MONETARY POLICY REPORT

APRIL 2023

BANK OF BOTSWANA

STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
- a safe, sound and stable financial system;
- an efficient payments mechanism;
- public confidence in the national currency;
- sound international financial relations; and to provide:
  - efficient banking services to its various clients; and
  - sound economic and financial advice to Government

Monetary Policy Report
April 2023

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1. PREFACE

1.1 Purpose of the report

The Monetary Policy Report (MPR) is the main medium through which the Bank of Botswana (the Bank) informs the public about the conduct of monetary policy on a regular basis. It serves to meet the public's expectation of a transparent and accountable central bank in fulfilling the monetary policy mandate set out in the Bank of Botswana (Amendment) Act, 2022.

The MPR presents the Bank's review of economic and inflation trends as well as policy performance. The report also provides an assessment of economic and financial developments that are likely to influence the inflation path in the medium term and, in turn, the Bank's future policy choices. In this respect, the MPR promotes an understanding of the conduct of monetary policy to anchor public expectations of a low, predictable and sustainable level of inflation.

1.2 Monetary policy framework

The primary objective of the Bank's monetary policy is to achieve price stability. For Botswana, price stability is defined as a sustainable level of annual inflation, as measured by the consumer price index (CPI), that is within the Bank's medium-term objective range of 3 – 6 percent. The policy is also formulated with a view to safeguarding the stability of the financial system. The monetary policy framework is anchored on the crawling band exchange rate mechanism, which seeks to maintain a stable real effective exchange rate (REER), conducive for macroeconomic stability and the international competitiveness of domestic producers of tradeable goods and services. The Ministry of Finance (MoF), in consultation with the Bank, makes a recommendation on the parameters of the exchange rate mechanism (weights of currencies that comprise the Pula Basket and the rate of crawl) that determine the value of the Pula, for approval by His Excellency, the President. In addition, the Bank has traditionally used the Bank Rate (Monetary Policy Rate (MoPR)) as of April 2022)[1] to influence short-term market interest rates to steer the economy through business cycles, thus contributing to sustainable economic growth.

In evaluating policy options, the Bank implements a forward-looking monetary policy framework with a central role for a medium-term inflation forecast. The Bank sets the policy to direct projected movements of inflation towards the medium-term objective range, while considering the prevailing rate of crawl of the exchange rate mechanism, prospects for economic growth and developments relating to the stability of the financial system. The policy horizon is up to 3 years, and evaluated on a rolling basis, because monetary policy affects price developments with an estimated lag of up to four quarters. A proactive approach to setting policy necessitates a continuous review of the inflation outlook.

The monetary policy stance is signalled by the MoPR. To support this signal, the Bank uses open market operations, which entail, primarily, auctioning of the Bank of Botswana Certificates (BoBCs) using fixed rate full allotment system, engaging in repo/reverse repo transactions with commercial banks (primary dealers), and a one-month BoBC paper to help address some of the structural liquidity positions and support the construction of the short-end of the yield curve.

[1] Effective April 28, 2022, the MoPR is used as the new policy signaling rate in place of the Bank Rate (see Box 2 for further details).

1.3 Decision-making process

Monetary policy is implemented in line with the decisions of the Monetary Policy Committee (MPC). Effective February 14, 2023, and as stated in the Bank of Botswana (Amendment) Act, 2022, the MPC comprises nine members, four of which shall be independent external members appointed by the Minister. The five internal members are the Governor, Deputy Governors, head of department responsible for economic research and head of department responsible for treasury operations (See Box 5 for further details). The MPC holds six pre-scheduled meetings or more per year, as necessary, during which the monetary policy stance is determined. Prior to the commencement of the year, the dates for the MPC meetings for the ensuing year are announced.

1.4 Announcement of the monetary policy decision

The monetary policy decision is announced through a Press Release shortly after each MPC meeting. The Press Release informs the public of the Committee's decision regarding the MoPR and the reasons for the policy choice. The Governor holds a Press Briefing to allow for interaction with members of the media and to promote understanding of the Bank's economic analysis and policy stance (Box 6).

The first MPC meeting of the year, held in February, is accompanied by the issuance of the Monetary Policy Statement, through which the Bank reports on inflation trends, policy performance and the likely policy posture for the ensuing year. Subsequently, the MPR is produced for the April, August and October meetings. The MPR is published on the Bank website (www.bob.bw) within a week of the announcement of a policy decision.

2. EXECUTIVE SUMMARY

In 2023, monetary policy is being implemented in the context of projections for elevated inflation in the near term, associated with upward adjustment of administered prices, a modest recovery in domestic demand resulting from the opening of the economy and easing of COVID-19 containment measures, and projected relatively high foreign prices in the short term. Overall, the current state of the economy is characterised by high inflation, and elevated short-term inflation outlook that partly emanates from the second-round effects and entrenched expectations for higher inflation. However, the economy is projected to operate below full capacity in the short-to-medium term and, therefore, not creating any demand driven inflationary pressures. Thus, the MPC maintained the MoPR at 2.65 percent at the April 2023 meeting. This followed a cumulative 151 basis points increase in the policy rate in 2022.

The Bank's formulation and implementation of monetary policy focuses on entrenching expectations of low, sustainable and predictable level of inflation through a timely response to price developments. The Bank remains committed to responding appropriately to preserving price stability without undermining economic activity.

The world economic performance and sentiment were negatively affected mostly by the ripple effects of the Russia-Ukraine war, global monetary policy tightening and the lingering effects of the COVID-19 pandemic, particularly zero-COVID policies and lockdowns in China. In addition to the adverse impact on global economic activity, the war resulted in significantly elevated commodity prices and, therefore, inflationary pressures. In response, there was generalised aggressive increase in policy interest rates and, hence, tightening of financial conditions. Output growth in the United Kingdom (UK) stalled, quarter on quarter, registering zero percent in the fourth quarter of 2022 compared to a contraction of 0.2 percent in the third quarter of 2022, narrowly escaping a technical recession. Meanwhile, the euro area output growth decelerated quarter on quarter, from 0.3 percent in the third quarter of 2022 to 0.1 percent in the fourth quarter of 2022, as the central bank's interest rate hikes to control inflation resulted in high cost of borrowing. China's economy decelerated from an annualised growth of 3.9 percent in the third quarter of 2022 to 2.9 percent in the fourth quarter, owing to the stringent measures to curb COVID-19 spread. Likewise, in the United States of America (US), real gross domestic product (GDP) grew by an annualised 2.6 percent in the fourth quarter of 2022, lower than the expansion of 3.2 percent in the third quarter, mainly because of the downturn in exports and deceleration in consumer spending, non-residential fixed investment, and state and local government spending.

The global economic outlook for 2023 was revised downwards in the International Monetary Fund (IMF)'s April 2023 World Economic Outlook (WEO), largely due to tightening financial conditions because of contractionary monetary policy in most regions to contain elevated inflationary pressures. The anticipated slowdown in output growth is consistent with challenging prospects for advanced economies, in part, due to lower consumer demand associated with higher borrowing costs and inflation which has significantly eroded purchasing power. Thus, prospects for growth in both advanced economies and emerging market economies remain broadly restrained. Growth is forecast to moderate from 2.7 percent in 2022 to 1.3 percent in 2023 for advanced economies, while it is expected to moderate slightly from 4 percent to 3.9 percent for emerging market economies in the same period. Overall, the global economy is forecast to slow down from an expansion of 3.4 percent in 2022 to 2.8 percent in 2023.

Global commodity prices decreased in the first quarter of 2023, but remained above pre-pandemic levels, in part, due to aggressive interest rate hikes by major central banks to combat high inflation, as well as the appreciation of the US dollar. Thus, international oil prices decreased, averaging below USD90 per barrel in the first quarter of 2023. Similarly, diamond prices decreased in the first quarter of 2023 mainly due to the decline in demand, amid high inflation and rising interest rates. Meanwhile, the United Nations' Food and Agriculture Organisation (FAO) food price index decreased in the same period, mainly due to modest demand resulting from global economic slowdown, as well as the easing of international oil prices as oil is used as input in food production.

Domestically, headline inflation averaged 9.4 percent in the first quarter of 2023, lower than the 10.4 percent in the first quarter of 2022, mostly reflecting downward adjustment of domestic fuel prices. Inflation is forecast to temporarily revert to within the objective range in the third quarter of 2023. However, inflation is expected to breach the upper bound of the objective range from the fourth quarter of 2023 to the first quarter of 2024 and revert to within the objective range on a sustained basis from the second quarter of 2024. Compared to the February 2023 forecast, inflation is projected to be slightly lower in the short-to-medium term, mainly reflecting the downward revision of forecasts for international commodity prices, particularly food, the projected appreciation of the Pula against the South African rand, the value added tax (VAT) zero rating of a select number of items in the CPI basket and the decision to suspend the increase in rental prices by BHC for 2023 and 2024.

The inflation outlook is nevertheless subject to upside risks, including the potential increase in international commodity prices beyond current forecasts, persistence of supply and logistical constraints due to lags in production, adverse economic and price effects of the ongoing Russia-Ukraine war, the uncertain COVID-19 profile and ongoing tension between China and the United States over South China Sea and Taiwan. On the domestic front, the risks for higher inflation than currently projected relate to possible annual adjustments in administered prices that are not factored in the current projection, entrenched expectations for higher inflation, any realised upward pressure on wages, short-term consequences of import restrictions and prospective fiscal developments, namely implementation of the potentially expansionary two-year Transitional National Development Plan (TNDP) and any overshooting of prices in the advent of reversion of the VAT to 14 percent. These risks, are however, moderated by the possibility of weak domestic and global economic activity, possible disinflationary effects of the recent banking system problems in the US and Switzerland, as well as restrained international commodity prices.

Botswana's real GDP grew by 5.8 percent in 2022, compared to a growth of 11.9 percent in 2021. The slowdown is attributable to base effects associated with high GDP growth rate recorded in 2021, following the relaxation of the COVID-19 containment measures. Reforms to further improve the business environment, and government interventions against COVID-19, implementation of the Economic Recovery and Transformation Plan (ERTP) and the potentially expansionary two-year TNDP, should generally be positive for economic activity in the medium term. The domestic economy is forecast to grow by 4 percent in 2023.

In the year to February 2023, commercial bank credit growth accelerated to 6 percent, compared to 4 percent in twelve months to February 2022, indicative of the increase in loan uptake by businesses. Money supply (M2) accelerated by 6.8 percent in the year to December 2022, compared to 5 percent in December 2021.

At the end of January 2023, the official foreign exchange reserves amounted to P60.5 billion, an increase of 3.8 percent from P58.3 billion in January 2022. The current account of the balance of payments (BoP) is estimated to have recorded a deficit of P0.6 billion in the fourth quarter of 2022, compared to a revised deficit of P5.4 billion in the corresponding period in 2021.

An annual downward rate of crawl of 1.51 percent was implemented from January 1, 2023 with a view to enhance domestic industry competitiveness. Consequently, the nominal effective exchange rate (NEER) of the Pula depreciated by 2.5 percent in the twelve months to March 2023. Against the basket currencies, the Pula appreciated by 7.6 percent against the South African rand and depreciated by 10.1 percent against the Special Drawing Rights (SDR) in the twelve months to March 2023. In the year to February 2023, the REER depreciated by 0.4 percent, because of a lower positive inflation differential between Botswana and the trading partner countries than the downward rate of crawl.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Recent global economic developments

Global growth subdued

According to the April 2023 WEO, the global economy is estimated to have grown by 3.4 percent in 2022, compared to an expansion of 6.2 percent in 2021 (Table 3.1). The lower growth for 2022 was partly due to the invasion of Ukraine by Russia, renewed outbreak of COVID-19 in the first half of 2022 which resulted in lockdowns in China, as well as sustained inflationary pressures and associated expectations, leading to significant tightening of financial conditions across the globe.

Meanwhile, economic activity in many economies turned out better than anticipated in the second half of 2022, reflecting stronger-than-expected domestic conditions. Prior to the recent collapse of US Silicon Valley Bank, global economic activity was showing signs of stabilisation in early 2023, following the adverse shocks of COVID-19 and the ongoing Russia-Ukraine war in 2022. However, with the reopening of China, and the resilient US consumer spending, and related optimism amid inflation peaking or at best receding (albeit remaining above the desired objective range for most countries), the global economy is not expected to fall into recession in 2023.

The US economy decelerates

The US real output expanded by an annualised 2.6 percent in the fourth quarter of 2022, following a 3.2 percent expansion in the third quarter of 2022. The lower expansion in output in the fourth quarter was mainly because of the downturn in exports and decelerations in consumer spending, non-residential fixed investment, and state and local government spending.

Euro area growth slowed

In the euro area, the economy showed no growth in the final quarter of 2022, compared to preliminary estimates of 0.1 percent growth and upwardly revised 0.4 percent expansion in the third quarter of 2022. This was the weakest growth since the rebound in the second quarter of 2021, as inflation continued to erode household spending and the central bank's efforts to control it through interest rate hikes pushed costs of borrowing higher, as well as supply chain bottlenecks. Among the bloc's largest economies, output in Italy and Germany contracted by 0.1 percent and 0.4 percent, respectively, while it grew by 0.2 percent in Spain and 0.1 percent in France, in the same period.

UK economy expands

GDP in the UK expanded slightly by 0.1 percent in the fourth quarter of 2022, revised from a first estimate of no growth and following a 0.1 percent contraction in the previous period compared to a contraction in the third quarter of 2022, narrowly escaping a technical recession. Household consumption grew, driven by higher spending on net tourism, transport and housing and despite the high inflation and rising borrowing costs. There was also higher investment spending and higher government consumption, which was partially offset by businesses de-stocking their levels of inventories and a decline in the volume of net trade.

Emerging markets' growth slowed

Output growth in emerging markets slowed down in the fourth quarter of 2022, primarily due to negative spill-over effects from the Russia-Ukraine war, continued supply disruptions and elevated commodity prices, particularly for food and fuel. The lower growth for the economic group also reflects the continued withdrawal of monetary policy support leading to tighter financial conditions.

China's economy expanded 2.9 percent in the fourth quarter of 2022, easing from a 3.9 percent growth in the third quarter of 2022, and higher than the market expectation of 1.8 percent. The slowdown in growth in the fourth quarter of 2022 reflected the stringent measures to curb COVID-19 spread, which resulted in lockdowns.

The Indian economy grew, year on year, by 4.4 percent in the fourth quarter of 2022, compared to 6.3 percent in the third quarter of 2022, and was below the market expectation of 4.6 percent, as high prices and rising interest rates adversely affected demand, thus significantly slowing consumer spending. Contraction in government spending, and lower growth in both investment and exports also contributed to the lower GDP growth in the fourth quarter of 2022.

South African economy contracted

Regionally, output in South Africa declined, quarter on quarter, by 1.3 percent in the fourth quarter of 2022, from an upwardly revised expansion of 1.8 percent in the third quarter of 2022. It was the sharpest contraction since the third quarter of 2021, partly because of the exacerbating power shortage crisis which has crippled economic activity. Thus, output in the fourth quarter contracted, due to a decline in finance; trade, catering and accommodation; mining; as well as agriculture sectors, which contracted by 2.3 percent, 2.1 percent, 3.2 percent and 3.3 percent, respectively.

Table 3.1: Growth Estimates and Projections

	Estimate		Projection	
	2021	2022	2023	2024
Global	**6.2**	**3.4**	**2.8**	**3.0**
Advanced economies	**5.4**	**2.7**	**1.3**	**1.4**
USA	5.9	2.1	1.6	1.1
Euro area	5.3	3.5	0.8	1.4
UK	7.6	4.0	-0.3	1.0
Japan	2.1	1.1	1.3	1.0
EMDEs	**6.7**	**4.0**	**3.9**	**4.2**
China	8.4	3.0	5.2	4.5
Brazil	5.0	2.9	0.9	1.5
India	8.7	6.8	5.9	6.3
Russia	4.7	-2.1	0.7	1.3
South Africa	4.9	2.0	0.1	1.8
Botswana	**11.9**	**5.8**	**3.7 (4.0)**	**4.3 (5.1)**

Source: IMF WEO April 2023 and MoF for Botswana
Note: EMDEs stands for emerging market and developing economies, while figures in parentheses are forecasts by the MoF

Global commodity prices

Diamond prices decreased in the first quarter of 2023

The global rough diamond price index decreased by 0.8 percent from 183.57 points in the fourth quarter of 2022 to 182.18 points in the first quarter of 2023, mainly due to a decline in demand, amid high inflation, rising interest rates and a shift towards spending on travel and experiences.

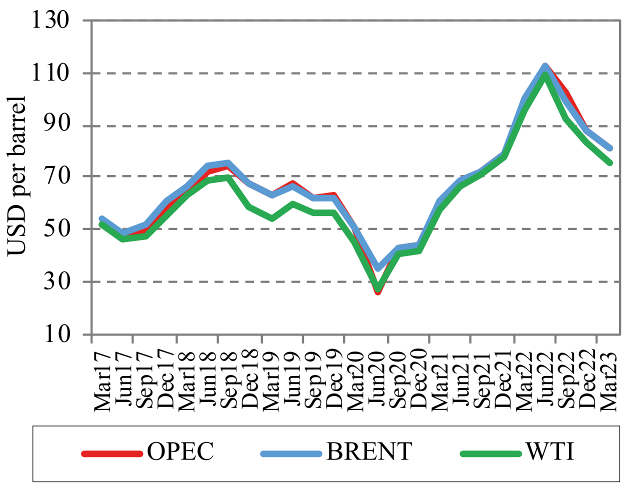
The global polished diamond price index also decreased by 5.4 percent from 225.33 points in the fourth quarter of 2022 to 213.20 points in the first quarter of 2023, amid a rise in inventory levels due to weaker demand and global economic outlook. Thus, jewellers are cautious about buying large amounts of inventory.

Oil prices decreased in the first quarter of 2023

International oil prices decreased in the first quarter of 2023, although remaining above the pre-pandemic levels (Chart 3.1). The price of OPEC's reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 8 percent, 7.7 percent and 8.1 percent, from an average of USD87.69 per barrel, USD88.23 per barrel and USD82.83 per barrel in the fourth quarter of 2022 to an average of USD80.70 per barrel, USD81.40 per barrel and USD76.10 per barrel, respectively, in the first quarter of 2023.

The decrease in international oil prices in the first quarter of 2023 was due to continued aggressive interest rate hikes by most central banks to combat high inflation, as well as the appreciation of the US dollar. In addition, the resumption of crude oil exports by Libya, as well as traders' fear that a brewing banking crisis could dent global economic growth, resulted in the decrease in prices of oil.

Chart 3.1: Oil Prices

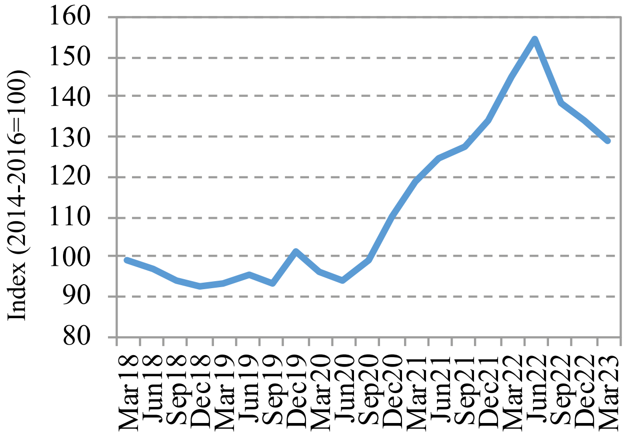


Source: Bloomberg

Food prices decreased in the first quarter of 2023

According to FAO, the global food price index averaged 124 points in the first quarter of 2023, a 5.4 percent decrease from an average of 131.1 points in the fourth quarter of 2022 (Chart 3.2). The decrease was attributable to the Black Sea grains export deal between Ukraine, Russia, Turkey and the United Nations, modest demand due to global economic slowdown, as well as the easing of international oil prices as oil is used as input in food production.

Chart 3.2: Food Price Index

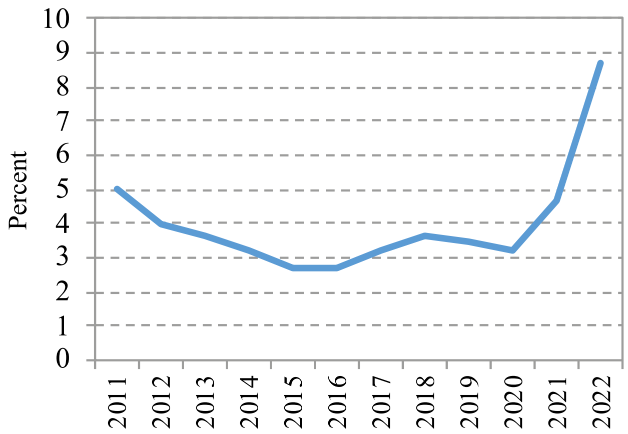


Source: Food and Agriculture Organisation

Inflation diverged across the regions

Inflation for advanced economies decreased from 8.6 percent in the fourth quarter of 2022 to 7.3 percent in the first quarter of 2023[2], ignited by the relatively lower food and fuel prices, rapid monetary policy tightening and squeezing of household budgets and waning COVID-19 pandemic related fiscal support. However, for emerging market economies, inflation increased from 4.8 percent to 6.1 percent in the same period, amid the reopening of Chinese economy and improved demand. Overall, global inflation increased from 4.7 percent in 2021 to 8.7 percent in 2022 (Chart 3.3).

Chart 3.3: Global Inflation

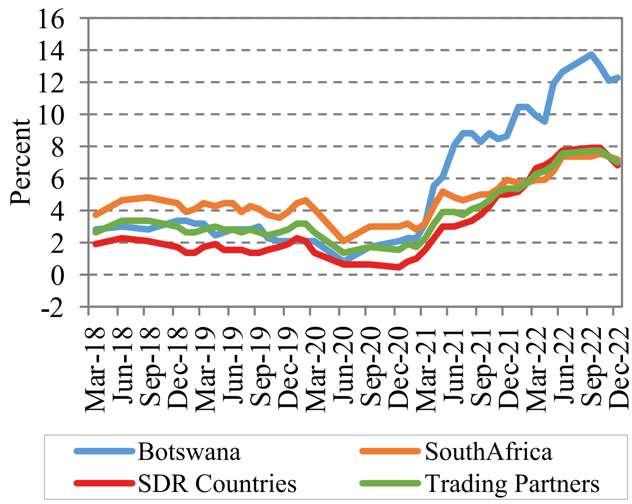


Source: IMF April 2023

In South Africa, headline inflation decreased from 7.6 percent in the third quarter of 2022 to 7.4 percent in the fourth quarter of 2022. Meanwhile, inflation increased from 6.9 percent in January 2023 to 7 percent in February 2023, remaining above the South African Reserve Bank (SARB)'s target range of 3 – 6 percent.

Similarly, the average trade-weighted inflation for Botswana's trading partners increased from 5.1 percent in the fourth quarter of 2021 to 7.4 percent in the fourth quarter of 2022 (Chart 3.4). Meanwhile, trade-weighted inflation for Botswana's trading partners was 6.7 percent in February 2023, a slight decrease from 6.8 percent in January.

Chart 3.4: Botswana Inflation and International Inflation



Source: Source: Statistics Botswana, Bank of Botswana, Statistics South Africa and Bloomberg

[2] The quarterly inflation estimates are sourced from Bloomberg.

Monetary policy tightening across the globe

In the most recent policy decisions in advanced economies (Table 3.2), the European Central Bank (ECB) increased the deposit rate, refinancing rate and lending rate by 50 basis points to 3.50 percent, 3.75 percent and 3 percent, respectively, in March 2023, the sixth consecutive increase, to combat inflationary pressures. The ECB indicated that the euro area banking sector was resilient, with strong capital and liquidity positions, and that it was monitoring current market tensions closely, while it stood ready to respond as necessary to preserve price stability and maintain financial stability in the region.

In March 2023, the US Federal Open Market Committee (FOMC) increased the target policy rate range by 25 basis points to 4.75–5 percent, the ninth hike increase since April 2022, pushing borrowing costs to the highest level since 2007 as inflation remains elevated. The Fed noted the US banking system was sound and resilient and recent developments were likely to result in tighter credit conditions for households and businesses, and to weigh on economic activity, employment, and inflation. The FOMC signalled that an increase in the target rate at its next meetings might be appropriate to return inflation to the 2 percent target.

The Bank of England (BoE) increased the Bank Rate by 25 basis points to 4.25 percent in March 2023, the eleventh consecutive hike since December 2021, and pushing borrowing costs to the highest level since 2008, aiming to bring inflation back to the 2 percent target. Moreover, the BoE reiterated that further increases in the Bank Rate may be required should inflationary pressures persist. Meanwhile, regarding the ongoing banking crisis, the BoE noted that the UK banking system maintains robust capital and strong liquidity positions and remains resilient.

The Bank of Japan (BoJ) kept the key short term interest rate unchanged at -0.1 percent and maintained the long-term government bond yield at around zero percent at the March 2023 meeting. In addition, the BoJ announced that the Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. The BoJ also reiterated that it will not hesitate to take extra easing measures if needed, while expecting short-and long-term policy interest rates to stay at their present or lower levels.

In emerging market economies, the Central Bank of Brazil left the policy rate unchanged at 13.75 percent for the fifth consecutive meeting in March 2023, in line with market expectations. The Committee indicated that it would maintain its policy rate for a longer period but will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected. Similarly, the Central Bank of Russia (CBoR) maintained the key policy rate at 7.5 percent for the fourth consecutive month at the March 2023 meeting, following a cumulative 950 basis points cut since April 2022, as inflationary pressures eased amid subdued consumer demand. However, the CBoR signalled that it will hike the policy rate in future should inflation expectations increase.

The People's Bank of China (PBoC) maintained the one-year and five-year Loan Prime Rates (LPR) at 3.65 percent and 4.30 percent, respectively, in March 2023, as the central bank works on meeting the rebound in loan demand after the country eased its zero-COVID measures.

The SARB increased the repo rate by 50 basis points to 7.75 percent in March 2023, the ninth consecutive hike since November 2021, to anchor inflation expectations more firmly around the mid-point of the 3 – 6 percent target range and to increase confidence of achieving the inflation target in 2024. The SARB considered risks to the inflation outlook to be on the upside and expected headline inflation to average 6 percent (up from 5.4 percent) in 2023.

In April 2023, the Reserve Bank of India (RBI) unexpectedly maintained the policy rate at 6.5 percent, following six consecutive hikes, indicating that it was closely monitoring the impact of recent global financial turbulence. However, RBI signalled that it could consider further rate hikes if necessary. Headline inflation in India was 6.4 percent in February 2023, remaining above the RBI's target range of 2 – 6 percent.

Table 3.2: Monetary Policy Decisions

Central Bank	Latest Meeting	Current Policy Rate (Percent)	Change from Previous Meeting	Likely Policy Decision at the Next Meeting
Bank of Botswana	April 2023	2.65	No change	No indication of the direction of policy
SARB	March 2023	7.75	Increased by 50 basis points	Increase in May but no indication on the magnitude
US Federal Reserve	March 2023	4.75–5.00	Increased by 25 basis points	Increase policy rate in May 2023, to attain a stance that is sufficiently restrictive to return inflation to the 2 percent target over time. Also, continue to reduce its holdings of treasury securities, agency debt and mortgage-backed securities.
BoE	March 2023	4.25	Increased by 25 basis points	Further tightening of the Bank Rate would be required if inflationary pressures persist
ECB	March 2023	3.50	Increased by 50 basis points	Monitoring current market tensions closely, and ready to respond as necessary to preserve price stability and maintain financial stability in the region
BoJ	March 2023	-0.10	No change	Will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels
PBoC	March 2023	3.65	No change	Indicated that policy tightening across the globe is limiting China's room for further monetary policy easing
Brazil	March 2023	13.75	No change	Reinforces that future monetary policy steps can be adjusted and will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected
India	April 2023	6.50	No change	RBI remains focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth
Russia	March 2023	7.50	No change	No indication of the direction of policy; will continue to use the latest data to adapt monetary policy in future meetings

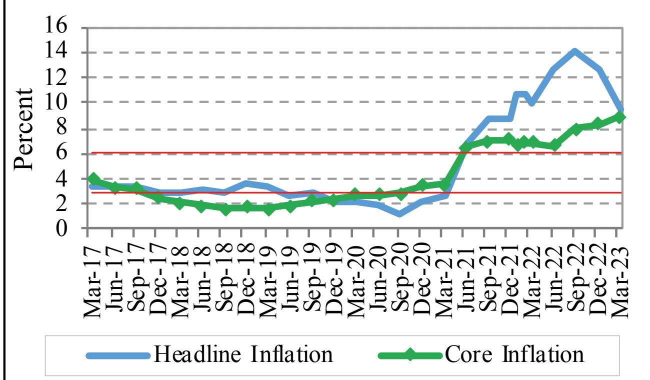
Source: Various central banks' websites

3.2 Domestic inflation environment

Headline inflation decreased in the first quarter of 2023

Headline inflation averaged 9.4 percent in the first quarter of 2023, from 10.4 percent in the first quarter of 2022 (Charts 3.5 and Table 3.3). The decrease in inflation in the first quarter of 2023 was mostly accounted for by the downward adjustment of fuel prices effected on December 22, 2022 and January 3, 2023 which altogether reduced inflation by 0.82 percentage points.

Chart 3.5: Botswana Headline and Core Inflation



Source: Statistics Botswana and Bank of Botswana

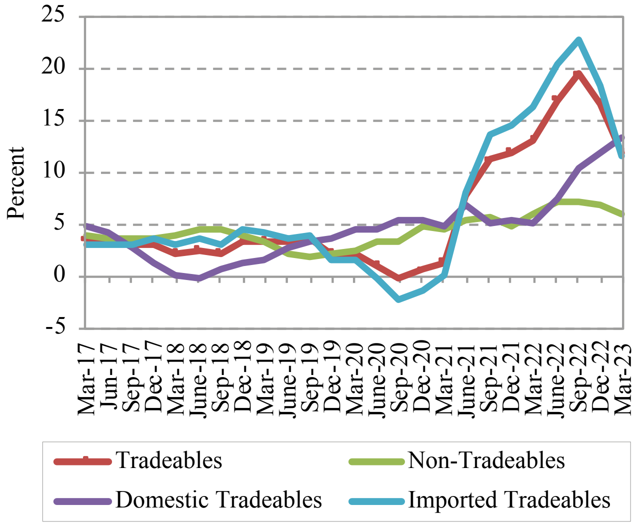
Note: Core inflation is headline inflation excluding administered prices

Prices for domestic tradeables increased while they decreased for imported tradeables in the first quarter of 2023

Inflation for domestic tradeables increased from an average of 5 percent in the first quarter of 2022 to an average of 13.2 percent in the first quarter of 2023 (Charts 3.6), largely due to the broad-based increase in prices of food. However, imported tradeables inflation decreased from an average of 17.4 percent to an average of 11.4 percent in the same period, mainly on account of the fall in the annual price change for vehicles.

As a result, all tradeables inflation decreased from an average of 13.9 percent in the first quarter of 2022 to an average of 11.8 percent in the first quarter of 2023, while inflation for non-tradeables increased from an average of 5.7 percent to 6 percent in the same period.

Chart 3.6: Inflation for Tradeables and Non-Tradeables



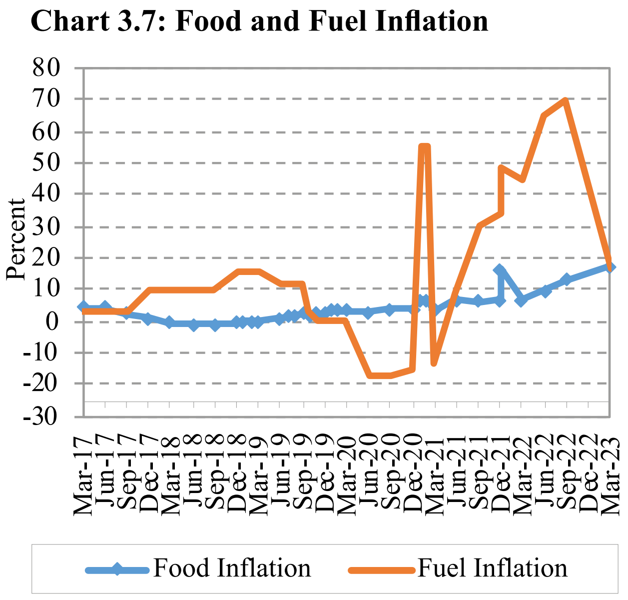
Source: Statistics Botswana

Generally, there has been an upward trend in non-tradeables inflation since June 2019 and domestic tradeables inflation from June 2018, mainly due to the increase in prices for administered items and food, respectively. The increase in food prices was partly a result of bad weather conditions experienced in the 2018/19 ploughing season, and economic disruptions occasioned by COVID-19 in 2020 and more recently, due to supply disruptions associated with the Ukraine-Russia war, as well as import restrictions set out in 2022 to promote domestic production.

Accordingly, therefore, upward general trends in non-tradeables and domestic tradeables inflation are not a result of domestic demand pressures, as the output gap is estimated to be negative (Section 4.2 refers).

Core inflation measures diverged in the first quarter of 2023

The trimmed mean inflation (CPITM) decreased slightly to 8.6 percent in the first quarter of 2023, from 8.7 percent in the first quarter of 2022, while inflation excluding administered prices (CPIXA) averaged 8.9 percent, from 6.8 percent in the same period (Table 3.3) due to the increase in prices for food and non-alcoholic beverages. However, inflation excluding food and fuel (CPIXFF) averaged 6.4 percent in the first quarter of 2023, lower than the 6.6 percent recorded in the corresponding quarter in 2022 due to base effects associated with the increase in private school fees and public transport fares in the first quarter of 2022.



Source: Statistics Botswana and Bank of Botswana

Table 3.3: Annual Price Changes for Categories of Goods and Services (Percent)

Category of commodities	Basket Weights	March 2023	Q1 2023	Q1 2022
Food and non-alcoholic beverages	13.6	17.8	17.4	6.9
Alcoholic beverages and tobacco	4.3	3.2	2.8	9.5
Clothing and footwear	6.0	6.2	5.7	5.3
Housing, water, electricity, gas and other fuels	17.5	4.6	4.6	8.0
Furnishing, h/h equipment and routine maintenance	4.9	7.3	6.6	5.2
Health	3.4	3.3	3.3	2.6
Transport	23.4	17.0	15.6	25.8
Communications	6.9	2.5	2.6	1.3
Recreation and culture	2.8	3.0	3.3	3.9
Education	4.6	5.4	5.4	2.3
Restaurants and hotels	3.7	6.3	6.1	4.8
Miscellaneous goods and services	9.0	8.6	8.6	7.9
Annual Inflation (All items)	**100.0**	**9.9**	**9.4**	**10.4**
CPITM		9.2	8.6	8.7
CPIXA		8.9	6.4	6.8
CPIXFF		6.9	6.4	6.6

Source: Statistics Botswana and Bank of Botswana calculations

3.3 Recent domestic economic developments

GDP growth decelerated in 2022

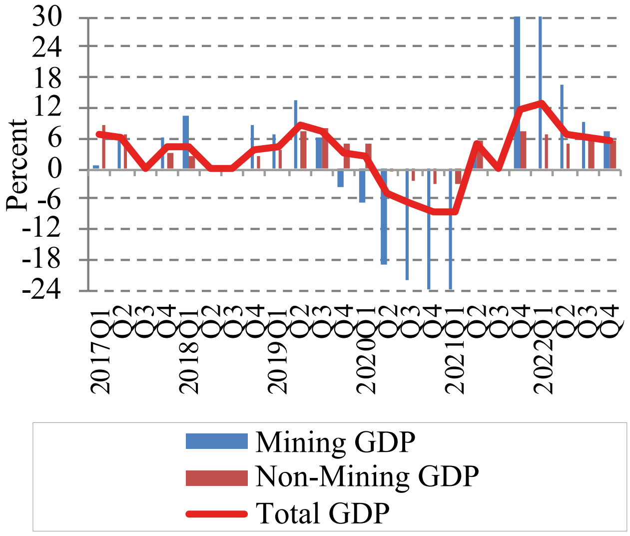
Real GDP grew by 5.8 percent in 2022, compared to a growth of 11.9 percent in 2021 (Chart 3.8). Mining output increased by 7.5 percent in 2022, a notable deceleration from 29.8 percent in 2021. The deceleration was due to a slower growth in output of most sub-sectors, led by the mining of diamonds, which decelerated to 7 percent in 2022, compared to a growth of 31.4 percent in the previous year. The slower growth in the sector reflects dissipating base effects associated with the relaxation of COVID-19 travel restrictions. Meanwhile, the decrease in output of mining of gold and other metal ores, and mining support services activities sub-sectors in 2022, is because of resource nearing depletion as the lifespan of the Mupane Mine approaches the end.

Non-mining GDP grew by 5.3 percent in 2022, compared to a higher growth of 7.8 percent in 2021, due to the deceleration of output growth for most sectors, namely, Construction; Wholesale and Retail; Diamond Traders; Transport and Storage; Information and Communication Technology; Real Estate Activities; Professional, Scientific and Technical Activities; Administrative and Support Activities; Human Health and Social Work; and Other Services. It is worth noting that the high growth rate in 2021, was mainly due to economic recovery from the low base associated with the negative impact of the COVID-19 pandemic containment measures, which were more stringent in 2020.

Meanwhile, Statistics Botswana reported a 5.9 percent increase in real GDP in the fourth quarter of 2022[3], as opposed to an increase of 6 percent in the third quarter of 2021.

[3] Calculated as the current quarter over the corresponding quarter in the previous year.

Chart 3.8: GDP Growth Rates



Source: Statistics Botswana
Note: Growth rates are reported on a rolling 12-month basis

In terms of GDP by expenditure, government final consumption increased by 3 percent in 2022, compared to a relatively higher growth of 4 percent in 2021. This was largely due to deceleration in growth of collective consumption[4], which fell from 4.9 percent in 2021 to 3.3 percent in 2022. Meanwhile, individual consumption (which comprises government education and health) increased from 0.7 percent to 2 percent, in the review period.

Household final consumption grew by 4.7 percent in 2022, compared to a slower growth of 2.3 percent in 2021.

Gross fixed capital formation (GFCF) contracted by 0.6 percent in 2022, compared to a marginal growth of 0.3 percent in the previous year. The decline in GFCF was reflective of the 6.2 percent and 13.5 percent contraction in investment in transport equipment and plant, machinery and other equipment sub-sectors, respectively. Meanwhile, other sub-sectors recorded positive growth rates.

[4] The collective consumption expenditure of general government covers the sovereign functions (or governing functions or general administrative functions) of government bodies, such as the justice system, defence and police.

Table 3.4: Real GDP Growth by Sector and Expenditure (Percent)

	2021Q4	2022Q3	2022Q4
Total GDP	11.9	*5.8* (6.4)	5.8
By Sector:			
Mining and Quarrying	29.8	9.2	7.5
Non-Mining	7.8	*4.9* (5.3)	5.3
Agriculture, Forestry & Fishing	-1.0	3.8	2.4
Manufacturing	8.1	8.5	8.2
Water and Electricity	9.6	29.9	48.6
Construction	6.5	*2.9* (2.7)	3.2
Wholesale & Retail	14.3	5.5	5.8
Diamond Traders	85.0	*17.3* (32.4)	17.6
Transport and Storage	5.9	3.0	4.0
Accommodation & Food Services	-1.5	4.2	4.3
Information & Communication Technology	4.4	5.0	5.6
Finance, Insurance & Pension Funding	0.6	*2.2* (1.9)	2.3
Real Estate Activities	7.9	3.2	3.6
Professional, Scientific & Technical Activities	6.8	2.9	3.0
Administrative & Support Activities	8.9	4.4	3.7
Public Administration & Defence	4.5	*3.8* (5.2)	4.4
Human Health & social work	6.2	*3.0* (3.1)	3.6
Education	1.9	*1.8* (1.9)	1.9
Other services	4.6	2.5	2.4
By Type of Expenditure:			
Government Final Consumption	4.0	*3.1* (3.9)	3.0
Household Final Consumption	2.3	*4.4* (4.0)	4.7
Gross Fixed Capital Formation	0.3	*-1.1* (-1.2)	-0.6
Exports of Goods and Services	31.7	*-7.1* (-7.2)	-5.6
Imports of Goods and Services	2.3	*-9.4* (-11.7)	-11.8

Note: The figures in italics are revisions of the figures in brackets, previously reported in the 2022Q3 estimates
Source: Statistics Botswana and Bank of Botswana Calculations

Diamond production increased in the fourth quarter of 2022

Debswana Diamond Company produced 5.8 million carats of diamonds in the fourth quarter of 2022, 10.6 percent higher than the 5.2 million carats produced in the corresponding period in 2021. The increase in production was due to strong plant performance, particularly at Jwaneng Mine. Meanwhile, Debswana's production target for 2023 is set at 23.5 million carats, while production guidance for the larger De Beers Group is at 30 - 32 million carats, subject to trading conditions and the extent of further COVID-19 related disruptions.

Production by Lucara Diamond Corporation (Karowe Mine) decreased by 4.4 percent to 86 655 carats in the fourth quarter of 2022, from 90 634 carats produced in the corresponding period in 2021. The decrease was mainly attributable to the uncertainty caused by Russia's invasion of Ukraine, and China's lockdowns to contain the spread of COVID-19 virus, thus delaying recovery of demand for diamonds.

Budget surplus recorded in the third quarter of the 2022/23 fiscal year

Government budget was in a surplus of P1.3 billion in the third quarter of the 2022/23 fiscal year (Table 3.5). The surplus was mainly due to the higher mineral revenue from an increase in diamond sales, underpinned by the easing of COVID-19 restrictions on movement of goods and people. Regarding other major revenue streams, the Southern African Customs Union (SACU) revenues and domestic taxes (VAT and non mineral income tax) were generally in line with the 2022/23 budget. Total government expenditure and net lending was P16.4 billion, lower than the P19.1 billion anticipated in the revised budget.

The final budget outturn for the 2021/22 fiscal year (April 2021–March 2022), was a deficit of P127.9 million, significantly lower than the revised budget deficit of P10.2 billion, reflecting better performance in revenue and grants, as well as lower public expenditure. Total public expenditure amounted to P68.7 billion, which is P4.9 billion lower than the revised budget (or 93 percent of the revised budget estimate). For the 2022/2023 fiscal year, the overall budget outcome is expected to worsen, with the deficit increasing to P4.9 billion or 1.8 percent of GDP. Total revenue and grants, and total expenditure are projected to increase to P71.5 billion and P76.4 billion, respectively in the 2022/23 fiscal year.

Table 3.5: Quarterly Budget Outturns (P Million)

	Total Revenues and Grants	Total Expenditure and Net Lending	Budget Surplus/ Deficit
2021/22 Q3	15 603	16 606	-1 003
2021/22 Q4	21 012	17 740	3 272
2022/23 Q1	20 438	19 793	645
2022/23 Q2	17 264	18 287	1 023
2022/23 Q3	17 670	16 386	1 283

Source: Cash Flow Unit, Ministry of Finance

Labour Force and Wage Developments Trends[5]

According to Statistics Botswana's Quarterly Labour Force Survey (QMTS) report for the fourth quarter of 2022, the unemployment rate was 25.4 percent in the fourth quarter of 2022, compared to 26 percent in the fourth quarter of 2021 (youth unemployment rate also declined to 33.5 percent from 34.4 percent). The survey also indicates that formal sector employment declined by 1.6 percent in the review period.

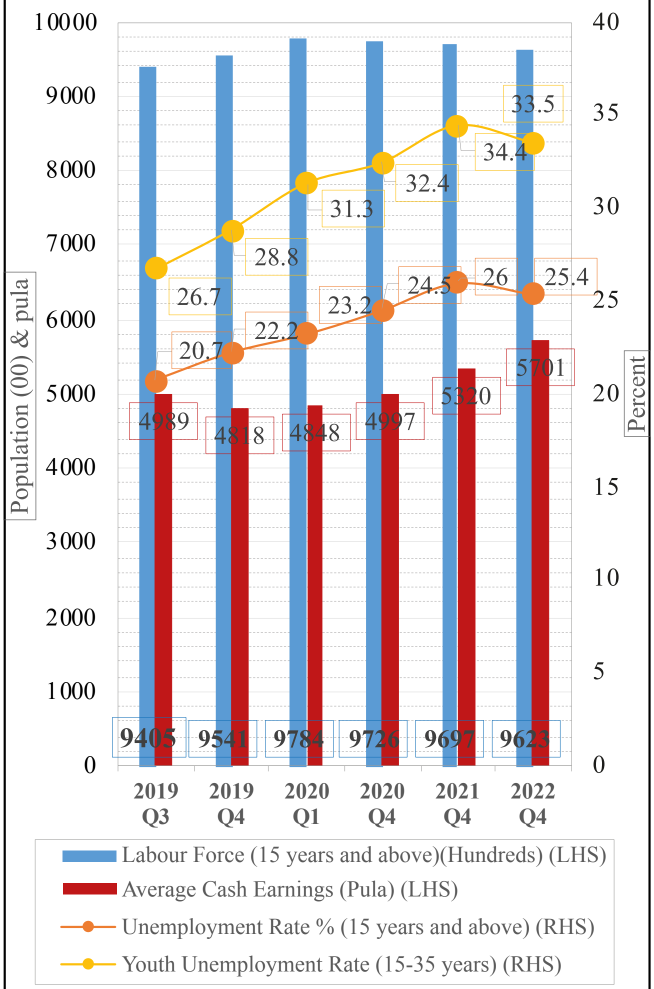
Regarding other indicators, the survey showed that Government continued to be the single largest employer, with employment in public administration constituting 26.9 percent of total formal sector employment. In this regard, personal emoluments constitute the largest share (above 40 percent) of the government recurrent budget. Meanwhile, formal sector average earnings per month were estimated at P6 578 for citizens, P12 111 for non citizens and P6 803 for all employees in the fourth quarter of 2022, compared with P6 219 for citizens, P9 275 for non-citizens and P6 299 for all employees estimated for the fourth quarter of 2021. The average monthly earnings for all employees are estimated to have increased by 8 percent or P504 in the fourth quarter of 2022, from P6 299 estimated for the fourth quarter of 2021. In this regard, the average growth in monthly wages is less than the inflation rate and, hence, does not add to inflationary pressures.

A longer-term trend analysis of the QMTS data since the third quarter of 2019 indicates that the total labour force (15 years and above) increased by 2.3 percent to 962 319 persons in the fourth quarter of 2022, from 940 546 persons in the third quarter of 2019. Over the same period, the employed labour force declined by 3.7 percent. The overall unemployment rate was estimated at

[5] The QMTS is conducted by Statistics Botswana. Since its inception in the third quarter of 2019, Statistics Botswana published the first QMTS (July-September 2019) Report in January 2020. This was followed by reports for the fourth quarter of 2019, first and fourth quarters of 2020, the fourth quarter of 2021, and the fourth quarter of 2022. However, the conduct of the rest of the quarterly surveys for 2020, 2021 and 2022 was hampered by the outbreak of COVID-19 and subsequent movement restrictions to contain the pandemic, and financial constraints to conduct surveys resulting in data gaps.

25.4 percent in the fourth quarter of 2022, compared to 20.7 percent recorded in the third quarter of 2019. Youth labour force (15-35 years) increased by 2.1 percent, to 471 139 persons in the fourth quarter of 2022 from 481 441 persons in the third quarter of 2019. The youth unemployment rate, which continues to be a national concern, increased to 33.5 percent in the fourth quarter of 2022, compared to 26.7 percent in the third quarter of 2019. Meanwhile, average earnings for all employees increased by P712, from the P4 989 estimated for the third quarter of 2019.

Chart 3.9:Trends in selected Labour Force Indicators



Source: Statistics Botswana

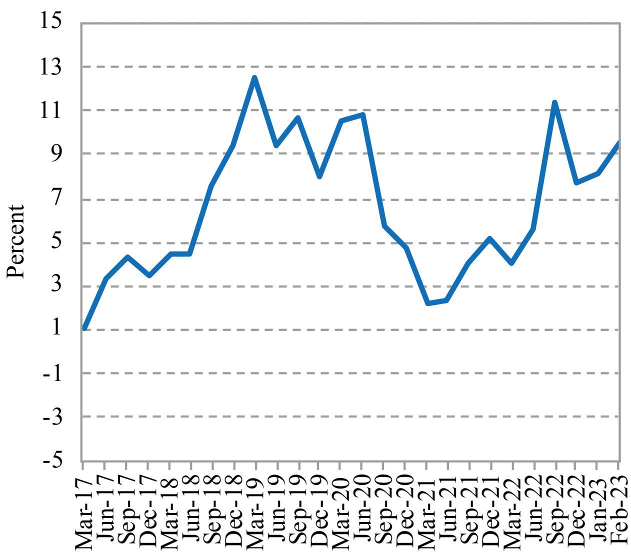
3.4 Monetary developments

Monetary and financial statistics coverage has expanded to include other financial corporations. See Box 1 for more details.

Banking sector assets growth accelerated in February 2023

Annual banking sector assets' growth increased from 3.5 percent in February 2022 to 9.5 percent in February 2023 (Chart 3.10). The increase was mainly due to the rise in balances due from foreign banks, loans and advances, as well as holdings of debt securities. Meanwhile, loans and advances, accounted for the largest proportion of commercial banks' assets (62 percent), in February 2023. Overall, growth in banking sector assets was mainly funded through customer deposits, which rose annually by 7.7 percent in the same period.

Chart 3.10: Year-on-Year Commercial Banks' Growth in Total Assets

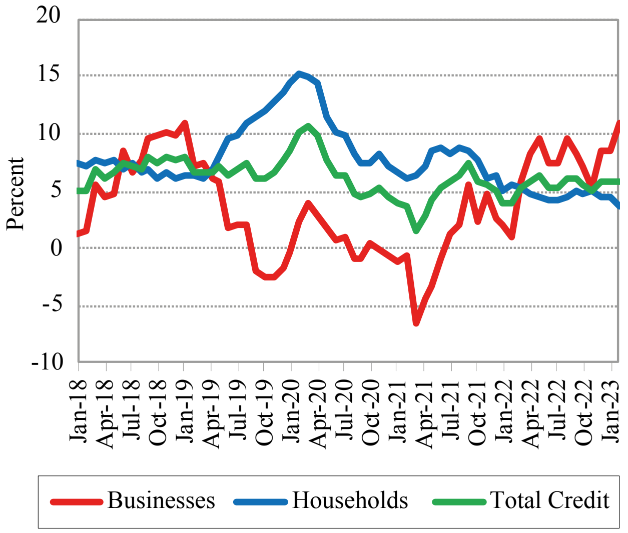


Source: Commercial Banks

Credit growth accelerated in the year to February 2023

Commercial bank credit increased from an annual growth of 4 percent in February 2022 to 6 percent in the twelve-month period to February 2023 (Chart 3.11). The increase in growth of commercial bank credit was, in part, indicative of the increase in loan uptake by businesses on account of economic recovery from the negative impact of the COVID-19 pandemic in 2020/21.

Chart 3.11: Year-on-Year Commercial Banks' Growth in Total Credit



Source: Commercial Banks

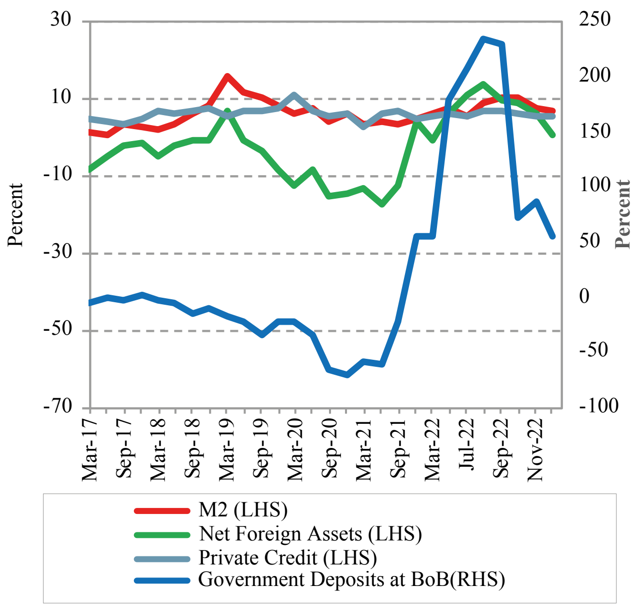
Lending to the business sector increased by 10.8 percent in the year to February 2023, higher than the 1.0 percent expansion in the corresponding period in 2022, reflecting utilisation of credit facilities by businesses aiming to increase activity or augment inventory/supply shortages in order to meet demand, during the continued recovery following relaxation of the COVID-19 restrictive measures. Credit to businesses excluding parastatals also increased by 12 percent in the year to February 2023, compared to 4.5 percent increase in February 2022. The annual increase in credit to businesses excluding parastatals was mainly due to utilisation of loan and overdraft facilities by some companies in the agriculture, electricity and water, mining, manufacturing, construction, transport and communications, real estate, trade as well as finance industries, as economic activity opened, following the end of the State of Public Emergency in September 2021. Meanwhile, credit to parastatals increased by 14.1 percent in the year to February 2023, compared to the 32.4 percent contraction in the twelve months to February 2022, due to utilisation of overdraft facilities.

Meanwhile, year-on-year growth in household loans decreased from 5.5 percent in February 2022 to 3.6 percent in February 2023. The lower growth in household credit was mainly attributable to the decline in growth of personal unsecured loans during the period under review, a possible reflection of the effects of the policy tightening in the second and third quarters of 2022 by the Bank of Botswana, which had a dampening effect on demand. Banks also likely restricted credit supply to guard against increase in default rates as the cost of credit become expensive. Meanwhile, motor vehicle, property and credit card-based loans increased in the year to February 2023. The share of the household sector in total lending by commercial banks decreased slightly from 67.5 percent in February 2022 to 66 percent in February 2023.

Money supply growth increased in December 2022

Money supply (M2) grew by an annual rate of 6.8 percent in December 2022, higher than the 5 percent in the corresponding period in 2021 (Chart 3.12). The accelerated growth in money supply was mainly due to the increase in annual growth of credit to the private businesses and parastatals sector on account of economic recovery from the negative impact of the COVID-19 pandemic in 2020/21. Meanwhile, the increase was offset, in part, by the annual increase in net foreign assets and government deposits at the Bank of Botswana.

Chart 3.12: Year-on-Year Growth in Money Supply



Source: Other Depository Corporations and Bank of Botswana

Box 1: Expansion of Monetary and Financial Statistics (MFS) Coverage to Include Other Financial Corporations

The compilation of MFS is guided by the IMF compilation manual and guide, with a view to ensuring standardisation and, hence, international comparability of monetary and financial statistics. Countries are encouraged to compile and disseminate monetary statistics that cover the three Financial Corporations sub-sectors namely the central bank (CB), other depository corporations (ODCs), and other financial corporations (OFCs). Most IMF member countries compile the CB and ODCs data monthly and disseminate it within one or two months after the end of the reference period, while the OFCs, which constitute the broader set of monetary statistics in terms of institutional coverage, is compiled and disseminated on a quarterly basis.

A combination of the two (CB and ODCs) produces a depository corporation (DC), which has indicators that provide a link between the broad money supply and the DC's claims on resident and non-residents. Beyond the DC, there is also an increasing focus on the OFCs sub-sector and the financial corporations (FCs) sector, which when achieved, concludes the broader set of monetary and financial statistics in terms of financial sub-sectors coverage. The FCs sector contains consolidated data of the DCs and the OFCs subsectors. The FCs Survey is useful for analysing a country's financial sector claims on (that is, credit to) other sectors of the economy, the net foreign assets and the liquidity aggregates. The Survey can also be useful for monitoring the inter-connectedness between the financial sector and other sectors of the economy, as well as between the sub-sectors of the financial system, that is, the CB, ODCs and OFCs.

Financial Corporations Survey	
Assets	**Liabilities**
Net Foreign Assets Net Claims on Central Government Claims on Other Resident Sectors Other Items Net	Liquidity Aggregates

Following receipt of various IMF technical assistance missions on the expansion of MFS coverage to include OFCs, Botswana compiled and begun the dissemination of the OFCs data. Dissemination of the data through the IMF's Open Data Platform (hosted on the Bank's website in the National Summary Data Page) commenced with pension funds from May 2022, with data compilation backdated to January 2017. Meanwhile, compilation of the non-money market funds (non-MMFs) and insurance companies started from March 2021 and June 2021, respectfully. In order to complete the OFCs coverage, compilation of micro-lenders data is scheduled from March 2023. Locally, the dissemination of the full/complete OFCs data is earmarked for publication in the Botswana Economic and Financial Statistics (BEFS) publication of March 2023.

Interpretation

OFCs data present aggregated assets and liabilities positions in a balance-sheet-like form, by category of financial instrument, currency (domestic and foreign), and counterpart institutional sector (often referred to as ***"from whom to whom"***). Since the pension funds data is reported monthly, quarterly data for non-MMFs, insurance companies and micro-lenders has been converted to monthly frequency by dragging the last reported quarter into the subsequent two months. The rationale for conversion is to smoothen the data, while matching the quarterly data to the monthly frequency for pension funds, central bank and ODCs.

The 7-day nominal BoBC yield increased in the first quarter of 2023
The 7-day nominal BoBC yield increased from an average of 1.12 percent in the first quarter of 2022 to an average of 2.65 percent in the corresponding period in 2023, in line with the increase in the policy rate. The real rate of interest for the 7-day paper also increased from -8.41 percent to -6.20 percent in the same period.

The stop-out yield on the 1-month BoBC, which was introduced in June 2022 to address some of the structural liquidity positions and support the construction of the short-end of the yield curve, averaged 2.94 percent in the first quarter of 2023. The real rate of interest for the 1-month paper averaged -5.93 percent in the same period.

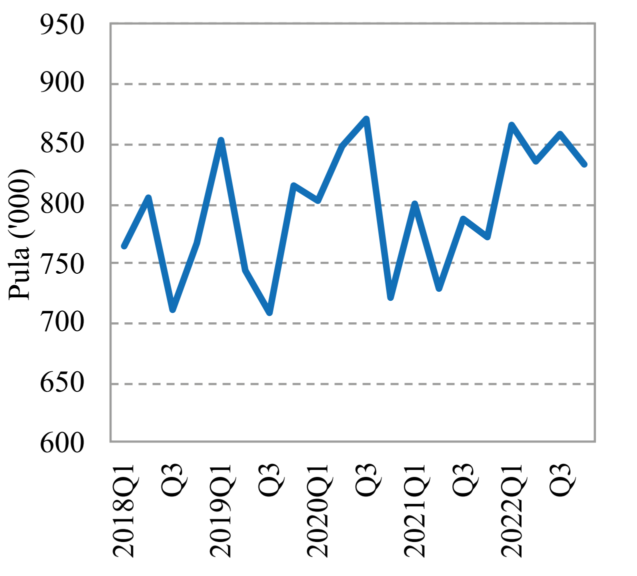
S&P Global Ratings (S&P) affirmed Botswana's credit rating and maintained stable economic outlook
In September 2022, S&P maintained Botswana's sovereign credit rating for long and short-term foreign and domestic currency bonds at "BBB+", and "A-2" and the stable outlook. S&P indicated that the affirmation of the ratings was underpinned by the country's robust institutional frameworks (compared with that of regional peers), which have supported the prudent management of the country's natural wealth; strong monetary policy framework; proactive and independent central bank; and strong mineral revenues that will support broadly balanced fiscal outcomes; all of which support durable macroeconomic stability. Meanwhile, the stable economic outlook was maintained on account of S&P's expectation that the demand for Botswana's diamonds will remain robust against downside risks presented by the weakening global economic activity. A rating upgrade could occur if there is a significant increase in Botswana's economic growth, along with the diversification of the export base, that could lead to greater economic resilience.

There was no credit rating action by both S&P and Moody's following consultations in February and March 2023, respectively. However, they published a full surveillance report in March and April 2023, respectively.[6]

3.5 Asset Market Prices

Property market generally remained fair in the fourth quarter of 2022
According to the latest (2022Q4) Riberry Report[7], the residential rental market showed signs of improvement in the fourth quarter of 2022 compared to the third quarter of 2022, indicating an increase in supply for both rentals and sales of low-end and mid-level properties. The rental market for low-end properties continued to enjoy reasonable demand, while mid-level houses for rent experienced weaker demand. The average price for residential properties sold in the fourth quarter of 2022 decreased by 3 percent to P833 000, compared to the previous quarter (Chart 3.13), reflecting a decrease in the number of high valued properties traded in the quarter under review.

Chart 3.13: Riberry Average Prices



[6] The surveillance report gives a summary of the performance of Botswana's macroeconomic indicators and key rating factors but does not provide an overall credit rating and stance on the economic outlook.

[7] This is a quarterly report produced by independent valuers, Riberry Botswana (Pty) Ltd.

The market for office space remained weak due to increasing supply from completed construction developments, such as the Innovation Hub, Pinnacle Park and Botswana Accountancy College North campus. Furthermore, demand remains reasonable and slightly improved as Government took up some vacant properties. However, the merging of some parastatals is likely to curtail the growth of demand for office space by Government. In addition, there is a possible likelihood for a slowdown in uptake at the Central Business District (CBD) should Government institutions remain in their current premises and location. In addition, the supply of office space is projected to increase further, given the ongoing construction projects and planned office buildings at the Gaborone CBD, such as by the Botswana Stock Exchange and Botswana Building Society. These will further exert downward pressure on rentals, especially in the decentralised office locations.[8]

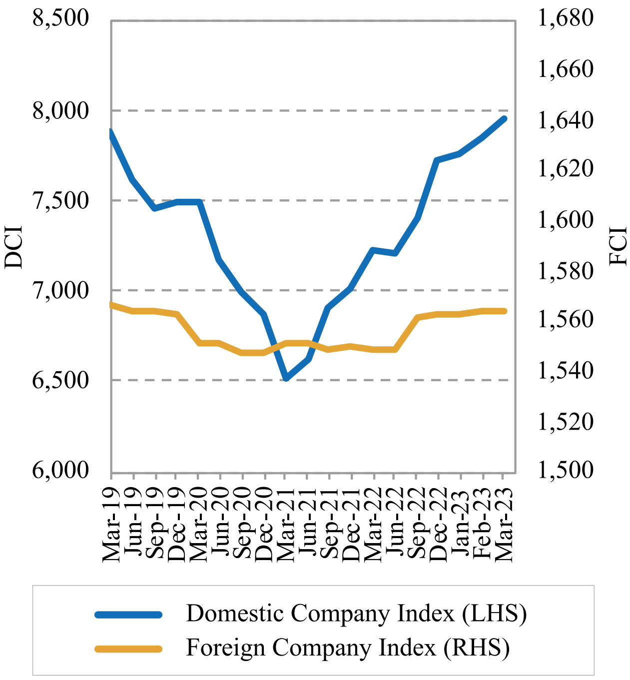
Similar to the previous quarter, the demand for retail space remained fair across all market segments, while the supply is expected to increase as two malls are proposed for Mogoditshane. In addition, other centres with good demand for retail space are Jwaneng, Selibe Phikwe, Maun, Molepolole, Francistown, Mahalapye and Ramotswa. Most of these locations have a few retail schemes, to be anchored by reputable supermarkets, at planning and/or construction stage. Regarding industrial property, the supply of unoccupied big warehouse space has decreased, while the demand has improved.[9] Meanwhile, the availability of industrial space in prime locations is expected to improve going forward.

Stock market indices increased

The Domestic Companies Index (DCI) increased by 10.1 percent in the twelve months to March 2023, compared to an increase of 10.7 percent in the year to March 2022 (Chart 3.14). The 10.1 percent increase was mainly due to the higher share prices for First National Bank of Botswana, Standard Chartered Bank and BTCL, which increased by 36.8 percent, 62.2 percent and 24.6 percent, respectively, in the same period. The higher share prices were because of increased trading activity following the low base arising from the impact of the COVID-19 pandemic in 2020.

The Foreign Companies Index (FCI) increased by 1 percent in the year to March 2023, compared to a decrease of 0.1 percent in the corresponding period in 2022 (Chart 3.14). The increase was largely due to the year-on-year increase in the share prices for New Gold (12.2 percent) and CA Sales (38.4 percent) on account of higher trading activity and liquidity.

Chart 3.14: Stock Market Indices



Source: Botswana Stock Exchange

8 Prime rentals are about P100/m2. However, rentals in secondary areas, such as Gaborone International Finance Park (also known as Kgale Mews), situated at the foot of Kgale Hill, adjacent to Game City Shopping Mall, cost P75/m2, while prime industrial areas like Gaborone International Commerce Park cost P65/m2.

9 Investors prefer bigger warehouses, but available warehouse space is limited.

Box 2: Reforms to Monetary Operations Framework

Open market operations remain the main liquidity management tools in the domestic market, as well as implementing decisions of the MPC. This entails the issuance of BoBCs to mop-up excess liquidity in order to maintain interest rates that are consistent with the monetary policy stance. Moreover, the Bank continuously evaluates its monetary policy implementation framework, aimed at strengthening the monetary policy transmission mechanism. In this respect, and as announced in the 2022 Monetary Policy Statement, the Bank introduced some reforms to the monetary policy operations in April 2022. These included, in the main, the discontinuation of the Bank Rate as the main anchor policy rate and the transition to the MoPR, which is an instrument based policy rate (7-day BoBCs yield) for effective monetary policy transmission.

The transition also marked the introduction of an interest rate corridor with a 200-basis points width, comprising the Standing Deposit Facility (SDF) at 100 basis points below the MoPR and the Standing Credit Facility (SCF) at 100 basis points above the MoPR. The SDF and SCF serve as the floor and ceiling of the interest rate corridor, respectively, and commercial banks use both facilities at their own discretion for their daily liquidity management. The interest rate corridor is intended to help ensure that money market interest rates move within a reasonably close range around the MoPR, culminating into a symbiotic relationship between the policy rate and market interest rate, thus providing the fundamental basis for effective monetary policy transmission.

In addition, the reforms allow for the conduct of fine-tuning operations (repos and reverse repos) which are to be issued infrequently during a primary reserve maintenance period at the discretion of the Bank upon evaluation of the general market liquidity. If offered, the fine-tuning operations are conducted at the MoPR. Furthermore, the Bank introduced a 1-month BoBC for structural liquidity management and price discovery purposes, while the Prime Lending Rate (PLR) is determined by the individual banks effective April 1, 2023. The Bank continues to analyse and monitor the impact of these reforms, with a special focus on their impact on the potency and effectiveness of monetary policy transmission.

Furthermore, on January 1, 2023, the Bank of Botswana withdrew some of the COVID-19 relief measures introduced in April 2020. This withdrawal was against a background of the reduced severity and trajectory of COVID-19, given the successful vaccination programme, global economic recovery at the beginning of 2022 and resumption of normal domestic economic activity. The Bank, therefore, revised the COVID-19 relief measures as follows:

a. the punitive interest rate for involuntary access to the Credit Facility (CF) by commercial banks to meet night settlement obligations was set at 8 percentage points above the prevailing MoPR. This facility is different from the other overnight facilities offered by the Bank, such as the SCF, accessed at the discretion of the individual bank, and the repurchase agreements (repos), offered at the discretion of the Bank. The CF is automatically availed to a bank that is overdrawn at the close of each business day, hence, the punitive interest rate since banks are not permitted, by law, to overdraw the settlement accounts held at the Bank of Botswana. The facility is also used for intraday temporary funding without attracting any charges, except that, at close of any trading day, the settlement accounts with the Bank of Botswana must have positive balances;

b. the maturity of repos and reverse repos facility was reduced from 92 days to overnight and, consistent with the announced monetary operations reforms, the Bank's participation inthe repo market is minimal for fine tuning purposes;

c. the dispensation to include all securities listed on the Botswana Stock Exchange Limited (BSEL) in the pool of eligible collateral for credit facilities provided to banks by the Bank of Botswana was maintained to support listing on the BSEL and liquidity of the market. This is subject to acceptable collateral margins and/or haircuts, as may be announced from time to time by the Bank.

3.6 Balance of payments (BoP)

The interpretation of the BoP statistics, especially on the financial account, have been revised to meet the latest international reporting standards. See Box 3 for details.

Current account recorded a deficit in the fourth quarter of 2022

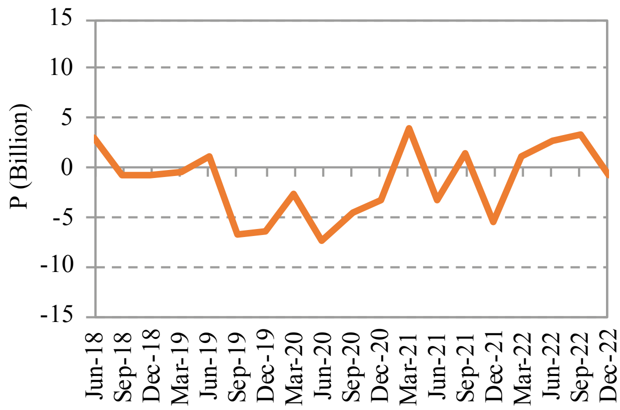
The current account is estimated to have recorded a deficit of P0.6 billion in the fourth quarter of 2022, compared to a revised deficit of P5.4 billion in the corresponding period in 2021 (Chart 3.15). The lower deficit was primarily attributable to a narrower trade balance deficit, which was further cushioned by net income inflows from the secondary income account. Exports amounted to P20.6 billion in the fourth quarter of 2022, a slight increase from P19 billion in the corresponding period of 2021, while imports decreased by 11.6 percent from P24.1 billion to P21.3 billion, leading to a deficit of P0.6 billion in the merchandise trade account. SACU revenues, which dominate the secondary income account, amounted to P3.4 billion in the fourth quarter of 2022.

Diamond exports, which accounted for 82.4 percent of total exports of goods in the fourth quarter of 2022, increased to P17 billion from P16.7 billion in the fourth quarter of 2021. During the same period, diamond imports decreased from P8.5 billion to P4.3 billion. The increase in diamond exports mainly stemmed from growing demand by major rough diamond markets in the United Arab Emirates (UAE), Belgium and India. This was driven by consumer demand for diamond jewellery in key markets, such as the US and India, due to easing of both global travel restrictions and movement of goods across borders, which were implemented in 2020 to contain the spread of the COVID-19 pandemic.

The other commodities that contributed to the increase in exports include hides and skin (77.4 percent), machinery and electrical equipment (49.6 percent), live cattle (39.7 percent), textiles (29.5 percent), plastic and plastic products (16.6 percent), as well as salt and soda ash (16.1 percent). In addition, copper and nickel exports increased from P490.7 million to P1.2 billion, owing to increased production and copper sales by the US private equity company Cupric Canyon, which started production at Khoemacau Copper Mine in 2021. Imports were mainly driven by increases in fuel (37.1 percent), machinery and electrical equipment (4.8 percent), wood and paper products (4.5 percent), as well as food, beverages and tobacco (4.1 percent).

For 2022, the current account is estimated to have recorded a surplus of P7.4 billion compared to a revised deficit of P2.9 billion in the corresponding period in 2021.

Chart 3.15: Quarterly Current Account Balance



Source: Bank of Botswana

The financial account recorded a positive net balance in the fourth quarter of 2022

The financial account is estimated to have recorded a positive net balance of P5 billion during the fourth quarter of 2022, implying that the country was a net creditor to countries abroad, compared to a positive net balance of P0.9 billion in the fourth quarter of 2021. The positive net balance was mainly attributable to a substantial increase in equity assets held abroad by local pension fund managers.

In 2022, the financial account recorded a negative balance of P1.4 billion, compared to a positive net balance of P4.9 billion in 2021, owing to a drop in foreign assets held by local pension funds during the first two quarters of 2022. This was subsequent to the repatriation of some of the offshore assets, resulting in a reduction of pension funds' offshore portfolio from 65.3 percent to 60.5 percent of their total assets.

The balance of payments was in deficit in the fourth quarter of 2022

The overall BoP recorded an estimated deficit of P0.9 billion during the fourth quarter of 2022, from a surplus of P1.1 billion during the corresponding period in 2021. The deficit was mainly attributable to foreign exchange outflows to meet the import bill and Government financial obligations.

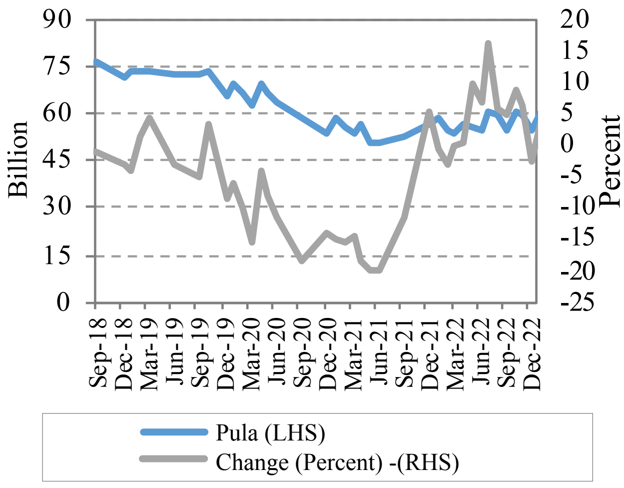
In 2022, the surplus was estimated at P4.5 billion, from a deficit of P2.9 billion in 2021.

Foreign exchange reserves increased

As at the end of January 2023, foreign exchange reserves were estimated at P60.5 billion, an increase of 3.8 percent from P58.3 billion in January 2022 (Chart 3.16). The increase in Pula terms was mainly attributable to SACU receipts.

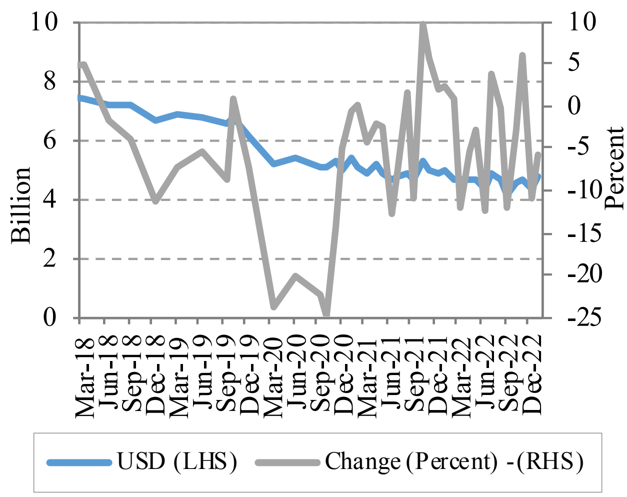
In foreign currency terms, the level of foreign exchange reserves decreased by 6 percent from USD5 billion in January 2022 to USD4.7 billion in January 2023 and decreased by 2.8 percent from SDR3.6 billion to SDR3.5 billion, during the same period (Chart 3.17). The level of foreign exchange reserves in January 2023 was equivalent to 8.4 months of import cover of goods and services.

Chart 3.16: Foreign Exchange Reserves in Pula and Annual Percentage Change



Source: Bank of Botswana

Chart 3.17: Foreign Exchange Reserves in US Dollars and Annual Percentage Change



Source: Bank of Botswana

Box 3: Adoption of Balance of Payments (BoP) and International Investment Position Manual Six (BPM 6)

The compilation of BoP is guided by the IMF compilation manuals with a view to ensuring standardisation, hence international comparability of external sector statistics. The manuals and compilation guidelines evolve overtime in response to change in methodologies and data, economic and financial developments, analytic interest and technological advancement. In this regard, the IMF has, thus far, released six editions of the Balance of Payments Manual (BPM) and the International Investment Position (IIP) Manual, the latest being the BPM6, released in 2009. BPM6 introduced methodological and classification changes, with most of the amendments occurring in the goods and services account. Other noticeable changes are sign conversions in the financial account.

Botswana adopted the BPM6 reporting in 2018, through the IMF's yearbook submission. Locally, the dissemination of data reported in the BPM6 format commenced with the Botswana Financial Statistics (BFS) publication of September 2020. Generally, the changes brought about by BPM6 have not affected net balances of BoP accounts, except for the change in signs in the financial account. However, the migrants' transfers have been removed from the BoP and placed under the IIP. Migrant transfers consist of personal effects, financial assets and liabilities of individuals changing their residence. Tables 3.6 and 3.7 provide a summary of the changes made pertaining to signs and classification.

Sign Changes and Interpretation

The rationale for changing the signs in the financial account was to bring the BoP interpretation in line with the IIP, as well as to harmonise the financial account presentation with other macroeconomic datasets, such as the system of national accounts SNA and government finance statistics. In this case a positive sign now represents an increase in either an asset or liability account while a negative sign represents a decrease in an asset or liability account, in both the BoP and the IIP. The balances on the different components within the financial account are now calculated by subtracting net incurrence of liabilities from net acquisition of assets instead of adding them. The net balance on the financial account has the opposite sign in BPM6 compared to BPM5. In BPM 6, a positive net balance represents a net outflow, while a negative net balance represents a net inflow, in contrast to the BPM5 interpretation.

Table 3.6: Sign Changes and Interpretation

Account	BPM5 Interpretation	BPM6 Interpretation
Current and Capital Balance from current and capital account	Credits were positive (+) Debits were negative (-) Balance = credits plus debits Surplus +, deficit -	Both credits and debits recorded as positive (+) values Balance = credits minus debits Surplus +, deficit - + net lending - net borrowing
Financial Balance	+ net borrowing - net lending Balance = Assets + Liabilities	+ net lending - net borrowing Balance = Assets - Liabilities
Net acquisition of Financial Assets (NAFA)	Increases in foreign assets – Decreases in foreign assets +	Increases in foreign assets + Decreases in foreign assets -
Net Incurrence of Liabilities (NIL)	Increases in liabilities to non-residents + Decreases in liabilities to non- residents -	Increases in liabilities to non-residents + Decreases in liabilities to non-residents -
Reserve Assets	Increase – Decrease +	Increase + Decrease -
Net private sector capital inflows/outflows	Capital inflows + Capital outflows -	Capital inflows - Capital outflows +

Table 3.7: Classification Changes (of highlighted items in BPM5)

BPM5 Item Classification	BPM6 Item Reclassification
‘Goods for processing’ recorded in the goods account	Reclassified to services, renamed ‘manufacturing services on physical goods owned by others’
‘Repairs on goods’ recorded in the goods account	Reclassified to services, renamed “maintenance and repair services”
‘Goods procured in ports by carriers’ recorded separately in the goods account	Recorded as part of general merchandise within the goods account
‘Merchanting’ recorded as a service	Renamed as ‘Net exports of goods under merchanting’ and recorded under goods
‘Postal and courier services’ reported as part of communication services	Moved to ‘transport services’
‘Royalties and licence fees’	Renamed as ‘charges for use of intellectual property’
Interest on loans and deposits recorded in the income account on a gross basis	Split to service and income components Pure interest recorded in primary income The services part termed ‘Financial intermediation services indirectly measured’ (FISIM) recorded under services
High value goods acquired by travellers recorded under travel services	Moved to merchandise goods

3.7 Exchange rate developments

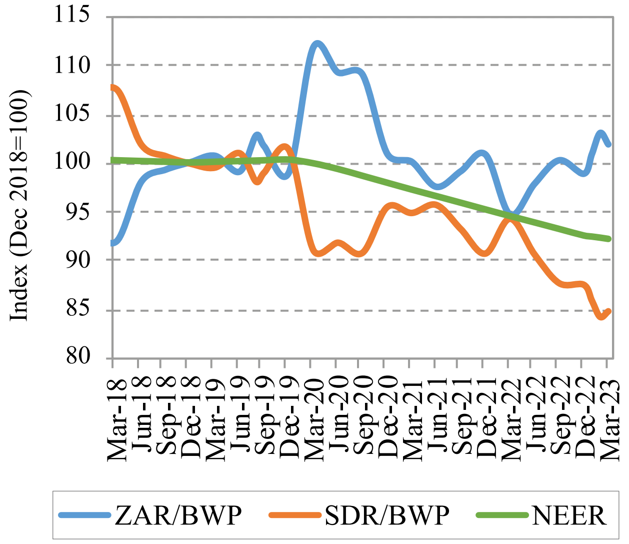
For 2023, the Bank's implementation of the exchange rate policy entails an annual downward rate of crawl of 1.51 percent. This downward rate of crawl was implemented from January 1, 2023 with a view to enhancing domestic industry competitiveness. The Pula basket weights were maintained at 45 percent for the South African rand and 55 percent for the SDR, guided by Botswana's trade pattern and international transactions. Box 4 explains the current exchange rate policy framework and the Pula exchange rate parameters for 2023, which were announced in December 2022.

In the twelve months to March 2023, the Pula appreciated by 7.6 percent against the South African rand but depreciated by 10.1 percent against the SDR (Chart 3.18). With respect to the SDR constituent currencies, the Pula depreciated by 12.6 percent against the US dollar, 10.4 percent against the euro, 7.3 percent against the British pound, 5.5 percent against the Chinese renminbi and 4.6 percent against the Japanese yen.

The movement of the Pula against the SDR constituent currencies largely reflects the performance of the South African rand against the SDR constituent currencies. Therefore, in the same review period, the South African rand depreciated by 16.5 percent against the SDR. With respect to the SDR constituent currencies, the South African rand depreciated by 18.8 percent against the US dollar, 16.7 percent against the euro, 13.9 percent against the British pound, 12.2 percent against the Chinese renminbi and 11.4 percent against the Japanese yen.

The South African rand depreciated significantly against most major currencies, mainly driven by local factors. According to Statistics South Africa, the economy recorded a contraction in GDP of 1.3 percent quarter on quarter against market expectations of a 0.4 percent contraction in the fourth quarter of 2022, thus resulting in the sell-off of the South African rand. The negative output growth (attributable to prolonged power supply shortage that constrained economic activity across all major sectors), has heightened fears of a technical recession in the first quarter of 2023. Meanwhile, S&P downgraded South Africa's outlook from "positive" to "stable" on the back of persistent power cuts, infrastructure constraints, and shortfalls in governance and performance in state owned enterprises.

Chart 3.18: Nominal Exchange Rate Indices

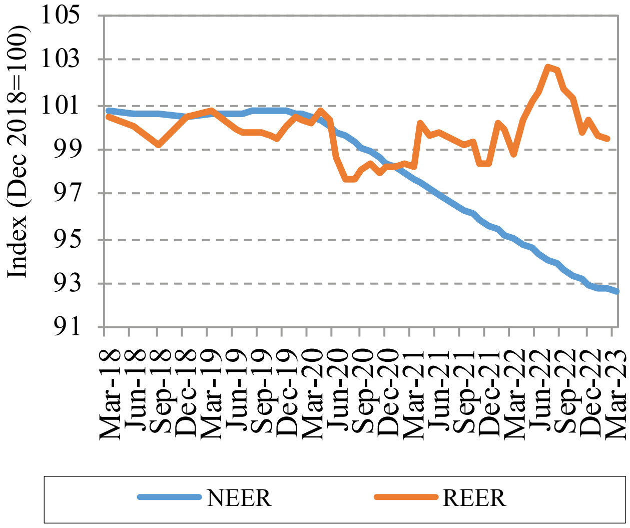


Source: Bank of Botswana

NEER depreciated in March 2023

The NEER of the Pula depreciated by 2.5 percent in the twelve months to March 2023 (Chart 3.19), consistent with the transition from the downward annual rate of crawl of 2.87 to a downward annual rate of 1.51 percent implemented in January 2023.

Chart 3.19: Nominal and Real Effective Exchange rates



Source: Bank of Botswana

REER depreciated in February 2023

The REER depreciated by 0.4 percent in the twelve months to February 2023 (Chart 3.19), because of a lower positive inflation differential between Botswana and the trading partner countries than the downward rate of crawl. With respect to bilateral movements against the Pula basket currencies, the real Pula exchange rate (using headline inflation) appreciated by 7 percent against the South African rand but depreciated by 6.1 percent against the SDR. The domestic currency depreciated by 10.2 percent against the US dollar, 7. 5 percent against the euro and 4.3 percent against the British pound, while it appreciated by 8.7 percent against the Japanese yen and 3.9 percent against the Chinese renminbi.

Box 4: The Pula Exchange Rate Framework Explained

Definition of Exchange Rate

The exchange rate of a currency is how much one currency can be bought for each unit of another currency or, put differently, the rate at which domestic currency can be converted into a foreign currency or vice versa.

Exchange Rate Policy Frameworks

The exchange rate policy framework refers to the way a country manages its own currency in relation to foreign currencies and the foreign exchange market.

Exchange rate policy frameworks range from flexible to fixed and variations in between. In a flexible exchange rate framework, the exchange rate is freely determined by the market on the basis of demand and sentiments about the economy. In a fixed exchange rate regime, the domestic currency is linked to another currency or a basket (combination) of other currencies. In between flexible and fixed exchange rates, there is a range of, usually managed, exchange rate frameworks, such as a crawling band or peg.

Botswana's Exchange Rate Policy Framework

Since 2005, Botswana adopted and implemented a crawling peg exchange rate policy framework that has three key attributes.

First, the Pula is fixed to a basket of foreign currencies, namely the Special Drawing Rights (SDR) and the South African rand. The SDR comprises the US dollar, British pound, euro, Japanese yen and Chinese renminbi.

Second, is the weight of these currencies in the Pula basket (proportions that each of these currencies contribute to the value of the Pula). Currently, the Pula exchange rate is constituted by 55 percent SDR and 45 percent South African rand.

Third, is the annual rate of crawl, which is the amount (rate) at which the exchange rate is allowed to gradually depreciate or appreciate. This amount reflects the projected inflation differential between Botswana and its trading partner countries. For example, 1.51 percent downward crawl for 2023; from the downward rate of crawl of 2.87 percent from May 2020 – December 2022).

Botswana's Exchange Rate Policy Objective

The policy objective is to maintain price competitiveness of local producers for similar products, in both the domestic and international markets by equalising the exchange rate-adjusted prices. In general, this is done through adjusting the nominal Pula exchange rate by an amount that is equal to the differences in projected inflation between Botswana and the trading partner countries. That is, **the rate of crawl.**

For example, if a bag of potatoes is currently P100 in Botswana and R130 in South Africa at an exchange rate of P1 = R1.30, and assuming transport costs are not embedded in the pricing, Botswana's producers face similar market price as South African producers and, therefore, competitive. If, however, inflation in Botswana rises to be 5 percentage points higher than in South Africa, Botswana producers will be disadvantaged as it would be cheaper to purchase the same bag of potatoes in South Africa, holding all other things constant. Therefore, the Pula exchange rate needs to adjust downward by 5 percent **(rate of crawl)** to maintain competitiveness of producers in Botswana; technically, maintenance of a stable real effective exchange rate (REER).

The exchange rate and competitiveness also have to relate to countries that Botswana trades with, in terms of goods and services, but also the flow of investments. It has been determined that these are mostly South Africa and the SDR countries (the USA, UK, euro area, China and Japan). This explains the fixing of the Pula to currencies of these countries. The 45 percent South African rand and 55 percent SDR proportions are based on observed historical trade pattern and are also subject to annual review. In addition, the fixing to a basket rather than a single currency helps to moderate volatility of the Pula against any single currency. This explains why during the times when the South African rand and other currencies are volatile, the Pula remains relatively stable.

2023 Pula Exchange Rate Parameters

In the context of Botswana's crawling band exchange rate arrangement for the Pula, the Ministry of Finance in conjunction with the Bank of Botswana, reviews the parameters for the Pula exchange rate twice in a year; being the currencies in the Pula basket and their weights, as well as the rate of crawl. This is done to assess alignment of the Pula exchange rate with the policy objective of maintaining a stable and competitive REER of the Pula; that is, retaining competitiveness of Botswana producers against imports and exports in international markets.

For 2023, it was determined that inflation in Botswana would be on average 1.51 percentage points higher than in the trading partner countries and, therefore, a 1.51 percent annual downward crawl would be implemented through small daily adjustments that would equal 1.51 percent over twelve months. It was also determined that the trade patterns remain largely unchanged and, therefore, maintained at 55 percent SDR and 45 percent South African rand.

The Benefits of the Crawling Band Framework for Botswana

The benefits of the current crawling band framework are therefore as follows:

a. it affords flexibility for adjustments to address deterioration in international price competitiveness of the domestic industry;
b. any adjustment is gradual and, therefore, not disruptive nor destabilising;
c. the rate of adjustment is preannounced and retained for a year and, therefore, enables planning for economic decisions;
d. the framework is broadly in alignment with the price stability objective (inflation objective inherent in the monetary policy framework; and
e. and the basket composition moderates fluctuations of the Pula exchange rate against any individual currency.

In contrast, alternative arrangements could have disadvantages as follows:

a. with a small undiversified economy such as Botswana with irregular and lumpy foreign exchange flows, a floating exchange rate regime would imply large exchange rate fluctuations that could be debilitating to price determination and economic activity. In addition, there could be sustained movement of the exchange rate, especially appreciation, that can undermine competitiveness of the non-mining sector and, therefore, diversification efforts;
b. as demonstrated in the past, a fixed hard peg would often require adjustments that are large and discrete with a destabilising disruptive impact. For example, a large devaluation with significant inflationary impact; and
c. a peg to a single currency would imply the Pula being subject to fluctuations and shocks to the currency to which it is pegged and, in turn, policy responses that may be inimical or inconsistent with the needs of the domestic economy at the time.

Limits of Exchange Rate Adjustments on Industry Competitiveness

While there are short-term benefits of deliberate exchange rate adjustments to maintain price competitiveness, for it to have the desired long-term impact, there should be adequate production capacity and productivity improvements by the domestic industry. In addition, for government institutions, there should be effective implementation of plans and programmes. Overall, therefore, there is need for generalised entrenchment and traction of structural transformation and policy reforms as being fundamental to industrialisation and productivity improvements that would enhance competitiveness of domestic producers in a low inflation environment.

It is recognised that, in the main, sustained (need for) downward adjustment of the currency is a reflection of weak production capacity and productivity of the economy; and is also inflationary (ultimately affecting price competitiveness).

Transparency and Market Information

The announcements of the Pula exchange rate parameters and any adjustments are intended to enhance transparency and integrity of the framework. In this regard, knowledge of the Pula basket weights, and rate of crawl enable the market and the general public to plan for investments and transactions on the basis of publicly available information that can be used as an input to any economic decisions.

4. THE ECONOMIC AND POLICY OUTLOOK

4.1 Global economic prospects

The global economic outlook remains broadly restrained and was revised slightly downwards for both 2023 and 2024 in the April 2023 WEO compared to the January 2023 projection. The downward revision is largely due to tightening financial conditions in most regions to contain elevated inflationary pressures, which continue to erode purchasing power. Furthermore, the restrained global output largely reflects the collapse of consumer and business confidence amid the unexpected failures of two specialised regional banks in the US in mid-March 2023. Regionally, in South Africa, growth is projected to remain subdued, mainly due to the extensive power shortages and tight monetary policy. With regard to price developments, global inflation is projected to moderate, although remaining high, due to rapid monetary policy tightening, squeezing of household budgets and waning COVID-19 pandemic-related fiscal support.

Global economic growth to slowdown

According to the April 2023 WEO, global output growth is forecast at 2.8 percent and 3 percent for 2023 and 2024, respectively, from an estimated expansion of 3.4 percent in 2022. The growth forecasts for 2023 and 2024 were both revised downwards by 0.1 percentage points compared to the January 2023 projection, largely reflecting challenging prospects for advanced economies, in part, due to lower consumer demand associated with higher inflation and borrowing costs, which have significantly eroded purchasing power. The downward revision is also on the backdrop of the anticipated governments' gradual withdrawal of fiscal policy support by scaling back packages designed to shield households and firms from the effects of the oil price spikes in 2022.

For advanced economies, output is projected to decline from an expansion of 2.7 percent in 2022 to 1.3 percent in 2023, mostly reflecting macroeconomic effects of elevated inflationary pressures and sharp tightening of global financial conditions, as well as weaker consumer demand and erosion of purchasing power. Meanwhile, about 90 percent of advanced economies are projected to experience a decline in growth in 2023. Output is forecast to expand by 3 percent in 2024.

Risks to the global economic outlook are assessed to be on the downside. These risks include uncertainty of the outlook as the global economy adjusts to a dual shock brought about by COVID- 19 and the Russia-Ukraine war, the recent financial sector turmoil, the possibility of systemic debt distress in emerging markets due to a combination of higher borrowing costs and lower growth, and possibility of stagflation thus, prompting further monetary policy tightening than currently anticipated.

UK economic growth to contract in 2023

The UK economy is forecast to contract by 0.3 percent in 2023 from an estimated expansion of 4 percent in 2022. The anticipated decline in output growth in 2023 reflects tighter fiscal and monetary policies and financial conditions, as well as high energy retail prices, which weigh on household budgets. Economic activity is forecast to expand by 1 percent in 2024, remaining below the pre pandemic levels.

Output growth for US to moderate

For the US, output is forecast to grow by 1.6 percent in 2023, a decline from an estimated expansion of 2.1 percent in 2022, before moderating further to an expansion of 1.1 percent in 2024. The 2023 projection is 0.2 percentage points higher compared to the January 2023 forecast, reflecting carryover effects from domestic demand resilience in 2022.

Growth for the euro area to moderate

In the euro area, economic growth is projected to moderate to 0.8 percent in 2023 (0.1 percentage points higher compared to the January 2023 forecast), from an expansion of 3.5 percent in 2022, reflecting the spill-over effects from the Russia-Ukraine war, with expected slowdown in economic activity among the bloc's largest economies. Meanwhile, GDP growth for the region is expected to improve to 1.4 percent in 2024 (0.2 percentage points lower than the forecast made in January 2023).

Emerging markets GDP growth expected to moderate

Economic activity in emerging market and developing economies is projected to moderate to 3.9 percent in 2023, a downward revision of 0.1 percentage points relative to the January 2023 WEO Updates, from an estimated expansion of 4 percent in 2022. The anticipated slowdown in economic activity in 2023 is mainly due to downward revisions of growth in large economies, particularly India and Brazil. Furthermore, less favourable external conditions, and the distress associated with aggressive tightening of financial conditions and monetary policy in advanced economies are projected to slowdown economic activity.

Output for China is forecast to grow by 5.2 percent in 2023, higher than the estimated expansion of 3 percent in 2022, largely due to the re-opening of the economy. In India, growth is expected to decline from 6.8 percent in 2022 to 5.9 percent in 2023, before picking up to 6.3 percent in 2024, due to resilient domestic demand.

Growth prospects for the South African economy remain weak

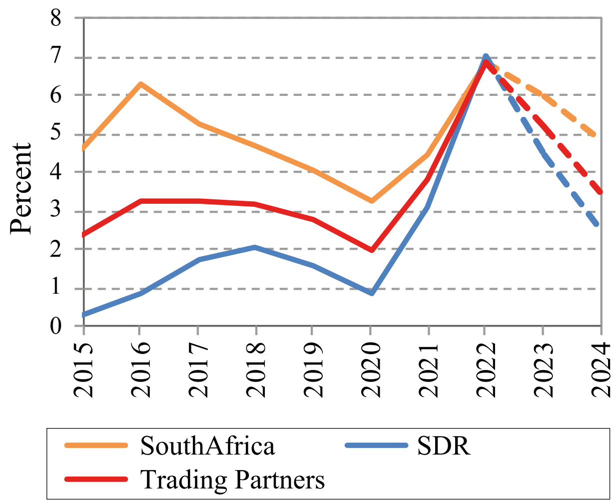
Growth prospects in South Africa are expected to remain restrained on account of tight monetary policy conditions to control inflationary pressures, restrained fiscal support, lingering supply bottlenecks, the long-standing power supply shortage crisis, as well as the grey listing of the economy by the Financial Action Task Force in February 2023. Thus, South African output growth is forecast to slow down to 0.1 percent in 2023, from 2 percent in 2022, and increase to 1.8 percent in 2024. The projection for 2023 is 1.1 percentage points lower than in the January 2023 WEO Update, but for 2024, it is higher by 0.5 percentage points. Meanwhile, in March 2023, the SARB revised forecasts for GDP growth for 2023 and 2024 to 0.2 percent and 1 percent, from 0.3 percent and 0.7 percent, respectively. The lower projection for 2023 was mostly due to a sharp rise in power blackouts, which continue to weigh on South African economic activity.

Global inflation to moderate

Globally, inflation is expected to moderate in 2023, although remaining high, supported by the rapid monetary policy tightening and squeezed household budgets and waning COVID-19 pandemic related fiscal support. Moreover, the projected disinflation emanates from expected lower commodity prices. Thus, inflation for advanced economies is forecast to decrease from 7.3 percent in 2022 to 4.7 percent in 2023, while for emerging market economies, it is forecast to ease from 9.8 percent to 8.6 percent in the same period. Overall, global inflation is expected to ease from 8.7 percent in 2022 to 7 percent in 2023, but to moderate to 4.9 percent in 2024.

Meanwhile, the SARB forecasts South African inflation to average 6 percent and 4.9 percent in 2023 and 2024, respectively. The forecast for 2023 is 0.6 percentage points higher than the January 2023 projection, and higher by 0.1 percentage points for 2024, due to projected higher food, fuel and electricity prices. Overall, inflation is anticipated to revert to within the SARB's 3 – 6 percent target range in the third quarter of 2023 (Chart 4.1).

Chart 4.1: South Africa and SDR Headline Inflation



Source: SARB and Bloomberg

Global diamond prices to slow down

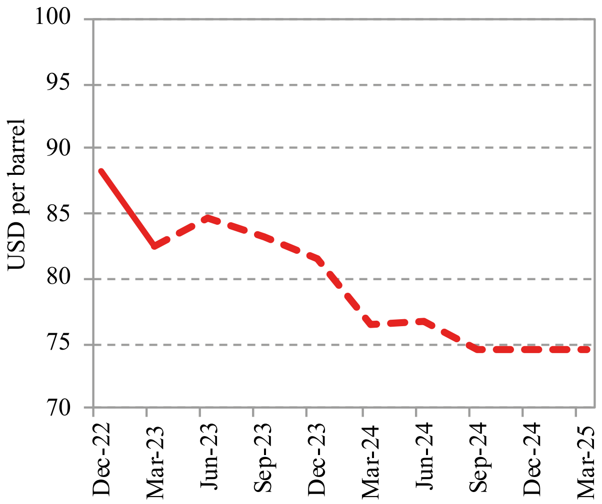
Diamond prices are expected to continue trending downwards in the short term due to the anticipated slowdown in economic activity and decreased demand for the commodity, amid uncertainty in the US market.

International oil and food prices to slow down but remain relatively high

International oil prices are projected to generally slow down into the medium term (Chart 4.2). The projected slowdown in oil prices considers weakening global demand outlook emanating from the effects of repeated interest rates hikes by major central banks to fight elevated inflation. Furthermore, increasing global oil inventories also contribute to falling crude oil prices, as the US Energy Information Administration forecasts global oil inventories to rise from the third quarter of 2023 and put downward pressure on crude oil prices. Meanwhile, the recent agreement of Organisation of the Petroleum Exporting Countries (OPEC) and its allies to voluntary cut daily production by 1.16 million barrels per day effective May 2023 to the end of 2023, is expected to exert marginal upward pressure on oil prices in the short term.

Overall, developments in the international oil market imply marginal downward pressure on domestic inflation in the short term.

Chart 4.2: International Oil Prices

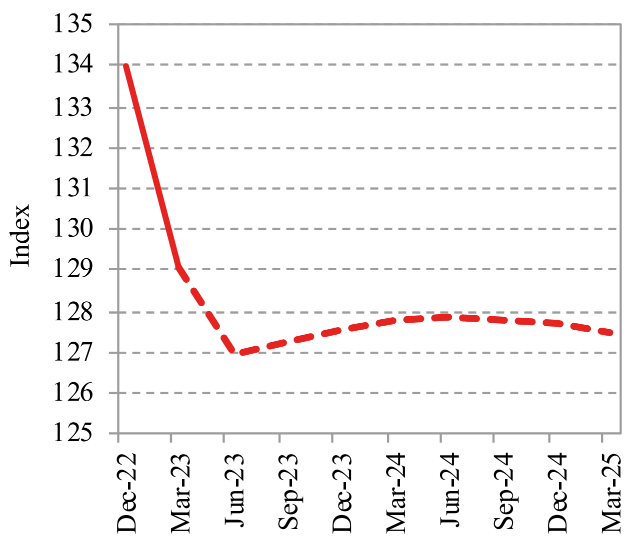


Source: Bloomberg

Global food prices are expected to trend downwards in the short term (Chart 4.3) and remain stable into the medium term. The anticipated decline in international food prices is driven by the projected increase in seasonal output from major producer countries, such as Argentina, Brazil and Canada. Furthermore, prospects for increased export supply from the signed grain deal between Ukraine, Russia, United Nations and Turkey, which was renewed in March 2023, as well as the expected easing of international oil prices as oil is used as input in food production, are also expected to add a downward pressure to international food prices.

In Southern Africa, food prices are expected to decrease in the short term due to anticipated good climatic conditions brought about by good rainfall experienced during the 2022/23 ploughing season, but the risks associated with bad climatic conditions, such as the impact of Cyclone Freddy are noted. Overall, there is potential downward pressure from international food prices on domestic inflation in the short term.

Chart 4.3: International Food Prices FAO Index



Source: Bloomberg

4.2 Outlook for domestic economic activity

According to the Ministry of Finance, GDP is expected to grow by 4 percent and 5.1 percent in 2023 and 2024, respectively. The economy is anticipated to continue operating below its potential into the medium term. However, economic recovery will be supported by the prevailing accommodative monetary conditions, improvements in some non-mining sectors, such as water and electricity and finance, insurance and pension funds; reforms to further improve the business environment; and government interventions against COVID-19 and the expansionary fiscal policy, among others.

Output growth to moderate in 2023

Ministry of Finance estimates GDP to grow by 4 percent and 5.1 percent in 2023 and 2024, respectively. Growth in both periods is attributable to the continued recovery of mining activity. It is also anticipated that performance of the non-mining sectors will improve, underpinned by, among others, improvements in electricity and water supply, as well as finance, insurance and pension funds sectors. Furthermore, government interventions to mitigate the impact of COVID-19, as well as implementation of the ERTP and the potentially expansionary two-year TNDP are anticipated to restore economic activity and improve incomes, facilitate expansion of productive capacity, accelerate economic transformation and build economic resilience. However, given the downside risks to global economic activity, including the possible resurgence of COVID-19, weaker global demand and adverse impact of the Russia-Ukraine war, the growth trajectory remains uncertain.

The Bank's March 2023 Business Expectations Survey (BES) indicates that firms' level of optimism about business conditions is the same as in the previous survey (December 2022). Firms expect cost pressures to be subdued in the first quarter of 2023, attributable to the relatively lower fuel prices. In addition, firms expect GDP to have expanded by 3.1 percent in the first quarter of 2023, in line with the anticipated improvement in the performance of sectors such as mining and quarrying, and manufacturing. Overall, non-mining economic activity is anticipated to improve in the short term although continuing to operate below potential into the medium term. The below output trend is also consistent with the high unemployment rate (25.4 percent as at the fourth quarter of 2022) and restrained growth in real wages.

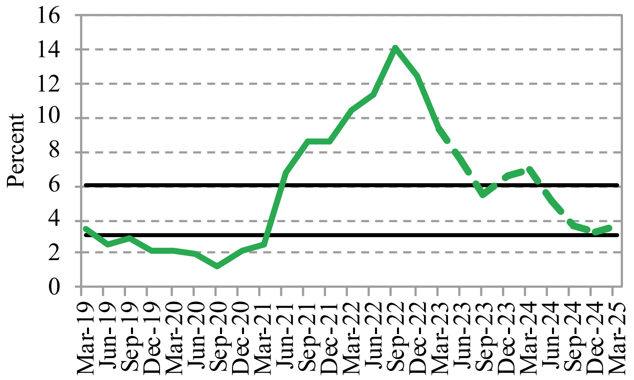
4.3 Monetary policy and the inflation outlook

Inflation is forecast to temporarily revert to within the Bank's 3 – 6 percent objective range in the third quarter of 2023 and breach the upper bound from the fourth quarter of 2023 to the first quarter of 2024. The breach is due to base effects associated with the decrease in domestic fuel prices in the corresponding quarters in 2022 and 2023. However, inflation is expected to revert to within the objective range on a sustained basis from the second quarter of 2024. The inflation forecast has been revised slightly downwards over the forecast horizon compared to the February 2023 forecast.

Inflation is projected to generally trend downwards in the near to medium term

Inflation is projected to remain above the objective range in the short term, mainly because of the impact of supply-side factors. Nonetheless, inflation is expected to generally trend downwards, mainly due to the dissipating impact of the earlier increases in administered prices, recent reduction in domestic fuel prices, subdued domestic demand, current monetary policy posture, projected appreciation of the Pula against the South African rand, the expected decrease in trading partner countries' inflation and international commodity prices, as well as tightening global financial conditions. Therefore, inflation is expected to revert to within the objective range on a sustained basis from the second quarter of 2024 (Chart 4.4).

Chart 4.4: Botswana Headline Inflation Forecast

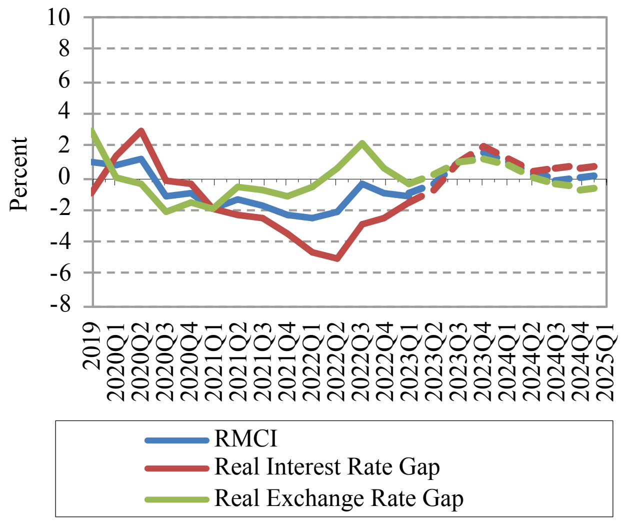


Source: Bank of Botswana

The projection considers the anticipated positive growth in domestic output in response to the prevailing accommodative monetary conditions (Chart 4.5); the increase in domestic fuel prices effected on March 1, 2023; the reversal of VAT to 14 percent from 12 percent; VAT zero rating of a select number of items in the CPI basket[10]; the possible increase in electricity tariffs in April 2023 and April 2024; the expected impact of the recent increase in Kalahari Brewery limited (KBL) alcoholic beverage prices effected February 1, 2023; the strengthening of the Pula against the South African rand; and the base effects associated with adjustments in administered prices.

The increase in domestic fuel prices on March 1, 2023, is expected to increase inflation by approximately 0.56 percentage points in the first quarter of 2023. Similarly, the reversal of VAT is expected to increase inflation by approximately 0.5 percentage points in April 2023, whereas zero rating of a select number of items in the CPI basket is anticipated to reduce inflation by 0.22 percentage points in the same period. Moreover, the proposed increases in electricity tariffs are anticipated to add approximately 0.30 percentage points to inflation in the second quarters of 2023 and 2024. The expected impact of the increase in KBL products prices is likely to be gradual between the first and second quarter of 2023, with a cumulative impact of 0.81 percentage points to inflation. The April 2023 inflation projection is consistent with the December 2022 BES, which indicates that the business community expects inflation (on average) to remain above the Bank's objective range in 2023 at 9.6 percent.

Chart 4.5: Real Monetary Conditions



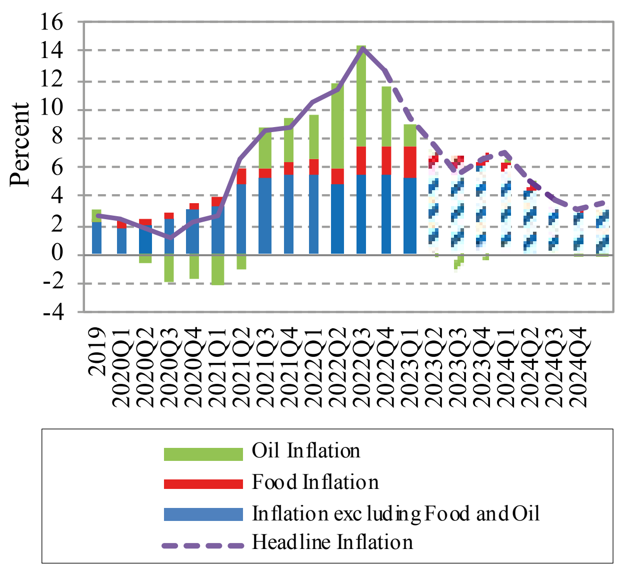
Source: Bank of Botswana

[10] The Government proposed VAT zero rating of cooking oil, liquid petroleum gas, salt, baby diapers, infant formula (not in the CPI basket), sanitary pads and private medical facility services.

Core inflation to remain high in the short term

Inflation, excluding food and fuel prices, is forecast to remain high in the short term, on account of the second-round effects of the increase in administered prices. Nonetheless, core inflation is expected to decline in the medium term, mainly because of the dissipating impact of the upward adjustment in administered prices in 2022 from the inflation calculation (Chart 4.6).

Chart 4.6: Headline Inflation and its Components

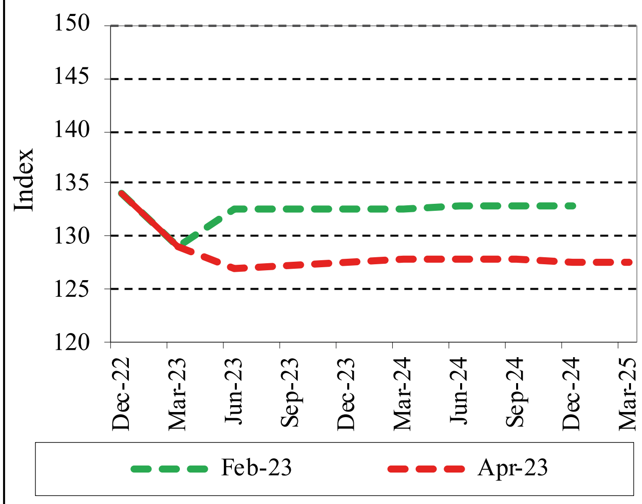


Source: Bank of Botswana

International food prices revised downwards

Compared to the February 2023 forecast, international food prices have been revised downward in the forecast horizon (Chart 4.7). The downward revision reflects, in part, increased seasonal output of major producer countries, prospects for increased export supply from the signed grain deal between Ukraine, Russia, United Nations and Turkey, which was renewed in March 2023 and the expected easing of international oil prices, as oil is used as input in food production.

Chart 4.7: International Food Prices FAO Index

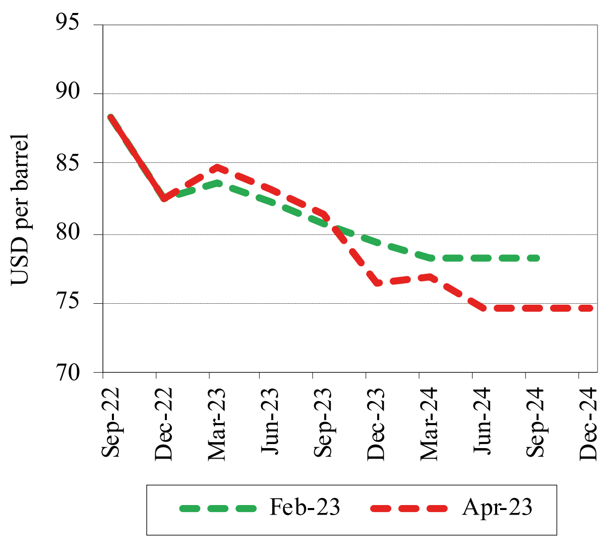


Source: Bloomberg

International oil prices revised downwards in the medium term

Relative to the February 2023 projection, international oil prices have been slightly revised upwards in the near term (Chart 4.8), reflecting the recent decision by OPEC and allies to cut crude oil production. However, international oil prices have been revised downwards in the medium term due to weakening global demand outlook emanating from the effects of repeated interest rates hikes by major central banks to fight elevated inflation. Furthermore, increasing global oil inventories also contribute to falling crude oil prices, as the US Energy Information Administration forecasts global oil inventories to rise from the third quarter of 2023 and put downward pressure on crude oil prices.

Chart 4.8: International Oil Prices



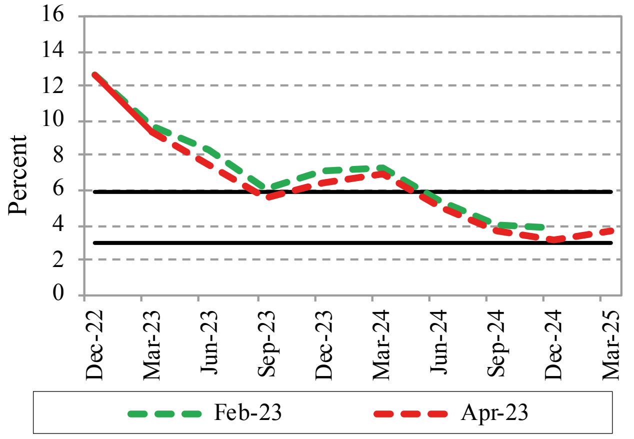
Source: Bloomberg

Overall, developments with respect to international oil and food prices imply downward pressure on domestic inflation.

Inflation forecast revised slightly downwards over the forecast horizon

Compared to the February 2023 forecast, domestic inflation is projected to be slightly lower over the forecast horizon, due to the downward revision of international commodity prices, projection of an appreciation of the Pula against the South African rand than the previous forecast, VAT zero rating of a select number of items in the CPI basket effective April 1, 2023 and the decision to suspend the increase in BHC rental prices for 2023 and 2024(Chart 4.9).

Chart 4.9: Botswana Headline Inflation Revision



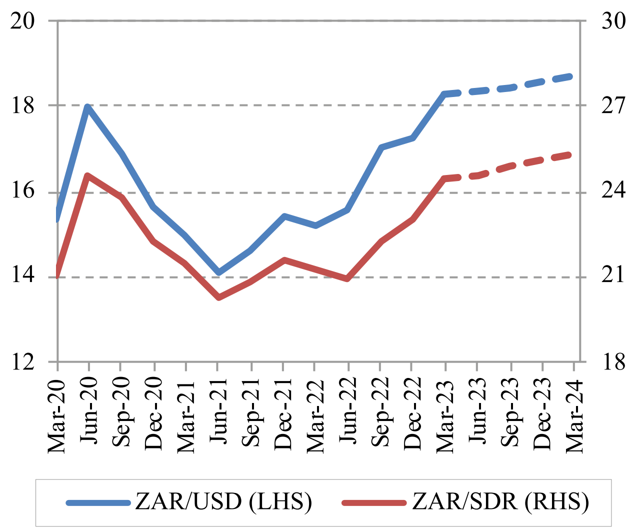
Source: Bank of Botswana

Exchange rate movements

The Pula exchange rate is determined by the performance of the Pula basket currencies and the rate of crawl. Once the basket composition and the rate of crawl (based on inflation differentials) have been determined, the daily changes in the value of the Pula against other currencies are a result of movements in the cross rates of the South African rand and the SDR constituent currencies against each other, and their relative weights in the composite currency basket.

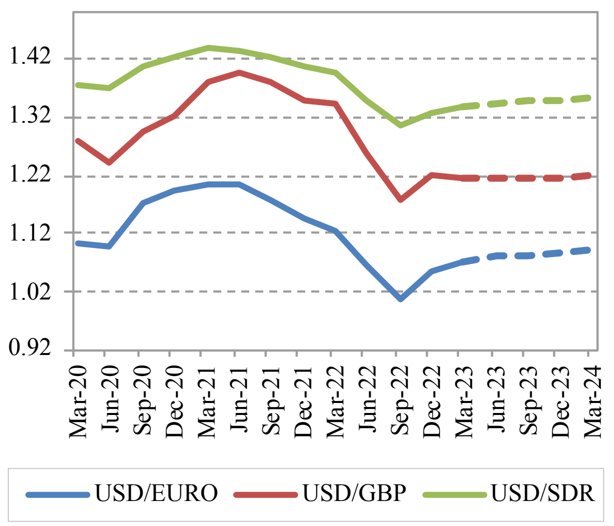
The South African rand is expected to depreciate against the US dollar and the SDR in the next four quarters (Chart 4.10) due to poor economic fundamentals (weak economic growth outlook, high public debt, and high budget deficit), power supply constraints, as well as poor-performing state-owned enterprises. These factors are expected to limit the growth of domestic economic output in the forecast period and lead to a technical recession in the first quarter of 2023 and, consequently, dampen investor confidence for South African assets. Meanwhile, uncertainty over the developments of the Russia-Ukraine war, fears of a global economic slowdown on the back of high inflation and aggressive monetary policy tightening in most major economies, as well as unfavourable changes in investor sentiment towards emerging market assets (of which the South African rand is part) are expected to continue putting pressure on the South African rand. However, the South African rand is expected to be supported by expectations of continued monetary policy tightening by the SARB to curb high inflation.[11]

Chart 4.10: ZAR against USD and SDR



Source: Bloomberg

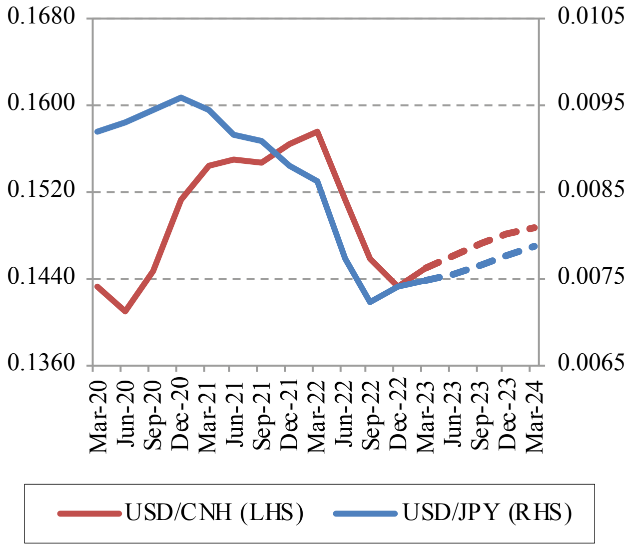
Chart 4.11A: Exchange Rates against USD



Source: Bloomberg

[11] South Africa's annual inflation rate edged up to 7 percent in February 2023, from 6.9 percent in the prior month, the first rise since October 2022, while markets had expected it to remain steady at 6.9 percent.

Chart 4.11B: Exchange Rates against the USD



Source: Bloomberg

The US dollar is expected to slightly depreciate against most major international currencies in the next four quarters (Chart 4.11A and Chart 4.11B) on the back of heightened uncertainty on the US economic outlook and risks posed by the recent US banking crisis, which is expected to raise cost of funding for businesses and tighten the availability of credit, with ripple effects on the labour market and economic growth. However, global uncertainty emanating from the geopolitical conflict between Russia and Ukraine and fear of a global recession, as well as the anticipated Fed's aggressive monetary policy tightening is likely to influence investors to hold the world's most liquid currency, the US dollar, thus affecting this forecast.

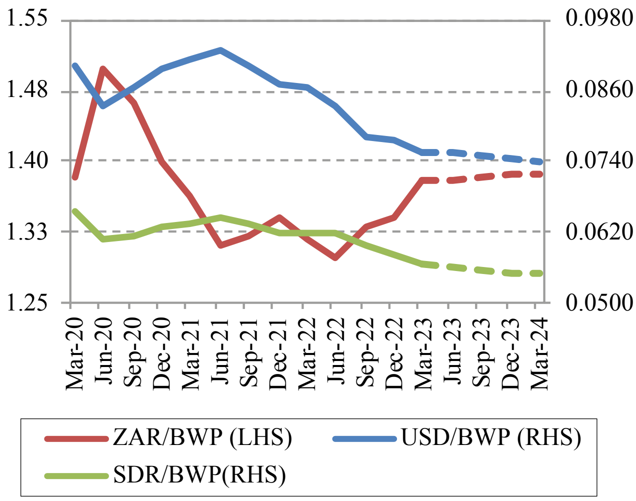
The British pound is expected to appreciate marginally against the US dollar (Chart 4.11A) as the Bank of England (BoE) is expected to increase the pace of its monetary policy tightening in 2023, amid the country's annual inflation rate unexpectedly increasing to 10.4 percent in February 2023, from 10.1 percent in January 2023, remaining above the BoE's 2 percent target. Meanwhile, the euro is also anticipated to appreciate against the US dollar as the ECB interest rate increases are starting to take effect on the economy. The annual inflation rate in the euro area decreased to 8.5 percent in February 2023, from 8.6 percent in the previous month, the lowest since May 2022, but well above the ECB's target of 2 percent, bolstering expectations that the ECB will continue its monetary policy tightening.

The Japanese yen is expected to appreciate against the US dollar, due to its safe-haven status, prompted by increasing investors risk aversion amid uncertainty on the US economic outlook and risks posed by the recent US banking crisis. However, the BoJ maintained ultra-low interest rates and signalled its commitment to keep monetary policy accommodative despite a global shift toward tighter monetary settings.

The Chinese renminbi is expected to appreciate against the US dollar in the next four quarters (Chart 4.11B), as the removal of COVID-19 restrictions is expected to encourage capital inflows and boost China's economic recovery in 2023.

Overall, forecast movements of other SDR constituent currencies imply a marginal appreciation of the SDR against the US dollar (Chart 4.11A). The anticipated depreciation of the South African rand against the SDR is expected to result in a depreciation of the Pula against the SDR constituent currencies in the forecast horizon (Chart 4.12). However, the Pula is expected to appreciate against the South African rand in the forecast horizon. The projected appreciation of the Pula against the South African rand is expected to exert marginal downward pressure on domestic inflation.

Chart 4.12: BWP Exchange Rates against ZAR, USD and SDR



Source: Bloomberg and BoB calculations

Risks are skewed to the upside

Overall, risks to the inflation outlook are assessed to be skewed to the upside. These risks include the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints due to lags in production; the adverse economic and price effects of the ongoing Russia-Ukraine war; the uncertain COVID-19 profile; and the ongoing tension between China and the United States over South China Sea and Taiwan. On the domestic front, the risks for higher inflation than currently projected relate to possible annual adjustments in administered prices that are not factored in the current projection; entrenched expectations for higher inflation; any realised upward pressure on wages; short-term consequences of import restrictions; and prospective fiscal developments, namely implementation of the potentially expansionary two year TNDP, and any unwarranted overshooting of prices in the advent of reversion of the VAT to 14 percent (from 12 percent) in the second quarter of 2023. These risks are, however, moderated by the possibility of weak domestic and global economic activity, possible disinflationary effects of the recent banking system problems in the United States and Switzerland, as well as restrained international commodity prices.

Box 5: Bank of Botswana (Amendment) Act, 2022

In July 2022, Parliament passed the Bank of Botswana (Amendment) Act, 2022 (the Act), which introduces new provisions to enhance the Bank's powers to achieve the price and financial stability mandates. The new changes are discussed below.

Dual Mandate for the Bank of Botswana

Section 4 (2) of the Act incorporates a financial stability mandate for the Bank in addition to the primary mandate of maintaining price stability. Under the new legislation, the primary objective of the Bank shall be to achieve and maintain domestic price stability. Subject to attaining its primary mandate, the Bank shall contribute to the stability of the financial system and foster and maintain a stable, sound and competitive market-based financial system. In addition to making explicit the twin-mandates of the Bank, the provision further endows the Bank with operational independence in pursuit of its primary objectives, and in the performance of its functions under the Act.

Revised Composition of the Monetary Policy Committee

One of the major changes in the Act is the establishment of a statutory Monetary Policy Committee (MPC) under section 19 A of the Act. The MPC shall be composed of 9 members, being the Bank of Botswana Governor, deputy Governors, head of department responsible for economic research and head of department responsible for treasury operations and 4 external members, with relevant skills and knowledge on the functions of the MPC, appointed by the Minister of Finance.

Establishment of a Statutory Financial Stability Council

Section 54 B of the amended Act establishes Financial Stability Council (FSC), which shall be responsible for preserving the stability of the financial system; ensuring cooperation between members with respect to the assessment of the build-up of economic and financial sector systemic risks in Botswana; developing coordinated policy responses to risks including crisis management; and making recommendations, issuing warnings or opinions addressed to regulatory bodies regarding financial institutions. The FSC shall comprise the Governor, who shall be the Chairman, the Permanent secretary in the Ministry responsible for Finance, Chief Executive Officer of the Non-Bank Financial Institutions Regulatory Authority, Director of the newly established Deposit Insurance Scheme for Botswana, and the Director General of the Financial Intelligence Agency. The FSC was previously established through a memorandum of understanding between participating institutions.

Provision for the Establishment of a Deposit Insurance Scheme

Section 43 A of the amended Act provides for the establishment of a Deposit Insurance Scheme to provide insurance against loss of part or all insured customer deposits in a bank. The Deposit Insurance Scheme shall be established and operate in a manner that will contribute to the stability of the financial system in Botswana and minimise exposure to loss for customers.

Box 6: Central Bank Communication on Monetary Policy

The Bank, like most other central banks, recognises the importance of communication in sustaining and reinforcing transparency, predictability, and accountability with respect to the policy framework and actions; thus, fostering market participation, influencing expectations, policy credibility and, consequently, policy transmission. The Bank's communication function has evolved with the establishment of the Communications and Information Services Division, which deals with media relations, public education, the Knowledge Centre (Library), administration of the Bank's website (dissemination of Bank's information), social media platforms (Facebook and Twitter) and records management. A Communications Policy (approved in 2020) was developed to provide a framework for effective coordination of communication activities and dissemination of information. These efforts are aimed at enhancing understanding of the Bank's mandate and role in the economy by the public.

Through the Monetary Policy Statement, published at the beginning of the year, the Bank informs stakeholders about the framework for the formulation and implementation of monetary policy, where inflation trends and policy performance are reviewed and the policy choices for the ensuing year are articulated. The MPR was introduced in August 2018 and presents the Bank's review of economic and inflation trends, as well as policy performance. The report also provides an assessment of external and domestic economic and financial developments likely to influence the inflation path in the medium term and, in turn, the Bank's future policy choices. In this respect, the MPR promotes an understanding of the conduct of monetary policy to anchor public expectations of a low, predictable, and sustainable level of inflation. Furthermore, the Bank publishes the MPC meeting dates for the year ahead and the Governor delivers a statement at a press briefing subsequent to each meeting of the MPC to allow for engagement with the media and dissemination of the Bank's policy stance. Following each MPC meeting, a Press Release is issued, informing the public of the Committee's decision regarding the Bank Rate and the reasons for the policy choice.

However, it is worth noting that as new communication technologies increasingly disintermediate traditional media by allowing for new ways of interaction, comprehension of the whole communication process - from the central bank at the sending end, the intermediation and interpretation of central bank messages through markets, media, and analysts, to the perception thereof by the recipients - becomes a crucial input into policy decisions. Thus, the Bank's communication is expected to adapt to these developments in pursuit of openness and transparency, and to enhance the effectiveness of policy transmission.

5. APRIL 2023 MONETARY POLICY COMMITTEE DECISION

At the meeting held on April 27 and 28, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 percent.

Inflation decreased from an average of 12.6 percent in the fourth quarter of 2022 to an average of 9.4 percent in the first quarter of 2023 but remaining above the Bank's medium-term objective range of 3 – 6 percent. The decrease in inflation is due to the base effects associated with the increase in administered prices in the corresponding period in 2022, as well as the impact of the downward adjustment of domestic fuel prices in the first quarter of 2023. The MPC projects that, while it will fluctuate, inflation will trend downwards and fall within the objective range in the second 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 (base effects); lower fuel prices; modest domestic demand; current monetary policy posture; increase in interest rates and constrained supply of credit globally (tightening financial conditions); expected decrease in global inflation and international commodity prices; as well as the projected appreciation of the Pula against the South African rand.

Inflation could be higher than projected because of the likelihood of an increase in international commodity prices beyond current forecasts, persistence of supply and logistical constraints, as well as reversal of global economic integration (geoeconomic fragmentation) that may lead to higher inflation. Domestically, the risks of higher inflation include possible adjustment in administered prices that are not factored in the current projection; entrenched expectations for higher inflation; any realised upward pressure on wages; and any, overshooting of prices beyond what is consistent with the reversion of value added tax to 14 percent effective April 1, 2023. These risks are, however, moderated by the possibility of weak domestic and global economic activity; possible disinflationary effects of tighter monetary policy globally; as well as restrained international commodity prices.

According to the April 2023 World Economic Outlook, growth in global output for 2022 is estimated at 3.4 percent and is forecast to moderate to 2.8 percent in 2023, rebounding to 3 percent in 2024. South African real gross domestic product (GDP) grew by 2 percent in 2022. The South African Reserve Bank expects growth to weaken to 0.2 percent in 2023 but to improve to 1 percent in 2024. For Botswana real gross domestic product (GDP) increased by 5.8 percent in 2022 lower than 11.9 percent recorded in 2021. The Ministry of Finance projects GDP to grow by 4 and 5.1 percent in 2023 and 2024, respectively.

The MPC notes the growth-enhancing economic transformation reforms and supportive macroeconomic policies being implemented. These include accommodative monetary conditions, improvement in water and electricity supply, implementation of the Transitional National Development Plan and reforms to further improve the business environment. Against this background, enhanced productivity, innovation, and the resultant international competitiveness of domestic firms could contribute to lower domestic inflation.

The MPC projects that, in addition to the dissipating impact of administered prices, the economy will operate below full capacity in the short-to-medium term and, therefore, not generate demand-driven inflationary pressures. Thus, inflation is projected to trend downwards and revert to the objective range in medium term. Therefore, the MPC decided to maintain the MoPR at 2.65 percent.

Accordingly,

a. the 7-day Bank of Botswana Certificates including repos and reverse repos will be conducted at the MoPR of 2.65 percent;
b. the Standing Deposit Facility (SDF) Rate is maintained at 1.65 percent, 100 basis points below the MoPR; and
c. the Standing Credit Facility (SCF) Rate remains at 3.65 percent, 100 basis points above the MoPR.

The remaining MPC meetings for 2023 are scheduled as follows:

June 15, 2023

August 24, 2023

October 26, 2023

December 7, 2023

Annex: Inflation Forecast Summary for April 2023 MPC Meeting

	Actual						Forecast									
	2022					2023	2023				2024					2025
	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1
Inflation	10.4	11.4	14.2	12.6	12.2	9.4	7.5 (8.3)	5.5 (6.1)	6.5 (7.1)	7.2 (7.7)	6.9 (7.3)	5.1 (5.4)	3.7 (4.1)	3.2 (3.9)	4.7 (5.2)	3.6 (4.3)

Note: Figures in parentheses represent the previous MPC forecast (February 2023)

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

Domestically

1. The zero rating of a select number of items in the consumer price index basket effective April 1, 2023
2. The decision to suspend the increase in rental prices by Botswana Housing Corporation for 2023 and 2024

Externally

1. Downward revision of international commodity prices
2. The projected appreciation of the Pula against the South African rand

NOTE

NOTE