



Statement of the Monetary Policy Committee: December 5, 2011.

1. Introduction

- 1.1 At the meeting of December 5, 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 the impact of the increase in administered prices, notably fuel 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 4 percent economic growth of 2010, the world economy is projected to grow at a lower rate of 2.6 percent in 2011 and 2 percent in 2012. Slower growth is projected for the major economies compared to relatively robust expansion in emerging market economies for the same period. High rates of unemployment, along with the escalating sovereign debt and financial crisis in the euro area, will continue to undermine consumer and business confidence and constrain global economic activity in advanced economies. In addition, measures to consolidate the fiscal and 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. Meanwhile, global inflationary pressures have eased due to more stable commodity prices. Furthermore, the prevailing low levels of capacity utilisation and high unemployment rates in the 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 12.4 percent in the second quarter of 2011, thus reflecting the 23.7 percent growth in mining output and the 7.4 percent increase for the non-mining sectors. Prospects are that, non-mining GDP will remain below potential in the medium term and will, therefore, contribute to restraining inflationary pressures. It is anticipated that demand and its impact on economic activity will be subdued, and this will be reflective of sluggish pace of growth in personal incomes relative to changes in prices.
- 2.3 Domestic inflation rose from 8.6 percent in September to 8.8 percent in October 2011. The rise in inflation was mainly due to faster increase in the cost of food, health and household durables. 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 objective range of 3 – 6 percent due to the impact of transient factors. These include the increase in fuel prices and public transport fares. 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 any unanticipated large increase in administered prices and government levies, as well as an increase in international food and oil prices beyond current forecasts.

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.