



Press Release

Monetary Policy Committee Meets

June 16, 2022

Monetary Policy Rate Increased

At the meeting held on June 16, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 50 basis points from 1.65 percent to 2.15 percent.

Inflation rose from 9.6 percent in April 2022 to 11.9 percent in May 2022, remaining above the Bank's medium-term objective range of 3 - 6 percent. The latest increase in inflation mainly reflects the upward adjustment in domestic fuel prices effected on May 13, 2022. The current high level of inflation is mainly driven by supply-side factors, which contribute approximately 6.1 percentage points to the prevailing inflation (May 2022). The MPC projects that inflation will, in the short term, remain above the objective range but trend downward from the fourth quarter of 2022 and fall within the medium-term objective range of 3 – 6 percent from the third quarter of 2023. This represents a revision of the trajectory for inflation from the April forecast, influenced by subsequent increase in fuel prices and transport fares. The projected decrease in inflation in the medium-term is due to dissipating impact of earlier increase in administered prices.

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 to production; the

economic and price effects of the ongoing Russia-Ukraine war and the uncertain COVID-19 profile; domestic risk factors relating to possible regular annual administered price adjustments, short-term unintended consequences of import restrictions (for example, shortages in supplies leading to price increases); as well as second-round effects of the recent increase in public service salaries, administered prices and inflation expectations, which 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 and rising infections, with a likely further dampening effect on economic activity. Lower international commodity prices than currently projected could also result in subdued inflation, as would capacity constraints in implementing the Economic Recovery and Transformation Plan (ERTP) initiatives.

Real Gross Domestic Product (GDP) grew by 11.4 percent in 2021, compared to a contraction of 8.7 percent in 2020. The increase in output occurred in both the mining and non-mining sectors and represented an improvement from the low base in 2020, associated with the negative impact of COVID-19 pandemic containment measures.

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 growth estimates for Botswana for 2022 and 2023 are 4.3 percent and 4.2 percent, respectively. South African GDP grew by 4.9 percent in 2021, and the South African Reserve Bank estimates growth of 1.7 percent and 1.9 percent in 2022 and 2023, respectively.

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 that the elevated inflation outlook partly emanates from the second-round effects and entrenched expectations (for example, through price adjustments by businesses, contractors, property owners and wage negotiators). Therefore, in the interest of maintenance of price stability in the medium-term, it is important to undertake monetary policy action to moderate 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 2.15 percent to anchor the entrenched expectations for higher levels of inflation.

As a result, and in line with the recently adopted monetary policy reforms:

- (a) the repos and reverse repos will be conducted at the MoPR of 2.15 percent;
- (b) the Standing Deposit Facility (SDF) Rate will be 1.15 percent (100 basis points below the MoPR); and
- (c) the Standing Credit Facility (SCF) Rate will be 3.15 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:

August 25, 2022

October 20, 2022

December 1, 2022

Annex: Inflation Forecast Summary for June 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	11.3 (8.0)	11.6 (7.1)	11.1 (6.6)	11.1 (8.0)	9.6 (4.7)	6.7 (4.5)	6.0 (4.9)	5.9 (5.6)	7.1 (4.9)	5.6 (5.6)	

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

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

Domestically

1. Higher inflation in April 2022 than was anticipated
2. The increase in domestic fuel prices effected on May 13, 2022
3. The increase in domestic transport fares effected on May 20, 2022
4. The release of national accounts data for the fourth quarter of 2021

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