



## **Press Release**

### **Monetary Policy Committee Decision**

**December 2, 2021**

#### **Bank Rate maintained at 3.75 percent**

**At the meeting just ended this morning, on December 2, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation rose from 8.4 percent in September to 8.8 percent in October 2021, remaining above the upper bound of the Bank's medium-term objective range of 3 - 6 percent. The latest increase in inflation mainly reflects the upward adjustment in domestic fuel prices in October 2021. However, inflation is projected to revert to within the objective range in the third quarter of 2022, mainly on account of the dissipating impact of the upward adjustment, during 2021, of value added tax (VAT) and administered prices from the inflation calculation; which altogether contributed 5.9 percentage points to the current level of headline inflation.**

Overall, risks to the inflation outlook are assessed to be skewed to the upside. These risks include the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints due to lags in production; possible maintenance of travel restrictions and other COVID-19 containment measures; domestic risk factors relating to regular annual price adjustments; as well as second-round effects of the recent increases in administered prices and inflation expectations that could lead to generalised higher price adjustments. 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 the successful rollout of the COVID-19 vaccination programmes, could add pressure to inflation.

These risks are, however, moderated by the possibility of weak domestic and global economic activity, with a likely further dampening effect on productivity due to supply-chain bottlenecks, disease containment measures and other forms of restrictions in response to the 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 capacity constraints in implementing the ERTIP initiatives.

Real Gross Domestic Product (GDP) grew by 4.9 percent in the twelve months to June 2021, compared to a contraction of 5.1 percent in the corresponding period in 2020. The increase in output is attributable to the expansion in production of both the mining and non-mining sectors, resulting from an improved performance of the economy from a low base in the corresponding period in the previous year. Mining output increased by 3 percent in the year to June 2021, on account of a 3.2 percent increase in diamond mining output, compared to a contraction of 19.3 percent in 2020. Similarly, non-mining GDP grew by 5.4 percent in the twelve-month period ending June 2021, compared to a decrease of 0.7 percent in the corresponding period in 2020. The increase in non-mining GDP was mainly due to expansion in output for construction, diamond traders, transport and storage, wholesale and retail and real estate.

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 9.7 percent in 2021, moderating to a growth of 4.3 percent in 2022. On the other hand, the IMF forecasts the domestic economy to grow by 9.2 percent in 2021; and this is expected to moderate to a growth of 4.7 percent in 2022. The growth outcome will partly depend on the successful vaccine rollout.

According to the October 2021 World Economic Outlook (WEO), global output growth is forecast at 5.9 percent in 2021 and to moderate to 4.9 percent in 2022, as some economies return to their pre-COVID levels. The South African Reserve Bank, for its part, projects that the South African GDP will grow by 5.2 percent in 2021, and slow to 1.7 percent in 2022.

The MPC notes that the short-term adverse developments in the domestic economy occur against a growth-enhancing environment. These include accommodative monetary conditions, improvements in water and electricity supply, reforms to further improve the business environment and government interventions against COVID-19, including the vaccination rollout programme. In addition, the successful implementation of E RTP should help anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves, which amounted to P53.5 billion (10 months of import cover) at the end of November 2021.

Overall, it is projected that the economy will operate below full capacity in the short to medium term and, therefore, not creating any demand-driven 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 and entrenched expectations (for example, through price adjustments by businesses, contractors, property owners and wage negotiations), do 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 (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 9, 2021. MPC meeting dates for 2022 will be published in the December 2021 MPR.

## Annex: Inflation Forecast Summary for December 2021 MPC Meeting

|                  | Actual 2021 |     |     | Forecast     |                |               |              |              |              |                |              |              |              |
|------------------|-------------|-----|-----|--------------|----------------|---------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
|                  |             |     |     | 2021         |                | 2022          |              |              |              |                | 2023         |              |              |
|                  | Q1          | Q2  | Q3  | Q4           | Annual Average | Q1            | Q2           | Q3           | Q4           | Annual Average | Q1           | Q2           | Q3           |
| <b>Inflation</b> | 2.6         | 6.7 | 8.7 | 9.5<br>(8.7) | 6.9<br>(6.7)   | 10.4<br>(8.6) | 7.3<br>(5.8) | 5.8<br>(4.9) | 4.6<br>(4.9) | 7.0<br>(6.1)   | 3.9<br>(5.5) | 4.4<br>(5.9) | 5.1<br>(5.9) |

*Note: Figures in parentheses represent the previous MPC forecast (October 2021)*

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

### **Domestically**

1. The expected increase in private school fees in the first quarter of 2022
2. A possible increase in domestic fuel prices in response to developments in international oil prices

### **Externally**

1. Trading partner inflation revised upwards in the short term
2. International commodity prices (food and oil) revised upwards
3. Pula forecast to be relatively stable against the rand in the near term