

BANK OF BOTSWANA

PRESS RELEASE

Adjustment of the Bank Rate

The Bank of Botswana has today raised the Bank Rate by half a percent (50 basis points) to 14.75 percent. The Bank Rate is the rate the Bank of Botswana charges on lending to commercial banks.

This policy action has been taken in light of the continuing high rates of growth in commercial bank credit and government expenditure, both of which are growing well in excess of the levels consistent with the Bank's inflation objective. The Bank is also concerned that the recent rise in inflation resulting from the introduction of value added tax (VAT) is leading to an increase in inflationary expectations on the part of consumers and producers.

As was noted in the 2002 Monetary Policy Statement, the Bank's aim is to keep inflation in the range of 4 percent to 6 percent during 2002. While this was largely achieved in the first half of the year, in the last three months inflation has risen sharply, reaching 10.1 percent in September, 2002. This increase was largely the result of the introduction of VAT, which the Bank estimated would increase prices by 4 percent to 6 percent. However, while the Bank anticipates that the impact of VAT will dissipate over time, the demand pressures due to the high growth rates for credit and Government expenditure pose serious risks to the outlook for inflation, even when excluding the impact of the VAT. This will be exacerbated by possible further increases in oil and food prices, and the lagged effects of higher inflation in South Africa.

In line with the objective of maintaining low and stable inflation, as stated in the Monetary Policy Statement, it has become necessary to raise interest rates in order to curtail the growth rate of commercial bank credit, which, in turn, will lower domestic demand and reduce inflation.

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