# Monetary Policy Forum

05 October 2021


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Head: Economic Research


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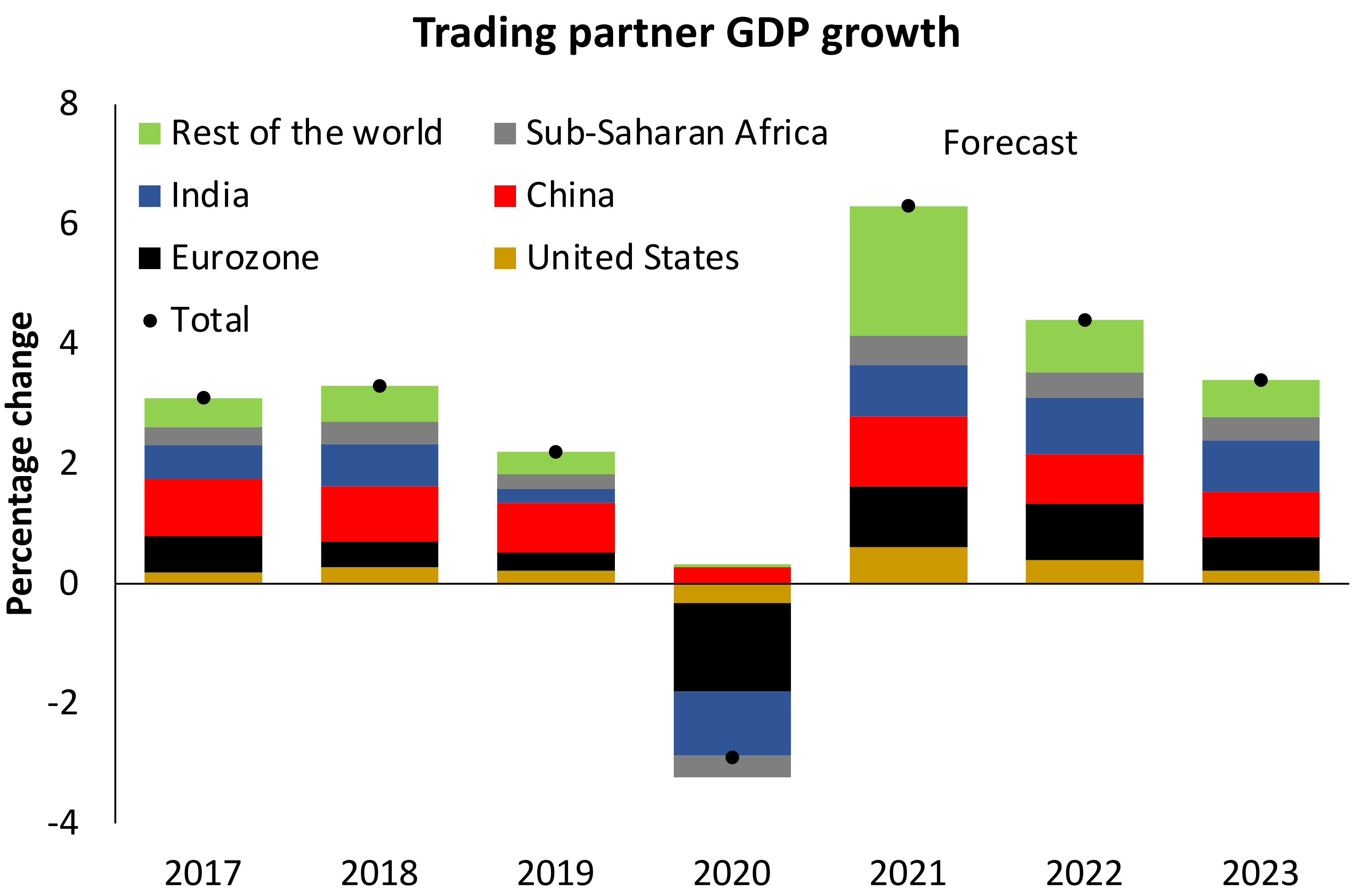
# Beyond the recovery: rebuilding policy space

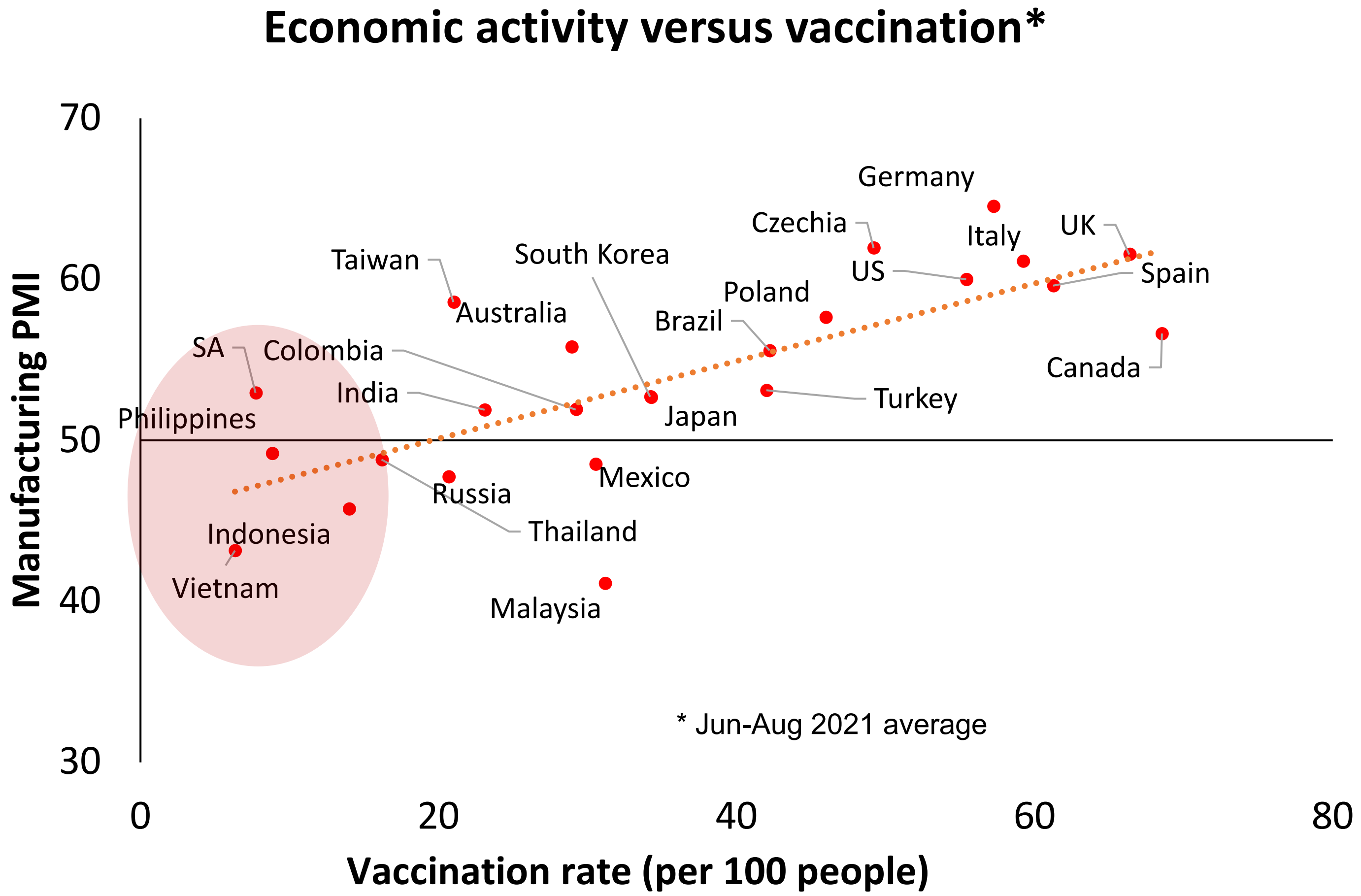
- Global recovery stronger, but diverging
- Demand, supply bottlenecks, stoking inflation, taper talk
- But gradual rates normalization in AEs
- Commodities, HHs underpin domestic recovery
- SA inflation contained, risks to the upside
- Repo normalization to manage accommodation levels

# Sharp rebound in global economy




Source: SARB

# With recoveries diverging on vaccination




Sources: Haver, *Our World in Data* and SARB



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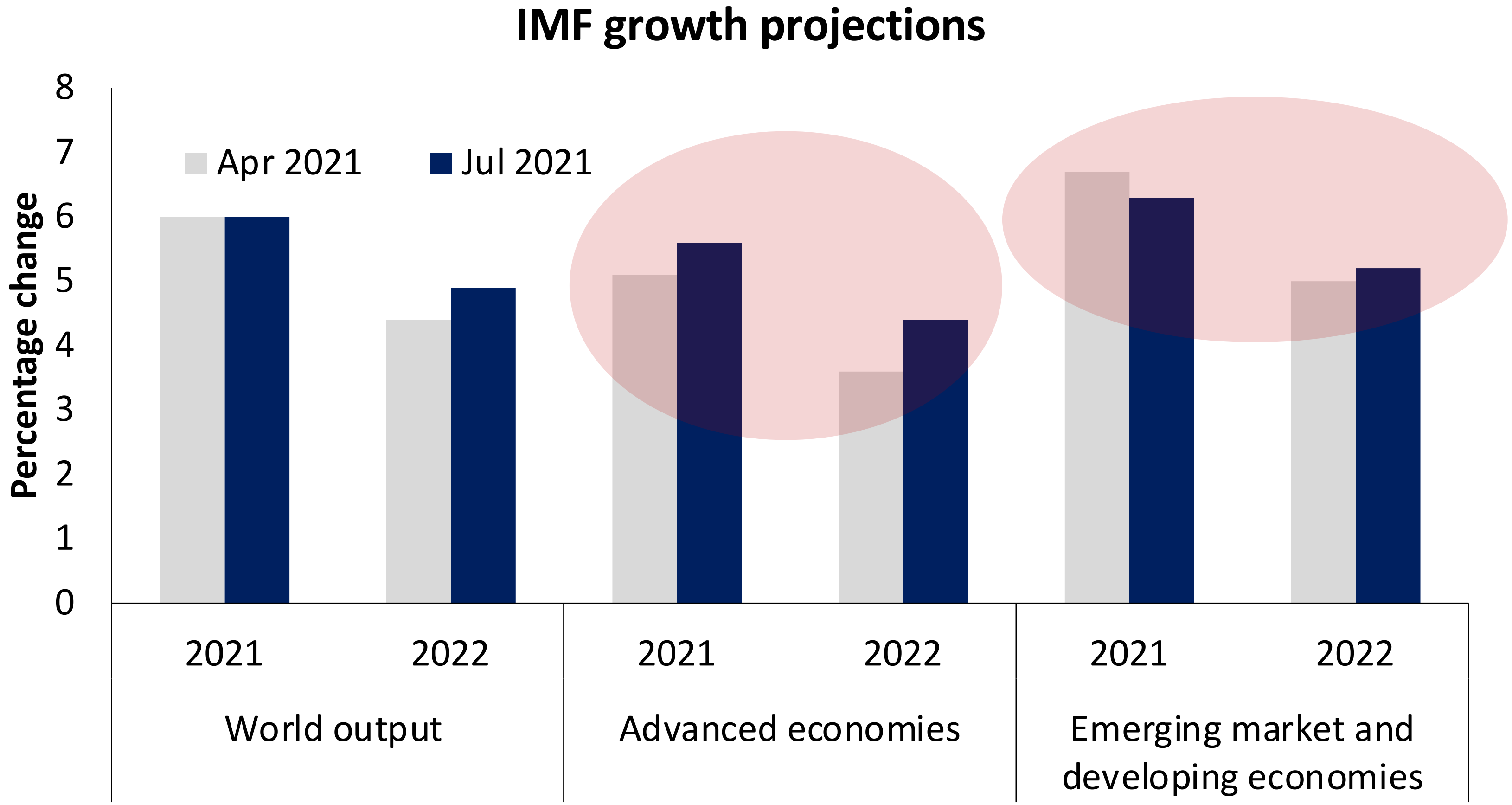
# … AEs growth revised up, EMDEs down, in 2021




Source: IMF



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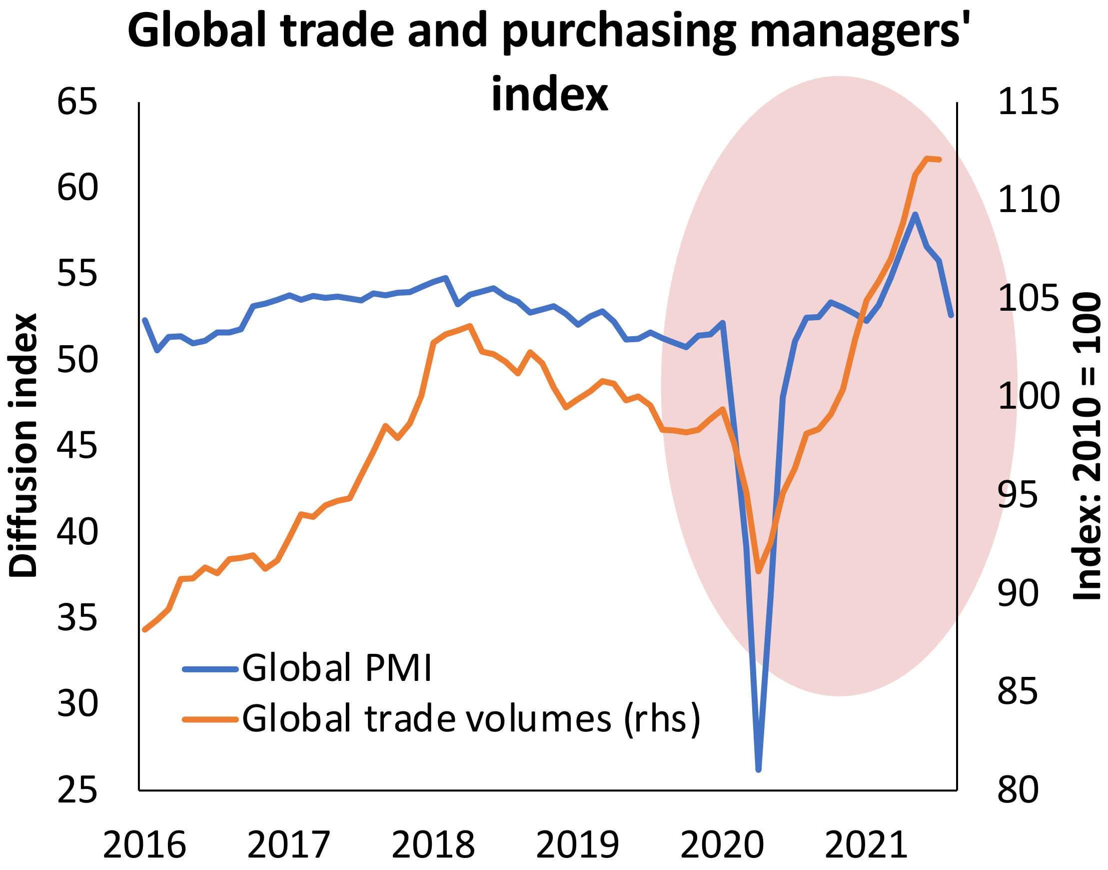
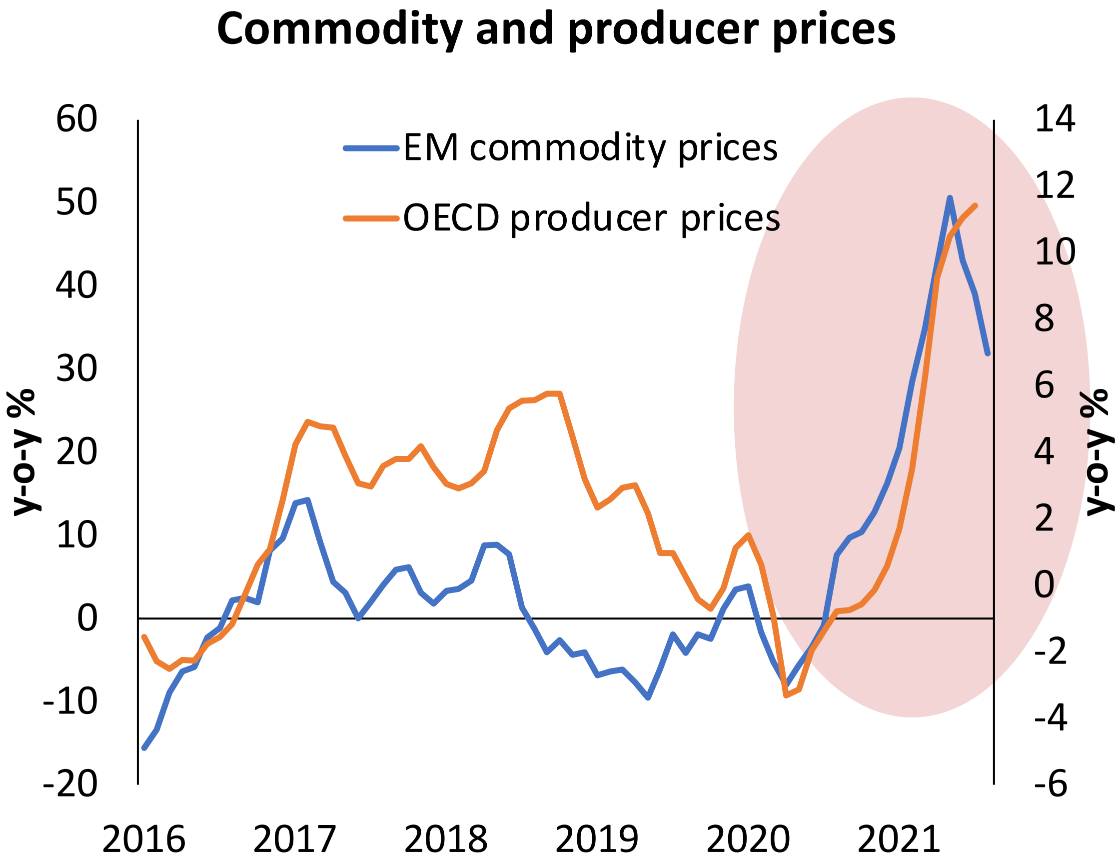
# Strong demand, supply bottlenecks lift (producer) prices

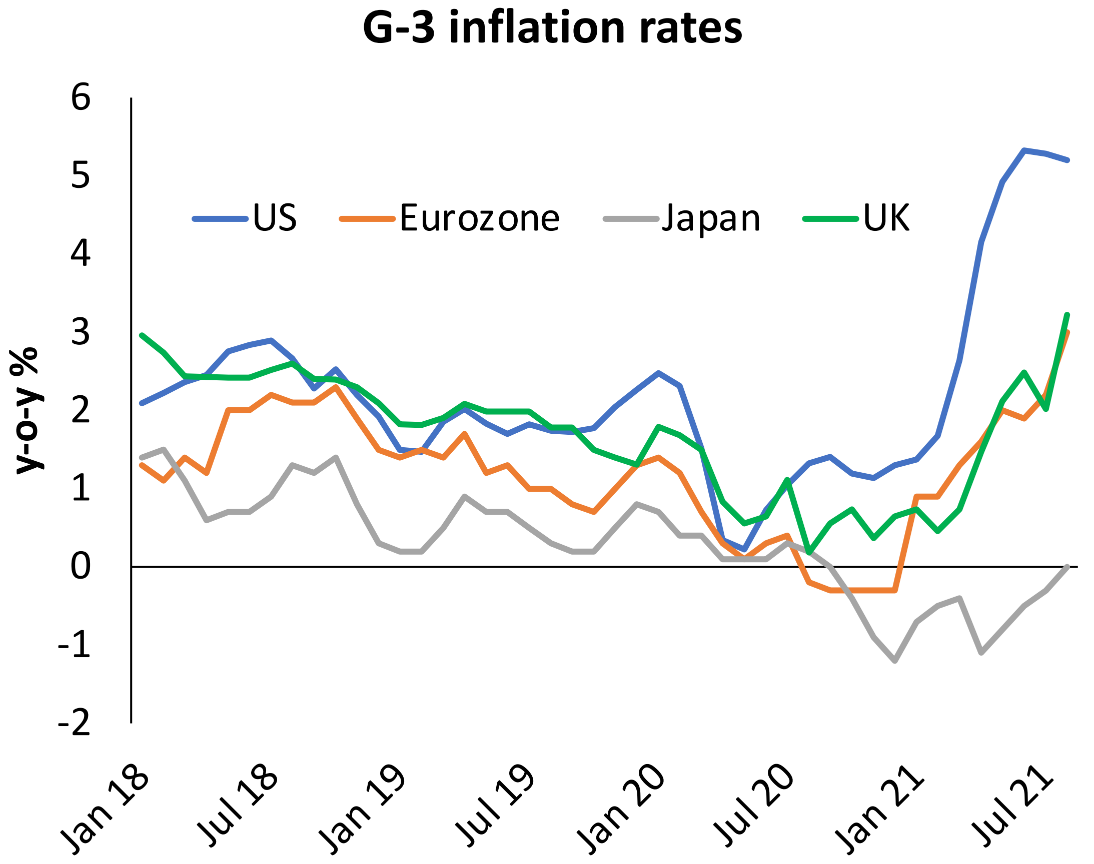



Sources: JP Morgan and CPB

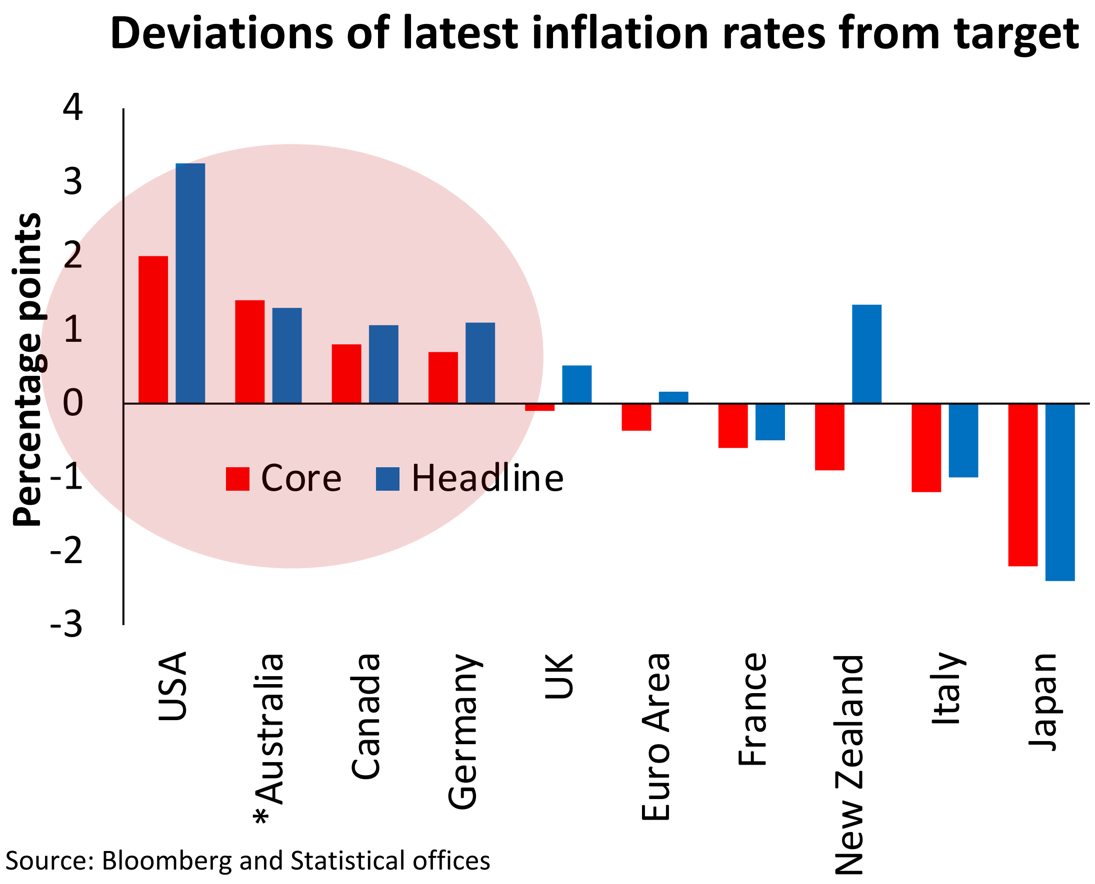



Sources: World Bank and OECD

# Stoking CPI inflation, particularly in the US




Source: Fed, ECB, BOE and BOJ




Source: Bloomberg and Statistical offices
*Target midpoint



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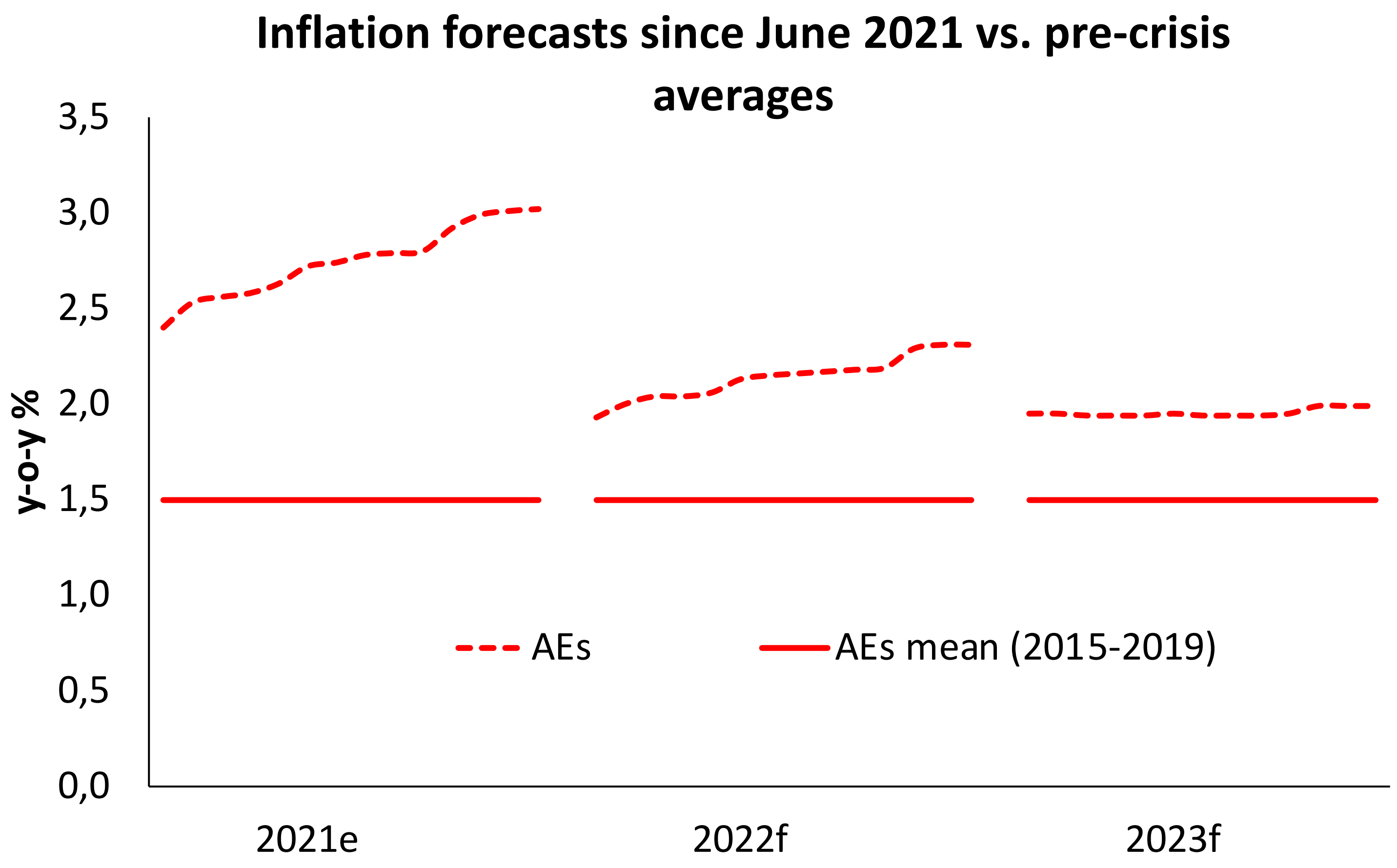
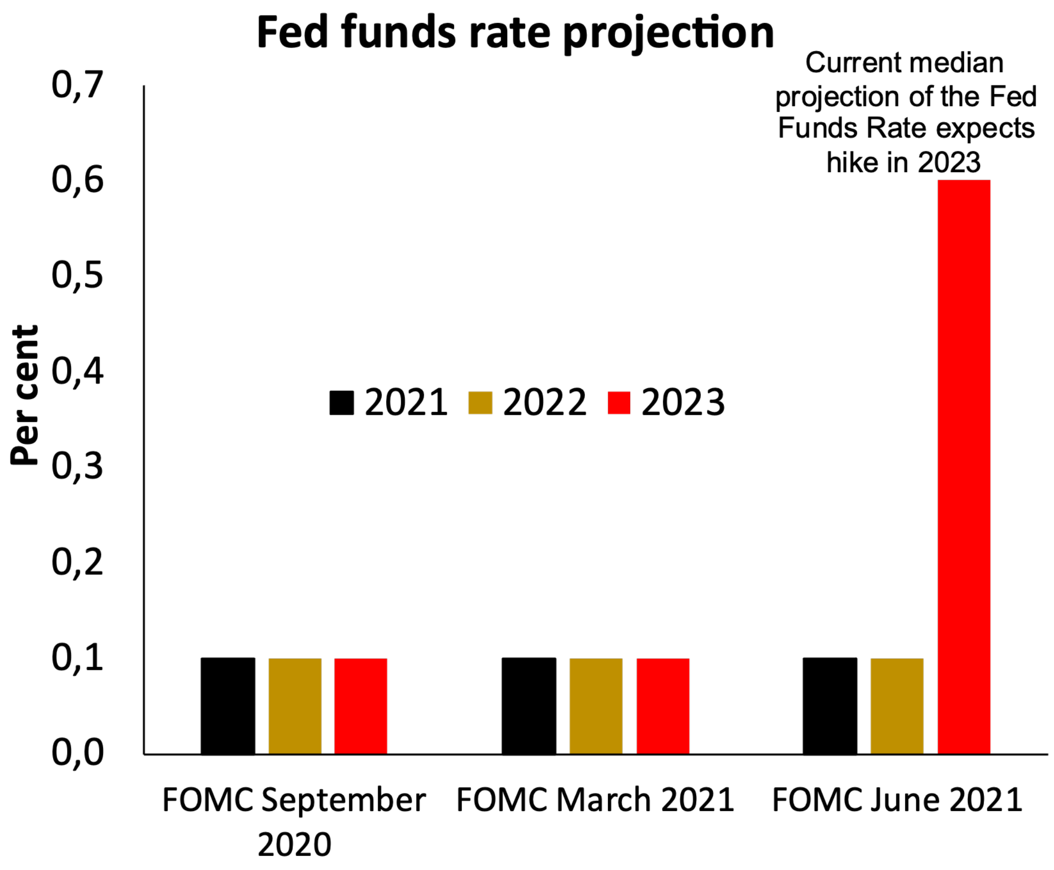
# Inflation still considered transitory in AEs

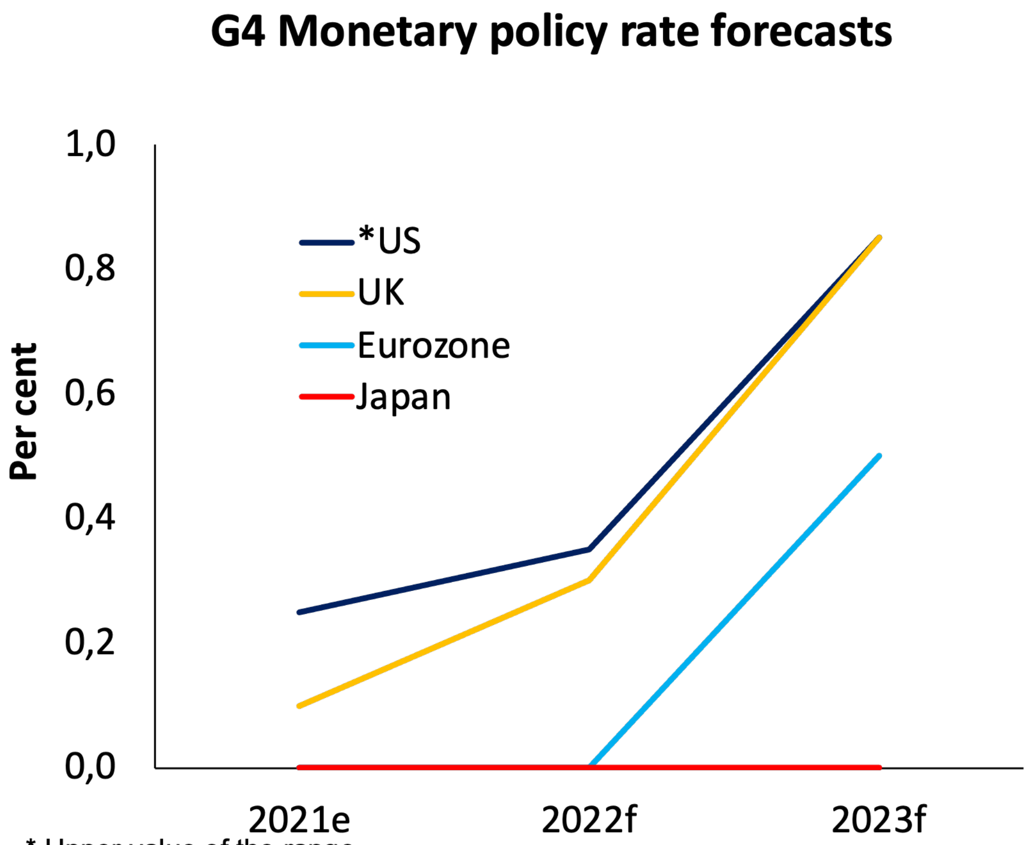



Source: Bloomberg Consensus

# Assessment of policy risks create ongoing noise

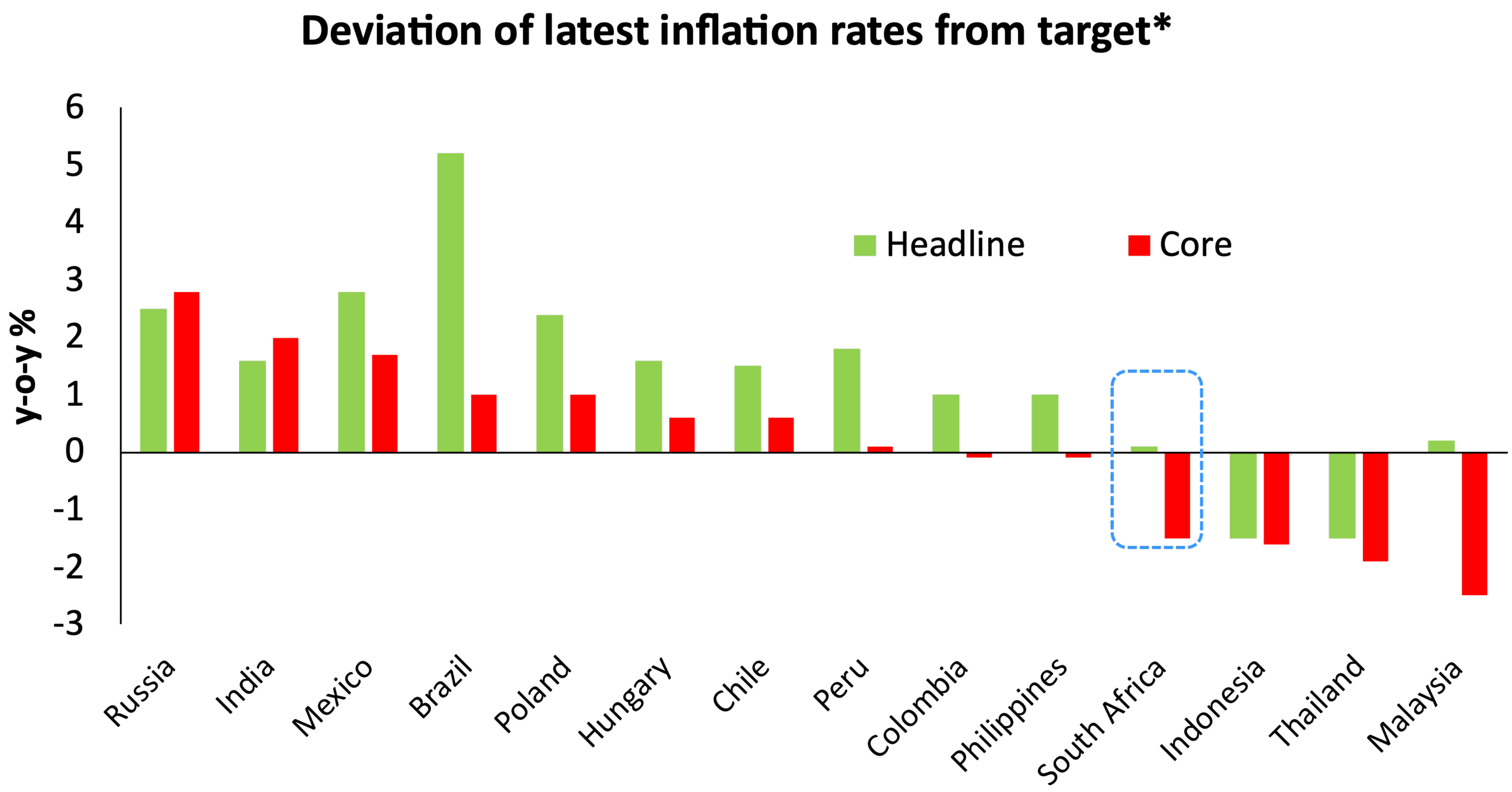



Source: US Fed




* Upper value of the range
Source: Central Banks

# Unlike AEs, inflation sharply higher in EMs, targets under pressure




Sources: Haver and SARB



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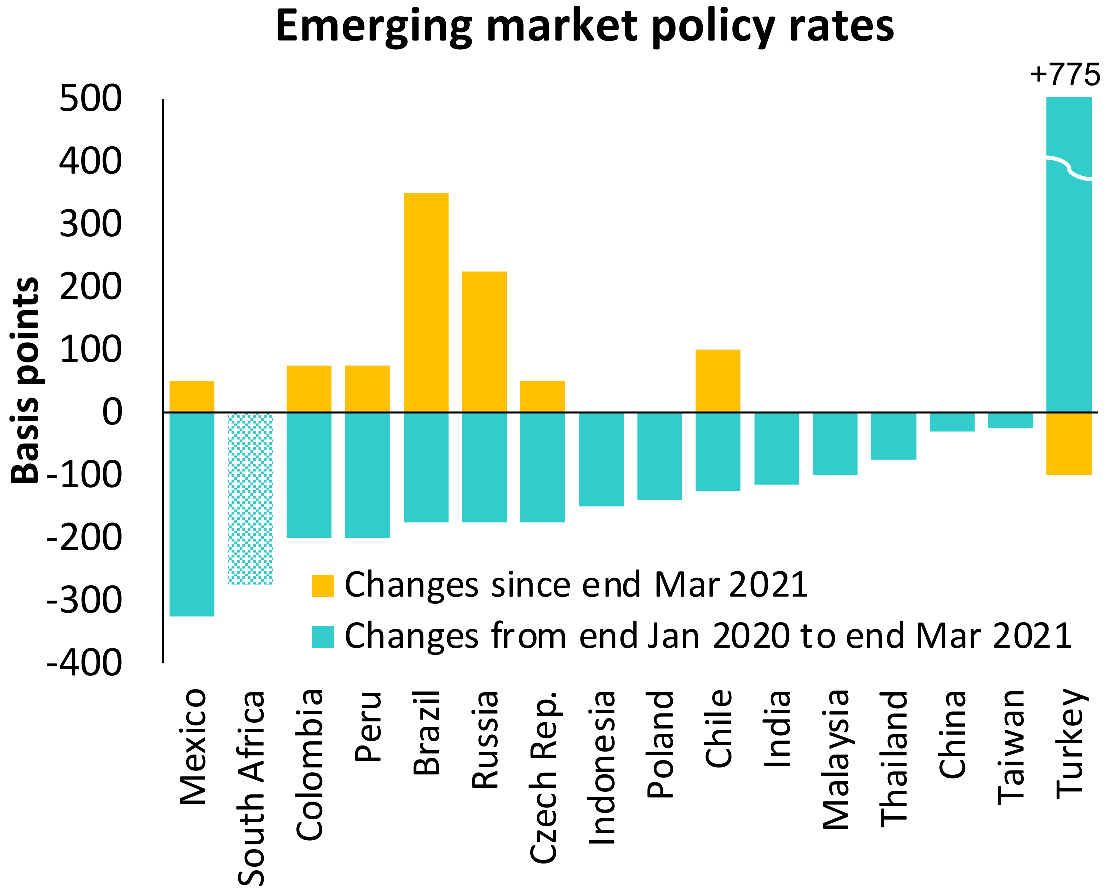
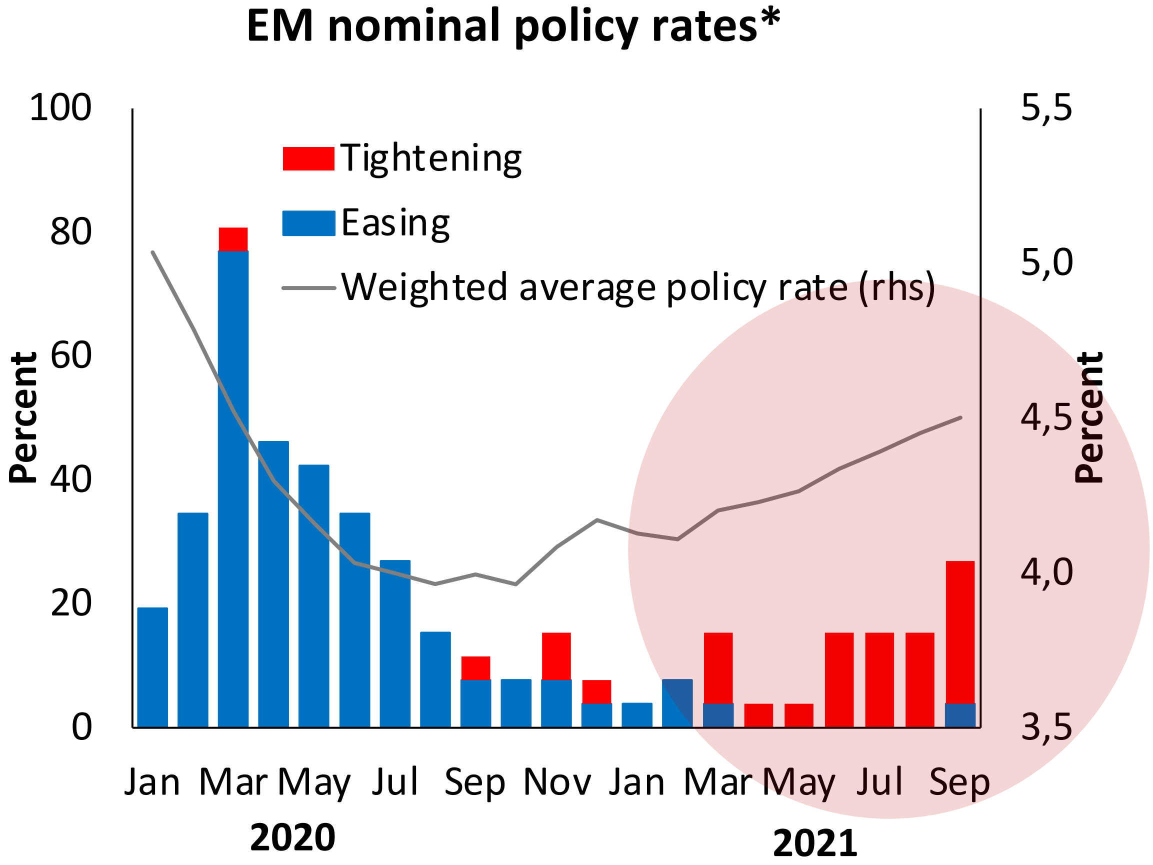
# EM central banks reducing accommodation




Sources: Haver and SARB




* Sample includes 26 central banks

Sources: Haver and SARB



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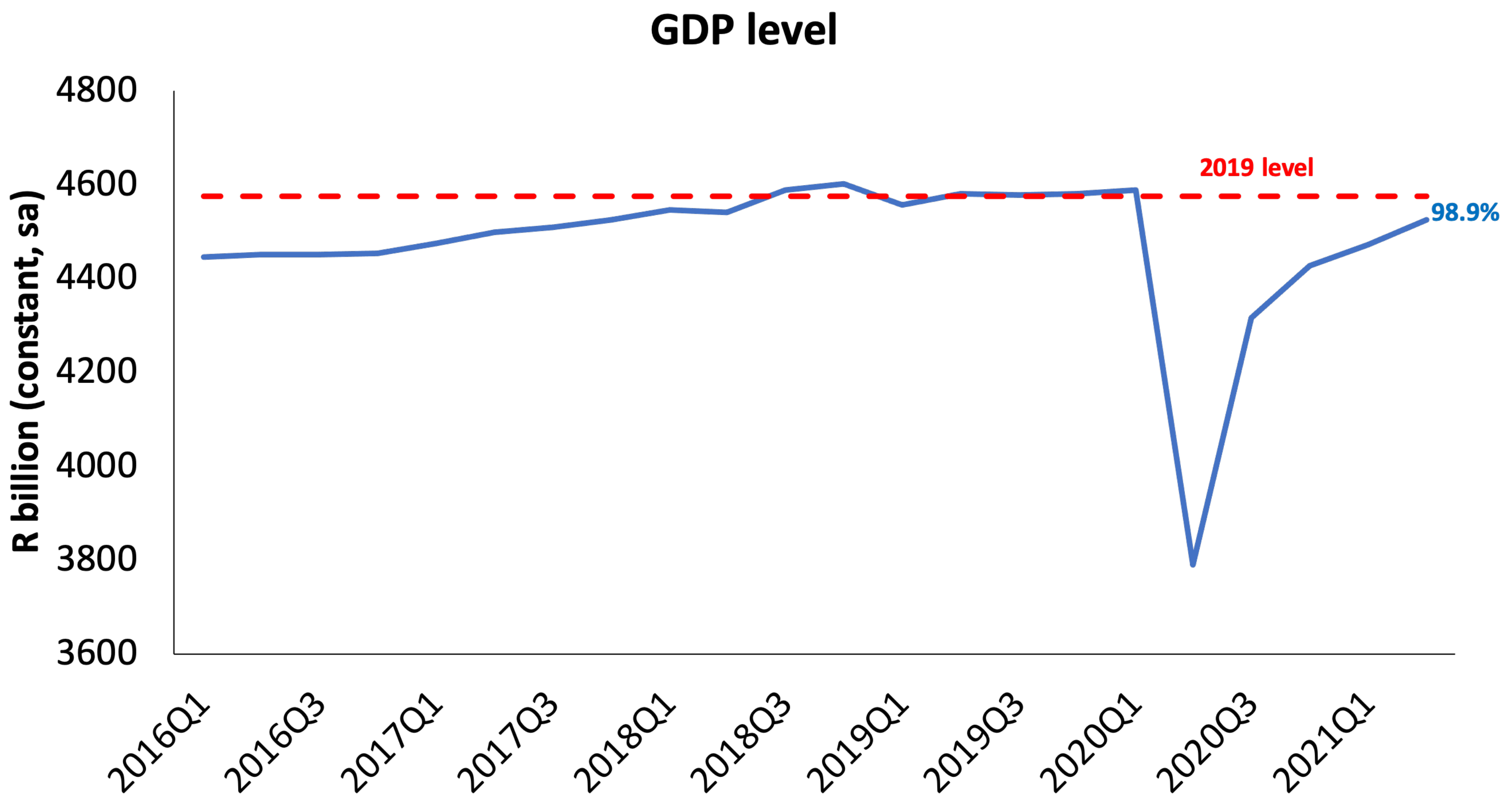
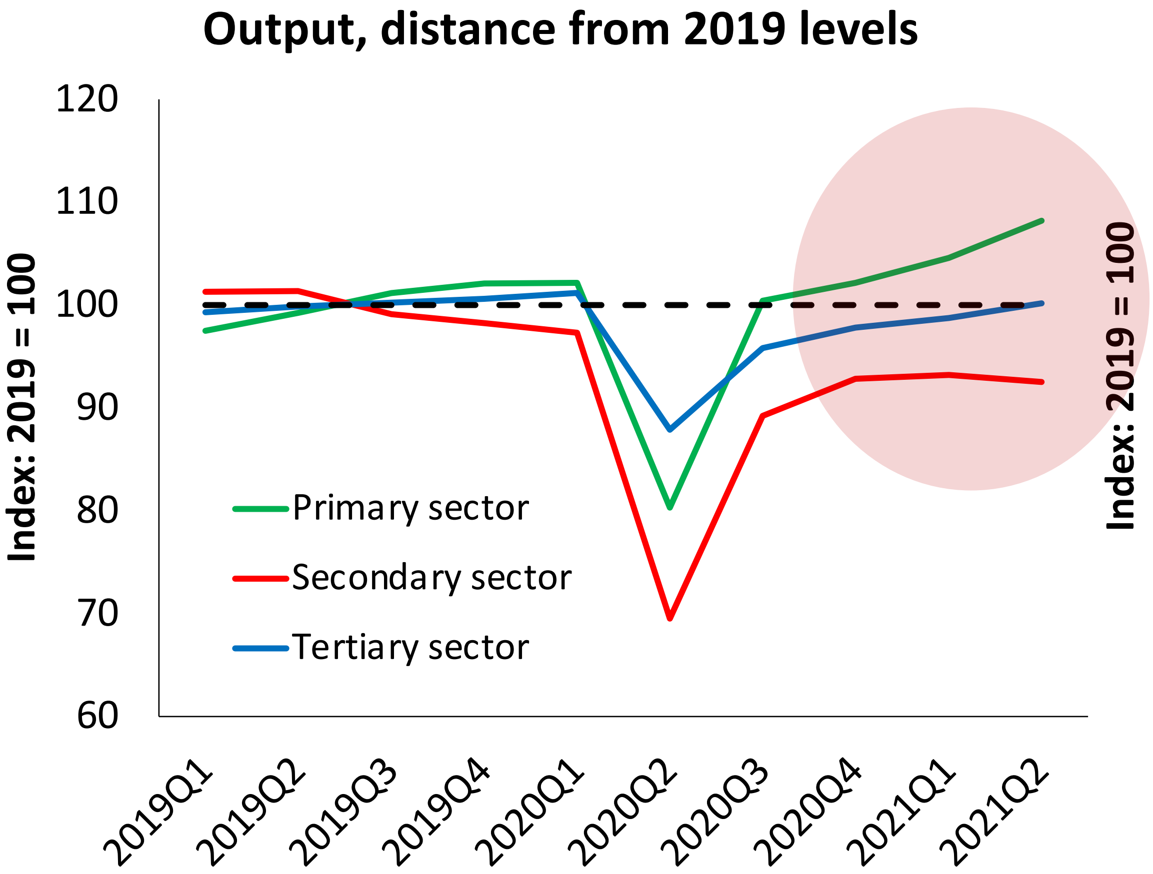
# Domestic economic recovery strong …

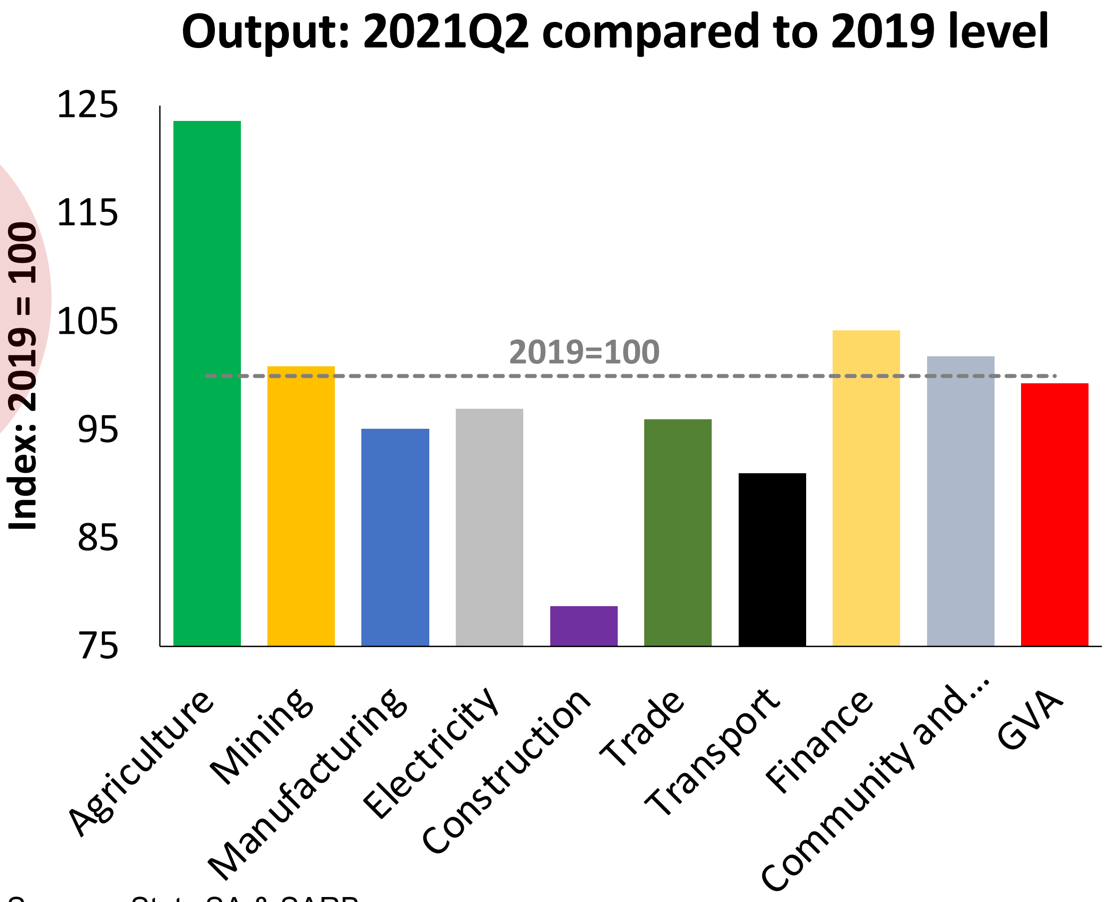



Sources: Stats SA and SARB

# … though uneven on sectoral basis

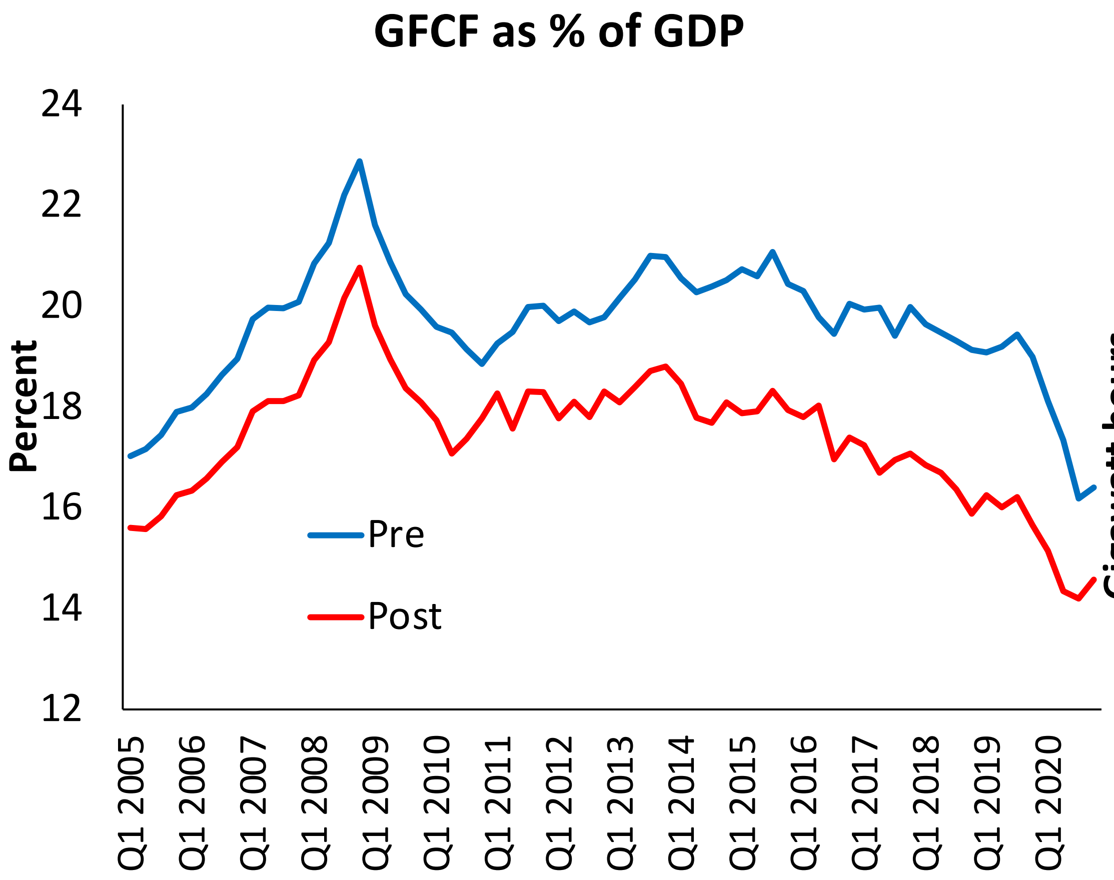



Sources: Stats SA & SARB

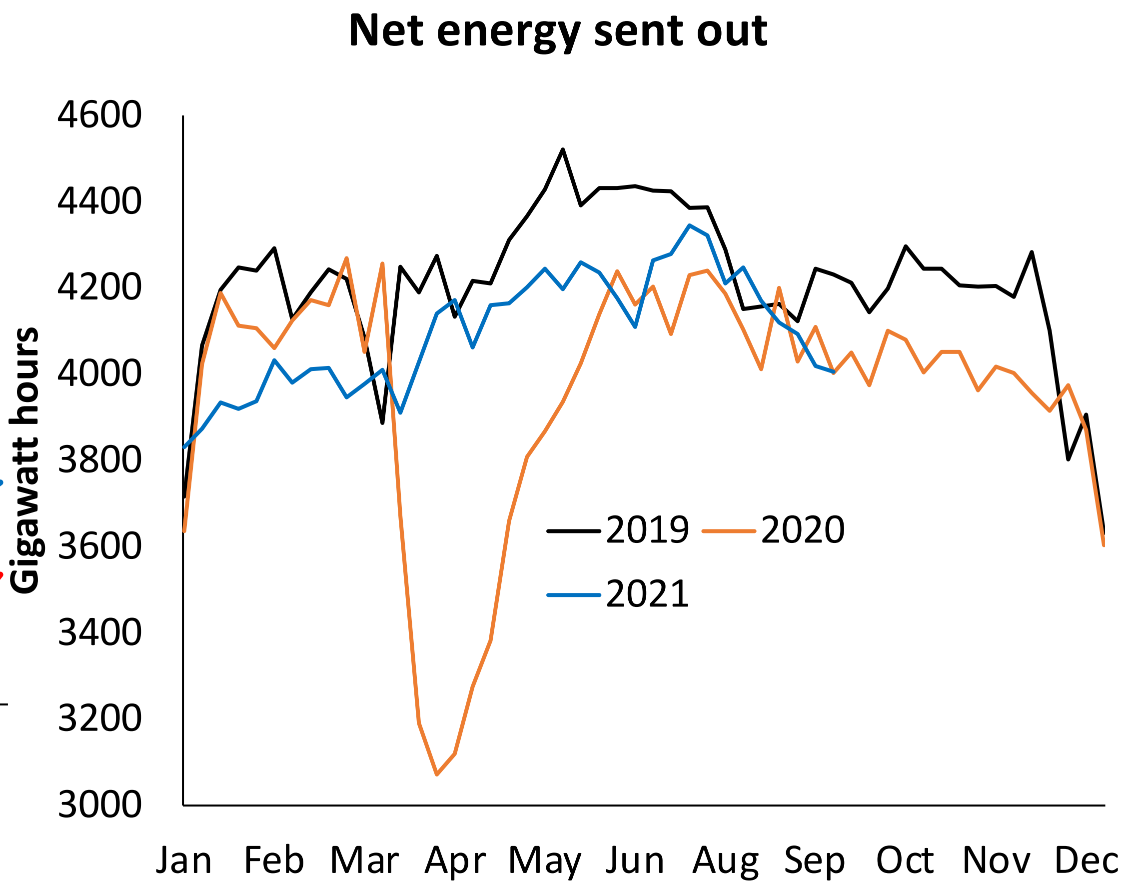



Sources: Stats SA & SARB

# But low investment, electricity shortage, constrain potential

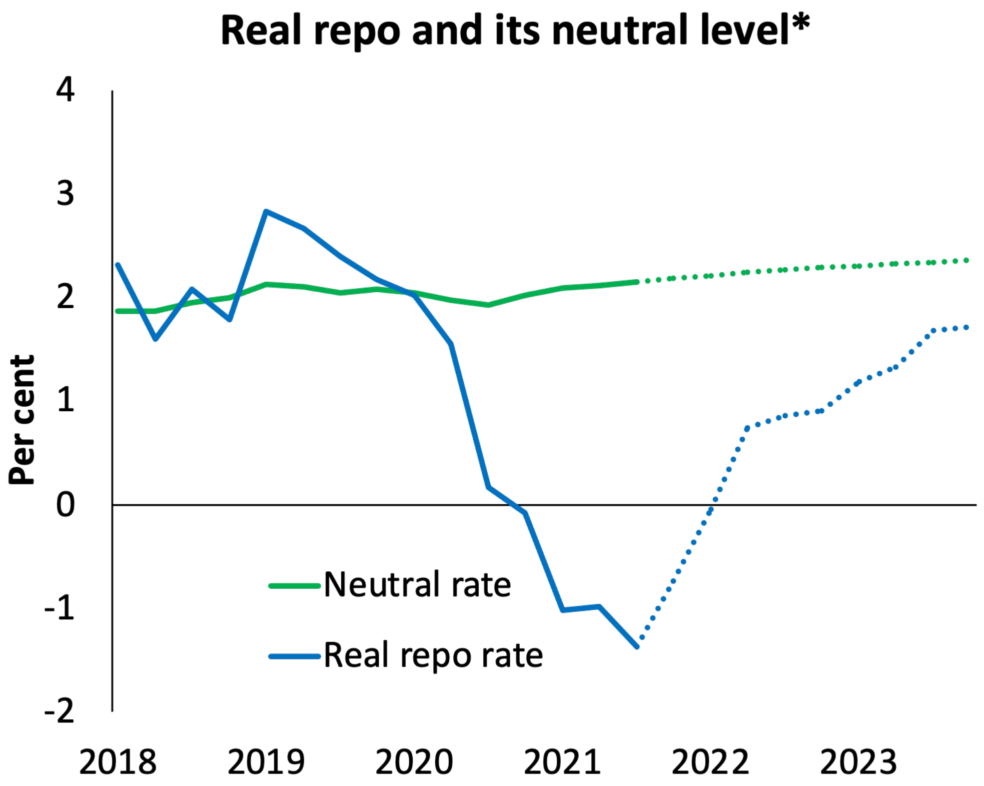



Source: Stats SA

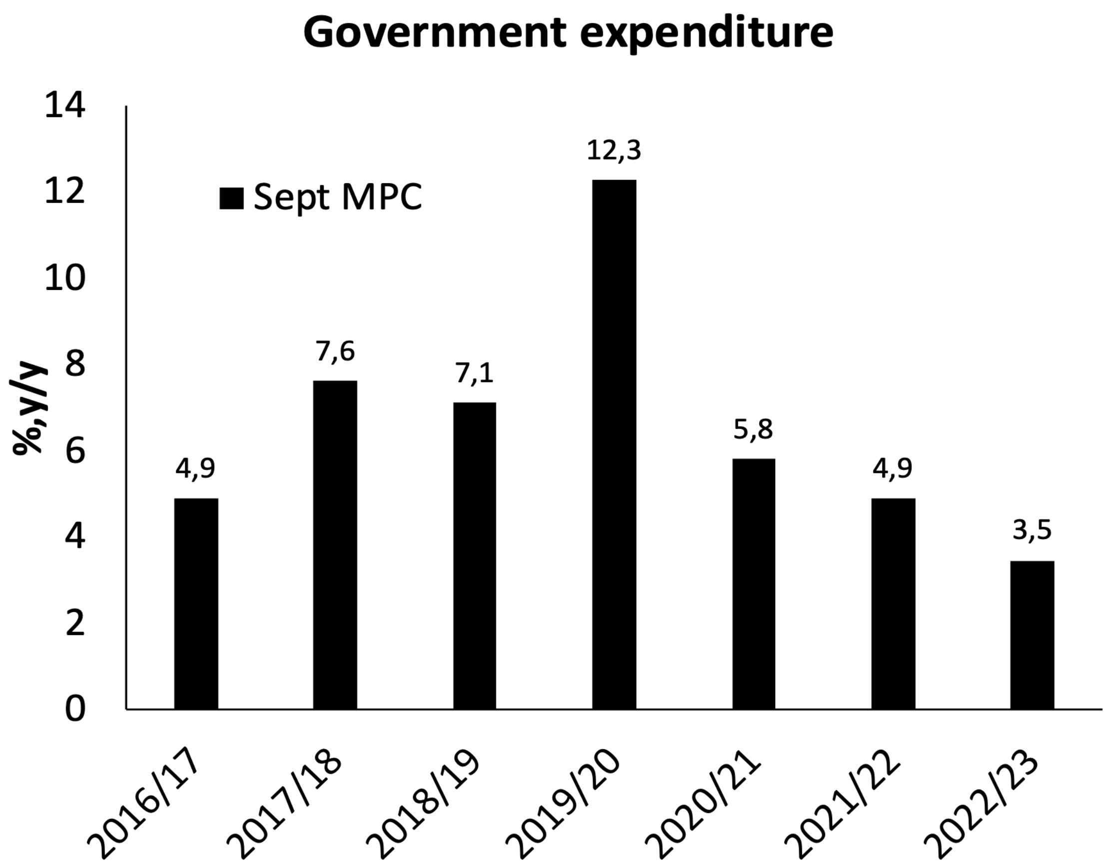



Sources: Eskom and SARB

# Recovery supported by monetary and fiscal policies

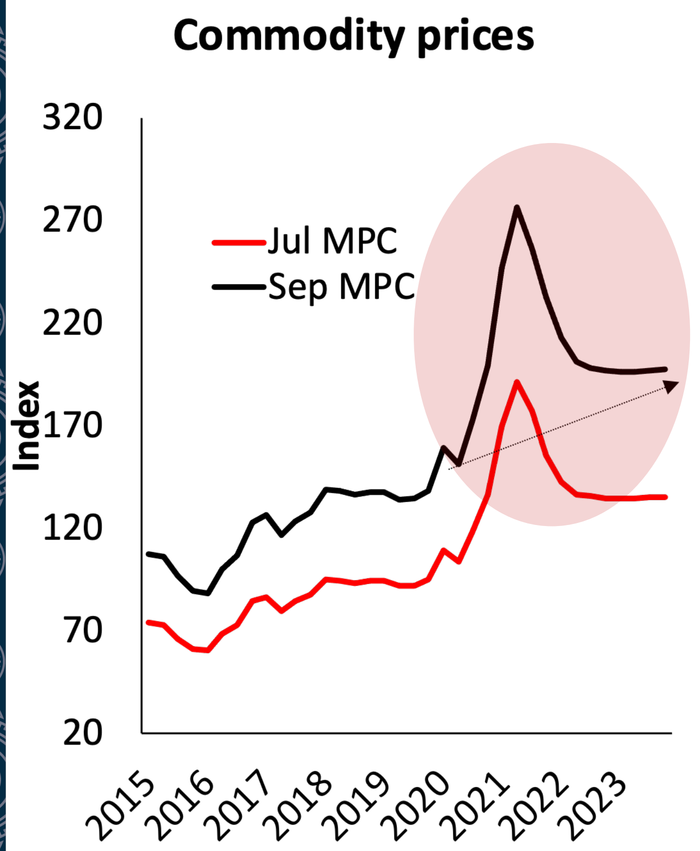



*dotted line indicates forecast
Source: SARB

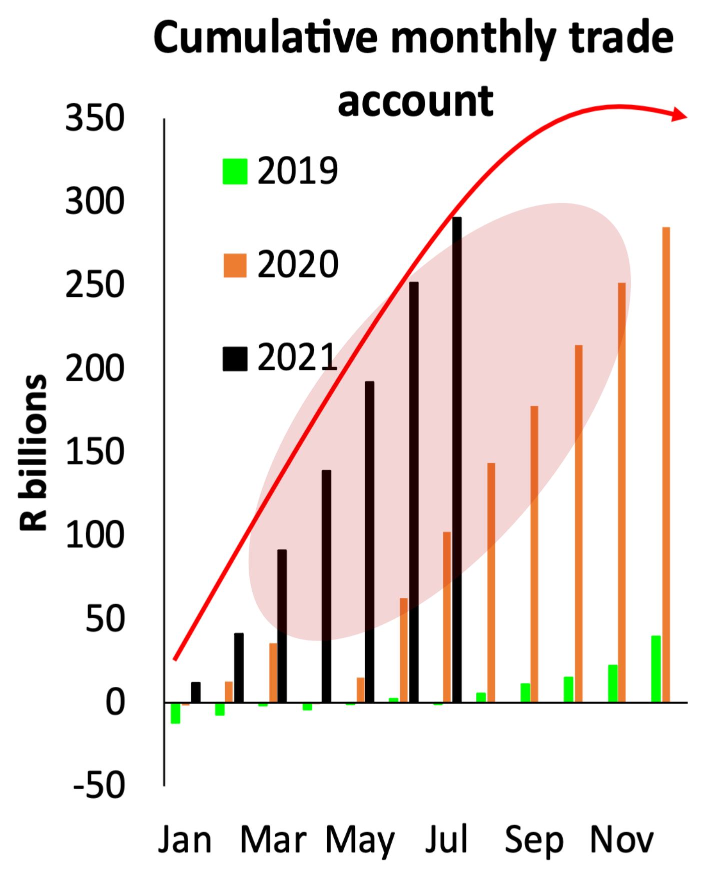



Source: SARB

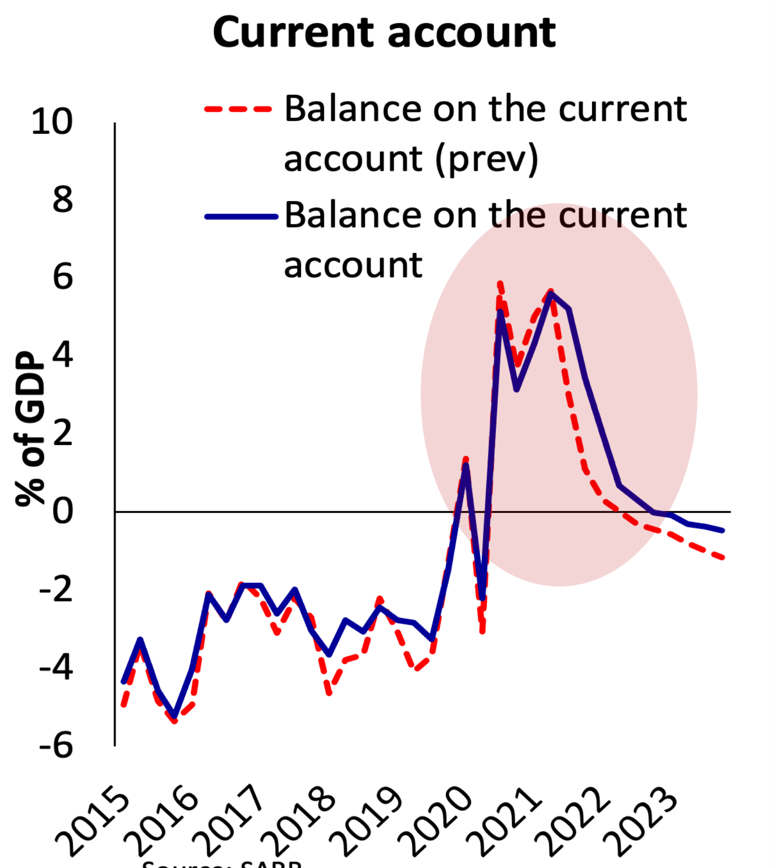
# And elevated commodity prices, pushing trade balance and CA



Source: SARB

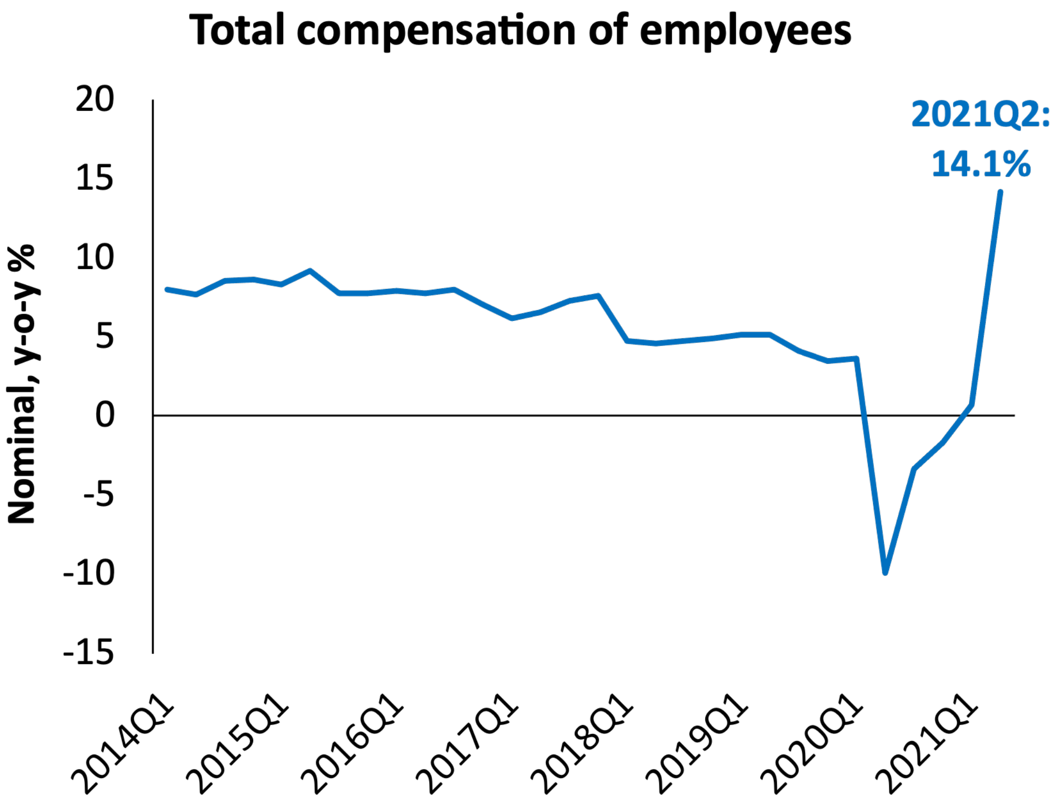


Source: SARB

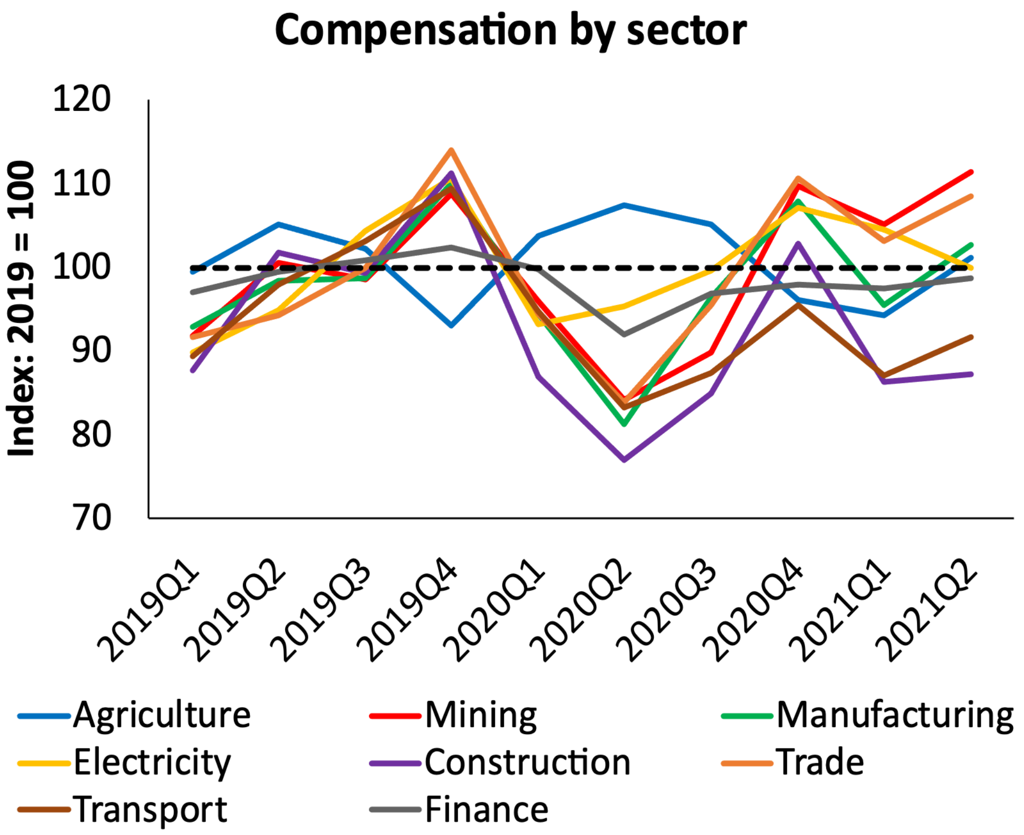


Source: SARB

# Together with faster recovery in worker earnings

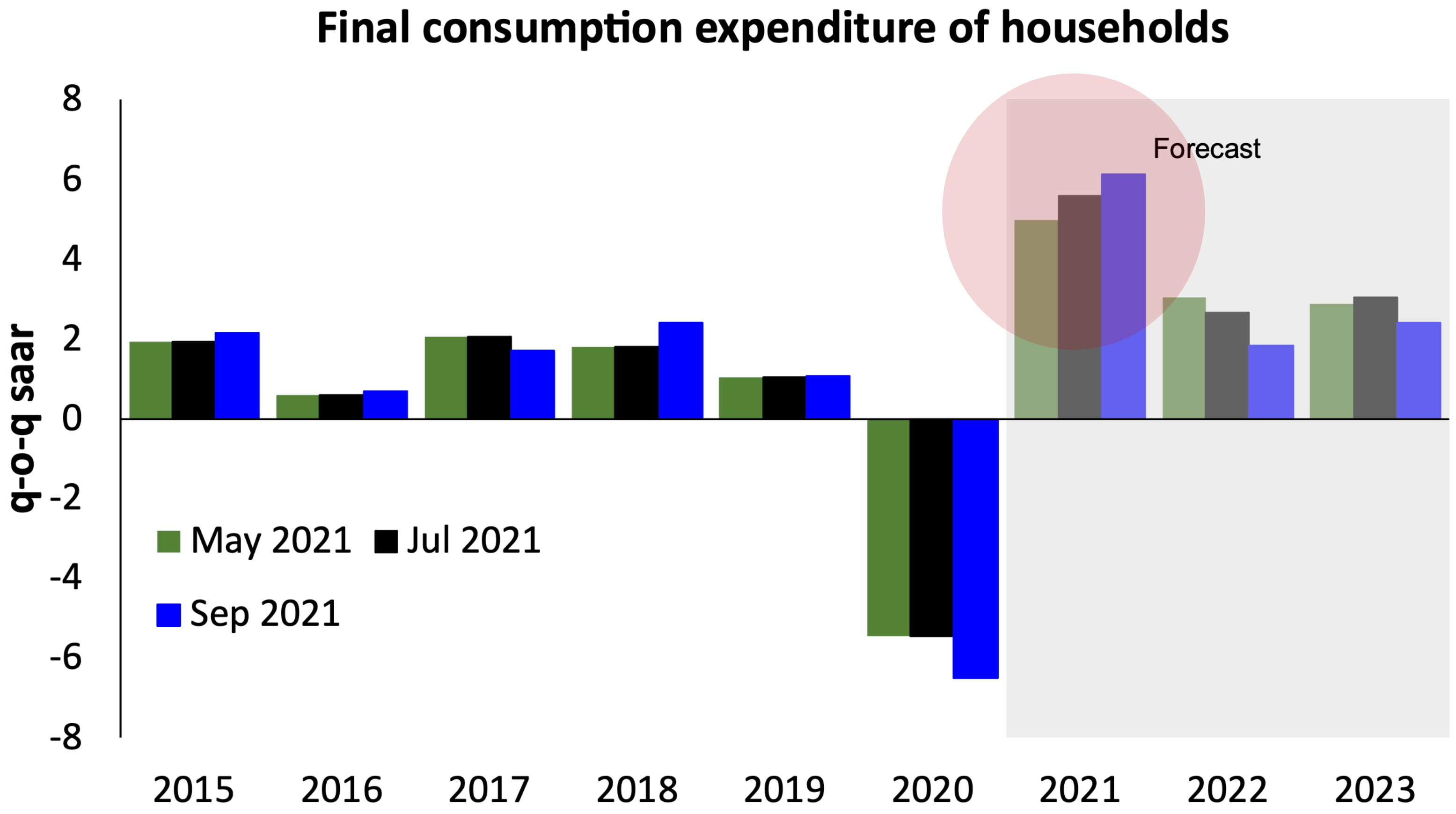



Source: Stats SA




Source: SARB

# Driving stronger household consumption




Source: SARB



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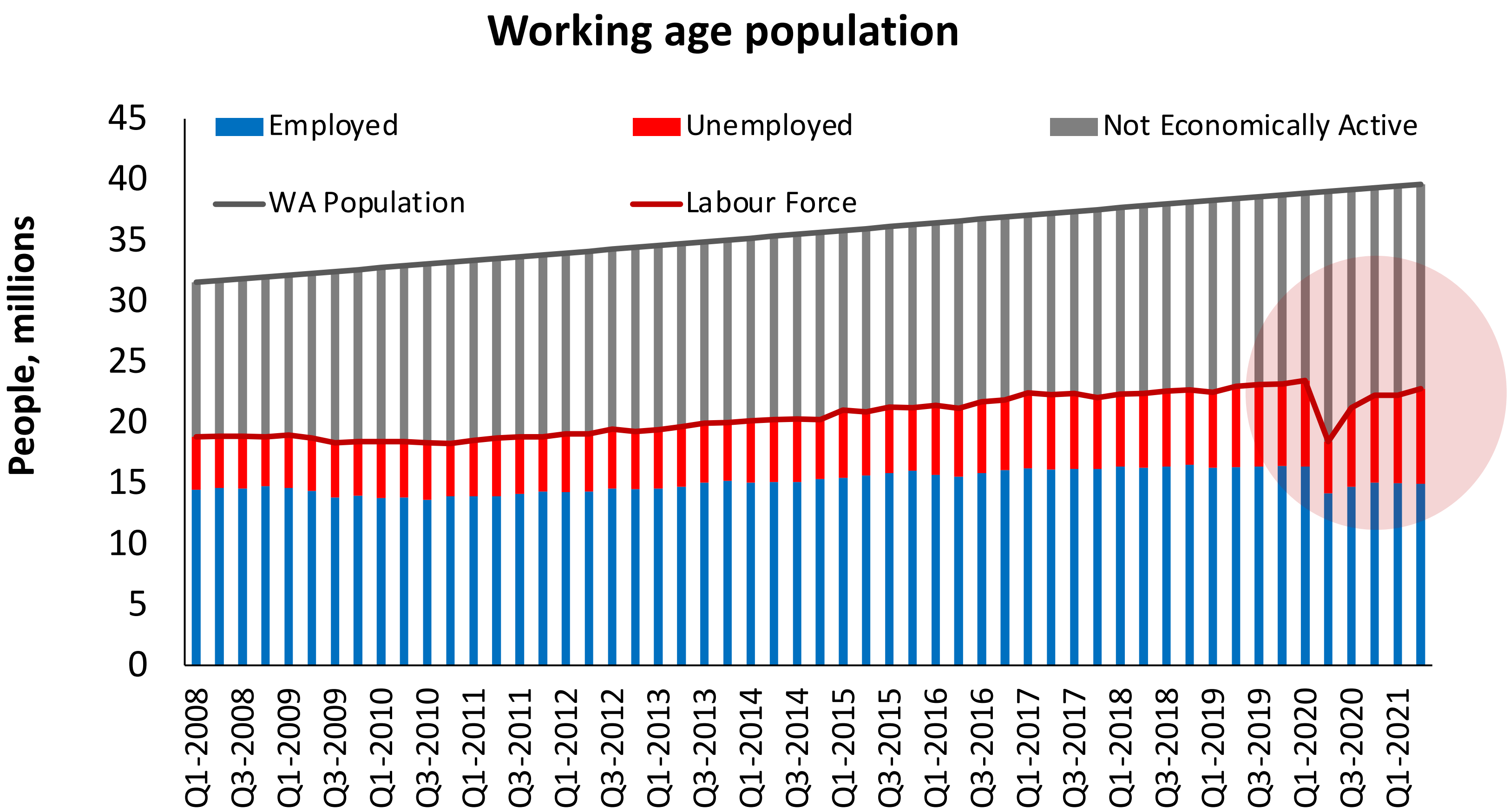
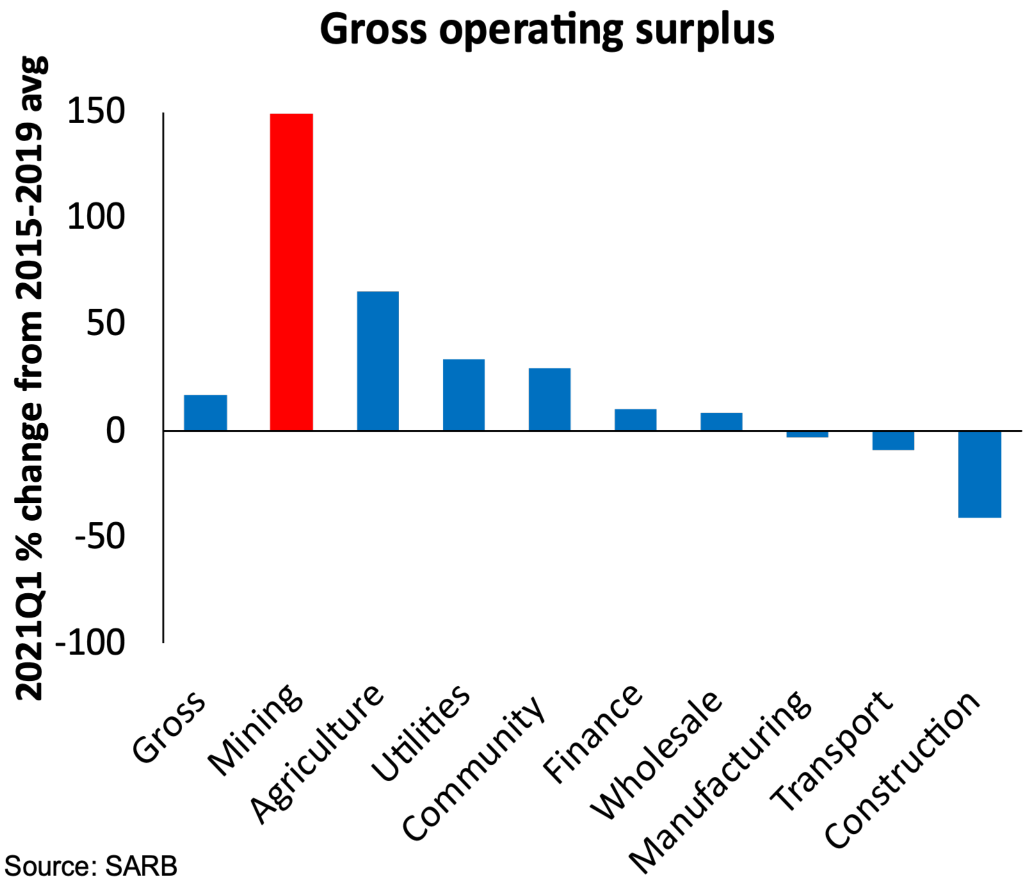
# Despite slower recovery in employment

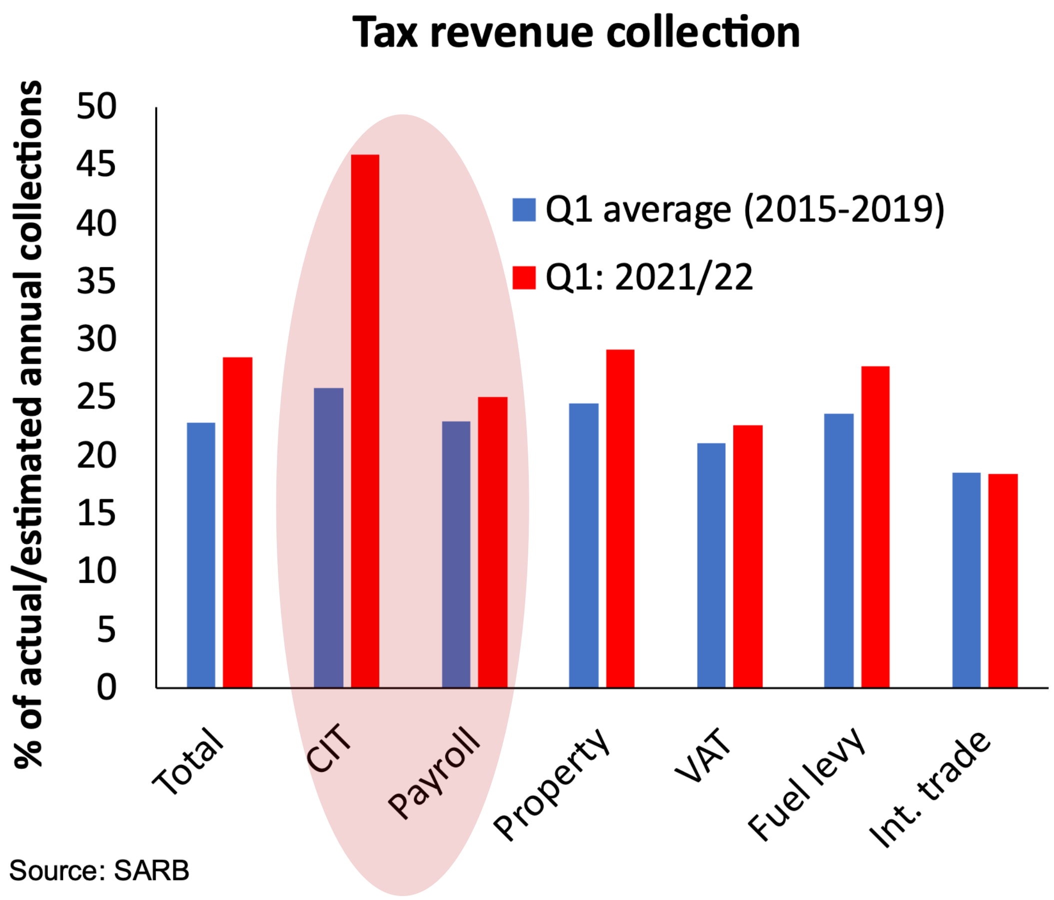



Source: Stats SA QLFS

# Commodity prices & the recovery buoy tax revenue




Source: SARB




Source: SARB



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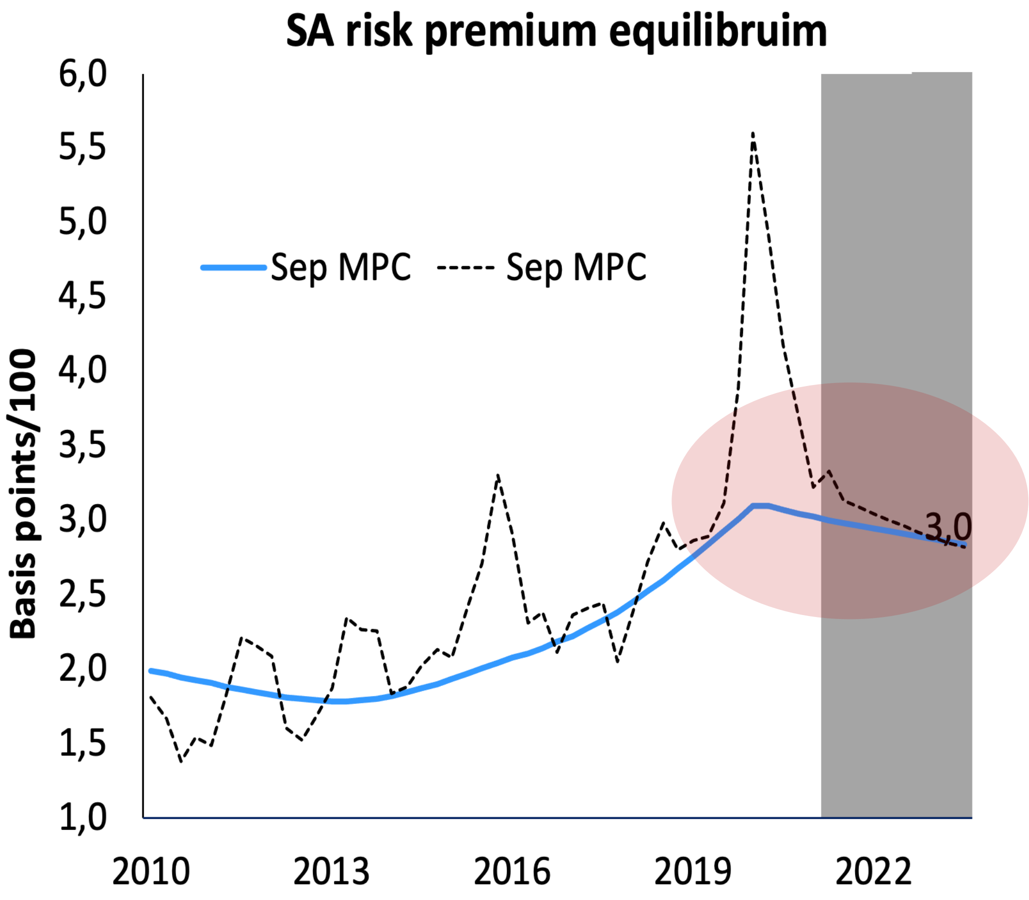
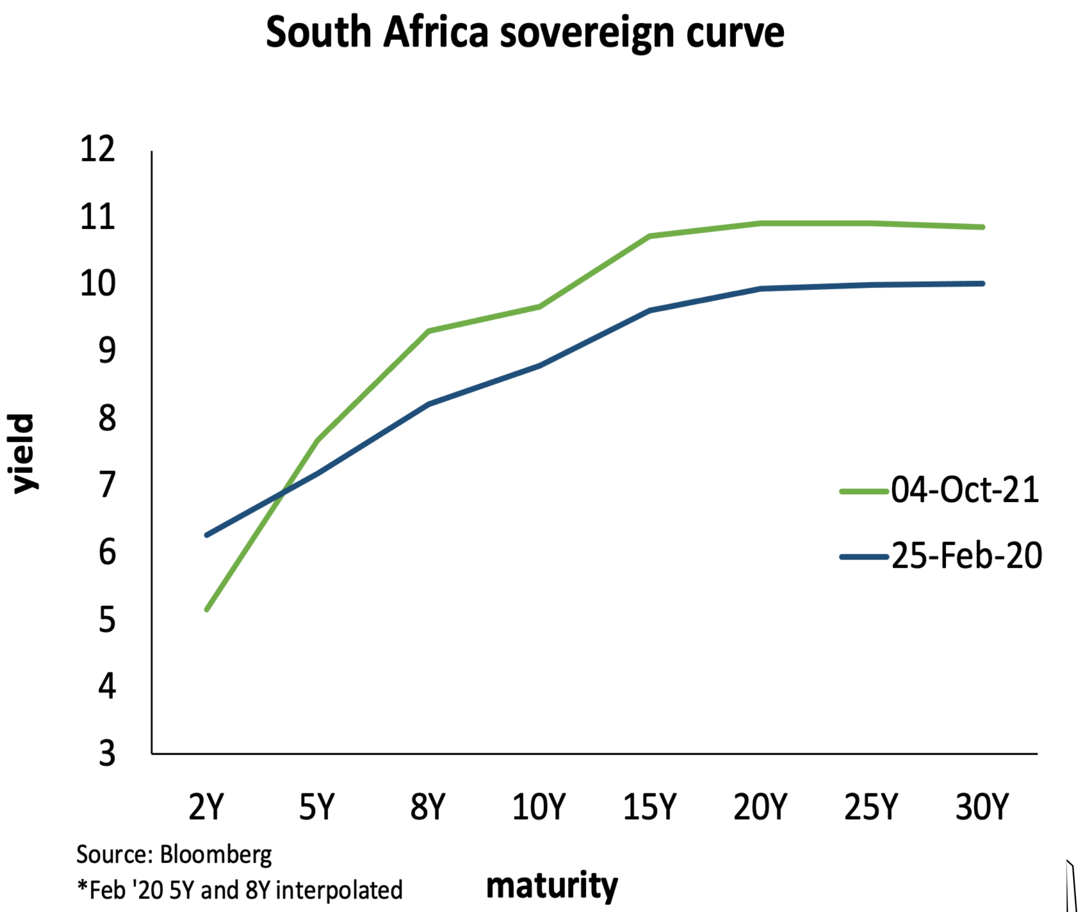
# Lowering near-term fiscal risk, but yield curve remains steep




Source: SARB




Source: Bloomberg
*Feb '20 5Y and 8Y interpolated



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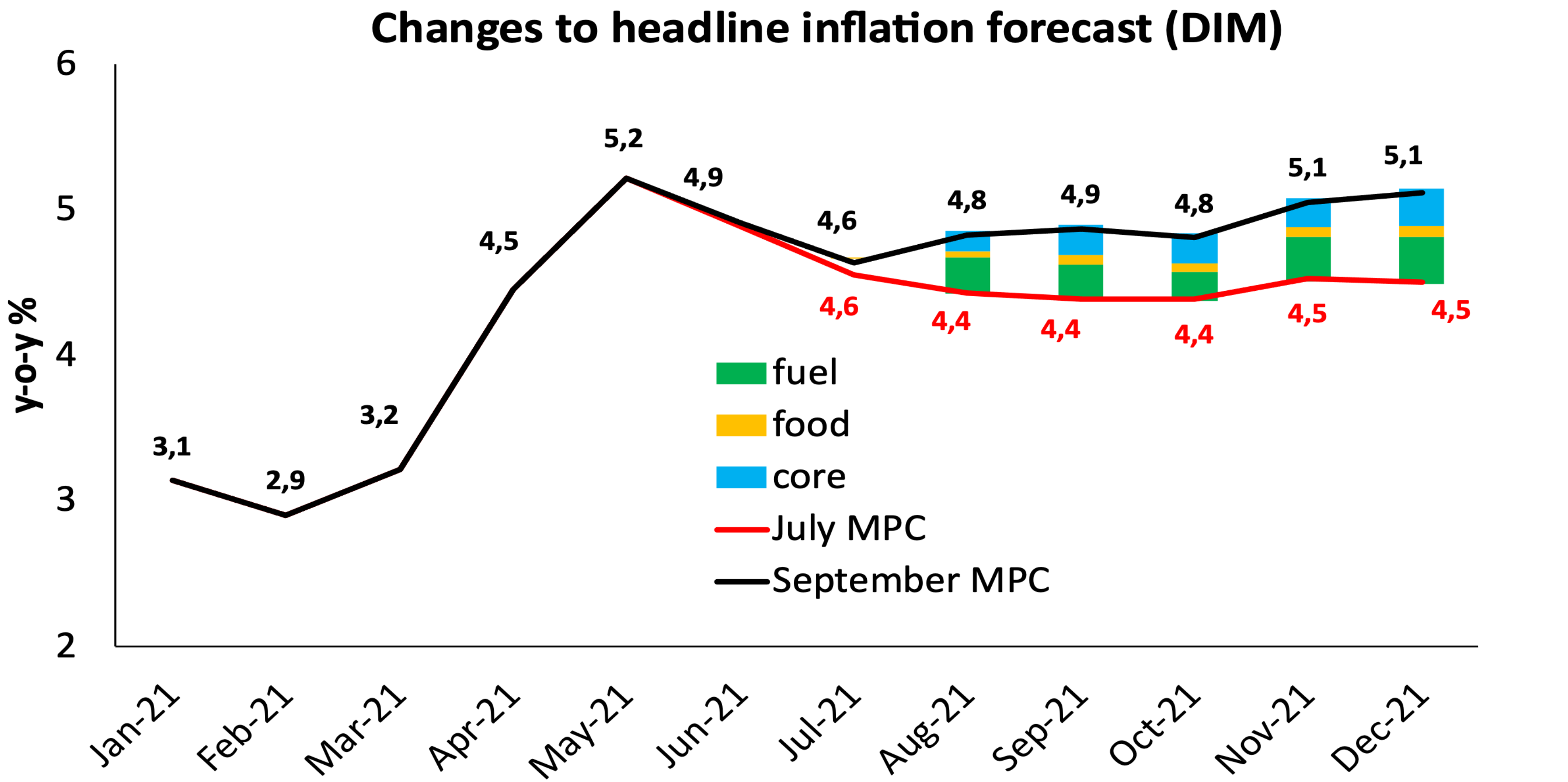
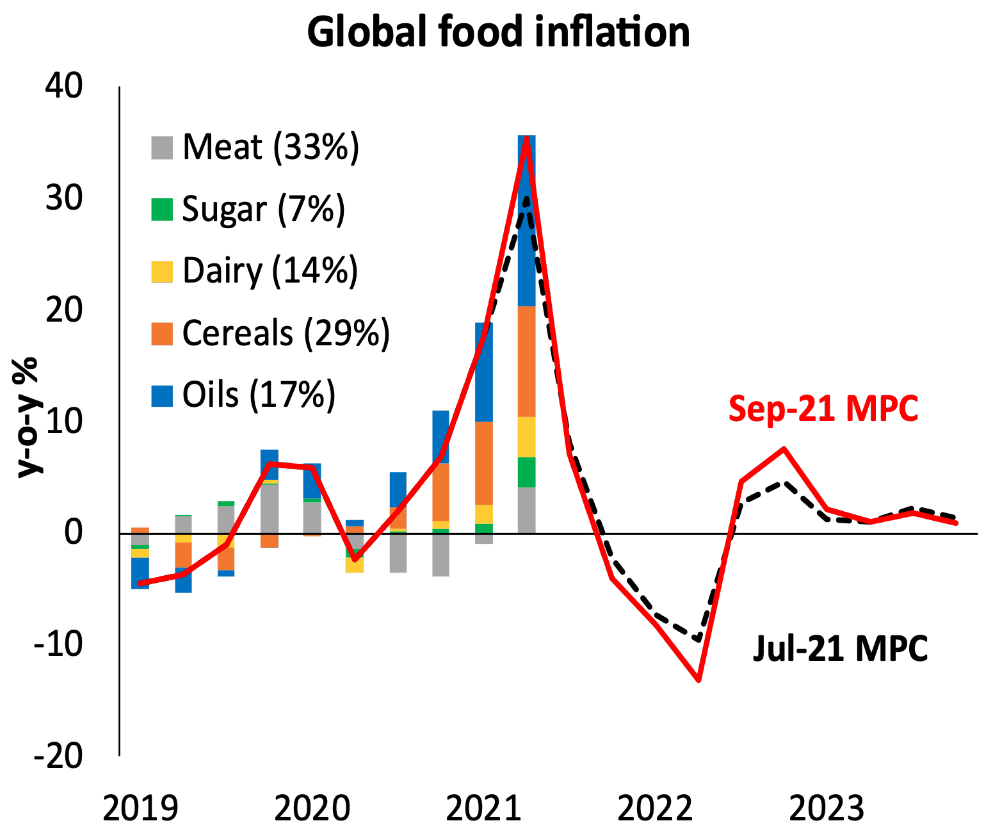
# Near-term domestic price pressures have levelled up…

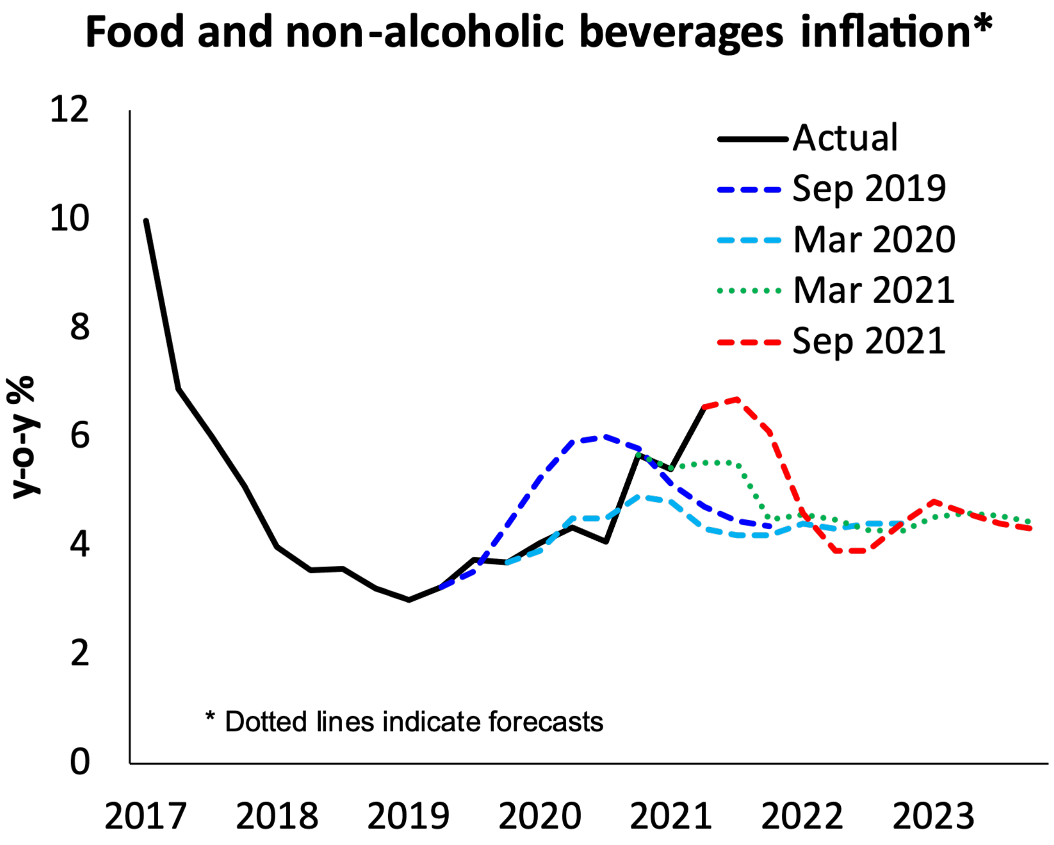



Source: Stats SA and SARB

# Non-core inflation underpinned by elevated food prices




Sources: UN FAO and SARB




Sources: Stats SA and SARB



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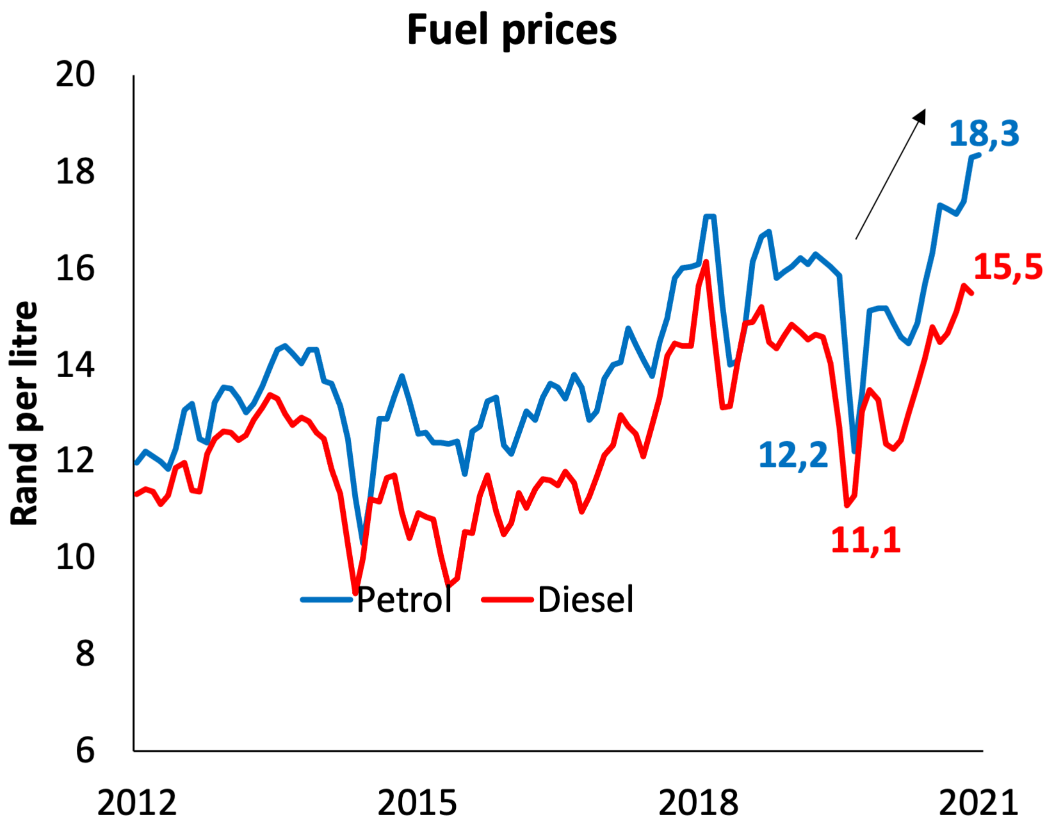
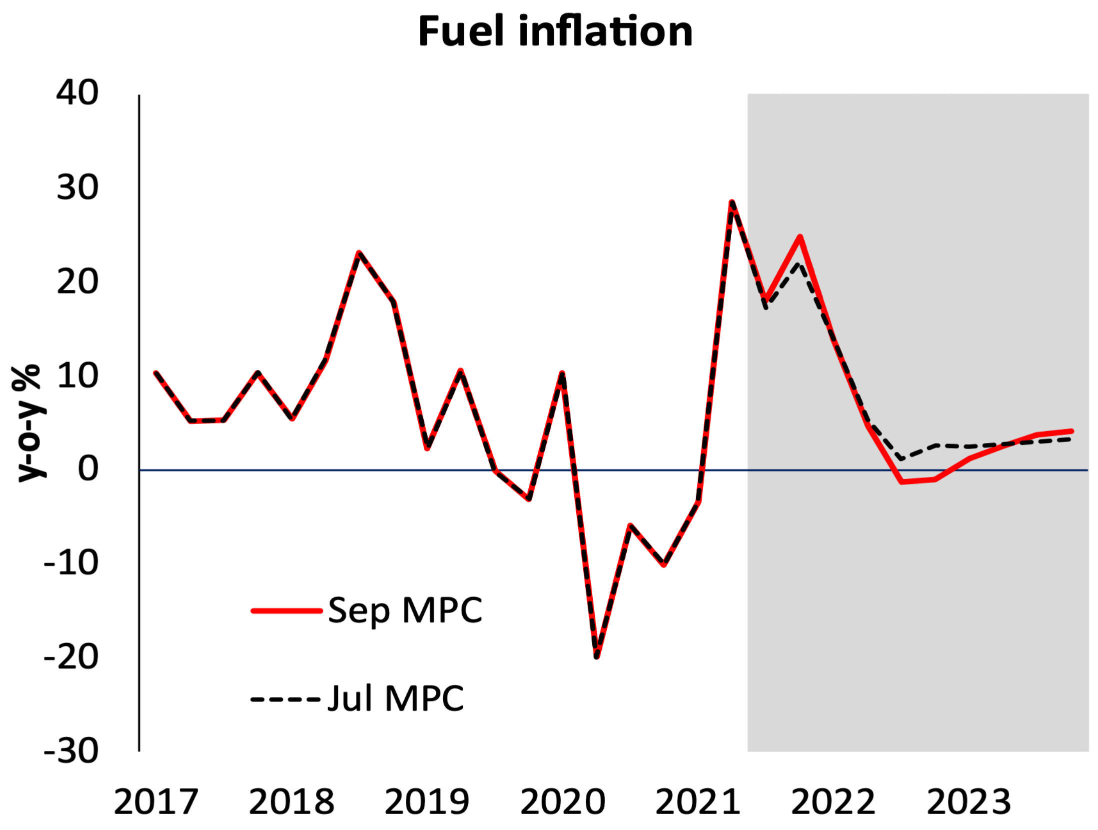
# Fuel inflation in double digits; higher oil prices, base effects

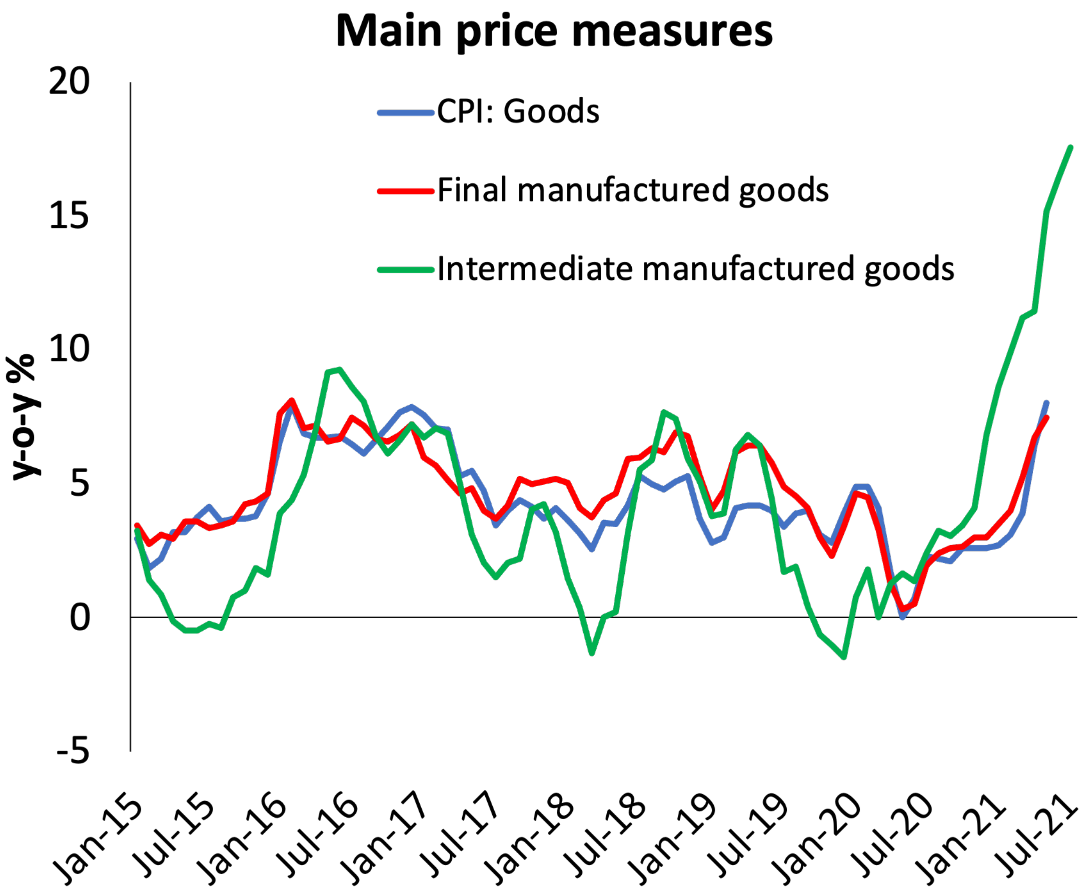



Source : Department of Energy

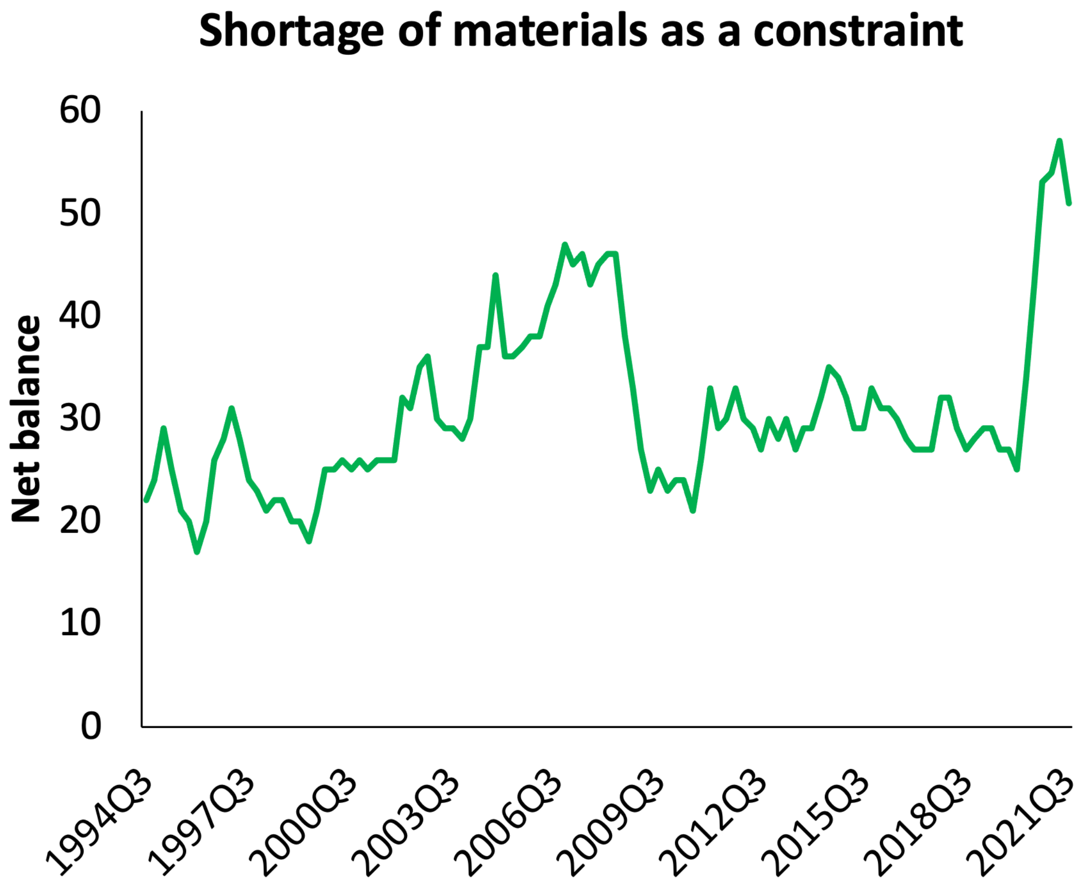



Sources: Stats SA and SARB

# Pressures also from sharply rising PPIs & shortage of materials

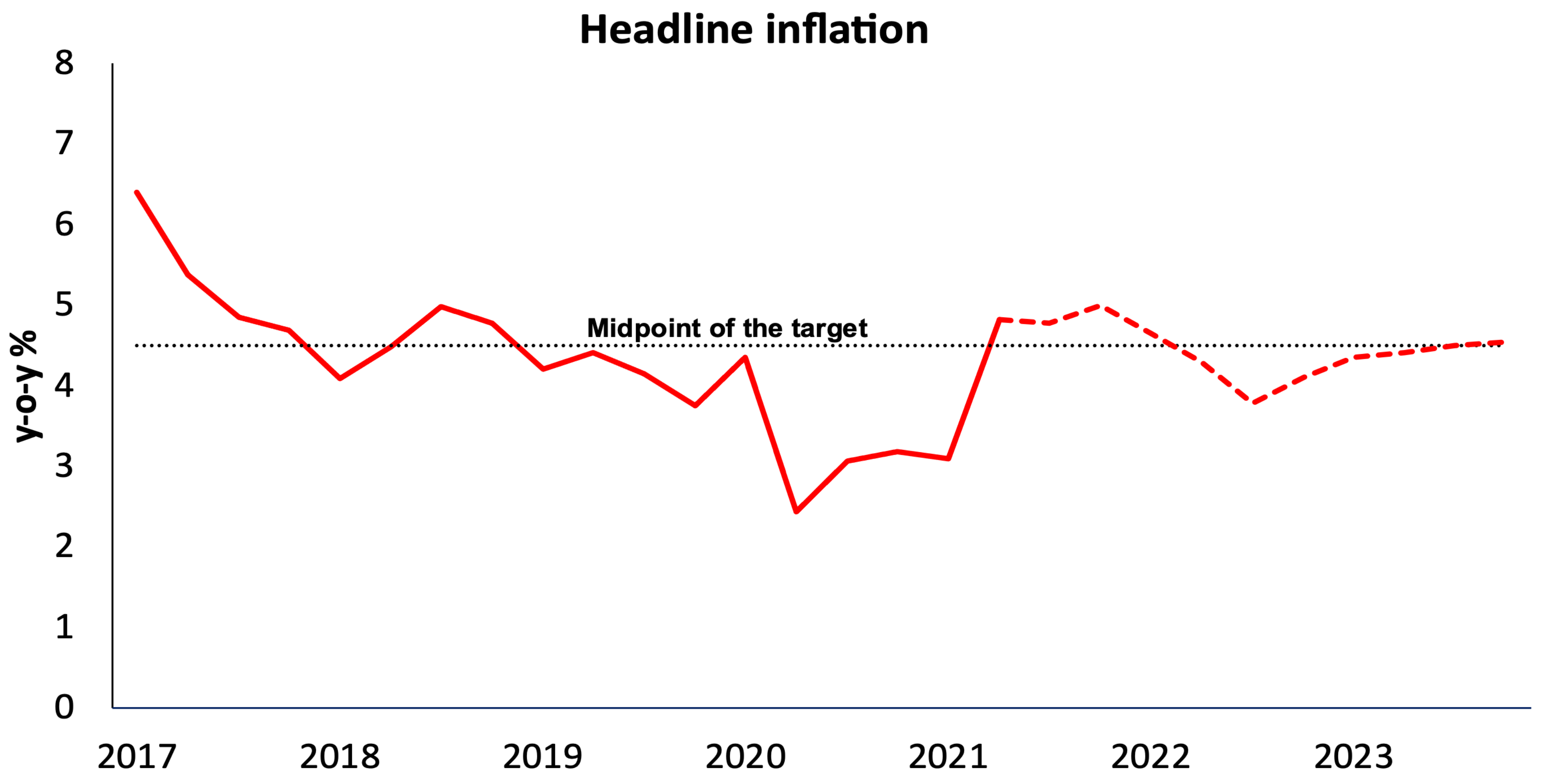



Source: Stats SA



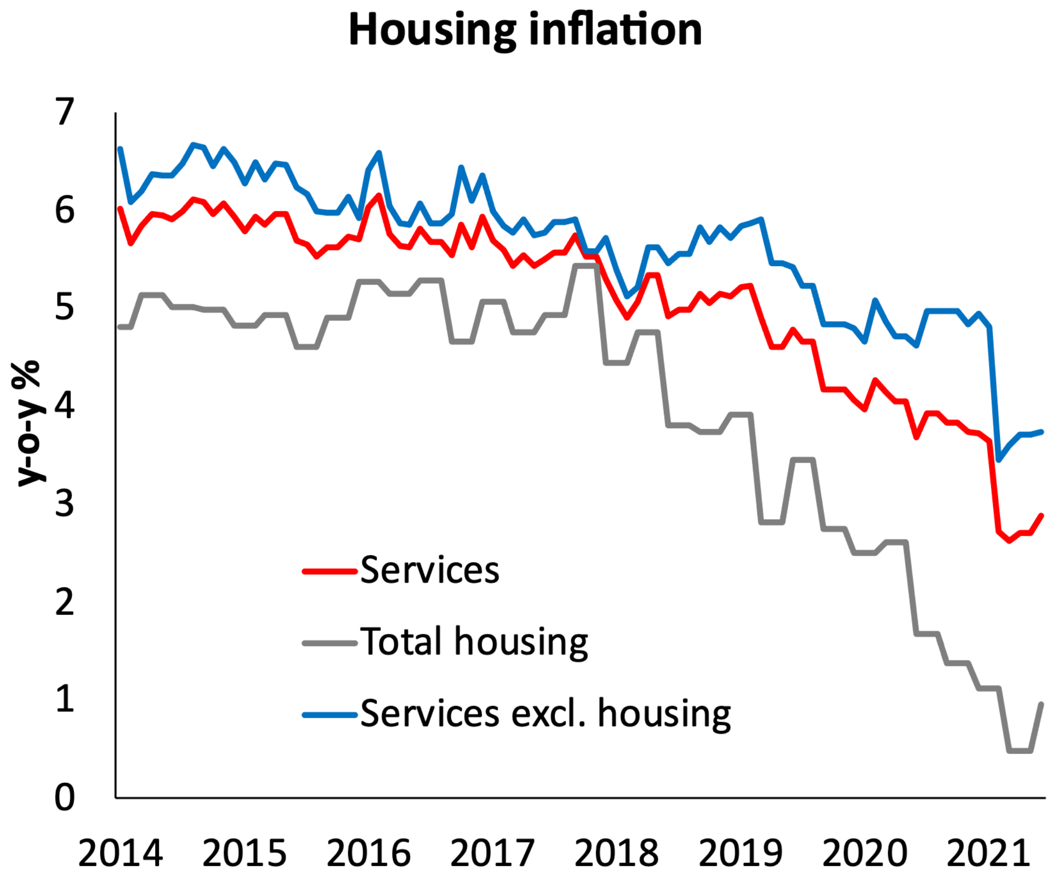

Source :BER

# Yet headline inflation trajectory remains moderate

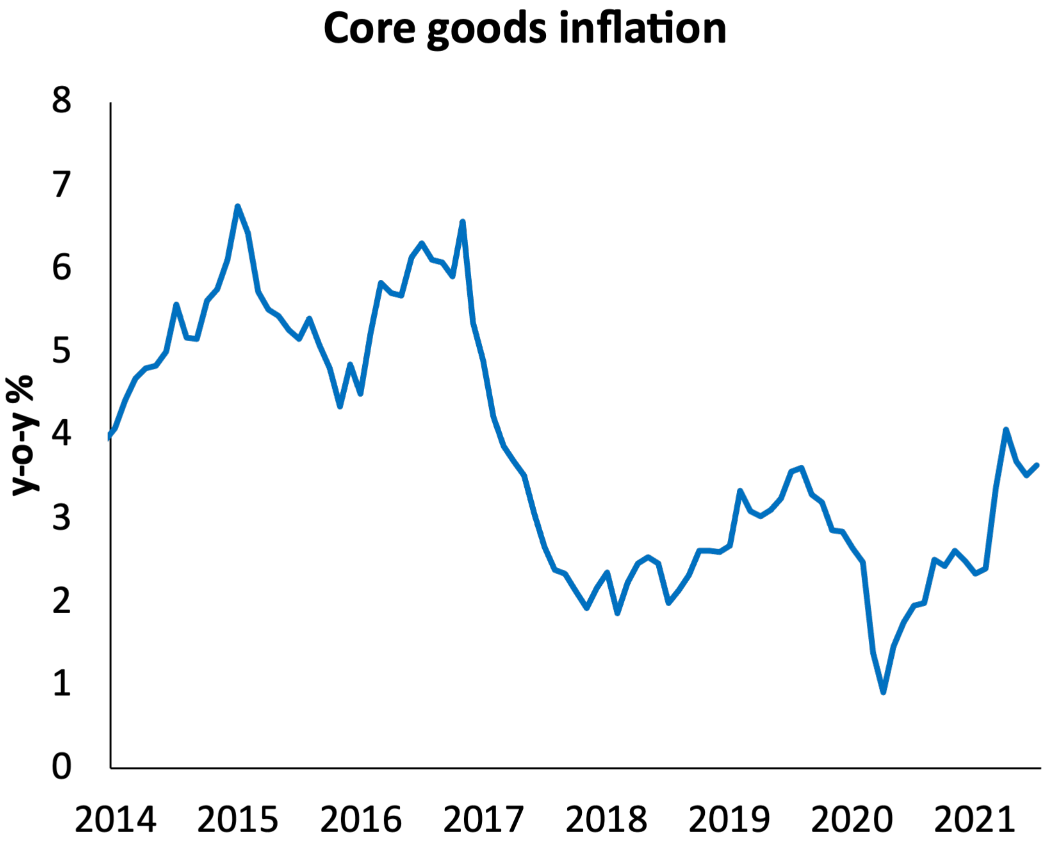



Sources: Stats SA and SARB

# Key roles played by lower services and core goods…

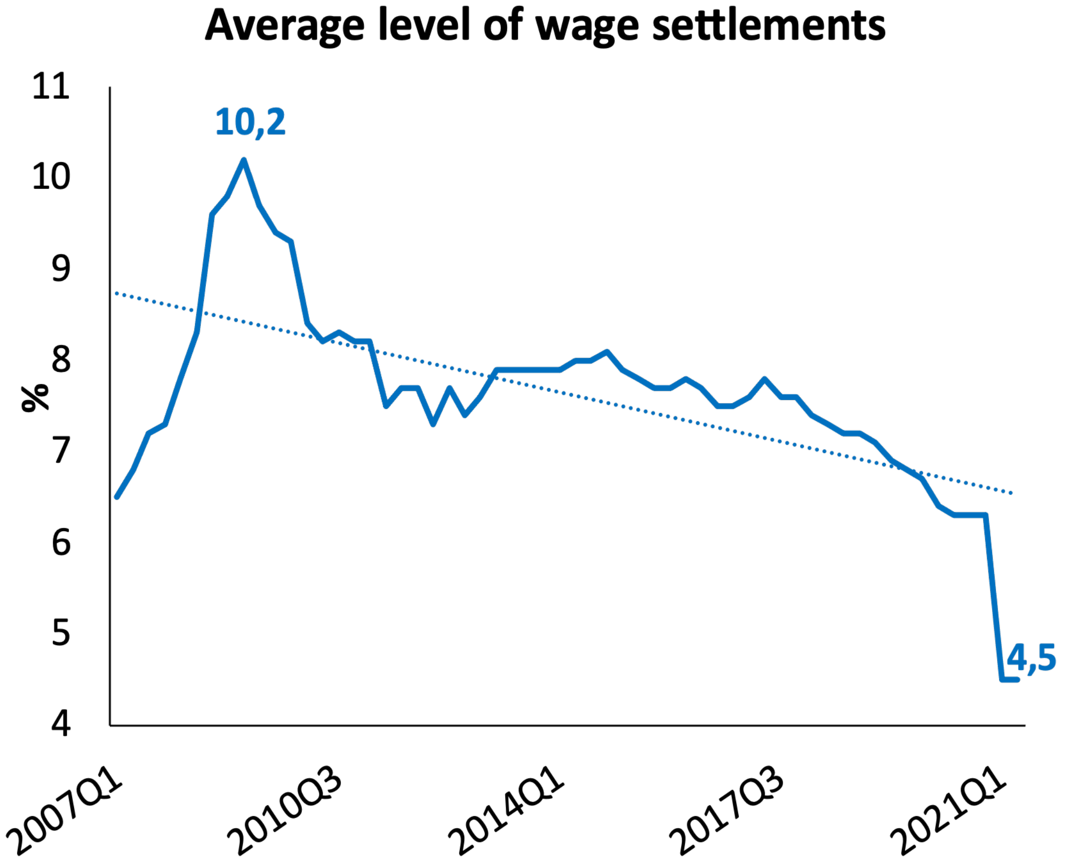



Sources: Stats SA and SARB

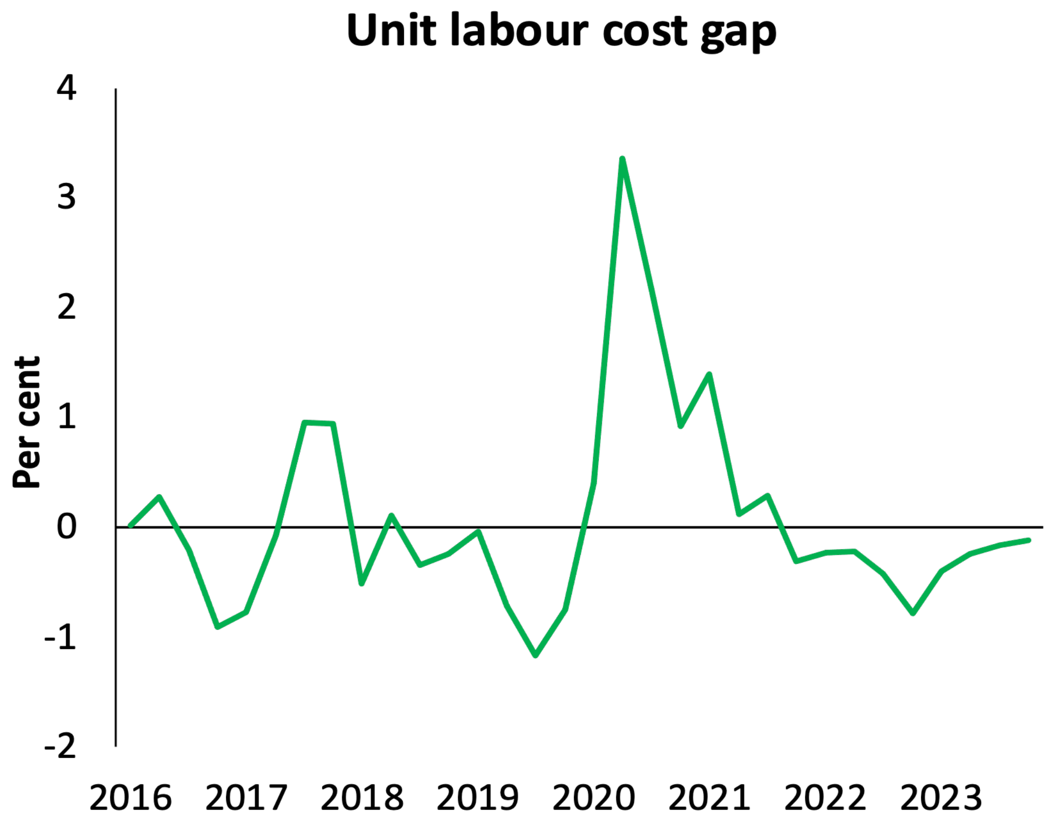



Source: Stats SA and SARB

# & favourable ULCs

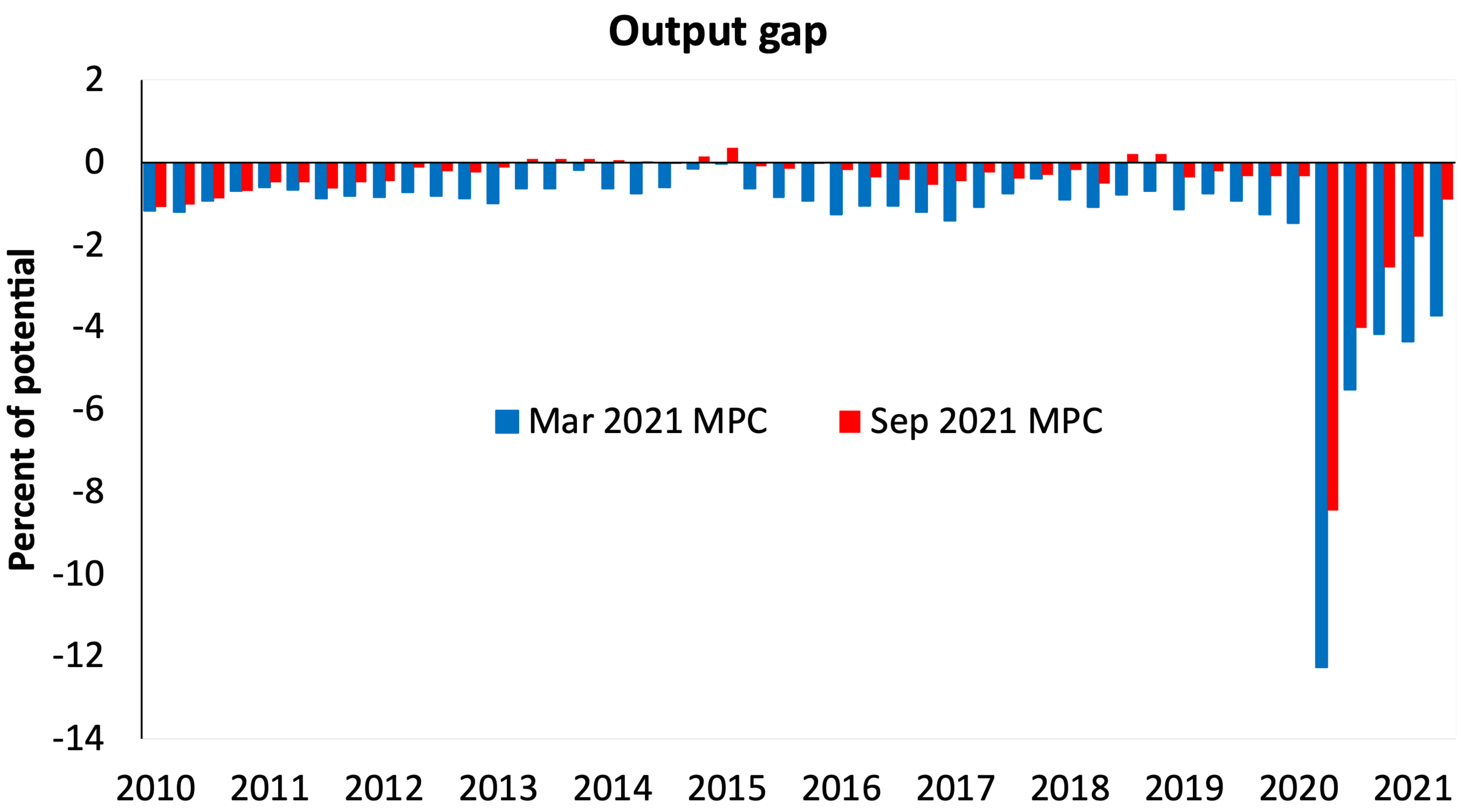



Source: Andrew Levy Survey



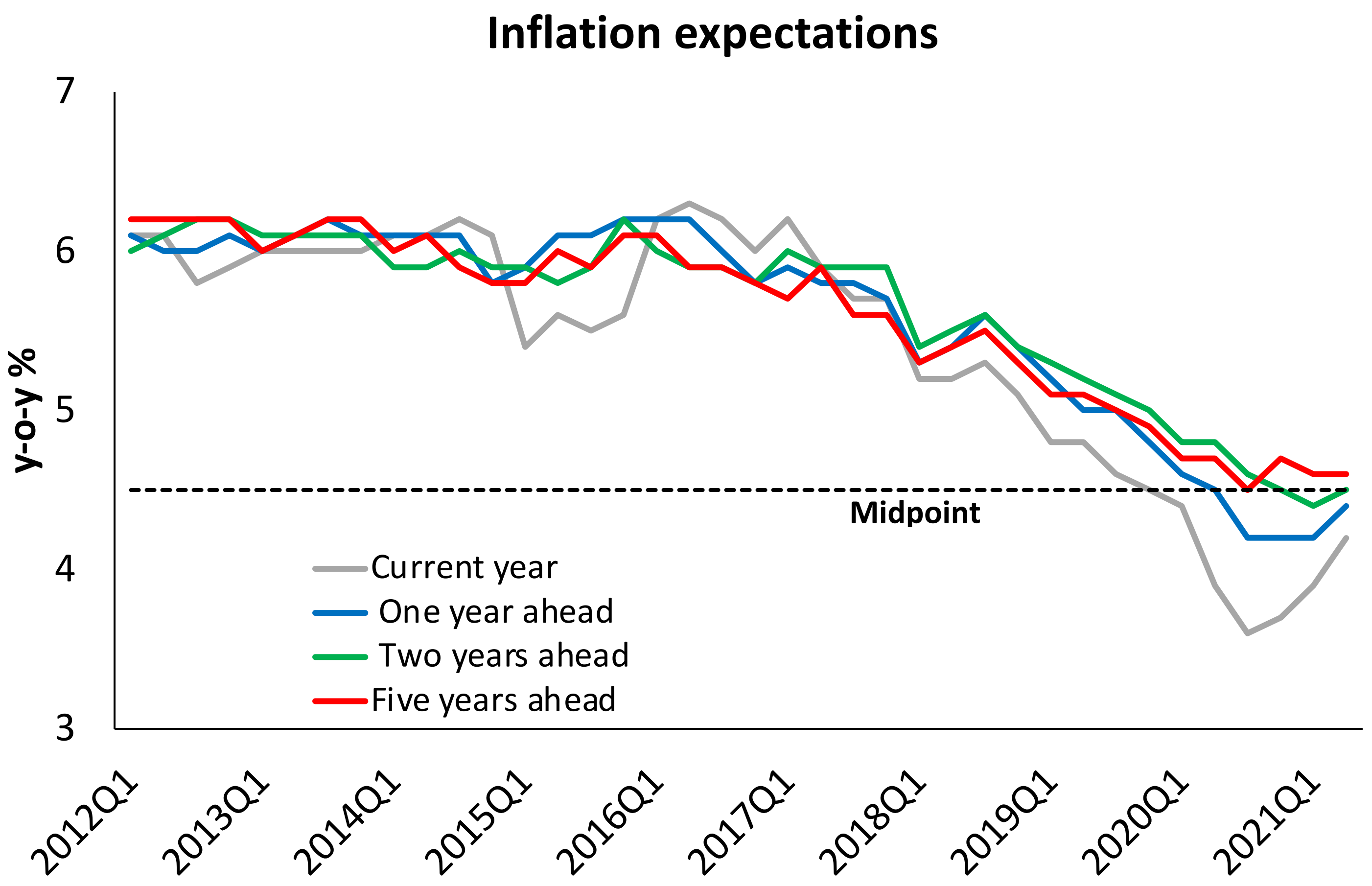

Sources: SARB

## … a still negative (but narrower) output gap,…



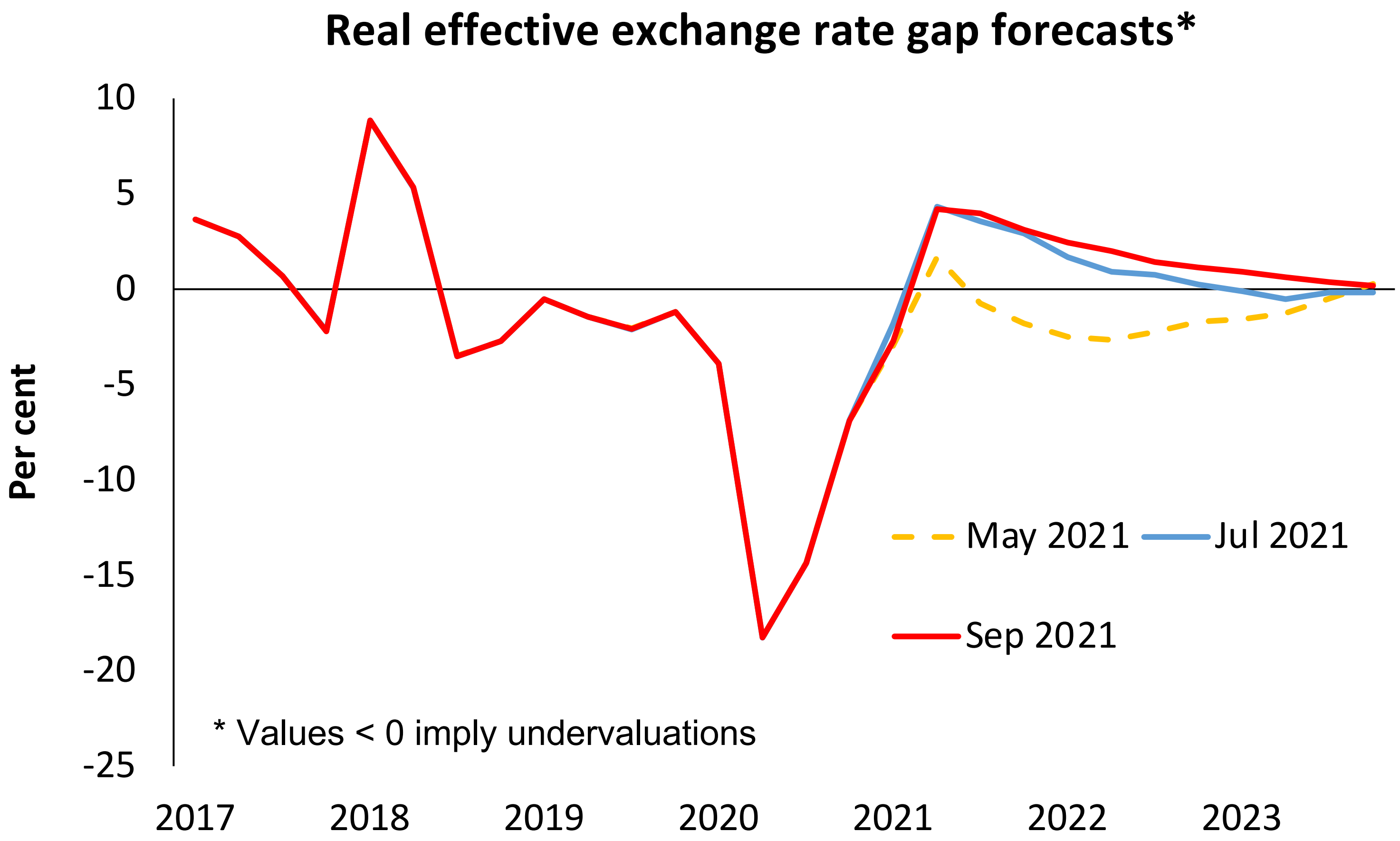

Sources: SARB

# …well-anchored inflation expectations, and…



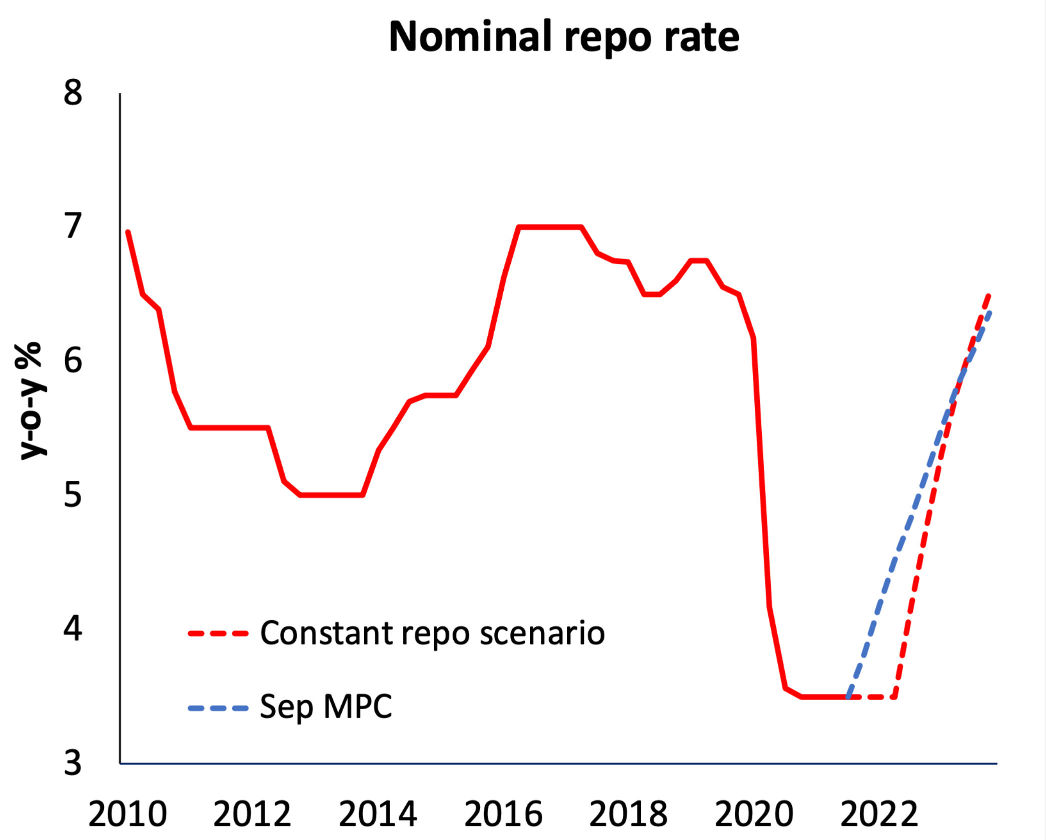

Source: BER

# …a relatively strong rand

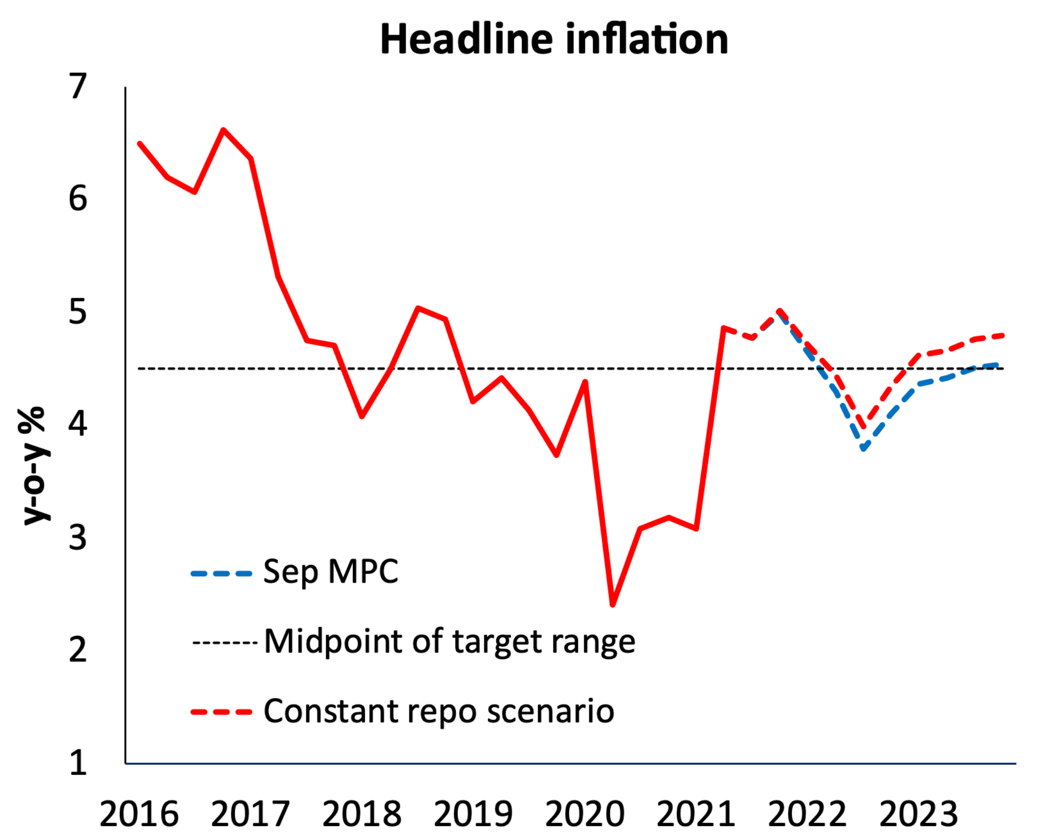


Source: SARB

# Normalising repo rate & inflation containment




Source: SARB




Source: SARB

# Conclusion

- **Stronger global recovery but will fade… future sources of economic growth?**
- **Lockdown easing, commodities and ToT explain much of SA's sharp recovery… what will SA's fade look like?**
- **Demand, supply bottlenecks keeping price pressures elevated… what will pass-through be?**
- **SA inflation contained… broad-based upside risks could benefit from de-risking, improving potential growth**

# THANK YOU