

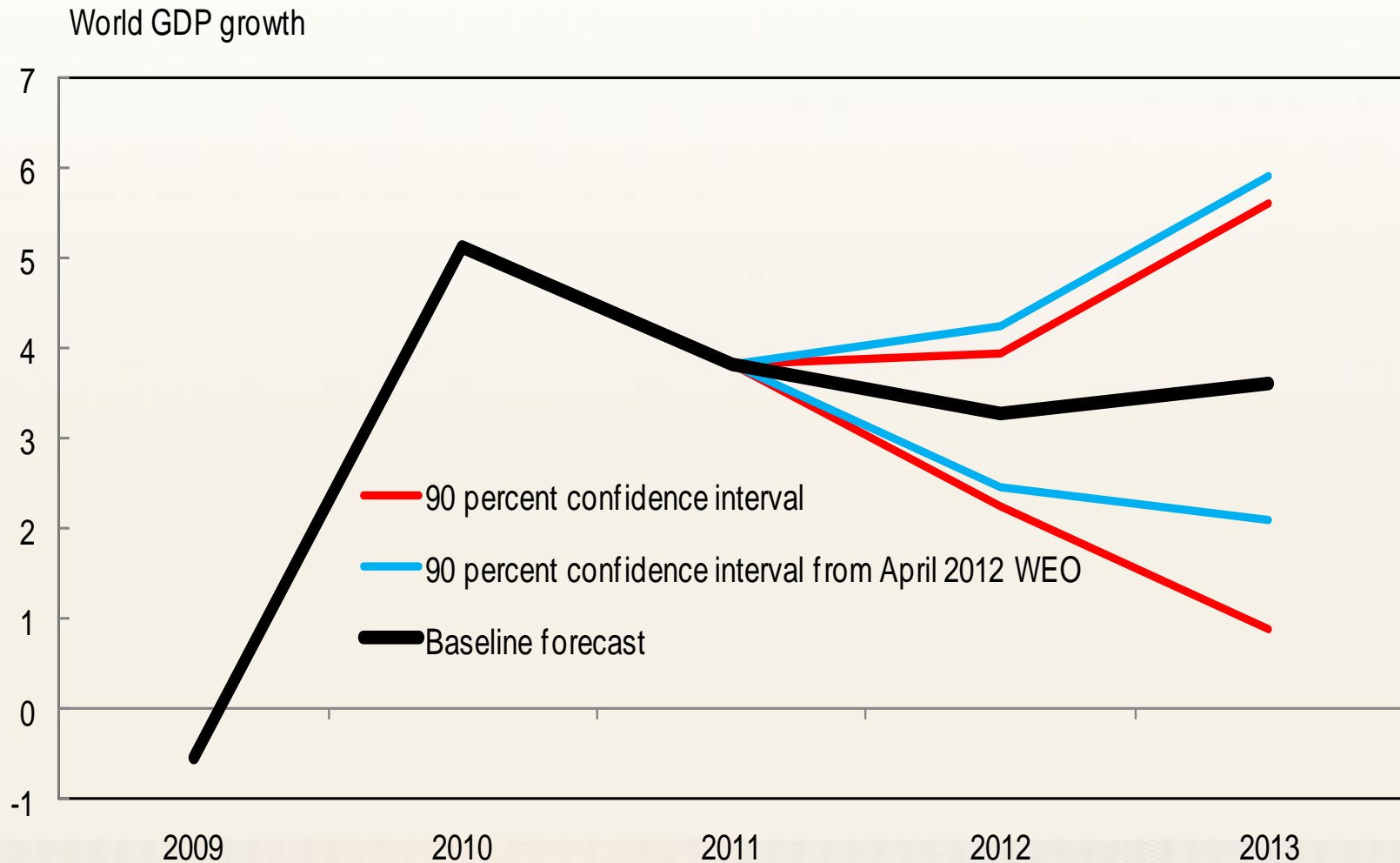
Global Economic Review and Outlook: Implications for South Africa

**4th Congress of the Public Sector Economists'
Forum, 28-30 November 2012, Golden Gate
Hotel**

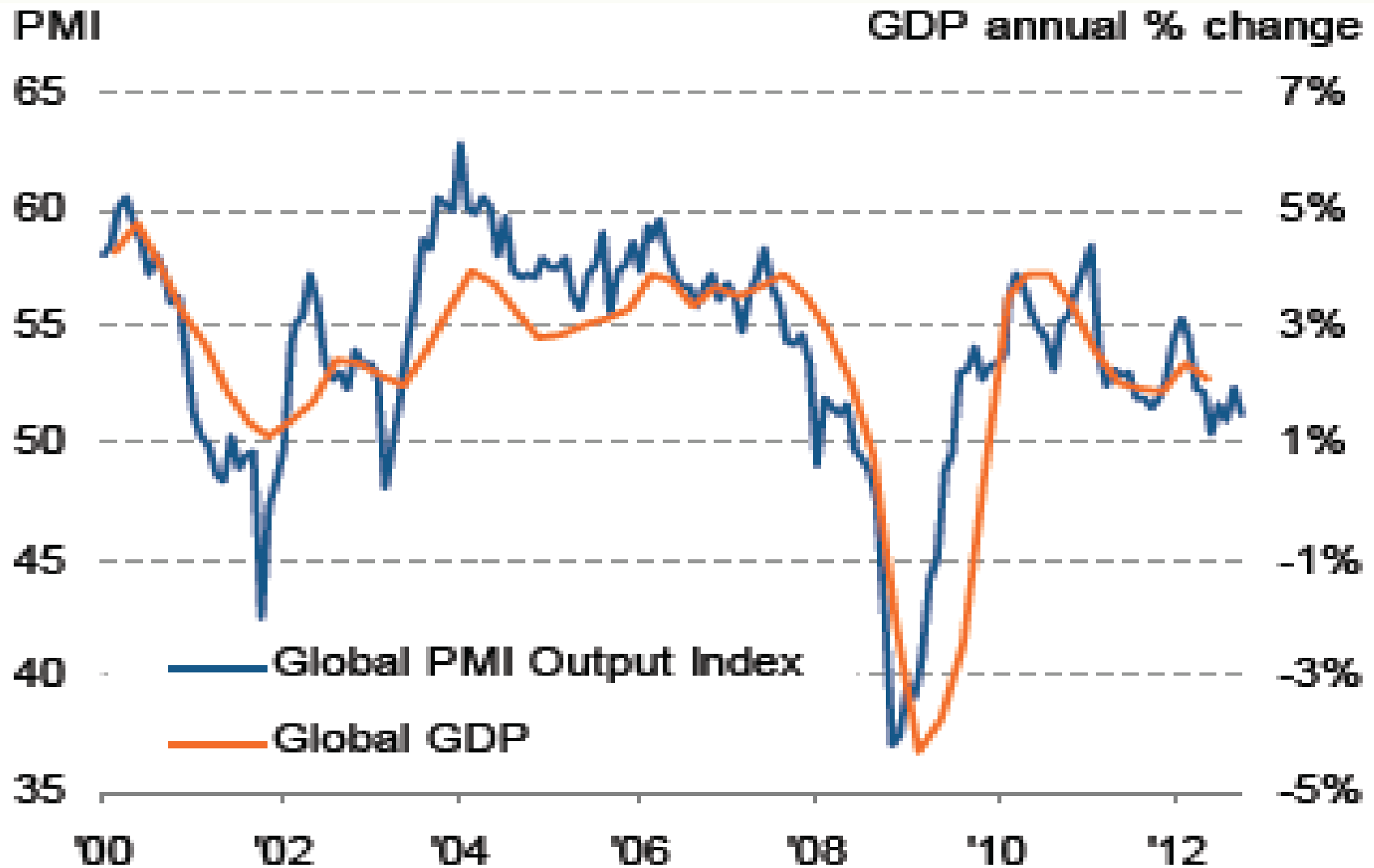
Key messages

- The global economic crisis has not eased.
- Global growth momentum has moderated: uncertainty and vulnerabilities, particularly with respect to public finances continues to exert further downside risks to global growth prospects.
- The negative effects of fiscal consolidation and austerity is further compounded by the deleveraging process and regulatory reforms globally
- Negative spillover effects through financial market volatility and the trade channel are expected to remain at heightened levels.
- Nonetheless, persistent negative output gaps have helped in softening inflationary advanced economies, although occasional spikes in international food commodity prices, oil prices and and volatility in exchange rates for most emerging market economies pose further challenges and complicate policy formulation.
- Most central banks (both in advanced and emerging market economies have eased monetary policy using a combination of conventional and unconventional monetary policy tools.

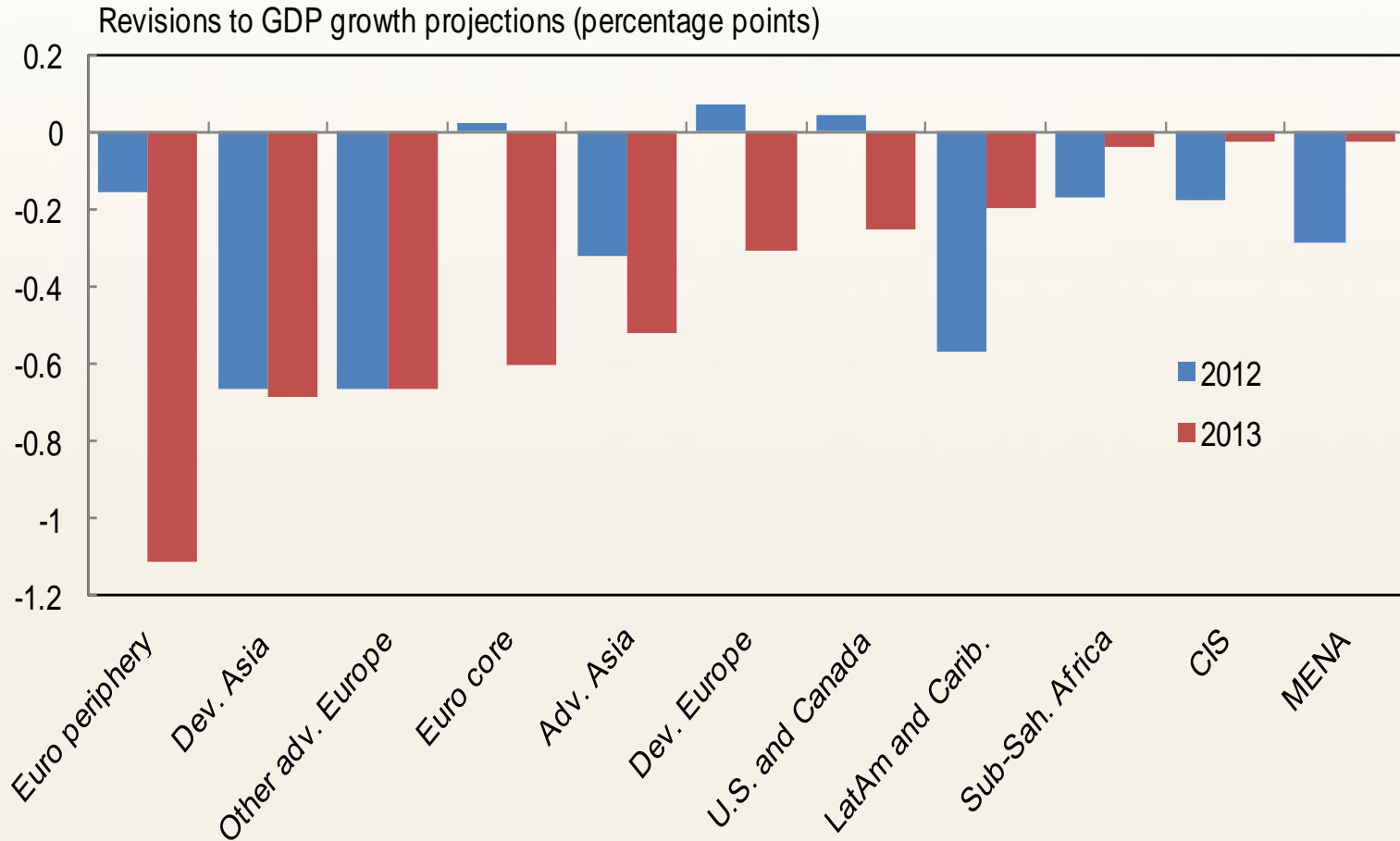
Risks to global outlook remain tilted to the downside



Risks to global outlook remain tilted to the downside



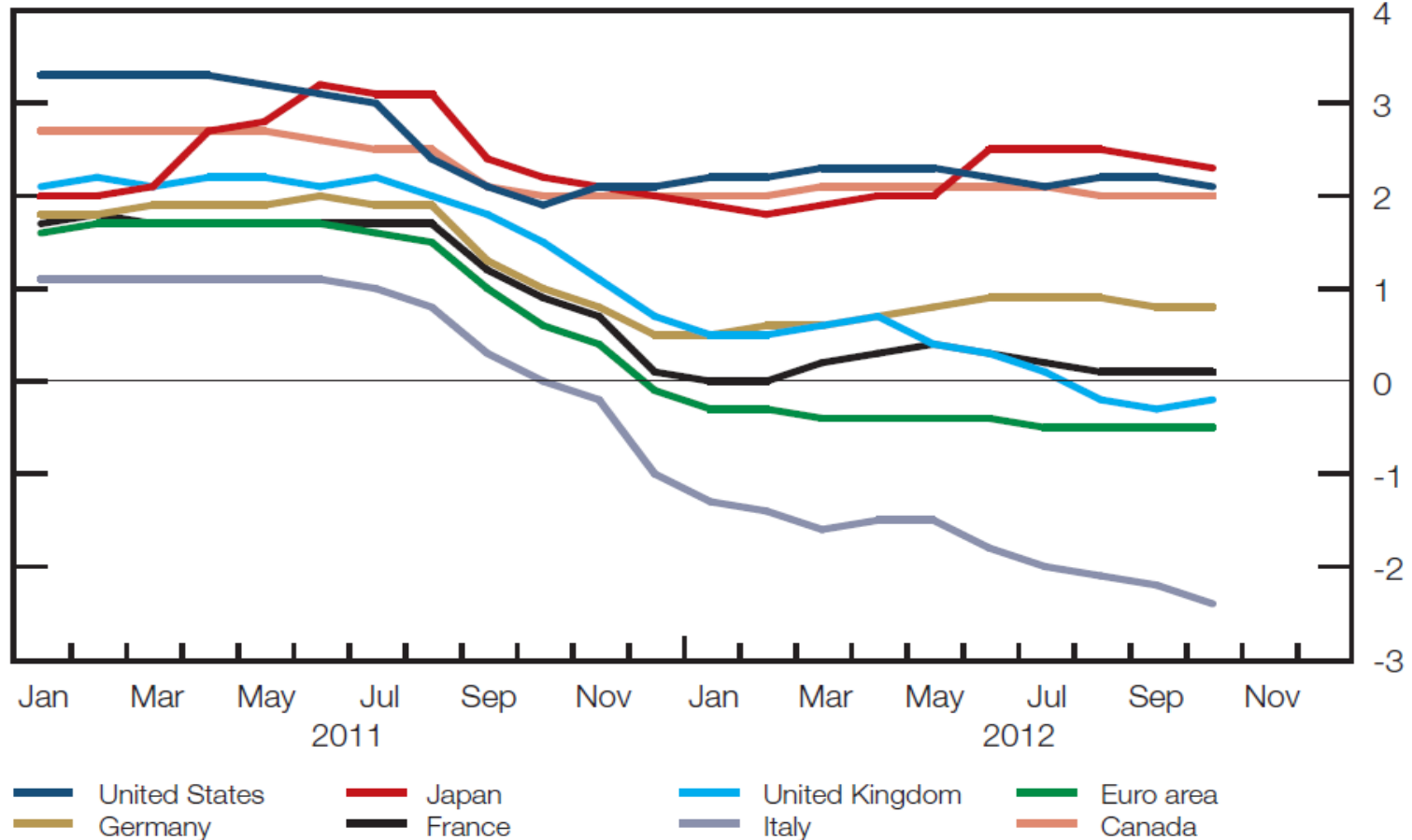
Risks to global outlook remain tilted to the downside



Forecasted growth remains weak, especially in Europe

Evolution of real GDP forecasts for 2012 for the G-7 and euro area

Annual percentage change



Source: Consensus Forecasts

Growth prospects are affected by the fiscal cliff in US and recession in Europe

US Congressional Budget Office projections

	2012	2013	
	Current	Baseline	Alternative
Budget projections (US\$ billions)			
Revenue	2 435	2 913	2 583
Expenditure	3 563	3 554	3 621
Deficit/Surplus (-/+)	-1 128	-641	-1 037
Outstanding debt	11 318	12 064	12 460
Ratio's (percentage of GDP)			
Deficit/Surplus	-7,3	-4,0	-6,5
Outstanding debt	72,8	76,1	78,6
Economic projections (per cent)			
	2012	2013	
Real GDP	2,1	-0,5	1,7
Unemployment rate	8,2	9,1	8,0

Source: Congress of the United States, Congressional Budget Office (CBO), "An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022", August 2012, accessed 1 October 2012, <http://www.cbo.gov/publication/43539>

Real GDP growth in peripheral euro area countries*

Per cent

	Share of							
	global GDP**	2007	2008	2009	2010	2011	2012	2013
Euro area	14,2	3,0	0,4	-4,4	2,0	1,4	-0,4	0,2
Italy	2,3	1,7	-1,2	-5,5	1,8	0,4	-2,3	-0,7
Spain	1,8	3,5	0,9	-3,7	-0,3	0,4	-1,5	-1,3
Greece	0,4	3,0	-0,2	-3,3	-3,5	-6,9	-6,0	-4,0
Portugal	0,3	2,4	0,0	-2,9	1,4	-1,7	-3,0	-1,0
Ireland	0,2	5,4	-2,1	-5,5	-0,8	1,4	0,4	1,4

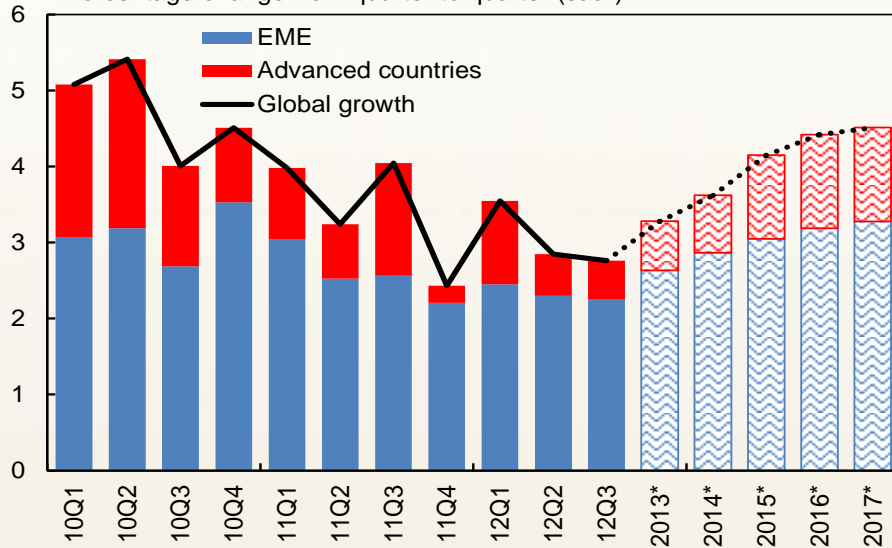
* Forecasts for 2012 and 2013

** GDP shares based on the IMF's purchasing power parity valuation of country's GDP for 2011

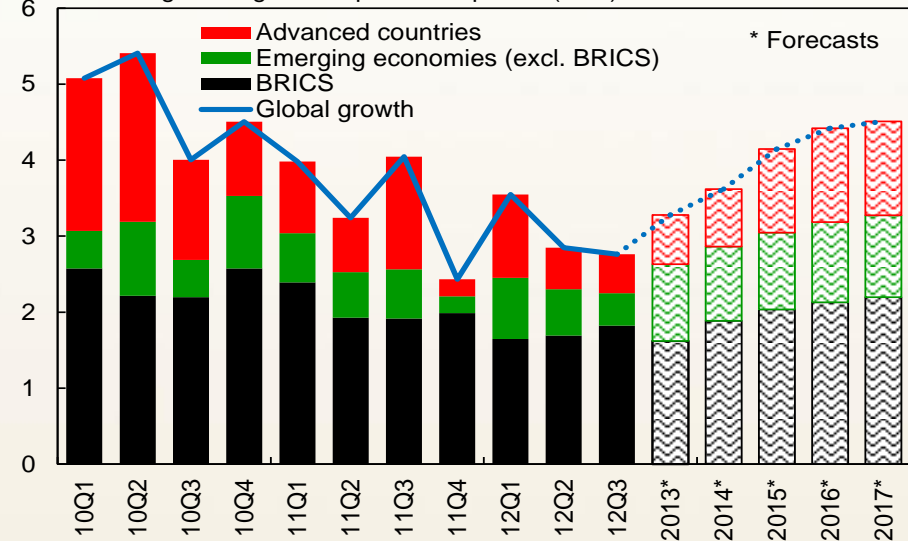
Source: IMF *World Economic Outlook*, October 2012

Slowing growth in EMEs pose a threat to global growth outlook

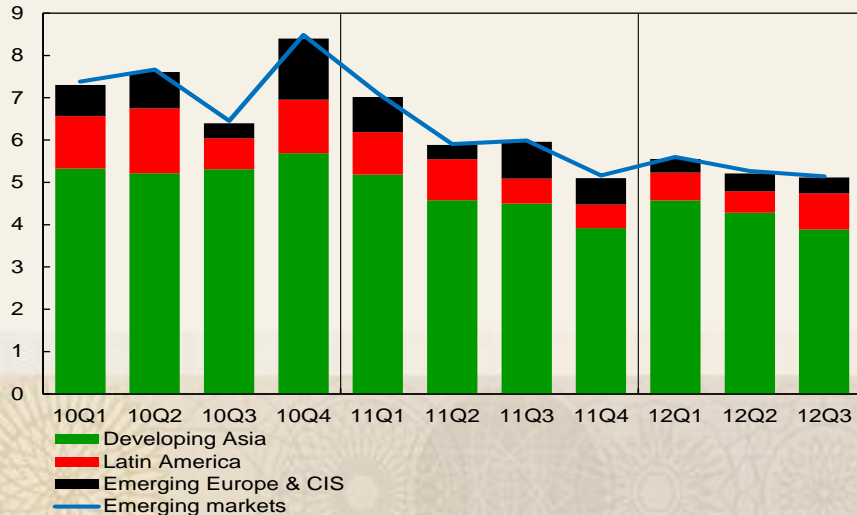
Percentage change from quarter to quarter (saar)



Percentage change from quarter to quarter (saar)



Percentage change from quarter to quarter (saar)

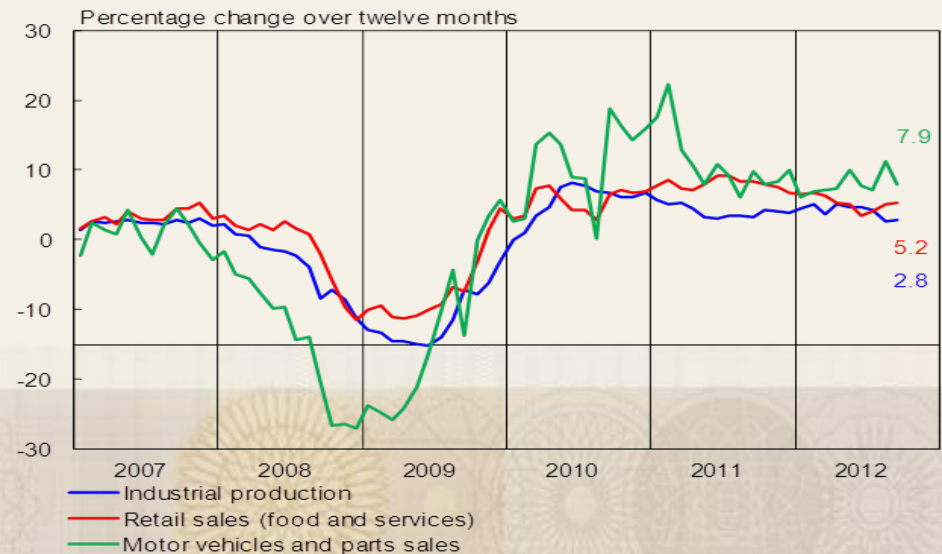
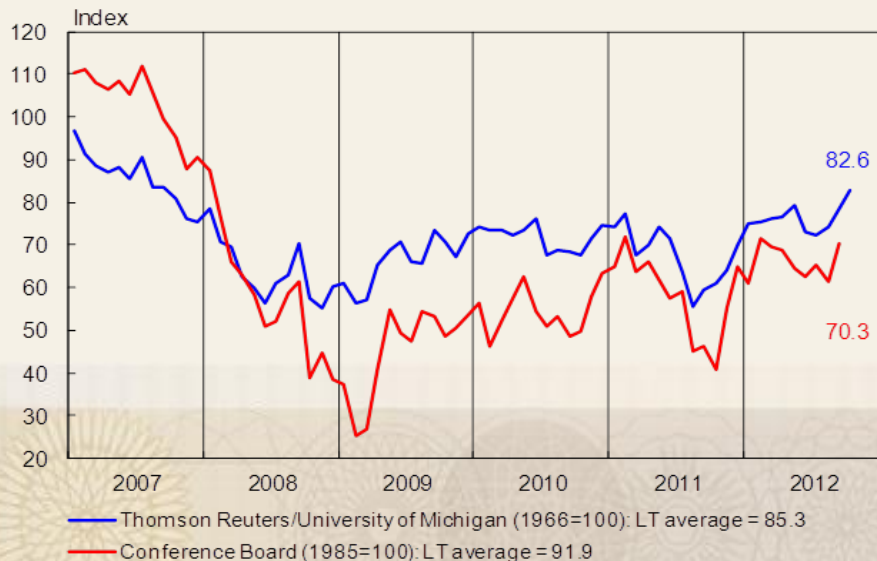
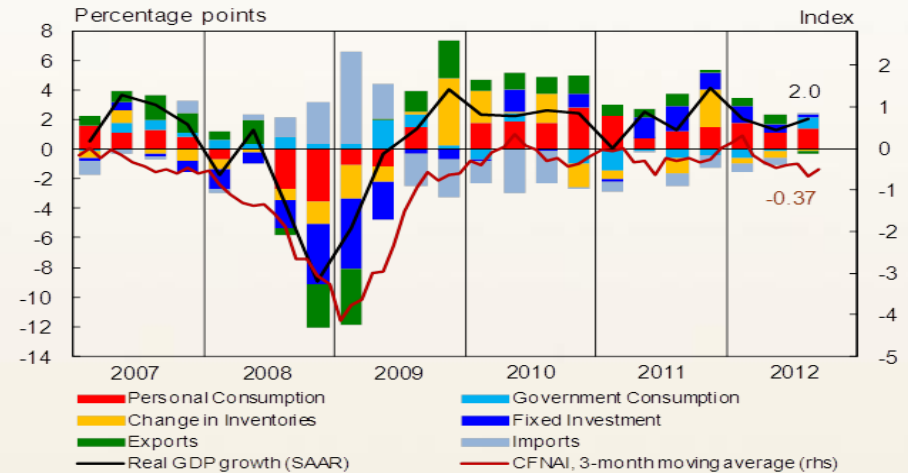


- Global growth has been underpinned by developments in EMEs.
- Recent slowdown in EMEs has taken its toll on world growth.
- The BRICs have been an important driver of world growth.
- Current projections are that growth will be subdued in 2013 with a moderate pickup in 2014.

US

US growth outlook remains subdued

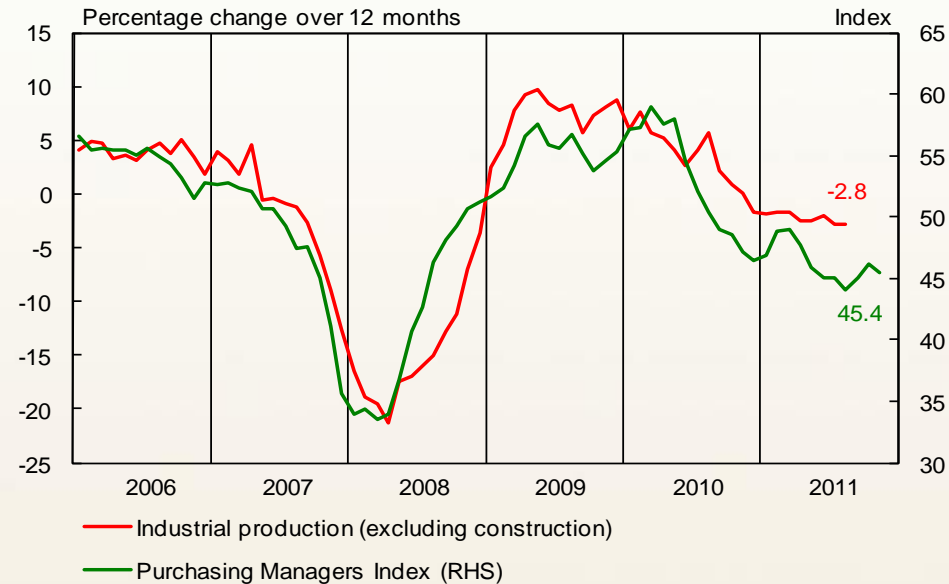
- US economy grew by 2 per cent in Q3
- Leading indicators suggest a subdued growth performance well into 2013.
- US fiscal cliff and removal of debt ceiling remain the key binding constraints to US growth prospects.



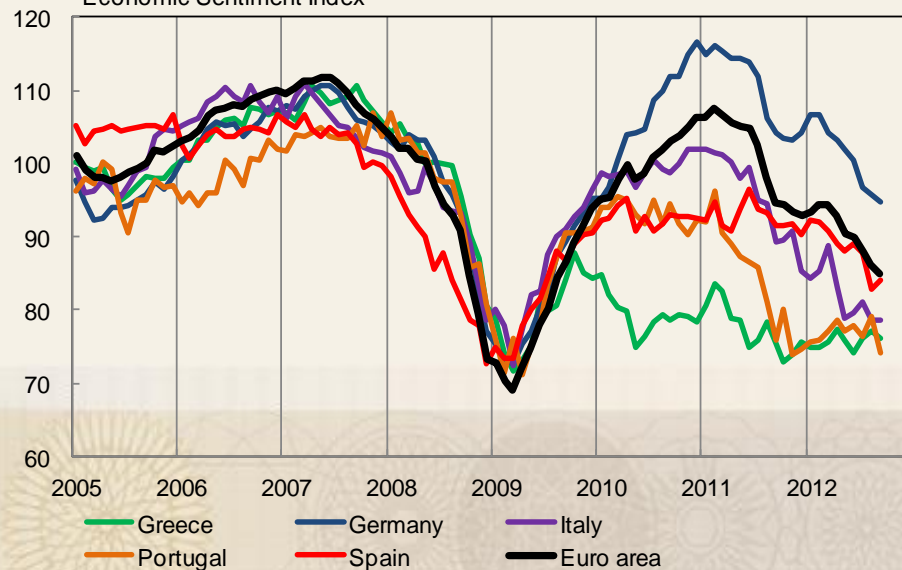
Euro Area

Key indicators for the Euro area

- **Growth outlook remains tepid with PMI below the neutral 50 mark for the past 15 months.**
- **Consumer confidence remains depressed.**
- **Labour market conditions continue to deteriorate.**
- **Economic sentiment indicator has also declined in most of the EA countries.**



Economic Sentiment Index



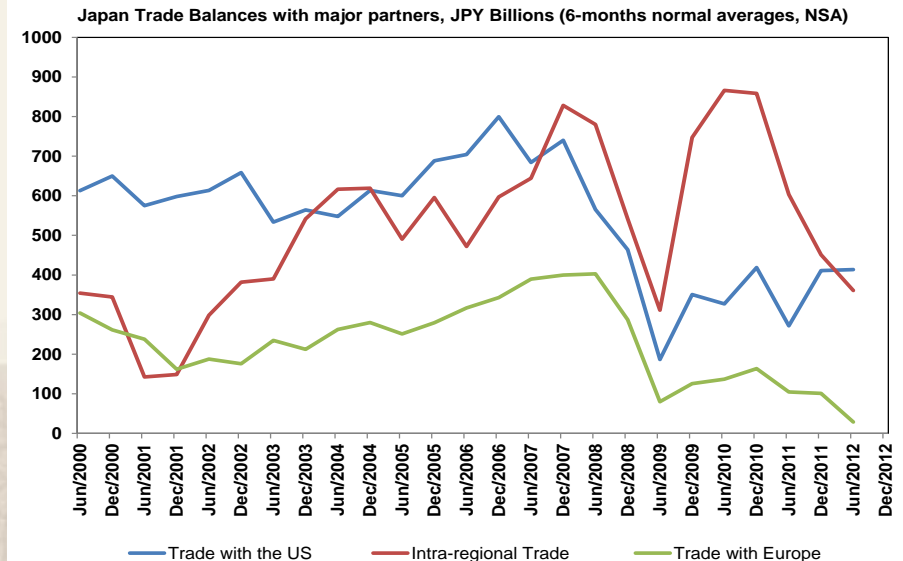
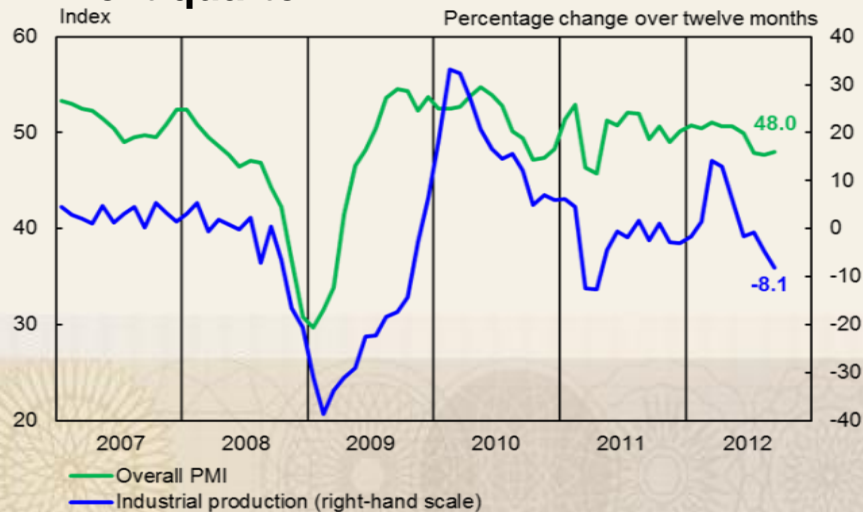
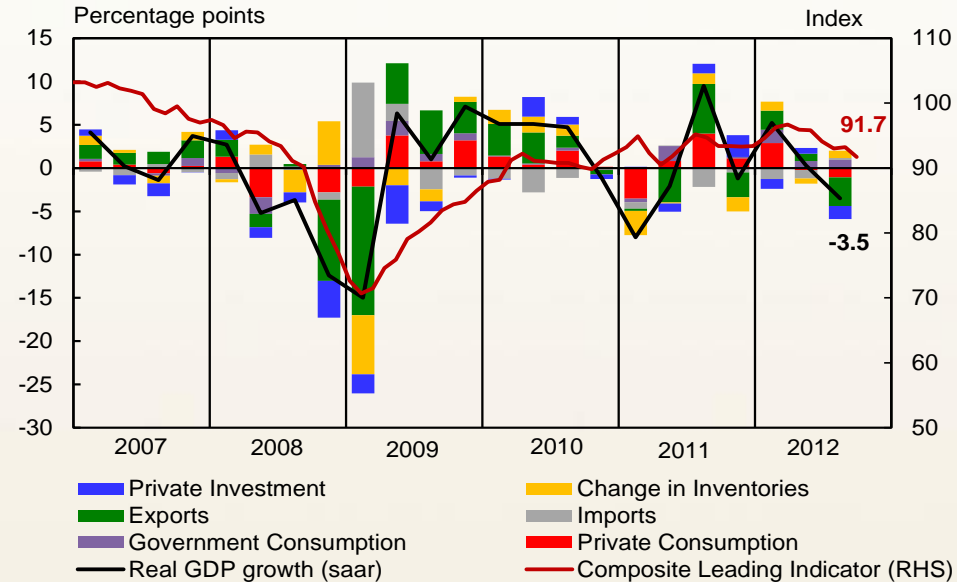
Per cent



Japan

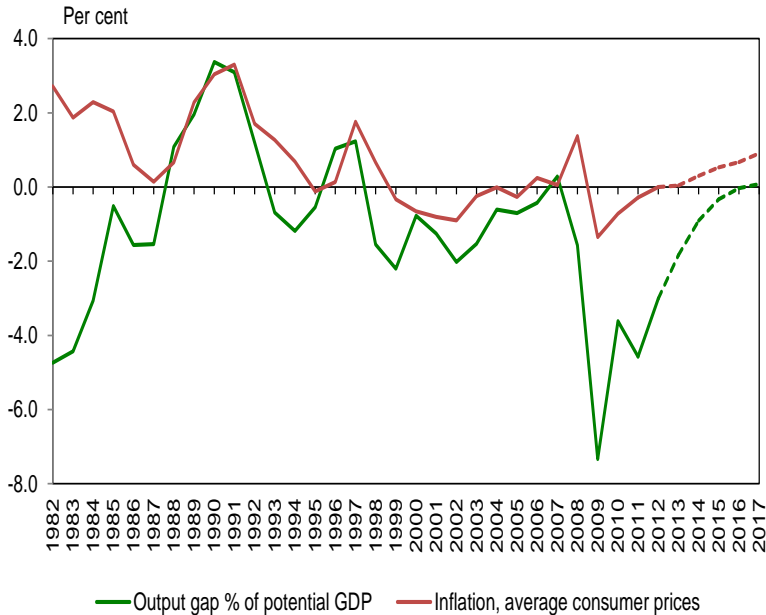
Japan growth prospects

- Japanese economy contracted in Q3 with a sharp decline in PCE and investment.
- In addition, slowdown of external sector poses a major challenge to growth prospects.
- Leading indicators point to a continued slowdown in the forecast horizon.
- There is a strong possibility that the economy could enter a recession in the next quarter.



BOJ: Measures aimed at overcoming deflation and stimulating growth

- **BOJ has introduced new measures to stimulate PCE and hence address the problems of deflation and low growth.**
- **Negative output gap expected to persist for next four years and deflation is likely to continue for much longer than projected by the BOJ.**



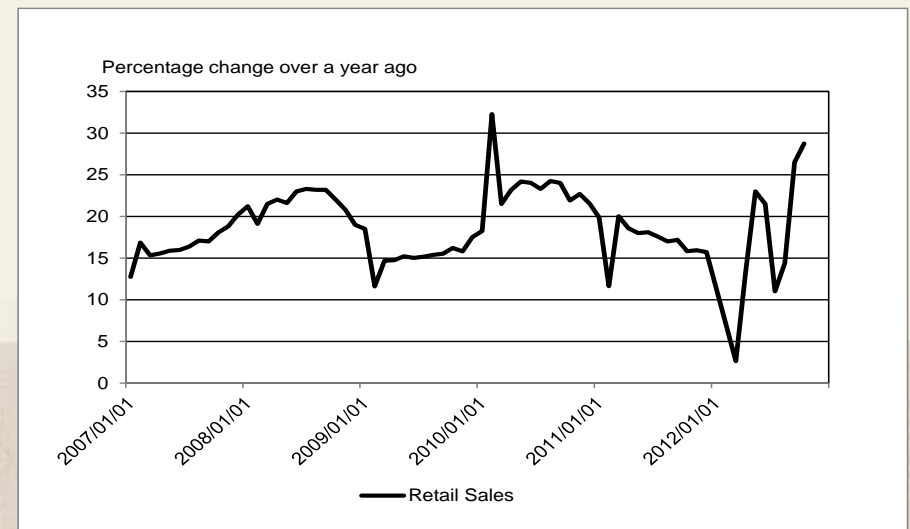
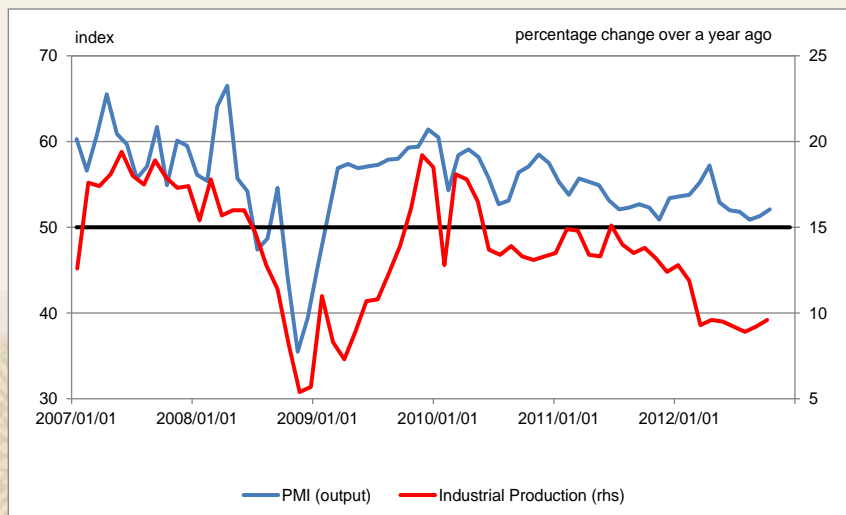
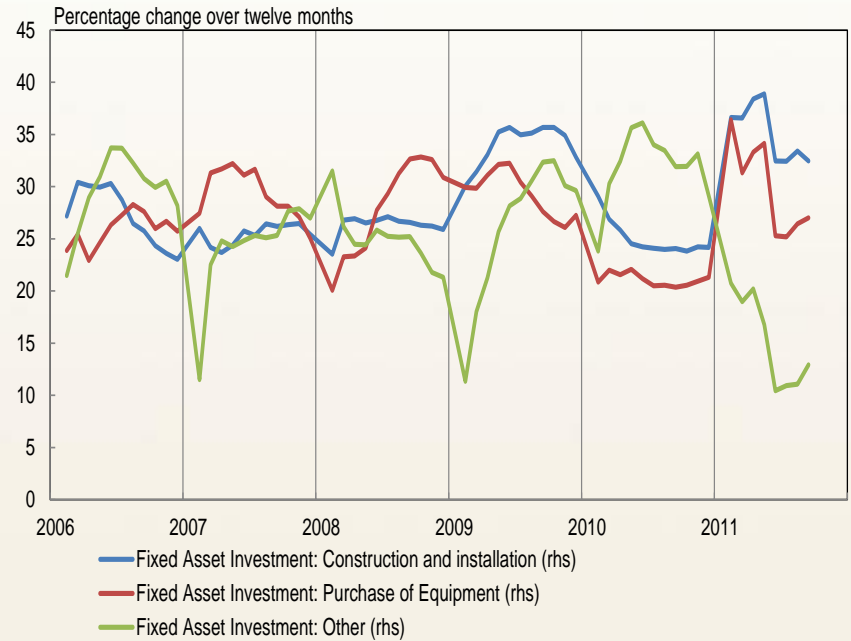
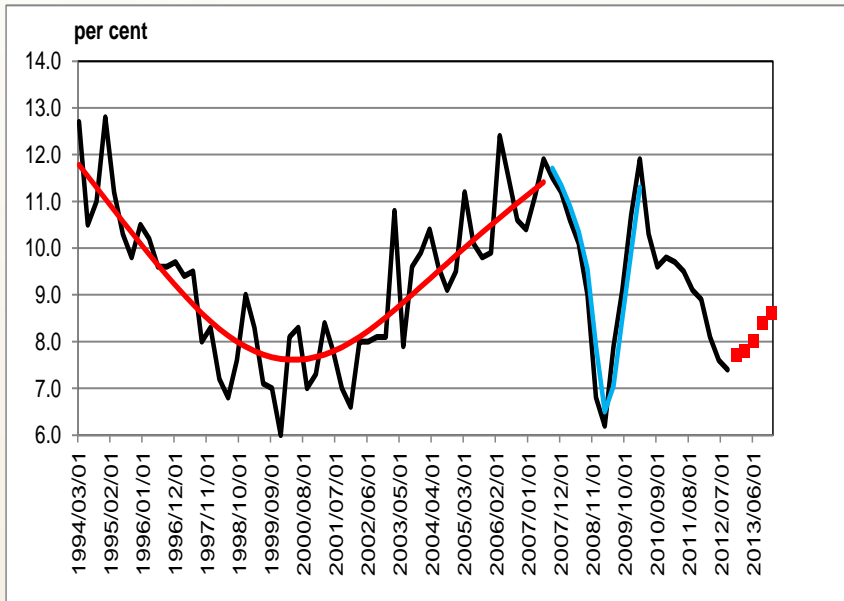
Players	All economic agents (government, BOJ, financial institutions, businesses and the households)
Interventions	BOJ- lends unlimited amounts at low interest rate to financial institutions through the newly established “Bank Facility Lending” and the Asset Purchase Program (JGBs, TBs etc.) .
Transmission	Commercial banks- The full amount acquired through the BOJ lending facility is made available to economic agents at lower lending rates.
Desired results	<ul style="list-style-type: none"> • The low lending rate induces increased credit appetite by households and businesses. • More liquidity results in increased production and consumption provided no hoarding and postponed consumption occurs. • Higher consumption revives consumer prices and the desired CPI inflation of 1% is attained.

Some issues in EMEs

China growth prospects

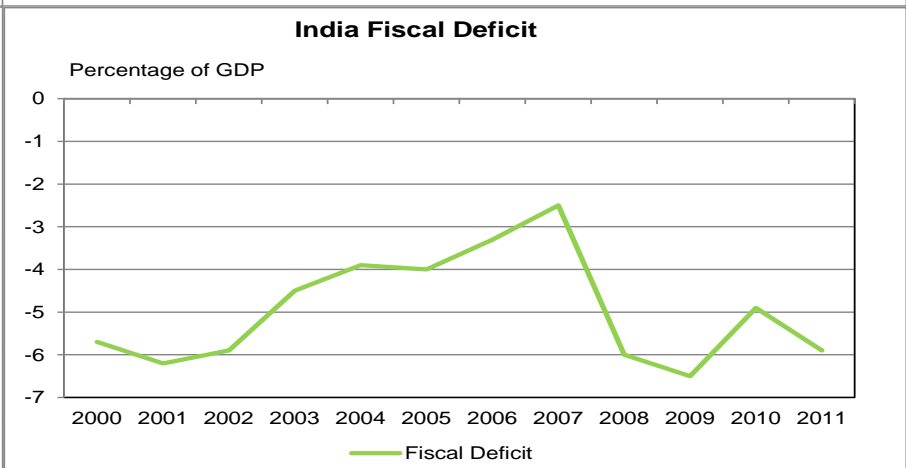
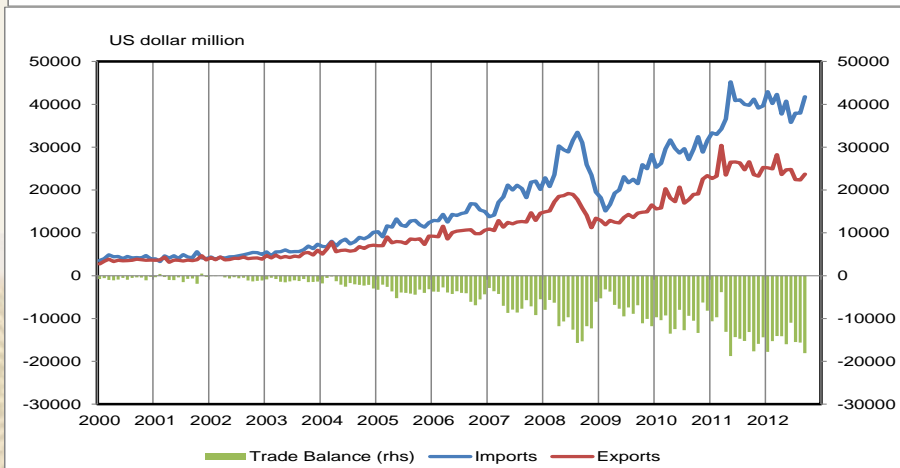
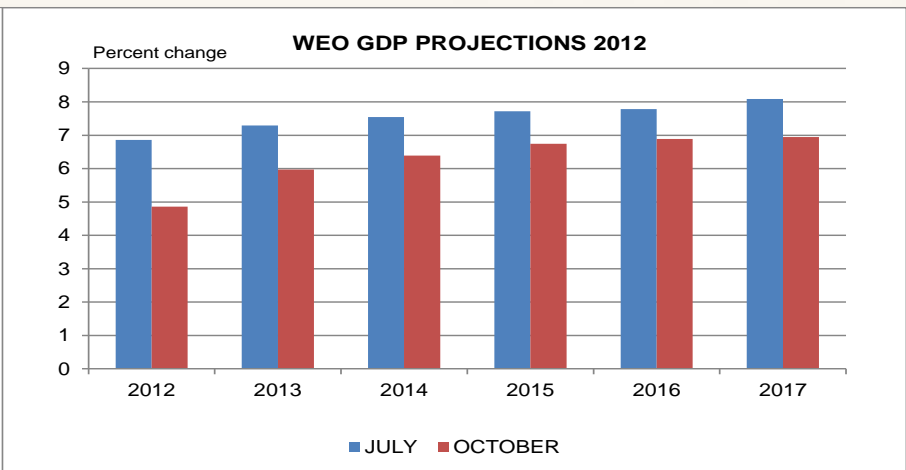
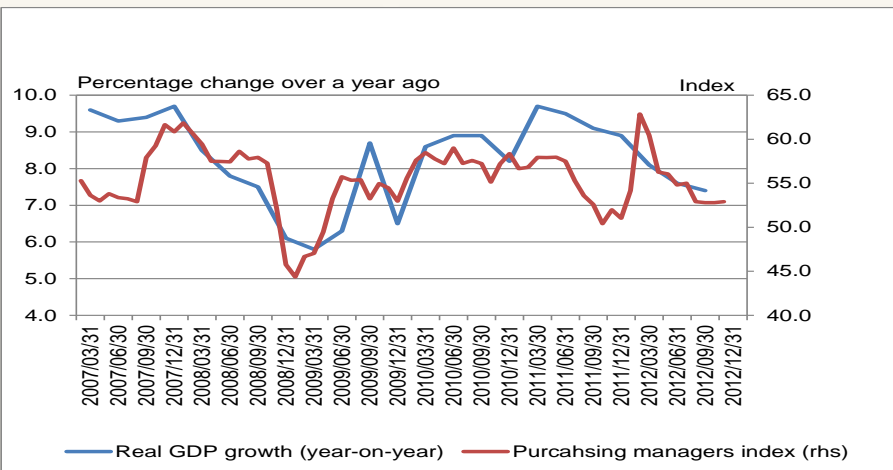
- **Economic slowdown a major concern or has the economy bottomed out?**
- **Recent high frequency indicators show that economy may have bottomed out.**
- **Estimates indicate that China will return to potential (8.5%) in the second quarter of 2013.**
- **There is mixed assessment about the impact of the political leadership change on Chinese economic prospects.**

China: Slowdown still a concern?



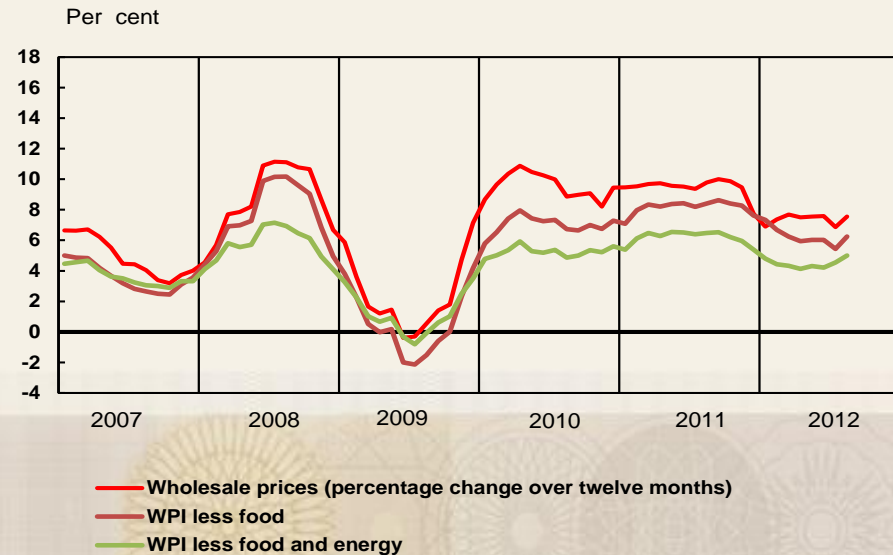
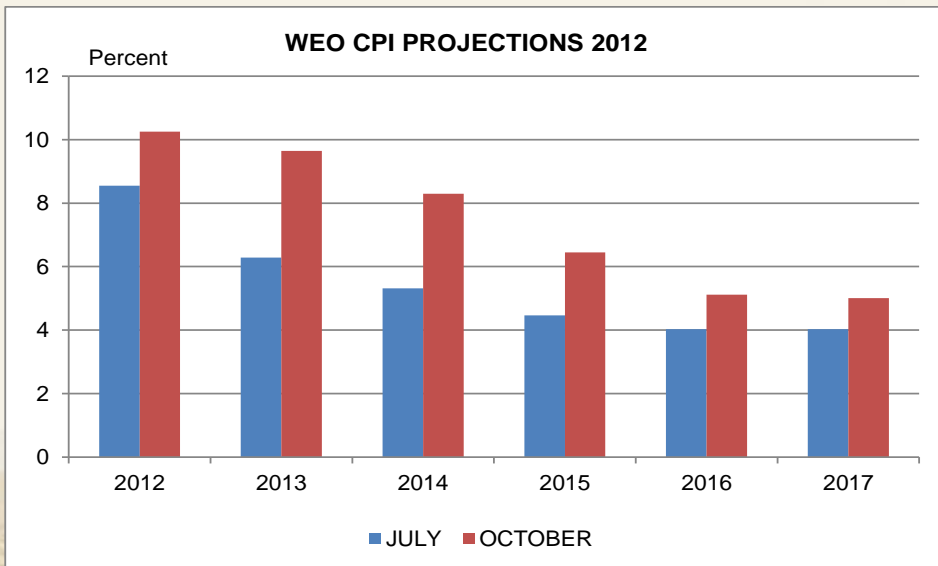
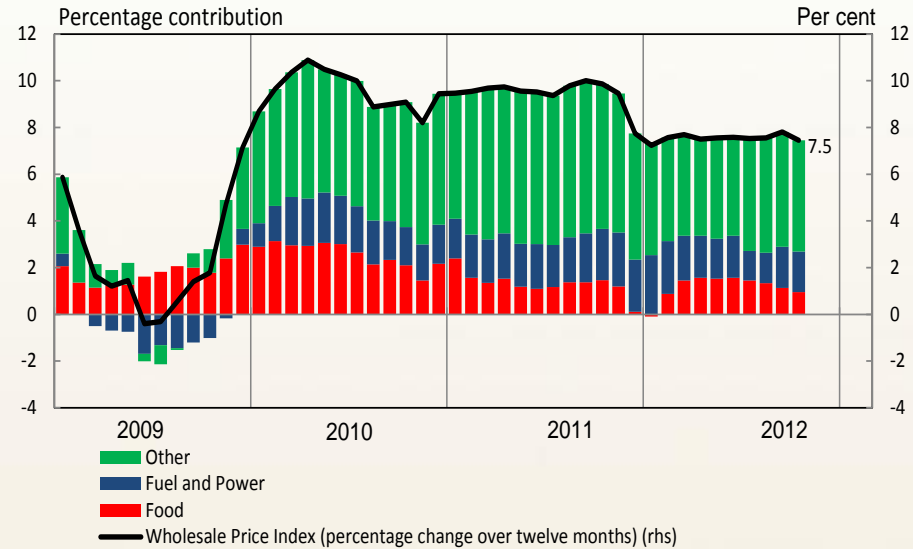
India

- There has been a deceleration in economic growth since the beginning of 2011.
- Major policy concerns include the rising current account and fiscal deficits.
- The projected weak external environment and deceleration in domestic activity will put further pressure on the current account and fiscal deficit positions?



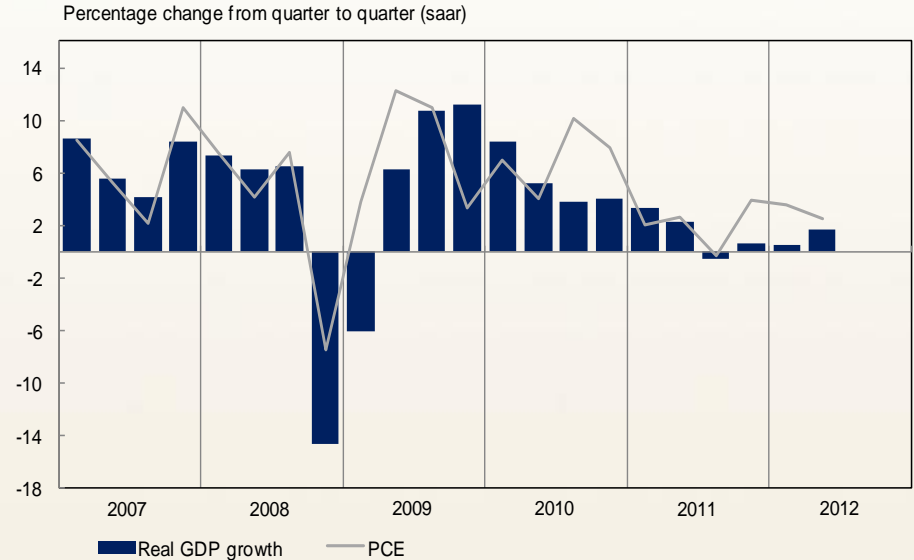
India: Inflationary pressures

- While inflation has declined during 2012, inflationary pressures remain elevated.
- Inflation outcomes are now expected to be higher than initial estimates.
- Rise in projected inflation presents a monetary policy dilemma?

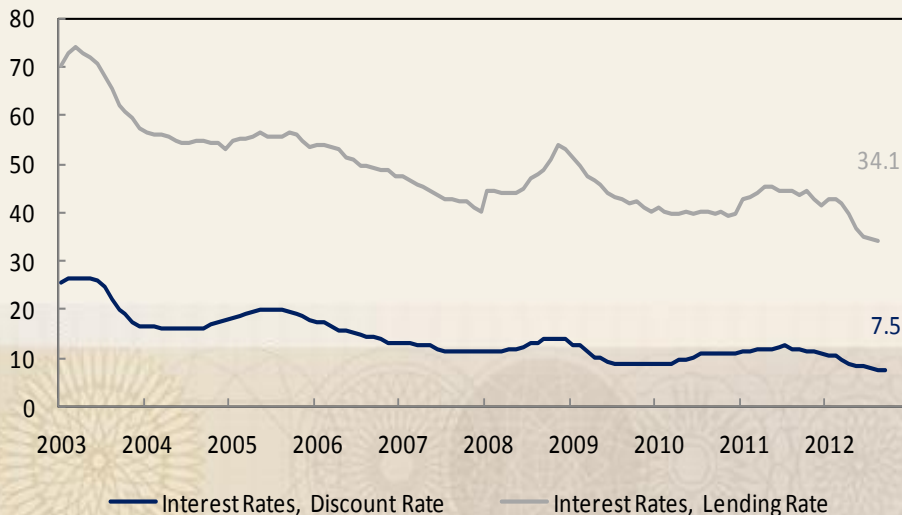


Brazil: Slowing growth a major concern

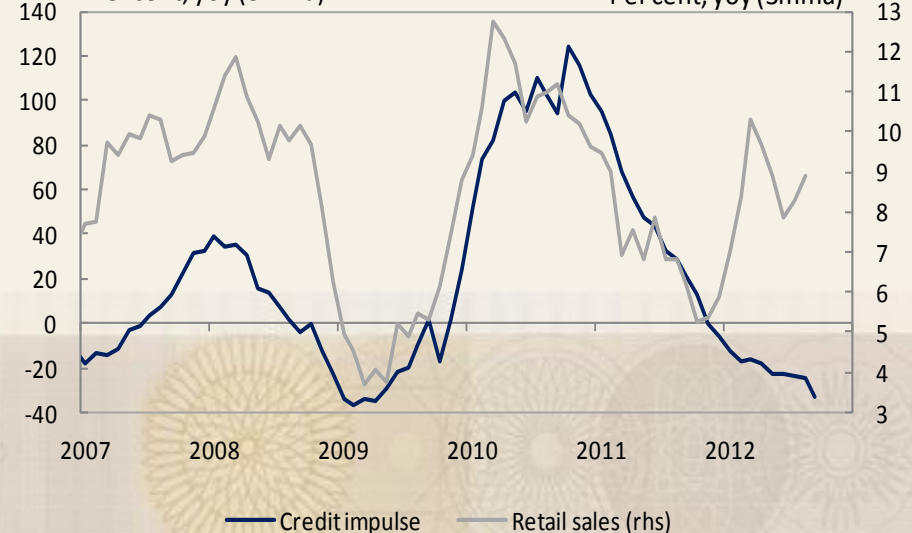
- Has been a significant economic slowdown in Brazil.
- The deceleration in PCE has been a major factor underpinning the slowdown.
- The deceleration in the credit impulse been a major constraint to the pickup in retail sale spending?
- The reduction in policy rates has had limited impact?



Percent



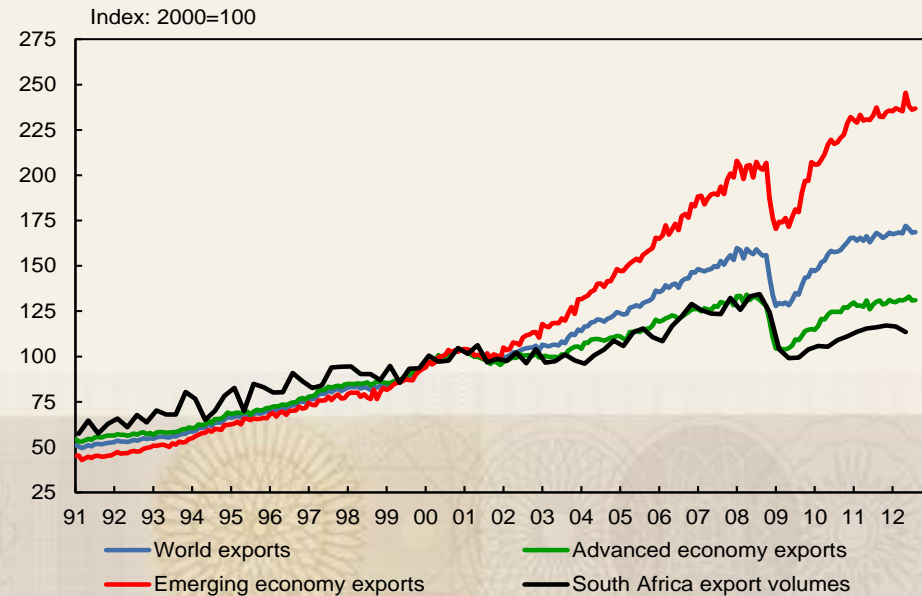
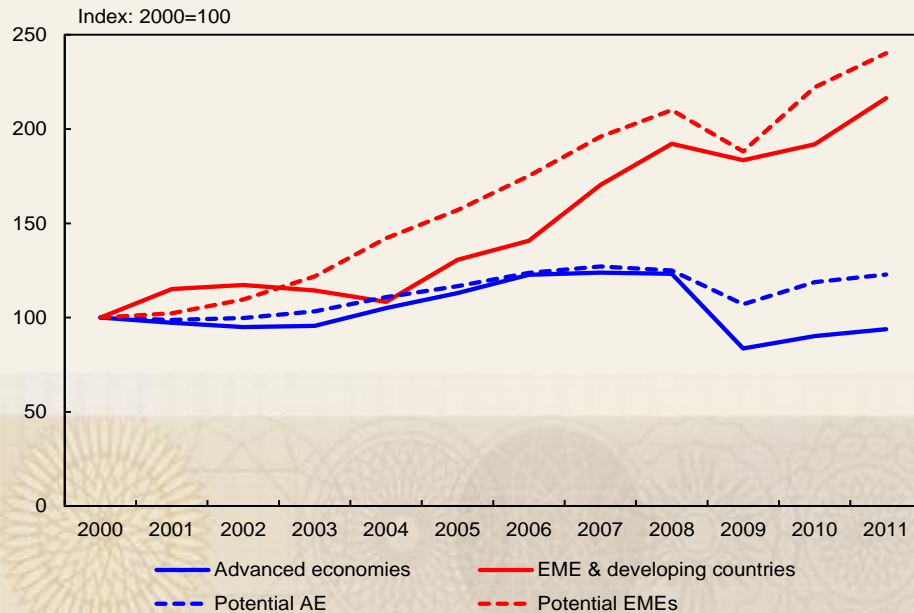
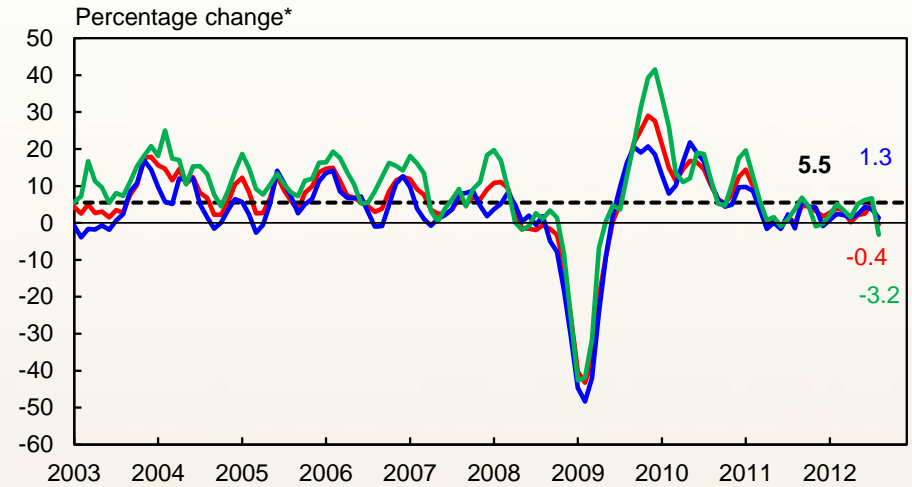
Percent, yoy (3mma)



World Trade

World trade has deteriorated in recent months

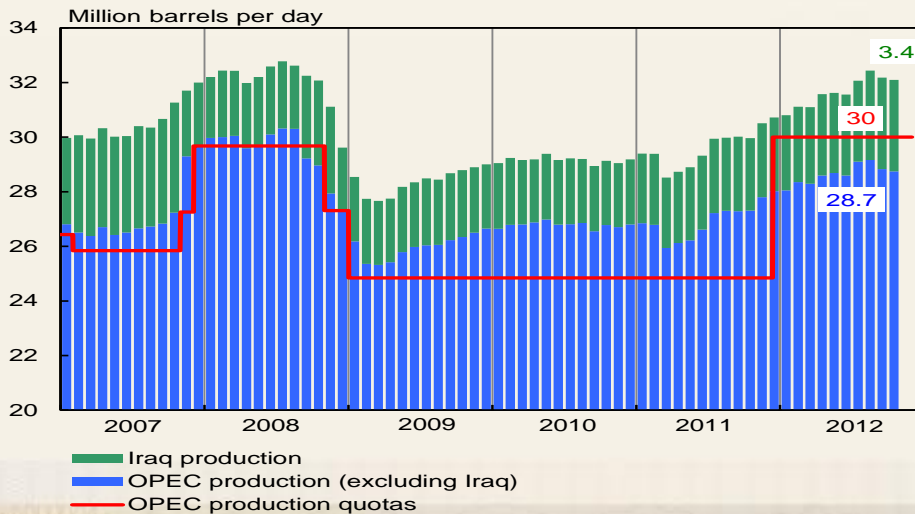
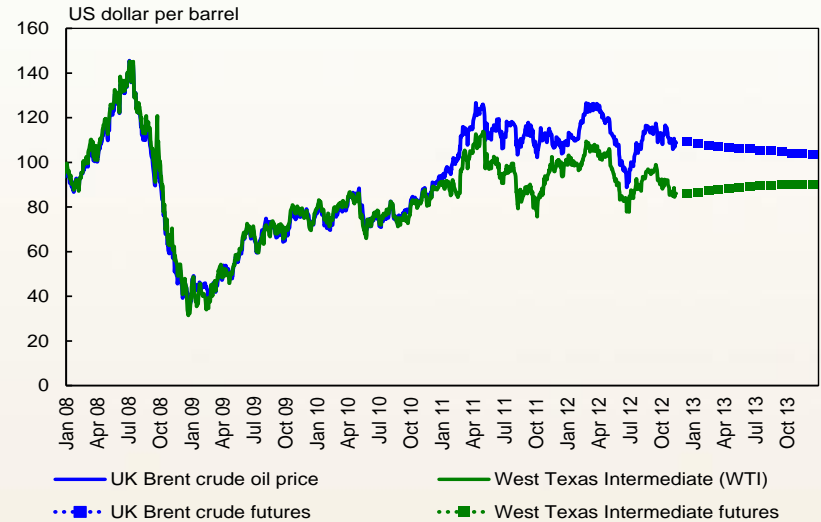
- **World trade volumes have declined in the most recent month mainly as a result of a sharp slowdown in EMEs trade.**
- **South African export performance has been very poor by international standards.**
- **Constant market share analysis shows that South African export producers are losing market share in both advanced countries and EMEs.**



Commodity prices

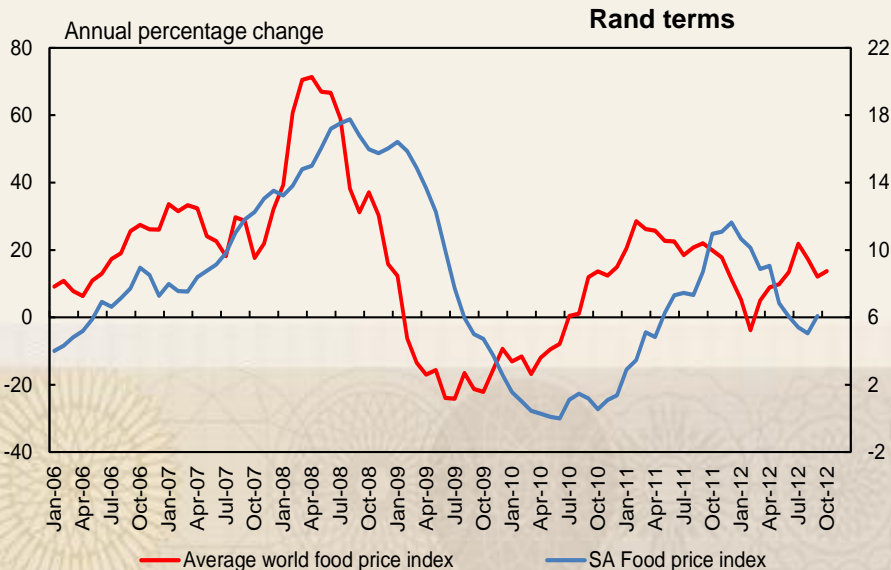
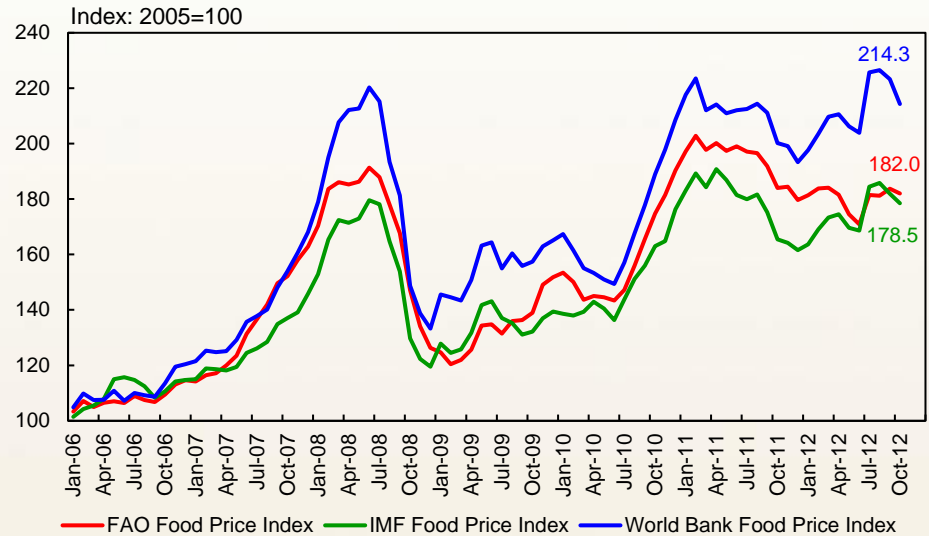
Oil prices have declined but remain at elevated levels

- Oil prices have declined in recent months.
- While geopolitical risks persist, the oil market remains well supplied.

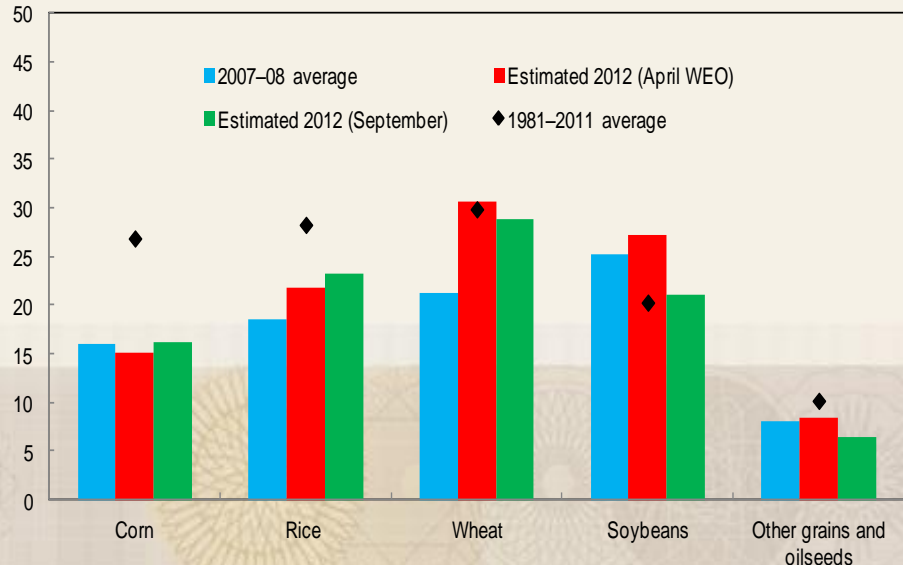


International food prices

- The IMF and World bank food price indices have declined in recent months.
- Global food markets are vulnerable to supply setbacks because of low buffers.
- Stock-to-use ratios remain below their long-term historical average levels for some of major commodities.
- Is a strong lagged correlation between international food prices and SA food inflation.
- Exchange rate impacts could exert the major influence on SA food inflation trends?



Global food stock-to-use ratios (inventories as a per cent of global consumption)



Some policy considerations

Monetary policy remains accommodative

- Growth concerns have prompted a further loosening of monetary policy in some advanced and EMEs.

- However, monetary policy has had a limited impact on PCE in many countries?

- Lingering output gaps and well anchored inflation expectations have kept inflationary pressures in check.

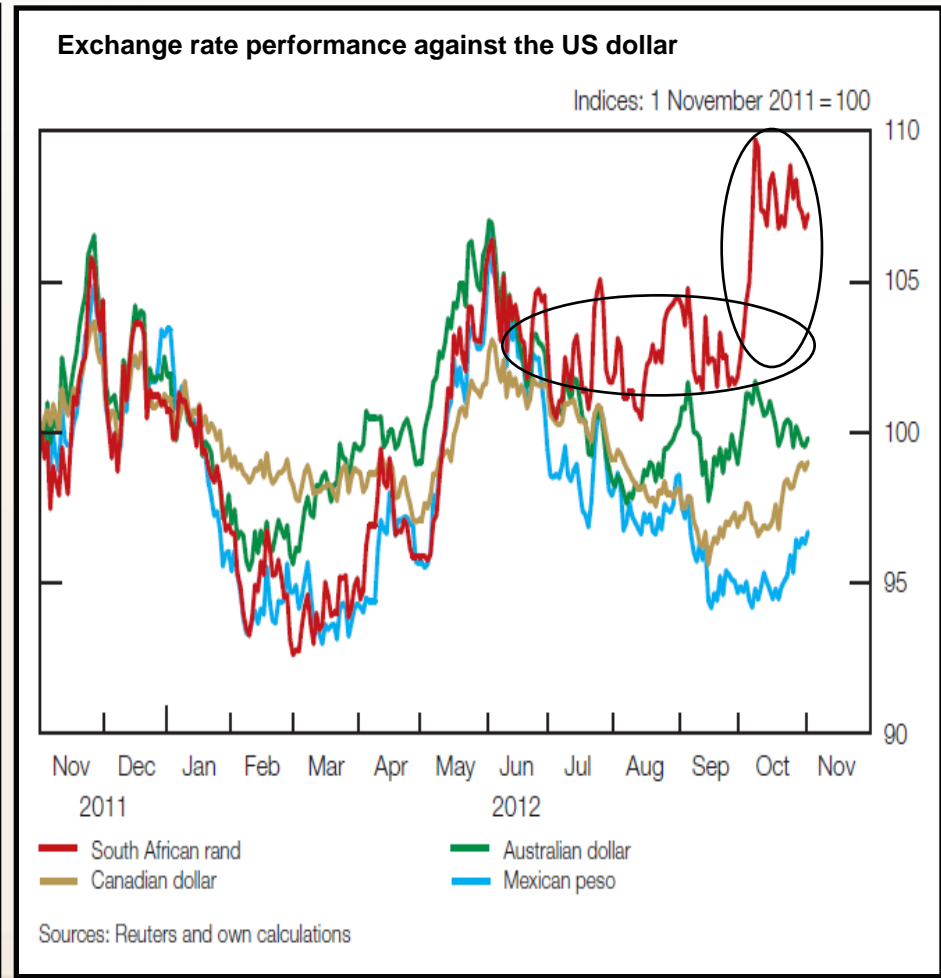
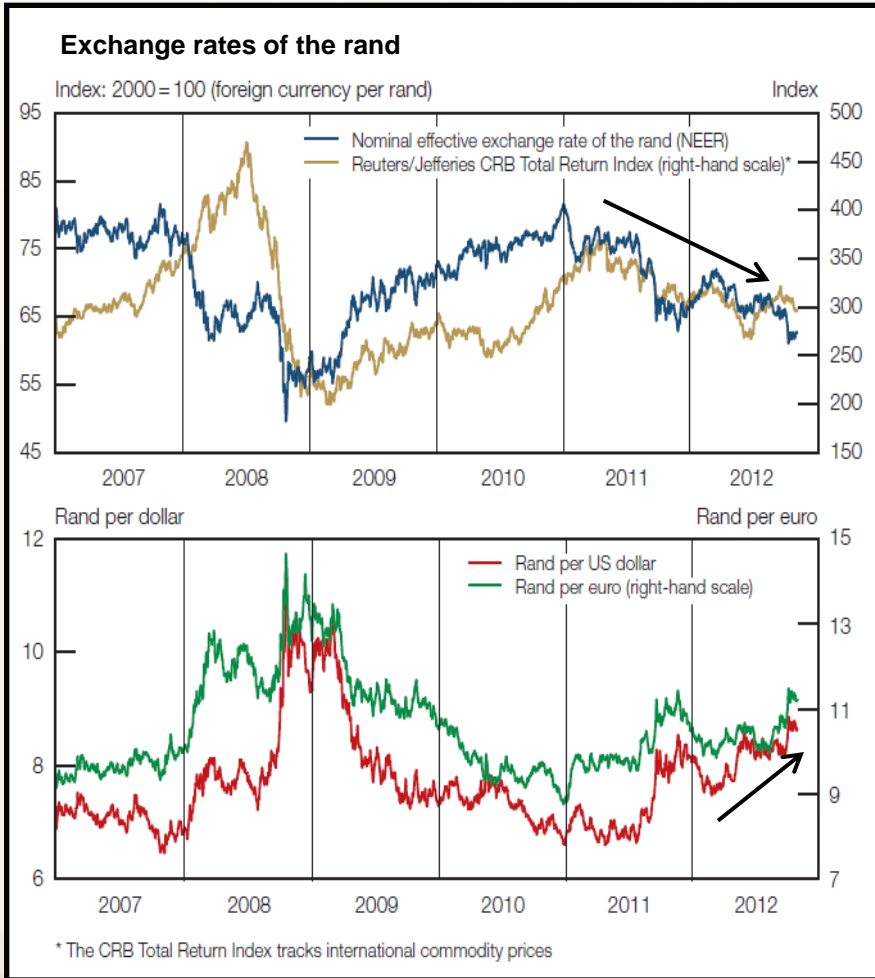
- Growth considerations will be the major monetary policy concern for some time to come.

	1 Jan 08	13 Nov 12	Net change since previous SARB MPC	Latest CPI inflation and direction of change		Latest monetary policy decision	
Euro Area	4,00	0,75	0	2,6	⇒	0	8/11/12
Japan*	0,50	0,05	0	-0,3	↑	0	30/10/12
UK	5,50	0,50	0	2,7	↑	0	8/11/12
USA**	4,25	0,125	0	2,0	↑	0	24/10/12
Australia	6,75	3,25	-0,25	2,0	↑	0	6/11/12
Canada	4,25	1,00	0	1,2	⇒	0	23/10/12
New Zealand	8,25	2,50	0	0,8	↓	0	25/10/12
South Africa	11,00	5,00	...	5,5	↑	0	20/09/12
Denmark	4,25	0,00	0	2,3	↓	-0,25	5/07/12
Israel	4,25	2,00	-0,25	2,1	↑	-0,25	29/10/12
Norway	5,25	1,50	0	1,1	↑	0	31/10/12
Sweden	4,00	1,25	0	1,0	↑	0	25/10/12
Switzerland***	2,75	0,00	0	-0,2	↑	0	13/09/12
Hong Kong	5,75	0,50	0	3,8	↑	0	25/10/12
South Korea	5,00	2,75	0	2,1	↑	0	09/11/12
Taiwan	3,375	1,875	0	2,4	↓	0	22/03/12
China	7,47	6,00	0	1,7	↓	-0,31	07/07/12
India	7,75	8,00	0	9,8	↑	0	30/10/12
Indonesia	8,00	5,75	0	4,6	↑	0	08/11/12
Malaysia	3,50	3,00	0	1,3	↓	0	06/09/12
Thailand	3,25	2,75	0	3,3	↓	-0,25	17/10/12
Brazil	11,25	7,25	-0,25	5,5	↑	-0,25	10/10/12
Chile	6,00	5,00	0	2,9	↑	0	18/10/12
Mexico	7,50	4,50	0	4,6	↓	0	29/10/12
Czech Republic	3,50	0,25	-0,45	3,4	⇒	-0,20	1/11/12
Hungary	7,50	6,25	-0,50	6,0	↓	-0,25	30/10/12
Poland	5,00	4,50	-0,25	3,8	⇒	-0,25	7/11/12
Russia	10,00	8,25	+0,25	6,5	↓	0	9/11/12
Turkey	n.a.	5,75	0	7,8	↓	0	18/10/12
Botswana	14,50	9,50	0	7,1	↑	0	23/10/12
Kenya	8,75	11,00	-2,00	5,3	↓	-2,00	7/11/12
Lesotho****	13,10	9,40	-0,06	5,3	↓	-0,03	31/10/12
Namibia	10,50	5,50	0	6,7	↑	0	24/10/12
Zambia*****	13,20	9,25	+0,25	6,6	↑	+0,25	31/10/12

Implications for domestic economic developments and growth outlook

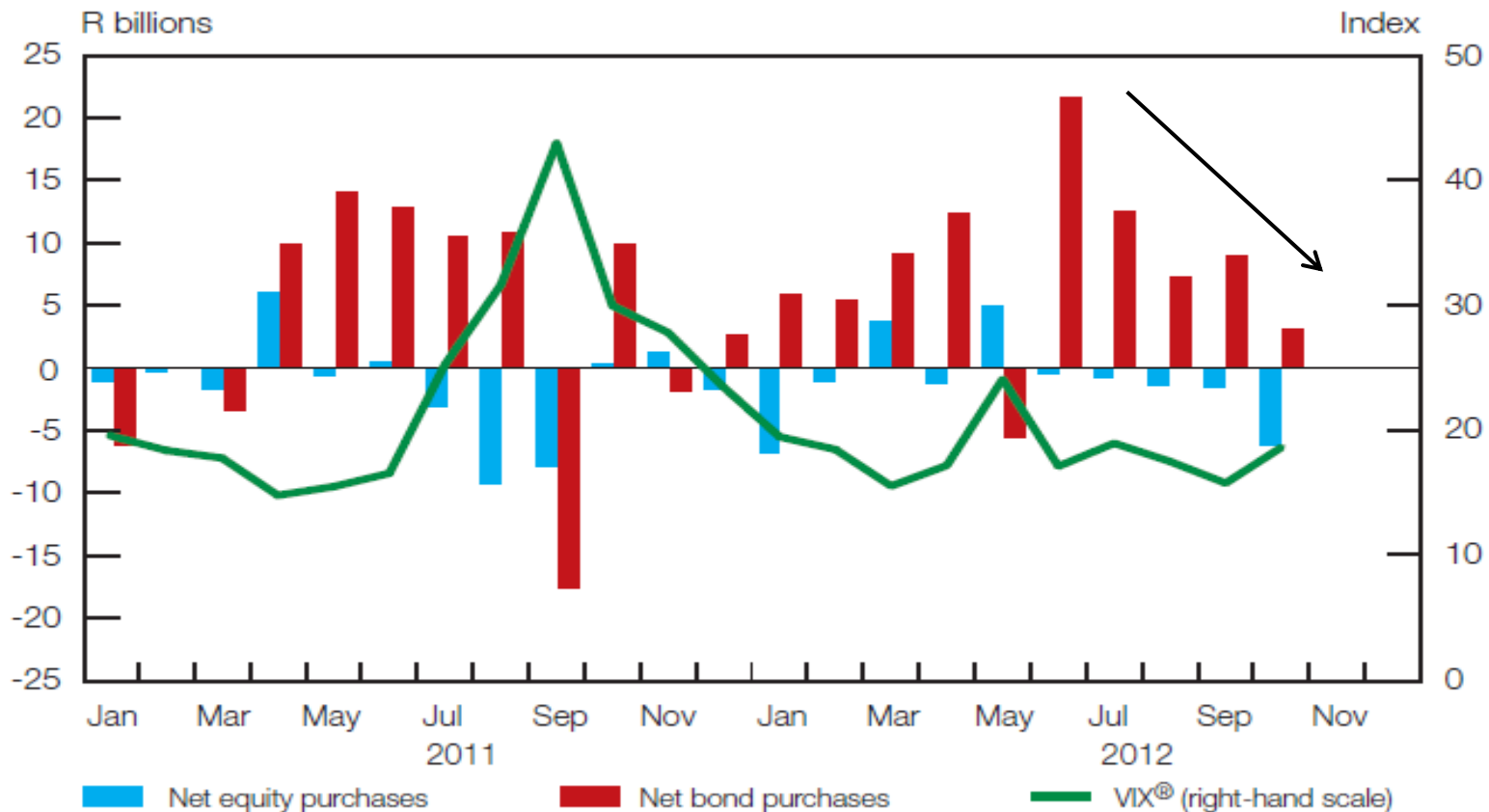


Rand weakness, influenced by domestic factors, are negative for inflation



The WGBI and global monetary easing supported bonds while domestic economic developments negatively affected shares

Non-resident net purchases of domestic securities and risk aversion

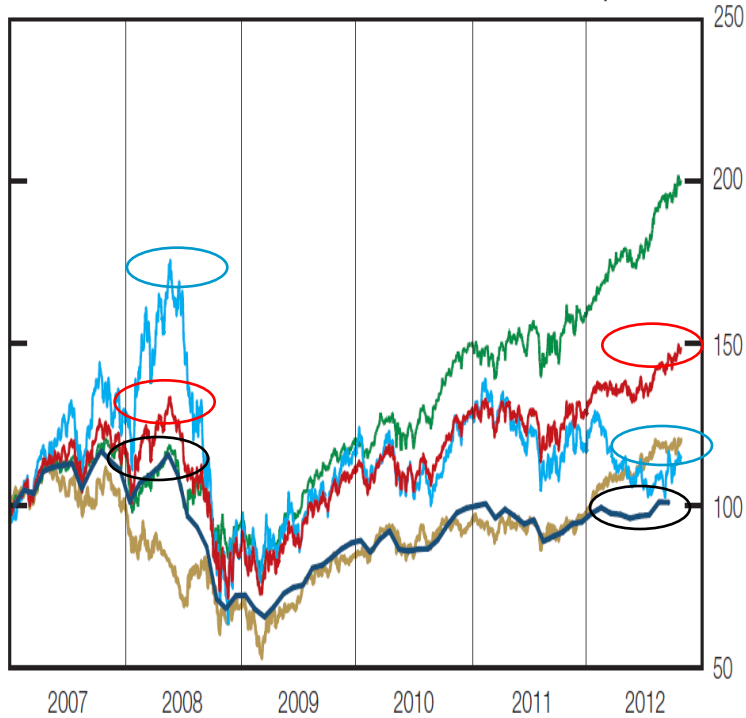


Sources: JSE Limited and Bloomberg

Domestic share prices scaled new highs

Domestic share price indices

Indices: 2 January 2007 = 100



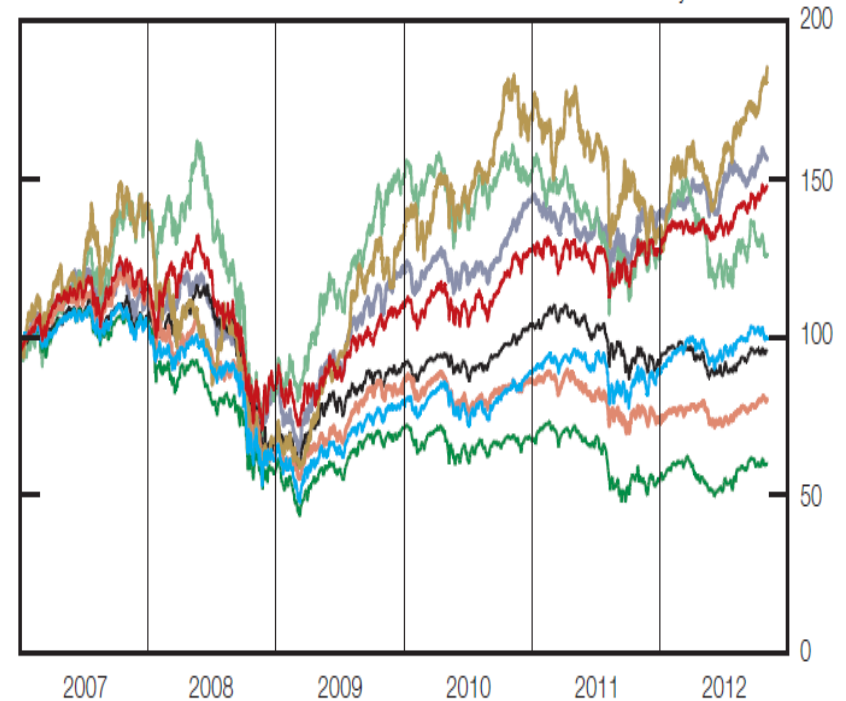
FTSE/JSE:
 All-Share Index
 Industrial Index

All-Share Index: Real
 Resources Index
 Financial Index

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

International share price indices*

Indices: 2 January 2007 = 100



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

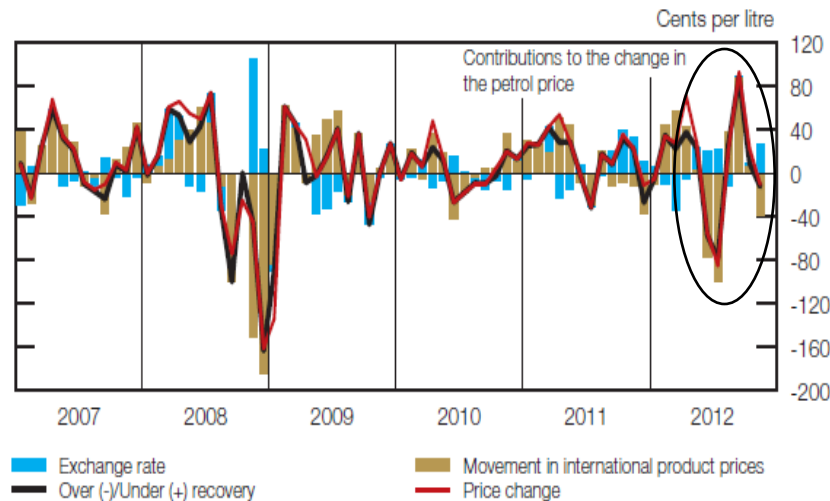
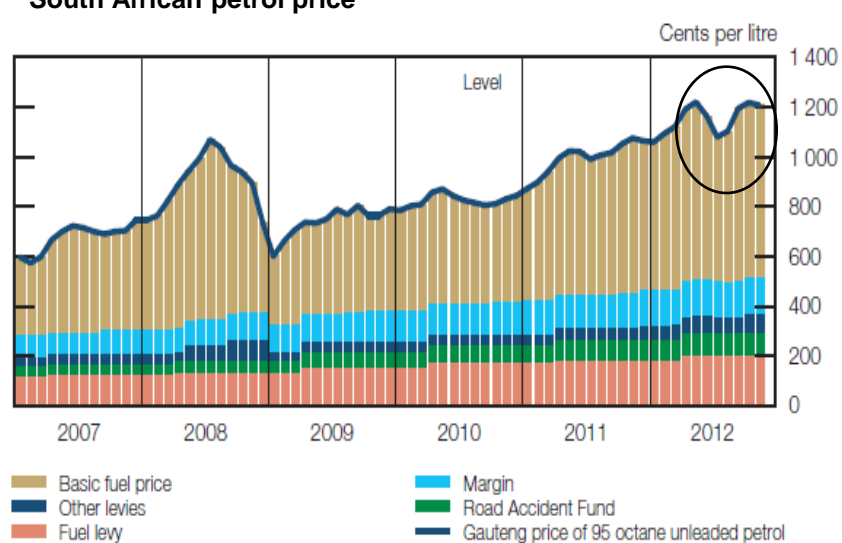
International crude oil prices and the exchange rate impacts the petrol price and inflation and weakens growth prospects

Price of Brent crude oil



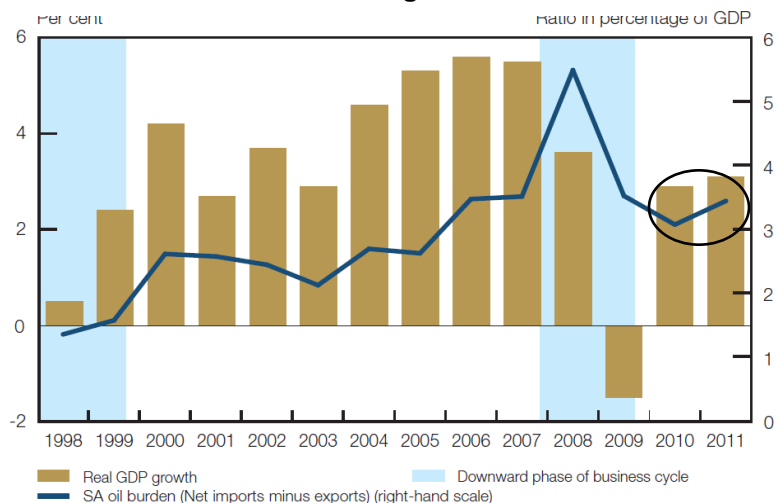
Source: Bloomberg

South African petrol price



Source: Department of Energy

The oil burden and economic growth in South Africa

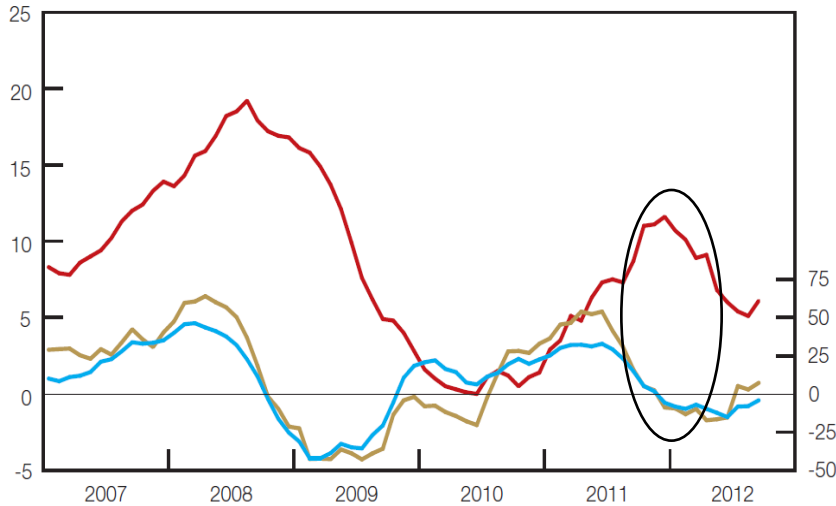


Sources: South African Reserve Bank and World Economic Outlook database, April 2012

International agricultural prices and drought impacted domestic food prices

Food price inflation

Percentage change over 12 months

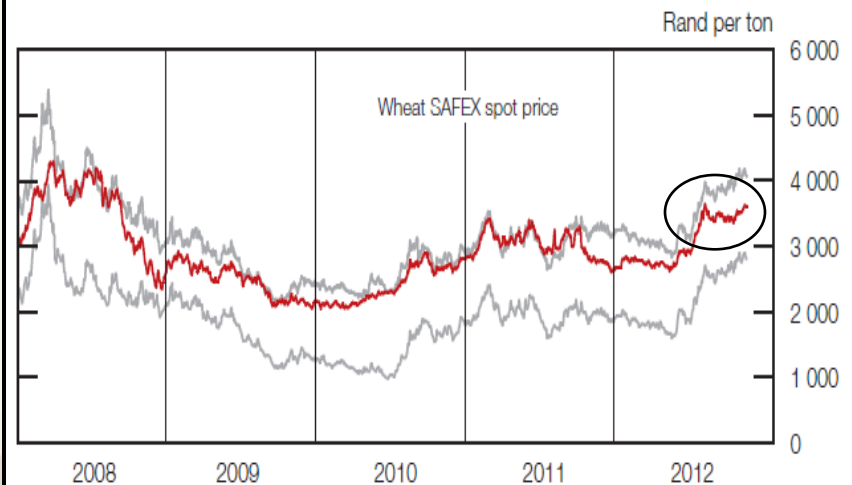
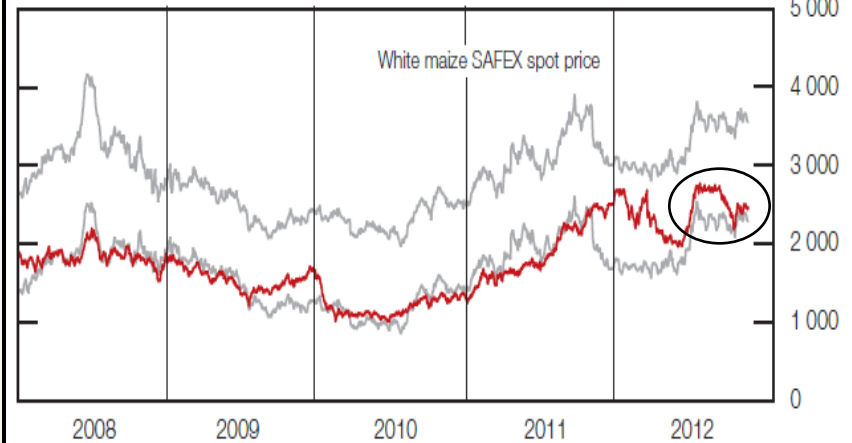


— South Africa CPI: Food
— FAO food price (right-hand scale)
— FAO cereals prices (right-hand scale)

Sources: Statistics South Africa and FAOSTAT

Selected commodity prices

Rand per ton

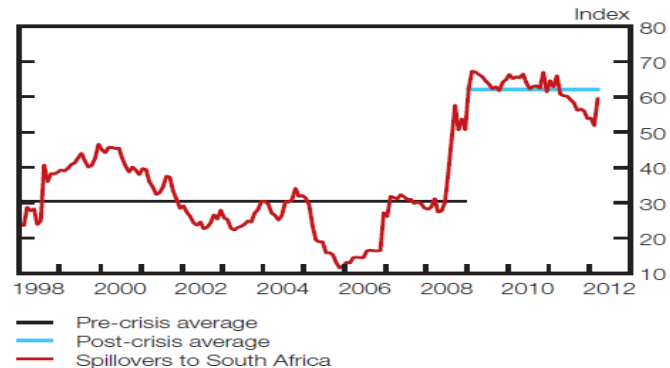
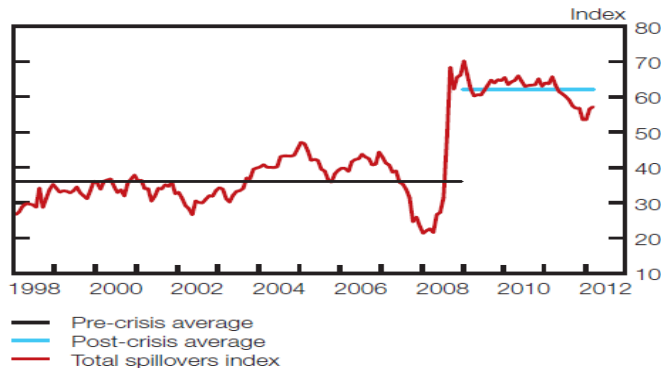


Note: The top grey line is the import parity price and the bottom grey line is the export parity price. These prices are the theoretical upper and lower bound prices for commodities.

Source: Grain South Africa

Spillovers affected exports

Business cycle spillover indices



Growth in real GDP and expenditure components

Per cent*

	2011					2012	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Final consumption expenditure							
Households	6,2	3,4	3,8	4,6	5,0	3,1	2,9
General government	9,4	-0,4	4,8	7,3	4,5	2,2	4,1
Gross fixed capital formation	4,4	5,0	5,9	7,2	4,4	5,3	5,7
Changes in inventories (R billions)**	7,1	3,1	4,0	4,9	4,8	5,9	7,0
Gross domestic expenditure	4,6	1,4	4,8	5,1	4,3	4,3	4,7
Exports of goods and services	7,3	6,1	8,0	4,4	5,9	-1,4	-6,2
Imports of goods and services	7,0	6,7	18,5	11,0	9,7	4,8	0,9
Gross domestic product	4,6	1,0	1,7	3,2	3,1	2,7	3,2

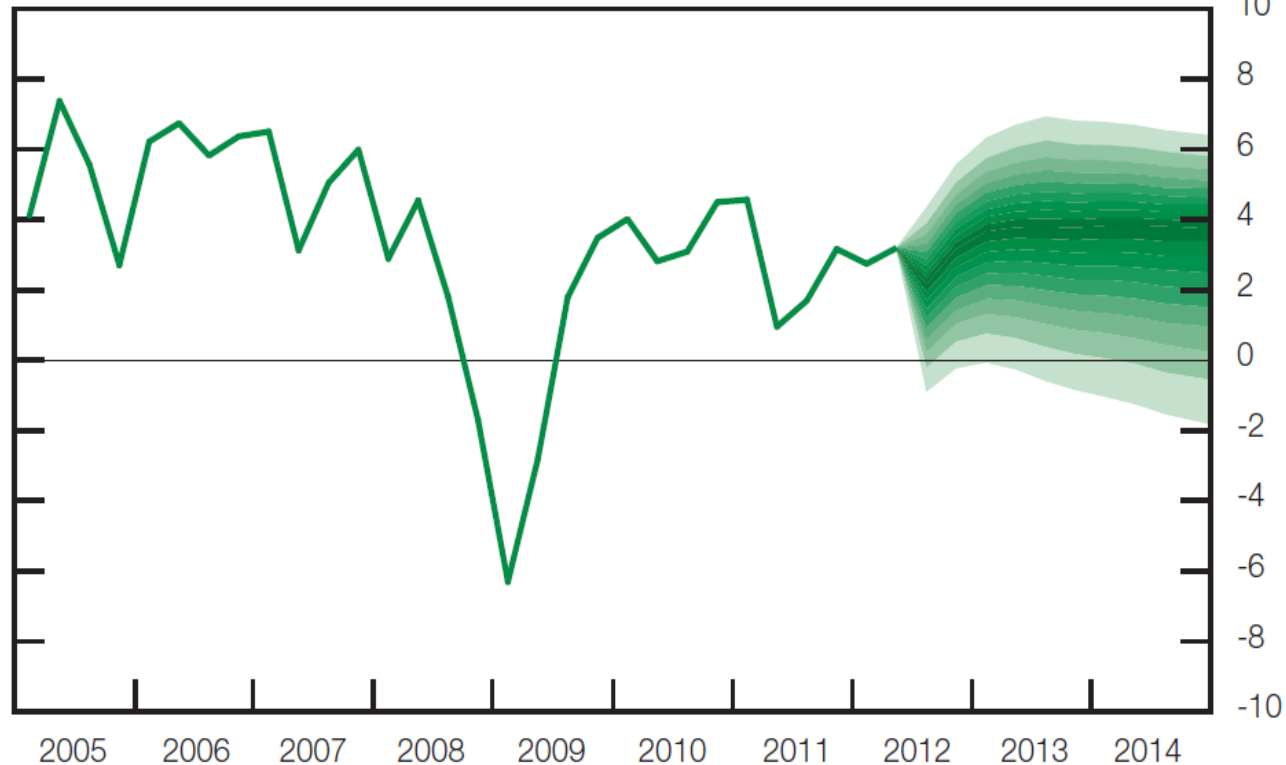
* Quarterly data refer to quarter-on-quarter growth at annual rates of seasonally adjusted data

** Constant 2005 prices

The Bank's growth forecast have been revised lower...3rd quarter growth outcome on the low side of expectations

Real GDP growth forecast

Percentage change at seasonally adjusted annualised rates



All short-term indicators show an expected moderation in domestic economic activity

Domestic economic sentiment indicators

	Historic range		Most recent		As at MPR:*	
	Low	High	Low	High	May 2012	Oct 2012
RMB/BER Business Confidence Index	10	91	23	55	52	47
BER Manufacturing Confidence Index	11	93	11	51	47	33
Ernst & Young/BER Retail Confidence Index	0	94	35	63	61	46
FNB Building Confidence Index	11	89	23	38	34	26
Kagiso/BER Purchasing Managers Index	35,3	63,4	48,2	57,9	53,7	46,2
FNB/BER Consumer Confidence Index	-33	23	-6	15	5	-1

* Improved/Worsened since previous MPR

Sources: Kagiso Securities, Rand Merchant Bank (RMB), FNB, Ernst & Young and the Bureau for Economic Research (BER), Stellenbosch University

Assessment and conclusion



Global and domestic growth prospects

- **The global financial crisis created fiscal and monetary policy challenges**
- **Consensus among economists is that global growth is still far from returning to higher sustainable rates**
- **Latest forecasts across major institutions suggest global growth momentum slowing and have prospects revised downwards**
- **Economic prospects for both advanced countries and EMEs have deteriorated recently and uncertainty weighs heavily on the outlook for the global economy.**
- **The euro area and Japan faced increased probability of entering a recession.**
- **Fiscal policy concerns still dominate in the US and euro area.**

Domestic

- **Negative spill-over effects both from the financial and exports channel remain at elevated levels and pose challenges to policy makers.**
- **Volatility in capital flows, equity prices, the exchange rate and terms of trade (commodity prices) are evidence of financial spill-overs.**
- **Slowdown in exports and the domestic share of global exports is further evidence of real economic spill-overs.**
- **Recent sovereign ratings downgrades and the possibility of further downgrades is evidence that policy makers need to remain vigilant with respect to the domestic fiscal affairs**

End

Questions

