

Monetary Policy Review

3 October 2016

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Head: Policy Development and Research

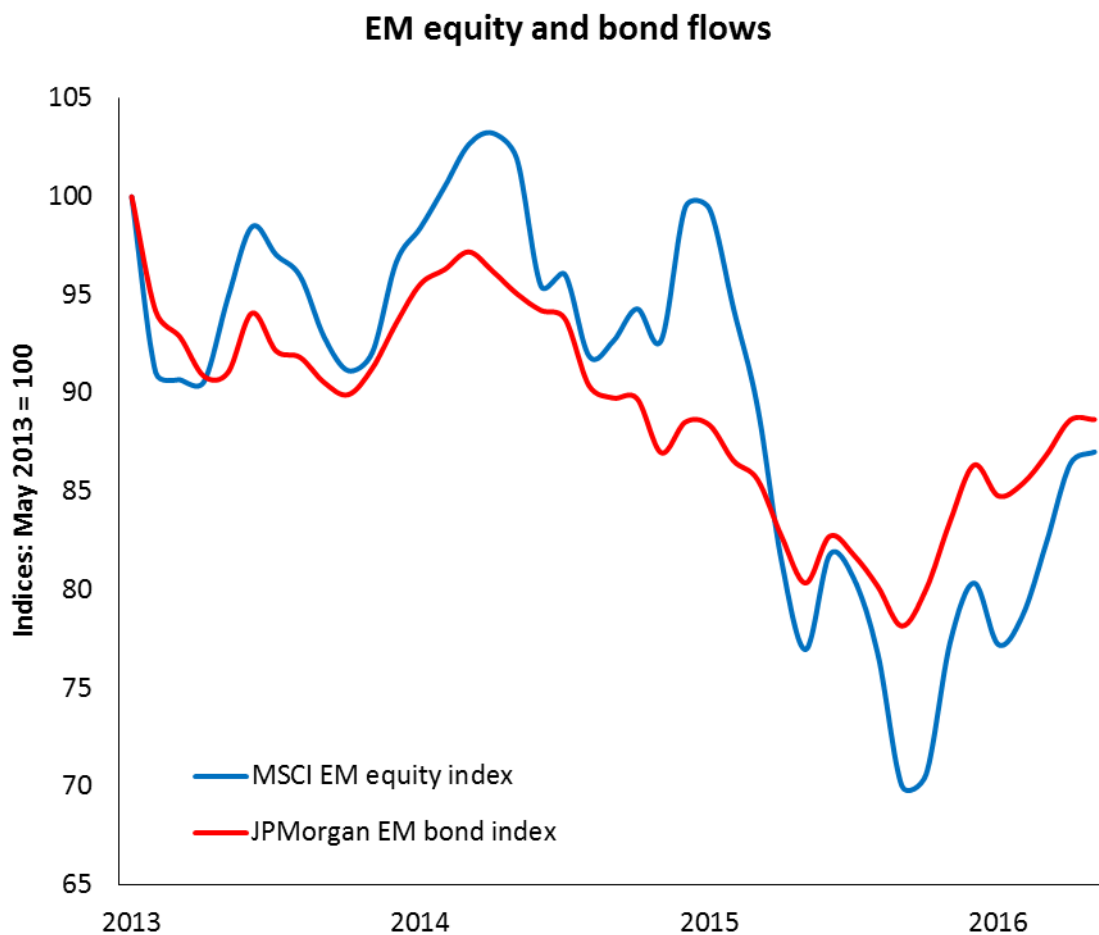
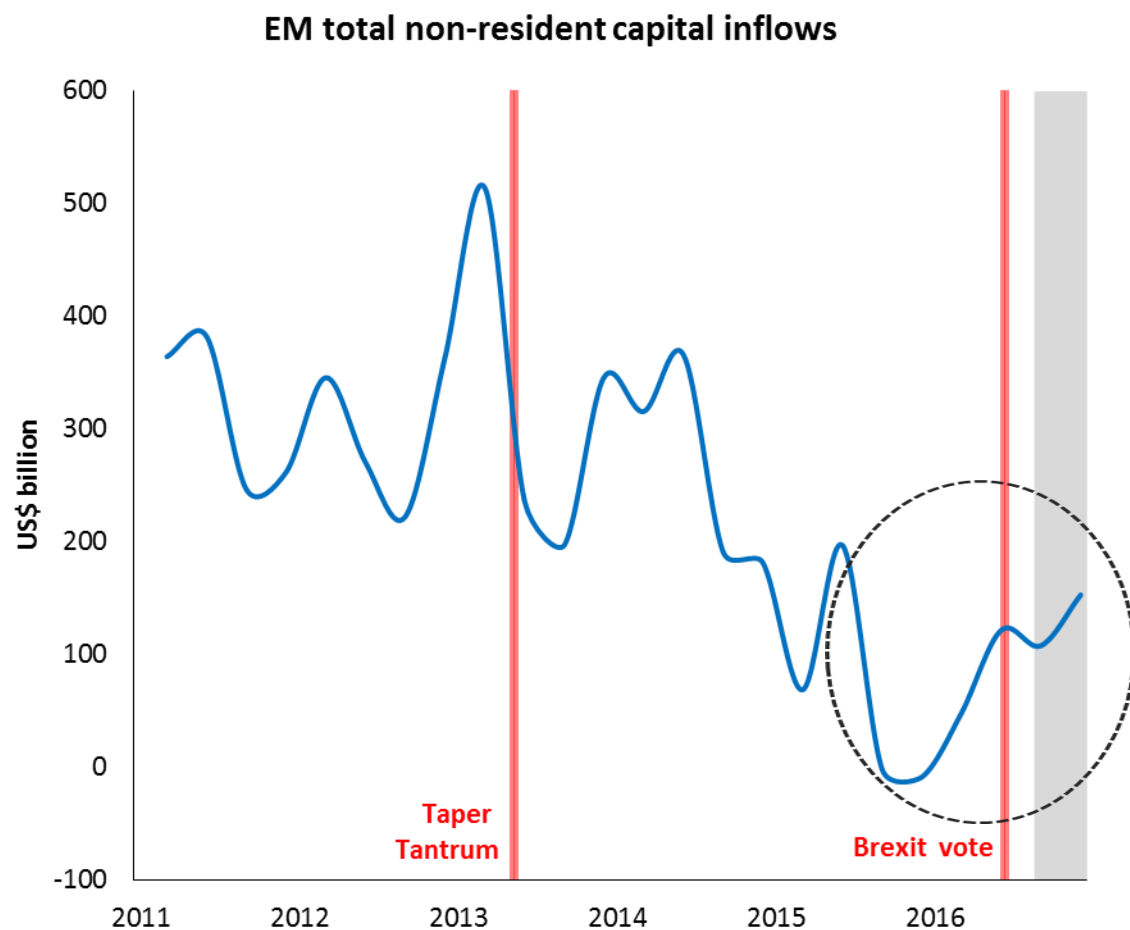
Overview of MPR

- **Chapters**
 - Overview of the policy stance
 - World economy
 - Domestic economy
 - Inflation developments and outlook
- **Boxes**
 - Slowing growth in sub-Saharan Africa: implications for South Africa
 - Disaggregating the trade component of the current account
 - Core inflation forecast accuracy
 - South African inflation: an international perspective
- **Next MPR: 4 April 2017**

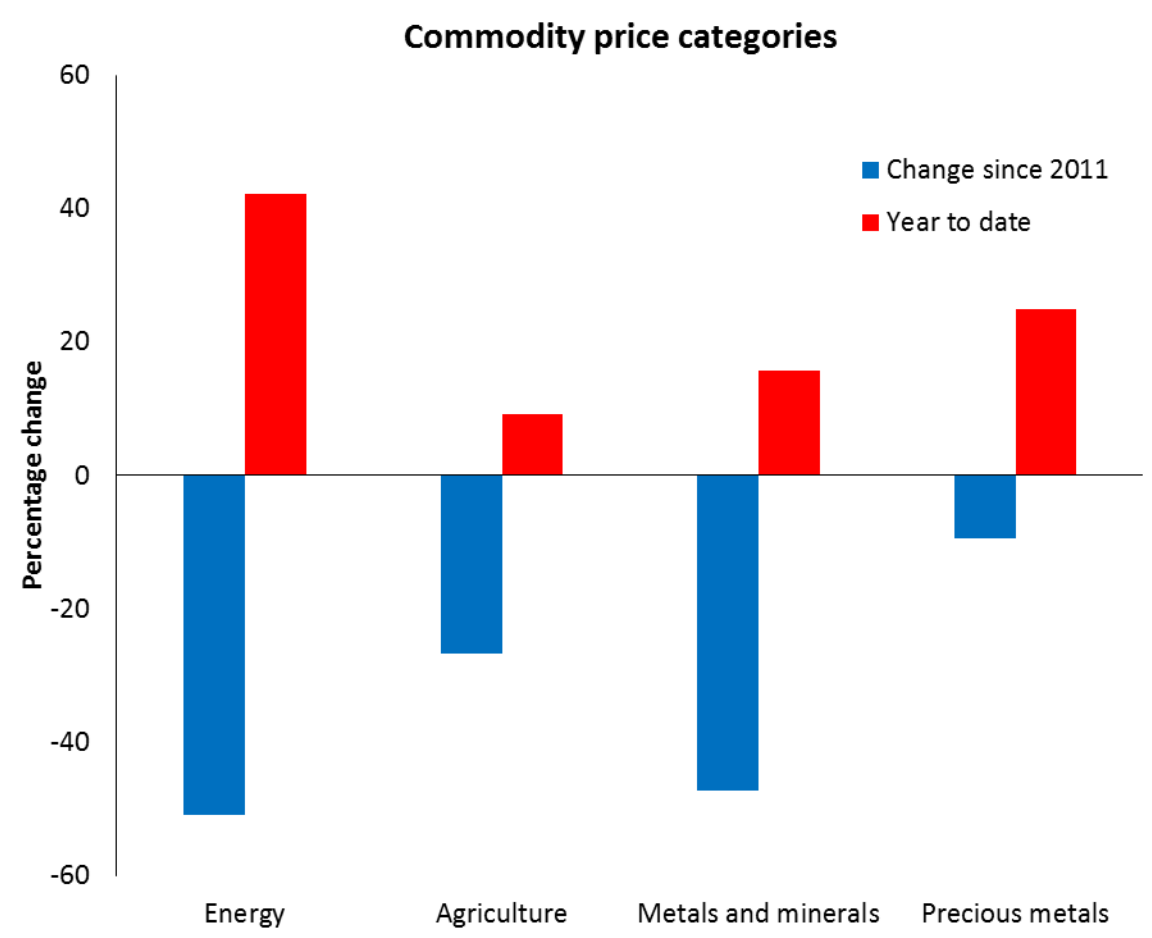
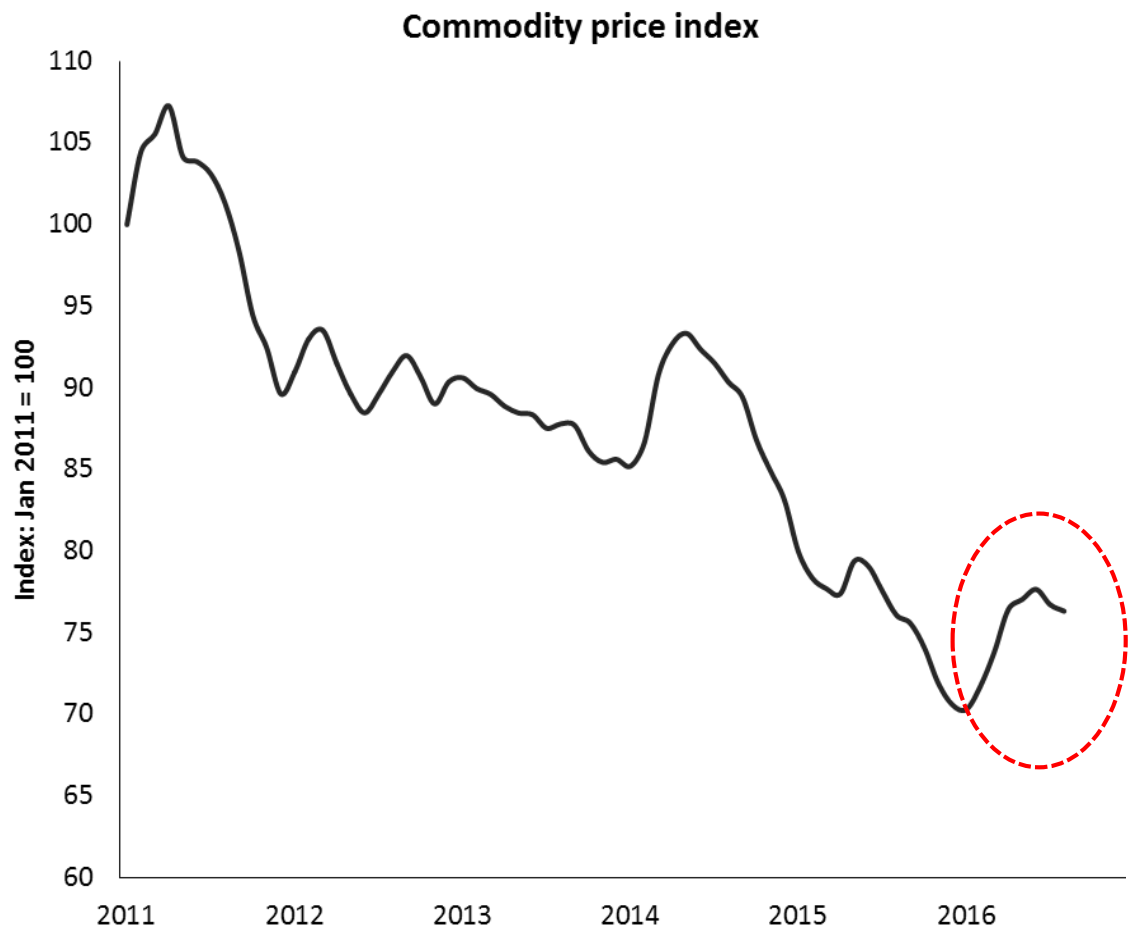
Overview

- **Stabilisation?**
 - Capital flows and commodity prices higher
 - How far from 'normal' growth?
- **Domestic economic growth subdued**
 - Output gap has widened in 2015 and 2016, given shocks
 - Slowdown is mainly structural, reducing scope for policy
- **Inflation at post-crisis highs**
 - Food prices, rand depreciation, and pricing behaviours in product and labour markets
 - Expectations and core around upper end of the target range
- **Policy stance**
 - Repo increased from 5,0 to 7,0 per cent since January 2014... no change since previous MPR
 - Forecast gradually improved, risks balanced
 - But bar set for cuts high...sustained improvements

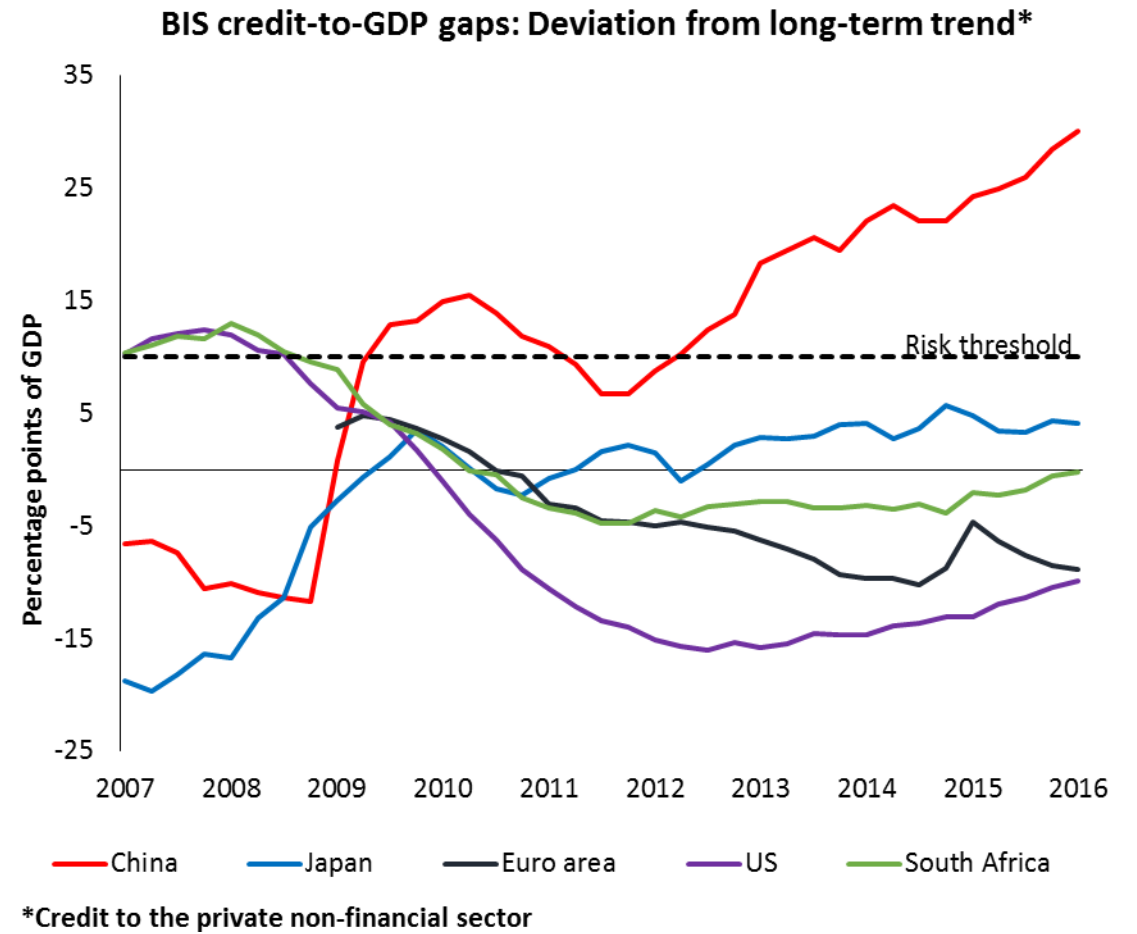
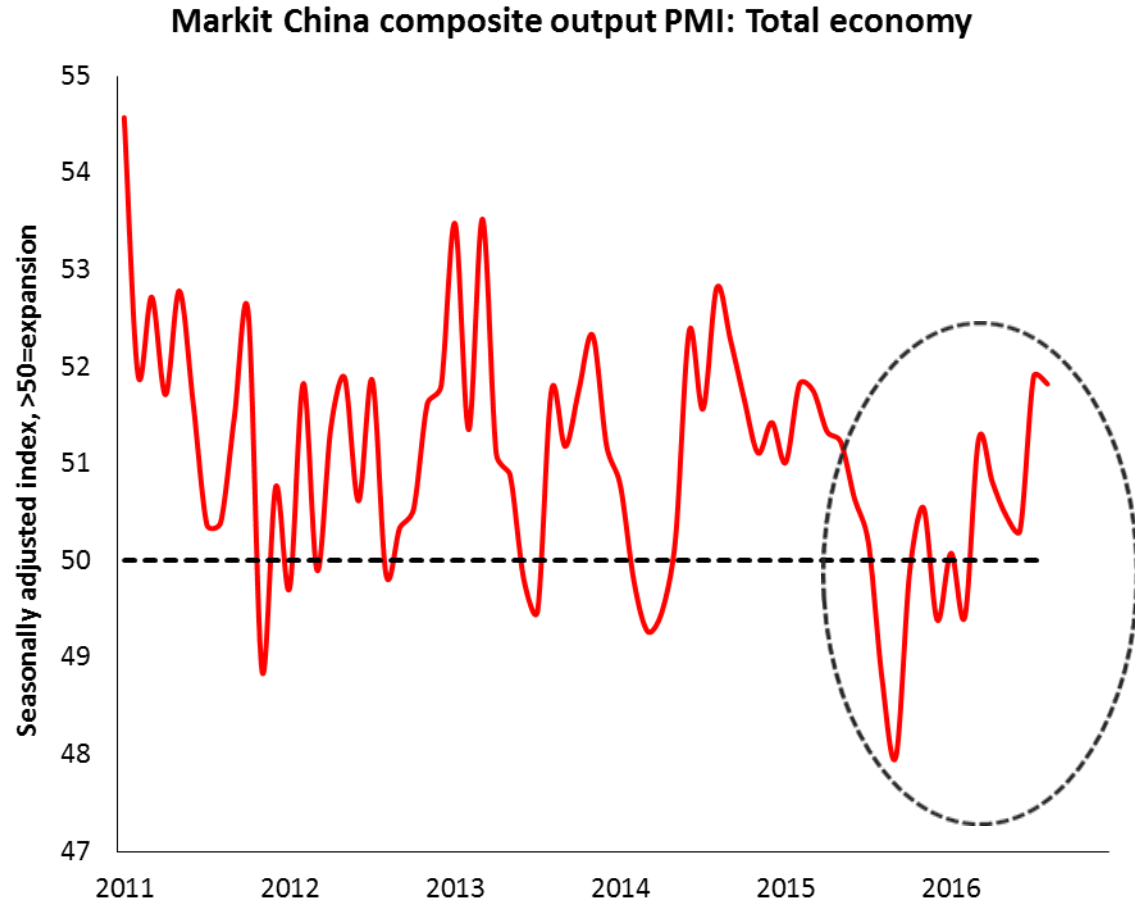
Global conditions have improved, with capital flows to emerging markets recovering...



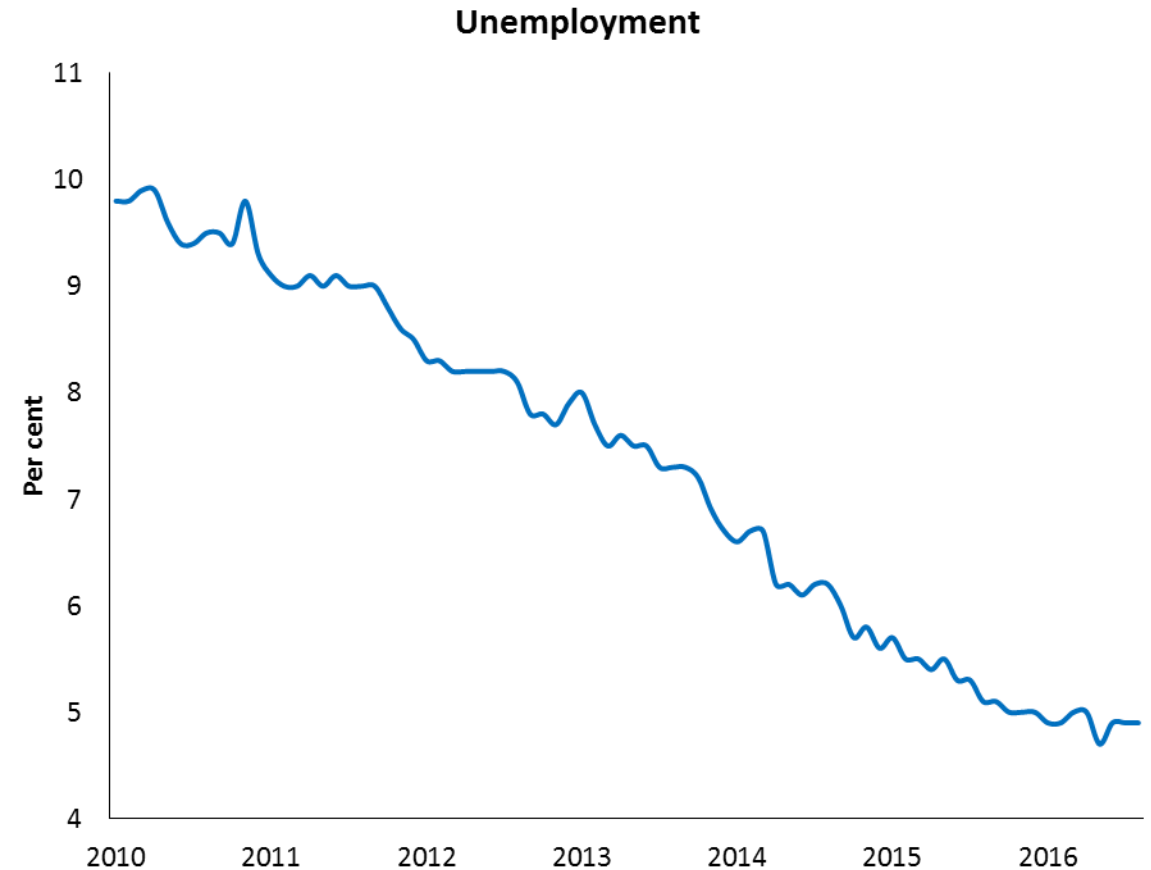
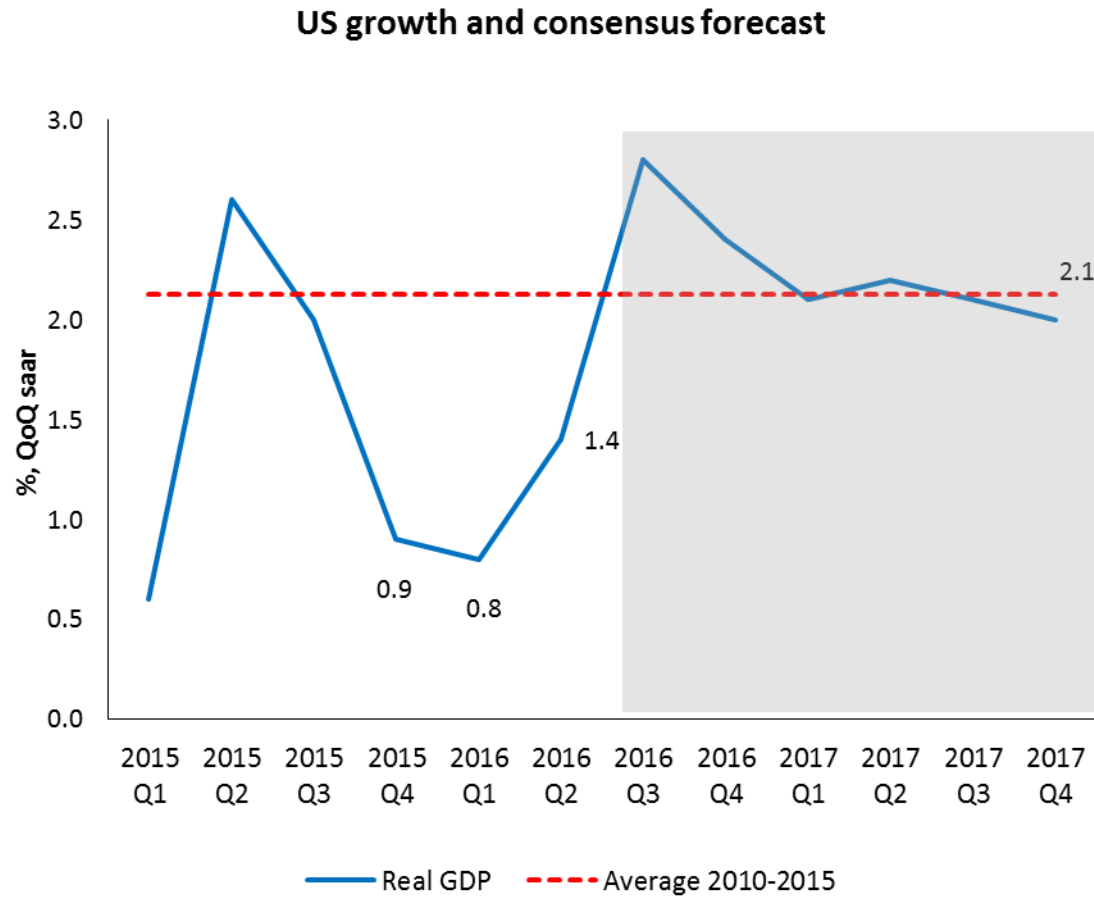
... and higher commodity prices



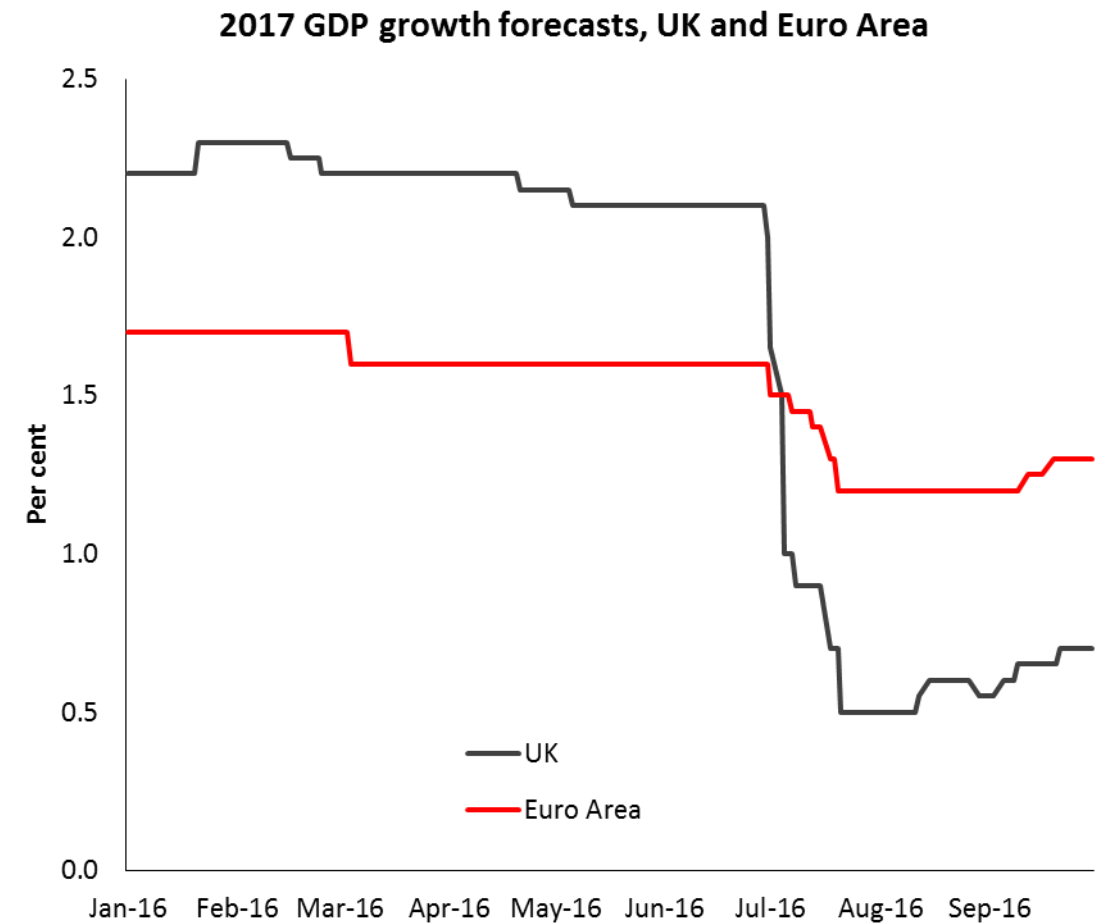
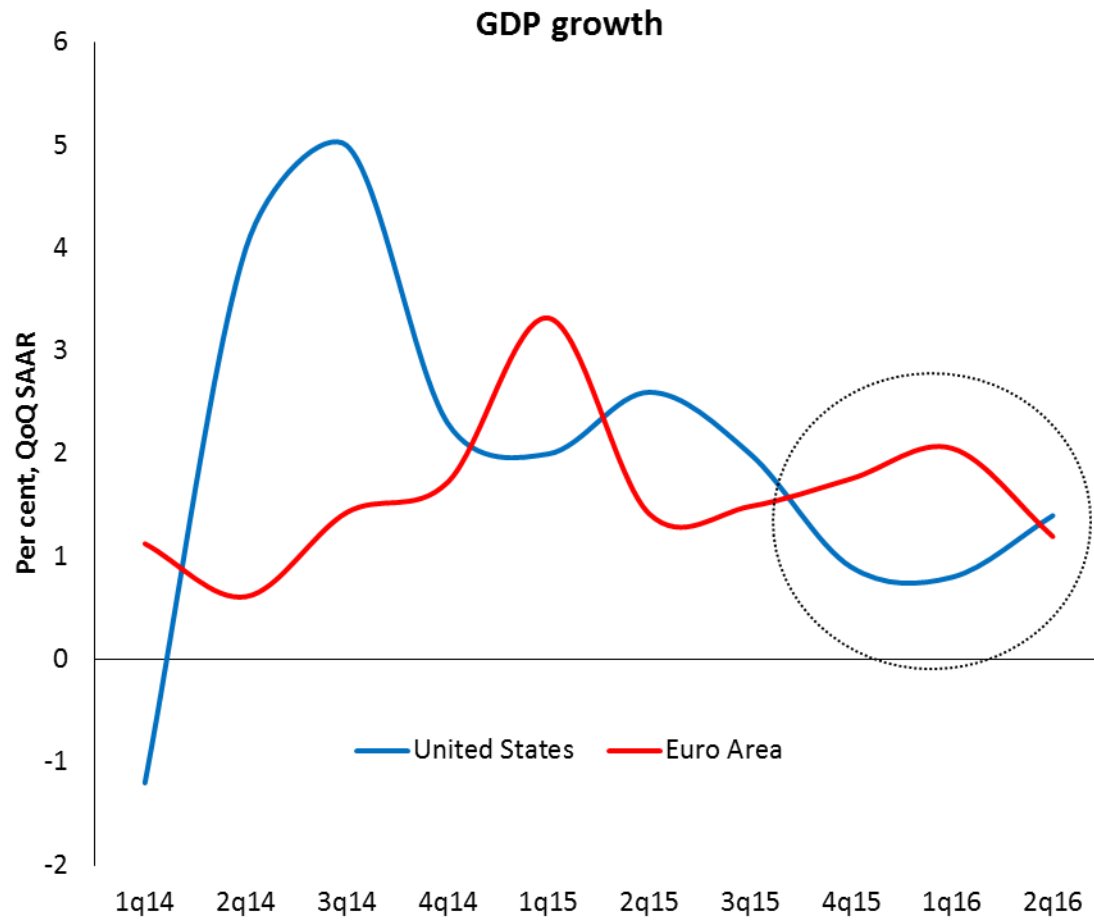
China risks receded, at least temporarily



In the US, underlying economic conditions remain robust despite recent weakness

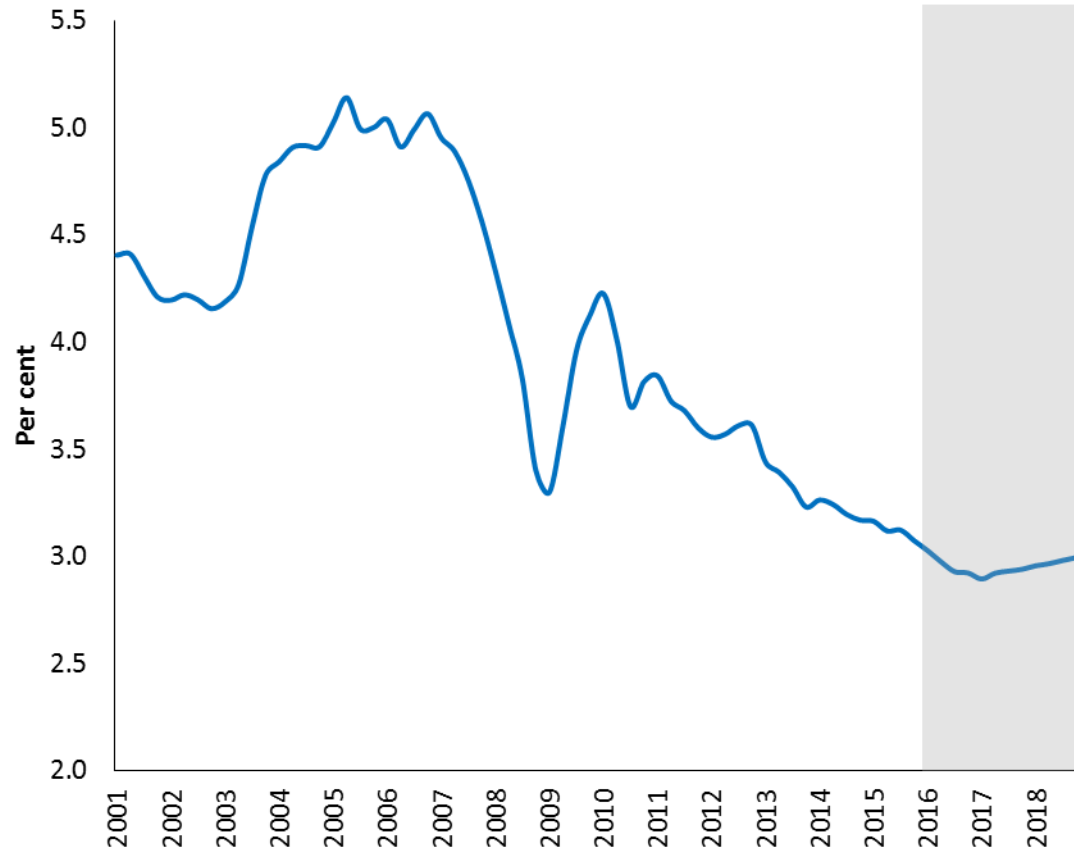


In recent quarters, the euro area somewhat stronger, with limited Brexit risk

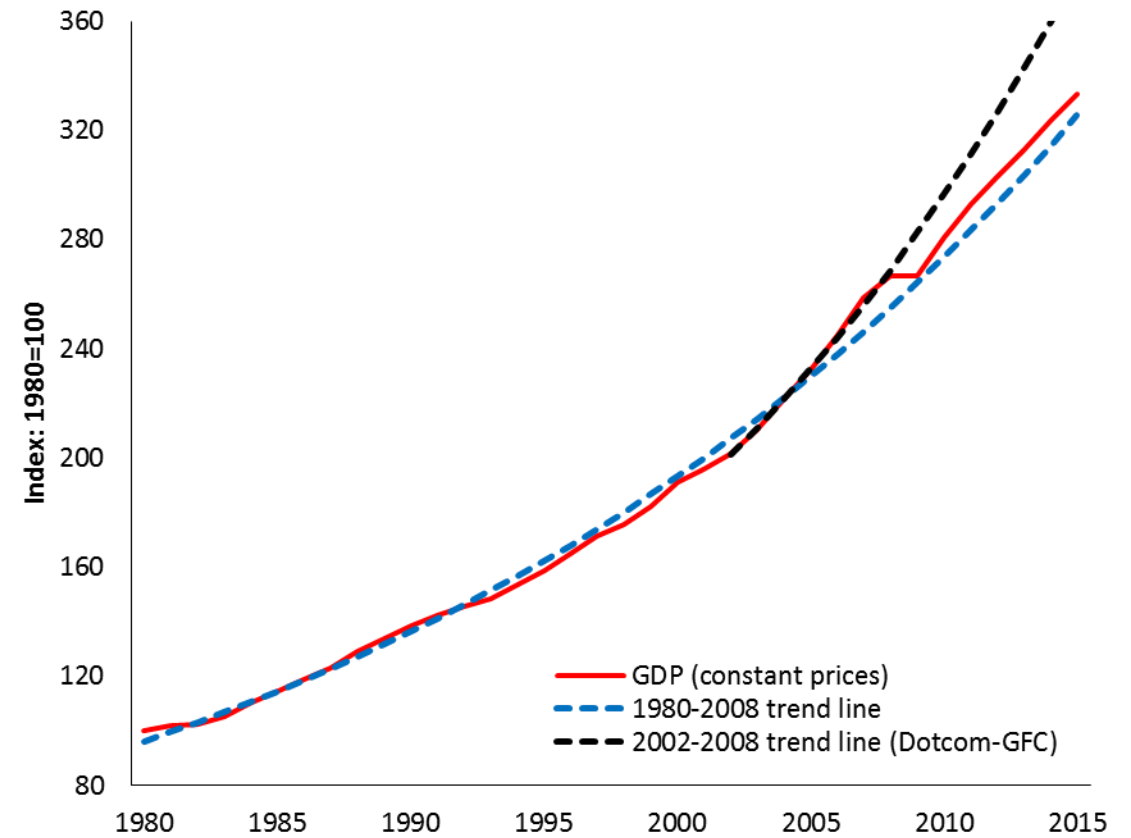


World growth has slowed since the 2000s, but is this the best comparison?

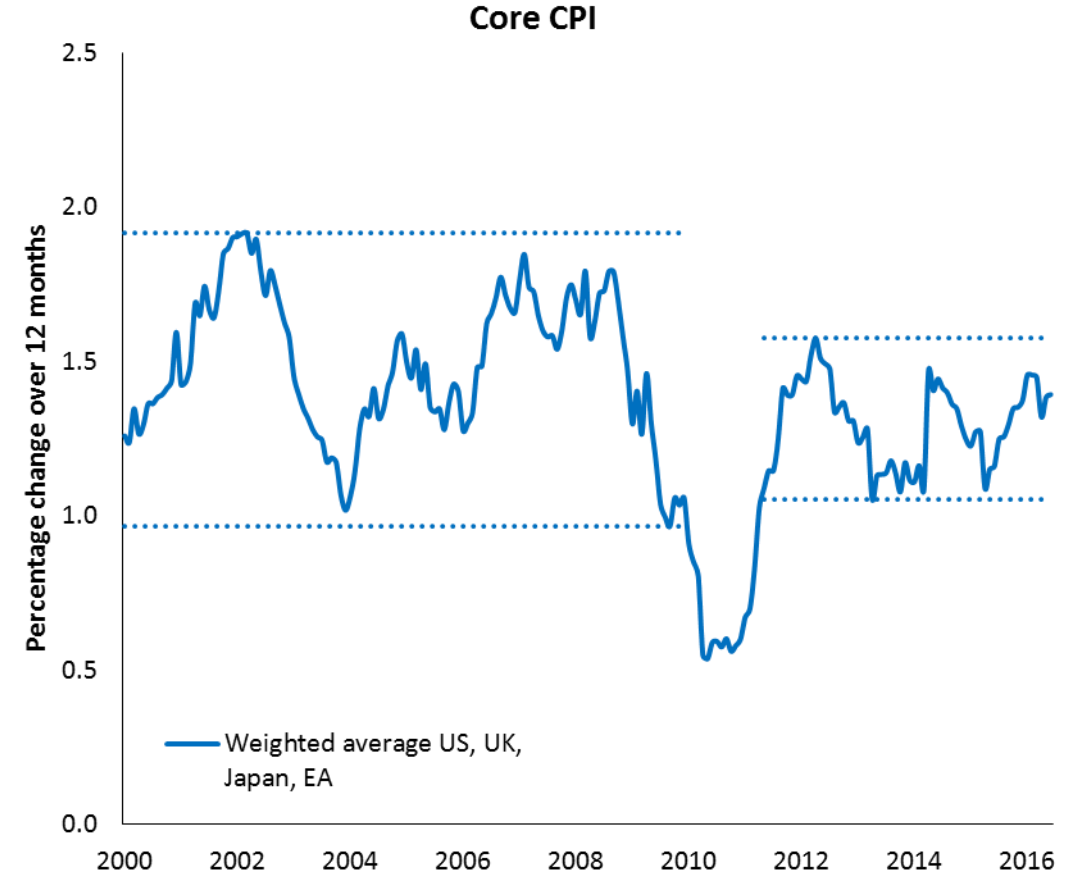
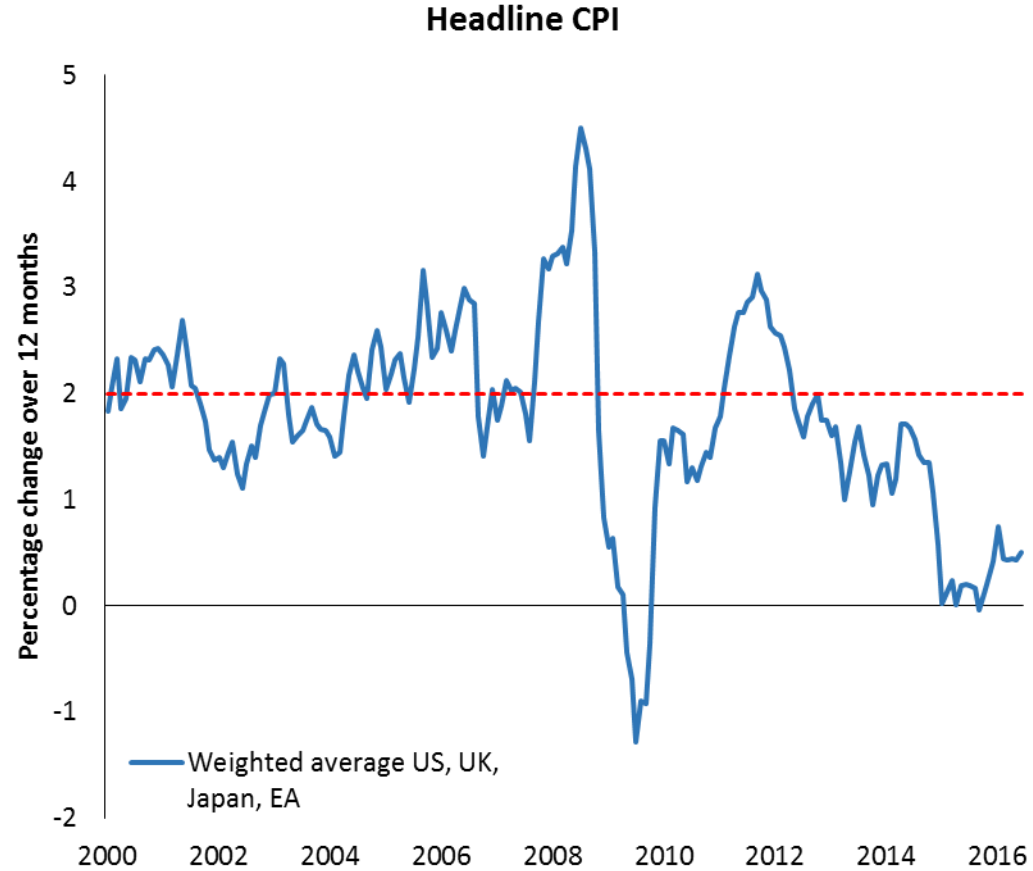
Global potential growth



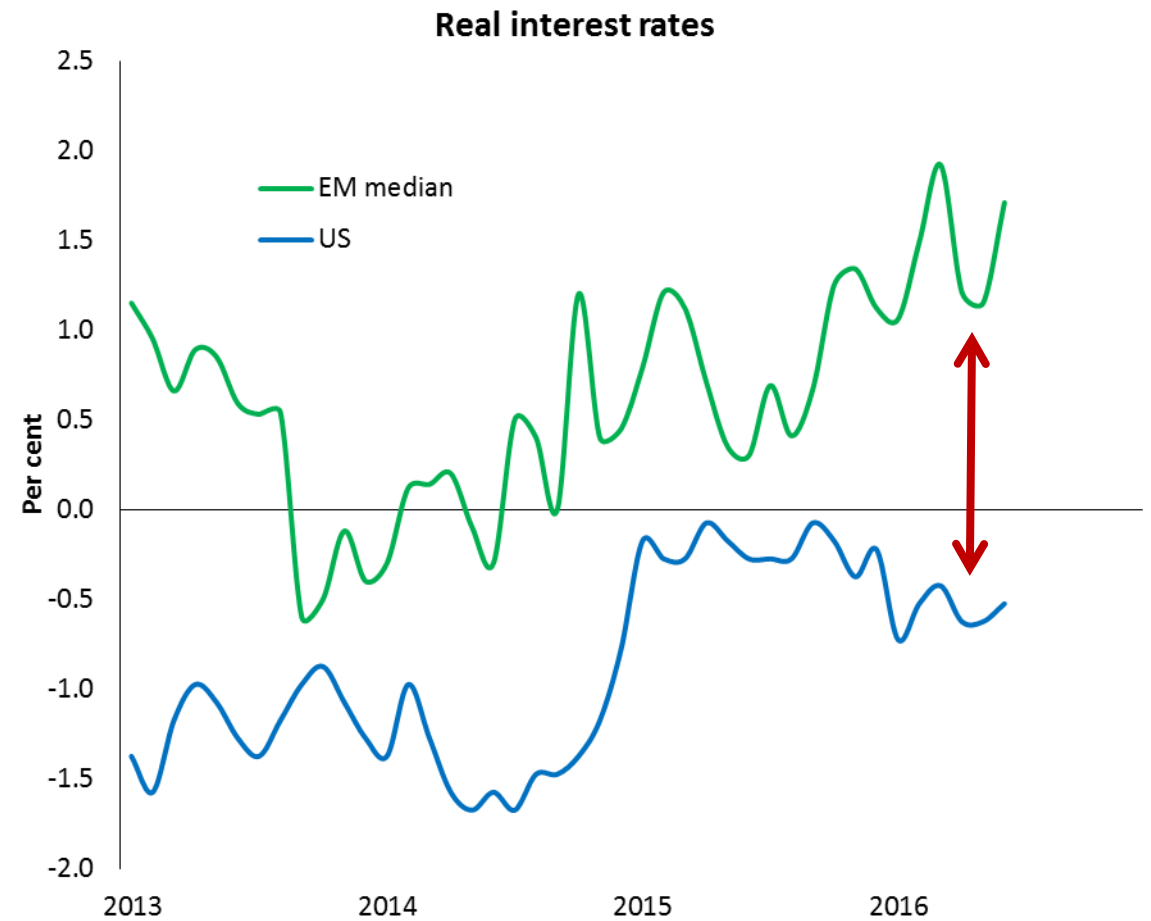
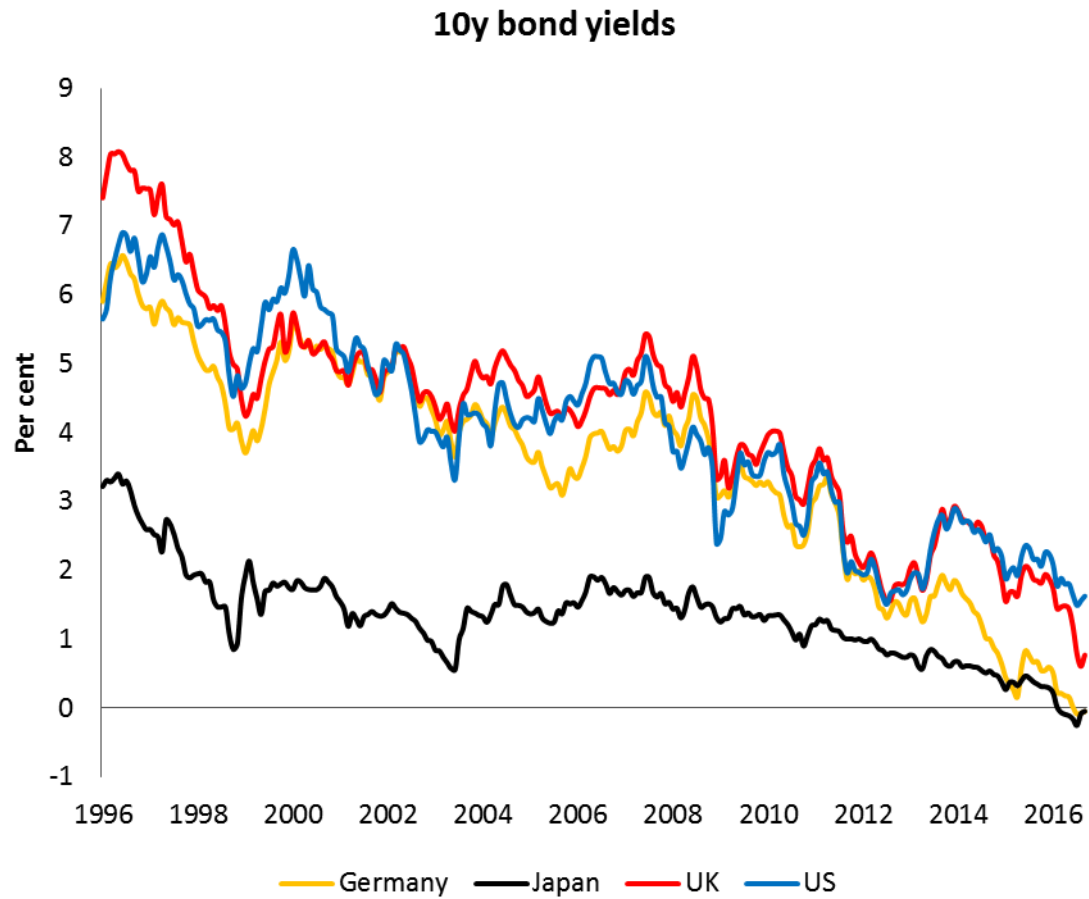
World growth



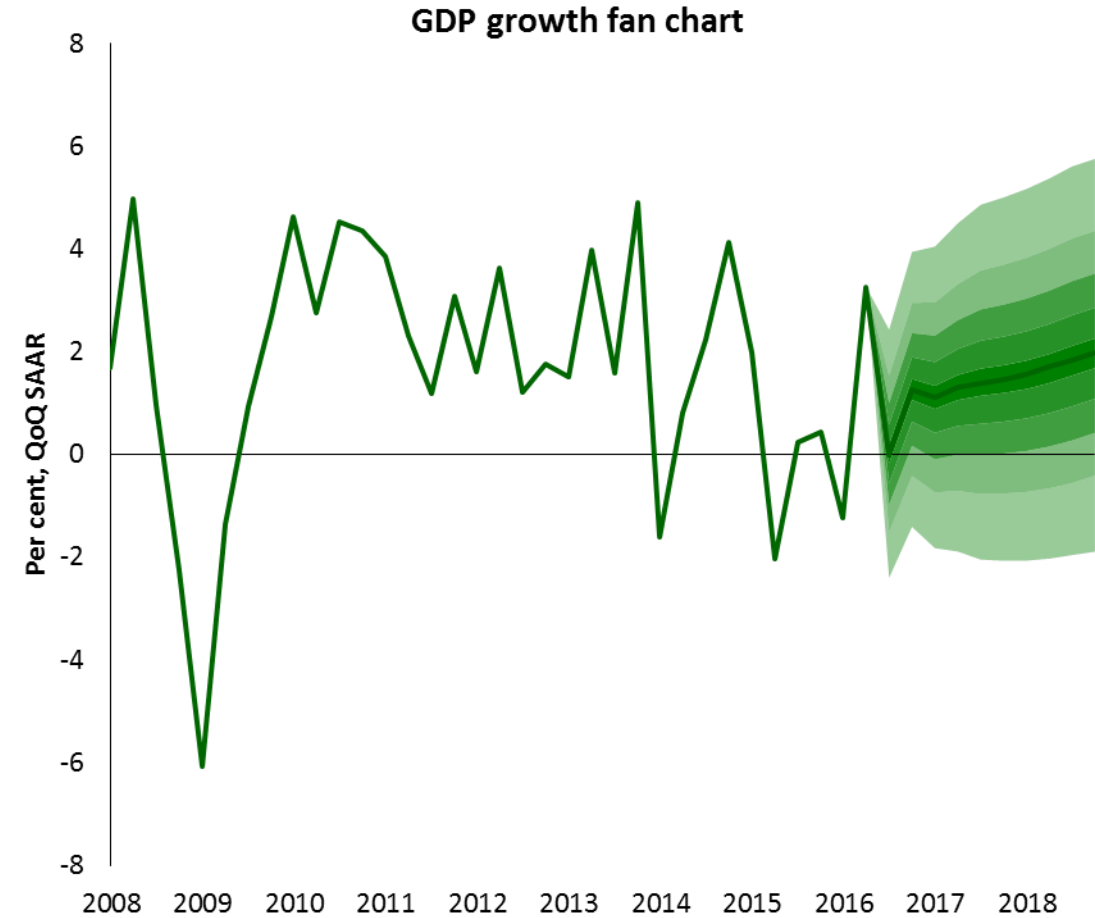
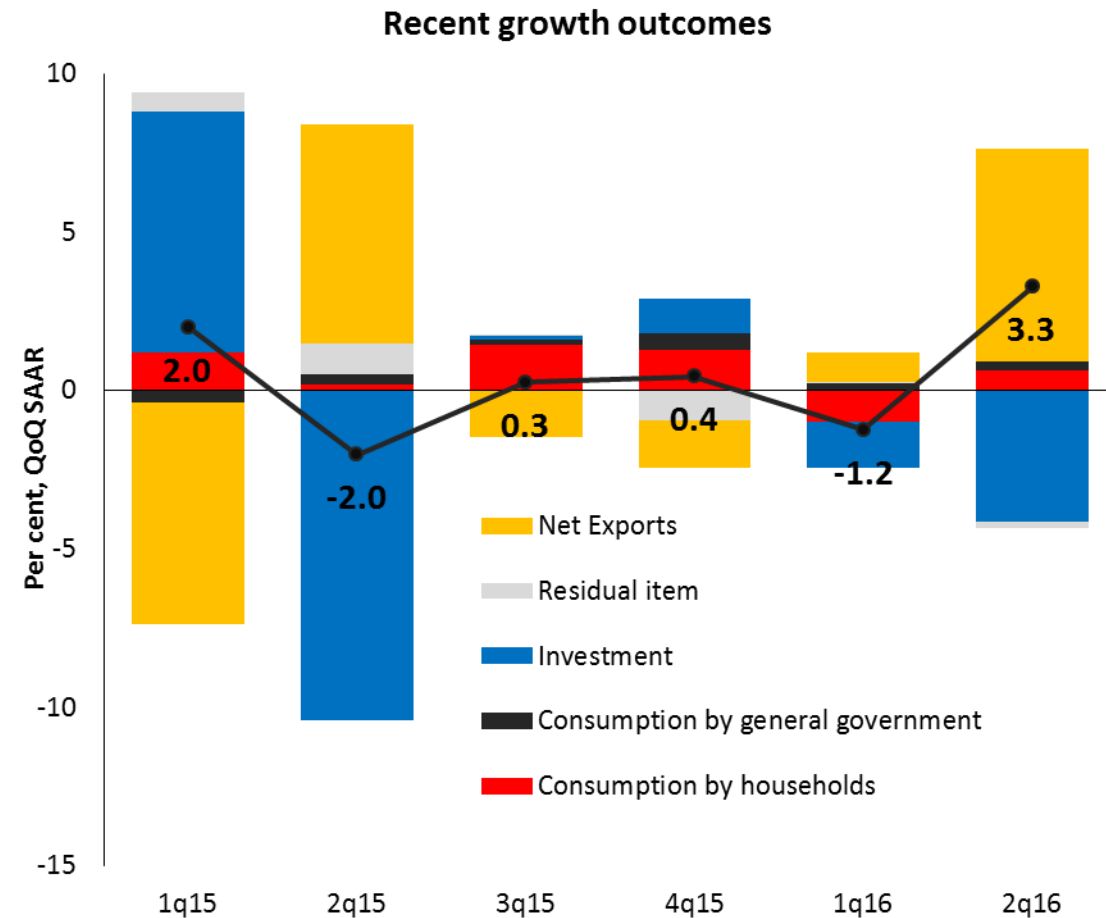
With AE inflation subdued, monetary policy experimentation continues



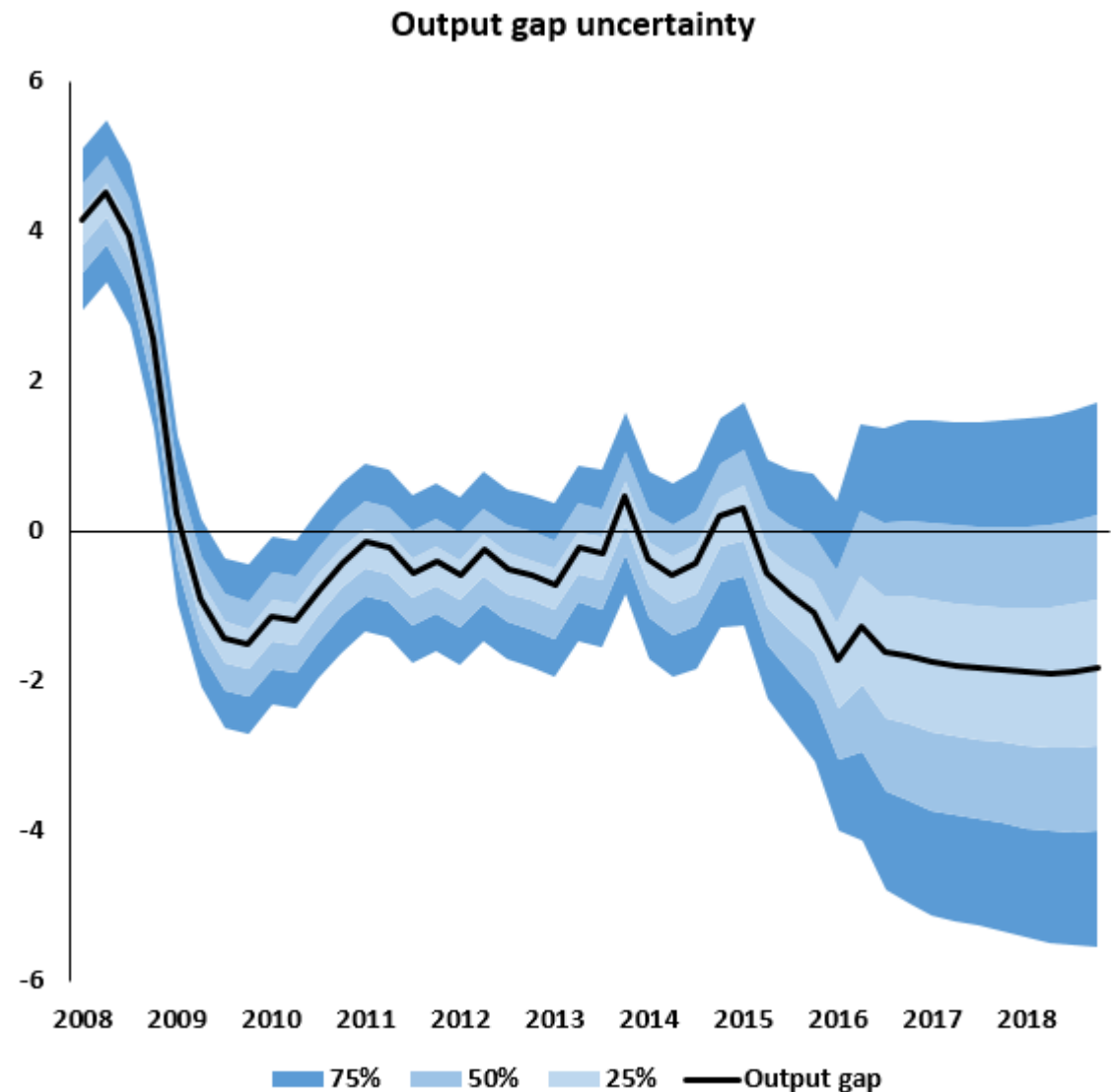
...boosting the attractiveness of emerging markets post-Brexit



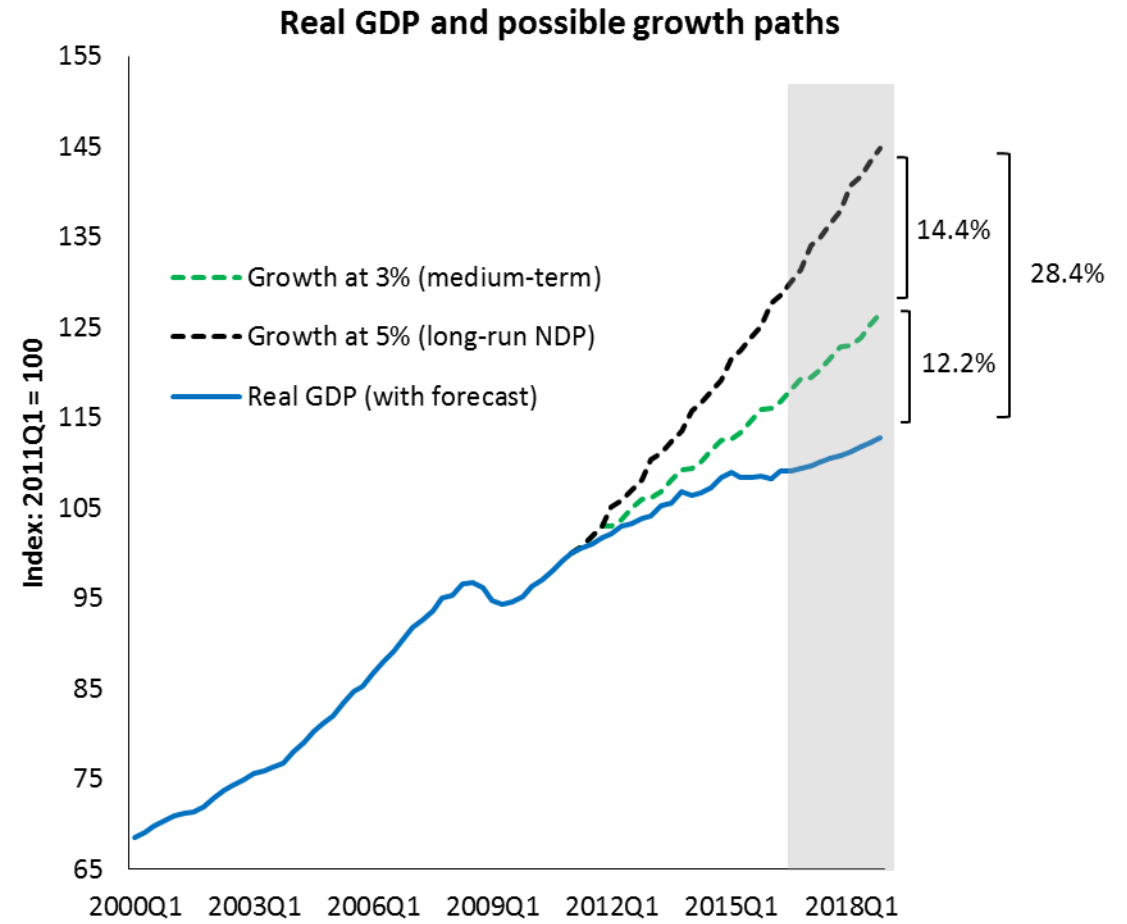
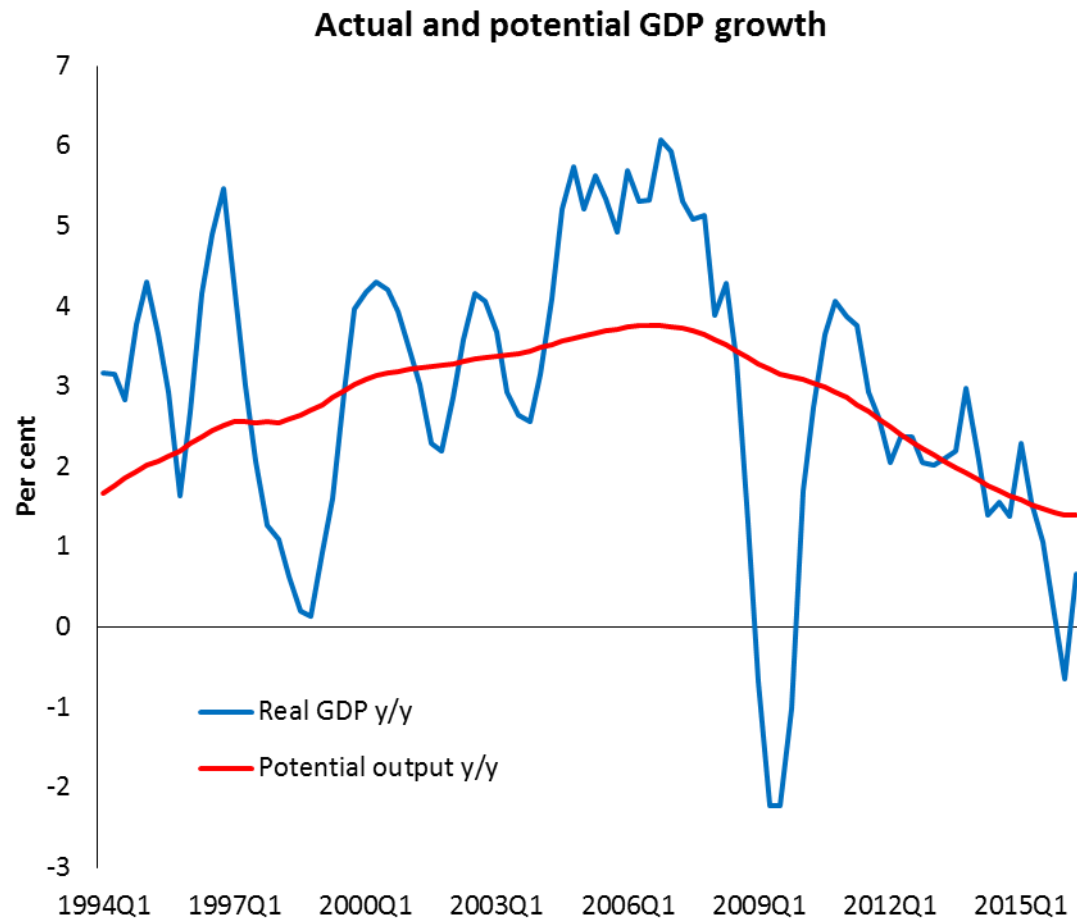
Domestic GDP growth is forecast at 0,4% this year, rising to 1,2% in 2017 and 1,6% in 2018



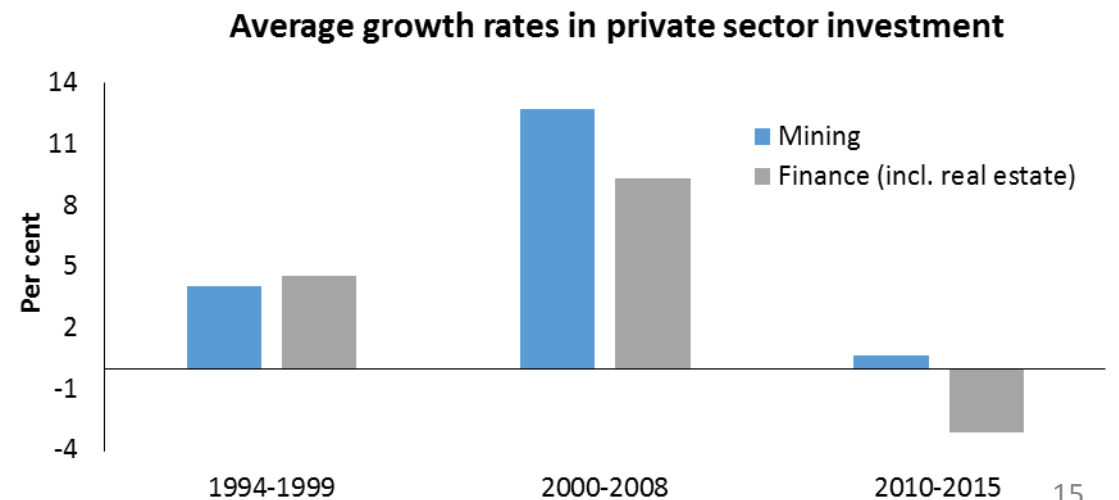
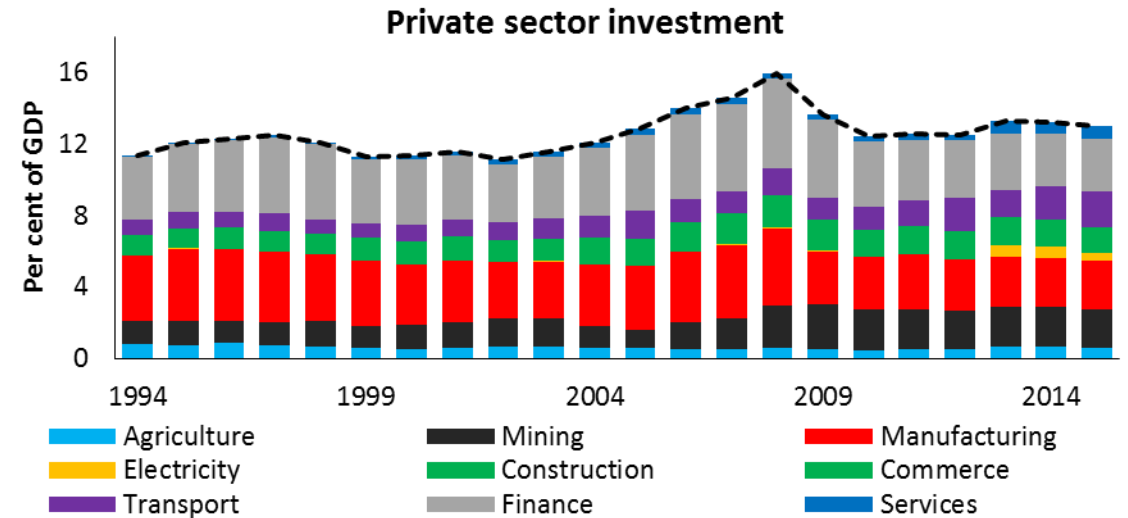
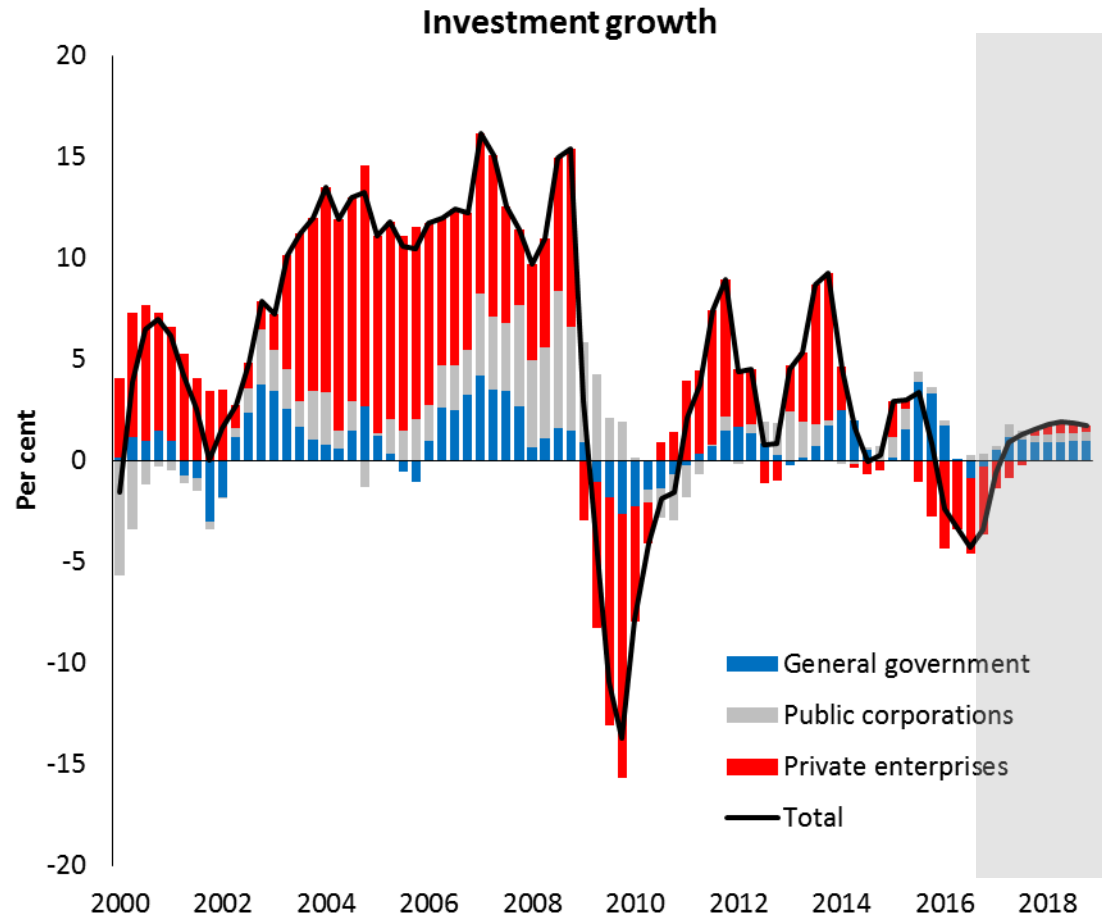
Part of the problem seems to be cyclical, although output gap estimates are very uncertain



Structural factors weigh heavily: potential growth has declined markedly

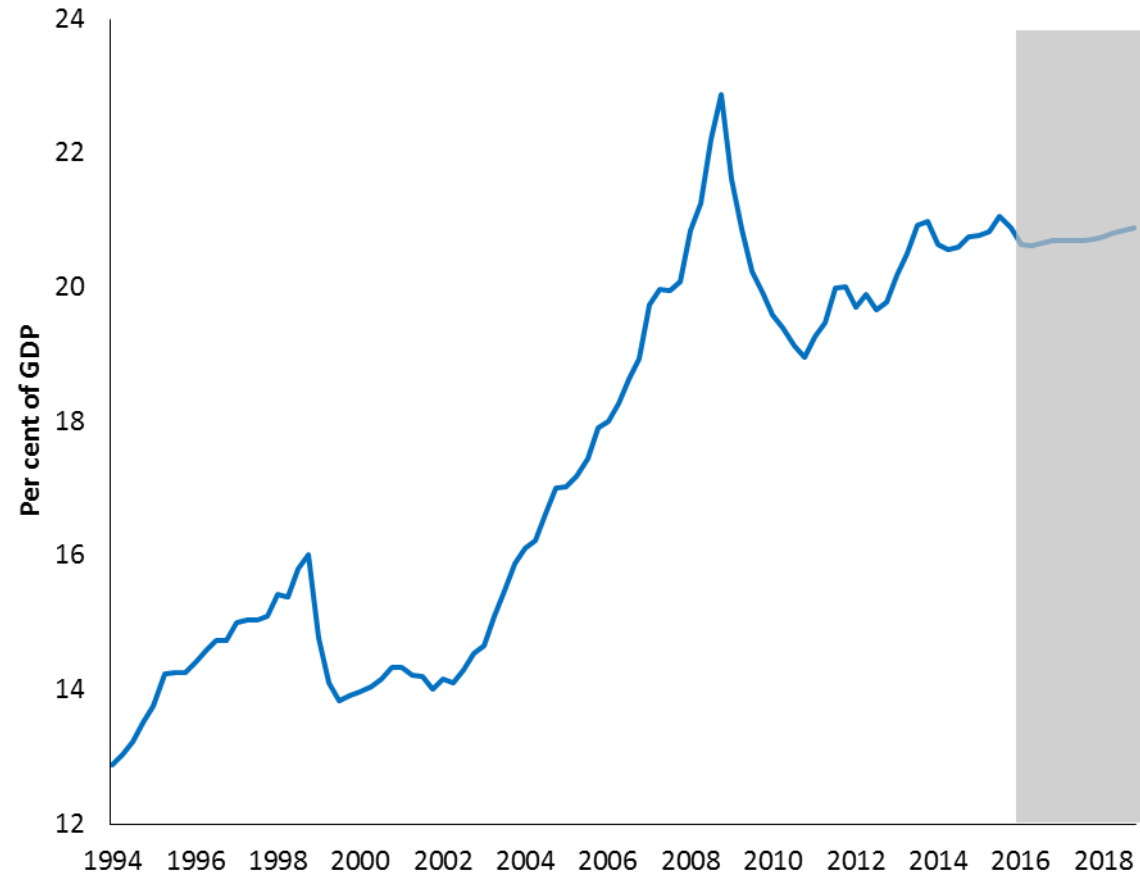


Investment has weakened, with private sector investment especially meagre...

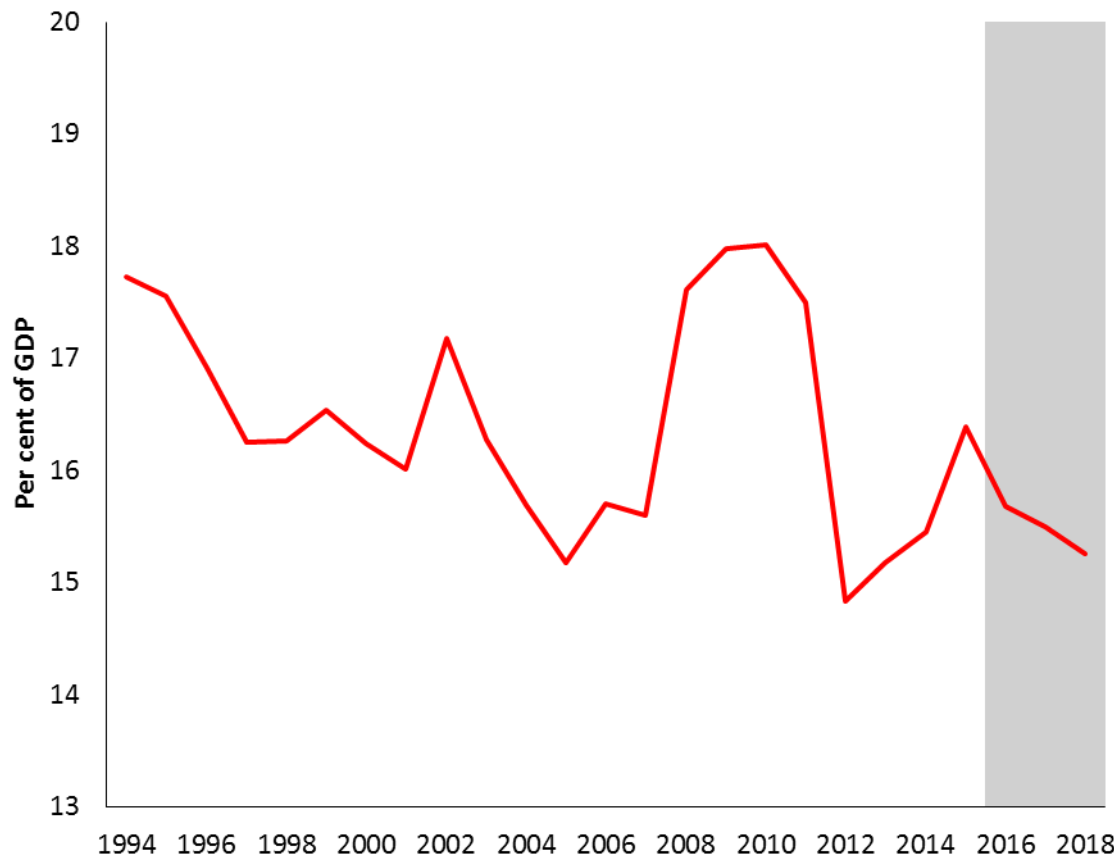


But investment is still around 20% of GDP, and national savings are even lower than usual...

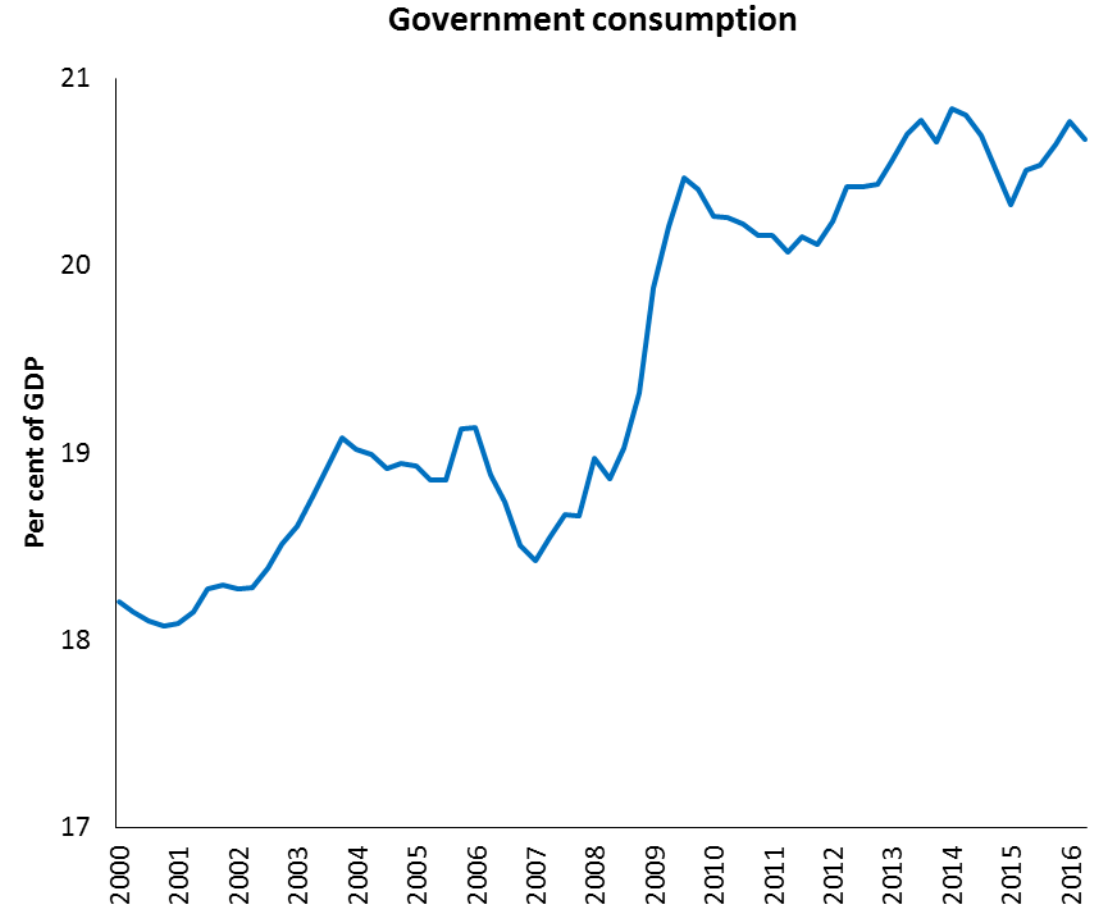
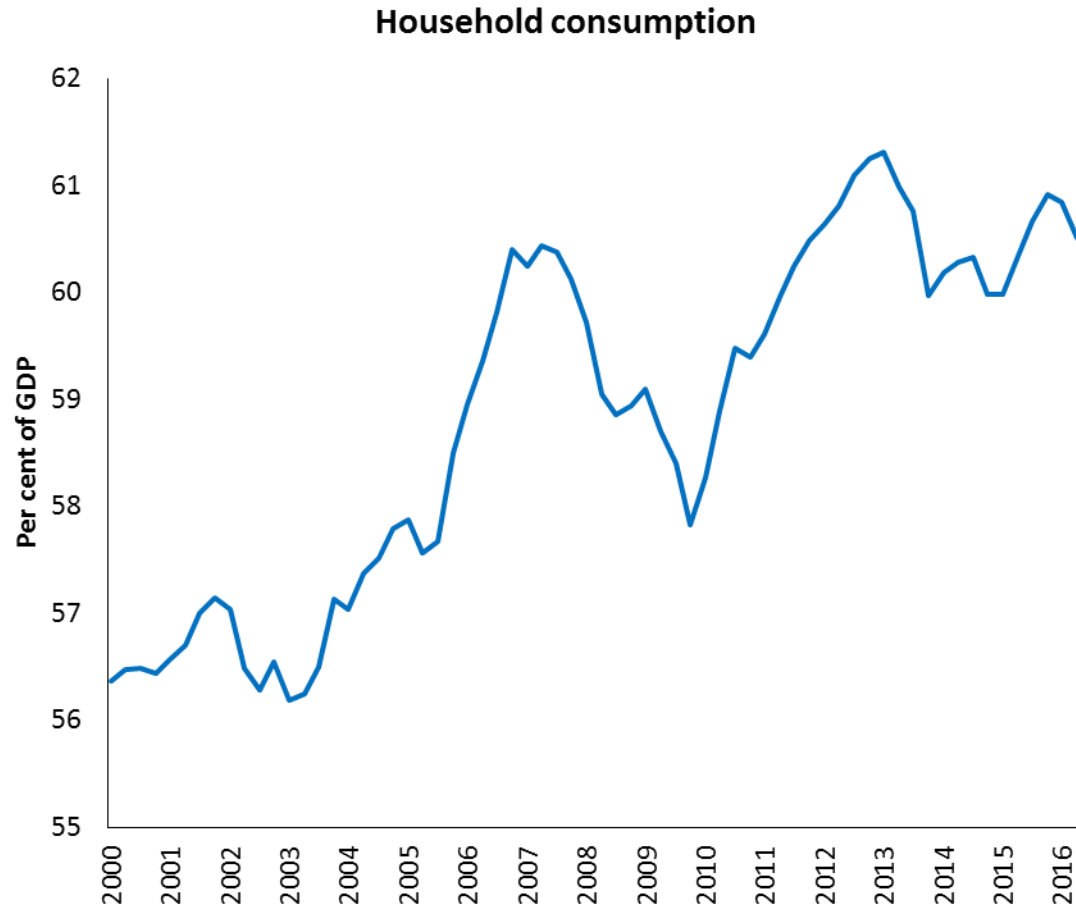
Investment



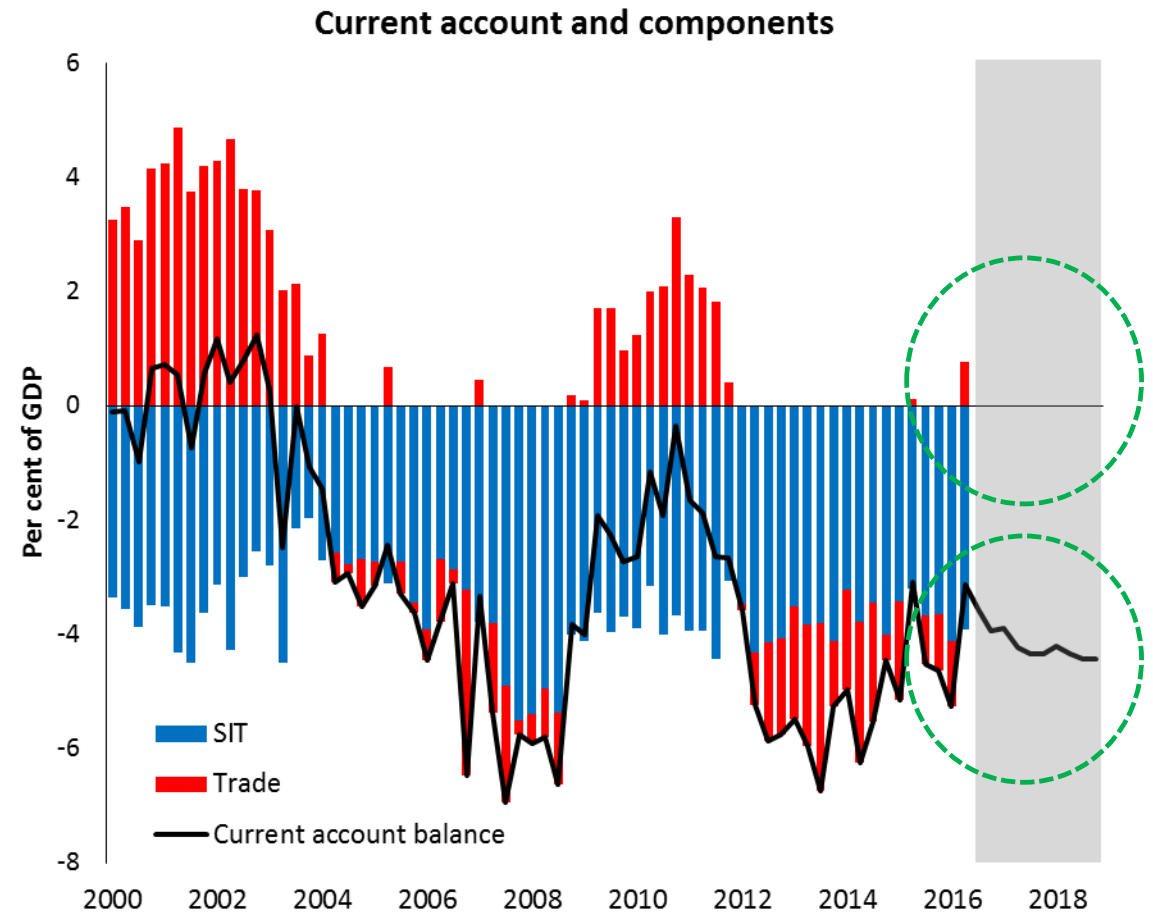
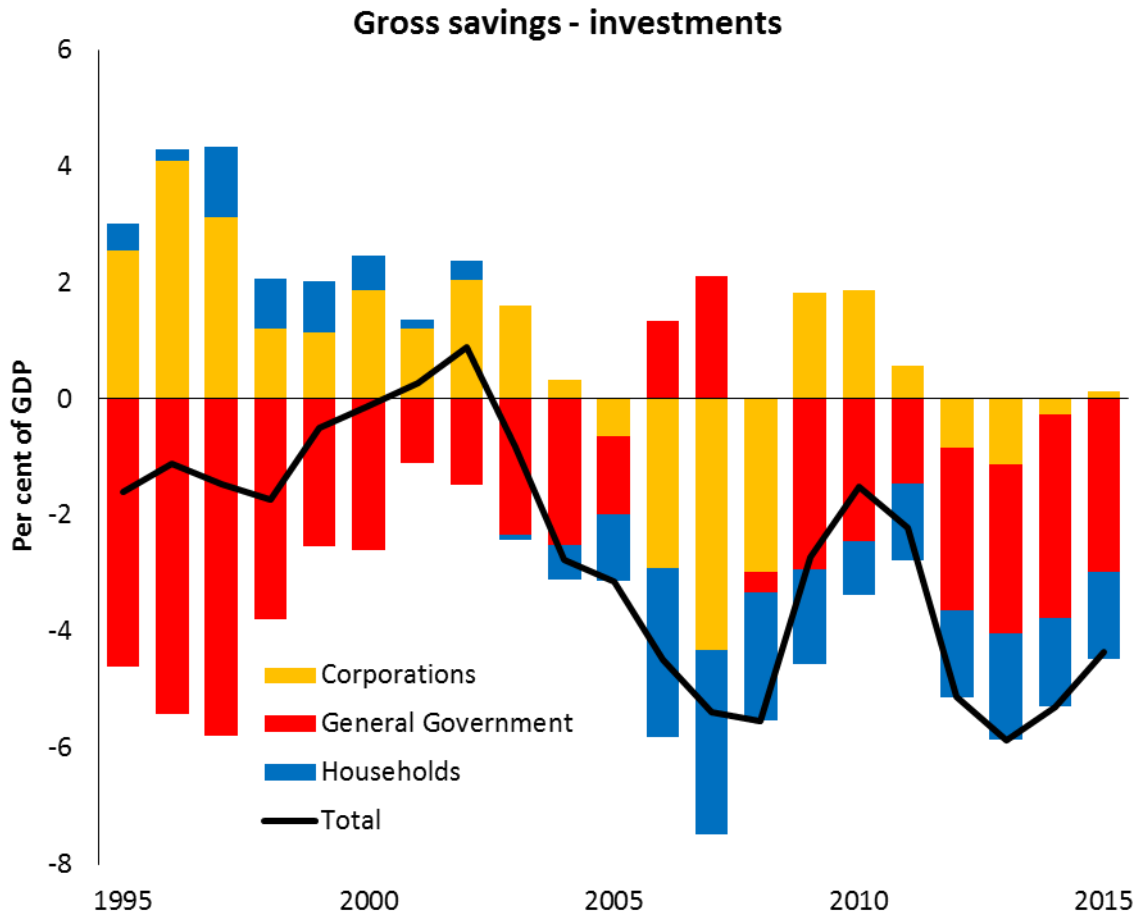
Gross savings



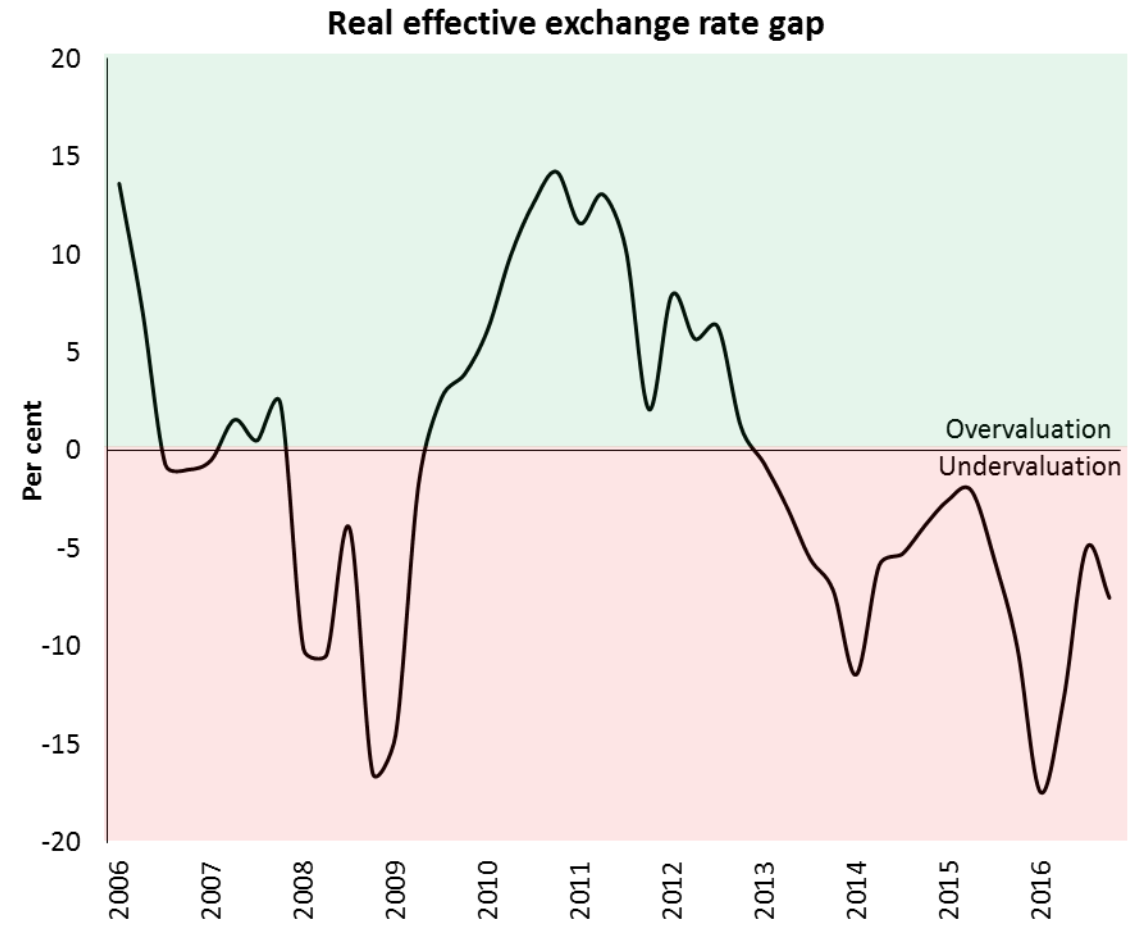
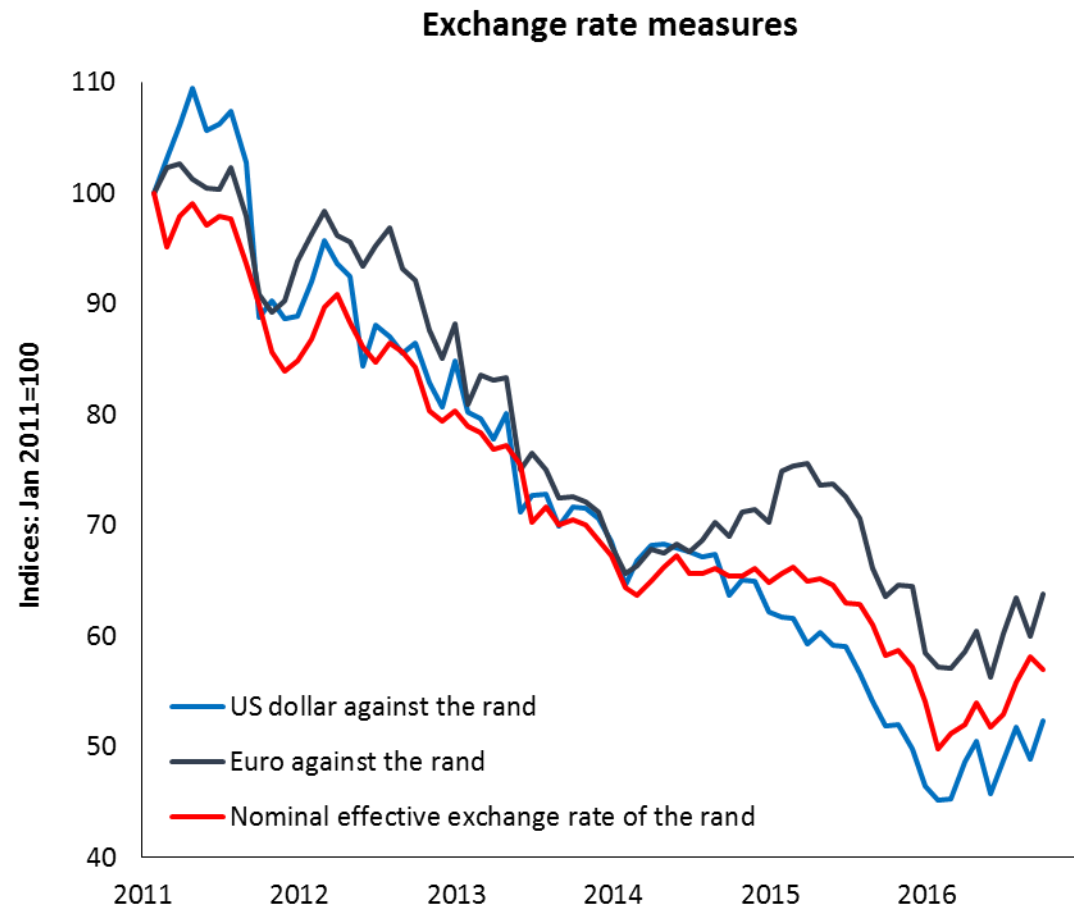
...as consumption has grown as a share of GDP...



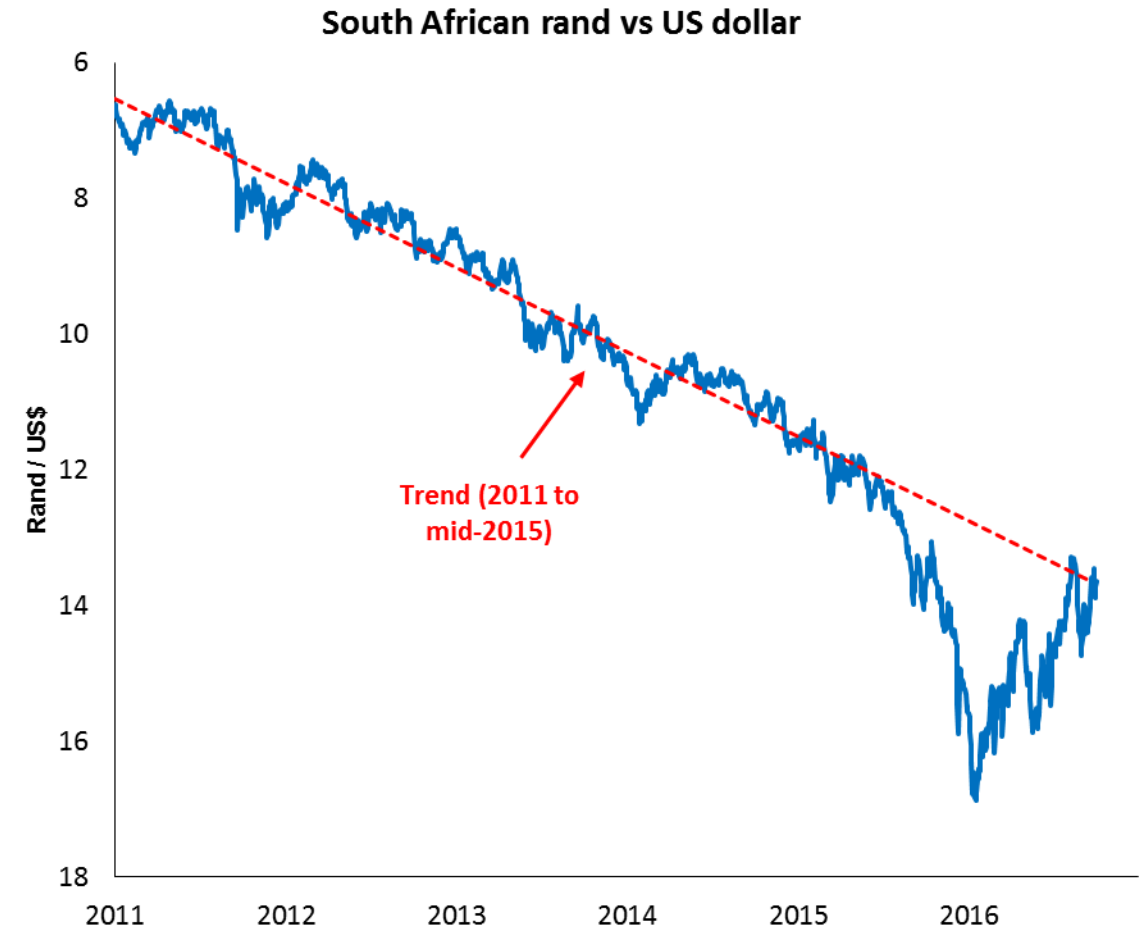
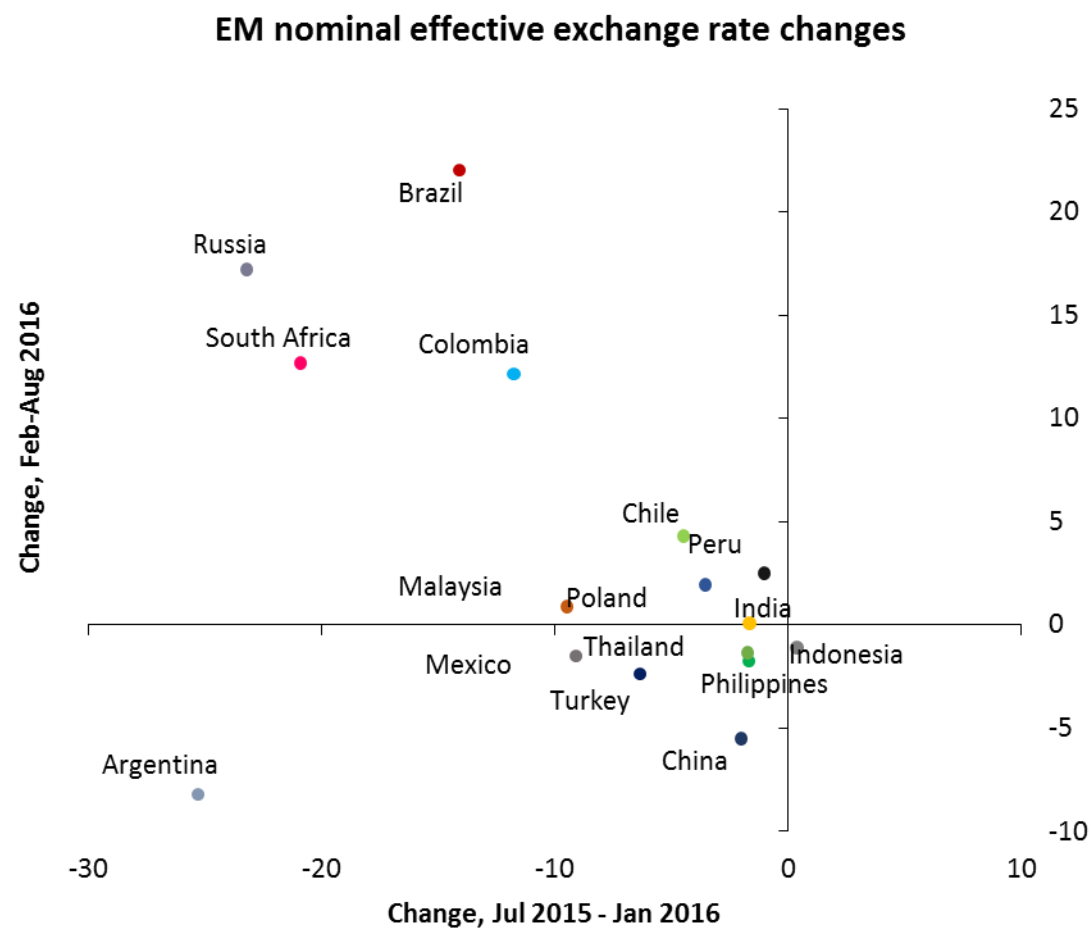
... resulting in a persistently large current account deficit



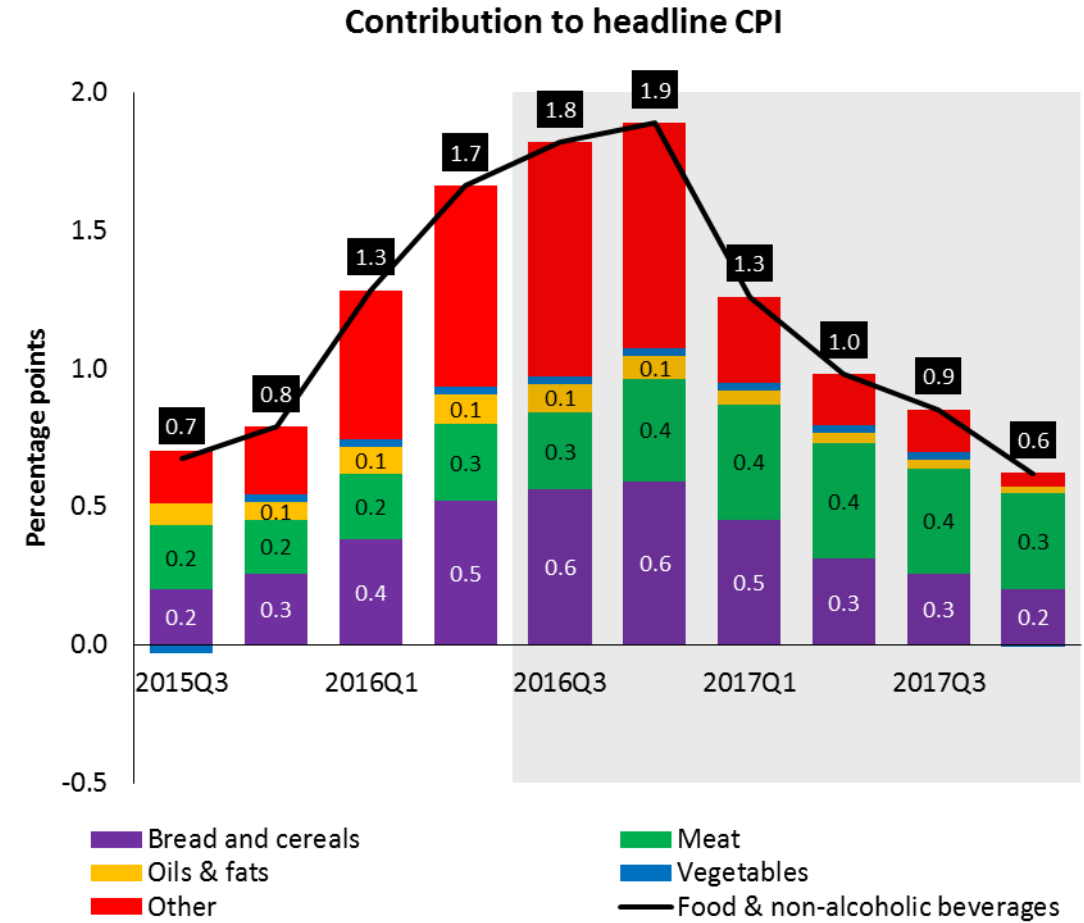
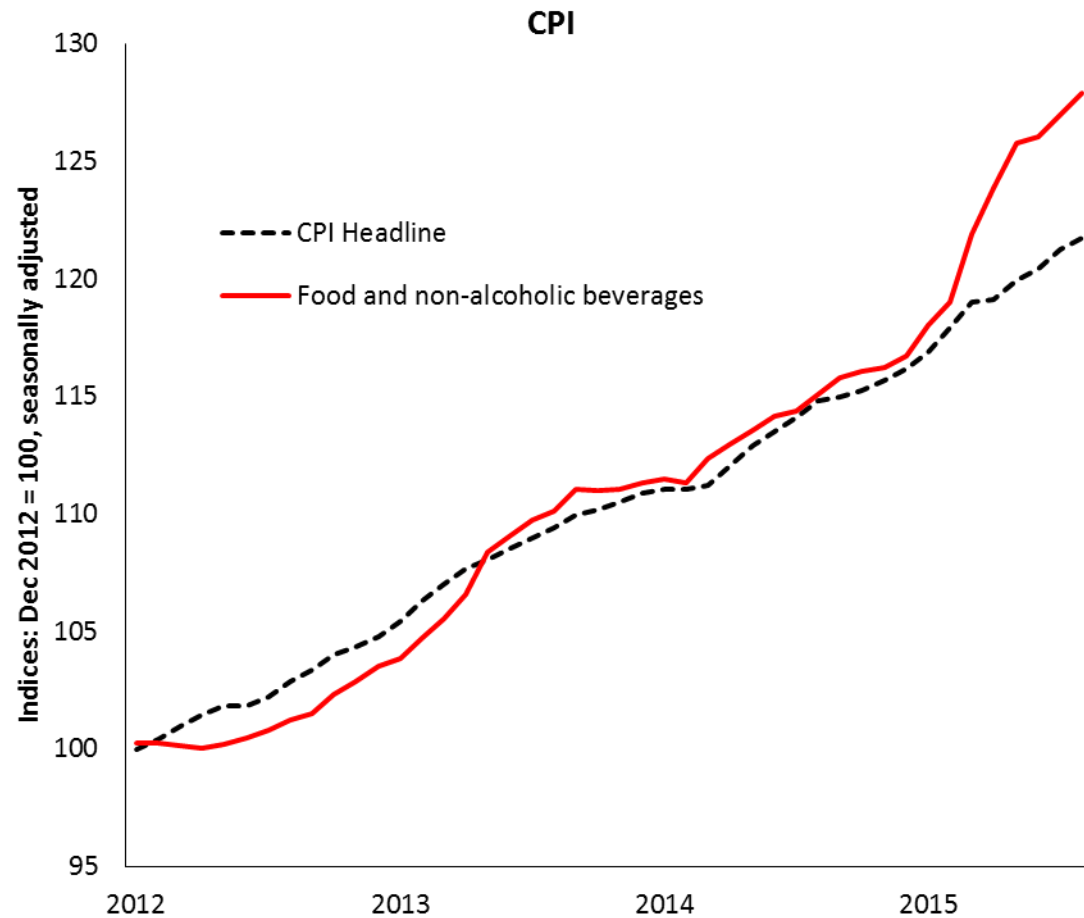
... contributing to sustained depreciation, but also a lower 'fair' value for the rand



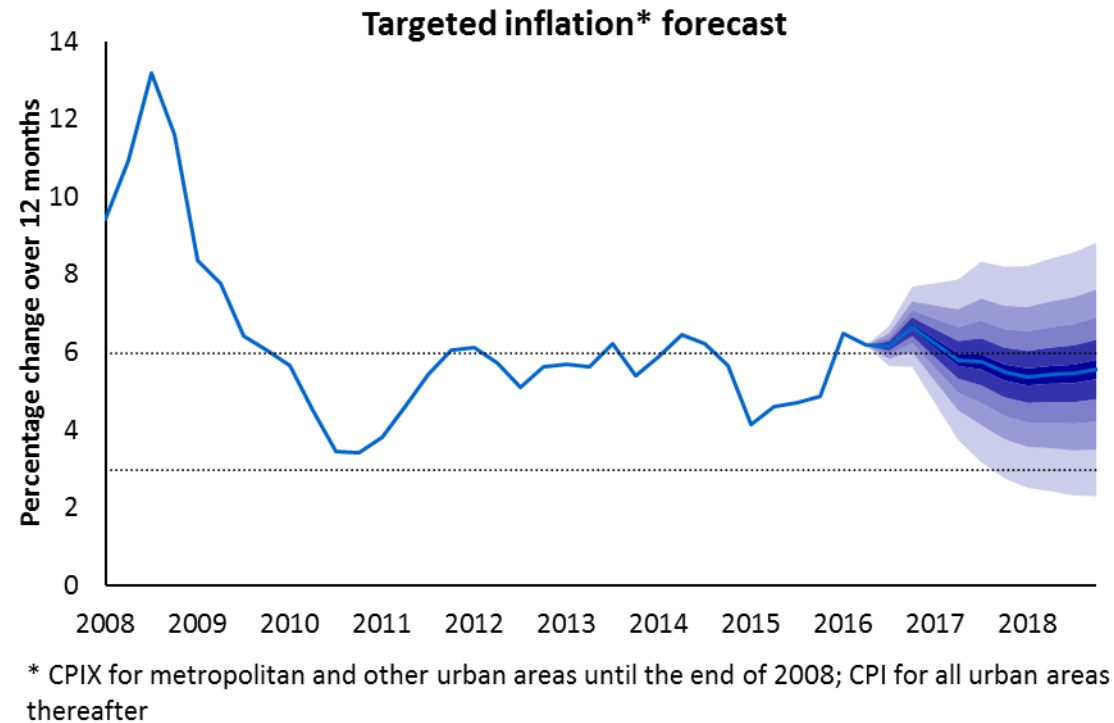
Overshooting earlier in the year set the stage for a rand rebound & some forecast stability



Food prices still rising, but close to peak...

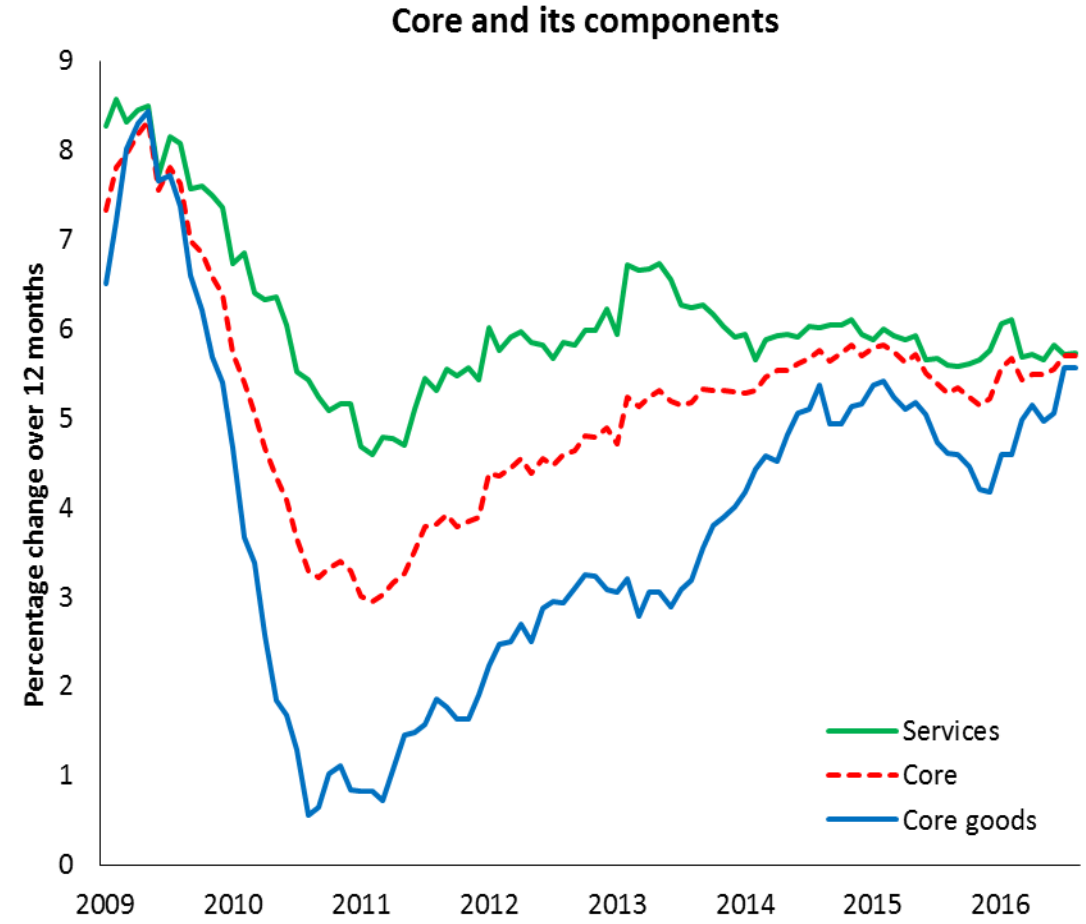
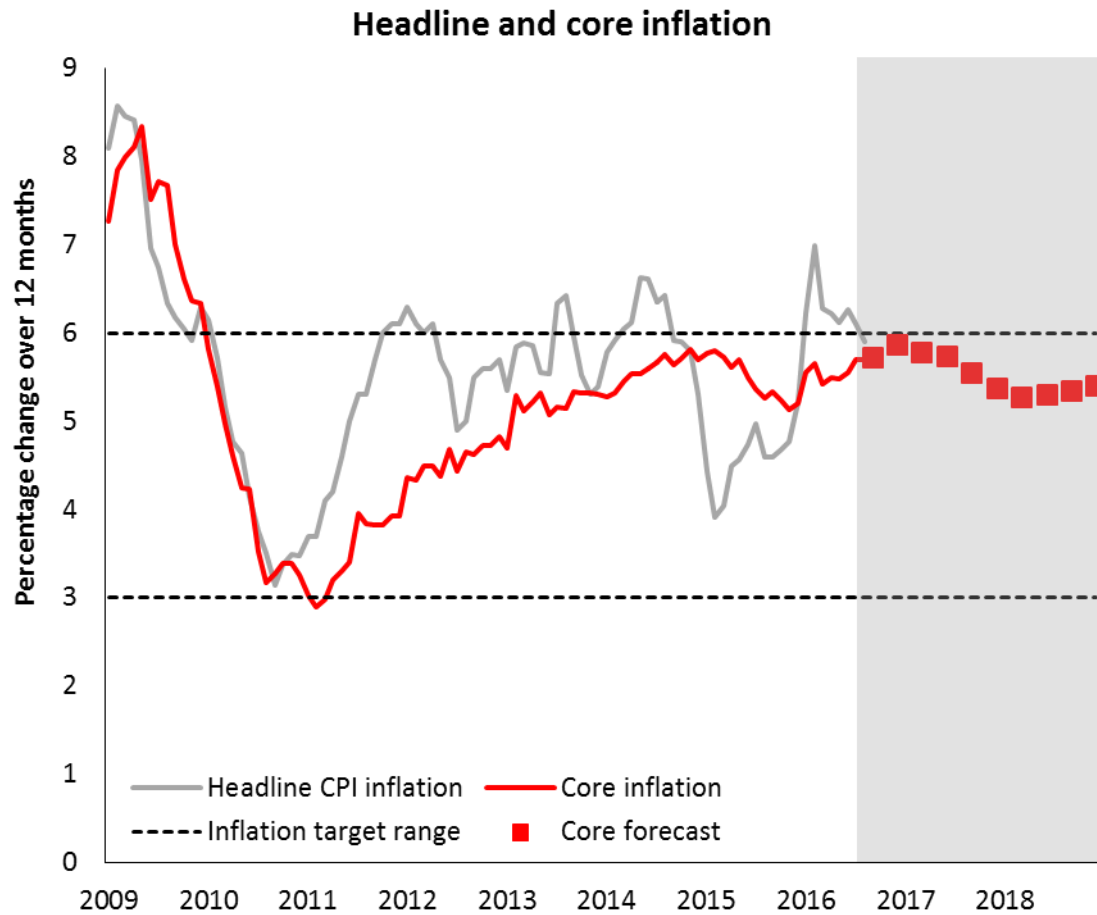


Headline inflation outside target range to the second quarter of 2017

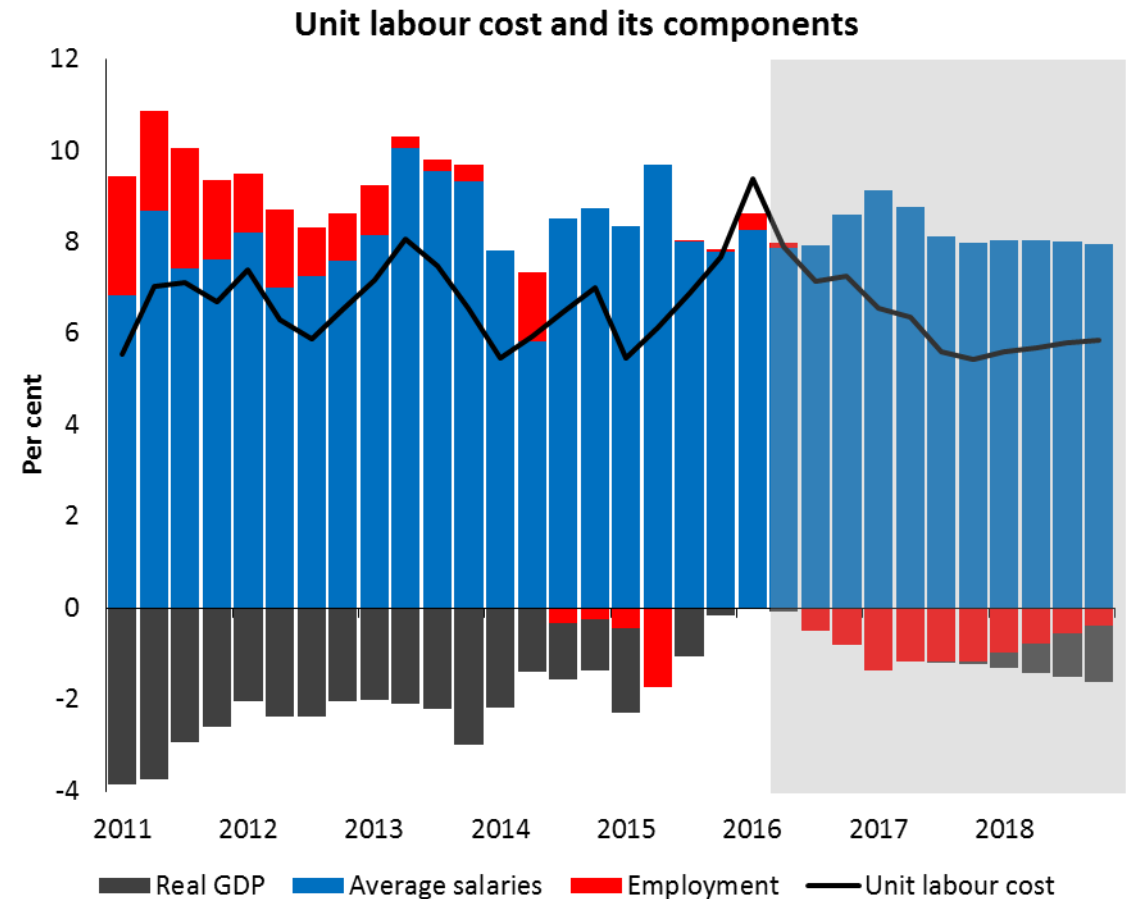
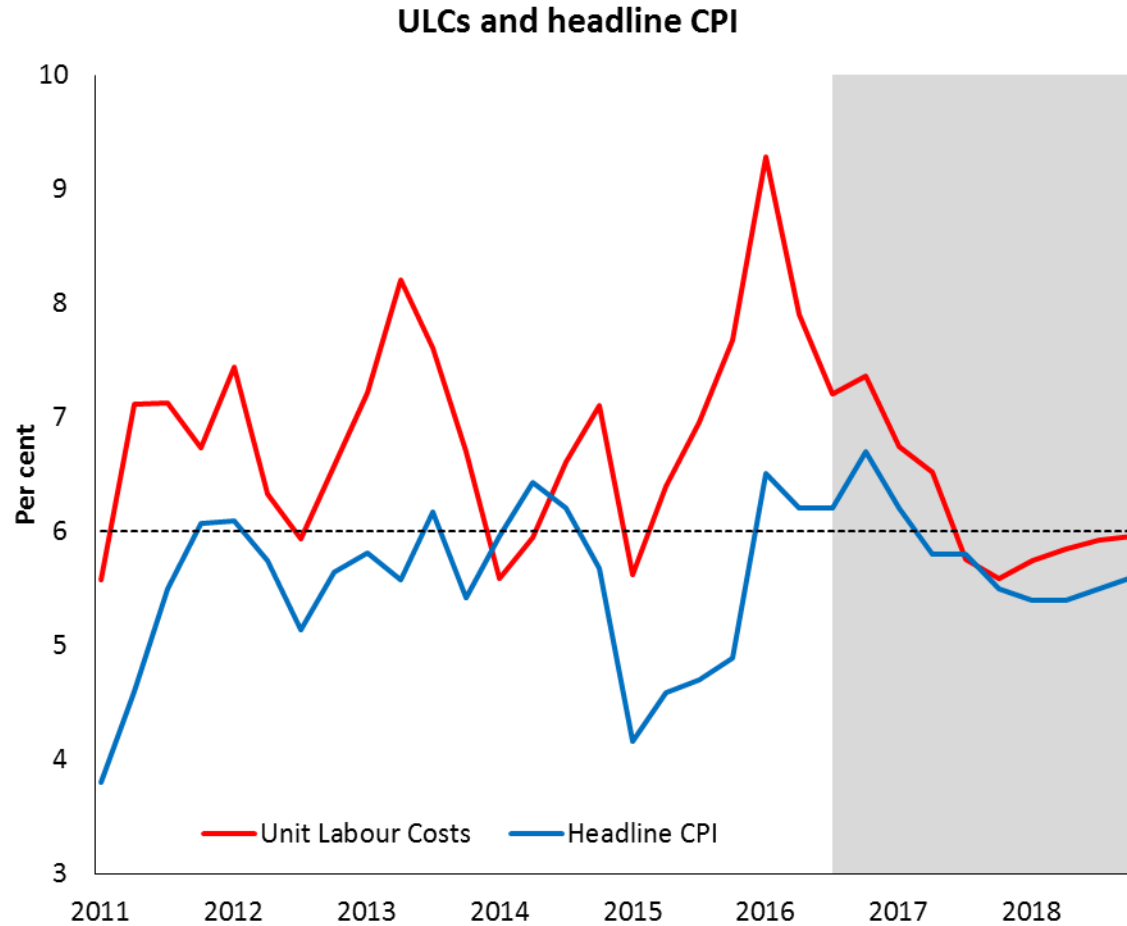


YoY % change	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Headline inflation	6.5	6.2	6.2	6.7	6.2	5.8	5.8	5.5	5.4	5.4	5.5	5.6

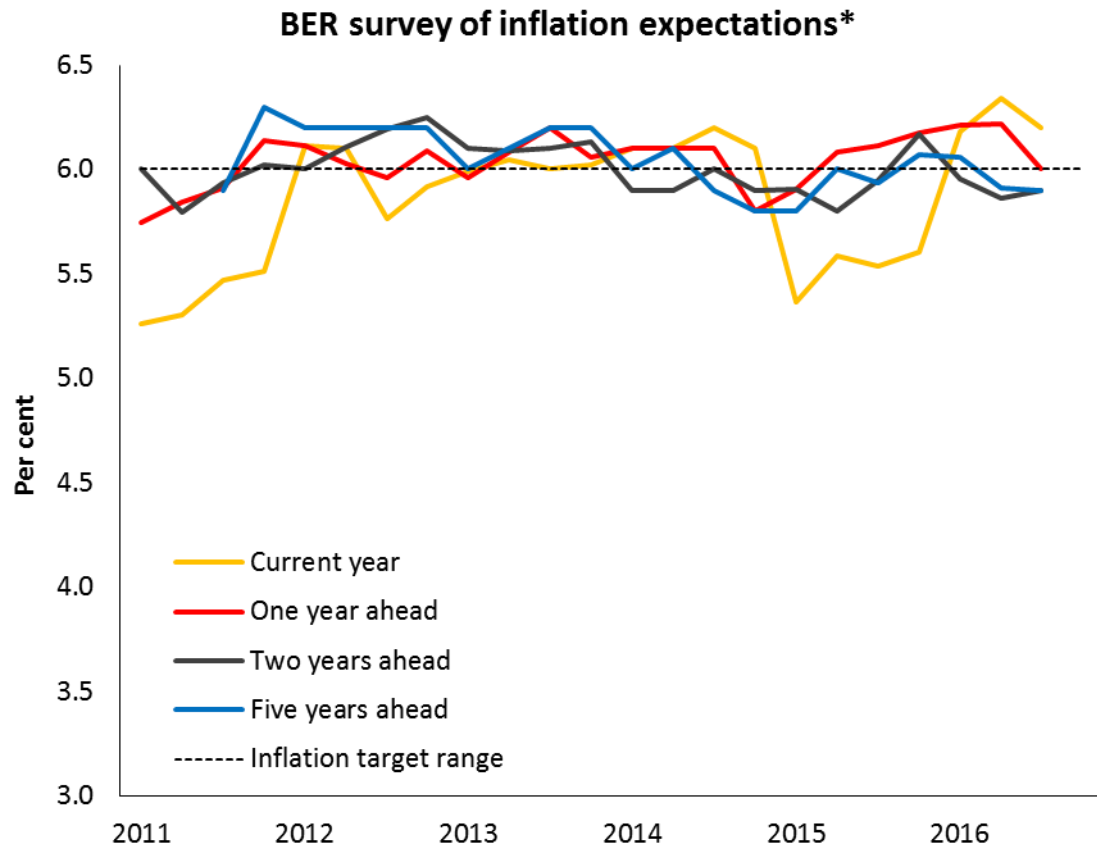
Core inflation is approaching its highest level since late-2009



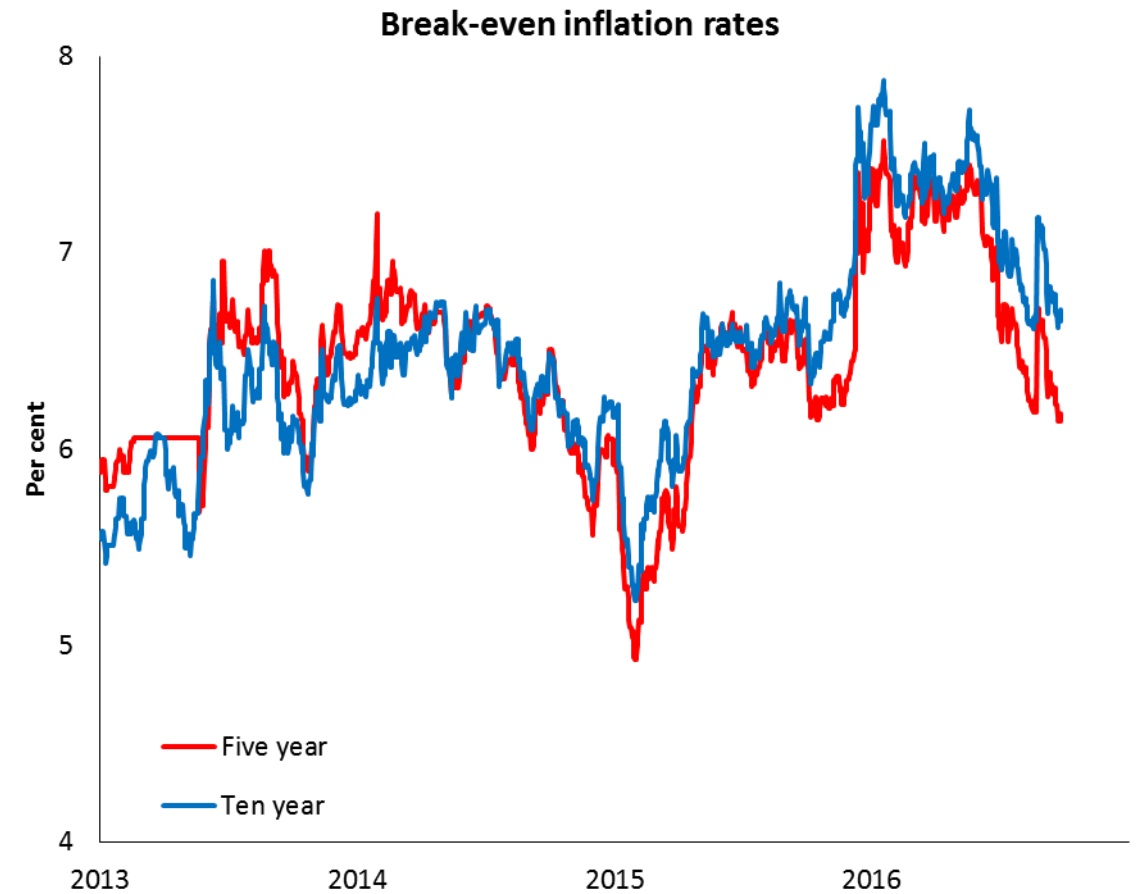
Price and wage setters are still operating at or above the top of the 3-6% target range



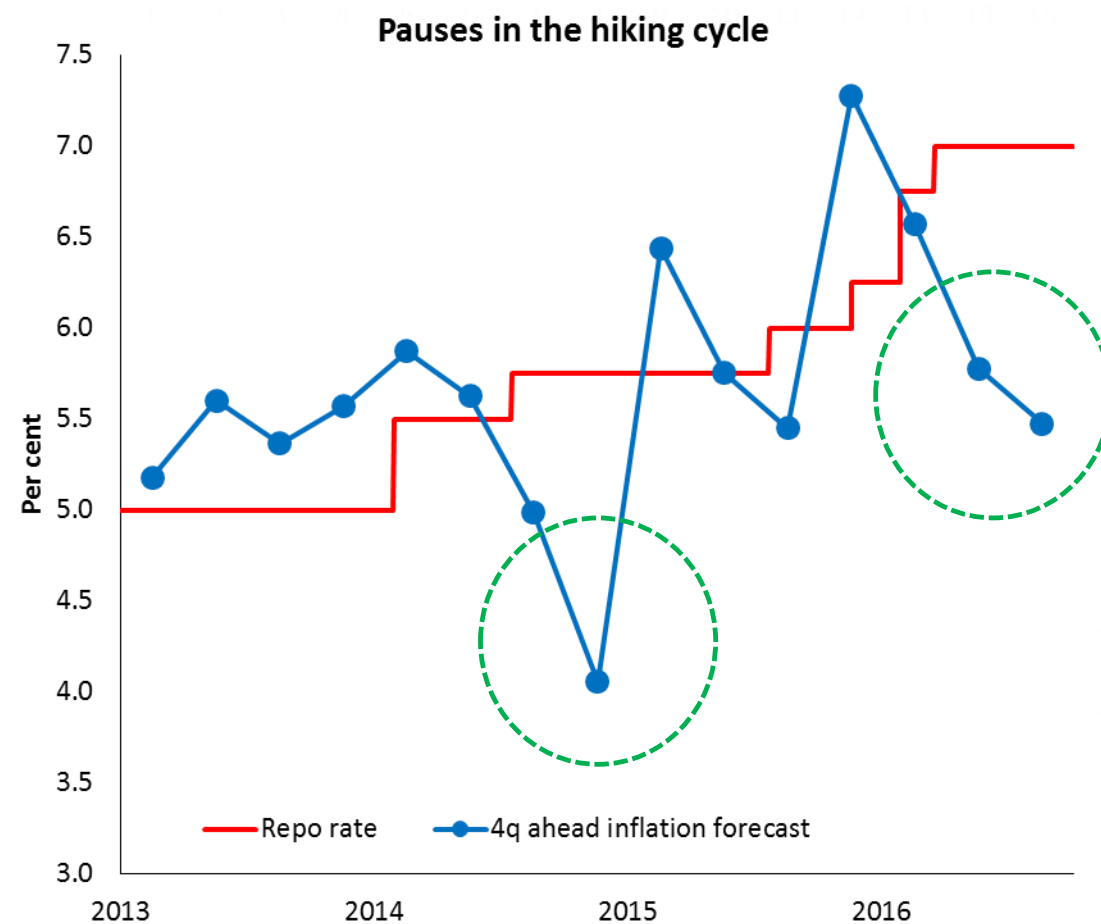
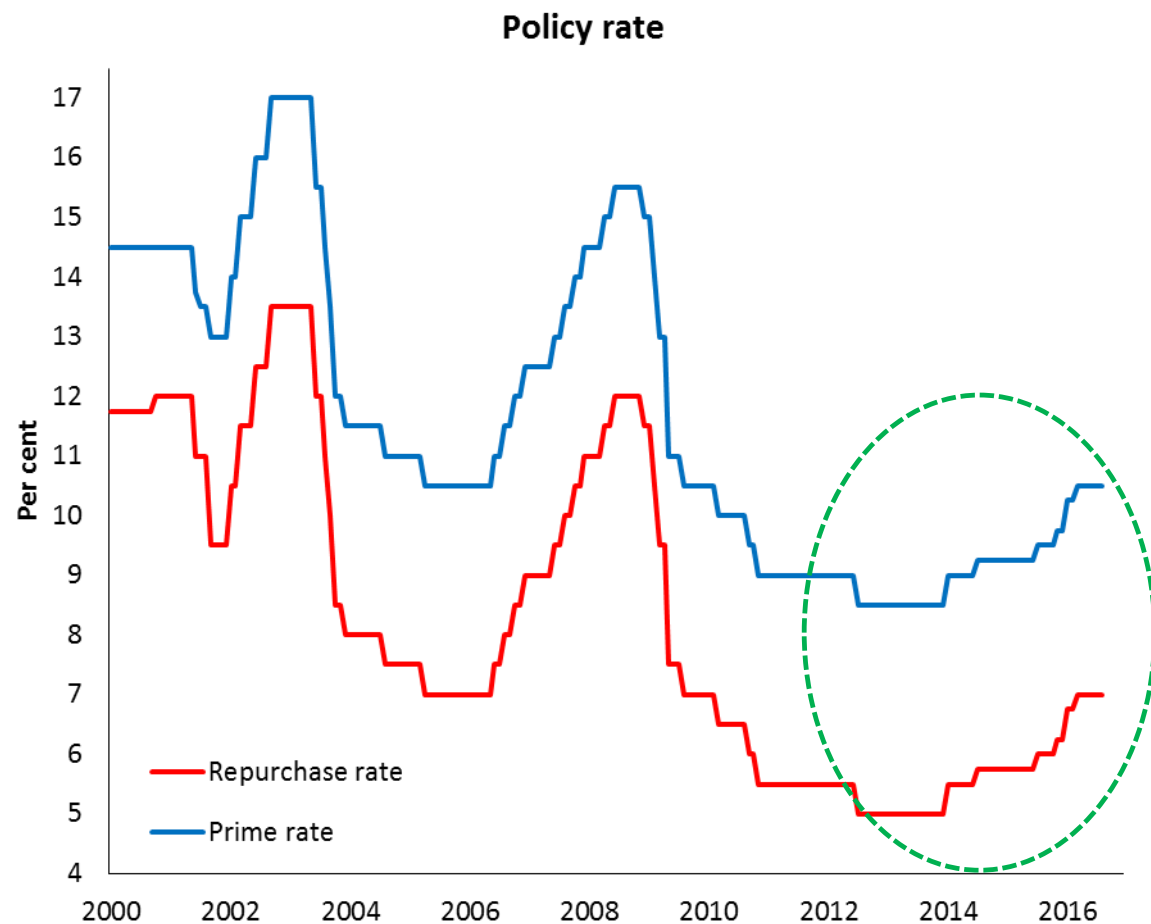
Inflation expectations not de-anchored so far, but remain barely consistent with the target range



*Total, combining expectations of labour, business, and analysts.

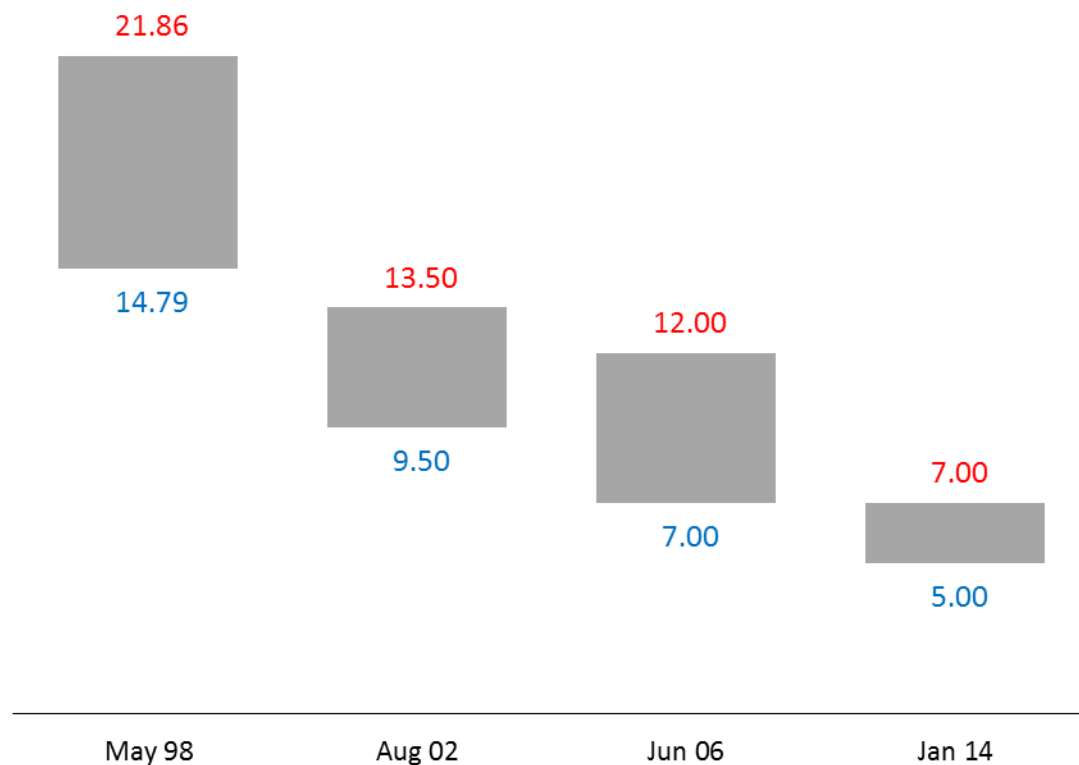


This hiking cycle has twice been paused in response to favourable global developments

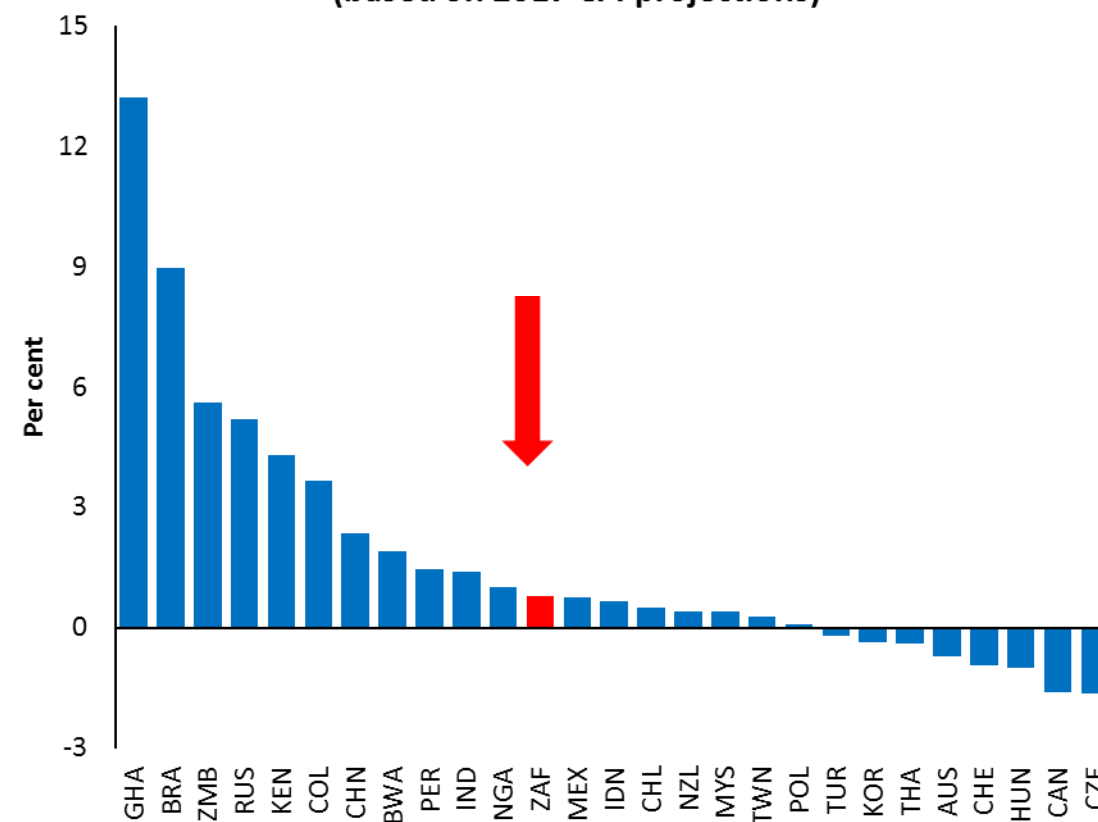


The cycle has been gradual, and repo remains low in comparative perspective

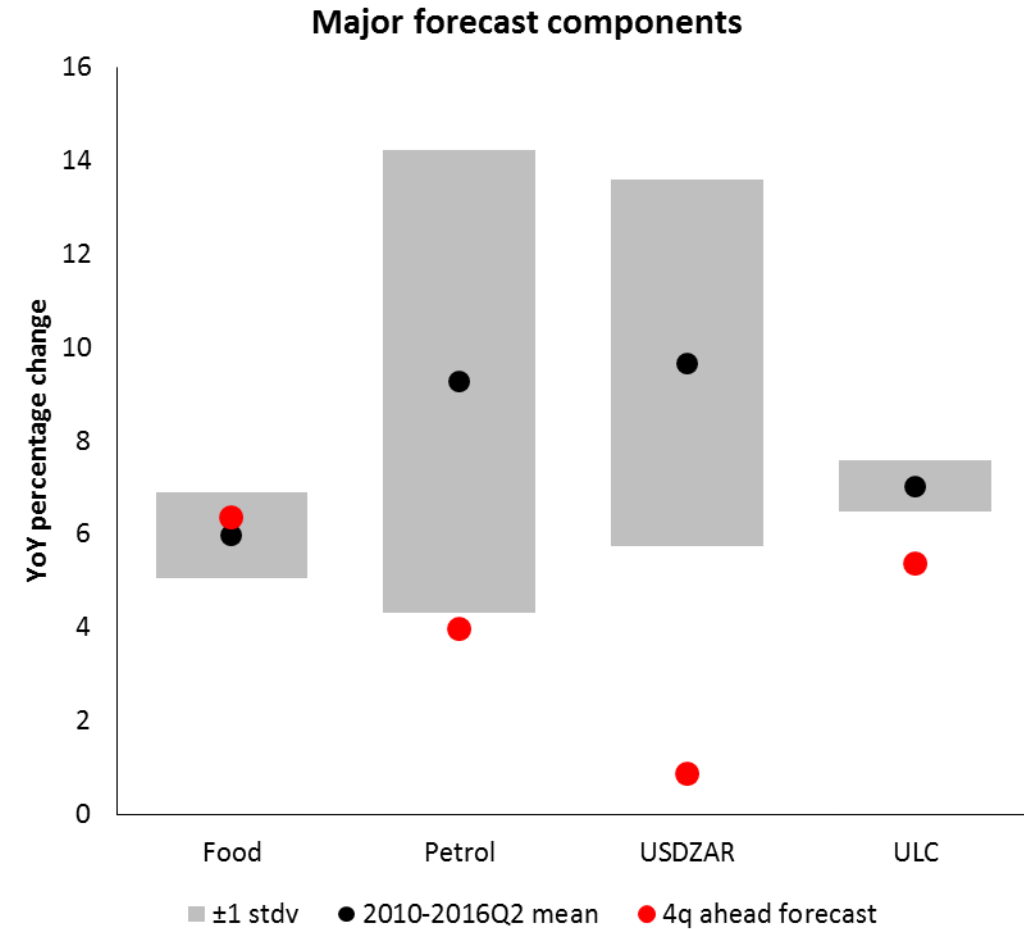
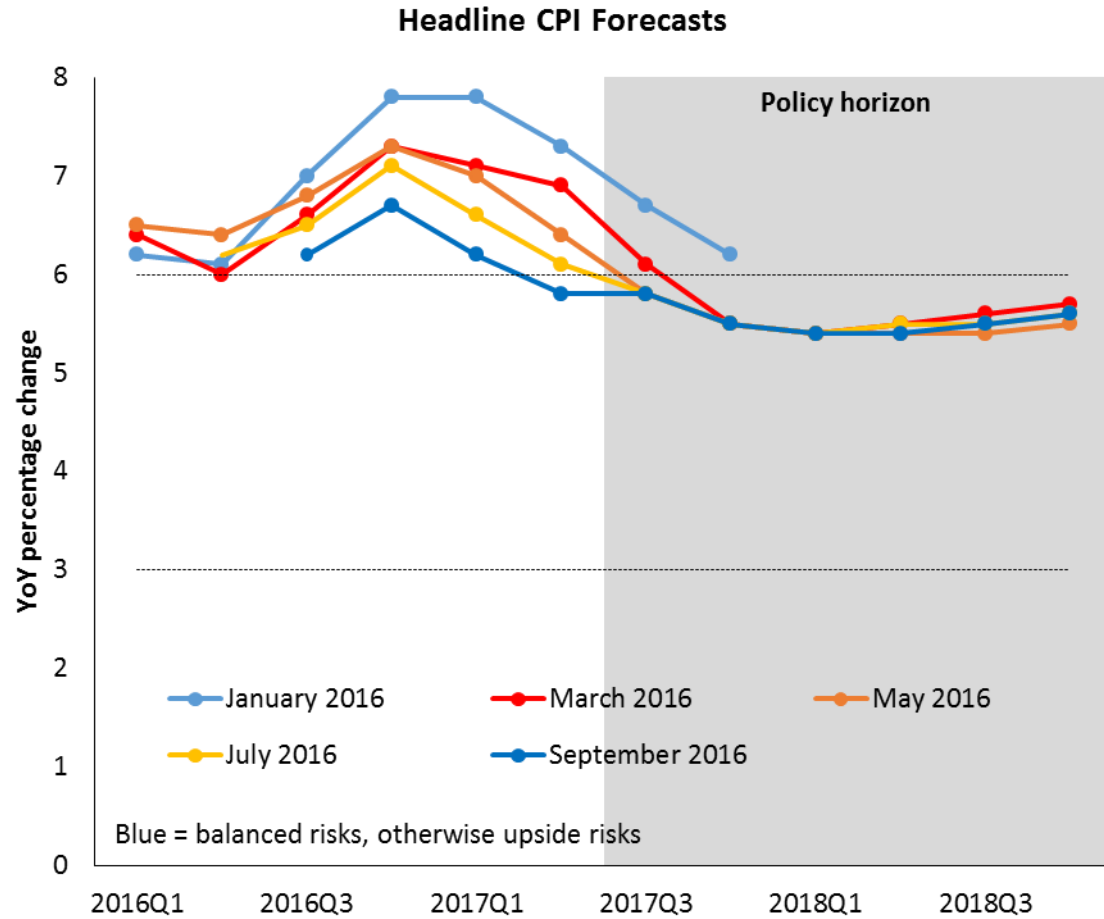
Repo rate percentage point change during hiking cycles



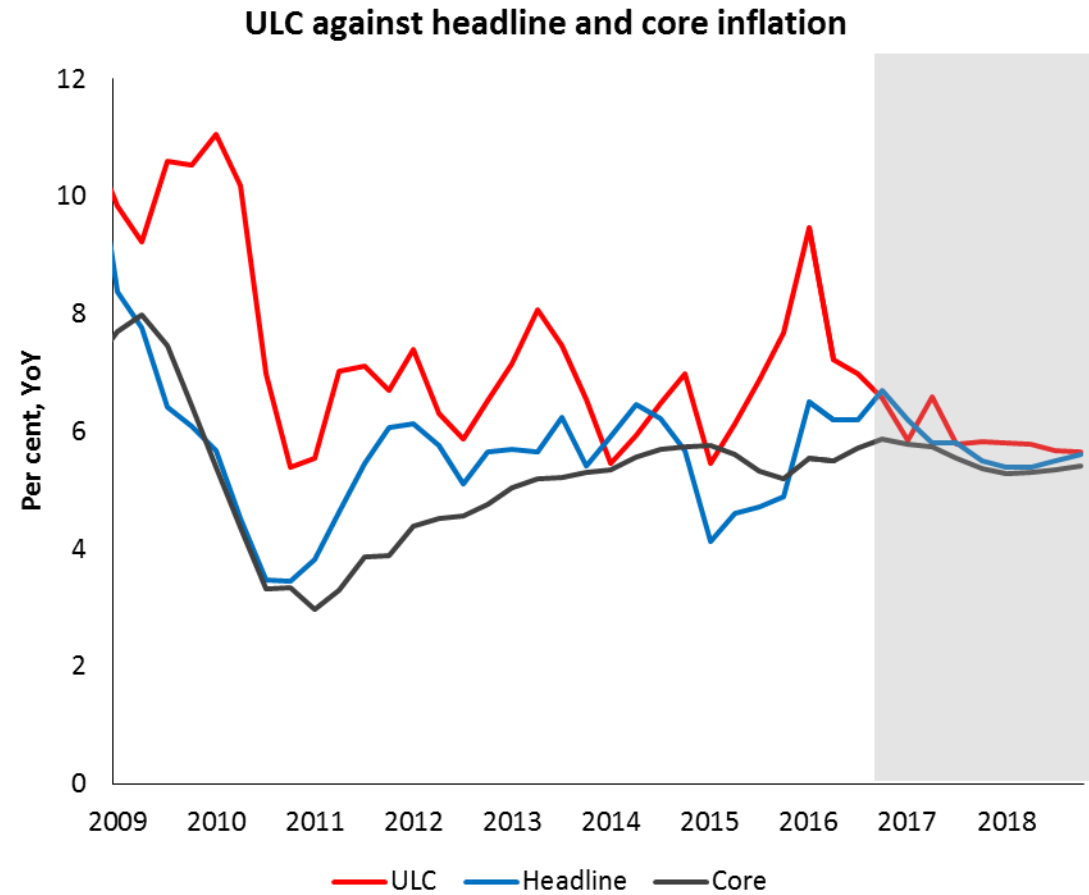
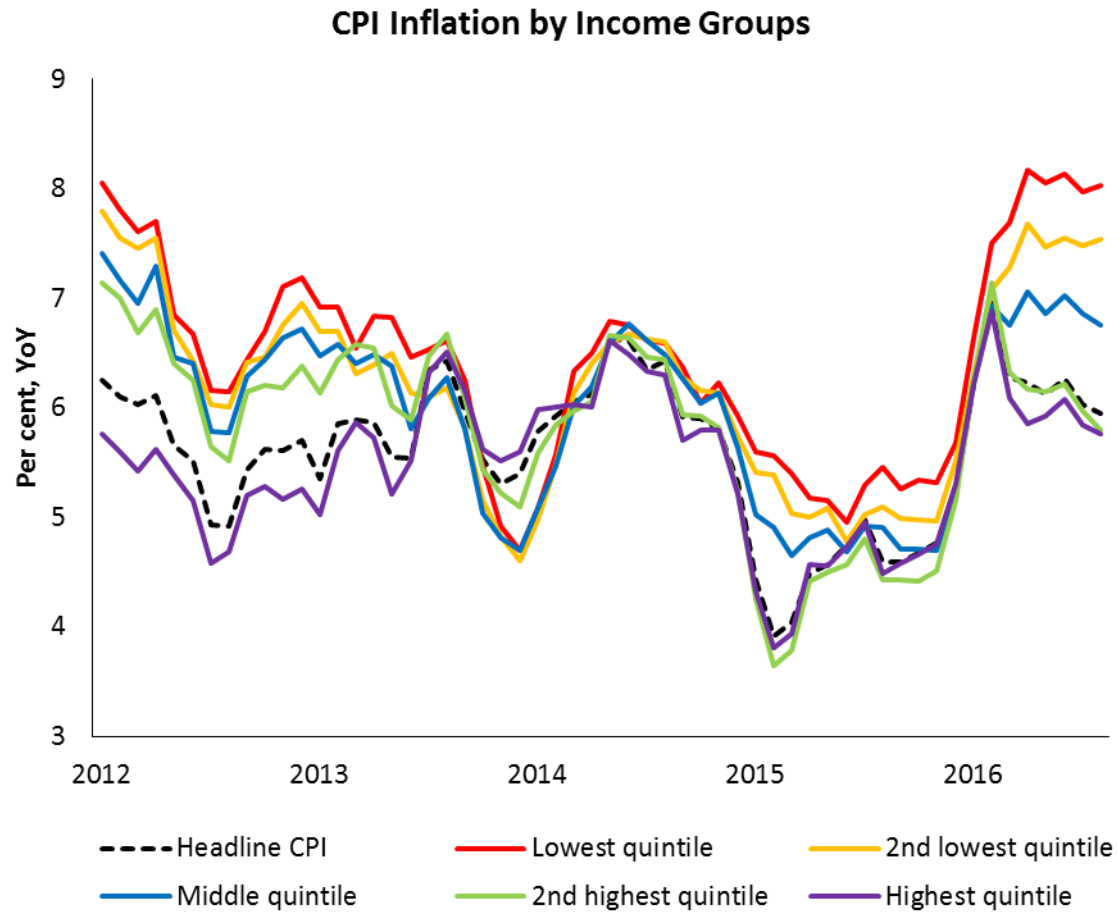
Real policy rate - ex ante
(based on 2017 CPI projections)



Forecasts have softened gradually, and risk balance improved



But neutrality is not absence of risk... volatility and persistence constrain policy



Conclusion: pause in cycle given favourable global developments & weaker domestic outcomes

- Gradual improvement in inflation outlook forecast since January
- Exogenous factors and end of drought shift balance of risks
- Creating space for policy change requires sustained improvements
- Policy stance remains accommodative in historical context and relative to global conditions

Thank you