Statement of the Monetary Policy Committee: April 26, 2011.

1. Introduction

1.1 At the meeting of April 26, 2011, the Bank's Monetary Policy Committee observed that the medium-term outlook for inflation remains positive. However, short-term price developments continue to imply that inflation will be higher than the objective range. This is due to the impact of the increase in fuel and other administered prices, revised higher forecasts for food and fuel prices and for inflation in South Africa. The latest forecast, therefore, indicates that inflation will converge to the 3 – 6 percent medium term objective range in the second half of 2012.

2. Recent Economic Developments

2.1 Global economic recovery appears sustainable, although characterised by divergent growth patterns across countries. Emerging market economies continue to grow much more rapidly than advanced countries, driven by domestic demand and the rebound in global trade. The improvement in global growth prospects is also showing in the positive data on manufacturing and labour market conditions in the United States of America. Globally, the main policy focus continues to be on measures to raise economic activity and employment rates, to reduce budget deficits and debt to sustainable levels and to maintain stability of the financial system. However, for emerging market economies, there are upward pressures on inflation which, in addition to the sharp increase in international food and oil prices, contribute to an increasing threat of rising world inflation. In the latest round of policy decisions, several central banks in advanced economies maintained their low policy interest rates, while others tightened monetary policy to curb inflationary pressures.

2.2 After rising from 7.9 percent in January 2011 to 8.5 percent in February, domestic inflation was unchanged in March 2011, remaining above the Bank's objective range of 3 – 6 percent. The largely stable annual change in prices was evident across a wide range of categories of goods and services.

2.3 Output is estimated to have grown by 7.2 percent in 2010 compared to a contraction of 4.9 percent (revised from 3.7 percent) in the previous year. Growth was balanced across the broad sectors, with mining output expansion of 7 percent compared to the 7.3 percent for the non-mining sectors. However, output is estimated to remain below trend, with moderate pressures on inflation, against the background of moderate growth in money supply due to lower rates of increase in both government expenditure and commercial bank credit to the private sector, alongside a reduction in foreign exchange reserves.

3. Economic Outlook and Assessment of Risks

3.1 Against the background of robust output expansion in the emerging market economies and improved economic performance in some of the major economies, it is anticipated that the recovery of the global economy will be sustained. However, high rates of unemployment will continue to undermine consumer and business confidence and constrain economic activity. Moreover, 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. Thus, following a 3.8 percent expansion in 2010, the world economy is projected to grow at a lower rate of 3.5 percent in both 2011 and 2012. It is expected that the prevailing low levels of capacity utilisation, high unemployment rate and well-anchored inflation expectations would contribute to moderate global inflationary pressures. Nevertheless, there is considerable uncertainty about the prospects for international prices of commodities, especially food and oil, which could have an adverse effect on the inflation outlook.

3.2 In South Africa, GDP is forecast to grow by 3.7 percent and 3.9 percent in 2011 and 2012, respectively, after increasing by 2.7 percent in 2010. Despite the improvement, it is estimated that output will remain below potential, thus exerting minimal pressure on inflation. Even so, there are upside risks to the inflation outlook in South Africa arising from higher food and administered prices, in particular oil prices. The forecast is, nevertheless, for inflation to remain within the 3 - 6 percent target range in the medium-term.

3.3 For Botswana, it is expected that non-mining GDP will remain below trend 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, reflecting sluggish growth in personal incomes, alongside the effect of the increase in value added tax (VAT), fuel prices, administered prices and other government levies. The interest rate policy stance pursued in the previous year continues to be supportive of economic activity and will contribute to a narrowing of the output gap in the medium term.

3.4 In the short-term, inflation is expected to remain above the medium term objective range of 3 – 6 percent due to the impact of transient factors. These include, inter-alia, the March 2011 increase in fuel prices and likely increase in some utility tariffs in the first half of 2011. The persistence of higher inflation for a longer duration also reflects upward revision of the forecast for food and oil prices and for inflation in South Africa.

3.5 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. Conversely, the proposed downward adjustment of telecommunication tariffs will moderate inflation.

3.6 On the other hand, low demand and the forecast modest external inflationary pressures contribute to the positive inflation outlook in the medium term. Against this background, inflation is expected to converge to the medium term objective range of 3 – 6 percent in the second half of 2012

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.