



Statement of the Monetary Policy Committee: August 22, 2012

1. Introduction

- 1.1 The Monetary Policy Committee of the Bank of Botswana met on August 22, 2012, and observed that the medium-term outlook for inflation continued to be positive. However, price developments imply that inflation will continue to be above the 3 – 6 percent objective range in the short term, albeit with a downward trend.

2. Economic Outlook and Assessment of Risks

- 2.1 Following the 3 percent economic growth of 2011, the world economy is projected to grow at a lower rate of 2.4 percent in 2012 and expand by 2.8 percent in 2013. Economic performance in emerging markets remains healthy, although growth is expected to slow on account of weaker demand from major economies and volatile capital flows. Global inflationary pressures have eased, and this is reflective of stable energy prices and modest growth in global demand and, therefore, economic activity. Furthermore, persistent capacity underutilisation and high unemployment rates in major economies continue to have a moderating effect on global inflation.
- 2.2 Domestic output grew by 4.3 percent in the twelve months to March 2012. Non-mining output expanded by 7.2 percent, while mining output fell by 2.5 percent. It is expected that non-mining GDP will remain below potential in the medium term and will, therefore, be non-inflationary. Furthermore, it is anticipated that the impact of demand on economic activity will be subdued, as a result of sluggish growth in personal incomes and government expenditure.
- 2.3 Domestic inflation was constant at 7.3 percent in June and July 2012, largely due to offsetting movements in annual price changes for categories of goods and services.

Meanwhile, weak domestic demand and the forecast modest external inflationary pressures contribute to the positive inflation outlook in the medium term. However, in view of the impact of transient factors, which include upward changes in fuel, water and electricity prices, inflation is expected to remain above the Bank's objective range of 3 – 6 percent in the short term. Nevertheless, inflation is expected to converge to the medium term objective range by the end of 2012. Risks to the inflation outlook include any unanticipated large increase in administered prices, government levies as well as international food and oil prices beyond current forecasts. This could, however, be offset by downward risks associated with the likely fall in international energy prices and the impact of weaker global economic activity.

3. Monetary Policy Stance

- 3.1 The current state of the economy, assumptions on both the domestic and external economic outlook and current inflation forecast suggest that maintaining the prevailing level of interest rates is consistent with achieving the Bank's 3 – 6 percent inflation objective in the medium term, and lend support to spurring economic activity. Accordingly, the Monetary Policy Committee decided to maintain the Bank Rate at 9.5 percent.