

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

August 22, 2017

Bank of Botswana keeps the policy rate unchanged at 5.5 percent

At the meeting held on August 22, 2017, the Monetary Policy Committee of the Bank of Botswana decided to maintain the Bank Rate at 5.5 percent. The outlook for price stability remains positive as inflation is forecast to be low and close to the lower bound of the 3 – 6 percent objective range in the medium term. Meanwhile, inflation decreased modestly from 3.5 percent in June to 3.4 percent in July 2017.

Moderate domestic demand pressures and the modest increase in foreign prices contribute to the positive inflation outlook in the medium term. This outlook is subject to downside risks emanating from lower than projected growth in global economic activity and the resultant low commodity prices. Any substantial unanticipated increase in administered prices and government levies and/or taxes and any increase in international commodity prices beyond current forecasts present upside risks to the inflation outlook.

GDP in Botswana grew by 3.9 percent in the twelve months to March 2017, compared to a contraction of 1.8 percent in the corresponding period ending in March 2016. The improvement in growth reflects a 5.9 percent increase in non-mining activity, while mining sector output contracted by 10.3 percent in the twelve months to March 2017. It is projected that domestic non-mining output will be below trend in the short to medium term, constrained by continued modest growth of household incomes and subdued economic expansion in major trading partners. However, gradual economic recovery is expected in the medium term in response to anticipated improvement in external economic conditions. Annual increase in commercial bank credit was 4.1 percent in June 2017 compared to 7.5 percent in June 2016. Lending to businesses excluding parastatals grew at a higher annual rate of 9.5 percent in June 2017 compared to 7.5 percent in the

corresponding period last year; household borrowing increased by 5 percent compared to 12 percent in the same period last year.

Global output is forecast to grow by 3.5 percent in 2017, compared to an estimated 3.2 percent in 2016, and by 3.6 percent in 2018, reflecting prospective improvement in performance in both advanced and emerging market economies. However, uncertainty surrounding global trade policy and openness, as well as moderation of growth in China, could adversely affect the medium-term growth prospects. Regionally, the projected weak economic performance in South Africa in 2017 could, potentially, undermine growth prospects in Botswana.

The current state of the economy and the outlook for both the domestic and external economic activity suggest that the prevailing supportive monetary policy stance remains consistent with maintaining inflation within the 3 – 6 percent objective range in the medium term.

Moreover, the potential for banks to expand credit provision continues to be supported by a stable financial system, and sufficient liquidity in the banking system. In particular, the level of Bank of Botswana Certificates and balances held by banks abroad, in part, represent excess liquidity, which is available for lending in response to any effective credit demand by both businesses and households.

The next MPC meeting is scheduled for October 24, 2017.