Monetary Policy Committee forecast report

May 2024 MPC meeting

30 May 2024

SOUTH AFRICAN RESERVE BANK

Summary of assumptions May 2024 MPC

* Figures below the assumption in parentheses represents the previous MPC assumption

1. Foreign sector assumptions

Percentage changes (unless otherwise indicated)	Actual		Forecast		
	2022	2023	2024	2025	2026
1. Real GDP growth in South Africa's major trading partner countries	3.8%	2.9%	2.7%	3.0%	3.1%
	(3.8%)	(2.9%)	(2.6%)	(3.0%)	(3.1%)
2. Output gap in South Africa's major trading partner countries	0.1%	0.2%	-0.1%	-0.1%	0.0%
	(0.1%)	(0.1%)	(-0.1%)	(-0.1%)	(0.1%)
3. International commodity prices in US$	-0.9%	-27.3%	-10.4%	-4.6%	-1.4%
	(-0.9%)	(-27.3%)	(-10.7%)	(-4.7%)	(-1.5%)
4. Brent crude (US$/barrel)	$100.4	$82.6	$84.0	$81.0	$80.0
	($100.4)	($82.6)	($82.0)	($81.0)	($80.0)
5. World food prices (US$)	15.0%	-13.8%	-3.1%	3.5%	1.5%
	(14.2%)	(-13.7%)	(-1.3%)	(3.1%)	(1.5%)
6. International consumer prices (G3)	7.4%	4.5%	2.6%	2.1%	2.0%
	(7.4%)	(4.5%)	(2.5%)	(2.1%)	(2.0%)
7. International policy interest rate (G3)	1.1%	3.9%	4.3%	3.4%	2.2%
	(1.1%)	(3.9%)	(4.3%)	(3.4%)	(2.2%)

2. Domestic sector assumptions

Percentage changes (unless otherwise indicated)	Actual		Forecast		
	2022	2023	2024	2025	2026
1. Fuel taxes, levies and margins	2.9%	3.1%	5.8%	3.7%	4.0%
	(2.9%)	(3.1%)	(5.4%)	(3.8%)	(4.0%)
2. Potential growth	0.5%	0.1%	1.1%	1.2%	1.6%
	(0.5%)	(0.1%)	(1.0%)	(1.2%)	(1.6%)
3. Inflation target midpoint	4.5%	4.5%	4.5%	4.5%	4.5%
	(4.5%)	(4.5%)	(4.5%)	(4.5%)	(4.5%)
4. GWh load-shed	11 724	24 693	11 472	5 904	2 352
	(11 724)	(24 693)	(12 840)	(5 904)	(2 352)
5. Load-shedding GDP impact (%, points)	-0.7	-1.5	-0.5	-0.2	-0.04
	(-0.7)	(-1.5)	(-0.6)	(-0.2)	(-0.04)

Summary of selected QPM forecast results May 2024 MPC

* Figures below the forecast in parentheses represents the previous MPC forecast

1. Selected forecast results (quarterly)

Percentage change (year-on-year)	Actual					Forecast															
	23Q1	23Q2	23Q3	23Q4	2023	24Q1	24Q2	24Q3	24Q4	2024	25Q1	25Q2	25Q3	25Q4	2025	26Q1	26Q2	26Q3	26Q4	2026	Steady state
1. Headline CPI	7.0	6.2	5.0	5.5	5.9	5.3	5.1	5.2	4.7	5.1	4.6	4.5	4.5	4.5	4.5	4.6	4.5	4.5	4.5	4.5	4.5
	(7.0)	(6.2)	(5.0)	(5.5)	(5.9)	(5.4)	(5.1)	(5.3)	(4.7)	(5.1)	(4.7)	(4.7)	(4.6)	(4.5)	(4.6)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	
2. Core CPI	5.1	5.2	4.7	4.5	4.8	4.8	4.5	4.7	4.9	4.7	4.7	4.6	4.6	4.5	4.6	4.5	4.5	4.5	4.5	4.5	4.5
	(5.1)	(5.2)	(4.7)	(4.5)	(4.8)	(4.8)	(4.7)	(4.9)	(4.9)	(4.8)	(4.8)	(4.6)	(4.6)	(4.5)	(4.6)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	
3. Food CPI	13.6	12.2	8.6	8.7	10.7	6.1	4.8	5.1	4.4	5.1	4.1	4.3	4.3	4.4	4.3	4.6	4.4	4.5	4.5	4.5	4.5
	(13.6)	(12.2)	(8.6)	(8.7)	(10.7)	(6.2)	(5.3)	(5.6)	(4.8)	(5.5)	(4.5)	(4.3)	(4.2)	(4.3)	(4.3)	(4.5)	(4.4)	(4.5)	(4.5)	(4.5)	
4. Fuel CPI	10.6	-0.2	-9.3	3.4	0.6	5.0	8.6	6.3	-3.5	3.9	0.6	-0.7	0.4	0.9	0.3	1.4	1.1	1.5	1.6	1.4	4.5
	(10.6)	(-0.2)	(-9.3)	(3.4)	(0.6)	(4.8)	(3.7)	(3.2)	(-5.5)	(1.4)	(-0.8)	(1.3)	(1.1)	(1.1)	(0.7)	(1.0)	(1.0)	(1.3)	(1.5)	(1.2)	
5. Electricity CPI	7.9	7.9	15.2	15.3	11.7	15.3	15.3	11.0	11.0	13.0	11.0	11.0	10.0	10.0	10.5	10.0	10.0	8.0	8.0	8.9	4.5
	(7.9)	(7.9)	(15.2)	(15.3)	(11.7)	(15.3)	(15.3)	(12.0)	(12.0)	(13.5)	(12.0)	(12.0)	(10.0)	(10.0)	(10.9)	(10.0)	(10.0)	(8.0)	(8.0)	(8.9)	

2. Selected forecast results (annual)

| Percentage changes (unless otherwise indicated)	Actual		Forecast			
	2022	2023	2024	2025	2026	Steady state
1. GDP growth	1.9%	0.6%	1.2%	1.4%	1.6%	2.5%
	(1.9%)	(0.6%)	(1.2%)	(1.4%)	(1.6%)	
2. Output gap	-0.5	-0.1	-0.1	0.1	0.0	0.0
	(-0.5)	(-0.1)	(0.0)	(0.1)	(0.0)	
3. Nominal effective exchange rate	-2.4%	-11.4%	-0.4%	0.3%	0.4%	2.5%
	(-2.4%)	(-11.5%)	(-1.6%)	(0.7%)	(0.9%)	
4. Real effective exchange rate	-3.0%	-10.3%	2.0%	2.6%	3.0%	0.0%
	(-3.0%)	(-10.3%)	(0.9%)	(3.2%)	(3.4%)	
5. Real exchange rate gap	2.9	-7.0	-5.0	-2.4	0.5	0.0
	(2.9)	(-7.0)	(-6.0)	(-2.9)	(0.4)	
6. Unit labour cost	2.6%	4.9%	4.5%	4.6%	4.3%	4.5%
	(2.6%)	(4.9%)	(3.8%)	(4.5%)	(4.3%)	
7. Repurchase rate (end of period i.e. fourth quarter)	6.54%	8.25%	7.64%	7.34%	7.33%	7.00%
	(6.54%)	(8.25%)	(7.72%)	(7.37%)	(7.33%)	
8. Neutral real interest rate	2.3%	2.5%	2.6%	2.7%	2.8%	2.5%
	(2.3%)	(2.5%)	(2.6%)	(2.7%)	(2.8%)	
9. Current account balance (ratio to GDP)	-0.5%	-1.6%	-1.9%	-2.7%	-3.1%	
	(-0.5%)	(-1.6%)	(-2.1%)	(-2.7%)	(-3.3%)	

Notes

1. **Trading partner GDP growth:** is broadly determined via the Global Projection Model "GPM" which is adjusted to aggregate the GDP growth rates of South Africa's major trading partners on a trade weighted basis. Individual projections are done for the six largest trading partners (Eurozone, China, United States, Japan, Great Britain and India). Other countries considered, although with small weights, are Mexico, Brazil and Russia. The remaining trading partners are grouped into the Rest of Countries bloc. Since Sub-Saharan Africa (SSA) is also a major trading region for South Africa (but does not have a bloc in the GPM), it is modelled separately then combined with the aggregate of all countries in the GPM to make up total trading partner GDP growth. The assumption takes account of country specific "consensus" forecasts as well as regional growth prospects.

2. **Commodity price index (excludes oil but includes petroleum products):** is a weighted aggregate price index (2015 = 100) of the major South African export commodities based on 2019 export basket weights.

3. **International consumer prices:** are also broadly determined via the GPM, the index is an aggregate of the consumer price indices of the G3 countries (euro area, United States and Japan) weighted by their global trade-export weights. Consumer prices are determined for each region discussed above by accounting for expected future price inflation, demand pressures, and pass-through from changes in the relevant exchange rate. Other institutional forecasts for international consumer prices are also considered.

4. **International policy interest rate:** is again broadly determined via the GPM. Interest rates are an aggregate of the policy rates of the G3 countries (euro area, United States and Japan). They are individually determined by a "Taylor-type" monetary policy rule. The communications of the relevant central banks and other institutional forecasts are also considered.

5. **Nominal effective exchange rate:** This is based on the bilateral exchange rates of our three largest trading partners (euro area, United States and Japan). The bilateral exchange rates are weighted by export trade weights. The implied starting point for the rand forecast is R18.57 to the US dollar.

6. **Nominal effective exchange rate steady state:** This is estimated using the Purchasing Power Parity (PPP) condition, which links the depreciation of the nominal exchange rate to the inflation differential between SA and abroad. Given that the REER depreciation is zero at steady state, the nominal exchange rate will therefore depreciate by 2.5% per year in steady state, reflecting the inflation (target) differential between domestic (4.5%) and foreign (2.0%) inflation.

7. **Real effective exchange rate:** This is the nominal effective exchange rate deflated by the consumer price differential (between South Africa and the trade weighted CPI of euro area, United States and Japan).

8. **Repurchase rate:** End of period refers to the average repo rate for the last quarter of the year. The nominal repo rate steady state is calculated as the sum of SA inflation target (4.5%) and the steady state neutral real interest rate (2.5%).

9. **Neutral real interest rate (NRIR):** The NRIR is the policy rate, minus inflation, which prevails when the economy is fully in balance, with inflation at target and output at potential. The policy stance is measured as either tight or loose based on whether actual rates are above or below this neutral rate, respectively. The steady state NRIR is calculated as the sum of the respective steady states for the G3 neutral real interest rate (0.5%), South Africa's risk premium (2.0%), and the change in the real effective exchange rate REER (0.0%). Before the steady state is reached it is possible for the REER equilibrium to appreciate or depreciate, so this value can have a non-zero value over the medium term. It is nonetheless always zero in the long run.

10. **Steady state:** This is the long run value in the model. While model equilibriums can have different values over the medium term, as conditions change, all equilibriums eventually reach a steady state, where they stabilise. For more details on the estimation of steady states, see Botha, De Jager, Ruch and Steinbarg (2017) - South African Reserve Bank Working Paper Series No. WP/17/01.

11. **Current account balance as a percentage of GDP:** Forecast is obtained from the SARB's Core macroeconometric model.

12. **Load-shedding:** Total GWh calculated assuming Stage 1 = 1000 MW, Stage 2 = 2000 MW, Stage 3 = 3000 MW, Stage 4 = 4000 MW, Stage 5 = 5000 MW and Stage 6 = 6000 MW. In projecting load-shedding costs, the forecast considers the intensity and timing of load-shedding (whether it is a higher or lower stage, and whether it occurs during office hours or not). Higher stages of load-shedding, during office hours, are more costly.

QPM selected forecast results

Headline inflation
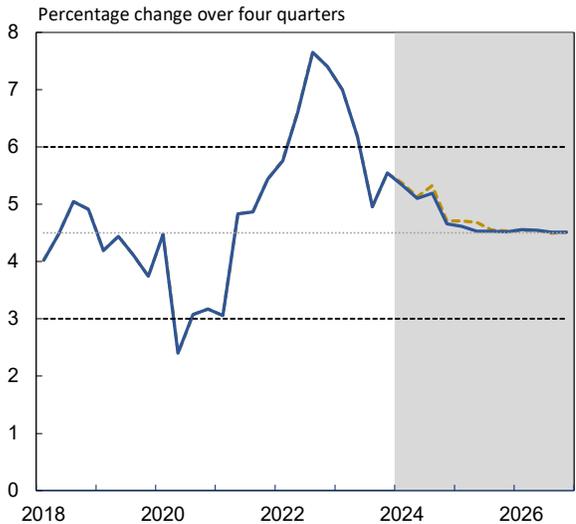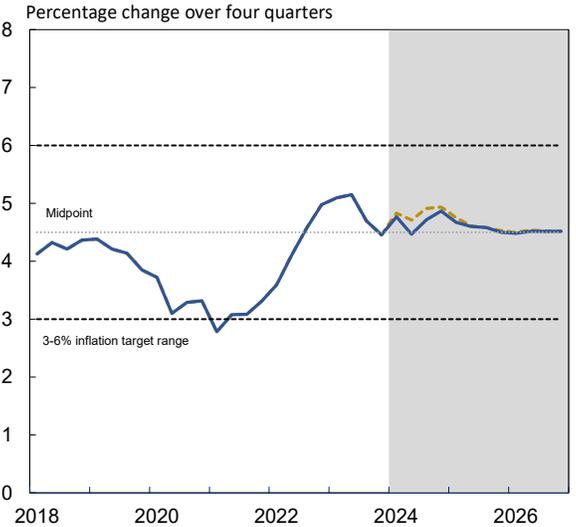
Percentage change over four quarters

Core inflation

Percentage change over four quarters

Midpoint

3-6% inflation target range

Food inflation

Percentage change over four quarters

Fuel inflation

Percentage change over four quarters

Real GDP growth

Annual percentage change
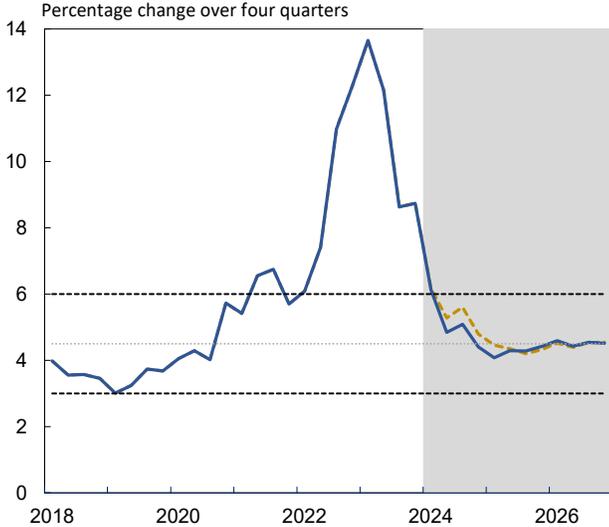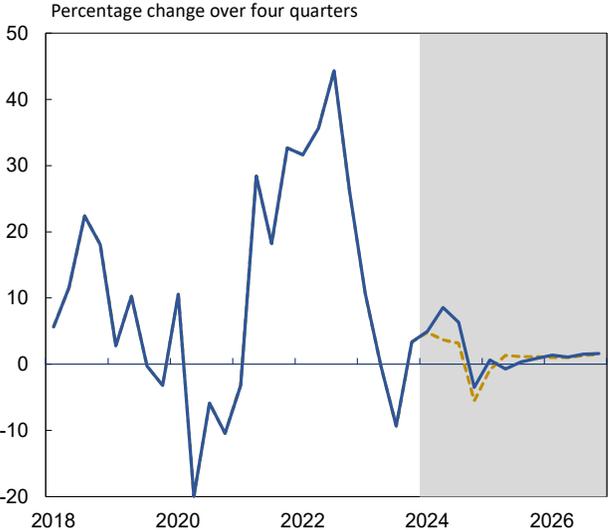

Nominal effective exchange rate
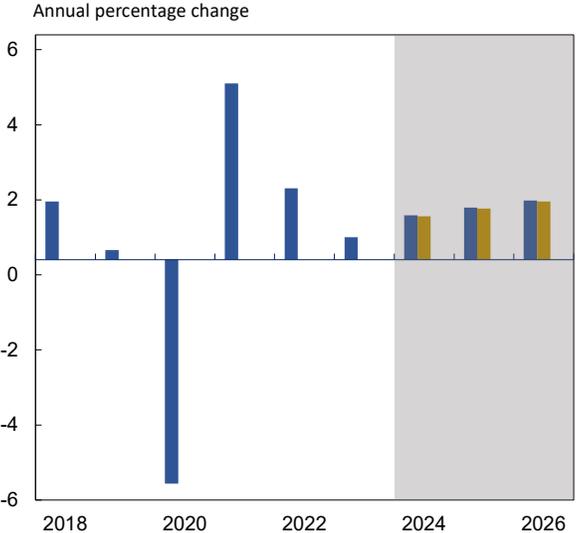
Annual percentage change
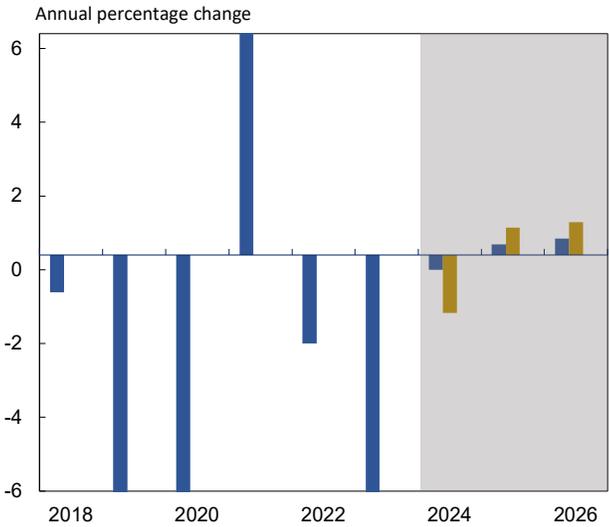
Mar 24 MPC   May 24 MPC

Repurchase rate forecast*

Per cent
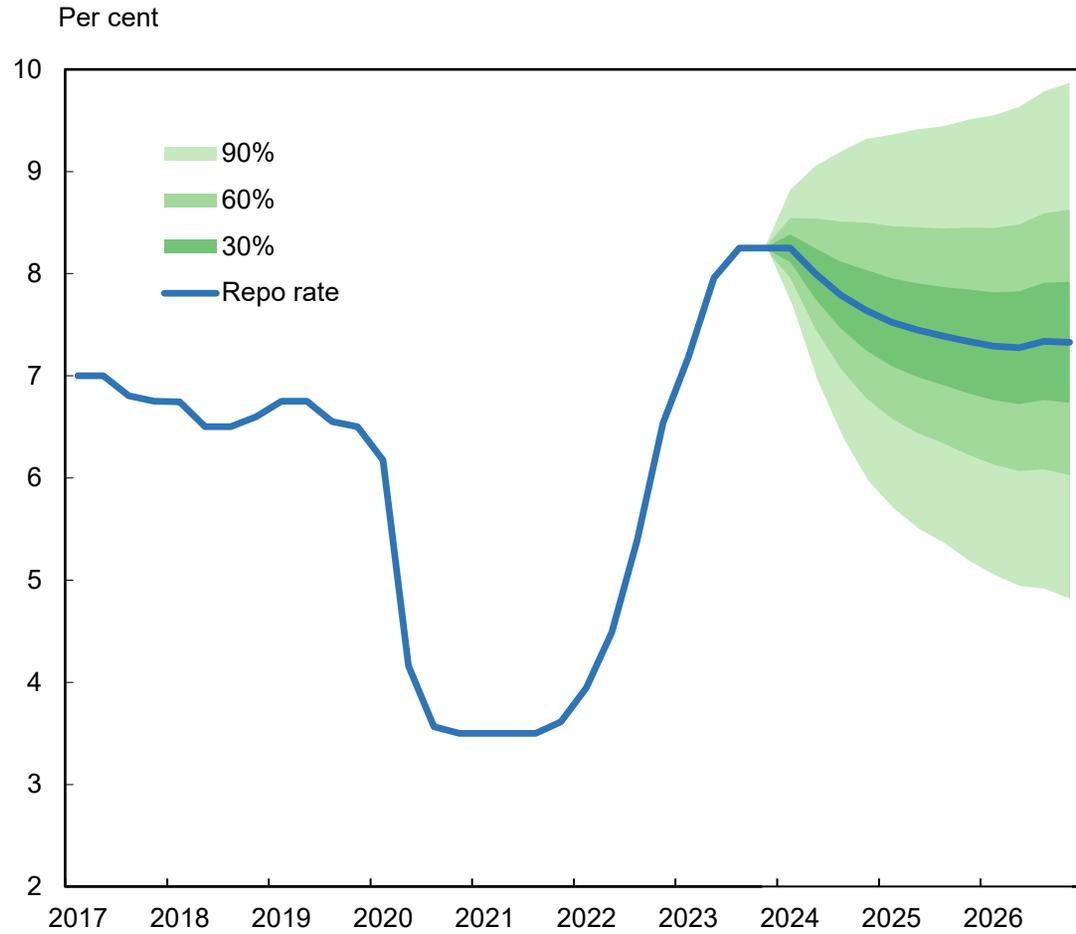
*The uncertainty bands for the repo rate are based on historical forecasting experience and stochastic simulations in the Quarterly Projection Model (QPM). The bands are symmetric, and therefore do not reflect any assessment of upside or downside risk. For details on the QPM see 'Enhancing the Quarterly Projection Model', South African Reserve Bank Working Paper Series No. WP/23/05, June 2023.