



Press Release

Monetary Policy Committee Meets

22 August 2024

Monetary Policy Rate cut to 1.9 percent

At the meeting held on 22 August 2024, the Monetary Policy Committee (MPC) of the Bank of Botswana reduced the Monetary Policy Rate (MoPR) by 25 basis points from 2.15 percent to 1.9 percent.

ECONOMIC ENVIRONMENT

Since the last MPC meeting, data released by Statistics Botswana shows weaker growth than previously forecast due to factors that include the impact of lower external demand for mining sector production (especially diamonds) and weaker performance of the non-mining sectors. This has led to reduced export earnings, especially from diamond sales, which is likely to constrain government spending and its impact on economic activity.

As reported, real gross domestic product (GDP) declined by 5.3 percent in the first quarter of 2024, compared to a growth of 5.3 percent in the same quarter in 2023. Meanwhile, economic activity remained restrained in the second quarter of 2024.

According to the July 2024 World Economic Outlook Update, global output growth is forecast at 3.2 percent for 2024, slightly lower than 3.3 percent in 2023 and to

increase marginally to 3.3 percent in 2025. For Botswana, the International Monetary Fund has revised GDP growth for 2024 downwards to 1 percent, from an earlier estimate of 3.6 percent, partly due to the downturn in the diamond industry performance, given weak global demand and high inventories.

INFLATION

As reported by Statistics Botswana, headline inflation was 3.7 percent in July 2024. The MPC forecasts inflation to remain low into the medium term, averaging 3 percent in 2024, 3.2 percent in 2025 and 4.7 percent in 2026. The risks to this inflation trajectory were assessed to be balanced.

Furthermore, as previously indicated, the MPC observes that inflation could be higher than projected if international commodity prices increase beyond current forecasts, if supply and logistical constraints persist and geoeconomic fragmentation escalates. Furthermore, inflation may be heightened by possible upward adjustment in prices controlled by government (administered prices) that are not factored in the current projection and any increase in domestic food prices due to the prevailing El Niño induced drought conditions in Southern Africa. However, these upward risks are offset by likelihood of continued weaker domestic and global economic activity, as well as any decrease in international commodity prices.

DECISION

The MPC notes that despite the commitment by government to stimulate non-mining sectors through potential growth-enhancing economic transformation reforms, initiatives and supportive macroeconomic policies, the prospects for significant economic growth are still not visible. Therefore, the MPC projects that the economy will continue to operate below full capacity into the medium term and should not generate demand-driven inflationary pressures. Thus, inflation is forecast to remain low and within the objective range into the medium term, averaging 3 percent in 2024, 3.2 percent in 2025 and 4.7 percent in 2026. Similarly, businesses also expect inflation to be within the medium-term objective range;

thus, inflation expectations are aligned to the inflation objective (well anchored). As a result, the current economic conditions and the outlook for both domestic and external economic activity provide scope to ease monetary policy. Consequently, the MPC decided to reduce the MoPR by 25 basis points to 1.9 percent.

Accordingly,

- (a) the 7-day Bank of Botswana Certificates auctions, repos and reverse repos will be conducted at the MoPR of 1.9 percent;
- (b) the Standing Deposit Facility (SDF) Rate is reduced to 0.9 percent, 100 basis points below the MoPR; and
- (c) the Standing Credit Facility (SCF) Rate reduces to 2.9 percent, 100 basis points above the MoPR.

MEETINGS OF THE MPC

The next MPC meetings for 2024 are scheduled as follows:

31 October 2024

5 December 2024

Note to Editors

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

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

Annex: Inflation Forecast Summary for August 2024 MPC Meeting

	Actual					Forecast									
	2023			2024		2024			2025					2026	
	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2	Q3	Q4	Annual Average	Q1	Q2
Inflation	2.0	3.5	5.2	3.6	3.0	3.2	2.1	3.0	2.2	3.0	3.6	4.0	3.2	4.4	4.6
						(4.0)	(3.2)	(3.5)	(3.7)	(4.4)	(4.8)	(5.1)	(4.5)	(5.3)	(5.4)

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

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

Domestically

Lower outturn of the 2024Q2 inflation than previously projected (3.5 percent).

Externally

Downward revision in forecasts for international food prices and South Africa's inflation forecasts.