



Press Release

Monetary Policy Committee Meets

August 24, 2023

Monetary Policy Rate Maintained

At the meeting held on August 24, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 percent.

Headline inflation decreased significantly from 4.6 percent in June to 1.5 percent in July 2023, breaching the lower bound of the Bank's medium-term objective range of 3 – 6 percent. The fall in inflation was mainly due to the dissipating impact of the earlier increase in domestic fuel prices in the corresponding period in 2022 (base effects). Furthermore, inflation fell on account of the downward adjustment in domestic fuel prices effected on June 21, 2023. Inflation is forecast at 1.2 percent for August 2023 and the MPC projects that inflation will remain below the lower bound of the objective range temporarily and revert to within the objective range from the first quarter of 2024 into the medium term. The projected low inflation is due to, among others, subdued domestic demand and the downward revision in recent forecasts of international food prices and trading partner countries' inflation.

The risks to this inflation profile/trajectory were assessed to be balanced. The MPC observes that inflation could be higher than projected if international commodity prices increase beyond current forecasts, supply and logistical constraints persist and the reversal of global economic integration (geo-economic fragmentation) gains pace. Furthermore, any possible upward adjustment in administered prices that is

not factored in the current projection may lead to higher inflation. However, inflation could be lower than anticipated because of the possibility of weaker domestic and global economic activity, possible disinflationary effects of higher monetary policy rates globally, stronger-than-anticipated appreciation of the Pula against the South African rand, and restrained international commodity prices.

According to the July 2023 World Economic Outlook Update, global output growth for 2022 is estimated at 3.5 percent and is forecast to moderate to 3 percent in both 2023 and 2024. South African real gross domestic product (GDP) grew by 1.9 percent in 2022. The South African Reserve Bank expects growth to weaken to 0.4 percent in 2023 but to improve to 1 percent in 2024. For Botswana, real GDP increased by 5.8 percent in 2022, lower than 11.9 percent recorded in 2021. The Ministry of Finance projects GDP to grow by 3.8 percent and 4.4 percent in 2023 and 2024, respectively.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies being implemented. These include accommodative monetary conditions, improvement in water and electricity supply, implementation of the Economic Recovery and Transformation Plan and the two-year Transitional National Development Plan, as well as reforms to further improve the business environment (for example, the promulgation of the Credit Information Act and Movable Property Act both of which have the potential to make credit more accessible). In addition, the recent announcement of agreement in principle between the Government of Botswana and De Beers Group on a new Debswana Mining Licence and new Sales Agreement is expected to be positive for medium-term growth.

The MPC recognises that, in addition to the dissipating impact of increases in administered prices in 2022, the economy is expected to operate below full capacity in the short term and, therefore, not generate demand-driven inflationary pressures. However, inflation is forecast to be within the objective range in the medium term

and closer to the upper bound. Therefore, the MPC decided to maintain the MoPR at 2.65 percent.

Accordingly,

- (a) the 7-day Bank of Botswana Certificates, repos and reverse repos will be conducted at the MoPR of 2.65 percent;
- (b) the Standing Deposit Facility (SDF) Rate is maintained at 1.65 percent, 100 basis points below the MoPR; and
- (c) the Standing Credit Facility (SCF) Rate remains at 3.65 percent, 100 basis points above the MoPR.

The Monetary Policy Report (MPR) containing the Bank's review of economic and policy developments as well as outlook will be published on the Bank's website on August 31, 2023. The remaining MPC meetings for 2023 are scheduled as follows:

October 26, 2023

December 7, 2023

Notes to Editors

The MPC, chaired by the Governor, is a statutory committee established by the Bank of Botswana (Amendment) Act, 2022. The Committee consists of nine members, four of whom are independent external members.

Annex: Inflation Forecast Summary for August 2023 MPC Meeting

	Actual					Forecast												
	2022					2023		2023			2024					2025		
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	
Inflation	10.4	11.4	14.2	12.6	12.2	9.4	6.1	2.1 (3.2)	2.5 (4.0)	5.0 (5.7)	3.2 (4.9)	3.6 (4.9)	4.3 (4.8)	4.8 (4.7)	4.0 (4.8)	5.0 (4.8)	5.1 (4.8)	

Note: Figures in parentheses represent the previous MPC forecast (June 2023)

Factors contributing to the downward revision of the forecast include the following:

Domestically

1. The decrease in domestic fuel prices effected June 21, 2023
2. The significantly lower inflation outturn for July 2023

Externally

1. Downward revision of international food prices and trading partner countries' inflation in the short term