



Press Release

Monetary Policy Committee Decision

October 21, 2021

Bank Rate maintained at 3.75 percent

At a meeting held on October 21, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation decreased from 8.8 percent in August to 8.4 percent in September 2021, although remaining above the upper bound of the Bank's medium-term objective range of 3 - 6 percent. Inflation is projected to revert to within the objective range in the second quarter of 2022, mainly on account of the dissipating impact of the recent upward adjustment in value added tax (VAT) and administered prices from the inflation calculation; which altogether contributed 5.2 percentage points to the current level of inflation. The attached Annex shows the quarterly inflation outcomes and projections.

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 lockdowns due to the COVID-19 pandemic; 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 periodic lockdowns 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, because 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 success of the vaccine rollout.

According to the October 2021 World Economic Outlook (WEO), global output growth is forecast at 5.9 percent in 2021, 0.1 percentage point lower than in the July 2021 WEO Update. The downward revision reflects downgrades for advanced economies mainly due to supply disruptions, while the growth forecast for low-income countries was lowered as the slow rollout of COVID-19 vaccines weigh down on economic recovery. Meanwhile, global output growth is anticipated to moderate to 4.9 percent in 2022, as some economies return to their pre-COVID-19 growth levels. The South African Reserve Bank, for its part, projects that the South African GDP will grow by 5.3 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 anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves, which have recently fallen to an estimate of P47.9 billion (9.8 months of import cover) in September 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 warrant.

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, following the last MPC meeting of this year scheduled for December 2, 2021. MPC meeting dates for 2022 will be published in the December 2021 MPR.

Annex: Inflation Forecast Summary for October 2021 MPC Meeting

	Actual 2021			Forecast									
				2021		2022					2023		
	Q1	Q2	Q3	Q4	Annual average	Q1	Q2	Q3	Q4	Annual average	Q1	Q2	Q3
Inflation	2.6	6.7	8.7	8.7 (8.3)	6.7 (6.6)	8.6 (7.9)	5.8 (4.8)	4.9 (3.6)	4.9 (3.8)	6.1 (5.0)	5.5 (4.4)	5.9 (4.9)	5.9 (4.9)

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

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

Domestically

1. The release of August 2021 inflation at 8.8 percent
2. The release of September 2021 inflation at 8.4 percent
3. The increase in domestic fuel prices on October 8, 2021, estimated to add 0.64 percentage points to inflation in 2021Q4
4. The release of national accounts data for 2021Q2 with real GDP growth at 36 percent

Externally

1. Global output growth revised slightly downwards in 2021
2. South African output growth revised upwards in 2021
3. Trading partner inflation revised upwards in the short term
4. International commodity prices (food and oil) revised upwards
5. Pula forecast to depreciate against the rand in the near term