



Press Release

Monetary Policy Committee Meets

February 25, 2021

Bank Rate maintained at 3.75 percent

At the meeting held on February 25, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation rose marginally from 2.2 percent in December 2020 to 2.3 percent in January 2021, remaining below the lower bound of the Bank's medium-term objective range of 3 – 6 percent. Nonetheless, inflation is forecast to revert to within the objective range in the second quarter of 2021 and subsequently move closer to the upper bound partly due to transitory factors.

Overall, risks to the inflation outlook are assessed to be balanced. Upside risks relate to the potential increase in international commodity prices beyond current forecasts, aggressive action by governments and major central banks to bolster demand, as well as the anticipated supply constraints due to travel restrictions and lockdowns, though abating. Domestically, accelerated implementation of the Economic Recovery and Transformation Plan (ERTP) and any additional increase in government levies/taxes could lead to higher inflation. These risks are moderated by weak domestic and global economic activity, which could be exacerbated by periodic lockdowns and other forms of restrictions due to emergence of new COVID-19 variants, and the possible decline in international commodity prices. Furthermore, should there be implementation capacity constraints, this could hinder the effectiveness of policy stimulus and ERTP initiatives, thus resulting in lower inflation.

As I mentioned in the Monetary Policy Statement (MPS) launch on Tuesday February 23, 2021, Real Gross Domestic Product (GDP) contracted by 6.4 percent in the twelve months to September 2020, compared to a growth of 3.7 percent in the corresponding period in 2019. The decline in output is attributable to the contraction in output of both mining and non-mining sectors, resulting from the associated COVID-19 pandemic containment measures. Mining output fell by 21.9 percent in the twelve months to September 2020 compared to a growth of 1.4 percent in the corresponding period in 2019, mainly due to weaker performance of the diamond, copper, coal, soda ash and other mining subsectors. Non-mining GDP contracted by 4.7 percent compared to a growth of 3.9 percent in the same period last year. The decline in non-mining GDP was mainly due to lower output of the trade, hotels and restaurants, finance and business services, transport and communications, social and personal services, construction and manufacturing sectors. In addition, the deceleration in growth of general government contributed to the overall decline in the non-mining output.

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 the economy to have contracted by 7.7 percent in 2020, compared to the earlier estimated contraction of 8.9 percent, before rebounding to a growth of 8.8 percent in 2021. The IMF forecasts the domestic economy to contract by 9.6 percent in 2020 compared to the decline of 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 to more than a year's loss of output growth. As repeatedly observed, 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 constrained domestic economic activity, 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. Nonetheless, the economy is estimated to have performed better in the fourth quarter of 2020 compared to the third quarter given easier COVID-19 movement restrictions in the fourth quarter.

Meanwhile, economic activity in South Africa remains subdued and the South African Reserve Bank projects GDP to have contracted by 7.1 percent in 2020, but to rebound to a growth of 3.6 percent in 2021. Global output is estimated to have declined by 3.5 percent in 2020 but to rebound to a growth of 5.5 percent in 2021, on account of expectations of a vaccine-powered strengthening of activity and additional policy support in major economies. However, the recovery projections are fraught with risks relating to the possible difficulty to contain the virus and uncertain availability and distribution of COVID-19 vaccines.

The MPC, however, recognises that the short-term adverse developments in the domestic economy occur against a potentially supportive environment including accommodative monetary conditions; improvements in water and electricity, transport and communications and trade, hotels and restaurants sectors; concerted efforts by government to mitigate the impact of COVID-19; as well as the likely favourable impact of the ERTP. These would generally be positive for economic activity in the medium term. Nevertheless, it is projected that the economy will operate below full capacity in both the short and medium term and, therefore, not creating any inflationary pressures going forward. The forecast increase in inflation towards the upper end of the objective range is partly due to transitory factors, such as value added tax, sugar tax and fuel levy.

In the circumstances, 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 should the need arise.

The MPS containing a full update of the Bank's outlook for the domestic economy and inflation was published on the Bank's website on February 23, 2021. The remaining MPC meetings for 2021 are scheduled as follows:

April 29, 2021

June 17, 2021

August 19, 2021

October 21, 2021

December 2, 2021