



Press Release

Monetary Policy Committee Meets

October 8, 2020

Bank Rate cut to 3.75 percent

At the meeting held on October 8, 2020, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to reduce the Bank Rate by 50 basis points from 4.25 percent to 3.75 percent. Inflation rose marginally from 0.9 percent in July to 1 percent in August 2020 and remained below the lower bound of the Bank's objective range of 3 – 6 percent. However, inflation is forecast to revert to within the objective range in the third quarter of 2021.

The COVID-19 pandemic and consequent containment measures have severely throttled economic activity globally and domestically as production, supply chains, project implementation and provision of goods and services are constrained. Similarly, consumption and spending are disrupted, hence domestic demand pressures and foreign prices remain subdued. Consequently, overall risks to the inflation outlook are skewed to the downside. However, inflation may rise above current forecasts if international commodity prices increase beyond current projections and in the event of upward price pressures occasioned by supply constraints due to travel restrictions and lockdowns.

Real Gross Domestic Product (GDP) contracted by 4.2 percent in the twelve months to June 2020, compared to a growth of 3.9 percent in the year to June 2019. The decline in output is attributable to the contraction in output of both the mining and non-mining sectors, resulting from the associated COVID-19 pandemic containment measures. Mining output contracted by 18.6 percent compared to a growth of 1.5 percent in the corresponding period ending June 2019, mainly due to weaker performance of the diamond, copper, soda ash and other mining subsectors. Non-mining GDP contracted

by 2.6 percent in the year to June 2020 compared to a growth of 4.2 percent in the corresponding period in 2019. The decline in non-mining GDP was mainly due to contractions in output of the trade, hotels and restaurants, construction, manufacturing and transport and communications sectors.

Projections by the Ministry of Finance and Economic Development and the International Monetary Fund (IMF) suggest a deterioration in economic growth for Botswana in 2020. The Ministry estimates that the economy will decline by 8.9 percent in 2020, from an earlier forecast of a 13.1 percent contraction, before rebounding to growth of 7.7 percent in 2021. The IMF forecasts the domestic economy to contract by 9.6 percent in 2020 compared to 5.4 percent in the April 2020 World Economic Outlook, before rebounding to a growth of 8.6 percent in 2021. Even with recovery in 2021, the contraction in 2020 equates, approximately, to a two-year loss of output. The disparity in forecasts attest to the challenges of making forward projections when there is uncertainty about the duration of constrained economic activity, the resultant adverse impact on productive capacity, as well as the speed of resumption of production and pace of recovery in demand.

Broadly, the contraction in GDP reflects the substantial curtailment of economic activity due to the necessary measures implemented to contain the spread of COVID-19 and safeguard human life. The resultant decrease in global demand and disruption in supply chains, as well as curtailed economic activity locally, has affected several sources of economic growth for Botswana. Notably, these include exports, such as minerals and tourism as well as non-food retail economic activity.

Meanwhile, output in South Africa contracted by an annualised growth rate of 51 percent between the first and second quarters of 2020, reflecting suppressed economic activity due to widespread lockdown restrictions in response to the COVID-19 pandemic. The global economy is projected to contract by 4.9 percent in 2020 but to rebound to 5.4 percent in 2021, anchored by unprecedented policy and resource support by individual countries and multilateral institutions. However, the recovery projections are fraught with uncertainty with respect to several critical factors, namely, the intensity and effectiveness of containment measures; the extent of supply disruptions; fiscal and market financing constraints; shifts in spending patterns; trends in commodity prices; and, ultimately, business and consumer confidence. A similar pattern of developments pertains with regard to Botswana.

The MPC, however, recognised that the short-term adverse developments in the domestic economy occur against a potentially supportive environment including accommodative monetary conditions; reforms to further improve the business environment; concerted efforts by government to mitigate the impact of COVID-19; as well as the likely impact of the Economic Recovery and Transformation Plan. These would generally be positive for economic activity in the medium term. Even then, it is projected that the economy will operate below full capacity in both the short and medium term and, therefore, not creating any inflation pressures going forward.

Therefore, the current state of the economy and the outlook for both domestic and external economic activity provide scope for further easing monetary policy to support domestic economic activity. Accordingly, the MPC decided to reduce the Bank Rate by 50 basis points to 3.75 percent.

Commercial banks are therefore required to make the necessary interest rate adjustments with immediate effect to reflect this policy decision.

The last MPC meeting of the year will be held on December 3, 2020, at which dates for next year will be announced. The Monetary Policy Report containing a full update of the Bank's outlook for the domestic economy and inflation will be published on December 10, 2020.