



**A bumpy road to target:  
*Monetary Policy Review***

**SOUTH AFRICAN RESERVE BANK  
MONETARY POLICY FORUM,**

17 October 2023



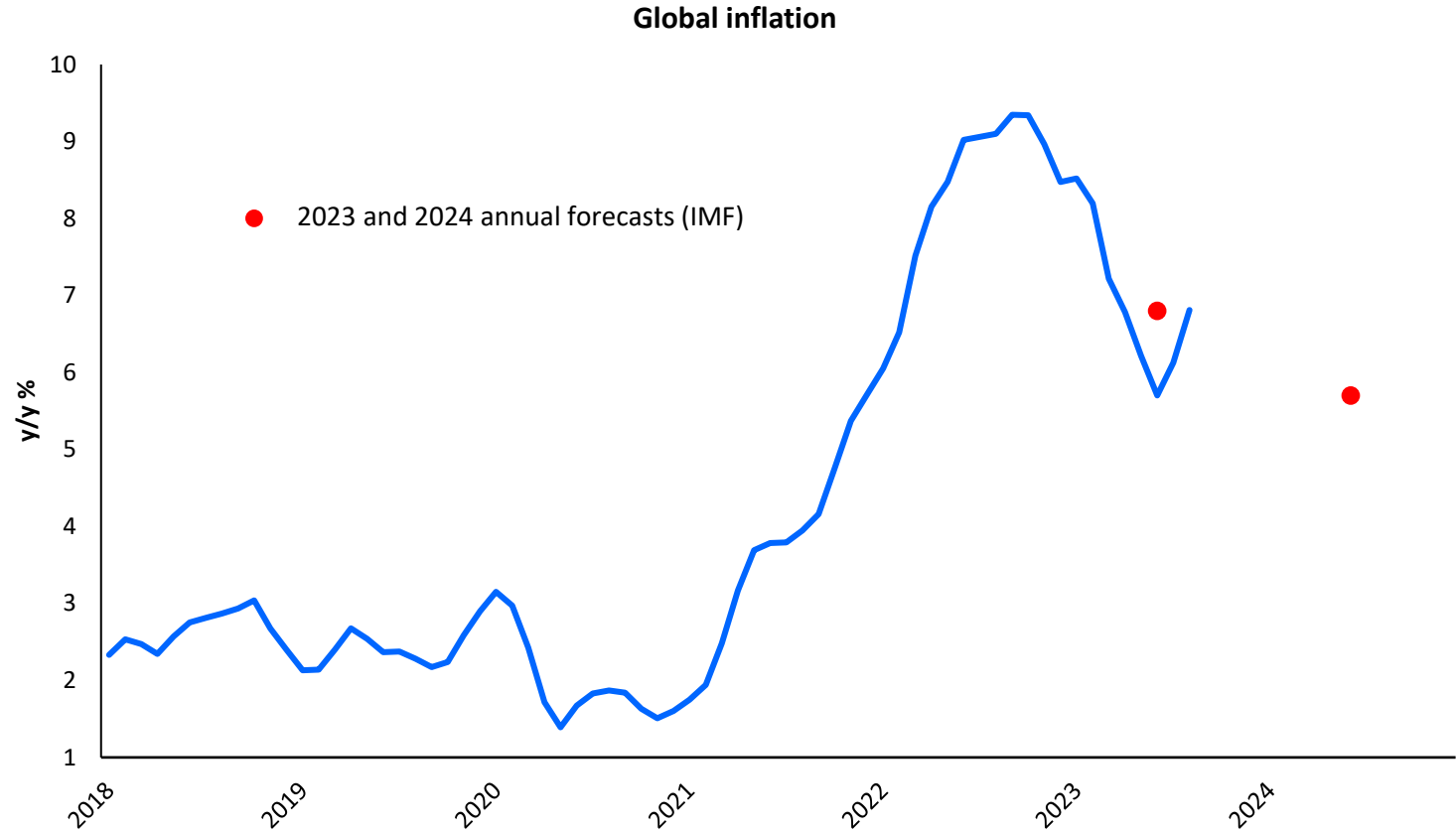
**SOUTH AFRICAN RESERVE BANK**



- **Global headline inflation lower but core persistent... less certainty on trajectory**
- **Global GDP resilient, but clear divergence & several sources of shocks**
- **SA growth better, but low expectations from constraints**
- **Slower return to global policy targets requires high(er) for long(er)**
- **More debt, fewer capital flows, less cooperation**
- **Currencies weaker on macro imbalances**
- **Headline above midpoint, core volatile**
- **A bumpy road back to anchored target**

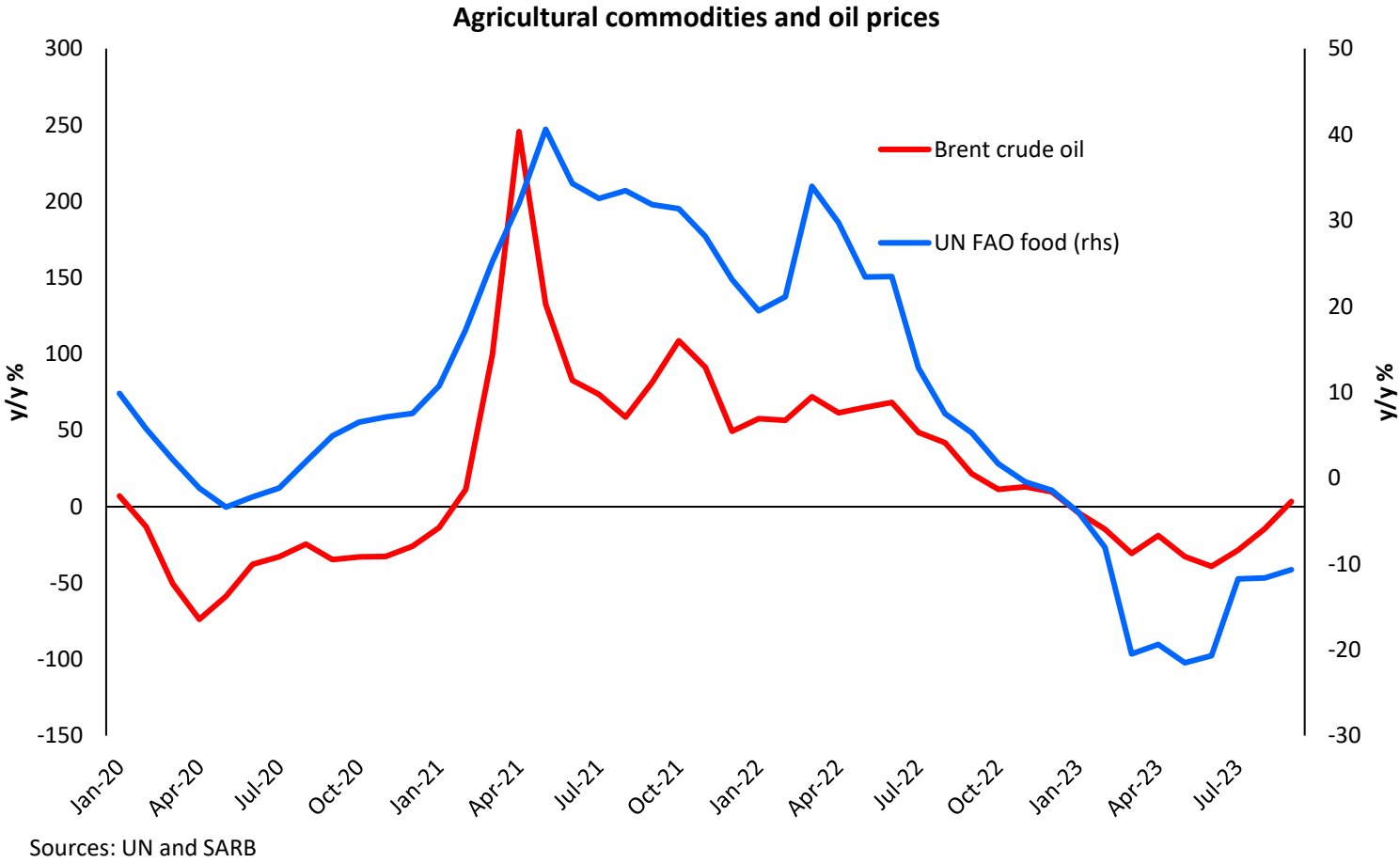


# Global inflation lower, but remains elevated, persistent

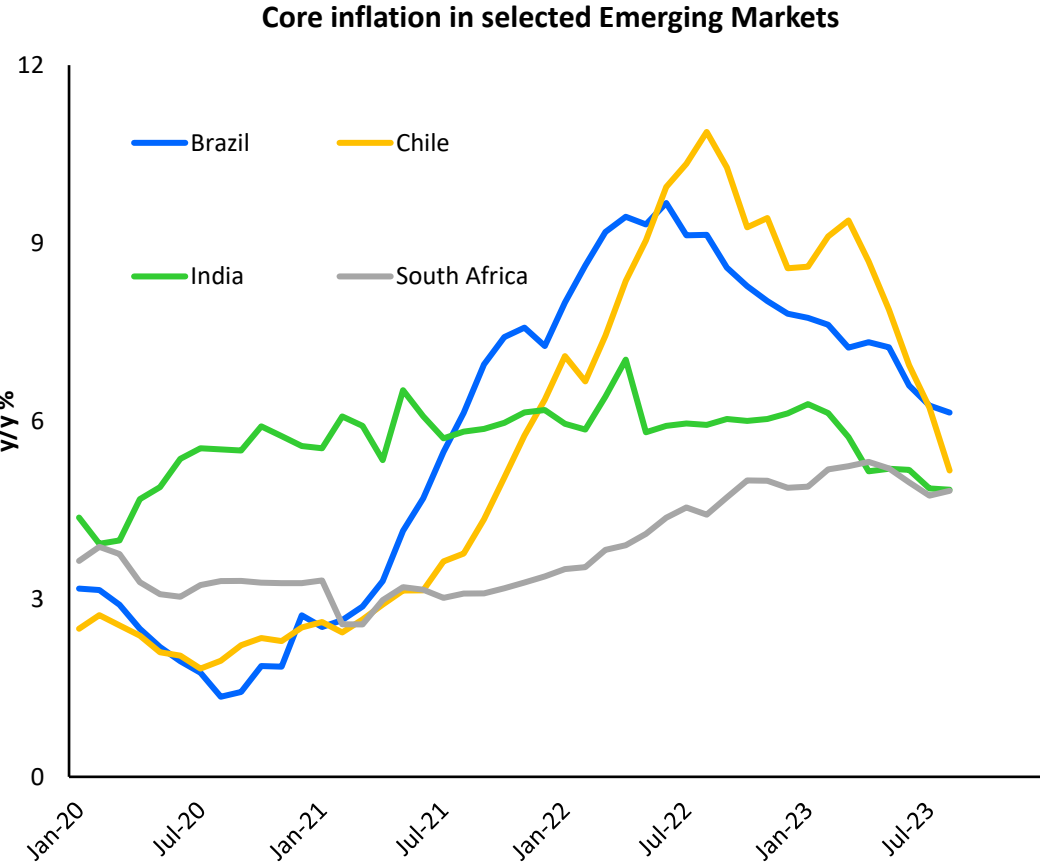


Sources: Haver and IMF

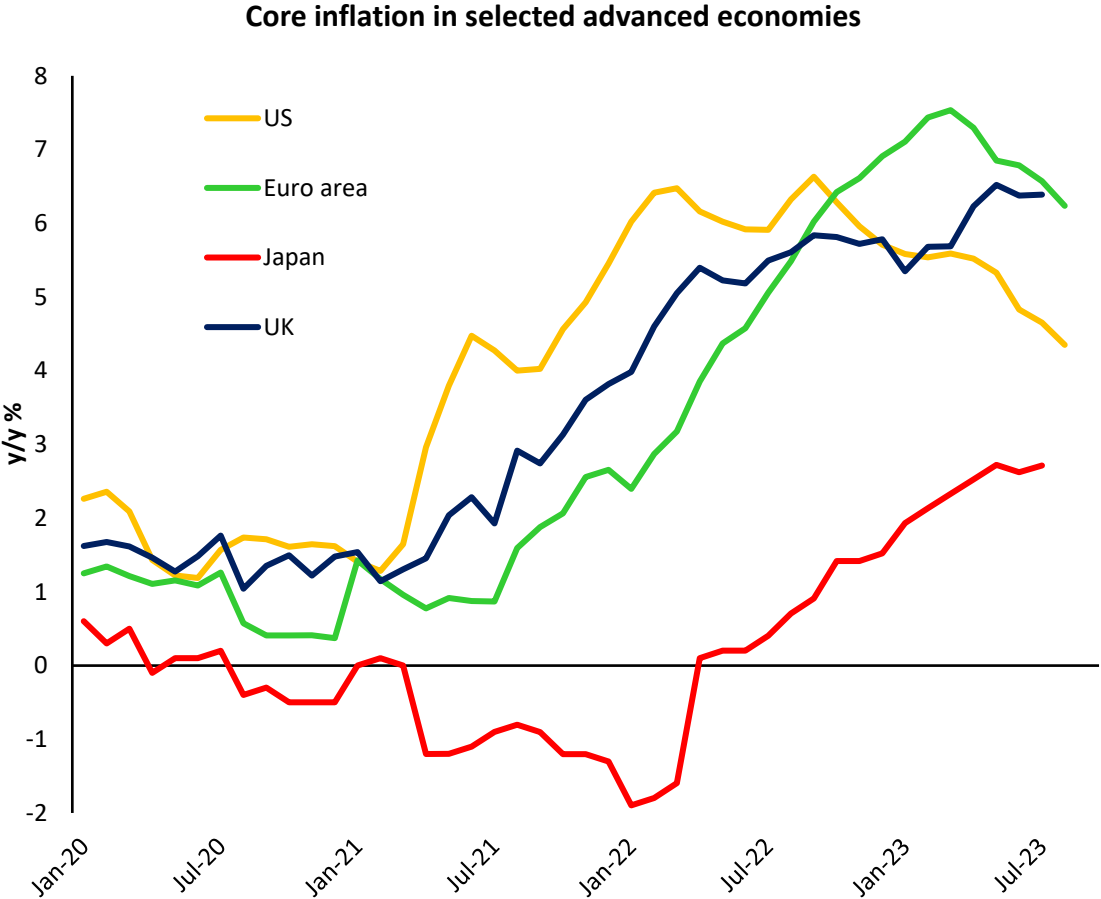
# Declining food, oil prices up and base effects fading



# Core easing in EMs, but sticky everywhere

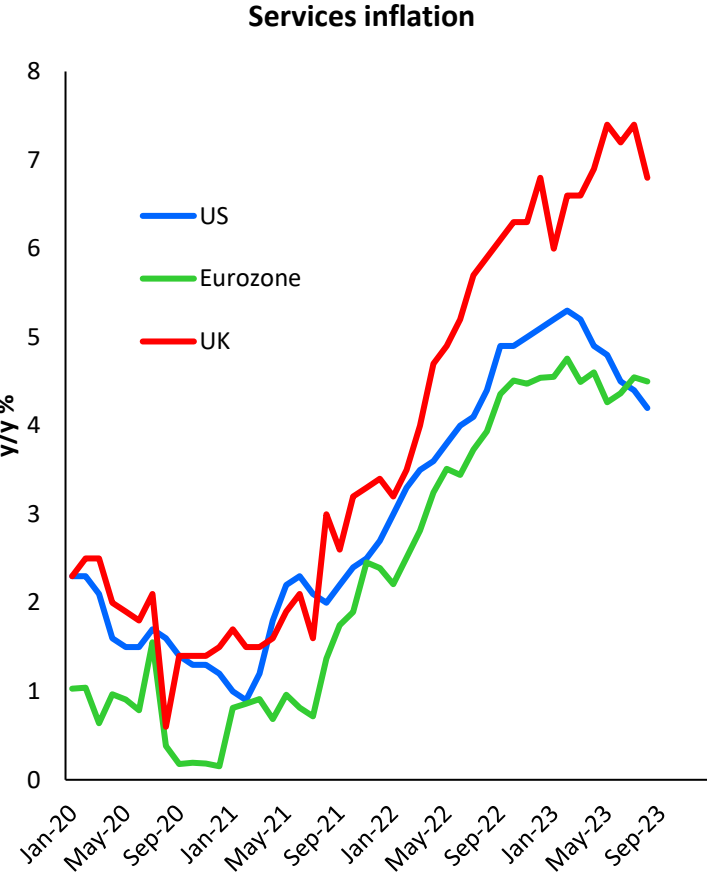


Sources: Central Statistical Offices

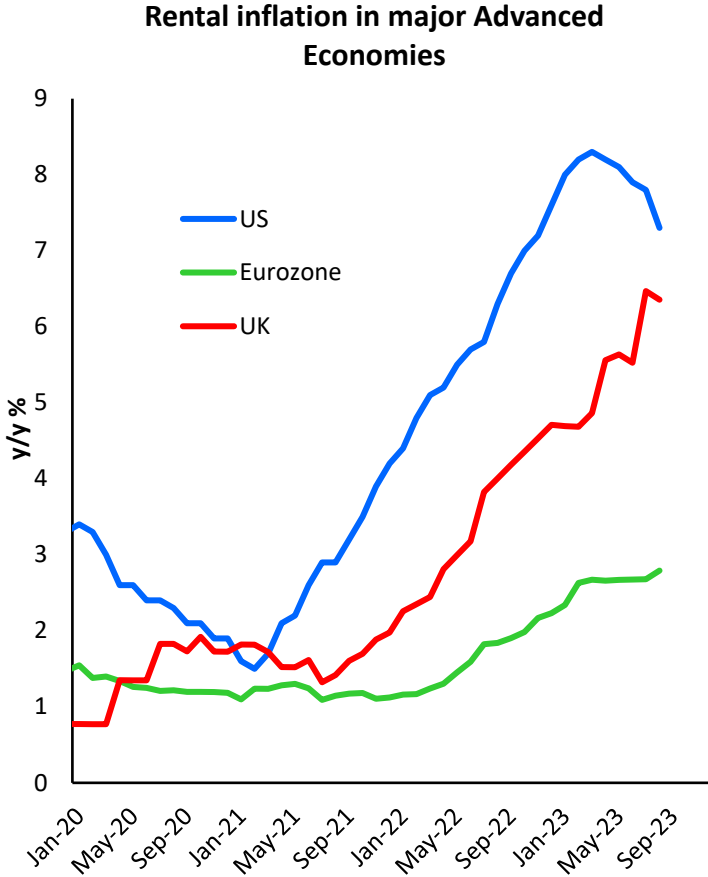


Sources: Central Statistical Offices

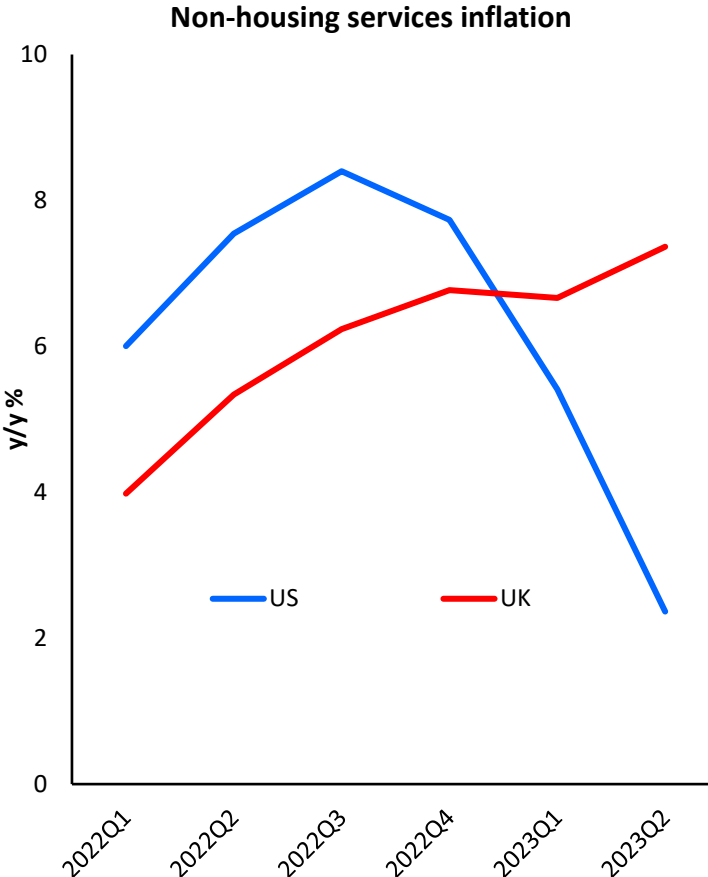
# AE core a services story, particularly housing inflation...



Source: Bloomberg



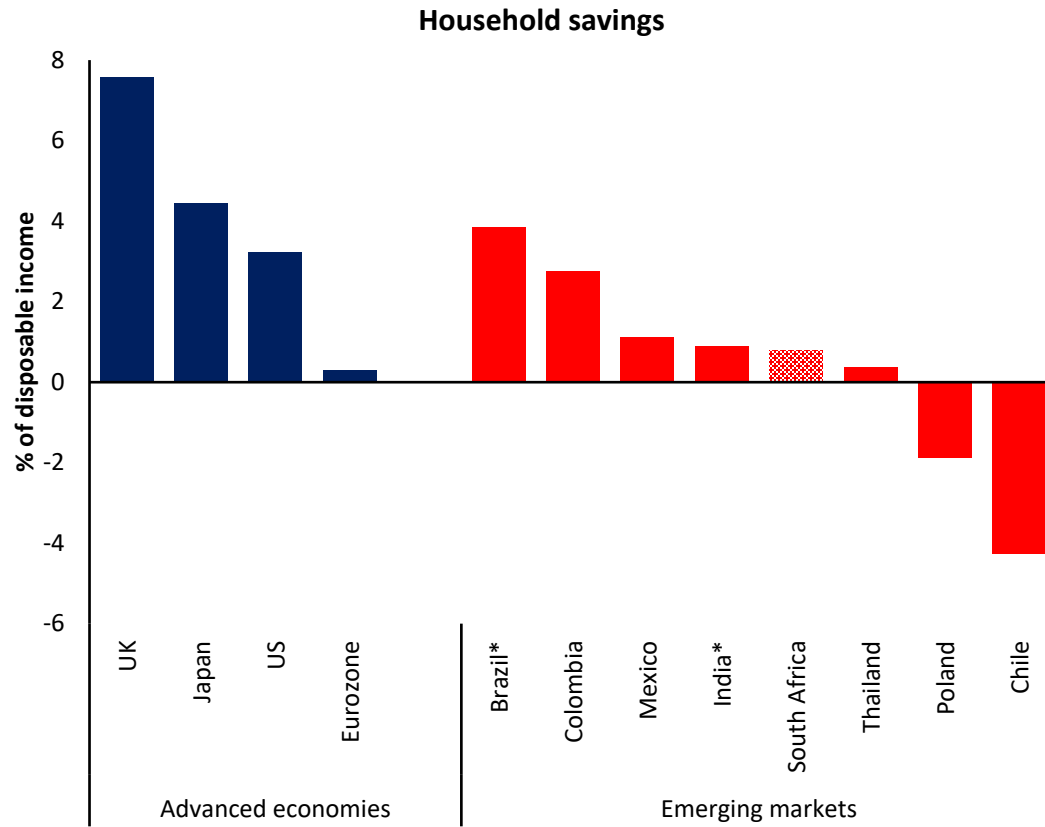
Source: Haver



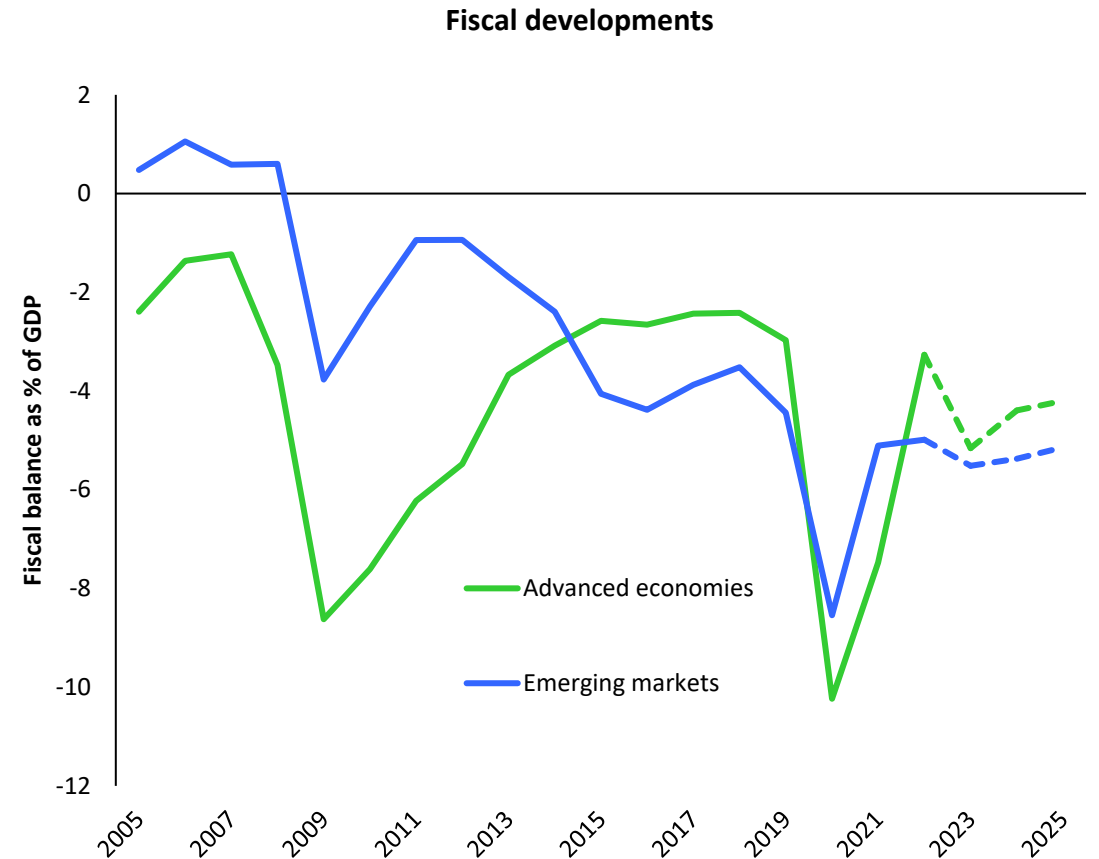
Sources: Haver and OECD



# ... as demand still strong, savings buffers and fiscal expansion



\*Data for Brazil and India show gross savings as a percentage of gross disposable income  
Sources: Haver and OECD

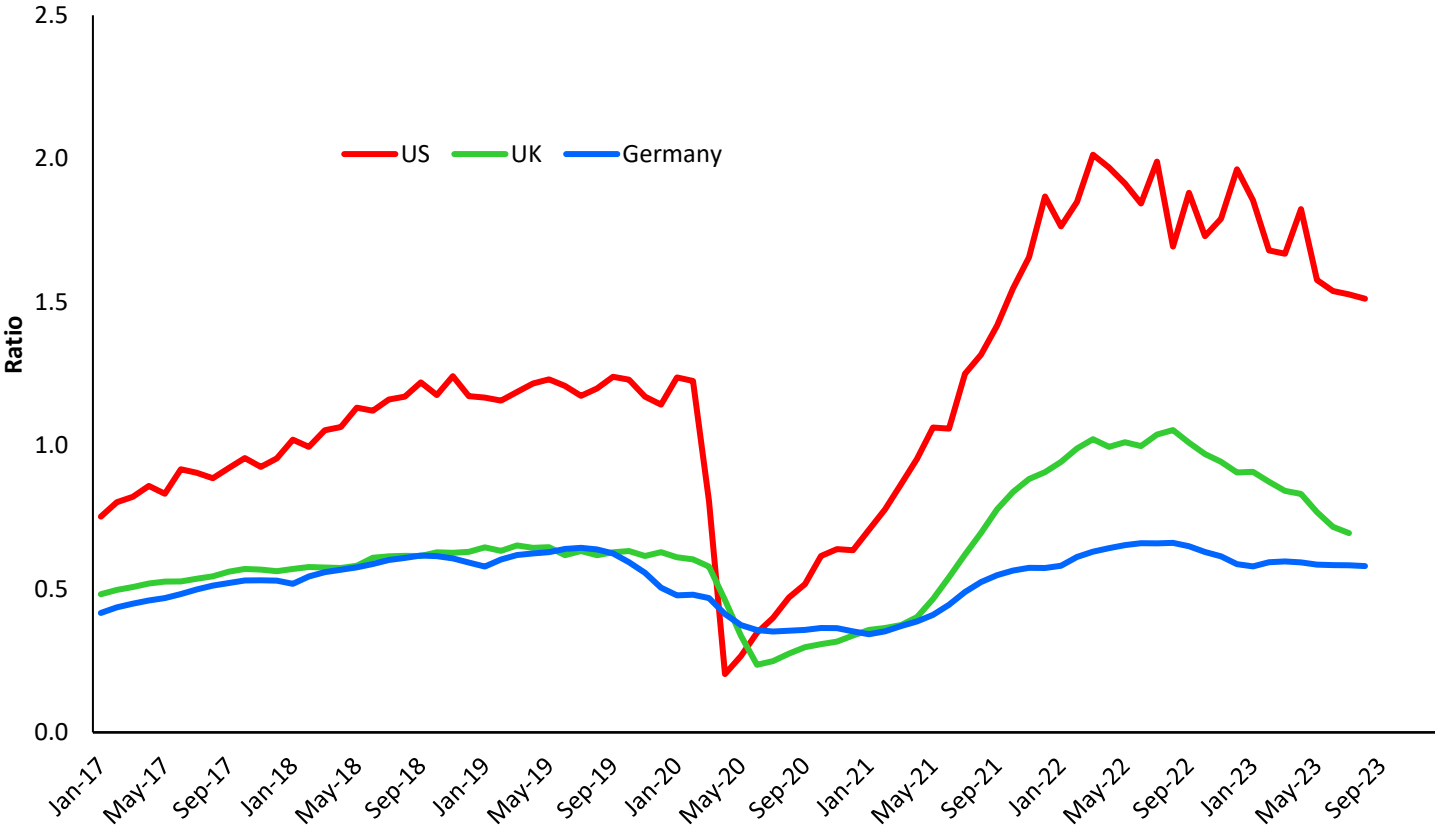


\* Dotted lines indicate forecasts  
Source: IMF WEO (Oct 2023)



# Outcome is tight labour markets

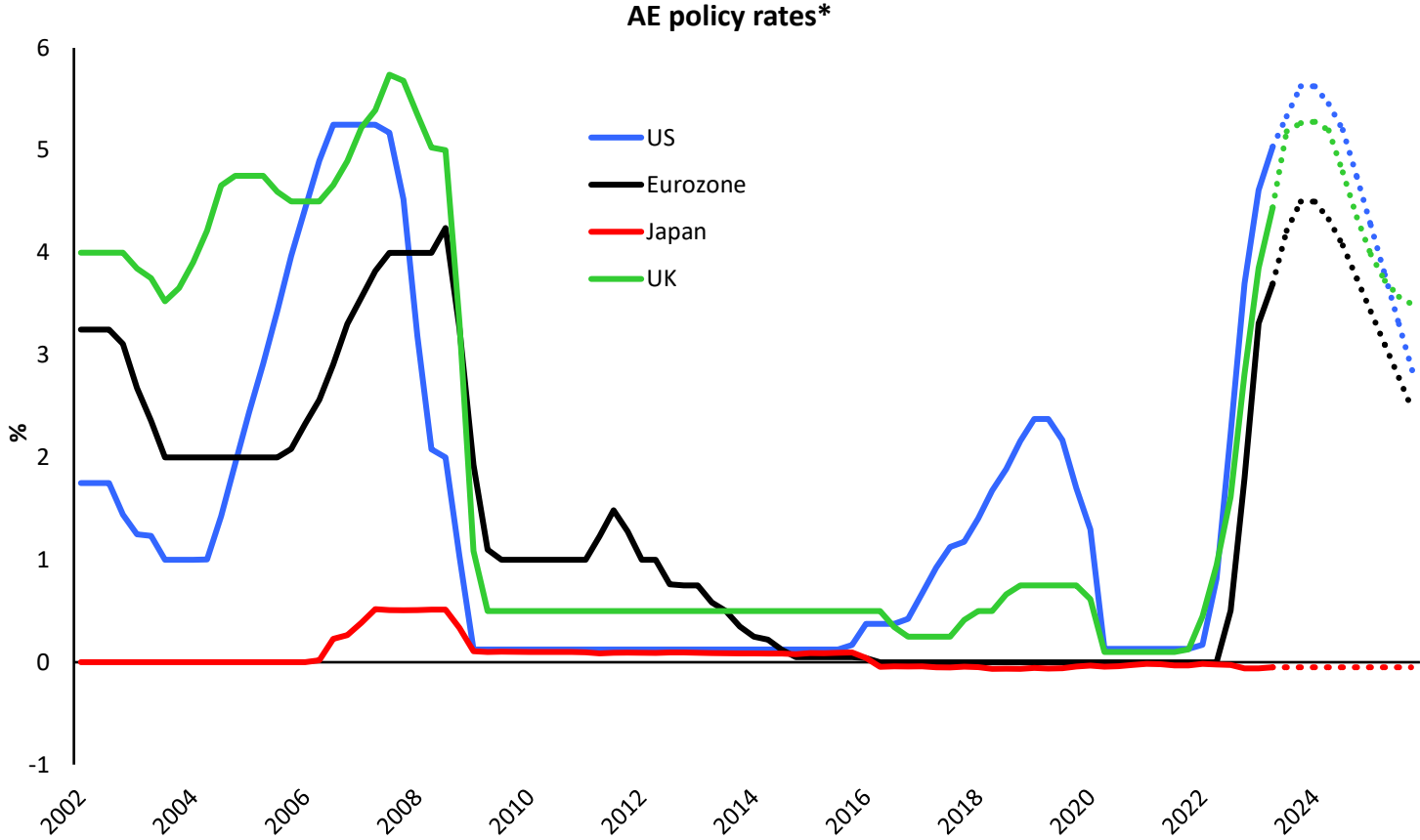
Ratio of job vacancies to unemployment rate



Source: Bloomberg

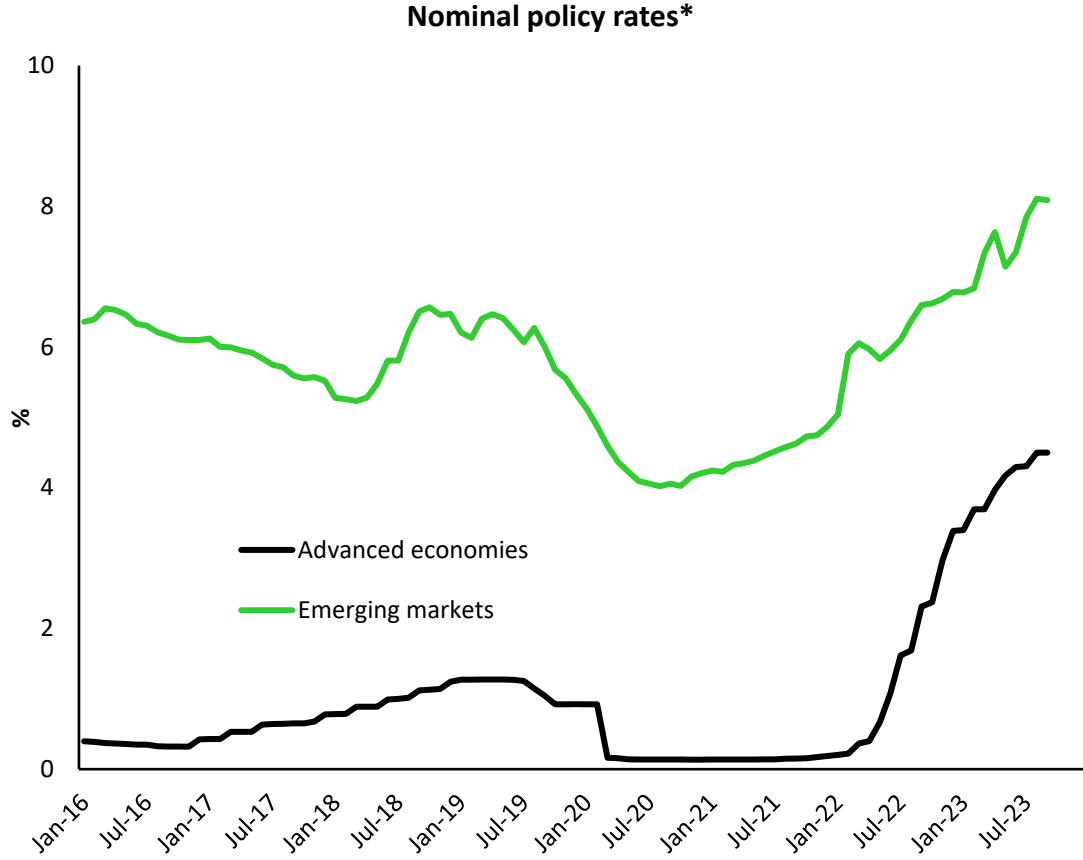


# Late start but sharp hikes...

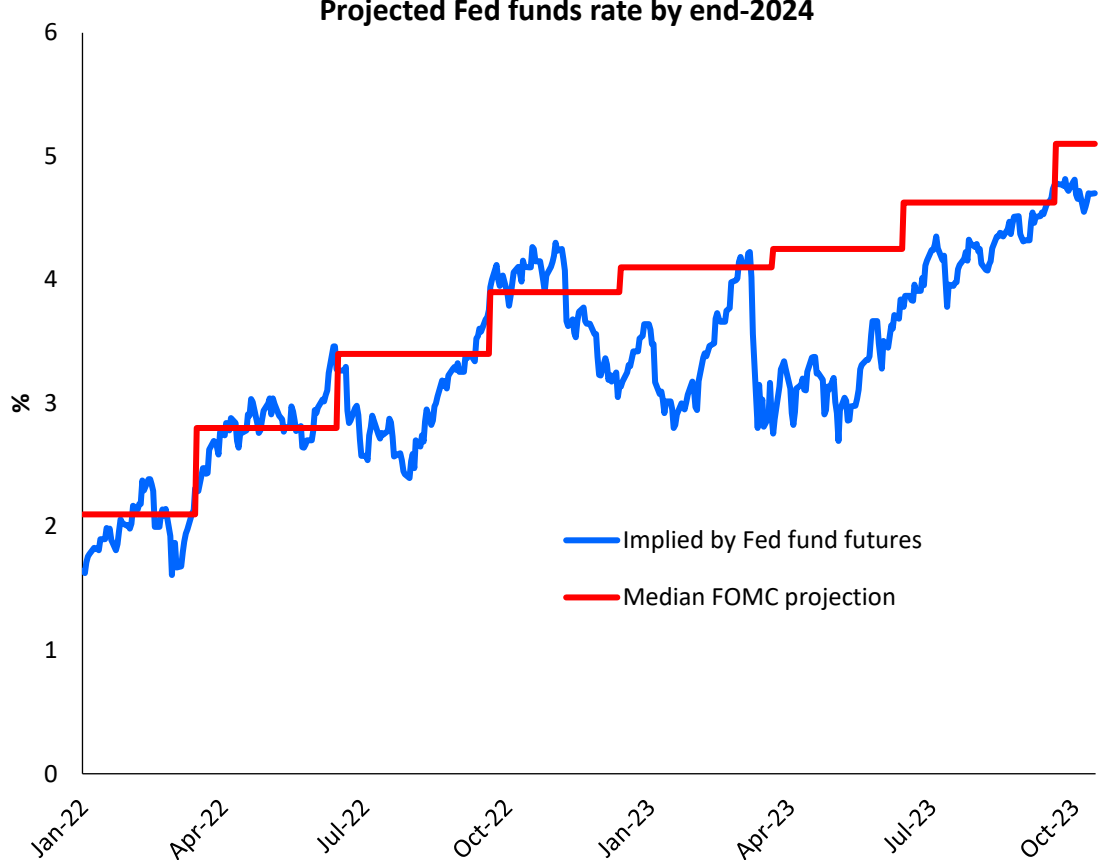


\* Dotted lines indicate forecasts  
Sources: Central banks and SARB

# CB resolve, better communications

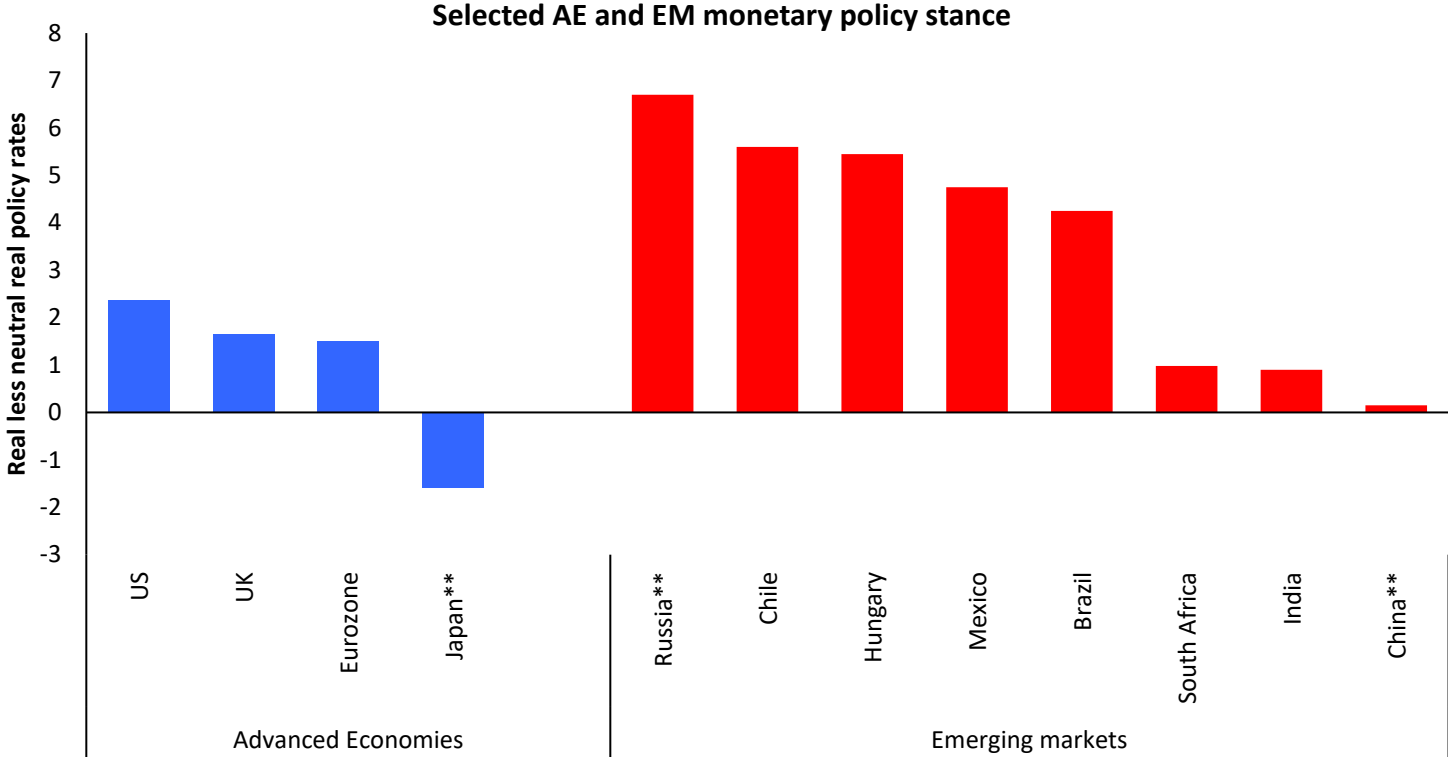


\* Weighted, sample: 17 AEs and 25 EMs  
Sources: Central banks



Source: Bloomberg

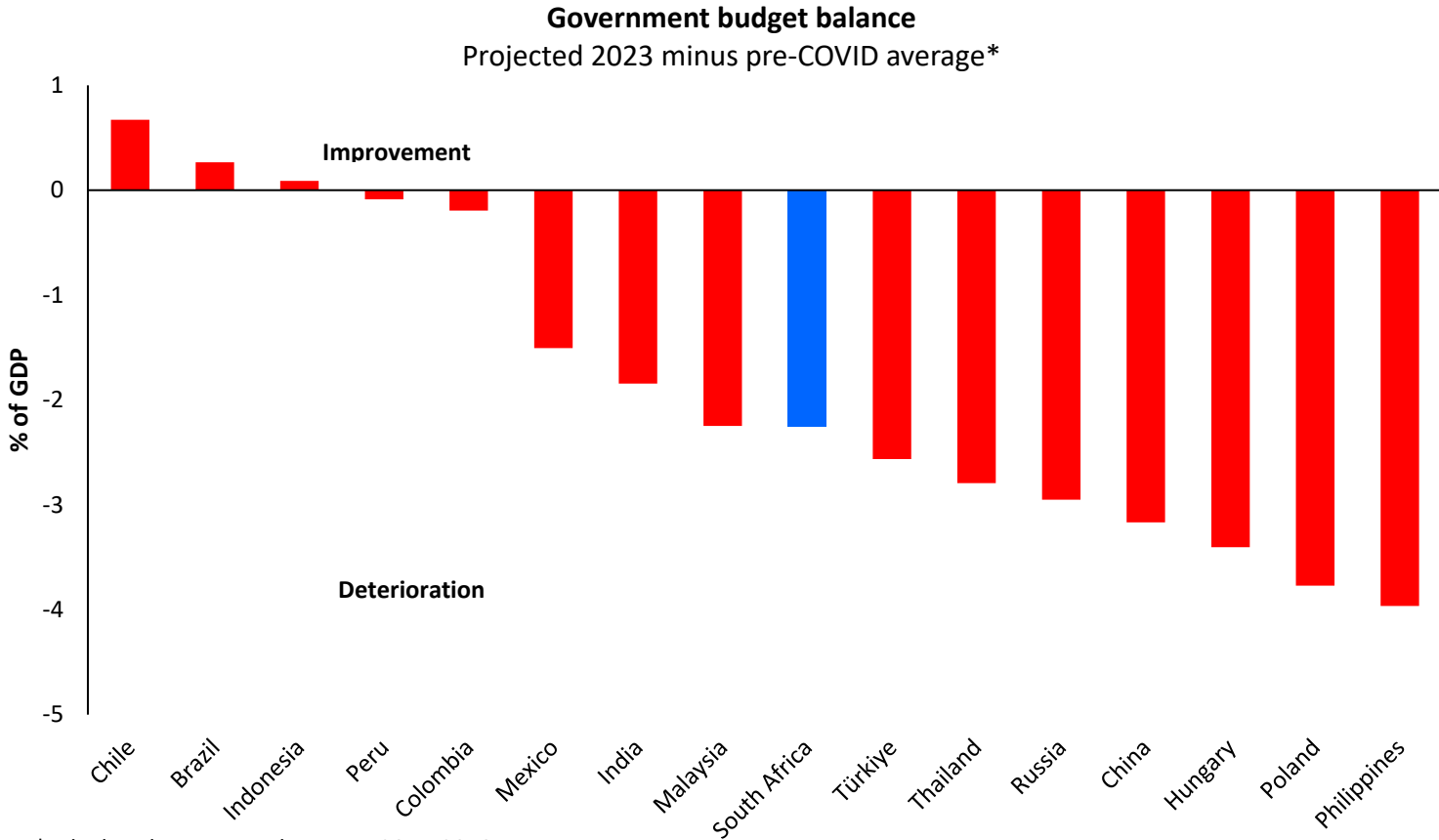
# Policy stance better aligned to the challenge



\* Real policy rates (ex ante) based on 2024 CPI projections  
 \*\* Real neutral policy rate: nominal neutral rate less the inflation target  
 Sources: Central banks and Consensus Economics

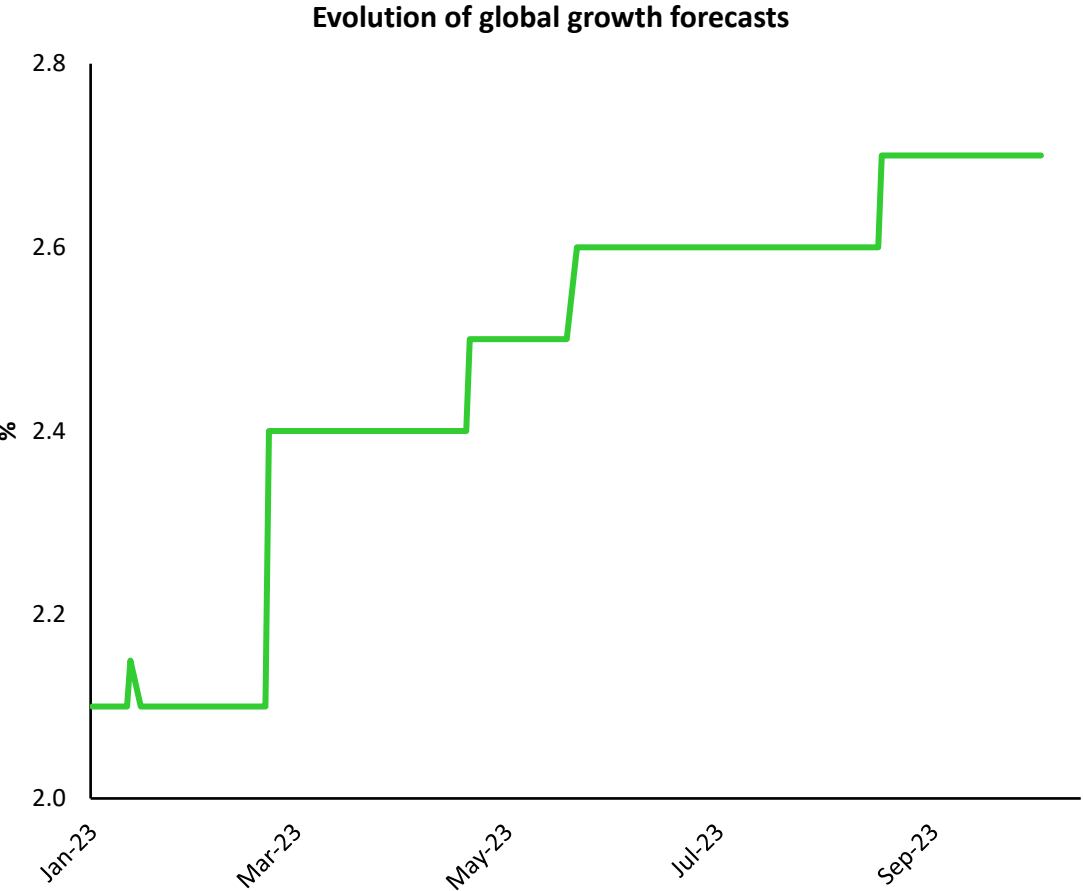


# But with few exceptions, fiscal positions deteriorated

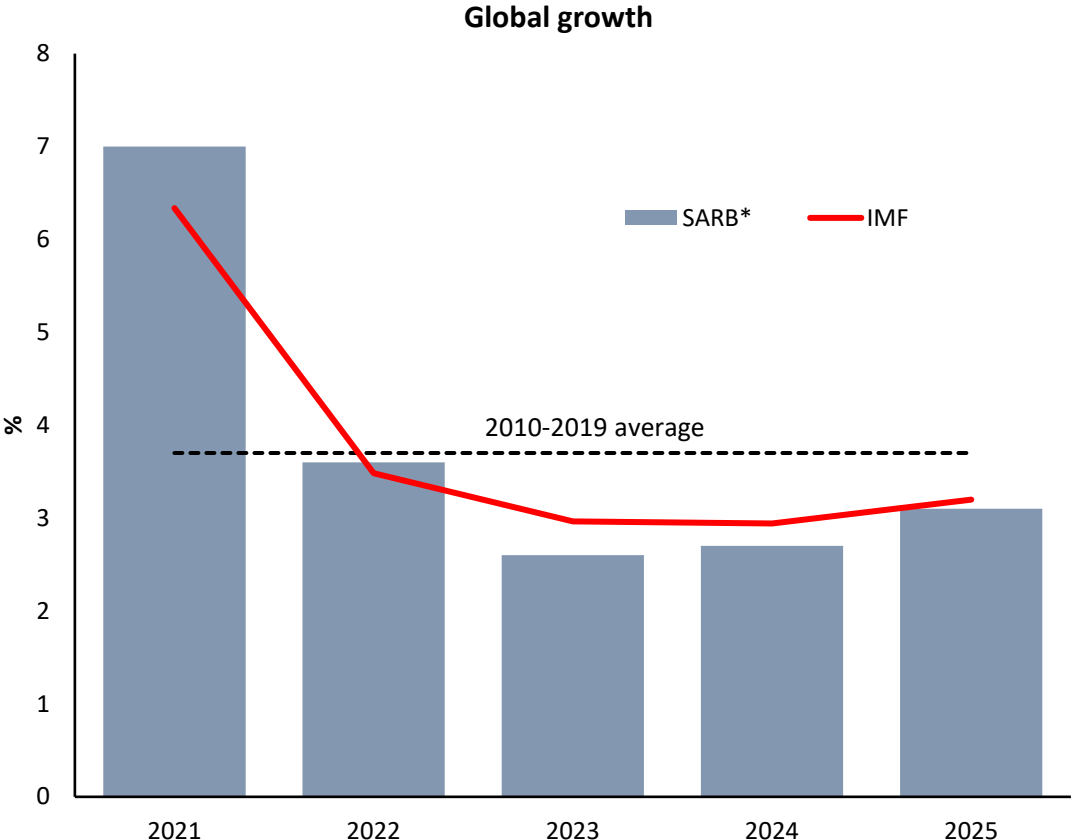


\*calculated as average between 2015-2019  
Source: IMF

# Global growth repeatedly surprises to the upside

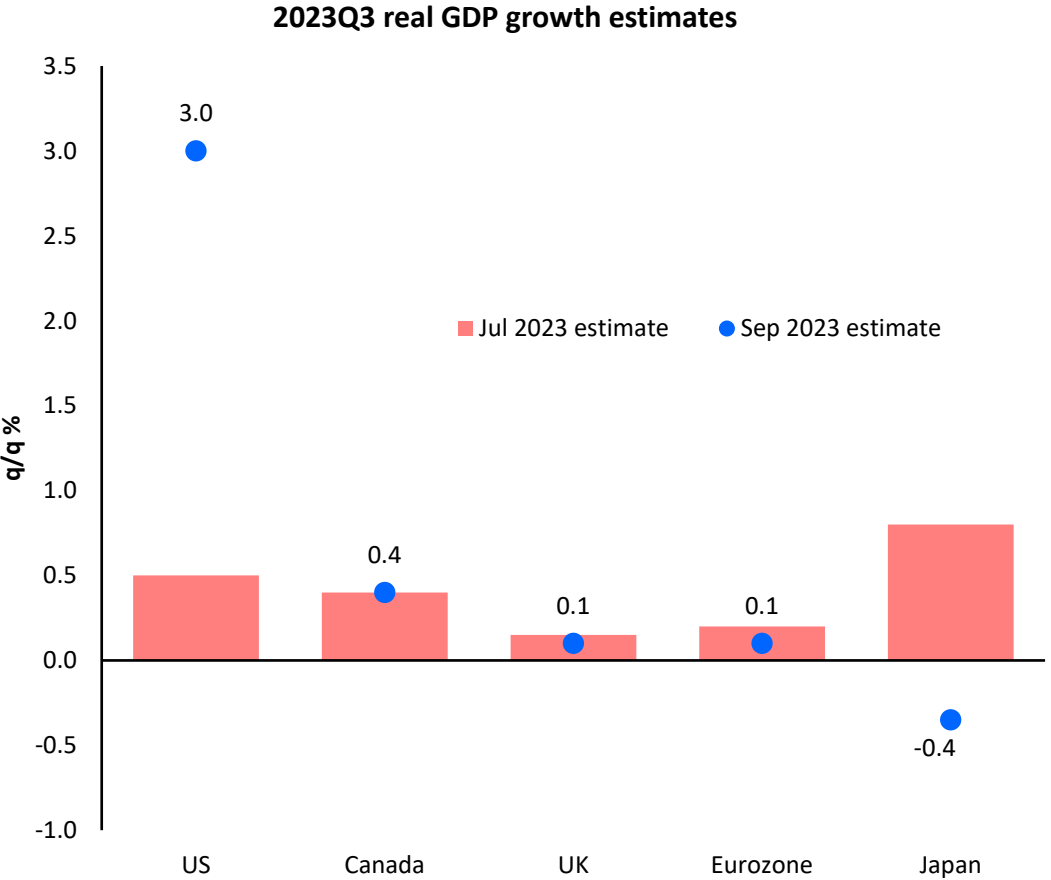


Source: Bloomberg

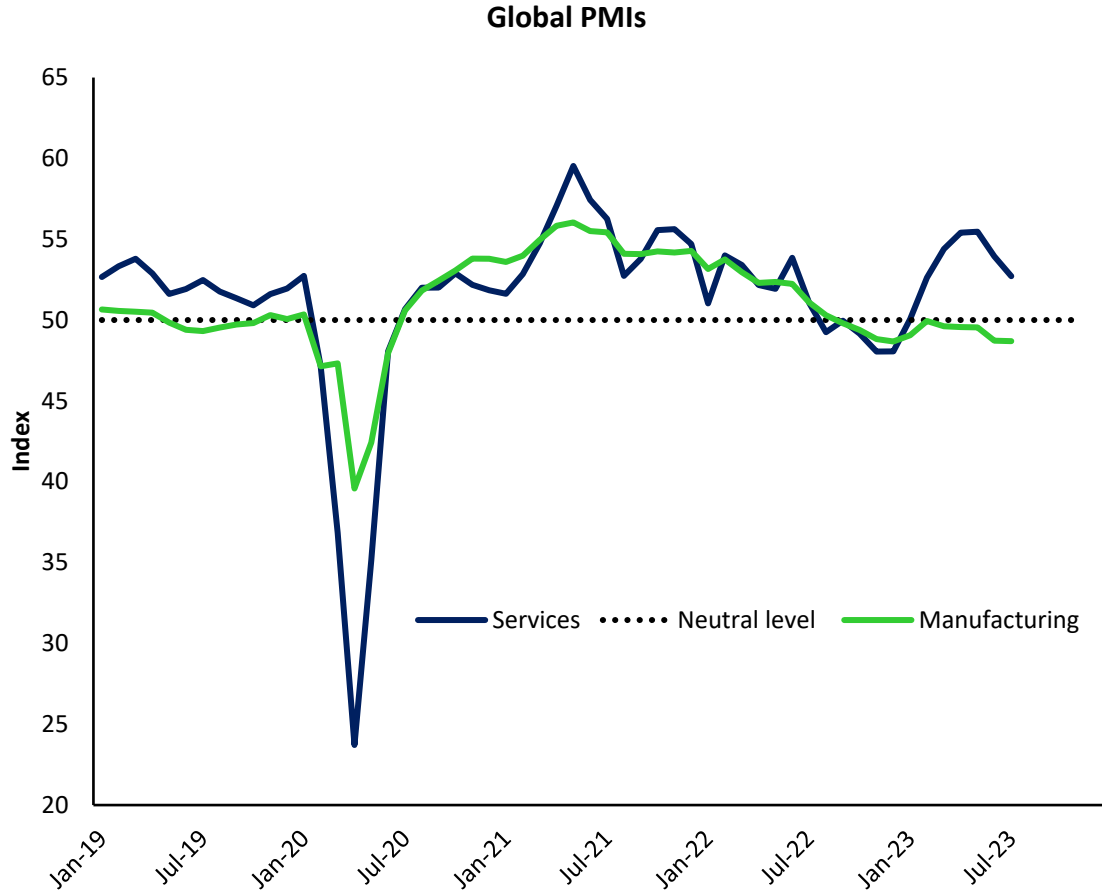


\* Real GDP growth in SA's major trading-partner countries  
Sources: IMF WEO (Oct 2023) and SARB

# Growth distribution and sources diverging



Source: Bloomberg

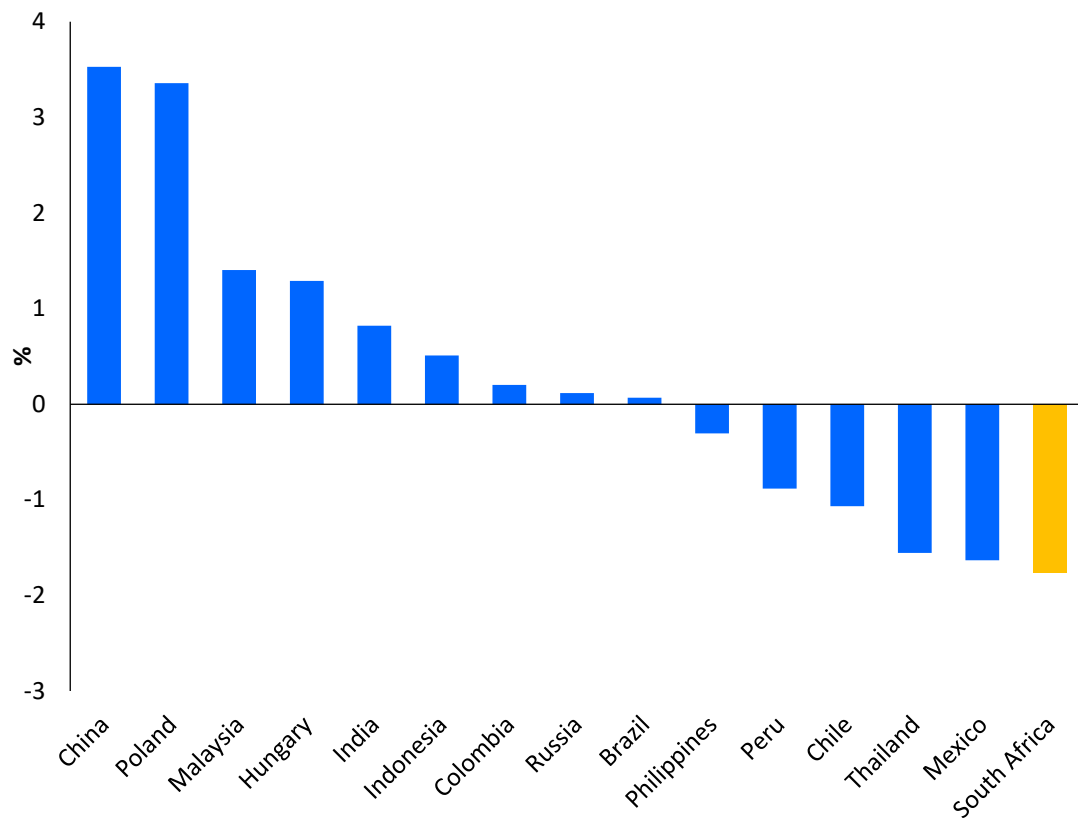


Sources: JPMorgan and S&P Global



# Greater divergence in EMs as COVID scarring exacerbated by own goals & geo-fragmentation

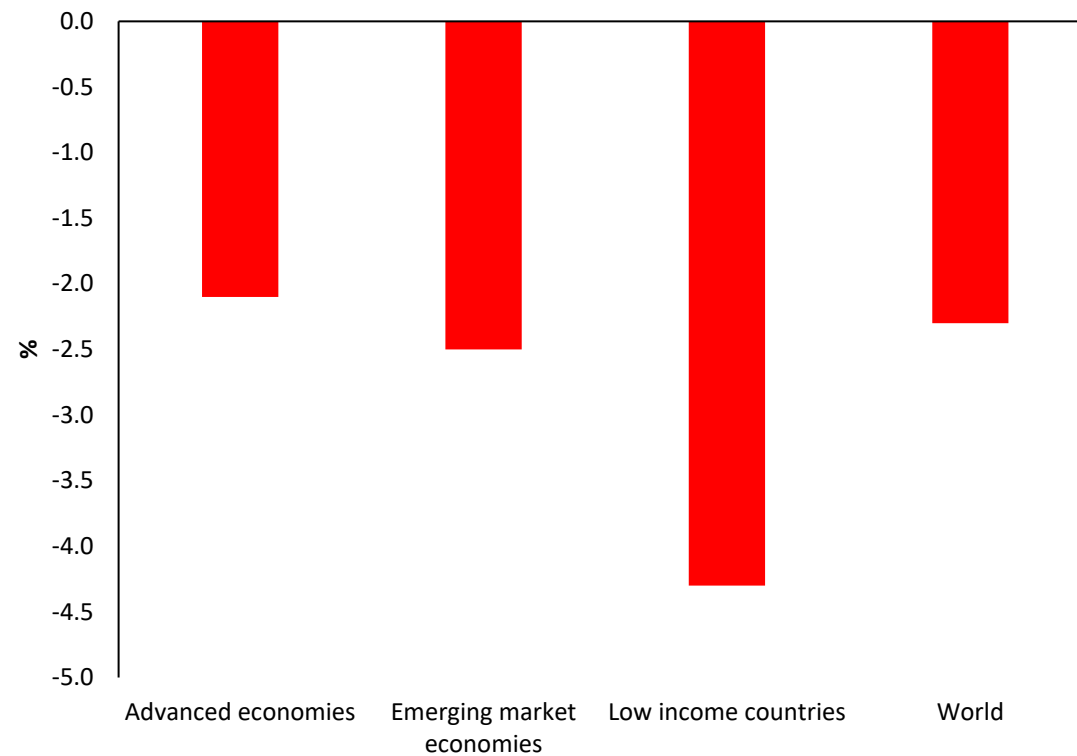
Change in GDP/capita (relative to US) between 2019 and 2023



Source: IMF

Potential costs of geo-economic fragmentation

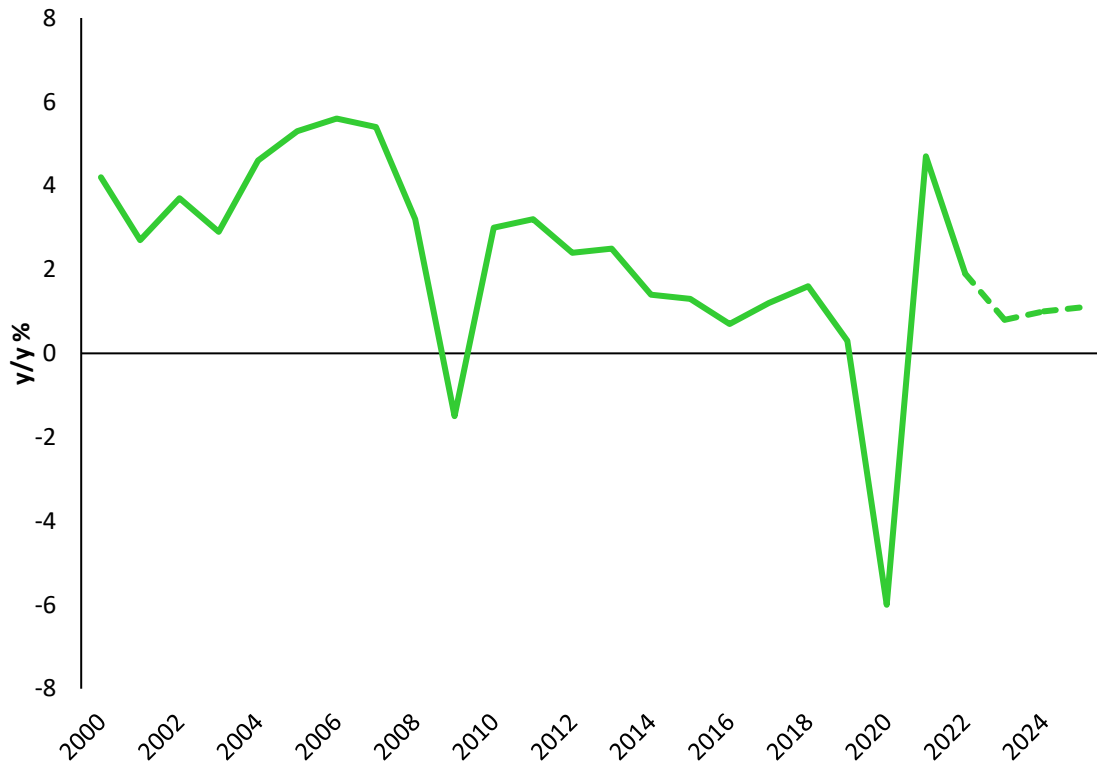
Real GDP losses



Source: IMF Working Paper (2023) "Fragmentation in global trade: Accounting for commodities"

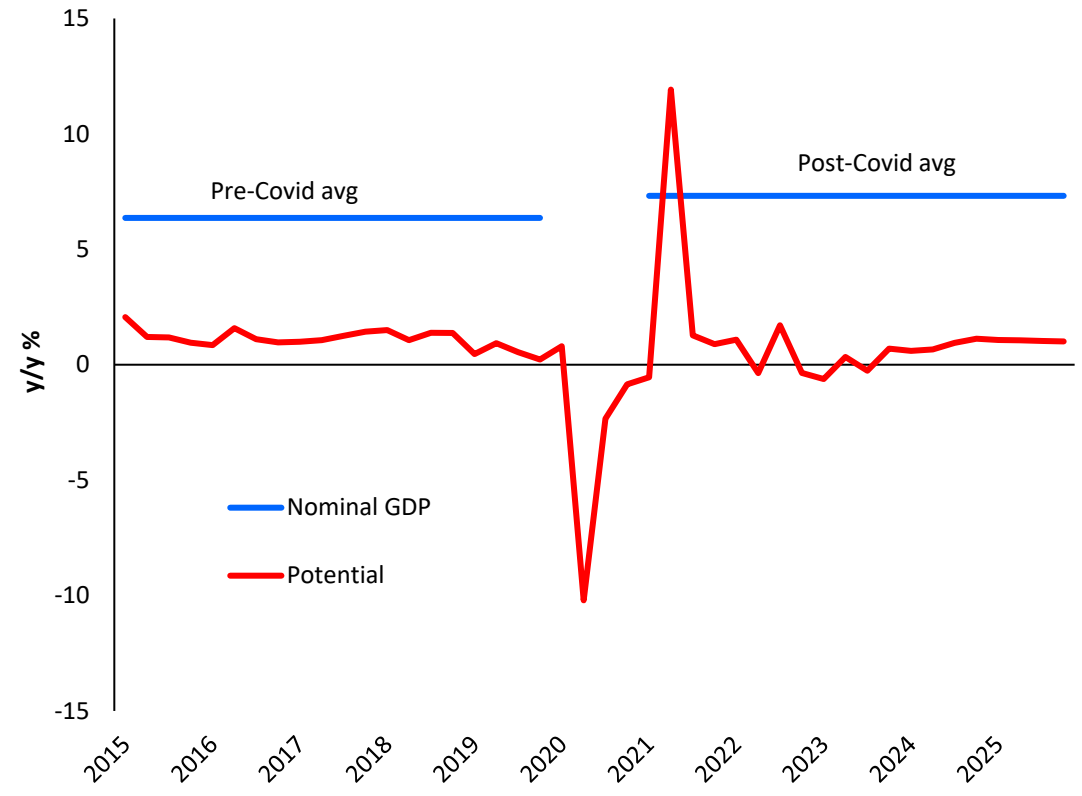
# Long-term growth... supply and demand

### GDP annual growth\*



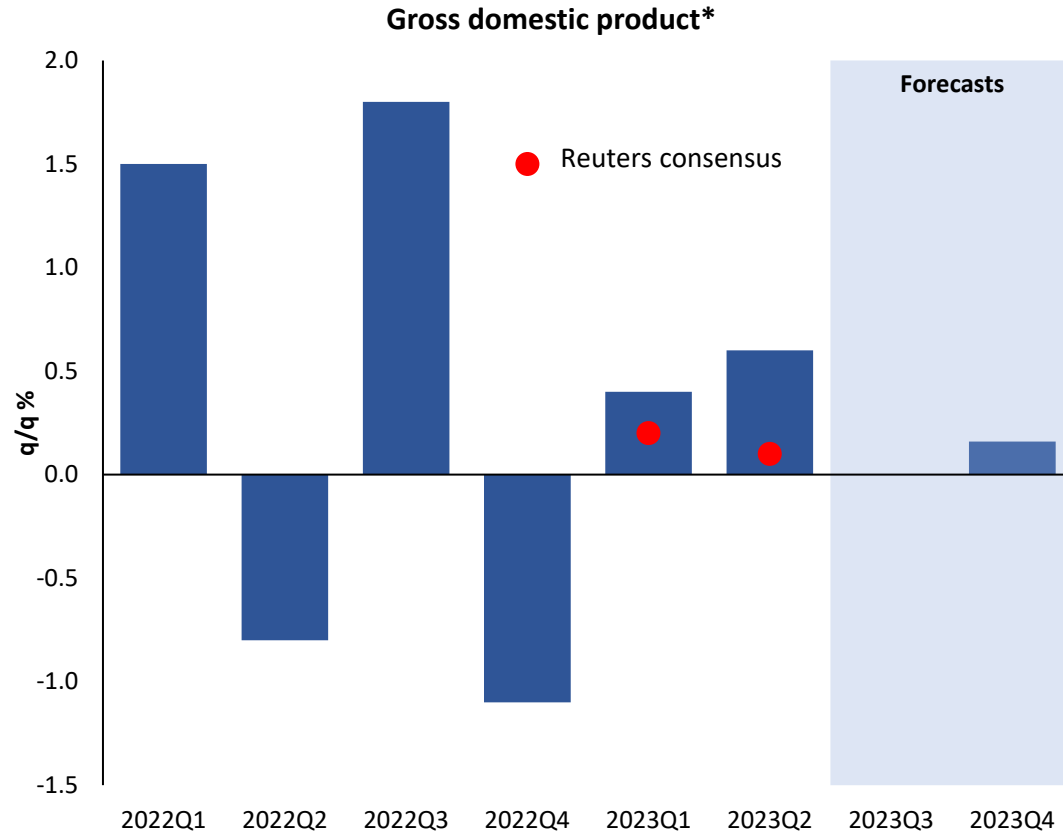
\* Dotted lines indicate forecasts  
Sources: Stats SA and SARB

### GDP and Potential

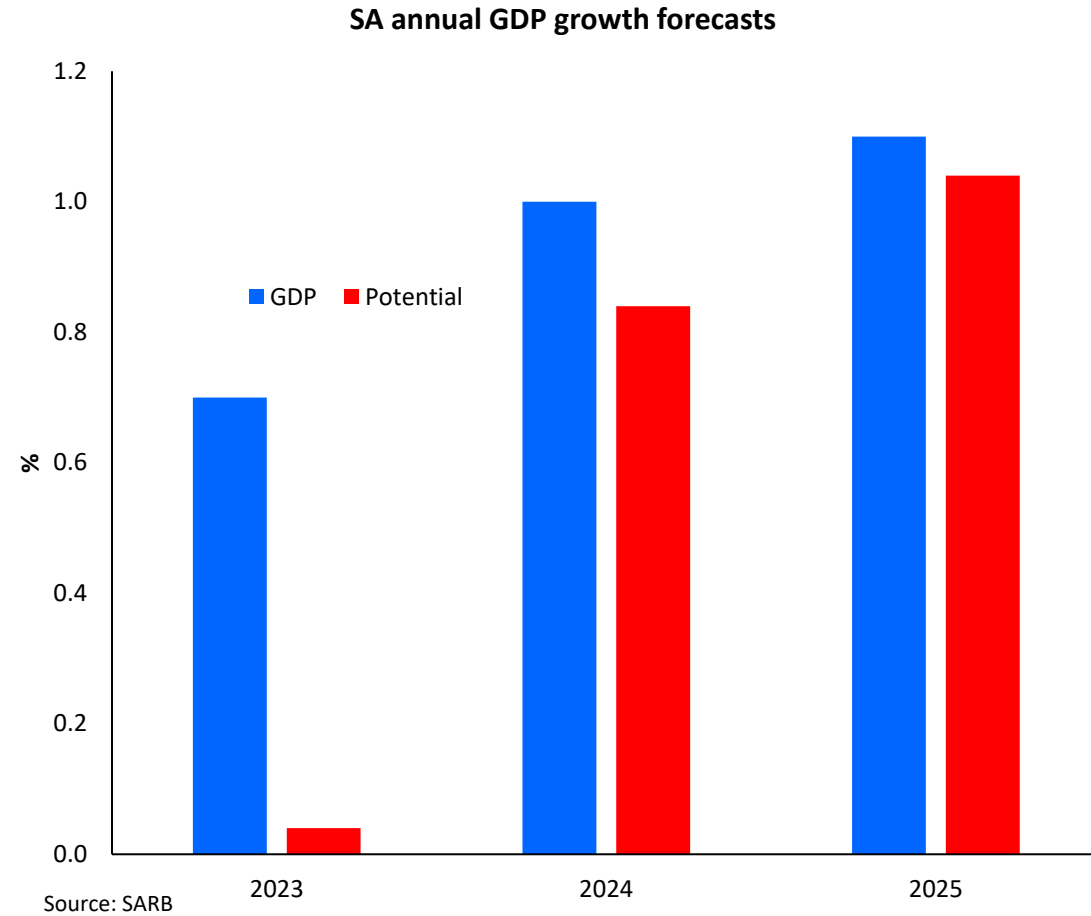


Sources: Stats SA and SARB

# Domestic economic activity markedly subdued...

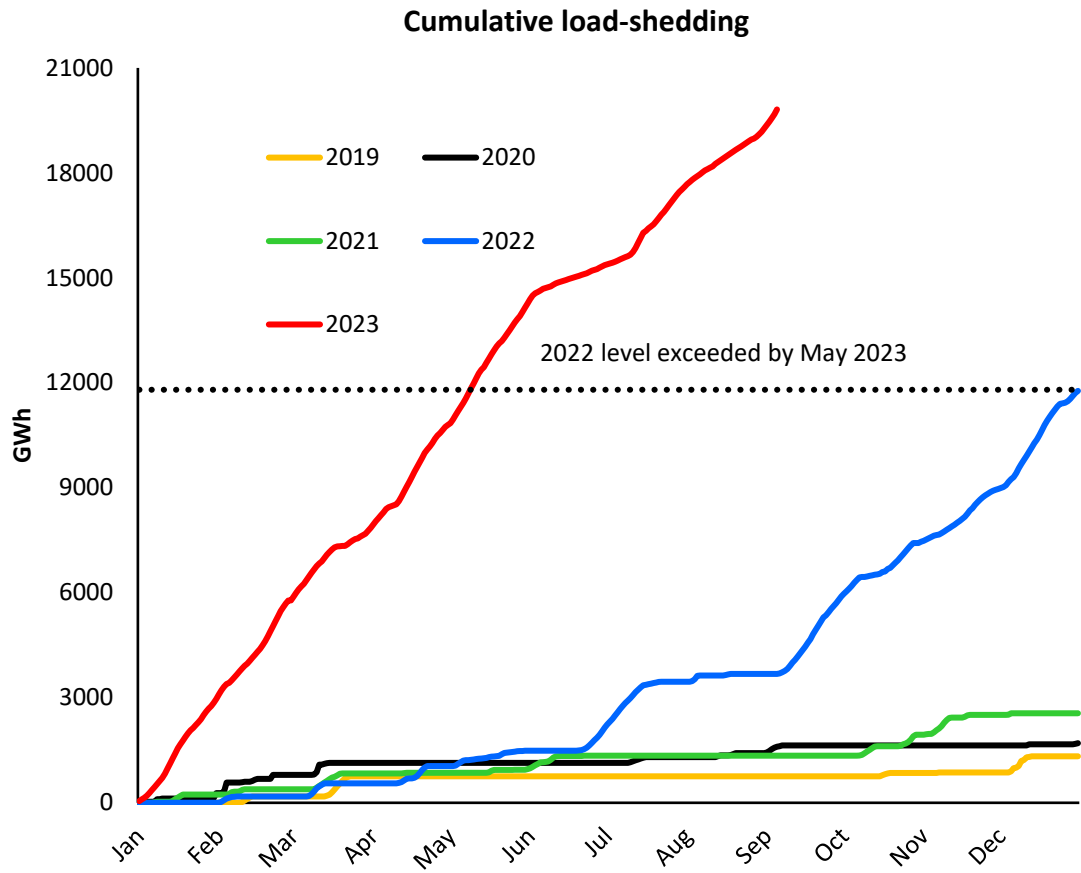


\* Seasonally adjusted  
Sources: Stats SA and SARB

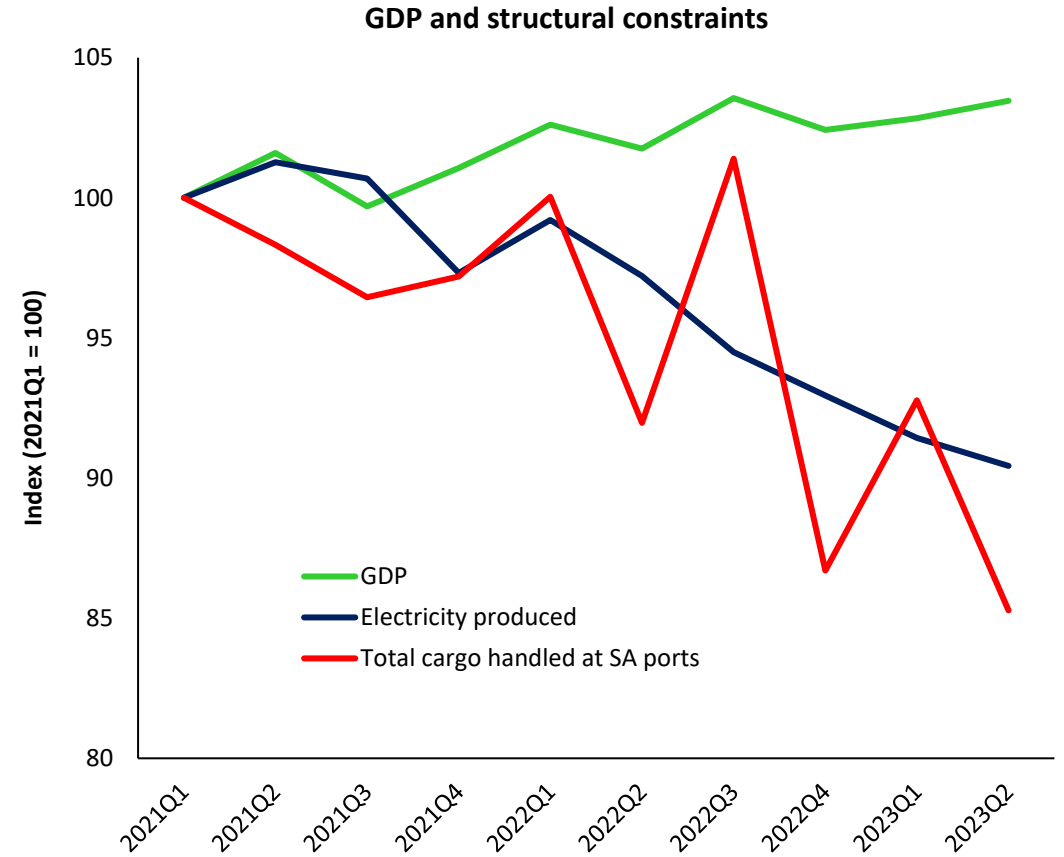




# ...as energy and logistics set constraint

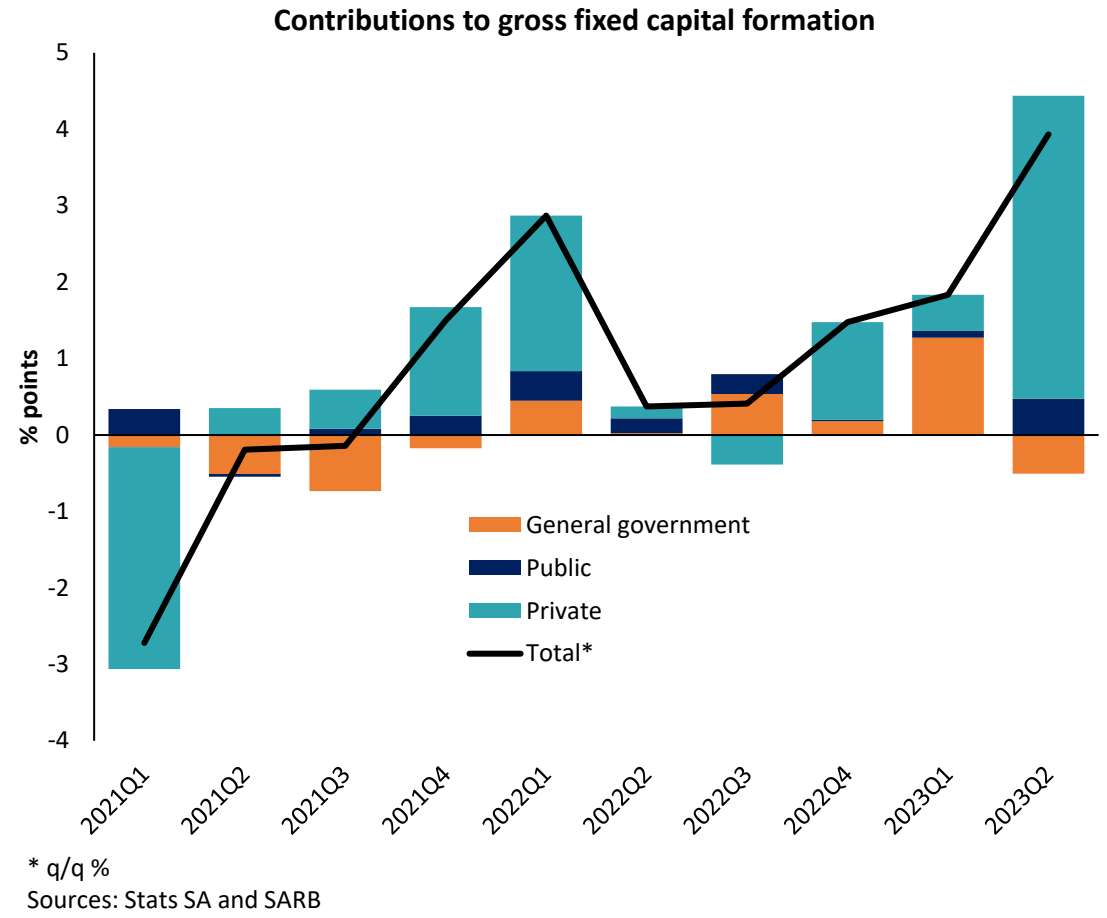
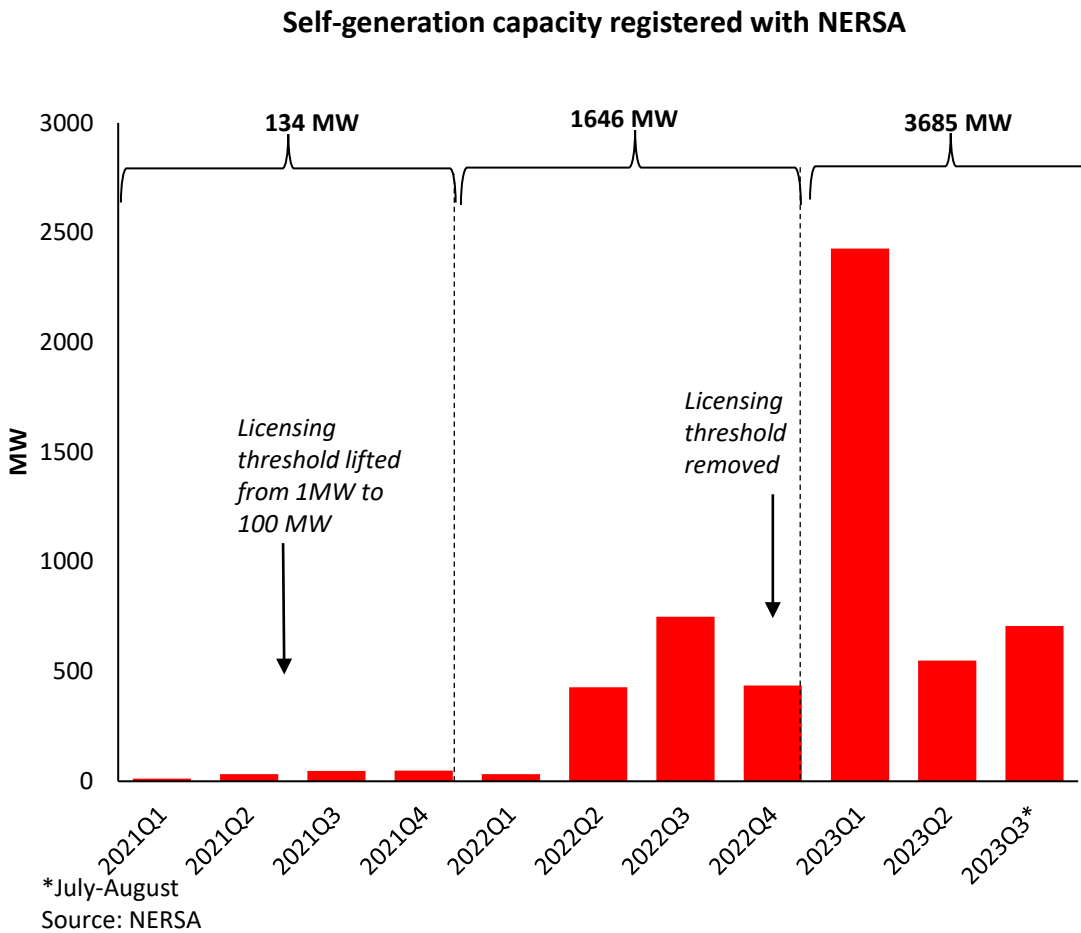


Sources: ESP (app), Eskom Twitter (X) account and SARB

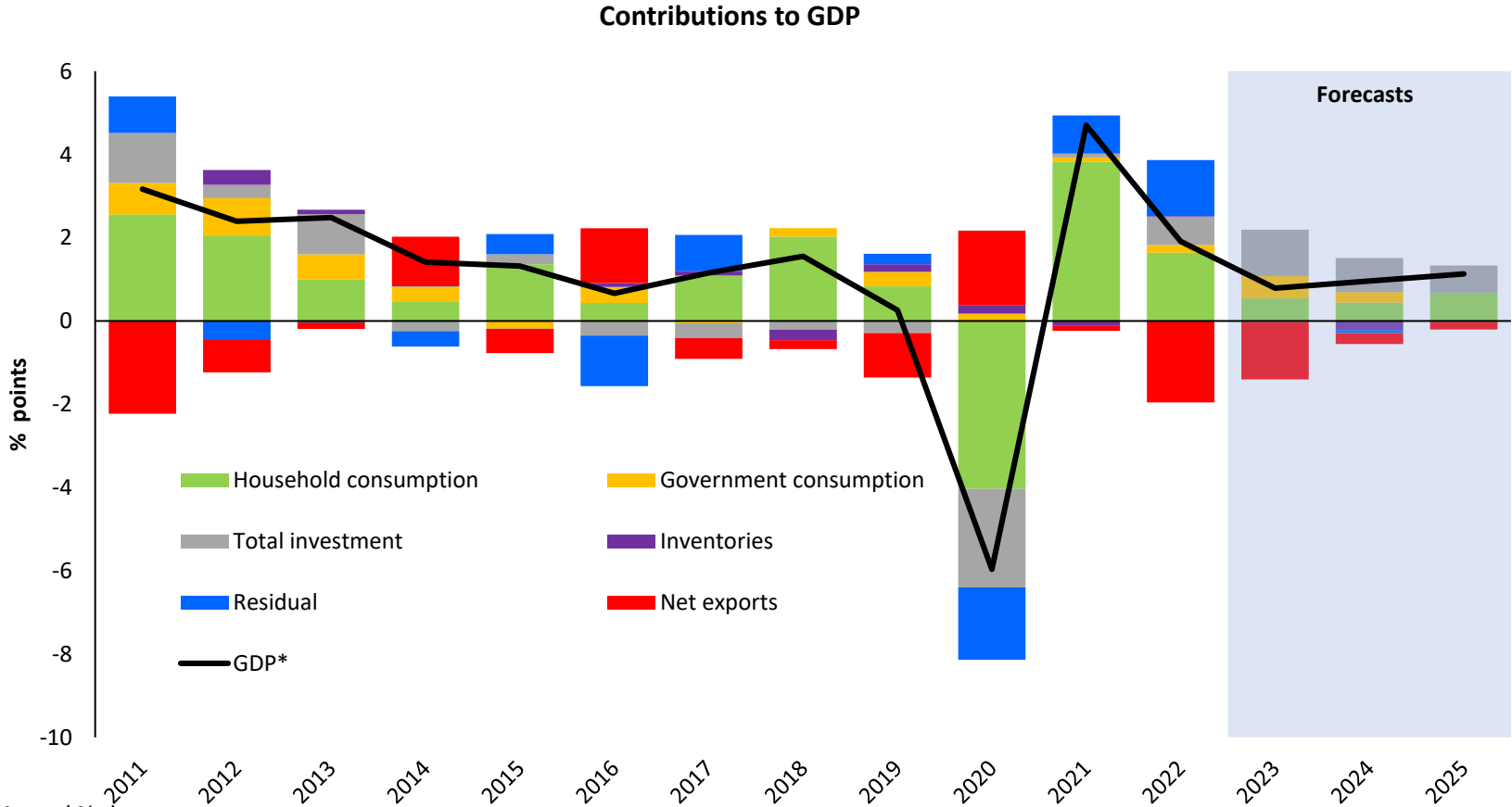


Sources: Stats SA and Transnet National Port Authority

# Adaptation, as industry responds to energy sector

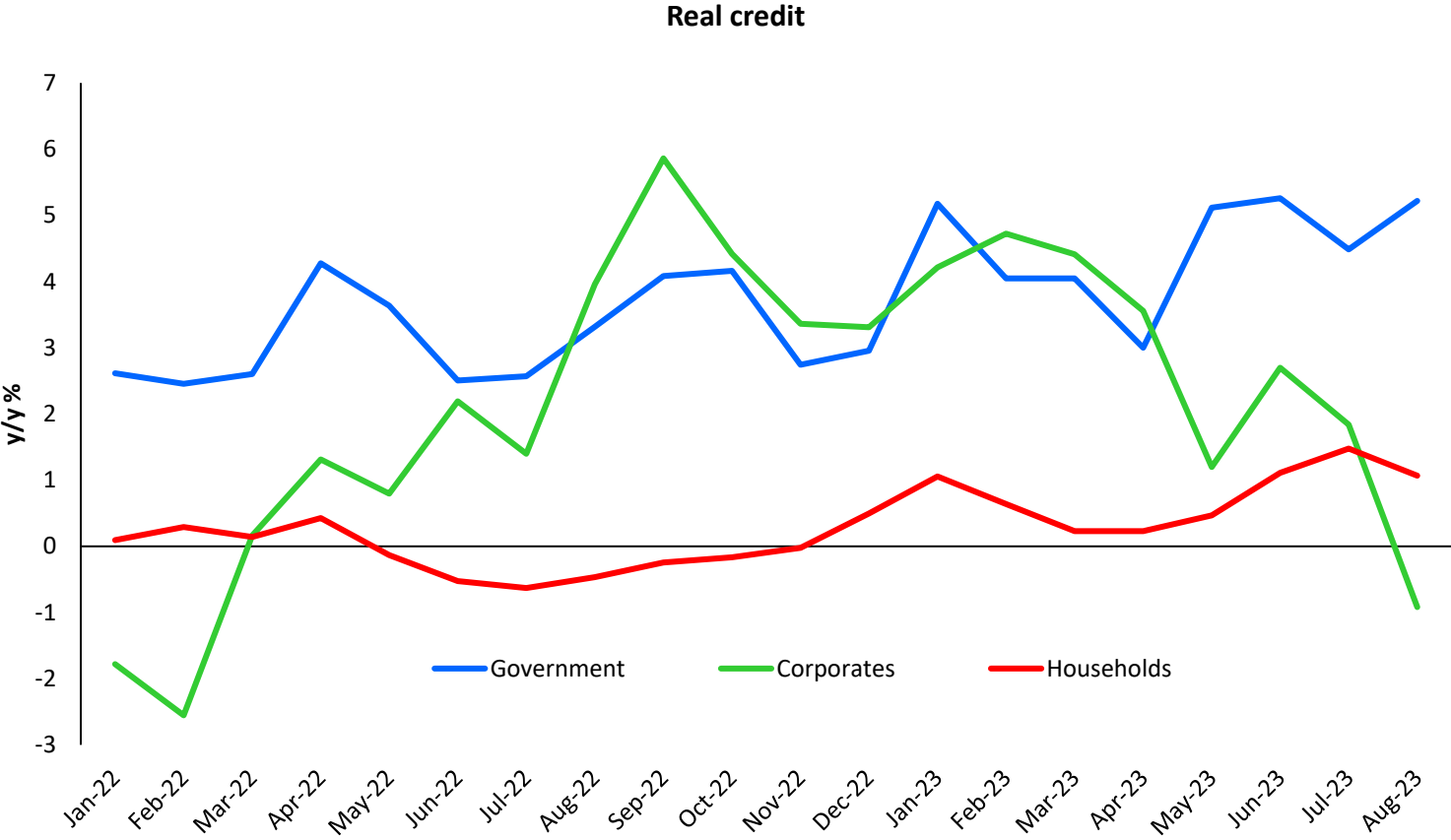


# & resilience, as public, private consumption & investment is sustained



\* Annual % change  
Sources: Stats SA and SARB

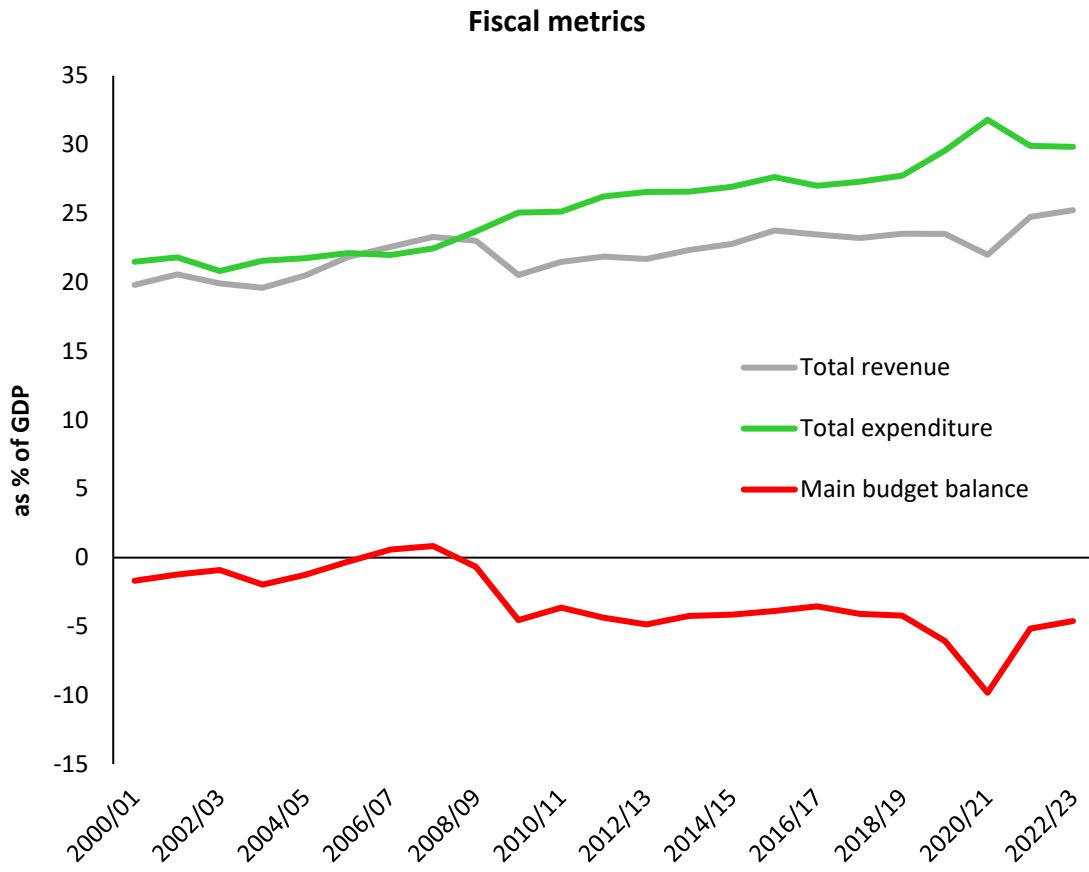
# Credit flow continues, corporates remain modest



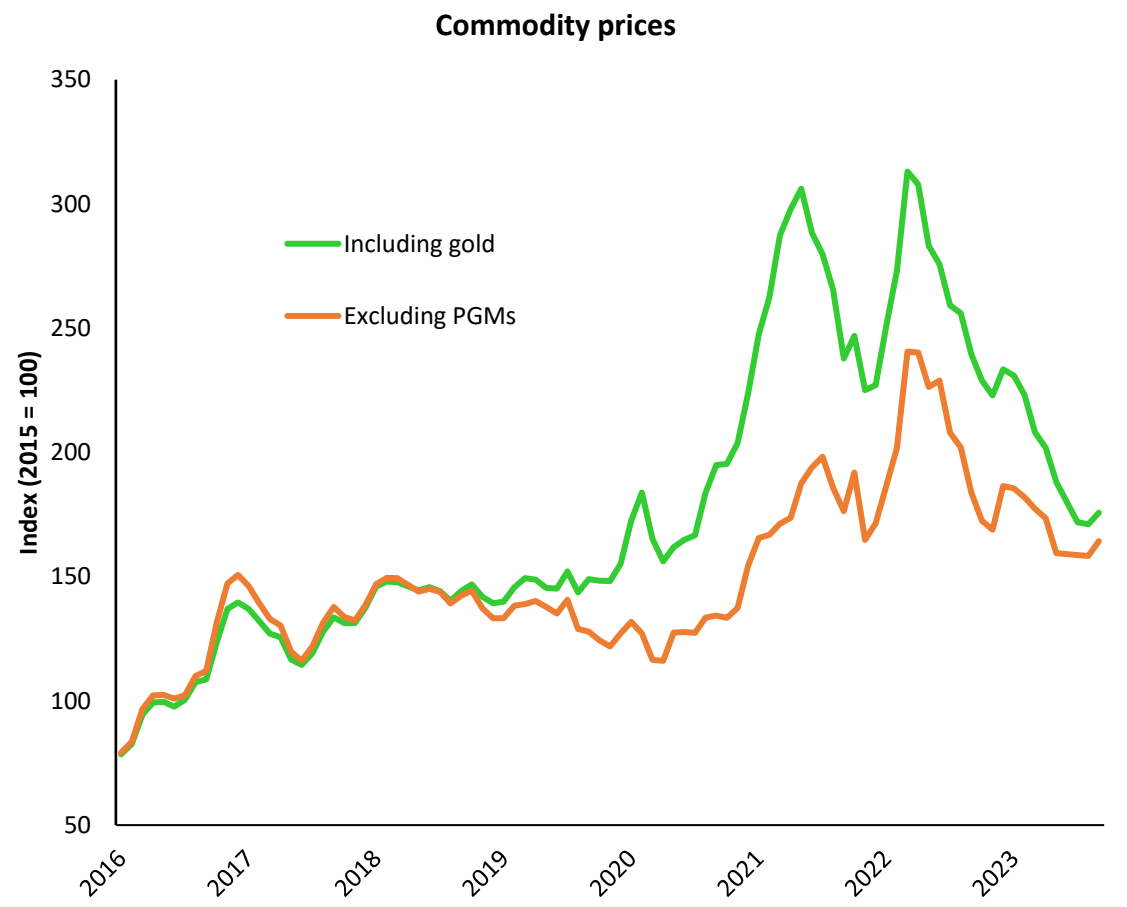
Source: SARB



# With fiscal extended & commodity export prices weaker...

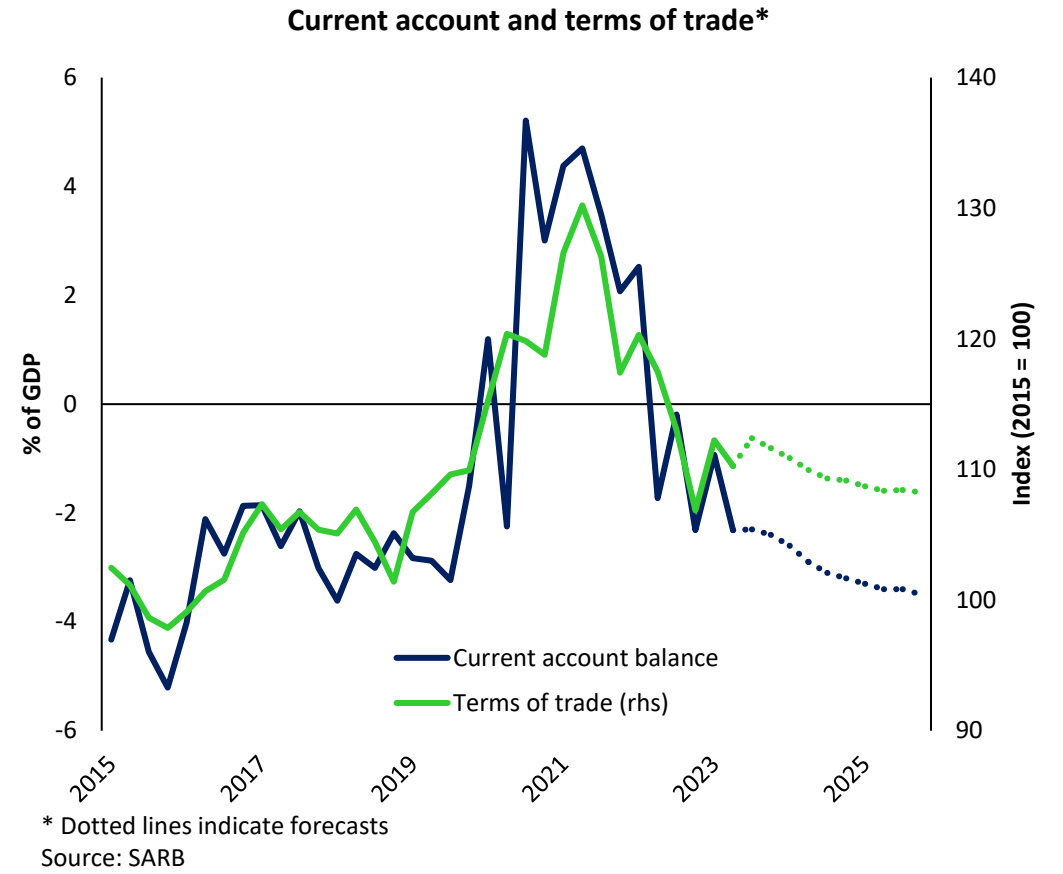
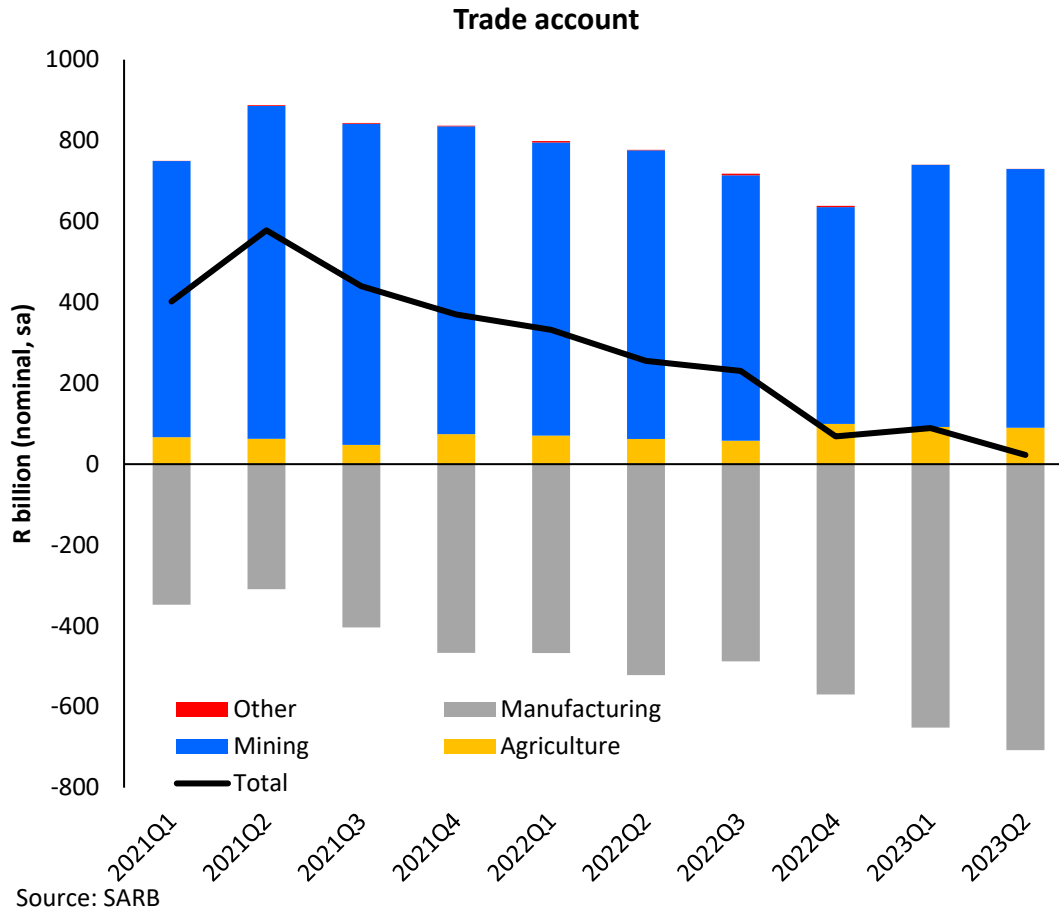


Source: National Treasury

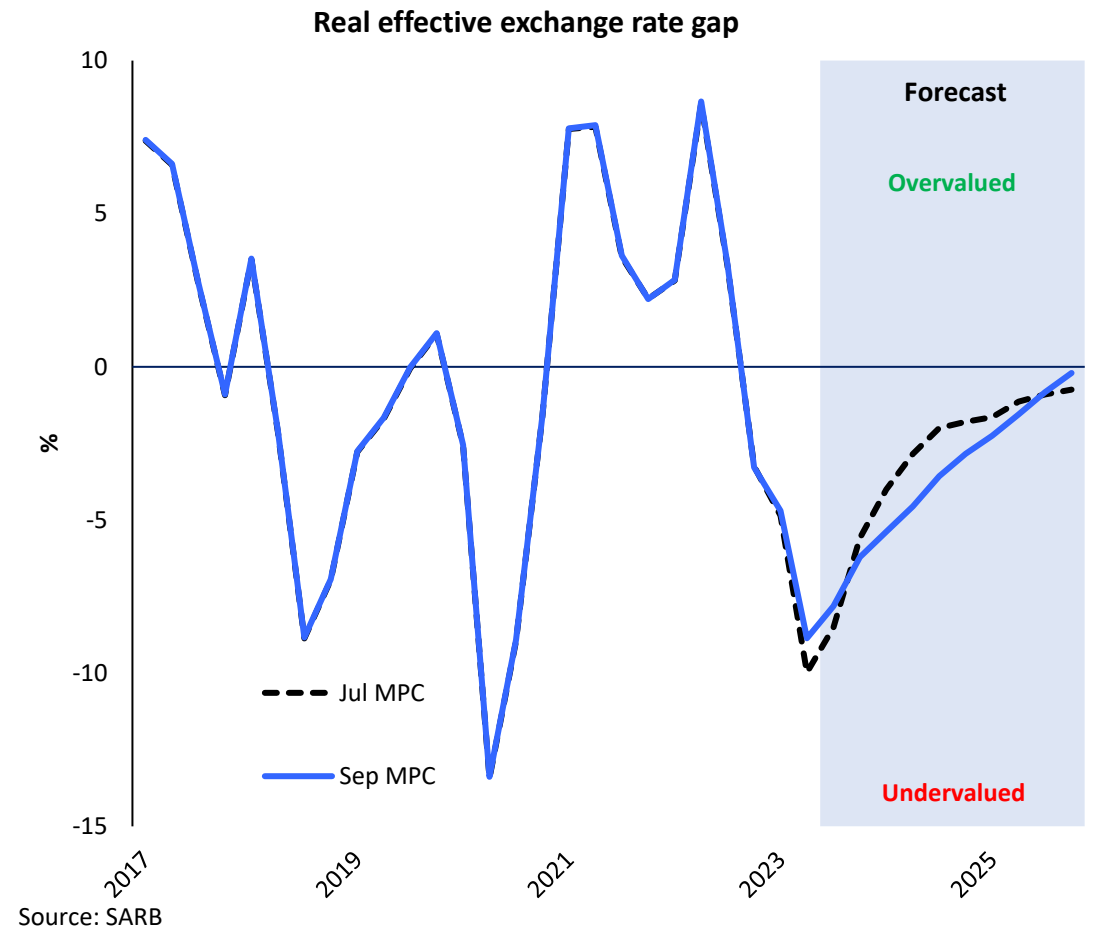
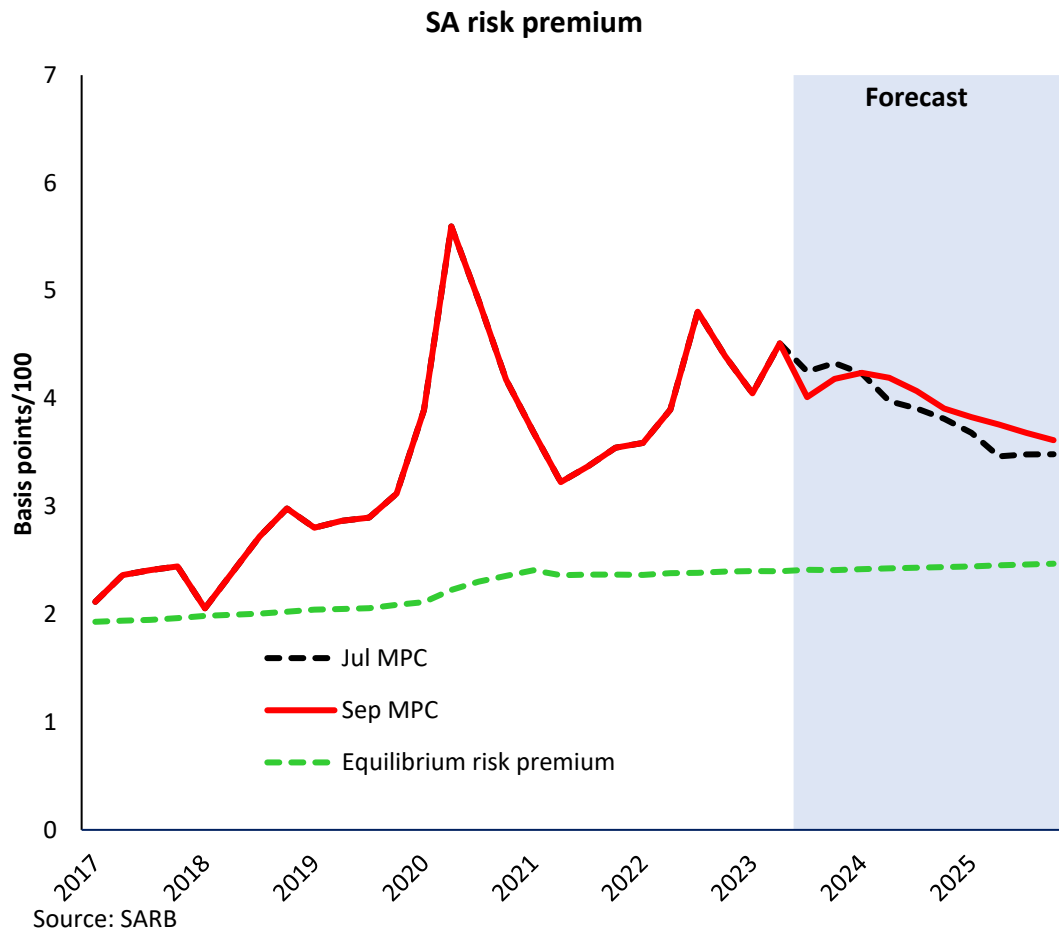


Source: SARB

# ... current account slides into deficit

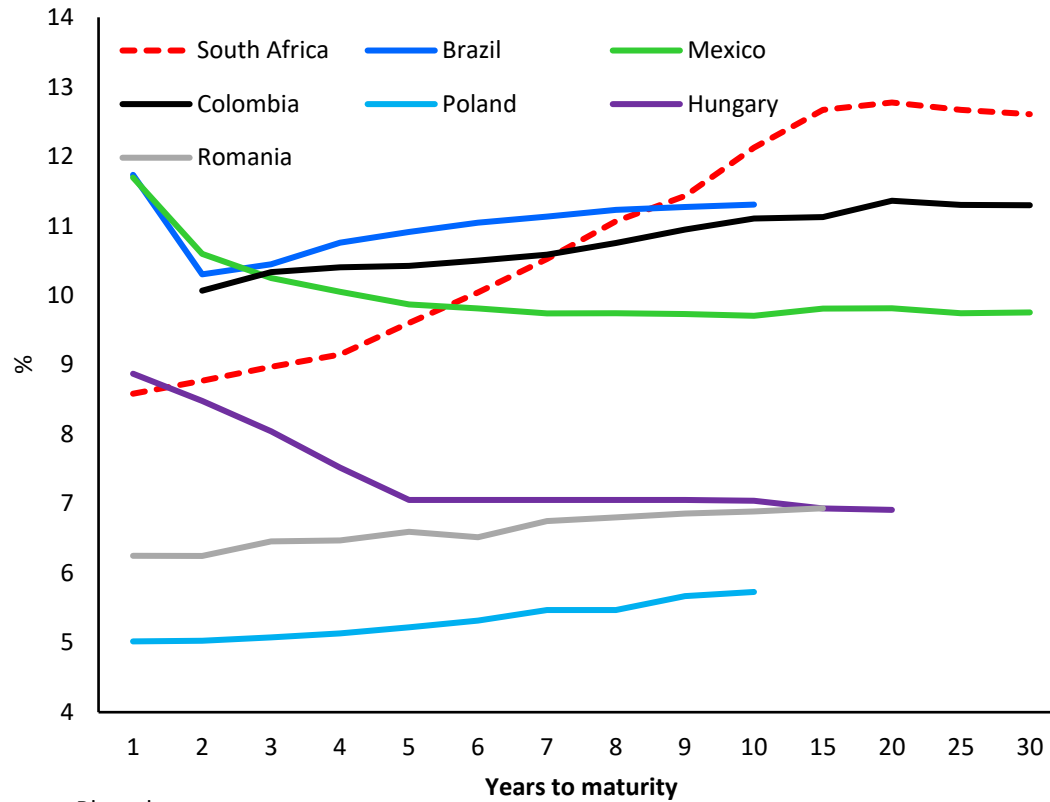


# Risk premium up on deteriorated macro balances; rand weaker



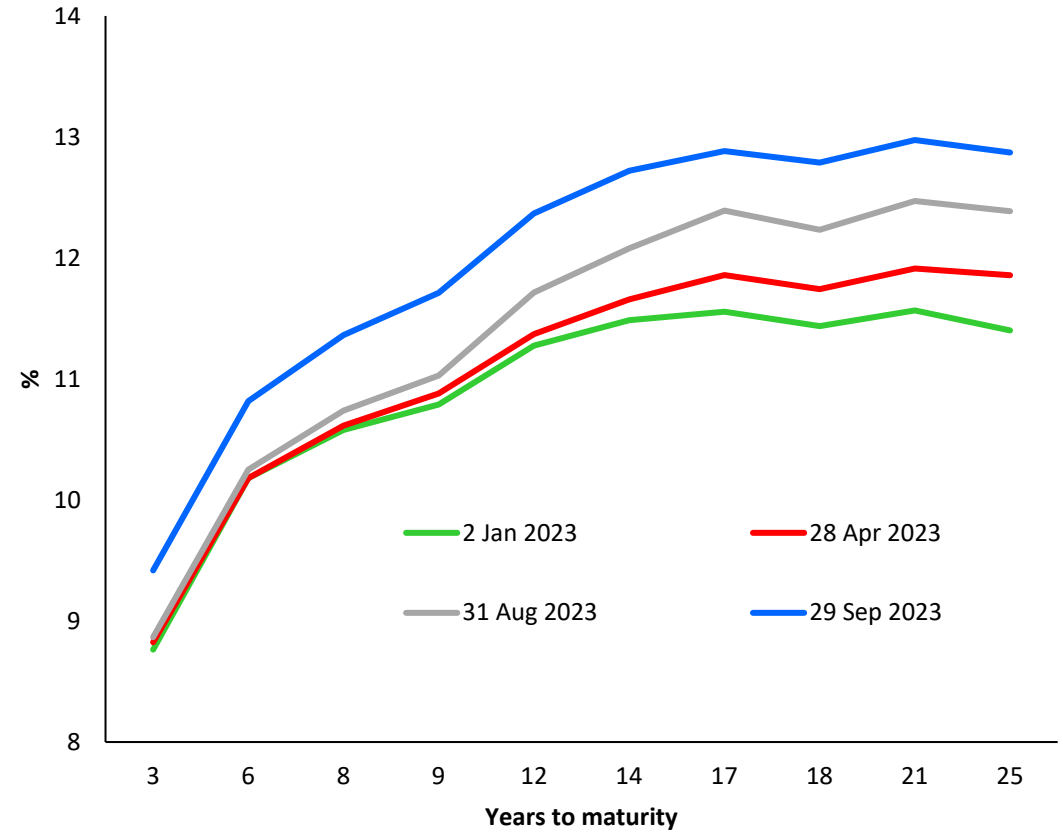
# The measure of the mountain

### Emerging market yield curves



Source: Bloomberg

### Government bond yield curve

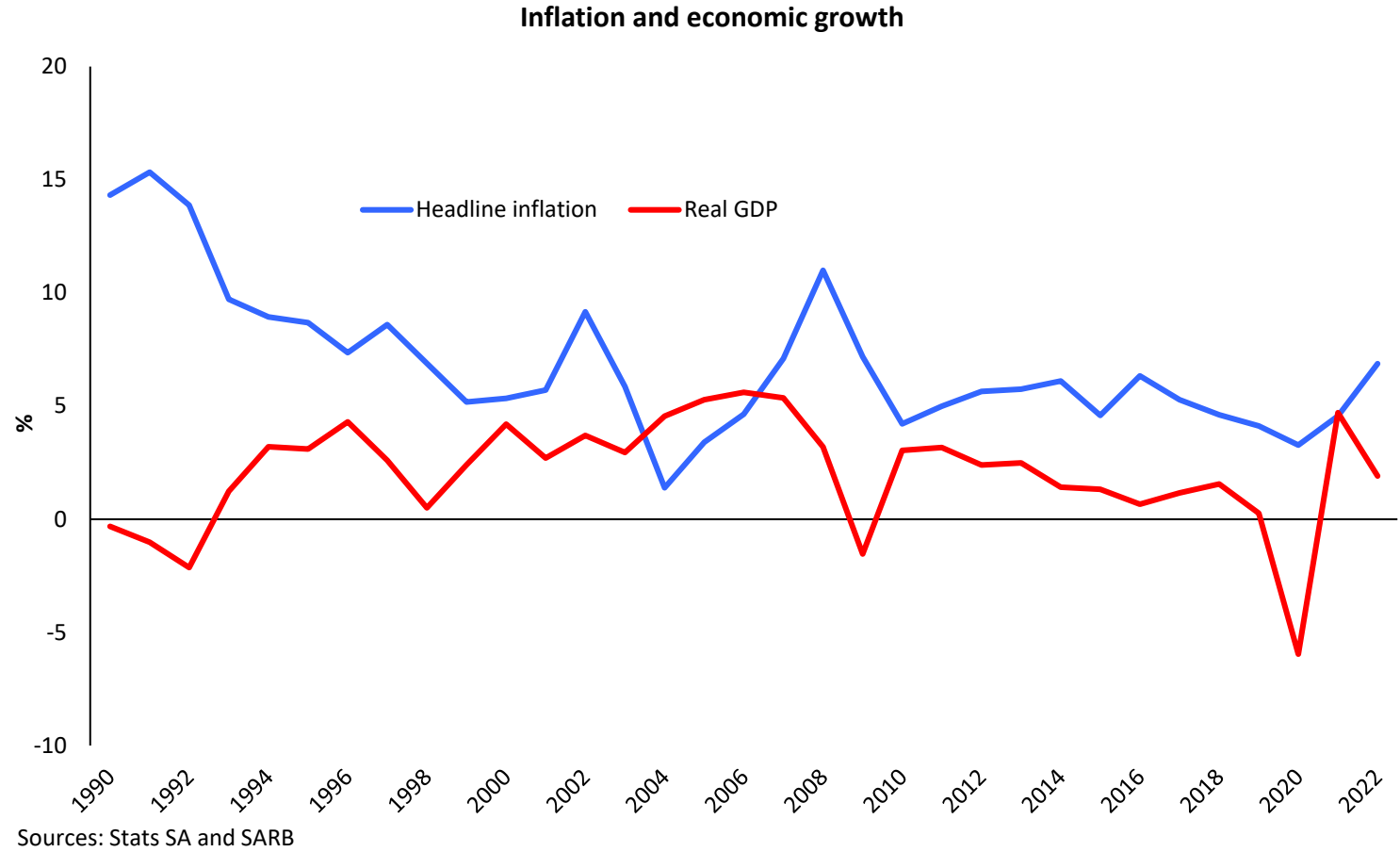


Source: Bloomberg

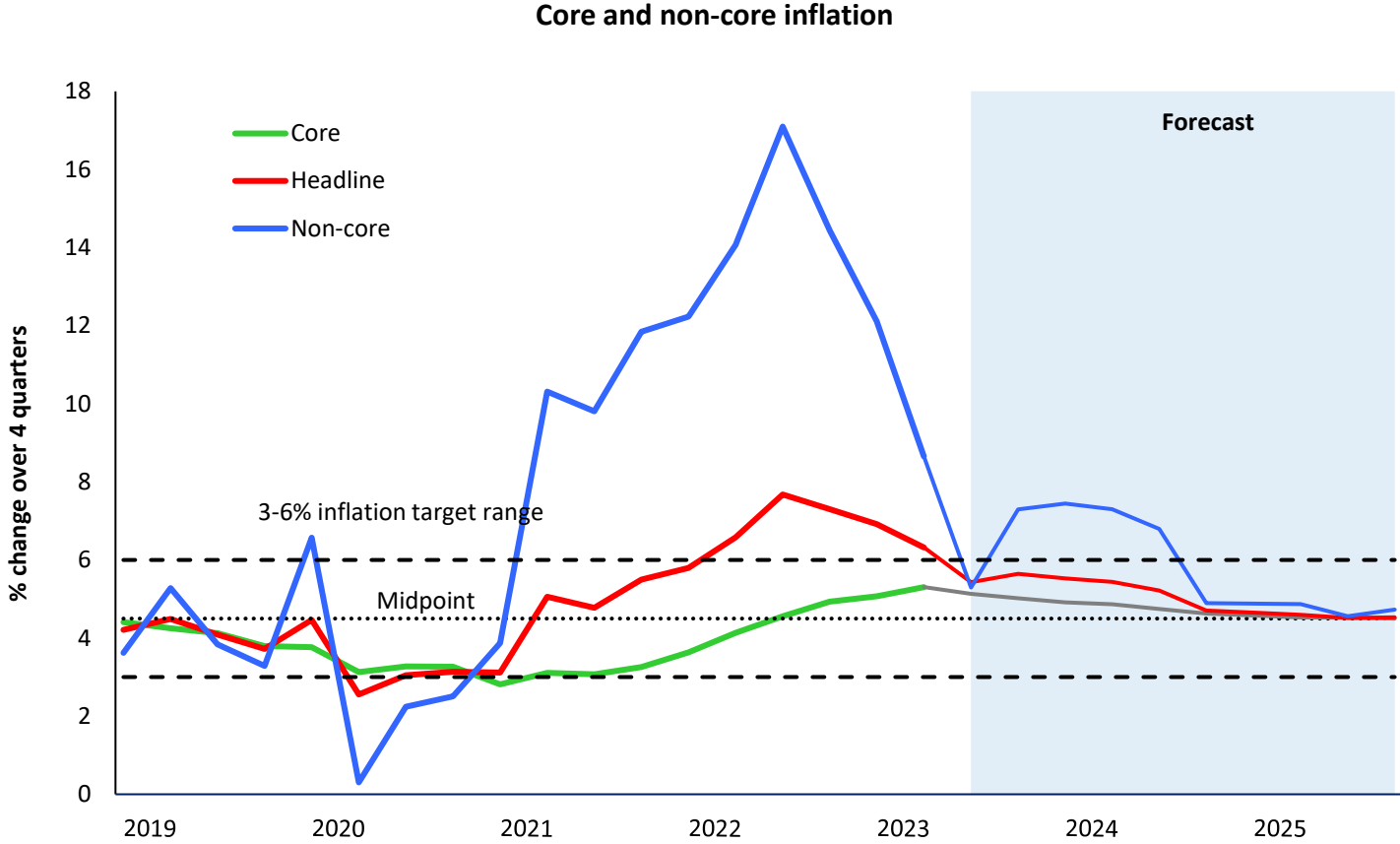




# A long-term view...

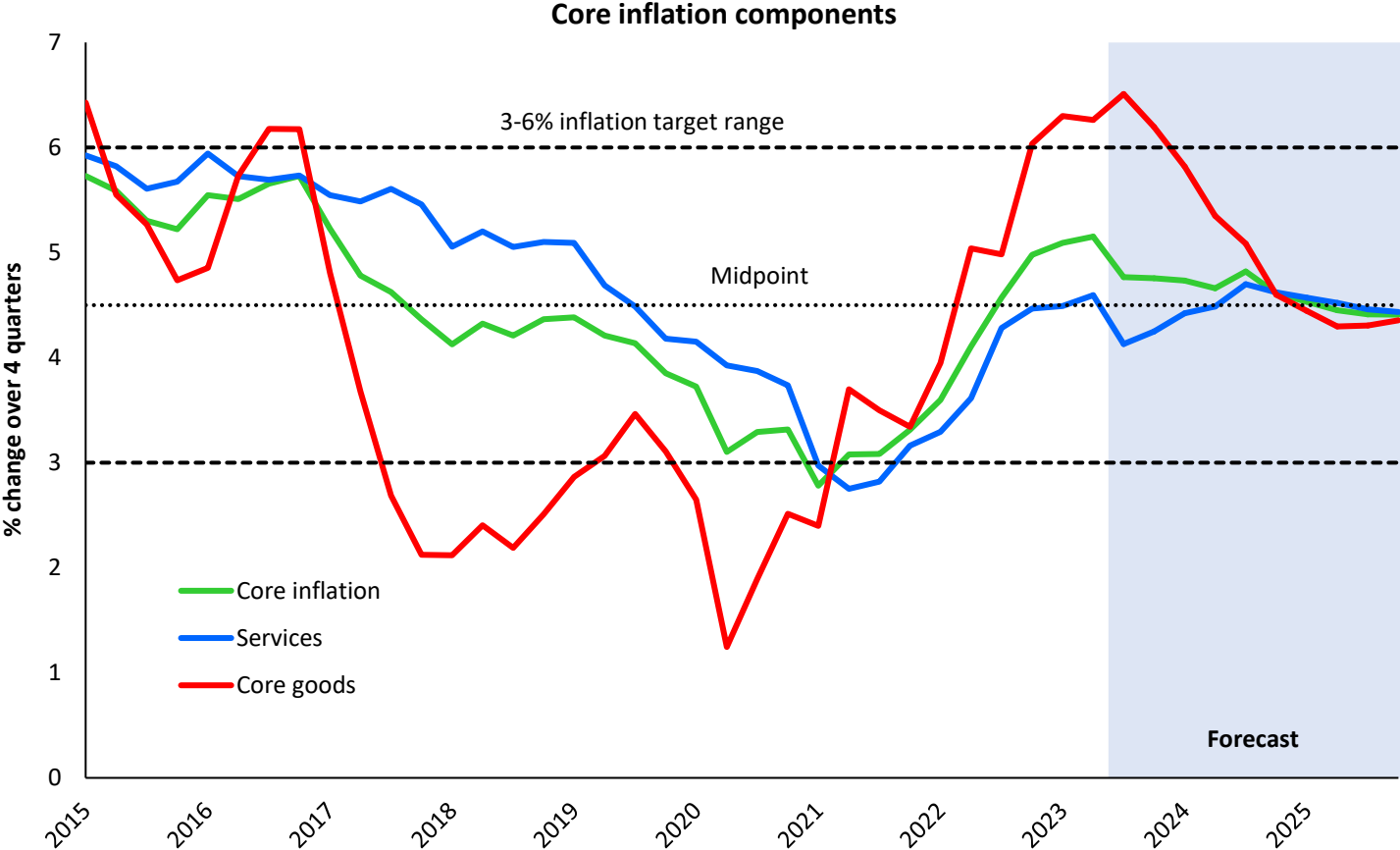


# Looking at the recent past, the sum of parts matter



Sources: Stats SA and SARB

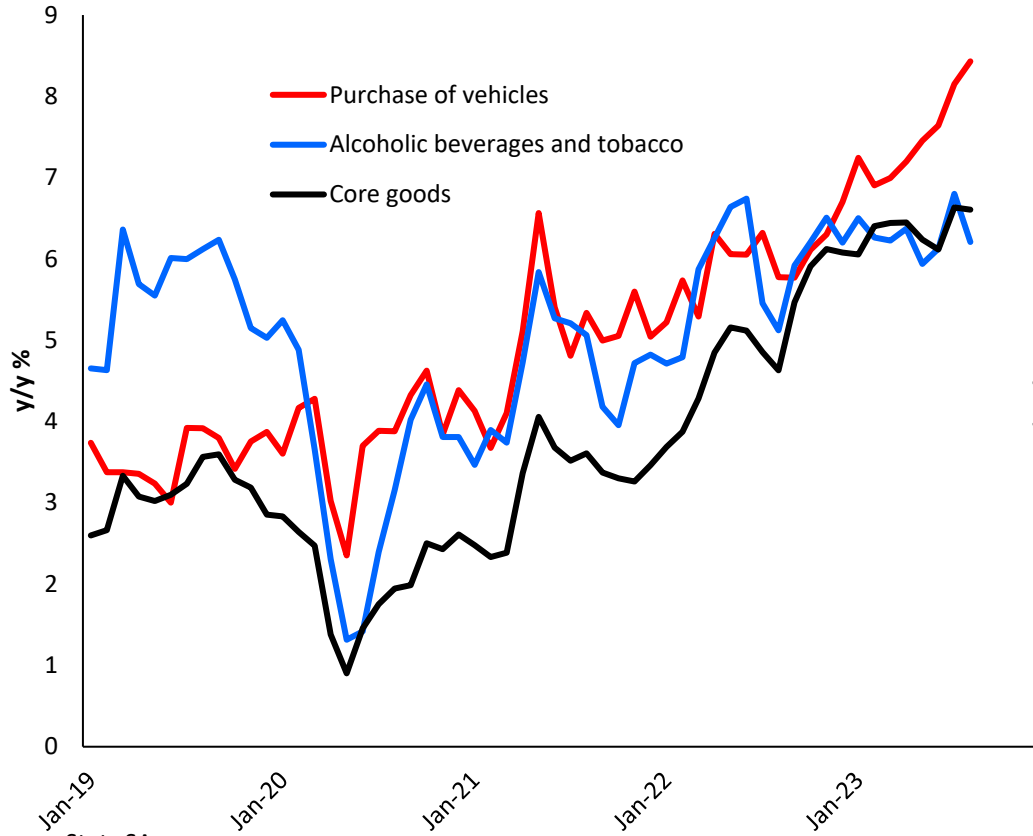
# Core inflation pulled and pushed, up



Sources: Stats SA and SARB

# External and internal meet in core goods

### Large-weight core goods components



Source: Stats SA

### Exchange rate pass-through estimates

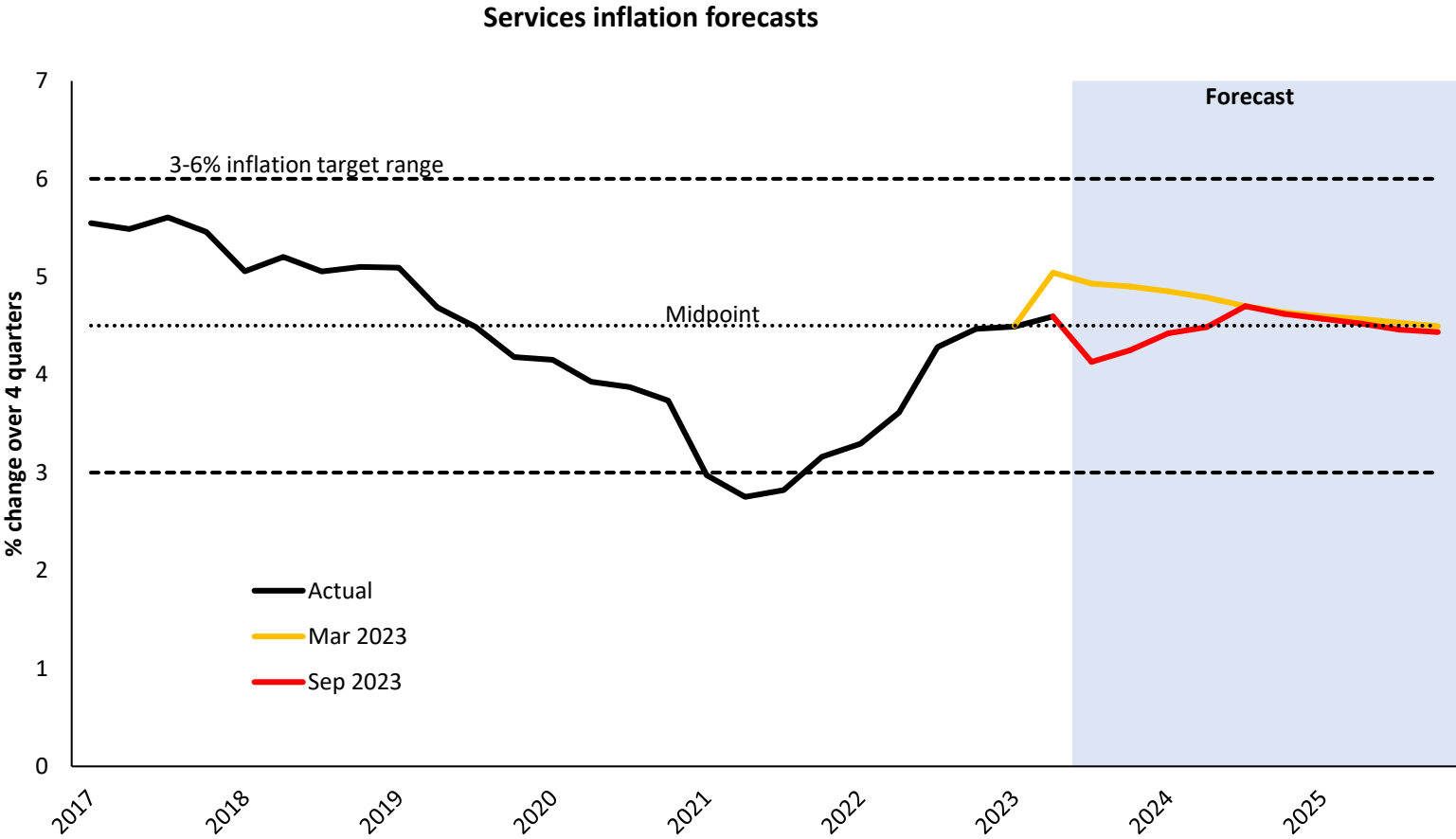


Source: SARB



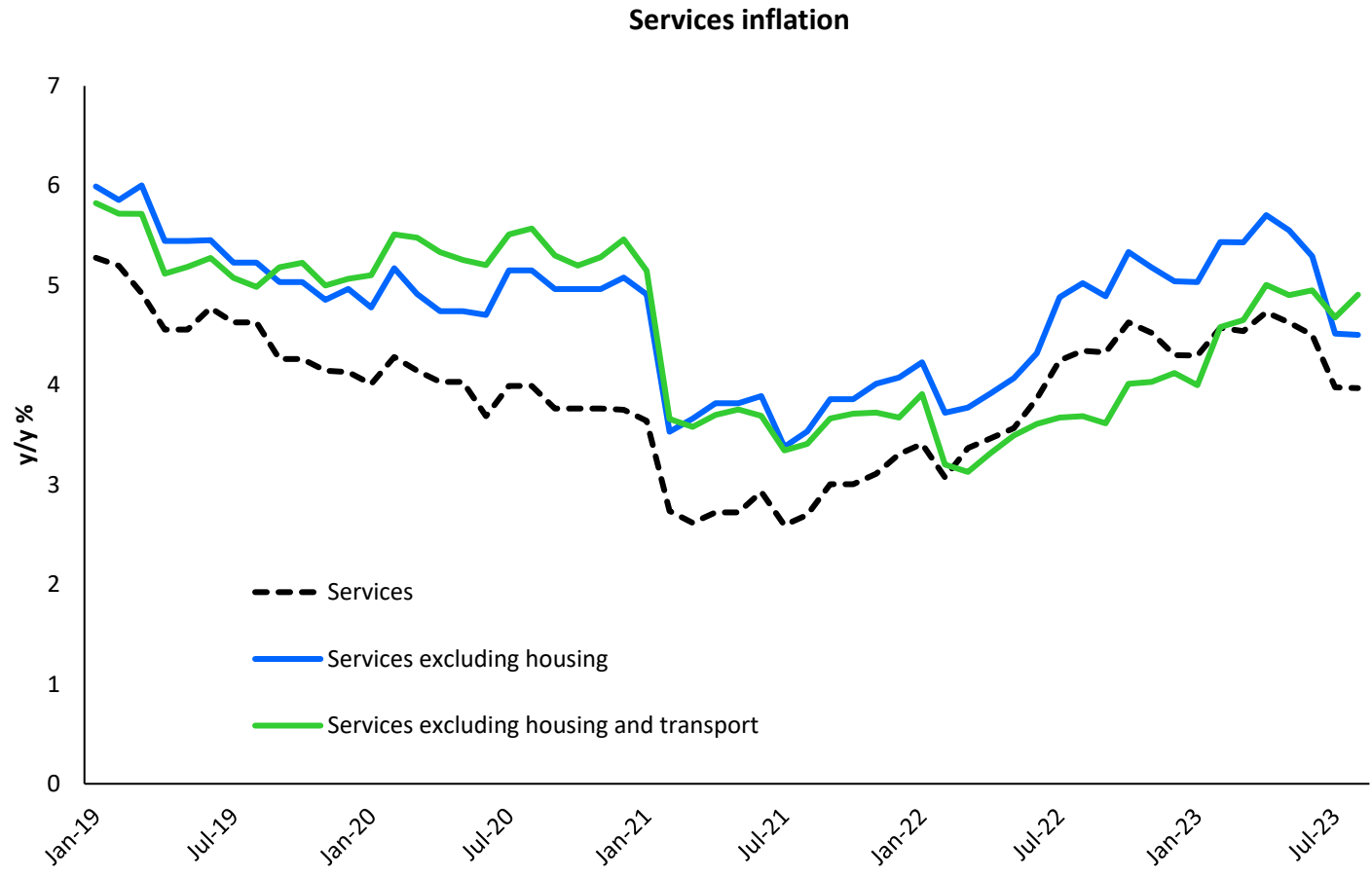


# Services inflation, near-term better, long-term prospects less clear



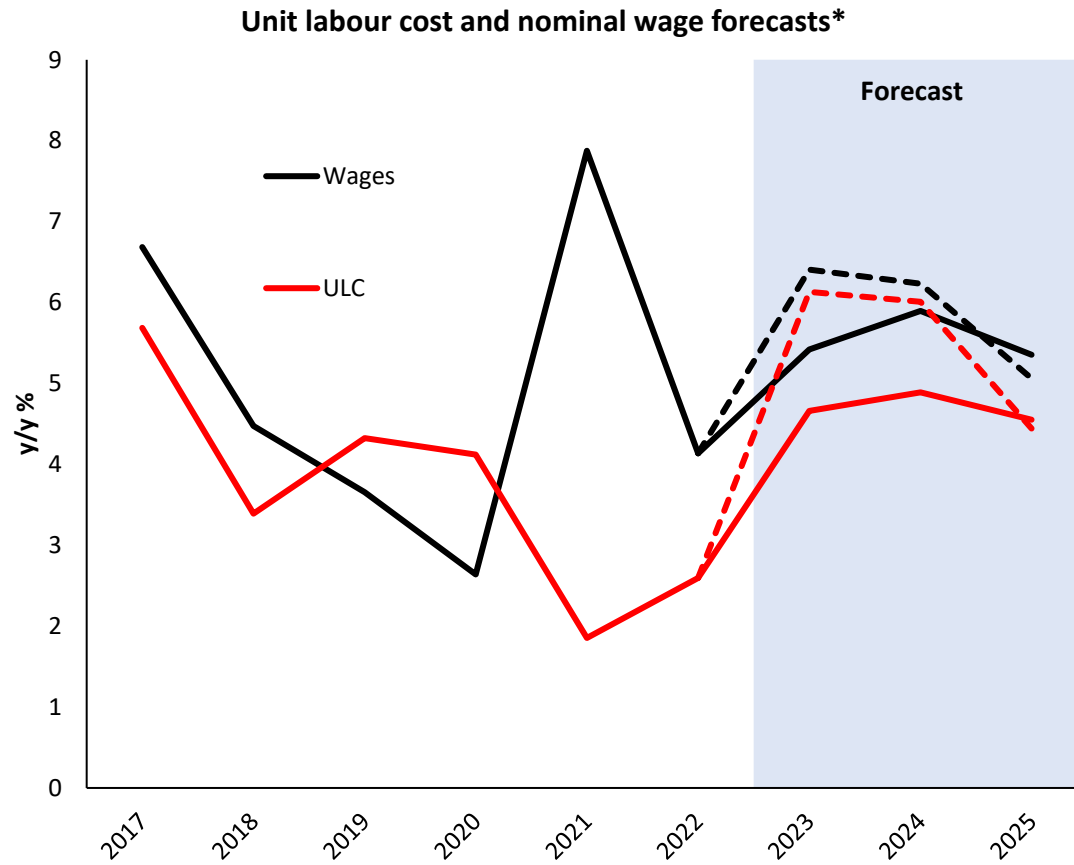
Sources: Stats SA and SARB

# ...as housing and transport pull down inflation now

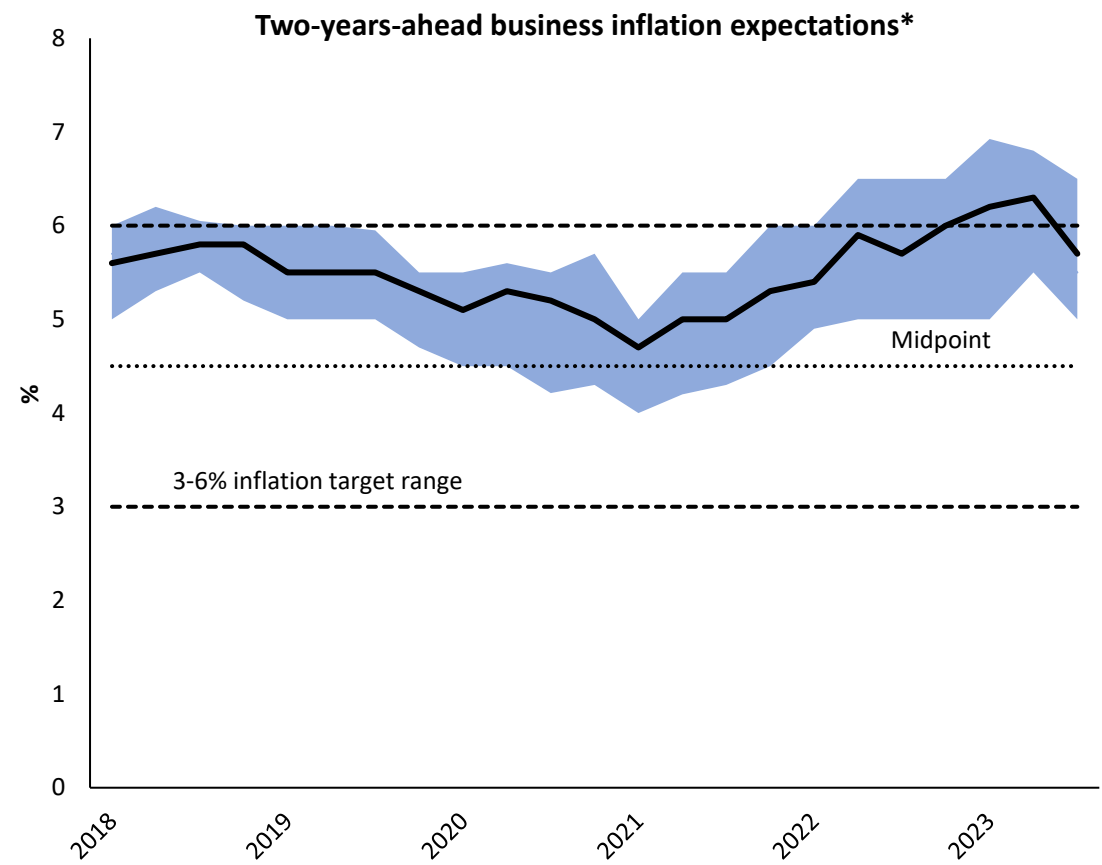


Sources: Stats SA and SARB

# ...with help from modest unit labour cost growth & despite sticky inflation expectations

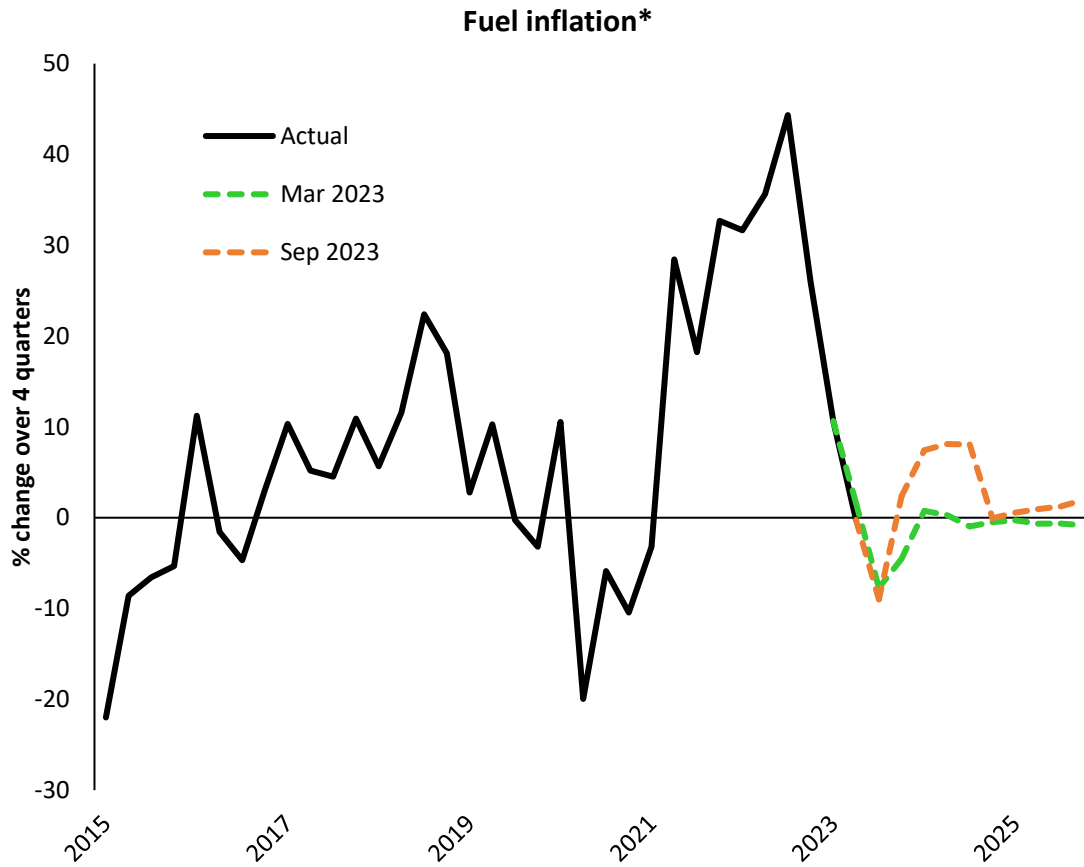


\* Dotted lines indicate forecasts at March MPC  
Source: SARB

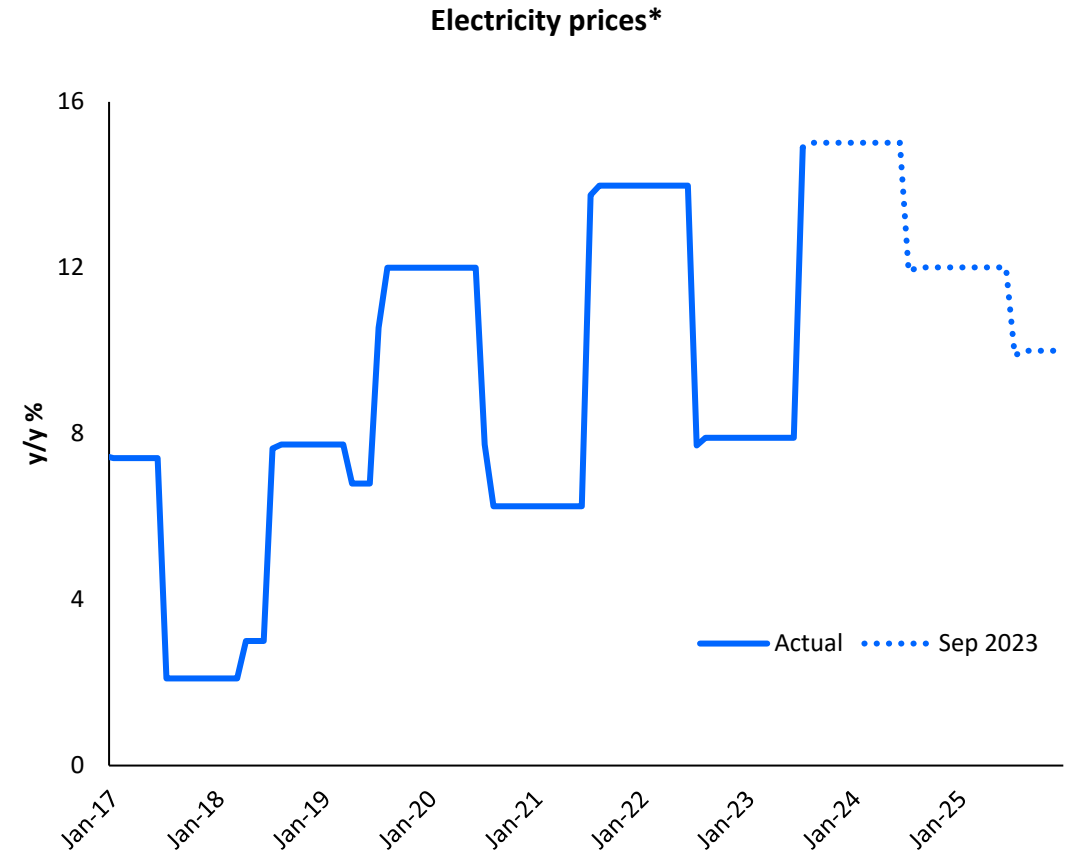


\* Shaded region shows the interquartile range of individual survey responses  
Sources: BER and SARB

# Meanwhile, risks to non-core inflation have shifted higher as energy prices up



\* Dotted lines indicate forecasts  
 Sources: Stats SA and SARB

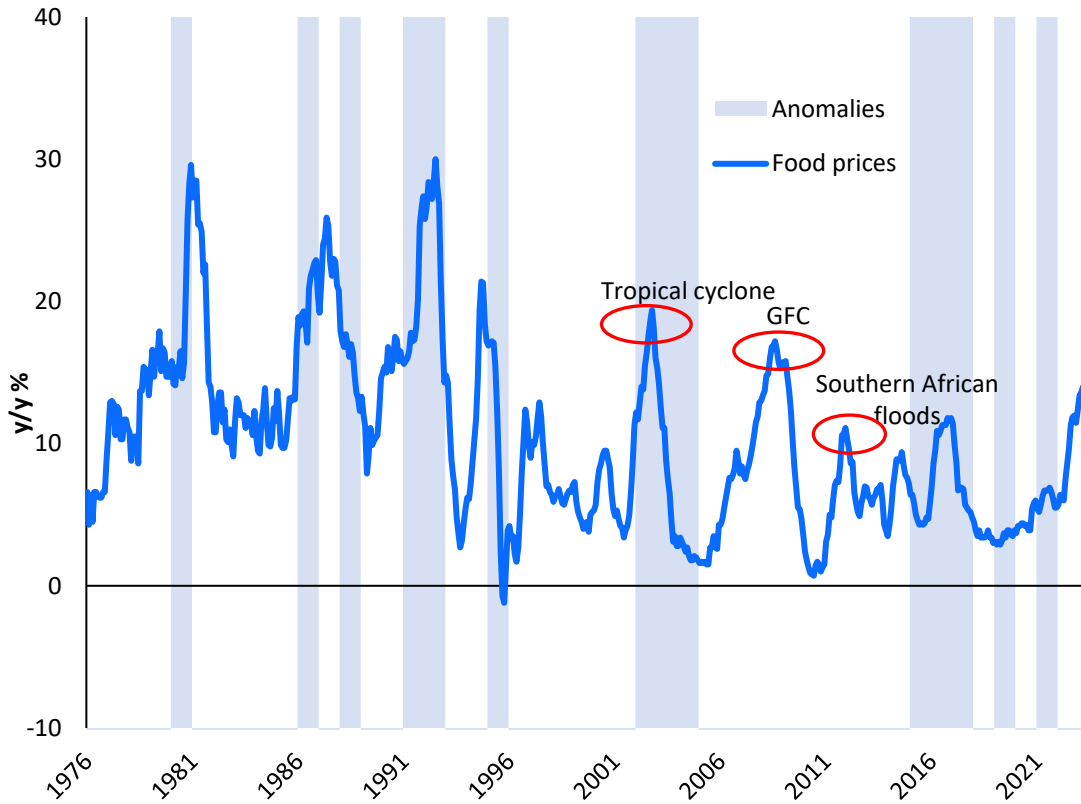


\* Dotted lines indicate forecasts  
 Sources: Stats SA and SARB



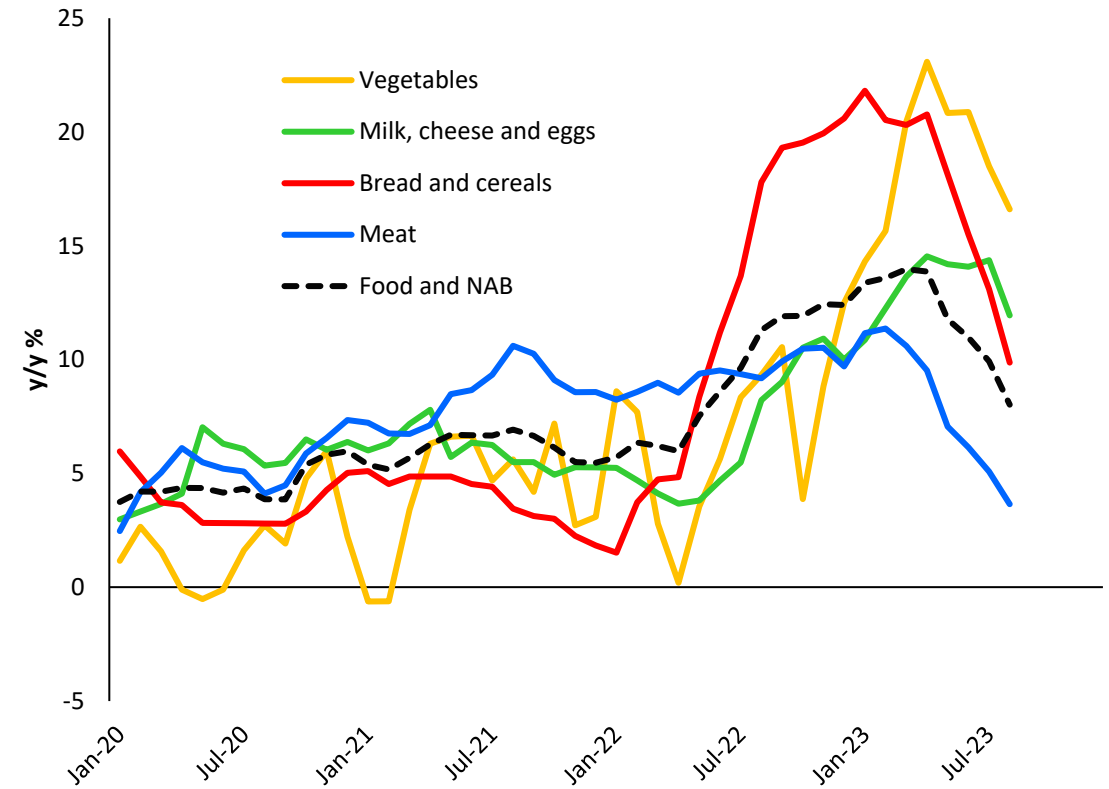
# And El Niño resurfaces but not in forecast baseline yet...

Food and NAB inflation and drought episodes\*



\* Events in red denote non-drought related anomalies.  
Sources: EM-DAT and SARB

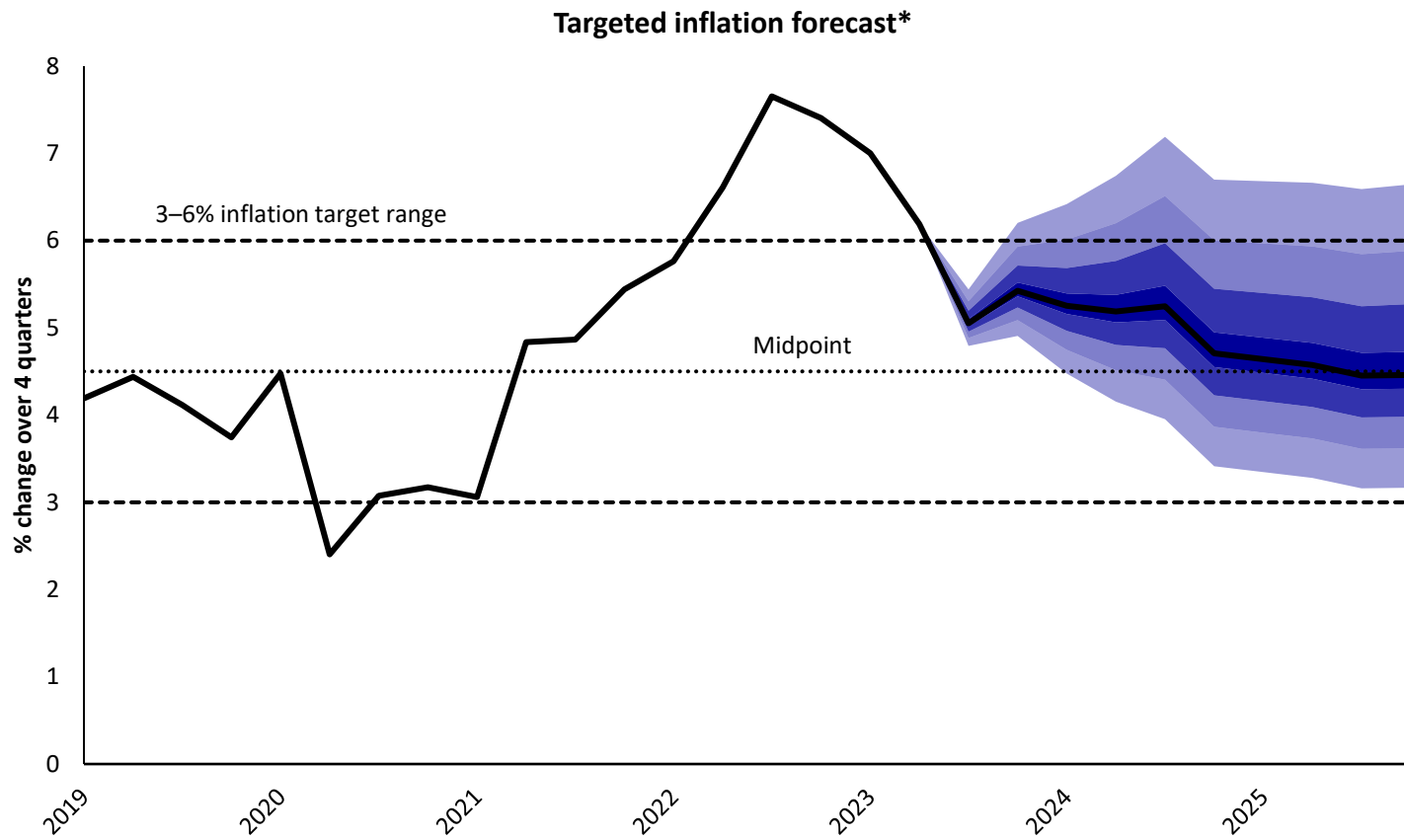
Large-weight food components



Source: Stats SA

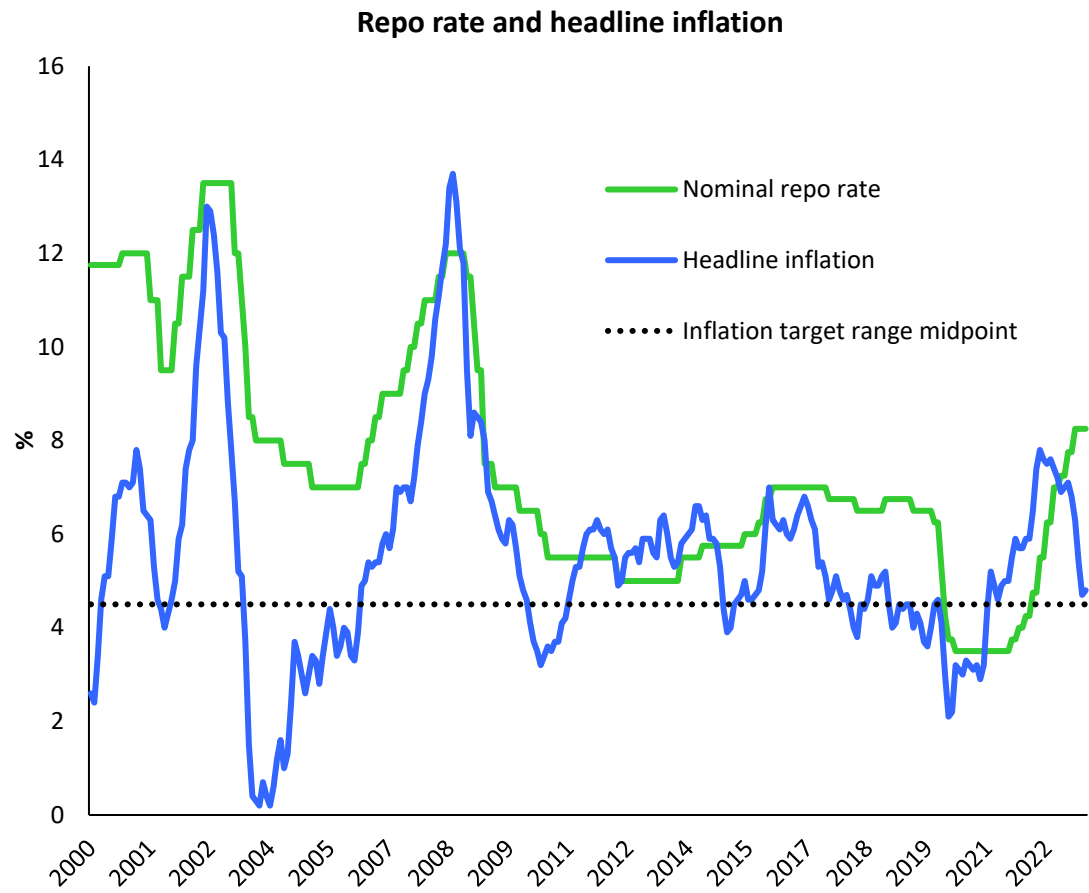


# Headline sideways move into 2024 and at mid-point in 2025

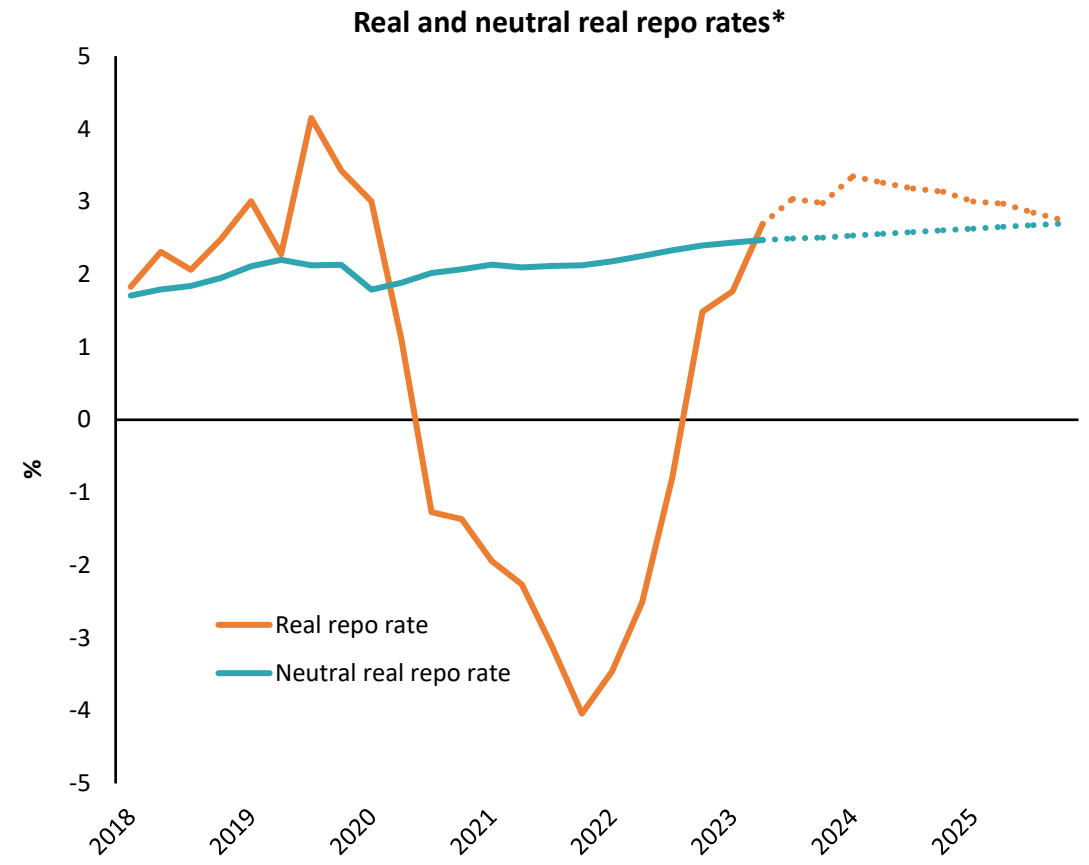


\* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.  
Sources: Stats SA and SARB

# Repo raised by 50 bps in May, unchanged in July and September; stance now restrictive

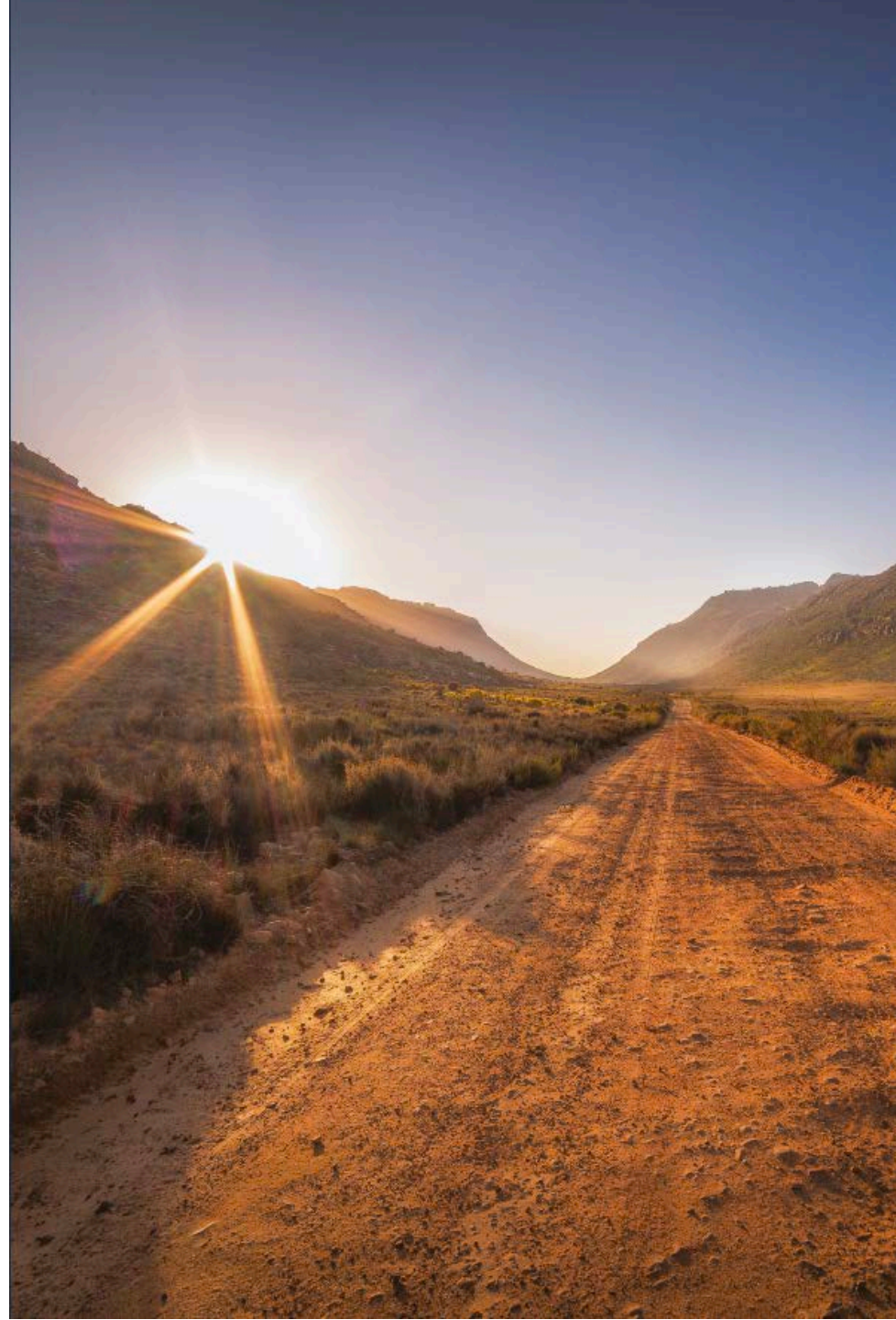


Sources: Stats SA and SARB



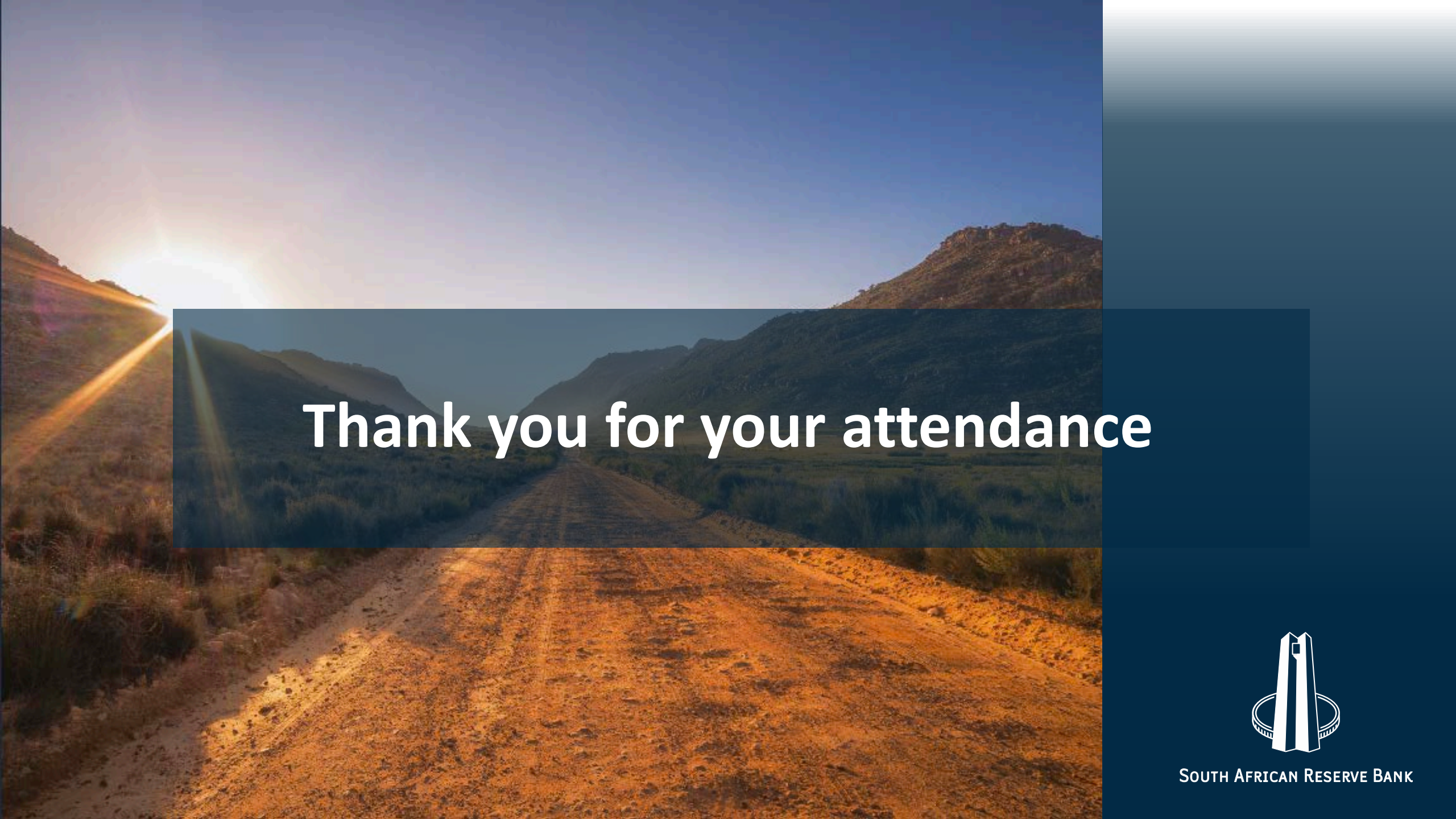
\* Dotted lines indicate forecasts  
Source: SARB





- **Policy targets elusive as inflation persists**
- **AE rates high(er), long(er),**
- **More variation in EM space, but uncertainty about global neutral requires caution as financing risks more acute**
- **Risk-universe expanded...near- and long-term: geo-fragmentation, climate, food and energy shocks, regime shift**
- **Resilience in growth, and more investment better for inflation outcomes**
- **Monetary policy stance focused on anchoring and risks.**





**Thank you for your attendance**



**SOUTH AFRICAN RESERVE BANK**