December 10, 2013

Monetary Policy Committee Decision

Introduction

The December 10, 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 2.9 percent in 2013; this compares with 3.2 percent for 2012; output is forecast at 3.6 percent for 2014. Economic performance in emerging markets is expected to improve and remain stronger than in developed countries. Subdued expansion in global economic activity and sluggish demand, including low capacity utilisation and high unemployment rates in major economies, have so far restrained world inflation.

In Botswana, GDP growth in the twelve months to June 2013 is estimated at 4.6 percent, as a result of a 5.5 percent increase in non-mining output and a 0.7 percent contraction in mining activity. It is expected that non-mining GDP will remain below potential in the medium term and generate minimal inflationary pressures. The influence of demand on economic activity is expected to be modest, largely reflecting trends in government expenditure and personal incomes.

Inflation eased from 5 percent in September 2013 to 4.8 percent in October, and was within the Bank's objective range of 3 – 6 percent. 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 international food and oil prices increasing to levels beyond the current forecast.

Monetary Policy Stance

The current state of the economy, in which unemployment remains high alongside below-trend economic activity, suggests scope for monetary policy easing to stimulate stronger output growth. Assumptions on both the domestic and external economic outlook, as well as the inflation forecast, suggest that reducing the Bank Rate is consistent with maintaining inflation within the Bank's 3 – 6 percent objective range in the medium term. Accordingly, the Monetary Policy Committee decided to reduce the Bank Rate by half a percent to 7.5 percent.

Banks are expected to make the necessary interest rate adjustments to reflect this policy decision. However, in order to protect the interest of depositors, banks are required to offer and publish a 91-day deposit or equivalent deposit product which pays an interest rate that is at least 350 basis points (3.5 percentage points) below the prevailing Bank Rate. That is, at the current Bank Rate of 7.5 percent per annum, the 91-day deposit interest rate at any bank should be, at the minimum, 4 percent per annum, with commensurate higher interest rates for longer-dated deposits. Furthermore, the current yields on Bank of Botswana Certificates remain unchanged.