



Statement of the Monetary Policy Committee: August 1, 2011.

1. Introduction

- 1.1 At the meeting of August 1, 2011, the Bank's Monetary Policy Committee observed that the medium-term outlook for inflation continued to be positive. However, short-term price developments imply that inflation will continue to be above the 3 – 6 percent objective range due to a revised forecast for inflation in South Africa and higher food prices. As a result, inflation is forecast to converge to the medium term objective range in the second half of 2012.

2. Recent Economic Developments

- 2.1 The global economic recovery continues, albeit at a slower pace. The moderation in global economic expansion reflects the transitory impact of supply-chain disruptions following the natural disaster in Japan and higher commodity prices. Nevertheless, emerging market economies continue to grow at a rapid pace, with output exceeding pre-crisis level in many countries, thereby supporting the increase in commodity exports and global economic activity.
- 2.2 In general, policy focus is directed at increasing economic activity and employment rates, reducing budget deficits and debt to sustainable levels, and ensuring stability of the financial system. However, for emerging market economies, there are upward pressures on inflation which, in addition to the increase in international food and oil prices, contribute to a heightened threat of rising world inflation. As a result, the latest round of policy decisions have ranged from maintenance of low interest rates in some developed countries and tightening of monetary policy in emerging market economies.

- 2.3 Domestic inflation fell to 7.9 percent in June 2011, from 8.3 percent in May. The decrease in inflation was evident across several categories of goods and services, but was mostly due to the dissipation of the impact of the increase in fuel prices in June 2010.
- 2.4 The level of output in the twelve months to March 2011 is estimated to be 6.4 percent higher than in the same period in 2010, thus reflecting the 7.2 percent growth in mining output and the 6.1 percent increase for the non-mining sectors. Nevertheless, output is estimated to remain below trend and will, therefore, moderate demand pressures on inflation.

3. Economic Outlook and Assessment of Risks

- 3.1 It is projected that the recovery in the global economy will continue to be uneven across regions and countries and mostly be sustained by robust output expansion in emerging market economies and some developing countries. For advanced economies, high rates of unemployment will continue to undermine consumer and business confidence and constrain global economic activity. In addition, measures to consolidate the fiscal and public debt positions by some advanced economies, and the need to implement enhanced financial sector supervisory measures, have the potential to slow down global growth in the short term. Therefore, following an expansion of 3.9 percent in 2010, the world economy is projected to grow at a lower rate of 3 percent in 2011 and 3.6 percent in 2012. However, the increase in demand and uncertainty about the supply of commodities, especially food and oil, and robust growth in emerging market economies have generated upward momentum on global inflation. This is moderated by the prevailing low levels of capacity utilisation, high unemployment rates and generally well-anchored inflation expectations in advanced economies.
- 3.2 In South Africa, GDP is projected to grow by 3.7 percent and 3.9 percent in 2011 and 2012, respectively, after increasing by 2.8 percent in 2010. However, it is forecast that output will remain below potential, thus exerting minimal pressure on inflation. Upside risks to the

inflation outlook in South Africa arise from any possible large increase in administered prices as well as higher food and oil prices. The South African Reserve Bank anticipates inflation to marginally breach the upper end of the inflation target of 3 - 6 percent in the last quarter of 2011.

3.3 For Botswana, it is expected that non-mining GDP will remain below trend in the medium term. Although exporting sectors will benefit from recovery in world demand, output in the domestic economy will be moderated due to lower growth in government spending, especially reduced development expenditure. Furthermore, it is anticipated that the impact of demand on economic activity will be subdued, and this would reflect the sluggish pace of growth in personal incomes and the increase in administered prices and other government levies. In the circumstances, the interest rate policy stance pursued since 2010 continues to be supportive of economic activity and will contribute to a narrowing of the output gap in the medium term.

3.4 Low demand and the forecast modest external inflationary pressures contribute to the positive inflation outlook in the medium term. In the short-term, however, inflation is expected to remain above the Bank's medium term objective range of 3 – 6 percent due to the impact of transient factors. These include the upward revision of the forecast for food prices going into 2012 and a higher inflation forecast for South Africa in the short-term. Given the foregoing, inflation is expected to converge to the medium term objective range of 3 – 6 percent in the second half of 2012. Upside risks to the inflation outlook include any unanticipated large increase in administered prices and government levies, as well as an increase in international oil and food prices beyond current forecasts.

4. Monetary Policy Stance

- 4.1 The current state of the economy and the assumptions on both the domestic and external economic outlook, as well as the inflation forecast, suggest that maintaining the prevailing level of interest rates is consistent with the achievement of the Bank's 3 – 6 percent inflation objective in the medium term. Accordingly, the Monetary Policy Committee decided to maintain the Bank Rate at 9.5 percent.