



Press Release

Monetary Policy Committee Decision

August 19, 2021

Bank Rate maintained at 3.75 percent

At the meeting held on August 19, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation rose from 8.2 percent in June to 8.9 percent in July 2021, remaining above the upper bound of the Bank's medium-term objective range of 3 - 6 percent. The latest increase in inflation mainly reflects the upward adjustment in domestic fuel prices in July 2021. However, inflation is projected to revert to within the objective range in the second quarter of 2022, mainly on account of the dissipating impact of the recent upward adjustment in value added tax (VAT) and administered prices from the inflation calculation; which altogether contributed 5.2 percentage points to the current level of inflation.

Overall, risks to the inflation outlook are assessed to be skewed to the upside. These risks include the potential for increase in international commodity prices beyond current forecasts; persistence of supply and logistics constraints due to possible maintenance of travel restrictions and lockdowns; and domestically-based risk factors relating to second-round effects of the recent increases in administered prices and inflation expectations that could lead to generalised higher prices. Furthermore, aggressive action by governments (for example, the Economic Recovery and Transformation Plan (ERTP)) and major central banks to bolster aggregate demand, as well as the successful rollout of the COVID-19 vaccination programmes, could add pressure to inflation.

These risks are, however, moderated by the possibility of weak domestic and global economic activity, with a likely further dampening effect on productivity due to periodic lockdowns and other forms of restrictions in response to the emergence of new COVID-19 variants. A slow rollout of vaccines resulting in the continuance of weak economic activity and the possible decline in international commodity prices could also result in lower inflation, as would capacity constraints in implementing the ERTIP initiatives.

Real Gross Domestic Product (GDP) contracted by 8.6 percent in the twelve months to March 2021, compared to a growth of 2.2 percent in the corresponding period in 2020. The decline in output is attributable to the contraction in production of both the mining and non-mining sectors, mainly resulting from the impact of the strict COVID-19 pandemic containment measures. Mining output declined substantially by 27.8 percent in the year to March 2021 compared to a decline of 6.7 percent in 2020, as the sector, including its support service activities, underperformed. Similarly, non-mining GDP contracted by 3.1 percent in the twelve-month period ending March 2021, compared to a growth rate of 5 percent in the corresponding period in 2020. The decline in non-mining GDP was mainly due to lower output for the accommodation and food services, manufacturing, construction, and diamond traders, among others.

Projections by the Ministry of Finance and Economic Development and the International Monetary Fund (IMF) suggest a rebound in economic growth for Botswana in 2021. The Ministry projects a growth of 8.8 percent in 2021, before moderating to a growth of 5.5 percent in 2022. On the other hand, the IMF forecasts the domestic economy to grow by 8.3 percent in 2021; this is expected to moderate to 6.4 percent in 2022. The growth outcome will partly depend on the successful vaccine rollout.

Global output growth is forecast at 6 percent in 2021, reflecting expectations of strengthening economic activity in the latter part of the year, largely supported by additional fiscal support and the rollout of effective COVID-19 vaccines. However, global output growth is anticipated to moderate to 4.9 percent in 2022, as some

economies return to their pre-COVID levels. Meanwhile, the South African Reserve Bank projects the South African GDP to grow by 4.2 percent in 2021, before slowing to 2.3 percent in 2022.

The MPC notes that the short-term adverse developments in the domestic economy occur against a growth-enhancing environment. This includes accommodative monetary conditions, improvements in water and electricity supply, reforms to further improve the business environment and government interventions against COVID-19, including positive news around the vaccination rollout programme. In addition, the successful implementation of ERTF should anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves which have recently fallen to an estimate of P50.8 billion (9.4 months of import cover) in August 2021.

Overall, it is projected that the economy will operate below full capacity in the short to medium term and, therefore, not creating any inflationary pressures, going forward. The projected increase in inflation in the short term is primarily due to transitory supply-side factors that, except for second-round effects and entrenched expectations (for example, through price adjustments by businesses, contractors, property owners and wage negotiations), would not normally attract monetary policy response.

In this context, the MPC decided to continue with the accommodative monetary policy stance and maintain the Bank Rate at 3.75 percent. The Bank stands ready to respond appropriately as conditions dictate.

The Monetary Policy Report containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on August 26, 2021. The remaining MPC meetings for 2021 are scheduled as follows:

October 21, 2021

December 2, 2021