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SOUTH AFRICAN RESERVE BANK

Executive Management Department

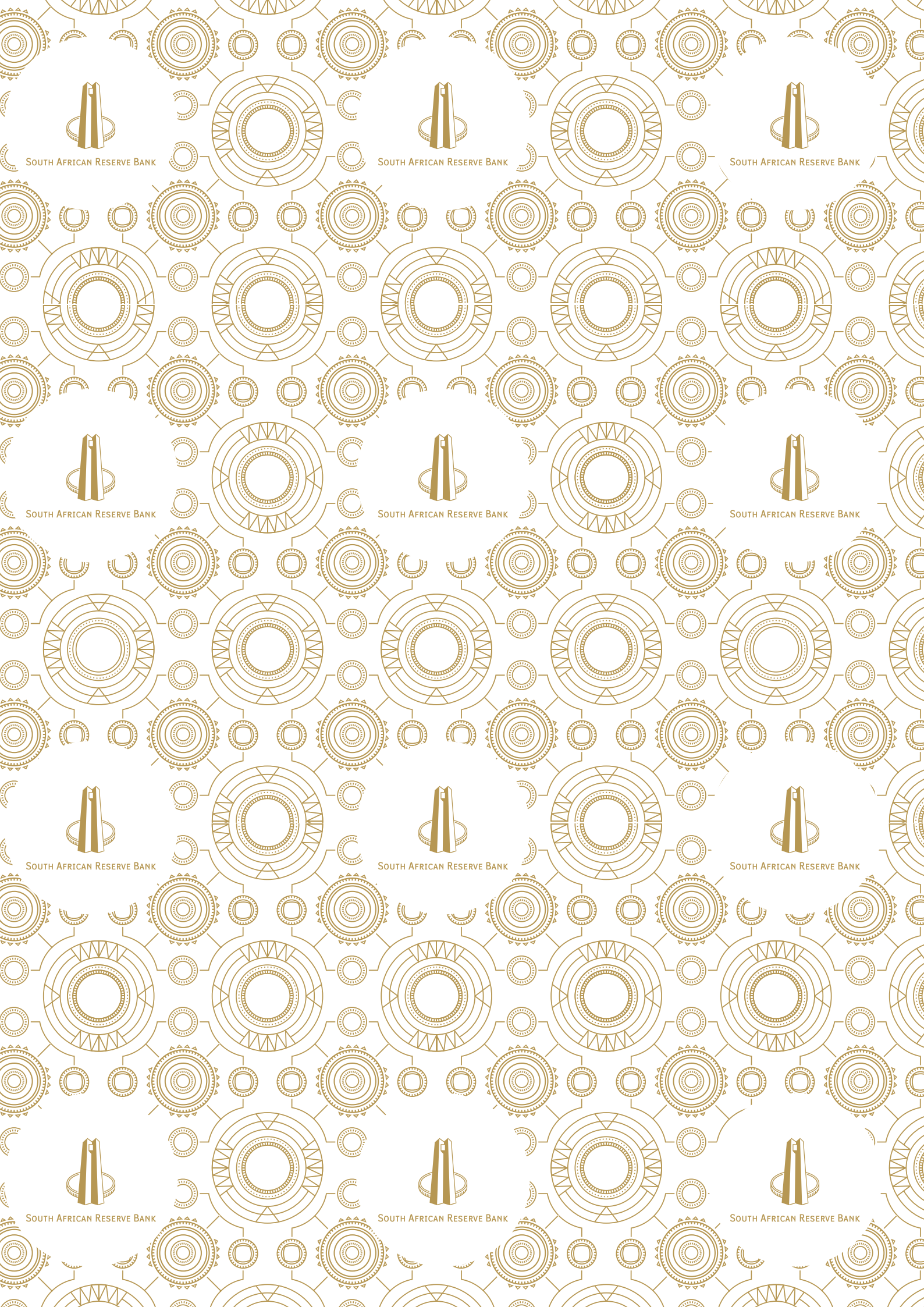
MPC Schools Challenge – Timeline for 2025

Date	Activity	Platform/venue
15 January 2025	Schools reopen	
16 January 2025	Briefing registration invite extended	HTML invite
Every Wednesday before the regional session up to 22 March 2025	Registration for the briefing session closes	
Saturday, 1 February 2025	Nelspruit	Emnotweni Casino
Saturday, 1 February 2025	Polokwane	Bolivia Lodge
Saturday, 8 February 2025	Gqeberha	Boardwalk Hotel & Casino
Saturday, 8 February 2025	East London	ELICC
Saturday, 15 February 2025	Durban	Elangeni
Saturday, 15 February 2025	Bloemfontein/Kimberely	Kopanong
Saturday, 22 February 2025	Mahikeng	Mmabatho Palms
Saturday, 1 March 2025	Cape Town	Century City
Saturday, 8 March 2024	Gauteng (hybrid)	Focus Rooms
28 March – 8 April 20 March – 9 April (ISASA) 22 March – 7 May (IEB)	School holidays	Public schools
18–20 March 2025	MPC meeting and announcement	
4 April – 9 May 25	Forecasting period data made available to participating schools	6 weeks
27–29 May 2025	MPC meeting and announcement	

16 May 2025	Essays due (1 000 words) Schools to submit by email	
11 July 2025	Finalists announced to the participating schools by email and SMS	
27 June – 22 July 23 June – 17 July (IEB) 23 June – 6 July (IEB)	School holidays	Public schools ISASA (midterm)
24/25 July 2025	Finalists' workshop	In person
28 July 2025	Finalists' presentations due	Email
29–31 July 2025	MPC meeting and announcement	
Monday, 4 August 2025	Judging session welcoming reception	In person
Tuesday, 5 August 2025	Judging: Panel of judges Q&A with the finalists	In person
19 August 2025	Winners' announcement from 15:00 to 17:00	In person
16 September 2024	MPC meeting and announcement Governor to mention only winners in the statement	

MPC Schools Challenge booklet content:

1. Presentations
2. Datasheets
3. Q&A sheet
4. Plagiarism
5. MPC statements
6. Entry form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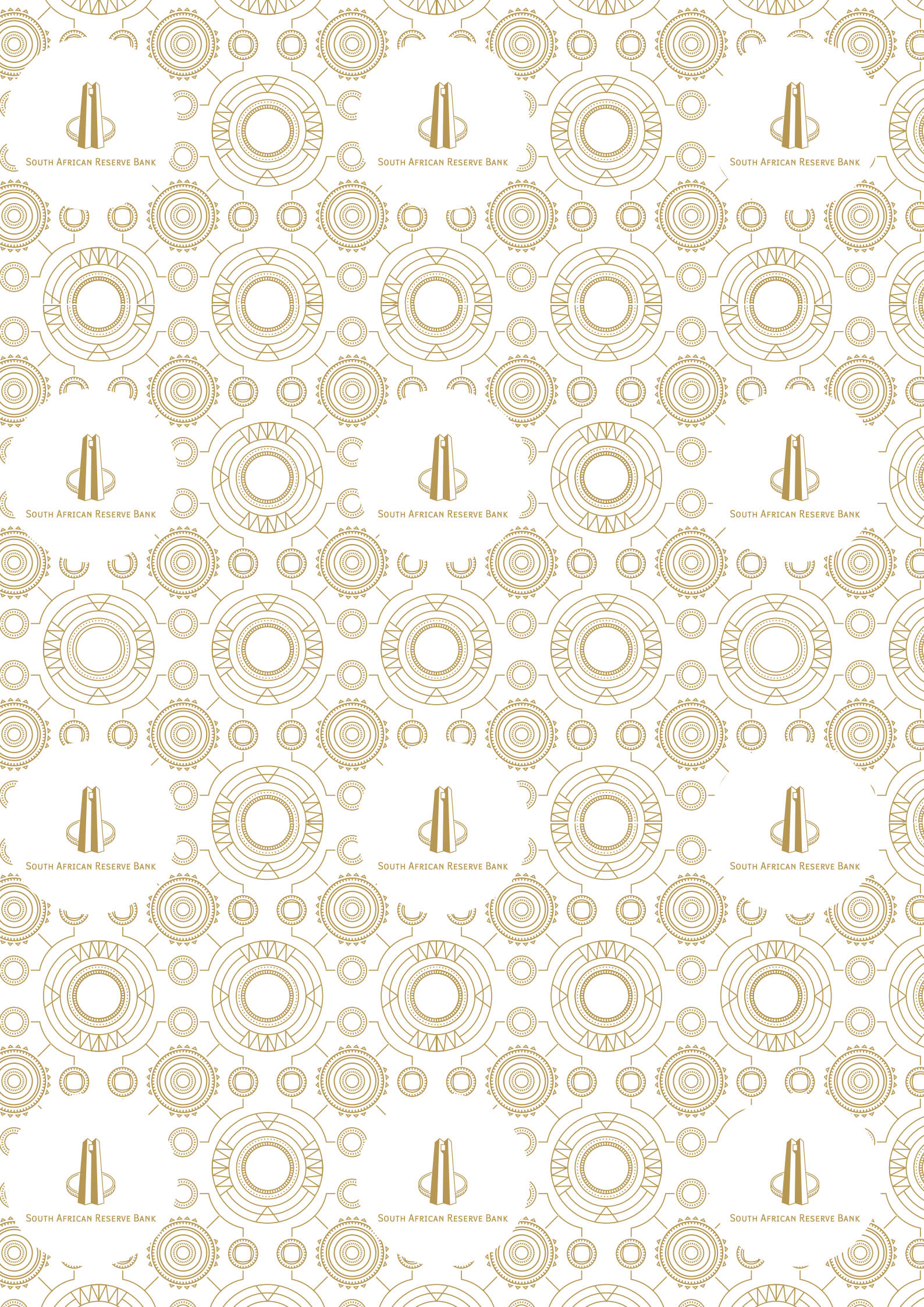
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SOUTH AFRICAN RESERVE BANK

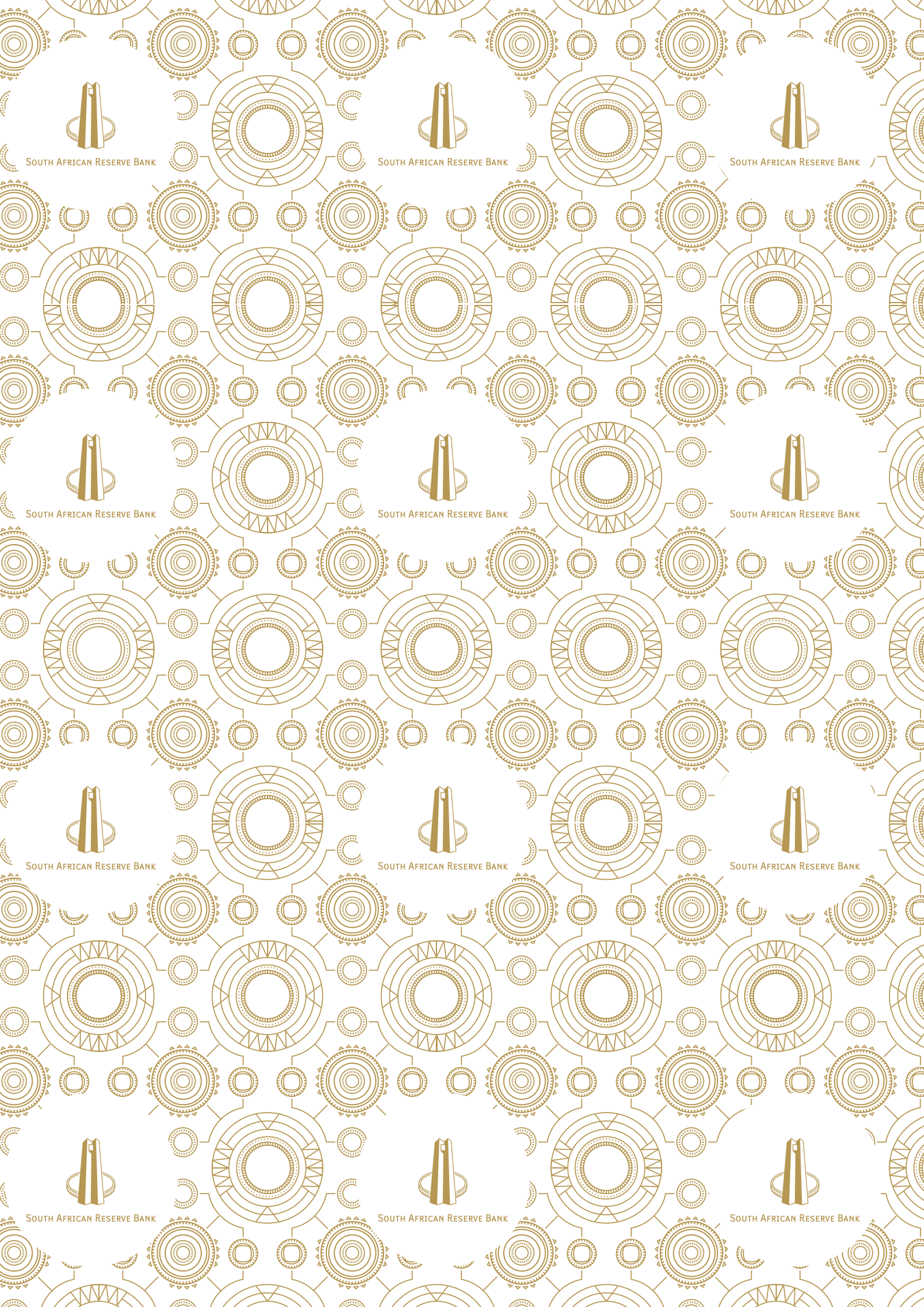
Executive Management Department

Monetary Policy Committee Schools Challenge

The rules for all participating teams are as follows:

- Team members can be learners at either a government school (public school) or a private school (affiliated with the Independent Examinations Board (IEB) or Independent Schools Association of Southern Africa (ISASA)).
- Learners must reside in South Africa.
- Foreign students with dual citizenship are allowed to participate in the Monetary Policy Committee (MPC) Schools Challenge.
- The participating learners' schools must offer Economics and Pure Mathematics as subjects.
- All team members must be enrolled for Grade 12 with Economics and Pure Mathematics as subjects.
- All team members must be full-time learners at the school they represent.
- Only one team per school may enter the challenge.
- Each team must comprise four members − a governor and three deputy governors.
- Other students at an entering school can assist the team in researching and preparing the Monetary Policy Statement (essay) but only the team members can present at the finals.
- Teams are allowed to use data from any source (i.e. teams are not limited to using only the data made available by the South African Reserve Bank (SARB), but all information obtained from other sources must be properly referenced).
- Teams must base their decision on data that pertain to the forecasting period of the challenge. (The SARB will provide the forecasting period).
- All essays will be submitted through 'Turnitin' with a maximum similarity allowance of 35%. Submissions exceeding this limit will result in the disqualification of the school.
- Essays must be typed. If handwritten, they must be legible.

- Team members cannot be changed during the competition without prior approval from the SARB.
- Finalists should be accompanied by their Economics teacher to the finals, to be held in Pretoria.
- All team members must be present at the finals and be available to answer questions following the team presentation. This requirement will only be waived in exceptional circumstances and with prior agreement from the SARB.
- Relatives of employees of the SARB are not allowed to participate in the challenge.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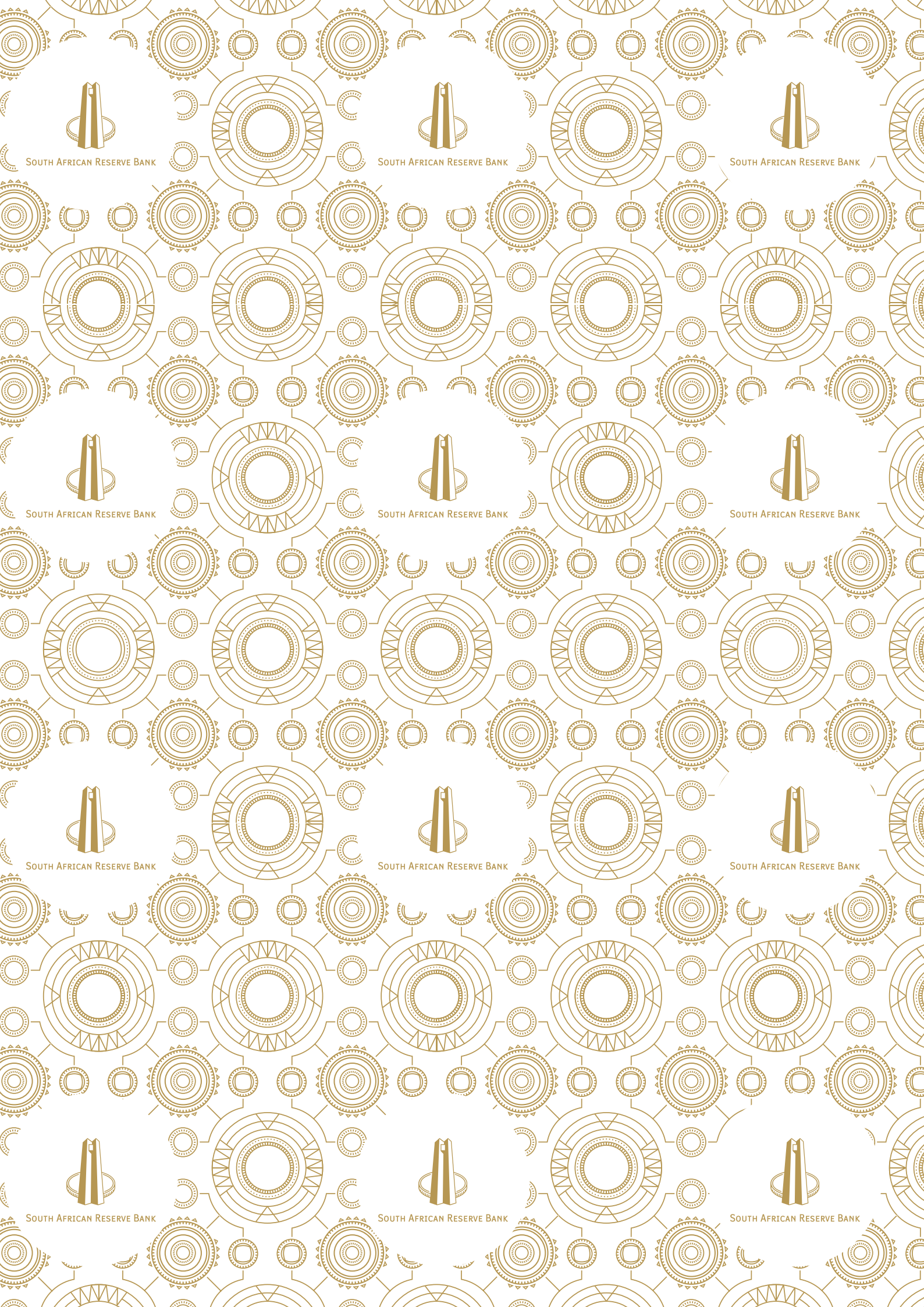
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Entry form

The closing date for the submission of the entry form for the 2025 Monetary Policy Committee Schools Challenge is **Friday, 28 March 2025.**

Name of school	
Province and district:	
School's contact number:	
Number of Grade 12 learners studying Pure Mathematics and Economics:	
School's physical (delivery) address:	
School's postal address:	

School Principal	
Name of Principal:	
Last name (Surname) of Principal:	
Principal's cellphone number:	
Principal's email address:	

Grade 12 Economics Teacher	
Name of Economics Teacher:	
Last name (Surname) of Economics Teacher:	
Economics Teacher's cellphone number:	
Economics Teacher's email address:	

Note: Kindly duplicate the above if more than one Economics educator would require an invitation.

☐ Yes, we give consent to receive information regarding the MPC Schools Challenge.

☐ No, we do not give consent to receive information regarding the MPC Schools Challenge.

Details of MPC Schools Challenge team members			
Name of learner	Last name (surname) of learner	Identity number	Cellphone number

If a school is found to have cheated or the teacher helped with the essay, the school will be disqualified.

Foreign students with dual citizenship are allowed to participate in the MPC Schools Challenge.

We have read the rules and requirements for the 2025 Monetary Policy Committee Schools Challenge.

By entering, we agree to abide by the rules and requirements and to honour the deadline dates set.

Name and last name (surname) of Grade 12 learner	Signature	Date
Name and last name (surname) of Grade 12 learner	Signature	Date
Name and last name (surname) of Grade 12 learner	Signature	Date
Name and last name (surname) of Grade 12 learner	Signature	Date

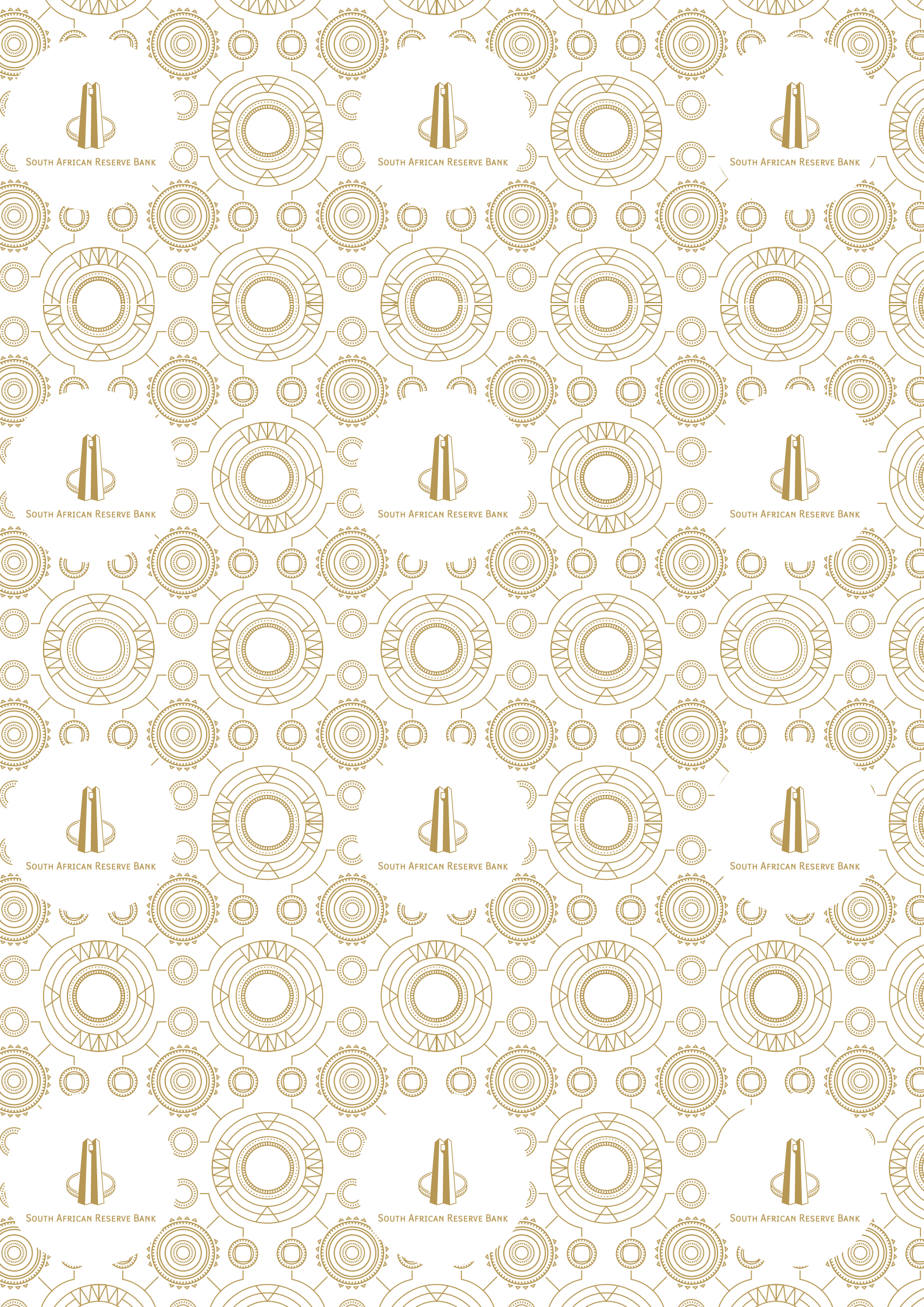
Please send a copy of this completed form to:

Sarb-mpcchallenge@resbank.co.za
Contact person: Mpho Mtimkulu
Telephone: 012 313 3526 / 082 069 9424

The closing date for submission of the MPC statement (essay) is:

Friday, 16 May 2025

All entries must reach the South African Reserve Bank by this date.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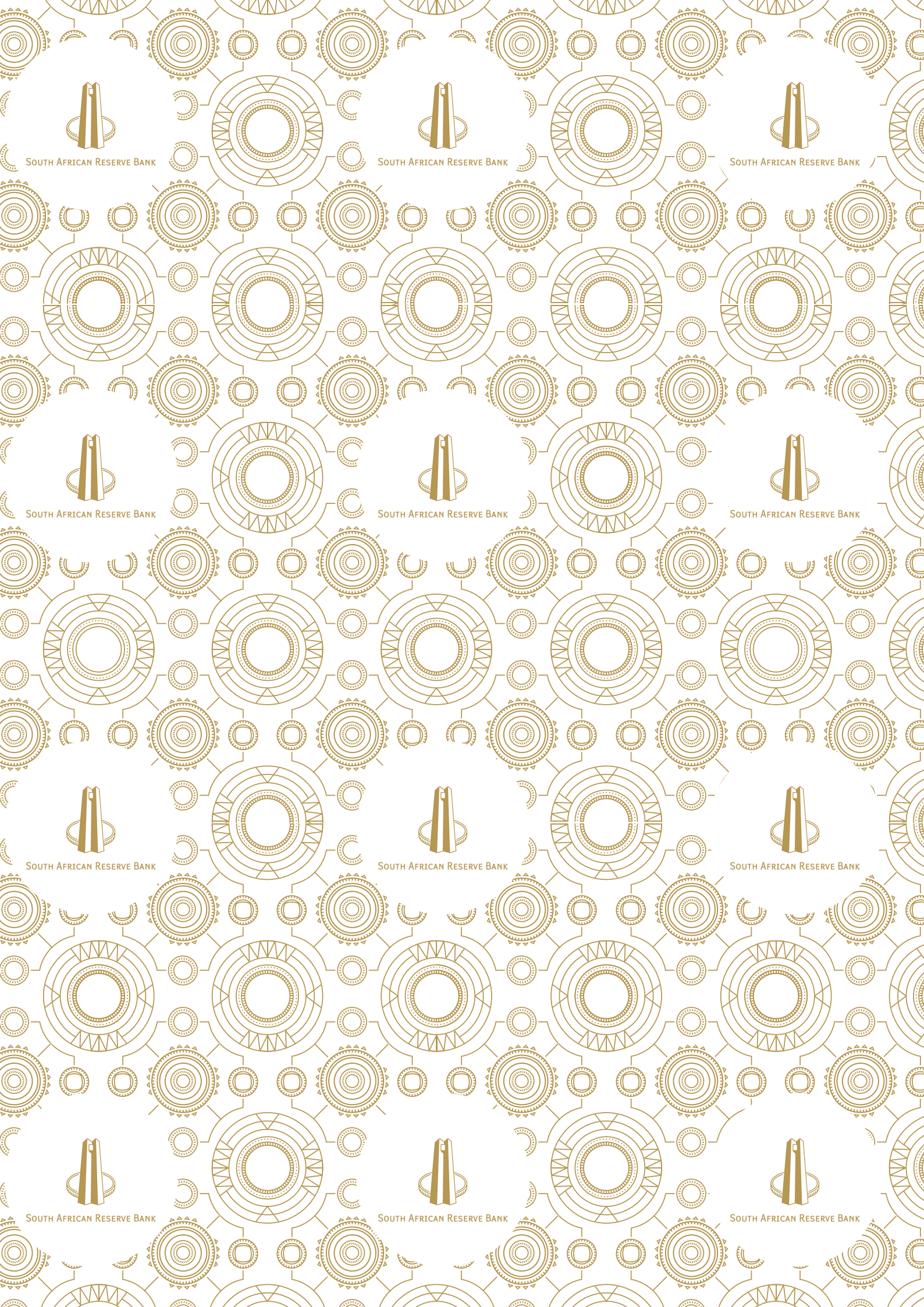
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File ref. no.:

Executive Management Department

2025 Monetary Policy Committee Schools Challenge: plagiarism declaration

Name of school	
Province	
District	
Statement word count	

Plagiarism declaration

- ☐ **We know that plagiarism is wrong. Plagiarism is to use somebody else's work and pretend that it is your own.**
- ☐ **Wherever we have used work produced by other people, we have said whose work it was and where we found it.**
- ☐ **We certify that this submission is all our own work.**
- ☐ **We have not allowed and will not allow anyone to copy the statement with the intention of passing it off as his or her own work.**

Name and last name (surname) of Grade 12 learner	Signature
Name and last name (surname) of Grade 12 learner	Signature
Name and last name (surname) of Grade 12 learner	Signature
Name and last name (surname) of Grade 12 learner	Signature

Date: _____

1. Key policy outlook	The objective of this section is to present your view of current economic activity as well as expectations of its future behaviour in order to justify your decision on the repo rate. Focus on activity in key sectors of the South African economy. It is important to think about the link between activity in these sectors and how this ultimately relates back to overall inflationary pressures. There is limited space in which to present your argument so focus on providing an overview of behaviour in the economy, concentrating on those sectors most relevant to your decision. Remember, because monetary policy operates with a delay, your analysis should be *forward looking*. Some general considerations: □ What are the most important trends that you considered in the global environment? □ What is the outlook for local growth? What key components are driving this growth outlook? What indicators did you use to reach this conclusion?
2. Inflation outlook	Remember, the aim of monetary policy is to maintain price stability by keeping inflation within the target range. You should sum up your statement by linking your view of the economy back to how you expect inflation to change over **the next 18–24 months** and indicating why this makes your policy decision appropriate.
3. Decision	Present your decision at the end of your statement as a conclusion to the arguments presented in the body of the statement: e.g. 'The repurchase (repo) rate will go down by 50 basis points to 5%.'

Remember, submissions may be no longer than 1 000 words.

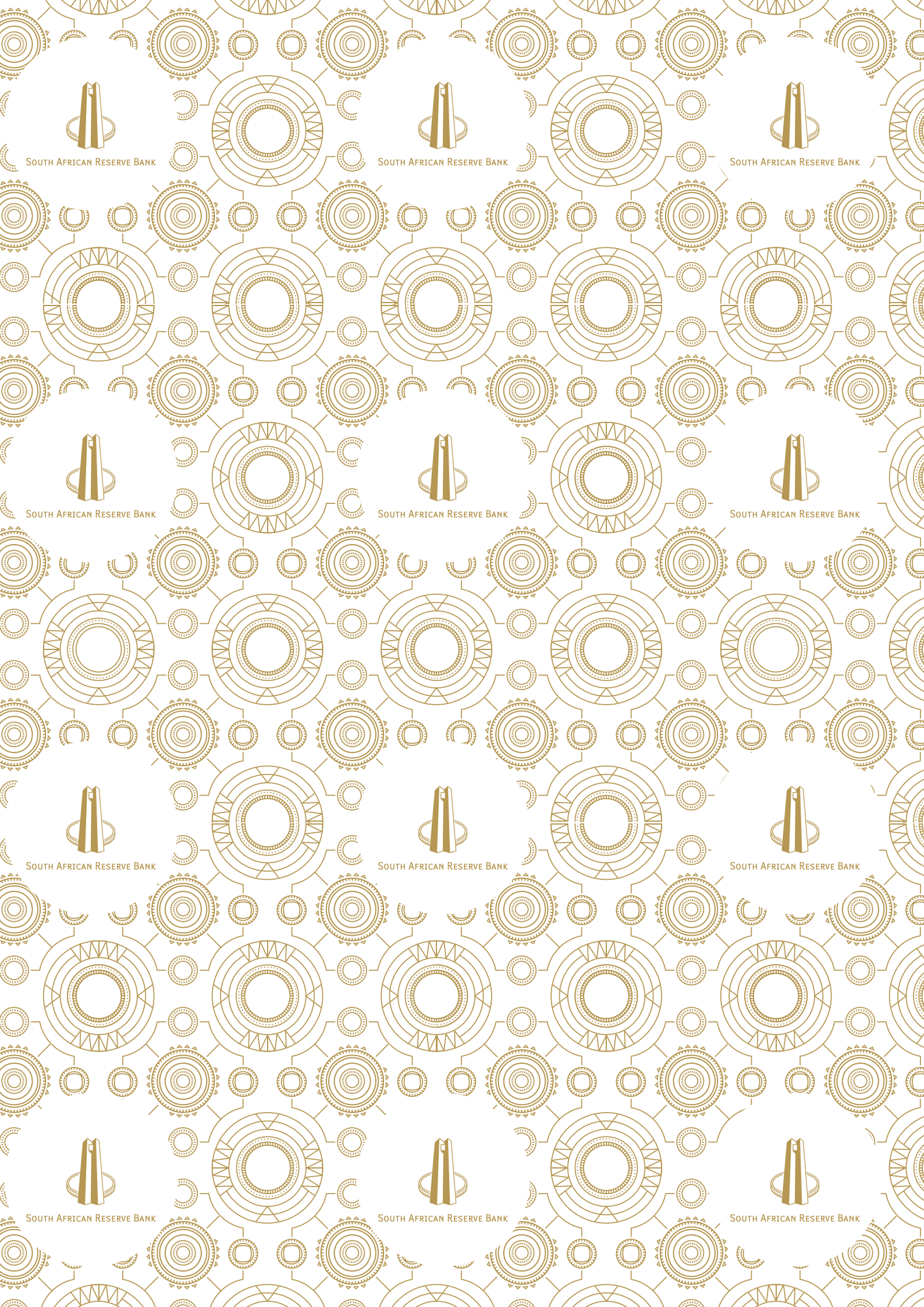
All submissions must be typed, using Arial 12 font type and 1.5 lines spacing.

Please send a copy of your completed statement to:

Email: Sarb-mpcchallenge@resbank.co.za

Contact person **Mpho Mtimkulu**
Telephone **012 313 3526 / 082 069 9424**

Closing date for submission of the essay: **Friday, 16 May 2025**
All submissions must reach the South African Reserve Bank by this date.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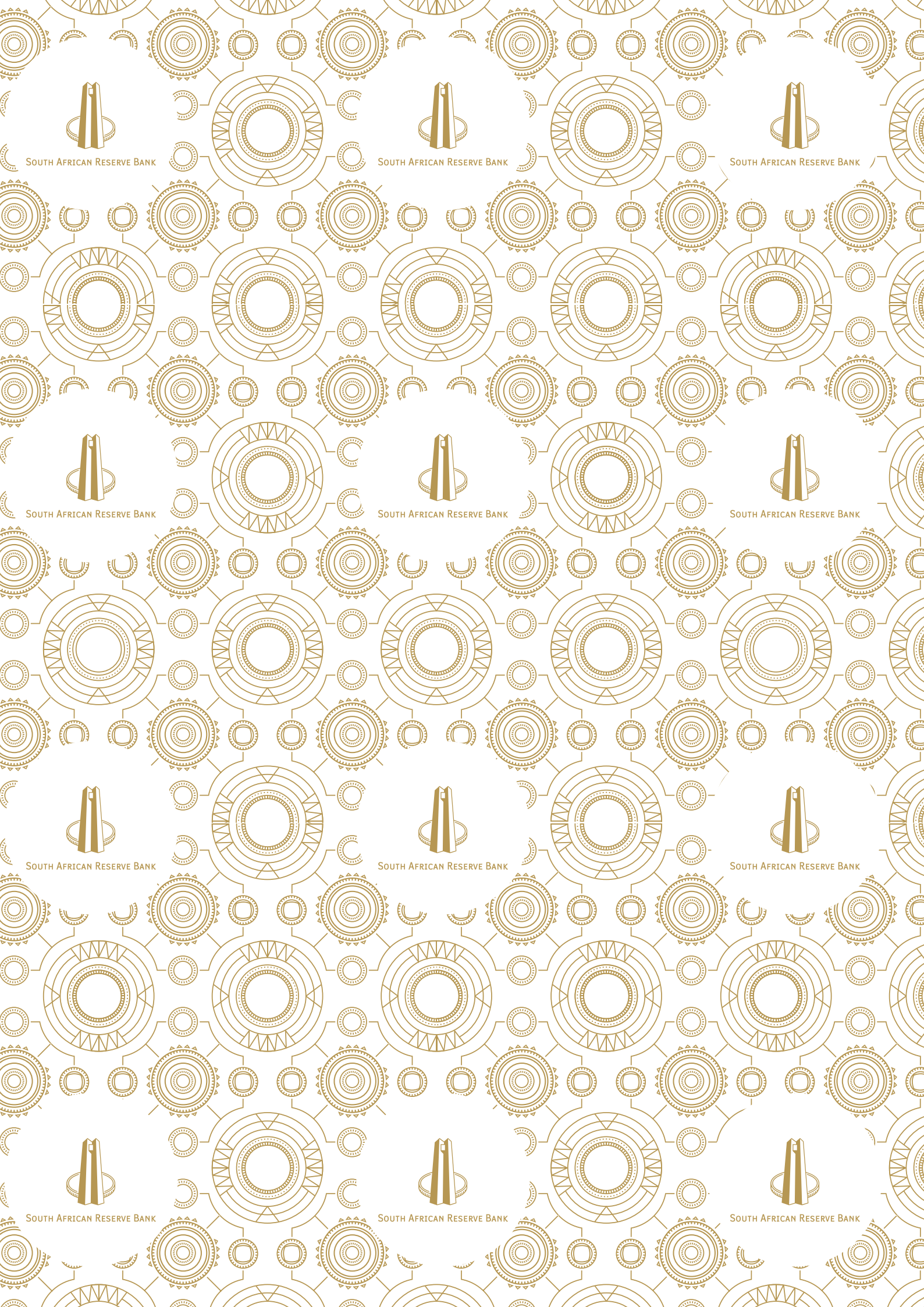
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SOUTH AFRICAN RESERVE BANK

Monetary Policy Committee Challenge: Rubric

SCHOOL:						Date:
ASSESSORS:						
CRITERIA	**Does not meet the requirement s**	**Partially meets requirements**	**Meets the requirements.**	**Exceeds the requirements.**	**Excellent**	**WEIGHTING**
Norm	**1 – 2**	**3 – 4**	**5 – 6**	**7 – 8**	**9 - 10**	
Understanding of economic relationships and monetary policy	No understanding of economic relationships and monetary policy	Less than adequate understanding of economic relationships and monetary policy	Adequate (basic) understanding of economic relationships and monetary policy	More than adequate understanding of economic relationships and monetary policy	Above average understanding of economic relationships and monetary policy	X 1.5
						15
Comments and feedback						
Analysis of current state of the economy	Poor analysis of the current state of the Economy	Less than adequate analysis of the current state of the Economy	Adequate analysis of the current state of the Economy	More than adequate analysis of the current state of the Economy	Above average analysis of the current state of the Economy	X 1.5
						15
Comments and feedback						
Justification of outlook and repurchase (repo) rate decision	No outlook and justification of decision provided.	Less than adequate outlook and justification of decision.	Adequate outlook and justification of decision.	More than adequate outlook and justification of decision.	Above average outlook and justification of decision.	X 1.5
						15
Comments and feedback						
Technical quality - Quality of essay	Little trouble taken – untidy, shabby essay	Minimal effort made – essay still acceptable.	Meet most of the requirements. Good flow of information	Very good essay – made full use of available sources.	Proof of pride and extremely hard work – impressive final product	X 0.25

Monetary Policy Committee Challenge: Rubric

						2.5
Use of external information and data	Very little relevant additional information included in the task	A minimal amount of relevant additional information included in the task	Adequate amount of relevant additional information included in the task	Accessed large amounts of relevant additional information, very well presented	Additional information is relevant and ties the theoretical information to practice. Information sourced and included in the task	X 0.25
						2.5
Overall comments and feedback:						
	Total 50					

Monetary Policy Committee Challenge: Rubric

Explanatory notes:

Understanding of economic relationships and monetary policy

- Learners need to show an understanding of the purpose of monetary policy.
- Learners need to demonstrate their understanding of economic relationships through their choice of relevant indicators.
- Learners need to show their understanding of the relationships of economic variables with inflation.

Analysis of current state of the economy

- Given the data provided at the beginning of the challenge, judges will be considering.
    - Analysis as to what the data (for chosen variables) says about how the economy is doing, considering trends and causes of any changes.
    - We want the right linkages and the correct statements as to what they mean for monetary policy.

Justification of outlook and repurchase (repo) rate decision.

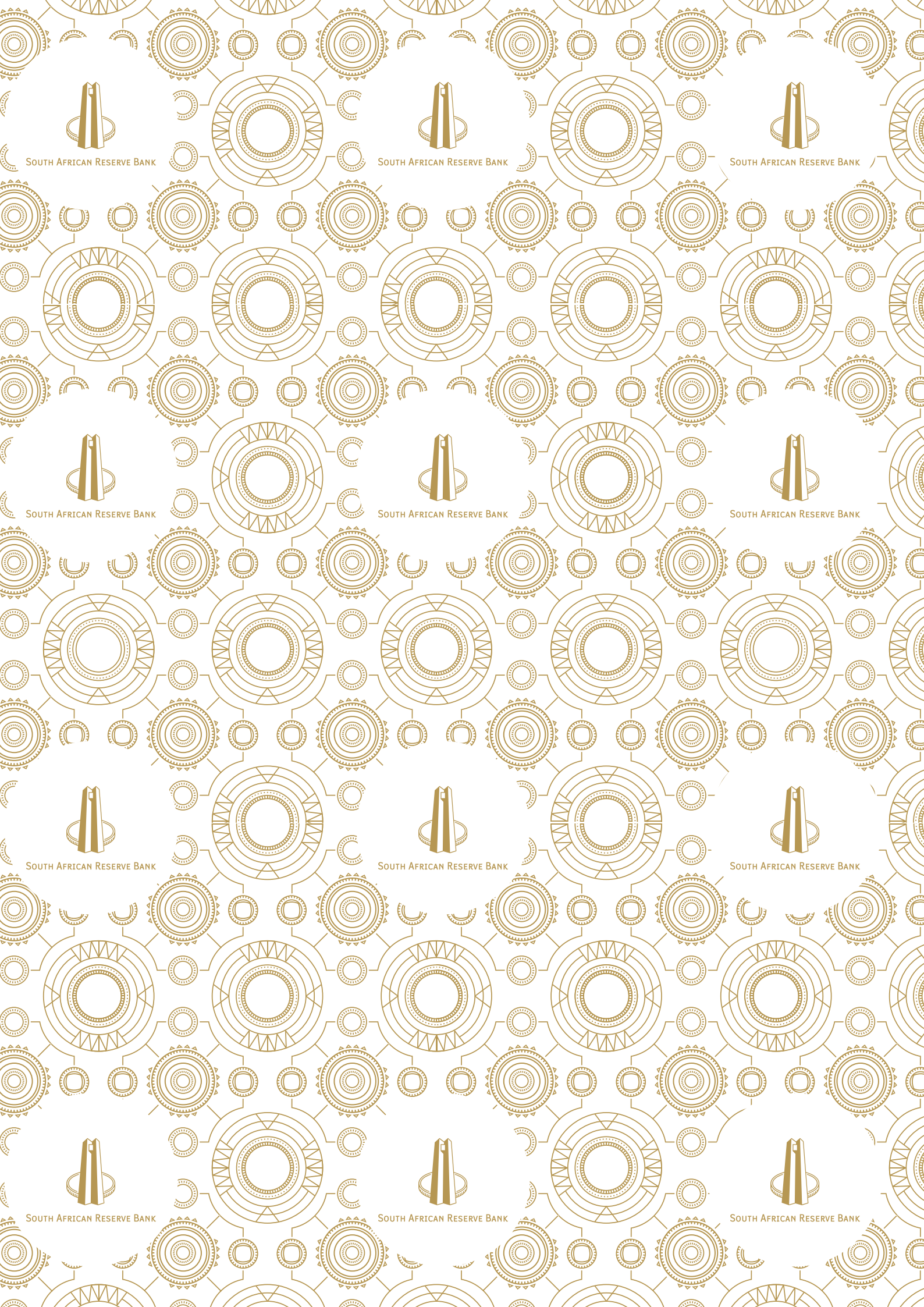
- Outlook: demonstration of what is expected to happen based on analysis.
- The decision, this must flow logically from the outlook.

Technical quality – Quality of essay

- Neatness (handwritten or typed)
- Thoughtful layout, the essay must flow and have clear meaning.
- Well labelled graphs and tables
- Care taken in spelling and fact checking.

Use of external information and data

- Relevance of additional variables/information included.
- Use of additional variables/information in analysis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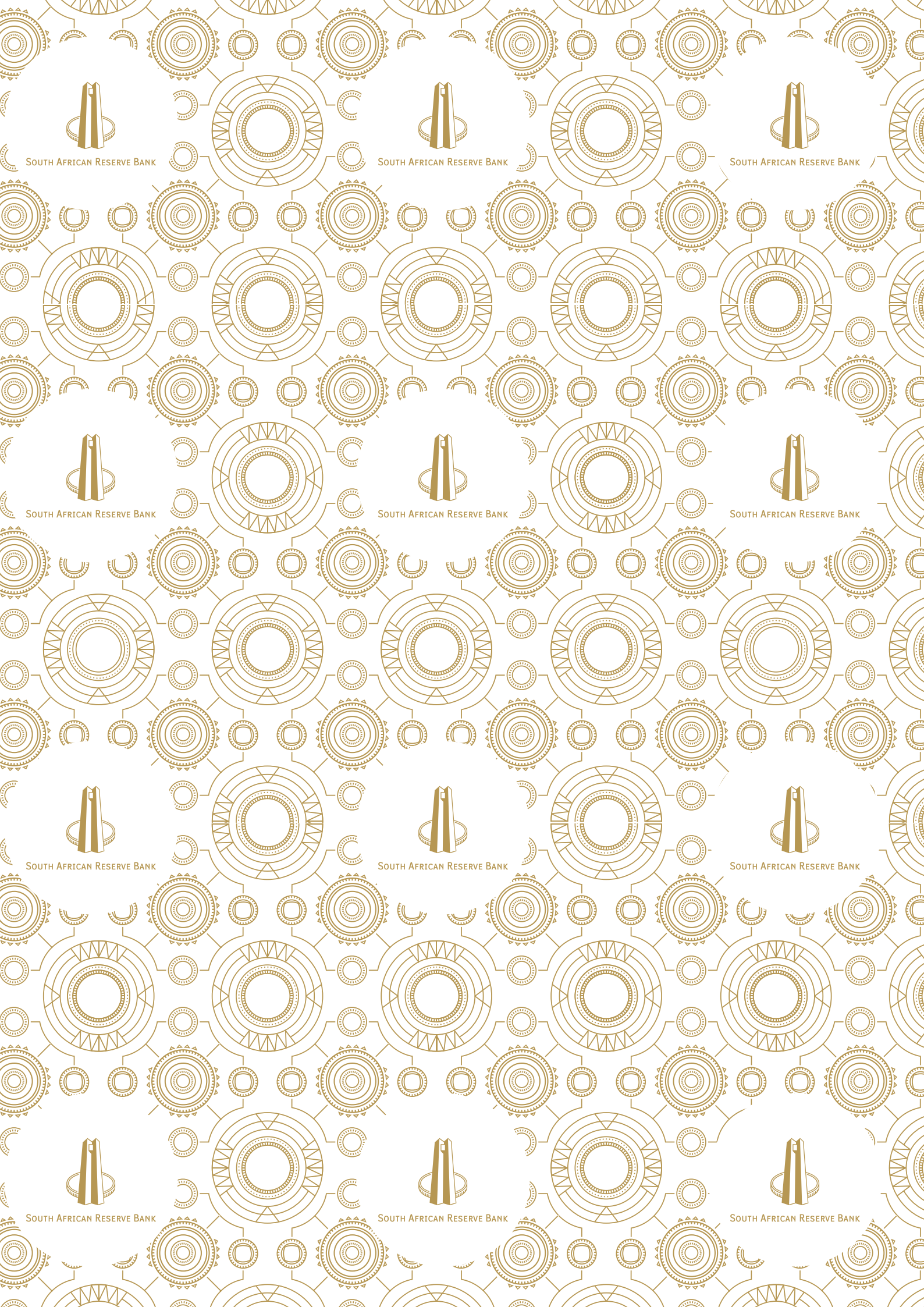
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Executive Management Department

Monetary Policy Committee Schools Challenge: instructions for finalists' presentations

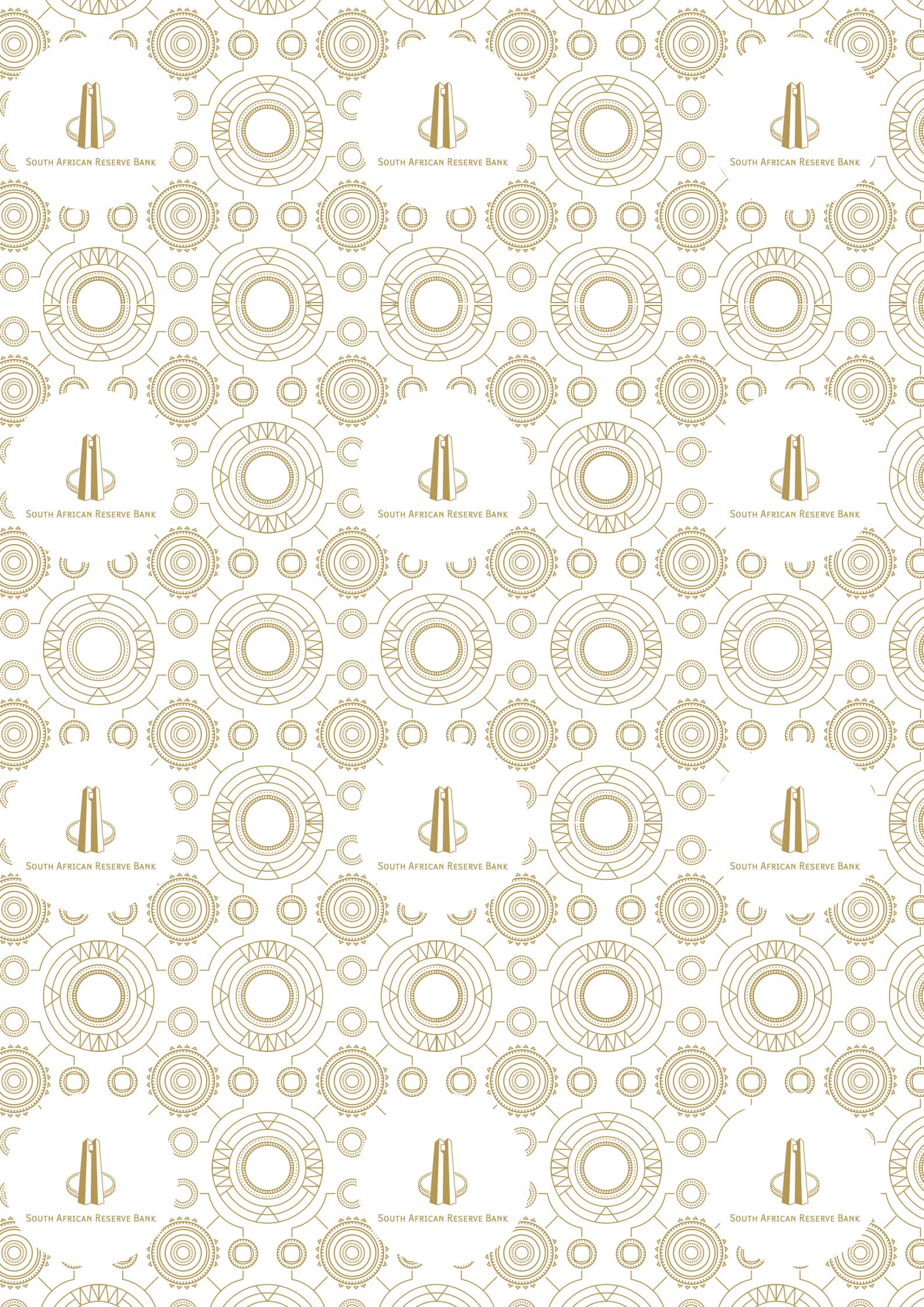
Microsoft (MS) PowerPoint presentations provide an opportunity for teams to elaborate on the rationale presented in their 1 000-word Monetary Policy Statement.

Presentations should not exceed 10 minutes and must be delivered by the team's Governor.

A judge will signal each team after 8 minutes, indicating that the Governor should start wrapping up the presentation.

A laptop, projector and screen will be provided at the venue for the MS PowerPoint presentations.

Finalist teams must submit their MS PowerPoint presentations by Monday, **28 July 2025 at 17:00** by email to: **sarb-mpcchallenge@resbank.co.za**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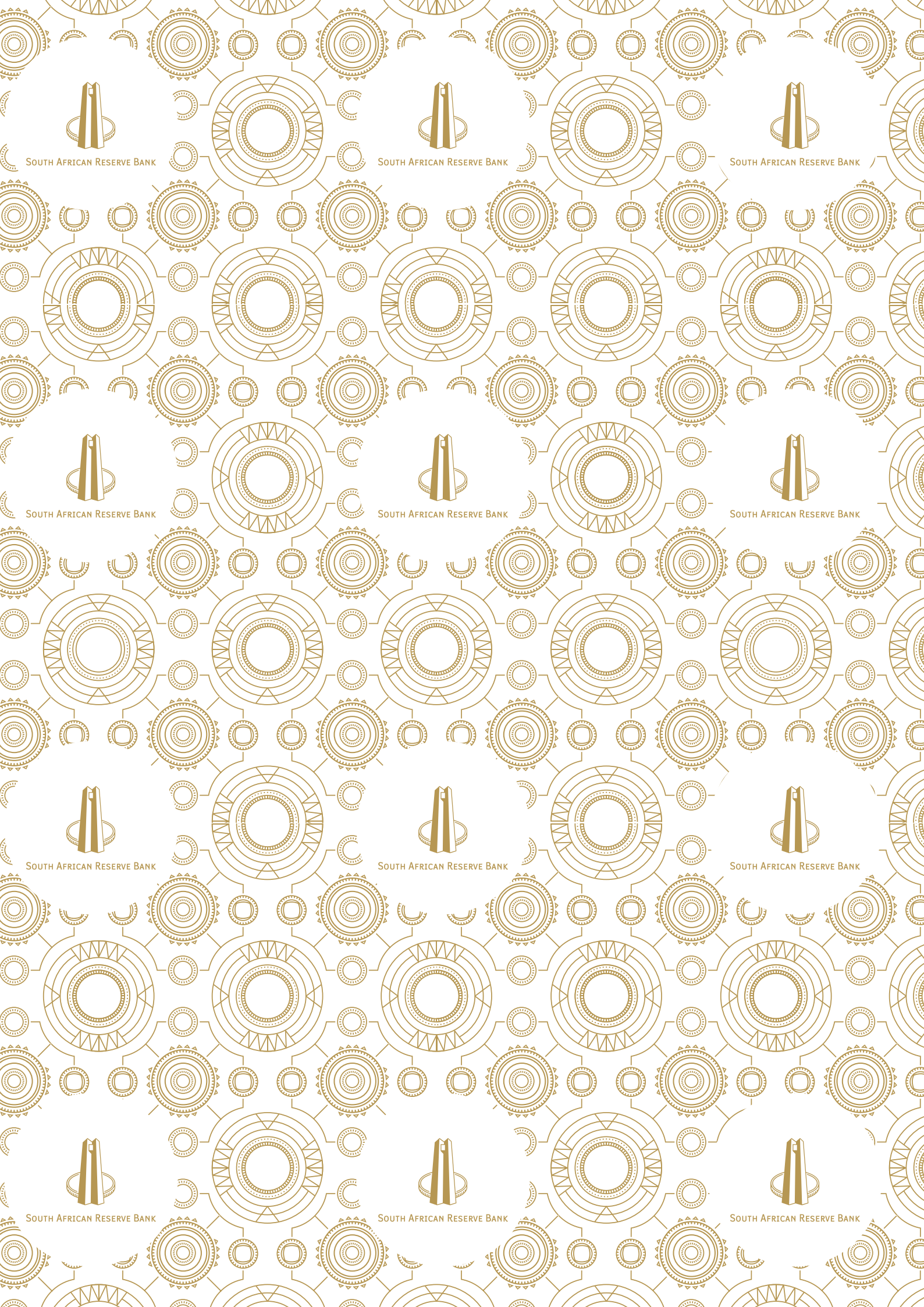
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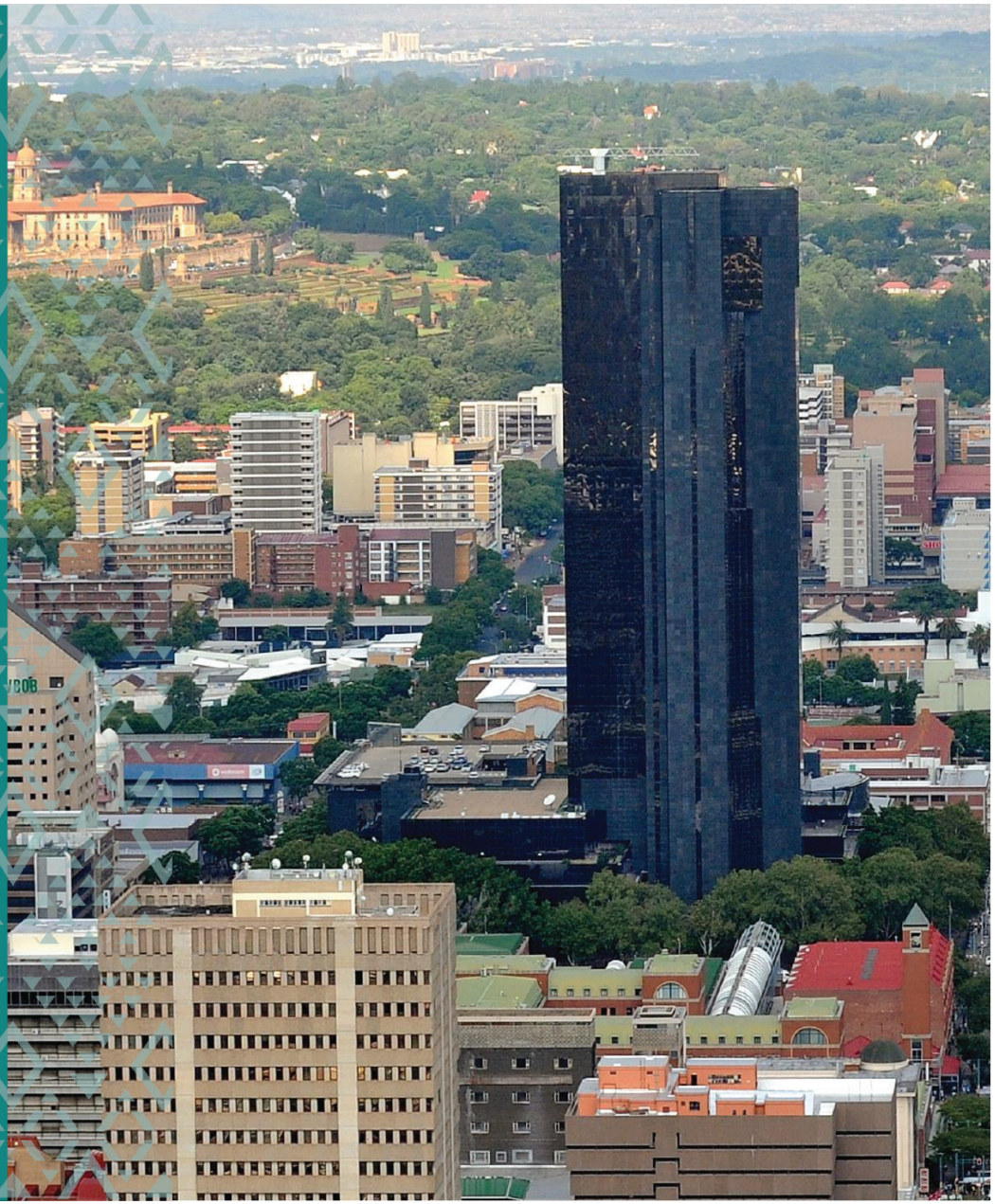

South African Reserve Bank

2025 Monetary Policy Committee Schools Challenge

Overview

South African Reserve Bank

Contents

1. Overview of the MPC Schools Challenge
   - History
   - What is the MPC Schools Challenge?
   - Objectives
   - Process
   - Prizes
   - Previous winners
   - Rules
2. SARB MPC members
3. Questions

History

- **2012**: Launched as a **pilot programme** in conjunction with the Gauteng Dept of Education
- Modelled around similar **Reserve Bank of New Zealand** and **Bank of England** initiatives
- **2013:** SARB decided to roll out the MPC Schools Challenge on **permanent** basis
- **2014: Limpopo Province** was invited to participate in the MPC Schools Challenge
- **2015: Free State Province** was invited to participate
- **2016: Mpumalanga Province** was invited to participate
- **2017: Eastern Cape**, **North-West** and **Northern Cape** provinces were invited to participate
- **2018: KwaZulu-Natal** and **Western Cape** provinces were invited, making the challenge a national competition
- **2022: Independent/private schools** were invited to participate

What is the MPC Schools Challenge?

- It is a national competition that:
  - targets Grade 12 Economics & Mathematics learners;
  - exposes learners to how the MPC sets the repurchase (repo) rate;
  - gives learners an opportunity to prepare an essay in the format of the SARB MPC statement (as done by the Governor and MPC team).

- Learners are provided with data to analyse but can use additional resources such as newspapers, publications, radio, television, etc.

Objectives

- Offers learners a great opportunity to expand their understanding of monetary policy
- Provides learners with insights on how the economy works and how the SARB makes its interest rate decisions
- Improves economic analysis
- Puts some of the theory into practice – learners get to be MPC
- Stimulates interest in Economics and central banking career fields

Process

1. Schools submit entries
2. Schools **choose a team** (four Grade 12 **Economics** and **Pure Mathematics** South African learners)
3. Briefing with schools and subject advisers
4. Teams analyse data
5. Teams submit a written essay/MPC statement
6. Announcement of finalists
7. Presentations by finalist teams
8. Winning team announced

Prizes

- Finalist teams receive a cash prize for their school
- Finalist teams' Economics educators receive a laptop
- All members of the finalist teams receive a certificate of participation and a cash prize
- Members of the winning team receive a SARB bursary, depending on their matric results
- All participants may apply for a SARB bursary

Previous winners

2022
Marais Viljoen High School (GP)

2023
Paarl Girls' High School (WC)

SOUTH AFRICAN RESERVE BANK

Previous winners

2024 Panorama Secondary School (MP)

South African Reserve Bank

Rules

- The MPC statements **marked by a panel** of SARB Economists.
- Moderation of marked statements is done by **senior SARB Economists and reps from DBE and IEB.**
- Team members cannot be changed during the competition without **prior approval** from the SARB.
- All team **members must be present** at the finals and be available to answer questions following the team presentation.
- Relatives of SARB employees **not allowed** to participate.

Rules (cont.)

- All team members must be enrolled for Grade 12 with **Economics and Pure Mathematics** as subjects.
- All team members must be **full-time learners** at the school they are representing in the Challenge.
- **Foreign students with dual citizenship** are allowed to participate in the MPC Schools Challenge
- Announcement of winners will be conducted at a function to be held **19 August 2025**.
- The **judges' decision is final** and no correspondence will be entered into.

Remember …

- Schools must offer **Economics** and **Pure Mathematics**
- **Four learners** must be enrolled to represent the school's team (only one team per school)
- **Economics educators** are responsible for guiding the learners
- The **finalist teams** are chosen to present to the judges, after which the winning school is chosen

SARB MPC Members

Lesetja Kganyago
Governor

Fundi Tshazibana
Deputy Governor

Rashad Cassim
Deputy Governor

Mampho Modise
Deputy Governor

Questions…

THANK YOU

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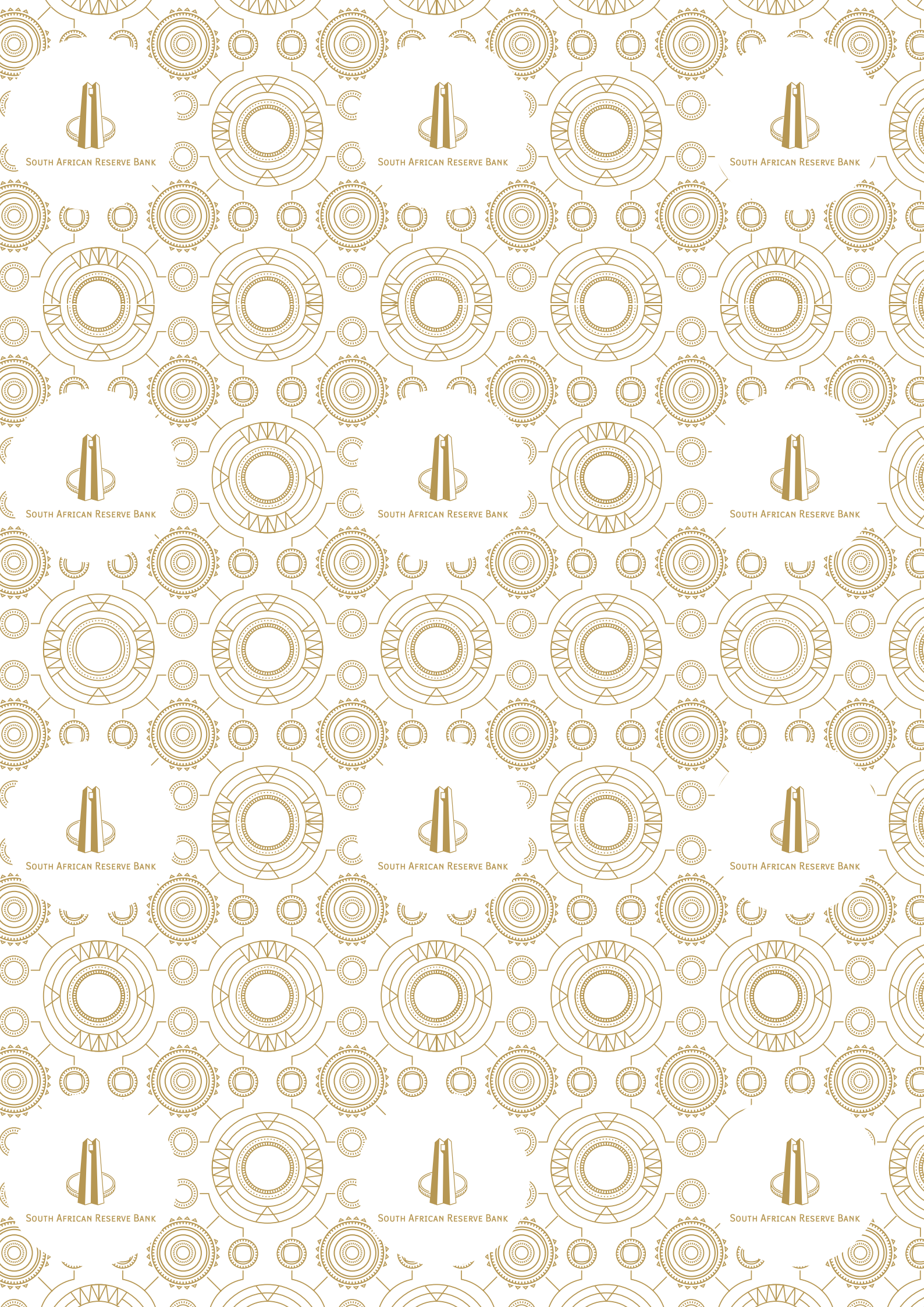
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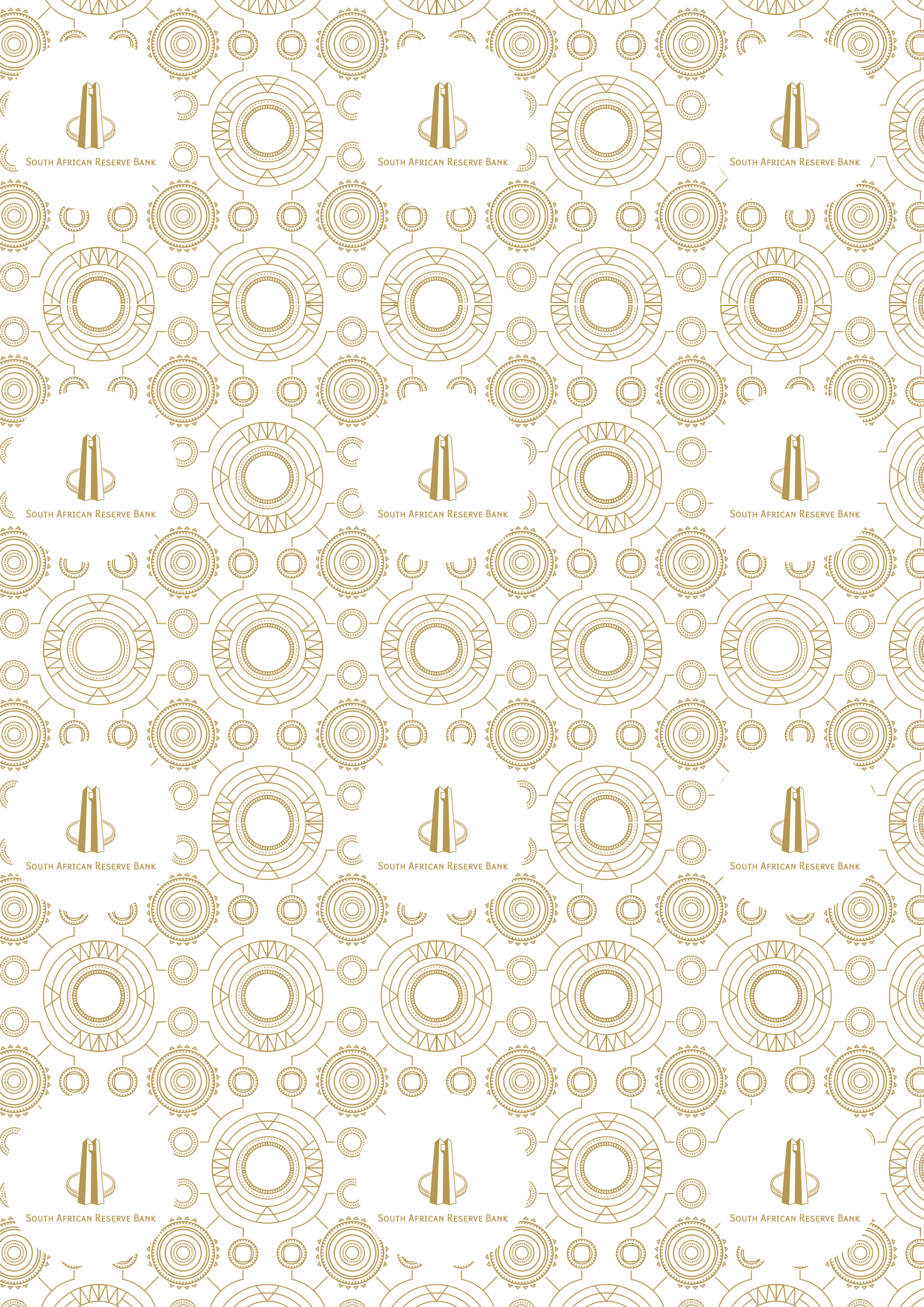
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2025 Monetary Policy Committee Schools Challenge

South African Reserve Bank

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1. Introduction
2. The SARB's mandate
3. Factors influencing economic growth and inflation
4. Key economic indicators
5. Inflation
6. Monetary policy transmission mechanism
7. MPC statement

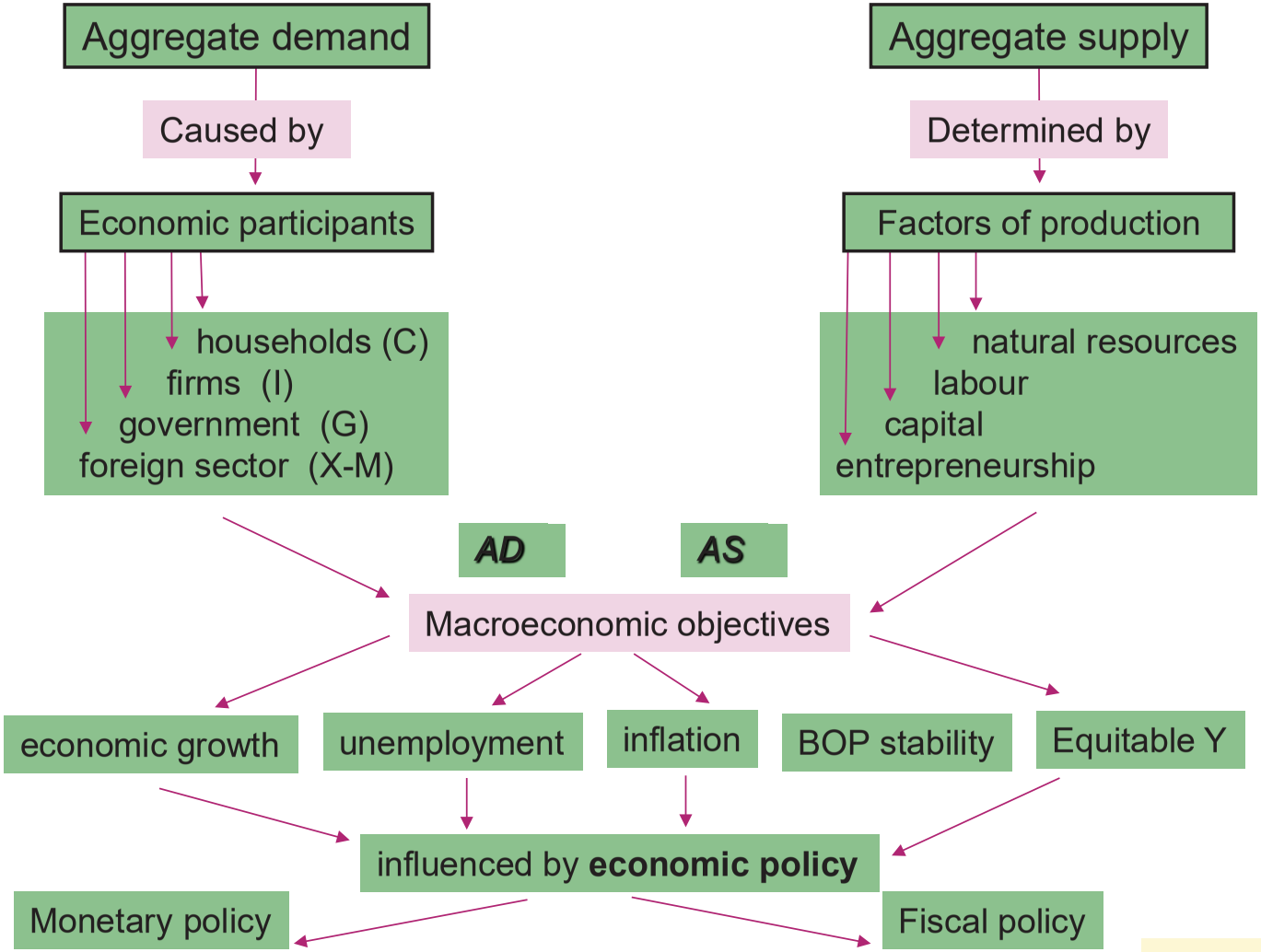
South African Reserve Bank

Introduction:

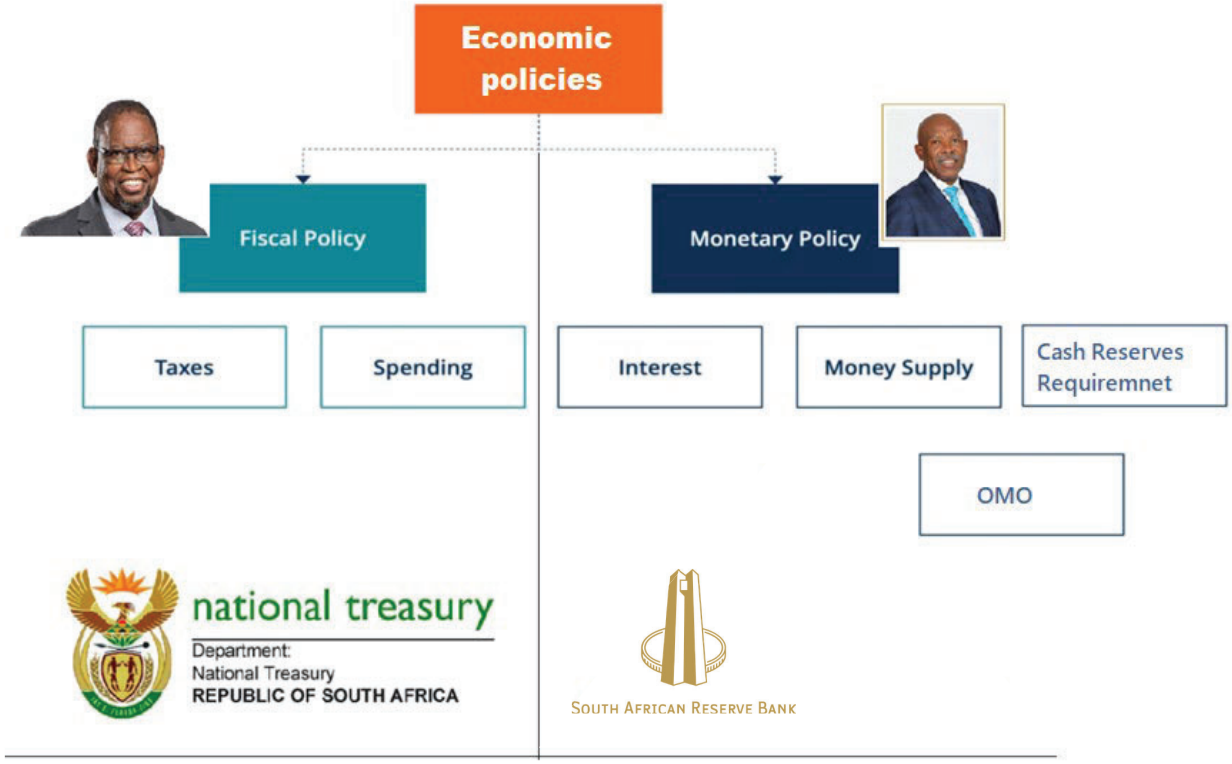
What the competition requires

- An understanding of Economics.
- An understanding of monetary policy and inflation in South Africa.
- The ability to clearly articulate thoughts and ideas (in an essay with tables/graphs, etc.).
- The ability to present.
- **READ, READ, READ!**
- **TALK, TALK, TALK!**
- **SPEAK, SPEAK, SPEAK!**

What is Economics?



Government tries to stabilise the economy using macroeconomic policies/tools, while the SARB uses MAINLY the interest rate as a tool to manage inflation.



The SARB's mandate

The Constitution of the Republic of South Africa prescribes the objective of the South African Reserve Bank (SARB) as the **protection of the value of the currency** in the interest of balanced and sustainable economic growth and development.

PRICE STABILITY

The primary mandate of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth.

The SARB has a complementary mandate to oversee and **maintain financial stability.**

FINANCIAL STABILITY

How does the SARB aim to achieve the mandate?

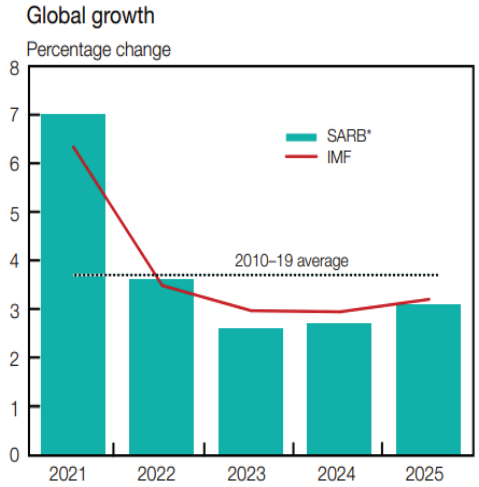
- Maintain headline inflation within the 3–6% target range
- Protect and enhance financial stability
- Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures
- Enhance South Africa's resilience to external shocks
- Ensure the cost-effective availability and integrity of the currency

Factors influencing economic growth and inflation

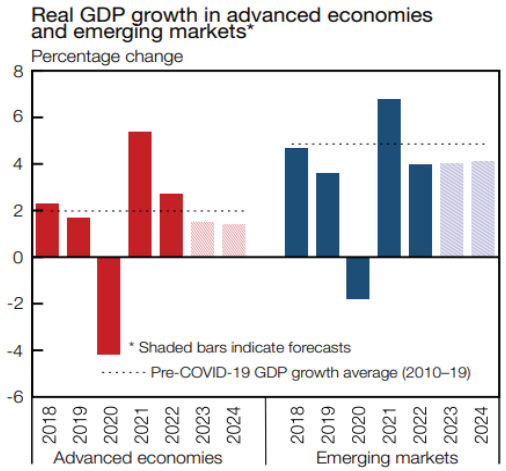
South African Reserve Bank

The global and domestic economic growth: Macroeconomic risks

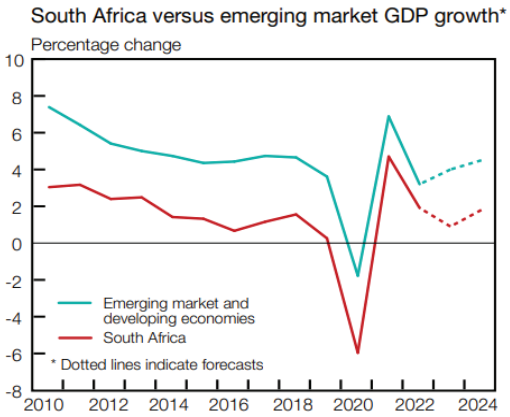
- South African GDP is expected to slow down in 2024 in line with global growth expectations.
- GDP growth is expected increase moderately; however, it is remaining well below pre-pandemic levels, reflecting a slow recovery in investment and weak potential growth.
- Slow growth in emerging markets mainly reflects slower projected growth in China.
- South African GDP growth was mainly affected by increased load-shedding in 2023. However, the GDP outlook was improved somewhat by increased investment spending.



* Real GDP growth in SA's major trading-partner countries
Sources: IMF *WEO* (Oct 2023) and SARB

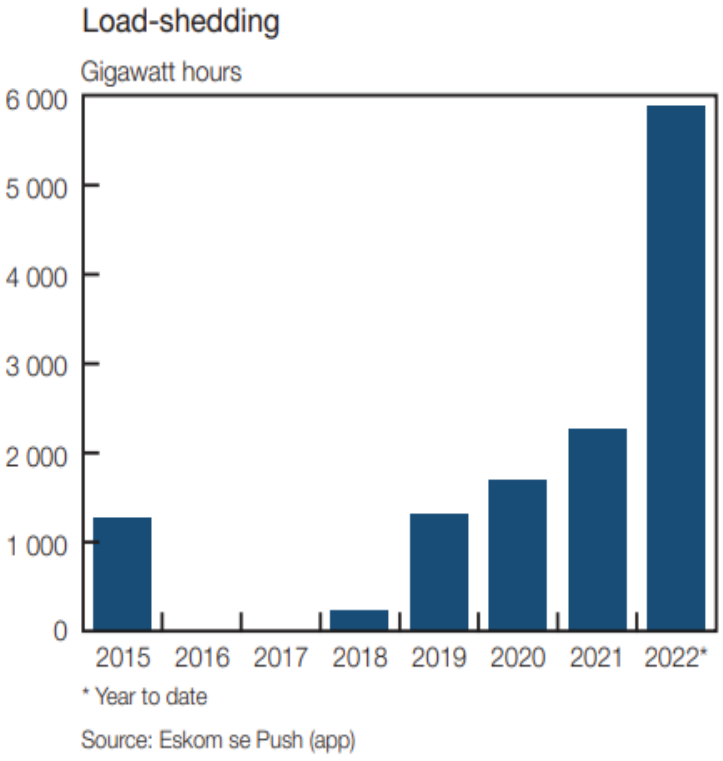


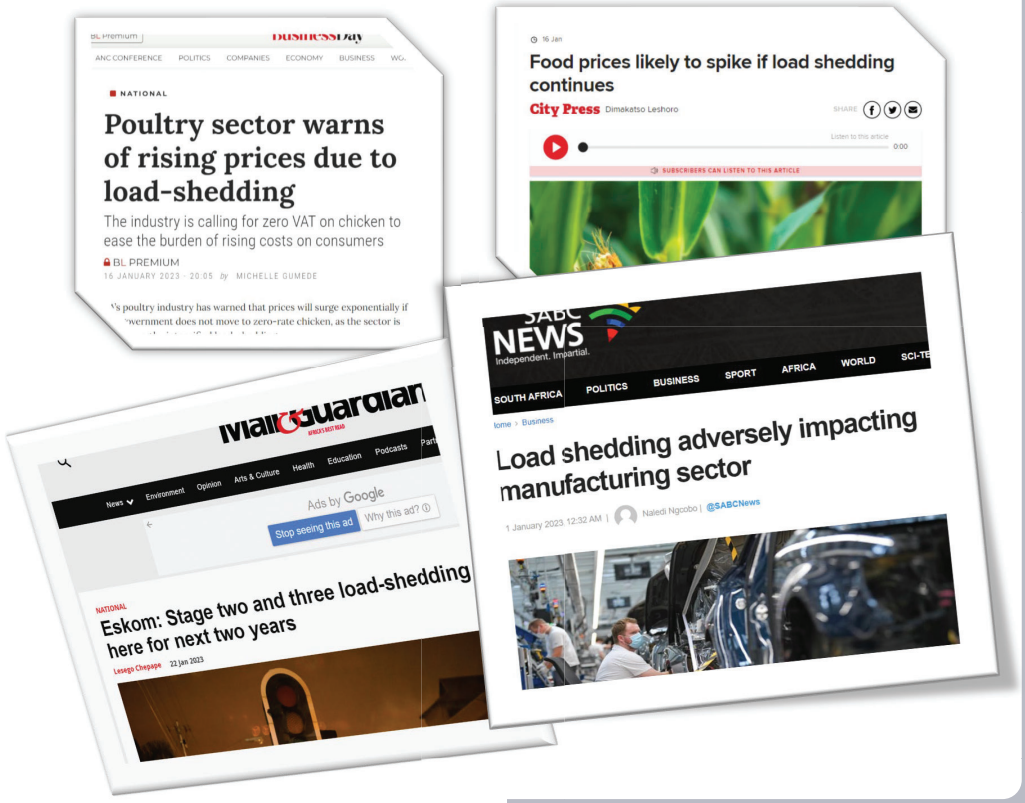
Source: IMF



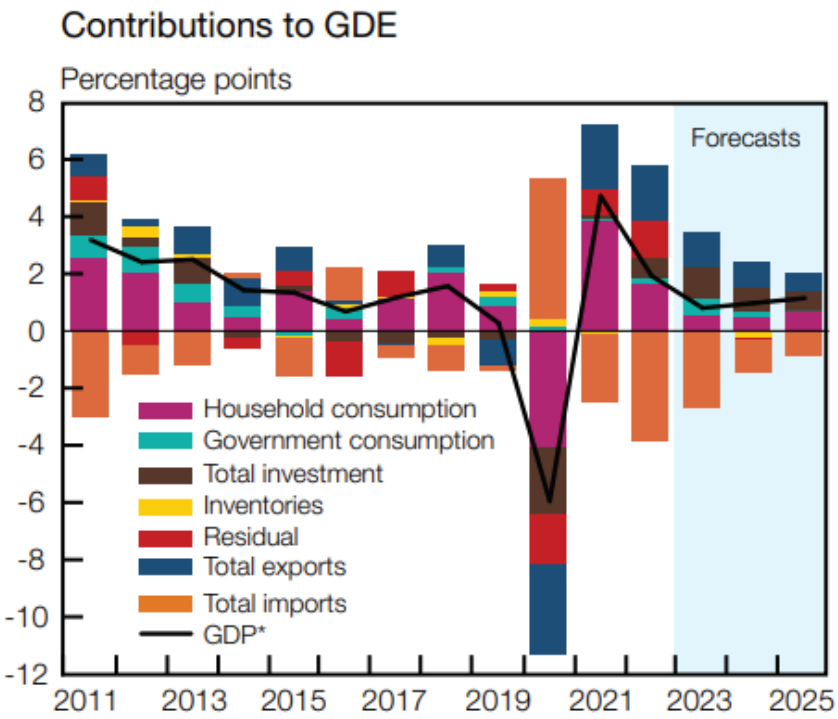
Sources: Haver and IMF

What is the impact of load-shedding on inflation and economic activity?





Sectoral analysis of economic growth



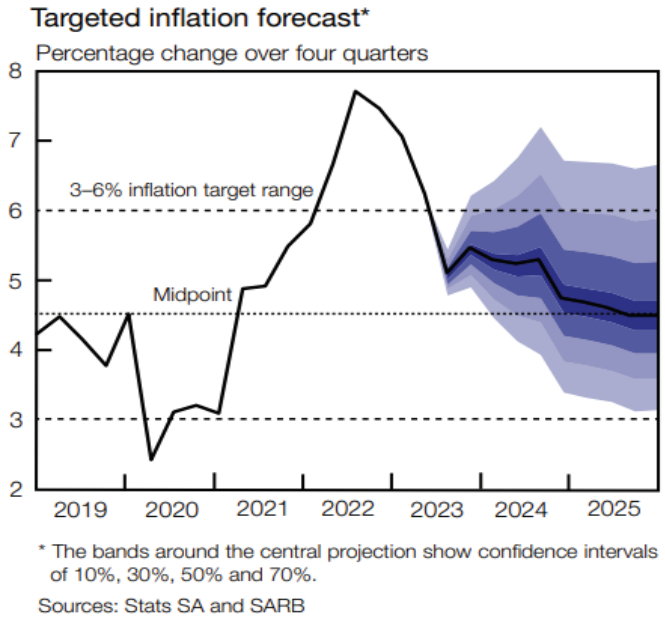
* Percentage change

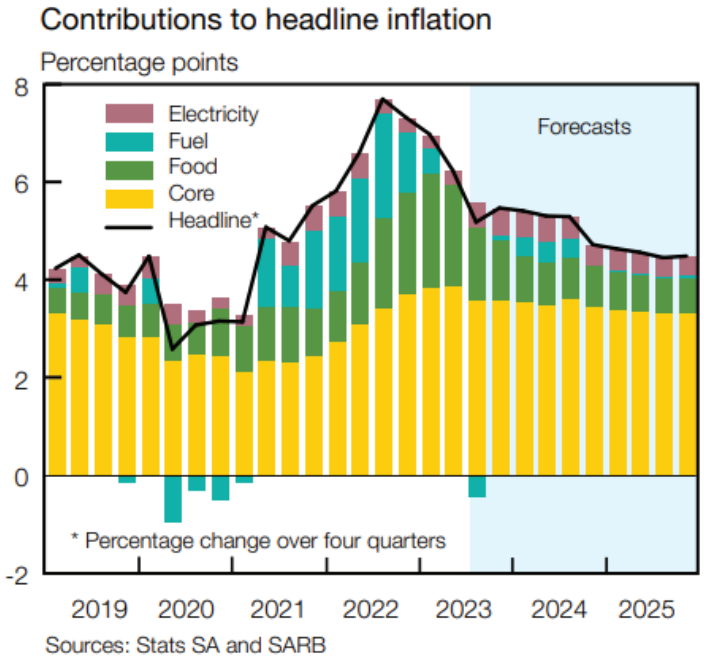
Sources: Stats SA and SARB

- Which sectors have contributed the most or detracted the most from GDP growth?
- How does this affect inflation risks?

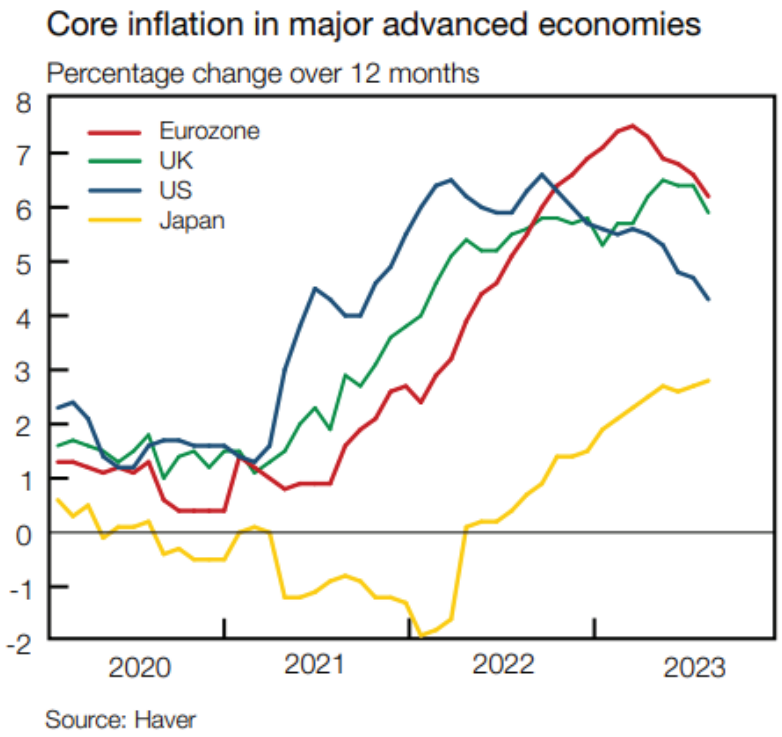
Inflation outlook

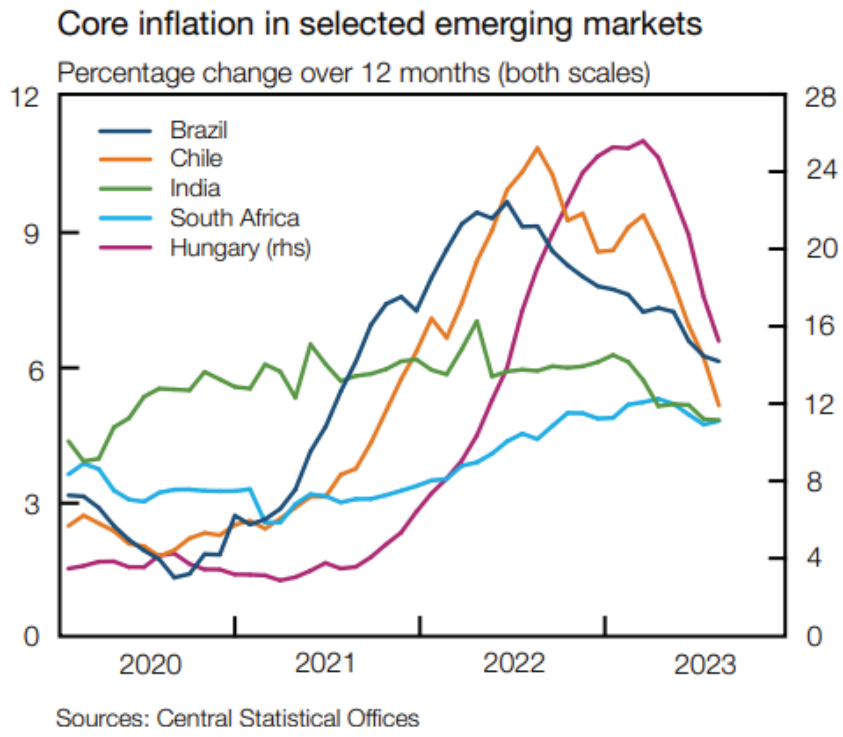
- Inflation remained above the upper limit of the inflation target range for most of 2022, mainly due to higher fuel and food prices. What can you say about inflation currently?
- Possible drivers of inflation risks in 2024 include food and fuel prices, load-shedding, oil prices, commodities, global economic growth, and so on.





Inflation trends in advanced and emerging markets





Key economic indicators

South African Reserve Bank

Contributors – demand factors

Y = C + I + G + (X-M)

Contributions of expenditure components to growth in seasonally adjusted but not annualised real gross domestic product

Percentage points

Component	2022					2023	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Final consumption expenditure							
Households	0.8	0.0	0.0	0.5	1.6	0.2	-0.2
General government	0.2	-0.2	0.1	-0.1	0.2	0.3	0.3
Gross fixed capital formation	0.4	0.1	0.1	0.2	0.7	0.3	0.6
Change in inventories	0.8	0.5	1.1	-1.0	1.3	-0.2	0.6
Residual	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Gross domestic expenditure	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.7**	1.4
Net exports	-0.7	-1.3	0.5	-0.7	-2.0	-0.3	-0.8
Gross domestic product	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.4**	0.6

Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

Contributors – demand factors

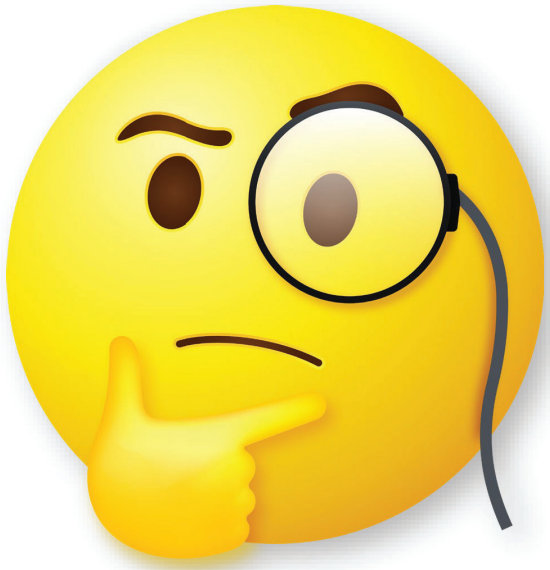
- Fuel and food prices slowing down
- Core inflation is contained
- Exchange rate pass-through

Inflation

South African Reserve Bank

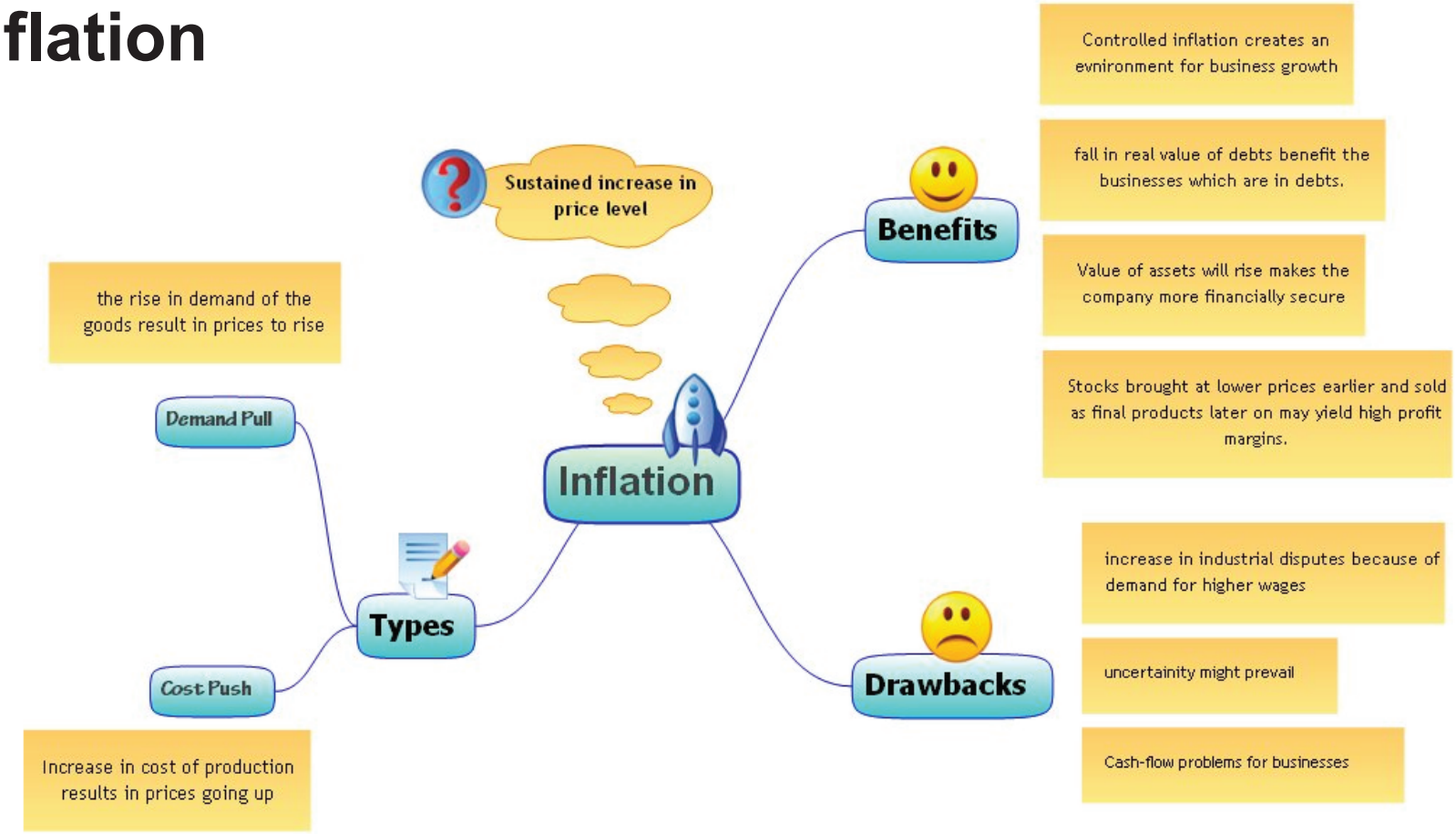
Is inflation a good or a bad thing?

What happens if inflation is too **HIGH**?



What happens if inflation is too **LOW**?

Inflation



Source: http://econperspectives.blogspot.com/2008/10/inflation-mind-map.html

What is the purpose of monetary policy?

- The main goal is *price stability.*
- Responsibility rests with the central bank (SARB).
- South Africa adopted **inflation targeting** in February 2000, whereby the SARB announces an **inflation target** and implements monetary policy to achieve this target directly.

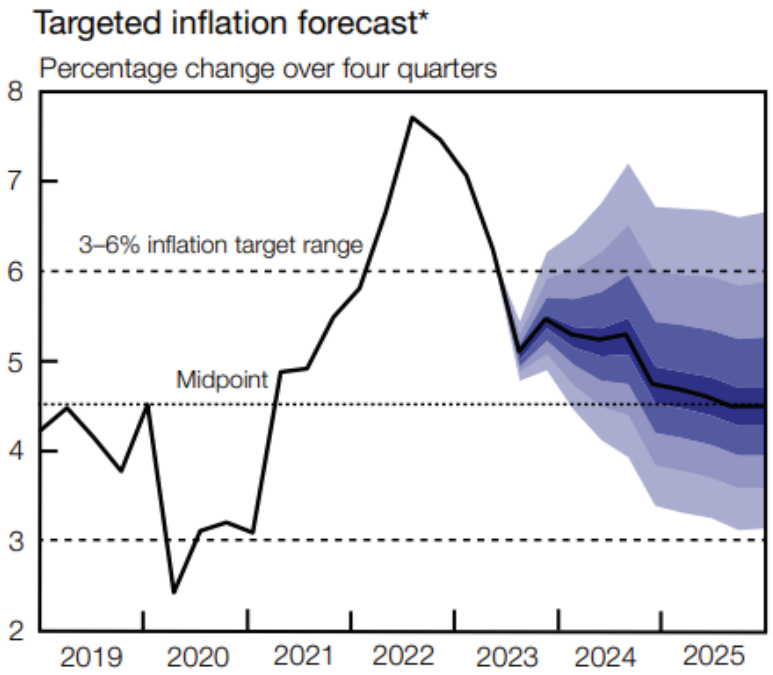
SFA 1

Headline inflation is **CORE INFLATION** PLUS prices of food and energy which change all the time!

Maintain **HEADLINE INFLATION** within the target range

Core inflation only includes prices that do not change frequently (e.g. rent, labour etc.)

Price stability – keep inflation between 3–6%



* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.

Sources: Stats SA and SARB

Weight of the different COICOP* categories (100%)

- Food and non-alcoholic beverages (17.14%)
- Alcoholic beverages and tobacco (6.26%)
- Clothing and footwear (3.65%)
- Housing and utilities (24.49%)
- Household content, equipment and maintenance (4.37%)
- Health (1.44%)
- Transport (14.35%)
- Communication (2.42%)
- Recreation and culture (5.20%)
- Education (2.62%)
- Restaurants and hotels (3.25%)
- Miscellaneous goods and services (14.81%)

* Classification of individual consumption by purpose

Sometimes a rise in the price of one item can cause a rise in the price of all other items.

Monetary policy transmission mechanism

South African Reserve Bank

1. Identify the *goal* of the model – methodology

- *The first step is to identify* ***key drivers of inflation*** *(hint – see MPC statement for more info):*
  - Demand-pull inflation
  - Cost-push inflation
- Then decide how to *change the repo rate*

Inflation below target band
- Lower the repo rate

→

Target band
- Inflation target 3–6% (around midpoint)

→

Inflation above 6%
- Hike the repo rate

2. Identify the *elements* of the model – basic elements

Monetary policy

- The central bank's control of the financial conditions in a country in order to achieve an inflation target

Instrument

- **Repo rate**

  The **rate at which commercial banks borrow money from the central bank** (SARB)

- **Prime rate**

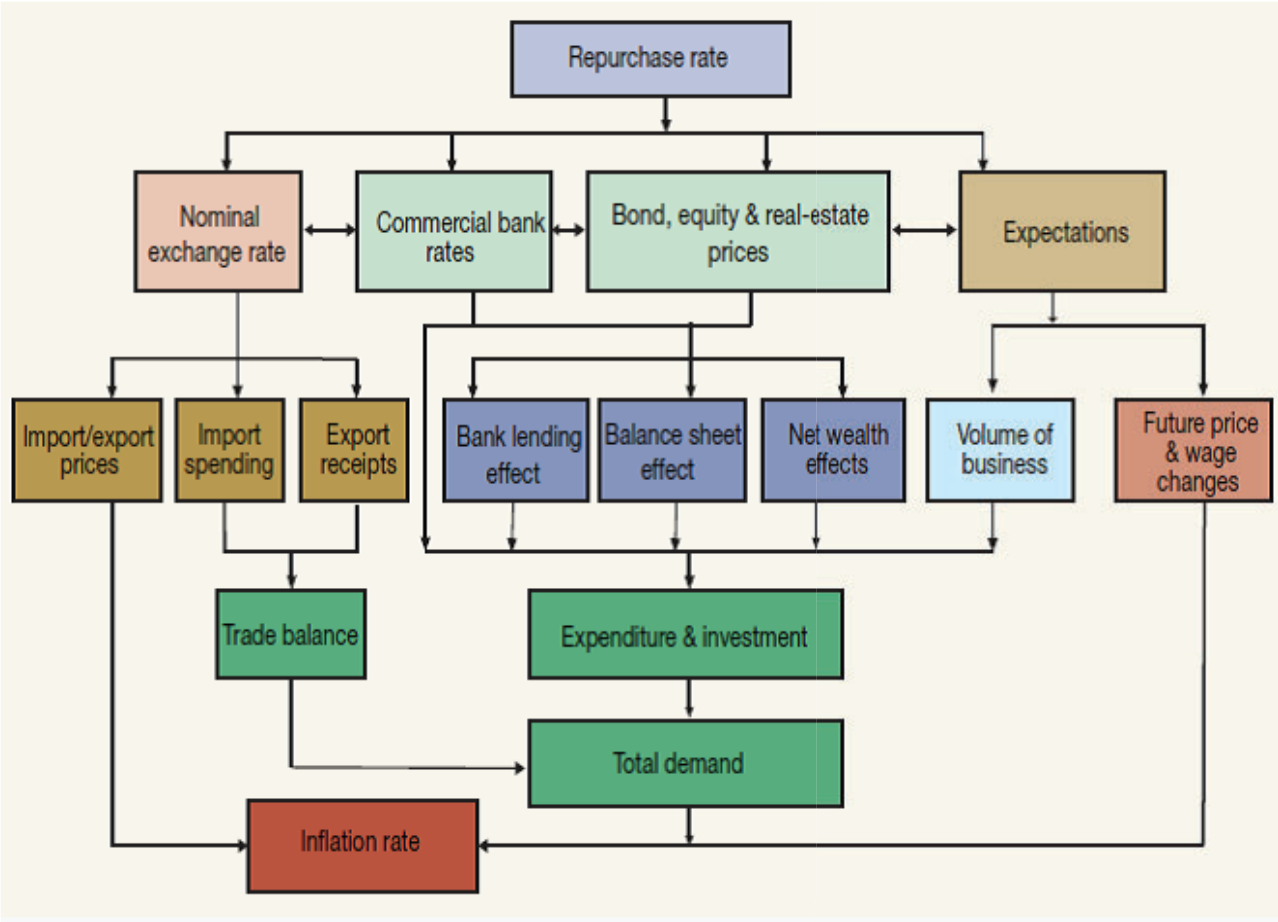
  The **rate at which a client with normal risk can borrow money** from commercial banks

Transmission mechanism

Changes in the interest rate

Changes in growth, employment, inflation

Monetary policy transmission mechanism



Examples

1. Repo – ⬇
2. Repo – ⬆

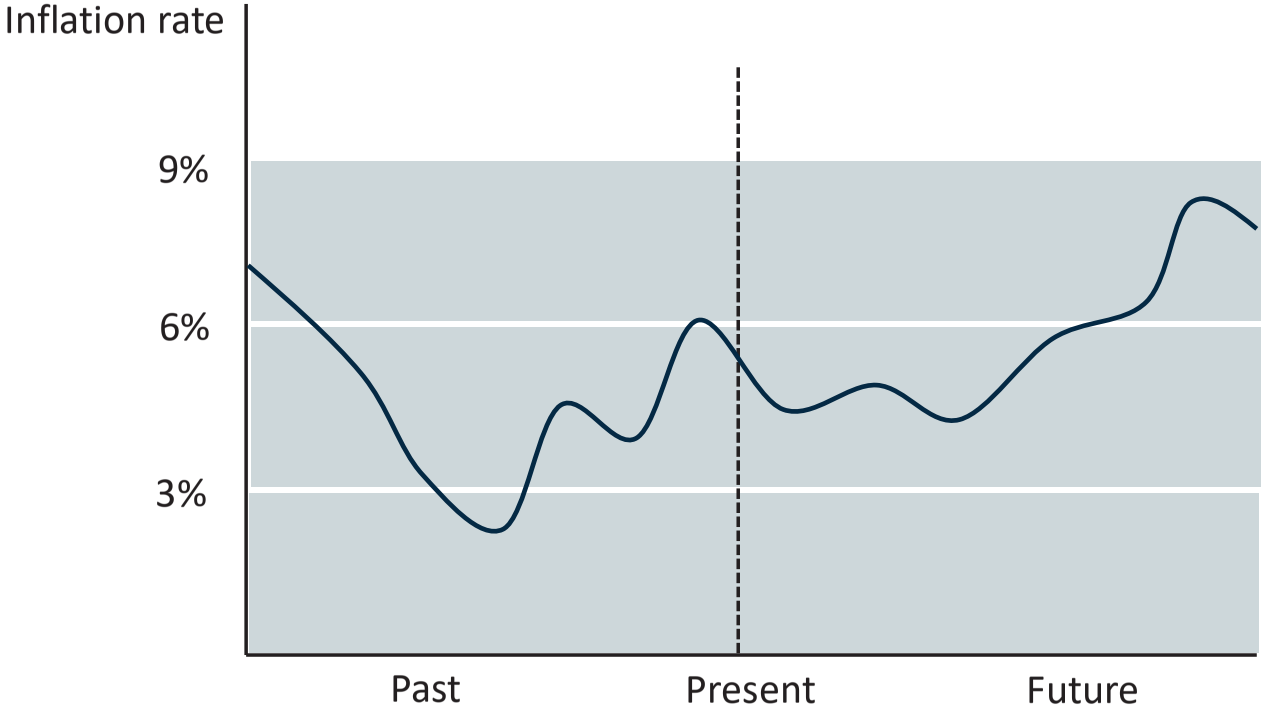
MPC statement

South African Reserve Bank

Statement structure

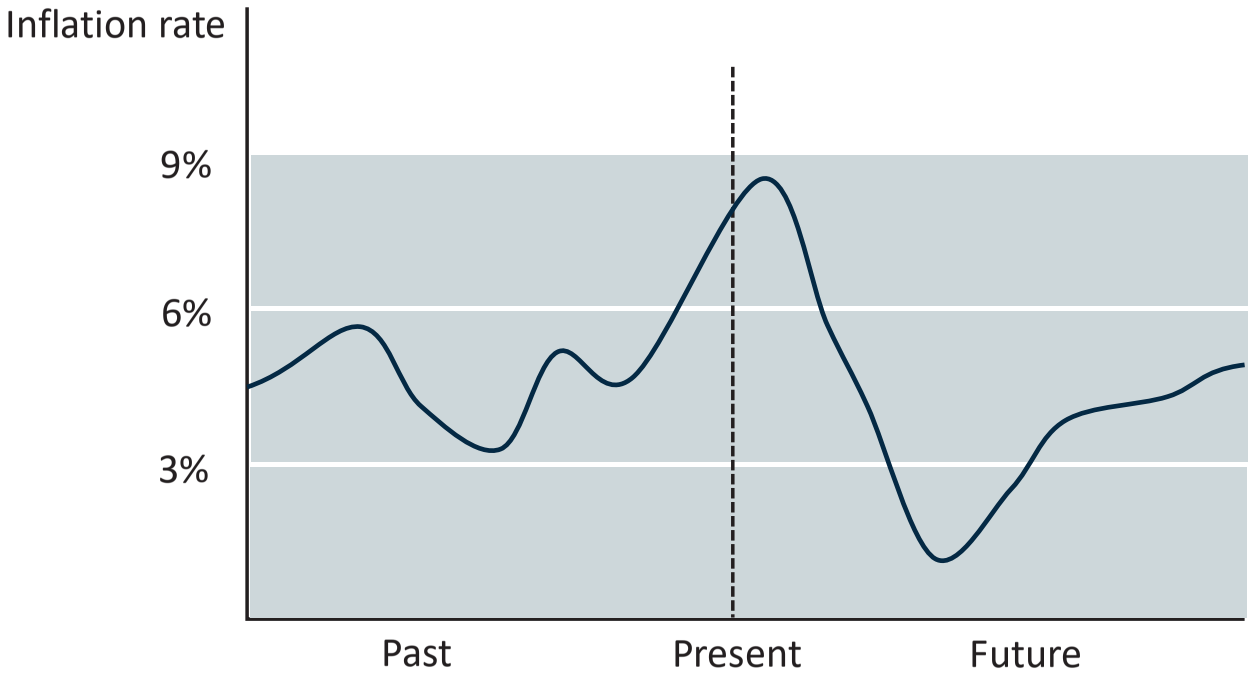
Your task for the statement is to decide whether to…

1. ***Raise*** **the repo rate** ↑



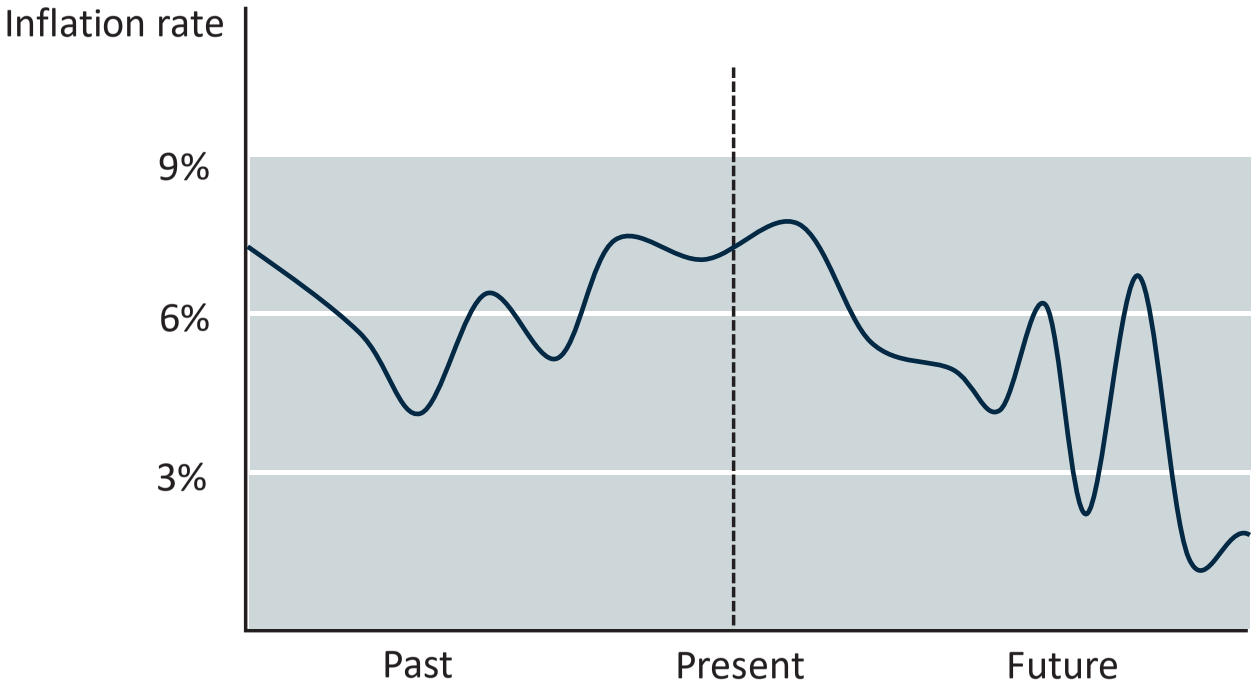
Your task for the statement is to decide whether to…

2. Keep the repo rate *constant* ⇔



Your task for the statement is to decide whether to…

3. *Decrease* the repo rate ↓



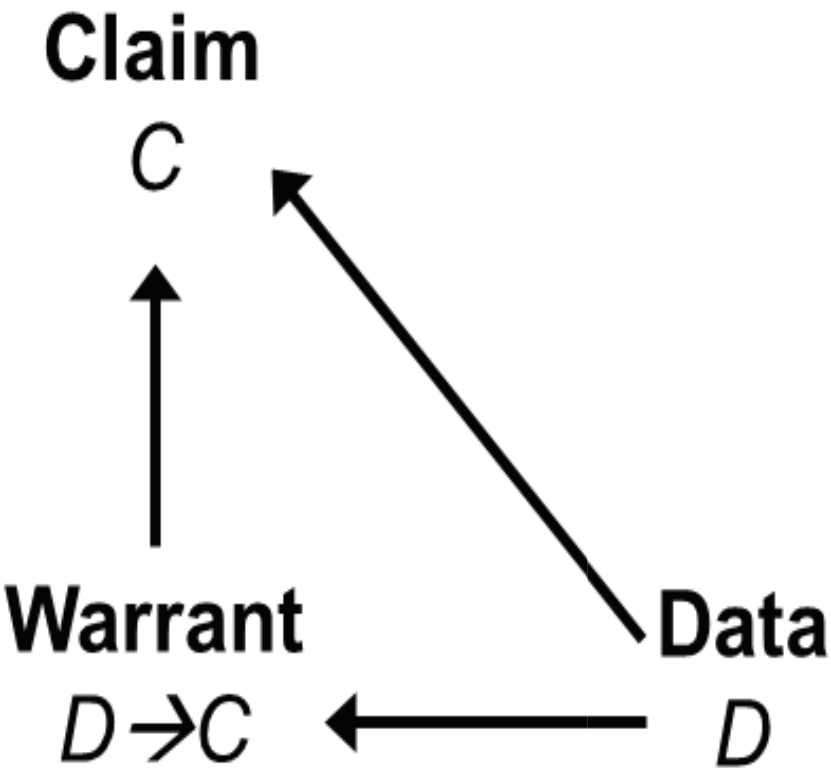
What makes a winning statement?

You need to make an *argument*

What is an argument?

- Saying something
- Story line
- **Evidence and fact**

What goes into an economic statement?



Data sources

- Various topics
  - http://www.resbank.co.za/Research/Statistics/Pages/Statistics-Home.aspx
- Specific data search
  - http://www.resbank.co.za/Research/Statistics/Pages/OnlineDownloadFacility.aspx
- *Monetary Policy Review*
  - http://www.resbank.co.za/Publications/Reviews/Pages/Monetary-Policy-Review.aspx
- MPC statements
  - http://www.resbank.co.za/Publications/Statements/Pages/MonetaryPolicyStatements.aspx

More data sources to consult

- South African Reserve Bank (SARB)
  - Quarterly Bulletin App [Quarterly Bulletins (resbank.co.za)]
- Statistics South Africa
- Bureau for Economic Research
- Big 4 banks – economic commentary section
- Business newspapers/websites

Technical aspects: Table – the wrong way ☒

	Utopia repo rate	Lemuria repo rate	Atlantis repo rate
2005	8.0%	2.0%	10.0%
2006	10.0%	3.0%	2.0%
2007	13.0%	2.0%	8.5%
2008	11.0%	4.0%	3.0%
2009	10.5%	3.0%	0.5%
2010	8.5%	2.5%	8.0%
2011	7.0%	2.0%	15.0%
2012	5.5%	1.5%	14.0%
2013	5.0%	2.0%	10.0%
2014	6.0%	1.5%	7.0%

- Utopia's interest rate was 8% in 2005, and Lemuria's rate was 2% and the rate in Atlantis was 10%. In 2006, Utopia's rate went up to 10% and Lemuria's rate also went up to 2%, while Atlantis's repo rate went down to 2%. Then in 2007…

Technical aspects: Table – the right way ✓

	Utopia repo rate	Lemuria repo rate	Atlantis repo rate
2005	8.0%	2.0%	10.0%
2006	10.0%	3.0%	2.0%
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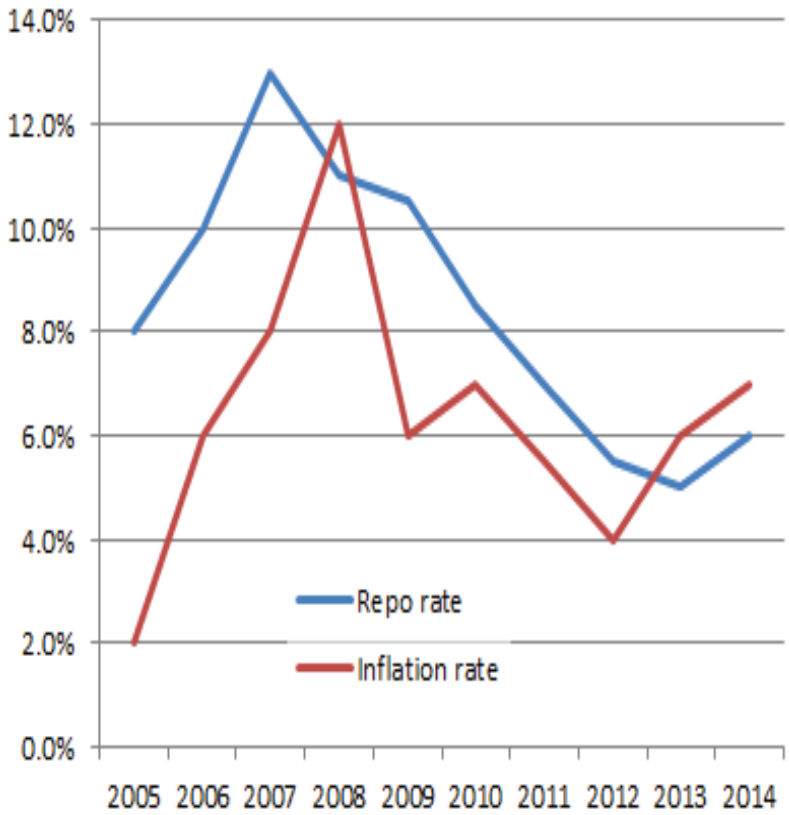
2009	10.5%	3.0%	0.5%
2010	8.5%	2.5%	8.0%
2011	7.0%	2.0%	15.0%
2012	5.5%	1.5%	14.0%
2013	5.0%	2.0%	10.0%
2014	6.0%	1.5%	7.0%

The interest rate in Atlantis was much more volatile compared to Utopia and Lemuria. This is partly due to the fact that Atlantis did not follow inflation targeting. Lemuria's effective monetary policy allowed it to keep inflation low, and it therefore experienced the lowest interest rates.

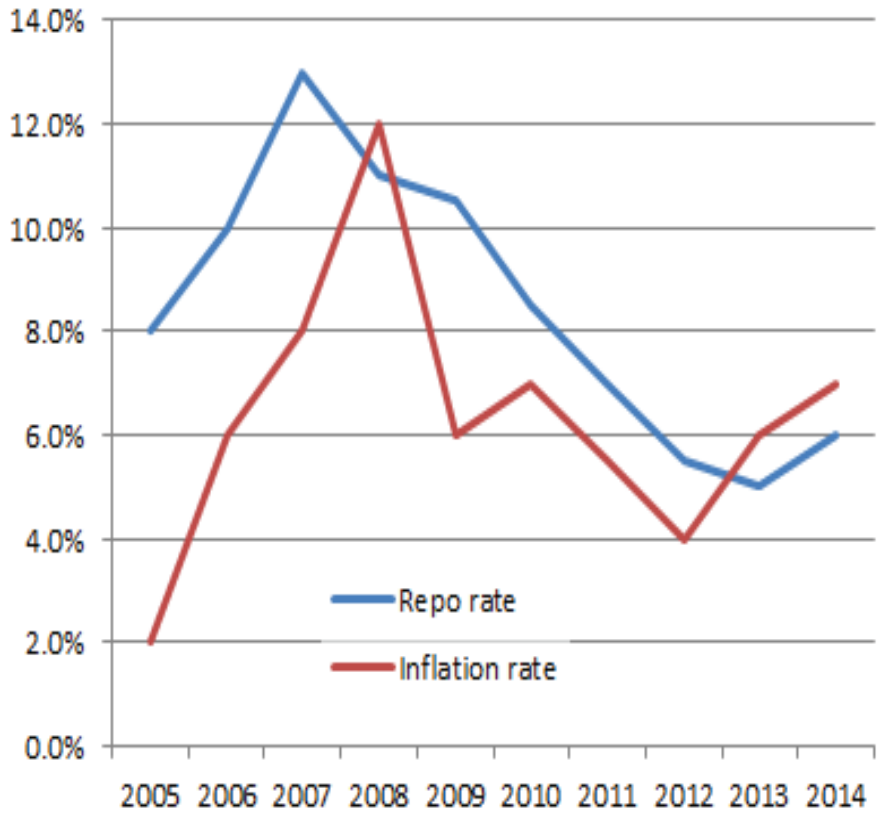
Substantiate with a graph

Technical aspects: Graph – the wrong way ☒



The repo rate went up to 13% in 2007, and then went down to 5% in 2013, and then it went up again.
The inflation rate went up to 12% in 2008, went up and down to 4% in 2012, and then rose again to 7%...

Technical aspects: Graph – the right way ✓

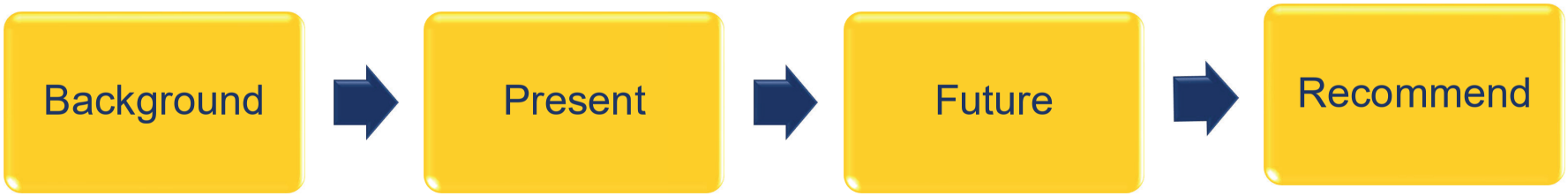


The central bank seems to respond to the inflation rate as is evident from the way the repo rate moves together with the inflation rate.

What was the difference?

- No simple repetition.
- Rather show the *meaning*:
  - Highlight what you want the reader to notice.
  - Connect to how it supports your argument.

The process



Recommendations – VERY IMPORTANT

- Does your inflation forecast suggest the need for:
  - Rise in the repo rate (↑)
  - No change in the repo rate (⇔)
  - Drop in the repo rate (↓)

- Justify (as explained)
  - Consider target range over 12 to 24 months
  - Other variables?

- Forward-looking

In this context, we anticipate inflation expectations will moderate further. These expectations have been quite backward-looking, with higher past inflation projected well into the future. Survey expectations remain above our midpoint objective.[9] We expect that our policy stance, and the experience of lower inflation, will anchor expectations more firmly at lower levels.

The risks to the inflation outlook are assessed as balanced.

In the near term, inflation appears well contained. However, the medium-term outlook is highly uncertain, with material upside risks. These include higher prices for food, electricity and water, as well as insurance premiums and wage settlements.

Against this backdrop, the MPC decided to reduce the policy rate by 25 basis points, to 7.75%, with effect from 22 November 2024. The decision was unanimous.

The Committee agreed that reducing the level of policy restrictiveness is still consistent with achieving the inflation target.

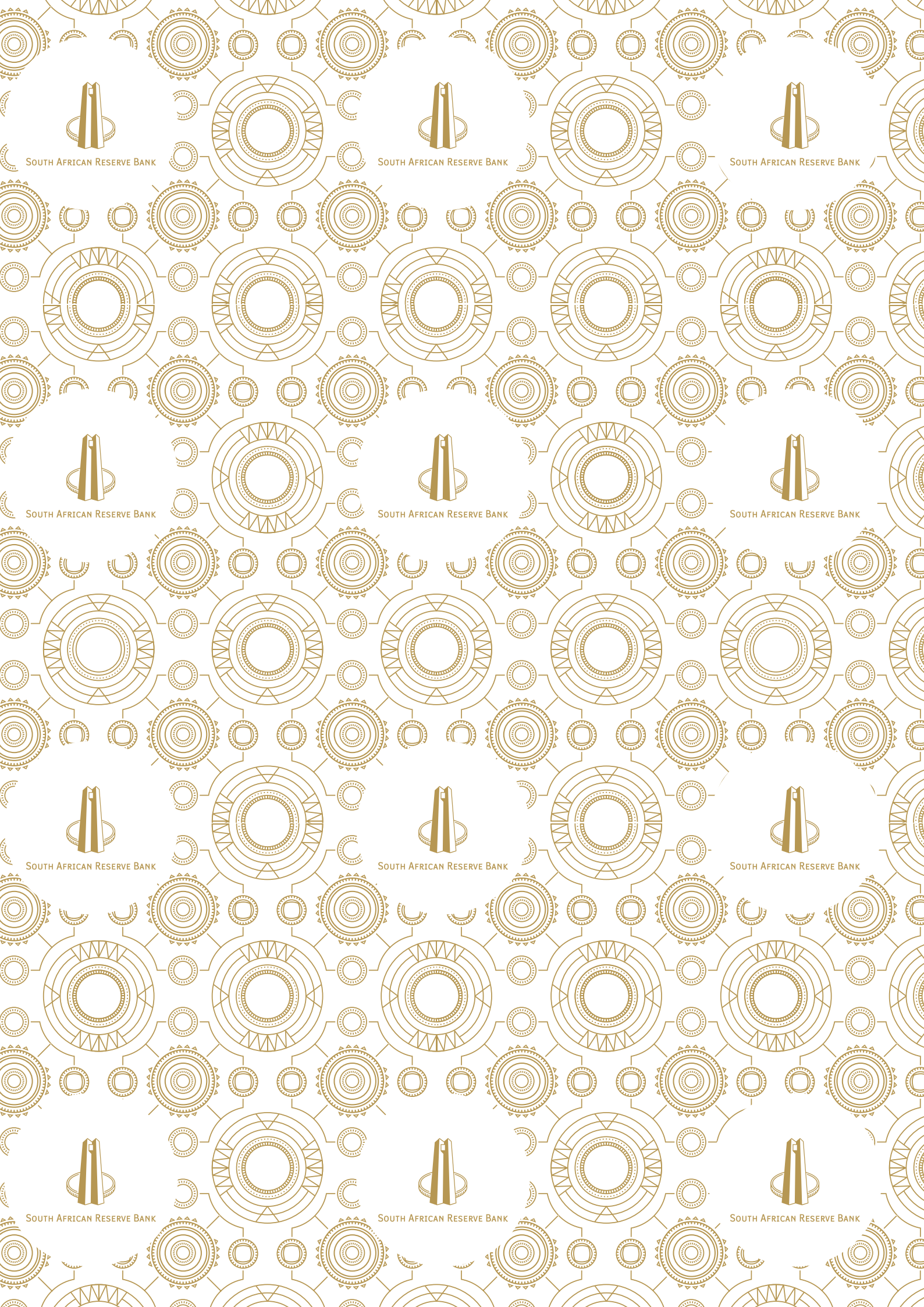
Extract from November 2024 MPC Statement

Conclusion…

- Know what you will argue about the repo rate.
- Your argument should be derived from the future direction of inflation.
- It should be forward-looking.
- It should also be supported by current developments.
- Remember the final repo rate decision.

THANK YOU

South African Reserve Bank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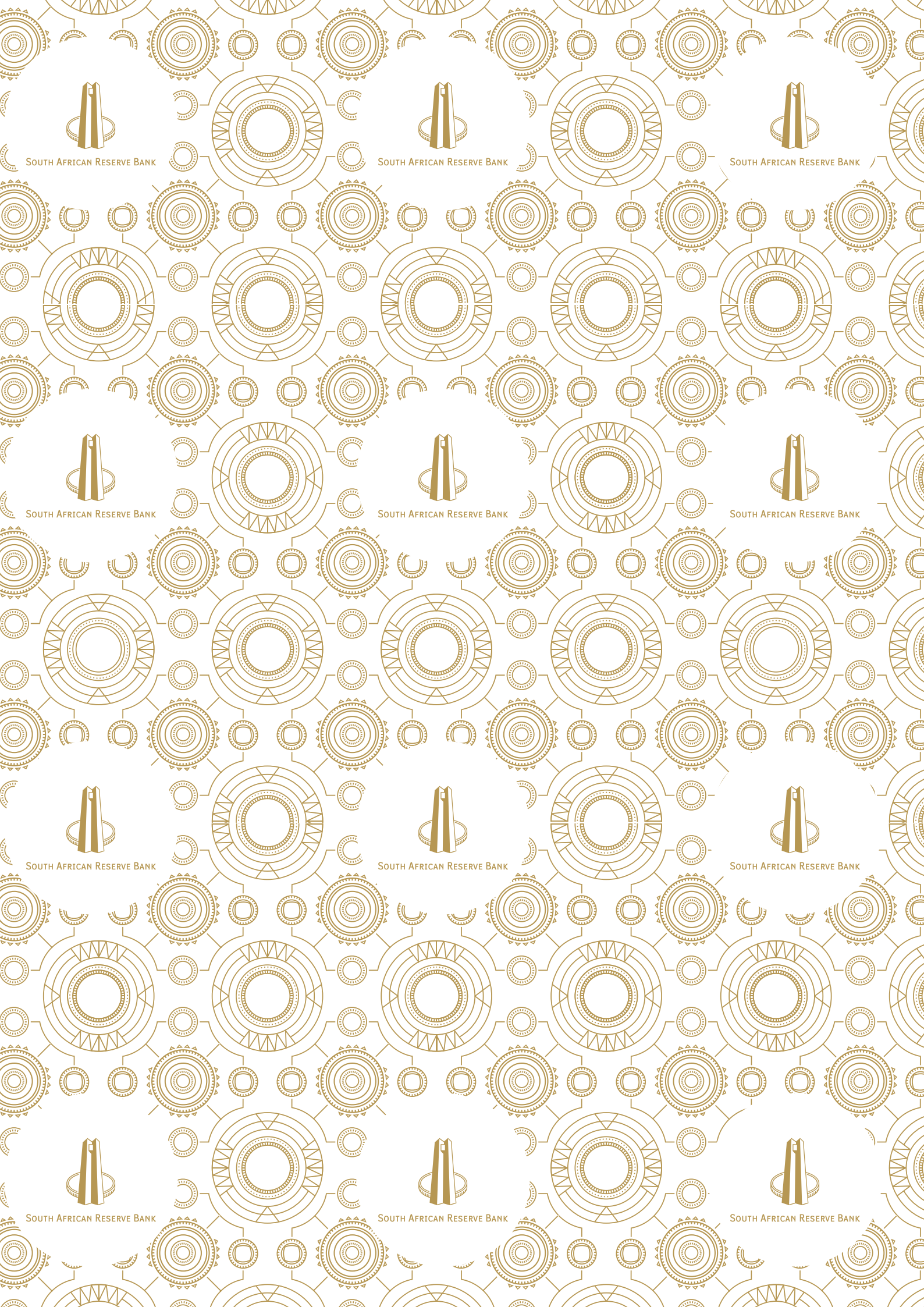
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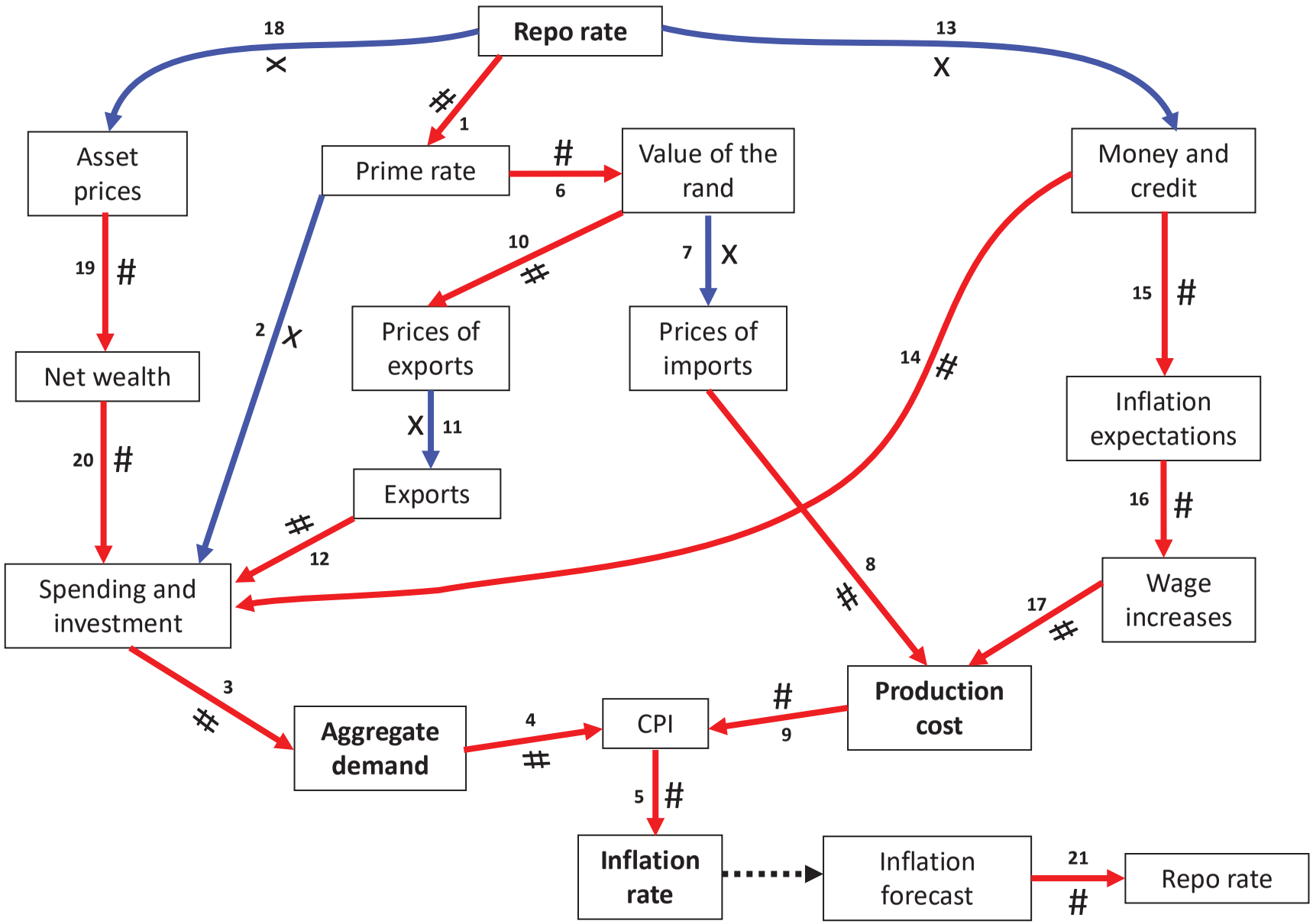
Repo rate
Asset prices
Prime rate
Value of the rand
Money and credit
Net wealth
Prices of exports
Prices of imports
Inflation expectations
Exports
Spending and investment
Wage increases
Production cost
Aggregate demand
CPI
Inflation rate
Inflation forecast
Repo rate
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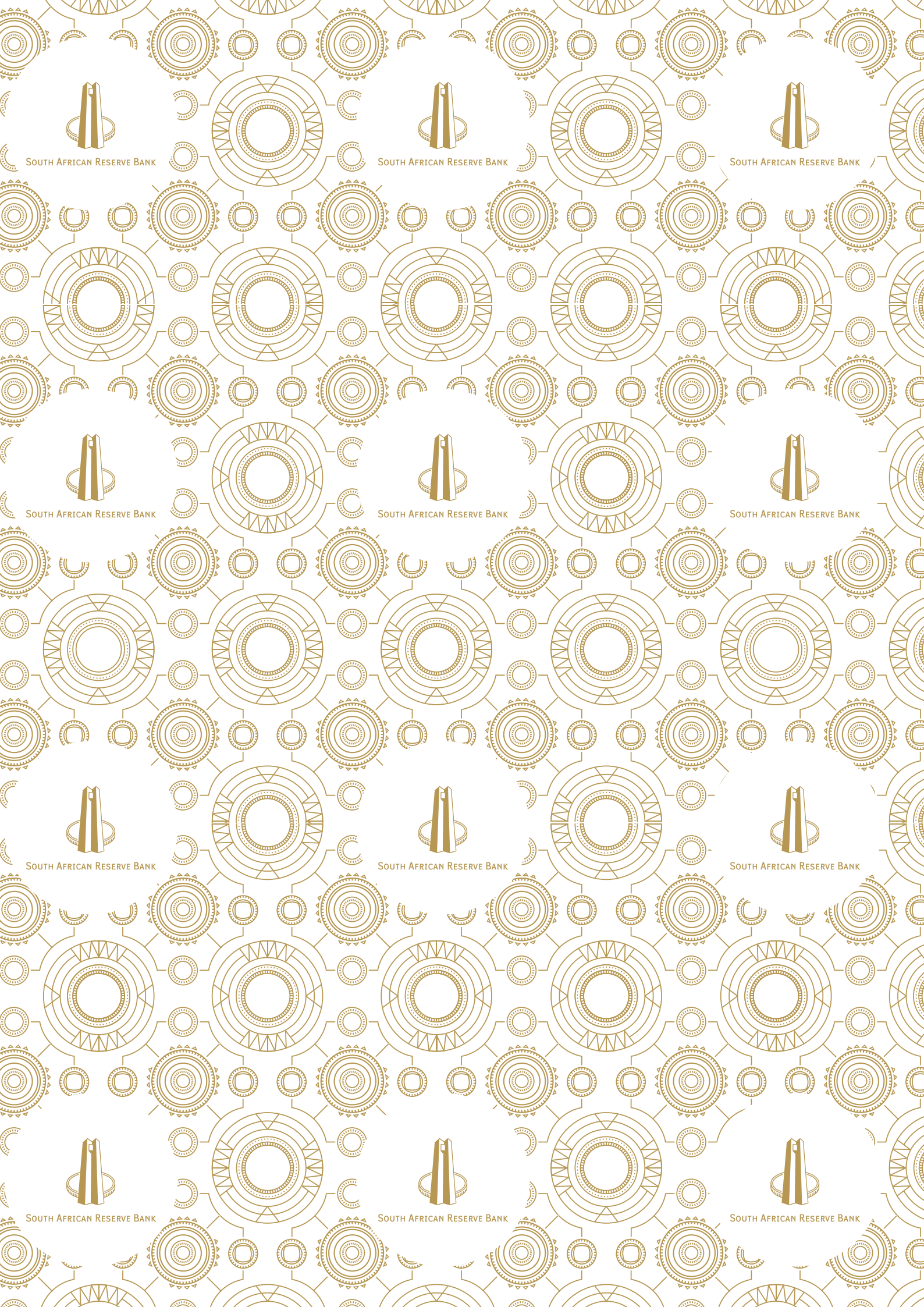
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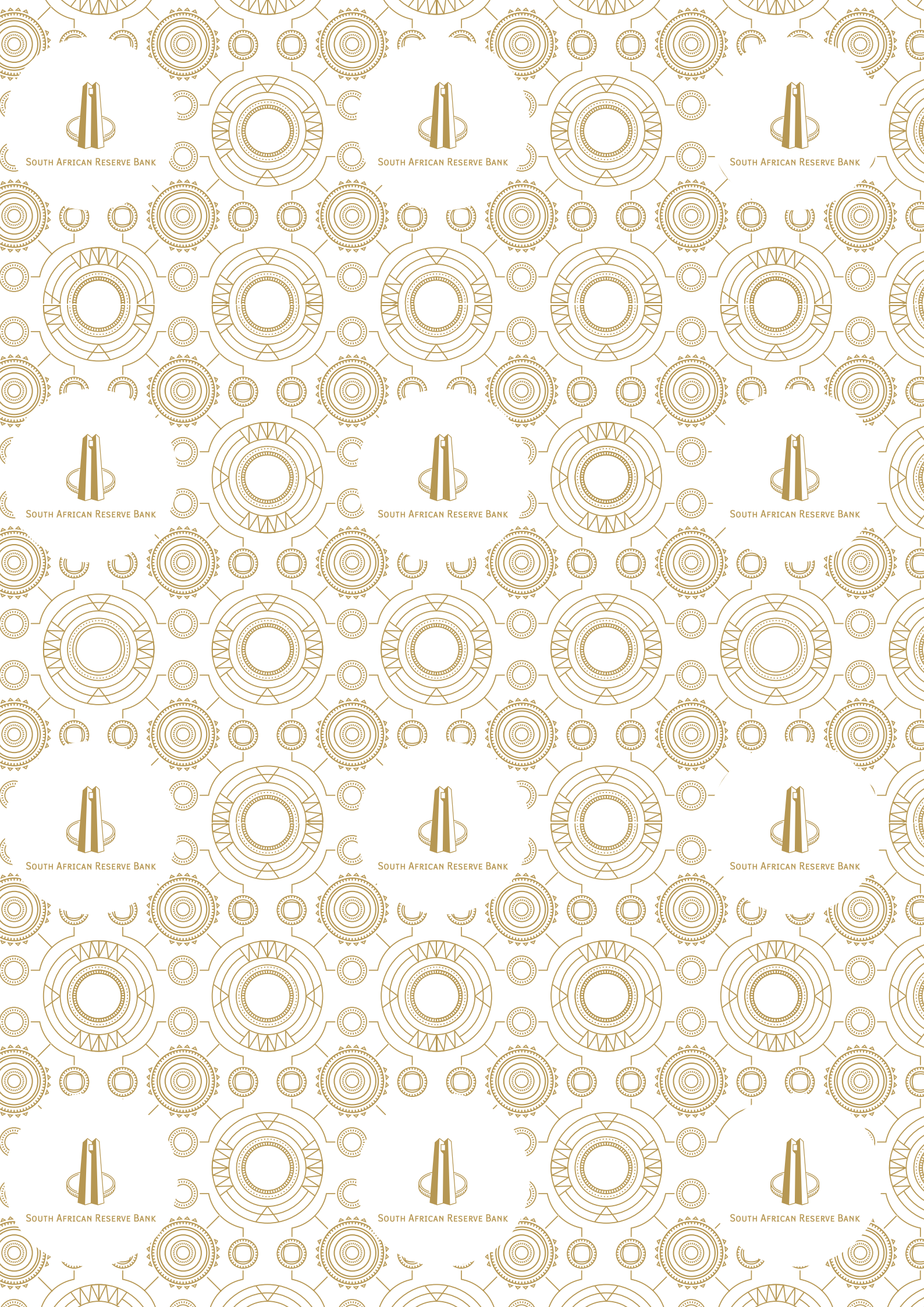
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South African Reserve Bank

2025 Monetary Policy Committee Schools Challenge

Key economic outlook

South African Reserve Bank

Outline

Primary purpose of the South African Reserve Bank (SARB)

- *Mandate*
- *Tools*

Statement and statement template

- *Key economic outlook*
- *Inflation risks*
- *Interest rate decision*

Data

The constitutional mandate of the SARB

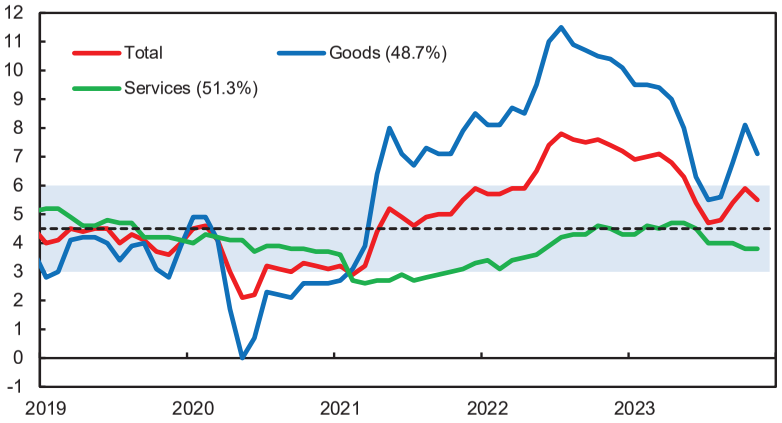
The primary objective of the SARB is to **achieve and maintain price stability** in the interest of balanced and sustainable economic growth in the Republic of South Africa.

The SARB is ***instrument-independent*** in the implementation of monetary policy, but ***not goal-independent*** in the selection of a monetary policy goal.

THE SARB's
PRIMARY MANDATE

To protect the value of the currency in the interest of balanced and sustainable economic growth

Figure 1: Consumer price index
Percentage change over 12 months



--- Midpoint of the inflation target range (4.5%)

Numbers in brackets indicate weight in the consumer price basket.

Source: Stats SA

SOUTH AFRICAN RESERVE BANK

What is the repo rate?

- The repo rate, or repurchase rate, is the interest that the SARB charges commercial banks when they need to borrow funds due to a shortfall.
- The repo rate is a crucial tool for controlling inflation and stabilising the economy.
- A higher repo rate makes borrowing more expensive, thereby reducing the availability of credit.

What is inflation?

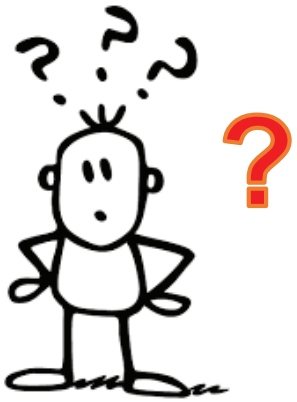
- Inflation refers to the overall rise in the prices of goods and services within an economy over a specified period.
- Inflation erodes purchasing power for both consumers and businesses.

Price stability at a glance

Price stability

- Price stability is achieved when changes in price levels do not significantly impact economic decision-making processes. In South Africa, this means maintaining an inflation rate within the target range of 3–6%.
- Price stability is further maintained when there are no major fluctuations in the prices of general consumer goods.

The primary tool used to achieve price stability



- When would you increase or decrease the repo rate?
- What should drive the decision to increase or decrease rates and how do these interest rate decisions ultimately affect consumers?

Why are central bankers so ‘obsessed’ with inflation?

- High inflation causes uncertainty in the economy.
- Excessive inflation undermines economic growth and employment creation.
- Inflation reduces the purchasing power of all South Africans.

South African Reserve Bank

The MPC statement

- The MPC statement is **delivered by the Governor** of the SARB in a **live** broadcast **every two months**.
- It follows in-depth deliberations from MPC members that culminate in the decision to either increase, decrease or keep interest rates on hold.

The MPC statement (cont.)

1 The MPC statement provides the public with a summary of the economic information that guided the MPC to its interest rate decision.

2 The MPC statement and announcement are essential for transparency and for managing inflation expectations.

Statement template

Key economic outlook

- Present your view of the **current economic conditions** and their **expected** future trajectory.

- Is the economy overheating (i.e. is demand outpacing supply)?
  - For the **demand side**, consider factors such as expenditure, income and trade sales.
  - On the **supply side**, look at production volumes in sectors such as manufacturing and mining.

- Additionally, assess the factors that affect a firm's input costs like fuel prices, electricity and wages, among other factors.

- Lastly, consider **forward-looking** indicators, including the SARB's composite leading business cycle indicator, which provides insights into where the economy might be in about six months.

Key economic outlook (cont.)

- Other forward-looking information, such as business and consumer confidence, is derived from opinion surveys.
- Given the limited word count, concentrate on summarising the most pertinent indicators for your essay.
- Assess whether any sectors of the economy are experiencing significant growth or weakness and consider how this will affect other sectors of the economy.
- Since monetary policy takes time to influence the economy, your analysis should focus on projections for the next 12 to 24 months.
- Keep in mind that even if some indicators are rising, it does not necessarily indicate that demand greatly exceeds supply.
- Complement the provided data with additional indicators.

Data provided for the analysis

- *Unit labour cost*
- *GDP for OECD* countries*
- *Manufacturing production*
- *Exchange rate*
- *Purchasing Managers' Index*
- *Composite business cycle indicators*

Economic outlook?
Inflation outlook?

- *Unemployment rate*
- *Consumer confidence index*
- *Petrol prices*
- *Employment*
- *Real retail sales*

*Organisation for Economic Co-operation and Development

Data provided for the analysis (cont.)

GDP = C + I +G + (X-M)

- GDP (gross domestic product) measures the amount of goods and services produced in the economy.

- The **expenditure** in the economy is measured by:

  – final household consumption expenditure (C)
  – gross capital formation (I)
  – final government consumption expenditure (G)
  – the difference between exports and imports (X-M)

Data provided for the analysis (cont.)

Short-term indicators:

- **Manufacturing production and the Purchasing Managers' Index (PMI)**: The PMI offers predictions regarding future manufacturing output, often preceding actual production levels.
- **Real retail sales and the Consumer Confidence Index (CCI)**: The CCI provides expectations for future demand for goods, which subsequently affects actual retail sales.
- **Unit labour cost**: This metric indicates the expense involved in producing a single unit of output, reflecting economic cost pressures related to business wage costs.
- **Unemployment rate**: An increasing rate of unemployment may suggest either weak demand or structural issues within an economy.

Data provided for the analysis (cont.)

International indicators

- GDP for OECD* countries
- CPI for OECD countries
- Consider global developments and how they will impact the demand and supply of goods and services as well as prices in South Africa.

Exchange rate

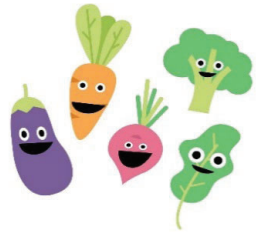
- How will the volume of imports and exports change as the value of the rand changes?
- What will the effect be on domestic prices, especially prices of imported goods?

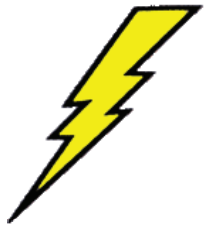
*Organisation for Economic Co-operation and Development

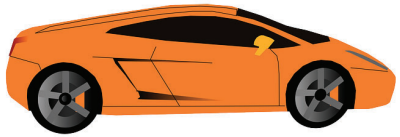
Data provided for the analysis (cont.)

Consumer prices (inflation)

- Total consumer price index (CPI)
- Food and non-alcoholic beverages – demand and imported food
- Electricity and other fuels (cost-push)
- Petrol (cost-push)
- Core CPI (Total - food - electricity - petrol) – demand-pull







Note: You need to distinguish between cost-push and demand-pull inflation and the variables on which monetary policy can have an impact.

Data provided for the analysis (cont.)

Interest rates

- The **prime** interest rate is the rate at which commercial banks lend money to the public.
- The **repo** rate is the rate at which commercial banks borrow money from the SARB. Through setting the repo rate, the MPC influences the price of money in the economy.

Interest rate example

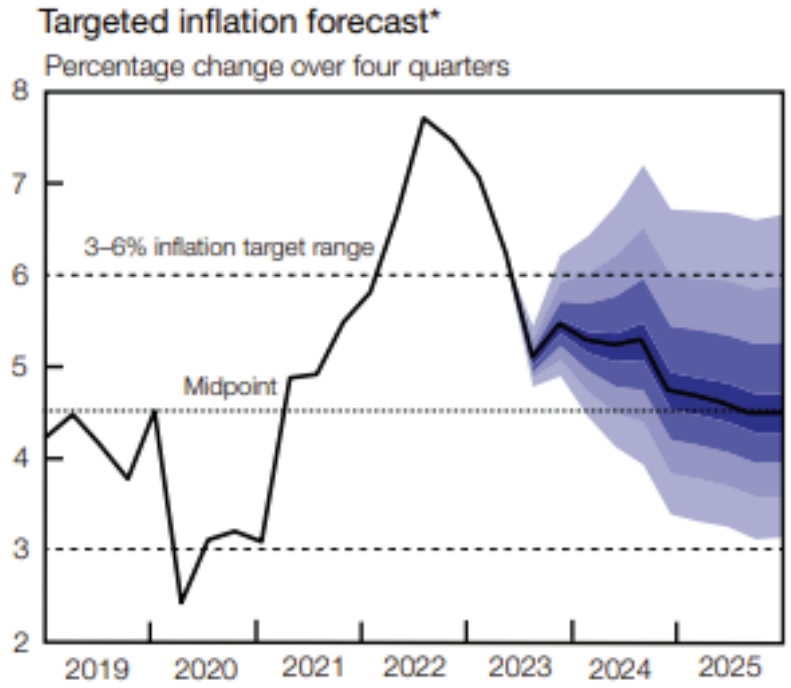
- If you have a home loan (also known as a mortgage or bond) and the repo rate increases, you will have to pay more on your bond, leaving you with less money to spend on other things, which reduces overall demand in the economy.
- Conversely, if the repo rate decreases, your bond payments will be lower, giving you more disposable income to spend on other things, thus boosting overall demand in the economy.

Statement template

Inflation outlook

All things being equal, the MPC should:

- **increase the repo rate** if there are substantial **upward risks** to inflation;
- **decrease the repo rate** if there are substantial **downward risks** to inflation; and
- understand the driving factors behind the inflationary environment and, in turn, the interest rate hikes/cuts.



* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.

Sources: Stats SA and SARB

South African Reserve Bank

Inflation outlook (cont.)

- The aim of monetary policy in South Africa is to keep the inflation rate within the 3–6% target range.

- You should sum up your statement by linking your view of the economy to how you expect inflation to change over the next 12 to 24 months.

- Explain how this makes your monetary policy decision on the repo rate appropriate.

Price stability

Primary mandate

Maintain inflation within a credible target range of

3–6%

Low and stable inflation

Protects the purchasing power of the currency and standard of living of all South Africans, particularly those with fixed incomes whose means of protecting themselves against continually rising prices are limited.

Reduces uncertainty in the economy and create an environment conducive to sustainable and balanced economic growth in support of job creation over time.

Builds trust in the value of the rand and create a favourable investment landscape.

Helps to maintain and improve South Africa's global competitiveness.

Interest rate decision

Key economic outlook → Inflation outlook → Interest rate decision

Interest rate decision

- Present your **decision** on the repo rate at the **end** of your statement as a conclusion to the arguments presented in the body of your statement.

Interest rate decision (cont.)

Extracts from previous MPC statements

Headline inflation returned to below the upper end of the inflation target range in June. In coming months, we expect headline inflation to rise somewhat, before sustainably reverting to the mid-point of the target range in 2025.

Against this backdrop, the MPC decided to keep the repurchase rate at its current level of 8.25% per year. Three members of the Committee preferred to keep rates on hold and two preferred an increase of 25 basis points.

Higher inflation has generally resulted in elevated inflation expectations across markets, businesses and households. Market-based expectations for inflation in 2023 are currently 5.8%, while near-term break-even rates have dipped to 4.3%.[12] Medium and longer-term market expectations for inflation remain elevated. The September survey of the Bureau for Economic Research shows average inflation expectations lower at 6.1% for 2023. The Committee, however, would prefer to see expectations anchored at the mid-point of the inflation target band.[13]

Against this backdrop, the MPC decided to keep the repurchase rate at its current level of 8.25% per year. The decision was unanimous.

Headline inflation returned to the upper end of the inflation target range in June, and is forecast to sustainably revert to the mid-point of the target range by the third quarter of 2025. The forecast takes into account the policy rate trajectory indicated by the Bank's Quarterly Projection Model (QPM).

Against this backdrop, the MPC decided to keep the repurchase rate at its current level of 8.25% per year. Three members of the Committee preferred to keep rates on hold and two preferred an increase of 25 basis points.

THANK YOU

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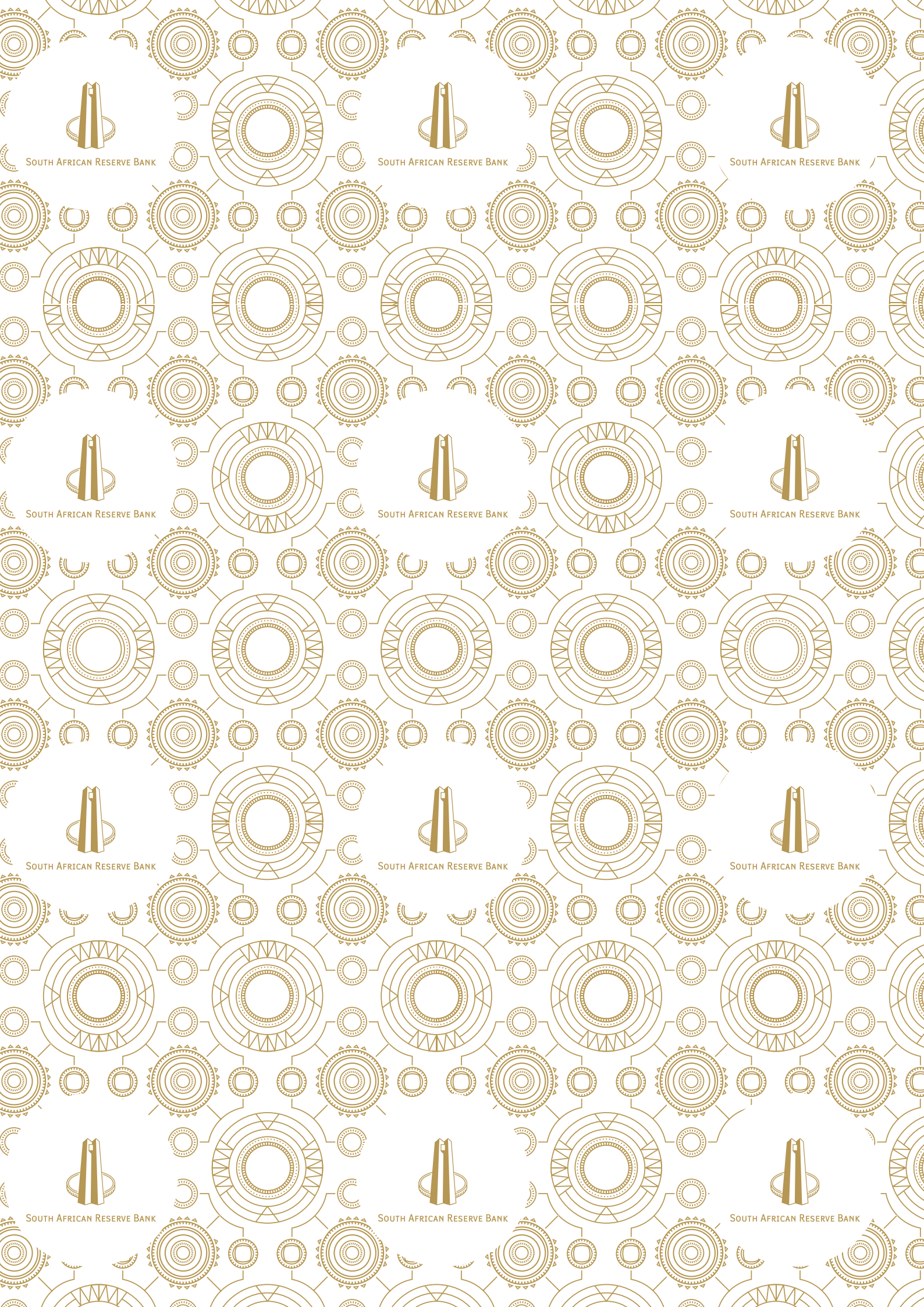
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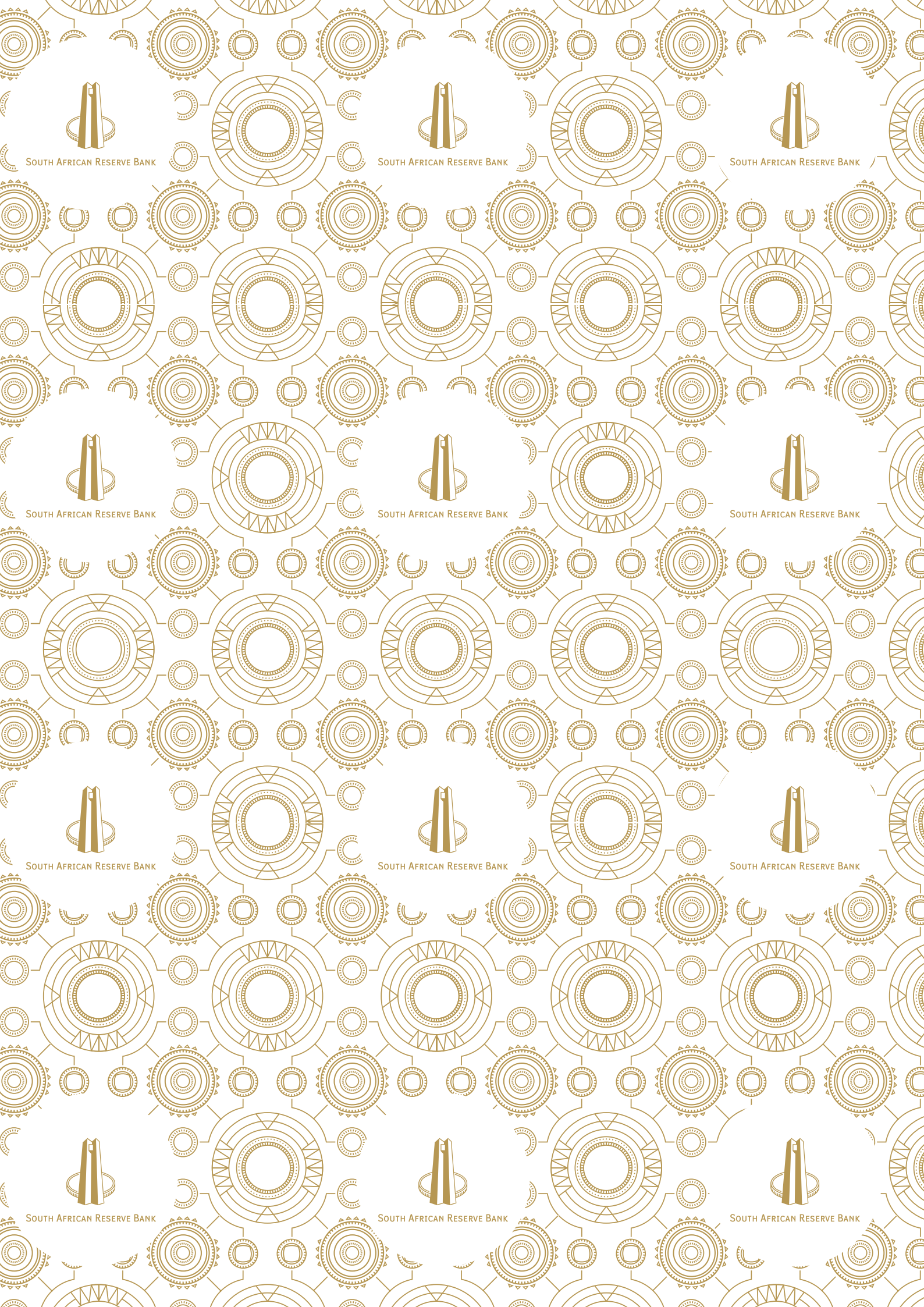
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2025 Monetary Policy Committee Schools Challenge

Marking rubric

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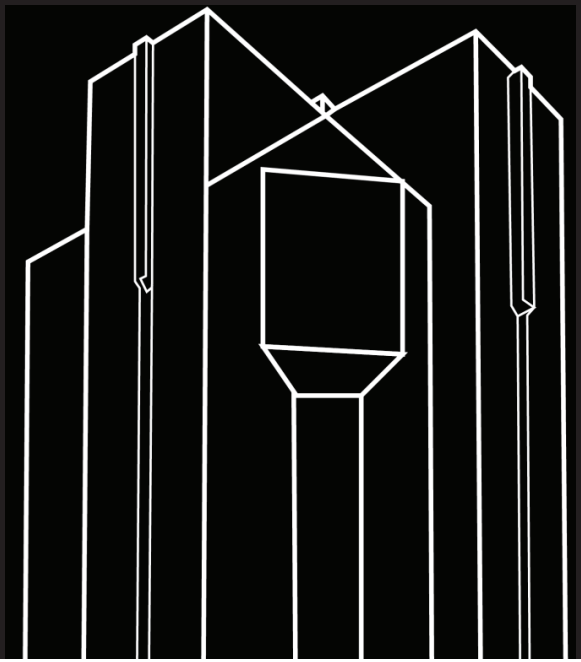
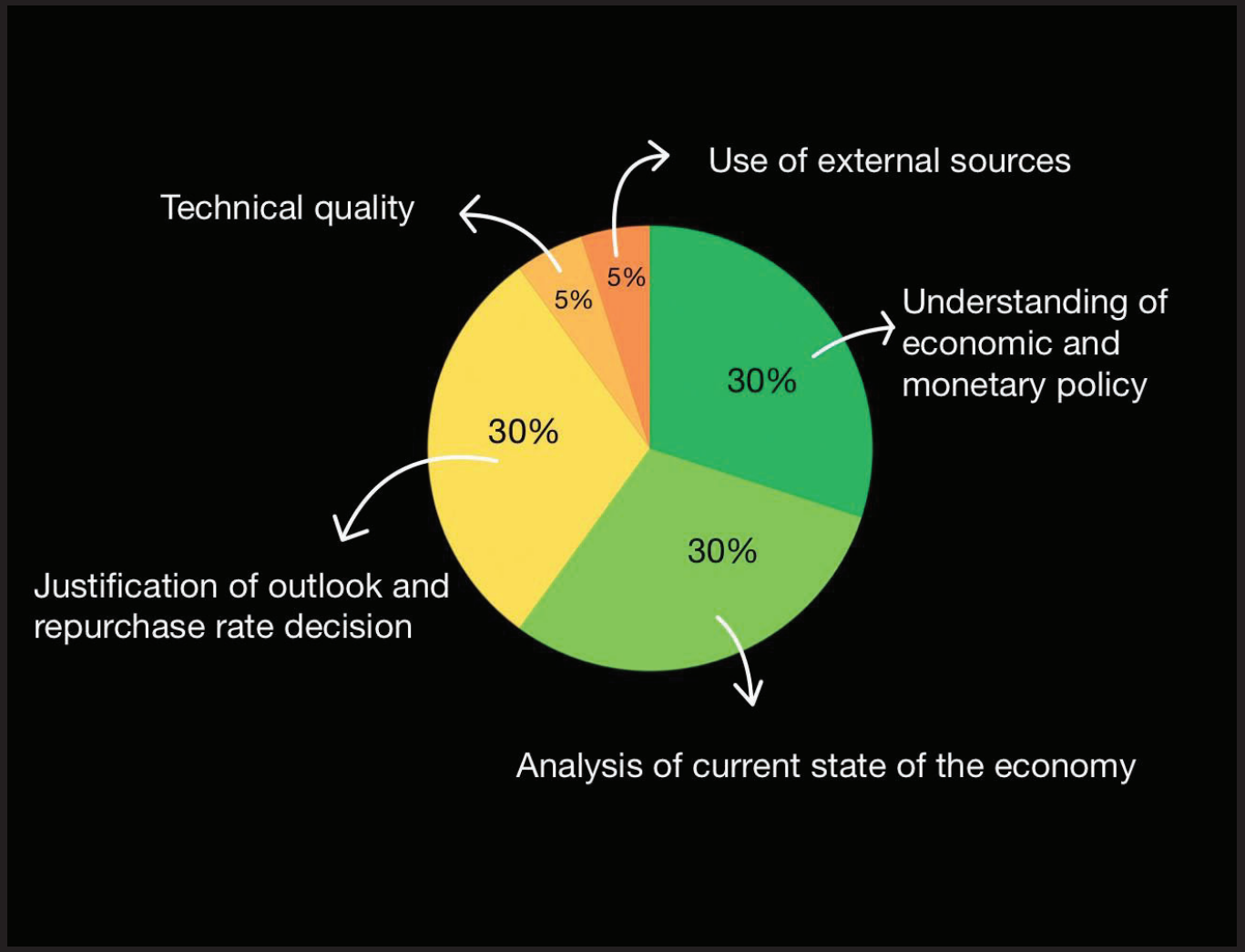


By the end of this presentation, you should have a good understanding of how much each section weighs and for which specific information your examiners are looking so that you can score the highest possible mark in that section.

Overview



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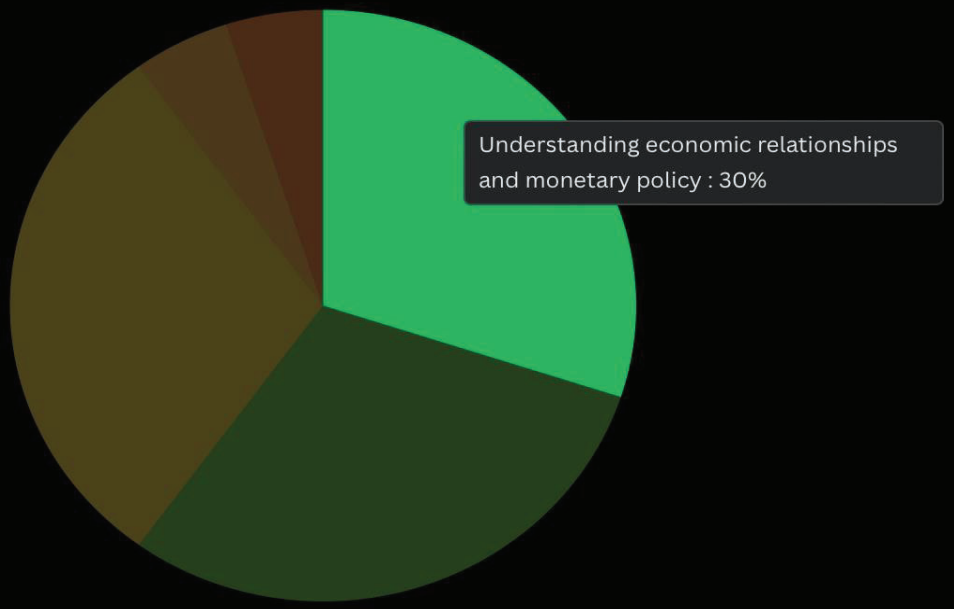
Understanding of economic relationships and monetary policy



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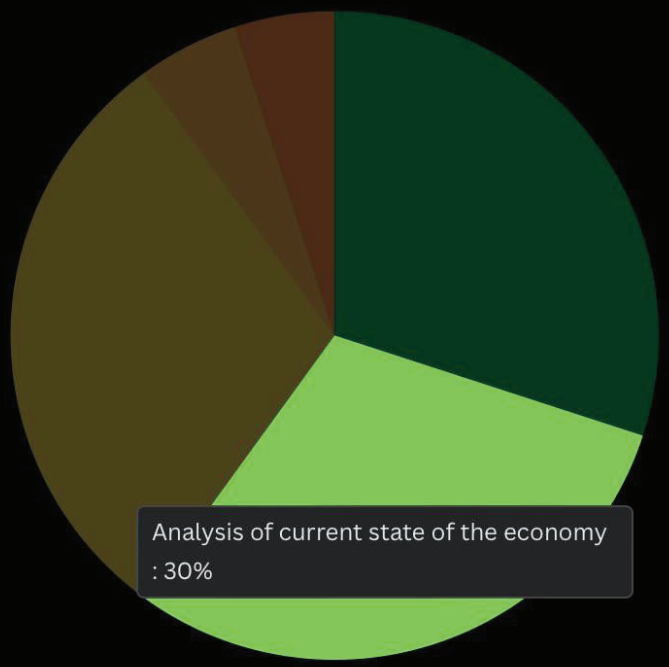
Understanding of economic relationships and monetary policy

Learners are expected to:

- Define and show an understanding of the purpose of monetary policy.
- Demonstrate their understanding of economic relationships through their choice of relevant indicators.
- Demonstrate their **own understanding** of how **inflation** is impacted due to these economic relationships.

Analysis of current state of the economy



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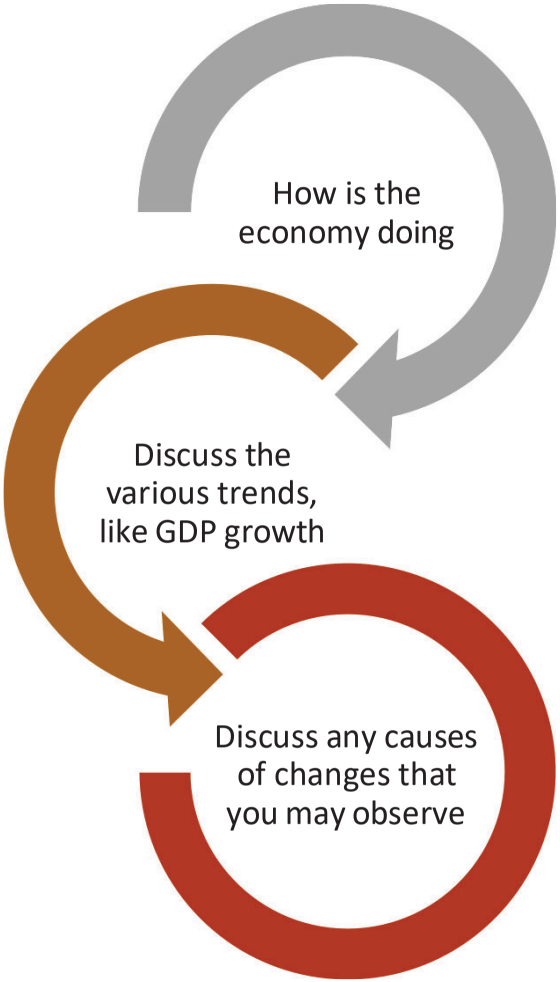
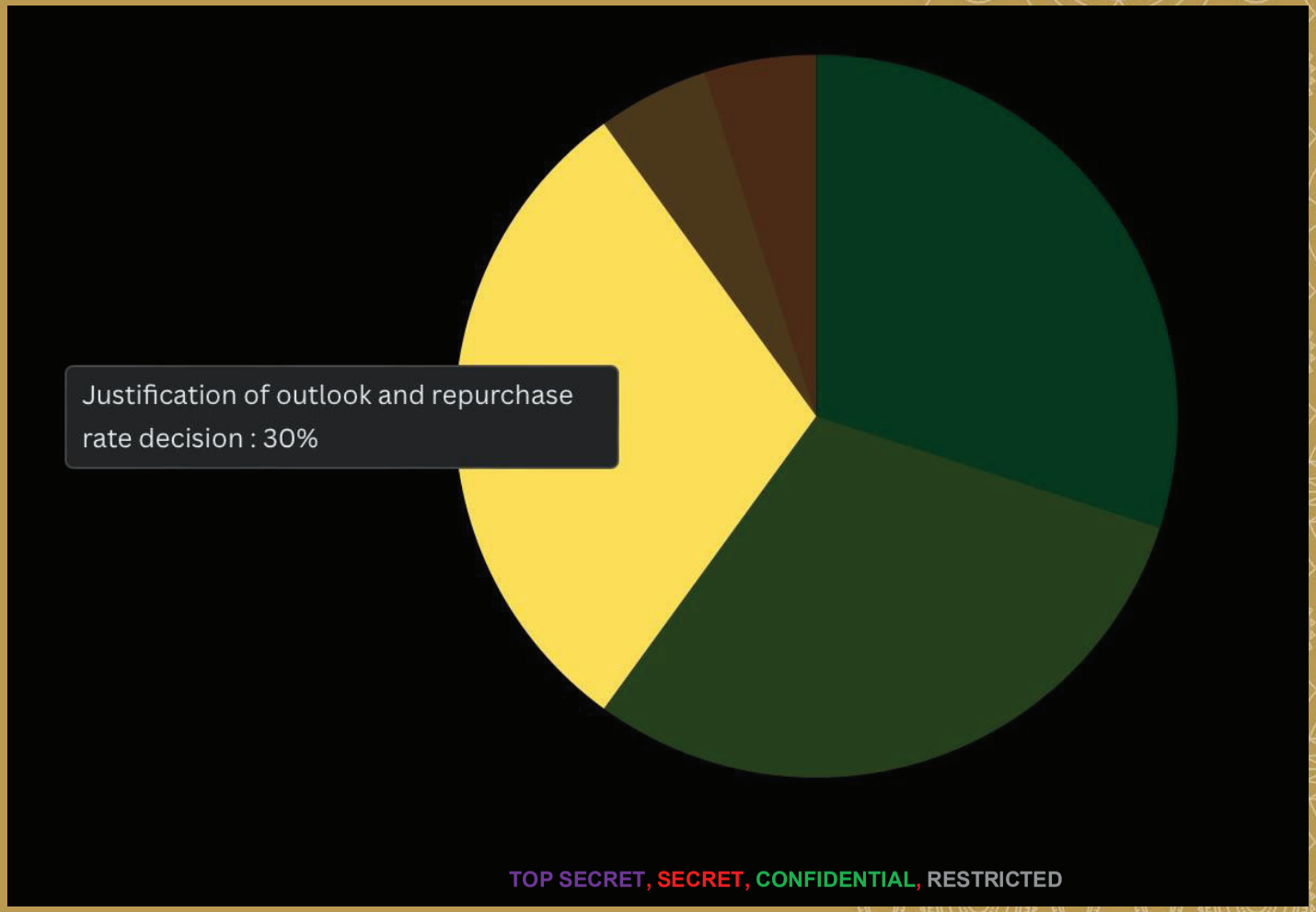
Analysis of current state of the economy



- This is **Dr Link** from Grey's Anatomy, and his name **'Link'** should be a reminder to make the correct **LINKAGES.**

Justification of outlook and repurchase rate decision



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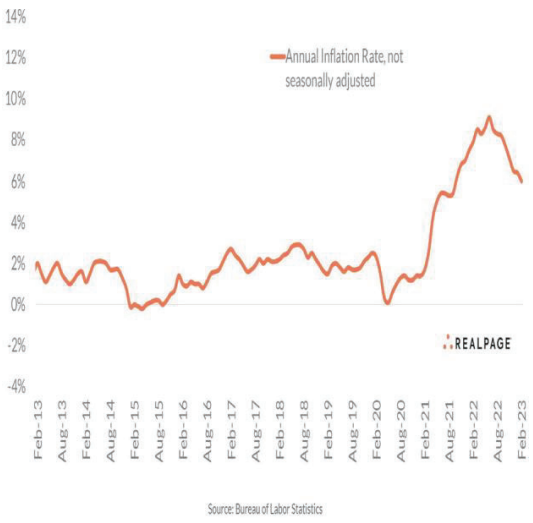
Justification of outlook and repurchase rate decision



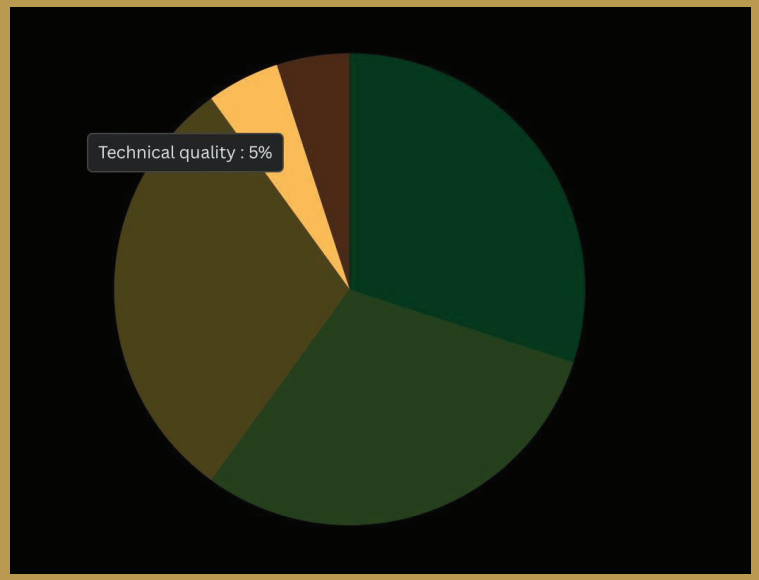
Look at the **recent inflation trends** and discuss the **major contributors.**

Explain how key indicators may present a favourable or unfavourable risk to inflation, which will support the **decision.**

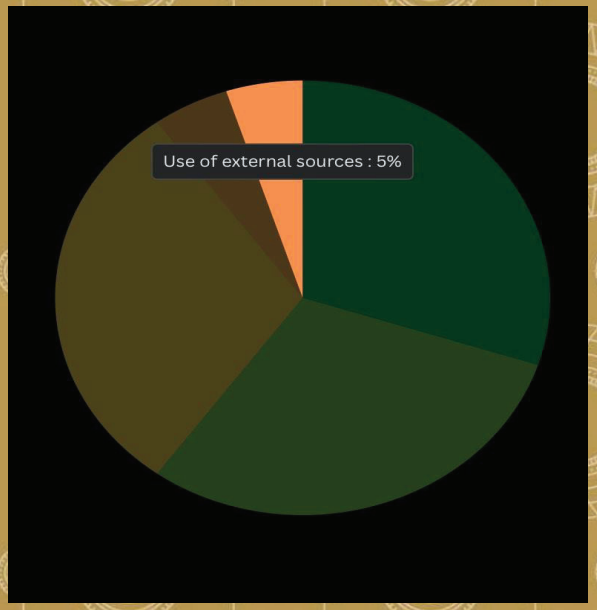
BE SURE TO **CLEARLY STATE** YOUR DECISION AT THE **END OF THE STATEMENT.**

South African Reserve Bank

Technical quality



Use of external sources

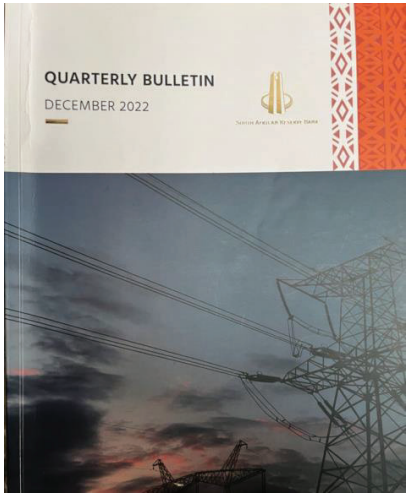


Technical quality

Your presentation must be:

Well organised
Easy to follow and understand
Error-free (i.e. little to no mistakes)
Illustrated with well-labelled graphs and tables

Use of external sources



Ensure that you use **reliable and credible sources**

South African Reserve Bank

What is PLAGIARISM?

- Exactly what the picture illustrates – **copy and paste**!
- Using a source and claiming that it is a different source
- Submitting a paper you did not write
- Reusing information from an assignment that **you** previously submitted – **self plagiarism**

Consequences of plagiarism

How to avoid plagiarism

Source: Plagiarism, Virtual Library

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THANK YOU

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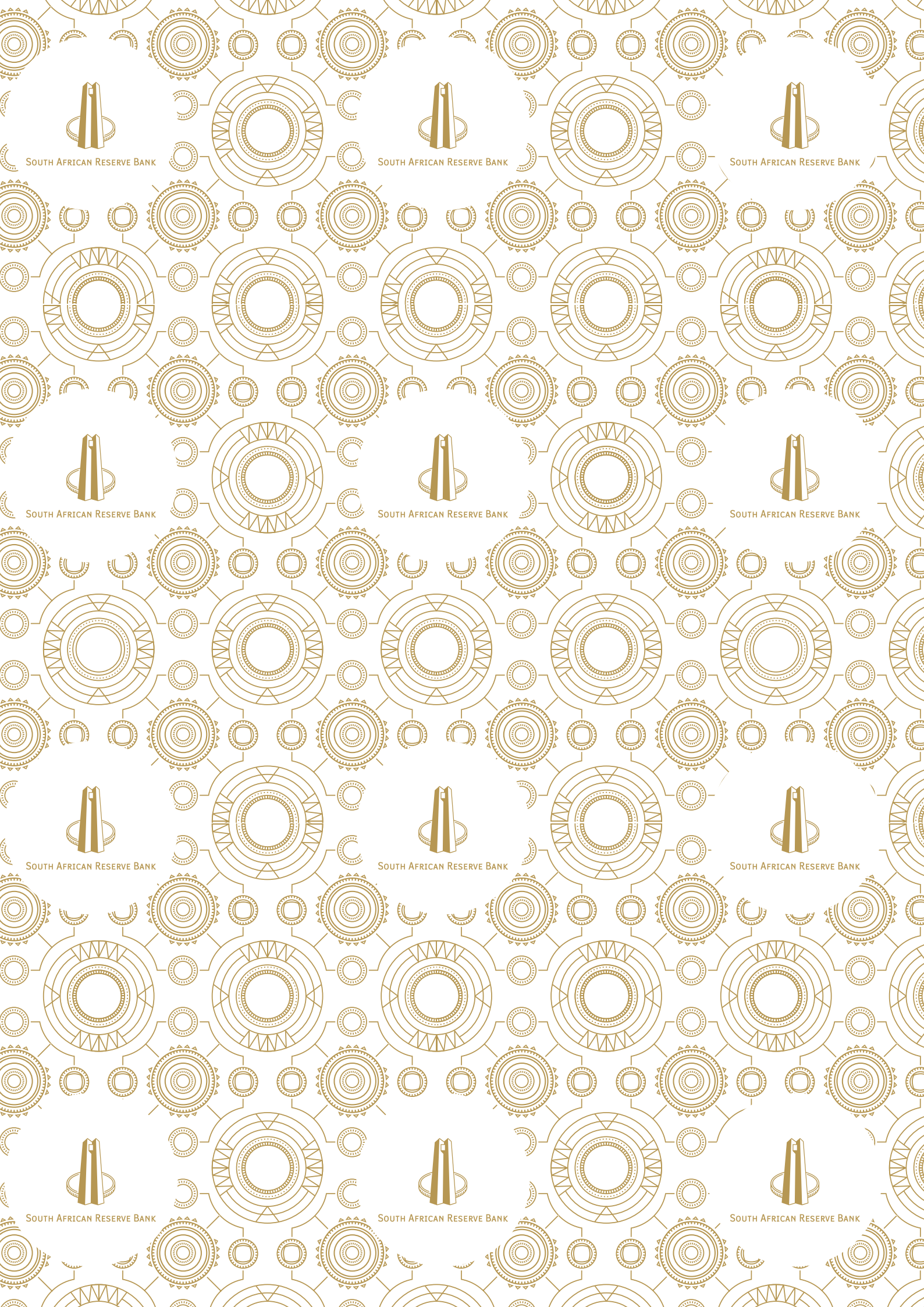
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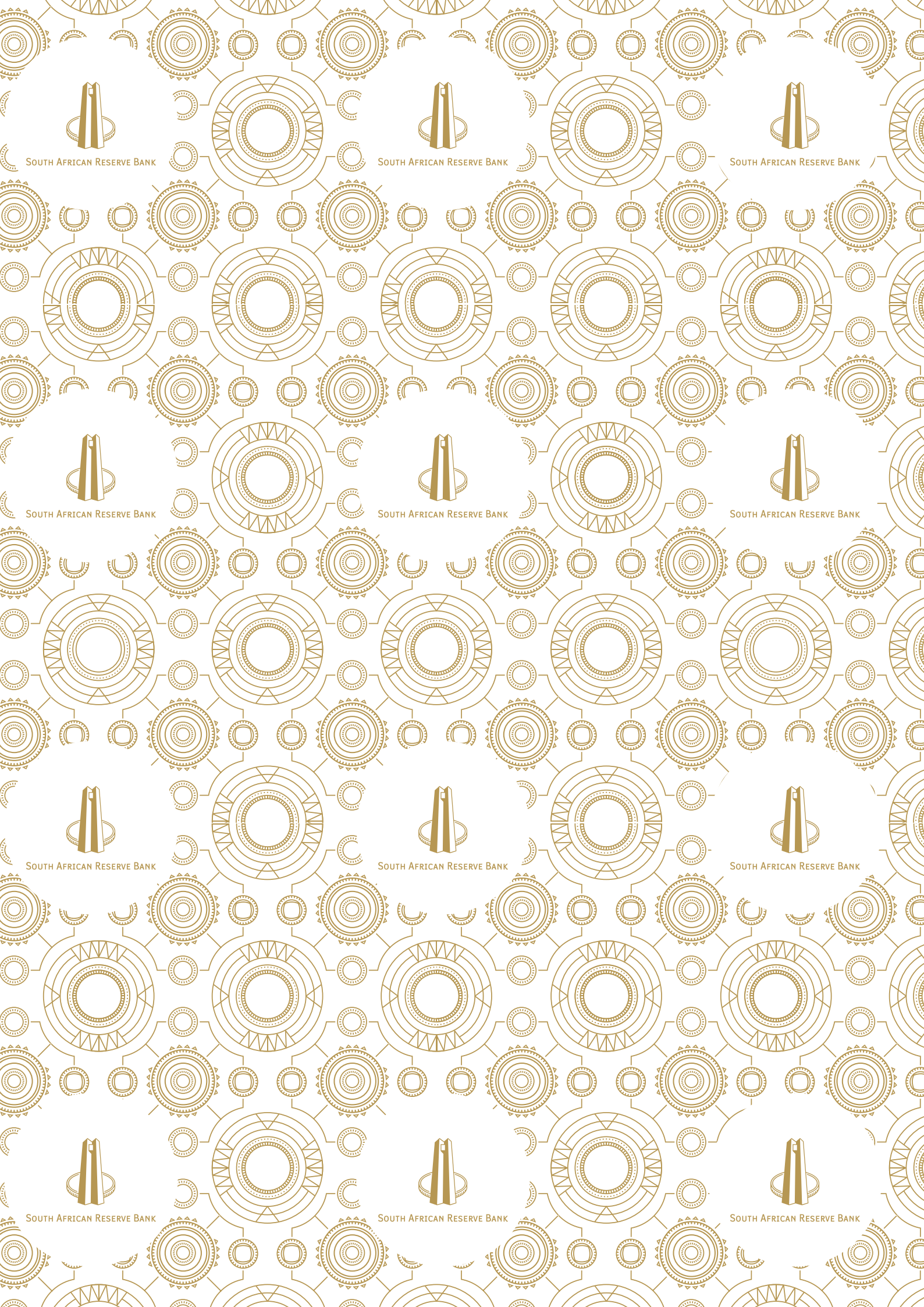
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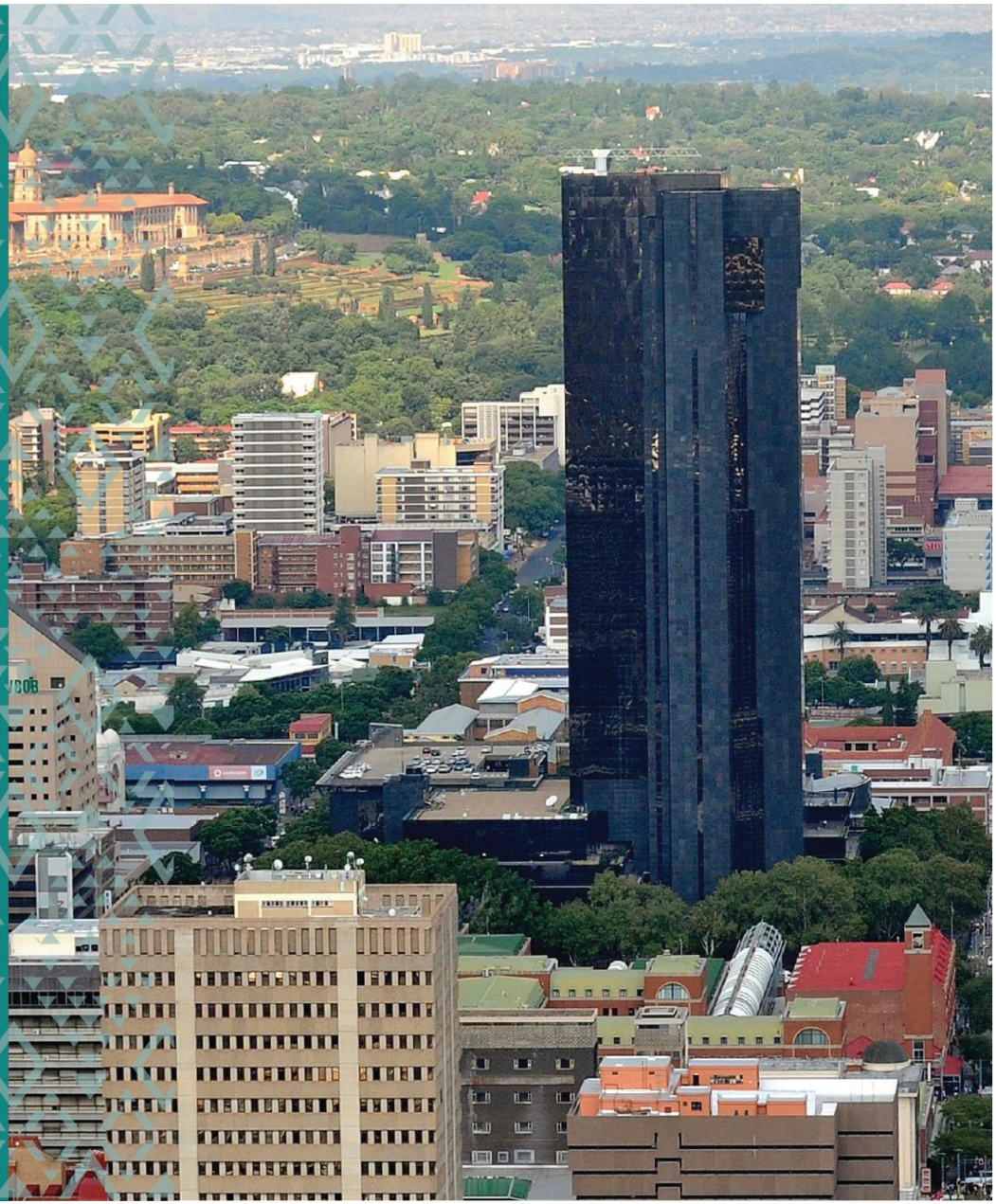


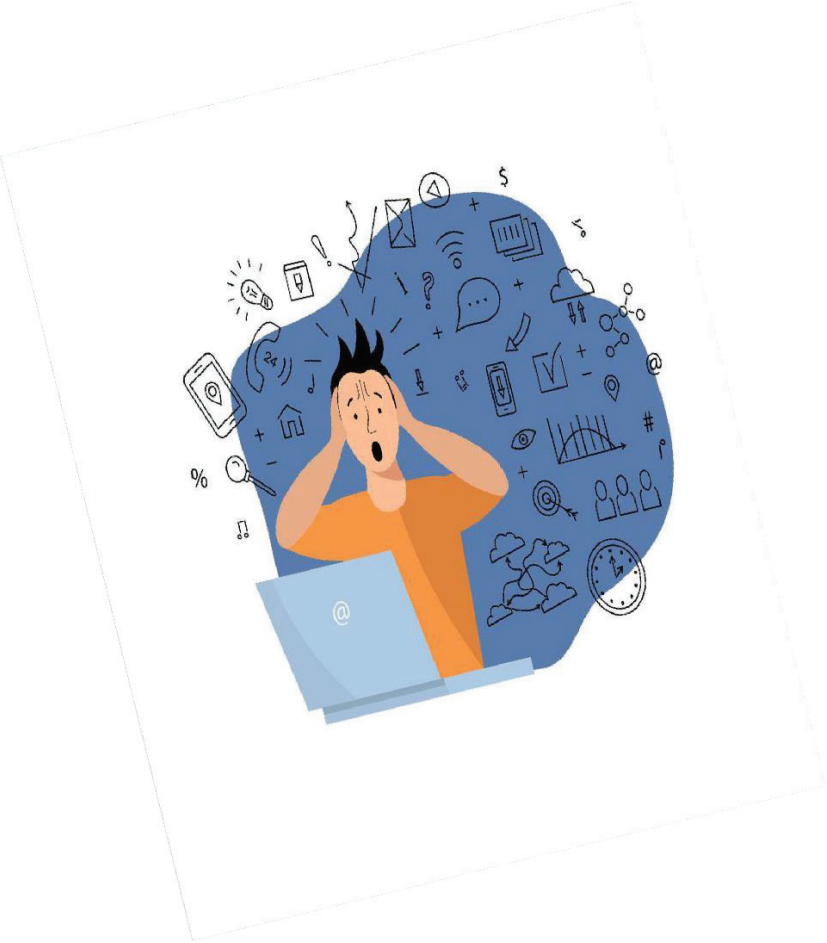
South African Reserve Bank (SARB) and Department of Basic Education (DBE)

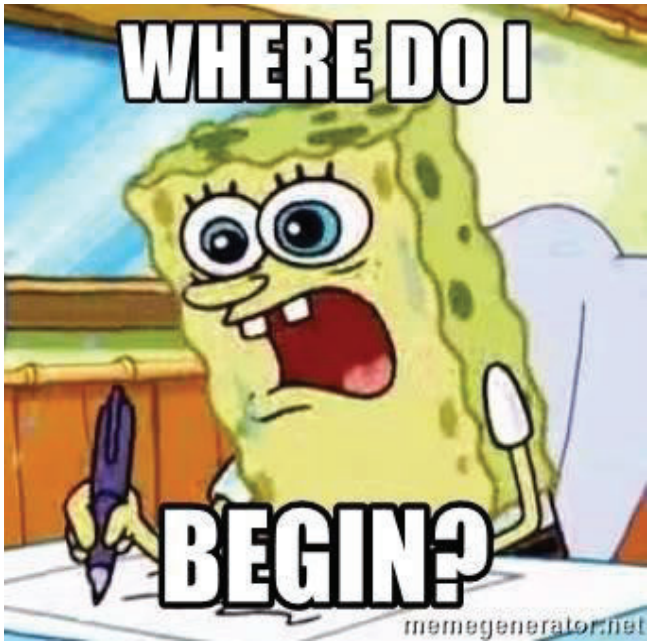
2025 Monetary Policy Committee Schools Challenge

Bringing it all together

South African Reserve Bank

Bringing it all together…





SOUTH AFRICAN RESERVE BANK

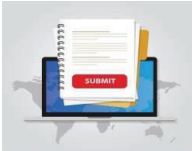
Outline

- **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

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Where to start – READ and LISTEN

Start developing your ❤ for ECONOMICS…

BusinessDay
NEWS WORTH KNOWING

Times LIVE

Mail & Guardian Africa

fin 24

IOL News

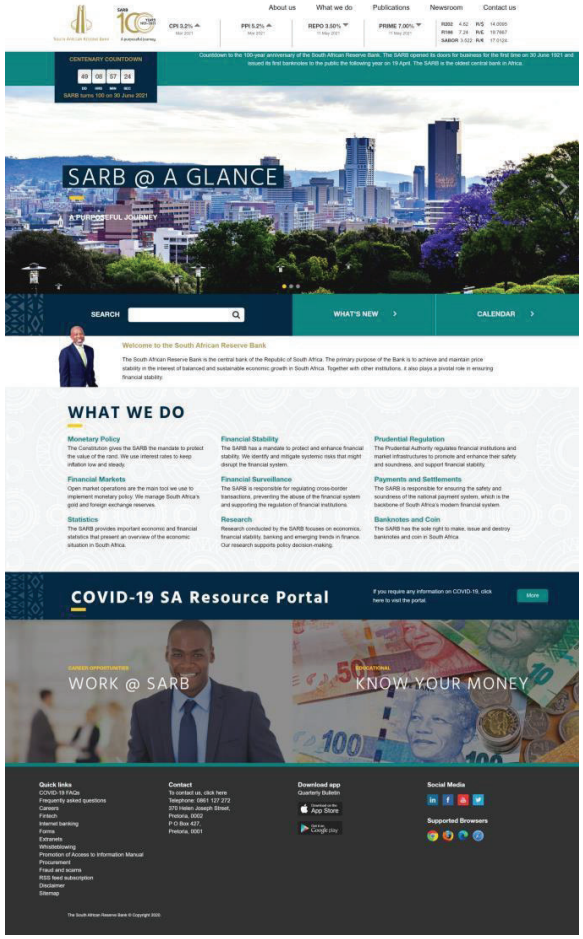
Moneyweb

SOUTH AFRICAN RESERVE BANK

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 your essay.

What should you discuss in the MPC statement? Example of the SARB MPC statement



SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

21 November 2024

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Since our previous meeting, the global macroeconomic context has become more challenging. The dollar has appreciated against most currencies, including the rand. Longer-term interest rates have risen, in the United States and across the globe. Short-term rate expectations have likewise shifted up.

In general, monetary policy in major economies remains restrictive, and headline inflation has slowed. While this has provided some room for major central banks to ease rates further, over the past two months,1 new inflation pressures and heightened uncertainty suggest diminished policy space. With underlying inflation still above target, in several economies, there are risks of policy reversals.

Turning to South Africa, we continue to see a growth recovery taking hold, after a weak economic performance through 2023 and the first half of 2024.

In the near term, we expect output to benefit from a variety of tailwinds, including lower inflation, higher disposable income, and extra spending from pension withdrawals via the new Two-Pot system.2

[1] The European Central Bank cut by 25bps in October, and the Bank of England and US Federal Reserve did the same in November.

[2] Other factors supporting near-term growth are base effects and rising confidence. Regarding the Two Pot system, withdrawals are now expected to be R51 billion for the current quarter, compared with a previous forecast of R40 billion, with a larger proportion of withdrawals now expected to be used for consumption rather than debt repayments.

1

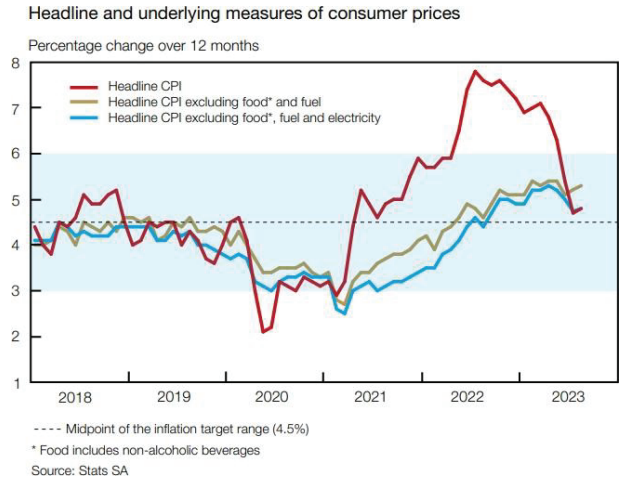
https://www.resbank.co.za/en/home/publications/statements

SOUTH AFRICAN RESERVE BANK

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!

SOUTH AFRICAN RESERVE BANK

MPC statement – template

STATEMENT OF THE MONETARY POLICY COMMITTEE[1]

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:

[1] An assessment of current and likely future economic and financial developments to arrive at a decision regarding the monetary policy stance.

Use this template to formulate the MPC statement

MPC statement – example of a GOOD statement

STATEMENT OF THE MONETARY POLICY COMMITTEE

1. MANDATE OF THE SOUTH AFRICAN RESERVE BANK

According to the website of the South African Reserve Bank (SARB), the primary mandate of the SARB, as stipulated in the Constitution of the Republic of South Africa (Section 224), is to protect the value of the currency in the interest of balanced and sustainable economic growth in the republic. Stability in the financial markets and system should be achieved, thus price stability is something the Bank is obliged to promote. To achieve price stability, an inflation target within 3 – 6% should be maintained, with the aim being 4,5%.

2. KEY ECONOMIC OUTLOOK

2.1 Global Economic Outlook

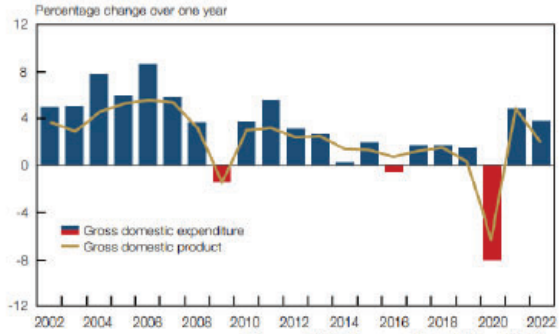
The global economic environment is facing a high level of uncertainty due to the ongoing war between Russia and the Ukraine, the financial conditions that the United States (US), as well as the uncertain economic performance of China (Jacobs, 2023). The International Monetary Fund (IMF) has projected world economic growth to fall to 2.8% in 2023 from 3.4% in 2022, as can be seen in **figure 1** (International Monetary Fund, 2023). The projected slower world economic growth largely occurs from the war between Russia and the Ukraine. This mainly reduces the supply of oil and agricultural products (which then puts upward pressure on prices), as well as rising interest rates in economic regions such as the United States (US) and Europe (aimed at reducing demand in line with less supply).

Crude-oil prices have experienced a steady decline between March and December 2022 (Trade Economics, 2023). Oil prices peaked to $86.96 in April due to the production cuts announcement made by OPEC+, but shortly decreased again to $74.68 by May (see **figure 2**) due to the fear of global recession and high interest rate environment (Drozdovica, 2023). There is an uncertain demand for oil, due to

2

Discusses economic indicators – focuses on latest developments

Figure 6: Real Gross Domestic Product



[Source: SARB Quarterly Bulletin March 2023]

2.3 Exchange rate

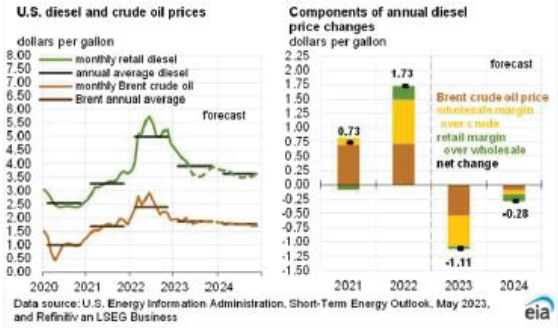
The average Rand-US dollar exchange rate in 2022 was R16.38 (SARB Selected Historical Rates, 2023). It depreciated to an average of R17.85 in the first four months of 2023 and traded at R19.45 per US dollar in May 2023 (see **figure 7**), according to Trading Economics (2023). Recent political events had an adverse impact on the value of the currency, causing upward pressure on inflation in the medium term. The weak capital market also contributes to the ongoing weakening of the rand. Furthermore, weak global growth will result in decreased demand for commodities, deteriorating South Africa's future balance of payments, thus weakening the rand.

SOUTH AFRICAN RESERVE BANK

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

Electricity and fuel price inflation

According to the SARB, electricity price inflation is forecast at 9.0% in 2023 and 10% in 2024, reflecting Eskom's increased operating costs. Conversely, fuel price inflation is projected at 0.8%, much lower than the 33.3% inflation in 2022. This reflects substantial decreases in global oil prices as shown below, with forecasts of US$78.65 in 2023 per barrel compared to US$100.94 in 2022.



Graph 8: United States diesel and crude oil prices, as per the United States Energy Information Administration

Source : https://www.eia.gov/outlooks/steo/

Food and non-alcoholic beverages (NAV) price inflation

According to Statistics South Africa, food price inflation reached 14.0% y/y in March 2023 and is expected to be an average of 7.3% in 2023. Upside risks to food price inflation originate from producers in the agricultural sector passing on to consumers the increased production costs from load-shedding and higher fertiliser input costs.

The text and graphs correspond perfectly

Purchasing Manager's Index

After increasing in 2022 due to recovering demand the ABSA PMI fell sharply by 9.1 index points amidst skyrocketing power outages in the last two months of 2022 as shown below. With the energy crisis expected to worsen and an increasingly volatile rand, which adds pressure to production costs. Furthermore, the business confidence index fell to 36 index points (23q1) from 38 (22q4) as per the BER.

Graph 9: South Africa's Purchasing Managers' Index

Source: South Africa Purchasing Managers' Index | Economic Indicators | CEIC (ceicdata.com), based on research by the Bureau of Economic Research

Inflation expectations

According to the BER, average inflation expectations increased and stand at 6.3% for 2023. This is 0.3 percentage points above the SARB's projected CPI. An even larger discrepancy of 0.9 percentage points is found between the SARB's projected headline inflation of 4.9% in 2024 and inflation expectations of 5.8% of all surveyed participants, as the table below indicates. This reflects concerns about inflation that have continued to surprise to the upside.

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

Essay No.

5

Demand-side

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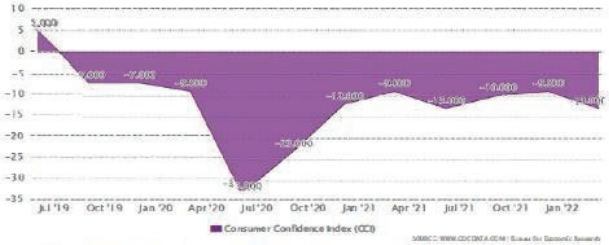
Added to the strain on the production front, domestic demand conditions have also weakened. Consumer confidence is fading, unemployment remains high, hurting retail sales.

Consumer Confidence Index

South Africa's CCI: July 2019 – Jan 2022

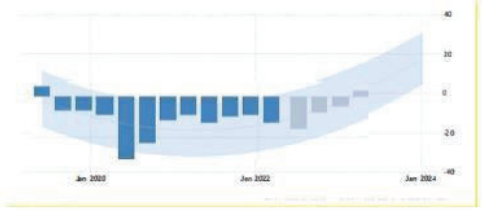


Source: https://www.ceicdata.com/en/south-africa/consumer-survey/consumer-confidence-index-cci

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 dipped 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: t.ly/CjN_

Essay No.

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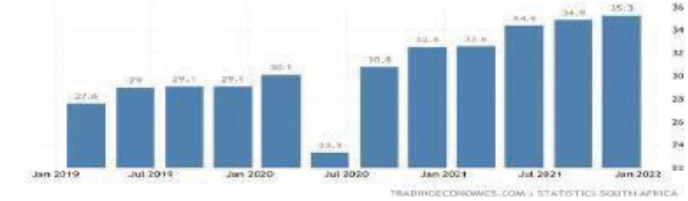
The South African CCI is projected to increase only at the beginning of 2023 and 2024 which can contribute to higher consumer spending in the economy which will increase inflation.

Unemployment rate

Unemployment – SA: January 2019 -January 2022



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2021-11-30	09:30 AM	Q3	34.9%	34.4%		35.8%
2022-03-29	09:30 AM	Q4	35.3%	34.9%		35.4%
2022-05-31	09:30 AM	Q1		35.3%		

Source: https://tradingeconomics.com/south-africa/unemployment-rate

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.

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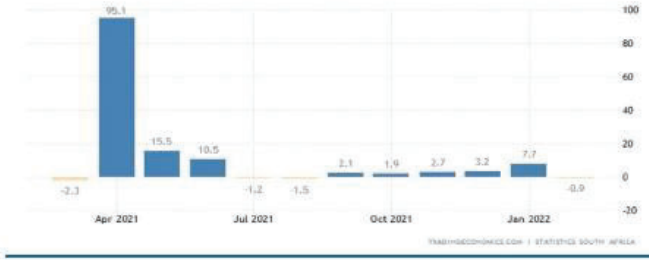
7

Retail sales

Retail Sales Year-over-Year Change



Source: t.ly/9riU

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.

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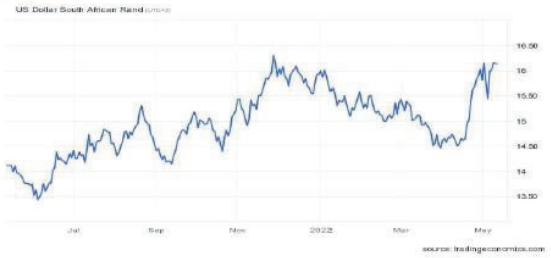
8

US Dollar South African Rand



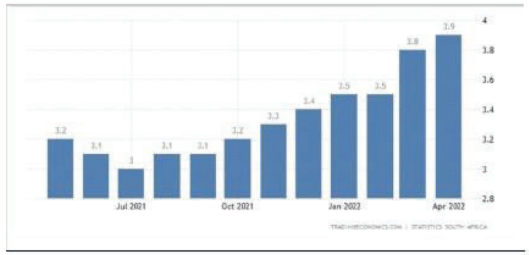
Source: t.ly/VEDi

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.

Core CPI



Source: t.ly/-oLw

SOUTH AFRICAN RESERVE BANK

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

Essay No.

13

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This is the end goal

DECISION

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.

[redacted]

GOVERNER

Excellent justification of the interest rate decision

Essay No.

14

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SOUTH AFRICAN RESERVE BANK

GOOD MPC statement – key takeaways

- Discuss relevant international and domestic economic indicators.
- Ensure consistency between the text and graphs.
- Ensure there is logic in the justification of the interest rate decision.
- Structure your statement to make it easy to follow the content.
- Avoid this major shortcoming – a lack of sufficient detail in the inflation forecast.

Following these key takeaways will make it easier for you to put together your essay.

MPC statement – example of a NOT SO GOOD statement

[redacted]

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/or 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 cist-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 types 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 monetary sector. Monetarists 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.

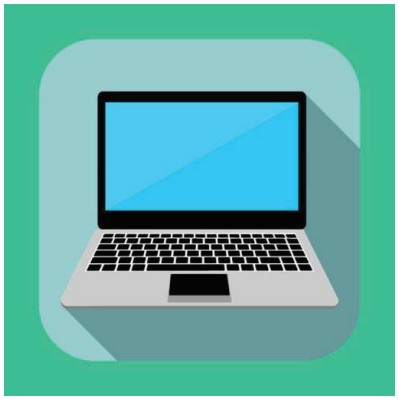
Copy and paste

MPC statement – example of a NOT SO GOOD statement (cont.)

- You did not adhere to the format provided.
- Your analysis lacks coherence, logic and detail in the content, reflecting poor understanding.
- There is no discussion of economic indicators.
- Illustrations such as graphs, charts and tables are lacking.
- There is no interest rate decision and justification.
- No references are provided.

What is expected of you?

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



Submitting your essay

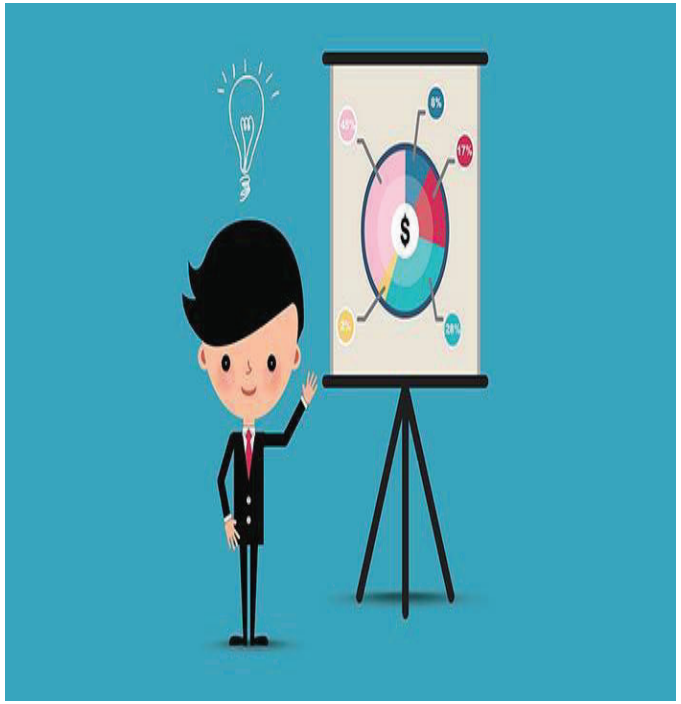
- Once you have compiled your essay, give it to one of your friends/teachers/parents to proofread and check for any mistakes.
- Email the written statement to sarb-mpcchallenge@resbank.co.za
- The SARB team **will evaluate and mark** the essay.

Submit your essay to the SARB on or before:

Date: 16 May 2025

What is expected of you?

The finalist teams will be chosen and invited to present their essay in person.



The presentation – tips

- Select the best presenter of your team as the **GOVERNOR.**
- Your presentation should be on 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.

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

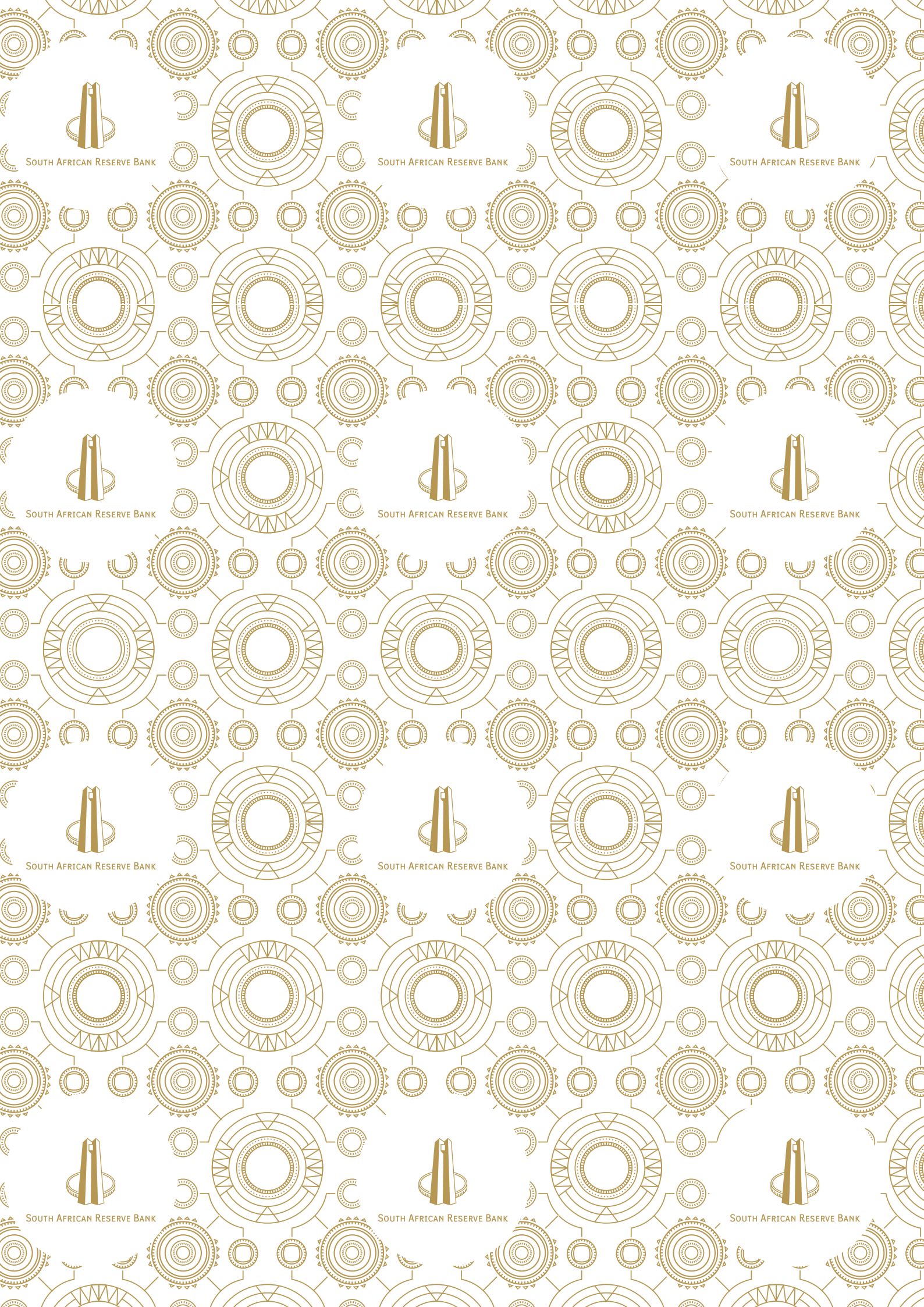
- After the presentation, finalists will be invited for a Q&A session.
- The panel will have 15 minutes for the **Q&A session.**
- The panel will ask questions based on your essay.
- The panel members might also ask questions which they think are important and you can answer, although these questions 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

SOUTH AFRICAN RESERVE BANK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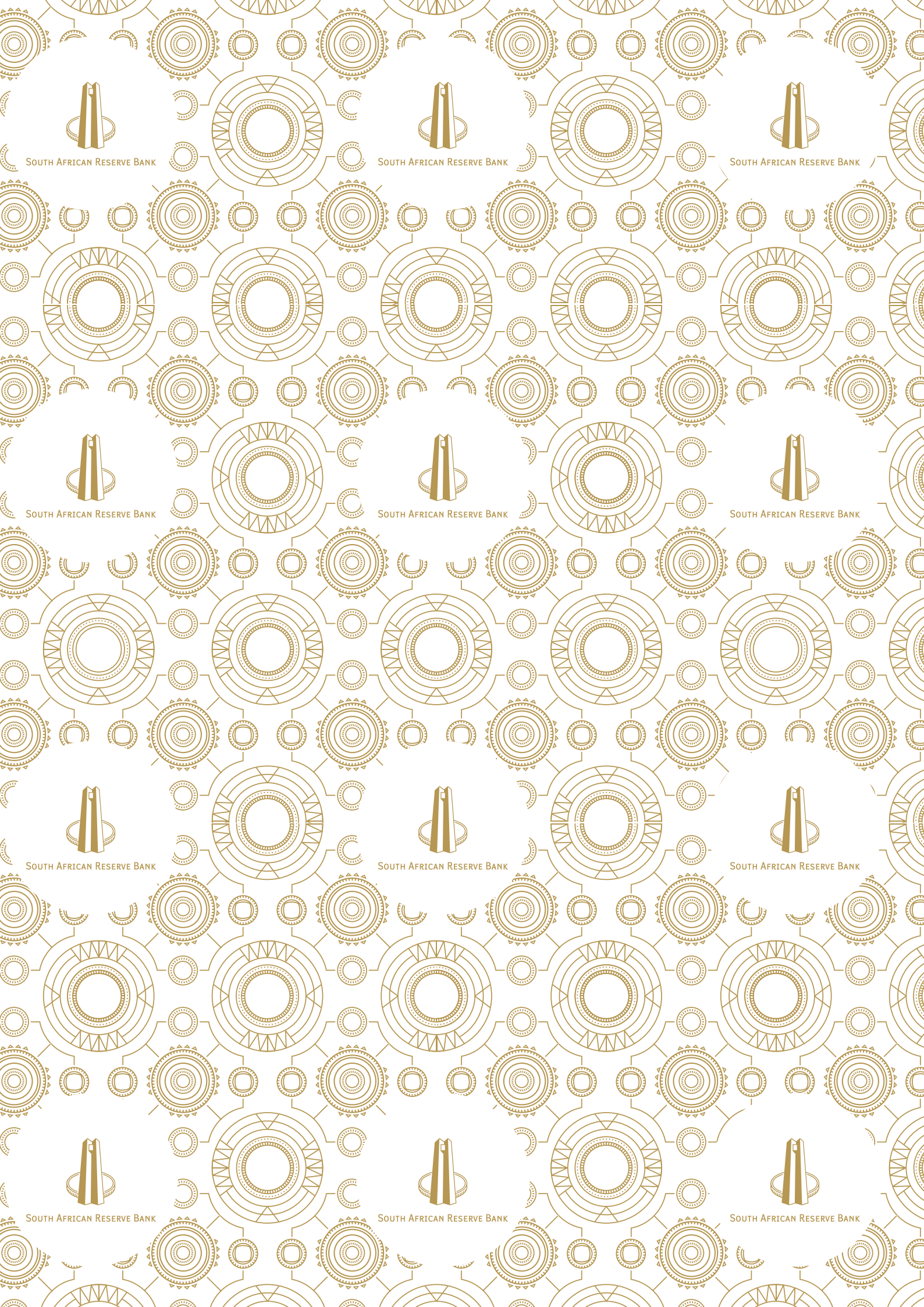
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South African Reserve Bank

2025 MPC Schools Challenge

Writing and presentation skills – common mistakes

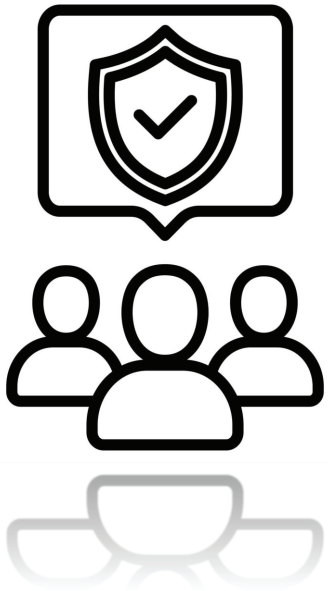
South African Reserve Bank

Outline

- Communication and public trust
- Writing
- Top tips
- What not to do and tips to make it better
- Getting the basics right
- Presenting
- Q&A preparation

Communication and public trust

- Communicating monetary policy decisions to the public and market participants is critical to to monetary policy implementation and managing inflation expectations.
- Communicating well is fundamental to building public trust.
- Market players must trust our competence.
- The general public must trust that the South African Reserve Bank (SARB) is acting in their best interest.



Writing

Why bother? (or Why how we write matters)

Write to inform

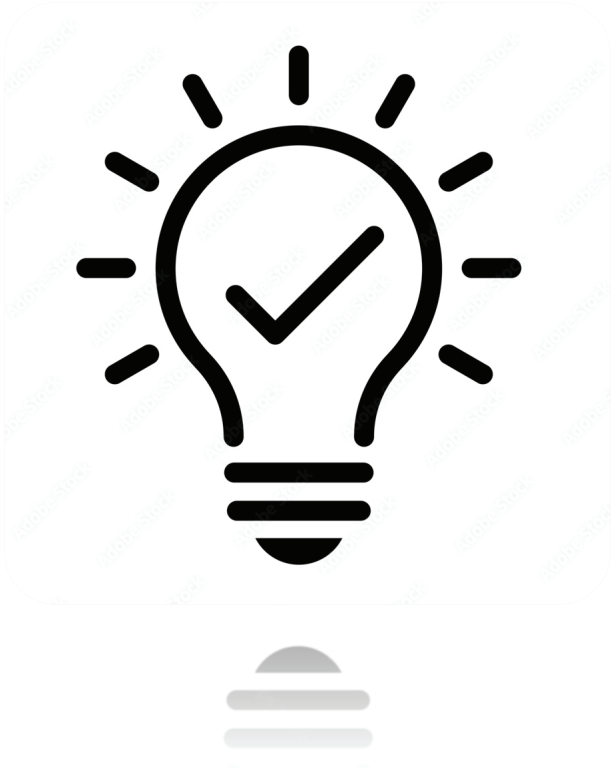
- The SARB and the Monetary Policy Committee (MPC) work for the people of South Africa. We are not just speaking to market analysts, banks, big business and economists. We are telling South Africans the reasons for our decision to either raise, reduce or keep the repurchase (repo) rate unchanged.
- We need to balance the need to inform the market and the need to inform the public.
- Keep it super simple (KISS). Use plain language. Wordiness, jargon and long sentences alienate and confuse.
- Transparency serves and empowers people. If people understand the information you are trying to provide, they can make better decisions.

"All too often writers try to impress rather than inform."*

* D Powers and G Rosenberg, *Become a better writer*

Top tips*

- Be concise, be clear.
- Remove needless repetition/redundancy.
- Use your active voice.
- Avoid jargon.
- Context is key.



* D Powers and G Rosenberg, *Become a better writer,* Chapter 2, 'Principles of clear writing'.

What not to do and tips to make it better

Be concise	
We would like to call your attention to the fact that your account is unpaid.*	We would like to inform you that your account is unpaid
Table 8 shows key risks that are applicable to the agriculture sector, as well as a series of key stakeholders in this sector*	Table 8 shows key risks and stakeholders in the agriculture sector
The delay in transportation of the sugar cane could affect their quality negatively.	Transport delays could damage the sugar cane's quality.

Repetition and redundancy	
In addition, we also offer customised products *	We also offer customised products
Added bonus Advance planning New innovation	Bonus Planning Innovation

* D Powers and G Rosenberg, *Become a better writer*, pg 23–24.

What not to do and tips to make it better (cont.)

Use your active voice*	
The MPC statement was delivered by Governor Lesetja Kganyago.	Governor Lesetja Kganyago delivered the MPC statement.
Global growth in 2023 was being expected to go back to rates that were there before the COVID-19 pandemic.	Global growth for 2023 is expected to return to pre- COVID-19 levels.

* Alongside some of the top tips from *Become a Better Writer,* a number of examples in this presentation came from inputs given SARB colleagues, as well as previous MPC Schools Challenge essays.

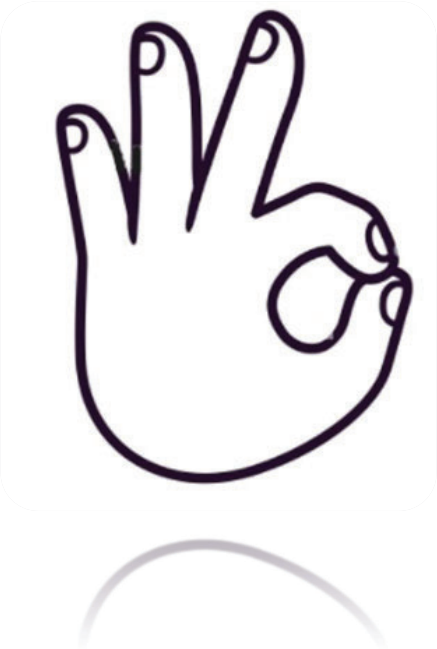
What not to do, and tips to make it better (cont.)

Avoid jargon (and big words)	
With fuel making up for 4.82% of the CPI, a 10% increase in the price of crude, **ceteris paribus,** equates to a 4.6% increase in the pump fuel price, which then translates to an additional 0.2pp on the CPI.	With fuel making up 4.82% of the CPI, a 10% increase in the price of crude equates to a 4.6% increase in the pump fuel price. This translates to an additional 0.2 percentage points in the CPI.
Stats SA **authoritatively declared** that real GDP grew by 1.2% in Q4 of 2021 taking the annual growth rate for 2021 to 4.9%.	Stats SA **announced** that real GDP grew by 1.2% in Q4 of 2021, taking the annual growth rate for 2021 to 4.9%.
In figure 9 below, unemployment shows a **pronounced** increase in percentage, from 26,7% in 2018 to a **conspicuous** 35,3% in 2022 in the fourth quarter.	Figure 9 shows the significant jump in the unemployment rate from 26.7% in 2018 to 35.3% in the fourth quarter of 2022.

What not to do and tips to make it better (cont.)

Context is key	
Due to the war, countries are currently experiencing price shocks	- This is the first mention. So, what war? What countries? Why is the war causing price shocks?
GDP has yet to recover to the level recorded in the second quarter of 2021 before civil unrest and stricter lockdown restrictions affected the economy in the third quarter.	- Again, what civil unrest? Where? How widespread was it? Label the event that went with the lockdowns.

Getting the basics right*



- Headings and text
- Graphs and tables
- Check spelling, check grammar
- Acronyms and other points to remember

* D Powers and G Rosenberg, *Become a better writer,* Chapter 2, 'Principles of clear writing'.

Getting the basics right (cont.)

Headings and text	Make sure your paragraph speaks to the relevant headings/subheadings.

- **Producer Price Index**

Following the low average of 3,2% in 2021, the total consumer price index measured 5,9% in March 2022 as compared to 5,7% in February. The increased rates of 2022 was due to the increase in the cost of food and non-alcoholic beverages as well as the increase in the cost of electricity and other fuels.

Getting the basics right (cont.)

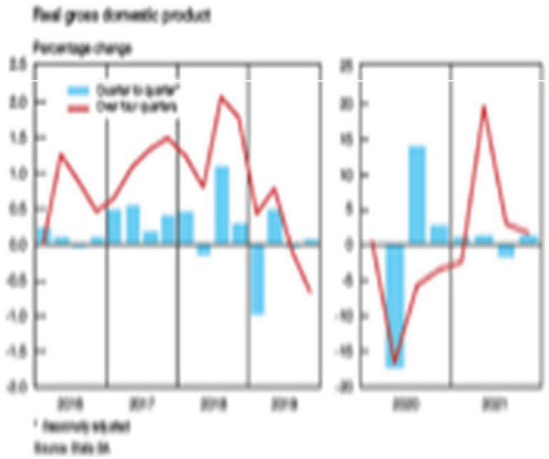
Graphs and tables

- Clearly number your graphs and tables.
- Graphs and tables must be relevant to your speaking points.

In **figure 1** we see that real GDP had increased from -1.7% (Q3 2021) to 1.2 % in Q4 2021, with the main contributor of incline being the Mining and quarrying industry that had increased by 23.7% (-11.9%-11.8%), as seen in **figure 2.**

Figure 1: Real gross domestic product

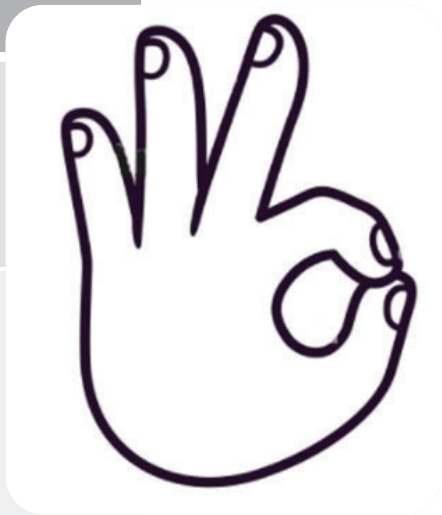
Figure 2: Components of GDP



South African Reserve Bank

Getting the basics right (cont.)

Check spelling, check grammar	
Since February 2022, **they** has been a negative percentage change as consumers are (??) by price hikes.	Should be **there** Missing word: affected
(??) Floods in KZN have resulted in reduced business activity as witnessed (??) drop to 50.7 index points (in what?) in April 2022 as shown in Figure 7 above.	Missing word: The first-time reference write out any acronyms: **KwaZulu-Natal** Missing words: by the Missing words: the Purchasing Managers' Index
At the same (??) the strict lockdowns in China have also weakened global demand.	Missing word: time



Getting the basics right (cont.)

Acronyms and other points to remember	
At first mention, ALWAYS write out the full name for an acronym.	The Consumer Confidence Index (CCI) slipped to 42 points compared to 56 points in the previous quarter.
Always check the spelling of names.	Statistics South Africa (Stats SA) NOT Statssa KwaZulu-Natal (KZN) NOT Kwazulu-Natal, Kwa-zulu Natal
Use British South African spelling instead of US spelling.	**minimizes** vs minimises **stabilized** vs stabilised **organization** vs organisation (unless it is part of a name, for example the Organization of the Petroleum Exporting Countries (OPEC))

Getting the basics right (cont.)

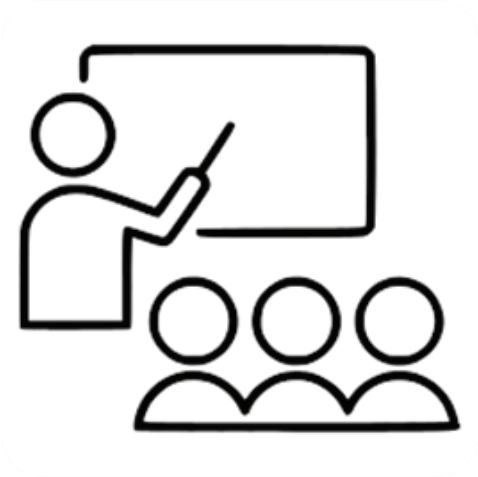
Commonly used acronyms in the MPC statement

BCI	–	Business Confidence Index
CPI	–	consumer price index
GDP	–	gross domestic product (total value for all the goods and services produced)
GDE	–	gross domestic expenditure (total value of spending within a country's borders)
MPC	–	Monetary Policy Committee
PGMs	–	platinum group metals (used when referred to mining production)
PMI	–	Purchasing Managers' Index
PPI	–	producer price index
repo	–	repurchase (rate)

Presenting

Presentation skills

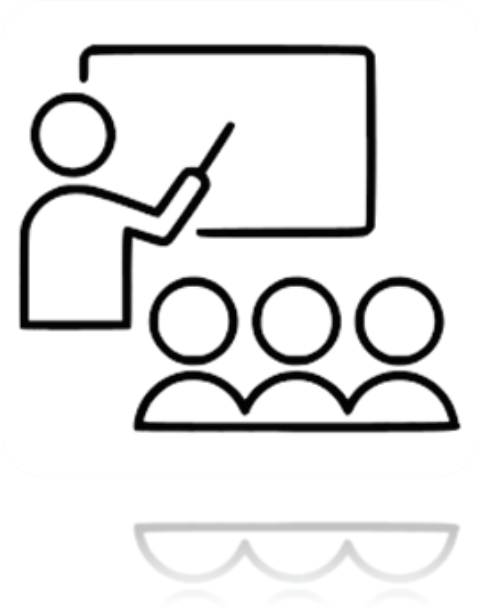
- Be presentable.
- Prepare as a team – choose your strongest speaker as your Governor and the rest of the team (the deputy governors) must be ready to answer questions.
- Practise, practise, practise (as a team and individuals).
- Prepare your speaking notes.



Presenting

Presentation skills (cont.)

- Be engaged – listen attentively, write down panellist questions, acknowledge the question and the person who asked the question.
- Watch your body language, for example do not slouch.
- Speak clearly and audibly, make eye contact.
- Do not use words/jargon that is difficult to understand.



Q&A preparation

Answer the question

Q&A preparation (cont.)

Answer the complete question

Q&A preparation (cont.)

Speak slowly and clearly

Q&A preparation (cont.)

Watch and learn

https://www.youtube.com/watch?v=6S7P60EUaBU&t=154s

South African Reserve Bank

Q&A preparation (cont.)

- It helps to think of questions you might be asked and how you would answer them.
- Check out the *SARB Annual Report* Q&A section for general questions on inflation and the SARB's role in addressing it.

Why price stability matters

Q	**What is inflation?**
A	Inflation is the general rise in prices of typical goods and services, which means that the purchasing value of money is lower. Lower longer-term inflation is important for maintaining purchasing power, containing the costs of living and of doing business, and supporting South Africa's global competitiveness.

Q	**How does higher inflation affect South Africans?**
A	**Inflation erodes the purchasing power of cash savings:** R100 left under a mattress for 10 years will not cover the same purchase of goods and services today that it would have done in 2011. Savings and pension plans could also lose value if the interest earned is not enough to compensate for inflation. **The purchasing power of fixed incomes diminishes over time:** the wealthy are mostly able to protect themselves against inflation by investing in assets such as shares or property, which increase in value during periods of inflation. The poor, on the other hand, are harder hit as prices, including food,

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Q&A preparation (cont.)

Generic questions

- Why is it important to keep inflation in the 3–6% target band?
- What is the importance of global inflation on domestic inflation?
- Explain the transmission channels.
- Was your decision unanimous?
- Can you tell us a bit about the difference between fiscal and monetary policy? What are they trying to achieve?

THANK YOU

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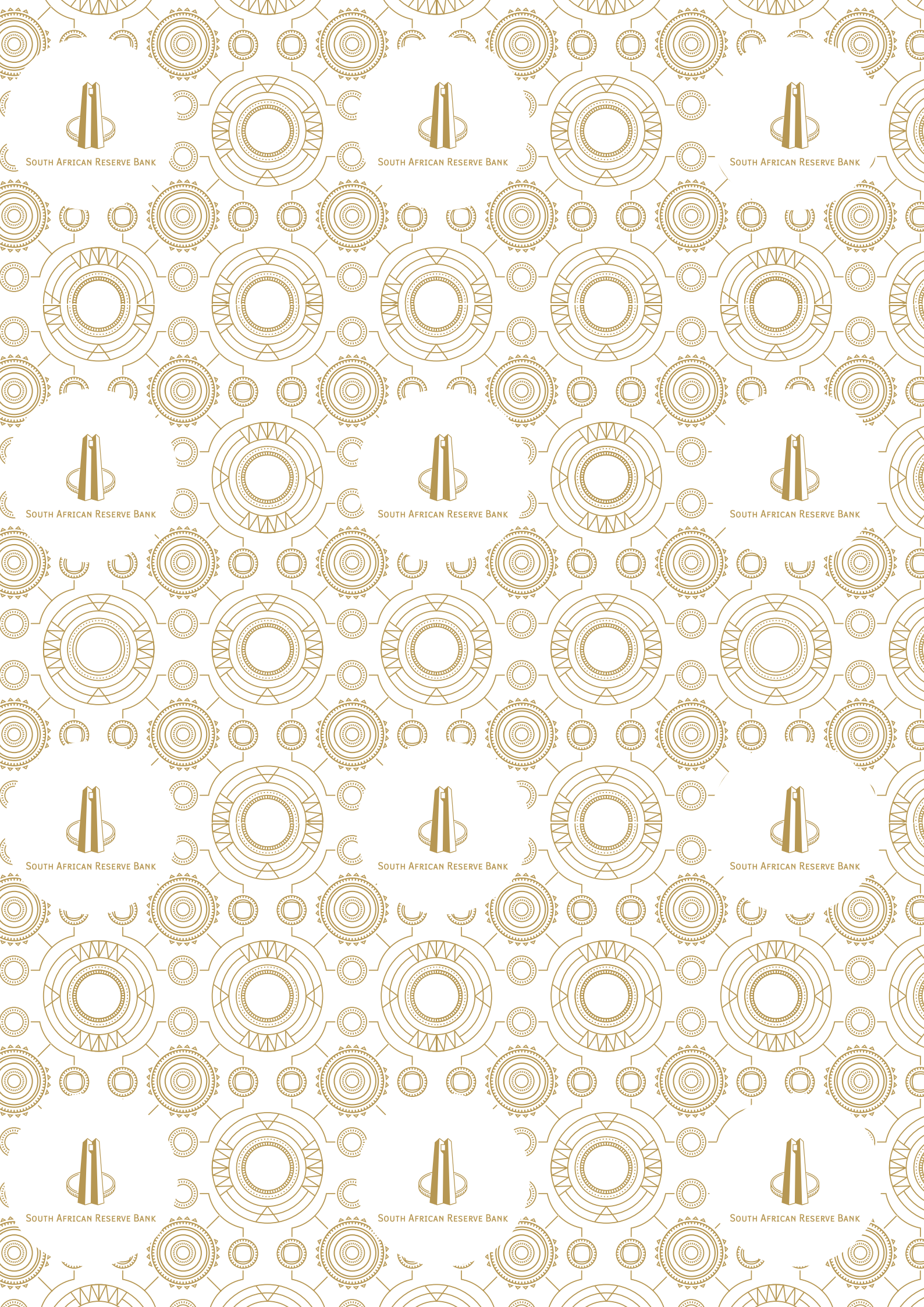
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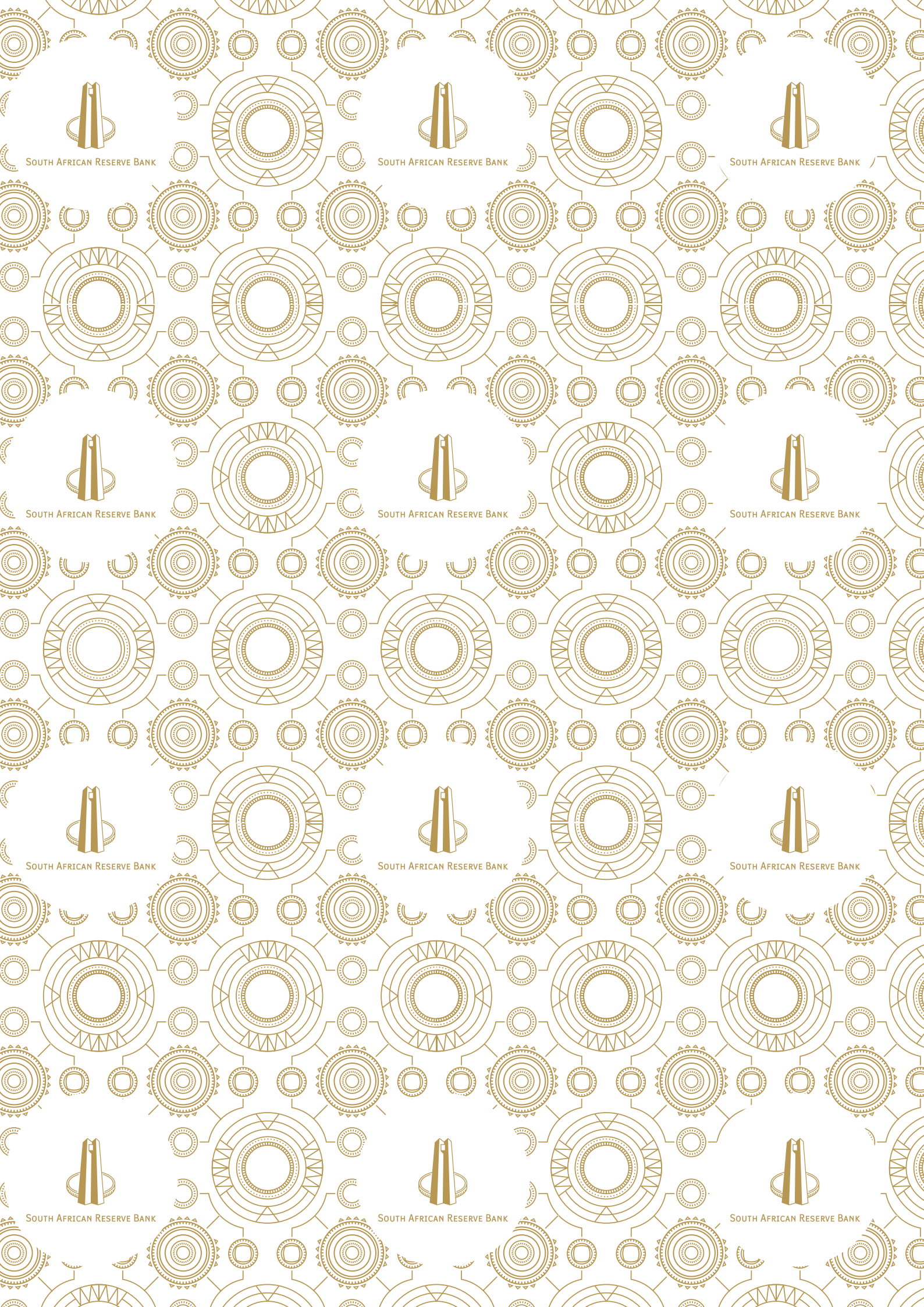
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2025 Monetary Policy Committee Schools Challenge

Teachers' session

South African Reserve Bank

Session 1: Overview of monetary policy

. Inflation defined

. The role of the South African Reserve Bank (SARB)

Session 2: Practical guide to the analysis of recent inflation drivers

. The monetary policy transmission mechanism

. Demand-pull and cost-push inflation

. Sentiment indicators

Session 3: Administrative information

. Scope of the competition

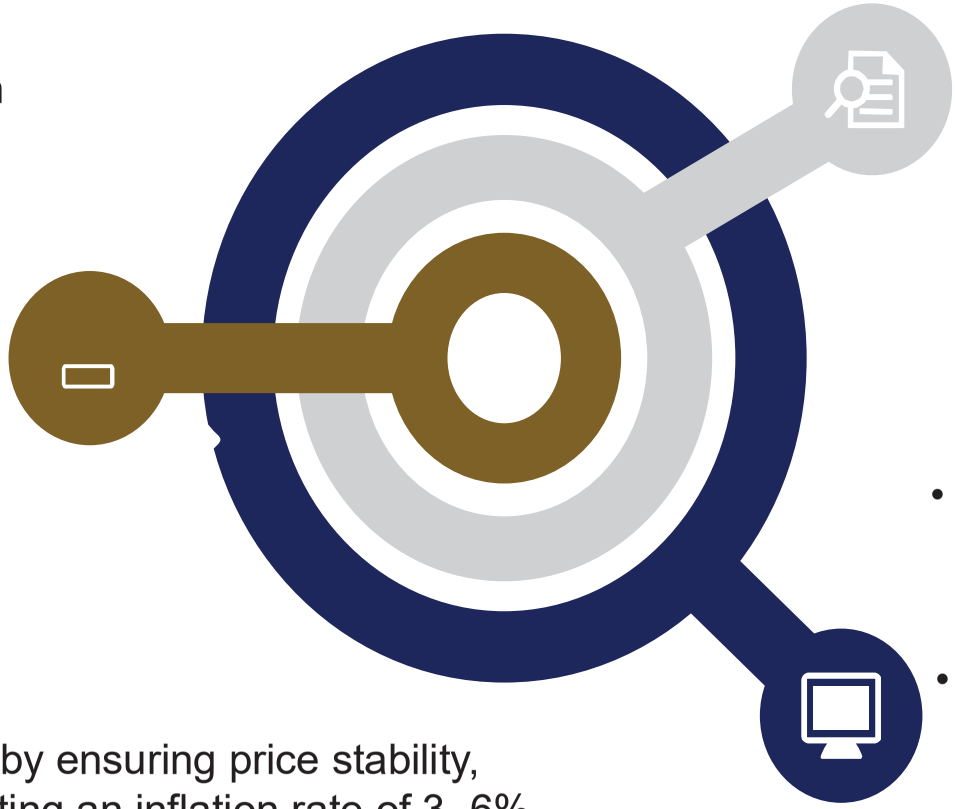
. Timeline

. Rules of the competition

. Prizes

The constitutional mandate of the SARB

- The main goal of the South African Reserve Bank (SARB) is to safeguard the value of the currency to promote balanced and sustainable economic growth within the country.
- This is achieved by ensuring price stability, specifically targeting an inflation rate of 3–6%.



- The SARB uses interest rates to regulate inflation levels.
- It sets a short-term policy rate known as the repurchase (repo) rate, which influences the borrowing costs for the financial sector, thereby impacting inflation.
- In South Africa, inflation is typically measured using the Consumer Price Index (CPI).
- The CPI reflects the average price level of a standard basket of goods and services consumed by South African households.

What is inflation?

A sustained increase in the general price level in an economy

- The prices of various goods and services in an economy fluctuate in different ways.
- It is not feasible to monitor and respond to every individual price change. Instead, central banks focus on the general price level across the economy.
- Inflation is the term used to describe the continuous rise in this general price level.
- The dynamics of inflation are influenced by a country's economic structures and policy decisions.

How do we obtain this *general* price level?

Standard measure of inflation in South Africa

- The Consumer Price Index (CPI) is compiled by Statistics South Africa (Stats SA).

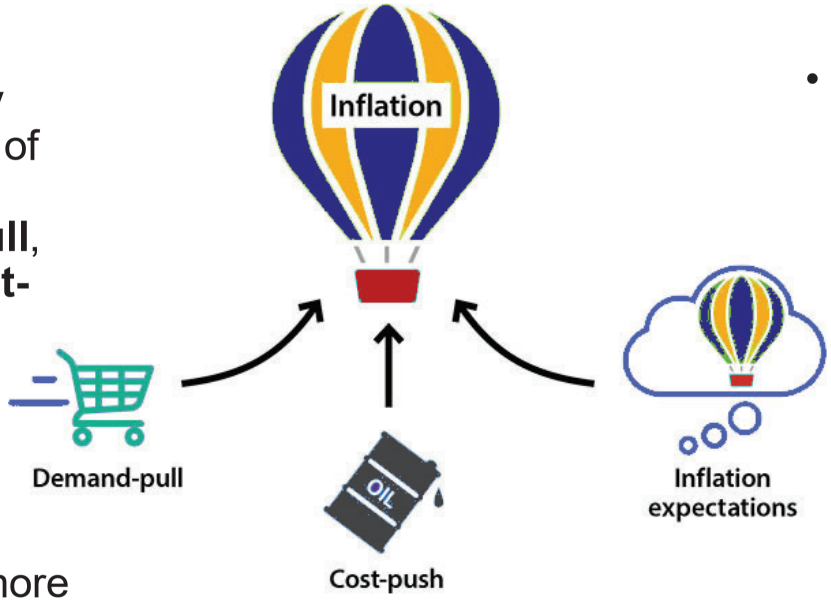
stats sa
Department:
Statistics South Africa
REPUBLIC OF SOUTH AFRICA

What is covered by the CPI?

- The index represents a typical basket of goods and services used by South African households, comprising everything from lottery tickets and petrol to life insurance.
- **NB!** The CPI measures the prices paid by the *final* consumer (input price levels are not the focus of CPI).
- Stats SA monitors these prices throughout the year and reports any changes each month.

Drivers and causes of inflation

- Economists identify three basic causes of inflation: **demand-driven/demand-pull**, **supply-driven/cost-push** and **inflation expectations**.

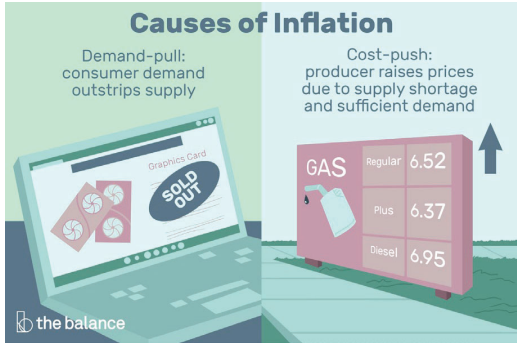


- **Supply-driven inflation**: Inflation tends to decrease if it becomes cheaper to produce a good or service. For example, globalisation made it cheaper to produce manufactured goods such as clothes and electronics. Conversely, inflation could increase if it becomes more expensive to produce a good or service. For example, a drought raises food prices.

- **Demand-driven inflation**: When consumers spend more money, prices tend to rise faster. By contrast, when consumers are under pressure and spend less, prices rise more slowly.

- **Inflation expectations**: This is the most abstract cause of inflation, but is important, especially for central banks. Countries can experience similar supply and demand shocks, but inflation may respond differently in different countries. The reason for this is the inflation expectations of agents in an economy. Agents' inflation expectations can influence how they set prices and wages, which then impacts on inflation.

Drivers and causes of inflation (cont.)



Green: central bank can influence
Red: central bank has limited control

Demand-side/demand-pull inflation

When consumers spend more money, prices tend to rise faster.

By contrast, when consumers are under pressure and spend less, prices rise more slowly.

The central bank can influence this type of inflation by influencing demand in the economy.

Relevant indicators: trade sales data, disposable income, expenditure on GDP, liquidation and insolvencies and employment, among other indicators.

Supply-side/cost-push inflation

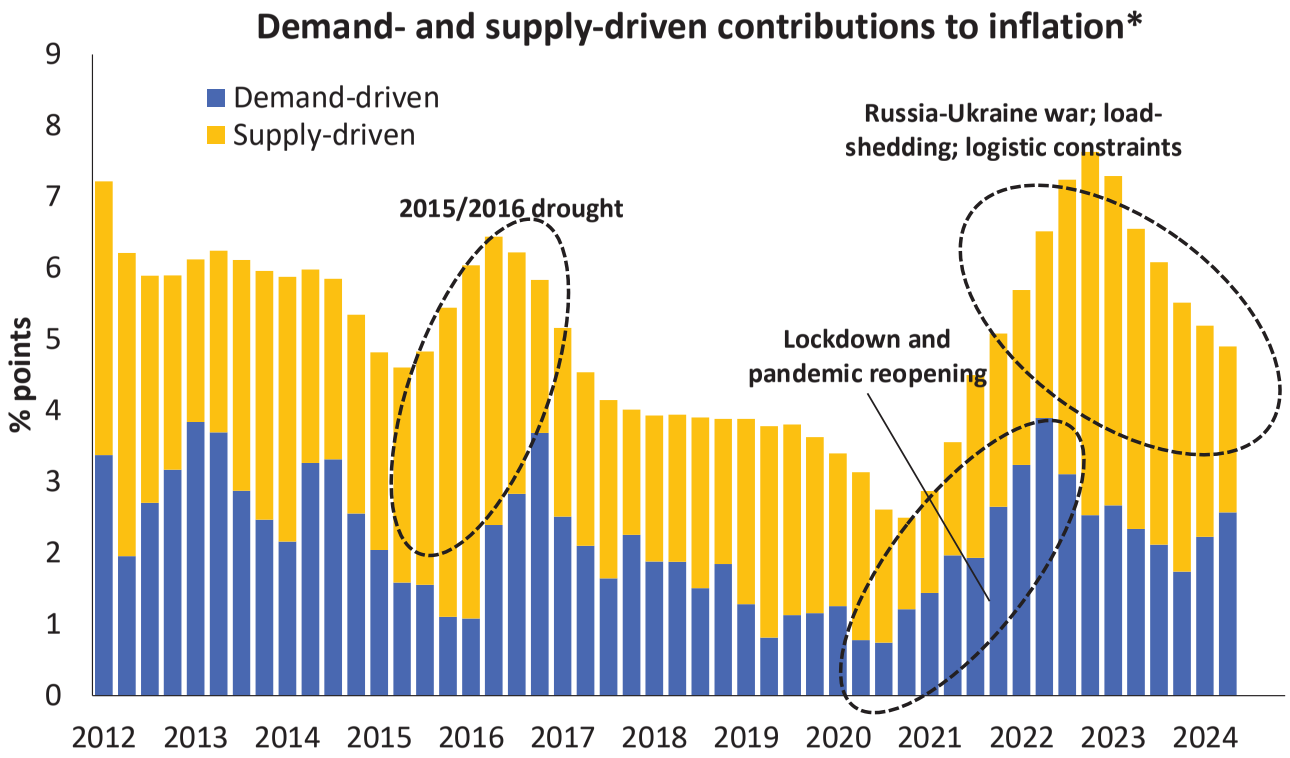
Inflation tends to decrease if it becomes cheaper to produce a good or service.

The central bank has limited control over this cause of inflation because it cannot control cost-push shocks.

Relevant indicators: exchange rate, oil prices, crop estimates, FAO food price index, export and import unit value indices, industrial production, supply chain pressure index and unit labour costs.

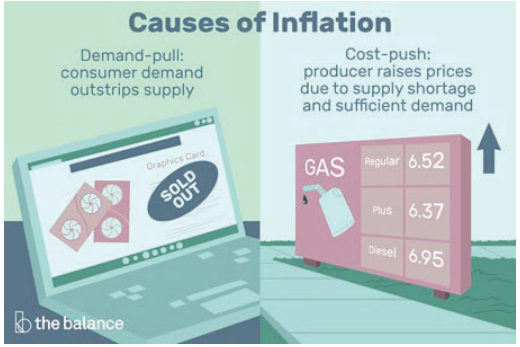
Drivers and causes of inflation (cont.)

What does the data tell us?



* PCE inflation; percentage change over four quarters

Sources: Stats SA and SARB (See Box 6 in the October 2024 *Monetary Policy Review* for more details.)



On the previous slide, we said that central banks have limited control over supply-driven inflation.

Does that mean the central bank should not do anything if inflation is supply-driven?

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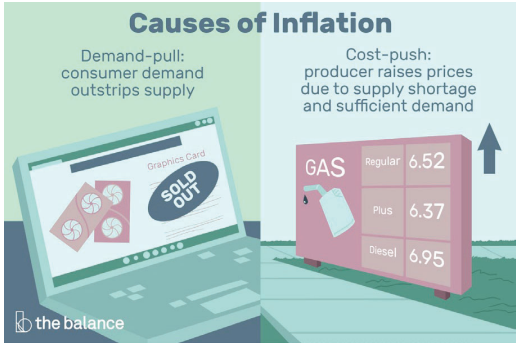
Drivers and causes of inflation (cont.)

Green: central bank can influence
Red: central bank has limited control

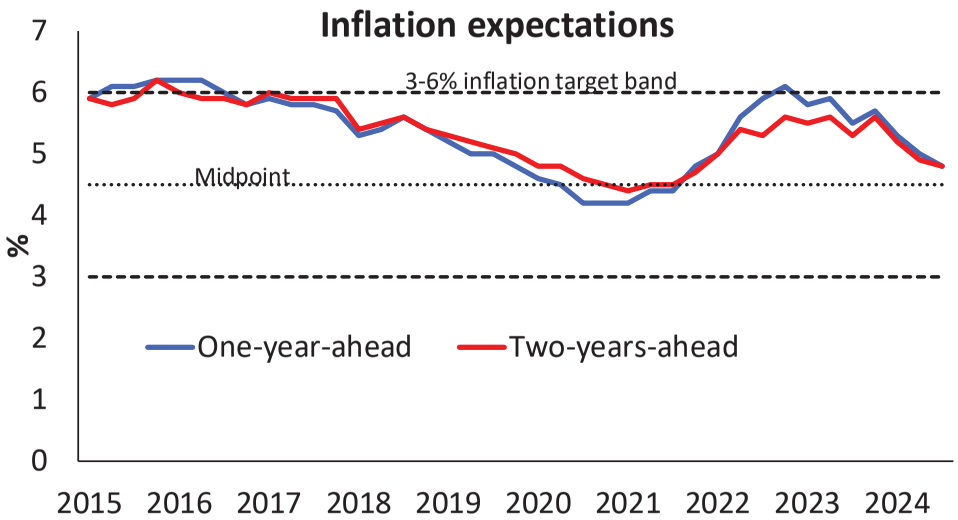


Expectations

The anticipated future levels of inflation according to economic participants. Economic agents spend, invest and determine prices based on these expectations.

Relevant indicators: Quarterly Projection Model (QPM), bond yields and inflation-linked bond prices, Bureau for Economic Research (BER) inflation expectations index.

Cost-push inflation shocks can change agents' inflation expectations. Inflation expectations are something the central bank can influence. Hence, central banks ***cannot*** just ignore cost-push inflation.



Source: BER

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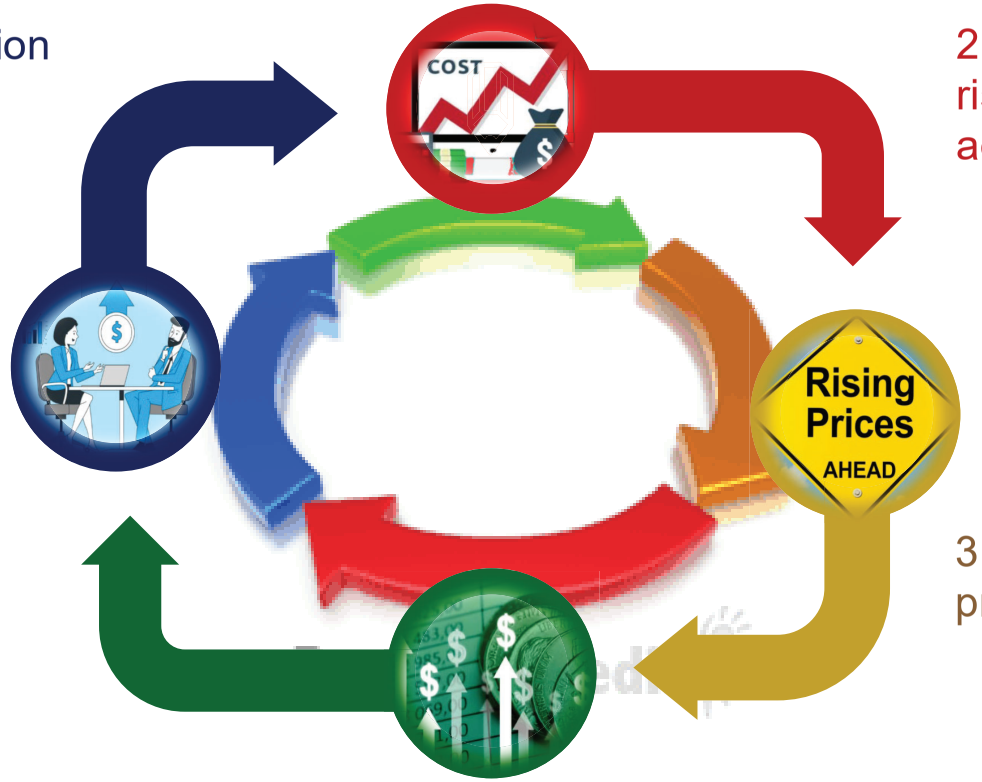
How do expectations impact actual inflation outcomes?

Expectations can set off a feedback loop:

1. If people expect inflation to be high, they base decisions on these expectations (e.g. wage increases).



2. This causes costs to rise for other economic agents (like firms).

3. Economic agents raise prices.

4. Higher inflation and still-high inflation expectations; the loop continues.

How do expectations impact actual inflation outcomes? (cont.)

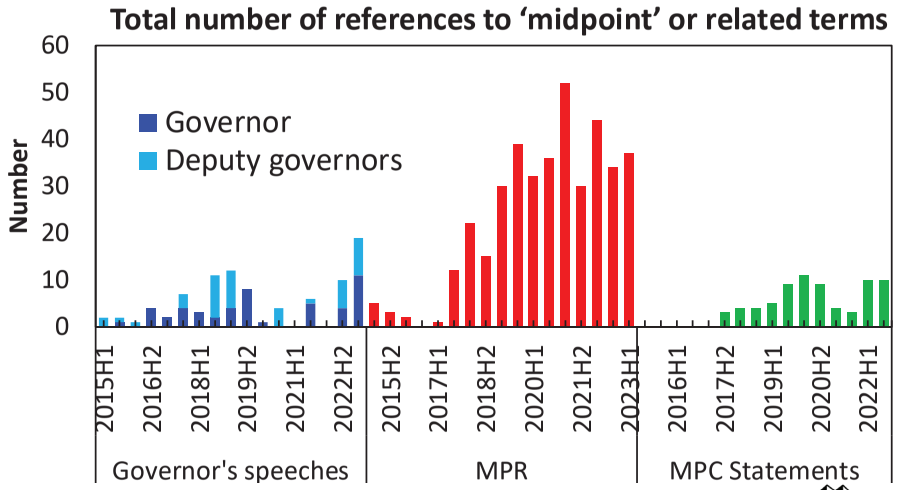
When the SARB speaks about inflation expectations, we often refer to a reference point (an 'anchor') around which we would like to see expectations converge. This point is the **4.5% midpoint of the inflation target**.

Inflation expectations are 'anchored' when they are close to the desired anchor point.

Anchored expectations help to minimise inflationary pressures from feedback loops during shocks. This helps to limit the need for excessive changes in interest rates during price shocks.

How does the SARB ensure people know where the anchor should be and believe that inflation will be around it, on average?

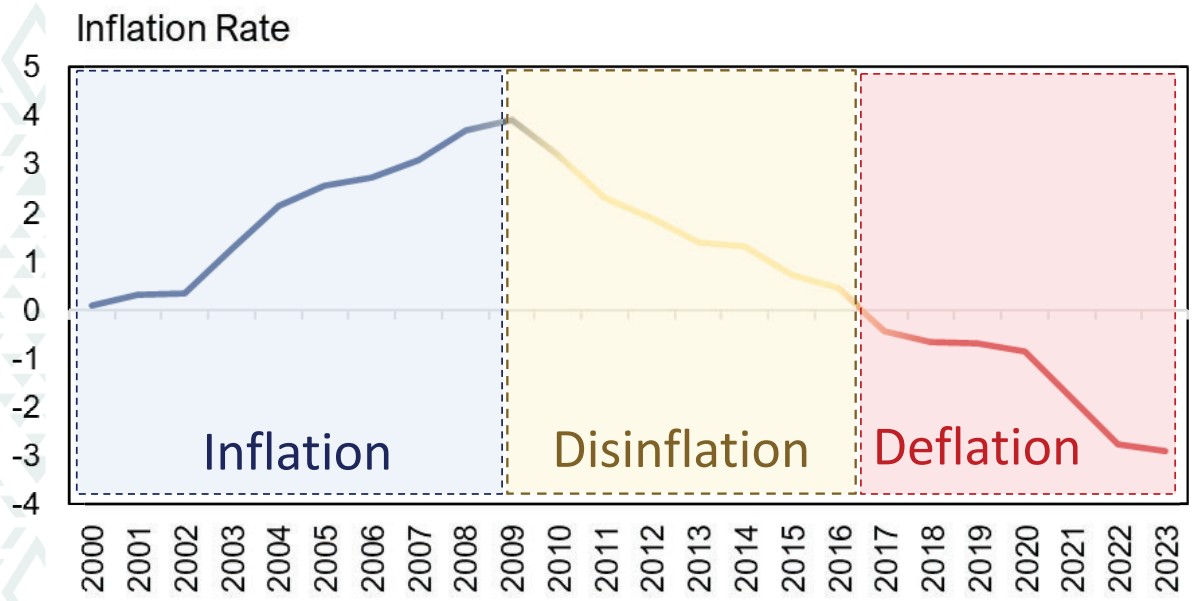
- Effective and continual communication (MPC, *MPR*, *FSR* and speeches, among other media).
- Acting when inflation deviates from this level and when it is clear that feedback loops may be emerging.



Source: SARB

SOUTH AFRICAN RESERVE BANK

Inflation and other price changes



It is better that inflation stays at a stable and predictable level… this is where the SARB comes in.

Now that we know what inflation is, what is disinflation? What is deflation? What is the difference between the two?

Why might high inflation be bad for the economy?

Why might deflation be bad for the economy?

South African Reserve Bank

Monetary policy is a balancing act:

trade-off between stabilising inflation and economic growth

Monetary policy impacts not only inflation, but also economic growth.

There is a trade-off between inflation and economic growth:

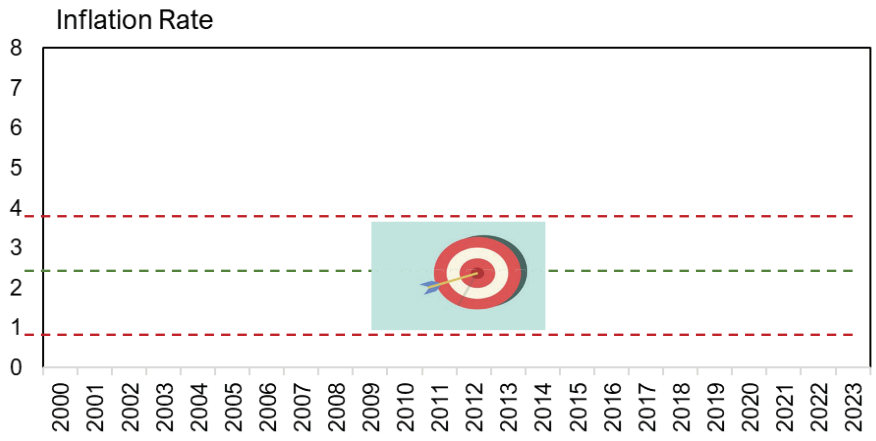
- By raising the repo rate, the SARB can slow inflation, but higher rates can negatively impact economic growth.
- We illustrate this trade-off in more detail when we look at the monetary policy transmission mechanism.

Because of this trade-off, the SARB closely monitors other aspects of the economy (growth, employment, trade, etc.).

While the primary mandate of the SARB is price stability, **economic growth and employment** are implied within the mandate (i.e. price stability 'in the interest of balanced and sustainable economic growth').

The SARB's inflation targeting framework

- South Africa has an inflation target range of 3–6% for the headline consumer price index calculated by Stats SA.
- The inflation target range is set by National Treasury in consultation with the SARB.
- Since 2017, the Monetary Policy Committee has communicated its preference for inflation to be close to the 4.5% midpoint of the 3–6% target range.



Continuous

- The policy should aim for inflation to remain within the target range.

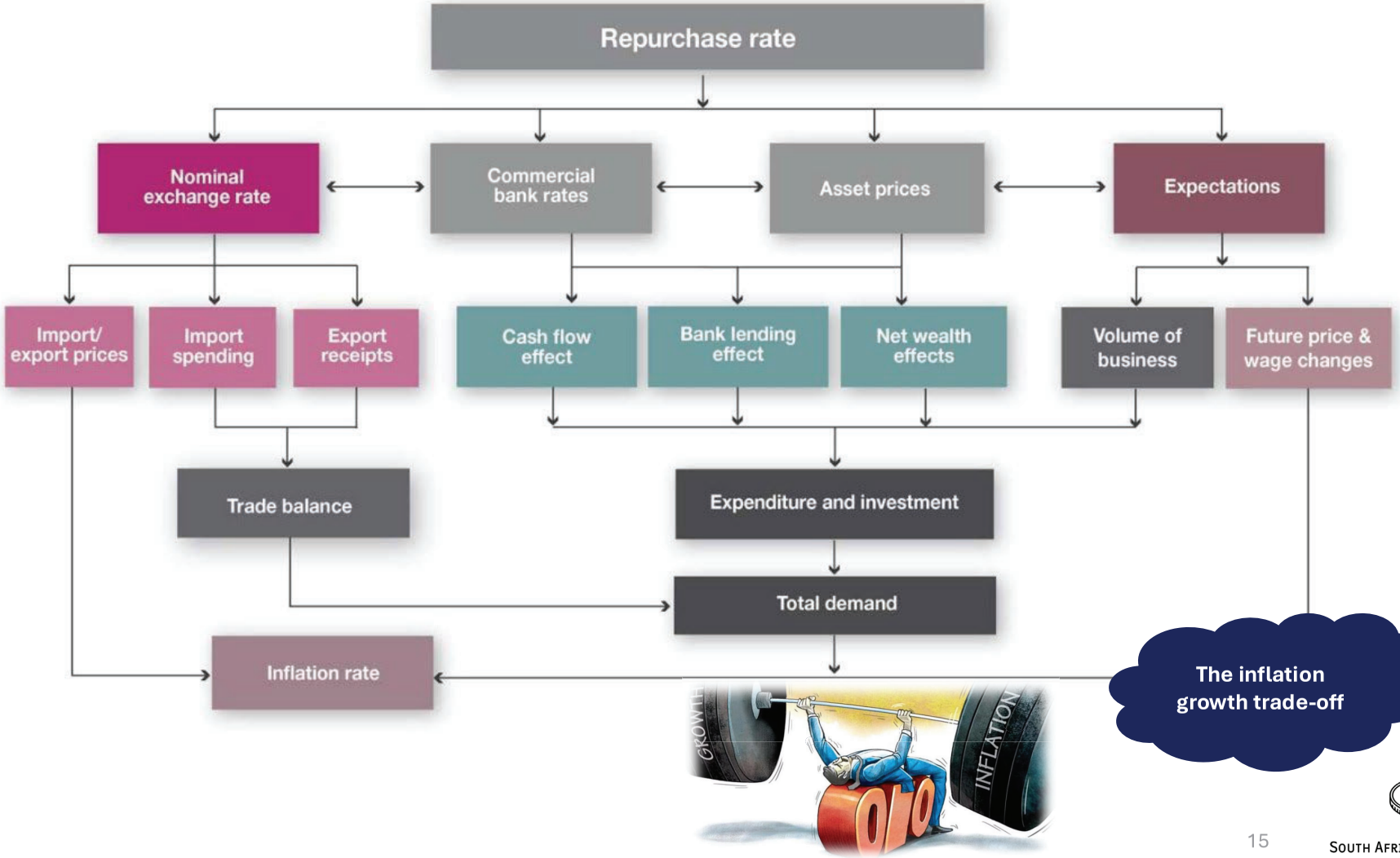
Flexible

- Temporary deviations from the target are acceptable provided that inflation returns to the target range over a reasonable period (usually one or two years).
- This flexibility means that policy does not have to offset the price effects of shocks, such as fuel price increases, provided they are purely temporary.

Forward-looking

- Policymakers are not required to make up for missing the target in the past, but they are expected to ensure that inflation always returns to the target.

The monetary policy transmission mechanism



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Inflation outlook: monetary policy is forward-looking

All things being equal, the MPC should:

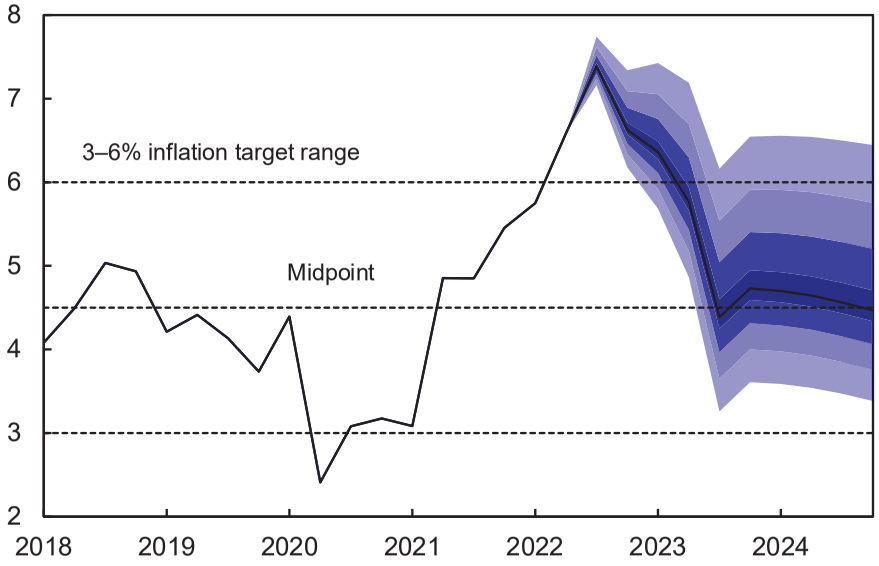
increase the repo rate if there are substantial **upward risks**

decrease the repo rate if there are substantial **downward risks**

- Understand the driving factors behind the inflationary environment and, in turn, the interest rate hikes/cuts.

Targeted inflation forecast*

Percentage change over four quarters



* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.

Sources: Stats SA and SARB

South African Reserve Bank

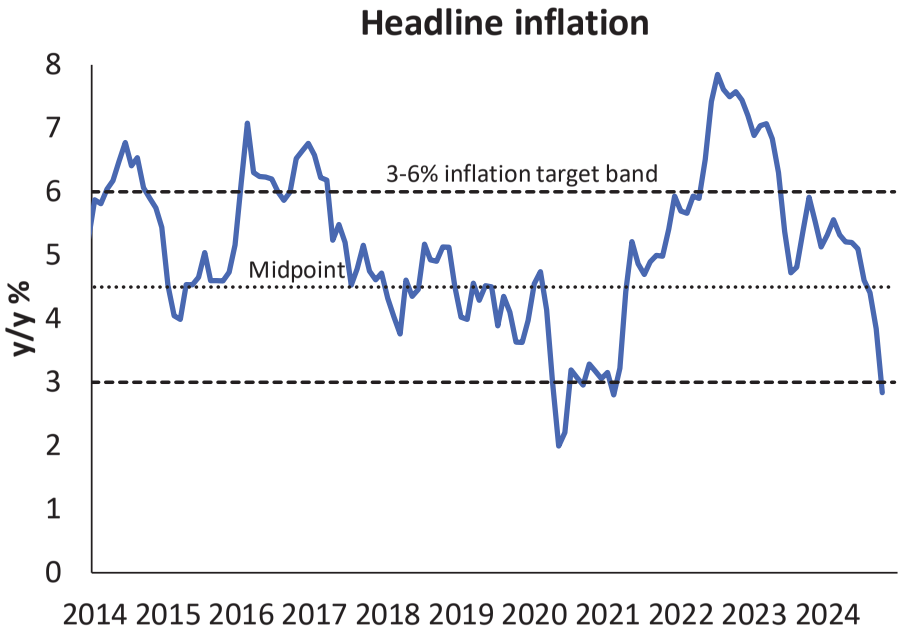
Drivers of recent inflation outcomes

What were the effects of ***fuel prices*** on overall inflation?

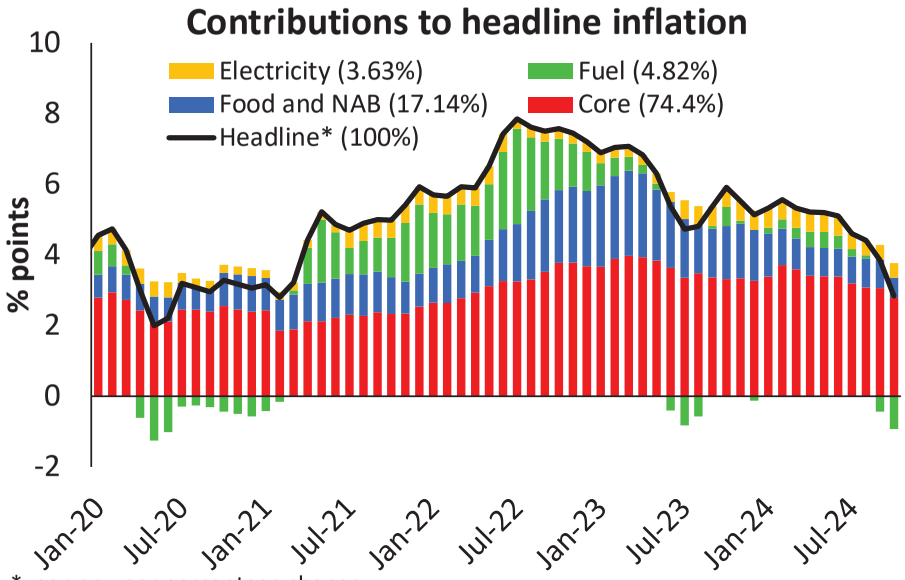
Consider: oil prices, exchange rate, land transport challenges in South Africa, actions of OPEC.

What were the effects of ***food prices*** on overall inflation?

Consider: foot and mouth disease, bird flu, load-shedding, Russia-Ukraine war, exchange rate.



Sources: Stats SA and SARB



*year-on-year percentage change

Sources: Stats SA and SARB

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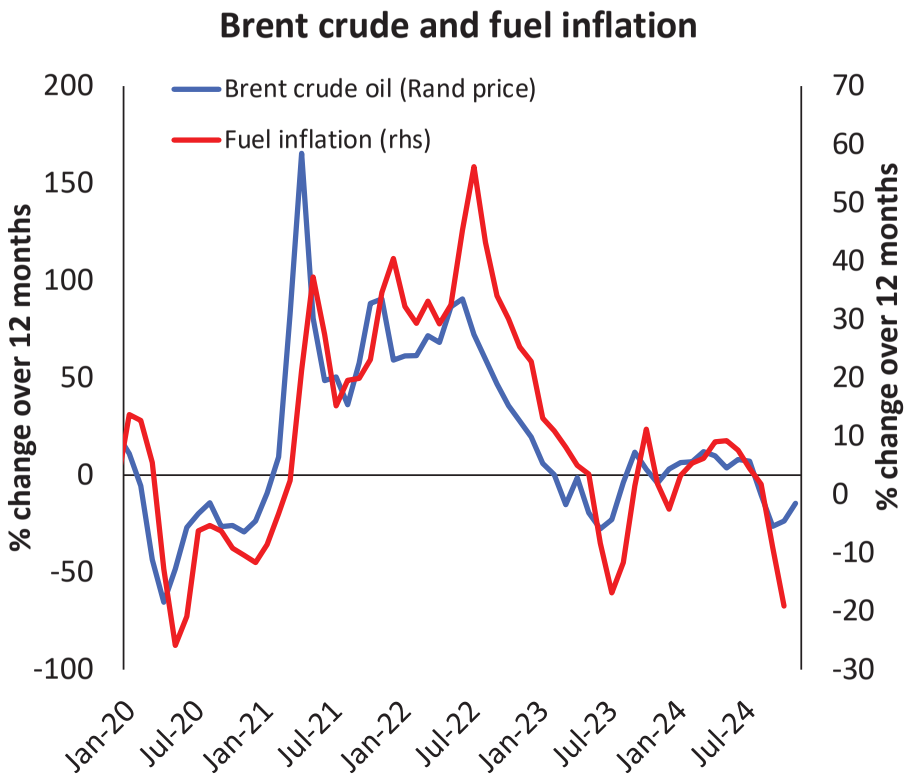
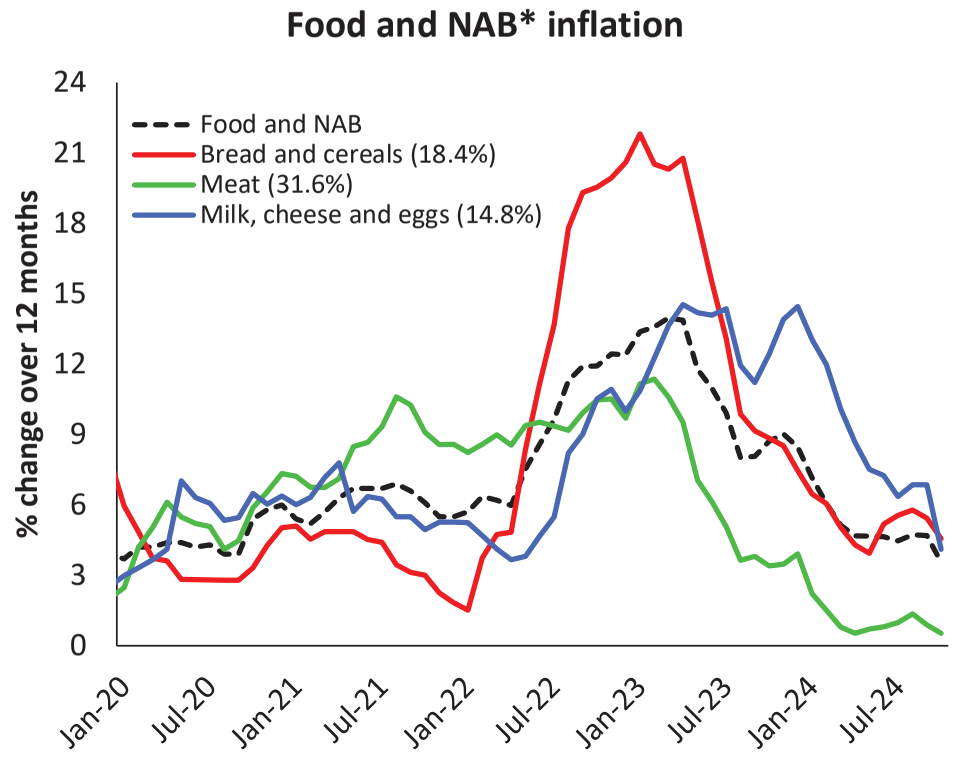
Drivers of recent inflation outcomes (cont.)



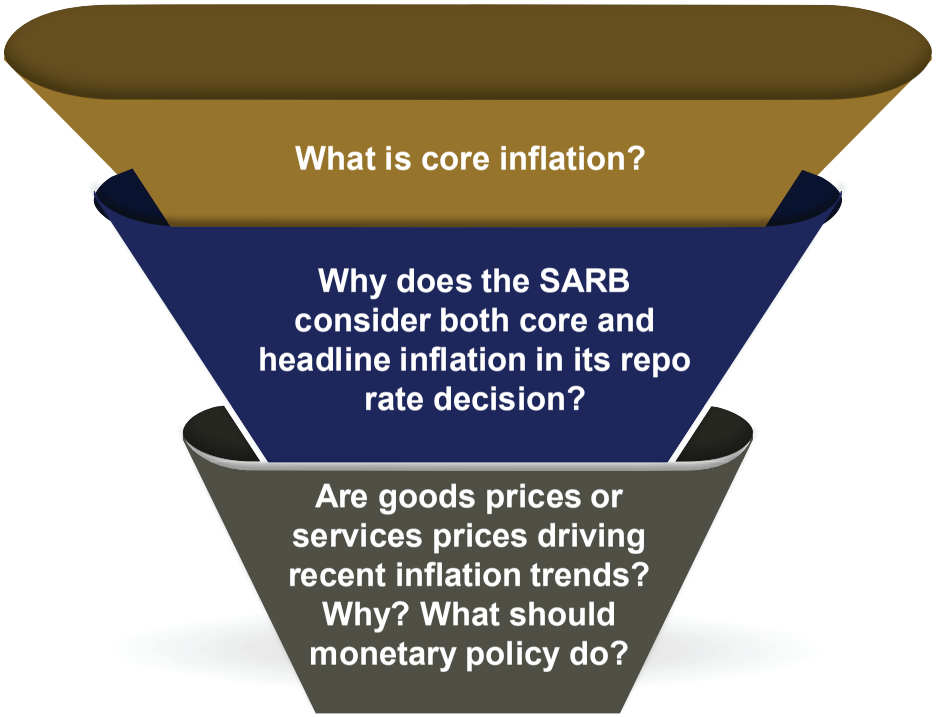
Sources: Stats SA and SARB

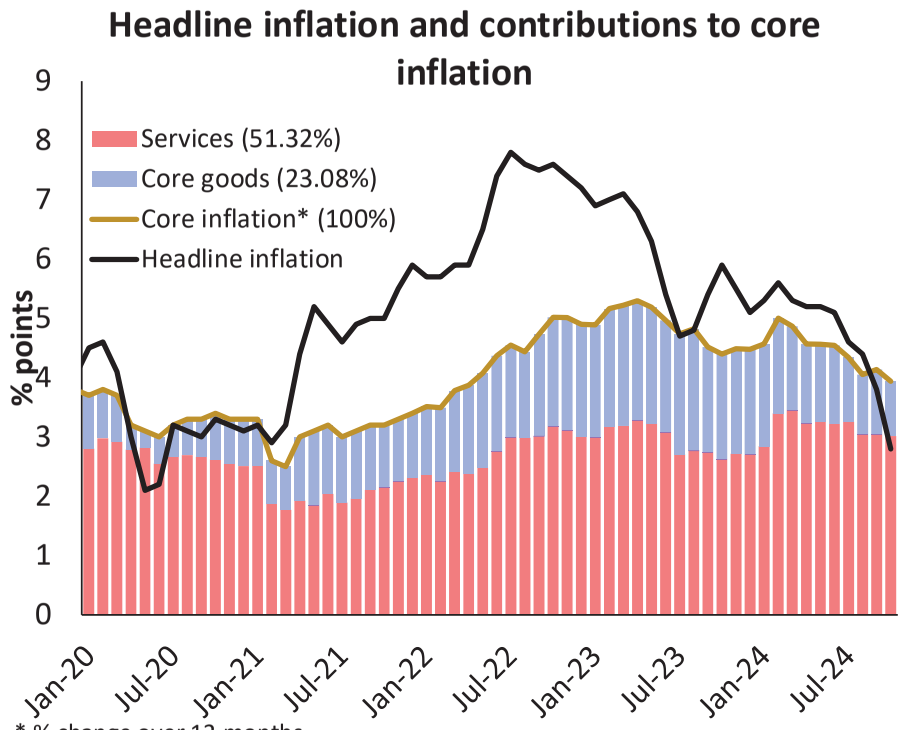


* NAB = Non-alcoholic beverages

Source: Stats SA

Drivers of recent inflation outcomes (cont.)





* % change over 12 months
Sources: Stats SA and SARB

South African Reserve Bank

Session 1: Overview of monetary policy

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. Timeline

. Rules of the competition

. Prizes

Sources of economic data and commentary

Sources of credible information: The SARB's *Quarterly Bulletin, Monetary Policy Review* and *Financial Stability Review;* Stats SA, Bureau for Economic Research (BER), Bloomberg, Reuters, Bank for International Settlements (BIS), International Monetary Fund (MF), World Bank, and so forth.

SOUTH AFRICAN RESERVE BANK

stats sa
Department:
Statistics South Africa
REPUBLIC OF SOUTH AFRICA

BIS

Bloomberg

THE WORLD BANK

REUTERS®

INTERNATIONAL MONETARY FUND

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Examples of sources of economic data and commentary

Source	Publications	Information	Links
SARB	*Quarterly Bulletin (QB), Monetary Policy Review (MPR), Financial Stability Review (FSR)*	Economic data, reviews, research, commentary, forecast and data	https://www.resbank.co.za/en/home/publications/quarterly-bulletin1
Stats SA	CPI; gross domestic product (GDP); *Quarterly Labour Force Survey* (*QLFS*); *Quarterly Employment Survey* (*QES*)	Data	https://www.statssa.gov.za/?page_id=1879
International Monetary Fund (IMF)	*World Economic Outlook; World Financial Stability Report*	Global inflation and economic growth outlook, data	https://www.imf.org/en/Publications/WEO
Commentary of commercial banks and financial institutions	https://www.nedbank.co.za/content/nedbank-crp/desktop/gt/en/reports/Economics.html https://www.fnb.co.za/economics-commentary/ https://www.momentum.co.za/momentum/invest-and-save/resource-centre/more-information/updates-and-news/economic-and-investment-update-archive https://www.momentum.co.za/momentum/invest-and-save/resource-centre/more-information/updates-and-news/economic-and-investment-update-archive		

Sources of economic data and commentary

1. Use links provided in the previous slide to obtain these publications

- *Monetary Policy Review*
- *Quarterly Bulletin*
- *World Economic Outlook*
- Commentary on inflation expectations

2. What are the upside risks to inflation identified in these publications?

3. What are the downside risks to inflation identified in these publications?

4. How should monetary policy respond to these risks?

The general structure of the MPC statement

1. Obtain a copy of the MPC statement from the link provided.
2. Closely observe the statement and identify the specified sections:
   - Analysis of the global economy
   - Analysis of the domestic economy
   - Inflations outlook
   - Interest rate decision
3. Identify upside and downside inflation risks from the statement.
4. Do you agree or disagree with the MPC statement decisions?

South African Reserve Bank

PRESS STATEMENT

23 November 2023

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

As we approach the end of the year, easing headline inflation and modest economic growth remain the dominant global economic trends of this past year. Output in the Euro Area is poor, while the robust growth seen in North America is likely to moderate. China's growth performance is still weak, with few benefits for global commodity prices.[1] Across most regions, monetary policy will continue to focus on achieving inflation targets, while high debt levels will require fiscal consolidation efforts. In the developing world, financing conditions are expected to remain tight and growth moderate.

The longer-term economic outlook however, remains uncertain. Weaker household consumption and falling property prices may drag on growth for a sustained period. Climate change and geopolitical tensions threaten supply chains, output and prices.

[1] South Africa's commodity export index is forecast to decline by 27.9% this year, a further 11.5% in 2024, and an additional 5.0% in 2025. The index is forecast to fall by 1.7% in 2026.

Page 1

MPC Statement 23 November 2023

- https://www.resbank.co.za/en/home/publications/publication-detail-pages/statements/monetary-policy-statements/2024/Statement-of-the-Monetary-Policy-Committee-September-20241

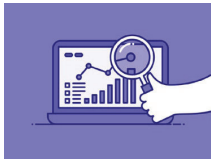
South African Reserve Bank

Basic data provided for analysis

*Organisation for Economic Co-operation and Development

Basic data provided for analysis (cont.)

Short-term indicators:



Manufacturing production and Purchasing Managers' Index (PMI). PMI provides expectations of manufacturing production in the future and leads to actual manufacturing output.

A rising unemployment rate could indicate weak demand or structural challenges in the economy.

Real retail sales and the Consumer Confidence Index (CCI). CCI provides insight into the expectations of demand for goods in the future and leads to actual retail sales.

Unit labour cost is a measure of the cost of producing a unit of output. It measures cost pressures in an economy that are related to the wage cost for businesses.

South African Reserve Bank

Basic data provided for analysis (cont.)

International indicators

- GDP for OECD* countries
- CPI for OECD countries
- Consider global developments and how they will impact the demand and supply of goods and services as well as prices in South Africa.

Exchange rate

- How will the volume of imports and exports change as the value of the rand changes?
- What will the effect be on domestic prices, especially prices of imported goods?

*Organisation for Economic Co-operation and Development

Session 1: Overview of monetary policy

. Inflation defined

. The role of the South African Reserve Bank (SARB)

Session 2: Practical guide to the analysis of recent inflation drivers

. The monetary policy transmission mechanism

. Demand-pull and cost-push inflation

. Sentiment indicators

Session 3: Administrative information

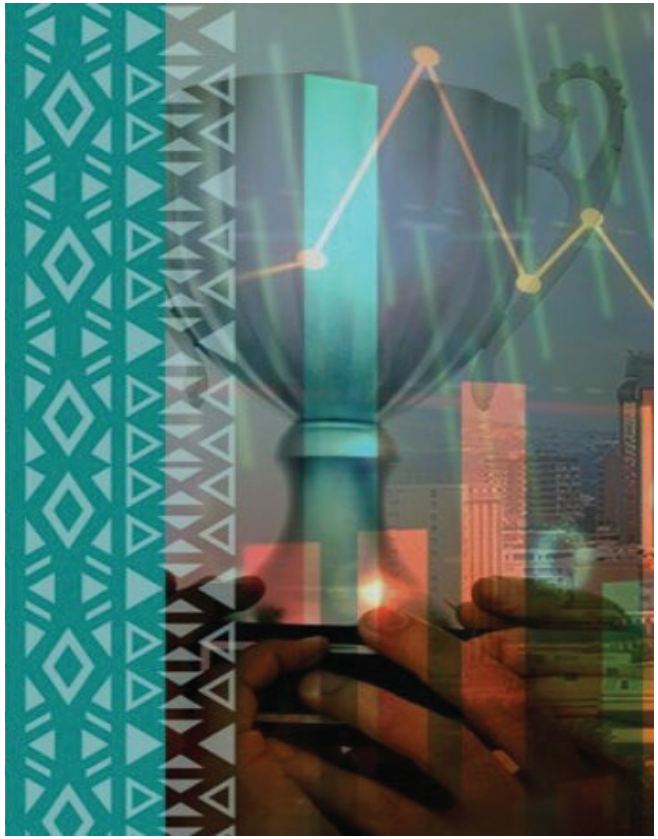
. Scope of the competition

. Timeline

. Rules of the competition

. Prizes

MPC Schools Challenge



The MPC Schools Challenge is the SARB's initiative aimed at broadening Grade 12 learners' understanding of monetary policy and the critical role the SARB plays in the economy.

2025 timelines

Date	Activity
1 February – 8 March 2025	Briefing sessions
5 April – 10 May	Research and writing of the MPC statements
16 May	Submission of the MPC statements
19–22 May	Plagiarism check, redacting, sorting and numbering of essays
23 May	Essays submitted to markers
11 July	Finalists announced to the participating schools by email and SMS
24–25 July	Finalists' workshop
28 July	Finalists' presentations due
29–31 July	MPC meeting and announcement
4 August	Judging session welcoming reception
5 August	Judging: Panel of judges, Q&A with the finalists
19 August	Winners' announcement (15:00–17:00)

General rules of the competition

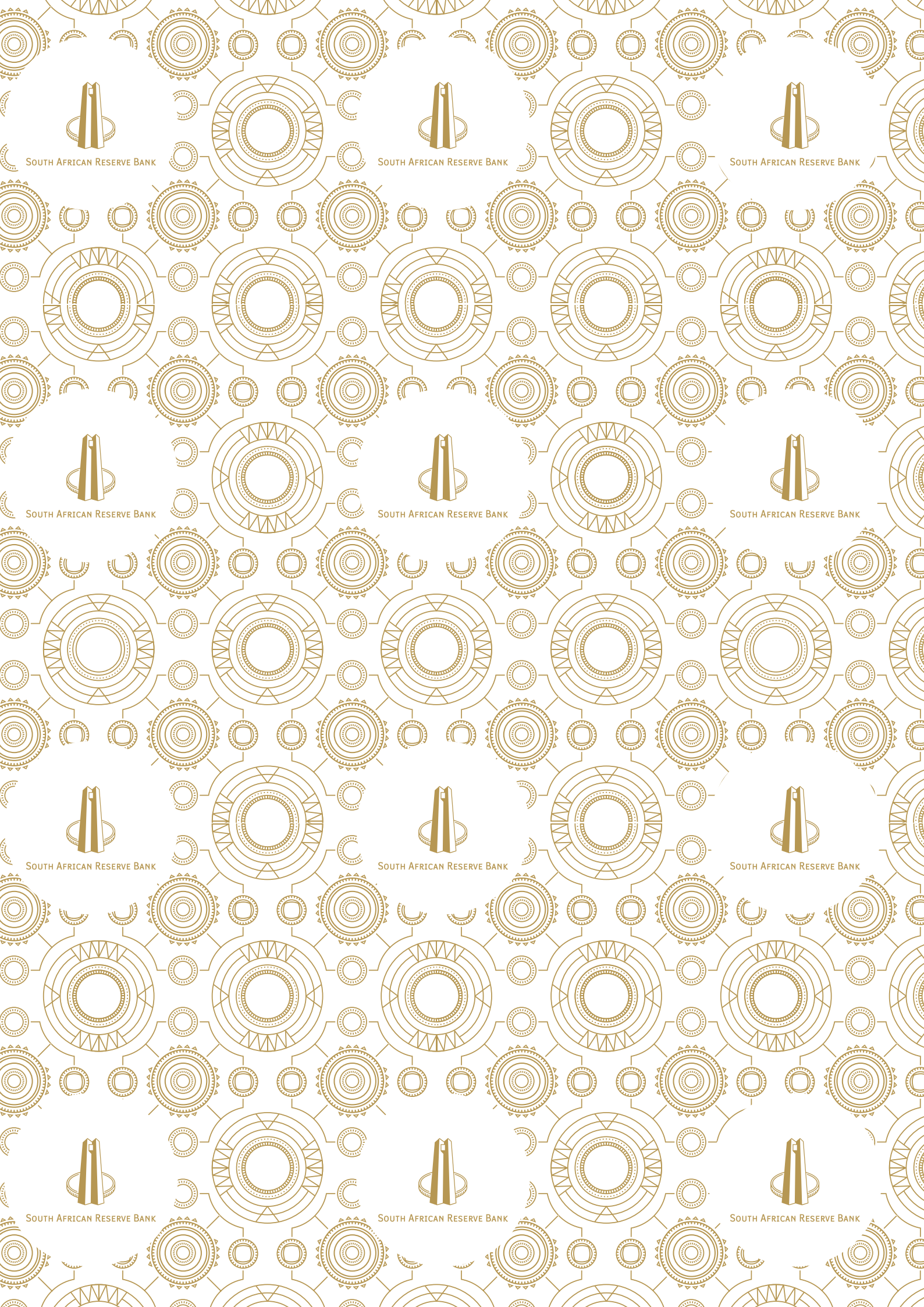
- Each school can enter one team comprising a governor and three deputy governors.
- Team members must be full-time Grade 12 learners studying Economics and Mathematics.
- Team members cannot be changed during the competition without prior approval from the SARB.
- All team members must be present at the finals and able to answer questions following the team presentation. This requirement will only be waived in exceptional circumstances and with the prior approval of the SARB.
- Finalists should be accompanied by their Economics teacher to the finals in Pretoria.
- Fellow learners can help their school's team research for and prepare the MPC statement but only team members can present at the finals.
- Teams are allowed to use data from any source, which means teams are not limited to using only data from the SARB, but all information obtained from other sources must be clearly referenced.
- All essays will be submitted through 'Turnitin' with a maximum similarity allowance **of 35%. Anything exceeding this limit** will result in the **school being disqualified**.
- Essays must be typed out. If handwritten, they must be legible.
- Relatives of employees of the SARB are not allowed to participate in the challenge.

- **Reference all sources consistently**
- **NO plagiarism**

Video of previous finalists

THANK YOU

SOUTH AFRICAN RESERVE BANK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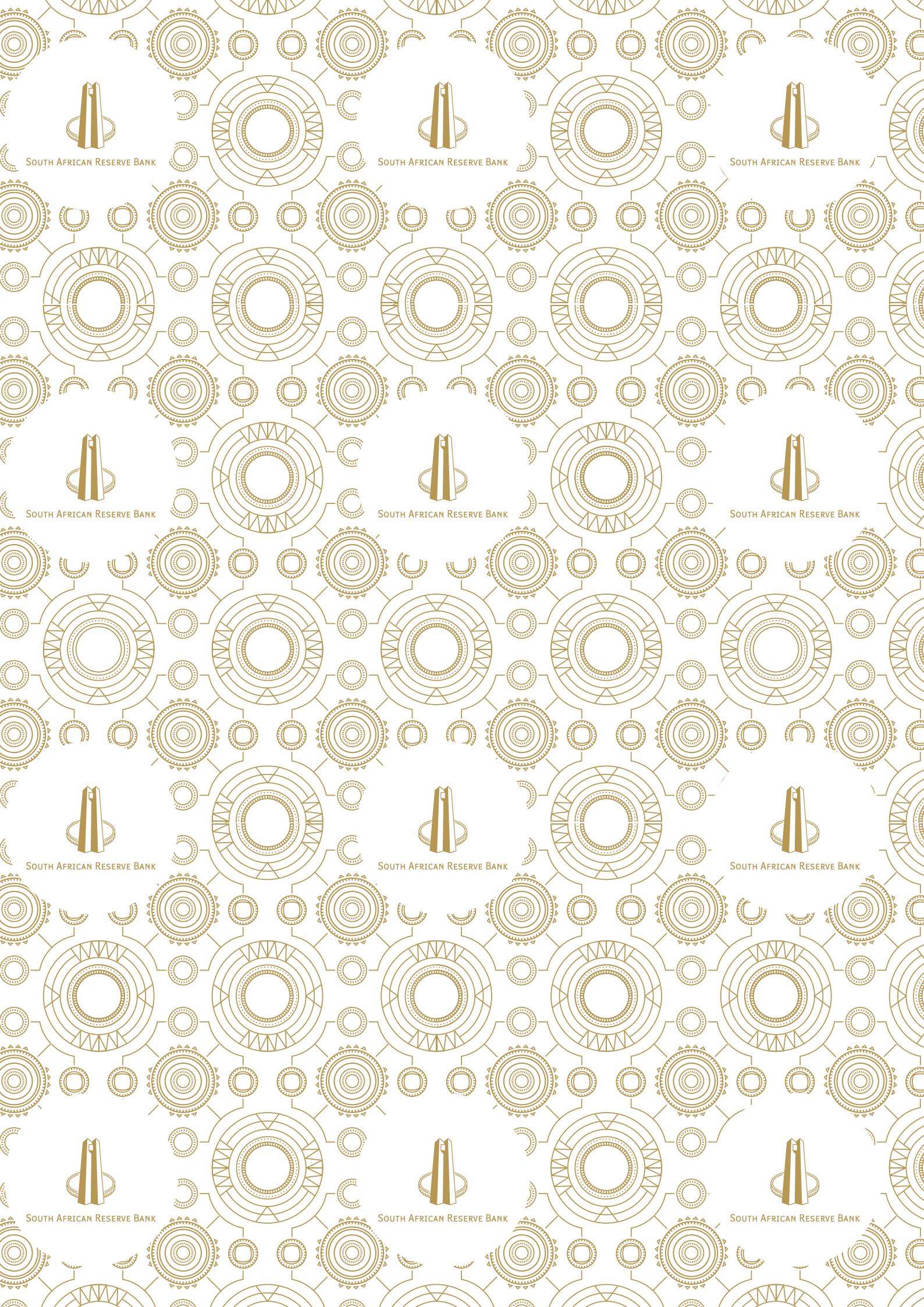
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SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

21 November 2024

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Since our previous meeting, the global macroeconomic context has become more challenging. The dollar has appreciated against most currencies, including the rand. Longer-term interest rates have risen, in the United States and across the globe. Short-term rate expectations have likewise shifted up.

In general, monetary policy in major economies remains restrictive, and headline inflation has slowed. While this has provided some room for major central banks to ease rates further, over the past two months,[1] new inflation pressures and heightened uncertainty suggest diminished policy space. With underlying inflation still above target, in several economies, there are risks of policy reversals.

Turning to South Africa, we continue to see a growth recovery taking hold, after a weak economic performance through 2023 and the first half of 2024.

In the near term, we expect output to benefit from a variety of tailwinds, including lower inflation, higher disposable income, and extra spending from pension withdrawals via the new Two-Pot system.[2]

[1] The European Central Bank cut by 25bps in October, and the Bank of England and US Federal Reserve did the same in November.
[2] Other factors supporting near-term growth are base effects and rising confidence. Regarding the Two Pot system, withdrawals are now expected to be R51 billion for the current quarter, compared with a previous forecast of R40 billion, with a larger proportion of withdrawals now expected to be used for consumption rather than debt repayments.

It is unclear how much this will boost the third-quarter growth numbers, which are due in a few weeks.[3] The data flow has been mixed lately, with some indicators disappointing, while others have been positive. For instance, recent manufacturing data was subdued, but mining was stronger. Encouragingly, the most recent labour force survey showed relatively large and broad-based job gains, and lower unemployment.

Over the medium term, we still expect a sustained improvement in growth as reforms take effect.[4] Our forecast now extends out to 2027, and we see growth reaching 2% in that year.

The risks to the growth outlook are assessed to be balanced.

Given mixed data outcomes, it is possible that near-term growth could fall short of current projections. At the same time, growth could be higher from next year, given ongoing reforms. These include structural reforms, especially in the network sectors, such as electricity and transport. Furthermore, the recent positive outlook on South Africa's credit rating, from Standard & Poor's, points to an improving country risk premium. These factors suggest upside risks to the longer-term growth forecast.

Moving to consumer prices, headline inflation has dipped below our target range, reaching 2.8% in October. Goods prices have slowed more than those for services[5], which mainly reflects the benefits of a stronger exchange rate and a lower oil price, relative to last year.[6] These temporary supply shocks are likely to keep inflation below 4% until mid-2025.

Thereafter, we see inflation modestly higher relative to our September projections, reaching 4.6% from late 2025, rather than 4.4%.[7] This is primarily because of a higher electricity price assumption. At the same time, core inflation is marginally lower for this year and next year, which reflects recent data outcomes. We continue

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[3] The latest projections show 0.5% growth in the third quarter and 0.7% growth in the fourth, little changed from the September forecast, which had 0.6% growth in both quarters (quarter-on-quarter).
[4] Growth for 2024 remains 1.1%, 2025 is 1.7% (up from 1.6%) and 2026 remains 1.8%.
[5] For the October CPI print, goods inflation was 1.4% and services was 4.4%.
[6] The implied starting point of the rand/dollar exchange rate is 17.74, for 2024Q4, with 17.96 for 2025Q1. Note also that fuel prices fell by 19.1% in October, year-on-year.
[7] In the current forecast, inflation reaches 4.6% in 2025Q4 and stays there throughout 2026. Previously, inflation was at 4.4% from 2025Q4 to 2026Q2, and 4.3% for 2026Q3 and 2026Q4

to see headline inflation stabilising near our midpoint objective over the forecast horizon.[8]

In this context, we anticipate inflation expectations will moderate further. These expectations have been quite backward-looking, with higher past inflation projected well into the future. Survey expectations remain above our midpoint objective.[9] We expect that our policy stance, and the experience of lower inflation, will anchor expectations more firmly at lower levels.

The risks to the inflation outlook are assessed as balanced.

In the near term, inflation appears well contained. However, the medium-term outlook is highly uncertain, with material upside risks. These include higher prices for food, electricity and water, as well as insurance premiums and wage settlements.

Against this backdrop, the MPC decided to reduce the policy rate by 25 basis points, to 7.75%, with effect from 22 November 2024. The decision was unanimous.

The Committee agreed that reducing the level of policy restrictiveness is still consistent with achieving the inflation target.

The risk outlook, however, requires a cautious approach.

Global interest rates could well shift higher again, and the recent rand depreciation demonstrates how rapidly changes in the global environment can affect South Africa.

The forecast sees rates easing further in future, stabilising a bit above 7%. But this rate path from the Quarterly Projection Model remains a broad policy guide. The MPC would like to emphasise that its decisions will be made on a meeting-by-meeting basis, with no forward guidance and no pre-commitment to any specific rate path. Such decisions will continue to be outlook dependent, responsive to data developments, and sensitive to the balance of risks to the forecast.

There are scenarios where inflation is higher than in our baseline. During the meeting, the MPC explored two such risk cases. One assumed higher administered

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[8] The projections are modestly higher than in the previous forecast round, mainly due to higher electricity prices. Headline now averages 4.6% in 2026, versus 4.4% previously.

[9] Average BER survey expectations for 2 years ahead were at 4.8% in the most recent survey, as noted in the previous MPC statement. Market-based expectations, from breakevens, are around 5.4% for the longer-term, 10-year measure, while medium-term expectations, up to 5-years, are around 4.3%

price inflation.[10] The other envisioned a more difficult external environment, with a weaker rand and higher oil prices.[11]

We also considered a favourable scenario where geopolitical tensions subside and the oil price falls.[12]

These scenarios underscored the uncertainty surrounding the outlook.

Given a challenging external environment, it remains crucial to sustain domestic reform momentum. This entails both structural reforms to support growth capacity, and macroeconomic efforts to rebuild fiscal and monetary policy space.

The MPC's main contribution is to deliver low and stable inflation, with well-anchored inflation expectations.

Additional measures that would improve economic conditions include reaching a prudent public debt level, further repairing and strengthening network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 30 January 2025.

The MPC dates for 2025 are as follows:

30 January

20 March

29 May

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[10] This scenario assumed a 25% bulk-price increase for electricity, as well as higher water price increases. Relative to the baseline, electricity inflation is higher by around 5-6pp through 2025 and 2026, while water inflation is around 3-5pp higher.

[11] This scenario had oil prices about 11% higher than in the baseline, from 2025-2027, with the rand weakening to a low of 19.54 per US dollar.

[12] This scenario had oil prices about 4% lower than in the baseline, with the rand appreciating to a high of 16.02 per US dollar.

31 July

18 September

20 November

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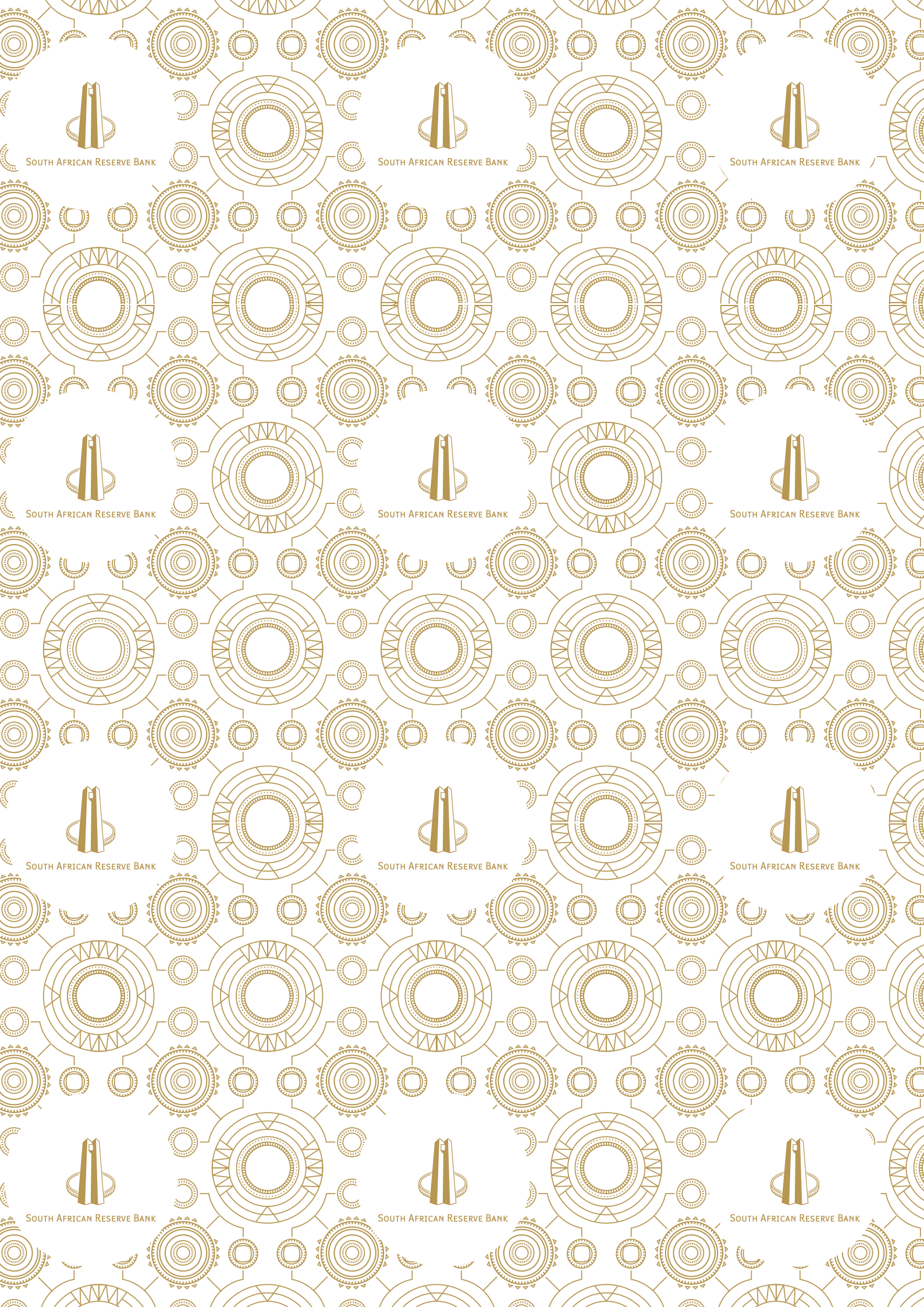
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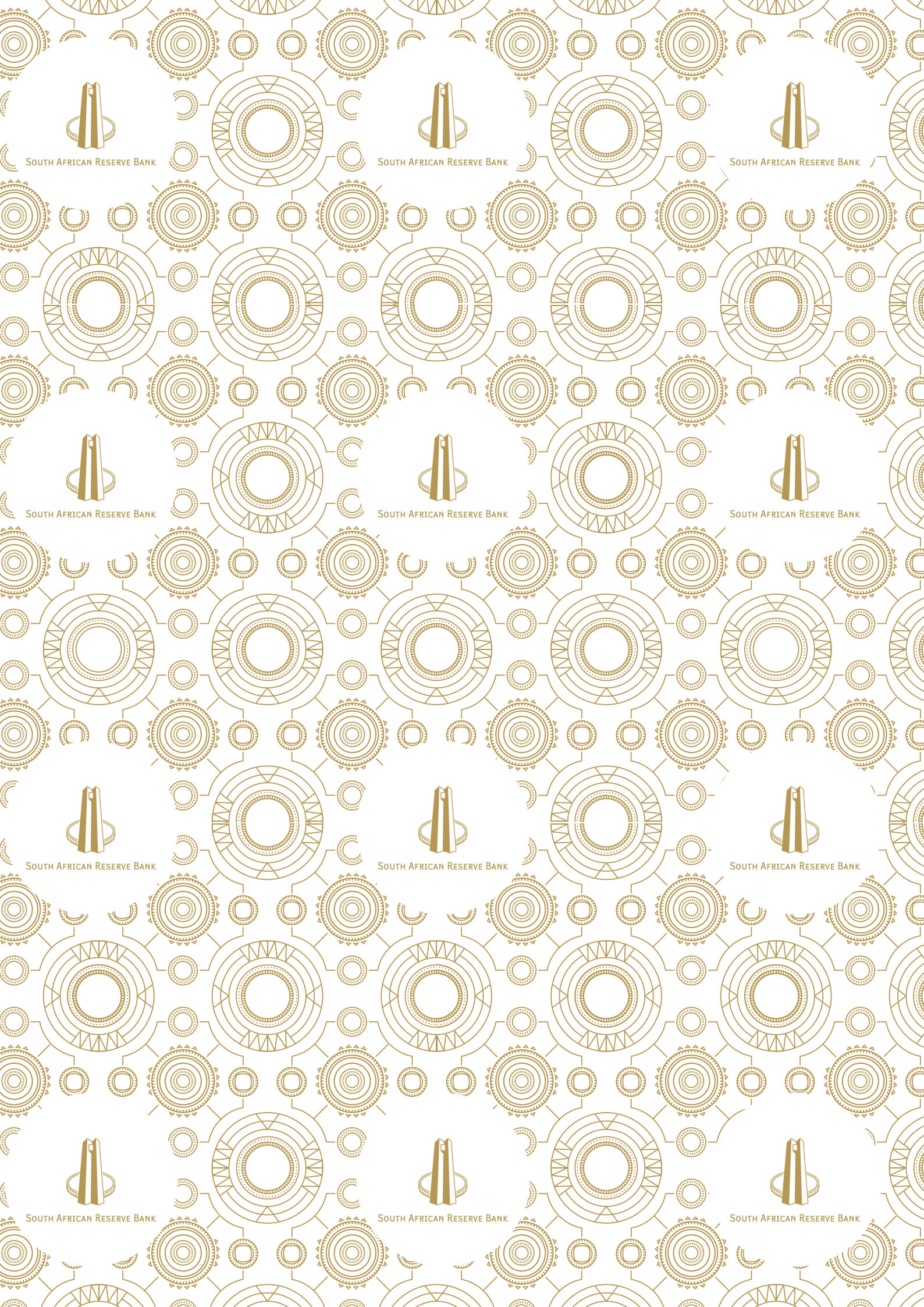
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Monetary Policy Committee forecast report

November 2024 MPC meeting

21 November 2024

South African Reserve Bank

Summary of assumptions November 2024 MPC

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

1. Foreign sector assumptions

Percentage changes (unless otherwise indicated)	Actual	Forecast			
	2023	2024	2025	2026	2027
1. Real GDP growth in South Africa's major trading partner countries	3.1%	*2.6%*	*3.1%*	*3.2%*	*3.2%*
	(3.0%)	*(2.7%)*	*(3.0%)*	*(3.1%)*	
2. Output gap in South Africa's major trading partner countries	0.5%	*0.0%*	*0.2%*	*0.3%*	*0.5%*
	(0.3%)	*(-0.1%)*	*(-0.1%)*	*(0.1%)*	
3. International commodity prices in US$ (excludes oil but includes petroleum products)	-27.3%	*-7.0%*	*-3.8%*	*-2.0%*	*-1.5%*
	(-27.3%)	*(-6.5%)*	*(-4.5%)*	*(-1.8%)*	
4. Brent crude (US$/barrel)	$82.6	*$81.0*	*$78.0*	*$78.0*	*$77.0*
	($82.6)	*($83.0)*	*($81.0)*	*($80.0)*	
5. World food prices (US$)	-13.8%	*-3.0%*	*2.5%*	*1.5%*	*1.2%*
	(-13.8%)	*(-3.4%)*	*(2.8%)*	*(1.5%)*	
6. International consumer prices	4.5%	*2.6%*	*2.1%*	*2.0%*	*2.0%*
	(4.5%)	*(2.6%)*	*(2.1%)*	*(2.0%)*	
7. International policy interest rate	3.9%	*4.1%*	*3.1%*	*2.6%*	*2.5%*
	(3.9%)	*(4.2%)*	*(3.3%)*	*(2.2%)*	

2. Domestic sector assumptions

Percentage changes (unless otherwise indicated)		Actual	Forecast			
		2023	2024	2025	2026	2027
1.	Electricity price	11.7%	*13.3%*	*13.3%*	*12.3%*	*9.0%*
		(11.7%)	*(13.6%)*	*(11.0%)*	*(9.0%)*	
2.	Fuel taxes and levies	3.1%	*5.1%*	*3.3%*	*4.0%*	*3.9%*
		(3.1%)	*(5.1%)*	*(3.3%)*	*(4.0%)*	
3.	Potential growth	0.2%	*1.2%*	*1.4%*	*1.8%*	*2.0%*
		(0.2%)	*(1.2%)*	*(1.4%)*	*(1.8%)*	
4.	Inflation target midpoint	4.5%	*4.5%*	*4.5%*	*4.5%*	*4.5%*
		(4.5%)	*(4.5%)*	*(4.5%)*	*(4.5%)*	*(4.5%)*

Summary of selected QPM forecast results November 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																	
	24Q1	24Q2	24Q3	24Q4	2024	25Q1	25Q2	25Q3	25Q4	2025	26Q1	26Q2	26Q3	26Q4	2026	27Q1	27Q2	27Q3	27Q4	2027	Steady state
1. Headline CPI	5.4	5.1	4.3	3.2	4.5	3.5	3.7	4.3	4.6	4.0	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.5	4.5	4.5	4.5
	(5.4)	(5.1)	(4.4)	(3.6)	(4.6)	(3.7)	(3.8)	(4.3)	(4.4)	(4.0)	(4.4)	(4.4)	(4.3)	(4.3)	(4.4)						
2. Core CPI	4.8	4.6	4.2	3.8	4.3	3.7	3.8	3.9	4.2	3.9	4.3	4.4	4.5	4.5	4.4	4.5	4.5	4.5	4.5	4.5	4.5
	(4.8)	(4.6)	(4.3)	(4.1)	(4.4)	(3.9)	(4.0)	(4.2)	(4.3)	(4.1)	(4.3)	(4.3)	(4.4)	(4.4)	(4.3)						
3. Food CPI	6.1	4.7	4.6	3.4	4.7	3.9	4.3	4.2	4.0	4.1	4.2	4.3	4.4	4.4	4.3	4.5	4.5	4.5	4.5	4.5	4.5
	(6.1)	(4.7)	(4.7)	(3.5)	(4.7)	(3.6)	(4.0)	(3.9)	(3.9)	(3.9)	(4.3)	(4.2)	(4.2)	(4.2)	(4.2)						
4. Fuel CPI	5.0	8.6	-1.2	-12.1	-0.2	-5.0	-6.2	1.9	5.2	-1.2	2.7	2.3	2.4	2.5	2.5	2.1	1.6	1.5	1.4	1.6	4.5
	(5.0)	(8.6)	(-1.3)	(-8.9)	(0.6)	(-3.7)	(-4.5)	(3.3)	(2.9)	(-0.6)	(1.9)	(1.6)	(1.8)	(1.8)	(1.8)						
5. Electricity CPI	15.3	15.3	11.7	11.5	13.3	11.5	11.5	15.0	15.0	13.3	15.0	15.0	10.0	10.0	12.3	10.0	10.0	8.0	8.0	9.0	4.5
	(15.3)	(15.3)	(12.1)	(12.1)	(13.6)	(12.1)	(12.1)	(10.0)	(10.0)	(11.0)	(10.0)	(10.0)	(8.0)	(8.0)	(9.0)						

2. Selected forecast results (annual)

Percentage changes (unless otherwise indicated)	Actual	Forecast				
	2023	2024	2025	2026	2027	Steady state
1. GDP growth	0.7%	1.1%	1.7%	1.8%	2.0%	2.5%
	(0.7%)	(1.1%)	(1.6%)	(1.8%)		
2. Output gap	-0.3%	-0.4%	-0.1%	-0.1%	0.0%	0.0%
	(-0.3%)	(-0.4%)	(-0.2%)	(-0.1%)		
3. Nominal effective exchange rate	-11.4%	2.3%	1.0%	-0.6%	-0.2%	2.5%
	(-11.4%)	(1.4%)	(1.0%)	(-0.3%)		
4. Real effective exchange rate	-10.2%	4.2%	2.8%	1.9%	2.3%	0.0%
	(-10.2%)	(3.4%)	(2.9%)	(2.0%)		
5. Real exchange rate gap	-7.0%	-3.0%	-0.9%	-0.3%	-0.1%	0.0%
	(-7.0%)	(-3.8%)	(-1.6%)	(-0.4%)		
6. Unit labour cost	4.8%	3.9%	3.5%	3.7%	3.8%	4.5%
	(4.8%)	(3.6%)	(3.2%)	(3.6%)		
7. Repurchase rate	8.25%	7.85%	7.40%	7.27%	7.28%	7.00%
(end of period i.e. fourth quarter)	(8.25%)	(7.86%)	(7.17%)	(7.09%)		
8. Neutral real interest rate	2.54%	2.66%	2.73%	2.80%	2.90%	2.50%
	(2.55%)	(2.66%)	(2.72%)	(2.79%)		
9. Current account balance	-1.6%	-1.4%	-2.2%	-2.7%	-2.7%	
(ratio to GDP)	(-1.6%)	(-1.4%)	(-2.2%)	(-2.7%)		

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.

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).

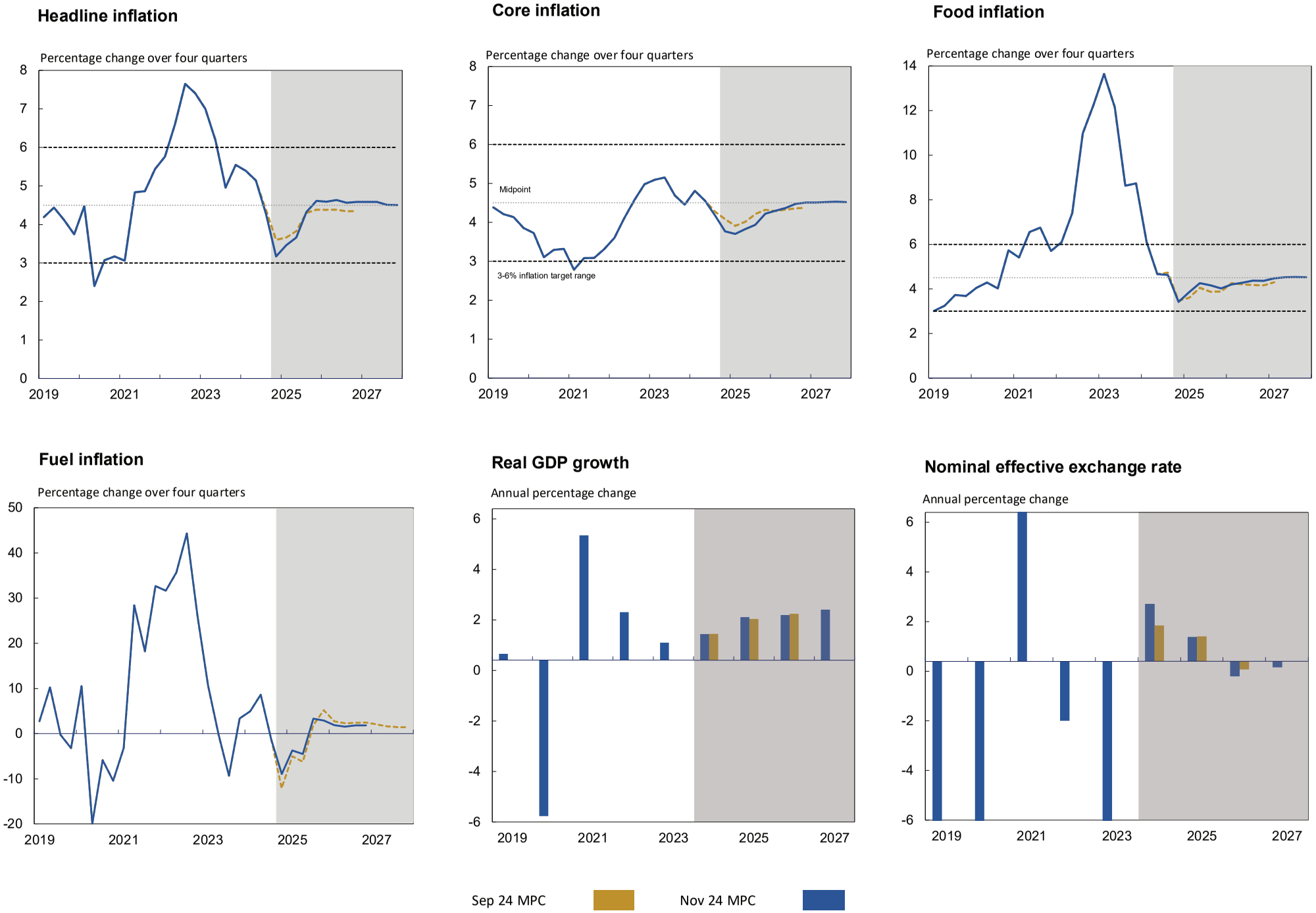
8. **Repurchase rate:** End of period refers to the average repo rate for the last quarter of the year. The nominal repo rate steady state is calculated as the sum of SA inflation target (4.5%) and the steady state neutral real interest rate (2.5%).

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.

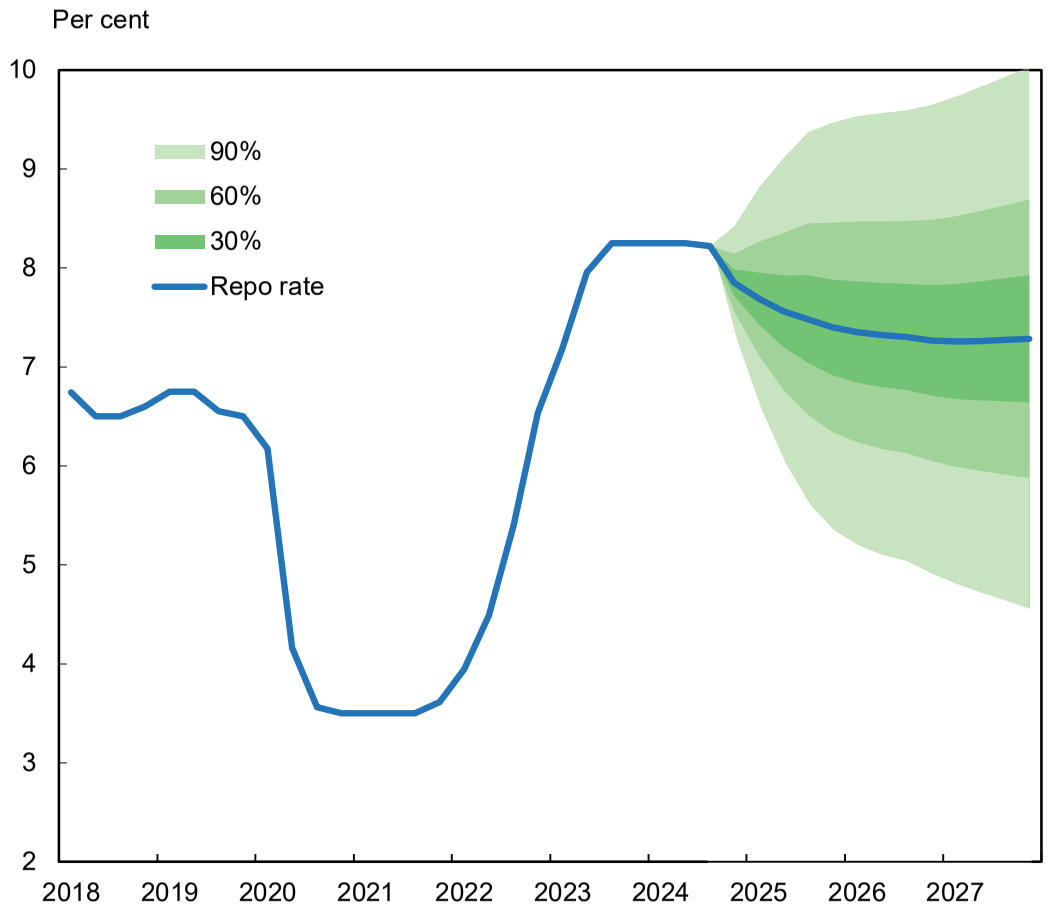
10. **Steady state:** This is the long run value in the model. While model equilibriums can have different values over the medium term, as conditions change, all equilibriums eventually reach a steady state, where they stabilise. For more details on the estimation of steady states, see Botha, De Jager, Ruch and Steinbach (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.

QPM selected forecast results



Repurchase rate forecast*



*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.