



April 30, 2013

Monetary Policy Committee Decision

Introduction

The April 30, 2013 meeting of the Monetary Policy Committee concluded that, while the short-term evolution of prices is unfavourable, to the extent inflation is forecast to remain above the 3 – 6 percent objective range in the near term, the medium-term outlook continues to be positive.

Economic Outlook and Assessment of Risks

Global output is estimated to have increased by 3.2 percent in 2012 and is projected to expand by 3.3 percent in 2013. Economic performance in emerging market economies continues to be stronger than in advanced economies. After slowing in 2012, GDP growth in emerging market economies is expected to regain momentum due to some improvement in both external and domestic demand. This has translated into moderate global inflationary pressures, thus reflecting stable commodity prices and subdued growth in demand. Moreover, persistent capacity underutilisation and high unemployment rates in major economies continue to restrain global inflation.

Domestic output grew by 3.7 percent in the twelve months to December 2012; with the non-mining sectors slowing to 5.8 percent from 7.8 percent in 2011. In addition, the mining sector contracted by 8.1 percent. It is expected that non-mining output expansion will remain below potential in the medium term and will, therefore, exert minimal inflationary pressure. Furthermore, it is anticipated that the impact of demand on economic activity will be modest, partly reflecting trends in government expenditure and personal incomes.

Inflation increased slightly from 7.5 percent in February 2013 to 7.6 percent in March 2013, with small offsetting price movements across a range of goods and services; inflation in March 2012

was 8 percent. Weak domestic demand and the forecast low external inflationary pressures contribute to the positive inflation outlook in the medium term. However, in the short term, inflation is expected to remain above the Bank's objective range of 3 – 6 percent due to the impact of transitory factors. The underlying trend is forecast to be downwards, and this means that inflation is anticipated to converge to the medium-term objective range in the second half of 2013. This outcome could be adversely 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, where output growth is below potential and characterised by high unemployment, could be reignited by a measured non-inflationary stimulus. Assumptions on both the domestic and external economic outlook and the inflation forecast suggest that a more accommodative monetary policy stance, at this time, is consistent with the achievement of the Bank's 3 – 6 percent inflation objective in the medium term. Hence, the Monetary Policy Committee decided to reduce the Bank Rate by half a percentage point to 9 percent.

In the circumstance, commercial banks are expected to ensure that savers generally earn positive real rates of return on their savings.