



## **Statement of the Monetary Policy Committee: October 23, 2012.**

### **1. Introduction**

- 1.1 On October 23, 2012, the Bank's Monetary Policy Committee met and observed that the medium-term outlook for inflation was positive. However, price developments imply that inflation will continue to be above the 3 – 6 percent objective range in the short term, albeit with a downward trend.

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

- 2.1 Following the 3.8 percent economic growth in 2011, the world economy is projected to grow at a lower rate of 3.3 percent in 2012 and by 3.6 percent in 2013. Economic performance in emerging markets remains healthy, although growth is expected to slow on account of weaker demand from major economies and volatile capital flows. Global inflationary pressures have eased, reflecting subdued growth in global economic activity. Furthermore, persistent capacity underutilisation and high unemployment rates in major economies continue to have a moderating effect on global inflation.
- 2.2 Domestic output grew by 8.7 percent in the twelve months to June 2012. Non-mining output expanded by 12.1 percent, while mining fell by 8 percent. However, it is expected that non-mining GDP will remain below potential in the medium term and will, therefore, be non-inflationary. Moreover, it is anticipated that the impact of domestic demand on economic activity will be subdued, partly reflecting sluggish growth in government expenditure and personal incomes.
- 2.3 Domestic inflation rose to 7.1 percent in September 2012, from 6.6 percent in August, due to an increase in fuel prices in the same month. Meanwhile, weak domestic demand and the forecast modest external inflationary pressures contribute to positive inflation outlook

in the medium term. Nonetheless, inflation is expected to remain above the Bank's objective range of 3 – 6 percent in the near term, reflecting the impact of transient factors, including changes in administered prices (e.g. fuel, water and alcohol, among others). The underlying trend remains downwards, but, in the circumstances, inflation is now expected to converge to the medium term objective range in the first half of 2013. This outcome could, however, be affected by any further unanticipated large increase in administered prices and government levies, as well as international food prices rising beyond current forecasts. These could be offset by downward risks associated with the likely fall in international oil prices and the impact of 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 3 – 6 percent inflation objective in the medium term. Accordingly, the Monetary Policy Committee decided to maintain the Bank Rate at 9.5 percent.