



Press Release

Monetary Policy Committee Meets

October 31, 2019

Bank Rate unchanged at 4.75 percent

At the meeting held on October 31, 2019, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 4.75 percent. Inflation increased from 2.9 percent in August to 3 percent in September 2019, the lower bound of the Bank's objective range of 3 – 6 percent. Inflation is forecast to breach the lower bound of the objective range in the near term, mainly reflecting base effects associated with the increase in domestic fuel prices in the fourth quarter of 2018. However, inflation is projected to revert to within the objective range in the second quarter of 2020.

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 and government levies and/or taxes, beyond current forecasts. However, lower growth in global economic activity, technological progress and productivity improvement present downside risks to the outlook.

Real Gross Domestic Product (GDP) grew by 3.9 percent in the twelve months to June 2019, compared to a faster expansion of 4.9 percent in the corresponding period in 2018. The lower increase in output is mainly attributable to a deceleration in growth of the mining sector. Growth in non-mining GDP also slowed in the review period. Mining output grew by 1.4 percent in the year to June 2019, compared to an increase of 5.6 percent in the corresponding period in 2018. The lower increase is, in the main, due to the significant reduction in growth of the diamond output from 11.8 percent to 1 percent in the review

period. The decrease in diamond output is mainly due to the decline in production by Orapa Mine, following a planned plant shutdown in April 2019. Non-mining GDP grew by 4.2 percent in the 12-month period to June 2019, compared to 4.8 percent in the corresponding period ending in June 2018. The lower expansion in non-mining GDP was largely due to a slower growth of the trade, hotels and restaurants sector, mainly reflecting weak performance in the downstream diamond industries.

Projections by Government indicate that domestic economic activity will expand by 4.3 percent and 4.6 percent in 2019 and 2020, respectively. The significant influences on domestic economic performance include conducive financing conditions as indicated by accommodative monetary policy and sound financial environment that facilitate policy transmission, intermediation and risk mitigation. Furthermore, it is anticipated that the increase in government spending, as well as implementation of initiatives, such as the doing business reforms, should also be supportive of economic activity. Overall, the economy is projected to operate close to, but below full capacity in the short to medium term, thus not adding to inflationary pressures going forward.

Global output growth is expected to ease to 3 percent in 2019, the lowest since the global financial crisis of 2008-9, down from 3.6 percent in 2018. The slowdown is due to, among other factors, broad-based deceleration in growth of industrial output and trade as well as low business confidence and weaker investment amid rising trade and geopolitical tensions. Furthermore, global economic performance is undermined by lack of traction of structural reforms in the advanced economies and China while country specific factors weigh down on growth in some emerging market economies. Overall, global output is expected to expand modestly by 3.4 percent in 2020. The projected recovery, to be mainly driven by emerging markets and developing economies, remains precarious with elevated downside risks in an environment of policy uncertainty and sustained negative impact of trade and geopolitical tensions on business confidence, investment and growth. Regionally, economic activity in South Africa remains subdued and the South African Reserve Bank projects GDP growth rates of 0.6 percent and 1.5 percent in 2019 and 2020, respectively.

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

inflation being within the objective range of 3 – 6 percent in the medium term. Consequently, the MPC decided to maintain the Bank Rate at 4.75 percent.

The last MPC meeting of the year will be held on December 5, 2019, at which dates for next year will be announced. The Monetary Policy Report containing a full update of the Bank's outlook for the domestic economy and inflation will be published on the Bank's website on November 7, 2019.