Emerging Markets Central Bank Watch | Dec 12, 2018

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CZECH REPUBLIC

CNB to keep rates on hold amidst lower-than-anticipated inflation

Next MPC meeting: **Dec 20, 2018**

Current policy rate: **1.75%**

CEEMarketWatch forecast: **Hold**

Last updated: **Dec 12, 2018**

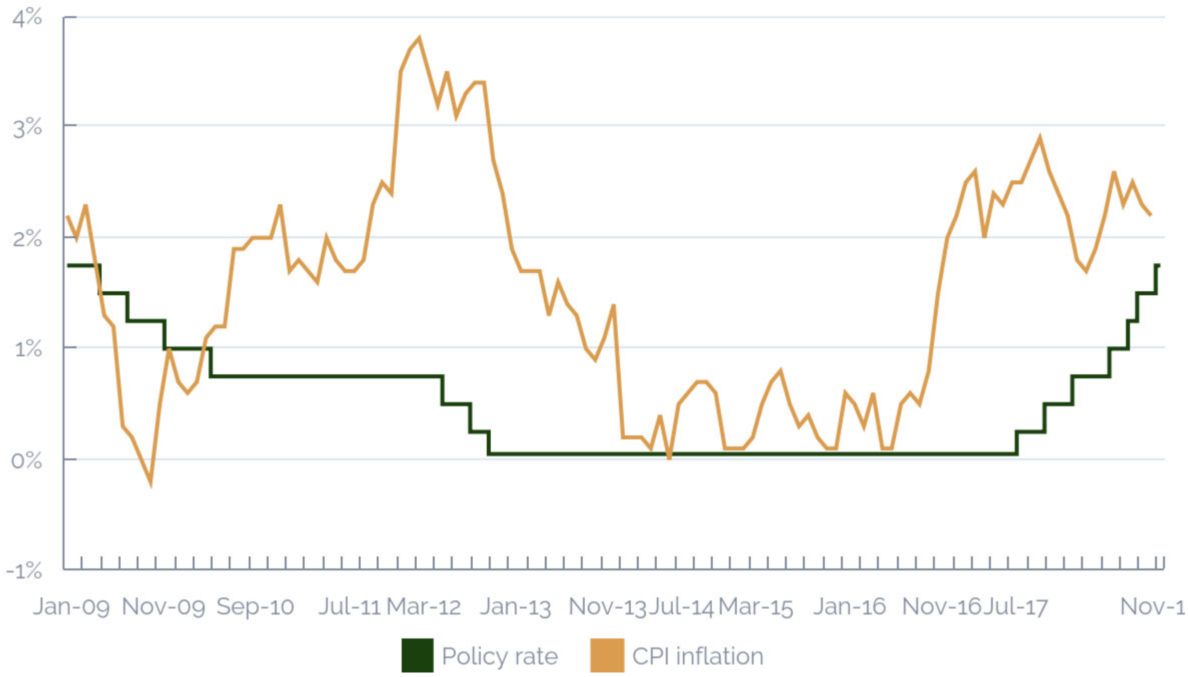
Rationale: While core inflationary pressure remains solid, headline inflation decelerated to 2% y/y in November, much below the CNB forecast for the month, at 2.5% y/y. While it was due mostly to volatile prices, mostly foods, it was enough to muddy the picture and lean towards a pause in monetary tightening in December. In addition, oil prices eased back to USD 60/barrel in early December due to excessive supply, which eased fuel price pressure, amplified by the exchange rate pass-through, which according to the CNB has increased yet again. In addition, economy growth might end up slightly slower than anticipated this year, which will further weigh towards a hold decision in December. CNB governor Rusnok spoke to that effect, as well as vice governor Mora.

However, the CNB board will likely remain hawkish in 2019, when it expects inflationary pressure to reappear. On one hand, there are a number of administered price hikes, whose direct impact should be about 0.3pps, according to our calculations. In addition, the CNB still argues that the exchange rate is "modestly undervalued" at the moment, so if appreciation does appear in 2019, it will stand in for monetary tightening, as according to CNB calculations, a 1% appreciation of the exchange rate is equivalent to a 25bp hike. In addition, the labour market remains overheated and wage growth pressure is not going away, as indicated by recent collective labour agreements in industry.

Given the latest developments, we expect that cautiousness will prevail. With growing uncertainty about Brexit (especially after the delayed vote in the British parliament), the CNB board might prefer to keep rates unchanged for some time, given the considerable (and bigger than anticipated) monetary tightening so far. The good part about raising rates so quickly in 2018 is that the CNB board has now room to manoeuvre and we expect that it will use it.

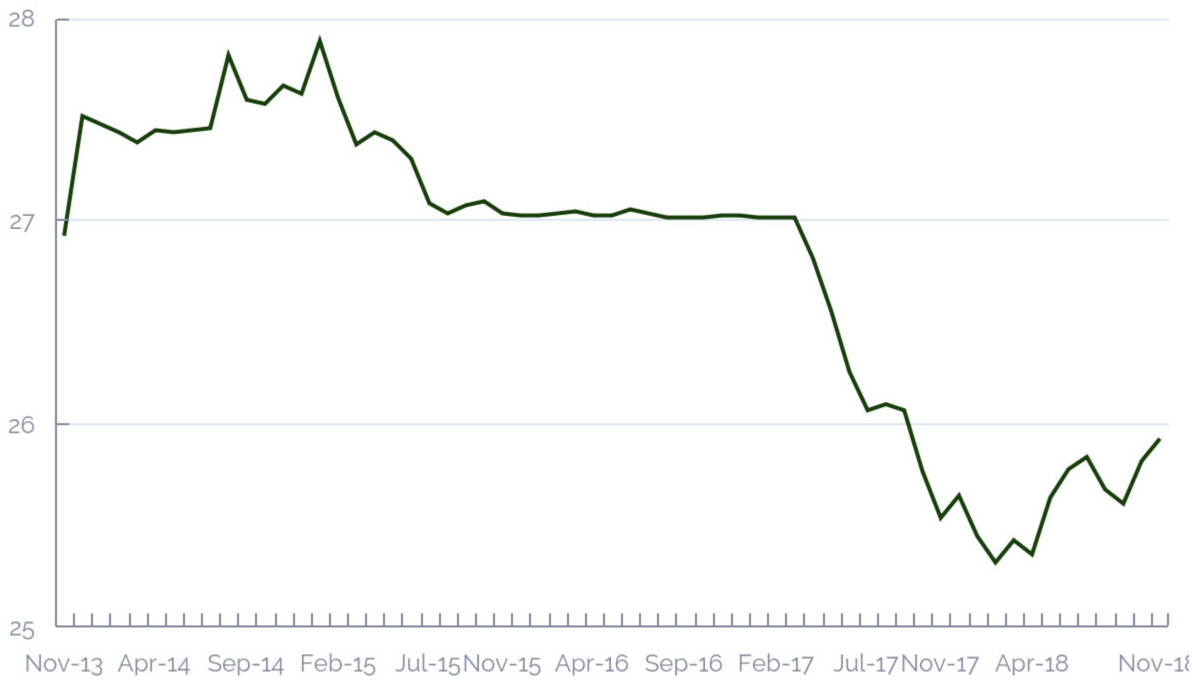
Inflation and interest rates

Source | CSU, CNB



EUR/CZK exchange rate

Source | CNB



Further Reading

CNB board statement from meeting on Nov 1, 2018

Minutes from latest rate-setting meeting on Nov 1, 2018

CNB meeting with analysts, Nov 2, 2018

Inflation Report, November 2018

Quarterly macroeconomic forecast, November 2018

CNB board members' presentations, articles, interviews (Czech, English)

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Recent developments:

- Weaker exchange rate to open door for rate hike debate - CNB's Benda, Dec 12, 11:21
- CNB governor Rusnok in favour of delaying next rate hike for 2019, Dec 11, 14:13
- CNB board member Michl may face conflict of interest over fund ownership, Dec 11, 07:12
- CNB sees anti-inflationary risk to forecast after November CPI print, Dec 10, 13:15
- CNB rules out selling fx reserve, argues monetary policy transmission hasn't weakened, Dec 07, 16:23
- Local economists expect CNB to start selling fx reserves to keep CZK from weakening, Dec 06, 16:04
- Brexit poses higher recession risks - CNB vice governor Mora, Dec 05, 07:24
- Comment of CNB's Holub on CZK's overvaluation, Nov 30, 14:49
- CNB sees GDP growth slightly below forecast in Q3, Nov 30, 13:17
-

HUNGARY

MPC keeps rate on hold in November, normalisation possible as of December

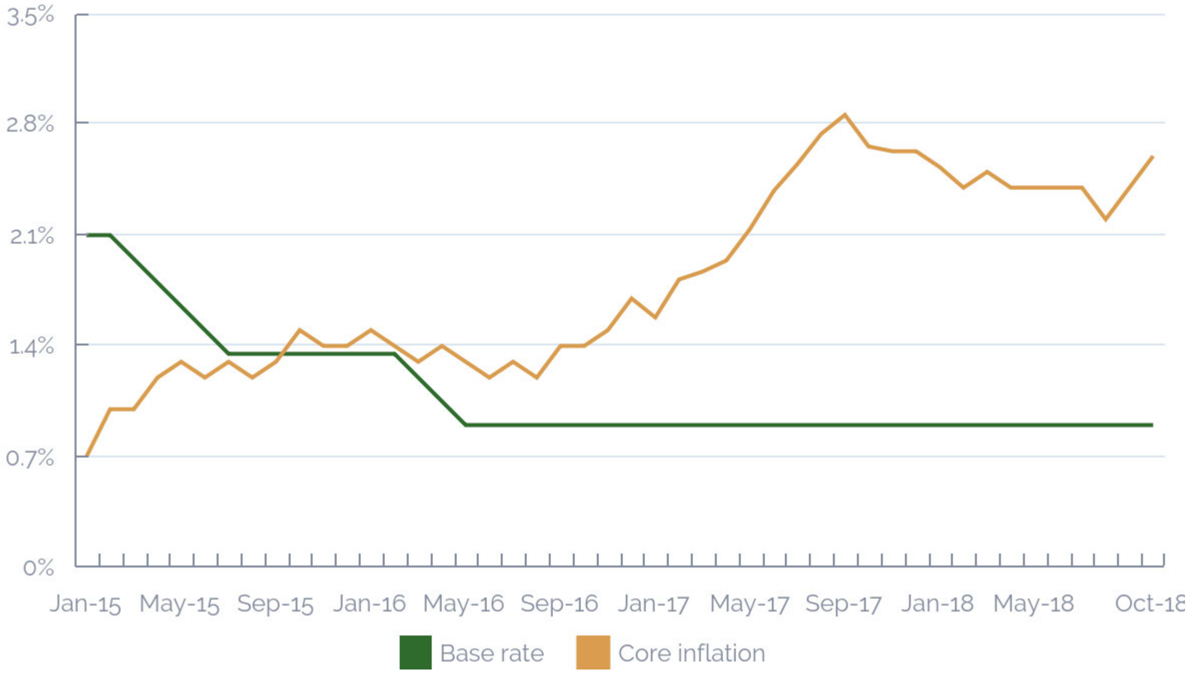
Hungary | Dec 05, 14:20

- **Next MPC meeting: Dec 17, 2018**
- **Current policy rate: 0.90%**
- **CEEMarketWatch forecast: Hold**
- **Rationale: NBH has clearly indicated that recent pick-up in inflation does not warrant change in monetary policy stance, unwinding of unorthodox tools to take place first**

We do not expect the policy rates to change in the near future, which has also been indicated by deputy governor Marton Nagy who said after the September meeting that there will be no need for this at least by the middle of 2019 if inflation outlook remains as it is. He also noted that the MPC will first start with the unorthodox monetary policy tools if necessary. However, this might happen only in December at the earliest since Nagy also pointed out that important decisions are likely to be taken on those meetings when new forecasts are due. The NBH made no change to its monetary policy stance and guidance in October and November. Inflation surprised on the upside in the past couple of months though so we believe that some unwinding of the loose monetary conditions might be possible as of December, most likely in the form of lower stock of forint-liquidity providing swaps. We expect that the NBH might be under pressure to start the monetary policy normalisation in December, also given the much stronger-than-expected GDP growth in Q3 and the related increased risks of overheating of the economy.

Base rate and inflation (%)

Source | National Bank of Hungary, Central Statistical Office (KSH)



The MPC continues to believe that the inflation target will be met in a sustainable manner as of the middle of 2019, the period pinned by Nagy as the earliest to start raising the rate. The NBH kept its inflation forecast unchanged from the previous release in June, which sees inflation averaging 2.8% this year, rising to 3.1% in 2019 and easing slightly to 3.0% in 2020. Moreover, the rate setters expect stability in core inflation but rising consumption to gradually push up underlying inflation. The MPC believes that GDP growth is likely to pick up further in 2018 with output being close to potential, and growth will start decelerating gradually from 2019, like in the June projection.

The press release from the meetings in Sep-Nov reads that the primary objective is to achieve the inflation target and the MPC stands ready to start tightening. It also reiterates that the monetary policy in Hungary will largely depend on the ECB policies which might remain loose. However, the last rate statements from Sep-Nov do not mention any more that the ECB's rate will not change at least by the middle of 2019, which in our opinion raises some uncertainties about policy in Hungary, which is also justified by the high level of volatility abroad and in the country. The MPC says that it stands ready for gradual and cautious normalisation of monetary policy but believes that it must still maintain the loose monetary conditions to meet the inflation target.

Post-meeting MPC statement from November

Minutes from November MPC rate-setting meeting

Latest Inflation Report - Q3/2018

Strategic framework for unorthodox monetary instruments affecting short-term yields

MPC meeting calendar 2019

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Recent developments:

- Forint liquidity of bank sector starts increasing in November, Dec 12, 08:44
- MPC gives hawkish tones on November rate-setting meeting – minutes, Dec 05, 15:11
-

ISRAEL

MPC to keep policy rate on hold after surprise hike on Nov 26

Israel | Nov 28, 14:01

Next MPC meeting: **Jan 7, 2019**

Current policy rate: **0.25%**

CEEMarketWatch forecast: **Hold**

Last updated: **Nov 28, 2018**

Rationale: Following the surprise hike in the policy rate by 15bps to 0.25% on Nov 26, we expect the MPC to keep the rate on hold in the next meeting on Jan 7 since the board has been repeatedly saying that the hikes would be gradual and cautious. The rate has stayed at the historic low of 0.10% in March 2015-Nov 2018 and the MPC assesses that the new 0.25% level is still accommodative, supporting the efforts of the central bank to achieve its targets, the release after the latest rate decision assures.

Inflation entered the 1-3% target range in June and has stayed within it since then but hovering around the lower end and surprising on the downside in some of the months. The MPC has apparently assessed that it got entrenched in the range to start the tightening because it has been constantly repeating that this is the major condition to hike the rate. But keeping it inside would require soft shekel, which is unlikely to happen in case of another hike in the next meeting. GDP growth in Q3 did not rebound as expected in Q3 and early data for Q4 do not indicate any spectacular developments at the end of the year either. The global uncertainties are also elevated and all these call for gradual and cautious approach as promised, which rules out another hike too soon, in our opinion.

Still, we note that there are quite high uncertainties in predicting how the monetary policy would evolve in Israel, which are even higher now. The Nov 26 decision is not the first surprise move of the MPC, also because rate setters in Israel usually have little public appearances so their attitude remains overall unknown. Recently, the communication has increased with governor attending press conferences each quarter but this has not improved predictability, in our opinion. Moreover, the next monetary policy sitting would be chaired by a new governor (Amir Yaron who should take the post officially at the end of

December) whose attitude in the hawk/dove spectrum remains unknown. Most analysts believe that he could be more hawkish than ex-governor Flug. Moreover, many assess that the window of opportunity for tightening has started to close. Therefore, we think that some small opportunity for further tightening in the early part of 2019 still exists, despite rhetoric pointing to the opposite.

Further reading:

Board statements and press briefings

Minutes from MPC meetings

Calendar of MPC meetings

Latest BoI macroeconomic forecast, Oct 2018

Monetary policy reports

Bank of Israel Law

The Monetary Committee

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Recent developments:

- Four MPC members back 15bps rate hike, one in favour of on-hold decision, Dec 10, 16:17
- Most inflation expectations down in November, Dec 03, 07:07
- MPC convinced inflation to stay within 1-3% target range – MPC's Abir, Nov 30, 14:05
- Acting governor: Conditions for rate hike were ripe, Nov 27, 07:57
- In surprise move MPC increases policy rate by 15bps to 0.25%, Nov 26, 16:23

POLAND

MPC majority remains dovish, likely buoyed by CPI and energy news

Poland | Dec 04, 22:02

Next MPC meeting: Jan 9, 2019
Current policy rate: 1.50%
CEEMarketWatch forecast: Hold
Last updated: Dec 4, 2018

Rationale: The Monetary Policy Council's two wings are clear: doves like Eryk Lon want to keep interest rates on hold to the end of most members' terms in early 2022 and hawks like Kamil Zubelewicz back hiking them at once. The MPC held rates at its Nov 7 sitting, as it has done at every sitting since March 2015, when it cut them, and is almost certainty going to hold them through H1 2019. The big surprise at the November sitting was that someone submitted a motion to hike rates by 25bps, though that was defeated. The motion was the first to change them in over three years and the first to raise them since May 2012.

The MPC's dovish majority is, however, likely to have become emboldened since the November sitting, though inflation risks do still remain. Dovish factors have arisen such as the flash estimate of November CPI inflation slowing sharply to 1.2% y/y from 1.8% in October. That is the lowest since December 2016. Though food and fuel prices likely accounted for roughly half of the decline, the print would suggest reduced inflation pressure in general and that is without much impact from the latest global oil price declines, which set inflation up to fall further.

Another dovish factor is Energy Minister Krzysztof Tchorzewski's announcement that the government's planned compensation scheme for expected electricity price hikes will work on the producer level, shielding households and likely SMEs from price rises. Wholesale electricity prices have surged this past year on the back of higher coal prices and big jumps in CO2 emission permit costs. Reports suggest the four main power sellers have asked the regulator for household power tariff price hikes of an average 30%. Though the tariff is only one part of the energy price, this could have -- or still could -- lead to an impact on headline inflation. To be sure, unregulated corporate power prices are expected to rise sharply in 2019 and that will eventually hit consumer inflation. The MPC spent much time talking about the potential impact of power prices in 2019, so the likely lessening of this impact in 2019 should be taken as a dovish factor.

The MPC was also worried much at the November sitting about the potential impact of laxer migration rules in Germany and other Central European countries as it impacts Ukrainian labour migrants. Ukrainians have flooded into Poland in recent years, helping make up for the effect of a tight labour market. The prospect that new Ukrainians will not come and the ones already in Poland might leave, seeking higher salaries elsewhere, could mean an even tighter labour market and thus raise the potential for wage pressure. Still, the doves on the MPC note that Ukrainians do like Poland for geographic as well as cultural and linguistic reasons and thus might not leave in heavy numbers. Some recent signs of the labour market have not been as strong. An expected economic slowdown could also be disinflationary.

As for the members themselves, MPC member Lon, the dove, said on Nov 14 that stable interest rates were a good way for Poland to respond to the uncertain global situation. He then said on Nov 27 that he believes interest rates could be left on hold to 2022. He is the member cited in MPC statements that believes that if the economy slows, rates should be cut. Another dove, Jerzy Zyzynski, said on Nov 22 that any increase of interest rates due to a factor suck as power price increases could hurt GDP growth and depress needed investment. Neither Lon nor Zyzynski is likely to vote for a rate hike unless absolutely impossible not to.

Two members more in the middle, Grazyna Ancyparowicz and Rafal Sura, were less dovish than the top two doves. Ancyparowicz said on Nov 26 that she supports maintaining a 'wait and see' policy at least until the update of the next inflation projection in March. This sentiment has been expressed by nearly all MPC members and its mention also played a prominent role at the Nov 7 policy sitting. MPC members want to see how the early year administrative price changes affect inflation and get a better gauge on labour market developments. The March CPI projection will also extend the policy horizon to 2021, giving a broader outlook. Ancyparowicz said that any rise of inflation to near the upper end of the fluctuation band (3.5% in 2019 would not trigger second-round effects and would not make inflation rise. She also said energy prices were exogenous and hiking rates to counter a factor not impacted by monetary policy would only raise the cost of borrowing and in the end hurt GDP without touching inflation. She expected power prices to rise 12% for companies and households and boost inflation.

The MPC's Rafal Sura said Nov 19 the council would have to hike rates if inflation rose above 3.5% in a sustained way, but that he doubted that would happen. Sura said that energy prices and the tight labour market would likely push up inflation, but probably not above 3.5% for an extended period. Sura said he wanted to see the March inflation projection to see the precise impact of the various inflationary threats. Sura noted there would be no automatic tie between higher inflation and higher rates.

On the hawkish side, Lukasz Hardt said Nov 15 that because inflation was low, the council could concentrate on supporting economic growth, as written in the NBP's main policy remit. Hardt added that he is staunchly opposed to rate cuts, which he said would threaten financial stability and not support borrowing.

Fellow hawk Eugeniusz Gatnar said on Nov 22 that the expected jump of CPI inflation next year would justify an interest rate hike in 2019. Gatnar said he expects CPI inflation to jump to 3.4% y/y by April. Inflation could late rise to above 3.5%, he said, meaning it was better to act earlier rather than later. Gatnar argued that a hike would not be economically harmful and would provide the MPC more ammo in the future should economic activity weaken. Gatnar also said the expected inflation rise would boost negative rates and potentially trigger a big rise in demand for consumer loans and mortgages.

One extenuating circumstance is NBP Governor and MPC chair Adam Glapinski's ties to the Polish Financial Supervision Authority (KNF) affair. Glapinski, who has been close to PiS leader Jaroslaw Kaczynski since the early 1990s, has seen the press be full of stories of the NBP having hired family members of high-ranking PiS officials or named them to lucrative foreign posts. Glapinski was also somehow connected to the KNF scandal since now ex-KNF head Marek Chrzanowski, who is accused of soliciting a bribe from a bank CEO in return for favourable regulatory treatment, was an acolyte of Glapinski. Glapinski even went on record after the KNF story broke on Nov 13, saying he believed Chrzanowski and accusing the journalists who broke the story of trying to undermine the banking system. Glapinski also did meet Chrzanowski and the bank owner right after the meeting at which the bribe was allegedly solicited, though no evidence has arisen any talk of a bribe came up at that meeting.

The NBP has become so sensitive to Glapinski's mention in regards to the scandal that its lawyers filed a motion last Fri. to try to get several journalists to delete stories in which his name is mentioned in regards to the scandal. In turn, the opposition Civic Platform (PO) has accused Glapinski of trying to orchestrate censorship.

At present, it does not seem that Glapinski's job is in question and it doesn't seem like he broke any direct laws. But Glapinski does appear close to PiS and that could raise questions in investor minds about whether he would want the MPC to raise interest rates before the October/November general elections since such a move might hurt the ruling PiS's chances. Nine of the 10 MPC members were backed by PiS, so the political question is bound to be raised. Zubelewicz and Gatnar don't seem to have a political problem, so this might not be a decisive factor, but is something to keep in mind.

In our view, the MPC majority remains firmly dovish, particularly in regards to the latest CPI inflation flash estimate and the impact lower oil prices could have. Energy and labour are questions, but for now we believe the MPC bias is to keeping rates on hold in 2019. That will hold unless CPI inflation exceeds 3.5% in a sustainable way with demand-pull factors in play.

Archived video of all MPC press conferences

MPC's post-sitting statements

Latest council minutes

Latest NBP inflation report (November 2018)

Most recent MPC voting results

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Recent developments:

- Three ex-NBP governors decry detainment of former KNF workers, Dec 07, 23:25
- MPC holds rates as GDP growth to slow, Glapinski upholds flat 2019 rate view, Dec 05, 17:27
- Fitch ups GDP growth forecast to 5.1% for 2018, 3.8% for 2019 and 3.0% for 2020, Dec 05, 15:43
- MPC holds benchmark rate at record low of 1.50%, Dec 05, 14:41
- MPC's Zubelewicz says Nov projection is realistic, energy prices still a problem, Nov 27, 14:51
- MPC's Lon backs holding rates to end of term in 2022, maybe longer, Nov 27, 13:38
- MPC's Lon says FX intervention possible if export profitability in doubt, Nov 26, 17:34
- MPC's Ancyparowicz backs 'wait and see' policy at least till Mar projection, Nov 26, 13:50
- MPC's Zyzynski reported saying hikes due to power prices could hurt GDP, Nov 22, 17:54
- MPC's Gatnar says coming inflation jump justifies Q1 rate hike, Nov 22, 15:55
- MPC shot down Nov 7 motion to increase rates by 25bps - minutes, Nov 22, 15:02
-

NBR to hold rates as inflation moderates, overheating risks diminish

Romania | Dec 12, 12:09

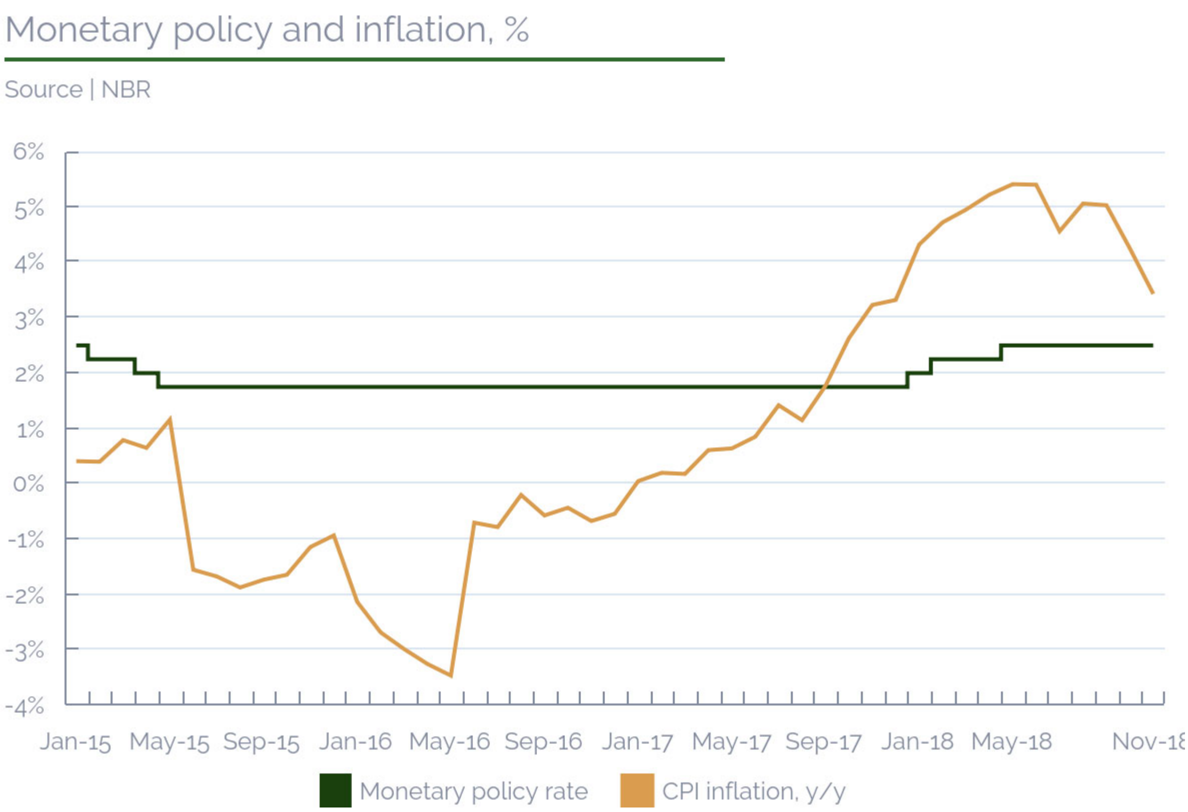
Next MPC meeting: **Jan 8, 2019**

Current policy rate: **2.50%**

CEEMarketWatch forecast: **Hold**

Last updated: **Dec 12, 2018**

Rationale: Inflation moderated to a milder-than-expected to 3.43% y/y in November from 4.25% y/y in October, mainly triggered by non-food inflation affected by base effects from administered and oil prices. However, inflationary pressure from seasonal foods, fuels and energy remained strong, whereas some volatile food prices preserved a solid growth. Even so, we do not think that the NBR will decide to increase the policy rate in its next MPC meeting because inflation acceleration was triggered by components outside monetary policy influence and because the economic growth deceleration is already steeper than expected. Our views were several times confirmed by NBR representatives, who stated that inflation would further moderate by the end of 2018, just at the ceiling of the target interval (2.5%±1pp). Besides, the NBR kept the policy rate at the current 2.5% level in the most recent MPC meeting on Nov 6, based on the same reasons. Moreover, NBR Governor Mugur Isarescu estimates that CPI inflation will remain within the targeted band throughout the entire 2019, which signals that a new rate hike is unlikely.



Nevertheless, uncertainties and risks surrounding the inflation outlook persist and mainly stem from developments in fuel and administered prices, as well as in volatile food prices and prices of some processed food items. Also relevant are the fiscal policy stance, future fluctuations in international oil prices, economic growth and inflation in the euro area and the EU, and hence the monetary policy of the ECB and central banks in the region. However, most of those are factors on which monetary policy has limited or no impact. In fact, Isarescu previously pointed out that about two thirds of inflation were fuelled by components outside monetary policy influence.

Furthermore, the central bank is carefully watching economic growth and investment amid rising domestic uncertainties, which may be more hindered by a new policy rate hike. We remind that economy growth slowed down sharply in January-September. Investment looked good at the beginning of the year but deteriorated visibly as of Q2. For the worse, the outlook is not bright since the government struggles with keeping deficit below 3% of GDP and fails in providing a stable and predictable environment. The widening twin-deficit situation is more distressing for the governor than negative real rates, so a decision to appreciate the RON is improbable. Therefore, considering all developments so far, we don't think the NBR sees a new policy rate hike as needed.

The central bank prudently kept the policy rate on hold in its latest meeting on Nov 6, as we expected. Although economic growth is still above potential, overheating risks diminished considerably. In addition, GDP growth moderation was sharper than expected and investment recovery is feeble. Nevertheless, the NBR still targets inflation and further inflationary pressure is expected to persist in several fields by the end of 2018. At the same time, market liquidity started reporting major fluctuations, pushing the NBR to intervene with liquidity management instruments when needed. Besides, Isarescu pledged to cut reserve requirement ratios in case liquidity shortage becomes permanent.

As recalled, the NBR increased the policy rate three times this year, by 25bps each in January, February and May, trying to temper down inflation and inflation expectations. The policy rate has been kept at the same level since May, when adjusted CORE2 inflation started to slow down. Also, the central bank aimed to avoid hindering economic growth too much and discourage investments. The central bank kept its inflation forecast at 3.5% in the quarterly Inflation Report on Nov 8.

Further reading:

NBR board statement from meeting on Nov 6, 2018

Minutes from latest rate-setting meeting on Nov 6, 2018

Inflation report, November 2018

NBR forecast

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RUSSIA

Dec 14 meeting remains a close call, but now we see higher chances for rate hike

Russia | Dec 12, 07:26

- **Current policy rate: 7.5%**
- **Next monetary policy meeting: Dec 14**

- **Expected decision: 25bp rate hike**

We continue to see the Dec 14 meeting as a close call between a hold decision and a 25bp rate hike, but our view has moved toward a rate hike in the past two weeks and now we see this as slightly more probable. Still, there are good arguments on both sides. The two main points that shifted our opinion are warnings of CBR Governor Nabilullina about the advantages of a smaller hike in advance and the intention of the CBR to resume forex purchases from mid-January, while more fundamental indicators continue to point toward a no change decision.

- **CBR rhetoric - hike**: We noted a statement by CBR Governor Nabiullina that a rate hike is nothing to fear about and it is better to go for a small hike, reducing the risks of a significant hike in the future. The statements fit very well with the preemptive rate hike view.
- **Resumption of forex purchases - hike**: The CBR confirmed that it plans to resume forex purchases from mid-January and the decision will be announced together with the monetary policy decision. We expect that the CBR would prefer to balance any downward pressure on the ruble with monetary tightening. On the other hand, the announcement was accepted rather calmly by markets, the CA surplus will get a seasonal boost in Q1, amounts purchased will be lower after the latest decline of oil prices.
- **Short-term inflation dynamics - mixed:** Inflation is poised to remain within CBR's 3.8-4.2% target at the end of 2018, but latest forecasts moved toward the upper end of the range. Weekly data also showed acceleration and we believe this can be used as an argument for a rate hike.
- **Inflation expectations - hike**: Inflation expectations rose by 0.5pps in November to 9.8% and are clearly elevated, which can be used as an argument for a rate hike.
- **Medium-term inflation prospects - hold**: Arguably, the most important consideration calls for holding interest rates, in our view. There are no signs of demand-side pressures and the target overshoot in 2019 will be due to the VAT rate hike. In other circumstances a central bank could easily discard this effect and concentrate on inflation adjusted for tax changes, but the CBR needs to build credibility.
- **US sanctions - hold**: The delay in the announcement of new US sanctions does not eliminate risks, but timing considerations call for a hold decision as the CBR would prefer to have more space for tightening if new sanctions prove more destabilising than expected.
- **Real economy - hold**: Real sector data are in the lower end of expectations with GDP growth slowing to an estimated 1.3% y/y in Q3 and household demand losing steam after the strong figures in summer (World Cup effect). The previous 25bp rate hike also produced a notable upward shift of both deposit and lending rates (by more than 25bps), resulting in more significant monetary tightening.

Press release after October 2018 monetary policy meeting (in English)

Monetary policy report (September 2018, in English)

Monetary policy guidelines for 2019-2021 (in Russian)

Monetary policy guidelines for 2019-2021 (summary in English)

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Recent developments:

- Consumer prices rise by 0.1% during week of Nov 20-26, Nov 29, 07:14
- CBR is likely to resume forex purchases in Jan 2019 - Nabiullina, Nov 29, 06:27
- Inflation expectations rise by 0.5pps in November to 9.8%, Nov 28, 16:23
- CBR halts forex purchases till end of September, Aug 23, 13:41
- EnergyMin wants higher utility price hike in 2019 due to VAT hike, Aug 21, 16:07
- CBR resumes forex purchases on behalf of FinMin, Aug 21, 10:59
- CBR reduces forex purchases on behalf of FinMin, Aug 10, 09:55

SOUTH AFRICA

SARB expected to hold policy rate at January meeting after November hike

South Africa | Dec 05, 11:53

Next MPC meeting: **Jan 17, 2019**

Current policy rate: **6.75%**

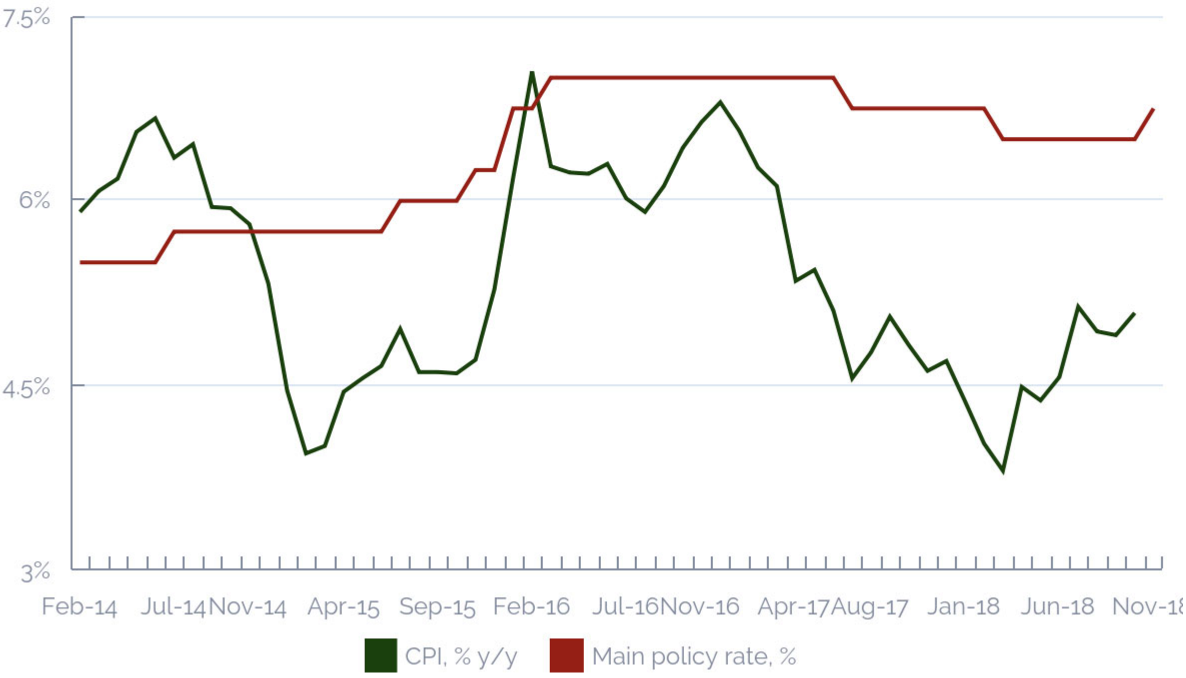
CEEMarketWatch forecast: **Hold**

Last updated: **Dec 05, 2018**

Rationale: We expect that the repo rate will be held unchanged in January, following the Nov 22 hike, which we consider mostly pre-emptive. On Nov 22, the MPC has decided to increase the repurchase rate by 25bps to 6.75% per year. Three members preferred a hike and three members preferred no change. The main reason for the committee to act now was that 'delaying the adjustment could cause inflation expectations to become entrenched at higher levels and thus contribute to second round effects, which would require an even stronger monetary policy response in the future'. The MPC continues to consider the monetary policy stance to be accommodative. Anchoring inflation expectations near the mid-point of the inflation target 3-6% range will continue to be a focus of monetary policy actions. The statement also reiterated that any future policy adjustments will be data dependent.

Inflation vs main policy rate (%)

Source | Statistics SA, SARB



There have been many new data releases since the last week's Central Bank Watch. The most important one is that GDP increased by 2.2% q/q (seasonally adjusted and annualised) in Q3. The recession in the first two quarters of this year has hence ended. Domestic private sector credit growth slowed down to 5.8% y/y in October from 6.3% y/y in September. Producer price inflation for final manufactured goods speeded up to 6.9% y/y in October from 6.2% y/y in September. The main budget posted a deficit of ZAR 32.7bn in October, 6.1% narrower y/y. In cumulative terms, the main budget deficit narrowed by 10.6% y/y to ZAR 160.7bn in Apr-Oct and accounted for 3.2% of the full-year GDP projection in our calculations. The foreign trade balance was a deficit of ZAR 5.55bn in October, following a revised deficit of ZAR 3.83bn in September. The country reported a deficit of ZAR 8.82bn in Jan-Oct, reversing a surplus of ZAR 48.94bn in the same period of 2017. Both the ABSA PMI (manufacturing) and Standard Bank/Markit PMI (private sector) increased m/m in November, but remained in contraction territory (below 50). Both PMIs also reported easing of cost pressures. Furthermore, the price of both petrol 93 and petrol 95 were reduced by ZAR 1.84/litre as of Dec 5. This is equivalent to a 10.8% price drop for Gauteng motorists using petrol 95. The price of diesel decreased by ZAR 1.45/litre and ZAR 1.47/litre.

Further reading

Latest MPC statement

Latest SARB forecasts

MPC meetings calendar

Latest Monetary Policy Review

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Recent developments:

- MPC raises interest rate by 25bps to 6.75%, Nov 22, 15:33
-

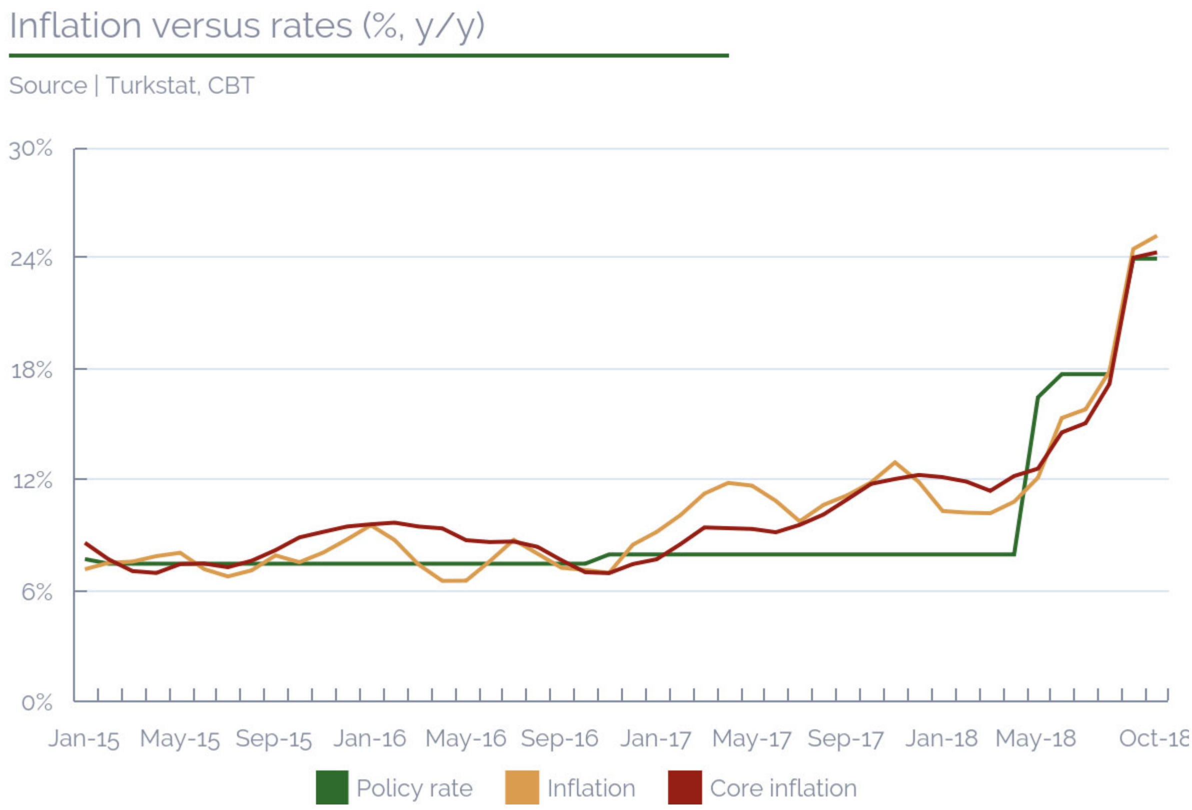
TURKEY

Stabilisation of lira exchange rate to allow CBT to hold rates in December

Turkey | Dec 05, 14:25

- **Next MPC meeting: Dec 13, 2018**
- **Current policy rate: 24.0%**
- **CEEMarketWatch forecast: Hold**
- **Rationale: Stabilisation of lira exchange rate to provide respite to CBT despite still strong inflation**

The MPC last raised the base rate sharply to 24.0% in mid-September, also representing a significant increase in its effective rate of funding. We see its move as an obvious effort to frontload the monetary tightening, stem the weakening lira trend and avoid the need for further rate hikes. The lira exchange rate stabilised and even strengthened somewhat, especially after the resolution of the Brunson conflict with the US in mid-October. This allowed the CBT to hold fire on its October rate-setting meeting despite very unfavourable inflation prints. We expect the CBT to abstain from further tightening in December as well since the moderation of the exchange rate pass-through is likely to allay concerns about the inflation outlook. The CBT markedly upgraded its inflation projections for 2018-2020 in its Q4 Inflation Report but we think this reflects the worse-than-expected September inflation print and the accumulated effect from the lira depreciation in August. Accordingly, the deterioration of the inflation projections compared to the previous Inflation Report should be already reflected in the current 24.0% base rate and we do not think they will be a reason for further monetary tightening, barring further unforeseen events.



The MPC's statements on future monetary policy from its October session were exactly the same with those in the previous meeting decision text. Tight monetary stance will be maintained decisively until the inflation outlook displays a significant improvement, the committee said. It reiterated the possibility of further monetary tightening if called by inflation expectations, pricing behaviour, the lagged impact of recent monetary policy decisions and contribution of fiscal policy to rebalancing of economy. The committee said that it decided to maintain the tight monetary policy stance as recent developments pointed to significant risks to price stability. It again highlighted the generalised pattern of price hikes across sub-sectors and related them to the lira depreciation. Although weaker domestic demand conditions will partly mitigate the deterioration in the inflation outlook, upside risks on pricing behaviour continue to prevail, the MPC said.

CBT rate decision, Oct 2018

Minutes from CBT's rate decision, Oct 2018

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