



Economic recovery, global constraints & future economic policy

Agbiz Congress 2022

23 June 2022



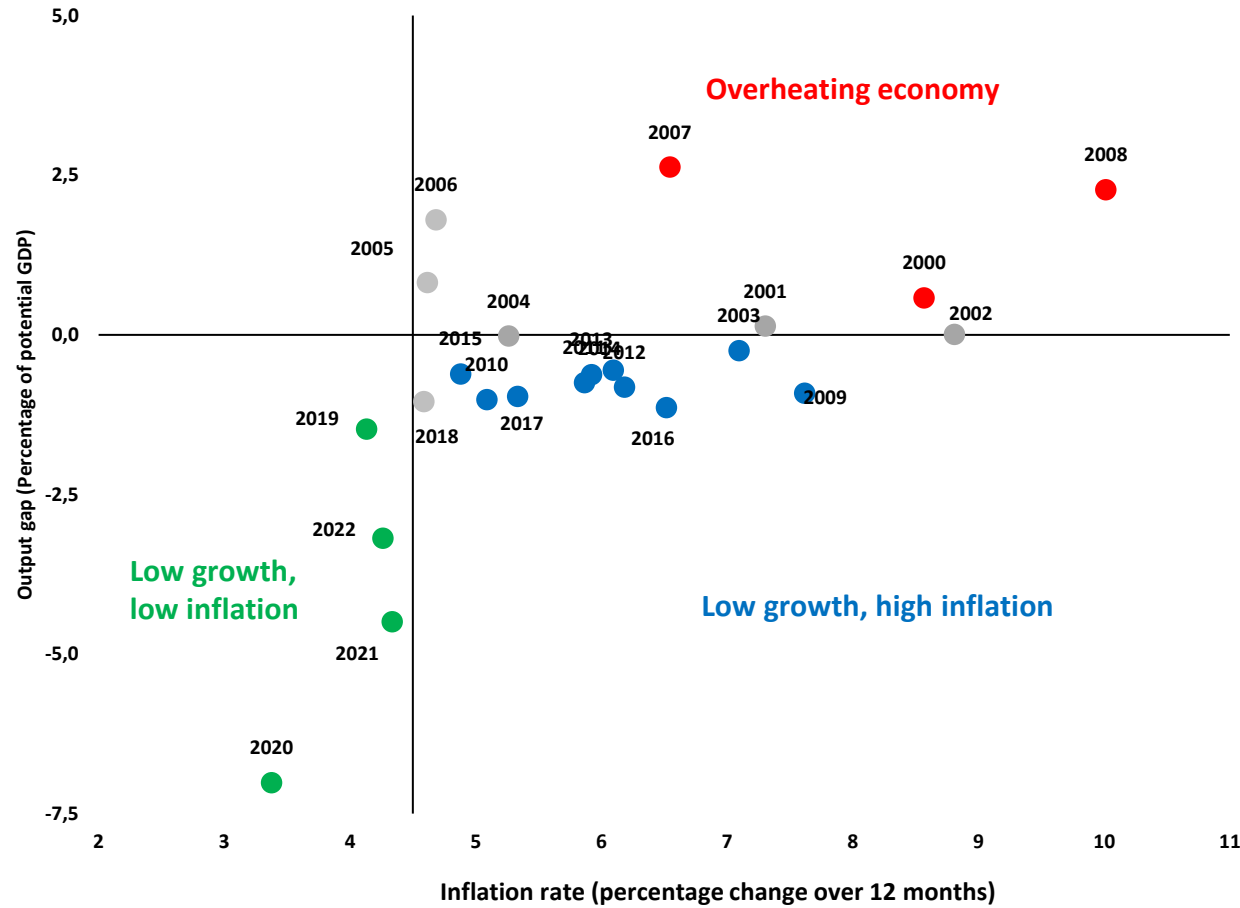
SOUTH AFRICAN RESERVE BANK

Recovery, constraints & the character of future policy

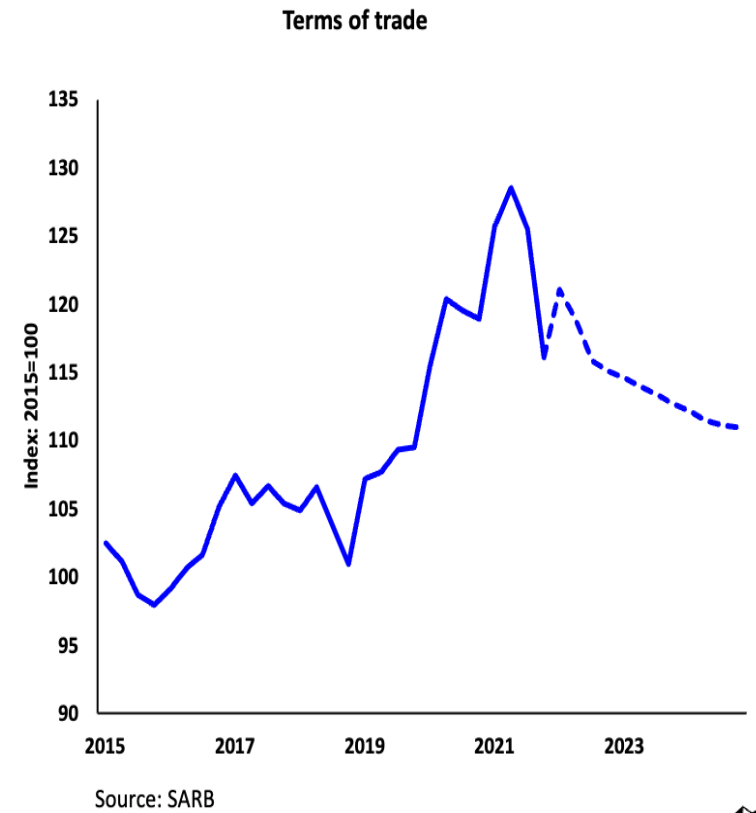
- **South Africa's macro pandemic adjustment sound**
- **Supply still lagging**
- **Global supply and demand shocks = stagflation & risks to SA**
- **Inflation risk to SA's macro conditions**
- **Policy trajectory clear: consolidate & grow**



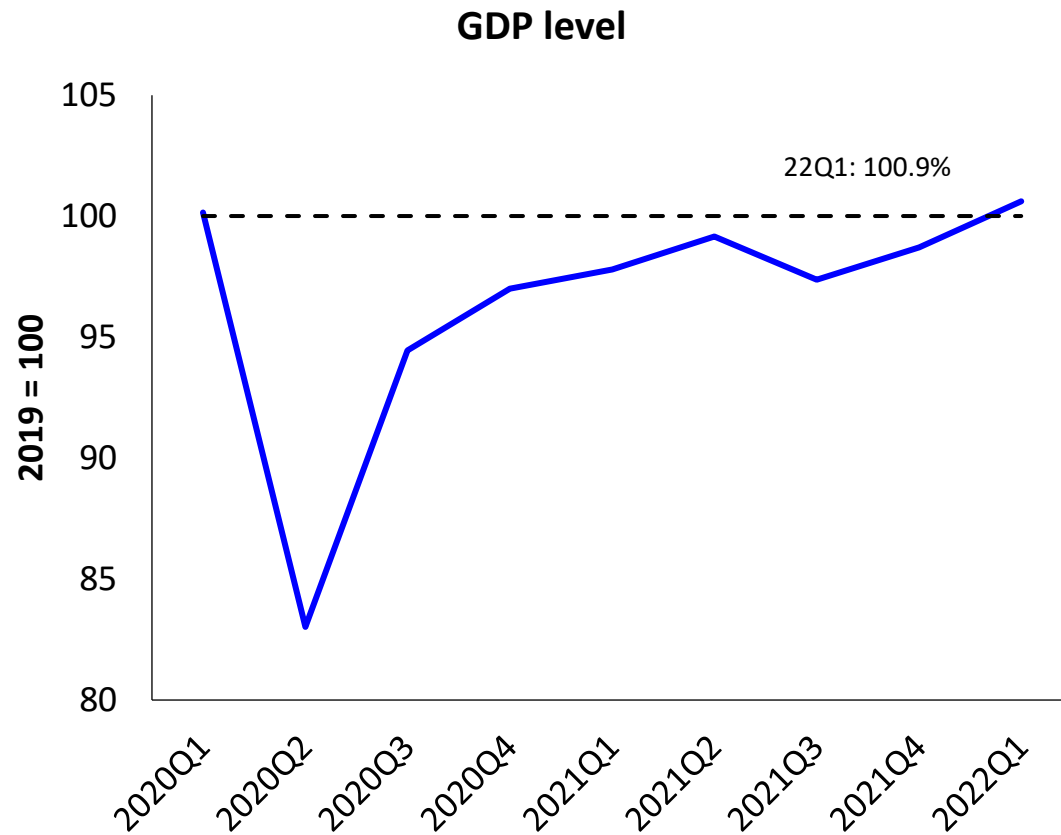
Pandemic macroeconomic management... by the textbook, with help



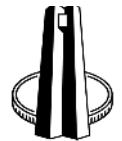
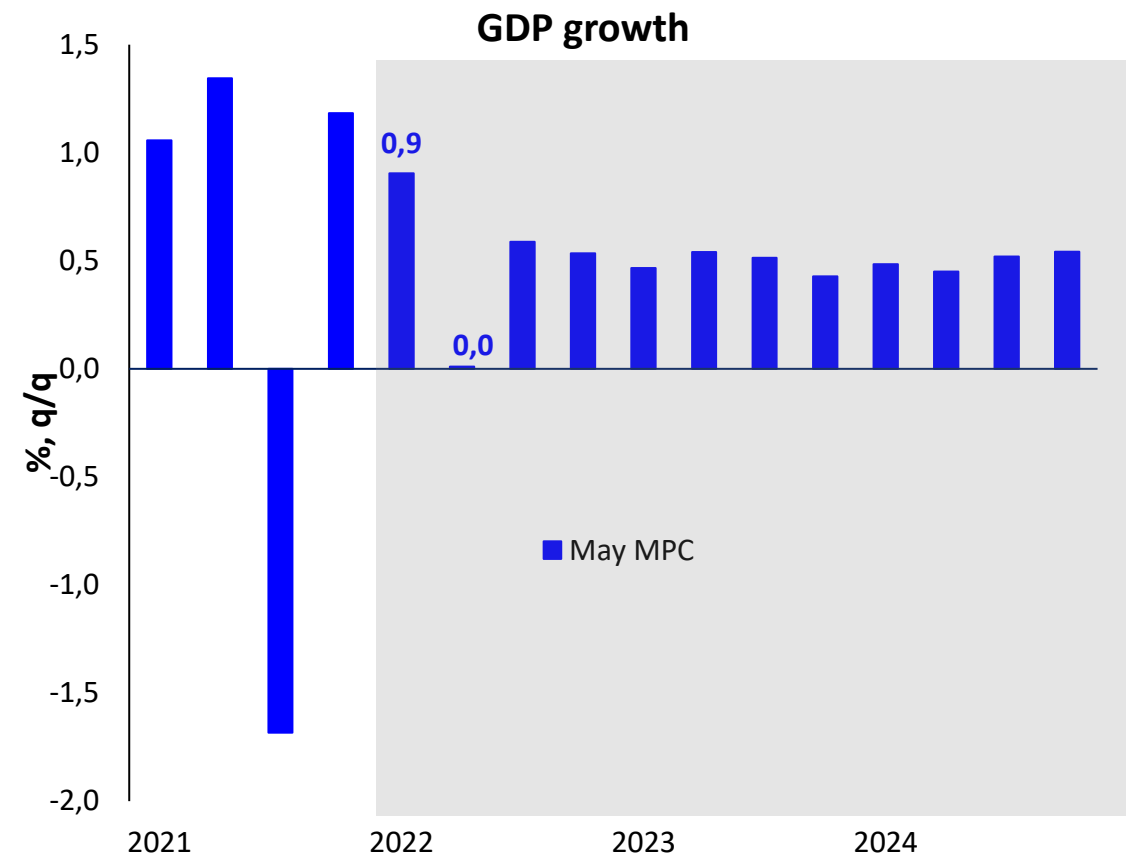
Sources: Stats SA and SARB



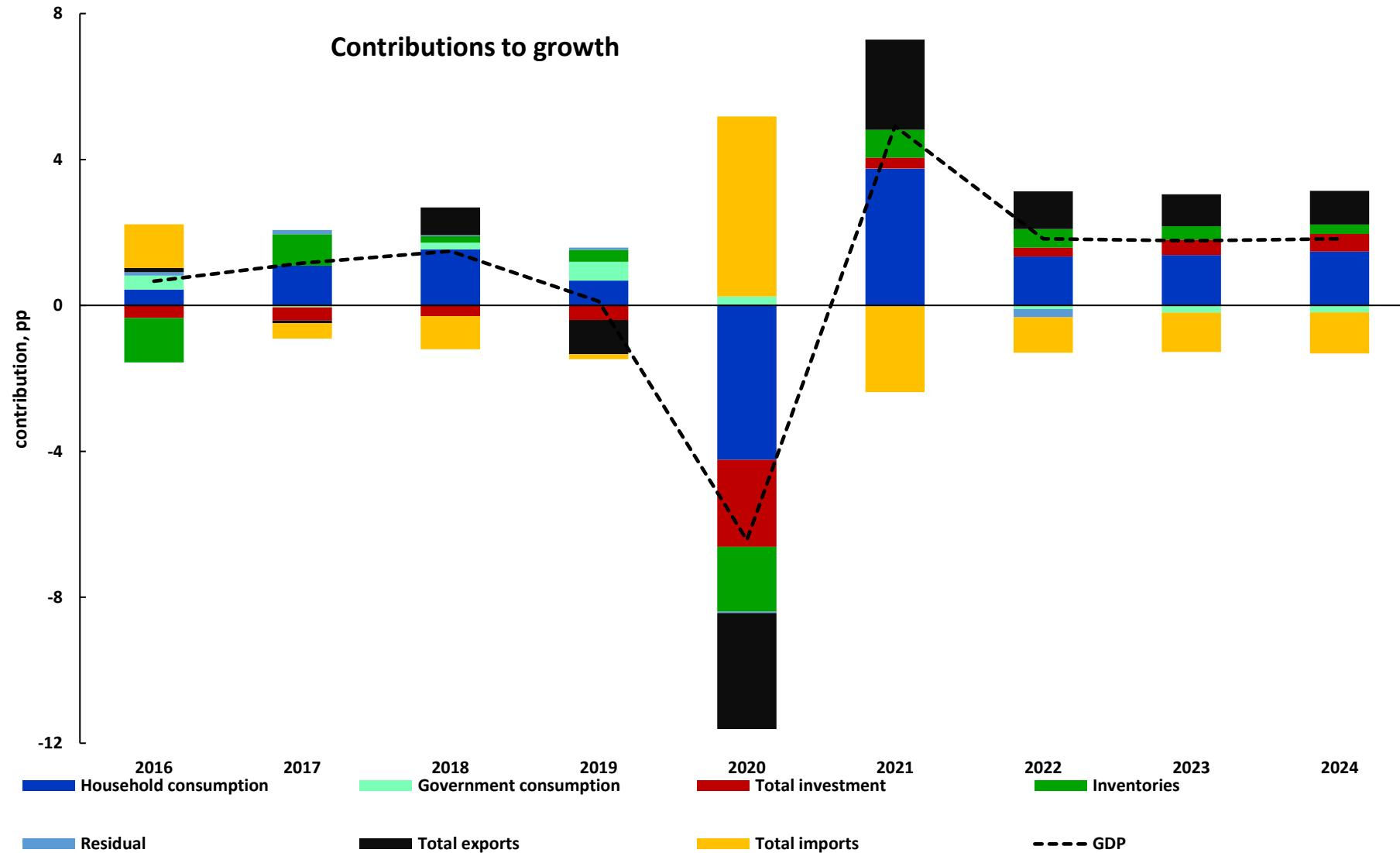
GDP back above 2019 level, but medium-term growth remains low



Source: Stats SA



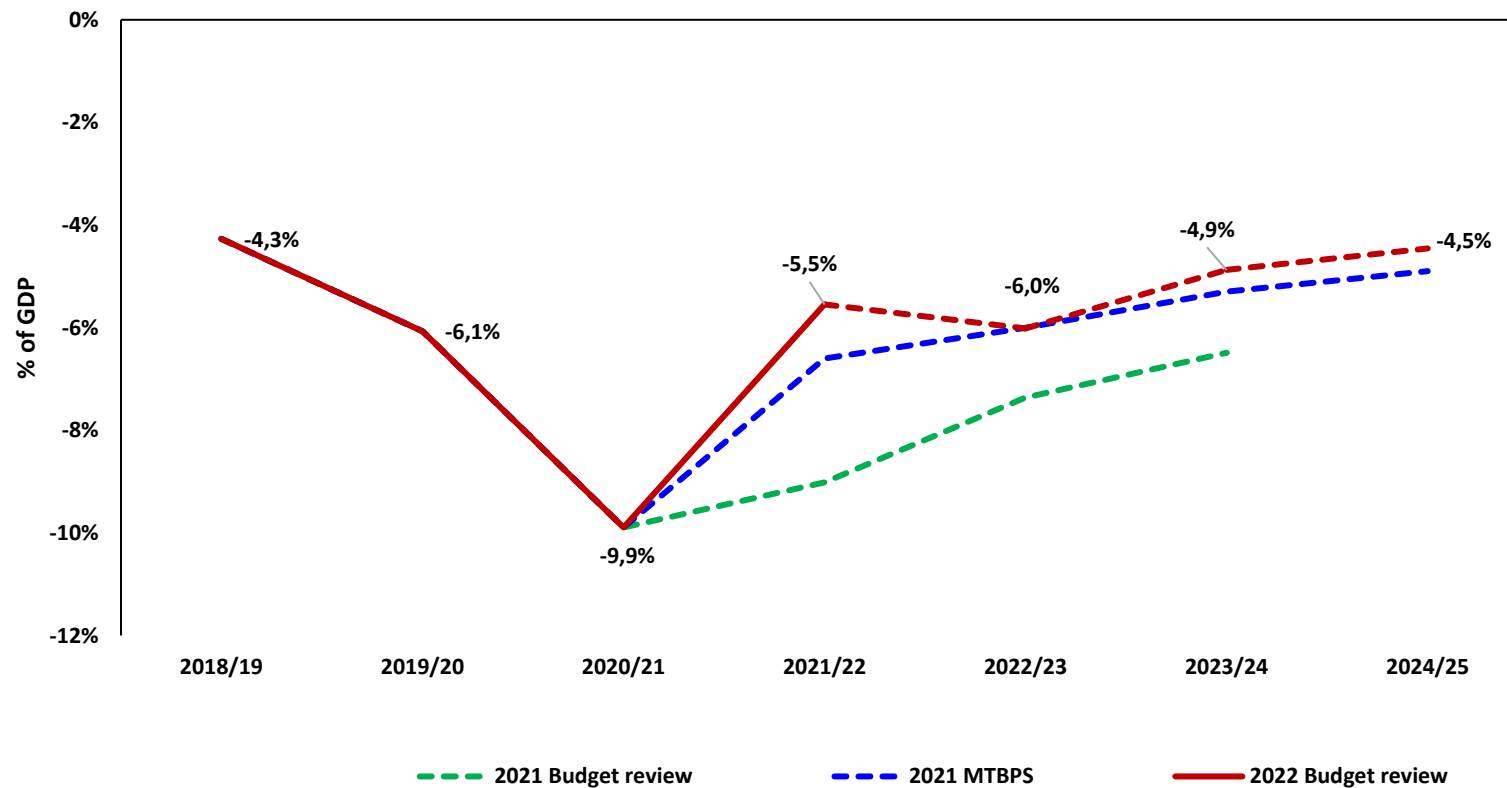
Exports and household consumption remain the primary drivers of growth



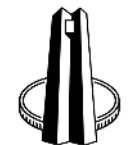
Source: SARB

Fiscal contribution, despite lower impetus

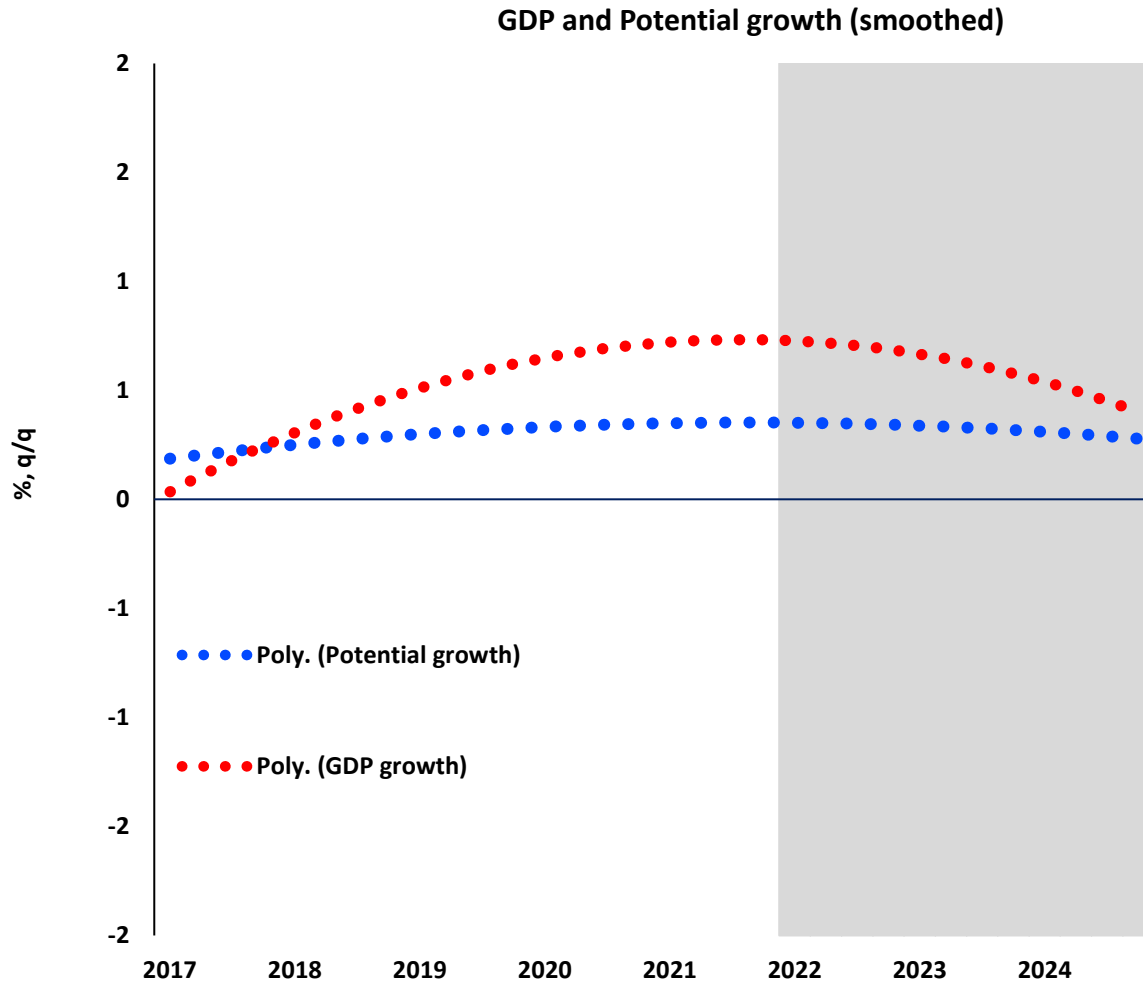
Main budget balance



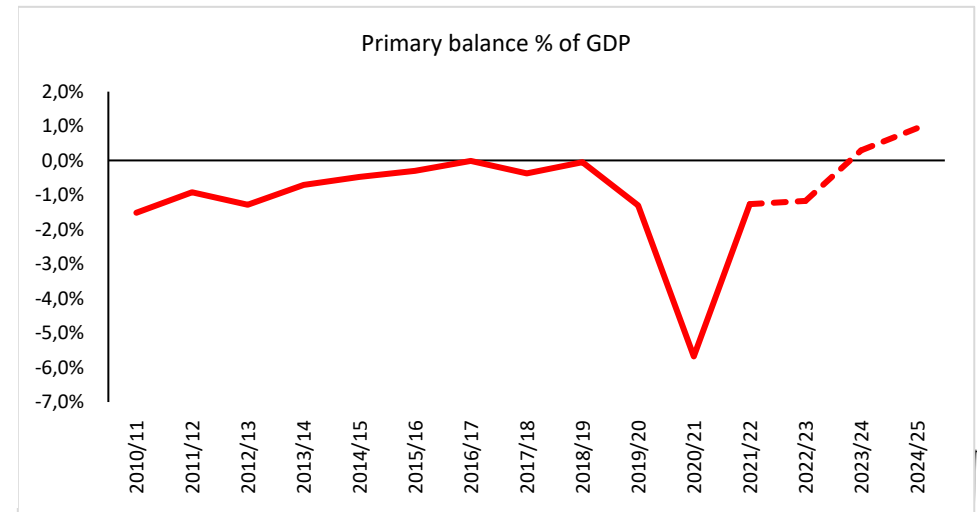
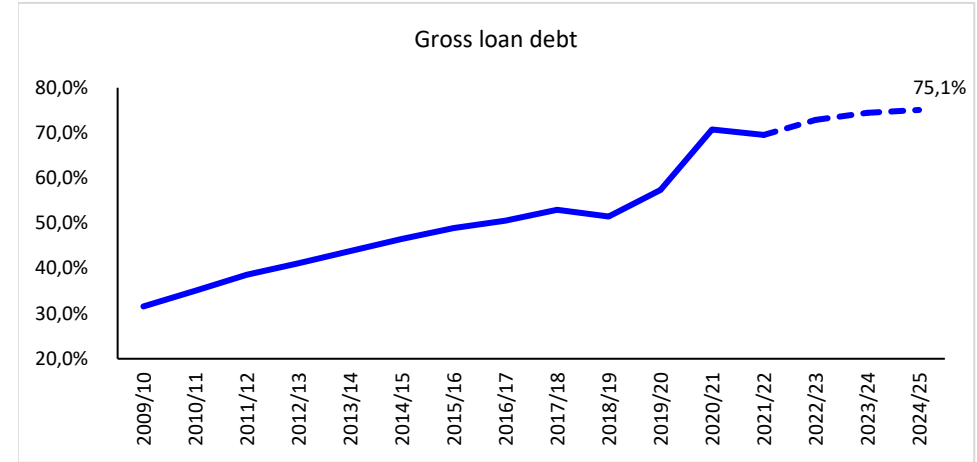
Source: National Treasury



Post-pandemic macro limited by low potential growth... easy to tip into disequilibrium

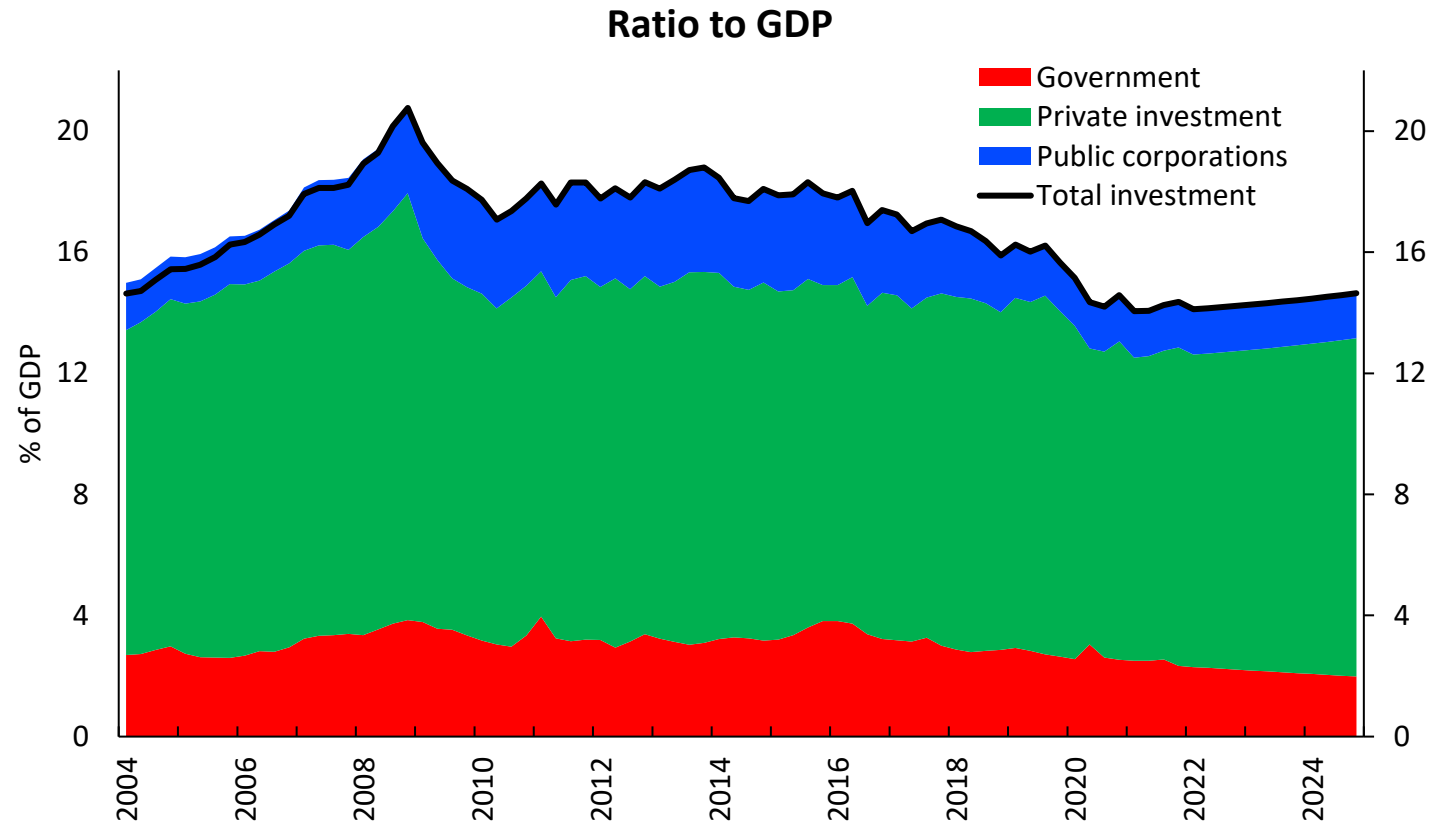


Source: National Treasury

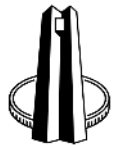


Source: SARB

Investment growth rates far too low

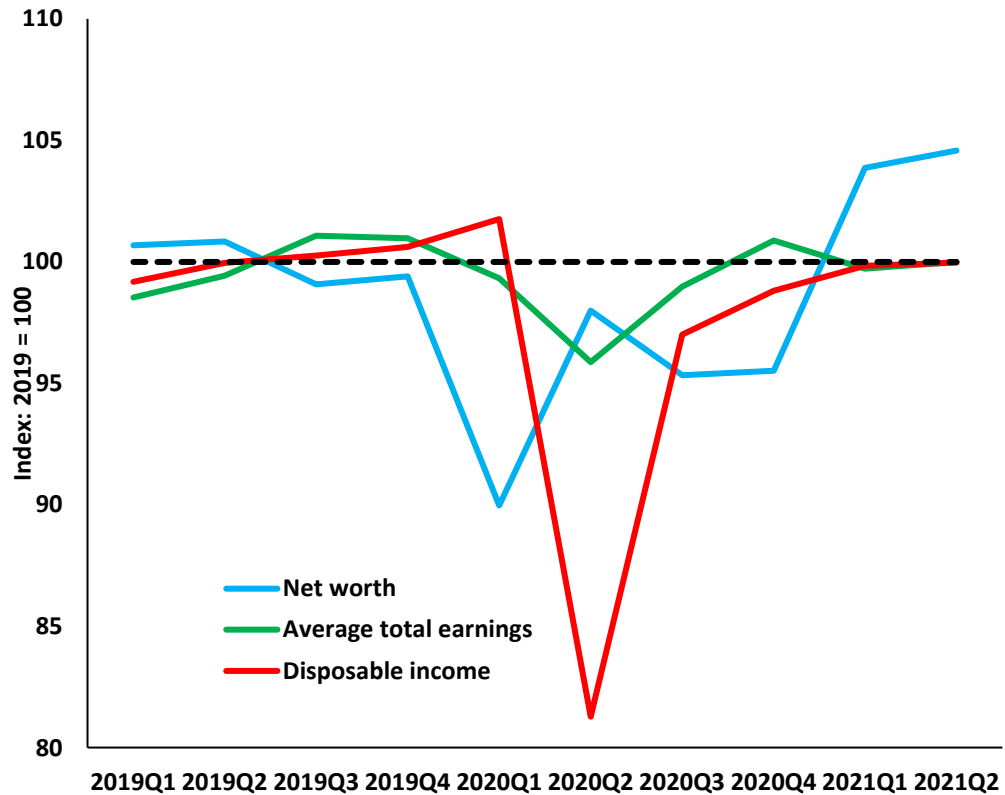


Source: SARB



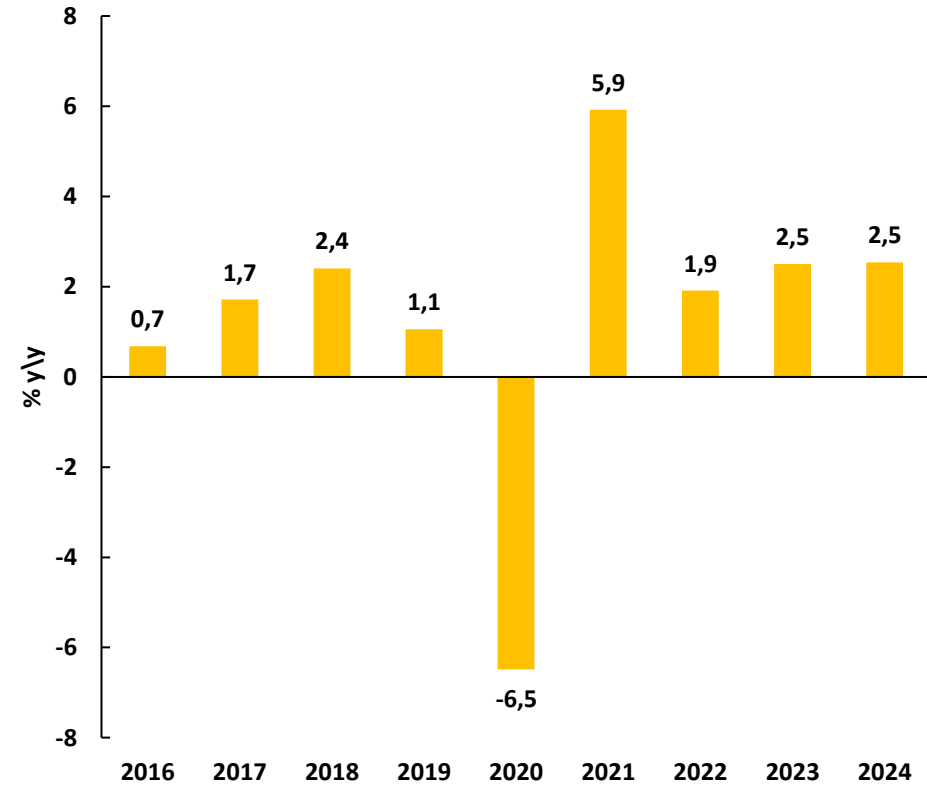
Some underlying strengths as households respond to wages, wealth...

Real household income

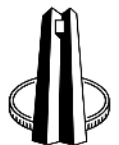


Sources: Stats SA and SARB

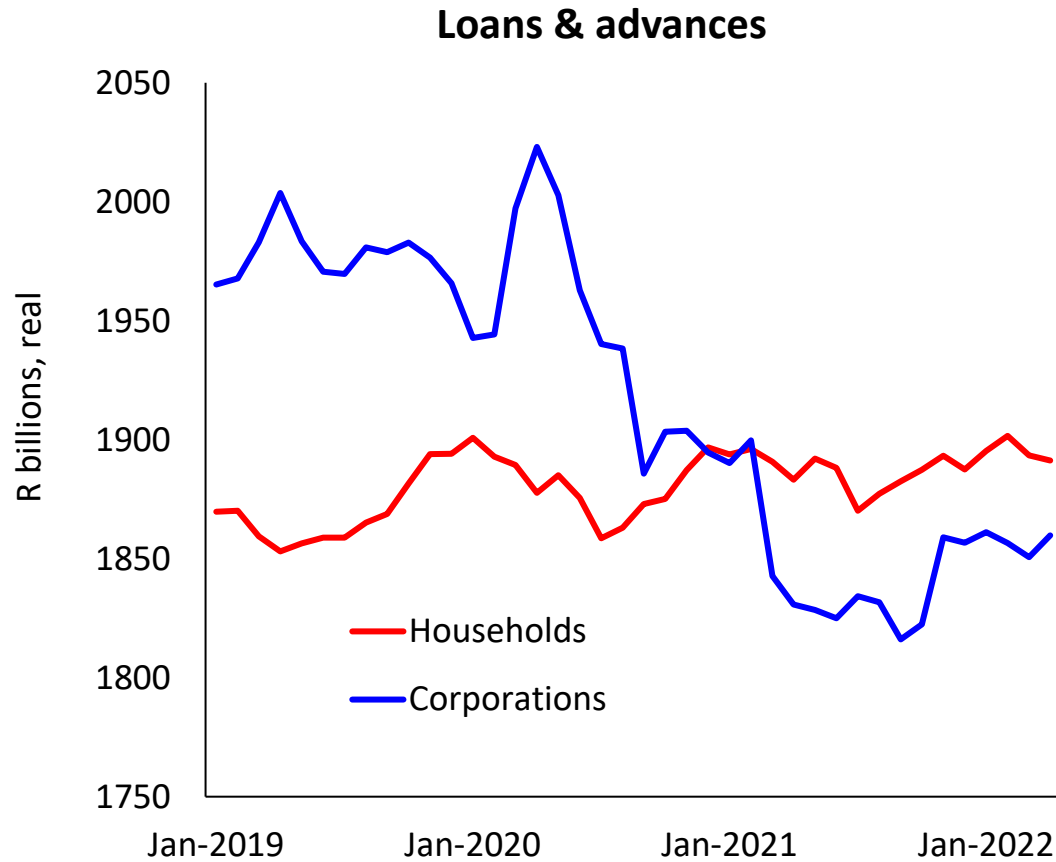
Final consumption expenditure of households



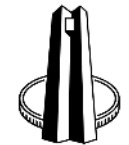
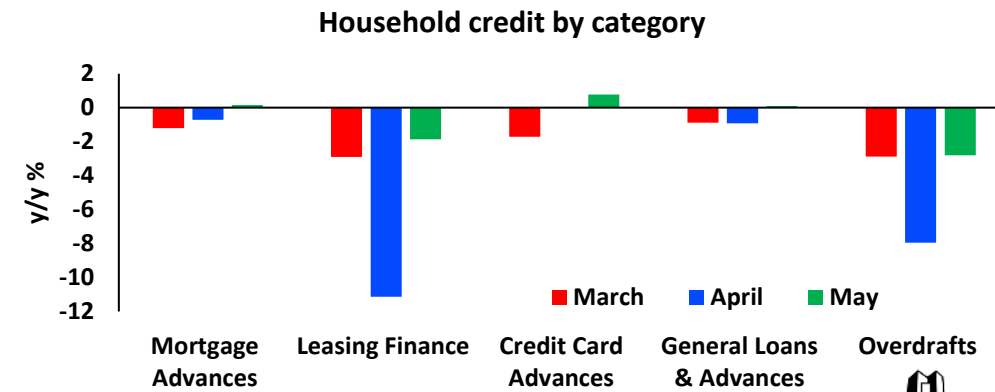
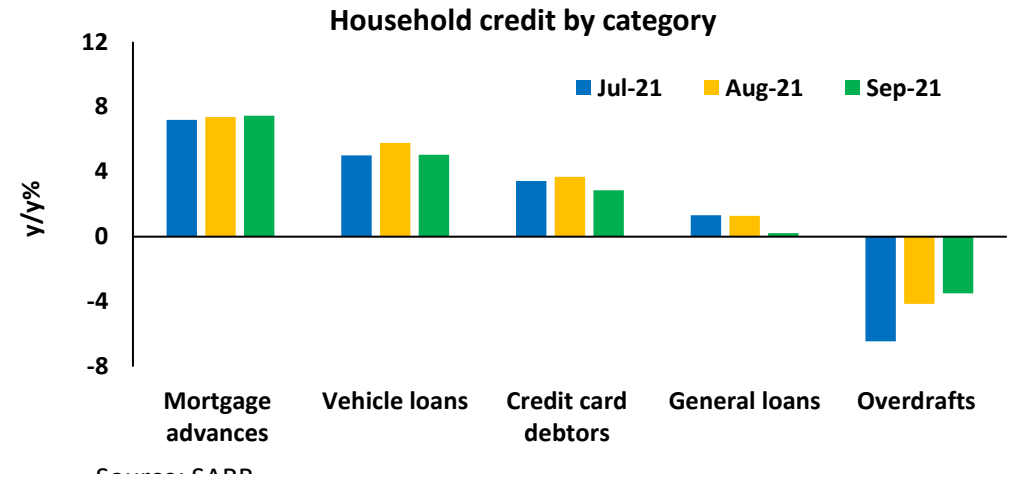
Source: SARB



Corporate borrowing has picked up, while households moderate

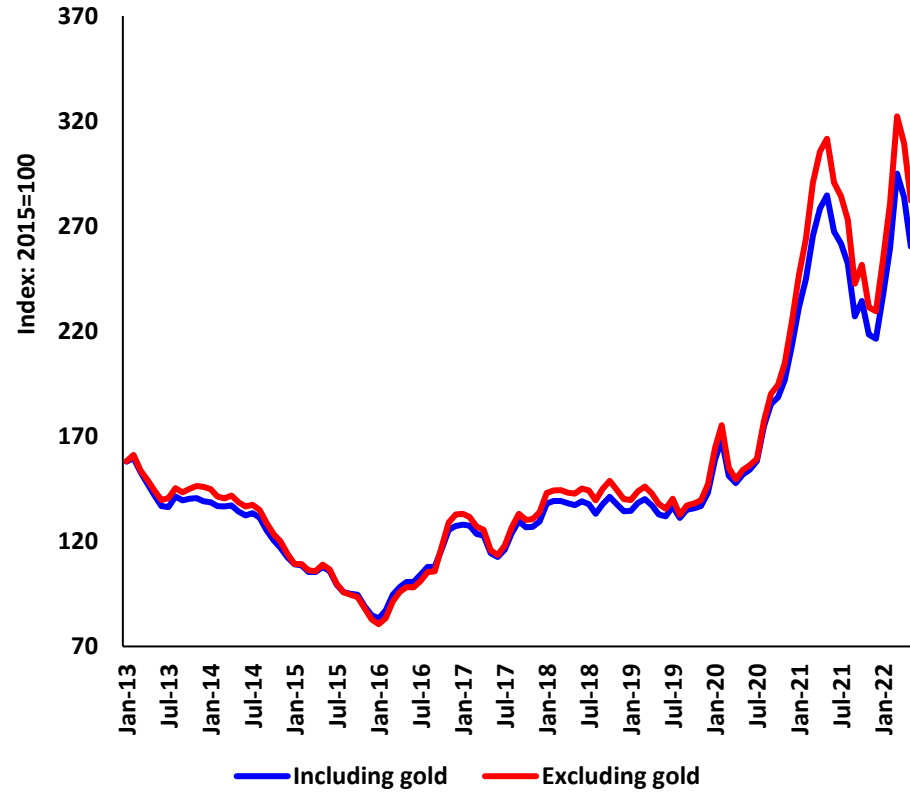


Source: SARB



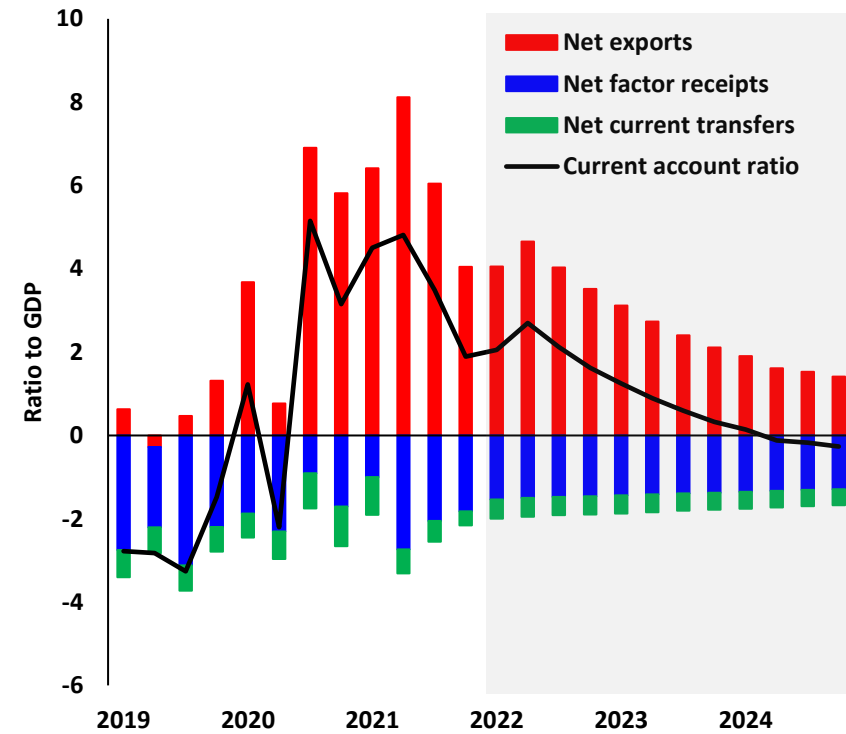
But no guarantees on exports

SARB index of Commodity Prices

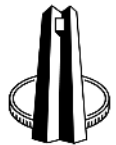


Source: SARB

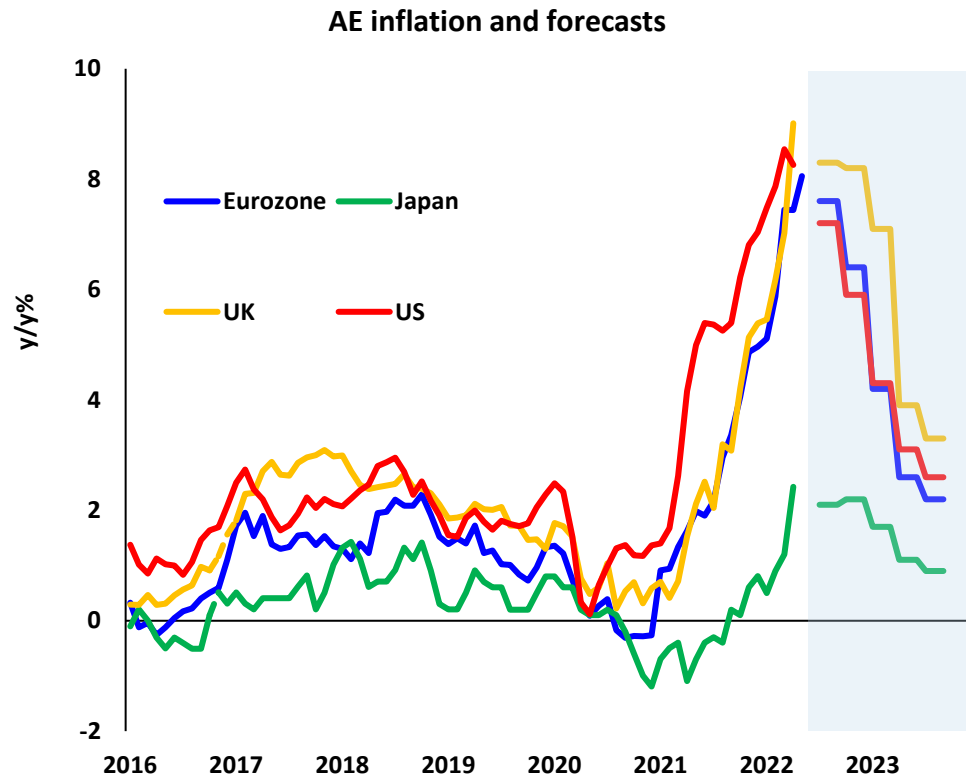
Current account components to GDP



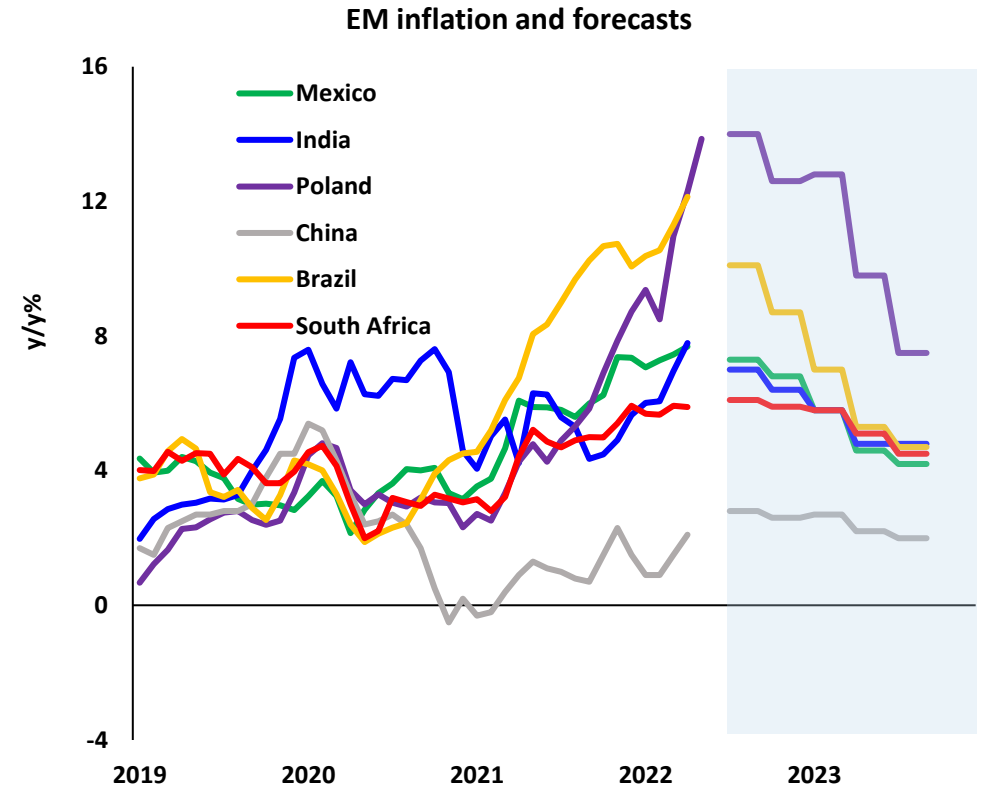
Source: SARB



Globally, supply shocks bite hard, brought 'home' by too expansionary policies



Source: Haver (actual monthly figures) and Bloomberg (quarterly forecasts)

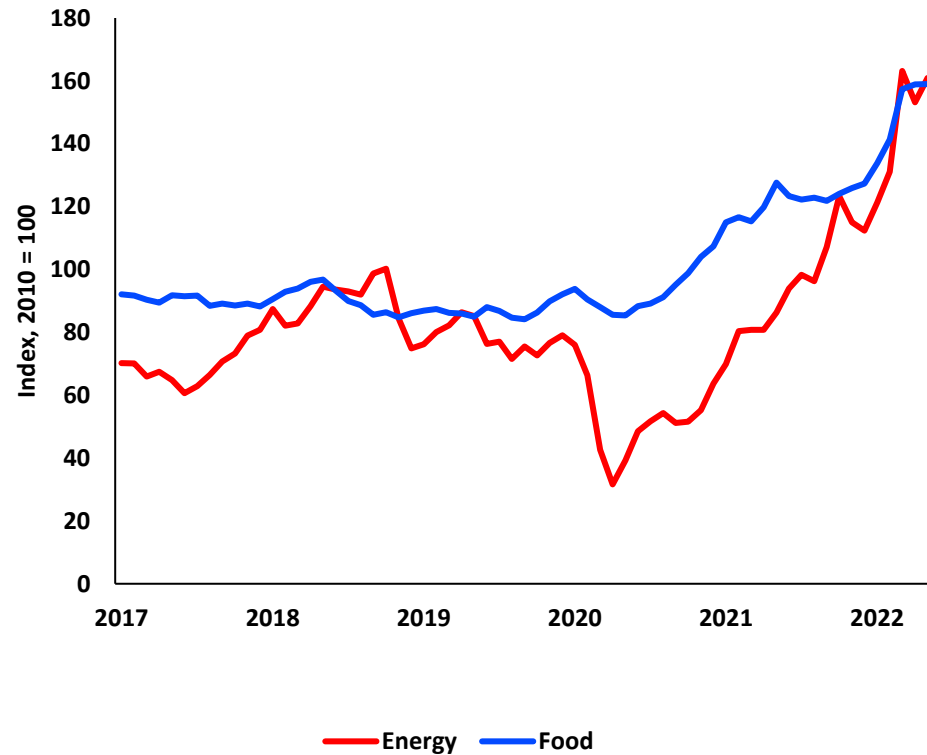


Source: Haver (actual monthly figures) and Bloomberg (quarterly forecasts)



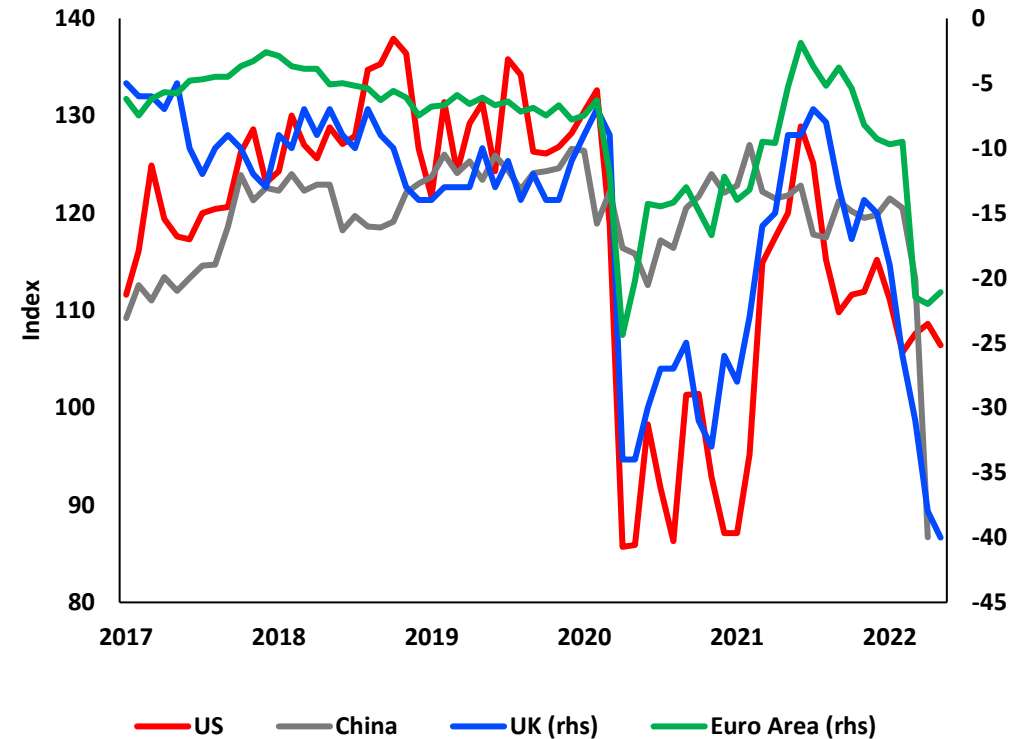
Now falling into the stagflation hole

Commodity Prices



Source: World Bank

Consumer confidence

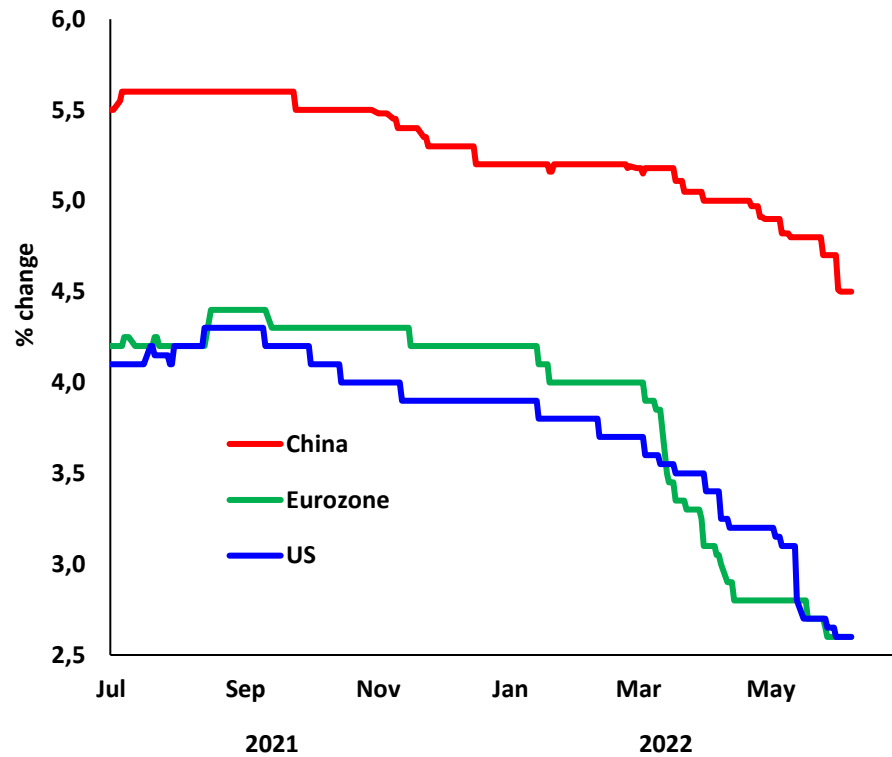


Source: The Conference Board, European Commission and China National Bureau of Statistics



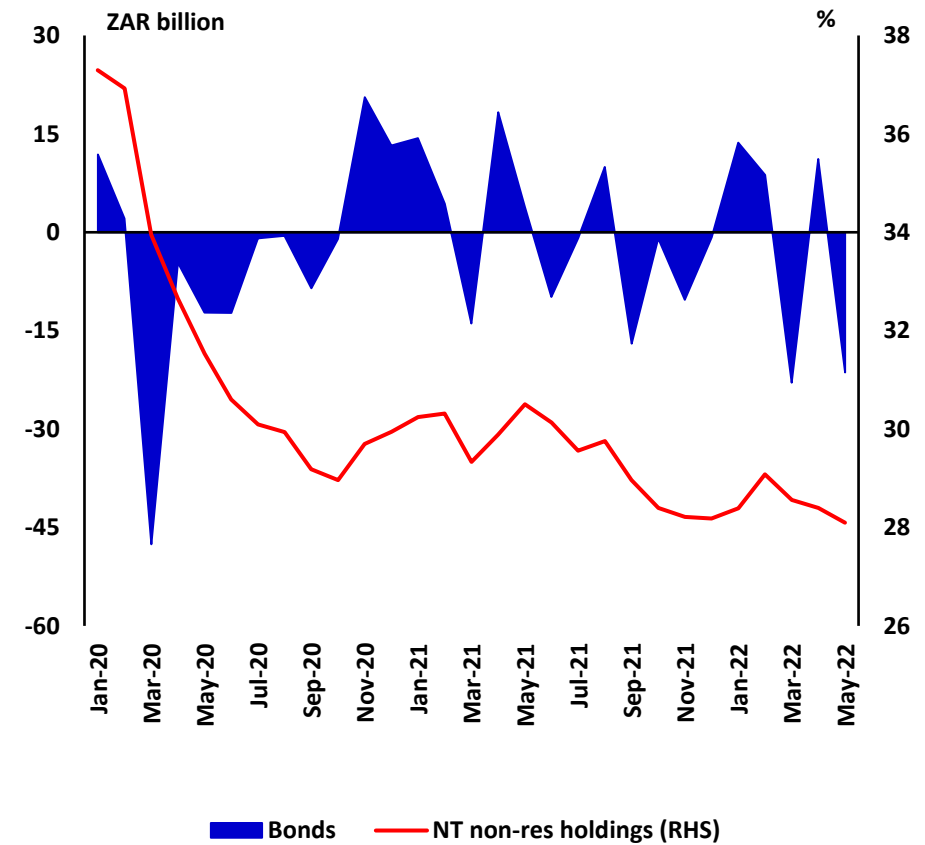
Spillover channels to SA and other EMs: growth, flow of foreign savings

Evolution of 2022 real GDP growth forecasts



Source: Bloomberg

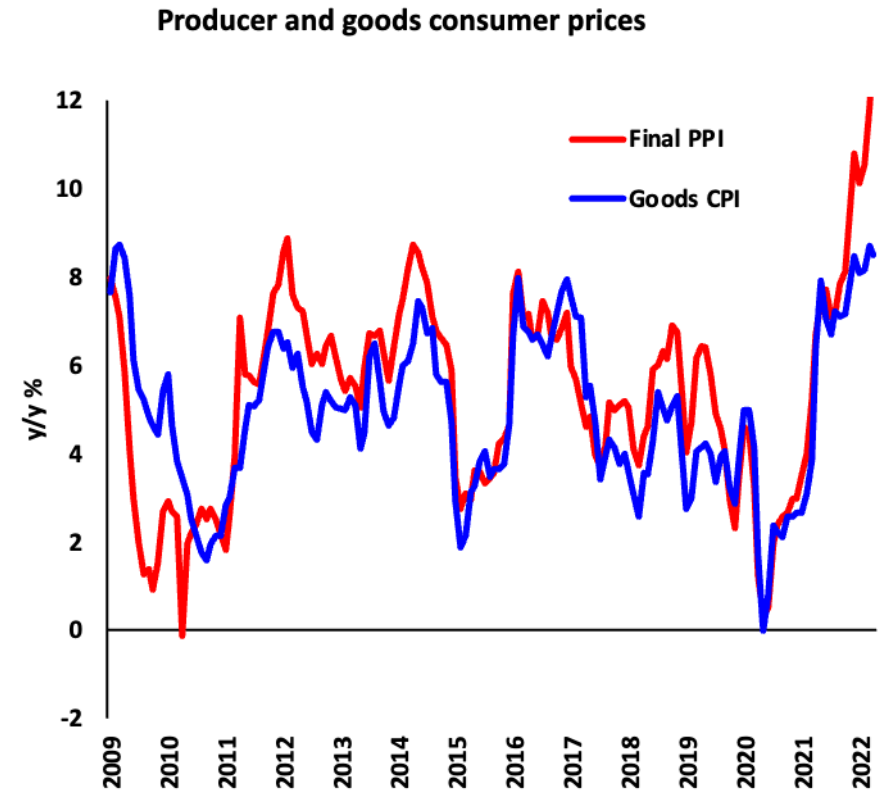
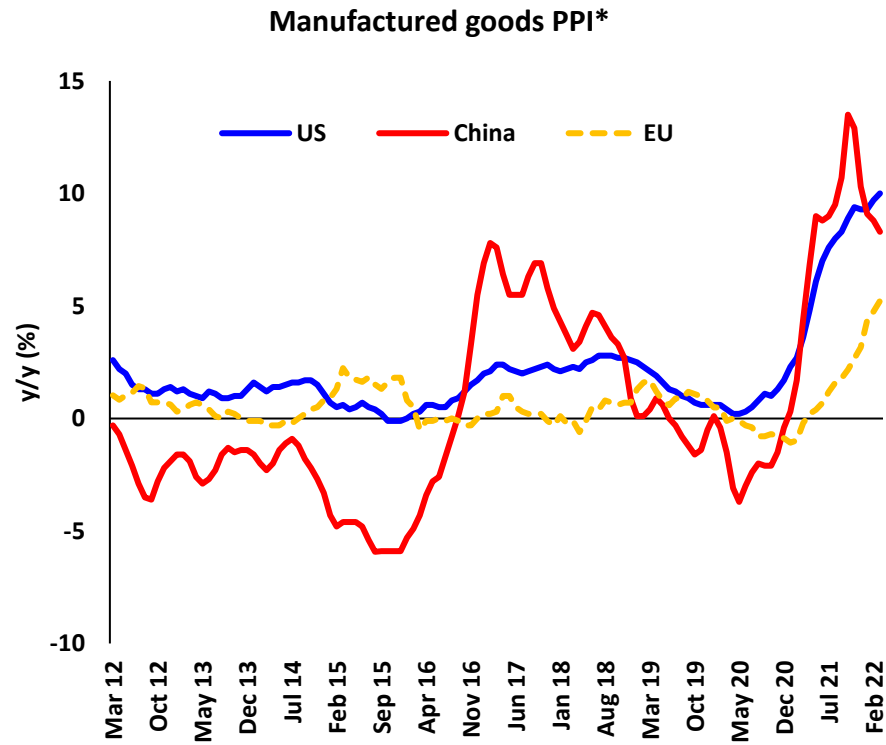
Non-resident bond flows and holdings



Source: National Treasury, JSE



...and import prices



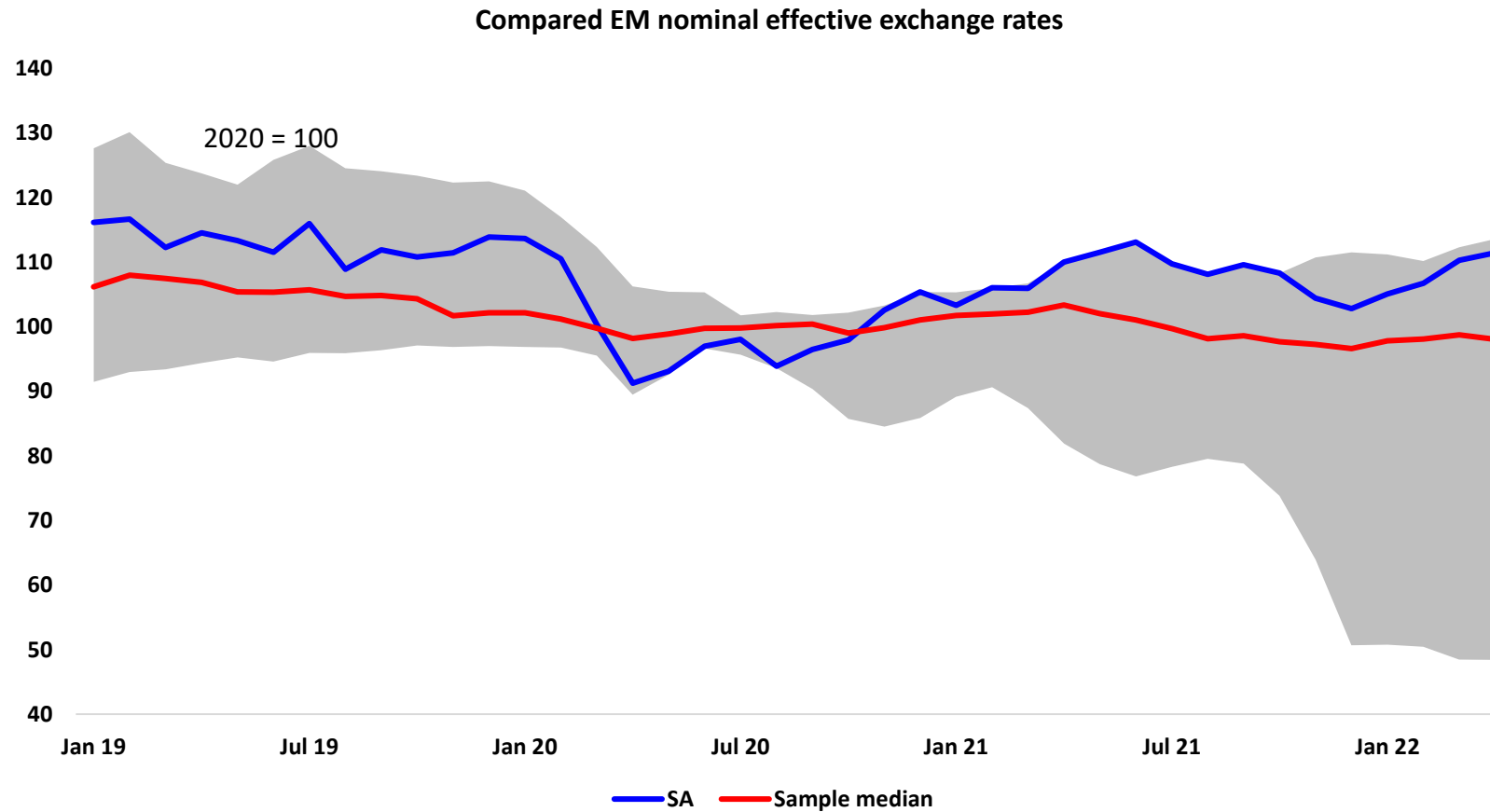
Source: Haver

*All PPIs used here are some form of exclusion index that remove volatile items like food and energy, except for China

Source: Stats SA

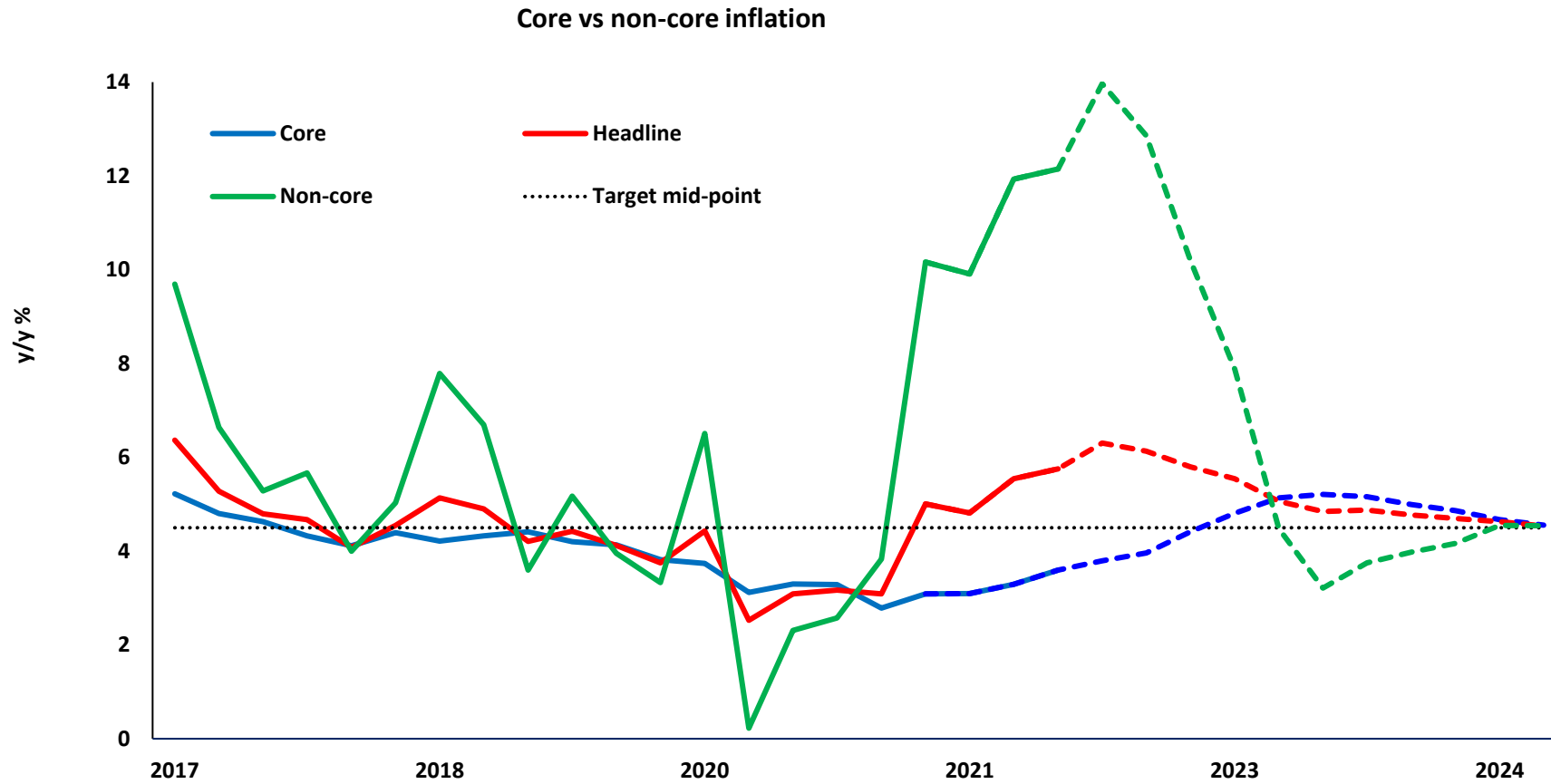


...despite relatively strong rand performance



Source: BIS. Sample includes Algeria, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand and Turkey. Shaded area indicates the sample's minimum to maximum range.

Non-core still dominant...

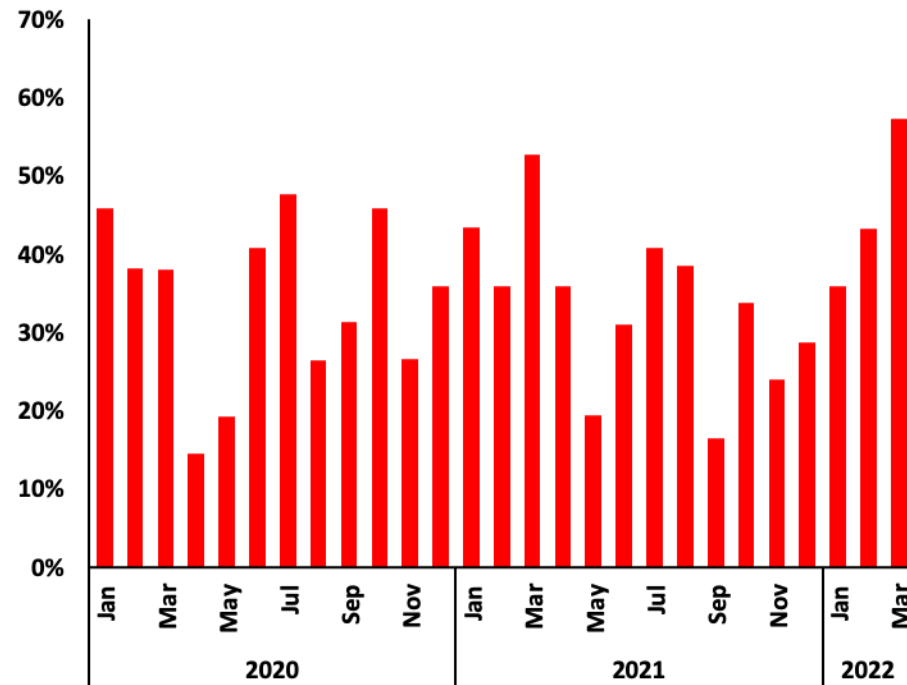


Sources: Stats SA and SARB



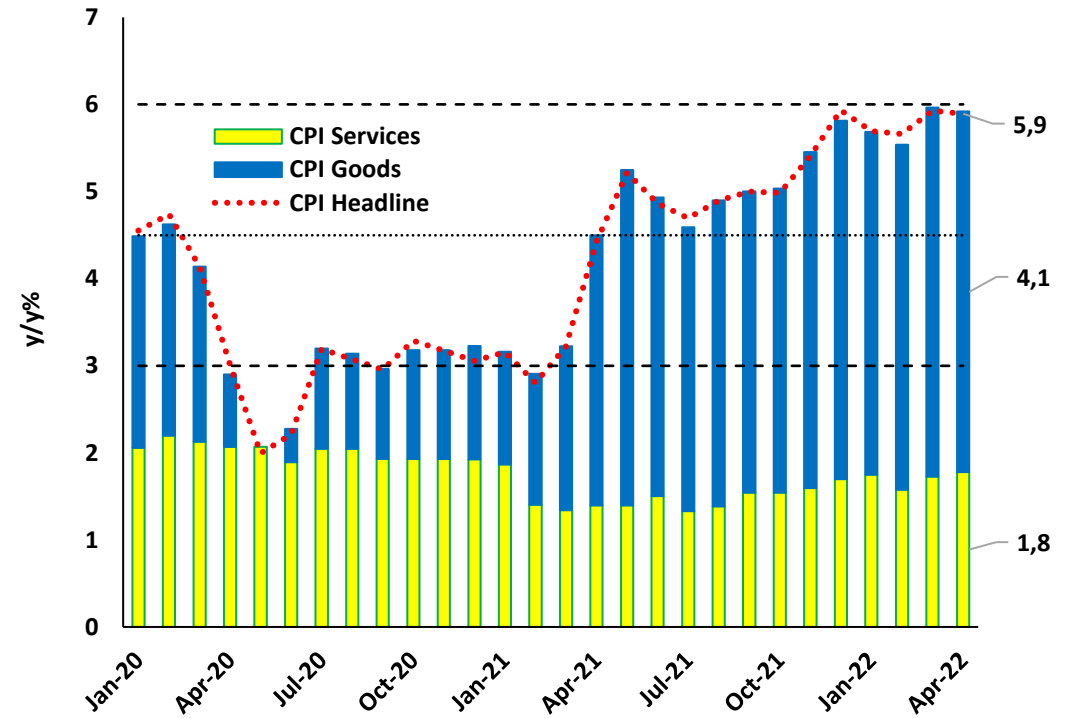
...but fading, and quickly

Breadth of monthly acceleration

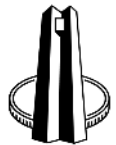


Source: Stats SA and SARB

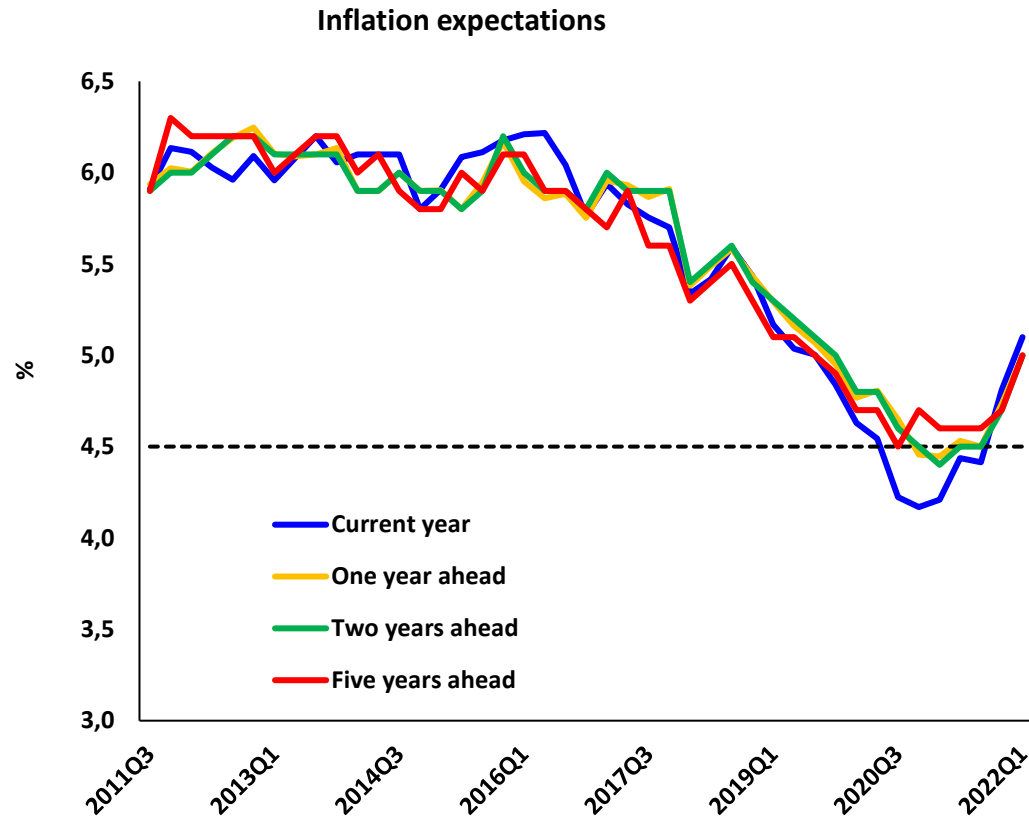
Goods and services contribution to headline inflation



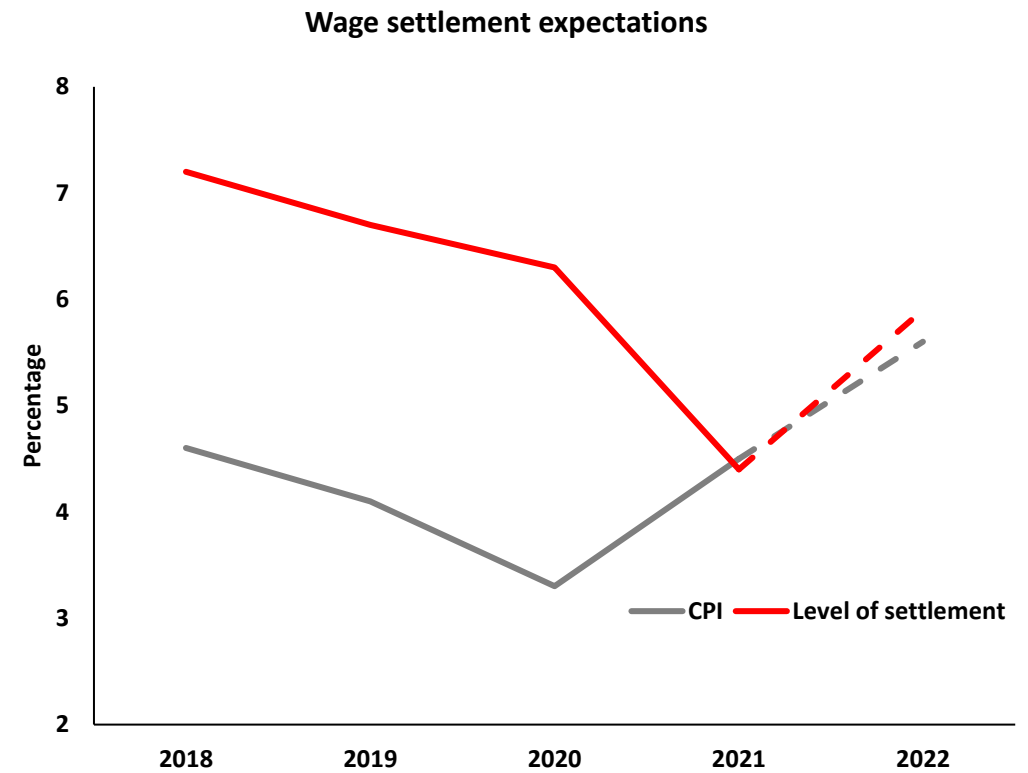
Sources: Stats SA and SARB



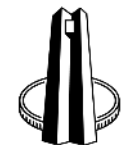
2nd round effects as inflation expectations jump, mirrored by wage settlements



Source: BER

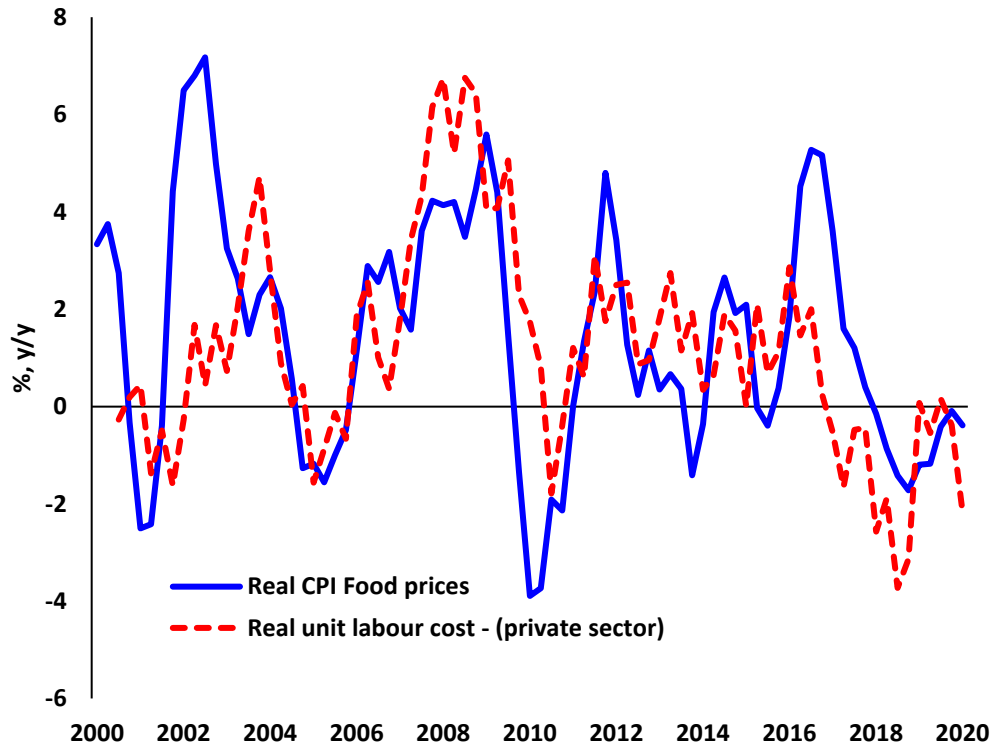


Sources: Stats SA and SARB



Food to wages... plus limited skills in the broader labour market make it tight

Food inflation and wage settlement

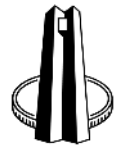


Source: Stats SA, SARB

Nominal average salaries and headline inflation

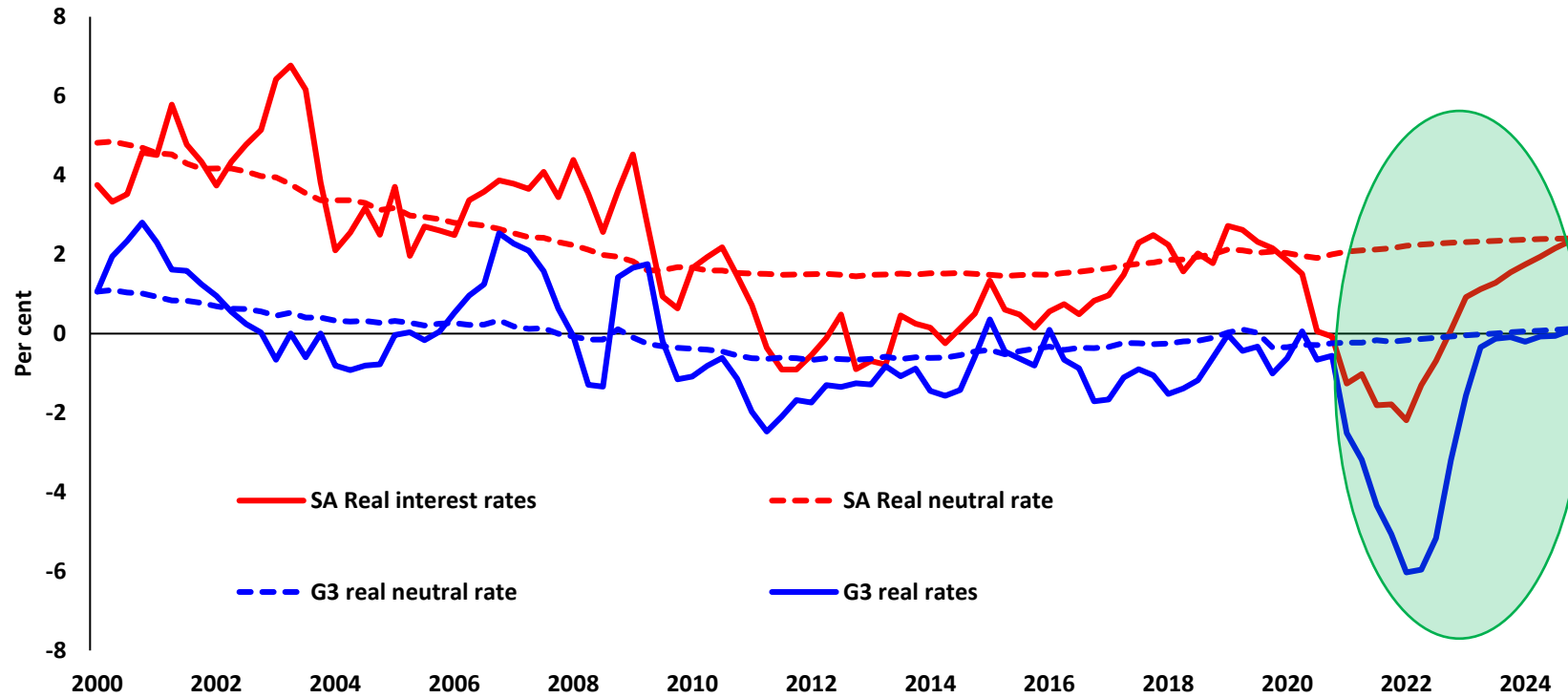


Source: SARB

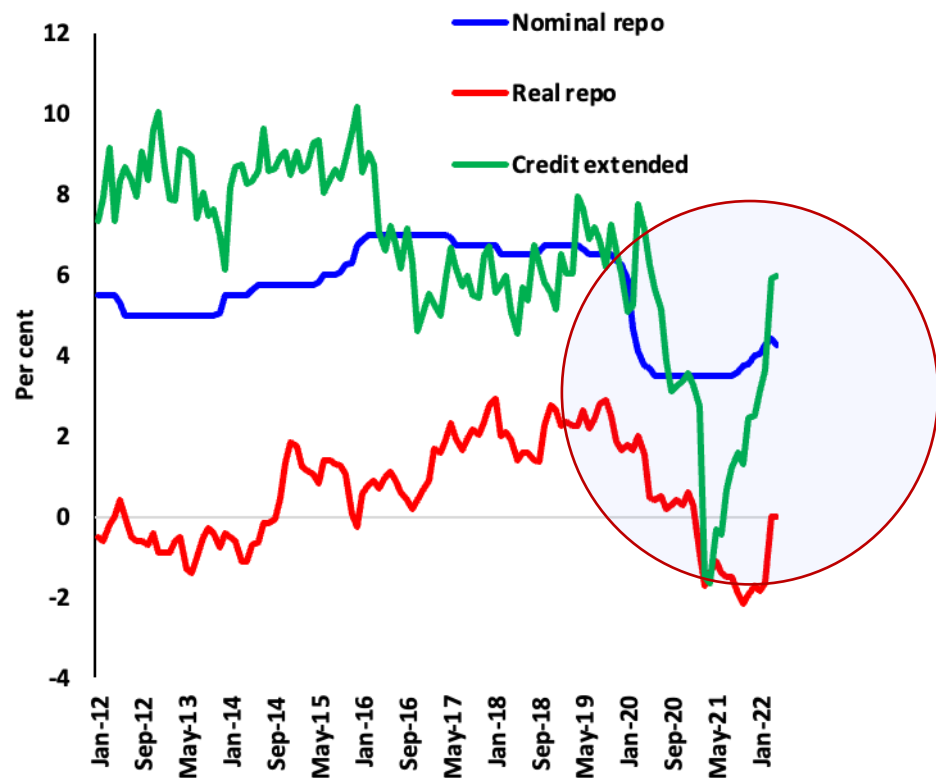


Comparative real rates not exceptional

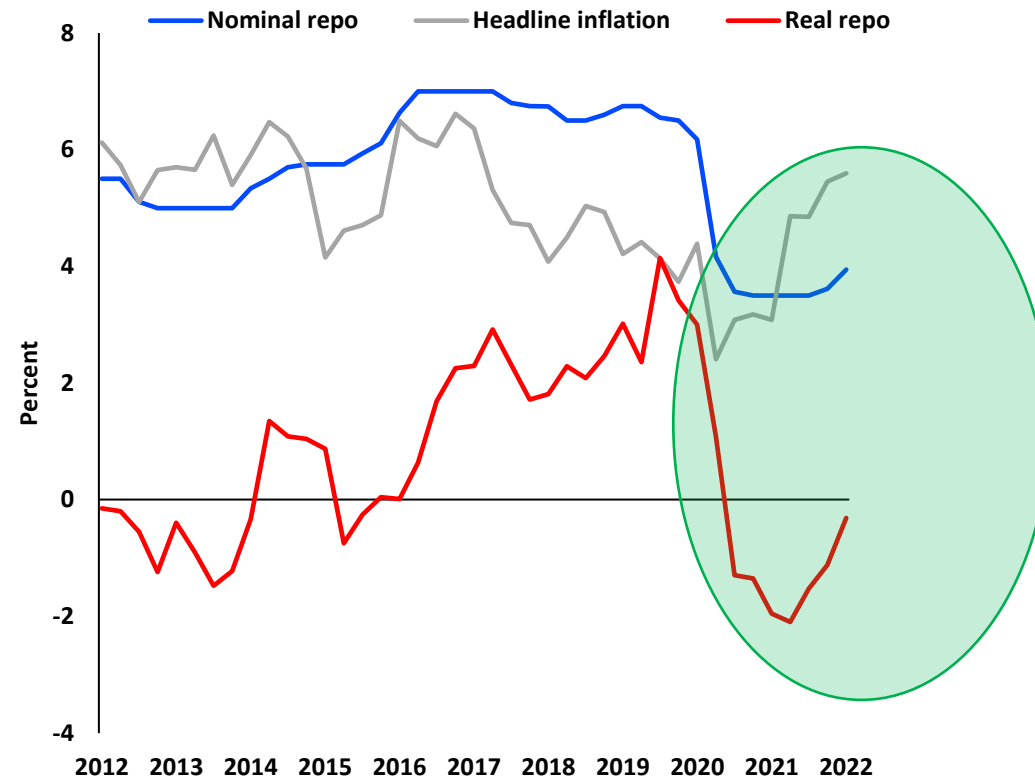
Domestic and G3 real interest rates – actual and neutral



While short-run policy transmission ok, not likely to be so over the longer term... lots of reasons for inflation to rise



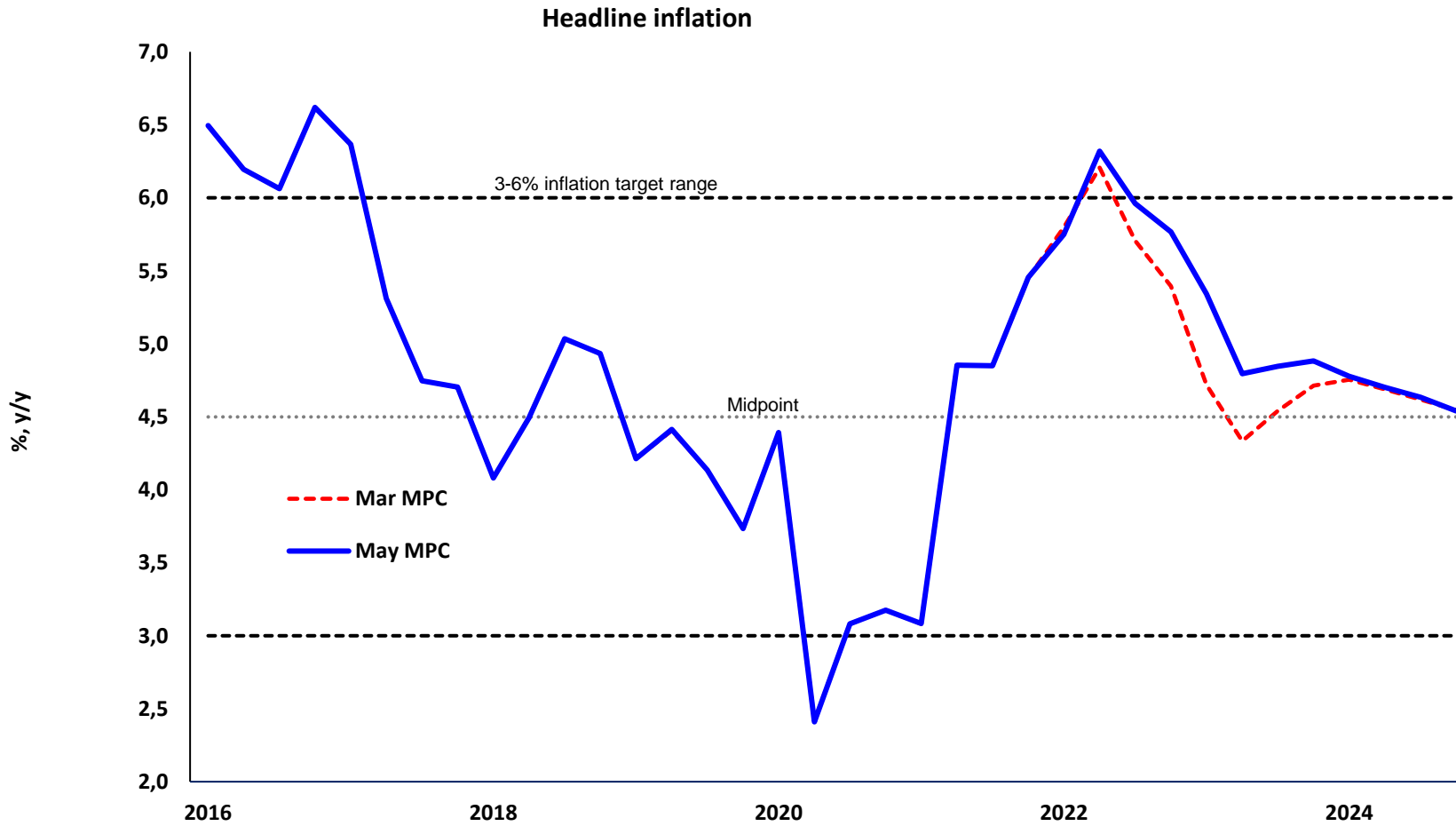
Source: SARB



Source: SARB

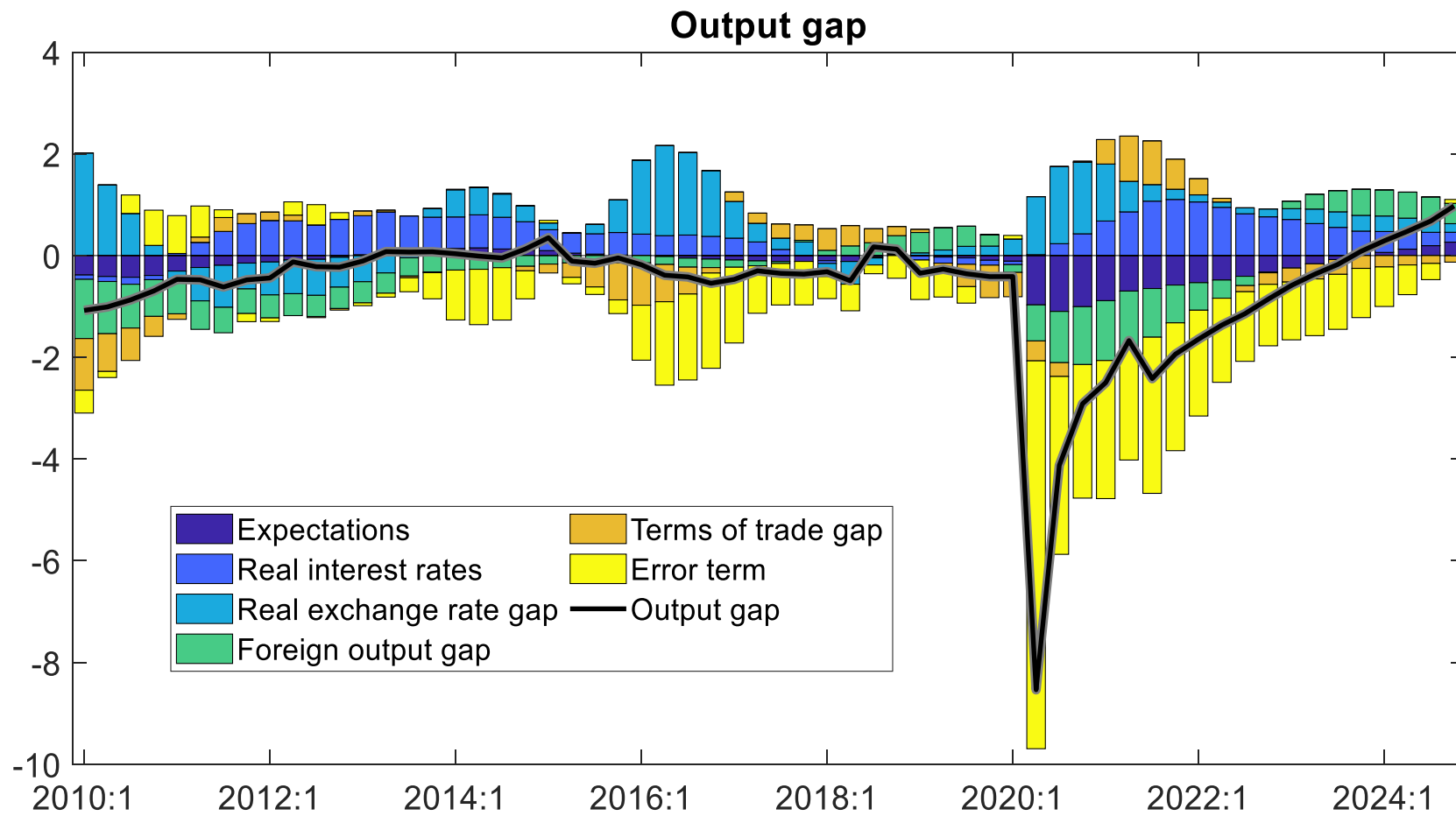


Focus on basics: monetary policy to keep inflation low, protecting households, demand, supply, and attractiveness of sovereign debt



Source: SARB

Macroeconomic view of economic growth: the sum of many moving parts ...moving the error term above the line demands a different approach

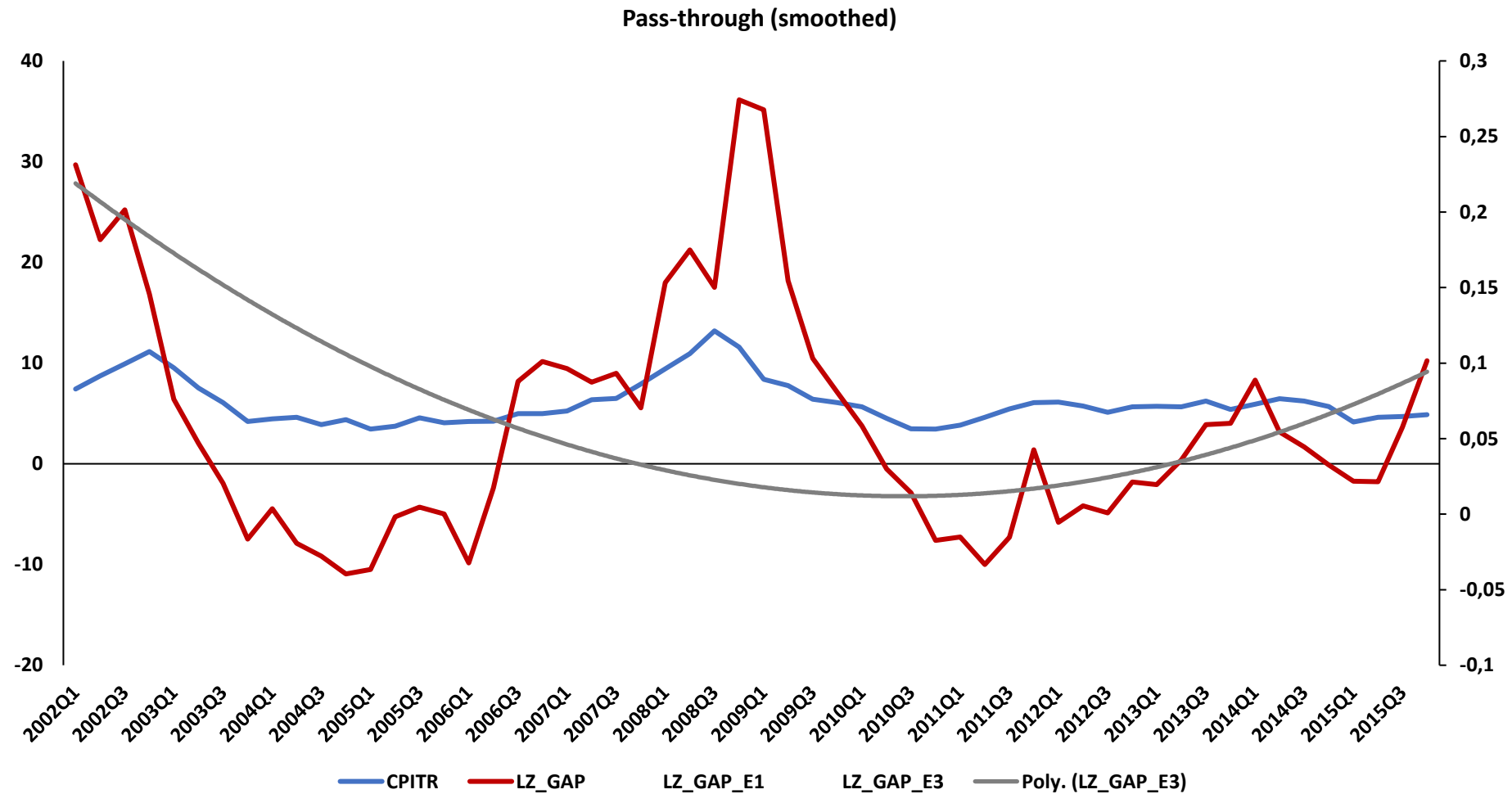


Conclusion

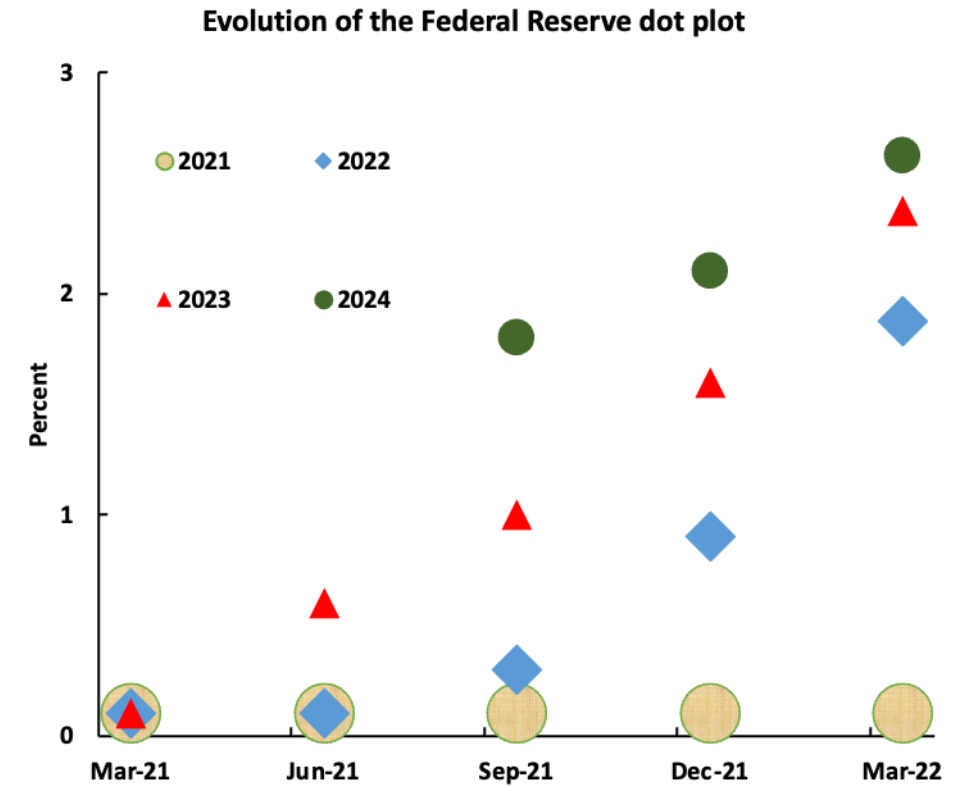
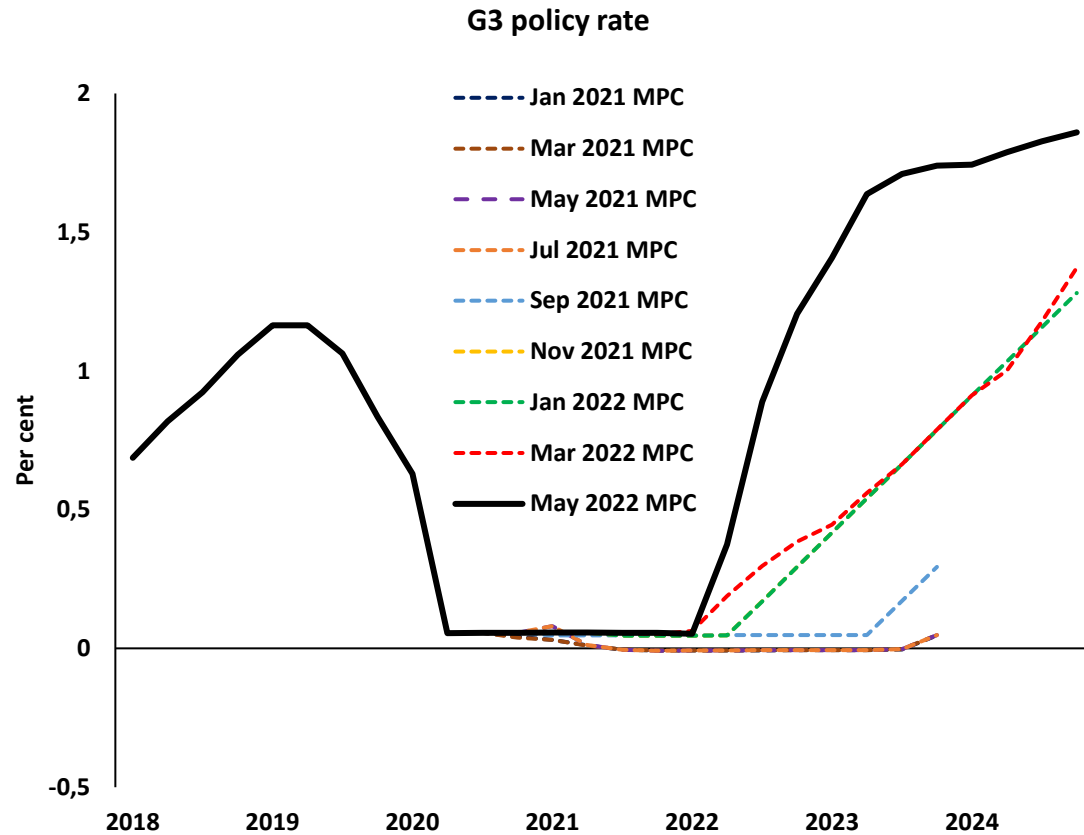
- **Commodity prices up, tenuous, conditional and insufficient**
- **Inflation going up**
- **SA' s stagflation response = measured consolidation + productivity growth**
- **Structural growth policy needed with ambitious, inclusive targets**



Muted responses of FX pass-through due to credibility, weak growth and import price deflation... how fast the reversal?



Advanced economies moving against inflation

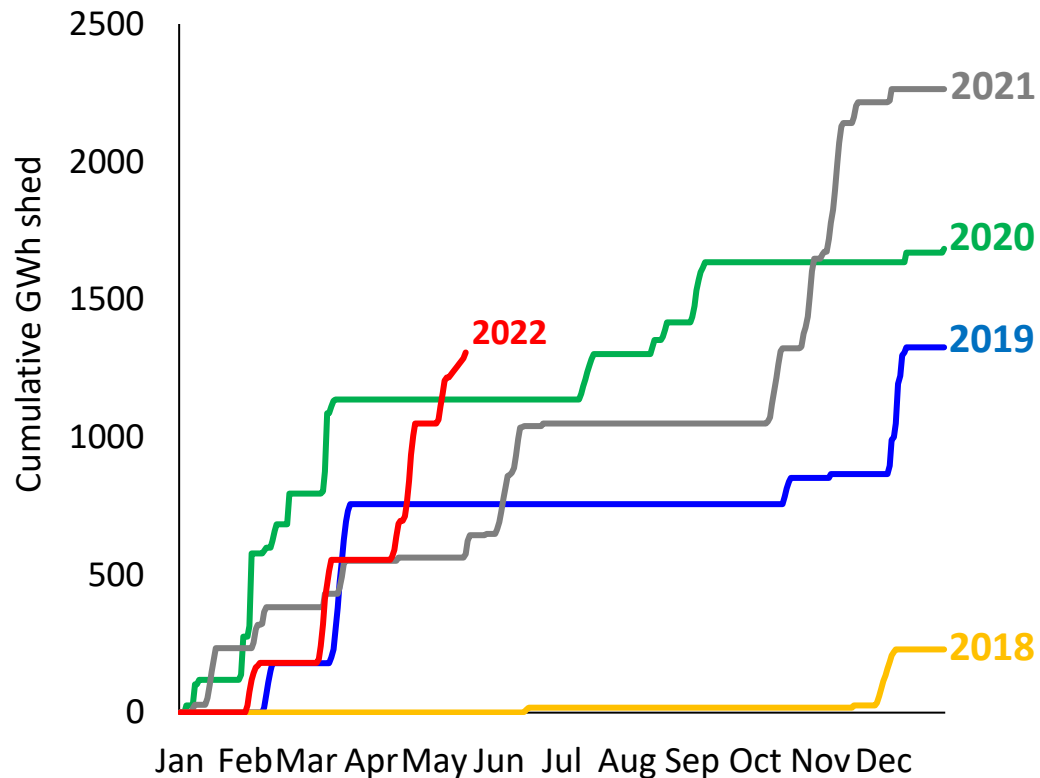


Source: FOMC

US policy hikes: Two 50 basis points hikes penciled in for June and July. This is followed by three 25 basis points increases to conclude 2022 Fed funds rate increases

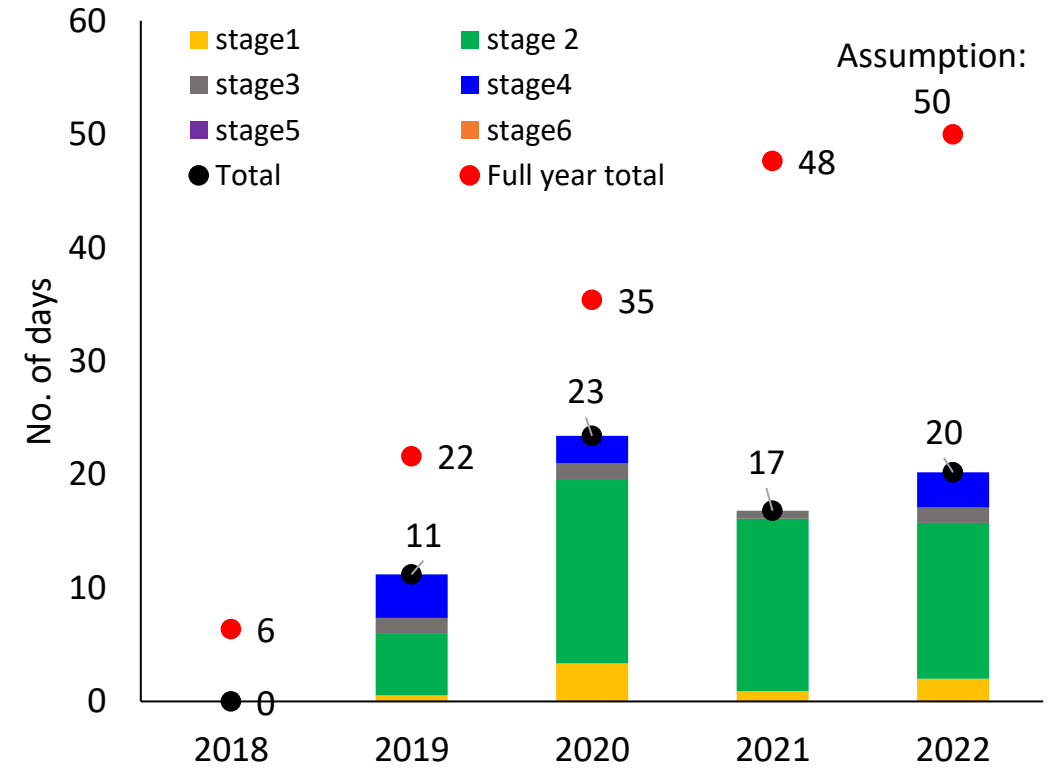
Activity further hamstrung by worsening load-shedding

Cumulative load shedding



Source: ESP (app), Eskom Twitter

Days of load shedding (Jan-Apr)



Sources: ESP (app), Eskom Twitter account & SARB

