



2022 Monetary Policy stance and reforms to monetary operations

1. Monetary Policy Reforms

- The Bank of Botswana (BoB), at the launch of the 2022 Monetary Policy Statement (23rd February 2022), highlighted changes it seeks to make on Botswana's Monetary Policy Implementation Framework to improve local money supply management and enhance the transmission of monetary policy changes.
- The proposed changes follow an evaluation of Botswana's monetary policy implementation framework, conducted on a regular basis, with the view of introducing refinements where necessary to improve its effectiveness. The improvement in liquidity management by the Central Bank, will improve its ability to influence macroeconomic indicators which include inflation, consumption and economic growth. These changes were effective from 28th April 2022.
- The amendments follow consultations between the Central Bank, commercial banks, as well as development funding partners. The objective of the engagements was aimed at strengthening the transmission of monetary policy, leading to improved signalling provided by the announcement of the policy rate and consequent response of the market.
- The amendments include switching the anchor policy rate from the Bank Rate to the 7-day Bank of Botswana Certificate (BoBC) yield, termed the Monetary Policy Rate (MoPR).
- The Central Bank also allowed commercial banks to independently determine their own prime lending rates. To facilitate the transition BoB prescribed that the maximum prime rate should be maintained at 5.25% (over the transition period) except in the event of an adjustment of the MoPR. (However, given the change in MoPR on 28th April 2022, the maximum prime was reset to 5.76%)
- First National Bank Botswana (FNBB) hereby gives notice to all its property loan customers and its other customers who have credit and lending facilities with FNBB that as from 28th April 2022 the reference to the "Bank Rate" as a necessary factor determining FNBB/the Bank's prime lending rate in respect of home loan agreements and any other credit and lending agreements, shall cease to exist.
- Consequently, with effect from 28th April 2022, "Prime" and or "FNBB Prime" and or the "Bank's Prime Lending Rate" shall no longer be determined with reference to the repealed "Bank Rate" instead it shall be determined with reference to the MoPR. FNBB Prime shall be defined as:

"The variable, publicly quoted basic rate of interest (percent per annum) generally levied by the Bank from time to time on overdraft to its first class corporate borrowers calculated daily and compounded monthly in advance. The prime lending rate may change from time to time and such change shall be communicated to you through media publications and releases."

- Commercial banks are expected to institute a spread over the MoPR that maintains agreed pricing margins with the customers, despite the switch in the reference point (from Bank Rate to MoPR). This spread will be maintained during the one-year transition period, where any changes in variable prices will only move in tandem with MoPR.
- Additional changes include reforms aimed at improving interbank activities such as the introduction of the 1 Month Bank of Botswana Certificate (BoBC) and the introduction of the interest rate corridor which allows commercial banks to lend and borrow from the Central Bank at their discretion.

2. Monetary Policy Stance

On the 28th of April 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana announced increase of the Monetary Policy Rate (MoPR) by 51 basis points from 1.14% to 1.65%.

Therefore, the following will change as follows:

- MoPR changes from 1.14% to 1.65%
- FNBB Prime changes from 5.25% to 5.76%