

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meeting

February 18, 2015

Introduction

The meeting of the Monetary Policy Committee held on February 18, 2015 concluded that the medium-term outlook for price stability remains positive, with inflation forecast to remain within the medium-term objective range of 3 – 6 percent.

Economic Outlook and Assessment of Risks

Global output is projected to increase by 3.5 percent in 2015 (revised from 3.8 percent), compared to the estimated growth of 3.3 percent in 2014, and 3.7 percent in 2016 due to improving performance in advanced economies and lower oil prices. However, the growth profile differs across the globe while geopolitical risks and structural impediments constrain medium-term prospects.

For Botswana, total GDP growth is estimated at 4.8 percent in the twelve months to September 2014, reflecting the 5.5 percent and 4.7 percent expansion in mining and non-mining output, respectively. While the alcohol levy was increased by 5 percent in December 2014, inflation fell from 3.8 percent in December 2014 to 3.6 percent in January 2015. Modest domestic demand pressures and benign foreign price developments contribute to the positive inflation outlook in the medium term. The inflation outlook is subject to downside risks associated with weak global activity and a possible further decline in commodity prices. This could be adversely affected by any unanticipated larger increase than the current forecast for administered prices, government levies and international food and oil prices.

Monetary Policy Stance

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 price stability. Accordingly, the Monetary Policy Committee decided to reduce the Bank Rate by 1 percentage point to 6.5 percent.

Monetary policy is also aligned with the need to safeguard financial stability. In this regard, credit growth is assessed to be at a sustainable level, thus posing no threat to financial stability. Meanwhile, commercial bank liquidity condition continues to be monitored to allow for sound banking operations in support of economic activity.

Commercial banks are expected to make the necessary interest rate adjustments to reflect this policy decision.