



# The weather and the climate: South Africa's macroeconomic position

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Agbiz Congress 2024

Dr David Fowkes

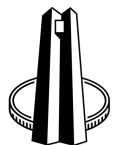
Adviser to the Governors



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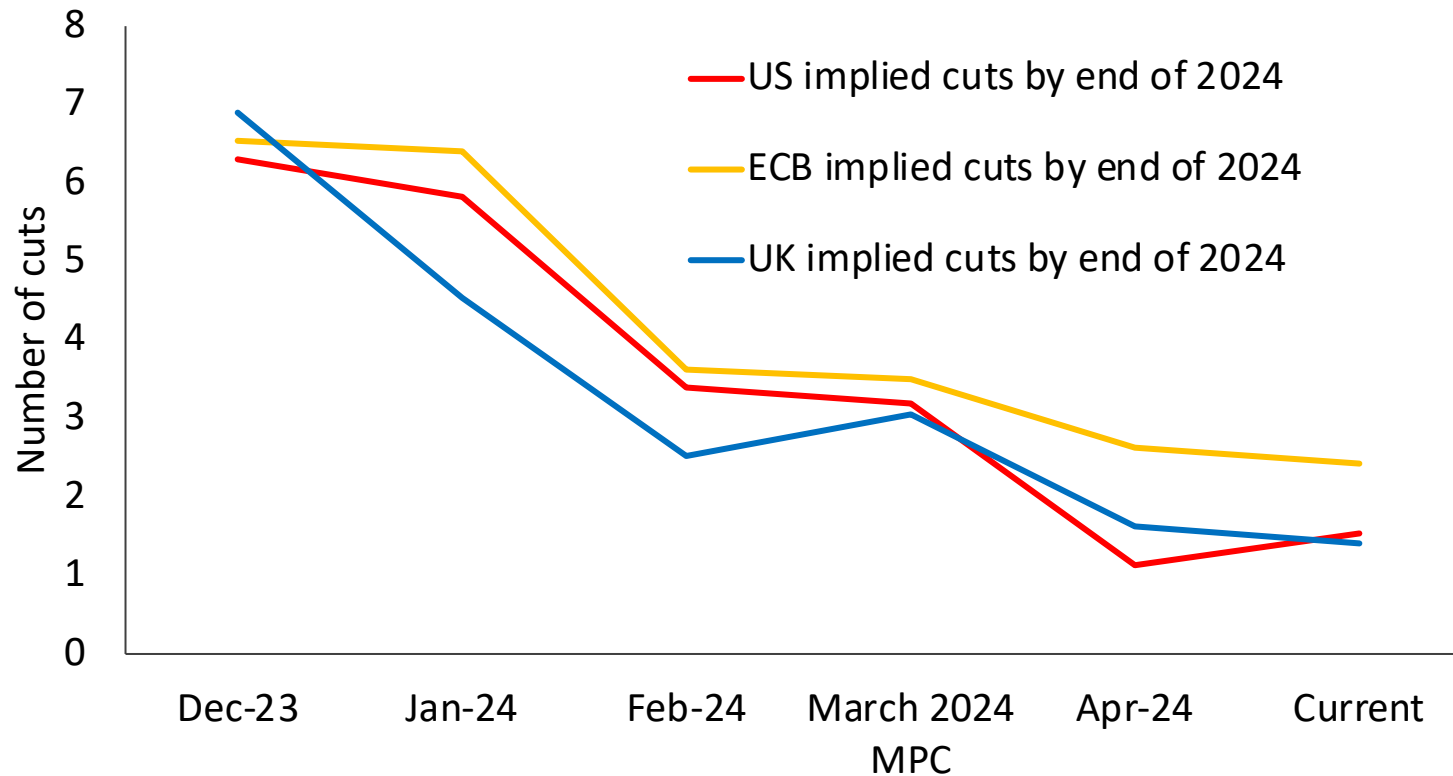
# Overview

- Part 1: The economic weather
  - Inclement start to the year
  - A little sunshine in Q2
  - But conditions are very changeable right now
- Part 2: The economic climate
  - Low growth and falling living standards
  - Inflation typically on the high side
  - Very low savings rates



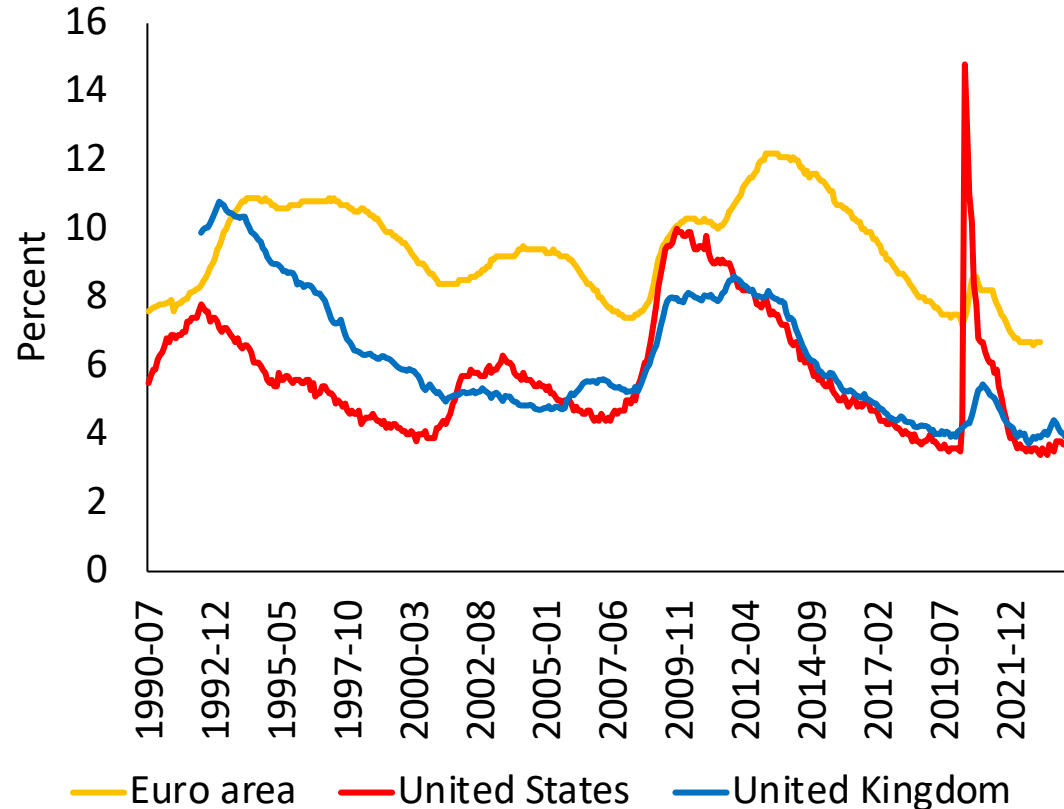
# This was going to be a year of big rate cuts by major central banks, but those expectations didn't last

No. of 25bps cuts priced in by 4Q 2024

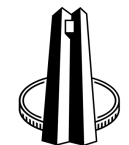
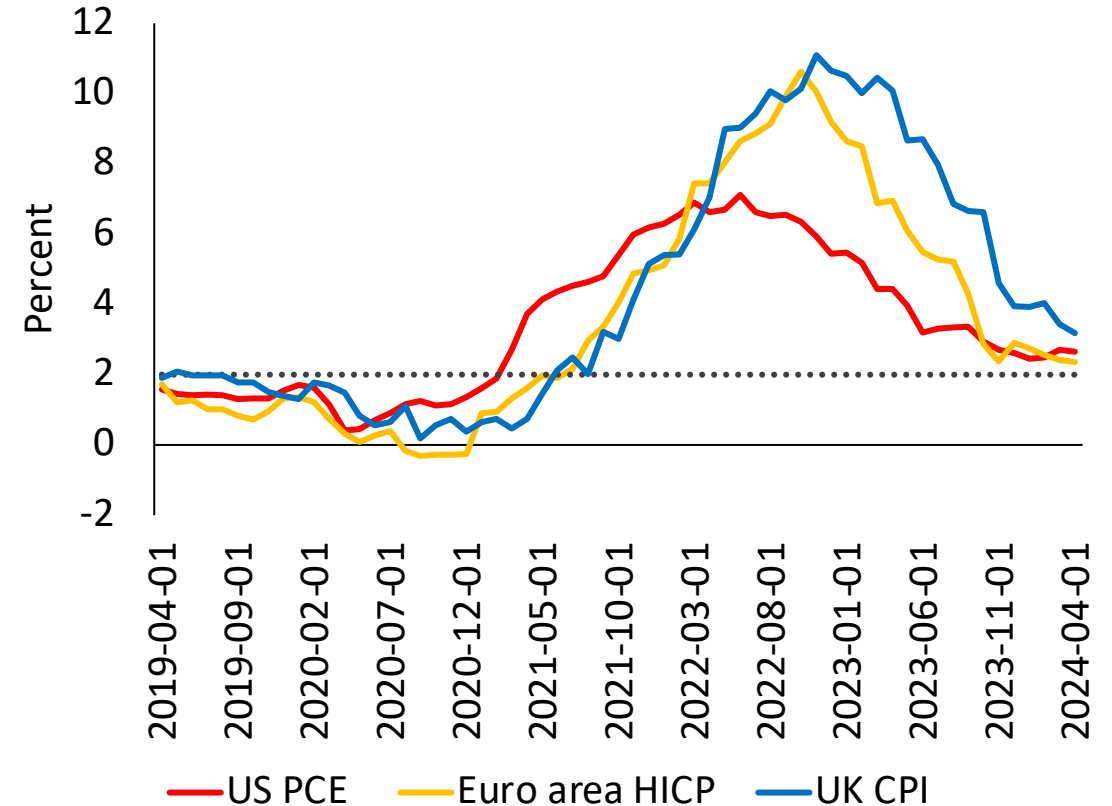


# “Hike until something breaks” But unemployment in major economies remains low, while inflation persists

## Unemployment

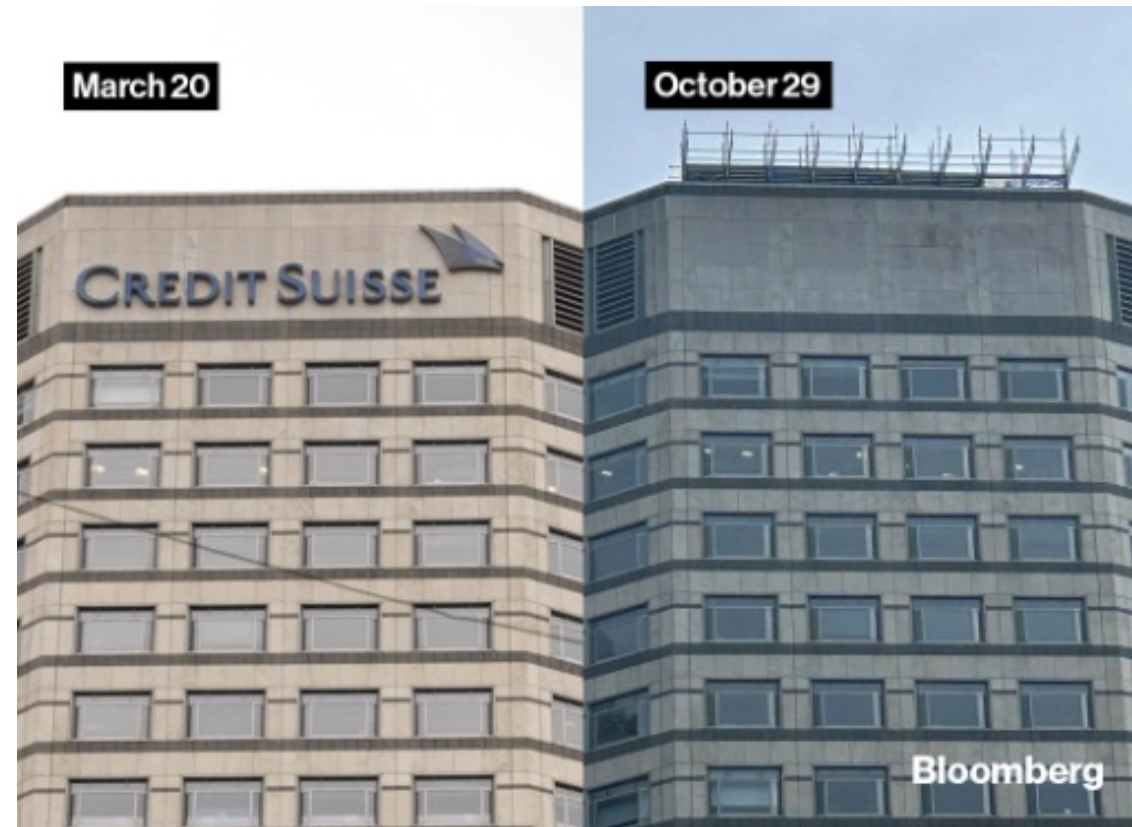


## Inflation in Major Advanced Economies



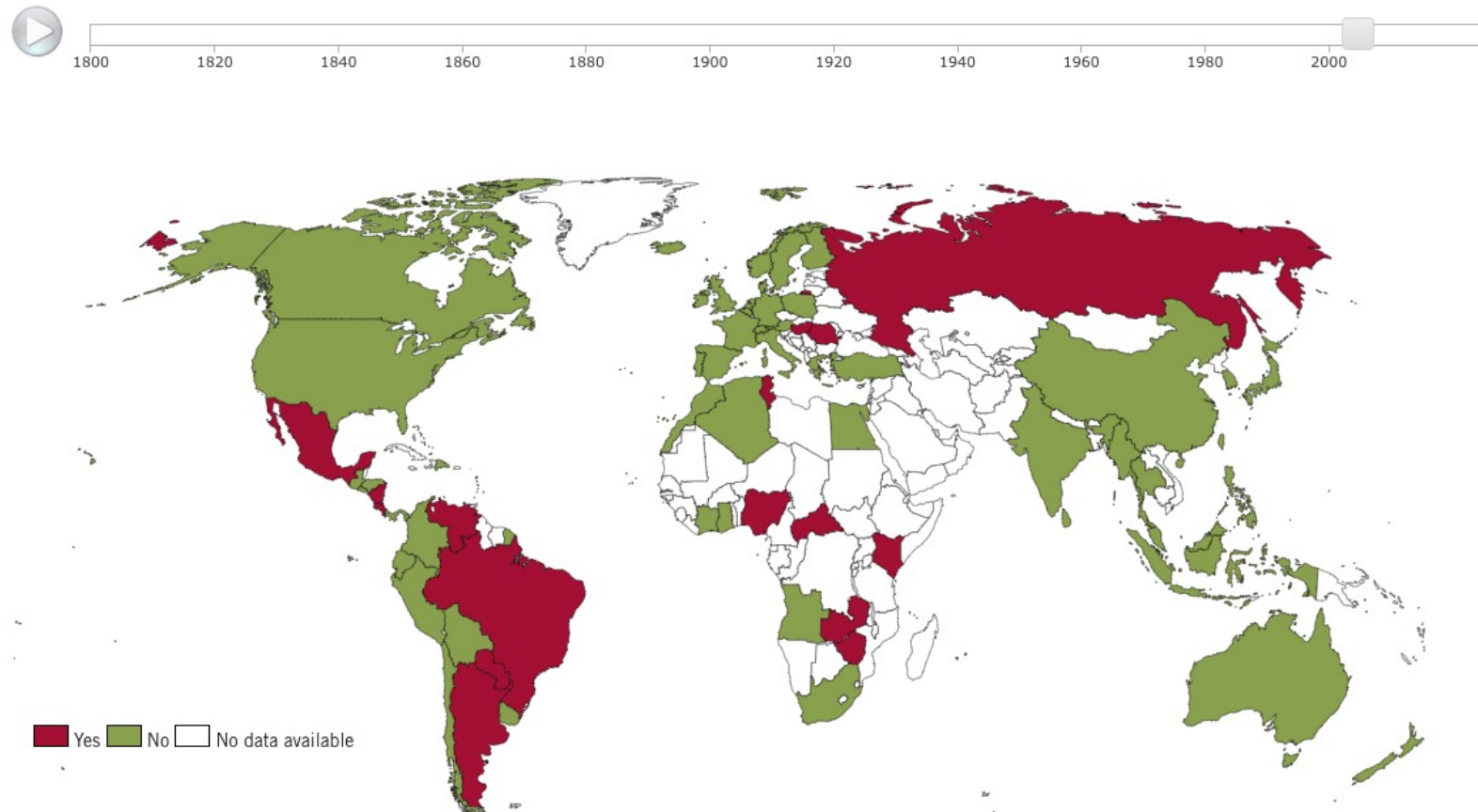


# The 2023 bank closures were less disruptive than feared

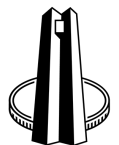


# The resilience of emerging markets has also been a popular theme in the global conversation

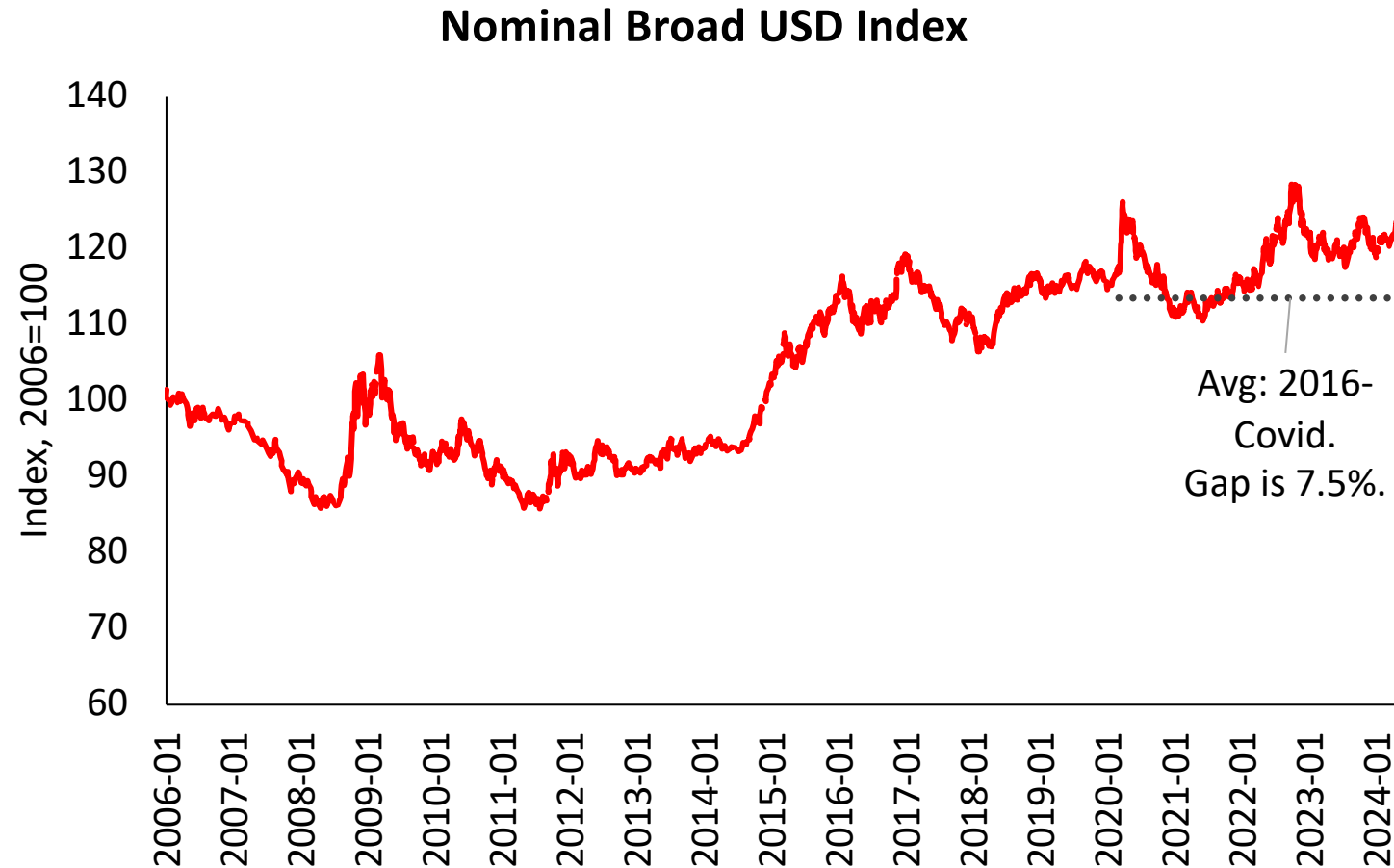
Systemic Crisis: Year 1995



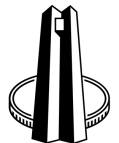
Source: <https://www.hbs.edu/behavioral-finance-and-financial-stability/data/Pages/global.aspx>



# Still, the dollar remains unusually strong

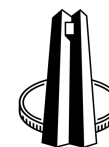
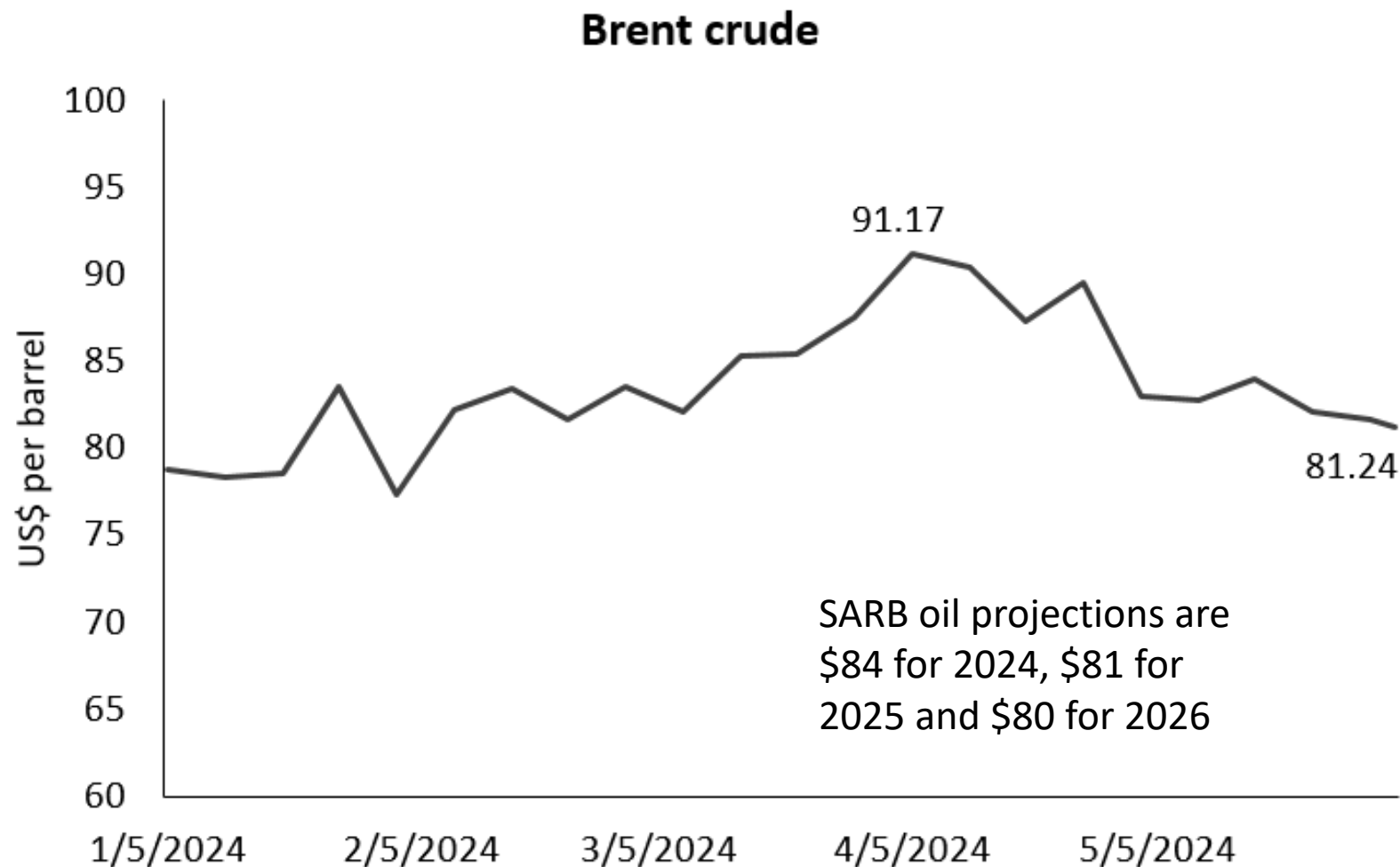


Source: St Louis Fed, FRED database



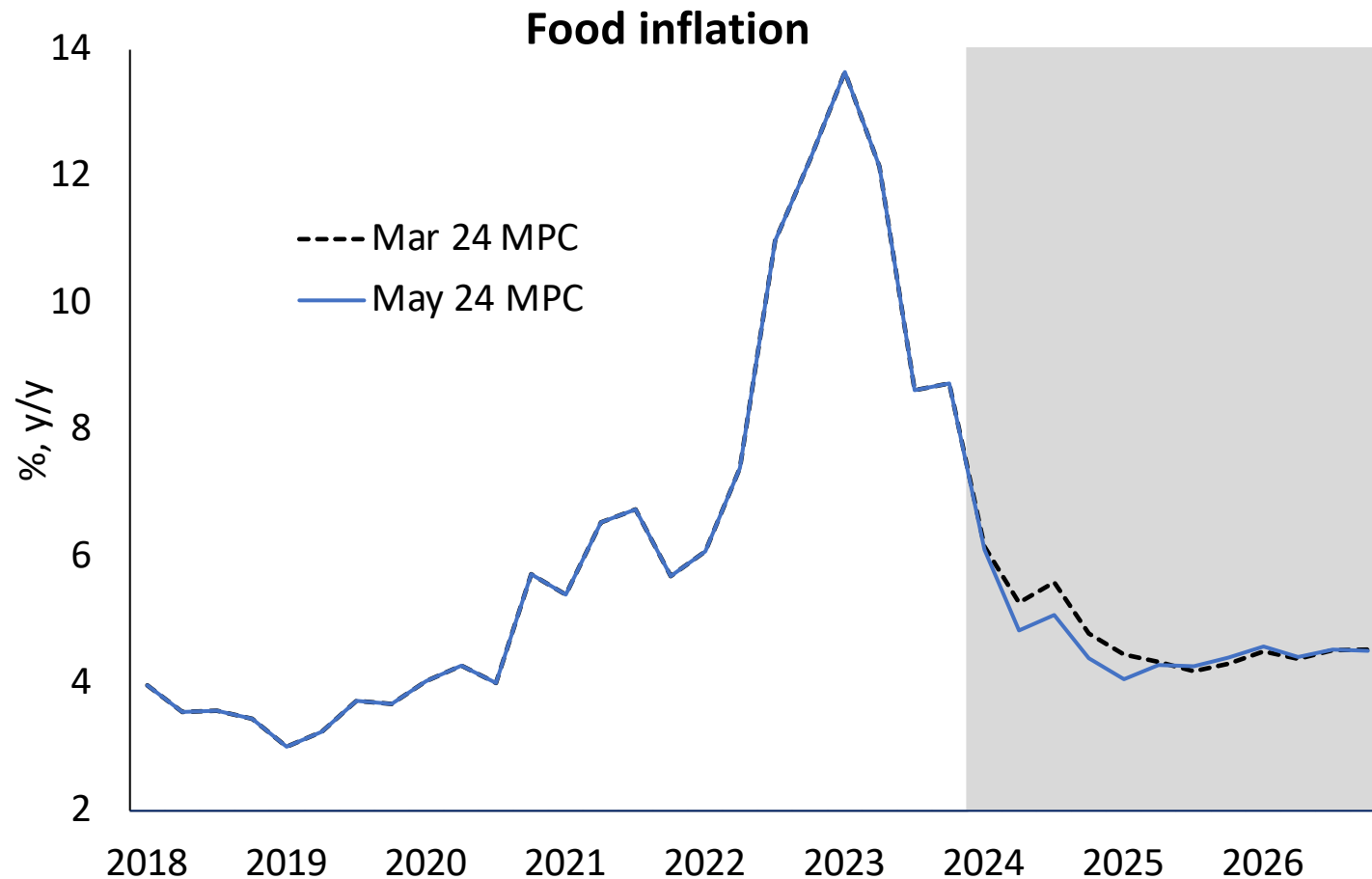


# Geopolitics briefly pushed oil over \$90 per barrel, but it has receded again

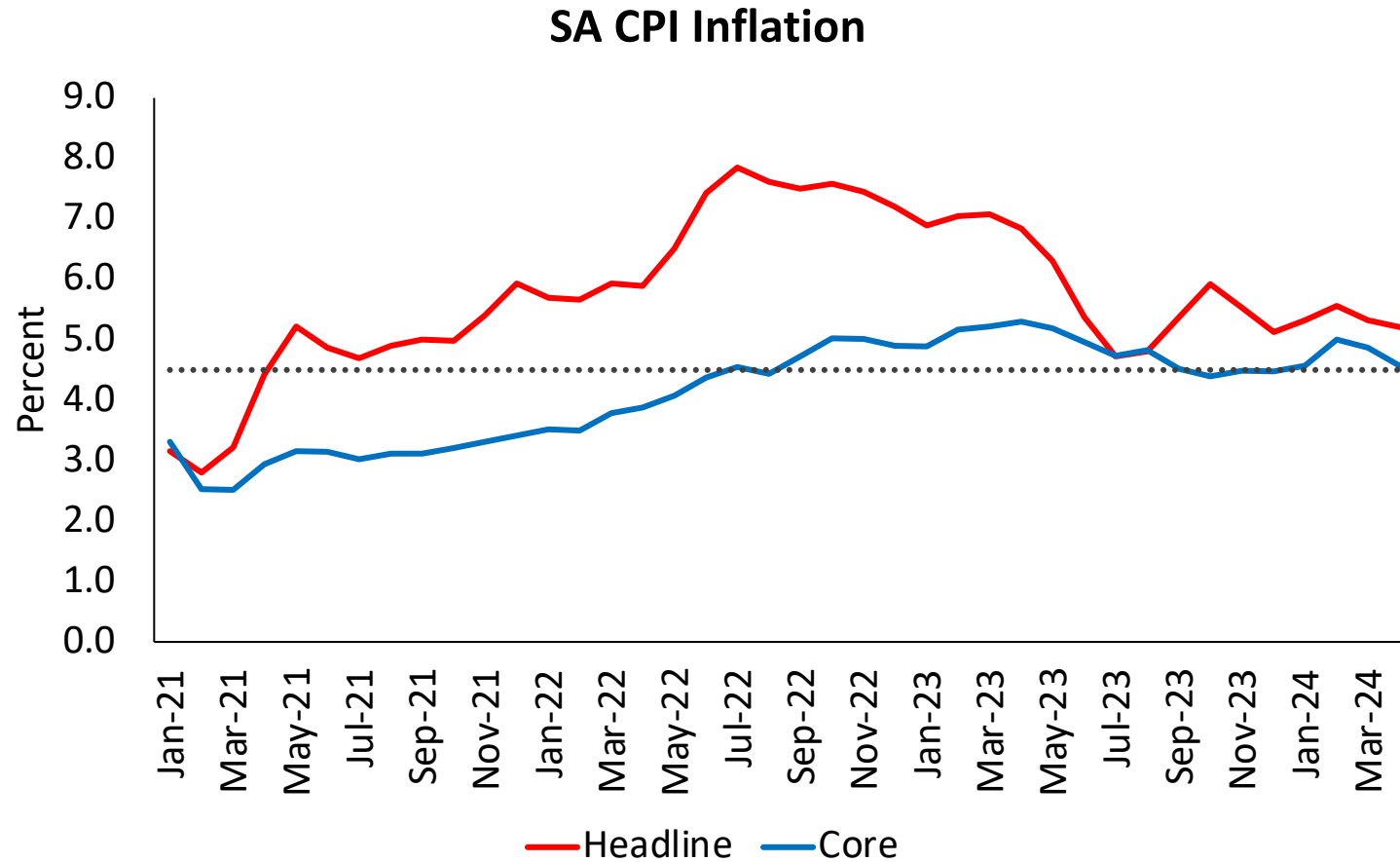




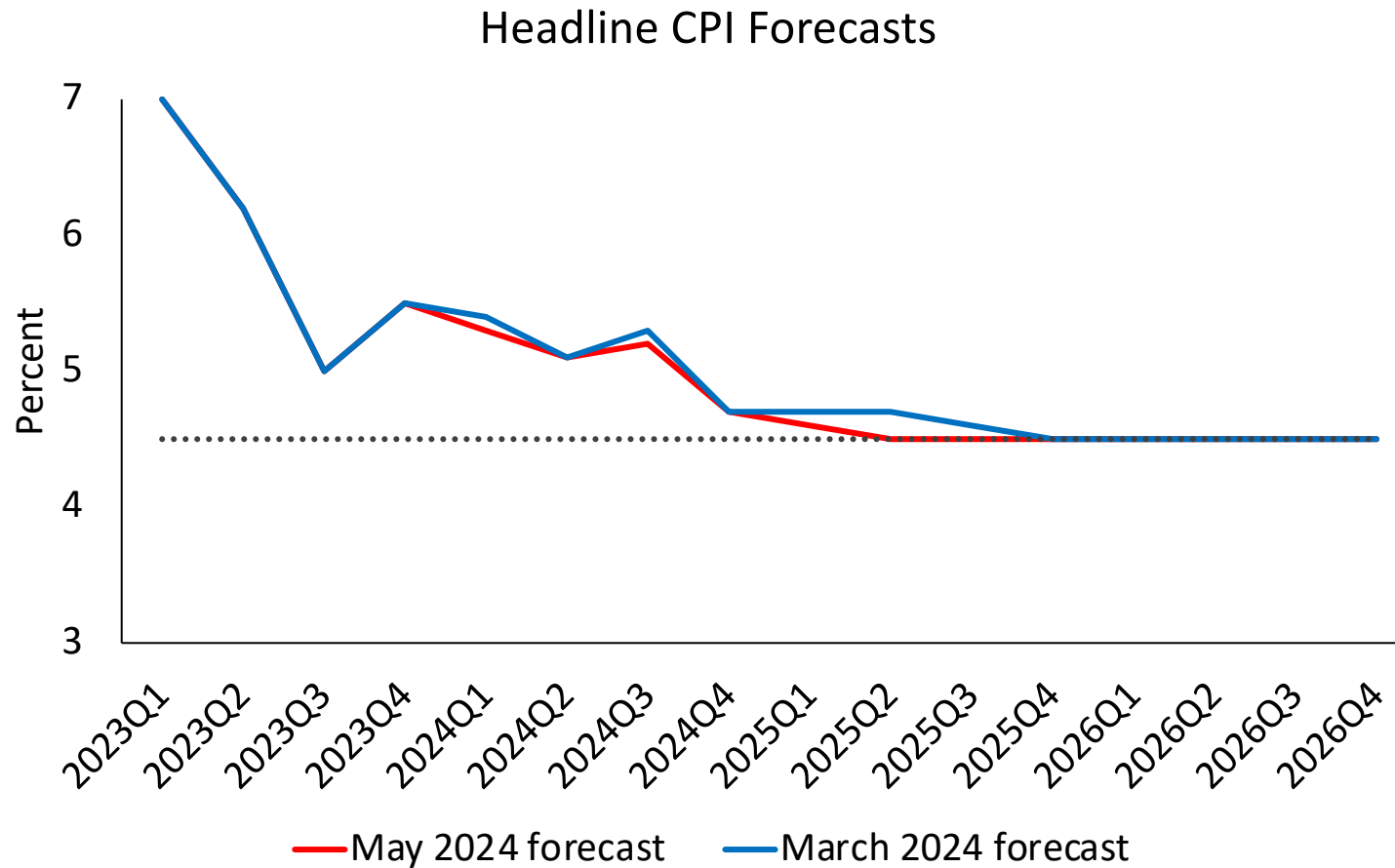
# Locally, food inflation is falling, after a big surge – how much more help do we get from this category?



# Some pressure in underlying inflation – but we have been able to keep core mostly contained



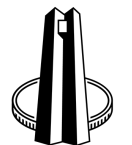
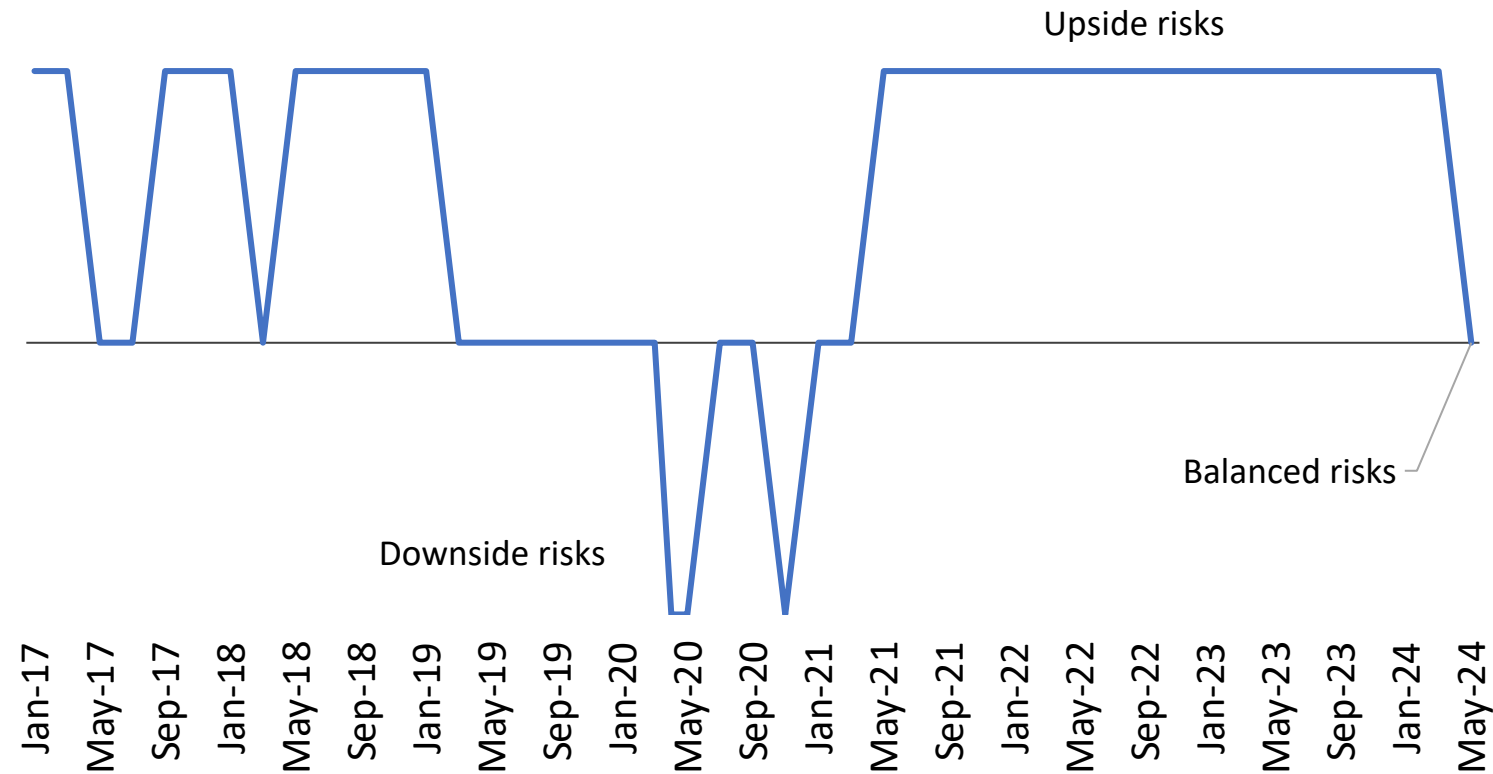
# Inflation seems to be heading back to 4.5% – maybe sooner rather than later



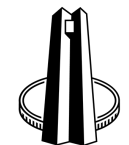
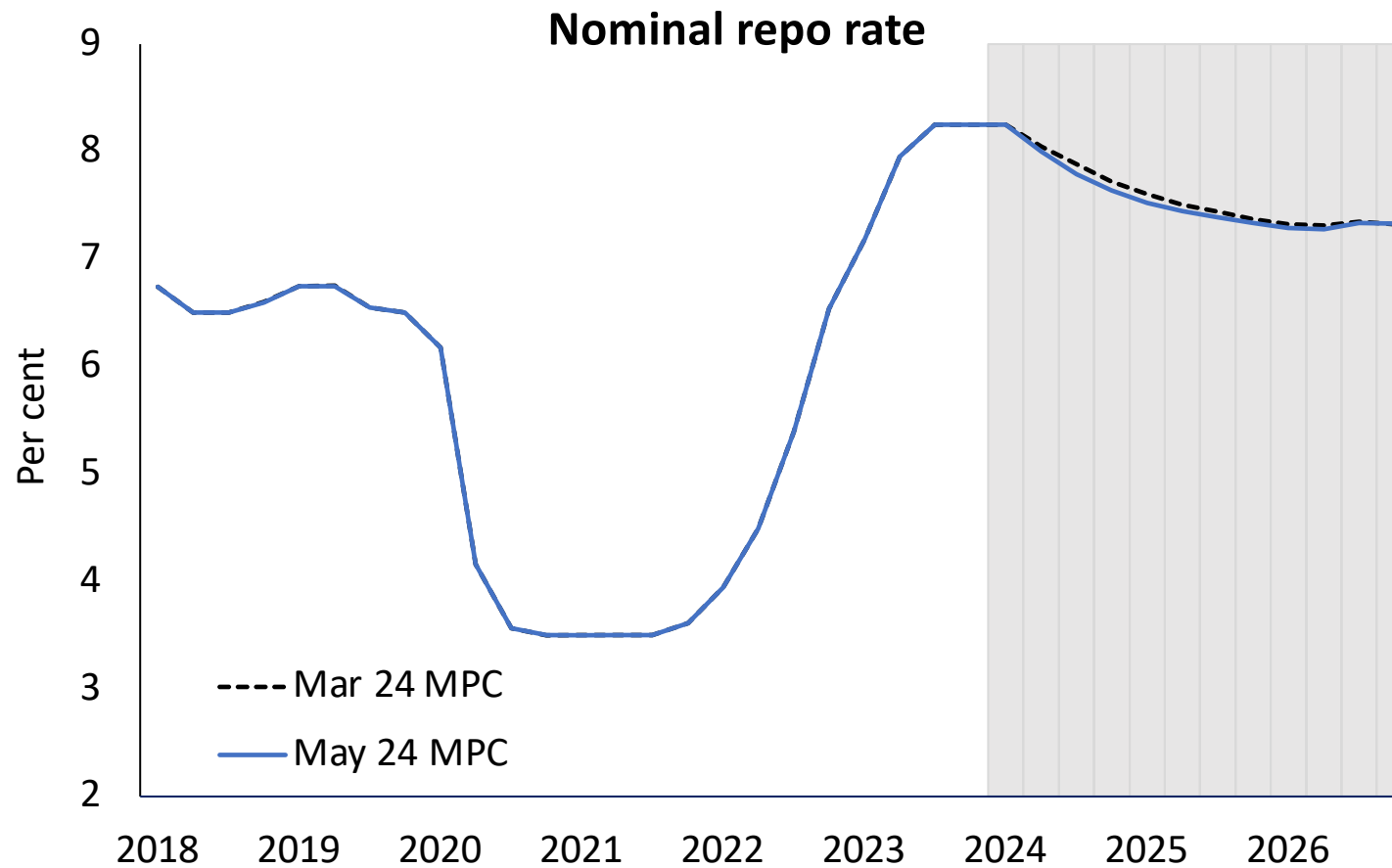


# Risks assessed as broadly balanced – first time since May 2021

Inflation risk assessment



# Our model suggests lower rates this year



# But of course, conditions are very unsettled right now – major inflection point in SA history?



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## South Africa on the precipice

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### South African Stocks and Currency Drop After Early Election Results

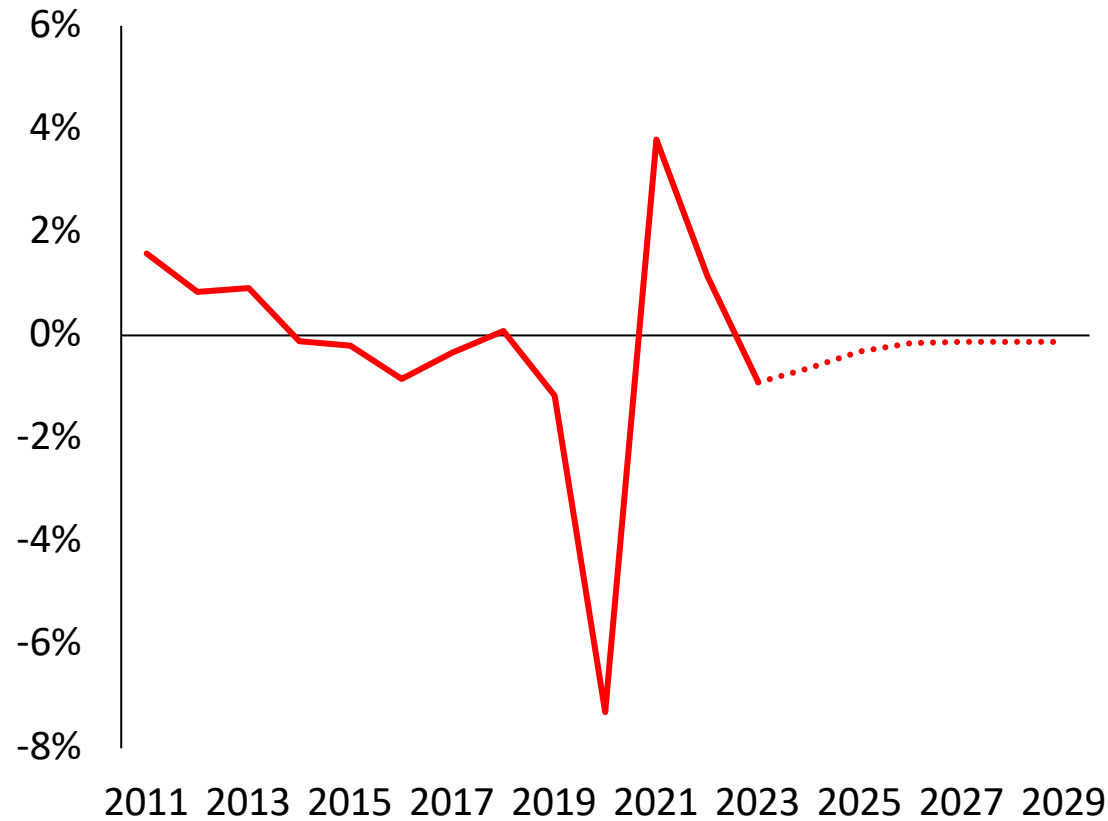
By *Chelsey Dulaney*, Reporter

Cyril Ramaphosa casts his ballot at a polling station in Soweto. His party has won a far smaller share of the vote than it 19 © Phill Magakoe/AFP/Getty Images



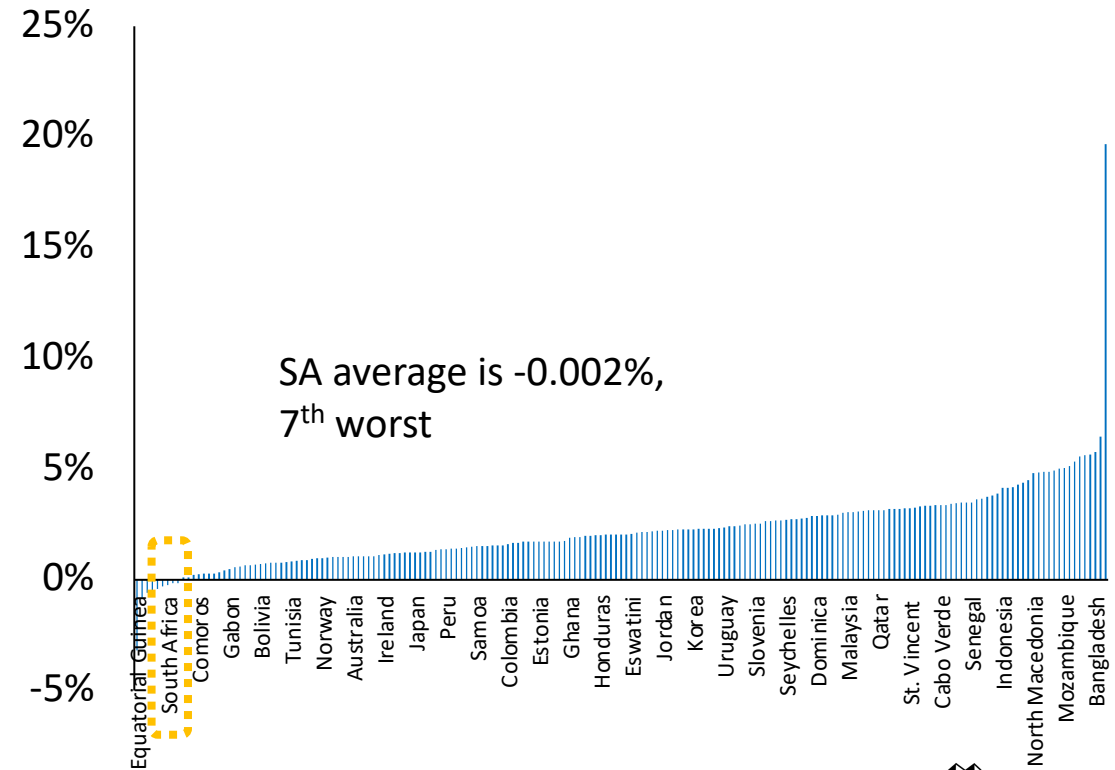
# Growth in SA very low for a decade, and the outlook is also problematic

Growth, GDP per capita

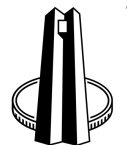


Source: IMF

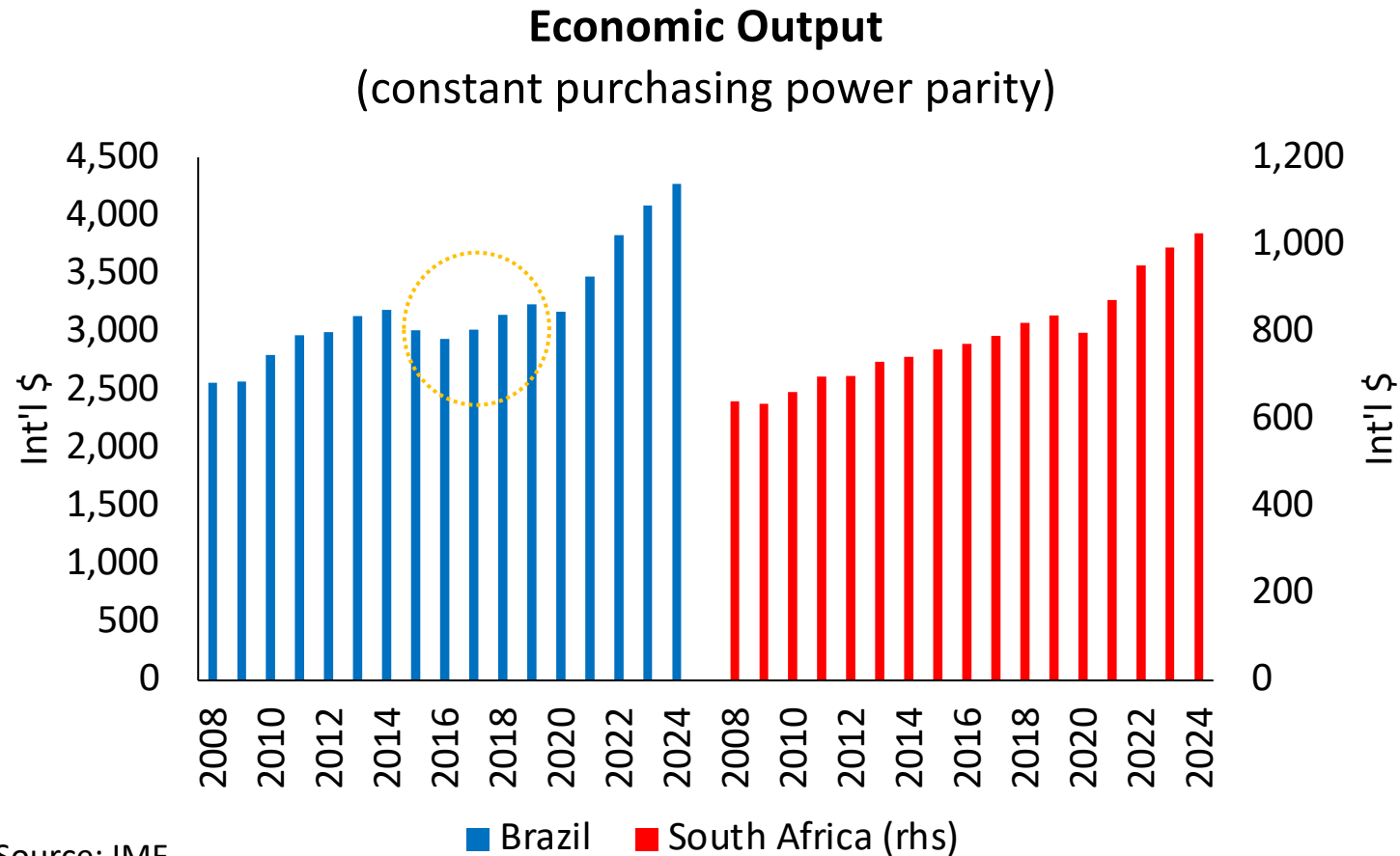
Per capita GDP growth  
Average projection, 2024-2029



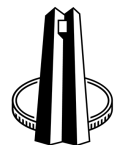
Source: IMF



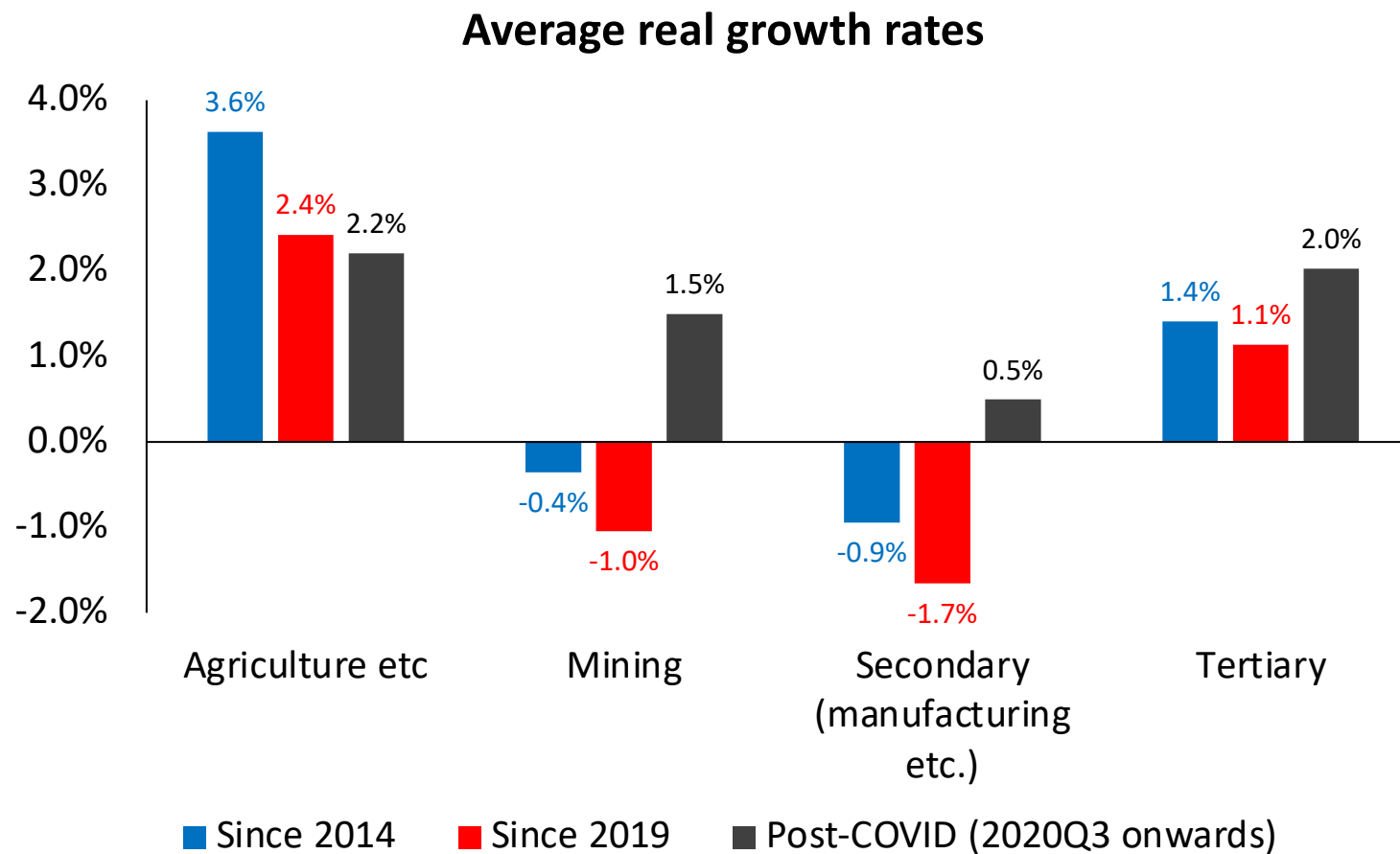
# Perhaps the real surprise is the *resilience* of output: the economy has absorbed a lot of bad news...



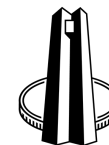
In Brazil, output did not recover to 2014 levels until 2019



# ... for which the agricultural sector no doubt deserves some credit

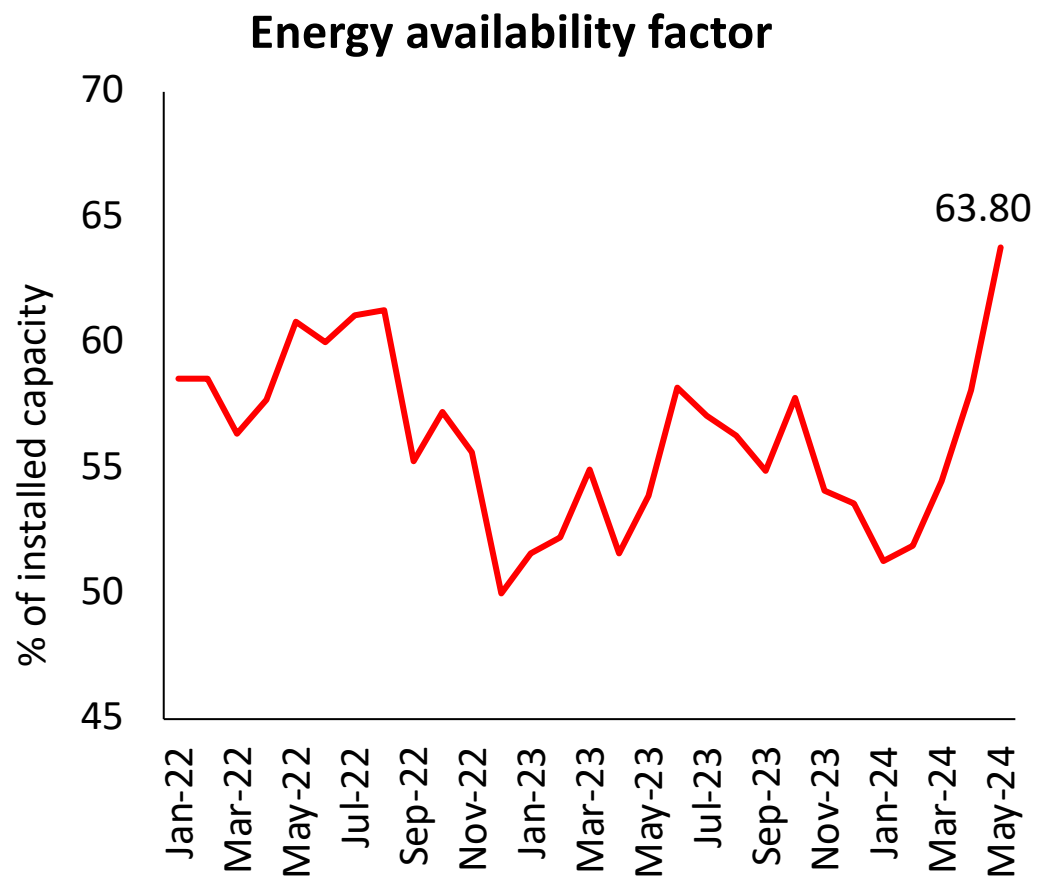


Source: Haver

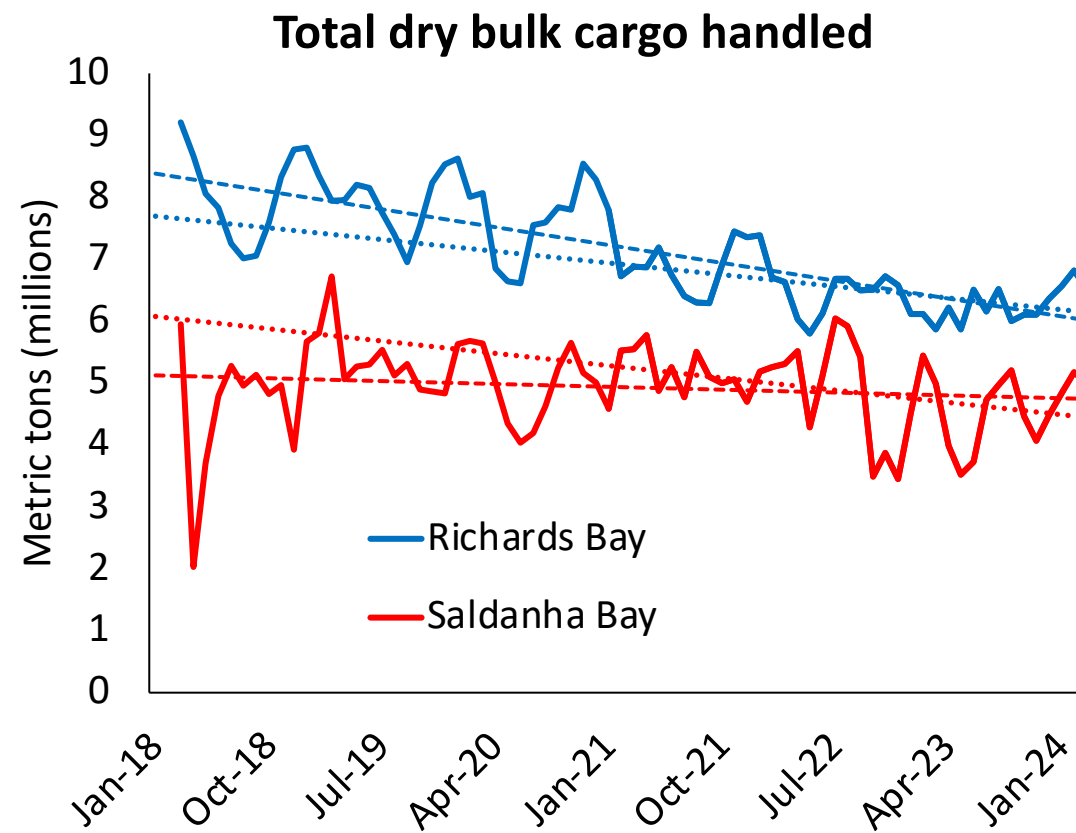




# Lots of obstacles to growth, starting with infrastructure problems



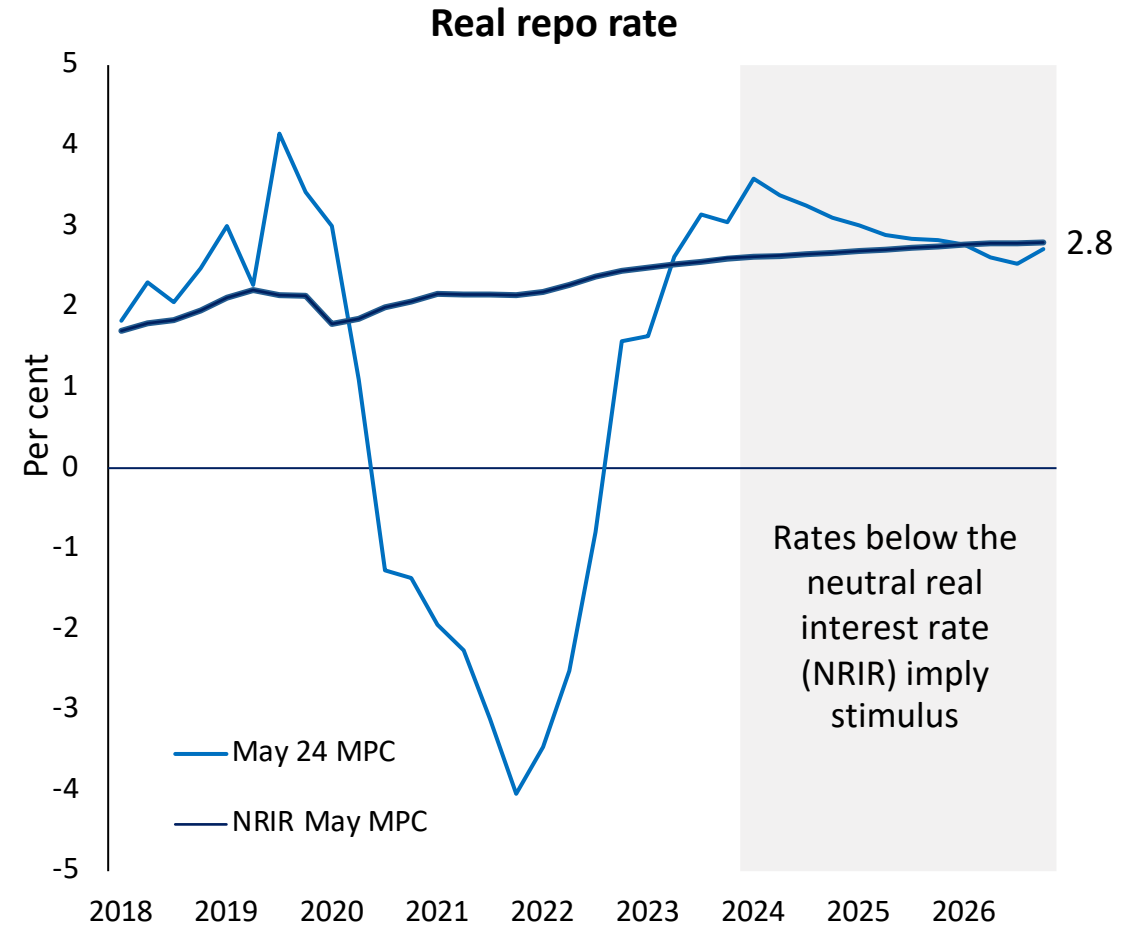
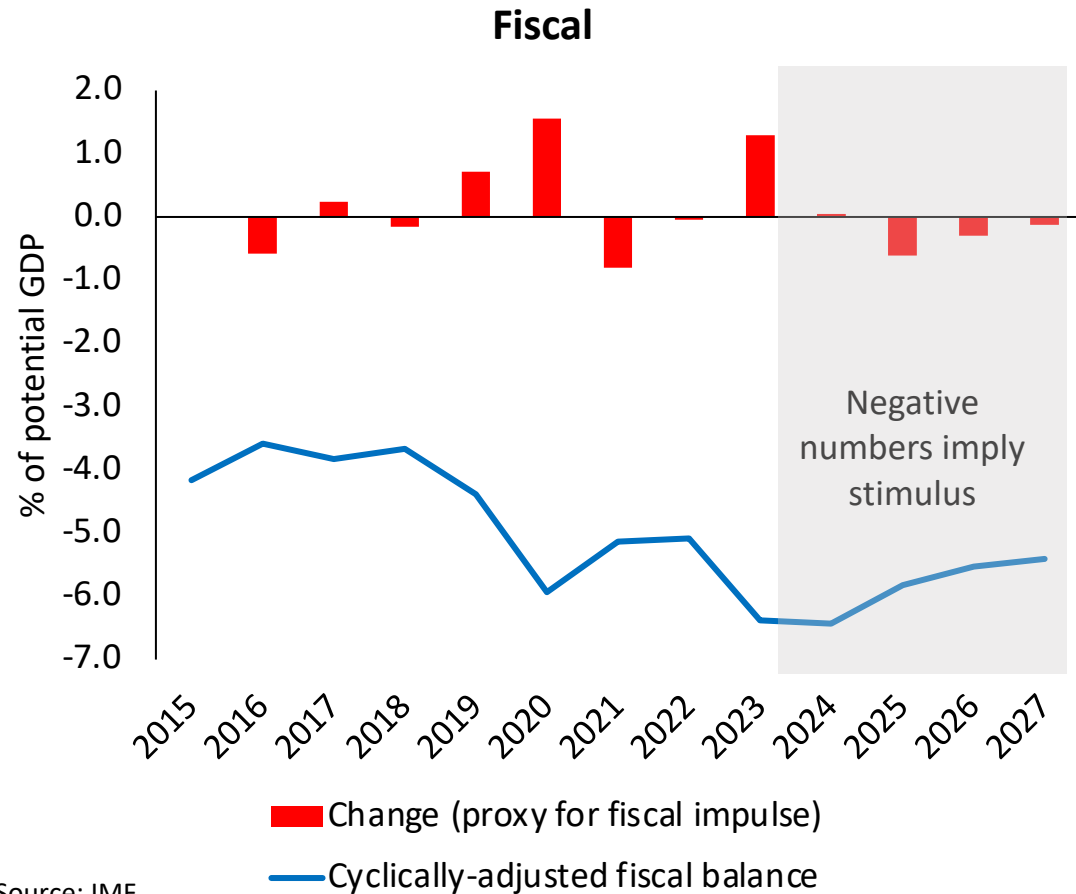
Source: Eskom



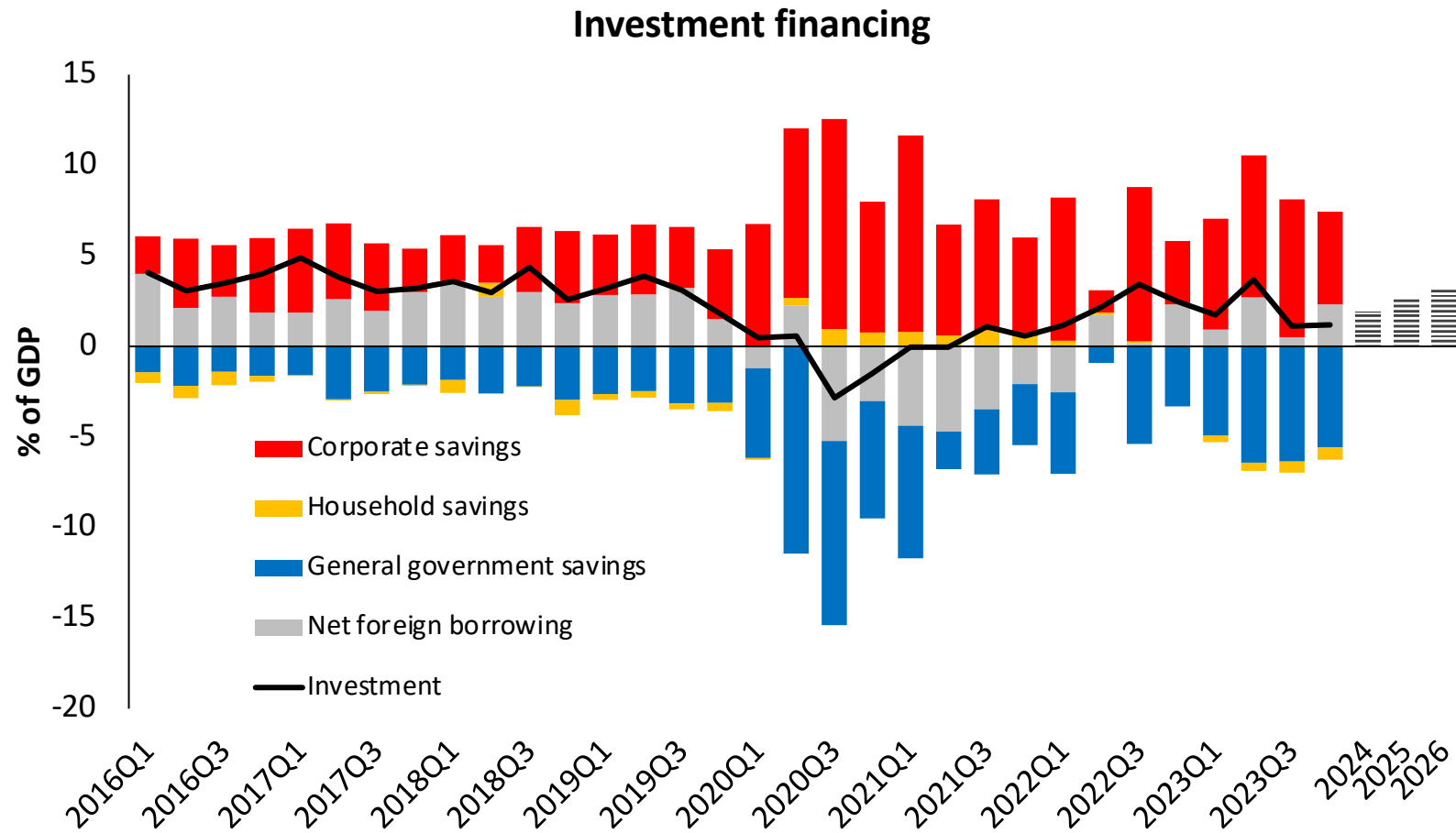
\* Dashed line is the overall trend; dotted line is trend since 2021  
Sources: Transnet Port Authority and SARB



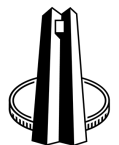
# Also important to think about the macro. mix



# Savings are low, & driven lower by fiscal policy

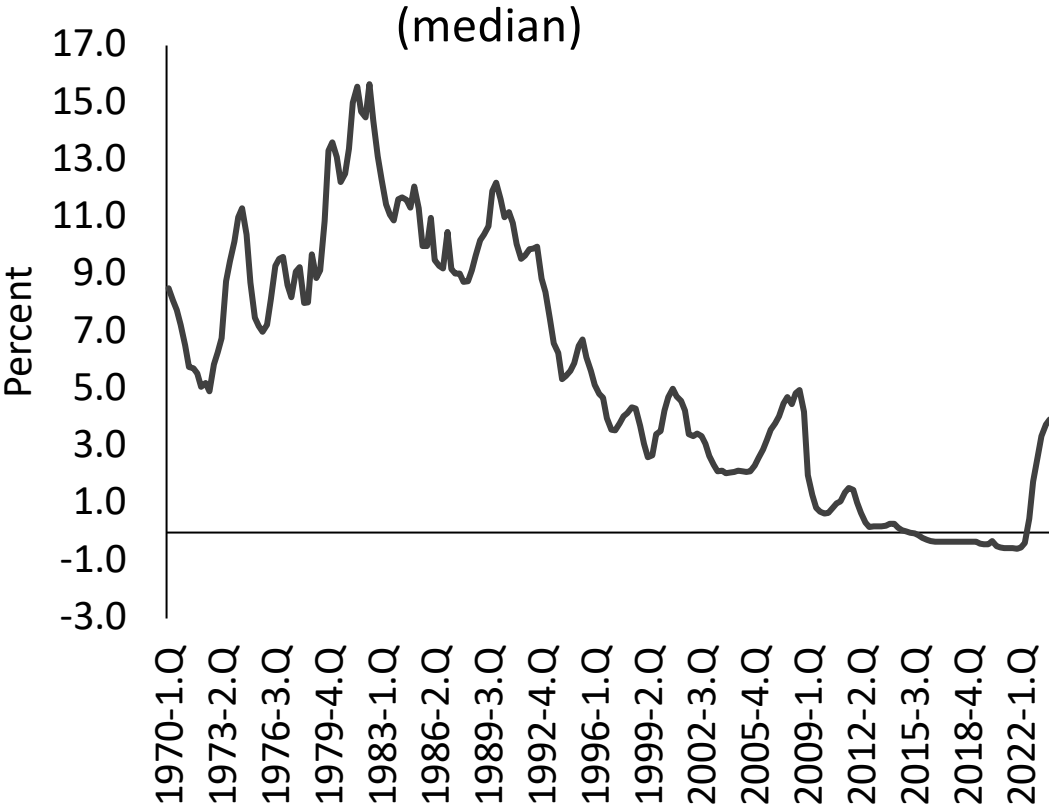


Sources: Stats SA and SARB



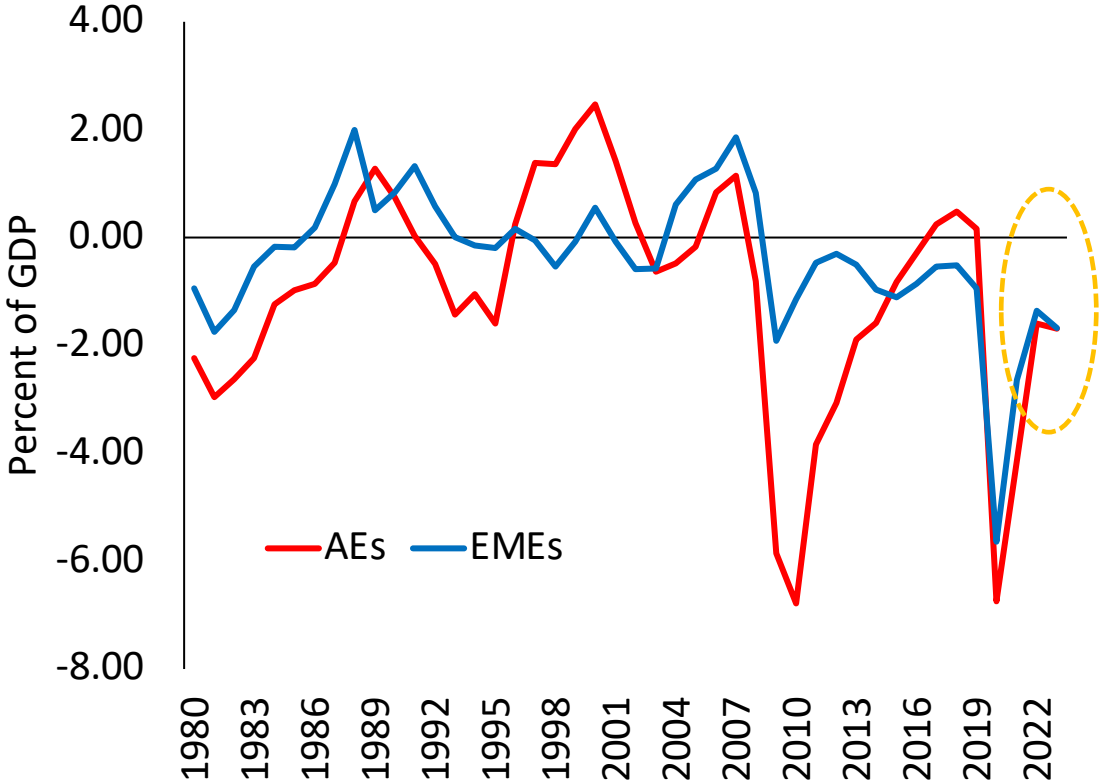
# Global conditions may be turning against borrowers

Global short-term interest rates

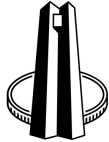


Source: BIS

Global primary fiscal deficits

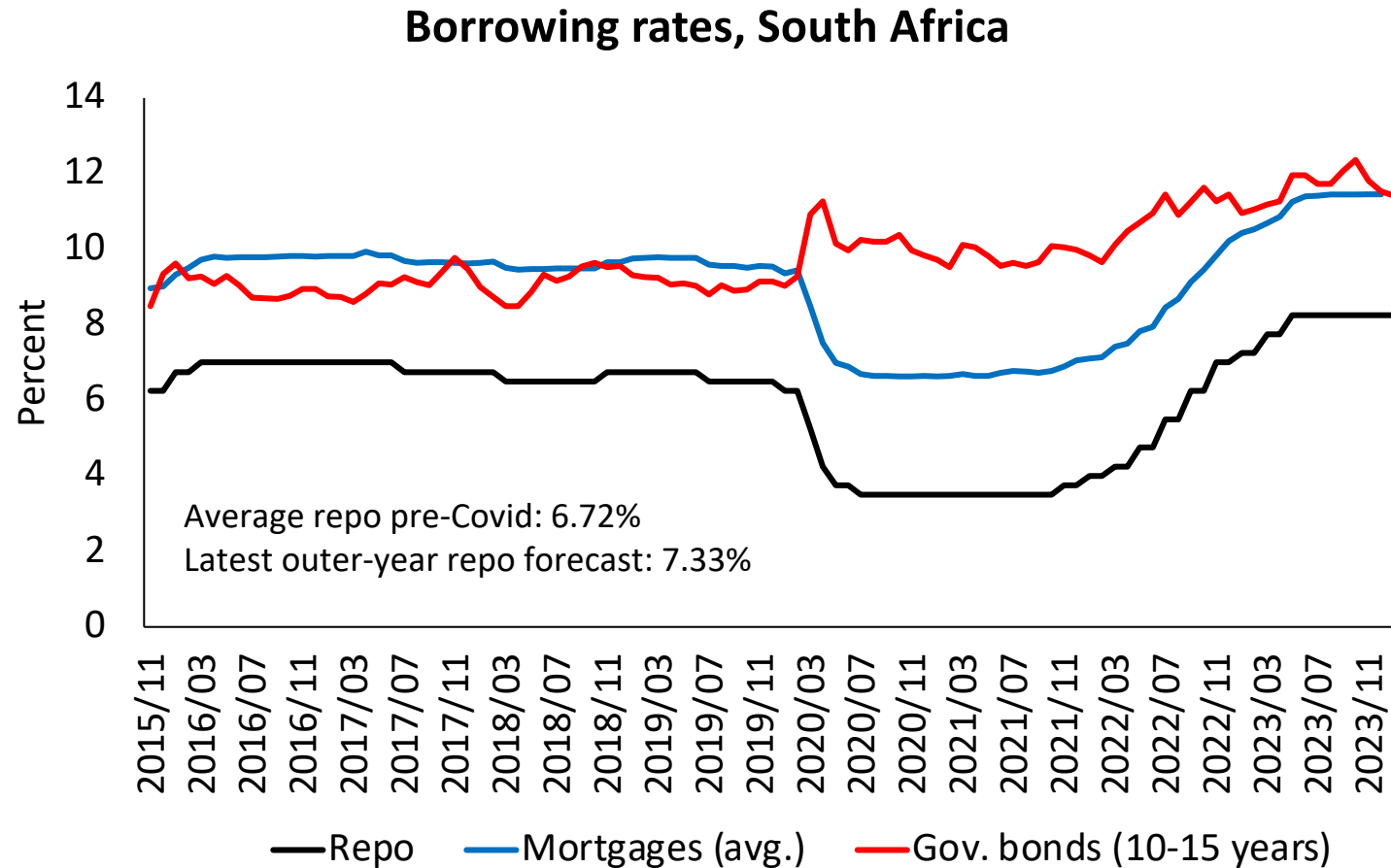


Source: BIS



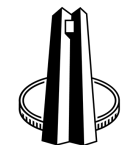


# We may well be facing higher 'neutral' (structural) interest rates: someone will be crowded out



# Conclusion

- Inflation getting to target now, and our forecast suggests some repo cuts
- But policy uncertainty is v. high at the moment
- Growth potential is low, requiring sustained reforms...
- Global rates may also be structurally higher
- This suggests crowding out, globally & in SA – if savings are scarcer, who gets to borrow?





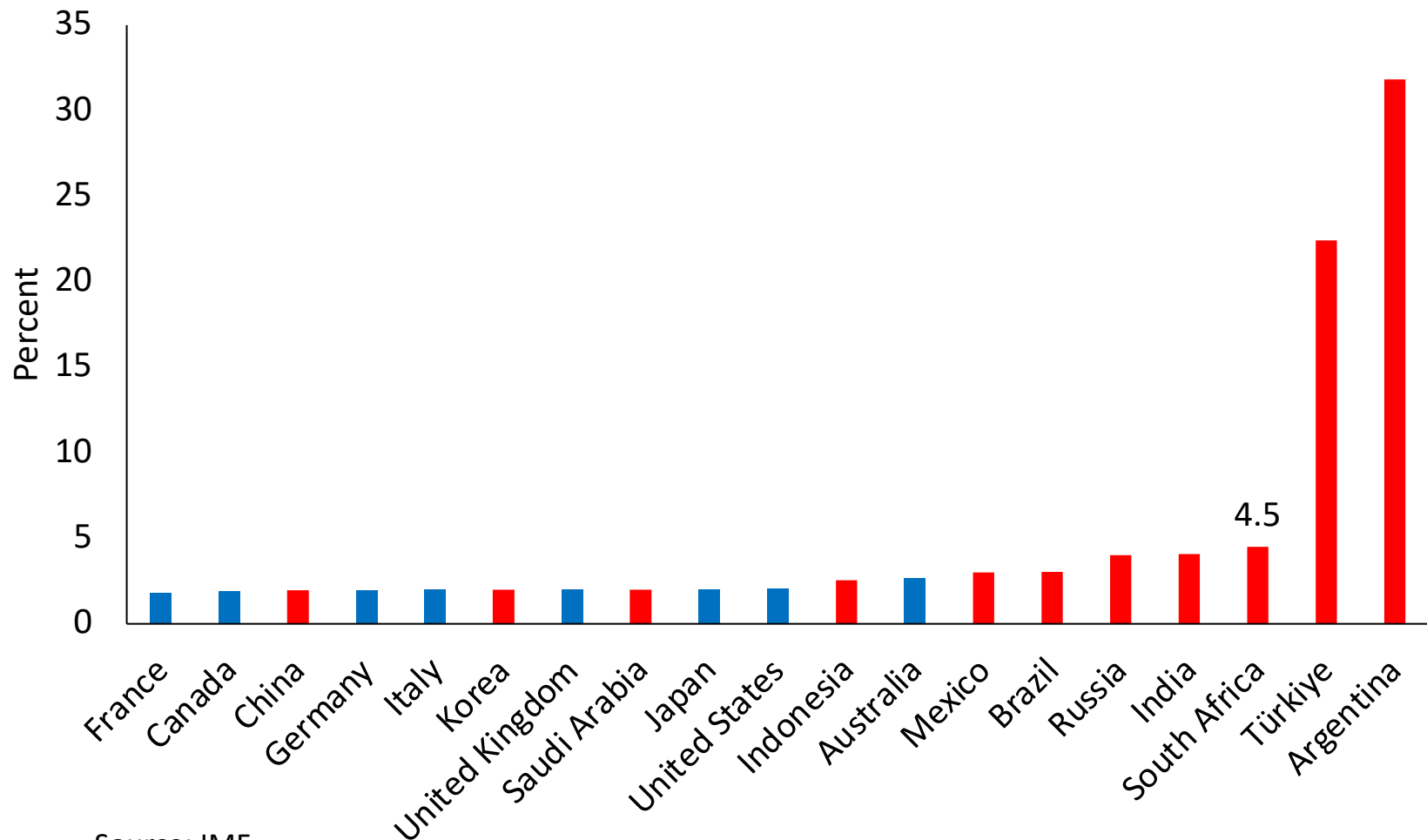
# THANK YOU



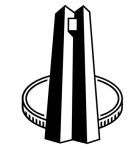
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# SA inflation is high relative to peers – important to understand the main reason is the target

G20 Inflation Forecasts, 2026



Source: IMF





# The resilience of emerging markets has also been a popular theme in the global conversation

Figure 5: Case Study: Turkey I

Figure 1: Policy Credibility over Time

