



## **Press Release**

### **Monetary Policy Committee Decision**

**February 24, 2022**

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

**At the meeting held on February 24, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation rose from 8.7 percent in December 2021 to 10.6 percent in January 2022, remaining above 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 effected on December 20, 2021, as well as the increase in public transport fares and private school fees in January 2022. However, the MPC does not expect inflation to be persistently above the medium term of objective range as inflation is projected to fall from the second quarter of 2022 and revert to within the objective range from the third quarter of 2022. This would be mainly on account of the dissipating impact of the upward adjustment in value added tax (VAT) and administered prices during 2021, from the inflation calculation; which altogether contributed 5.9 percentage points to headline inflation in 2021.**

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; geo-political tensions; uncertain COVID-19 profile; domestic risk factors relating to regular annual price adjustments; short-term unintended consequences of import restrictions (shortages leading to price increases); as well

as second-round effects of the recent increases in administered prices and inflation expectations that could lead to generalised higher price adjustments.

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 periodic lockdowns and other forms of restrictions in response to the emergence of new COVID-19 variants. Lower international commodity prices than currently projected, could also result in lower inflation, as would capacity constraints in implementing the Economic Recovery and Transformation Plan (ERTP) initiatives.

Real Gross Domestic Product (GDP) grew by 8.6 percent in the twelve months to September 2021, compared to a contraction of 7.3 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 base effects associated with the negative economic impact of COVID-19 pandemic containment measures, which were progressively eased from the third quarter of 2021. Mining output increased by 15.6 percent in the year to September 2021, on account of a 16.3 percent increase in diamond mining output, compared to a contraction of 22.2 percent in 2020. Similarly, non-mining GDP grew by 6.9 percent in the twelve-month period ending September 2021, compared to a decrease of 2.8 percent in the corresponding period in 2020. The increase in non-mining GDP was mainly due to expansion in output of all sectors, except for agriculture, forestry and fishing, and accommodation and food services which contracted.

Projections by the Ministry of Finance and Economic Development suggest a real GDP growth of 9.7 percent overall in 2021, for Botswana, moderating to 4.3 percent and 4.2 percent in 2022 and 2023, respectively.

According to the January 2022 World Economic Outlook (WEO) Update, global output growth is estimated at 5.9 percent in 2021, moderating to 4.4 percent in

2022 and 3.8 percent in 2023, as pent-up demand dissipates, and fiscal and monetary policies unwind across the world. On the other hand, the South African Reserve Bank estimated that the South African GDP will grow by 4.8 percent in 2021, 1.7 percent in 2022 and 1.8 percent in 2023.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies currently being implemented. 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 effective vaccination rollout programme. In addition, the successful implementation of ERTF should help anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves.

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 the circumstances, the MPC decided to continue with the accommodative monetary policy stance and maintain the Bank Rate at 3.75 percent, to continue to support the nascent economic recovery. The Bank stands ready to respond appropriately as conditions evolve.

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 23, 2022. The remaining MPC meetings for 2022 are scheduled as follows:

April 28, 2022

June 16, 2022

August 25, 2022

October 20, 2022

December 1, 2022

### Annex: Inflation Forecast Summary for February 2022 MPC Meeting

	Actual 2021					Forecast									
						2022					2023				
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average
<b>Inflation</b>	2.6	6.7	8.7	8.7	6.8	10.4 (10.4)	7.3 (7.3)	5.7 (5.8)	5.2 (4.6)	7.2 (7.0)	3.6 (3.9)	3.9 (4.4)	4.7 (5.1)	5.1 (5.7)	4.3 (4.8)

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

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

#### **Domestically**

1. The increase in transport fares effected January 1, 2022
2. The expected increase in BHC rentals in April 2022
3. The release of national accounts data for the third quarter of 2021

#### **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
4. Global output growth revised downwards for 2022