



**Bank of Botswana**

April 29, 2021

**PRESS RELEASE**

**Monetary Policy Committee Meets**

**Bank Rate maintained at 3.75 percent**

**At the meeting held on April 29, 2021, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. Inflation increased significantly from 2.4 percent in February to 3.2 percent in March 2021, reverting to within the Bank’s medium-term objective range of 3 - 6 percent. The increase in inflation largely reflects the upward adjustment in domestic fuel prices in March 2021. Domestic inflation is forecast to breach the upper bound of the Bank’s 3 – 6 percent objective range in the second quarter of 2021, driven mainly by supply-side factors. However, inflation is projected to revert to within the objective range in the first quarter of 2022.**

Overall, risks to the inflation outlook are assessed to be skewed to the upside. Upside risks include the potential increase in international commodity prices beyond current forecasts, aggressive action by governments (for example Economic Recovery and Transformation Plan) and major central banks to bolster aggregate demand including successful rollout of vaccines. Persistence of supply constraints due to possible travel restrictions and lockdowns could also lead to higher prices. Additional domestic factors relate to second round effects of recently announced increase in administered prices. These risks are moderated by the possibility of weak domestic and global economic activity, which could be exacerbated by periodic lockdowns and other forms of restrictions due to emergence of new COVID-19 variants and slow rollout of vaccines,

and the possible decline in international commodity prices. Furthermore, the emergence of implementation capacity constraints, if any, could hinder the effectiveness of policy stimulus and Economic Recovery and Transformation Plan initiatives, thus resulting in lower inflation.

Real Gross Domestic Product (GDP) contracted by 7.9 percent in 2020, compared to a growth of 3 percent in 2019. The decline in output is attributable to the contraction in output of both mining and non-mining sectors, mainly resulting from the impact of the strict COVID-19 pandemic containment measures. Mining output contracted by 26.2 percent in 2020 compared to a lower decline of 4.1 percent in 2019, mainly due to weaker performance of the diamond, soda ash, coal, prospecting and other mining subsectors. Non-mining GDP contracted by 5.9 percent in 2020 compared to a growth of 3.9 percent in 2019. The decline in non-mining GDP was mainly due to contractions in output of the trade, hotels and restaurants, construction, manufacturing, transport and communications, social and personal services, and finance and business services sectors. In addition, the deceleration in growth of general government and water and electricity contributed to the overall output decline of the non-mining sector.

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 8.8 percent in 2021, compared to the earlier estimated growth rate of 7.7 percent, before moderating to a growth rate of 5.5 percent in 2022. On the other hand, the IMF forecasts the domestic economy to grow by 8.3 percent in 2021 compared to an earlier projection of 8.7 percent in the January 2021 World Economic Outlook Update; this is expected to moderate to a growth rate of 6.4 percent in 2022. The growth outcome will largely depend on the successful vaccine rollout as it will enable opening up the economy to align with the projections. 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.

Meanwhile, the lingering adverse effects of the COVID-19 pandemic containment measures pose uncertainty and challenges given Botswana's high vulnerability to

external shocks, notably, on diamond prices and demand, tourism and delays in the importation of supplies. Nonetheless, the economy is projected to have performed better in the first quarter of 2021 compared to the fourth quarter of 2020, given the gradual easing of COVID-19 movement restrictions and vaccine rollouts in the first quarter.

Economic activity in South Africa is expected to improve as the South African Reserve Bank projects GDP to grow by 3.8 percent in 2021, before slowing to 2.4 percent in 2022. Global output growth is forecast at 6 percent in 2021 reflecting the anticipated vaccine-powered recovery later in the year and additional policy support in advanced economies. However, global output growth is anticipated to moderate to 4.4 percent in 2022, as some economies return to their pre-COVID levels.

The Monetary Policy Committee recognises that the short-term adverse developments in the domestic economy occur against a growth-enhancing environment including accommodative monetary conditions; improvements in water and electricity supply, reforms to further improve the business environment and government interventions against COVID-19, including vaccine rollouts, and the implementation of ERTP and Industry Support Facility. In addition, successful implementation in this regard should anchor the growth of exports and preservation of a sufficient buffer of foreign exchange reserves which have recently fallen to P55.8 billion (10 months of import cover) compared to P65.2 billion in December 2019 (13 months of import cover).

Overall, it is projected that the economy will operate below full capacity in both the short and medium term and, therefore, not creating any inflationary pressures, going forward. The projected increase in inflation in the short-term is primarily due to transitory administered price changes and supply side factors that, except for second round effects, would 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 containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on May 6, 2021. The remaining MPC meetings for 2021 are scheduled as follows:

June 17, 2021

August 19, 2021

October 21, 2021

December 2, 2021