Statement of the Monetary Policy Committee: June 14, 2011.

1. Introduction

1.1 At the meeting of June 14, 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 be higher than the objective range. This is due to a revised higher forecast for inflation in South Africa and the impact of the increase in fuel prices and electricity tariffs. As a result, Inflation is forecast to converge to the 3 – 6 percent medium term objective range in the second half of 2012.

2. Recent Economic Developments

2.1 The global economic recovery appears sustainable, although characterised by divergent growth patterns across countries. Emerging market economies continue to grow at a more rapid pace, thereby supporting commodity exports and economic activity in developing countries. In addition, tsunami and earthquake calamities of March 2011 in Japan have disrupted supply chain for some important industries across countries, with an adverse impact on economic performance.

2.2 In general, the policy focus is directed at increasing economic activity and employment rates, reducing budget deficits and debt to sustainable levels, and ensure 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 heightened threat of rising world inflation. Thus, the latest round of policy decisions ranged from maintenance of low interest rates and a tightening of monetary policy by central banks of advanced and emerging economies, respectively.

2.3 Domestic inflation fell to 8.2 percent in April 2011 after being constant at 8.5 percent in February and March 2011. The decrease in inflation was evident across several categories of goods and services and was, in part, due to the dissipation of the impact of the 2010 increase of value added tax (VAT).

2.4 Output is estimated to have increased by 7.2 percent in 2010 compared to a contraction of 4.9 percent (revised from 3.7 percent) in 2009. Growth was broadly balanced across sectors; mining output expanded by 7 percent and non-mining outgrew by 7.3 percent. Nevertheless, output is estimated to remain below trend, and will therefore moderate pressure on inflation, against the background of modest growth in money supply that is associated with lower rates of increase in both government expenditure and commercial bank credit to the private sector.

3. Economic Outlook and Assessment of Risks

3.1 It is projected that recovery in the global economy will continue to be uneven across regions and countries and mostly 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, as well as 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 3.8 percent in 2010, the world economy is projected to grow at a lower rate of 3.2 percent in 2011 and 3.6 percent in 2012. The increase in demand and uncertainty about 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 3.8 percent in both 2011 and 2012, after increasing by 2.8 percent in 2010. Despite the forecast GDP growth improvement, it is forecast that output will remain below potential, thus exerting minimal pressure on inflation. Upside risks to the inflation outlook in South Africa emanate from a possible large increase in administered prices and higher food and oil prices. Nevertheless, the forecast for inflation is to remain within the 3 - 6 percent target range into 2012.

3.3 For Botswana, it is expected that non-mining GDP will remain below potential 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 development expenditure. Furthermore, it is anticipated that demand and the impact on economic activity will be subdued, thus reflecting sluggish pace in personal incomes and the increase in fuel prices, administered prices and other government levies. In the circumstance, 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 April and May 2011 increase in fuel prices, June 2011 increase in electricity tariffs and the upward revision of the forecast for inflation in South Africa. 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.