



October 3, 2013

Monetary Policy Committee Decision

Introduction

The October 3, 2013 meeting of the Monetary Policy Committee (MPC) concluded that the medium-term outlook for inflation is positive, with inflation forecast to remain within the 3 – 6 percent objective range.

Economic Outlook and Assessment of Risks

World output is projected to increase by 3.1 percent in 2013, unchanged from the estimate for 2012. Growth in emerging markets is expected to slow, although remaining stronger than in developed countries. The subdued world output growth and sluggish demand have so far moderated global inflation. Moreover, low capacity utilisation and high unemployment rates in major economies continue to restrain inflation.

In Botswana, GDP growth in the twelve months to June 2013 is expected to be around 5 percent, reflecting a slower increase in the non-mining output and a marginal contraction in the mining sector. It is expected that non-mining output will remain below potential in the medium term and generate minimal inflationary pressures. It is anticipated that the influence of demand on economic activity will be modest, largely reflecting trends in government expenditure and personal incomes.

Inflation eased from 5.7 percent in July 2013 to 5.6 percent in August, and was within the Bank's objective range of 3 – 6 percent. The marginal decrease in inflation was attributable to a slowdown in price increases for various categories of goods and services. Weak domestic demand and the forecast benign external price developments contribute to the positive inflation outlook in

the medium term, with the likelihood of a further fall in inflation in the short term. However, this outlook could be negatively affected by any unanticipated large increase in administered prices and government levies, as well as a possible increase in international food and oil prices to levels beyond the current forecast.

Monetary Policy Stance

The current state of the economy and assumptions on both the domestic and external economic outlook, as well as the inflation forecast, 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 8 percent.