

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

August 6, 2015

Introduction

The meeting of the Monetary Policy Committee held on August 6, 2015 concluded that the medium-term outlook for price stability remains positive, with the forecast inflation remaining within the 3 – 6 percent medium-term objective range.

Economic Outlook and Assessment of Risks

Global output is projected to grow by 3.3 percent in 2015 compared to the estimated 3.4 percent in 2014 and the forecast of 3.8 percent for 2016. However, growth performance differs across regions, with geopolitical risks and challenges relating to economic restructuring in both developed and emerging market economies constraining medium-term prospects.

For Botswana, GDP growth is estimated at 4.6 percent in the twelve months to March 2015 compared to 7.9 percent in the corresponding period in 2014. This reflects the 2.5 percent and 5 percent expansion in mining and non-mining output, respectively. Inflation increased from 3 percent in May to 3.1 percent in June 2015, mainly due to an increase in housing rentals. Low domestic demand pressures and subdued foreign price developments contribute to the positive inflation outlook in the medium term. However, this is subject to downside risks arising from the sluggish global economic activity and associated weakness in commodity prices. The inflation outlook could be adversely affected by any unanticipated large increase in administered prices and government levies, as well as international oil and food prices beyond current forecasts.

Monetary Policy Stance

The current state of the economy as well as the domestic and external economic outlook, including the inflation forecast, suggest that easing monetary policy is a step in the right direction; it would be consistent with maintaining inflation within the Bank's medium-term objective range

of 3 – 6 percent. Accordingly, the Monetary Policy Committee decided to reduce the Bank Rate by half a percent to 6 percent.

Consequently, all commercial banks are required to make the necessary interest rate adjustment immediately to reflect this policy decision.