



## **Statement of the Monetary Policy Committee: June 13, 2012**

### **1. Introduction**

- 1.1 At the meeting on June 13, 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, albeit with a downward trend.

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

- 2.1 Following economic growth of 3.9 percent of 2011, the world economy is projected to grow at a lower rate of 3.5 percent in 2012 and expand by 4.1 percent in 2013. Economic performance in emerging markets remains healthy, although growth is expected to slow in the context of weak demand from major economies. Global inflationary pressures have eased due to stable commodity prices and a subdued world 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 is estimated to have increased by 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 a slowdown in government spending. Domestic output could also be adversely affected by weak demand for exports. While there appears to be a surge in credit growth in recent times, it is encouraging that it is mostly supportive of business activity.

2.3 Domestic inflation fell for the fourth consecutive month to 7.5 percent in April, from 8 percent in March. 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 term, reflecting the impact of transient factors, including recent changes in fuel prices. Although inflation is expected to continue to converge to objective range in the medium term, there are upside risks to the inflation outlook which include any unanticipated large increase in administered prices and government levies. However, this is offset by downward risks associated with a likely decrease 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.