

Monetary Policy Review

Pretoria

4 June 2013



Overview and contents

Environment of sustained global uncertainty, with a few strands of direction emerging

Regional growth outcomes diverging

Asset prices booming but unclear connection to real economy performance

Little dollar decoupling as commodities and emerging markets bear the brunt of US recovery

South African outcomes part of the trend but also idiosyncratic divergence from peers

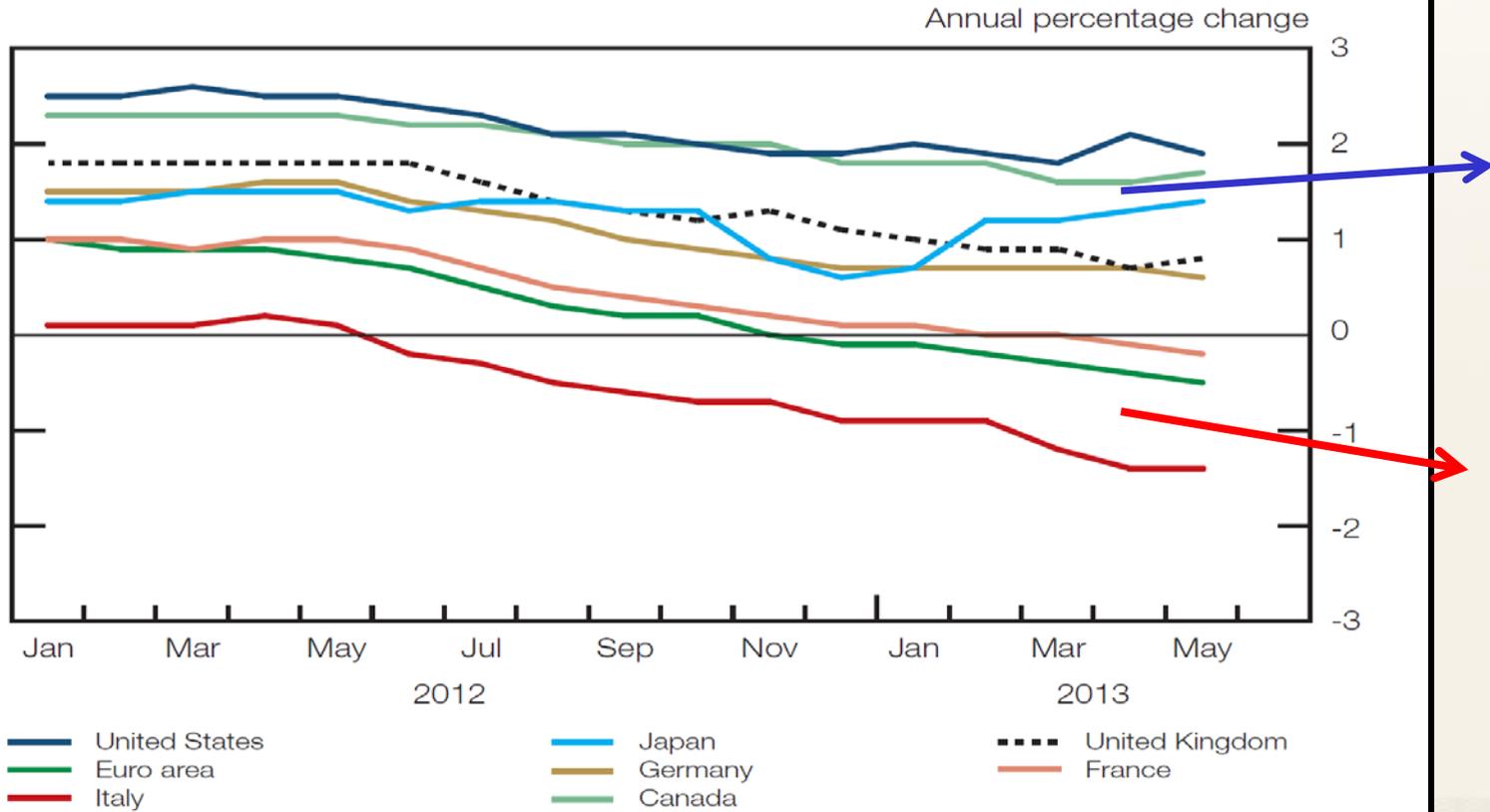
Upside inflation risks & downside growth trajectory

Risks to the outlook and policy stance



Stronger growth in some advanced economies, sustained weakness in others...

Evolution of real GDP forecasts for 2013 for the G-7 and euro area



Source: Consensus Economics *Consensus Forecasts*

Some marking down of growth across the board, including EMEs... inflation muted

	Real GDP growth						CPI	
	2013			2014			2013	2014
World	(3,6)	[3,5]	3,3	(4,1)	[4,1]	4,0	3,8	3,8
Advanced economies	(1,5)	[1,4]	1,2	(2,3)	[2,2]	2,2	1,7	2,0
United States	(2,1)	[2,0]	1,9	(2,9)	[3,0]	3,0	1,8	1,7
Japan	(1,2)	[1,2]	1,6	(1,1)	[0,7]	1,4	0,1	3,0
Euro area	(0,2)	[-0,2]	-0,3	(1,2)	[1,0]	1,1	1,7	1,5
United Kingdom	(1,1)	[1,0]	0,7	(2,2)	[1,9]	1,5	2,7	2,5
Canada	(2,0)	[1,8]	1,5	(2,4)	[2,3]	2,4	1,5	1,8
Other advanced economies	(3,0)	[2,7]	2,5	(3,5)	[3,3]	3,4	2,1	2,4
Emerging-market and developing countries	(5,6)	[5,5]	5,3	(5,9)	[5,9]	5,7	5,9	5,6
Sub-Saharan Africa	(5,7)	[5,8]	5,6	(5,5)	[5,7]	6,1	7,2	6,3
South Africa	(3,0)	[2,8]	2,8	(3,9)	[4,1]	3,3	5,8	5,5
Central and eastern Europe	(2,6)	[2,4]	2,2	(3,2)	[3,1]	2,8	4,4	3,6
Commonwealth of Independent States	(4,1)	[3,8]	3,4	(4,2)	[4,1]	4,0	6,8	6,6
Developing Asia	(7,2)	[7,1]	7,1	(7,5)	[7,5]	7,3	5,0	5,0
China	(8,2)	[8,2]	8,0	(8,5)	[8,5]	8,2	3,0	3,0
India	(6,0)	[5,9]	5,7	(6,4)	[6,4]	6,2	10,8	10,7
Middle East and North Africa	(3,6)	[3,4]	3,1	(3,8)	[3,8]	3,7	9,6	9,0
Latin America and the Caribbean	(3,9)	[3,6]	3,4	(4,1)	[3,9]	3,9	6,1	5,7

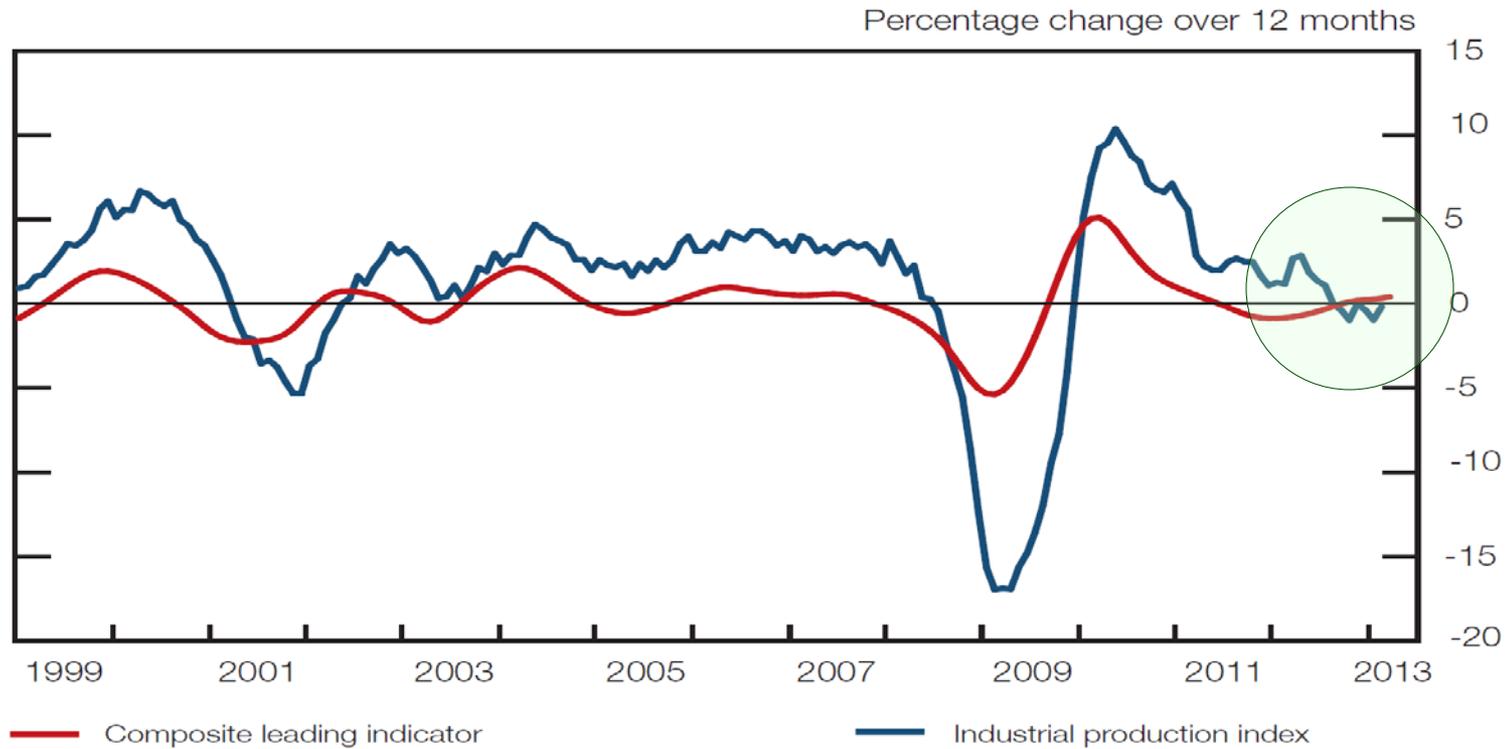
* IMF projections as at October 2012 () and January 2013 [] in parenthesis

** GDP shares based on the IMF's purchasing power parity valuation of country GDPs for 2012

Source: IMF, *World Economic Outlook*, various issues

Global economic activity has slowed and may have bottomed out

Selected OECD indicators of global economic activity



Source: OECD

Peaks in activity earlier, with more disappointing outcomes

Global manufacturing PMI: Overall

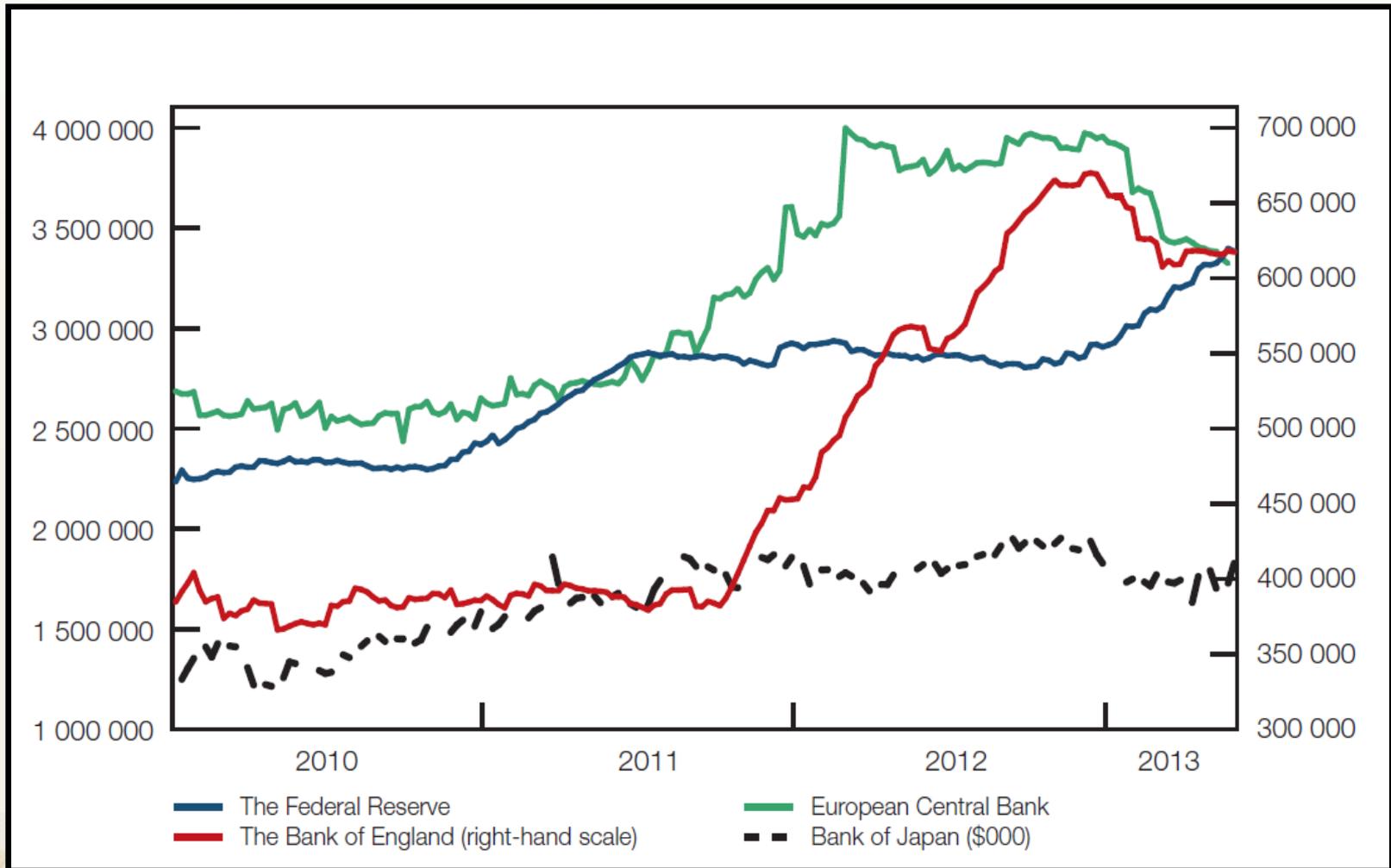
Index points

Country	2012				2013			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	51,6	51,7	49,9	50,2	53,1	54,2	51,3	50,7
Euro area	46,1	45,4	46,2	46,1	47,9	47,9	46,8	46,7
Germany	47,4	46,0	46,8	46,0	49,8	50,3	49,0	48,1
France	42,7	43,7	44,5	44,6	42,9	43,9	44,0	44,4
United Kingdom	49,0	47,8	49,0	51,0	50,8	48,2	48,6	49,8
Japan	48,0	46,9	46,5	45,0	47,7	48,5	50,4	51,1
China	47,9	49,5	50,5	51,5	52,3	50,4	51,6	50,4
India	52,8	52,9	53,7	54,7	53,2	54,2	52,0	51,0
Global	48,8	48,8	49,6	50,0	51,5	50,9	51,1	50,5

* Italics indicates outcomes below the 50 index points neutral level, non-italics outcomes at or above the 50 index points neutral level, green an increase in the level in the latest survey, red a decrease and black no change.

Source: JPMorgan

The US Fed and BOJ increase QE in response to deteriorating conditions and financial market tensions, followed by BOE & ECB?



Sources: National central banks, Bloomberg and Reuters

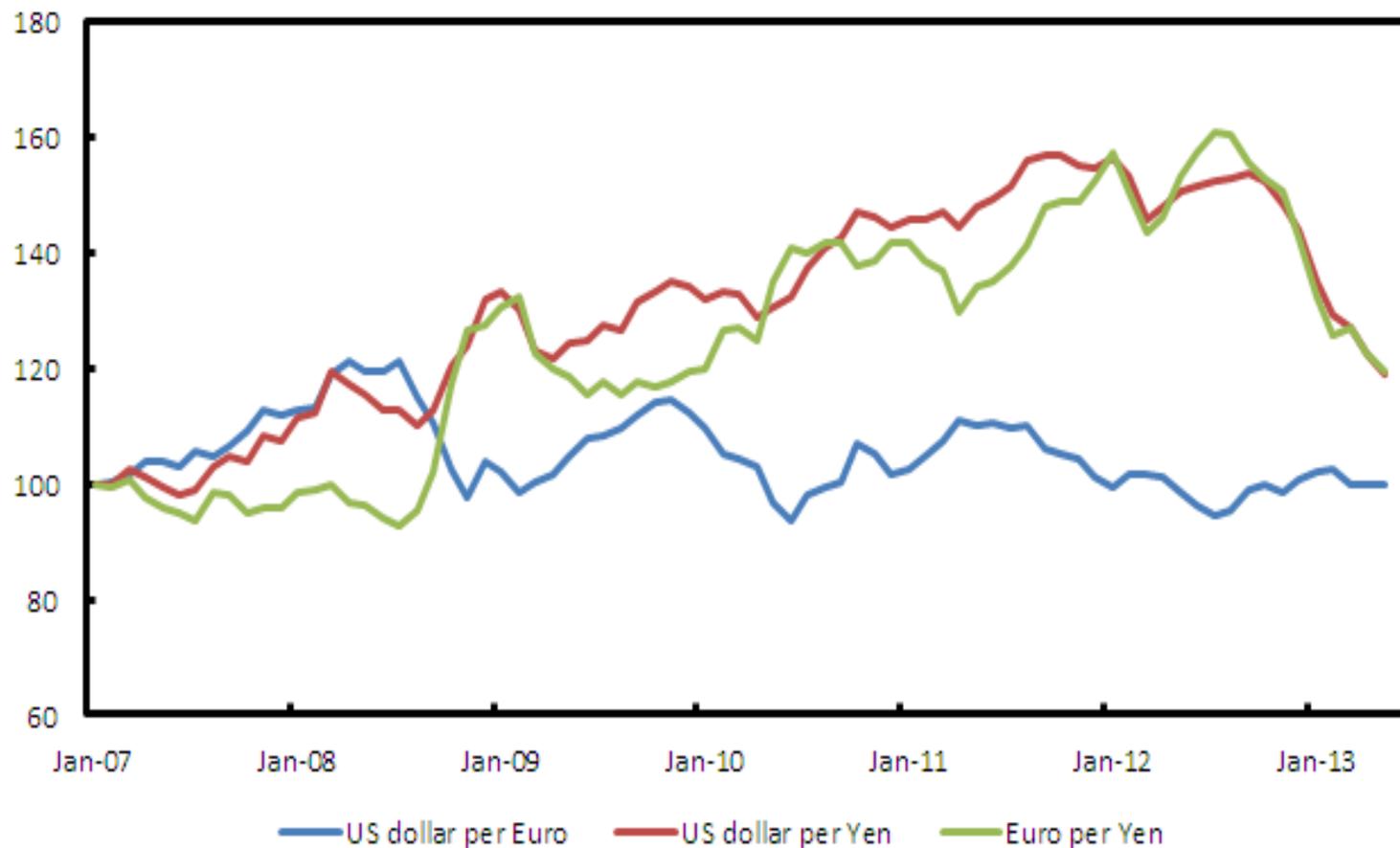
Fiscal positions in advanced economies improving & debt stabilising, while emerging economies retain fiscal space

Fiscal balances and government debt (% of GDP)

	Projections				
	2010	2011	2012	2013	2014
Fiscal balances					
World	-6,0	-4,5	-4,3	-3,5	-3,0
Advanced economies	-7,8	-6,6	-5,9	-4,7	-3,8
Emerging markets	-3,1	-1,7	-2,1	-2,2	-2,2
General government gross debt					
World	79,5	79,7	81,1	79,3	78,6
Advanced economies	101,5	105,5	110,2	109,3	109,5
Emerging markets	40,3	36,7	35,2	34,3	33,6
South Africa	35,8	39,6	42,3	42,7	43,7

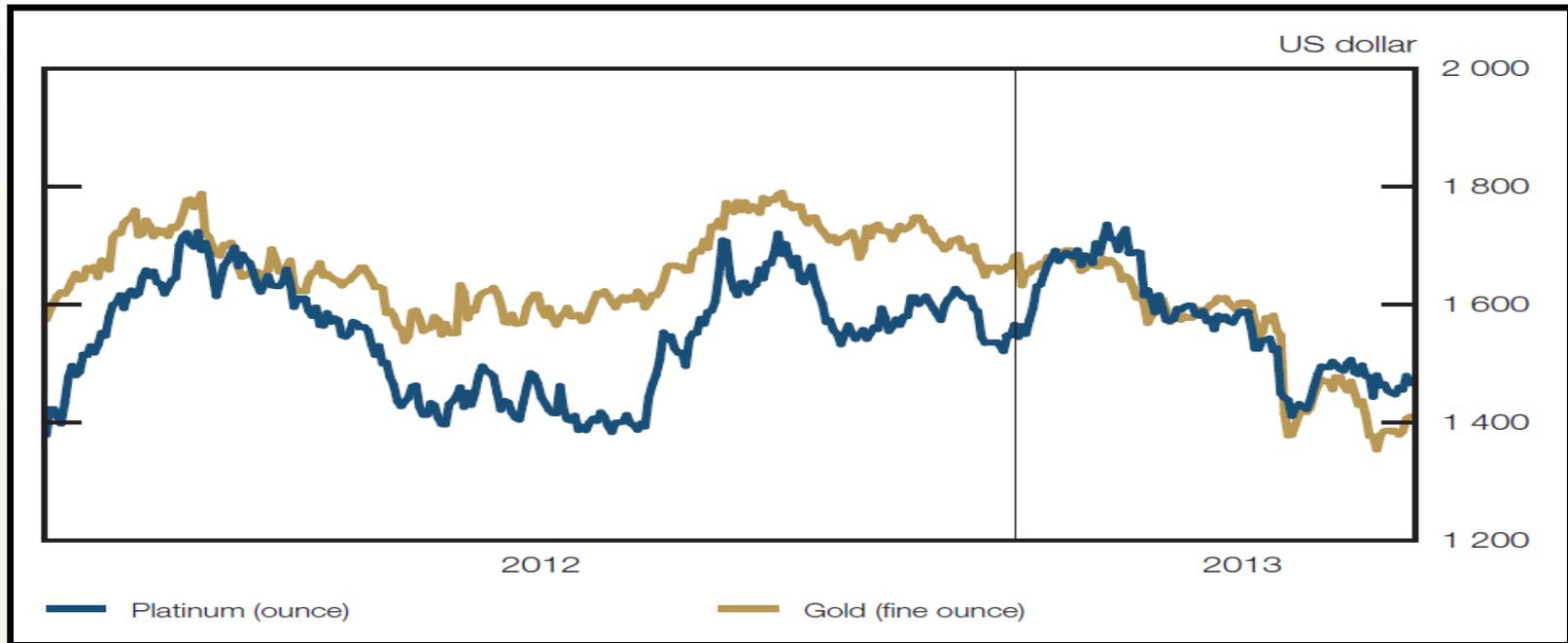
Source: IMF, *Fiscal Monitor*, April 2013

Global currency movements...yen begin to weaken against USD & euro, while euro softens to the USD



Sources: Reuters and Bloomberg

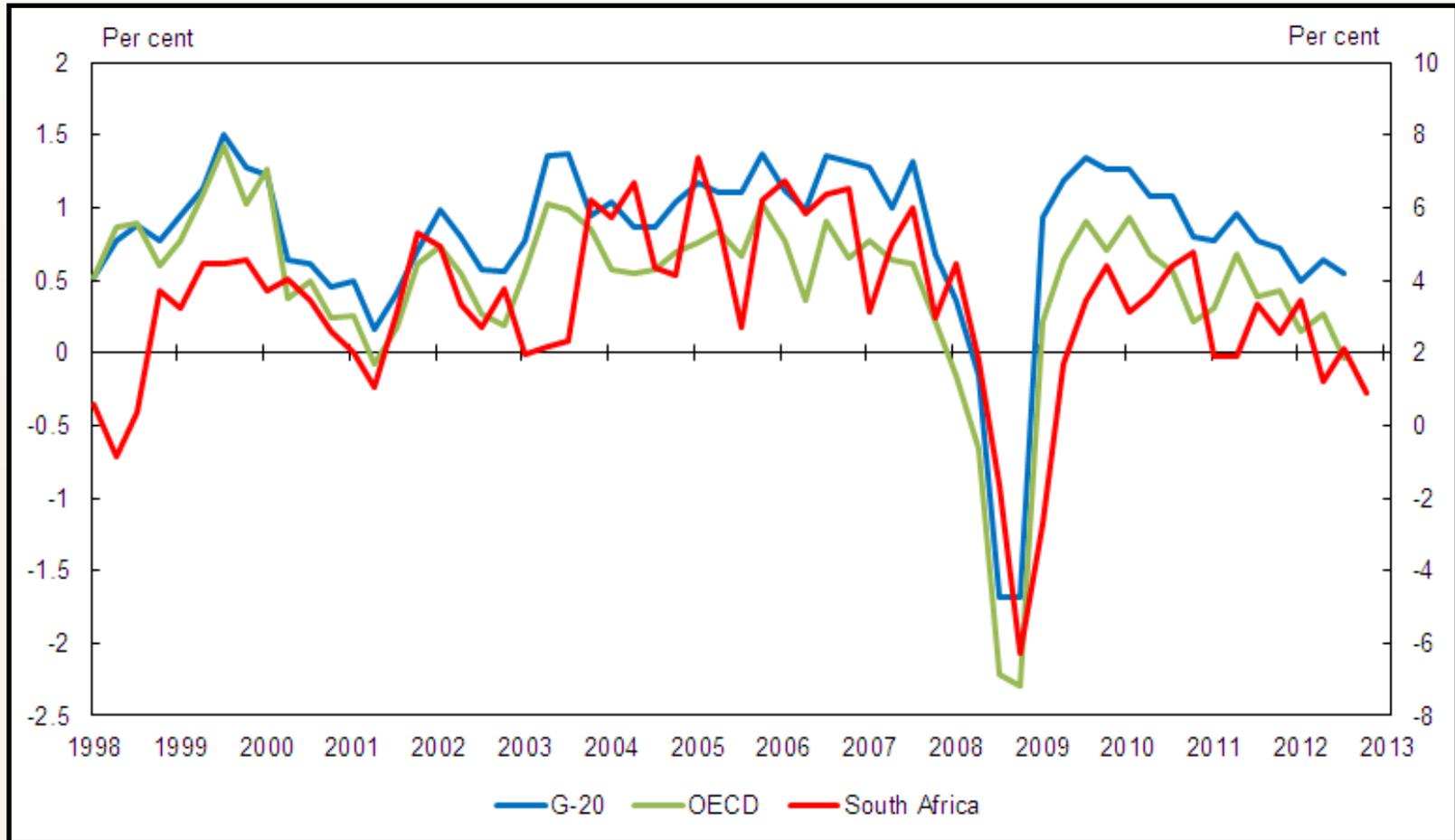
With impact also seen on commodity prices...lower in 2012 & 2013



Metal price growth to 31 May 2013						
	Gold	Silver	Copper	Platinum	Nickel	Zinc
1 Jan 2012	-10,4	-25,3	-4,2	6,3	-19,9	3,0
1 Jan 2013	-15,2	-26,6	-8,5	-5,3	-14,3	-7,5

* Prices of copper, nickel and zinc are per metric ton, price of gold is per fine ounce, prices of silver and platinum are per ounce
Source: Reuters

South African economic growth slowing in line with global growth



Sources: Organisation for Economic Cooperation and Development and South African Reserve Bank

...with growth in the first quarter disappointing

Growth in real GDP and expenditure components

Per cent

	2011		2012			2013	
	Year	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure							
Households	4,8	4,0	3,2	2,7	2,4	3,5	
General government	4,6	1,9	3,7	8,3	-0,7	4,2	
Gross fixed capital formation	4,5	4,6	5,4	5,6	4,3	5,7	
Changes in inventories (R billions)**	5,1	5,9	6,3	5,1	-4,1	3,3	
Gross domestic expenditure	4,6	4,4	4,4	4,1	-0,9	4,1	
Exports of goods and services	5,9	-3,0	-6,1	1,6	-4,3	0,1	
Imports of goods and services	9,7	4,8	-0,5	12,0	-12,4	6,3	
Gross domestic product	3,5	2,5	3,4	1,2	2,1	2,5	0,9

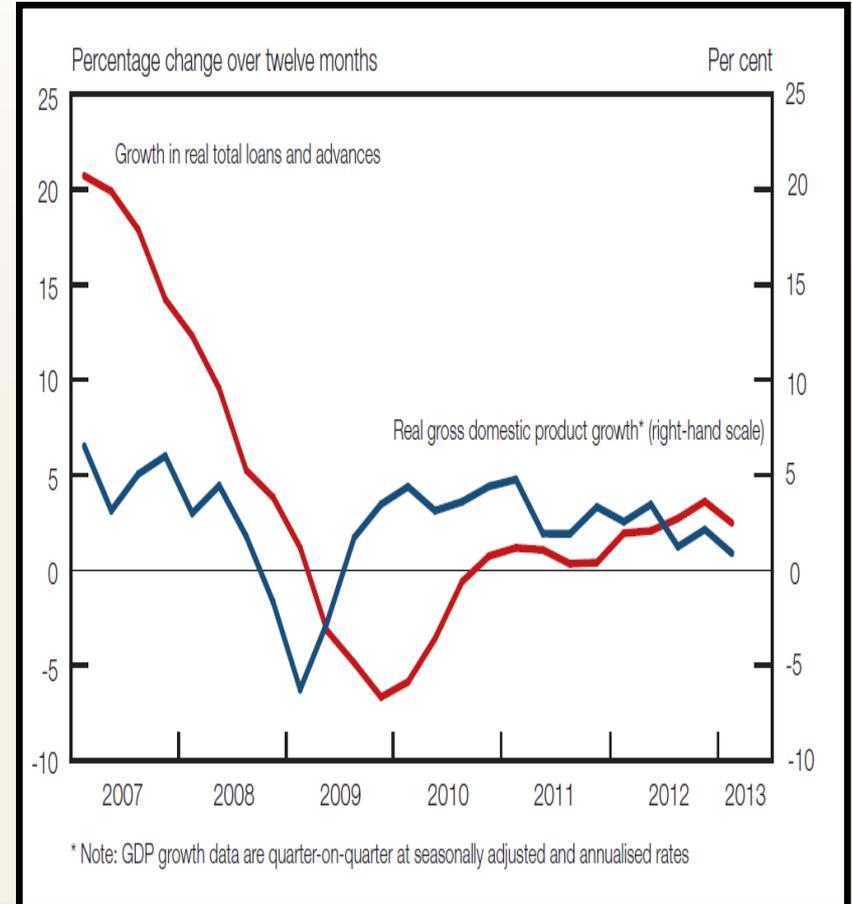
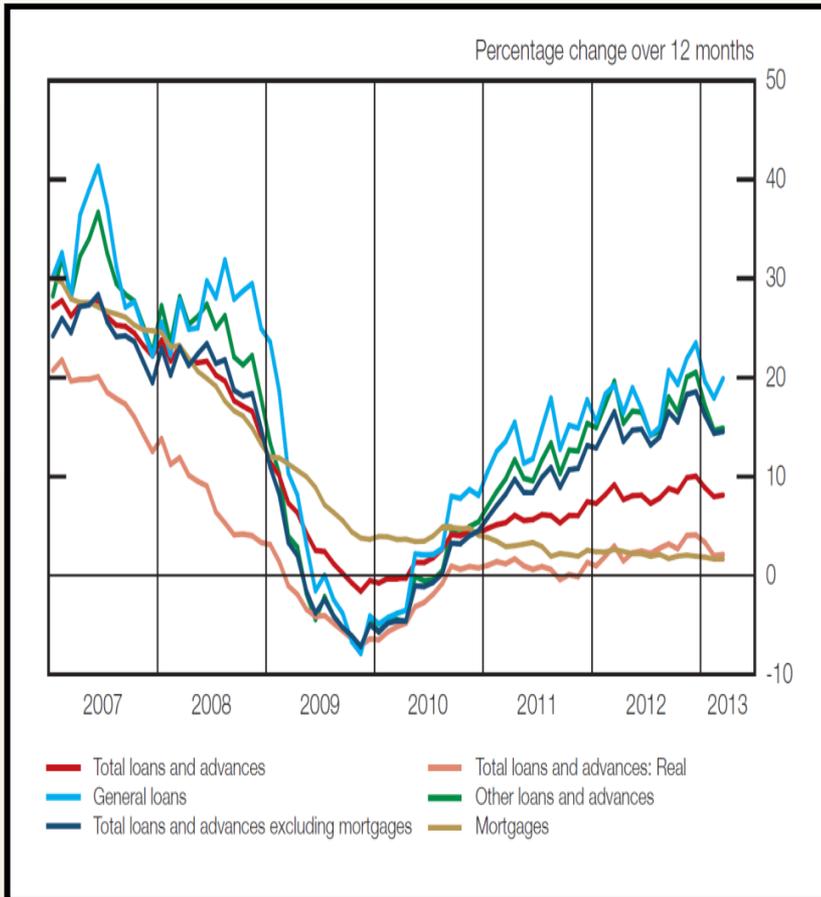


* Quarterly data refer to quarter-on-quarter growth at annual rates of seasonally adjusted data

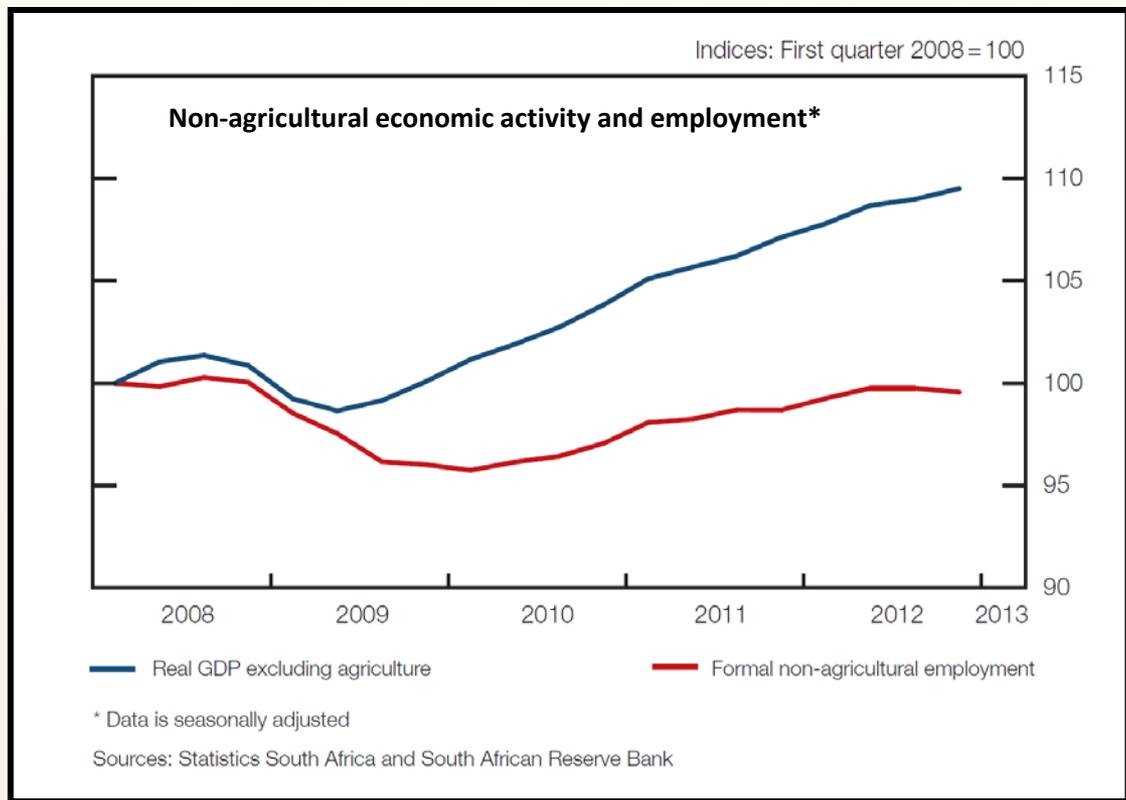
** Constant 2005 prices

Credit extension supporting growth, but losing effectiveness

Banks' loans and advances to the private sector by type



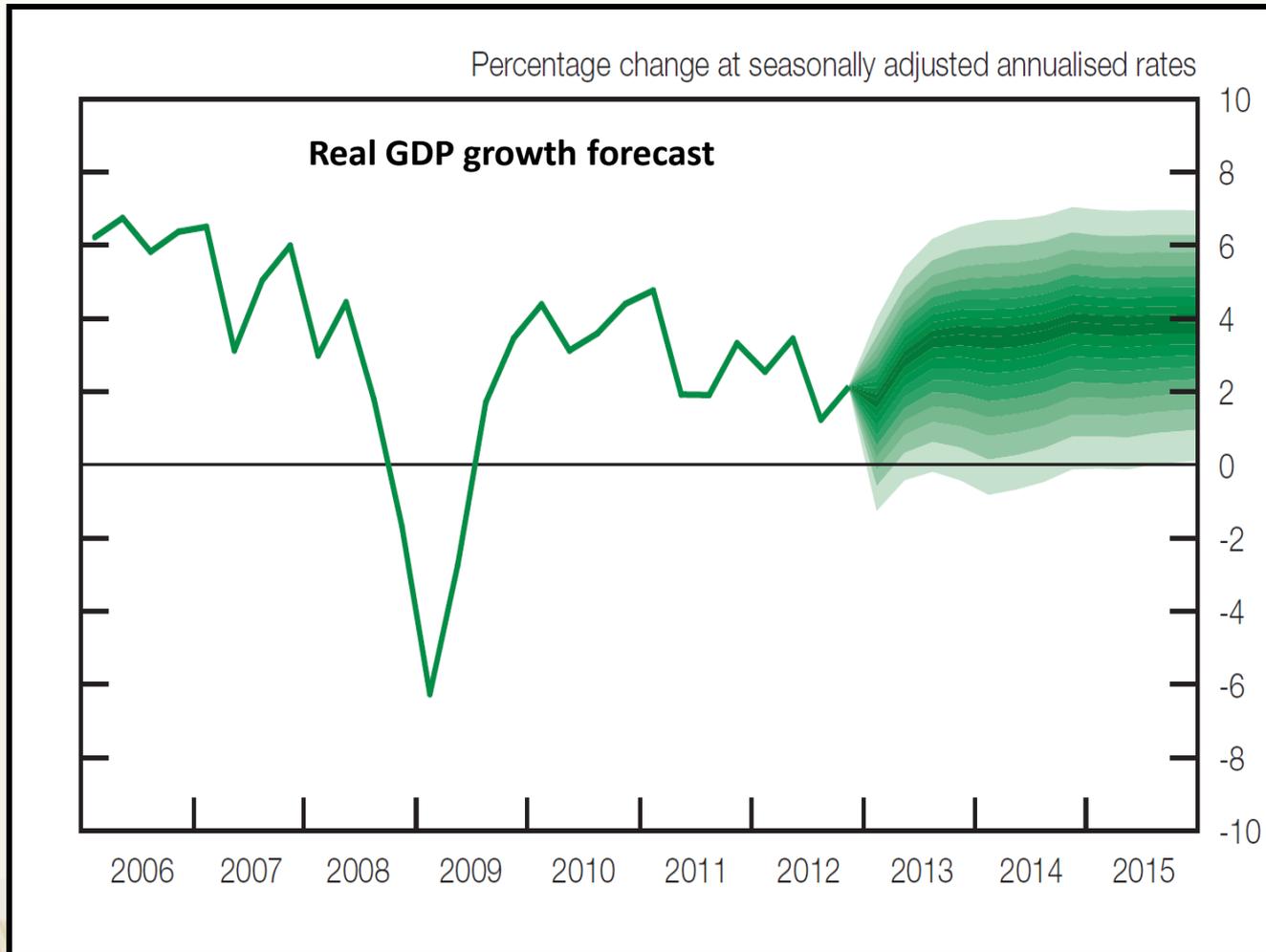
Consumption-based growth undermined by weak employment creation, lagging real economic activity



For 2013, employment to contribute 0.5 pp to overall real income growth of 8.5% compared to wage growth of between 7.5 & 8 per cent

Investment and public spending constrained by uncertainty & deficits

Below potential growth, more fragile & possible further downward revisions if risks predominate



For q4 2013: 50 per cent probability that growth will fall above/below the central projection.

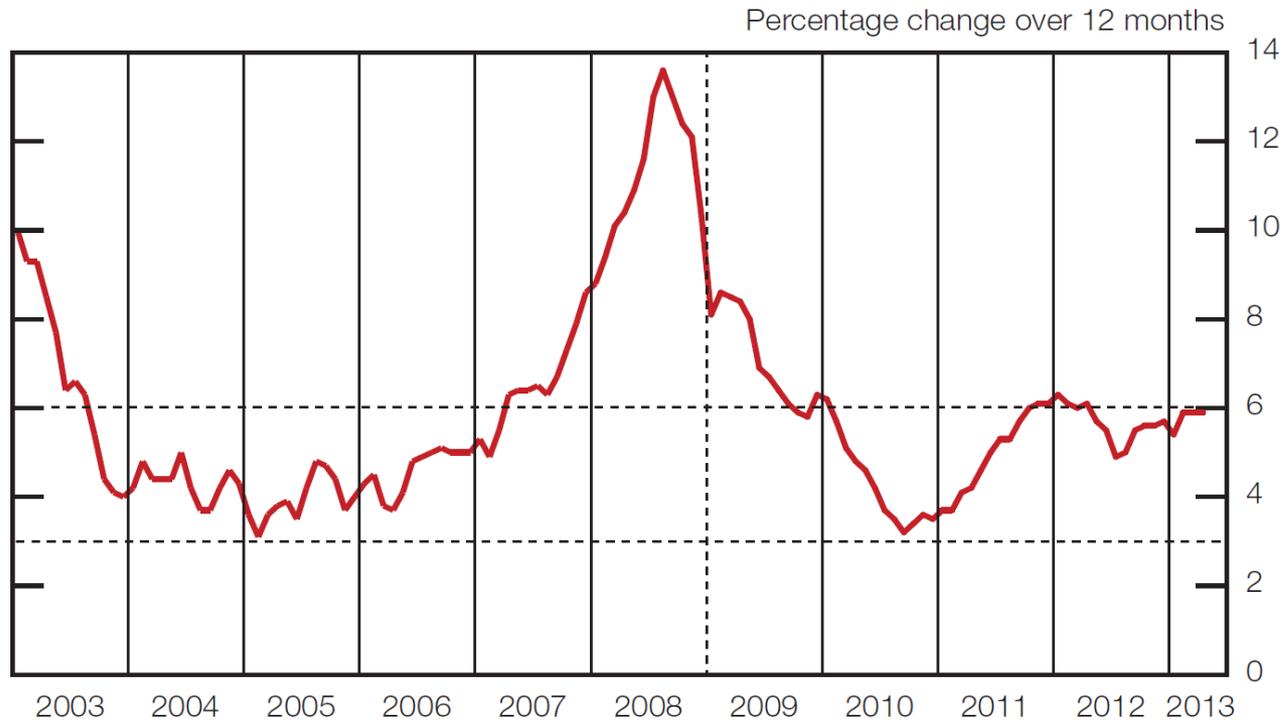
The spread above central projection is 2.9 percentage points relative to 4.0 percentage points below

For Q4 2014 is 3.1 above relative to 4.0 below

For Q4 2015 3.1 above relative to 3.8 below

Inflation has remained in the target range (but close to the upper band) for 12 consecutive months with mixed pressures

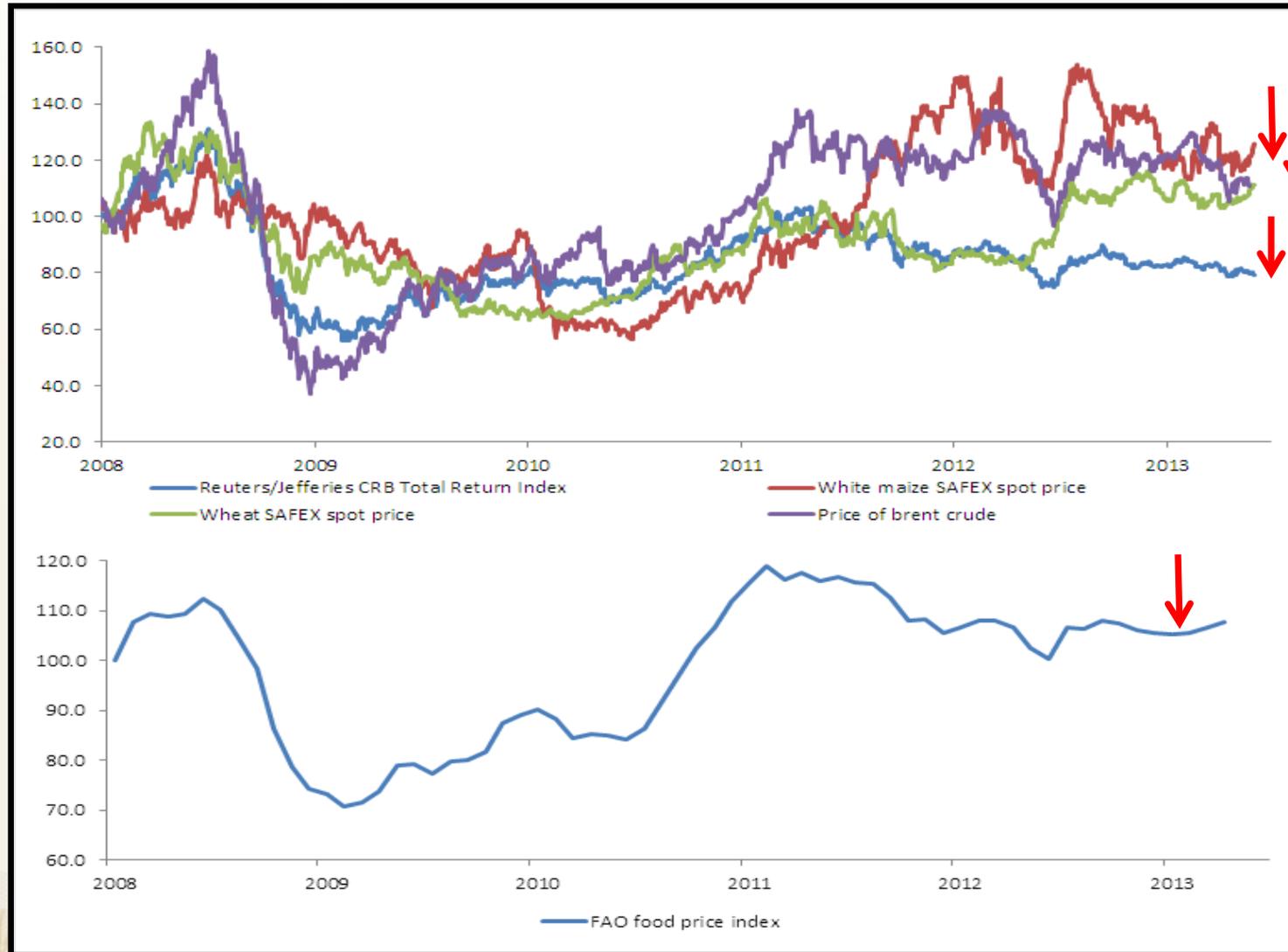
Consumer price inflation: Targeted inflation*



* CPIX for metropolitan and other urban areas until the end of 2008; CPI for all urban areas thereafter

Source: Statistics South Africa

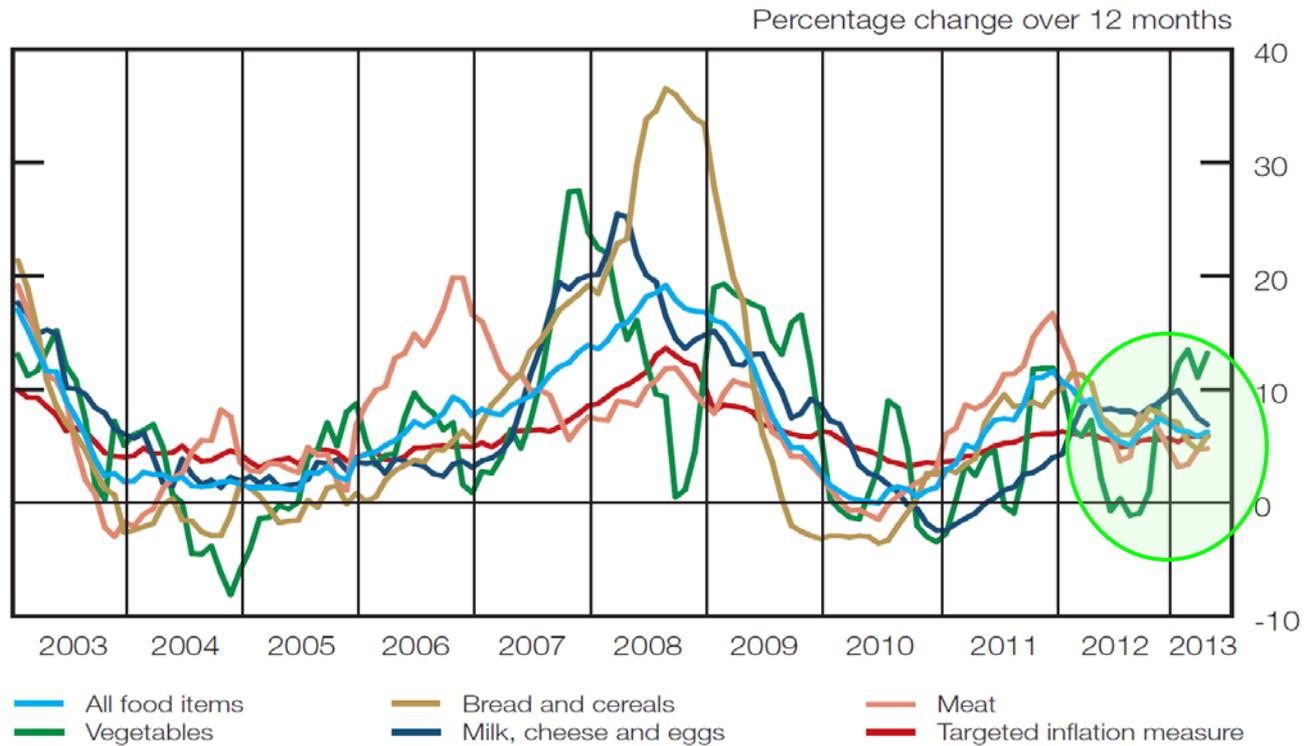
Exogenous prices more moderate as commodity prices weakened since mid-2012 & international food prices stabilised



Sources: Food and agricultural organisation, Bloomberg and Reuters

And domestic food prices also moderated, but with sub-sector volatility

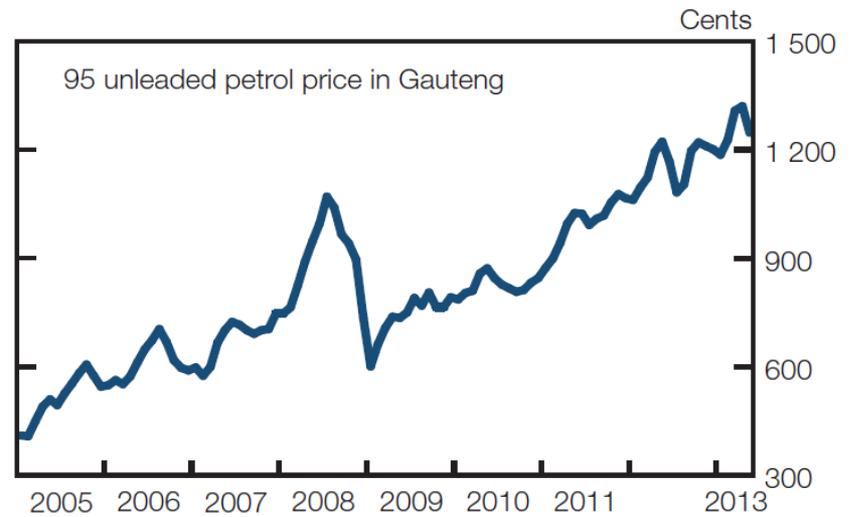
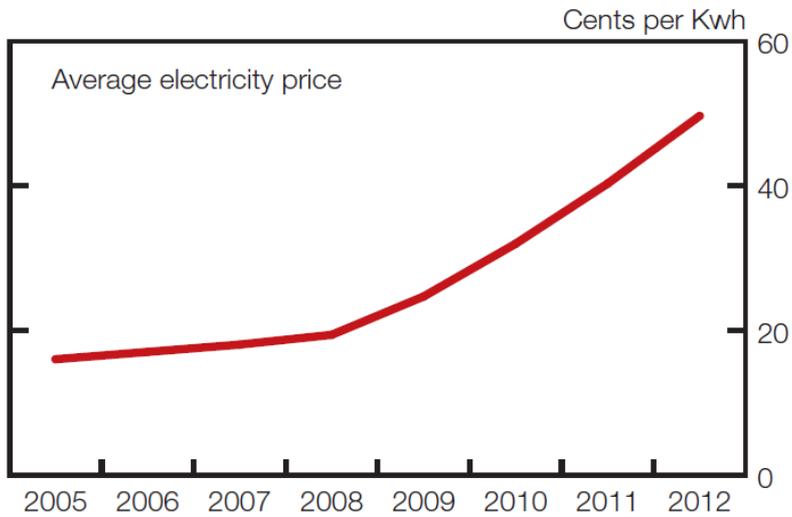
Targeted inflation* and food inflation



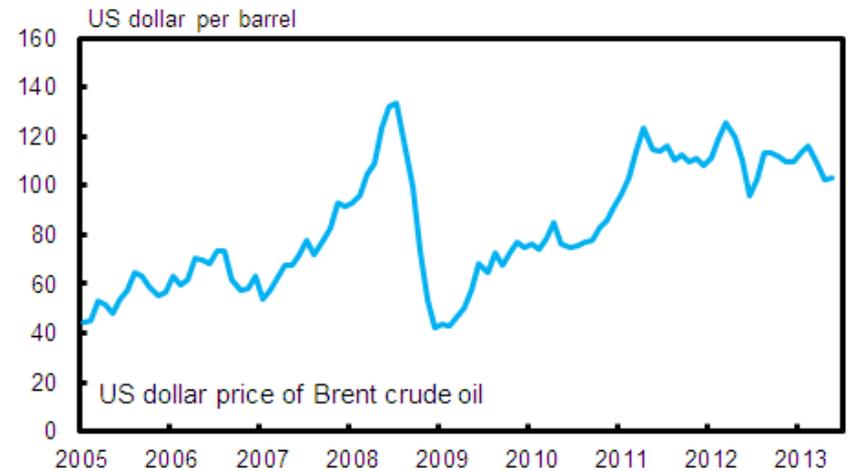
* CPIX for metropolitan and other urban areas until the end of 2008; CPI for all urban areas thereafter

Source: Statistics South Africa

Electricity up and petrol prices up as rand weakens

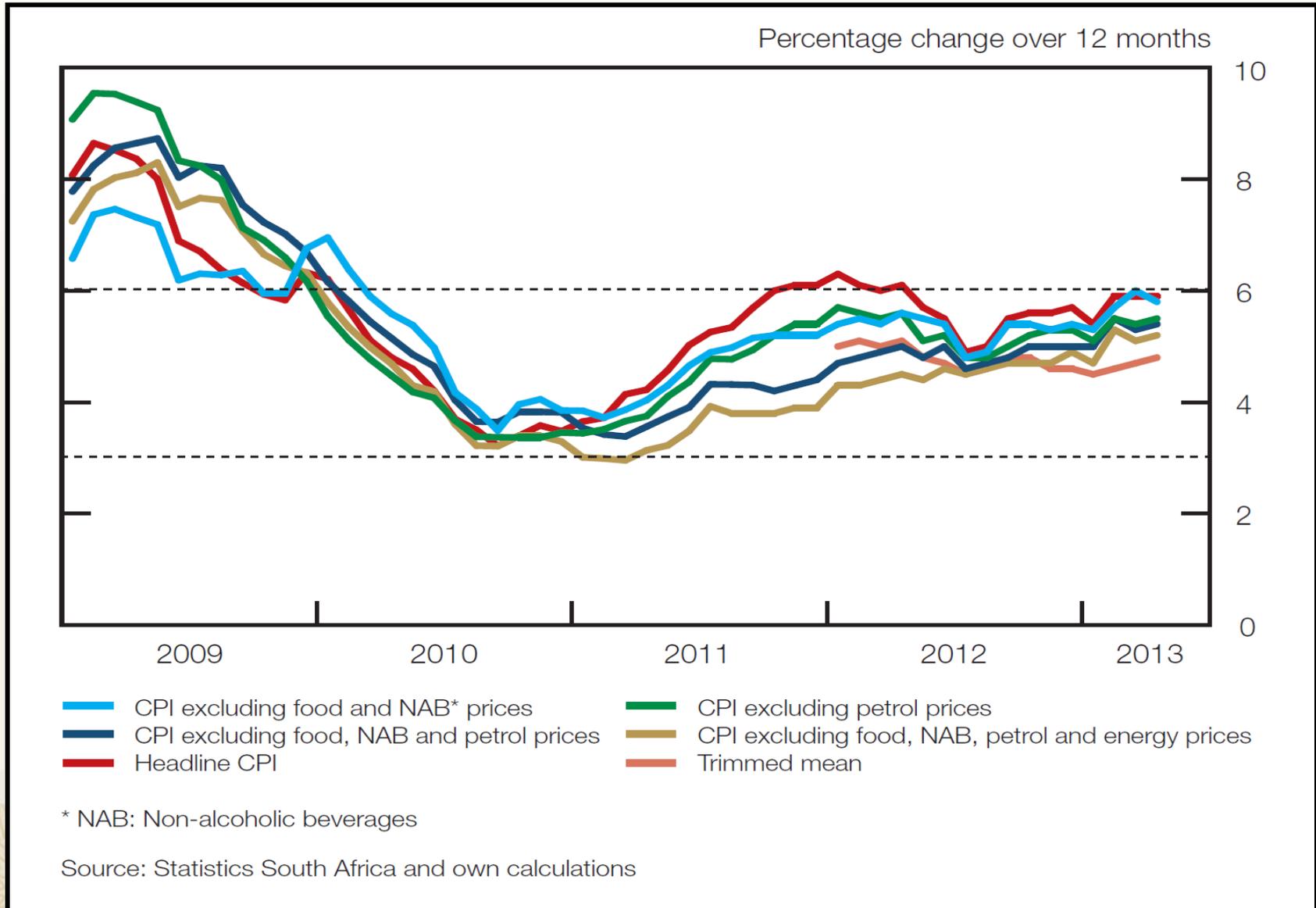


Sources: Eskom, South African Reserve Bank and Department of Energy



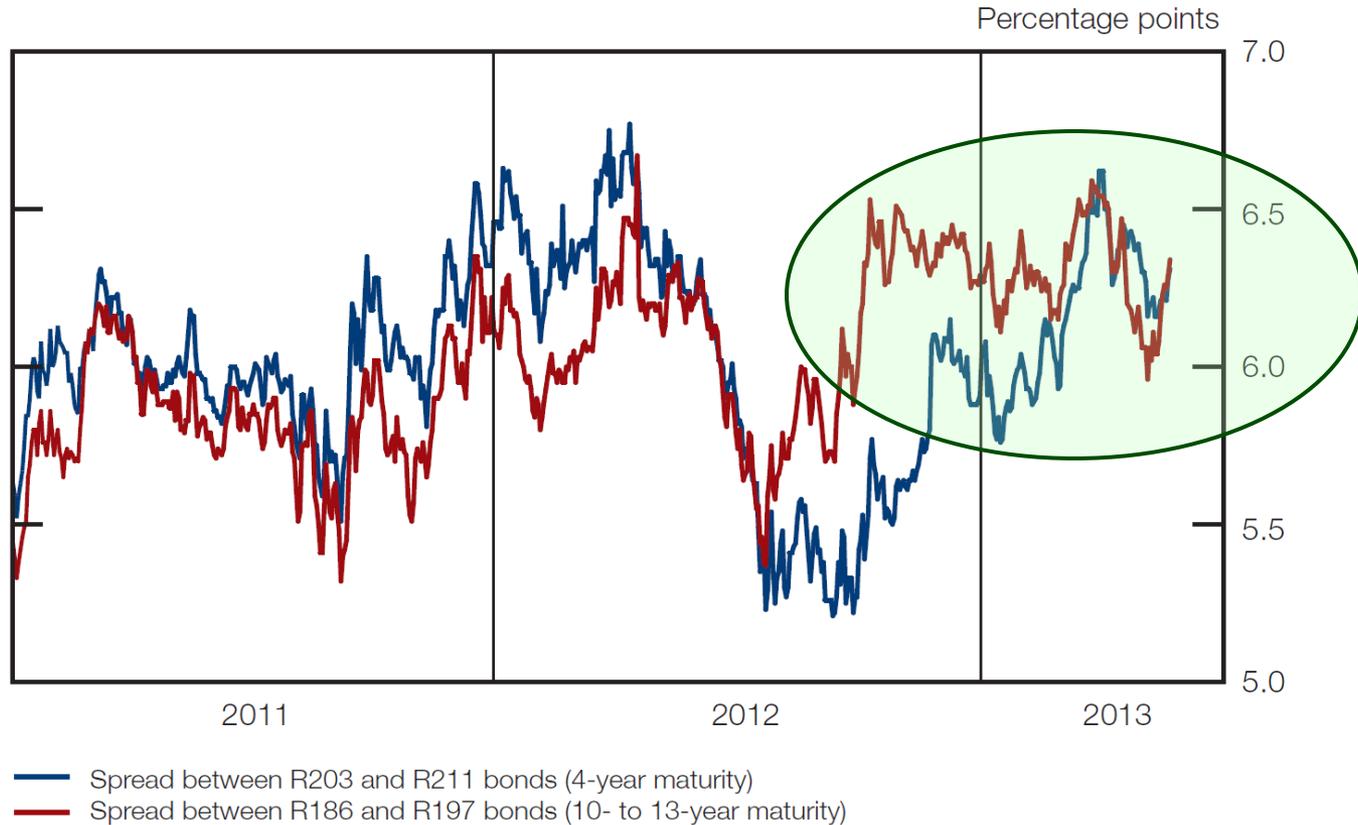
Source: Bloomberg

Core inflation measures show strong impact of exogenous prices, but core rising



Inflation expectations remain relatively well-anchored

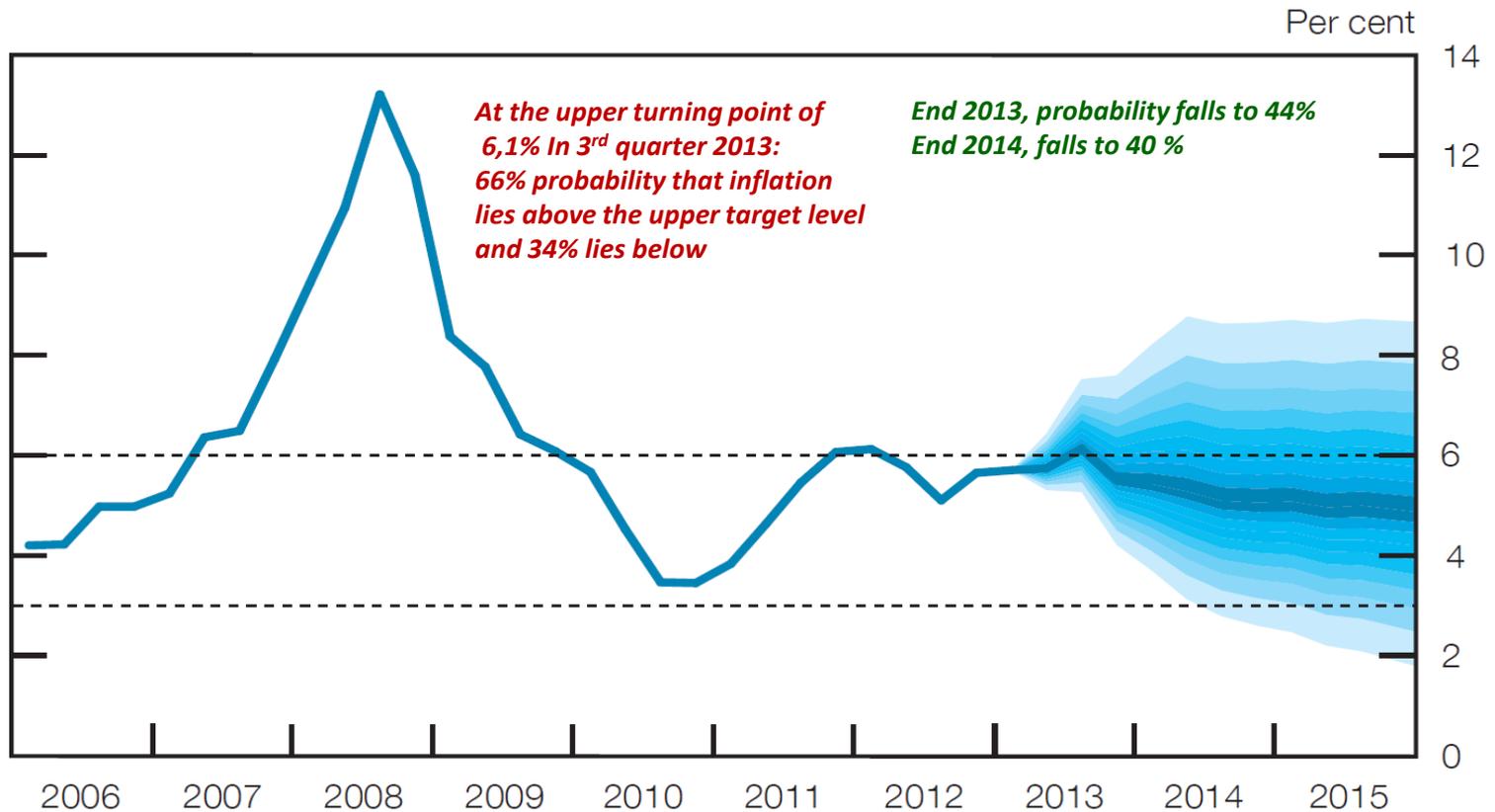
Break-even inflation rates



Source: JSE Limited and own calculations

Inflation to peak during the third quarter of 2013 before moderating

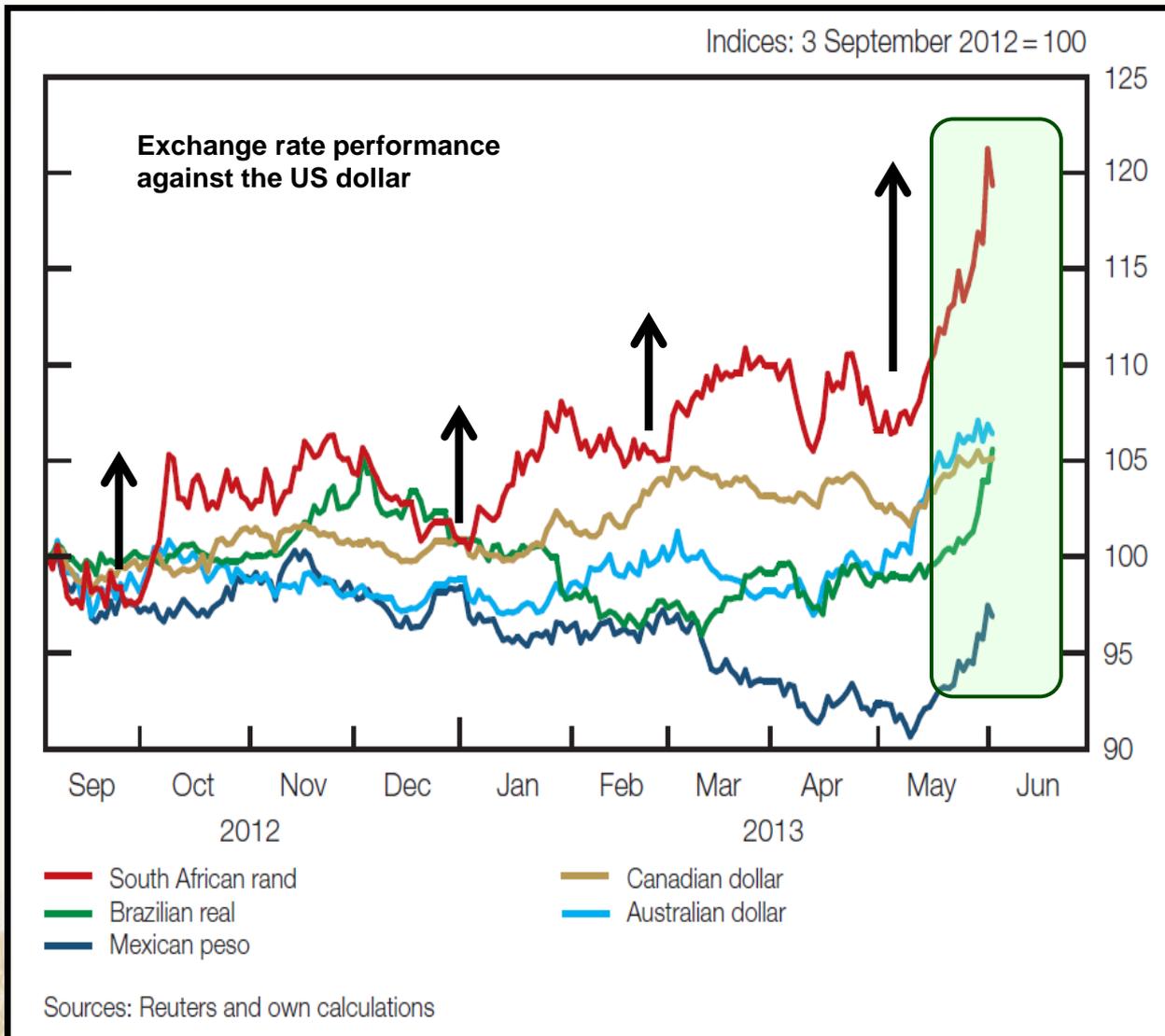
Targeted inflation* forecast



Risks to the outlook & the policy stance

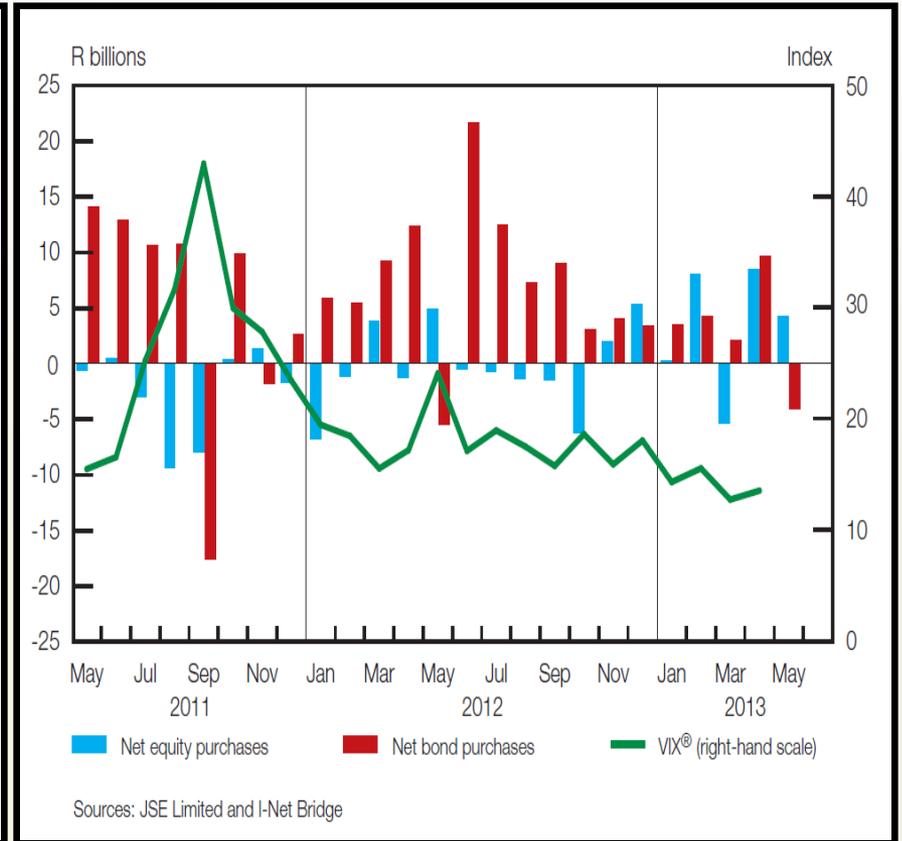
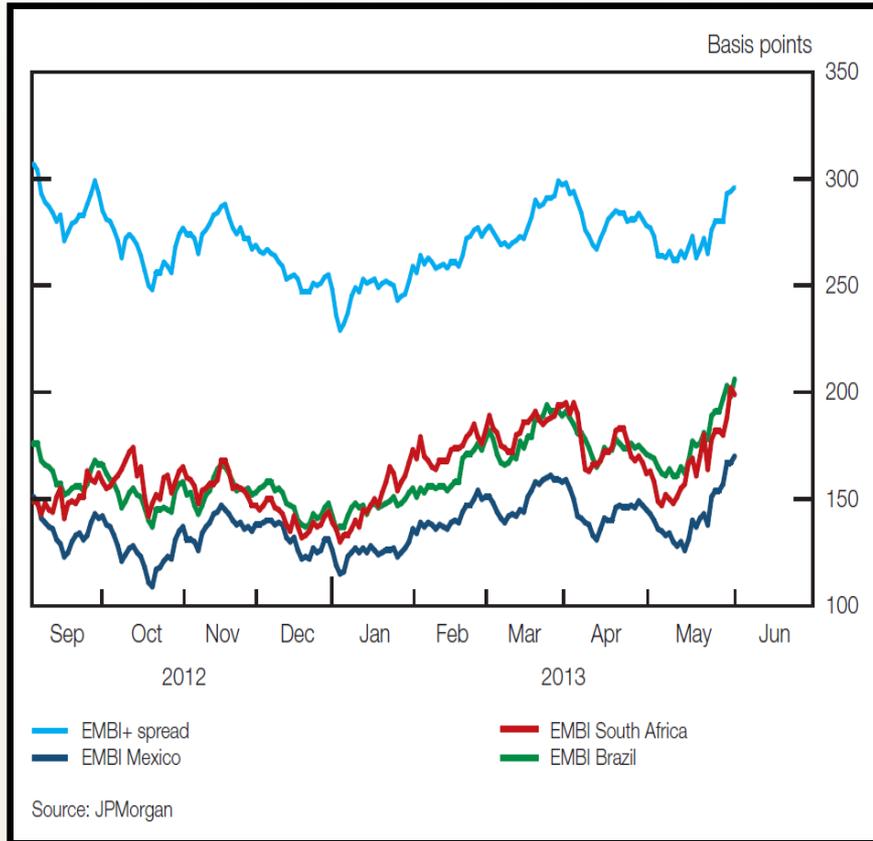
- *Global growth & inflation*
- *Exchange rate trend*
- *Real income pressures & sustained negative supply shock*
- *Capital flows drying up & asset price shock*
- *Policy space limited*

Rand depreciated in steps from May 2012, in line with other EMEs, before idiosyncratic weakness + USD strength/normalisation risk + commodity prices compound movement

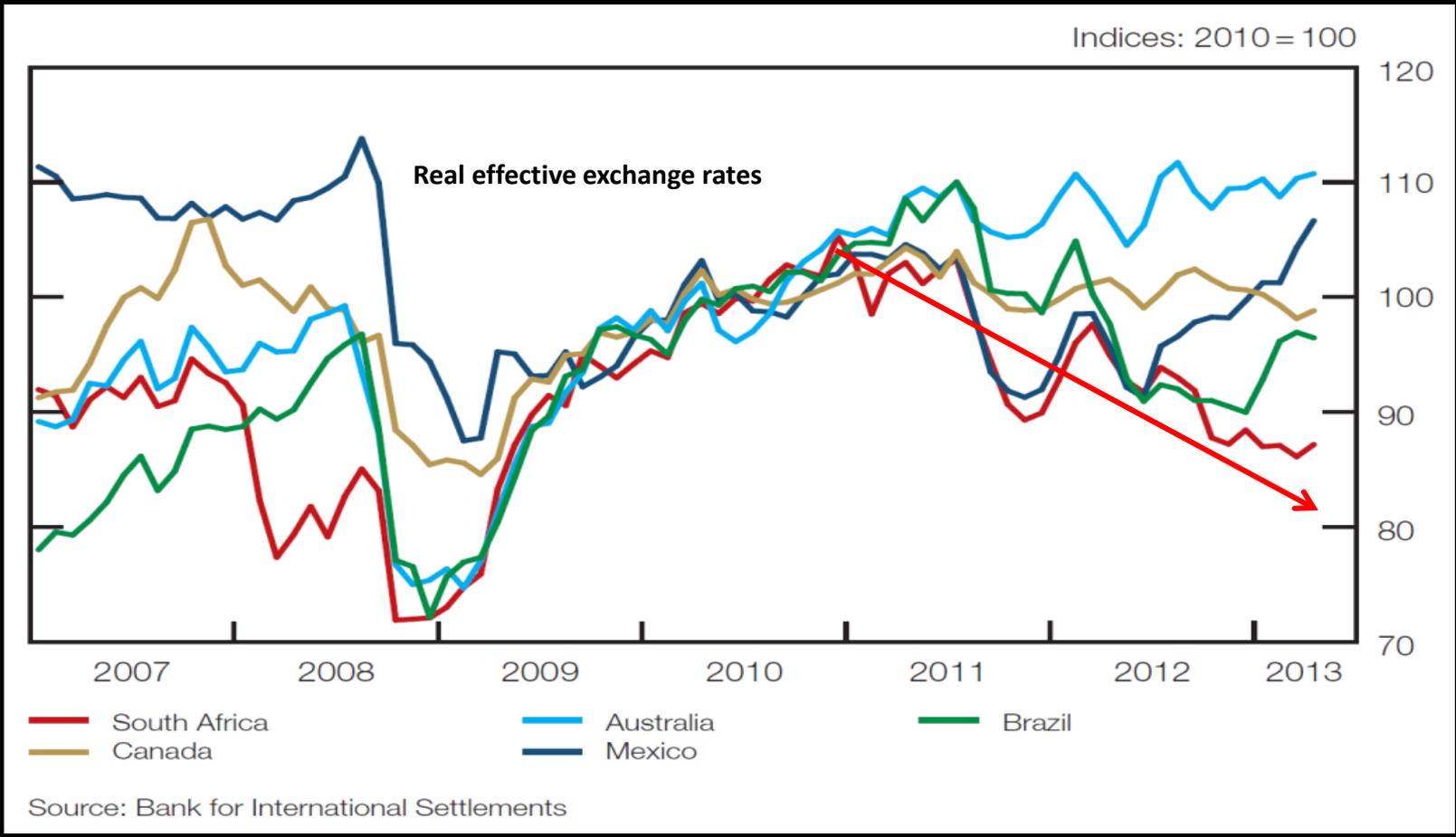


% since:	1 Jan	1 May
ZAR	-18,4	-12
Real	-4,7	-6,6
Mexican peso	+1,5	-4,9
Can dollar	-4,2	-2,4
Aus dollar	-7,6	-7,4

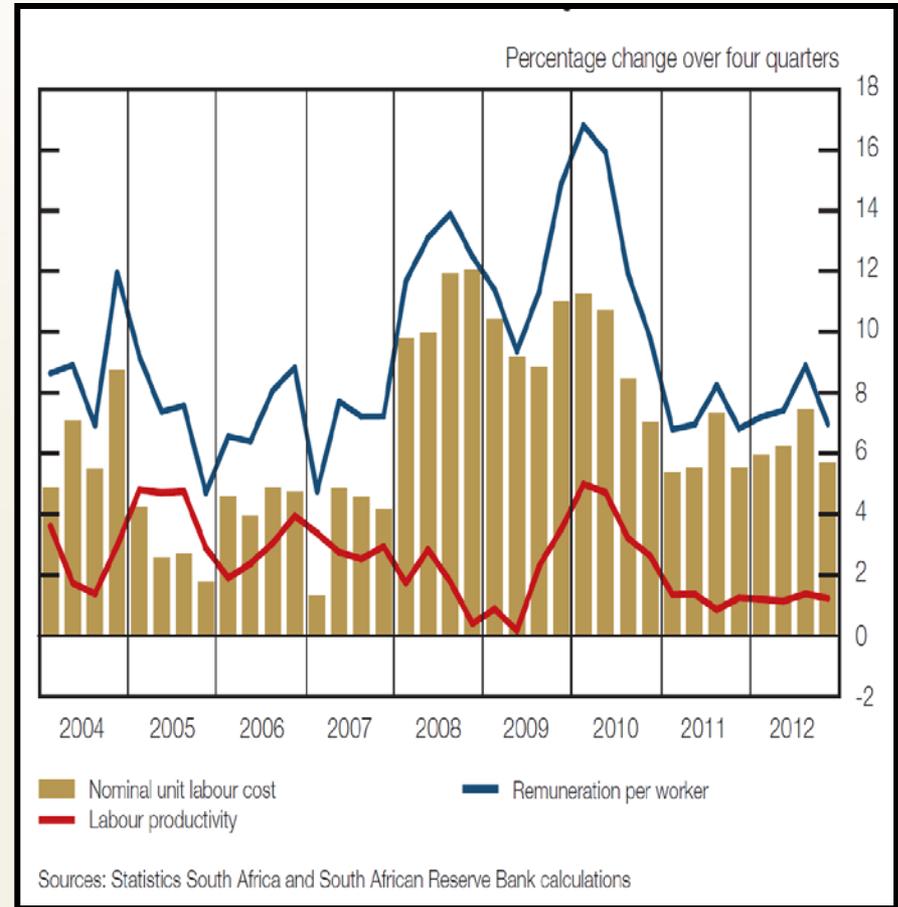
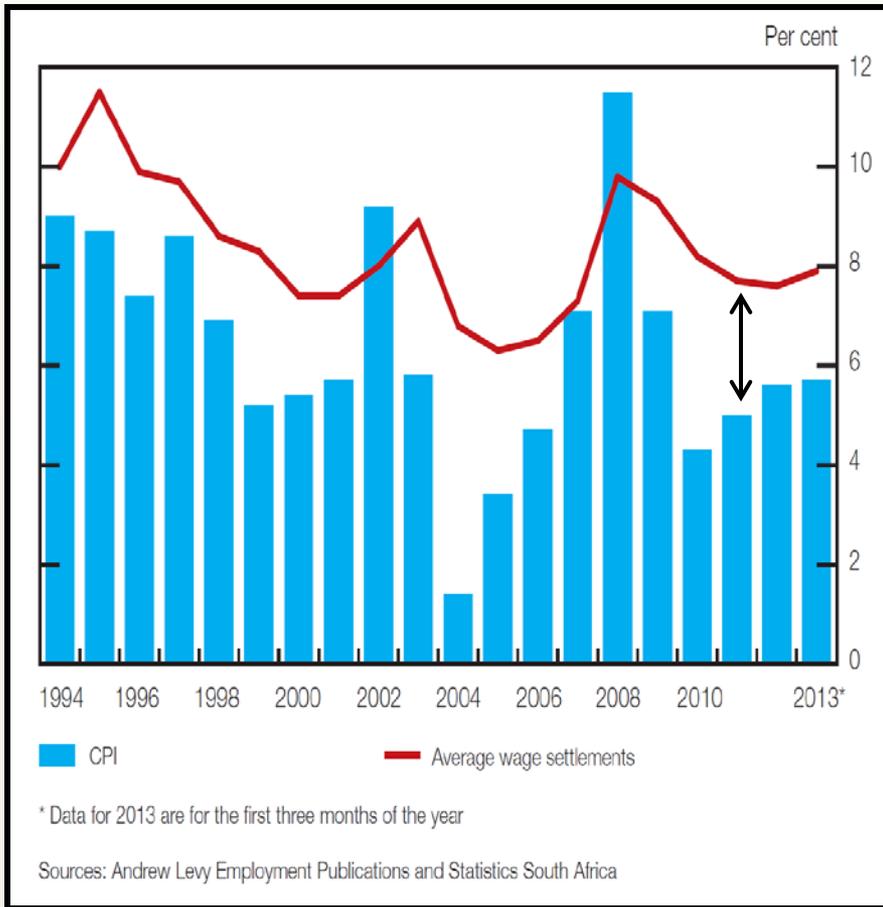
...reflected in a rise in bond yields across EMEs & weaker capital inflows



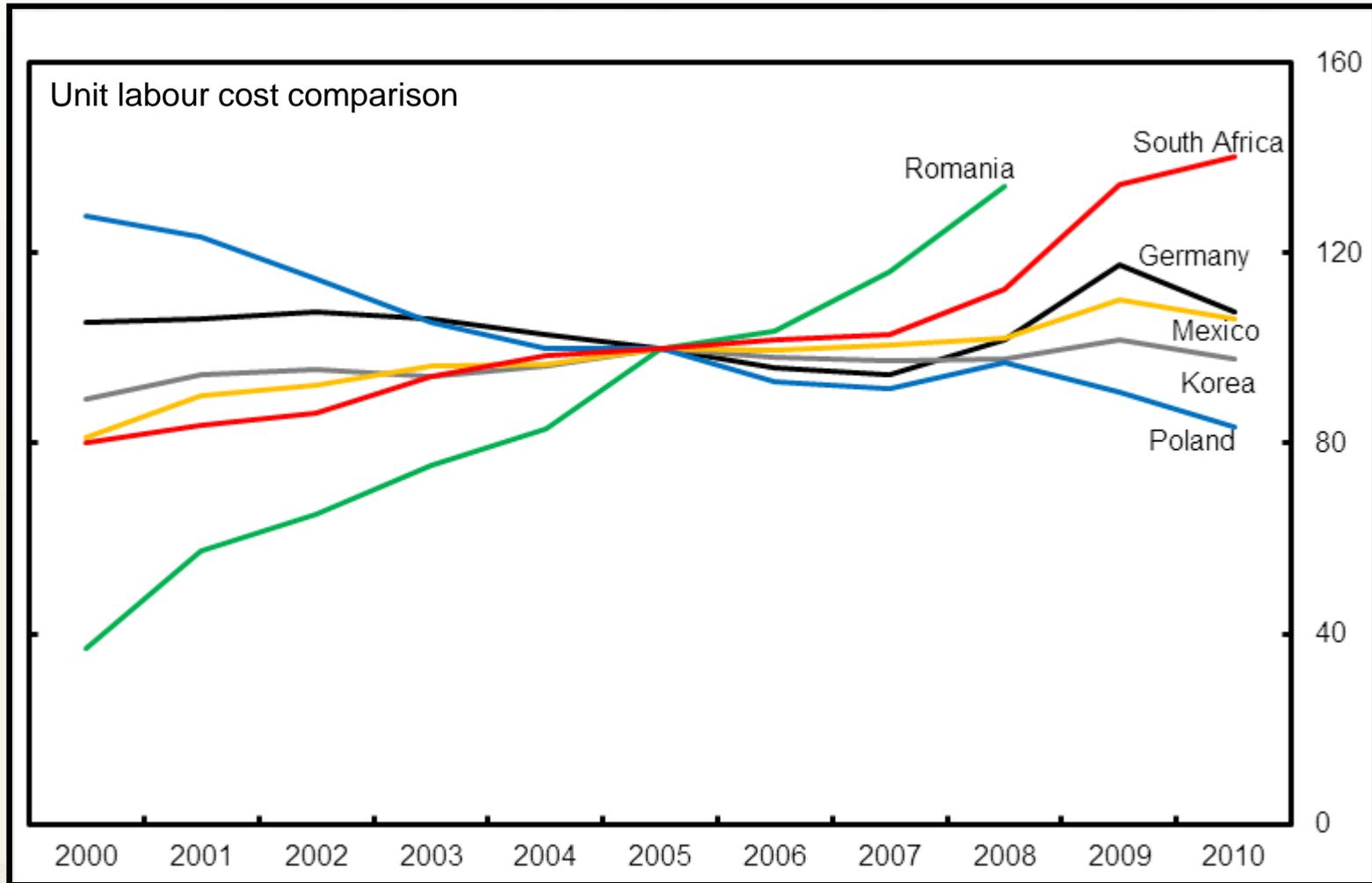
Rand weakness driving down the real exchange rate



While risk of triple negative effects from real wage & unit labour cost growth inhibiting job creation & supporting inflation, and...



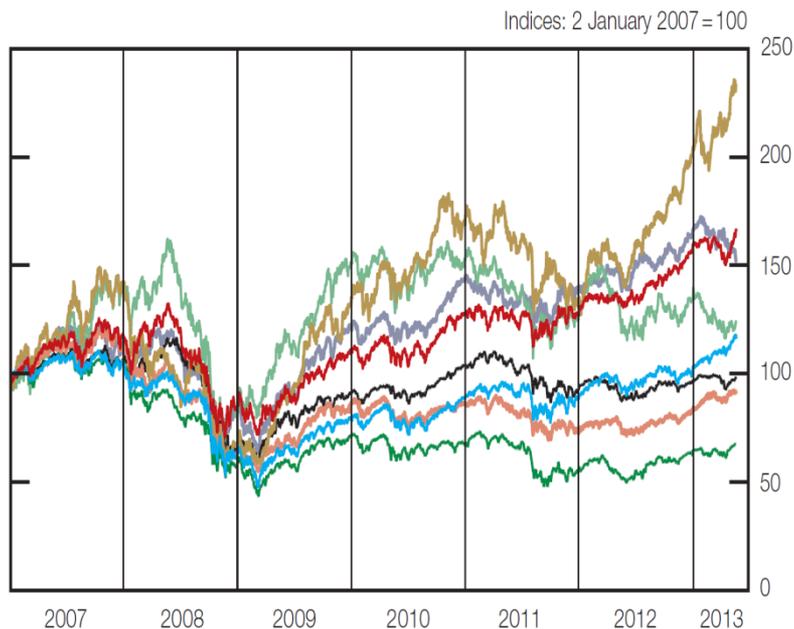
...and reversing the real depreciation gains, limiting gains to competitiveness



Sources: Organisation for Economic Cooperation and Development and own calculations

On the financial markets, local currency asset prices soared & dollar-based prices have held up

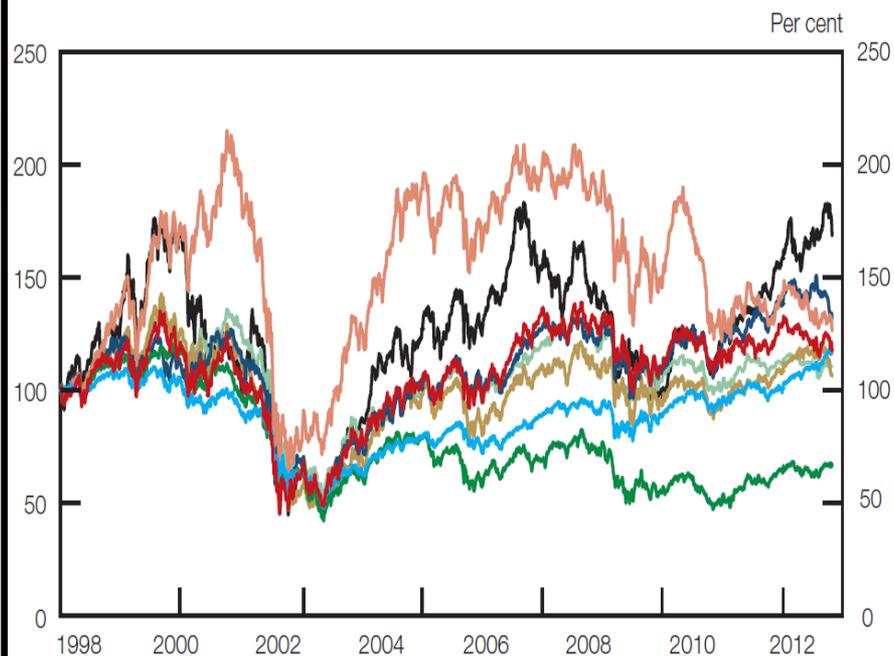
International share price indices*



- FTSE/JSE All-Share Index
- Euro area (Dow Jones Euro Stoxx 50)
- Brazil (Bovespa)
- Australia (ASX All Ordinaries)
- United States (S&P 500)
- Turkey (Istanbul)
- Mexico (Mexico City IPC)
- Canada (Toronto 300 Composite)

* Based on local currency share prices

Sources: JSE Limited and I-Net Bridge



- FTSE/JSE All Share
- DJ Euro Stoxx 50
- Mexico City IPC
- Toronto 300 composite
- S&P 500
- Bovespa
- ASX all ordinaries
- Istanbul

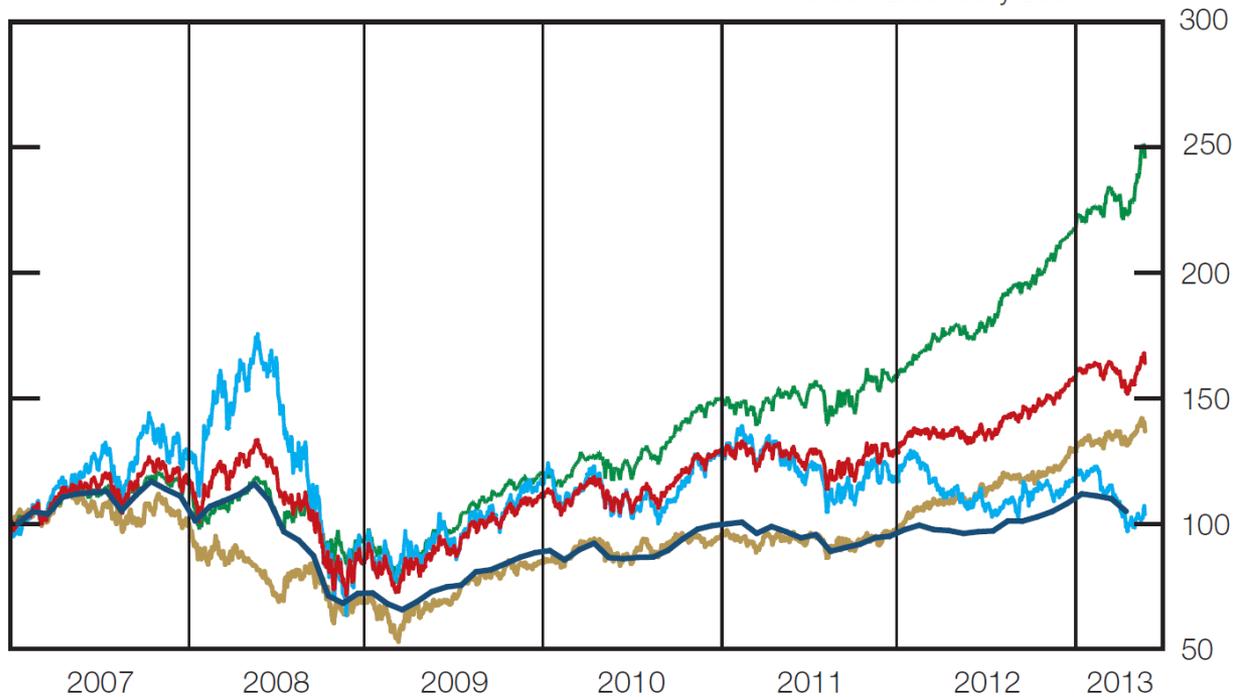
* Share price indices have been converted to US

Sources: JSE limited, I-net Bridge and own calculations

While a domestic breakdown reveals major divergence in performance between industrials and resources

Domestic share price indices

Indices: 2 January 2007 = 100



FTSE/JSE:

— All-Share Index

— Industrial Index

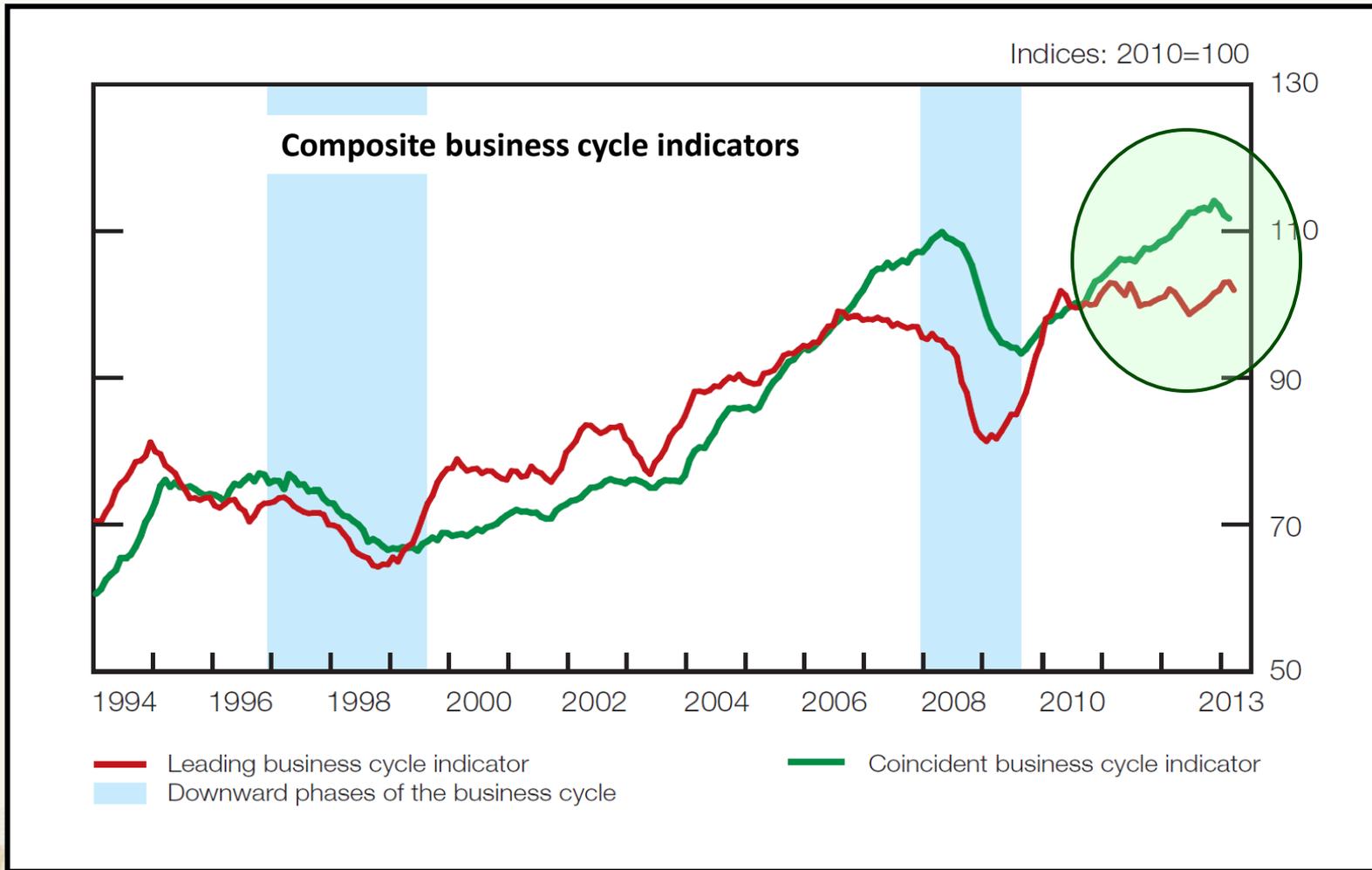
— All-Share Index: Real

— Resources Index

— Financial Index

Sources: JSE Limited, I-Net Bridge and own calculations

...in an environment with few signs of underlying animal spirits...

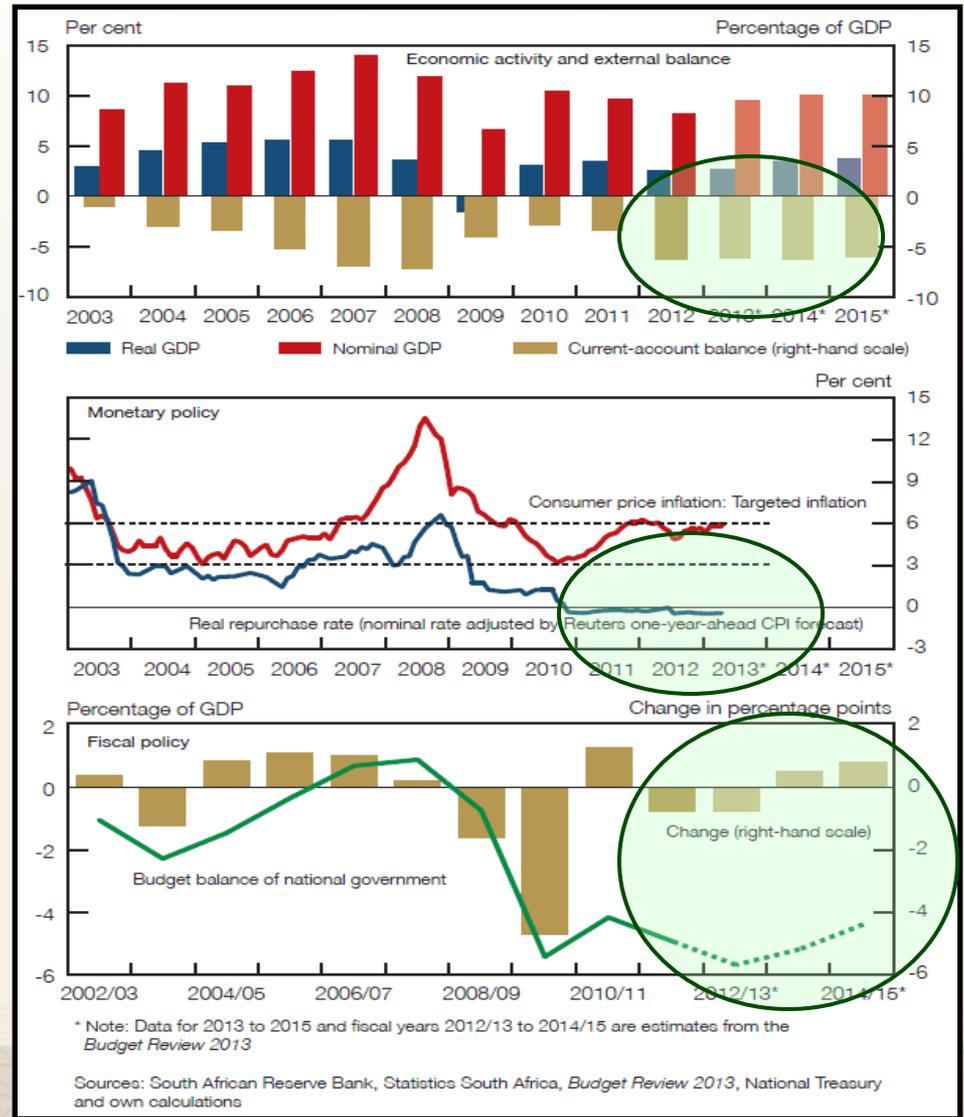
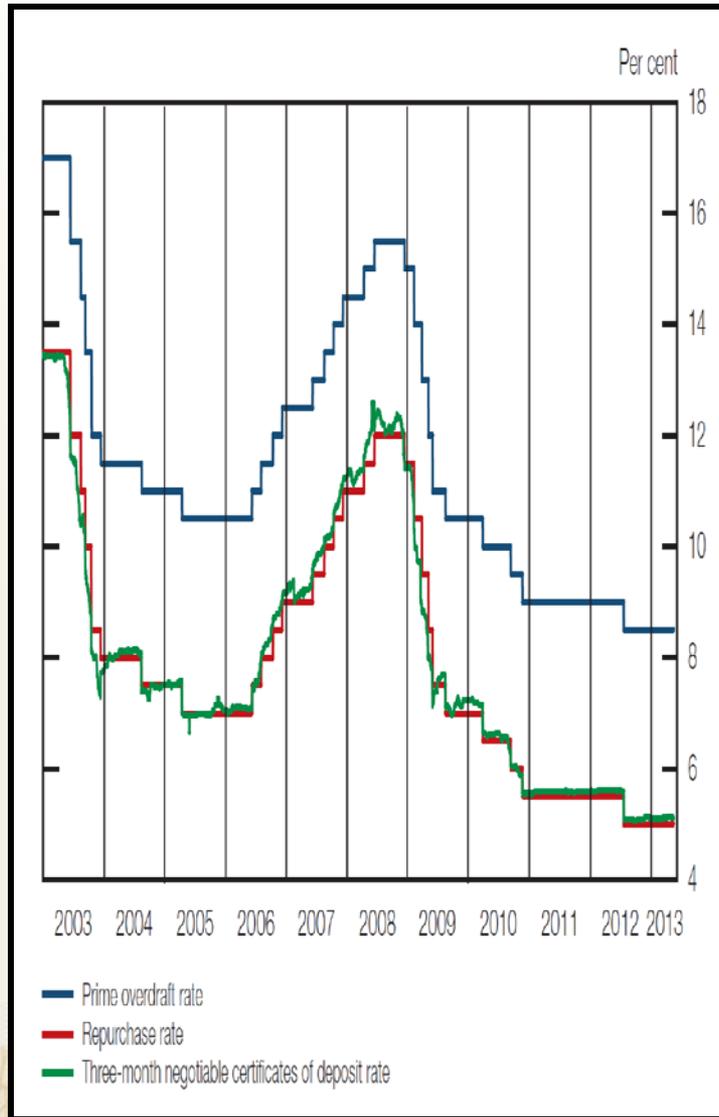


Revealed in steady reductions in GDP forecasts for 2013, and as inflation forecasts mostly increasing

Per cent

MPC meetings	Real GDP		Targeted inflation	
	2013	2013	Expected peak	Expected to stabilise
September 2012	3,4	5,2	4th quarter 2012 at 5,4 per cent	at 5,0 per cent level to the end of 2014
November 2012	2,9	5,5	1st quarter 2013 at 5,7 per cent	at 5,0 per cent level in 2014
January 2013	2,6	5,8	3rd quarter 2013 at 6,1 per cent	at 5,1 per cent level in the second half of 2014
March 2013	2,7	5,9	3rd quarter 2013 at 6,3 per cent	at 5,2 per cent level in the final quarter of 2014
May 2013	2,4	5,8	3rd quarter 2013 at 6,1 per cent	at 4,9 per cent level in the final quarter of 2015

Policy supporting growth & constrained



Conclusion

- **Global environment siding on low growth & benign inflation**
- **South Africa running with the growth trend but against the inflation trend**
- **Risks are high & policy space limited**
 - *USD strength as economy recovers & normalisation touted*
 - *Currency depreciation exogenous and endogenous*
 - *CAD adjustment (trade balance) & short term financing risks (asset prices)*
 - *Real income losses create cost push pressures*
 - *Confidence, uncertainty, and short run supply gaps*
 - *Medium run inflation pressures, competitiveness & potential growth*