



Press Release

Monetary Policy Committee Meets

December 3, 2020

Bank Rate maintained at 3.75 percent

At the meeting held on December 3, 2020, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation increased from 1.8 percent in September to 2.2 percent in October 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 second quarter of 2021.

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 possible supply constraints due to travel restrictions and lockdowns, though abating. Domestically, accelerated implementation of the Economic Recovery and Transformation Plan (ERTP), as well as a possible increase in government levies and/or taxes, could lead to higher inflation. These risks are moderated by weak domestic and global economic activity, which could be exacerbated by periodic lockdowns due to prolonged COVID-19 infections, 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.

Real Gross Domestic Product (GDP) contracted by 4.2 percent in the twelve months to June 2020, compared to a growth of 3.9 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 contracted by 18.6 percent compared to a growth of 1.5 percent in the corresponding period in 2019, mainly due to weaker performance of the diamond, soda ash, copper and other mining subsectors. Non-mining GDP contracted by 2.6 percent in the year to June 2020 compared to 4.2 percent in the same period in 2019. The lower growth in non-mining GDP was mainly due to contraction in output of the trade, hotels and restaurants, transport and communications, construction and manufacturing sectors. In addition, the deceleration in growth of the finance and business services, general government, agriculture and social and personal services contributed to the overall output decline of the non-mining sector.

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 recovering 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 growth in 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. Nonetheless, the economy is expected to have performed better in the third quarter of 2020 compared to the second quarter given the gradual easing of COVID-19 movement restrictions from that period, and the significant increase in Debswana production in the second half compared to the first half of the year.

Meanwhile, economic activity in South Africa remains subdued and the South African Reserve Bank projects GDP to contract by 8 percent in 2020, but to recover to a growth of 3 percent in 2021. Global output is projected to contract by 4.4 percent in 2020 but to rebound to 5.2 percent in 2021, anchored by better performance than anticipated for the second quarter of 2020, a stronger performance in the third quarter, as well as immense policy support. However, the recovery projections are fraught with uncertainty with respect to the possible resurgence in infections and uncertain availability and distribution of a COVID-19 vaccine. A similar pattern of developments pertains regarding 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 anticipated positive impact of the E RTP. These would generally augur well 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 3.75 percent. The Bank stands ready to respond appropriately should the need arise.

The Monetary Policy Report (MPR) containing a full update of the Bank's outlook for the domestic economy and inflation will be published on December 10, 2020. MPC meeting dates for 2021 will be published in the December 2020 MPR.