing on exogenous fiscal actions—those not driven by contemporaneous macroeconomic conditions. Second, it addresses anticipation effects by analyzing the stated motivation of policies at the time of their announcement, filtering out measures taken in response to output dynamics. Third, the approach systematically processes textual information from the Economist Intelligence Unit (EIU), which provides regular macroeconomic and fiscal updates for over 140 countries. Using large language models (LLMs), including GPT-4.1, the system classifies each fiscal action based on its stance (expansionary, contractionary, neutral), motivation (with categories corresponding to those of Romer and Romer (2910)-e.g., market access, political considerations, conditionality), with the latter being used to assess exogeneity.

11. The classification follows a rule-based approach. Any action with a motivation classified as endogenous—such as countercyclical stimulus, financial rescue, or countercyclical austerity—is excluded from the exogenous shock series. Actions driven by policy ideas, political cycles, external conditionality, or market pressures are retained, as they are less likely to be systematically correlated with output dynamics. The AI-generated classification was benchmarked against the (manually) expert-coded database of Romer and Romer (2019) and achieved over 95 percent agreement in identifying fiscal stance and over 90 percent agreement in determining exogeneity. This validation confirms the reliability of AI-based narrative identification and its potential for broad cross-country application.

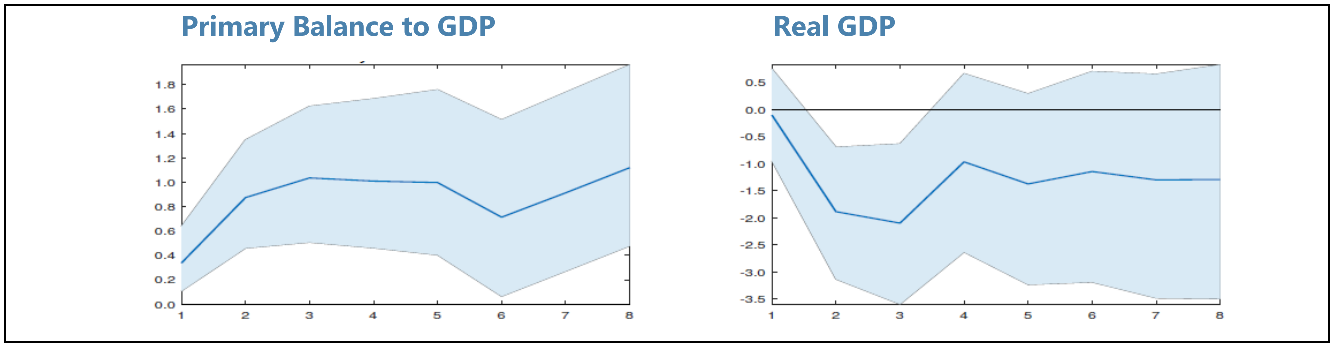
Technical Details of the Estimation

12. The estimation framework assumes symmetry between consolidations and expansions. In practice, however, the AI-generated fiscal index—once conditioned on exogeneity and restricted to the post-2006 sample used in the VAR—only contains consolidation episodes. This reflects both the data constraint (primary balance data are only available from 2006 onwards) and the narrative classification, which more readily identifies exogenous consolidations than expansions. As in Guajardo et al. (2014) and related studies, expansions are typically tied to short-term countercyclical objectives, making them harder to treat as exogenous. Consequently, identification in this exercise is based exclusively on consolidation episodes, a caveat that should be borne in mind when interpreting results.

13. The VAR is estimated at quarterly frequency over 2006Q2–2023Q4 (69 observations) with eight lags. The system includes five variables: the exogenous fiscal indicator (0/1/–1), the deposit rate, the GDP deflator, the seasonally adjusted primary balance (percent of GDP), and real GDP. Seasonal adjustment is applied to all series except the fiscal indicator. Priors follow a Minnesota specification, with hyperparameters drawn from Canova and Ferroni but adjusted for the relatively small sample size: overall tightness (3), lag decay (5), sum-of-coefficients (5), co-persistence (2), and covariance scaling (omega=2). Posterior inference is based on 5,000 draws. Impulse responses are reported as medians with 68-percent credible intervals (16th–84th percentiles), the standard approach in Bayesian VARs (Mountford and Uhlig, 2009). These intervals are not identical to frequentist confidence bands but are broadly analogous to ±1 standard deviation bounds.

14. The results are presented through impulse responses and multipliers, rather than raw coefficients. This reflects two considerations. First, the coefficient space is large—205 autoregressive parameters in this case—making raw reporting impractical. Second, coefficients in a VAR lack direct interpretability, as the objects of interest (impulse responses, multipliers, variance decompositions) are non-linear transformations of them. For these reasons, and consistent with standard practice in the literature, the report focuses on the transformed results that are policy-relevant.

15. The impulse response functions (IRFs) indicate that fiscal consolidations—defined as exogenous improvements in the primary balance—have a substantial negative effect on output. Specifically, the cumulative multiplier is estimated at -1.50 over four quarters and -1.38 over eight quarters. These values imply that a one-percent of GDP improvement in the primary balance reduces real GDP by approximately 1.4 to 1.5 percent within one to two years, underscoring the strength and persistence of the output response.



16. The relatively large fiscal multipliers estimated for Botswana likely reflect several structural features of the economy. First, limited private sector dynamism and a shallow credit market imply that public spending plays an outsized role in aggregate demand. Second, monetary policy may be constrained in offsetting fiscal shocks, particularly in a small, open economy operating under a crawling peg exchange rate regime. On the other hand, however, high import dependence of both consumption and investment reduces the multiplier relative to more closed economies, but this is partly offset by the large size of the public sector and the relatively low prevalence of automatic stabilizers. Comparing the results for Botswana with the empirical literature for EMs and LICs suggest that the multiplier findings here are relatively large.

17. Evidence from both the literature and Botswana-specific estimates highlights that how fiscal consolidation is implemented is as important as how much is done. The Botswana results—drawn almost exclusively from the country-specific SVAR estimates—indicate that fiscal consolidations have sizable negative short-term output effects, with multipliers in the range of –1.4 to –1.5 over one to two years. As the literature reviewed earlier makes clear, however, the size of these multipliers depends critically on the composition of consolidation. Spending-based adjustments and revenue-based measures have different growth impacts, and within spending, public investment typically carries larger and more persistent positive effects on output than current expenditure, given its role in boosting productive capacity. On the revenue side, the growth impact varies with the tax base: increases in corporate income taxes tend to be the most detrimental, followed by labor, indirect, and property taxes. These nuances matter for Botswana's policy design. While the evidence here supports a gradual pace of adjustment to avoid deepening economic slack, the efficiency and growth-friendliness of measures will be equally important. A consolidation strategy that safeguards well-targeted capital spending, enhances spending efficiency, and mobilizes revenue from less distortionary sources would help limit output losses while ensuring fiscal sustainability.

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INTERNATIONAL MONETARY FUND

BOTSWANA

November 4, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by | African Department

CONTENTS

RELATIONS WITH THE FUND

(As of October 10, 2025)

Membership Status: Joined July 24, 1968; Article VIII

General Resources Account	SDR (million)	Percent of Quota
Quota	197.20	100.0
Fund holdings of currency	145.74	73.90
Reserve position in Fund	51.47	26.10

SDR Department	SDR (million)	Percent of Quota
Net cumulative allocation	246.44	100.00
Holdings	252.57	103.30

Outstanding Purchases and Loans None

Financial Arrangements None

Project Obligations to Fund None

Implementation of HIPC Initiative Not Applicable

Implementation of Multilateral Debt Relief Initiative Not Applicable

Implementation of Catastrophe Containment and Relief Not Applicable

Exchange Rate Arrangement

The currency of Botswana is the pula. Botswana's de jure and de facto exchange rate arrangement is classified as a crawling peg. The pula weighted against a basket of currencies comprising the SDR and the South African Rand. As of August 31, 2025, the exchange rate of the U.S. dollar to the Pula was US$1= P13.38, and that of the South African rand to the Pula was R1=P0.75.

Botswana has accepted the obligations under Article VIII, Sections 23, and 4 of the IMF's Articles of Agreement. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation

Botswana is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on August 28, 2024.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/botswana
- African Development Bank (AfDB): https://www.afdb.org/en/countries/southern-africa/botswana
- IMF Regional Technical Assistance Center for Southern Africa (AFRITAC South): http://www.southafritac.org/
- Japan International Cooperation Agency (JICA): https://www.jica.go.jp/english/overseas/botswana/office/index.html
- OPEC Fund for International Development (OFID): https://opecfund.org/operations/countries-a-z/africa/botswana

Statement by Mr. Adriano Isaias Ubisse, Executive Director for Botswana, Ms. Vuyelwa Vumendlini, Alternate Executive Director, and Ms. Gonaya Basutli, Senior Advisor to Executive Director
November 19, 2025

Introduction

1. On behalf of our Botswana authorities, we thank staff for their constructive engagement during the recent Article IV consultation mission. Our authorities broadly share the thrust of staff's appraisal and policy recommendations.

2. Botswana continues to contend with multiple, successive shocks, which have eroded external buffers and severely affected the macroeconomic outlook. A prolonged and sharper-than-expected downturn in the diamond market has led to an economic contraction in 2024 and into 2025, with implications for the fiscal and current account deficits. Furthermore, efforts to entrench the post-COVID recovery have not borne fruit as envisaged. These developments have prompted the authorities to reassess macroeconomic priorities, with a renewed focus on stabilizing the external position, safeguarding fiscal sustainability, and accelerating structural reforms to reduce reliance on the diamond sector.

3. Following the elections held in October 2024, Botswana peacefully ushered in a new coalition government in November 2024, the first opposition party victory since independence in 1966. The new government has committed to transform the lives and livelihoods of Batswana and broaden access to economic opportunities. However, the deteriorating outlook and constrained fiscal space hamper the government's ability to deliver swiftly on its promises. Nevertheless, they have begun to make progress, particularly on social spending on the vulnerable, including through a higher minimum wage, increased pensions for the elderly and allowances for students undergoing technical and vocational training. Given the mounting fiscal pressures, the authorities have initiated austerity measures, supported by advancing reforms, which include, among others, robust fiscal consolidation, monetary policy tightening, enhancements to the exchange rate regime, and impactful structural transformation initiatives.

4. Our authorities acknowledge the urgent need for economic diversification and recognize that implementation has been a challenge to achieving this goal. To address implementation bottlenecks, they launched the Botswana Economic Transformation Programme (BETP), which sets the stage for transforming the economy and achieving resilient and inclusive growth, through enhanced private sector participation and private- public partnerships. The BETP translates national priorities into executable, high impact investments, with a focus on six economic sectors: tourism, agriculture, manufacturing, financial services and digitalization, energy and mining, and infrastructure). The National Development Plan 12 (NDP 12),

with the theme “Building a Diversified and Inclusive Deep Economy for Sustainable Jobs” and approved by Parliament on November 6, 2025, serves as the nation’s medium-term anchor, and also emphasizes private sector-led and inclusive growth. Through the NDP 12, the authorities have reaffirmed their vision for a high-income Botswana that is digitally enabled, export driven and economically diversified, where every citizen is employed, empowered, and fulfilled, by 2036. To strengthen implementation, the authorities are exploring institutional reforms and capacity-building measures to address cross-sectoral bottlenecks and improve delivery of high-impact investments.

5. The authorities continue to value Fund advice and are implementing recommendations from Technical Assistance missions, Article IV consultations and the 2023 Financial Sector Assessment Program (FSAP). In that regard, they have undertaken significant legal reforms to strengthen the financial sector and have commenced, in collaboration with the World Bank, work to formulate a Financial Sector Development Strategy (2024–2029), based on the FSAP recommendations. They are prioritizing reforms to enhance financial stability, deepen financial inclusion, and strengthen supervisory frameworks, with a particular focus on non-bank financial institutions and risk-based supervision. These efforts are expected to improve resilience and support the broader economic transformation agenda.

Recent Economic Developments and Outlook

6. Real GDP contracted by 3 percent in 2024, from a growth of 3.8 percent in 2023, owing to a 24 percent decline in mining production, as well as the generally subdued growth for the non-mining sectors, amid a weaker global environment. The contraction in the mining sector is primarily due to external factors, including weak global demand, heightened global economic uncertainty and geopolitical events that have dampened the demand for luxury goods, including diamonds. In the non-mining sector, economic activity remains challenged by low productivity, climate vulnerabilities such as frequent droughts and the impact of limited fiscal space. For 2025, GDP is projected to contract by about 1 percent. The authorities recognize that the current growth trajectory underscores the urgency of implementing productivity-enhancing reforms and unlocking private sector investment, particularly in non-mining sectors. They are prioritizing targeted interventions in agriculture, tourism, and digital services to mitigate downside risks and lay the foundation for medium-term recovery.

7. While inflation has been subdued and below the medium-term objective range of 3–6 percent for the past 12 months, it however accelerated to 3.7 percent in September 2025, reverting to the objective range. This compares to 1.4 percent in August 2025 and 1.5 percent in September 2024. The increase in inflation was mainly due to the September 2025 upward adjustment in domestic fuel prices, as well as the impact of adjustments in the exchange rate parameters implemented in July 2025.

8. The overall fiscal deficit widened significantly to an estimated 7.1 percent of GDP in

FY24/25, compared to about 4.3 percent of GDP for FY23/24. This deterioration is mainly due to the sharp decline in mineral revenue, which was only partially offset by an increase in Southern African Customs Union (SACU) receipts and other revenues, as well as reduced investment spending.

9. The external position deteriorated to a deficit of 4.2 percent of GDP in 2024, compared to a surplus of 1.5 percent of GDP in 2023. The declining diamond exports and weak capital inflows have contributed to the sharp increase in the deficit and a further decline in international reserves. As at end July 2025, foreign exchange reserves represented about 5 months of imports, which is still above the average of peer countries.

Fiscal Policy

10. Our authorities consider fiscal consolidation as a key priority and remain steadfast in their resolve to safeguard medium-term debt sustainability. They have identified several measures to rein in recurrent spending and improve investment spending prioritization. To strengthen expenditure controls, the payment process for government procurement (Government Purchase Order) has been centralized to ensure compliance across line ministries. The authorities also recognize the need to improve governance and efficiency, simplify and better target social programs, restructure state-owned enterprises (SOEs), reduce the wage bill and eliminate wasteful spending. To close the identified loopholes and inefficiencies associated with the Development Manager Model, they have reinforced the prioritization of capital projects, halting projects that have yet to commence and carefully selecting those that should continue. In addition, they have instituted travel austerity, reducing the travel budget by 50 percent and implementing fleet control measures. They have requested World Bank support for a public expenditure review aimed at identifying wage bill inefficiencies and have earmarked reductions in transfers to SOEs, as part of broader expenditure containment. Requests for additional funds through virements and supplementary funds have also been suspended, to be allowed only under exceptional circumstances and with the Ministry of Finance's endorsement. The authorities also view private sector participation as critical to finance social and infrastructure projects, including through public-private partnerships (PPPs).

11. Our Botswana authorities underscore the importance of revenue mobilization and have stepped up their efforts to raise the tax revenue GDP ratio. This will be achieved though the enhancement of digital infrastructure to improve tax compliance, broaden the tax base, and improve the ability to tax online businesses (the VAT Amendment Bill was approved by Parliament in July 2025, with the objective to introduce the taxation of remote services and mandate electronic invoicing, among others). Other measures include personal income tax adjustment for high-income earners, approved in February 2025 and a review of tax expenditures to increase the effective rate of VAT, which is expected to unlock some additional revenue by reducing zero-rated items. Furthermore, a holistic review of tax laws, including the Income Tax Act, Value Added Tax Act and the New Tax administration Bill is underway. These are

aimed at modernizing, harmonizing, and consolidating tax laws to keep pace with global tax developments. The bills are currently undergoing Cabinet review and are scheduled to be considered during the November 2025 sitting of Parliament.

12. The authorities attach a high premium to debt sustainability. Their 40 percent debt ceiling (20 percent domestic and 20 percent external) has served them well over time, and the country's debt is assessed at moderate risk of distress. However, given the concerns of the impact of a steep fiscal consolidation, the authorities acknowledge that the debt ceiling may need to be raised temporarily to 50 percent of GDP, which is still below peer countries. They underscore that any adjustment should be time-bound and targeted, accompanied by concrete measures to reduce the deficit, to prevent uncontrolled spending.

Monetary and Exchange Rate Policies

13. The Bank of Botswana remains firmly committed to medium-term price stability and stands ready to respond to price developments as needed. They anticipate that inflation will increase, breaching the upper bound of the 3–6 percent inflation objective range, by the second quarter of 2026, as the market responds to the adjustment in the exchange rate parameters. Therefore, the Monetary Policy Committee (MPC) increased the Monetary Policy Rate (MoPR) by 160 basis points to 3.5 percent in October 2025. The increase in the policy rate is intended to reinforce policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity, while complementing the adjustment of exchange rate parameters in July 2025, which was intended to preserve the official foreign exchange reserves, as well as signal the intent to support the external balance. Prior to the rate hike, the MoPR had been held at 1.9 percent since August 2024, on account of the previously subdued inflation outlook.

14. The authorities continue to reflect on the appropriateness of the current crawling peg exchange rate regime, to ensure continued alignment with the maintenance of a stable real effective exchange rate that supports the international competitiveness of domestic firms. They, therefore, value the inherent flexibility in the exchange rate framework that facilitates the necessary adjustments. In that regard, on July 10, 2025, the authorities adjusted the exchange rate policy to support economic growth and preserve foreign exchange reserves by increasing the rate of depreciation of the Pula against its basket of currencies from 1.51 percent to 2.76 percent, while widening the trading band from ±0.5 percent to ±7.5 percent. This move has contributed to the stability of international reserves.

Financial Sector Policies

15. Botswana's authorities regard financial sector stability as essential to a well-functioning economic system. The sector remains profitable and stable, with adequately capitalized banks and a low NPL ratio (about 3.3 percent). Similarly, non-bank financial institutions (NBFIs) remain strong and resilient, with total

financial assets at about 71 percent of GDP. That said, the prevailing economic challenges have contributed to tighter liquidity conditions. The central bank has swiftly moved to contain liquidity pressures with measures such as the reduction of its reserve requirement from 2.5 percent to 0 percent and the lengthening of the duration of its liquidity injections from overnight to one month, with resultant stability in liquidity. The authorities also remain attentive to any pockets of financial sector vulnerabilities and continue to monitor credit developments, with the Financial Stability Council's oversight. The authorities have made notable progress in strengthening the financial sector stability framework, including by fully operationalizing the Liquidity Coverage Ratio and Capital Buffer guidelines by end-2025. The Emergency Liquidity Assistance (ELA) framework and a comprehensive stress testing framework are expected in the first half of 2026, while work continues on the Net Stable Funding Ratio.

16. The authorities are advancing the implementation of FSAP recommendations, including strengthening of the AML/CFT framework, by addressing outstanding actions. The country is in the process of finalizing its latest national risk assessment, which will guide national and institutional priorities. The regulatory authorities continue to implement their risk based supervisory programs to address vulnerabilities, particularly in newly regulated sectors and among licensees with less capacity. Work is also ongoing to assist regulated institutions in their assessments of money laundering and terrorism financing risks and improving collection of information on beneficial ownership of legal persons and arrangements and politically exposed persons.

Structural Reforms

17. Our authorities view accelerating the structural reform implementation agenda as articulated in the BETP and the NDP 12, as key to transforming Botswana's economy into high income status by 2036. They have identified key reforms to improve the business environment, including through changes in legislation, improving access to finance, tackling corruption, and addressing land tenure issues and unreliable electricity supply. Economic diversification, accountable governance, human capital investment and sustainable innovation are at the top of their priorities. Specifically, they view reforms to diversify the economy, as important to unlock the economy's growth potential, enhance resilience to external shocks and address the high unemployment rate.

18. Climate change considerations continue to play a role in the authorities' key decisions, guided by the National Climate Change Policy. This is imperative, given the country's vulnerability to prolonged droughts, water shortages and animal diseases, which have now been exacerbated by climate change. The government has targeted a 50 percent share of renewable energy generation in Vision 2036 and aims for universal electricity access and net energy exporter status by 2030. Under its Nationally Determined Contribution (NDC), the country has pledged a 15 percent reduction in greenhouse gas emissions relative to a business-as-usual scenario by 2030.

19. Addressing data gaps ranks high on the authorities' priorities. Botswana subscribes to the IMF's enhanced General Data Dissemination System (e-GDDs). Efforts are ongoing to improve the coverage, timeliness and frequency of some data categories, especially under government finance statistics, as well as to address the challenges associated with the IFMIS.

Conclusion

20. Our Botswana authorities acknowledge the critical juncture the economy is at, and the challenges arising from continued weaknesses in the diamond market, delays in fiscal consolidation, and climate-related shocks. They remain committed to decisive policy action to safeguard macroeconomic stability, while positioning the economy to attain high-income status by 2036. Their efforts are geared to help build resilience, strengthen inclusiveness and accelerate growth. They look forward to Directors' advice and support in concluding the 2025 Article IV consultation, as well as the continued Fund engagement and technical assistance to help advance the reform agenda.