MOHOHLO IS AFRICA'S CENTRAL BANK GOVERNOR OF THE YEAR

Award Recipients – Central Bank Governors and Ministers of Finance of the Year

The Governor of the Bank of Botswana, Mrs Linah K Mohohlo, was honoured with the Central Bank Governor of the Year Award for Africa at a reception hosted by The Emerging Markets Forum in Washington DC on October 10, 2008. The reception was convened at the time of the annual meetings of the International Monetary Fund and the World Bank, to honour the recipients of the 2008 awards for Finance Minister and Central Bank Governor of the Year for Latin America, Asia, Middle East, Africa and Emerging Europe. The award winner for Finance Minister of the Year for Africa was Mr Trevor Manuel of South Africa.

The Award is in recognition of Governor Mohohlo's success in steering the Bank of Botswana in the right direction, with respect to, in the main, implementing prudent and effective financial, monetary and reserve management policies, thus making a meaningful contribution to the development of the country. Nominations are made and votes cast by third party observers and bankers in major world financial centres on the basis of, among others, efficiency and effectiveness of policies.

The following is a commentary by the Emerging Markets Forum publication of October 10, 2008:

Linah K Mohohlo

Central Bank Governor of the Year for Africa

For even the most able central banker, getting the right balance between monetary and exchange rate objectives, in a small open economy vulnerable to external price shocks and which sits within a region prone to volatility, is a daunting challenge. But Linah Mohohlo, the governor at the Bank of Botswana (BoB), has nimbly balanced these objectives by beefing up monetary transmission channels and making medium- and long-term price stability a priority.

Mohohlo, who has been governor of the bank for nine years, announced in February that the rate of commercial bank credit growth would no longer be the sole indicator for inflation forecasts. The bank has now "developed analytical capacity to estimate aggregate demand conditions to the extent that a wider range of factors can be considered more systematically", she tells *Emerging Markets*.

As well as widening the data used for forecasts, Mohohlo has extended the bank's policy horizon – rather than have an annual inflation target, a rolling three year goal of between 3% and 6% has now been set. "This is in recognition that monetary policy is inherently forward-looking", says Mohohlo. "Since it has little impact on short-term price developments, monetary policy action can only realistically be successful in the medium term".

This more rigorous inflation-forecasting framework and aim for sustainable price performance will "benefit policy transmission and … now provide better guidance to inflationary expectations, which themselves play a role in the transmission mechanism", she predicts.

The Market appears to agree. Phumelele Mbiyo, local and sovereign strategist as Standard Bank, says the new policy horizon "is a good idea, since focusing economic agents on the future and not past price performance helps monetary policy".

Whereas the monetary authorities of other emerging markets have, to the disdain of many economists, excused lax policy on the basis that prices shocks hit them from outside their own economy, Mohohlo has grappled with targeting inflation. The former IMF economist passionately affirms the central bank's power to control price performance in the small, liberalized country, despite its acute economic links with South Africa.

This year, annual inflation rose from 8.4% in January to 15.1% in August, largely driven by rising food prices. Subsequently, the BoB raised the policy rate by half a percentage point to 15% in May, and again by the same amount to 15.5% in June. Mohohlo argues that these rate increases were necessary moves "to counter second-round effects and influence inflation expectations".

Most crucially, the central bank is tasked with boosting the competitiveness of exports to diversify the economy of the world's largest diamond-producer through the crawling peg regime introduced in 2005. Mohohlo is charged with preventing an overvalued currency and ensuring some nominal exchange rate flexibility in case of external shocks.

Standard Bank's Mbiyo argues that "diversifying the economy is the overriding objective, to the detriment of inflation". Nevertheless, Mohohlo is adamant that the crawling peg regime is flexible enough to support her counter-inflationary battle. By optimizing monetary policy tools and improving communication, the governor is in a strong position to reconcile these opposing objectives. – *Sid Verma*