

South African Reserve Bank

Recent Economic Developments

Presentation to the
Standing Committee on Finance

9 October 2013

Outline

- The international backdrop
- The South African economy
- Monetary Policy
- Conclusion



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The international scene

Global environment: a multispeed recovery

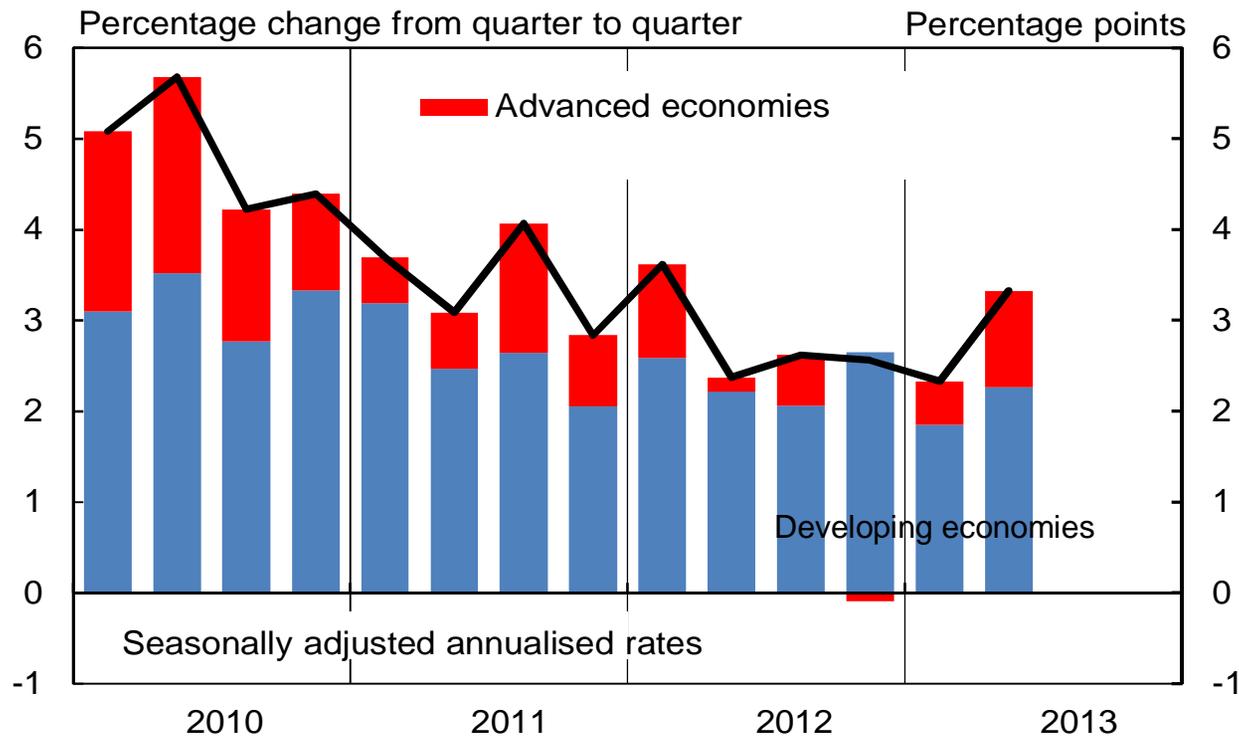
- Signs of recovery in the US, but headwinds from fiscal policy, and possible tapering of monetary policy.
- Eurozone has emerged from recession, but growth expected to remain weak for some time. But risks of a disorderly break-up of the system have receded.
- UK growth showing signs of improving.
- Japanese outlook uncertain, despite strong monetary policy stimulus.
- Growth in Emerging Markets slowing, including in the BRICS, but the outlook for Africa is generally positive.

Reserve Chairman's tapering remarks triggered turmoil in financial markets

- Tapering quantitative easing indicated as likely later in 2013
- Ending quantitative easing probably around mid-2014
 - US unemployment around 7%
- Raising interest rates probably contemplated in 2015
 - US unemployment at 6,5%, inflation forecast below 2,5%
- Bond, share, currency markets reacted strongly on announcement (May22), and again when tapering did not begin as expected (September 18).

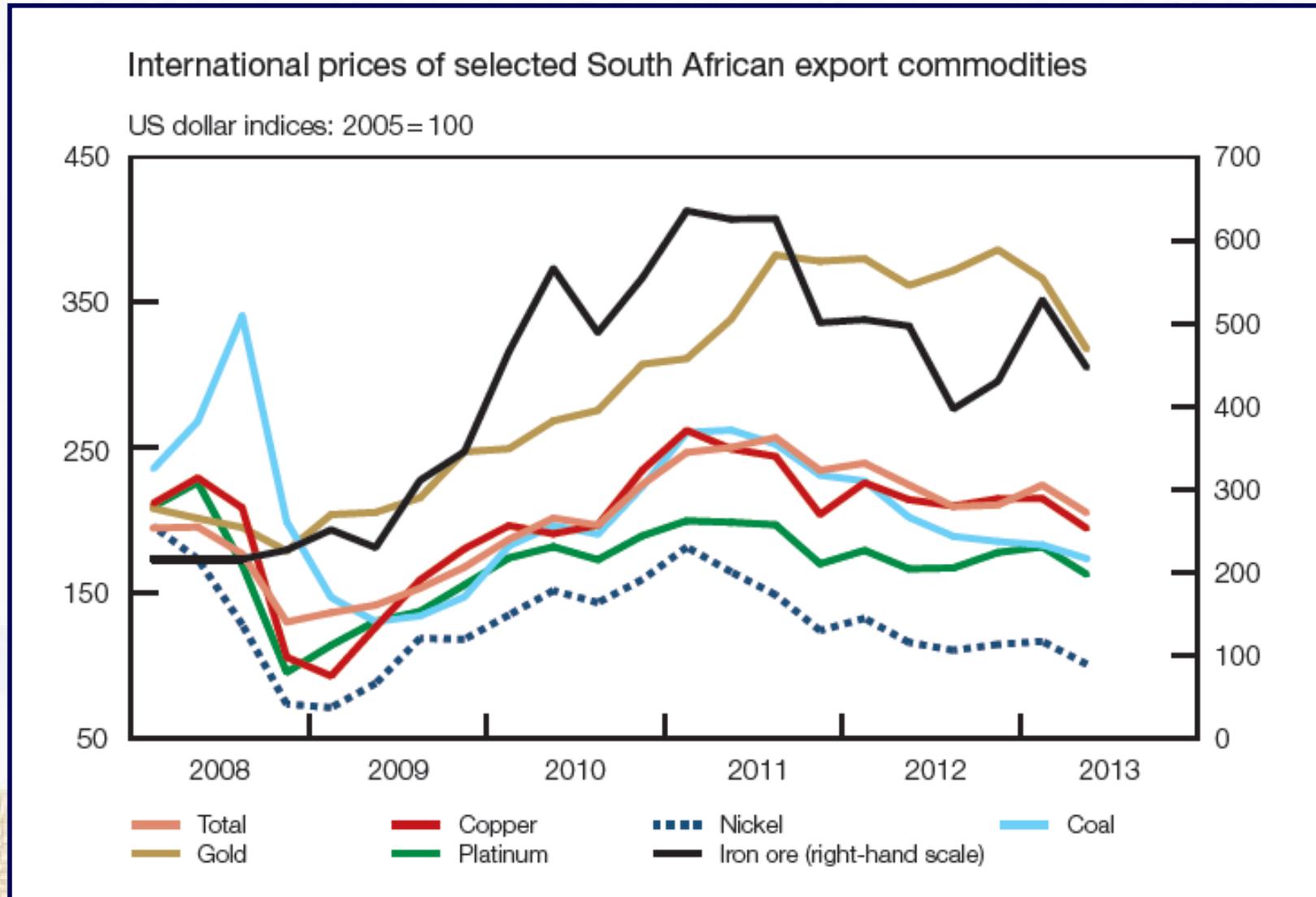
Growth improved in the 2nd quarter of 2013

Global growth and contributions from advanced and emerging economies



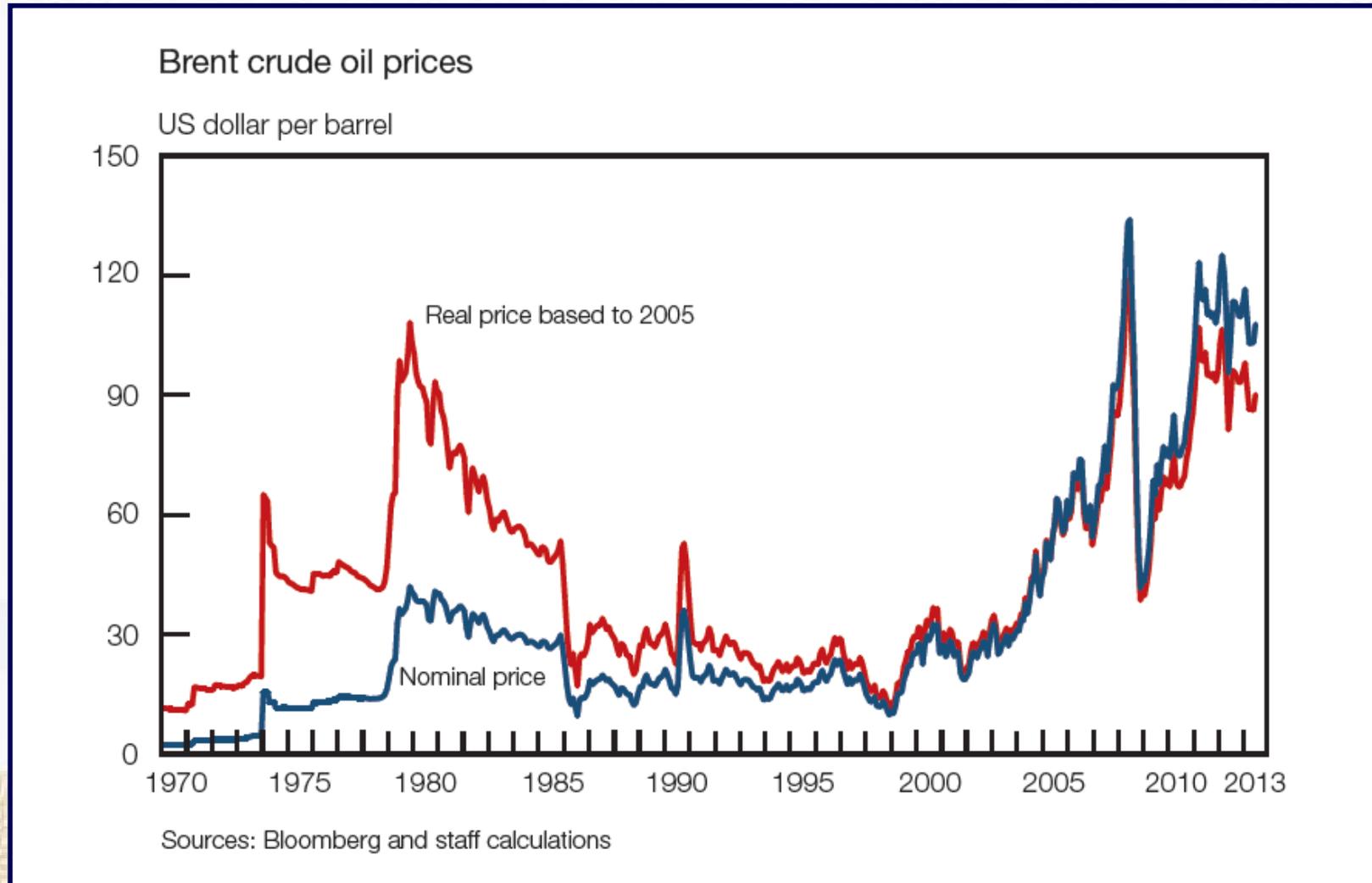
Sources: National statistical offices, JP Morgan and staff calculations

prices of a range of commodities on a downward trend



Oil prices have remained high, reacting to the outlook and tensions in the Middle-East

Brent crude oil prices



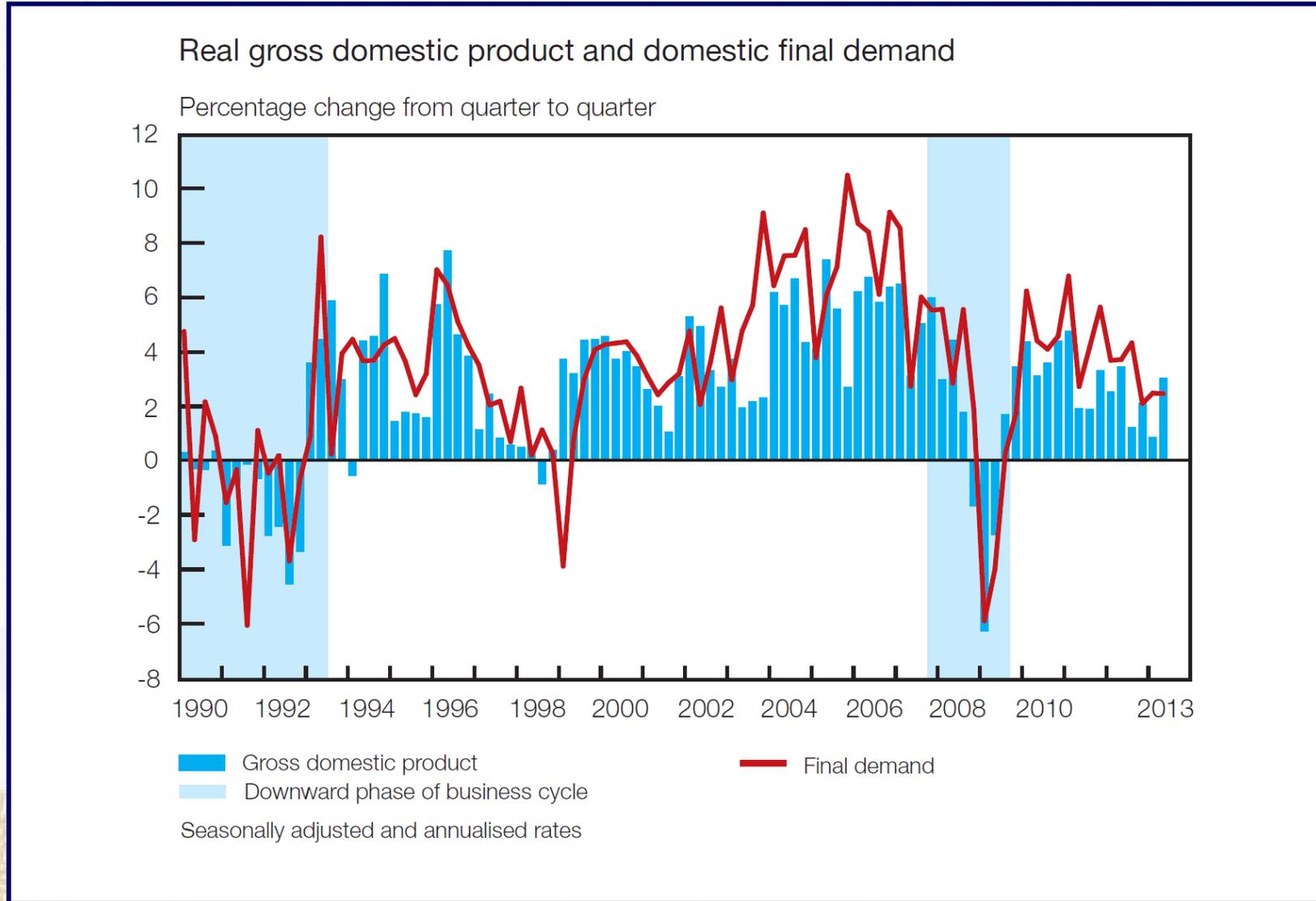


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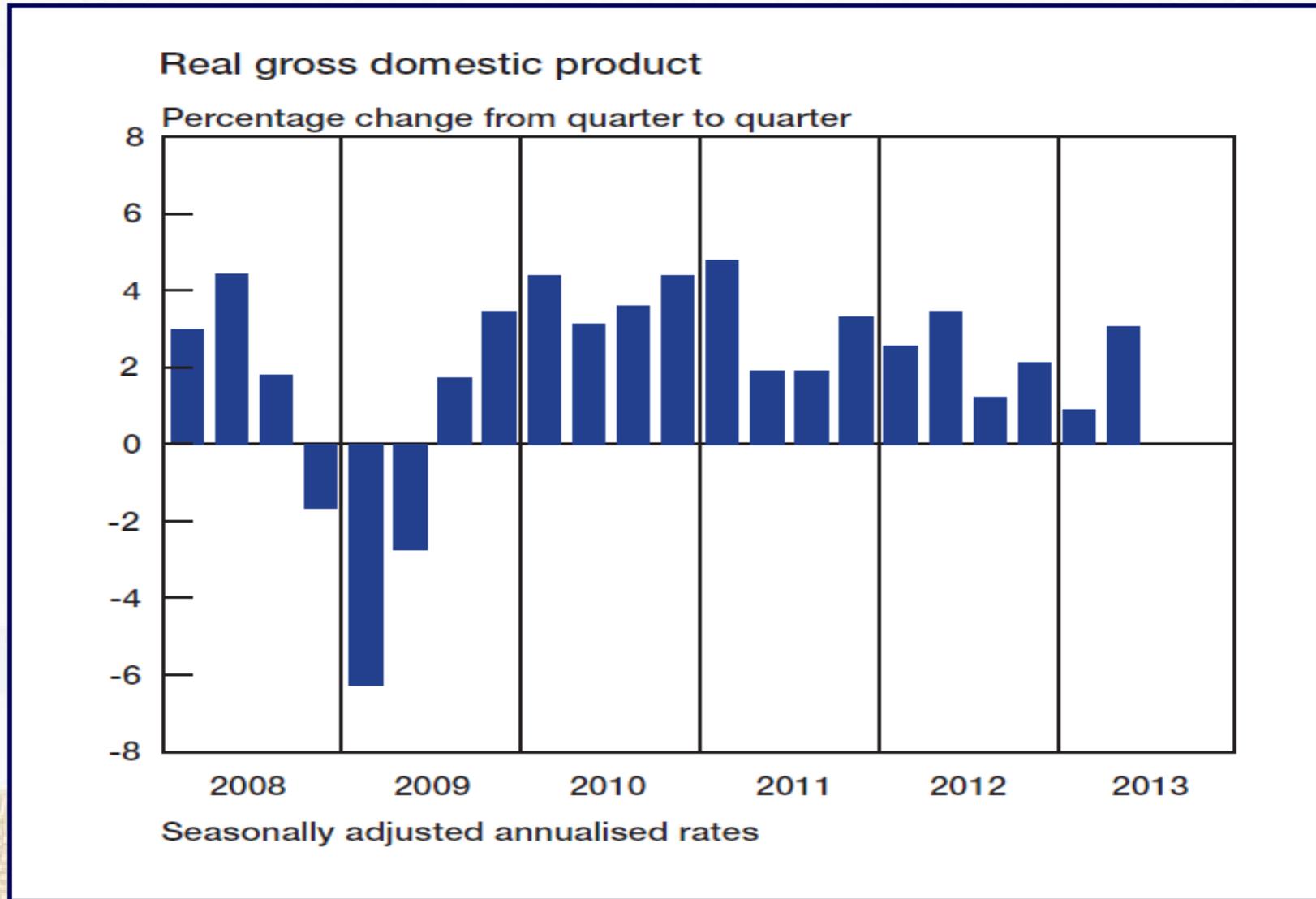
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The South African economy

demand growth has exceeded growth in domestic production

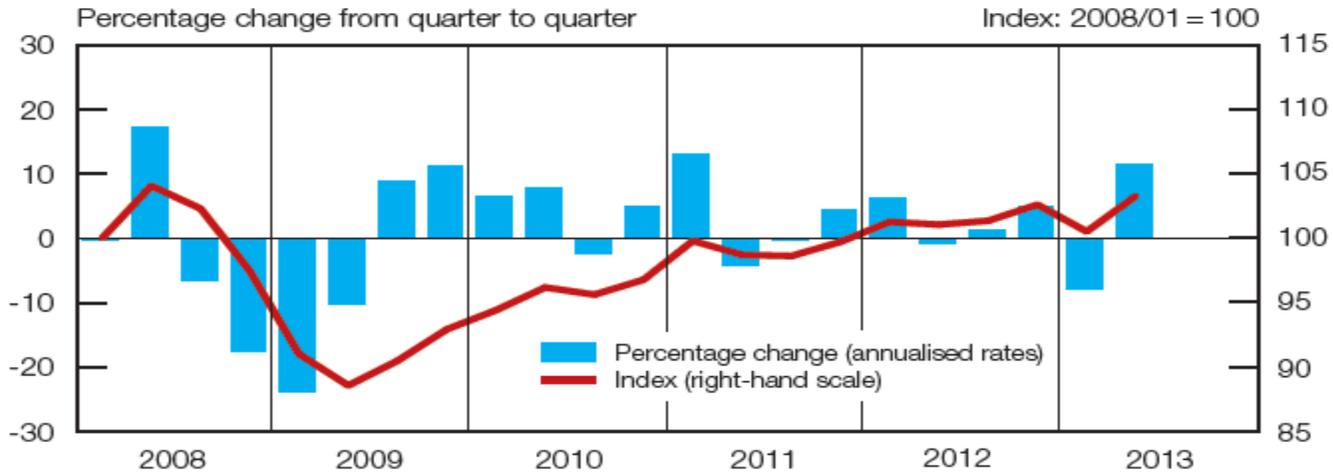


Economic growth improved in the second half of 2013 following a weak first quarter



Manufacturing output recovered, while mining contracted

Real output of manufacturing



Utilisation of production capacity

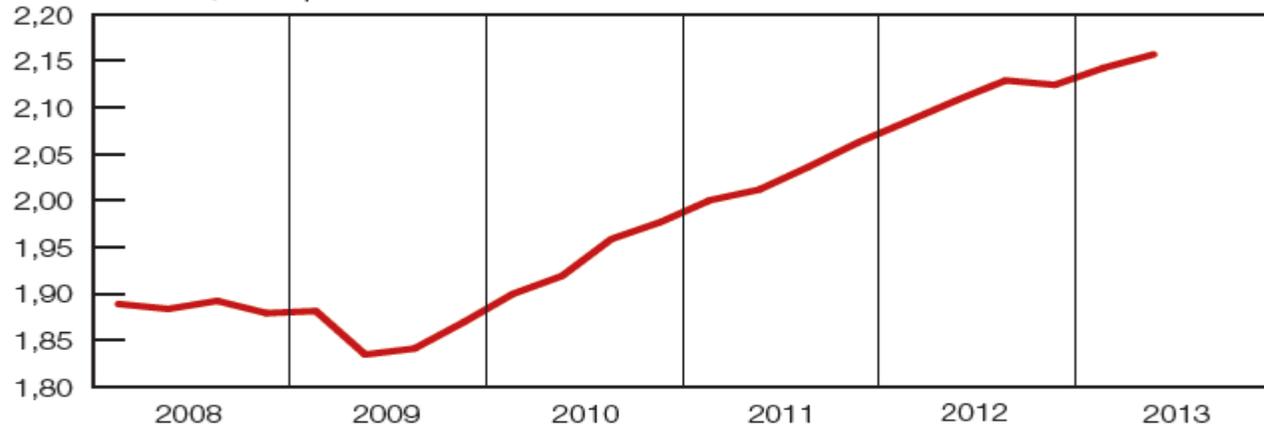


Seasonally adjusted

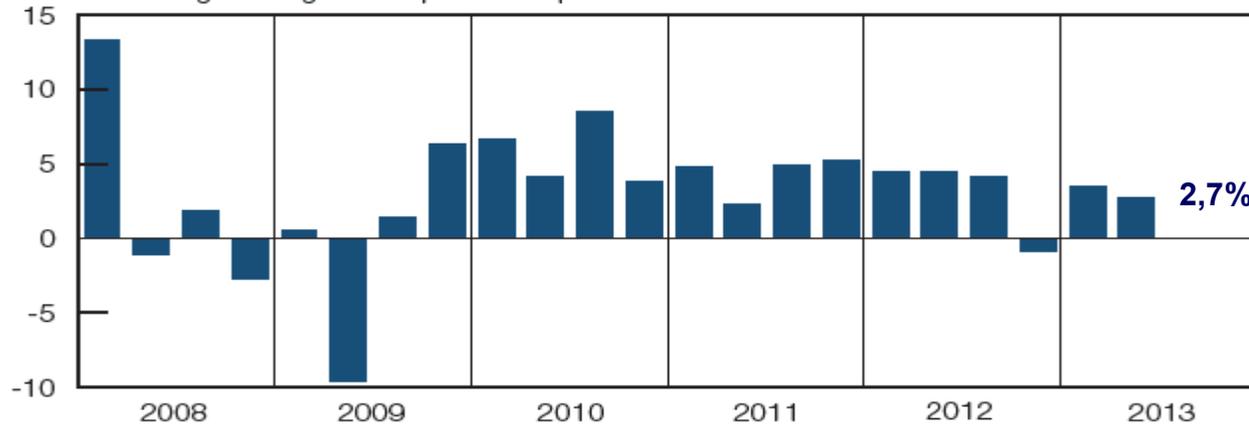
Expenditure growth slowed somewhat in the but all final demand components continued to register positive growth

Real gross domestic expenditure

R trillions, 2005 prices



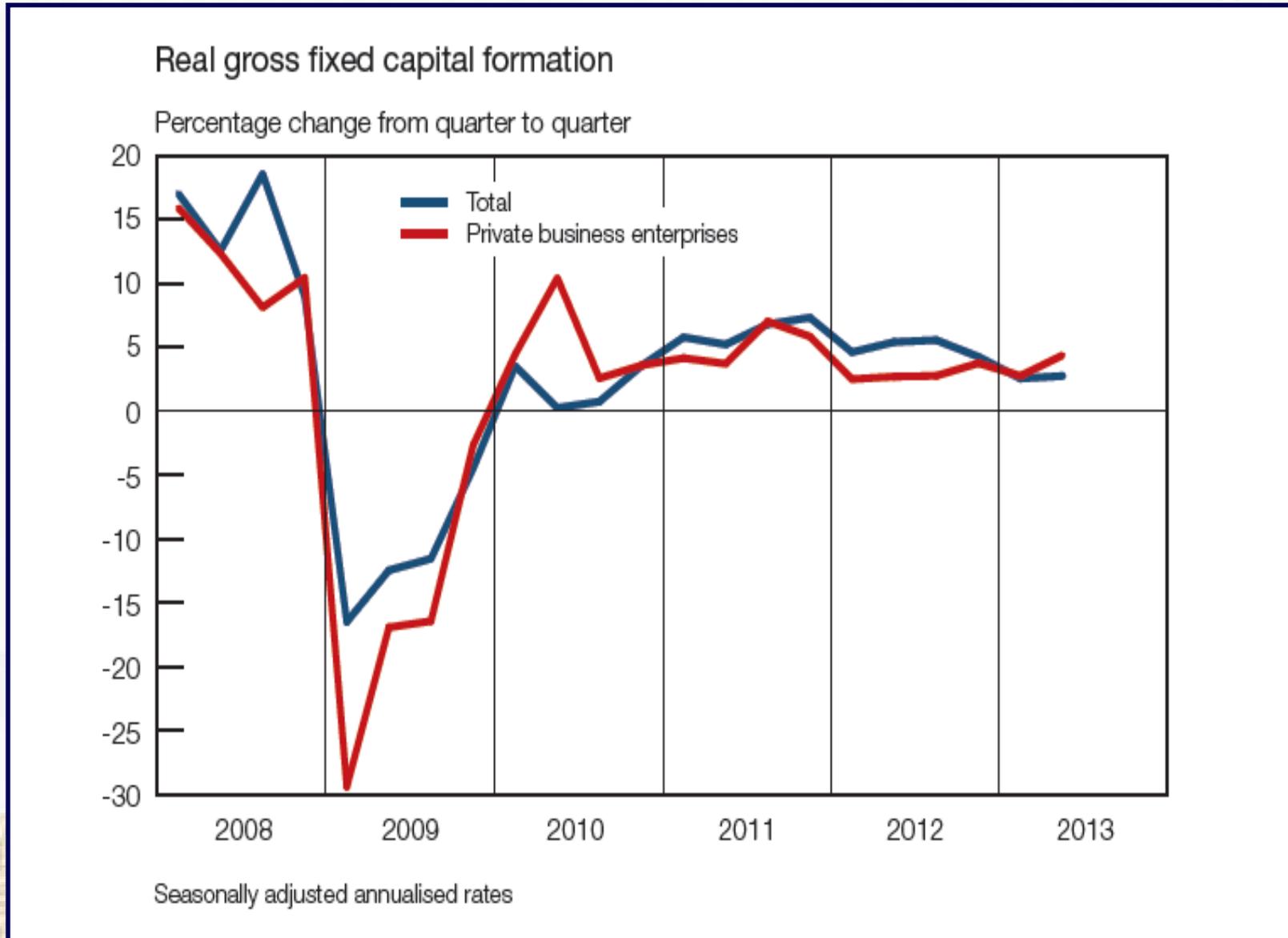
Percentage change from quarter to quarter



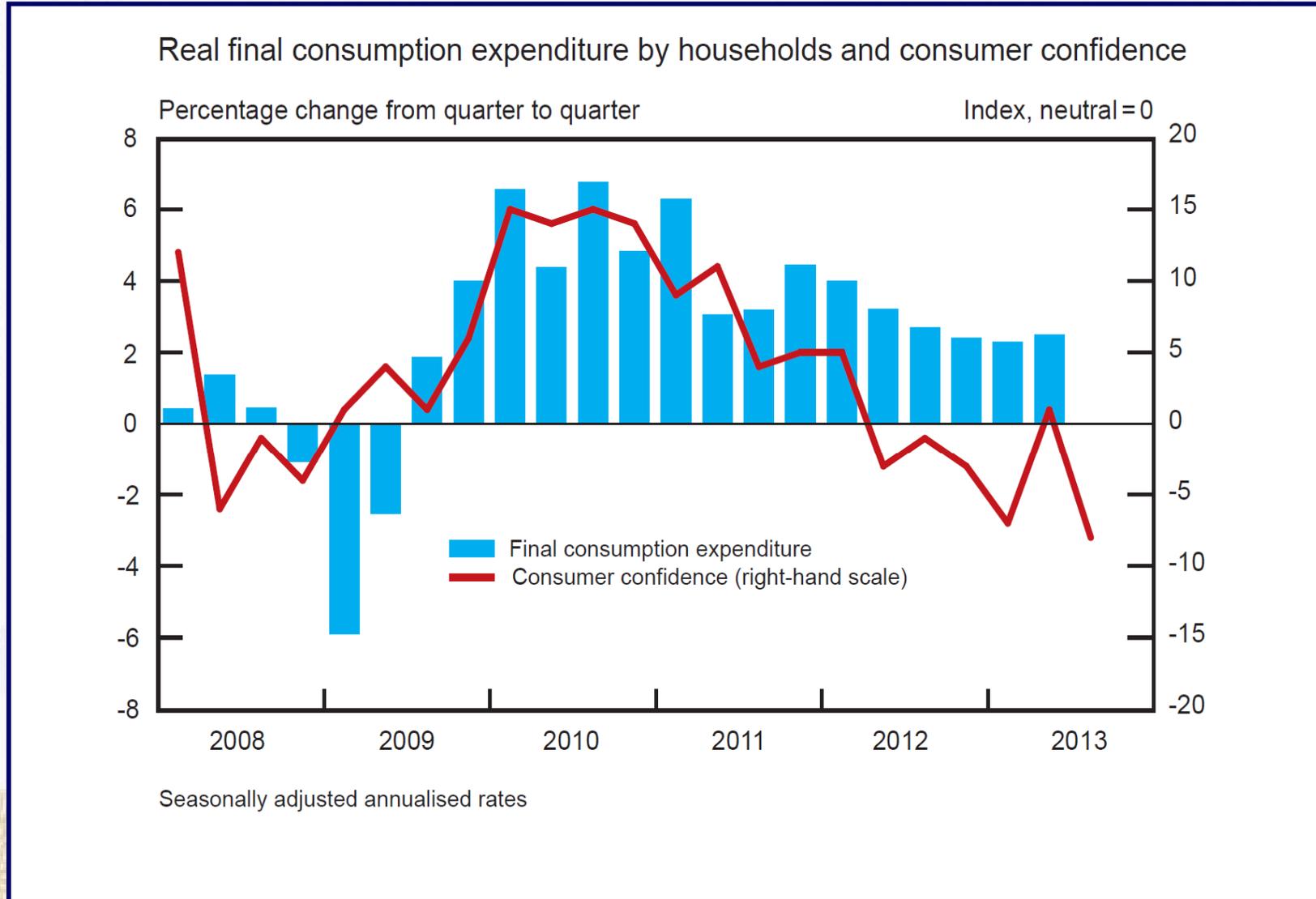
C: 2,5%
G: 2,1%
I: 2,7%

Seasonally adjusted and annualised

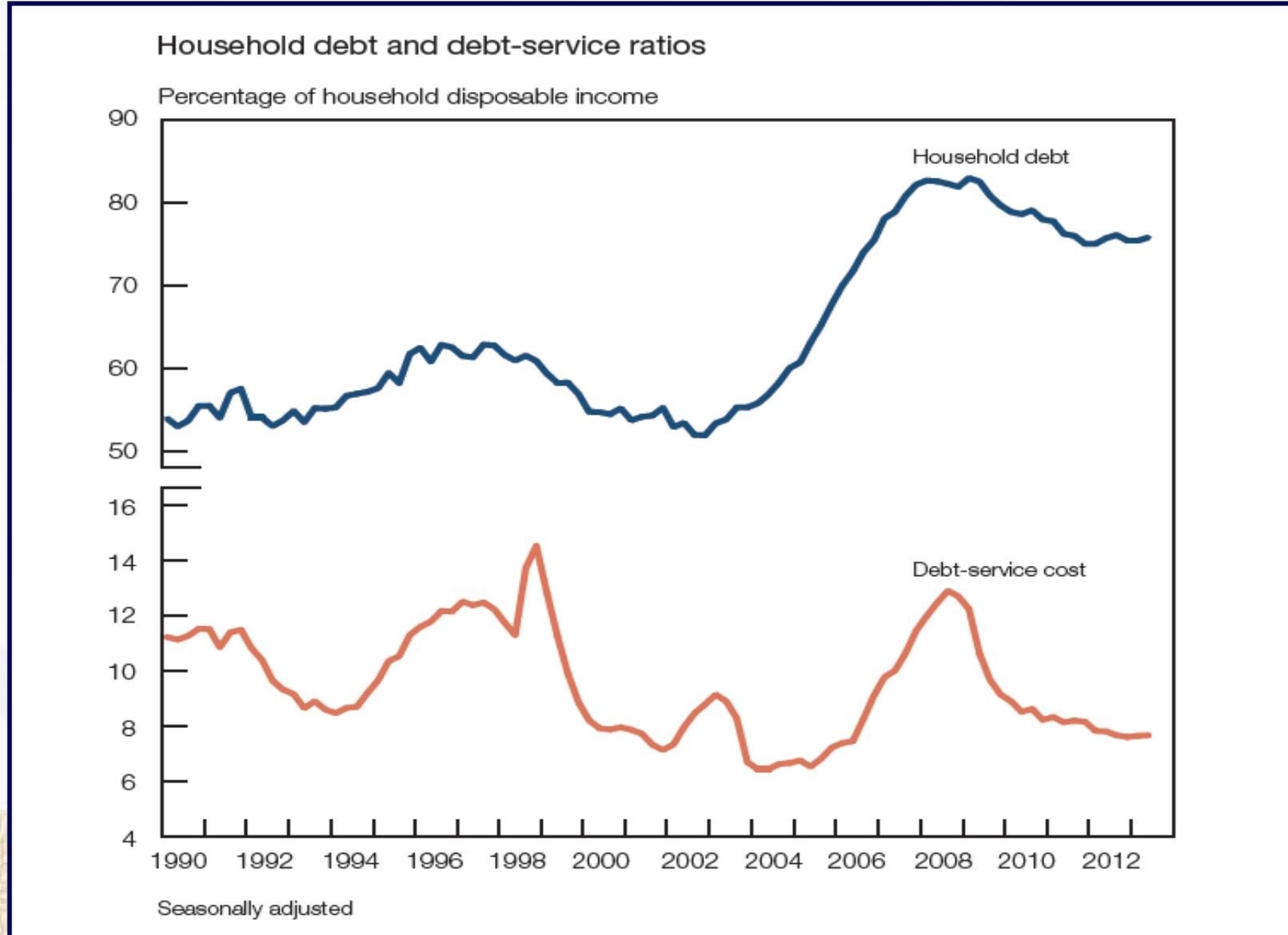
Information grew by 2,7%, but private sector investment is still weak.



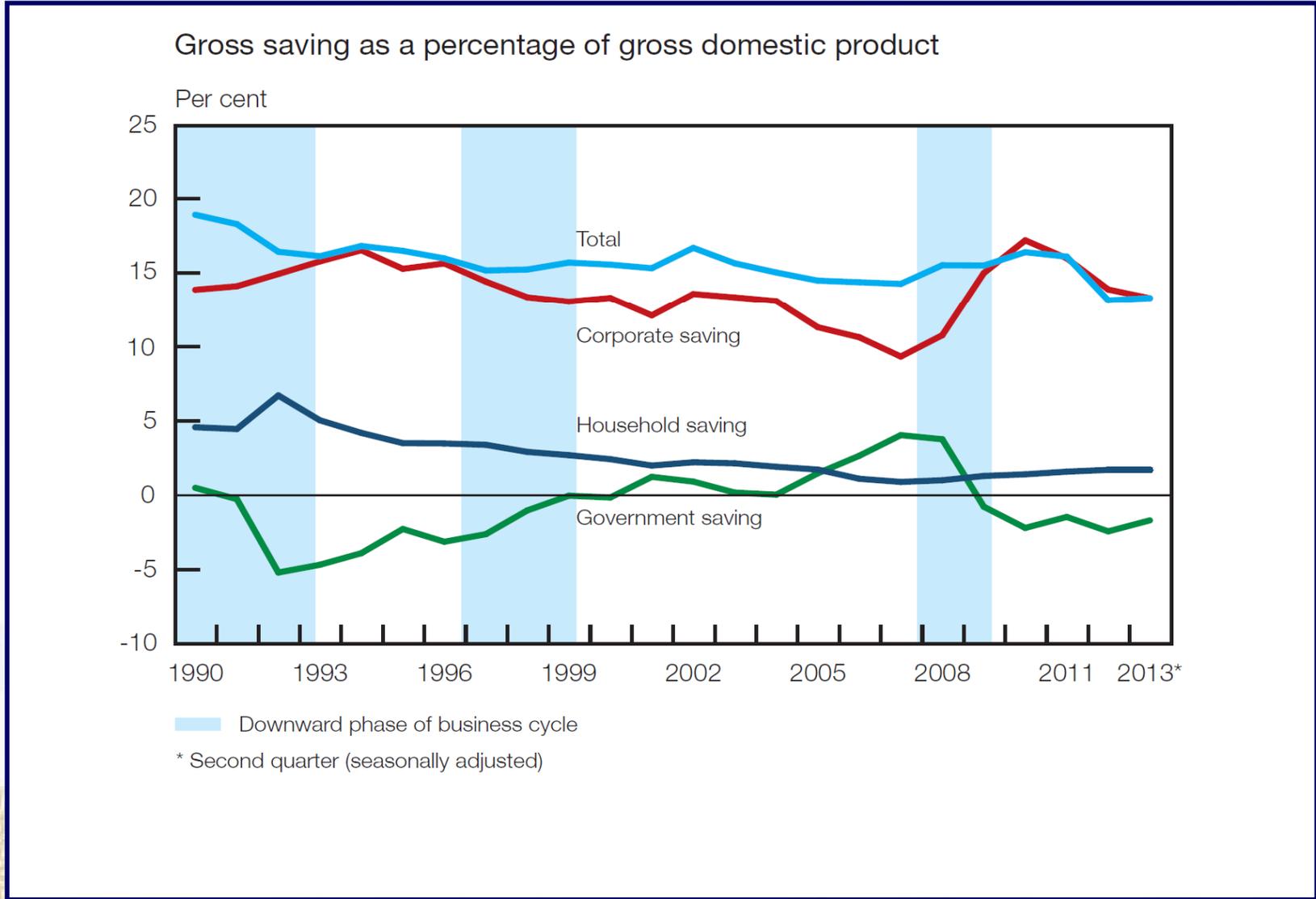
Consumption expenditure growth is slowing amid low consumer confidence



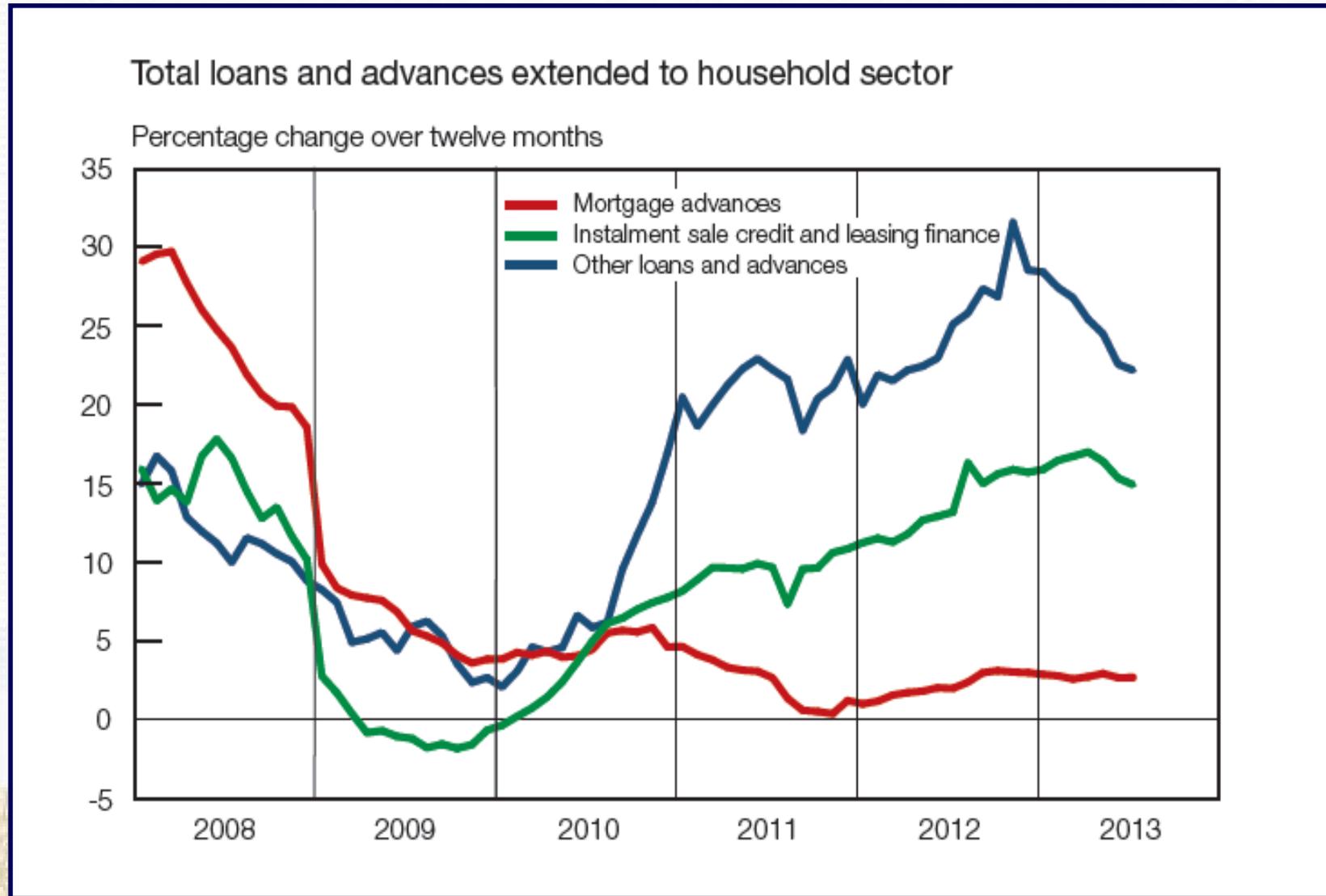
Household indebtedness remains relatively high



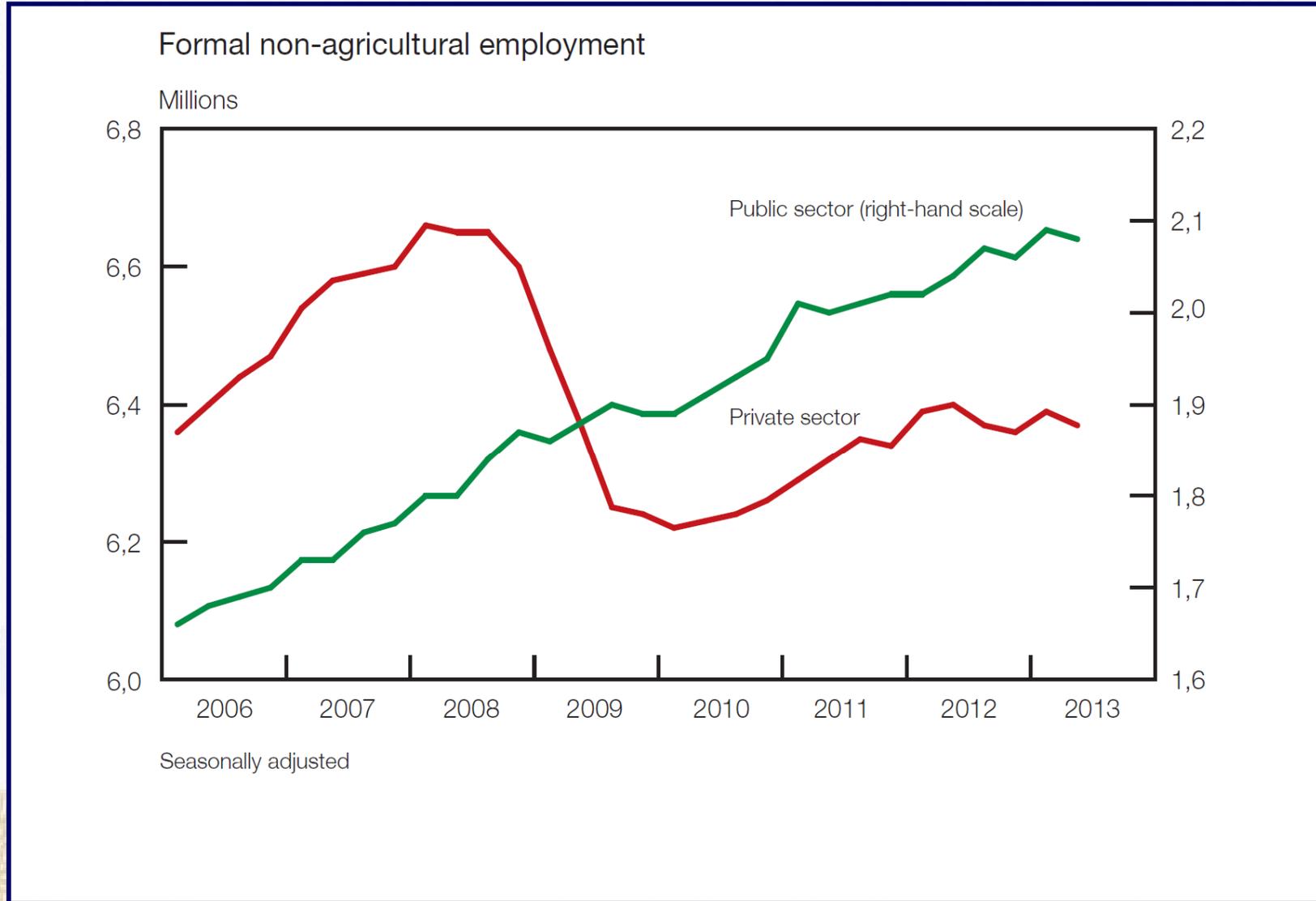
Household saving falling short of investment



Secured credit is losing momentum



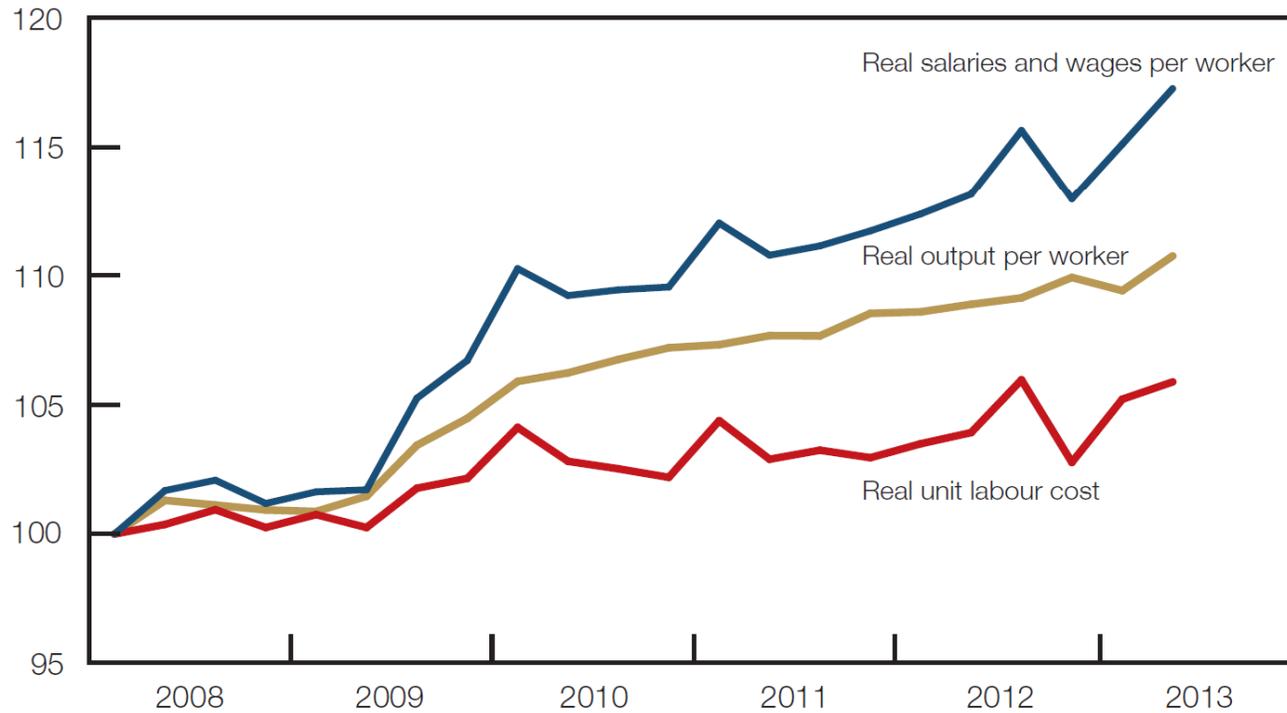
ent growth, but the private sector not yet back to 2008 levels



es, but its cost-raising impact partly offset by higher output per worker

Real remuneration, productivity and unit labour cost in the formal non-agricultural sector

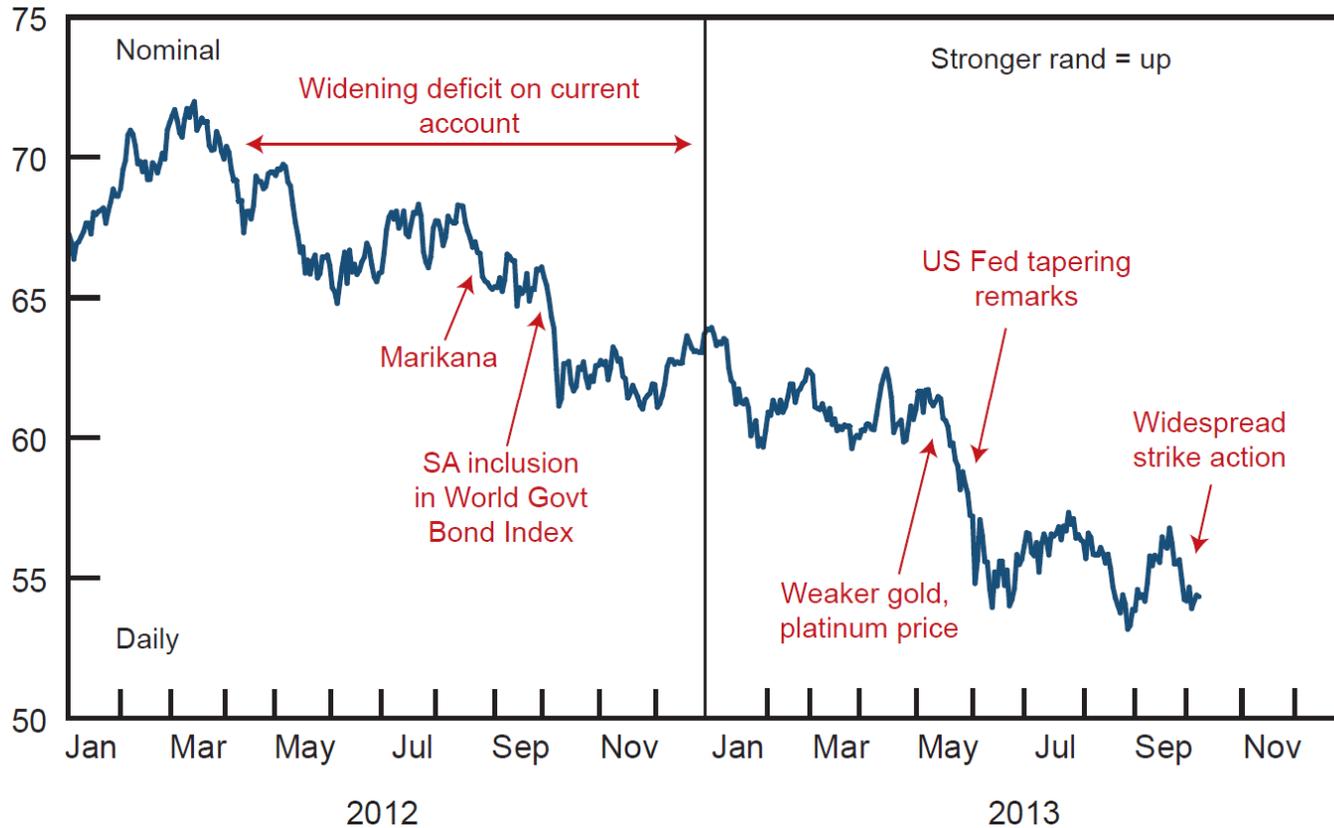
Indices: 2008/01 = 100



depreciated significantly against a basket of currencies

The effective exchange rate of the rand

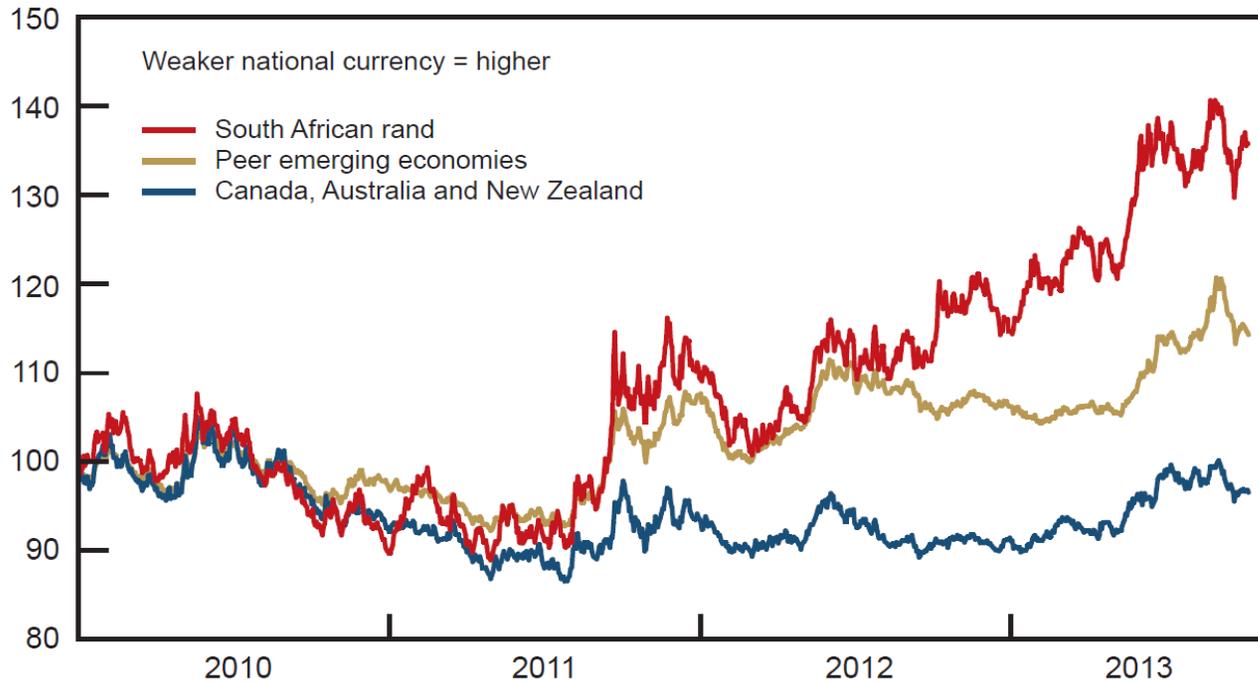
Index: 2000 = 100



Exchange rate delinked from other currency as domestic factors became dominant

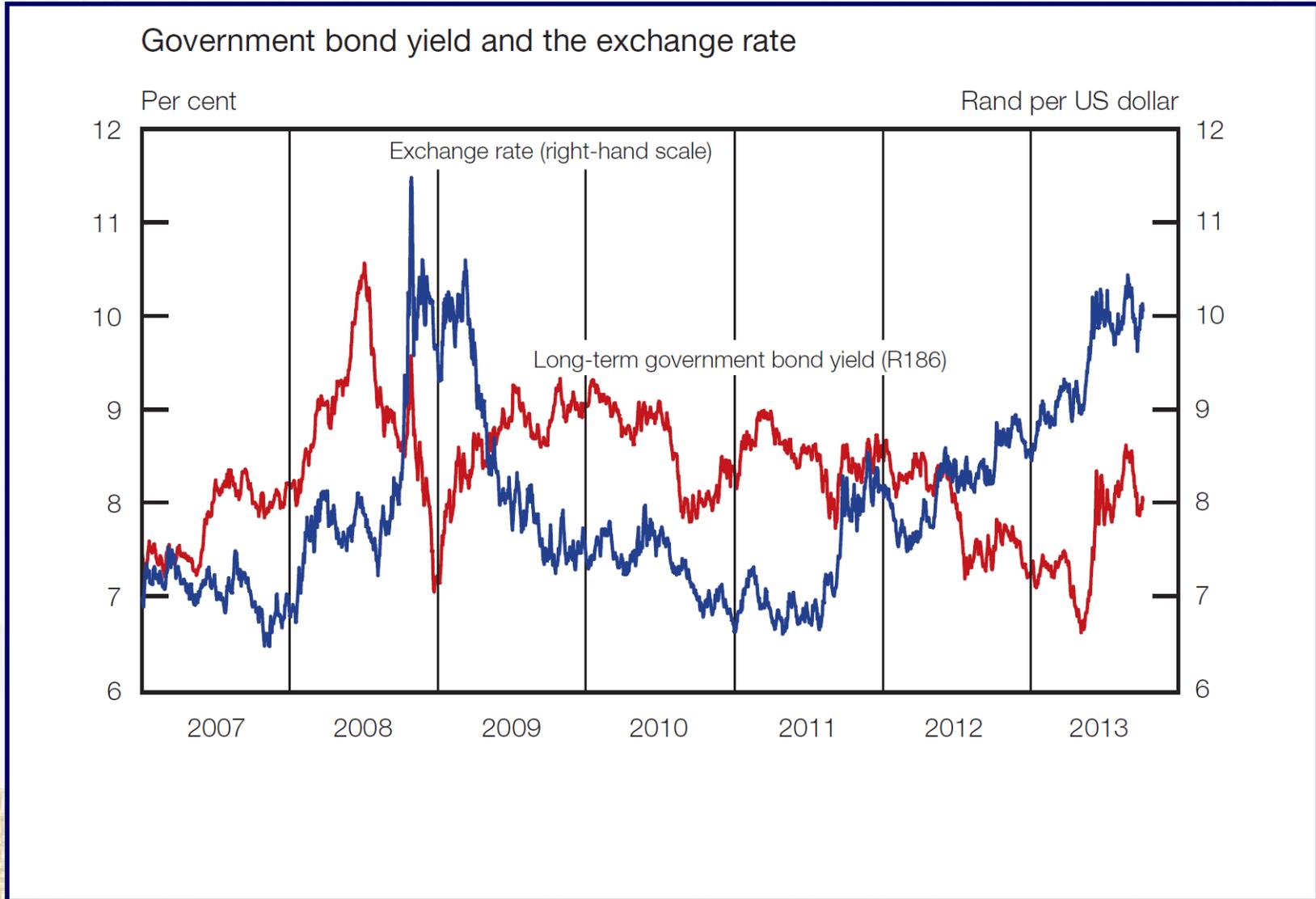
Exchange rate of the rand and various currency groupings against the US dollar

Indices: 1 January 2010 = 100



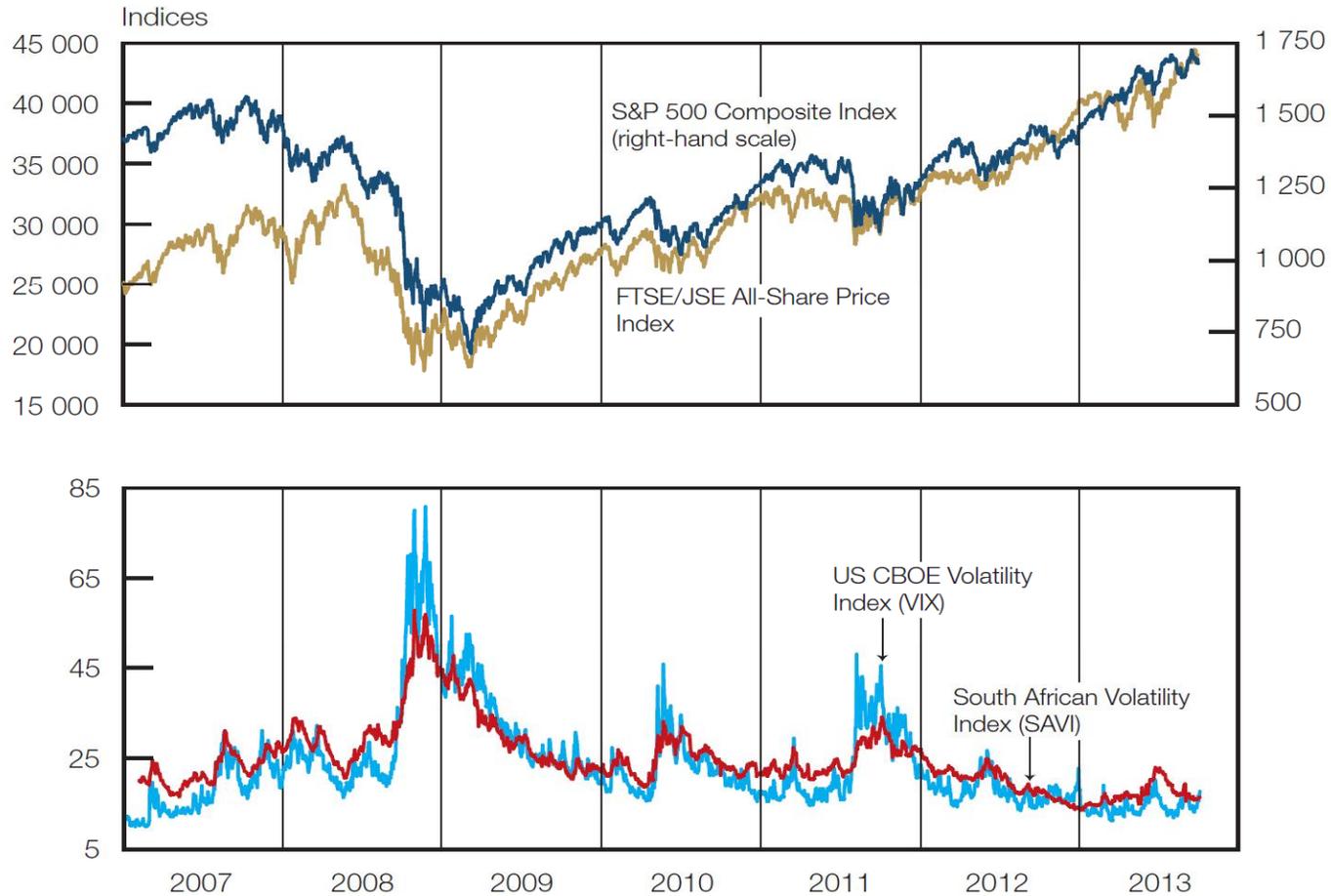
Source: Bloomberg

Markets and exchange rate depreciation have led in an increase in bond yields



Headwinds, share prices recorded gains in the first half of 2013 in rand terms

Share prices in local currency and volatility in equity markets

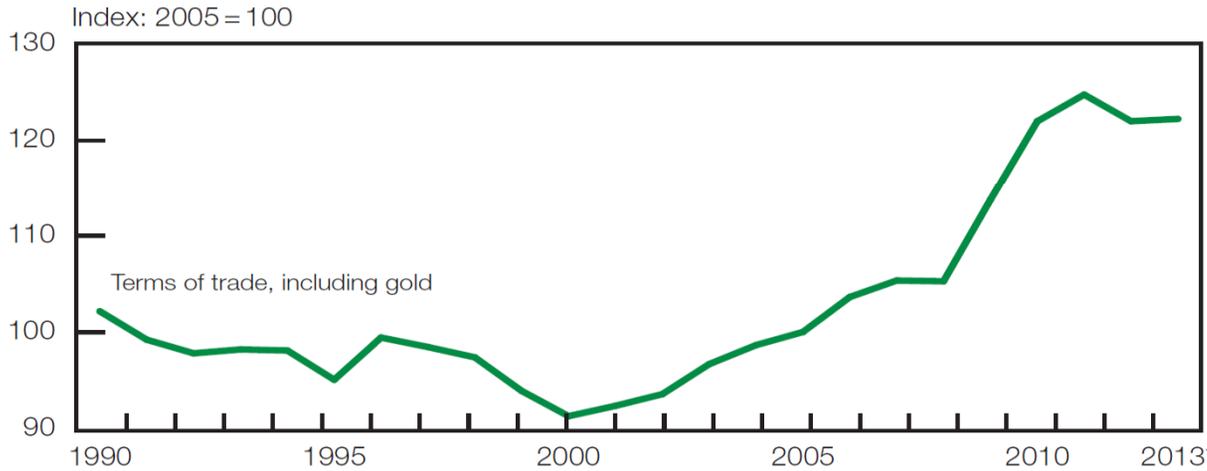
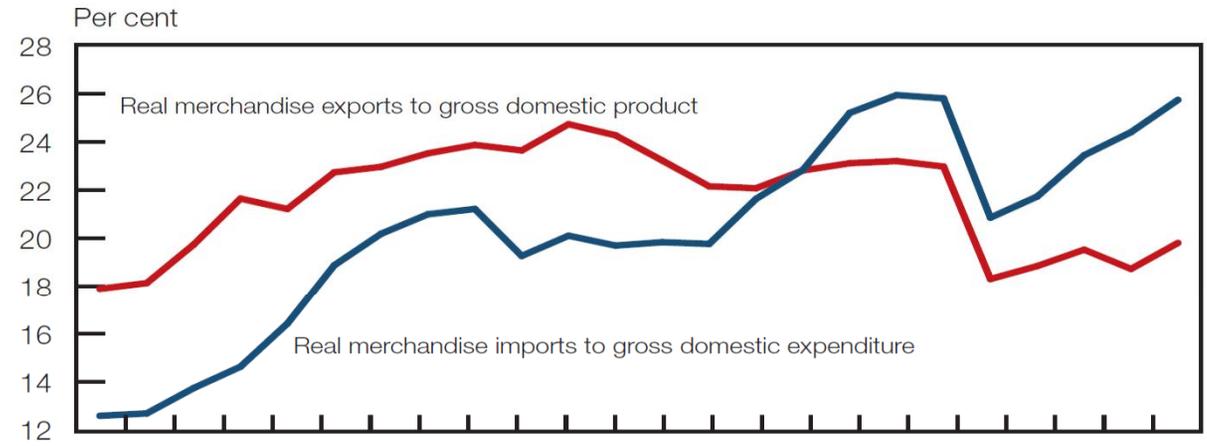


Deficit on the current account of the balance of payments

Balance on current account				
	2012q3	2012q4	2013q1	2013q2
R billions, annualised	-215	-213	-191	-216
<i>Percentage of GDP</i>	<i>-6,8</i>	<i>-6,5</i>	<i>-5,8</i>	<i>-6,5</i>
Seasonally adjusted				

Imports outperforming export volumes

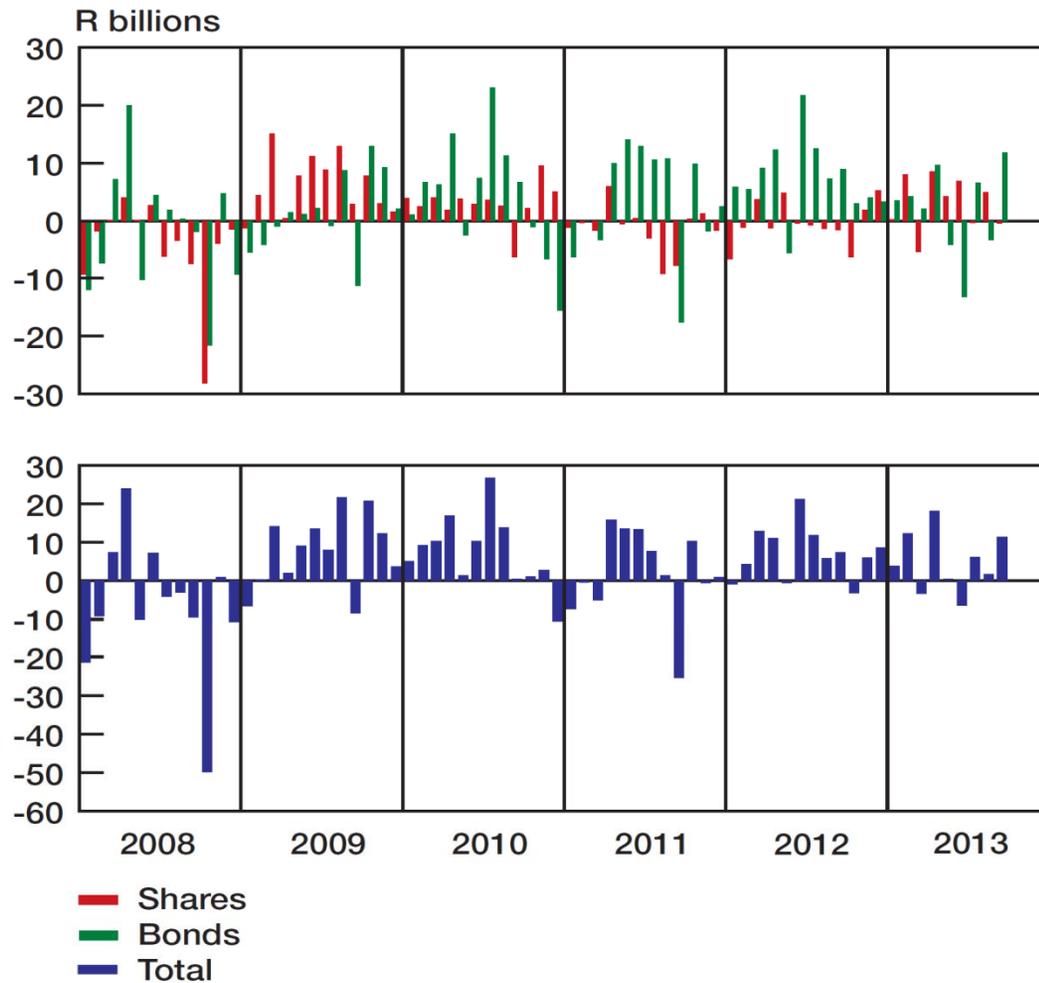
Merchandise volumes and terms of trade



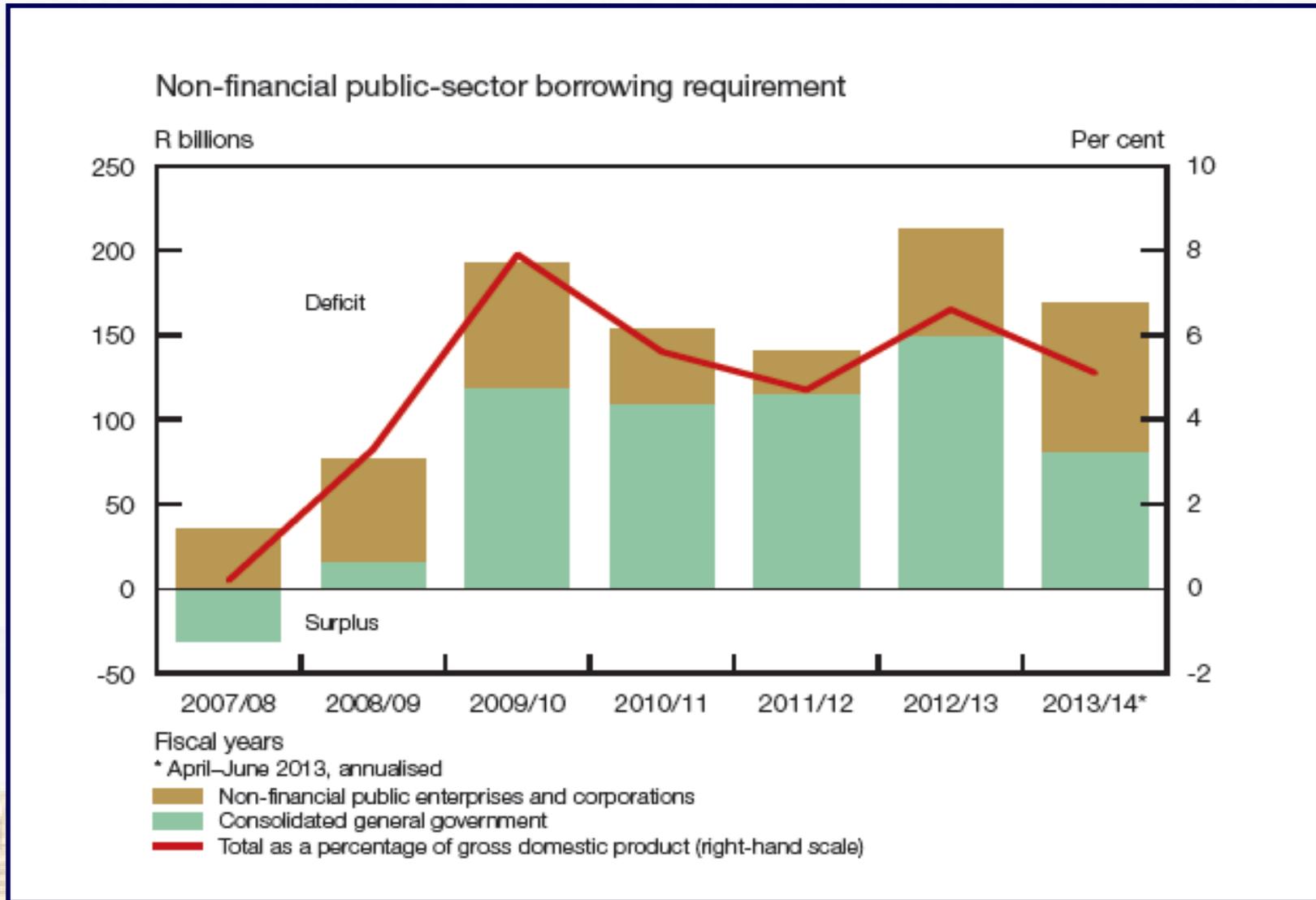
* First half

Monthly net purchases of bonds and equities

Monthly net purchases of shares and bonds by non-residents



... continues to run a financial deficit, gaining cyclical support to the economy





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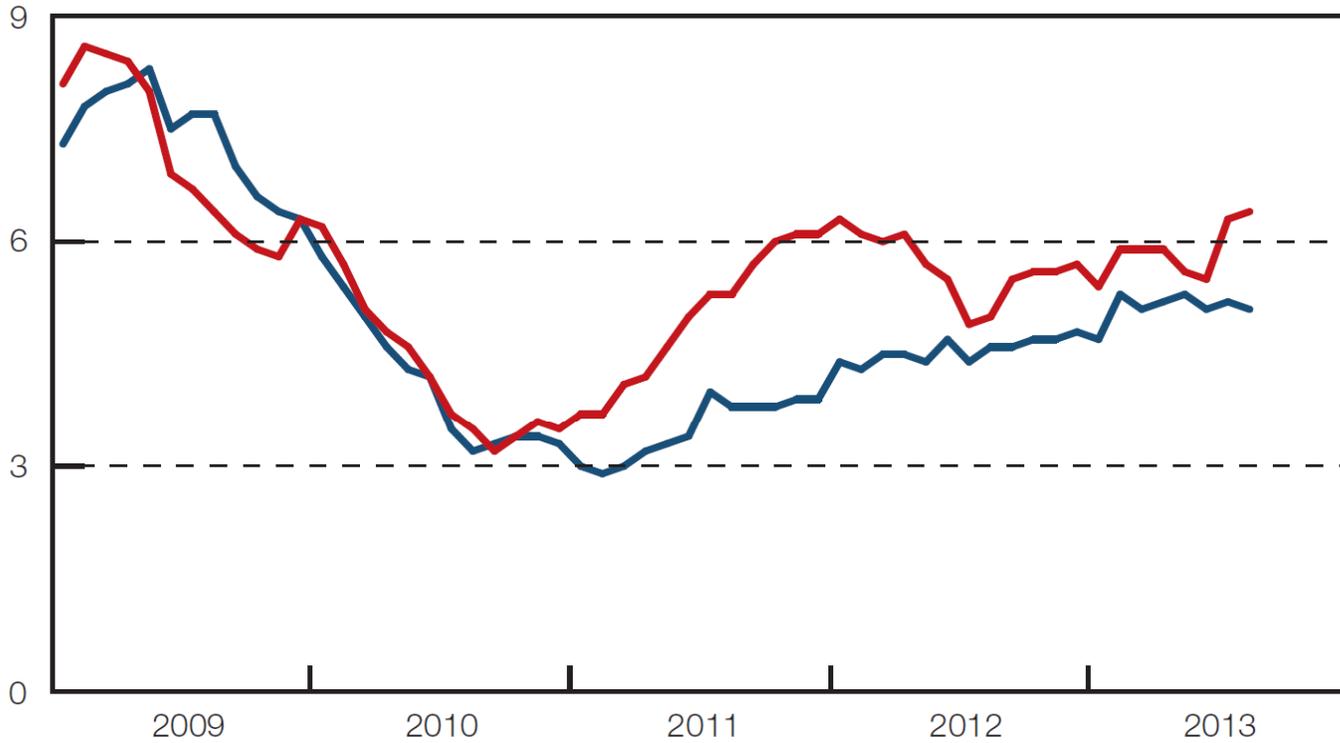
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Inflation and monetary policy

5% for 2 months after 14 months inside the target range: expected to return to target in Q4

Underlying measures of consumer price inflation

Percentage change over twelve months



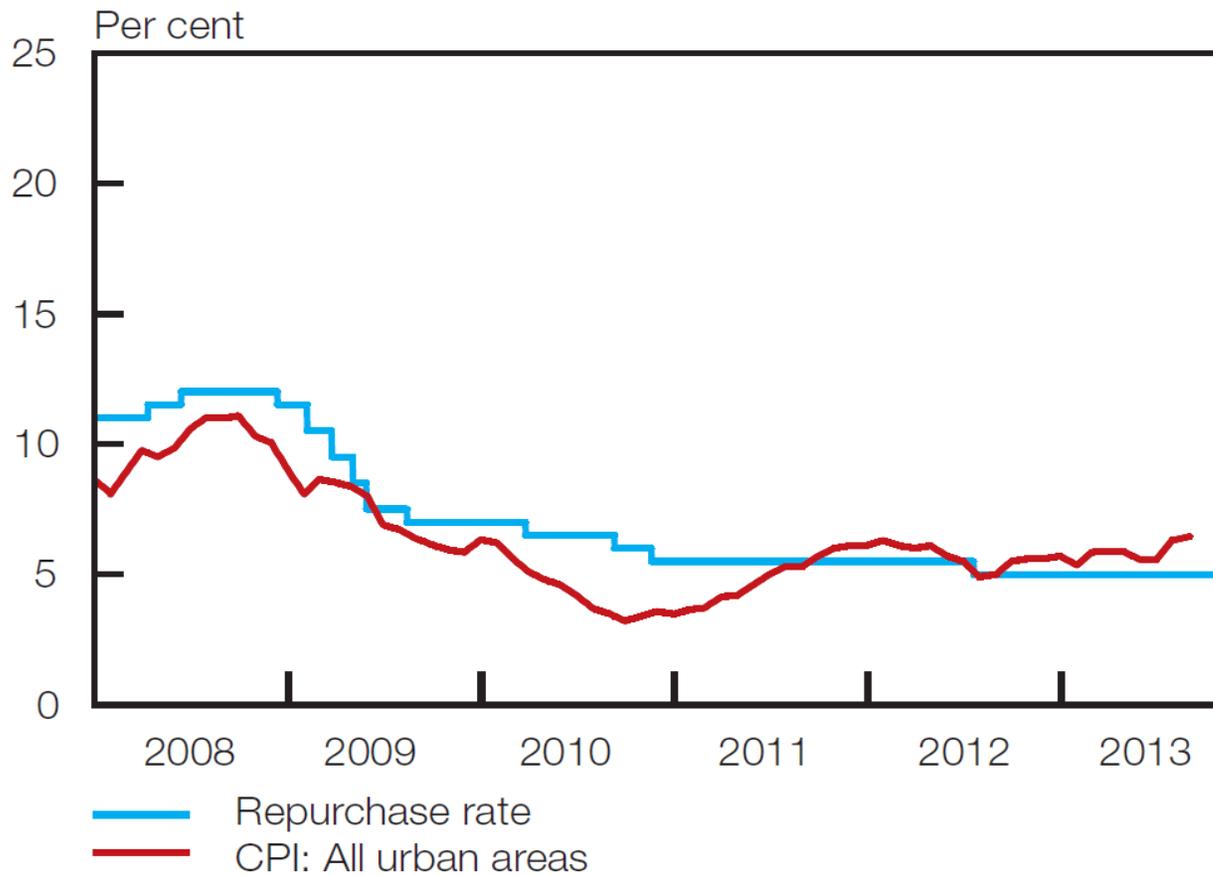
— Targeted measure of inflation
— Headline consumer price index excluding food*, petrol and electricity

* Food includes non-alcoholic beverages

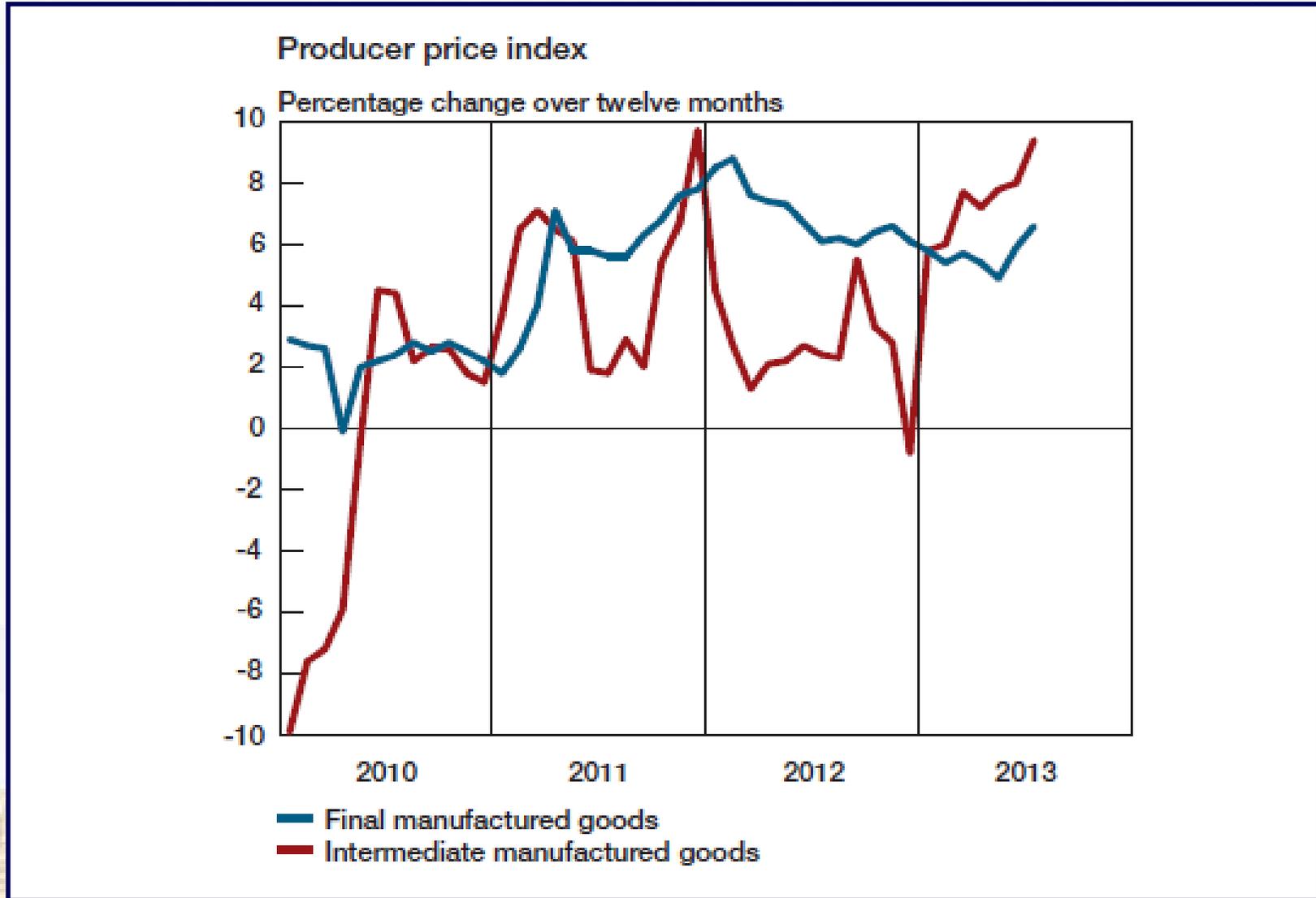
Policy rates relatively accommodative, negative real policy interest rate

Policy rates and inflation during crisis periods

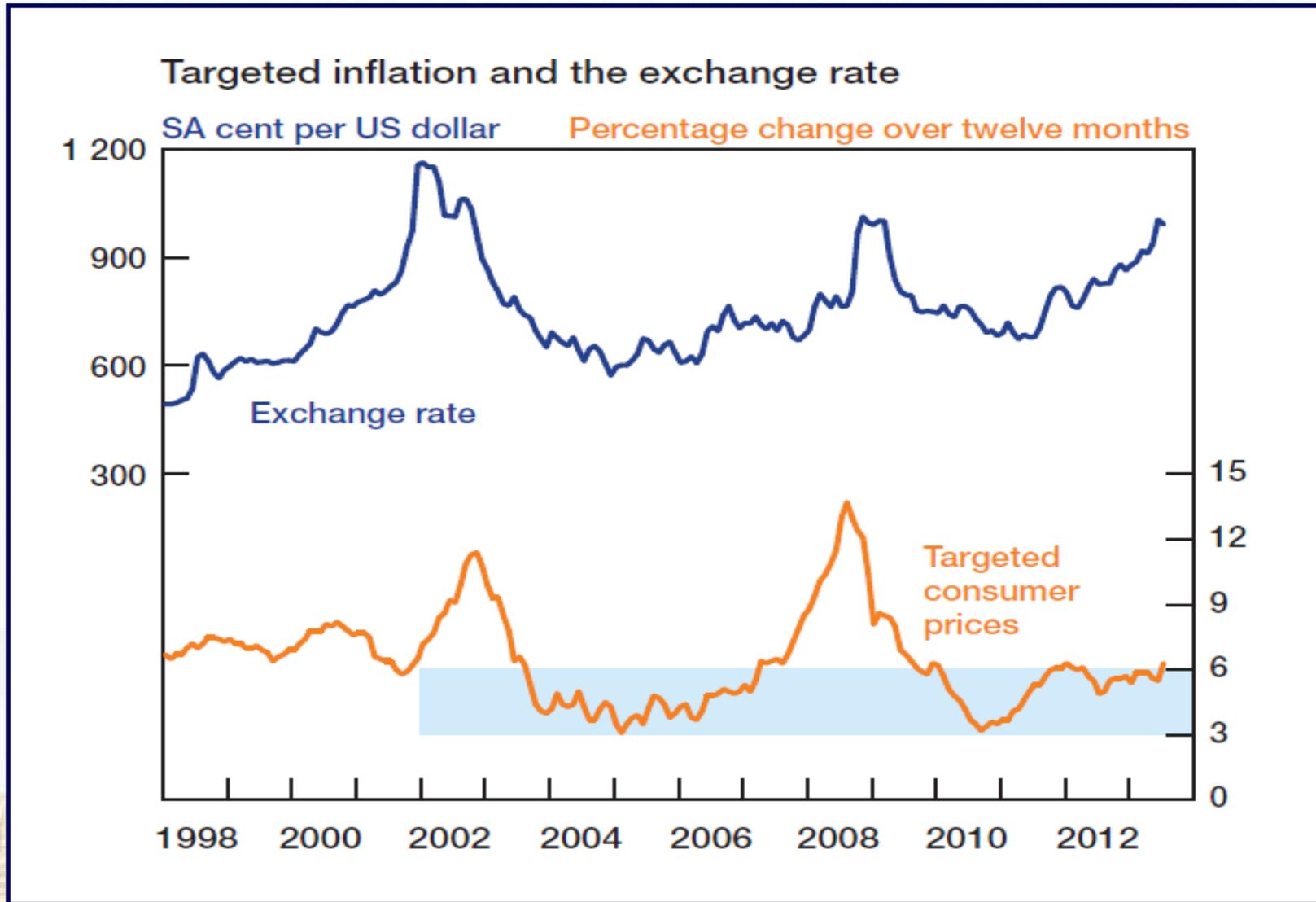
Global financial crisis



are signs of some inflation in the pipeline



through of the weaker exchange rate to so far been relatively limited buy remains a risk to the inflation outlook



Inflation pressures

Upside pressures and risks to inflation

- The exchange rate
 - Labour costs
 - Food prices
 - Administered prices, including food prices
-
- Downside pressures and risks to inflation
-
- Fragile growth outlook
 - Moderating consumer demand

Summary

- A difficult international and domestic economic environment.
- Persistent current account deficit requires stable financing.
- Urgent need to increase exports.
- Sluggish growth in South Africa, and limited job creation. SARB forecast is for growth of 2,0 % in 2013, and 3,3% and 3,6% in 2014 and 2015.
- Inflation is expected to return to within the target range but remain at the upper end of the target range for the forecast period.

Summary

- Further downside potential for interest rate is limited, given the upside risks to the inflation outlook.
- Dilemma facing monetary policy: a fragile growth environment and upside risks to the inflation outlook.



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