

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

February 28, 2017

The meeting of the Monetary Policy Committee held on February 28, 2017 concluded that the outlook for price stability remains positive, with forecast inflation within the 3 – 6 percent objective range in the medium term.

Global output is projected to grow by 3.4 percent in 2017, from an estimated 3.1 percent in 2016, and 3.6 percent in 2018. The improvement in performance in 2017 is driven by an expected pick-up in growth in both advanced and emerging market economies. However, uncertainty surrounding the trade policy direction of the new USA administration, the process towards withdrawal of the United Kingdom from the European Union, moderation of growth in China and risks to stability of the euro area could alter medium-term growth prospects. Meanwhile, economic performance across the world remains uneven, with challenges relating to economic restructuring in both developed and emerging market economies.

In Botswana, real GDP grew marginally by 0.9 percent in the twelve months to September 2016, compared to the contraction of 0.1 percent in the corresponding period ending in September 2015, reflecting growth in non-mining activity. Mining output contracted by 11.9 percent, following a similar contraction of 11.8 percent in twelve months to September 2015. In contrast, non-mining output grew by 3 percent in the year to September 2016 compared to 2.1 percent in the corresponding period ending in September 2015. Projections indicate that domestic non-mining output will be below trend in the medium term, influenced mainly by the restrained growth in personal incomes, lower rate of increase in government expenditure, sluggish recovery of the mining sector as well as modest economic growth in major trading partners.

Inflation increased marginally from 3 percent in December 2016 to 3.1 percent in January 2017, and is forecast to be within the 3 - 6 percent objective range in the short to medium term. Subdued domestic demand pressures and modest increase in foreign prices

contribute to the positive inflation outlook in the medium term. The outlook is subject to downside risks emanating from sluggish global economic activity and the resultant low commodity prices. It could, however, be adversely affected by any unanticipated large increase in administered prices and government levies as well as international oil and food prices beyond current forecasts.

The current state of the economy and both the domestic and external economic outlook, including the inflation forecast, suggest that the prevailing accommodative monetary policy stance remains consistent with maintaining inflation within the Bank's medium-term objective range of 3 - 6 percent. In the circumstances, the Monetary Policy Committee decided to maintain the Bank Rate at 5.5 percent.

Monetary policy is also aligned with the need to safeguard financial stability. In this regard, credit growth is considered to be at a sustainable level, thus not posing a threat to financial stability.