



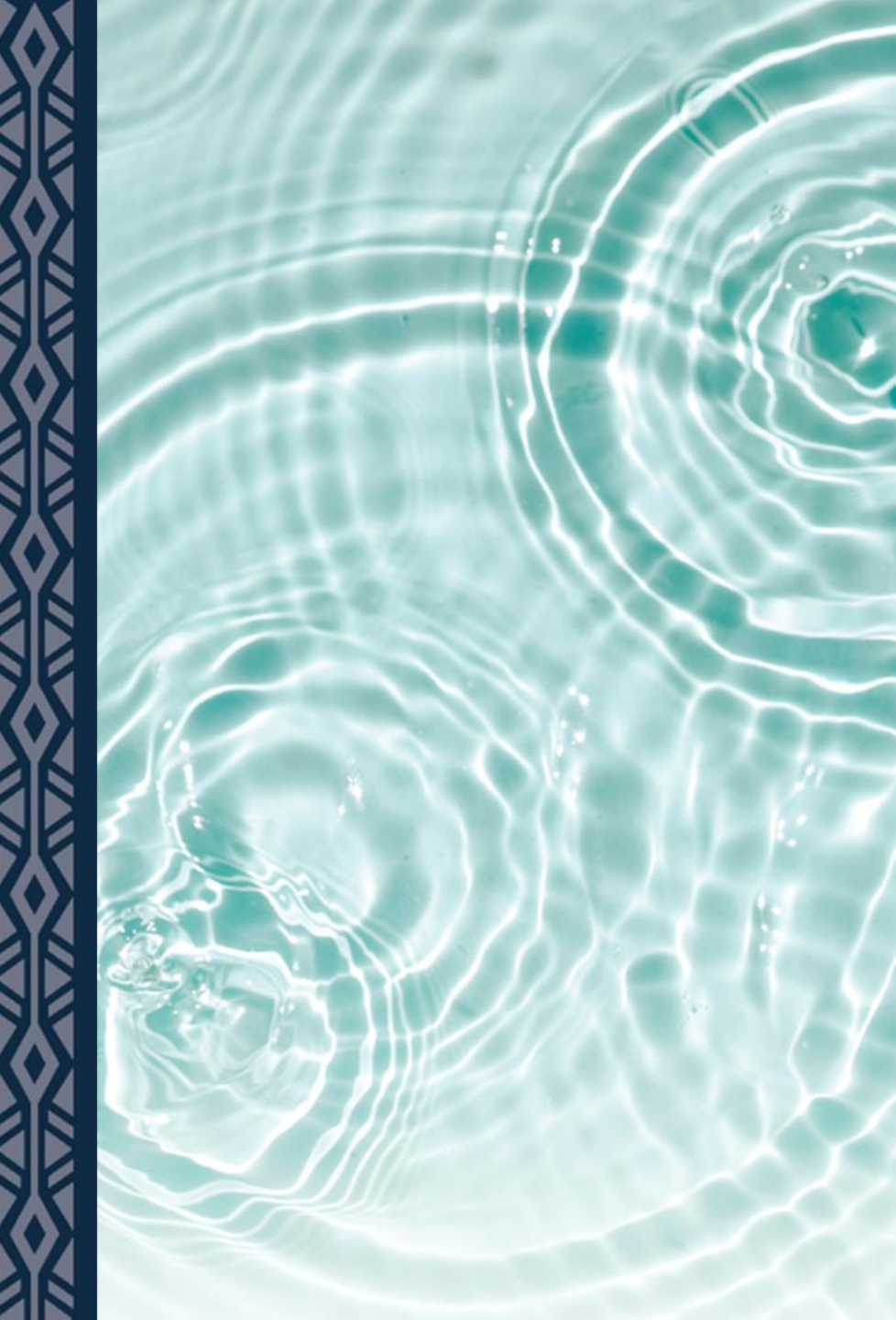
After shocks
Monetary Policy Review

**SOUTH AFRICAN RESERVE BANK
MONETARY POLICY FORUM**

25 April 2023



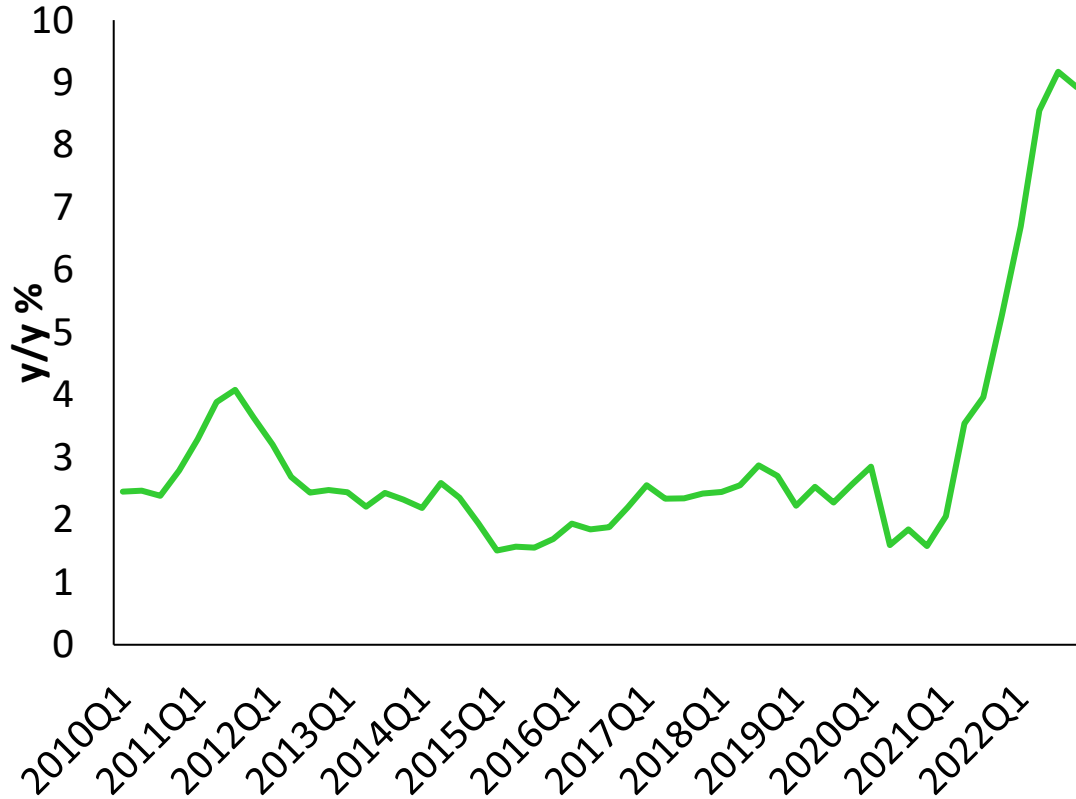
SOUTH AFRICAN RESERVE BANK

- 
- **Global inflation high and more persistent, growth outlook muted**
 - **AE policy rates markedly higher, future path uncertain**
 - **Structural constraints impacting SA growth severely, but...**
 - **HHs, private sector investment holding up**
 - **Current account back in deficit, expected to remain there**
 - **Headline inflation has peaked, but long road to midpoint...**
 - **Heightened upside inflation risks**



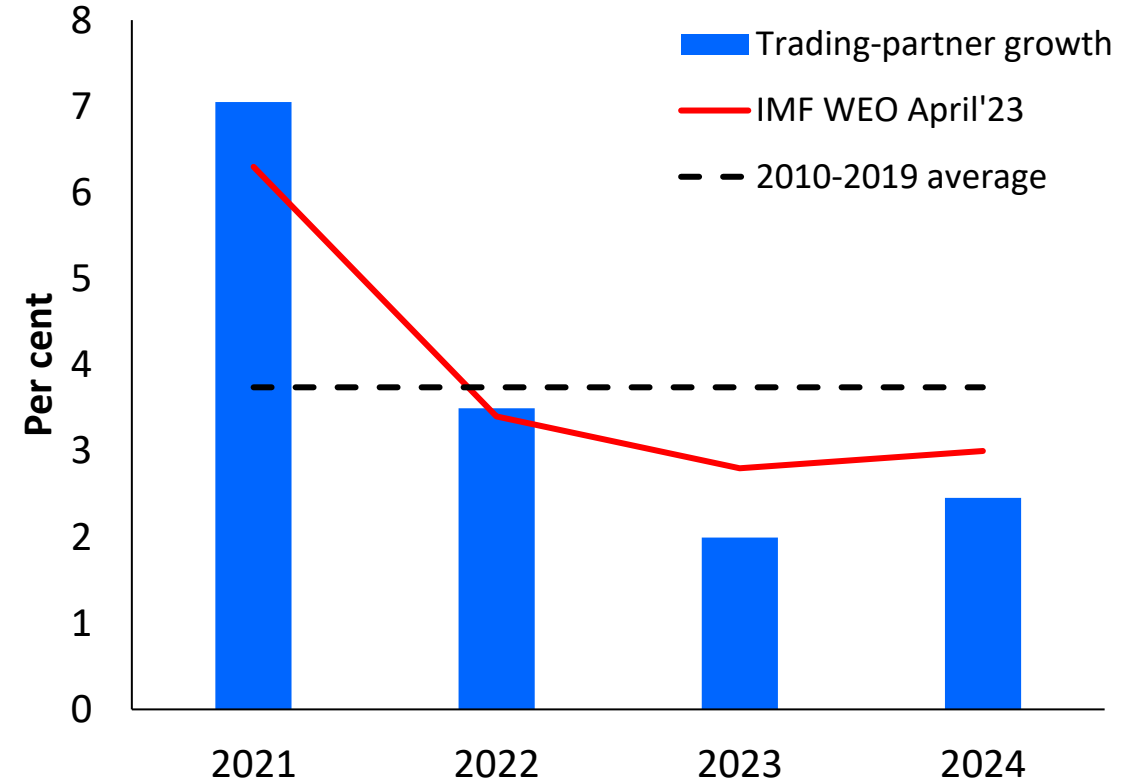
Global stagflationary conditions have entrenched

Global inflation



Source: Haver

Trading partner growth



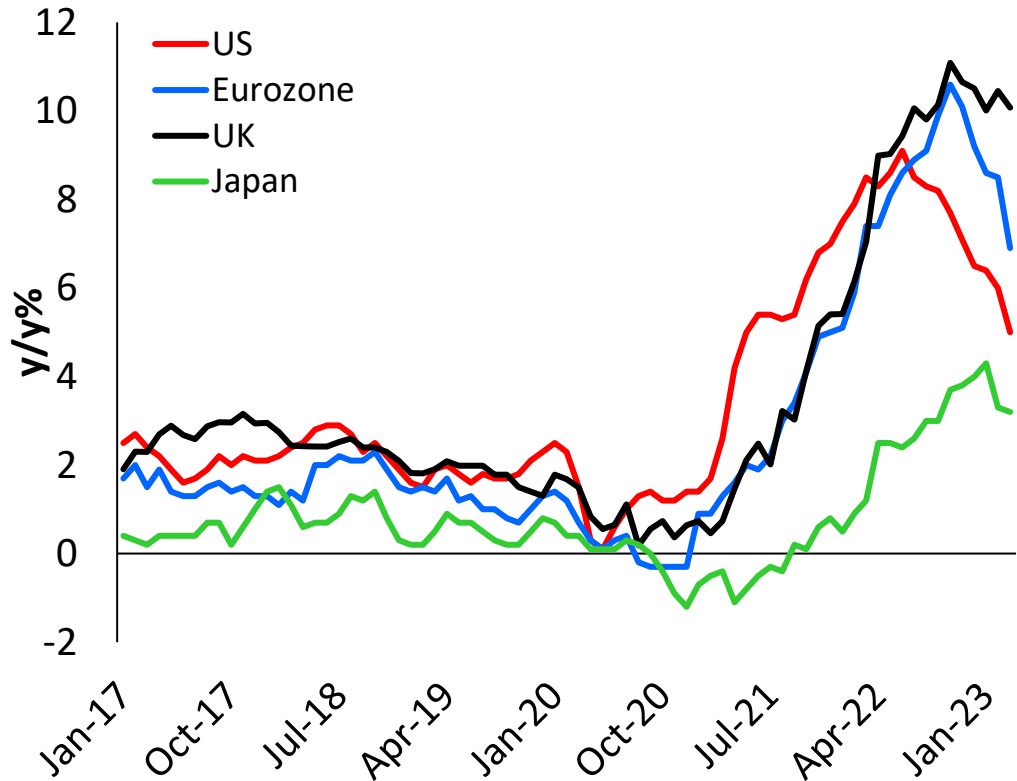
Source: SARB and IMF



Headline inflation remains elevated across major AEs

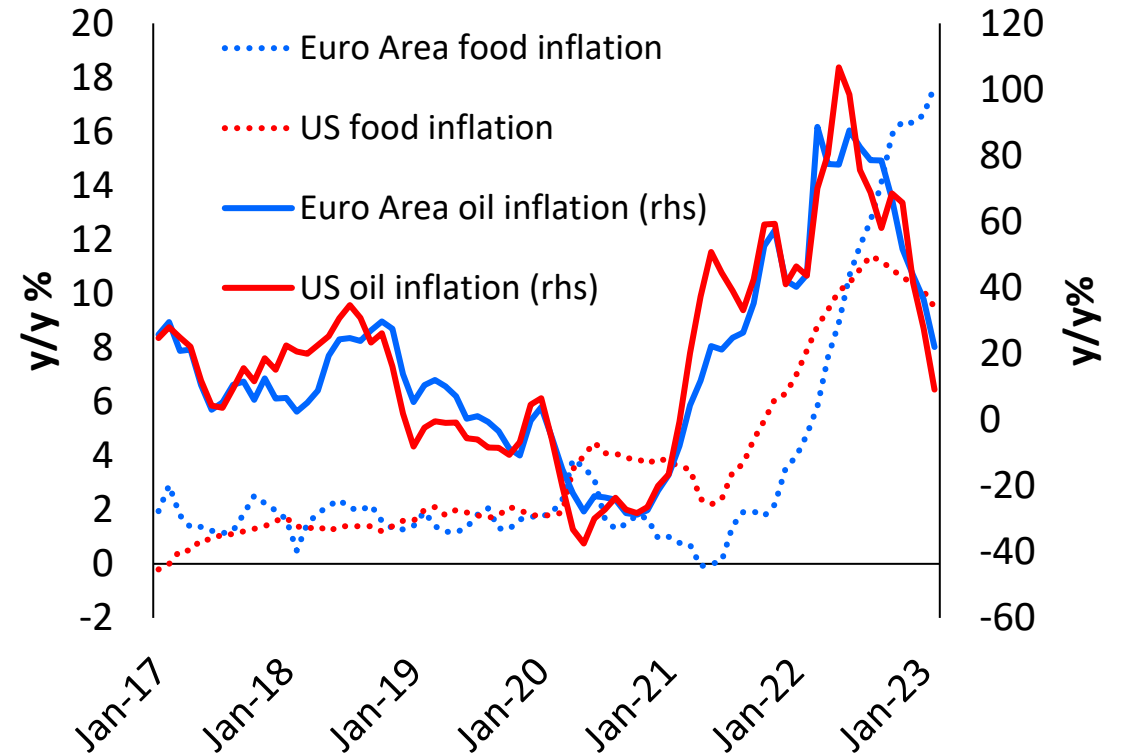
Slight moderation on account of lower food & energy inflation

Major AE headline inflation



Source: Haver

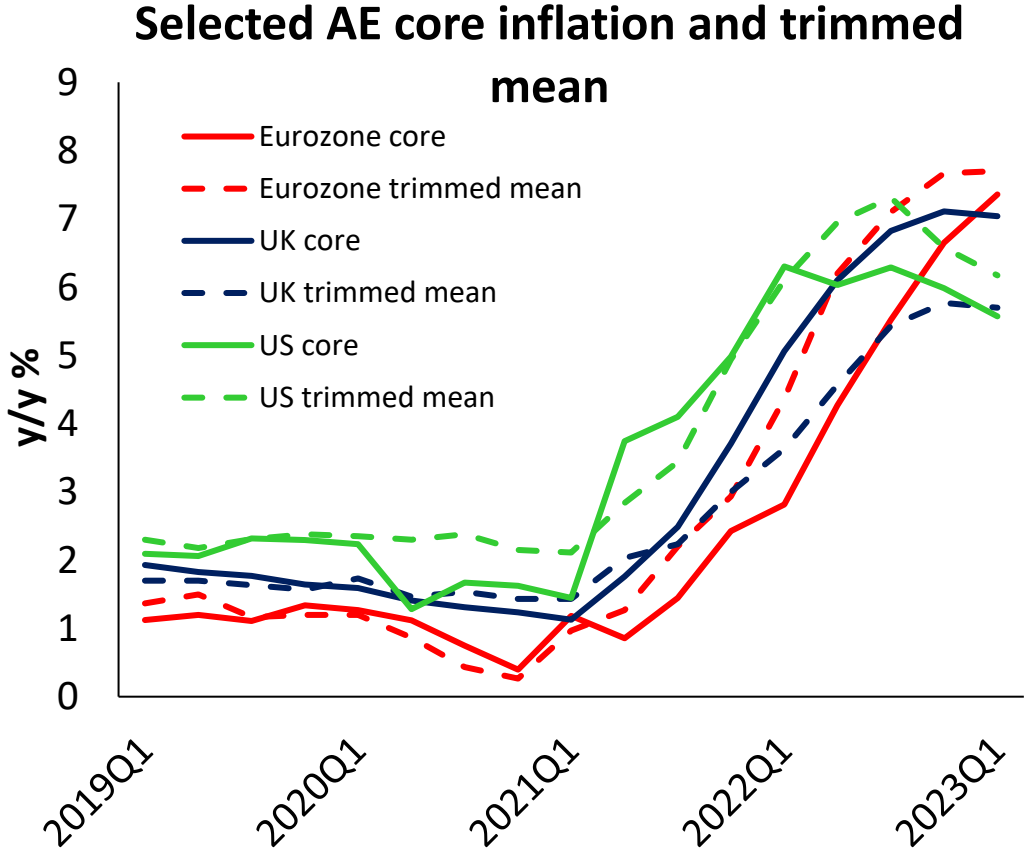
Eurozone and US food and oil inflation



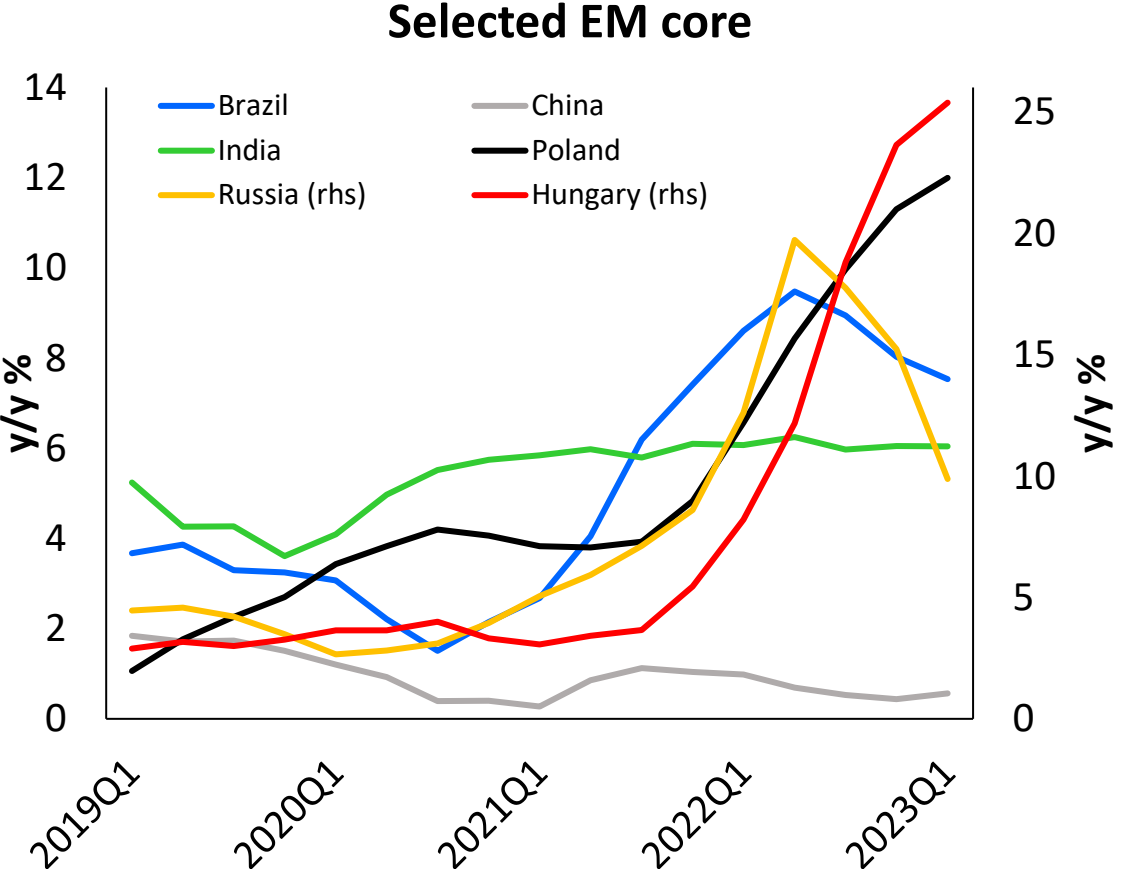
Source: Haver



Spurred by sharply higher underlying inflation



Source: Haver



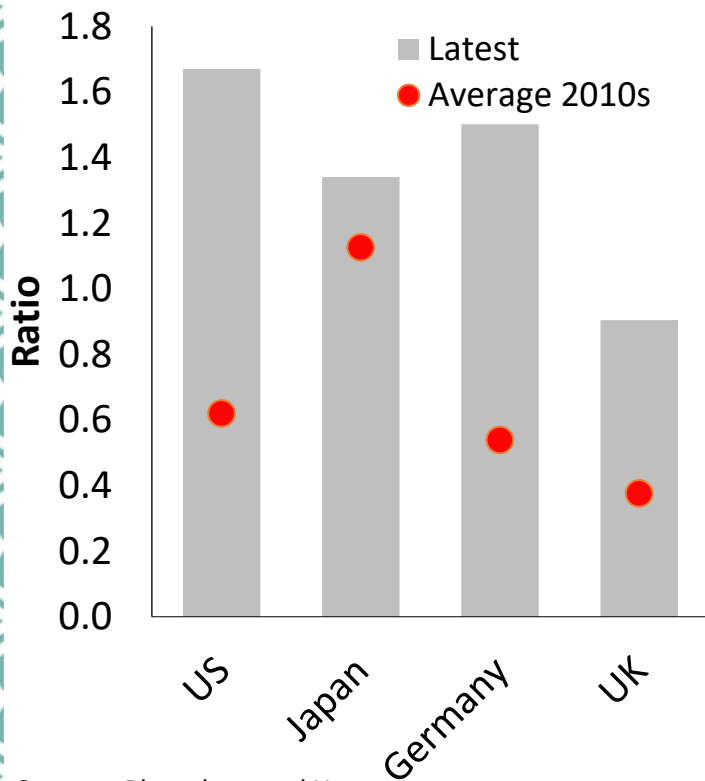
Source: Haver



...while DD/SS imbalances persist in several markets

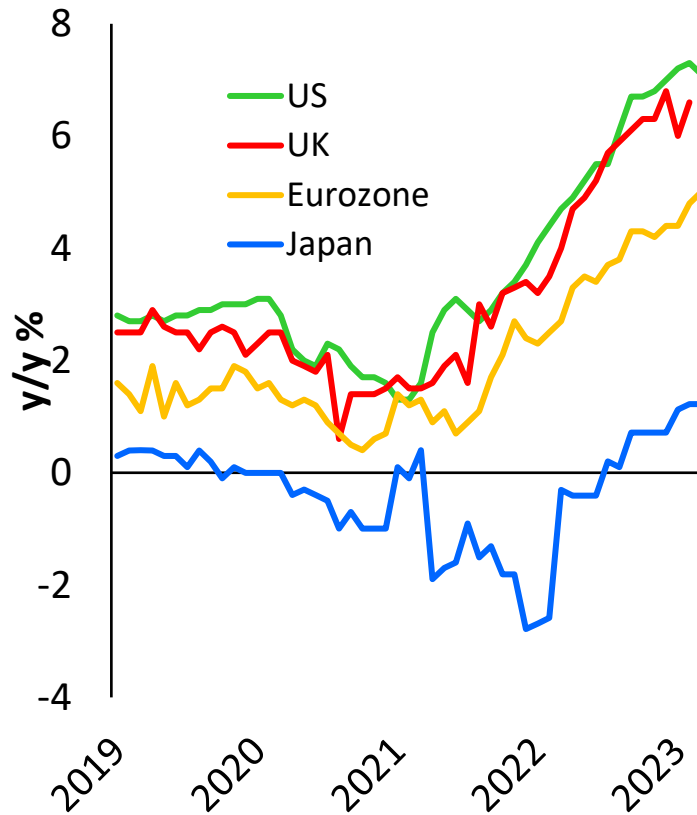
Expectations elevated

Ratio of unfilled vacancies to unemployment



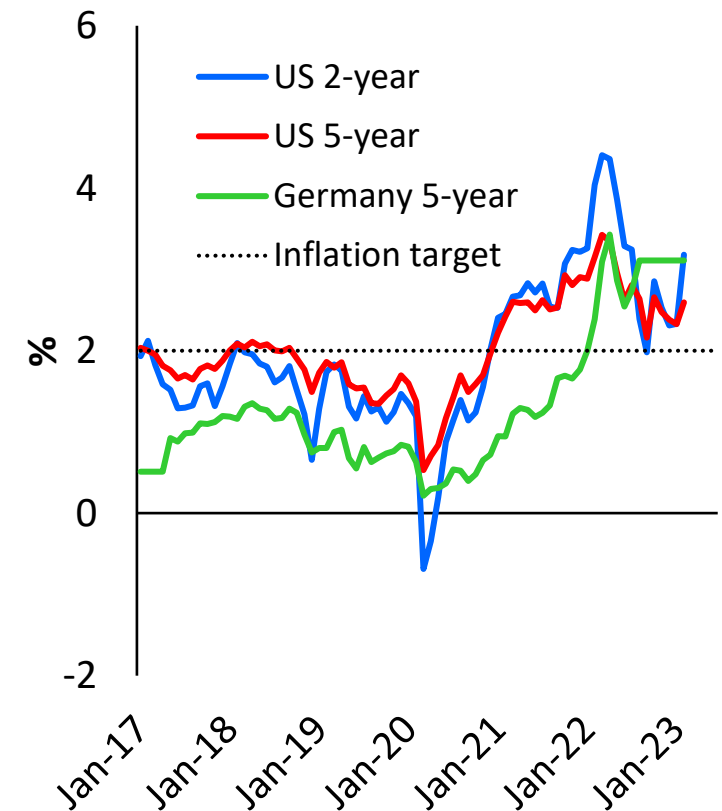
Sources: Bloomberg and Haver

AE services inflation



Source: Haver

Inflation expectations

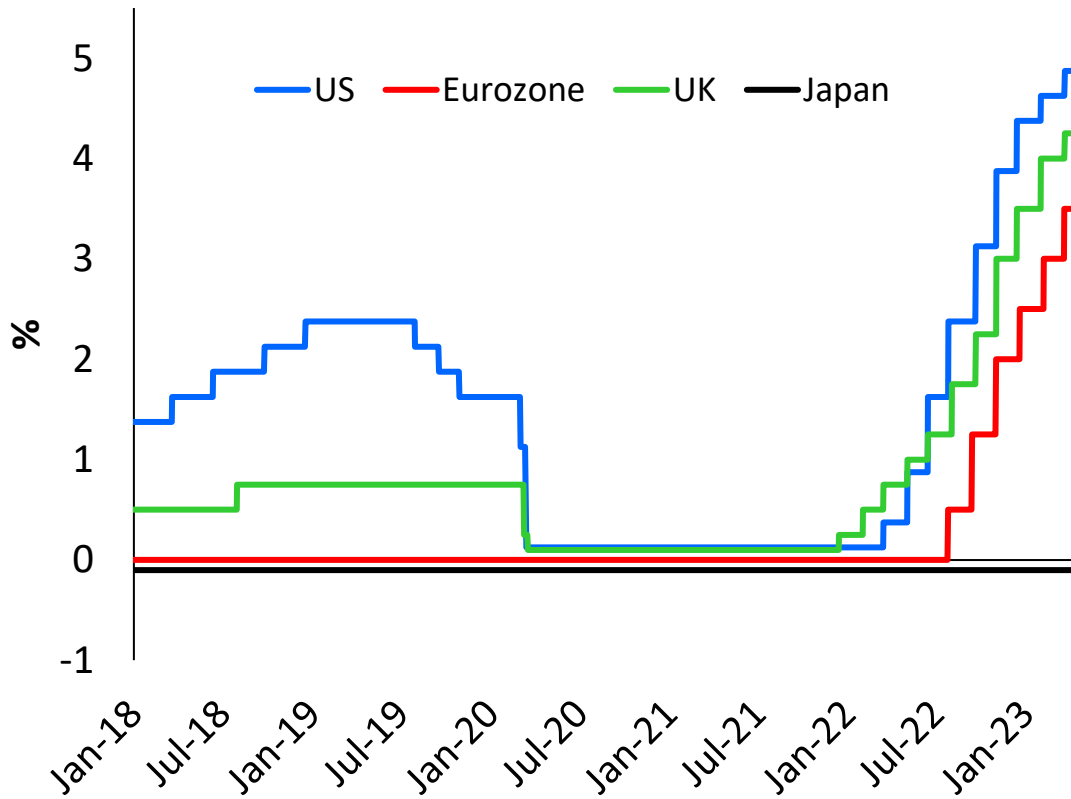


Source: Bloomberg



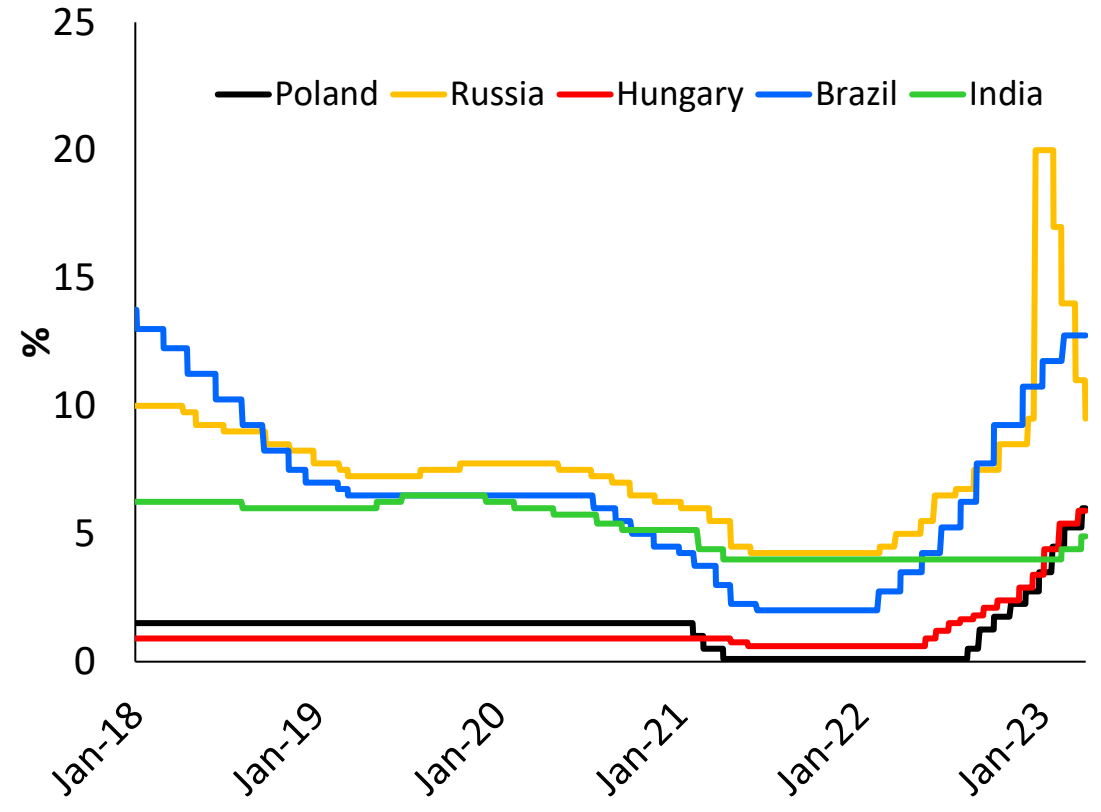
CBs have had to hike policy rates to stem the spread of inflation...

Policy rates in major AEs



Source: BIS

Policy rates in selected EMs

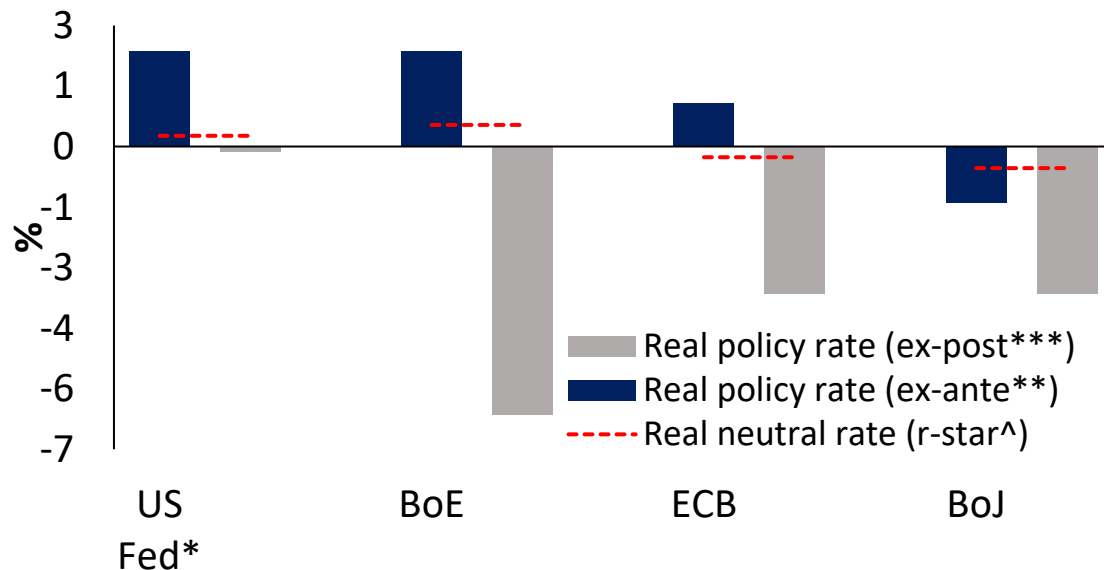


Source: BIS



...and policy becoming increasingly tight in many jurisdictions

Advanced economies real policy rates vs. neutral



Source: Central Banks, Haver

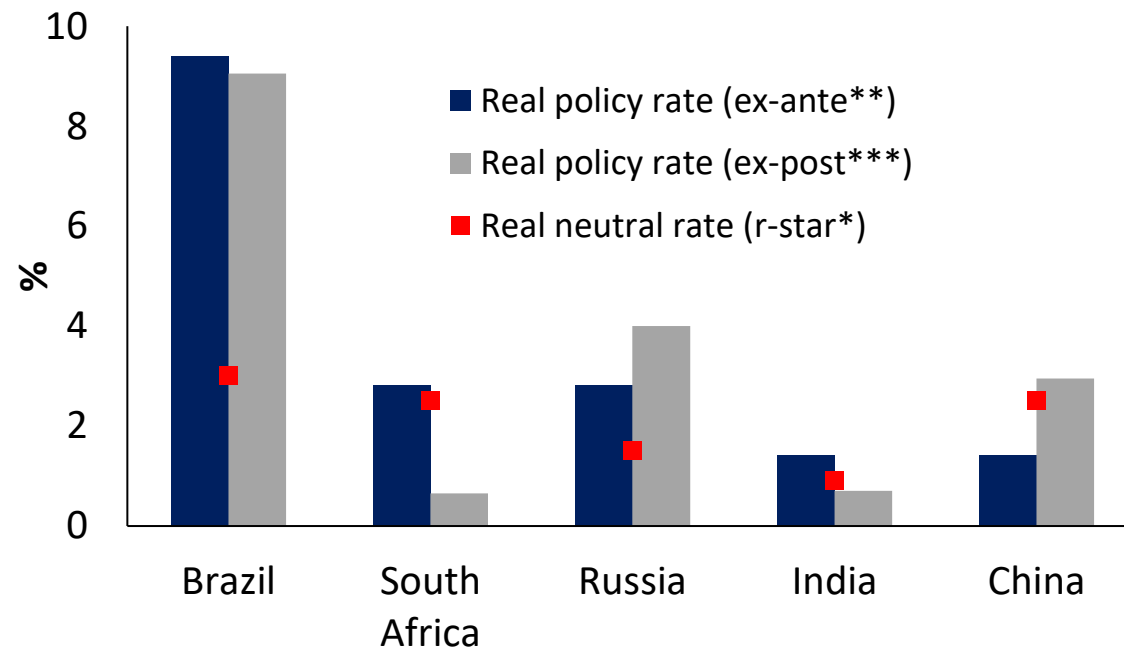
*Based on US average Fed funds rate

** Current nominal monetary policy rate less 2024Q2 headline CPI forecast

***Current nominal rate less current month headline CPI

^ Nominal neutral rate less the inflation target

Emerging economies real policy rates vs. neutral



Source: Central Banks, Consensus Economics

* Nominal neutral rate less the inflation target

** Current nominal monetary policy rate less 2024Q2 headline CPI forecast

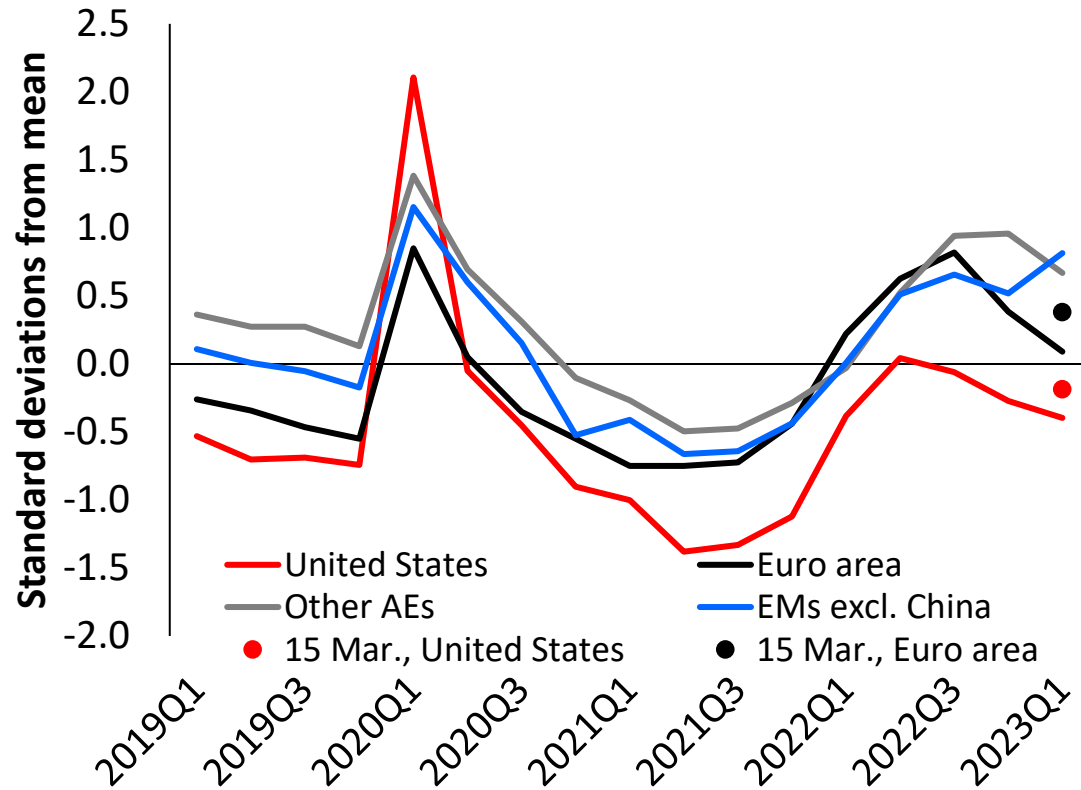
*** Current nominal rate less current month headline CPI



Financial conditions also tightening on bank stresses; FX rates recover

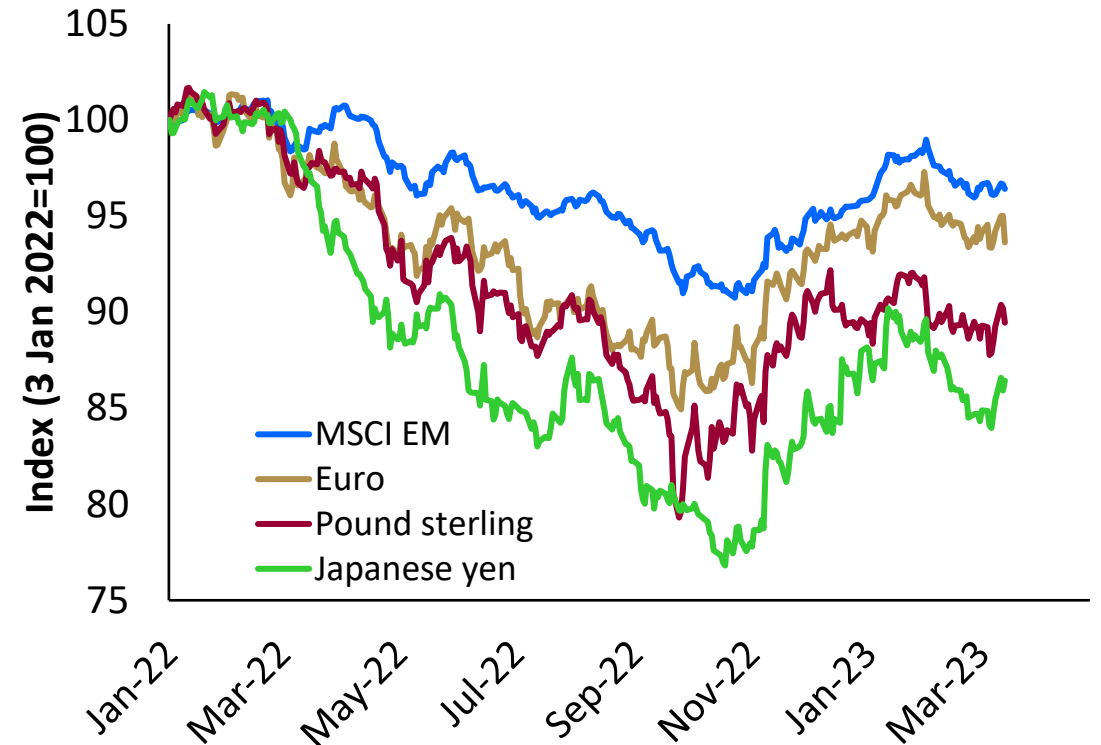
...to aid in the inflation fight

Financial conditions indices



Source: IMF Global Financial Stability Report

AE and EM exchange rates against the dollar

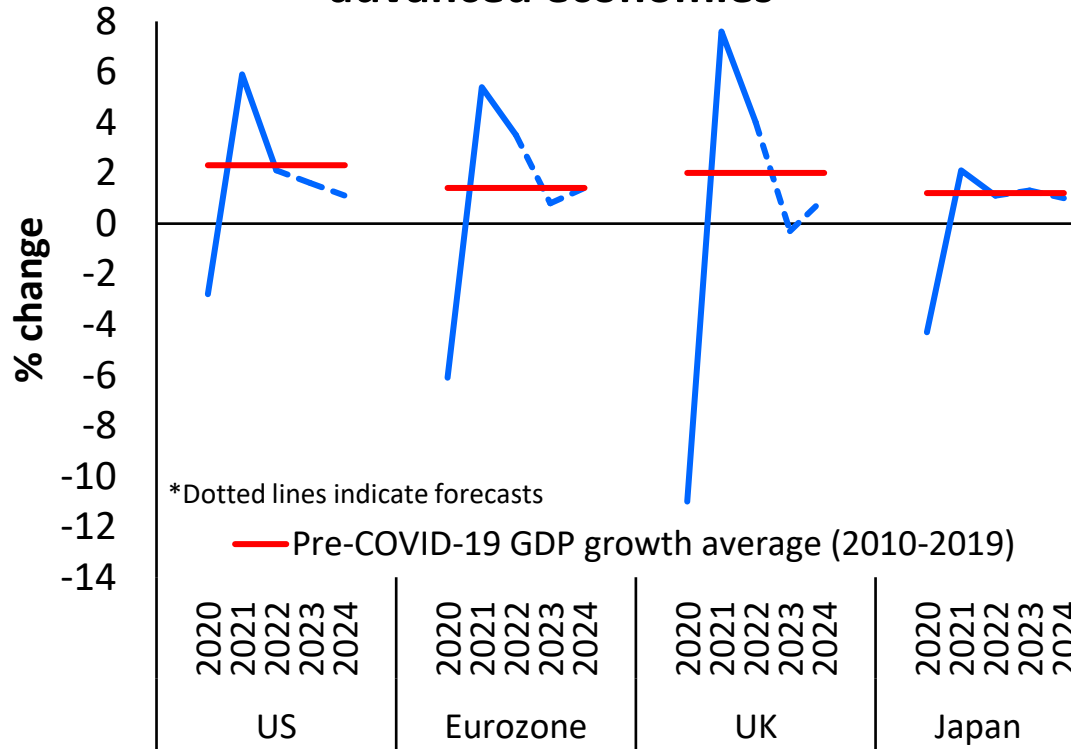


Sources: Bloomberg and SARB



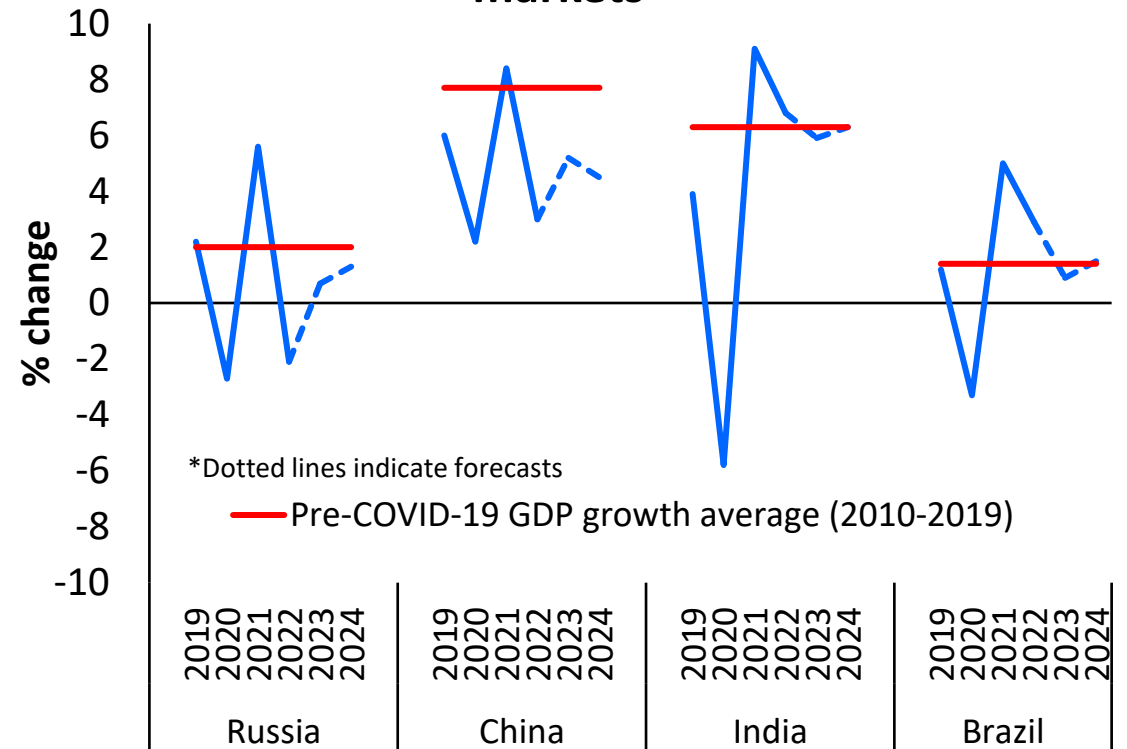
...exerting pressures on global growth: outlook fragile

Real GDP growth projections for advanced economies*



Sources: IMF

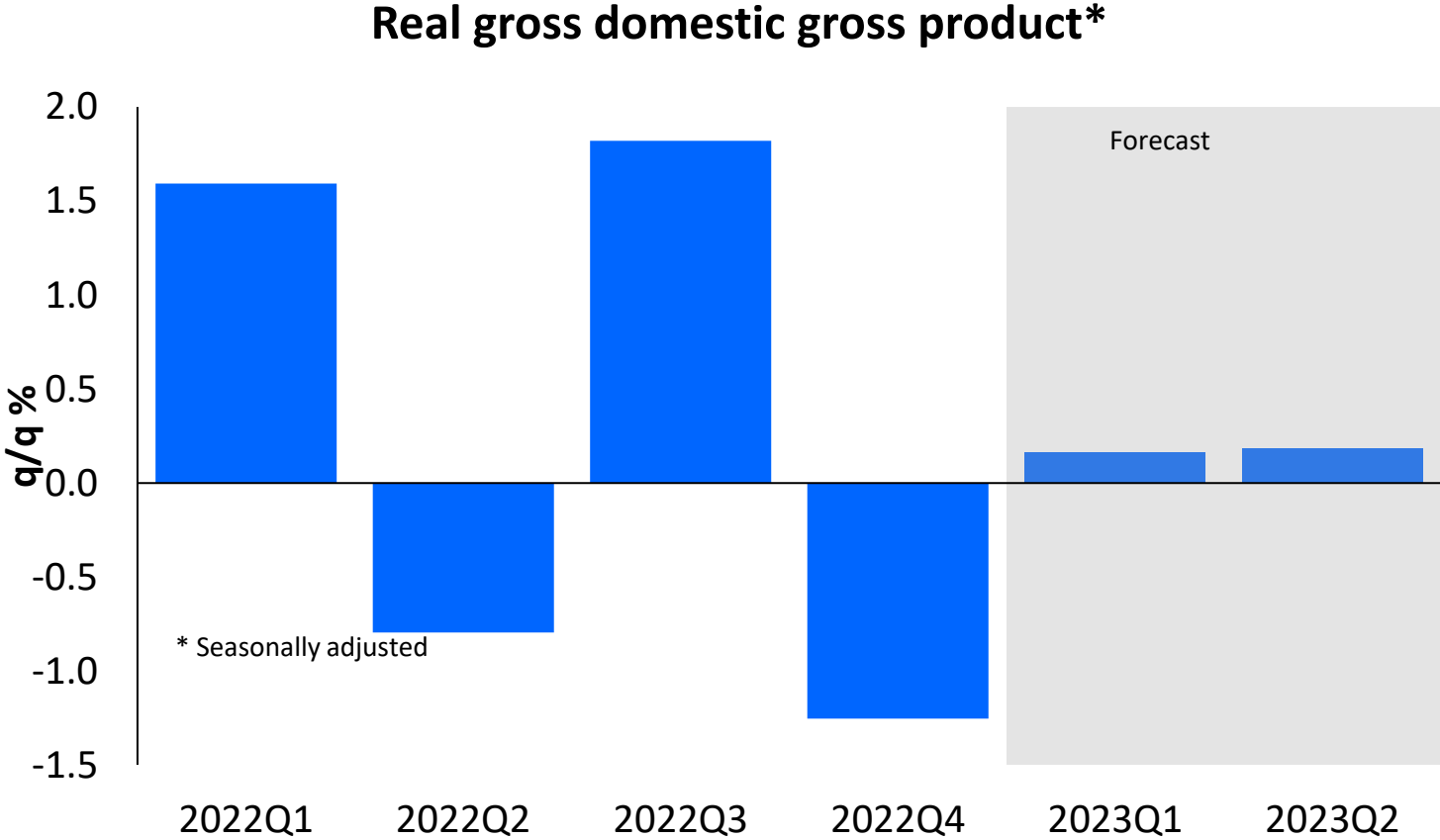
Real GDP growth in selected emerging markets*



Sources: IMF

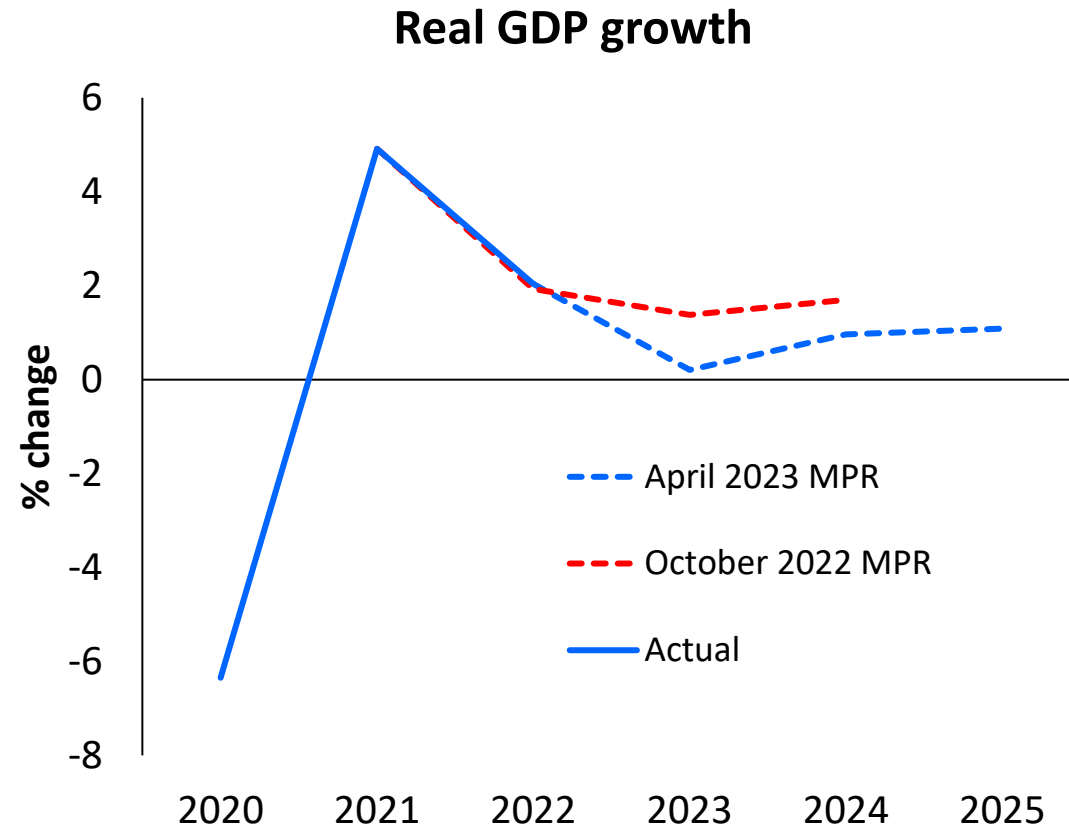


GDP growth in SA also fragile (but for different reasons)

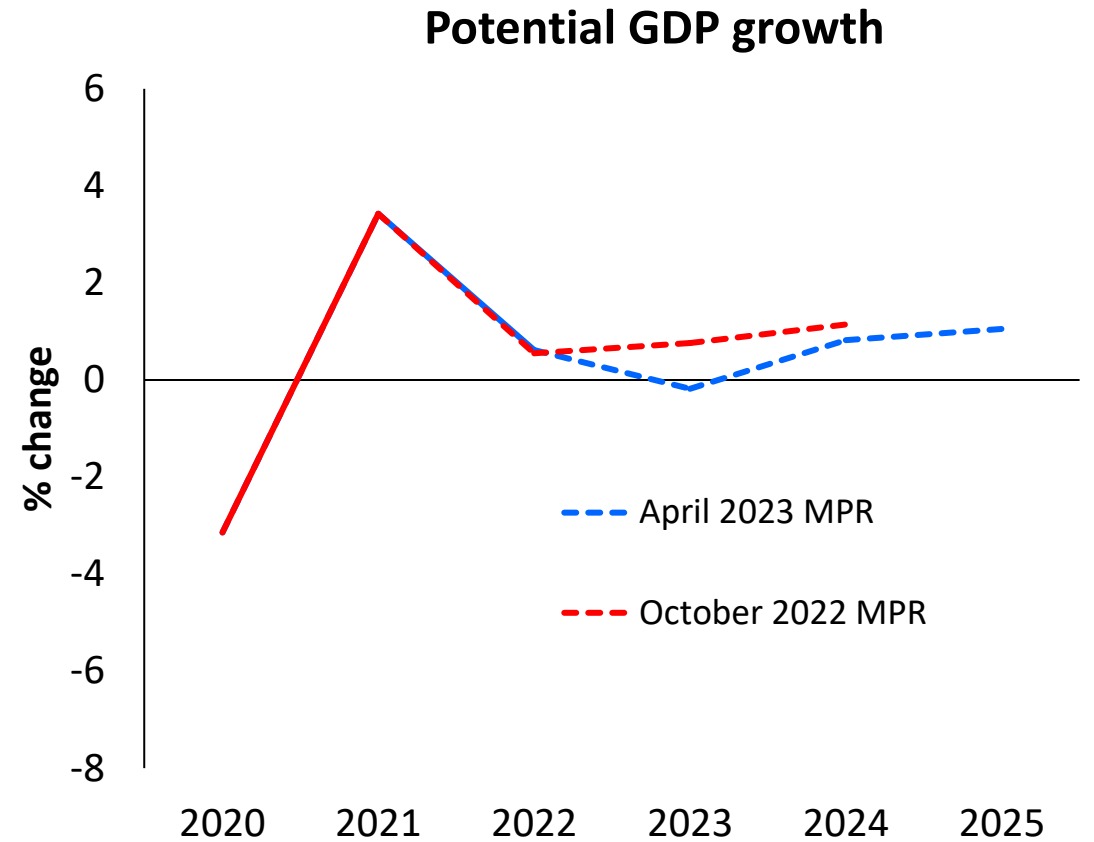


Sources: Stats SA and SARB

Medium-term growth downgraded markedly...



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

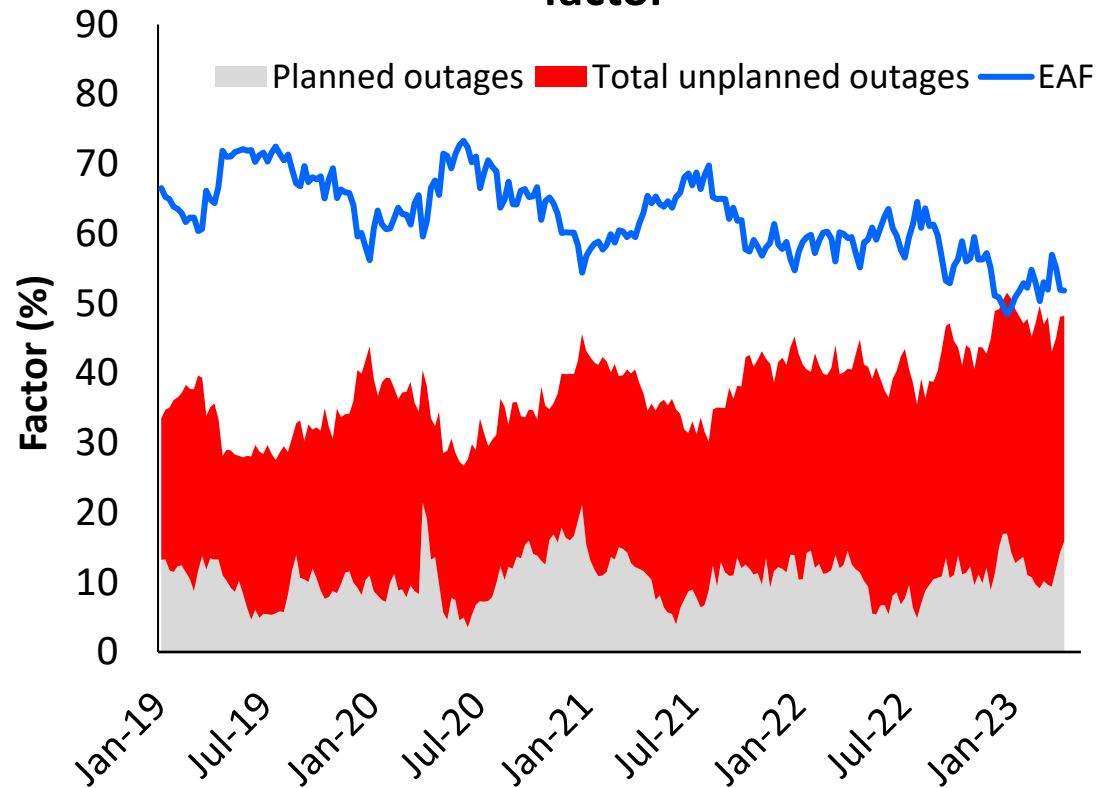


* Dotted lines indicate forecasts
Source: SARB



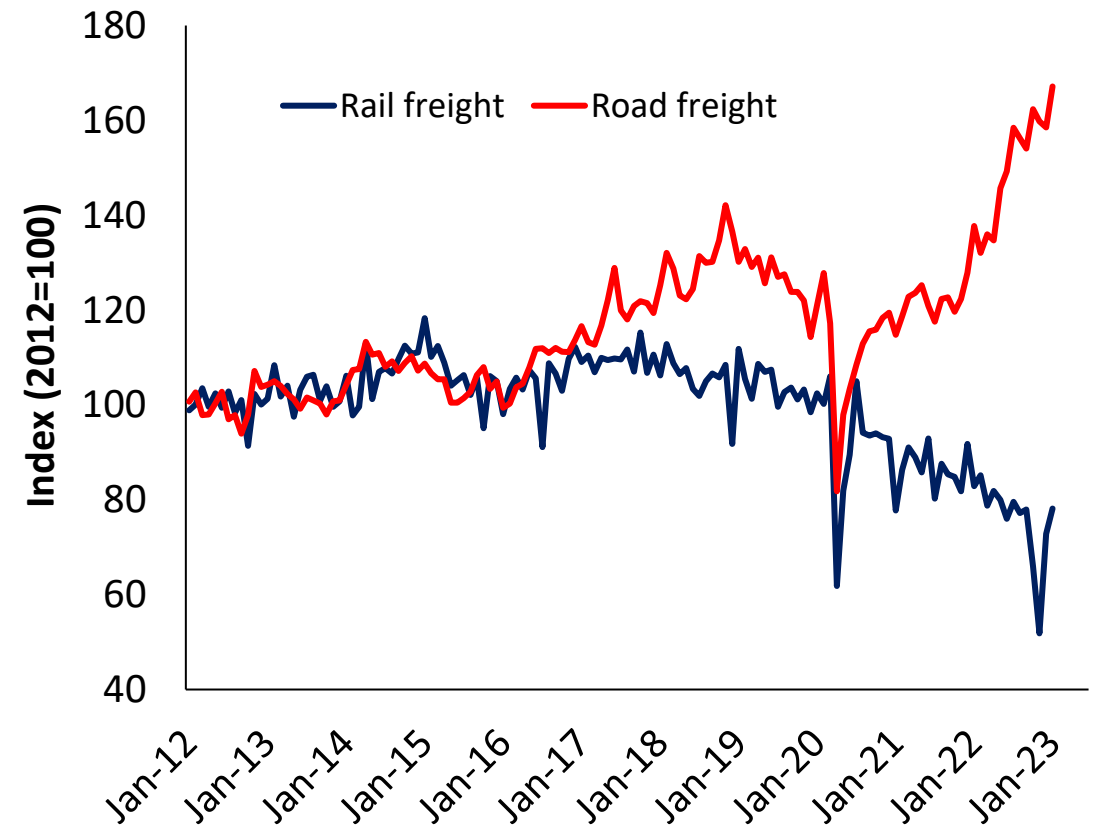
...due to ongoing failures in parts of basic economic infrastructure

Electricity outage and energy availability factor



Source: Eskom

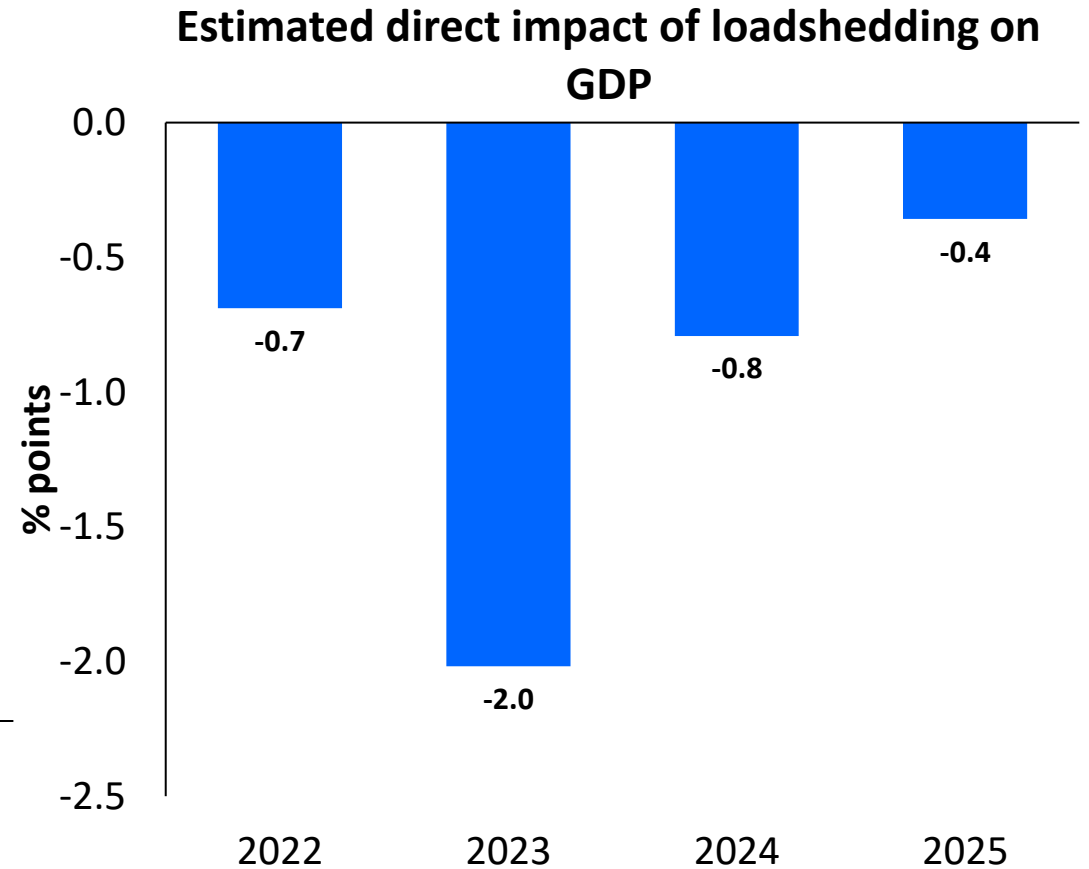
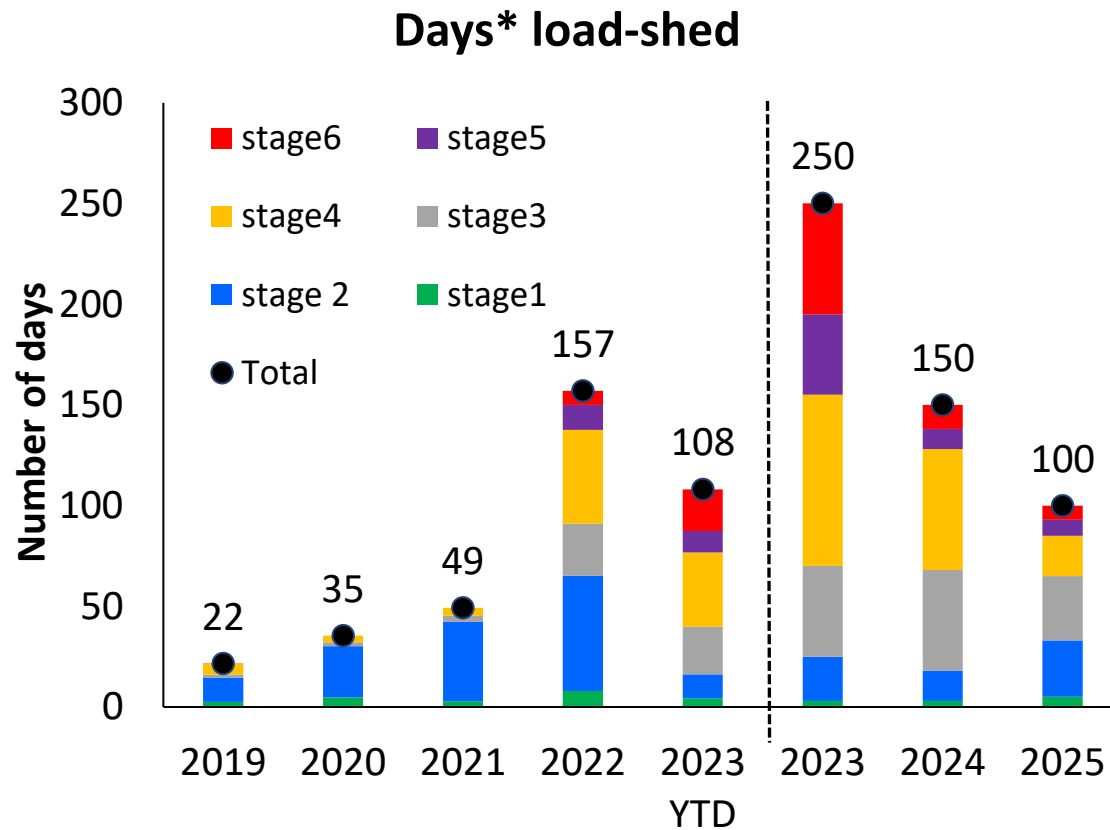
Volume of land freight transportation



Sources: Stats SA and SARB



Load-shedding expected to persist, with marked adverse economic impacts



*Calculated as Total Hours Load-shed/24; YTD: 23/04/2023

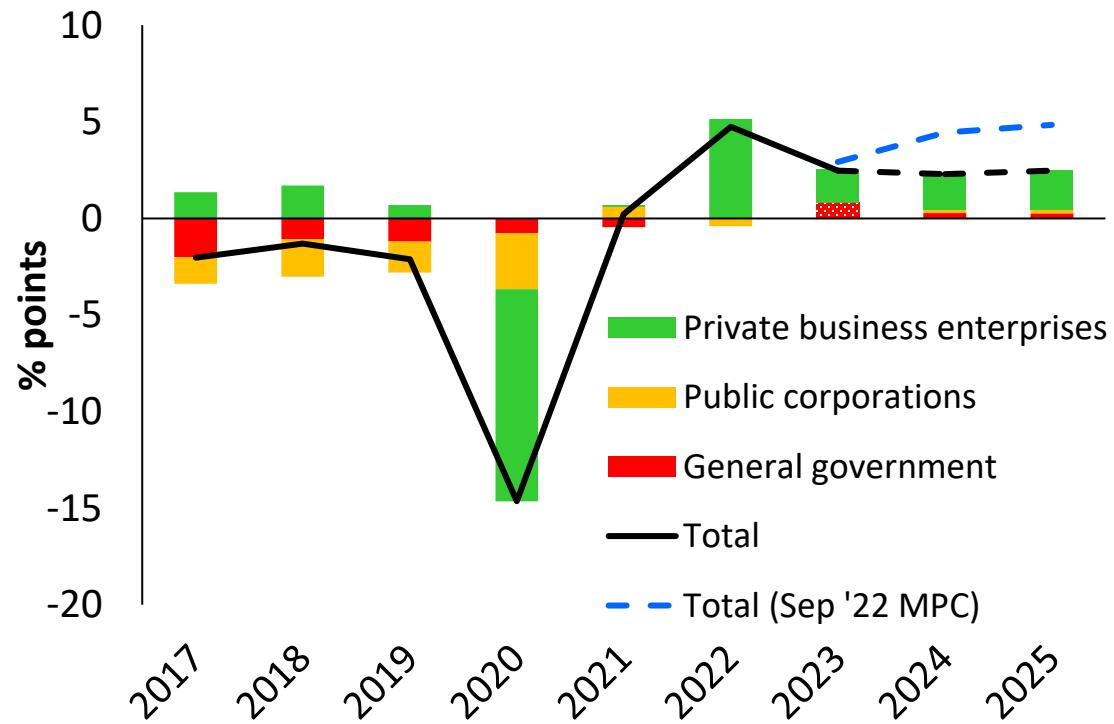
Sources: ESP (app), Eskom Twitter account & SARB

Source: SARB



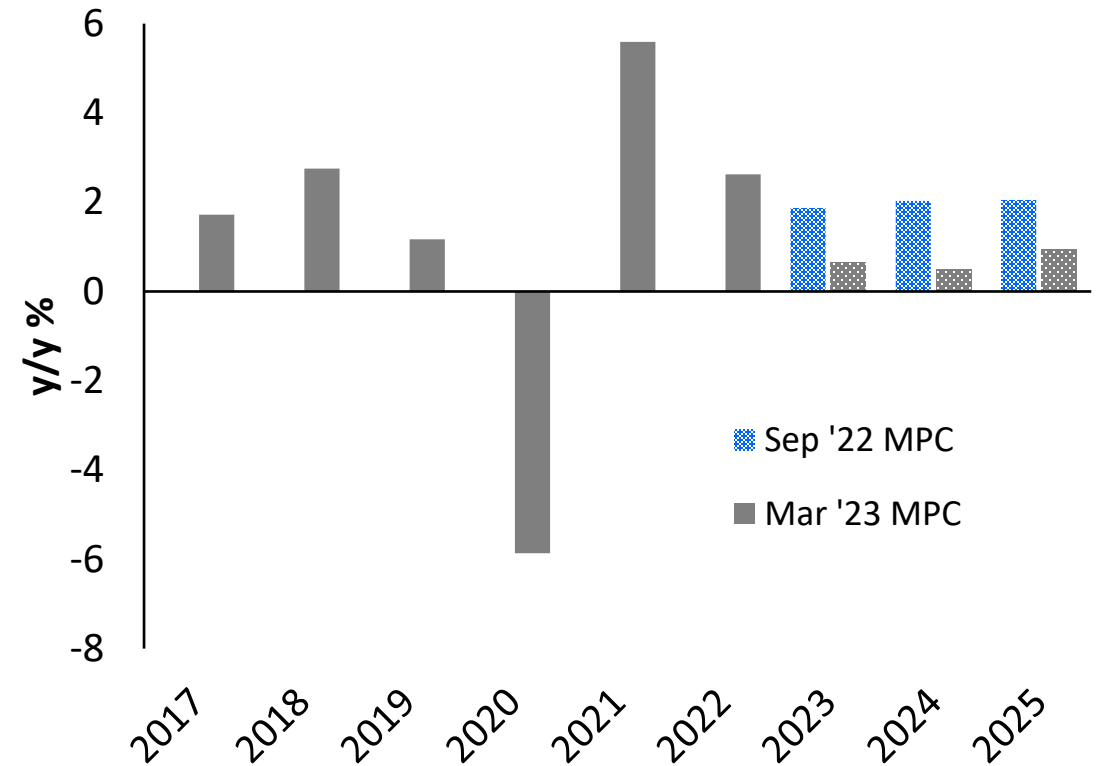
But resilience on the demand side

Contributions to gross fixed capital formation



Sources: Stats SA and SARB

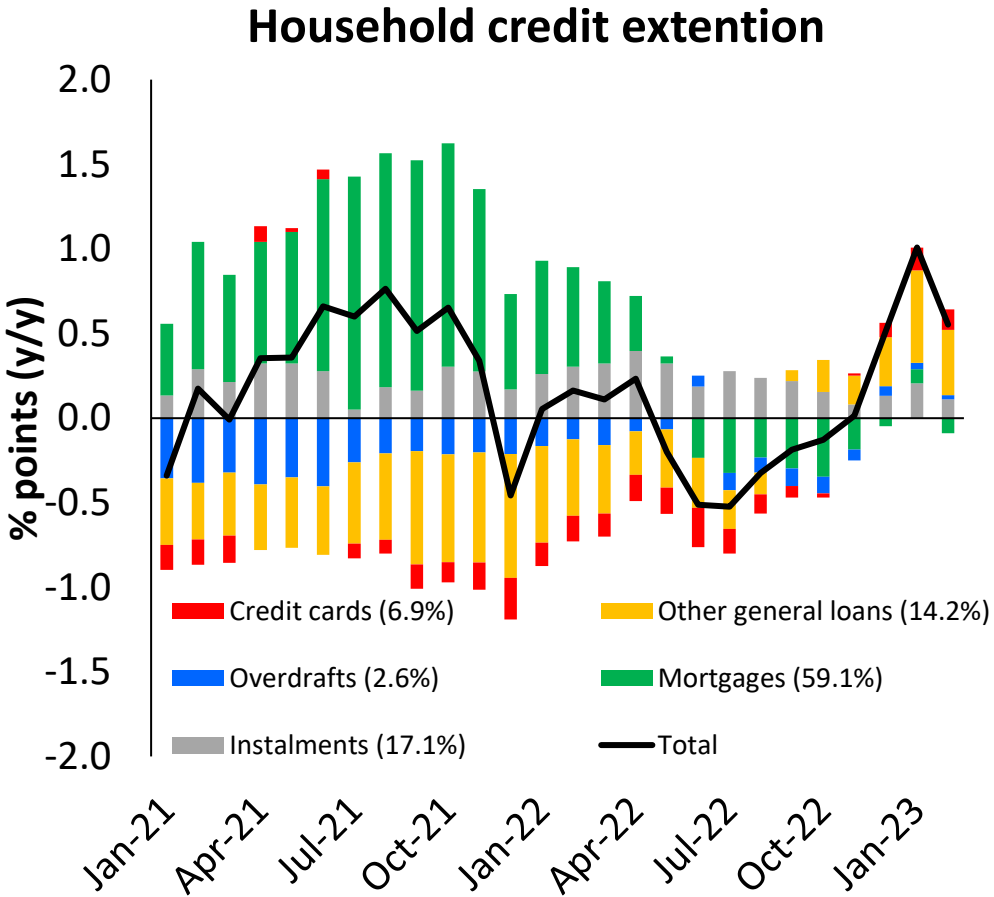
Final consumption expenditure of households



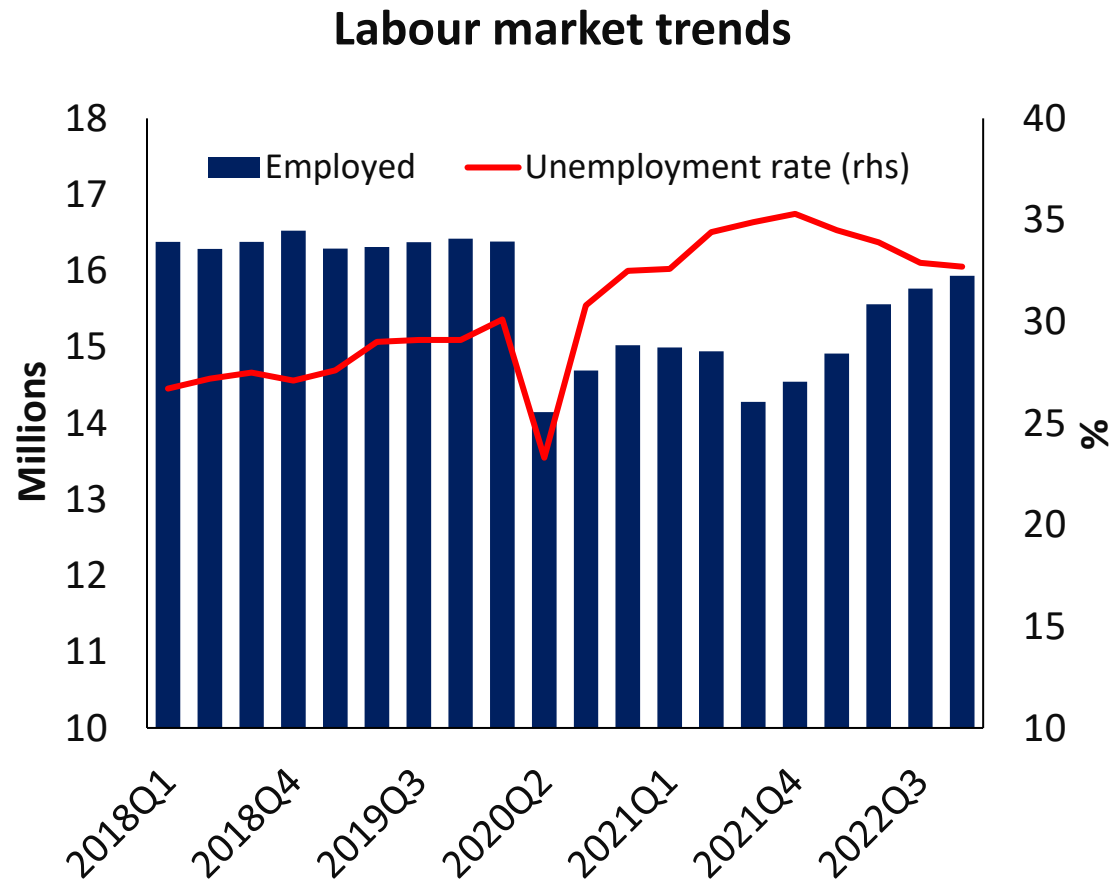
Sources: Stats SA and SARB



Credit demand relatively strong while employment has continued to recover



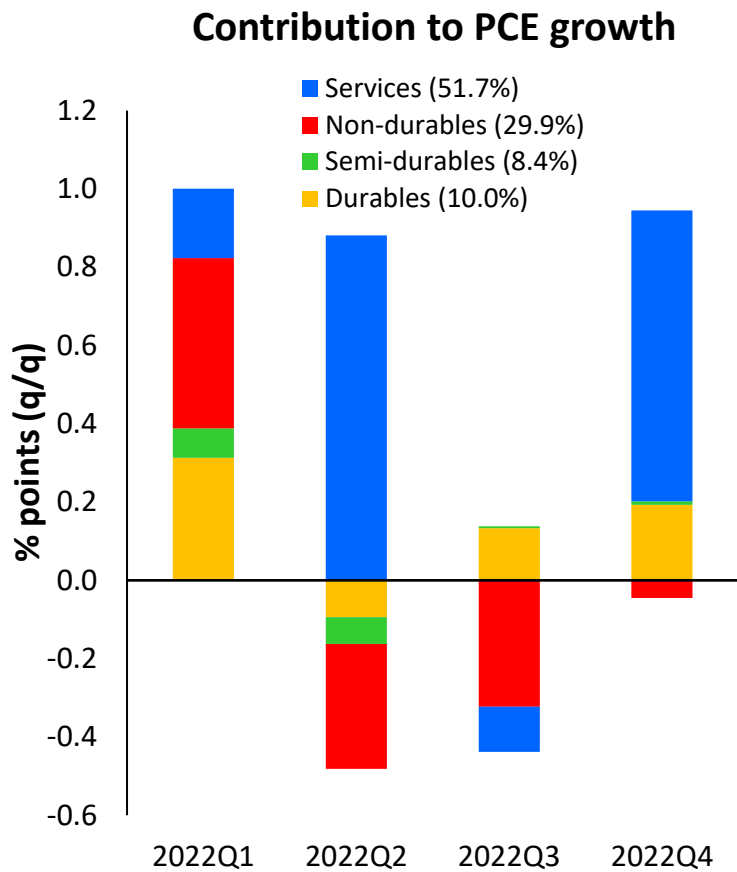
Source: SARB



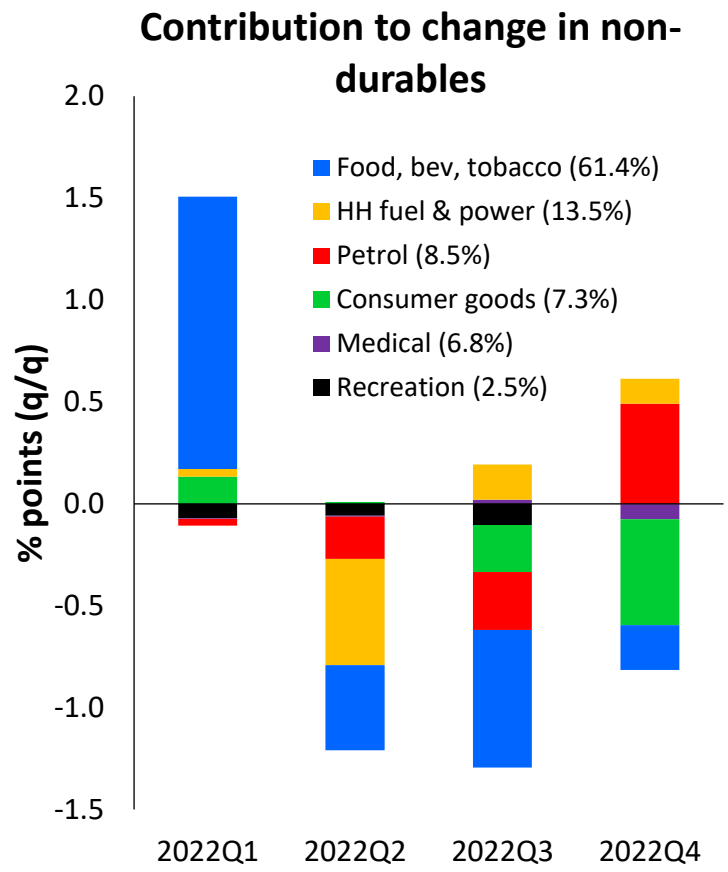
Source: Stats SA



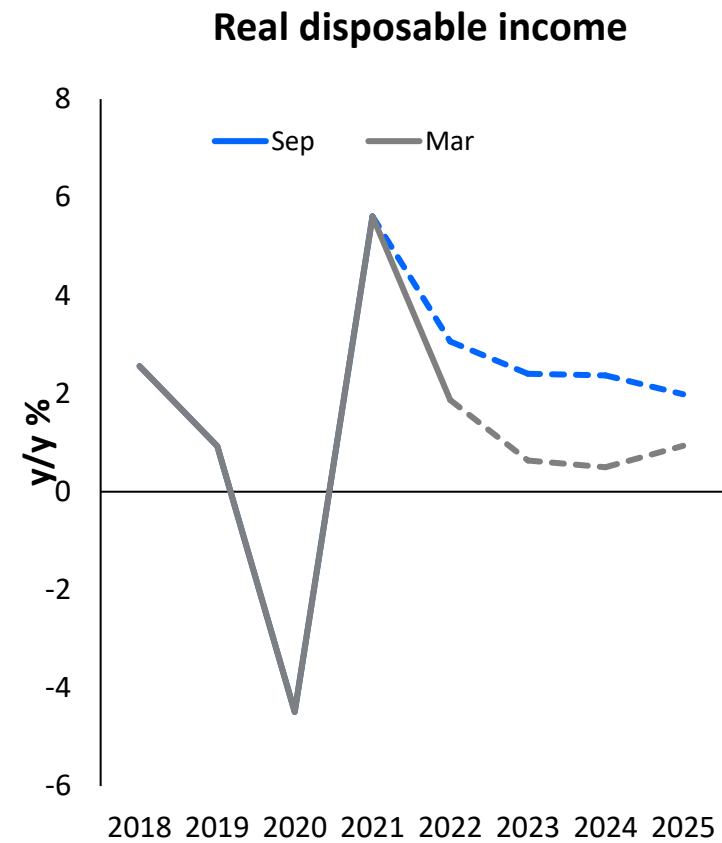
However, some signs of pressures on HHs ... spend on food down; but durables up



Source: Stats SA



Source: Stats SA

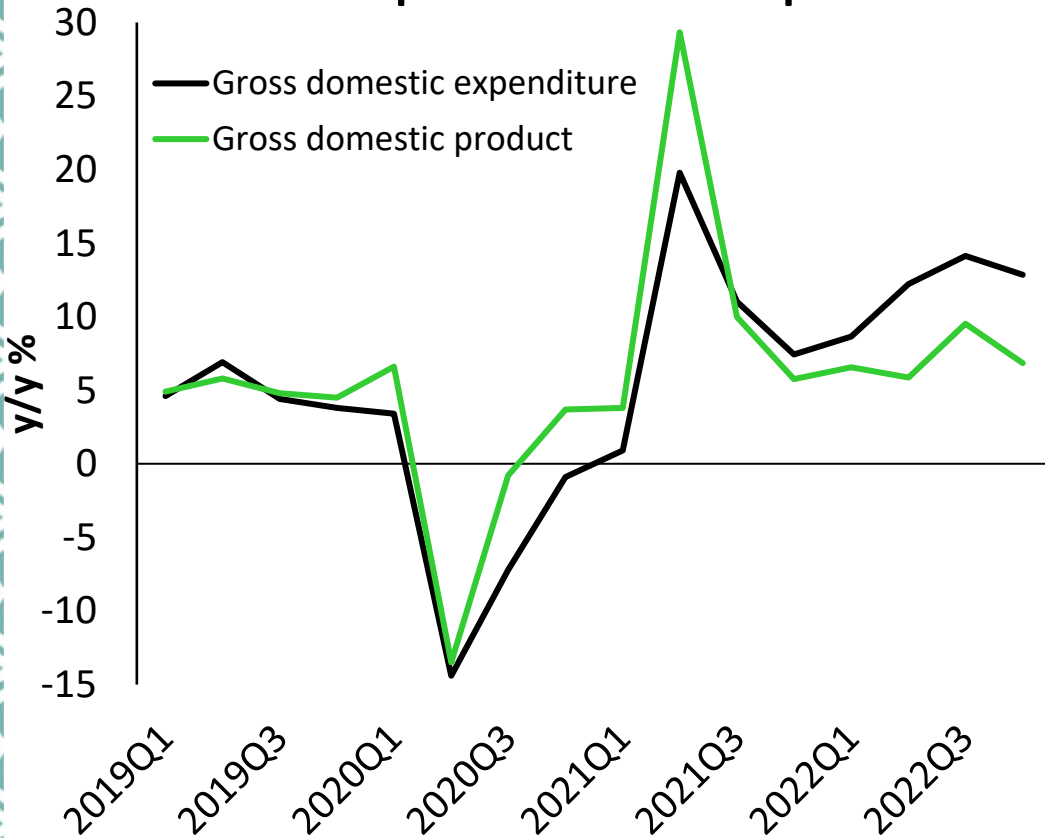


Sources: Stats SA and SARB



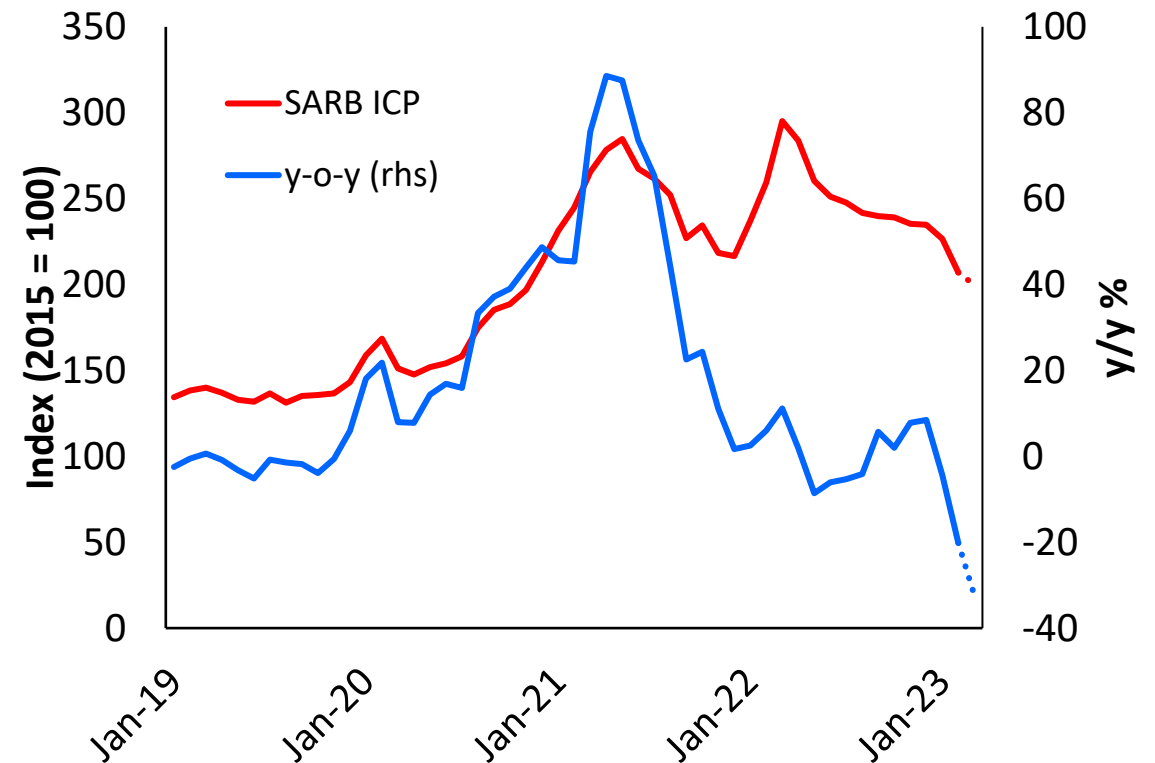
Strong demand buoy M, X depressed by domestic idiosyncrasies, weak global demand

Nominal production and expenditure



Source: Stats SA

Commodity prices: SARB ICP

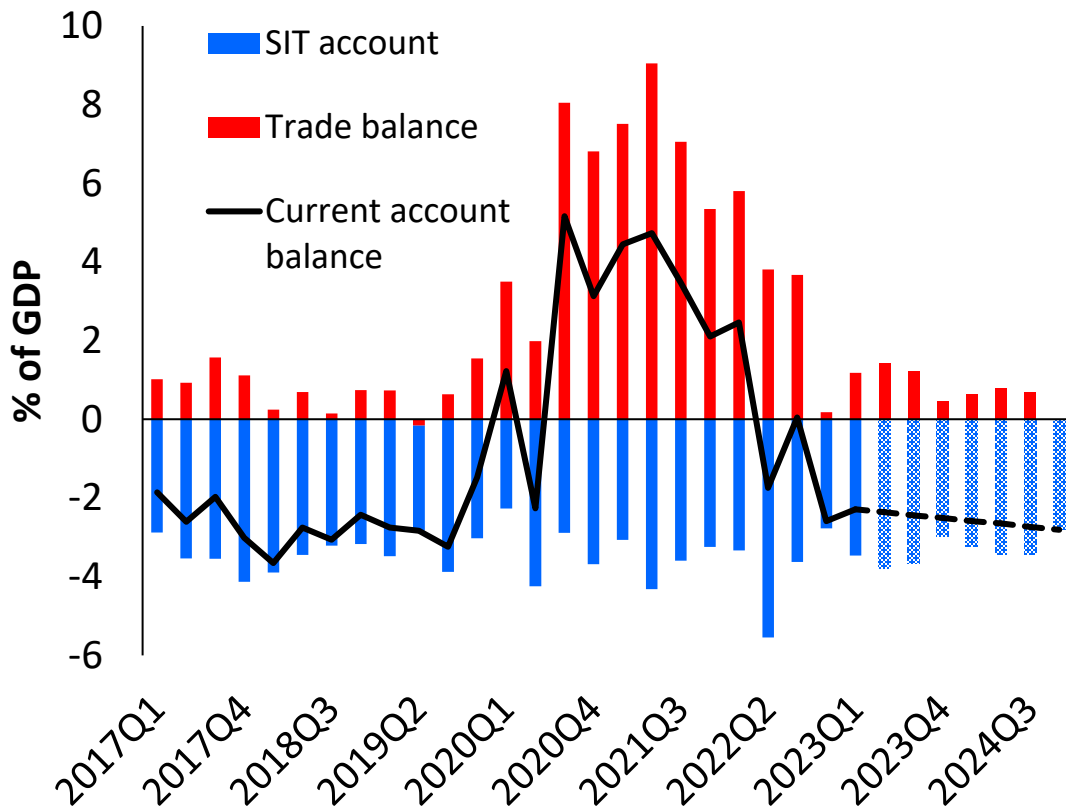


Source: SARB



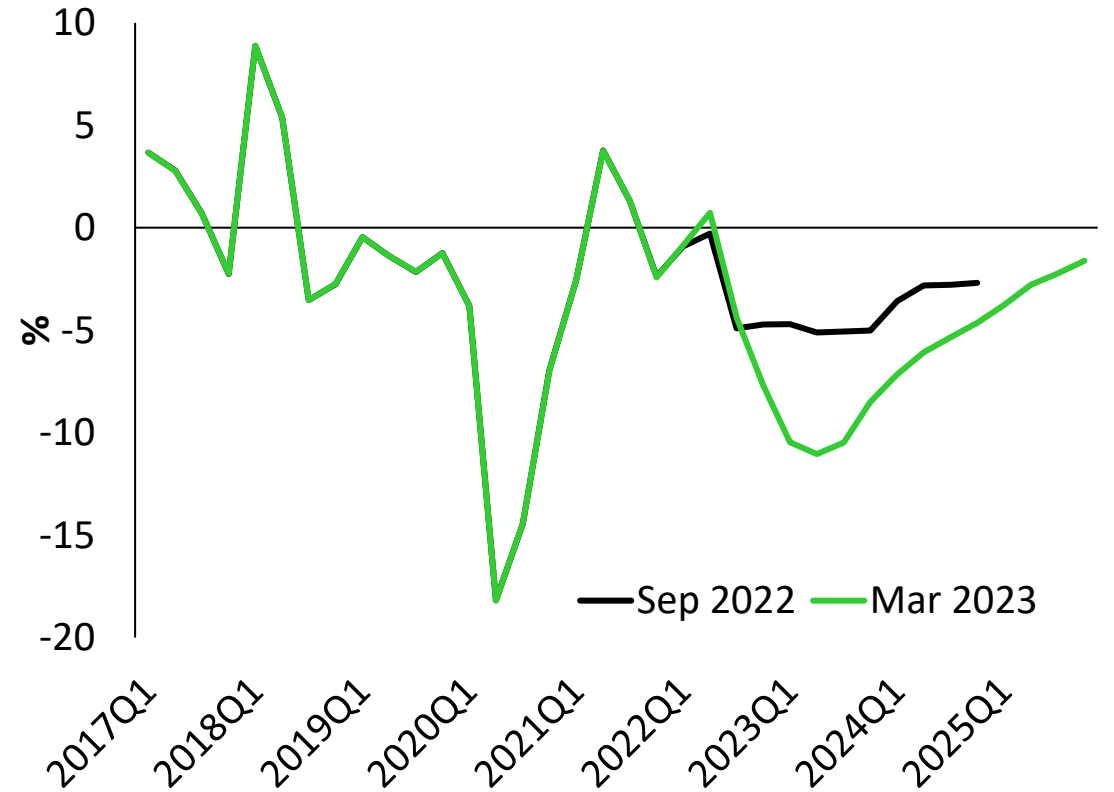
...causing a marked deterioration in external accounts
 Rand sharply depreciated, gap not closing

Current account



Source: SARB

Real effective exchange rate gap*

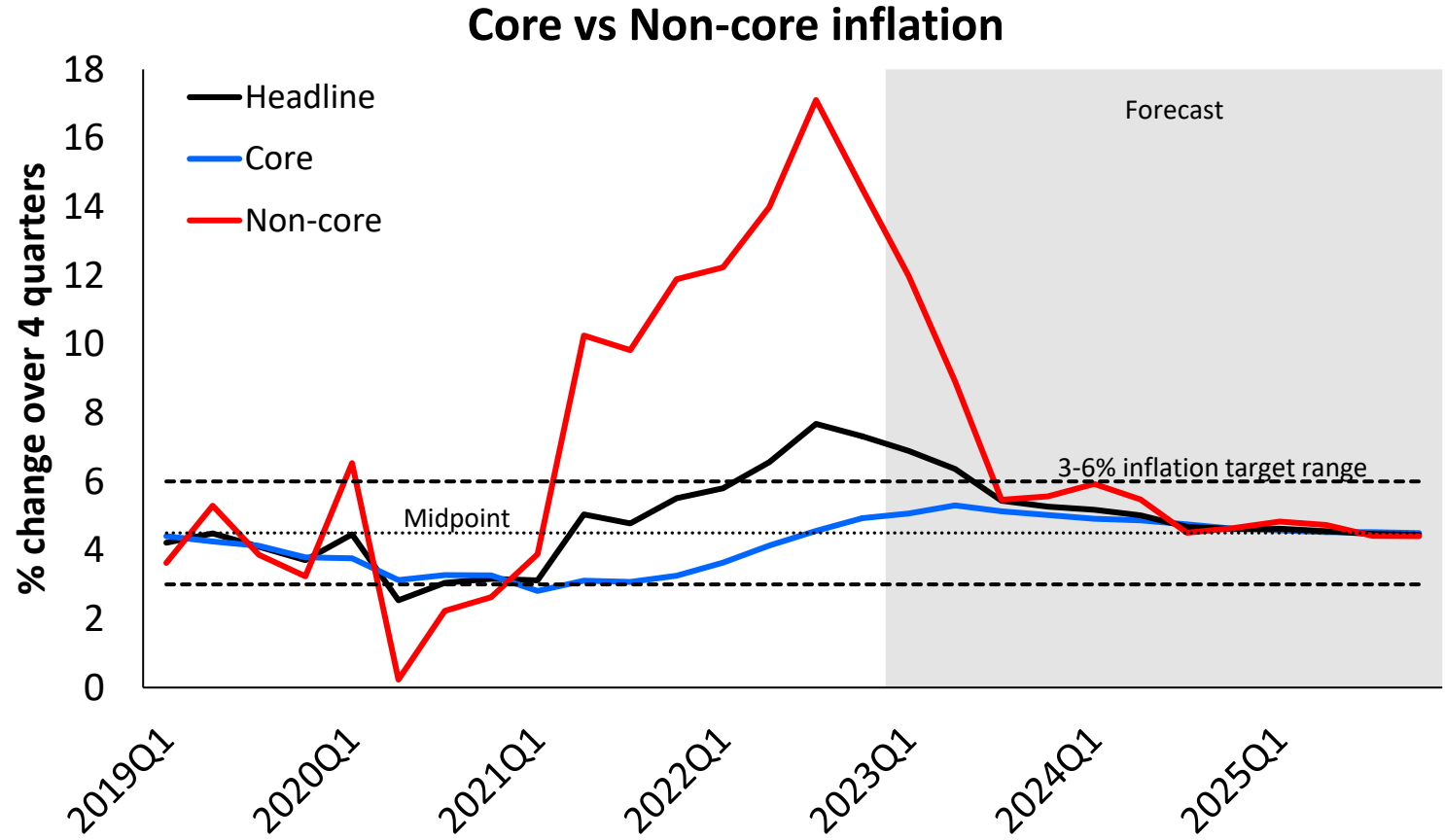


* values < 0 imply undervaluations
 Source: SARB



Domestic inflation remains elevated and persistent – long walk to midpoint

...upside pressures from food, electricity and core inflation

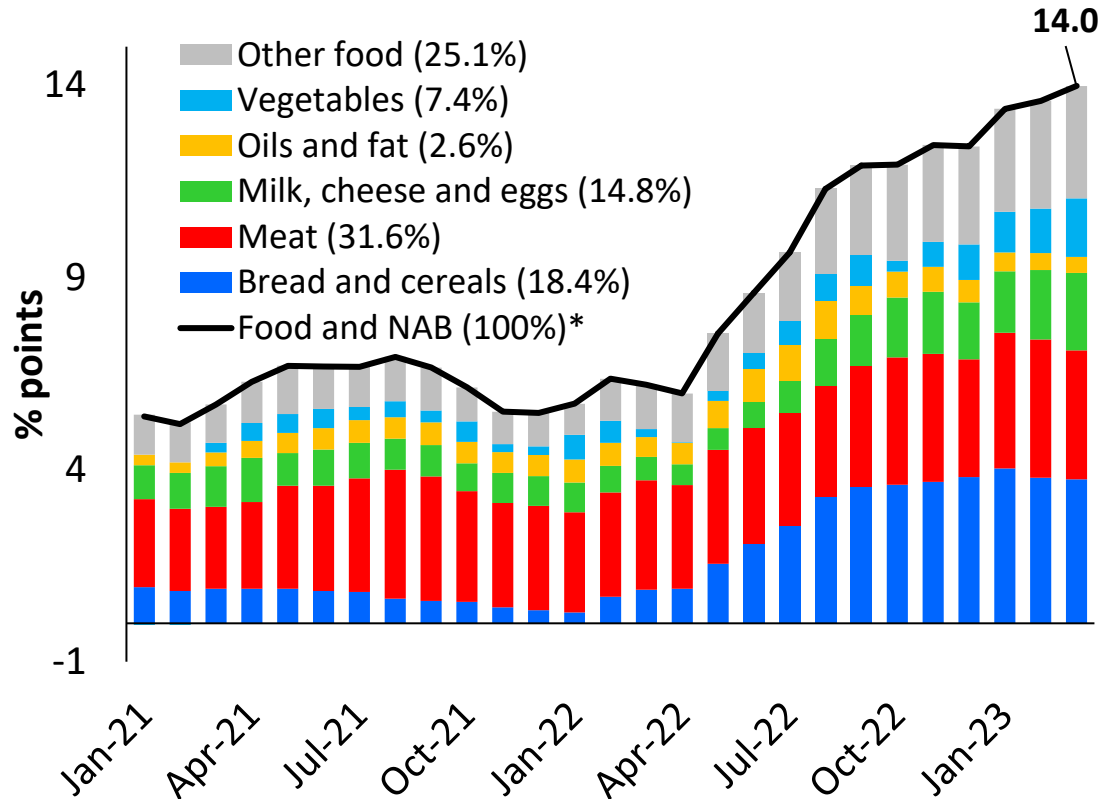


Sources: Stats SA and SARB



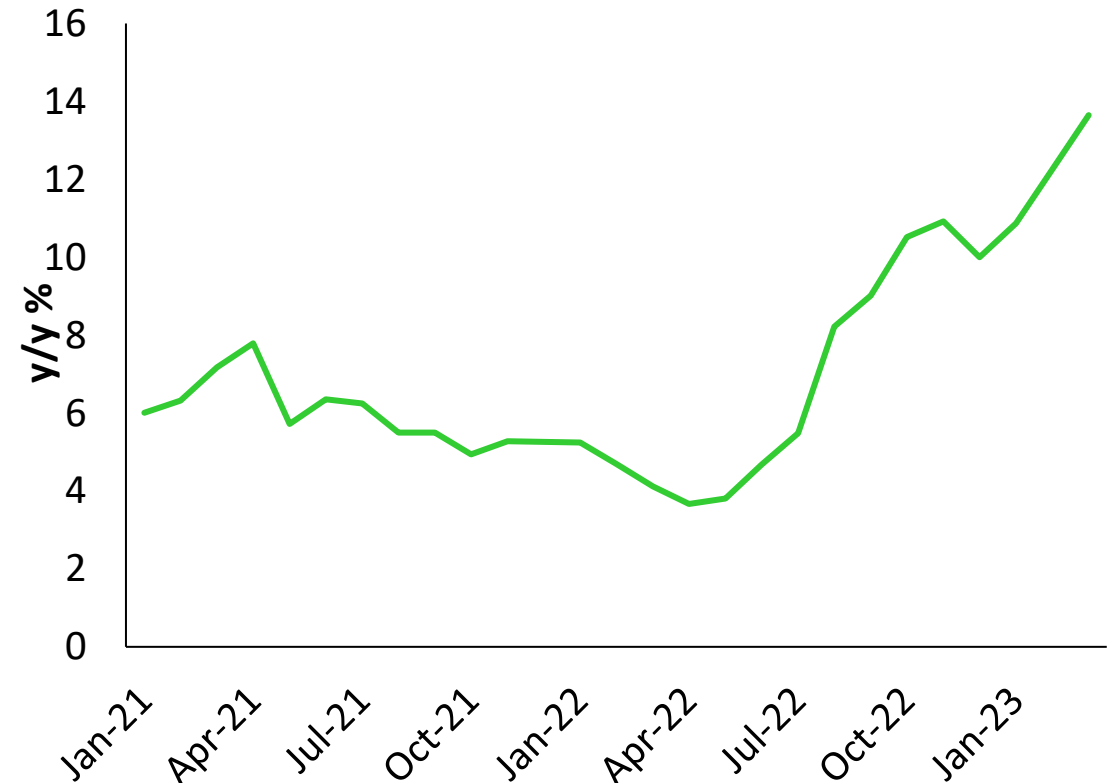
Domestic factors & weaker rand explain persistence in food inflation

Contributions to food inflation



*year-on-year percentage change
Sources: Stats SA and SARB

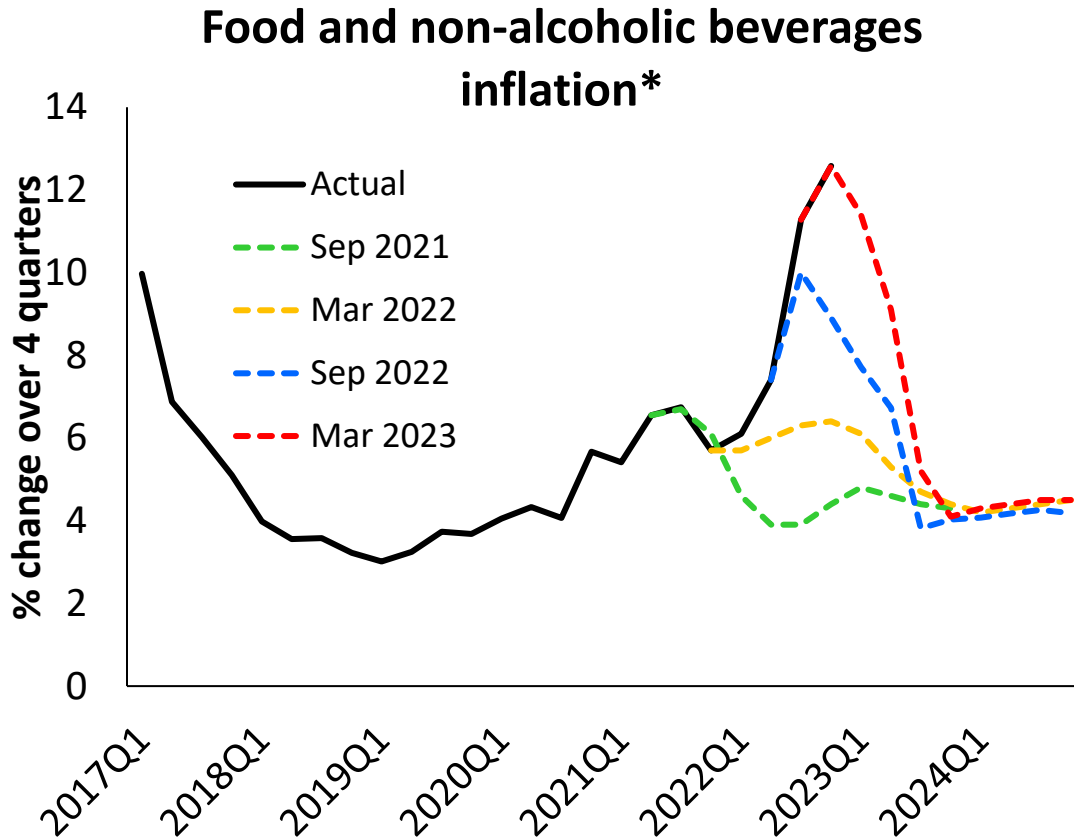
Milk, cheese and eggs inflation



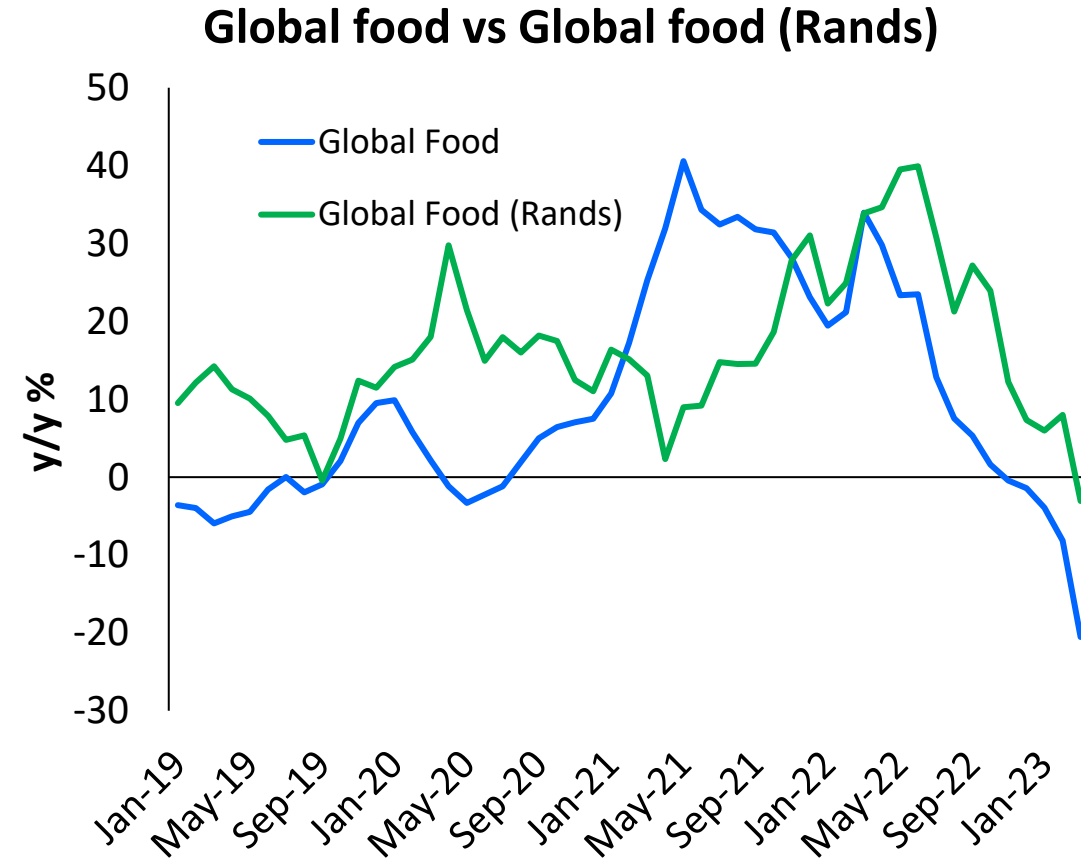
Source: Stats SA



Food inflation remains an upside risk to headline



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

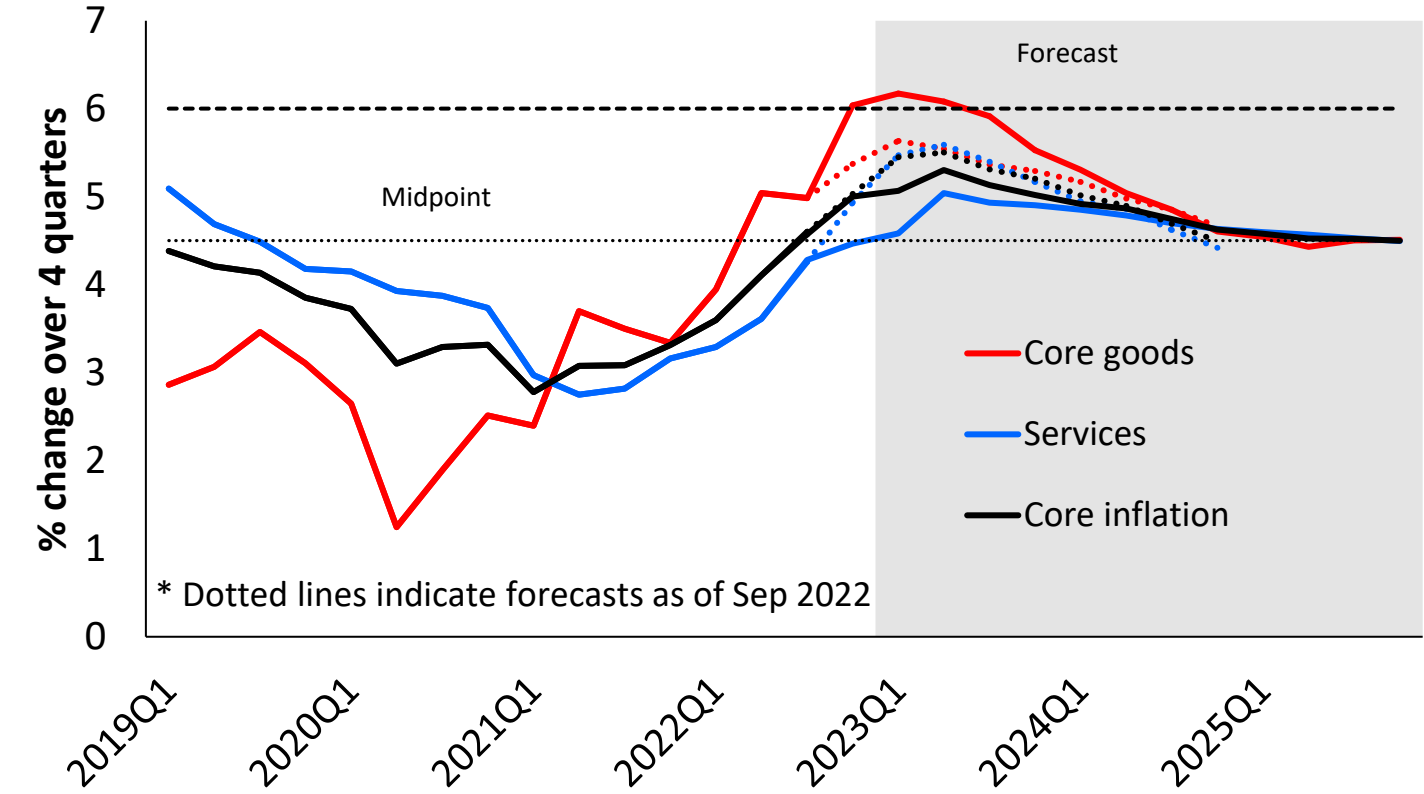


Source: UN FAO and SARB



Core inflation to remain elevated; pulled higher by core goods

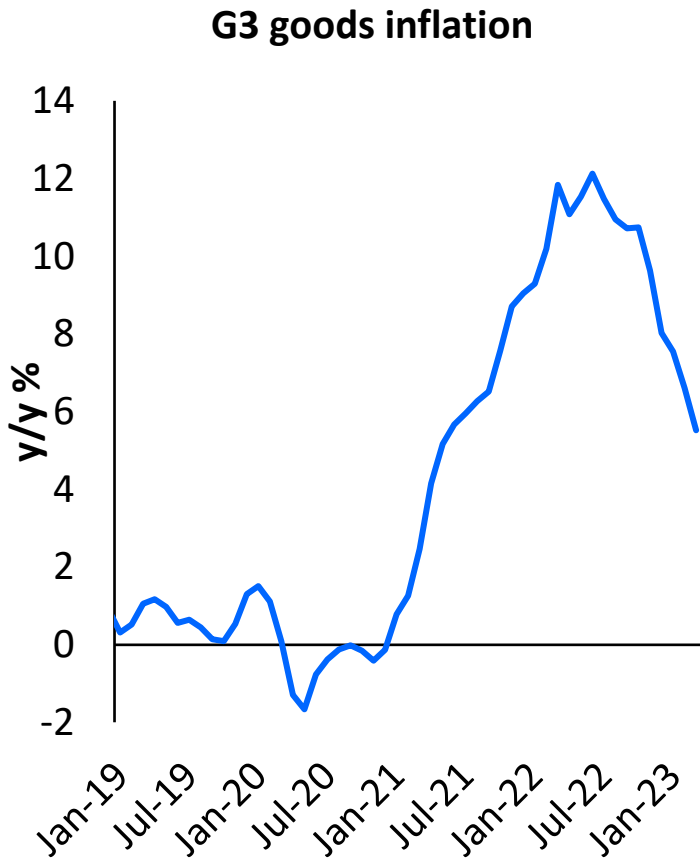
Core inflation components*



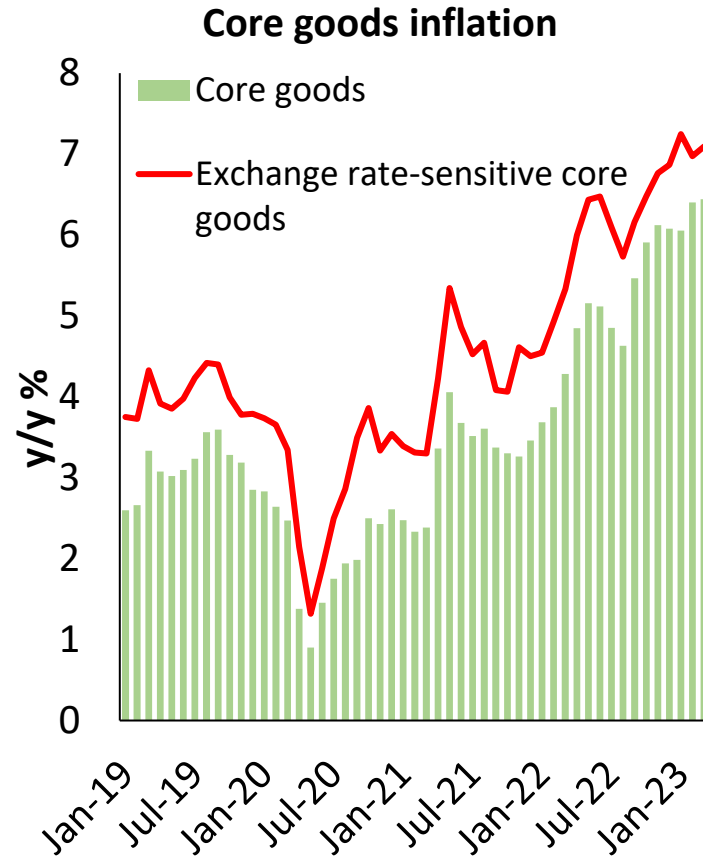
Sources: Stats SA and SARB



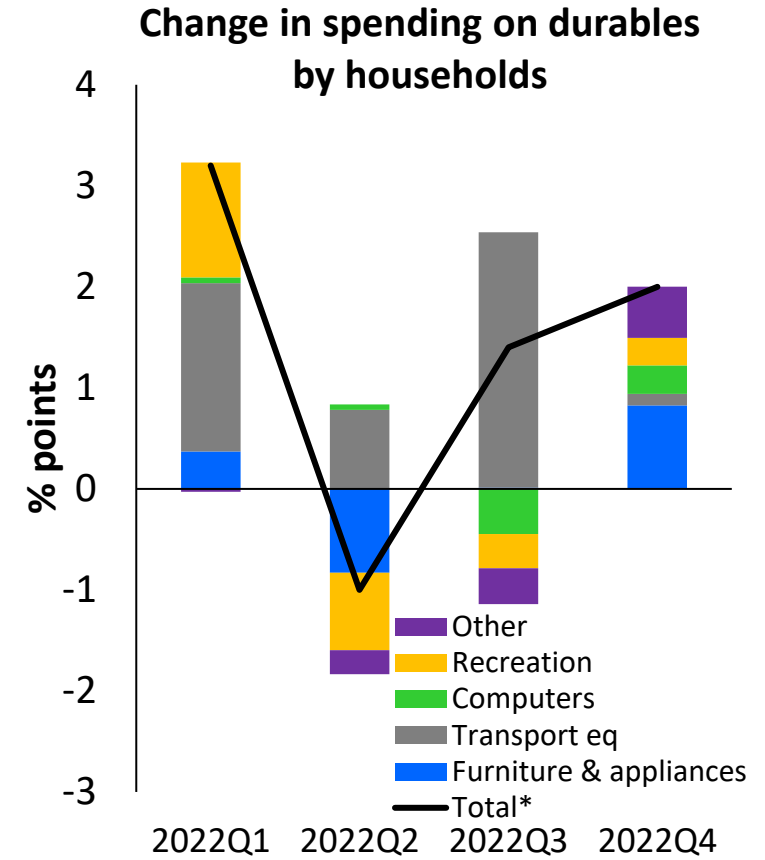
Core goods higher on both global and domestic factors



Sources: IMF, National statistical sources and SARB



Sources: Stats SA and SARB

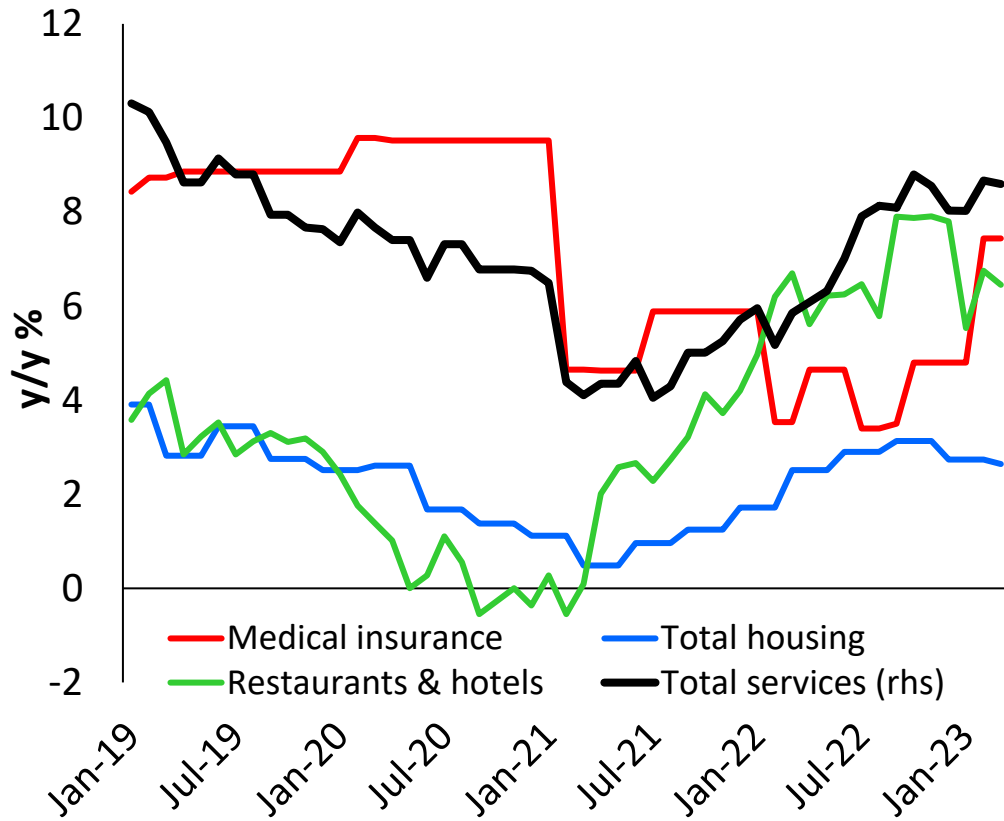


* percentage change over 1 quarter
Source: Stats SA



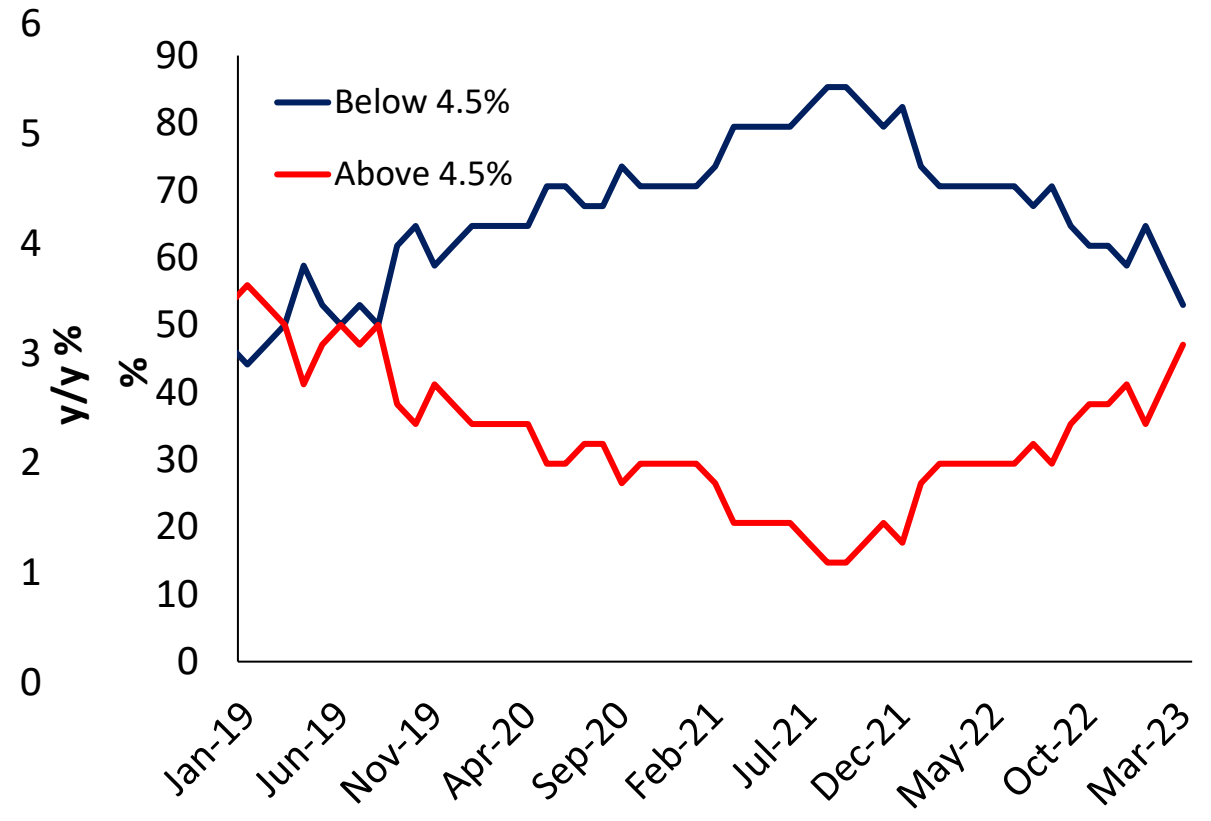
Services inflation continues its gradual rise amid broadening pressures...

Drivers of services inflation



Source: Stats SA

Services inflation diffusion

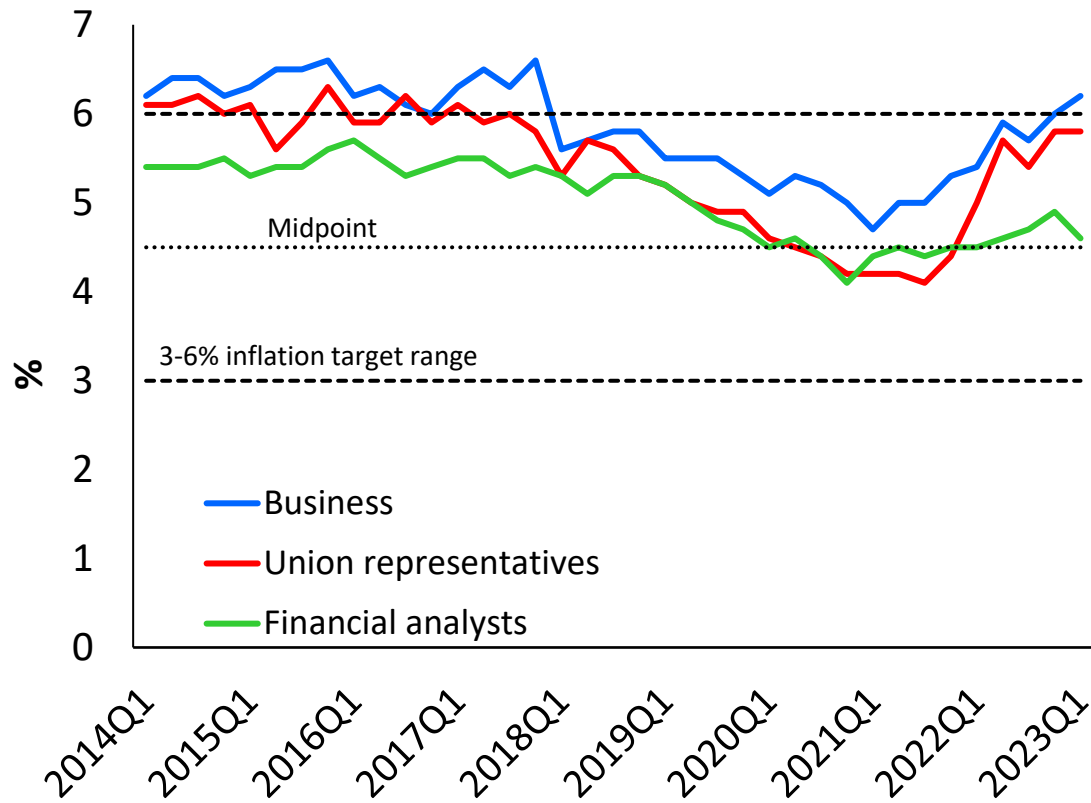


Sources: Stats SA and SARB



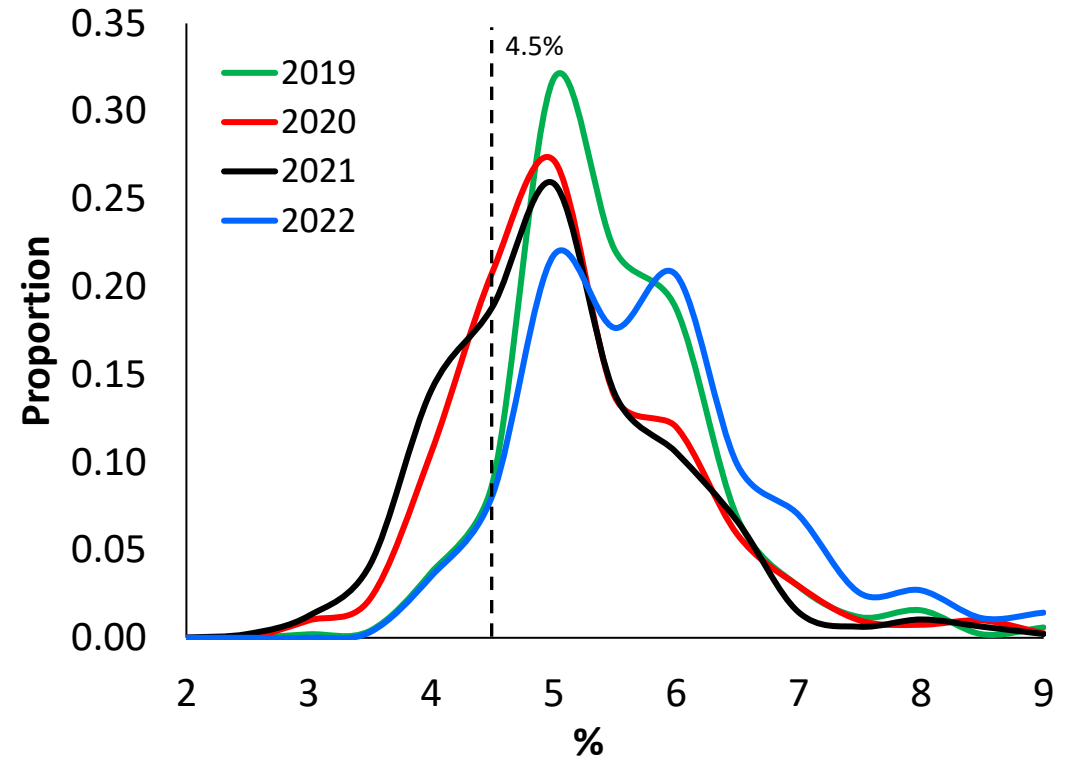
... with risks from (de-anchoring?) inflation expectations...

Two-years-ahead inflation expectations



Sources: BER and SARB

Distribution of two-years-ahead business inflation expectations



Sources: BER and SARB



... and load-shedding

Commercial perspectives on Eskom's rolling blackouts:
What does loadshedding cost businesses?

Sakeliga member survey

As is expected, loadshedding presents a substantial challenge for member businesses. Our findings are summarised below:

- Power cuts are leading to considerable estimated losses in revenue.
- Substantial additional spending is being incurred to mitigate the impact of power cuts.

Shoprite hikes prices by more than 9% amid spiralling food inflation, load shedding costs

Nick Wilson

news24

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Gift article

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Loadshedding is disrupting SA agriculture and agribusiness activities

by Wandile Sihlobo | Jan 18, 2023 | Agricultural Environment and Natural Resource | 0 comments

23 Jan

WATCH | Farm dumps almost 12 000 litres of milk in one day due to load shedding

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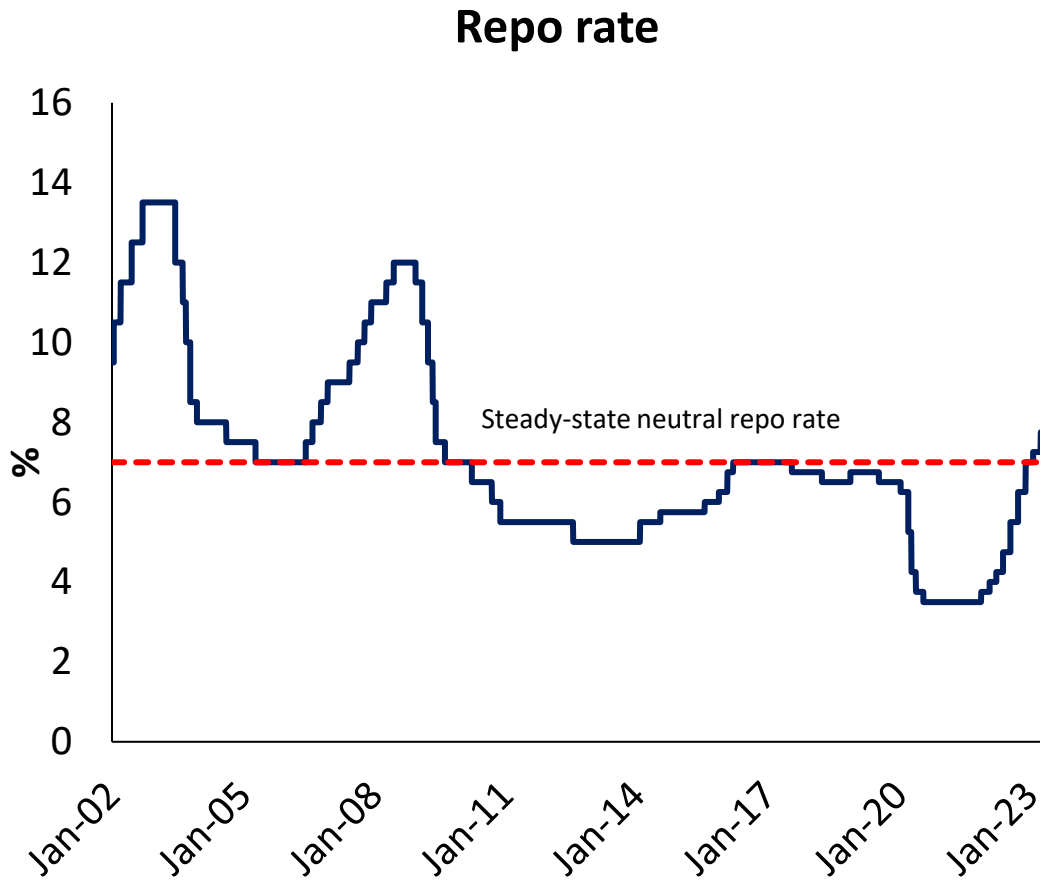
Economics

Food Prices Hit 14-Year High as South Africa Power Cuts Escalate

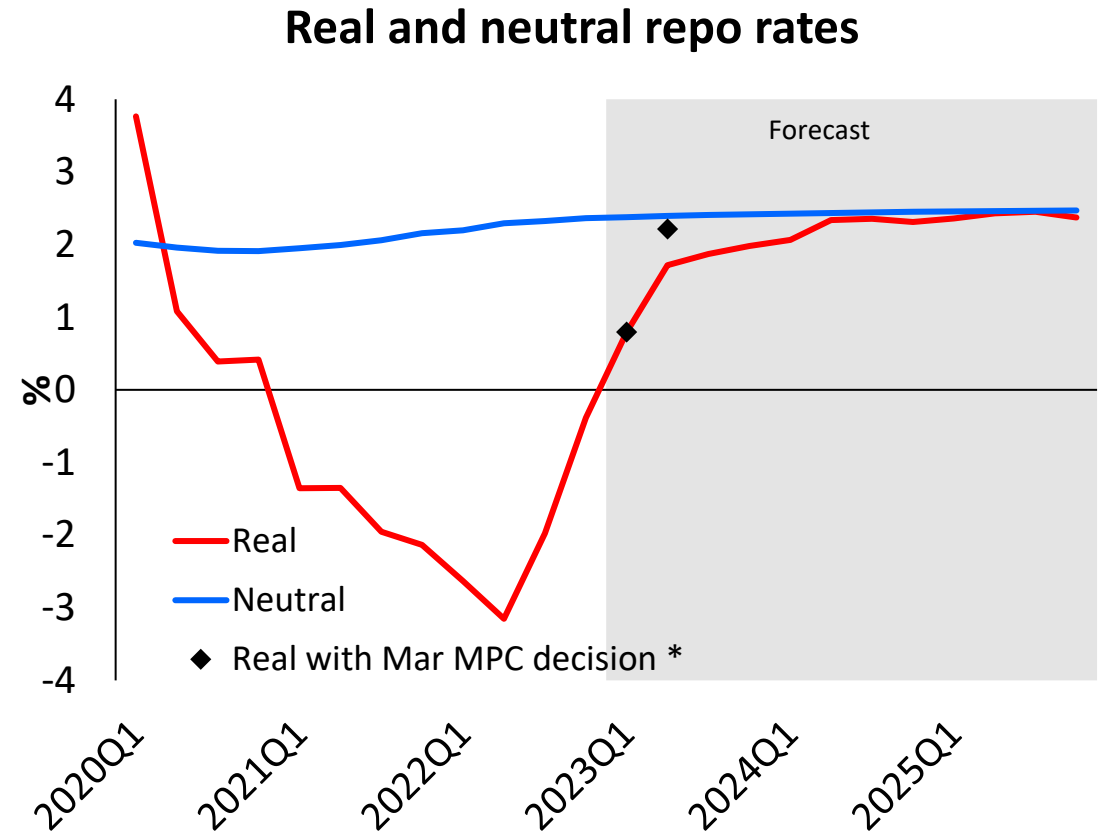
- Rising food prices may keep interest rates higher for longer
- Headline inflation slowed to eight-month low of 6.9% in Jan.



Nominal repo above steady-state neutral; real repo closing in on neutral real



Source: SARB

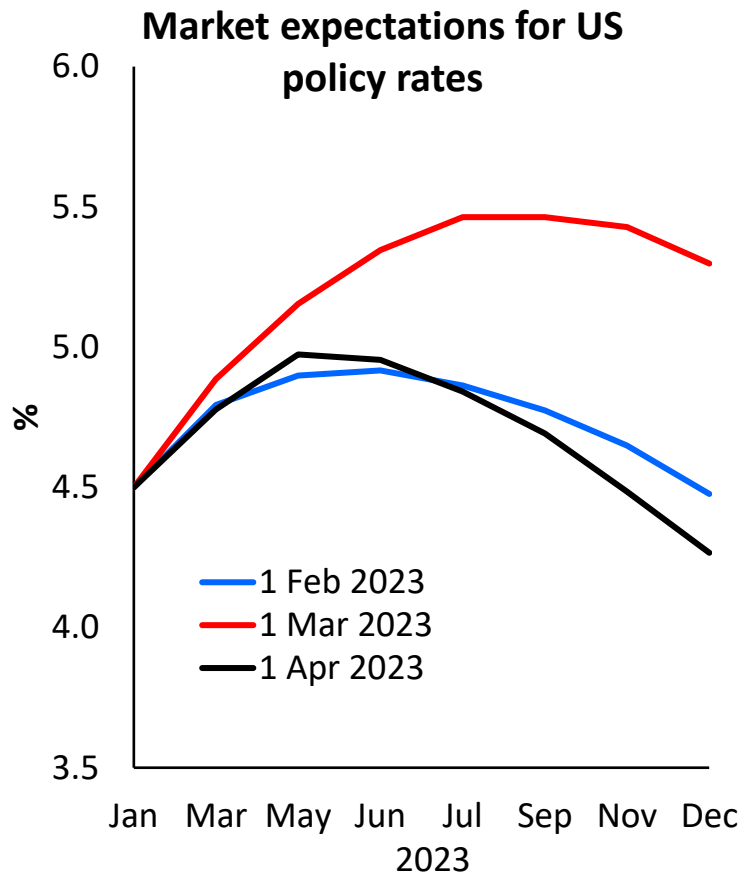


* Mar MPC real rate plus Mar MPC decision, all else equal

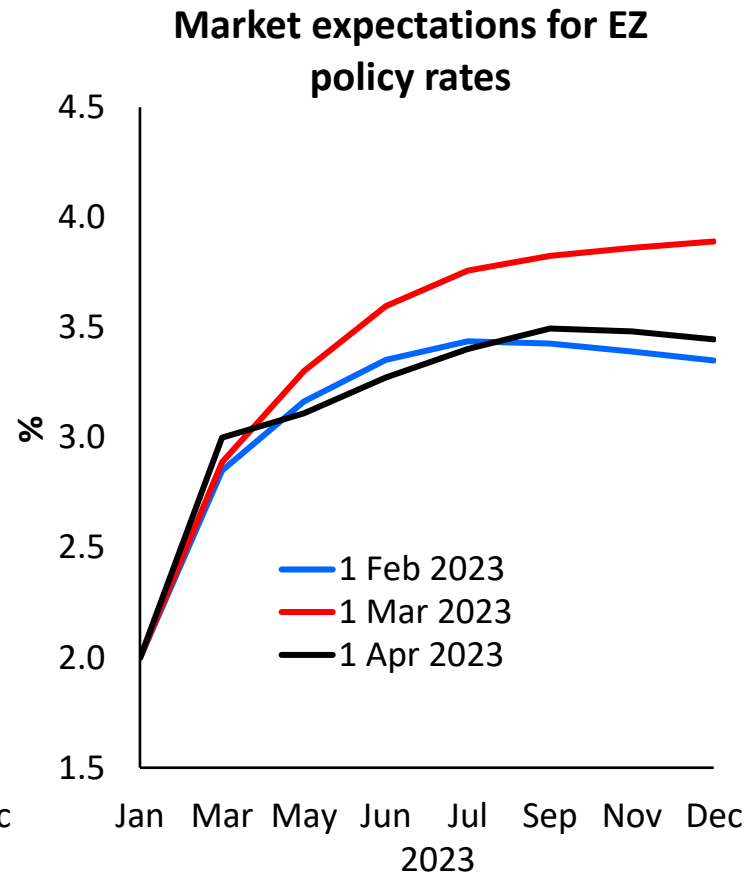
Source: SARB



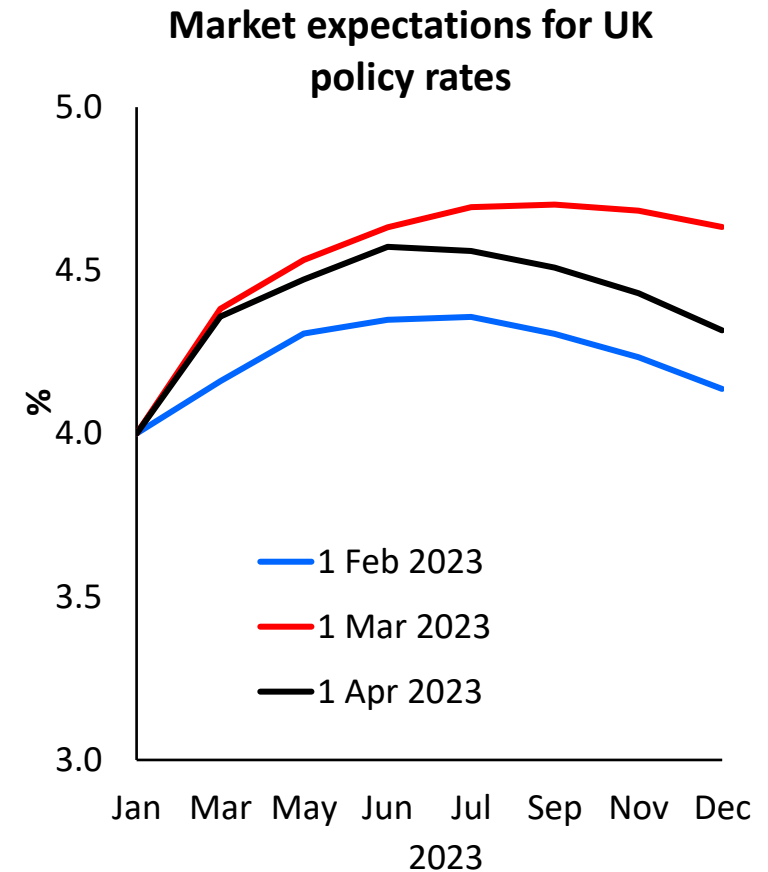
In AEs, policy rate paths repriced lower on the back of banking sector stress ...but rate increases still expected



Sources: Bloomberg and SARB



Sources: Bloomberg and SARB

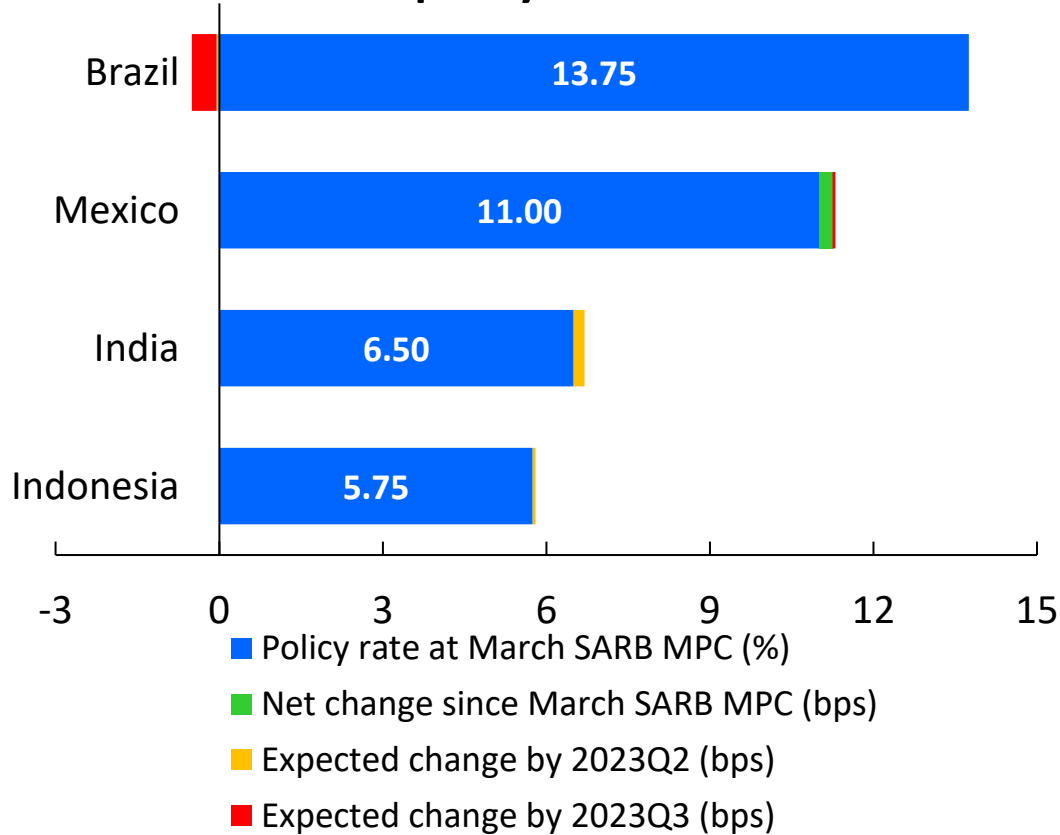


Sources: Bloomberg and SARB



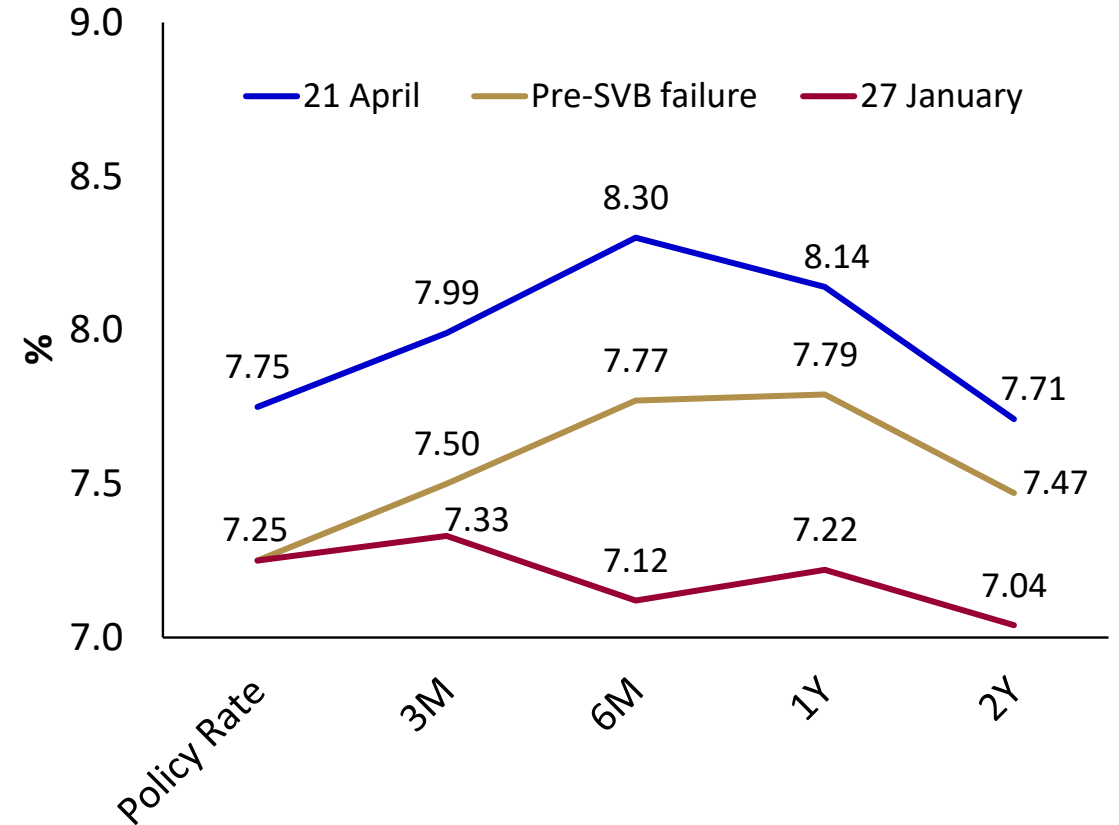
EMs are largely expected to pause

EM nominal policy rates and forecasts



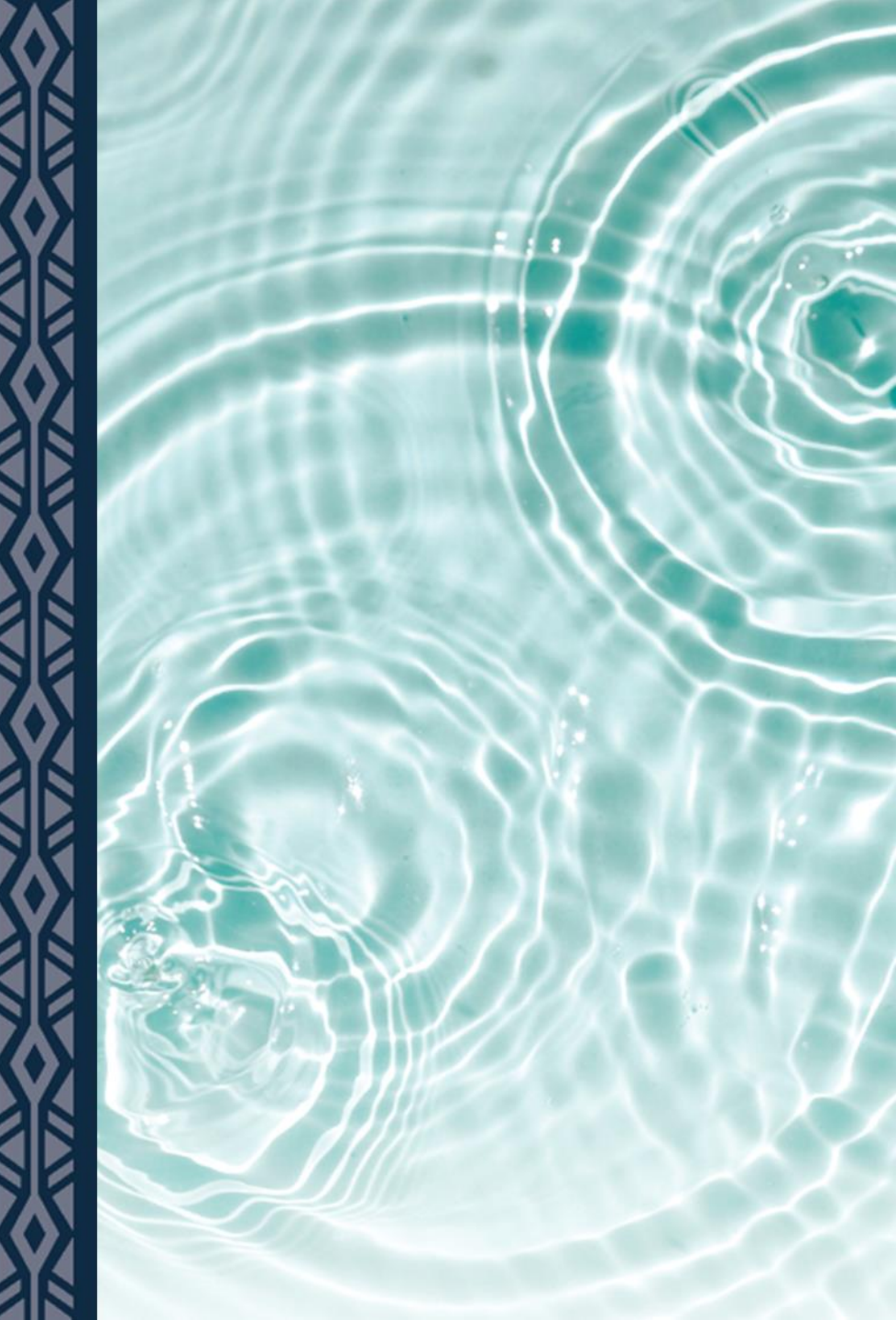
Source: Bloomberg

SA implied repo rate expectations

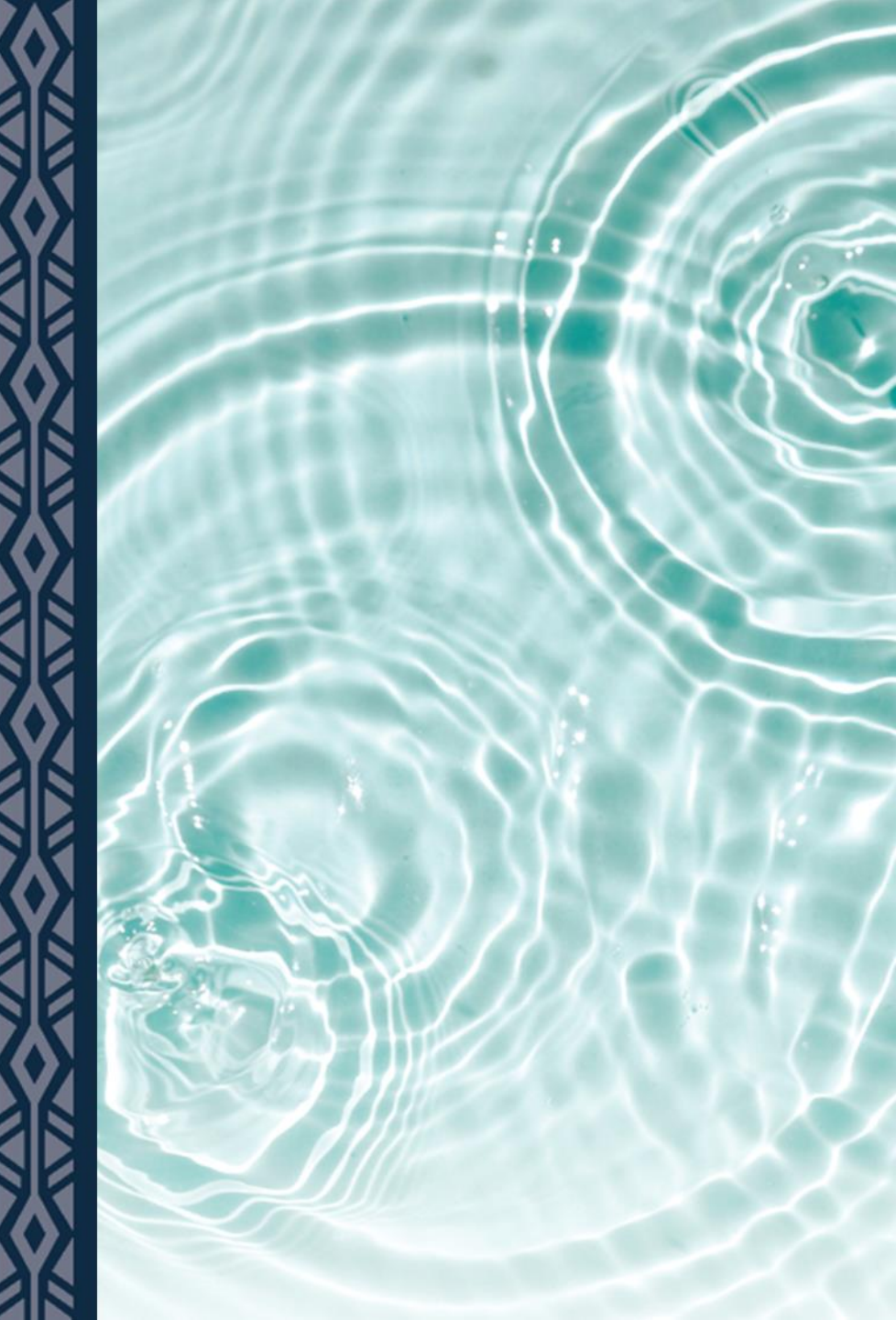


Source: Bloomberg



- 
- **Global inflation high and persistent... raising questions on the efficacy of policy**
 - **Forecasts project global growth to remain subdued on tighter financial conditions, ...**
 - **...yet markets somewhat bearish on rates...will financial conditions loosen prematurely?**
 - **Domestic food and core inflation high and sticky, keeping headline elevated**
 - **Real repo rate in neutral region, but inflation pressures persist, expectations sharply higher ...**
 - **Has sustained target breach caused a de-anchoring of inflation expectations?**





THANK YOU

