



South African Reserve Bank

# Monetary Policy Review

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Pretoria · 29 October 2018

# October review: volatility and fundamentals

- Strong, synchronised global growth fading
- SA growth weak and macroeconomic imbalances somewhat smaller
- Lower inflation not expected to persist

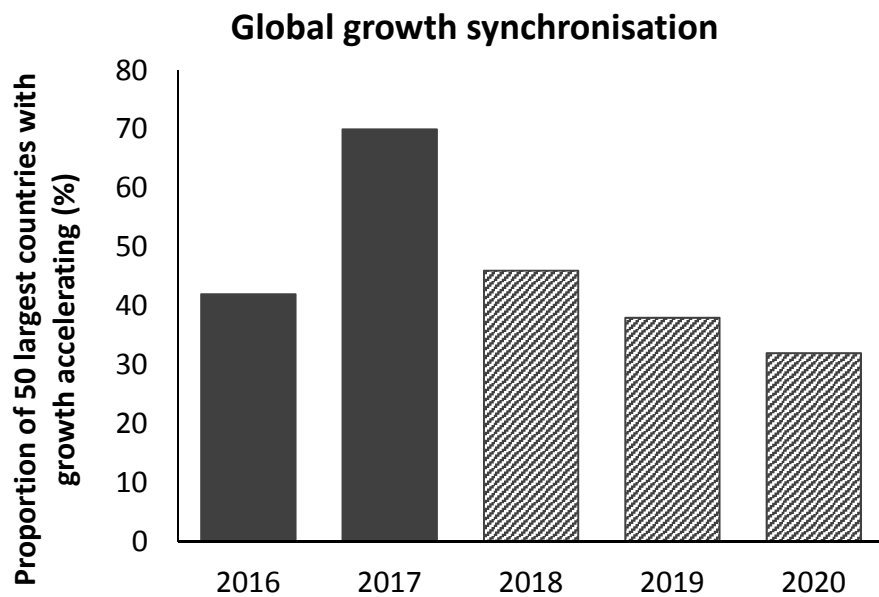


# Global growth moderating

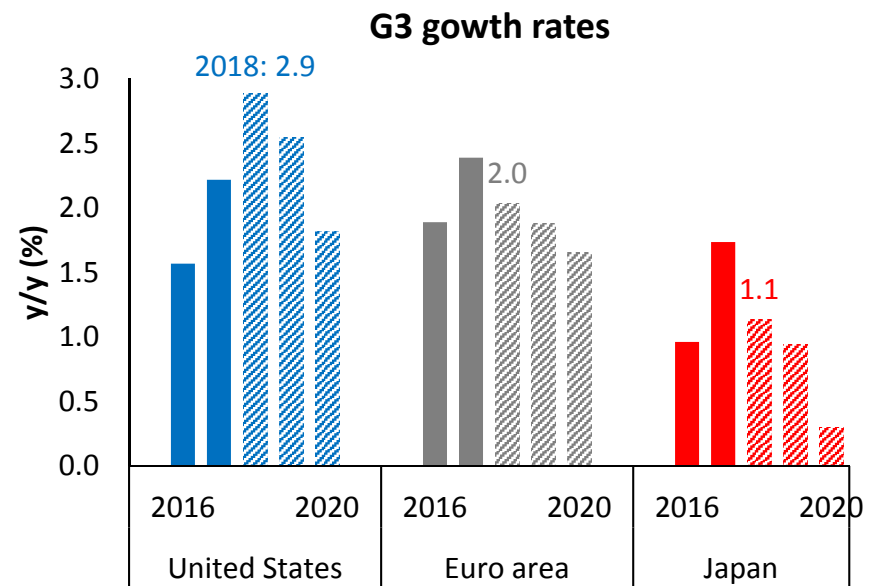


Source: SARB

# Less synchronised growth



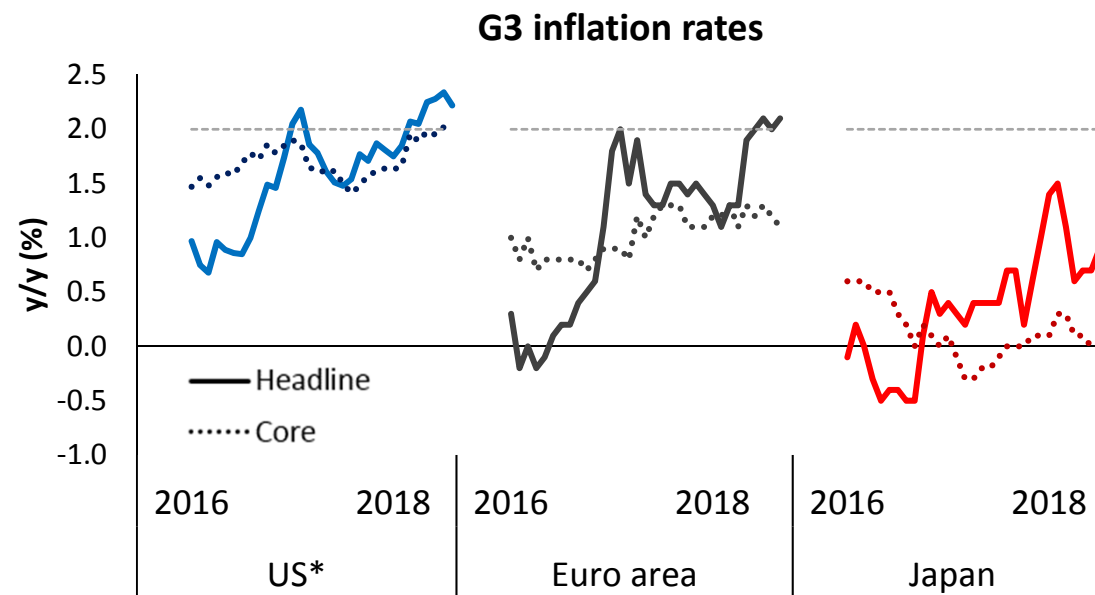
Sources: IMF and SARB



Sources: IMF and SARB



# With inflation rising back to target...

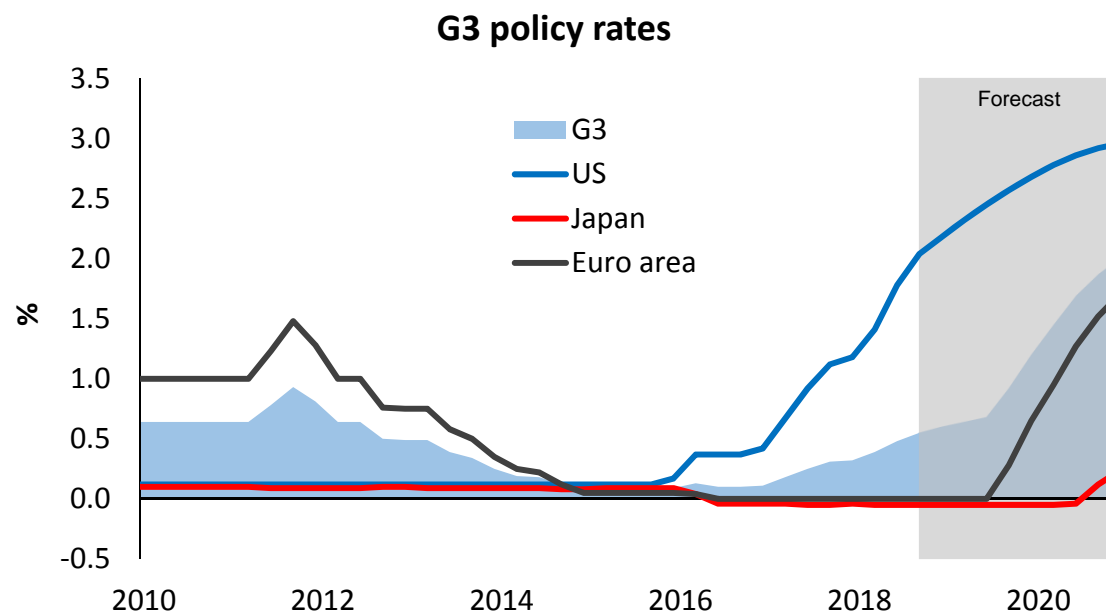


\*PCE deflator

Source: Respective Statistical Agencies via Haver Analytics



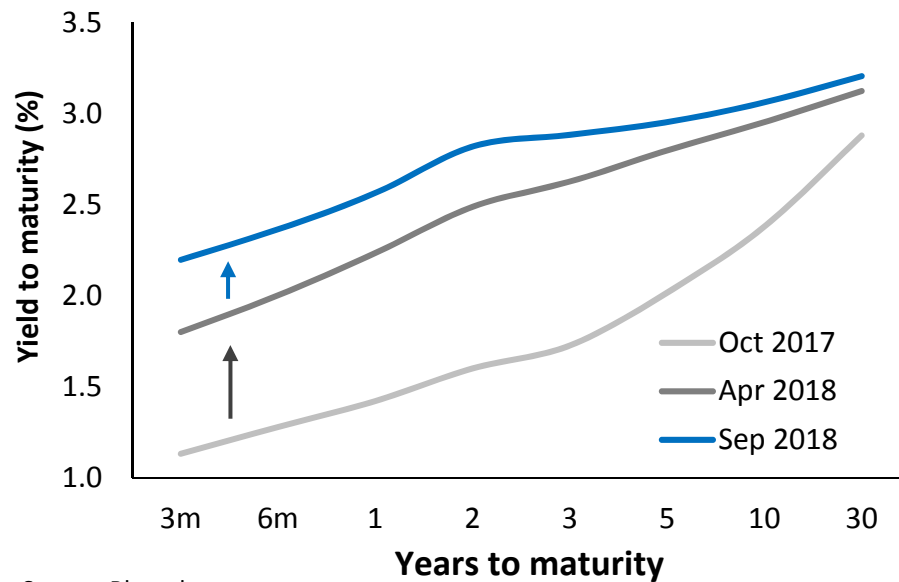
# And rates normalising



Sources: Global Projection Model Network and SARB

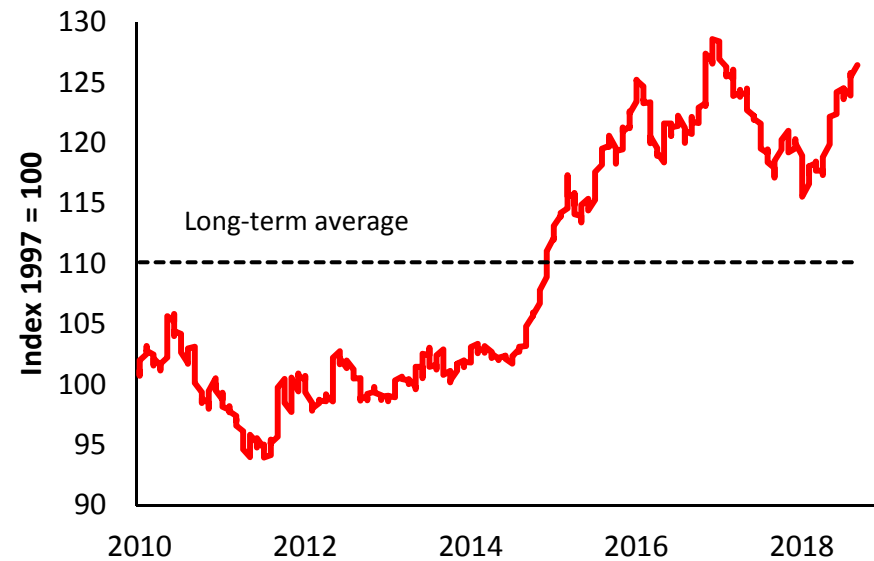
# US yield curve shifting up & dollar appreciating

### Treasury yield curves



Source: Bloomberg

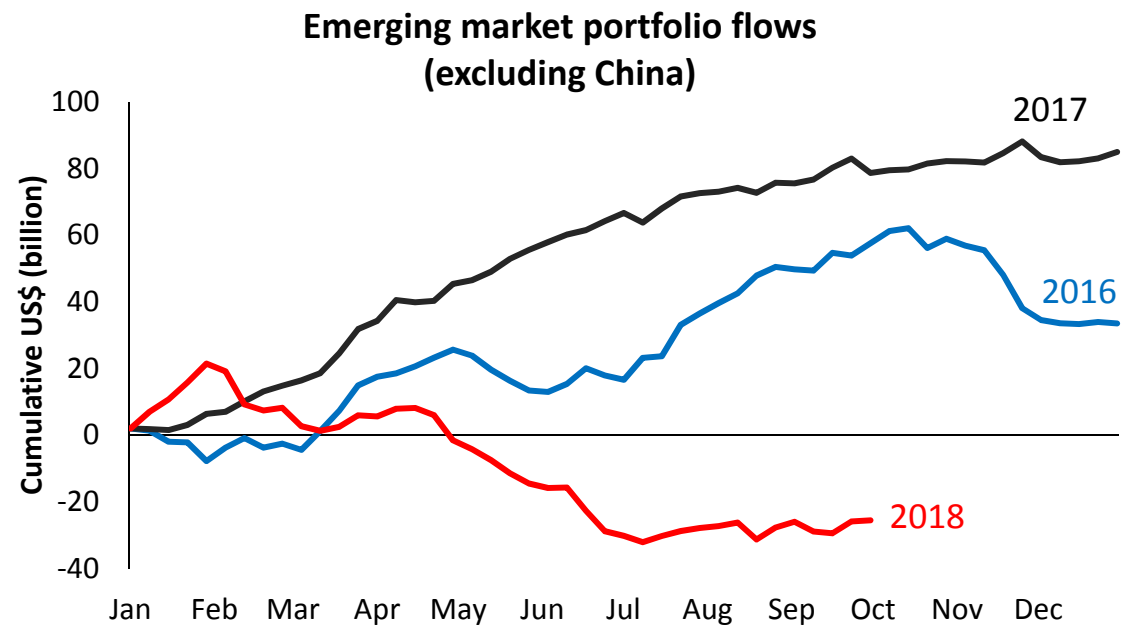
### Broad dollar index



Source: Federal Reserve Bank of St. Louis



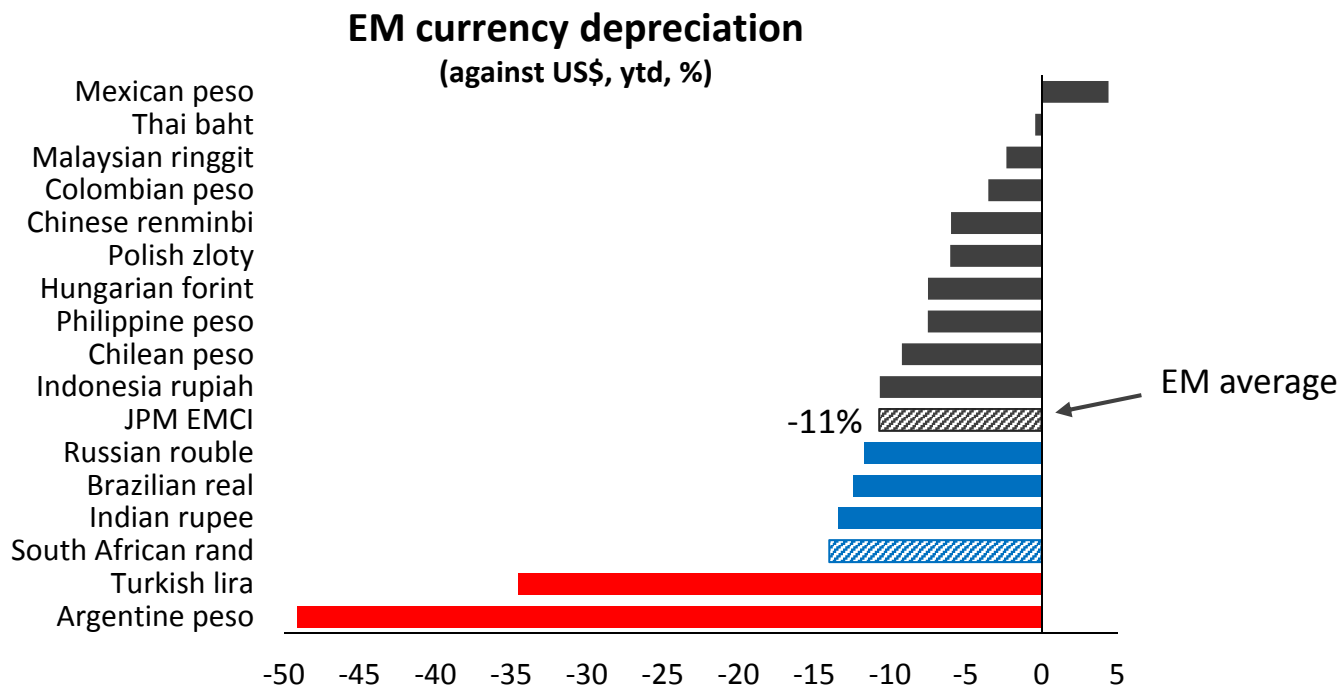
# Capital outflows from EMs



Sources: IIF and SARB



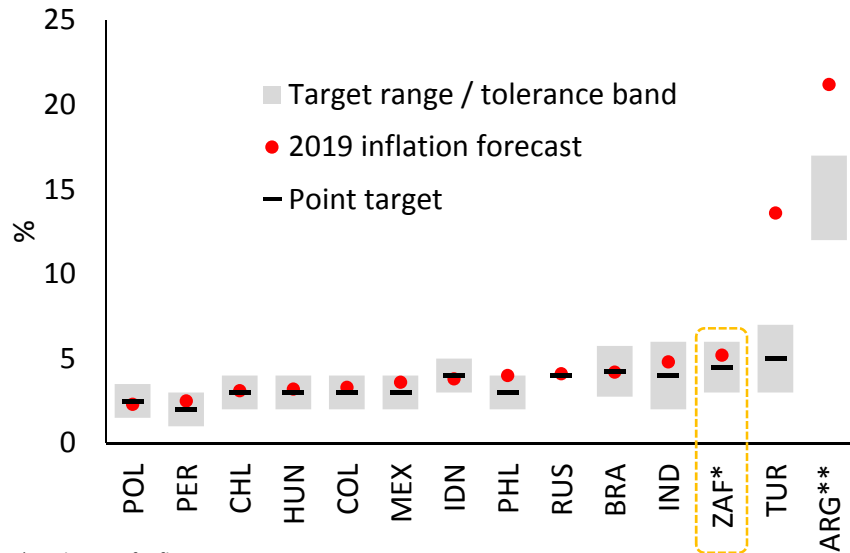
# Broad-based EM sell-off



Source: Bloomberg

# Inflation performance one differentiating factor

EM 2019 inflation forecasts

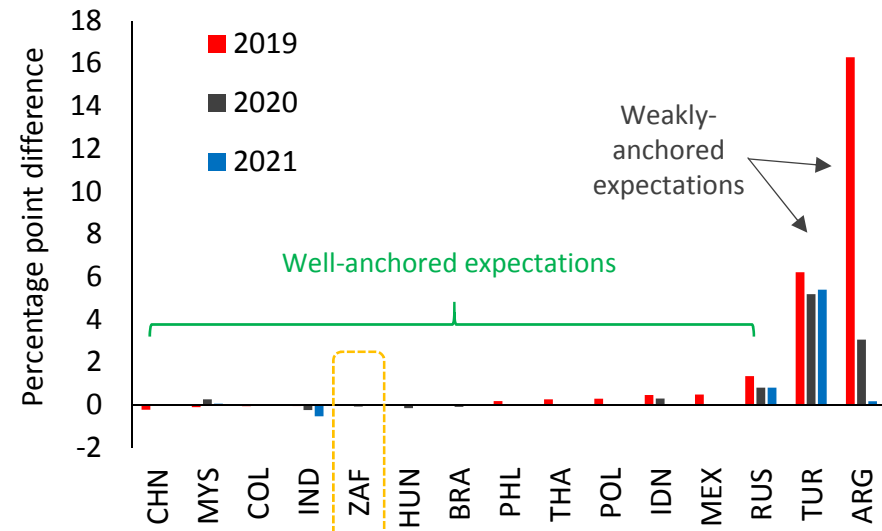


\* Midpoint of inflation target range.

\*\* Argentina replaced its inflation target with a money supply target on 1 October 2018

Sources: Haver and SARB

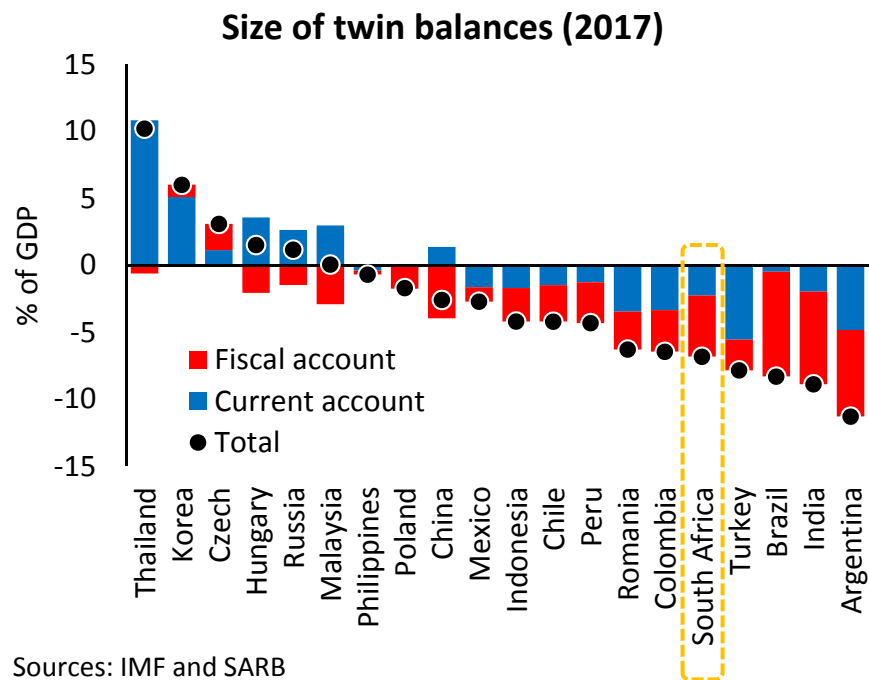
Inflation forecast revisions (Oct. vs April)



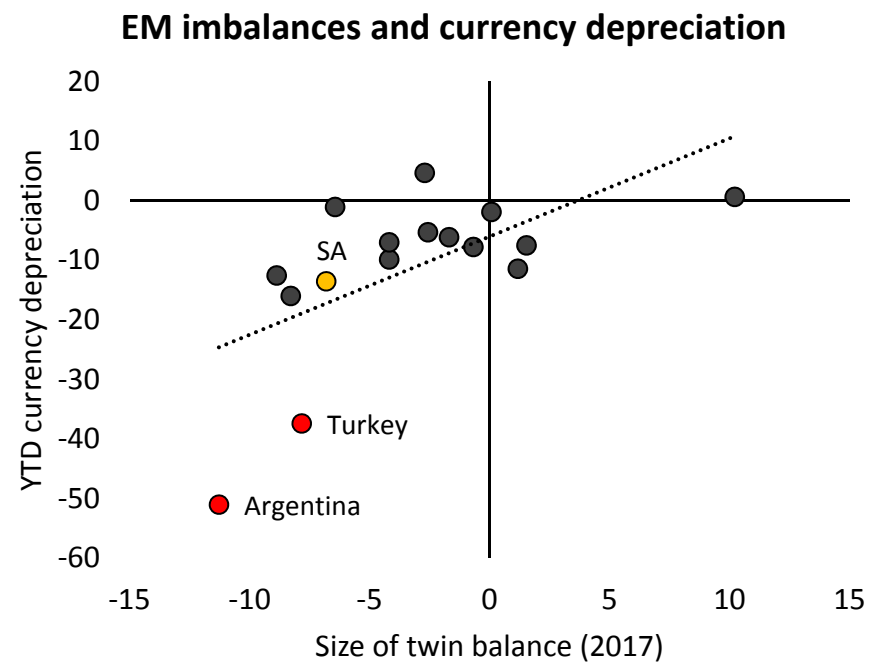
Sources: IMF and SARB



# Alongside macro fundamentals

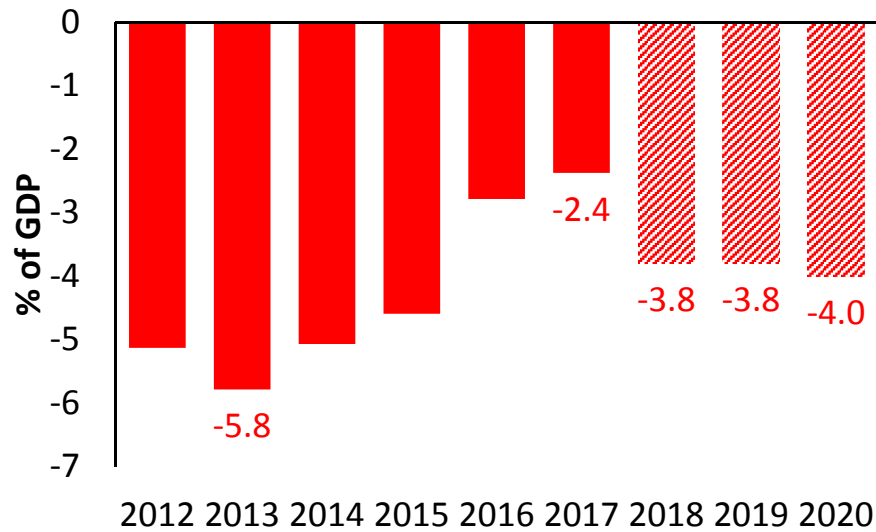


Sources: IMF and SARB



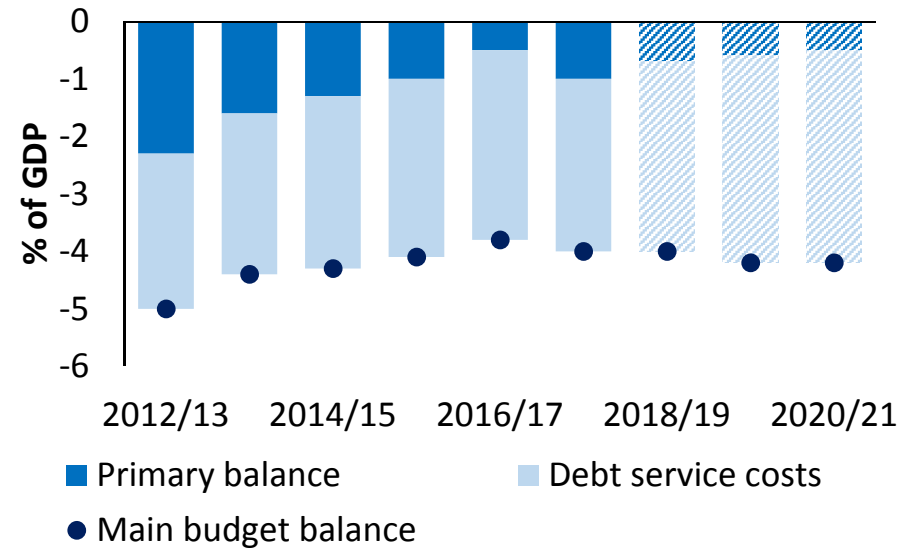
# SA's macro adjustment still underway

### Current account balance



Source: SARB

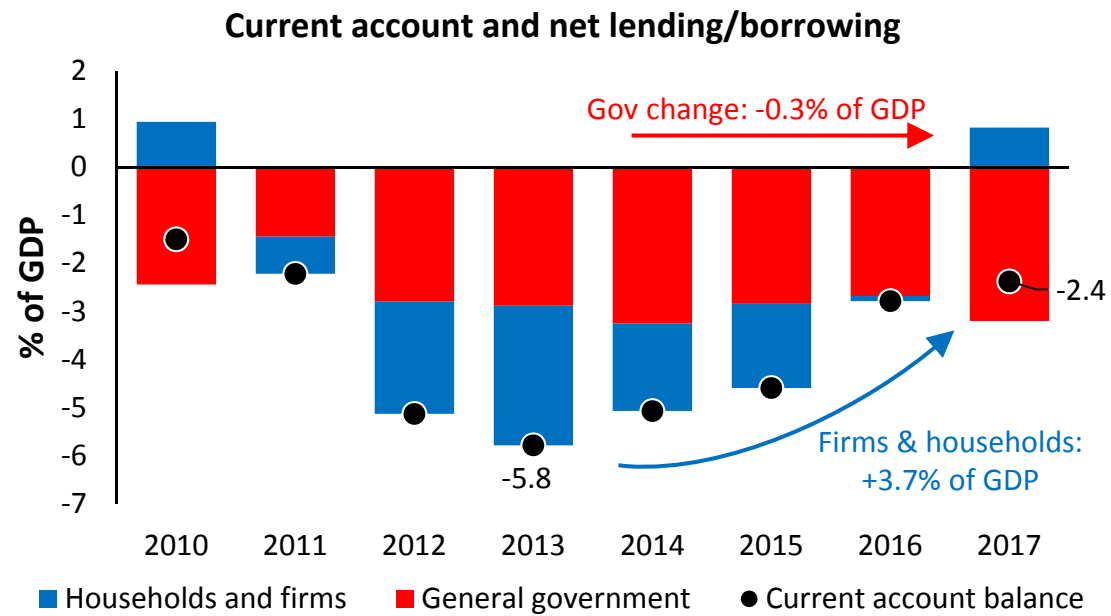
### Fiscal account



Source: National Treasury (MTBPS 2018)

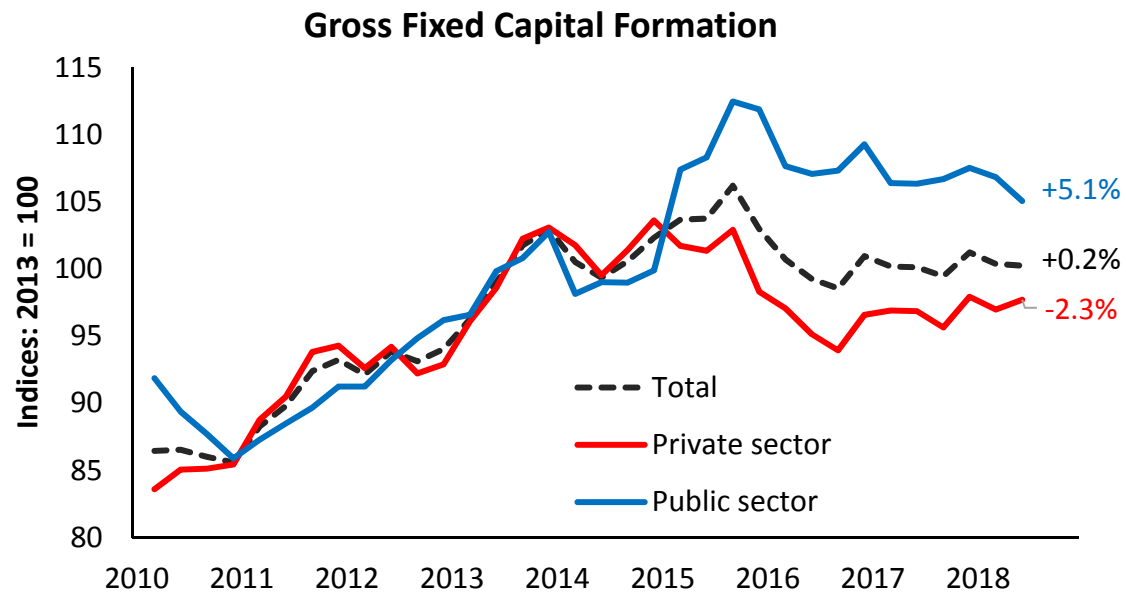


# And over-reliant on households and firms



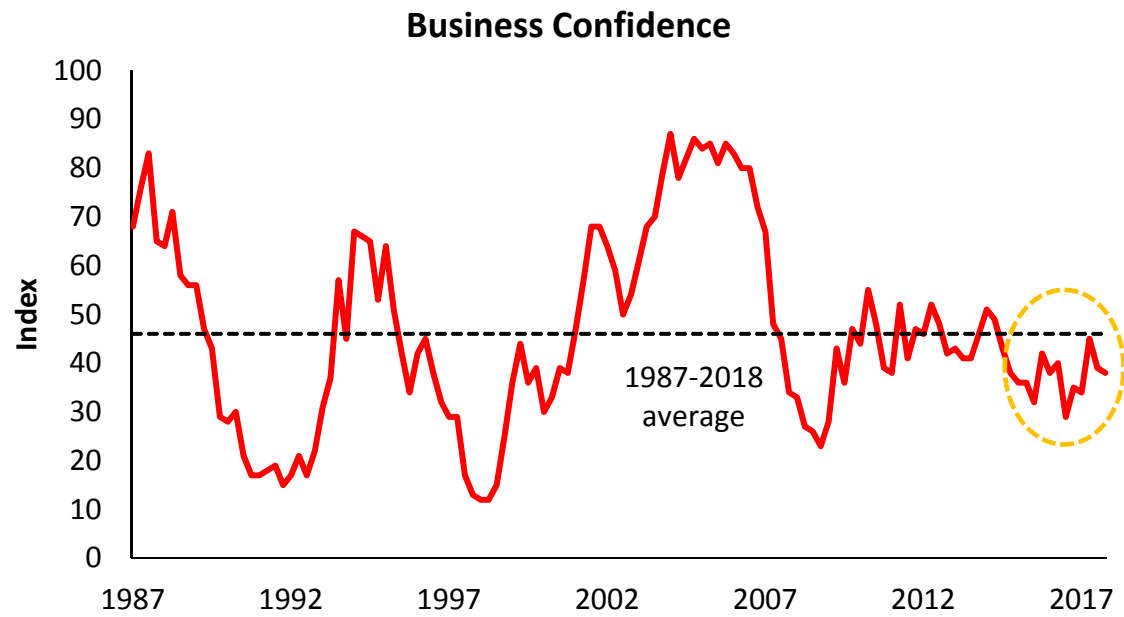
Source: SARB

# Helps explain flat-lining investment



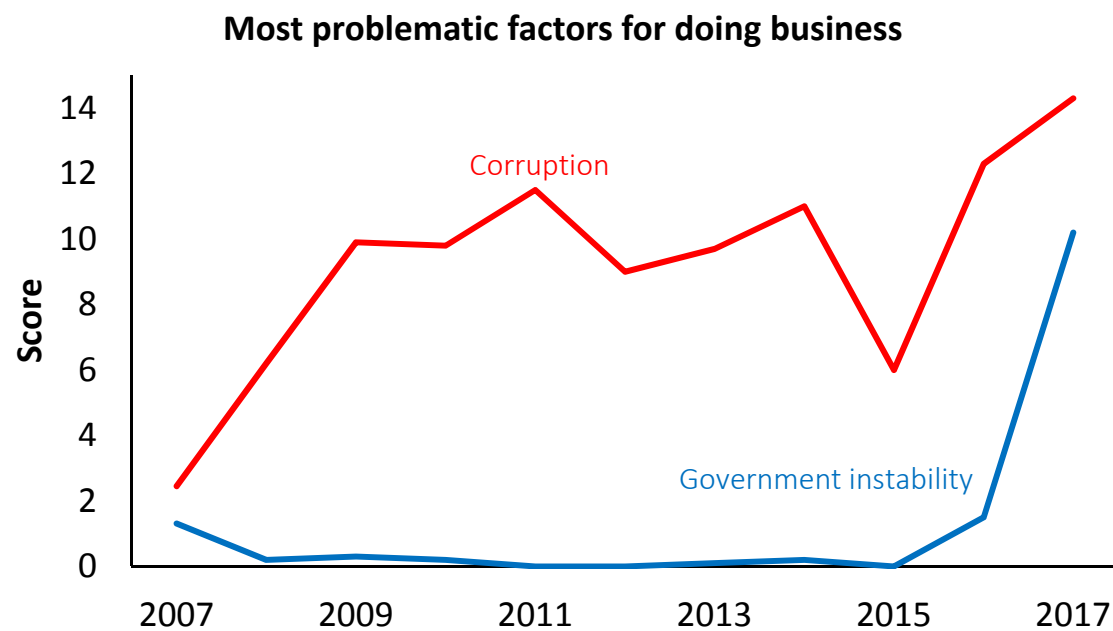
Sources: Stats SA and SARB

# Feeding through to confidence



Source: BER

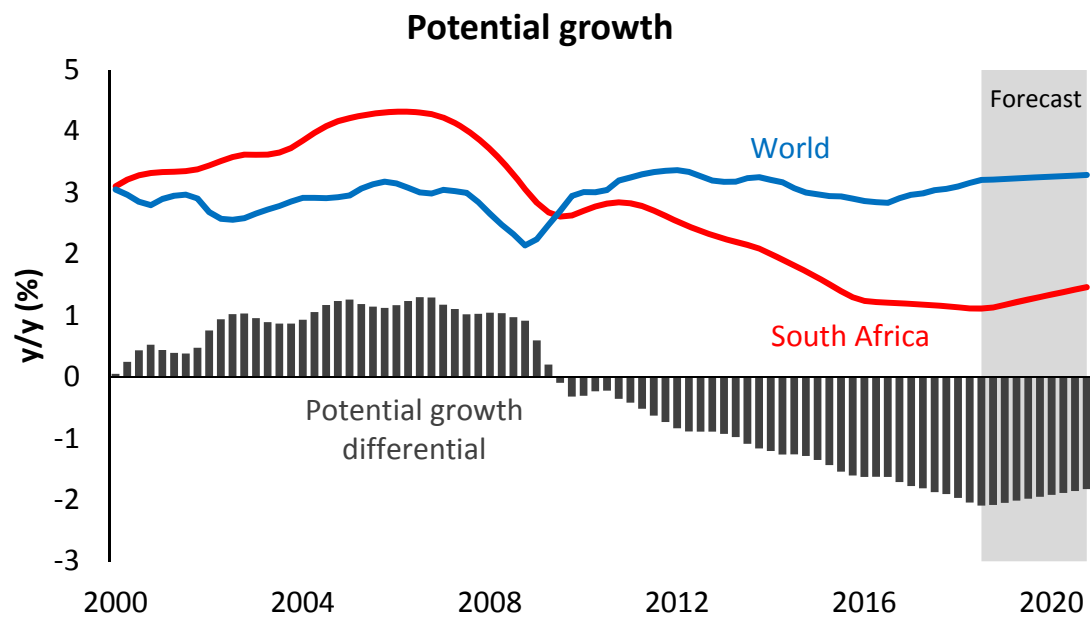
## ... in the context of institutional weakness



Source: World Economic Forum Executive Opinion Survey

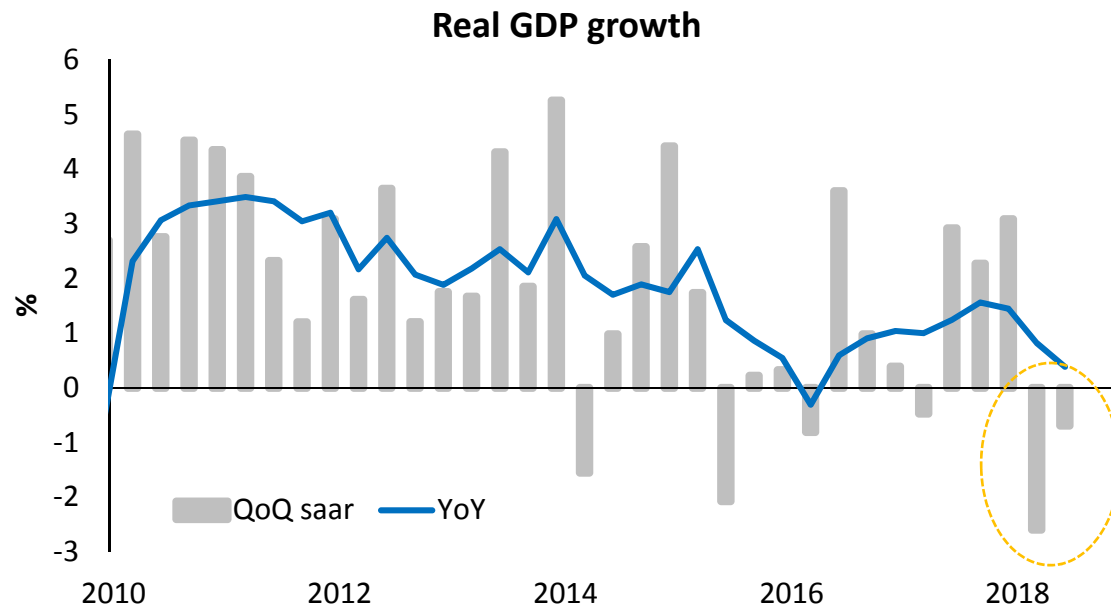


# Upshot is lower potential growth



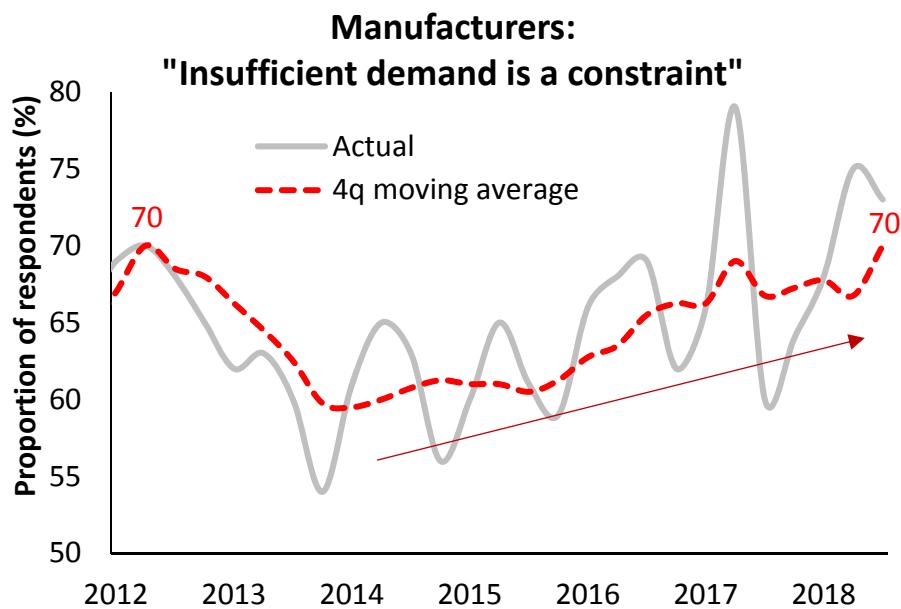
Source: SARB

# 2018H1 recession still a surprise

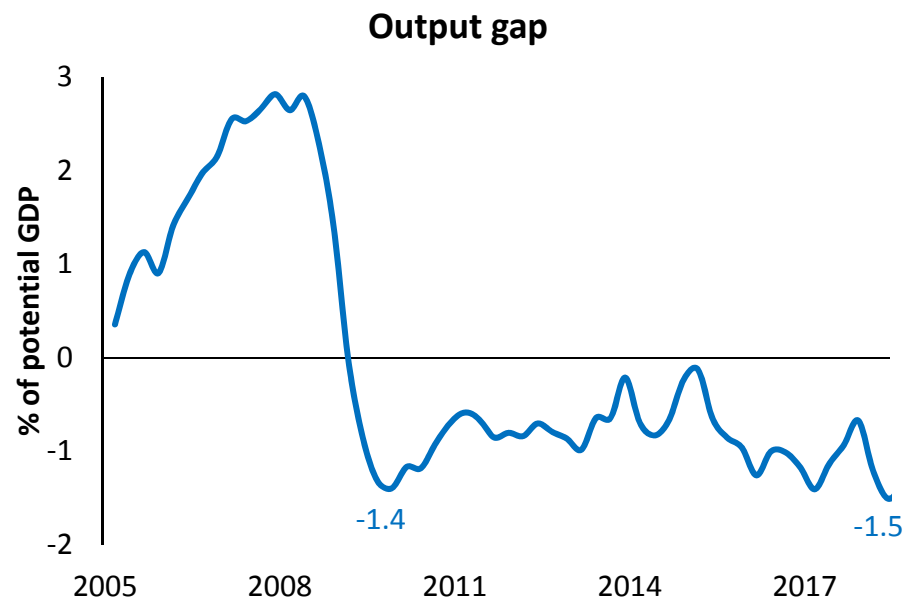


Source: SARB

# Demand looks weak; output gap more negative

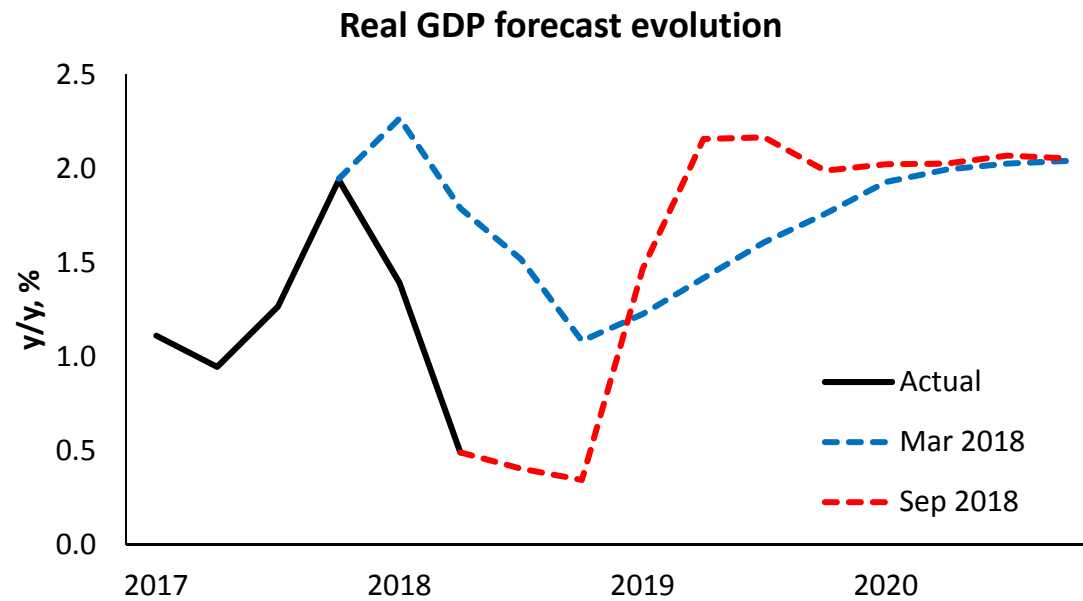


Sources: BER and SARB



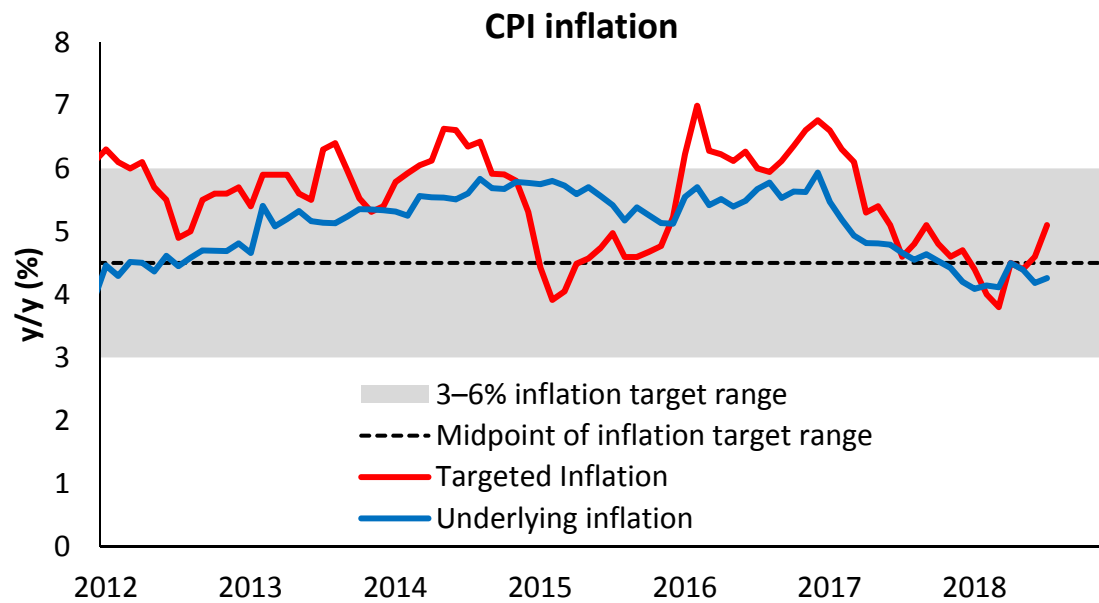
Sources: Stats SA and SARB

# Closing the output gap gets us to 2% growth in 2020



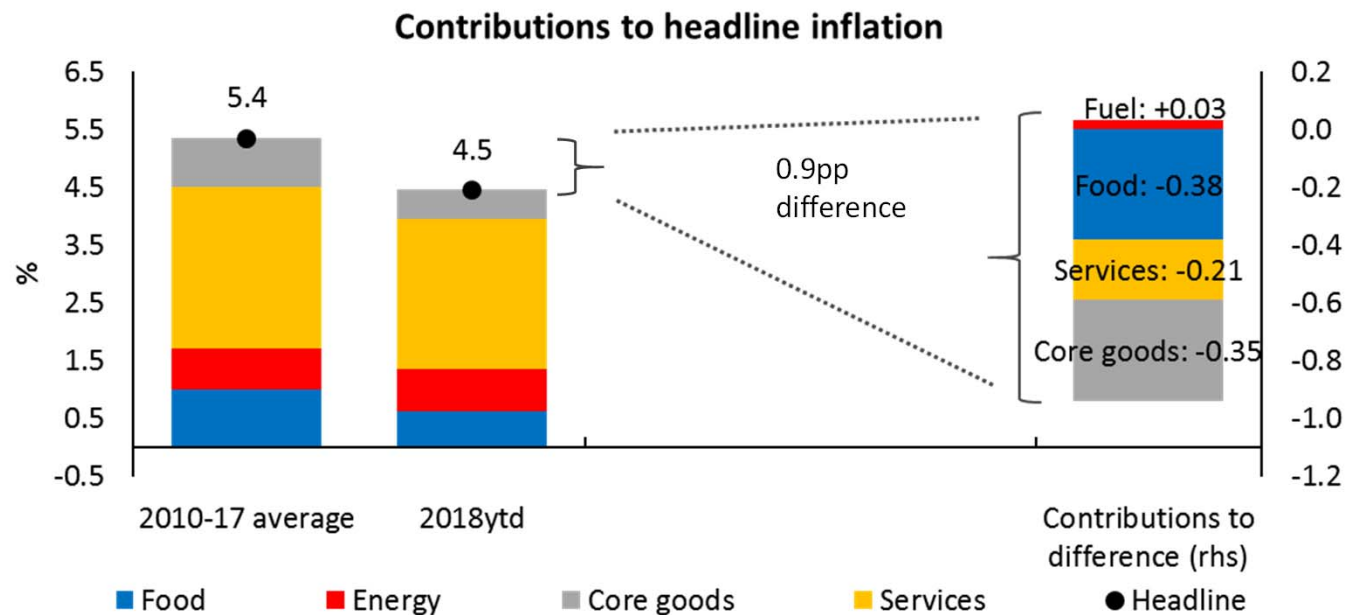
Sources: Stats SA and SARB

# Inflation close to the midpoint recently



Sources: Stats SA and SARB

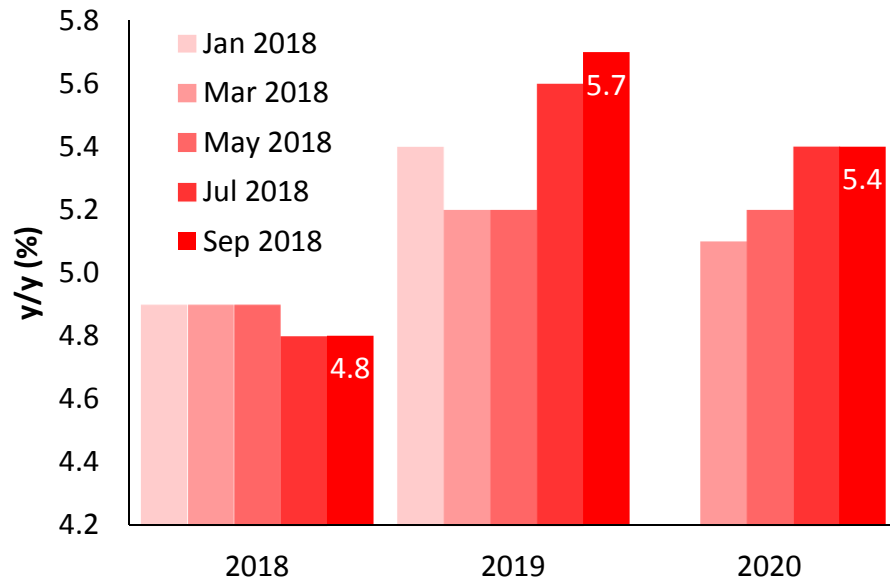
# Short-term disinflationary shocks helped



Source: Stats SA and SARB

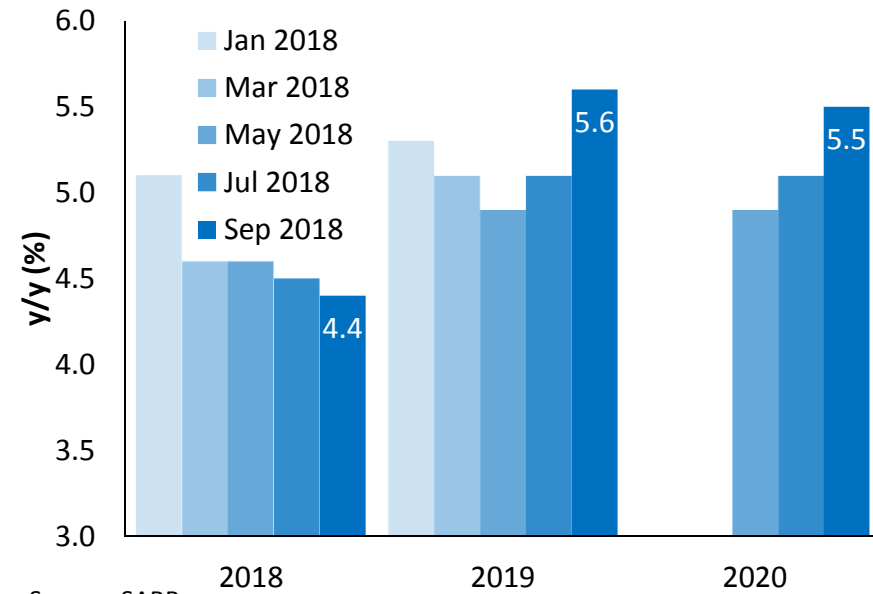
# But forecasts deteriorating

### Headline forecast evolution



Source: SAR

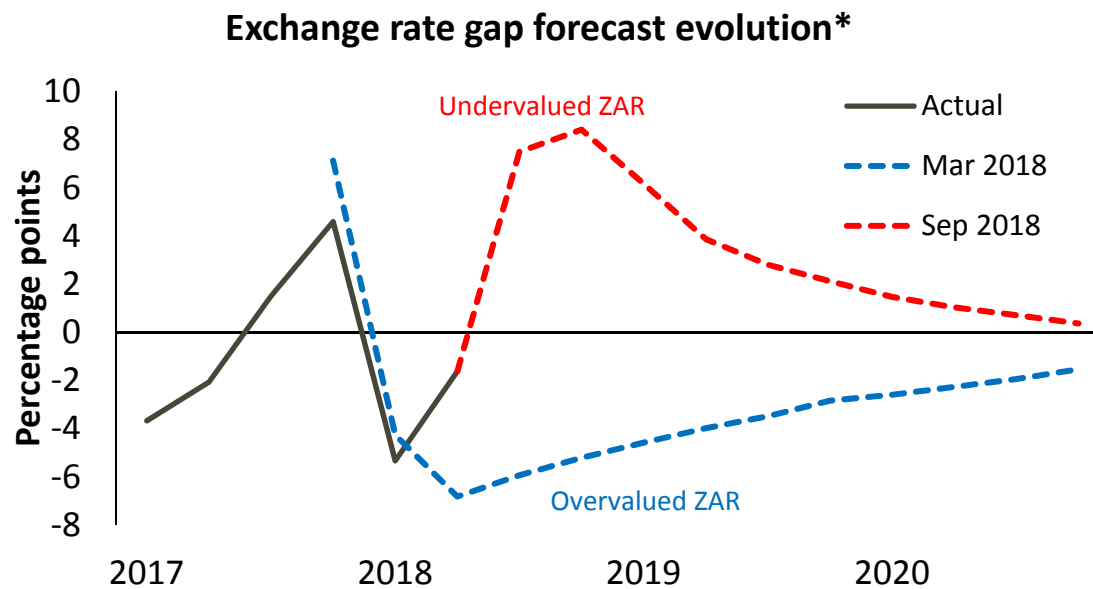
### Core forecast evolution



Source: SARB



# Exchange rate a source of pressure

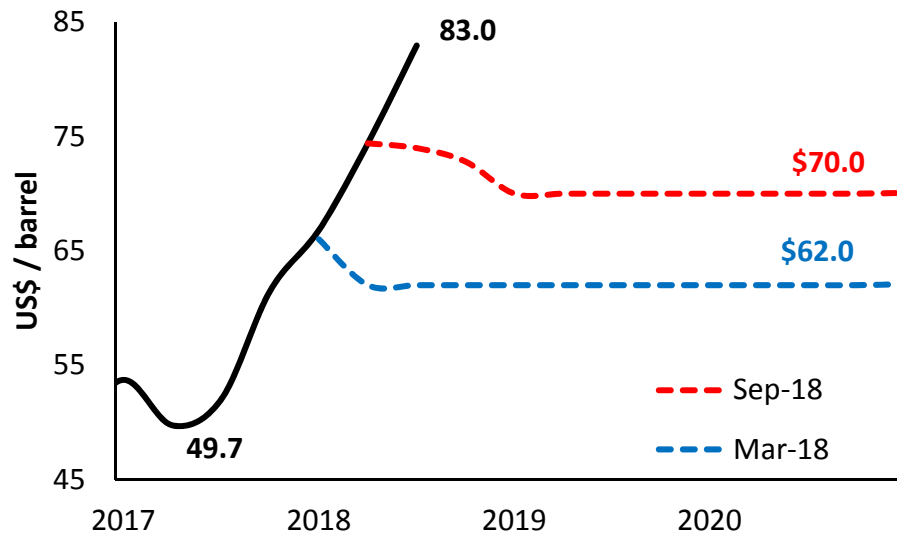


\*Starting points will not be exactly the same over time given the model's filtering process  
Source: SARB



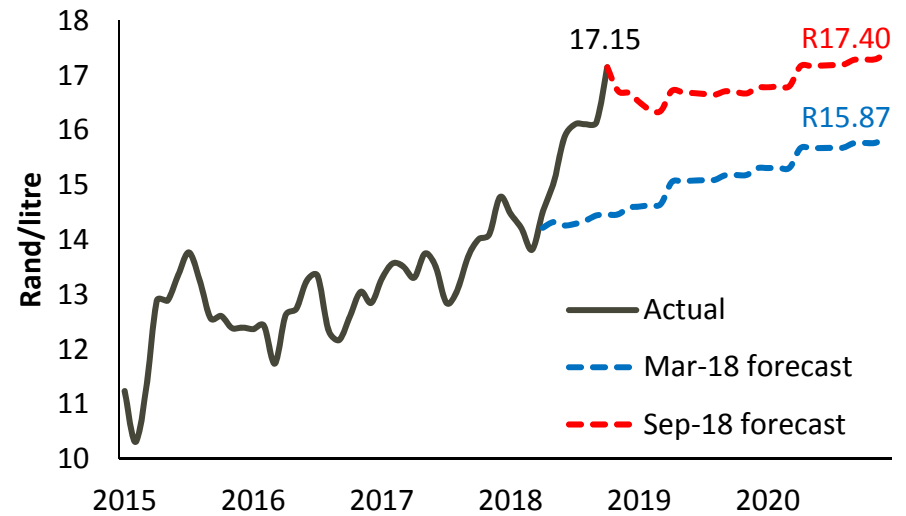
# And petrol (oil price, exchange rate, taxes)

Evolution of world oil price forecasts



Source: SARB

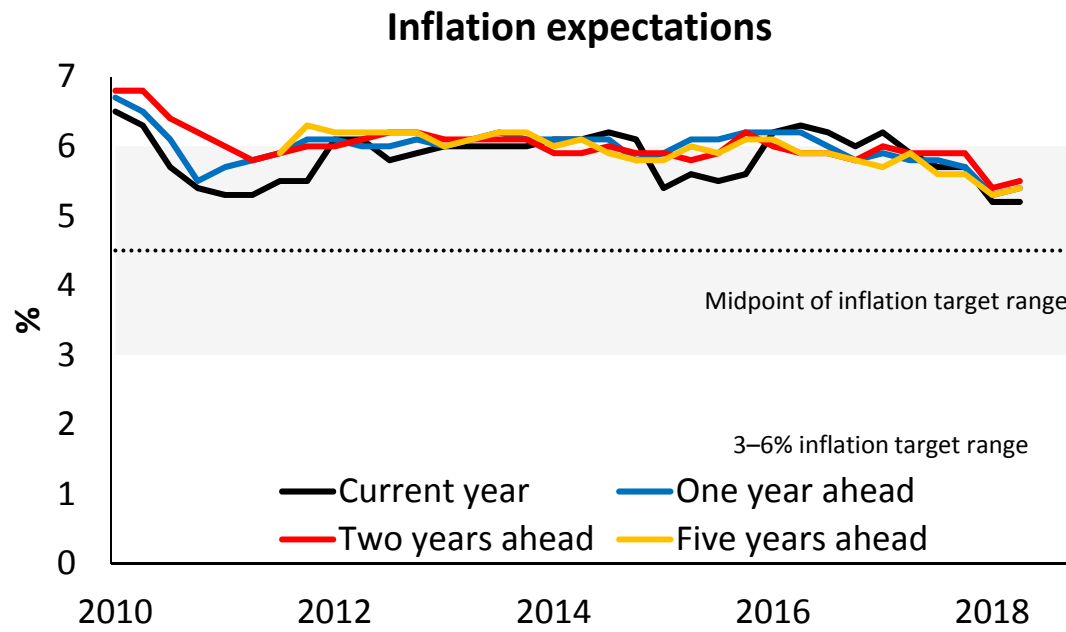
Evolution of domestic fuel price forecasts



Sources: Department of Energy and SARB



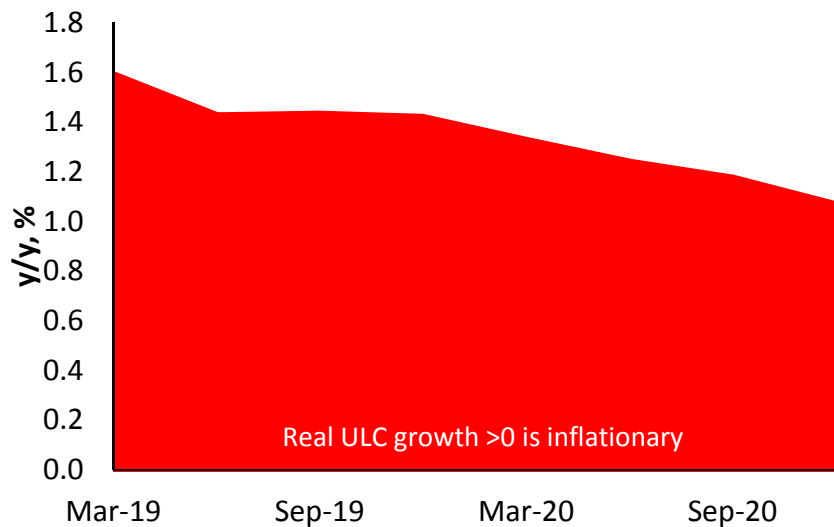
# Inflation expectations still above 4.5%



Sources: BER and SARB

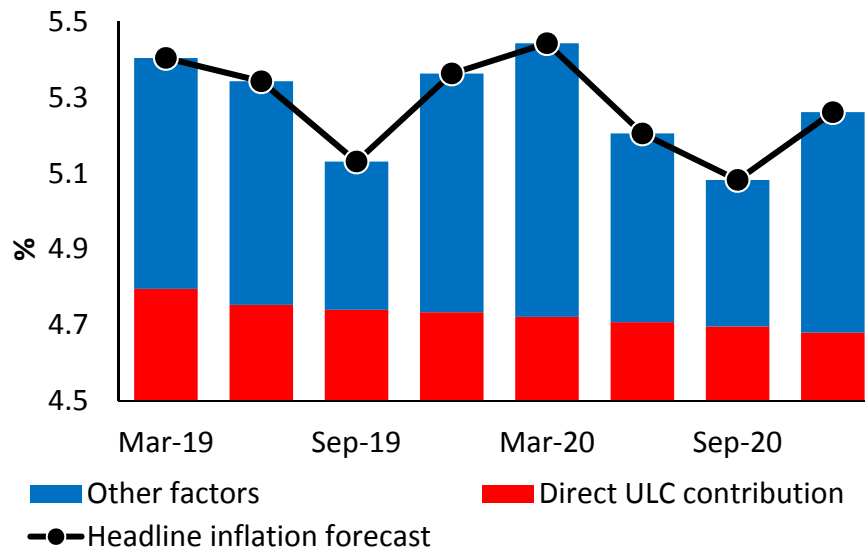
# Wage increases remain higher than productivity gains

Real ULC growth forecast



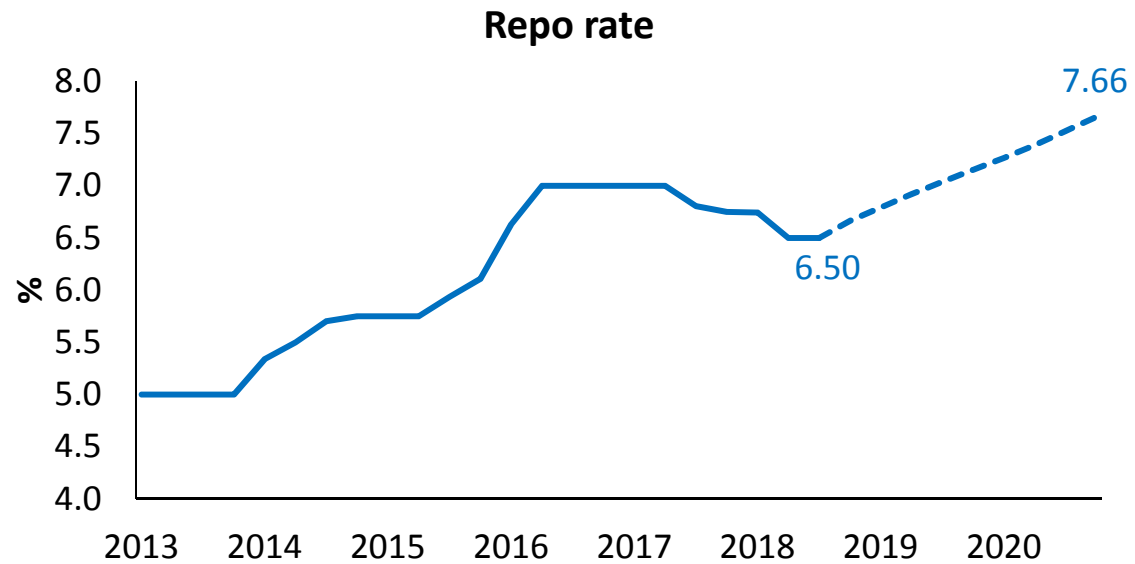
Source: SARB

Drivers of inflation above 4.5%



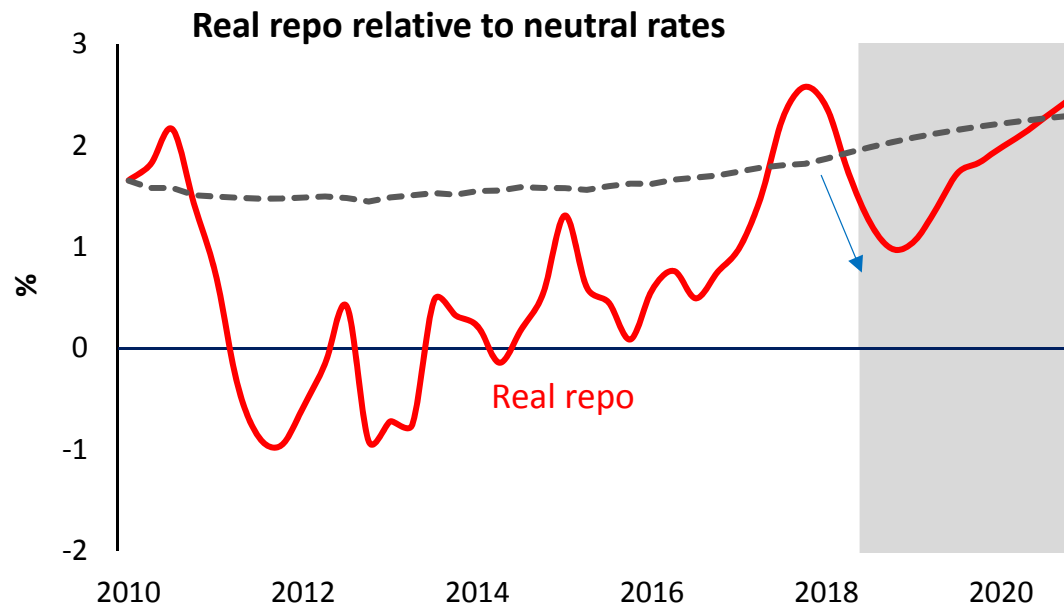
Source: SARB

# Repo rising in nominal terms



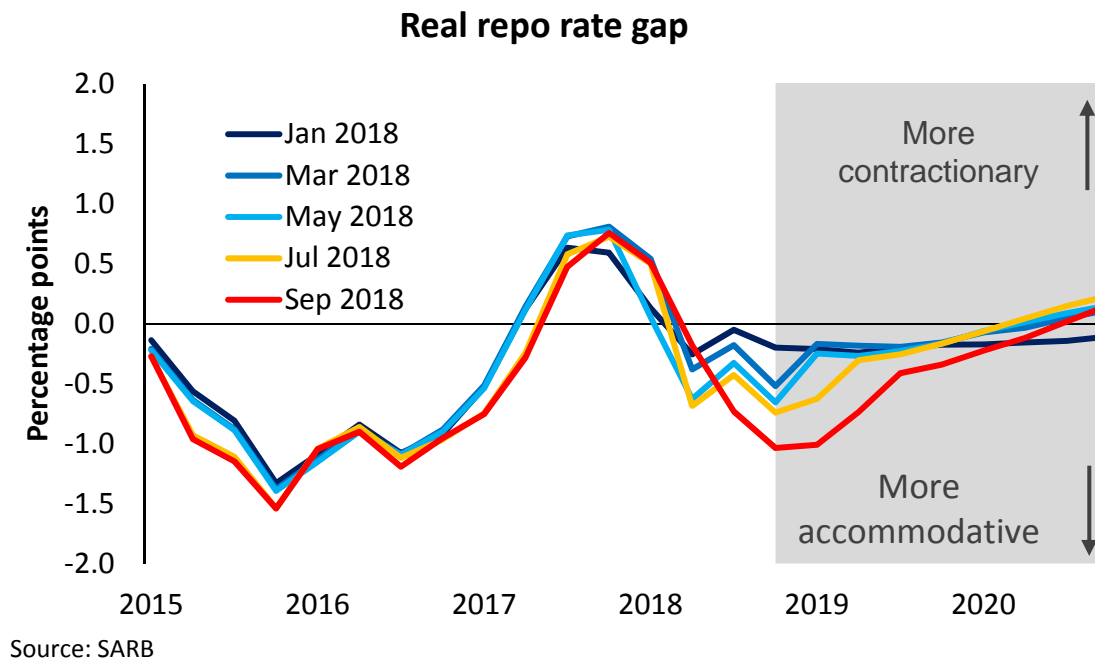
Source: SARB

# Key settings are real repo & gap to neutral

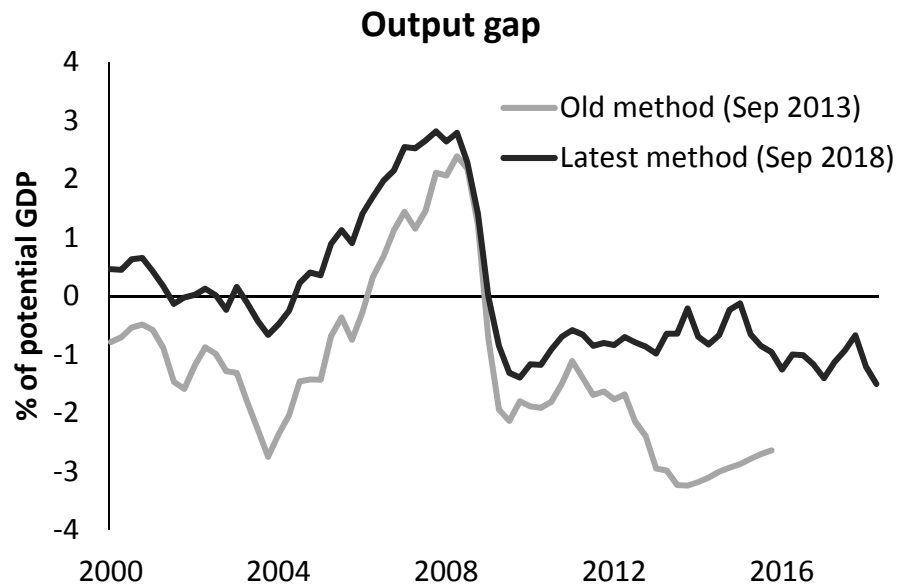


Source: SARB

# Real repo gap expansionary

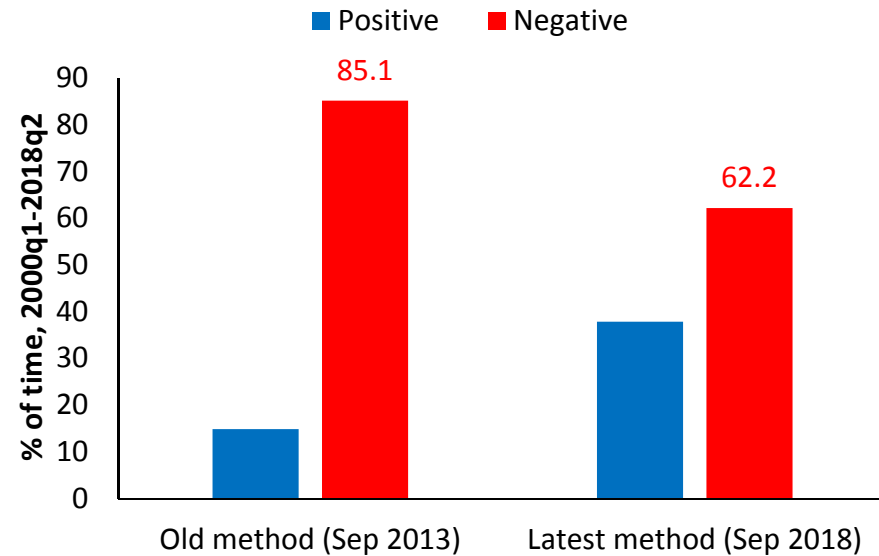


# Not much evidence of demand pressures



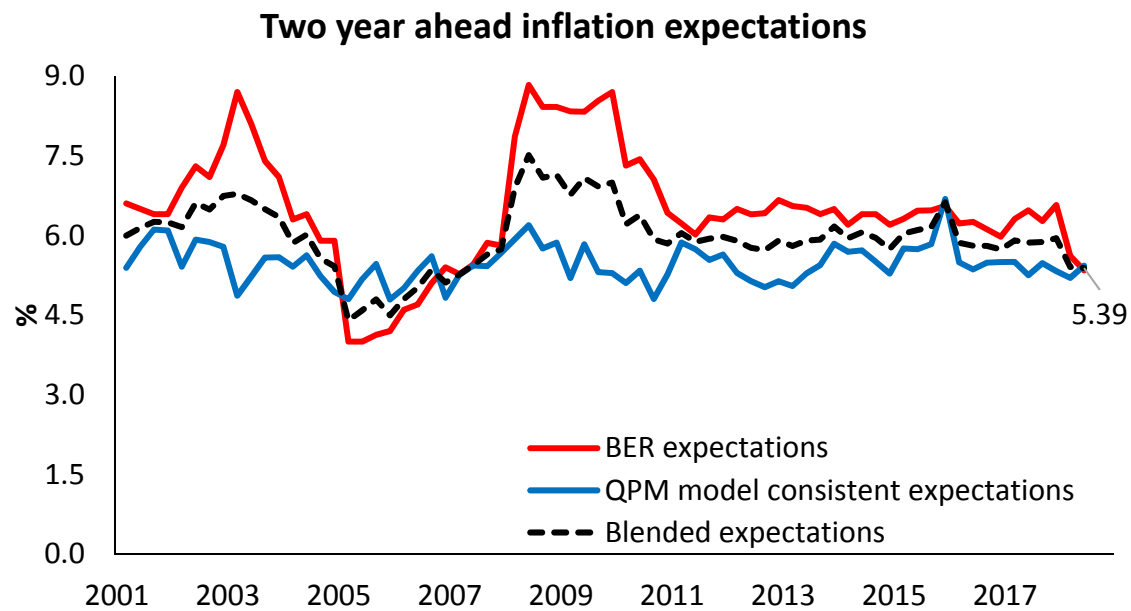
Source: SARB

## What's the normal sign for the output gap?



Source: SARB

# Why doesn't inflation reach 4.5%?



Sources: BER and SARB



# Conclusions

- Global conditions less favourable (but not adverse)
- Potential growth remains a policy constraint
- Exchange rate and oil adding inflationary pressure
- Projected nominal rates higher, real rates supportive



## 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](http://www.resbank.co.za/Publications/Reviews/Pages/Monetary-Policy-Review.aspx)

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