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Banking in Botswana

Credit, funding and the diamond cycle

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Abstract. Using the Bank of Botswana's monthly banking statistics to August 2026, this paper finds that commercial bank lending has started to shrink. Total loans fell 2.3% in the year to August 2026, the first annual decline in data back to 2016, led by a 4.3% fall in household loans. Banks are putting their funds into government paper instead: treasury bills and bonds have risen from 4.2% of bank assets in 2016 to 16.6%, and banks began lending directly to central government in 2026. Funding costs rose sharply in 2025, when interest expense grew 54% and net interest income fell 9.7%, before easing in 2026. Loans more than 90 days in arrears rose from 3.2% to 3.8% of the loan book over the same twelve months. Finally, changes in diamond export earnings are followed by changes in bank deposits one to four quarters later. With diamond exports down 36% in the first seven months of 2026, deposit growth is likely to slow into 2027.

Keywords: Botswana; commercial banks; credit; liquidity; sovereign-bank nexus; diamonds.

1 Introduction

Botswana's commercial banks look sound on the standard measures. Capital was 19.8% of risk-weighted assets in 2025 and non-performing loans were 3.3% of gross loans ([Bank of Botswana, 2026b](#)). But the economy around them has weakened. Real GDP fell 2.8% in 2024 and an estimated 0.4% in 2025 as demand for natural diamonds slumped ([Bank of Botswana, 2026d](#)), and the government has turned to domestic markets to finance a widening deficit ([Bank of Botswana, 2026c](#)).

Annual supervisory reports describe the banks at year end. This paper instead works directly from the Bank of Botswana’s monthly statistics to ask how the banks have responded since 2024, and what the data say about the year ahead. It makes four findings:

1. Lending is contracting for the first time in at least a decade, driven by households (Section 3).
2. Banks are shifting their balance sheets from private borrowers to the government (Section 4).
3. A sharp rise in funding costs squeezed margins in 2025, but profitability has recovered in 2026 (Section 5).
4. Arrears are rising, and diamond export earnings feed through to deposits with a lag, which points to tighter funding ahead (Sections 6 and 7).

2 Data and method

All results in this paper are calculated from the Bank of Botswana’s *Botswana Economic and Financial Statistics* (BEFS) for September 2026 (Bank of Botswana, 2026a). The release covers commercial banks with annual observations from 2016 to 2021, quarterly observations in 2022, and monthly observations from January 2023 to August 2026. Table 1 lists the tables used.

Table 1: BEFS tables used in this paper

BEFS table	Content
3.8, 3.9	Commercial bank assets and liabilities
3.10, 3.20	Liquid assets and the advances-to-deposits ratio
3.12, 3.13	Deposits by holder and by type
3.18, 3.19	Loans by borrower sector and household loans by purpose
3.24	Income statement: interest, provisions, expenses and profit
3.25	Loan arrears by days overdue and borrower
4.1	Interest rates
6.4	Diamond exports

Growth rates are year-on-year changes in month-end balances. Annual income figures are the sum of monthly (2023 onwards) or quarterly (2022) flows. The arrears ratio is loans overdue by more than 90 days, divided by gross loans to the same borrower group. “Business” loans are all loans to borrowers other than households and government, including parastatals and non-residents. Appendix A records the data treatment in full, including one correction to the source workbook.

The data are aggregates for all commercial banks, so the results describe the system, not individual banks. Arrears are not identical to the regulatory definition of non-performing loans, and the timing analysis in Section 7 rests on a short sample. These limits are discussed where they matter.

3 Lending has turned negative

Commercial bank loans stood at P87.6 billion in August 2026, P2.1 billion less than a year earlier. Between 2017 and 2025 total loans never grew by less than 3.3% in a calendar year, so the 2.3% fall in the year to August 2026 is the first contraction in the data. Year-on-year growth turned negative in May 2026 and has stayed there (Figure 1).

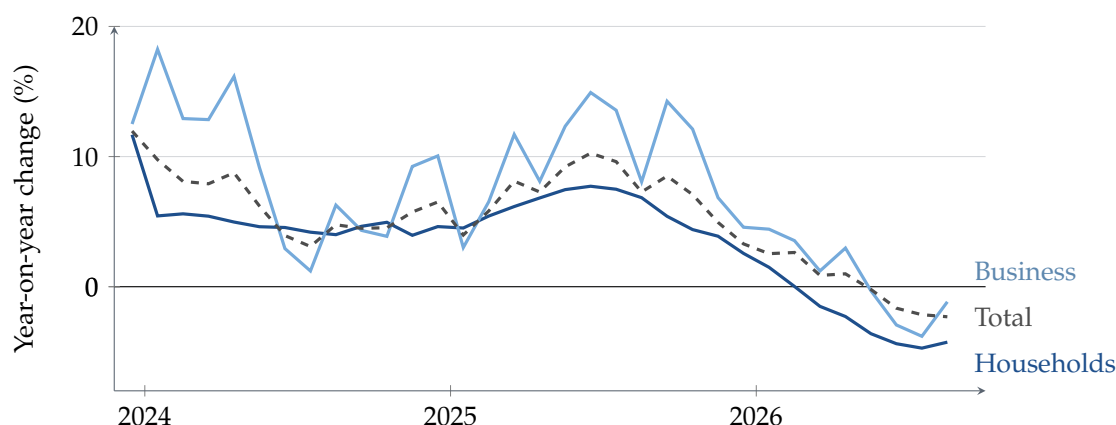


Figure 1: Growth in commercial bank loans by borrower, December 2023 to August 2026. Household lending slowed through 2025 and has shrunk since March 2026. Source: author's calculations from BEFS Table 3.18.

Households account for most of the decline. Their loans peaked at P57.5 billion in August 2025 and fell to P55.0 billion a year later, a drop of 4.3%. Personal loans, which make up 67.7% of household borrowing, fell by P2.2 billion, or 5.5%, and vehicle loans by 12.3%. Mortgages were broadly flat. Since government employees are the banks' largest borrowers ([Bank of Botswana, 2026c](#)), the fall is consistent with banks rationing unsecured credit and households paying down debt as the fiscal squeeze tightens.

Business lending has also stalled. After growing 18.2% in the year to January 2024, it fell 1.2% in the year to August 2026 (Table 2). The few sectors still borrowing more are linked to the state: electricity and water, where loans more than doubled, and parastatals. Lending to trade, finance, mining and construction fell.

4 From private borrowers to the government

As lending has slowed, banks have moved their money into government and central bank paper. Holdings of treasury bills and debt securities, mostly bonds, rose from P3.4 billion in 2016 to P25.2 billion in August 2026. Their share of bank assets rose from 4.2% to 16.6%, while the share of loans fell from 61.6% to 55.6% (Figure 2). Banks also began lending to central government directly in 2026, with balances reaching P2.0 billion in July 2026 from almost nothing a year earlier.

Table 2: Commercial bank loans by borrower (P billion)

Borrower	Aug 2025	Aug 2026	Change	Share, Aug 2026 (%)
Households	57.48	55.03	−2.45	62.9
Real estate	5.90	5.83	−0.06	6.7
Trade, restaurants and bars	6.48	5.81	−0.67	6.6
Business services	4.50	4.70	0.20	5.4
Parastatals	2.69	3.16	0.46	3.6
Manufacturing	2.38	2.48	0.10	2.8
Agriculture	2.11	1.93	−0.18	2.2
Finance	2.54	1.86	−0.68	2.1
Electricity and water	0.79	1.75	0.96	2.0
Transport and communications	1.37	1.68	0.31	1.9
Construction	1.18	0.98	−0.19	1.1
Government	0.00	0.75	0.75	0.9
Mining	0.63	0.47	−0.16	0.5
Total loans	89.63	87.56	−2.07	100.0

Source: author's calculations from BEFS Table 3.18. Smaller business sectors and non-resident loans are included in the total but not shown, so rows do not sum to the total.

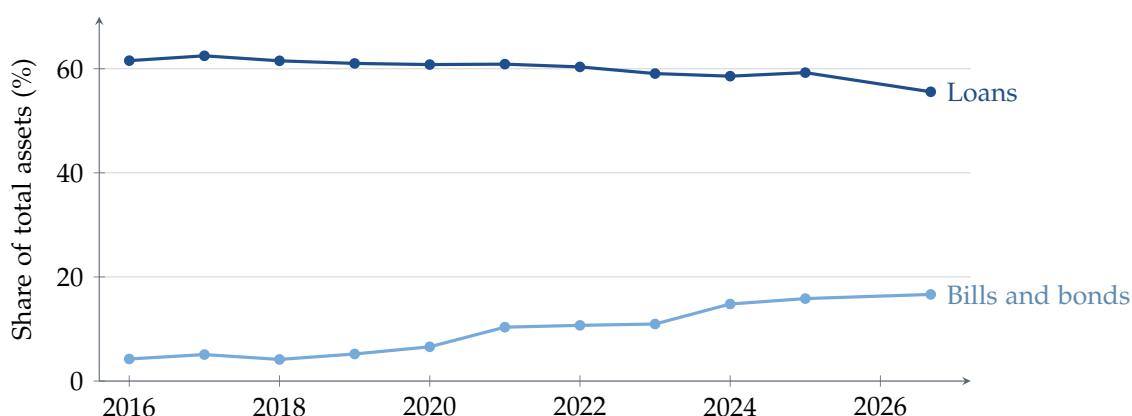


Figure 2: Loans and holdings of treasury bills and debt securities as a share of commercial bank assets, 2016 to August 2026 (December values; last point August 2026). Source: author's calculations from BEFS Table 3.8.

The reason is visible in interest rates. In August 2026 the long-term government bond yielded 13.3% and three-month Bank of Botswana Certificates 8.6%, against 2.1% paid on savings accounts and 4.2% on twelve-month fixed deposits. Banks still earn more on loans, an average 16.2%, but government paper carries little credit risk and requires less capital. With arrears rising, the risk-adjusted case for lending has weakened.

The shift has left banks highly liquid. Liquid assets were 26.4% of deposits in August 2026, up from 17.3% a year earlier and close to the series high of 27.2% reached in July 2026. Liquid assets above the regulatory requirement more than doubled, from P6.3 billion to P14.0 billion, and the ratio of loans to deposits fell from 80.3% to 74.0%. This is a sharp reversal from early 2025, when excess liquidity fell to a historically low level ([Botswana Daily](#)

News, 2025).

The shift has a cost. Each pula placed in government paper is one not lent to a firm or household, and it ties the banks' health more closely to the government's. This is the sovereign–bank link the Bank of Botswana has flagged as a stability concern (Bank of Botswana, 2026c); the monthly data show it deepening through 2026.

5 Funding costs and profitability

Deposits grew 6.0% in the year to August 2026, to P118.3 billion, but they remain concentrated. Private businesses, a category that includes pension funds and other non-bank financial institutions, hold 64.9% of deposits; households hold 19.9% and parastatals 10.8%. Household deposits fell from P29.2 billion in August 2025 to P23.5 billion in August 2026, in two steps in September 2025 and March 2026; part of this may reflect reclassification between holder categories.

Funding became much more expensive in 2025. As banks competed for scarce liquidity, time deposits rose from 33.9% to 40.9% of deposits during the year, and twelve-month fixed deposit rates reached 5.6% by August. Interest expense rose 54.3%, from P3.4 billion to P5.2 billion (Table 3). Interest expense absorbed 43.4% of interest income, up from 31.0% in 2024, and net interest income fell 9.7%.

Table 3: Commercial bank income, 2019–2025 (P billion unless stated)

	2019	2020	2021	2022	2023	2024	2025
Net interest income	4.36	4.38	4.38	5.04	6.34	7.49	6.77
Non-interest income	2.84	2.78	2.98	3.42	3.64	3.95	5.30
Provisions for bad debts	0.77	0.84	0.47	0.13	0.33	0.22	0.90
Net income	1.78	1.57	1.88	2.61	3.13	4.14	3.79
Interest expense / interest income (%)	30.4	28.8	30.4	34.8	36.4	31.0	43.4
Cost-to-income (%)	58.1	60.8	59.9	57.2	56.2	51.1	51.7
Return on average assets (%)	1.9	1.6	1.8	2.3	2.5	3.0	2.6

Source: author's calculations from BEFS Tables 3.8, 3.18 and 3.24. Cost-to-income is operating expenses divided by net interest income plus non-interest income.

Two things kept profits from falling further. Non-interest income rose 34.2%, to P5.3 billion, and costs were held in check. Net income fell only 8.5%, despite provisions for bad debts quadrupling from P221 million to P897 million.

The squeeze peaked in early 2026 and has since eased (Figure 3). Over three-month periods, interest expense reached 52.2% of interest income in the three months to February 2026, then fell to 38.6% in the three months to August as deposit rates declined and loan yields rose. In January to August 2026, net interest income was 4.1% higher than a year earlier and net income 8.2% higher, at P2.8 billion.

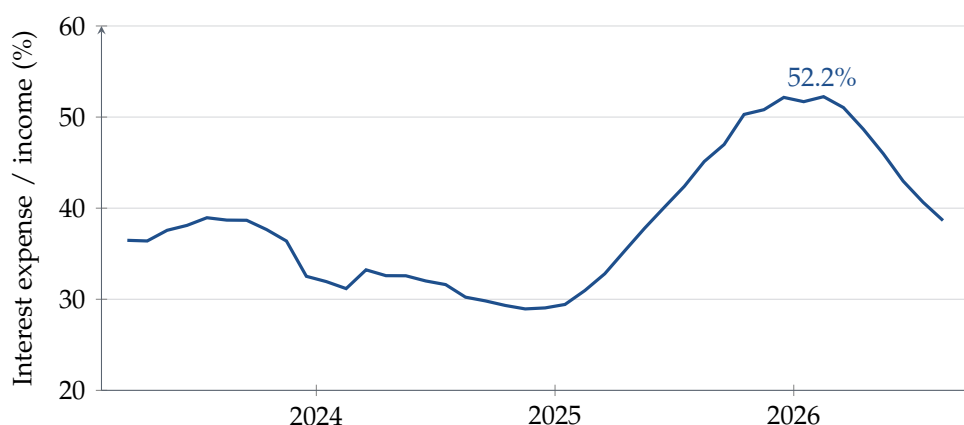


Figure 3: Interest expense as a share of interest income, three-month rolling sums, March 2023 to August 2026. Funding costs jumped in the second half of 2025 and have eased since February 2026. Source: author's calculations from BEFS Table 3.24.

6 Early signs of stress in asset quality

Arrears are rising. Loans overdue by more than 90 days rose from 3.20% of total loans in August 2025 to 3.83% in August 2026 (Figure 4). The household ratio rose from 2.81% to 3.38%, and the business ratio from 3.90% to 4.69%.

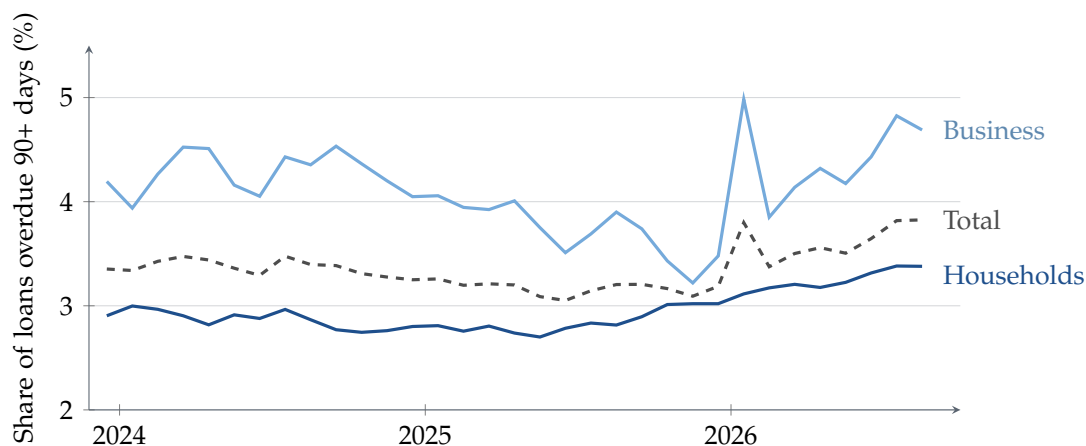


Figure 4: Loans more than 90 days in arrears as a share of loans to each borrower group, December 2023 to August 2026. Source: author's calculations from BEFS Tables 3.18 and 3.25.

Part of any rise in a ratio can come from a shrinking denominator, and loans are shrinking. But the rise here is mostly genuine. The value of household loans more than 90 days overdue grew 14.9% over the year, to P1.86 billion, and the business equivalent 18.9%. Had total loans stayed at their August 2025 level, the overall ratio would still have risen to 3.74%. Specific provisions covered 55.7% of loans more than 90 days overdue in August 2026.

These levels remain manageable, and banks' capital buffers are large. But the direction matters: arrears are rising at the same time as the economy is contracting and the government's finances are under strain, which is the combination the Bank of Botswana's stress tests treat as most dangerous ([Bank of Botswana, 2026c](#)).

7 Diamonds and bank deposits

Diamonds dominate Botswana's exports, and the proceeds pass through the banking system as mining companies, suppliers, the government and its employees are paid. If so, diamond earnings should show up in bank deposits, with a delay.

To test this, Figure 5 compares the four-quarter growth of diamond export earnings with the growth of bank deposits up to four quarters later, using quarterly data from 2022 to mid-2026. Deposits held by private businesses respond first: their growth is most closely related to diamond export growth one to two quarters earlier, with correlations of 0.64 and 0.66. Total deposits respond later, with a correlation of 0.89 at a four-quarter lag. Annual data from 2016 to 2025 point the same way, with a correlation of 0.66 between diamond export growth and private business deposit growth in the following year.

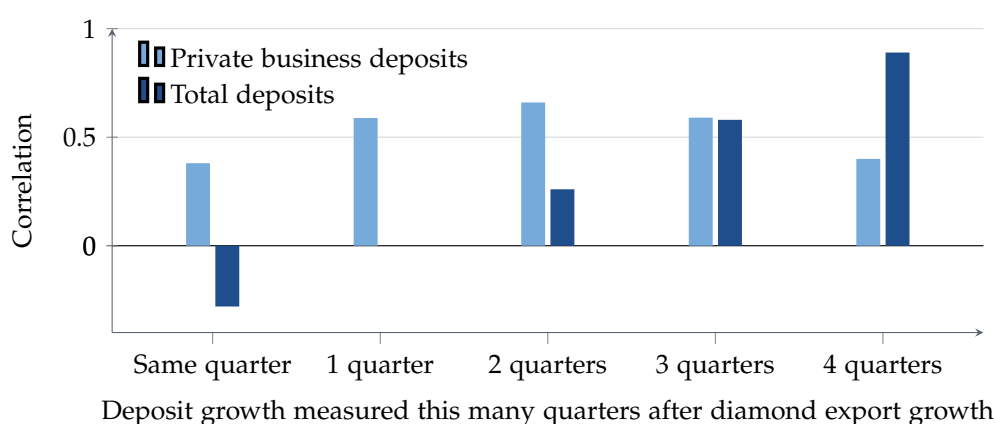


Figure 5: Correlation between four-quarter growth in diamond export earnings and four-quarter growth in bank deposits at later dates, 2022Q4 to 2026Q2 (11 to 15 quarterly observations). Source: author's calculations from BEFS Tables 3.12 and 6.4.

This evidence is suggestive rather than conclusive. The samples are short, the correlations do not establish cause, and other flows, including government spending financed by borrowing, also drive deposits. But the pattern fits how diamond money moves through the economy, and it has a clear implication. Diamond exports were P21.9 billion in January to July 2026, 36.2% lower than in the same months of 2025, and second-quarter exports halved from P18.5 billion to P9.4 billion. If the relationship holds, deposit growth, which reached 6.0% in August 2026 partly on the back of stronger diamond sales in 2025, should slow over the coming year.

8 Implications

The four findings fit together. Weak diamond sales have reduced government revenue and economic activity. Households and businesses are borrowing less and falling behind on more of their loans. Banks, flush with liquidity and facing higher risk, are lending to the government instead, and the government needs that money to fund its deficit.

For the banks this is profitable and, for now, safe. For the economy it is less healthy: credit to the private sector is shrinking at the moment it is most needed, and the banking system

is becoming more dependent on a sovereign whose rating was cut to BBB— in March 2026 ([Bank of Botswana, 2026c](#)).

Four indicators will show which way this goes:

1. **Household loan growth**, which will show whether the contraction is ending or deepening.
2. **The 90-day arrears ratio**, especially for business loans, where it has risen fastest.
3. **Banks' holdings of government paper and direct loans to government**, which measure the sovereign–bank link.
4. **Diamond export earnings**, which, on the evidence here, signal the direction of deposits a few quarters ahead.

9 Conclusion

Botswana's banks remain profitable, liquid and well capitalised. Their response to the diamond downturn has been to lend less to households and firms and more to the government. That keeps the banks safe in the short run, but it concentrates their risk on the state and withdraws credit from the private economy. With diamond exports falling again in 2026, the pressure on deposits and on borrowers is likely to continue into 2027. This working paper will be updated as new monthly data are released.

A Data notes

1. **Source.** All tables are from the September 2026 BEFS release ([Bank of Botswana, 2026a](#)). Balances are in pula at the end of each period.
2. **Diamond exports (Table 6.4).** In the source workbook, both the 2025 and the January to July 2026 monthly blocks are labelled “2025”. The second block was assigned to 2026. This matches the quarterly balance of payments (BEFS Table 6.3), whose 2025 export pattern, including a strong second quarter, matches the first block.
3. **Loans.** Gross loans from Table 3.18 are used for sector analysis and ratios. Table 3.8 reports loans net of provisions and is used only for asset shares. Total loans of P87.1 billion in December 2024 and P90.0 billion in December 2025 match the figures in the Bank's annual reports.
4. **Income.** Table 3.24 reports annual totals for 2016 to 2021, quarterly flows for 2022 and monthly flows from 2023. Year-to-date comparisons for 2026 use January to August in both years. Annual net income for 2023 and 2024 matches the published supervisory figures of P3.1 and P4.1 billion ([Bank of Botswana, 2026b](#)). For 2025 the monthly flows sum to P3.8 billion against P3.7 billion published, a small gap that may reflect revisions or year-end adjustments.
5. **Liquidity.** The liquid assets ratio is liquid assets divided by total deposits from Table 3.20. Excess liquid assets are from Table 3.10.
6. **Code.** The extraction and analysis scripts that produce every figure in this paper are available from Menori Capital on request.

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