



Monetary Policy Committee

Inflation and Real GDP Trends and Outlook

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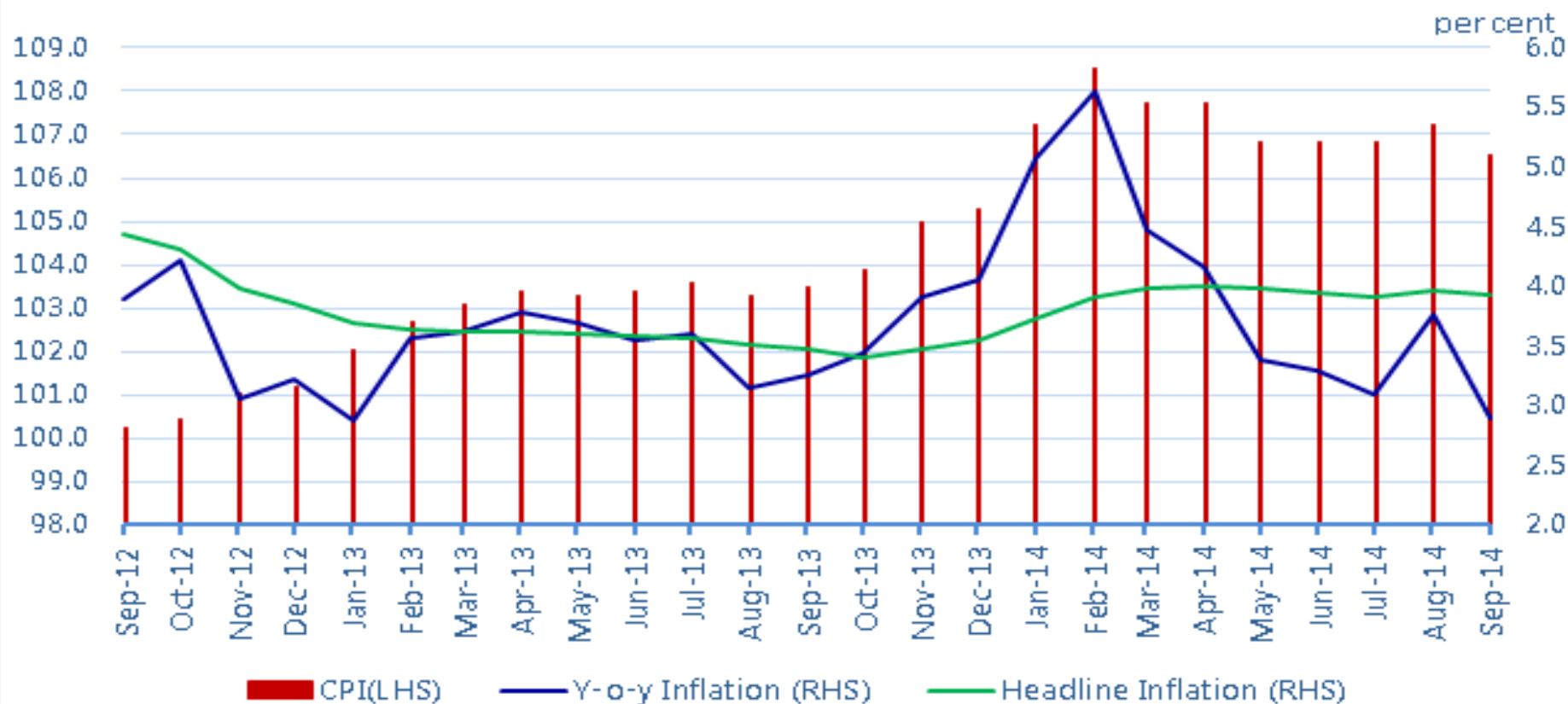
27 October 2014



Recent Developments

CPI Inflation Trends

Between Jun-14 and Sep-14, CPI fell by 0.3 index points. Headline inflation remained virtually flat at about 4.0 per cent. Y-o-y inflation bottomed to 2.9 per cent.



Contribution to CPI Inflation

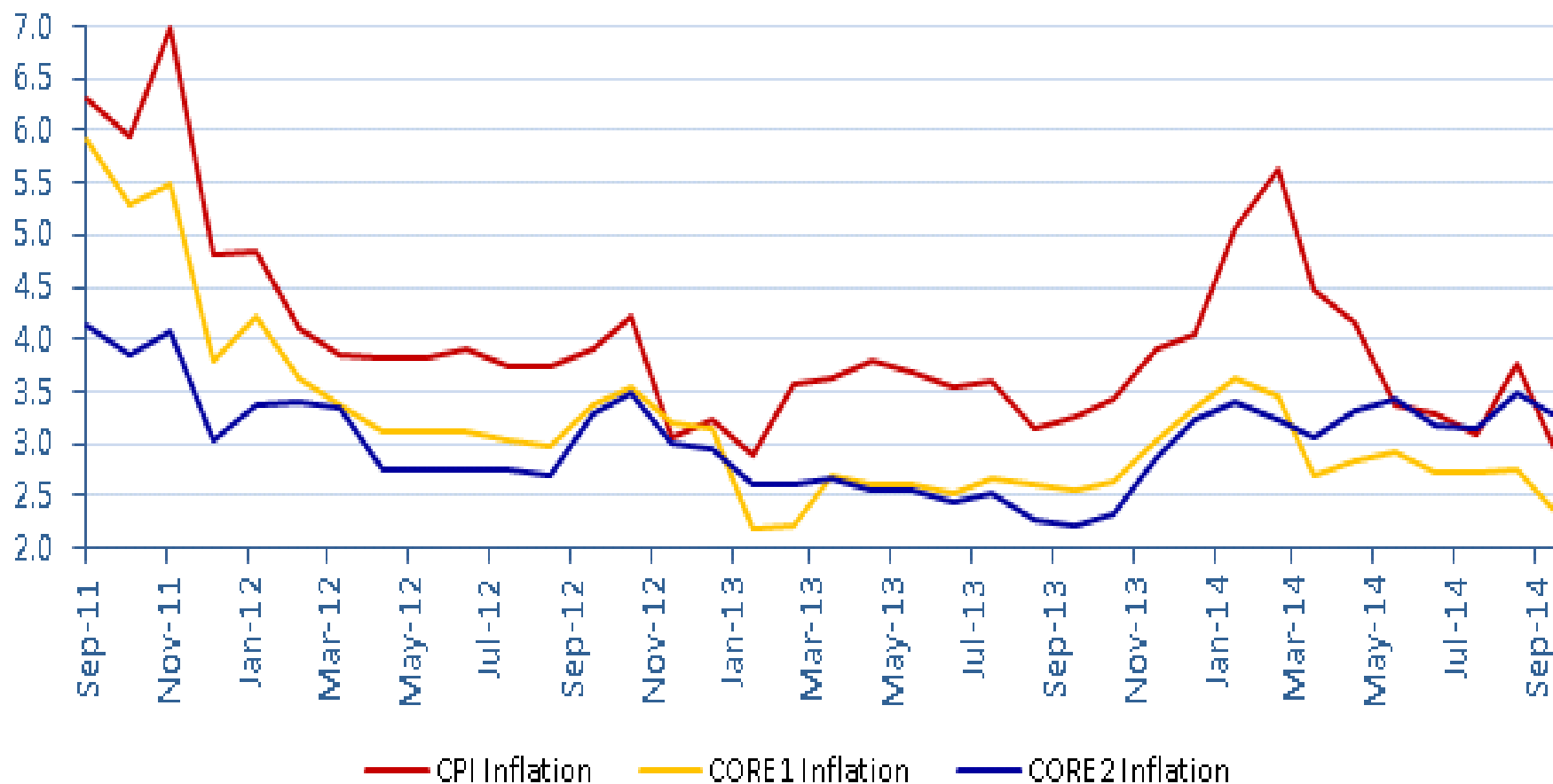


**One-third of CPI inflation accounted for by Food & Non-alcoholic beverages inflation.
Over half of CPI inflation came from Food, beverages and tobacco inflation**

Division	Weights	Consumer Price Index		Contribution to CPI inflation (per cent)
		Sep-13	Sep-14	
Food and Non Alcoholic Beverages	273	103.0	106.7	1.0
Alcoholic Beverages and Tobacco	96	110.1	116.5	0.6
Clothing and Footwear	45	104.6	110.3	0.2
Housing, Water, Electricity, Gas and Other Fuels	120	100.3	101.3	0.1
Furnishings, Household Equipment and Routine Household Maintenance	61	103.0	102.5	0.0
Health	40	104.0	109.8	0.2
Transport	151	103.0	105.4	0.4
Communication	39	99.8	99.4	0.0
Recreation and Culture	44	103.1	105.0	0.1
Education	45	101.9	103.7	0.1
Restaurants and Hotels	45	106.8	111.7	0.2
Miscellaneous Goods and Services	41	102.5	105.2	0.1
Overall	1000	103.5	106.5	2.9

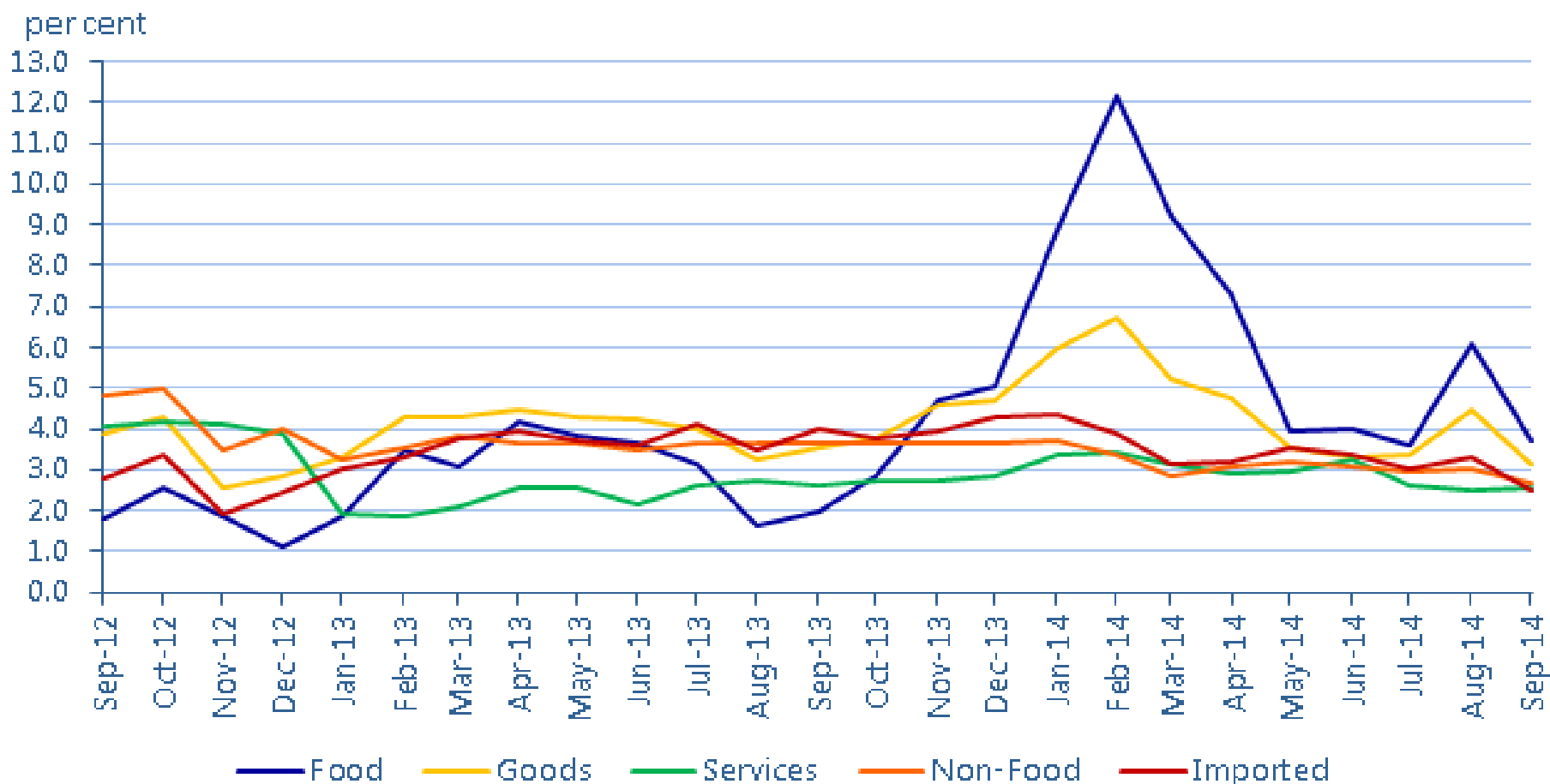
Core Inflation Developments

Core inflation measures mirrored more or less CPI inflation trends...albeit charting different paths.



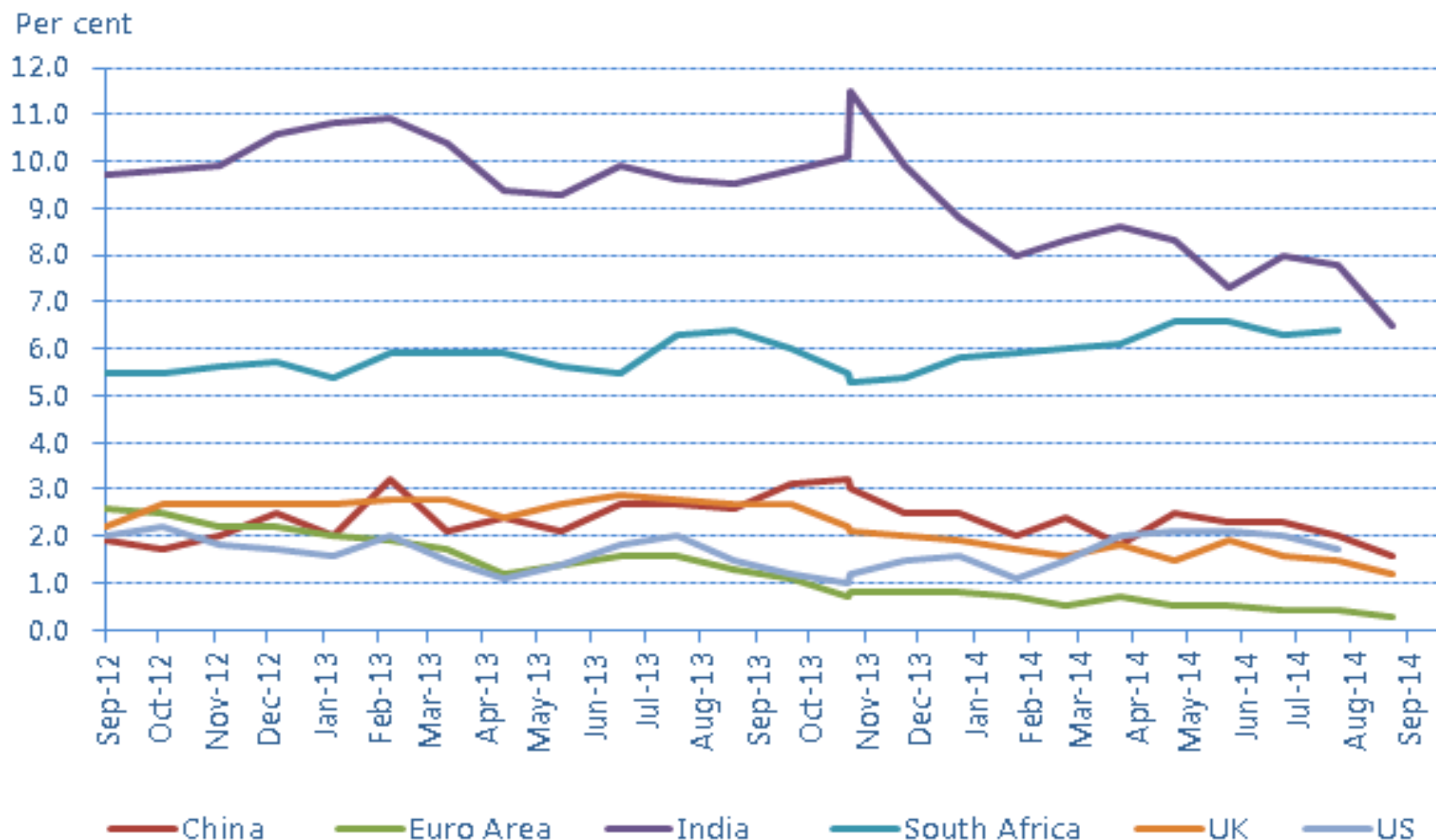
Derived CPI Indicators

Other derived CPI inflation indicators have been either relatively stable or maintained a downtrend



Inflation in Partner Countries

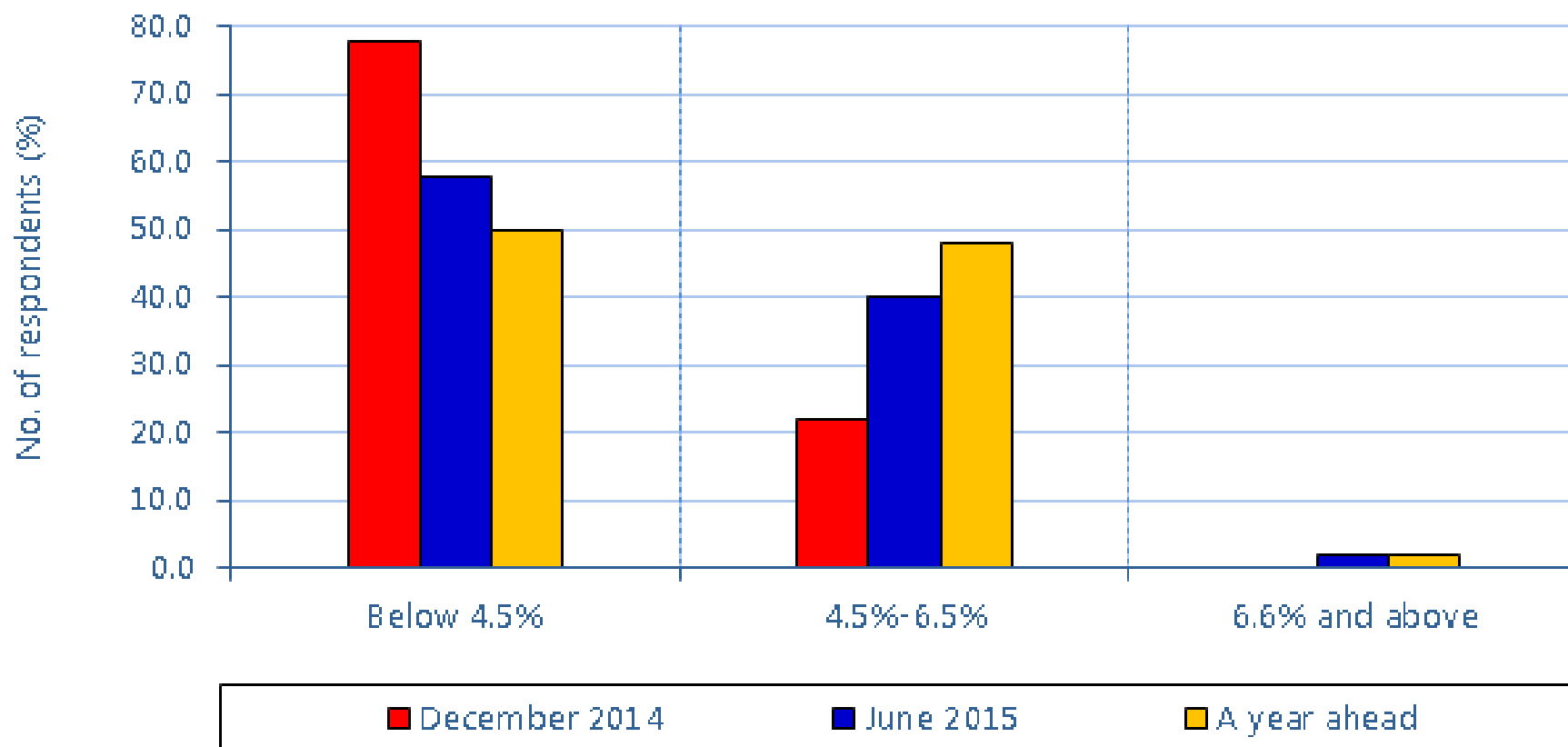
Inflation in partner countries ... high (India and South Africa) ... lower (for the rest)



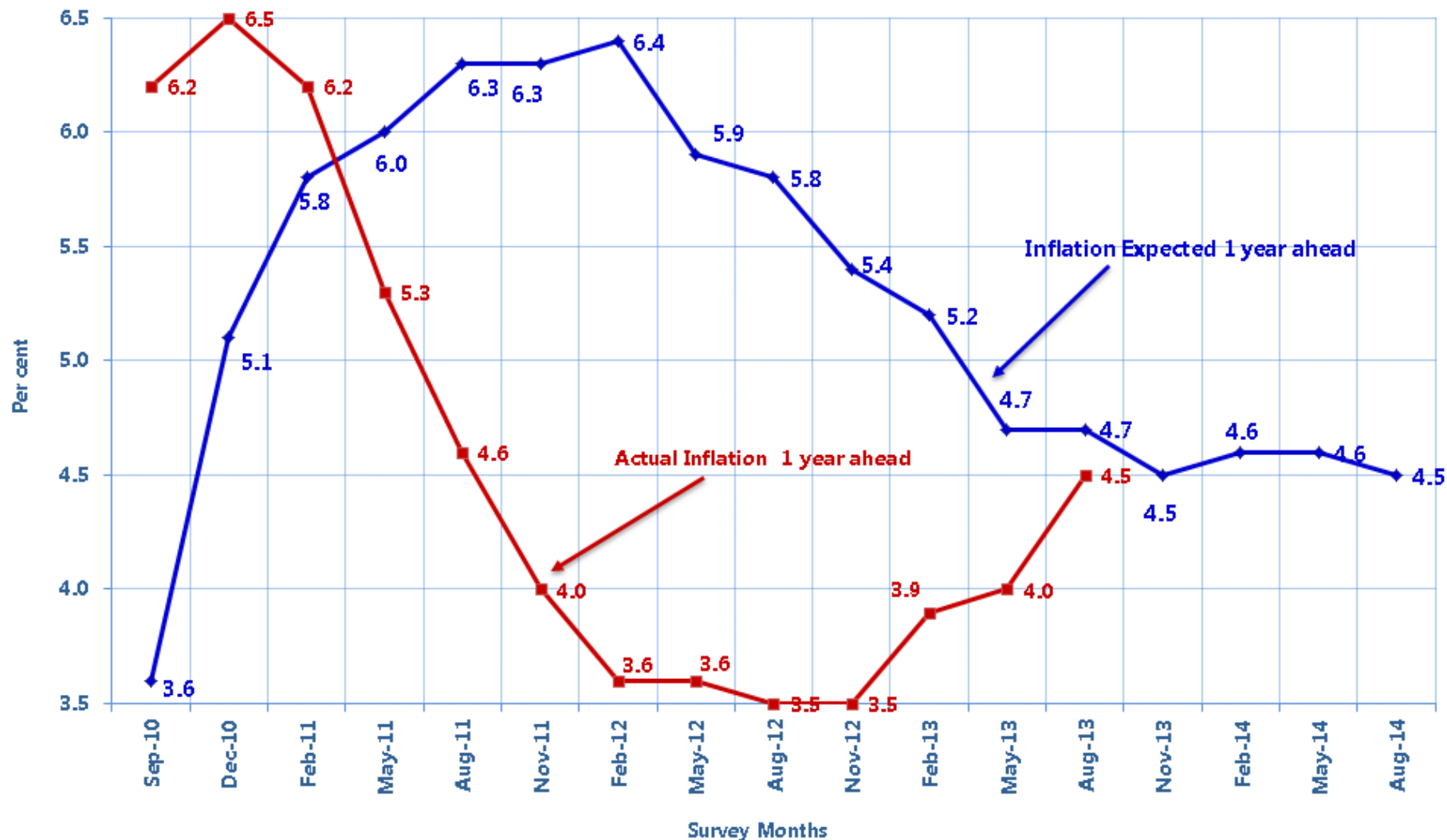
Aug-14 Inflation Expectations Survey



Bank's August 2014 Inflation Expectations Survey: 78 per cent of respondents foresee CPI inflation at below 4.5 per cent in Dec-14 ...however, a year ahead 50% of respondents foresee inflation higher than 4.5 per cent.



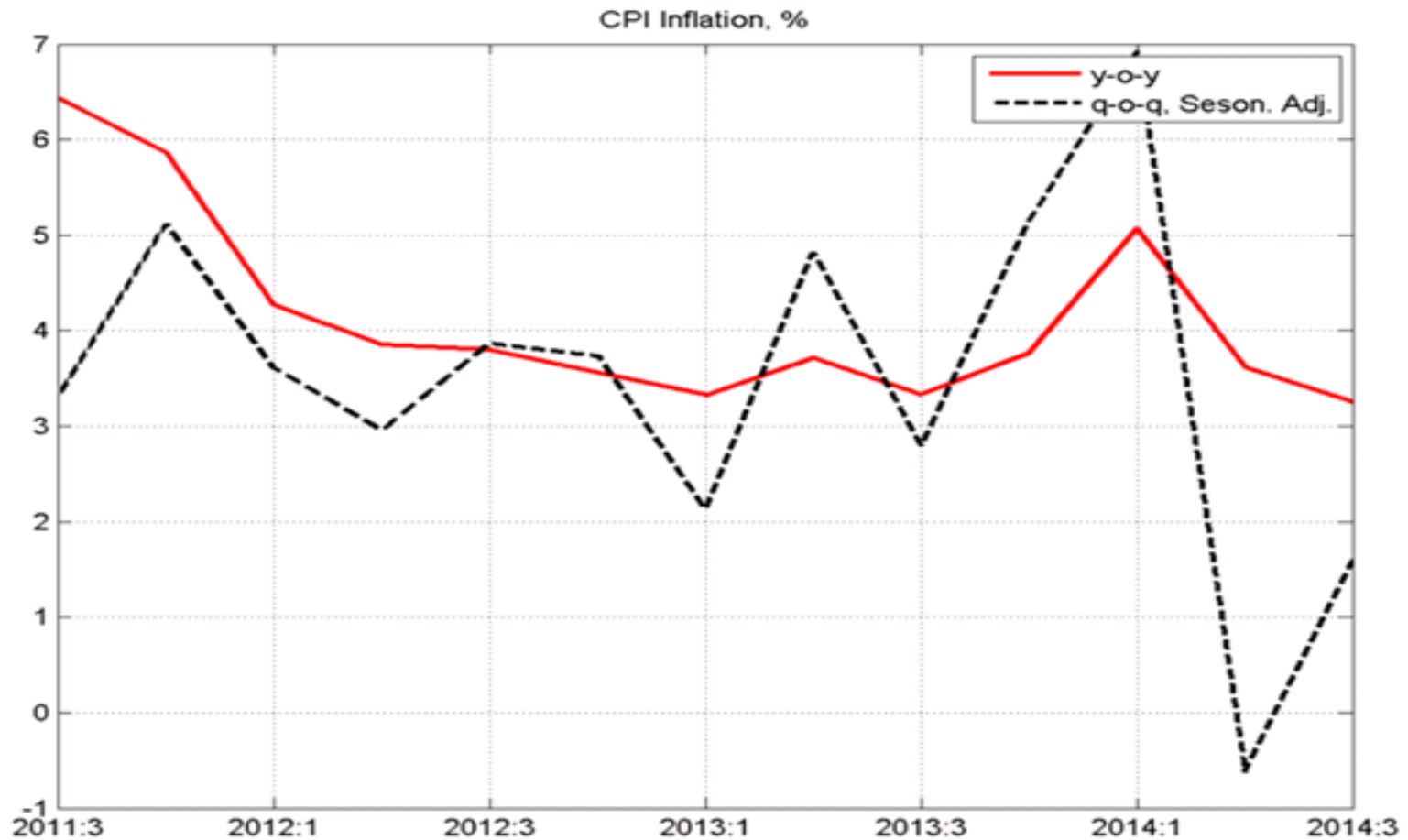
Inflation Expectations Mean Trend A Year Ahead



Quarterly Inflation Dynamics



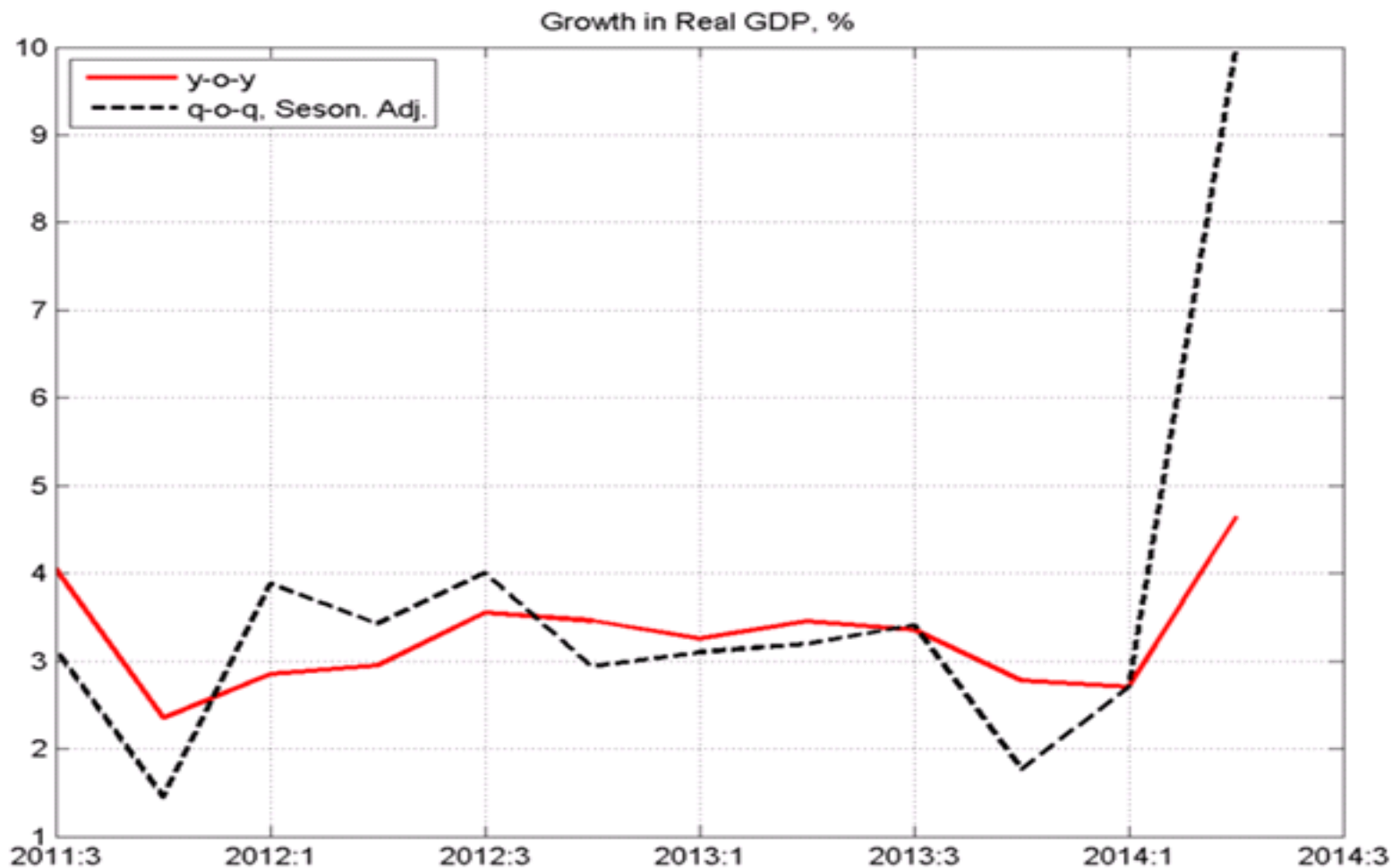
Uptick in CPI inflation on a quarterly and deseasonalized basis ...



Real GDP Growth



Highest quarterly growth since 2011 Q2 ... Positive Output gap





Medium-Term Forecasts Based on the Bank's FPAS Model

Key Points

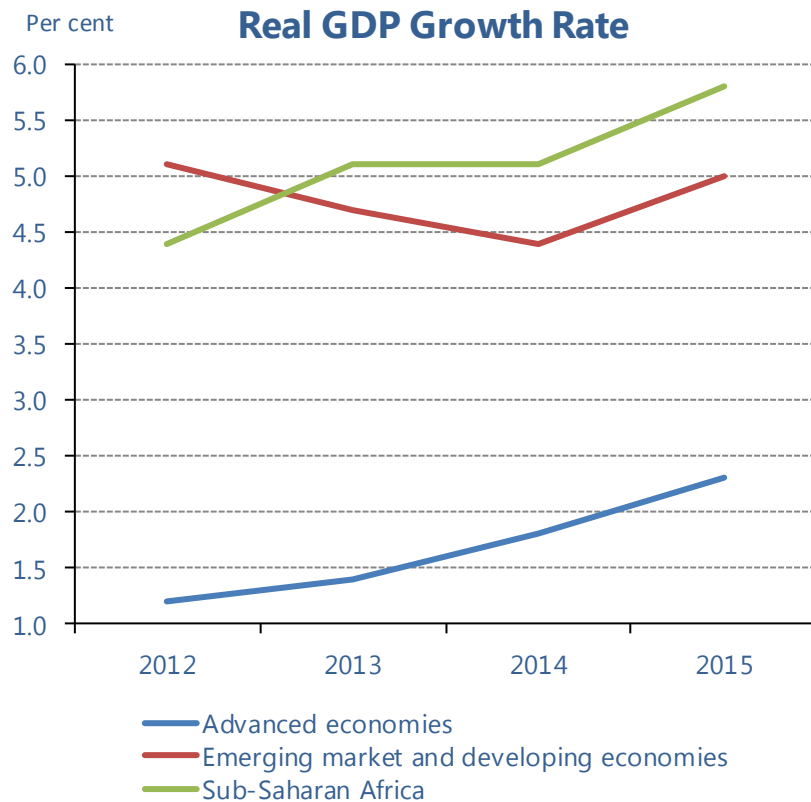


- **Inflation will gradually increase until end of 2015.**
- **Real GDP growth will maintain its momentum before stabilising at end of 2015.**
- **Consistent with this, liquidity conditions in the market must be tightened such that market interest rates ought to rise in 2015.**
- **Uncertainty for the forecast includes budgetary pressure and general elections.**

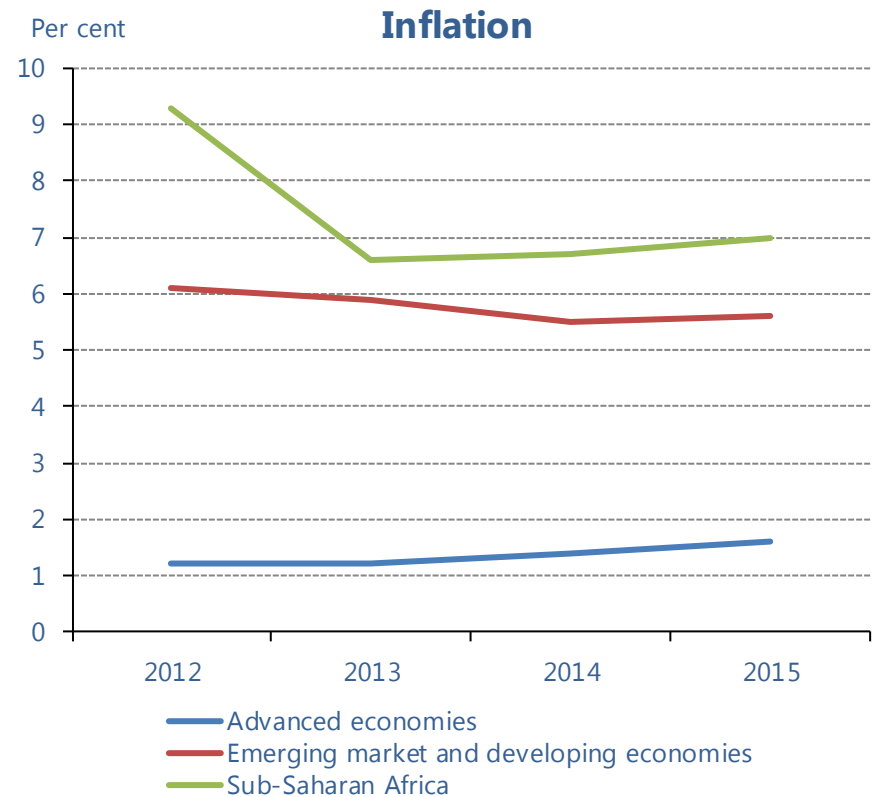
Real GDP Growth Rate and Inflation



Growth for advanced and emerging market economies are expected to rebound in 2015.



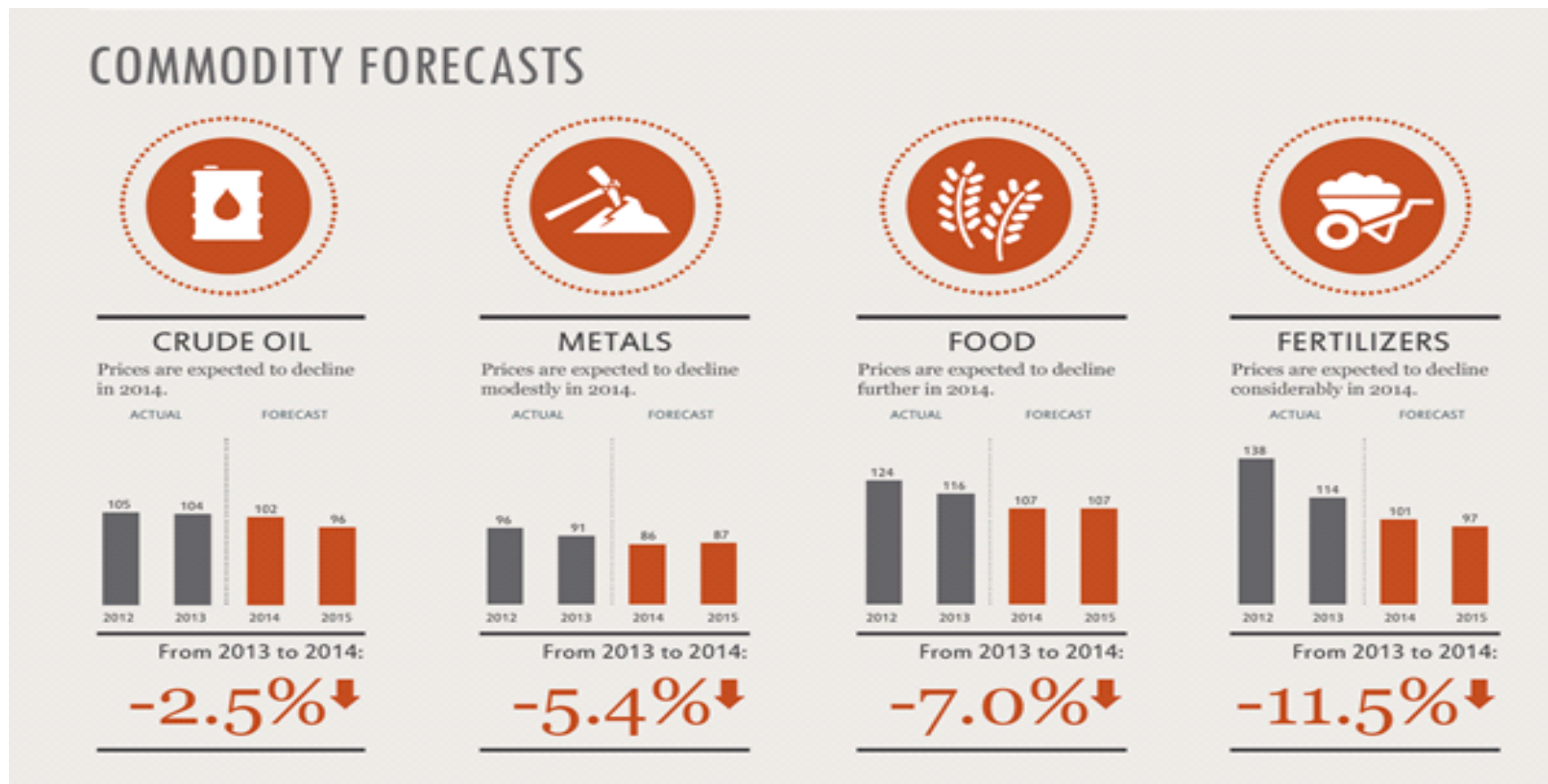
Inflation is expected to remain mostly stable in 2015.



Source: IMF World Economic Outlook, October 2014.

Commodity Prices

Broad-based declines so far ... expected to remain weak till 2015



Source: World Bank Commodity Markets Outlook.

Assumptions: Steady-state parameters



Domestic

- Domestic inflation target: 4%
- Potential output: 4%
- Real exchange rate trend: -2%
- Real interest rate trend: -1.25%

Foreign

- Inflation target (US & EMU) : 2%
- Real interest rate trend: 0.5%

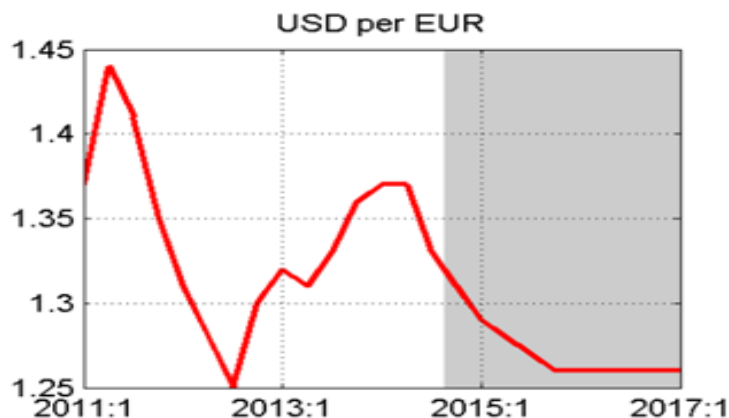
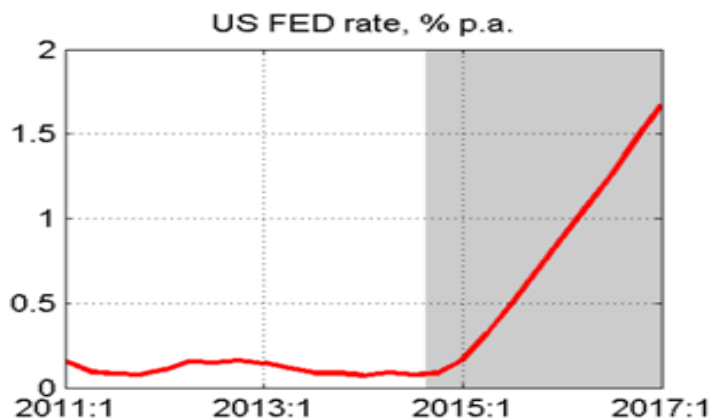
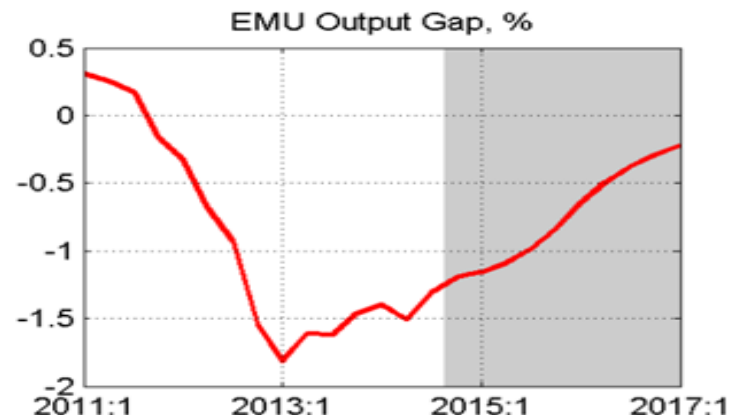
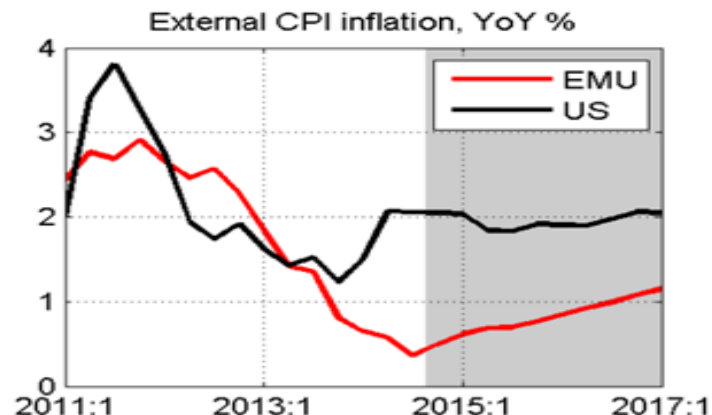


Assumptions: Near-term

- The baseline projection assumes that the budget will take place in 2015Q1, departing from the traditional period of 2014Q4.
- It is assumed that food and non-alcoholic beverages would exert pressure on CPI, reflecting seasonal factors (climatic conditions) while the contribution of alcoholic beverages and tobacco to CPI would increase.
- It is further assumed that housing, water, electricity, gas and other fuels will remain unchanged during 2014Q4, hypothesizing that prices of basic goods would remain unchanged.
- Wage pressures might originate from various sectors with a looming trade union strike, asking for revised terms and conditions.

External Sector Assumptions

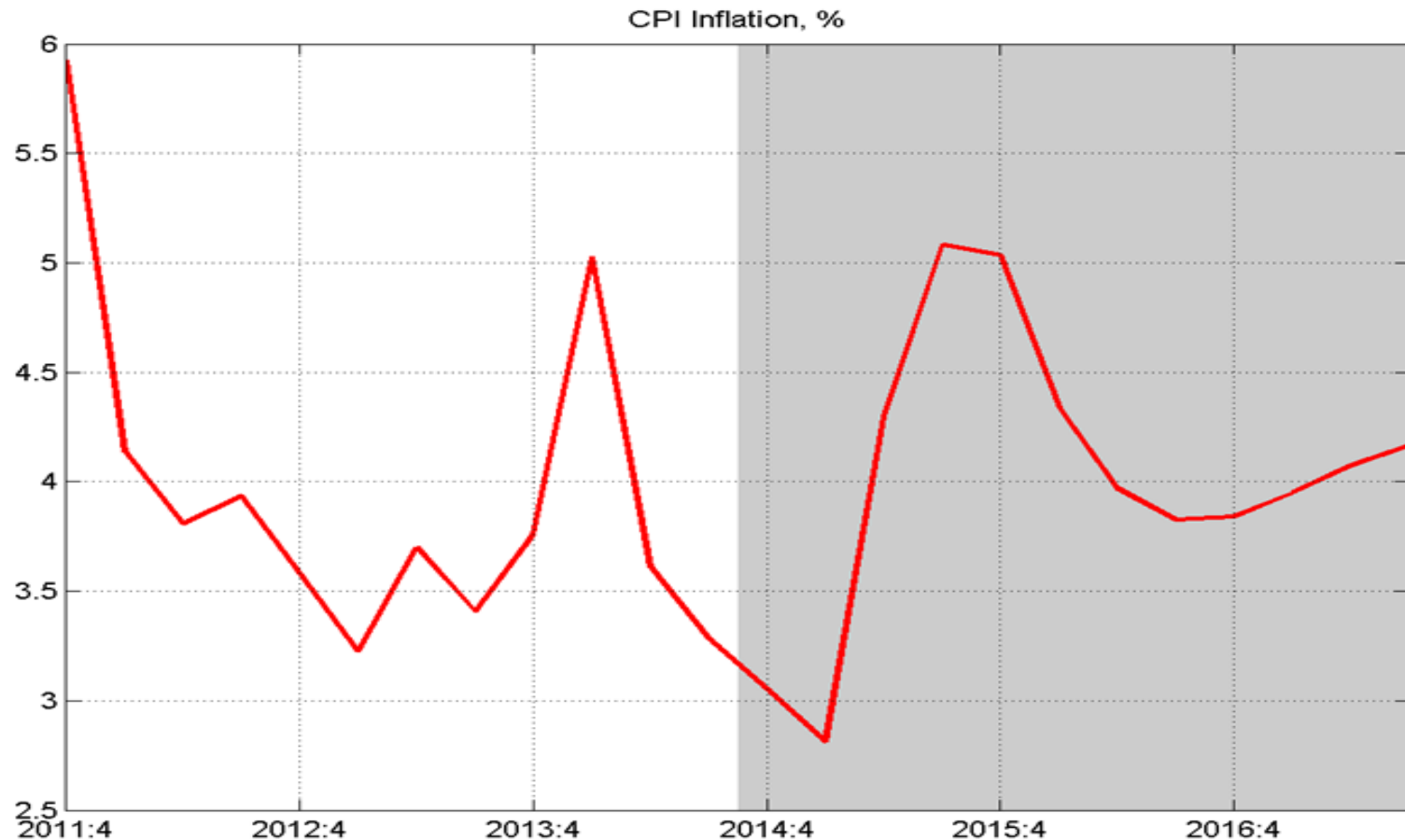
Hike in US federal funds rate in line with closing output gap ... appreciating US dollar and rise in US and euro inflation.



Inflation Forecast



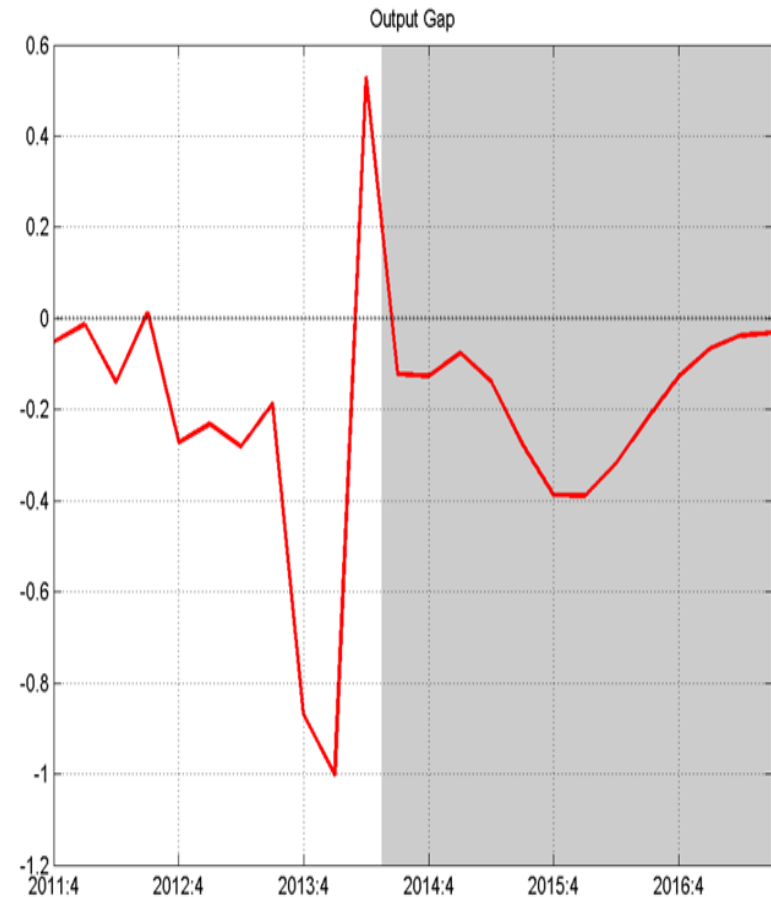
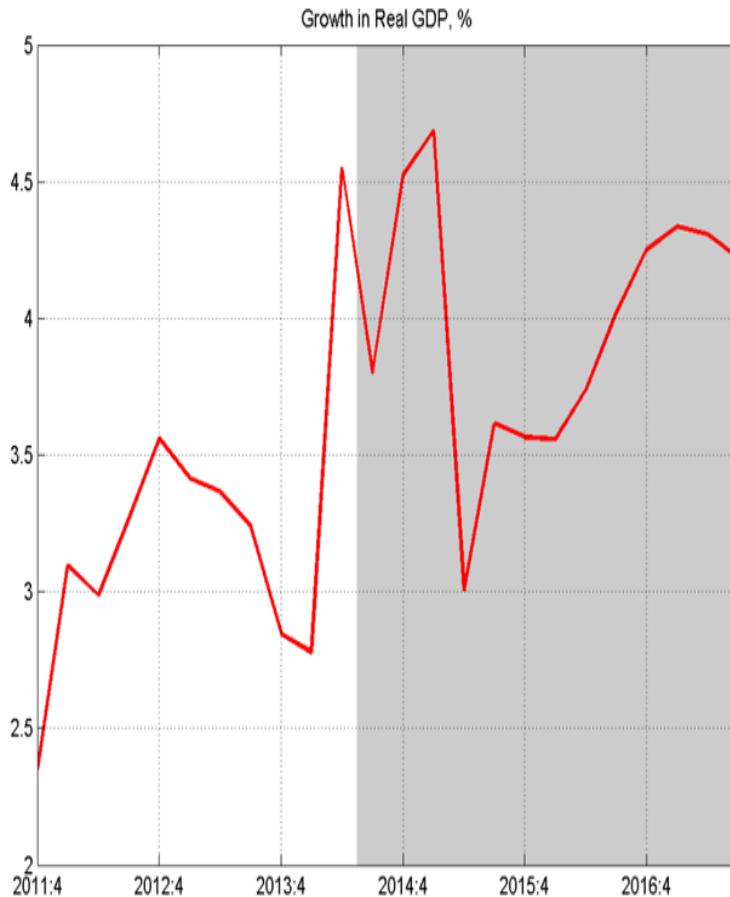
CPI Inflation fluctuates around the 3% mark in 2015Q1, before rising to about 5 per cent by end of 2015 and then converging to about 4 per cent in 2016.



Real GDP Growth Forecast



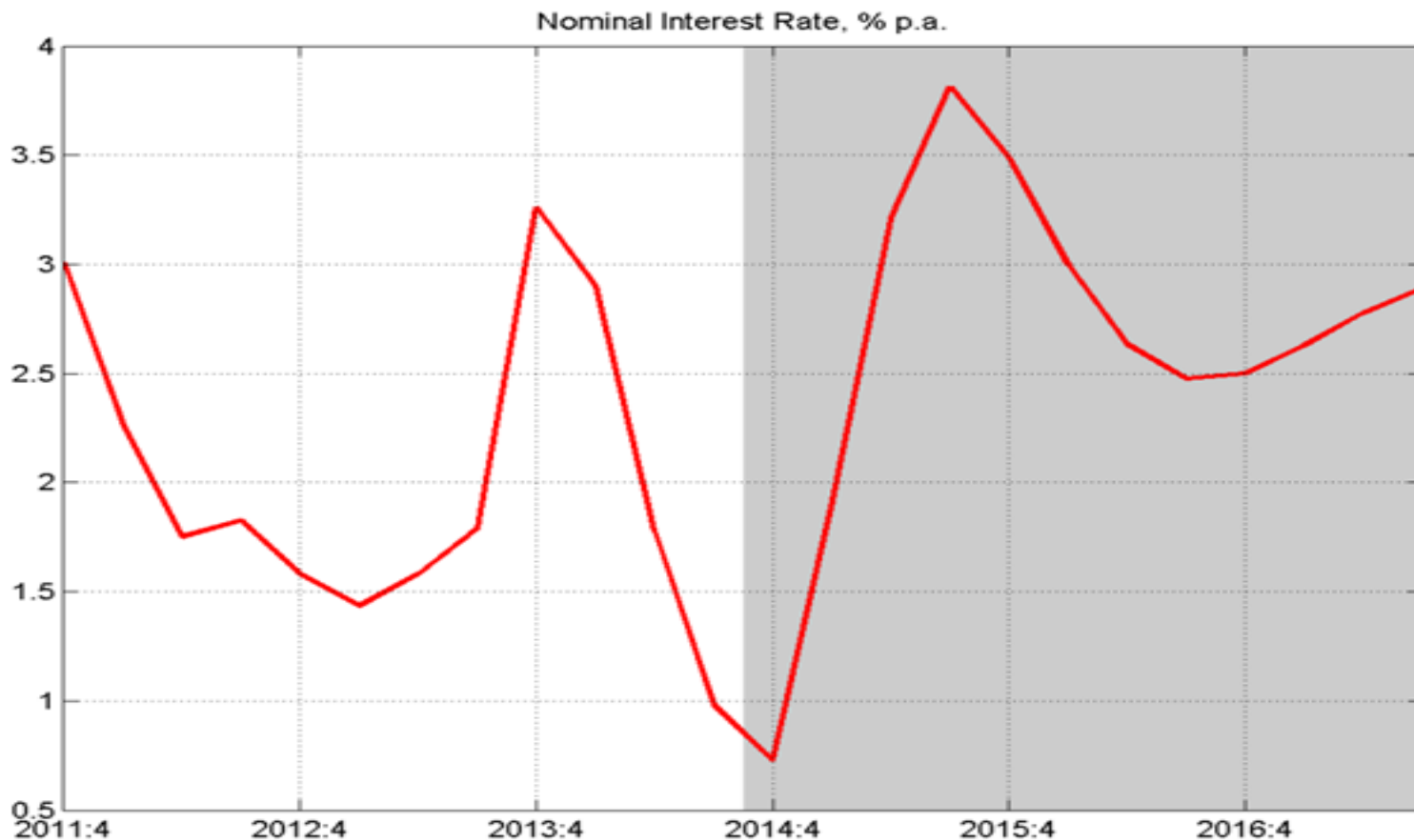
Growth is expected to maintain momentum, averaging 3.7% for 2015, thereby significantly closing the output gap



Market Interest Rate Forecast



Consistent with the forecasts is a tightening of the monetary policy stance in 2015 to contain inflationary pressures.





Thank you