

BANK OF BOTSWANA

Press Release

ADJUSTMENT OF BANK RATE

The Bank of Botswana has increased the Bank Rate with effect from today by 50 basis points from 14.50 to 15.00 percent.

The Bank increased the Bank Rate in consideration of prospective upward pressures on inflation. While international inflationary pressures remain relatively benign, inflation in Botswana has risen sharply and is expected to remain at high levels in the short-term. Looking ahead, it is anticipated that domestic demand pressures will increase due to the rise in disposable incomes and an acceleration in the growth of government expenditure as announced in the 2006/07 Budget, which will generate some inflationary pressures in the economy. The Bank is concerned that the current level of inflation which, among others, is due to the impact of the re-introduction of fees in government schools on consumer price inflation, may engender expectations of high levels of inflation. Meanwhile, the anticipated increase in demand can serve to accommodate price increases arising from these expectations.

It is against this background that the Bank considers it prudent to take proactive measures that would restrain demand and continue to inculcate expectations of low inflation and signal its commitment to an eventual decline in inflation to sustainable levels in the medium-term, even where there may be supply-side transitory shocks to inflation. The current level of inflation, which is more than double the upper limit of the Bank's current inflation objective, is inconsistent with macroeconomic stability, that is the basis for sustainable economic growth. The Bank will continue to closely monitor economic and financial developments and will take such action as may be necessary to meet its policy objectives.

Financial institutions are expected to ensure that, when adjusting their interest rates, they maintain a reasonable balance between lending and savings rates.

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