**Press Release**

**Monetary Policy Committee Meets**
**April 28, 2022**

**Monetary Policy Rate Increased to 1.65 percent**

**At the meeting held on April 28, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 51 basis points from the prevailing 1.14 percent yield on the 7-day Bank of Botswana Certificate to 1.65 percent.**

Inflation declined from 10.6 percent in February 2022 to 10 percent in March 2022, remaining above the Bank's medium-term objective range of 3 - 6 percent. The latest decline in inflation mainly reflects the base effects associated with the upward adjustment in domestic fuel prices in the corresponding period in 2021. The current high level of inflation is mainly driven by supply-side factors which contribute about 7 percentage points to the prevailing inflation (March 2022). However, the MPC projects that inflation will, in the short term, remain above the objective range but continue to trend downward in 2022 and to revert to within the objective range from the first quarter of 2023. This is mainly on account of the dissipating impact of the upward adjustment in the value added tax (VAT) and administered prices from the inflation calculation.

There is 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 due to lags in production; the economic and price effects of the ongoing Russia-Ukraine conflict; uncertain COVID-19 profile; domestic risk factors relating to possible regular annual administered price adjustments, short-term unintended consequences of import restrictions (shortages in supplies 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. Furthermore, the likelihood of further increases in domestic fuel prices in response to persistent high international oil prices could add upward pressure to inflation.

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 8.6 percent in the twelve months to September 2021, compared to a contraction of 7.3 percent in the corresponding period in 2020.

According to the April 2022 World Economic Outlook (WEO), global output growth expanded by 6.1 percent in 2021, and is expected to moderate to 3.6 percent in both 2022 and 2023. The respective growth estimates for Botswana are 12.5 percent, 4.3 percent and 4.2 percent. On the other hand, South African GDP grew by 4.9 percent in 2021, and the South African Reserve Bank estimates growth of 2 percent in 2022 and 1.9 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.

The MPC notes the elevated inflation outlook emanating from the second-round effects and entrenched expectations (for example, through price adjustments by businesses, contractors, property owners and wage negotiators) for higher levels of inflation arising out of the increases in administered prices, upward adjustment of VAT, as well as the prolonged supply chain disruptions arising from the COVID-19 pandemic and the Russia-Ukraine conflict. In the circumstances, the MPC decided to increase the Monetary Policy Rate (the MoPR) to 1.65 percent; 51 basis points above the prevailing 1.14 percent yield on the 7-day Bank of Botswana Certificate.

As communicated in the 2022 Monetary Policy Statement, commercial banks may increase the Prime Lending Rate by not more than 51 basis points.

In addition, the MPC made the following decisions:
(a) The repo and reverse repo rates to be conducted at the MoPR of 1.65 percent;
(b) the Standing Deposit Facility (SDF) Rate be set at 0.65 percent (100 basis points below the MoPR); and
(c) the Standing Credit Facility (SCF) Rate be set at 2.65 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 May 5, 2022. The remaining MPC meetings for 2022 are scheduled as follows:

June 16, 2022
August 25, 2022
October 20, 2022
December 1, 2022

## Annex: Inflation Forecast Summary for April 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 |
| **Inflation** | 2.6 | 6.7 | 8.7 | 8.7 | 6.7 | 10.4 | 8.0 (7.3) | 7.1 (5.7) | 6.6 (5.2) | 8.0 (7.2) | 4.7 (3.6) | 4.5 (3.9) | 4.9 (4.7) | 5.6 (5.1) | 4.9 (4.3) | 5.6 (5.1) |

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

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

**Domestically**

1. The increase in domestic fuel prices effected March 29, 2022

**Externally**

1. Trading partner inflation revised upwards in the short term
2. International commodity prices (food and oil) revised upwards
3. Pula forecast to depreciate against the South African rand

**Note to Editors:**

The MoPR is the new policy signalling rate in place of the Bank Rate, adopted as part of the recently announced monetary policy reforms. The reforms are aimed at improving and changing the monetary policy with three key objectives. First, and foremost, to enhance policy transmission and the desired market response to monetary policy and monetary operations adjustments. Second, to designate an anchor policy rate capable of affecting commercial banks' liquidity management decisions, and thus providing a direct link to policy changes. Lastly, to achieve an interest rate structure that influences commercial bank decisions and market responses, fostering an active interbank market and effectively reflecting the policy stance and desired impact of monetary operations.