



Press Release

Monetary Policy Committee Meets

October 22, 2018

Bank Rate unchanged at 5 percent

At the meeting held on October 22, 2018, the Monetary Policy Committee of the Bank of Botswana decided to maintain the Bank Rate at 5 percent. The outlook for price stability remains positive as inflation is forecast to be within the 3 – 6 percent objective range in the medium term. Inflation fell from 3 percent in August to 2.9 percent in September 2018, marginally below the lower bound of the objective range.

Subdued domestic demand pressures and the modest increase in foreign prices contribute to the positive inflation outlook in the medium term. This outlook is subject to upside risks emanating from the potential rise in administered prices, commodity prices and government levies and/or taxes beyond current forecasts. However, restrained growth in global economic activity, technological progress and productivity improvement, along with modest wage growth, present downside risks to the outlook.

Real GDP grew by 4.4 percent in the twelve months to June 2018, compared to a slower rate of expansion of 3.2 percent in the year to June 2017. The improvement in performance reflects the recovery in the mining sector, which grew by 5.6 percent compared to a contraction of 10 percent in the previous year. Growth in non-mining GDP moderated to 4.3 percent in June 2018, from 5 percent in the previous year. GDP growth is projected to improve further in the short to medium term, driven largely by performance of the services sectors and recovery in mining activity, in line with positive global economic prospects. Furthermore, the projected accommodative monetary conditions in

the domestic economy and increase in government expenditure, as well as relative stability in water and electricity supply, are expected to support economic activity in the non-mining sectors. Overall, it is anticipated that the economy will operate close to, but below full capacity in the medium term, thus posing no risk to the inflation outlook.

Global output growth is projected at 3.7 percent in 2018 and 2019, the same as in 2017. Protectionist trade policies, the potential build-up of financial vulnerabilities induced by easy financial conditions, geopolitical tensions and higher oil prices could negatively affect the medium-term growth prospects. Regionally, GDP growth in South Africa is projected at 0.8 percent in 2018, down from 1.3 percent in 2017, and is forecast at 1.4 percent in 2019. Economic prospects in South Africa are expected to improve following the recently announced stimulus package with which the government intends to re-prioritise spending and remove some of the regulatory restrictions hampering performance and employment creation.

The current state of the economy and the outlook for both domestic and external economic activity suggest that the prevailing monetary policy stance is consistent with maintaining inflation within the objective range of 3 – 6 percent in the medium term. Consequently, the Monetary Policy Committee decided to retain the Bank Rate at 5 percent.

The last MPC meeting of the year will be held on December 4, 2018, at which dates for next year will be announced. The Monetary Policy Report will be published on the Bank's website on October 29, 2018.