August 13, 2013

Monetary Policy Committee Decision

Introduction

The August 13, 2013 meeting of the Monetary Policy Committee (MPC) concluded that the medium-term outlook for inflation is positive and inflation is forecast to remain within the 3 – 6 percent objective range for the remainder of 2013.

Economic Outlook and Assessment of Risks

World output is projected to increase by 3.1 percent in 2013, unchanged from the estimate for 2012. Growth in economic activity in emerging markets is expected to slow down, although remaining stronger than in developed economies. Overall, the subdued global output expansion and restrained demand have so far contributed to moderate world inflation. In addition, the low capacity utilisation and high unemployment rates in major economies continue to constrain global inflation.

Gross Domestic Product expanded by 3.6 percent in the twelve months to March 2013, down from 6 percent for the corresponding period the previous year, reflecting an increase of 5.2 percent in non-mining GDP, together with a contraction of 6.1 percent in the mining sector. It is anticipated that non-mining GDP will remain below potential in the medium term and will not be inflationary. Furthermore, it is expected that the influence of demand on economic activity will be modest, largely reflecting trends in government expenditure and personal incomes.

Inflation eased from 6.1 percent in May 2013 to 5.8 percent in June compared to 7.3 percent in June 2012 and was within the Bank's objective range of 3 – 6 percent. The decrease in inflation in June 2013 was attributable to both the dissipation of base effects arising from the increase in administered prices in 2012 and a slowdown in the annual rate of price increase across a broad range of goods and services. Weak domestic demand and the forecast benign external inflationary pressures contribute to the positive inflation outlook in the medium term, with the potential for slowdown in inflation. 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 beyond current forecasts.

Monetary Policy Stance

The current state of the economy, in which unemployment remains high, together with below-trend economic activity, provides scope for monetary stimulus to spur stronger output growth. Assumptions on both the domestic and external economic outlook, as well as the inflation forecast, suggest that additional easing of the monetary policy stance 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 8 percent.

Commercial banks are expected to make the necessary interest rate adjustments to reflect this policy decision.