



Monetary Policy Committee Decision – December 24, 2012

Introduction

At the meeting on December 24, 2012, the Bank's Monetary Policy Committee concluded that although short-term price developments are unfavourable and inflation will remain above the 3 – 6 percent objective range, the medium-term outlook remains positive.

Economic Outlook and Assessment of Risks

Following economic growth of 3.8 percent 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 market economies remains healthy, although growth is expected to moderate on account of weaker demand from major economies and volatile capital flows. Global inflationary pressures have eased, reflecting subdued demand and economic activity. Furthermore, persistent capacity underutilisation and high unemployment rates in major economies continue to have a moderating effect on global inflation.

Domestic output grew by 8.7 percent in the twelve months to June 2012; non-mining output expanded by 12.1 percent while mining output declined 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 demand on economic activity will be modest, partly reflecting trends in government expenditure and personal incomes.

Inflation increased from 7.1 percent in October 2012 to 7.4 percent in November 2012, largely reflecting upward adjustment to some administered prices. Despite the increase in inflation, weak domestic demand and the forecast modest external inflationary pressures contribute to the positive inflation outlook in the medium term. Inflation is expected to

remain above the Bank's objective range of 3 – 6 percent in the near term, thus reflecting the impact of transient factors. However, the underlying trend remains downwards and, in the circumstances, inflation is expected to converge to the medium-term objective range in the second half of 2013. This outcome could be adversely affected any unanticipated large increase in administered prices and government levies, as well as international food and oil prices increasing beyond current forecasts.

Monetary Policy Stance

The current state of the economy, assumptions on both the domestic and external economic outlook, and 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.