



## **Press Release**

### **Monetary Policy Committee Meets**

**August 20, 2020**

#### **Bank Rate maintained at 4.25 percent**

**At the meeting held on August 20, 2020, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 4.25 percent. Inflation was constant at 0.9 percent between June and July 2020 and remained below the lower bound of the Bank's objective range of 3 – 6 percent. However, inflation is forecast to revert to within the objective range in the third quarter of 2021.**

The COVID-19 pandemic and consequent containment measures have severely throttled economic activity globally and domestically as production, supply chains, project implementation and provision of goods and services are constrained. Similarly, consumption and spending are disrupted, hence domestic demand pressures and foreign prices remain subdued. Consequently, overall risks to the inflation outlook are skewed to the downside. However, inflation may rise above current forecasts if international commodity prices increase beyond current projections and in the event of upward price pressures occasioned by supply constraints due to travel restrictions and lockdowns.

Real Gross Domestic Product (GDP) grew by 2.6 percent in the twelve months to March 2020, compared to a faster expansion of 4.5 percent in the corresponding period in 2019. The lower increase in output is attributable to the contraction in mining output and deceleration in output growth of the non-mining sector. Mining output contracted by 6.1 percent compared to a growth of 5.5 percent in the corresponding period in 2019, mainly due to weaker performance of the diamond, soda ash, copper and coal subsectors. Non-mining GDP grew by 3.6 percent in the year to March 2020 compared to 4.3 percent in the corresponding period in 2019. The lower growth in non-mining GDP was mainly due

to a deceleration in output growth of the trade, hotels and restaurants, transport and communications, construction and manufacturing sectors.

Projections by the Ministry of Finance and Economic Development and the International Monetary Fund (IMF) suggest a deterioration in economic growth for Botswana in 2020. The Ministry estimates that the economy will decline by 8.9 percent in 2020, from an earlier forecast of a 13.1 percent contraction, before rebounding to growth of 7.7 percent in 2021. The IMF forecasts the domestic economy to contract by 9.6 percent in 2020 compared to 5.4 percent in the April 2020 World Economic Outlook, before rebounding to a growth of 8.6 percent in 2021. Even with recovery in 2021, the contraction in 2020 equates, approximately, to a two-year loss of output. The disparity in forecasts attest to the challenges of making forward projections when there is uncertainty about the duration of constrained economic activity, the resultant adverse impact on productive capacity, as well as the speed of resumption of production and pace of recovery in demand.

Broadly, the contraction in GDP reflects the substantial curtailment of economic activity due to the necessary measures implemented to contain the spread of COVID-19 and safeguard human life. The resultant decrease in global demand and disruption in supply chains, as well as curtailed economic activity locally, has affected several sources of economic growth for Botswana. Notably, these include exports, such as minerals and tourism as well as non-food retail economic activity.

The global economy is projected to contract by 4.9 percent in 2020 but to rebound to 5.4 percent in 2021, anchored by unprecedented policy and resource support by individual countries and multilateral institutions. However, the recovery projections are fraught with uncertainty with respect to several critical factors, namely, the intensity and effectiveness of containment measures; the extent of supply disruptions; fiscal and market financing constraints; shifts in spending patterns; trends in commodity prices; and, ultimately, business and consumer confidence. A similar pattern of developments pertains with regard to Botswana.

The MPC, however, recognised that the short-term adverse developments in the domestic economy occur against a potentially supportive environment including accommodative monetary conditions; reforms to further improve the business

environment; concerted efforts by government to mitigate the impact of COVID-19; as well as the likely impact of the economic recovery and transformation plan. These would generally be positive for economic activity in the medium term.

Therefore, the MPC decided to continue with the accommodative monetary policy stance and maintain the Bank Rate at 4.25 percent.

The full update of the Bank's outlook for the domestic economy and inflation will be published on August 27, 2020 in the Monetary Policy Report. The remaining MPC meetings for 2020 are scheduled as follows:

October 8, 2020

December 3, 2020