



Press Release

Monetary Policy Committee Meets

February 23, 2023

Monetary Policy Rate Maintained

At the meeting held on February 22 and 23, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 percent.

Inflation decreased significantly from 12.4 percent in December 2022 to 9.3 percent in January 2023, but remained above the Bank's medium-term objective range of 3 – 6 percent. The reduction in inflation is partly due to the impact of the downward adjustment of domestic fuel prices in December 2022 and January 2023. The MPC projects that, while it will fluctuate, inflation will trend downwards and fall within the objective range in the second 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), recent decrease in domestic fuel prices, modest domestic demand, current monetary policy posture, expected decrease in global inflation and international commodity prices, as well as the implementation of a smaller downward annual rate of crawl of the Pula exchange rate (i.e. 1.51 percent compared to 2.87 percent), all of which exert downward pressure on domestic inflation.

The projection is nevertheless subject to upside risks, including the potential increase in international commodity prices beyond current forecasts and persistence of supply and logistical constraints. On the domestic front, the risks for higher inflation relate

to, among others, possible annual price adjustments in administered prices that are not factored in the current projections; entrenched expectations for higher inflation; any realised upward pressure on wages; and any, yet unwarranted, overshooting of prices in the advent of reversion of the Value Added Tax to 14 percent; all of which could lead to higher general price adjustments. These risks are, however, moderated by the possibility of weak domestic and global economic activity, as well as restrained commodity prices.

Real gross domestic product (GDP) grew by 6.4 percent in the twelve months to September 2022, compared to a growth of 8.9 percent in the year to September 2021. The slowdown in output growth is attributable to the deceleration in production of both the mining and non-mining sectors. Note that the high growth rate in the year ending September 2021 was mainly due to economic recovery from a low base associated with the negative impact of the COVID-19 containment measures of 2020.

According to the January 2023 World Economic Outlook Update, global output is estimated to have expanded by 3.4 percent in 2022 and it is forecast to moderate to 2.9 percent in 2023 and rebound to 3.1 percent in 2024. The South African Reserve Bank estimates that the South African GDP grew by 2.5 percent in 2022, and economic growth is forecast to slow to 0.3 percent in 2023 due to extensive electricity supply challenges, but to improve to 0.7 percent in 2024. For Botswana, the Ministry of Finance estimates GDP to have expanded by 6.7 percent in 2022, and projects GDP growth to moderate to 4 percent in 2023, before accelerating to 5.1 percent in 2024.

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, implementation of the Transitional National Development Plan, reforms to further improve the business environment and government interventions against COVID-19, including the effective vaccination rollout programme. Against this background, enhanced

productivity, innovation and the resultant international competitiveness of domestic firms could contribute to lower domestic inflation.

Overall, the MPC projects that the economy will operate below full capacity in the short to medium-term and, therefore, not generating any demand-driven 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 for higher inflation, while demand remains modest. In the circumstances, the MPC decided to maintain the MoPR at 2.65 percent.

Accordingly, the

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

The Monetary Policy Statement containing a full update of the Bank's outlook for the domestic economy and inflation was published on the Bank's website on February 22, 2023.

The remaining MPC meetings for 2023 are scheduled as follows:

April 27-28, 2023

June 14-15, 2023

August 23-24, 2023

October 25-26, 2023

December 6-7, 2023

Annex: Inflation Forecast Summary for February 2023 MPC Meeting

	Actual					Forecast									
	2022					2023					2024				
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average
Inflation	10.4	11.4	14.2	12.6	12.2	9.7 (11.2)	8.3 (8.8)	6.1 (6.3)	7.1 (7.3)	7.8 (8.4)	7.3 (7.0)	5.4 (6.4)	4.1 (5.8)	3.9 (5.9)	5.2 (6.3)

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

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

Domestically

1. The decrease in domestic fuel prices effected on December 22, 2022 and January 13, 2023

Externally

1. Downward revision of international commodity prices
2. The implementation of a smaller downward annual rate of crawl of the Pula exchange rate