

BANK OF BOTSWANA

Press Release

Monetary Policy Committee Meets

October 17, 2016

The meeting of the Monetary Policy Committee held on October 17, 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, from 3.2 percent 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, uncertainty arising from the June 2016 decision by the United Kingdom to leave the European Union could further constrain medium-term growth prospects.

In Botswana, real GDP is estimated to have contracted by 0.3 percent in the twelve months to June 2016, compared to growth of 3.1 percent in June 2015, thus reflecting the decline of 23 percent in mining production. Non-mining output increased by 4 percent. Inflation increased from the historically low level of 2.6 percent in August to 2.8 percent in September 2016. Subdued domestic demand pressures and benign 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 resultant 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, including the inflation forecast, suggest that the prevailing monetary policy stance is consistent with maintaining inflation within the Bank's medium-term objective range of 3 - 6 percent. In the circumstances, the Monetary Policy Committee decided to maintain the Bank Rate at 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; it is posing no threat to financial stability.