



South African Reserve Bank

**2023 Monetary Policy Committee
Schools Challenge**

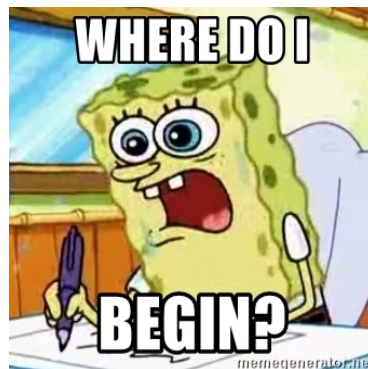
Bringing it all together



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Bringing it all together...



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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?



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Where to start – before writing the MPC statement



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Where to start – READ and LISTEN

Start developing your  for ECONOMICS...



BusinessDay
NEWS WORTH KNOWING

Times
LIVE

**Mail &
Guardian
Africa**



IOL
News

Moneyweb



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What should you discuss in the MPC statement?

- Follow the 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

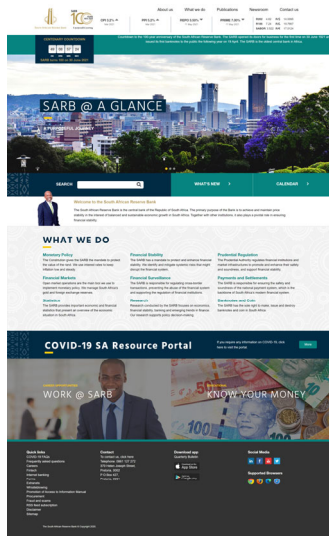


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What should you discuss in the MPC statement?

Example of the SARB MPC statement



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



PRESS STATEMENT
24 November 2022

STATEMENT OF THE MONETARY POLICY COMMITTEE

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank

High inflation and weak economic growth continue to shape global conditions alongside monetary and fiscal policy responses. Russia's war in the Ukraine drags on, impairing trade and raising prices of a wide range of energy, food and other commodities. Growth in the United States is set to weaken, and remains low in China. Although energy constraints have eased somewhat in the Euro Area, recession risk is high. Additionally, a number of developing economies face debt distress, exacerbated by tighter global financial conditions.¹

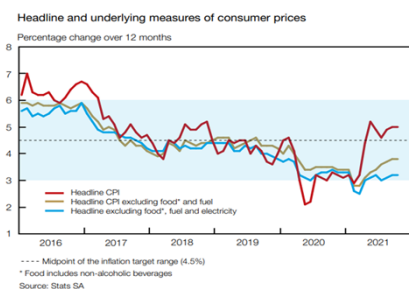
Policy normalisation has accelerated and monetary conditions are likely to tighten further to ensure inflation declines from its current high rates. With long-term borrowing costs high and fiscal positions extended, there is less policy space available for major counter-cyclical efforts to increase economic growth. In several economies, including South Africa, ongoing consolidation of fiscal positions will support disinflation. Asset

¹ According to the IMF's October 2022 Global Financial Stability Report, eight low-income countries are in debt distress and 30 are at high risk of distress (out of 69 countries considered low-income countries—among which, there are some frontier markets).
MPC Statement 24 November 2022



MPC statement – content tips

- Discuss the **link** between the economic indicators and inflation
- Use clear graphs and charts
 - Name and label legends clearly
 - 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 COMMITTEE¹

Date: insert the date
 Issued by: Name of the presenter(s)
 Governor of: Name of the school

Use this template to formulate the MPC statement

- 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:

¹ 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

Date: 27 May 2022

Issued by: [Redacted]

Essay No. 00

Essay No. 00

Introduction

The Monetary Policy Committee (MPC) aims to use the repo rate to ensure price stability. The committee explicitly targets the 4.5% midpoint of the inflation targeting range of 3-6%. Steady inflation is a necessary condition for sustainable economic growth in South Africa.

Since the last MPC meeting in May, inflation has moved even further above the 4.5% midpoint, breaching the upper target of 6.0%. The upward pressure on inflation is coming from higher supply-side costs such as rising food and fuel prices. At the same time, domestic economic activity weakened, undermined by power outages, the floods in KwaZulu-Natal and weaker global conditions.

Global conditions

Since the last Monetary Policy Committee Meeting in May, global economic conditions deteriorated further. Russia's declaration of war on Ukraine has not only pushed global oil and food prices sharply higher but also disrupted global trade, worsened already considerable global inflationary pressures and introduced significant uncertainties into the global financial markets. At the same, the strict lockdowns in China have also weakened global demand, disrupted global trade and aggravated the international supply chains, adding further cost-push price pressures the world over.

According to the International Monetary Fund (IMF), global growth is predicted at 3.6% for 2022 and 2023, significantly lower than the January forecasts. Global inflation is projected at 5.7% in developed economies and 8.7% in developing countries for 2022. This combination of weaker world growth and rising global inflation has increased the risk of global stagflation, which is contributing to the state of uncertainty in the world economy and financial markets.

Sharp increases in the prices of commodities, particularly food and fuel, place South Africa at risk in terms of price stability and contribute to a more unequal distribution of income in the country. The committee believes that the global environment continues to pose upside risks to South Africa's inflation outlook.

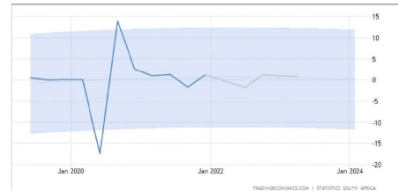
South Africa: Economic conditions

GDP growth
 Sustained load-shedding and the natural state of disaster in the KwaZulu-Natal province minimizes production potential and places further limits on the GDP growth for the near future. Floods in KwaZulu-Natal impact international transport chains because the Richards Bay

harbour is located in the area, through which the bulk of South Africa's coal and other bulk mineral exports are shipped to the world markets. It also affects local trade because Durban is South Africa's main container port. The national state of disaster in KwaZulu-Natal will therefore disrupt domestic trade and hurt economic growth temporarily.

The graph below illustrates the GDP growth rate for the past 3 years, showing major downswings and upswings, as well as the estimated GDP growth rate in South Africa.

GDP growth rate 2020 - 2024



Source: <https://tradingeconomics.com/south-africa/gdp-growth>

Supply-side

The shocks of the floods and the power disruptions are visible in the latest production numbers.

Purchasing Managers' Index

According to the Absa Purchasing Managers' index, this figure fell to 50.7 index points in April 2022. This is the lowest level since July 2021 after business activity and new sales orders dropped because of floods in KwaZulu-Natal.

This is an indication of the economic trends in especially the manufacturing and services sector. As viewed by purchasing managers, they thus predict a contracting trend in terms of purchases.

Discusses economic indicators – focuses on latest developments

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



Business Confidence Index
According to SACC (South African Chamber of Commerce and Industry), the BCI improved by 2.8 index points from January 2022 to February 2022 resulting from stronger domestic sales and exports.

Due to global uncertainty concerning the Russian-Ukraine war, the BCI decreased by 1.3 index points in March 2022. Yet in comparison with December 2021 (92.0 index points), the BCI remains positive despite the slight deterioration in index points.

Business Confidence Index
SACC Business Confidence Index

Source: <https://sacc.co.za/wp-content/uploads/2022/02/BCI-UM&FC-2022.pdf>

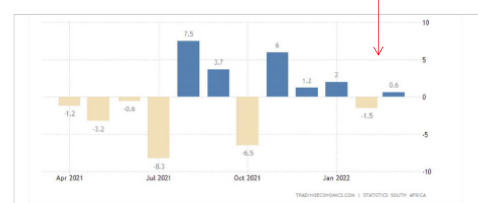
The text and graph correspond perfectly

4 **Essay No. 00**

The growth in business confidence may forecast an economic upswing.

Mining production
Mining production during 2021 stabilized after the steep plunge in June 2020. Mining production decreased in February 2022 year-on-year (-6.0%) and month-on-month (-6.4%). Decrease in iron, gold, and PGMs mining was the three major negative contributors.

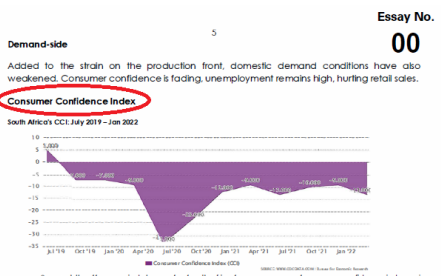
Manufacturing production
Manufacturing production – 2021-2022



High commodity prices will always be a benefit for South Africa regarding export receipts, but also add significant cost pressures to manufacturing and other sectors.

On a year-on-year basis, production barely grew, rising just 0.6% compared with a downwardly revised of 1.5% in February. It is suspected that load shedding (including Stage 4) might have impacted manufacturing activity negatively.

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

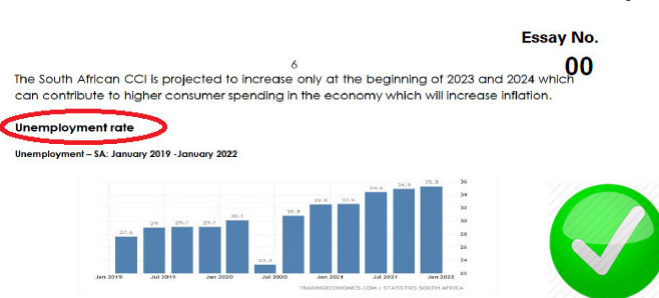


There is a common decline in global consumer confidence in the past month due to the rise of global inflation, the ongoing war between Russia and Ukraine, and the economy still recovering from the impact of the Covid-19 pandemic. At the end of the 1st quarter of 2022 the South African consumer confidence index aligns with the global trend and was reported at -13,000%. The domestic CCI clipped alongside global confidence.

Despite the economy entering the latter stages of the pandemic, consumers are still hesitant to spend money. The CCI remains constant throughout January 2021, July 2021 to March 2022, varying from -9,000% and -13,000%.

Forecast of Consumer Confidence Index

Source: IMyCPI



South Africa's unemployment rate climbed to 35.3% in the fourth quarter of 2021, up from 34.9% in the previous period. It was the highest jobless rate since comparable data began in 2008. The number of unemployed persons increased by 278 thousand to 7.9 million.

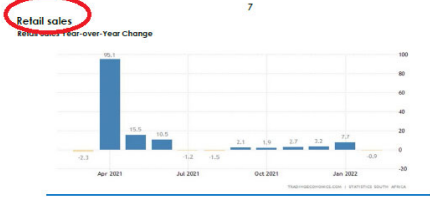
The expanded definition of unemployment, including people who have stopped looking for work, was at 46.2%, down slightly from 46.6% in the third quarter. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, was unchanged at a record high of 66.5%.



Excellent illustration of factors that influence domestic CPI

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

Essay No. 00



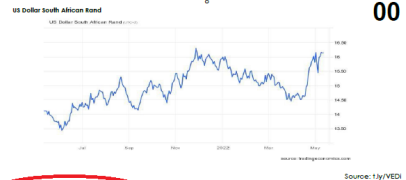
The impact of these uncertainties has largely been captured in the Reserve Bank's downward revision of its GDP growth forecast in May. GDP growth is still predicted at 1.7% for 2022, followed by forecasts of 1.9% in 2023 and 2024. Within this context, demand-side pressure on prices is expected to remain subdued.

Exchange rate
A comparison with the world's main currencies, such as the Euro, Dollar and Chinese Yuan, indicates a steep depreciation in the South African Rand during the past year, as indicated in the graph below. The depreciation of the Rand will cause an increase in import prices which will drive inflation higher.

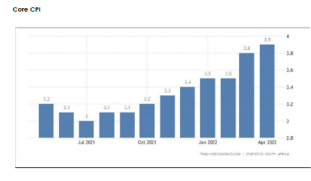
The rand is very vulnerable to changes in the risk sentiment of international investors. Given the war in Ukraine, persistently high global inflation and signs of weaker global growth, global investors' risk appetites are expected to become more vulnerable. In addition, rising inflation in the United States and other developed countries has forced their central banks to increase their respective interest rates more aggressively. Higher interest rates in low-risk countries such as the United States make it harder for high-risk countries including South Africa to attract foreign capital inflows. It means that the rand will remain vulnerable and continue to pose upside risks to the inflation outlook.



Essay No. 00



Domestic inflation trends
Core Consumer Price Index
In South Africa, core consumer prices measure a broad rise or fall in prices that consumers pay for a standard basket of goods, excluding volatile items such as food and non-alcoholic beverages, fuel, and energy. Core Consumer Prices in South Africa continue to increase to 3.9% in April 2022. It also suggests that second-round inflationary effects are starting to develop in South Africa. The committee has repeatedly said that it will respond if supply-side shocks, in this case, the rise in global oil and food prices triggered by Russia's war on Ukraine, results in second-round price pressures. In other words, these shocks affecting the prices of only a few goods start to drive the prices of other goods and services higher.



Source: 13yVEDI

Source: 13y-OLW



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

Essay No. 00

DECISION This is the end goal

Against this backdrop, the MPC decided to increase the repurchase rate with 25 basis points to 5.0 % per annum. This was a unanimous decision by all the members of the MPC.

We expect South Africa's inflation to rise above the SARB's upper target of 6.0 % driven by fuel, electricity, food, and goods prices. Further we expect global financial conditions to tighten faster, resulting in a weaker USD/ZAR exchange rate, thus the SARB must normalise with other major central banks in the world.

Most of the inflationary pressure is supply-side based, but it is worrying that core inflation is drifting higher, suggesting that second-round effects are starting to develop. Rising wage increases, well above historical inflation and somewhat above the upper limit of the inflation target range, are further troubling evidence of rising inflationary expectations. We are only seeing CPI coming back towards the SARB's 4.5 % midpoint by mid-2023. Monetary policy actions will continue to focus on anchoring inflation expectations near the mid-point of the inflation target range in the interest of balanced and sustainable growth.

In this persistently uncertain environment, future policy decisions will continue to be highly data dependent. This remains a broad policy guide which could change in either direction from meeting to meeting in response to the new developments and changing data and risks.

GOVERNER Excellent justification of the interest rate decision

Essay No. 00

REFERENCES:

World Economic Outlook
April 2022
International Monetary Fund
Available at: <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>

Global Economic Prospects
January 2022
World Bank Available
at: <https://thedocs.worldbank.org/en/doc/cb13f6d7442eaded75b695c4fdec1b3-0350012022/related/Global-Economic-Prospect-January-2022-Foreword.pdf>

GDP Growth
Accessed on 7 May 2022
Trading Economics Available
at: <https://tradingeconomics.com/south-africa/gdp-growth>

USDZAR US Dollar South African Rand
Accessed on 10 May 2022
Trading Economics Available
at: <https://tradingeconomics.com/usdzarcus>

STATISTICAL RELEASE P0141 - RELEASE DATE: 23 March 2022 Consumer Price Index January 2022
Accessed on 10 May 2022
StatsSA Available
at: <https://www.statso.gov.za/publications/P0141/P0141-January2022.pdf>

CORE CONSUMER PRICE INDEX
Accessed on 11 May 2022
Trading Economics Available
at: <https://tradingeconomics.com/south-africa/core-consumer-prices>



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 to put together/structure the essay



MPC statement – example of a NOT SO GOOD statement

Essay No. 101

INTRODUCTION

Inflation is the rate at which the value of a currency is falling and consequently, the general level of prices for goods and services is rising

Inflation is mainly caused by excess demand/for decline in aggregate supply or output. Former leads to a rightward shift of aggregate demand curve while the latter causes aggregate supply curve to shift leftward. Former is called demand pull inflation (DPI) and the latter is called cost-push inflation(CPI)

BODY

Causes of inflation

Inflation is a measure of the rate of rising prices of goods and services in an economy. Inflation can occur when prices rise due to increases in production costs, such as raw materials and wages. A surge in demand for products and services can cause inflation as consumers are willing to pay more for the products.

While high inflation is generally considered harmful, some economists believe that a small amount of inflation can help drive economic growth. The opposite of inflation is deflation, a situation where prices tend to decline. The federal reserve targets a 2% inflation rate, based on the consumer price index(CPI).

According to causes

(i) **Currency inflation**
This type of inflation is caused by the printing of currency notes

(ii) **Credit inflation:**
Being profit-making institutions, commercial banks sanction more loans and advances to the public than what the economy needs. Such credit expansion leads to rise in price level.

(iii) **Deficit-induced inflation:**
The budget of the government reflects a deficit when expenditure exceeds revenue. To meet this gap, the government may ask the central bank to print additional money. Since pumping of additional money is required to meet the budget deficit, any price rise may be called deficit-induced inflation.

(iv) **Demand-pull inflation**
An increase in aggregate demand over the available output leads to arise in the price level. Such inflation is called demand-pull inflation.

(v) **Cost-push Inflation**
Inflation in an economy may arise from the overall increase in the in the cost of production. This type of inflation is known as cost-push inflation. Cost of production may rise due to increase in the price of raw materials, wages, etc.

Causes of Demand-Pull Inflation

Essay No. 101

DPI originates in the necessary sector. Monetarist's argument that "only money matters" is based on the assumption that at or near full employment, excessive money supply will increase aggregate demand equals aggregate supply.



Copy and paste



MPC statement – example of a NOT SO GOOD statement

- Did not adhere to the format provided
- Analysis: lack of coherence, logic and detail in the content; reflects poor understanding
- No discussion of economic indicators
- No illustration of graphs, charts or tables
- No interest rate decision and justification
- No references provided



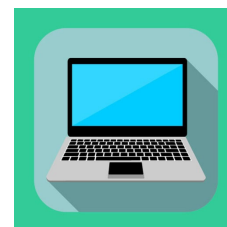
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What is expected of you?

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



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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
- The SARB team **will evaluate and mark** the essay

Submit your essay to
the SARB on:



19 May 2023 at 17:00



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The presentation – tips

- Select the best presenter of your team as the **GOVERNOR**
- The presentation should be a **10-minute** 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



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

- After the presentation, finalists will be invited for a Q&A session.
- The panel will allocate **15 minutes** per team 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 session.
- Economics knowledge of all team members is crucial.
- Adhere to the time allocated.
- **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.



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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.



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**THANK
YOU**



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