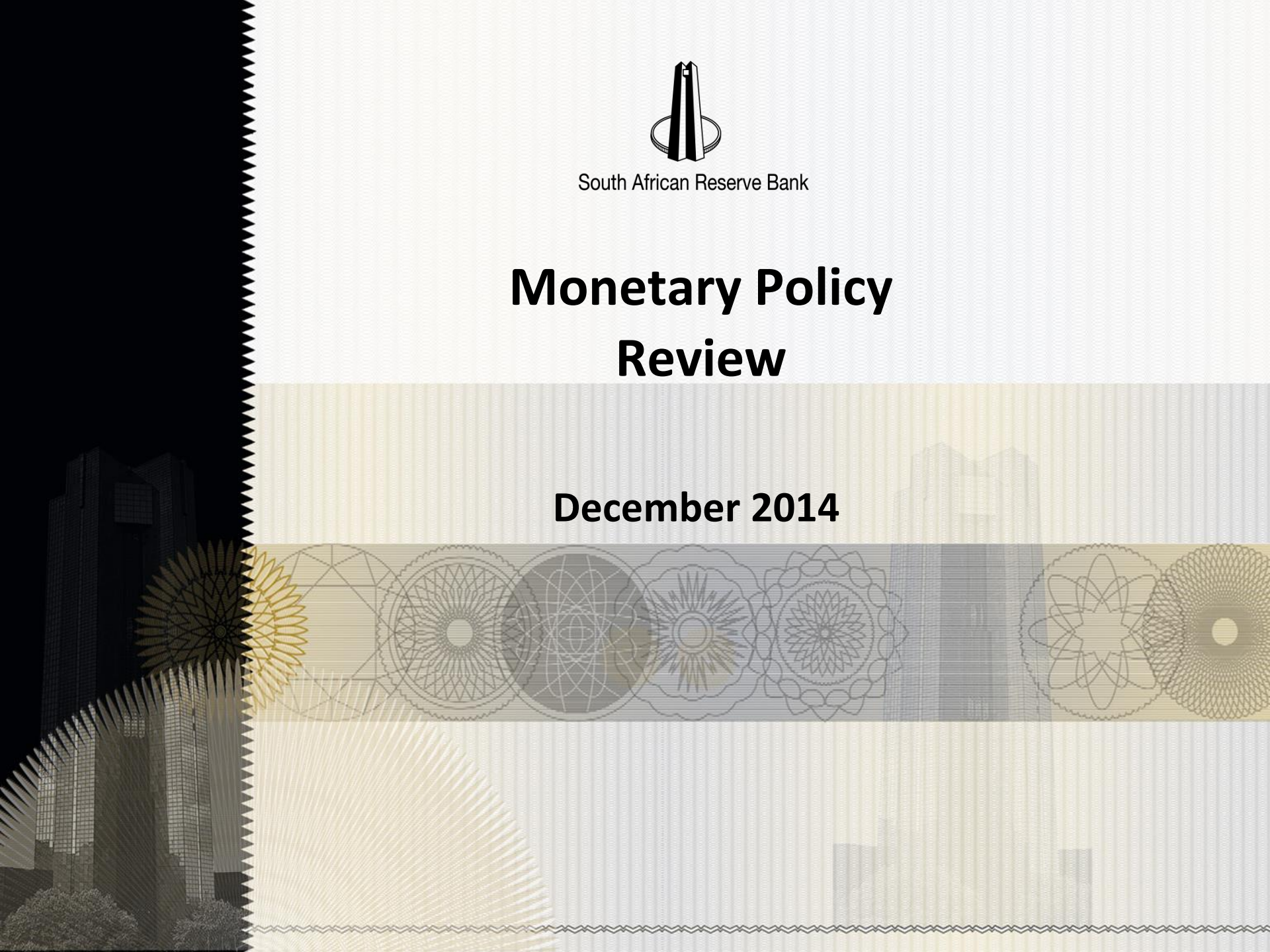




South African Reserve Bank

Monetary Policy Review

December 2014

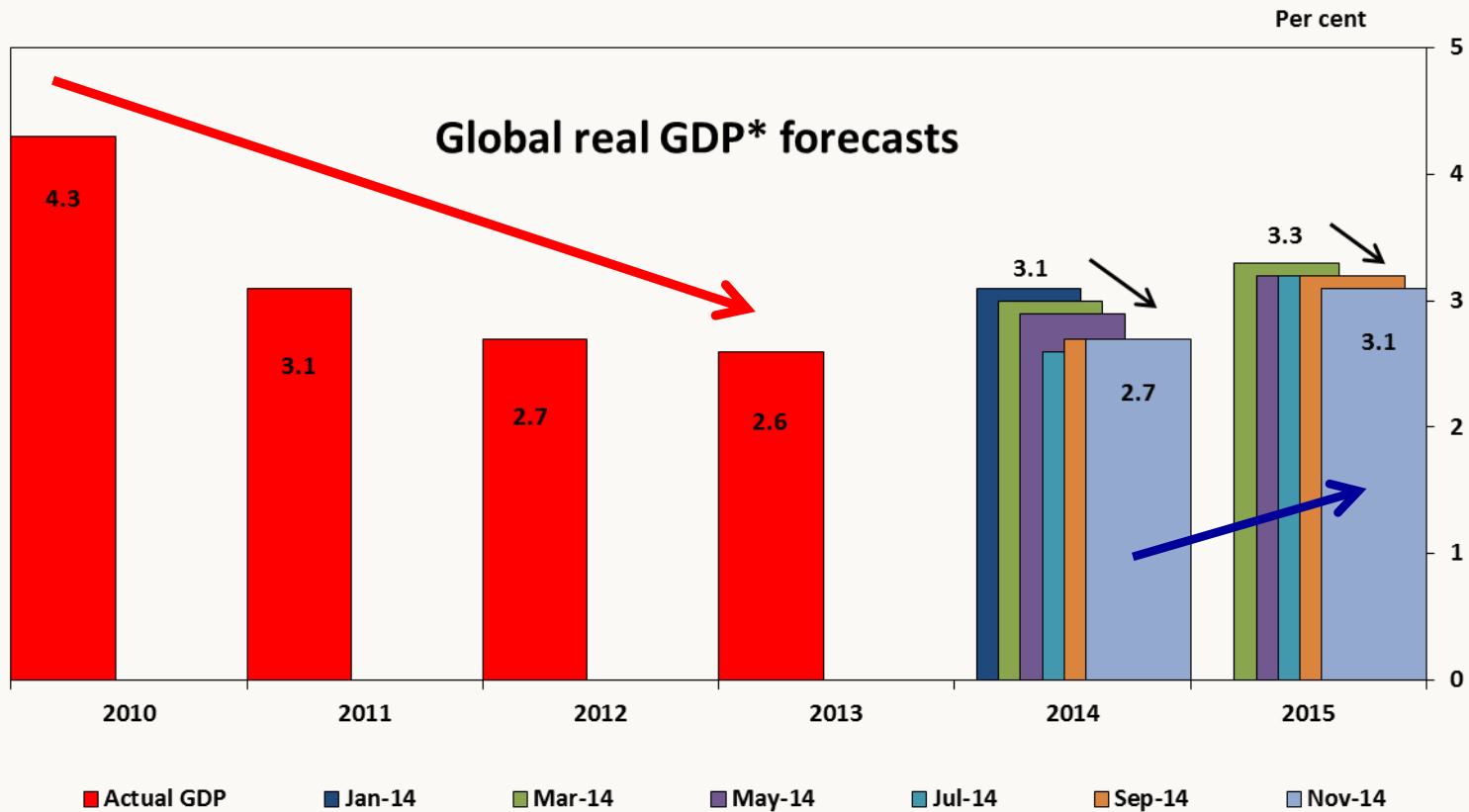


Persistent baseline concerns while near term more benign

- Regional GDP outcomes diverging while inflation lower
- Normalisation & other major CB actions
- Oil prices sharply lower and food price inflation easing
- Headline inflation forecast improved
- Inflation outside the target for much of 2014
- Core inflation approaching 6%
- Rand weakness persists, with risks from CAD
- Inflation expectations above 6%
- Severe supply shocks to GDP give way to modest demand



World growth slower since 2010, forecasts falling

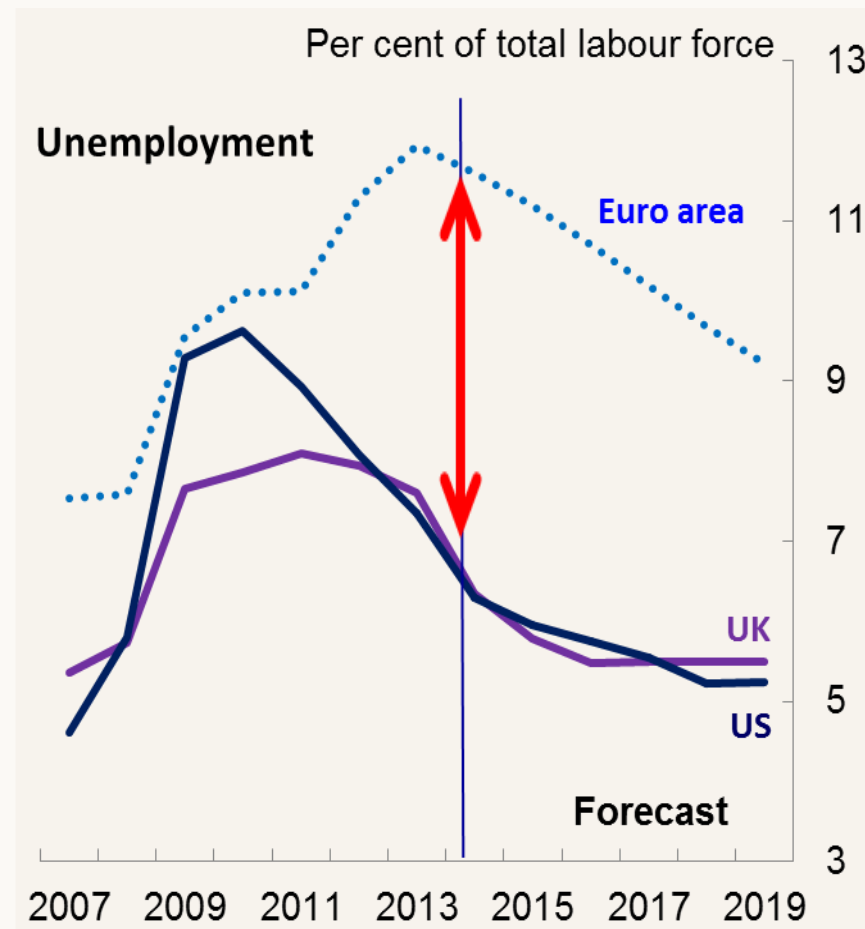
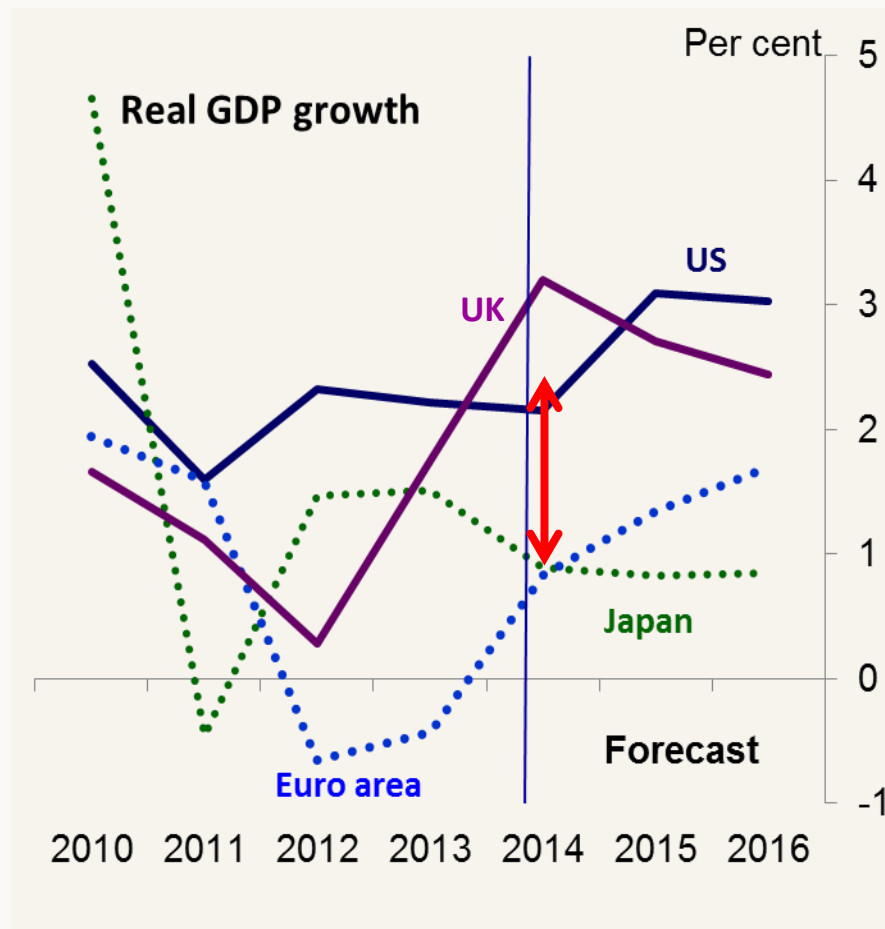


* Market exchange rate weighted

Source: Consensus Economics



With significant differences in growth



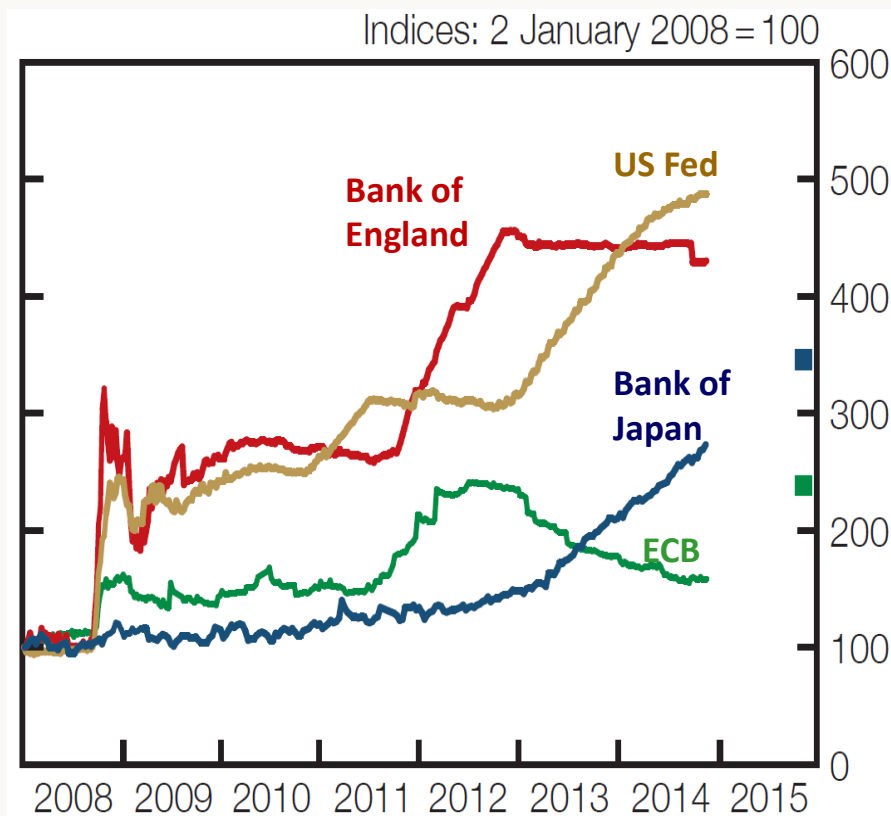
Source: IMF, World Economic Outlook, October 2014



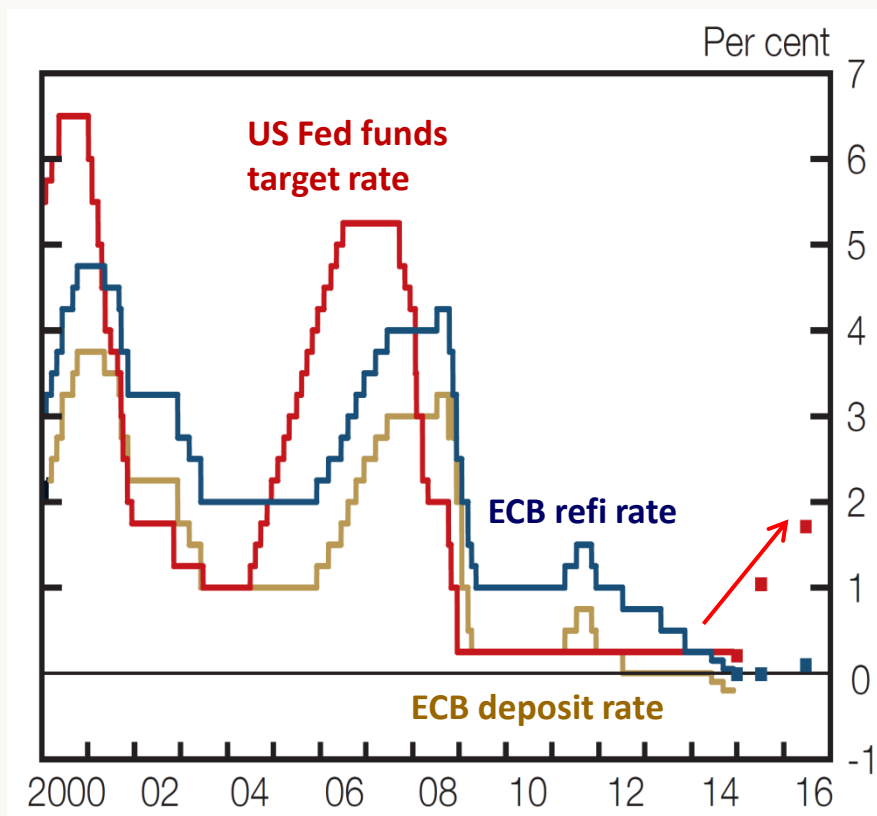
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Reflected in major divergence in central bank policy stance

balance sheets*



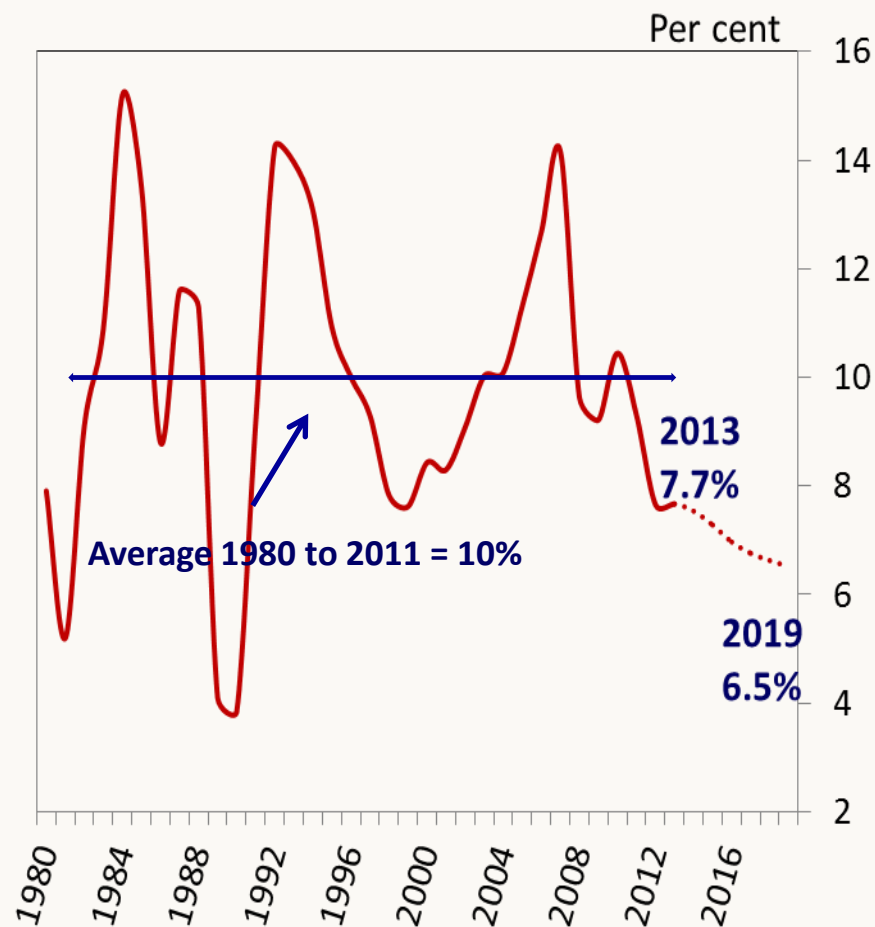
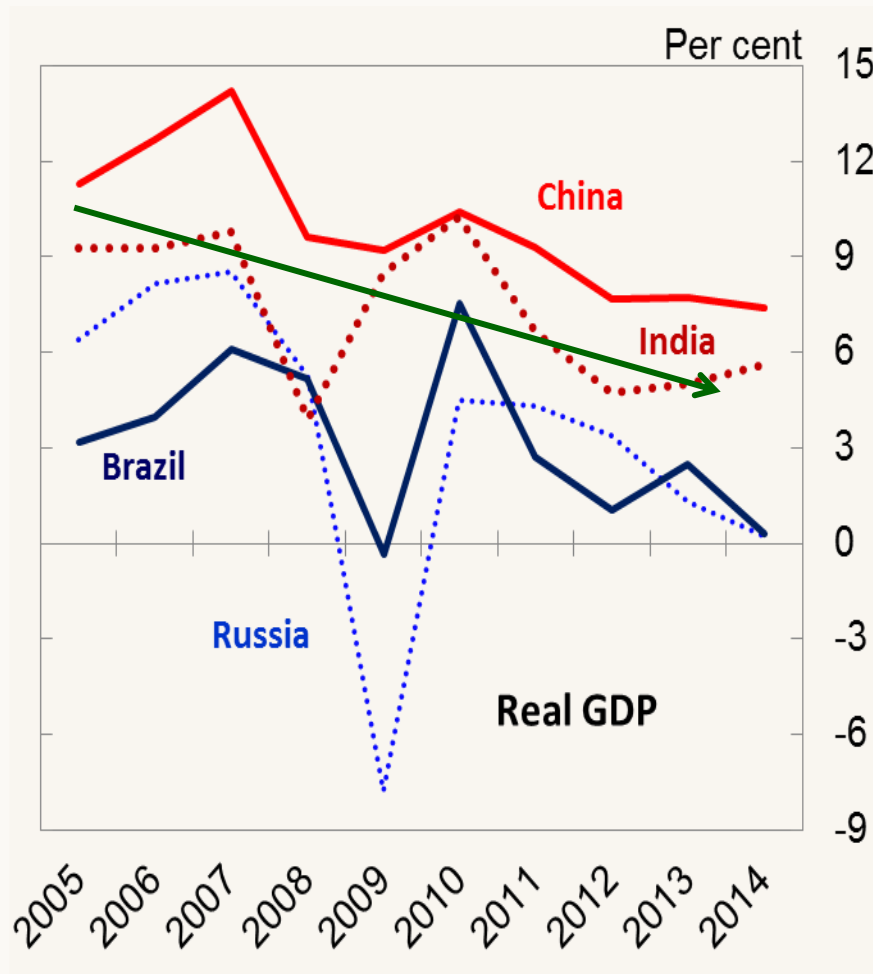
interest rates



Sources: Central banks, Consensus Economics and own calculations



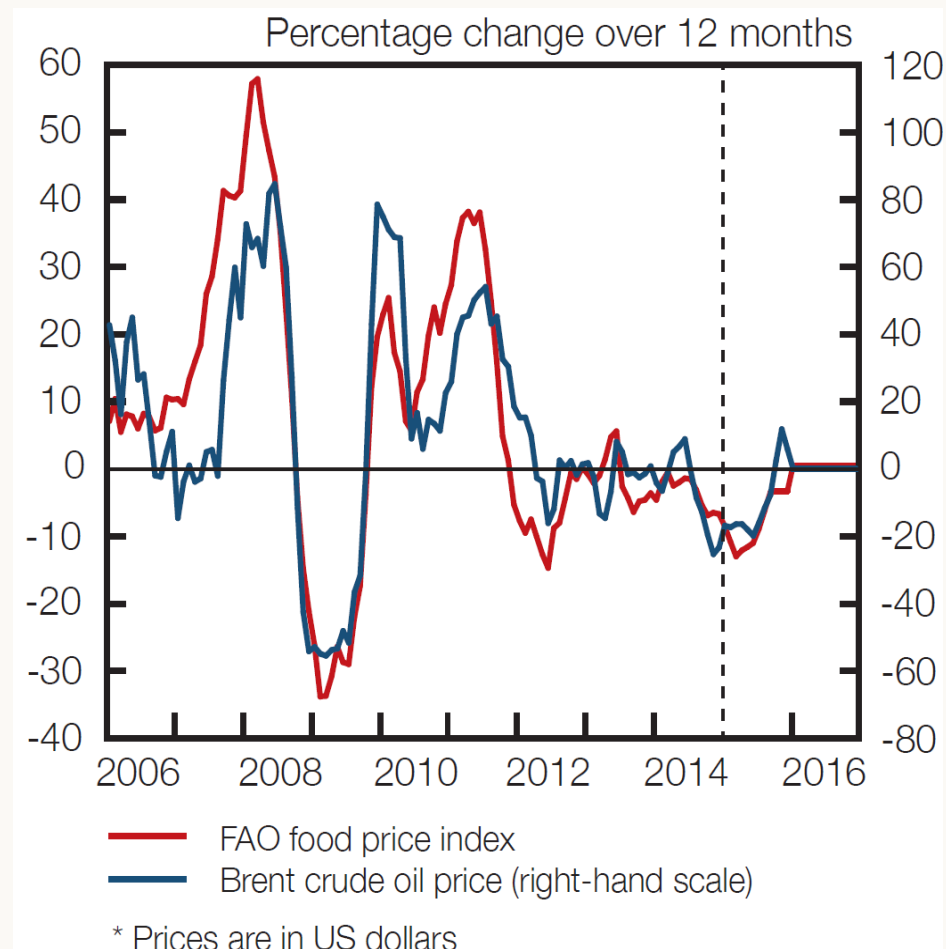
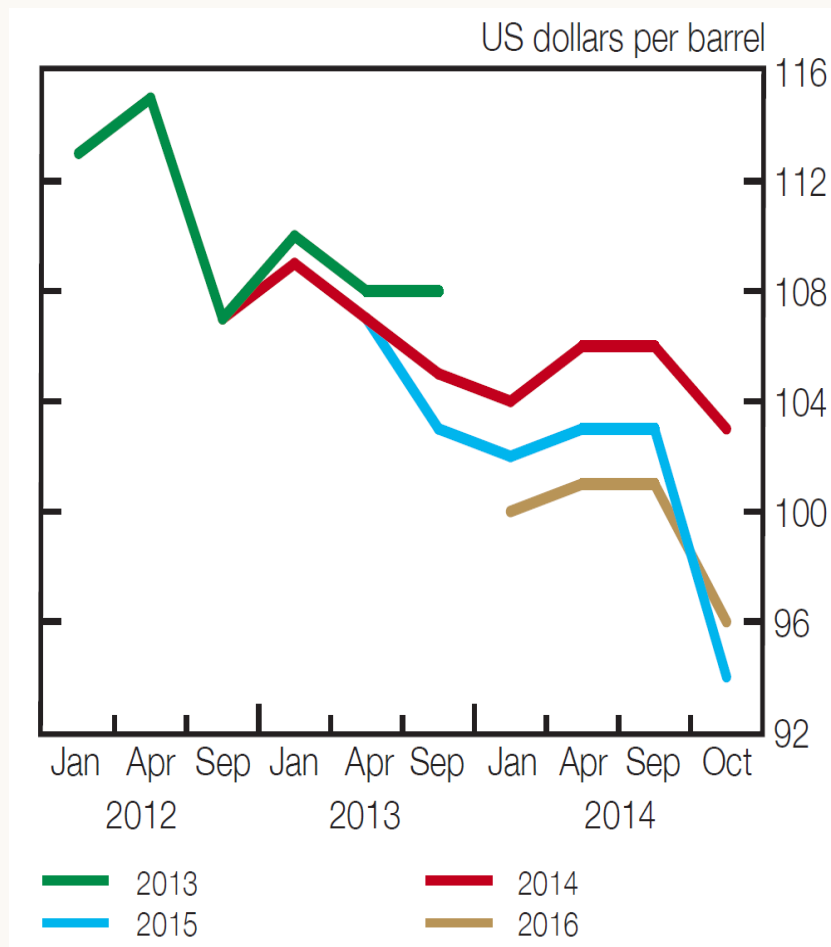
Emerging markets continue to slow...



Source: IMF, World Economic Outlook, October 2014



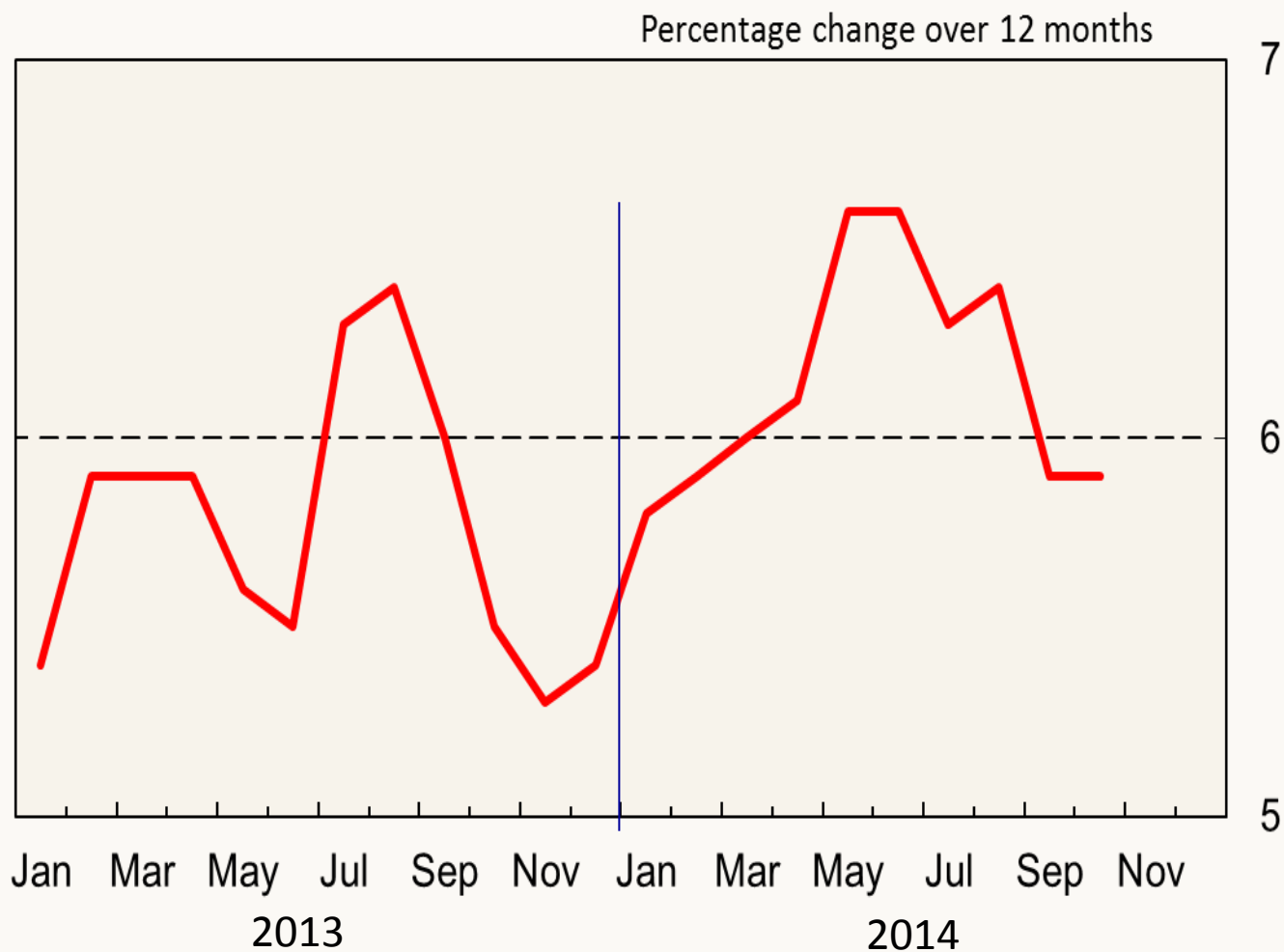
...with relief arriving as oil prices plunge



Sources: IMF, Reuters, FAO and own calculations

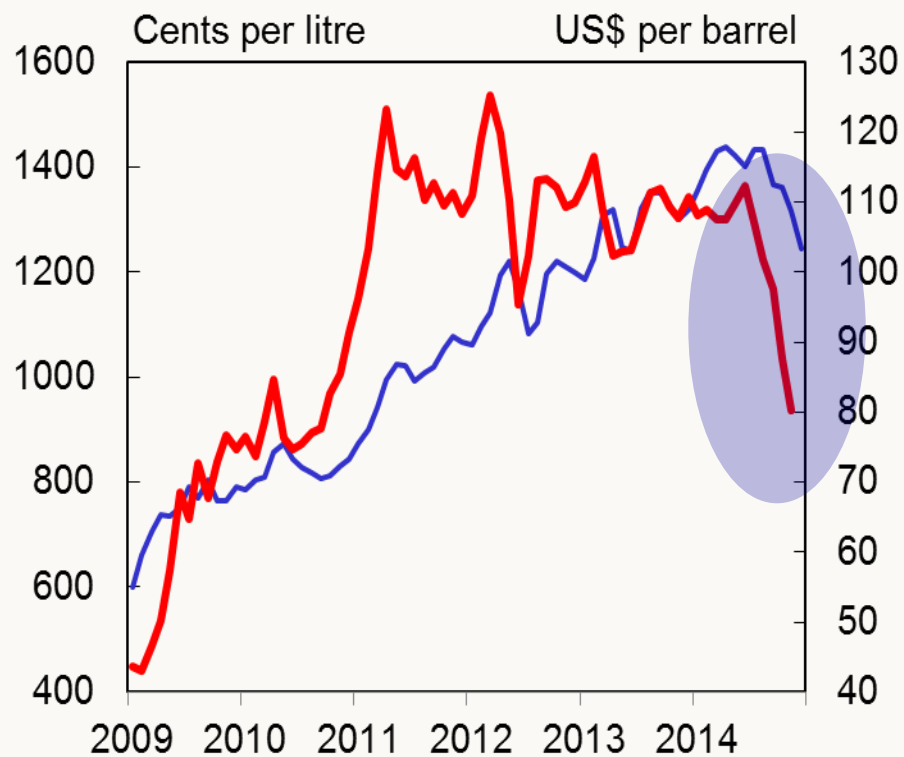


Headline inflation outside the target for much of 2014

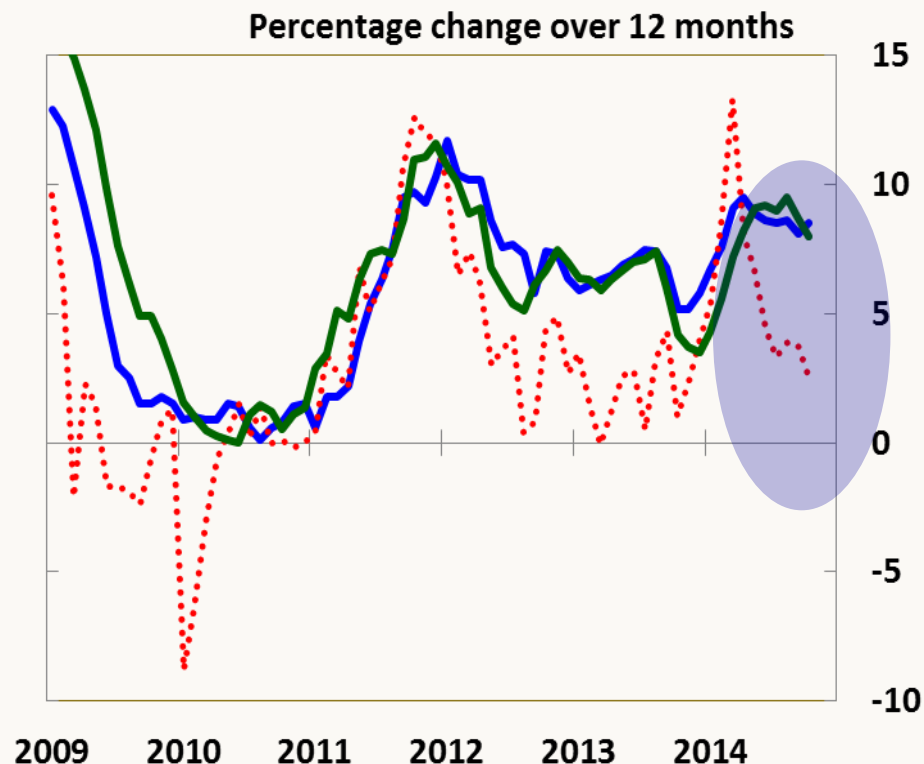


Source: Statistics South Africa

Oil prices plunge, food prices slowing



— Gauteng price of 95 octane unleaded petrol
 — Brent crude oil price (right-hand scale)



— PPI: Final manufactured producer food prices
 PPI: Agricultural producer prices
 — CPI: All food

Sources: Statistics South Africa and Department of Energy



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...pulling headline inflation down into the target range

Percentage change over 12 months* and percentage points

		2013		2014					
	Weights	Q4	Q1	May	Jun	Jul	Aug	Sep	Oct
Goods inflation*	49,86	4,8	6,0	7,5	7,4	6,8	6,8	5,8	5,6
Services inflation*	50,14	5,9	5,9	5,9	6,0	6,0	6,0	6,1	6,0
Targeted inflation*	100,00	5,4	5,9	6,6	6,6	6,3	6,4	5,9	5,9
Contributions to headline inflation									
Food	14,20	0,5	0,8	1,3	1,3	1,3	1,4	1,2	1,1
Petrol	5,68	0,5	0,7	0,8	0,8	0,5	0,3	0,1	0,1
Housing and utilities	24,52	1,3	1,3	1,4	1,4	1,4	1,4	1,4	1,4
Miscellaneous	14,72	1,1	1,0	1,0	1,0	1,1	1,1	1,0	1,0
Other	28,92	1,5	1,4	1,4	1,5	1,4	1,5	1,5	1,5

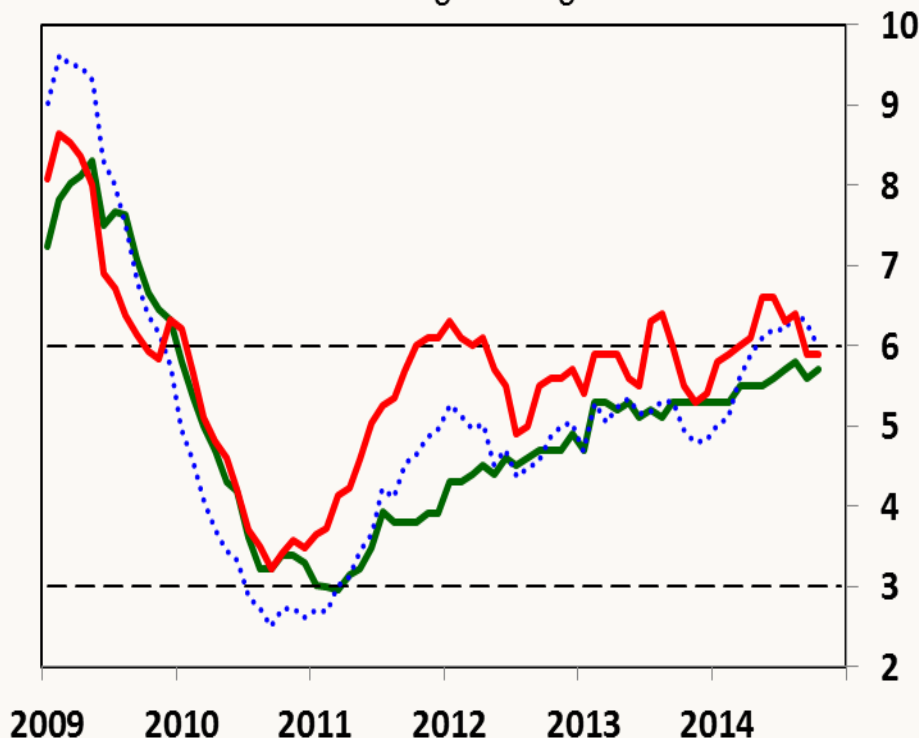
Sources: Statistics South Africa and own calculations



South African Reserve Bank

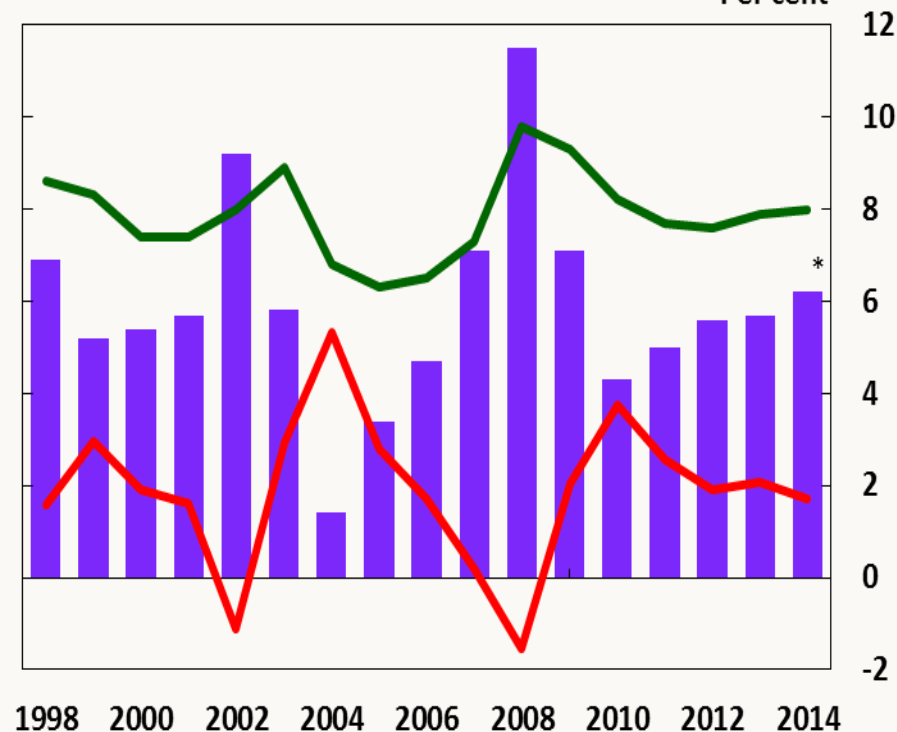
While core inflation still drifting up from 3% in 2011 to 5,7%

Percentage change over 12 months



— CPI excluding food, NAB, petrol and energy prices
 CPI excluding administered prices
 — Headline CPI

Per cent



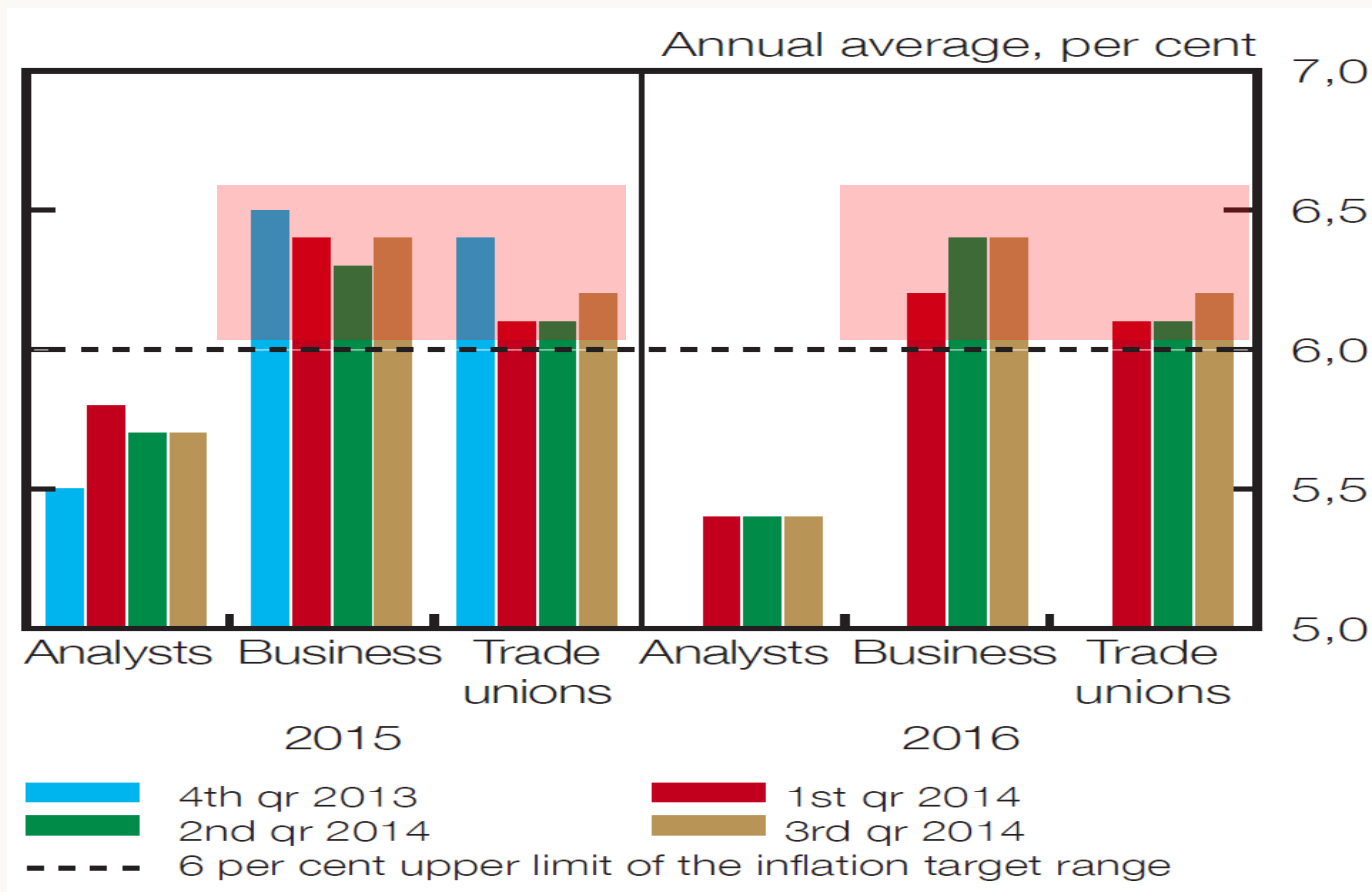
■ CPI
 — Average wage settlements
 — Average real wage settlements

Sources: Statistics South Africa and Andrew Levy Employment Publications

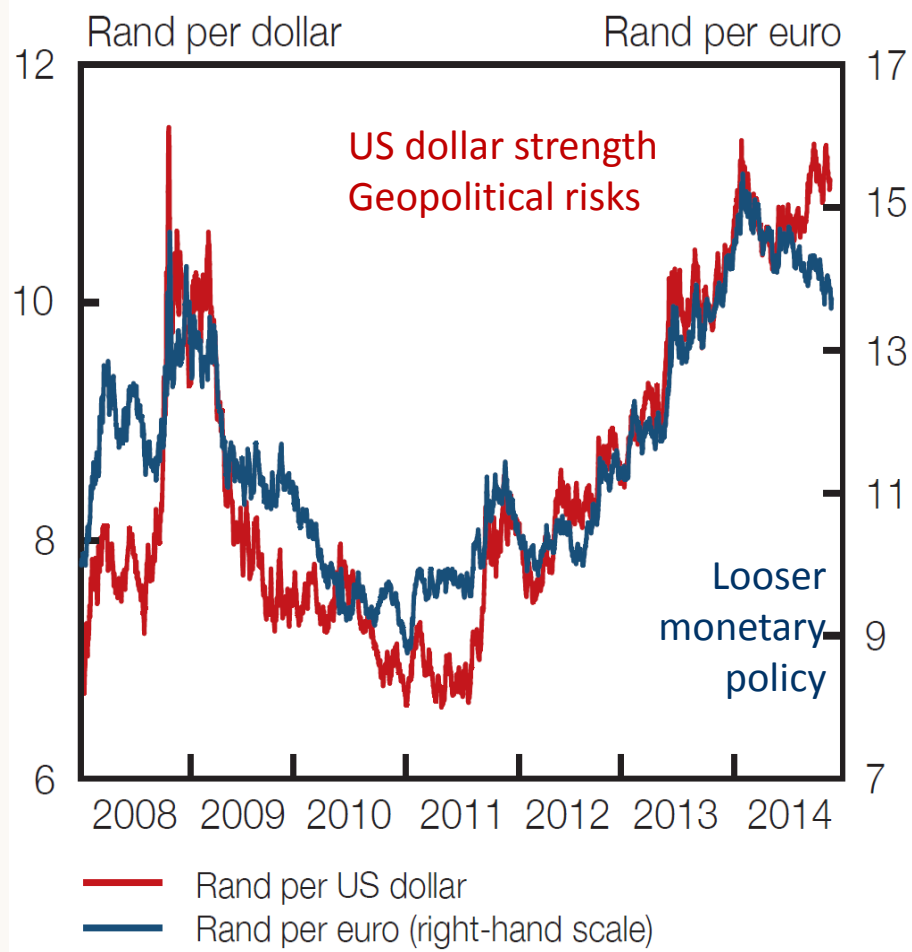
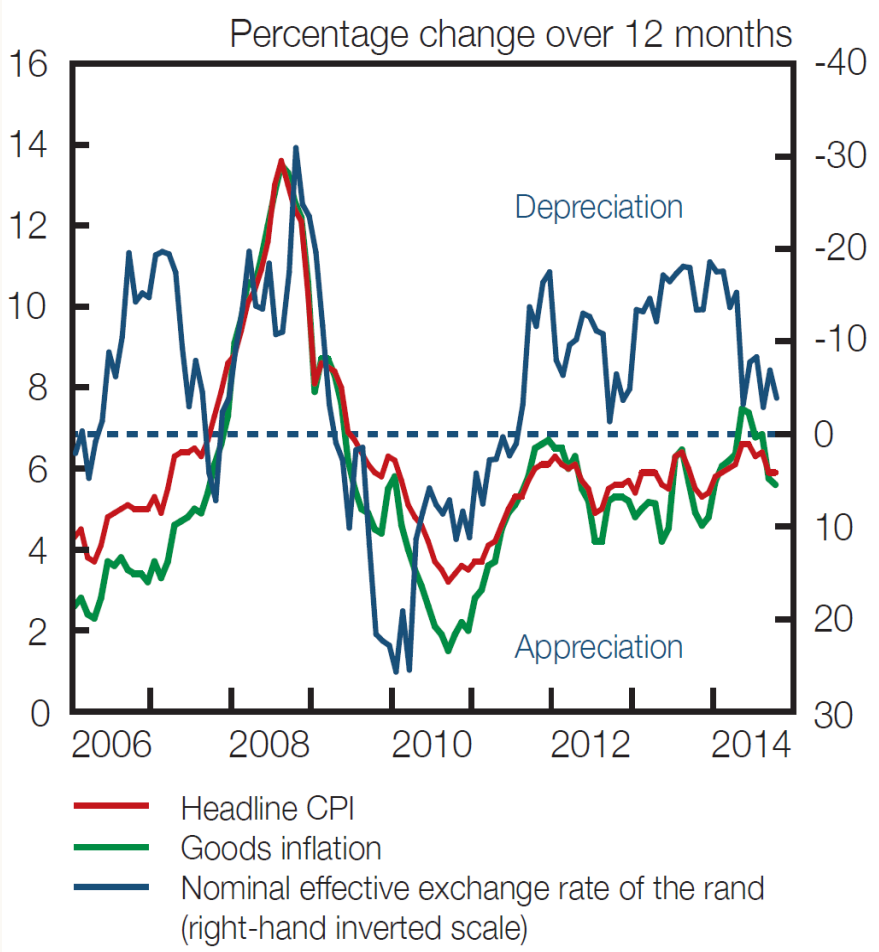


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Inflation expectations clustered above 6%



The exchange rate remains a significant risk

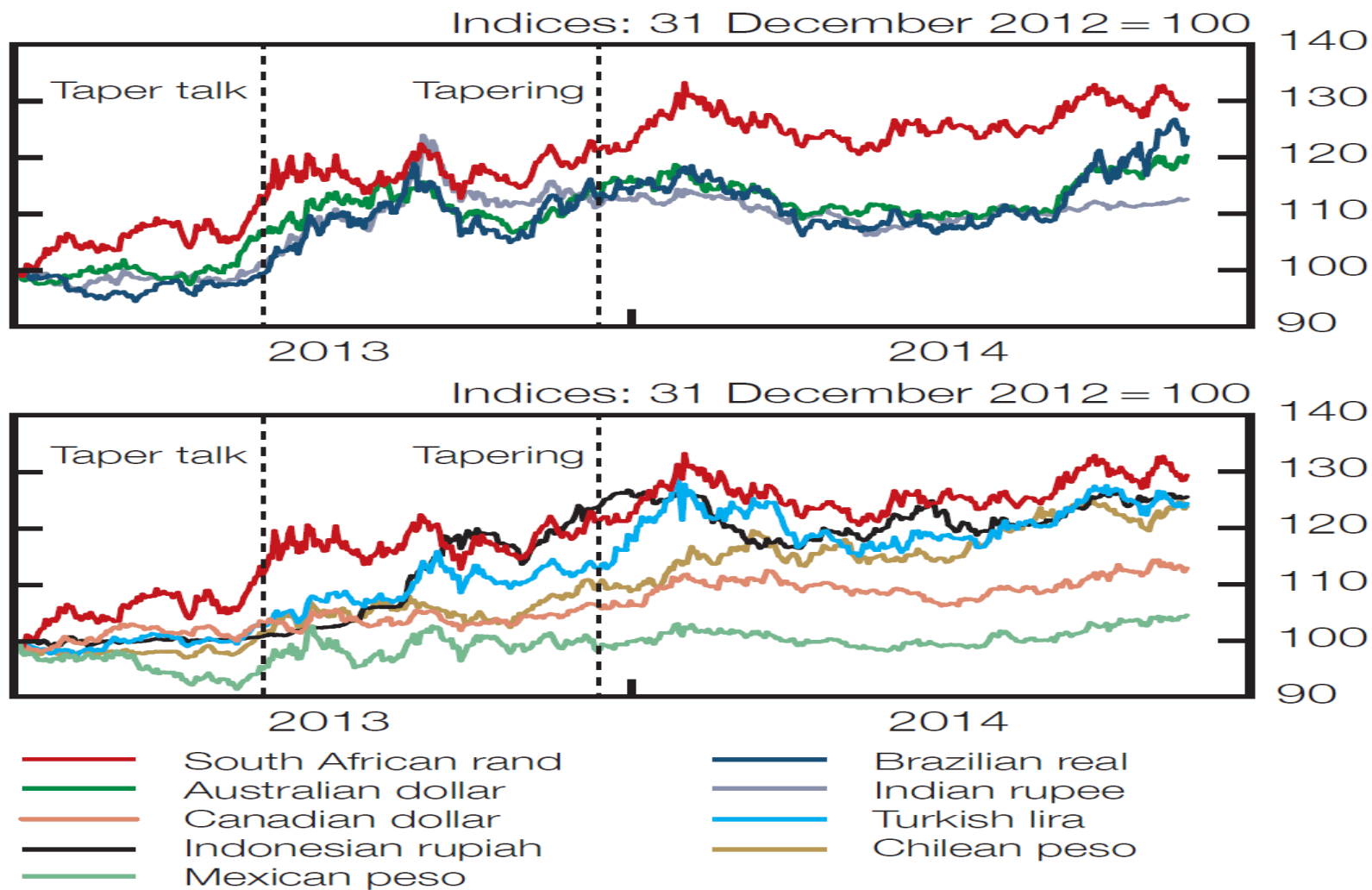


Sources: Bloomberg, Statistics South Africa and South African Reserve Bank

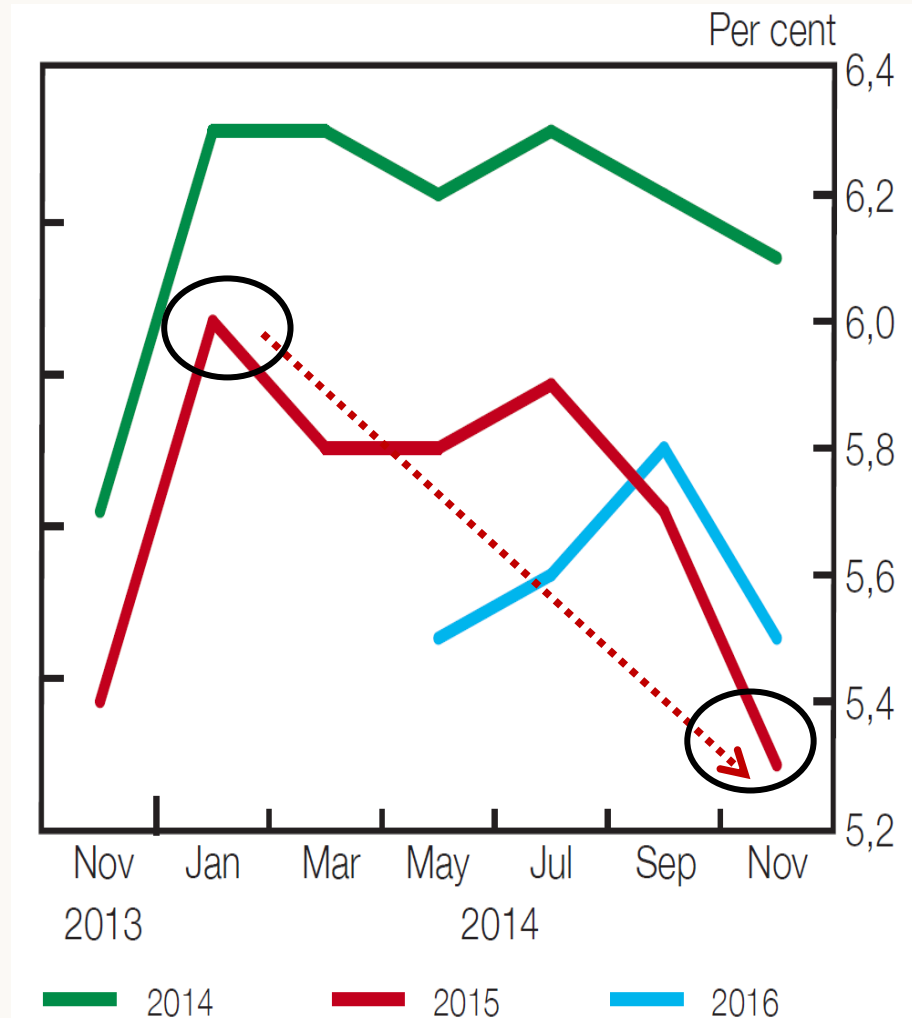
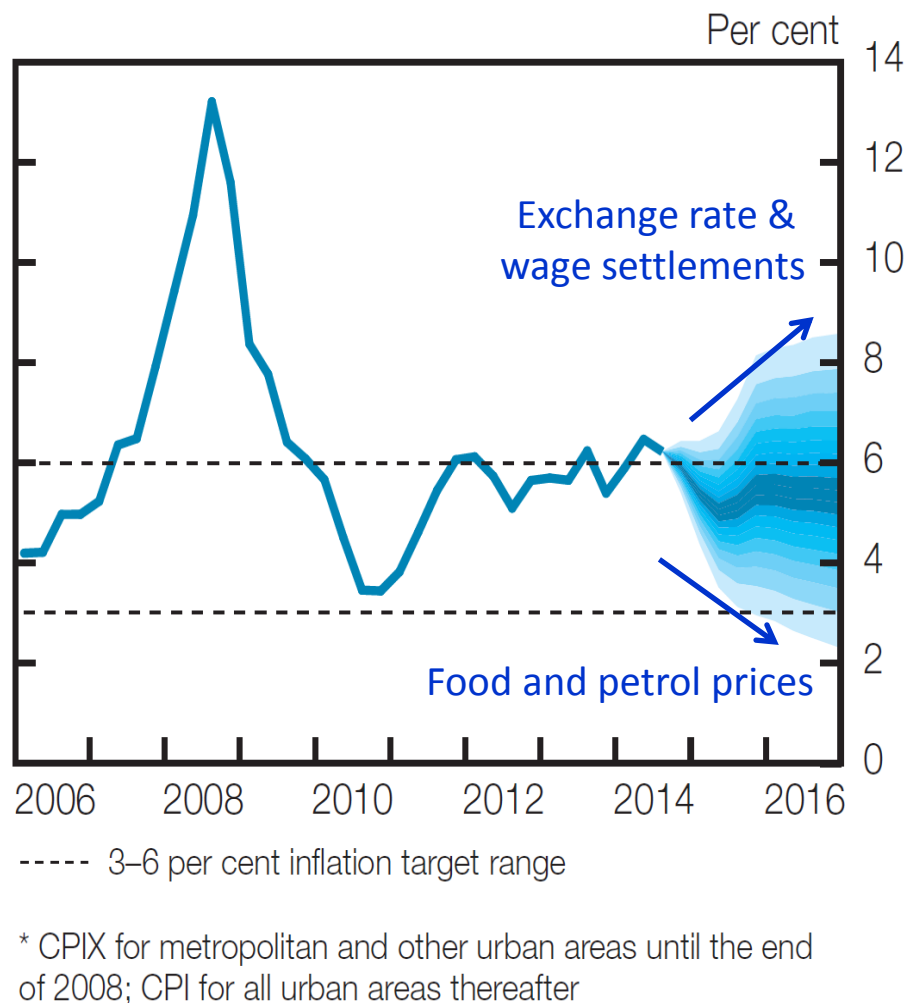


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With tapering of QE a major driver



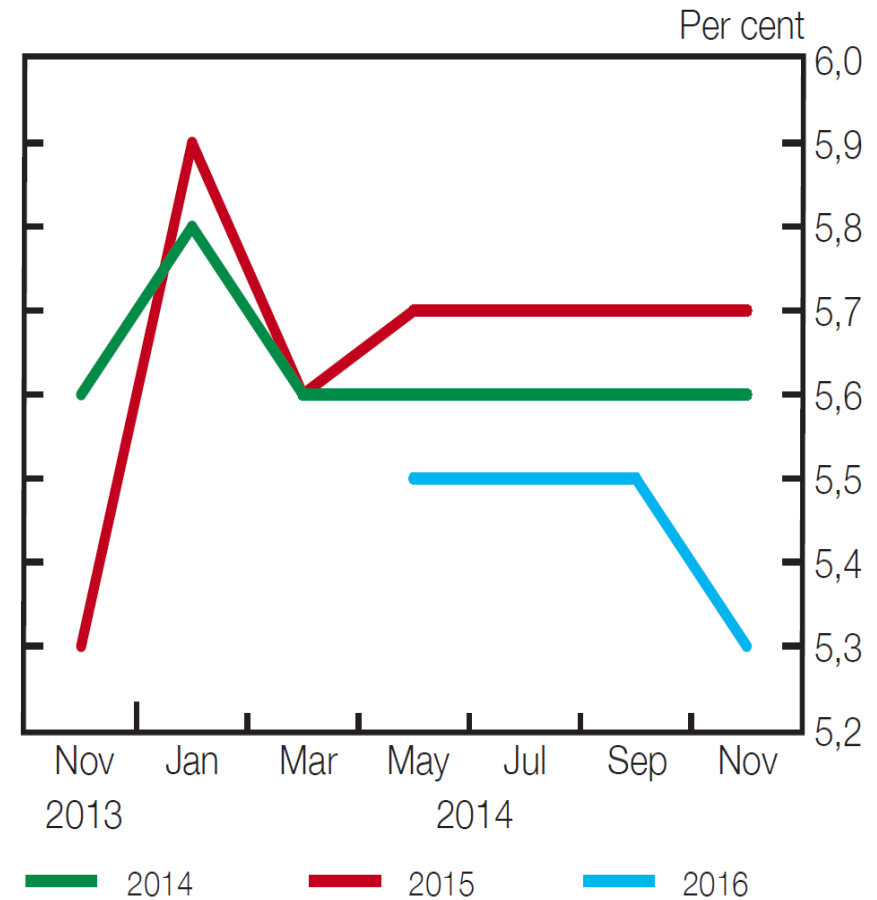
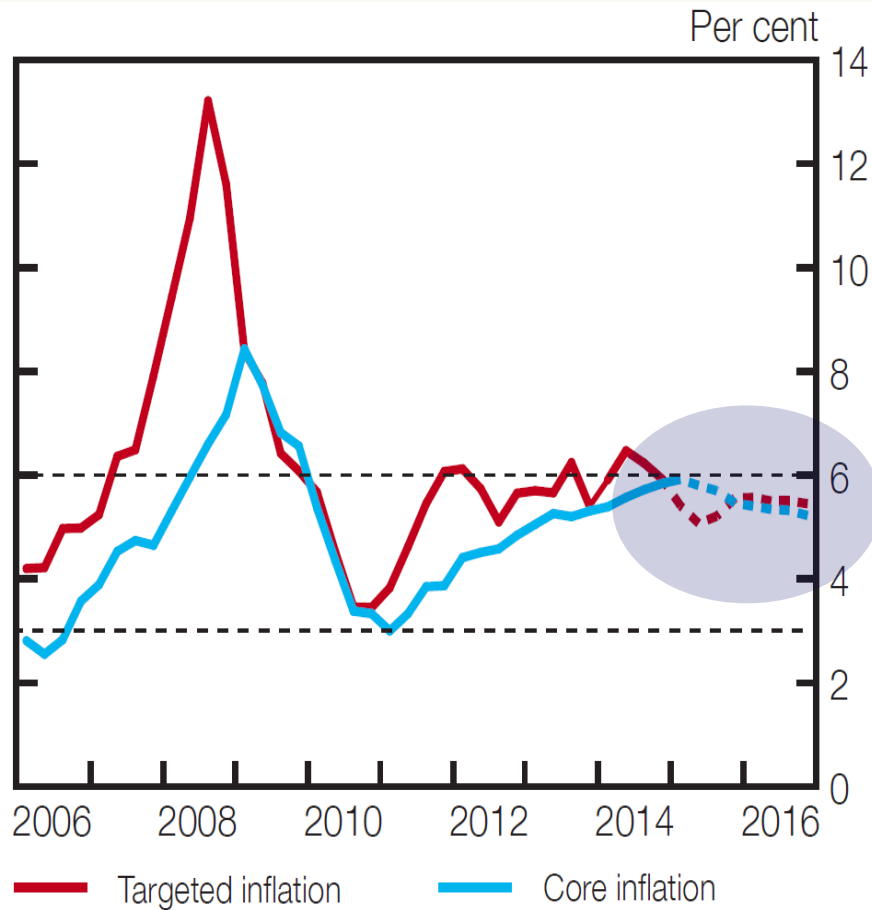
Risks to the inflation forecast are now balanced, 2015 forecast improved



Source: South African Reserve Bank



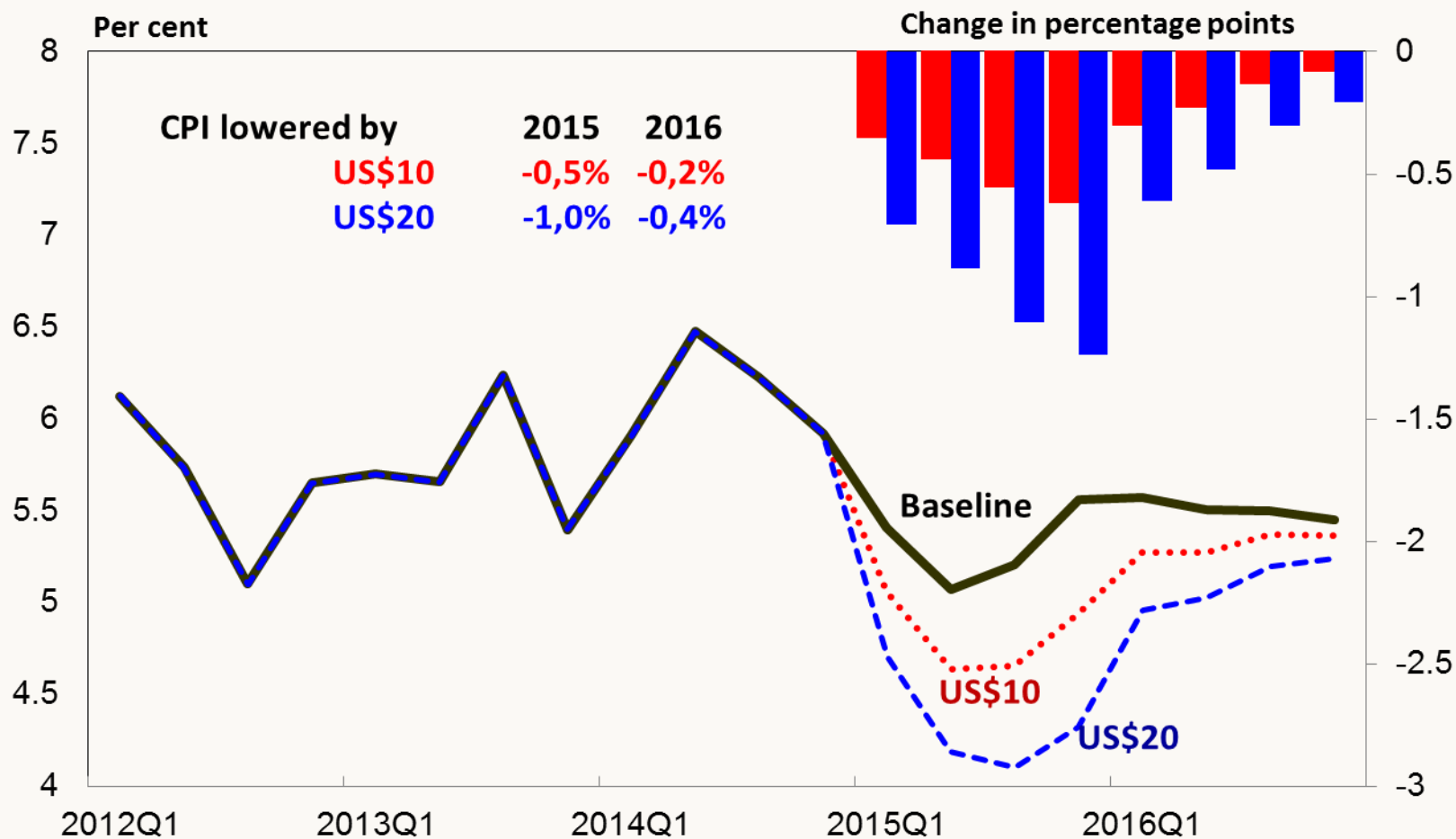
Core inflation to continue its upward trend until early 2015 - below 6 per cent



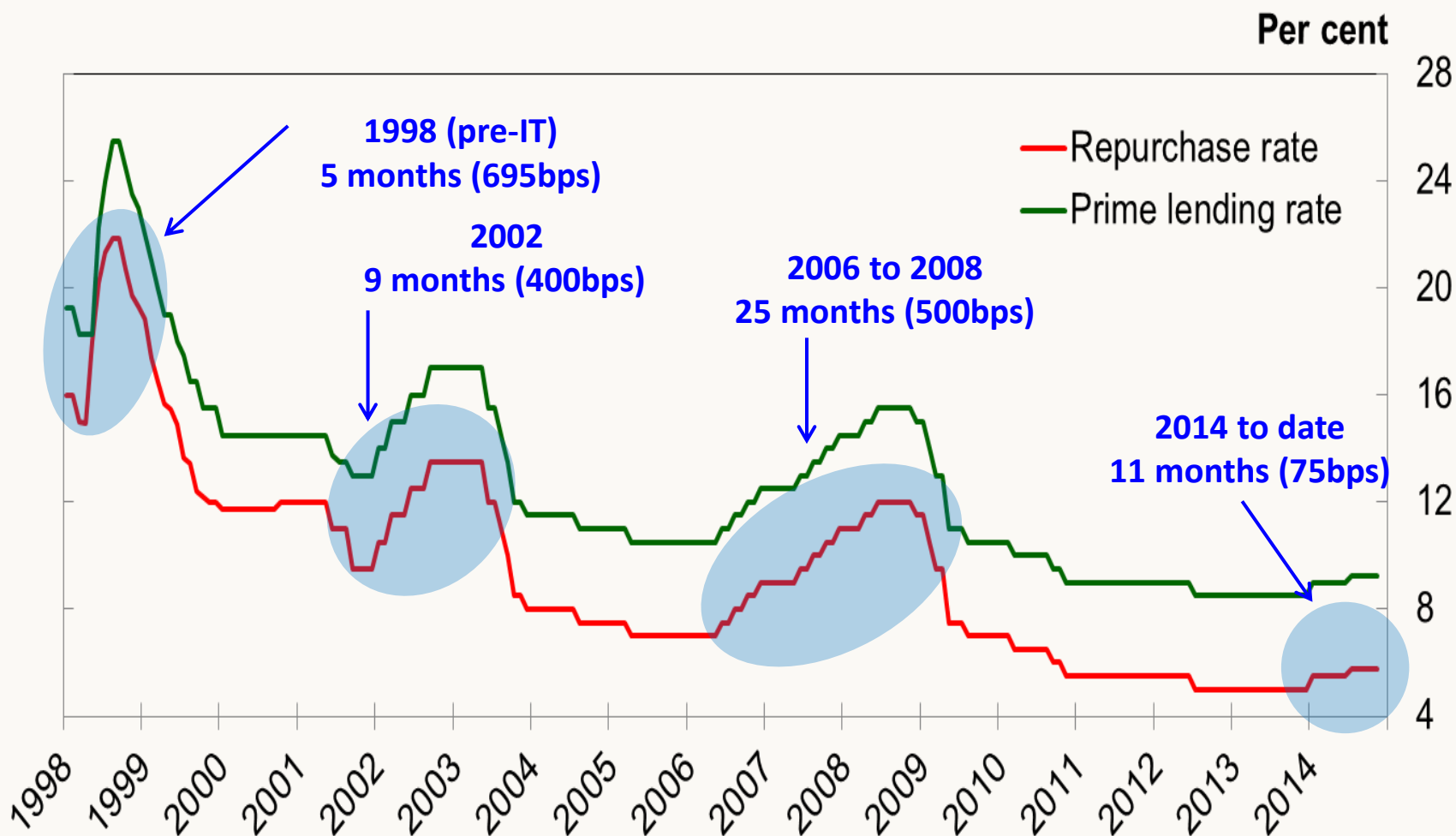
Source: South African Reserve Bank



Scenario: Crude oil prices drop by US\$10 and US\$20 per barrel



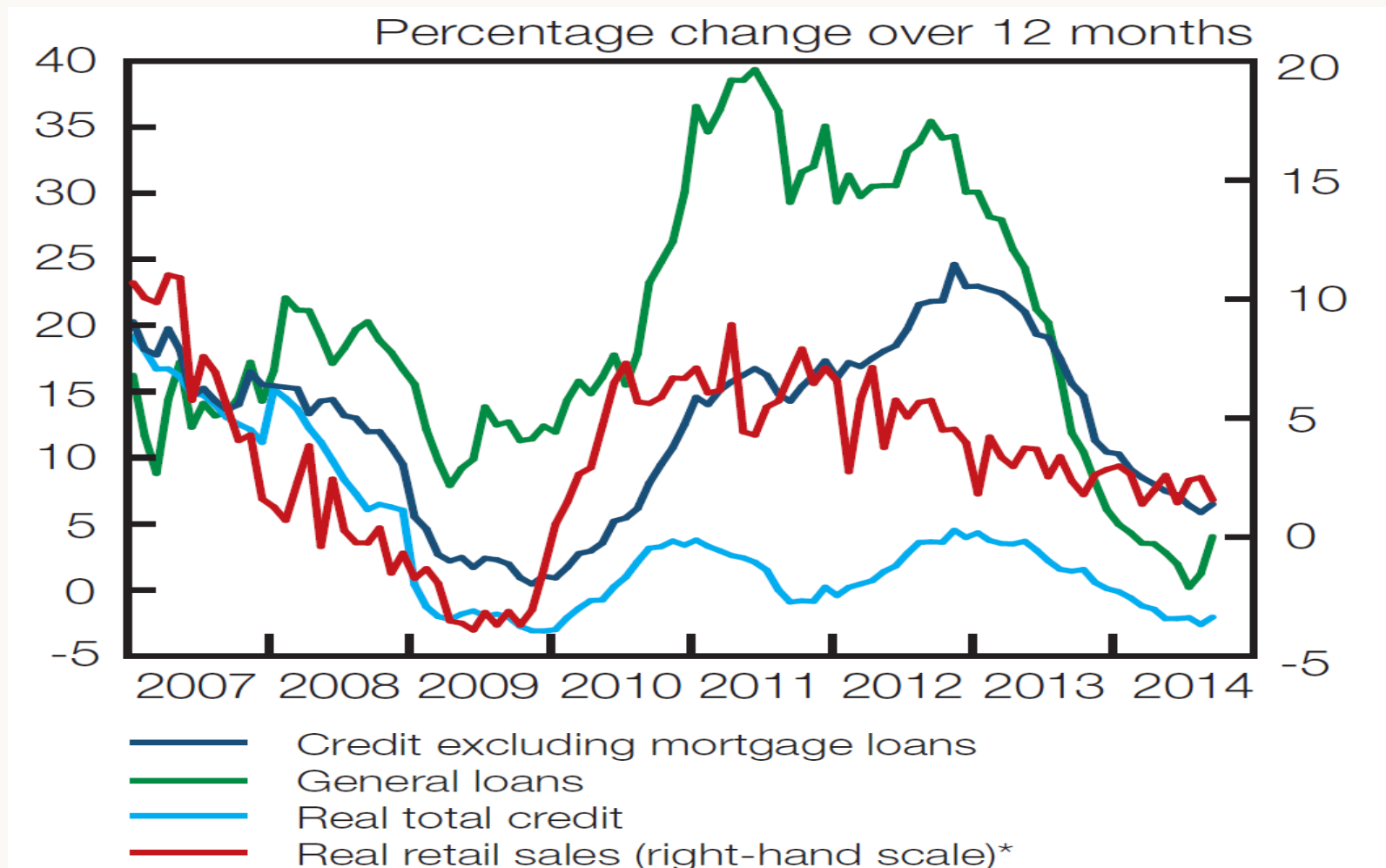
Monetary policy adjustment has been gradual in 2014



Source: South African Reserve Bank



Credit extension weak with households highly indebted

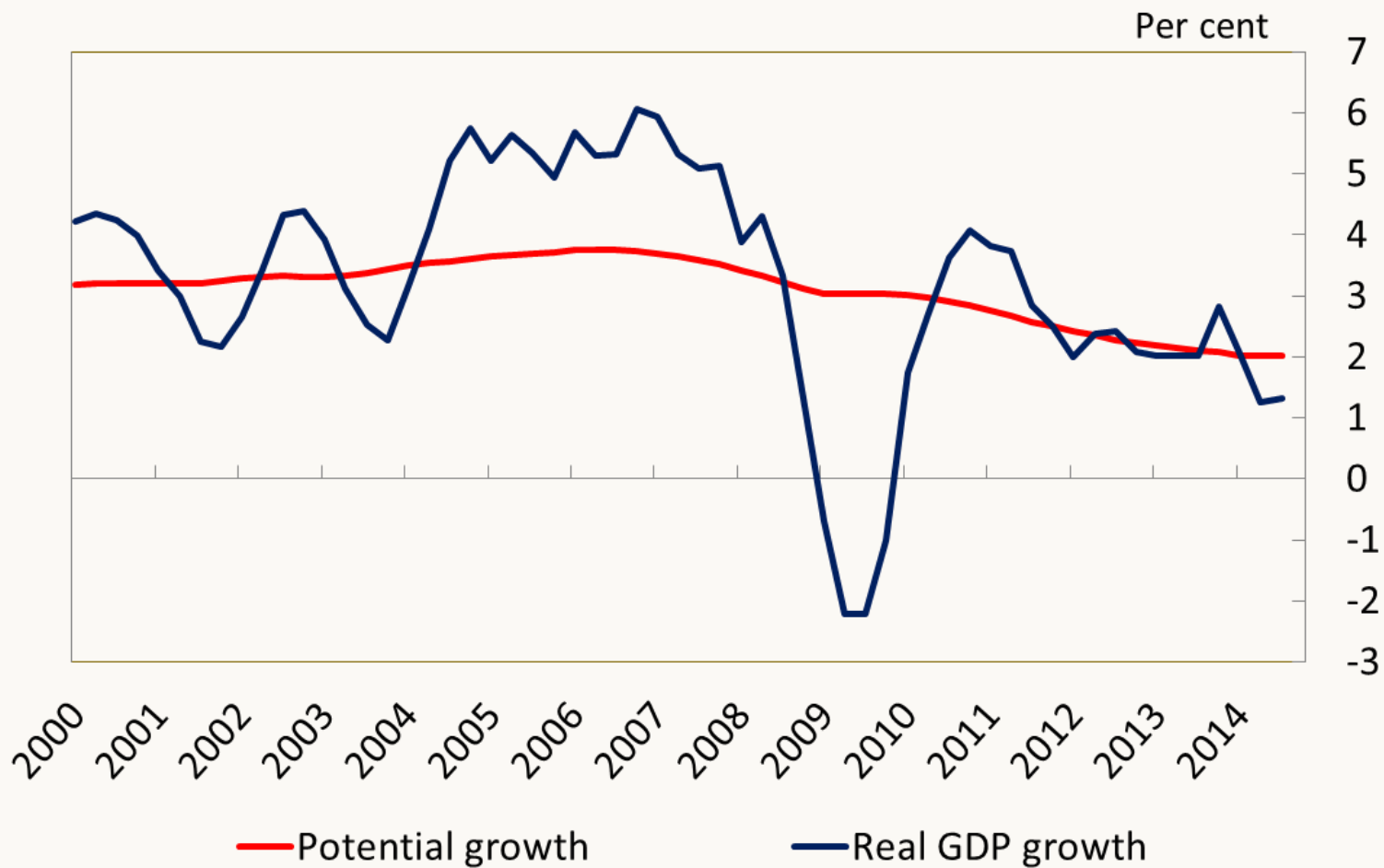


Source: South African Reserve Bank



South African Reserve Bank

Little evidence of demand side pressure on prices... even as potential growth falls



Source: update to SARB WP/14/08



South African Reserve Bank

Sector outcomes volatile due to supply shocks

Per cent*

Sector	2012	2013				2014			
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Mining	-2,9	14,3	-4,5	12,3	17,2	4,0	-23,0	-3,1	1,6
Manufacturing	1,9	-7,8	11,7	-6,6	12,3	0,7	-6,4	-4,0	-3,4
Wholesale, retail	3,6	0,9	2,2	0,3	1,8	1,9	1,5	-0,2	3,4
Finance, real estate, business services	3,0	4,8	5,0	2,8	2,6	3,0	1,4	1,2	2,4
Total	2,2	1,4	3,7	1,2	5,1	2,2	-1,6	0,5	1,4
Total (before revisions)	2,5	0,8	3,2	0,7	3,8	1,9	-0,6	0,6	

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

Sources: Statistics South Africa and own calculations

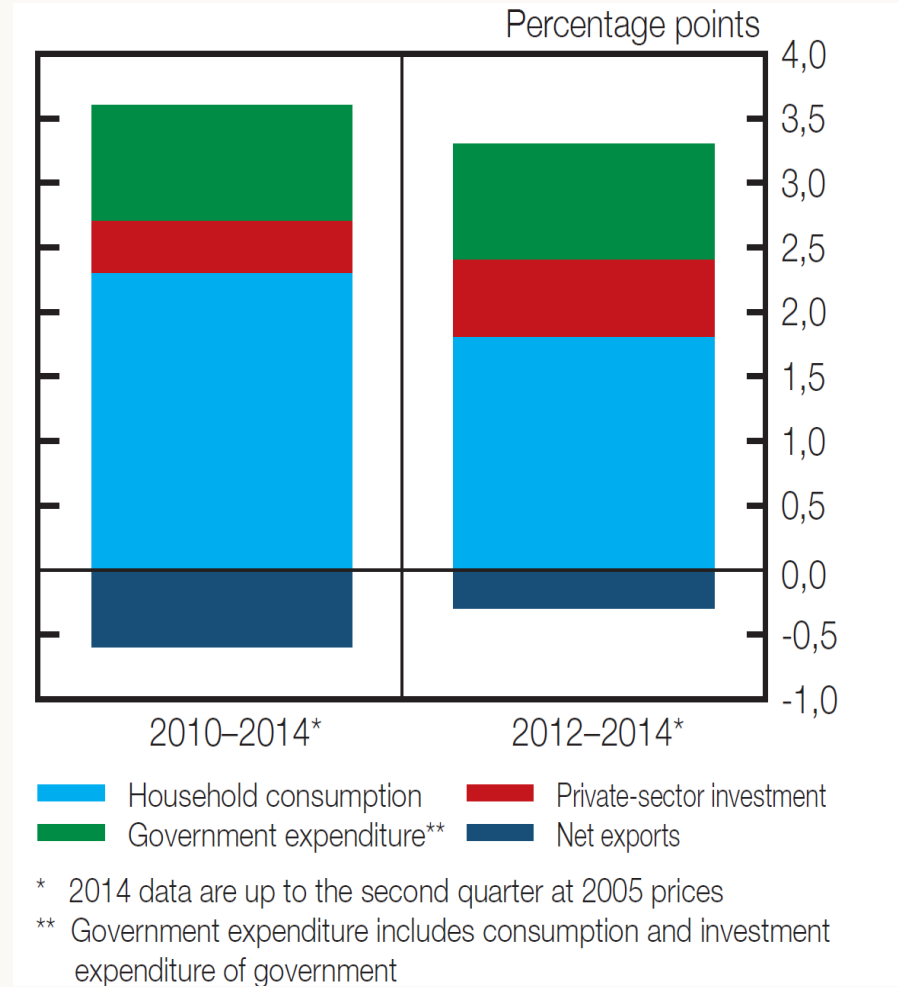
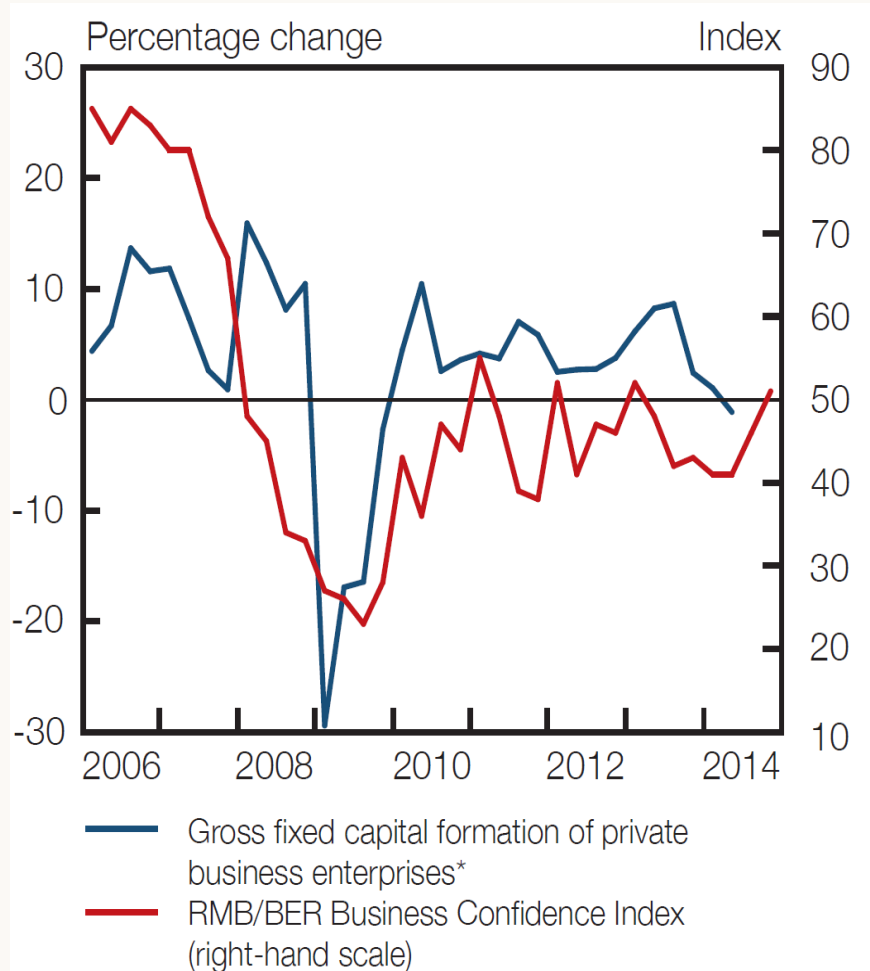


Sentiment indicators support near term growth higher, but not high

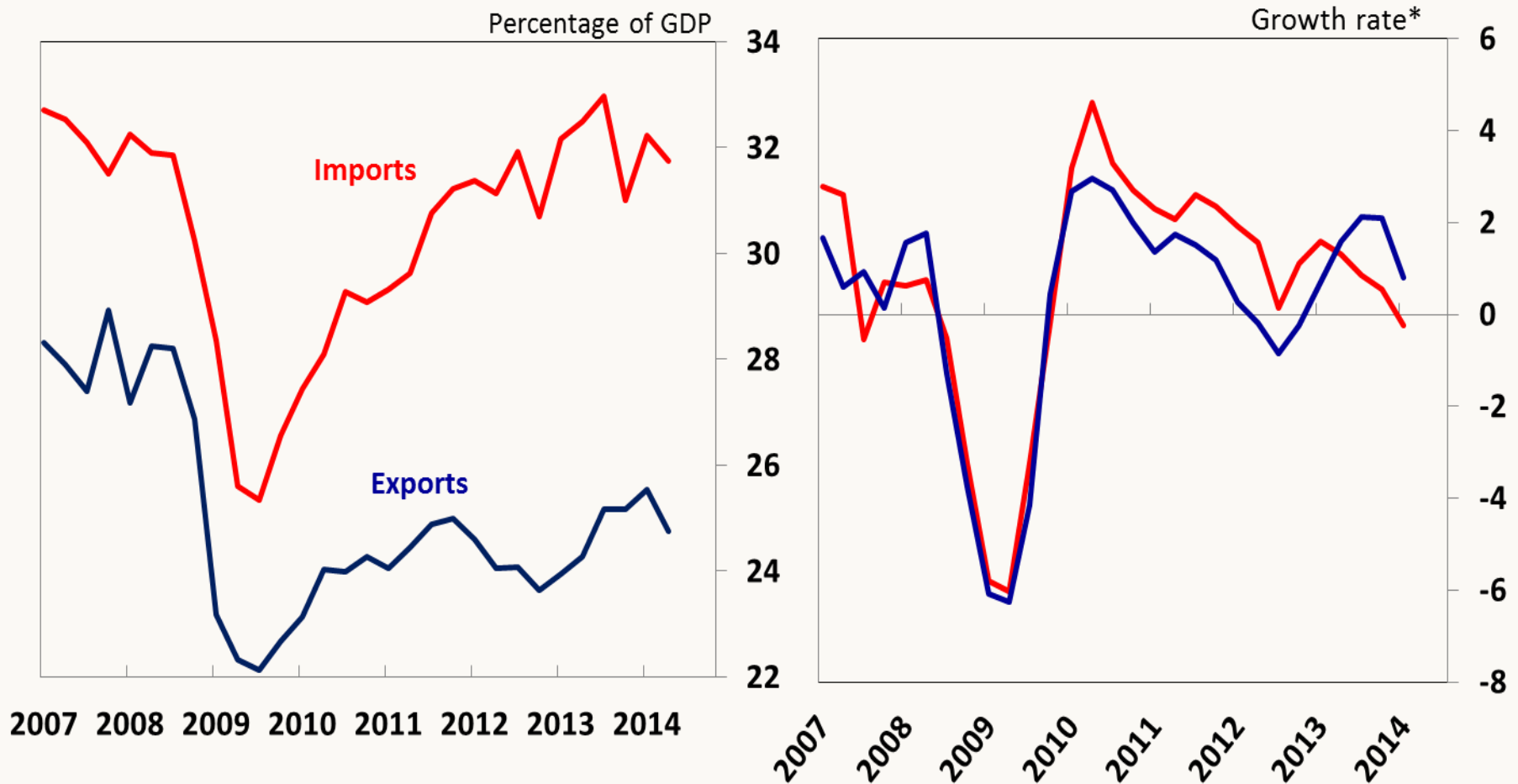
	As at MPR:*	
	Jun 2014	Dec 2014
RMB/BER Business Confidence Index	41	51
Kagiso/BER Purchasing Managers' Index	47.5	53.3
FNB/BER Consumer Confidence Index	-6	-1

*Improved/Worsened since previous MPR

Private sector investment muted on low confidence



Imports outpace exports since the crisis

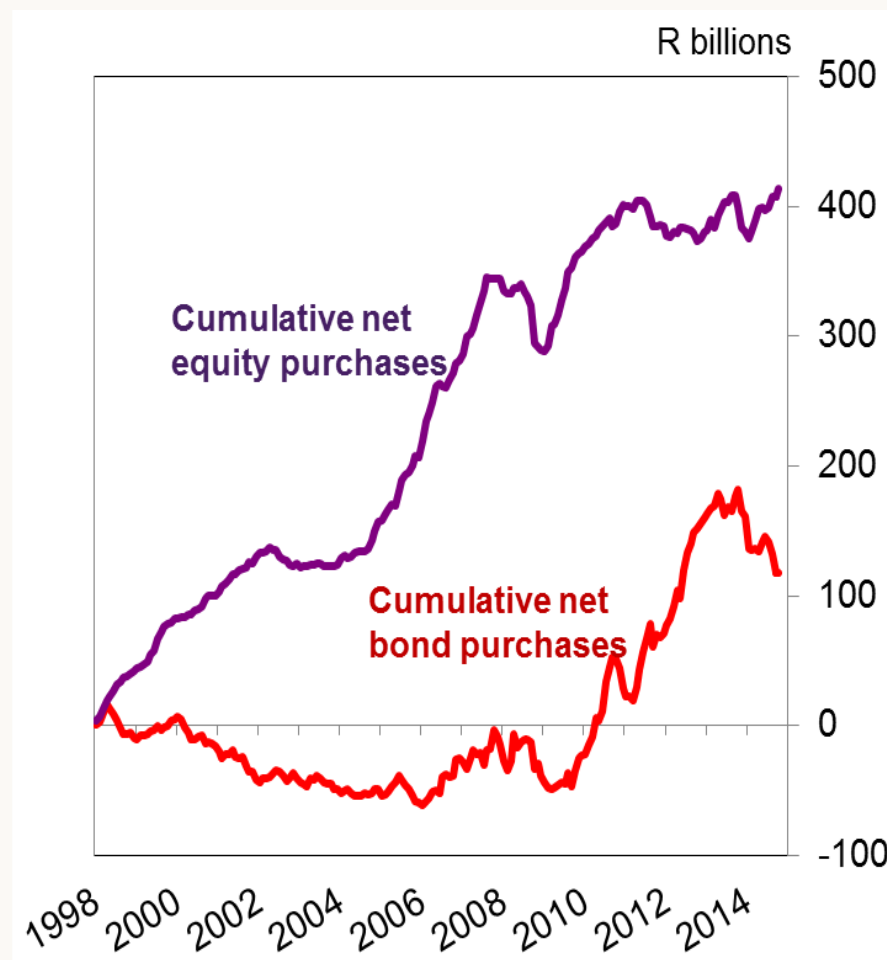
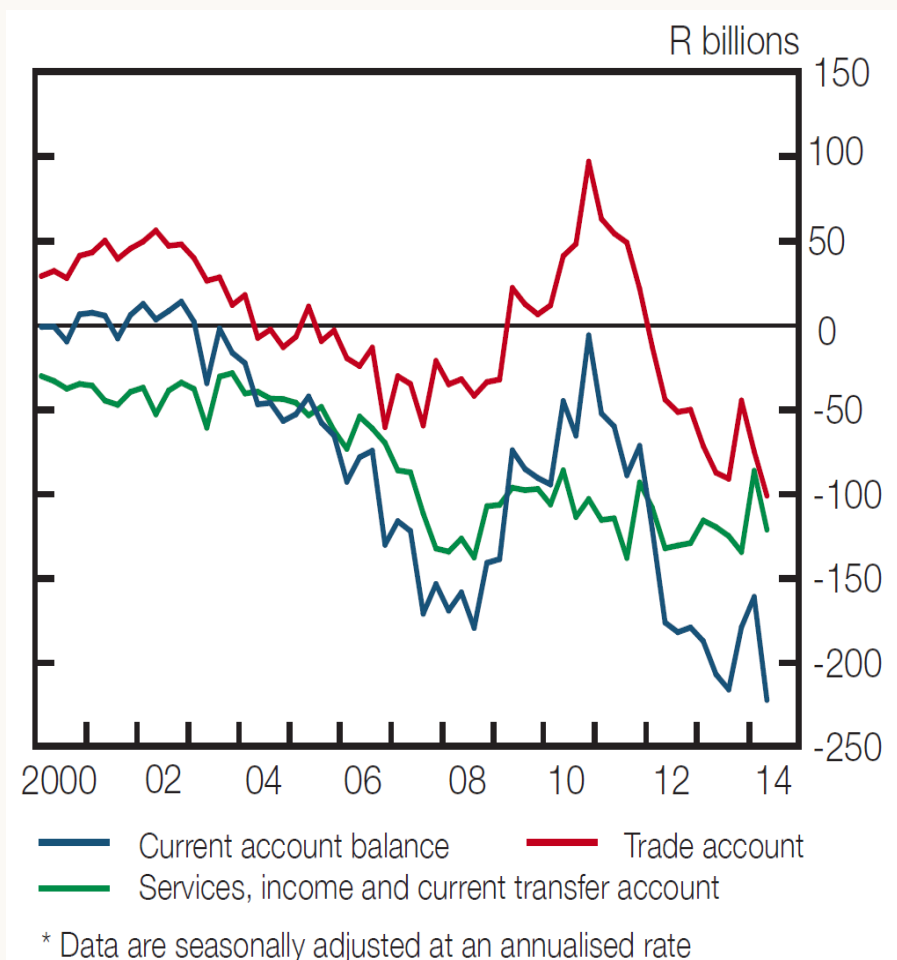


Source: South African Reserve Bank and own calculations (4Q moving average)



South African Reserve Bank

Sustained trade deficit the main factor in current account

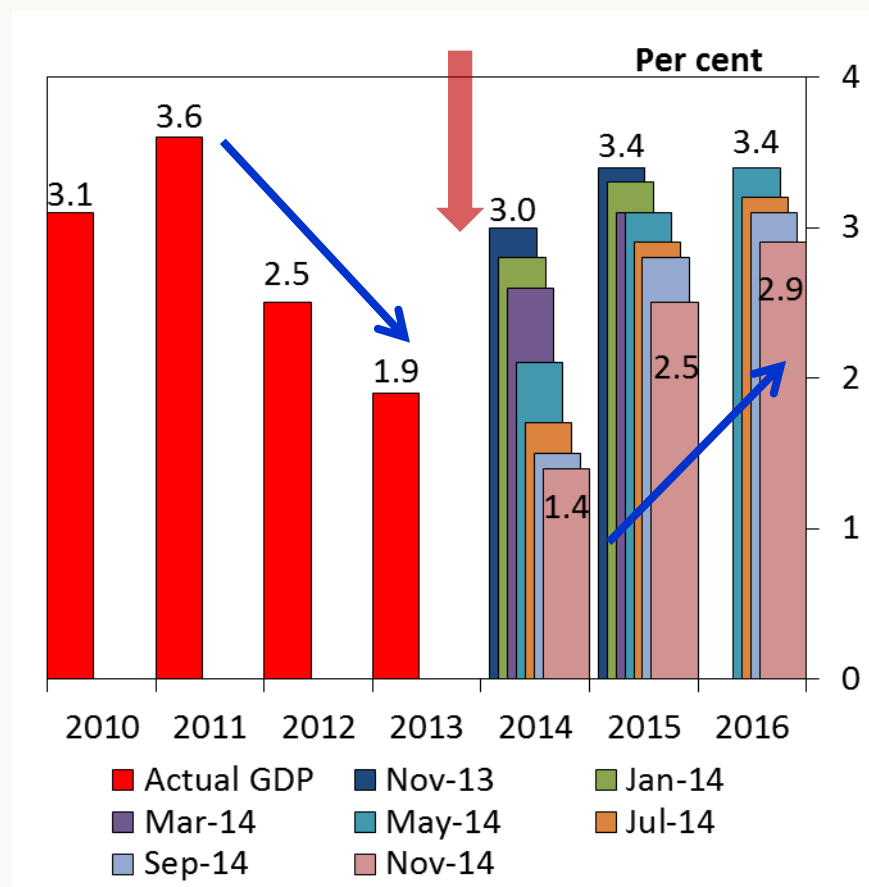
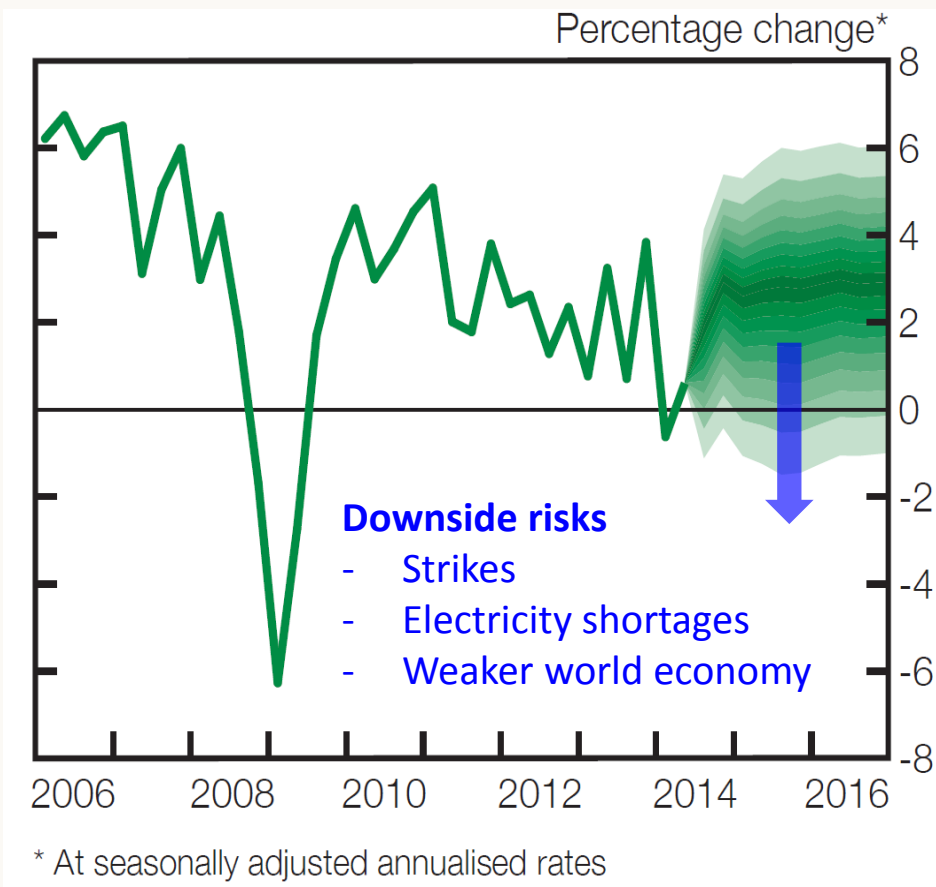


Source: South African Reserve Bank



South African Reserve Bank

Domestic growth slower since 2011, forecasts falling



Source: South African Reserve Bank



South African Reserve Bank

Monetary policy adjustment gradual

- Regional GDP outcomes diverge while inflation lower
- Normalisation & other major CB actions
- Oil prices sharply lower and food price inflation easing
- Rand weakness persists, with risks on the CAD
- Output recovering slowly
- Gradual policy adjustment, tuned to near term developments, & focused on long run stability...
 - lower inflation expectations
 - control inflation
 - reduce uncertainty to support long-run investment



Thank You

