



Press Release

Monetary Policy Committee Meets

5 December 2024

Monetary Policy Rate maintained at 1.9 percent, while the Primary Reserve Requirement reduced to 0 percent

At the meeting held on 5 December 2024, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 1.9 percent but reduced the Primary Reserve Requirement (PRR) from 2.5 percent to 0 percent.

The PRR is a monetary policy tool used to manage structural liquidity by way of requiring banks to hold a proportion of their deposits at the central bank. Therefore, the PRR can be reduced in instances where there is structural shortage in liquidity and vice versa, when there is structural excess liquidity.

ECONOMIC ENVIRONMENT

As reported at the last MPC meeting, real gross domestic product (GDP) declined by 0.5 percent in the second quarter of 2024, compared to a growth of 3.3 percent in the corresponding quarter in 2023. This decline follows a 5.3 percent contraction in the first quarter of 2024, indicating that the economy is in a recession. The contraction in economic activity was attributable to weaker performance of the non-mining sectors and the impact of lower external demand for mining sector output, especially diamonds. As a result, export earnings have declined, limiting

government spending and impacting overall economic activity. Economic activity remained restrained in the second half of 2024.

According to the October 2024 World Economic Outlook, global output growth is forecast at 3.2 percent for both 2024 and 2025, compared to 3.3 percent in 2023. For Botswana, indications are that the economy will contract in 2024 and moderately recover in 2025. The decline in 2024 is partly due to a downturn in the diamond industry, driven by weak global demand, which, however, is projected to recover in 2025.

INFLATION

As reported by Statistics Botswana, headline inflation increased slightly from 1.5 percent in September to 1.6 percent in October 2024, remaining below the lower bound of the medium-term objective range of 3 – 6 percent. The marginal increase in inflation was mainly due to the broad-based increase in food prices. The MPC forecasts inflation to remain low into the medium term, averaging 2.9 percent in 2024, 3.3 percent in 2025 and 4.9 percent in 2026. The risks to the inflation outlook are assessed to be balanced.

The MPC observes that inflation could be lower than projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international oil prices beyond current forecasts. However, inflation could be higher than projected if international commodity prices were to increase above current forecasts, and supply as well as logistical constraints in the global value chains persist. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection.

DECISION

As previously observed, the economy is expected to operate below full capacity in the short term and recover marginally in the medium term. This should not generate demand-driven inflationary pressures. Thus, inflation is forecast to remain within the objective range in the medium term. Similarly, businesses expect

inflation to be within the medium-term objective range, suggesting that inflation expectations are well anchored.

The MPC observes that market liquidity in the banking system has declined considerably, thereby constraining the desired impact of the current accommodative monetary policy stance. Given the current economic conditions and the outlook for both domestic and external economic activity, as well as the market liquidity condition, the MPC decided as follows:

- (a) reduce the PRR from 2.5 percent to zero effective 11 December 2024;
- (b) maintain the MoPR at 1.9 percent;
- (c) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos will be conducted at the MoPR of 1.9 percent;
- (d) the Standing Deposit Facility (SDF) Rate is maintained at 0.9 percent, 100 basis points below the MoPR; and
- (e) the Standing Credit Facility (SCF) Rate is maintained at 2.9 percent, 100 basis points above the MoPR.

MEETINGS OF THE MPC

The MPC meetings for 2025 are scheduled as follows:

20 February 2025

17 April 2025

19 June 2025

21 August 2025

30 October 2025

11 December 2025

Note to Editors

The MPC, chaired by the Governor, is a statutory committee established by the Bank of Botswana (Amendment) Act, 2022. The Committee comprises nine members, four of whom are external members.

Mr Cornelius K Dekop — Governor (Chairman)

Dr Kealeboga S Masalila	—	Deputy Governor
Dr Tshokologo A Kganetsano	—	Deputy Governor
Mr Innocent Molalapata	—	Director, Research and Financial Stability
Mr Lesego C Moseki	—	Director, Financial Markets
Prof Patricia Makepe	—	External Member
Dr Pinkie Kebakile	—	External Member
Dr Onkokame Mothobi	—	External Member
Dr Taufila Nyamadzabo	—	External Member

Annex: Inflation Forecast Summary for December 2024 MPC Meeting

	Actual						Forecast									
	2023			2024			2024		2025					2026		
	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3
Inflation	2.0	3.5	5.2	3.6	3.0	3.1	1.8	2.9	2.1	2.9	3.7	4.4	3.3	4.7	4.9	5.0
							(1.5)	(2.8)	(1.7)	(2.6)	(3.6)	(4.6)	(3.1)	(5.1)	(5.3)	(5.3)

Note: Figures in parentheses represent the previous MPC forecast (November 2024)

Factors contributing to the upward revision of the forecast in the short term include the following:

Domestically

Marginally higher inflation outturn for October 2024 than initially projected due to a broad-based increase in food prices