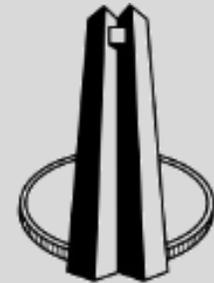


Monetary Policy Review

Chris Loewald: Head, Policy Development and Research

National Monetary Policy Forum · Pretoria, 4 October 2017



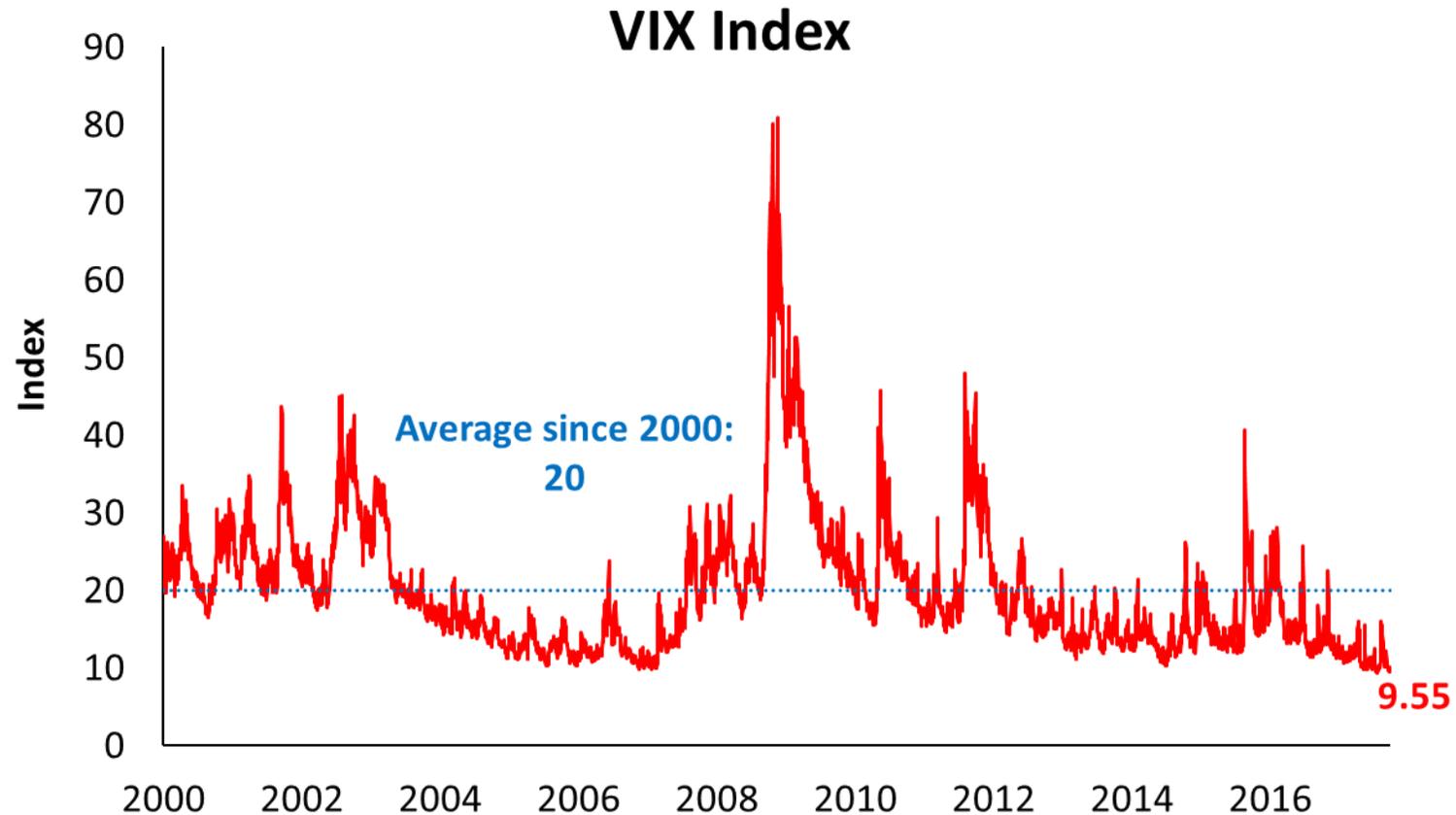
South African Reserve Bank

Credibility and counter-cyclical-ity:

monetary policy responses to lower inflation and low growth

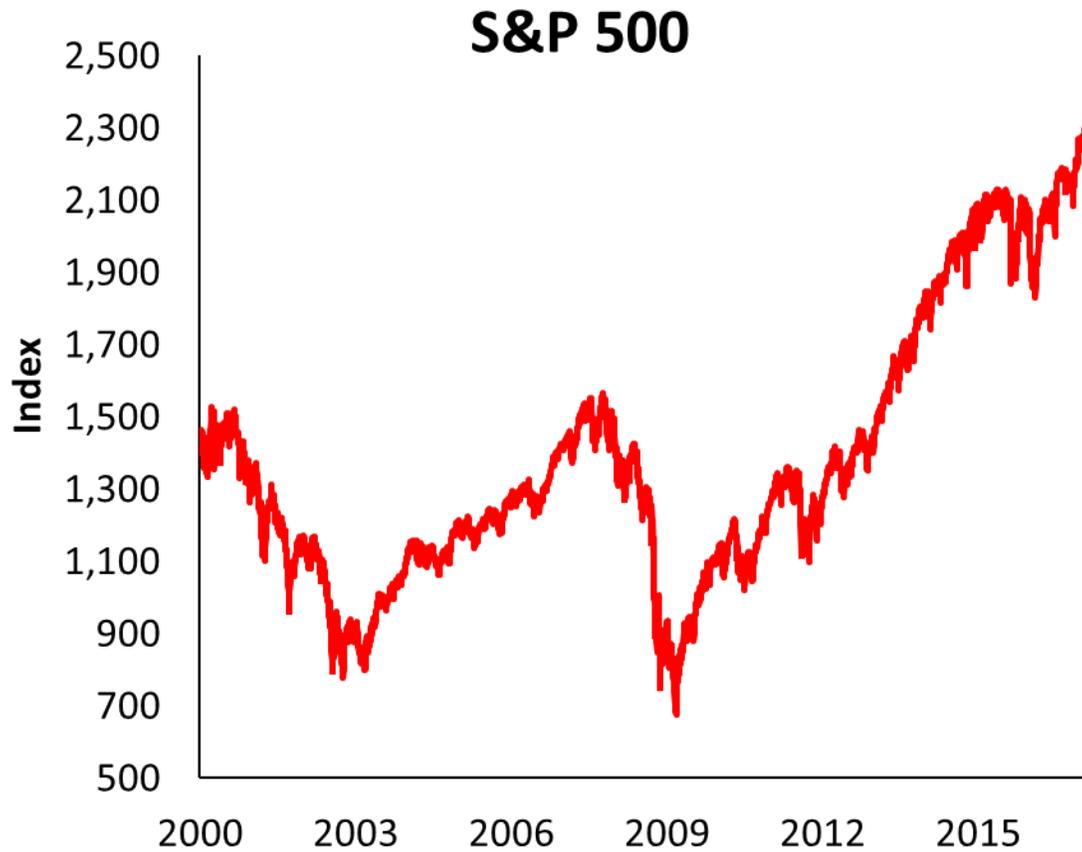
- Global conditions are favourable
- Growth is stagnant, mainly because of weak confidence
- Inflation is lower, possibly temporarily
- This has permitted some countercyclical easing
- Opportunity for permanently lower rates?

Risk-on in global financial markets

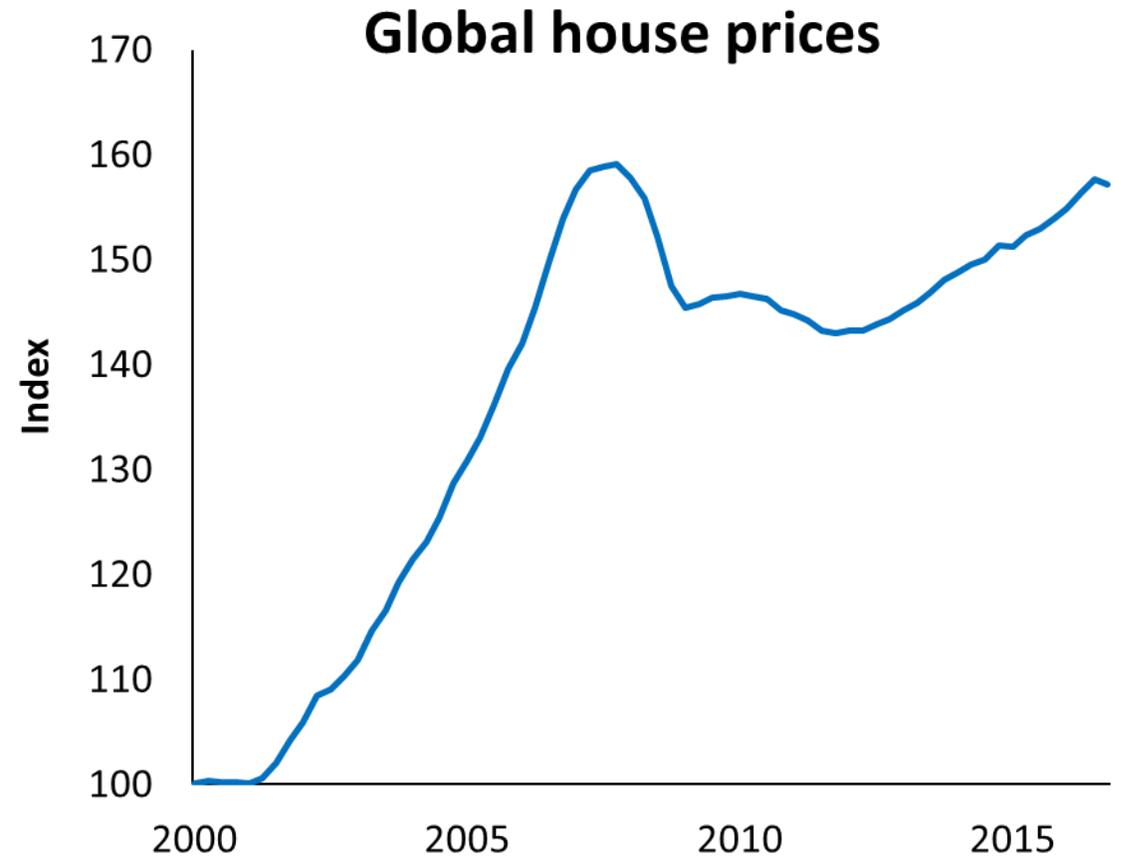


Source: Bloomberg

Asset prices elevated

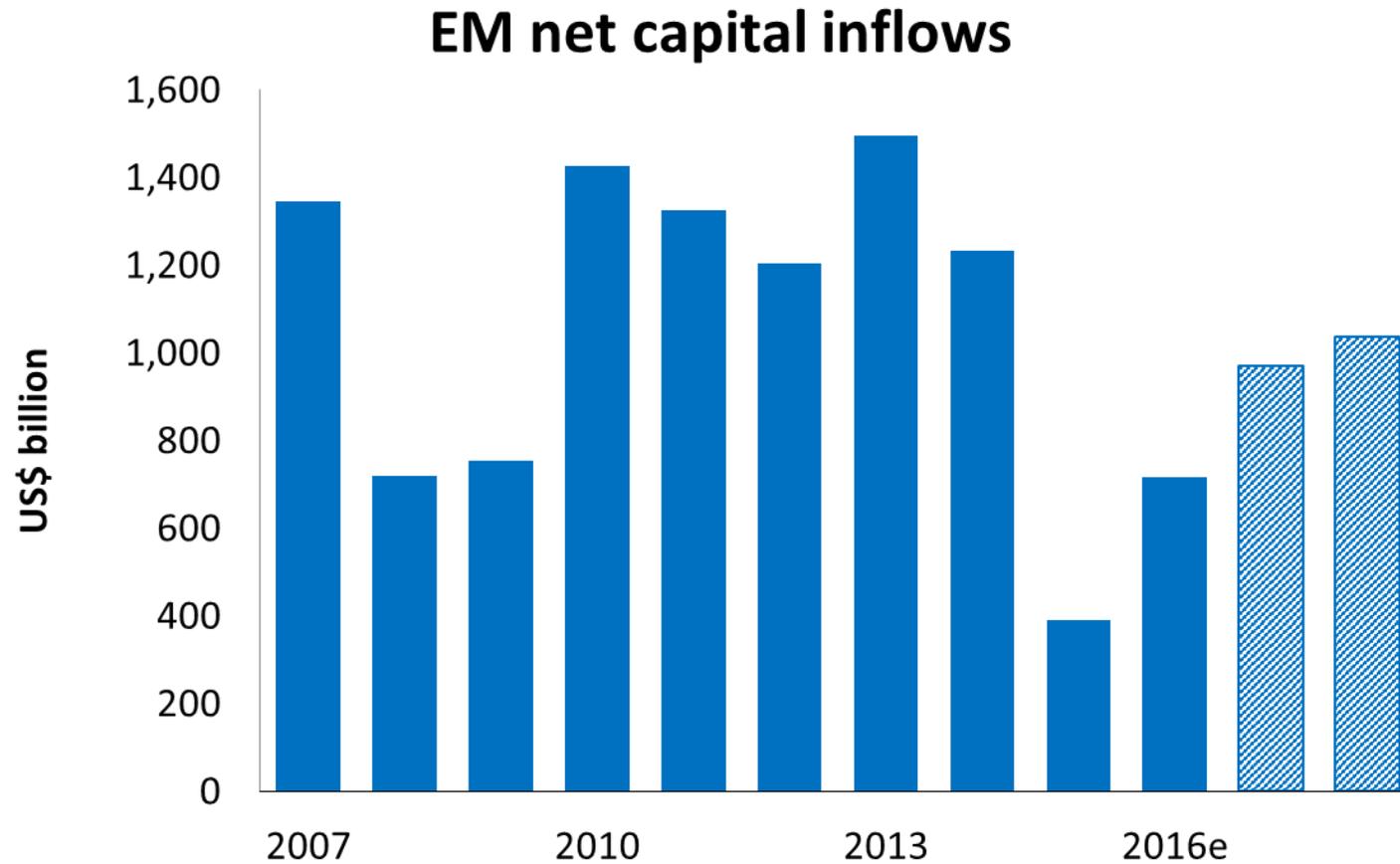


Source: Bloomberg



Source: IMF

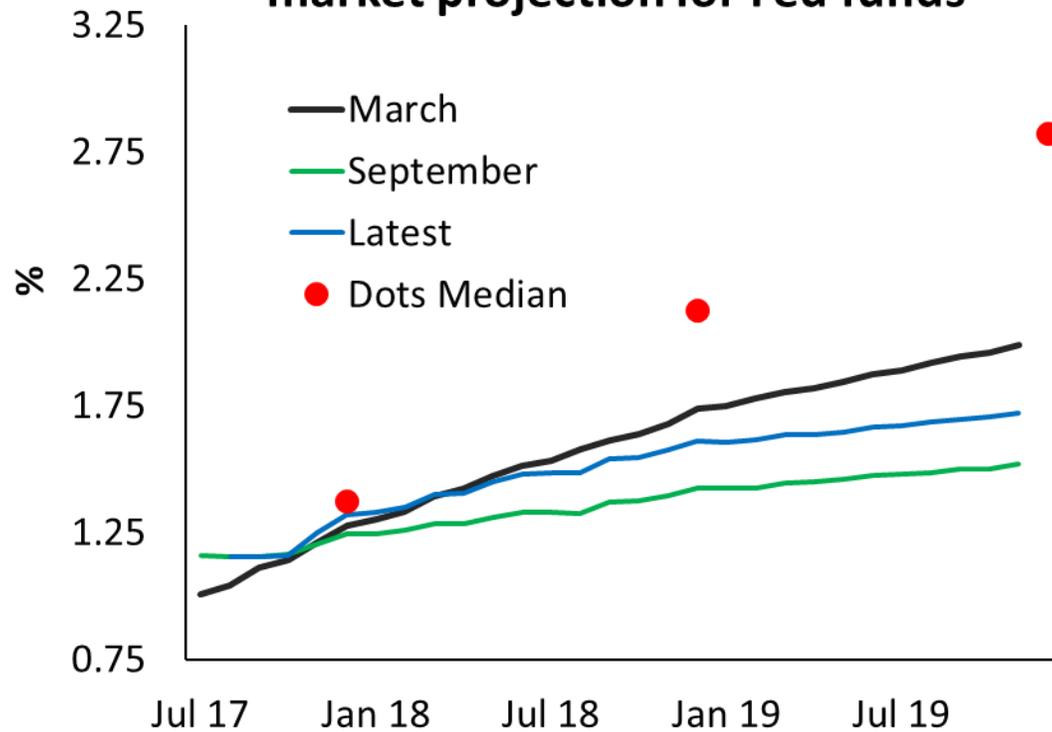
Capital to emerging markets



Source: IIF

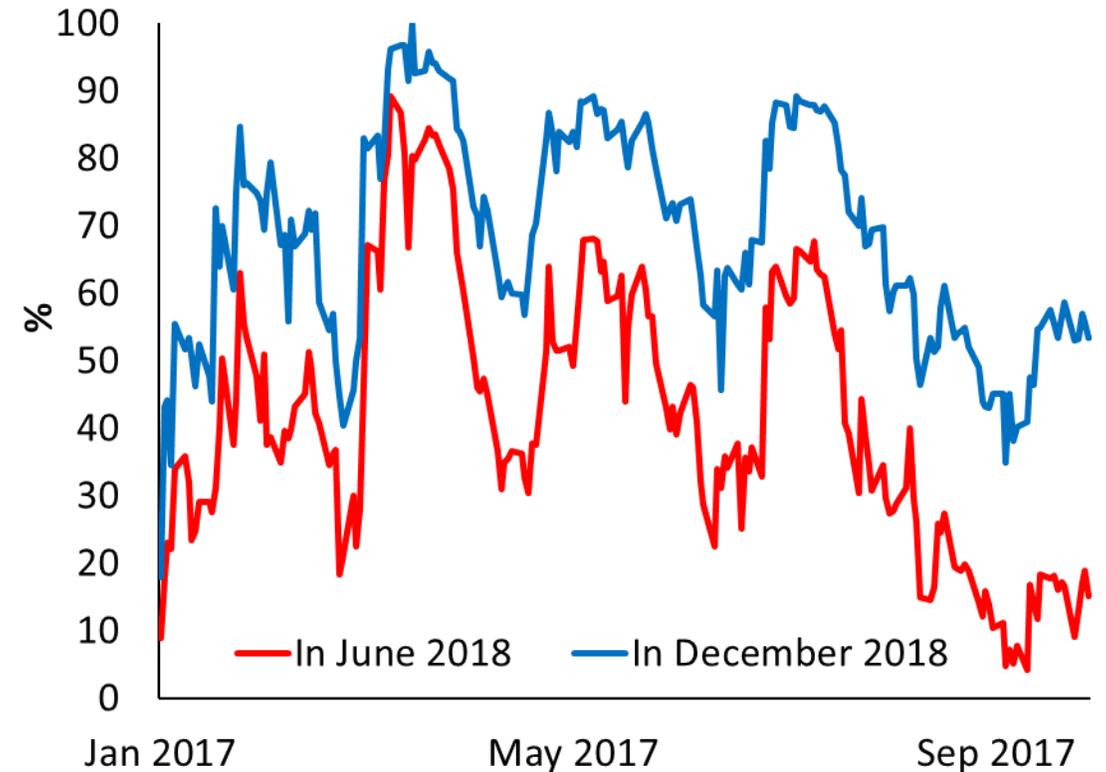
AE policy loose, supporting this rally

FOMC median forecast and implied market projection for Fed funds



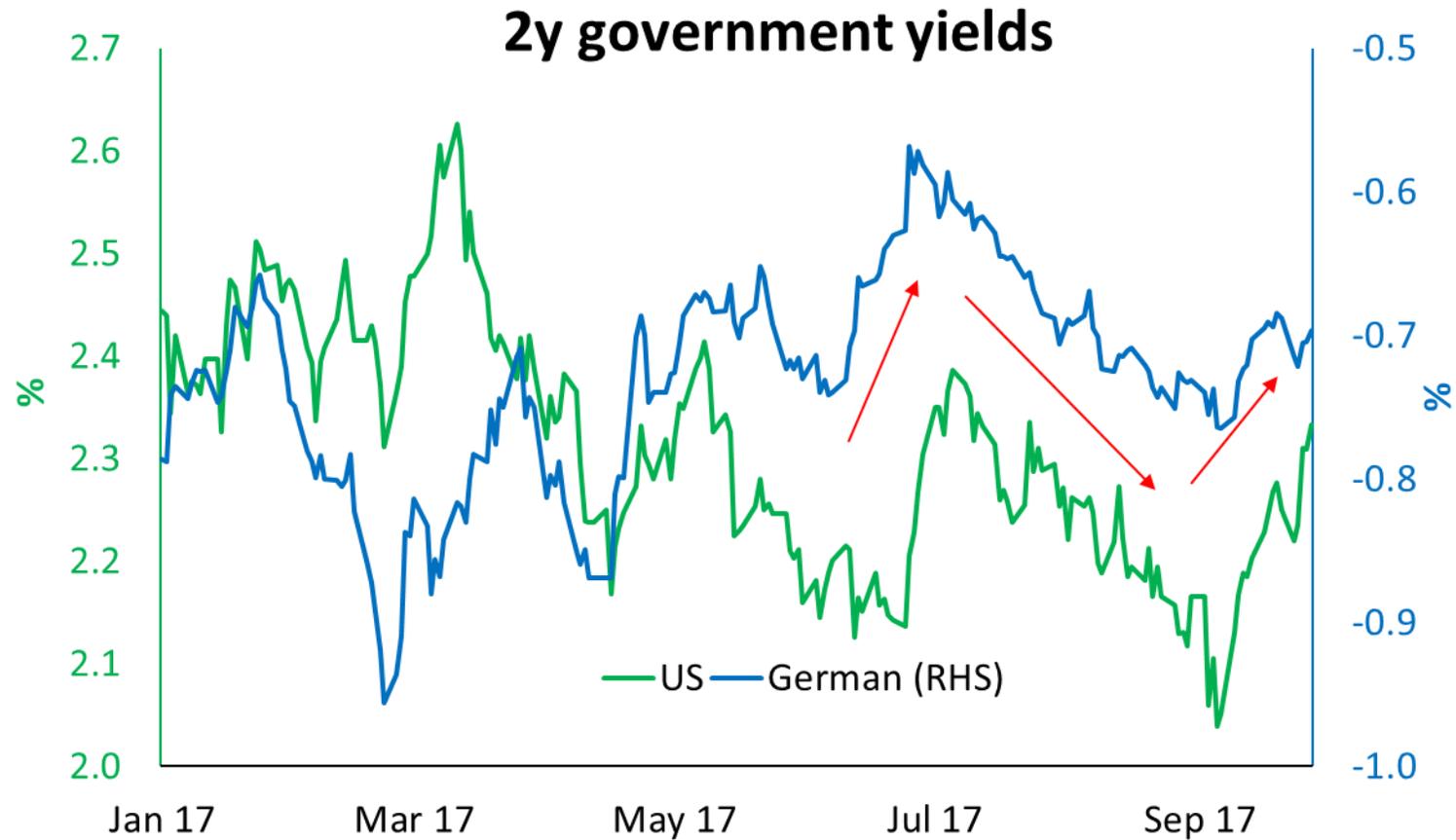
Source: Bloomberg

Probability of ECB rate hike



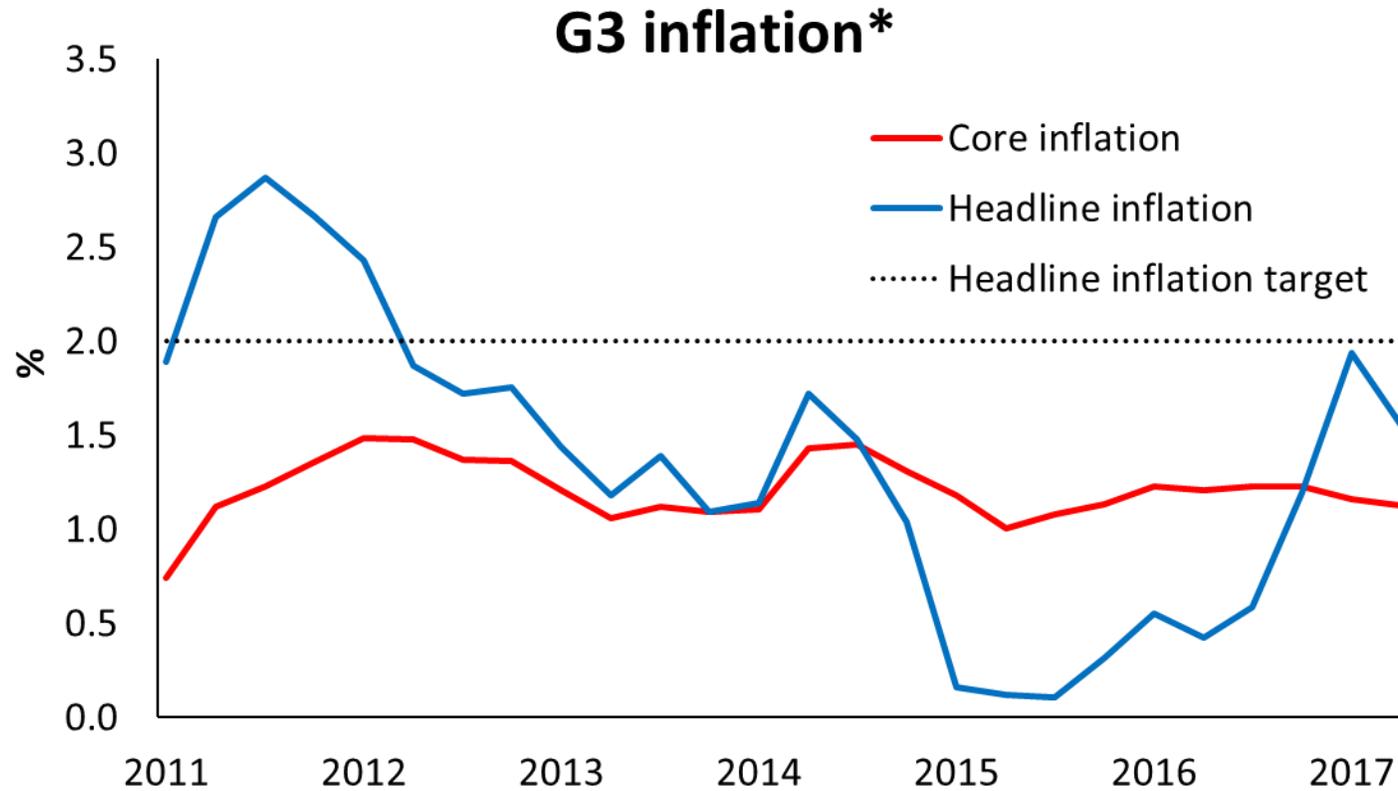
Source: Bloomberg

Normalisation talk causing some volatility



Source: Bloomberg

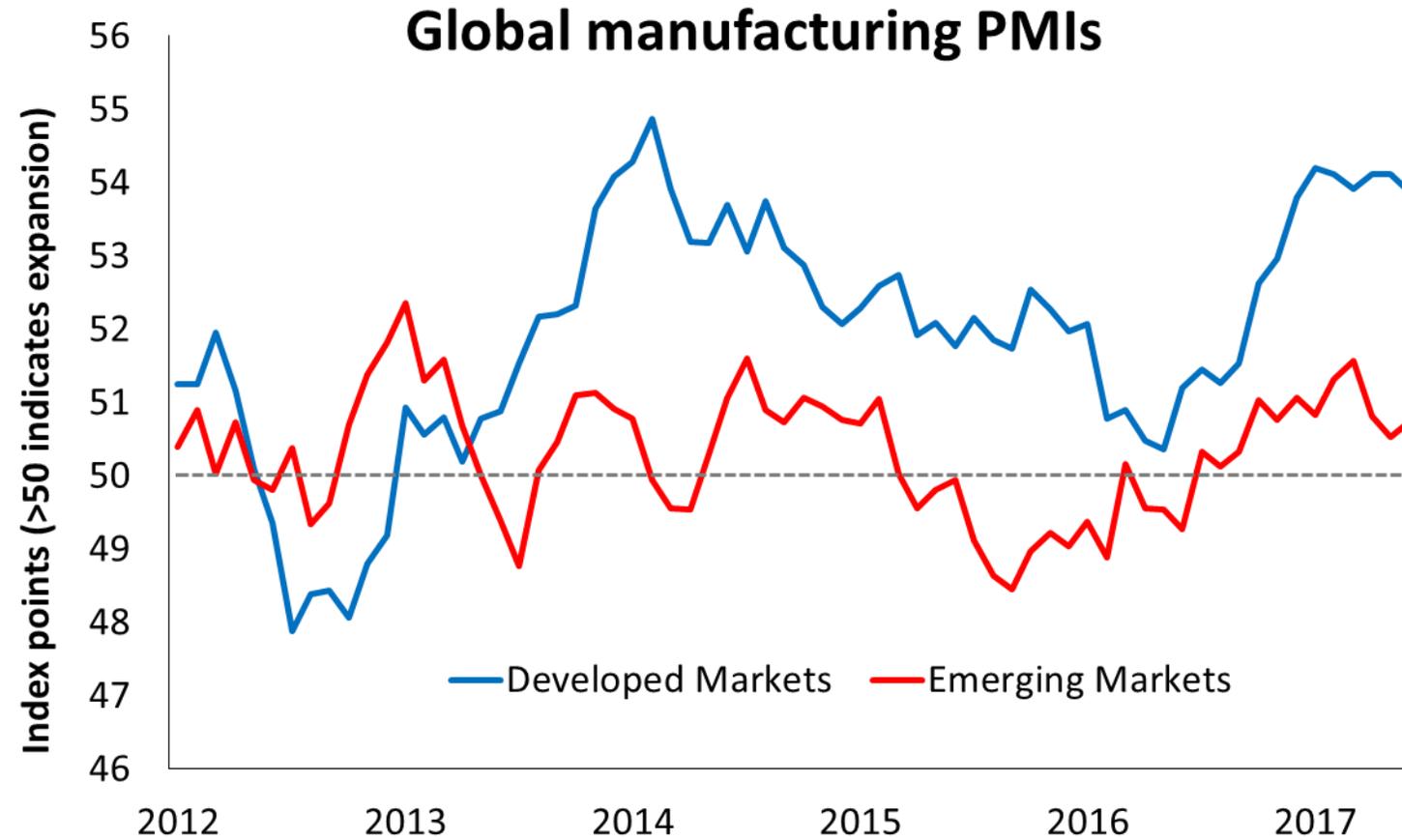
Urgency for normalisation?



* Weighted using 2016 PPP GDP weights for USA, euro area and Japan

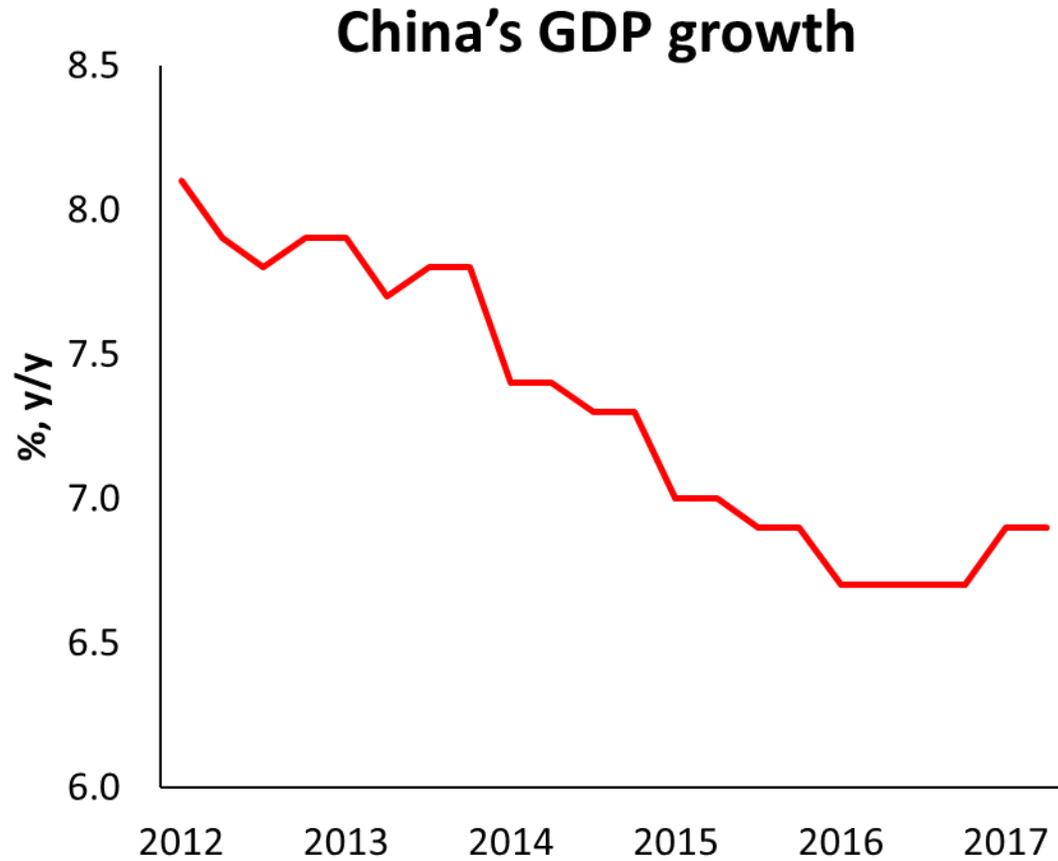
Source: Bloomberg

Recovery strengthening, led by advanced economies...

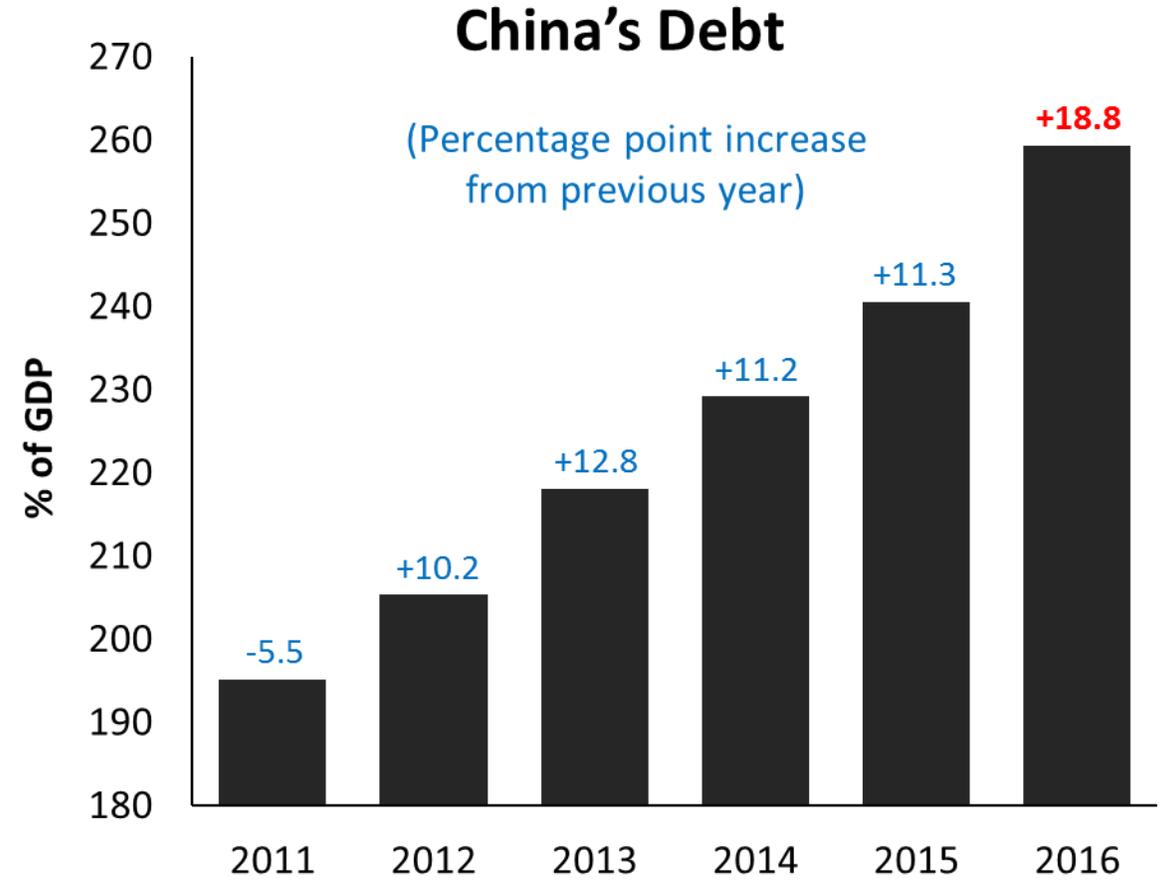


Source: Markit

Supported by stimulus in China

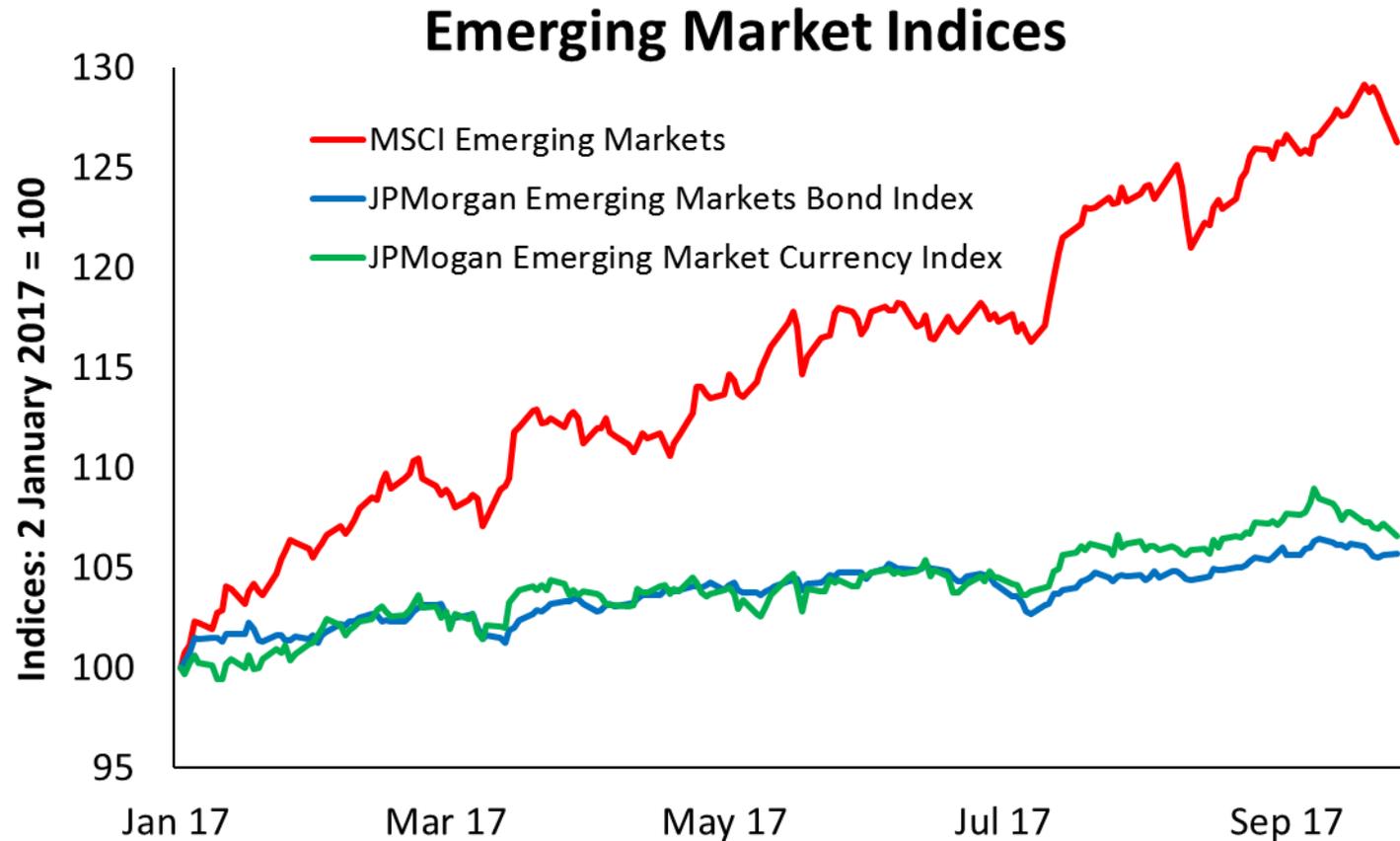


Source: Haver



Source: Bloomberg

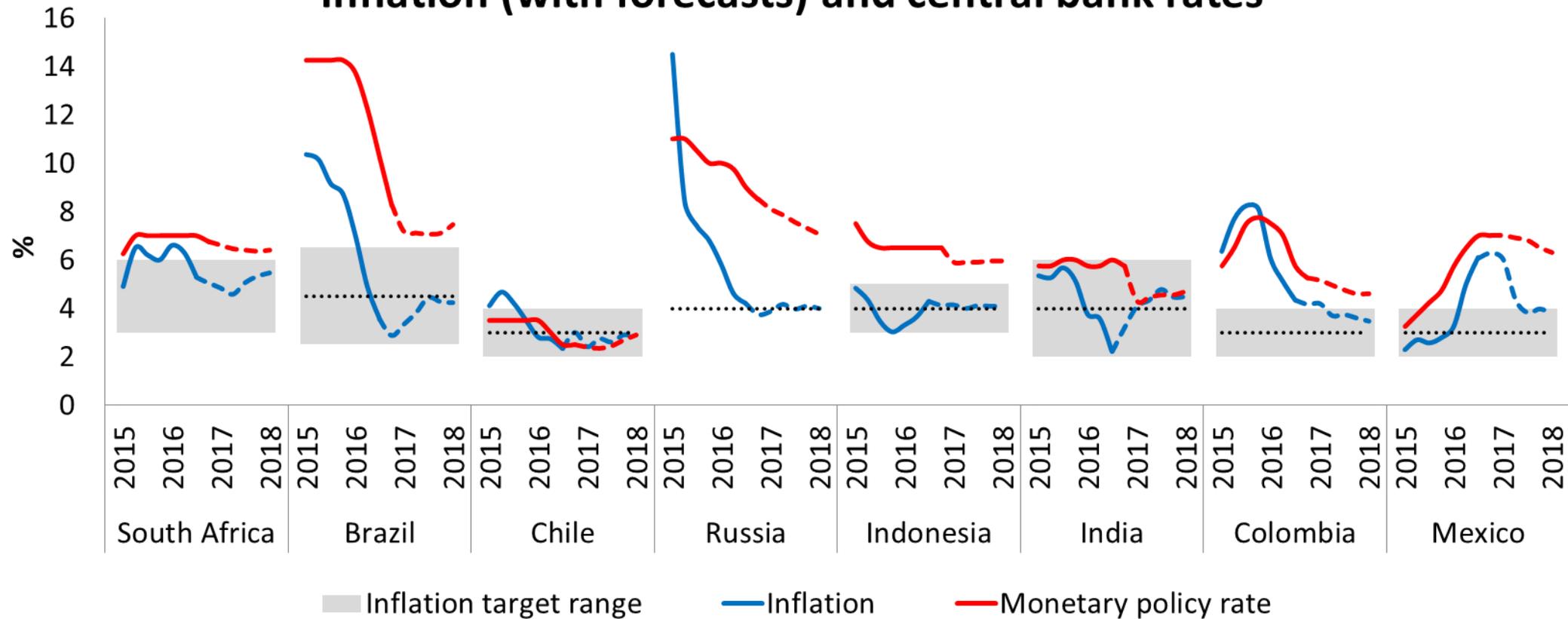
And creating favourable conditions for EMs



Source: Bloomberg

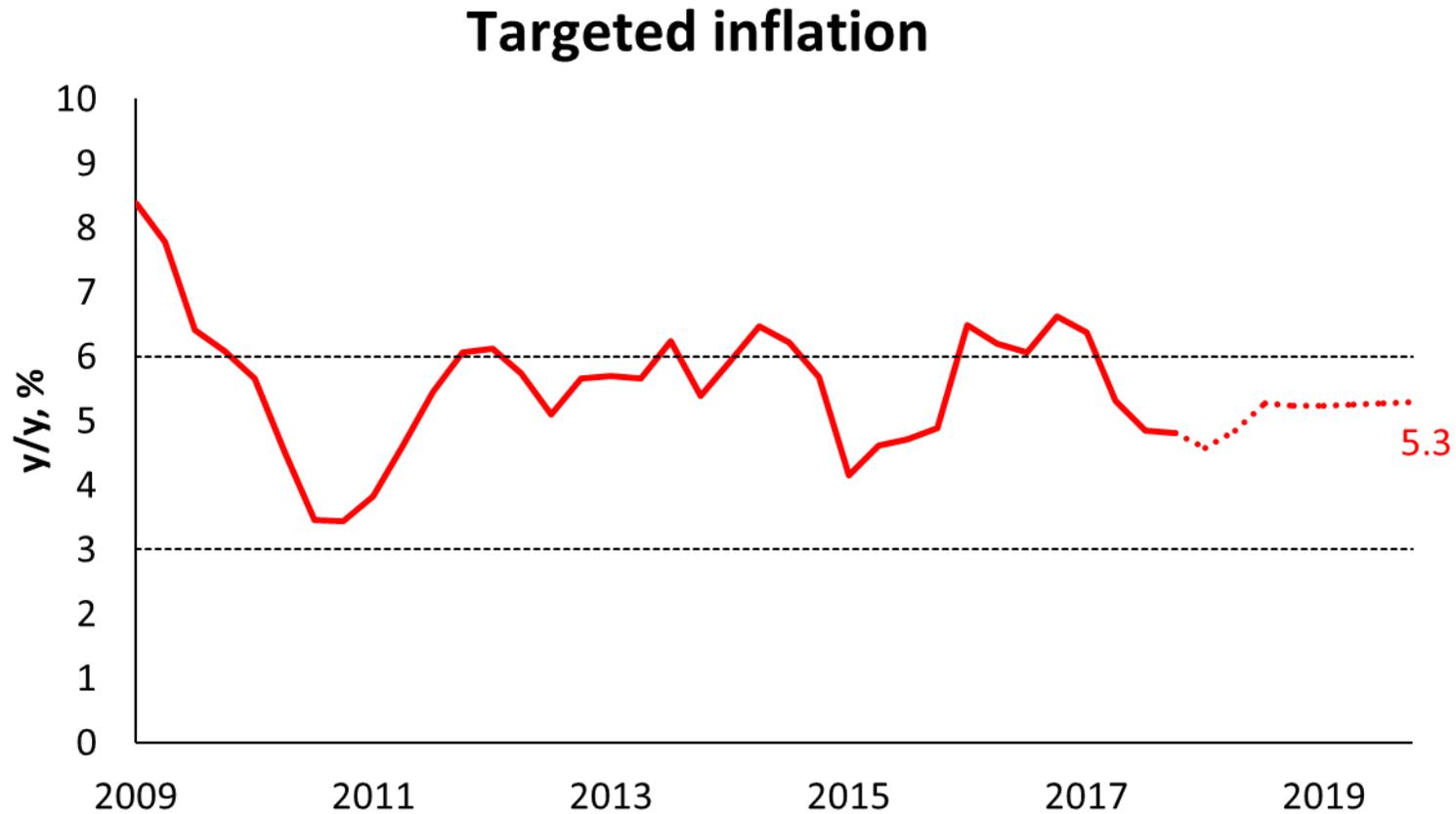
Policy tightening and weak global prices allows easing

Inflation (with forecasts) and central bank rates



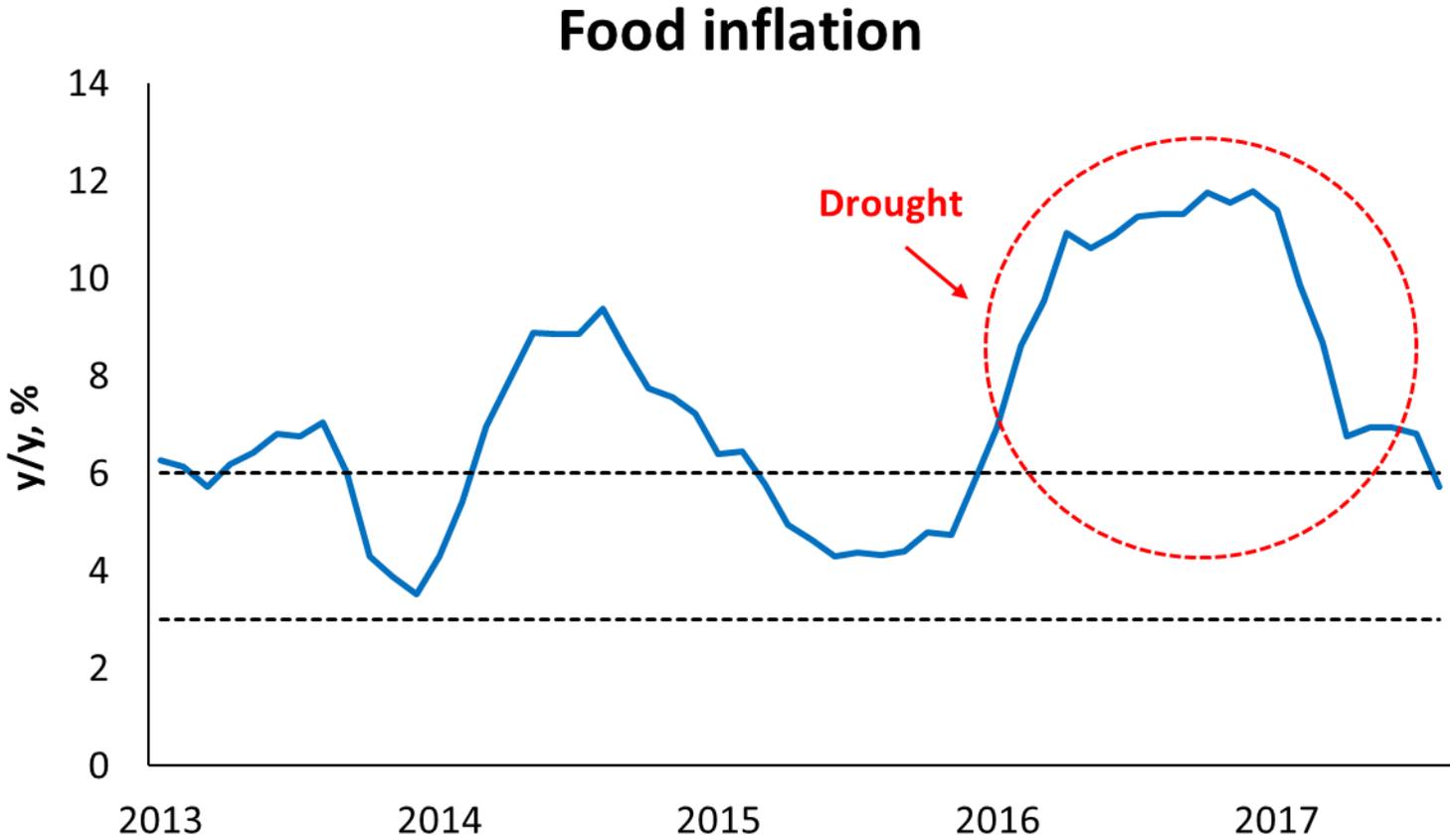
Sources: Bloomberg and respective central banks

South African inflation has slowed, but less sharply



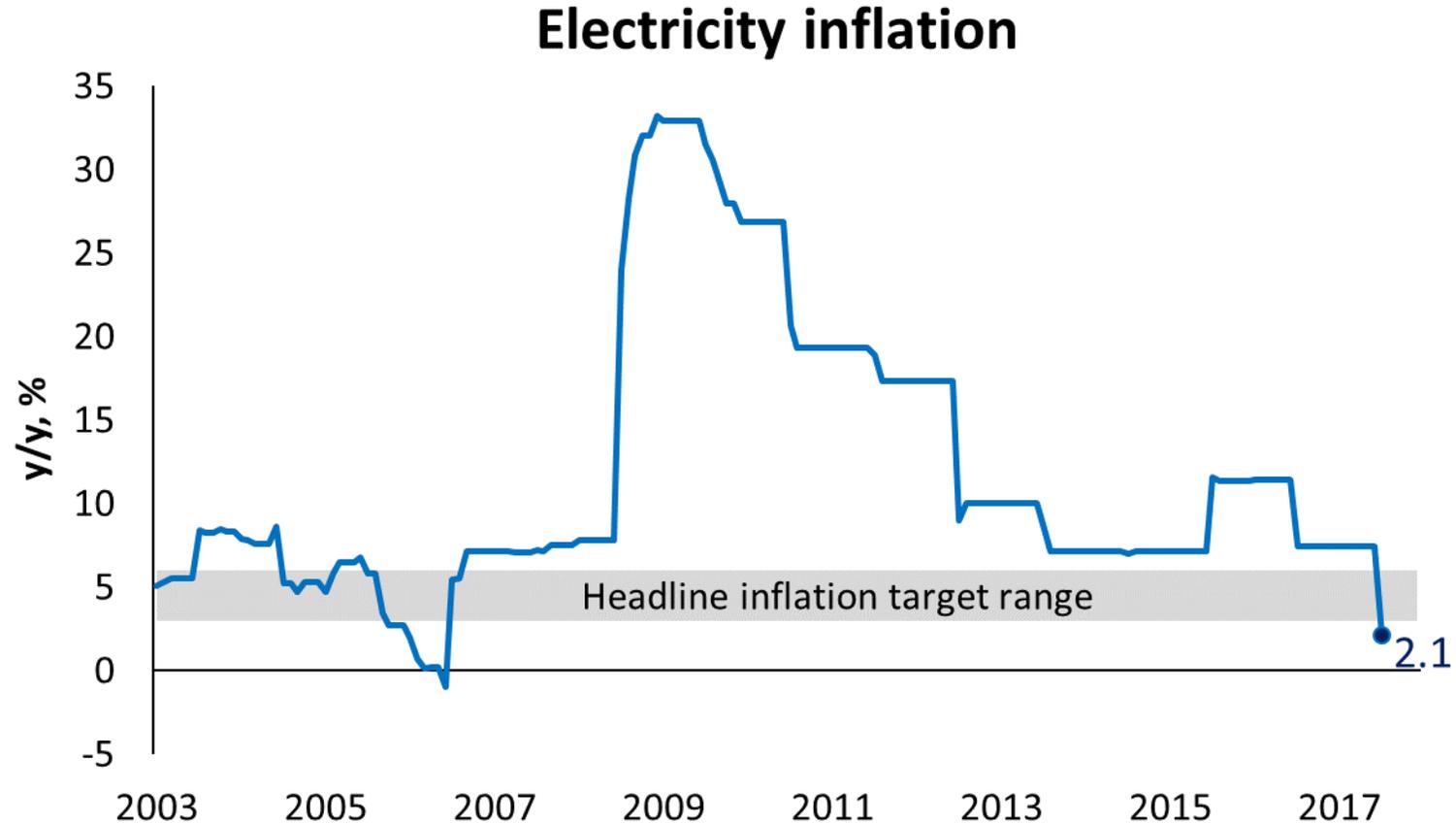
Sources: SARB and Stats SA

Inflation eased due to lower food prices...



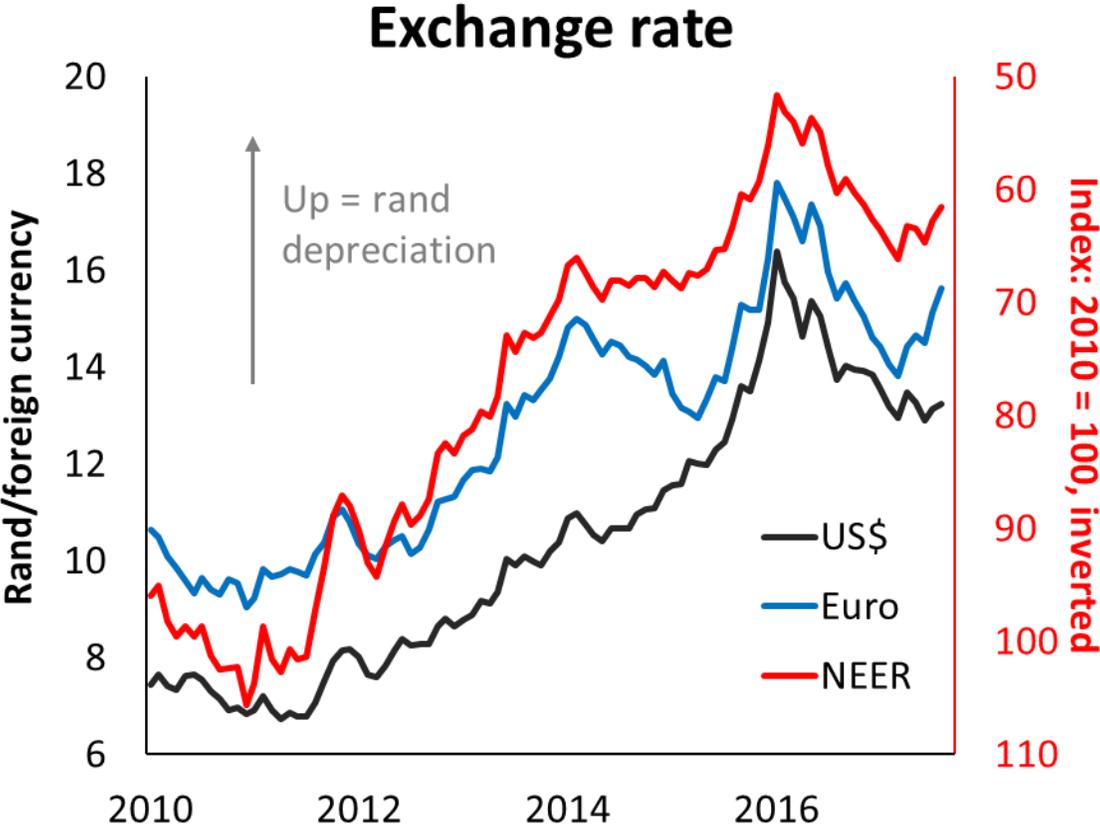
Sources: SARB and Stats SA

... and electricity price inflation

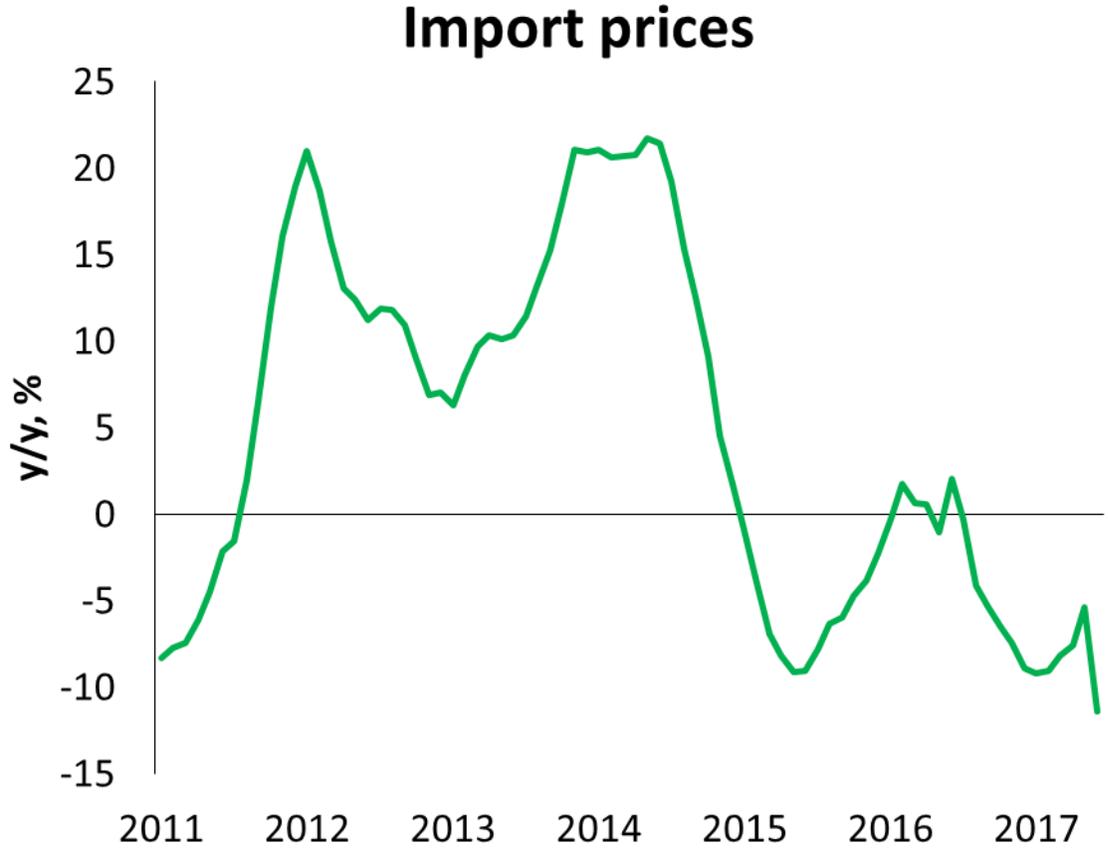


Source: SARB & Stats SA

Exchange rate recovery

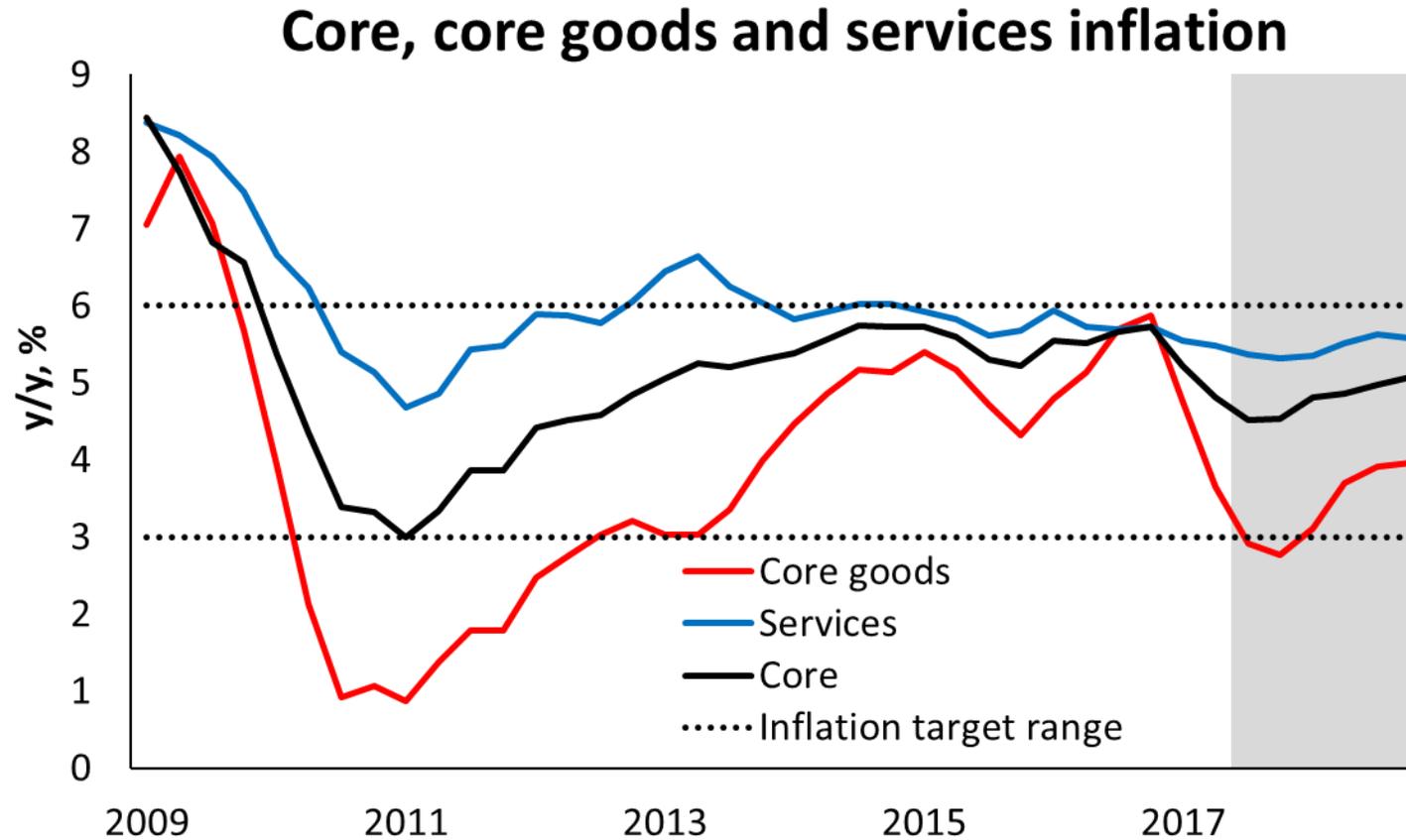


Source: Bloomberg and SARB



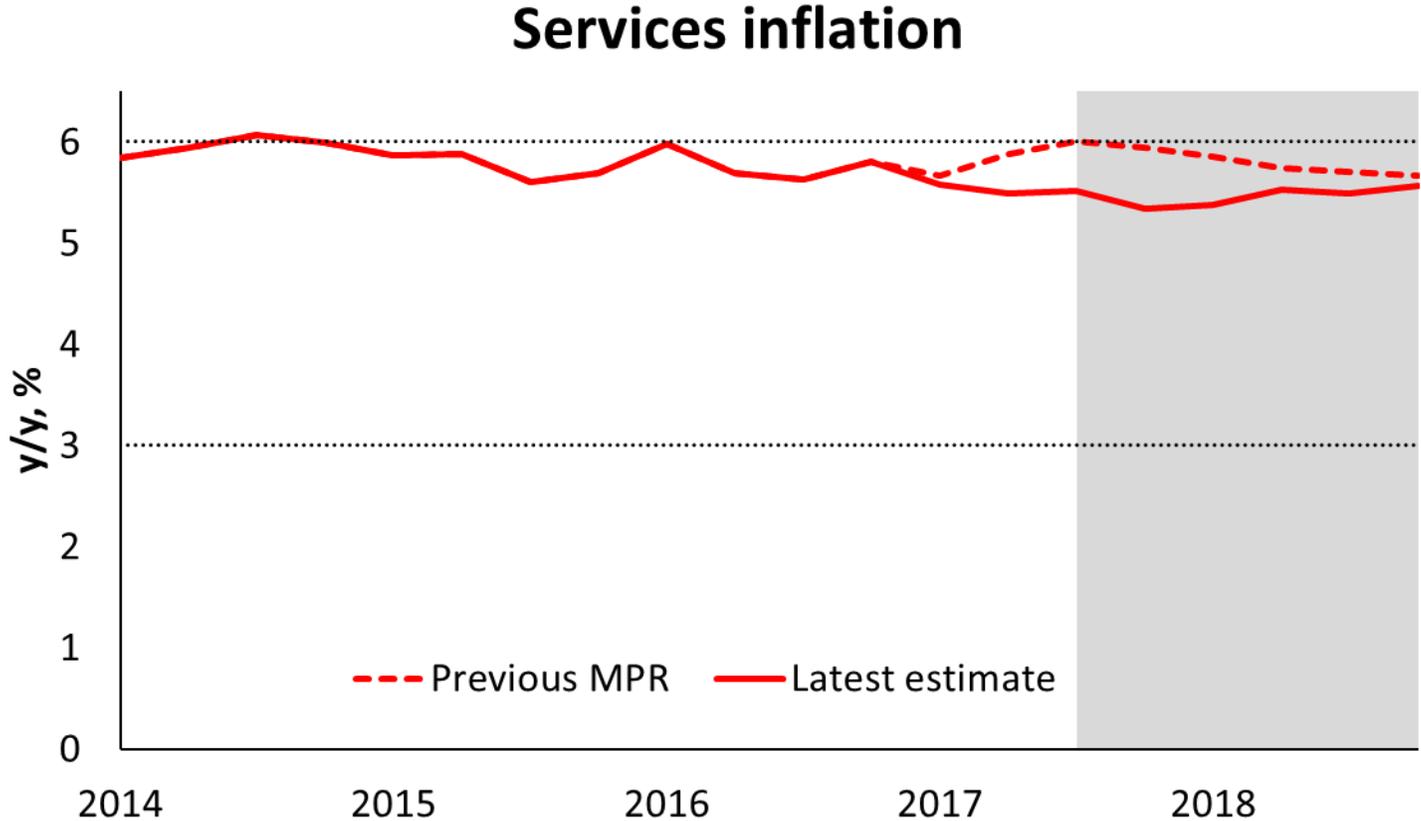
Source: Stats SA

Core (ex food & energy) slowed with rand



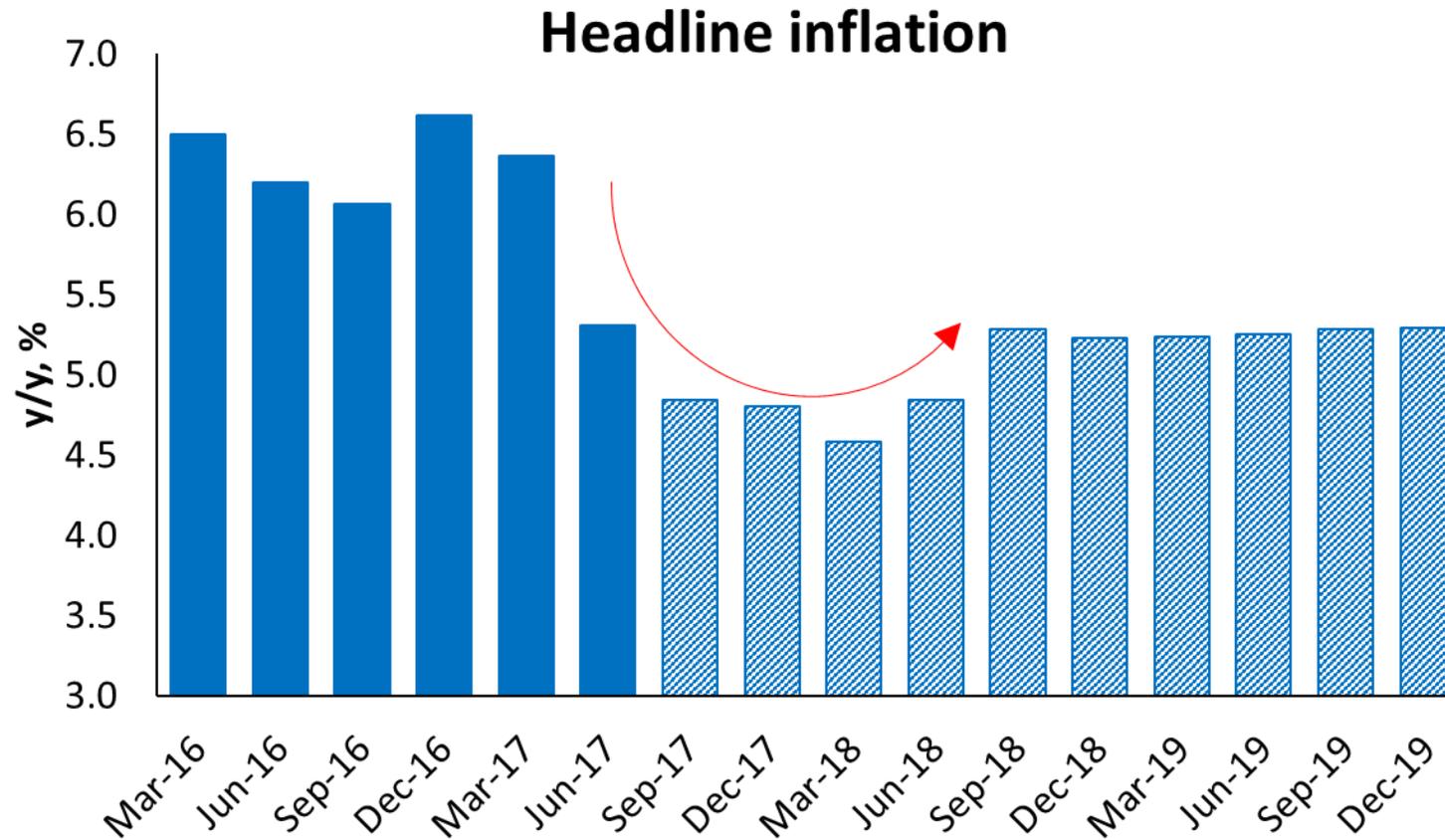
Sources: SARB and StatsSA

Services stable, if somewhat lower



Sources: SARB and Stats SA

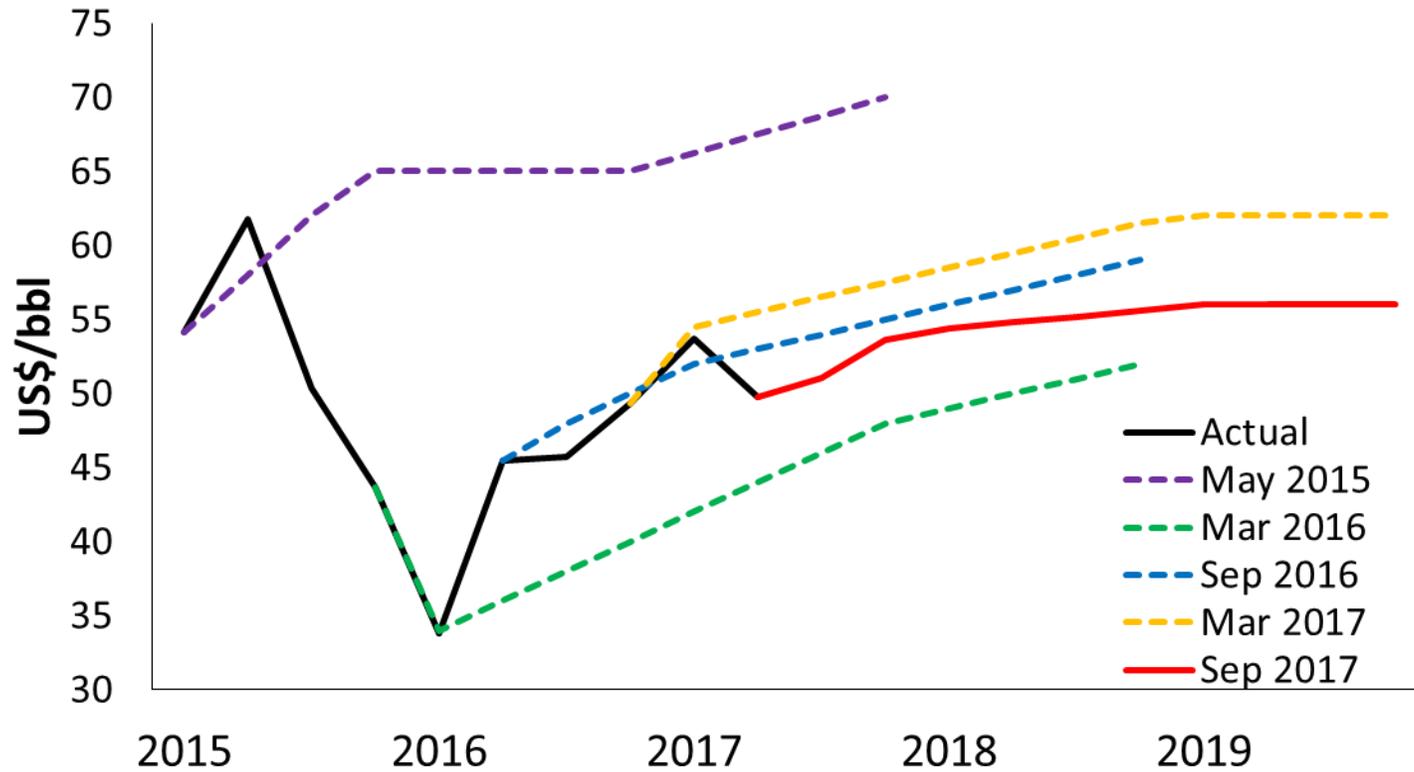
Inflation to stabilise over 5%



Sources: SARB and Stats SA

Oil assumption risk

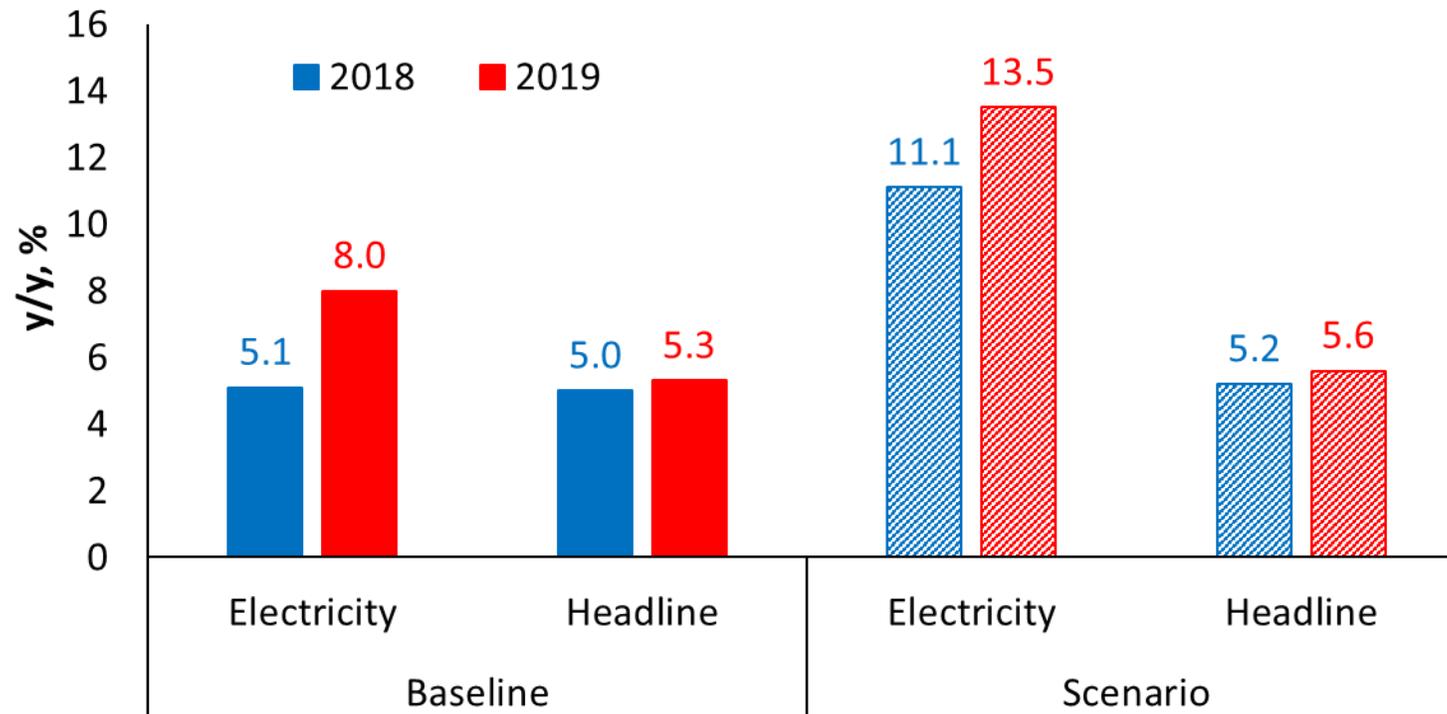
Evolution of crude oil price forecasts



Sources: Bloomberg and SARB

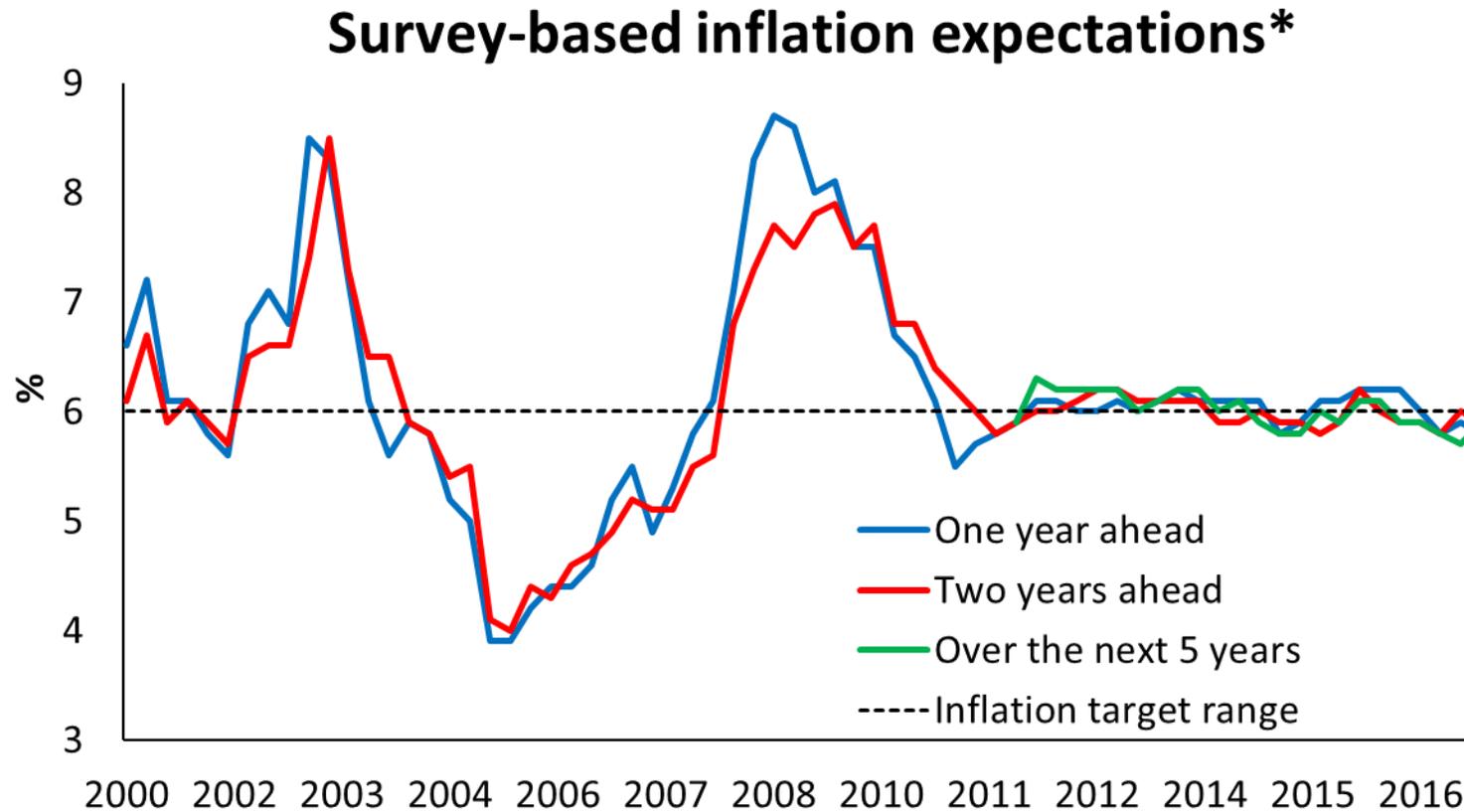
Electricity prices risk

Alternative electricity scenarios (20% July 2018 increase)



Source: SARB & Stats SA

Longer-term inflation expectations near 6%

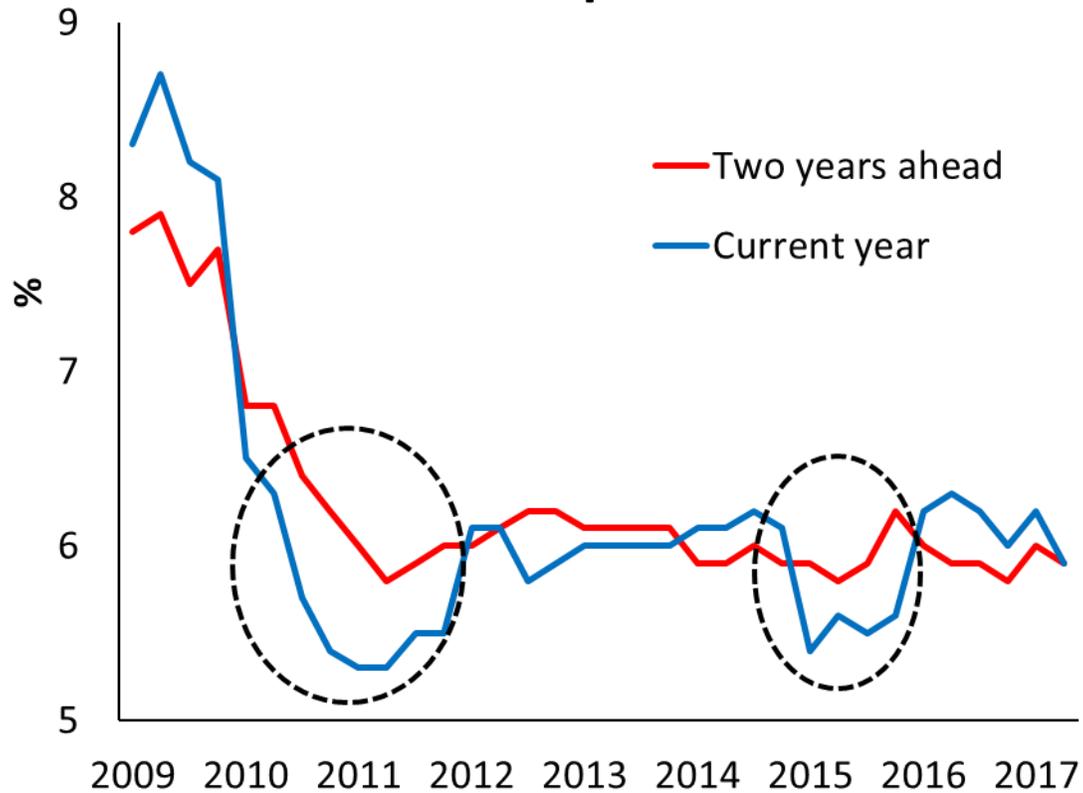


*Total, combining expectations of labour, business and analysts

Source: BER

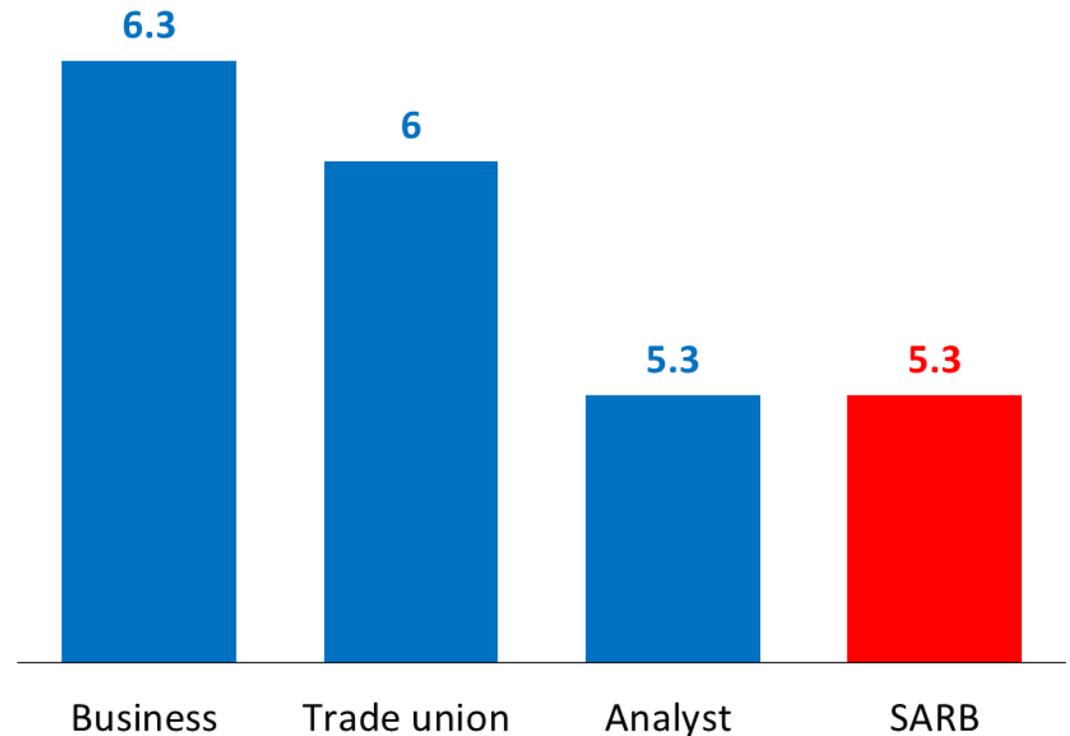
Respondents *notice* lower inflation...

Inflation expectations



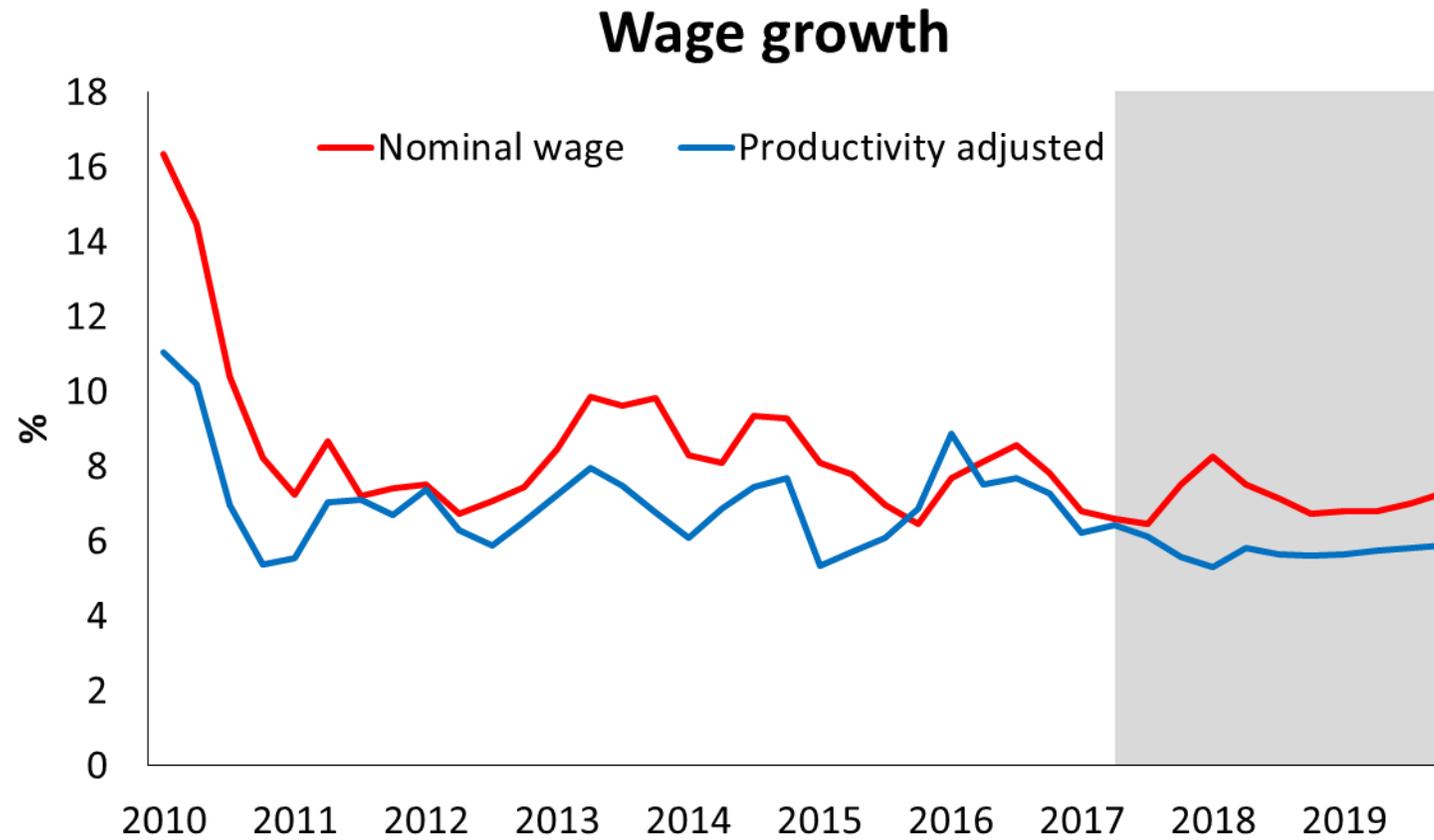
Source: BER

Inflation expectations for 2019



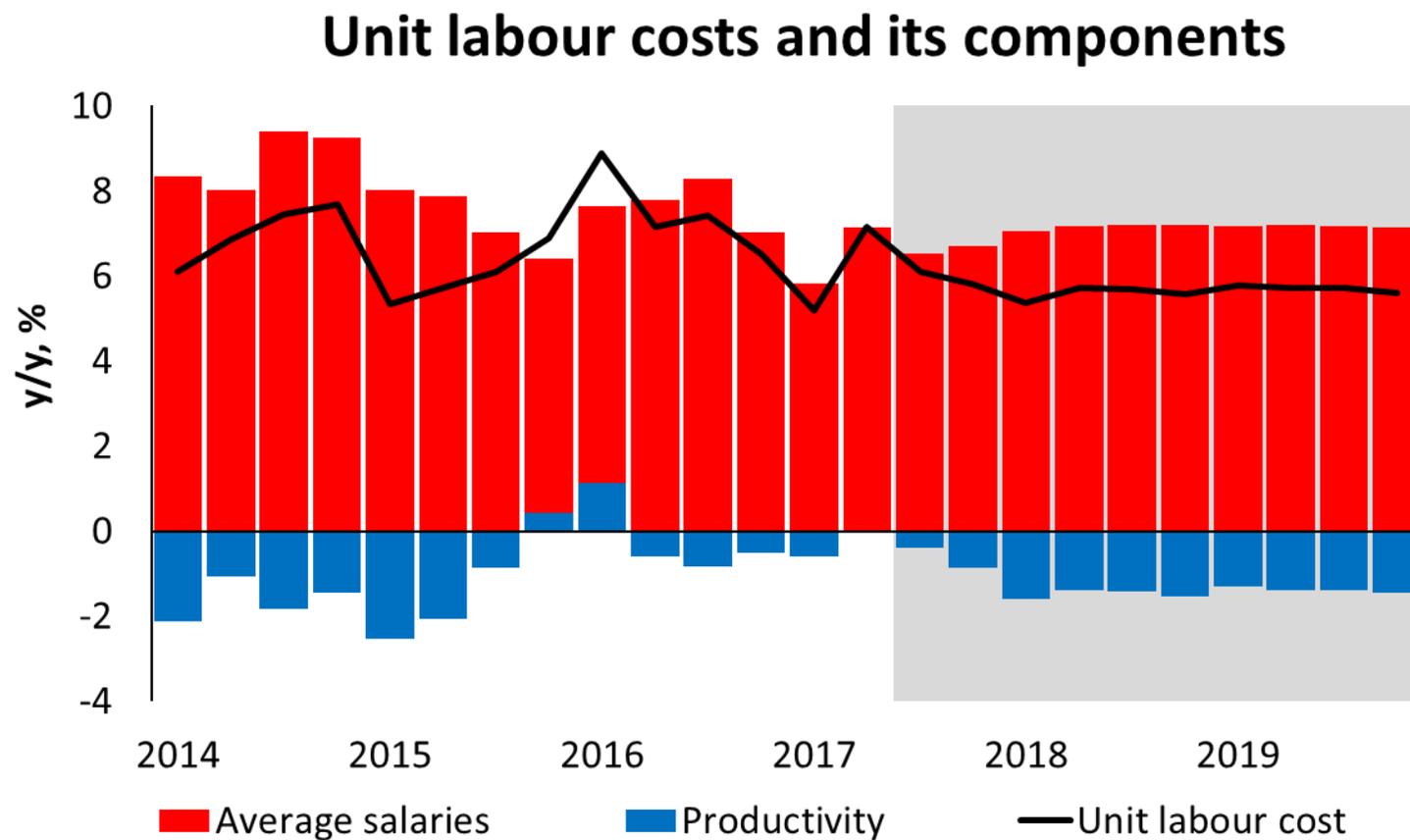
Source: BER

Keeping wage growth elevated



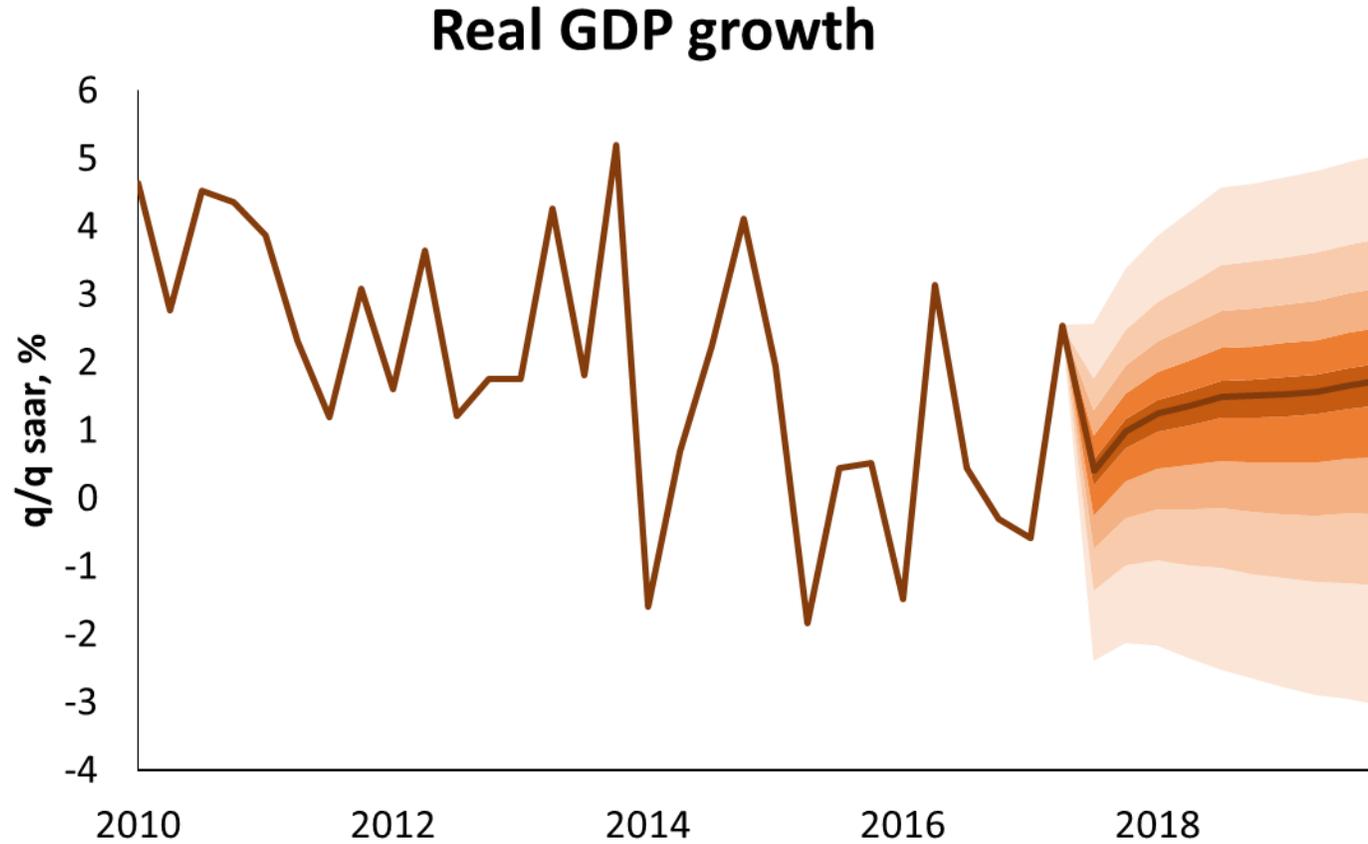
Source: SARB

Forecast suggests ULCs stay lower than usual



Sources: Andrew Levy Publications and SARB

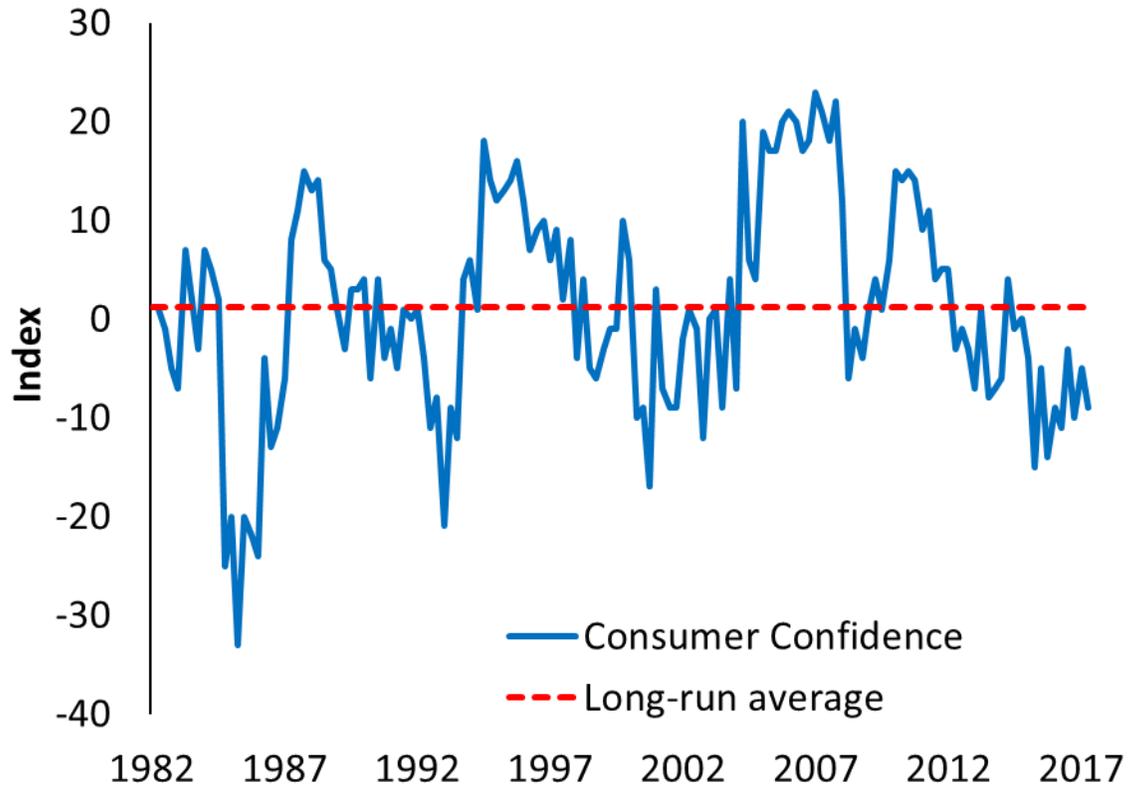
Growth picks up slightly



Source: SARB and Stats SA

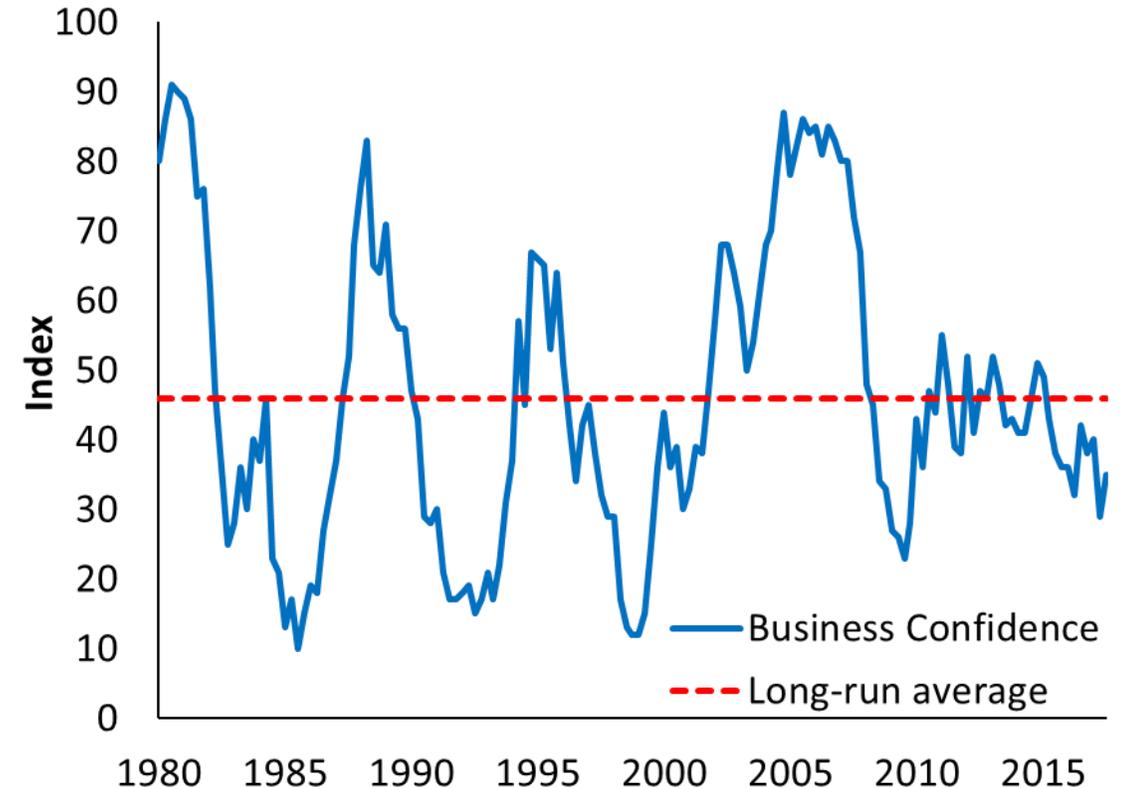
Reflects very low confidence...

Consumer Confidence



Source: BER

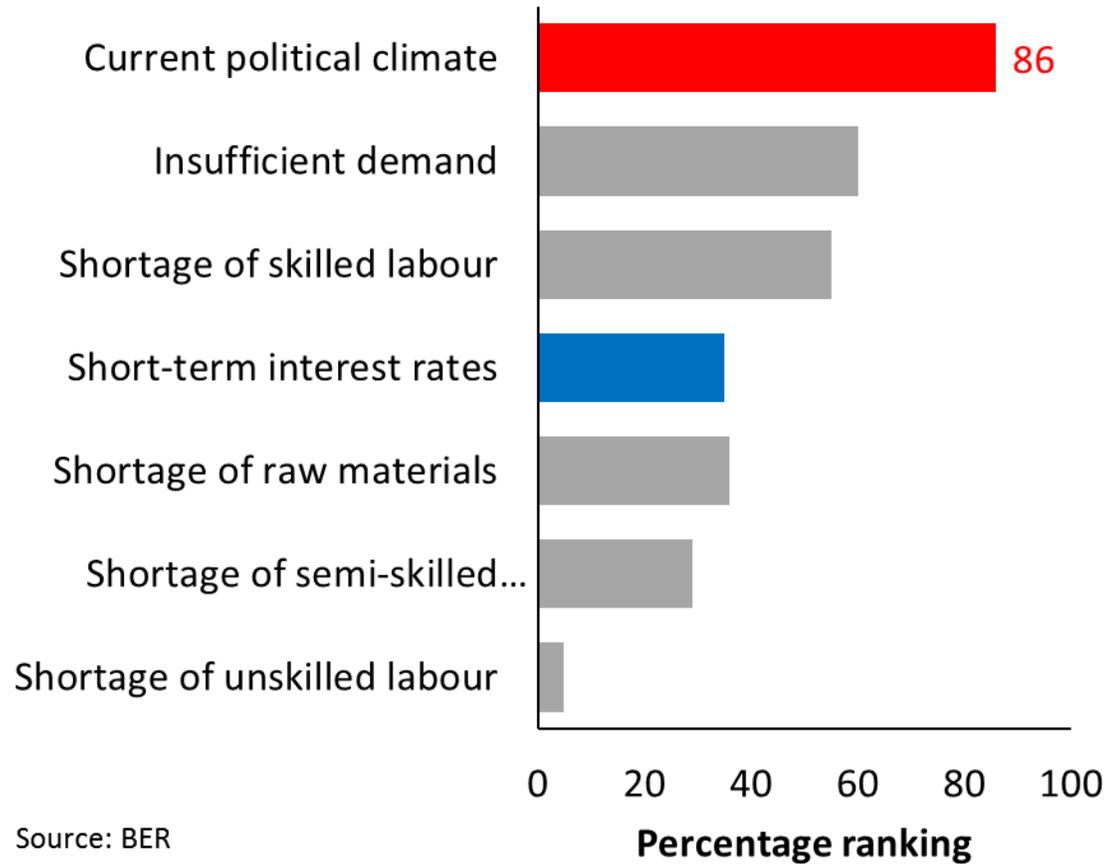
Business Confidence



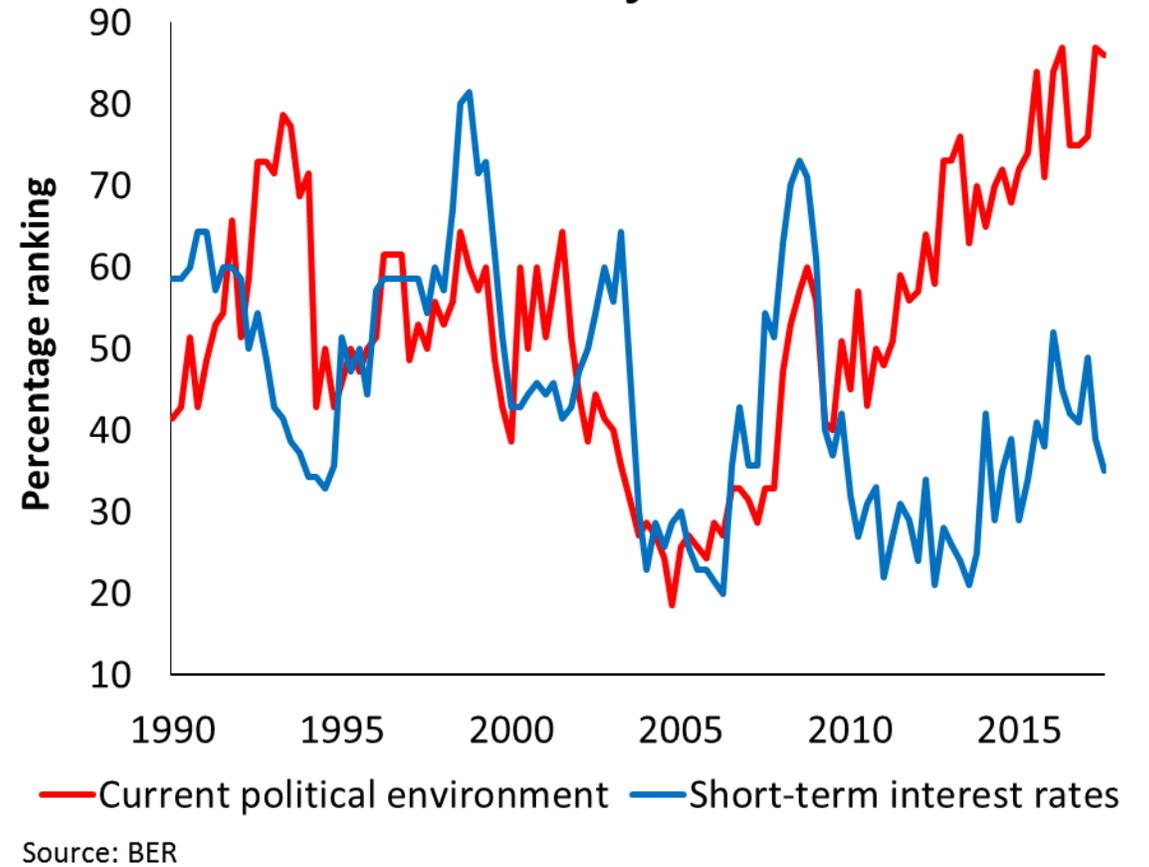
Source: BER

...shown in surveys

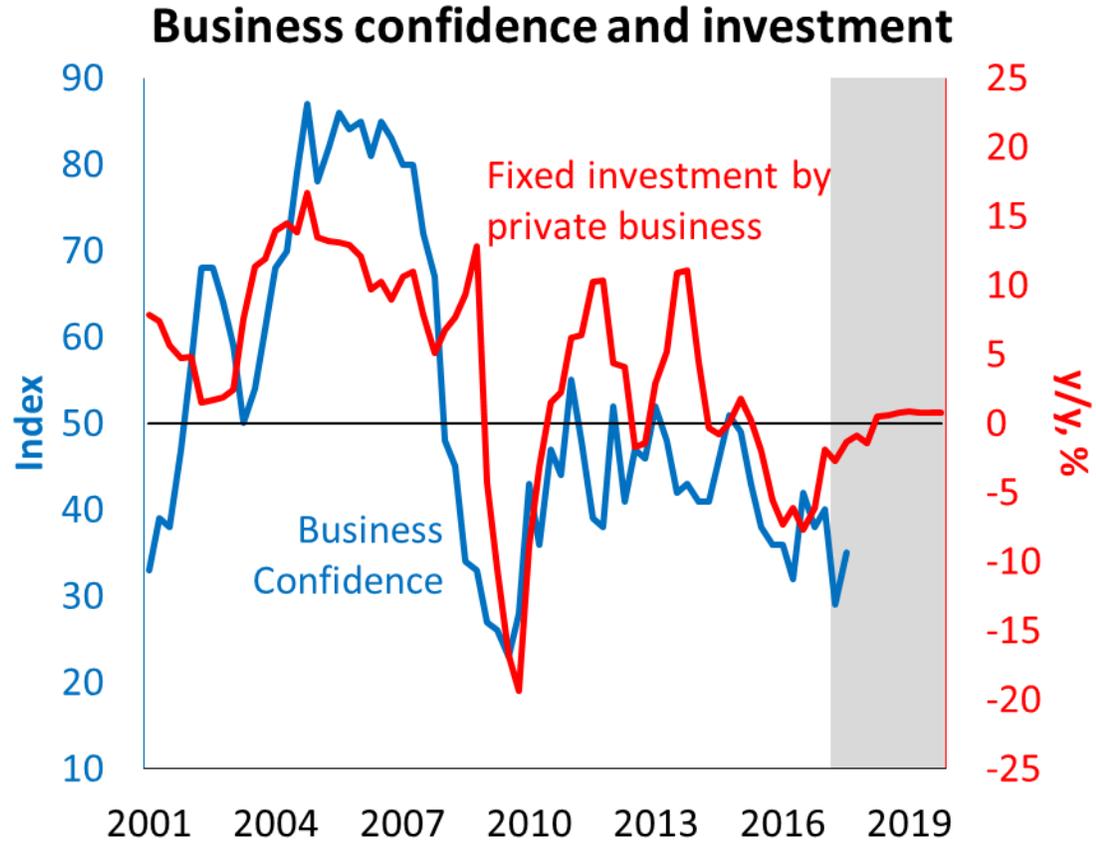
Constraints to manufacturing sector



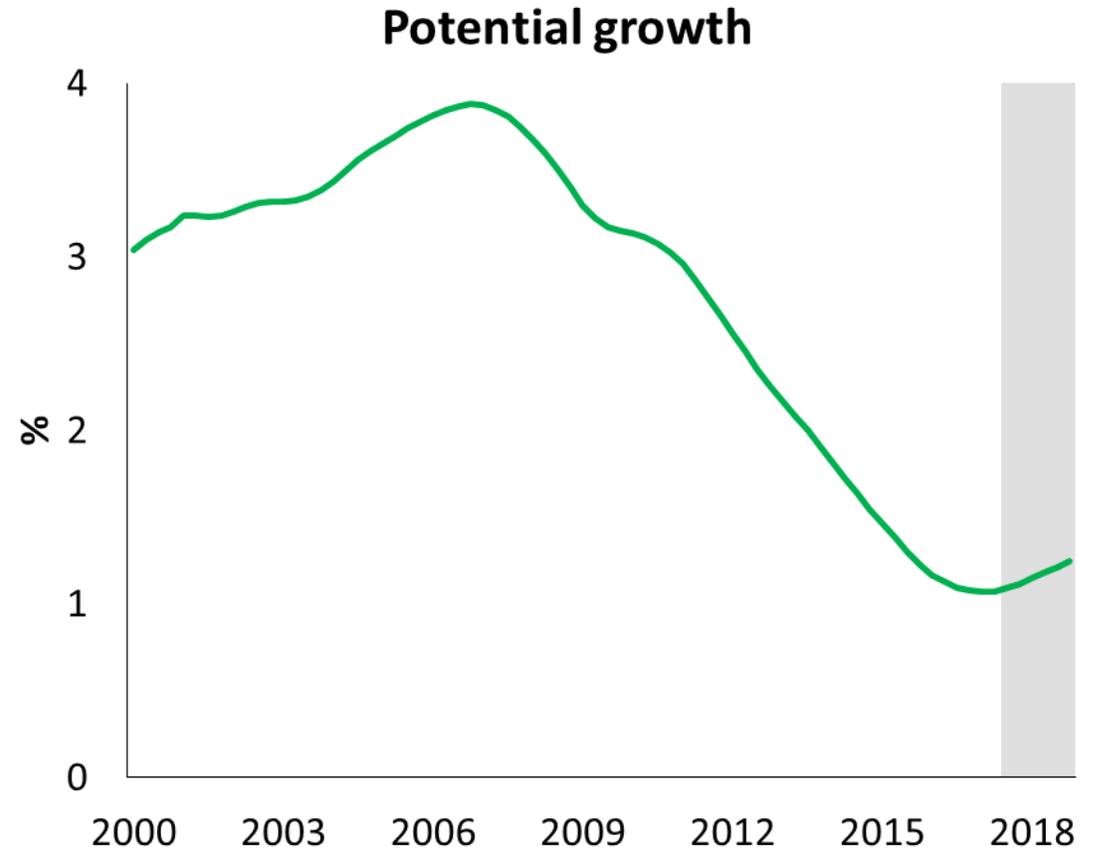
Evolution of major constraints



And carrying long-run implications

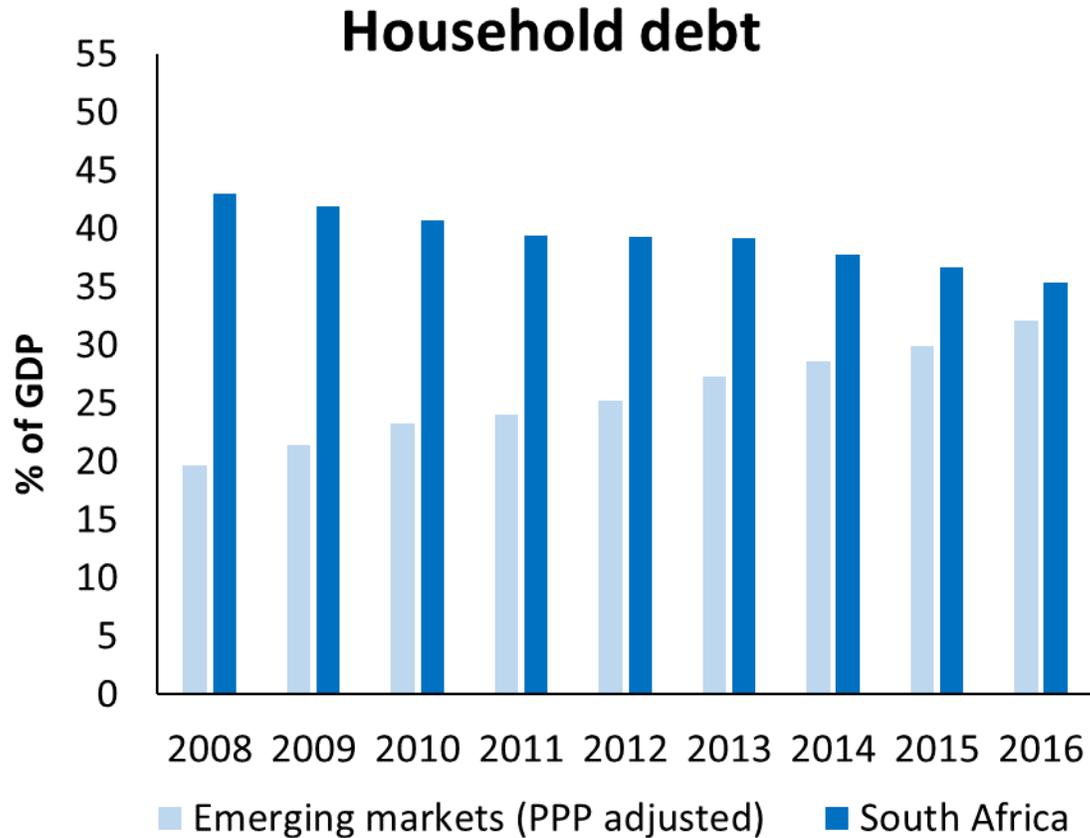


Sources: RMB/BER and SARB

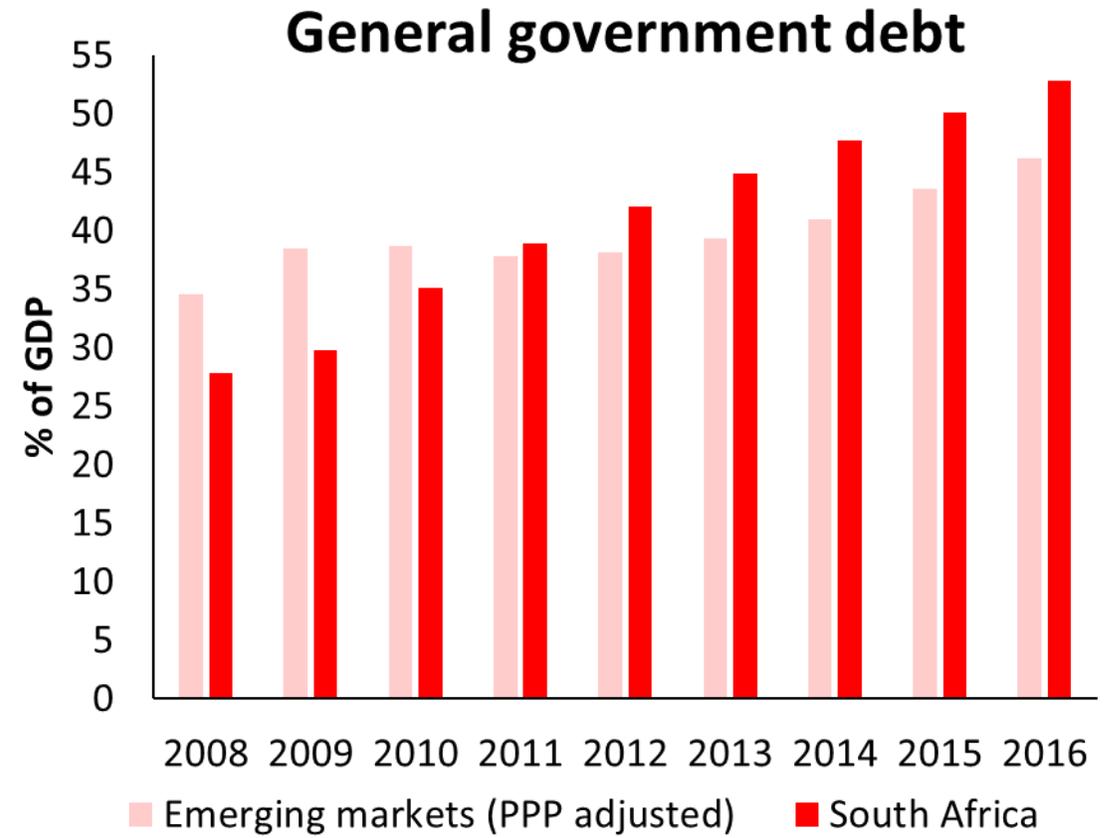


Sources: SARB and Stats SA

Debt also constraining growth

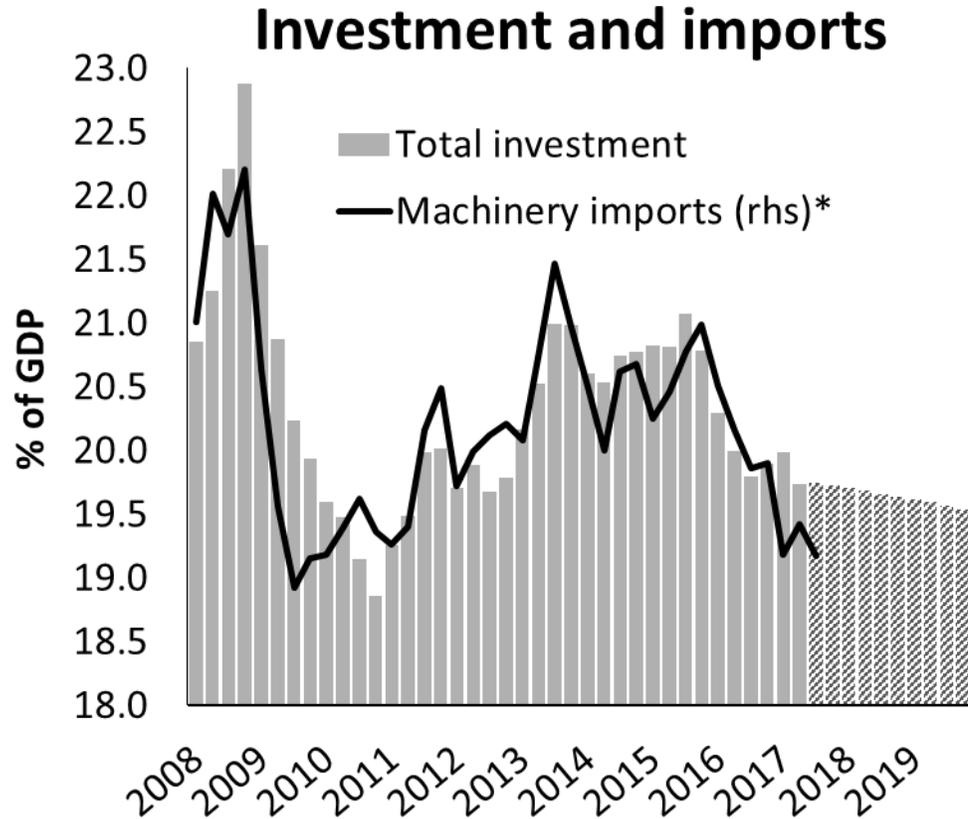


Source: BIS



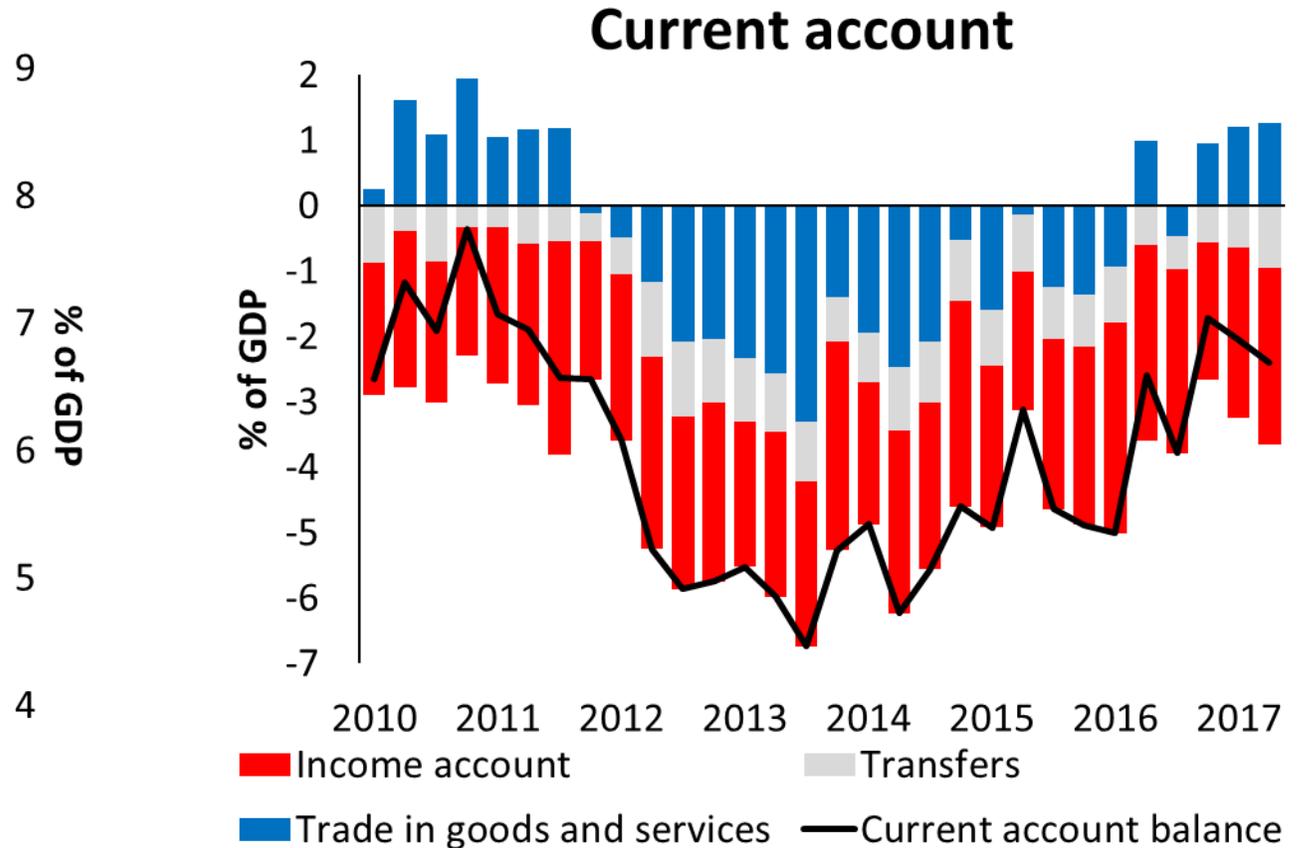
Source: BIS

CAD reflects low growth + high debt mix



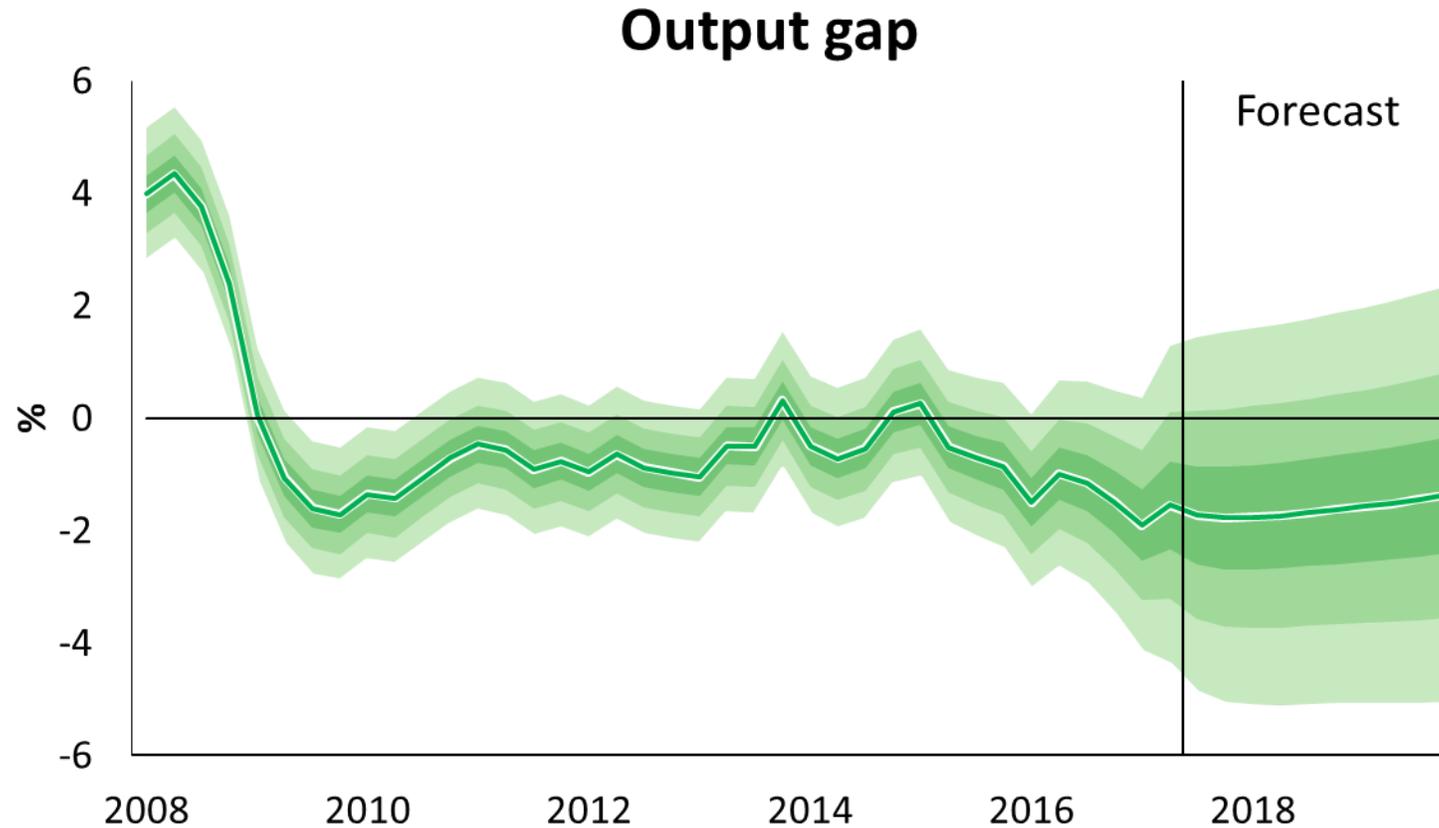
* excludes vehicles & transport equipment

Source: SARB



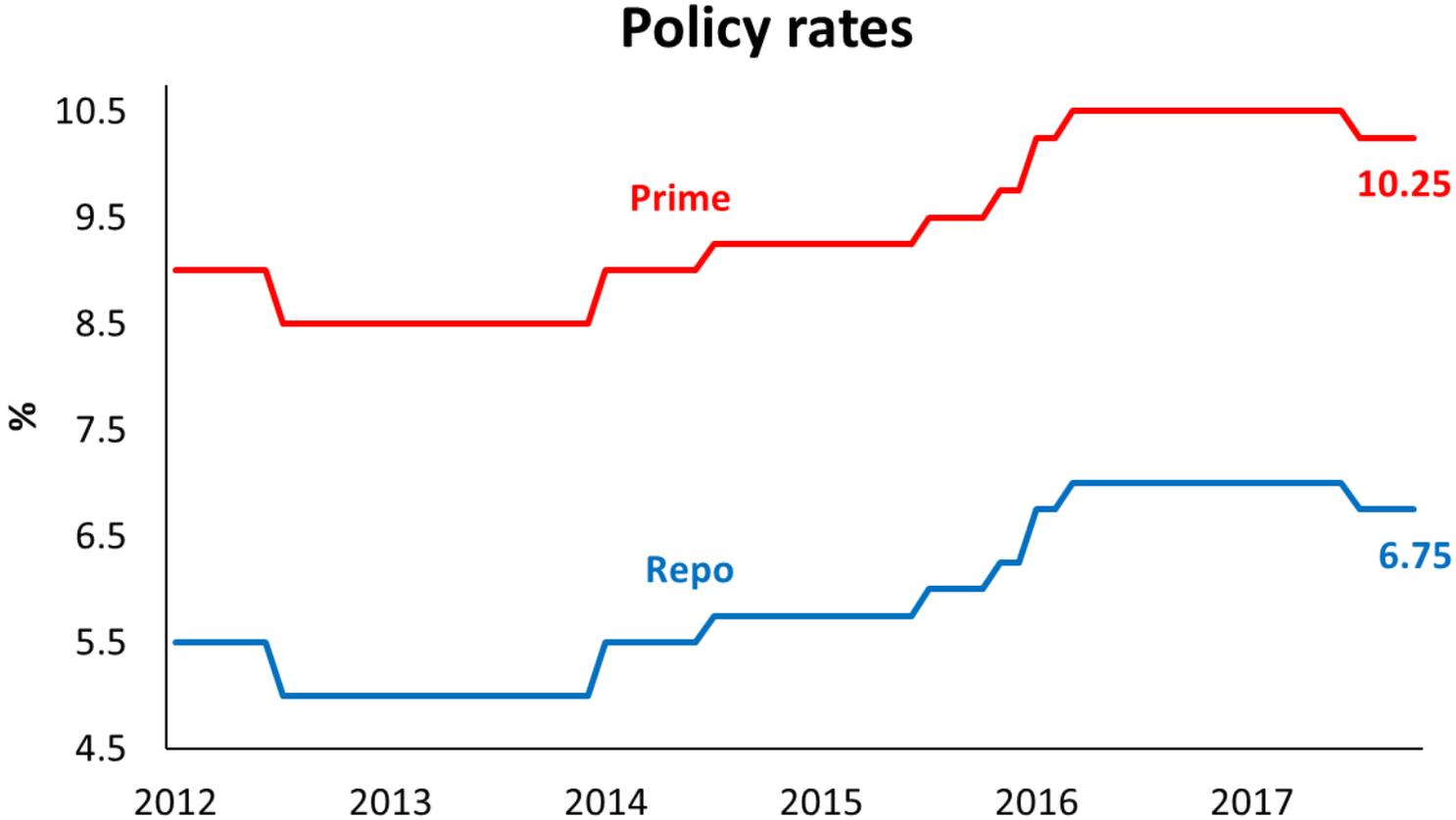
Source: SARB

Growth shocks widen the output gap



Source: SARB

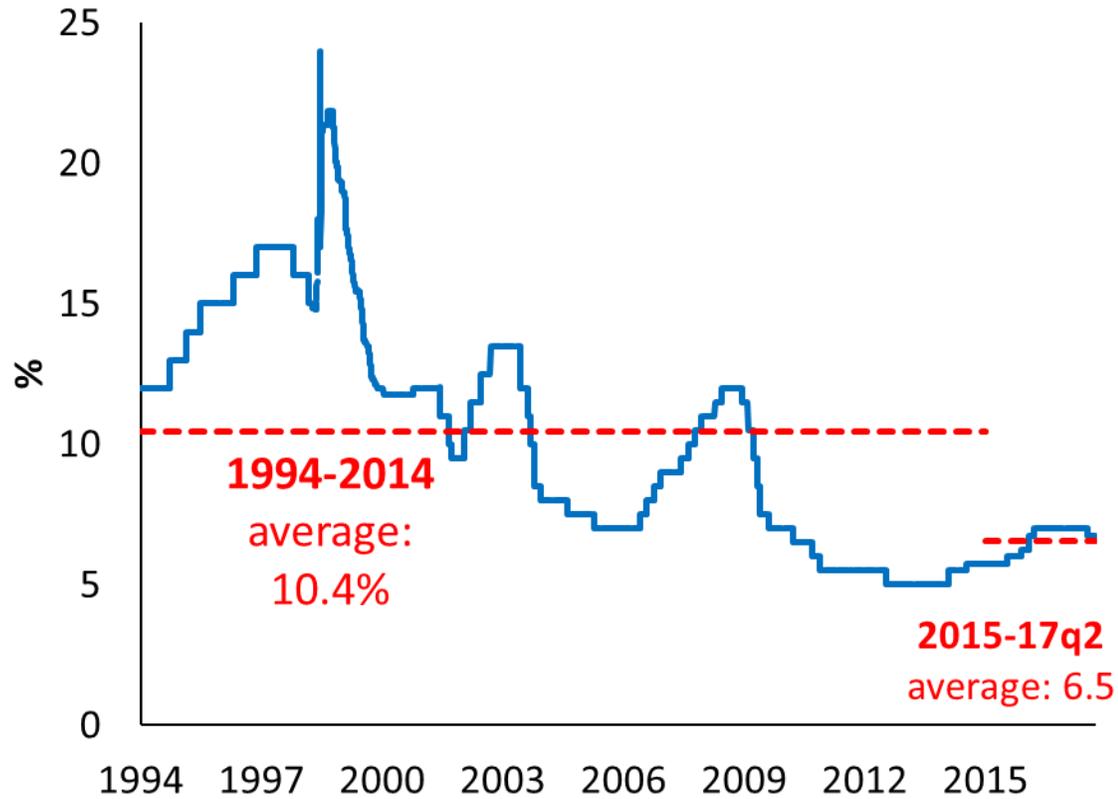
Decline in inflation opened some policy space



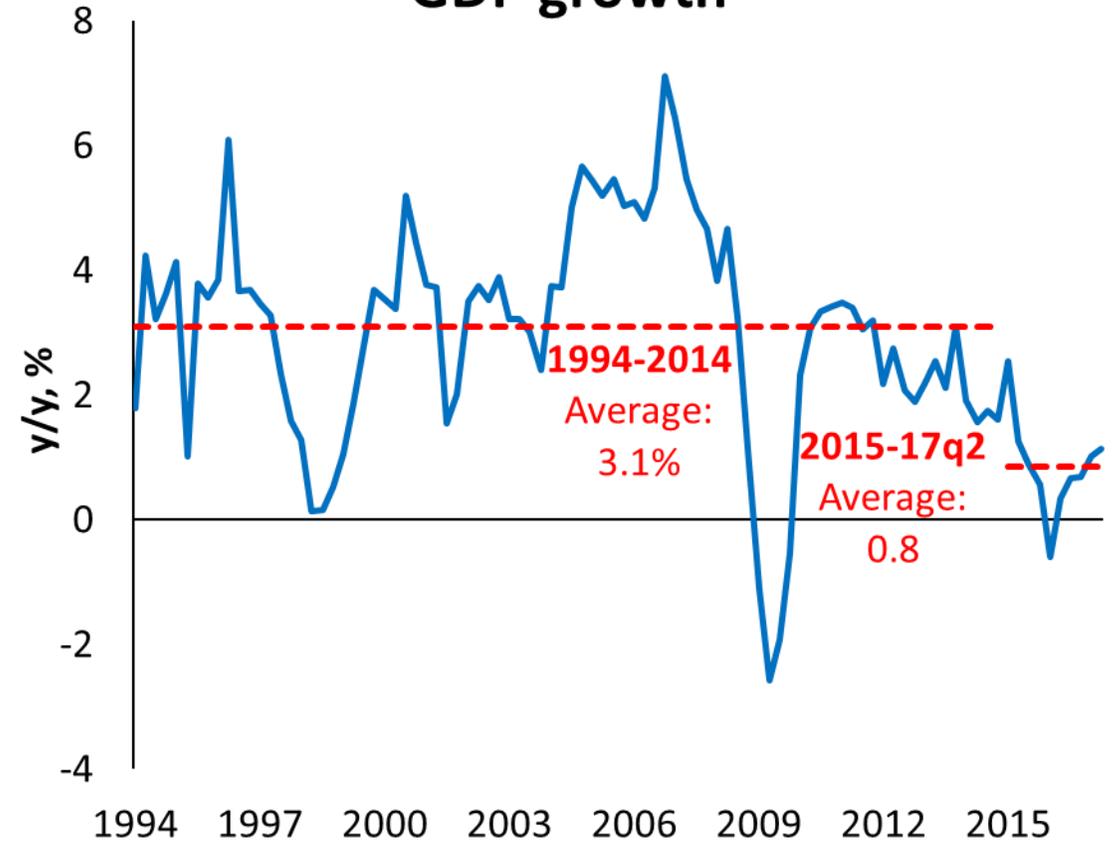
Source: SARB

Unlikely to provide major impetus

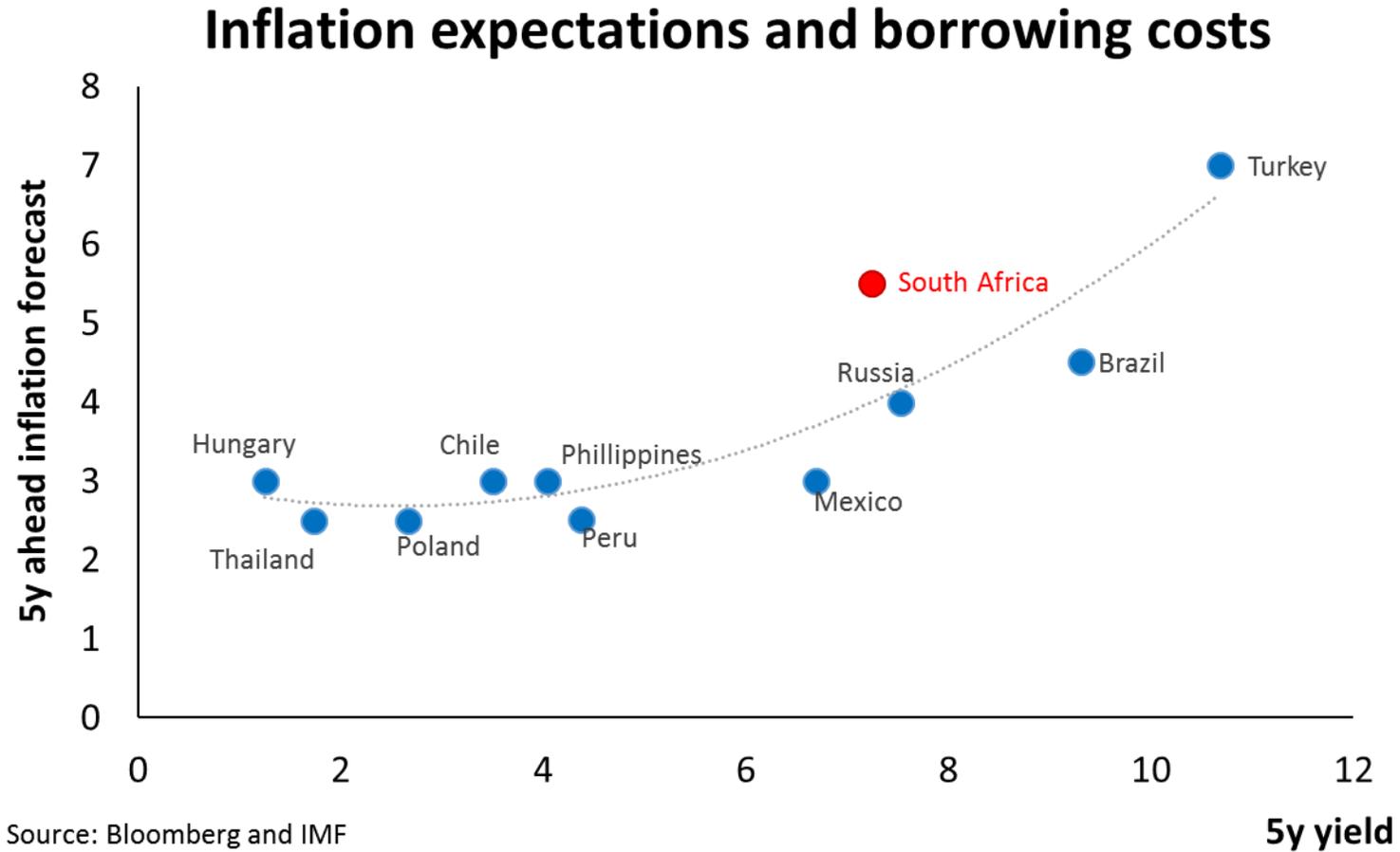
Repo rate



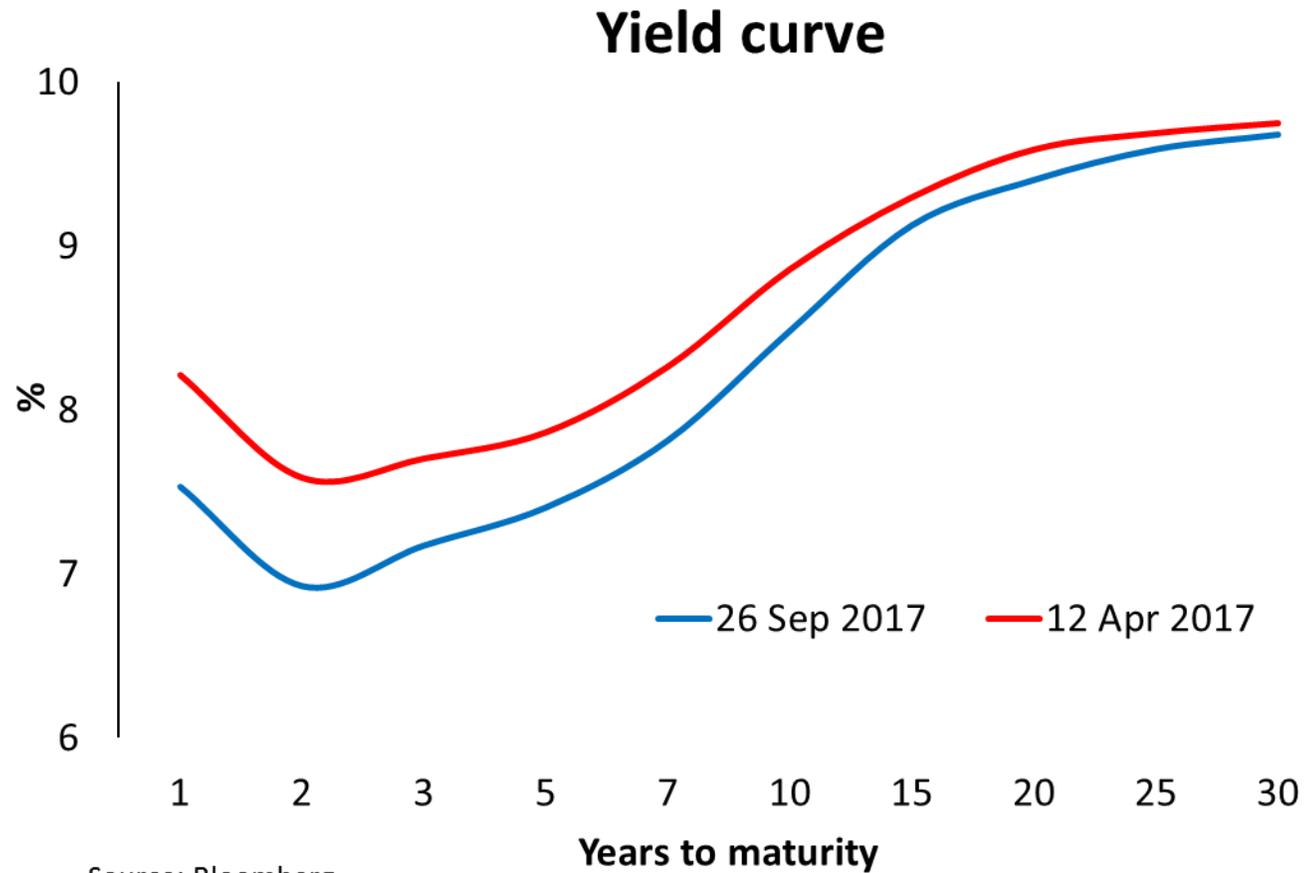
GDP growth



Longer term, lower inflation impacts borrowing costs



Opening up space for more productive investment?



Conclusion

- Lower inflation provides near term leeway for lower rates
- But improvement may be temporary
- Greater prize is lowering long-run inflation expectations
- Policy settings find space to optimise short & long run needs