

# **Cornelius K Dekop: Botswana's 2024 Monetary Policy Statement**

Speech by Mr Cornelius K Dekop, Governor of the Bank of Botswana, at the launch of Botswana's 2024 Monetary Policy Statement, Gaborone, 22 February 2024.

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## **Introduction**

Distinguished Guests, it is my singular honour to present the 2024 Monetary Policy Statement, the MPS. I extend a token of appreciation to the Guest of Honour, Honourable Minister of Finance, Ms Peggy Onkutlwile Serame for having taken the time out of her busy schedule to honour this event and being amongst us today.

Let me recognise at the outset that this year's statement has been formulated and is being made in accordance with the Bank of Botswana (Amendment) Act, 2022 which clearly states the mandates of the Bank in so far as price stability and financial stability are concerned. The Amended Act also gives the Minister of Finance the responsibility for determining the monetary policy framework, notably price stability or inflation objective. Ladies and Gentlemen, price stability is a public good and, therefore, a prudential national objective. This is in the sense that low and predictable inflation over the long term enables economic activity to thrive, as well as sustain improvements in welfare and living standards.

Director of Ceremonies, the law also assigns operational independence for the conduct of monetary policy to the Bank of Botswana, through its Monetary Policy Committee, the MPC. In addition to the MPC, the Act also provides for a Financial Stability Council and establishment of the Deposit Insurance Scheme of Botswana, all of which provides oversight and ensures trust in the financial system.

In this regard, Distinguished Guests, I wish to report that the Honourable Minister has affirmed the nation's price stability objective of inflation in the range of 3 – 6 percent. Furthermore, Bank of Botswana (Amendment) Act has established the MPC, which has a full complement of nine members, including four external members, who are appointed by the Minister. The principal remit of the MPC is to formulate monetary policy.

Director of Ceremonies, distinguished guests, the Amendment Act also established a Financial Stability Council whose responsibilities are to preserve the stability of the financial system by scanning the environment and assessing systemic risks. The Council comprises the Governor, the Permanent Secretary in the Ministry of Finance, the CEO of NBFIRA, Director General of the Financial Intelligence Agency and the Head of the Deposit Insurance Scheme. Both the MPC and the Council were in session during 2023.

## **Monetary Policy Statement and Communication Attributes**

Director of Ceremonies, Distinguished Guests, the MPS represents a critical aspect of governance and policy formulation. The Statement is a tool for operations and accountability.

The three key elements espoused in the Statement are, (i) articulation of the monetary policy framework, and how it relates to the price stability mandate; (ii) reporting on how monetary policy is conducted and, in turn, its impact on inflation, in the medium term; and, (iii) evaluating or validating the inflation outcome in comparison with the forecast, which is the methodology we use in the Bank.

Director of Ceremonies, as a policy tool or instrument, the MPS relays relevant information for decision making by firms and households, across the economy. The information disseminated include review of global and domestic economic and policy developments and the outlook. Furthermore, the Statement puts into context prospective policy posture which influences how the market responds in relation to balance sheet management (including liquidity management) and the effect on short-term market interest rates. Ultimately, the information in the MPS helps transmit policy as well as influence economic decisions. In the absence of destabilising shocks, the inflation expectations should converge to the 3 – 6 percent objective range in the medium term.

## **Monetary Policy Framework and Objective**

Distinguished Guests, the objective of the Bank's monetary policy is to achieve price stability, defined as a low, stable and predictable level of inflation, currently, within the 3 – 6 percent objective range, over the medium term. What this means is this: in the context of the economy of Botswana, given its structure and level of development, and in order to achieve durable, sustainable, and inclusive economic growth, price increases should not persist below 3 percent or above 6 percent. And, for emphasis, it is not only sufficient for inflation to be within the objective range; but it should do so in a durable and sustainable manner.

Monetary policy formulation also considers developments relating to stability of the financial system and prospects for economic growth. A sound and stable financial system is critical for effective transmission of monetary policy signals, facilitating the flow of funds and liquidity, as well as risk mitigation in support of economic activity. In this regard, price stability, as well as conducive monetary and financial conditions, foster effective mobilisation of savings, productive investment, prudent allocation of credit, international competitiveness of domestic firms and, ultimately, sustained economic growth.

Director of Ceremonies, the conduct of monetary policy and the attainment of price and financial stability also help preserve the value of incomes and long-term savings, especially for low-income earners and pensioners, who have less opportunities or alternative incomes. It is, therefore, paramount that the conduct of monetary policy and, indeed other aspects of the Bank's operations are well aligned to the Transitional National Development Plan theme of **Towards a High-Income Economy: Transformation Now and Prosperity Tomorrow.**

Honourable Minister, Distinguished Guests, against the backdrop of this outline of the monetary policy framework and the roles of the MPS, I will now address, in turn, first, the global trends that have influenced inflation in Botswana; second, I will report on the conduct of monetary policy in 2023, internationally and here at home; and third, the medium-term inflation outlook and the likely policy stance in 2024.

## **External Economic Developments in 2023**

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 impact of high inflation; the increase in the debt burden; reduction of COVID-19 related fiscal support; and extreme weather events. Thus, according to the World Economic Outlook, global economic growth is estimated to have expanded by 3.1 percent in 2023, lower than the 3.5 percent in 2022.

Regarding inflation, it moderated significantly, in response to aggressive monetary policy tightening and reduction in food and energy prices. Thus, global inflation is estimated to have decreased, from 8.7 percent in 2022 to 6.8 percent in 2023.

## **Domestic Economic Developments in 2023**

For Botswana, as the Honourable Minister indicated in the 2024 Budget Speech, the domestic economy is estimated to have expanded by 3.2 percent in 2023, revised downwards from the earlier projection of 3.8 percent, due to low mining production and sales.

Domestic inflation fell and averaged 5.2 percent in 2023, significantly lower than 12.1 percent in 2022. The low inflation profile in 2023 was against the background of subdued domestic demand and reduction in domestic fuel prices, amongst others.

Demand conditions, and as indicated by below potential economic activity, were modest and non-inflationary. Indeed, the recent labour force survey results by Statistics Botswana, which reports an unemployment rate of 25.9 percent in the third quarter of 2023, affirms the below-trend output growth.

## **Global Monetary Policy Implementation in 2023**

Honourable Minister, Distinguished Ladies and Gentlemen, at a global level, many central banks focused on reining in inflation towards their respective targets. However, the pace of increase in policy rates was lower in 2023 compared to 2022 and some central banks decreased their policy rates to stimulate economic activity.

## **Domestic Monetary Policy Implementation in 2023**

Monetary policy in 2023 was conducted in an environment of projections for modest inflation. There was, therefore, scope for accommodative monetary policy in support of stronger output growth. Hence, the Monetary Policy Rate was reduced by 25 basis

points to 2.4 percent in December 2023. Consequently, commercial banks reduced the Prime Lending Rate, while deposit interest rates generally increased, due to competition for corporate deposits.

The October 2023 Financial Stability Report, shows that, vulnerabilities and risks emanating from credit developments and monetary policy posture remain contained. Therefore, 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.

## **Monetary and Related Operations in 2023**

Honourable Minister and Distinguished Guests, the monetary operations reforms undertaken in 2022 are now fully embedded and, as desired, there is some noticeable improvement in policy transmission.

In addition, the government securities market improved in 2023 with less upward pressure on yields than in the past and a noticeable improvement in the uptake of government securities at auctions.

## **Global Economic Prospects in 2024**

Now looking ahead to prospective economic developments in 2024, global economic growth is expected to remain subdued at 3.1 percent in 2024, unchanged from 2023, against the backdrop of continued challenging prospects faced by advanced economies.

Regarding price developments, global inflation is projected to moderate further in 2024, supported by the effect of monetary policy tightening in 2023 and projected lower commodity prices.

## **Domestic Economic Prospects in 2024**

The domestic economy is forecast to grow by 4.2 percent in 2024, compared to an estimated expansion of 3.2 percent in 2023, as growth in the non-mining sector improves. It is anticipated that effective implementation of the economic transformation reforms and stimulative government expenditure indicated in the 2024/25 Budget, alongside the Transitional National Development Plan would be supportive of economic activity. Monetary policy also remains largely accommodative. 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.

Honourable Minister, inflation is forecast to remain within the Bank's objective range into the medium term, with the risks to the inflation outcome assessed to be balanced. It is notable, in this regard, that in 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.

## **2024 Monetary Policy Stance**

As already indicated, inflation is forecast to remain within the objective range in 2024. The recent and prospective developments for both domestic and external economic activity suggest that the economy will operate below capacity in the short term. If this situation persists, then it may allow for accommodative monetary policy in 2024. The MPC will make its first determination tomorrow.

Turning to exchange rate policy implementation, as announced at the beginning of the year and broadly consistent with Botswana's trade pattern, the weights of the constituent currencies in the Pula Basket are 45 percent for the South African rand and 55 percent for the Special Drawing Rights. A downward rate of crawl of 1.51 percent of the nominal effective exchange rate is also being implemented in 2024, with a view to promote competitiveness of goods and services produced in Botswana.

Notwithstanding, it continues to be important that lasting improvements in competitiveness will derive from improvements in productivity of the economy enabled by implementation and traction of initiatives, such as those captured in the Transitional National Development Plan, the Reset and Reclaim Agenda and in the Honourable Minister's February 5, 2024 Budget Speech.

## **Conclusion**

As I conclude, Honourable Minister and Distinguished Ladies and Gentlemen, I wish to underscore that the Bank is committed to maintaining price and financial stability. 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 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.

Distinguished guests, reflecting and aligning this to the Mindset Change Campaign, for its part, the Bank will respond in a properly calibrated and timely manner to any threats to price and financial stability, while remaining committed to promoting economic development and welfare improvements through its various functions.

Honourable Minister, Distinguished Ladies and Gentlemen,

I thank you for your kind attention.