



# South African Reserve Bank

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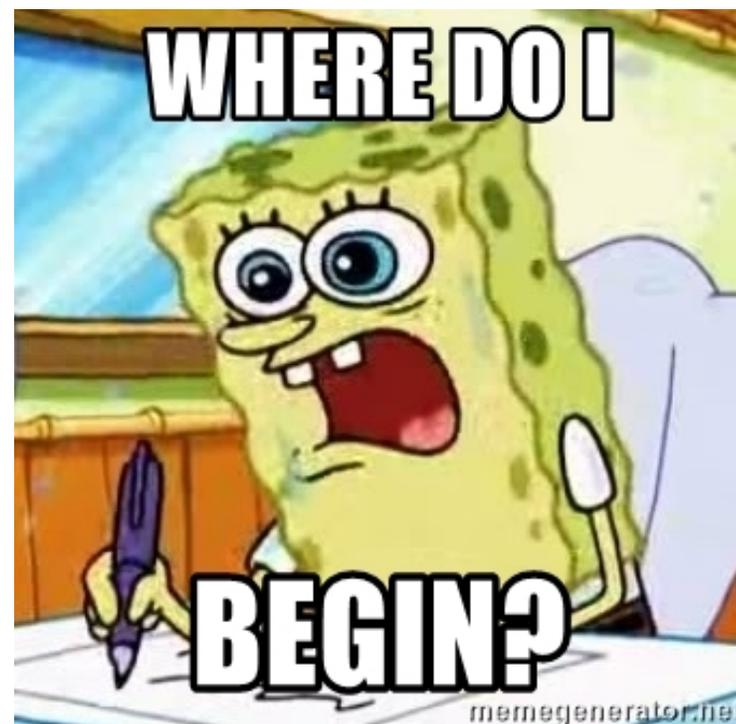
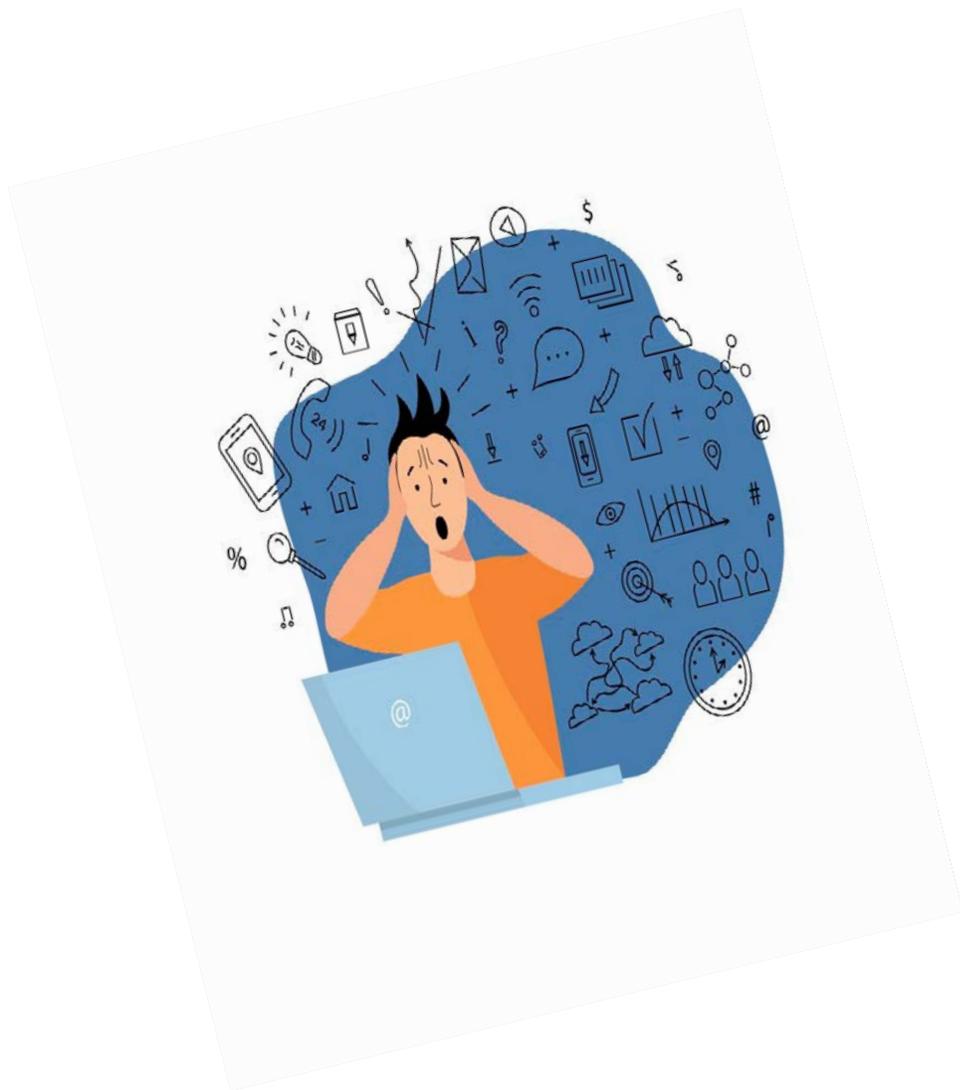
## 2022 Monetary Policy Committee Schools Challenge

Bringing it all together



SOUTH AFRICAN RESERVE BANK

# Bringing it all together...



# Outline

- **How** do you start?



- Compiling all the necessary information for the **MPC statement** before putting it together



- What must your **essay** look like?



- **How** do you submit your essay?



# Where to start – before writing the statement



# Where to start – READ and LISTEN

Start developing your  for ECONOMICS...



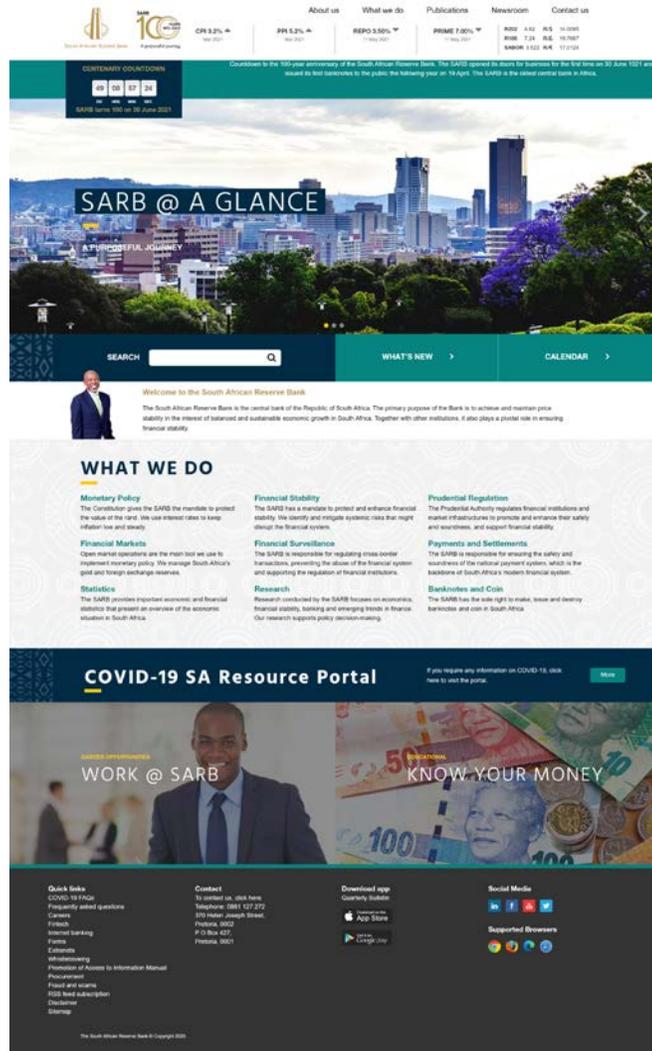
# What should you discuss in the MPC statement?

- Follow format of the SARB's MPC statement and the template provided
- Include a summary of the **current state** of the economy
- Mention and analyse **key economic indicators** to support your interest rate decision
- Include an **economic outlook**
- Include an **inflation outlook**
- State the **interest rate decision** at the end of the essay



# What should you discuss in the MPC statement?

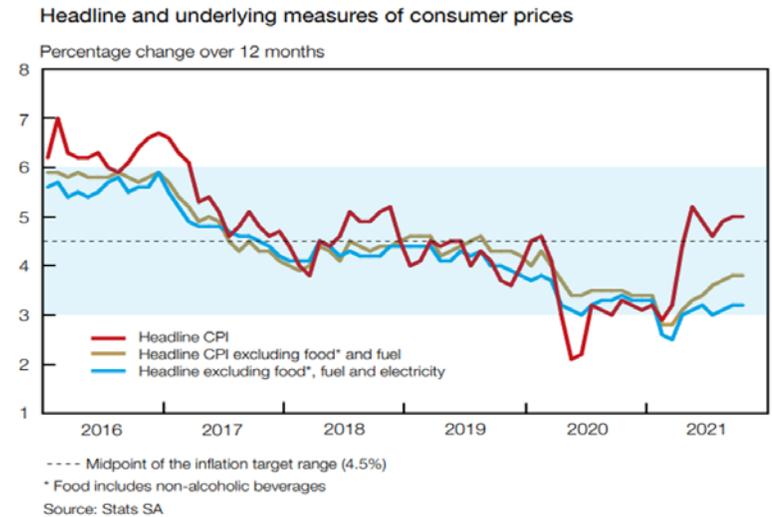
## Example of the SARB MPC statement



<https://www.resbank.co.za/en/home/publications/statements>

# MPC statement – content tips

- Discuss the **link** between the economic indicators and inflation
- Use clear graphs and charts
  - Clearly name and mark legends
  - Quote data sources
  - Use different types of graphs if possible
- Ensure **accuracy** and **coherency**. Do not guess



# MPC statement – template



## STATEMENT OF THE MONETARY POLICY COMMITTEE<sup>1</sup>

**Date:** *insert the date*

**Issued by:** *Name of the presenter(s)*

**Governor of:** *Name of the school*

### 1. Introduction

*How has the inflation outlook changed since the last MPC meeting? Provide a brief highlight or assessment of the recent and expected future economic and financial conditions in relation to the inflation outlook since the last MPC meeting/decision.*

### 2. Analyses of international or global economic outlook

*Provide an analysis of recent and expected economic activity and financial conditions around the world, especially of developed countries, major trading partners including emerging markets economies. For example, based on the recent trends of economic data available how the South African domestic economy and prices been affected by factors such as foreign investor sentiment; capital flows; global growth and outlook; global interest rates (i.e. in US, Japan and Euro area); trade performance; commodity prices; global inflation; rand exchange rate and many other factors.*

### 3. Analyses of domestic economic activity and outlook

*Provide an analysis of recent and expected economic indicators in South Africa taking into account of what is currently driving domestic demand and inflation outlook which will inform your MPC decision. For example, assessment of trends of key indicators such as: GDP growth and related sectors' performance; output gap; business cycle indicators; manufacturing, business and consumer confidence indices; employment or unemployment rate; credit extension; current account; fiscal policy conditions and many other factors.*

### 4. Analyses of inflation trends, risks to inflation and outlook

*Provide an analysis of current inflation including main drivers and inflationary risks to the outlook. For example, how has the inflation outlook changed since last MPC and what are the current inflation expectations? An assessment based on key indicator variables such as headline consumer price inflation (CPI); underlying core inflation; administered prices (i.e. petrol and electricity prices); food prices; producer price index (PPI); international oil price; other factors weighing downward or upward pressure on inflation; inflation expectations by market analysts; inflation forecast or outlook above/below/within target range etc. Was it a cost-push or demand-pull inflation?*

### 5. Monetary policy decision on repurchase (repo) rate

*Based on the assessment above, indicate the MPC decision on repo rate.*

### 6. Reference

*In alphabetical order, provide a list of references or sources used.*

*Example:*

**Use the template to formulate the MPC statement**

<sup>1</sup> An assessment of current and likely future economic and financial developments to arrive at a decision regarding the monetary policy stance.



# MPC statement – example of a GOOD statement

Good Essay

The Monetary Policy Committee's function is to maintain price stability using interest rates. This includes combating inflation and ensuring that it is within its target of 3 - 6 percent in the interest of sustainable economic growth in South Africa.

From our analysis, although inflation increased slightly it remains within the target range, prices are expected to increase due to increases in electricity, fuel and a depreciating Rand. On the contrary consumer demand and GDP remains subdued.

**South Africa GDP 2018**

According to Stats SA, South Africa's economy increased at a slower rate than expected with an overall year-on-year growth rate of 0.8percent 2018.

Source: SARB

2

Discusses economic indicators – focuses on latest developments

**Gross Domestic Product ( Production method)**

The primary sector's contribution to GDP declined to 7.9percent quarter-to-quarter due to strikes and policy uncertainty in the mining industry. The secondary sector expanded to 4.5percent quarter to quarter, while tertiary sector grew to 1.7percent.

**Gross Domestic Expenditure (GDE)**

Household Expenditure grew by 3.2percent fourth quarter 2018 but remains low due to increased household debt repayment, higher fuel and electricity prices.

Government expenditure declined by 0.6 percent fourth quarter 2018 due to a decline in employment in the public service.

Gross fixed capital formation decreased by 2.5percent and is expected to slow down due to budget constraints.

Exports increased by 11.1percent while imports decreased by 16percent reflecting a local weak demand.

GDP growth is expected to increase slightly to 1.3percent 2019 and at 1.7percent and 1.8percent for 2020 and 2021 respectively. The low growth is due to a weak global economy, low business confidence and electricity constraints.

**Global Economic Outlook**

Global output grew to 2.9percent fourth quarter 2018 from 2.7percent third quarter 2018 due to increased activity in Japan. It is expected to increase during the medium term.

3



# MPC statement – example of a GOOD statement (cont.)

**Global Economic GDP(output Quarter to Quarter) % Change at seasonally adjusted annualised rates: Advanced Economies**

Source: SARH

Legend: Advanced economies (blue), Emerging Economies (grey), Emerging Europe (red line)

Despite a decline in the UK economy and a recession in Italy, the Euro area's GDP increased year-on-year 2018, mainly from increased exports, consumer spending and fixed investment.

The growth in advanced economies was mainly from Japan while United States declined due to reduced residential investment and partial government shutdown.

Although GDP in emerging economies dropped mainly from China, Mexico and India, Russia grew while Brazil remained unchanged.

Global growth is expected to continue to slow down due to policy uncertainty in the UK, on-going trade tension between USA and China and low global consumer demand, which may cause a weak demand for South Africa's exports.

The text and the graph correspond perfectly

**Global Inflation**

Inflation remained contained in advanced economies, while it increased in emerging economies ,mainly from India, China and Brazil. Commodity prices like Brent crude oil remain high and is still an upside risk to inflation in South Africa.

**Consumer price inflation (CPI)**

CPI slightly increased in March 2019 due to increased electricity, fuel prices and a depreciating rand.

Percentage (%)

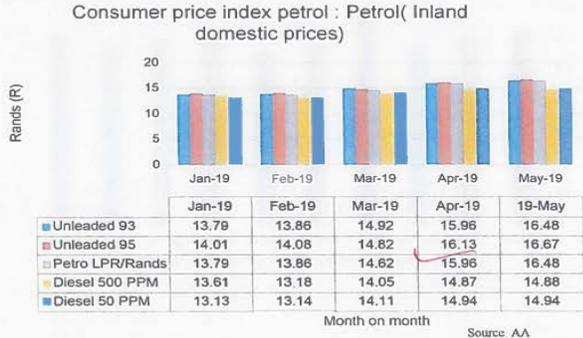
Month	Percentage (%)
Jan-18	4.4
Feb-18	4.0
Mar-18	3.8
Apr-18	4.5
May-18	4.4
Jun-18	4.6
Jul-18	5.1
Aug-18	4.9
Sep-18	4.9
Oct-18	5.1
Nov-18	5.2
Dec-18	4.5
Jan-19	4.1
Feb-19	4.1
Mar-19	4.5

Source: STATSSA

# MPC statement – example of a GOOD statement (cont.)

**Consumer Price Index : Petrol**

The decrease in Brent crude oil per barrel from US \$70.73 in April to US\$70.47 was offset by the increase in fuel levies of 15c and RAF of 5c. This led to increased domestic fuel prices and is an upside risk to inflation. Crude oil is expected to decline due to a rise in the US production.

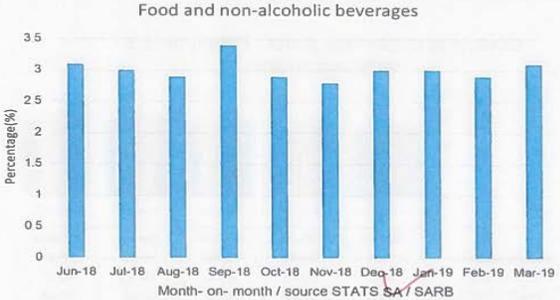


**Electricity and other fuels**

Electricity tariffs increased by 9.41 percent and illuminating paraffin by 63 cents in April 2019 leading to increased production costs and continues to be an upside risk to cost push inflation.

**Food and non-alcoholic beverages**

Consumer food price inflation slightly increased due to low demand.



**Core CPI( Excluding Food, Electricity and Petrol)**

Core CPI remained unchanged in March 2019 and is expected to rise to 4.8 percent in 2019.

Excellent illustration of factors that influence domestic CPI



# MPC statement – example of a GOOD statement (cont.)

**Core Consumer Price Index**

Percentage (%)

Month-on - month

Source: SARB

**Producer Price Index: Final manufactured goods**

PPI increased above the inflation target range to 6.2percent due to increased fuel prices, manufactured food price inflation and a weaker rand, leading to cost push inflation.

**Producer Price Index**

Percentage (%)

Year-on -year

Source: BER, STATS SA

Although headline inflation remains within the target range, the upside price pressure is likely to continue due to increased electricity, fuel and a weaker rand leading to increased costs of production and thus cost push inflation.

CPI is expected to increase to 5.2percent in 2019.

Inflation expectations survey by BER in first quarter 2019 showed a decline from 5.4percent to 4.8percent for 2019 and from 5.4percent to 5.2percent for 2020.

**Short-term indicators**

**Consumer Confidence Index (CCI)**

CCI decreased mainly due to a decrease in job expectations and consumers' economic outlook. CCI is expected to remain low reflecting a slowdown in consumer spending and high unemployment.

**Consumer Confidence Index**

Index points

Quarter to quarter

Source: STA IS SA Inve-ter

**Business Confidence Index (BCI)**

BCI increased to 93.7 index points April 2019 from 91.8 index points March 2019 due to increased imports, reduced load shedding and a positive expectation of post-election policy environment.

# MPC statement – example of a GOOD statement (cont.)

**Purchasing Managers Index(PMI)**

PMI increased in April 2019 due to stabilized but depressed factory conditions. PMI is expected to reach 53.0 by the end of 2019 and 54.0 in 2020.

ABSA Purchasing Managers Index Source: SARB/BER

**Manufacturing Production**

Despite a year-on-year increase in March 2019, manufacturing contracted by 9.1 percent first quarter 2019 due to load-shedding and a weak domestic demand.

Source: STATSSA

**Retail Trade Sales**

Retail sales increased marginally reflecting low CCI and consumer constraints from higher electricity and fuel costs.

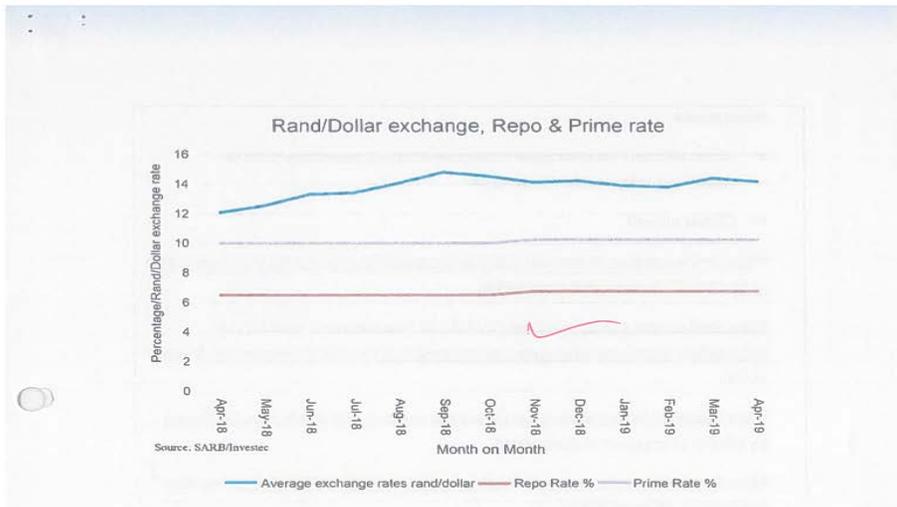
Source: STATSSA/SARB

Year-on-year	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Year-on-year	3.6	4.9	5.6	1	2.7	1.8	1.4	2.5	0.6	2.2	2.9	-1.4	1.2	1.1	1.4

**Mining Production**

Mining production dropped due to strikes and load-shedding as reflected by low GDP. It is expected to drop to -1.4percent by the end of 2019 and moderate to 1.2percent in 2020.

# MPC statement – example of a GOOD statement (cont.)



**Decision** This is the end goal

Despite an increase in CPI, inflation is expected to remain in the target range of 3-6 percent. The increase is mainly from the supply side pressures due to increased electricity and fuel prices, a weaker rand and rising food prices, while inflation pressure from the demand side remain subdued reflected by low GDP, high unemployment and low CCI.

Increasing the repurchase rate will dampen consumer demand and investment. Given that inflation is at 4.1 percent and is expected to average at 5.2 percent in 2019, the MPC has decided to keep the repurchase rate unchanged at 6.75 percent but will not hesitate to increase the repurchase rate should risks to inflation increase.

Excellent justification of the interest rate decision

References

- South African Reserve Bank Monetary Policy Committee School Challenge Information Pack 2019
- Global growth

<https://www.oecd.org/newsroom/q20-gdp-growth-fourth-quarter-2018-oecd.htm> by OECD (Accessed: 5 April 2019)

<https://www.oecd.org/eco/outlook/> by OECD (Accessed: 5 April 2019)

<https://stats.oecd.org/index.aspx?quervid=82174> by OECD (Accessed: 5 April 2019)

<https://www.oecd.org/newsroom/consumer-prices-oecd-5-february-2019.htm> by OECD (Accessed: 6 April 2019)

<https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/> by IMF (Accessed: 20 April 2019)

<https://www.imf.org/en/Publications/WEO/issues/2019/03/28/world-economic-outlook-april-2019> by IMF (Accessed: 5 April 2019)

- <https://www.resbank.co.za>

Quarterly Bulletin March 2019 by South African Reserve Bank (Accessed: 28 April 2019)

- [www.statssa.gov.za](http://www.statssa.gov.za)

Consumer Price Index March 2019: Statistical release (Embargoed until: 17 April 2019) (Accessed: 28 April 2019)

- [www.statssa.gov.za](http://www.statssa.gov.za)

Consumer Price Index February 2019: Statistical release (Embargoed until: 20 March 2019) (Accessed: 1 April 2019)

- [www.statssa.gov.za](http://www.statssa.gov.za)



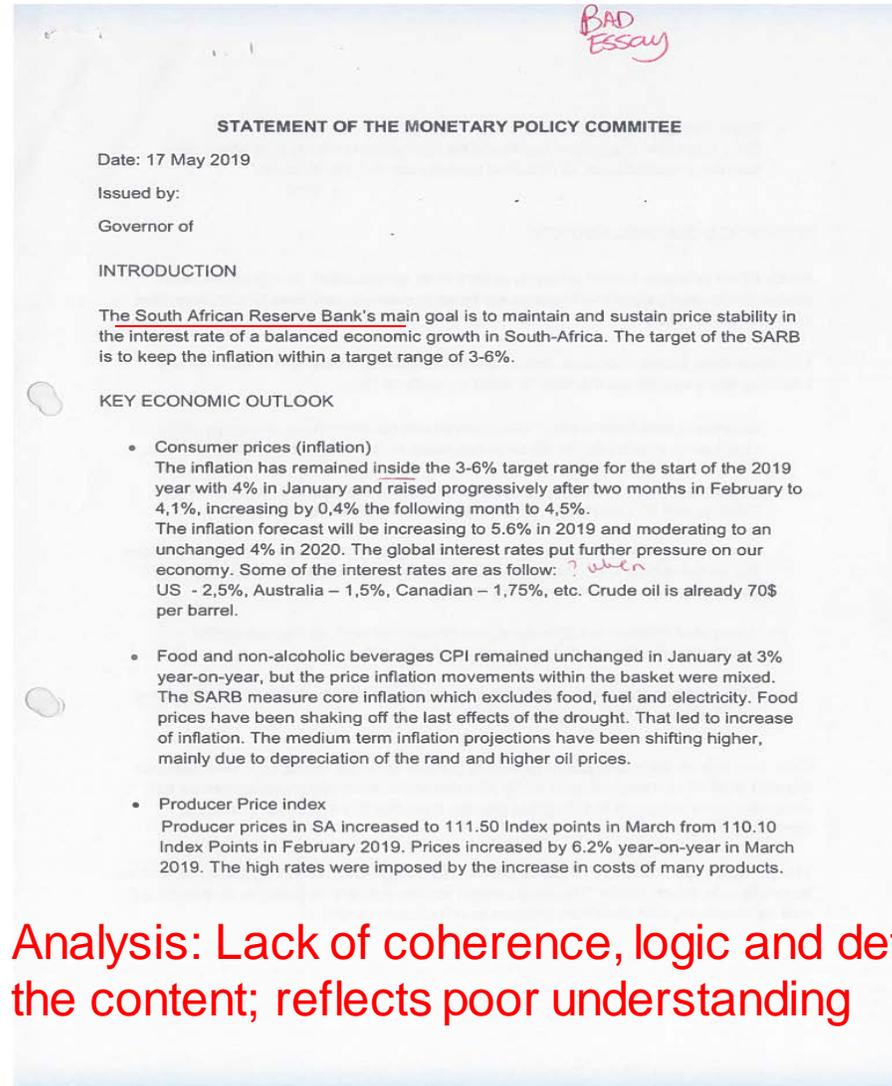
# GOOD MPC statement – key takeaways

- ✓ Discuss relevant international and domestic economic indicators
- ✓ Consistency between the text and the graphs
- ✓ Logic in the justification of the interest rate decision
- ✓ Structure of the statement: make it easy to follow the content
- ✓ **Major shortcoming**: lack of sufficient detail in inflation forecast

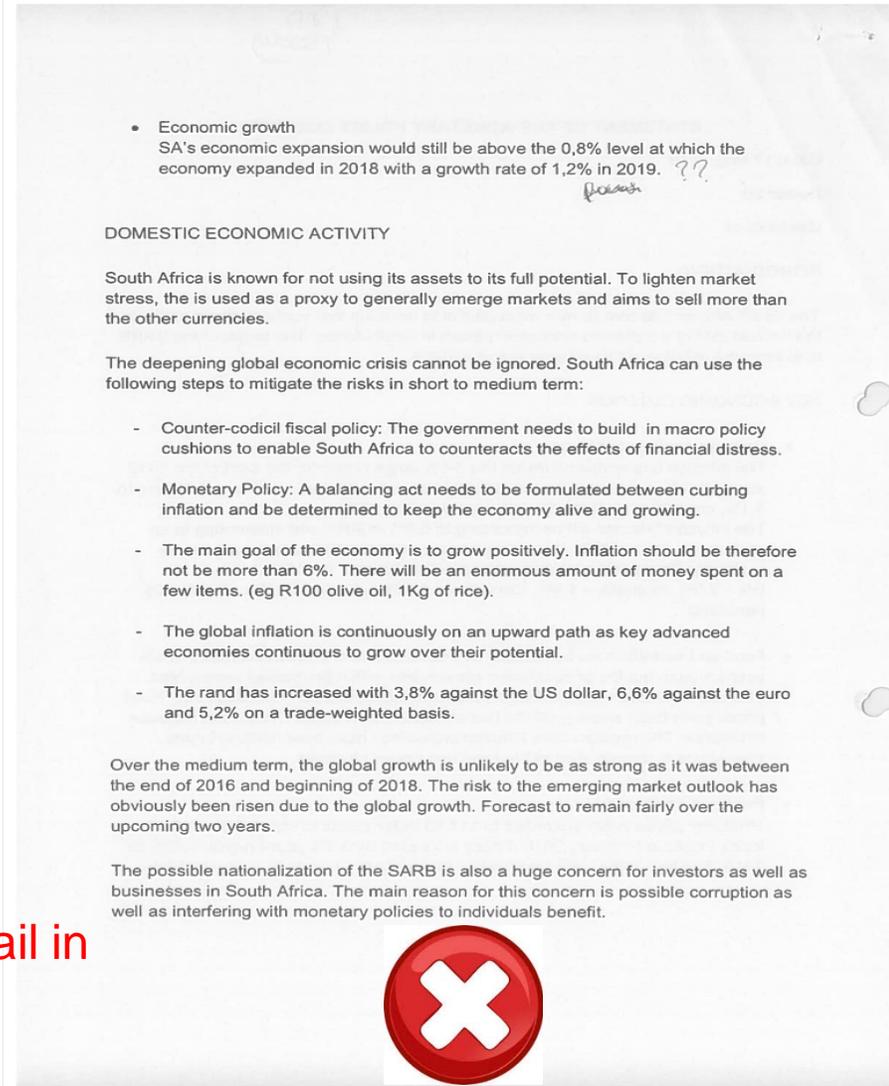
***Following these key takeaways will make it easier for you to put together the essay***



# MPC statement – example of a NOT SO GOOD statement



Analysis: Lack of coherence, logic and detail in the content; reflects poor understanding



# MPC statement – example of a NOT SO GOOD statement

The reason of the MPC is to look through the first-round effects and focus on the possible second-round effects of side shocks. Shocks of a persistent nature such as extended periods of currency depreciation, elevated oil prices and multi-year electricity price increases make it difficult to disentangle these first and second-round effects.

Given the relative stability in the underlying core inflation measure, causes to delay the adjustment that could give the MPC room to re-assess the unfolding developments in subsequent meetings. Delaying the adjustment could cause inflation expectations to become entrenched at higher levels and this could mask the second round effects.

The ongoing increase in fuel and electricity prices put more pressure on the consumer as well as businesses. The poor performance as well as corruption within Eskom has a huge effect on economic growth. The poor growth of the economy is another huge matter of concern. The way how the government deals with the land issue, can also have negative implications for our country and its economy.

In view of the above circumstances, the MPC has decided to leave the repurchase rate unchanged at 6,75% per year. All members were in favor of leaving the current repurchase rate at 6,75%.

The MPC will continuously monitor and manage the monetary aspects in the best interest of our country. The implied path remains a broad policy guide which can and does change in either direction between meetings in response to new developments and changing risks.

## GOVERNOR

The next statement of the Monetary Policy Committee will be released on 17 July 2019.

## References:

Business newspapers  
Die Burger  
Stats SA  
TV news



There isn't a clear link between the economic indicators discussed and inflation. This makes it difficult to understand the justification for the interest rate decision.



# What is expected of you?

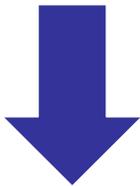
- Ensure that your statement makes economic sense.
- Keep it simple and to the point.
- Essay can be typed or neatly handwritten in black or blue pen,.....NO funny colours!!!.
- Documents should be well presented and have correct spelling and grammar.
- Maximum length = 1 000 words.
- Graphs and illustrations may be used to compliment the text.
- Font: Arial, 12 point and 1.5 line spacing.
- **DO NOT PLAGIARISE!!!!!!**



# Submitting your Essay

- Once you have compiled your essay, give it to one of your friends/teachers/parents to proofread and check for any mistakes.
- Email the written statement to [sarb-mpcchallenge@resbank.co.za](mailto:sarb-mpcchallenge@resbank.co.za)
- The SARB team **will evaluate and mark** the essay.

Submit your Essay to  
the SARB on:

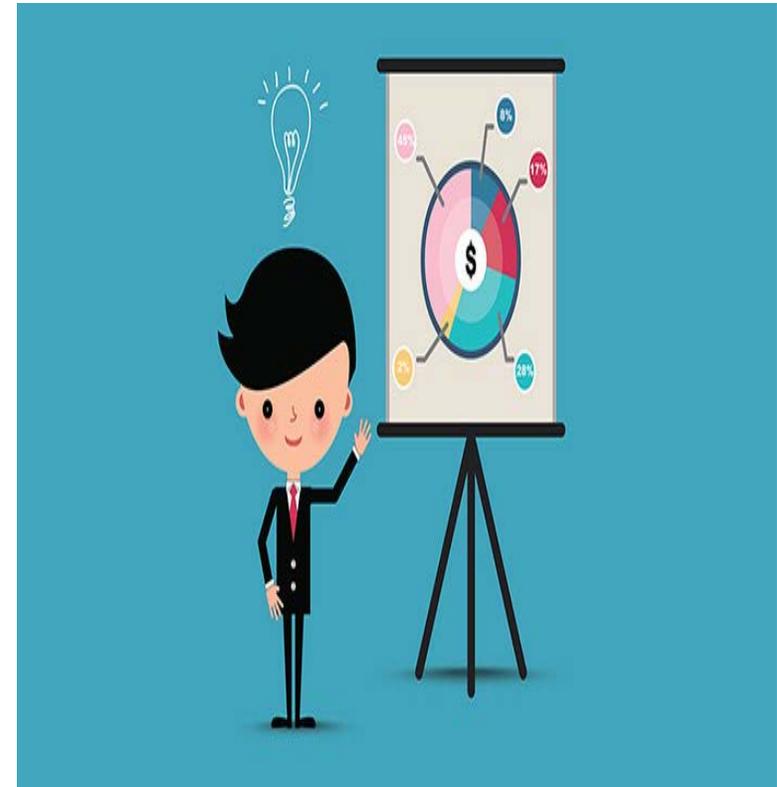


Date: 27 May 2022



# What is expected of you?

The finalist teams will be chosen and invited to present their essay, either in person or online.



# The presentation – tips

- Select the best presenter of your team as the **GOVERNOR**
- Presentation should be on a **10 minutes** slide show **based on your team's essay**
- Adhere to the allocated time
- Work together as a team and refrain from giving the Governor all the work to do...
- Motivate your repo rate decision
- Avoid using terminology that you do not understand
- Be well prepared...know your economics and stay abreast of recent economic developments



# Question and answer (Q&A) session – general information

- ❖ After the presentation, finalists will be invited for a Q&A session.
- ❖ The panel will have 15 minutes for the **Q&A session**.
- ❖ The panel will ask questions based on your essay.
- ❖ The panel members might also ask questions which they think are important and you can answer, although these questions may not be covered in your video clip.
- ❖ **Teamwork** is important during the Q&A.
- ❖ Economic knowledge of all team members is crucial.
- ❖ Adhere to the allocated time
- ❖ **Adhere to the DECISION given in your essay.**
- ❖ Avoid using terminology that you cannot define.
- ❖ Most important: relax and enjoy your chance to act as an MPC member.



# Video clip – previous MPC Schools Challenge presentations

- The following video clip is an example of what is expected of you, and what you can expect from the Q&A session.



**THANK  
YOU**

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**SOUTH AFRICAN RESERVE BANK**