MONETARY POLICY STATEMENT | 2024

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 STATEMENT 2024

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February 21, 2024

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1. INTRODUCTION

1.1 The Monetary Policy Statement (MPS) is published at the beginning of the year to inform stakeholders about the framework for the formulation and implementation of monetary policy by the Bank of Botswana (the Bank). In this regard, the Bank, through the MPS, reviews inflation trends, outlook, as well as policy performance and articulates the policy choices for the ensuing year. The MPS, together with the subsequent Monetary Policy Reports (MPRs) published during the year, and the Media Briefings after each Monetary Policy Committee (MPC) meeting, also serve to fulfill the public's expectation of a transparent and accountable central bank in pursuit of the monetary policy mandate, as enshrined in the Bank of Botswana (Amendment) Act, 2022.

1.2 The 2024 MPS, therefore, reports on the previous year's economic and policy developments and evaluates the determinants of changes in the level of prices and their impact on inflation in Botswana. In turn, there is an assessment of economic and financial developments that are likely to influence the inflation path in the medium term and the Bank's policy choices in 2024. Thus, price developments and policy options are evaluated in the context of a forward-looking monetary policy framework, that entails policy responses to projected deviation of inflation from the Bank's medium-term inflation objective range of 3 – 6 percent or any anticipated adverse impact on financial stability. In this respect, the MPS promotes an understanding of prospective conduct of monetary policy to anchor and align public expectations to the objective of a low, predictable and sustainable level of inflation.

1.3 In 2023, the global economy continued to recover from the lingering effects of the COVID-19 pandemic and the Russia-Ukraine war. In addition, global economic performance was adversely affected by the impact of high inflation on the cost of living; the increase in the debt burden, due to the resultant high interest rates; reduction of fiscal support; and extreme weather events. Consequently, growth remained low and uneven across countries and regions. Thus, according to the International Monetary Fund (IMF)'s January 2024 World Economic Outlook (WEO) Update, global economic growth is estimated to have expanded by 3.1 percent in 2023, lower than the 3.5 percent in 2022. The subdued growth was more pronounced in advanced economies (particularly in the euro area and United Kingdom (UK), than in emerging market and developing economies. Meanwhile, global inflation is estimated to have decreased from 8.7 percent in 2022 to 6.8 percent in 2023[1], consistent with the slowdown in economic activity.

1.4 In Botswana, the Ministry of Finance estimates the economy to have expanded by 3.2 percent in 2023, a slowdown from 5.5 percent in 2022[2]. Inflation has generally been on a downward trajectory since September 2022 and was mostly within the objective range from May 2023, averaging 5.2 percent in 2023[3]. Contributing to lower inflation were the dissipating impact of the increase in prices controlled by government (administered prices) in 2022 (base effects); downward adjustment of domestic fuel prices in 2023; the decrease in foreign prices, particularly food and fuel, thus a decline in trading partner countries' inflation. Going forward, inflation is forecast to remain within the Bank's 3 – 6 percent objective range into the medium term and risks to the inflation outlook are assessed to be balanced.

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1 In advanced economies, inflation decreased from 7.3 percent in 2022 to 4.6 percent in 2023, and from 9.8 percent to 8.4 percent for emerging market economies in the same period.

2 According to data published by Statistics Botswana, real gross domestic product (GDP) grew by 3.6 percent in the twelve months to September 2023, compared to a growth of 5.6 percent in the year to September 2022.

3 Inflation was above the objective range in January 2023 (9.3 percent), February 2023 (9.1 percent), March 2023 (9.9 percent), April 2023 (7.9 percent), and was below the objective range in July (1.5 percent) and August 2023 (1.2 percent).

1.5 The Bank eased monetary policy at the end of 2023 in view of projections for inflation remaining within the objective range of 3 – 6 percent, and closer to the 4.5 percent mid-point, into the medium term, and the associated indications of entrenched expectations of lower levels of inflation. The Monetary Policy Rate (MoPR), which is the yield on the 7-day Bank of Botswana Certificate (BoBC), was, therefore, reduced by 25 basis points to 2.4 percent in December 2023, following a cumulative 151 basis points policy rate increase in 2022.

1.6 Regarding exchange rate policy, the Pula basket comprised 45 percent South African rand and 55 percent Special Drawing Rights (SDR) and an annual downward rate of crawl of 1.51 percent of the nominal effective exchange rate (NEER) was implemented during 2023. On the other hand, the real effective exchange rate (REER) depreciated by 1.8 percent in 2023, due to the depreciation (rate of crawl) of the NEER (1.5 percent), and a negative inflation differential between Botswana and trading partner countries.

2. MONETARY POLICY FRAMEWORK

2.1 The primary objective of the Bank's monetary policy is to achieve price stability, which is defined as a sustainable level of inflation that is within the medium-term objective range of 3 – 6 percent. Subject to attaining its primary mandate, the Bank shall contribute to the stability of the financial system and maintain a stable, sound and competitive market-based financial system. A low and predictable level of inflation and conducive monetary and financial conditions foster effective savings mobilisation, productive investment and international competitiveness of domestic producers, which, in turn, contribute towards the broader national objectives of sustainable economic development and employment creation.

2.2 The monetary policy framework is forecast-based, with the medium-term outlook guiding the Bank's response to projected movements in inflation, while considering developments relating to stability of the financial system and prospects for economic growth. To this end, in formulating an appropriate policy stance, the Bank factors in projections of real monetary conditions[4], relevant domestic and international economic and financial developments, and their impact on the output gap[5] and, ultimately, inflation.

2.3 The Bank 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, effective policy transmission. In this regard, besides the MPS, which is published in February, the Bank publishes three MPRs annually, following the April, August and October MPC meetings. Furthermore, the Bank publishes MPC meeting dates for the year ahead and the Governor delivers a statement at a Media Briefing, which is circulated to media houses, after each meeting of the MPC to disseminate the Bank's policy stance and allow for the engagement with the media.

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4 The real monetary conditions index (RMCI), which reflects the state of real monetary conditions, measures the relative looseness or tightness of monetary conditions and gauges the likely effect that monetary policy has on the economy through changes in the exchange rate and interest rates. The RMCI combines, through a weighted average, deviations of the real exchange rate and real interest rate from their respective trend values.

5 The output gap refers to the difference between actual output and long-term trend output (as an indicator of the productive capacity of the economy). A negative (positive) output gap means that the actual level of output for a given period is below (above) the trend level for that period, thus indicating that the economy is operating below (above) its estimated potential.

2.4 Monetary policy formulation and conduct entails determination of the MoPR, the Standing Credit Facility (SCF) and the Standing Deposit Facility (SDF) - the latter two, constituting the Interest Rate Corridor - at each of the six MPC meetings during the year. In turn, the MoPR (yield on the 7-day BoBCs) is used to conduct monetary operations, and banks also accessing the Standing Credit and Deposit facilities at their discretion, in addition to the interbank market.

3. IMPLEMENTATION OF MONETARY POLICY AND RELATED ECONOMIC DEVELOPMENTS IN 2023

(a) External Developments

3.1 At the global level, many central banks continued to tighten monetary policy to tame inflationary pressures and anchor inflation expectations. In view of moderating inflationary pressures, most central banks that tightened monetary policy, raised policy interest rates by a lesser magnitude in 2023 compared to 2022. Thus, policymakers focused on reining in inflation towards their respective targets (Appendix, Table A1). Furthermore, in advanced countries, central banks continued with tapering the asset purchase programmes that were introduced in 2020 to support the financial sector and, in some instances, these have been completed (Appendix, Table A1). However, some central banks decreased their policy rates to stimulate economic activity amid the uncertainty, for example, China and Brazil, while some left the policy rates unchanged in 2023.

3.2 Overall, in 2023, global growth remained low but uneven across countries and regions. Global GDP is estimated to have expanded by 3.1 percent in 2023, lower than the 3.5 percent in 2022 (Table 3.1). For advanced economies, economic growth slowed from 2.6 percent in 2022 to 1.6 percent in 2023, mostly due to subdued economic activity in the euro area and UK because of high inflation, which continued to restrain household spending. Furthermore, output expansion in 2023 was also restrained due to supply chain constraints. Meanwhile, growth in economic activity in emerging market and developing economies remained restrained at 4.1 percent in 2023 as in 2022, due to negative spillover effects from the Russia-Ukraine war and continued withdrawal of fiscal support.

Table 3.1: Real GDP Growth Rates (Percent)

	Estimates		Projections	
	2022	2023	2024	2025
Global	**3.5**	**3.1**	**3.1**	**3.2**
Advanced economies	**2.6**	**1.6**	**1.5**	**1.8**
USA	1.9	2.5	2.1	1.7
Euro area	3.4	0.5	0.9	1.7
UK	4.3	0.5	0.6	1.6
Japan	1.0	1.9	0.9	0.8
EMDEs	**4.1**	**4.1**	**4.1**	**4.2**
China	3.0	5.2	4.6	4.1
Brazil	3.0	3.1	1.7	1.9
India	7.2	6.7	6.5	6.5
Russia	-1.2	3.0	2.6	1.1
South Africa	1.9	0.6	1.0	1.3
Botswana	**5.5**	**3.2**	**4.1 (4.2)**	**4.3 (5.4)**

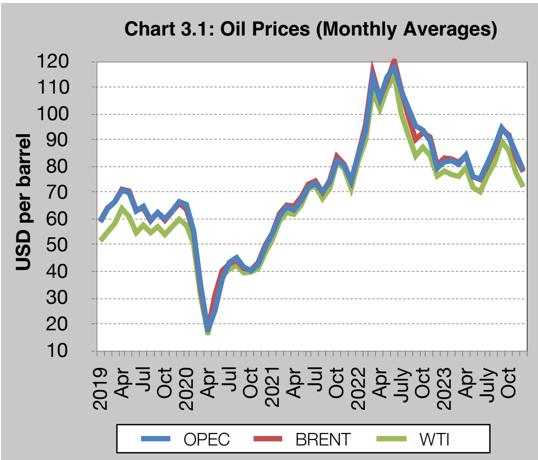
Source: IMF WEO Update January 2024 and Ministry of Finance (MoF) for Botswana.
Note: EMDEs stands for emerging market and developing economies, while figures in parentheses are forecasts by the MoF.

3.3 Global inflation is estimated to have decreased from 8.7 percent in 2022 to 6.8 percent in 2023, mainly due to relatively lower food and oil prices, monetary policy tightening, and squeezing of household budgets (reduced demand). The decrease in oil prices was mainly driven by restrained demand resulting from continued interest rate hikes by most central banks, particularly in advanced economies, and subdued economic activity in China, the world's largest crude oil importer. Furthermore, the increase in shale oil inventories in the US exerted downward pressure on oil prices. Thus, the price of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 16.7 percent, 16.8 percent and 17.3 percent to an average of USD83.10 per barrel, USD82.95 per barrel and USD77.93 per barrel, respectively, in 2023 (Chart 3.1).

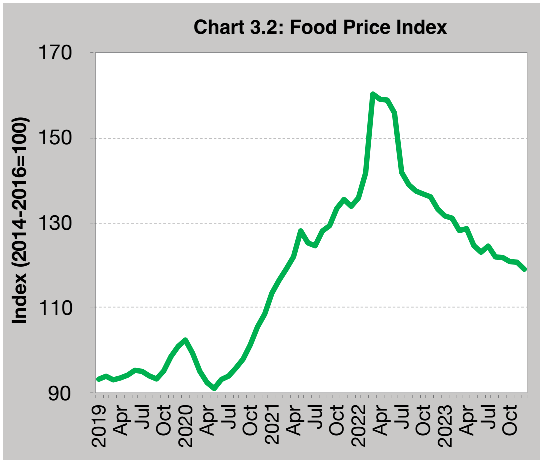
3.4 Similarly, international food prices declined by 13.7 percent in 2023, reversing the 13.3 percent increase in 2022 (Chart 3.2), driven by lower prices of vegetable oils, cereals, dairy products and meat. The decrease was attributable to among others, the Black Sea grains export deal between Ukraine, Russia, Turkey and the United Nations which, however, ended on July 17, 2023, as well as modest demand due to global economic slowdown and easing of international oil prices, an input in food production. Moreover, the slowdown in food prices was underpinned by increased seasonal supply from some commodity exporting countries[6]. Overall, international oil and food prices exerted downward pressure on domestic inflation in 2023.

[6] Generally, there was increased seasonal supply of maize from Brazil and the US, vegetable oil from the US and South Asia, as well as meat from Australia.

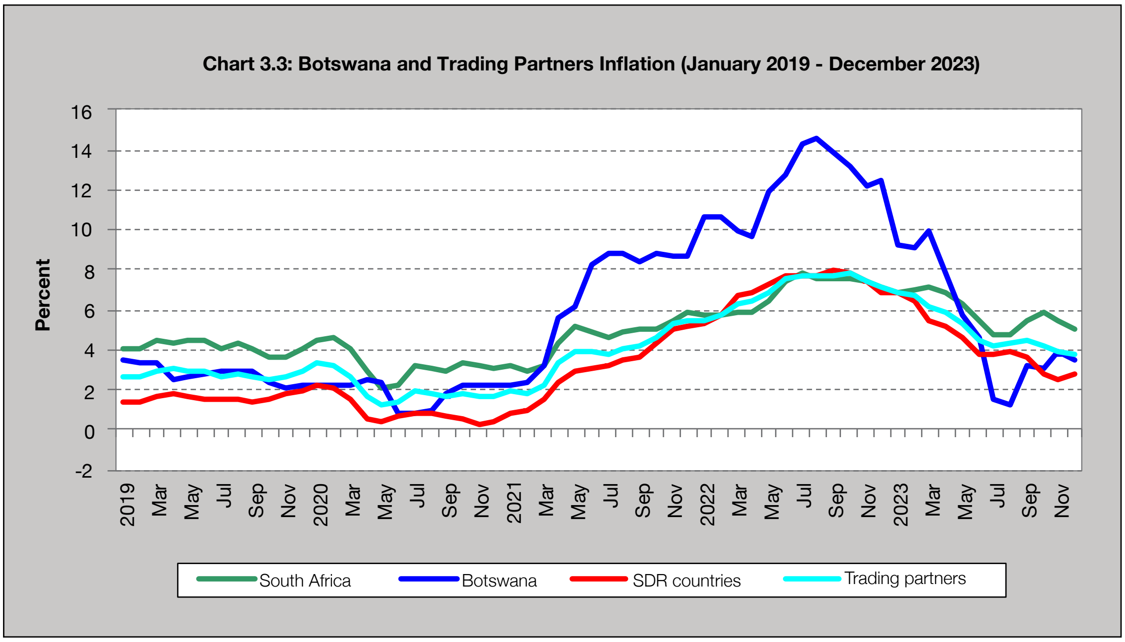
3.5 Inflation in the SDR countries (USA, UK, Japan, Eurozone and China) fell significantly from 6.9 percent in December 2022 to 2.8 percent in December 2023. Similarly, headline inflation in South Africa decreased from 7.2 percent in December 2022 to 5.1 percent in December 2023 (averaging 6 percent in 2023) and reverted to within the country's target range of 3 – 6 percent in June 2023. Consequently, the trade weighted average inflation[7] for Botswana's trading partner countries decreased from 7.1 percent in December 2022 to 3.8 percent in December 2023 (Chart 3.3).



Source: OPEC and US Energy Information Administration.



Source: Food and Agriculture Organization.



Source: Statistics Botswana and Bloomberg.

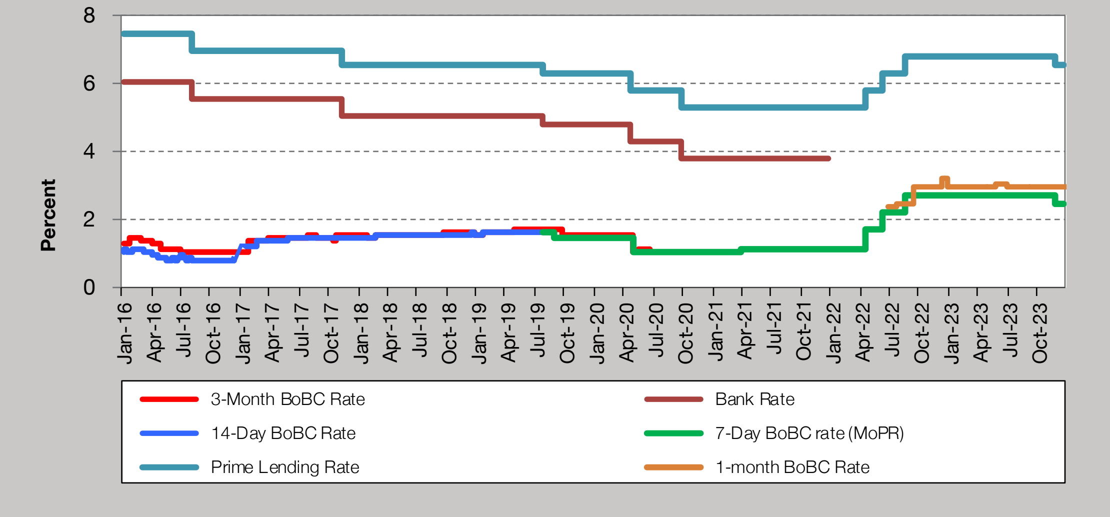
(b) Monetary Policy Implementation in Botswana

3.6 During 2023, monetary policy in Botswana was conducted in the context of projected lower inflation in the short to medium term, associated with dissipating impact of the increase in administered prices in 2022 (base effects), impact of the reduction in fuel prices during the year, subdued domestic demand and declining inflation in the trading partner countries, while the economy operated below potential. These conditions

7 The trade-weighted average inflation comprises South Africa's headline inflation and average SDR countries' inflation.

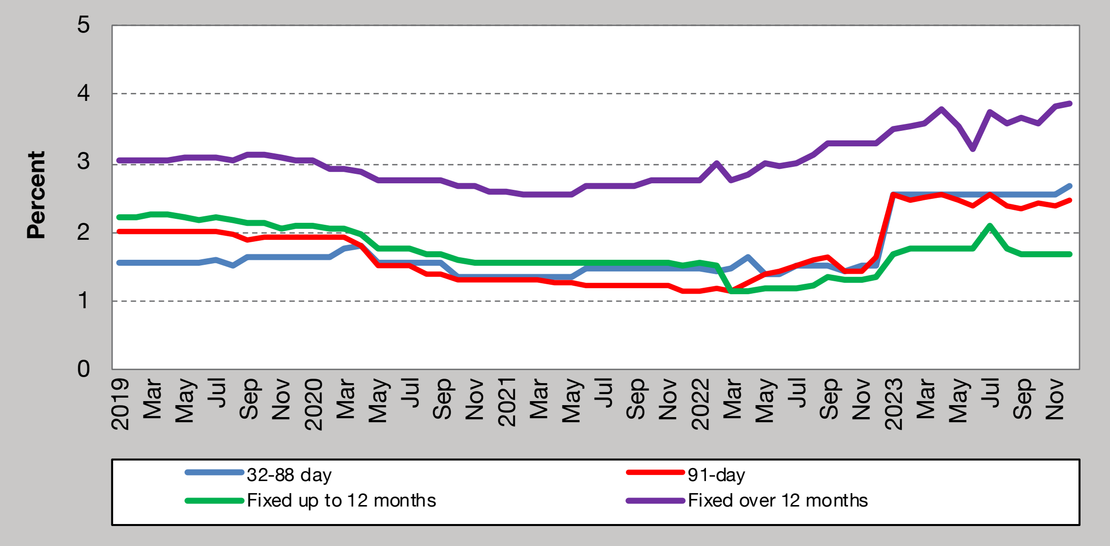
provided scope for an accommodative monetary policy in support of stronger output growth. Hence, the MoPR was reduced by 25 basis points to 2.4 percent in December 2023, following a cumulative 151 basis points policy rate increase in 2022. Consequently, the prime lending rate (PLR) of commercial banks declined from 6.76 percent in December 2022 to 6.51 percent in December 2023 (Chart 3.4)[8]. However, deposit interest rates generally increased (Chart 3.5) mainly because of competition for corporate deposits that are volatile and form an important component of the deposit base for many of the commercial banks.

Chart 3.4: Interest Rates (January 2016 - December 2023)



Source: Bank of Botswana and commercial banks.
Note: The 7-day BoBC was introduced on April 30, 2019, replacing the 14-day BoBC, while the issuance of the 91-day BoBC rate was discontinued in October 2020.

Chart 3.5: 32-88 day, 91-day, Fixed up to 12 months and Fixed over 12 months Deposit Rates



8 Notwithstanding the decision to allow banks to set their own PLRs, there continues to be a common PLR. However, effective lending rates linked to the PLR may vary across banks, based on products and customer profiles.

3.7 Open market operations continued to be the main liquidity management tool in the domestic market, as well as in implementing decisions of the MPC. This entailed the use of BoBCs to mop-up excess liquidity[9] in order to maintain interest rates that are consistent with the monetary policy stance. Open market operations, in 2023, were conducted in an environment of increased market liquidity, supported mainly by government spending and repatriation of pension funds to align to the new pension fund rules[10]. Outstanding BoBCs amounted to P6 billion in December 2023, an increase from P3.275 billion in December 2022, due to an increase in liquidity resulting mainly from government spending. With the expansionary budget announced in February 2024, liquidity is expected to increase further.

3.8 The Bank evaluates its monetary policy implementation framework on a regular basis for effectiveness, with a view to introduce refinements where necessary. In this regard, the 2022 monetary operations reforms (see page 3 of the 2023 MPS for details) are now embedded in the Bank's monetary policy operations. There has been some noticeable improvement in policy transmission while the interest rate structure is operating as expected. In addition, the interbank market rate consistently trades within the interest rate corridor, although it tends to trade closer to the floor (SDF Rate) of the interest rate corridor due to structural excess liquidity in the market. However, the funding structure of banks, which is uneven across individual banks and mostly dominated by large mobile corporate deposits and those managed by asset managers, has the effect of raising wholesale deposit rates and suppressing interest rates on retail savings deposits.

3.9 With effect from April 1, 2023, commercial banks were allowed to independently determine their own PLRs. This move is expected to contribute positively to banking sector developments through promoting competition within the banking industry. Commercial banks report their PLRs to the Bank where a market average is published to the market for transparency and to promote competition. It is, however, worth noting that all commercial banks have maintained their PLRs at MoPR plus 411 basis points. As a result, the average PLR was 6.51 percent in December 2023.

3.10 Meanwhile, use of the Primary Reserve Requirement Averaging (PRRA) for management of liquidity by banks is not universal. While there are banks that actively use the averaging tool, others prefer to maintain full adherence throughout.

3.11 The yield curve, anchored on the 7-day BoBCs rate, is upward sloping, albeit steeper at the shorter end (transition from the one-month BoBCs to the 3-month Treasury Bills (T-Bills). The government securities market improved in 2023 with less upward pressure on yields than in the past, with noticeable improvement in the uptake of government securities at auctions. A comparison of BoBC, T-Bill and Government bond yields (yield curve) as at the end of December 2022 and December 2023 indicates that yields generally decreased across the maturity spectrum. The improvement in the inflation trajectory also helped in keeping yields relatively lower. The institutional and operational changes, including enhanced transparency and market innovations appear to be contributing to the improvement. Specifically, the Government Annual Borrowing Plan and Issuance Calendar were launched and published in June, while switch auctions[11] were introduced to manage liquidity and refinancing risk. The decrease in the yields was also on the back of increased liquidity in the market emanating from government spending and the decline in the inflation rate (Chart 3.6).

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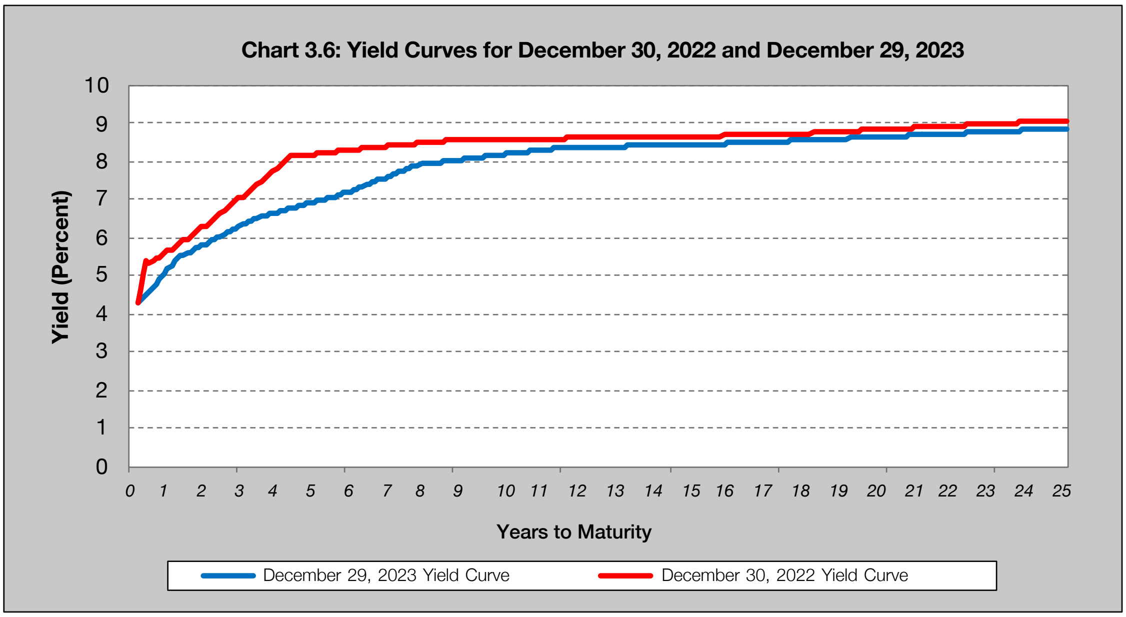
9 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the SDF, money absorbed through BoBCs, outstanding reverse repos less repos, SCF and the Credit Facility. This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the Primary Reserve Requirement accounts.

10 Following the changes in the Retirement Funds Act (2022), the pensions domestic investment limits shall be increased up to fifty (50) percent of asset values in a gradual approach over a five-year period (until December 2027).

11 A Bond switch operation is a liquidity management tool where existing holders of a particular bond are invited to voluntarily surrender part or their entire existing bond (source bond) to the issuer in exchange for another preferred bond (destination bond) by the same issuer.



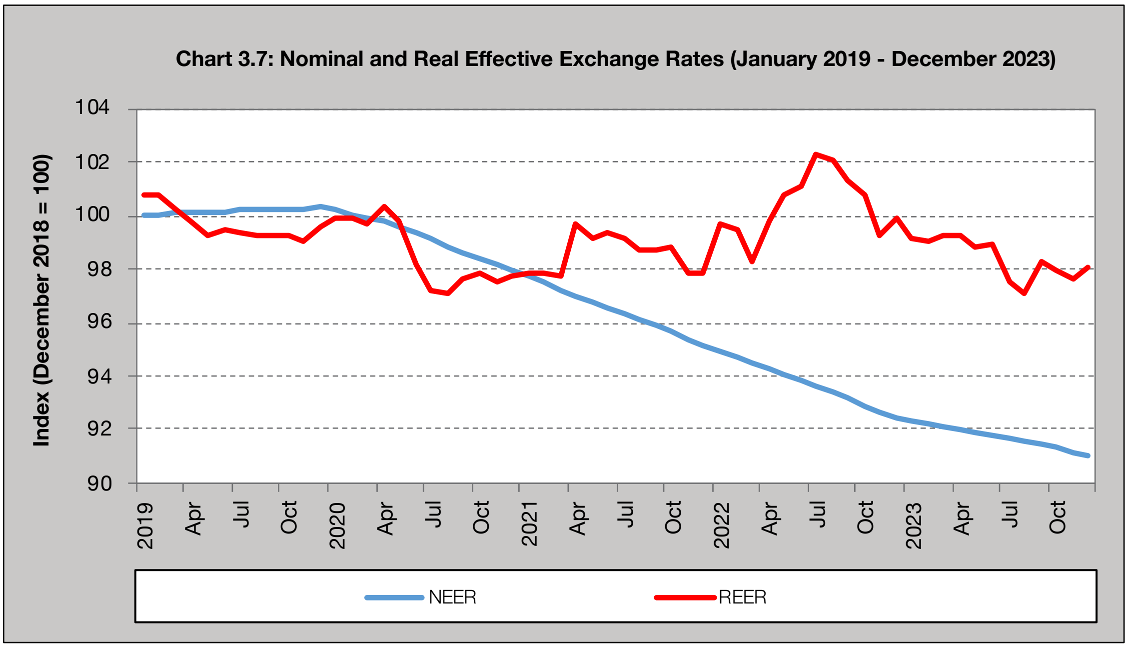
Source: Bank of Botswana.

3.12 In a continuing effort to promote the use and effectiveness of the interbank market, the Bank signed a Memorandum of Understanding with Front Clear, a financial markets development company, to address obstacles in the money market. Some of the impediments to interbank activity relate to the lack of legal certainty on the enforceability of international standards, such as the Global Master Repurchase Agreements and International Swaps and Derivatives Agreements, as well as the netting protocols in the Botswana market. Addressing these obstacles should enhance a more participatory interbank market and secondary bond market, thereby, contributing to a holistic development of the money and interbank market and, by extension, the capital market.

(c) Implementation of Exchange Rate Policy

3.13 Implementation of the exchange rate policy in 2023 was in line with the objective of maintaining a stable and competitive inflation-adjusted trade-weighted exchange rate of the Pula (See Box 1 for more details). For 2023, the Pula basket weights were maintained at 45 percent South African rand and 55 percent for the SDR, depicting Botswana's trade pattern. A downward rate of crawl of 1.51 percent per annum was adopted, based on the projected differential between Botswana's inflation rate and that of its trading partner countries, and with a view to promoting Botswana produced goods' competitiveness, domestically and internationally.

3.14 Consequently, the trade weighted NEER of the Pula depreciated by the same magnitude in 2023. Meanwhile, the REER depreciated by 1.8 percent in 2023, due to the depreciation (rate of crawl) of the NEER (1.5 percent), and a lower inflation in Botswana (3.5 percent) than the average for the trading partner countries (3.8 percent), suggesting a gain in international competitiveness of domestic firms.



Source: Bank of Botswana.

3.15 The current exchange rate policy framework is anchored on a strong performance of foreign exchange reserves, which improved from P54.5 billion (representing 7.6 months of import cover) in December 2022 to P65.7 billion (representing 9.1 months of import cover) in November 2023, due to a more favourable diamond export market and higher Southern African Customs Union revenue. The economic disturbances generated by the COVID-19 pandemic and Russia-Ukraine war demonstrated the importance of maintaining adequate levels of foreign exchange reserves to support the economy, undertake economic stabilisation and maintain policy discretion, including with respect to the exchange rate. Moreover, the exchange rate policy framework encompasses an inherent flexibility that enables adjustments that may be necessary to generate improvements in international competitiveness of the domestic industry.

BOX 1: THE PULA EXCHANGE RATE FRAMEWORK EXPLAINED

These are additional notes to the Press Release on Pula Exchange Rate, of December 28, 2023, issued by the Ministry of Finance.

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 manner in which 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 supply, 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 SDR (comprising, the US dollar, British pound, euro, Japanese yen and Chinese Renminbi) and the South African rand.

Second, is the weight of these currencies in the Pula basket (proportions that each of these currencies contribute to the value of the Pula).

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 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 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 reviewed semi-annually. 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.

2024 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 semi-annually; being the currencies in the Pula basket and their weights, as well as the rate of crawl. This is done to assess the 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, thus promoting growth prospects.

For 2024, it was determined that inflation in Botswana would be on average 1.2 percent higher than in the trading partner countries, suggesting maintenance of a downward rate of crawl of 1.51 percent for 2024. The 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;
(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.

(d) Fiscal Policy

3.16 Botswana's 2023/24 fiscal budget aimed to drive sustainable domestic economic growth while managing both domestic and international challenges. The revised overall budget deficit as announced in the 2024/25 Budget Speech, is a deficit of P7.1 billion (2.6 percent of GDP), down slightly from the P7.6 billion (3.6 percent of GDP) in the original budget. Total expenditure in the revised budget of 2023/24 Public Spending includes the 5 percent salary increment for public service employees effected in April 2023, which supported households' income. Specific to development spending, the budget was used to fill infrastructure gaps (implementation of delayed projects from the previous financial year) in order to unlock economic growth. Consequently, the projection for expenditure and net lending has been revised upwards by 1.6 percent to P88.8 billion, which is equivalent to 31.8 percent of GDP (slightly above the fiscal rule limiting total expenditure to 30 percent of GDP). Despite the expansionary fiscal policy, demand pressures were subdued, hence inflation was generally within the objective range.

3.17 Additionally, the Government continued commitment to restoration of budget sustainability through additional measures aimed at rebuilding fiscal buffers by mobilising domestic revenue sources, such as introduction of electronic billing platforms to improve value added tax compliance, implementation of Debt Recovery Strategy and strengthening of the Tax Audit function and capacity of the Large Taxpayers Unit. In terms of debt sustainability, Botswana's debt levels have been relatively low by international standards hence debt servicing is not yet a challenge for the Country. For example, Government and Government-guaranteed debt is expected to remain below 25 percent of GDP in the 2023/24 financial year. However, the government is still committed to monitoring of the medium-term debt risk and capacity to repay.

(e) Employment and Wage Developments

3.18 According to Statistics Botswana's quarterly labour force survey, the unemployment rate was 25.9 percent in the third quarter of 2023, compared to 25.4 percent in the fourth quarter of 2022[12] (youth unemployment rate rose to 34.4 percent from 33.5 percent). The survey also indicates that formal sector employment increased by 0.9 percent to 490 625, from 486 376 in the review period.

3.19 Regarding other indicators, the survey indicates that Government continued to be the single largest employer, with employment in public administration constituting 18.3 percent of total formal sector employment. In this regard, personal emoluments constitute the largest share (above 50 percent) of the government recurrent budget, and about 13 percent of GDP. Meanwhile, the formal sector average earnings per month were estimated at P7 396 for citizens, P15 863 for non-citizens and P7 692 for all employees in the third quarter of 2023. The average monthly earnings for all employees are estimated to have increased by 13.1 percent or P889 from P6 803 estimated for the fourth quarter of 2022, therefore, higher than the change in the consumer price index (general prices) and the inflation objective.

(f) Credit and Financial Stability Review

3.20 Annual growth in commercial bank credit accelerated to 7.1 percent in December 2023, from 5.8 percent in December 2022 (Chart 3.8). The faster growth in commercial bank credit was, in part, associated with the increase in loan uptake by businesses, mainly attributable to acquisition of new loans and increased credit utilisation by some companies during the period under review. Notably, credit to businesses grew, annually, by 11.4 percent in 2023, from the 8.6 percent increase in 2022. The improvement in the uptake of credit to businesses was in the form of utilisation of overdraft facilities and loans extended to some companies in the transport and communications, as well as tourism and hotels industries. Furthermore, there was increased utilisation of credit facilities by parastatals (Chart 3.9). Meanwhile, credit to businesses excluding parastatals grew by 5.2 percent in December 2023, compared to the 8.9 percent increase in December 2022.

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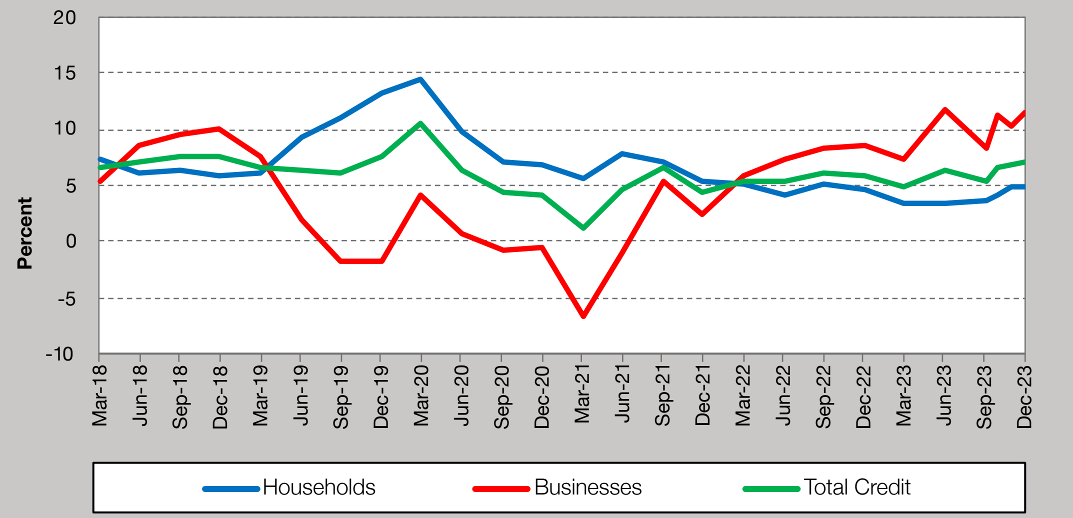
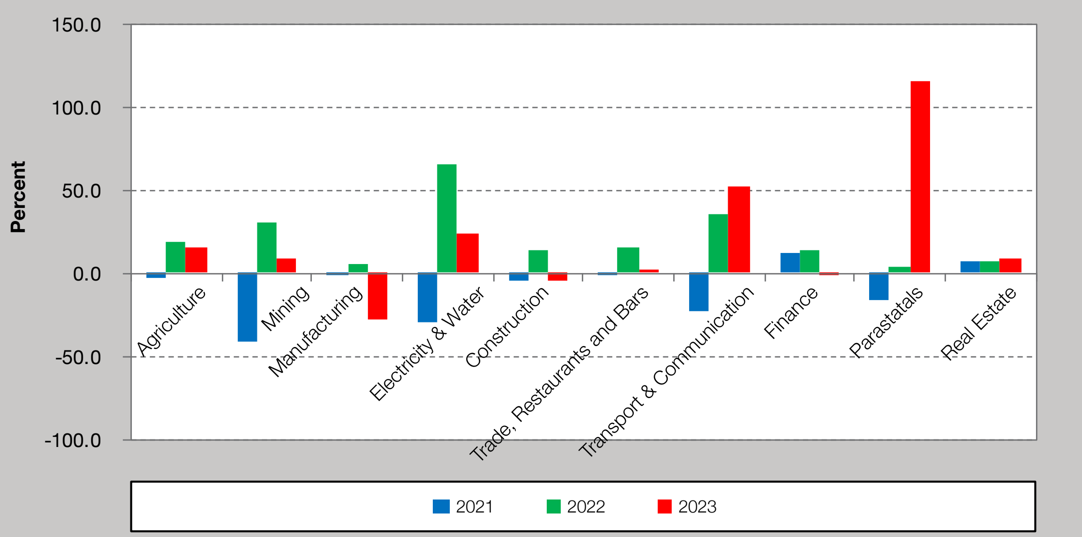
12 Statistics Botswana did not conduct any Labour Force Survey in the third quarter of 2022.

Chart 3.8: Year-on-Year Commercial Banks' Growth in Total Credit



Source: Commercial banks.

Chart 3.9: Annual Growth of Commercial Banks Business Credit by Industry



Source: Commercial banks.

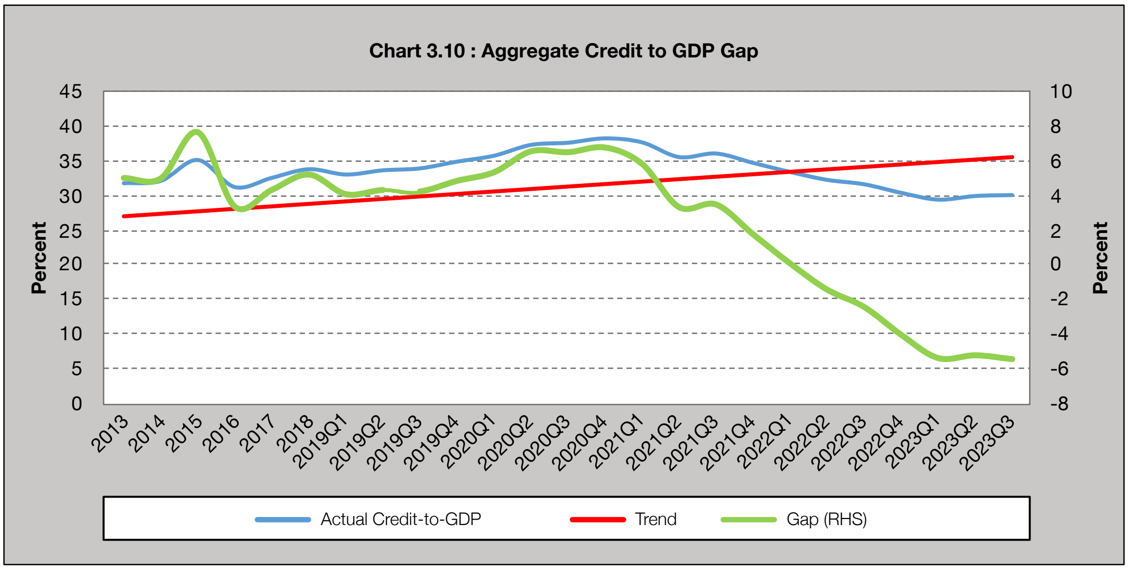
3.21 For households, annual credit growth accelerated from 4.5 percent in 2022 to 5 percent in 2023. The higher credit growth was mainly attributable to a higher rate of increase in property and motor vehicles loans. Conversely, annual growth fell with respect to personal unsecured and credit card-based loans. Thus, the share of mortgages in total household credit increased from 26.8 percent in December 2022 to 27.6 percent in December 2023, while that for motor vehicles increased from 4 percent to 4.3 percent in the same period. Meanwhile, the share of credit card exposures in total household credit was unchanged at 1.5 percent in the same period. Overall, it is assessed that modest increase in lending to households reflects the impact of the 2022 policy tightening on credit demand as borrowing became more costly, as well as restricted supply of loan facilities by banks to guard against possible defaults, therefore, a balanced response to market conditions.

3.22 In general, credit growth continues to be supportive of economic activity although the amount of credit relative to the size of the economy remains comparatively low by global standards. Commercial bank credit to GDP ratio increased slightly (Table 3.2) in 2023 reflecting faster credit growth relative to output growth but remains comparatively low relative to financial inclusion and development needs, as well as global trends (Appendix, Table A2). In this context, there continues to be scope for prudent credit extension to enhance support for economic activity. The assessment of vulnerabilities and risks to financial stability, as measured by the credit-to-GDP gap (Chart 3.10), also shows that the modest rate of credit growth is commensurate with the rate of increase in GDP; hence signifying that the current level of credit relative to economic activity is sustainable and poses limited risk.

Table 3.2: Commercial Bank Credit-to-GDP Ratio

	Percent of GDP			
	2020	2021	2022	2023[2]
Total Commercial Bank Credit[1]	**38.2**	**33.1**	**30.4**	**30.1**
Business	**13.3**	**11.2**	**10.5**	**10.5**
Parastatals	1.0	0.7	0.6	1.1
Agriculture	0.8	0.6	0.6	0.7
Mining	0.3	0.1	0.2	0.2
Manufacturing	0.9	0.7	0.7	0.6
Construction	0.5	0.4	0.4	0.3
Trade	2.8	2.3	2.2	2.0
Transport and Communications	0.3	0.2	0.2	0.3
Finance and Business Services	3.1	3.0	2.7	2.6
Real Estate	2.6	2.3	2.2	2.2
Households	**25.0**	**21.9**	**20.2**	**19.5**
Retail Credit[3]	19.1	16.9	14.7	13.9
Mortgage	5.9	5.1	5.4	5.6

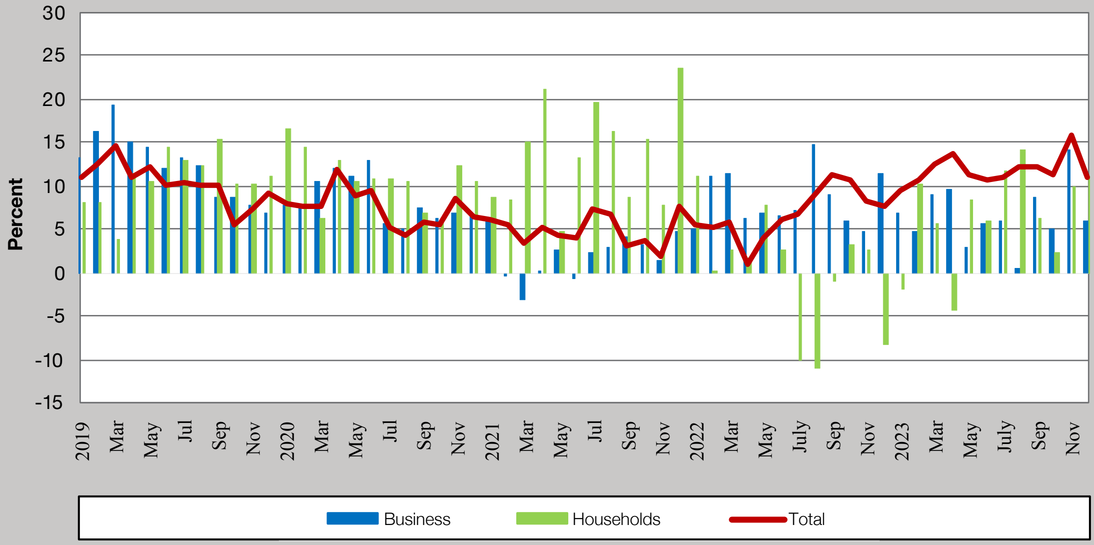
Source: Commercial banks, Statistics Botswana and Bank of Botswana calculations.
Notes: 1. Although not shown in the table, electricity, and water, other and non-resident sub-sectors are included in the business credit to GDP ratio.
2. Data covering the twelve months to September 2023.
3. Includes motor vehicle, personal and credit card loans.



Source: Bank of Botswana.

3.23 The increase in credit was partly supported by the 11.2 percent expansion in deposits at commercial banks in 2023, accelerating from 7.8 percent growth in the prior year (Chart 3.11). Within this, the household deposits increased by 11.3 percent following a contraction of 8.2 percent in 2022, while business deposits (excluding parastatals) increased by 6.1 percent from the 11.5 percent increase during the same period. By component, current account deposits increased by 24.6 percent, while interest bearing deposits increased by 4.4 percent in 2023. Deposits in foreign currency accounts increased by 14.5 percent in the same period. Given the slower increase in bank lending than the growth in bank deposits, the financial intermediation ratio fell slightly from 79.1 percent in 2022 to 77.5 percent in 2023, signalling the underutilisation of deposits in an environment of subdued economic activity.

Chart 3.11: Annual Growth in Business and Household Deposits at Commercial Banks



Source: Commercial banks.

3.24 Overall, vulnerabilities and risks to financial stability emanating from credit developments and monetary policy posture remain contained, as reported in the published October 2023 Financial Stability Report. The enduring stability of the financial system is supported by sound macroeconomic environment, efficient and robust market infrastructures, prudently managed banks, as well as effective regulation and supervision. While economic performance is constrained by subdued global economic growth and, so far, modest traction of economic structural and policy reforms, the domestic financial system remains resilient, robust, safe, sound, and unconstrained in providing, innovating, and growing the range of financial services to support the economy and that it is well supported by macroeconomic policies and regulatory frameworks.

3.25 Banks' asset quality was good in 2023, characterised by relatively low and stable credit default rates as the ratio of nonperforming loans (NPLs) to total credit decreased slightly from 3.8 percent in 2022 to 3.7 percent at the end of 2023. Nevertheless, there continues to be a risk to asset quality associated with the high proportion of the relatively more expensive unsecured lending (at 68.1 percent of household credit as at December 2023) in total commercial bank credit (44.4 percent). This profile of assets potentially exposes the household sector to any sudden and sharp increase in borrowing costs, as well as loss of employment. The risks are, however, moderated to the extent that credit is widely distributed to many employees in different sectors of the economy, a large proportion of which are in the public sector. Moreover, the extension of credit to salaried individuals enables proper credit evaluation using ascertained income as the basis for determining repayment capacity. Furthermore, credit risk is mitigated in cases of loans that are protected by insurance for loss of employment. Overall, the capital, asset quality, liquidity and profitability levels that meet prudential requirements indicate a generally sound and stable banking system (Table 3.3).

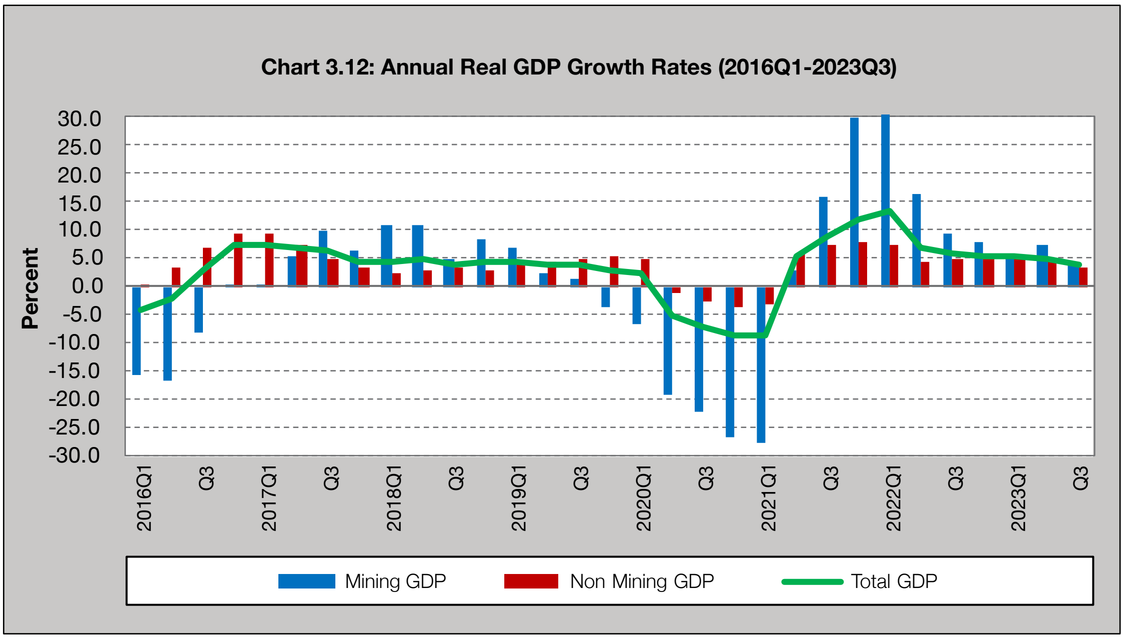
Table 3.3: Selected Performance Indicators of the Banking Sector

Capital Adequacy (Percent)	June 2022	Sep 2022	Dec 2022	June 2023	Sep 2023	Dec 2023
Core Capital to Unimpaired Capital	68.4	66.5	65.2	68.2	62.7	66.7
Tier 1 Capital to Risk-Weighted Assets[1]	12.0	11.8	12.9	13.1	12.8	12.7
Capital Adequacy Ratio (CAR)[2]	18.8	18.6	19.8	20.0	19.8	19.7
Asset Quality (Percent)						
NPLs to Gross Loans	4.0	3.4	3.8	3.7	3.6	3.7
NPLs Net of Specific Provisions to Unimpaired Capital	8.8	8.5	8.6	8.9	9.7	8.6
Specific Provisions to NPLs	56.2	55.1	51.0	49.7	47.8	51.1
Liquidity (Percent)						
Liquid Assets to Deposits (Liquidity Ratio)[3]	17.4	18.3	16.0	18.1	17.8	20.1
Advances to Deposits (Intermediation Ratio)	82.3	79.8	80.5	82.5	81.5	78.6
Profitability/Efficiency (Percent)						
Return on Average Assets (ROAA)	2.0	2.1	3.0	2.3	2.3	2.3
Return on Equity (ROE)	26.8	26.1	30.1	26.2	26.3	27.0
Cost to Income	60.3	57.2	57.0	56.7	56.3	56.7

Source: Bank of Botswana.
1. Prudential lower limit is 7.5 percent – Basel II/III.
2. Prudential lower limit is 12.5 percent.
3. The minimum statutory requirement is 10 percent

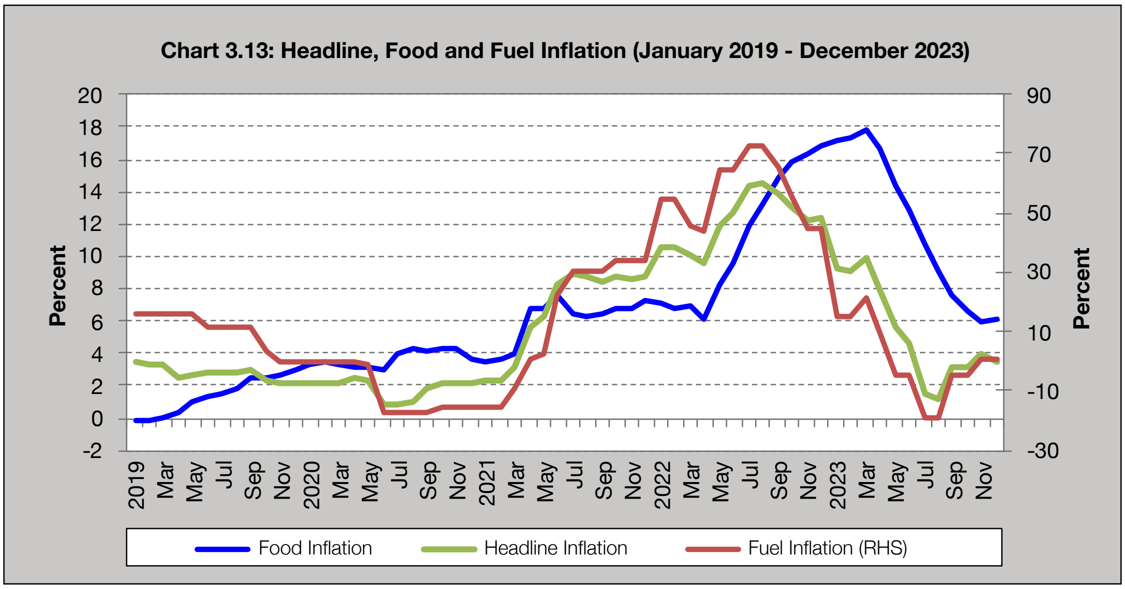
(g) Output and Price Developments

3.26 According to Statistics Botswana, real GDP in Botswana grew by 3.6 percent in the twelve months to September 2023, compared to an increase of 5.6 percent in the year to September 2022. The slower growth is attributable to the deceleration in production of both the mining (mostly diamond mining) and the non-mining sectors. Mining output increased by 3.9 percent in the year ending September 2023, a notable deceleration from 9.3 percent in the corresponding period in 2022. This was due to a slower growth in output of most subsectors, led by mining of diamonds, which declined to 3.7 percent in the year to September 2023, compared to 8.9 percent expansion in the previous twelvemonth period on account of lower output at Orapa Mine because of planned maintenance in the third quarter of 2023. Non-mining GDP grew by 3.5 percent in the year to September 2023, compared to a higher rate of 4.6 percent in the corresponding period in 2022. The decrease in output growth was due to contraction in diamond traders sector on account of a weaker market for sectoral output. Furthermore, the deceleration in output growth for some sectors, namely, manufacturing, agriculture, water and electricity, information and communication technology, and wholesale and retail also contributed to overall deceleration in the non-mining sector output growth.



Source: Statistics Botswana and Bank of Botswana calculations.

3.27 Inflation fell in 2023, reverting to within the Bank's medium-term objective range of 3 – 6 percent in May 2023, for the first time since May 2021 (Chart 3.13) and breached the lower bound temporarily in July and August 2023. Thus, inflation averaged 5.2 percent in 2023, significantly lower than 12.1 percent in 2022. The low inflation in 2023 was against the background of subdued domestic demand, base effects associated with upward adjustment of administered prices in 2022, reduction in domestic fuel prices, the decrease in trading partner countries' inflation, higher appreciation of the Pula against the South African rand and the restrained growth in food prices. Food price inflation decreased significantly from 16.9 percent in December 2022 to 6.1 percent in December 2023, in the context of significant price decreases for bread and cereals, oils, vegetables and mineral waters, soft drinks, juices, as well as fruits and vegetables. Regarding core inflation measures, the 16 percent trimmed mean inflation decreased from 11.2 percent in December 2022 to 3.3 percent in December 2023, while inflation excluding administered prices decreased from 8.7 percent to 4.4 percent in the same period.



Source: Statistics Botswana.

4. OUTPUT AND INFLATION OUTLOOK

(a) Global Economic Prospects

4.1 The IMF's January 2024 WEO Update anticipates global economic growth to remain subdued at 3.1 percent in 2024, unchanged from 2023, and lower than the historical (2000 - 2019) annual average of 3.8 percent, against the backdrop of continued challenging prospects for advanced economies. The challenges are partly because of lower consumer demand associated with higher borrowing costs resulting from monetary policy tightening, fiscal consolidation amid high debt, the Russia-Ukraine war, low underlying productivity growth and extreme weather conditions. However, the forecast for 2024 is 0.2 percentage point higher than the October 2023 WEO projection, due to stronger-than-earlier forecast performance for China, the US and large emerging market and developing economies.

4.2 Overall, risks to the global economic outlook are assessed to be broadly balanced. Upside risks include possibility of stronger-than-expected global growth that could arise from lower inflation, slower-than-assumed withdrawal of fiscal support, stronger structural reform momentum and faster economic recovery in China. On the downside, new commodity price spikes from geopolitical shocks including the continued Houthi militants' attacks in the Red Sea, as well as supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Moreover, the possibility of systemic debt distress in emerging market countries due to a combination of higher borrowing costs and weaker growth could result in lower growth.

4.3 Growth in advanced economies is projected to decline slightly from the expansion of 1.6 percent in 2023 to 1.5 percent in 2024, mostly due to maintenance of tight monetary policy and less favourable credit conditions. Growth in the euro area is forecast to increase from 0.5 percent in 2023 to 0.9 percent in 2024, resulting from improved domestic demand as consumers start to recover purchasing power amid lower commodity prices. Furthermore, growth for the UK economy is forecast to increase slightly from 0.5 percent in 2023 to 0.6 percent in 2024, against the backdrop of easing inflationary pressures and, resultant, anticipated lower interest rates. Meanwhile, it is expected that fiscal and monetary policy tailwinds will stimulate strong productivity and growth for the UK economy in 2024. In the US, GDP expansion is forecast to slow down from 2.5 percent in 2023 to 2.1 percent in 2024, reflecting the lagged effects of monetary policy tightening, gradual fiscal tightening, as well as weaker consumer spending resulting from limited capacity to add more debt in 2024.

4.4 For emerging market and developing economies, growth is expected to remain at 4.1 percent in 2024 as in 2023. Growth in India is expected to remain strong at 6.5 percent in 2024, an upward revision of 0.2 percentage points from the October 2023 projection, resulting from resilience in domestic demand. Meanwhile, output growth in China is projected to slow down from 5.2 percent in 2023 to 4.6 percent in 2024, largely due to a slump in the real estate market and stagnant consumption.

4.5 Global inflationary pressures are projected to reduce in 2024, supported by the effect of monetary policy tightening in 2023 on consumption and investment, squeezing of household budgets, as well as anticipated lower commodity prices. Thus, inflation for advanced economies is forecast to ease from 4.6 percent in 2023 to 2.6 percent in 2024, while for emerging market economies, it is forecast to decrease from 8.4 percent to 8.1 percent in the same period. Consequently, global inflation is expected to ease from 6.8 percent in 2023 to 5.8 percent in 2024.

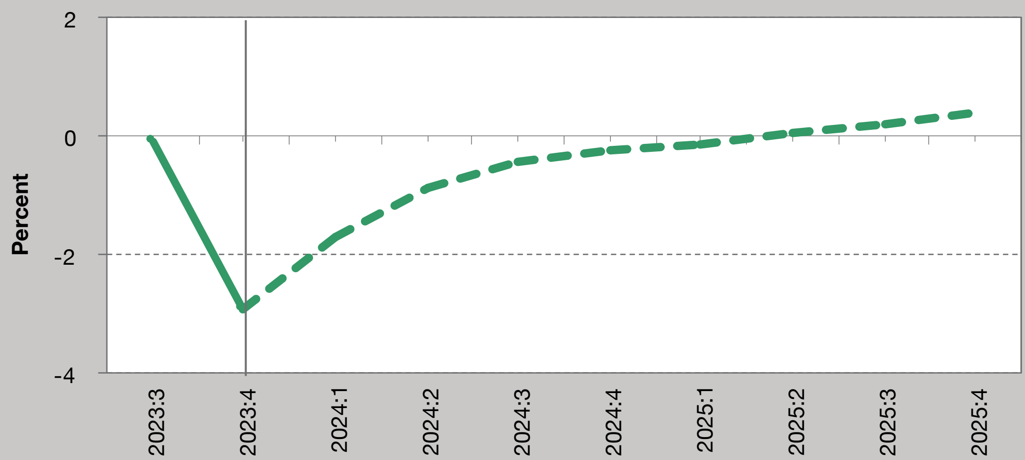
4.6 Inflation in Botswana is forecast to be higher than in the trading partner countries for 2024; therefore, requiring a downward rate of crawl of the Pula exchange rate (NEER) to maintain stability of the REER. Moreover, there continues to be a need to support economic activity, in particular, international competitiveness of the domestic industry. Against this background, an annual downward rate of crawl of 1.51 percent of the NEER was maintained for 2024. It was also determined that the trade pattern remained largely unchanged and, therefore, the Pula basket weights were maintained at 45 percent for the South African rand and 55 percent for the SDR.

(b) Domestic Economic Prospects

4.7 Botswana real GDP is projected to expand by 4.2 percent in 2024, from an estimated 3.2 percent in 2023[13]. It is anticipated that the 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 (Chart 4.1). It is anticipated that effective implementation of the economic transformation reforms and stimulative government expenditure indicated in the 2024/25 Budget, alongside the April 2023 – March 2025 Transitional National Development Plan (TNDP) would be supportive of economic activity, through facilitating expansion of productive capacity, accelerating economic transformation and enhancing economic resilience. Monetary policy also remains largely accommodative, given the projections for inflation remaining within the Bank's 3 – 6 percent objective range, therefore, conducive for financing of economic activity facilitated by economic transformation and policy reforms. However, given the downside risks to global economic activity, weaker global demand and adverse impact of the Russia-Ukraine war, the growth trajectory remains uncertain.

4.8 As announced in the 2024/2025 Budget Speech, the Government continues to run budget deficits during the TNDP, financed through fiscal savings, special funds proceeds, draw-down on reserves and domestic borrowing. In this regard, domestic borrowing will entail the issuance of new instruments, such as inflation linked bonds and green bonds among others, contributing to development of the capital market.

Chart 4.1: Botswana Non-Mining Output Gap (September 2023 - December 2025)



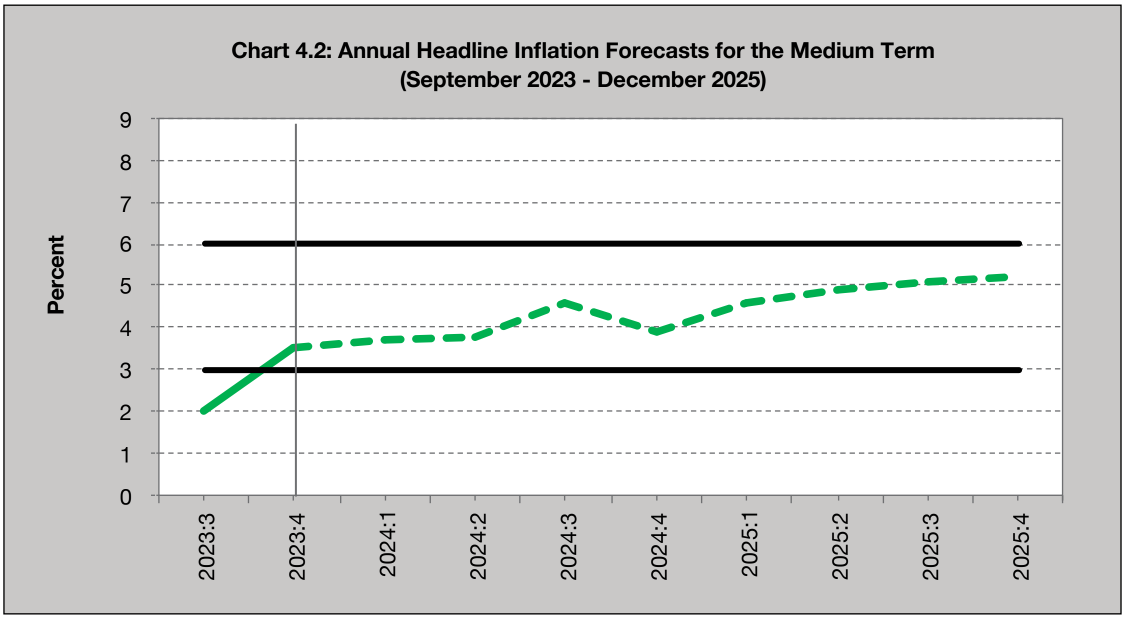
Source: Bank of Botswana.

4.9 Inflation is forecast to remain within the Bank's 3 – 6 percent objective range into the medium term (Chart 4.2). The projection takes into account the base effects associated with the adjustment of administered prices in 2023, downward adjustment of domestic fuel prices on December 21, 2023, maintenance of a negative rate of crawl for 2024 of 1.51 percent, the projected appreciation of the Pula against the South African rand, as well as the downward revision of forecasts for international commodity prices and trading partner countries' inflation. Moreover, according to the December 2023 Business Expectations Survey, the business community expects inflation to remain within the Bank's objective range in 2024, implying that inflation expectations are well anchored.

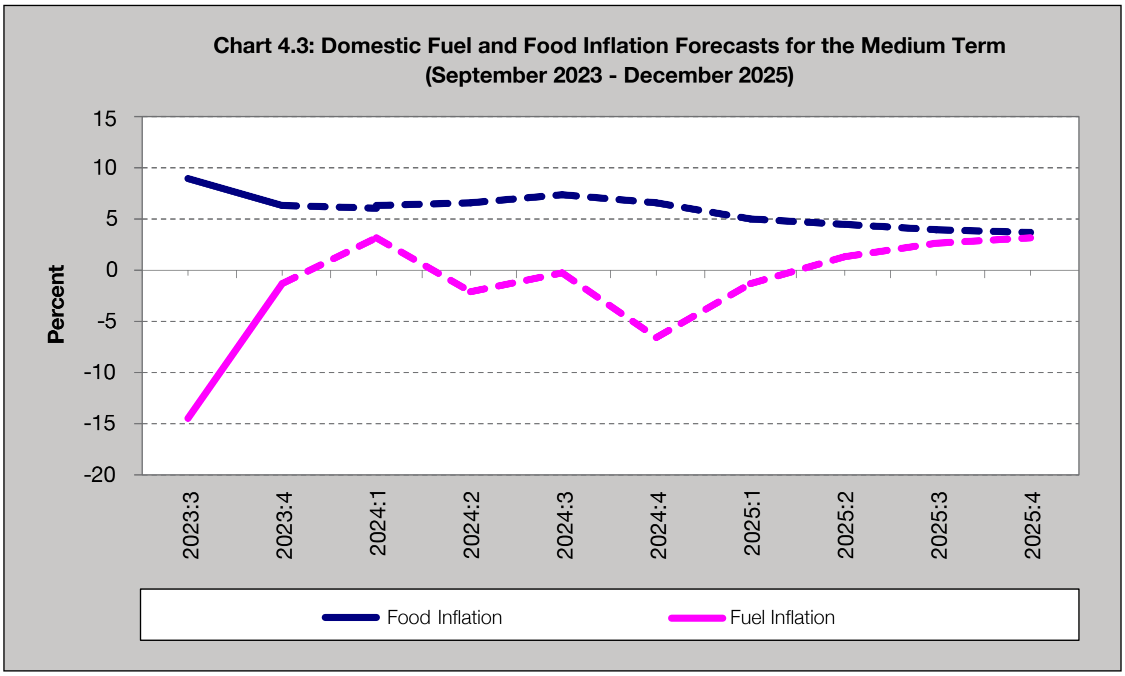
13 The growth figure for 2023 was revised downwards from the earlier projection of 3.8 percent, due to weak mining activity.

4.10 Overall, risks to the inflation outlook are assessed to be balanced. Inflation could be higher than projected if international commodity prices increase beyond current forecasts, supply and logistical constraints persist and the reversal of global economic integration (geo-economic fragmentation) escalates. Furthermore, possible upward adjustment in administered prices that is not factored in the current projection, the likely impact of the announced upward adjustment in minimum wages and public servants' salaries in February and April 2024, respectively, and any increase in domestic food prices due to the projected El Niño conditions in Southern Africa, may lead to higher inflation.

4.11 However, inflation could be lower than currently anticipated because of the possibility of both weaker domestic and global economic activity and disinflationary effects of higher monetary policy rates globally, as well as any decrease in international commodity prices.



Source: Bank of Botswana.



Source: Bank of Botswana.

5. 2024 MONETARY POLICY STANCE

5.1 An evaluation of the determinants of inflation and factors affecting financial stability suggests that the level of inflation will remain within the objective range in the short-to-medium term, reflective of the moderation in international commodity prices and expected subdued global economic activity, as well as well anchored inflation expectations. Furthermore, the current levels of credit growth to both businesses and households are considered sustainable. Overall, the recent and prospective developments for both domestic and external economic activity suggest that the prevailing accommodative monetary policy stance is consistent with inflation remaining within the Bank's 3 – 6 percent objective range in the short-to-medium term. In the context of projected higher inflation in Botswana than in the trading partner countries and the economy operating below potential in the short term, the assessment is that a measured depreciation of the Pula against trading partners is consistent with maintenance of domestic industry competitiveness and positive for growth prospects; hence implementation of the exchange rate policy will entail a 1.51 percent downward rate of crawl in 2024.

5.2 The Bank will continue to respond appropriately to changes in banking system liquidity conditions through relevant instruments. Overall, the Bank encourages prudent management, investment and productive allocation of financial resources, with a view to promoting growth-supporting intermediation and durable financial stability. In this regard, for effective policy transmission, the Bank guides the determination of the level and direction of market interest rates that are consistent with the monetary policy stance. The Bank also promotes the effectiveness of the interbank market to address liquidity positions of individual banks. In addition, the Bank contributes to financial stability through prudential and market conduct supervision of commercial and statutory banks and promotes, as well as participates in, coordinated regulation of the broader financial system.

6. CONCLUSION

5.1 Domestic inflation averaged 5.2 percent in 2023, thus within the Bank's objective range of 3 – 6 percent in 2023, mainly reflecting the downward adjustments in domestic fuel prices, subdued domestic demand, reduction in trading partner countries' inflation and the appreciation of the Pula against the South African rand. Meanwhile, global inflation is forecast to decrease in 2024, reflecting the tight monetary policy in 2023, as well as expected lower commodity prices.

5.2 It is projected that inflation in Botswana will remain within the objective range into the medium term, mainly on account of the dissipating impact of the earlier increases in administered prices, the recent downward adjustments in domestic fuel prices, the projected appreciation of the Pula against the South African rand and the expected decrease in international commodity prices and trading partner countries' inflation. The Bank's formulation and implementation of monetary policy will focus on entrenching expectations of low, predictable and sustainable inflation, through timely response to price developments, while ensuring that credit and other market developments are in line with durable stability of the financial system. The Bank remains committed to monitoring economic and financial developments with a view to ensuring price and financial stability, without undermining sustainable economic growth.

5.3 Broadly, the Bank contributes to macroeconomic stability and policy congruence through the pursuit and attainment of its primary objectives and coordination with relevant institutions with respect to price and financial stability, as well as stability of the inflation-adjusted trade-weighted exchange rate. By focusing and delivering on its specific roles, the Bank contributes to the maintenance of a conducive environment for structural reforms and transformation initiatives to gain traction, potentially leading to higher rates of growth needed to transition the economy to high income status. Given that both monetary policy and fiscal policy are expansionary, immediate implementation of transformation initiatives and structural reforms are expected to raise prospects for faster growth and economic diversification. Against this background, enhanced productivity/innovation (including greater production capacity) of industry and effectiveness of support institutions and service providers would help improve growth prospects for the economy in an environment of price and financial stability. It is observed, in this regard, that effective implementation, value recognition, user benefit and, overall, traction and longterm impact of conducive macroeconomic policies, economic transformation and policy reforms are premised on mindset change that discerns and harnesses the economic and welfare opportunities.

APPENDIX

Table A1: 2023 Monetary Policy Decisions

Central Bank	Policy Rate as at December 2023	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2024
United States Federal Reserve	5.25 – 5.5 percent	2	Increased by 100 basis points	The FOMC continued to reduce its holdings of treasury securities, agency debt and mortgage-backed securities.	Given that the FOMC expects inflation to be closer to the 2 percent target in 2026, rates are expected to remain higher for longer. The Fed is prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.
Bank of England	5.25 percent	2	Increased by 175 basis points	The MPC decided to reduce the stock of UK government bond purchases held for monetary policy purposes by £100 billion over the 12-month period from October 2023 to September 2024. The first auction of the annual programme took place on October, 2 2023. On November, 1 2023, the total stock of assets was £751 billion, comprising £750 billion of UK government bond purchases and £0.6 billion of sterling non-financial investment-grade corporate bond purchases.	Further tightening of the Bank Rate would be required if inflationary pressures persist
European Central Bank[14]	4.50 percent	2	Increased by 200 basis points	As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations (TLTROs), the ECB will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance. The Pandemic Emergency Purchase Programme, introduced in 2020, will be reinvested into the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. Net purchases under the asset purchase programme (APP) are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.	Monitoring current market tensions closely and ready to respond as necessary to preserve price stability and maintain financial stability in the region. Likely to maintain policy stance.

[14] The ECB has three key policy rates. These are the interest rate on the main refinancing operations, as well as the interest rates on the marginal lending facility and the deposit facility. The interest rate presented above is on the main refinancing operations.

Central Bank	Policy Rate as at December 2023	Inflation Target (%)	Policy Change from Previous Year	Asset Purchase Programmes	Likely Policy Decision in 2024
Bank of Japan	-0.1 percent	2	No change	Continued purchasing 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 Bank will continue to purchase a necessary amount of Japanese Government Bond (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.	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
Bank of Botswana	2.40 percent	3-6	Decreased by 25 basis points	Not applicable	No indication of the direction of policy, as decisions will be data dependent
South African Reserve Bank	8.25 percent	3-6	Increased by 125 basis points	Not applicable	Maintain an accommodative monetary policy stance
People's Bank of China	3.45 percent	3	Decreased by 20 basis points	Not applicable	The Peoples's Bank of China (PBOC) is committed to keeping liquidity adequate at a reasonable level, keep credit growing reasonably at a stable pace, and ensure that the growth of money supply and the aggregate financing to the real economy are generally in line with the nominal GDP growth. Given this commitment, the PoBC is likely to keep the Loan Prime Rate (LPR) low until the economy has recovered
Central Bank of Brazil	12.25 percent	4.5 ± 1.5	Decreased by 150 basis points	Not applicable	The inflation profile gives confidence to gradually ease monetary policy
Reserve Bank of India	6.50 percent	4 ± 2	Increased by 25 basis points	Not applicable	Reserve Bank of India (RBI) remains focused on withdrawal of accommodative policy to ensure that inflation remains within the target going forward, while supporting growth, and is prepared to undertake policy responses, should the situation so warrant
Central Bank of Russia	15 percent	4	Increased by 750 basis points	Not applicable	Increase the policy rate if inflationary pressures persist

Source: Surveyed central banks' websites

Table A2: Credit to Private Sector by Banks (Percent of GDP)

	2020	2021	2022
United States of America	53.9	50.4	51.7
United Kingdom	146.4	138.0	129.6
India	54.6	50.4	…
China	269.2	230.0	298.0
Singapore	130.6	129.5	128.9
Chile	88.2	80.7	83.0
Rwanda	24.9	25.3	22.8
Mauritius	91.8	86.4	72.3
Namibia	60.5	58.0	52.6
Kenya	32.1	31.1	31.5
South Africa	61.9	57.9	58.7
Botswana	39.6	34.5	29.8

Source: World Bank's World Development Indicators.

Notes:
1. Domestic credit to the private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises.
2. Data for 2023 is not available.

NOTE

NOTE

MONETARY POLICY COMMITTEE MEETING DATES FOR 2024

Date	Venue
February 21 - 22	Bank of Botswana
April 25 - 26	Bank of Botswana
June 12 - 13	Bank of Botswana
August 21 - 22	Bank of Botswana
October 30 - 31	Bank of Botswana
December 4 - 5	Bank of Botswana

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