



Press Release

Monetary Policy Committee Meets

February 26, 2020

Bank Rate unchanged at 4.75 percent

At the meeting held on February 26, 2020, a day after the publication of the 2020 Monetary Policy Statement, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 4.75 percent. Inflation was constant at 2.2 percent between December 2019 and January 2020, remaining below the Bank's objective range of 3 – 6 percent. Inflation is forecast to revert to within the objective range in the second quarter of 2020 and into the medium term.

The downward rate of crawl of 1.51 percent on the nominal effective exchange rate that is being implemented in 2020, the increment in public service salaries for 2020/21, and the likely upward adjustment in administered prices in the second quarter of 2020, should exert some upward pressure on inflation. Notwithstanding, the MPC concluded that domestic demand pressures on inflation will remain subdued and, also, the increase in foreign prices modest. The outlook for inflation, therefore, remains positive. This outlook is subject to upside risks emanating from the potential rise in administered prices and government levies and/or taxes, beyond current forecasts. However, lower growth in global economic activity, the recent outbreak of Covid-19 (coronavirus) which may further dampen global economic growth, technological progress and productivity improvement present downside risks to the outlook.

Real Gross Domestic Product (GDP) grew by 3.7 percent in the twelve months to September 2019, compared to a faster growth of 5 percent in the year to September 2018. The lower increase in output is mainly attributable to a significant deceleration in output growth of the mining sector. Growth in non-mining GDP also slowed in the review

period. Mining output grew by 1.6 percent in the year to September 2019, compared to a faster increase of 4.1 percent in the corresponding period in 2018, mainly due to a smaller increase in diamond production; 2.1 percent compared to 3.2 percent in the previous year. Non-mining GDP grew by 4 percent in the year to September 2019, compared to 5.1 percent in the corresponding period in 2018. The lower expansion in non-mining GDP was largely due to slower growth in the trade, hotels and restaurants sector, mainly attributable to a contraction of 9.2 percent in the wholesale sub-sector, associated with weaker performance of the diamond cutting and polishing firms.

Projections by Government indicate that domestic economic activity will expand by 3.6 percent and 4.4 percent in 2019 and 2020, respectively. The main drivers for output growth in 2020 are the expected recovery of mining and anticipated improvement in global economic activity. Furthermore, it is anticipated that the ongoing structural reforms, such as improving the ease of doing business and concerted efforts channelled towards the transformation of the economy, should also be supportive of economic activity. Overall, the economy is projected to operate close to, but below full capacity in the short to medium term, thus not adding to inflationary pressures.

Global output growth is estimated at 2.9 percent in 2019, lower than the estimated 3.6 percent expansion in 2018, with uneven performance across countries and regions. In general, global economic performance and sentiment were negatively affected by trade tensions between the US and China as well as uncertain prospects for Brexit, weighing down on trade and investment. Overall, global output is expected to expand modestly by 3.3 percent in 2020. The projected recovery, mainly driven by emerging markets and developing economies, remains precarious with elevated downside risks due to possible escalation in geopolitical tension, intensification of social unrest, uncertain trade relations and the outbreak of coronavirus. Regionally, economic activity in South Africa remains subdued and the South African Reserve Bank projects GDP growth rates of 0.4 percent and 1.2 percent in 2019 and 2020, respectively.

The current state of the economy and the outlook for both domestic and external economic activity suggest that the prevailing monetary policy stance is consistent with inflation being within the objective range of 3 – 6 percent in the medium term. Consequently, the MPC decided to maintain the Bank Rate at 4.75 percent.

The Monetary Policy Statement containing a full update of the Bank's outlook for the domestic economy and inflation was published on the Bank's website yesterday (February 25, 2020). The remaining MPC meetings for 2020 are scheduled as follows:

April 30, 2020

June 18, 2020

August 20, 2020

October 8, 2020

December 3, 2020