Debt Capital Markets 2026 Outlook

January 2026

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Structural Shifts Define Medium-Term Trajectories

1 2026, A Year of Recovery, But Growth Remains Uneven Across the Region

- **Zambia** leads with strong mining-driven momentum; growth expected at **~5.8%**.
- **Botswana** returns to only **modest expansion (~2.0%)** after two years of contraction.
- **Mozambique** remains subdued (**~2.3%**), with FX shortages and delayed LNG benefits.
- **Mauritius** maintains steady, service-led growth (**~3.9%**).

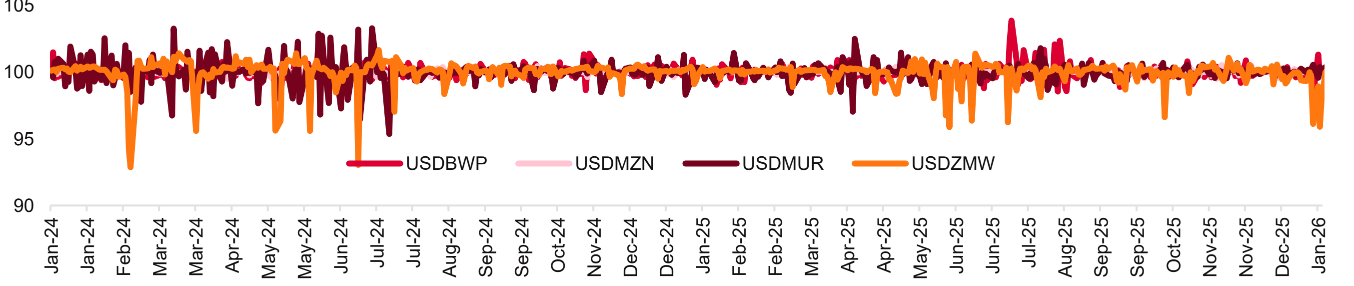
Country	Real GDP 2026F (%)	CPI 2026F (avg, %)	Fiscal Balance 2026F (% GDP)
Botswana	**2.0**	**5.9**	**≈ -7.0** (large deficits; debt rising)
Zambia	**5.8**	**9.7**	**Target -2.1** (ambitious; ~ -3% more plausible)
Mozambique	**2.3**	**5.9**	**≈ -5.1** (high debt ~96%)
Mauritius	**3.9**	**4.2**	**≈ -4.9** (debt >75%)

2 Fiscal Space Remains Constrained Across All Markets

- **Botswana:** Large fiscal deficits (~9% of GDP) and recent rating downgrades.
- **Mozambique:** High debt, distressed domestic rollovers and reliance on IMF discussions.
- **Zambia:** Strong commitment to discipline, but 2026 deficit target seen as ambitious.
- **Mauritius:** Consolidation continues, with capex protected but debt still elevated.

Country	S&P | Outlook	Moody's | Outlook	Fitch | Outlook
Botswana	BBB |Negative	Baa1 Negative	N/A
Mauritius	BBB- |Stable	Baa3 Negative	N/A
Mozambique	CCC+| Negative	Caa2 Stable	CCC
Zambia	CCC| Stable	Caa2 Positive	B- | Stable

2025 Currency Performance Against US Dollar, Rebased to 100



3 FX Pressures Are the Dominant Macro Risk

- **Botswana:** Pula depreciation pressures persist; rate of crawl likely to increase.
- **Mozambique:** Severe FX shortages continue to choke private-sector activity.
- **Zambia:** Kwacha may soften as IMF support sunsets and election-year flows weaken.
- **Mauritius:** Rupee weakness likely, though reserves remain a strong buffer.

Currency	Jan-26	FX Note (2026)
USD/BWP	13.72	**Depreciation bias**; faster rate of crawl likely
USD/MZN	63.91	**Acute FX shortages**; IMF path may include devaluation
USD/MUR	46.21	**Seasonal softness**; large reserves (~13 months) buffer
USD/ZMW	20.32	**Mild depreciation** as IMF support wanes; election year

4 Monetary Easing Momentum Continues, But Transmission Varies

- **Zambia:** Substantial rate-cut cycle expected as inflation falls below 10%.
- **Botswana:** Rates unlikely to rise further despite rising inflation due to liquidity stress.
- **Mozambique:** Easing cycle near completion; transmission weak due to structural bottlenecks.
- **Mauritius:** Stable policy stance expected at 4.5%.

Source : Absa Research, Bloomberg, S&P, Moody's, Fitch

Botswana 01

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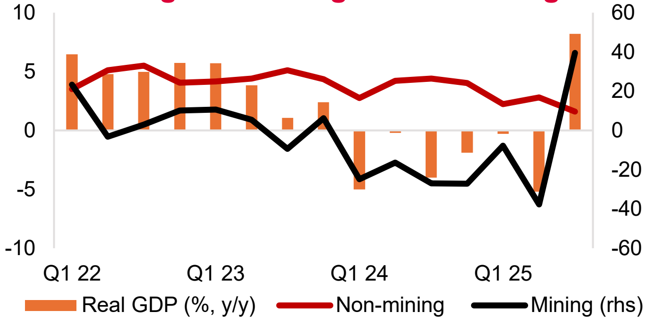
Modest Growth Expected to Return in Botswana

1 Diamond Weakness Drives Contraction; Recovery Remains Fragile

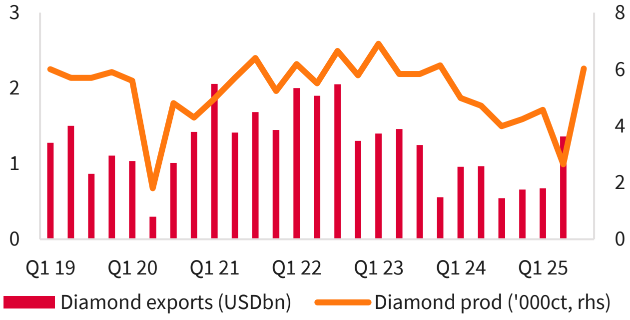
Botswana's economy remains under pressure due to a prolonged downturn in the global diamond market. Weak demand, competition from lab-grown diamonds, shifting consumer preferences, and trade-related disruptions have sharply reduced mining output, leading to a significant GDP contraction in H1 2025.

Absa Research expects the GDP to contract by 2.5% in 2025, marking a second consecutive year of decline. Growth is expected to recover modestly to 2.0%–2.5% in 2026–27, supported by base effects, non-mining sector resilience, and government programmes, though risks remain elevated. Medium-term recovery depends on a gradual stabilisation in the diamond market and progress on economic diversification, both of which are expected to take time

Non-mining GDP stronger while mining tanks



Exports rebound in Q3 2025



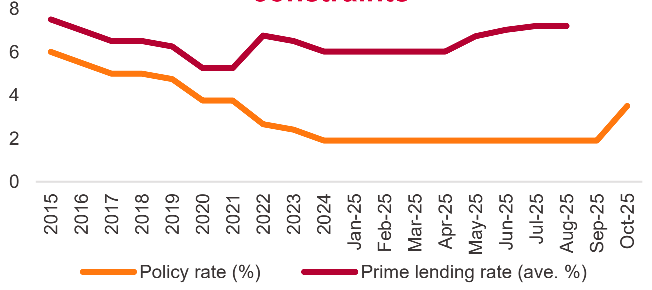
2 Rates to Stay on Hold as Growth Risks Outweigh Inflation

In 2025, the Bank of Botswana (BoB) increased the policy rate by a cumulative 160bps to 3.5%. The tightening aimed to stabilise the economy, support the exchange rate framework, and protect foreign exchange reserves. Despite rising inflation risks, the BoB urged commercial banks not to raise prime lending rates to contain borrowing costs and improve policy transmission. Absa Research expects the policy rate to remain unchanged through 2026 as the Bank prioritises growth support and economic transformation.

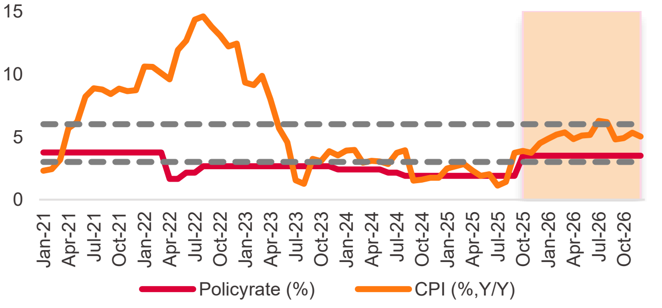
3 Inflation Rising, with Target Breach Likely in 2026

Headline inflation remained below the 3–6% target band for most of 2025, peaking at 3.9% in October. The uptick was driven by higher prices for alcoholic beverages, tobacco, and transport, largely reflecting the July 2025 exchange rate adjustment. Looking ahead, inflation risks are skewed to the upside due to higher electricity and water tariffs, rising fuel prices, and potential second-round effects. Against this backdrop, Inflation is expected to temporarily exceed 6% by mid-2026 before easing.

Elevated interest rates due to liquidity constraints



Rising inflation complicate monetary policy



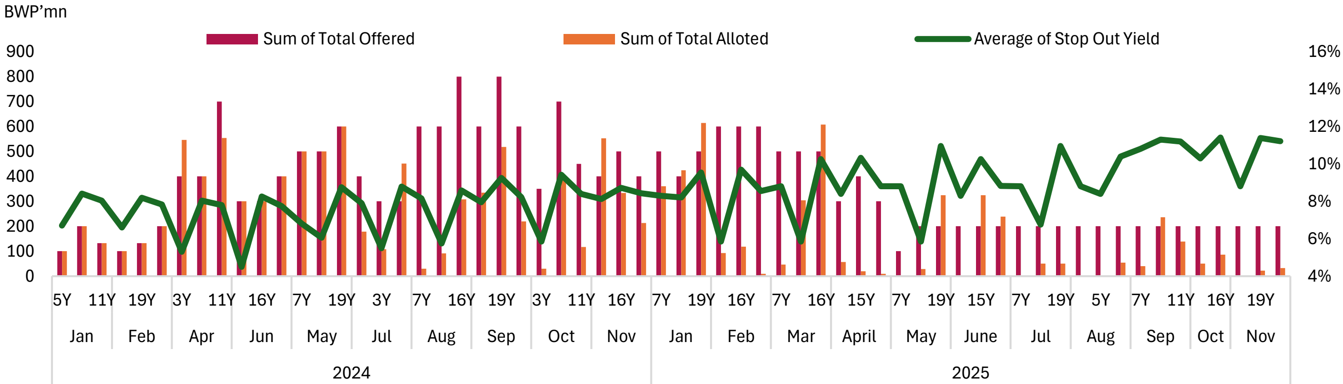
1. *Source : Absa Research, Bloomberg, StatBotswana, DeBeers,BOB*

Elevated Interest Rates and Constrained Liquidity

4 Short-Dated Bonds Favoured Amid Fiscal Strain

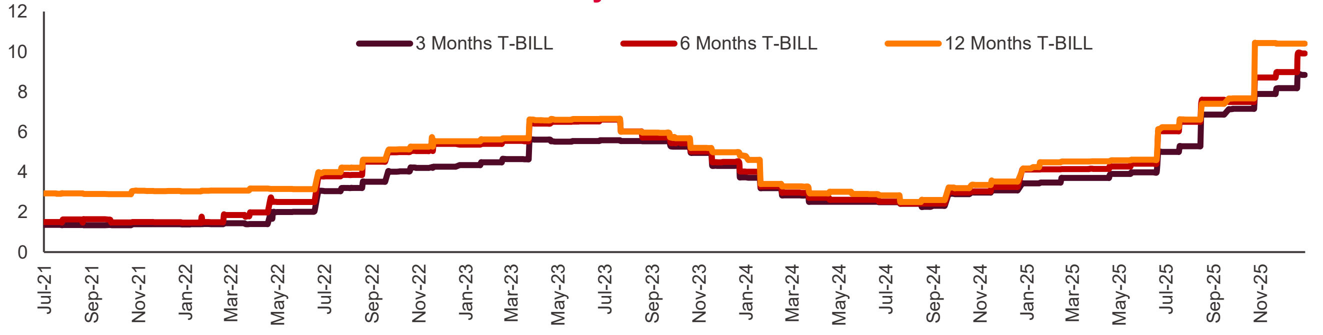
Government bond auctions underperformed in 2025, with BWP 6.41bn raised out of BWP 18.17bn offered

Government Bond Performance



Investor demand remained skewed toward short-dated instruments, with T-Bills achieving an average allotment of 83.1% versus 43.9% for bonds. Bid-to-cover averaged 1.17x, while yields rose sharply, with 12-month T-Bills above 10% and long-end bond yields between 11.4% and 12.6%.

Treasury Bills Performance



5 Corporate Issuances remained subdued as elevated lending rates persist

Moody's and S&P downgraded the Government of Botswana's credit rating, citing structural challenges in the diamond industry and weakening public finances. Although the corporate market is largely unrated, the credit deterioration will likely have an impact on credit spreads. Corporate issuance remained subdued throughout 2025, although issuance activity picked up in the latter part of the year, driven largely by the refinancing of maturing bonds. Absa Bank Botswana's inaugural Sustainable Bond remained the only listed ESG bond, matured in November last year. While publicly available details on ESG disbursements remain limited, the growing stock of sustainability assets on bank balance sheets suggests a latent pipeline of potential ESG capital market issuance. As market liquidity conditions improve and funding costs stabilize, we expect to see more ESG bond issuances.

6 FX Policy Tweaked to Support Exports and Preserve Reserves

The Pula appreciated 7.12% against the US dollar in 2025, but depreciated 5.49% against the rand over the same period. The Pula's medium-term outlook remains for a gradual, managed depreciation. The BOB introduced the asymmetric trading margins under the 2026 Pula Exchange Rate Policy which is intended to support export competitiveness while preserving foreign exchange reserves. This will improve Pula pricing for exporters and encouraging FX inflows in the medium term

Source : Absa Research, BOB

Mauritius 02

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Stable outlook, risks emanating from global developments

1 Resilience Amid Global Uncertainty

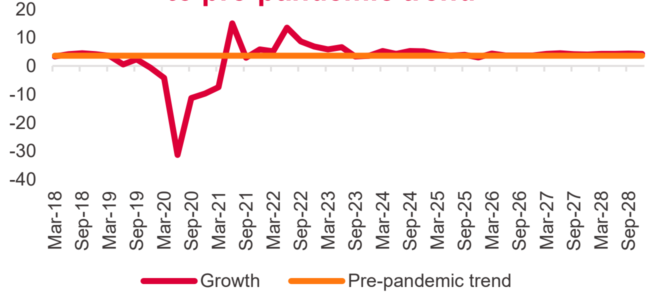
Mauritius is navigating global economic flux, especially tariff uncertainties, but has shown resilience with strong financial inflows and FX reserves covering 13 months of imports.

Macro-economic indicators		
Economic data	**Last**	**Date**
Headline Inflation	4.50%	Dec 2025
Unemployment	5.60%	Sept 2025
Key Rate	4.50%	Nov 2025
USD/MUR	46.28	19 Jan 2026

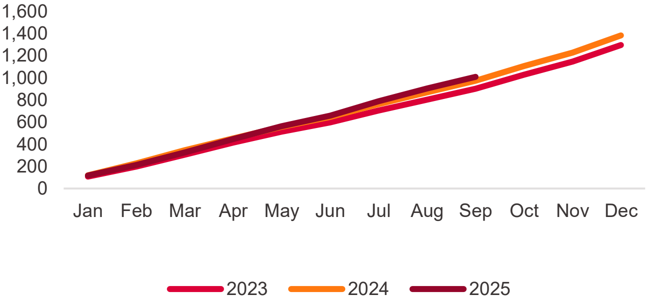
2 Growth and Inflation

GDP growth is forecast at 3.6% in 2025, rebounding to 3.9% in 2026. Inflation ended the year at 4.50%, a 5-month high. Generally, inflation is trending downwards from earlier peaks in 2025 and expected to remain within the 2–5% target range, with food inflation volatility subsiding.

Growth likely to be close to pre-pandemic trend



Cumulative tourist earnings up 6.8% H2 2025



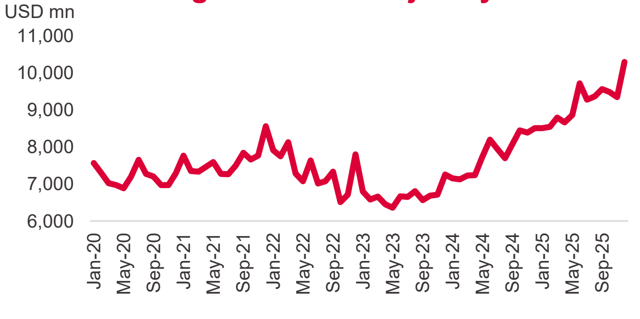
3 Policy Stance to remain stable in the medium-term

The BOM's MPC is expected to leave the policy stance unchanged in the medium term. The central bank is likely to keep the policy rate unchanged at 4.5%. Fiscal consolidation is focused on recurrent expenditure, with some growth in capital spending. Global dynamics rather than domestic inflation are a far more pertinent consideration in MPC deliberations

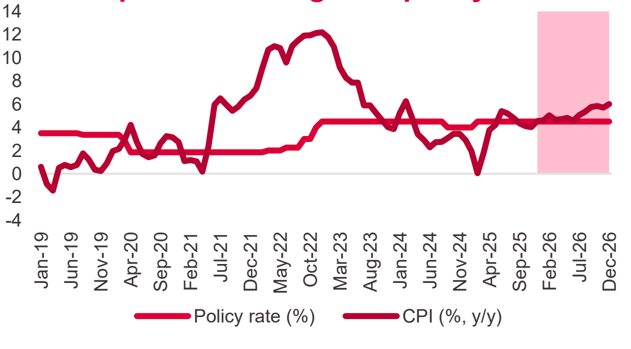
4 External Sector

The current account deficit remains wide, but is comfortably financed by inflows. The rupee may weaken seasonally, but reserves provide a buffer. With a large pile of reserves at its disposal, the central bank continues to supply hard currency to the interbank market. Further weakness for the rupee in the months ahead —mostly due to seasonal effects.

High FX reserves justify



No impetus to change the policy stance



Source: Absa Research, Statistics Mauritius, Absa Research, BoM

Heavy Sovereign Issuance Schedule For 2025

1 Government Securities

Mauritius' public debt profile remains high, and government budgets for 2025/26 allocate Rs 63.7bn to debt servicing, underscoring continued issuance requirements.

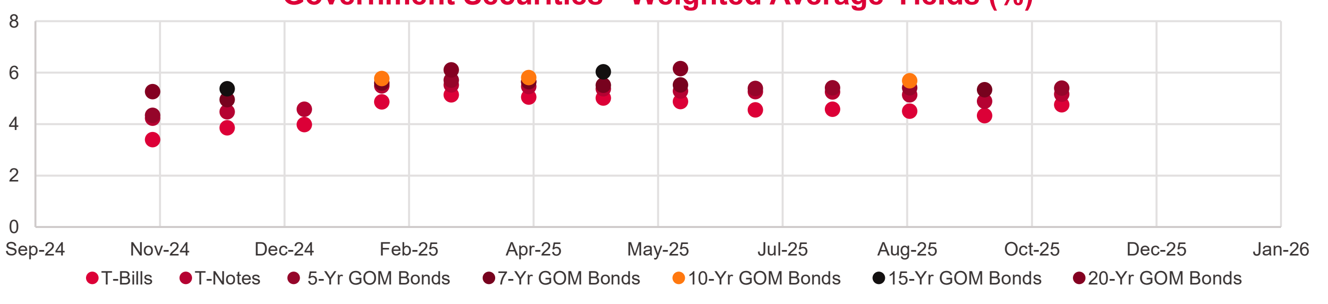
Mauritius outlined a heavy sovereign issuance schedule for 2025, signaling continued reliance on domestic funding to manage fiscal pressures. Government issuance was elevated this year, with domestic debt funding being the main source funding.

Total outstanding government securities stood at MUR 500,925 million at end of November 2025, reflecting a monthly increase of 1.29% and a year-on-year growth of 14.67%. Issuance was mainly concentrated in the shorter dates instruments and the belly of the curve.

Mauritius Sovereign Securities

	January 2026	July 2025
Instrument	**Buy (%)**	**Buy (%)**
3-Months	4.30	4.75
6-Months	4.50	4.95
1-Year	4.85	5.10
2-Year	5.05	5.30
3-Year	5.15	5.45
4-Year	5.30	5.50
5-Year	5.35	5.55
7-Year	5.50	5.75
10-Year	5.75	5.95
15-Year	6.00	6.15
20-Year	6.05	6.35

Government Securities - Weighted Average Yields (%)



2 Corporate Bond Market

The Mauritian corporate bond market saw increased activity in 2025, with issuers still preferring the preferential offer route as their method of placement. following the Bank of Mauritius' rate hike to 4.50% in early 2025, corporate issuance in Mauritius price off a rising sovereign yield environment. Higher yields might persist in 2026, influencing pricing for new corporate paper. ESG and sustainability-linked instruments will likely see growing momentum. Enhanced market participation—potentially more foreign investors interest will drive volume in the listed market.

Structural reforms support deeper corporate issuance pipelines over the medium term. We expect to see existing and new corporate issuers come to market.

Notable listed issuances in 2025 include CIEL Limited on the issuance of a MUR 1.45 billion (USD 31 million) Sustainability-Linked Bond (SLB), marking the first such issuance by a diversified investment holding company in Africa.

Recent Bloomberg Listed Corporate Bonds

Pricing Date	Issuer Name	Amt Out	Tenor at Issue	Coupon (%)	Maturity	Currency
25-Sep		3,472,800	10	0	35-Sep	EUR
25-Sep		3,472,800	10	0	35-Sep	EUR
25-Sep	**Global Segregated Issuance Program PCC**	3,000,000	10	0	35-Sep	USD
25-Sep		5,000,000	10	0	35-Sep	USD
12-Sep		7,000,000	10	0	35-Sep	USD
25-Jul	**WLB Asset VII Pte Ltd**	52,800,000	4	5.88	29-Jul	USD
25-Jun	**Global Segregated Issuance Program PCC**	2,344,460	3.04	12	28-Jul	EUR

Source: Absa Research, BoM, Care Rating, Bloomberg

Mozambique 03

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Resolving FX Shortages and Advancing Energy Projects

1 Economy at a Turning Point

In 2025, economic activity remained weak, with GDP contracting 0.9% y/y in Q3, marking a fourth consecutive quarterly contraction. Quarter-on-quarter the latest Q3 reading momentum has improved, with strong expansions in Q1 and Q2 2025, signalling an emerging recovery. Weak activity is not driven by security disruptions, but by persistent FX shortages, constraining imports, production and investment. According to Absa Research, Q4 2025 y/y growth is expected to rebound on a low base, despite volatile q/q momentum.

2026 outlook more constructive, supported by agriculture, extractives and potential IMF programme, which could ease FX constraints. LNG developments remain medium-term positives; financing commitments reduce downside risks. External risks elevated, notably from US trade policy, reinforcing need for macro stabilisation and external support.

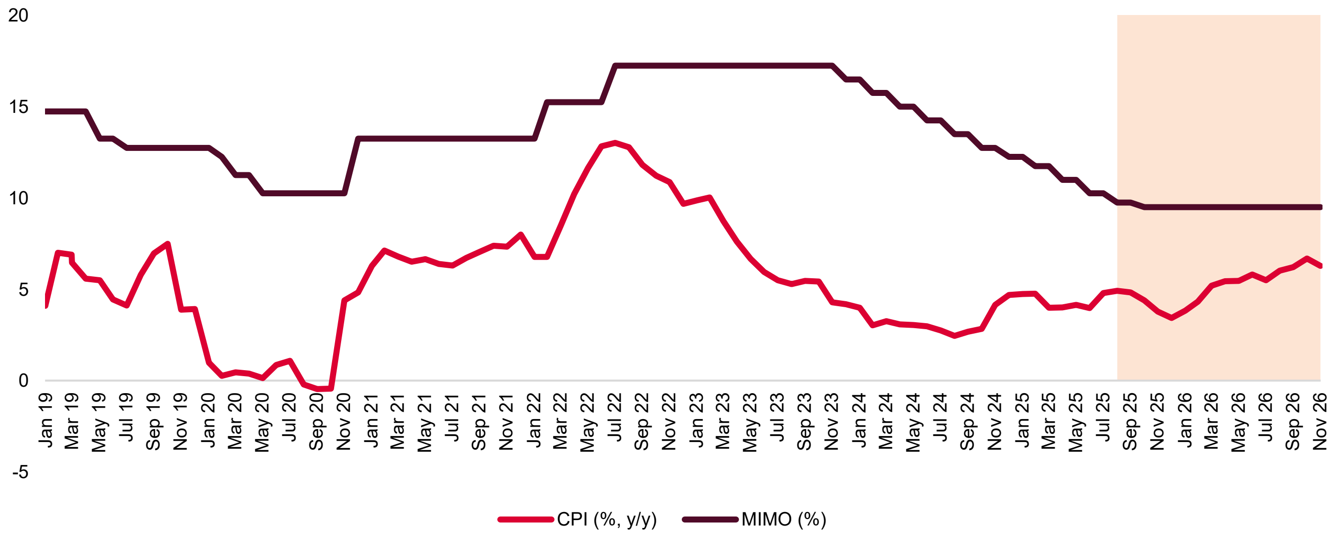
2 Inflation & Monetary Policy: Temporary Relief, Limited Easing Space

Headline inflation trended lower into year-end, easing to 4.4% y/y in November, driven largely by softer food prices. Disinflation improved near-term price stability.

Absa Research is of the view that Inflation expected to remain subdued into early 2026, falling below 4% in December. Re-acceleration is anticipated from March 2026 as base effects fade, keeping medium-term risks skewed to the upside

In the last MPC meeting, the Banco de Moçambique cut the MIMO rate by 25bps to 9.5%, reflecting easing inflation but heightened fiscal risks.. Th Absa Research team expects the policy rates to remain on hold at 9.5% through 2026 with the terminal rate of 9.0% now pushed out to 2027, limiting near-term easing.

Inflation eased into year-end, allowing a cautious MIMO cut



Source : Absa Research, Bloomberg, BoM, INE, Absa Research

Servicing of Domestic Debt Marred by Delays

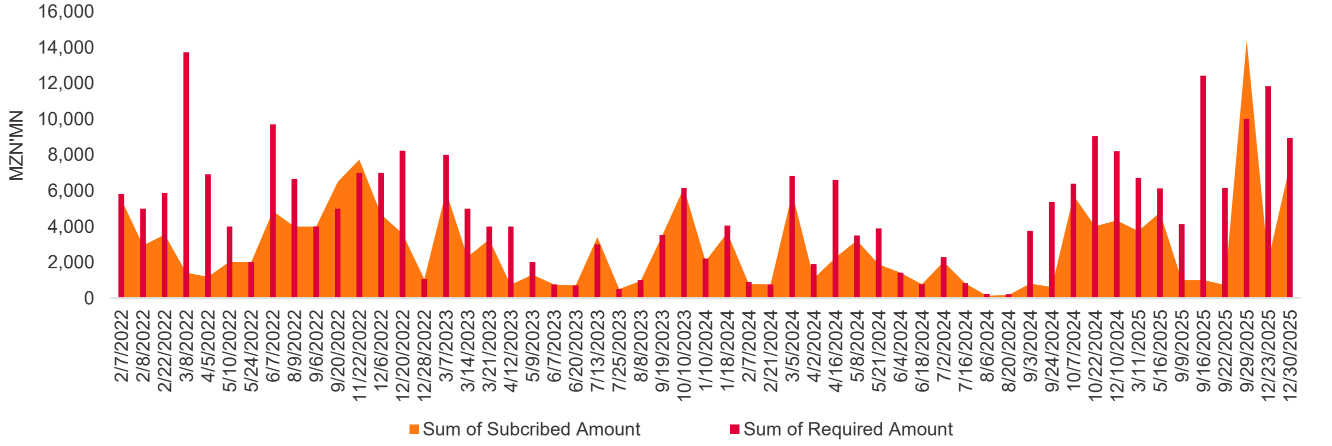
3 Primary Market Activity

Authorties prioritised maturity restructuring through executing bond swaps that amounted to MZN33bn. The Government managed to issue only MZN 35.4bn in 2025, which was 17% lower than 2024. In December, the government successfully executed two bond issuances (a 5-year fixed bond and a 3-year bond swap), raising MZN 20.5bn. All coupons and maturities have been honoured YTD, despite earlier delays. government placed 100% of the targeted amount in recent bond auctions.

Issuance activity in 2025 took place against a challenging macroeconomic and socio-political backdrop:

- Persistent FX shortages reduced foreign investor participation.
- Security concerns in Cabo Delgado continued to weigh on investor sentiment and delayed the resumption of TotalEnergies' LNG projects.

Government Bond Performance



4 Sovereign Debt and Fiscal Pressures

Fiscal pressures intensified, with heightened concerns around LCY and FCY debt sustainability, particularly given concentrated bond maturities in 2025–26.

Public debt remains elevated, with limited access to international markets following the hidden-debt scandal forcing the government to rely on higher-cost domestic borrowing. Following payment delays in October 2025, S&P Global Ratings affirmed Mozambique's FCY rating at CCC+/C (Negative Outlook), citing fiscal stress, liquidity constraints and arrears accumulation.

The LCY rating remains at Selective Default (SD) following a distressed domestic debt exchange earlier in 2025.We expect investor appetite to remain constrained, limiting the government's issuance capacity and weighing on banks' ability to expand lending. Prolonged tensions would further dampen economic activity and government revenues.

Source : Absa Research, Bloomberg, BoM, INE, Absa Research

Zambia

04

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Zambia’s Mining Investment Buoys Outlook

1 Mining-Led Recovery:

Zambia’s economic rebound is robust, underpinned by strong performances in agriculture and mining, especially copper. Over USD 10bn in mining investments are expected to support growth above 5% in coming years. The economy should receive further support from election-related expenditure, though, promisingly, authorities have indicated plans for continued fiscal discipline.

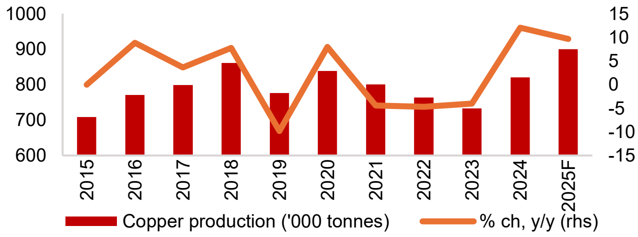
2 Zambia’s long-term outlook remains strong on the back of several large investments

Real GDP is forecast at 5.3% in 2025 and 5.8% in 2026, with major mining projects (e.g., Kansanshi, Lumwana, Mingomba) set to boost output and job creation. Large investments into copper sector set to boost output over the long run.

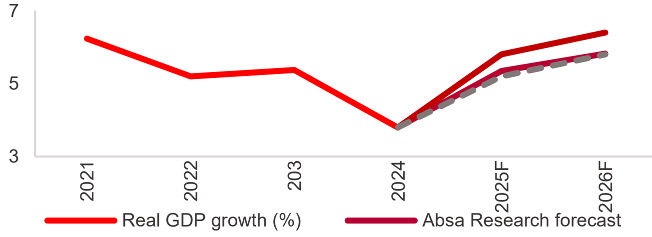
3 Fiscal Discipline and IMF Program

Authorities are committed to fiscal restraint, seeking an extension of the IMF program and targeting a fiscal deficit of 2.1% in 2026 (though this is considered ambitious). Authorities have continued to express a strong commitment to fiscal restraint next year despite the August elections, which have raised fears in the local market of potential slippages.

Key sectors performing strongly last year



Authorities’ growth projections appear



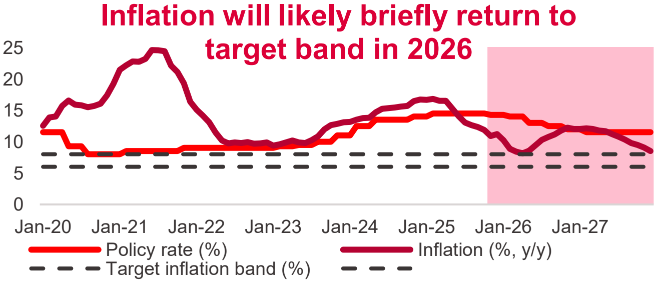
4 Inflation and Monetary Policy:

Inflation is easing (expected below 10% in 2026), allowing for further policy rate cuts. However, challenges remain with power supply, debt restructuring, and potential fiscal slippage during the 2026 election year. The country’s inflation outlook remains upbeat on the back of favourable base effects, weather conditions, stronger exchange rate and tight monetary policy. The policy rate could be cut by a cumulative 225bp next year, despite a likely modest 25bp cut at the February 2026 MPC meeting.

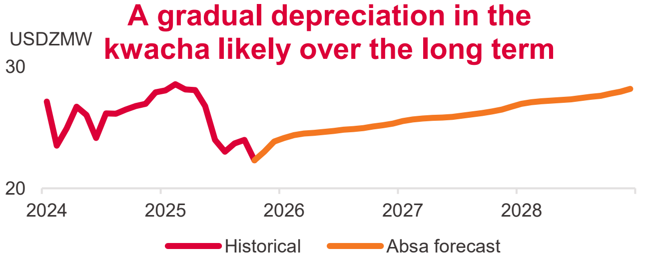
5 External Accounts

Copper exports and prices support external accounts, but rising imports and the end of the IMF program could pressure the kwacha and financial inflows. For most of 2025, the kwacha appreciated from 28.00-29.00/USD to a current range of 22.00- 23.00/USD amid renewed portfolio inflows, a rebound in agricultural output and higher copper production. The kwacha will need to cede some of this year’s gains in 2026 as the government would need to start repaying the principal amounts owed to official creditors from this year.

Inflation will likely briefly return to target band in 2026



A gradual depreciation in the kwacha likely over the long term



Ministry of Finance and National Planning (MoFNP) (Zambia)

GRZ Bond Yields Compressed Significantly

1 Government bonds continue to be well subscribed

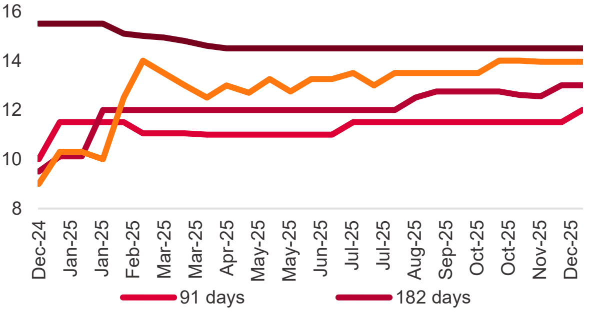
Sovereign issuance is set for a significant scale-up in early 2026, with the Ministry of Finance/BOZ increasing primary auction sizes from ZMW 1.8bn to ZMW 4.2bn for Q1. A major restructuring of the bond programme will begin in Q2 2026, including:

- Re-introducing 7-, 10- and 15-year benchmark bonds and launching a new 20-year benchmark bond.
- Quarterly auctions for benchmark bonds.
- Phasing out the 5-year tenor due to sufficient 2031 maturity stock.
- Targeting benchmark sizes of ~ZMW 10bn.
- Running a separate calendar for 2- and 3-year non-benchmark bonds.
- Yields are expected to trend lower in 2026 as inflation moves toward the target range (6–8%). Despite the election year, fiscal discipline and capped domestic borrowing remain policy priorities.

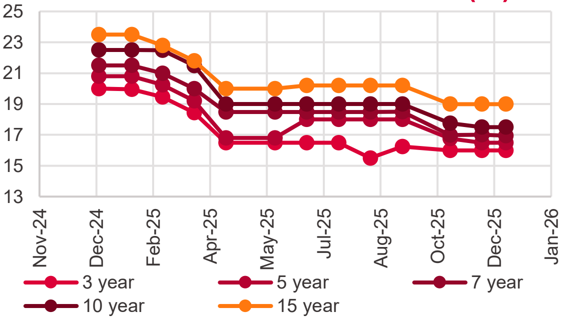
Market Development & Regulatory Reforms include:

- Offshore participation cap to rise sharply from 5% to an indicative 23% in 2026, with 15% targeted thereafter.
- A retail bond programme is planned, offering incentives, though implementation will be gradual.
- Contemplated Liability Management Operations include bond buyback programs and bond switches to smoothen cashflows and create a critical mass for the benchmark bonds.
- Portfolio inflows are likely to slow, now that bond yields have compressed significantly and with the withholding tax raised to a punitive 20%.

Treasury Bill Yield Rates (%)



Government Bond Yield Rates (%)



2 Corporate bond activity is expected to increase in 2026

Corporate issuance remained limited in 2025, but the 2026 outlook improves:

- Lower sovereign yields and excess liquidity should support appetite for corporate issuance. We expect to see existing and new issuers access the market, with traditional corporate bonds and ESG-related bonds.
- Izwe Loans Zambia PLC ("Izwe") was the main issuer in 2025, successfully raised a cumulative total of ZMW155.25 million under its existing ZMW750 million Medium Term Note Programme (MTNP) during the third quarter of 2025. Amongst the notes, was a bond with a collar structure, a first for the Zambian capital markets.
- ESG momentum remains strong and will continue to be key focus area in 2026, following the launch of the Zambia Green Finance Taxonomy (ZGFT) on the 2nd of December 2025. One of the local commercial banks announced plans to issue sustainability bonds worth 100 million dollars, in two equal tranches during 2026.

Corporate bonds recently listed on the LuSE

Issuer	Value	Coupon	Tenor	Issue Date
IZWE	K45,000,000	19%	3yrs	03/10/2025
	K21,000,000	3 Yr GRZ + 350bps (19% - 25%)	3yrs	17/07/2025
	K18,150,000	20%	3yrs	17/07/2025
	K71,000,000	19.00%	3yrs	09/07/2025
	K69,141,000	23.50%	3yrs	27/07/2024
CEC Renewables	$96,728,000	8.23%	15yrs	12/05/2024

Bank of Zambia (BoZ), Lusaka Stock Exchange (LuSE)

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