



Press Release

Monetary Policy Committee Meets

August 25, 2022

Monetary Policy Rate Increased

At the meeting held on August 25, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 50 basis points from 2.15 percent to 2.65 percent.

Inflation increased from 12.7 percent in June 2022 to 14.3 percent in July 2022, the highest value since the December 2008 figure of (13.7 percent), remaining above the Bank's medium-term objective range of 3 – 6 percent. The latest increase in inflation was broad-based across categories of goods and services and, was more pronounced with respect to domestic fuel prices and Air Botswana passenger fares. The MPC projects that inflation will remain above the objective range into the medium term but trend downward from the fourth quarter of 2022 and fall within the objective range from the third quarter of 2024. This represents a revision of the trajectory for inflation from the June forecast, influenced, in part, by subsequent increase in fuel prices. The projected decrease in inflation in the medium term is due to the dissipating impact of earlier increase in administered prices, anticipated decrease in trading partner countries' inflation and international commodity prices, and higher cost of credit, globally.

There is a significant risk that inflation could remain elevated due to factors that include: the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints to production; the

economic and price effects of the ongoing Russia-Ukraine war, the uncertain COVID-19 profile and the escalating tension between China and Taiwan. On the domestic front the risks for higher inflation than currently projected relate to possible annual administered price adjustments; short-term unintended consequences of import restrictions; second-round effects of the recent increase in administered prices; upward pressure on wages across the economy emanating from increase in public service salaries; and entrenched expectations for higher inflation, which could lead to general higher price adjustments.

These risks are, however, moderated by the possibility of weaker-than-anticipated domestic and global economic activity due to geo-political tensions and possible periodic lockdowns and other forms of restrictions in response to the emergence of new COVID-19 variants, with a likely further dampening effect on economic activity. 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 13 percent in the twelve months to March 2022, compared to a contraction of 8.8 percent in the corresponding period in 2021. The increase in output occurred in both the mining and non-mining sectors and reflects an improved economic performance from the low base, associated with the negative impact of COVID-19 pandemic containment measures.

According to the July 2022 World Economic Outlook Update, global output growth was 6.1 percent in 2021 and is forecast to decrease to 3.2 percent and 2.9 percent in 2022 and 2023, respectively. For Botswana, GDP growth is expected to moderate to 4.2 percent in 2022 and 4.1 percent in 2023, from a higher expansion of 11.4 percent in 2021.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies currently being implemented. These include easy access to credit at a modest relative cost, improvements in water and electricity

supply, reforms to further improve the business environment and government interventions against COVID-19, including effective vaccination rollout programme. Against this background, enhanced productivity, innovation, increased production capacity and efficiencies, as well as resultant competitiveness of domestic firms against imports and in international markets could contribute to sustained maintenance of modest domestic inflation.

The MPC observes that the elevated inflation outlook partly emanates from supply side factors (for example, increase in food and fuel prices) and related second-round effects and entrenched expectations (including, through price adjustments by businesses, contractors, and property owners). Therefore, in the interest of maintenance of price stability in the medium term, it is important to undertake monetary policy action to moderate demand and prospects for second-round effects and entrenched expectations for high inflation. In the circumstances, the MPC decided to increase the MoPR by 50 basis points to 2.65 percent to anchor expectations for desired low level of inflation.

As a result:

- (a) the repos and reverse repos will be conducted at the MoPR of 2.65 percent;
- (b) the Standing Deposit Facility (SDF) Rate will be 1.65 percent (100 basis points below the MoPR); and
- (c) the Standing Credit Facility (SCF) Rate will be 3.65 percent (100 basis points above the MoPR).

The Monetary Policy Report containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on September 1, 2022. The remaining MPC meetings for 2022 are scheduled as follows:

October 20, 2022

December 1, 2022

Annex: Inflation Forecast Summary for August 2022 MPC Meeting

	Actual					Forecast												
	2021					2022		2022			2023					2024		
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3
Inflation	2.6	6.7	8.7	8.7	6.7	10.4	11.4	14.6 (11.6)	14.2 (11.1)	12.6 (11.2)	13.9 (9.6)	11.9 (6.7)	9.8 (6.0)	9.7 (5.9)	11.3 (7.1)	8.2 (5.6)	6.4 (5.1)	4.4 (4.7)

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

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

Domestically

1. Higher inflation in July 2022 than was anticipated
2. The increase in domestic fuel prices effected on June 28, 2022
3. The increase in Air Botswana passenger fares effected on July 8, 2022
4. The upward adjustment in the Bokomo flour and maize prices on August 1, 2022
5. The possible increase in administered prices in 2023

Externally

1. Trading partner inflation revised upwards in the short term