

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

June 20, 2017

Bank of Botswana keeps the policy rate unchanged at 5.5 percent

At the meeting held on June 20, 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, although increasing slightly in the short term, is forecast to remain within the 3 – 6 percent objective range in the short to medium term. However, inflation increased marginally from 3.4 percent in April to 3.5 percent in May 2017. Going forward, the projected modest increase in inflation, in the short term, is due to higher electricity and water tariffs, and international oil 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 downside risks emanating from sluggish global economic activity and the resultant low commodity prices. Any substantial unanticipated upward adjustment 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 4.3 percent in 2016, largely due to improvement in the diamond trade, which contributed to a 5.5 percent growth of the non-mining sector, from 1.7 percent in the previous year. Mining output contracted at a slower rate of 3.7 percent in 2016 compared to a decrease of 19.6 percent in 2015. Even though overall credit growth has been declining, lending to businesses, excluding parastatals, is increasing at a higher rate (9.3 percent) in April 2017 compared to (3.9 percent) in April 2016. It is projected that domestic non-mining output will be below trend in the near term, constrained by continued modest growth of household incomes and restrained 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.

Global output is projected to grow by 3.5 percent in 2017, compared to an estimated 3.1 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, inward-looking policies as well as moderation of growth in China, could adversely affect the medium-term growth prospects. Regionally, the recent downgrade of South Africa's credit rating, for foreign currency debt, to sub-investment grade could undermine growth by constraining private investment and household consumption. Potential negative spillovers into Botswana include higher inflation, lower exports and SACU revenue, although the risks are considered to be moderate, overall.

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 Bank's medium-term objective range of 3 - 6 percent.

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

August 21, 2017;

October 26, 2017; and

December 11, 2017.