



Press Release

Monetary Policy Committee Meets

August 23, 2018

Bank Rate unchanged at 5 percent

At the meeting held on August 23, 2018, the Monetary Policy Committee of the Bank of Botswana decided to maintain the Bank Rate at 5 percent. The outlook for price stability remains positive as inflation is forecast to be within the 3 – 6 percent objective range in the medium term. Inflation was unchanged at 3.1 percent between June and July 2018.

Subdued 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 upside risks emanating from the potential rise in administered prices, commodity prices and government levies and/or taxes beyond current forecasts. However, restrained growth in global economic activity, technological progress and productivity improvement, along with modest wage growth, present downside risks to the outlook.

Real GDP grew by 3.3 percent in the twelve months to March 2018, compared to 4 percent in the year to March 2017. The slower growth reflects a lower increase of 3.8 percent in non-mining activity, compared to 6 percent in the corresponding period in 2017. Moreover, the 0.3 percent decline in mining output also moderated overall growth. GDP is projected to expand in the short to medium term, driven largely by growth in the services sectors and recovery in mining activity, in line with the positive global economic prospects. Furthermore, the projected accommodative monetary conditions in the domestic economy and expansion in government expenditure, as well as relative stability in water and electricity supply, are expected to support expansion of economic activity in

the non-mining sectors. Overall, the economy is expected to operate close to, but below full capacity in the medium term, thus posing no risk to the inflation outlook.

Global output growth was 3.7 percent in 2017 and is projected at 3.9 percent in 2018 and 2019, reflecting broad-based strengthening of economic performance. However, protectionist trade policies, potential build-up of financial vulnerabilities induced by easy financial conditions, geopolitical tensions and adverse weather could negatively affect the medium-term growth prospects. Regionally, GDP in South Africa is projected to expand by 1.2 percent in 2018, down from 1.3 percent in 2017, and is forecast at 1.9 percent in 2019. Growth prospects in South Africa are expected to remain subdued as output projections are weighed down by the widening fiscal account deficit and a slow implementation of reforms.

The current state of the economy and the outlook for both domestic and external economic activity suggest that the prevailing monetary policy stance is consistent with maintaining inflation within the objective range of 3 – 6 percent in the medium term. Consequently, the Monetary Policy Committee decided to retain the Bank Rate at 5 percent.

As part of the on-going reforms to improve the monetary policy communication, the Bank will formally launch the first Monetary Policy Report at the forthcoming National Business Conference in Francistown on September 9, 2018. Henceforth, the Report will, in addition to the February Monetary Policy Statement, be published in April, August and October every year to provide detailed background information on monetary policy formulation and decisions.

MPC meetings for the remainder of the year are scheduled as follows:

October 22, 2018

December 4, 2018