MONETARY POLICY STATEMENT | 2025

STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
- a safe, sound and stable financial system;
- an efficient payments mechanism;
- public confidence in the national currency;
- sound international financial relations; and to provide:
  - efficient banking services to its various clients; and
  - sound economic and financial advice to Government

MONETARY POLICY STATEMENT 2025

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February 19, 2025

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1. INTRODUCTION

1.1 The Monetary Policy Statement (MPS) is published at the beginning of the year to inform stakeholders about the about the basis that underpins monetary policy formulation and implementation by the Bank of Botswana (the Bank). In this regard, the Bank, through the MPS, reviews inflation trends and outlook, as well as assessing policy performance, and articulates the policy choices for the ensuing year. The MPS, together with the subsequent Monetary Policy Reports (MPRs) published during the year, and the Media Briefings after each Monetary Policy Committee (MPC) meeting, also serve to fulfill the public's expectation of a transparent and accountable central bank in pursuit of the monetary policy mandate, as enshrined in the Bank of Botswana (Amendment) Act, 2022.

1.2 The 2025 MPS, therefore, reports on the previous year's economic and policy developments and evaluates the determinants of changes in the level of prices and their impact on inflation in Botswana. In turn, there is an assessment of economic and financial developments that are likely to influence the inflation path in the medium term and the Bank's policy choices in 2025. Thus, price developments and policy options are assessed within the context of a forward-looking monetary policy framework, which entails policy responses to projected deviation of inflation from the medium-term inflation objective range of 3 – 6 percent or any anticipated adverse impact on financial stability. In this respect, the MPS promotes an understanding of prospective conduct of monetary policy to anchor and align public expectations to the objective of a low, predictable and sustainable level of inflation.

1.3 In 2024, the global economy remained subdued on account of the lagged effects of restrictive monetary policies implemented in 2023, increasing geoeconomic fragmentation, extreme weather conditions and low underlying productivity growth. Consequently, growth remained low and uneven across countries and regions. According to the International Monetary Fund (IMF)'s January 2025 World Economic Outlook (WEO) Update, global economic growth is estimated to have expanded by 3.2 percent in 2024, slightly lower than the 3.3 percent in 2023. The subdued growth was more pronounced in advanced economies (particularly in the euro area and Japan), than in emerging market and developing economies (EMDEs). Meanwhile, global inflation is estimated to have decreased from 6.7 percent in 2023 to 5.7 percent in 2024[1], consistent with the slowdown in economic activity.

1.4 In Botswana, the Ministry of Finance estimates the economy to have contracted by 3.1 percent in 2024, a marked slowdown from the 3.2 percent growth in 2023[2]. Inflation has generally been hovering around the lower bound of the medium-term objective range, averaging 2.8 percent in 2024. Contributing to lower inflation was the reduction in domestic fuel prices; subdued domestic and global economic activity; lower international commodity prices and a decline in trading partner countries' inflation. Going forward, inflation is forecast to remain below the lower bound of the 3 – 6 percent objective range in the short term but to be within the objective range in the medium term, while risks to the inflation outlook are assessed to be balanced.

1 In advanced economies, inflation decreased from 4.6 percent in 2023 to 2.6 percent in 2024, and from 8.1 percent to 7.8 percent for emerging market economies in the same period.

2 According to data published by Statistics Botswana, real gross domestic product (GDP) contracted by 2 percent in the twelve months to September 2024, compared to a growth of 4 percent in the year to September 2023.

1.5 The Bank eased monetary policy in 2024 due to projections for lower inflation in the short-to-medium term, and entrenched expectations for inflation to remain within the objective range. This, along with the economy operating below its potential, led to a cumulative 50 basis points reduction in the Monetary Policy Rate (MoPR), bringing it to 1.9 percent.

1.6 Regarding exchange rate policy, the Pula basket was maintained at 45 percent South African rand and 55 percent Special Drawing Rights (SDR). An annual downward adjustment of 1.51 percent (rate of crawl) in the nominal effective exchange rate (NEER) was implemented during 2024, resulting in a 2.5 percent depreciation of the real effective exchange rate (REER). The depreciation of the REER was driven by the depreciation (rate of crawl) of the NEER and lower inflation in Botswana compared to trading partner countries.

2. MONETARY POLICY FRAMEWORK

2.1 The monetary policy framework is the foundation and underlying structure of monetary policy. The primary objective of the Bank's monetary policy is to achieve price stability, which is defined as a sustainable level of inflation that is within the medium-term objective range of 3 – 6 percent. In addition to fulfilling this primary mandate, the Bank contributes to the stability of the financial system, thus maintenance of a stable, sound and competitive market-based financial system. A low and predictable level of inflation, alongside conducive monetary and financial conditions, foster effective savings mobilisation, productive investment and international competitiveness of domestic producers, ultimately contributing to broader national objectives of sustainable economic development and employment creation.

2.2 The monetary policy framework is forecast-based, with the medium-term outlook guiding the Bank's response to projected movements in inflation, while also considering developments relating to stability of the financial system and prospects for economic growth. To this end, in formulating an appropriate policy stance, the Bank factors in projections of real monetary conditions[3], relevant domestic and international economic and financial developments, and their impact on the output gap[4] and, ultimately, inflation.

2.3 The Bank recognises the importance of communication in sustaining and reinforcing transparency, predictability and accountability with respect to the policy framework and actions. This, in turn, fosters market participation, influences expectations, enhances policy credibility and ensures effective policy transmission. In this regard, in addition to the MPS, which is published in February, the Bank publishes three MPRs annually, following the April, August and October MPC meetings. Furthermore, the Bank publishes MPC meeting dates for the year ahead and the Governor delivers a statement at a Media Briefing, which is circulated to media houses, after each meeting

[3] The real monetary conditions index (RMCI), which reflects the state of real monetary conditions, measures the relative looseness or tightness of monetary conditions and gauges the likely effect that monetary policy has on the economy through changes in the exchange rate and interest rates. The RMCI combines, through a weighted average, deviations of the real exchange rate and real interest rate from their respective trend values.

[4] The output gap refers to the difference between actual output and long-term trend output (as an indicator of the productive capacity of the economy). A negative (positive) output gap means that the actual level of output for a given period is below (above) the trend level for that period, thus indicating that the economy is operating below (above) its estimated potential.

of the MPC to communicate the Bank's policy stance and facilitate dissemination of information.

2.4 Monetary policy formulation and conduct entails determination of the MoPR, the Standing Credit Facility (SCF) and the Standing Deposit Facility (SDF) interest rates - the latter two forming the Interest Rate Corridor - at each of the six MPC meetings throughout the year. In turn, the MoPR (yield on the 7-day BoBCs) is then used to conduct monetary operations, with the banks also having an option to access the SCF and SDF facilities at their discretion, in addition to utilising the interbank market.

3. IMPLEMENTATION OF MONETARY POLICY AND RELATED ECONOMIC DEVELOPMENTS IN 2024

(a) External Developments

3.1 At the global level, many central banks loosened monetary policy, amid the anticipated economic slowdown and improvements in the inflation outlook. (Appendix, Table A1). Nonetheless, central banks reduced policy interest rates by a lesser magnitude compared to the increases implemented in 2022-2023, thus remaining relatively tight. Furthermore, in advanced countries, central banks continued with tapering the asset purchase programmes that were introduced in 2020 to support the financial sector, and, in some instances, these programmes have been completed (Appendix, Table A1). However, some central banks raised their policy interest rates to tame inflationary pressures and anchor inflation expectations, for example, Russia and Japan, while others left the policy interest rates unchanged in 2024.

3.2 Overall, in 2024, global growth remained low and uneven across countries and regions. Global GDP is estimated to have expanded by 3.2 percent in 2024, marginally lower than the 3.3 percent in 2023 (Table 3.1). For advanced economies, output growth remained subdued at 1.7 percent in 2024, the same as in 2023, due to continued slower growth in the euro area, largely reflecting weakness in manufacturing and goods exports in Germany and a mild output contraction in Japan, owing to temporary supply disruptions. In contrast, economic activity in EMDEs is estimated to have expanded by 4.2 percent in 2024, slightly lower than an estimated expansion of 4.4 percent in 2023, due to subdued performance in China, amid a persistent property market crisis, as well as the slowdown in India due to a sharper-than-expected deceleration in industrial activity.

Table 3.1: Real GDP Growth Rates (Percent)

	Estimate		Projection	
	2023	2024	2025	2026
Global	**3.3**	**3.2**	**3.3**	**3.3**
Advanced economies	**1.7**	**1.7**	**1.9**	**1.8**
USA	2.9	2.8	2.7	2.1
Euro area	0.4	0.8	1.0	1.4
UK	0.3	0.9	1.6	1.5
Japan	1.5	-0.2	1.1	0.8
EMDEs	**4.4**	**4.2**	**4.2**	**4.3**
China	5.2	4.8	4.6	4.5
Brazil	3.2	3.7	2.2	2.2
India	8.2	6.5	6.5	6.5
Russia	3.6	3.8	1.4	1.2
South Africa	0.7	0.8	1.5	1.6
Botswana	**3.2**	**1.0 (-3.1)**	**5.2 (3.3)**	**4.8**

Source: IMF WEO Update January 2025, while numbers in parenthesis are from the Ministry of Finance.
Note: EMDEs stands for emerging market and developing economies.

3.3 Global inflation is estimated to have moderated from 6.7 percent in 2023 to 5.7 percent in 2024. This moderation is mainly due to lagged effects of monetary policy tightening on consumption and investment, squeezing of household budgets, softening labour markets and lower commodity prices, particularly of food and oil. The decrease in oil prices was, in part, due to weak industrial demand for oil, particularly in China; expanding electric cars fleet; as well as the expectations for the Organization of the Petroleum Exporting Countries (OPEC) and its allies' decision to gradually unwind the extra voluntary production cuts. These factors offset the impact of geopolitical risks and supply threats, thus contributing to the overall downward pressure on oil prices. Therefore, the price of OPEC reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 3.9 percent, 2.8 percent and 2.6 percent, respectively, from 2023 to an average of USD79.82 per barrel, USD80.64 per barrel and USD75.89 per barrel in 2024 (Chart 3.1).

3.4 Similarly, the international food prices index declined from 124.7 in 2023 to 121.9 in 2024 (Chart 3.2). This decline was driven by increased seasonal supply from some major commodity exporting countries, such as maize from Brazil and the United States (US); vegetable oil from the US and South Asia; sugar from Thailand and Brazil; and meat from Australia. In addition, modest demand resulting from the restraint global economic activity contributed to the decline. Overall, international oil and food prices exerted downward pressure on domestic inflation in 2024.

3.5 Inflation in the SDR countries (USA, UK, Japan, Eurozone and China) fell from 2.8 percent in December 2023 to 2.5 percent in December 2024. Similarly, headline inflation in South Africa decreased from 5.1 percent in December 2023 to 3 percent in December 2024. Consequently, the trade-weighted average inflation[5] for Botswana's trading partner countries decreased from 3.8 percent in December 2023 to 2.7 percent in December 2024 (Chart 3.3).

[5] The trade-weighted average inflation comprises South Africa's headline inflation and average SDR countries' inflation.

Chart 3.1: Oil Prices (Monthly Averages)

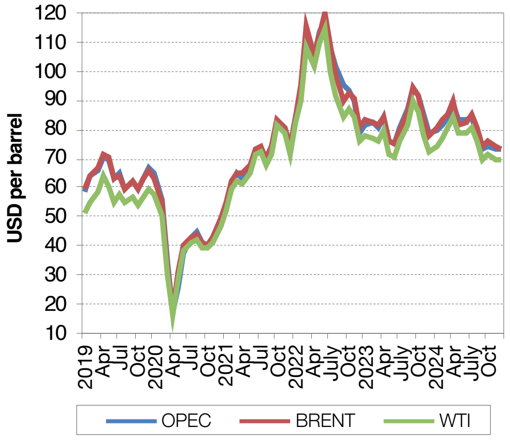
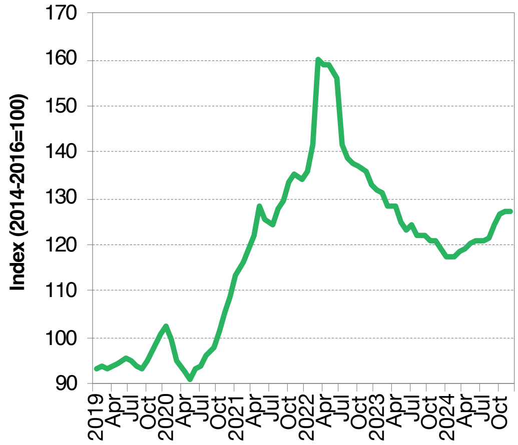


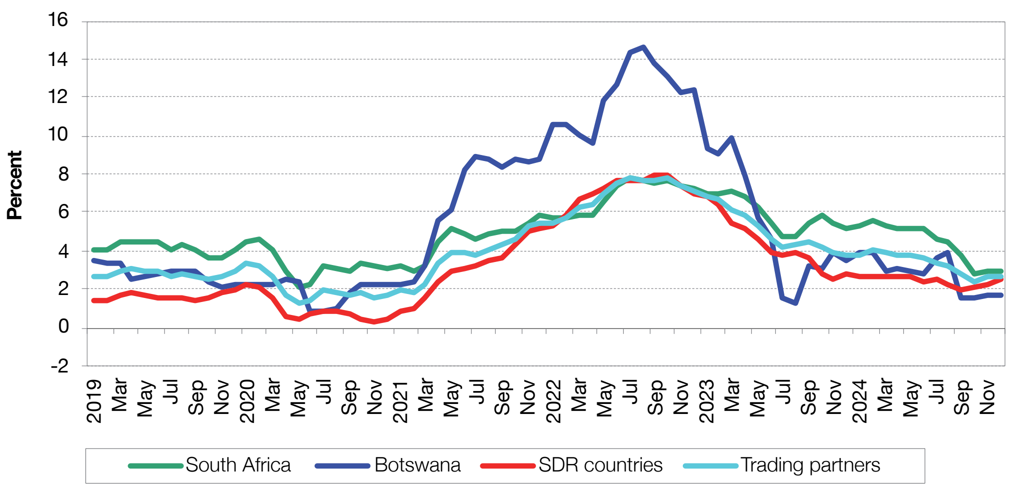
Chart 3.2: Food Price Index



Source: OPEC and US Energy Information Administration

Source: Food and Agriculture Organization

Chart 3.3: Botswana and Trading Partners Inflation



Source: Statistics Botswana and Bloomberg

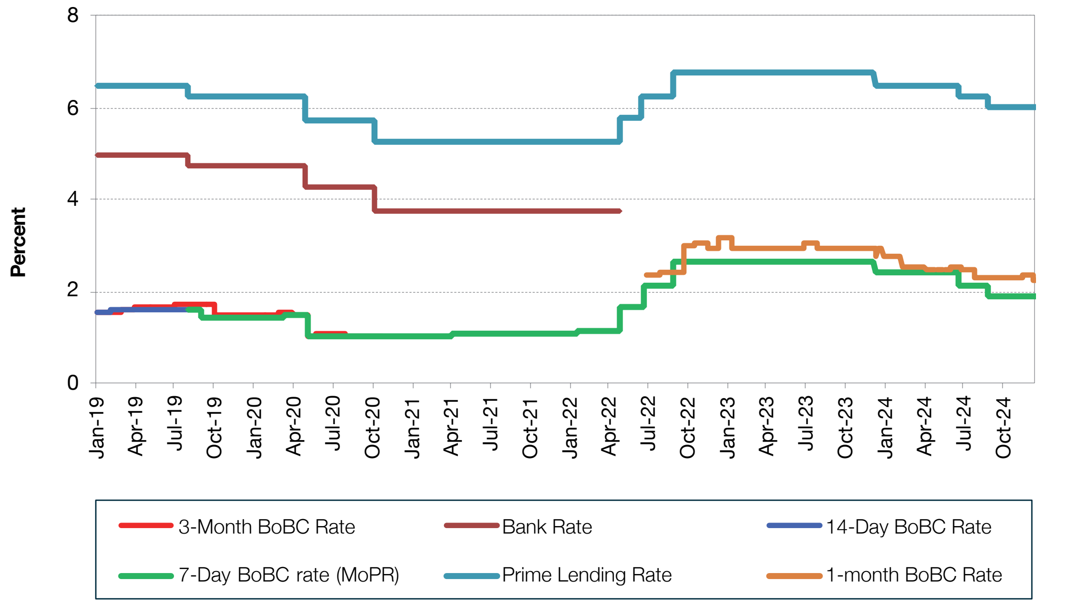
(b) Monetary Policy Implementation in Botswana

3.6 In 2024, monetary policy was implemented in the context of projections for lower inflation in the short-to-medium term, due to the reduction in domestic fuel prices during the year; subdued domestic and global economic activity; limited domestic fiscal space; as well as anticipated lower international commodity prices and trading partner countries' inflation, while the economy also operated below potential. These conditions provided scope for an accommodative monetary policy, potentially providing support for stronger output growth. Hence, the Bank reduced the MoPR by a cumulative 50 basis points to 1.9 percent in 2024. Consequently, the prime lending rate (PLR) of commercial banks declined from 6.51 percent in December 2023 to 6.01 percent in December 2024.[6] In addition, the Bank reduced the Primary Reserve Requirement (PRR) from 2.5 percent in December 2023 to zero in December 2024. This change was done to address the persistent liquidity shortage experienced by

6 Notwithstanding the decision to allow banks to set their own PLRs, there continues to be a common PLR. However, effective lending rates linked to the PLR may vary across banks, based on products and customer profiles.

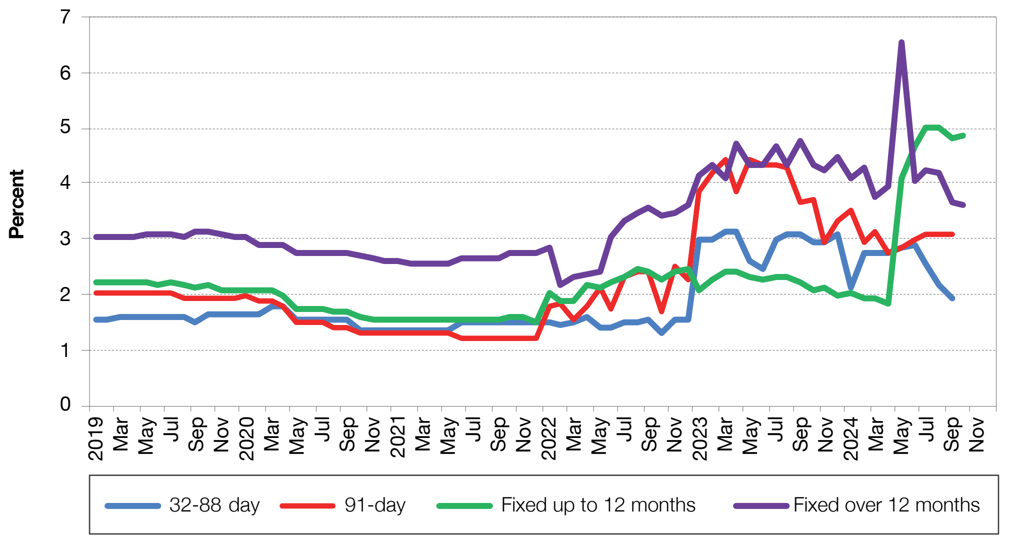
commercial banks in the fourth quarter of 2024. The liquidity injection would facilitate the intermediation role of commercial banks in supporting economic activity. Given the general decline in liquidity, deposit interest rates generally increased (Charts 3.4 and 3.5) mainly because of competition for corporate deposits that are volatile and form an important component of the deposit base for many of the commercial banks. In addition, as market liquidity declined considerably from mid-2024, competition for wholesale deposits increased, which resulted in higher yields.

Chart 3.4: Interest Rates



Source: Bank of Botswana and commercial banks.
Notes: 1. The 7-day BoBC was introduced on April 30, 2019, replacing the 14-day BoBC, while the issuance of the 91-day BoBC rate was discontinued in October 2020.
2. On 28 April 2022, the Bank Rate was discontinued and replaced with the MoPR.

Chart 3.5: 32-88 day, 91-day, Fixed up to 12 months and Fixed over 12 months Deposit Rates



Source: Commercial banks
Note: The deposit rates are averages across all commercial banks.

3.7 Open market operations continued to be the main liquidity management tool in the domestic market, as well as in implementing decisions of the MPC. This entailed the use of BoBCs to mop-up excess liquidity[7] and Repurchase Agreements (Repos) to inject liquidity in order to maintain interest rates that are consistent with the monetary policy stance. In 2024, open market operations were conducted in an environment of increased market liquidity in the first half of the year and a rapid decrease in liquidity in the second half of the year, particularly in the fourth quarter. The substantial increase in liquidity in the first half of 2024 was mainly driven by government spending, in line with the stimulatory budget announced in the 2024 Budget Speech. However, the slowdown in the pace of government spending amid low proceeds from diamond sales due to the subdued demand for rough diamonds globally in the second half of 2024, resulted in a significant decline in market liquidity. There was also some liquidity injection from the repatriation of pension funds to align to the new pension fund rules[8]. Outstanding BoBCs amounted to P1.84 billion in December 2024, a decrease from P6 billion in December 2023.

3.8 The Bank evaluates the monetary policy implementation framework on a regular basis for effectiveness, with a view to introduce refinements where necessary. In this regard, the 2022 monetary operations reforms (see page 3 of the 2023 MPS for details) are now embedded in the Bank's monetary policy operations. There has been some noticeable improvement in policy transmission, while the interest rate structure is operating as expected. In addition, the interbank market rate consistently trades within the interest rate corridor. However, the funding structure of banks, which is uneven across individual banks and mostly dominated by large mobile corporate deposits and those managed by asset managers, has had the effect of raising wholesale deposit interest rates and warranted further interventions by the MPC.

3.9 To address the rising funding costs of commercial banks and the acute shortage of liquidity, the MPC decided to decrease the PRR rate from 2.5 percent to zero at the December 2024 MPC meeting. The decision injected funds amounting to P1.8 billion into the market and there has already been signs of improving liquidity positions across the banks. Prior to the change in the PRR rate, the use of the Primary Reserve Requirement Averaging (PRRA) for management of liquidity by banks was not universal. While there were banks that actively used the averaging mechanism, others preferred to maintain full adherence throughout.

3.10 With effect from 1 April 2023, commercial banks were allowed to independently determine their own PLRs. This move is expected to contribute positively to banking industry improvements through promoting competition. Commercial banks report their PLRs to the Bank, where a market average is published to the market for transparency and to promote competition. It is, however, worth noting that all commercial banks have maintained their PLRs at MoPR plus 411 basis points. As a result, the average PLR was 6.01 percent in December 2024.

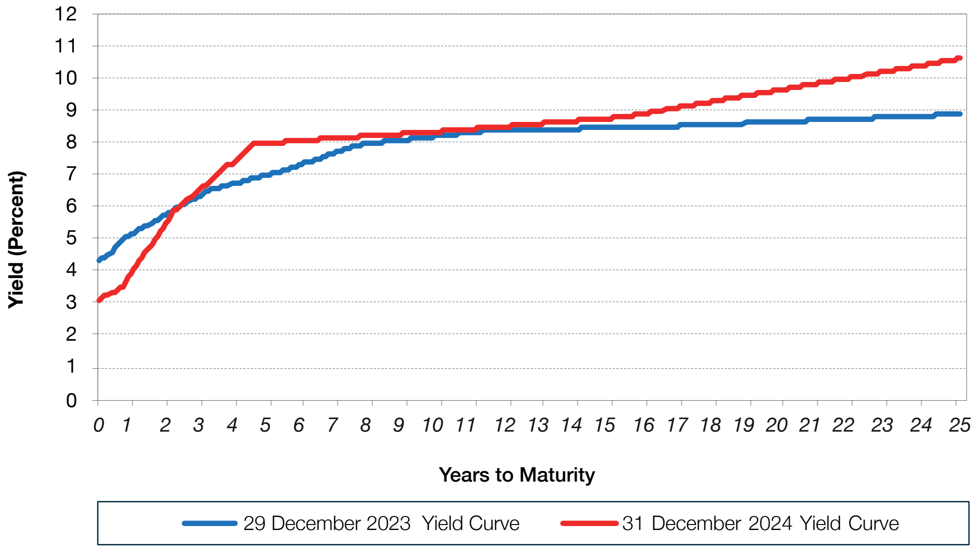
3.11 The yield curve, anchored on the 7-day BoBCs rate, is upward sloping, albeit steeper

7 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the SDF, money absorbed through BoBCs, outstanding reverse repos less repos, SCF and the Credit Facility. This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the PRR accounts.

8 Following the changes in the Retirement Funds Act (2022), the pensions domestic investment limits shall be increased up to fifty (50) percent of asset values in a gradual approach over a five-year period until December 2027.

at the shorter end (transition from the one-month BoBCs to the 3-month Treasury Bills (T-Bills)). The government securities market was subdued in 2024, with upward pressure on yields than in the past, as shown by low uptake of government securities at primary auctions. A comparison of BoBC, T-Bill and Government bond yields (yield curve) as at the end of December 2023 and December 2024 indicates that yields generally increased across the maturity spectrum. Yields decreased at the shorter end and remained virtually unchanged in the mid-section of the yield curve. However, yields increased at the longer end of the curve, driven largely by the aggressive pricing at bond auctions on the back of the significant decline in market liquidity amid increased funding requirements by the Government (Chart 3.6).

Chart 3.6: Yield Curves for 29 December 2023 and 31 December 2024



Source: Bank of Botswana

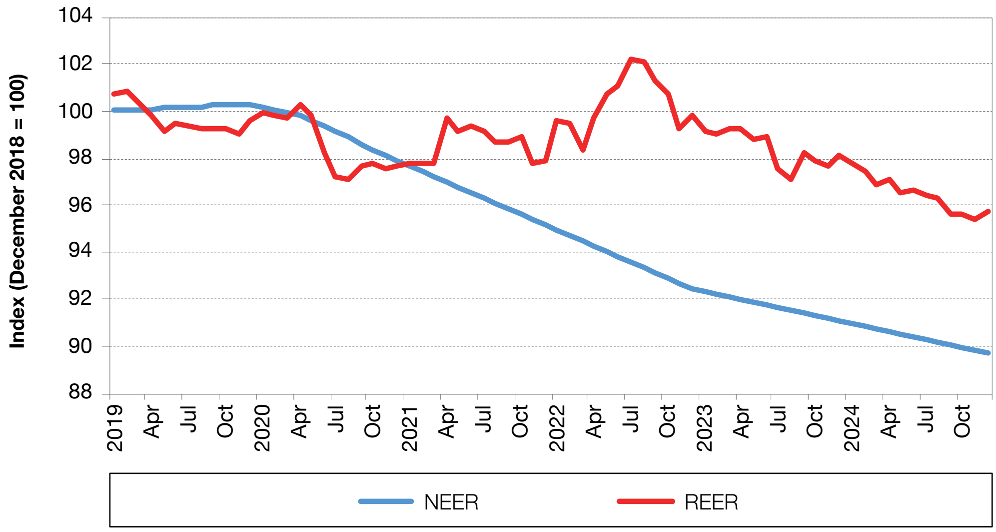
3.12 In 2023, the Bank signed a Memorandum of Understanding with Front Clear, a financial markets development company, to address obstacles in the money market. Some of the impediments to interbank activity include the lack of legal certainty regarding the enforceability of international standards, such as the Global Master Repurchase Agreements and International Swaps and Derivatives Agreements, as well as the netting protocols in the Botswana market. Addressing these obstacles should enhance a more participatory interbank market and secondary bond market, thereby, contributing to a holistic development of the money and interbank market and, by extension, the capital market. A report on the findings has been published and further progress on this initiative is awaiting operationalisation of the amended Banking Act.

(c) Implementation of Exchange Rate Policy

3.13 Implementation of the exchange rate policy in 2024 was in line with the objective of maintaining a stable and competitive inflation-adjusted trade-weighted exchange rate of the Pula (See Box 1 for more details). For 2024, the Pula basket weights were maintained at 45 percent South African rand and 55 percent for the SDR, depicting Botswana's trade patterns. A downward rate of crawl of 1.51 percent per annum was also maintained, based on the projected inflation differential between Botswana and its trading partner countries, and with a view to promoting the competitiveness of domestic goods and services in export markets and against imports.

3.14 Consequently, the trade weighted NEER of the Pula depreciated by the same magnitude in 2024. Meanwhile, the REER depreciated by 2.5 percent in 2024, due to the depreciation (rate of crawl) of the NEER (1.51 percent), and a lower inflation in Botswana (2.8 percent) than the average for the trading partner countries (3.3 percent), suggesting a gain in international competitiveness of domestic firms.

Chart 3.7: Nominal and Real Effective Exchange Rates



Source: Bank of Botswana

3.15 The current exchange rate policy framework is anchored on sufficient availability of foreign exchange reserves, which deteriorated from P63.7 billion in December 2023 to P53.6 billion in November 2024. This decrease was mainly due to the slower growth in exports, attributable to weaker diamond trade performance and the slow pace of export diversification in the absence of significant growth of alternative sources of revenue. Since the second quarter of 2023, diamond exports have been negatively affected by weak global demand for rough diamonds, particularly in key markets like China. On the other hand, the demand for imports by the economy, including Government, continued at an elevated level, again a demonstration of slow pace of economic diversification, which could enhance the capability of domestic firms to meet the economy's need for goods and services. It is, therefore, important to rebuild the external buffers by enhancing external sector resilience and ensuring fiscal sustainability, through diversified growth in export earnings and increase in domestic resource mobilisation to fund government spending.

BOX 1: THE PULA EXCHANGE RATE FRAMEWORK EXPLAINED

Definition of Exchange Rate

The exchange rate of a currency is how much one currency can be bought for each unit of another currency or, put differently, the rate at which domestic currency can be converted into a foreign currency or vice versa.

Exchange Rate Policy Frameworks

The exchange rate policy framework refers to the manner in which a country manages its own currency in relation to foreign currencies and the foreign exchange market.

Exchange rate policy frameworks range from flexible to fixed and variations in between. In a flexible exchange rate framework, the exchange rate is freely determined by the market on the basis of demand and supply, and sentiments about the economy. In a fixed exchange rate regime, the domestic currency is linked to another currency or a basket (combination) of other currencies. In between flexible and fixed exchange rates, there is a range of, usually managed, exchange rate frameworks, such as a crawling band or peg.

Botswana's Exchange Rate Policy Framework

Since 2005, Botswana adopted and implemented a crawling peg exchange rate policy framework that has **three** key attributes.

First, the Pula is fixed to a basket of foreign currencies, namely the SDR (comprising, the US dollar, British pound, euro, Japanese yen and Chinese Renminbi) and the South African rand.

Second, is the weight of these currencies in the Pula basket (proportions that each of these currencies contribute to the value of the Pula).

Third, is the annual rate of crawl, which is the amount (rate) at which the exchange rate is allowed to gradually depreciate or appreciate. This amount reflects the inflation differential between Botswana and its trading partner countries. For example, 1.51 percent downward crawl for 2024; from the downward rate of crawl of 2.87 percent from May 2020 – December 2022).

Botswana's Exchange Rate Policy Objective

The policy objective is to maintain price competitiveness of local producers for similar products, in both the domestic and international markets by equalising the exchange rate-adjusted prices. In general, this is done through adjusting the nominal Pula exchange rate by an amount that is equal to the differences in inflation between Botswana and the trading partner countries. That is, **the rate of crawl.**

For example, if a bag of potatoes is currently P100 in Botswana and R130 in South Africa at an exchange rate of P1 = R1.30, and assuming transport costs are not embedded in the pricing, Botswana's producers face similar market price as South African producers and, therefore, competitive. If, however, inflation in Botswana rises to be 5 percentage points higher than in South Africa, Botswana producers will be disadvantaged as it would be cheaper to purchase the same bag of potatoes in South Africa, holding all other things constant. Therefore, the Pula exchange rate needs to adjust downward by 5 percent **(rate of crawl)** to maintain competitiveness of producers in Botswana; technically, maintenance of a stable real effective exchange rate (REER).

The exchange rate and competitiveness also have to relate to countries that Botswana trades with, in terms of goods and services, but also the flow of investments. It has been determined that these are mostly South Africa and the SDR countries (the USA, UK, euro area, China and Japan). This explains the fixing of the Pula to currencies of these countries. The 45 percent South African rand and 55 percent SDR proportions are based on observed historical trade pattern and are also reviewed semi-annually. In addition, the fixing to a basket rather than a single currency helps to moderate volatility of the Pula against any single currency. This explains why during the times when the South African rand and other currencies are volatile, the Pula remains relatively stable.

2025 Pula Exchange Rate Parameters

In the context of Botswana's crawling band exchange rate arrangement for the Pula, the Ministry of Finance, in conjunction with the Bank of Botswana, reviews the parameters for the Pula exchange rate semi-annually; being the currencies in the Pula basket and their weights, as well as the rate of crawl.

This is done to assess the alignment of the Pula exchange rate with the policy objective of maintaining a stable and competitive REER of the Pula; that is, retaining competitiveness of Botswana producers against imports and exports in international markets, thus promoting growth prospects.

For 2025, it was determined that inflation in Botswana is expected to be, on average, 1.5 percent higher than in the trading partner countries, suggesting maintenance of a downward rate of crawl of 1.51 percent for 2025. The annual downward crawl would be implemented through small daily adjustments that cumulatively equal 1.51 percent over twelve months. In addition, the Pula Basket weights were adjusted from 45 percent South African rand and 55 percent for the SDR to equal weights of 50 percent for both the South African rand and the SDR. This adjustment is expected to moderate the volatility of the Pula against the South African rand and enhance the competitiveness of Botswana's goods and services in the South African market, which remains a key trading partner. Furthermore, the Pula trading margins between the buy and sell rates for currencies quoted by the Bank of Botswana were increased from ± 0.125 percent around the central rate to a margin of ± 0.5 percent. This change is intended to promote the development of an inter-bank foreign exchange market and reduce commercial banks' reliance on the Bank of Botswana for foreign currency transactions.

The Benefits of the Crawling Band Framework for Botswana

The benefits of the current crawling band framework are therefore as follows:

(a) it affords flexibility for adjustments to address deterioration in international price competitiveness of the domestic industry;
(b) any adjustment is gradual and, therefore, not disruptive nor destabilising;
(c) the rate of adjustment is preannounced and retained for a year and, therefore, enables planning for economic decisions;
(d) the framework is broadly in alignment with the price stability objective (inflation objective inherent in the monetary policy framework;
(e) and the basket composition moderates fluctuations of the Pula exchange rate against any individual currency.

In contrast, alternative arrangements could have disadvantages as follows:

(a) For a small undiversified economy such as Botswana with irregular and lumpy foreign exchange flows, a floating exchange rate regime would imply large exchange rate fluctuations that could be debilitating to price determination and economic activity. In addition, there could be sustained movement of the exchange rate, especially appreciation, that can undermine competitiveness of the non-mining sector and, therefore, diversification efforts;
(b) as demonstrated in the past, a fixed hard peg would often require adjustments that are large and discrete with a destabilising disruptive impact. For example, a large devaluation with significant inflationary impact; and
(c) a peg to a single currency would imply the Pula being subject to fluctuations and shocks to the currency to which it is pegged and, in turn, policy responses that may be inimical or inconsistent with the needs of the domestic economy at the time.

Limits of Exchange Rate Adjustments on Industry Competitiveness

While there are short-term benefits of deliberate exchange rate adjustments to maintain price competitiveness, for it to have the desired long-term impact there should be adequate production capacity and productivity improvements by the domestic industry. In addition, for government institutions, there should be effective implementation of plans and programmes. Overall, therefore, there is need for generalised entrenchment and traction of structural transformation and policy reforms as being fundamental to industrialisation and productivity improvements that would enhance competitiveness of domestic producers in a low inflation environment.

It is recognised that, in the main, sustained (need for) downward adjustment of the currency is a reflection of weak production capacity and productivity of the economy; and is also inflationary (ultimately affecting price competitiveness).

Transparency and Market Information

The announcements of the Pula exchange rate parameters and any adjustments are intended to enhance transparency and integrity of the framework. In this regard, knowledge of the Pula basket weights, and rate of crawl enable the market and the general public to plan for investments and transactions on the basis of publicly available information that can be used as an input to any economic decisions.

(d) Fiscal Policy

3.16 Botswana's fiscal budget for financial year 2024/25 aimed to maintain fiscal consolidation towards long-term prosperity for Botswana but, at the same time, ensuring that all commitments made are meaningful, lasting and sustainable while managing both domestic and international challenges. Regarding the financial outcome, the revised overall budget deficit for the 2024/25 financial year, as announced in the 2025/26 Budget Speech, is P24.7 billion (9 percent of GDP), significantly up from the P9 billion (3.2 percent of GDP) in the original budget. The wider deficit than initially anticipated is largely driven by a substantial drop in mineral revenue, which has been revised downwards to P8.7 billion from the P25.2 billion in the original budget. Total expenditure and net lending for the 2024/25 financial year has been revised downwards by 8.9 percent to P93.4 billion, which is equivalent to 33.9 percent of GDP (slightly above the fiscal rule limiting total expenditure to 30 percent of GDP). Consequently, demand pressures from fiscal policy and on inflation were subdued.

3.17 Looking ahead, there is continuing Government commitment to rebuild fiscal buffers and restore budget sustainability through enhanced mobilisation of domestic revenue sources, such as the introduction of value added tax (VAT) on digital trade; developing the Electronic VAT Invoicing Solution; development of a fiscal marking and monitoring solution, commonly known as track and trace, to enforce compliance, curb illicit trade in excisable goods and safeguard government revenue; and a 1.5 percent increase for both the corporate tax and the last bracket of the personal income tax (top earners).

3.18 In terms of debt sustainability, Botswana's debt levels remain relatively low by international standards. For example, Government and Government-guaranteed debt is expected to remain below 25 percent of GDP in the 2024/25 financial year. However, this could increase if the fiscal deficit persists into the medium term. Nonetheless, the government remains committed to monitoring the medium-term debt risk and capacity to repay.

(e) Employment and Wage Developments

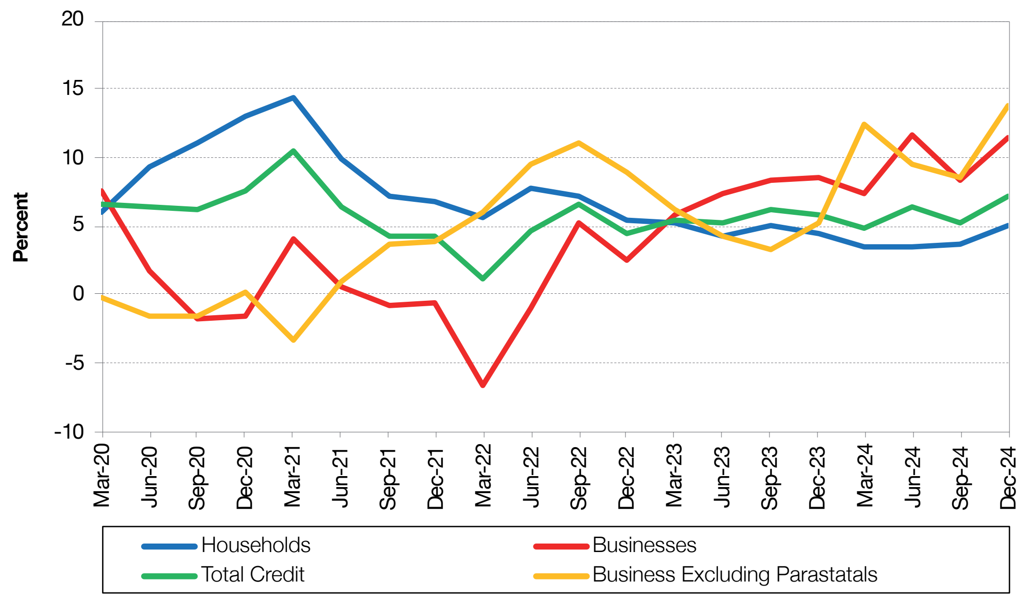
3.19 According to Statistics Botswana's Quarterly Multi-Topic Survey report for the first quarter of 2024, the unemployment rate increased to 27.6 percent in the first quarter of 2024, from 25.9 percent in the third quarter of 2023. Youth unemployment rate also rose to 38.2 percent from 34.4 percent. The survey further revealed a 2.9 percent increase in formal sector employment, which rose to 504 738, from 490 625 in the previous period.

3.20 Regarding other indicators, the survey showed that public administration remains the largest employer, accounting for 30.3 percent of total formal sector employment. This was followed by education at 13.2 percent, and wholesale and retail and repair of motor vehicles at 12.6 percent. Consequently, for government, personal emoluments make up over 50 percent of the recurrent budget, and about 13 percent of GDP. Meanwhile, the formal sector average monthly earnings were estimated at P6 865 for citizens, P14 080 for non-citizens and P7 143 for all employees in the first quarter of 2024. The average monthly earnings for all employees were estimated to have increased by 1.1 percent or P64 to P6 093 in the first quarter of 2024, from P6 029 in the third quarter of 2023.

(f) Credit Developments and Financial Stability Review

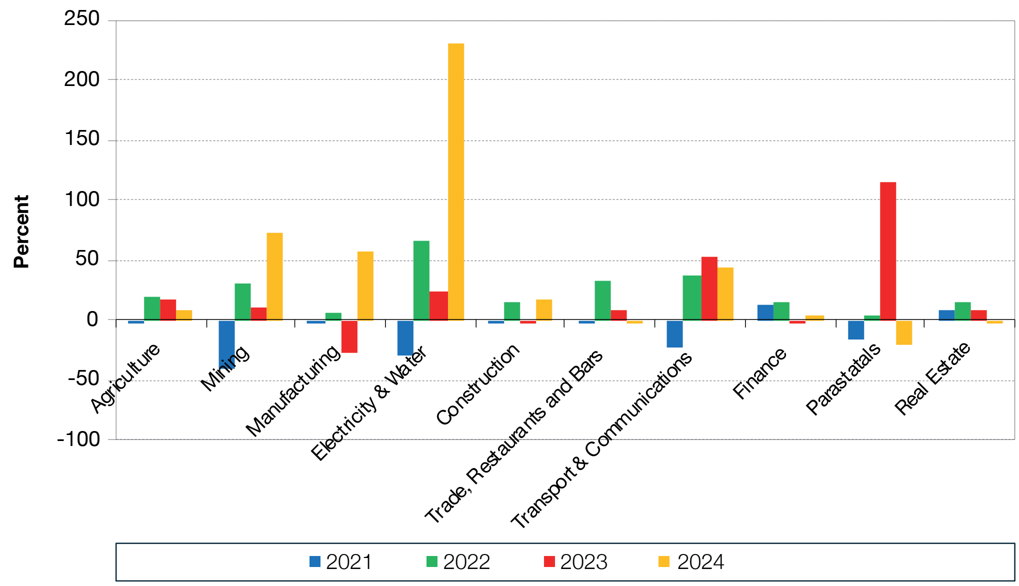
3.21 Annual growth in commercial bank credit decelerated to 6.5 percent in 2024, from 7.1 percent in 2023 (Chart 3.8). The slower growth in commercial bank credit was due to lower increase in lending to both businesses and households. The annual expansion in credit to businesses decreased to 10 percent in 2024, from the 11.4 percent in 2023. The smaller growth in credit to the business sector was largely driven by lower demand for overdraft facilities and loan repayments, particularly in industries, such as agriculture, real estate and tourism (Chart 3.9). Meanwhile, credit to businesses excluding parastatals showed a notable increase, growing by 13.9 percent in 2024, compared to just 5.2 percent in 2023. This indicates that, while credit to certain sectors slowed, lending to other businesses outside of parastatals remained strong, due to increased loan uptake by companies in mining, manufacturing, electricity and water, construction and trade sectors.

Chart 3.8: Year-on-Year Commercial Banks' Growth in Total Credit



Source: Commercial banks

Chart 3.9: Annual Growth of Commercial Banks Business Credit by Industry



Source: Commercial banks

3.22 For households, annual credit growth decelerated to 4.6 percent in 2024, from 5 percent in 2023. This decline was primarily driven by reduced rate of increase in credit attributed to motor vehicles, credit cards and residential property from 13.3 percent to 8.6 percent, 2.4 percent to -0.7 percent and 8.2 percent to 1 percent, respectively, in the same period. Meanwhile, there was an increase in the growth of unsecured personal loans from 3.3 percent to 6 percent. As a result, the share of mortgages in total household credit decreased from 27.6 percent to 26.7 percent, while the share of unsecured personal loans in total household credit increased slightly from 66.6 percent to 67.5 percent in the same period.

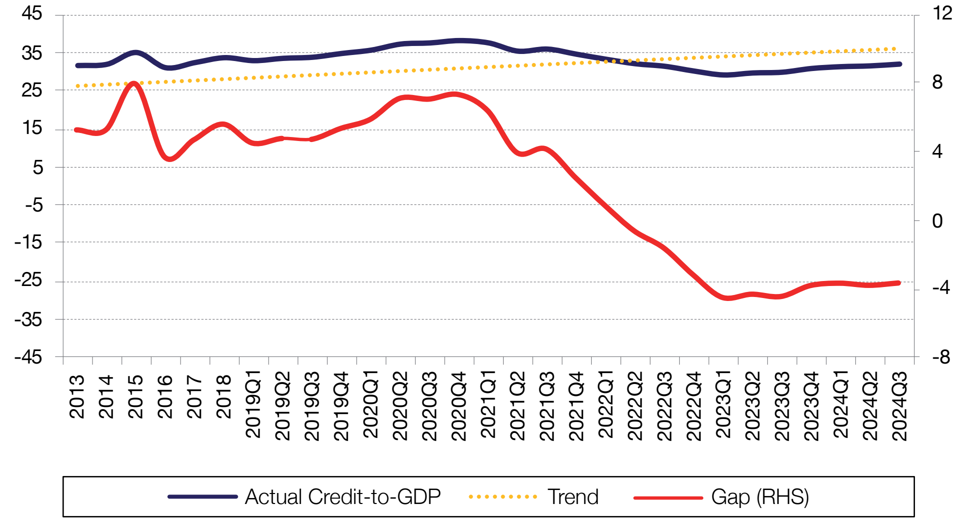
3.23 In general, credit growth continues to be supportive of economic activity. Notably, the credit-to-GDP ratio increased slightly (Table 3.2) in 2024 indicating the steadily growing importance of credit in supporting economic activity, albeit remaining comparatively low by global trends (Appendix, Table A2). In this context, there continues to be scope for prudent credit extension to enhance support for economic activity. Credit developments are shown to pose limited risks to financial stability as supported by a negative credit-to-GDP gap (Chart 3.10). The gap was at minus 4 percent in September 2024, indicating the absence of rapid and excessive credit growth that could be destabilising.

Table 3.2: Commercial Bank Credit-to-GDP Ratio

	Percent of GDP				
	2020	2021	2022	2023	2024[2]
Total Commercial Bank Credit[1]	**38.2**	**33.1**	**30.4**	**31.0**	**32.1**
Business	**13.3**	**11.2**	**10.5**	**10.8**	**11.2**
Parastatals	1.0	0.7	0.6	1.2	0.8
Agriculture	0.8	0.6	0.6	0.7	0.8
Mining	0.3	0.1	0.2	0.2	0.3
Manufacturing	0.9	0.7	0.7	0.5	0.7
Construction	0.5	0.4	0.4	0.4	0.4
Trade	2.8	2.3	2.2	2.1	2.2
Transport and Communications	0.3	0.2	0.2	0.4	0.7
Finance and Business Services	3.1	3.0	2.7	1.1	1.2
Real Estate	2.6	2.3	2.2	2.3	2.2
Households	**25.0**	**21.9**	**20.2**	**20.2**	**20.9**
Retail Credit[3]	19.1	16.9	14.7	14.6	15.2
Mortgage	5.9	5.1	5.4	5.6	5.7

Source: Commercial banks, Statistics Botswana and Bank of Botswana calculations.
Notes: 1. Although not shown in the table, electricity, and water, other and non-resident sub-sectors are included in the business credit-to-GDP ratio.
2. Data covering the twelve months to September 2024.
3. Includes motor vehicle, personal and credit card loans.

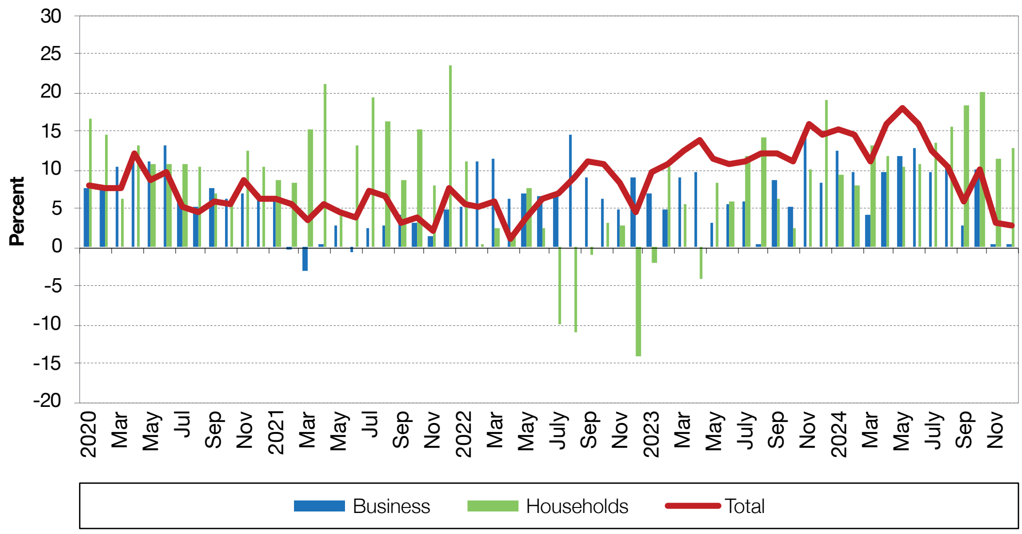
Chart 3.10 : Aggregate Credit to GDP Gap (Percent)



Source: Bank of Botswana

3.24 The slower annual rate of increase was also against the background of a significant slowdown in growth of deposits at commercial banks, which dropped to 3 percent in 2024, from 14.5 percent in 2023. Within this overall decrease, household deposits grew by 12.9 percent, following a 19.2 percent increase the previous year, while business deposits (excluding parastatals) saw a sharp drop, from 8.4 percent to 0.5 percent (Chart 3.11). However, deposits in foreign currency accounts increased by 23.6 percent in the same period. Despite the overall slowdown in deposit growth, the financial intermediation ratio - representing the relationship between bank lending and deposits - slightly increased to 81.2 percent in December 2024, from 78.6 percent in December 2023, indicating that banks increased their utilisation of deposits to support lending, even amidst a period of subdued economic activity.

Chart 3.11: Annual Growth in Business and Household Deposits at Commercial Banks



Source: Commercial banks

3.25 The financial system remains resilient, robust, safe, sound and unconstrained in providing and growing the range of financial services to support the economy, as reported in the published October 2024 Financial Stability Report. This resilience is underpinned by appropriate policy frameworks, effective regulatory and supervisory measures, as well as resultant sustained profitability and solvency of banks and non-banks. However, the uncertain macroeconomic environment, characterised by a subdued fiscal position and slow economic growth, is a potential source of risk to financial stability. In these circumstances, supervisors and financial institutions will continue to vigilantly monitor exposures and risks to inform timely intervention, as warranted, to safeguard financial stability.

3.26 Banks' asset quality was good in 2024, characterised by relatively low and stable credit default rates as the ratio of non-performing loans (NPLs) to total credit decreased slightly from 3.7 percent in December 2023 to 3.4 percent in December 2024. Nevertheless, there continues to be a risk to asset quality associated with the high proportion of the relatively more expensive unsecured lending (at 64 percent of household credit as at December 2024) in total commercial bank credit (44.1 percent). This profile of assets potentially exposes the household sector to any sudden and sharp increase in borrowing costs, as well as loss of employment. The risks are, however, moderated to the extent that credit is widely distributed to many employees in different sectors of the economy, a large proportion of which are in the public sector. Moreover, the extension of credit to salaried individuals enables proper credit evaluation using ascertained income as the basis for determining repayment capacity. Furthermore, credit risk is mitigated in cases of loans that are protected by insurance for loss of employment. Overall, the capital, asset quality, liquidity and profitability levels that meet prudential requirements indicate a generally sound and stable banking system (Table 3.3).

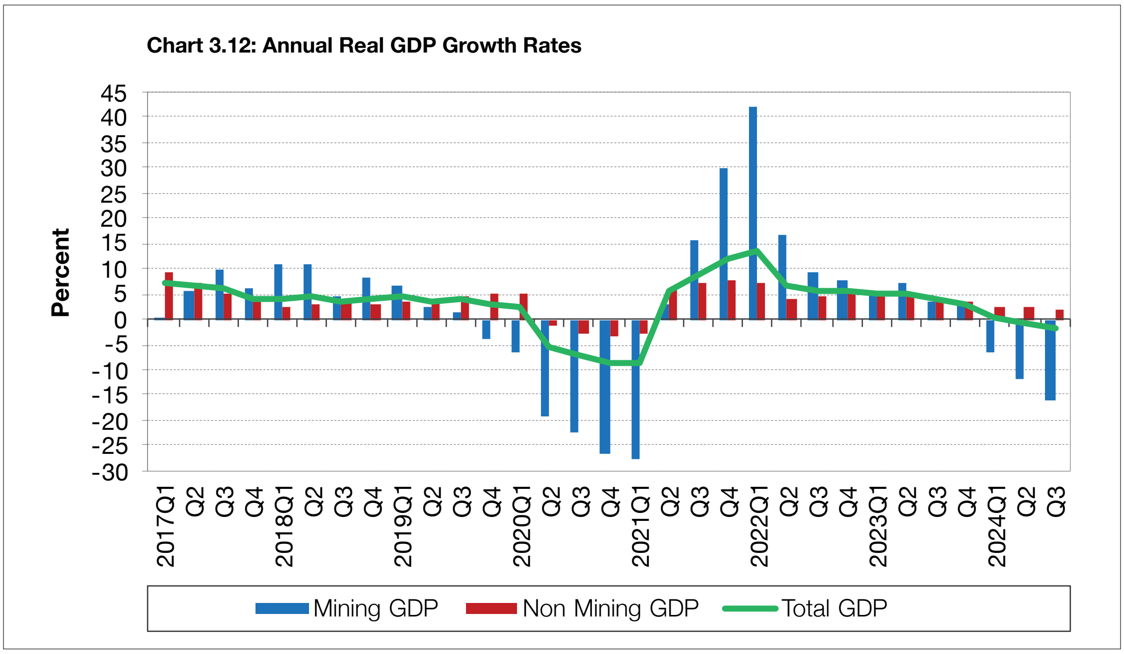
Table 3.3: Selected Performance Indicators of the Banking Sector

Capital Adequacy (Percent)	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024
Core Capital to Unimpaired Capital	62.7	66.7	65.2	68.2	66.5	64.9
Tier 1 Capital to Risk-Weighted Assets[1]	12.8	12.7	12.6	13.9	12.5	12.7
Capital Adequacy Ratio (CAR)[2]	19.8	19.7	19.1	20.3	18.7	19.5
Asset Quality (Percent)						
NPLs to Gross Loans	3.6	3.7	3.8	3.6	3.6	3.4
NPLs Net of Specific Provisions to Unimpaired Capital	9.7	8.6	9.6	8.6	9.1	9.0
Specific Provisions to NPLs	47.8	51.1	49.9	47.8	49.3	49.3
Liquidity (Percent)						
Liquid Assets to Deposits (Liquidity Ratio)[3]	17.8	20.1	18.8	20.9	17.3	18.7
Advances to Deposits (Intermediation Ratio)	81.5	78.6	77.9	80	77	81.3
Profitability/Efficiency (Percent)						
Return on Average Assets (ROAA)	2.3	2.3	3.4	3.7	3.7	3.7
Return on Equity (ROE)	26.3	27.0	31.5	35.2	35.1	35.6
Cost to Income	56.3	56.7	53.4	53	52	51.1

Source: Bank of Botswana
Notes: 1. Prudential lower limit is 7.5 percent – Basel II/III
2. Prudential lower limit is 12.5 percent
3. The minimum statutory requirement is 10 percent

(g) Output and Price Developments

3.27 According to Statistics Botswana, real GDP in Botswana contracted by 2 percent in the twelve months to September 2024, compared to a growth of 4 percent in the year to September 2023. The lacklustre performance reflects subdued growth in both the non-mining and mining sectors. Non-mining GDP grew by 1.9 percent in the 12-month period to September 2024, compared to a higher growth of 4.1 percent in the corresponding period in 2023. The deceleration in non-mining GDP growth was mainly due to contraction in the output of the diamond traders and manufacturing sectors. Weak activity in the non-mining sector is, in part, attributable to the slow and muted impact of the various ongoing economic transformation initiatives; continuance of low productivity[9]; drought conditions; as well as challenges associated with limited fiscal space and sub - optimal performance of the Government Accounting and Budgeting System (GABS), which continues to cause disruptions in business operations, implementation of development projects and increased uncertainty in the conduct of fiscal policy. Mining sector GDP contracted by 16 percent in the year ending September 2024, a notable decline from a growth of 3.7 percent recorded in the year to September 2023. This was due to the slower growth in output of most sub-sectors, led by diamond mining, which contracted by 17 percent, compared to a growth of 3.7 percent in the previous period. The contraction in the sector is mainly due to a combination of external factors, such as subdued global demand, the growing popularity of other luxury goods in major markets, global economic uncertainty and geopolitical conflicts.



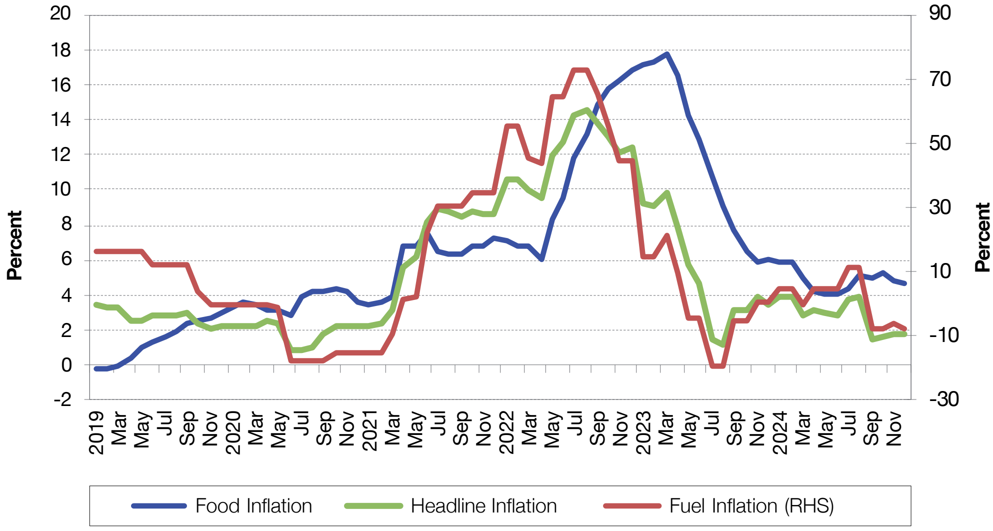
Source: Statistics Botswana and Bank of Botswana calculations.

3.28 In 2024, inflation hovered around the lower bound of the medium-term objective range of 3 – 6 percent, before breaching the lower bound for successive months from September 2024 (Chart 3.13). Thus, inflation averaged 2.8 percent in 2024, lower than 5.2 percent in 2023. The lower inflation in 2024 was against the background of subdued domestic demand, impact of the reduction in domestic fuel prices, the decrease in trading partner countries' inflation, higher appreciation of the Pula against

9 According to Ministry of Finance's 2023 Research Note on Estimates of Total Factor Productivity, Botswana experienced declining total factor productivity growth rates, which have been negative since 2006.

the South African rand and the restrained growth in food prices. Food price inflation decreased significantly from 11.9 percent in December 2023 to 4.7 percent in December 2024, due to a broad-based decrease in prices. Notably, the decrease in price indices (suggesting lower prices) for bread and cereals; milk, cheese and milk products; oils and fats; as well as vegetables sub-commodity groups contributed significantly to the decrease in domestic food inflation. Regarding core inflation measures, the 16 percent trimmed mean inflation decreased from an average of 5.1 percent in 2023 to an average of 2.7 percent in 2024, while inflation excluding administered prices decreased from 6.7 percent to 3.3 percent in the same period.

Chart 3.14: Headline, Food and Fuel Inflation



Source: Statistics Botswana

4. OUTPUT AND INFLATION OUTLOOK

(a) Global Economic Prospects

4.1 The IMF's January 2025 WEO anticipates global economic growth to remain subdued at 3.3 percent in 2025, slightly higher than 3.2 percent in 2024, and lower than the historical (2000-2019) annual average of 3.7 percent. Moreover, the forecast for 2025 was 0.1 percentage points higher than the October 2024 WEO projection, mainly due to an upward revision for growth in the US. Nonetheless, the restrained global growth is on account of cuts in production and shipping of commodities (particularly oil), civil unrest and conflicts in the Middle East and Central Asia, extreme weather conditions and low underlying productivity growth in sub-Saharan Africa.

4.2 Overall, risks to the global economic outlook are assessed to be on the downside in the medium term, amid elevated policy uncertainty. These include an escalation in regional conflicts; monetary policy remaining tight for too long, which could weigh on investment and economic growth; a possible deeper growth slowdown in China; and the continued increase in protectionist policies.

4.3 Growth in advanced economies is projected at 1.9 percent in 2025, a slight increase from 1.7 percent in 2024, due to an upward revision in growth for the US. In the US, GDP expansion is forecast to slow down from 2.8 percent in 2024 to 2.7 percent in 2025, due to gradual fiscal tightening. However, output for the US in 2025 was revised upwards by 0.5 percentage points in the January 2025 WEO Update, in part, reflecting a positive carryover from 2024, less restrictive monetary policy stance, robust demand and labour markets, as well as accelerating investment. Meanwhile, growth in the euro area is forecast to increase from 0.8 percent in 2024 to 1 percent in 2025, underpinned by stronger consumption on the back of rising real wages and higher investment from easing financing conditions, amid gradual monetary policy loosening in 2024. Furthermore, growth for the UK economy is forecast to increase from 0.9 percent in 2024 to 1.6 percent in 2025, supported by easing inflationary pressures, as the lagged negative effects of high energy prices wane and anticipated lower interest rates.

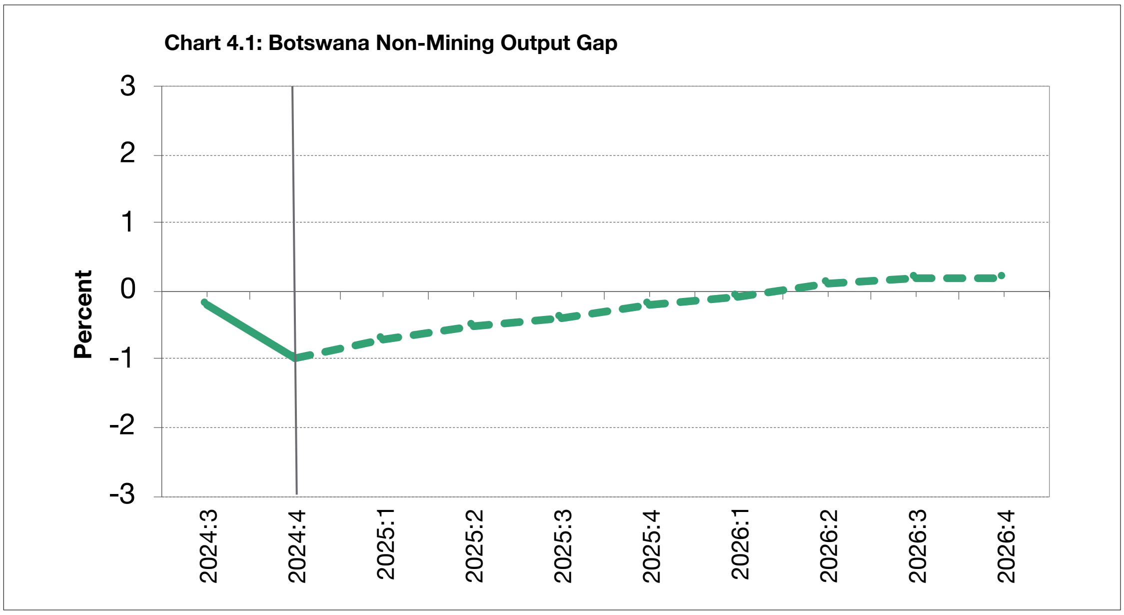
4.4 For EMDEs, growth is expected to remain at 4.2 percent in 2025, same as in 2024. Growth in India is expected to expand by 6.5 percent in 2025, the same as in 2024. In contrast, output growth in China is projected to slow down from 4.8 percent in 2024 to 4.6 percent in 2025, largely due to weaker private investment and the ongoing property market crisis. However, the fiscal package announced in November 2024 is expected to offset the negative impact of heightened policy uncertainty on trade and the property market drag on the Chinese economy.

4.5 Global inflationary pressures are projected to reduce further in 2025, reflecting the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as the anticipated lower food and oil prices. Moreover, the expected decrease in inflation is due to the anticipated broad-based decrease in core inflation across regions. Thus, inflation for advanced economies is forecast to ease from 2.6 percent in 2024 to 2.1 percent in 2025, while for emerging market economies, it is forecast to decrease from 7.8 percent to 5.6 percent in the same period. Consequently, global inflation is expected to ease from 5.7 percent in 2024 to 4.2 percent in 2025.

(b) Domestic Economic Prospects

4.6 Growth prospects remain subdued and well below the long-term growth rate required to transition the country to high income status by 2036. Botswana's real GDP is projected to expand by 3.3 percent in 2025, from an estimated contraction of 3.1 percent in 2024. It is anticipated that recovery in the mining sector and effective implementation of the economic transformation reforms would be supportive of economic activity, through facilitating expansion of productive capacity, accelerating the easing of structural reforms and enhancing economic resilience. It is also anticipated that the performance of the non-mining sectors will improve, underpinned by, among others, improvements in electricity and water supply, as well as diamond trading (Chart 4.1). Monetary policy also remains largely accommodative, given the projections for inflation being low into the medium term, therefore, conducive for financing of economic activity, and enabling traction of economic transformation and policy reforms.

4.7 As announced in the 2025/2026 Budget Speech, the Government continues to run budget deficits during the Transitional National Development Plan, financed through fiscal savings, external and domestic borrowing. In this regard, domestic borrowing will entail the issuance of new instruments, such as inflation linked bonds and green bonds, among others, contributing to development of the capital market.

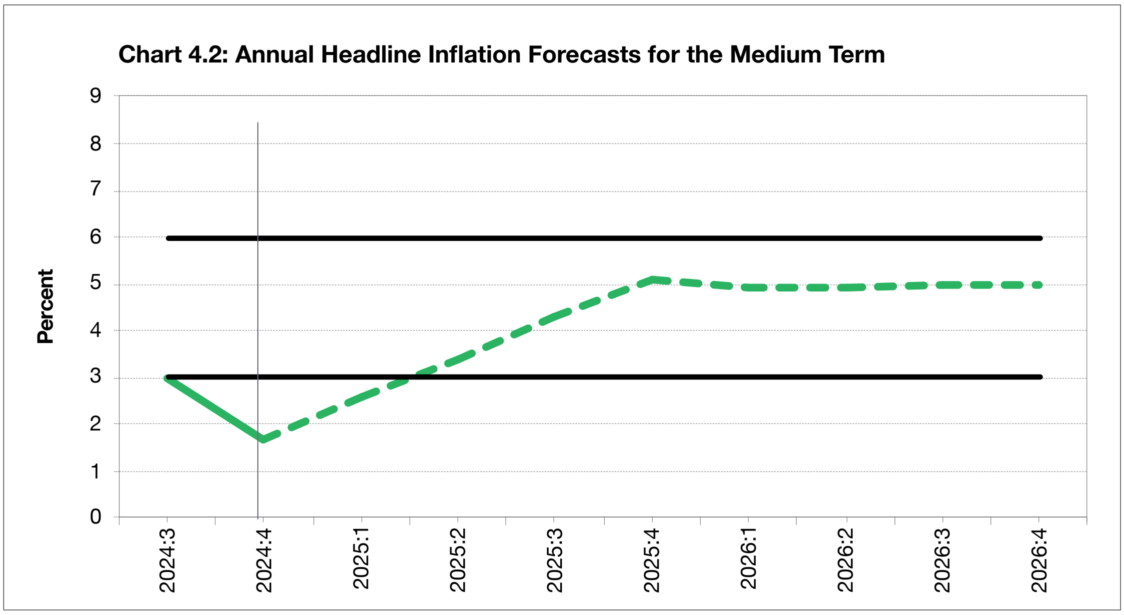


Source: Bank of Botswana

4.8 Inflation in Botswana is forecast to be higher than in the trading partner countries for 2025; therefore, requiring a downward rate of crawl of the Pula exchange rate (NEER) to maintain stability of the REER. In addition, there continues to be a need to support economic activity, in particular, international competitiveness of the domestic industry. Against this background, an annual downward rate of crawl of 1.51 percent of the NEER has been maintained for 2025. Furthermore, the Pula basket weights have been adjusted from 45 percent for the South African rand (ZAR) and 55 percent for the SDR, to equal weights of 50 percent ZAR and 50 percent SDR. This adjustment is expected to moderate the volatility of the Pula against the South African rand and enhance the competitiveness of domestic goods and services in the South African market, a key trading partner.

4.9 Inflation is currently below the lower bound of the 3 – 6 percent objective range but is expected to revert to the objective range from the second quarter of 2025 into the medium term (Chart 4.2). The projection takes into account the base effects associated with the adjustment of administered prices in 2024; revision of the Pula currency basket weights to 50 percent for the South African rand and 50 percent for the SDR; maintenance of a downward rate of crawl of 1.51 percent for 2025; the projected appreciation of the Pula against the South African rand; upward revision of trading partner countries' inflation forecast; the downward revision in forecasts for international food prices; and the upward revision in forecasts for international oil prices. According to the December 2024 Business Expectations Survey, firms expect inflation to remain within the objective range in 2025, implying that inflation expectations are well anchored.

4.10 Overall, risks to the inflation outlook are assessed to be balanced. Inflation could be higher than projected if international commodity prices were to increase above current forecasts and supply as well as logistical constraints in the global value chains persist. However, inflation could be lower than currently projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international commodity prices. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection.



Source: Bank of Botswana

5. 2025 MONETARY POLICY STANCE

5.1 An evaluation of the determinants of inflation and factors affecting financial stability suggests that inflation will be within the objective range in the medium term, reflective of the expected moderation in international commodity prices, subdued global economic activity, and well-anchored inflation expectations. Furthermore, the current levels of credit growth to both businesses and households are considered sustainable. Overall, the recent and prospective developments for both domestic and external economic activity suggest that the prevailing accommodative monetary policy stance is consistent with inflation being within the 3 – 6 percent objective range in the medium term, as well as maintenance of financial stability. In the context of projected higher inflation in Botswana than in the trading partner countries and the economy operating below potential in the short term, the assessment is that a measured depreciation of the Pula against trading partners is consistent with maintenance of domestic industry competitiveness and positive for growth prospects; hence implementation of the exchange rate policy will entail a 1.51 percent downward rate of crawl in 2025.

5.2 The Bank will continue to respond appropriately to changes in banking system liquidity conditions using relevant instruments. Overall, the Bank encourages prudent management, investment and productive allocation of financial resources, with a view to promoting growth-supporting intermediation and durable financial stability. In this regard, for effective policy transmission, the Bank guides the determination of the level and direction of market interest rates that are consistent with the monetary policy stance. The Bank also promotes the effectiveness of the interbank market to address liquidity positions of individual banks. In addition, the Bank contributes to financial stability through prudential and market conduct supervision of commercial and statutory banks and promotes, as well as participates in coordinated regulation of the broader financial system.

6. CONCLUSION

6.1 Domestic inflation averaged 2.8 percent in 2024, thus breaching the lower bound of the medium-term objective range of 3 – 6 percent, mainly reflecting the reduction in domestic fuel prices; subdued domestic and global economic activity; lower international commodity prices and a decline in trading partner countries' inflation. Meanwhile, global inflation is forecast to decrease further in 2025, reflecting relatively high borrowing costs due to the slower pace of monetary policy easing implemented in 2024 and the expected lower commodity prices.

6.2 Inflation is expected to remain below the lower bound of the 3 – 6 percent objective range in the short term and revert to the objective range on a sustained basis from the second quarter of 2025. The Bank's formulation and implementation of monetary policy will focus on entrenching expectations of low, predictable and sustainable inflation, through timely response to price developments, while ensuring that credit and other market developments are in line with durable stability of the financial system. The Bank remains committed to monitoring economic and financial developments with a view to ensuring price and financial stability, without undermining sustainable economic growth.

6.3 Broadly, the Bank contributes to macroeconomic stability and policy congruence through the pursuit and attainment of its primary objectives and coordination with relevant institutions with respect to price and financial stability, as well as stability of the inflation-adjusted trade-weighted exchange rate. By focusing and delivering on its specific roles, the Bank contributes to the maintenance of a conducive environment for structural reforms and transformation initiatives to gain traction, potentially leading to higher rates of growth needed to transition the economy to high income status. Given that monetary policy is accommodative, immediate implementation of transformation initiatives and structural reforms are expected to raise prospects for faster growth and economic diversification. Against this background, enhanced productivity/innovation (including greater production capacity) of industry and effectiveness of support institutions and service providers would help improve growth prospects for the economy in an environment of price and financial stability. It is observed, in this regard, that effective implementation and recognition of value and benefits requires mindset change that discerns and harnesses the economic and welfare opportunities that can be derived from economic transformation and policy reforms, as well as conducive macroeconomic policies.

APPENDIX

Table A1: 2024 Monetary Policy Decisions

Central Bank	Policy Rate as at December 2024	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2025
United States Federal Reserve	4.25 – 4.50 percent	2	Decreased by 100 basis points	The Federal Open Market Committee (FOMC) continued to reduce its holdings of treasury securities, agency debt and mortgage-backed securities.	In assessing the appropriate stance of monetary policy, the FOMC will continue to monitor the implications of incoming information for the economic outlook. The committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals to achieve the 2 percent inflation target and maximum employment.
Bank of England (BoE)	4.75 percent	2	Decreased by 50 basis points	The MPC decided to reduce the stock of UK government bond purchases held for monetary policy purposes by £100 billion over the 12-month period from September 2024, to a total of £558 billion. In December 2024, the stock of UK government bonds held for monetary policy purposes was £655 billion.	The BoE stated that its monetary policy will continue to remain restrictive for sufficiently long until the risks to inflation, returning sustainably to the 2 percent target in the medium term, have dissipated further. The BoE will continue to monitor closely the risks of inflation persistence and decide the appropriate degree of monetary policy restrictiveness at each meeting but acknowledged a gradual approach to removing policy restraint remained appropriate.
European Central Bank[10]	3.00 percent	2	Decreased by 200 basis points	The Pandemic Emergency Purchase Programme (PEPP), introduced in 2020, continued to be reinvested into the principal payments from maturing securities purchased under the programme. However, the Governing Council fully discontinued reinvestments under the PEPP at the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. Net purchases under the Asset Purchase Programme (APP) are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.	The council emphasised that future policy decisions will be dependent on economic data, underlying inflation trends and the effectiveness of monetary policy.

10 The ECB has three key policy rates. These are the interest rate on the main refinancing operations, as well as the interest rates on the marginal lending facility and the deposit facility. The interest rate presented above is on the main refinancing operations.

Central Bank	Policy Rate as at December 2024	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2025
Bank of Japan (BoJ)	0.25 percent	2	Increased by 35 basis points	The BoJ terminated yield curve control for 10-year government bonds and discontinued the purchases of Japanese exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). The BoJ provided forward guidance that it would slowly reduce the pace of corporate bond buying before fully stopping it. It indicated that it would reduce the pace of monthly bond purchases from the pace of around JPY6 trillion to JPY3 trillion in January-March 2026 in persuit of a more normal monetary policy. In an effort to lower its USD5 trillion balance sheet and gradually withdraw from the bonds market, the BoJ has offered to buy JPY400 billions of 5 and 10-year government bonds at each of its operations, removing the ongoing offer range of JPY400-550 billion.	The BoJ's future conduct of monetary policy will depend on developments in economic activity and prices, as well as financial conditions going forward
Bank of Botswana (BoB)	1.9 percent	3-6	Decreased by 50 basis points	Not applicable	No indication of the direction of policy, as decisions will be data dependent
South African Reserve Bank (SARB)	7.75 percent	3-6	Decreased by 50 basis points	Not applicable	While the risks to inflation are currently assessed as balanced, an inflation surge is not unavoidable. The SARB is expected to respond to new data and risks.
People's Bank of China (PBoC)	3.1 percent	3	Decreased by 35 basis points	Not applicable	PBOC is committed to keeping liquidity adequate at a reasonable level, keep credit growing reasonably at a stable pace, and ensure that the growth of money supply and the aggregate financing to the real economy are generally in line with the nominal GDP growth. Given this commitment, the PoBC is likely to keep the Loan Prime Rate (LPR) low until the economy has recovered
Central Bank of Brazil	11.25 percent	4.5 ± 1.5	Decreased by 50 basis points	Not applicable	The central bank highlighted that the future interest rate adjustments will depend on inflation dynamics

Central Bank	Policy Rate as at December 2024	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2025
Reserve Bank of India (RBI)	6.50 percent	4 ± 2	Maintained	Not applicable	RBI remains focused on bringing down inflation to the 4 percent target going forward, while supporting growth. Thus, the policy rate is likely to remain unchanged at the relatively high level.
Central Bank of Russia (CBoR)	21 percent	4	Increased by 500 basis points	Not applicable	CBoR noted that inflation had accelerated, with risks judged to be on the upside, and signalled that it might increase the policy rate further at the next meetings, thus keeping borrowing costs at a restrictive level for a long period to achieve its inflation target.

Source: Surveyed central banks' websites

Table A2: Credit to Private Sector by Banks (Percent of GDP)

	2021	2022	2023
United States of America	50.4	51.7	49.2
United Kingdom	138.0	129.6	119.4
India	50.4	…	…
China	230.0	298.0	194.7
Chile	80.7	83.0	79.9
Rwanda	25.3	22.8	22.6
Mauritius	86.4	72.3	67.1
Namibia	58.0	52.6	50.1
Kenya	31.1	31.5	31.6
South Africa	57.9	58.7	57.6
Botswana	**34.5**	**29.8**	**30.0**

Source: World Bank's World Development Indicators.

Notes:
1. Domestic credit to the private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises.
2. Data for 2024 is not available.

NOTE

NOTE

MONETARY POLICY COMMITTEE MEETING DATES FOR 2025

Date	Venue
20 February 2025	Bank of Botswana
17 April 2025	Bank of Botswana
19 June 2025	Bank of Botswana
21 August 2025	Bank of Botswana
30 October 2025	Bank of Botswana
4 December 2025	Bank of Botswana

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