



Walking a tightrope: *Monetary Policy Review*

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

23 April 2024



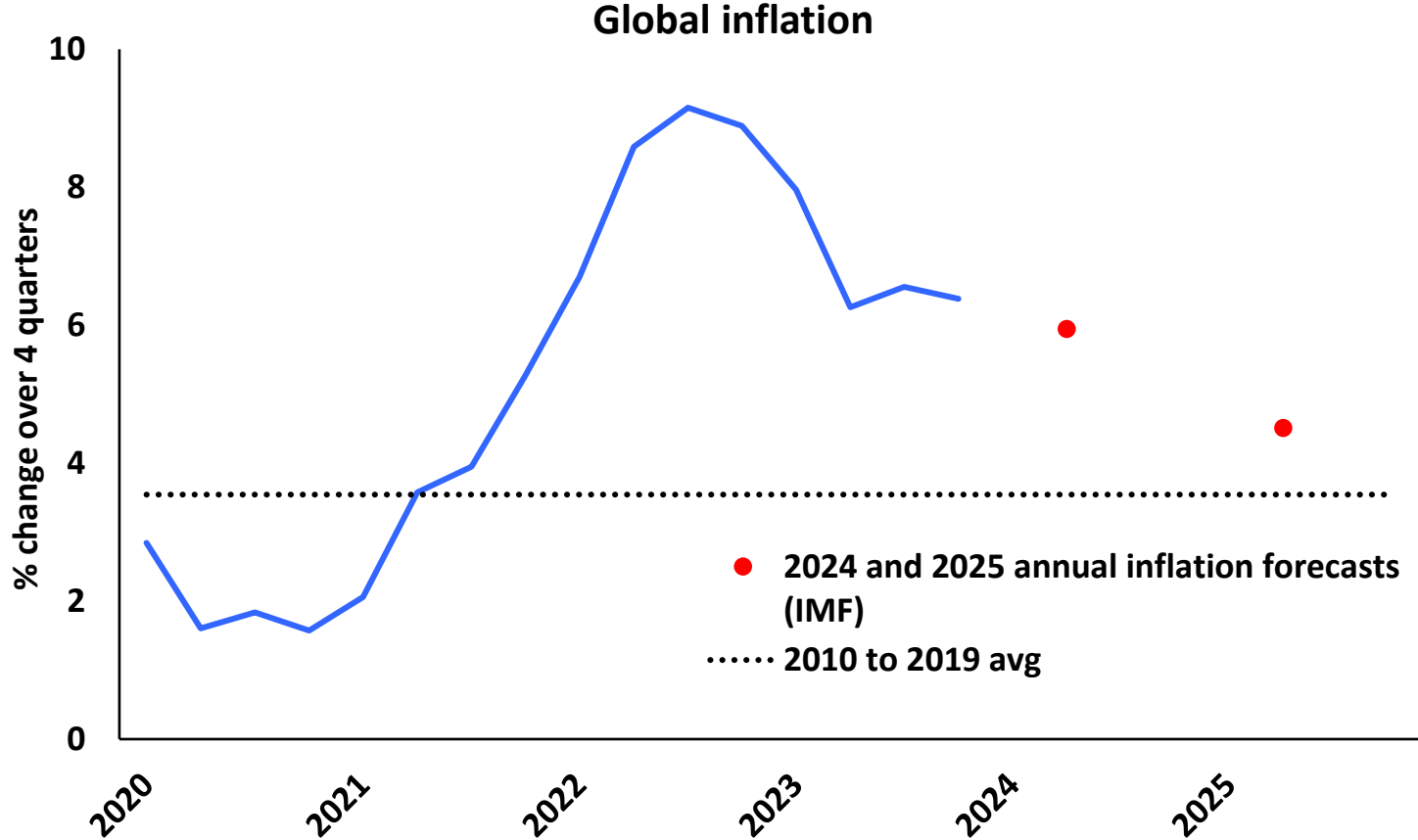
SOUTH AFRICAN RESERVE BANK

Introduction

- **Global disinflation more uncertain & targets elusive**
- **Policy rate cuts pushed back, scaled down, with implications**
- **Global growth better in 2023, but not robust...& diverging**
- **Global demand fades, domestic more sustained**
- **Supply constraints weigh on SA**
- **Creating ongoing macro imbalances**
- **MP working to get to target, but slow**
- **As inflation sticky**
- **And risks persistent**

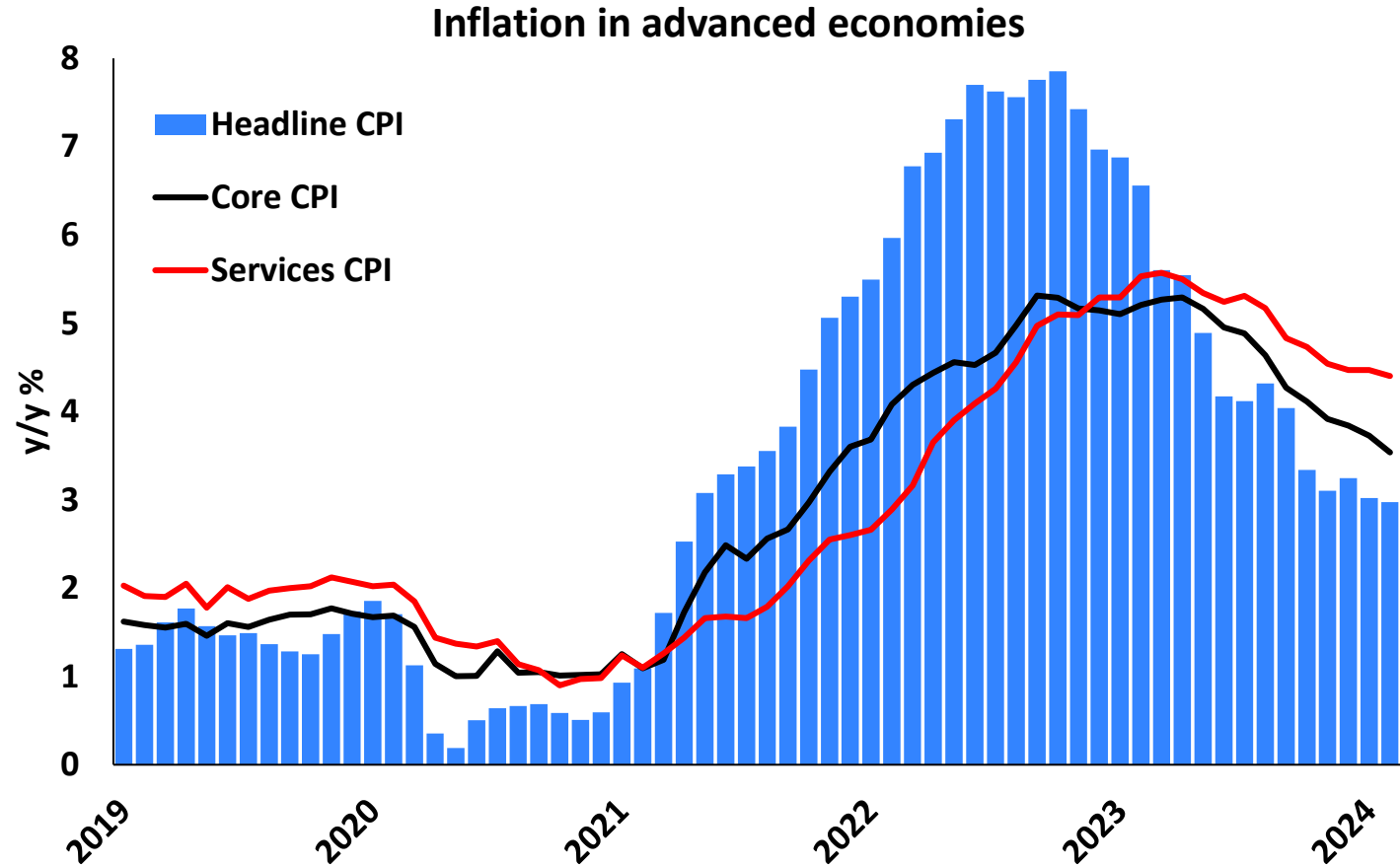


Despite some moderation, the fight against inflation not over



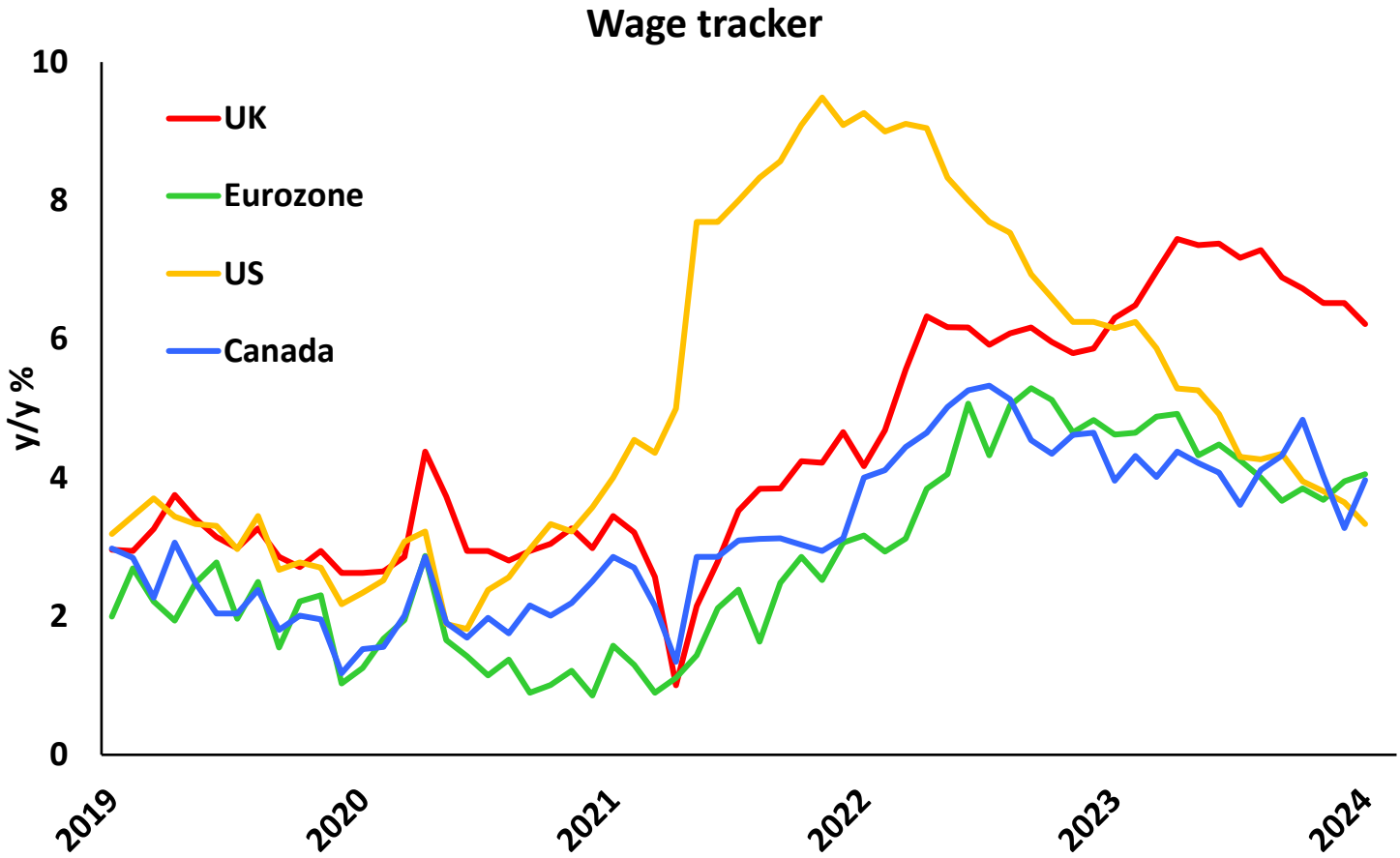
Sources: Haver and IMF

Inflation inertia from sticky core inflation and services price inflation



Source: Haver

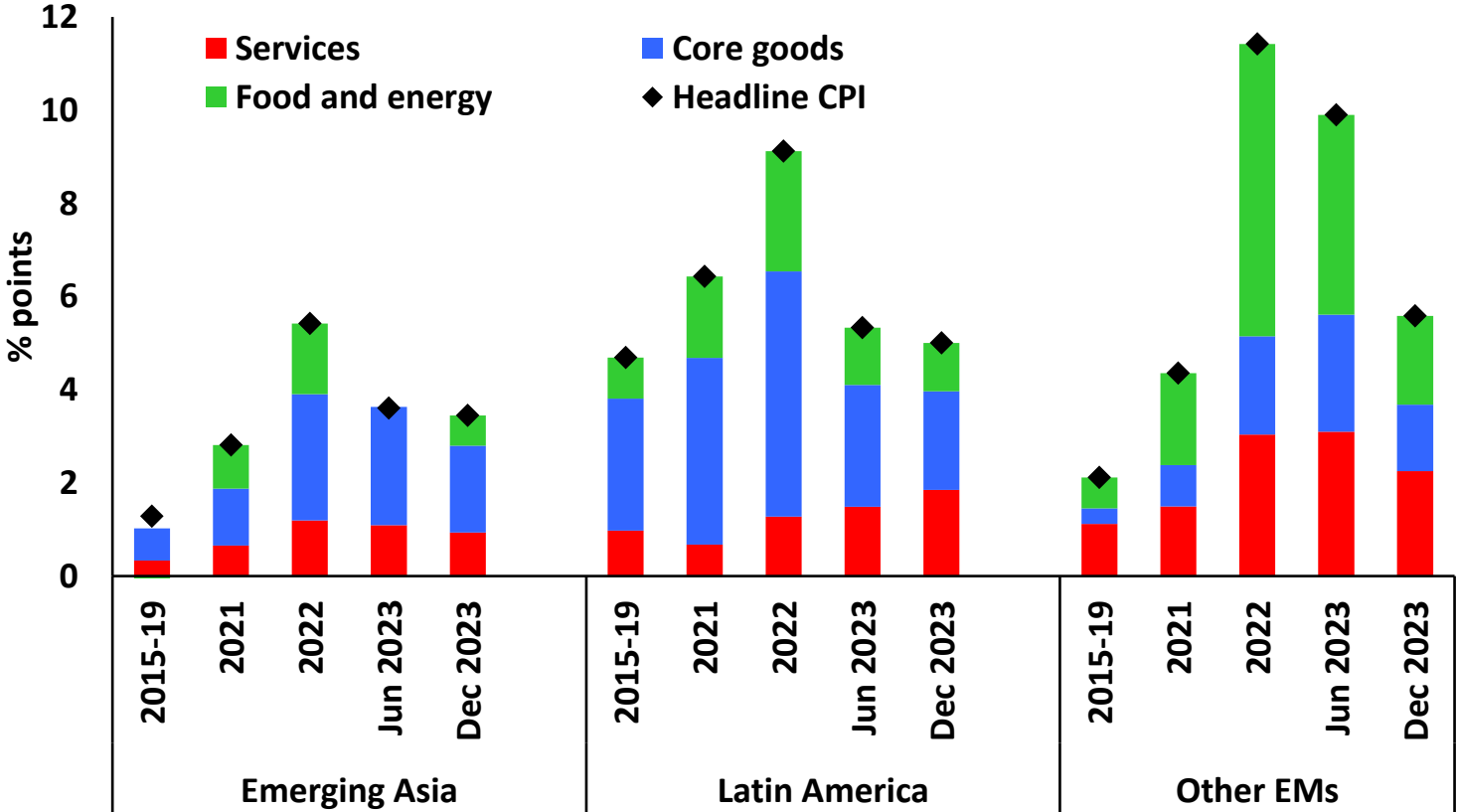
Wage growth remains elevated across advanced economies



Source: Indeed Hiring Lab

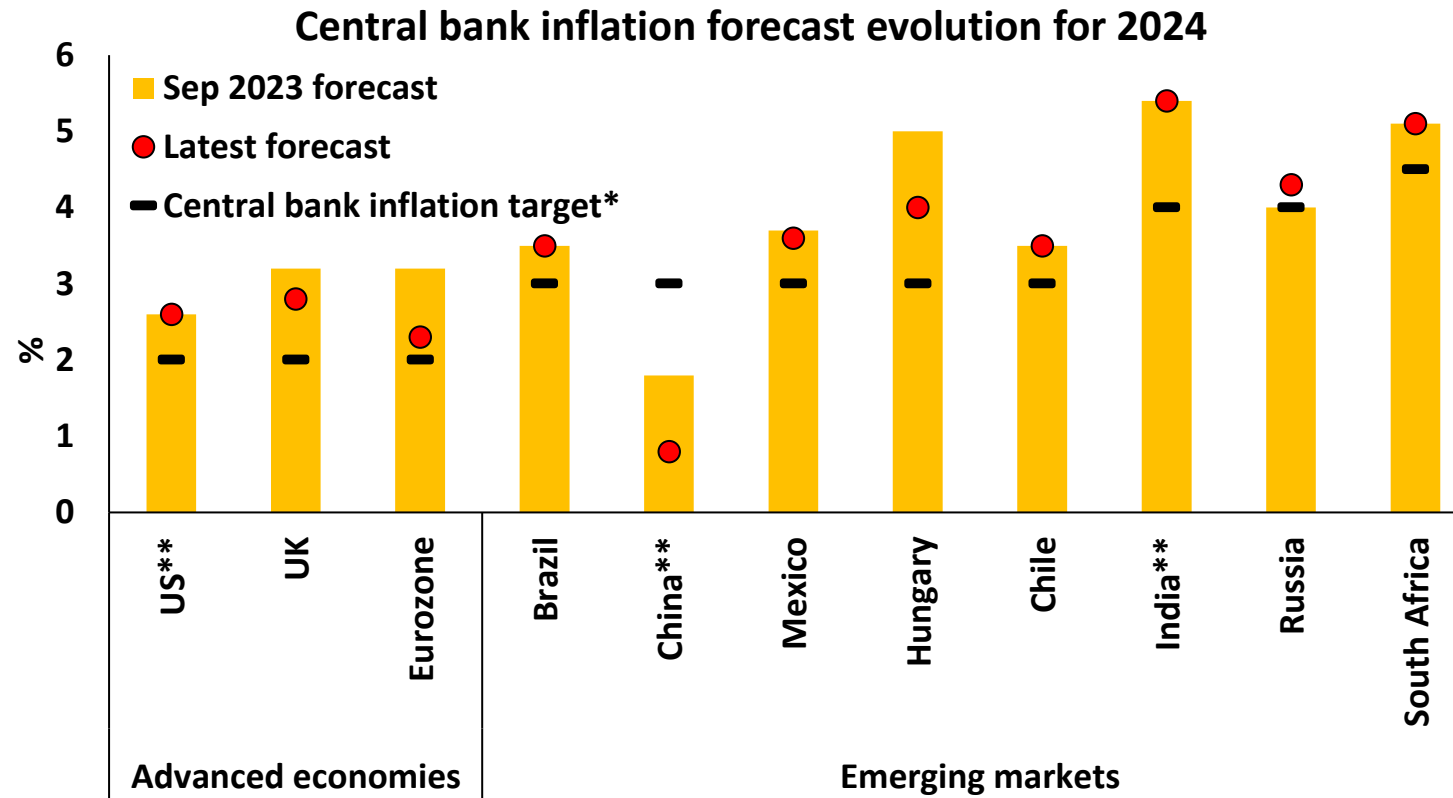
Core pressures elevated in EMs too, as goods spill over into services

Contributions to headline inflation in emerging markets



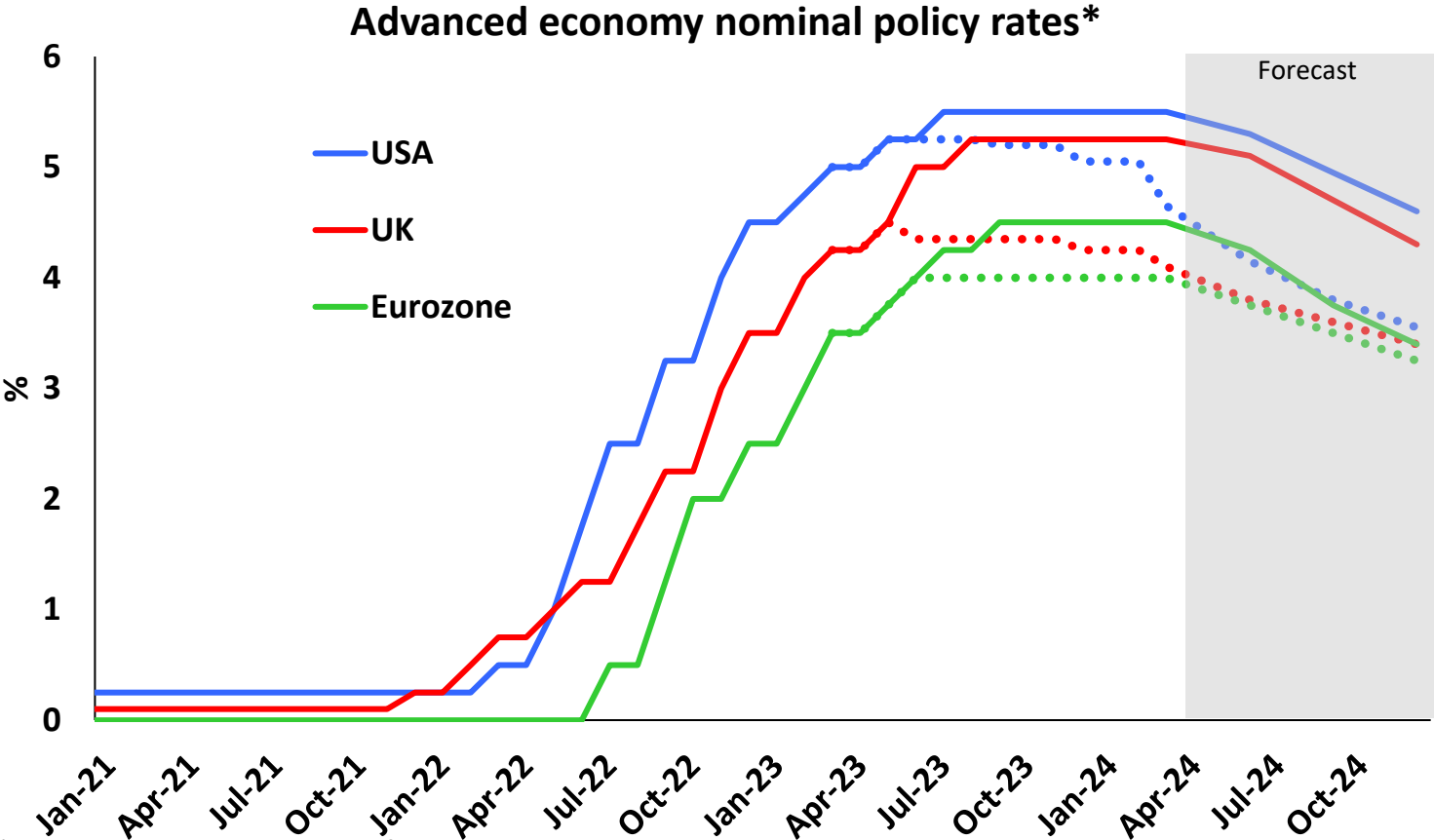
Source: BIS

While targets remain elusive



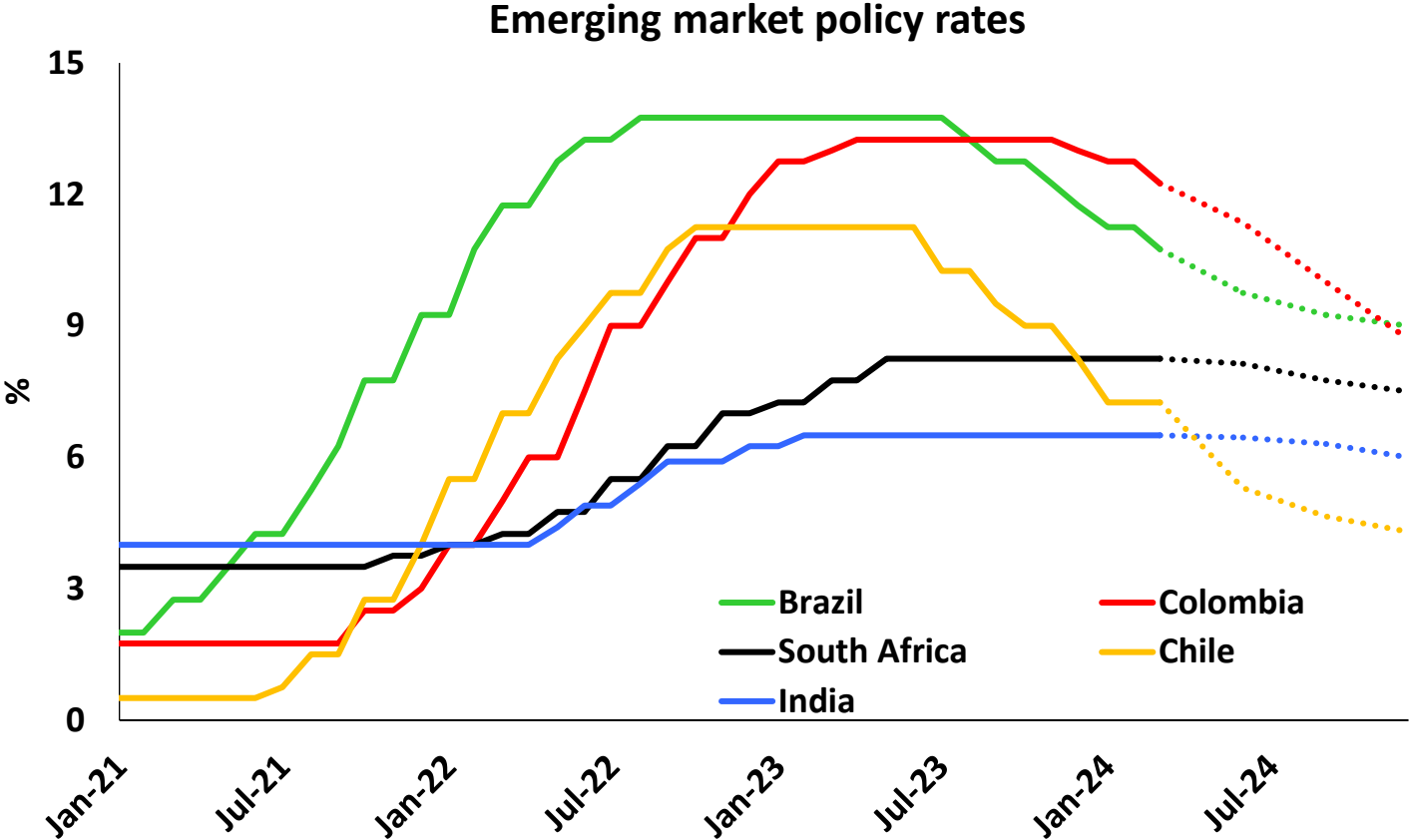
* Midpoint is taken for countries with a target range
 ** Core PCE for USA; Consensus forecasts for China and India
 Sources: BIS, central banks and Bloomberg Consensus

Rate cuts pushed back and scaled down



*Dotted lines are median analyst forecasts at March 2023
 Source: Bloomberg

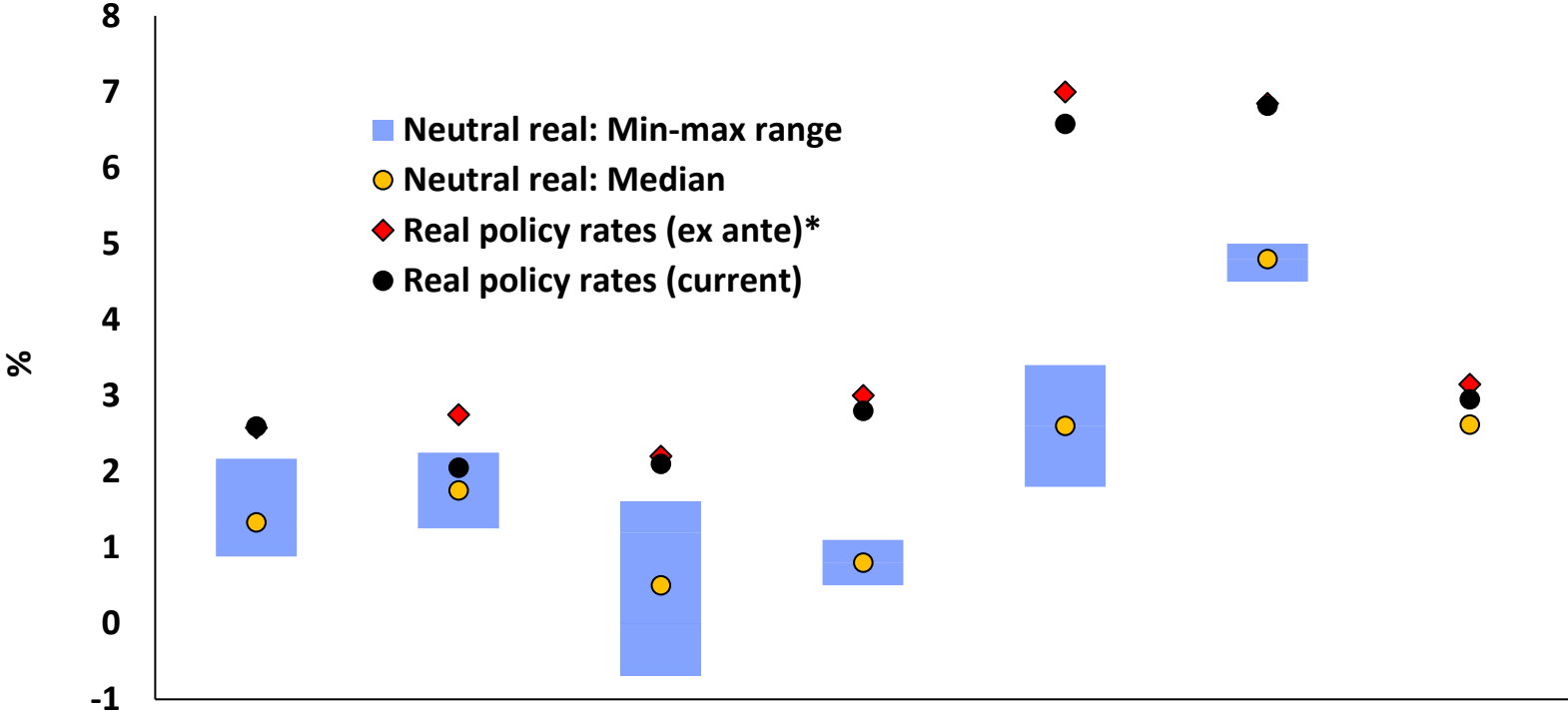
Latin America the emerging markets outlier, as inflation moves as intended



* Dotted lines are median analyst forecasts
 Source: Bloomberg

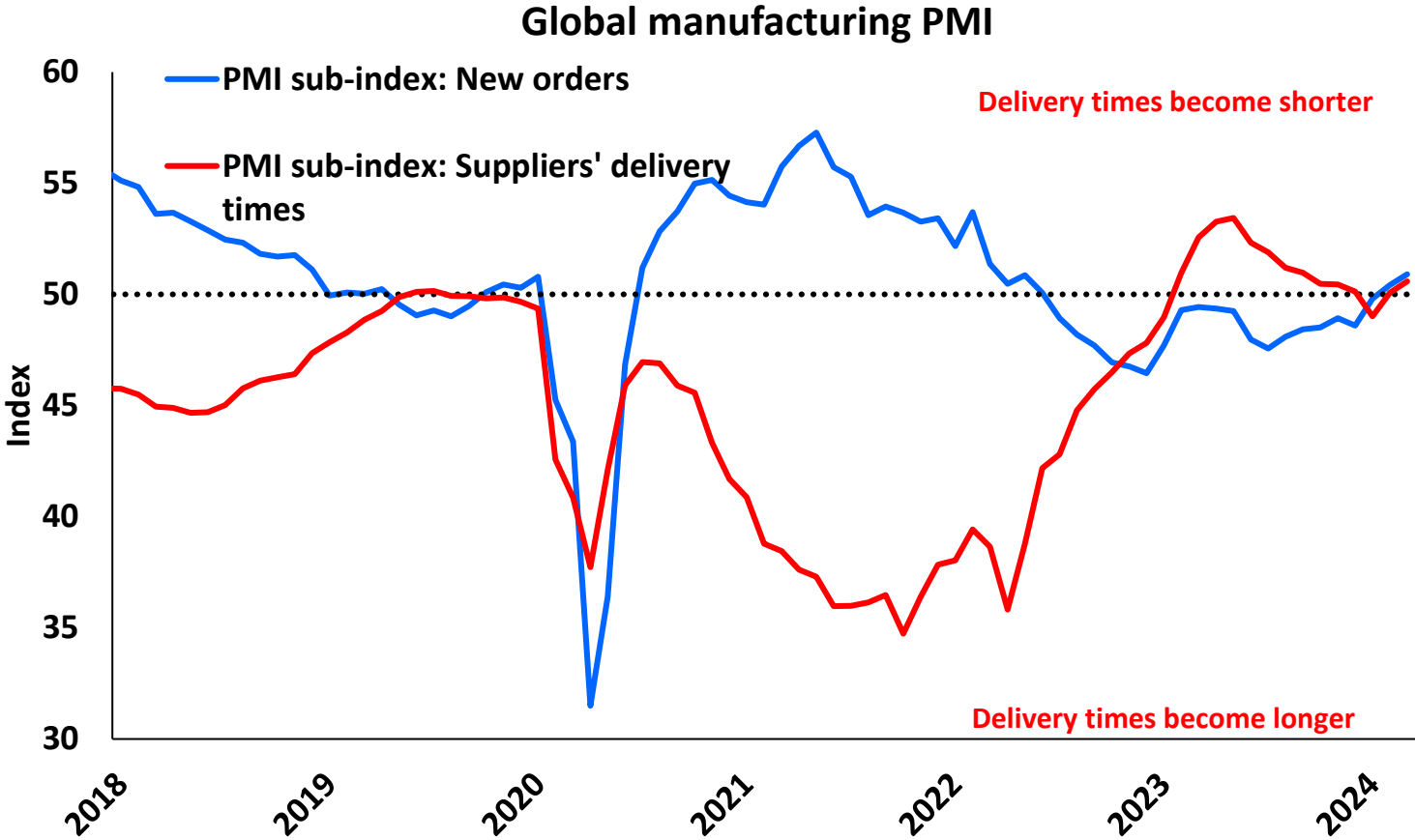
Positive real policy rates across the board; but how tight?

Real and neutral real policy rates for selected countries



* Real policy rates (ex ante) based on 2024 CPI projections
 ** Latest point estimate from QPM
 Sources: BIS, central banks and Consensus Economics

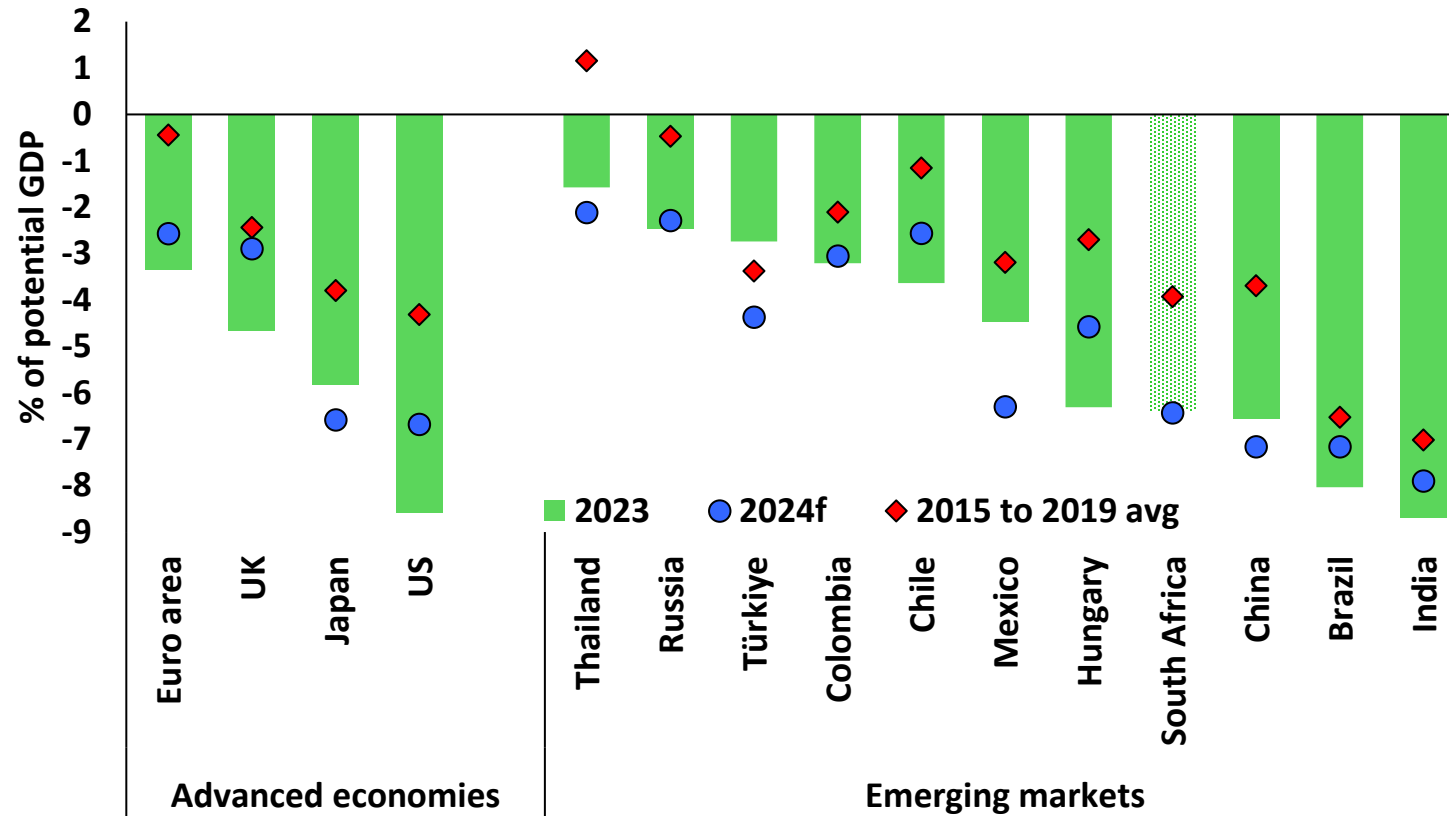
Scale of global demand-supply mismatch very large for prolonged period



Source: JP Morgan

Fiscal deficits generally larger than pre-crisis... post-crisis patchier

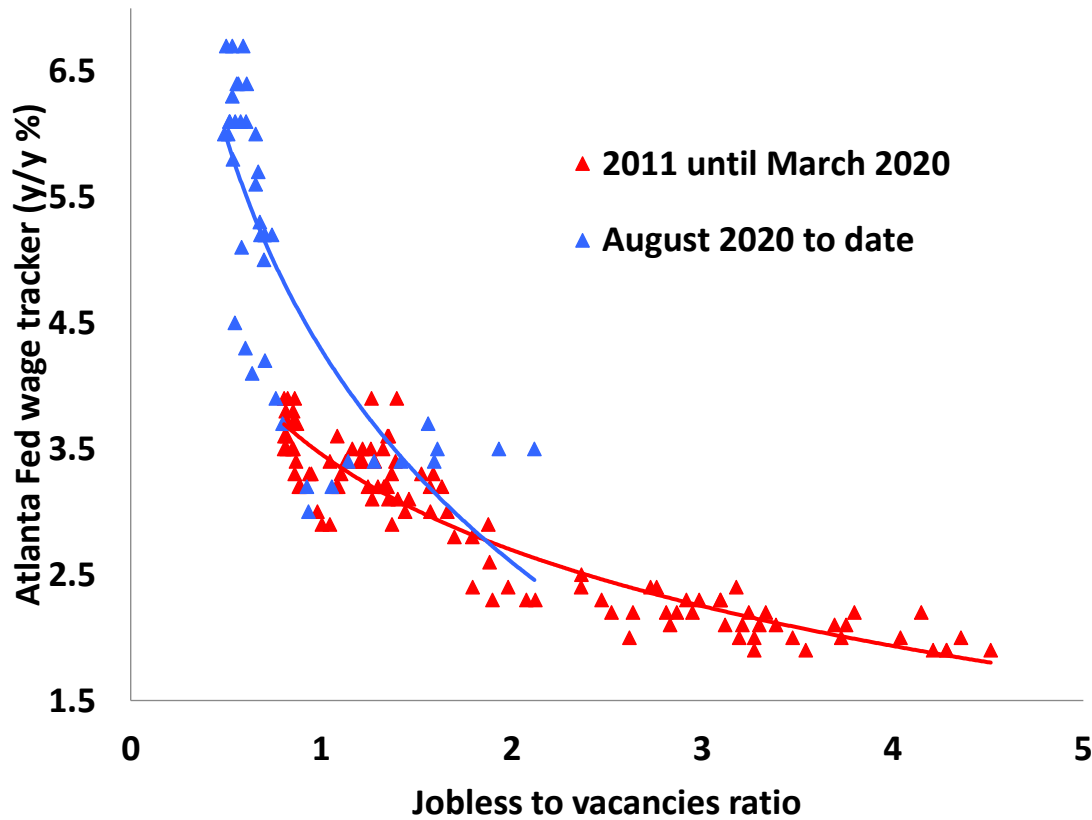
General government structural balances in selected countries



Source: IMF

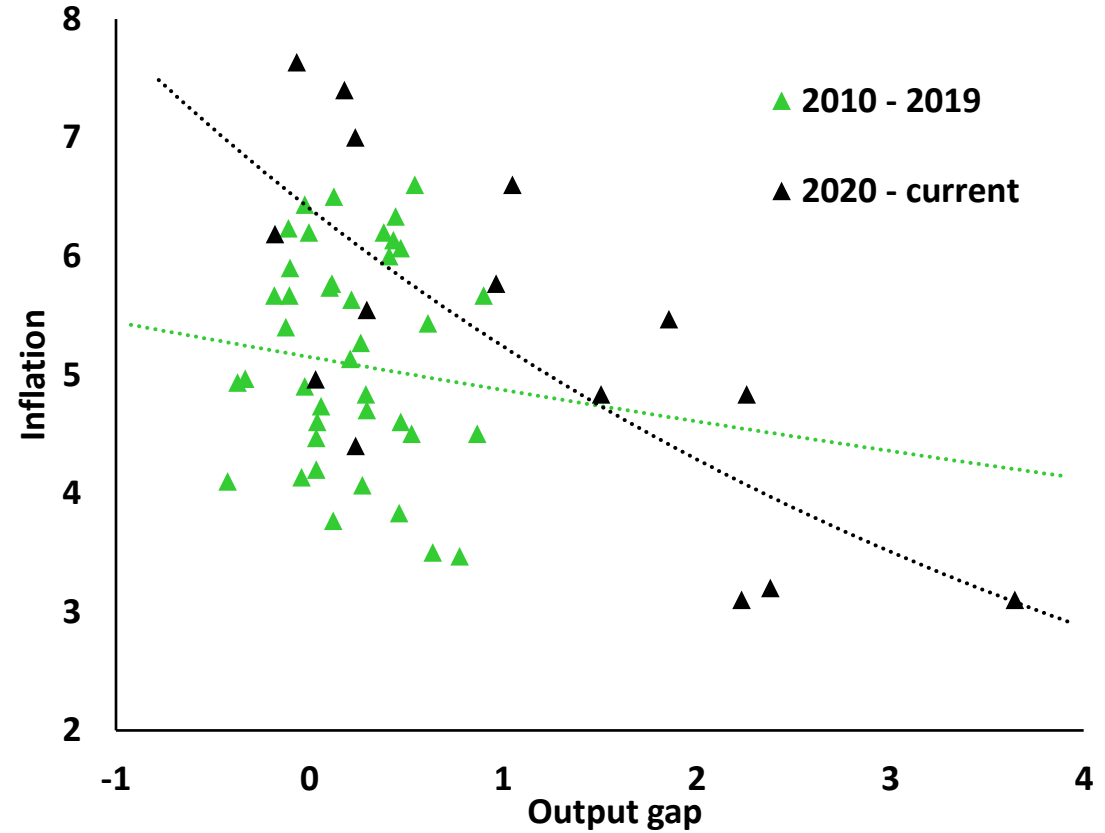
"Flat" link from slack to inflation steepened fast

US wage Phillips curve



Sources: Atlanta Fed, Bureau of Labour Statistics and own calculations

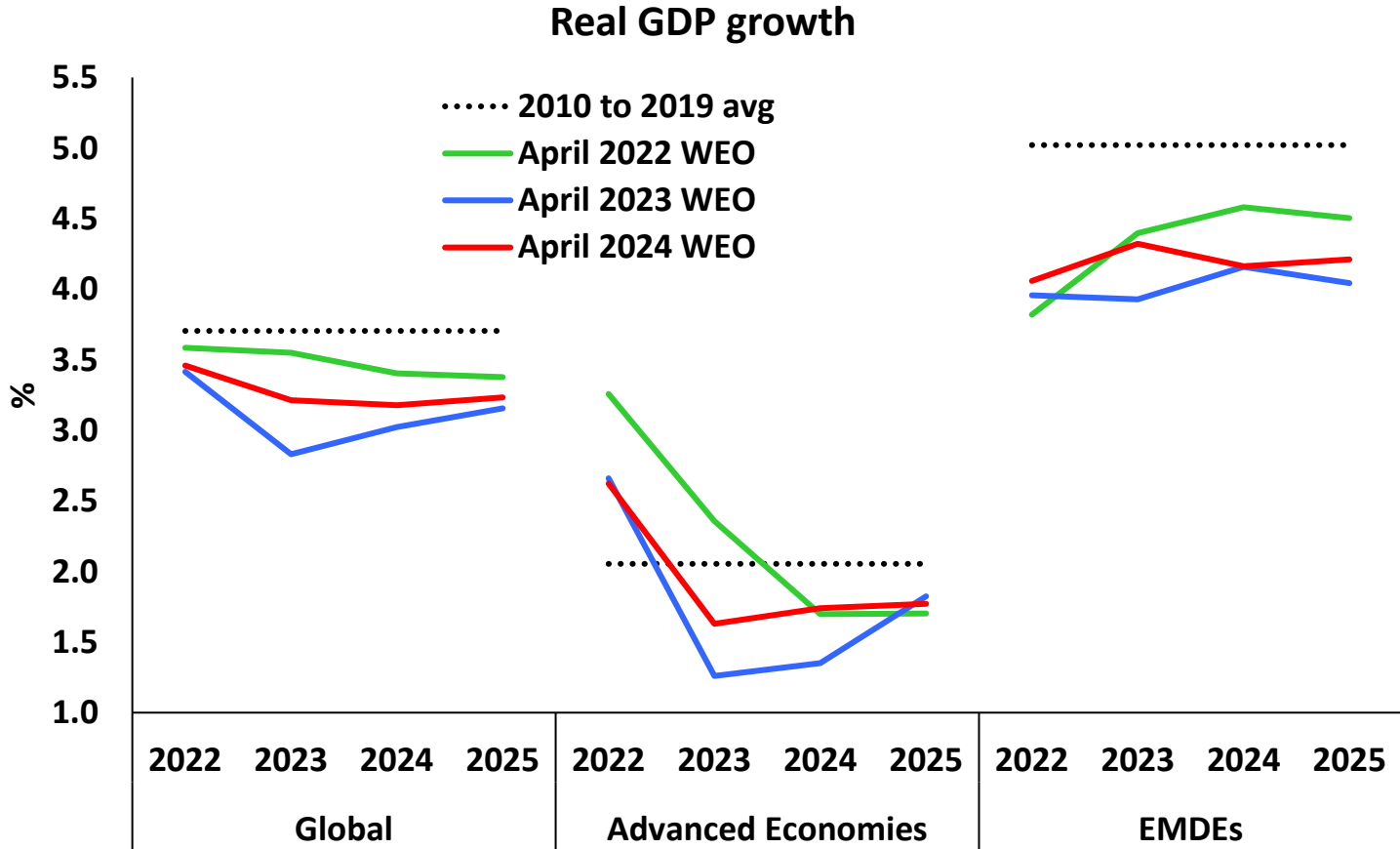
South African Phillips curve



Sources: Stats SA and SARB

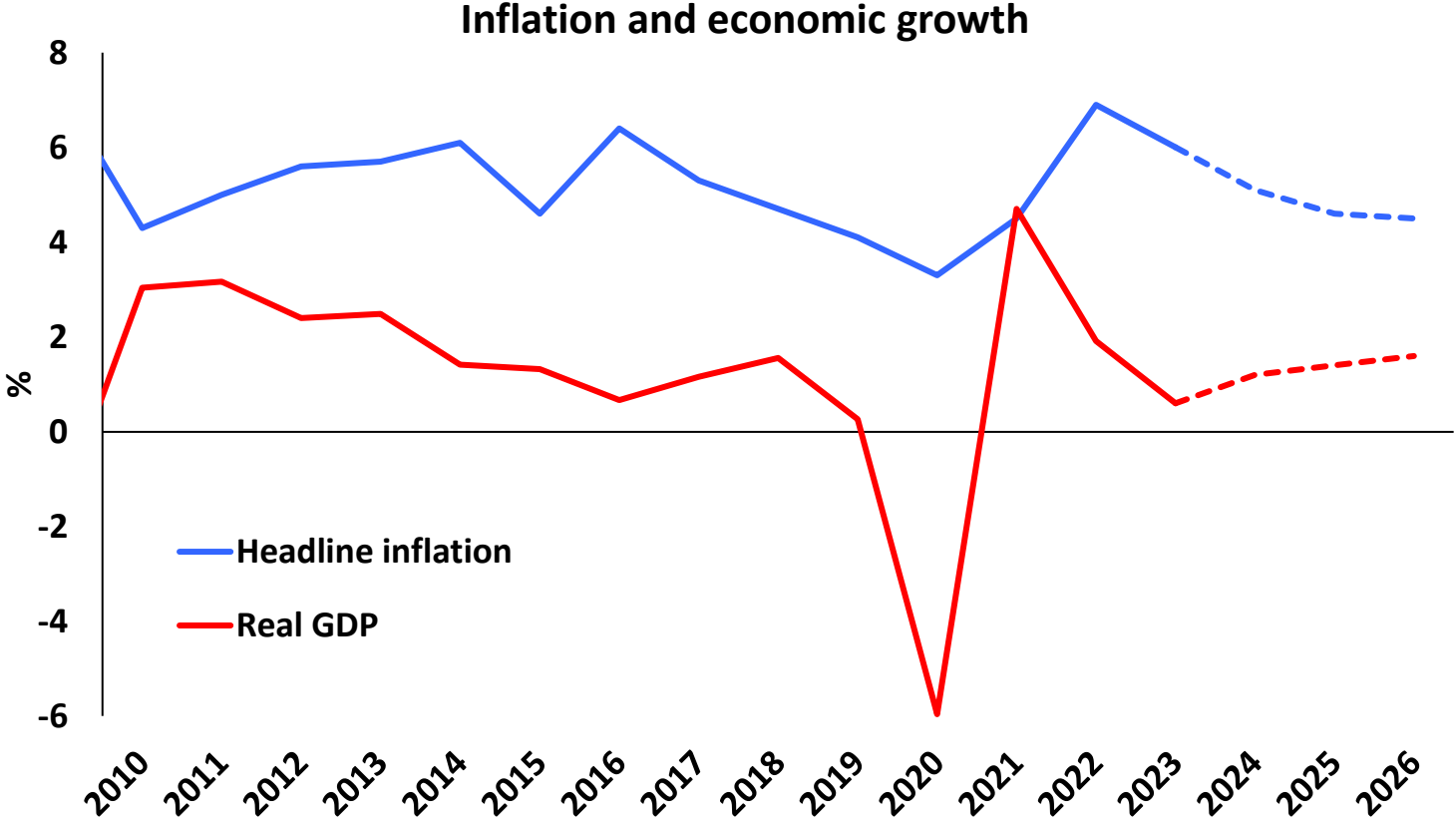


Global growth remains below trend, but better than expected for 2023



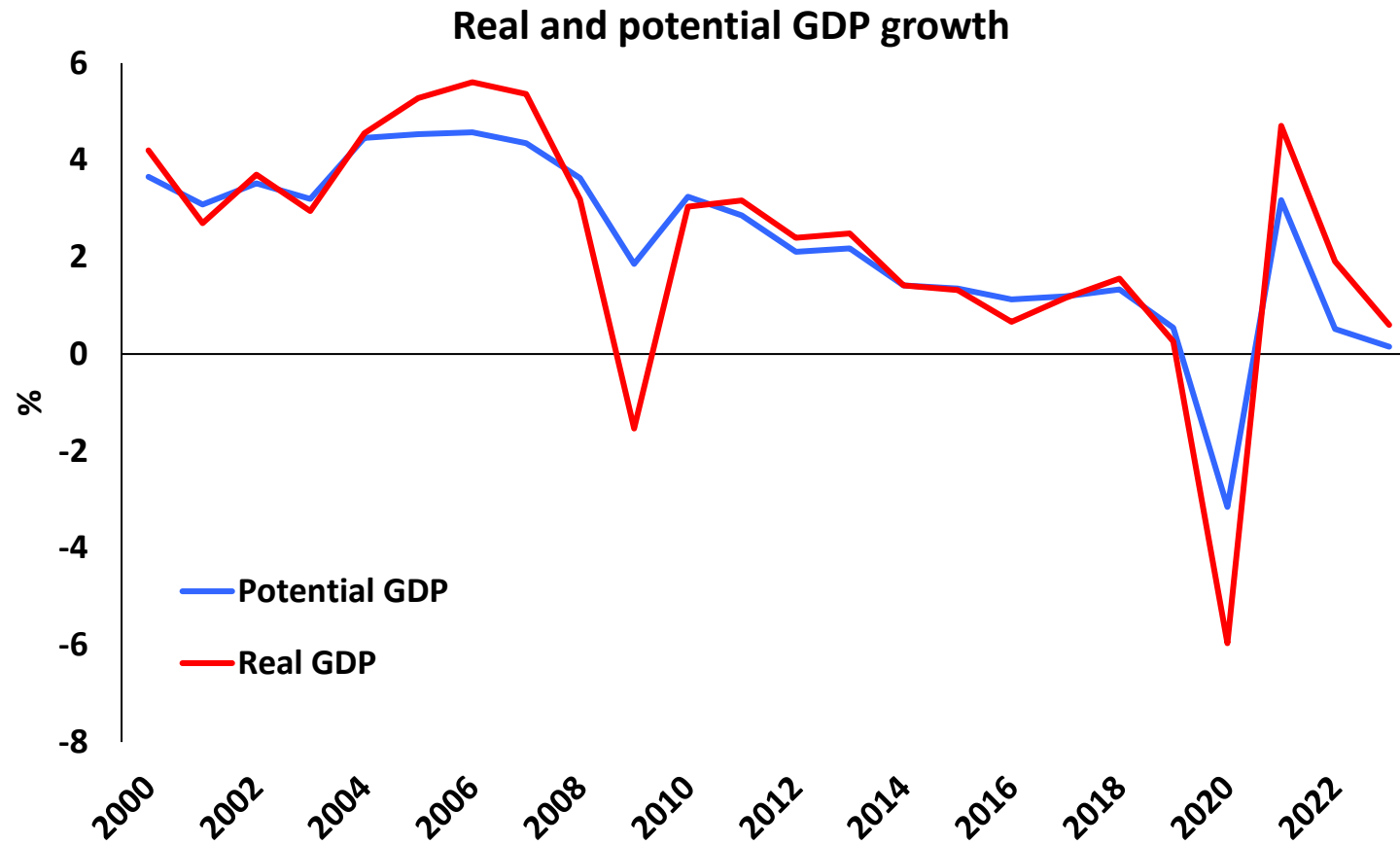
Source: IMF

For SA, despite weak growth, inflation pressures remain



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

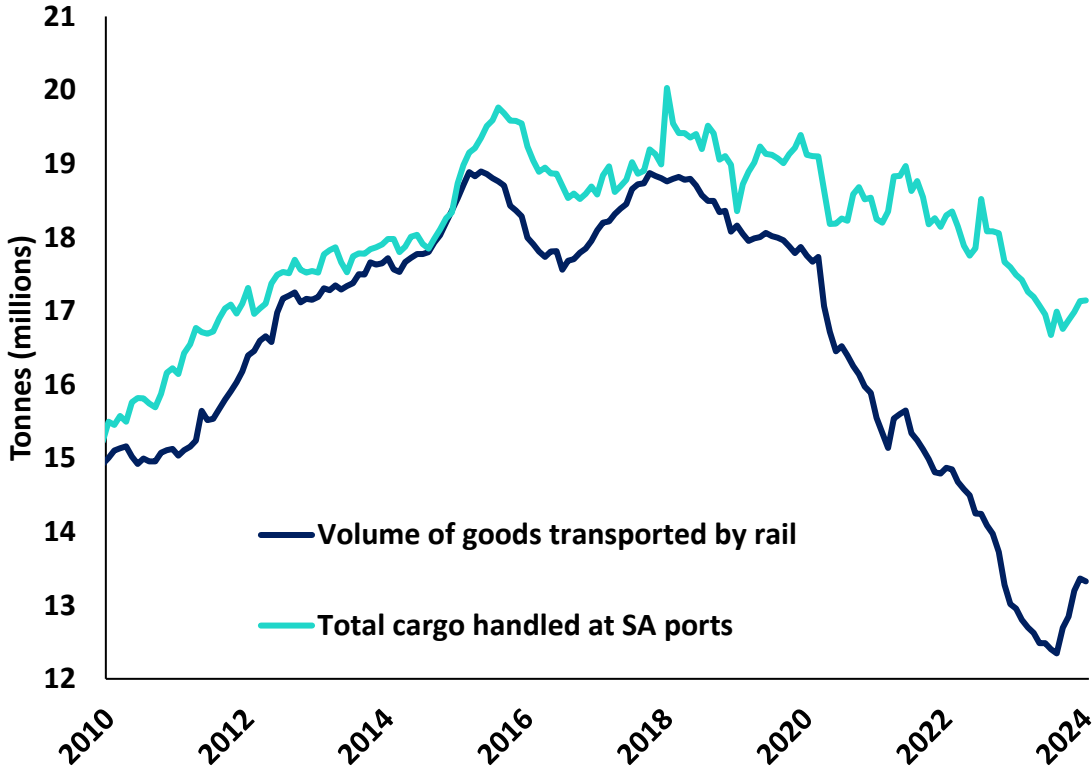
...as low potential drags real output growth down with it



Sources: Stats SA and SARB

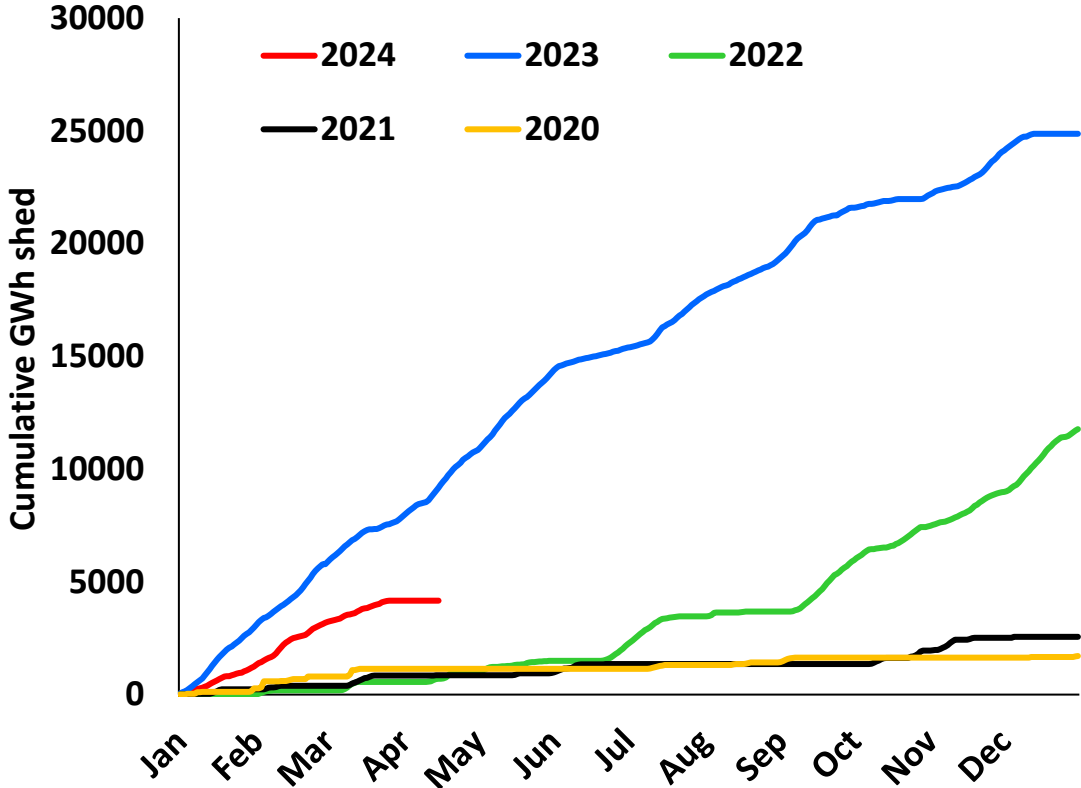
With logistics and electricity setting speed limit for economy

Port and rail cargo handled*



*12-month moving averages
Sources: Stats SA and Transnet National Port Authority

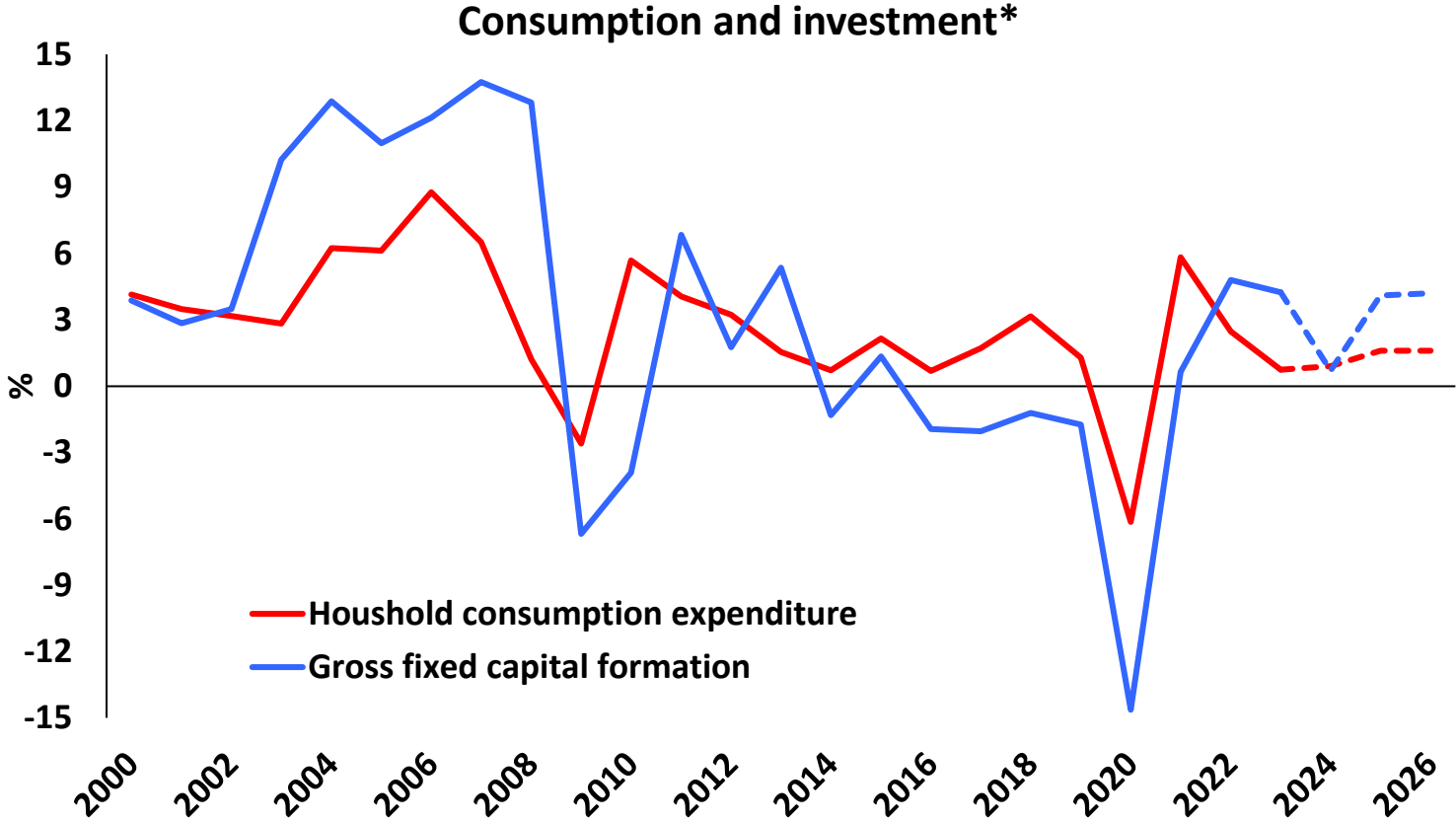
Cumulative load-shedding



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

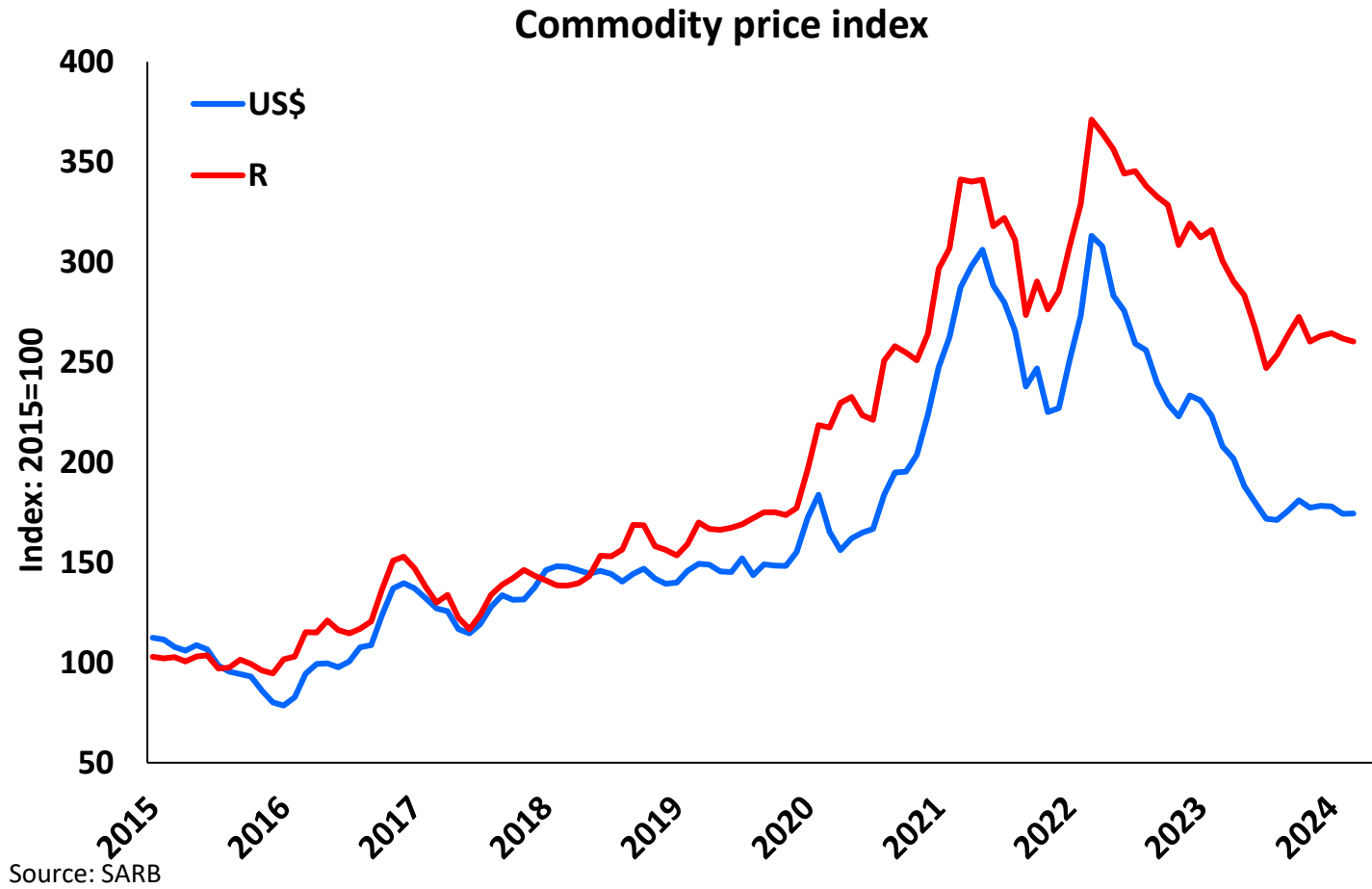


Sluggish growth in real incomes feeds through to sluggish demand

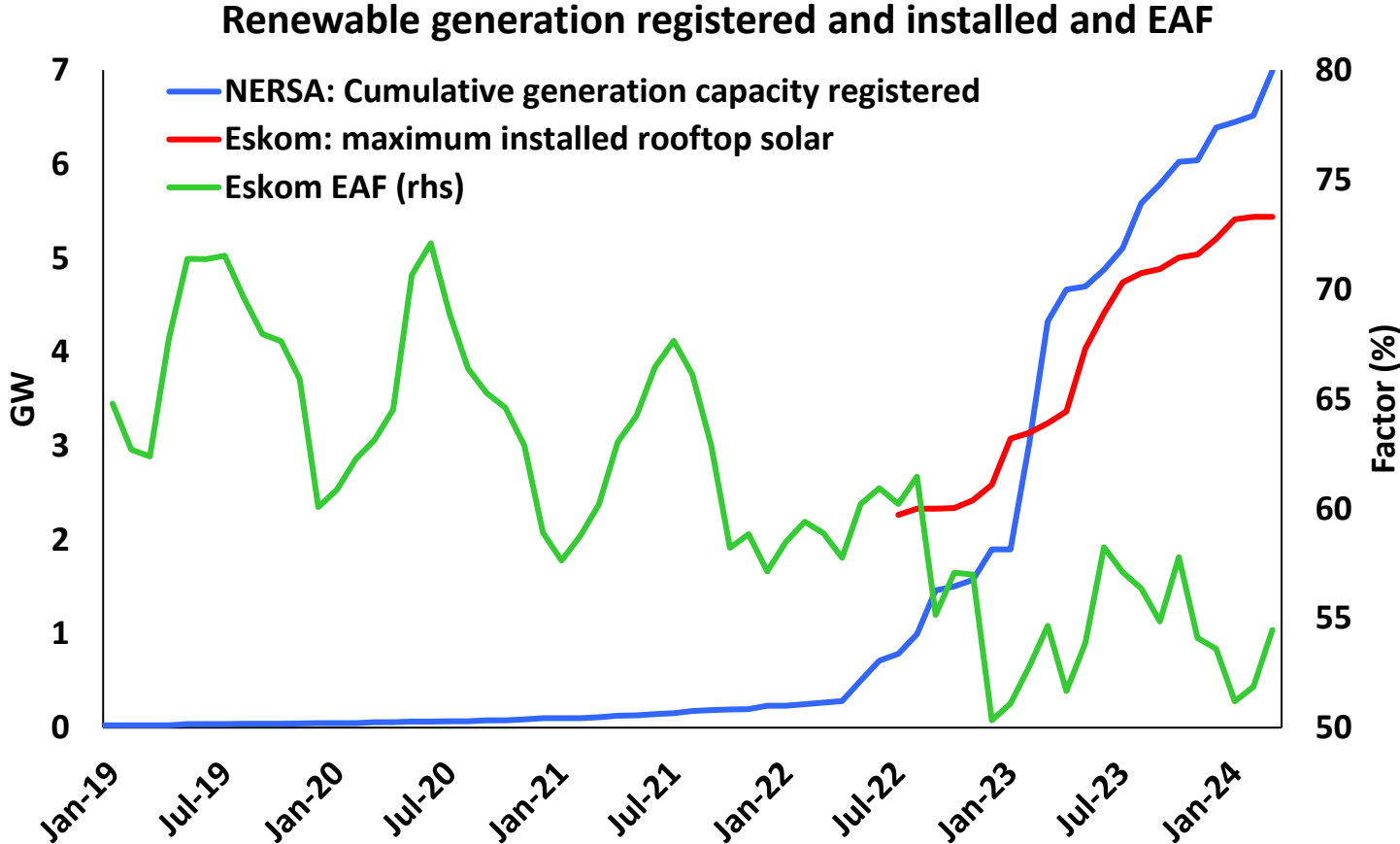


* Dotted lines indicate forecasts
Sources: Stats SA and SARB

Commodity prices lower, eroding windfall income gains

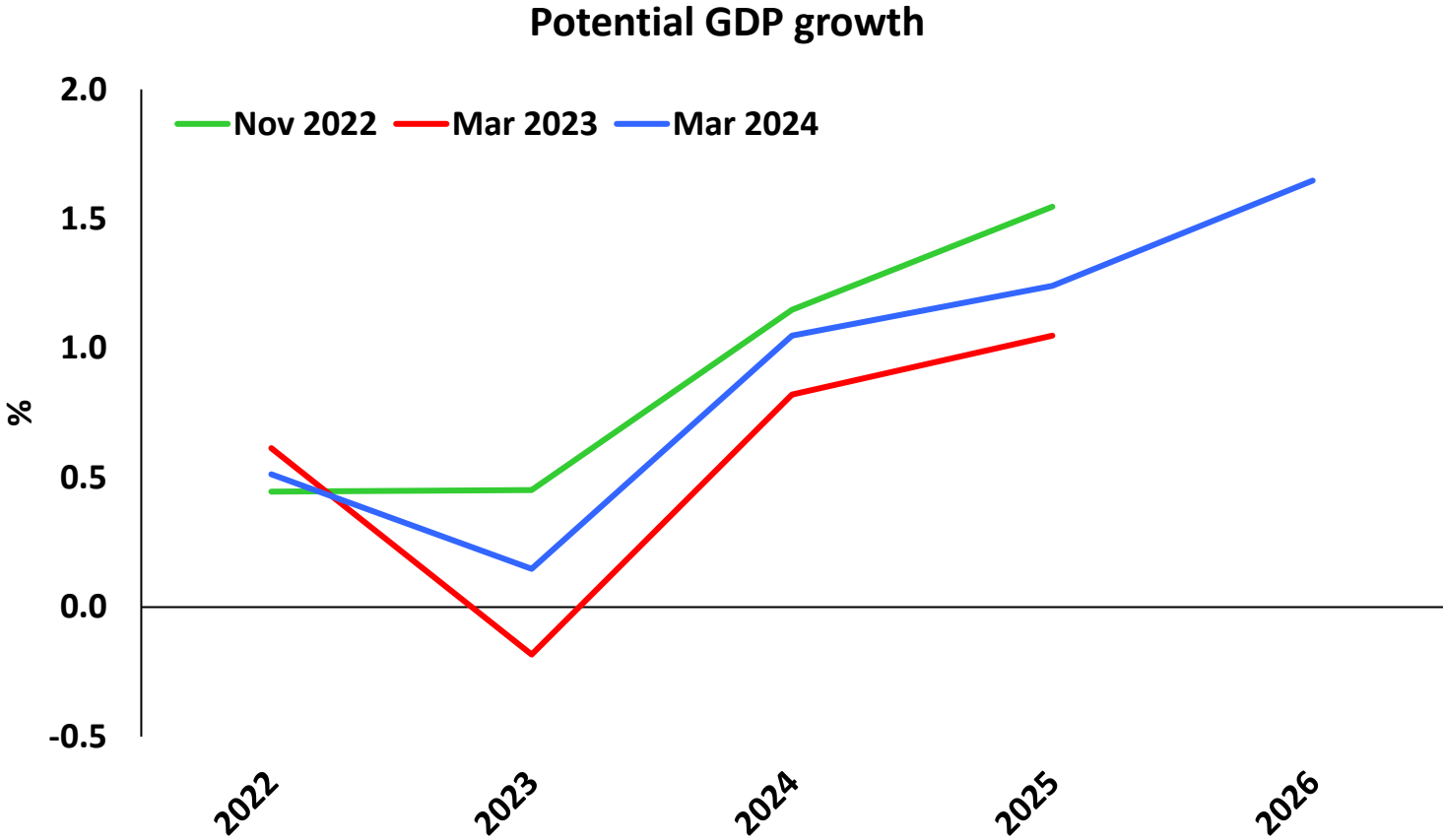


Some improvements in energy supply



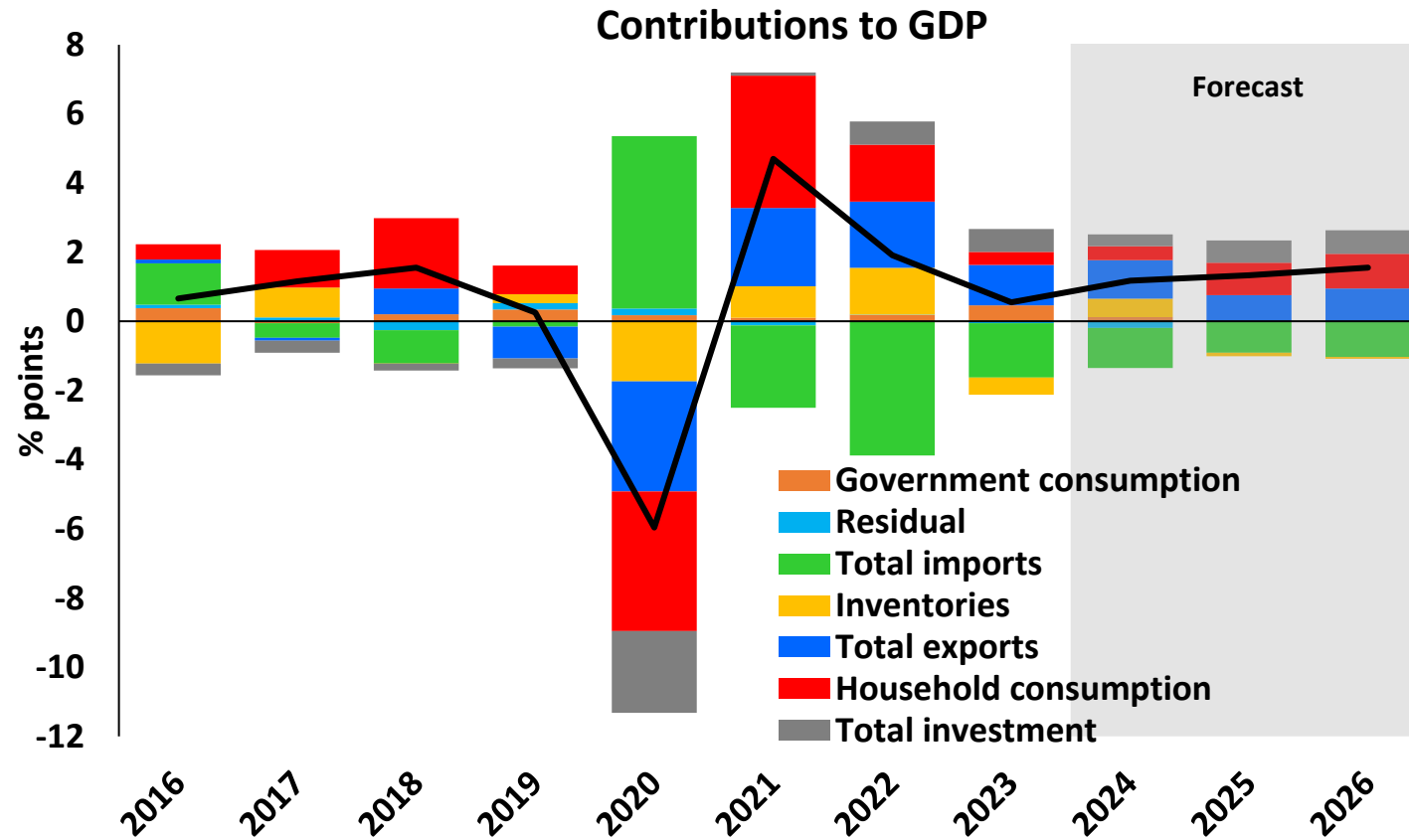
Sources: Eskom and NERSA

Eventually lifting potential growth



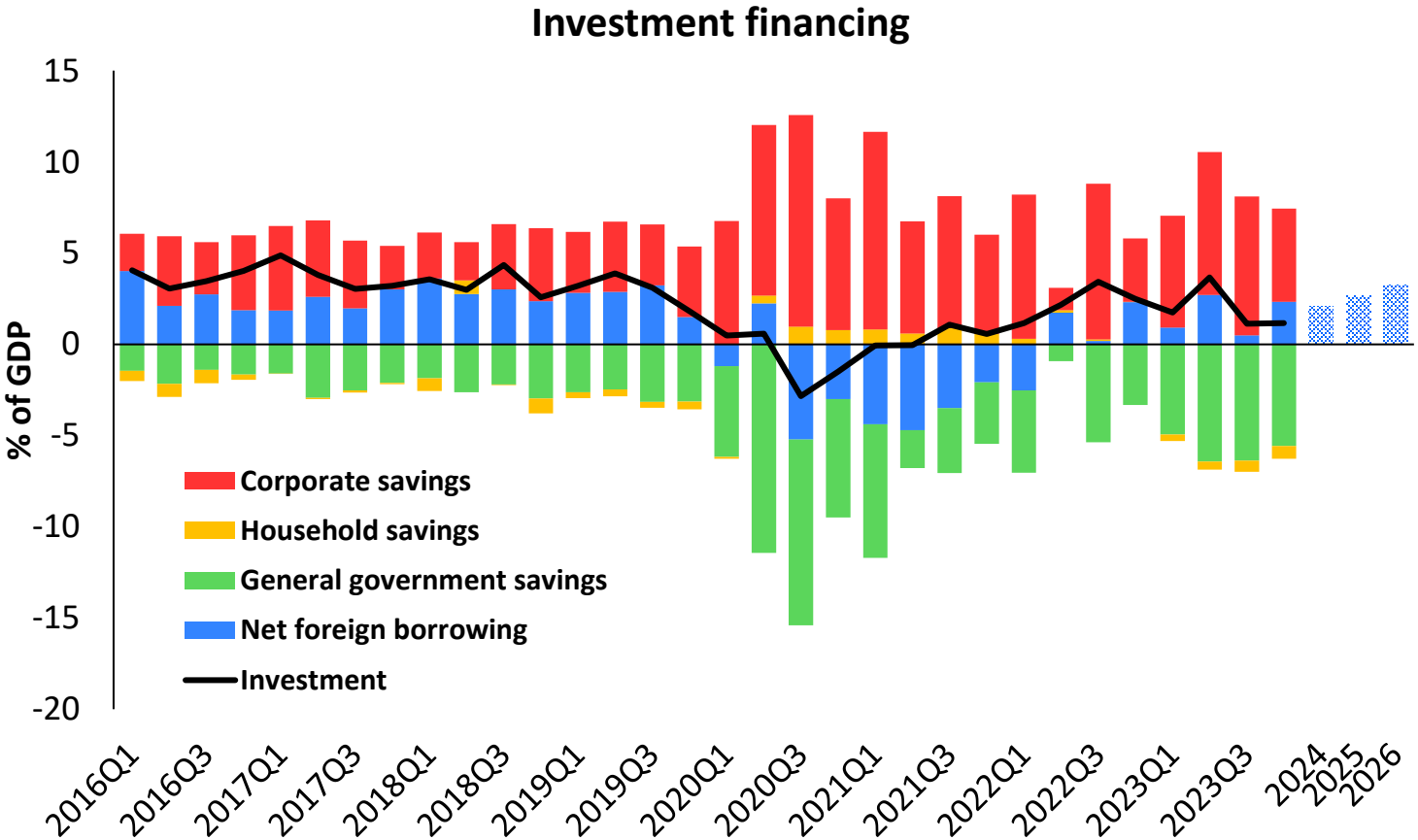
Source: SARB

Demand back to long-term trajectories



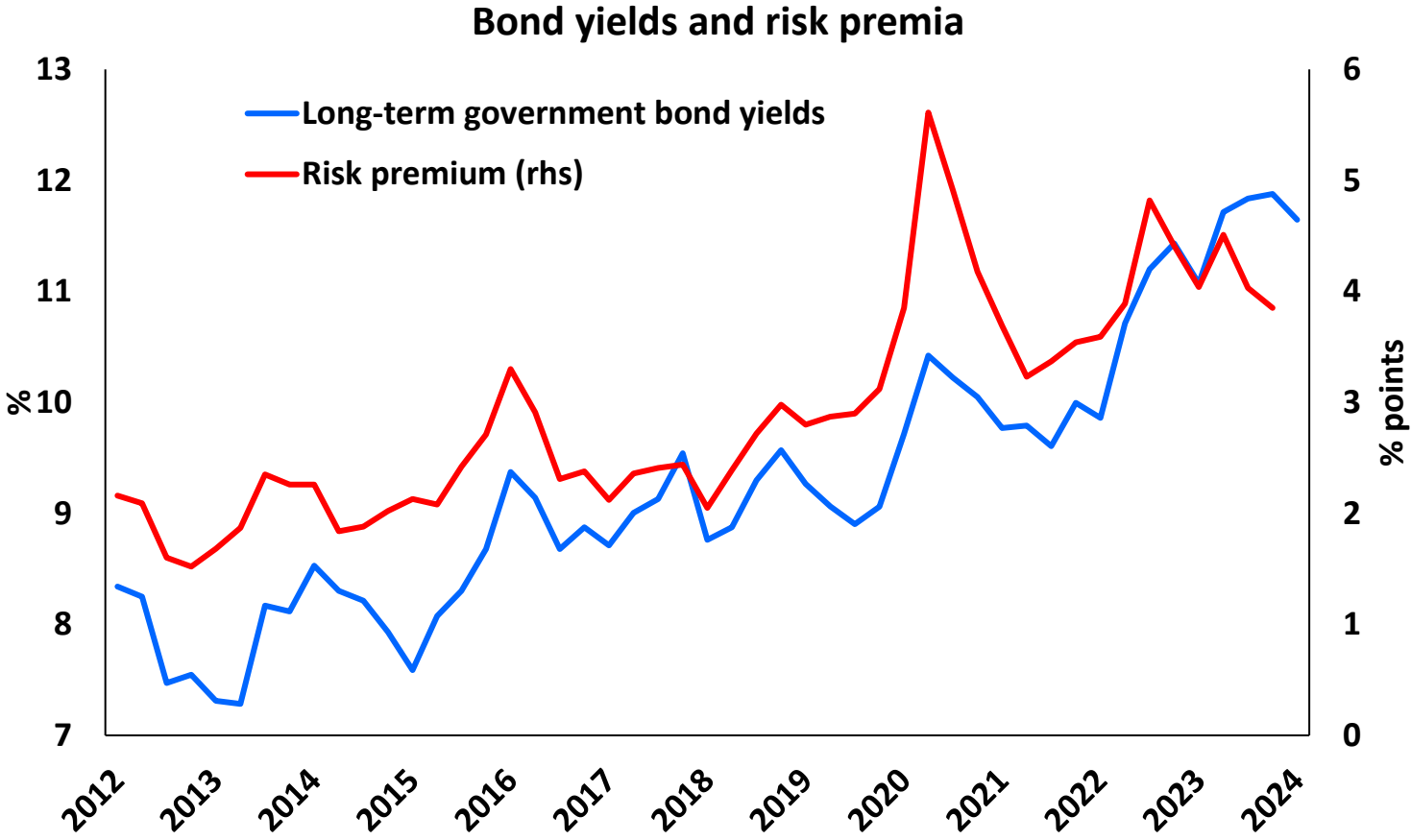
* Annual percentage change
Sources: Stats SA and SARB

With low real GDP growth, low level of demand sustains twin deficits



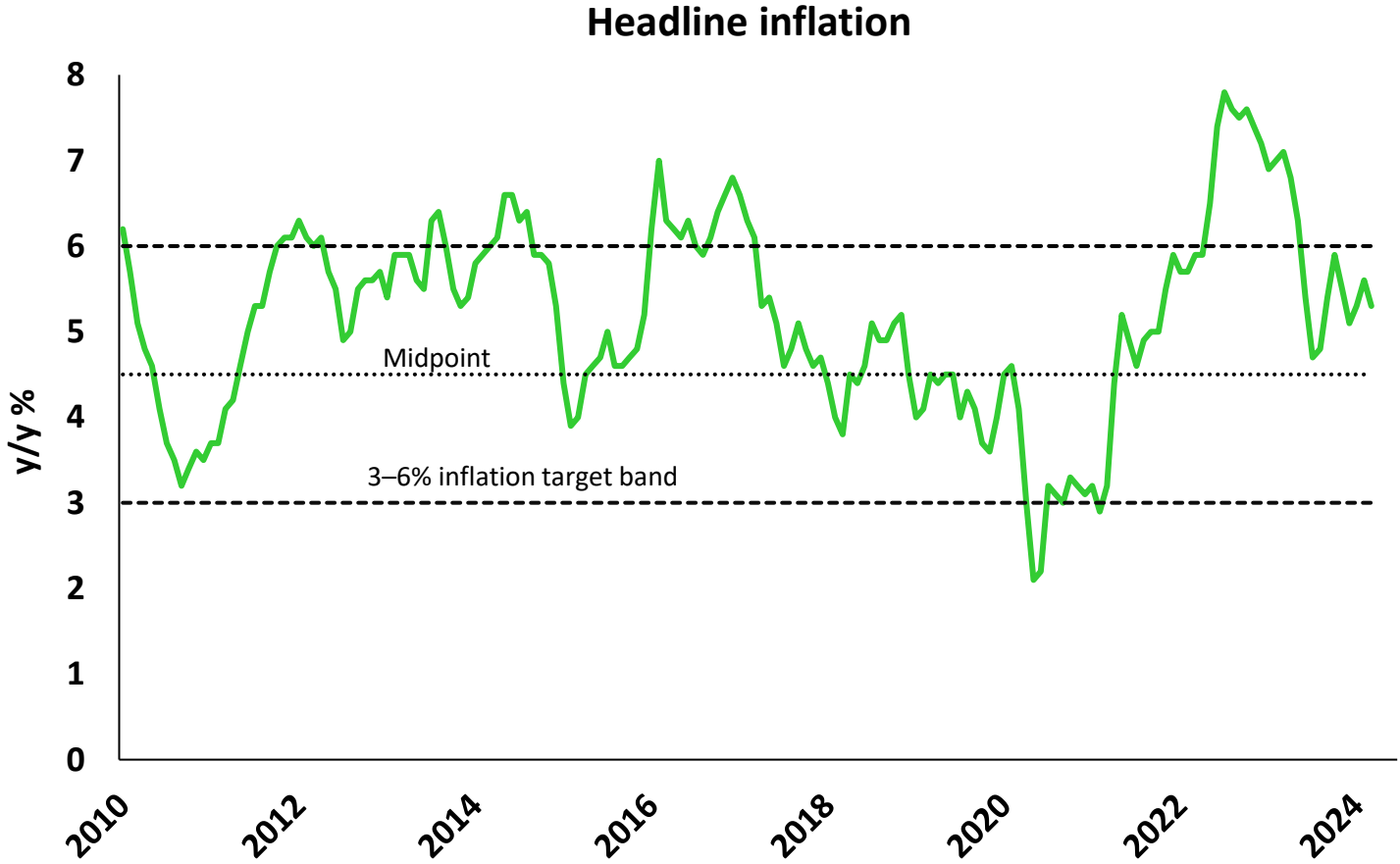
Sources: Stats SA and SARB

Reflected in risk premium trending higher & rising borrowing costs



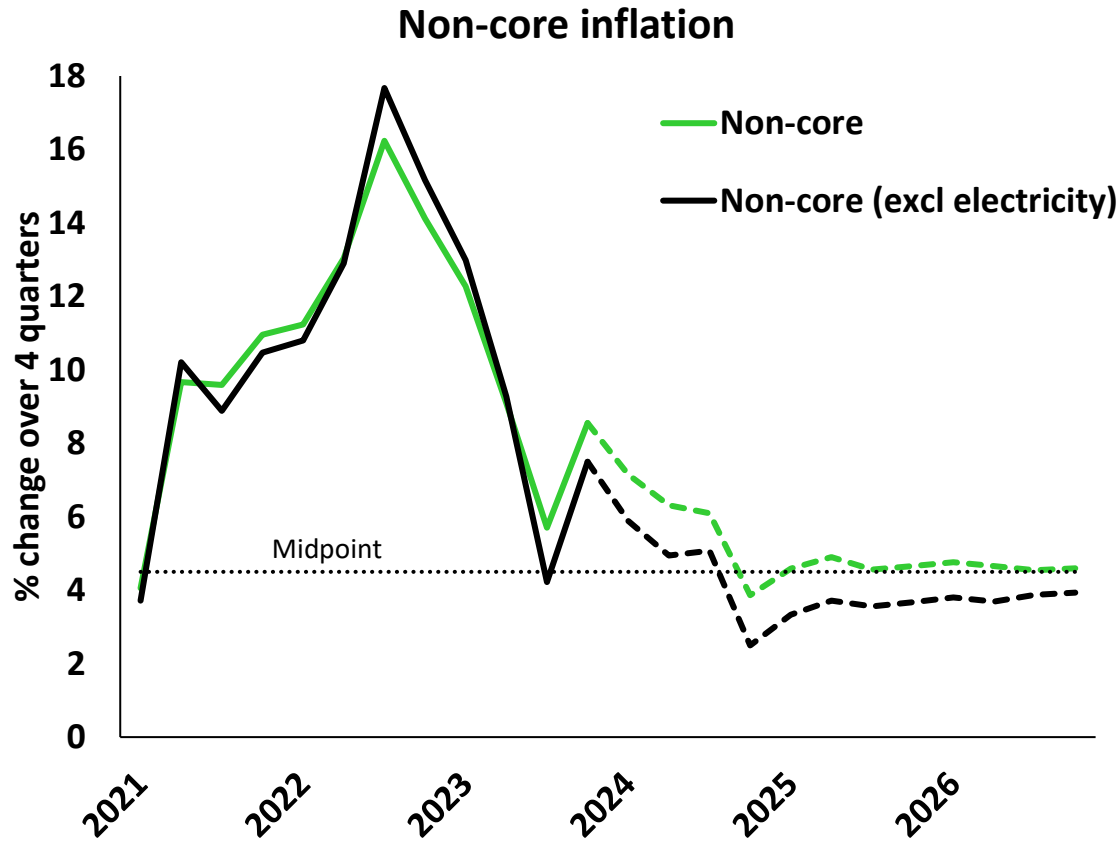
Source: SARB

Headline inflation still above mid-point

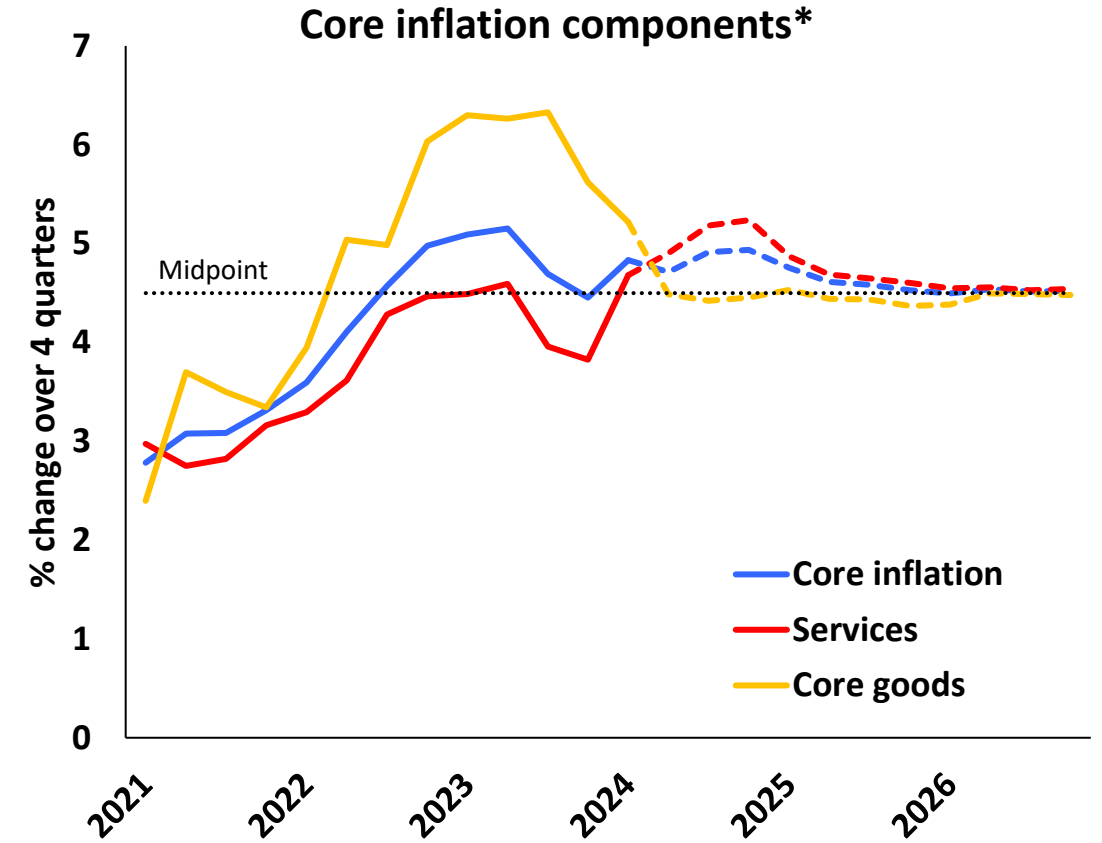


Source: Stats SA

As elsewhere, easing non-core giving way to core and services stickiness

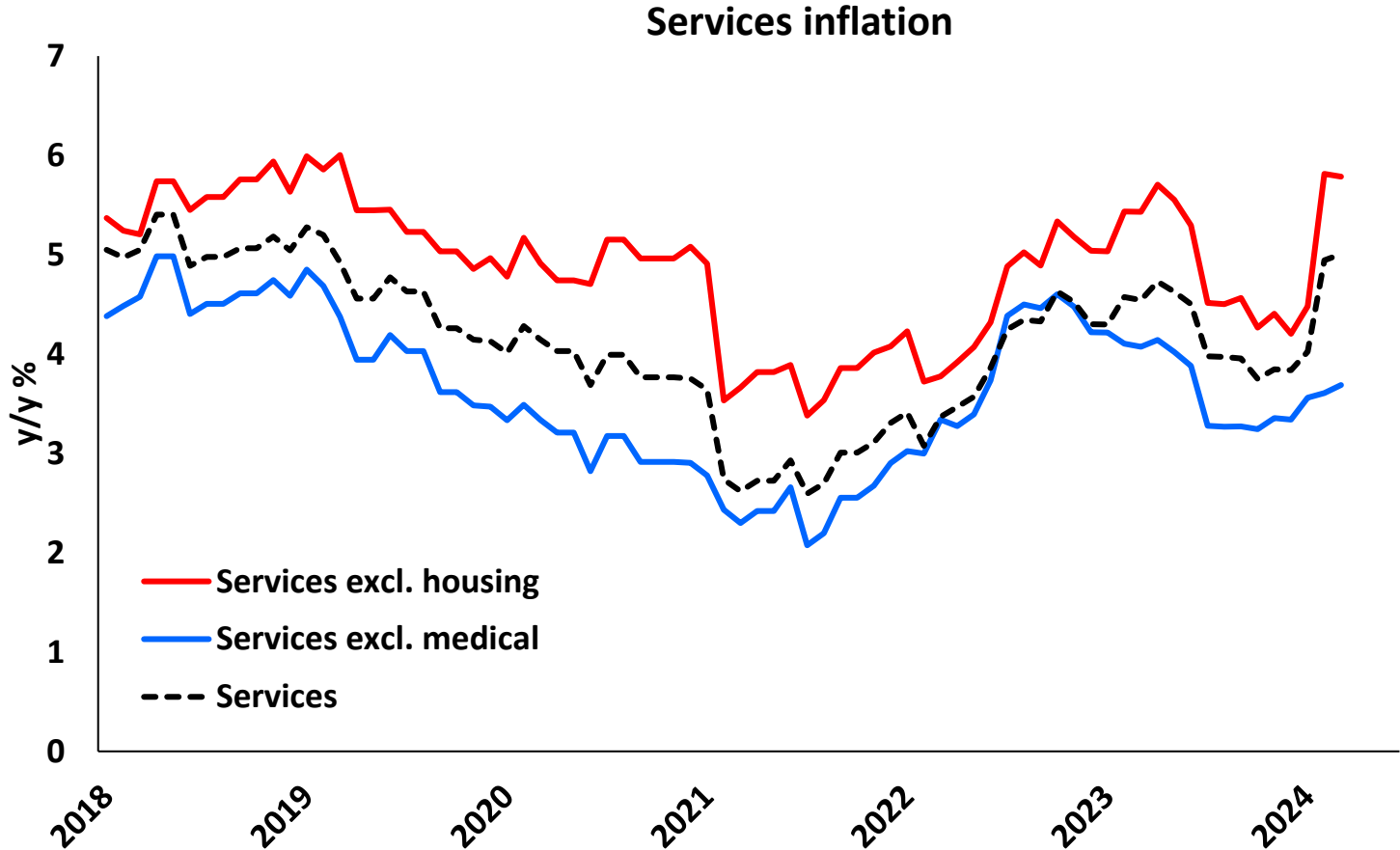


* Dotted lines indicate forecasts
Sources: Stats SA and SARB



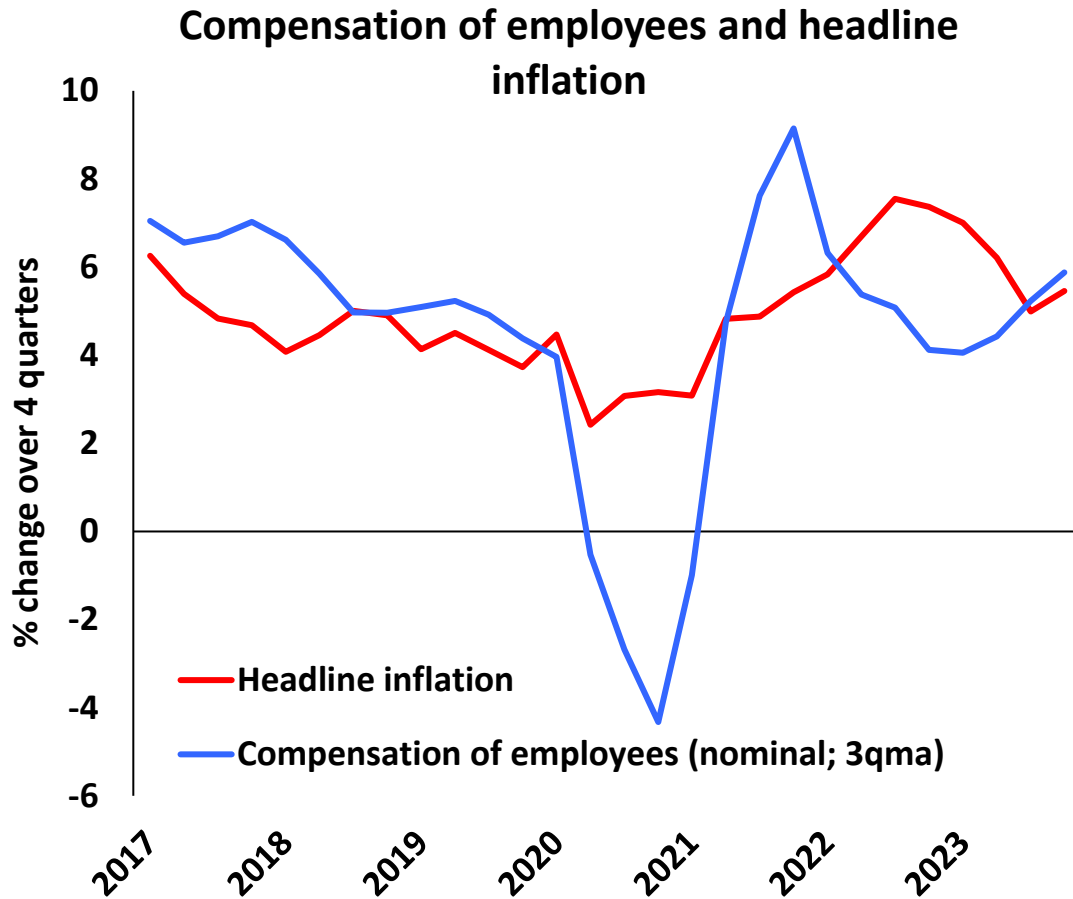
* Dotted lines indicate forecasts
Sources: Stats SA and SARB

With extra push coming from normalisation of some services components

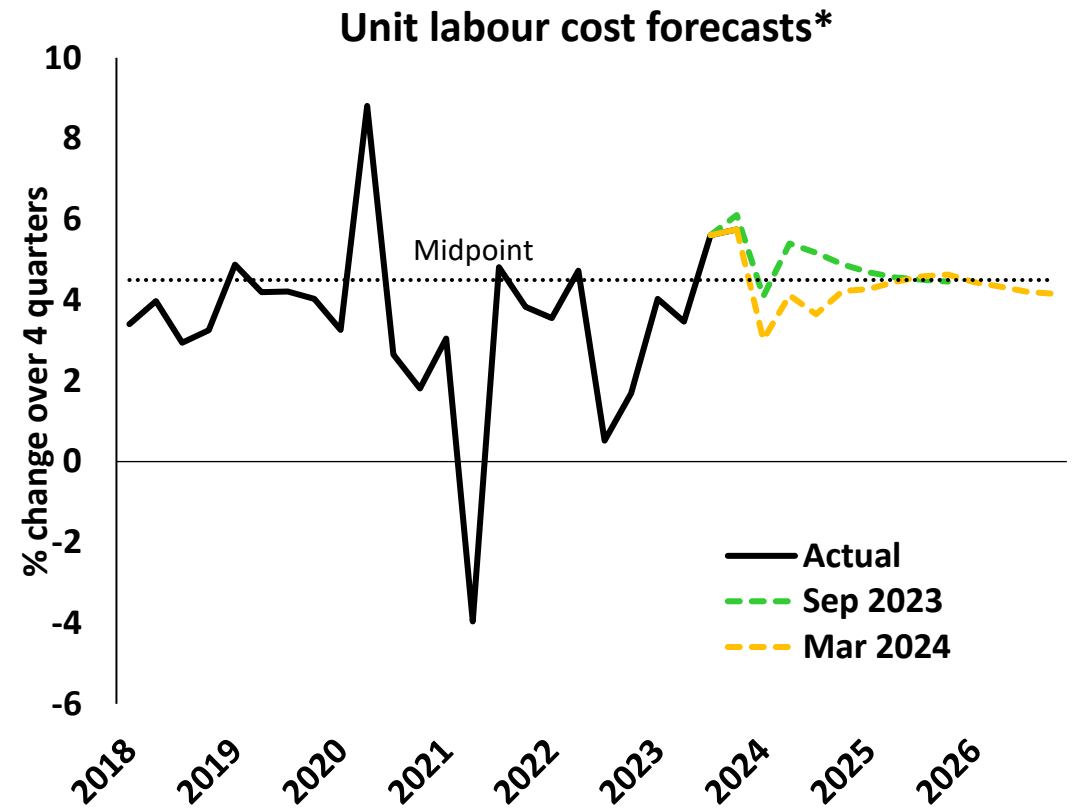


Sources: Stats SA and SARB

Labour market pressures broadly neutral, despite the headline shock to real incomes

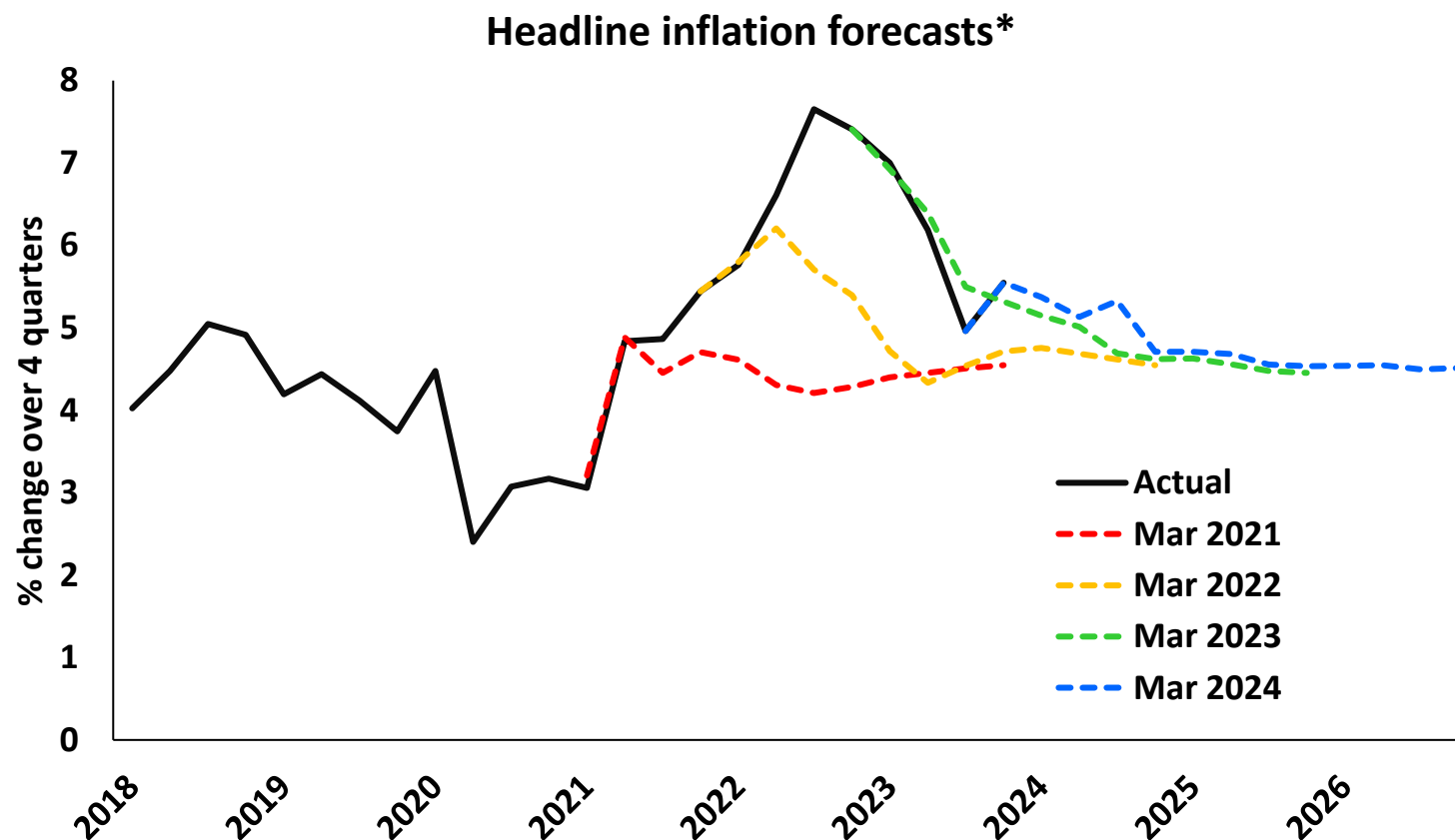


Source: Stats SA



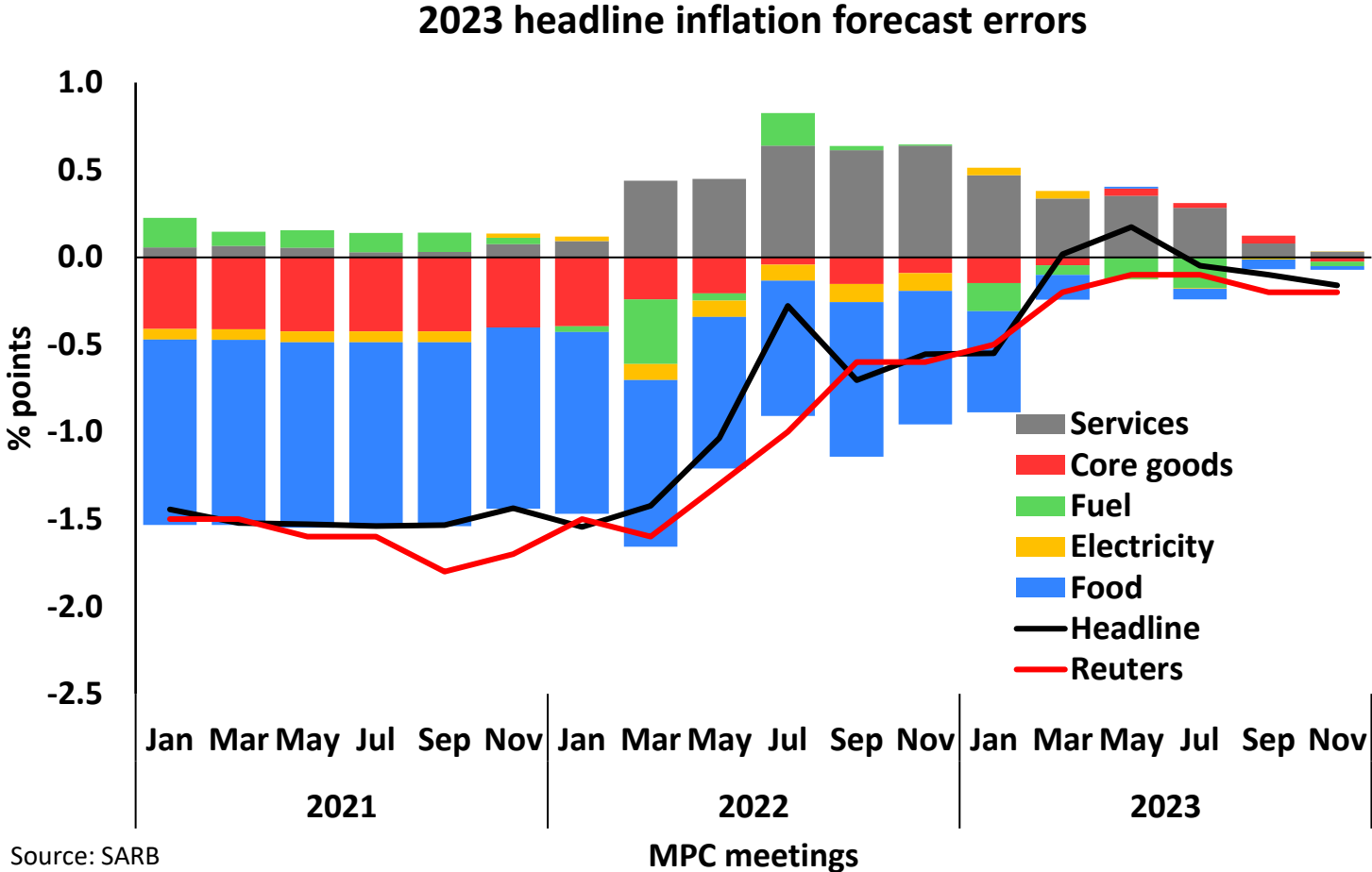
* Dotted lines indicate forecasts
Source: SARB

Inflation path tilted hard to one side from 2021 to early 2023, before moderating

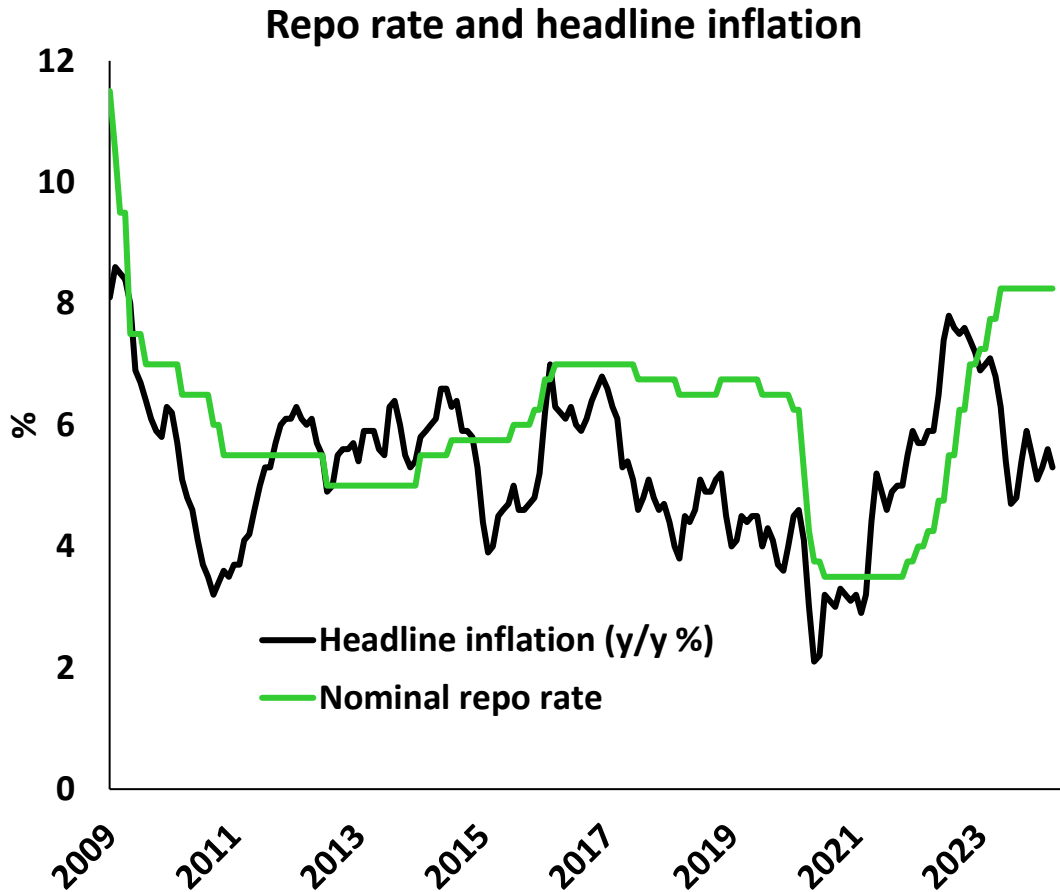


* Dotted lines indicate forecasts
Sources: Stats SA and SARB

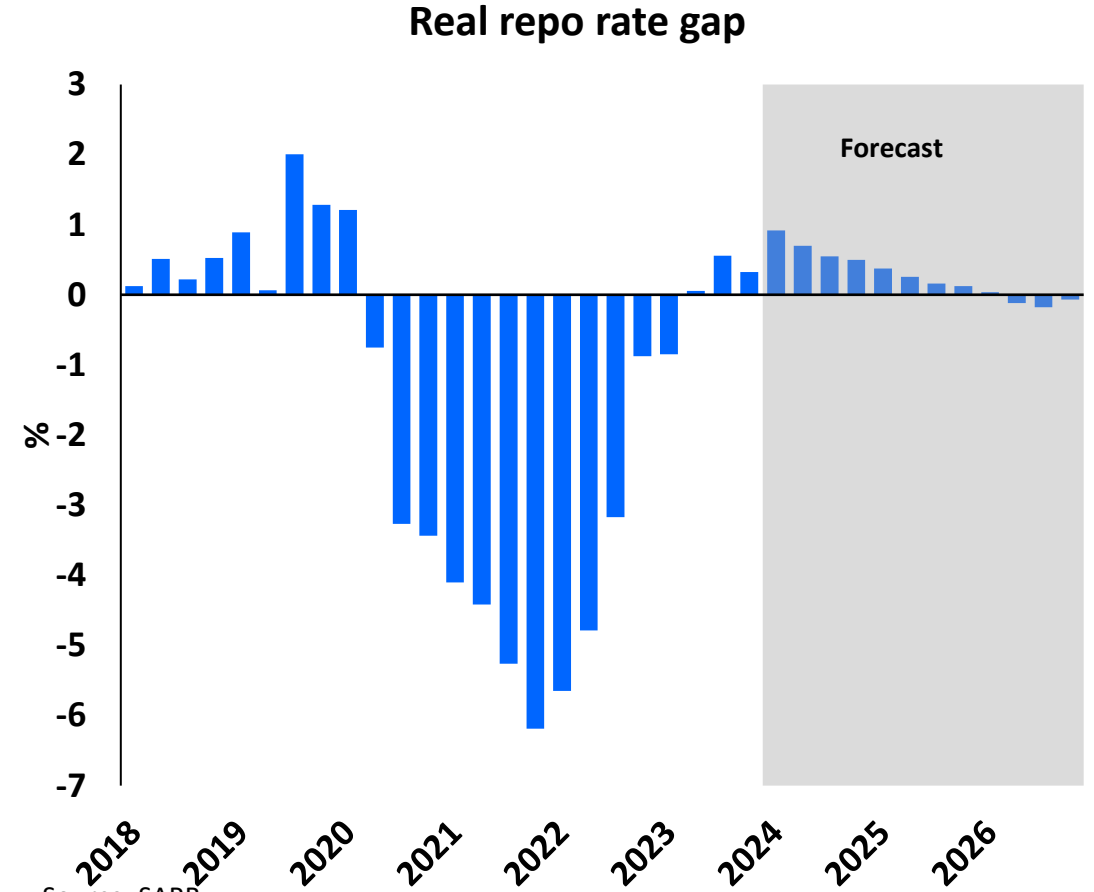
On balance, forecast errors to the downside



Policy stance moved to moderately restrictive... how effective is it?

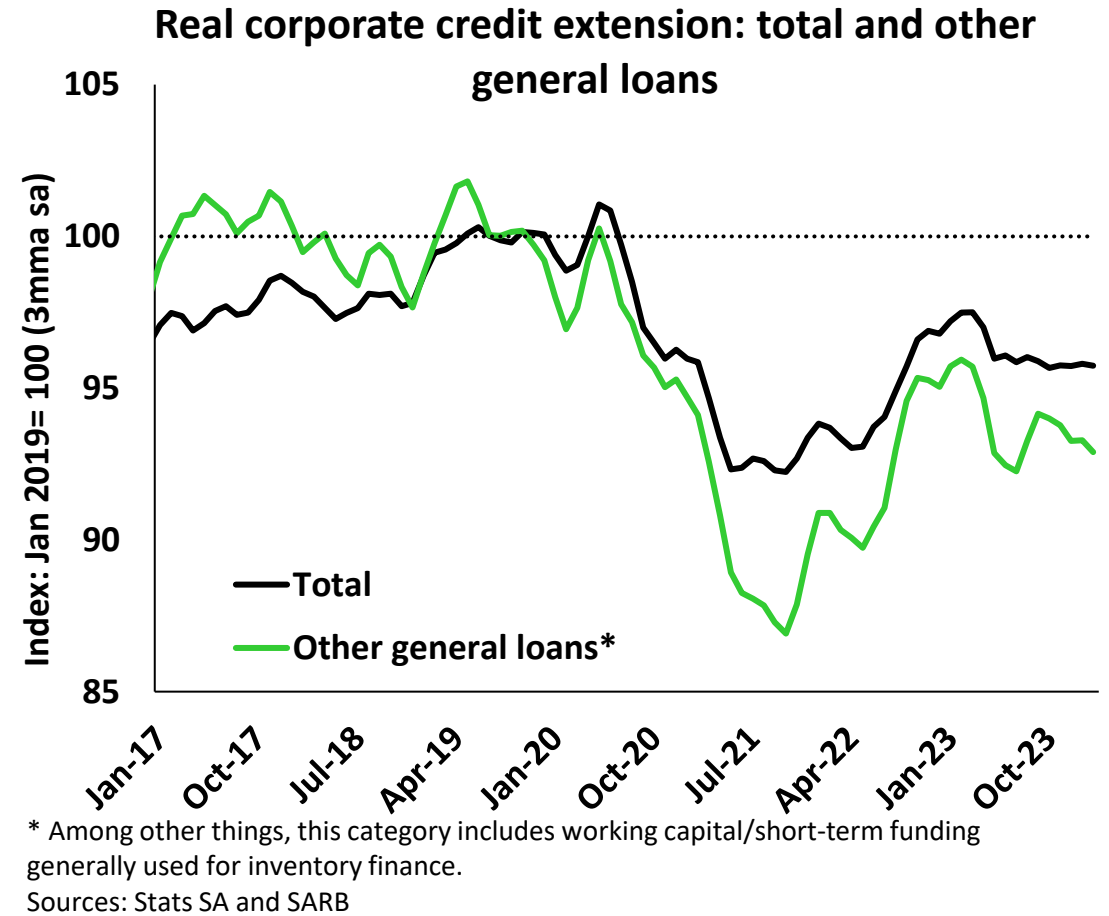
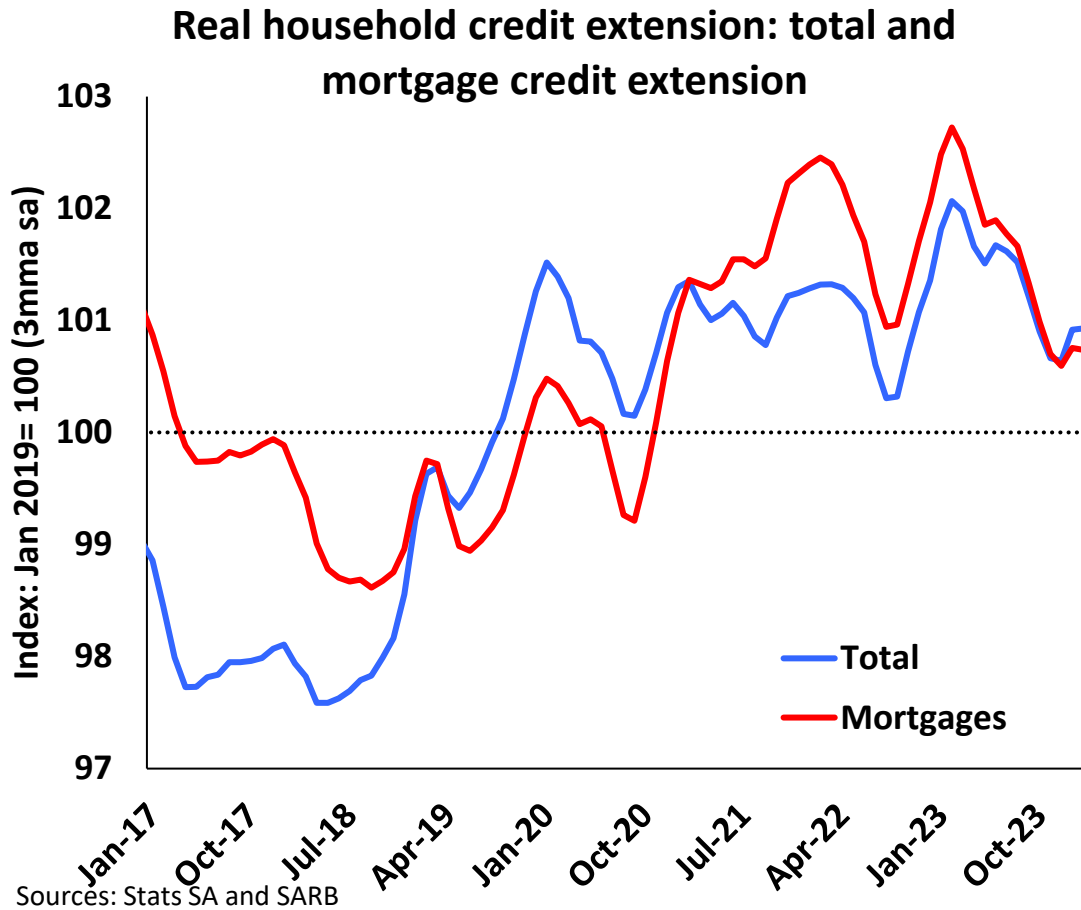


Sources: Stats SA and SARB

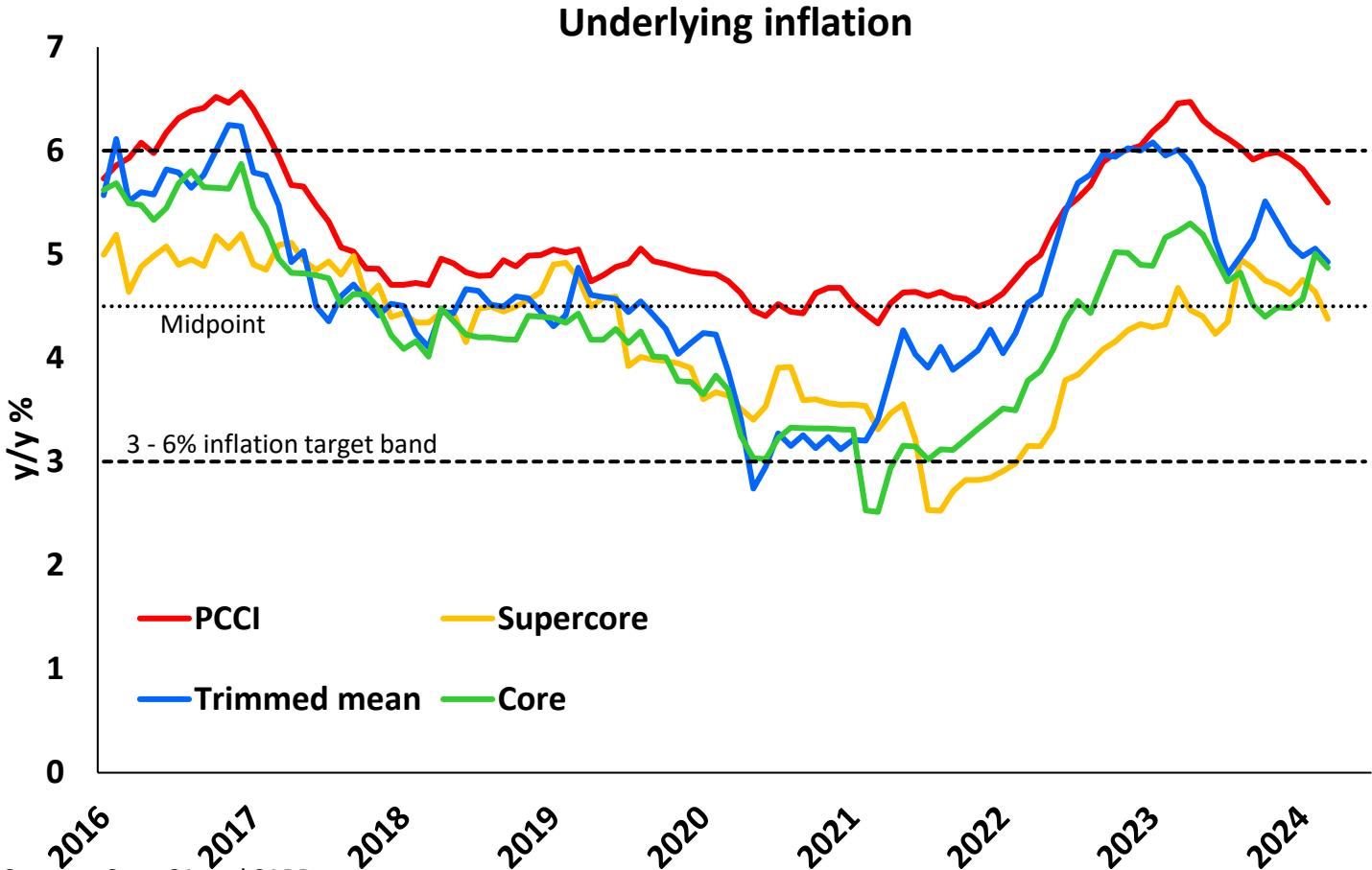


Source: SARB

Credit demand modest... part higher cost & part caution

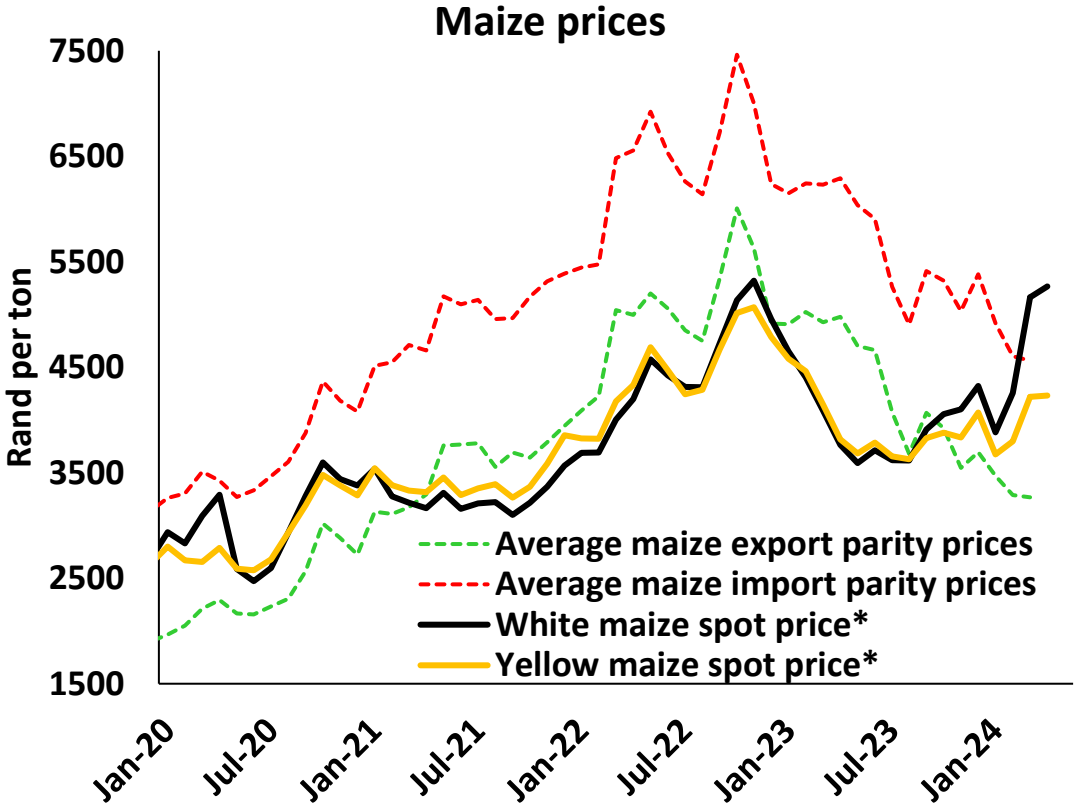


More focused demand measures of inflation still show inflation above mid-point

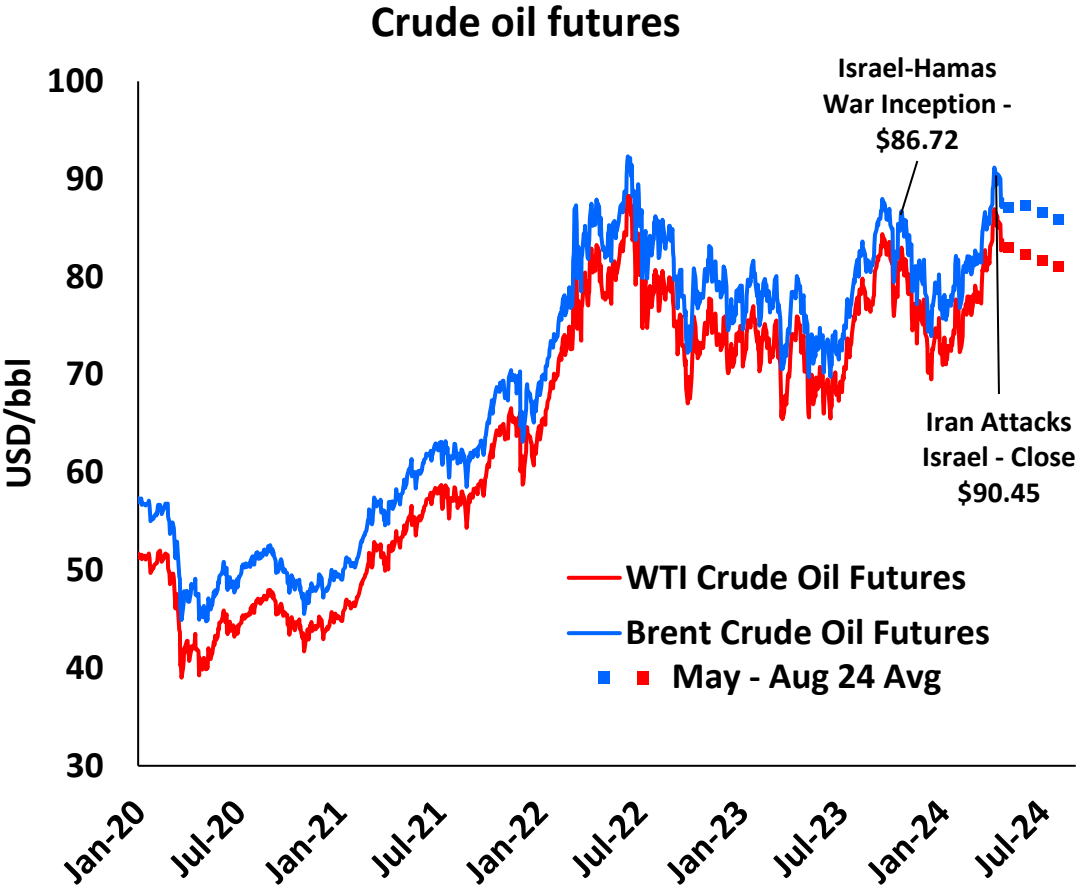


Sources: Stats SA and SARB

After considerable moderation, food and oil price risks resurface

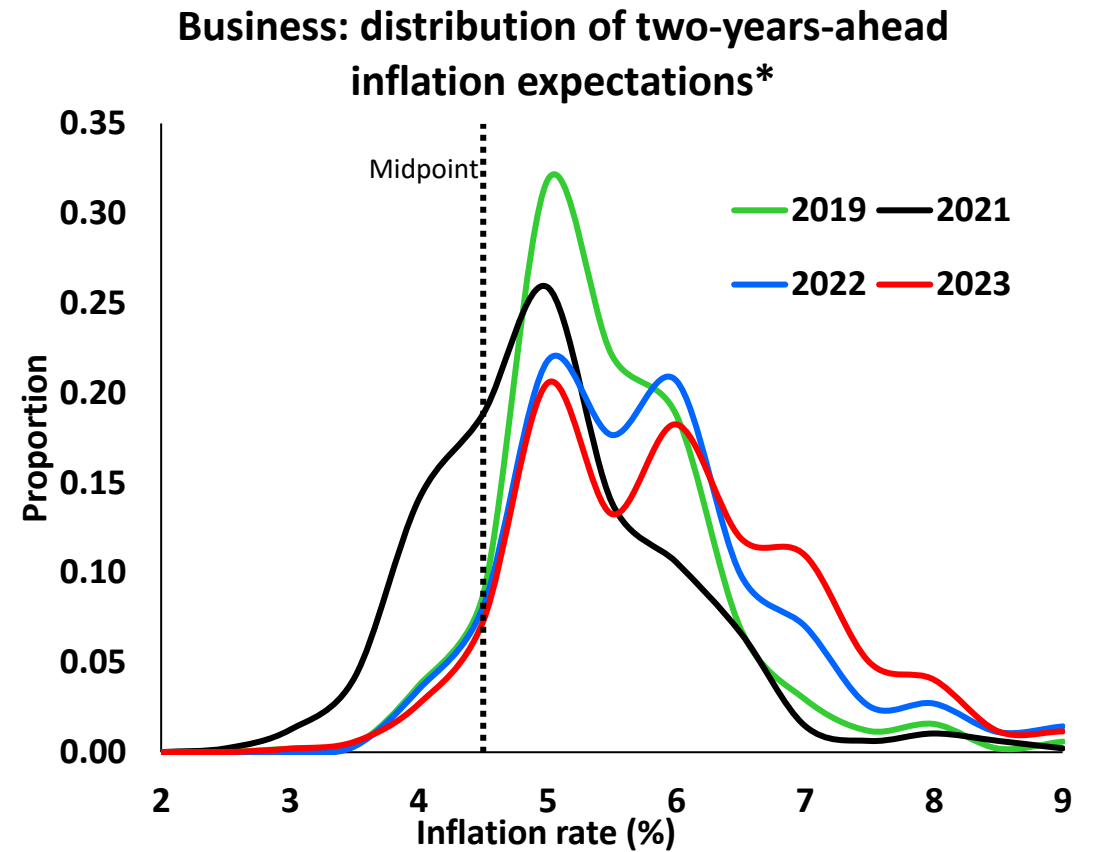
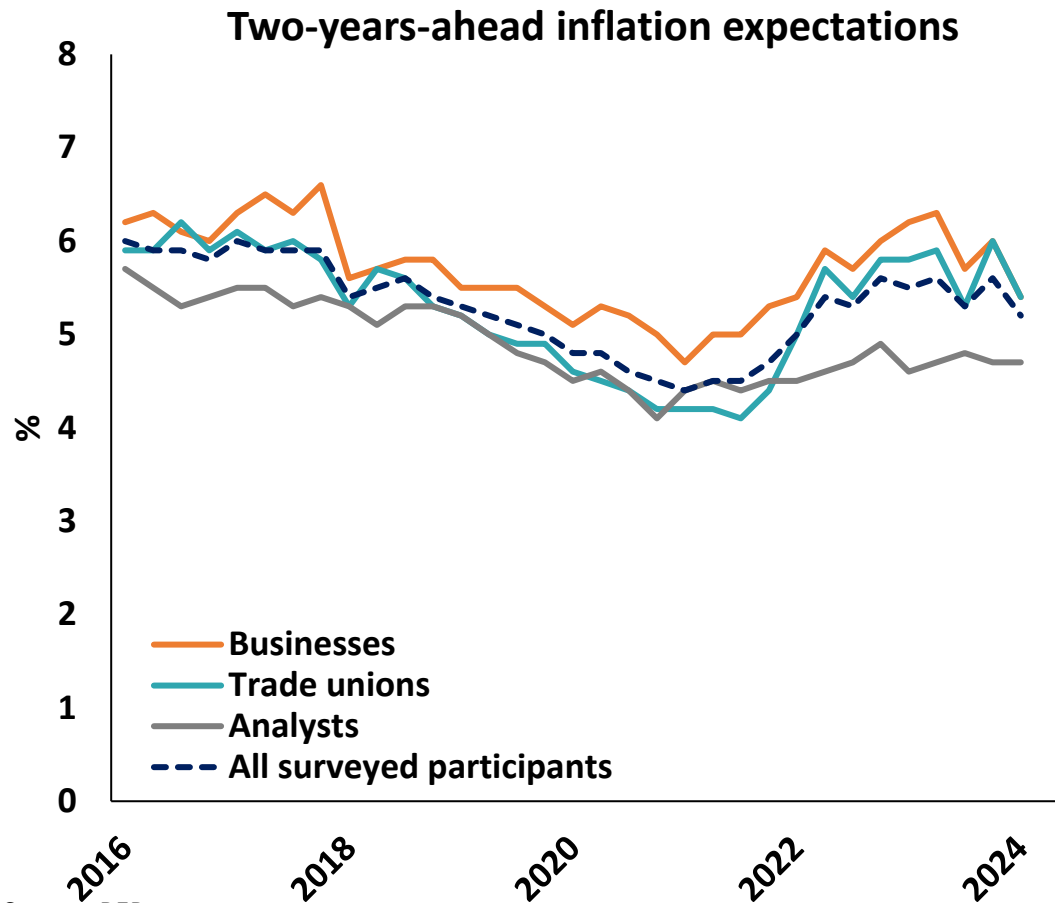


* April 2024 price an avg of daily prices until 11/04/2024
Sources: SAGIS and SARB



Source: Bloomberg

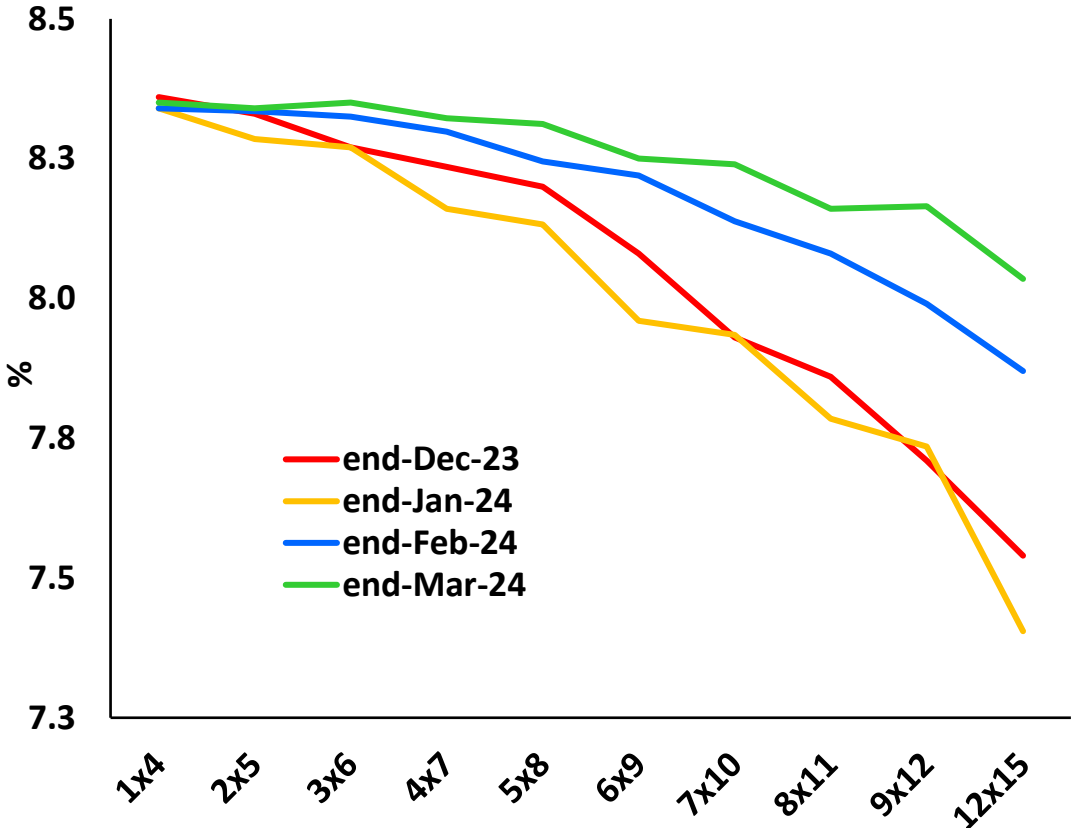
Expectations sticky well above 4.5%



* Standard deviations for 2019, 2021, 2022 and 2023: 0.97, 1.10, 1.56 and 1.53 respectively
Sources: BER and SARB

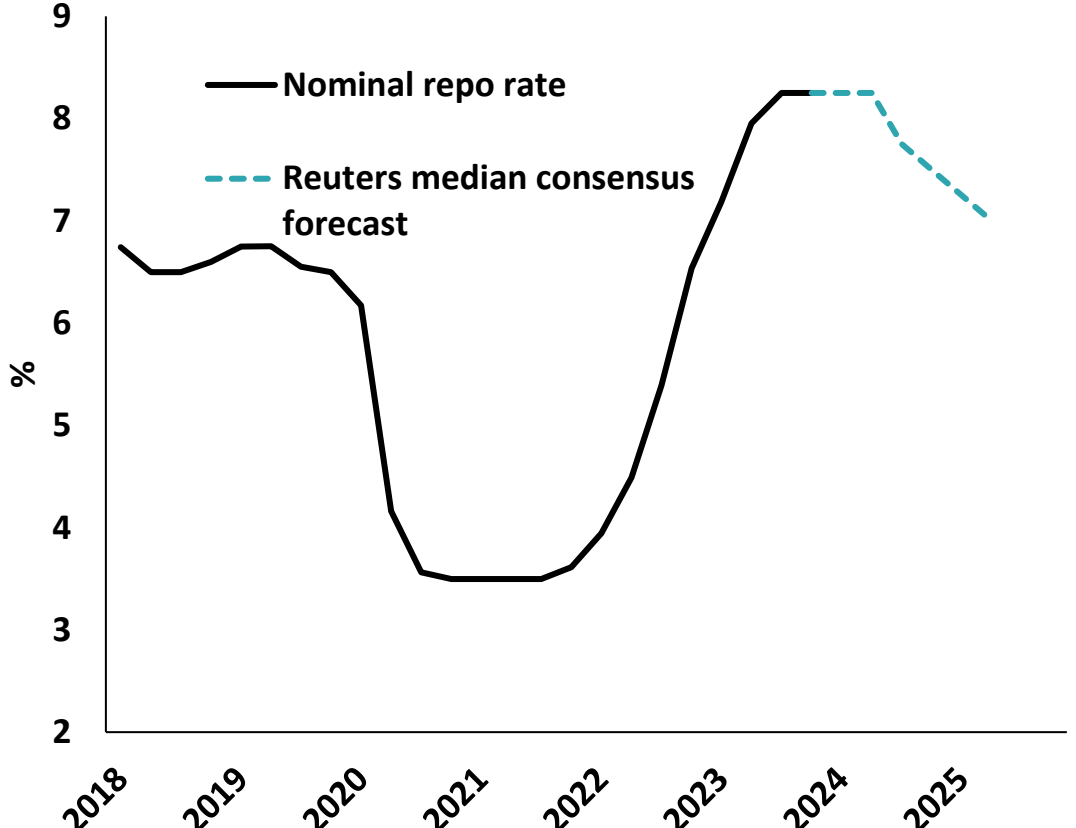
As global & domestic price inflation proves sticky, disinflation path uncertainty persists

South Africa's forward rate agreement curve



Sources: Bloomberg and SARB

Nominal repo rate



Source: Reuters and SARB

Conclusion

- **Why disinflation slowing?**
 - **AD > AS, lagged effects**
 - **Phillips curves revert**
 - **r-star too low?**
- **High rates for longer = market volatility & EM weakness**
- **Geo-risks resurfacing as low growth & food and fuel inflation**
- **Demand measures of inflation show inertia, while core sticky**
- **Rates trajectory consistent with risks and attaining policy target**





**Thank you for your
attendance**



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