

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

August 12, 2016

The meeting of the Monetary Policy Committee held on August 12, 2016 concluded that the outlook for price stability remains positive, with the forecast pointing to inflation being close to the lower end of the 3 – 6 percent objective range in the medium term.

Global output is projected to grow by 3.1 percent in 2016, the same as in 2015, and 3.4 percent in 2017. However, economic performance across the world remains uneven, with challenges relating to economic restructuring in both developed and emerging market economies. In addition, the heightened uncertainty arising from the recent decision by the United Kingdom to leave the European Union further constrains medium-term growth prospects.

In Botswana, real GDP is estimated to have contracted by 0.2 percent in the twelve months to March 2016, compared to growth of 3.2 percent in March 2015, thus reflecting the decline of 21.4 percent in mining production. Non-mining output increased by 3.8 percent. Inflation fell from 2.8 percent in May to 2.7 percent in June 2016. Low domestic demand pressures and subdued foreign price developments 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 consequent low commodity prices. It could, however, 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.

The current state of the economy and both the domestic and external economic outlook as well as the inflation forecast provide scope for easing monetary policy to support economic activity without undermining maintenance of 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 percentage point to 5.5 percent.

Monetary policy is also aligned with the need to safeguard financial stability. In this respect, credit growth is considered to be at a sustainable level and poses no threat to financial stability.

Commercial banks must make the necessary interest rate adjustments with immediate effect to reflect this policy decision.