



## **Statement of the Monetary Policy Committee: October 17, 2011.**

### **1. Introduction**

- 1.1 At the meeting of October 17, 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 fuel prices and public transport fares, as well as a revised higher forecast for inflation in South Africa. 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 Global economic recovery continues, albeit at a slower rate. Following an expansion of 3.9 percent in 2010, the world economy is projected to grow at a lower rate of 2.6 percent for both 2011 and 2012, down from 3 percent and 3.6 percent, respectively. Slower growth is projected for the United States and Euro zone compared to robust expansion in emerging market economies. High rates of unemployment will continue to undermine consumer and business confidence and constrain global economic activity in advanced economies. In addition, measures to consolidate the fiscal and public 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 the recent levelling off of commodity prices. Furthermore, the prevailing low levels of capacity utilisation and high unemployment rates in the major economies continue to have a modest 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, reflecting the 23.7 percent growth in mining output and the 7.4

percent increase for the non-mining sectors. Going forward, it is expected that non-mining GDP will remain below potential in the medium term and will, therefore, contribute to moderate pressures on inflation. Furthermore, it is anticipated that demand and its impact on economic activity will be subdued, reflecting sluggish pace in personal incomes and the increase in fuel prices, other administered prices and government levies.

- 2.3 Domestic inflation rose from 7.8 percent in July 2011, to 8.6 percent in September. The rise in inflation was due, largely, to the increase in fuel prices and public transport fares in August 2011. Low 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 medium term objective range of 3 – 6 percent due to the impact of transient factors. These include the increase in fuel prices and fares for public transport and a higher inflation forecast for South Africa in the short-term. Given the foregoing, 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 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.