



Press Release

Monetary Policy Committee Meets

April 30, 2020

Bank Rate cut to 4.25 percent

At the meeting held on April 30, 2020, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to reduce the Bank Rate by 50 basis points from 4.75 percent to 4.25 percent and the primary reserve requirement (PRR) from 5 percent to 2.5 percent. Inflation was unchanged for the fourth consecutive month at 2.2 percent in March 2020, remaining below the lower bound of the Bank's desired medium-term objective range of 3 – 6 percent. Inflation is forecast to revert to within the objective range in the fourth quarter of 2020. This represents a significant downward revision compared to forecasts contained in the February 2020 Monetary Policy Statement.

The COVID-19 pandemic and consequent containment measures have severely curtailed economic activity globally and domestically as production, supply chains, project implementation and provision of goods and services are halted. Similarly, consumption and spending are disrupted, hence domestic demand pressures and foreign prices remain subdued. Consequently, overall risks to the inflation outlook are skewed to the downside, taking into account weak domestic and global economic activity and likely decrease in international commodity prices. However, inflation may rise above current forecasts if international commodity prices increase beyond current projections and in the event of upward price pressures occasioned by supply constraints due to travel restrictions and lockdowns.

Real Gross Domestic Product (GDP) grew by 3 percent in 2019, compared to a faster growth of 4.5 percent in 2018. The lower increase in output was mainly attributable to a

contraction in mining output as well as a deceleration in non-mining GDP growth. Mining output contracted by 3.9 percent in 2019, compared to a faster increase of 7.9 percent in 2018, mainly due to weaker performance of the diamond, soda ash, copper and coal sub-sectors. Non-mining GDP grew by 3.8 percent in 2019, compared to 4.1 percent in 2018. The slower expansion in non-mining GDP was mainly due to a deceleration in output growth of the manufacturing, construction, transport and communications, and social and personal services sectors.

Projections by both the Ministry of Finance and Economic Development (MFED) and the International Monetary Fund (IMF) suggest a sharp deterioration in economic growth for Botswana in 2020. In the April 2020 World Economic Outlook, the IMF forecast GDP to fall by 5.4 percent this year, before rebounding to 6.8 percent in 2021, while the MFED estimates that the economy will contract by 13.1 percent, and rebound to a 3.9 percent growth in 2021. This wide range of forecasts attest to the challenges of making forward projections where there is uncertainty about the duration of constrained economic activity, the resultant damage to productive capacity, as well as the speed of resumption of production and pace of recovery in demand.

Broadly, the contraction in GDP reflects the substantial curtailment of economic activity due to the necessary global and domestic measures implemented to contain the spread of COVID-19 and safeguard human life. The resultant decrease in global demand and disruption in supply chains, as well as curtailed economic activity locally, has affected several sources of economic growth for Botswana. Notably, these include exports such as minerals and tourism as well as non-food retail economic activity and, also, disruption of the harvest season during a relatively good year when farmers were, in general, expecting a bumper harvest of various crops, especially cereals. Furthermore, unlike in the 2008/9 Global Financial Crisis, the exogenous shock to the economy occurs amid weakening of the country's fiscal and external buffers, characterised by government fiscal deficits for three consecutive financial years and gradual decline in foreign exchange reserves from 18.3 months of import cover in 2015 (P84.9 billion) to the current level of P68.9 billion as at end of January 2020 (or 13.3 months of import cover).

The global backdrop is that the world economy is forecast to contract by 3 percent in 2020. This is worse than the contraction experienced during the 2008/09 global financial crisis, and the fallout from the COVID-19 crisis is projected to surpass that of the Great Depression of the 1930s. Nevertheless, economic activity is expected to rebound in 2021, with global growth estimated at 5.8 percent, anchored by unprecedented policy and resource support by individual countries and multilateral institutions. However, the recovery projections are fraught with uncertainty with respect to several critical factors, namely, the intensity and effectiveness of containment efforts; the extent of supply disruptions; fiscal and market financing constraints; shifts in spending patterns; trends in commodity prices; and, ultimately, business and consumer confidence. A similar pattern of developments pertains with regard to the rest of the Sub-Saharan Africa region.

The MPC, however, recognised that the short-term adverse developments in the domestic economy occur against a potentially supportive environment including accommodative monetary conditions; improvements in the provision of utilities; reforms to further improve the business environment; concerted efforts by government to mitigate the impact of COVID-19; and a prospective economic stimulus package. These would generally be positive for economic activity in the medium term. Even then, it is projected that the economy will operate below full capacity in both the short and medium term, and, therefore not creating any inflationary pressures, going forward.

Therefore, the current state of the economy and the outlook for both domestic and external economic activity provide scope for easing monetary policy to support domestic economic activity. Accordingly, the MPC decided to reduce the Bank Rate by 50 basis points to 4.25 percent. Commercial banks are required to make the necessary interest rate adjustments with immediate effect to reflect this policy decision.

The MPC has also decided to reduce the primary reserve requirement from 5 percent to 2.5 percent, effective May 13, 2020. This is expected to inject liquidity of approximately P1.6 billion into the banking system, which should allow commercial banks to be unconstrained in performing the necessary financial intermediation to support economic activity.

Furthermore, as decided by His Excellency the President, on advice by the Honourable Minister of Finance and Economic Development following consultation with the Bank, the Bank will implement a new annual downward rate of crawl of 2.87 percent with effect from May 1, 2020, representing a change from the current 1.51 percent. This is complementary to the reduction in the Bank Rate and contributes to further easing of real monetary conditions in the economy.

Other measures already implemented by the Bank, which form part of the monetary policy and regulatory response to the COVID-19 economic fallout are:

- (a) the cost of accessing overnight funding by licensed banks from the Bank of Botswana Credit Facility is provided at the prevailing Bank Rate without the punitive 6 percentage points above the Bank Rate that prevailed before;
- (b) repo facilities that were available only on overnight basis are now offered against eligible securities with maturity of up to 92 days;
- (c) the collateral pool for borrowing by licensed commercial banks from the Bank of Botswana has been extended to include all corporate bonds listed and traded on the Botswana Stock Exchange. This is, however, subject to completing regulations and arrangements relating to valuation (haircuts), custody and settlement in central bank money;
- (d) the minimum capital adequacy ratio for banks was reduced from 15 percent to 12.5 percent; this should provide capital relief amounting to approximately P326 million for the entire banking industry; and that
- (e) the Bank will also generally exercise regulatory forbearance in relation to assessment of non-performing loans and determination of expected credit losses, for regulatory and compliance purposes.

You will also be aware of the commendable initiatives by commercial banks to offer a package of discretionary cashflow relief to support business and retail customers that are negatively affected by the COVID-19 pandemic. These include loan repayment holidays for an initial period of three months, restructuring of credit and other repayment

terms for various loan and credit facilities and, also, free or discounted prices for digital banking channels. At this juncture, I wish to underscore the message that the deferral of loan repayments is only intended to provide relief to bank customers temporarily experiencing cash flow constraints during these difficult times; it should not be regarded as debt forgiveness. Consistent with the contractual obligations of the borrower, both the principal amount and interest would remain outstanding and interest will continue to accrue or accumulate increasing the outstanding amount. The Bank has initiated the collection of related data that should be available to inform the potentially evolving policy posture and the regulatory responses as may be necessary.

In summary, the policy decisions and liquidity support measures I have just announced or alluded to today should, individually and combined, be supportive of the economy in terms of:

- (a) easing borrowing costs in the economy and provide a sound springboard for future recovery;
- (b) sustaining, albeit for a short period, the cash flow position and balance sheets of both businesses and households in these difficult times;
- (c) facilitating unconstrained banking system support for economic activity;
- (d) enhance international competitiveness of the domestic industries; and
- (e) foster greater impact and traction of any economic stimulus initiatives.

Notwithstanding, the implementation of the foregoing measures, improving total factor productivity, structural reforms, export competitiveness of domestically produced goods and services as well as governance arrangements remain paramount in promoting sustainable and inclusive economic growth.

The Bank remains committed to its objective of monetary and financial stability and will respond timely to deviations of inflation from the objective range in support of durable economic development.

The Monetary Policy Report containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on May 7, 2020.

The remaining MPC meetings for 2020 are scheduled as follows:

June 18, 2020

August 20, 2020

October 8, 2020

December 3, 2020