

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meeting

August 15, 2014

Introduction

The meeting of the Monetary Policy Committee held on August 15, 2014 concluded that the medium-term outlook for price stability remains positive, with inflation forecast to remain within the 3 – 6 percent objective range.

Economic Outlook and Assessment of Risks

Global output is estimated to have grown by 3 percent in 2013 and is projected to increase by 3.6 percent in 2014 and 3.9 percent in 2015, buoyed by improved growth in advanced economies and continuing strong performance in emerging markets. However, overall GDP growth remains moderate, with subdued demand and capacity underutilisation in major economies, as well as the high unemployment rates that continue to constrain worldwide inflation.

Botswana's output growth is estimated at 5.9 percent in the twelve months period to March 2014, thus reflecting the 14.2 percent and 4.6 percent increase in mining and non-mining output, respectively. It is anticipated that non-mining economic activity will be below potential in the medium term. The impact of domestic demand on economic activity is projected to be modest, largely indicating trends in government expenditure and personal incomes.

Inflation eased marginally from 4.6 percent in June to 4.5 percent in July 2014. Weak domestic demand and the projected benign external price developments result in a positive inflation outlook for the medium term. However, this outlook could be adversely affected by any unanticipated large increase in administered prices and government levies as well as international oil prices that are higher than currently forecast.

Monetary Policy Stance

The current state of the economy, domestic and external economic prospects, and the inflation outlook, suggest that the current monetary policy stance is consistent with maintaining inflation within the Bank's 3 – 6 percent objective in the medium term. Accordingly, the Monetary Policy Committee decided to maintain the Bank Rate at 7.5 percent.