

South African Reserve Bank

Monetary Policy Review

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Head: Policy Development and Research

Pretoria • 17 April 2019

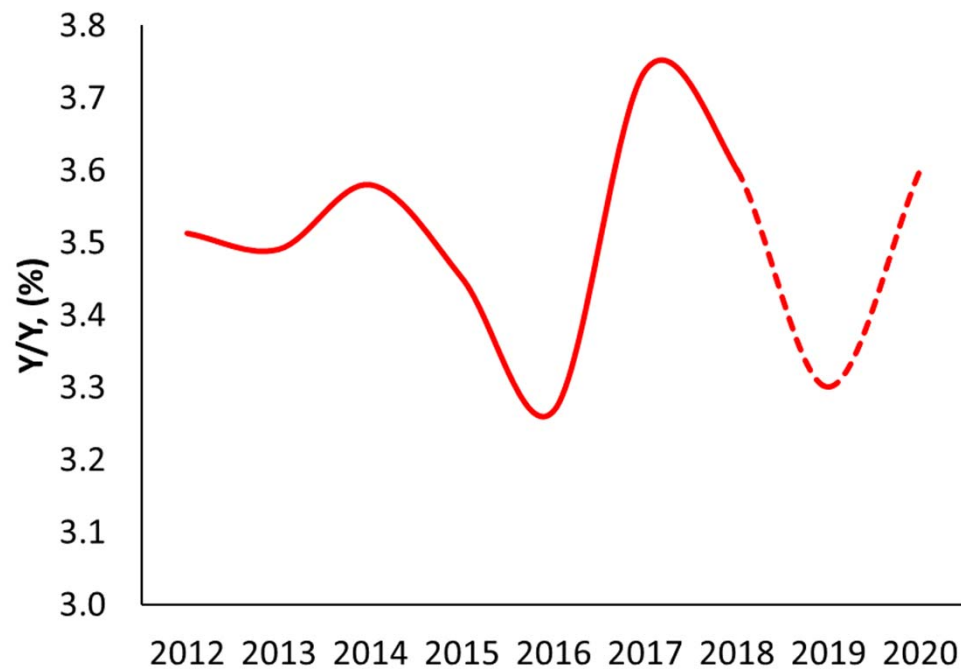
April 2019 review: towards permanently lower inflation

- Global growth slowdown, monetary tightening deferred
- SA growth modestly higher over medium term, but trend rate low
- Near-term inflation slower, largely due to helpful shocks
- Interest rate path keeping longer-term inflation close to midpoint



Global economy slowing again

World growth



Source: IMF WEO

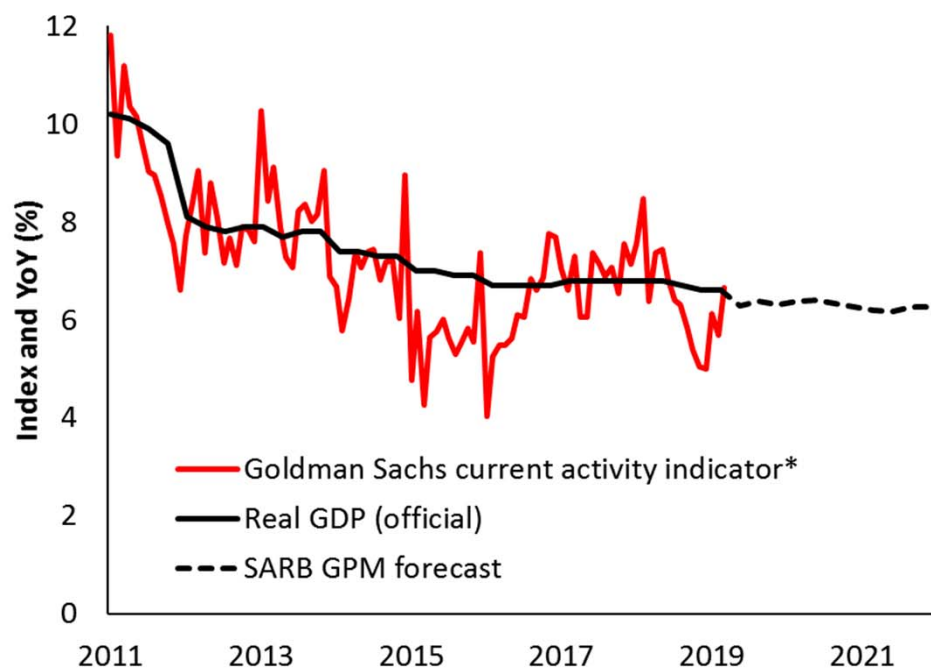
Global composite PMI



Sources: Haver, JP Morgan and Markit

Abrupt China deceleration, stimulus response

China's growth and economic activity



* Month-on-month, annualised (three-months moving average)

Sources: Bloomberg and SARB

China's short-term interest rates

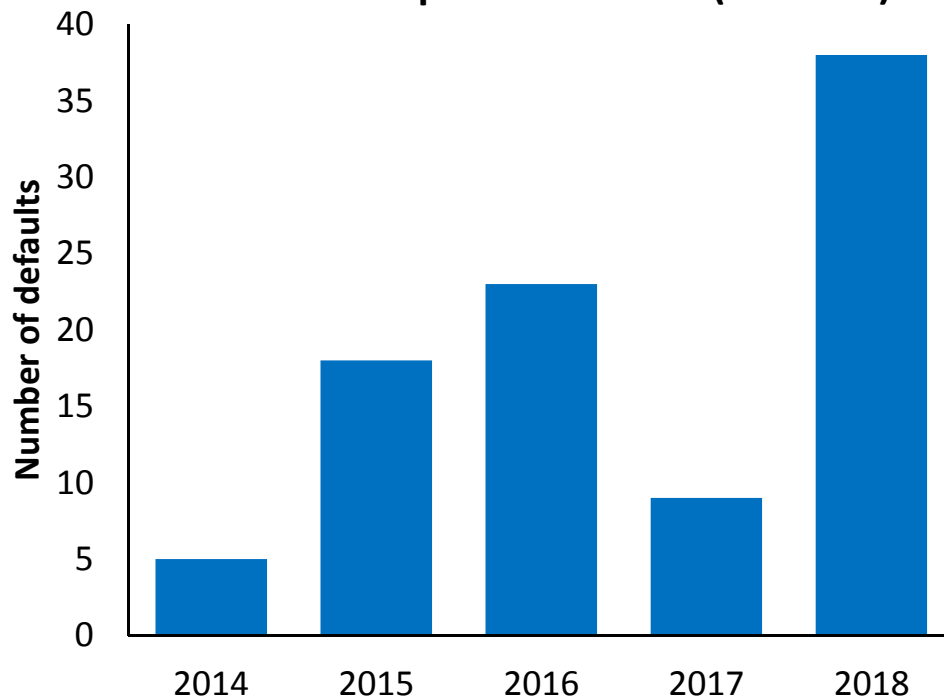


Source: Bloomberg



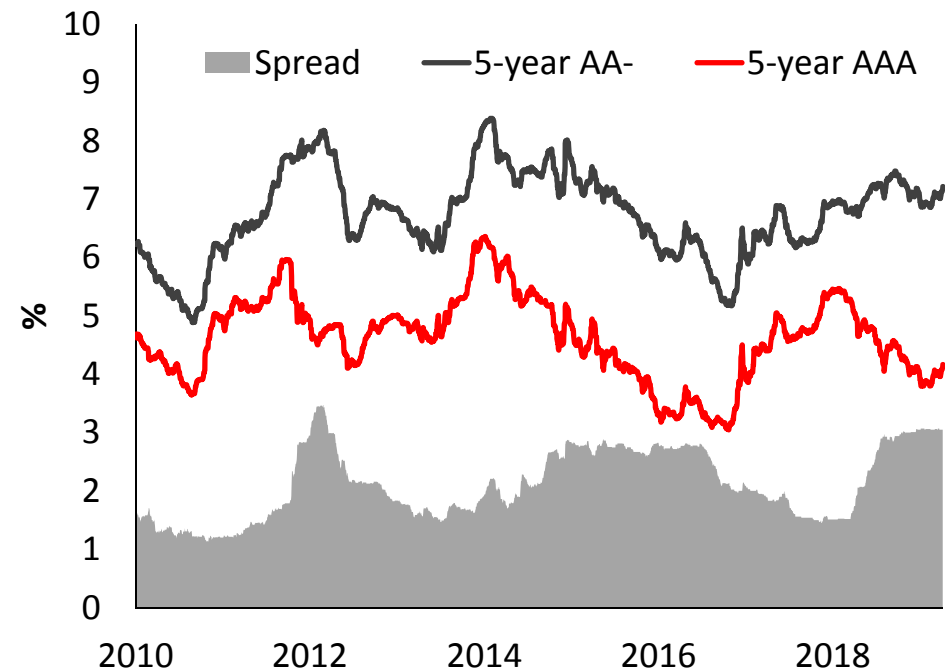
Defaults blunting stimulus – lenders avoiding risk

Chinese corporate defaults (onshore)



Source: Wind Info

China corporate 5yr bond yields

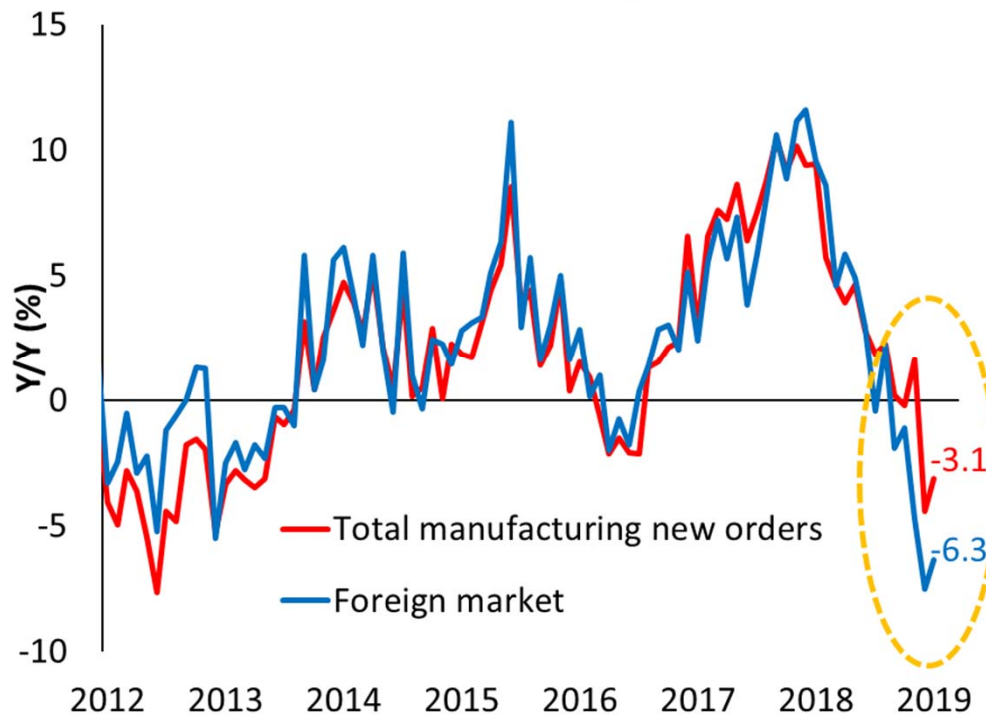


Source: Bloomberg



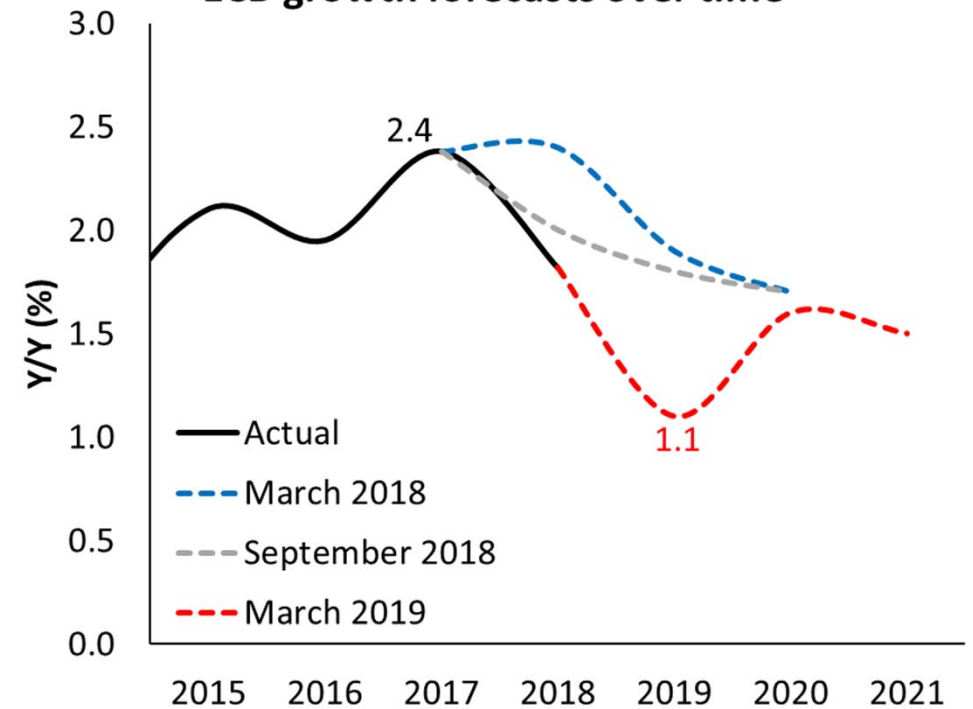
Spillovers to Europe

EA19: Manufacturing new orders



Sources: Haver and Eurostat

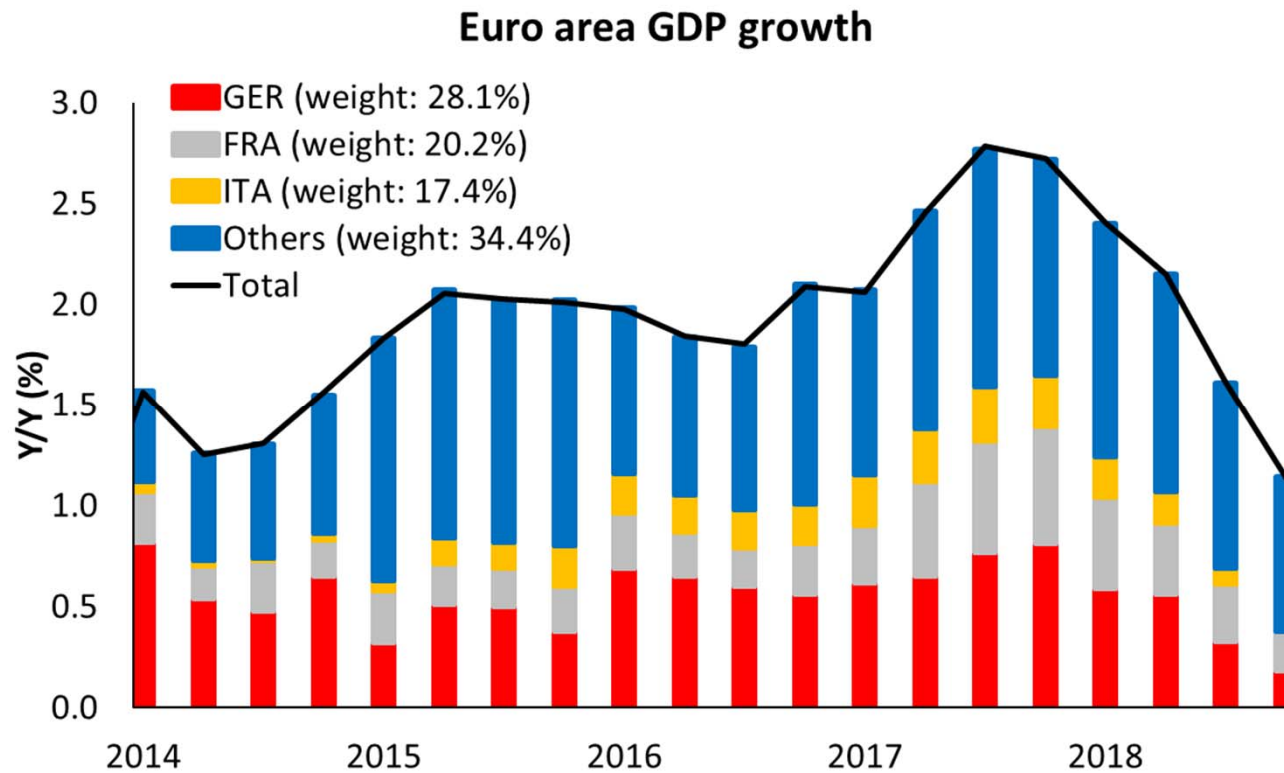
ECB growth forecasts over time



Source: ECB



... exacerbated by temporary shocks

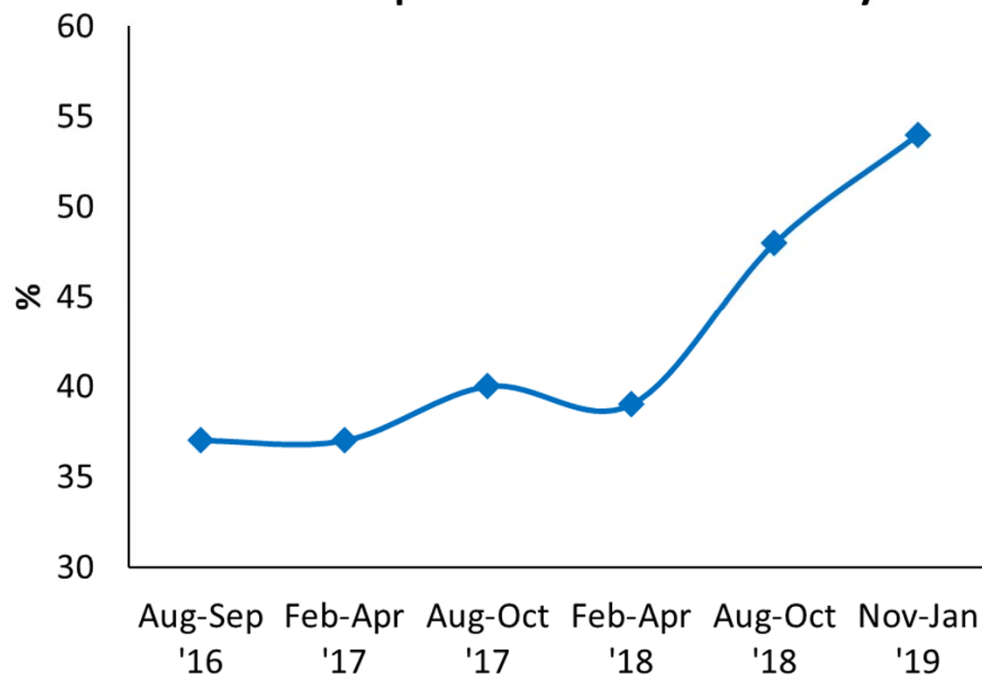


Sources: Haver and Eurostat



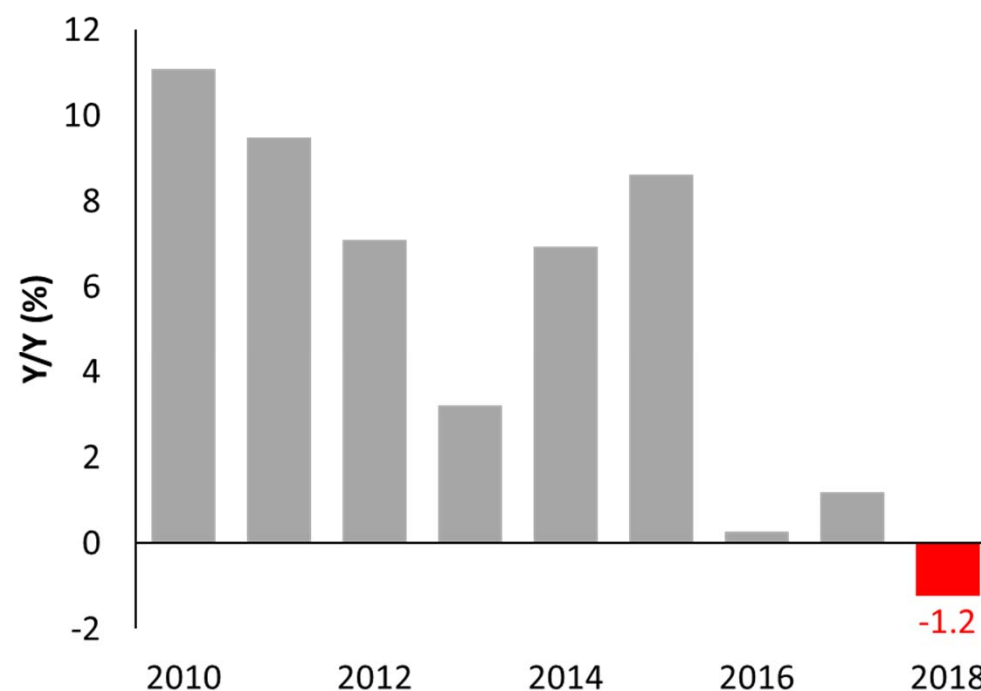
Brexit uncertainty also a problem

Percentage of firms reporting that Brexit is in their top-3 sources of uncertainty



Sources: DMP Survey and Bank of England

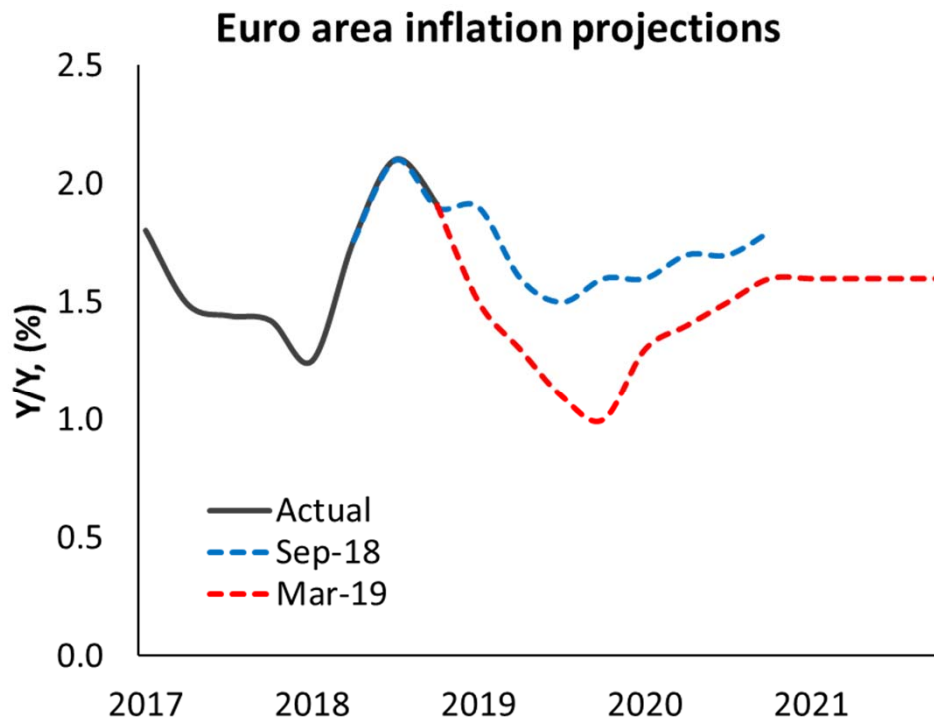
Euro area exports to the U.K.



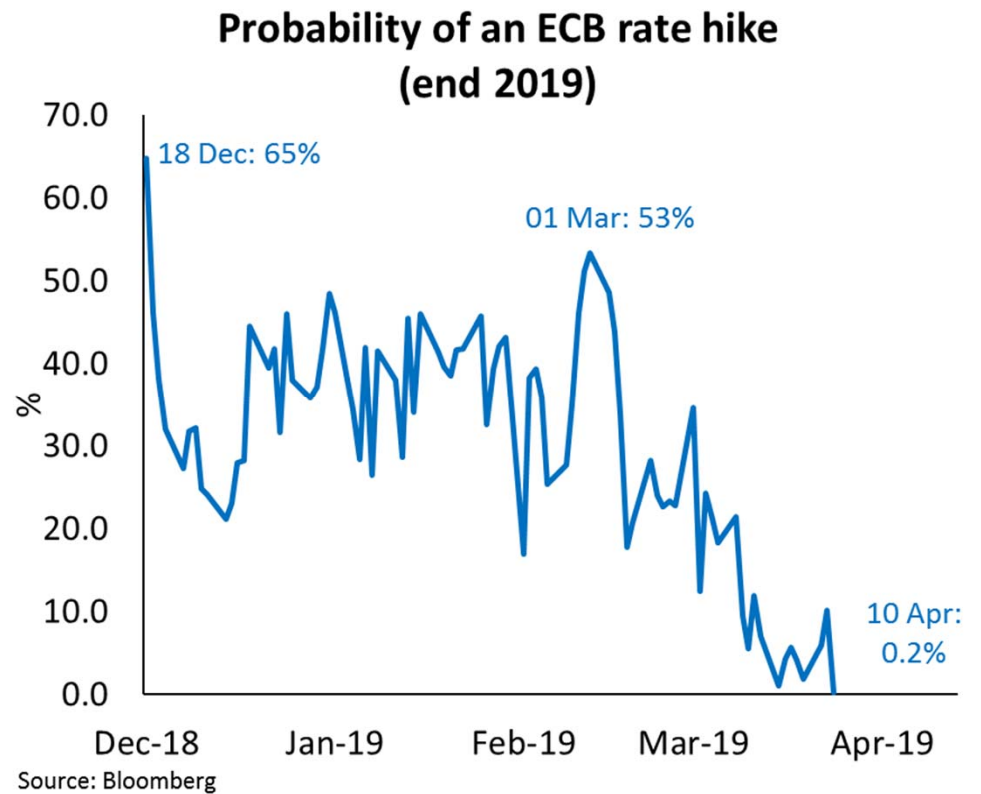
Source: Haver



ECB postponing tightening plans



Source: ECB

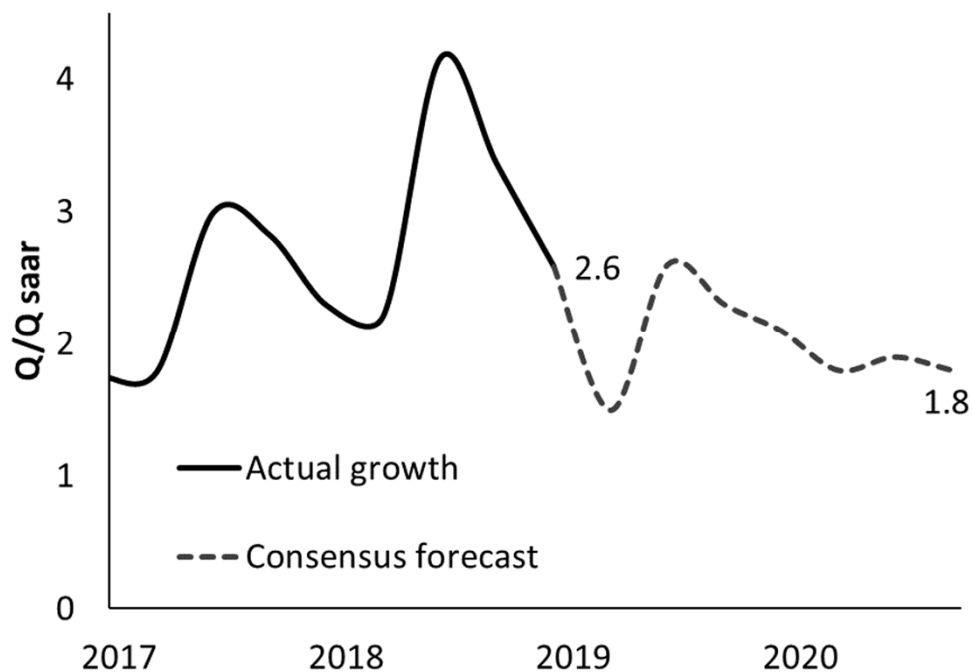


Source: Bloomberg



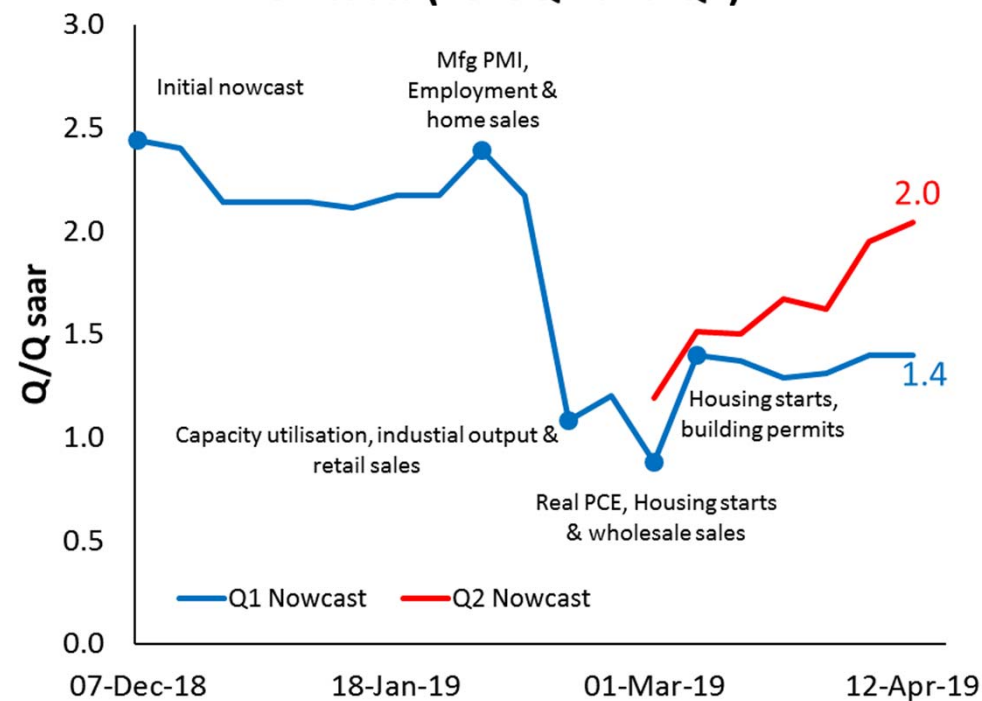
US stimulus has faded, growth already slowing

U.S. growth and forecast



Sources: Haver and Bloomberg

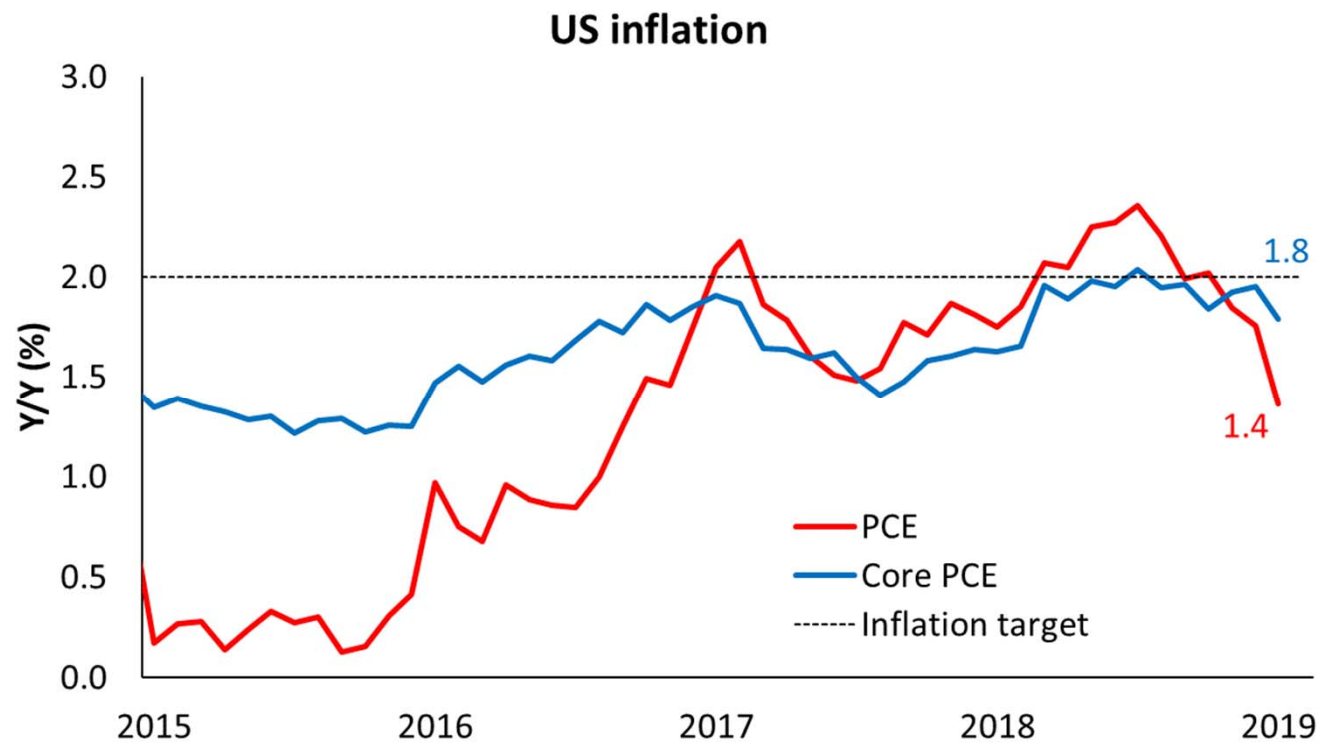
Nowcasts (2019Q1 and Q2)



Source: New York Fed



US inflation undershooting target (again)

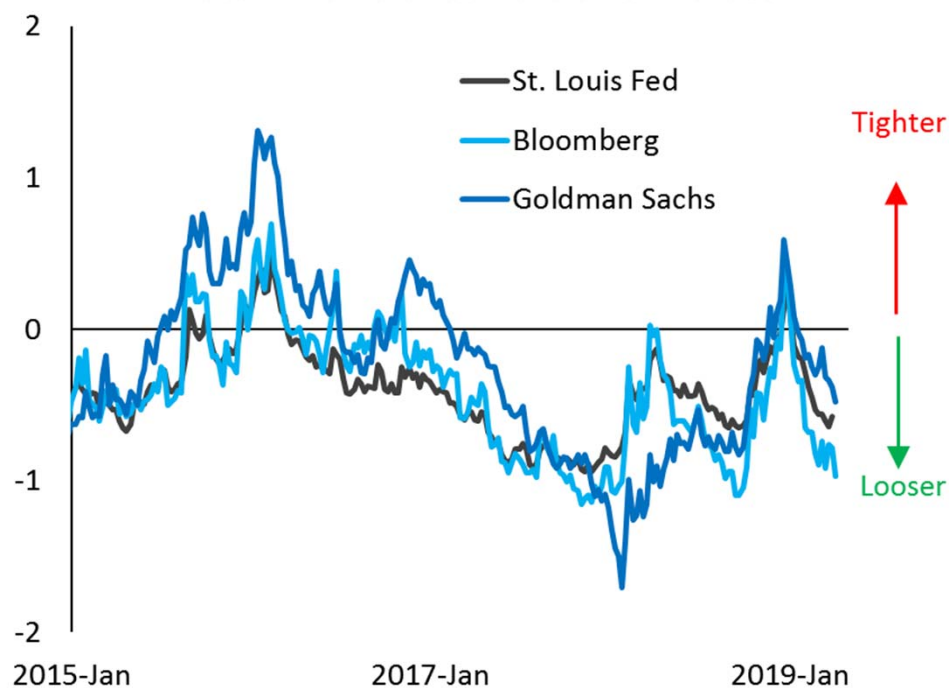


Source: Haver



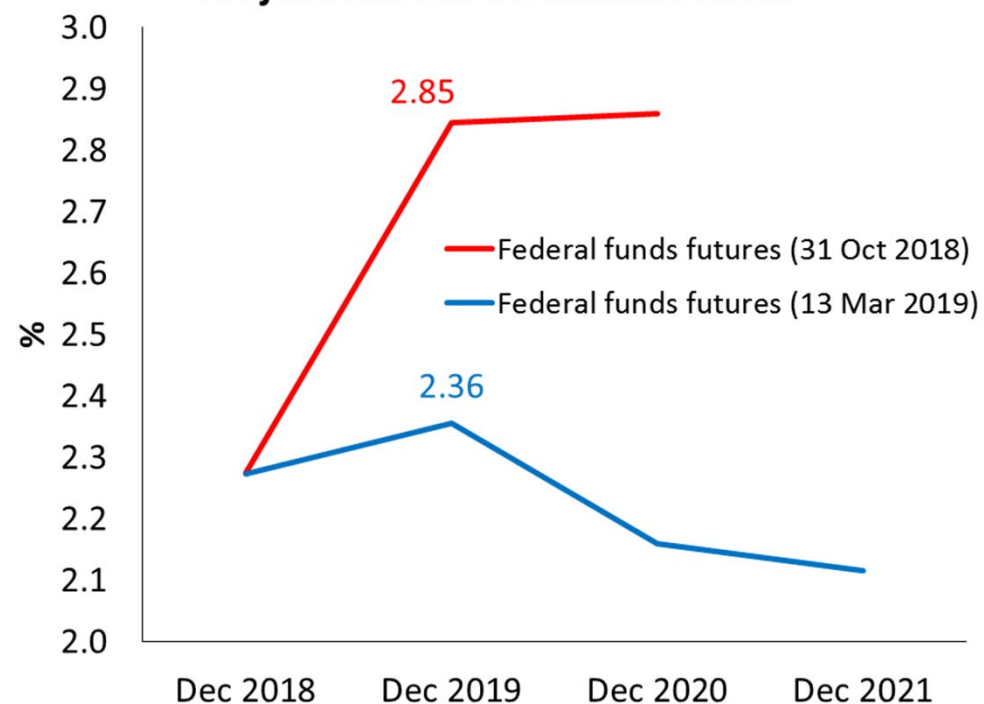
Fed pause helping loosen financial conditions

U.S. financial conditions indices



Sources: Bloomberg and St. Louis Fed

Projections for US interest rates

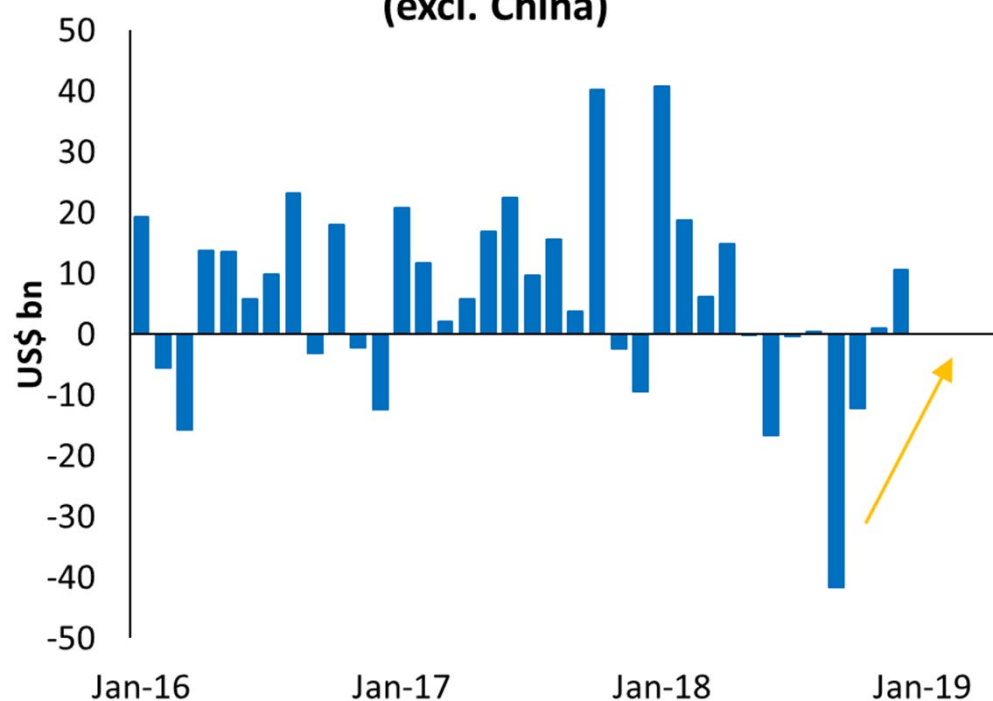


Source: Bloomberg



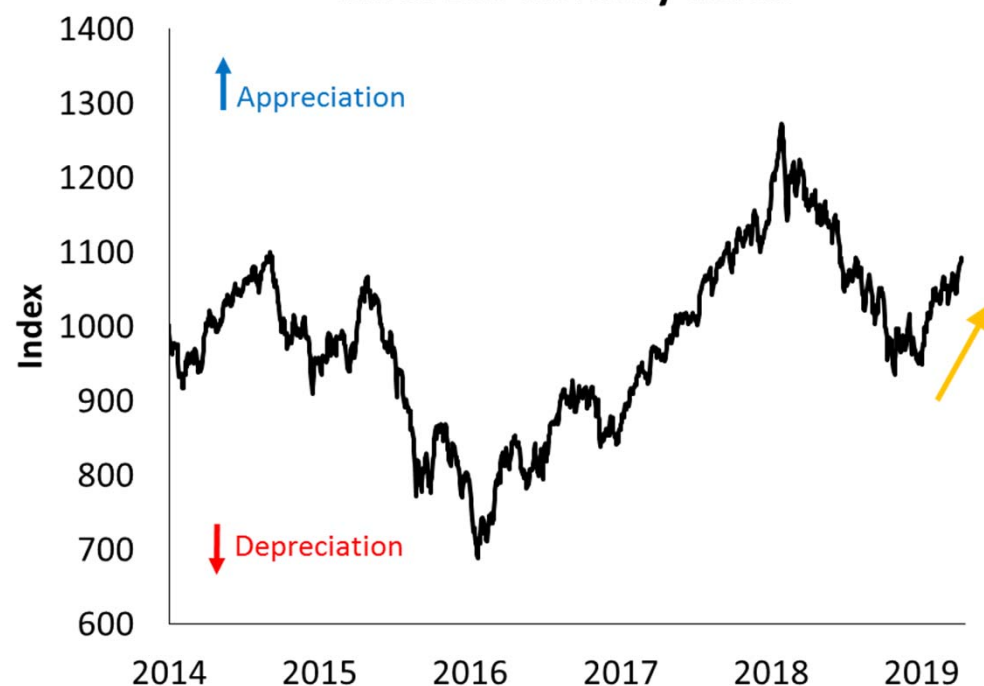
Easier environment for EMs

Net non-resident portfolio flows to EMs
(excl. China)



Source: IIF

MSCI EM currency index

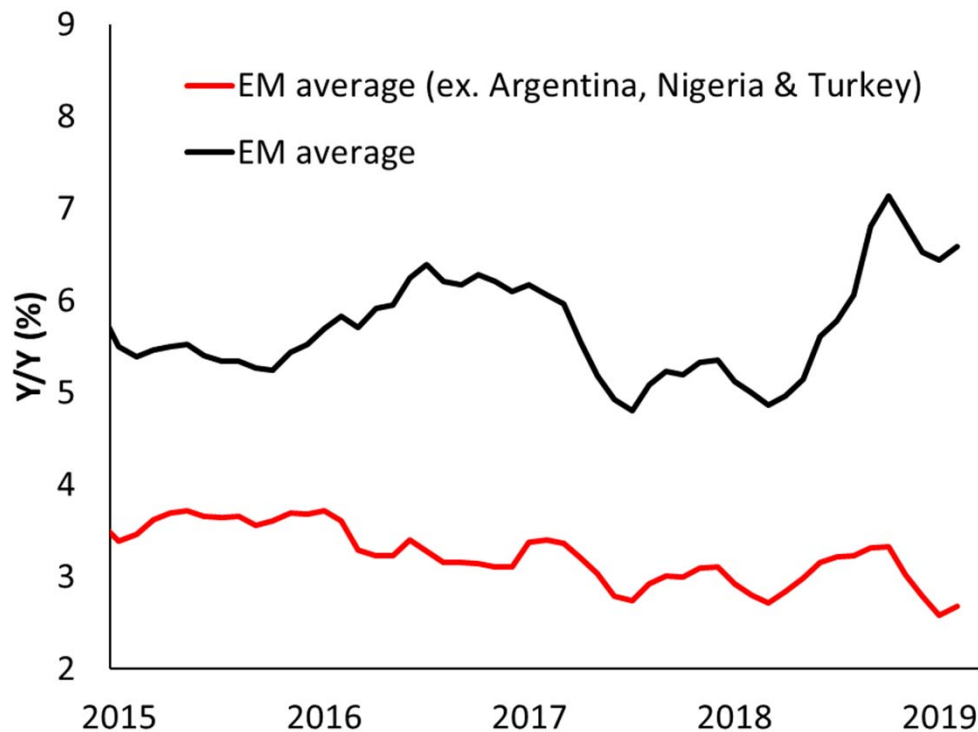


Source Bloomberg

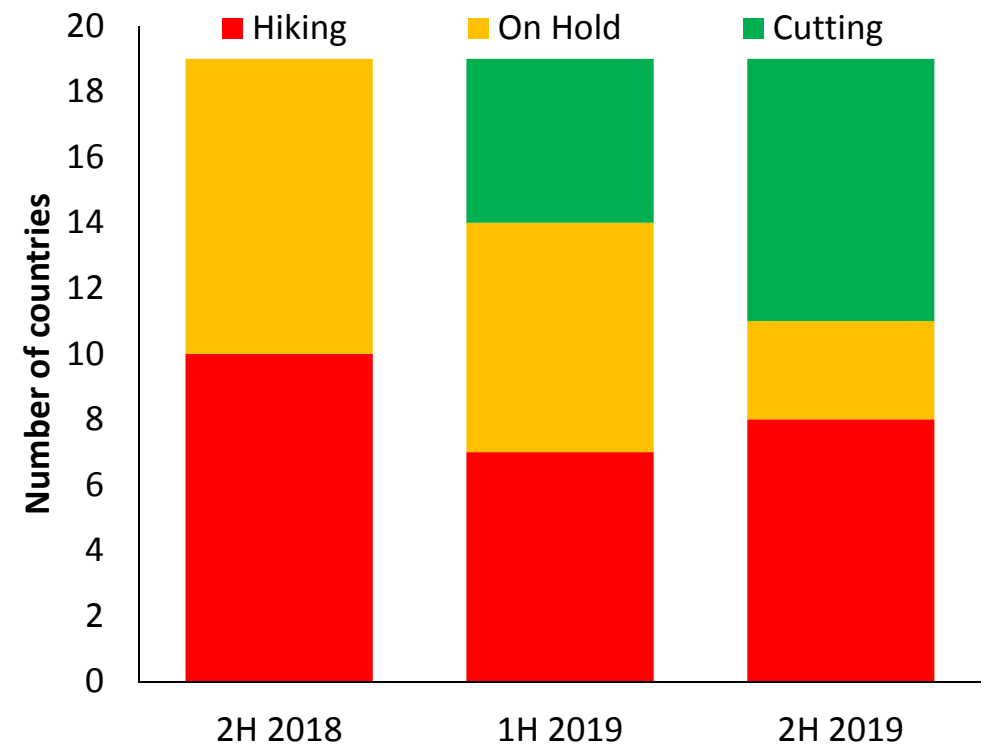


EM inflation lower, central banks generally cautious

Emerging market inflation



Emerging market policy rate forecasts

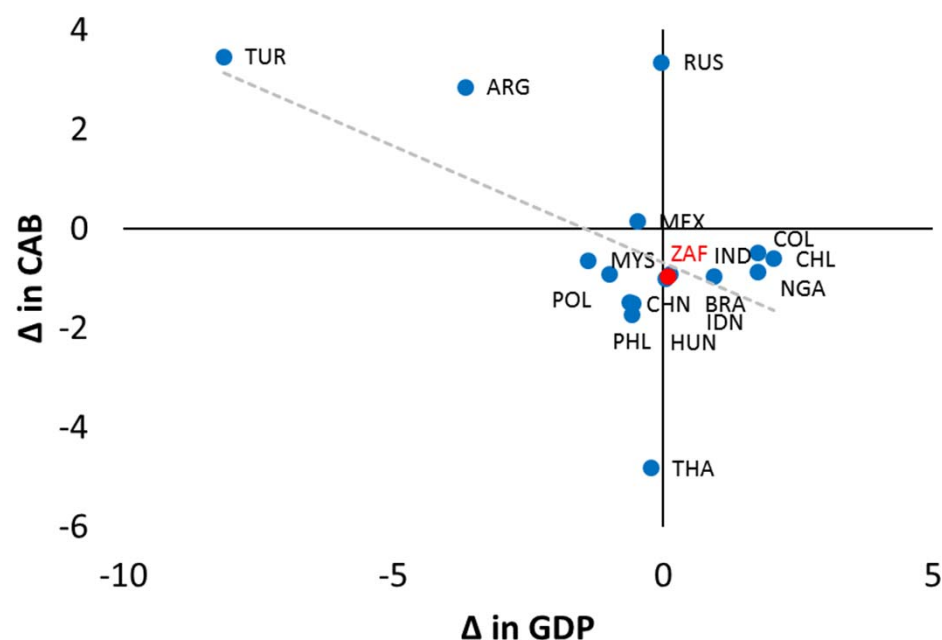


Sample countries comprise: Argentina, Brazil, Chile, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand and Turkey
Sources: Haver, Bloomberg and SARB



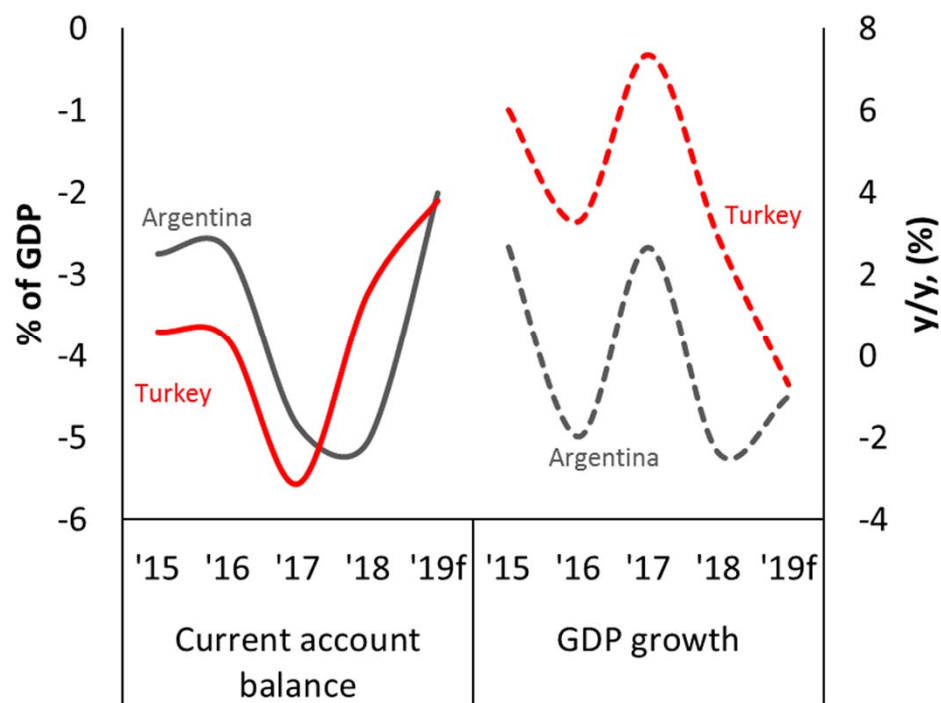
Big growth and current account adjustments for some

Changes in EM current account balances and GDP growth (2019f -2017)



Sources: Haver, Bloomberg and SARB

Argentina and Turkey adjustments

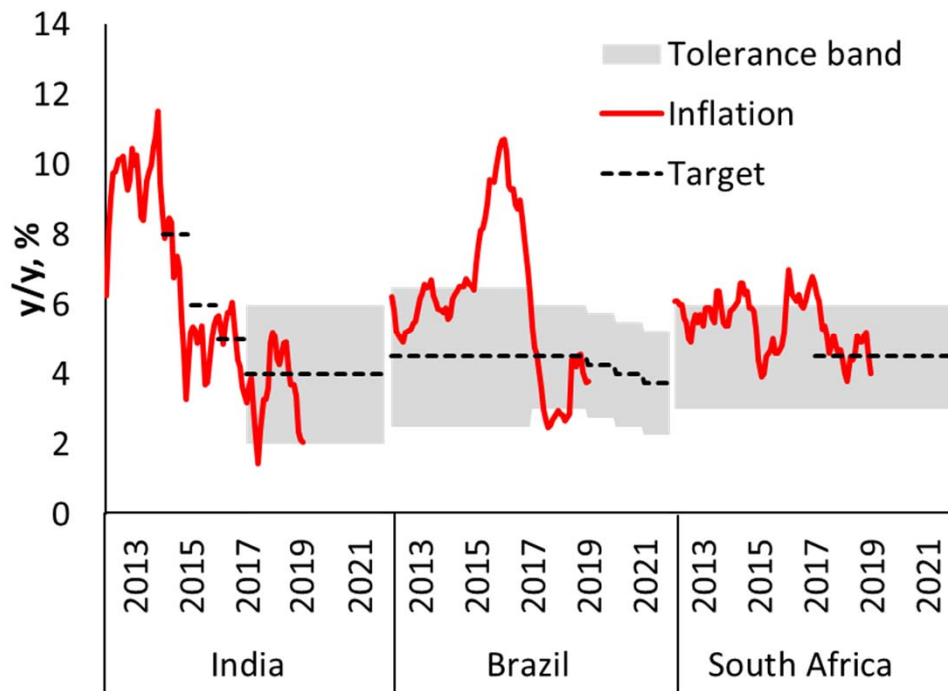


Source: Haver



India & Brazil have achieved significant disinflations

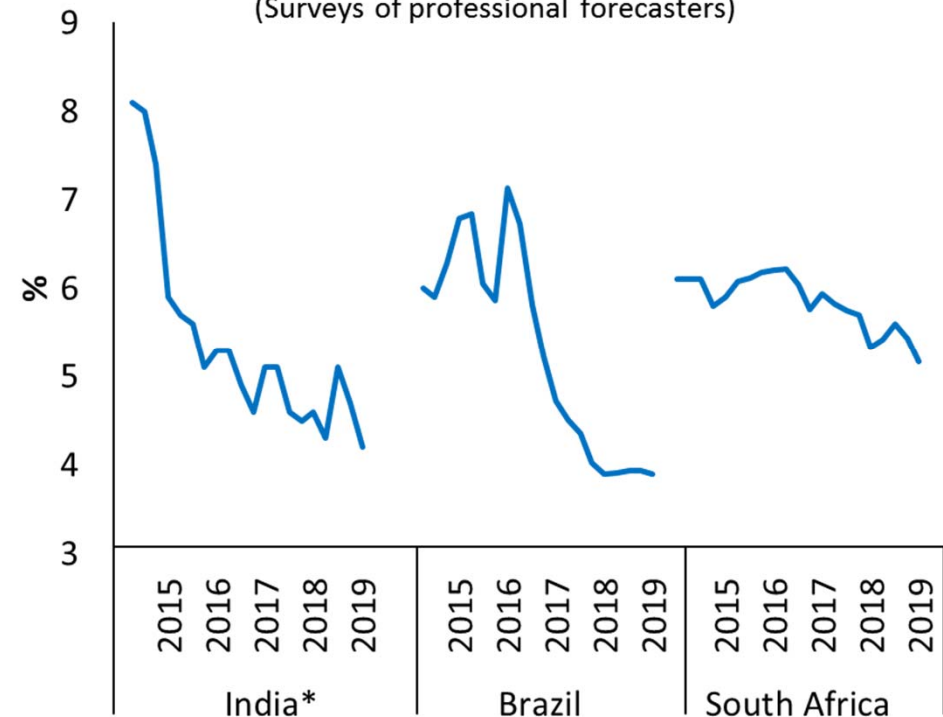
India, Brazil and South Africa's inflation



Source: Haver

One year ahead inflation expectations

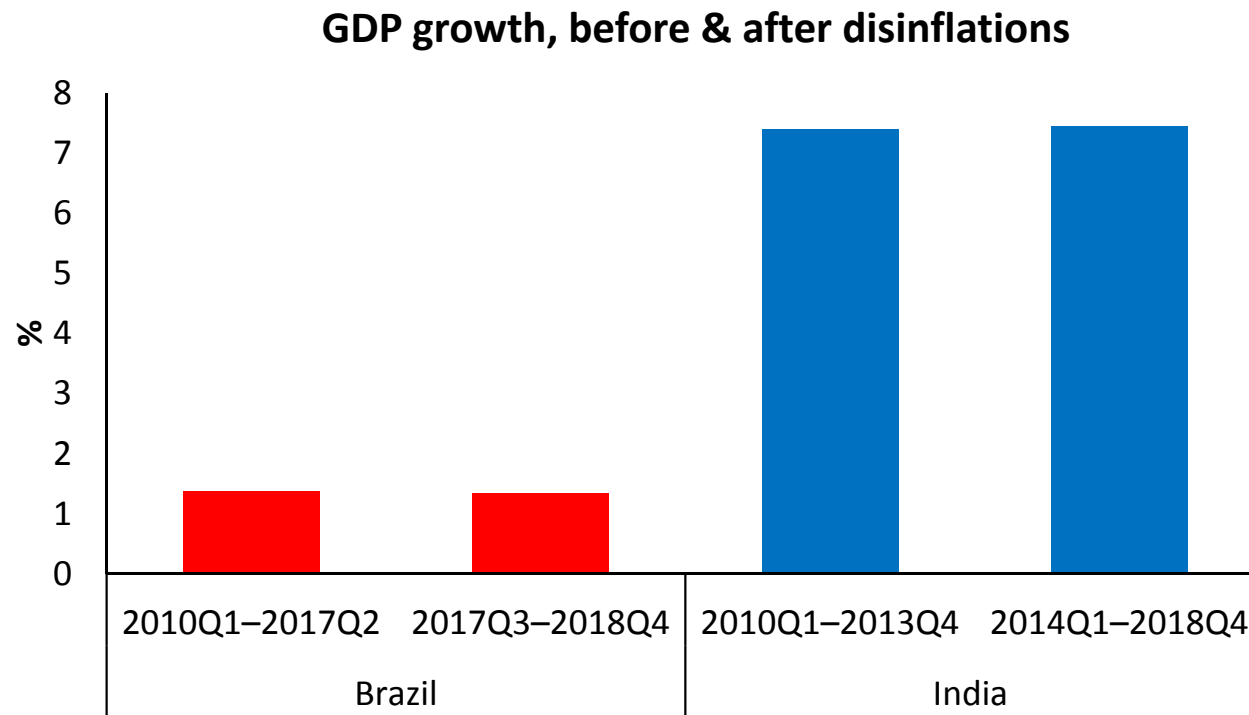
(Surveys of professional forecasters)



Sources: Haver, BER and RBI



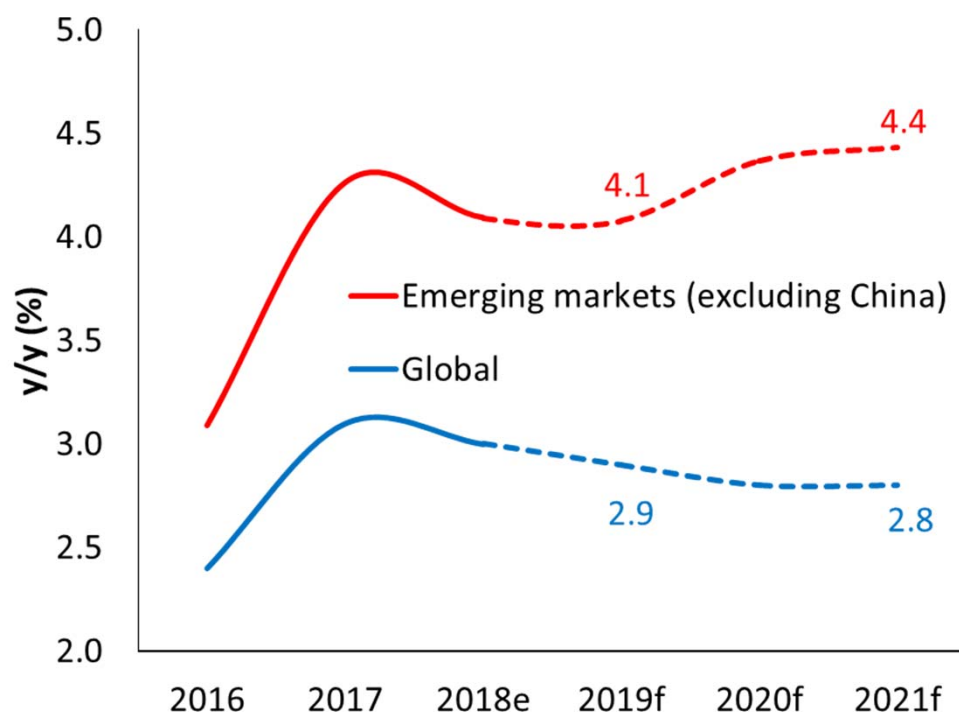
No obvious growth sacrifice for disinflation



Source: Haver

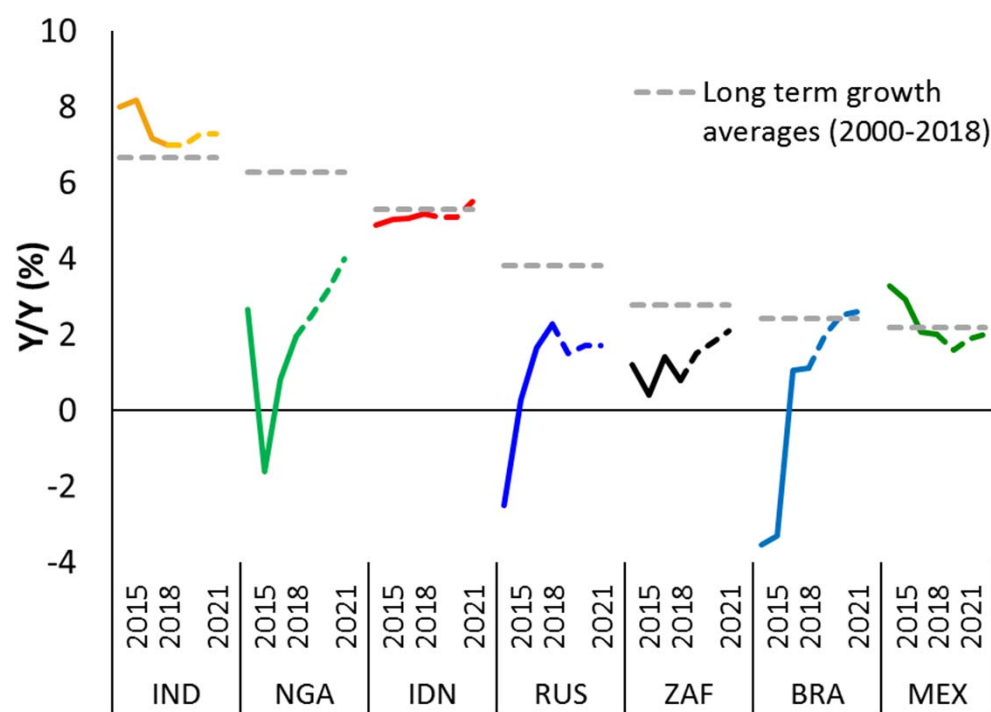
Some scope for EM acceleration, against global trend

Global and emerging market GDP growth



Source: World Bank

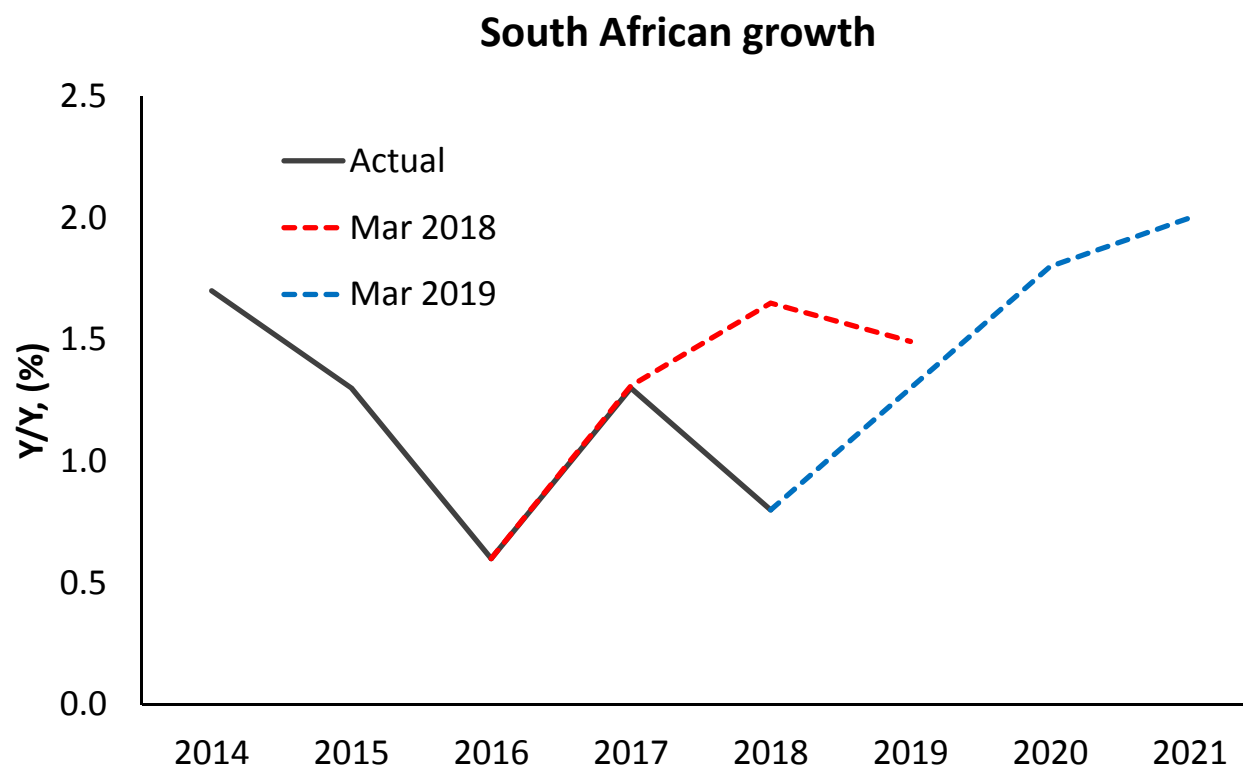
EM growth



Sources: Bloomberg and Haver

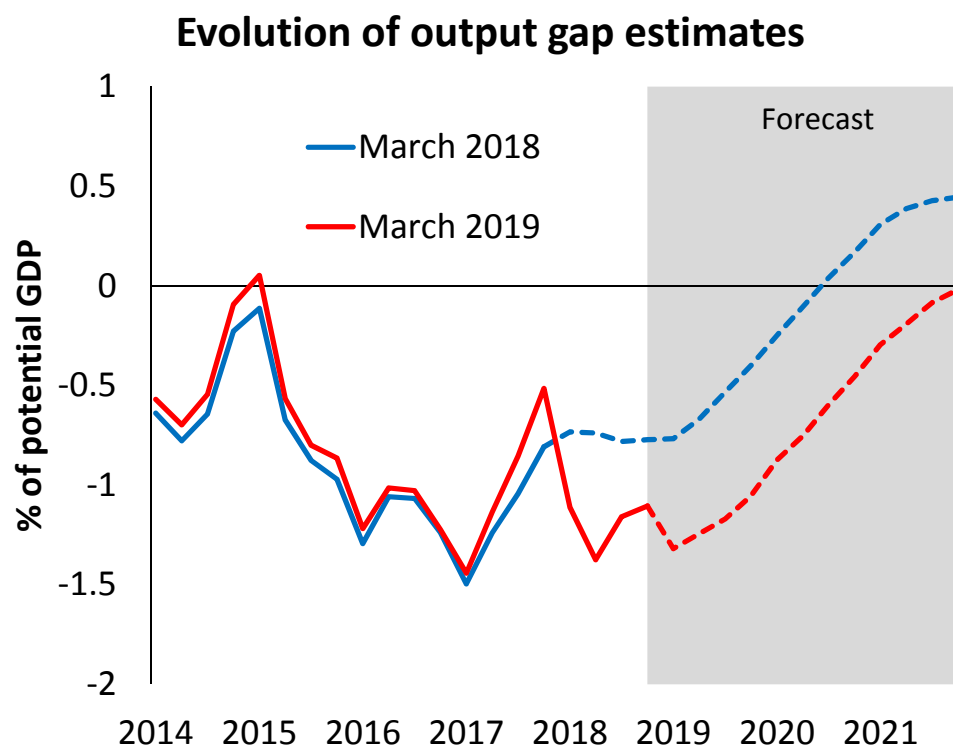


SA still waiting for the recovery

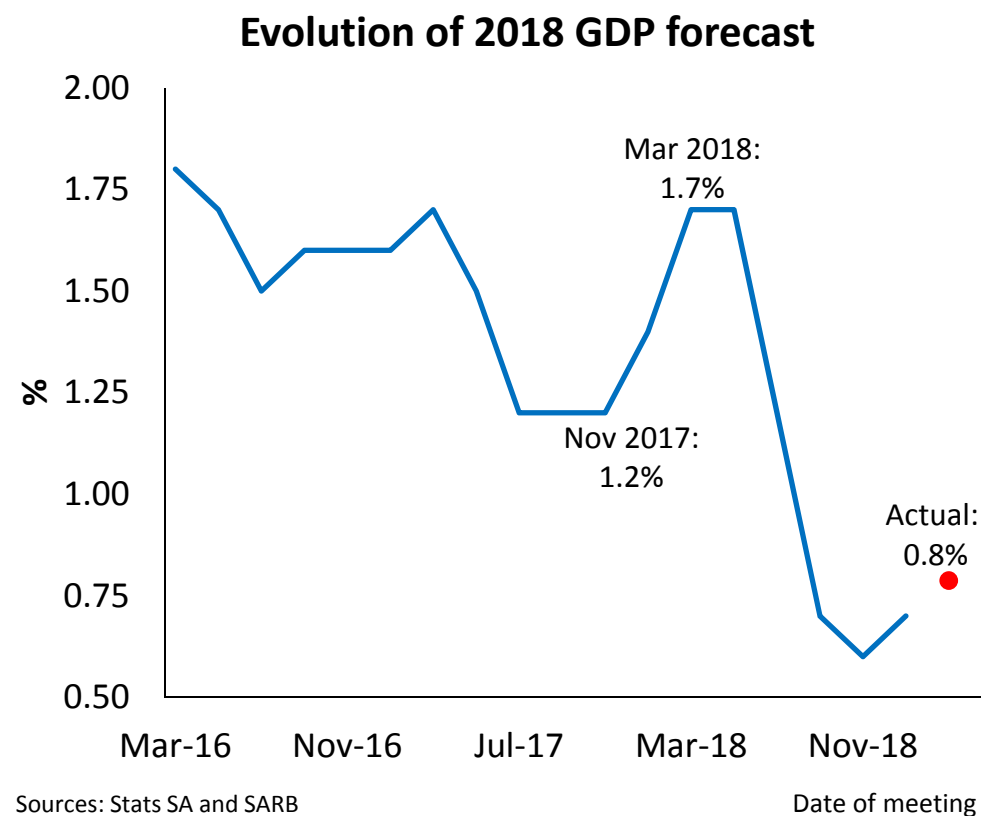


Sources: Stats SA and SARB

Growth disappointments widening output gap



Source: SARB QPM

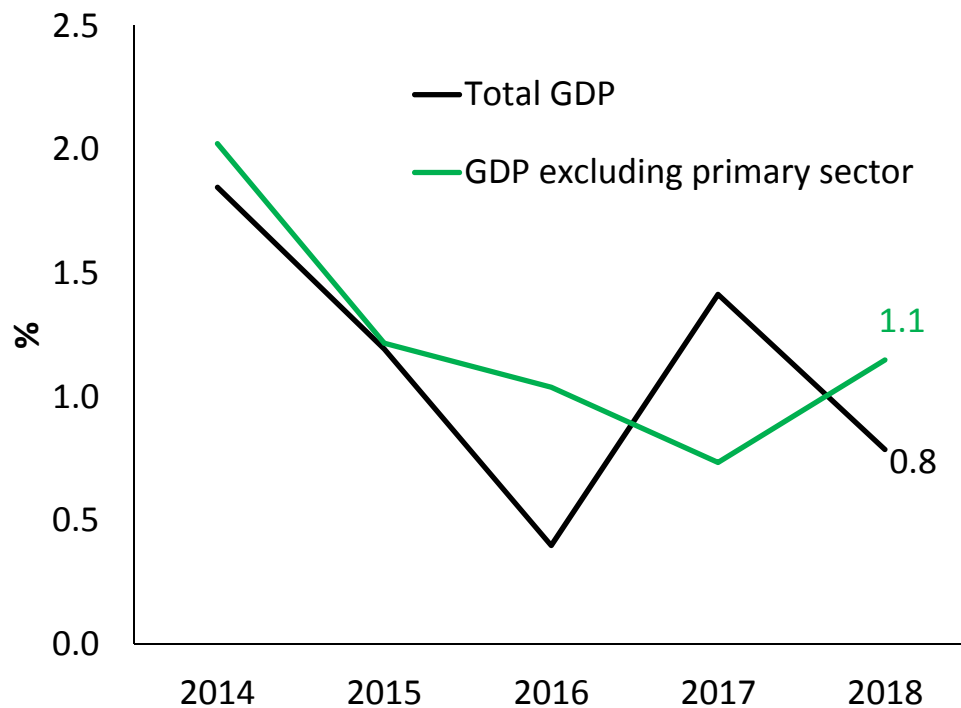


Sources: Stats SA and SARB



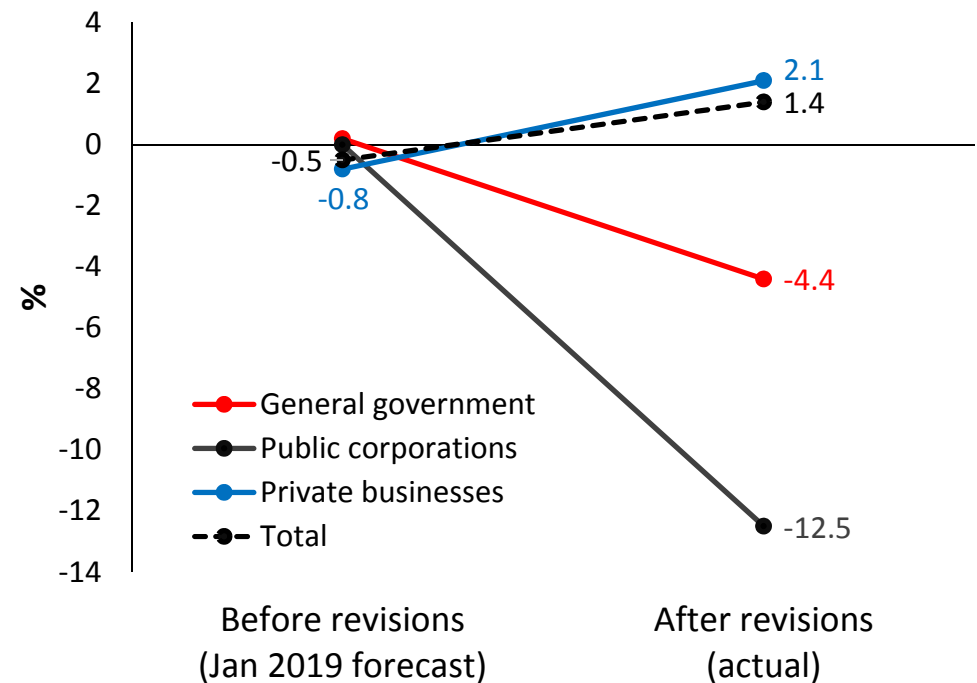
Primary sector, public investment negative in 2018

Real GDP growth



Sources: Stats SA and SARB

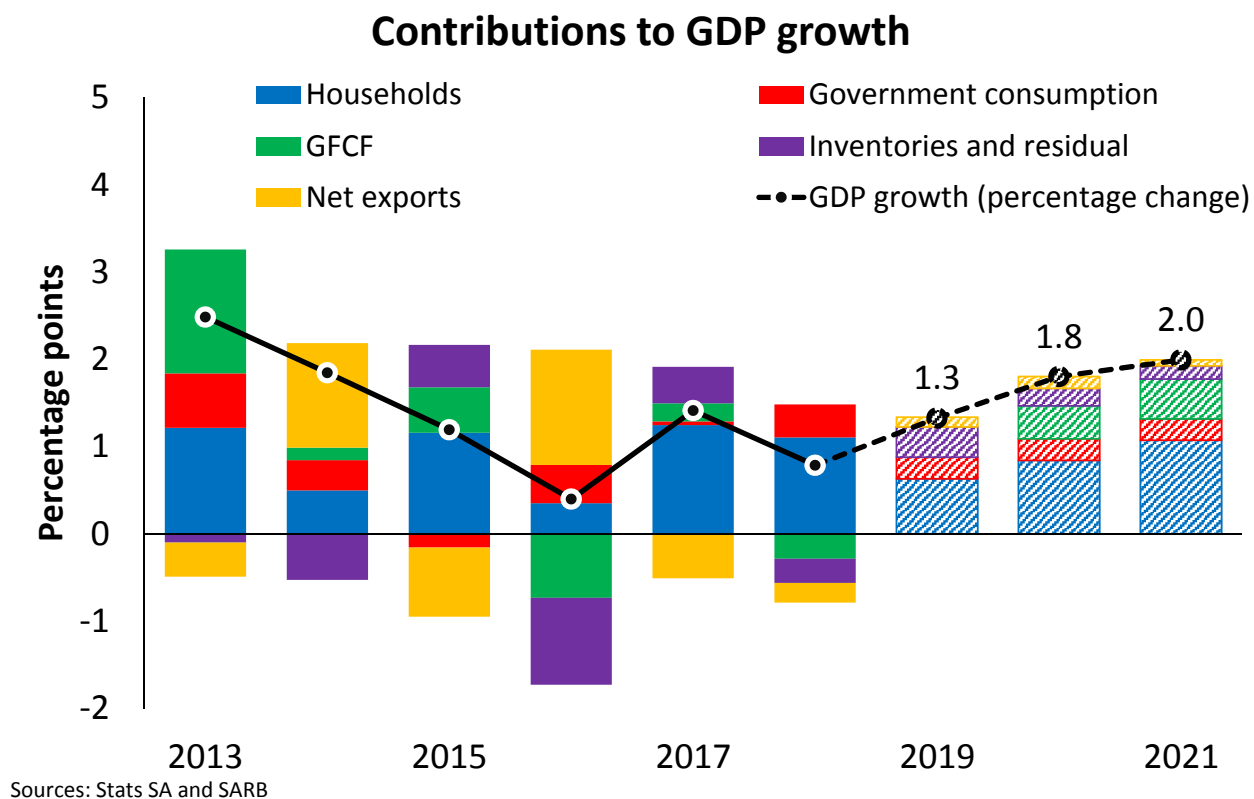
Gross fixed capital formation



Sources: Stats SA and SARB

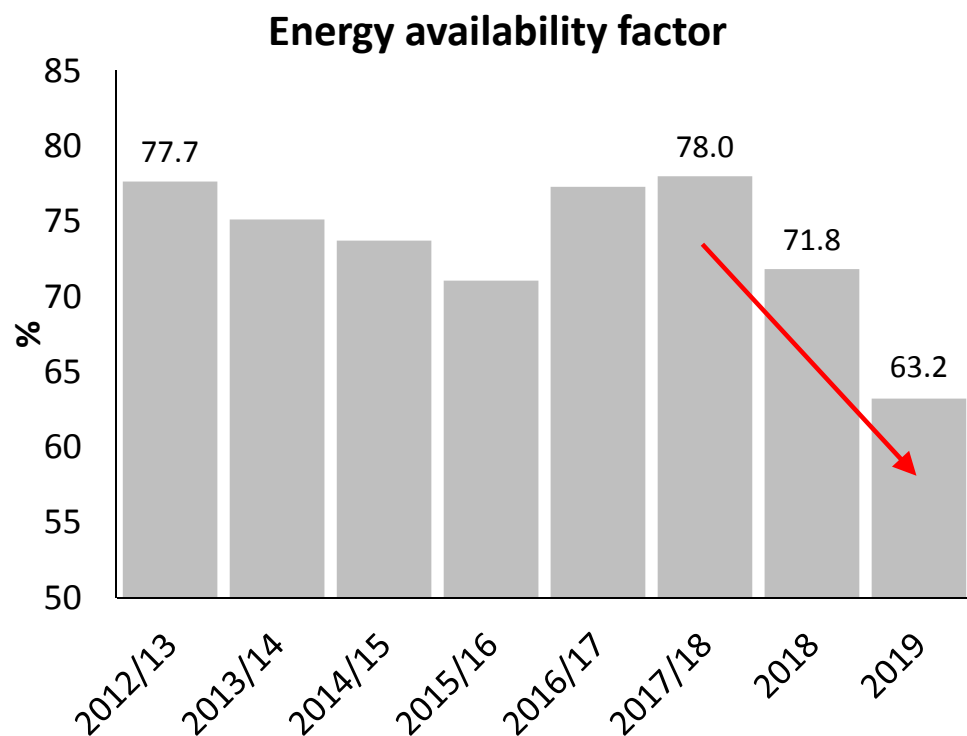


Mild growth pick-up in forecast



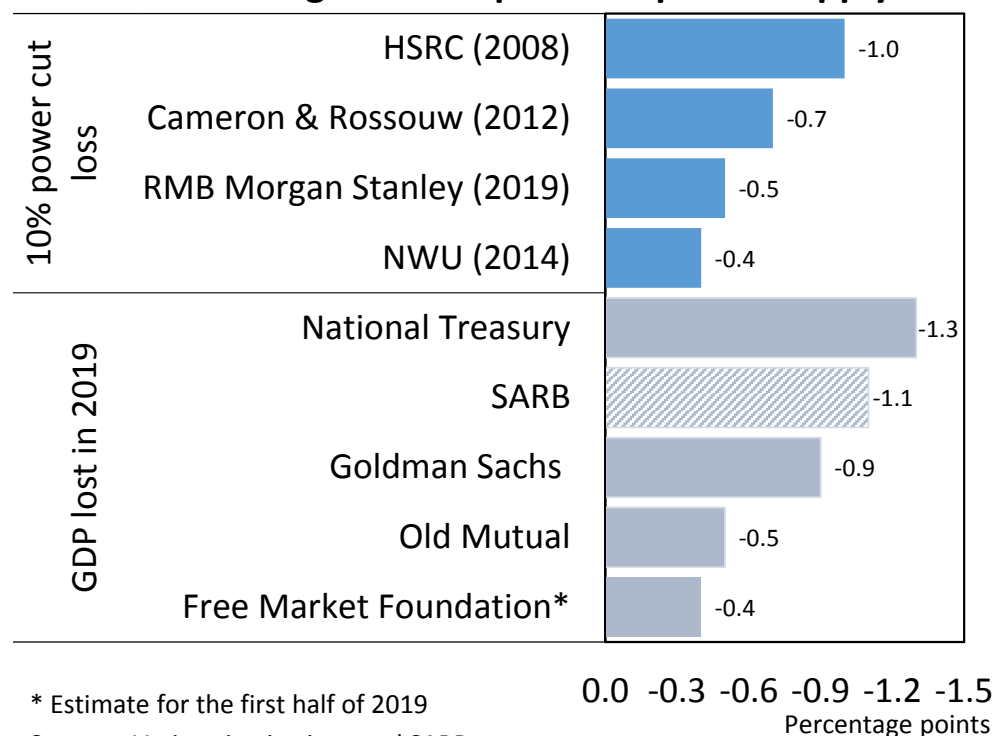
...but risks to the downside again

(see MPR Box 1)



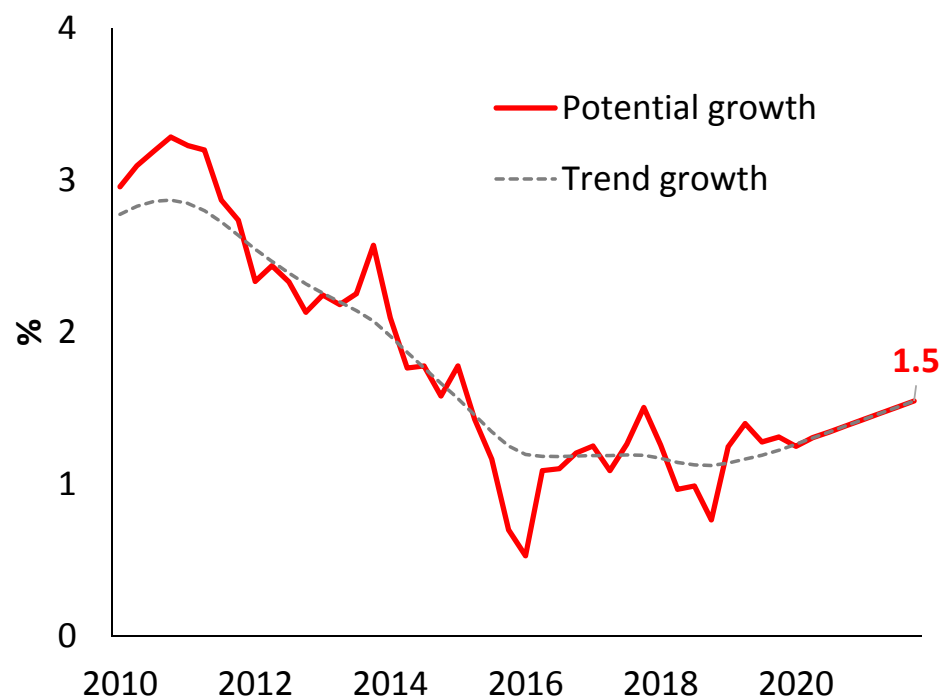
Includes RMB Morgan Stanley estimate for 2019 ytd
Sources: Eskom and RMB Morgan Stanley

Estimated GDP growth response to power supply cuts



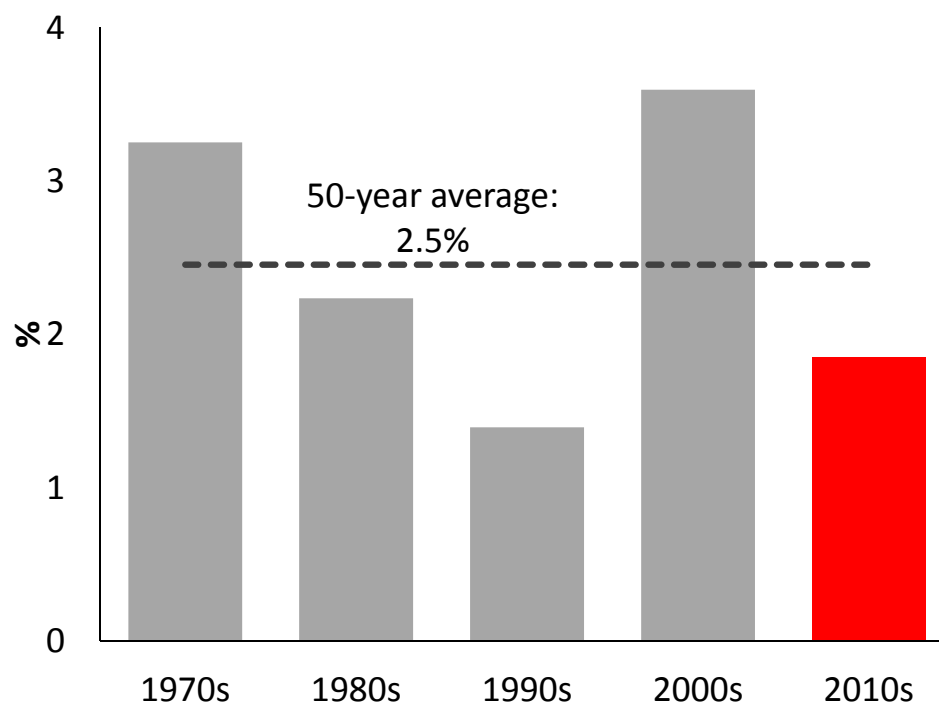
Growth problems mainly structural...

Potential GDP, adjusted for supply shocks



Source: Stats SA and SARB

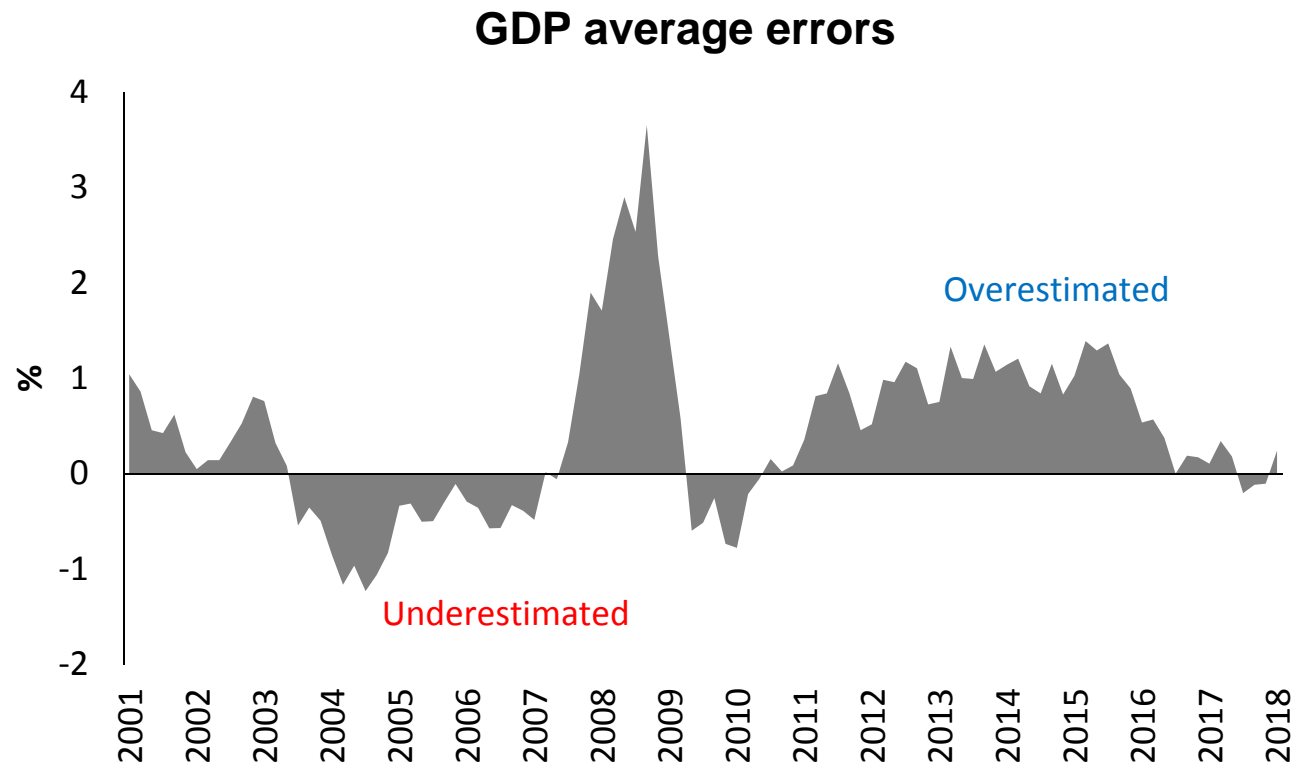
Long-term real GDP growth



Sources: Stats SA and SARB



... falling potential growth key to GDP forecast errors

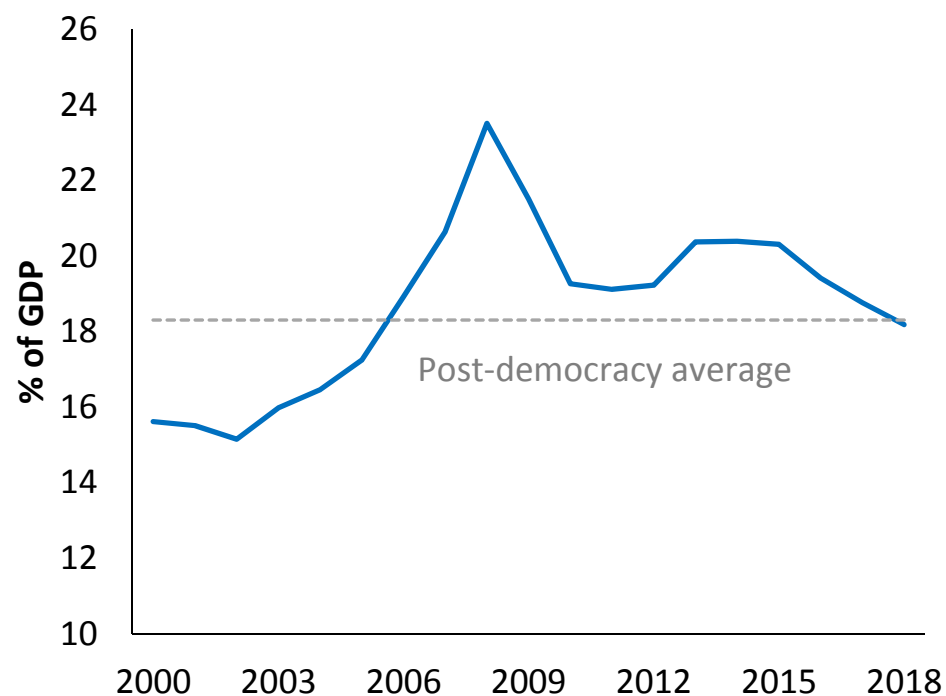


Sources: Stats SA and SARB



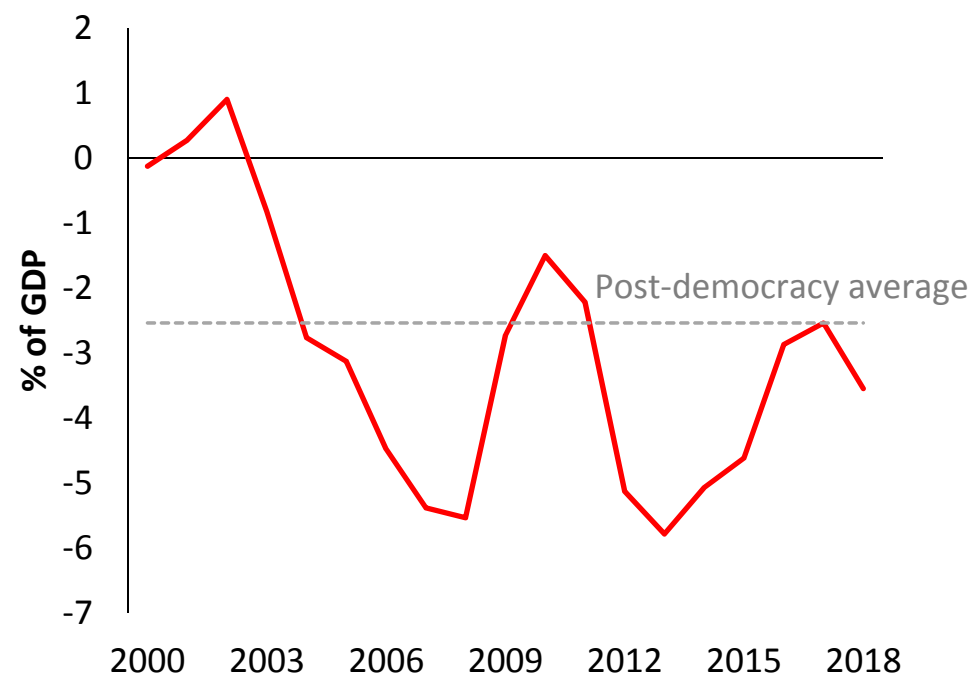
Low growth despite extra investment, large CAD?

Gross fixed capital formation



Sources: Stats SA and SARB

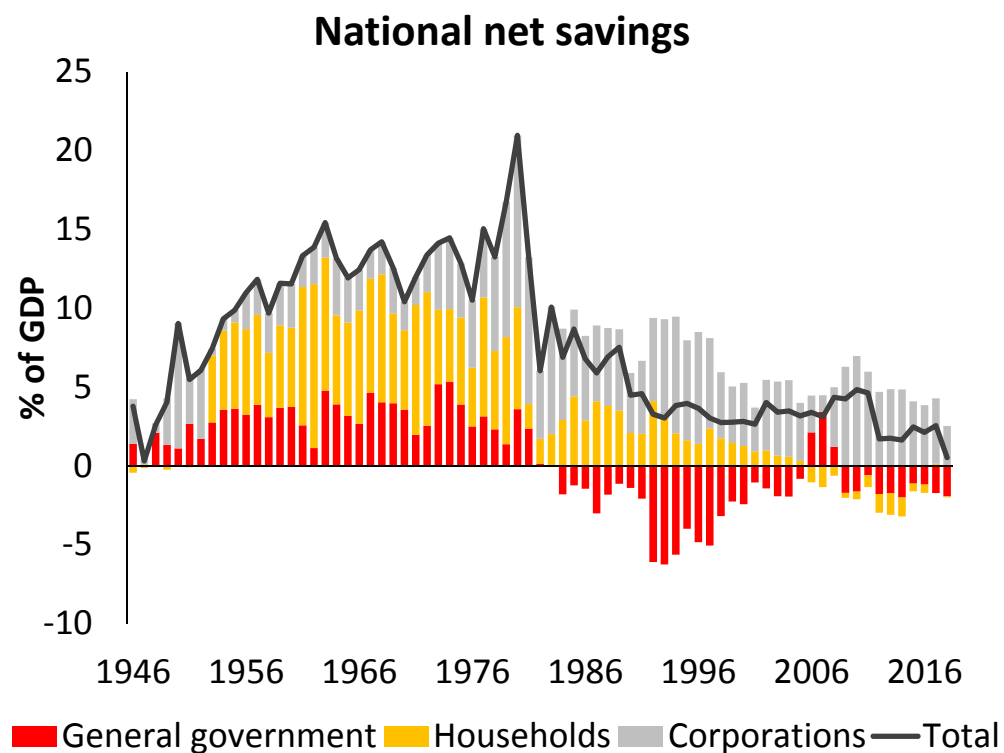
Current account balance



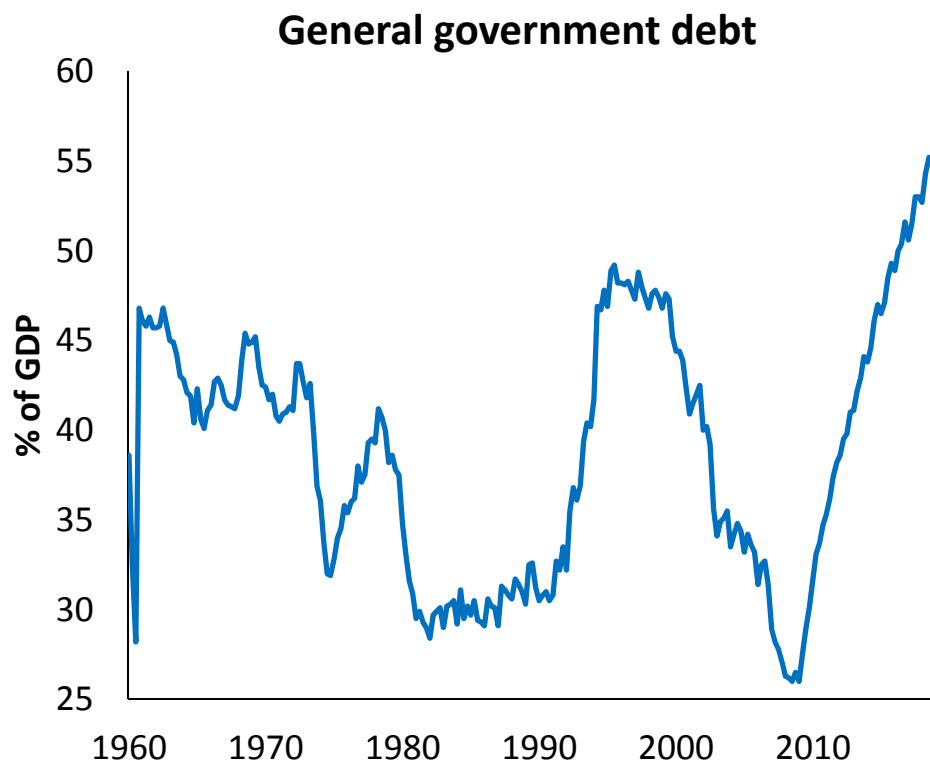
Sources: Stats SA and SARB



Higher government debt and lower national savings



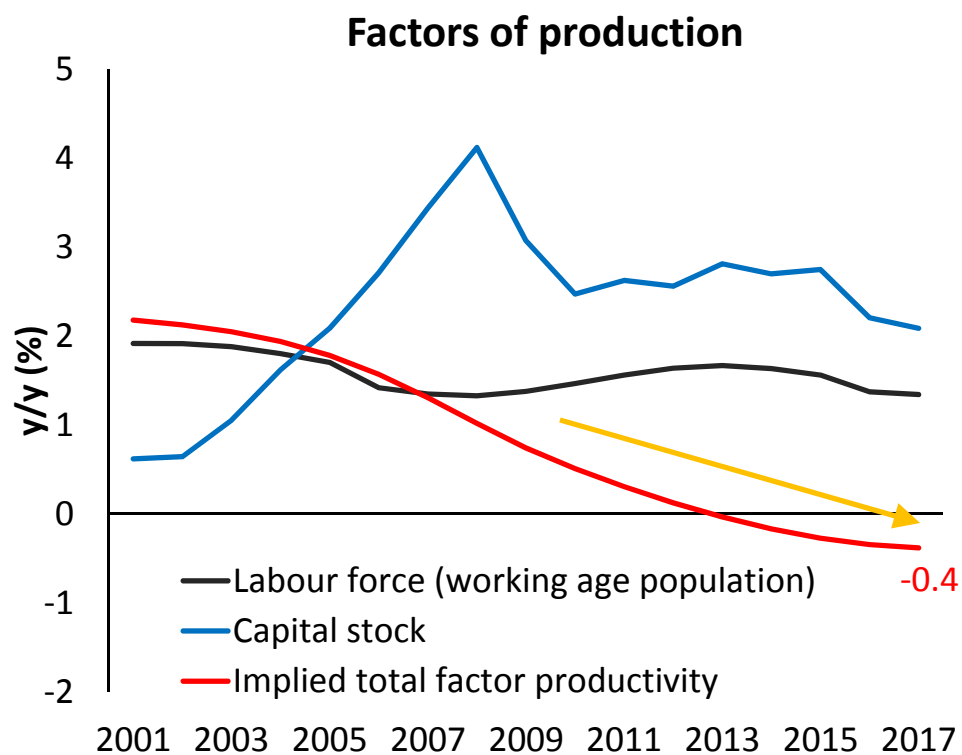
Sources: Stats SA and SARB



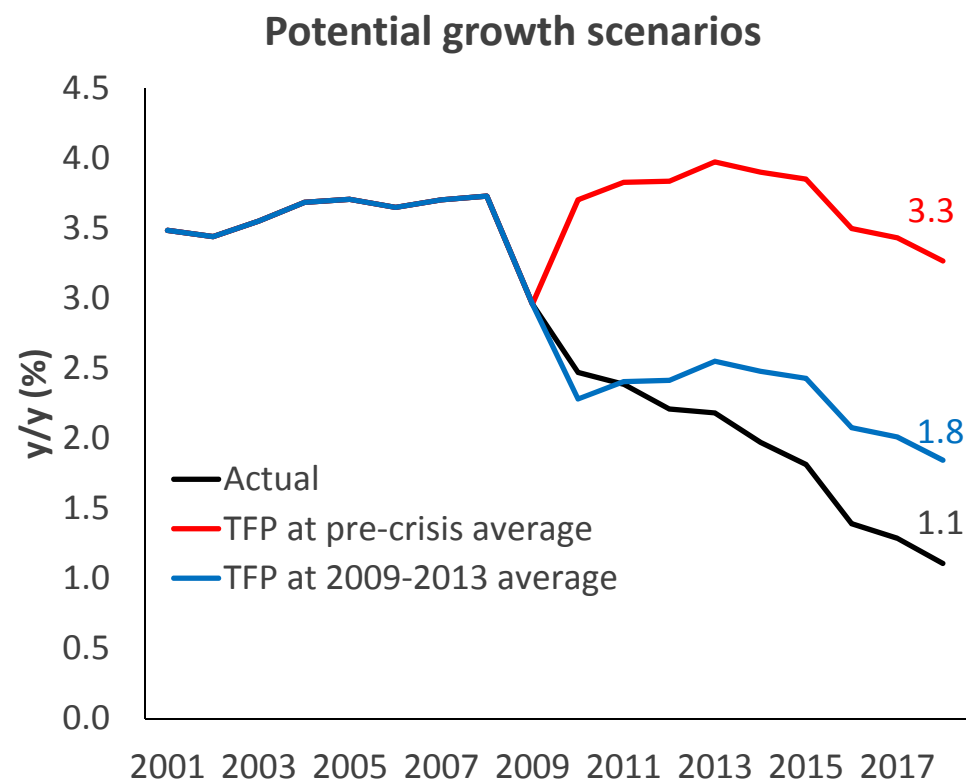
Sources: Stats SA and SARB



Investment expenditure unproductive

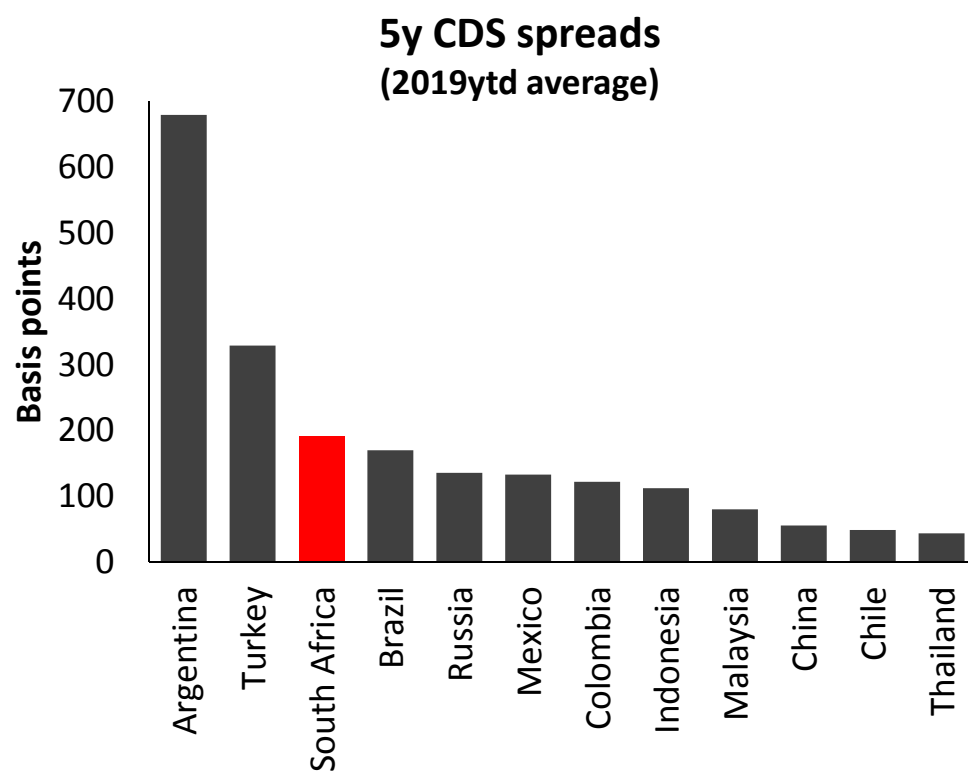


Source: SARB

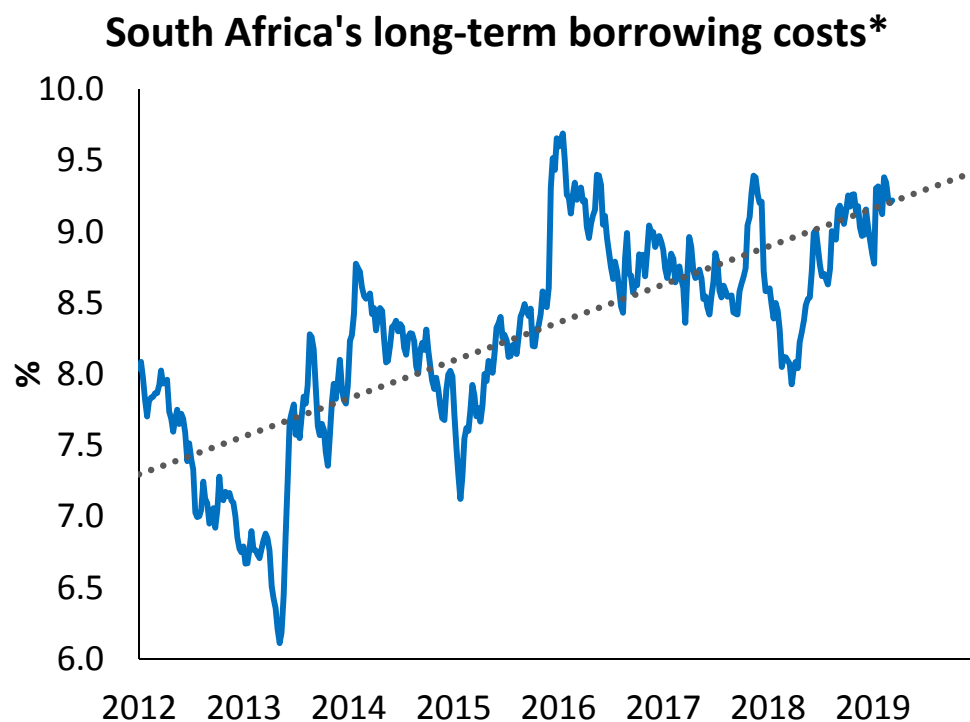


Source: SARB

Higher risk and rising long-term rates



Source: Bloomberg



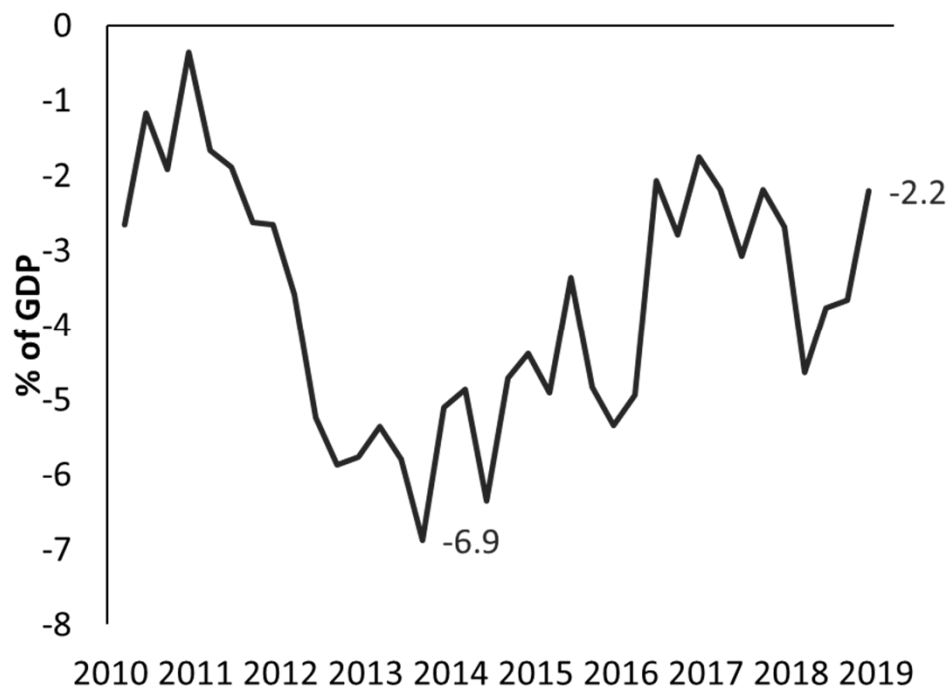
*10-year government bond yields; 9-year yields used where 10-year yields were unavailable.

Source: Bloomberg



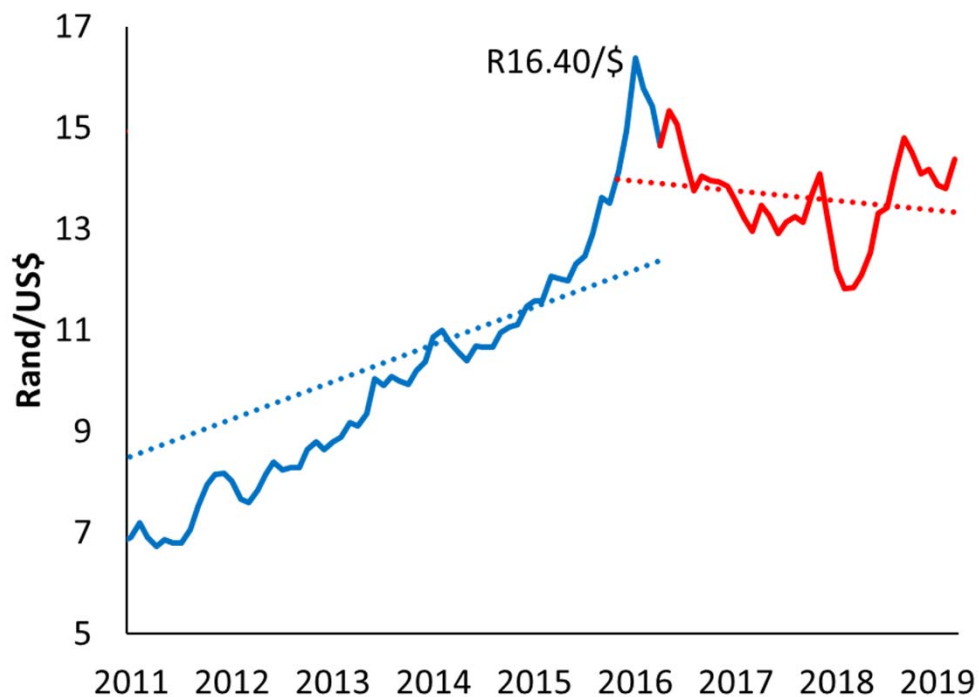
CAD adjustment helped stabilise rand

Current Account



Source: Haver

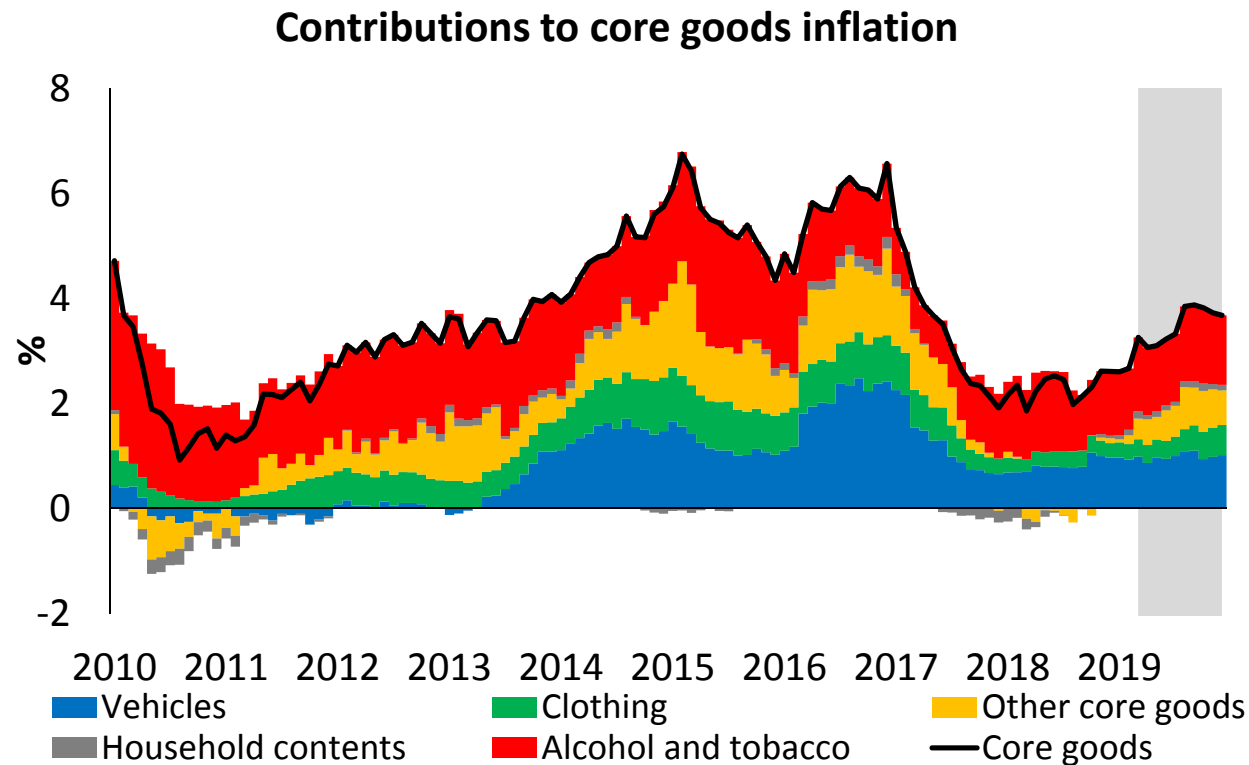
South African currency



Source: Haver



Core goods inflation mostly following exchange rate

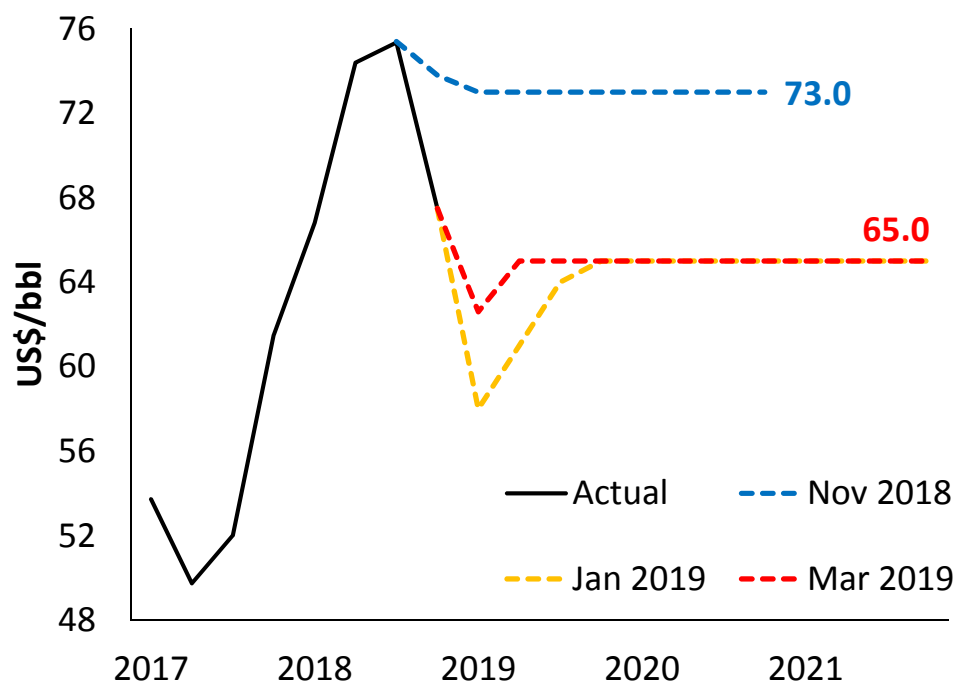


Sources: Stats SA and SARB



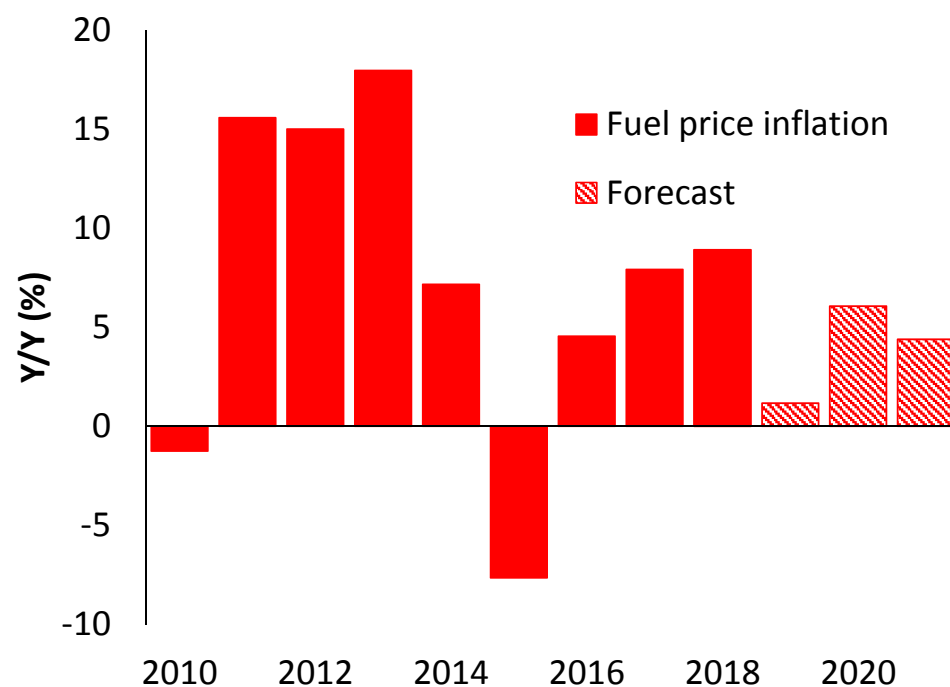
Oil outlook revised down in 2019

Evolution of crude oil price forecasts



Sources: Reuters and SARB

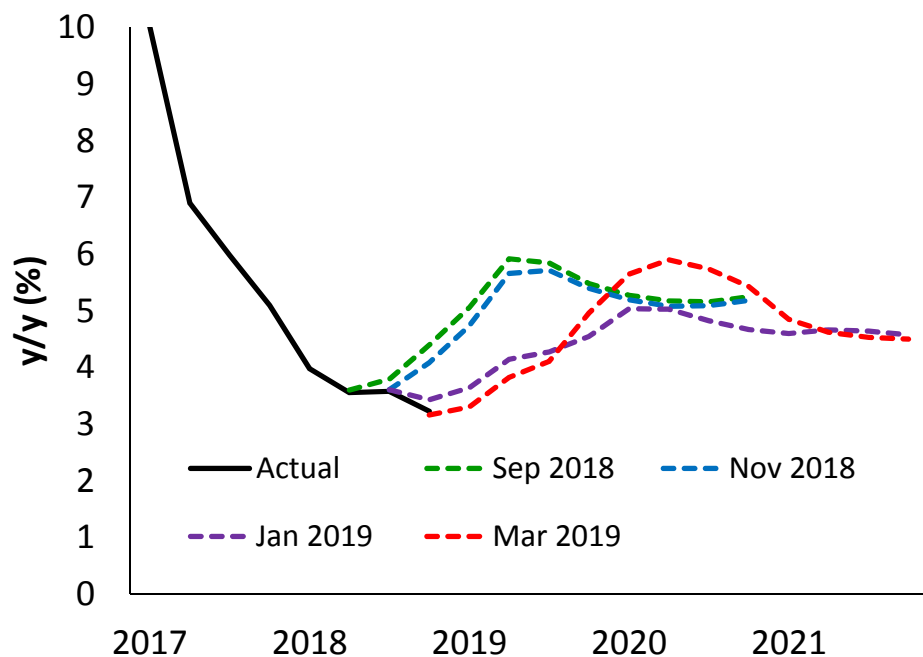
Fuel price inflation



Sources: Stats SA and SARB

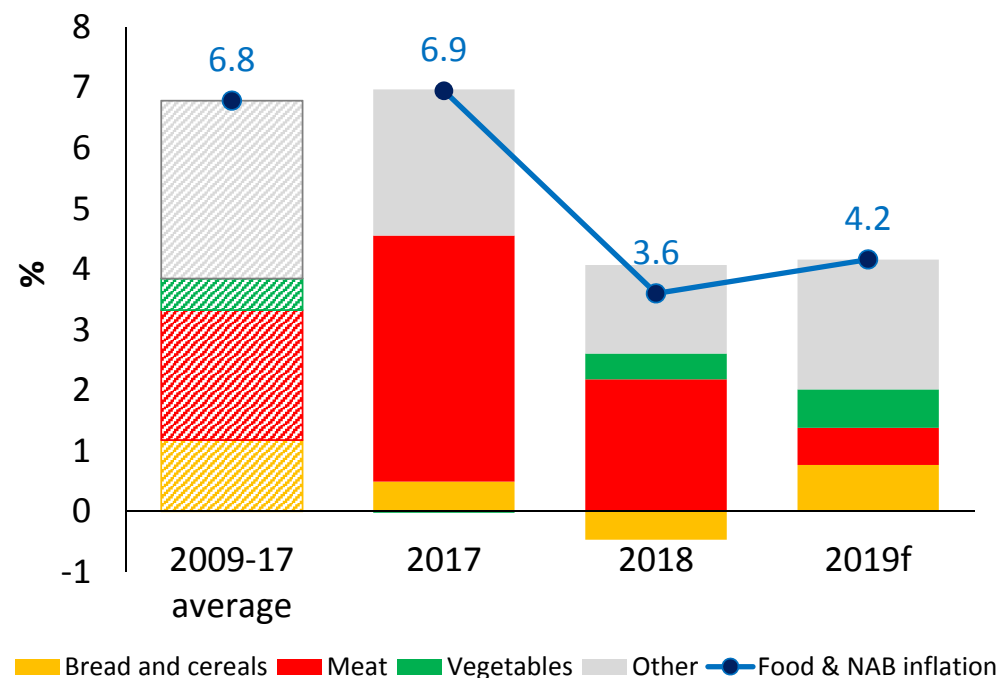
Food inflation staying lower for longer

Evolution of food and non-alcoholic beverages inflation forecasts



Sources: Stats SA and SARB

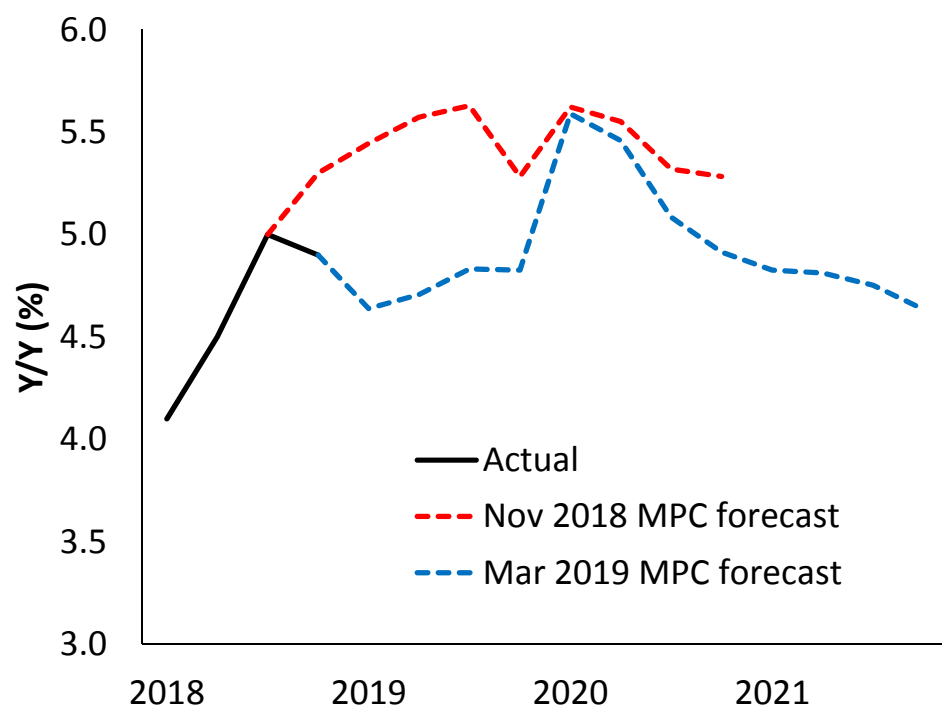
Food & NAB inflation



Sources: Stats SA and SARB

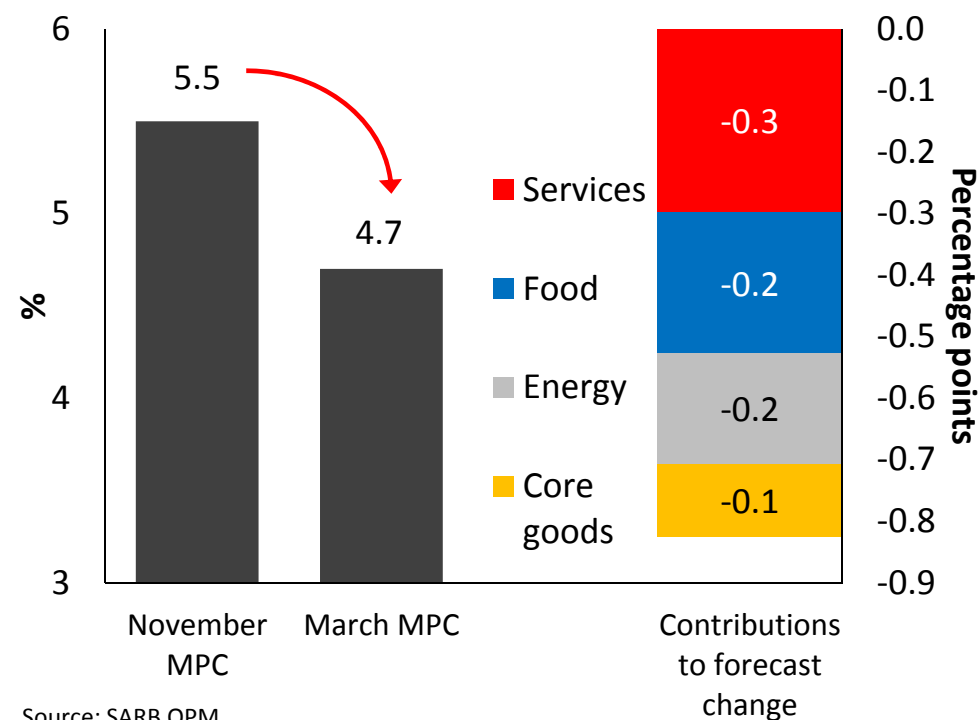
Substantial near-term forecast revisions

Changes to the SARB's inflation forecasts



Sources: Stats SA and SARB

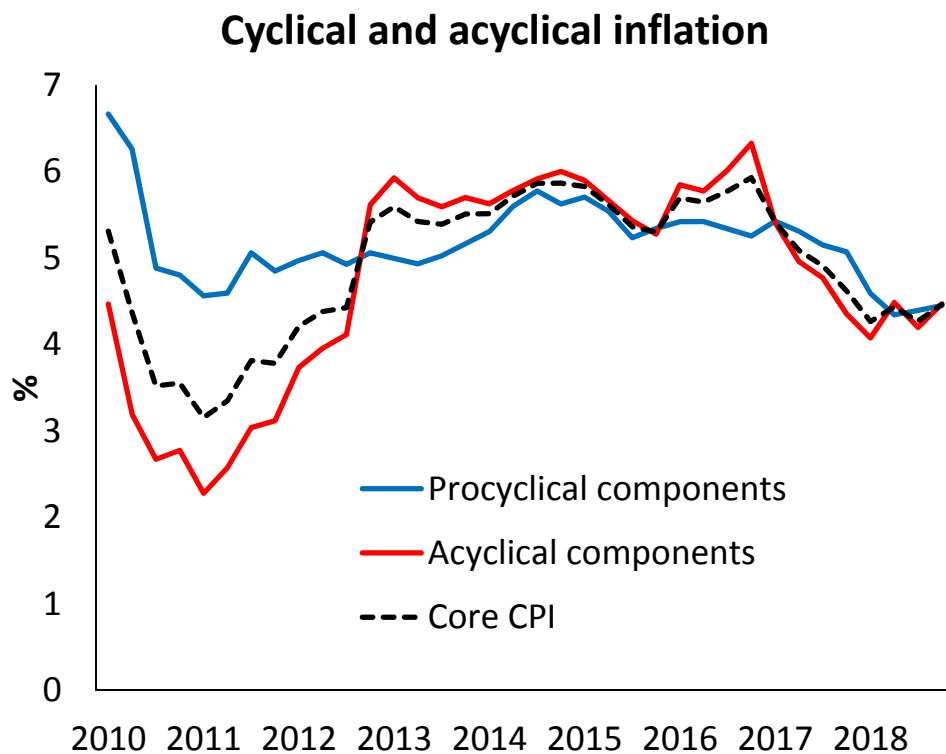
Evolution of 2019 inflation forecasts



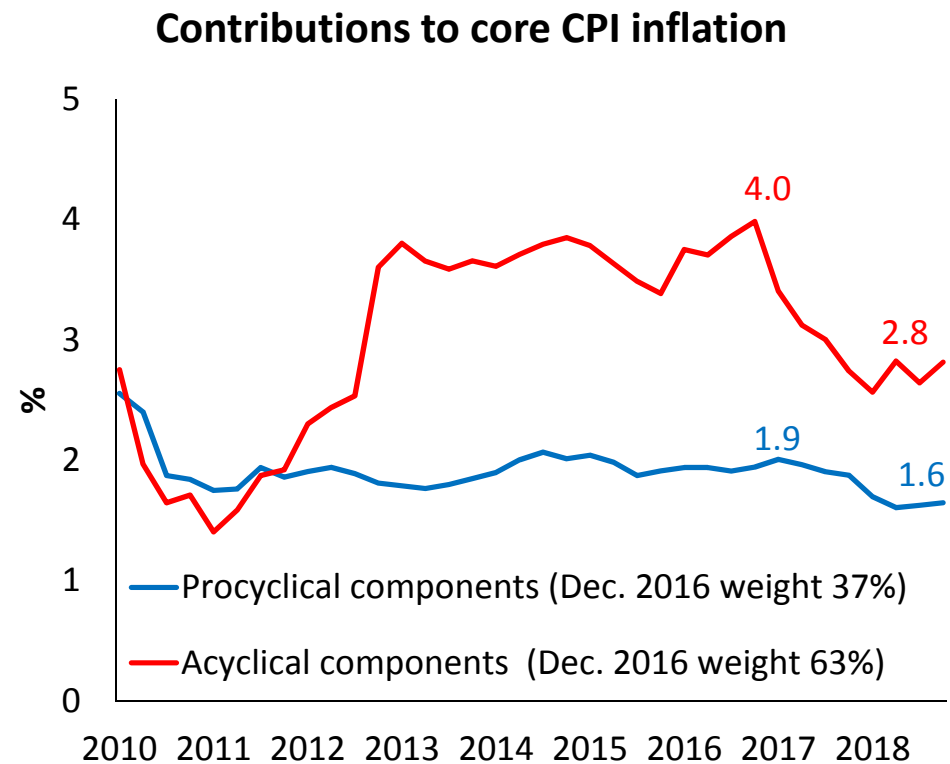
Source: SARB QPM



Weak demand part of disinflation – but not central

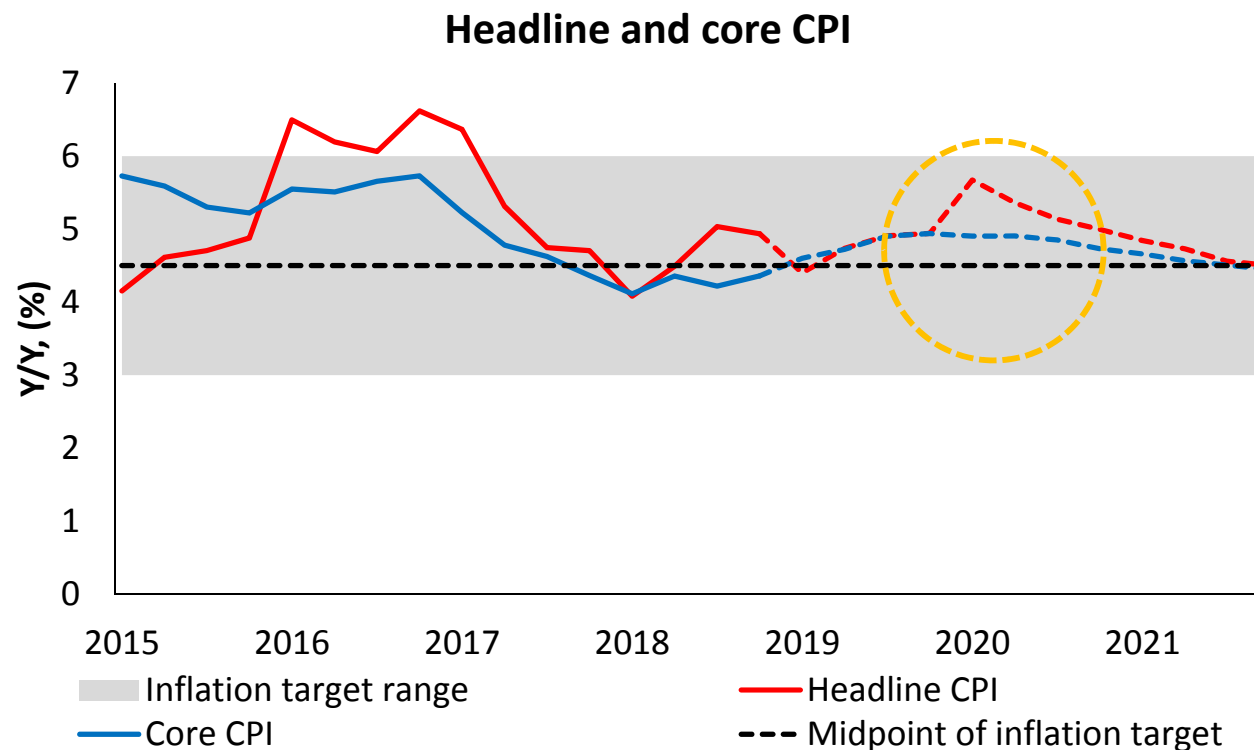


Sources: Stats SA & SARB



Sources: Stats SA and SARB

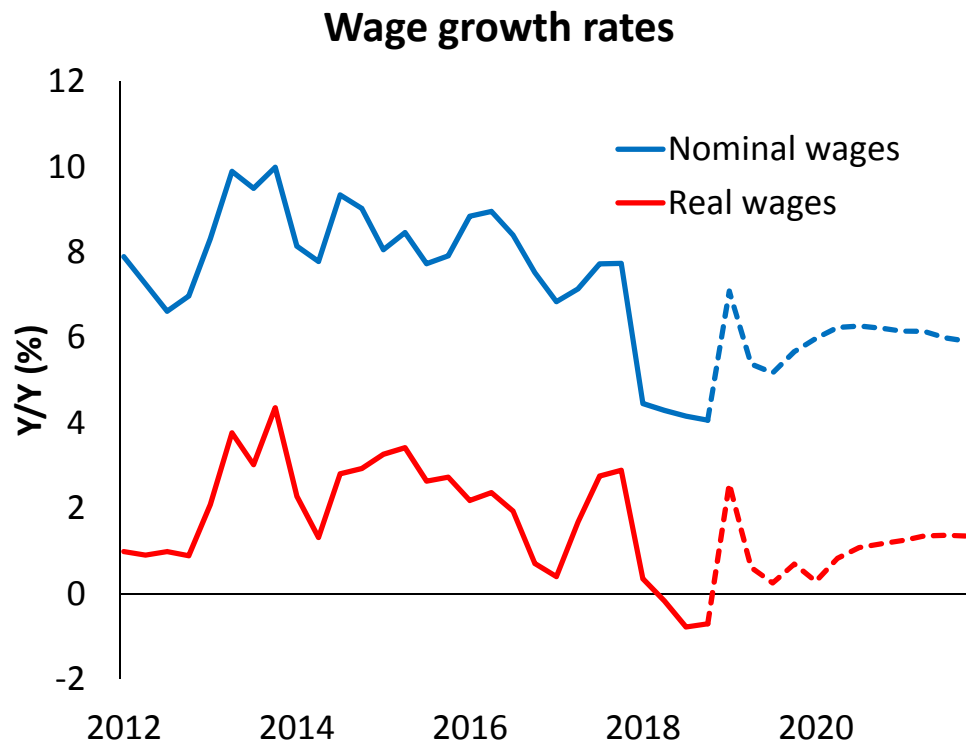
2020 inflation ↑ on petrol, food, then back to 4.5%



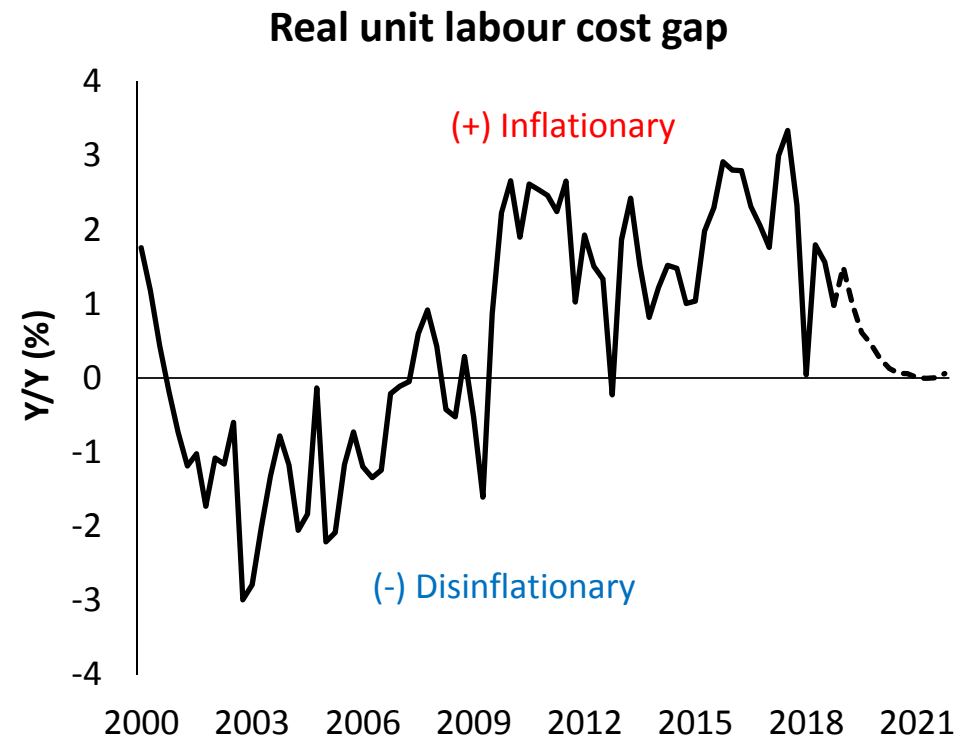
Source: SARB QPM



Wages moderating, ULC gap closing



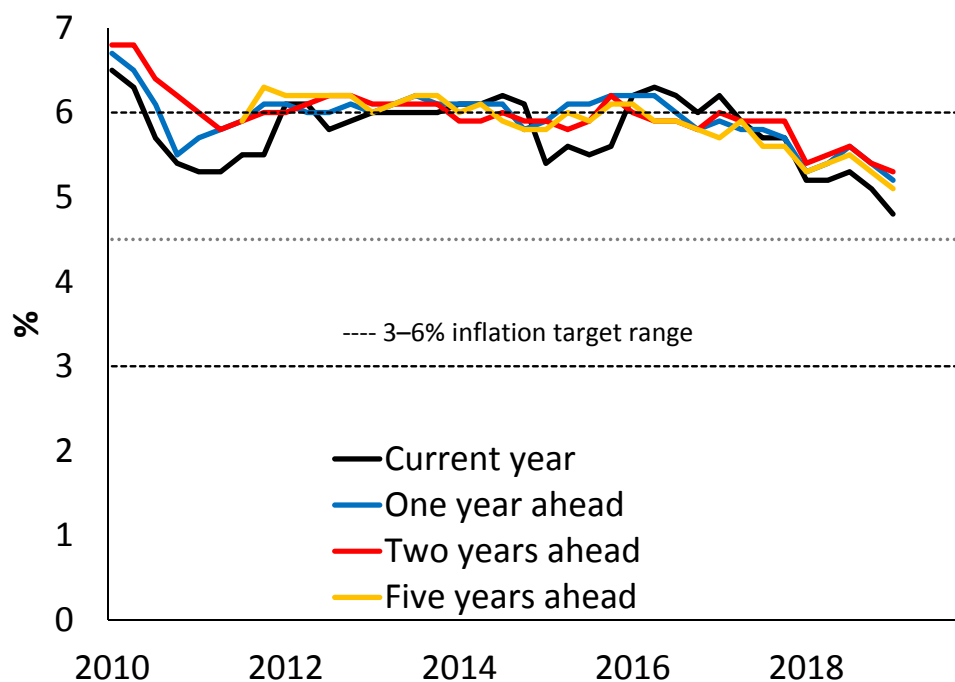
Source: SARB QPM



Sources: Stats SA and SARB

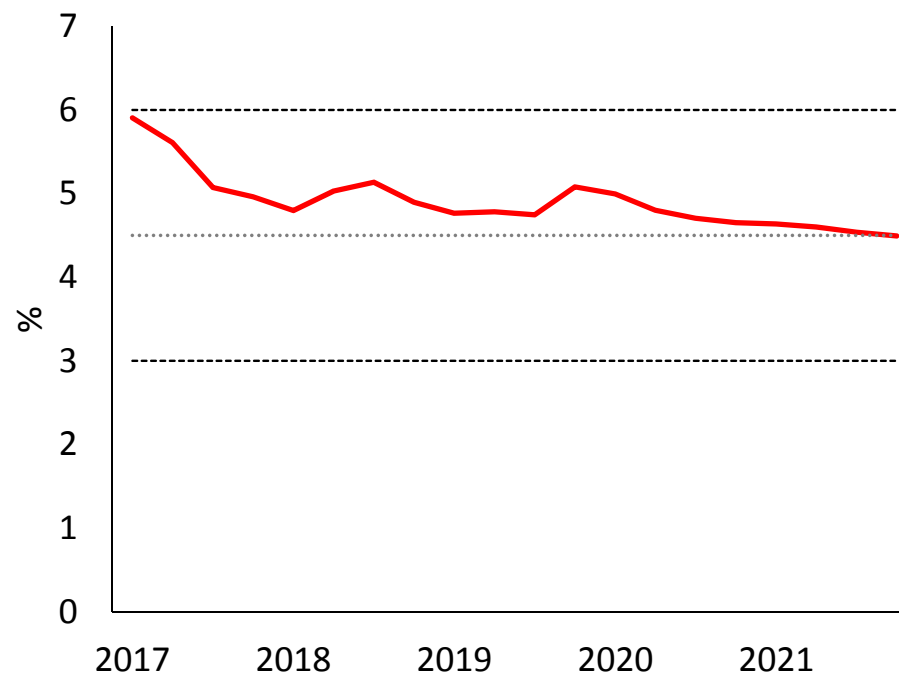
SA getting used to lower inflation

Inflation expectations



Source: BER

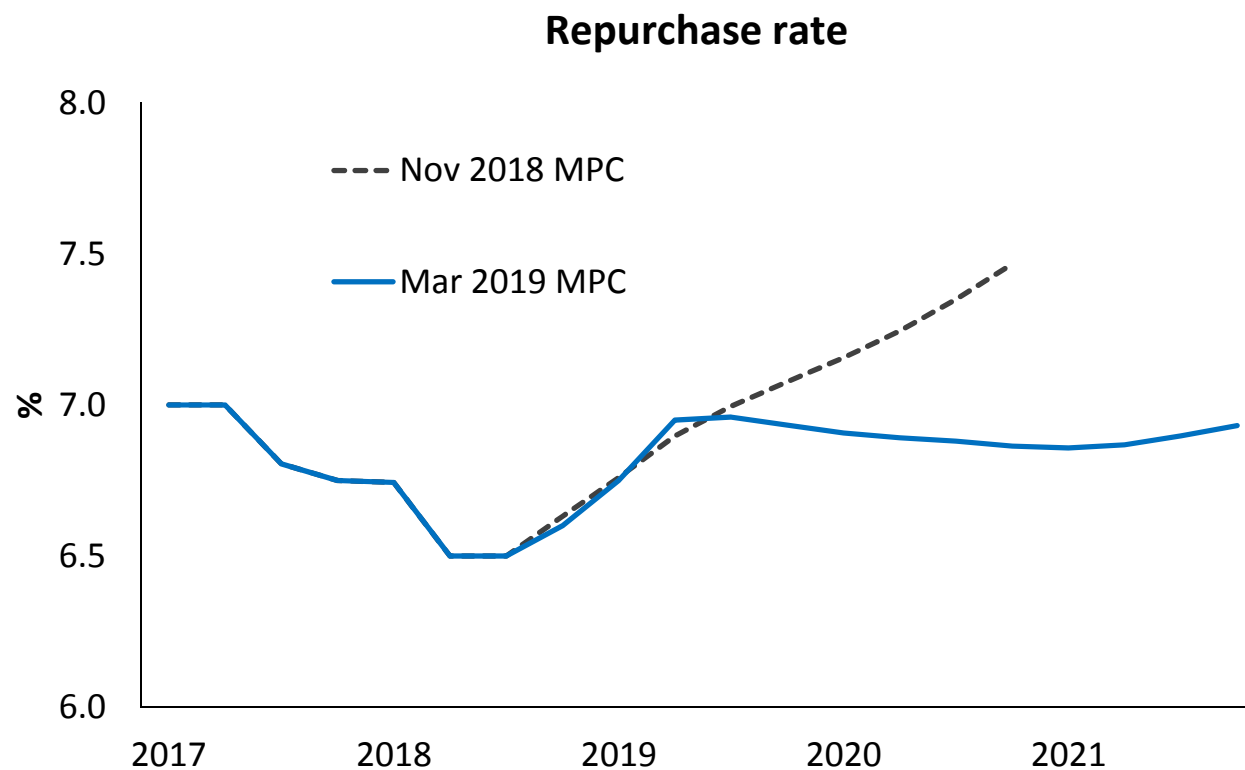
QPM inflation expectations*



*A blend of short-term model expectations and medium-term BER expectations

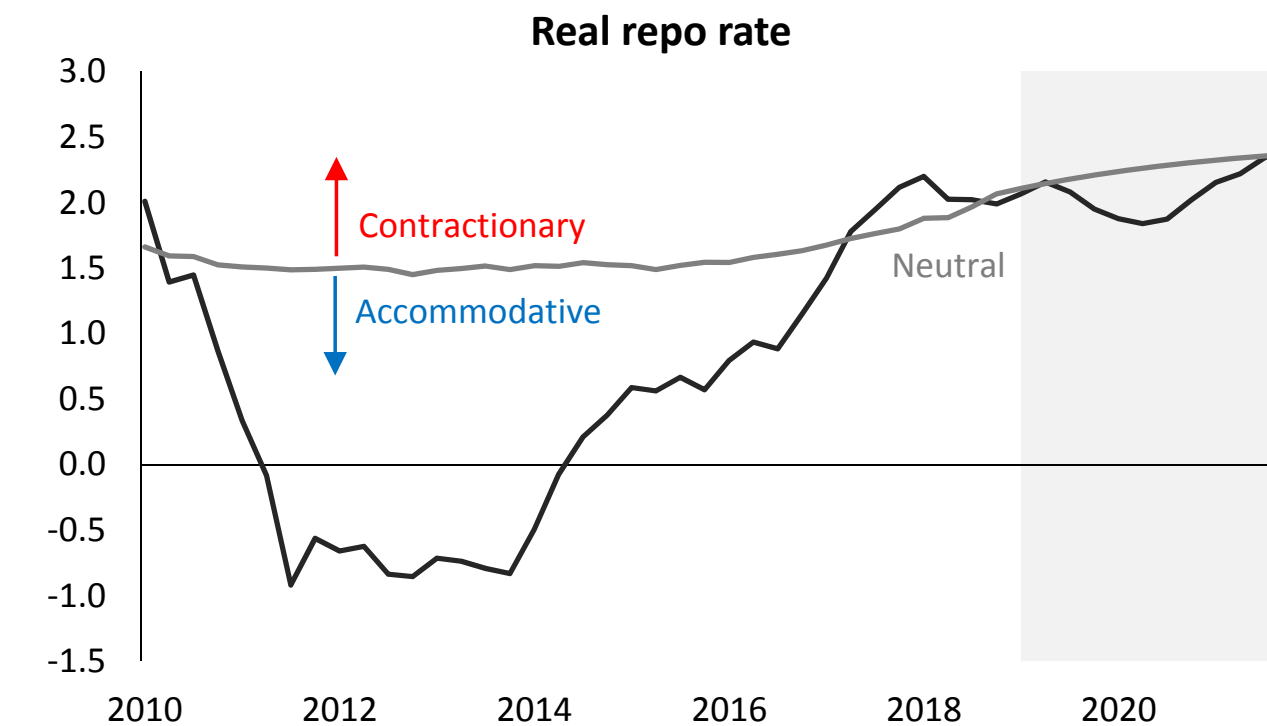
Source: SARB

Repo path lower in nominal terms



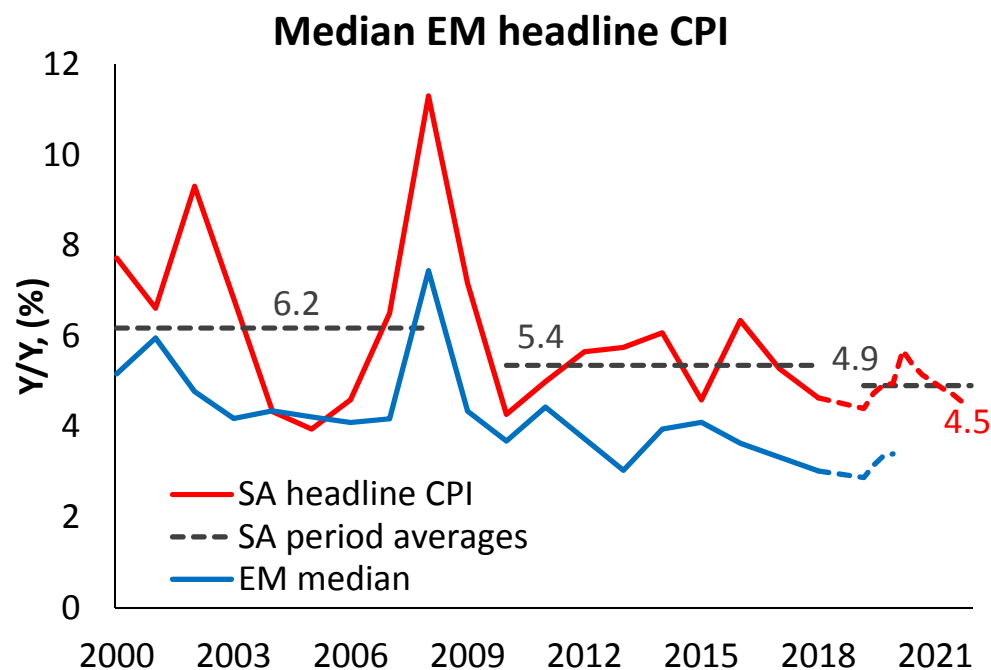
Source: SARB

Policy stance expansionary



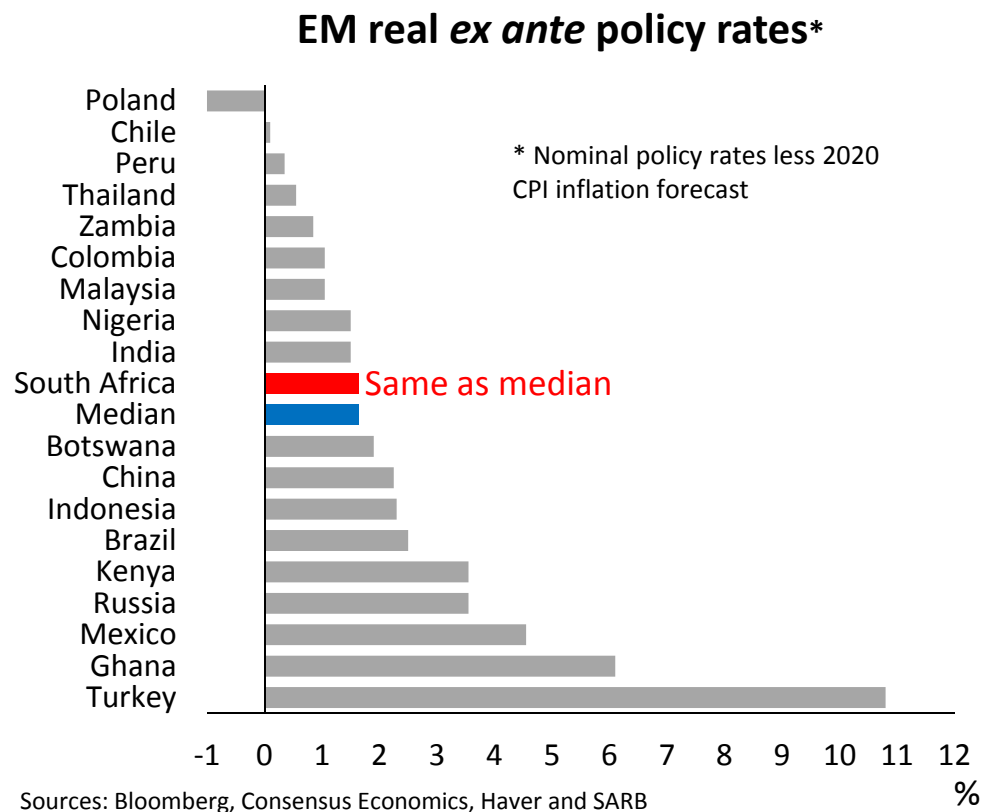
Note: The real repo rate is the nominal repo deflated by a 4q moving average of year-on-year headline inflation
Source: SARB

Chance to lock-in lower inflation without tight policy



EM countries comprise of: BRA, CHL, CHN, COL, IND*, IDN, MYS, MEX, PER, PHL, POL, RUS, ZAF, THA & TUR. *CPI data for IND starts in Jan 2002.

Sources: SARB, Haver and Bloomberg



Conclusions

- Weaker global economy, pick-ups for some emerging markets
- SA potential growth low – no quick fixes
- Inflation at 4.5%; repo path about keeping it there
- Path undemanding so long as shocks are favourable



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