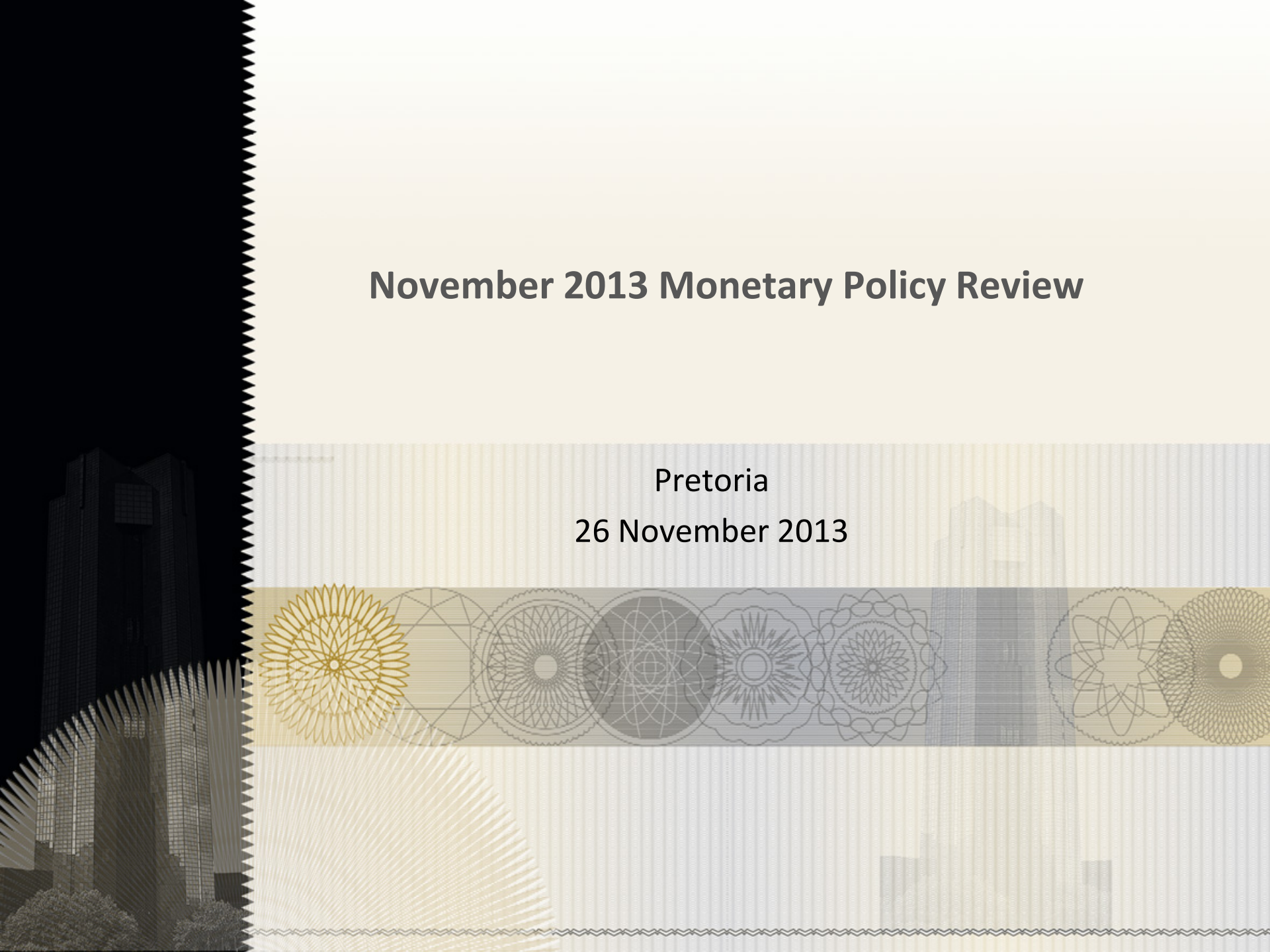


November 2013 Monetary Policy Review

Pretoria

26 November 2013



Overview and contents

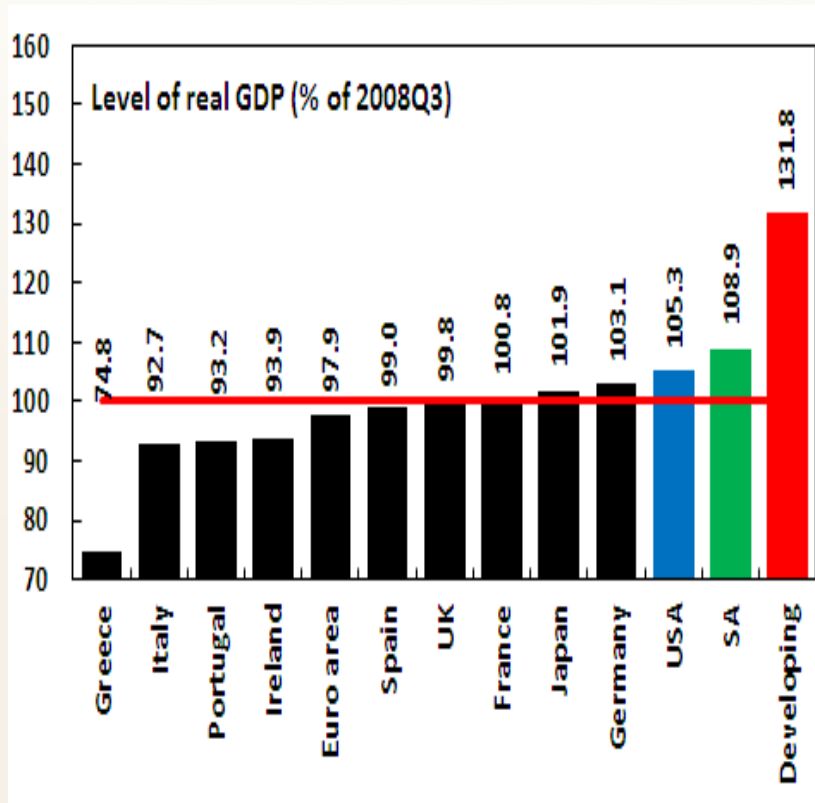
The global context > weak growth & deflation, signs of recovery, major policy risks

The domestic context > weak growth & strong inflation risks, unknown tapering effects

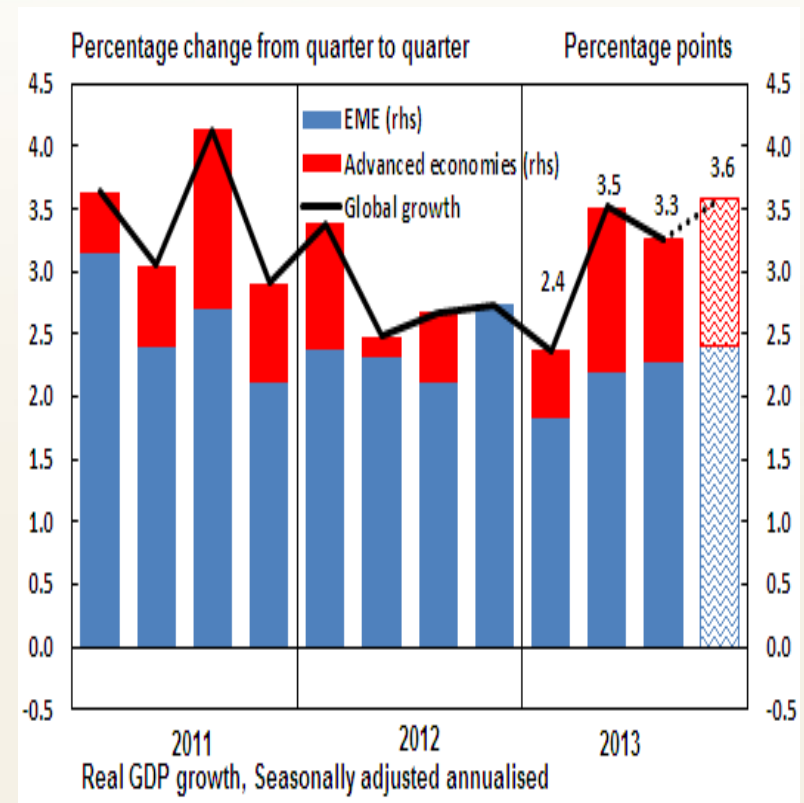
The monetary policy stance > balance of risks worsening & data dependent

Key risks

Advanced economies slowly recovering, but gap to 2008 large for most

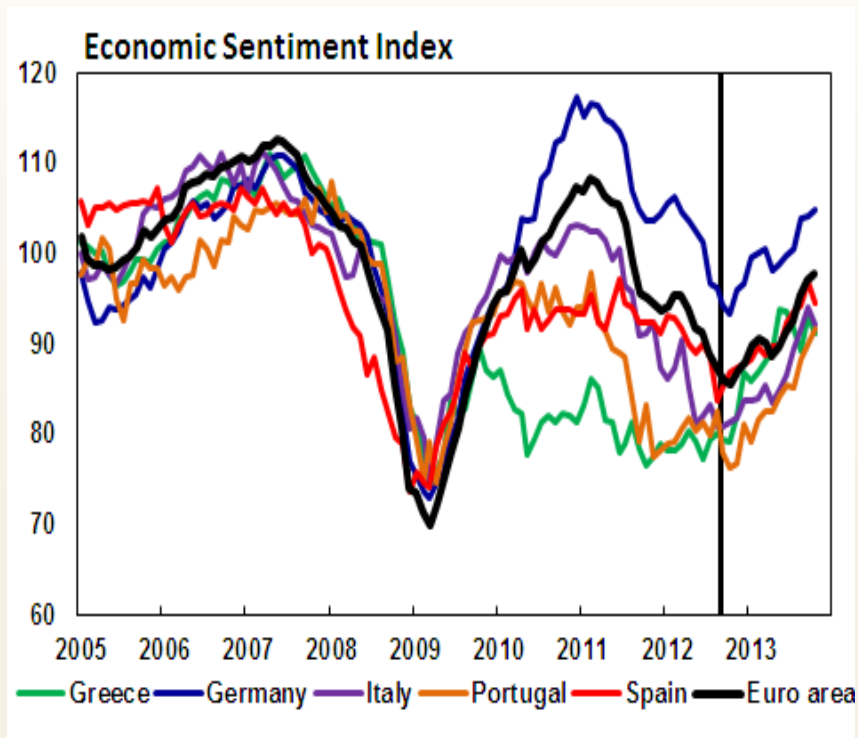


Sources: National statistics offices and own calculations

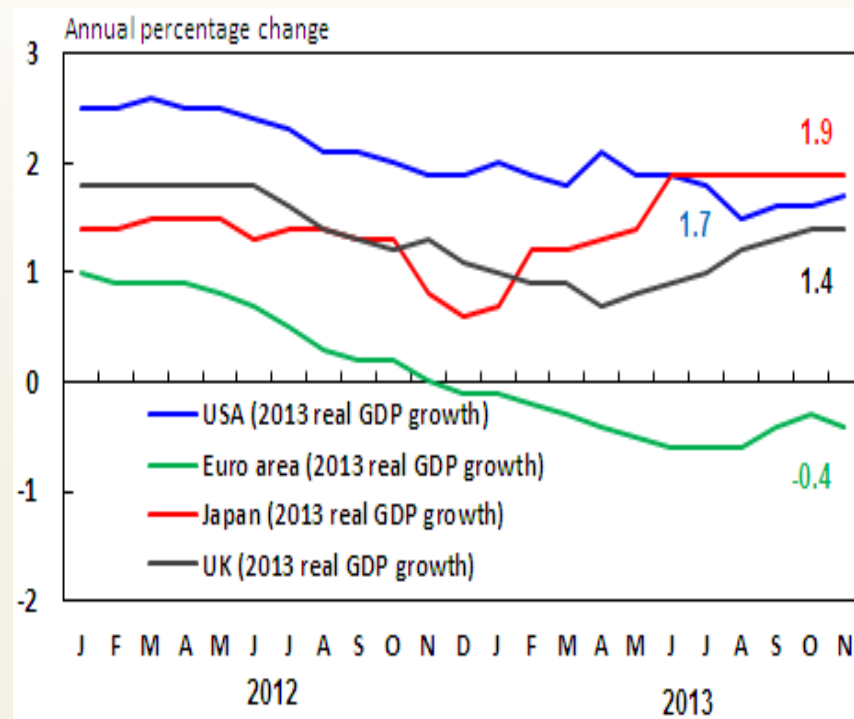


Sources: JPMorgan, national statistics offices and own calculations

Sentiment is rising and markets' expectations of growth stronger



Source: European Central Bank



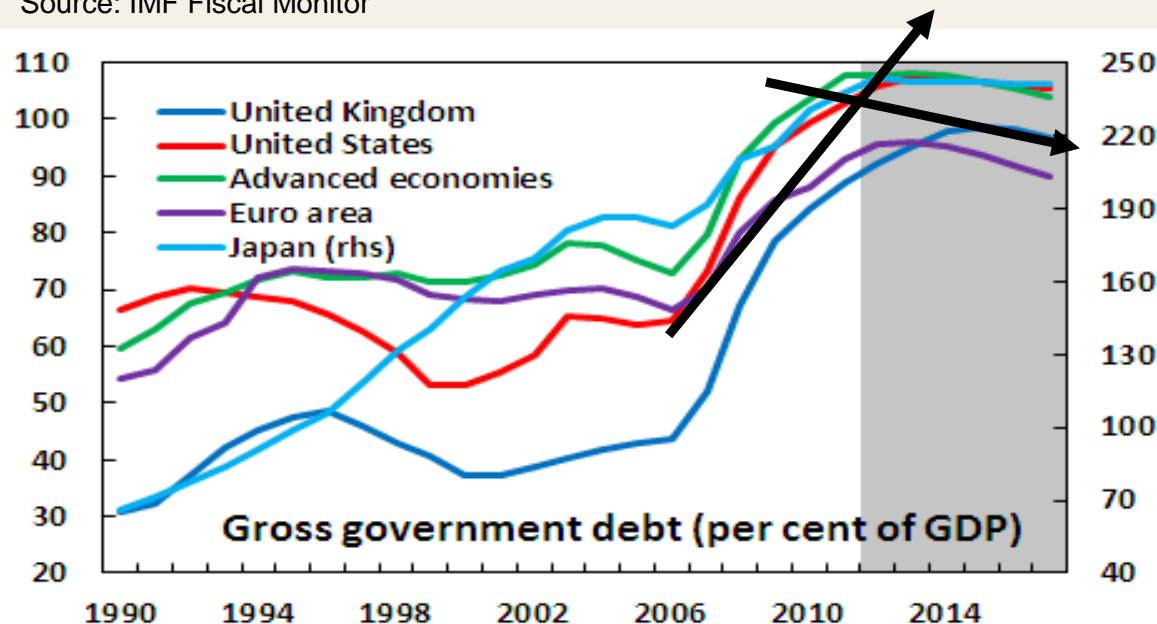
Source: Consensus Forecasts

... with less drag on growth as consolidation slows & debt levels off

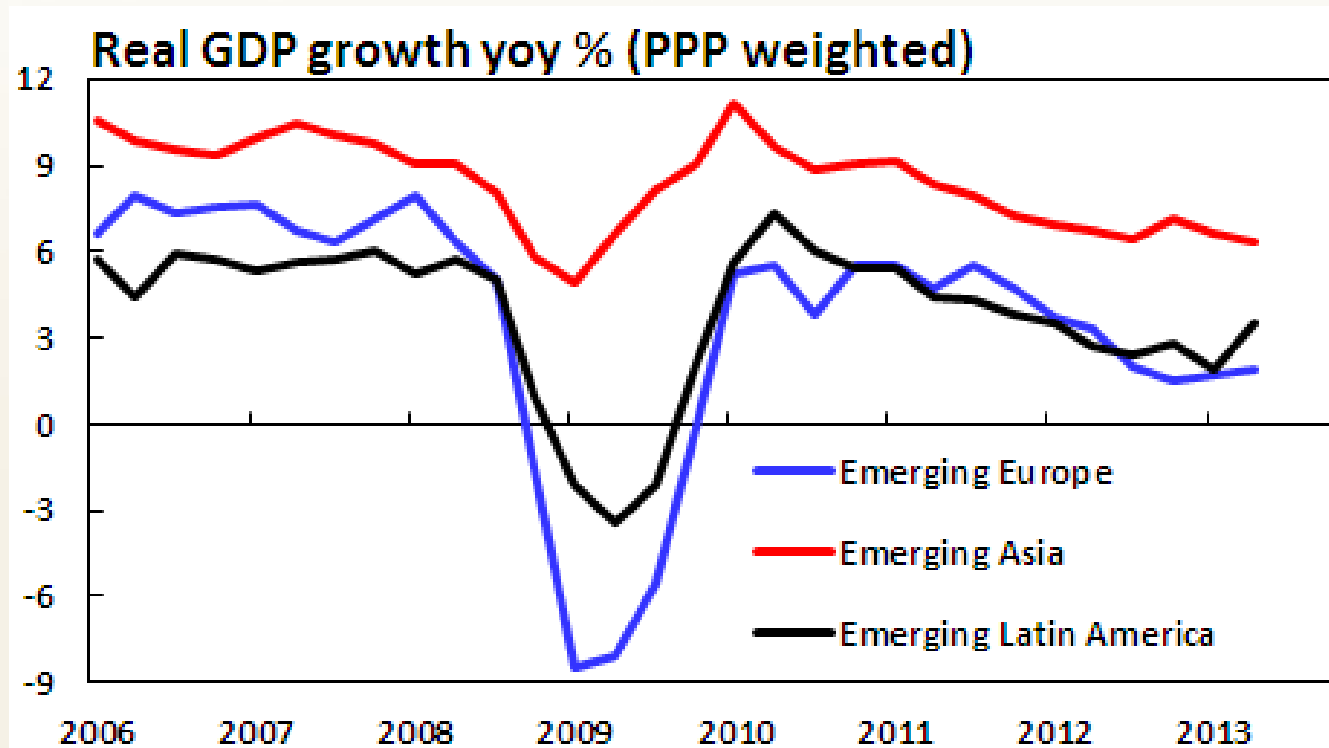
Fiscal impulse (change in structural budget balance, % of potential GDP, negative is expansion)

	2010	2011	2012	2013	2014
<i>AEs excl. euro area</i>	0.0	0.6	0.5	1.5	0.9
<i>Euro area periphery</i>	1.2	0.5	2.3	1.3	0.5
<i>Germany & France</i>	-0.6	1.2	1.1	0.5	0.3
<i>United States</i>	-0.2	0.7	1.0	2.3	0.8
<i>Japan</i>	-0.4	-0.6	-0.7	0.0	2.6
<i>United Kingdom</i>	1.8	2.4	0.3	1.7	0.1

Source: IMF Fiscal Monitor

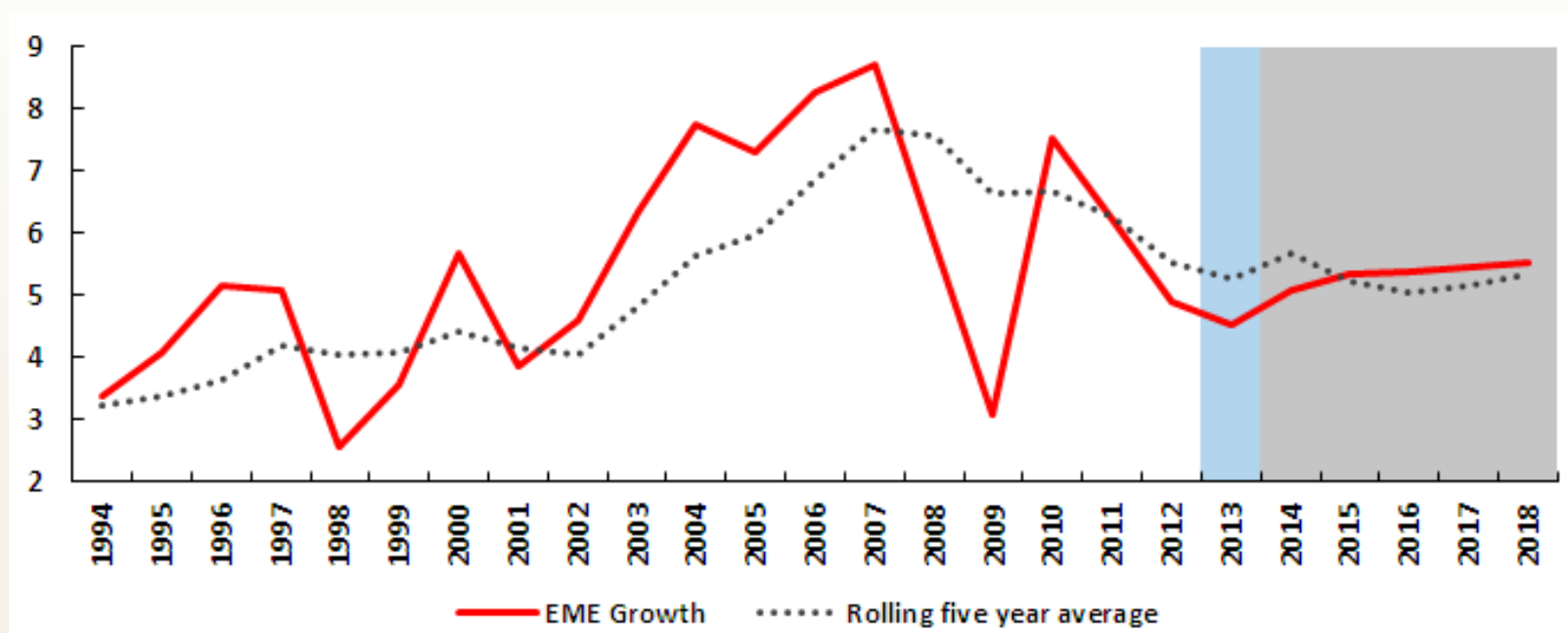


While EME slowdown continues... growth constrained by cyclical and potential factors



Sources: JP Morgan, IMF *World Economic Outlook*, October 2013 and own calculations

Will EMEs push global GDP growth much higher?



Source: IMF *World Economic Outlook*, October 2013

Are EMEs bottoming out?

Positive

AE recovery

Real depreciation

Demand accelerating in China

Negative

Lower commodity prices

QE tapering (& capital outflows)

Limited fiscal space

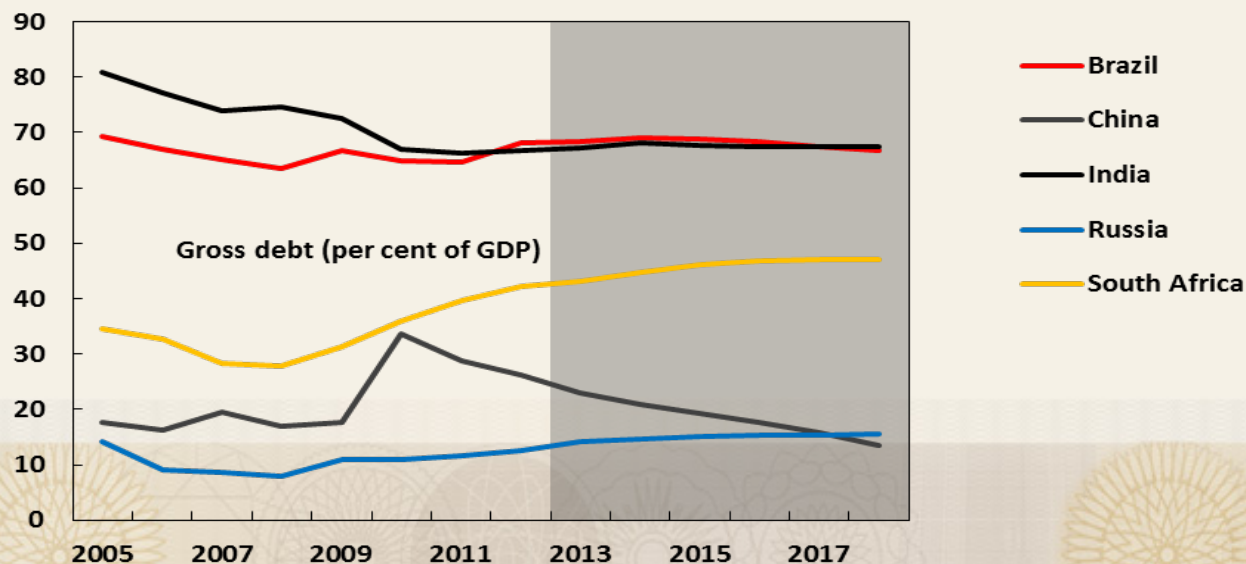
Constrained monetary policy

Fiscal policy mostly counter-cyclical, with public debt limit underlying 'rule'

Fiscal impulse (change in structural budget balance, per cent of potential GDP, negative is expansion)

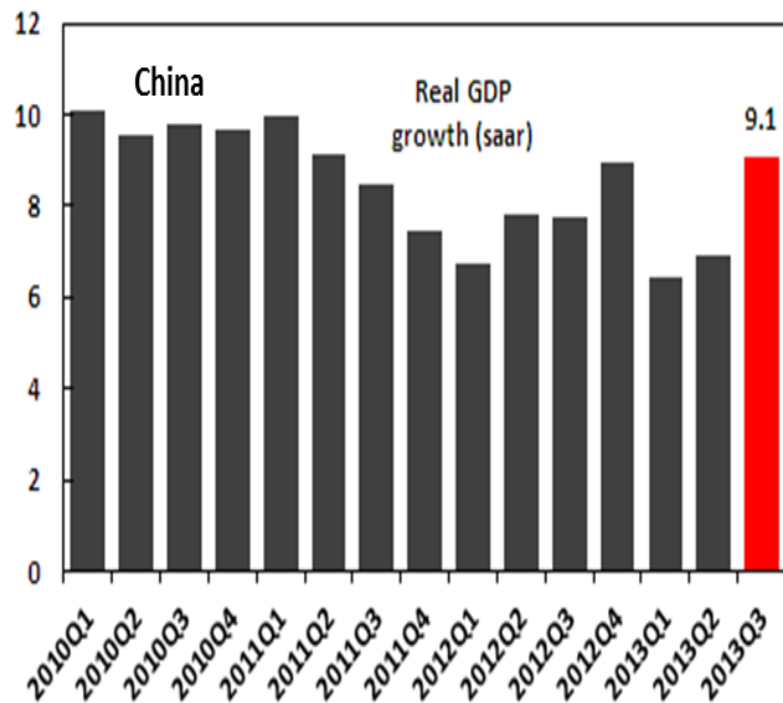
	2008	2009	2010	2011	2012	2013	2014
EMEs	n.a.	-2.0	0.7	0.8	-0.1	-0.2	0.1
Brazil	0.9	-0.2	-1.0	0.3	0.3	-0.3	-0.2
Russia	-2.2	-7.1	1.3	3.8	-1.6	-0.7	0.4
India	-4.6	-0.1	0.5	-0.1	1.1	-0.1	0.0
China	-1.5	-2.0	1.7	0.6	-0.7	-0.3	0.2
South Africa	-1.2	-1.0	-0.2	-0.5	-0.2	-0.1	0.1

Source: IMF *Fiscal Monitor*

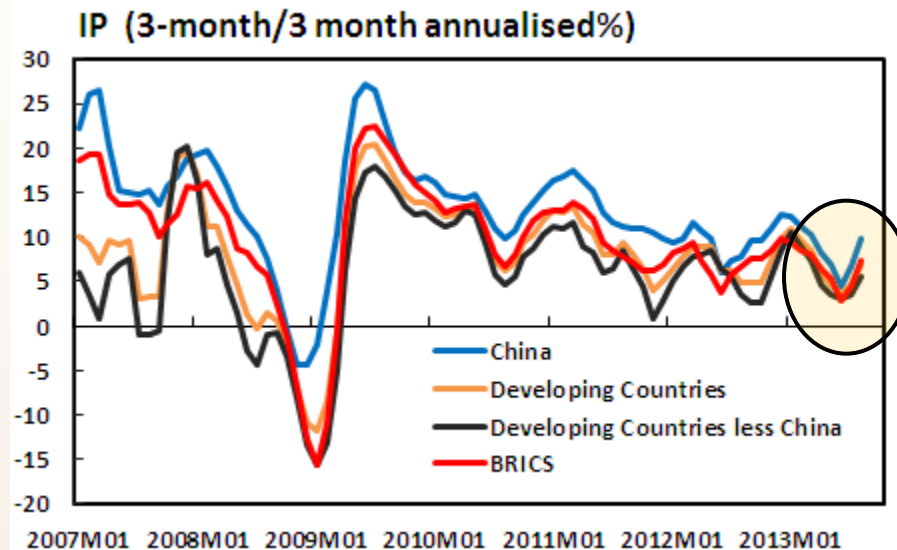


Source: IMF *Fiscal Monitor*

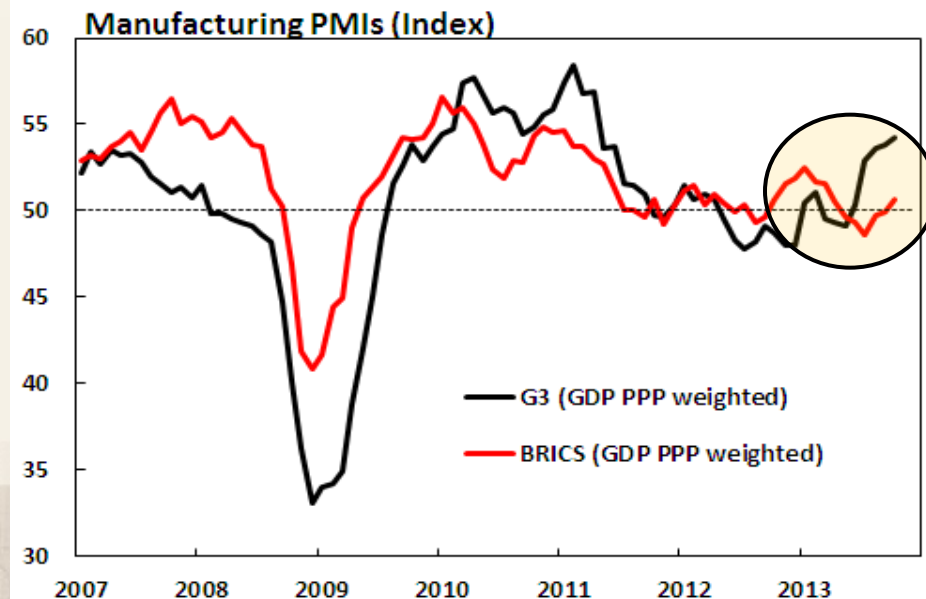
Are forecasts behind the curve?



Source: JP Morgan

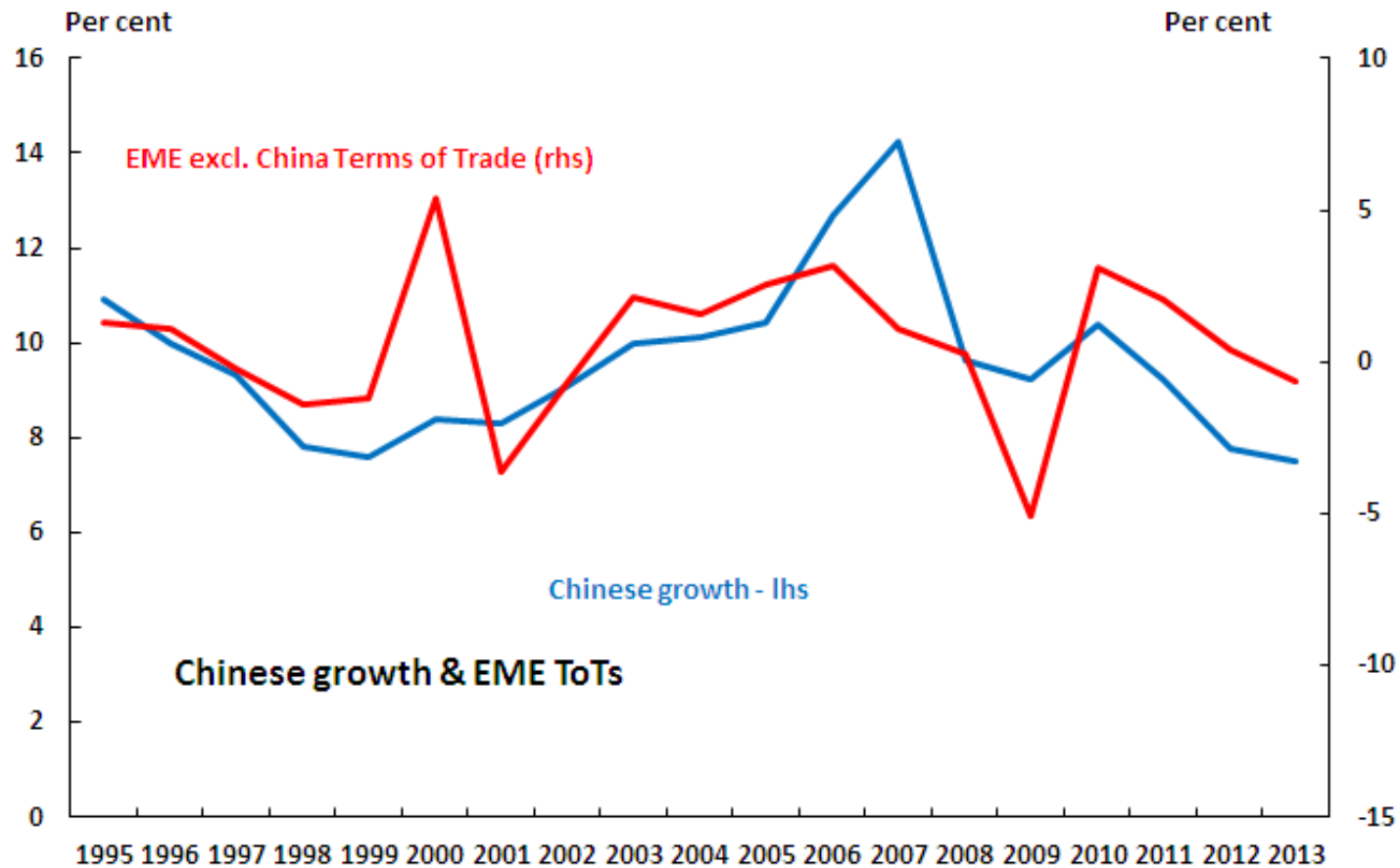


Source: World Bank



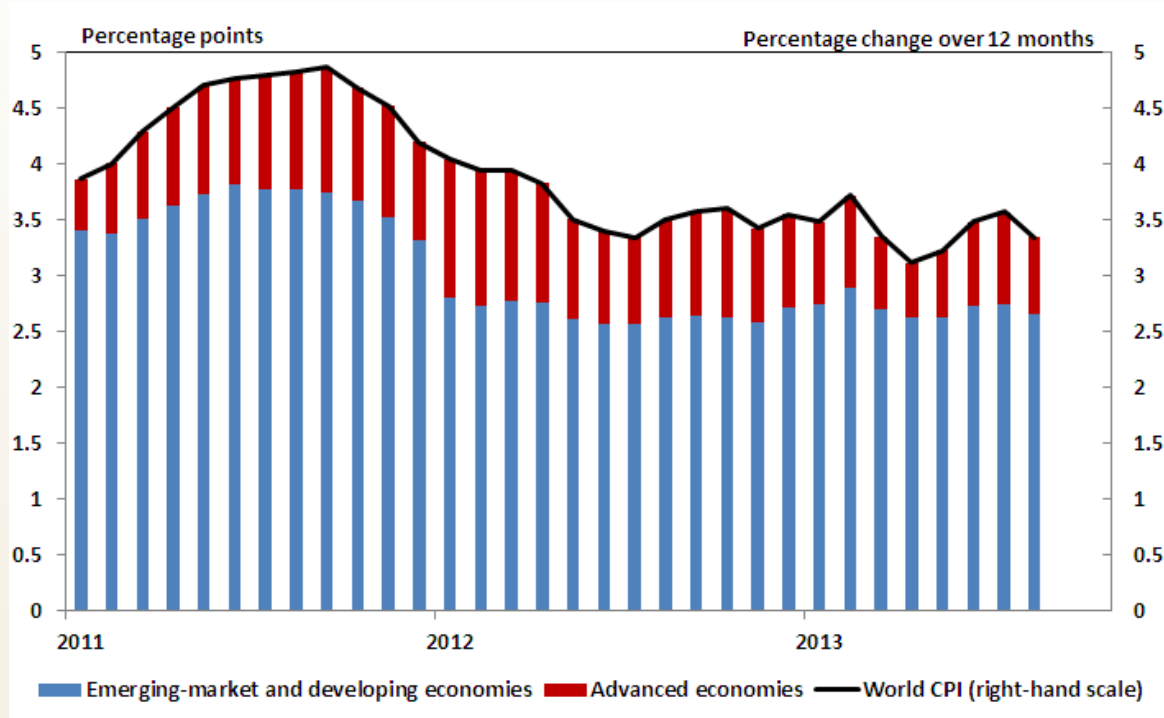
Sources: Bloomberg, IMF *World Economic Outlook*, October 2013 and own calculations

China's fortunes remain critical to EME outcomes



Source: World Bank

Inflation lower, globally

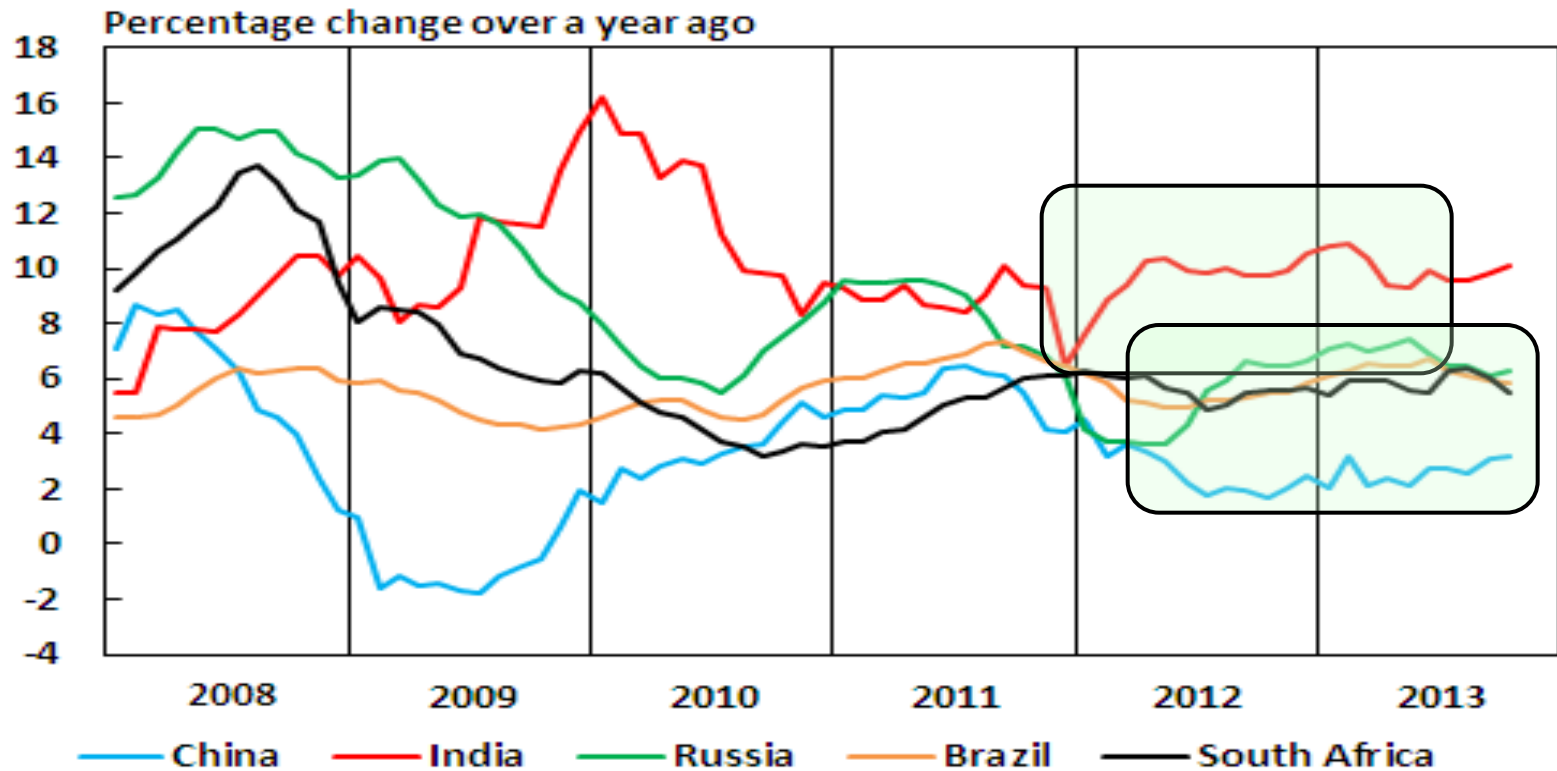


Source: IMF International Financial Statistics database

Inflation	2008	2009	2010	2011	2012	2013*
World	6,0	2,5	3,6	4,8	4,0	3,8
Advanced economies	3,4	0,1	1,5	2,7	2,0	1,4
Emerging-market and developing countries	9,2	5,3	5,9	7,1	6,1	6,2
Sub-Saharan Africa	12,9	9,4	7,4	9,3	9,0	6,9

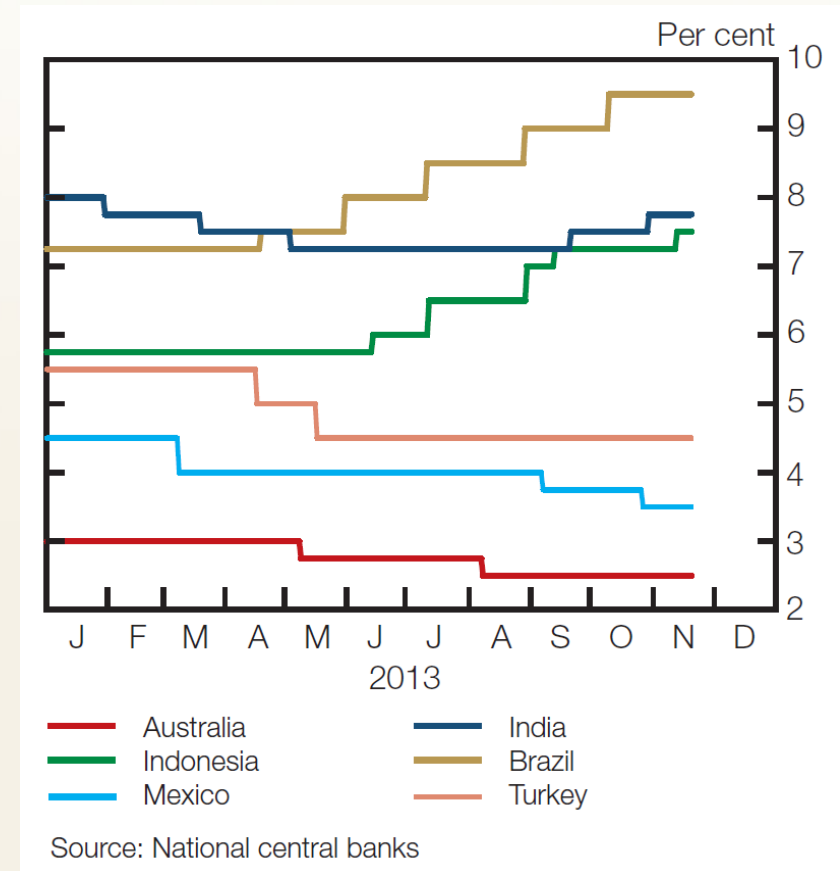
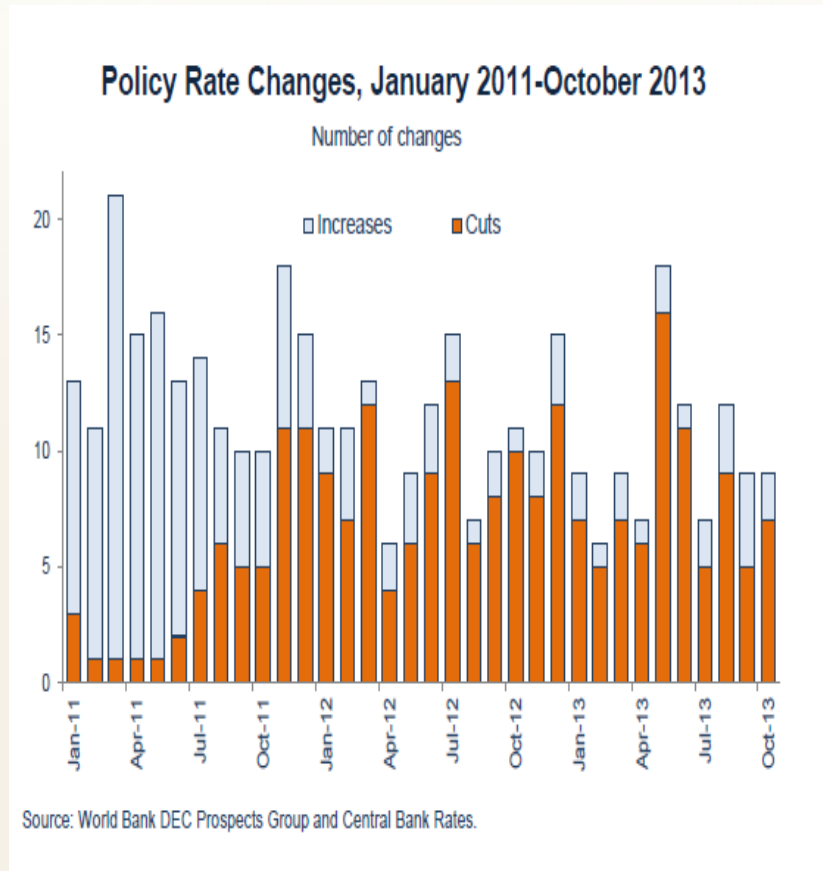
Source: IMF World Economic Outlook, October 2013

BRICS inflation roughly stable but with upward shifts either early or late in 2012



Source: Bloomberg

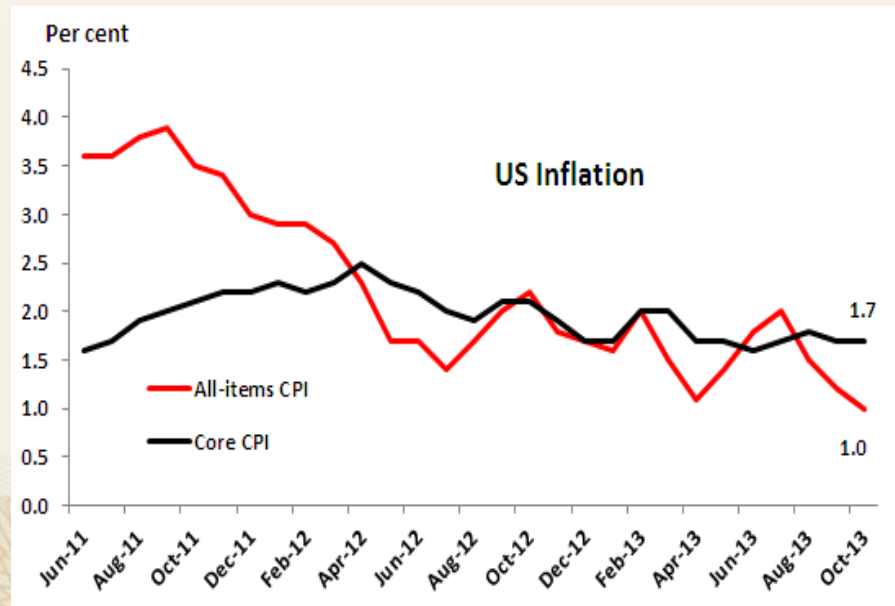
EM monetary policy have been supportive of growth, but mid-2013 increasing moves to tighten



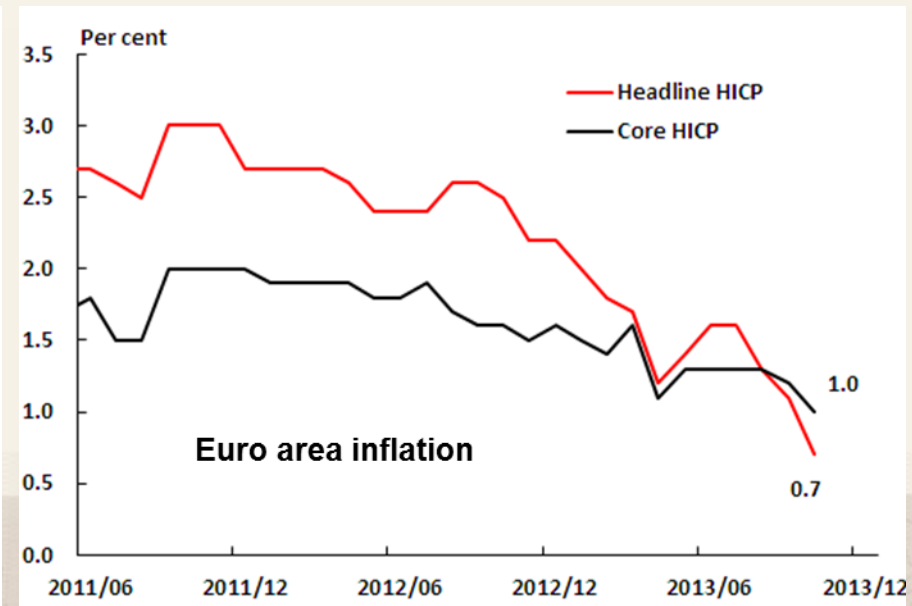
Despite stronger GDP growth, inflation unexpectedly weakens in advanced economies

	Euro Area	US	Japan	Canada	UK
Jul-13	1.6	2.0	0.7	1.3	2.8
Aug-13	1.3	1.5	0.9	1.1	2.7
Sep-13	1.1	1.2	1.1	1.1	2.7
Oct-13	0.7	1.0	1.1	0.7	2.2

Sources: National statistics offices

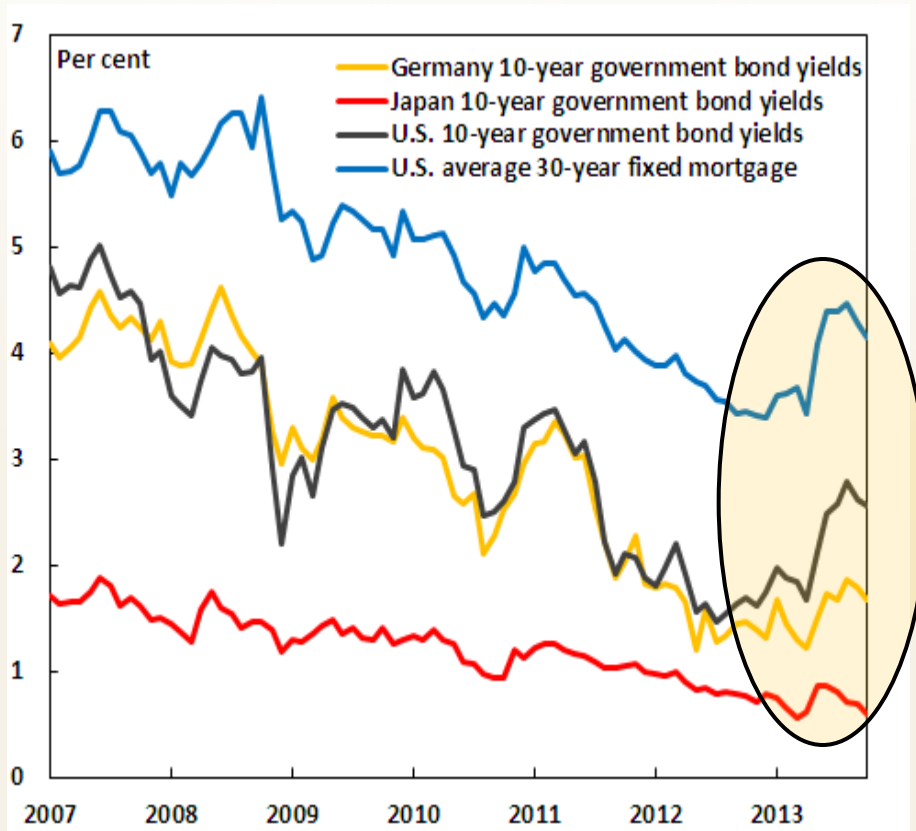


Source: US Bureau of Labor Statistics

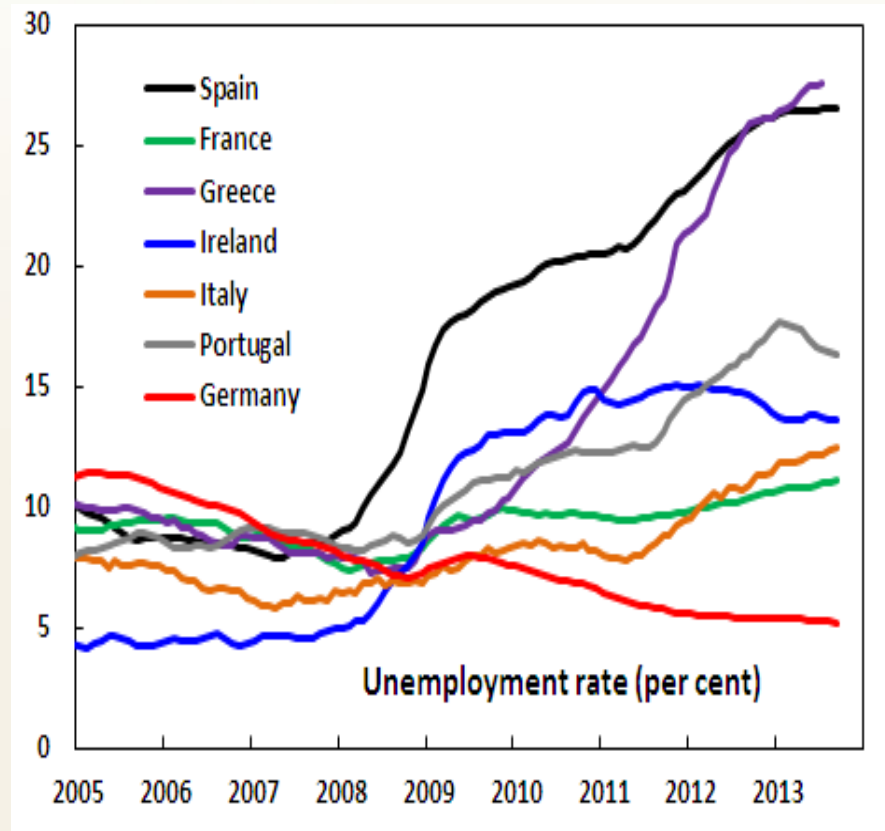


Source: Eurostat

Macroeconomic outcomes and policy setting pressured by taper threat > yields up despite lower inflation & stubborn unemployment



Source: Bloomberg

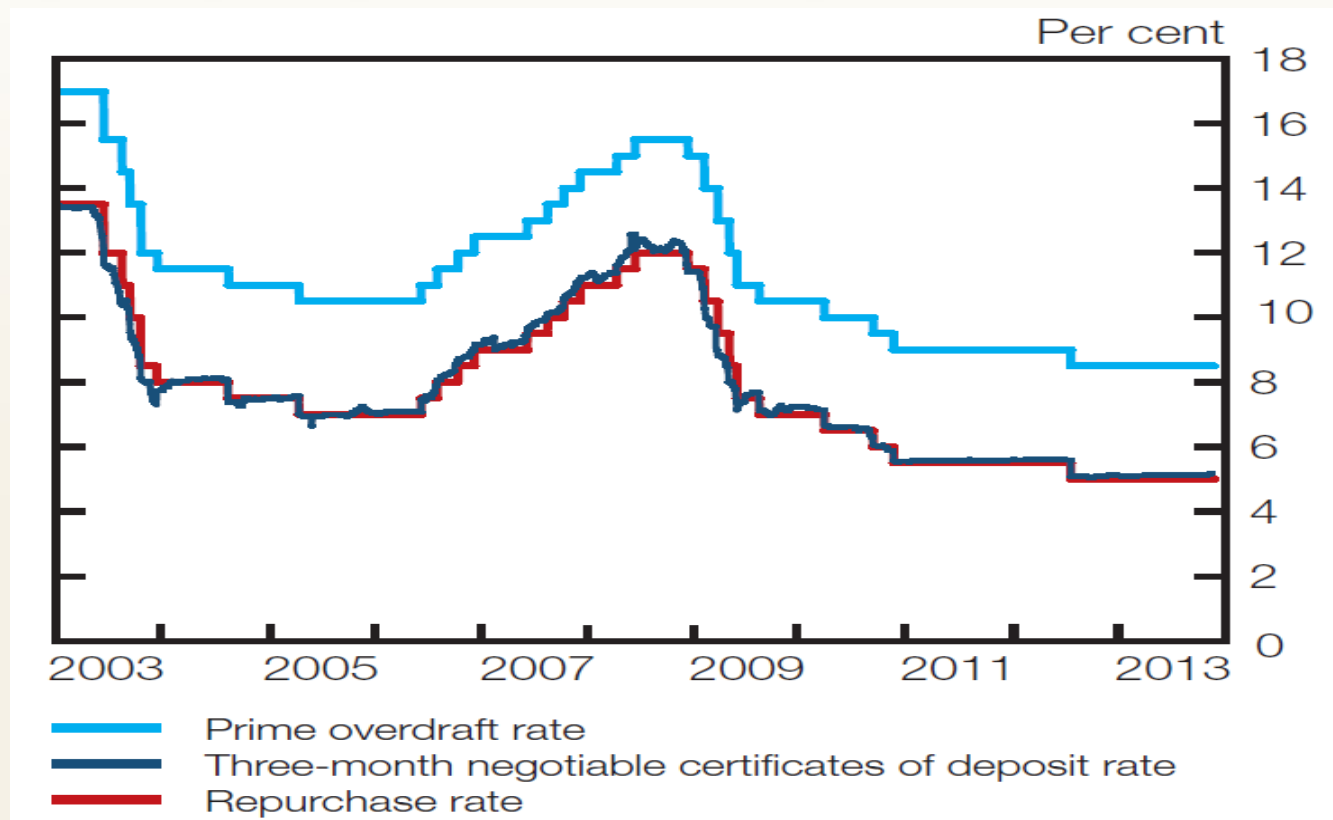


Source: Eurostat

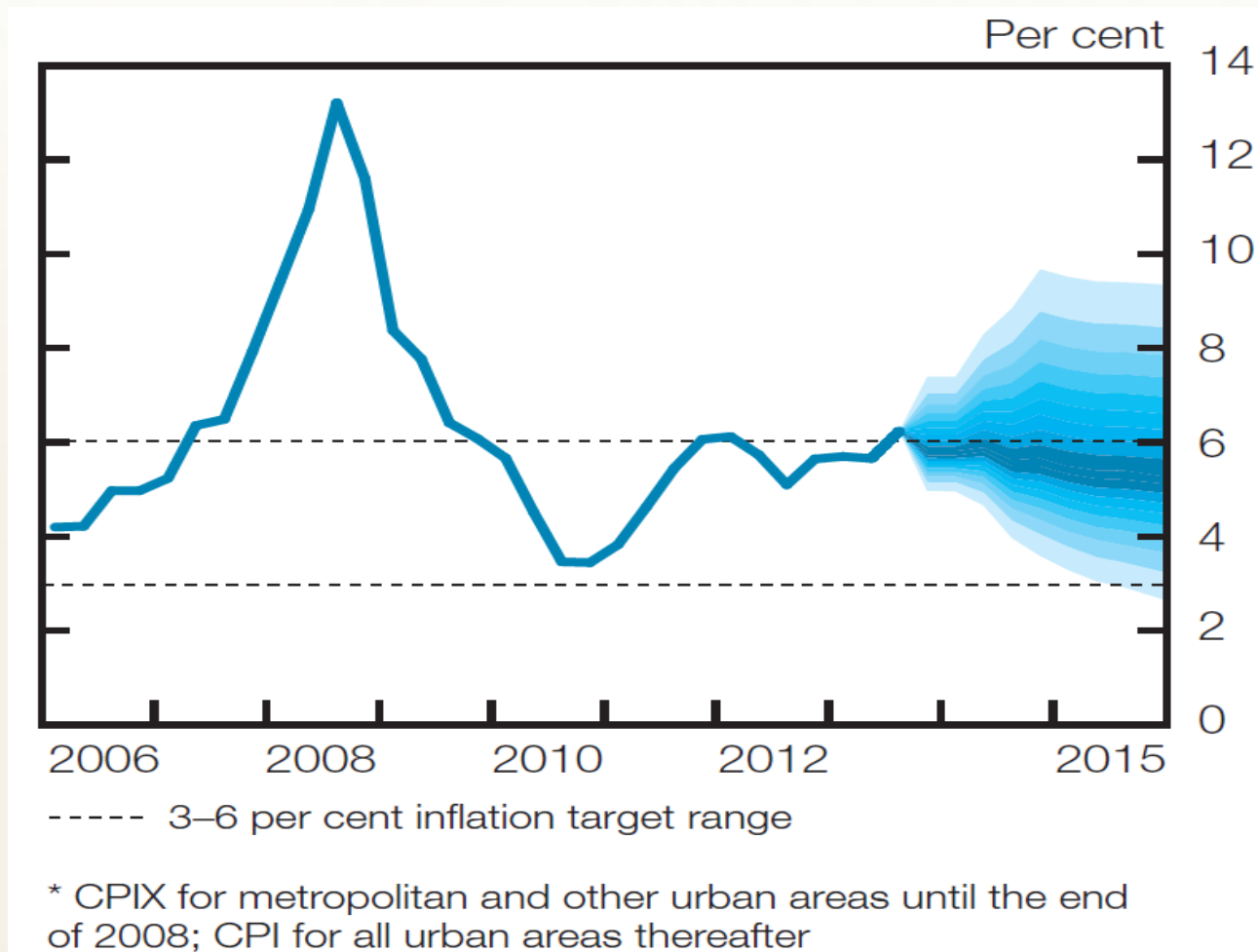
Global economic growth multi-speed, with multiple risks evident

- **Advanced Economies**
 - Fiscal impact on growth declining & US fiscal shutdown risk
 - Taper speed when inflation lower and policy tighter?
- **Emerging Market Economies**
 - Sustained, broad-based slowdown
 - Structural and cyclical
 - Downward revisions (catching-up rather than worsening situation?)
 - Capital flows becoming fickle
 - Macroeconomic risk
 - Current account deficits

Monetary policy stability in an uncertain environment



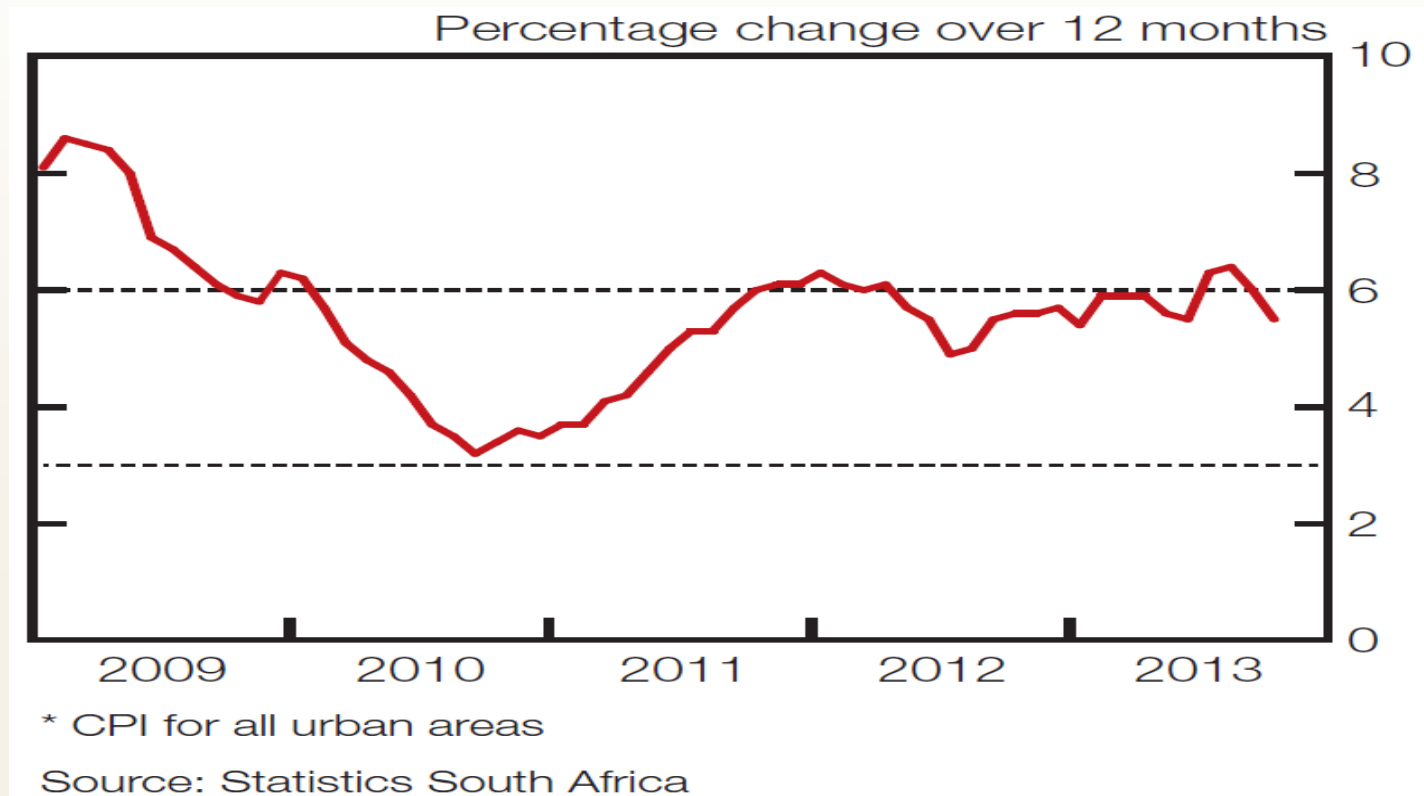
Headline CPI fan chart > forecast improvements highly dependent on exogenous price developments and the exchange rate



Evolution of forecasts...

<i>MPC meeting</i>	Real GDP			CPI inflation			Peak	Core inflation			Peak
	2013	2014	2015	2013	2014	2015		2013	2014	2015	
<i>March</i>	2,7	3,7		5,9	5,3		Q3 2013	4,8	4,9		Q2 2014
<i>May</i>	2,4	3,5	3,8	5,8	5,2	5,0	Q3 2013	5,3	5,0	4,6	Q4 2013
<i>July</i>	2,0	3,3	3,6	5,9	5,5	5,2	Q3 2013	5,3	5,2	5,0	Q4 2013
<i>September</i>	2,0	3,3	3,6	5,9	5,8	5,4	August (?)	5,2	5,4	5,3	Q4 2014
<i>November</i>	1,9	3,0	3,4	5,8	5,7	5,4	Q2 2014	5,2	5,6	5,3	Q4 2014

Headline CPI somewhat more volatile



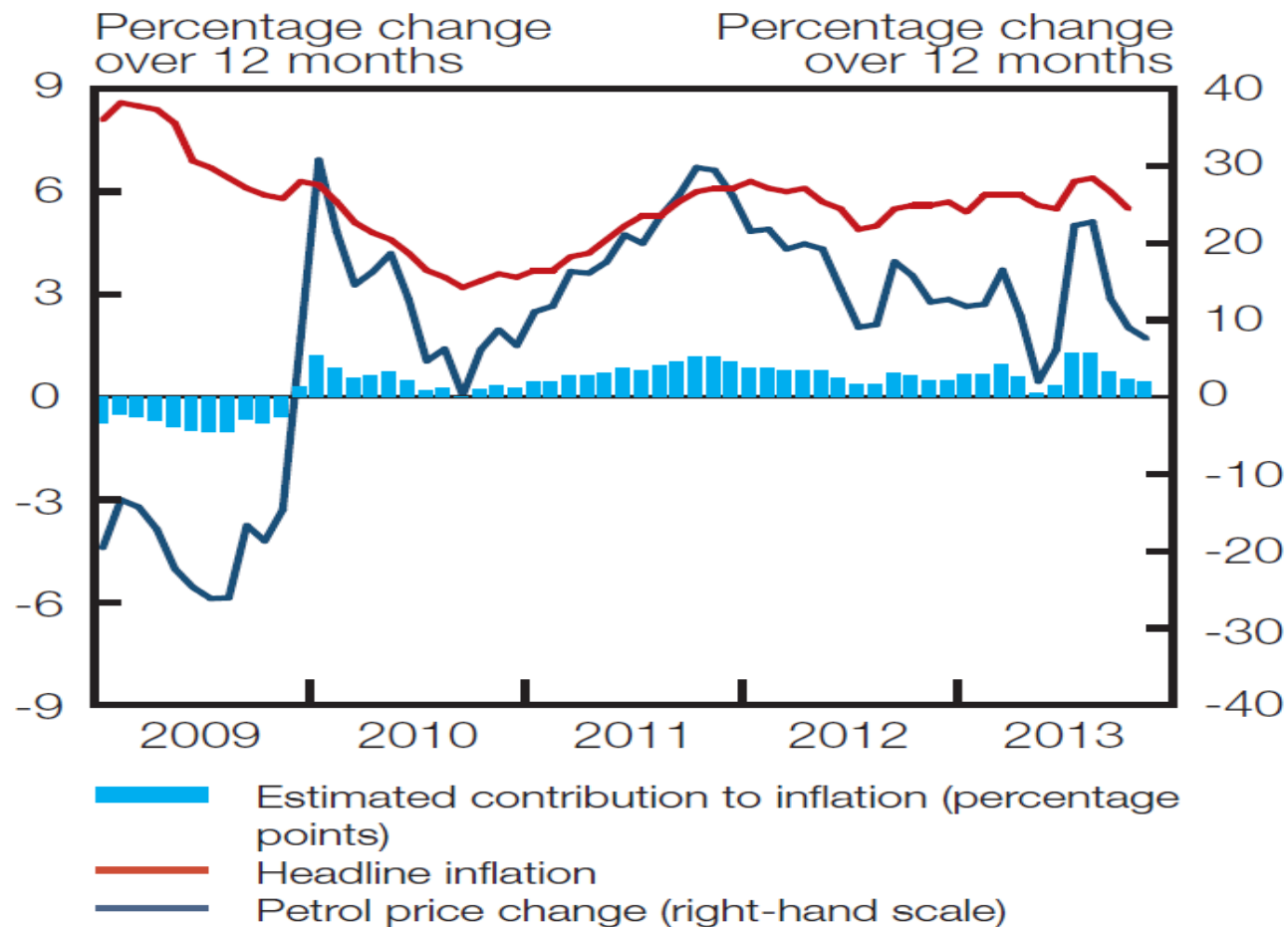
Contributions to targeted inflation

Percentage change over 12 months

		2013						
	Weights	Apr	May	Jun	Jul	Aug	Sep	Oct
Goods inflation	49,86	5,1	4,2	4,5	6,3	6,5	5,7	4,9
Services inflation	50,14	6,6	6,7	6,3	6,2	6,2	6,1	6,0
Targeted inflation	100,00	5,9	5,6	5,5	6,3	6,4	6,0	5,5
<i>Of which:</i>								
Food and non-alcoholic beverages	15,41	6,2	6,4	6,8	6,8	7,1	5,9	4,3
Food	14,20	6,3	6,7	7,0	7,1	7,4	6,0	4,2
Housing and utilities	24,52	5,8	5,8	5,8	5,5	5,4	5,4	5,3
Transport	16,43	6,2	3,7	3,7	8,2	8,7	6,9	6,2
Miscellaneous	14,72	7,5	7,4	7,4	7,6	7,6	7,8	7,2

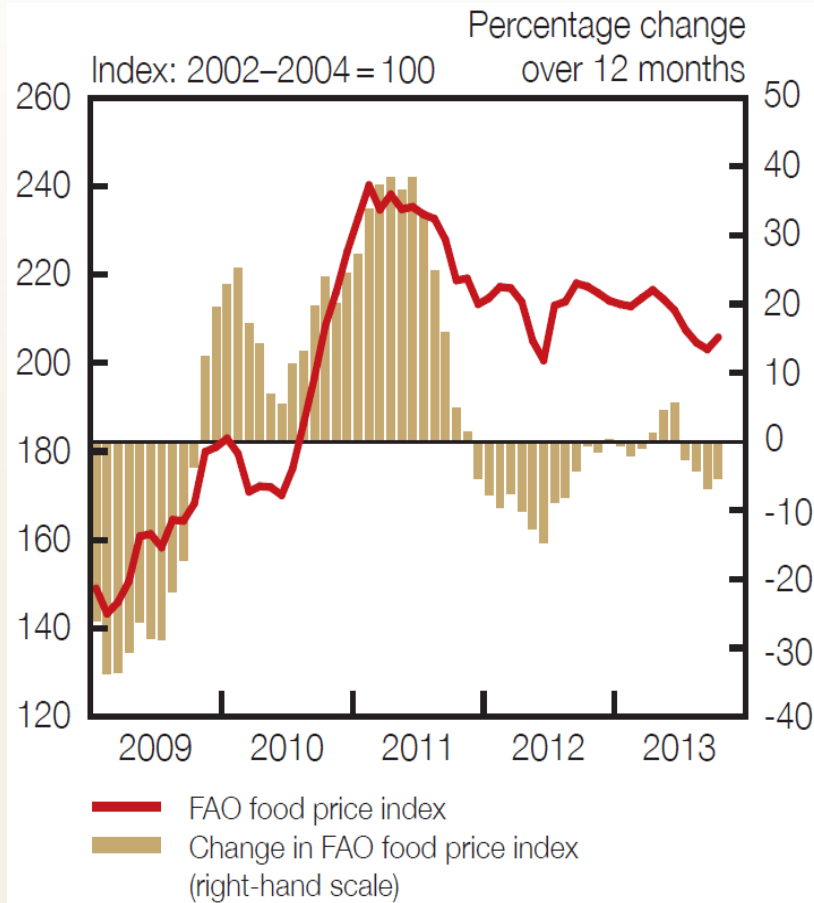
Source: Statistics South Africa and own calculations

Petrol price contributions substantial and volatile

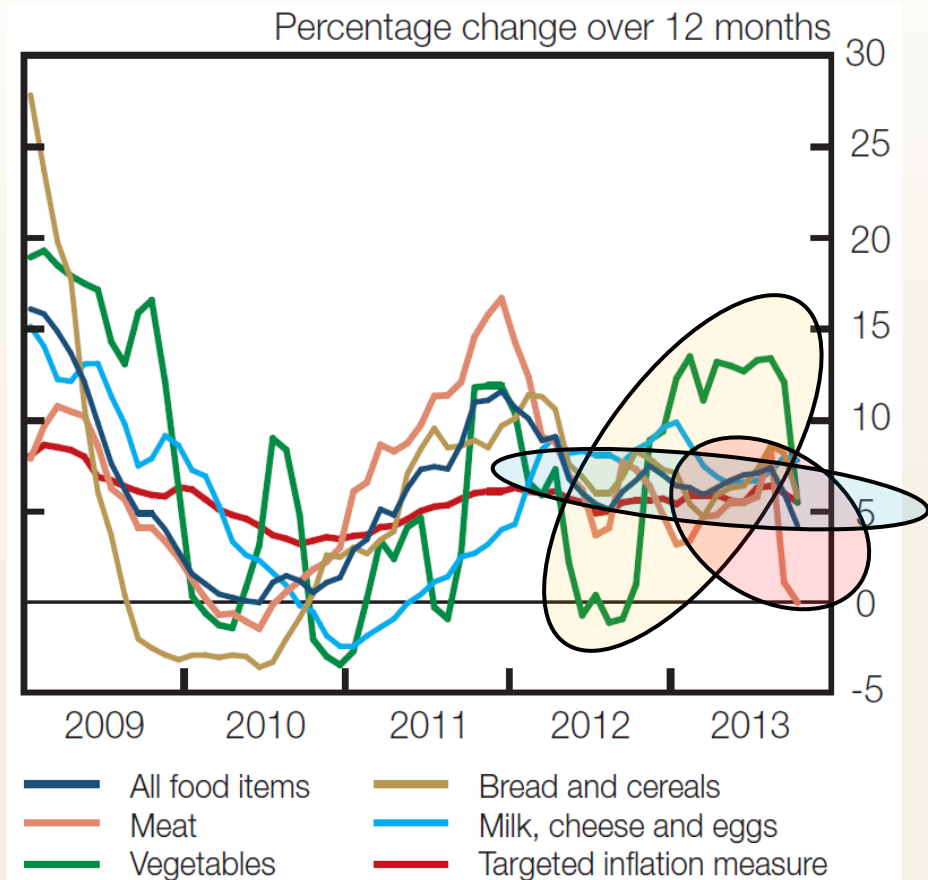


Sources: Statistics South Africa, Department of Energy and own calculations

Less push from international food, but considerable domestic volatility



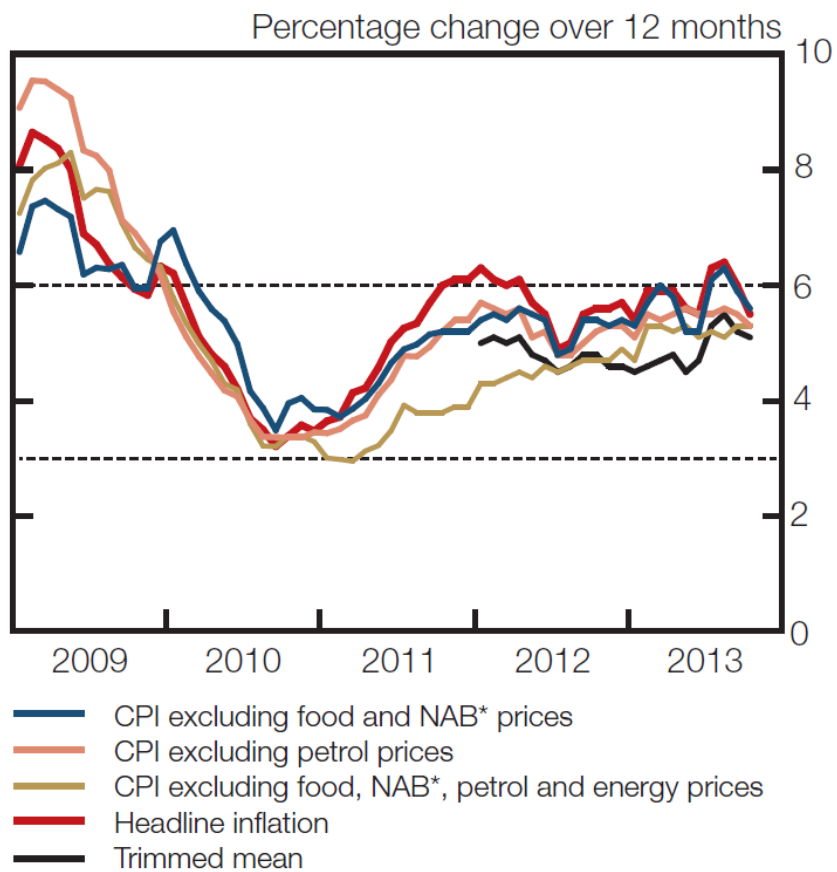
Sources: Food and Agriculture Organization and own calculations



* CPI for all urban areas

Source: Statistics South Africa

Core inflation still trending upward from exchange rate and costs

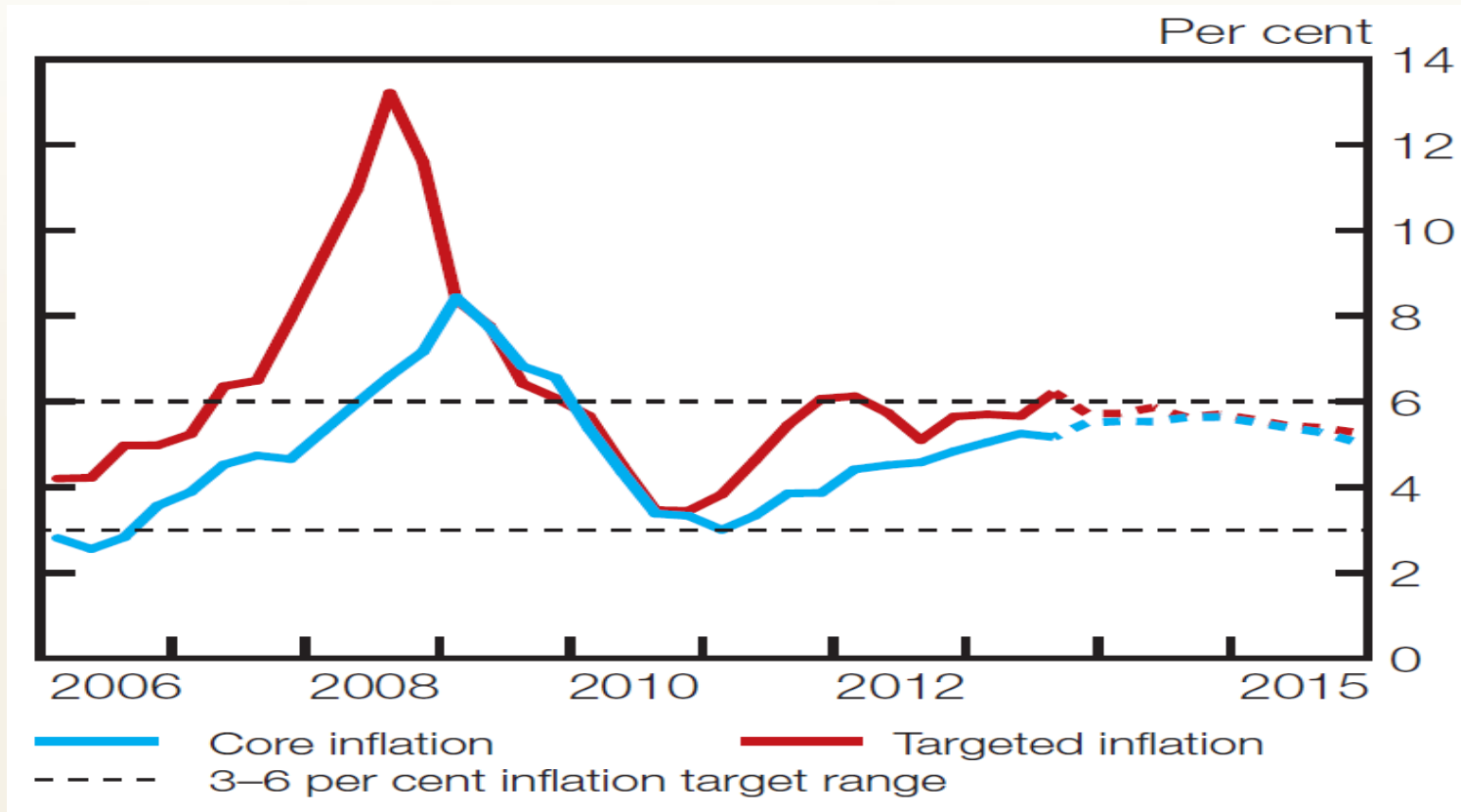


* NAB: Non-alcoholic beverages

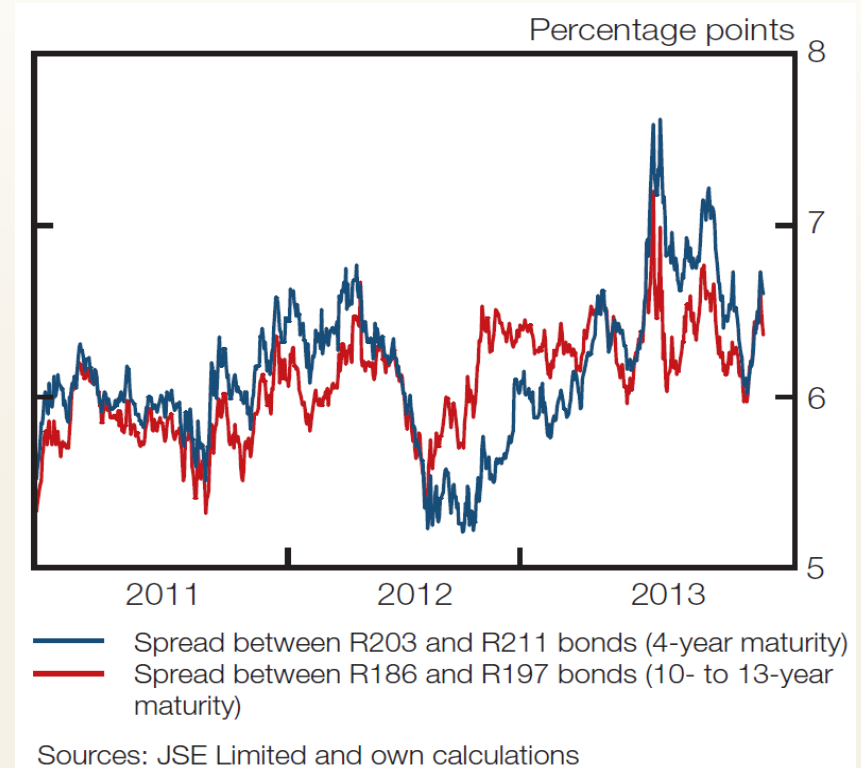
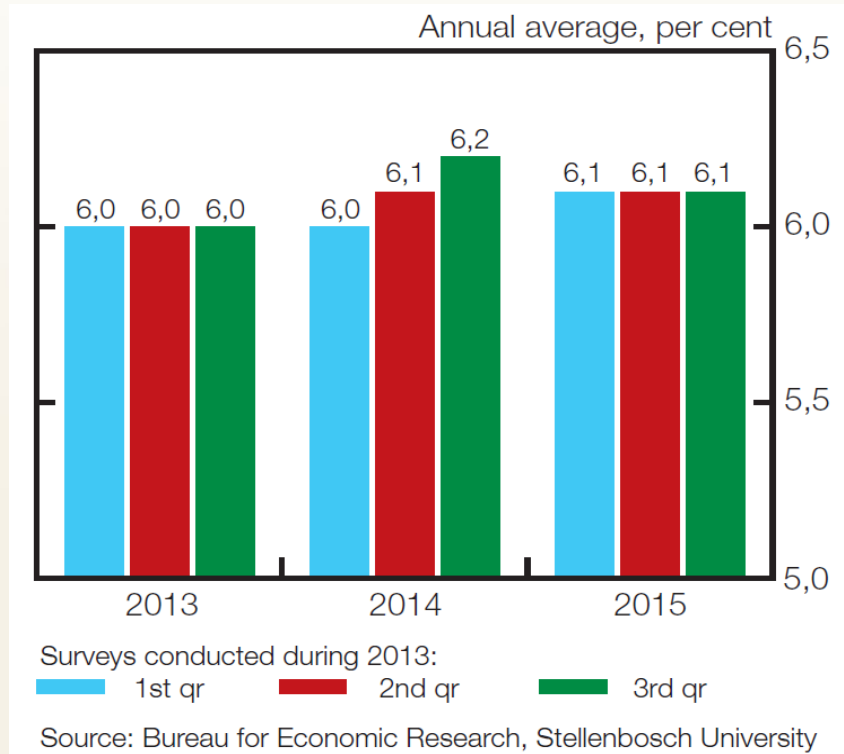
Source: Statistics South Africa

<i>MPC meeting</i>	Core inflation		
	2013	2014	2015
<i>March</i>	4,8	4,9	
<i>May</i>	5,3	5,0	4,6
<i>July</i>	5,3	5,2	5,0
<i>September</i>	5,2	5,4	5,3
<i>November</i>	5,2	5,6	5,3

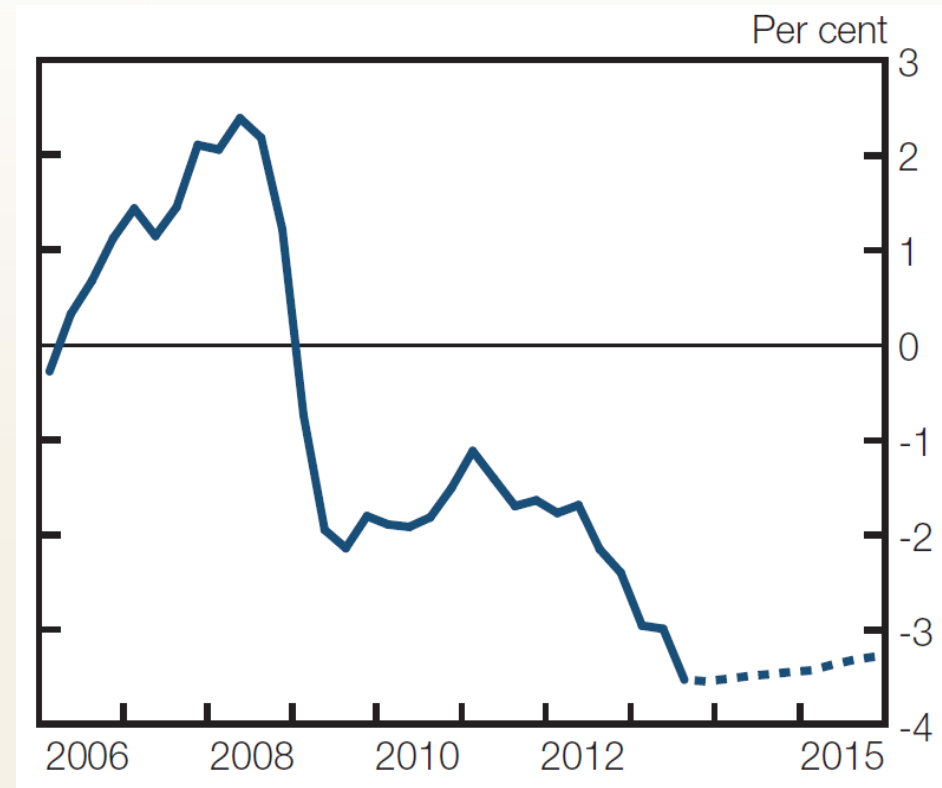
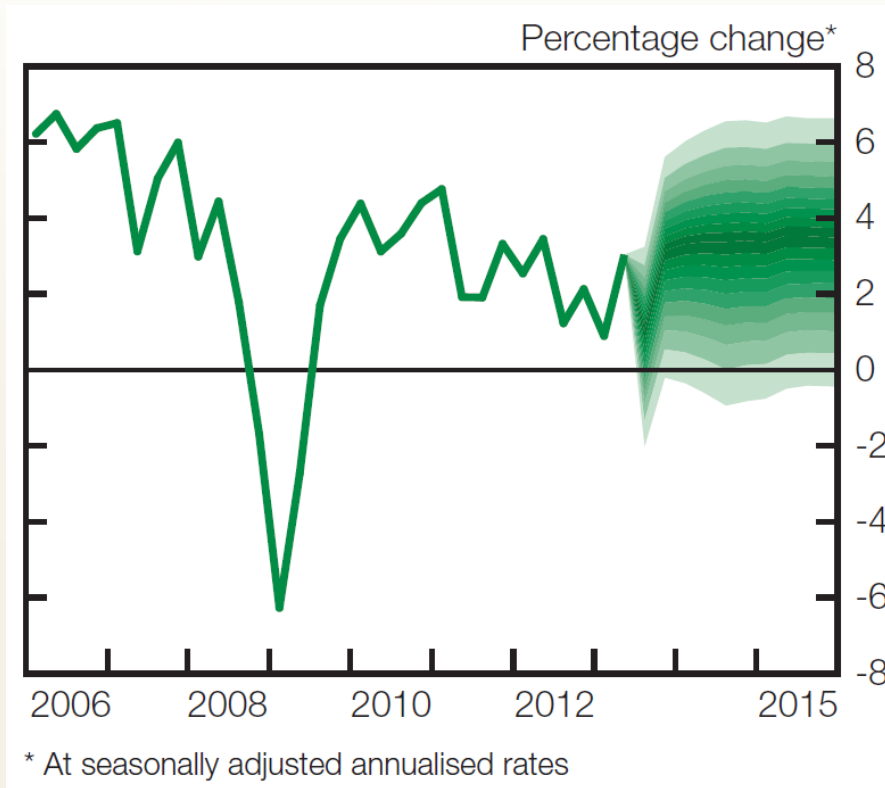
With expected peak in Q4 2014 as rand and costs stabilise



Inflation expectations anchored around 6% but adjusting with outcomes

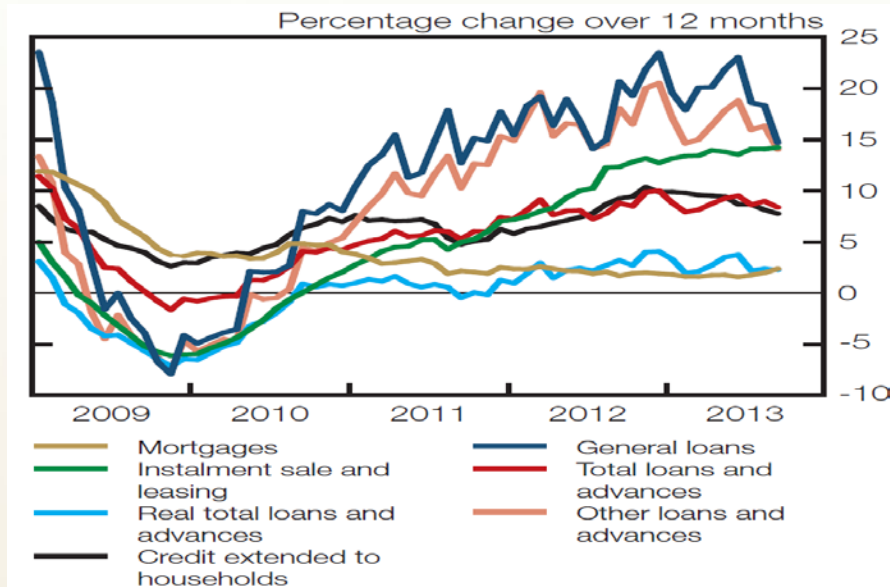


Domestic growth expected to remain low and output gap relatively large



MPC meeting	Real GDP		
	2013	2014	2015
September	2,0	3,3	3,6
November	1,9	3,0	3,4

Weak demand for cyclical reasons... credit extension, housing market, confidence

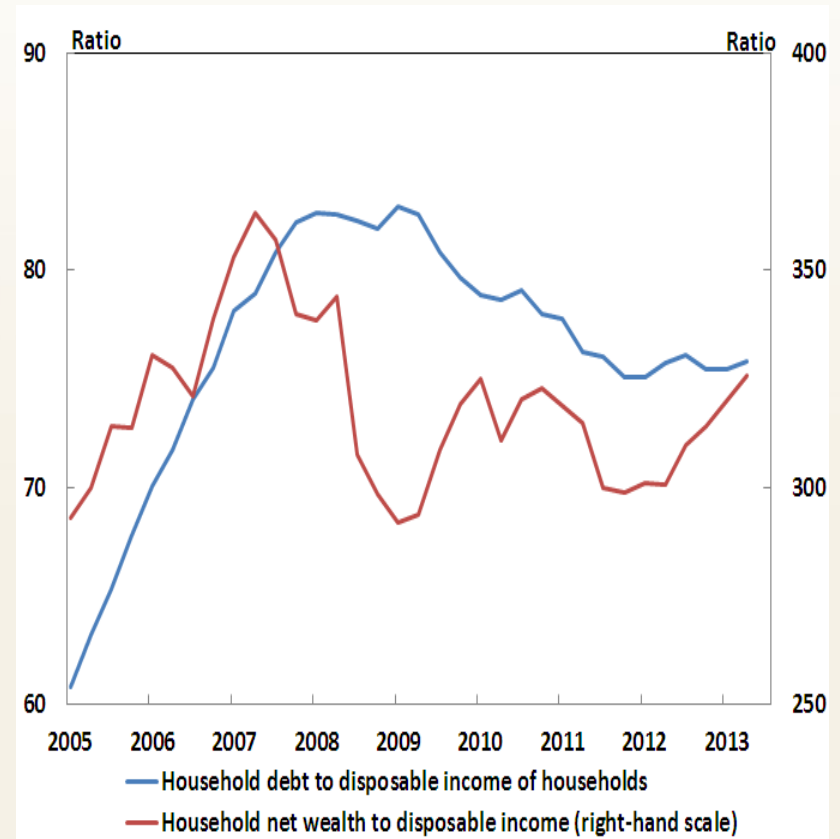
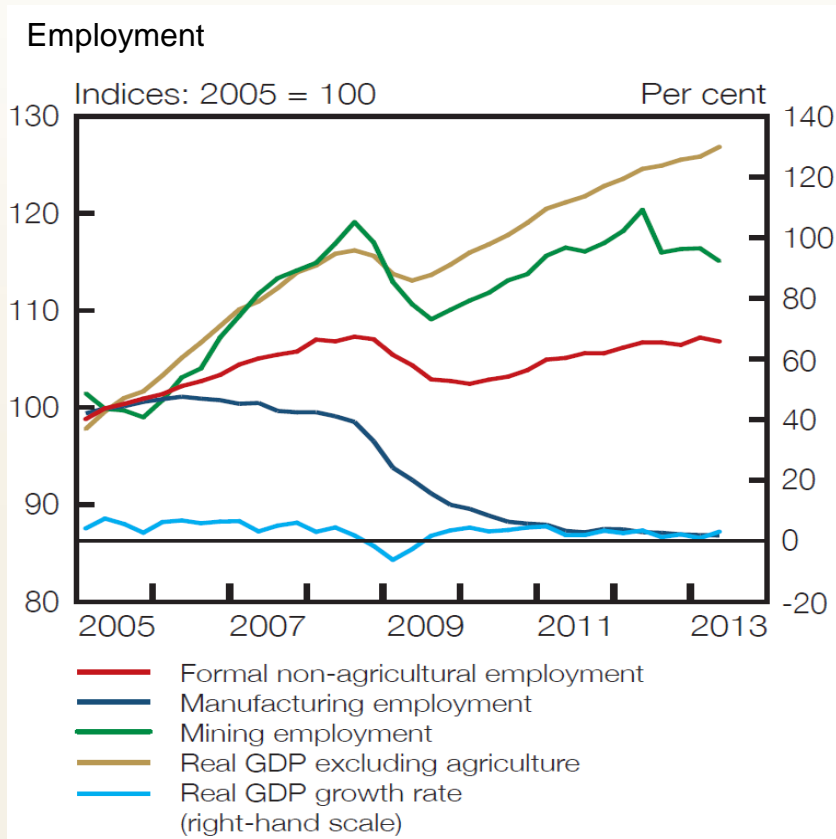


	Historic range		Most recent		As at MPR:*	
	Low	High	Low	High	Jun 2013	Nov 2013
RMB/BER Business Confidence Index	10	91	23	55	52	43
BER Manufacturing Confidence Index	11	93	11	51	42	36
Ernst & Young/BER Retail Confidence Index	0	94	35	63	50	40
FNB Building Confidence Index	11	89	23	48	37	48
Kagiso/BER Purchasing Managers' Index	34,6	63,4	46,6	55,6	50,5	50,7
FNB/BER Consumer Confidence Index	-33	23	-8	15	-7	-7

* Improved/Worsened since previous MPR

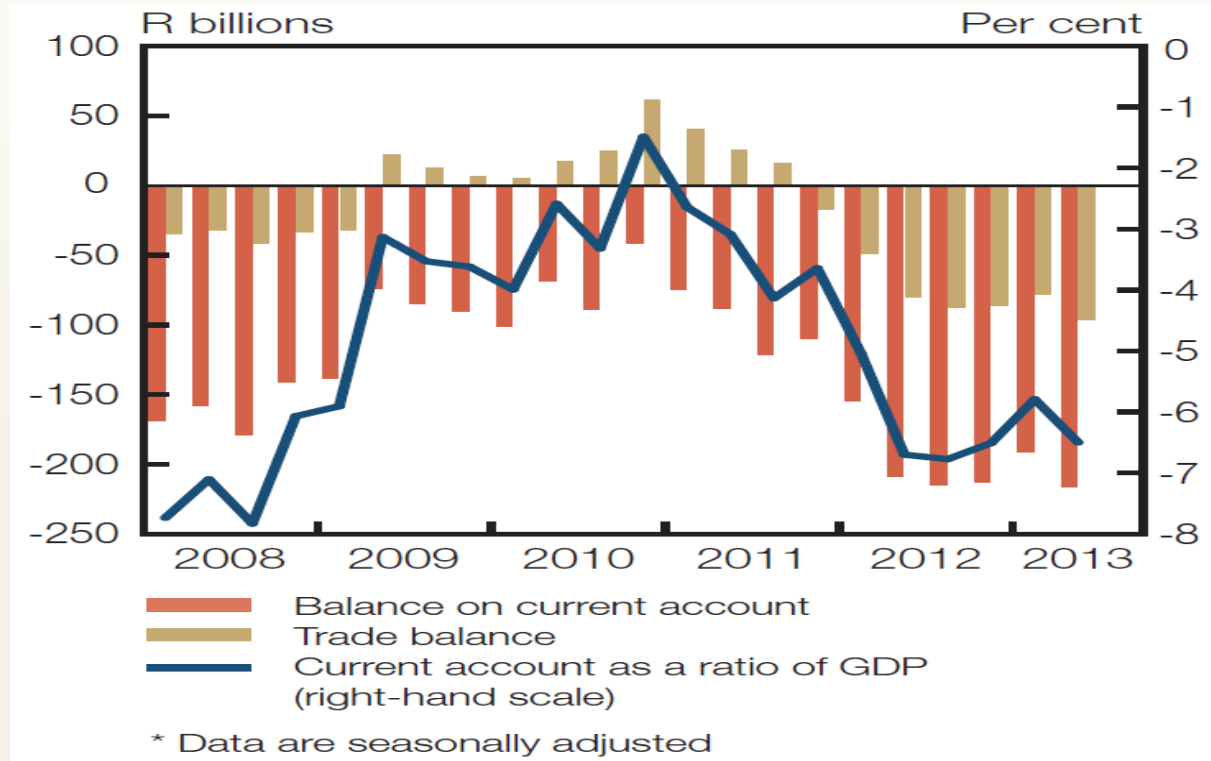
Sources: Kagiso Securities, Rand Merchant Bank, First National Bank, Ernst & Young and the Bureau for Economic Research, Stellenbosch University

...and for structural reasons... employment, work stoppages, cost pressures, high debt

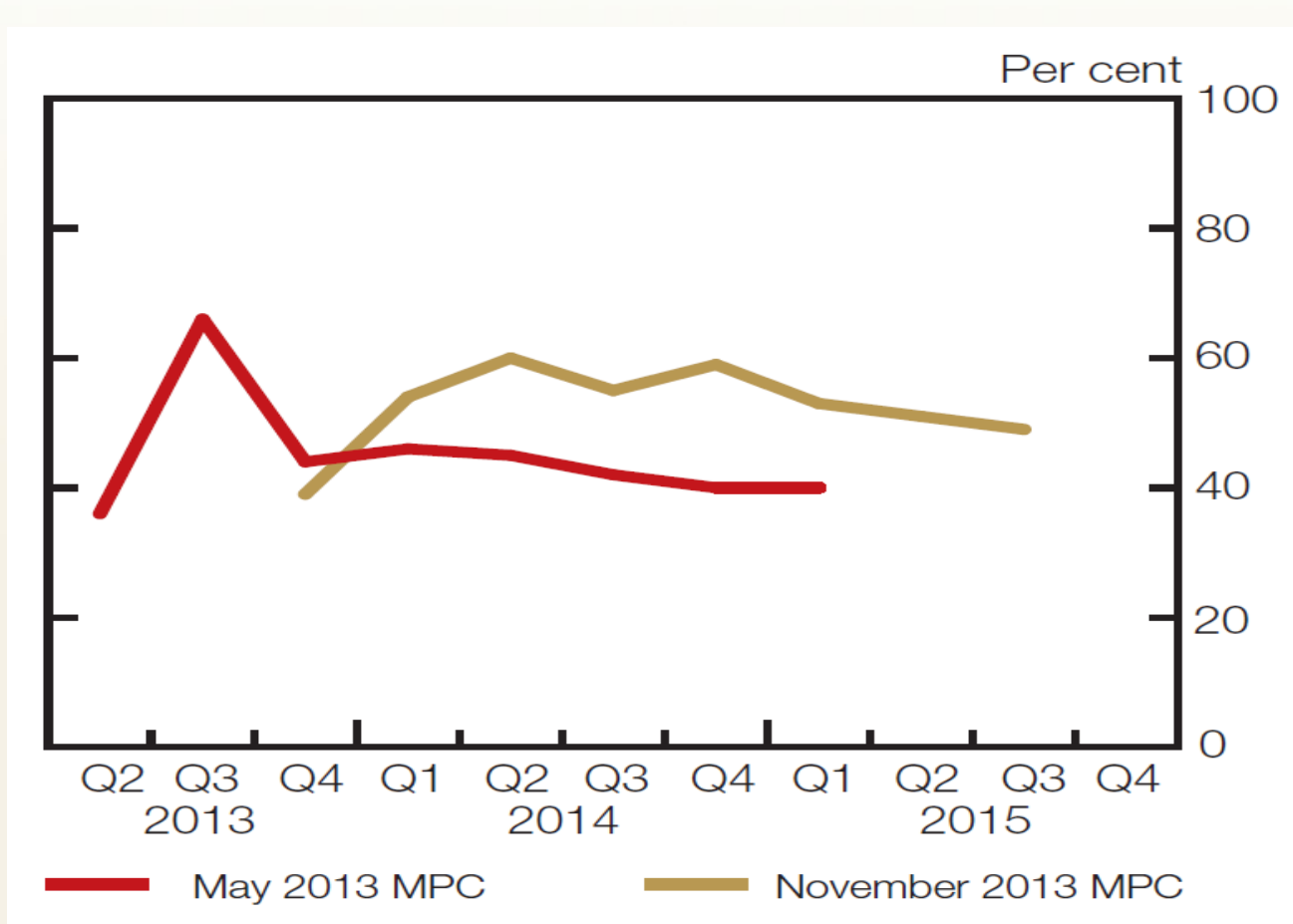


Sources: Statistics South Africa and own calculations

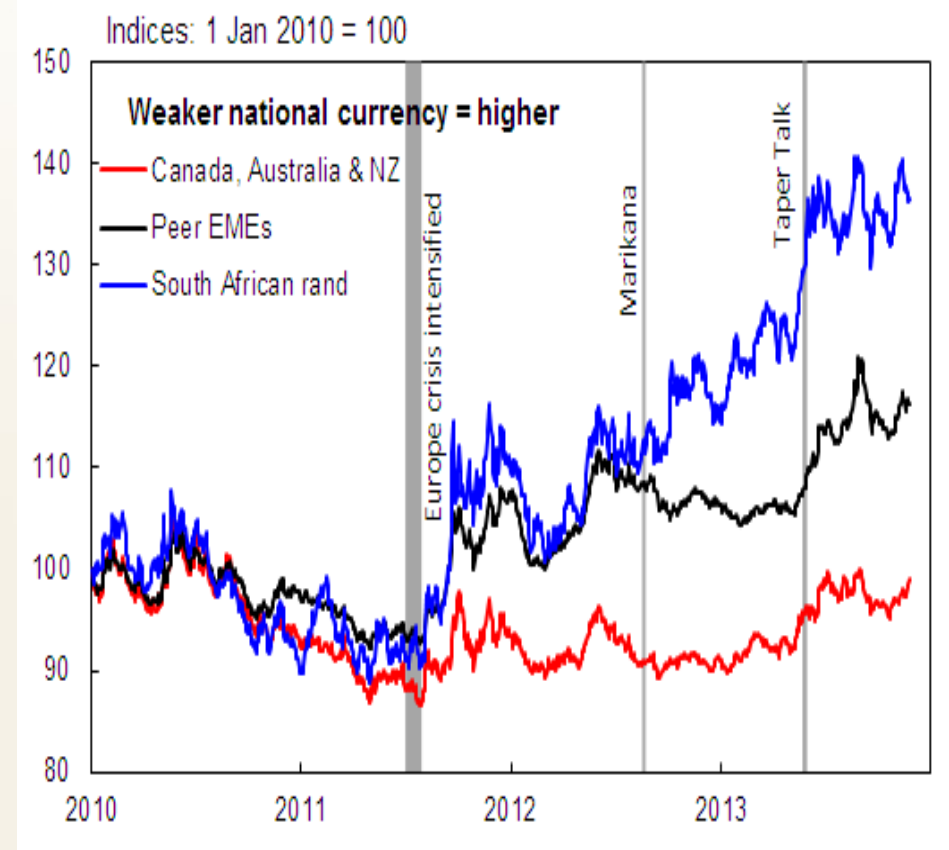
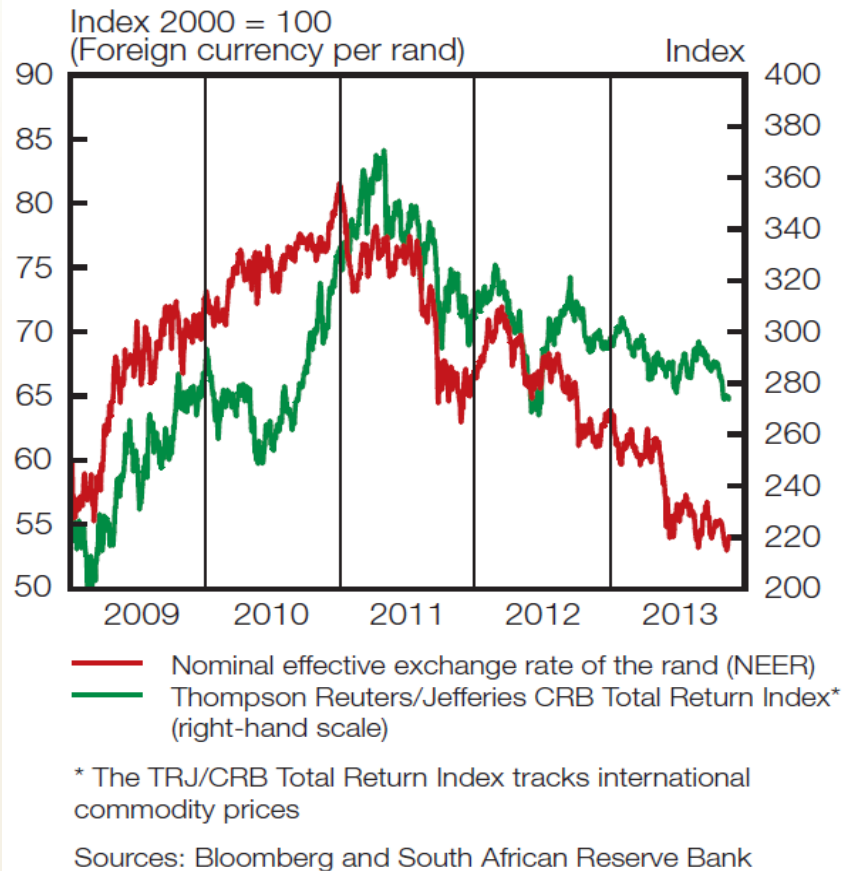
Lower TOT and weaker global growth pressuring the current account deficit



Probability of inflation above 6% alters shape as risks evolve

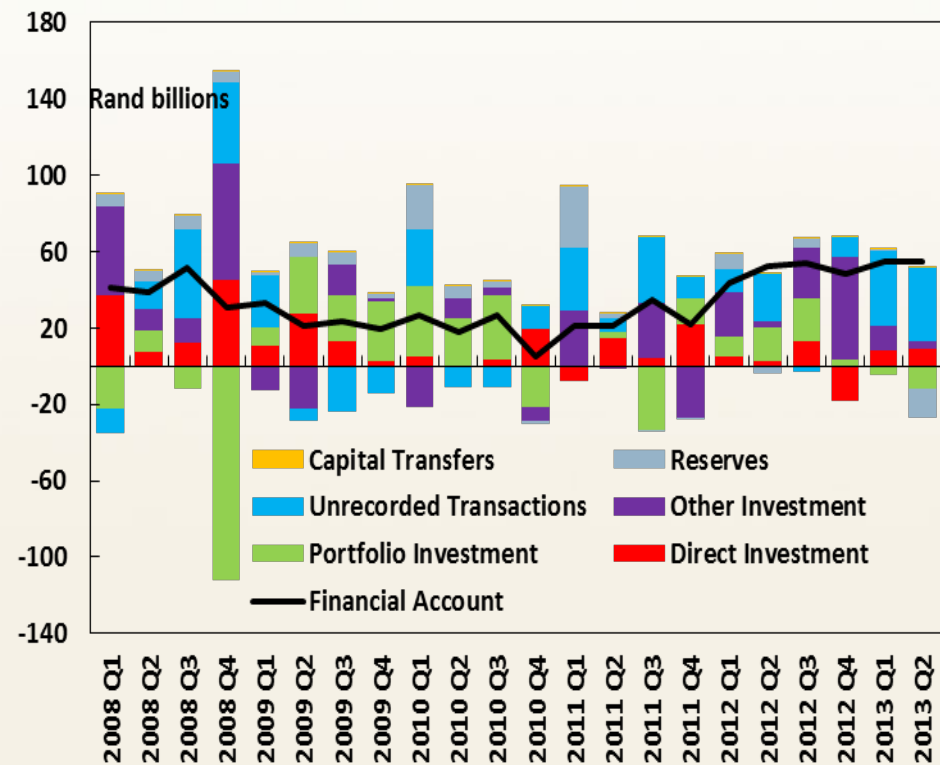
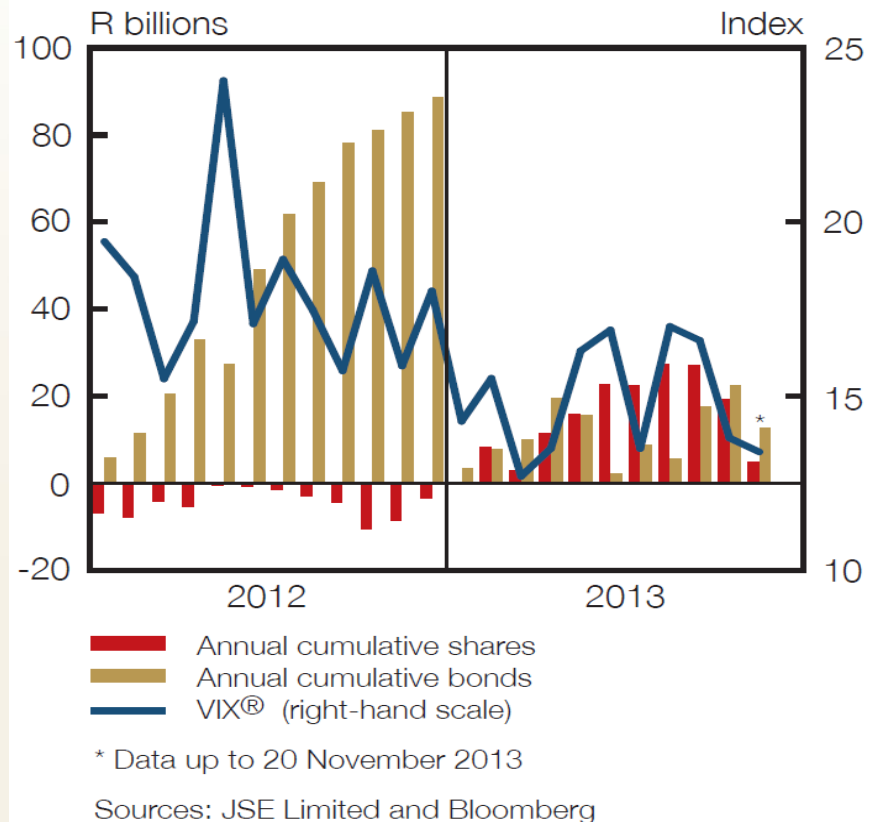


With rand trend worsening the inflation outlook



Sources: Bloomberg, International Monetary Fund and own calculations

... and shifting sources of financing, with QE tapering for backdrop



Quarter	1	2	3	Quarter to 22 Nov	Year to 22 Nov
Bonds	9,9	-7,7	15,4	-9,5	8,1
Equities	3,0	19,7	4,3	-22,4	4,7

Risks from tapering associated with very high uncertainty

When?

Pace?

Offsets?

After?

Impact on commodity prices?

How much repricing?

Risk premia?

How much growth?

How much inflation?

Summary and risks

- Policy settings in major world economies continue to support the recovery, but...
 - Systematic downward revision of global growth forecasts
 - Fiscal policy uncertainty major challenge
 - Uncertainty and impact of tapering
- Downside risk to domestic growth
 - Growth outlook fragile, with Q3 affected by work stoppages
 - Both business and consumer confidence remain at low levels (tot, income growth, debt, costs)
 - Some upside possible if taper = stronger US growth...
 - ...but higher borrowing costs
- Upside risks to the inflation outlook
 - Headline inflation subject to volatile food and petrol
 - Unit labour costs to rise if growth slows
 - Core inflation higher and sticky
 - Tapering spillovers to bond and equity prices, the currency
 - Current account deficit stubbornly high as adjustments lag, but expected to decline