



Press Release

Monetary Policy Committee Meets

December 1, 2022

Monetary Policy Rate Maintained

At the meeting held on December 1, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Monetary Policy Rate (MoPR) at 2.65 percent.

Inflation decreased from 13.8 percent in September 2022 to 13.1 percent in October 2022, remaining above the Bank's medium-term objective range of 3 – 6 percent. The MPC projects that inflation will continue to trend downwards and fall within the objective range in the third quarter of 2024. The projected decrease in inflation into the medium term is due to the dissipating impact of the earlier increases in administered prices (base effects), subdued domestic demand, current monetary policy posture, expected decrease in global inflation and international commodity prices.

There is a significant risk that inflation could remain elevated owing to the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints to production; the adverse economic and price effects of the ongoing Russia-Ukraine war; and the uncertain COVID-19 profile. On the domestic front, the risks of higher inflation than currently projected relate to possible annual adjustments of administered prices not included in the forecast; short-term consequences of import restrictions; second-round effects of the increase in administered prices; upward pressure on wages across the economy

emanating from the increase in public service salaries; and entrenched expectations for higher inflation, which could lead to higher general price adjustments.

Inflation could also be lower than projected because of the possibility of weaker-than-anticipated domestic and global economic activity due to geo-political tensions and possible restrictions in response to any emergence of new COVID-19 variants. Lower international commodity prices than currently projected could also lead to a decline in inflation, as would capacity constraints in project implementation.

Real gross domestic product (GDP) grew by 6.7 percent in the twelve months to June 2022, compared with a growth of 5.1 percent in the year to June 2021. The increase in domestic output was mostly attributable to the expansion in output of the mining sector in the review period, while growth in the non-mining sector was comparatively lower.

According to the October 2022 World Economic Outlook, global output growth was 6 percent in 2021, and forecast to slow to 3.2 percent and 2.7 percent in 2022 and 2023, respectively. The South African Reserve Bank projects that the South African GDP will grow by 1.8 percent in 2022, and slow to 1.1 percent in 2023. For Botswana, GDP growth is expected to moderate to 4.2 percent in 2022 and 4.1 percent in 2023, compared to 11.4 percent in 2021.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies being implemented. These include affordable credit, improvement in water and electricity supply, reforms to further improve the business environment and government interventions against COVID-19, including effective vaccination rollout programme. Against this background, enhanced productivity, innovation, production and the resultant competitiveness of domestic firms against imports and in international markets could contribute to lower domestic inflation.

Overall, the MPC projects that the domestic economy will operate below full capacity in the short-to-medium term and, therefore, not generating any demand-induced inflationary pressures. The projected elevated inflation in the short term is primarily due to supply-side factors and related second-round effects as well as entrenched expectations (including through price adjustments by businesses, contractors and property owners), while demand remains modest. In the circumstances, the MPC decided to maintain the MoPR at 2.65 percent to support economic recovery.

Accordingly,

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

The Monetary Policy Report (MPR), containing a full update of the Bank's outlook for the domestic economy and inflation, will be published on the Bank's website on December 8, 2022. MPC meeting dates for 2023 will be published in the December 2022 MPR.

On another matter, the Bank of Botswana will, with effect from January 1, 2023, withdraw some of the COVID-19 relief measures introduced on April 1, 2020, as indicated in Annex 2.

Inflation Forecast Summary for December 2022 MPC Meeting

	Actual										Forecast									
	2021					2022					2022		2023					2024		
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3		
Inflation	2.6	6.7	8.7	8.7	6.7	10.4	11.4	14.2	12.6 (13.2)	12.2 (12.3)	11.2 (12.0)	8.8 (9.3)	6.3 (6.5)	7.3 (7.2)	8.4 (8.8)	7.0 (7.0)	6.4 (6.4)	5.8 (5.9)		

Note: Figures in parentheses represent the previous MPC forecast (October 2022)

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

Domestically

The decrease in domestic fuel prices effected on October 27, 2022

Externally

Forecast stronger Pula against the South African rand than in the October forecast

Withdrawal of Some COVID-19 Relief Measures

1. Introduction

- 1.1 The relief measures were announced on April 1, 2020, following extensive consultation with stakeholders, including commercial banks and the Financial Stability Council. When announcing the relief measures, the Bank indicated that the measures would continue to be reviewed as may be necessary and/or expedient to do so, depending on the severity and/or trajectory of COVID-19.
- 1.2 COVID-19 infections continue to be a threat to public health. The health protocols, including the successful vaccination programme, have helped to significantly reduce the incidence of the disease, which alongside economic support and policy, as well as transformative responses, alleviated the impact, over time, on the safety and soundness of the banking industry. Indeed, except for the disruptions caused by the Russia-Ukraine war, economic recovery was well under way at the beginning of 2022. While the possibility of any future infection waves cannot be discounted, globally and here at home, the prevention measures and availability of effective vaccines as well as other mitigation strategies have allowed for reopening of economies and resumption of normal economic activities.
- 1.3 Against this background, the Bank has decided to withdraw some of the COVID-19 relief measures with effect from January 1, 2023, as follows.

2. Liquidity Support

(a) Overnight Borrowing from the Credit Facility

2.1 The punitive interest rate for involuntary access to the Credit Facility (CF) by banks, to meet overnight settlement obligations, is set at 8 percentage points above the prevailing Monetary Policy Rate (MoPR). This facility is different from the other overnight facilities offered by the Bank, such as the Standing Credit Facility (SCF), accessed at the discretion of the individual bank, and the repurchase agreements (repos), offered at the discretion of the Bank. The CF is automatically availed to a bank that is overdrawn at the close of each business day, hence the punitive interest rate since banks are not, by law, permitted to overdraw the settlement accounts held at the Bank of Botswana. The facility is also used for intraday temporary funding without attracting any charges, except that, at close of any trading day, the settlement accounts with the Bank of Botswana must have positive balances.

(b) Repurchase Agreement Maturity

2.2 The maturity of repos and reverse repos facility is reduced from 92 days to overnight and, consistent with the announced monetary operations reforms, the Bank's participation in the repo market will be minimal for fine tuning purposes.

(c) **Collateral pool**

2.3 The dispensation to include all securities listed on the Botswana Stock Exchange Limited (BSEL) in the pool of eligible collateral for credit facilities provided to banks by the Bank of Botswana is maintained to support listing on the BSEL as well as liquidity of the market. **This is subject to acceptable collateral margin and/or haircuts, as may be announced from time to time by the Bank of Botswana.**

3. Provisioning for Non-performing Loans under the Repayment Moratorium

3.1 The suspension of provisioning for non-performing loans under the payment moratorium arrangements is hereby rescinded. Therefore, banks are required to implement the normal loan classification criteria in accordance with the normal credit underwriting standards and provisioning methodology as dictated by normal prudence in credit risk management and international financial reporting standards applicable for banks.

3.2 Other measures, as set out in the Media Release on Response to the Impact of COVID-19 Pandemic on April, 1 2020, on the Amendment of the Revised Directive on International Convergence of Capital Measurement and Capital Standards for Botswana, Liquidity Support and Limits for Mobile Money transactions, remain unchanged and may be reviewed as may be necessary, from time to time.

4. Banks are encouraged to continue to support economic activity and recovery by extending loans and other credit facilities to firms in a cost-effective manner while observing sound credit underwriting standards and practices.