



Statement of the Monetary Policy Committee: February 14, 2012.

1. Introduction

- 1.1 At the meeting of February 14, 2012, 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 the lingering impact of the increase in administered prices, forecast higher inflation in South Africa and higher international oil prices. Consequently, inflation is forecast to converge to the 3 – 6 percent medium term objective range in the second half of 2012.

2. Economic Outlook and Assessment of Risks

- 2.1 Following the 5.2 percent economic growth of 2010, the world economy is projected to grow at a lower rate of 3.8 percent in 2011 and 3.3 percent in 2012. Slower growth is projected for the major economies compared to relatively robust expansion in emerging market economies. High rates of unemployment, together with sovereign debt and financial crises in the euro area, will continue to undermine consumer and business confidence and constrain economic activity in advanced economies. In addition, measures to consolidate the fiscal and debt positions by some advanced economies have the potential to slow down global growth in the short term. However, there is some improvement in growth prospects for the United States of America as indicated by recovery in household consumption expenditure, supported by positive developments in the housing and labour markets. Global inflationary pressures have eased due to more stable commodity prices and a slowdown in the growth of global demand and economic activity. Furthermore, the prevailing low levels of capacity utilisation and high unemployment rates in major economies continue to have a moderating impact on global inflation.

- 2.2 Domestic output is estimated to have increased at an annual rate of 4.1 percent in the year to September 2011, reflecting an increase of 6.8 percent for non-mining sectors, while mining output fell by 1.7 percent. Going forward, it is expected that non-mining GDP will be below potential in the medium term and will, therefore, moderate inflationary pressures. Furthermore, it is anticipated that demand and its impact on economic activity will be subdued, and this will be reflective of the sluggish pace of growth in personal incomes relative to changes in prices, and the slowdown in government spending.
- 2.3 Domestic inflation was unchanged at 9.2 percent in November and December 2011. The stability in annual change in prices was evident across a wide range of categories of goods and services. Low growth in domestic demand and the forecast modest 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 medium-term objective range of 3 – 6 percent due to the impact of transient factors. These include the upward revision of the forecast for inflation in South Africa and for international oil prices. Nevertheless, 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 unanticipated large increase in administered prices and government levies, as well as a substantial increase in international food and oil prices beyond current forecasts. However, this is offset by downward risks associated with the likely fall in international commodity prices and possible weaker global economic activity.

3. Monetary Policy Stance

- 3.1 The current state of the economy, assumptions on both the domestic and external economic outlook and 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.