



## **Statement of the Monetary Policy Committee: May 3, 2012**

### **1. Introduction**

- 1.1 At the meeting of May 3, 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 in the short to medium term. Overall, the current inflation projection profile shows a higher level of inflation and a delayed convergence to the objective range compared to the February 2012 forecast. This is due to the upward revision of forecast for international oil prices.

### **2. Economic Outlook and Assessment of Risks**

- 2.1 Following the 3.9 percent economic growth of 2011, the world economy is projected to expand at a lower rate of 3.5 percent in 2012, but increasing to a higher rate of 4.1 percent in 2013. Slower growth is projected for the major economies, with improving prospects for the United States of America counteracted by weak economic activity in Europe. Economic performance in emerging markets remains healthy, although growth is expected to decelerate. Global inflationary pressures have eased due to stable commodity prices and a slowdown in the growth of global demand. Furthermore, persistent capacity underutilisation and high unemployment rates in major economies continue to have a moderating effect on global inflation.
- 2.2 Domestic output is estimated to have increased at an annual rate of 5.1 percent in 2011. Non-mining output grew by 7.8 percent while mining output fell by 1.3 percent. Going forward, it is expected that non-mining GDP will remain below potential in the medium term and will, therefore, moderate inflationary pressures. Furthermore, it is anticipated

that demand and the impact on economic activity will be subdued, thus reflecting sluggish pace of growth in personal incomes and the slowdown in government spending.

- 2.3 Domestic inflation fell for three consecutive months, from 9.2 percent in December 2011 to 8 percent in March 2012. The decline in the annual change in prices was evident across most categories of goods and services. Weak domestic demand and the forecast modest external inflationary pressures contribute to the positive inflation outlook in the medium term. However, inflation is expected to remain above the Bank's objective range of 3 – 6 percent in the short to medium term, due to the impact of transient factors, including recent movements in international oil prices. Nevertheless, inflation is expected to continue to converge to the medium term objective range, although the timing will depend on international oil price trends. Upside risks to the inflation outlook include any unanticipated large increase in administered prices, government levies as well as 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 the impact of possible weaker global economic activity.

### **3. Monetary Policy Stance**

- 3.1 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.