

# **Bank of Botswana**

## **Press Release**

### **Monetary Policy Decision**

At the Monetary Policy Committee meeting held today, the Bank kept the Bank Rate unchanged at 11 percent. The last change in the Bank Rate was a 50 basis points reduction in August 2009.

Inflation rose for the second consecutive month in September 2009, remaining above the upper end of the Bank's medium-term objective range of 3 – 6 percent. Despite the short term increase, inflation is expected to stabilise around the objective range in the medium term. The inflation outlook reflects a combination of global and domestic economic developments. Domestic output expanded in the second quarter of 2009 due to the recovery in global demand, following a contraction in the preceding two quarters. However, domestic demand conditions in the economy indicate minimal upward pressures on inflation, partly reflecting projected below-trend output, which occurs against the background of weak global economic performance. Moreover, the projected moderation in demand pressures is associated with the slowing rate of monetary expansion, as indicated by lower rates of increase in bank credit and government spending. On the external front, the world economy is recovering in the context of excess industrial capacity, low wage pressures and deflation in some of the major economies, thus resulting in benign external inflationary pressures on domestic inflation.

It is, therefore, anticipated that inflation will, in the medium-term, stabilise around the objective range, this way reflecting low domestic demand and external inflationary pressures, the impact of last year's increase in the alcohol levy dropping out of the inflation calculation, minimal exchange rate pressures and the forecast decrease in South Africa's inflation. The main upside risks to this outlook comprise a possible large increase in administered prices and government levies, as well as possible increase in international oil prices. An overall assessment suggests that this policy stance balances the favourable outlook and risks against the possible adverse impact on expectations of the short-term spike in inflation. The policy decision is premised on the view that the inflation outlook remains favourable in the medium term, which is the relevant time frame for monetary policy. The Bank is committed to responding appropriately to all economic and financial developments to achieve medium-term price stability, which contributes to long run sustainable economic growth.

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