



South African Reserve Bank

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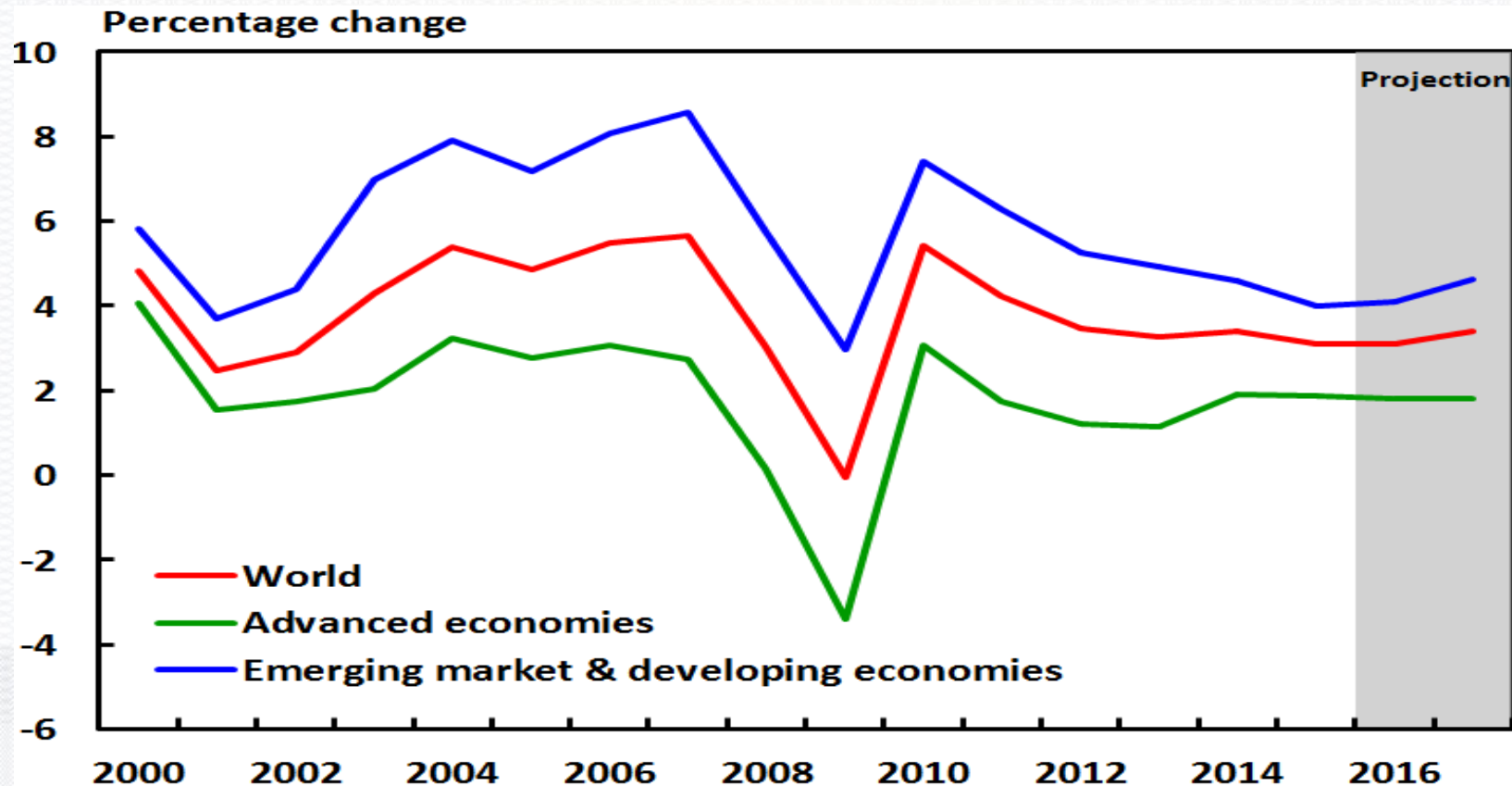
The changing role of central banks

12 August 2016

10:00-11:00

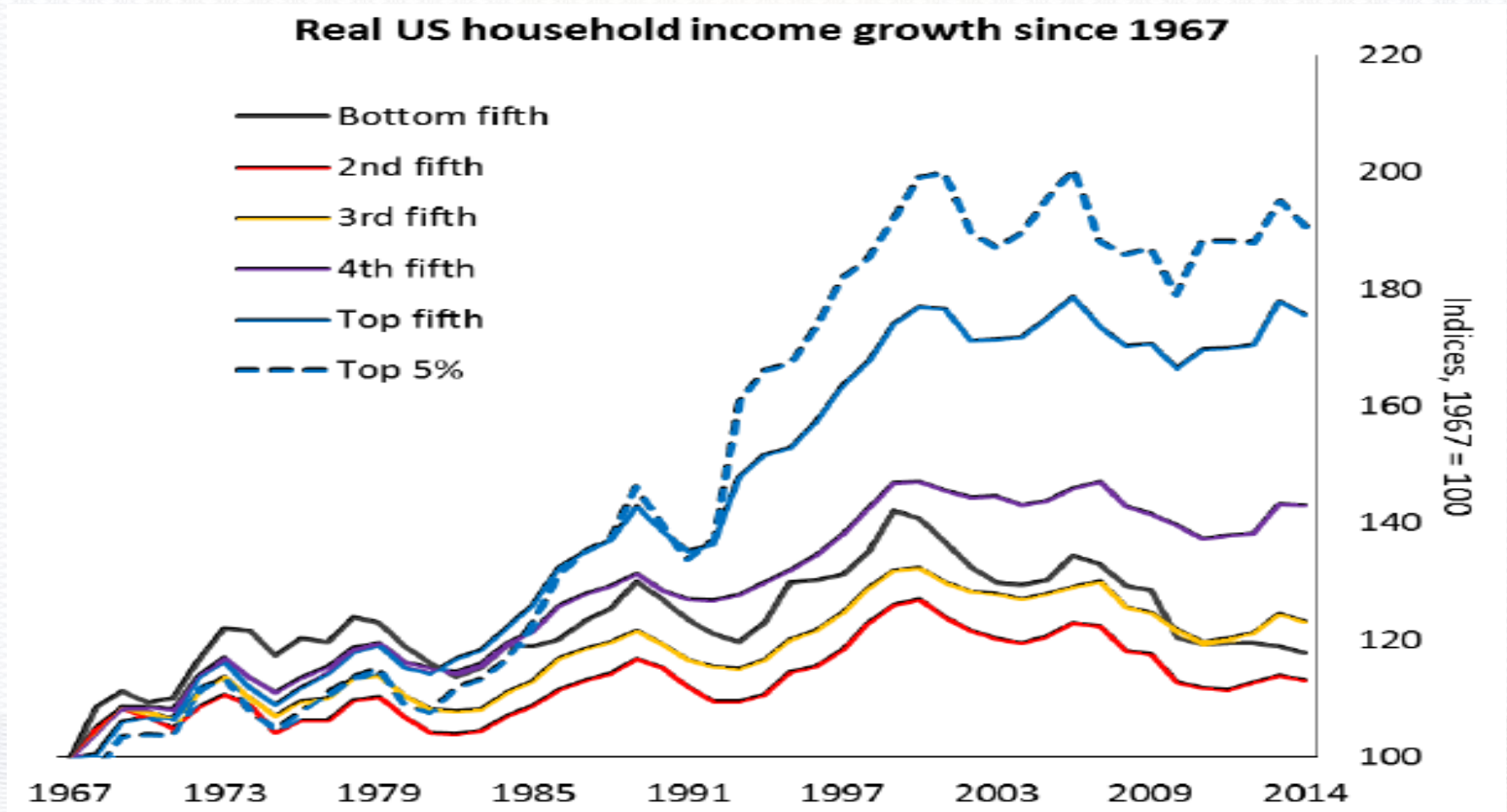
Global economic growth

Real gross domestic product



Sources: International Monetary Fund, World Economic Outlook Database (April 2016) and WEO Update (July 2016)

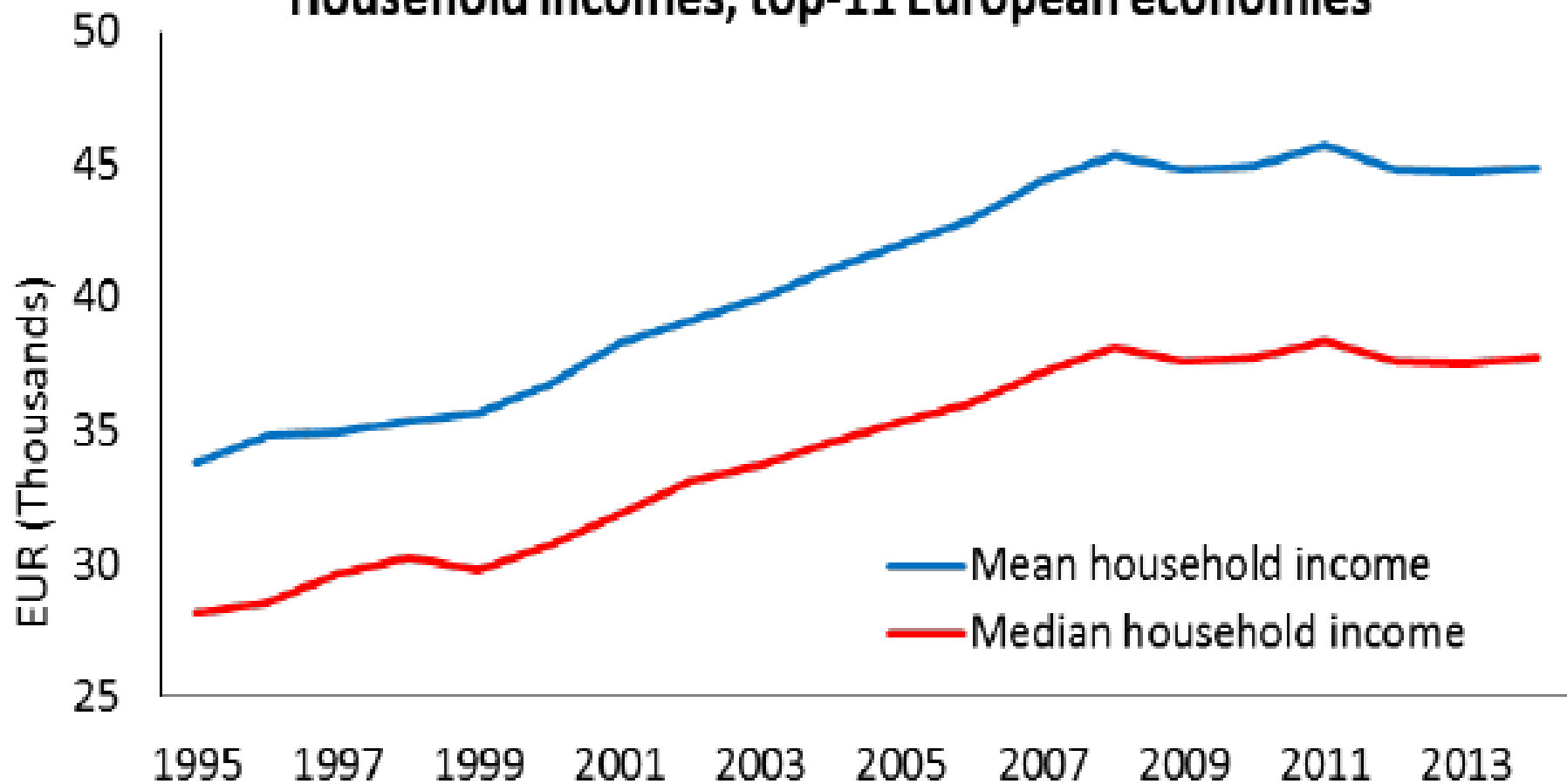
Evidence of widening income disparities in major world economies



Source: US Census Bureau

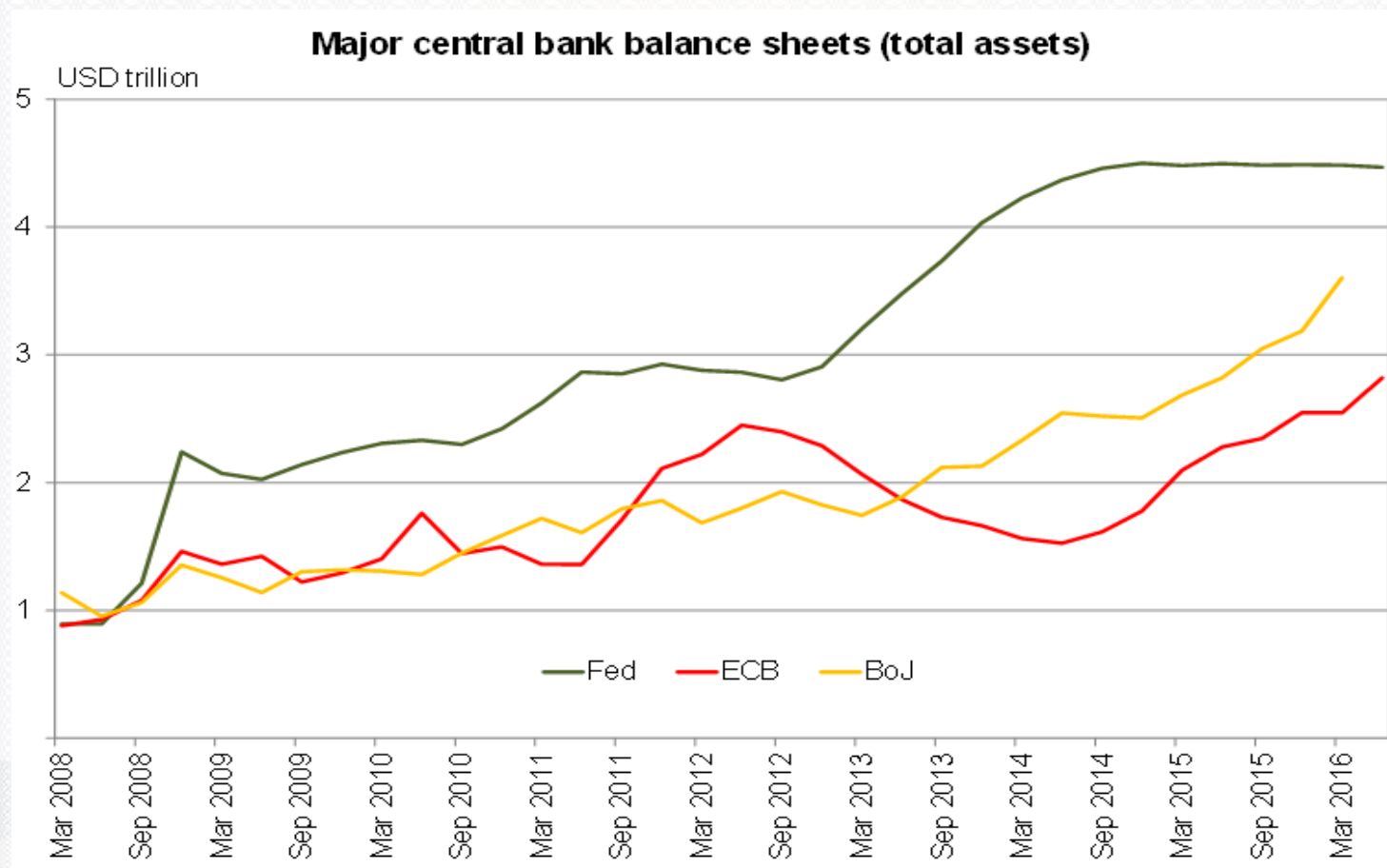
Evidence of widening income disparities in major world economies (cont.)

Household incomes, top-11 European economies



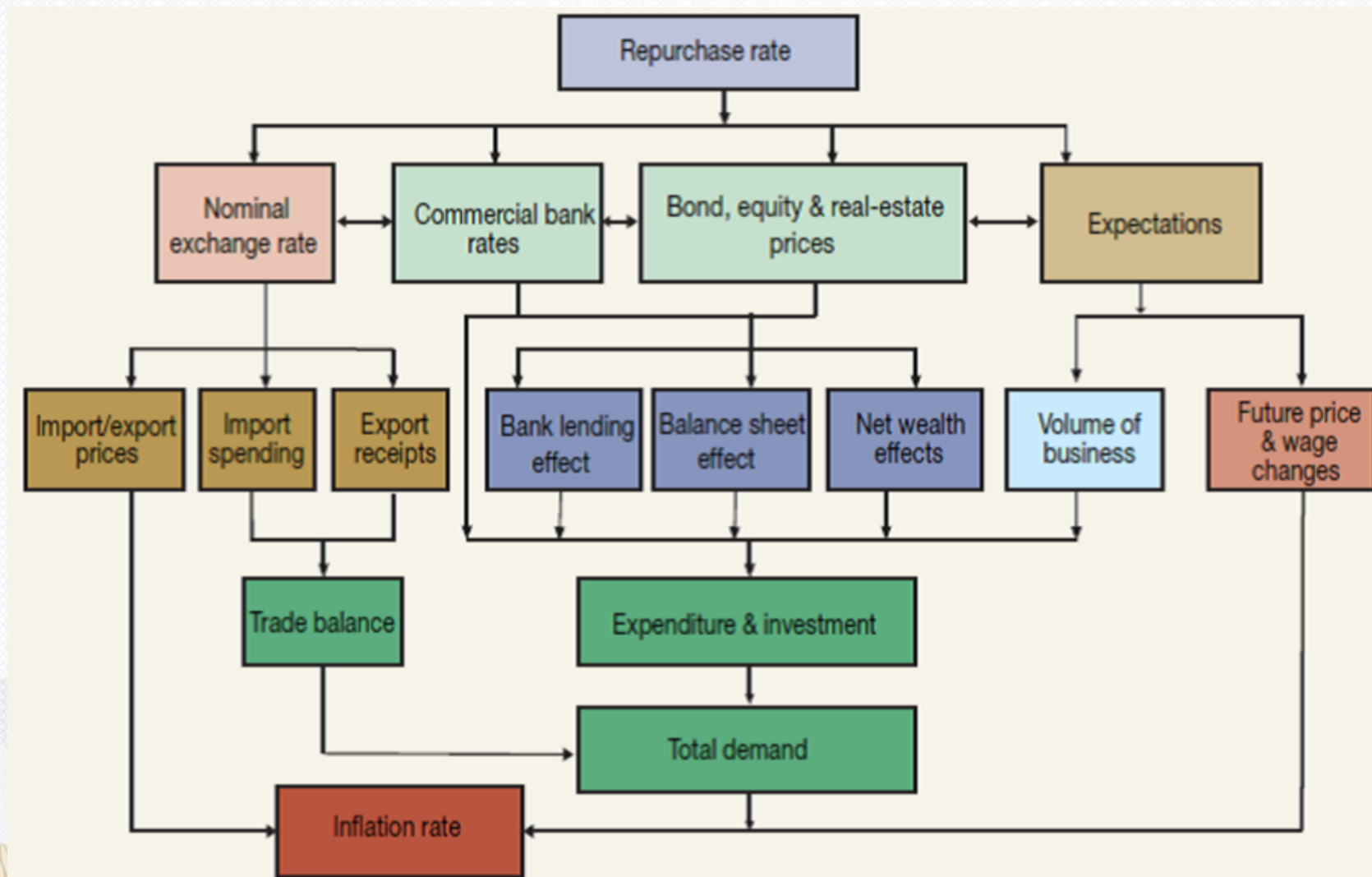
Source: Haver

Evolution of central bank balance sheets following the 2007/08 financial crisis



NOTE: Central banks have cut policy rates numerous times since the collapse of Bear Stearns in March 2008, and have purchased a combined total of US\$12,3 trillion of assets, according to Bank of America Merrill Lynch.

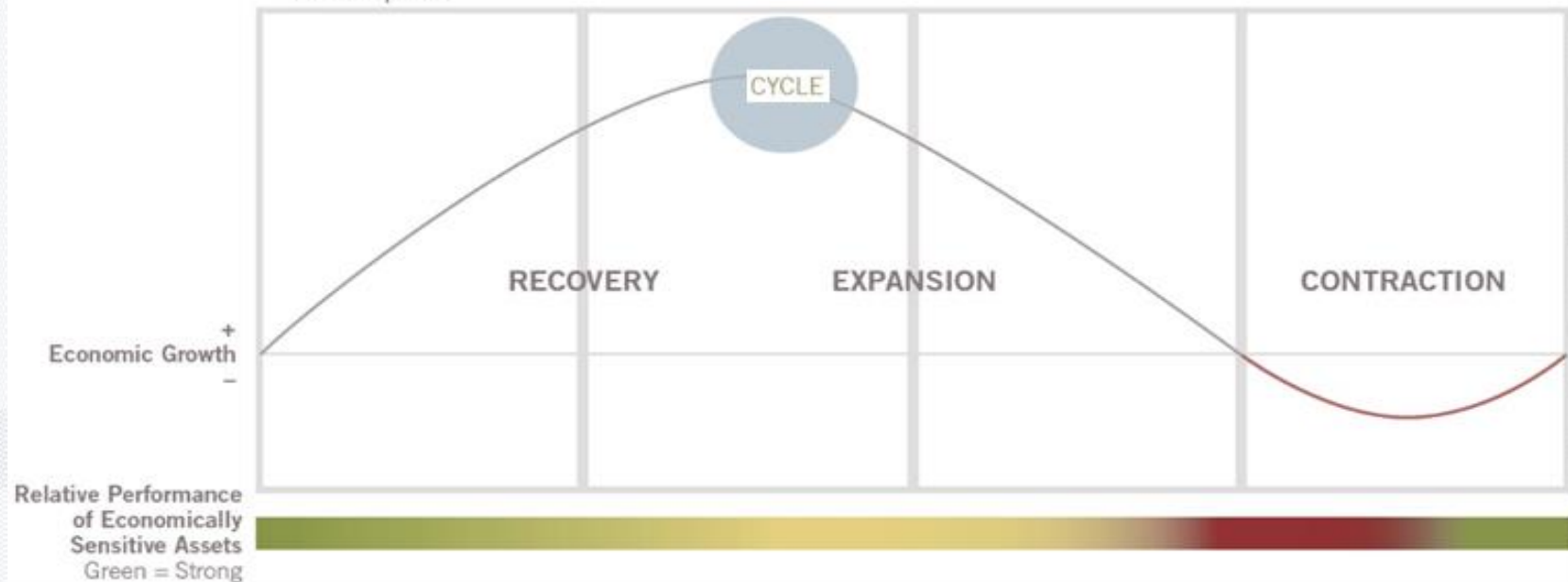
Inflation-targeting monetary policy transmission mechanism



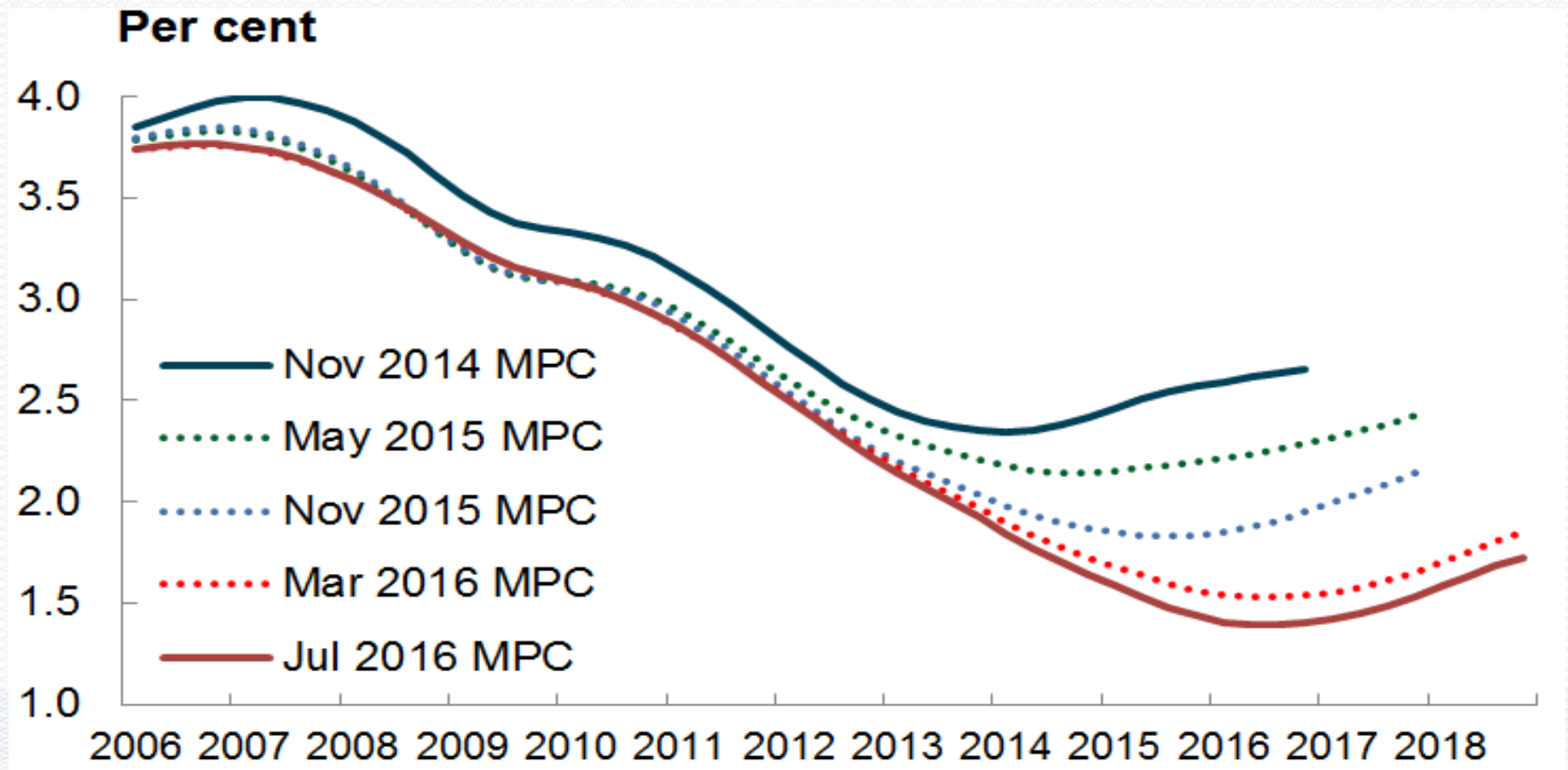
Stance of monetary policy across the business cycle

Inflationary Pressures
Red = High

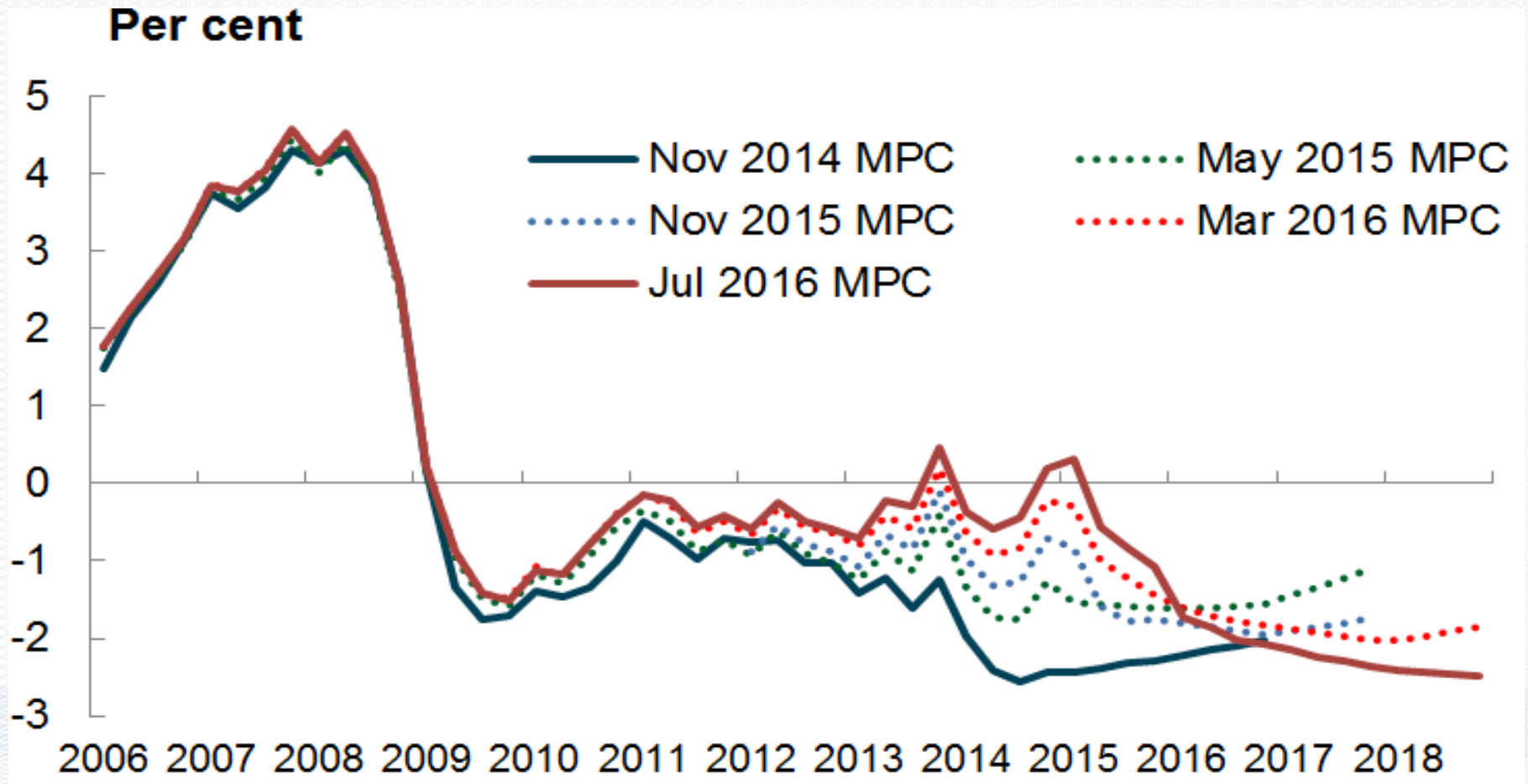
EARLY	MID	LATE	RECESSION
<ul style="list-style-type: none"> • Activity rebounds (GDP, IP, incomes) • Credit begins to grow • Profits grow rapidly • Policy still stimulative • Inventories low; sales improve 	<ul style="list-style-type: none"> • Growth peaking • Credit growth strong • Profit growth peaks • Policy neutral • Inventories, sales grow; equilibrium reached 	<ul style="list-style-type: none"> • Growth moderating • Credit tightens • Earnings under pressure • Policy contractionary • Inventories grow; sales growth falls 	<ul style="list-style-type: none"> • Falling activity • Credit dries up • Profits decline • Policy eases • Inventories, sales fall



Evolution of potential growth in South Africa

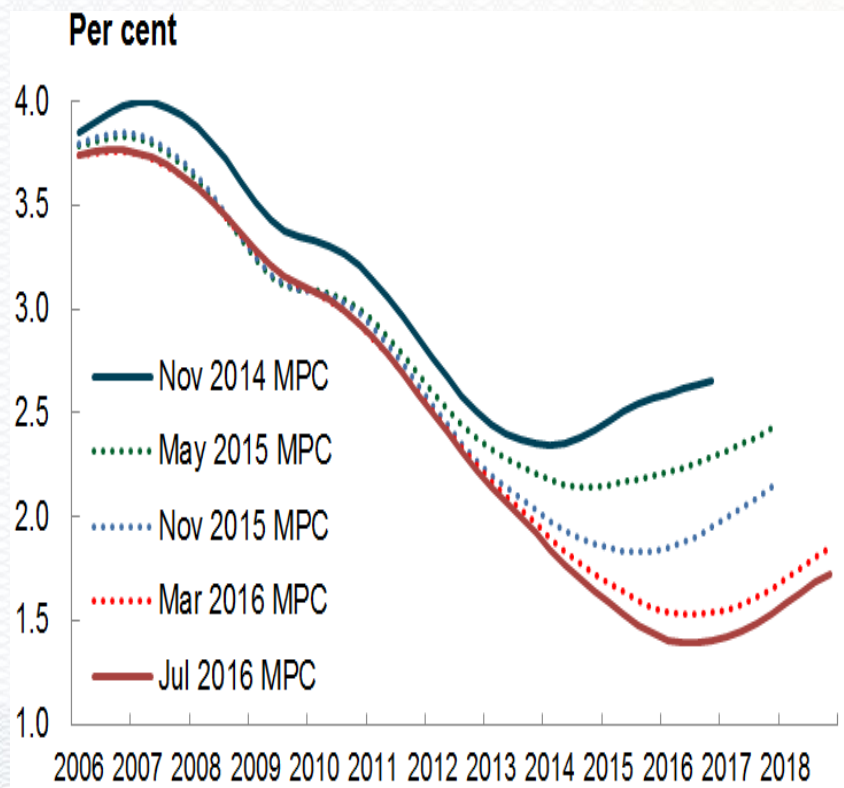


Evolution of the output gap in South Africa

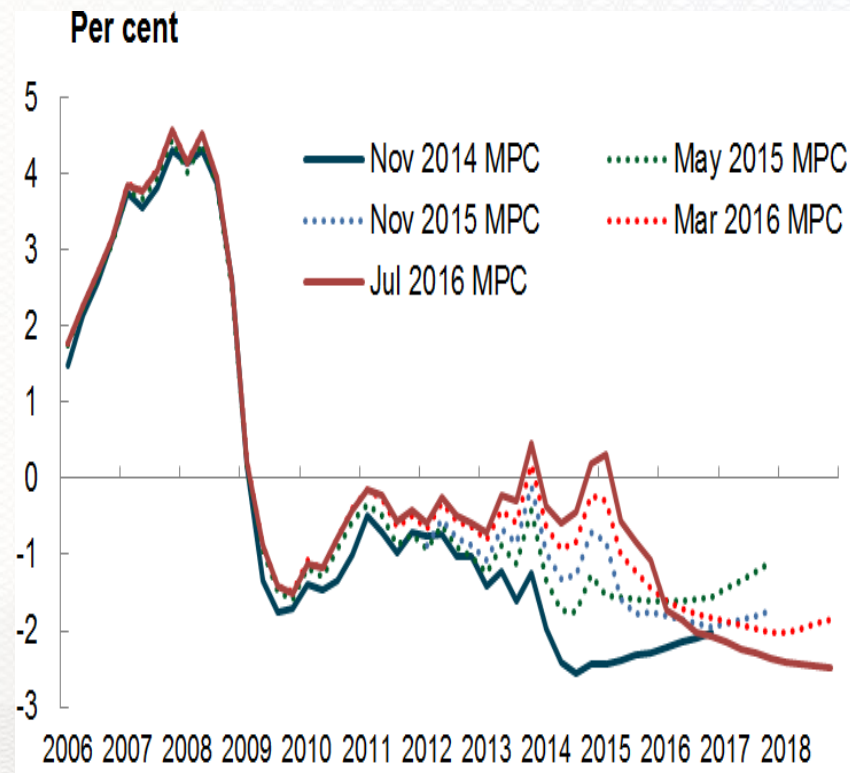


Evolution of potential growth and the output gap in South Africa

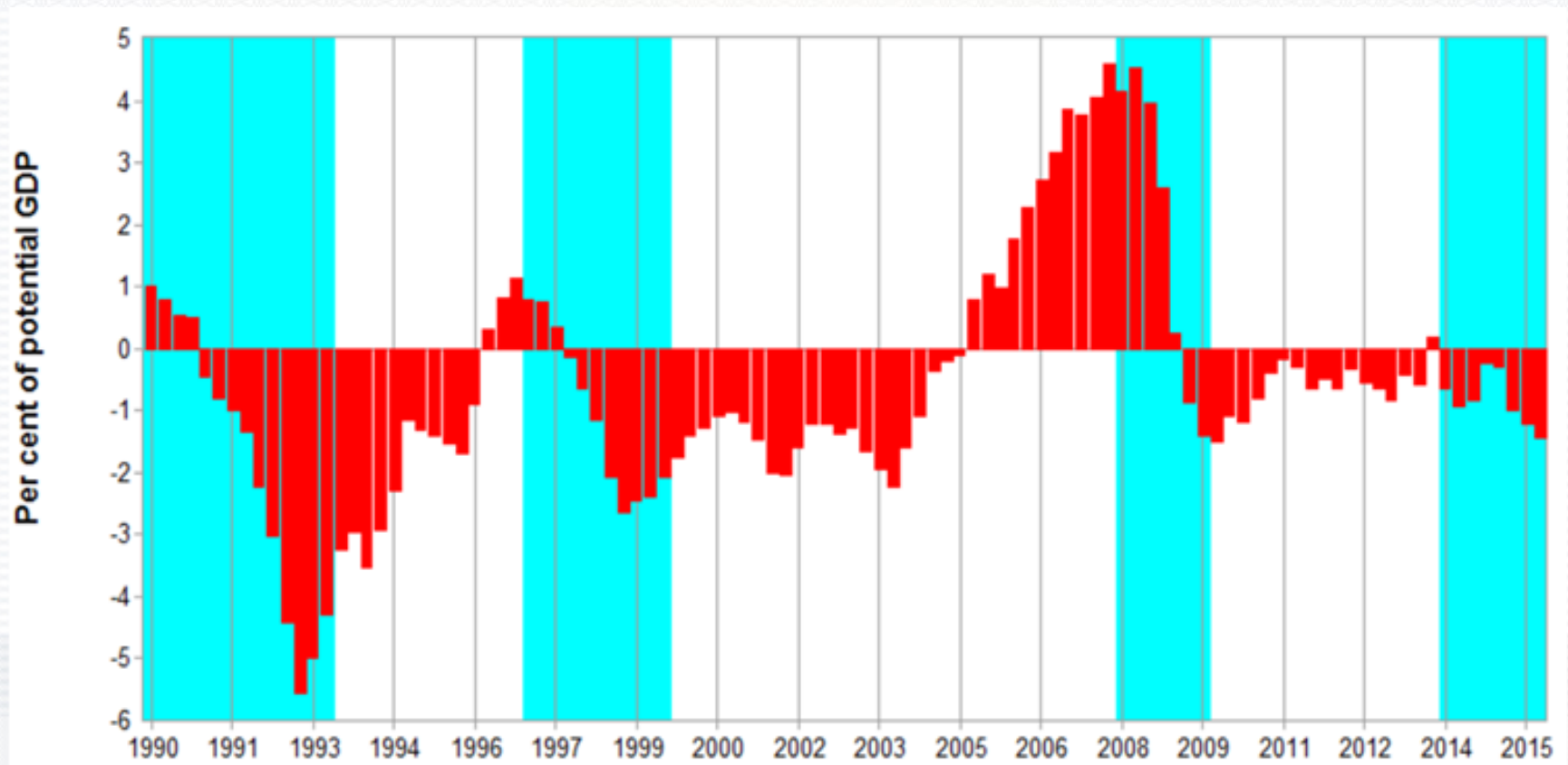
Evolution of potential growth



Evolution of the output gap



The output gap and the business cycle in the South African economy



Shaded areas: Downward phases of the business cycle

Unfolding of 'unconventional' monetary policy measures by central banks following the financial crisis in 2007/08

Initially during (and after) the global financial crisis central banks cut interest rates and provided additional/more frequent liquidity operations, fixed rate/full allotments, easing collateral requirement etc.

The “zero lower bound” (ZLB) eventually changed to negative interest rates

Purchases of longer-term government bonds

Asset-backed securities (US, ECB), corporate-bond purchases (BoE, ECB), Covered bonds (ECB)

The Fed provided liquidity to credit markets (consumers and small business) in 2009 (TALF)

Term-funding scheme to provide liquidity to banks (BoE)

The ECB introduced long-term refinancing operations (LTROs) and later targeted TLTROs

Loan support programme (BoJ) in 2012

Purchases of exchange-traded funds (BoJ) and real estate investment trusts (REITS)

USD lending (and collateral) arrangements (BoJ) in July 2016

Selected 'unconventional' monetary policies

Country	Date	Program	Description
Forward Guidance			
U.S.	12/16/2008		The Federal Open Market Committee (FOMC) "anticipates...exceptionally low levels of the federal funds rate for some time."
U.S.	3/18/2009		The FOMC "anticipates...exceptionally low levels of the federal funds rate for an extended period."*
U.S.	9/13/2012		The FOMC "will continue to maintain interest rates extremely low until at least mid-2015."*
U.S.	12/12/2012		The FOMC "decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's two percent longer-run goal, and longer-term inflation expectations continue to be well anchored."
Japan	10/5/2010		The bank "will maintain the virtually zero interest rate policy until it judges, on the basis of the understanding of medium-to long-term price stability."
Japan	1/22/2013		The bank announces an inflation target of two percent in addition to open-ended asset purchases.*
Japan	4/4/2013		The bank announces its intention to meet its 2 percent price stability target over about 2 years.

Source: International Monetary Fund

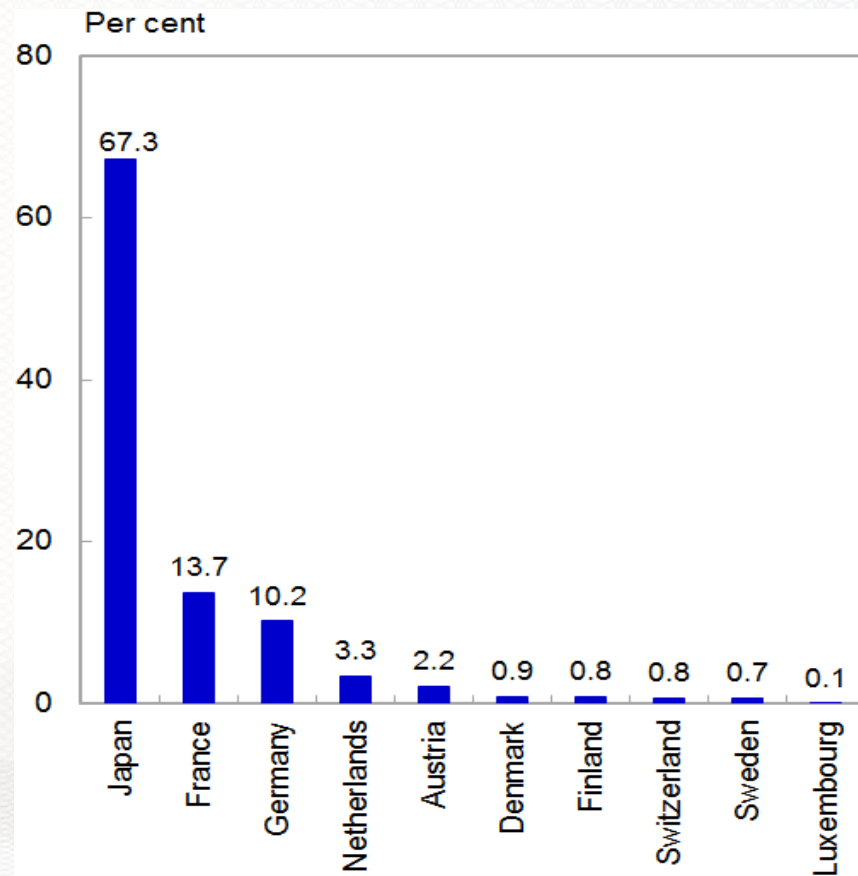
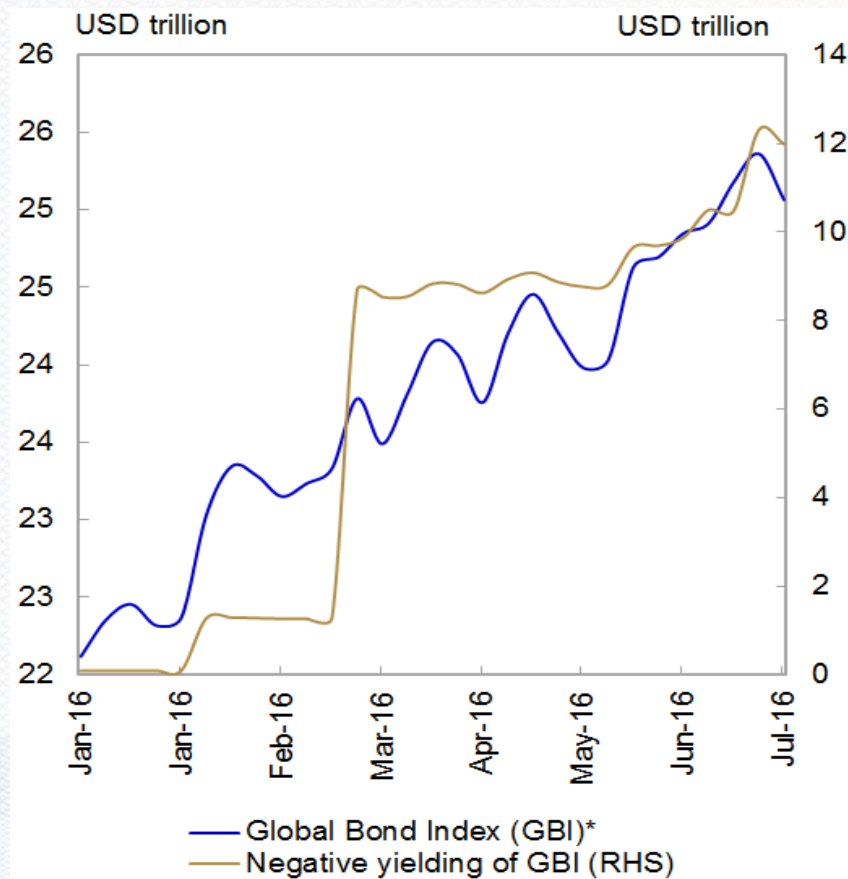
Selected 'unconventional' monetary policies (cont.)

Country	Date	Program	Description
Bond Purchases			
U.S.	3/18/2009	LSAP1	The FOMC announces it will purchase longer-term Treasury securities (US\$300 billion) over the next six months.* It had expressed intention to do so earlier on 1/28/2009 and Chairman Bernanke had expressed intention on 12/1/2008. On 8/12/2009 the FOMC decided to "gradually slow the pace" of Treasury purchases and removed "up to" language with reference to Treasury purchase limit.
U.S.	11/3/2010	LSAP2	The FOMC "intends to purchase a further US\$600 billion of longer term Treasury securities by the end of the second quarter of 2011, a pace of about US\$75 billion per month." The FOMC expressed intention of purchasing longer-term Treasuries on 8/10/2010 and 9/21/2010. Chairman Bernanke expressed intention on 8/27/2010.
U.S.	9/21/2011	MEP	The FOMC "intends to purchase, by the end of June 2012, US\$400 billion of Treasury securities with remaining maturities of six years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of three years or less." On 6/20/2012 the FOMC "decided to continue throughout the end of the year its program to extend the average

Selected 'unconventional' monetary policies (cont.)

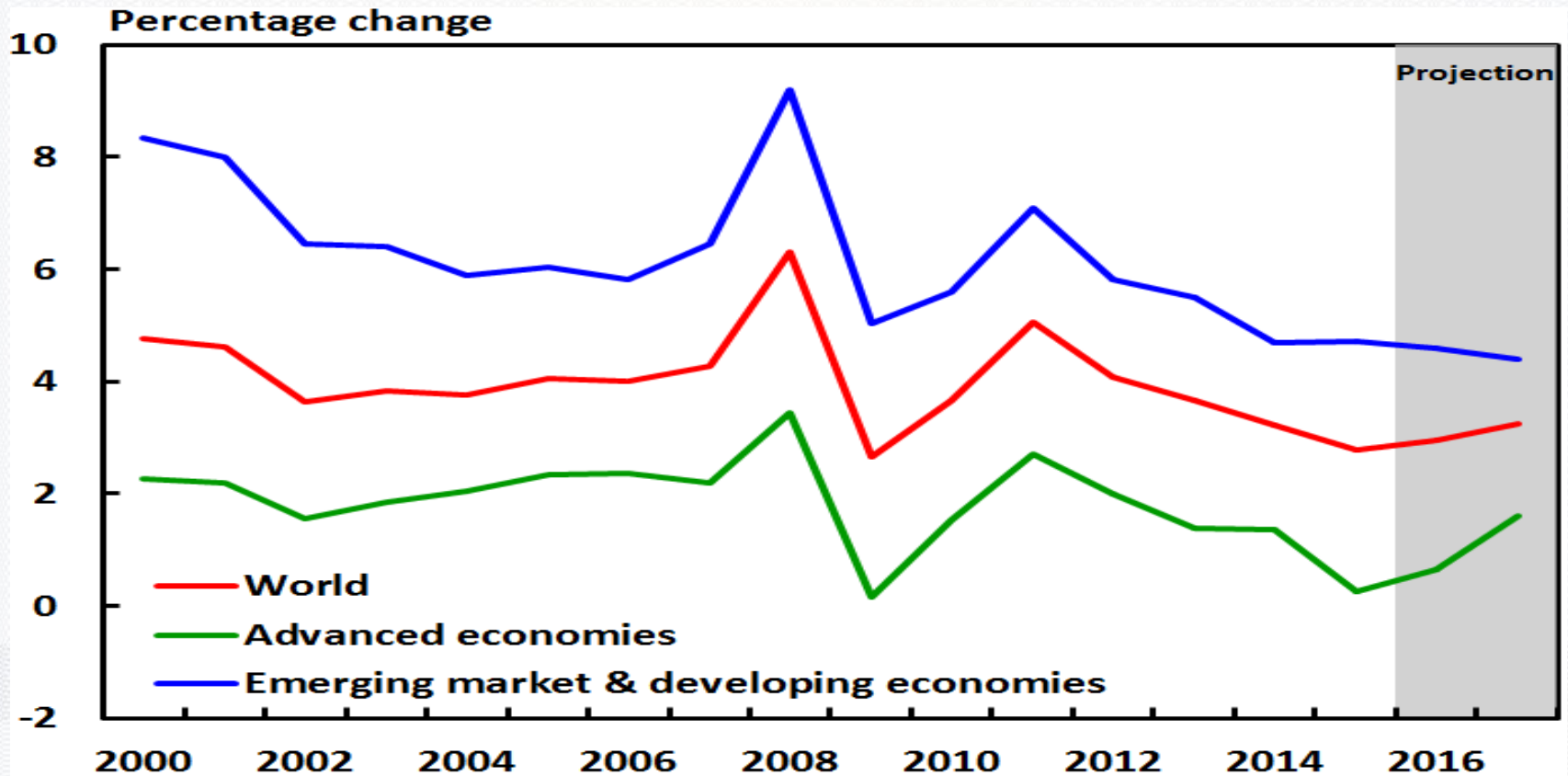
Country	Date	Program	Description
Targeted Liquidity Provision and Private Asset Purchases			
U.S.	11/25/2008	LSAP1	The Federal Reserve will purchase up to US\$100 billion in agency debt and up to US\$500 billion in MBS. The Fed announces the creation of the TALF. The FOMC expands the program on 3/18/2009 announcing it will purchase US\$750 billion in MBS and US\$100 billion in agency debt over the next six months. On 9/23/2009 the FOMC decided to "gradually slow the pace" of MBS purchases and removed "up to" language with reference to MBS purchases limit. On 11/4/2009 the FOMC announces it "will purchase...about US\$175 billion of agency debt" and removed "up to" language with reference to agency debt limit.
U.S.	9/13/2012	LSAP3	The FOMC will purchase US\$40 billion MBS a month - open-ended.* Chairman Bernanke had expressed the intention on 8/31/2012.
U.K.	7/12/2012	FLS	FLS is announced. Banks and building societies that increase lending to U.K. households and businesses will be able to borrow more in the FLS, and do so at lower cost than those that scale back lending.
Japan	5/21/2010		Introduction of the fund-provisioning measure to support strengthening the foundations for economic growth (loan support program).

Prevalence of negative yielding bonds internationally



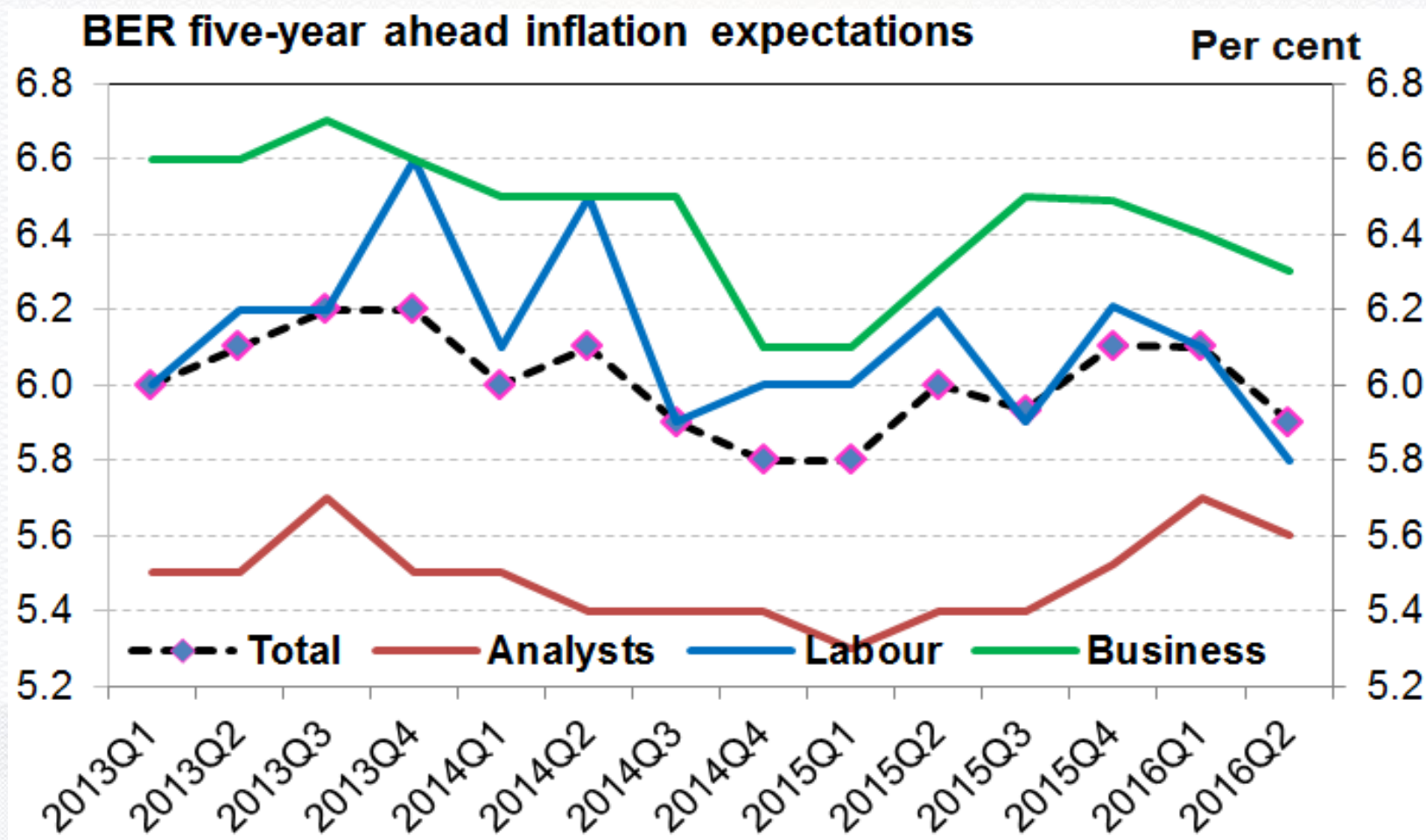
Inflation trends globally

Consumer price inflation

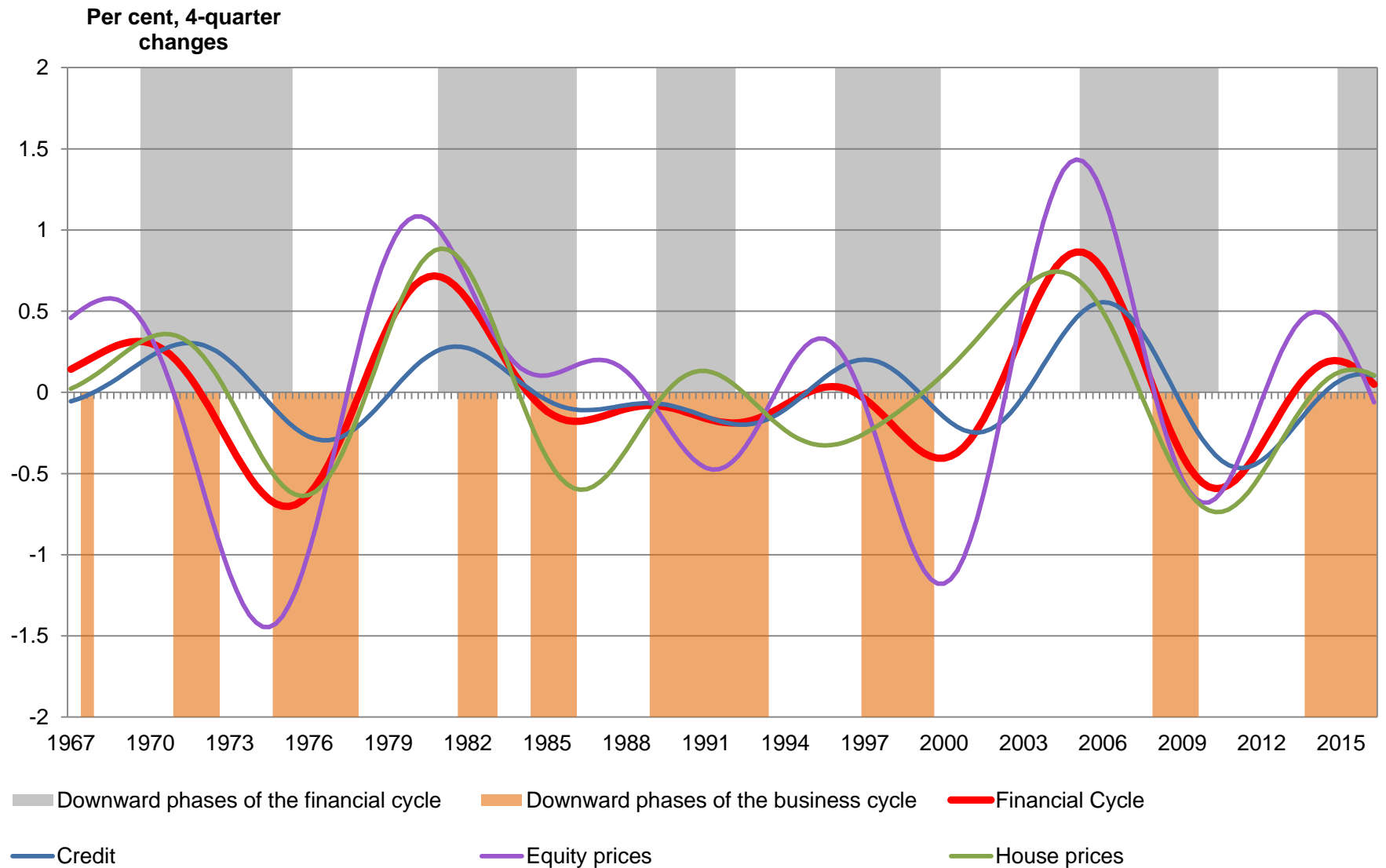


Sources: International Monetary Fund, World Economic Outlook Database (April 2016) and WEO Update (July 2016)

Evolution of inflation expectations in South Africa



Financial cycle vs business cycle in South Africa



Defining 'financial stability'

Financial stability is not an end in itself.

Like price stability, it is generally regarded as an important precondition for sustainable economic growth, development, and employment creation.

Financial stability refers to a financial system that:

- **is resilient to systemic shocks;**
- **facilitates efficient financial intermediation; and**
- **mitigates the macroeconomic costs of disruptions in such a way that confidence in the system is maintained.**

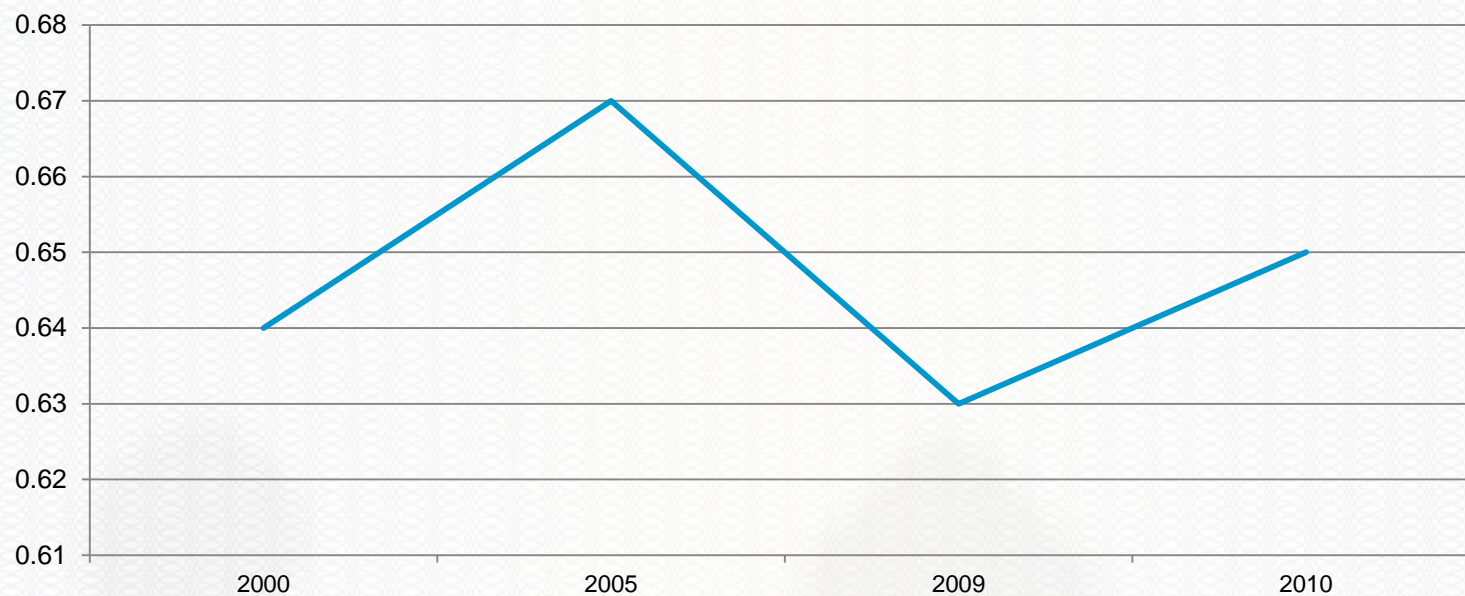
Financial Sector Regulation Bill

Purpose of the FSR Bill

- **Establish a system of financial regulation by establishing the Prudential Authority and the Financial Sector Conduct Authority.**
- **Preserve and enhance financial stability.**
- **Establish the Financial Stability Oversight Committee to regulate and supervise financial product providers and financial service providers.**
- **Improve market conduct in order to protect financial customers.**

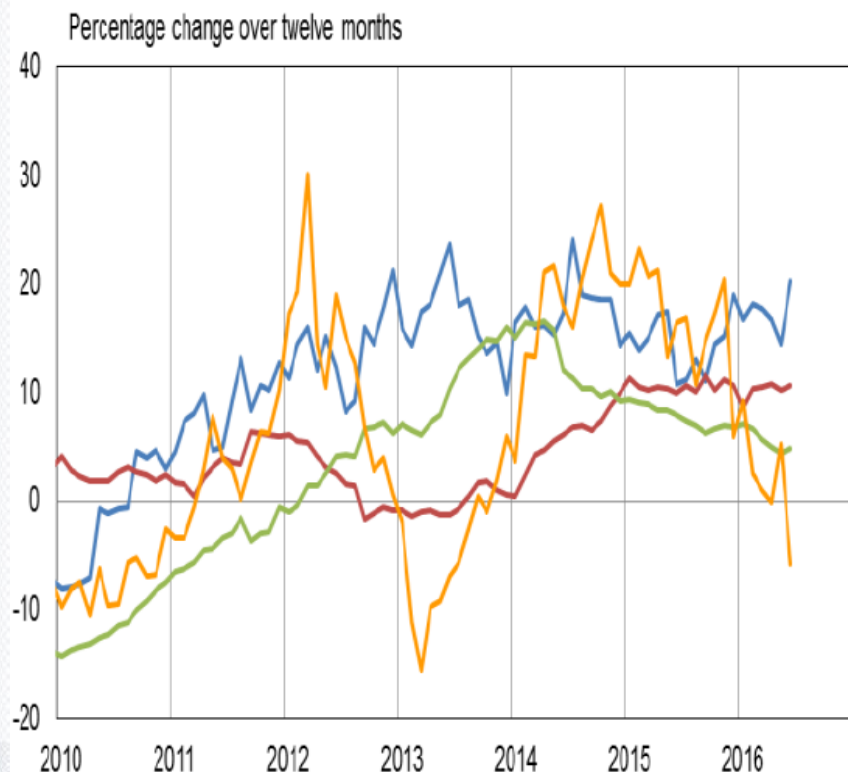
Gini coefficient for South Africa based on expenditure

Gini coefficient for South Africa based on expenditure



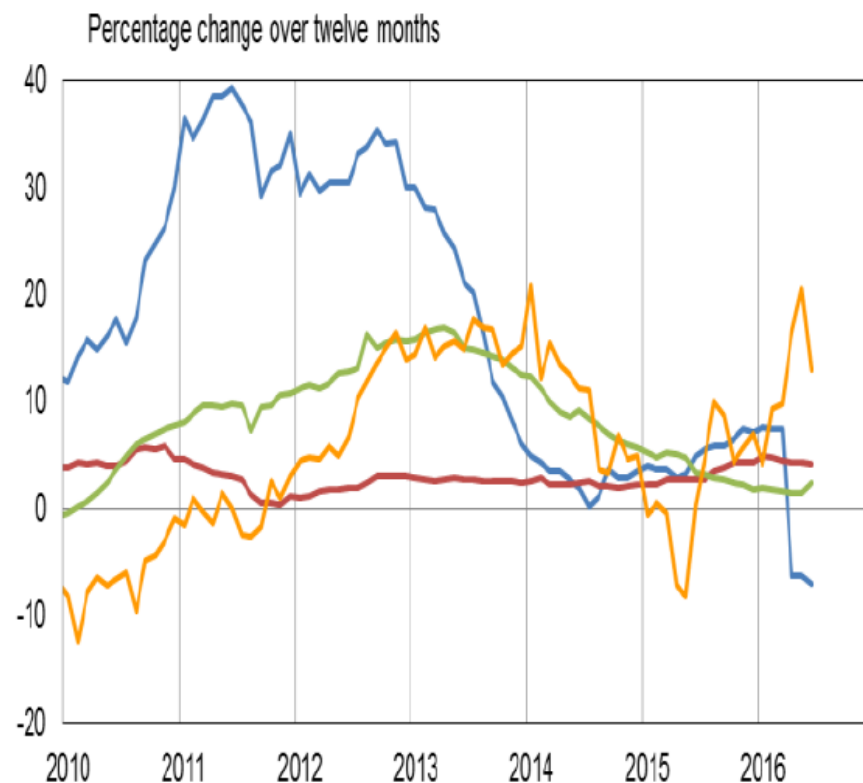
Loans and advances extended to the corporate and household sectors in South Africa

Loans and advances extended to corporate sector



- General loans
- Mortgage advances
- Instalment sale credit and leasing finance
- Overdrafts

Loans and advances extended to household sector



- General loans
- Mortgage advances
- Instalment sale credit and leasing finance
- Overdrafts



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Thank you