



## Restoring price stability

### *Monetary Policy Review*

SOUTH AFRICAN RESERVE BANK  
MONETARY POLICY FORUM,

4 October 2022



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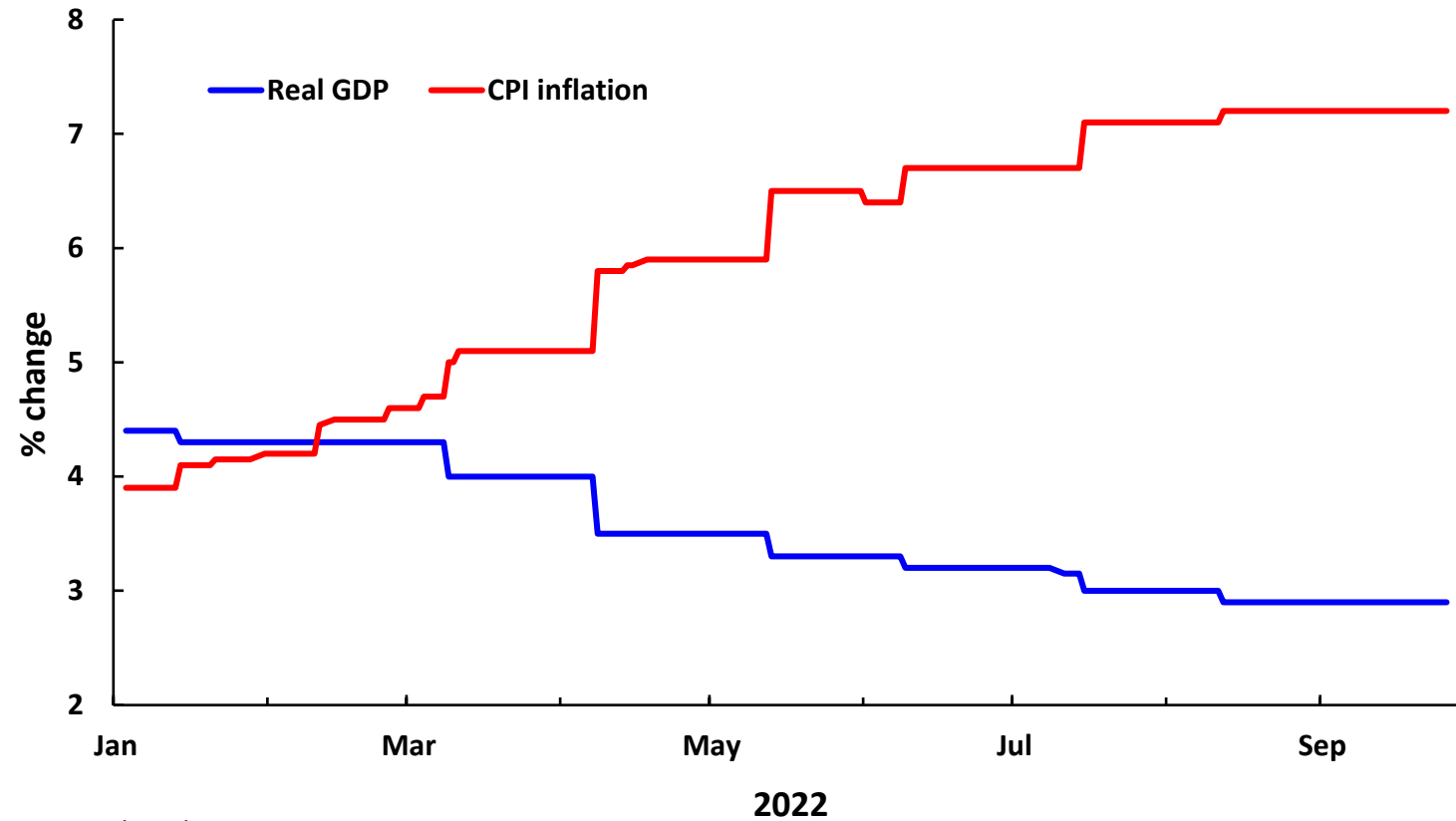


- **Stagflation deepened on multiple reinforcing shocks**
- **Policy late & credibility at risk, abrupt tightening, seismic impacts**
- **Terms of trade weaker, financing constraint?**
- **SA economic growth reverting to trend after levelling off**
- **Demand more buoyant than a low supply**
- **Headline inflation sharply higher & broader, expectations up**
- **Policy rate normalising, levels still below pre-pandemic**
- **Global volatility or easing conditions?**



# Global economy slides into stagflation

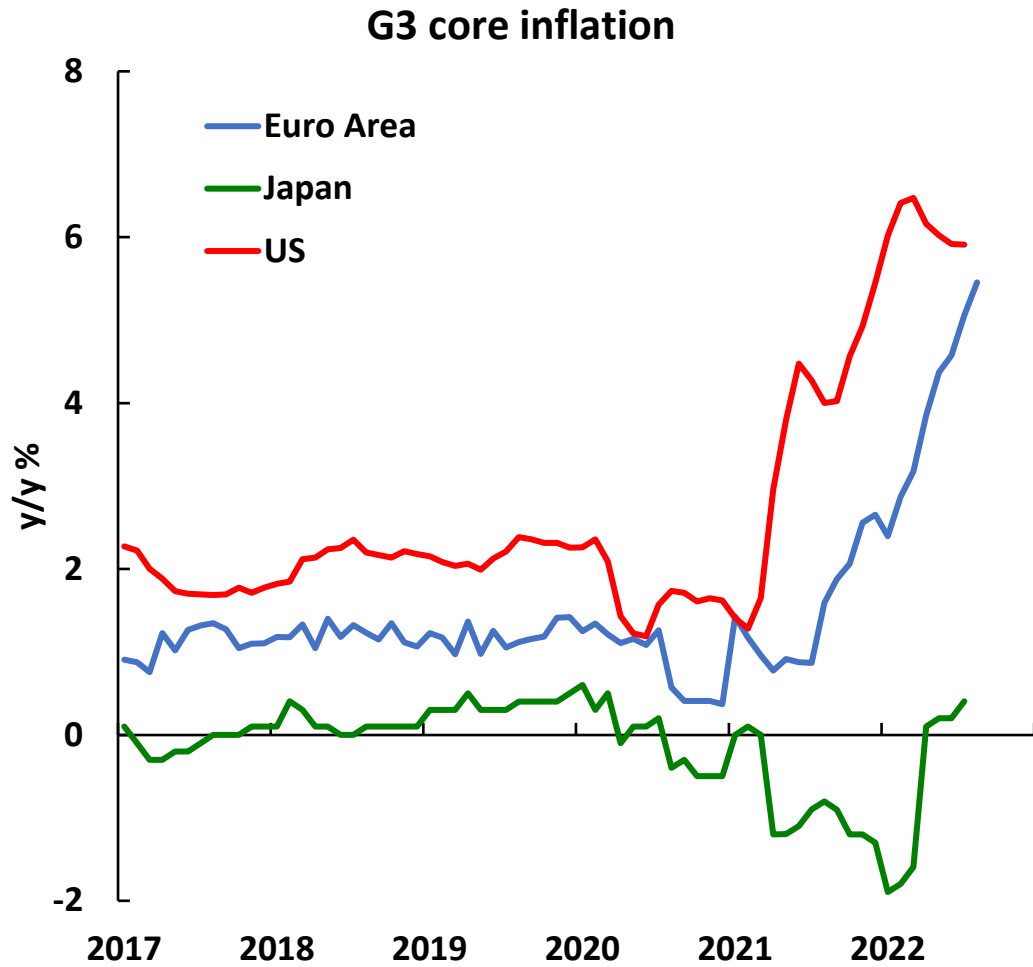
## Global real GDP growth and inflation forecasts (2022)



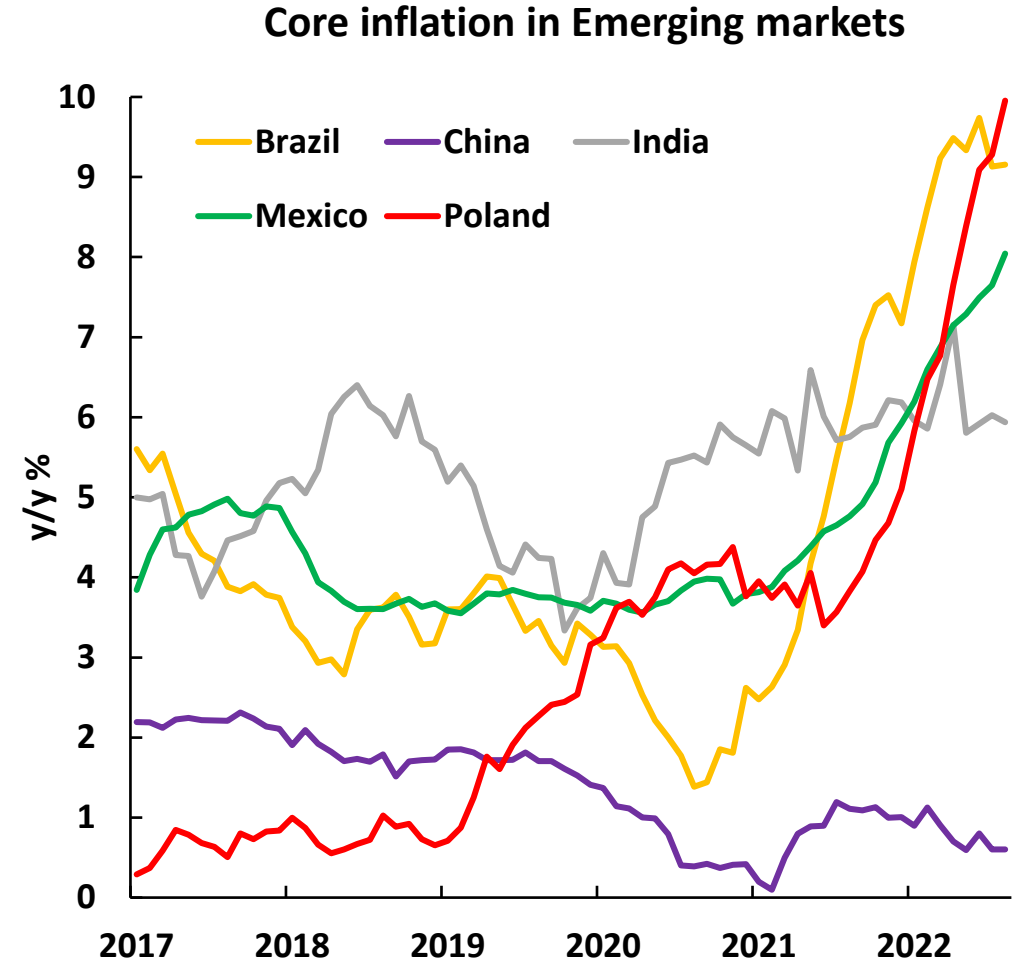
Source: Bloomberg



# Inflation broadened, from non-core to core, with few exceptions



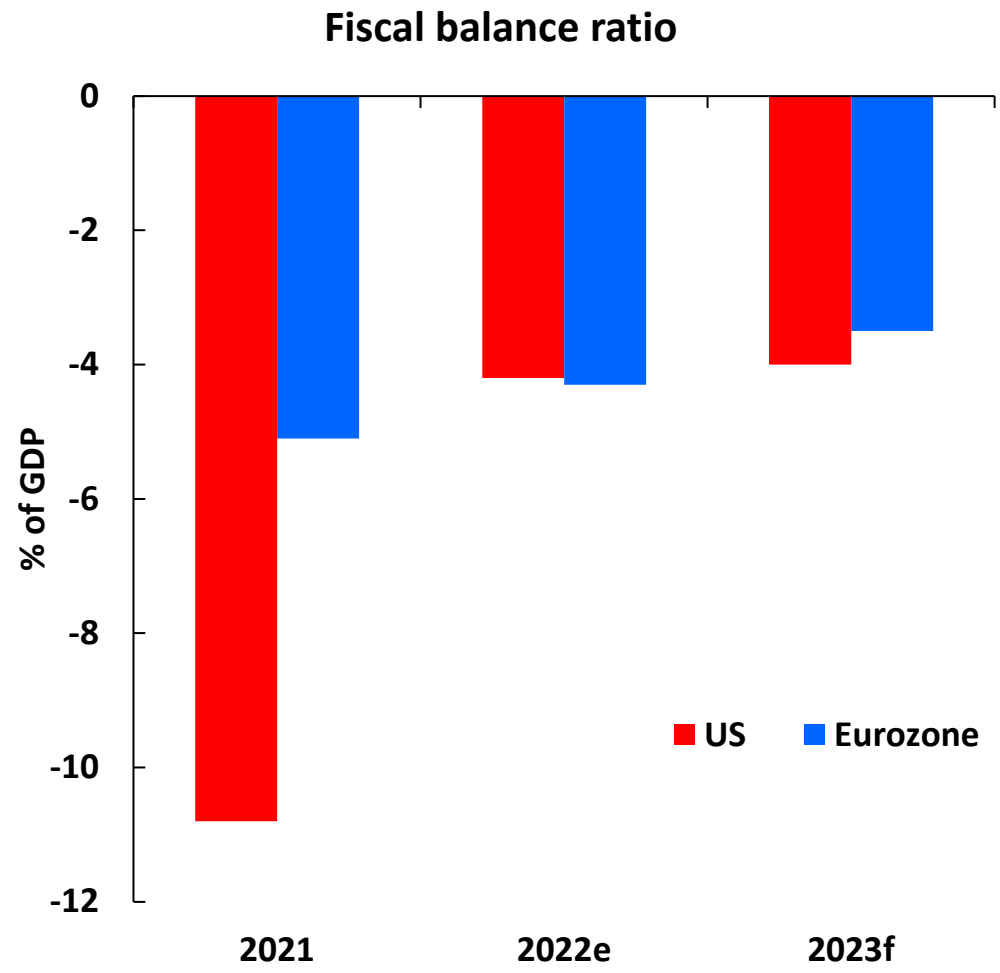
Source: Haver



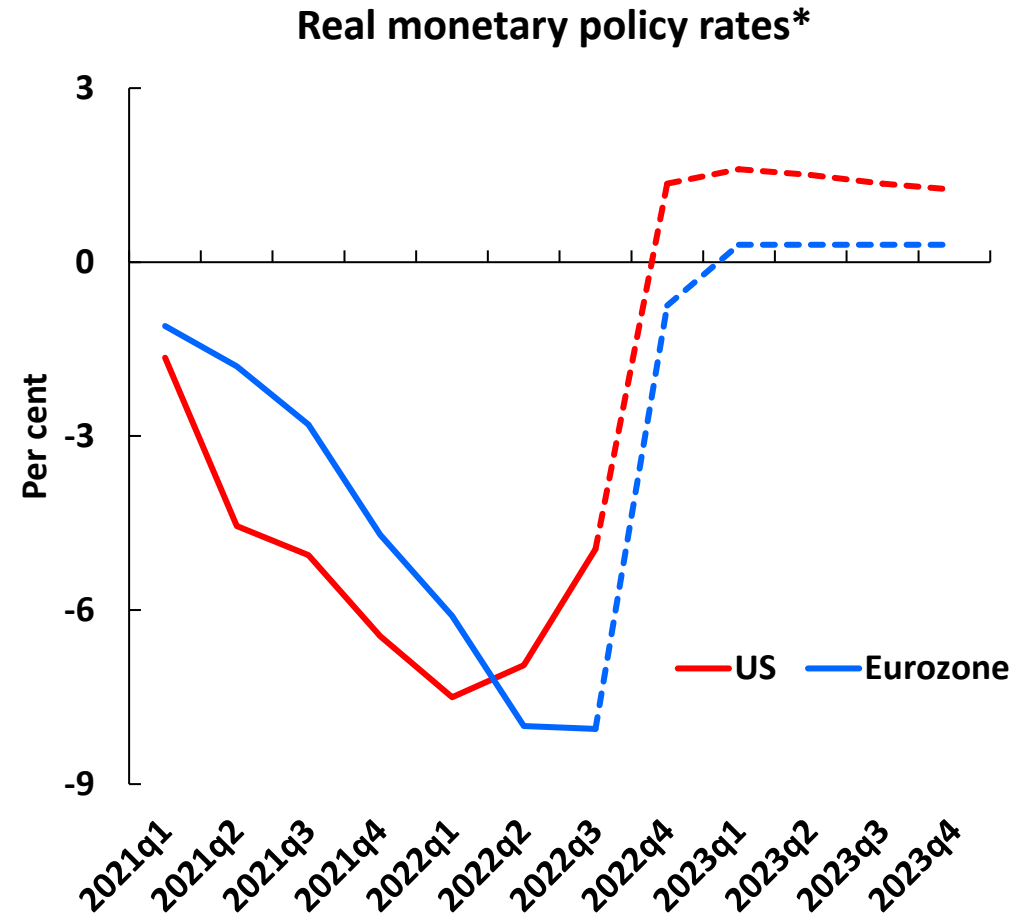
Source: Haver



# Fiscal and monetary expansion well into 2022



Source: Bloomberg consensus

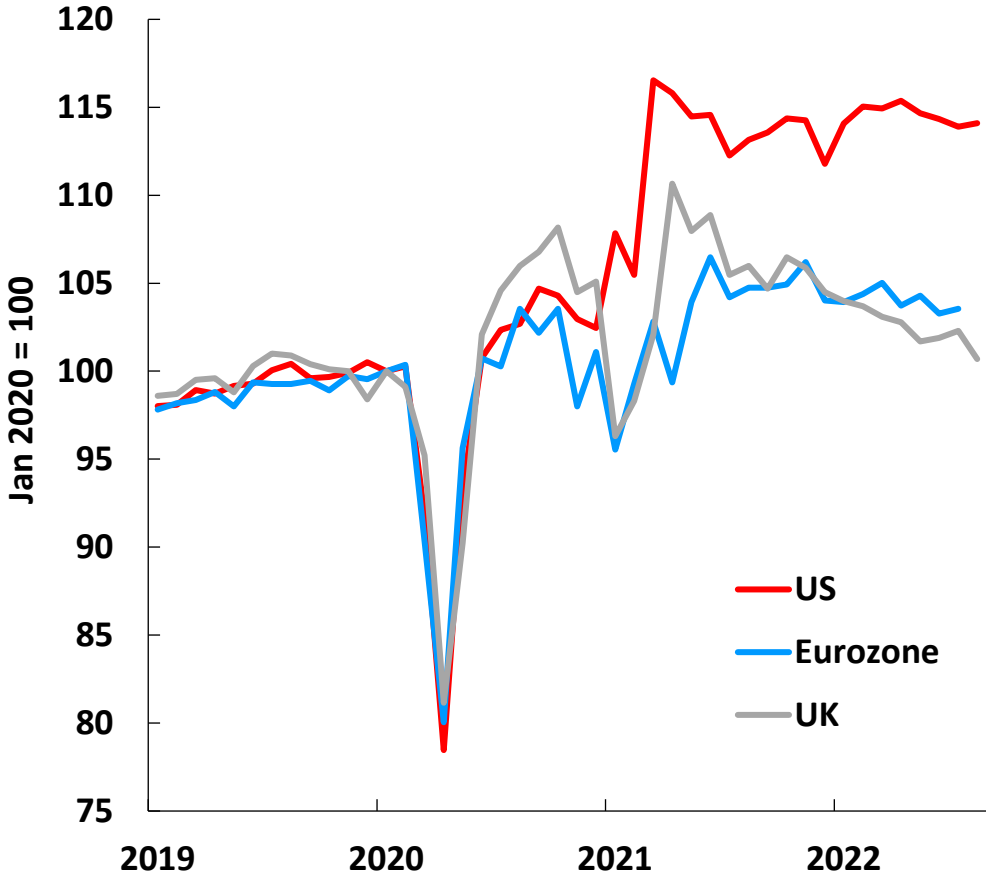


Source: Bloomberg consensus

\*Deflated by current CPI up to 2022q3 and ex ante from 2022q4

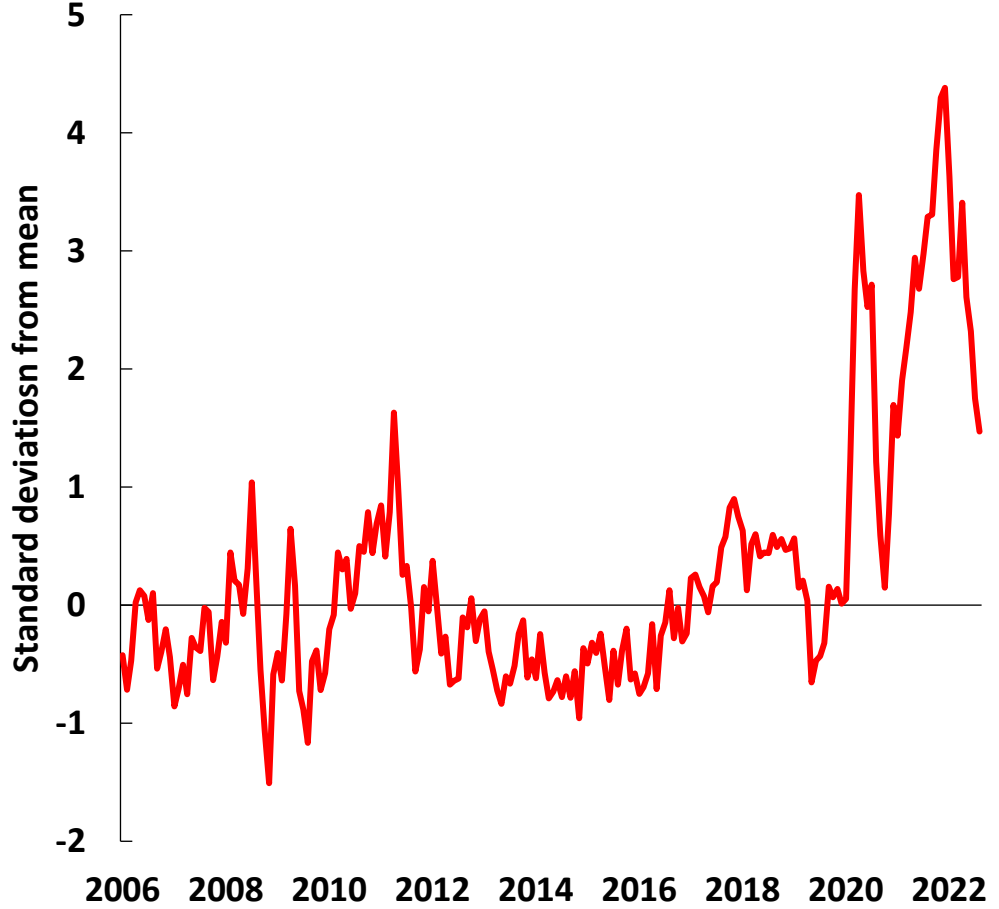
# Robust demand puts supply bottlenecks under additional stress

## Retail sales volumes in major AEs



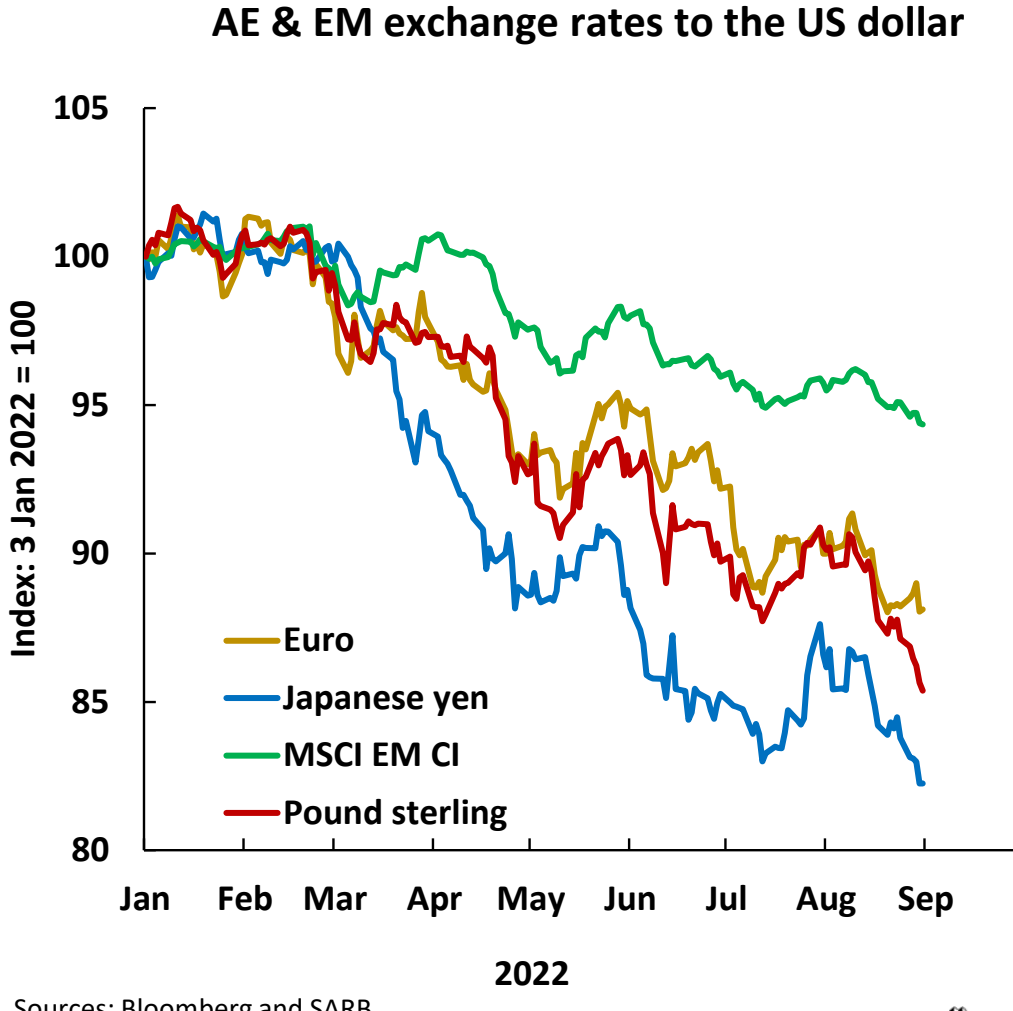
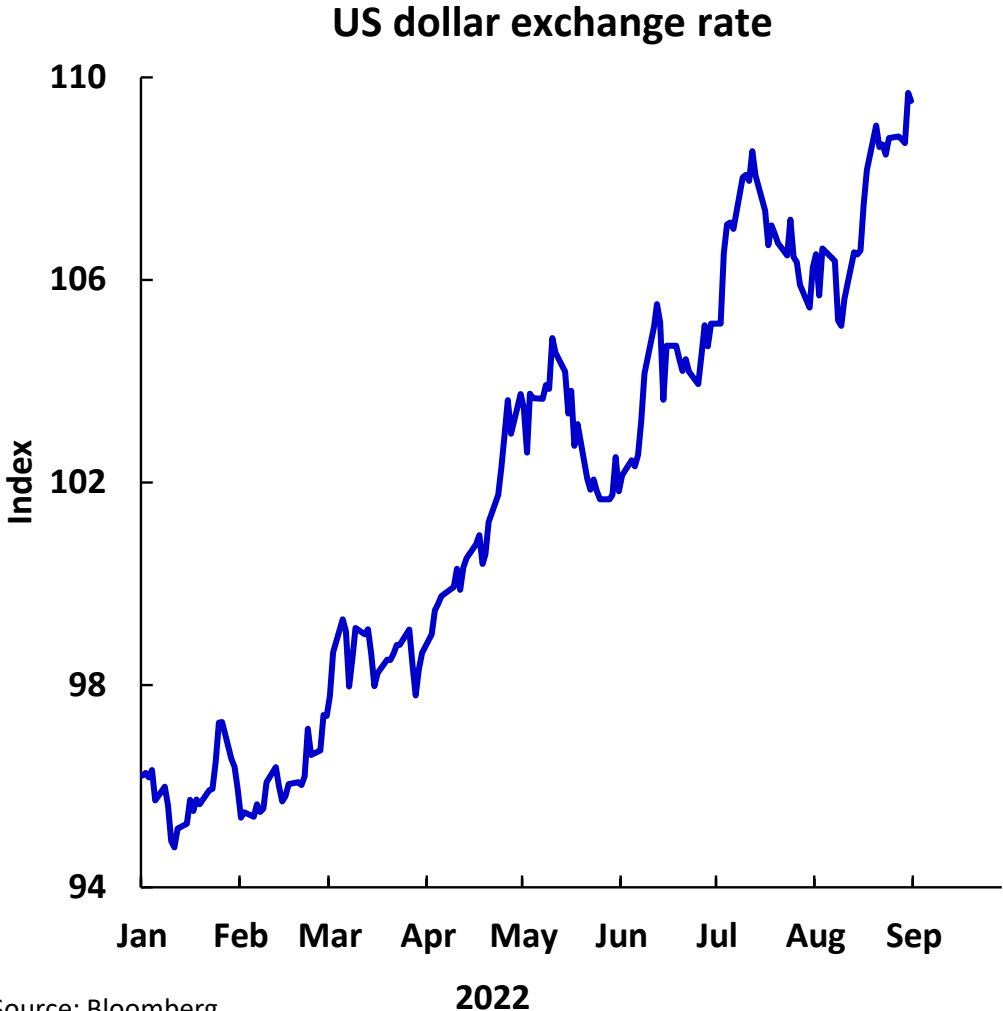
Source: National Statistical sources

## Global supply chain pressure index



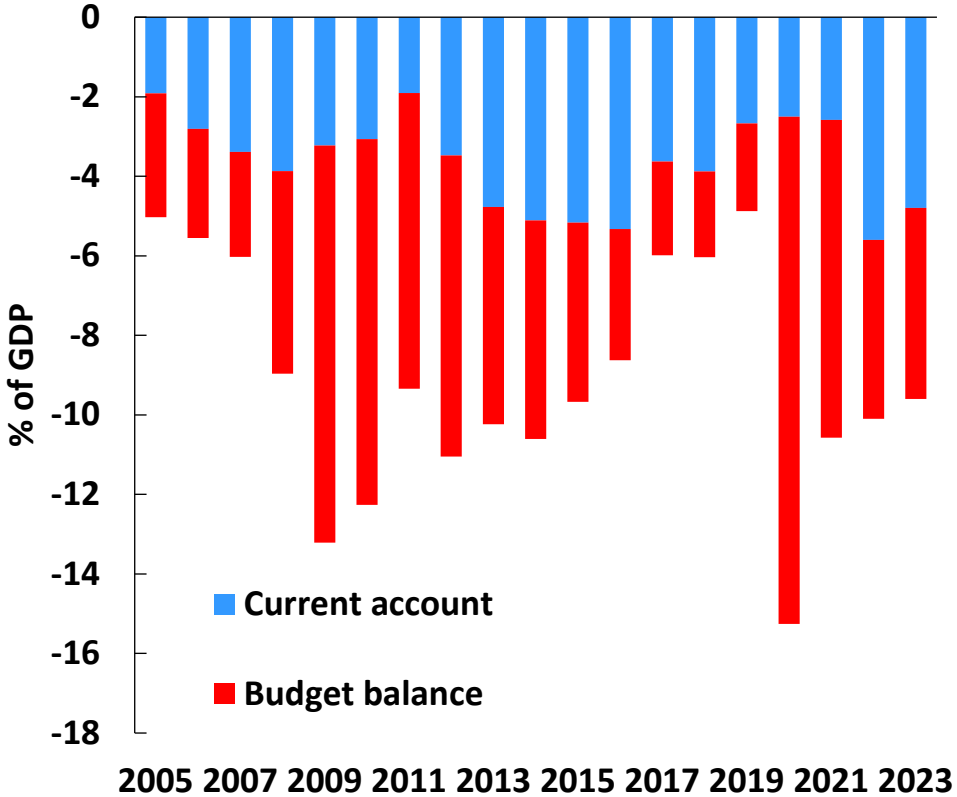
Source: Federal Reserve Bank of New York

# Rising risk aversion & rates differentials push up US dollar, adding to inflation in ROW



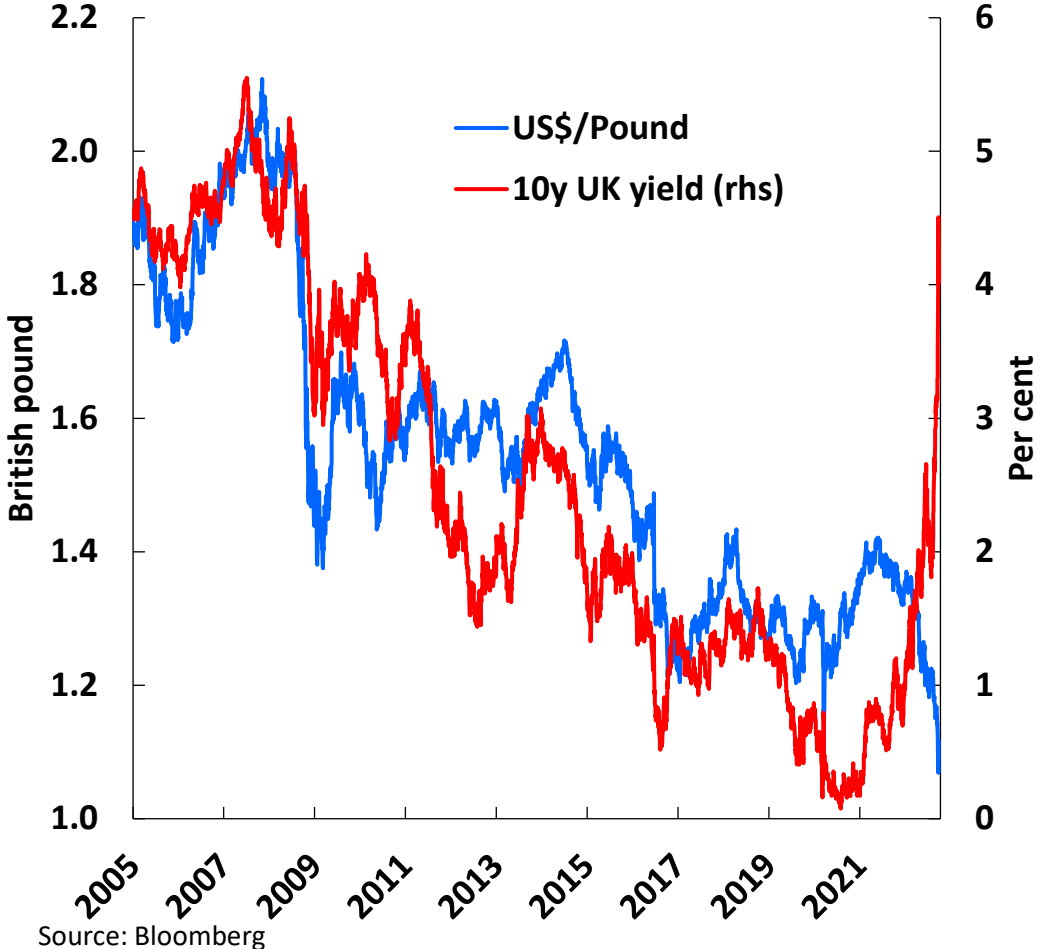
# Risking sell-offs where policy inconsistent with inflation pressures

### The UK's "twin deficits"



Sources: Bloomberg and IMF.  
Data for 2022-23 are Bloomberg consensus forecasts and do not yet incorporate the impact of the latest UK fiscal plans

### Performance of sterling and UK 10yr bonds

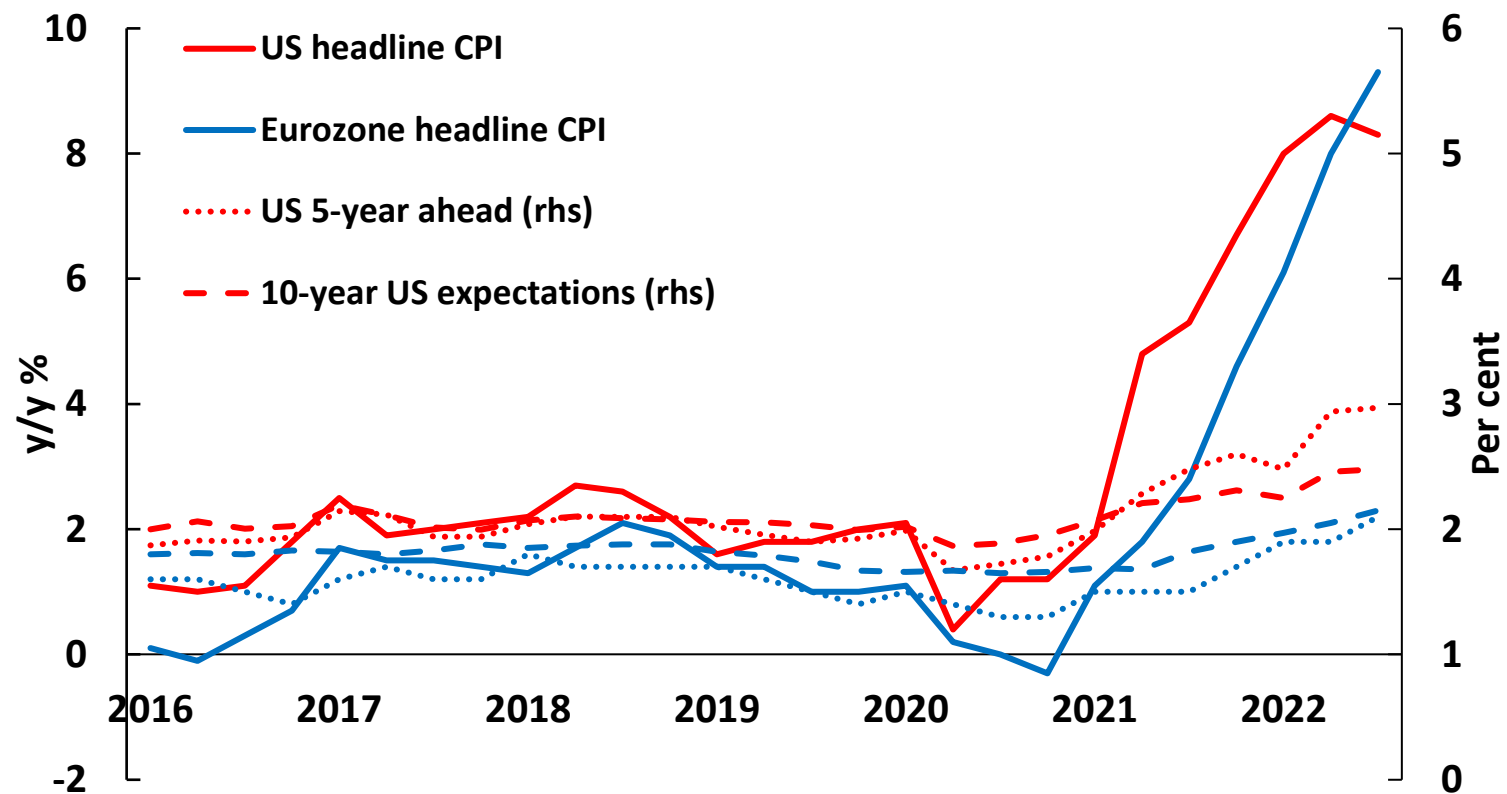


Source: Bloomberg



# Further policy slips would accelerate de-anchoring of inflation expectations

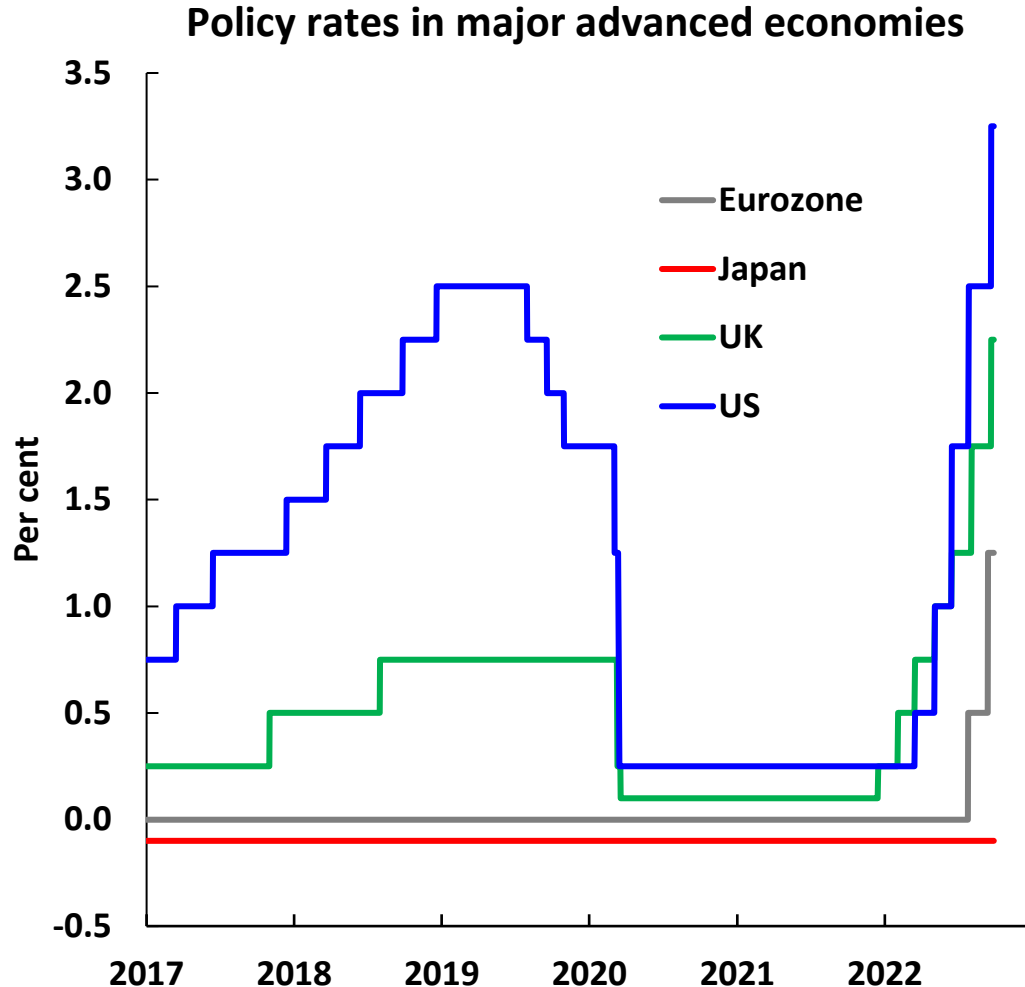
## AE inflation conditions



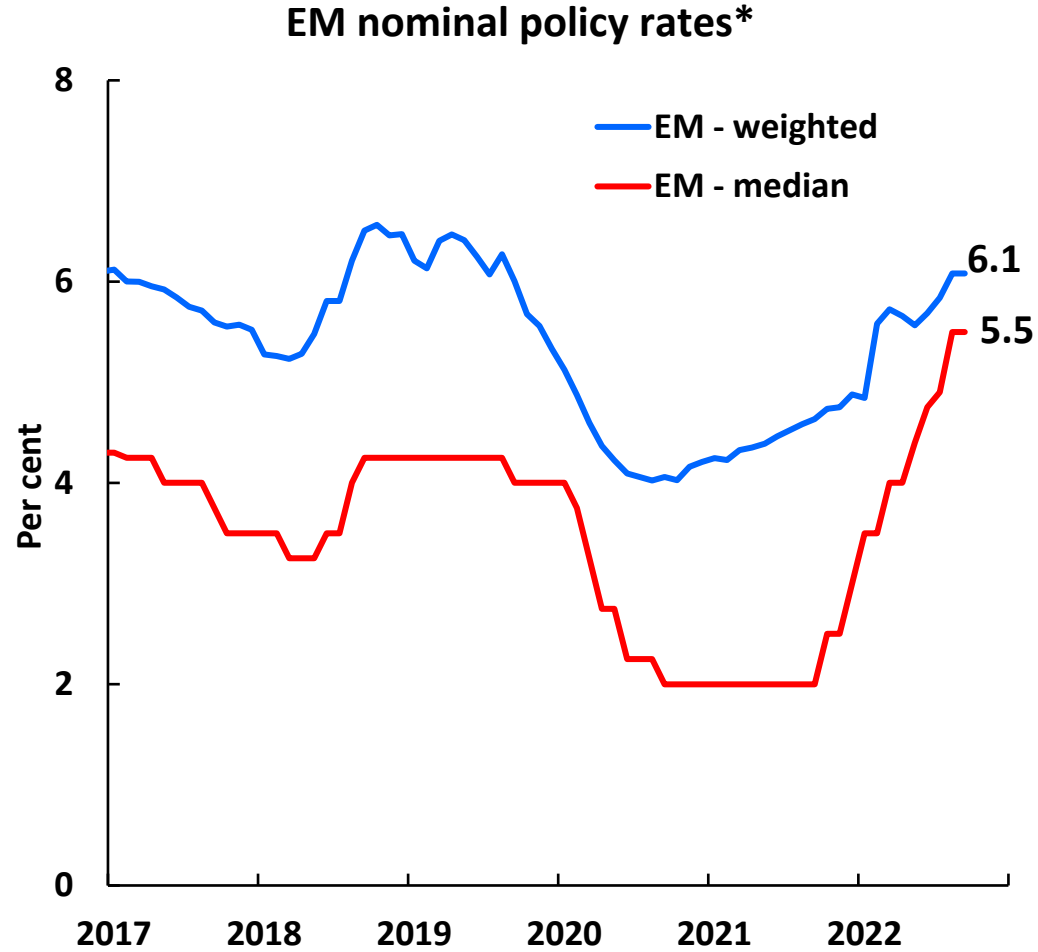
Sources: US Bureau of Labor Statistics, Eurostat, Federal Reserve Bank of Philadelphia and ECB



# Surprised by inflation persistence, CBs tightening policy faster



Source: Haver

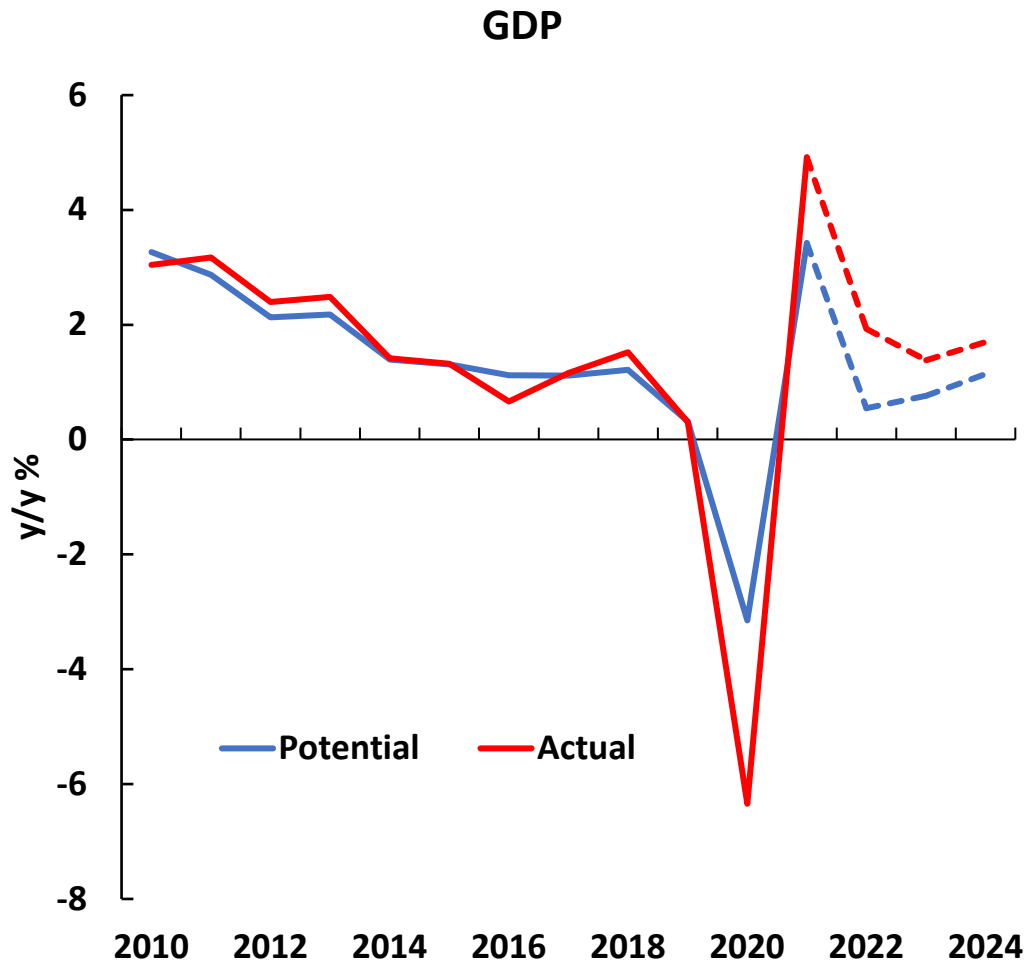


\*Sample of 25 EMs  
Sources: Central banks, Haver

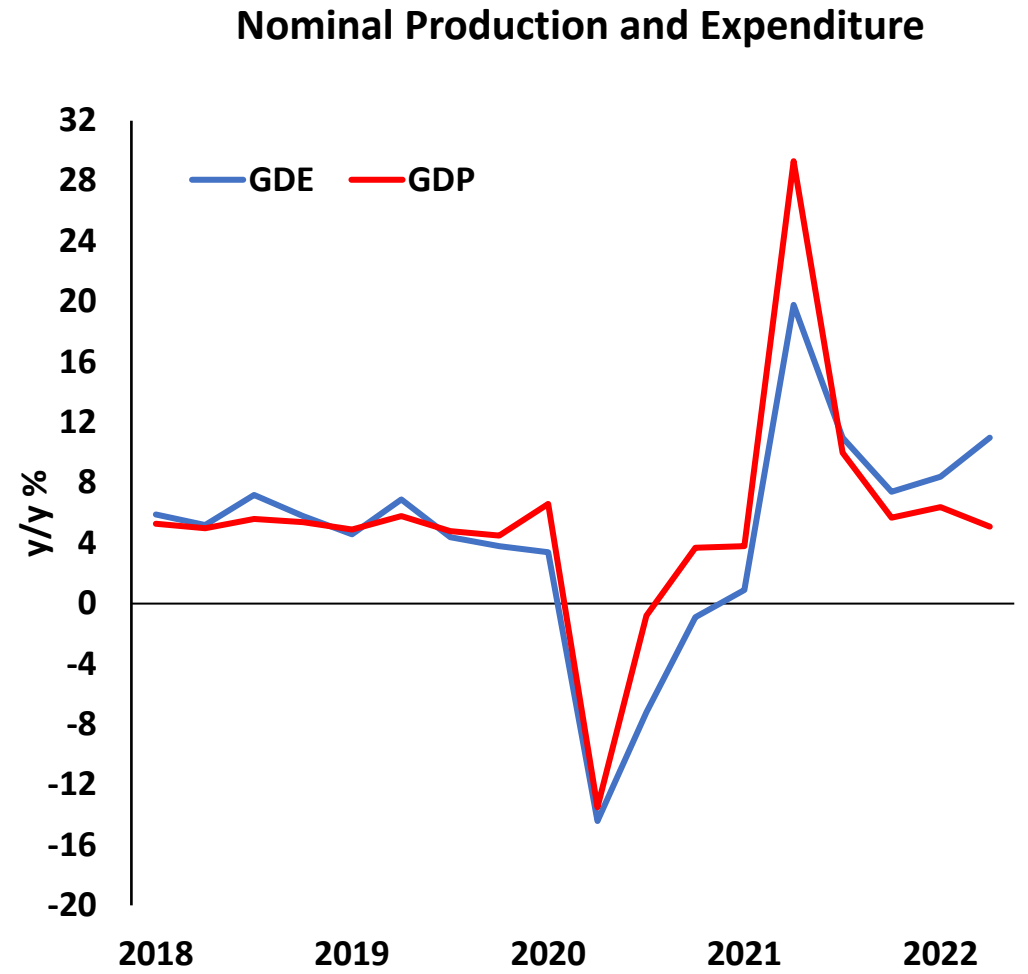


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# For South Africa, growth reverting to trend, spending > production



Sources: Stats SA and SARB

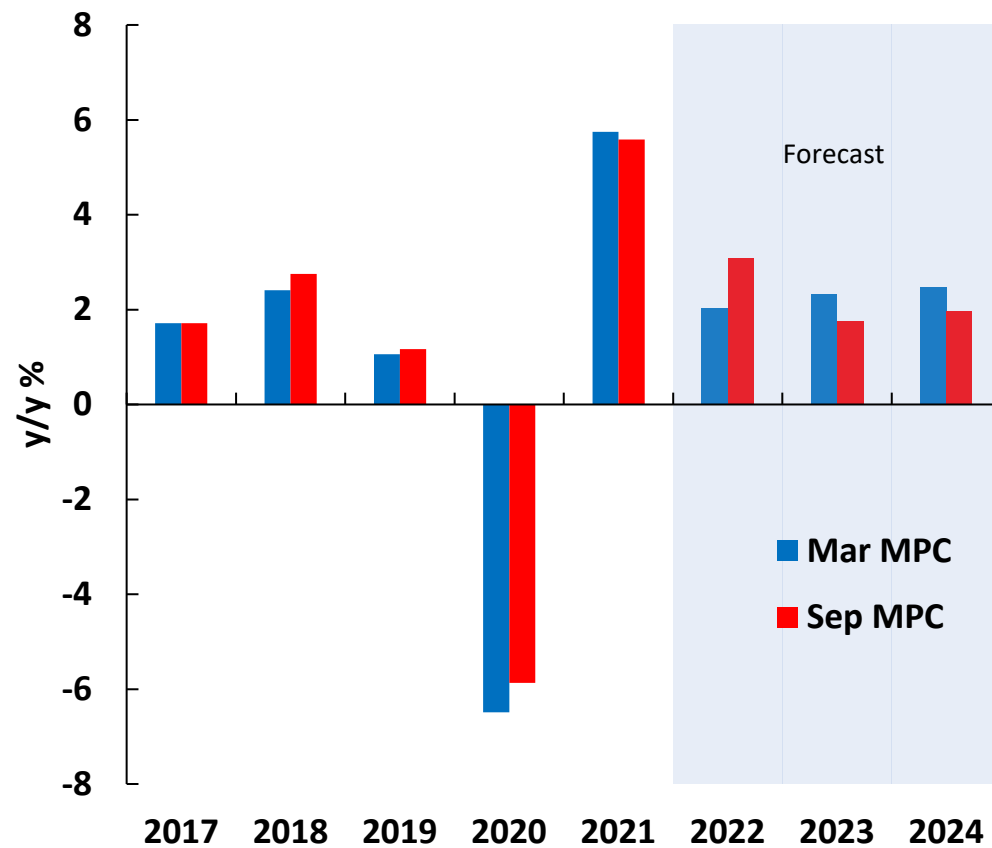


Source: Stats SA



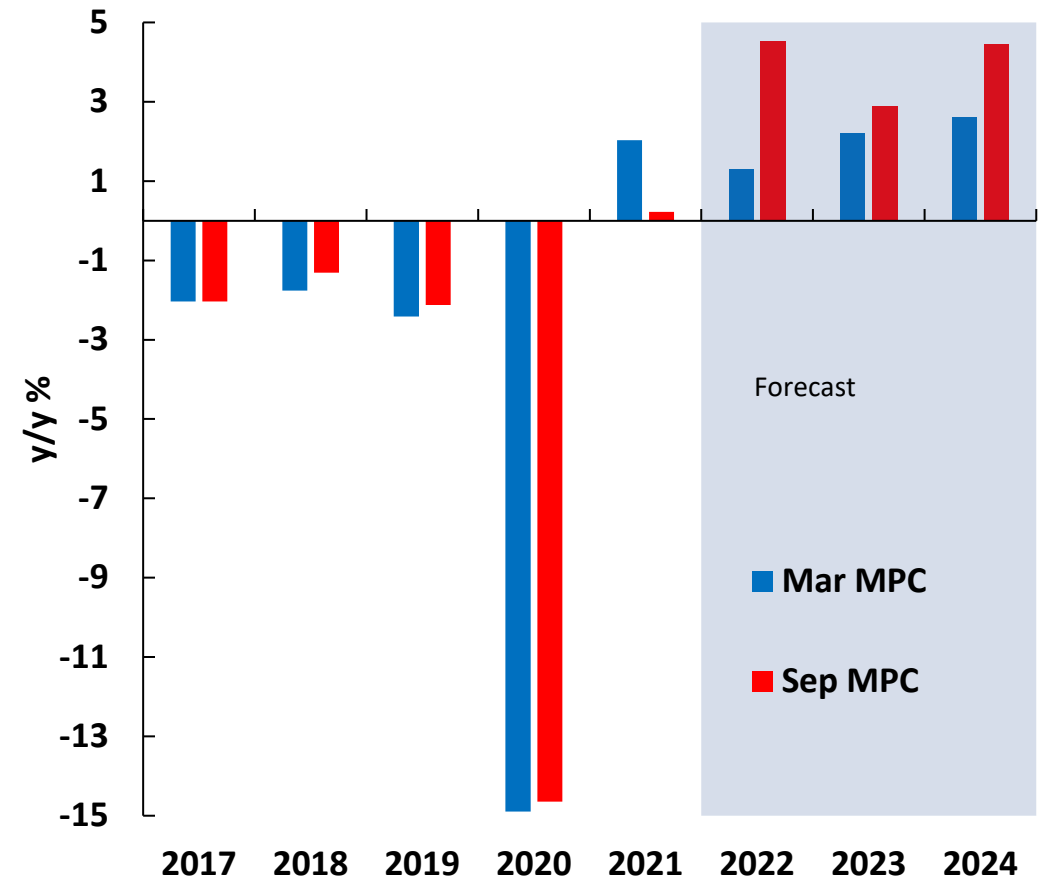
# Economic activity underpinned by HH spending and investment

## Real final consumption expenditure of households



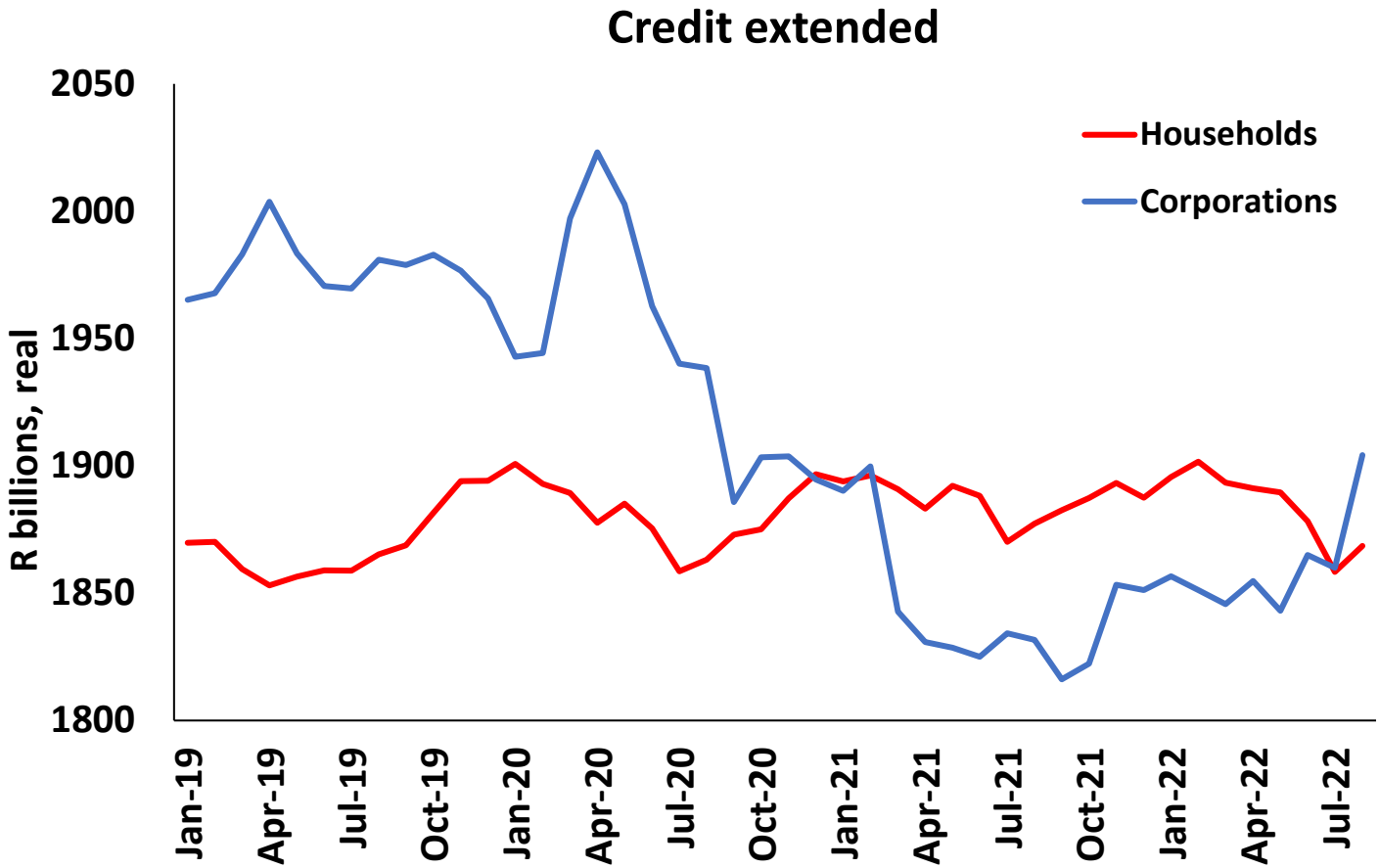
Sources: Stats SA and SARB

## Total real gross fixed capital formation



Sources: Stats SA and SARB

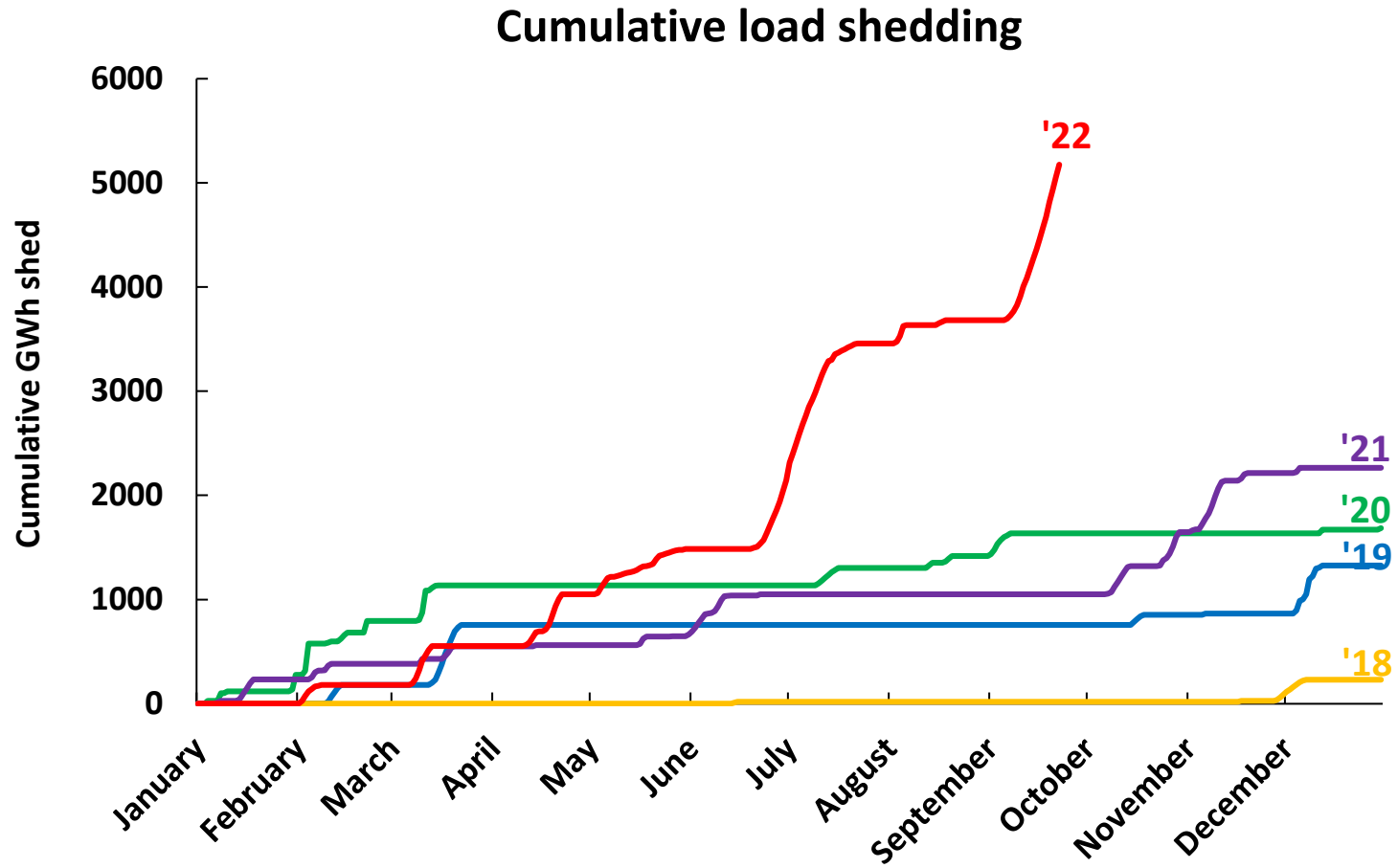
# Reflected in a muted recovery in credit demand



Source: SARB



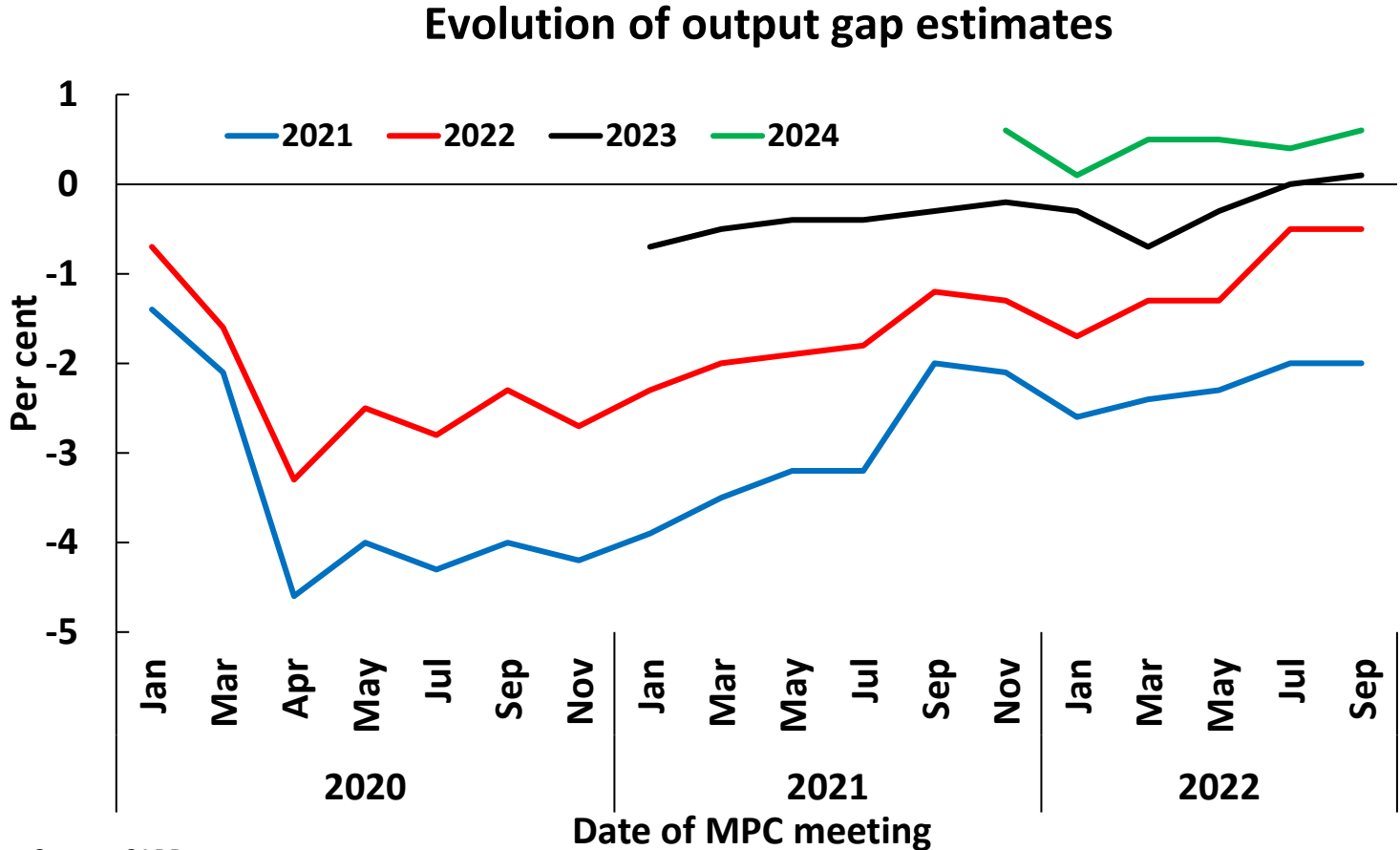
# Inadequate electricity supply tightening its grip on potential



Source: ESP (app), Eskom Twitter account & SARB



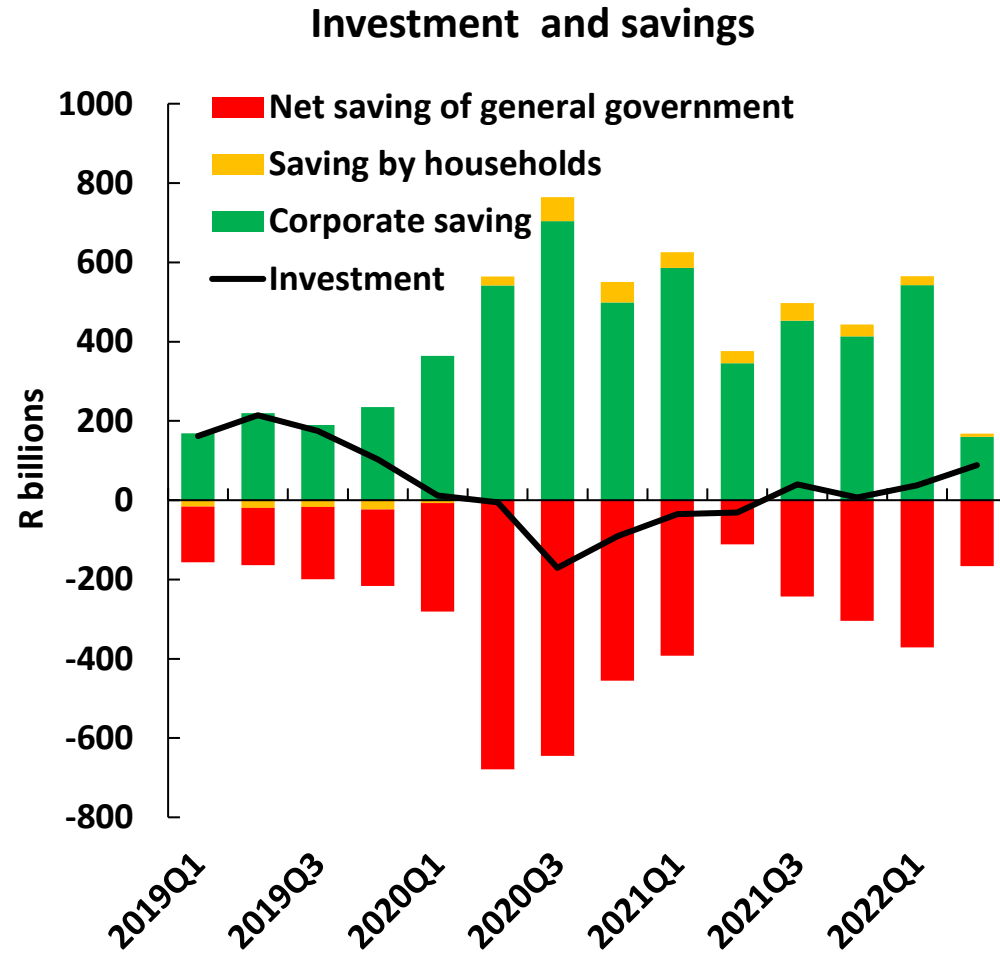
# With + demand, low potential contributes to steady closure of the pandemic output gap



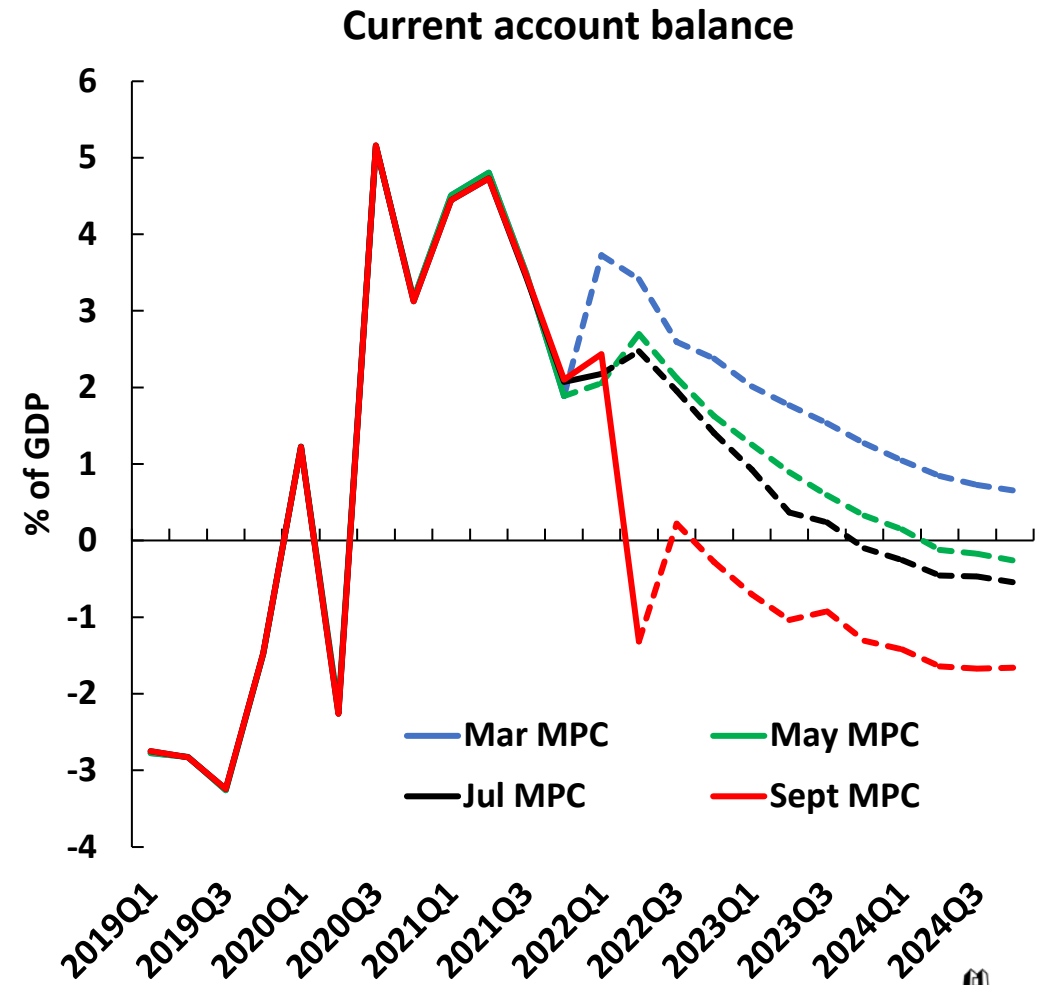
Source: SARB



# And, with low potential, financing of demand comes into sharper focus



Source: SARB



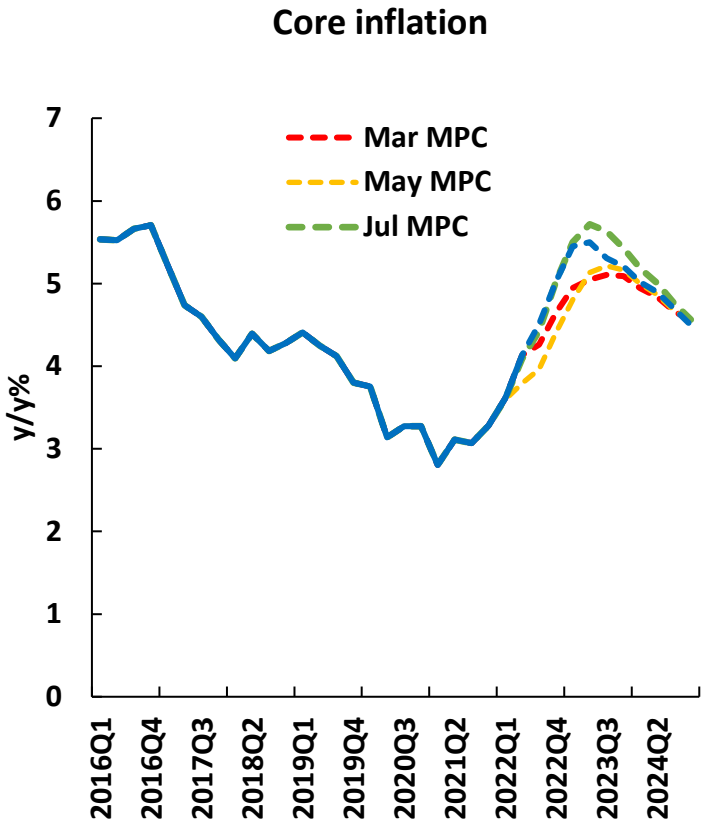
Source: SARB



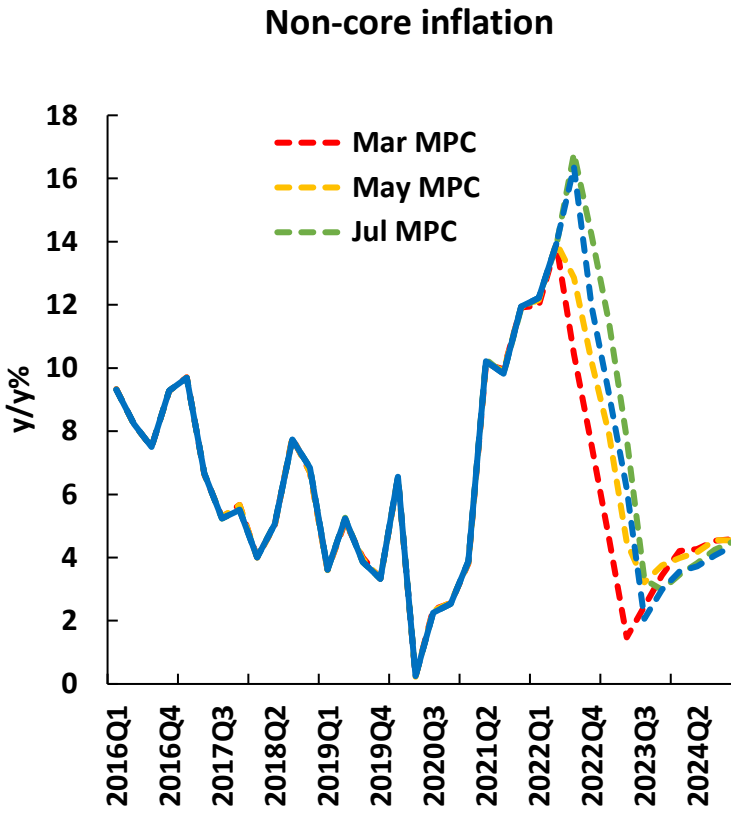
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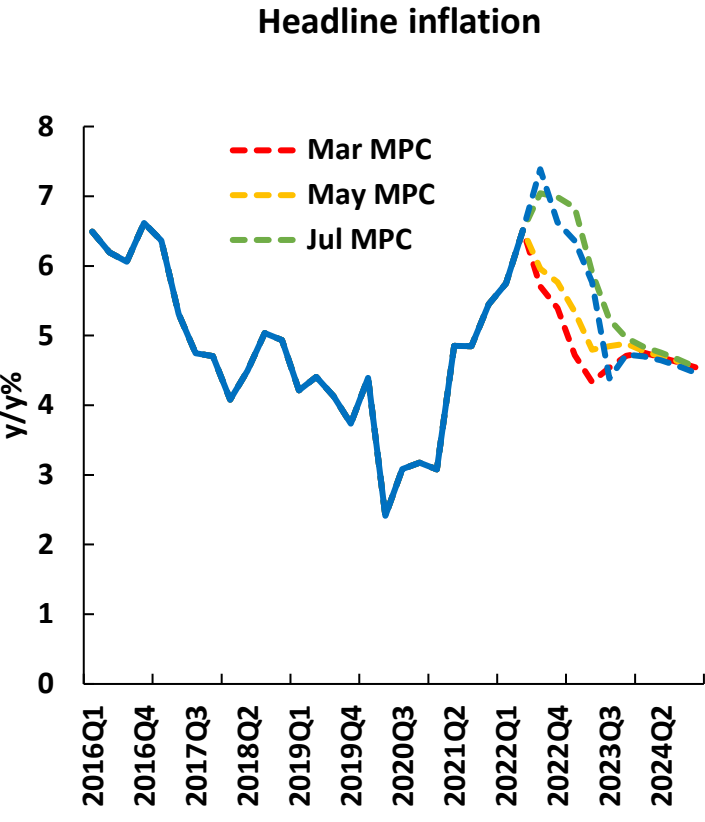
# Domestic inflation has consistently surprised higher relative to forecasts



Sources: Stats SA and SARB

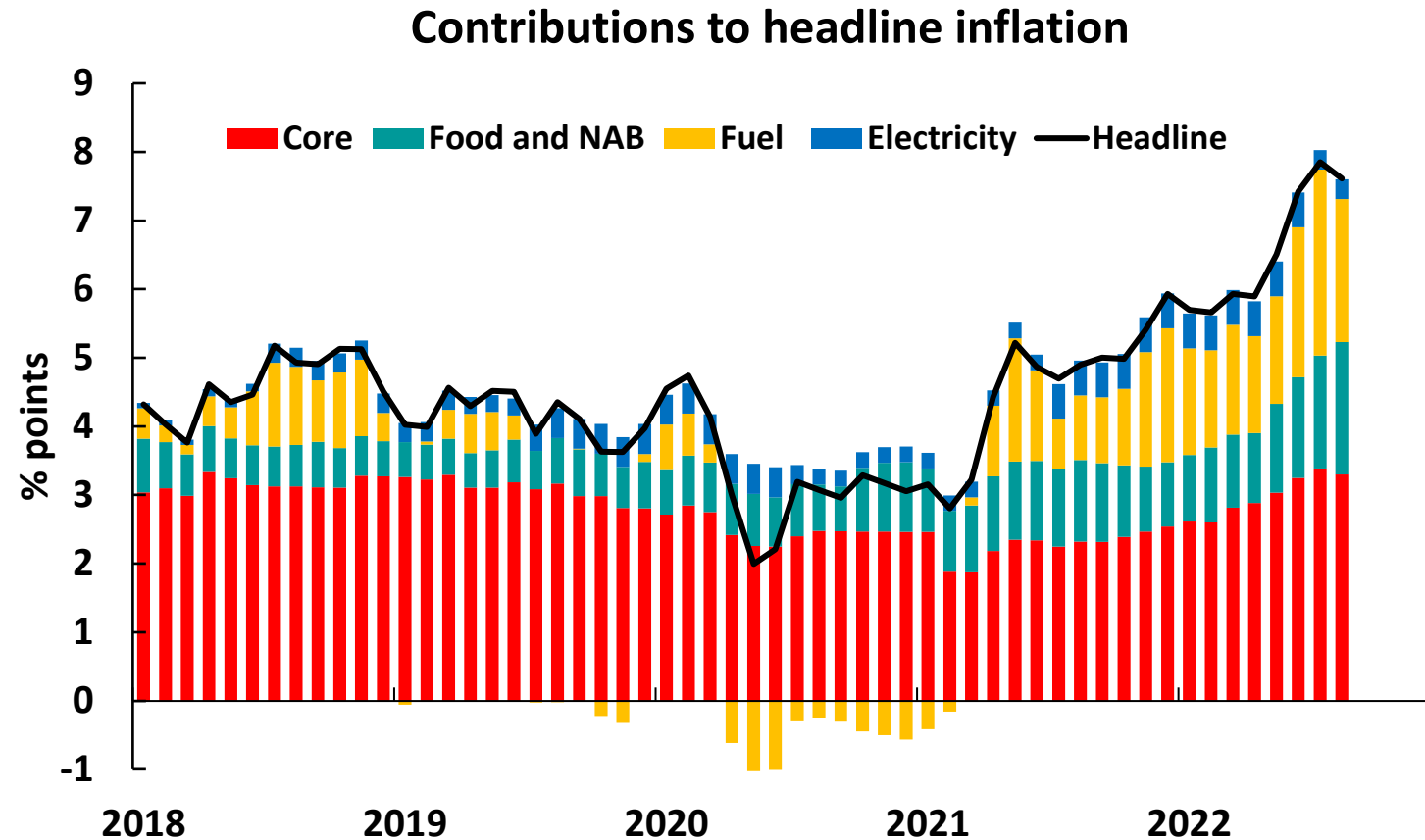


Sources: Stats SA and SARB



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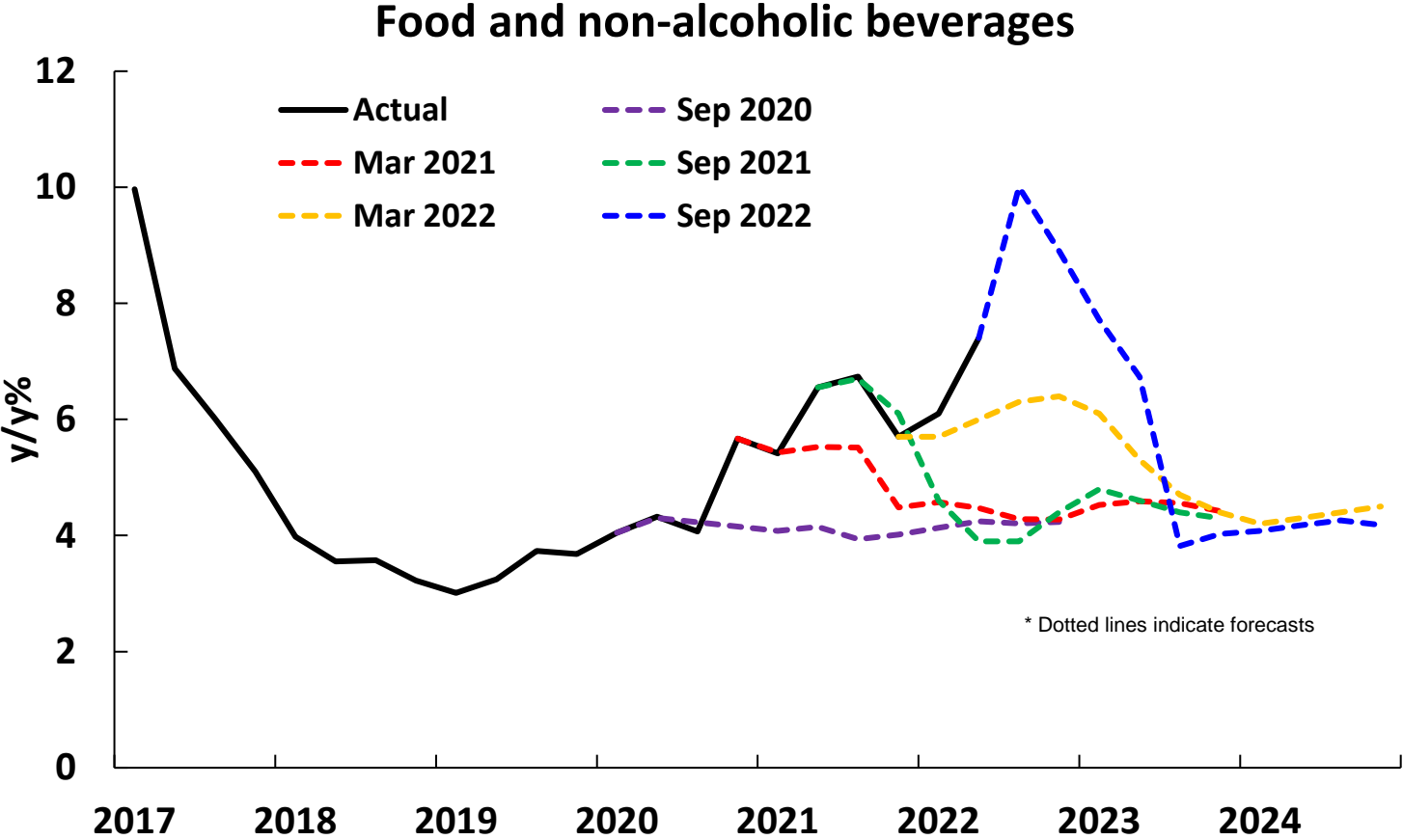
... and soaring to 7.8% in July on broad-based drivers, slight moderation in August



Sources: Stats SA and SARB



# Food price inflation yet to peak, lagging its global counterpart

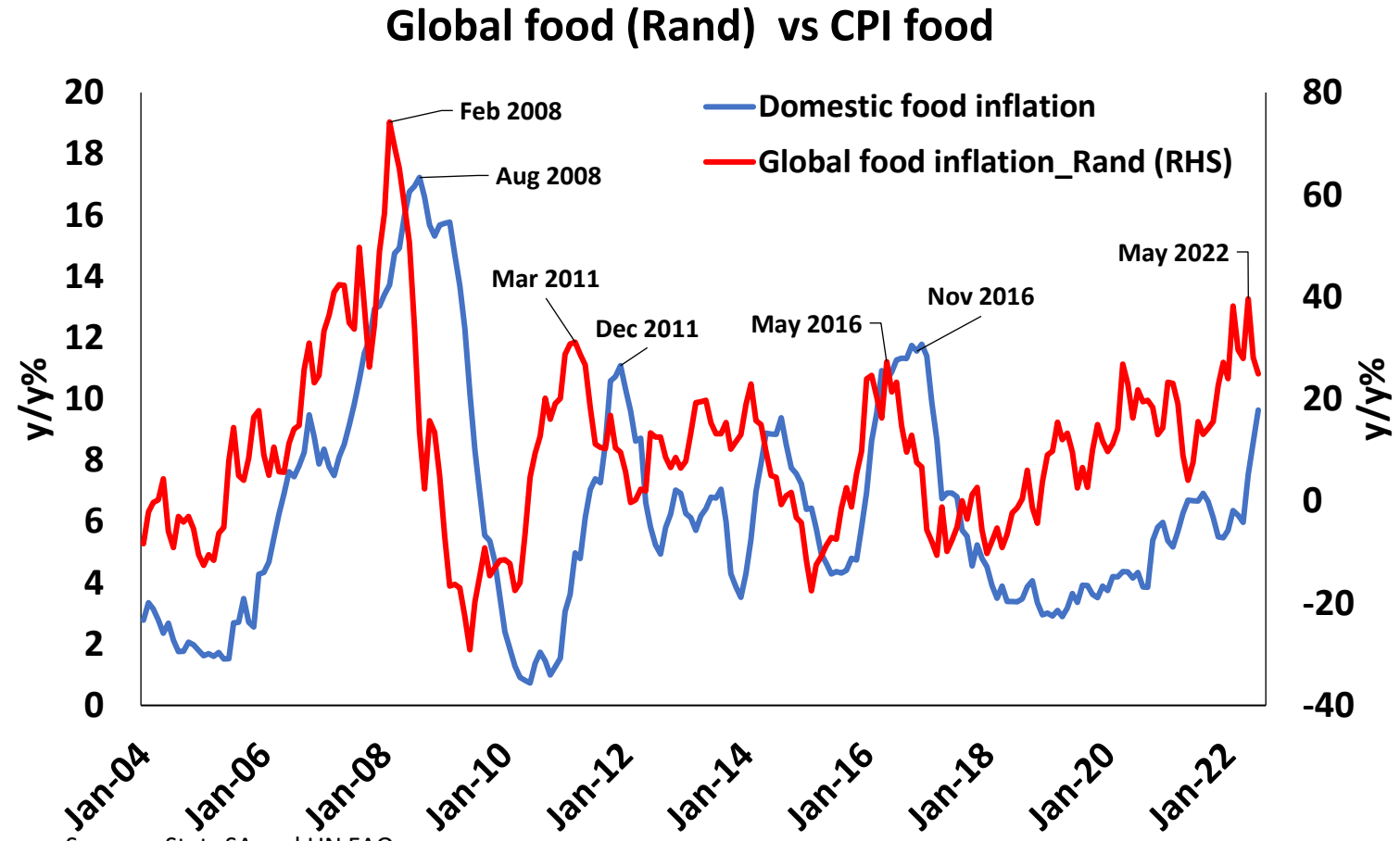


Sources: Stats SA and SARB

\* Dotted lines indicate forecasts



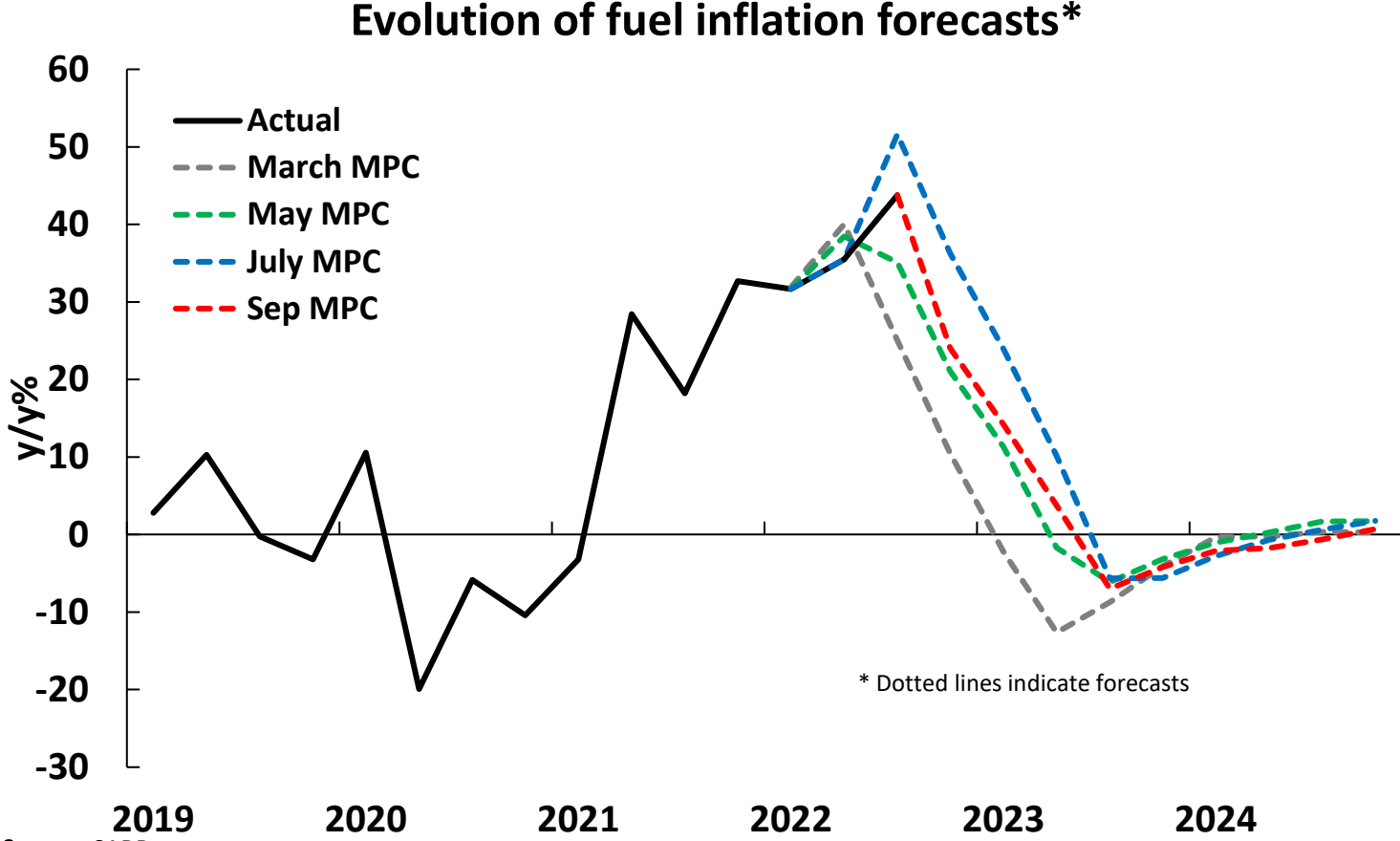
# Global food inflation leads domestic by about 2 quarters



Sources: Stats SA and UN FAO

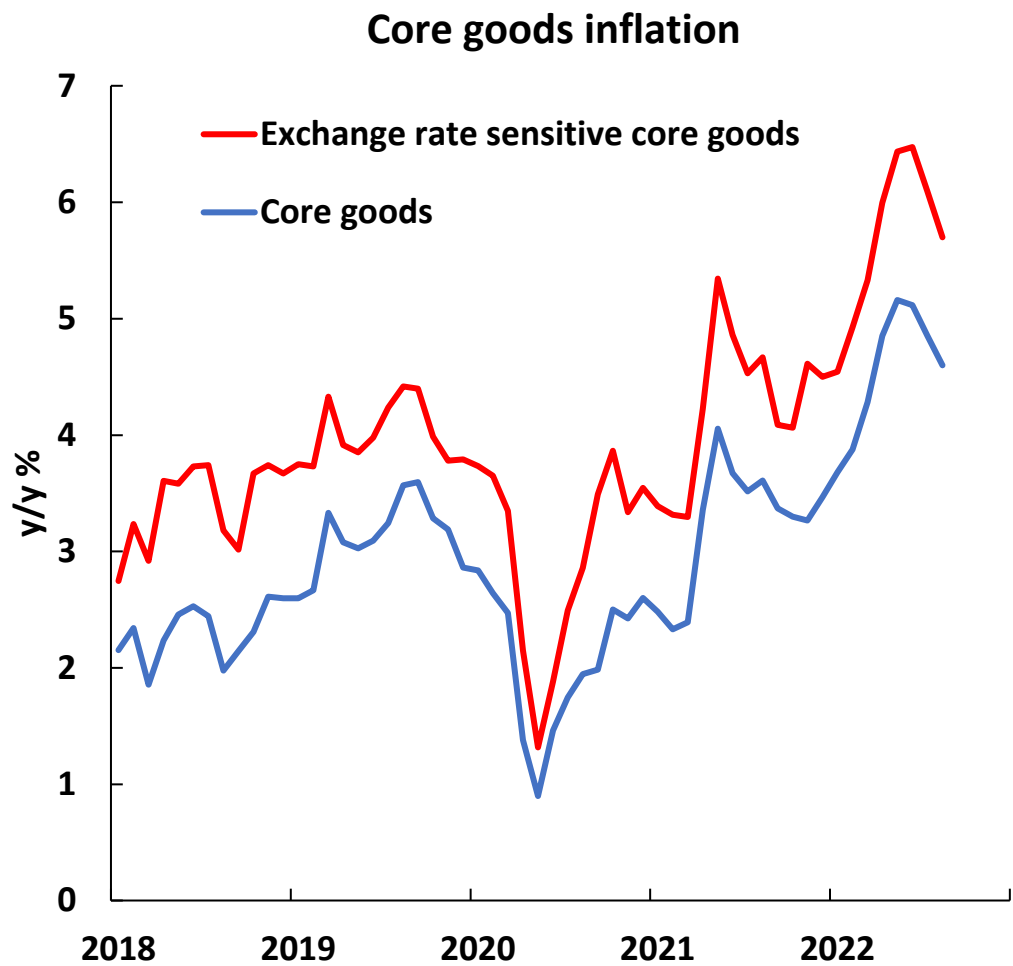


# Weaker rand keeps fuel price inflation elevated, though easing oil prices helping

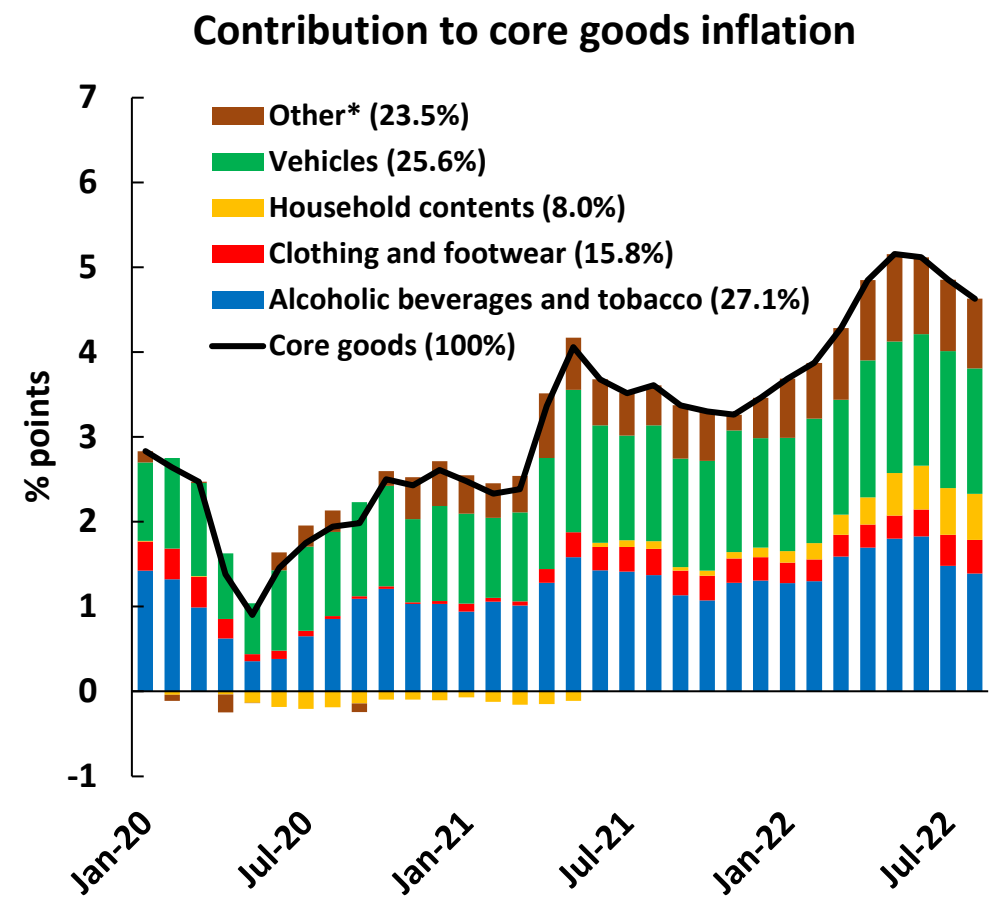


Source: SARB

# Core goods also generally higher on catch-up, spillovers and weaker currency



Sources: Stats SA and SARB



Sources: Stats SA and SARB

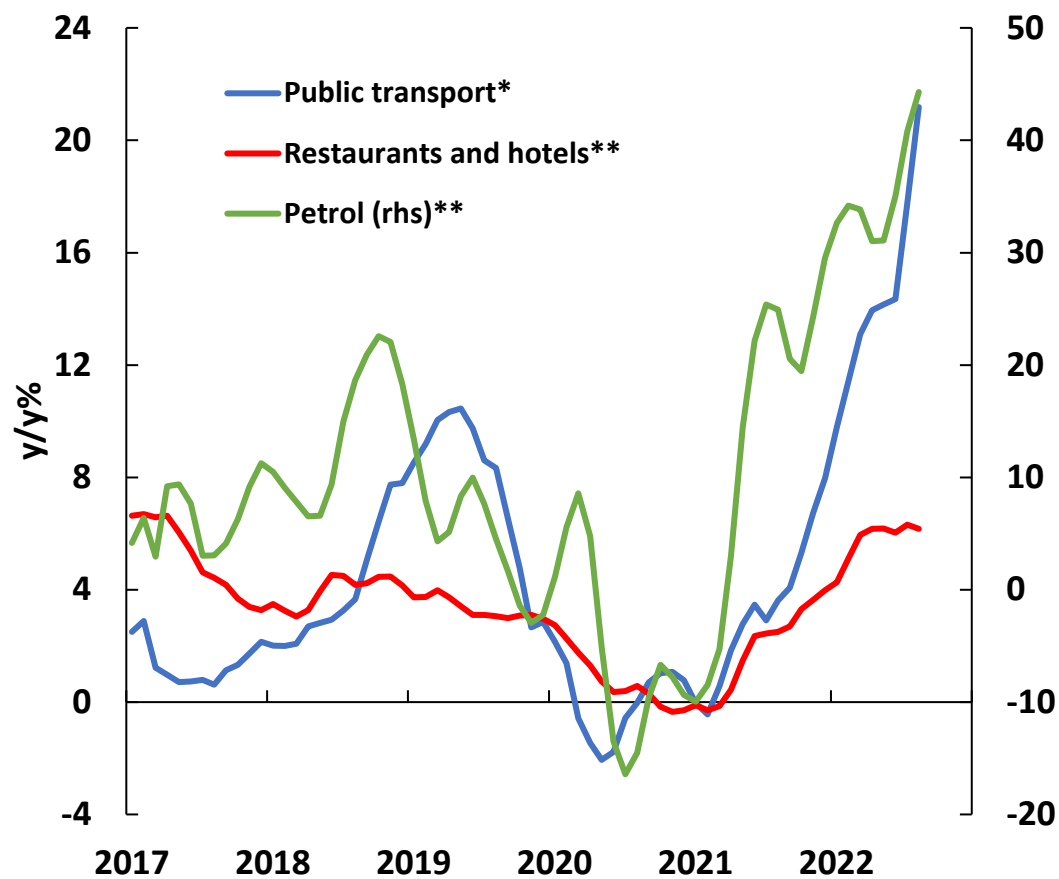
\*Other includes medical products, spare parts and accessories and other



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# With similar dynamics in services

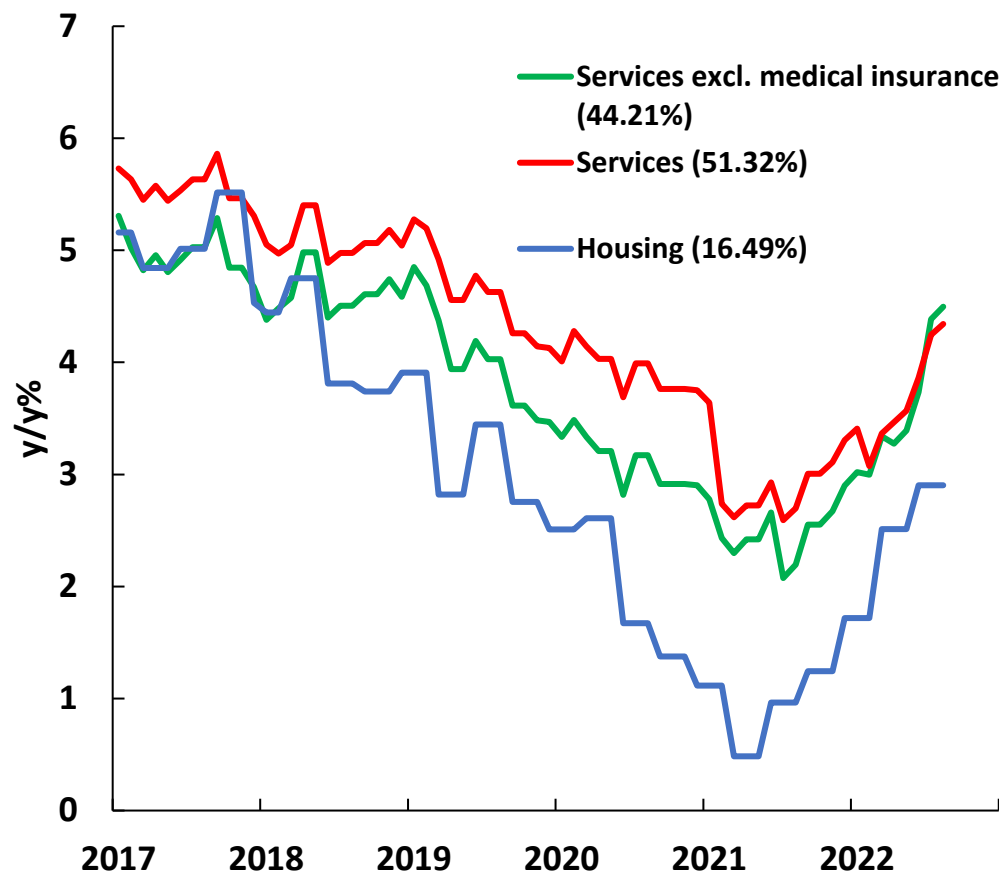
## Fuel spill-overs



\* Excluding trains  
 \*\* Moving averages

Sources: Stats SA and SARB

## Services inflation

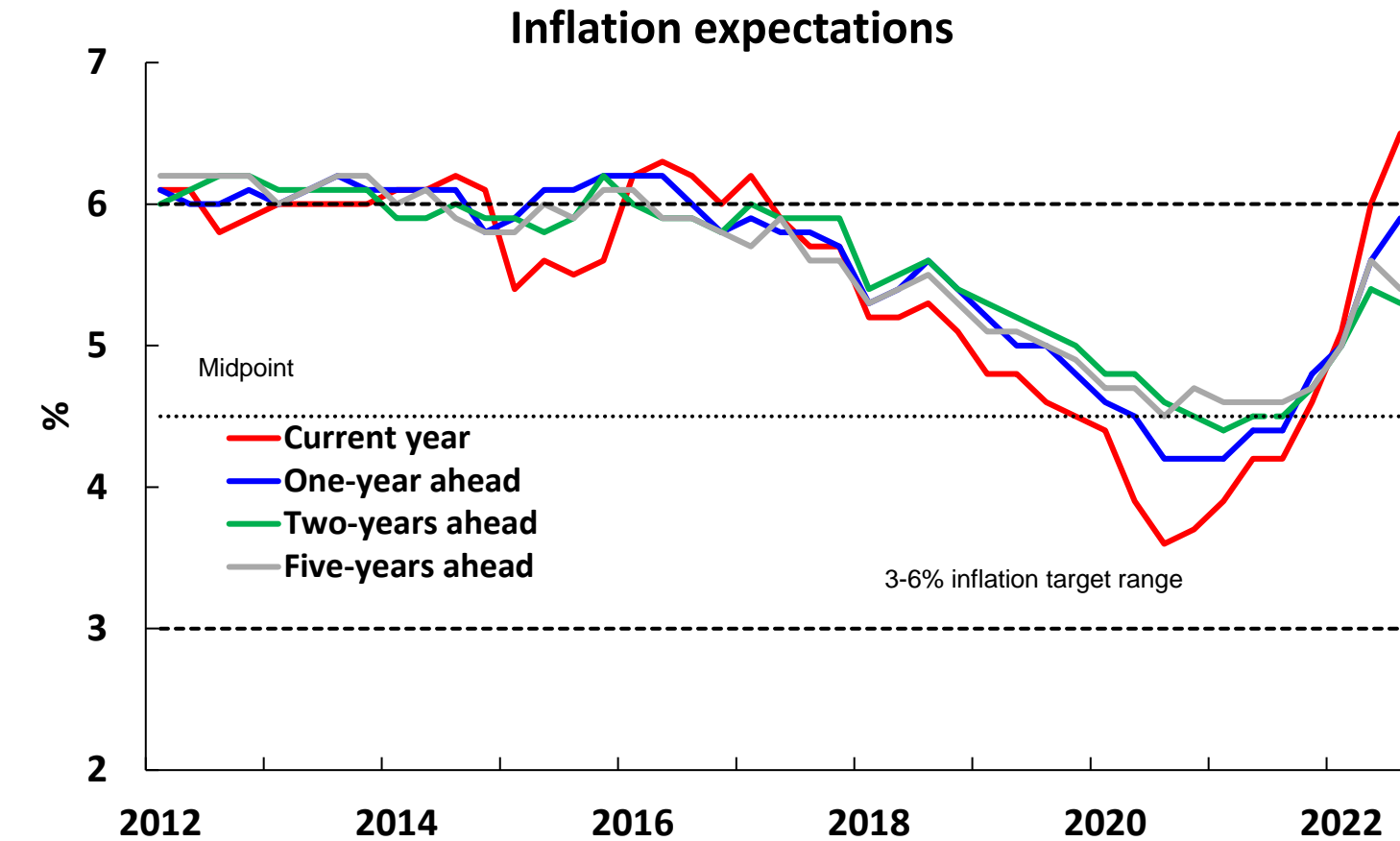


\* Weights in brackets

Source: Stats SA



# Inflation expectations responsive to inflation outcomes, risk to core forecast

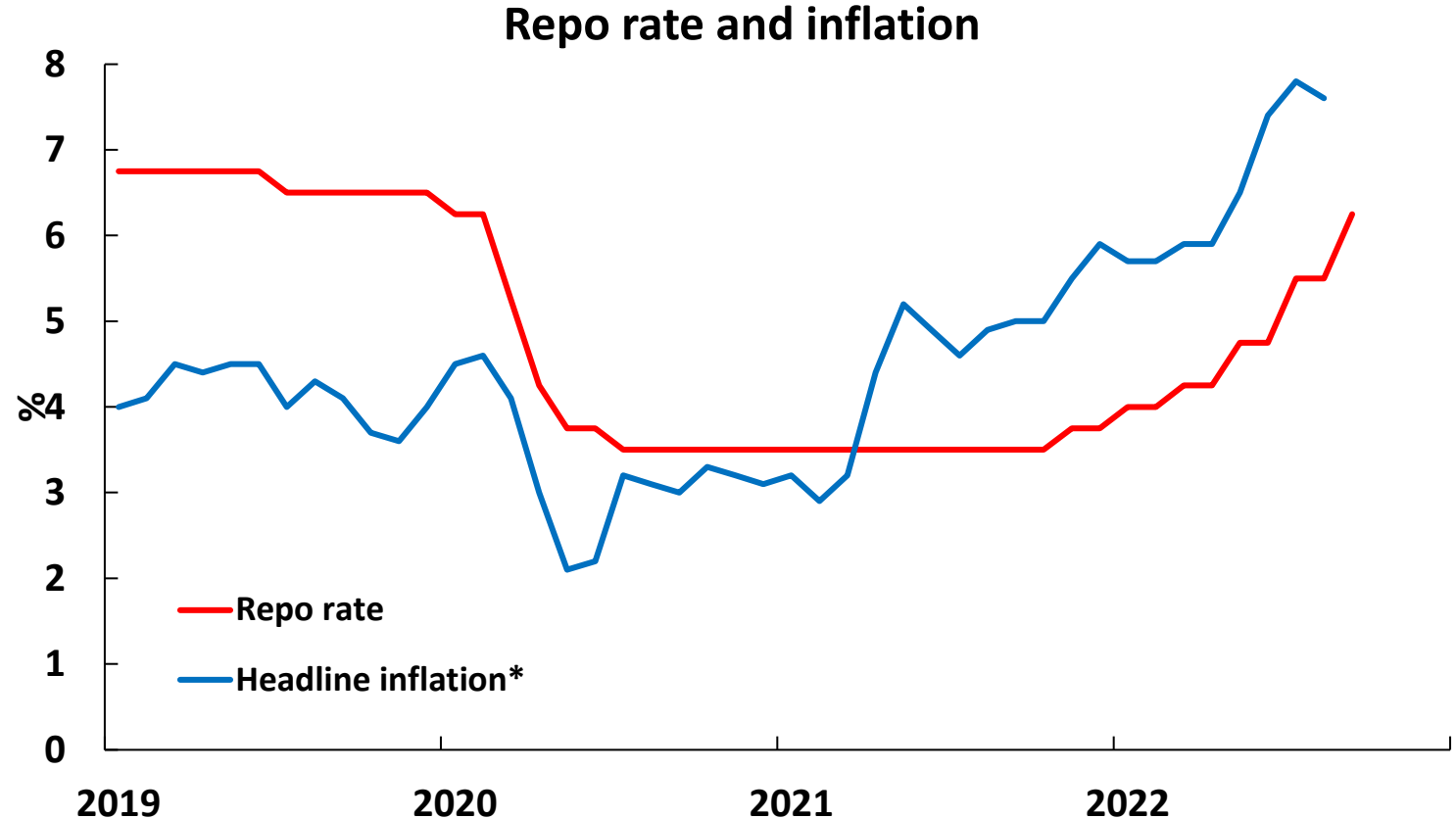


Source: BER



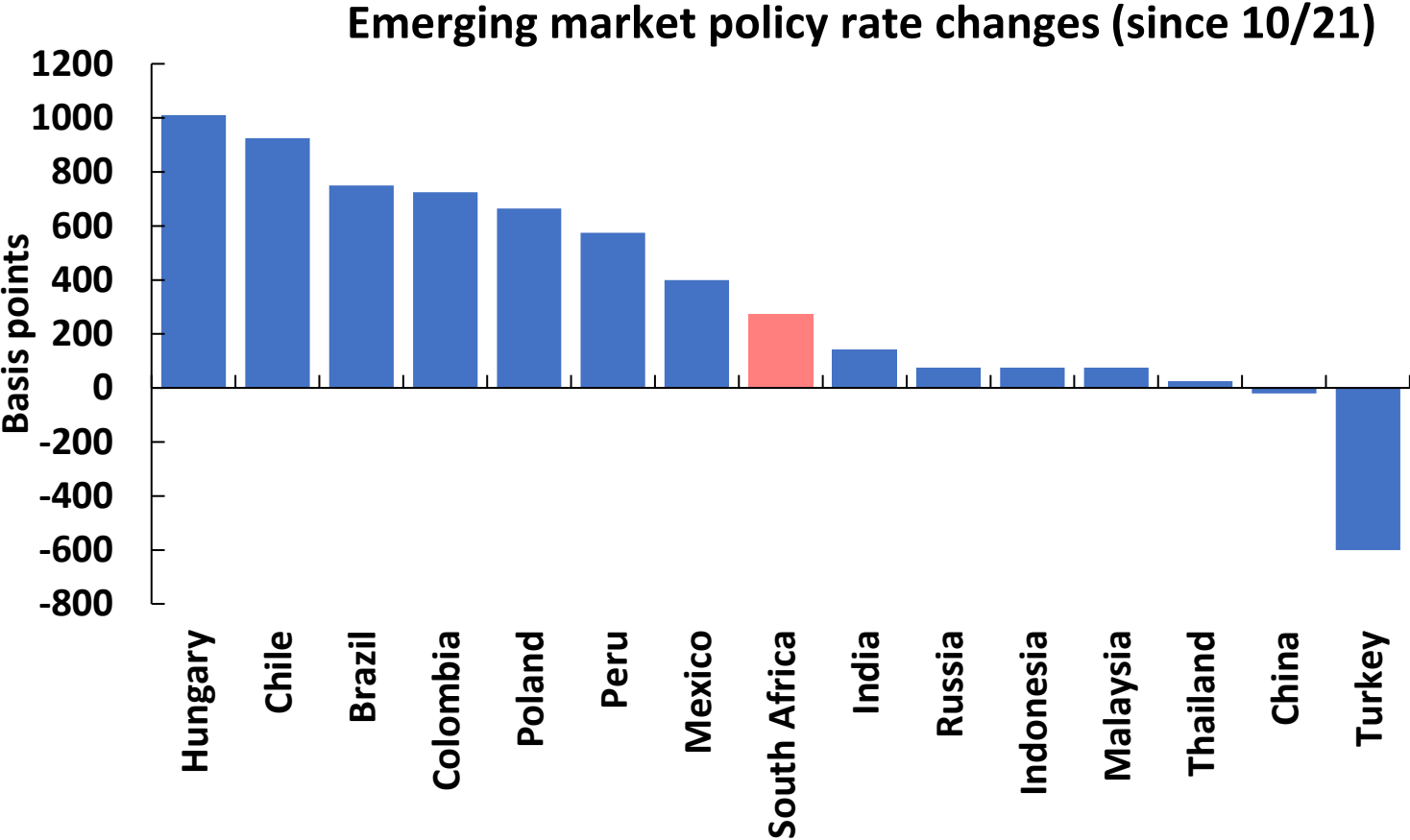


# Policy response as inflation increased and expectations followed



\* year-on-year percentage change  
Sources: Stats SA and SARB

# Normalisation shallower than in peer countries

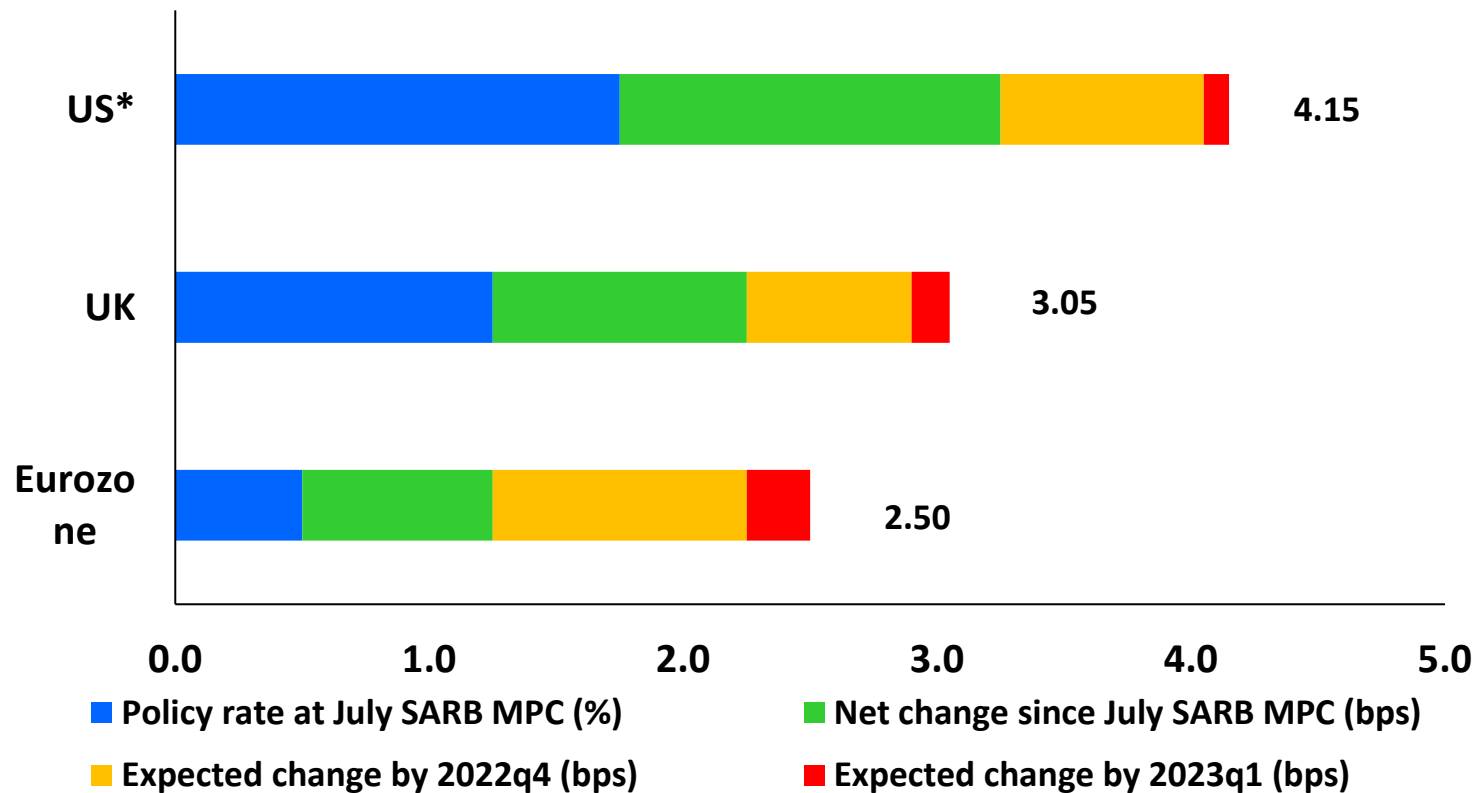


Sources: Haver and SARB



# But is it enough?

## AE nominal policy rates and forecasts

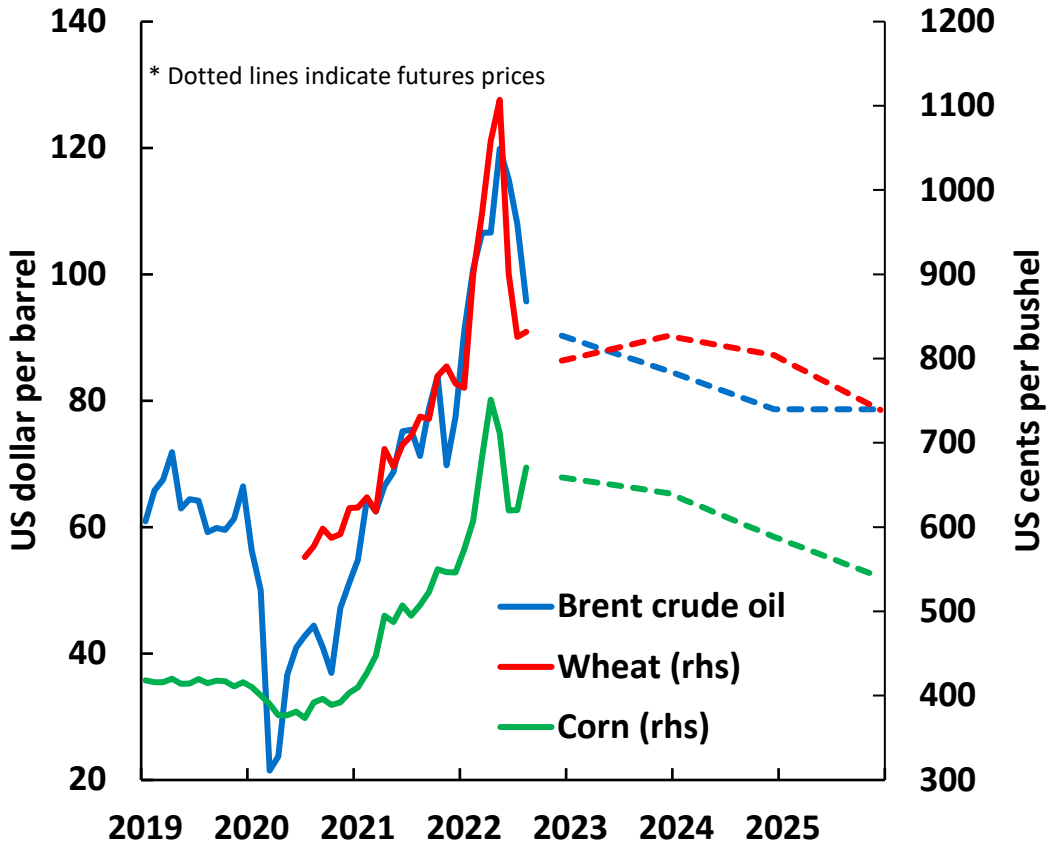


\*Upper range of Fed funds target  
Source: Bloomberg



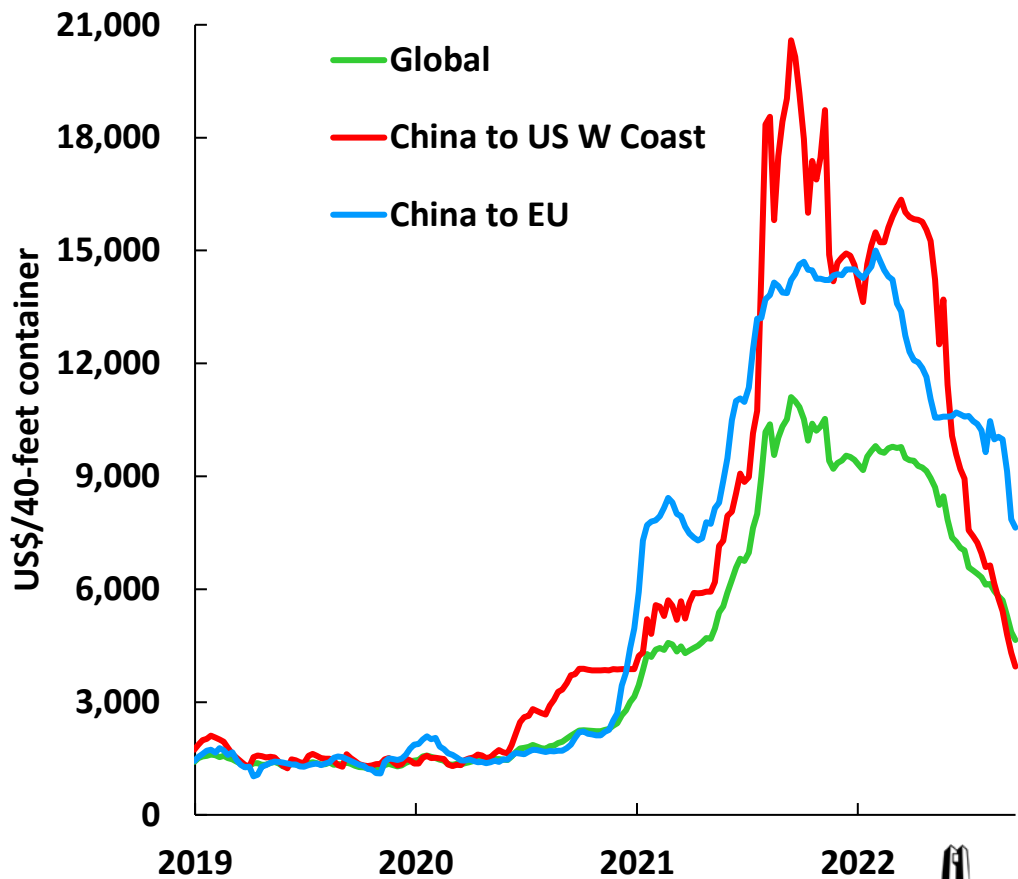
Possibly, as demand rotation continues & bottlenecks ease

Food and oil prices\*



Source: Bloomberg

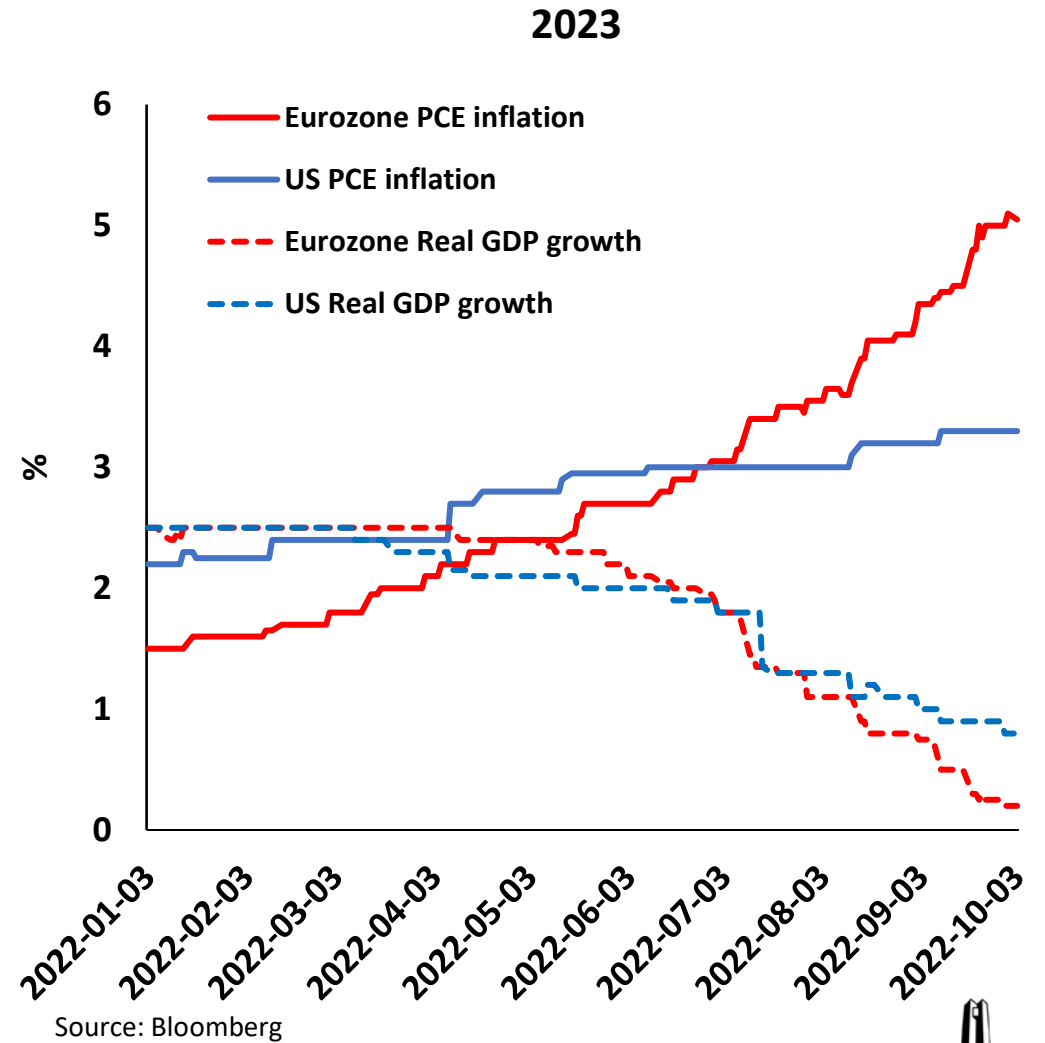
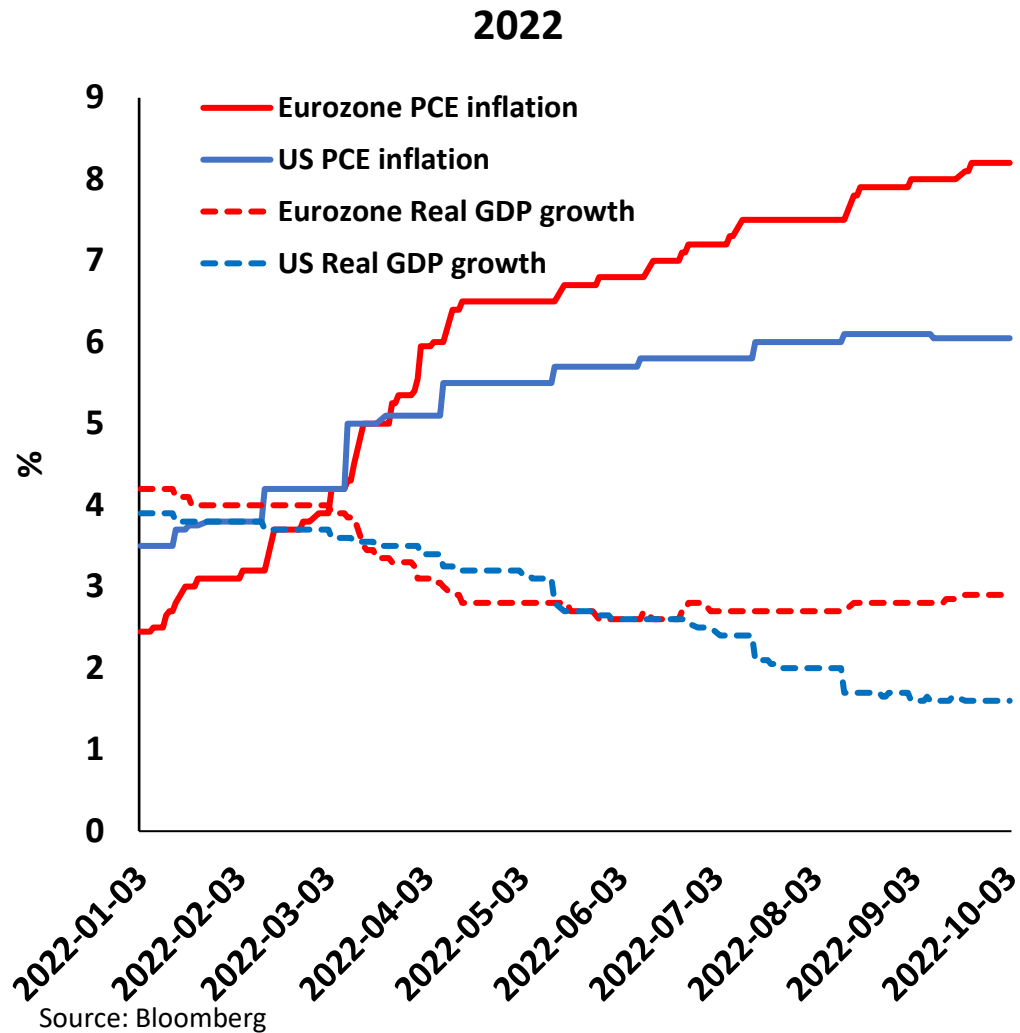
Ocean container freight costs



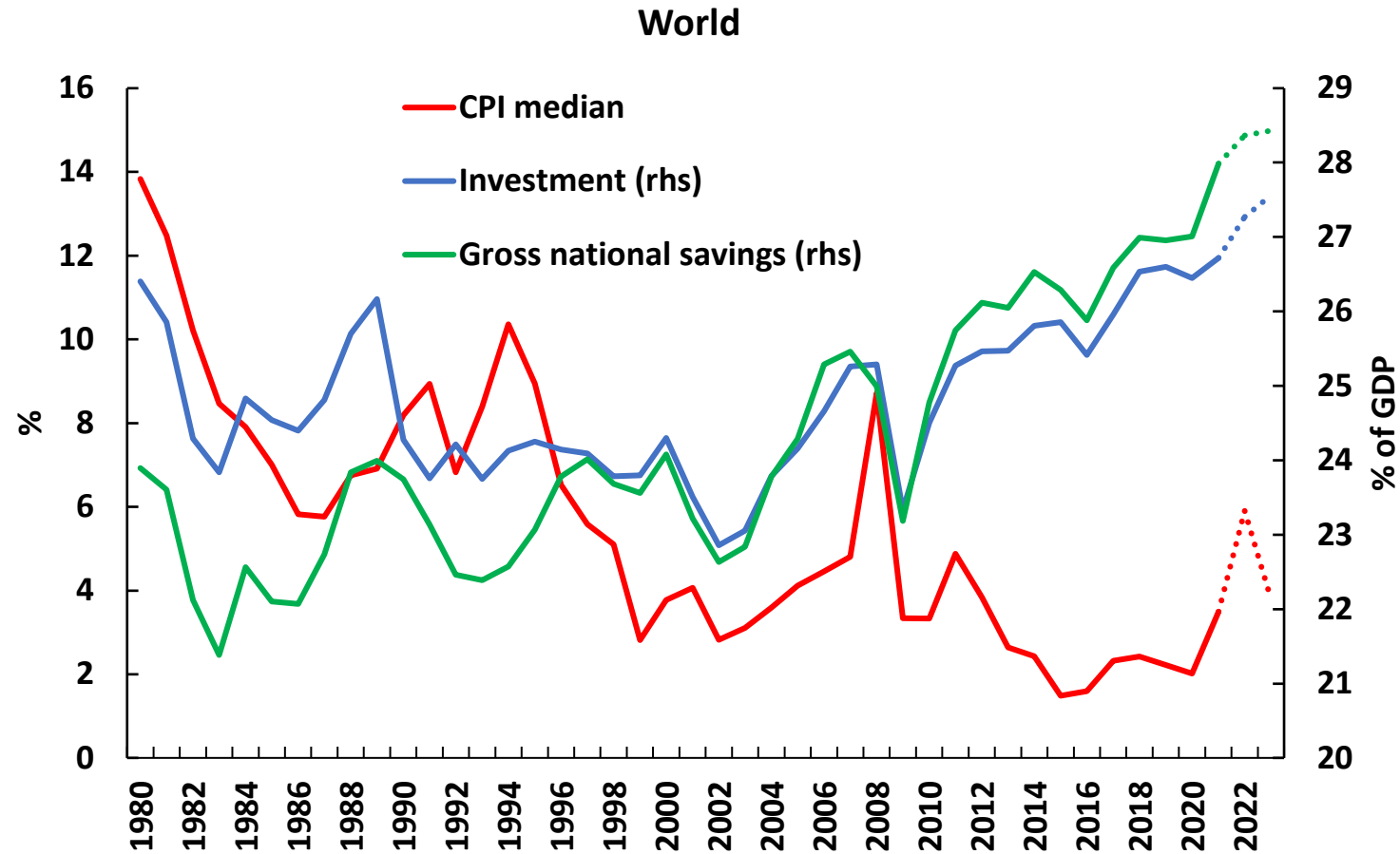
Sources: Freightos and Bloomberg



# High inflation is costly, in the short run...



.... And in the long run, but unlikely to reverse inflation on its own... "regime change"?

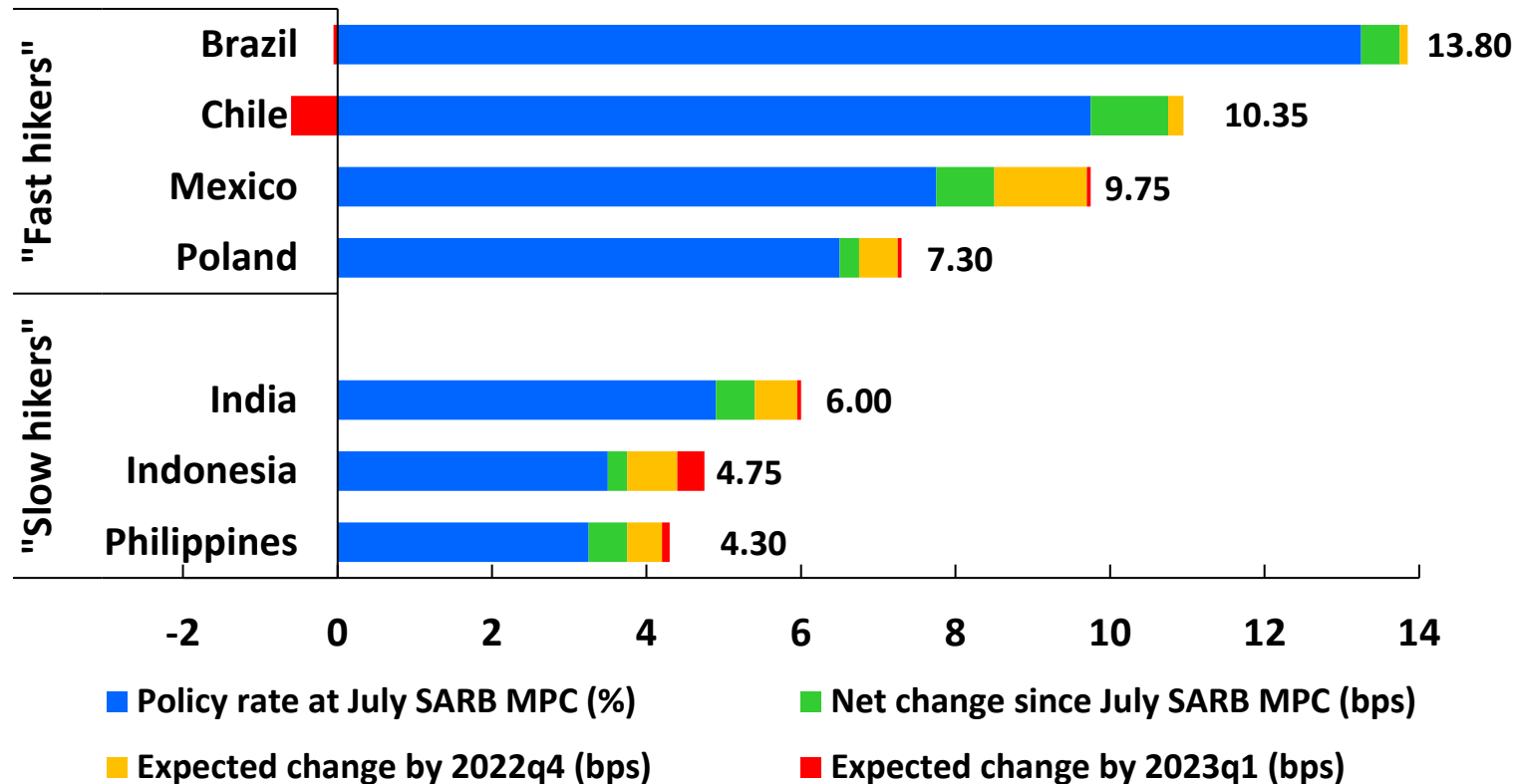


Source: IMF WEO



# Benign scenario for emerging economies looks priced-in

## EM nominal policy rates and forecasts



Sources: Bloomberg and Central Banks



- **Policy rates up to prevent de-anchoring, is it enough?**
- **With global growth slowing, supply eases & upstream prices lower... turned a corner or more vol coming?**
- **Domestic inflation & expectations sharply higher**
- **Locally, fine balance between AD and AS**
- **SA hiking cycle relatively shallow... catching up on normalisation**
- **Data dependence as a way of life...**

