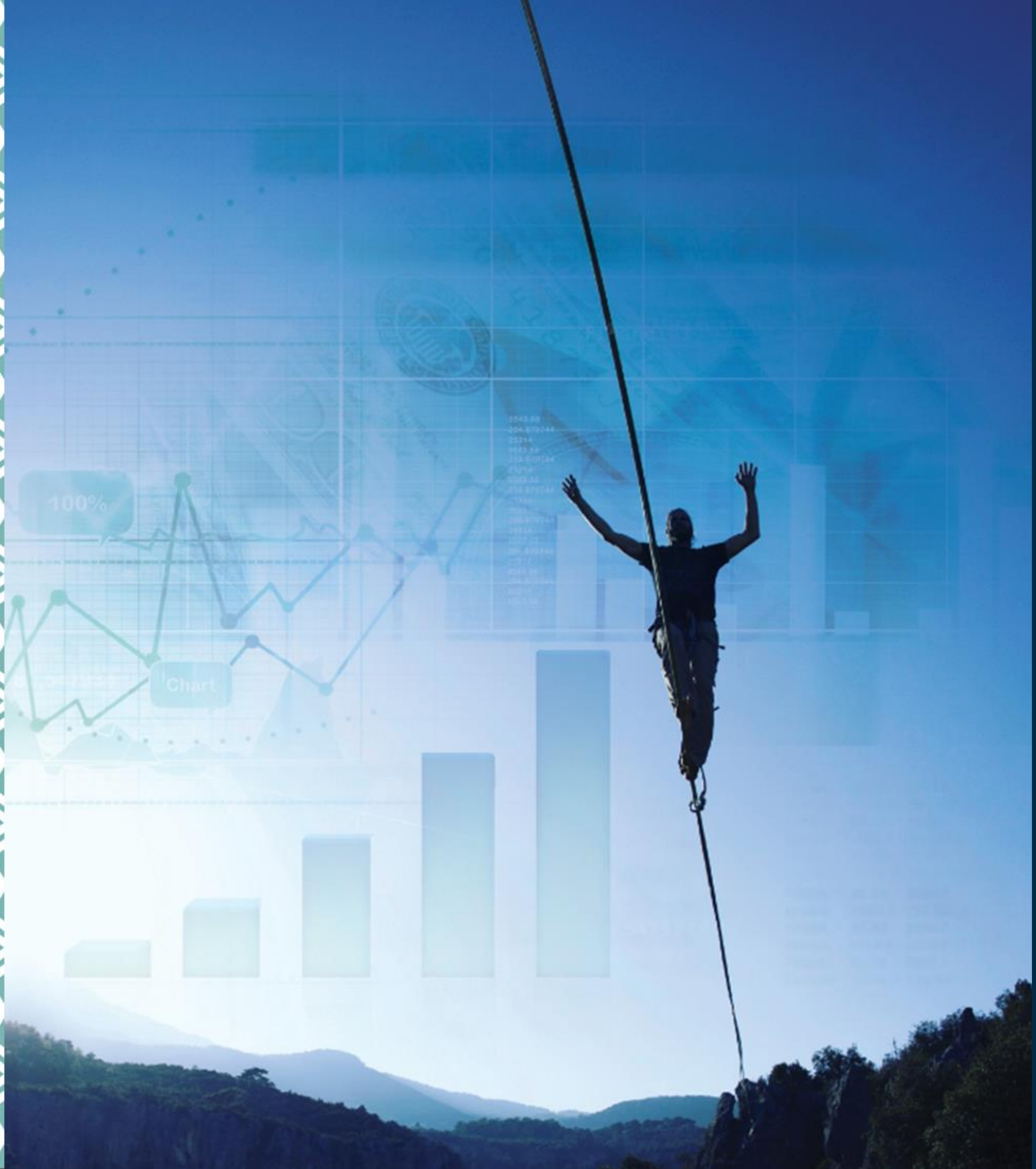

Walking a tightrope:
Monetary Policy Review

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

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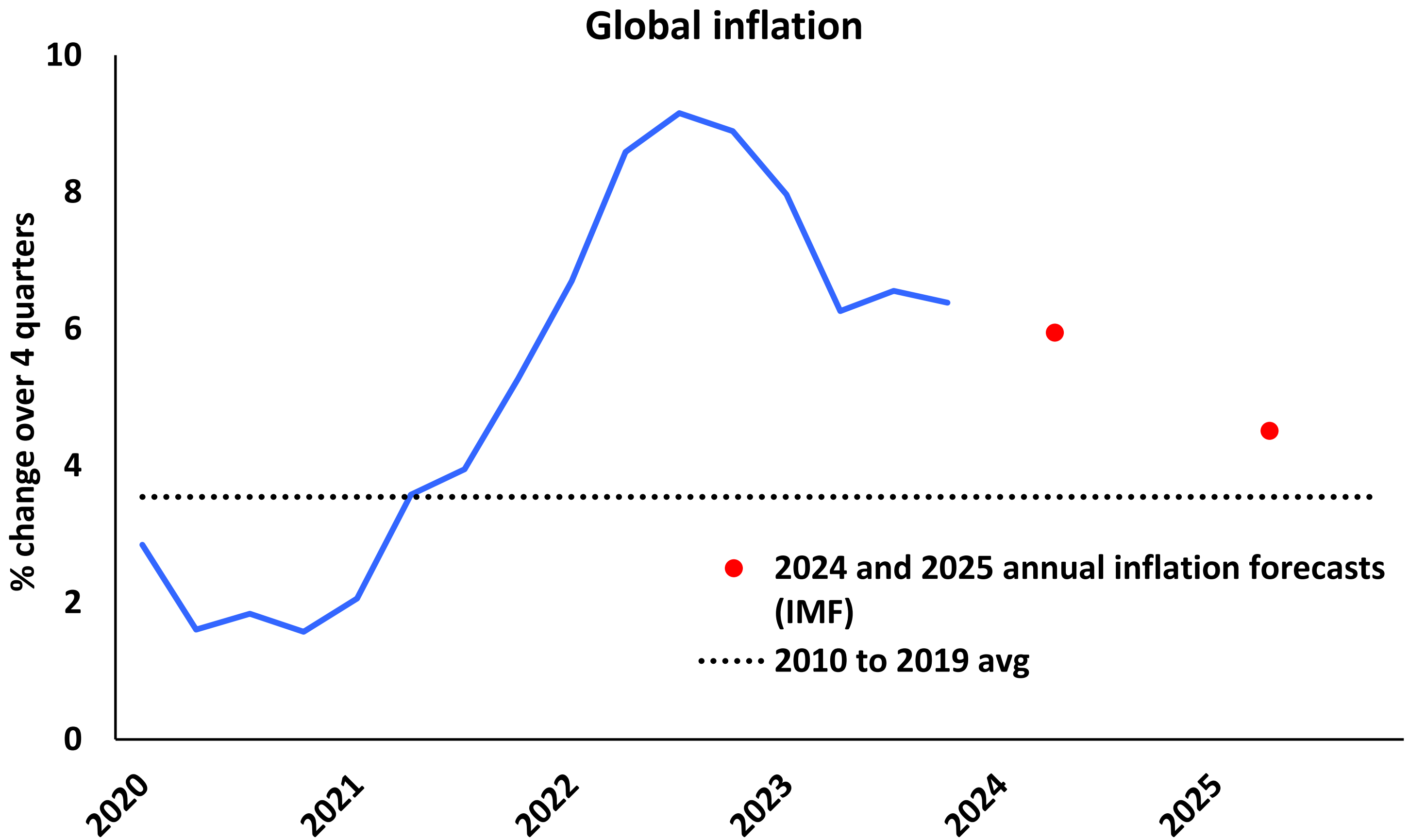
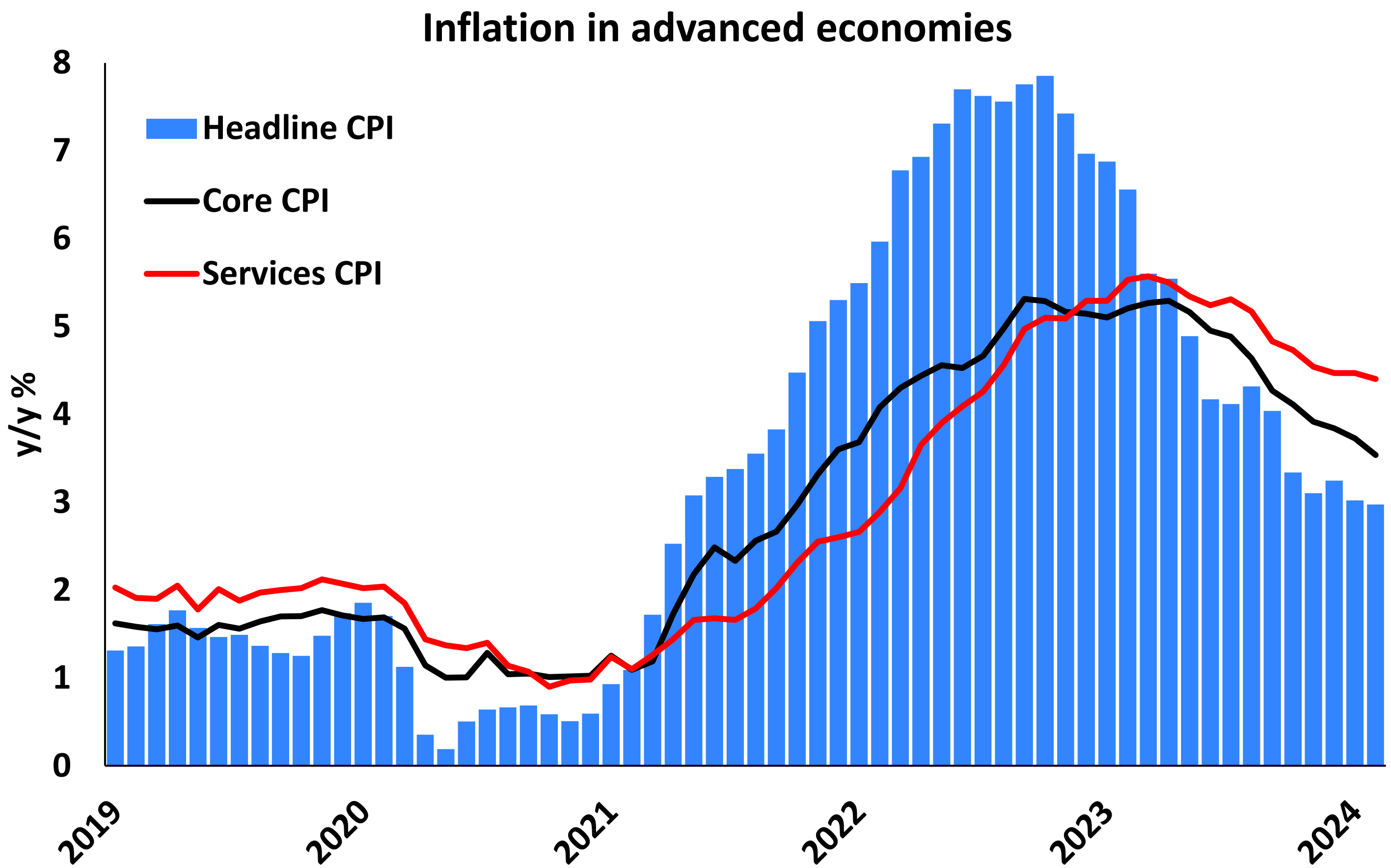
Despite some moderation, the fight against inflation not over



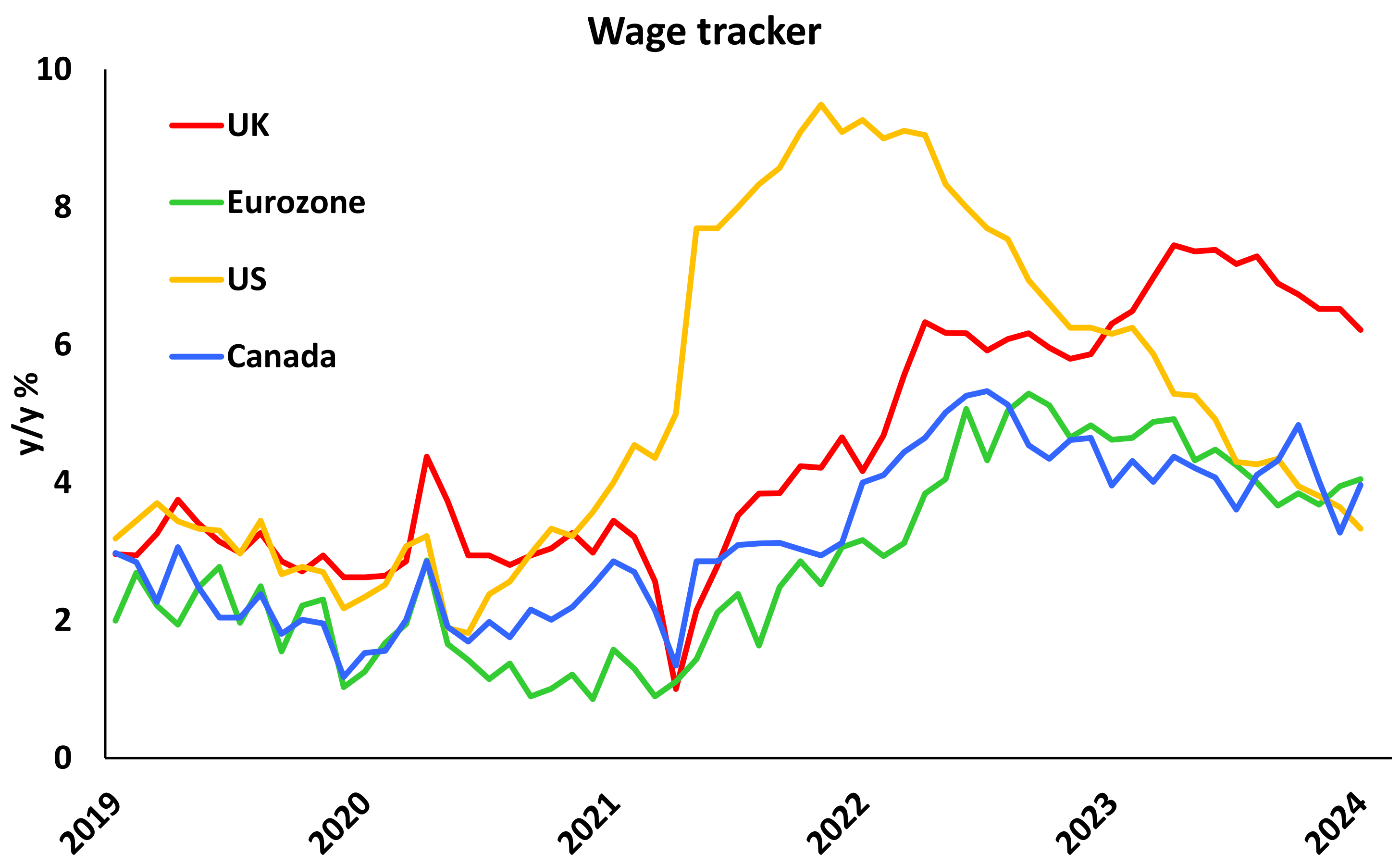
Sources: Haver and IMF

Inflation inertia from sticky core inflation and services price inflation



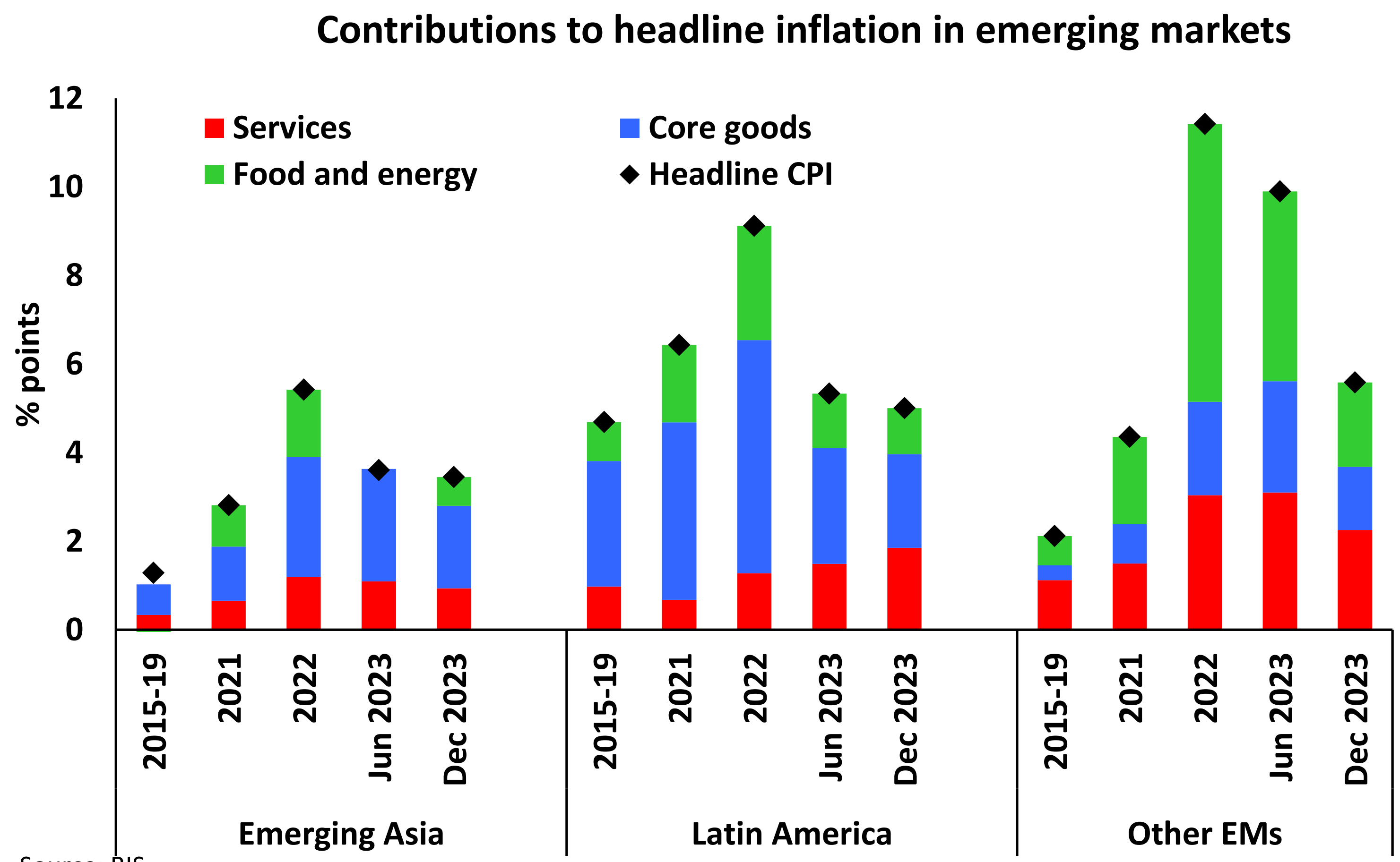
Source: Haver

Wage growth remains elevated across advanced economies



Source: Indeed Hiring Lab

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



Source: BIS

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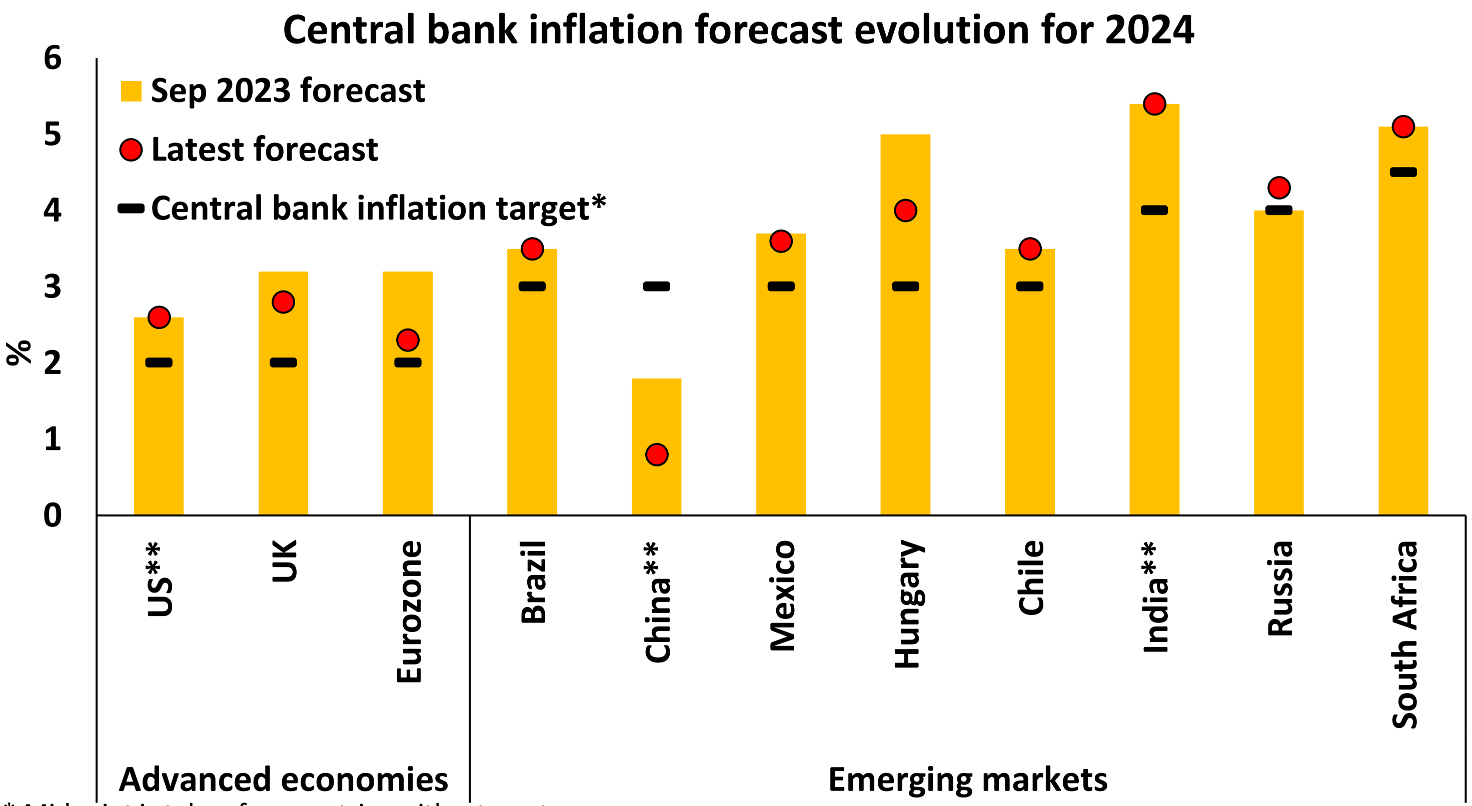
While targets remain elusive

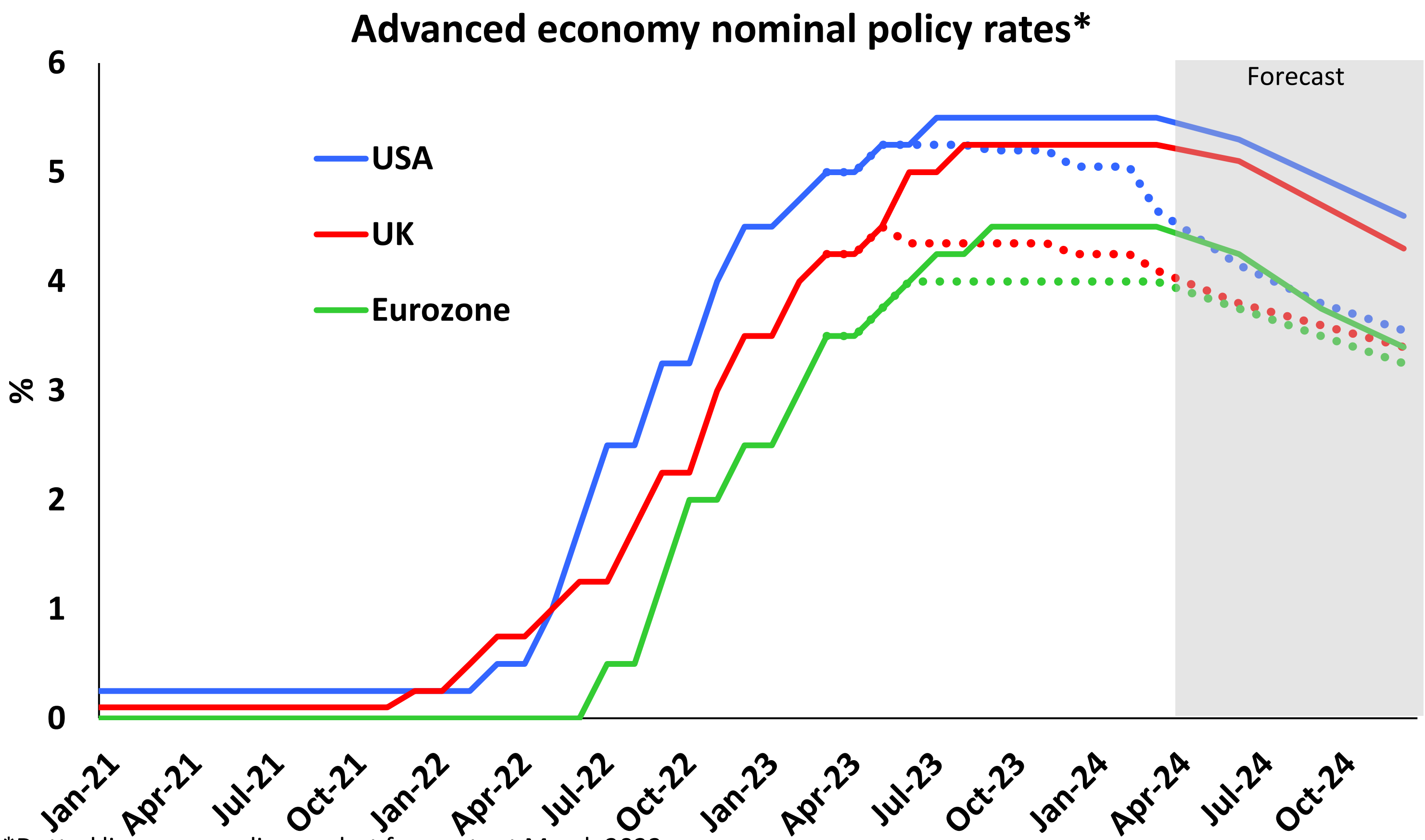


* Midpoint is taken for countries with a target range

** Core PCE for USA; Consensus forecasts for China and India

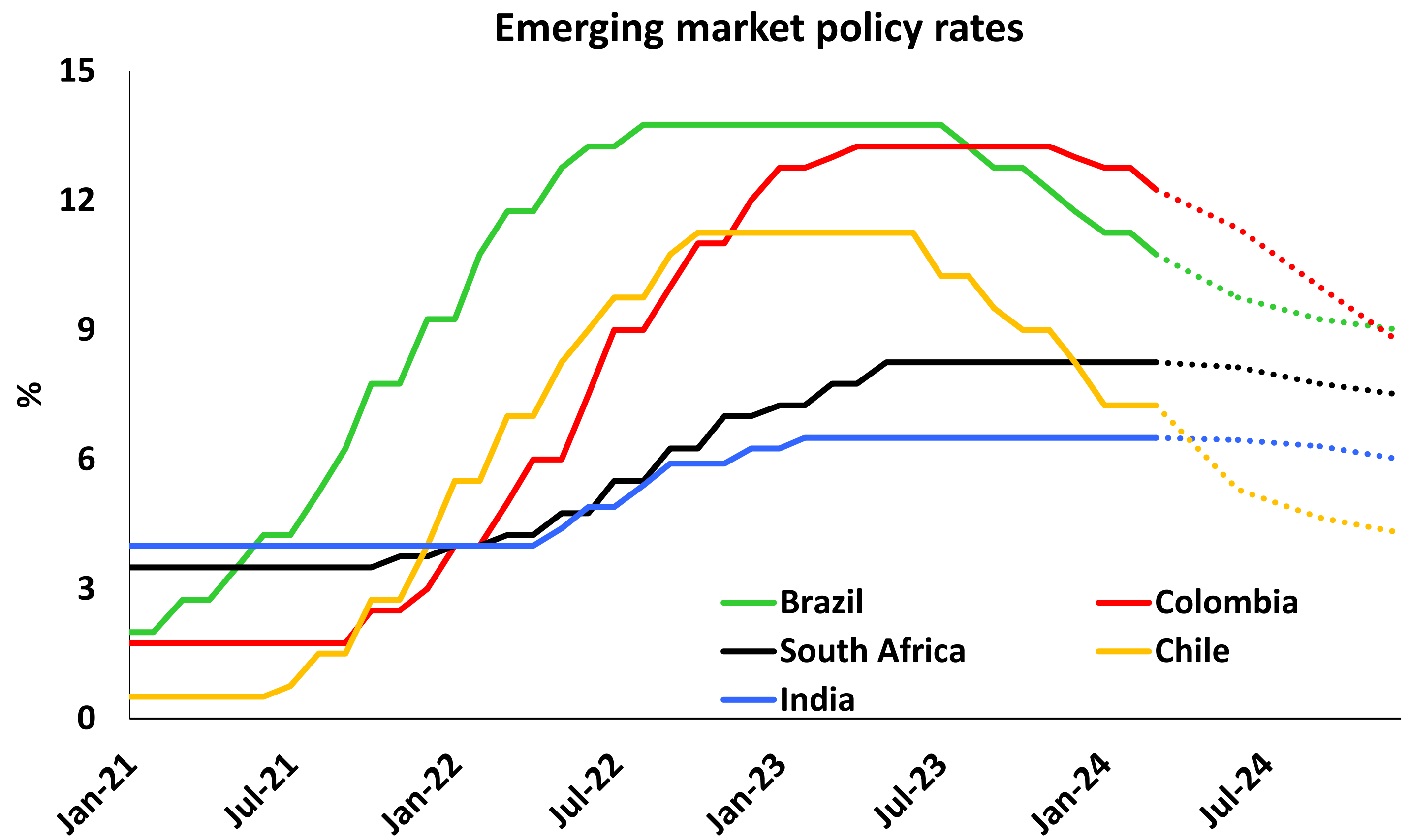
Sources: BIS, central banks and Bloomberg Consensus

Rate cuts pushed back and scaled down



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

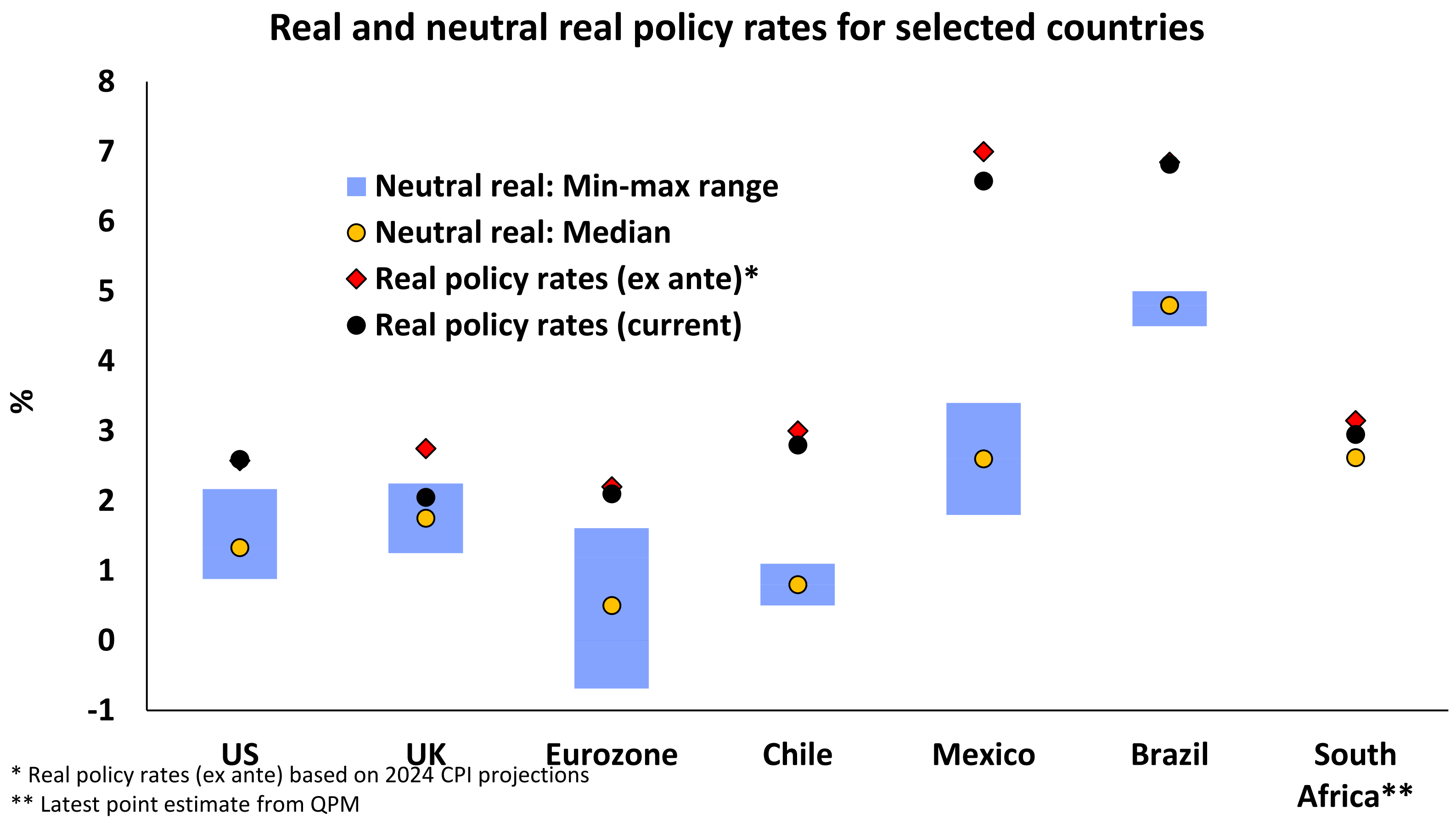
Latin America the emerging markets outlier, as inflation moves as intended



* Dotted lines are median analyst forecasts

Source: Bloomberg

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



* Real policy rates (ex ante) based on 2024 CPI projections

** Latest point estimate from QPM

Sources: BIS, central banks and Consensus Economics

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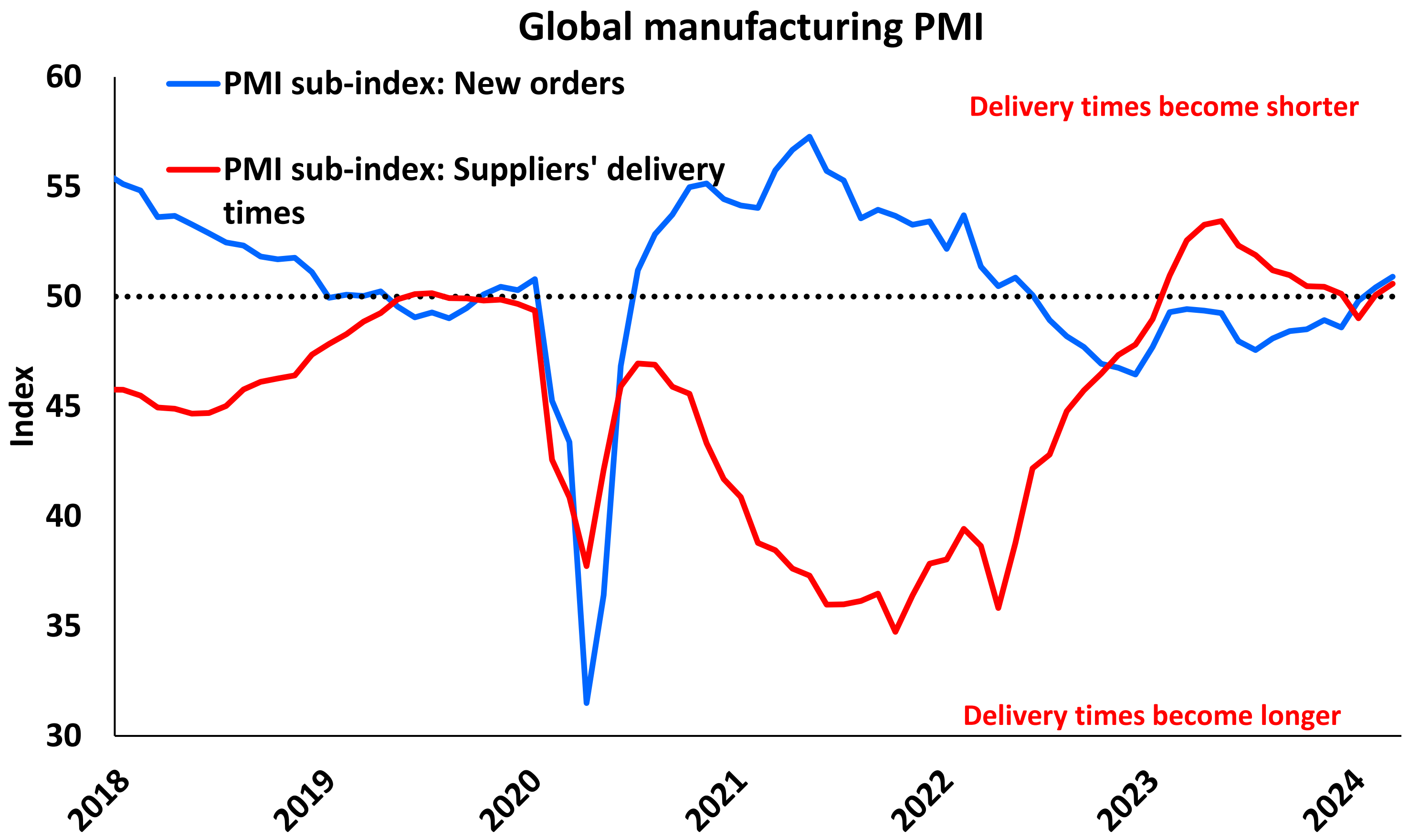
Scale of global demand-supply mismatch very large for prolonged period



Source: JP Morgan

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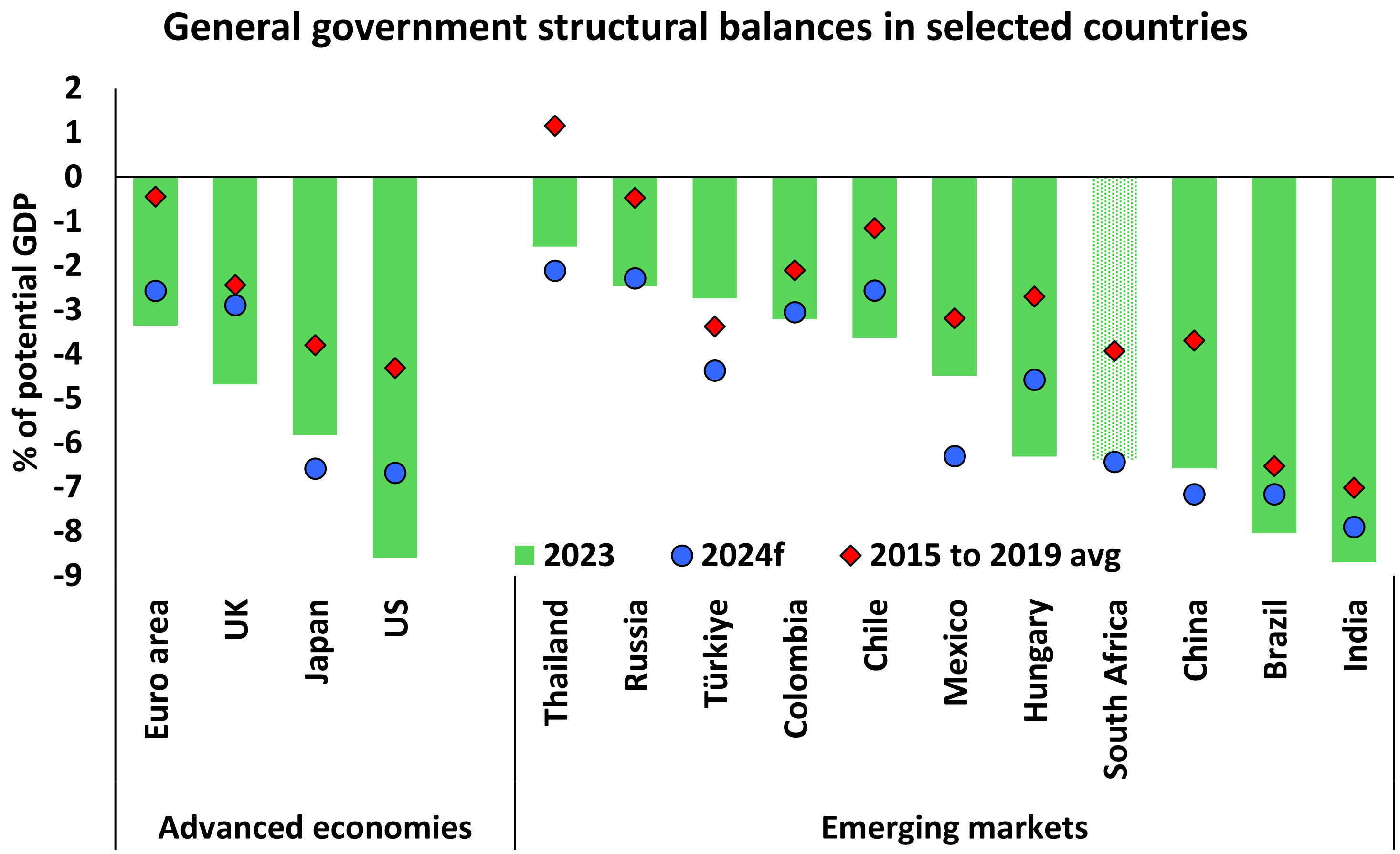
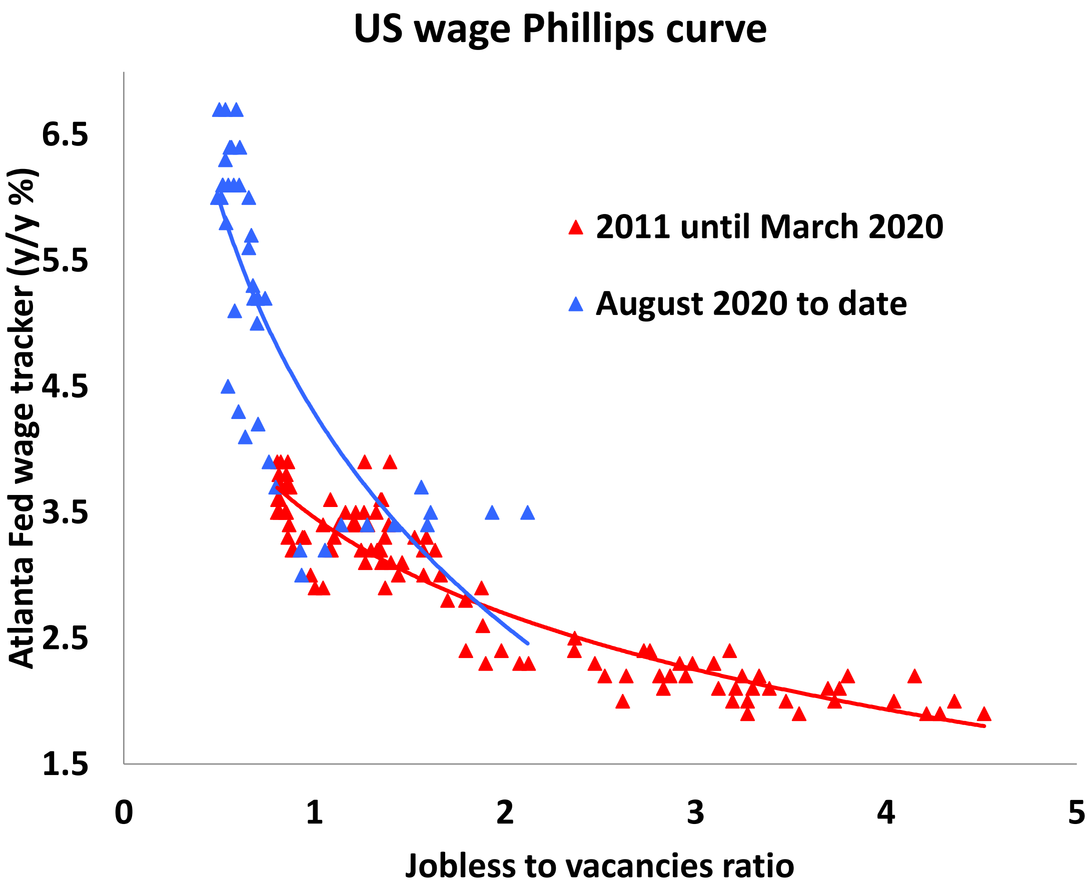
Fiscal deficits generally larger than pre-crisis... post-crisis patchier

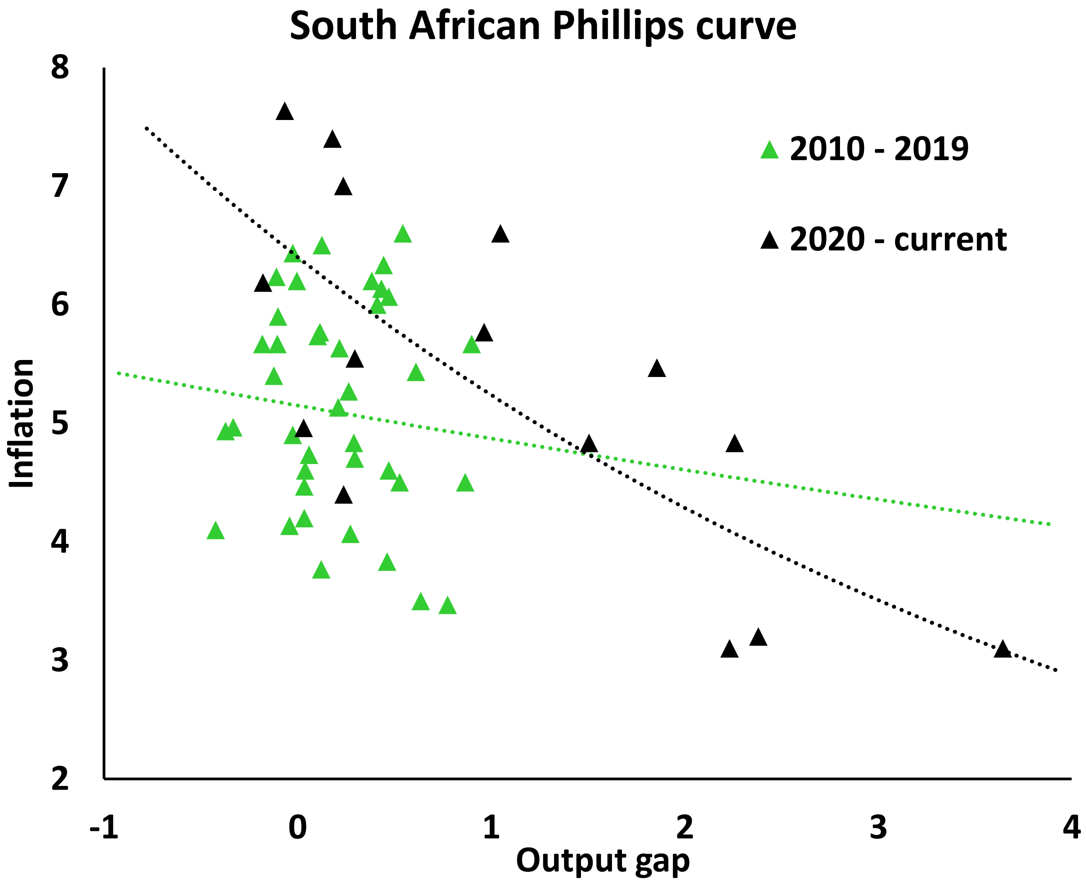


Source: IMF

"Flat" link from slack to inflation steepened fast

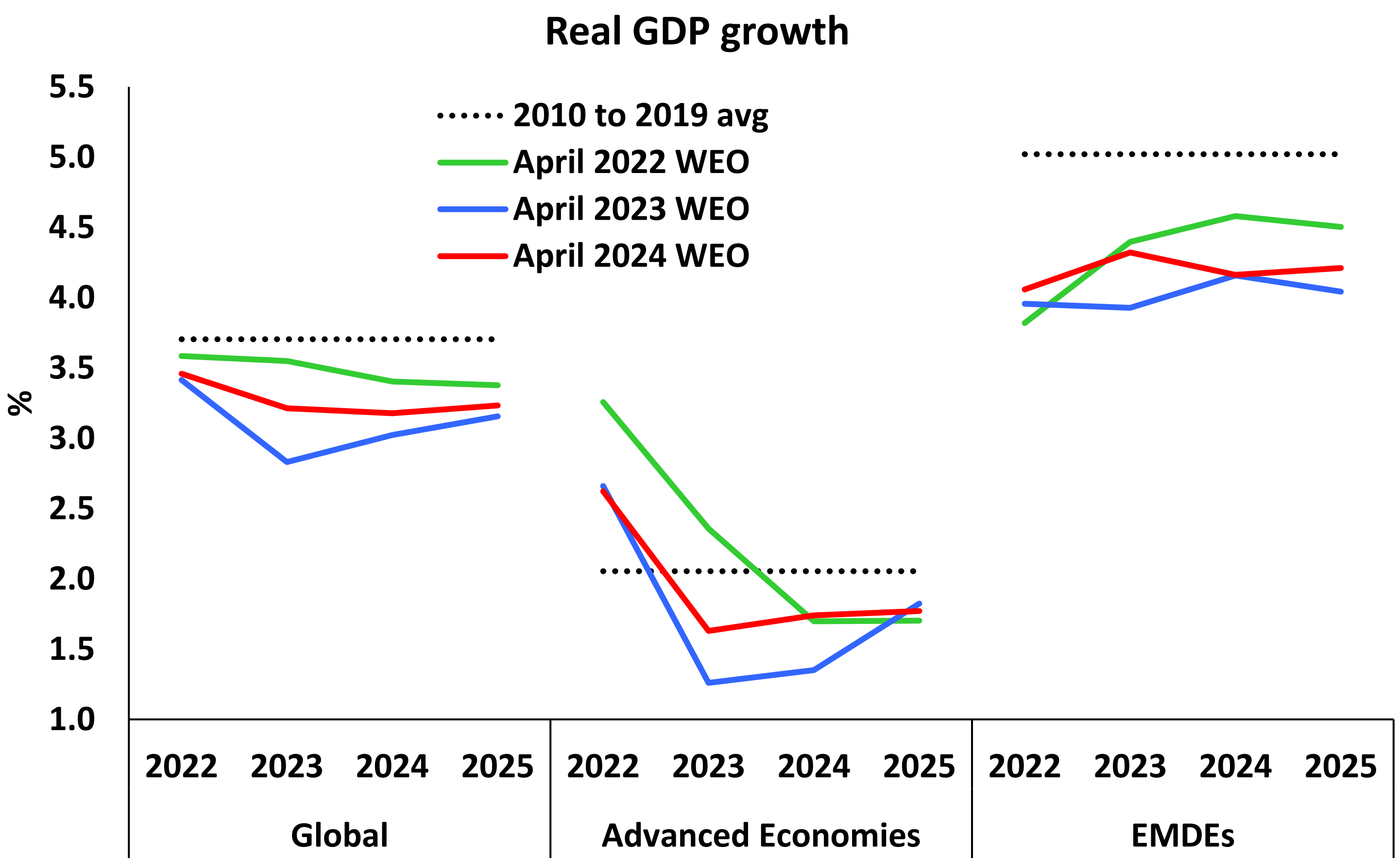


Sources: Atlanta Fed, Bureau of Labour Statistics and own calculations



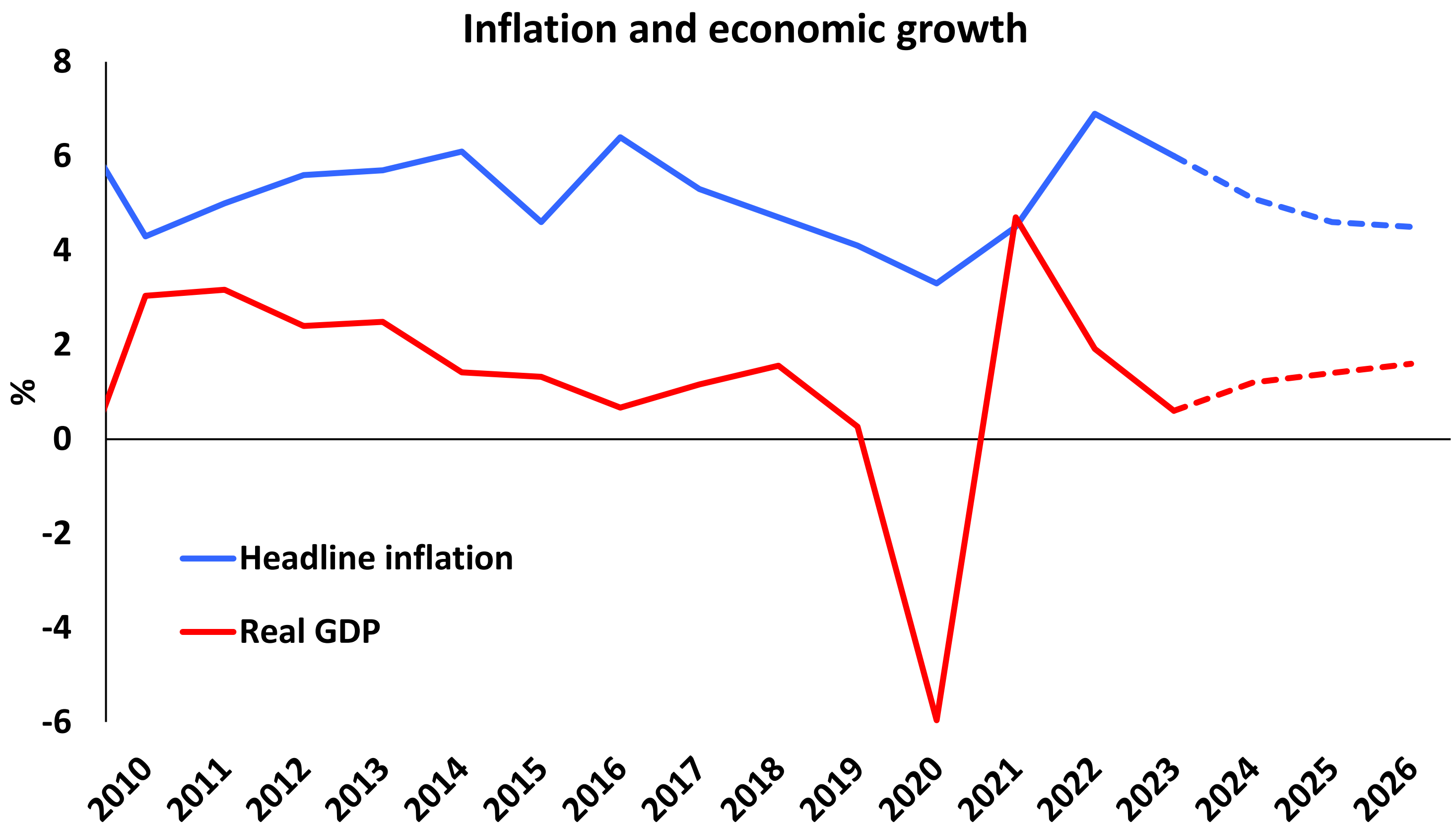
Sources: Stats SA and SARB

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



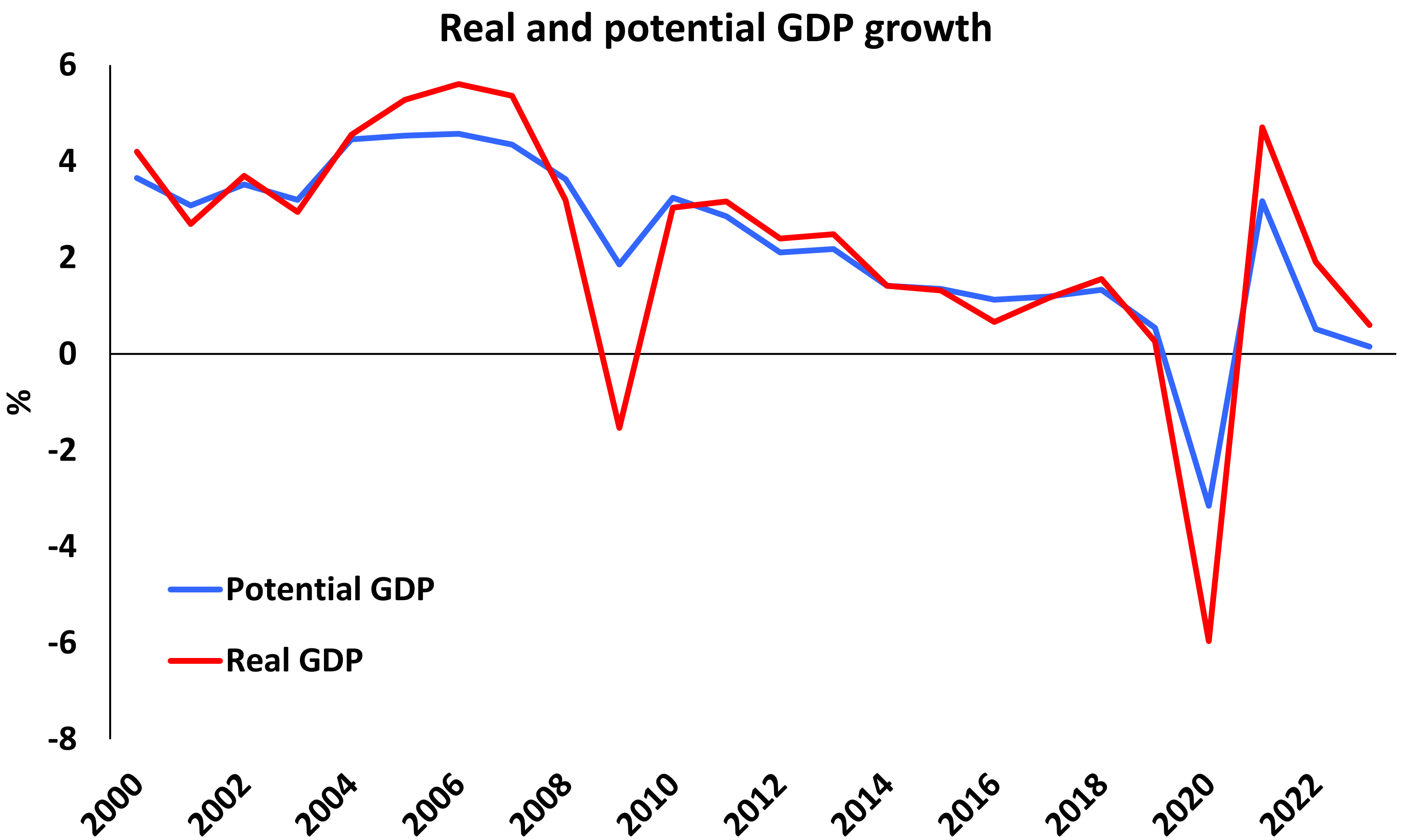
Source: IMF

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

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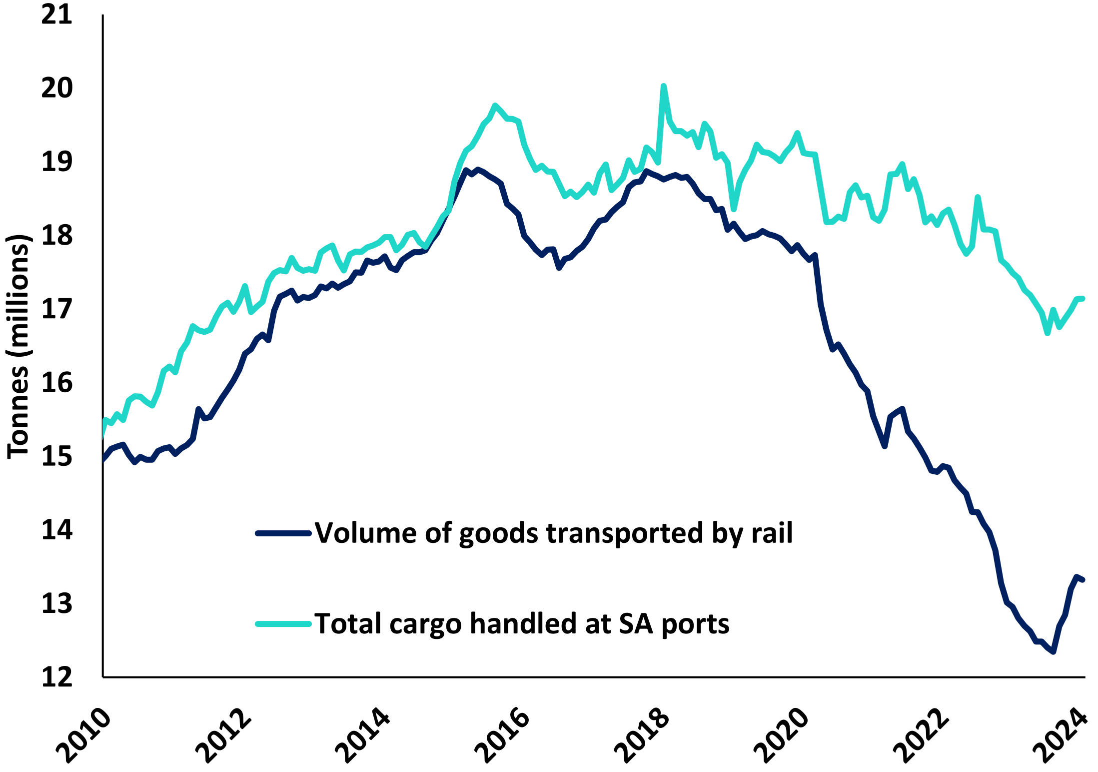
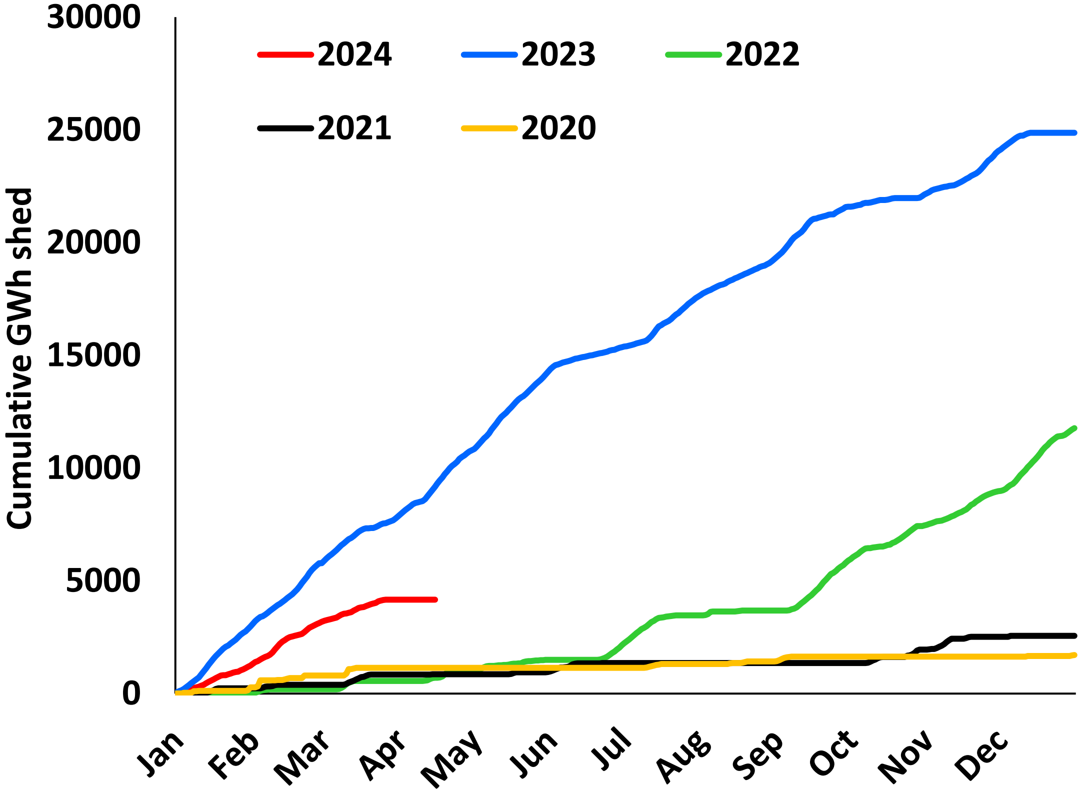
With logistics and electricity setting speed limit for economy

Port and rail cargo handled*



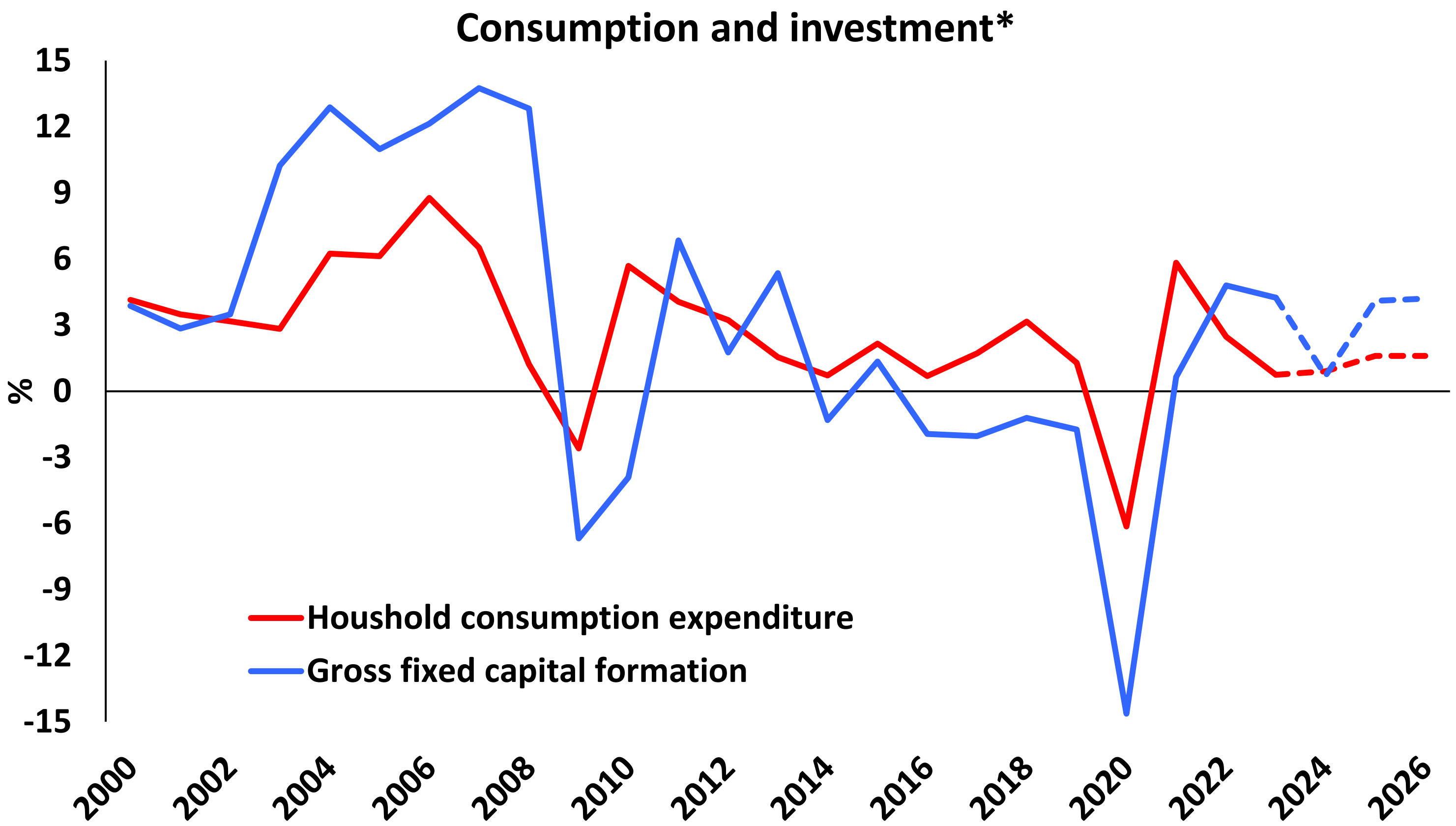
*12-month moving averages
Sources: Stats SA and Transnet National Port Authority

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

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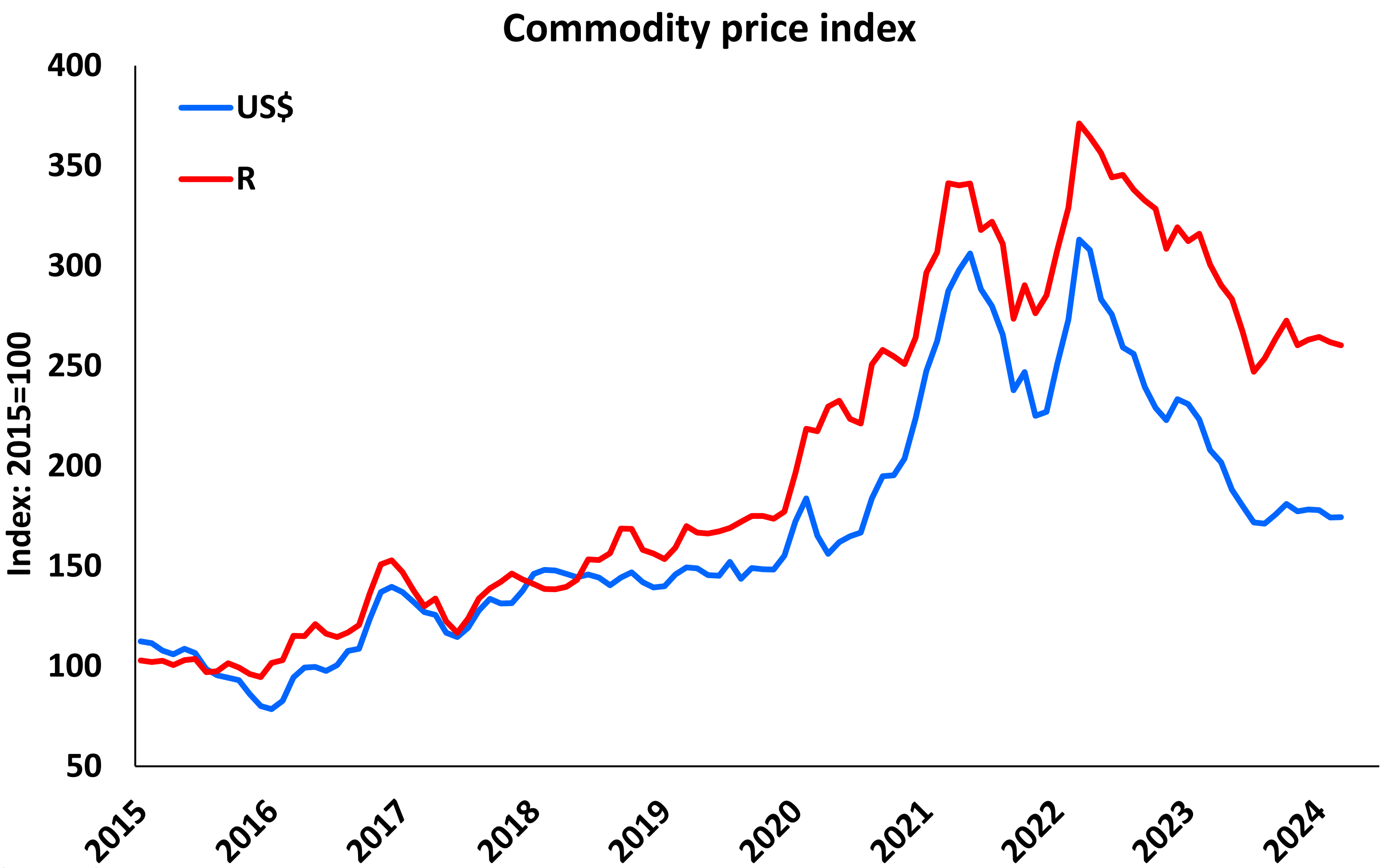
Commodity prices lower, eroding windfall income gains



Source: SARB

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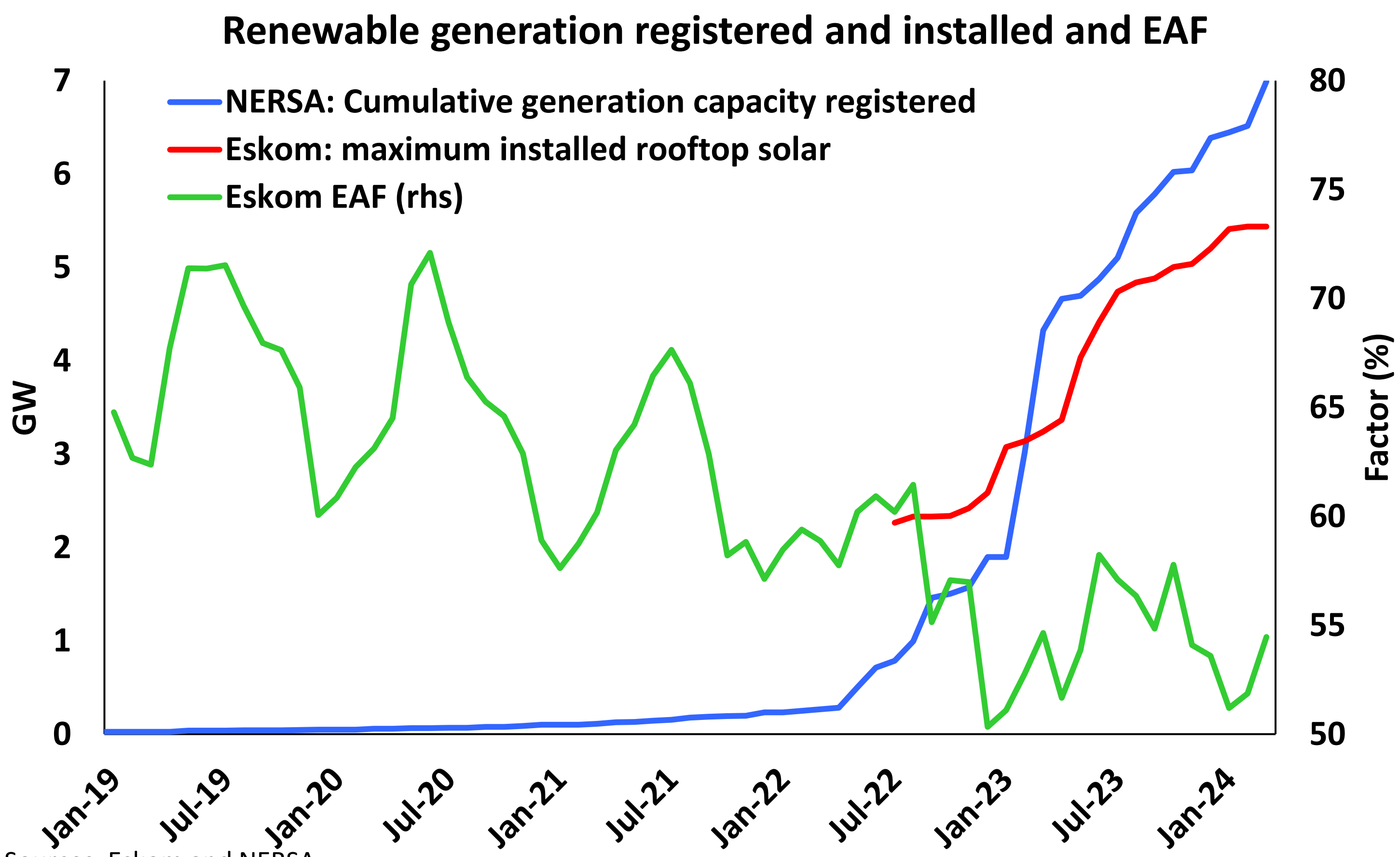
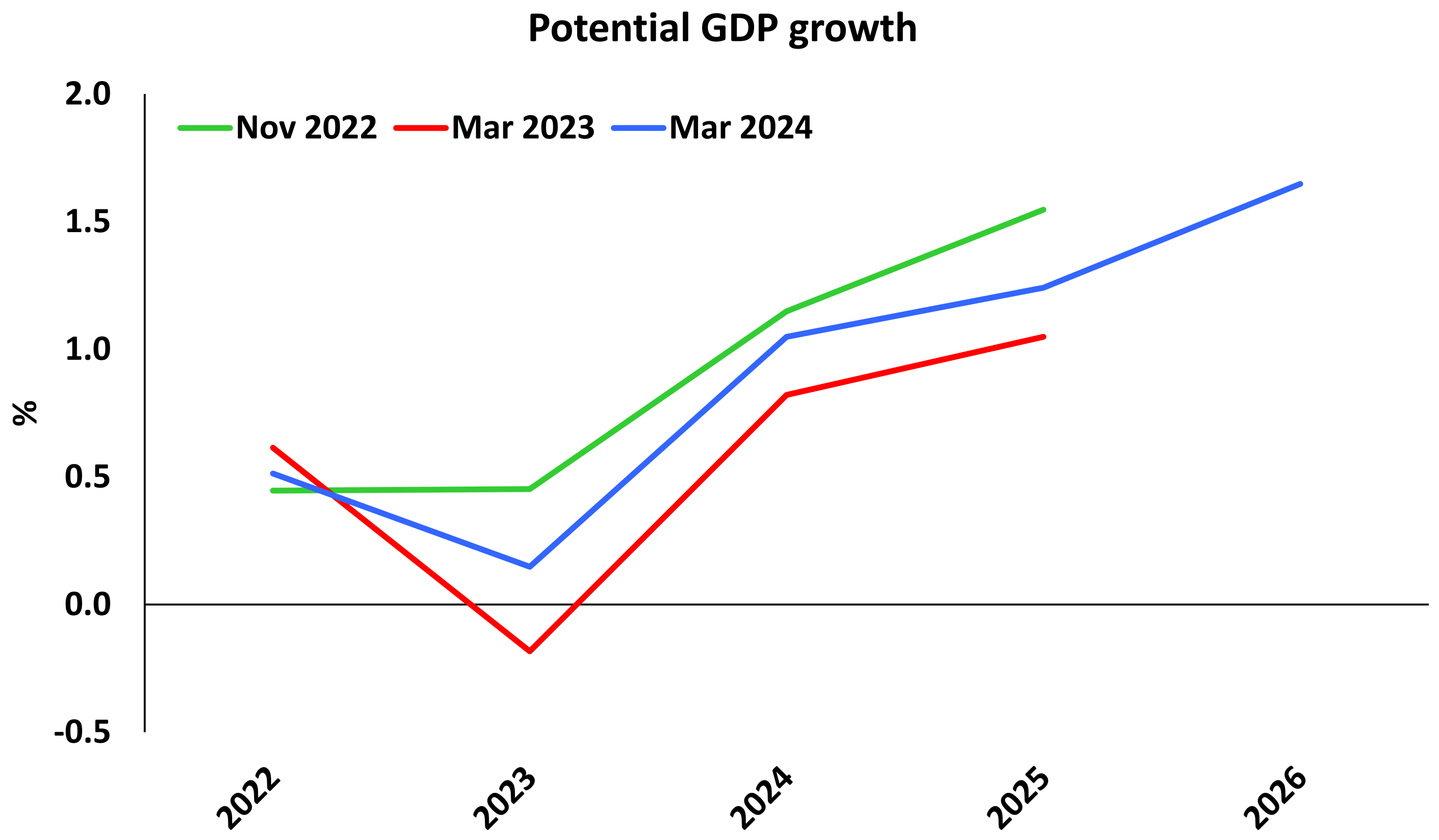
Some improvements in energy supply



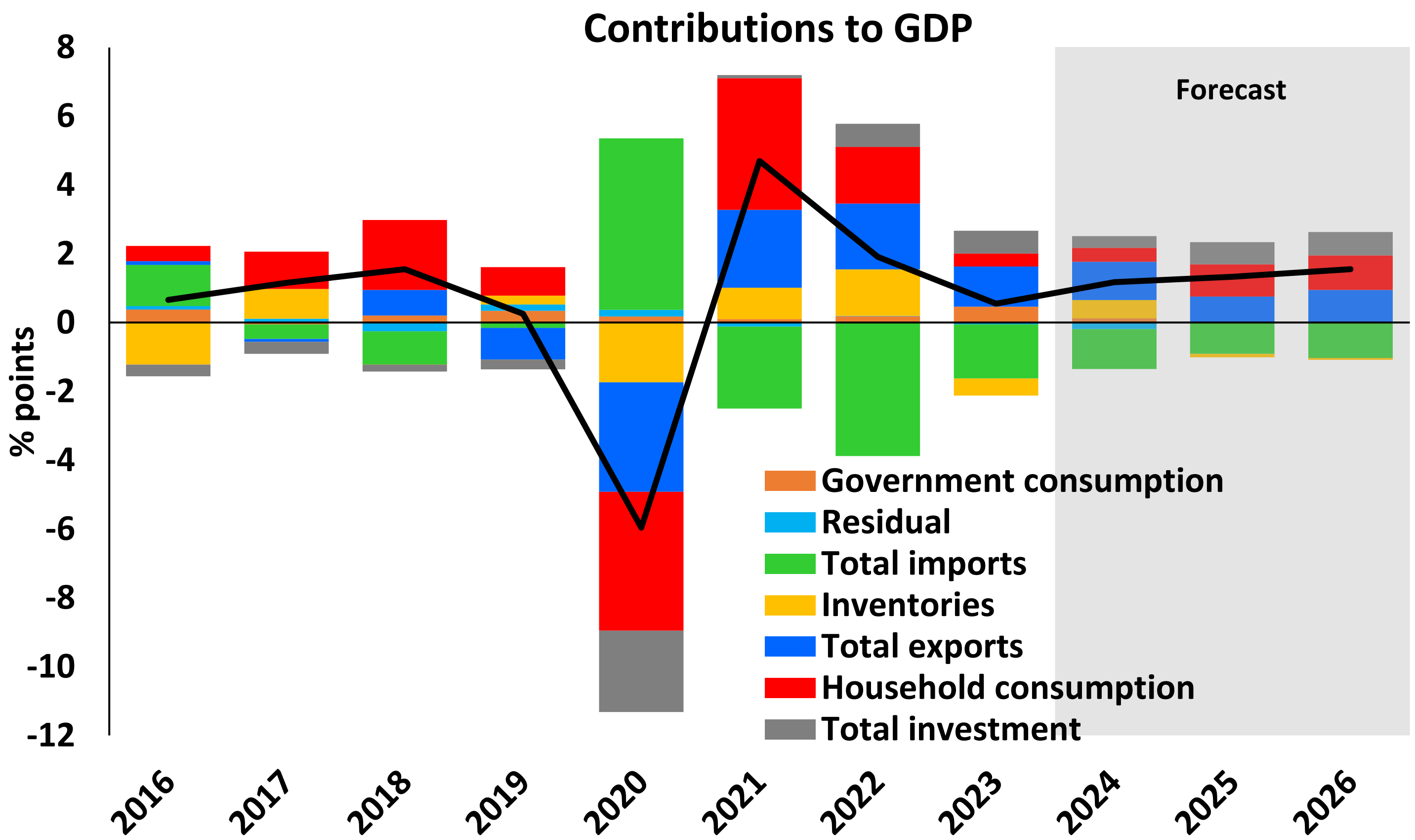
Sources: Eskom and NERSA

Eventually lifting potential growth



Source: SARB

Demand back to long-term trajectories



* Annual percentage change
Sources: Stats SA and SARB

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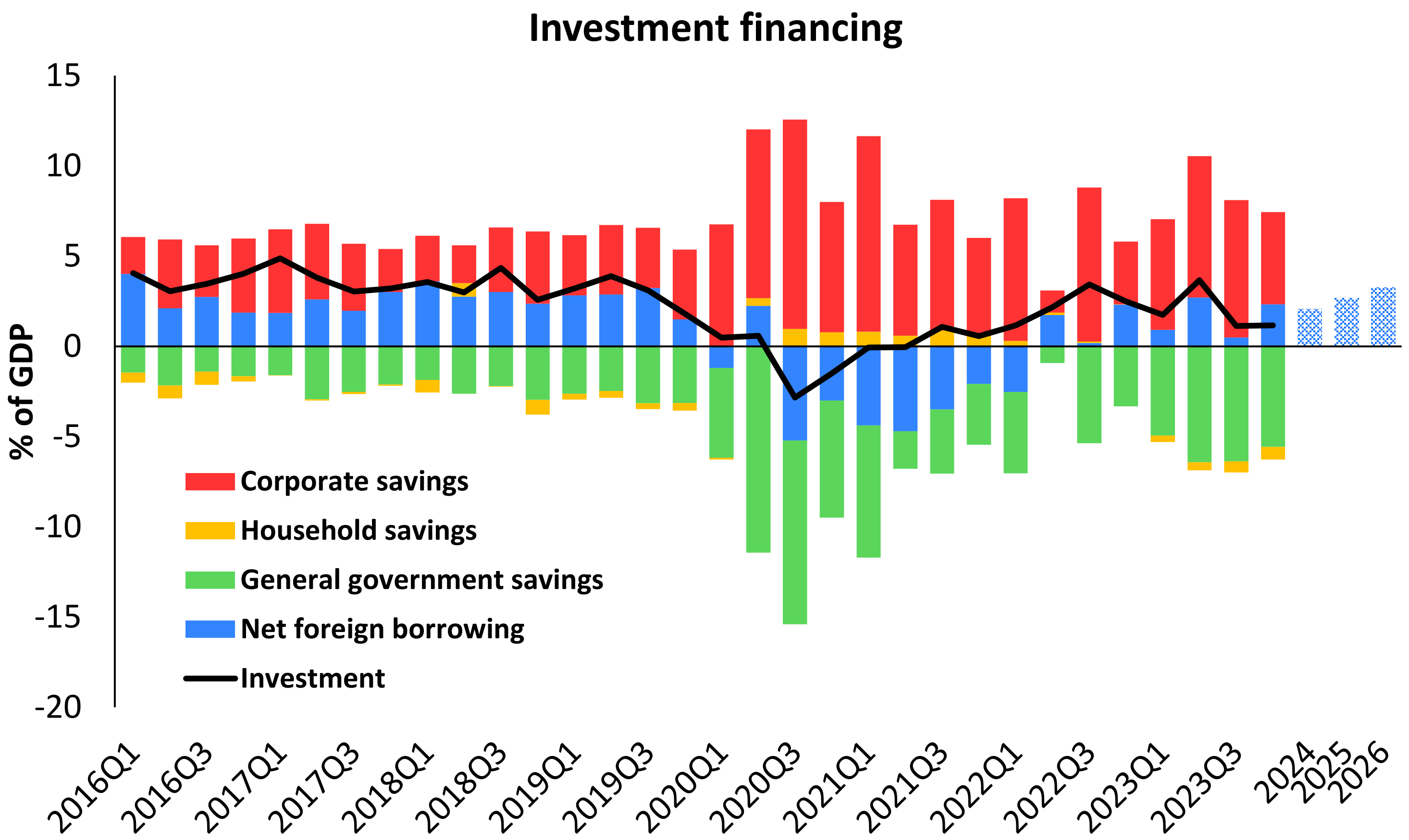
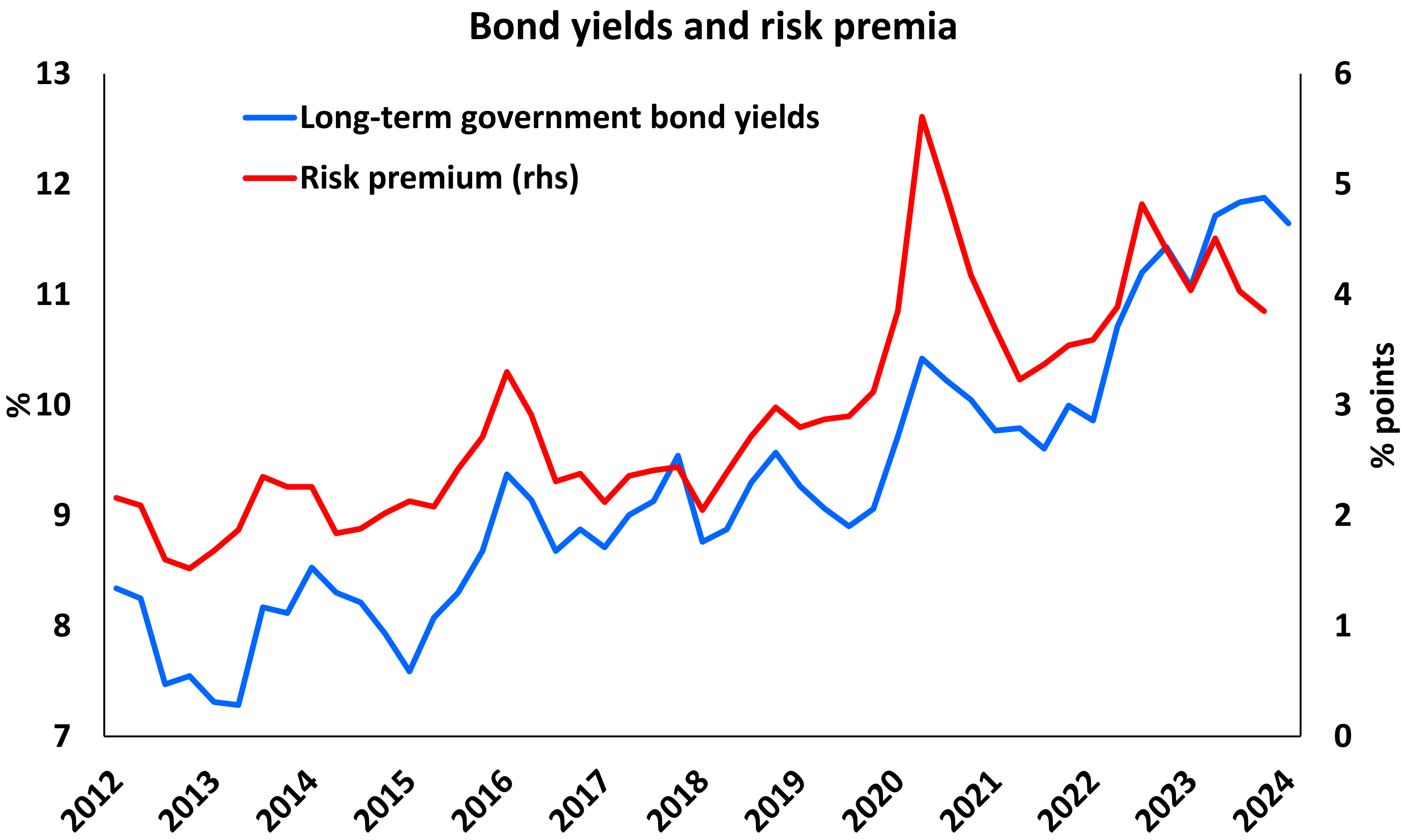
With low real GDP growth, low level of demand sustains twin deficits



Sources: Stats SA and SARB

Reflected in risk premium trending higher & rising borrowing costs



Source: SARB

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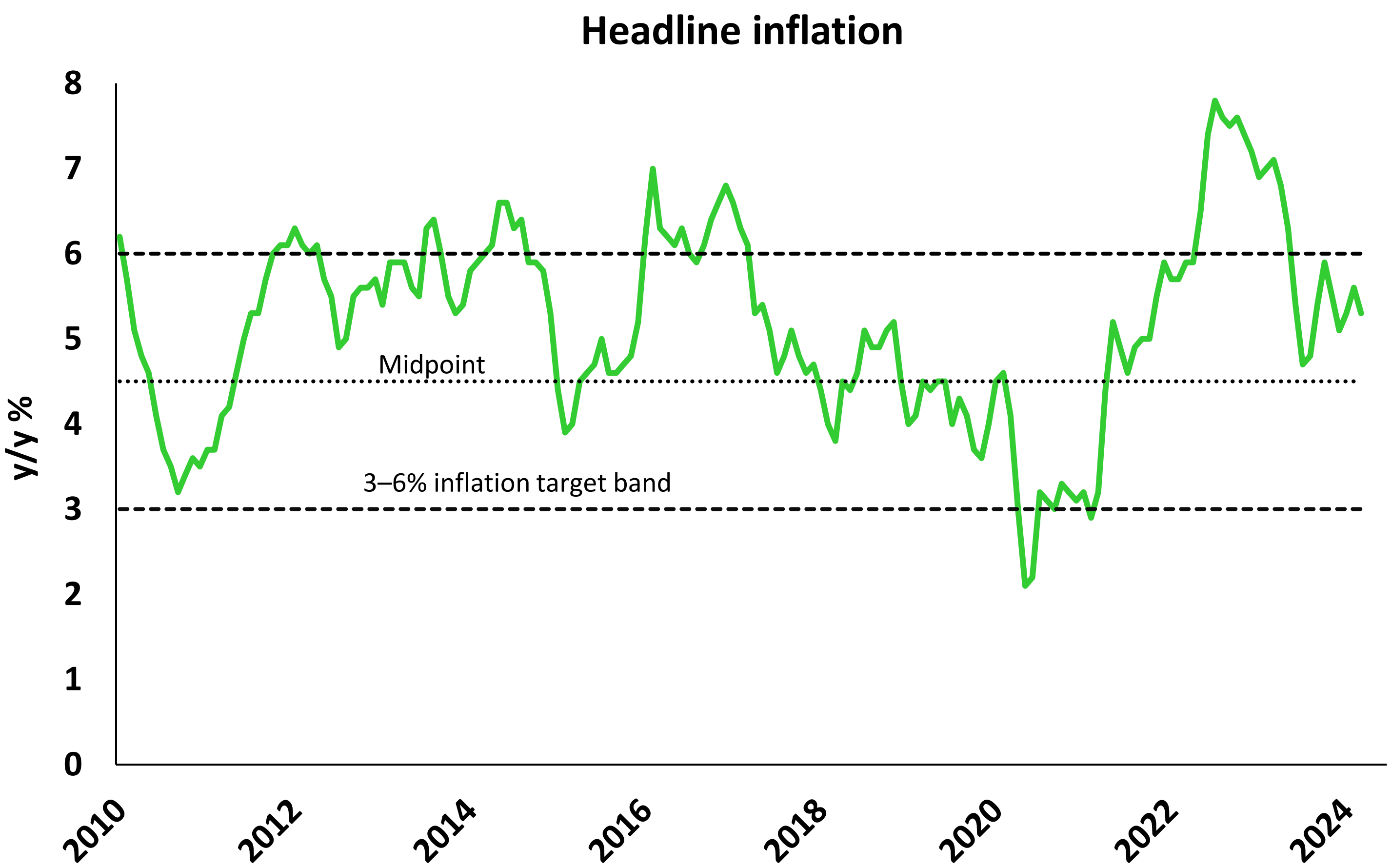
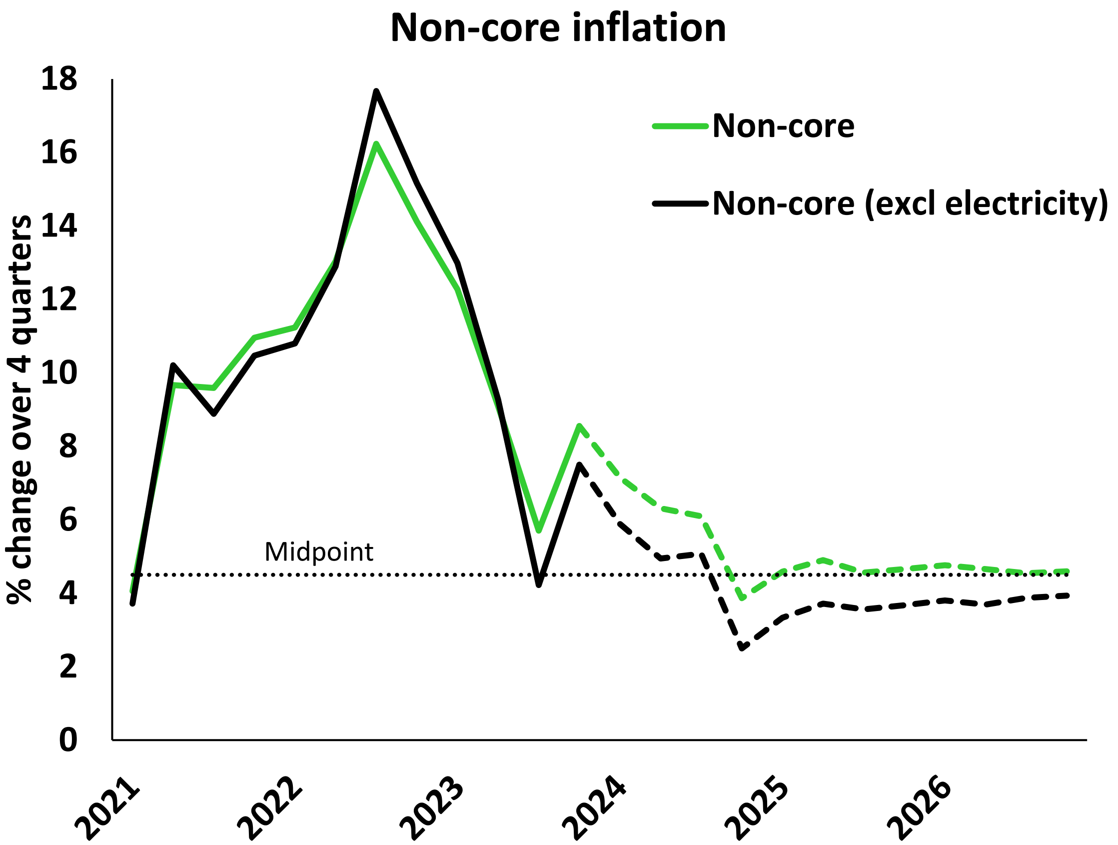
Headline inflation still above mid-point

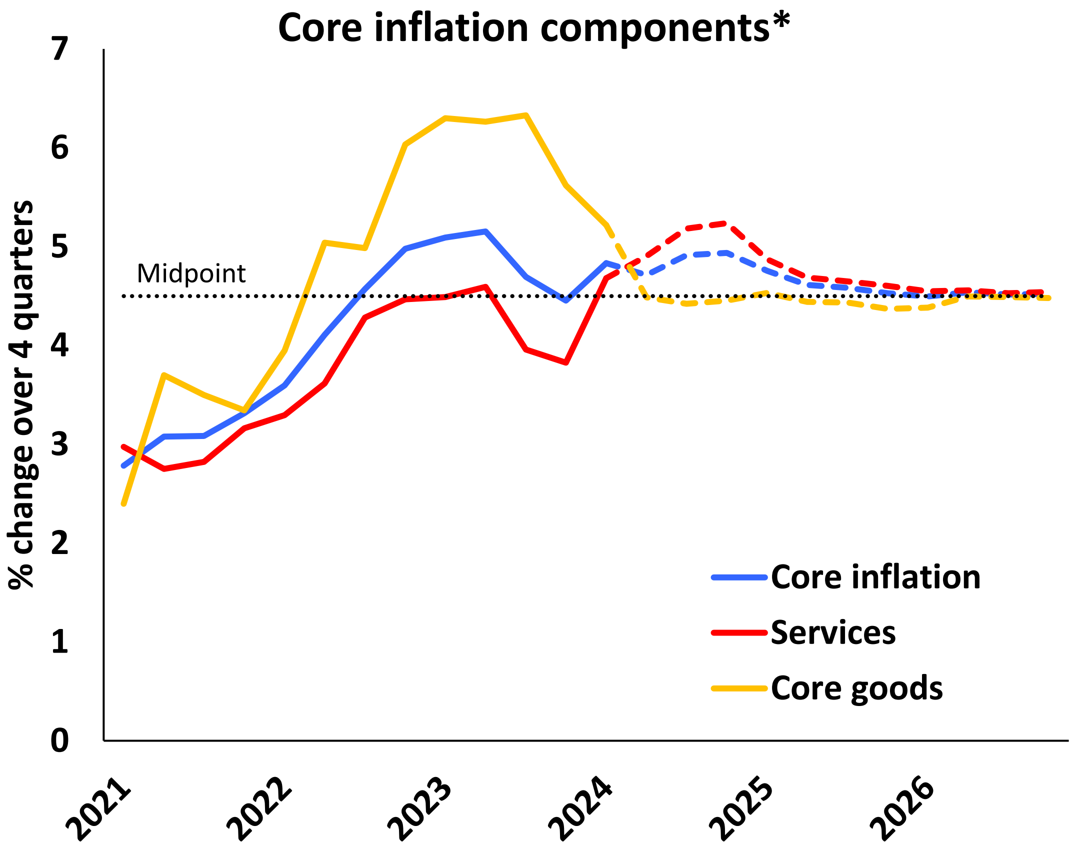


Source: Stats SA

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

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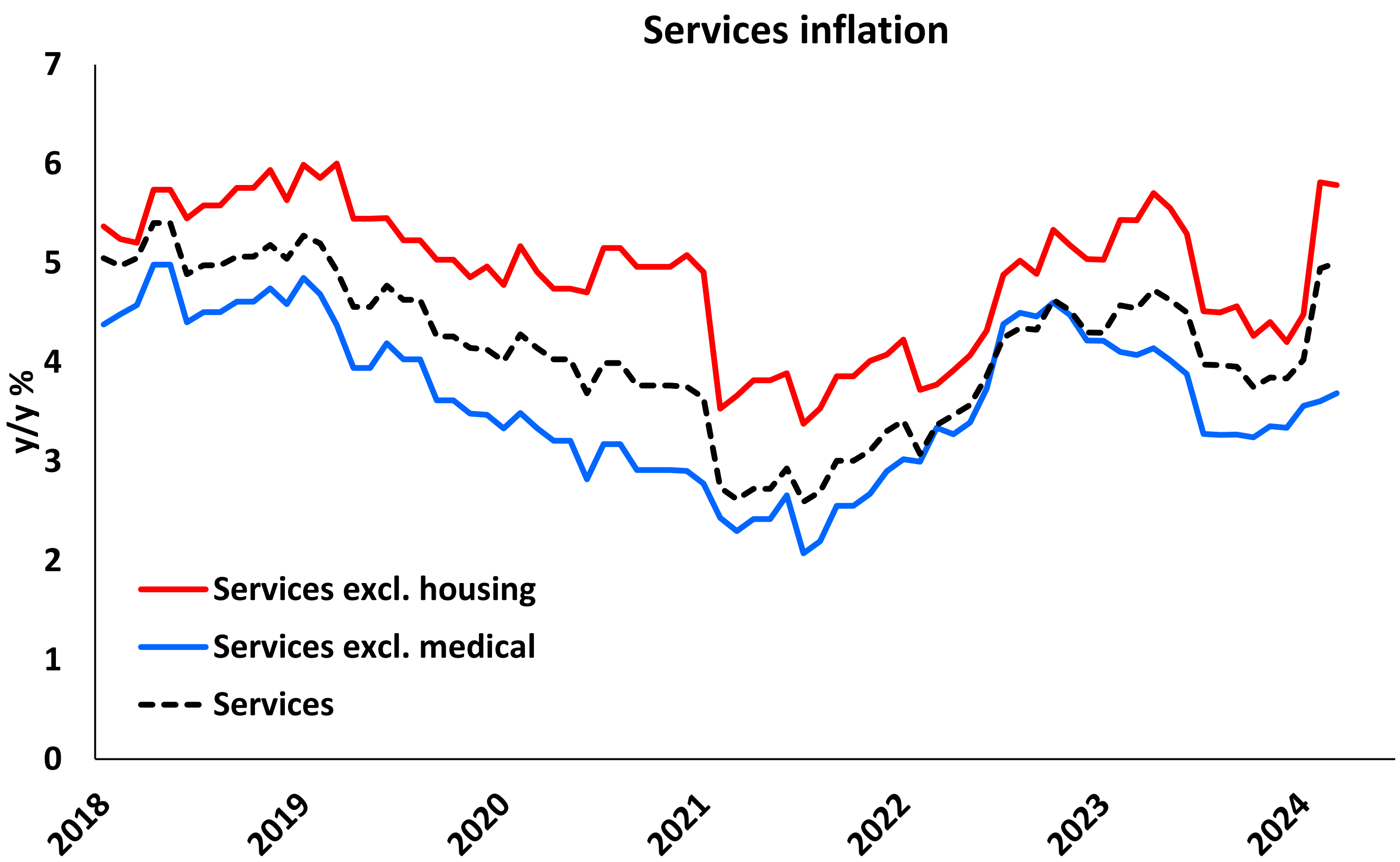
With extra push coming from normalisation of some services components



Sources: Stats SA and SARB

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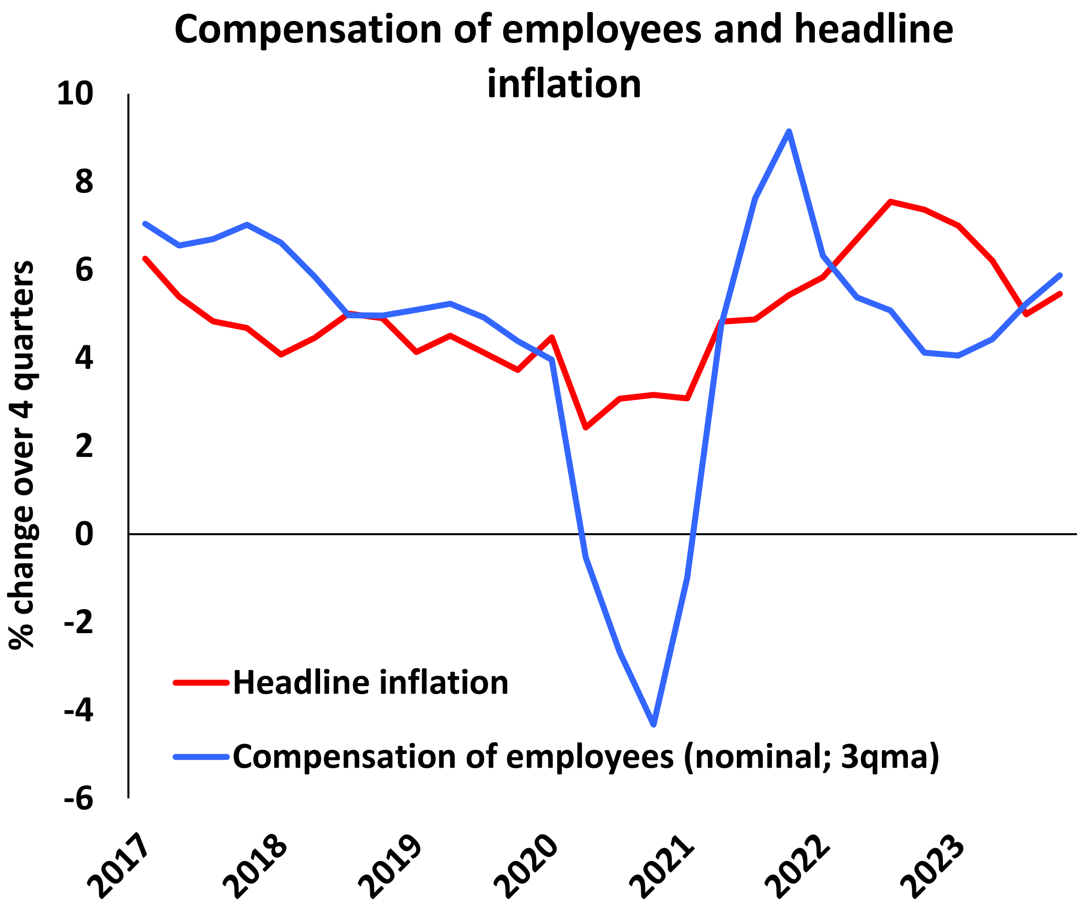
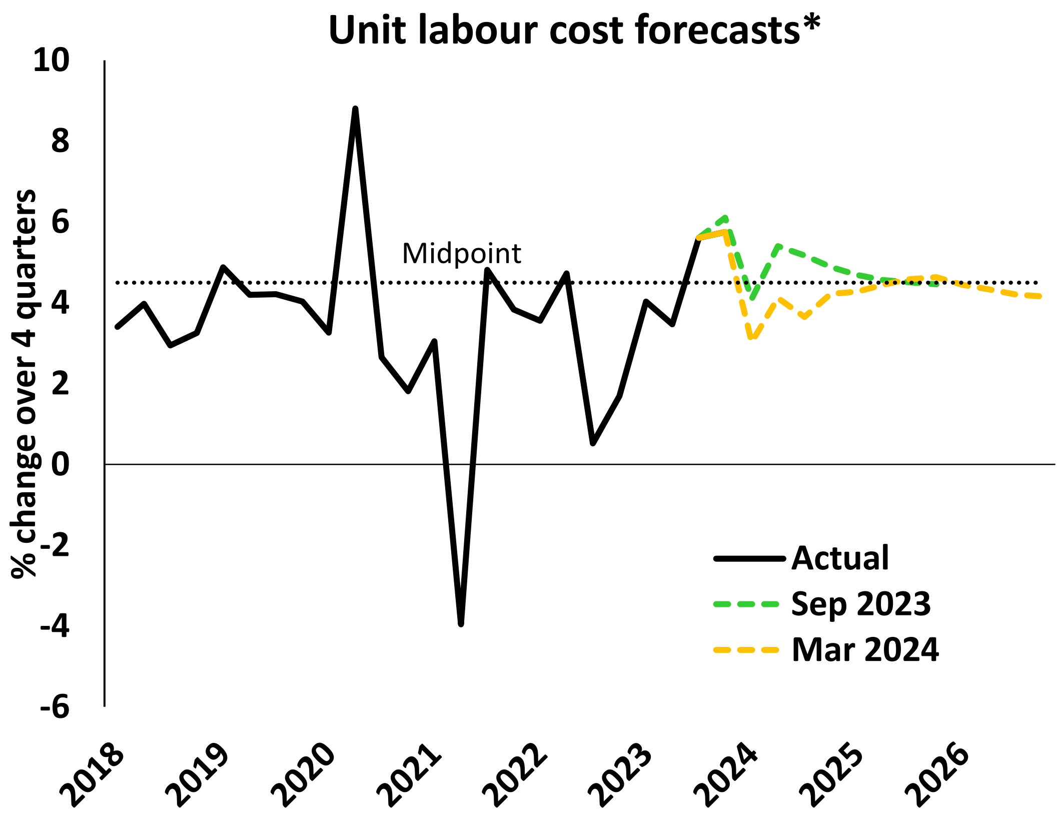
Labour market pressures broadly neutral, despite the headline shock to real incomes



Source: Stats SA



* Dotted lines indicate forecasts
Source: SARB

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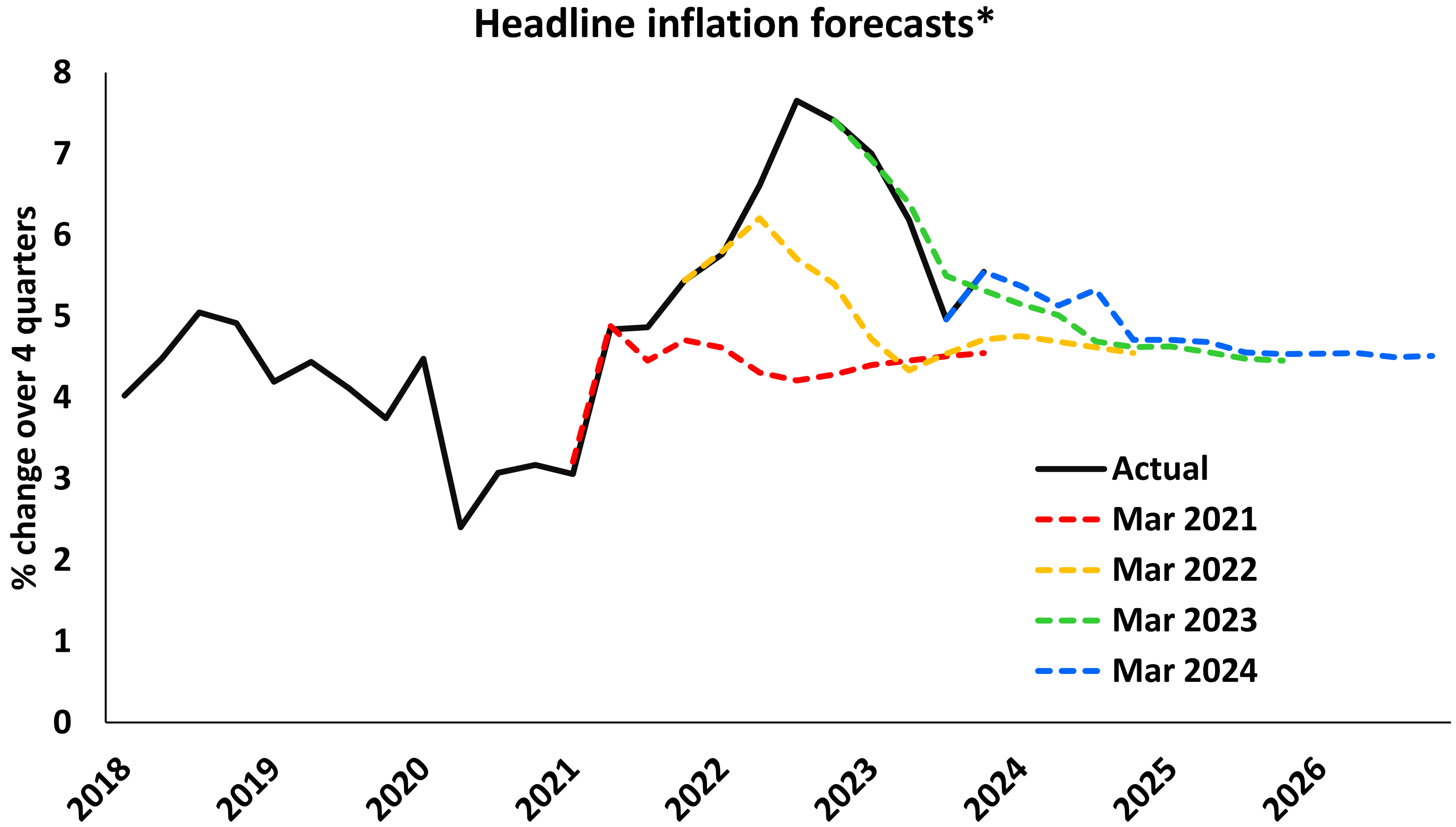
Inflation path tilted hard to one side from 2021 to early 2023, before moderating



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

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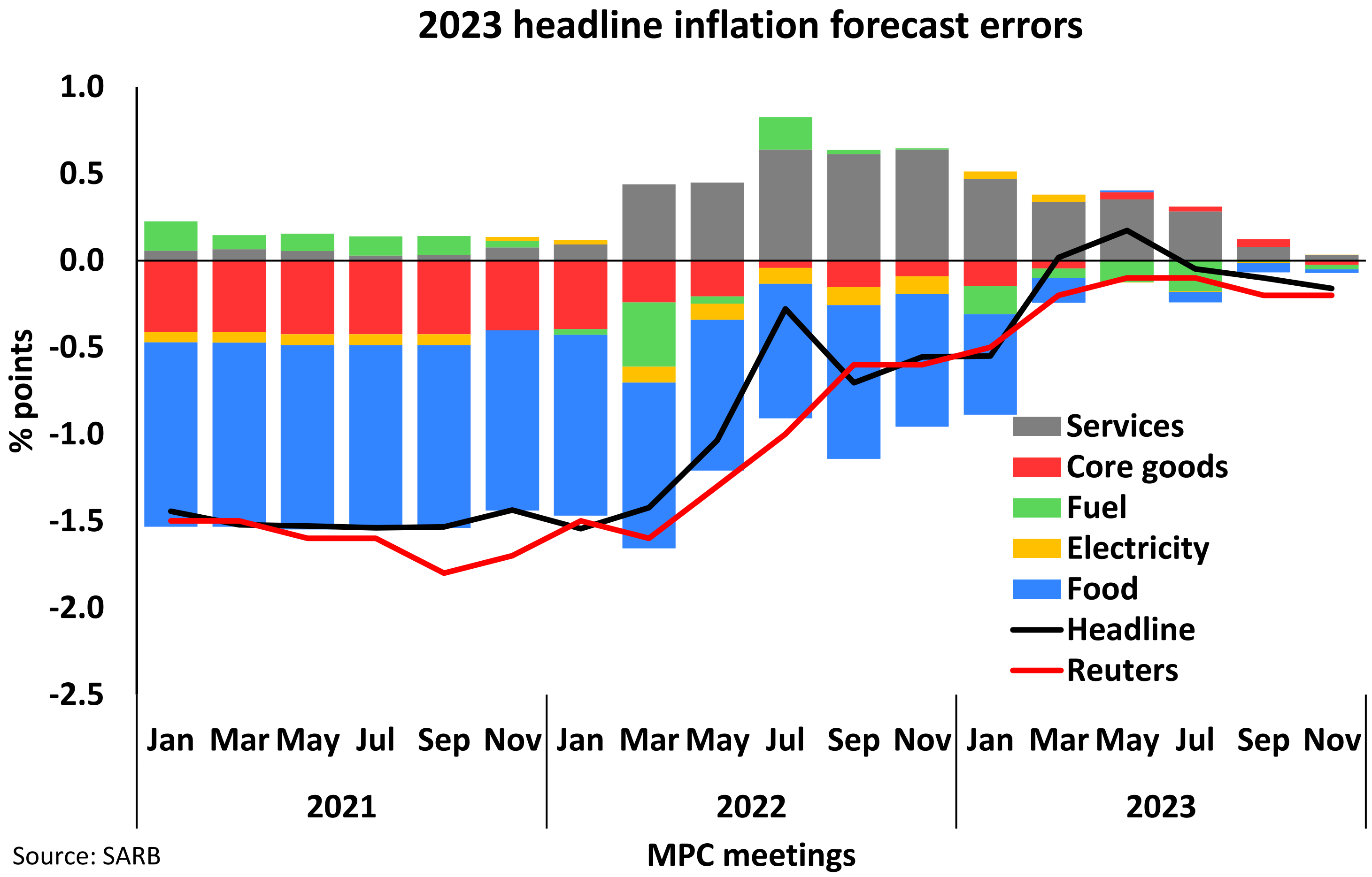
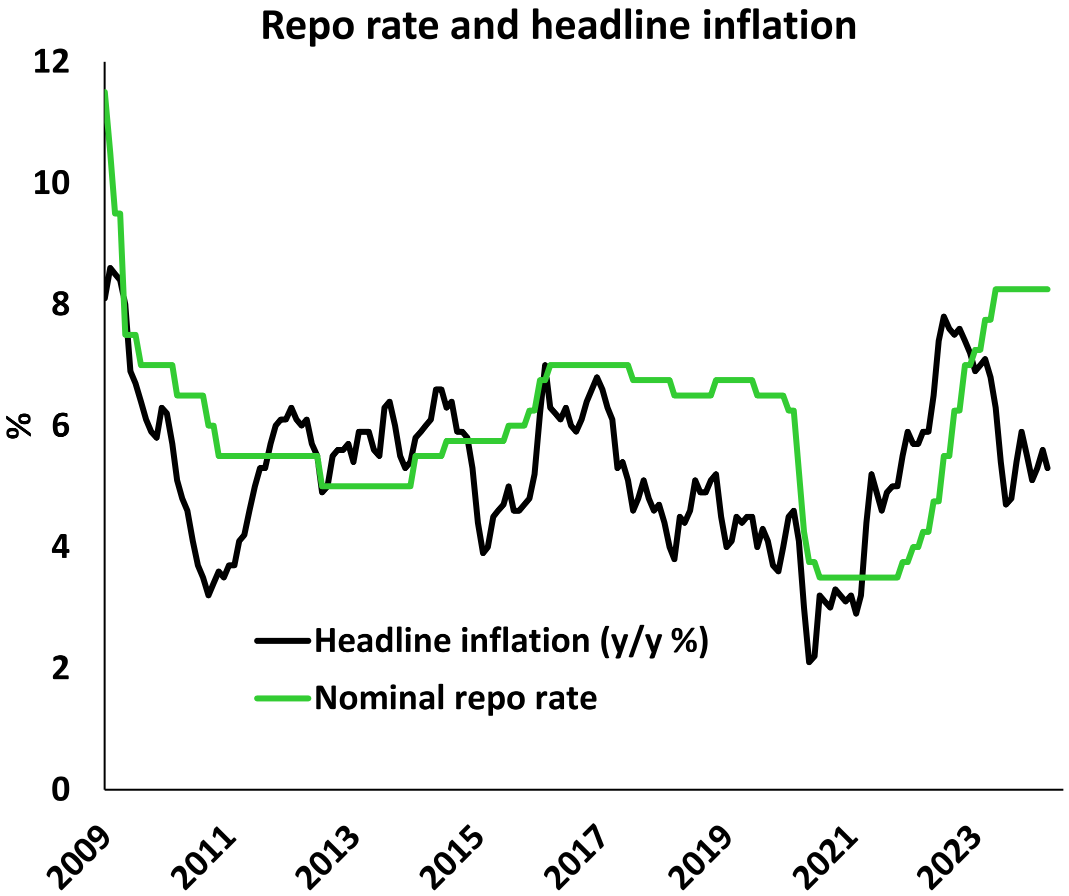
On balance, forecast errors to the downside

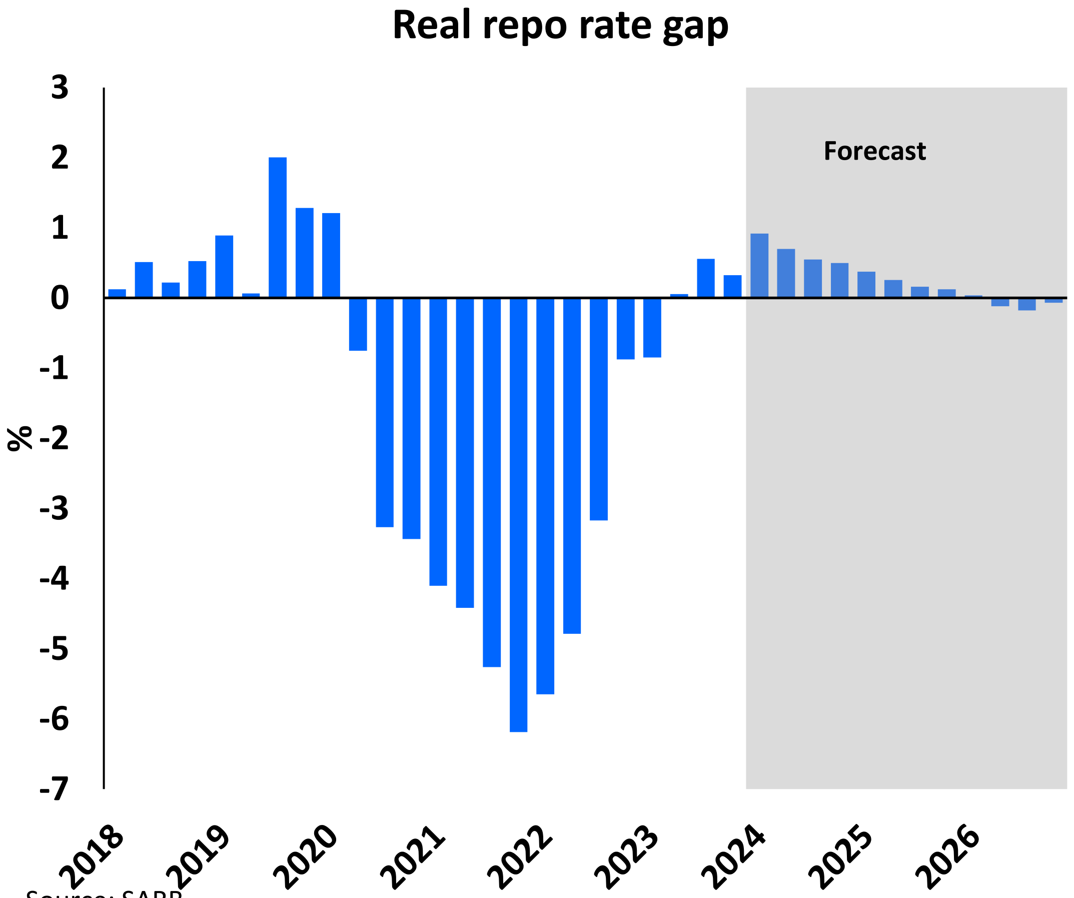


Source: SARB

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



Sources: Stats SA and SARB



Source: SARB

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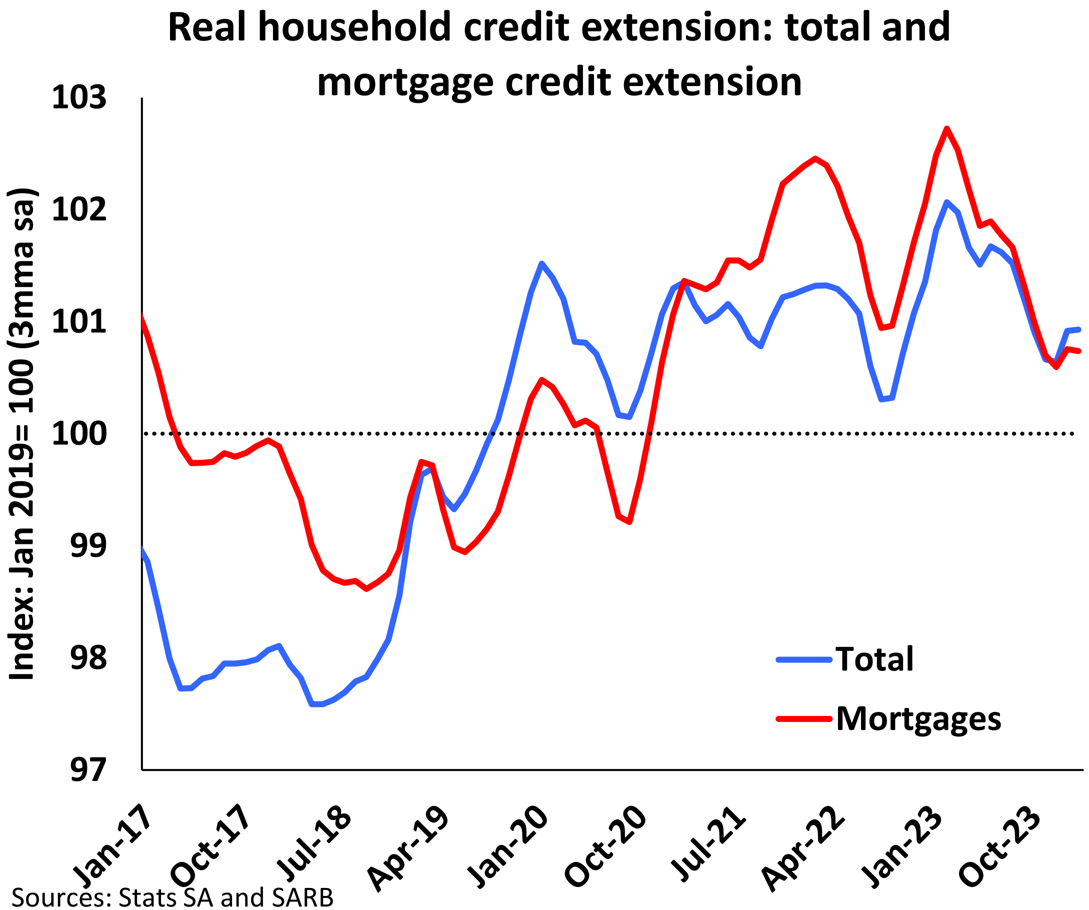
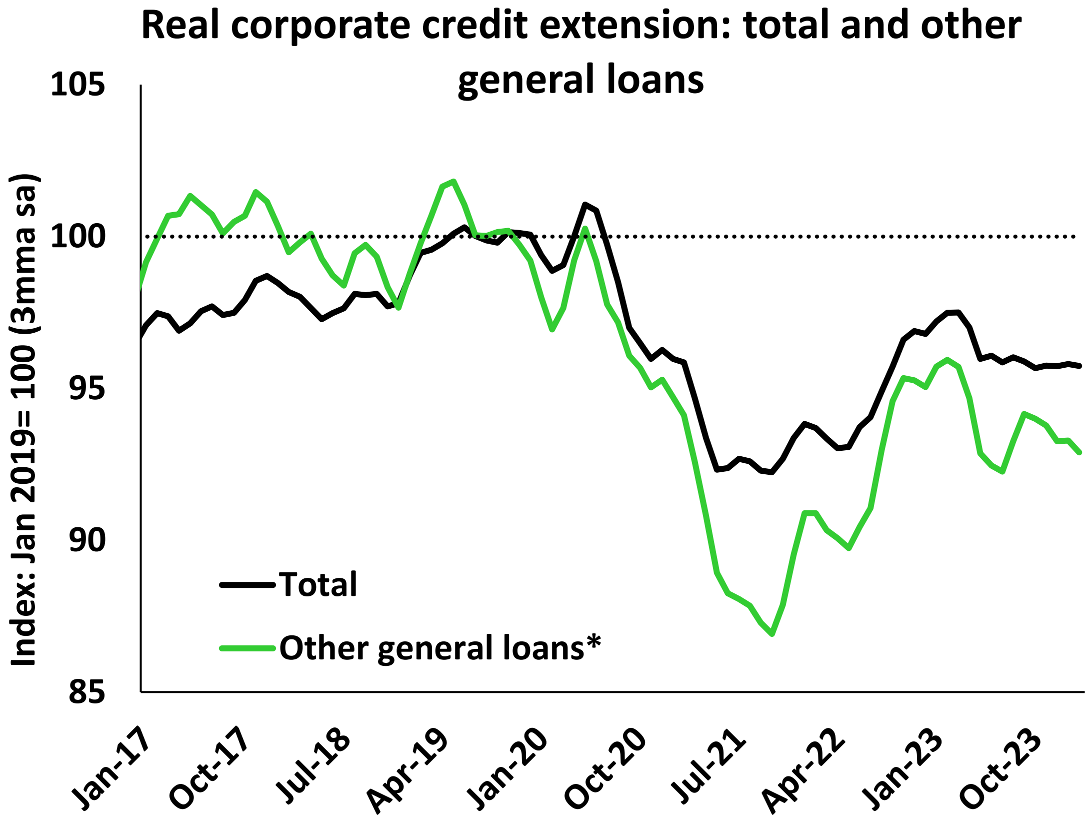
Credit demand modest... part higher cost & part caution



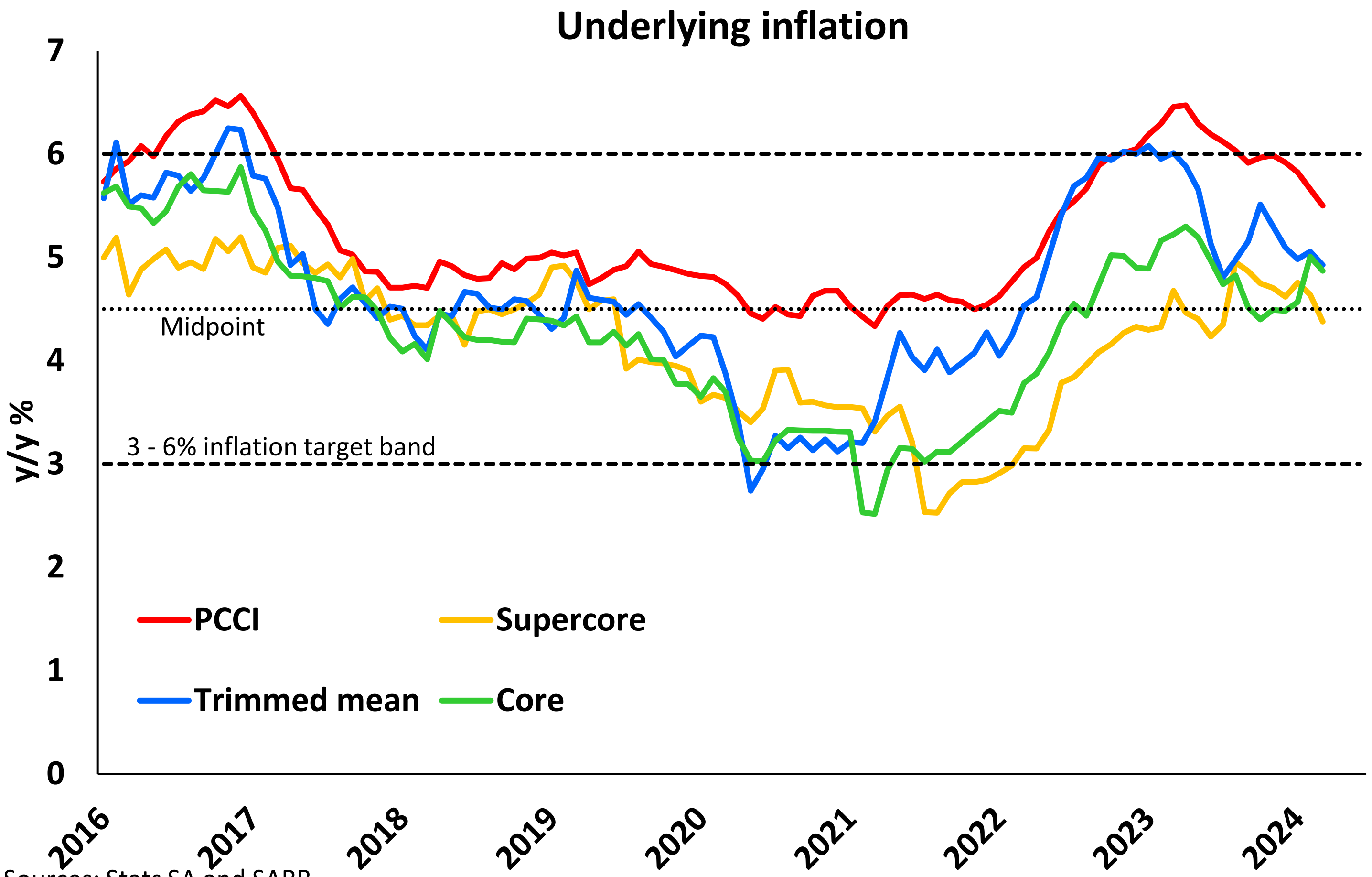
Sources: Stats SA and SARB



* Among other things, this category includes working capital/short-term funding generally used for inventory finance.

Sources: Stats SA and SARB

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



Sources: Stats SA and SARB

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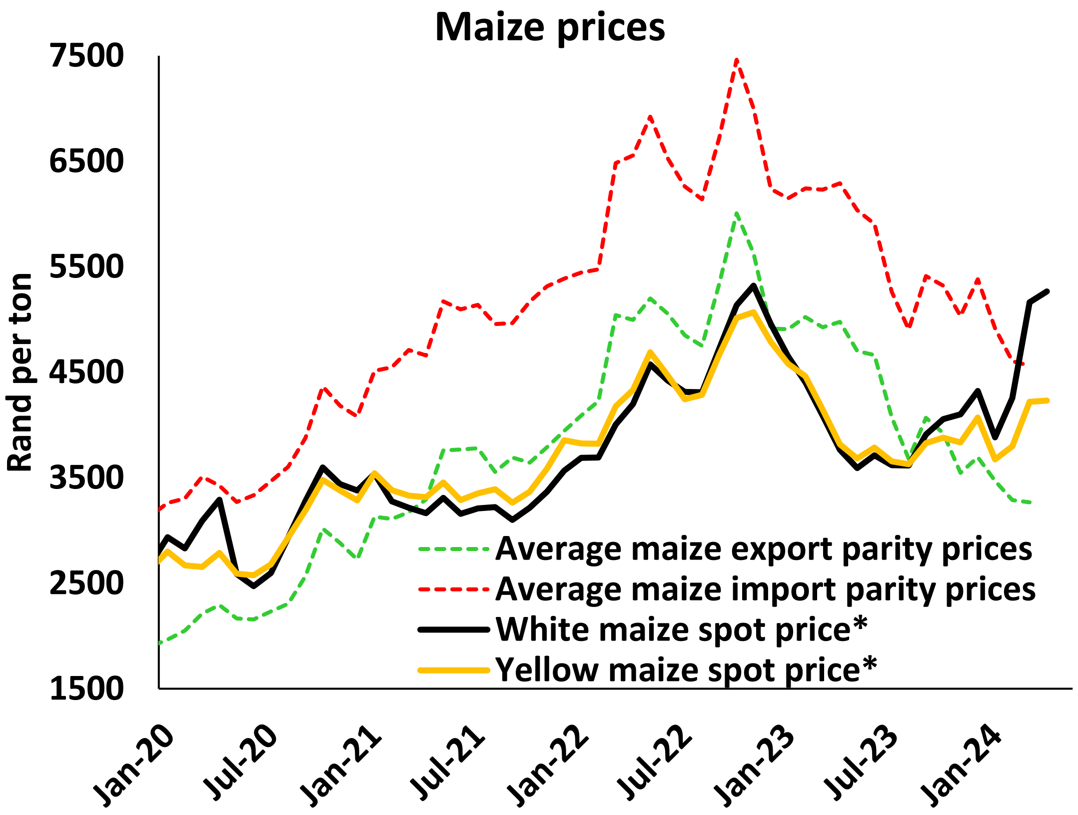
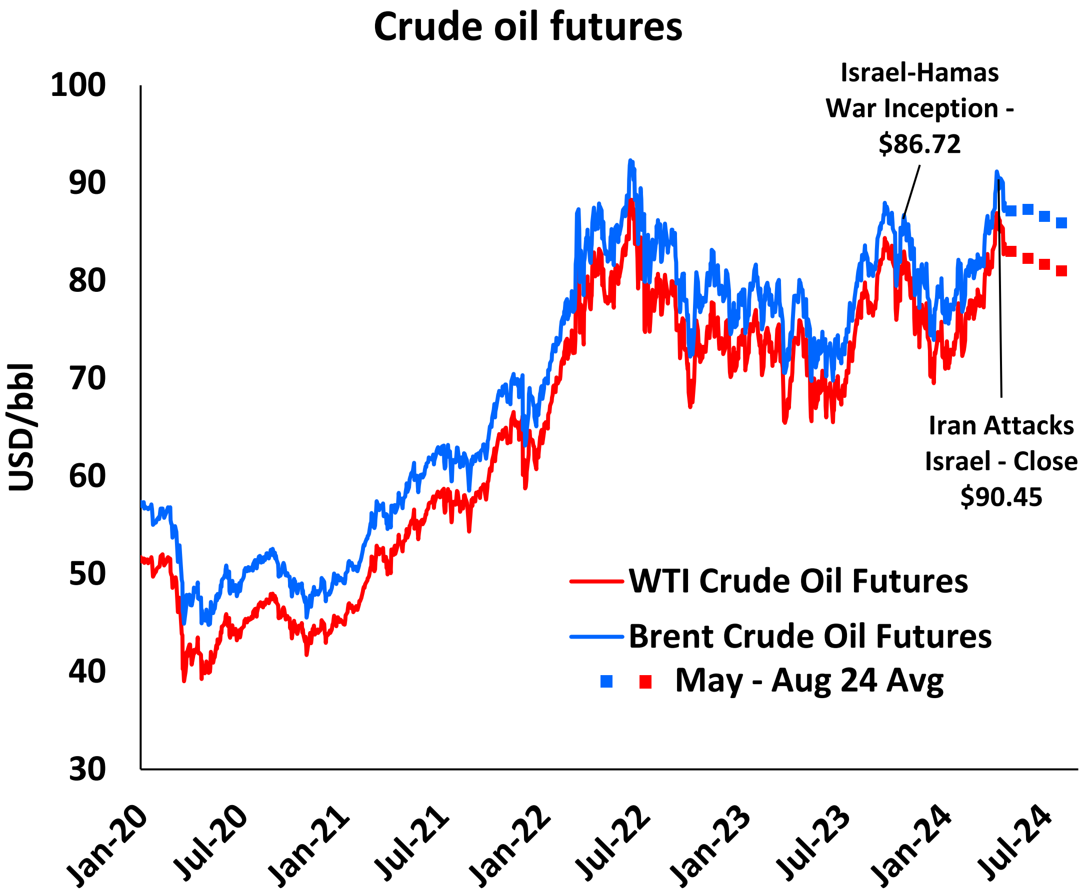
After considerable moderation, food and oil price risks resurface



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



Source: Bloomberg

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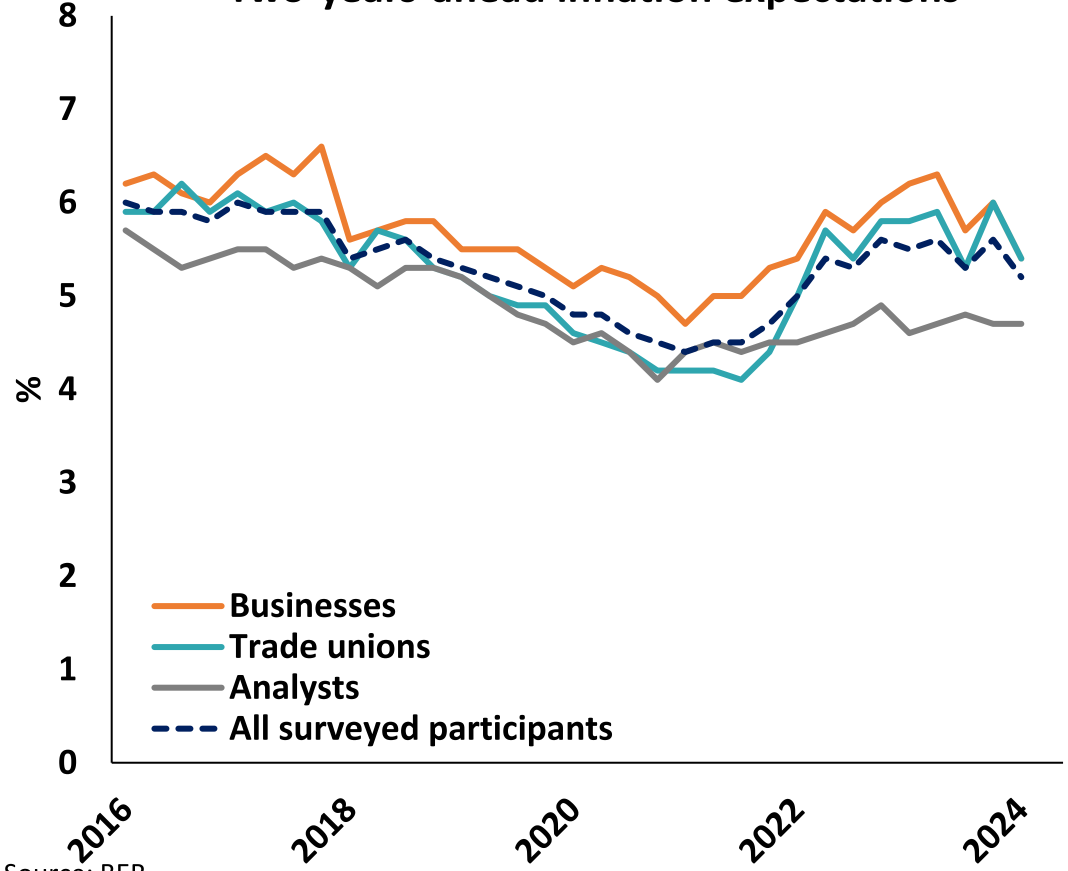
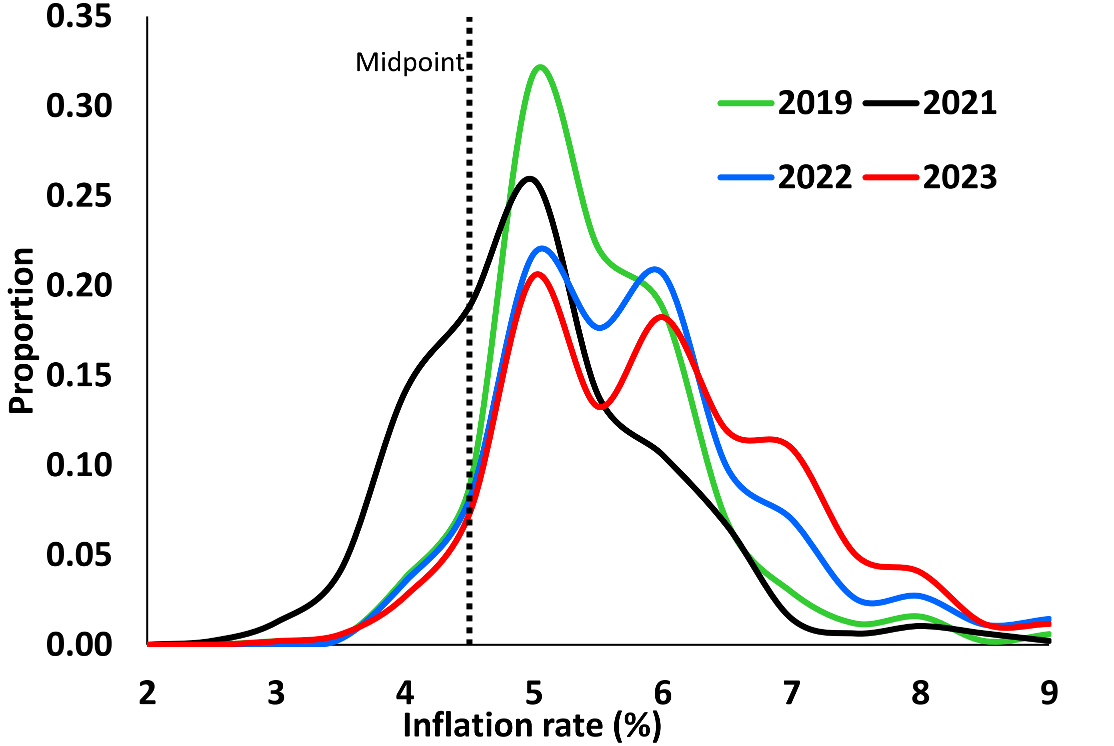
Expectations sticky well above 4.5%

Two-years-ahead inflation expectations



Source: BER

Business: distribution of two-years-ahead inflation expectations*



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

Sources: BER and SARB

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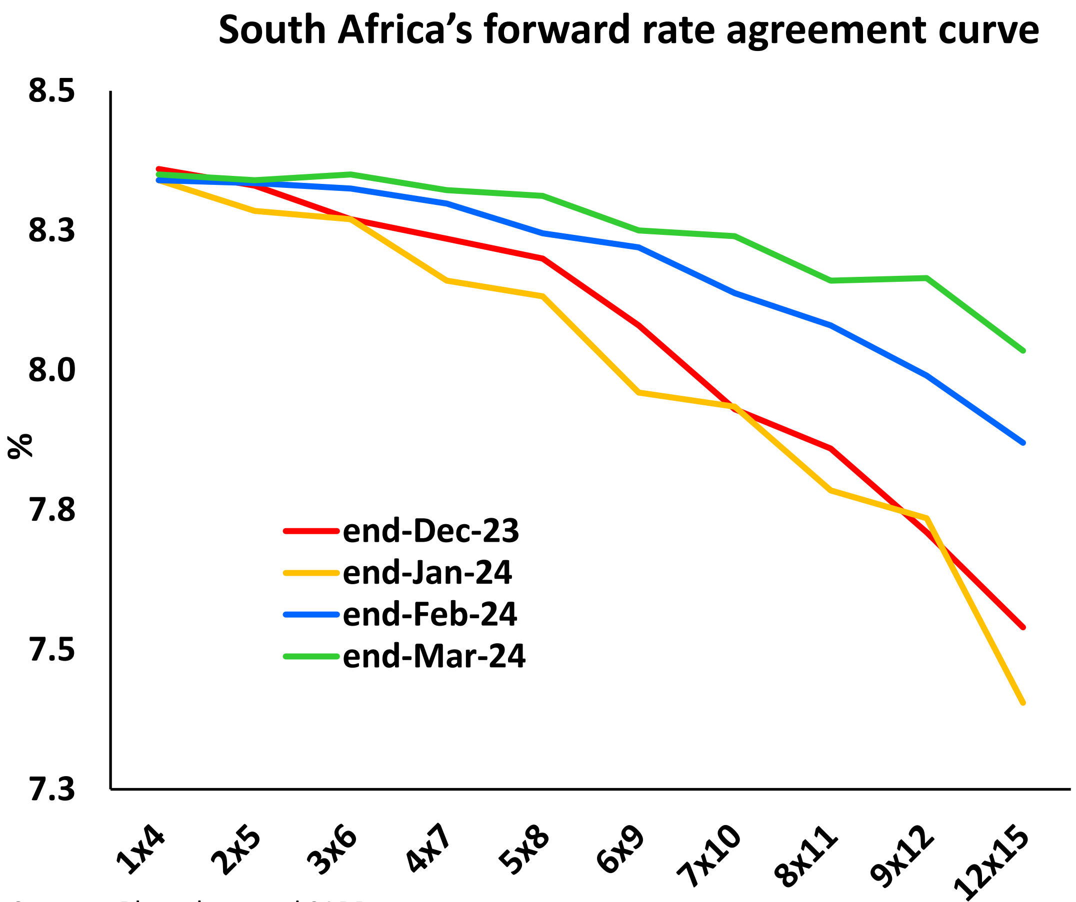
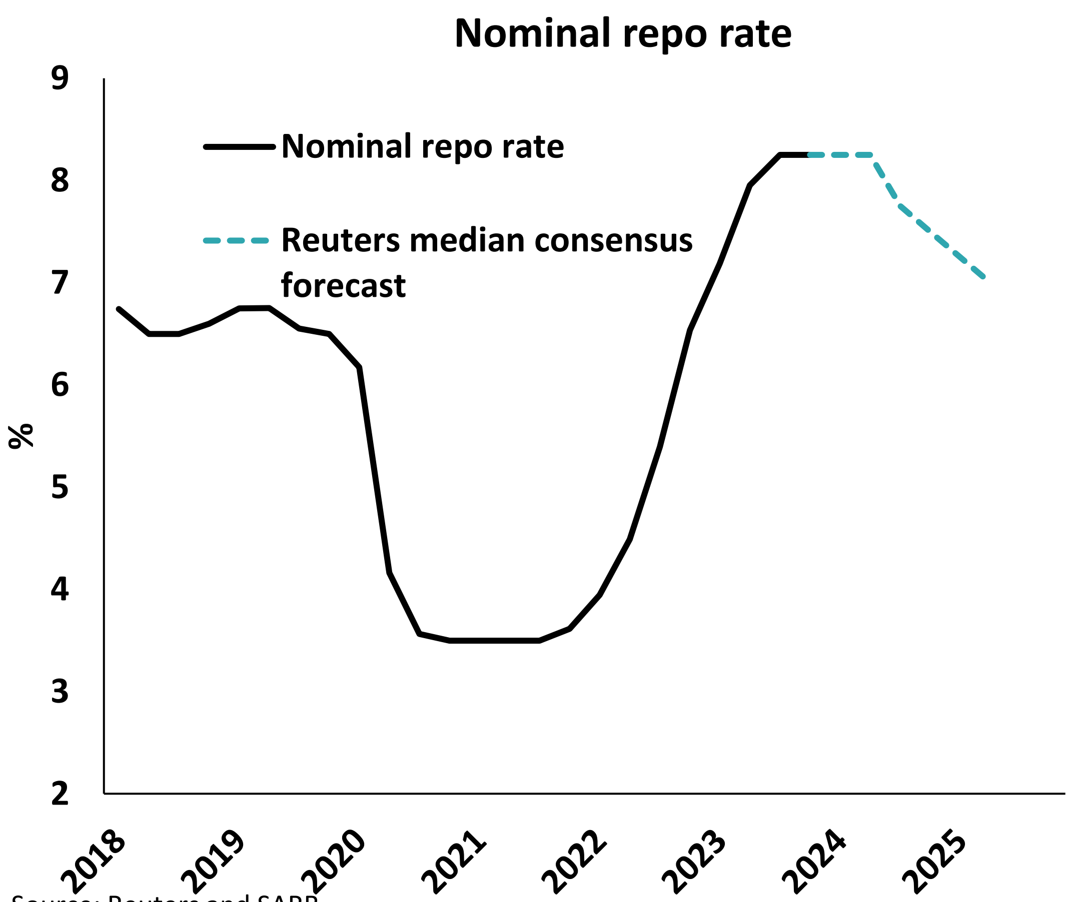
As global & domestic price inflation proves sticky, disinflation path uncertainty persists



Sources: Bloomberg and SARB



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**

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Thank you for your attendance

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