



Press Release

Monetary Policy Committee Meets

June 18, 2020

Bank Rate maintained at 4.25 percent

At the meeting held on June 18, 2020, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 4.25 percent. Inflation eased from 2.5 percent in April to 2.4 percent in May 2020, remaining below the lower bound of the Bank's objective range of 3 – 6 percent. Inflation is forecast to revert to within the objective range in the third quarter of 2021, this is a significant downward revision from the April 2020 forecast.

The COVID-19 pandemic and consequent containment measures have severely curtailed 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 3 percent in 2019, compared to a faster growth of 4.5 percent in 2018. The lower increase in output was mainly attributable to a contraction in mining output as well as a deceleration in non-mining GDP growth. Mining output contracted by 3.9 percent in 2019, compared to a higher increase of 7.9 percent in 2018, mainly due to weaker performance of the diamond, soda ash, copper and coal sub-sectors. Non-mining GDP grew by 3.8 percent in 2019, compared to 4.1 percent in 2018. The slower expansion in non-mining GDP was primarily due to a deceleration in

output growth of the manufacturing, construction, transport and communications, and social and personal services sectors.

Projections by both the Ministry of Finance and Economic Development and the International Monetary Fund (IMF) suggest a sharp deterioration in economic growth for Botswana in 2020. In the April 2020 World Economic Outlook, the IMF forecast GDP to fall by 5.4 percent this year, before rebounding to 6.8 percent in 2021, while the Ministry estimates that the economy will contract by 13.1 percent, and rebound to a 3.9 percent growth in 2021. Even with recovery in 2021, the contraction in 2020 equates, approximately, to a two-year loss of output. The wide range of 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 backdrop is that the world economy is forecast to contract by 3 percent in 2020. Nevertheless, economic activity is expected to rebound in 2021, with global growth estimated at 5.8 percent, 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 efforts; 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; improvements in the provision of utilities; reforms

to further improve the business environment; concerted efforts by government to mitigate the impact of COVID-19; and a prospective economic recovery programme. These would generally be positive for economic activity in the medium term.

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

The next 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:

August 20, 2020

October 8, 2020

December 3, 2020