



**Bank of Botswana**

June 17, 2021

## **PRESS RELEASE**

### **Monetary Policy Committee Meets Bank Rate maintained at 3.75 percent**

**At the meeting held on June 17, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. As indicated at the last MPC meeting, inflation maintained the upward trajectory, increasing further from 5.6 percent in April to 6.2 percent in May 2021, therefore breaching the upper bound of the Bank's medium-term objective range of 3 - 6 percent for the first time since June 2013. The increase in inflation in May mainly reflects second-round effects of the recent upward adjustments in administered prices. However, inflation is projected to revert to within the objective range in the second quarter of 2022.**

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 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 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 successful rollout of the COVID-19 vaccination programmes could add pressures to inflation. However, these risks are moderated by the possibility of weak domestic and global

economic activity, with a likely further dampening due to periodic lockdowns and other forms of restrictions in response to 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 any capacity constraints in implementing the ERTIP initiatives.

Real Gross Domestic Product (GDP) contracted by 7.9 percent in 2020, compared to a growth rate of 3 percent in 2019. 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 contracted significantly by 26.2 percent in 2020 compared to a lower decline of 4.1 percent in 2019, mainly due to weaker performance of the diamond, soda ash, coal, prospecting and other mining subsectors. Non-mining GDP contracted by 5.9 percent in 2020 compared to a growth rate of 3.9 percent in 2019.

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 rate of 8.8 percent in 2021, before moderating to 5.5 percent in 2022, while 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 largely depend on the successful rollout of the vaccination programme.

Meanwhile, the adverse effects of the COVID-19 pandemic containment measures pose uncertainty and challenges to economic growth given Botswana's vulnerability to external shocks, notably, on diamond prices and demand, tourism and delays in the importation of supplies. Nonetheless, it is estimated that the economy performed better in the first quarter of 2021 compared to the fourth quarter of 2020, given the gradual easing of COVID-19 movement restrictions and vaccine rollouts in the first quarter.

Economic activity in South Africa is expected to improve as the South African Reserve Bank projects GDP to grow by 4.2 percent in 2021, before slowing to 2.3 percent in 2022. Global output growth is forecast at 6 percent in 2021, reflecting the anticipated vaccine-powered recovery in the second half of the year as well as maintenance of policy support in advanced economies. However, global output growth is anticipated to moderate to 4.4 percent in 2022, as some economies return to their pre-COVID levels.

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 vaccine rollouts, and the implementation of ERTP and Industry Support Facility. In addition, successful implementation in this regard should anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves which have recently fallen to an estimate of P47.5 billion (8.8 months of import cover) in June 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, 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:

August 19, 2021

October 21, 2021

December 2, 2021