



Press Release

Monetary Policy Committee Meets

December 4, 2018

Bank Rate unchanged at 5 percent

At the meeting held on December 4, 2018, the Monetary Policy Committee (MPC) 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 remain within the Bank's 3 – 6 percent objective range in the medium term. Inflation increased from 2.9 percent in September to 3.6 percent in October 2018 and is expected to edge up slightly in the short term, mainly driven by the increase in domestic fuel prices.

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, in particular, domestic fuel 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.

As previously reported, real GDP grew by 4.4 percent in the twelve months to June 2018, compared to a lower expansion of 3.2 percent in the year to June 2017. The improvement in performance reflects the recovery in the mining sector, which grew by 5.6 percent compared to a contraction of 10 percent in the previous year. Growth in non-mining GDP moderated to 4.3 percent in the year to June 2018, from 5 percent in 2017. GDP growth is projected to improve in the short to medium term, driven largely by performance of the

services sectors and recovery in mining activity, in line with positive global economic prospects. Furthermore, the projected accommodative monetary conditions in the domestic economy and increase in government expenditure are expected to support growth of economic activity in the non-mining sectors. Overall, it is anticipated that the economy will operate close to, but below full capacity in the medium term, thus posing no upside risk to the inflation outlook.

Global output growth is projected at 3.7 percent in 2018 and 2019, the same as in 2017. Protectionist trade policies, potential build-up of financial vulnerabilities induced by easy financial conditions and geopolitical tensions could negatively affect the medium-term prospects. Regionally, economic prospects in South Africa are expected to remain subdued in the short term with growth of 0.6 percent in 2018 and 1.9 percent in 2019.

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 MPC decided to retain the Bank Rate at 5 percent.

The next full update of the Bank's outlook for the domestic economy and inflation will be published a week after the MPC meeting of February 26, 2019 in the Monetary Policy Statement. MPC meetings for 2019 are scheduled as follows.

February 26, 2019

April 25, 2019

June 27, 2019

August 29, 2019

October 31, 2019

December 5, 2019