

Monetary Policy Review

Chris Loewald: Head, Policy Development and Research
National Monetary Policy Forum · Pretoria, 10 April 2018

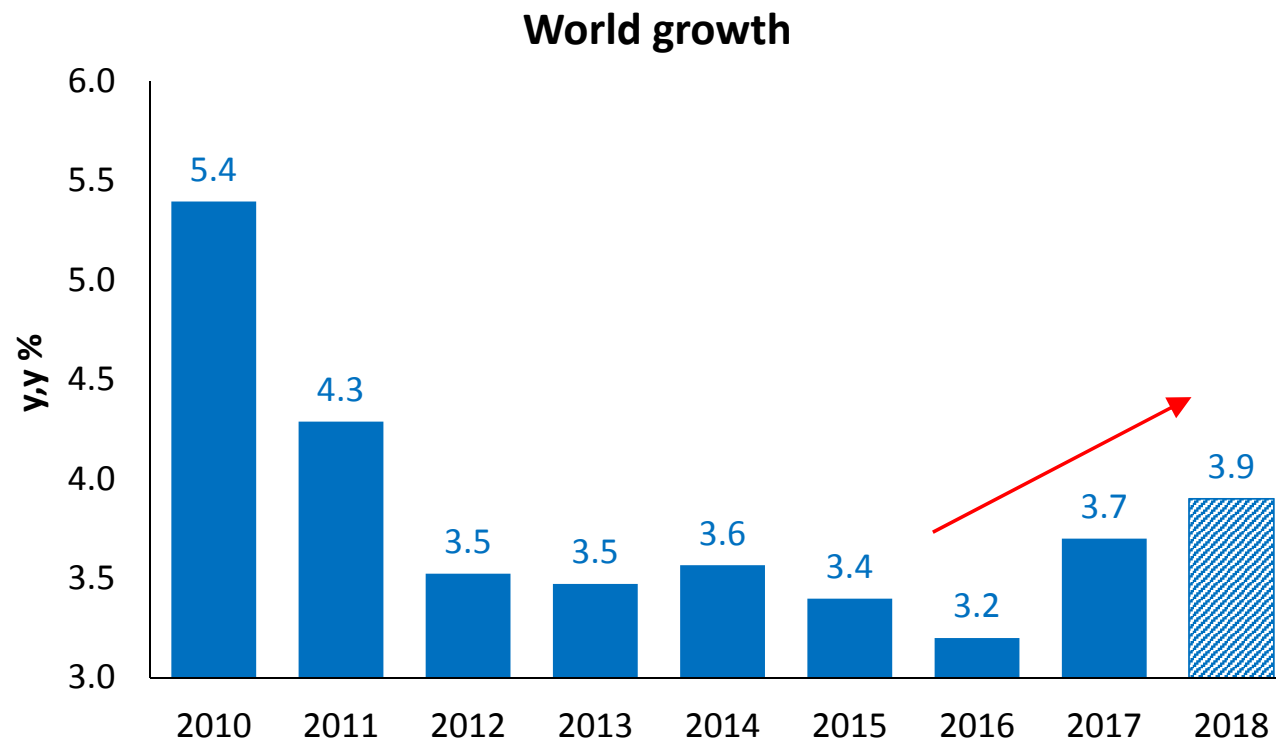


April 2018 *MPR*: Lower inflation and better growth

- Global growth at a seven-year high
- SA growth picking up, could rise faster than forecasts
- Inflation settling lower than before, if still above midpoint
- Repo down to 6.5%, but projected to rise in 2019/20

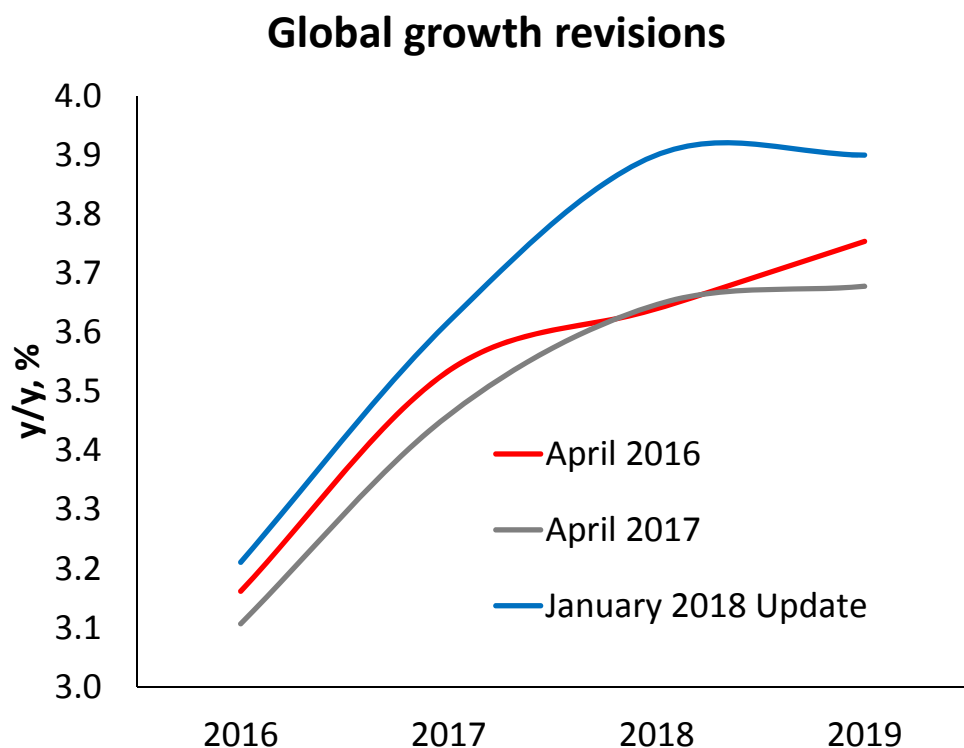
Global economy

Global growth at a cyclical high

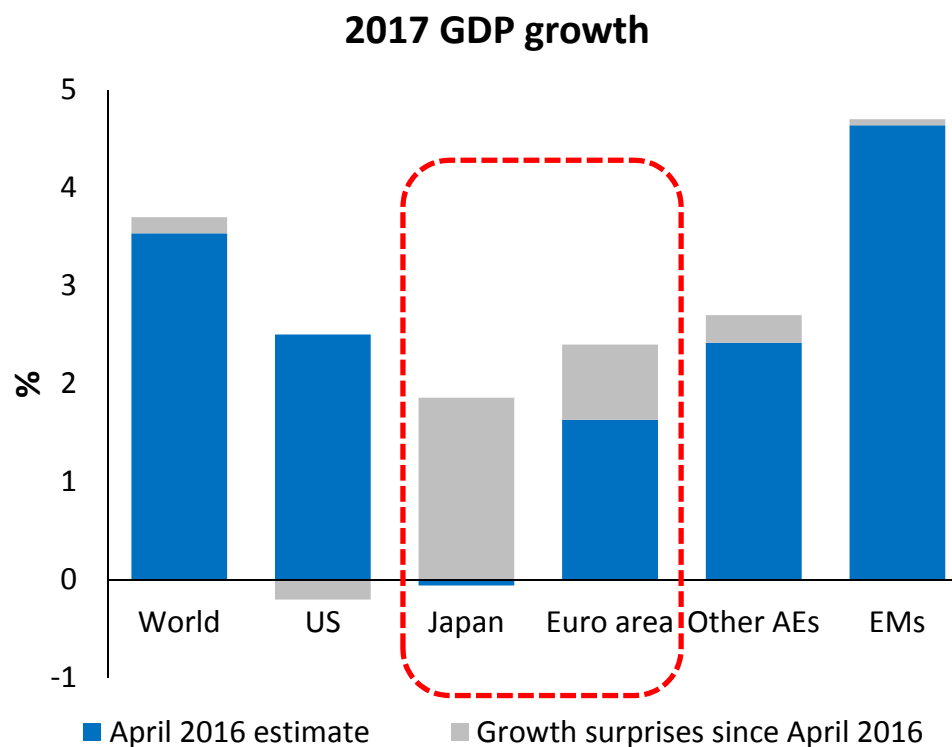


Source: IMF

Forecasts revised up, given surprises from Europe, Japan...

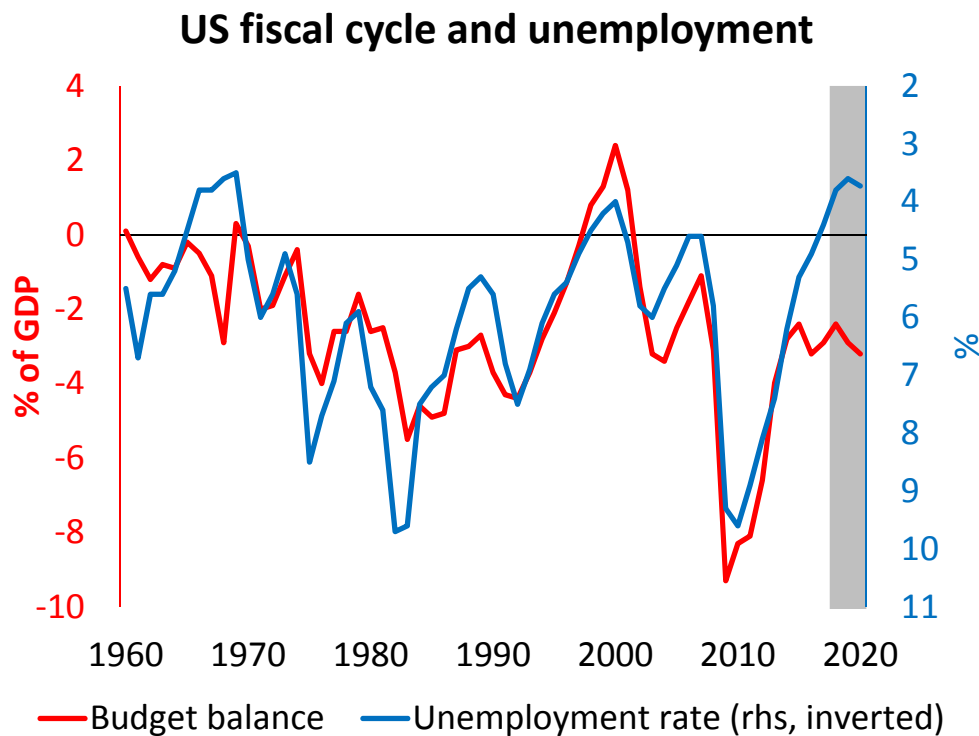


Source: IMF

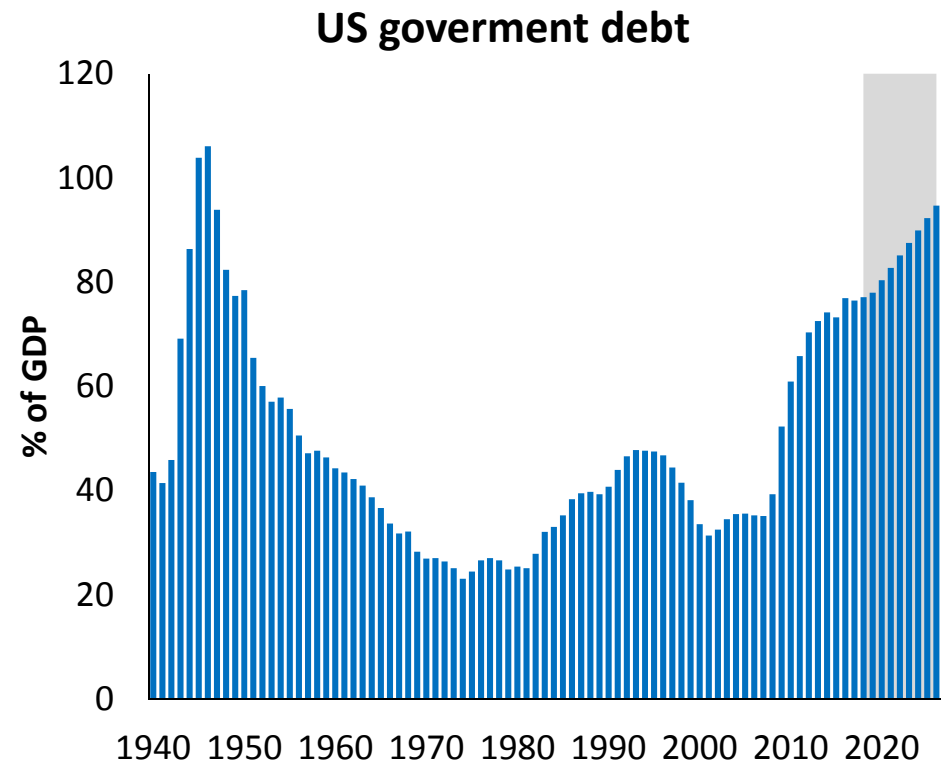


Source: IMF

US fiscal stimulus at full employment



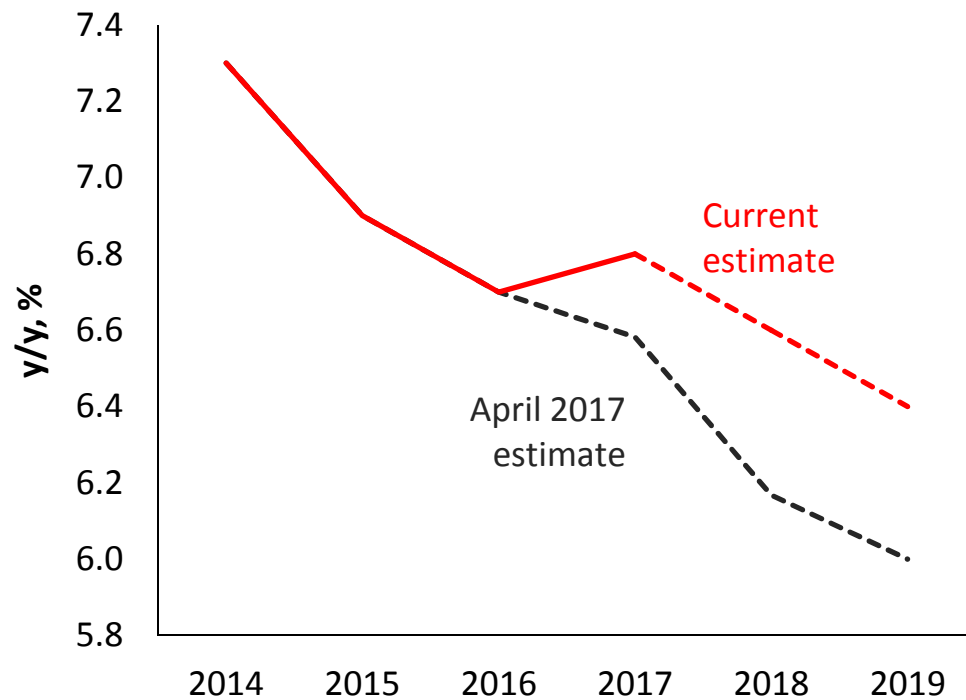
Sources: Congressional Budget Office, Bureau of Labour Statistics, and US Fed



Sources: Congressional Budget Office and Tax Policy Centre

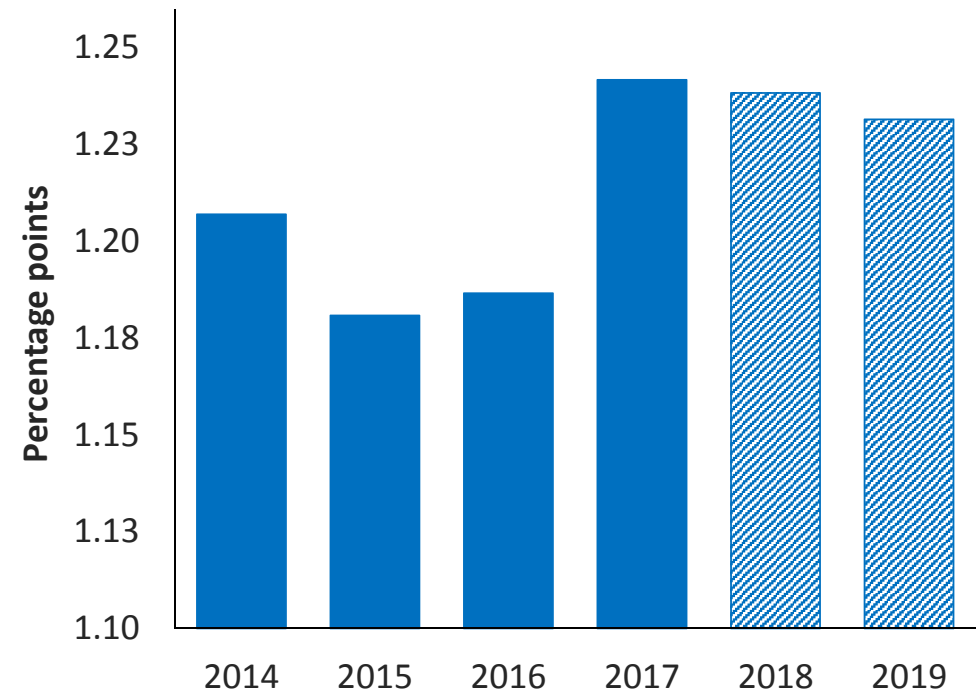
China's growth also higher than expected

Chinese GDP growth



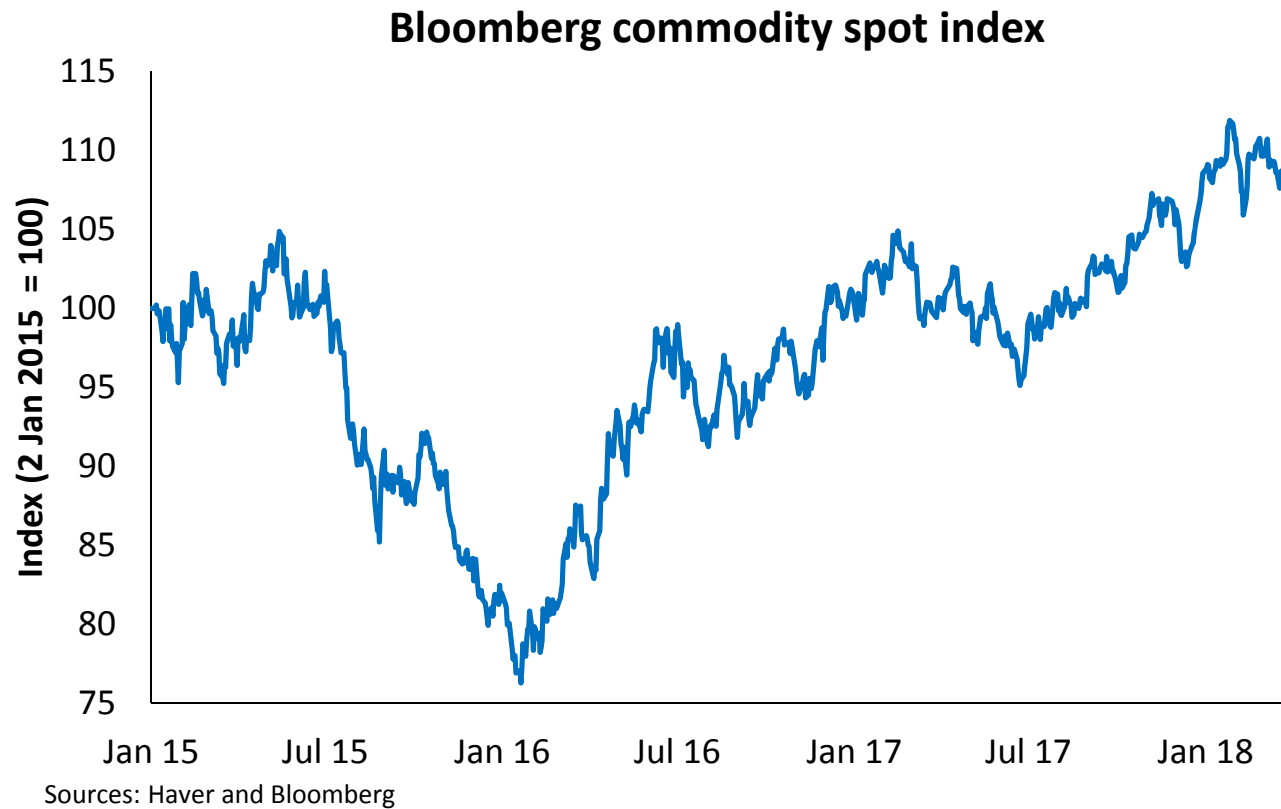
Source: IMF

Chinese contributions to global growth

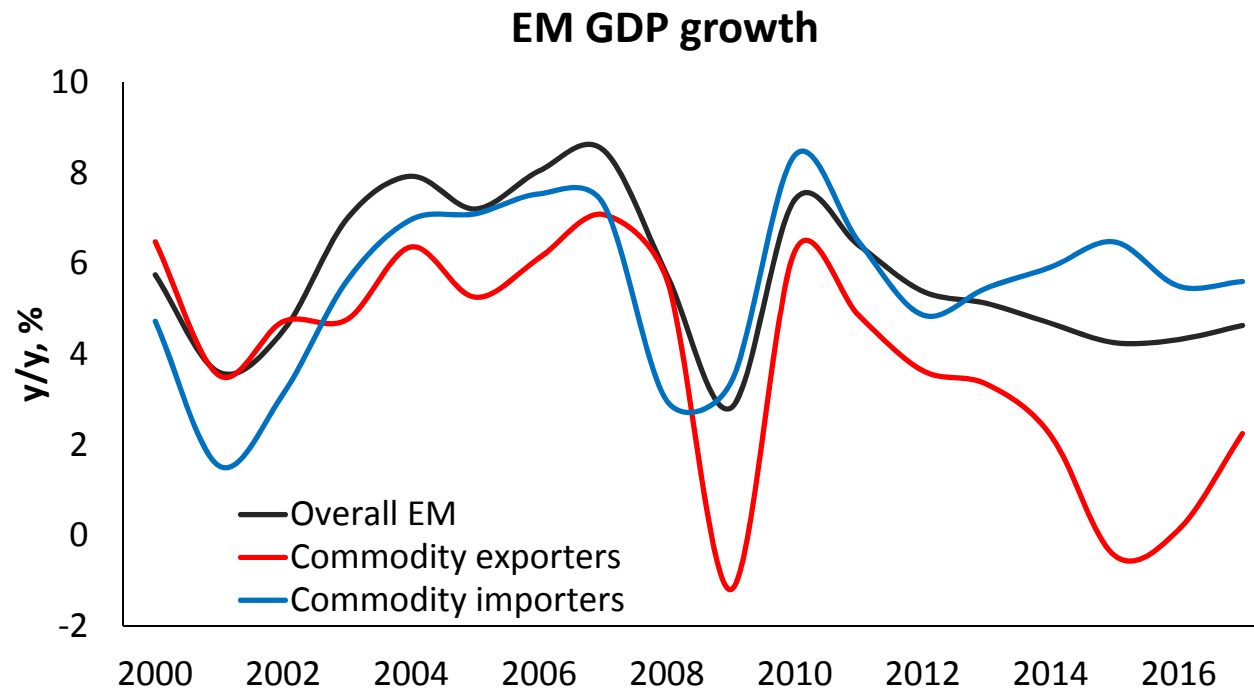


Source: IMF

Commodity prices have recovered



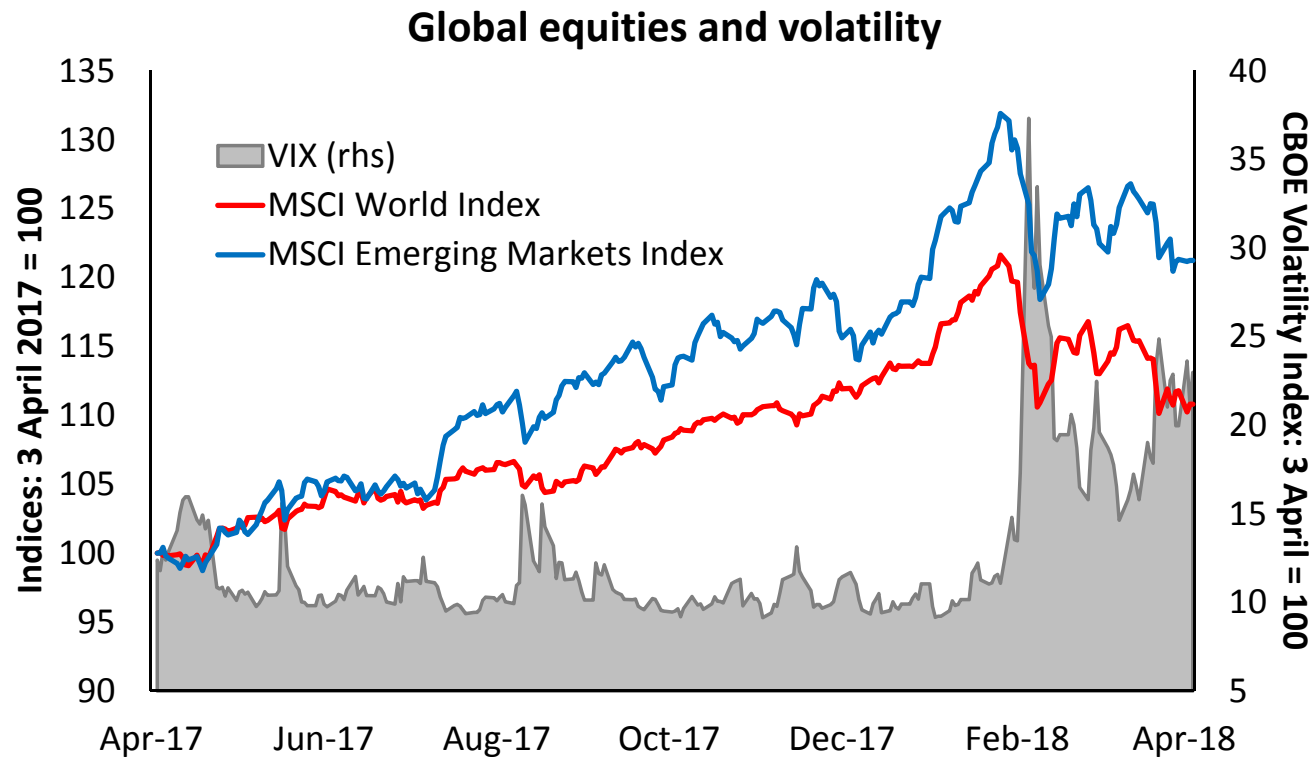
EMs catching up to the global recovery



*Note: Commodity exporters are a PPP-weighted average of Brazil, Indonesia, Nigeria, Russia and South Africa; commodity importers are a PPP-weighted average of India, Mexico, Philippines, Poland and Turkey.

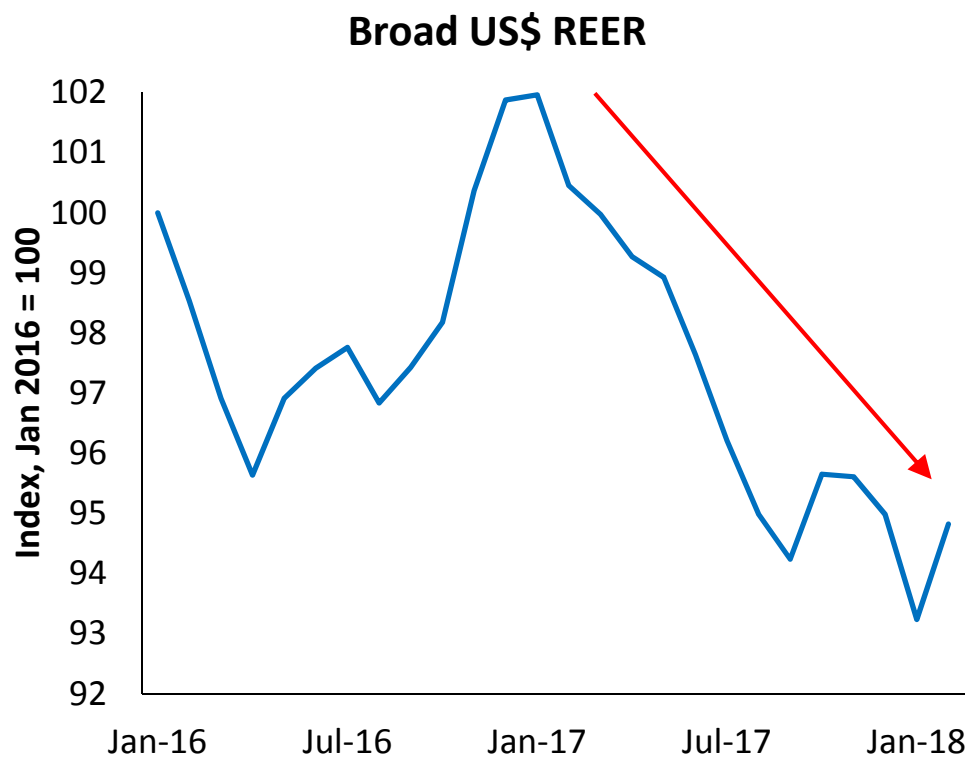
Sources: IMF, SARB and World Bank

EMs resilient despite more global volatility

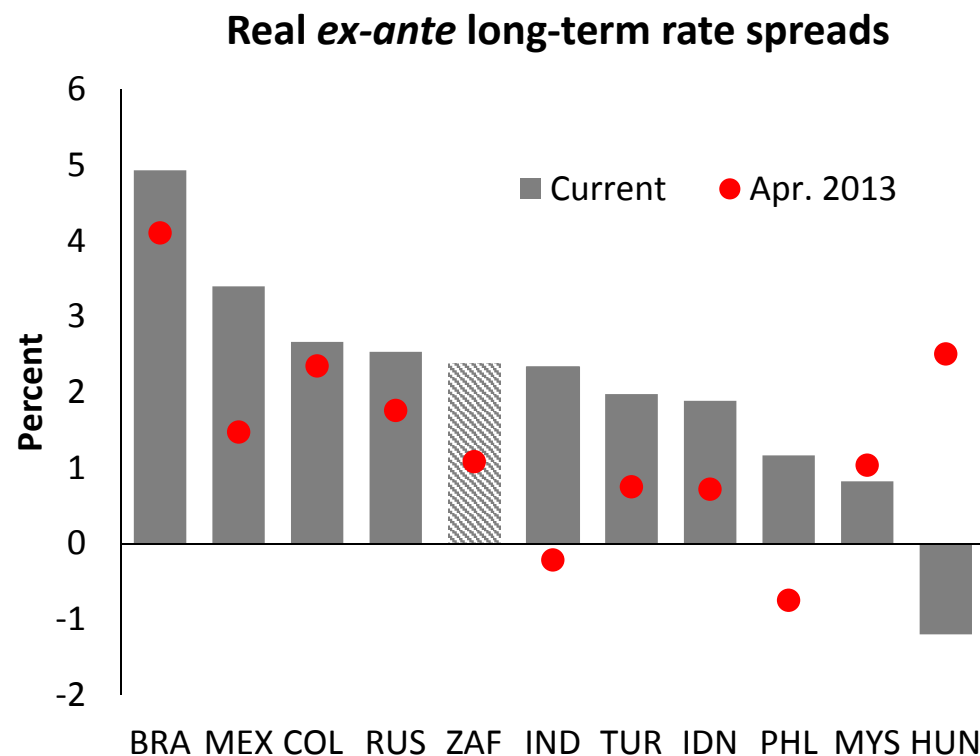


Source: Bloomberg

Weaker dollar and interest rate differentials help



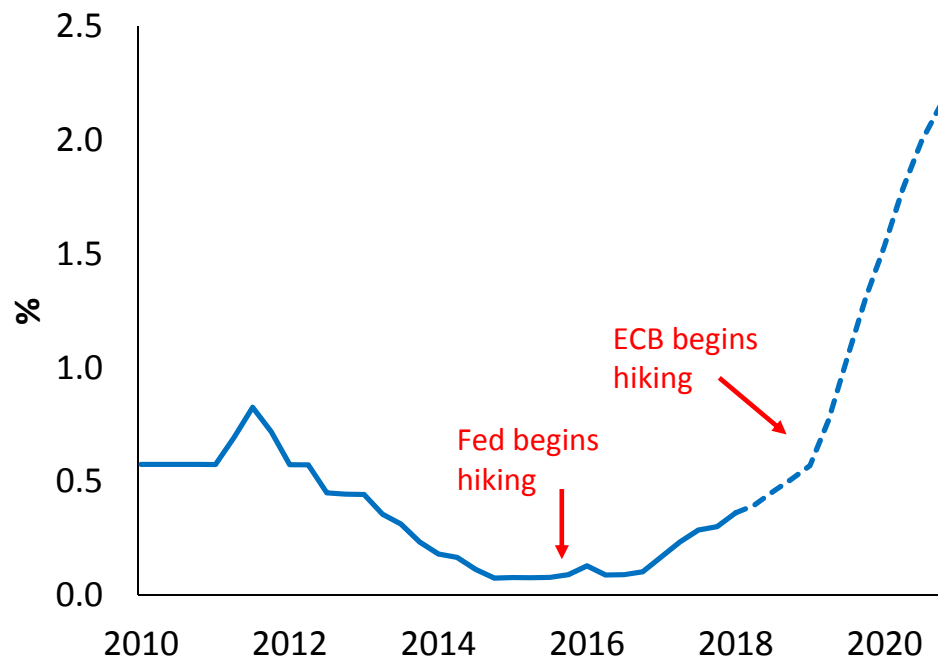
Sources: BIS and SARB



Sources: Bloomberg

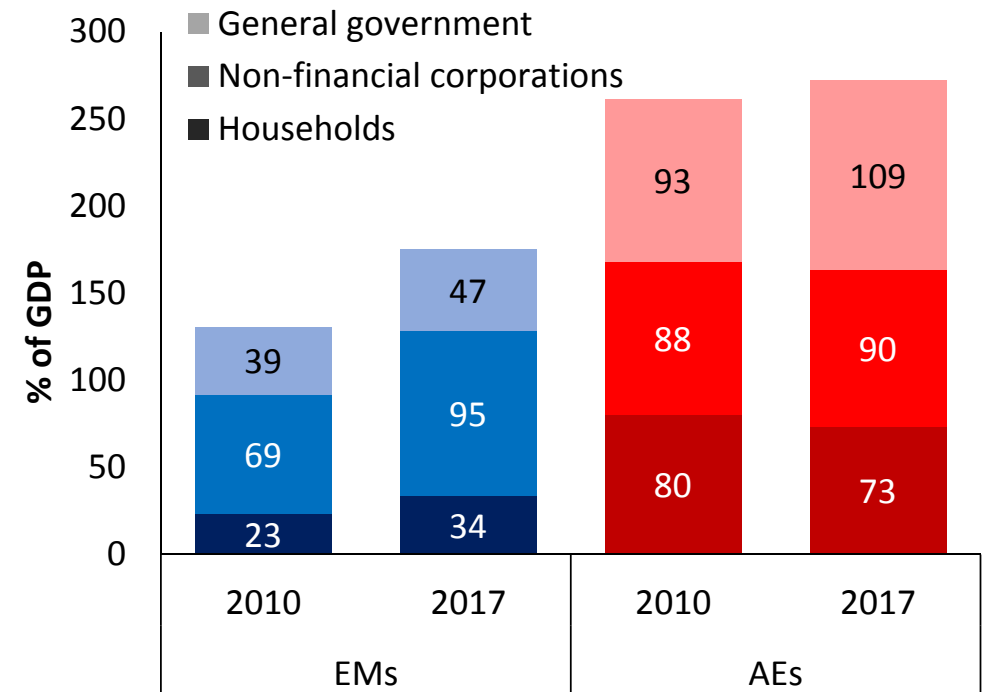
Global conditions won't stay this easy

G3 policy rates



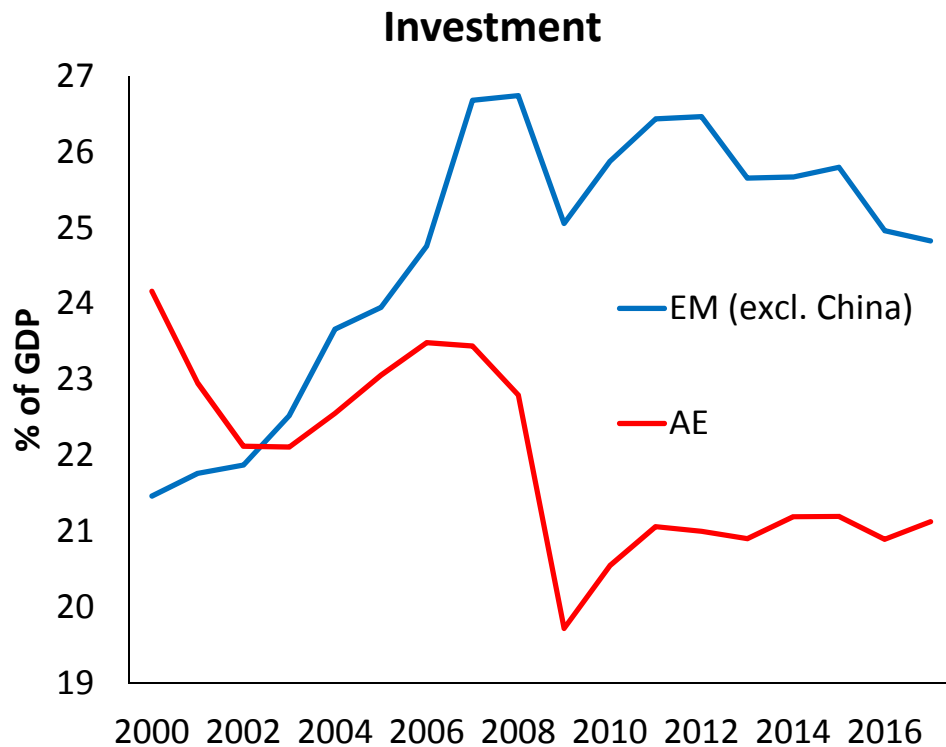
Sources: Bloomberg, IMF and SARB

Credit to the non-financial sector

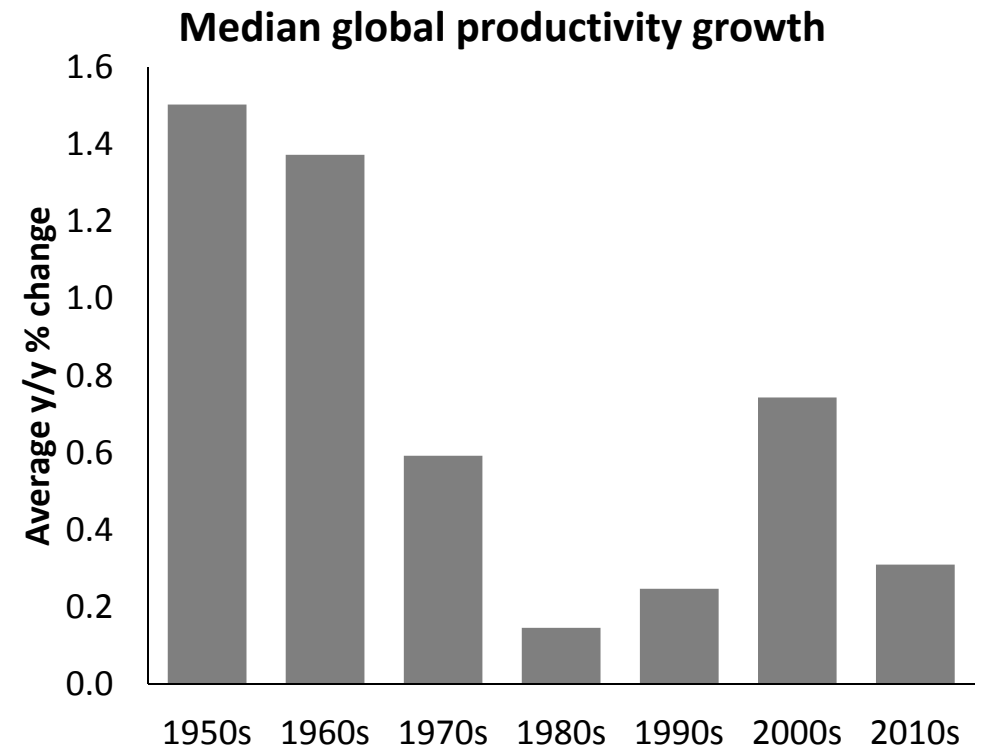


Source: BIS

Investment and productivity growth subdued

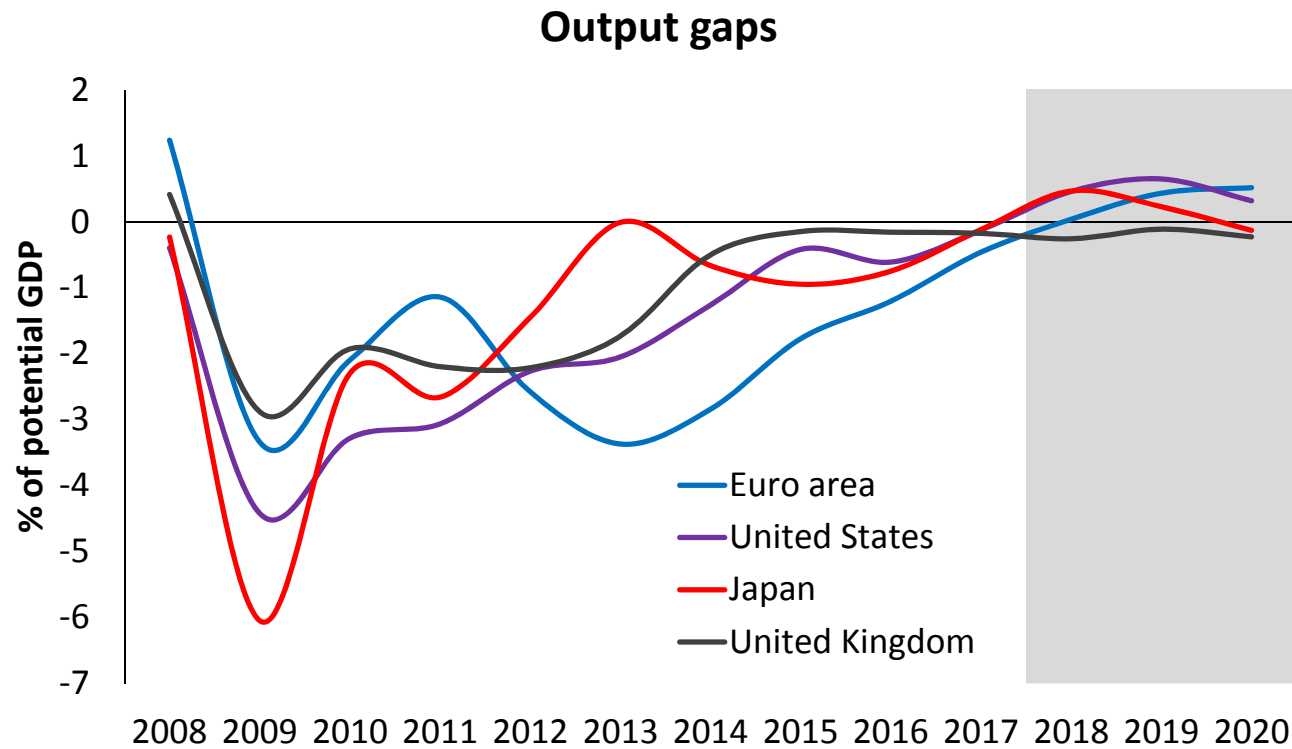


Source: IMF and SARB



Sources: Conference Board and SARB

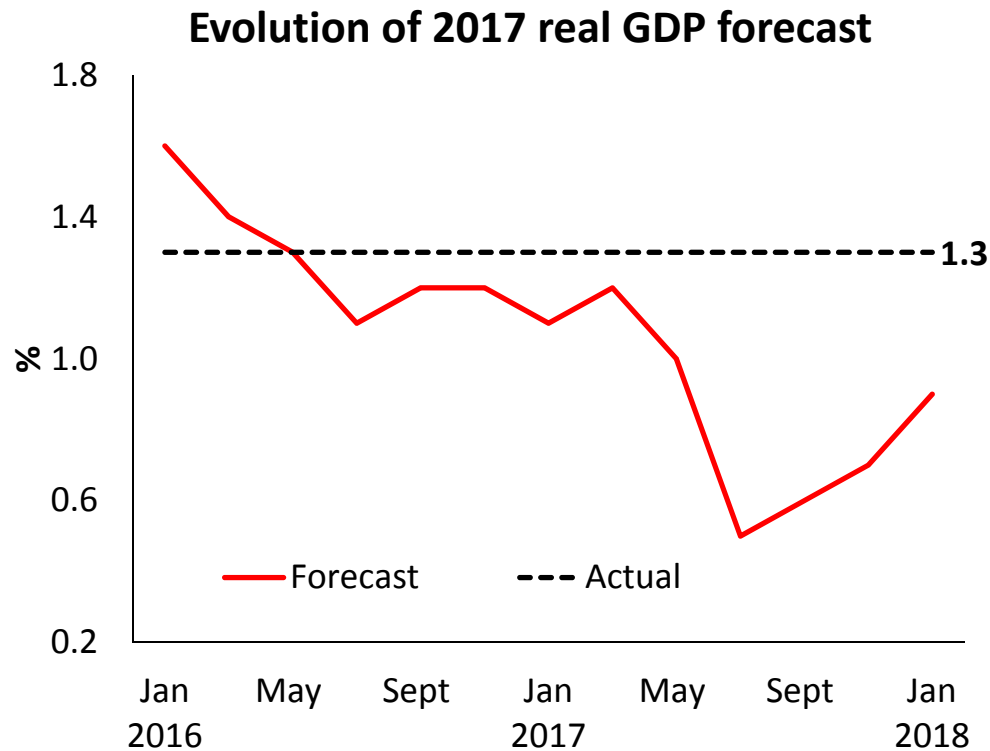
Output gaps turning positive



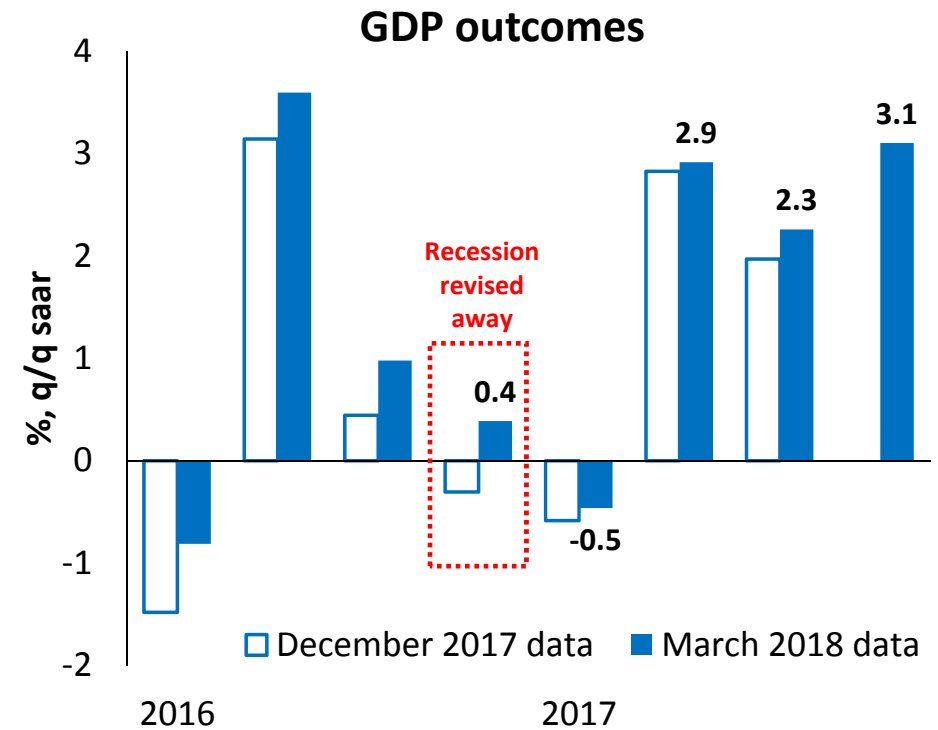
Source: SARB

Domestic economy

SA's 2017 growth better than we thought

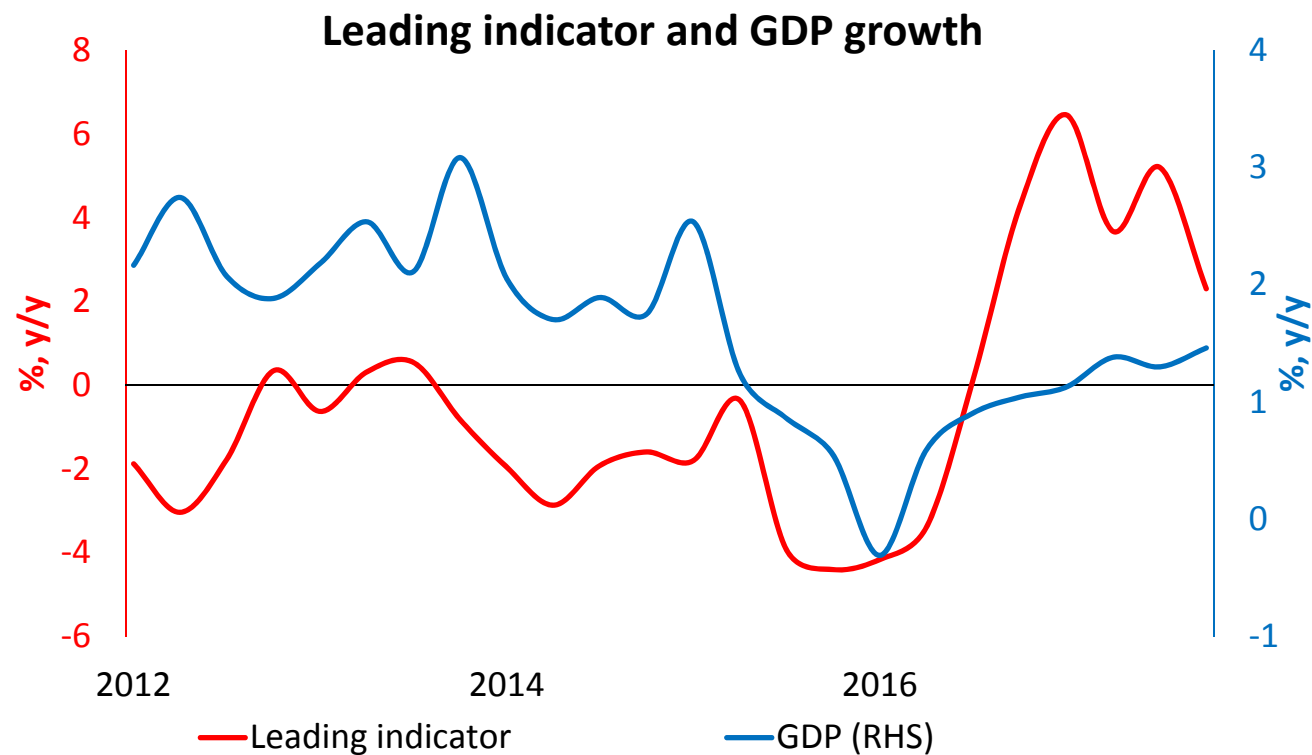


Sources: Stats SA and SARB



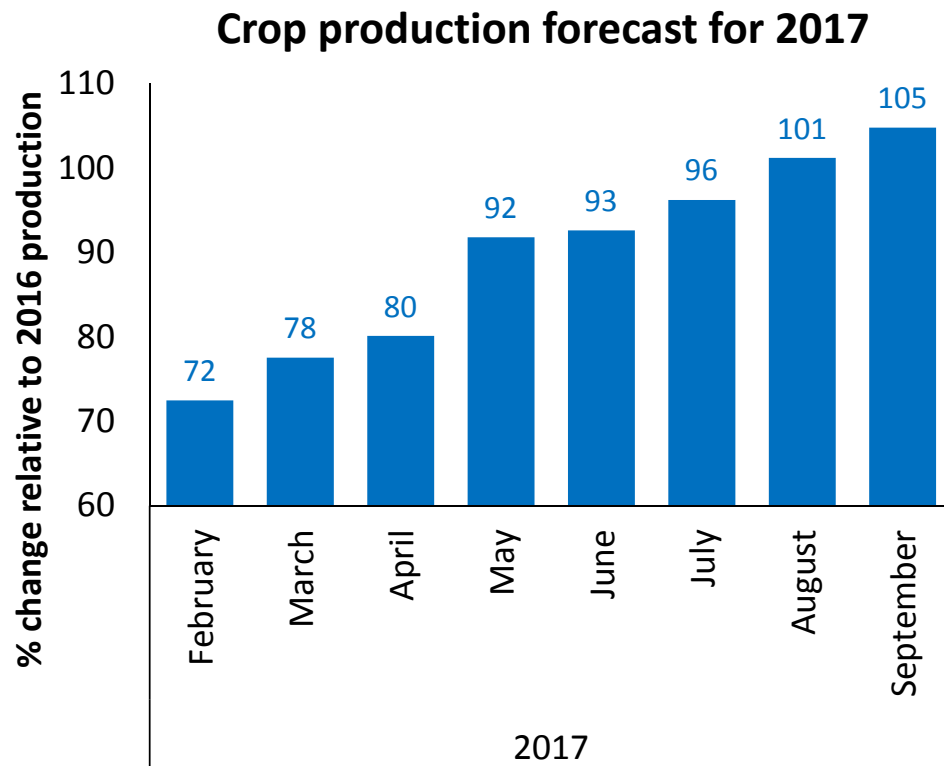
Source: Stats SA

The leading indicator was telling the story

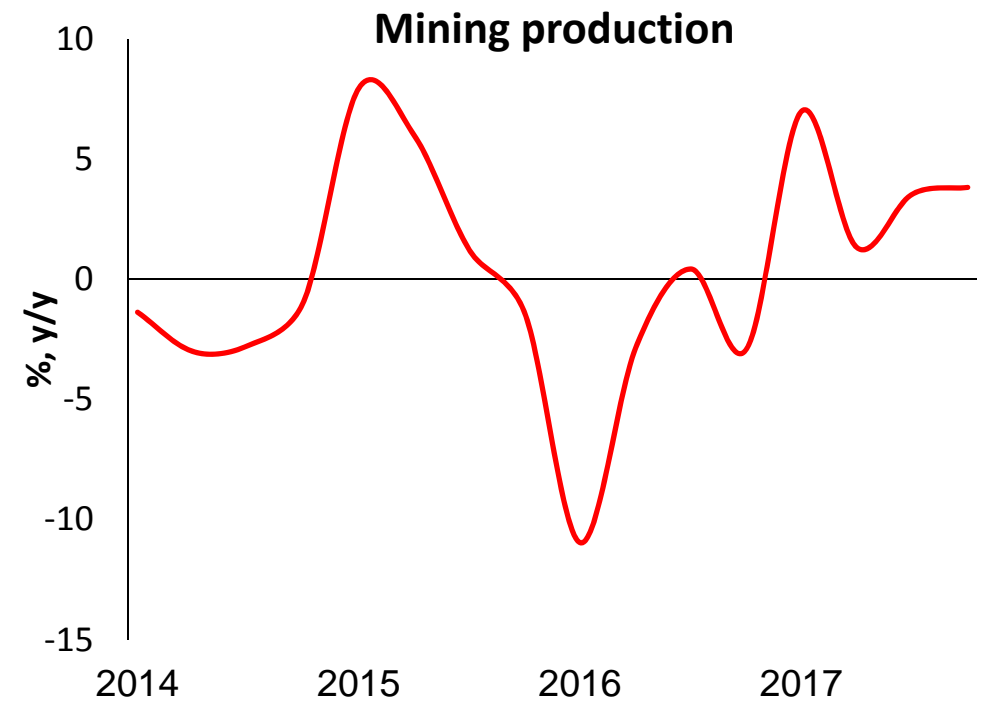


Sources: Stats SA and SARB

Primary sector data also looked good

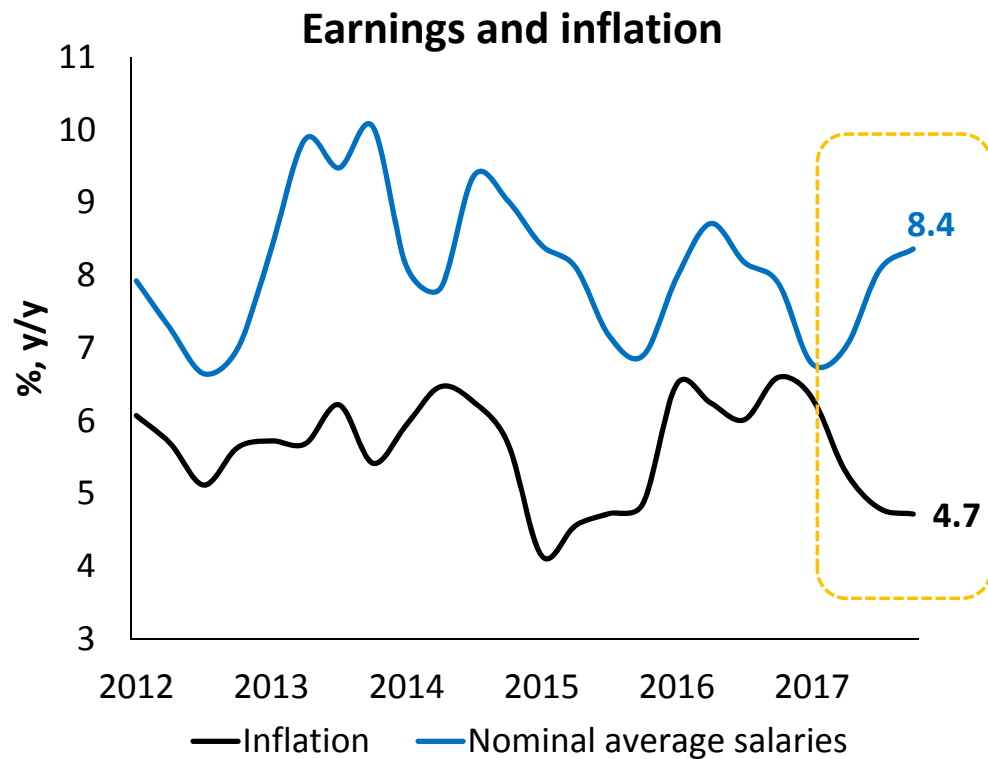


Source: DAFF

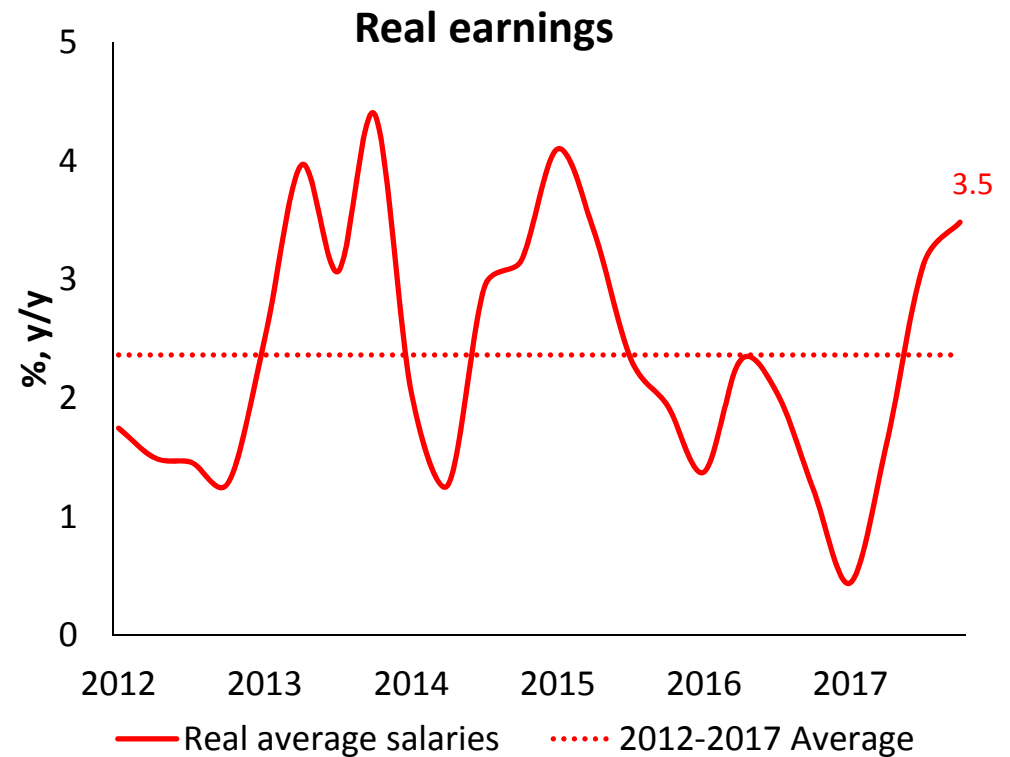


Source: Stats SA

Households benefitted from lower inflation...

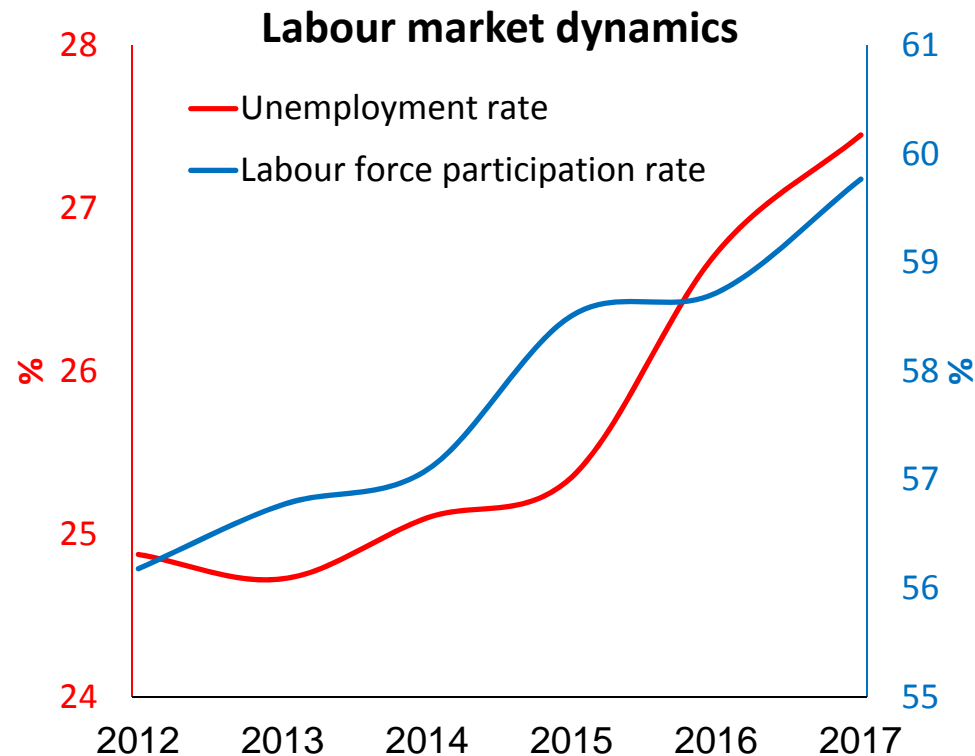


Sources: Stats SA and SARB

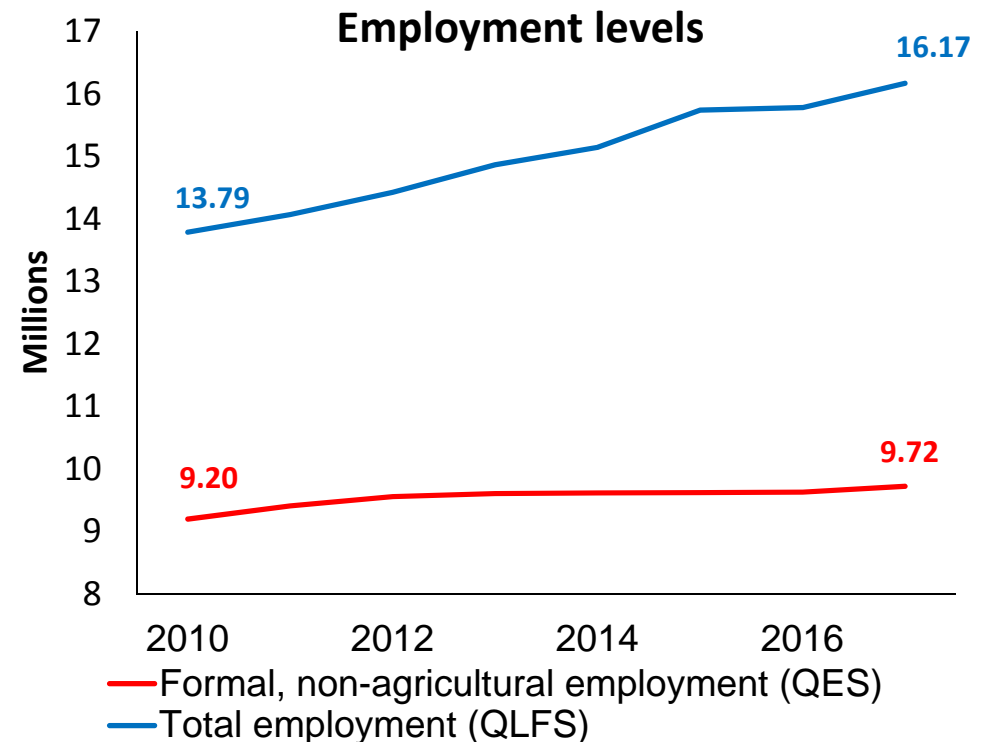


Sources: StatsSA and SARB

Employment story better than you think

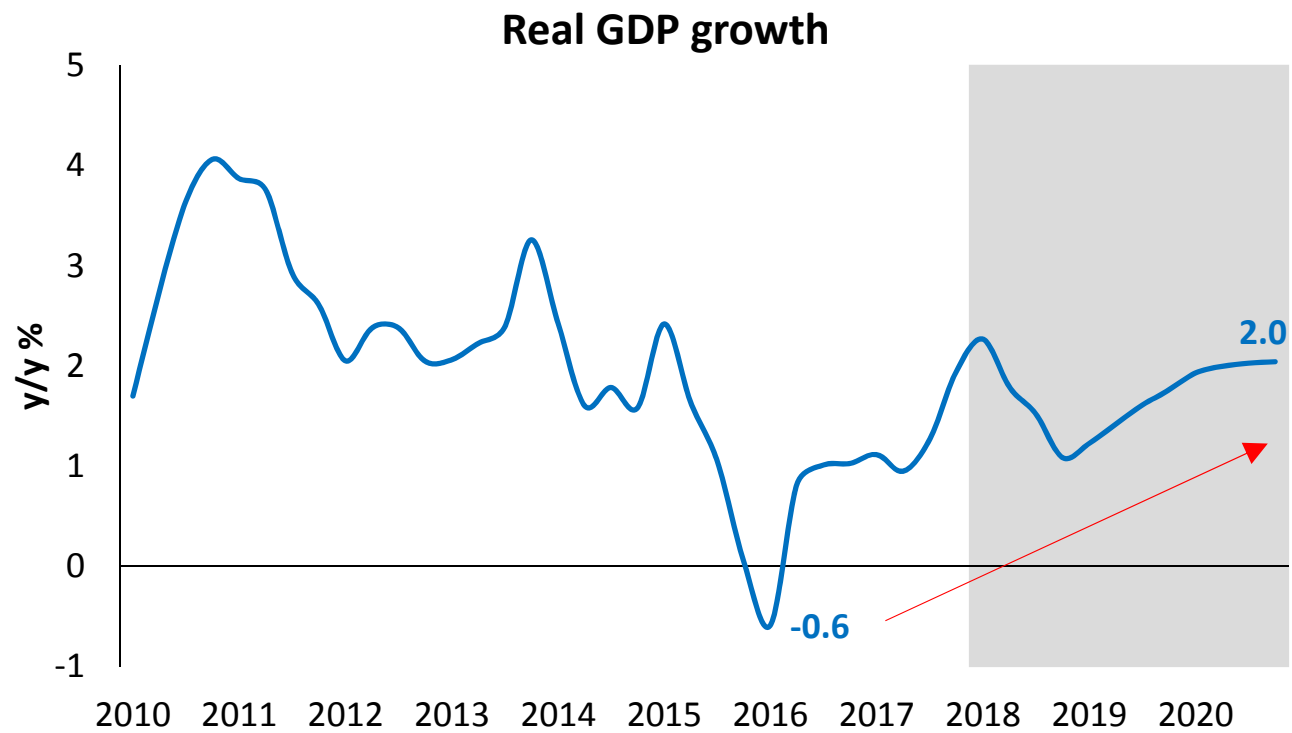


Source: Stats SA



Sources: Stats SA and SARB

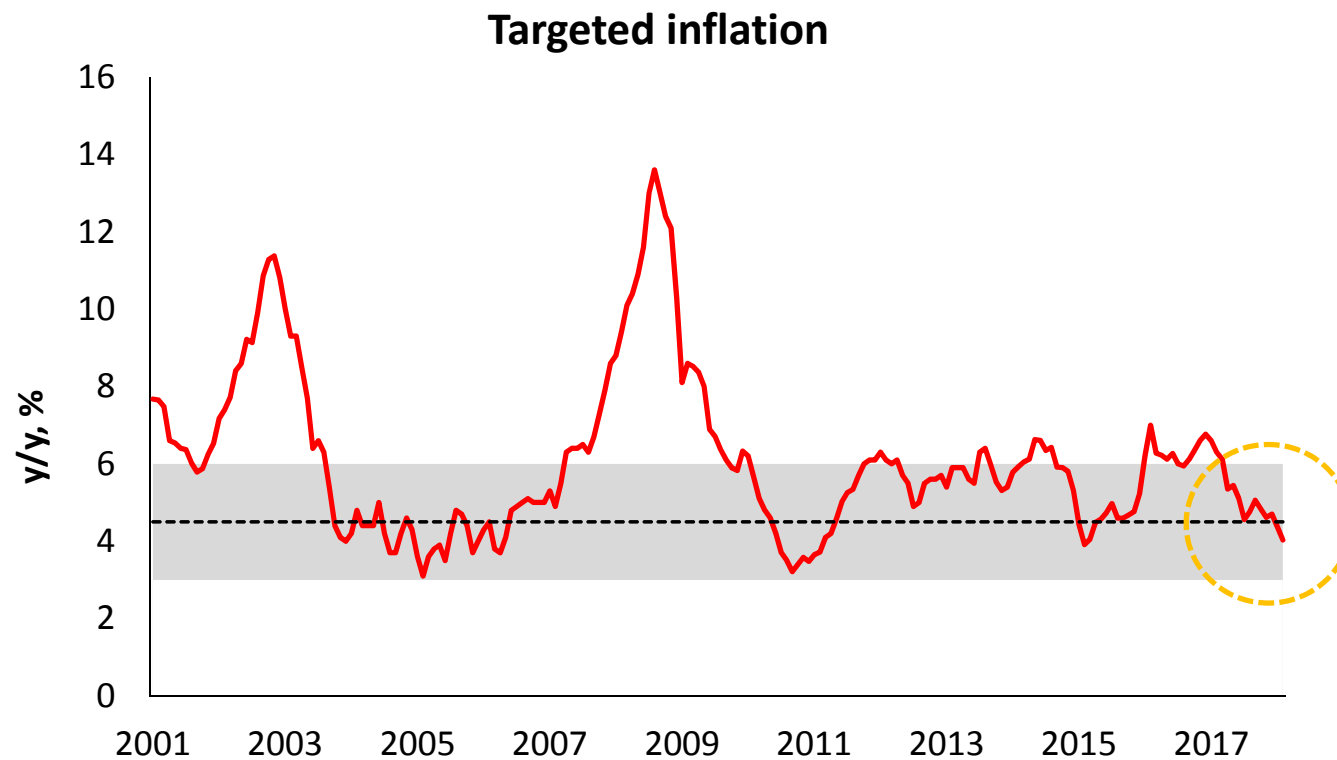
Growth picking up...



Source: Stats SA and SARB

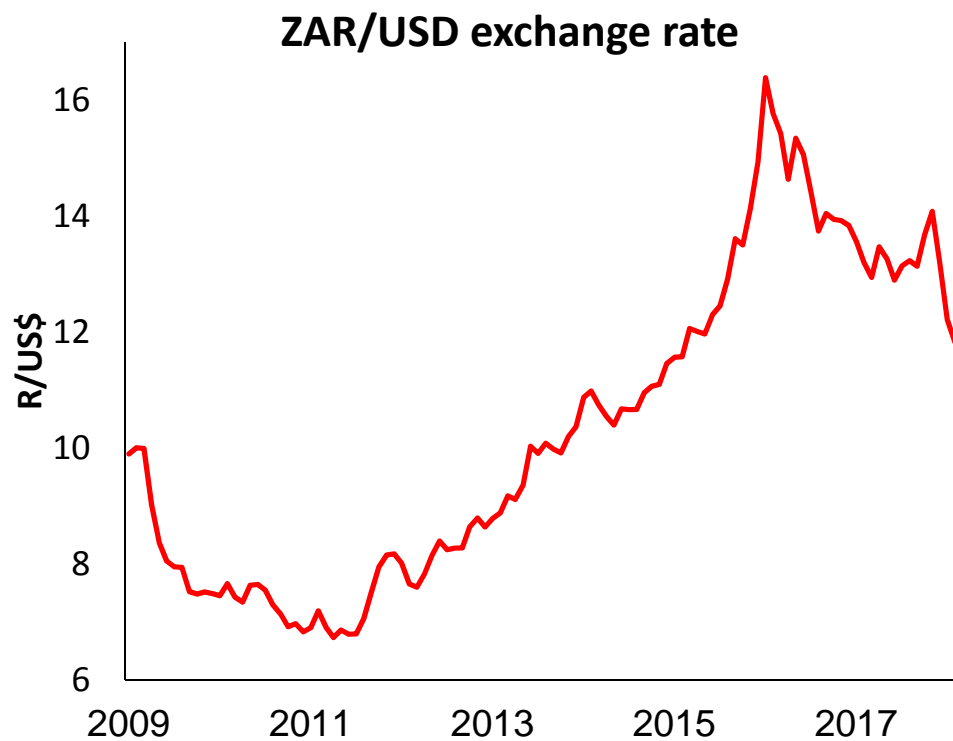
Inflation

Inflation temporarily below target midpoint

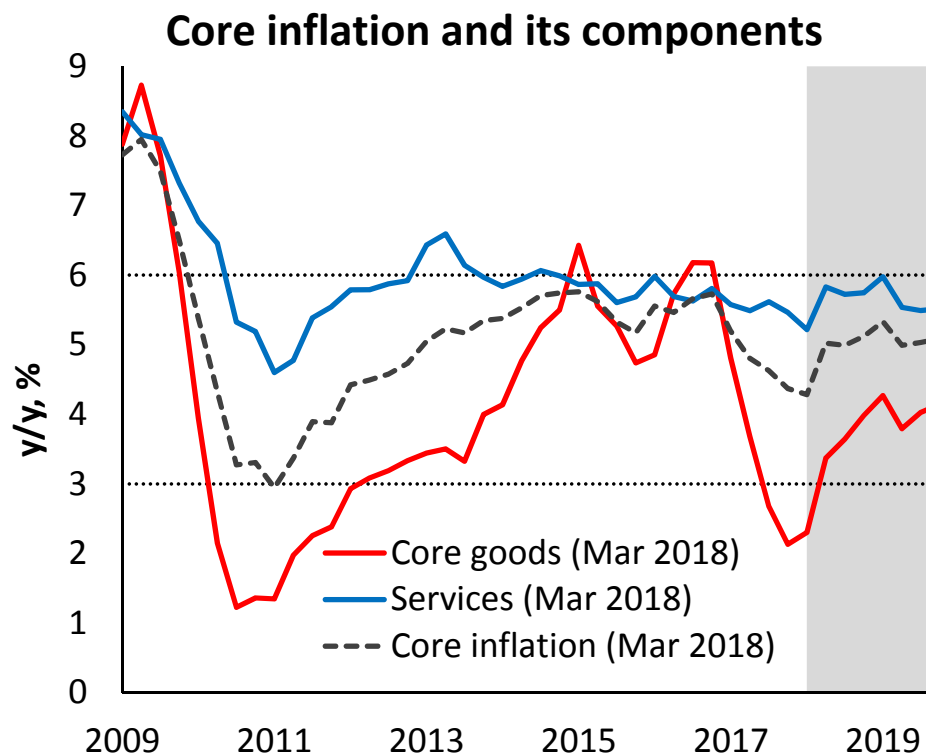


Sources: Stats SA and SARB

Exchange rate recovery disinflationary

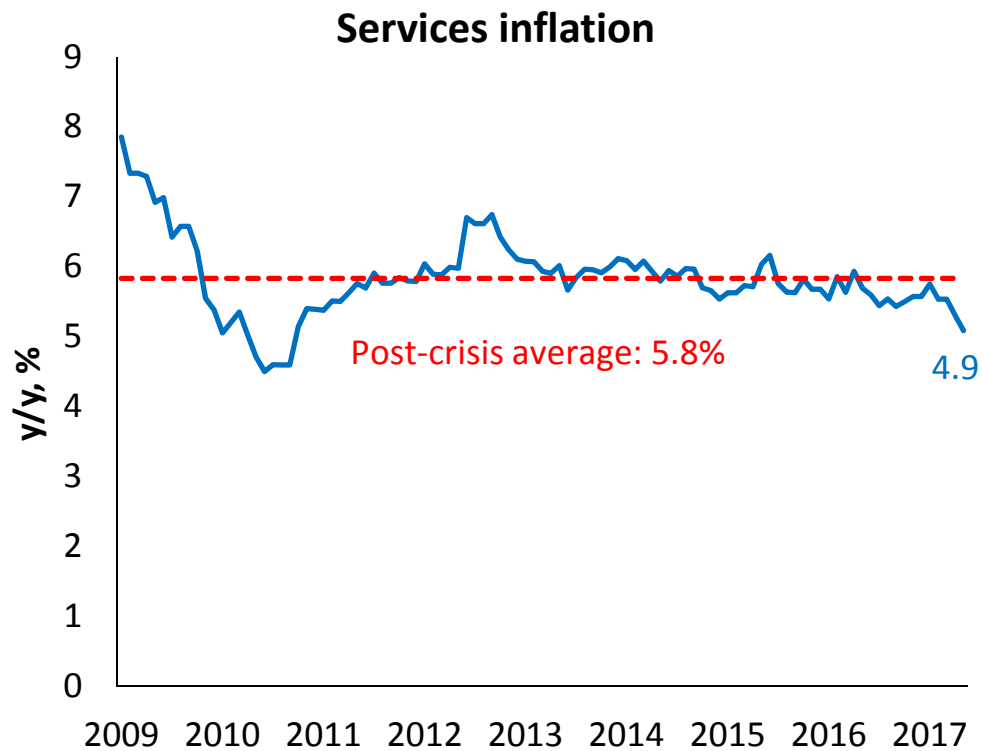


Source: SARB

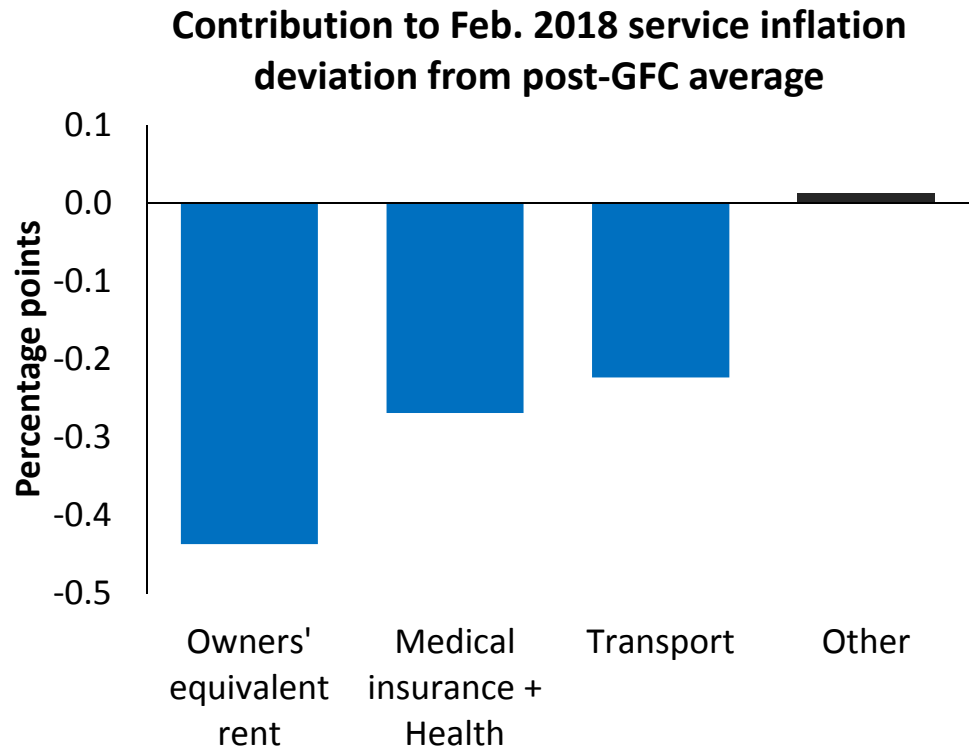


Sources: SARB and Stats SA

Services inflation also slower



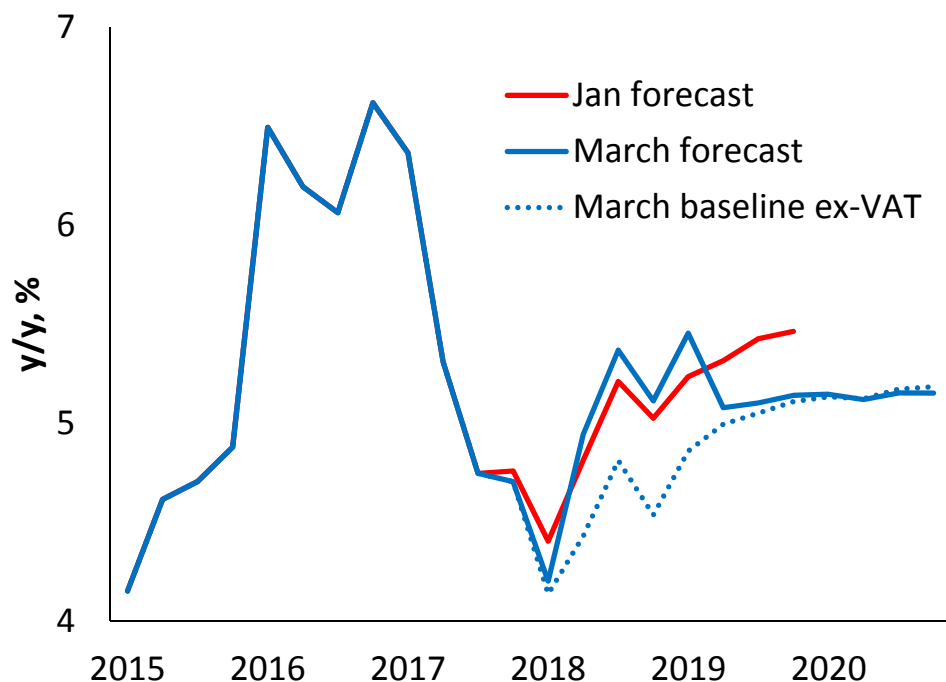
Source: Stats SA and SARB



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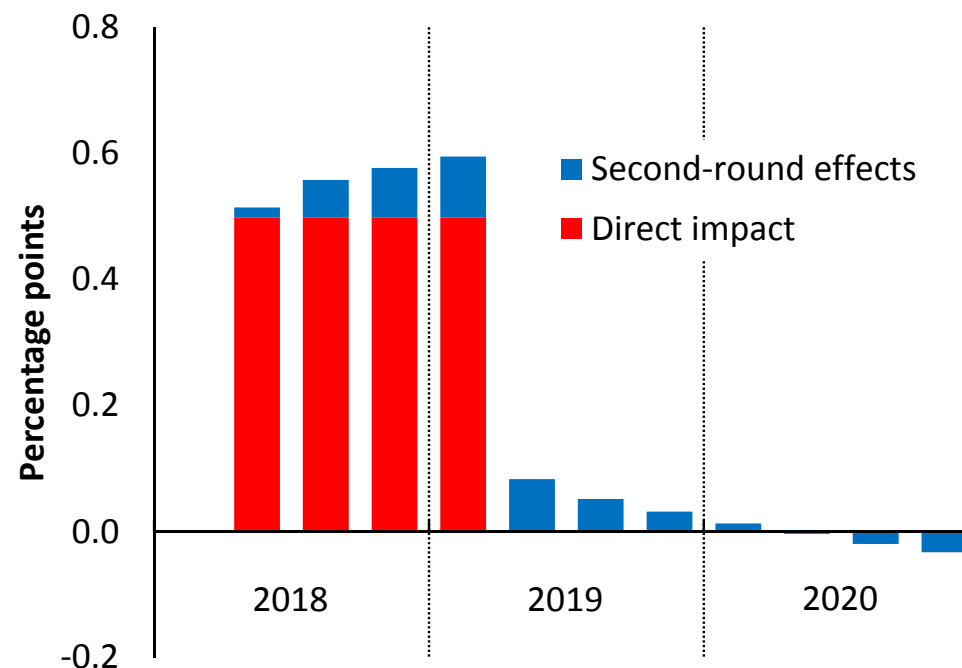
Inflation picks up from here, partly due to VAT effects

Impact of VAT hike on headline inflation



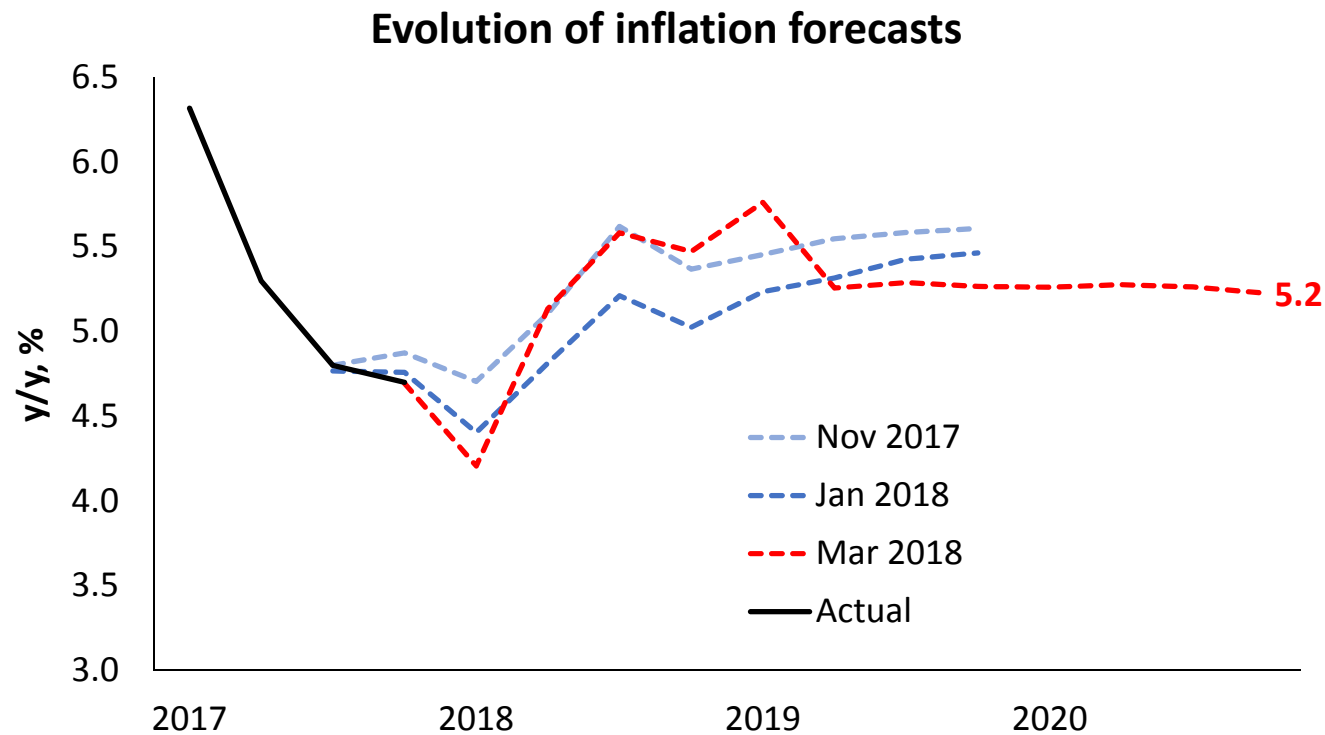
Sources: Stats SA and SARB

VAT effects



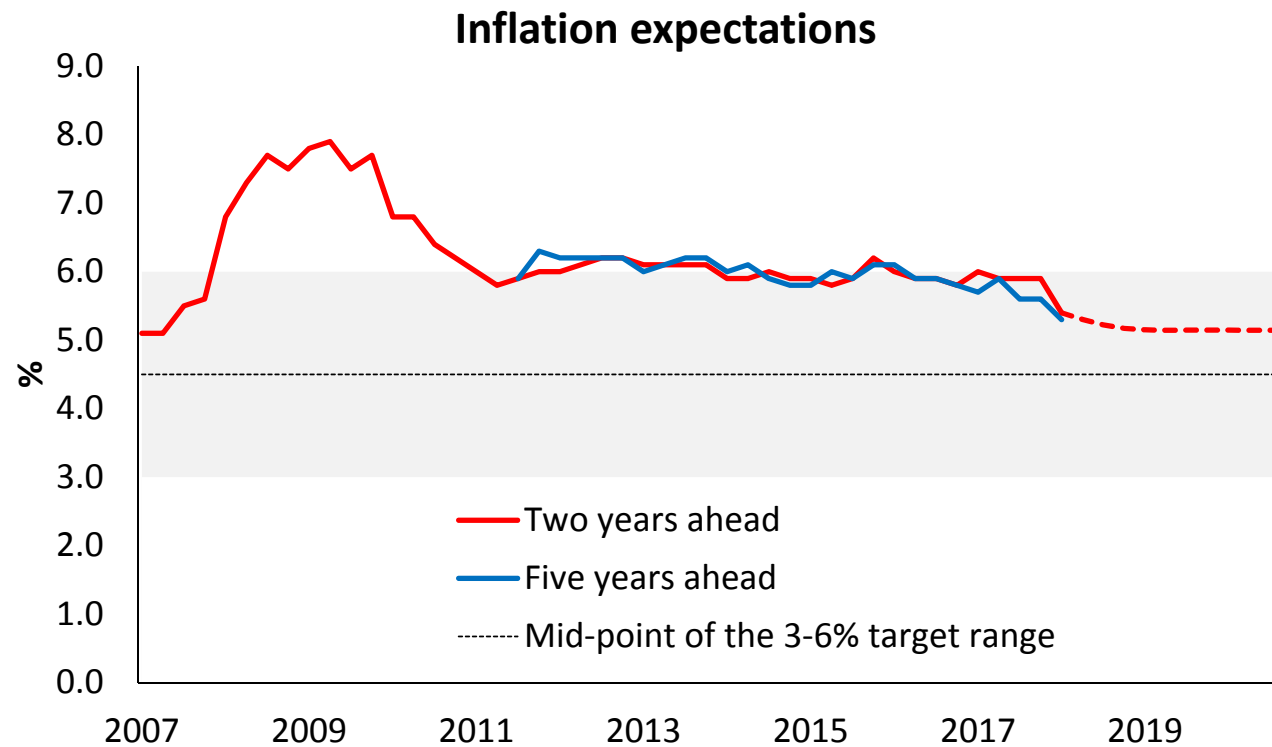
Source: SARB

Medium-term inflation settles lower than before



Sources: SARB and Stats SA

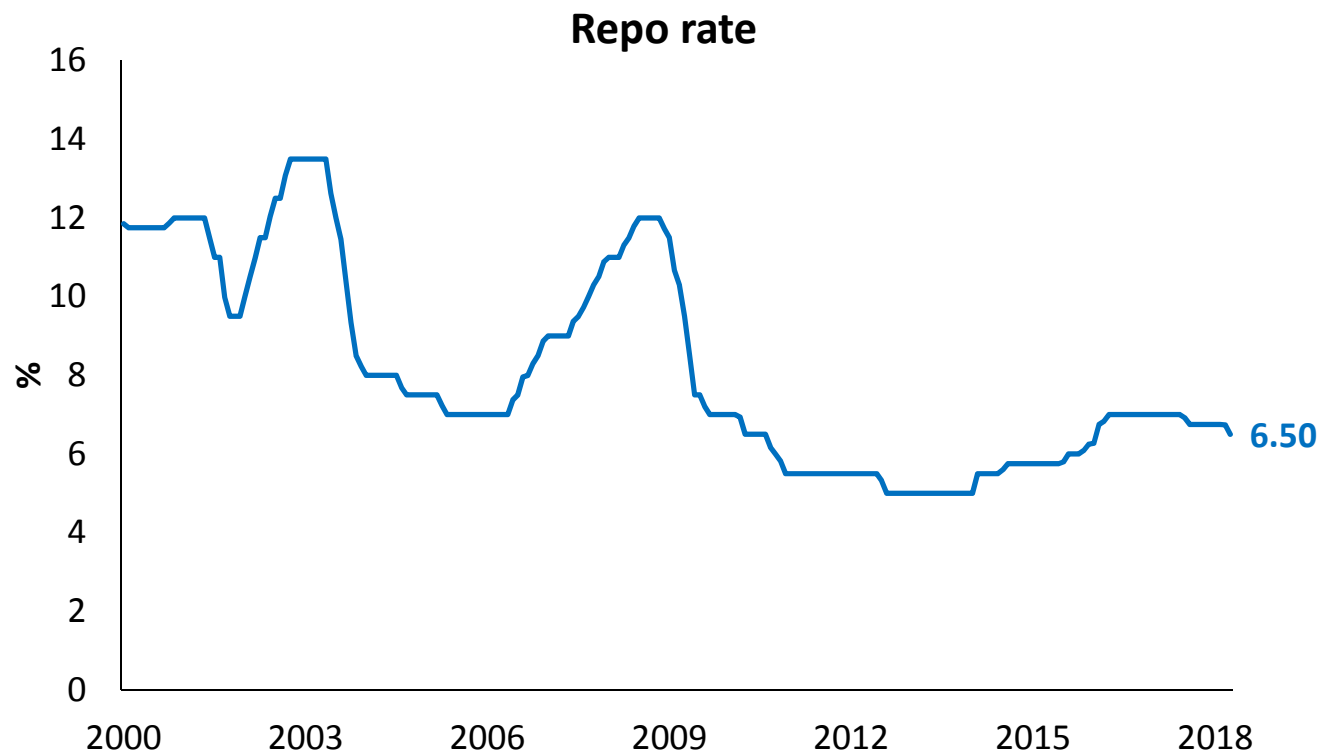
Expectations responding to lower inflation



Sources: BER and SARB

Policy

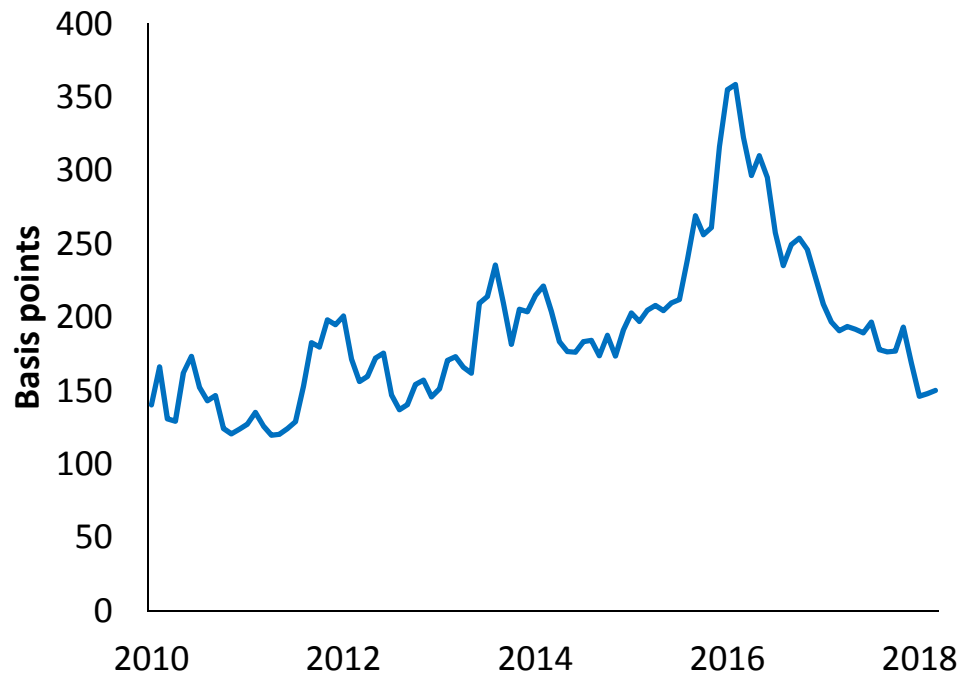
Rate cut in March



Source: SARB

Domestic risks have dissipated

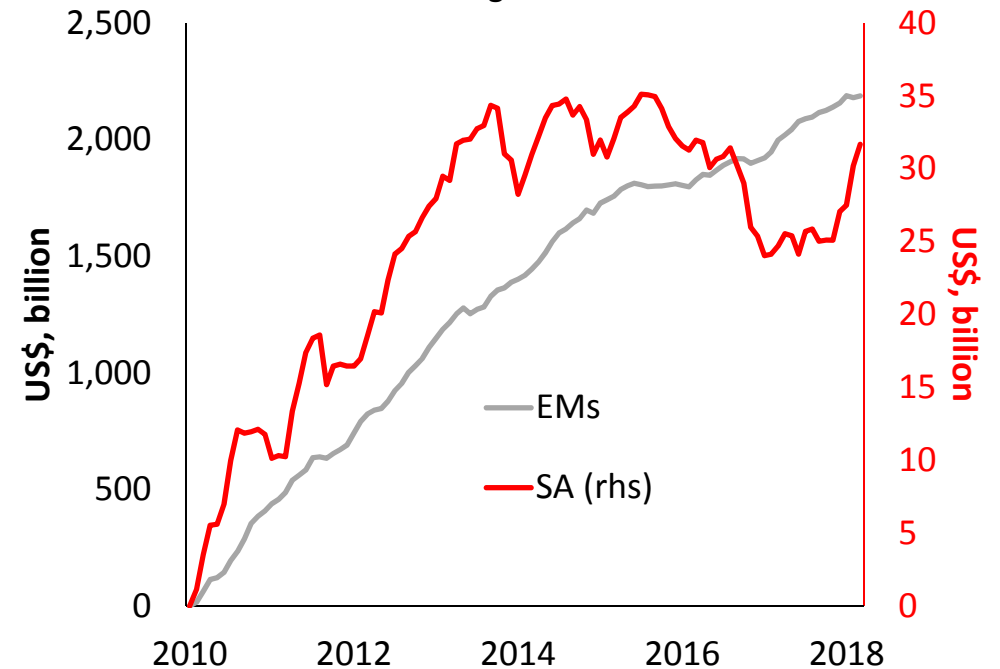
South Africa's 5y CDS spread



Source: Bloomberg

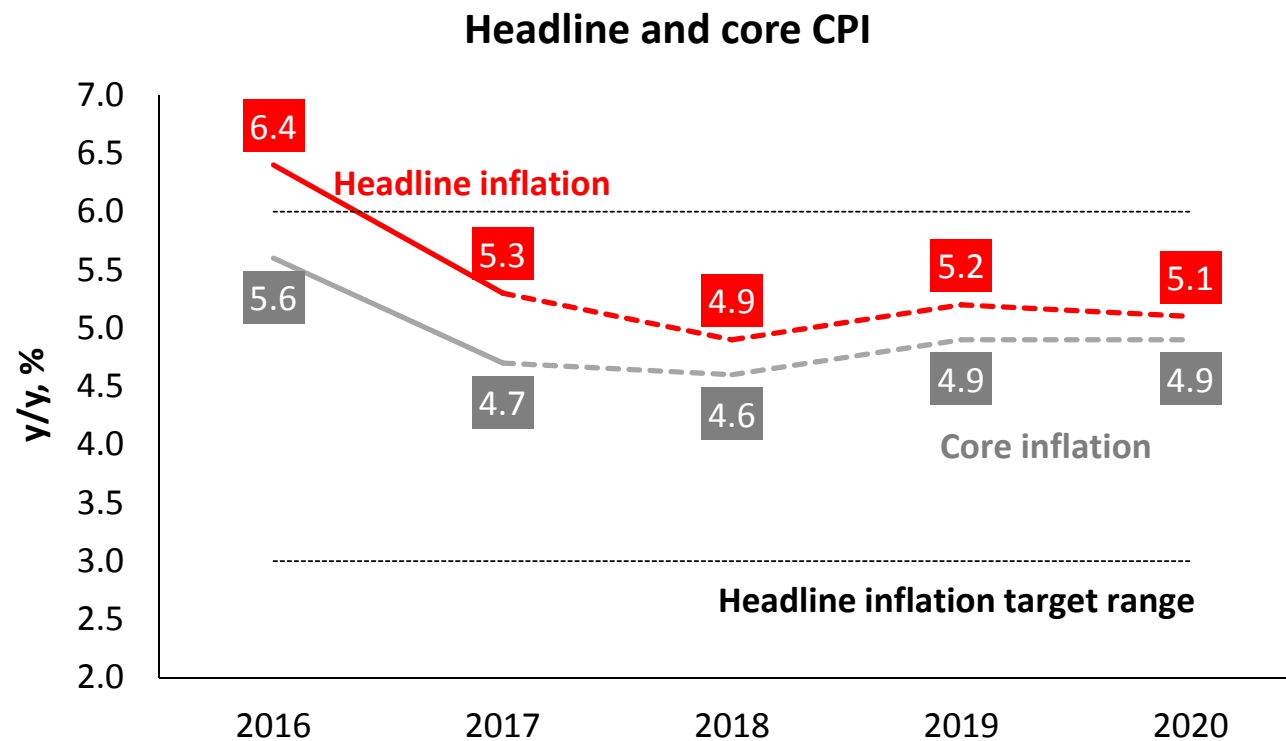
Net non-resident capital flows

Cumulative changes since Jan 2010



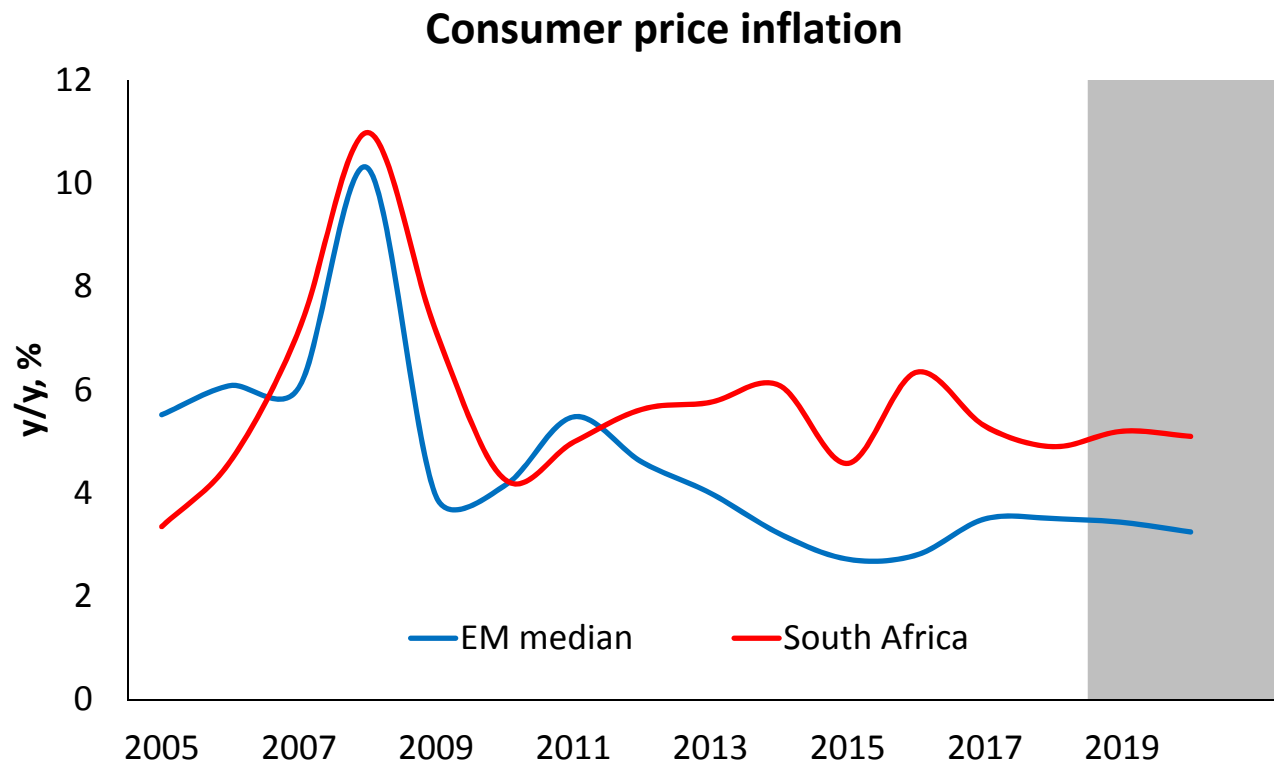
Source: IIF and SARB

Inflation appears to be under control...



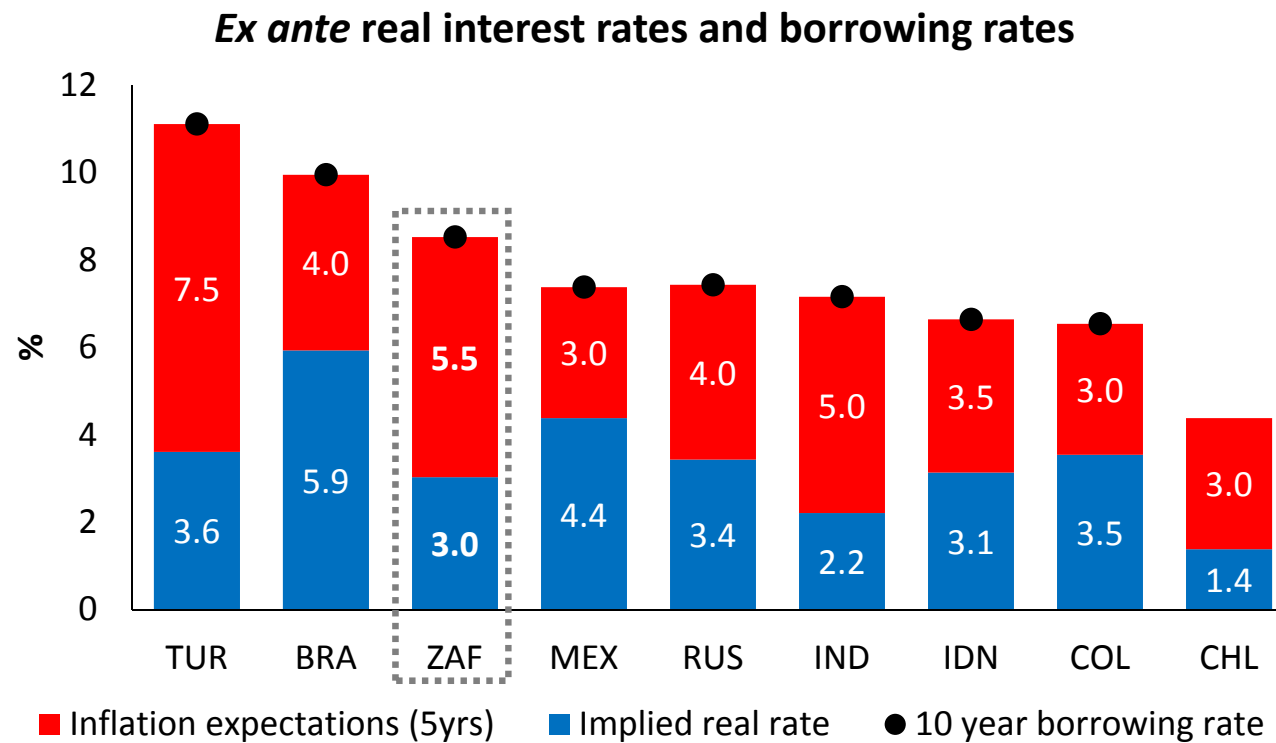
Source: Stats SA and SARB

But South African inflation still relatively high



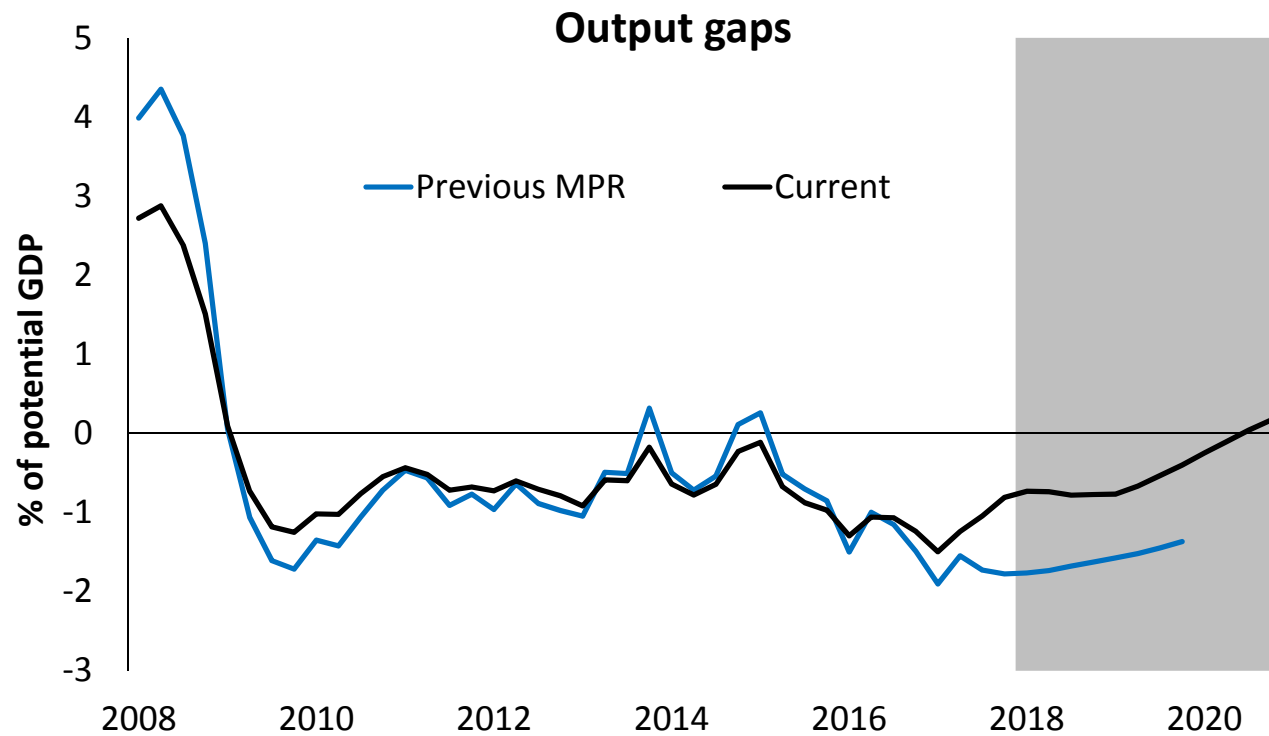
Source: IMF and SARB

... which explains higher nominal borrowing costs



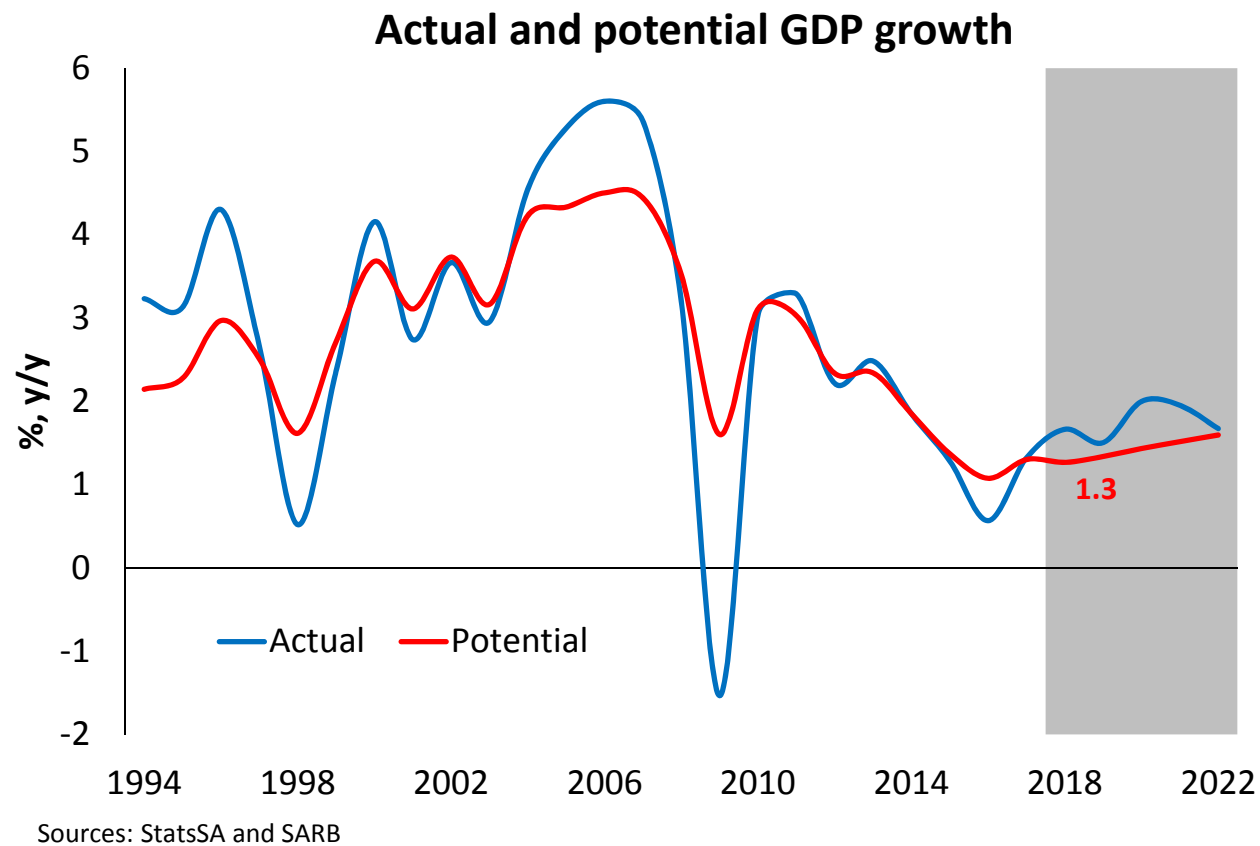
Source: Bloomberg, IMF and SARB

Rate cut means output gap closes faster

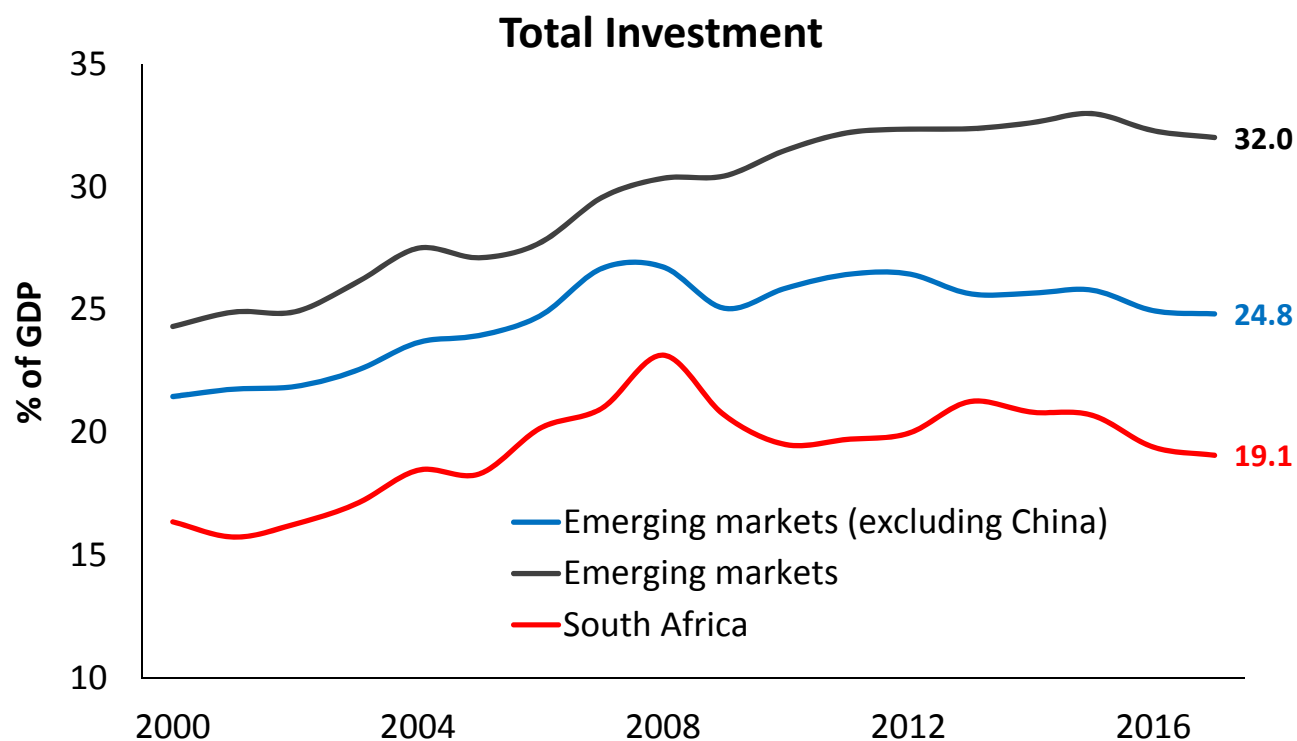


Source: SARB

Potential growth still subdued

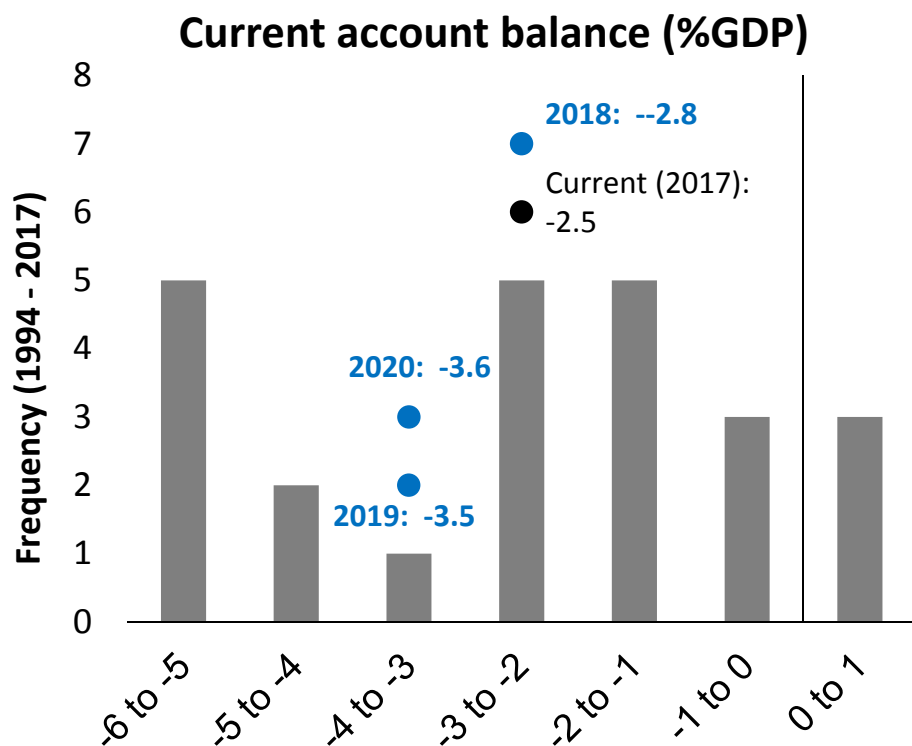


More investment needed for higher potential

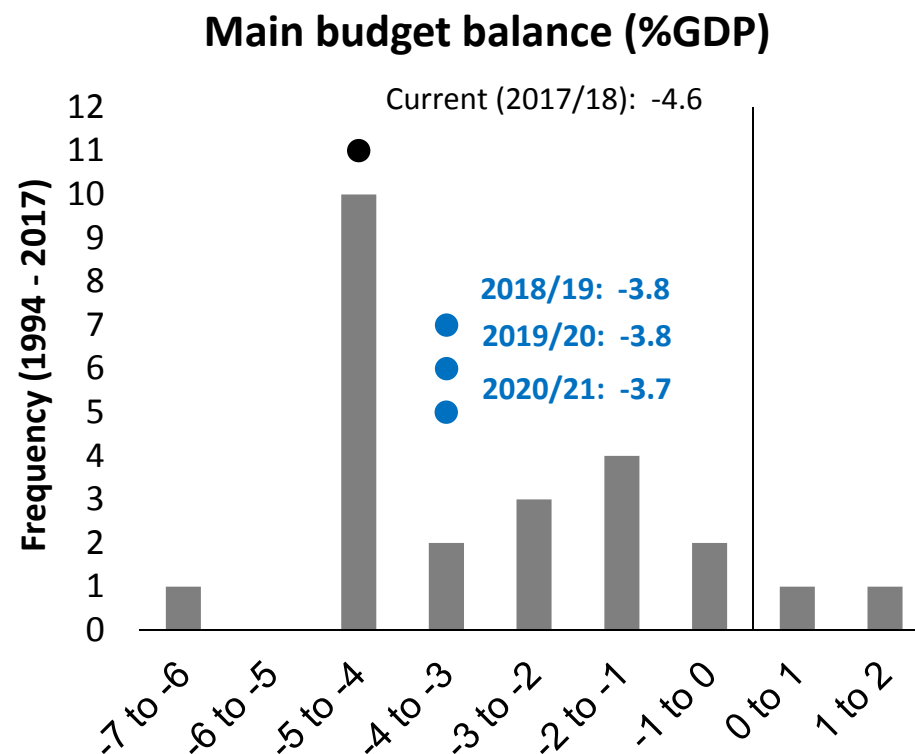


Sources: IMF and SARB

SA's twin deficits still a constraint

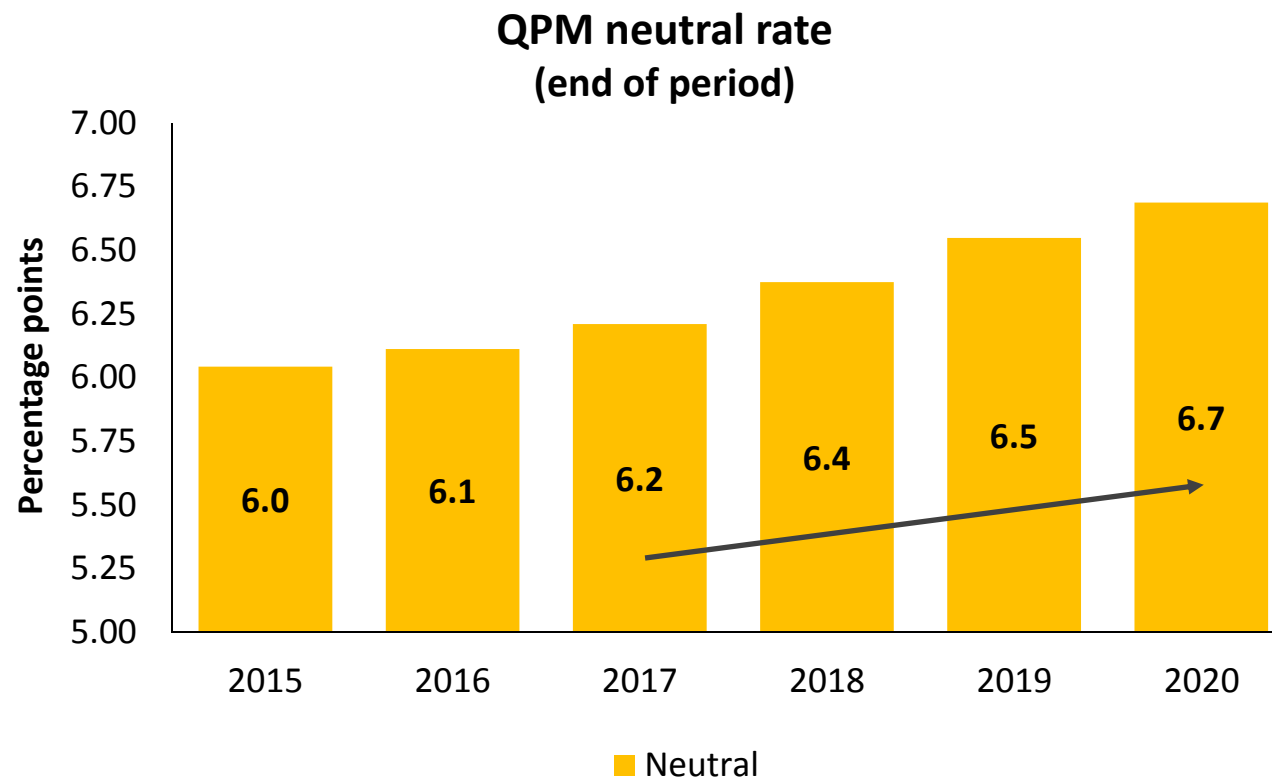


Source: SARB



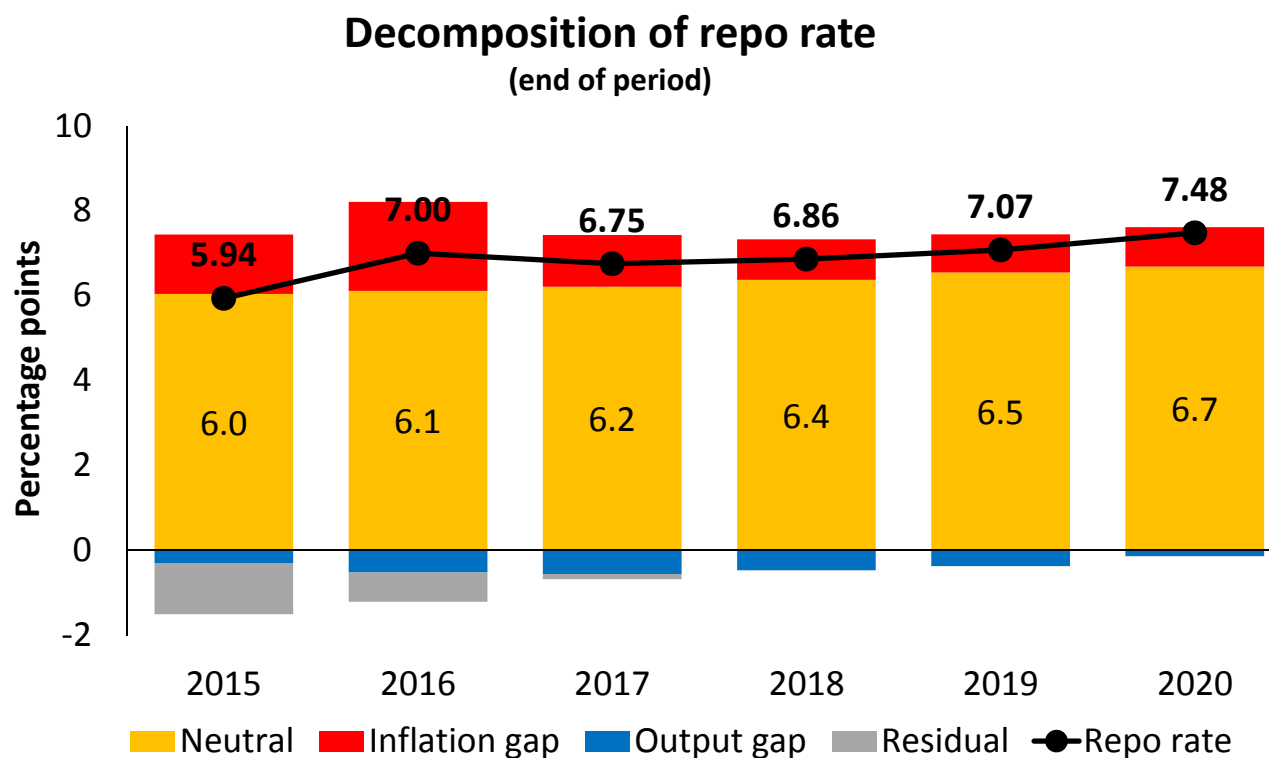
Sources: National Treasury and SARB

Low savings, higher world rates imply rising neutral



Source: SARB

Repo also responds to closing output gap, inflation above 4.5%



Source: SARB

Conclusion

- Inflation stays in target
- Growth somewhat stronger, risks to the upside
- Global conditions becoming less favourable
- Fine balance between lowering inflation permanently, closing output gap, managing risks

Get in touch with us

The publication and accompanying presentation can be accessed online at www.resbank.co.za/Publications/Reviews/Pages/Monetary-Policy-Review.aspx

Press office:

Zamandlovu Ndlovu

012 399 7118

media@resbank.co.za



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@SAReserveBank