



Monetary Policy Committee Decision - February 12, 2013

Introduction

At the meeting on February 12, 2013, the Bank's Monetary Policy Committee concluded that although short-term price developments are unfavourable, with the result that inflation will remain above the 3 – 6 percent objective range in the coming months, the medium-term outlook continues to be positive.

Economic Outlook and Assessment of Risks

The global economy is estimated to have expanded at a slower pace of 3.2 percent in 2012, compared to 3.9 percent in 2011 and is projected to grow by 3.5 percent in 2013. Economic performance in emerging markets remains healthier than in advanced economies, although growth is expected to moderate on account of weaker export demand and volatile capital flows. Global inflationary pressures have eased, reflecting subdued demand and economic activity. Furthermore, persistent excess capacity and high unemployment rates in major economies continue to restrain the momentum of inflation.

Domestic output grew by 7.7 percent in the twelve months to September 2012, with non-mining GDP expanding by 11.6 percent and the mining sector contracting by 12.5 percent. However, it is anticipated that non-mining GDP will remain below potential in the medium term and will, therefore, be non-inflationary. Furthermore, the impact of demand on economic activity is expected to be weak largely on account of modest growth in government expenditure and personal incomes.

Domestic inflation was constant at 7.4 percent in November and December 2012, and this is indicative of offsetting pressures on prices. 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 due to the impact of transitory factors. The underlying trend remains downwards and, therefore, inflation is expected to converge to the medium-term objective range towards the end of 2013. This outcome could be adversely influenced by 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.