

FINANCE MATTERS

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MONETARY POLICY COMMITTEE SPEECH – Highlights of the Monetary Policy Committee's speech delivered by the Governor of the South African Reserve Bank (SARB) Lesetja Kganyago on the 22nd of November 2018

- The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) hiked interest rates by 25 basis points, the Reserve Bank last adjusted interest rates in March 2018, when they cut rates by 25bps.
- According to the MPC, the interest decision was extremely close with 3 members voting for an interest rate hike and 3 members voting for rates to remain unchanged.
- The market expectation was fairly evenly split between a hike of 25bps and no change in rates
- The SARB emphasized the need to create more flexibility in monetary policy to deal with shocks and aims to do this by leading inflation expectations closer to the midpoint of the 3% to 6% inflation target band.

GROWTH OUTLOOK

- The global economic outlook is expected to remain broadly favourable over the short term. However, medium term risks are tilted to the downside due to less synchronised global growth.
- The domestic growth outlook remains challenging.
- Recent monthly data on economic performance in key sectors suggests a more moderate recovery in growth in the third quarter than expected in September.
- The SARB now forecasts growth in 2018 to average 0.6% (down from 0.7% in September). The forecast for 2019 and 2020 is unchanged at 1.9% and 2.0% respectively.
- Household consumption expenditure has been constrained by recent tax changes, weak employment growth as well as low growth in credit extension to households.

+27 (0)10 597 7506

enquiries@hewettwealth.co.za

www.hewettwealth.co.za

Block 16 B | Willowbrook Office Park

Van Hoof Street | Ruimsig | Johannesburg | 1724

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INFLATION OUTLOOK

- The near-term inflation outlook has improved, however, the longer-term risks to the inflation outlook remain elevated.
- The weaker exchange rate and the impact of higher oil prices have contributed to increasing inflation since March 2018
- The inflation forecast has improved marginally since the previous meeting.
- Headline inflation is now expected to average 4.7% in 2018 (down from 4.8%), before increasing to 5.5% in 2019 (down from 5.7%) and moderating to an unchanged 5.4% in 2020.
- Administered prices, including fuel, electricity and water tariffs, are expected to increase at rates above the upper end of the inflation target range.
- The MPC noted the rising inflation trajectory which, while remaining within the target range, continues to deviate from the mid-point of the target range.
- The MPC continues to assess the risks to the longer-term inflation outlook to be on the upside. These risks include tighter global financial conditions, a weaker exchange rate, higher wage growth, international oil prices and rising electricity and water tariffs.

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