



## **Press Release**

### **Monetary Policy Committee Meets**

**October 20, 2022**

### **Monetary Policy Rate Maintained**

**At the meeting held on October 20, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Monetary Policy Rate (MoPR) at 2.65 percent.**

Inflation decreased from 14.6 percent in August 2022 to 13.8 percent in September 2022, remaining above the Bank's medium-term objective range of 3 – 6 percent. The fall in inflation is partly due to the impact of the downward adjustment of domestic fuel prices in September 2022. The MPC projects that inflation will remain above the objective range into the medium term but trend downwards from the fourth quarter of 2022 and fall within the objective range from the third quarter of 2024. The projected decrease in inflation in the medium term is due to the dissipating impact of the earlier increases in administered prices, subdued domestic demand, current monetary policy posture, expected decrease in trading partner-countries' inflation and international commodity prices.

There is a significant risk that inflation could remain elevated owing to factors that include the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints to production; the adverse economic and price effects of the ongoing Russia-Ukraine war; the uncertain COVID-19 profile; and the tension between China and Taiwan. On the domestic front, the risks for higher inflation than currently projected relate to possible annual

adjustments of administered prices not included in the forecast; short-term consequences of import restrictions; second-round effects of the recent increase in administered prices; upward pressure on wages across the economy emanating from the increase in public service salaries; and entrenched expectations for higher inflation, which could lead to higher general 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 restrictions in response to any emergence of new COVID-19 variants. Lower international commodity prices than currently projected could also result in lower inflation, as would capacity constraints in implementation of projects, including the Economic Recovery and Transformation Plan (ERTP) initiatives.

Real gross domestic product (GDP) grew by 6.7 percent in the twelve months to June 2022, compared to a growth of 5.1 percent in the year to June 2021. The increase in GDP was mostly attributable to the expansion in output of the mining sector in the review period, while growth in the non-mining sector decelerated.

According to the October 2022 World Economic Outlook, global output growth was 6 percent in 2021, and is forecast to slow down to 3.2 percent and 2.7 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 increase of 11.4 percent in 2021.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies currently being implemented. These include affordable credit, 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 and the resultant competitiveness of domestic firms against imports and in international markets could contribute to lower domestic inflation.

Overall, the MPC projects that the economy will operate below full capacity in the short to medium term and, therefore, not creating any demand-driven inflationary pressures. The projected elevated inflation in the short term is primarily due to supply-side factors and related second-round effects and entrenched expectations (including, through price adjustments by businesses, contractors and property owners), while demand remains modest. In the circumstances, the MPC decided to maintain the MoPR at 2.65 percent to support the nascent economic recovery.

Accordingly:

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

The Monetary Policy Report (MPR) containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on December 8, 2022, following the last MPC meeting of the year scheduled for December 1, 2022. MPC meeting dates for 2023 will be published in the December 2022 MPR.

### Annex: Inflation Forecast Summary for October 2022 MPC Meeting

|                  | Actual |     |     |     |                | Forecast |      |      |                |                |                |               |              |              |                |              |              |              |
|------------------|--------|-----|-----|-----|----------------|----------|------|------|----------------|----------------|----------------|---------------|--------------|--------------|----------------|--------------|--------------|--------------|
|                  | 2021   |     |     |     |                | 2022     |      |      | 2022           |                | 2023           |               |              |              |                | 2024         |              |              |
|                  | Q 1    | Q 2 | Q 3 | Q 4 | Annual Average | Q1       | Q2   | Q3   | Q4             | Annual Average | Q1             | Q2            | Q3           | Q4           | Annual Average | Q1           | Q2           | Q3           |
| <b>Inflation</b> | 2.6    | 6.7 | 8.7 | 8.7 | 6.7            | 10.4     | 11.4 | 14.2 | 13.2<br>(14.2) | 12.3<br>(12.6) | 12.0<br>(13.9) | 9.3<br>(11.9) | 6.5<br>(9.8) | 7.2<br>(9.7) | 8.8<br>(11.3)  | 7.0<br>(8.2) | 6.4<br>(6.4) | 5.9<br>(4.4) |

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

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

#### **Domestically**

1. The decrease in domestic fuel prices effected on September 11, 2022

#### **Externally**

1. The downward revision in forecasts for South African inflation
2. Downward revision in forecasts for international commodity prices
3. Forecast stronger Pula against the South African rand than in the previous forecast