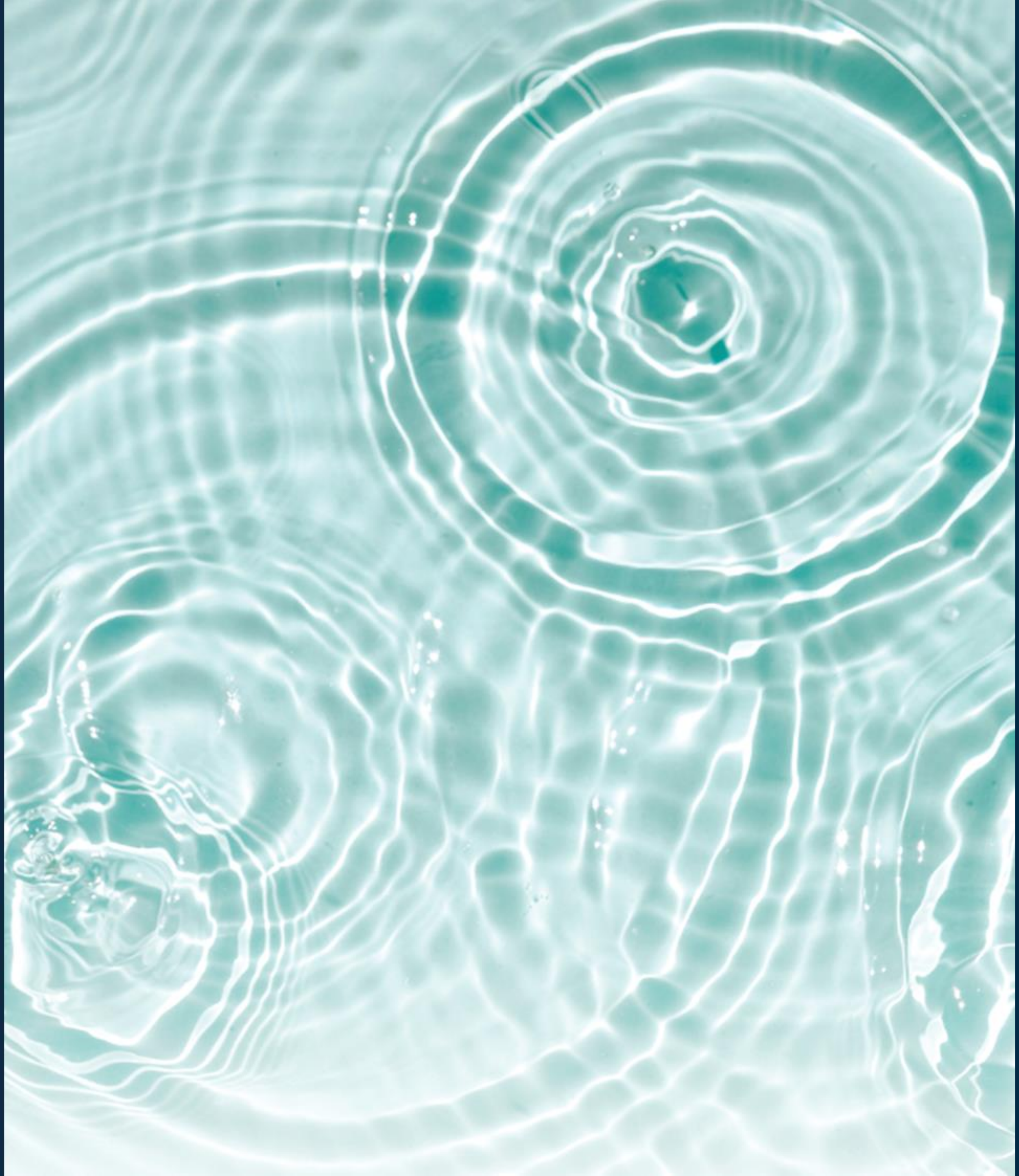


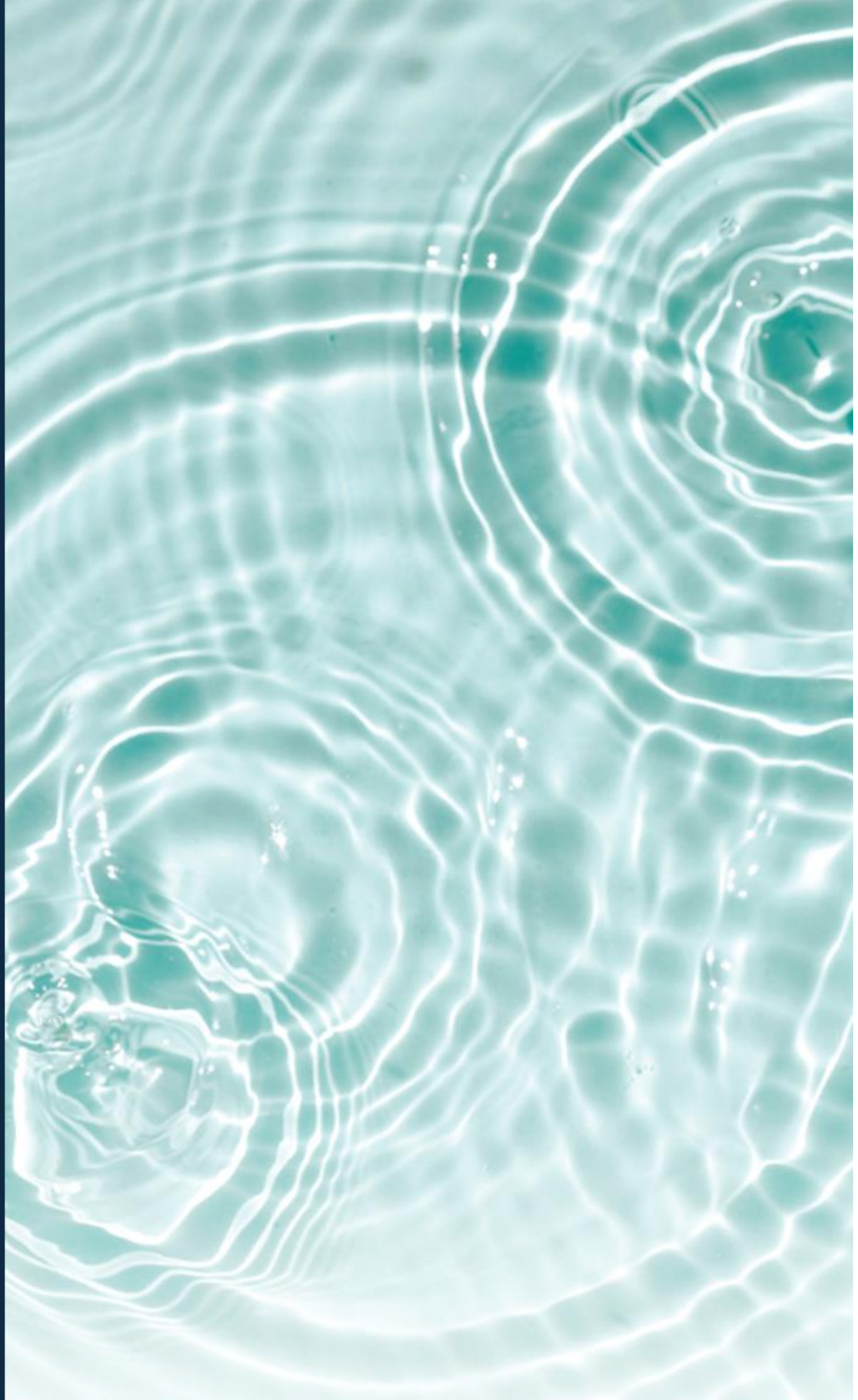
South Africa’s Macroeconomic Challenges

Rashad Cassim
South African Reserve Bank

MTN Capital Markets Day

1 June 2023

South African Reserve Bank



South Africa’s Macroeconomic Challenges

- **The challenge of inflation and economic growth**
- **Why are interest rates going up when economic growth is so low**
- **The energy crisis and implications for macro-economic policy**
- **The Macro Economic Vs the Financial or the Monetary Side of the Economy**
- **The costs of borrowing and sovereign risk**

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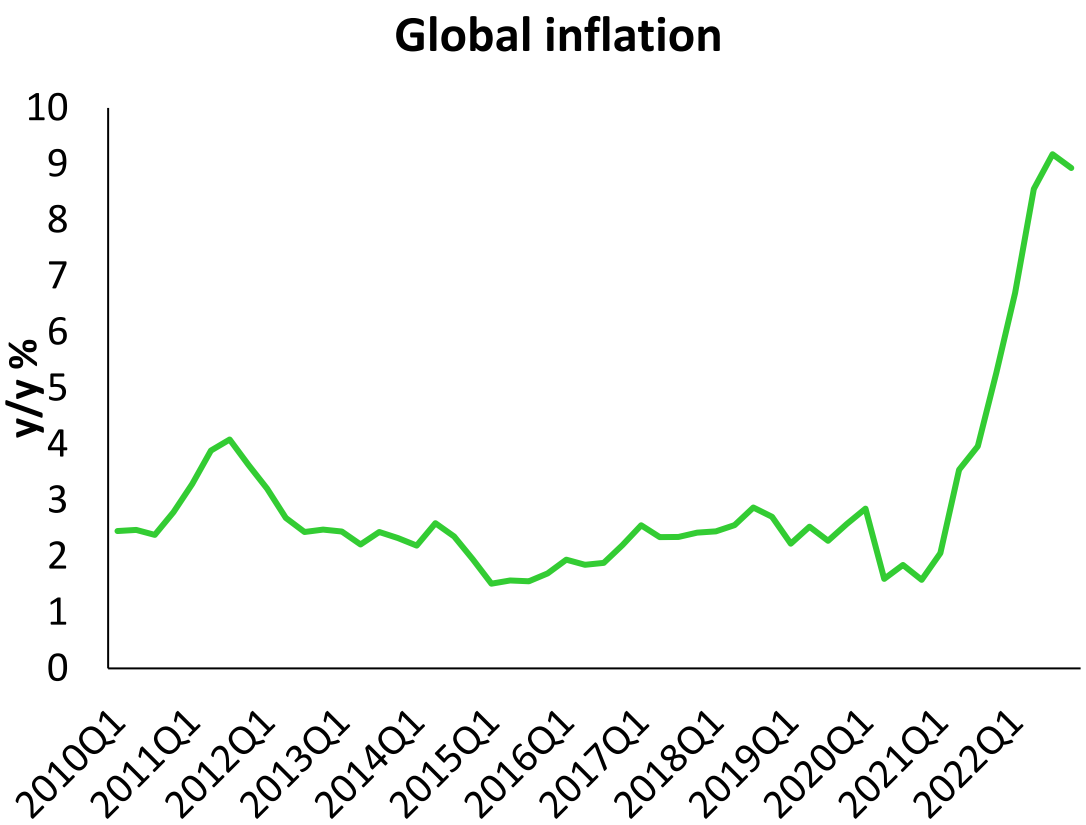
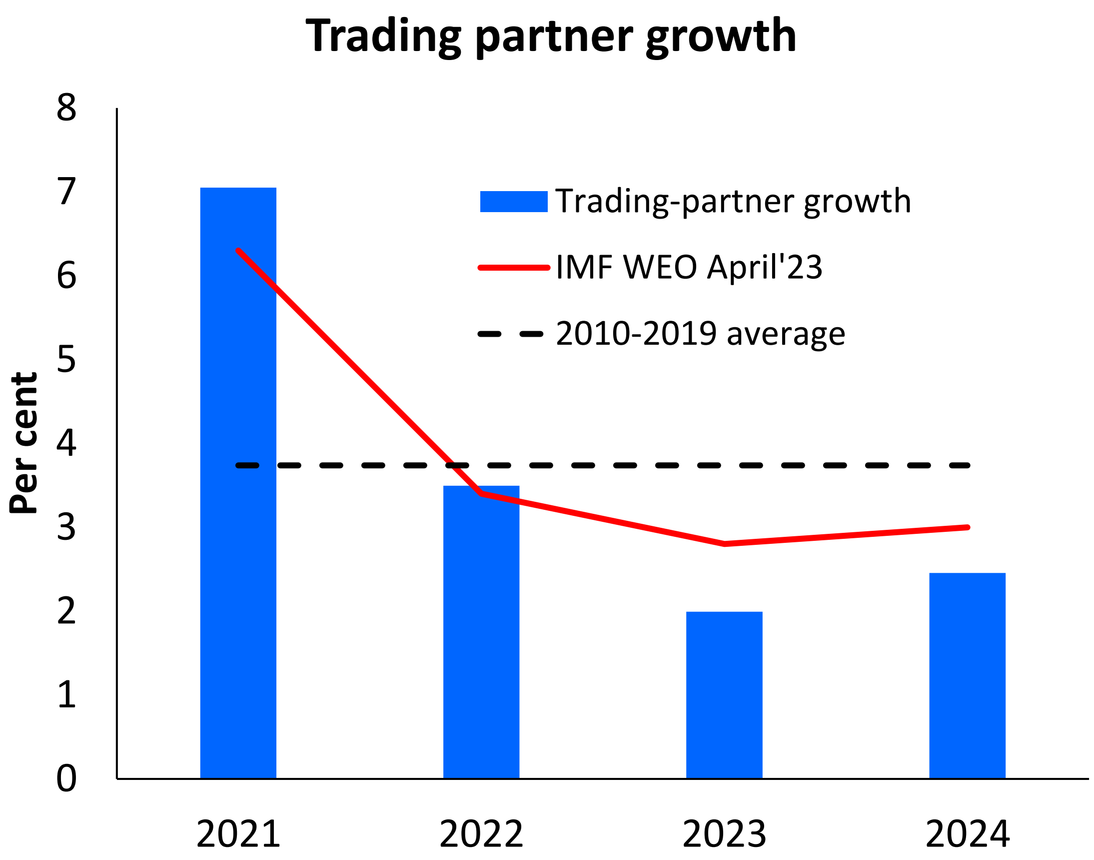
Global stagflationary conditions have entrenched



Source: Haver



Source: SARB and IMF

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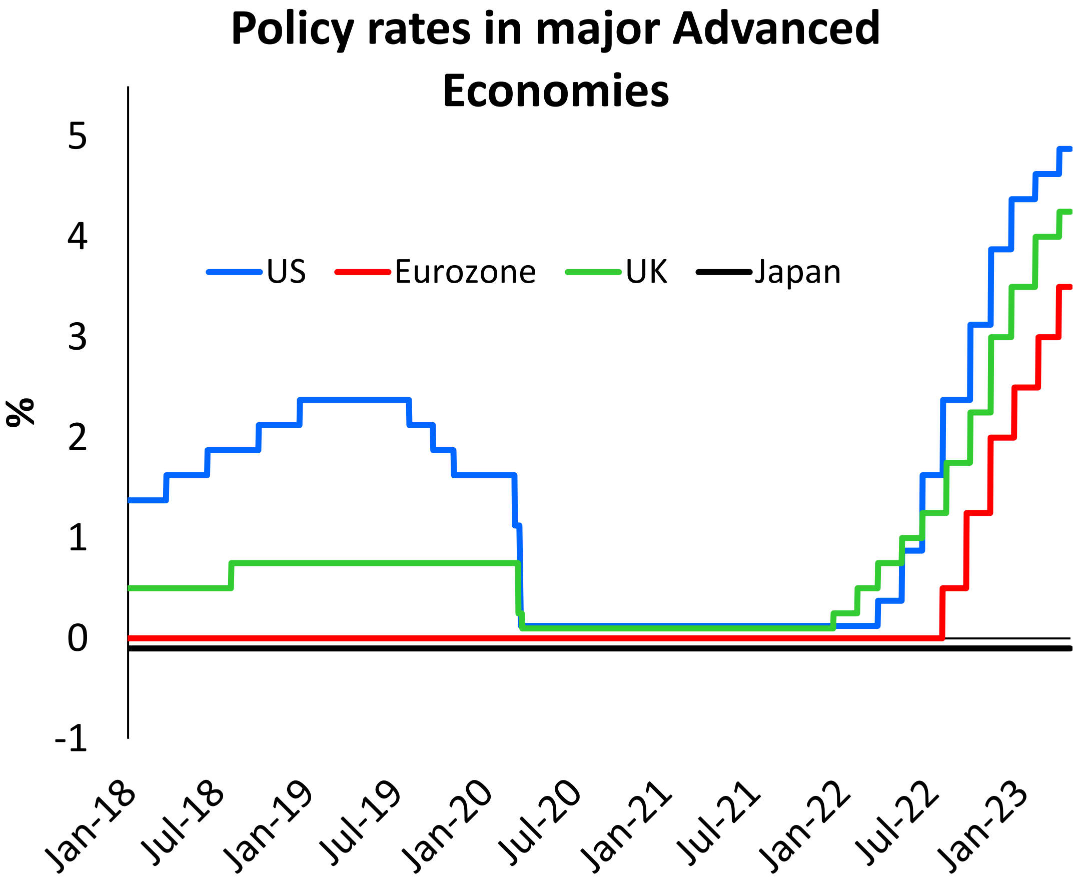
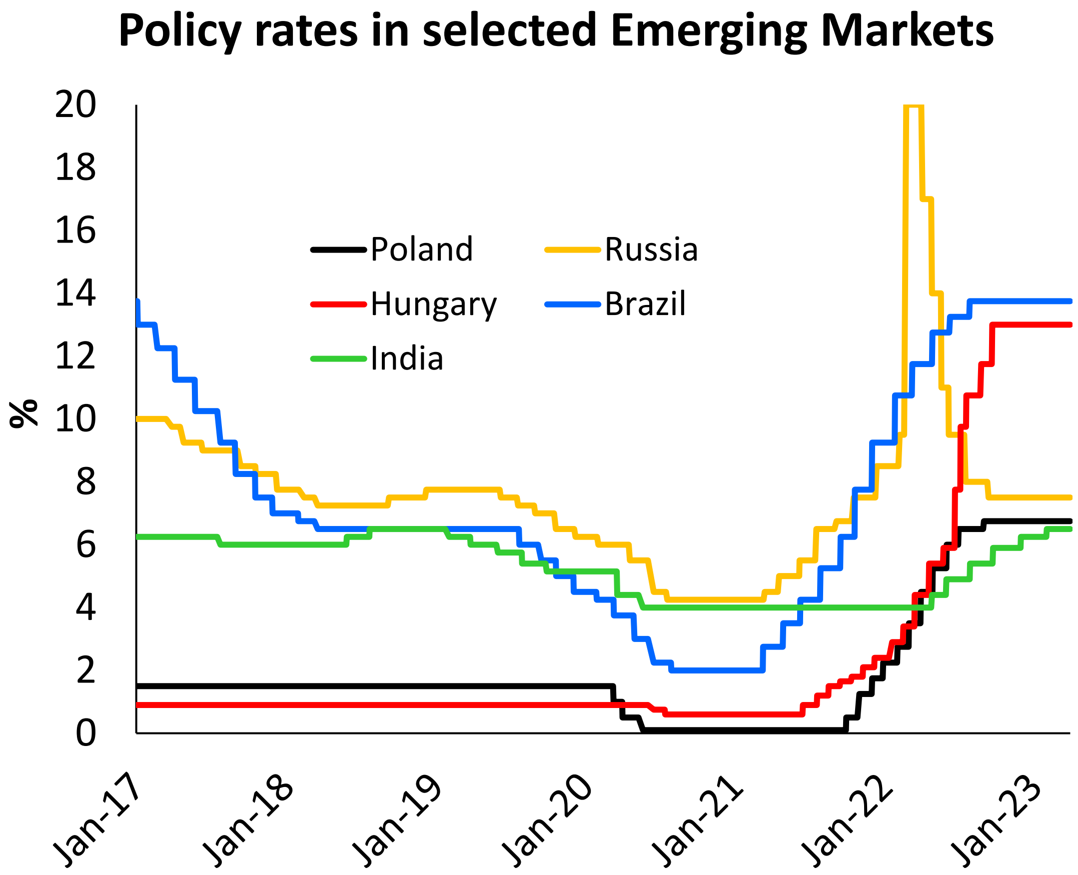
Implications of Global Policy Decisions for the South African Economy



Source: BIS



Source: BIS

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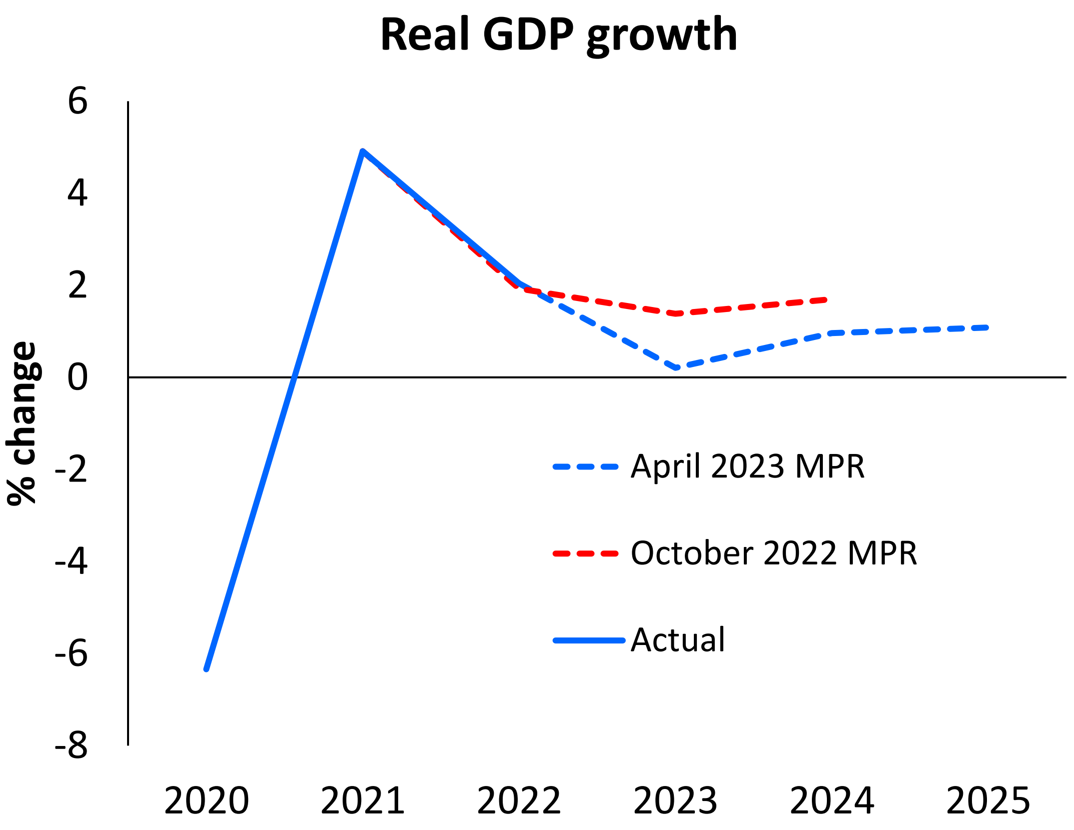
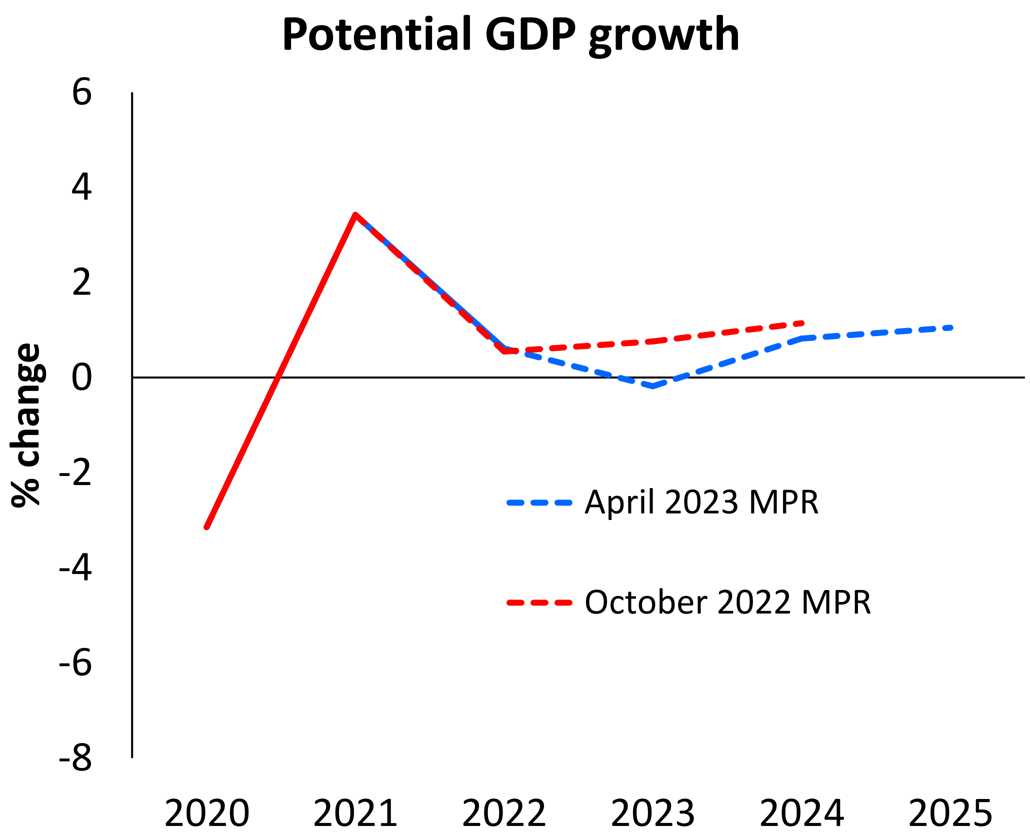
South Africa's Growth Prospects



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

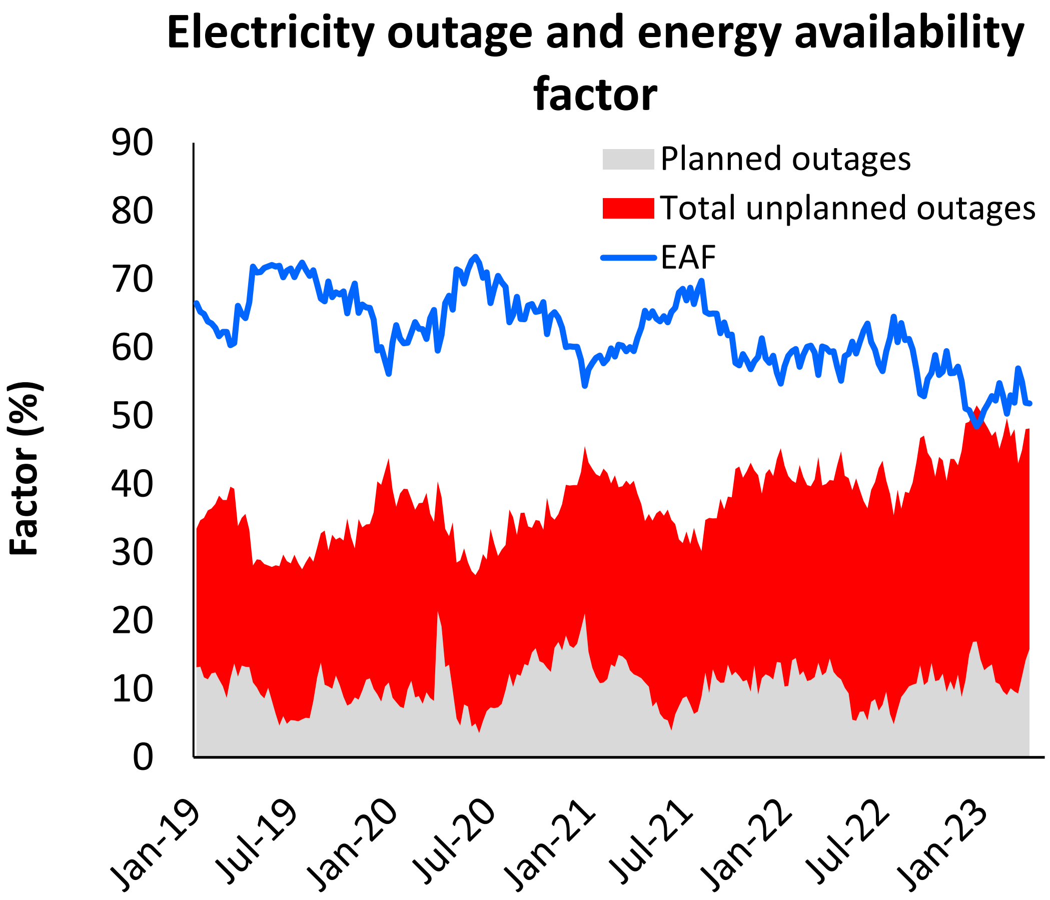


* Dotted lines indicate forecasts
Source: SARB

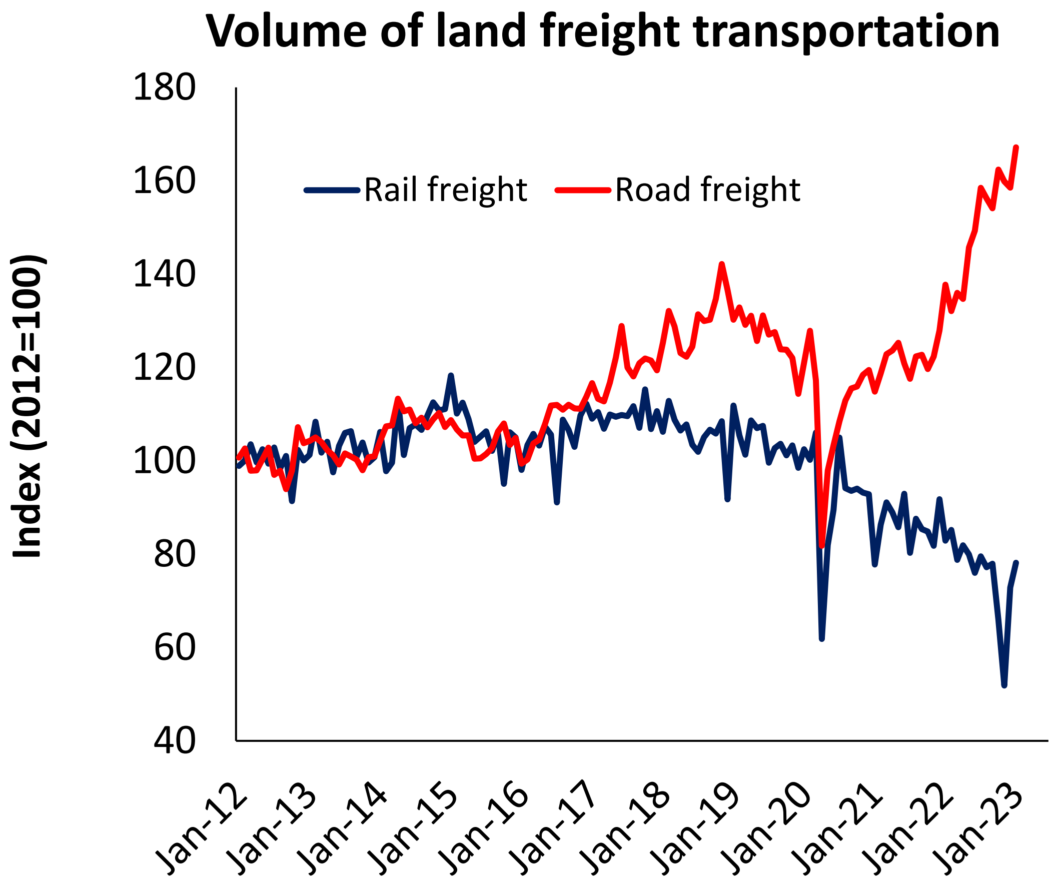
What explains South Africa's Growth Challenge?

- **Decline in long run trend – referred to as potential growth**
- **Cyclical factors (commodity prices, global growth impulse)**
- **Structural**
- **Short term**
- **Medium term**
- **Longer term**

Failures in parts of basic economic infrastructure on growth

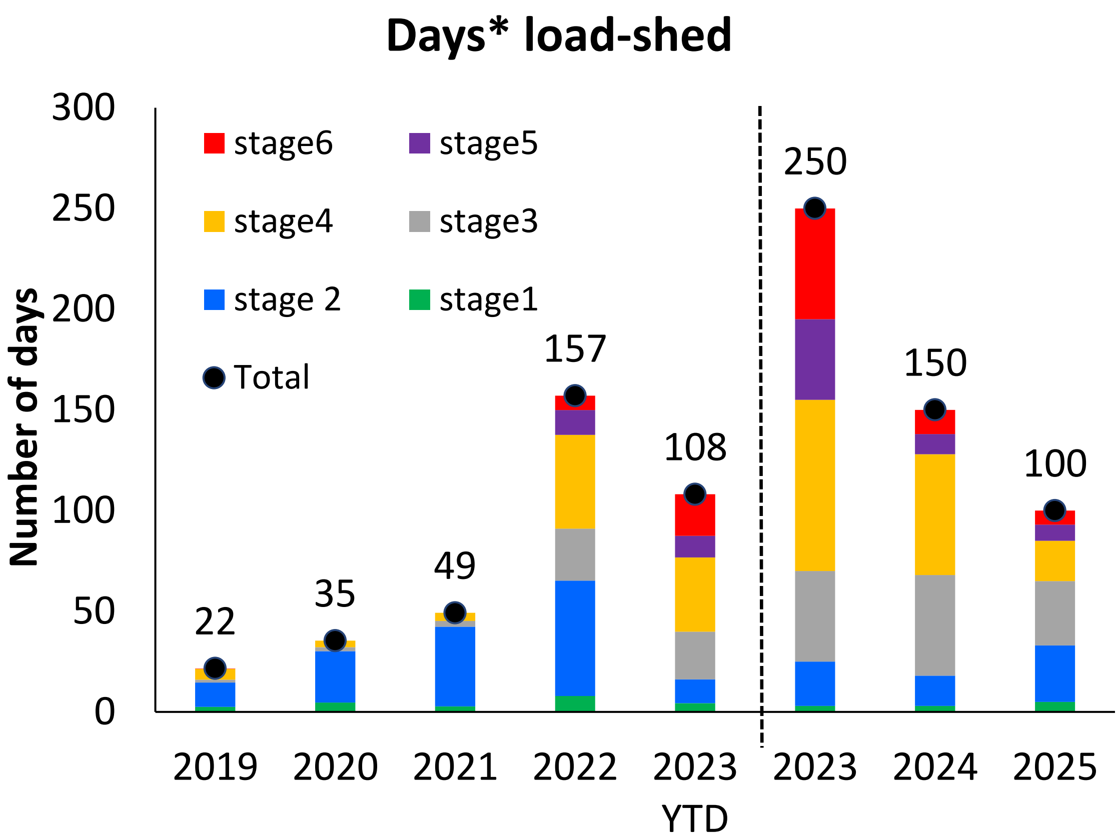


Source: Eskom



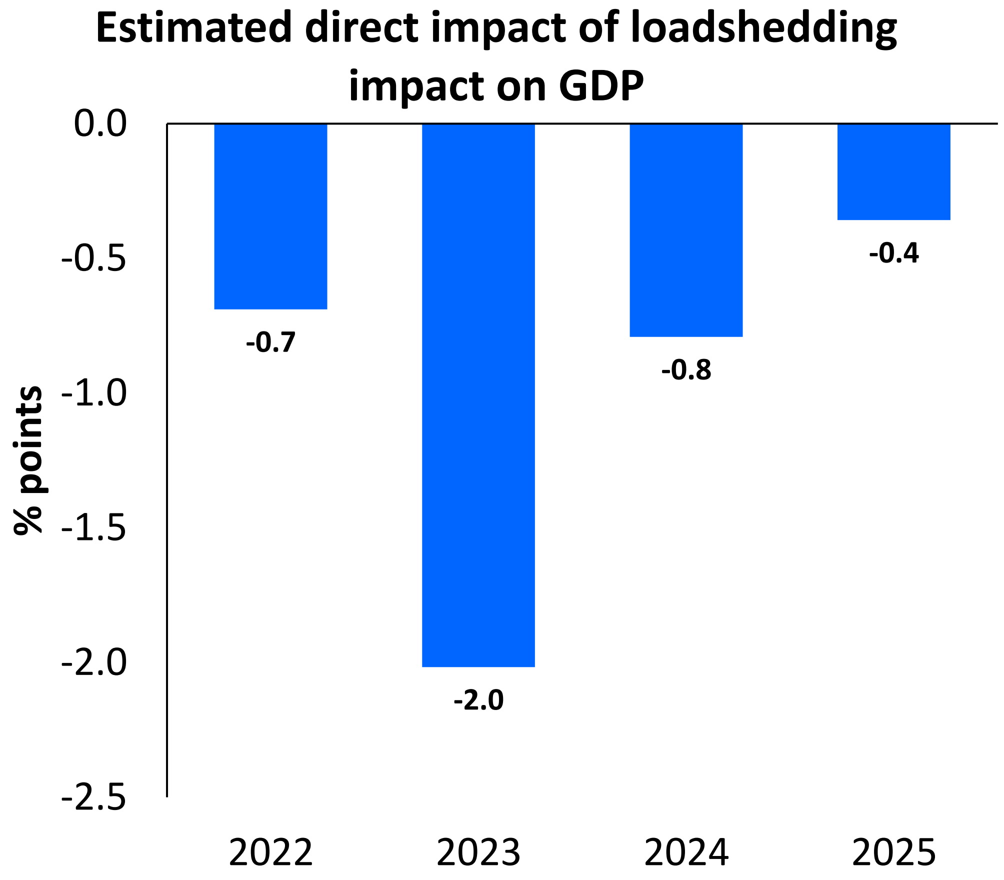
Sources: Stats SA and SARB

Load-shedding expected to persist, with marked adverse economic impacts



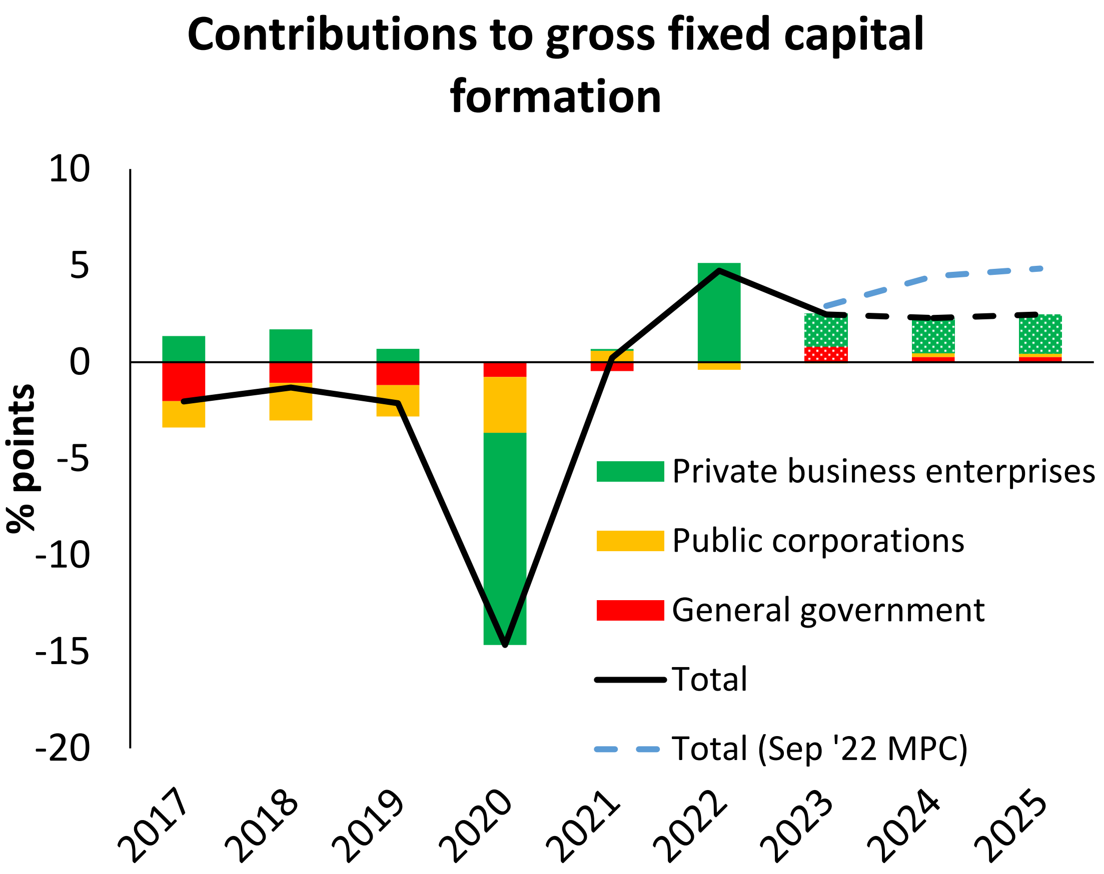
*Calculated as Total Hours Load-shed/24; YTD: 23/04/2023

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

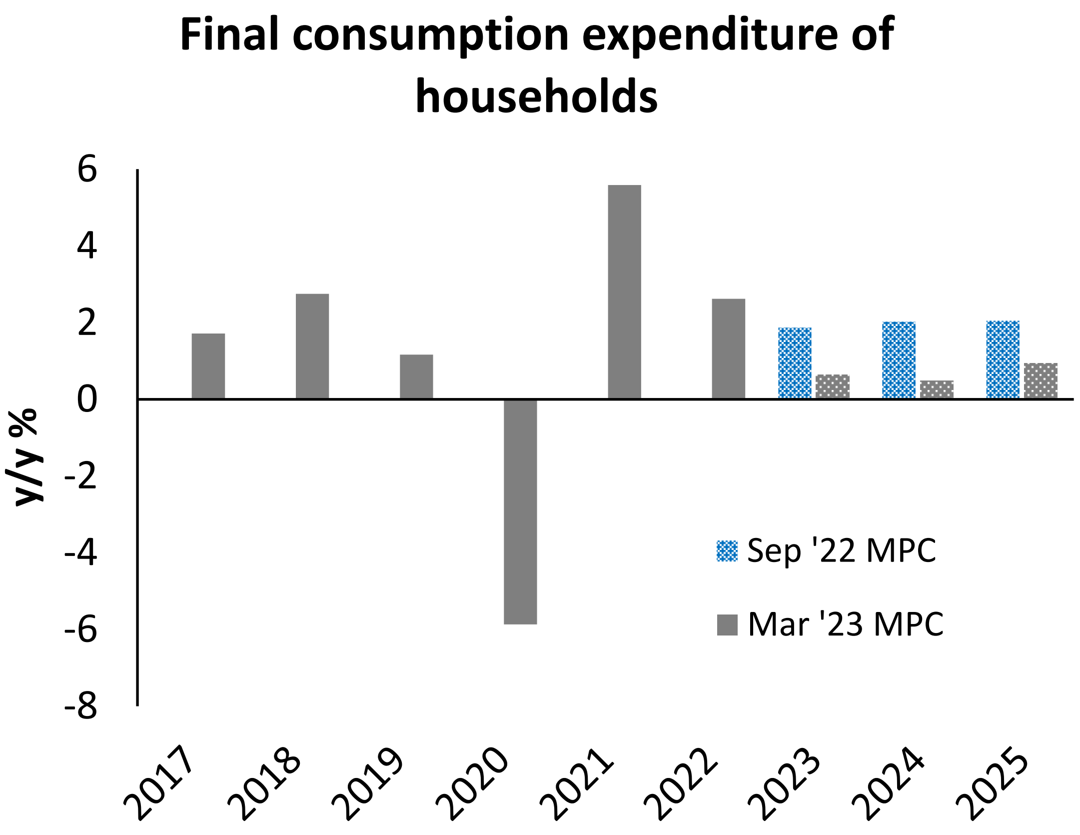


Source: SARB

But some resilience on the demand side

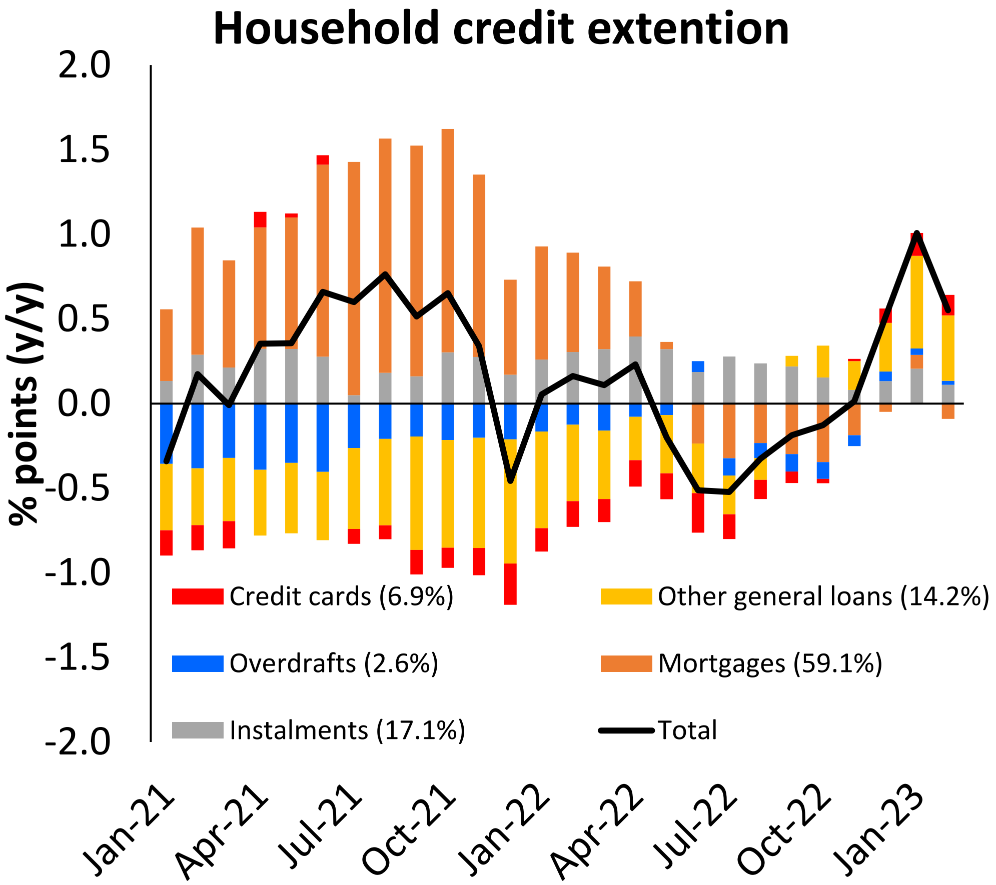


Source: Stats SA and SARB

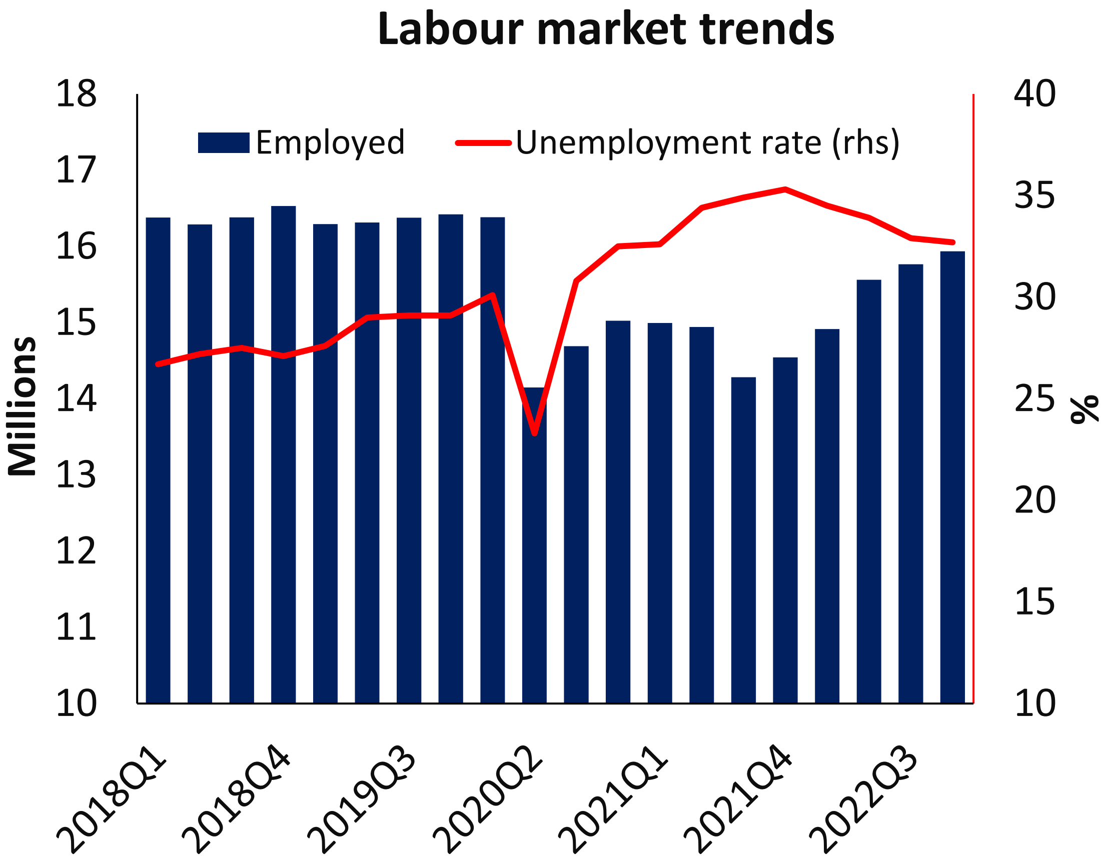


Sources: Stats SA and SARB

Credit demand relatively strong; gradual recovery in employment persists

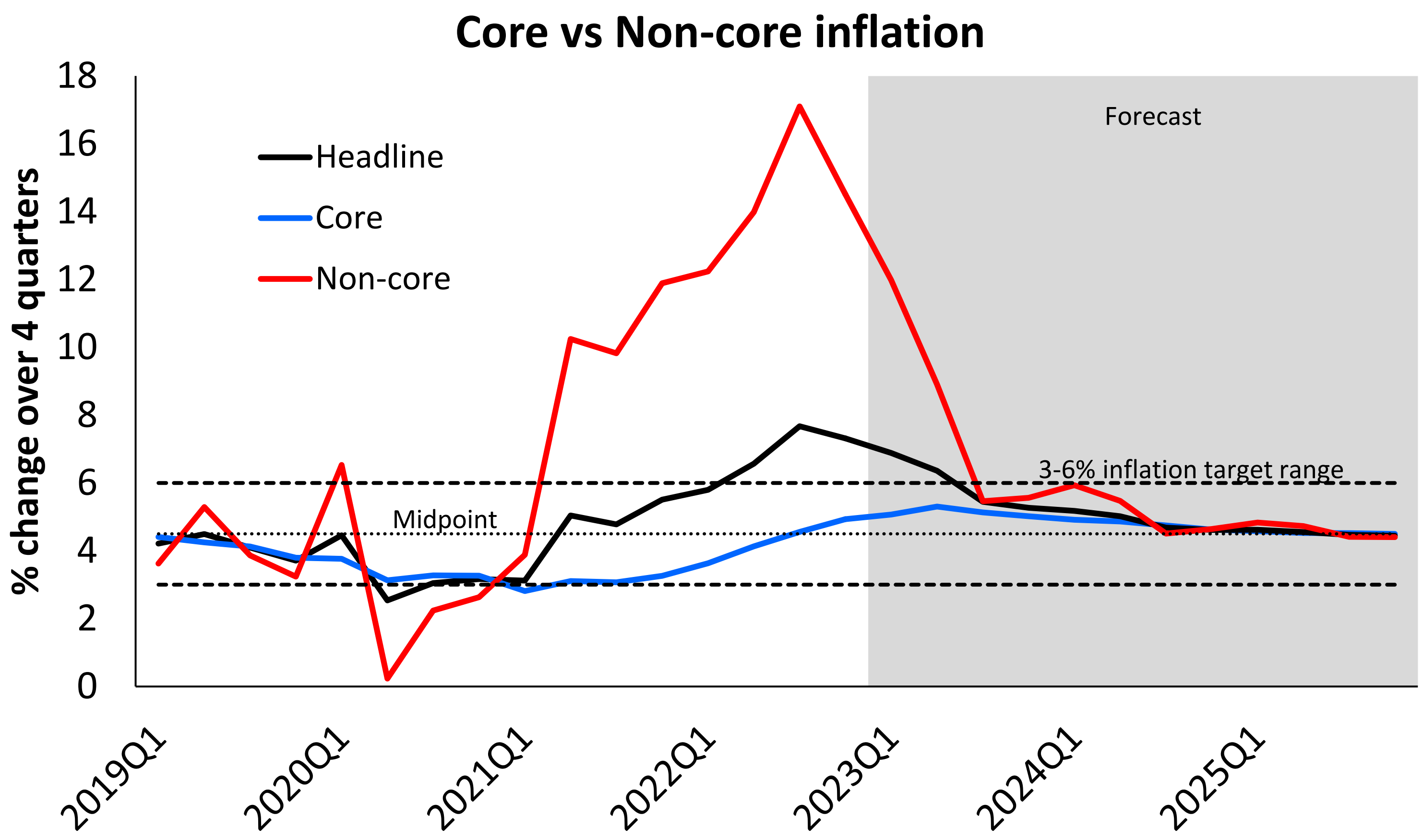


Source: SARB



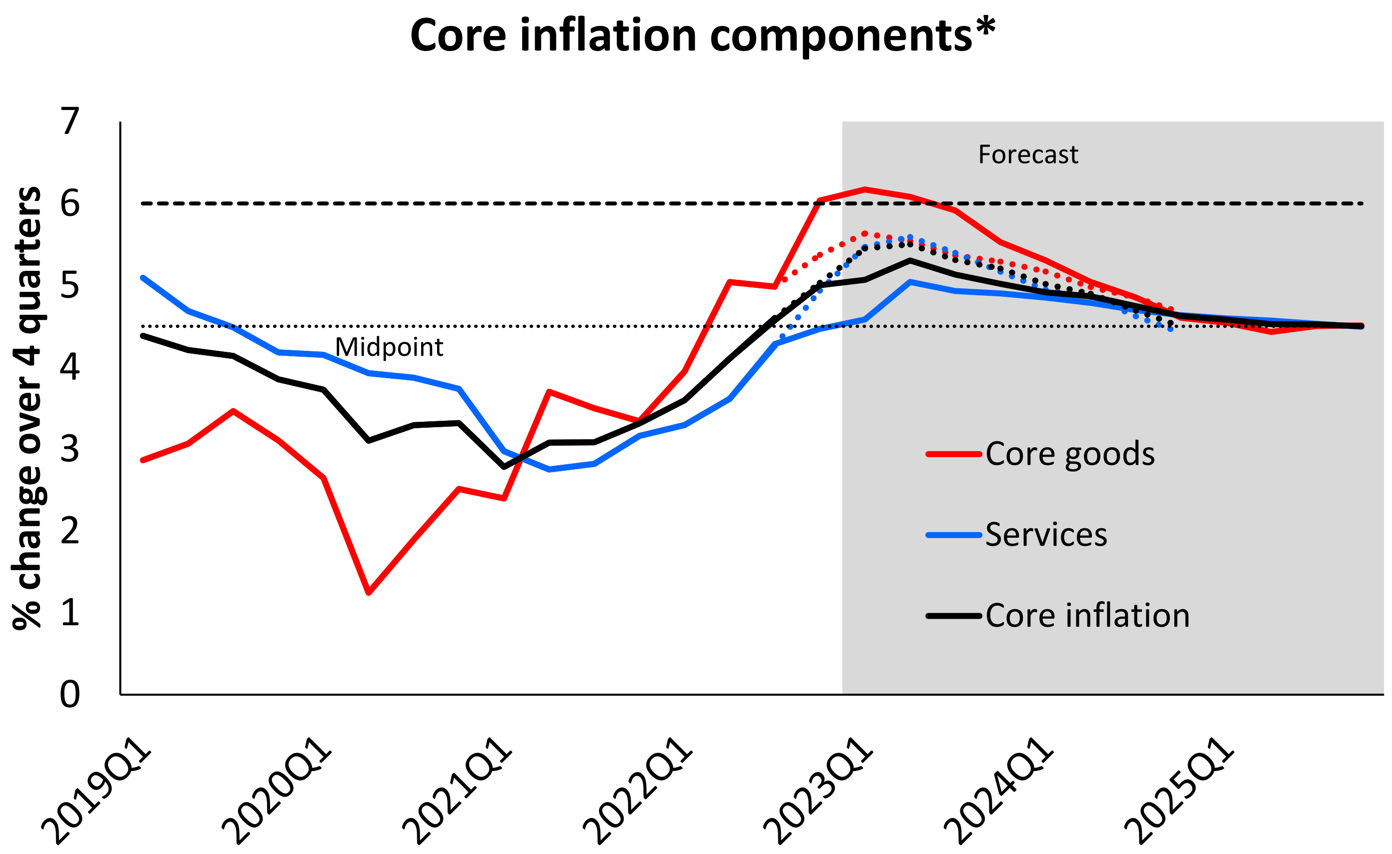
Source: Stats SA

Domestic inflation remains elevated and persistent



Sources: Stats SA and SARB

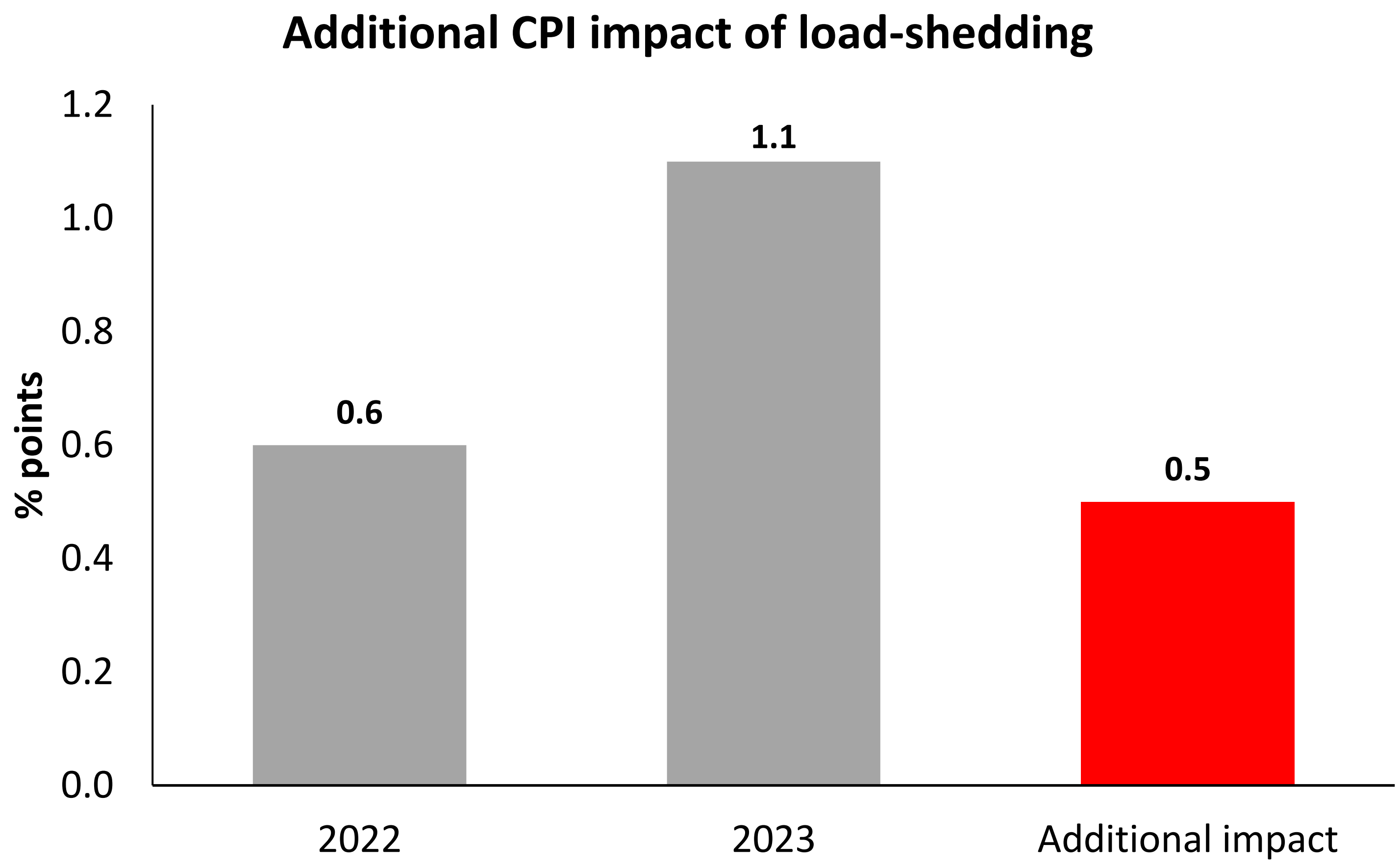
Core or Underlying inflation to remain elevated; pulled higher by core goods



* Dotted lines indicate forecasts as of Sep 2022

Sources: Stats SA and SARB

Impact of load-shedding on CPI



Source: SARB

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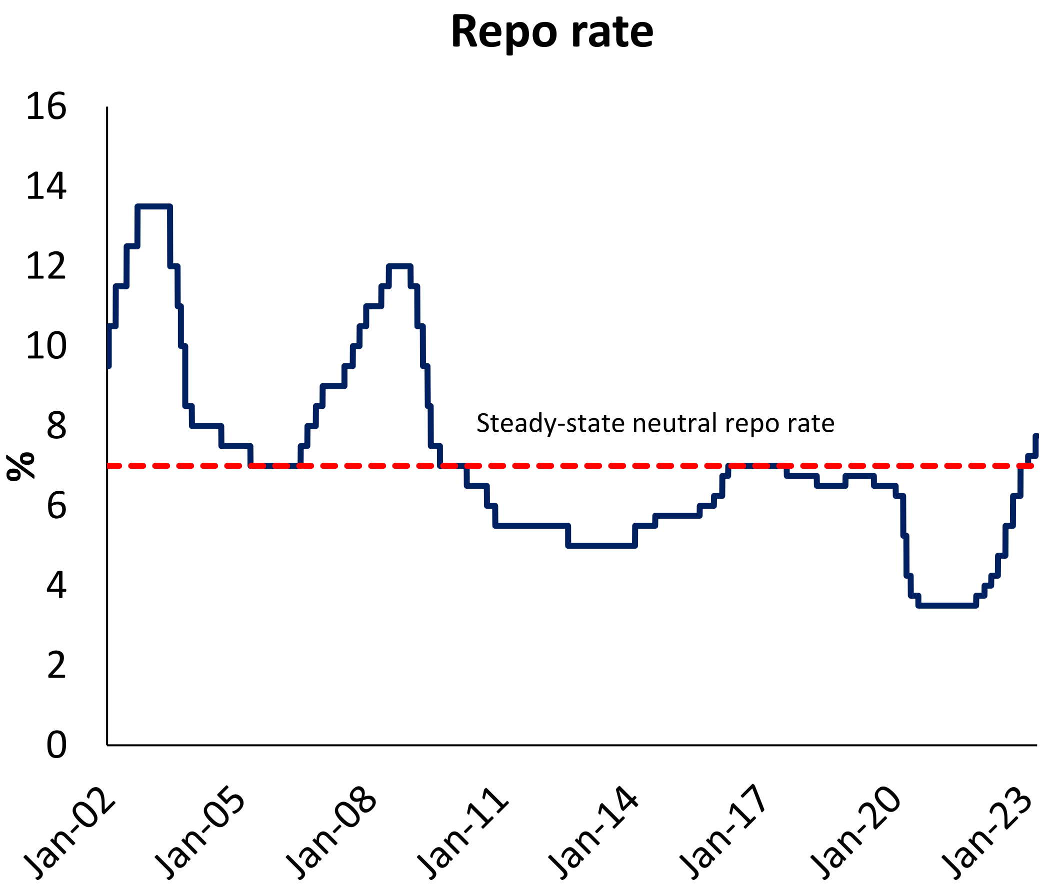
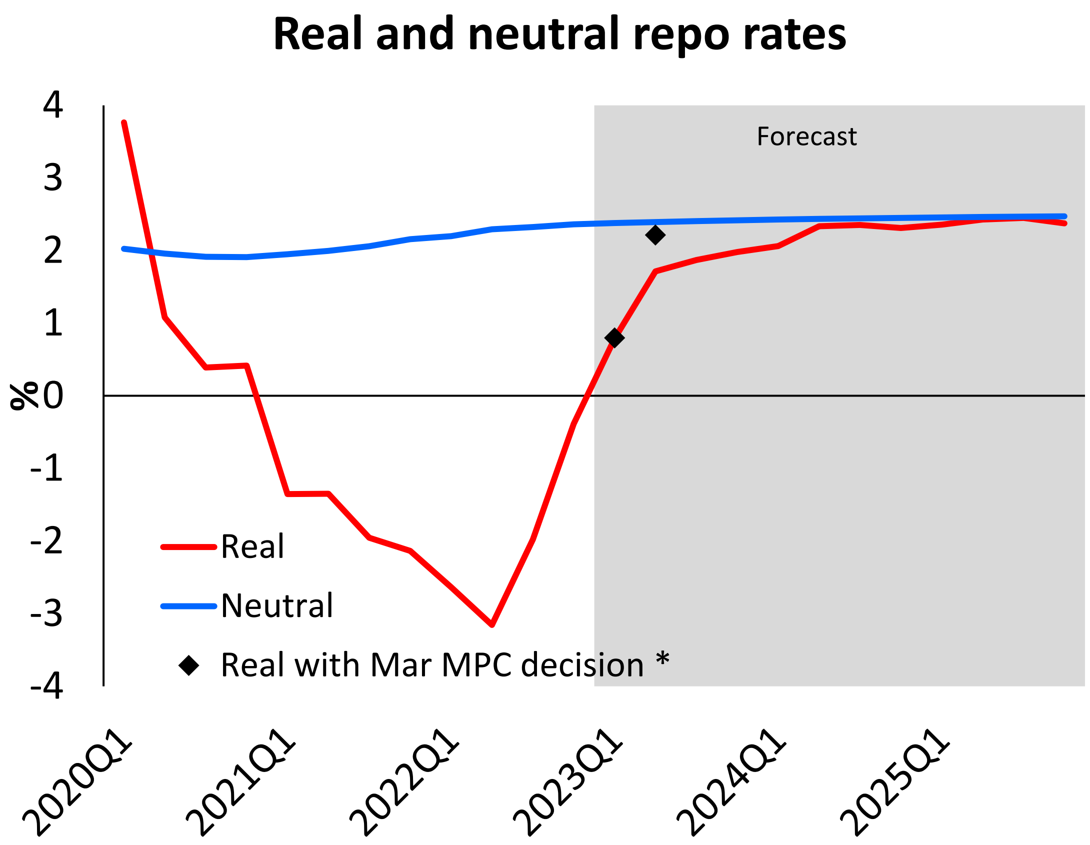
Nominal repo above steady-state neutral; real repo closing in on neutral real



Source: SARB

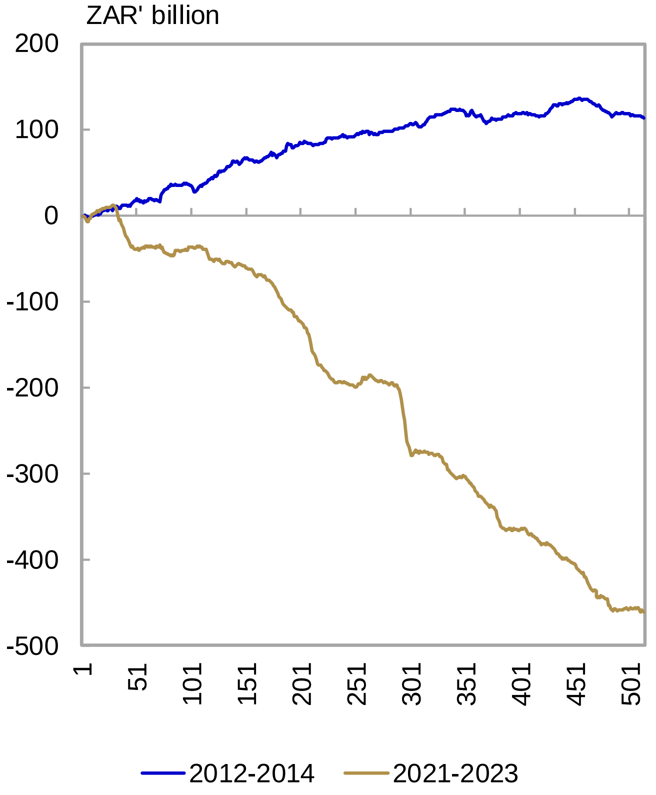


* Mar MPC real rate plus Mar MPC decision, all else equal

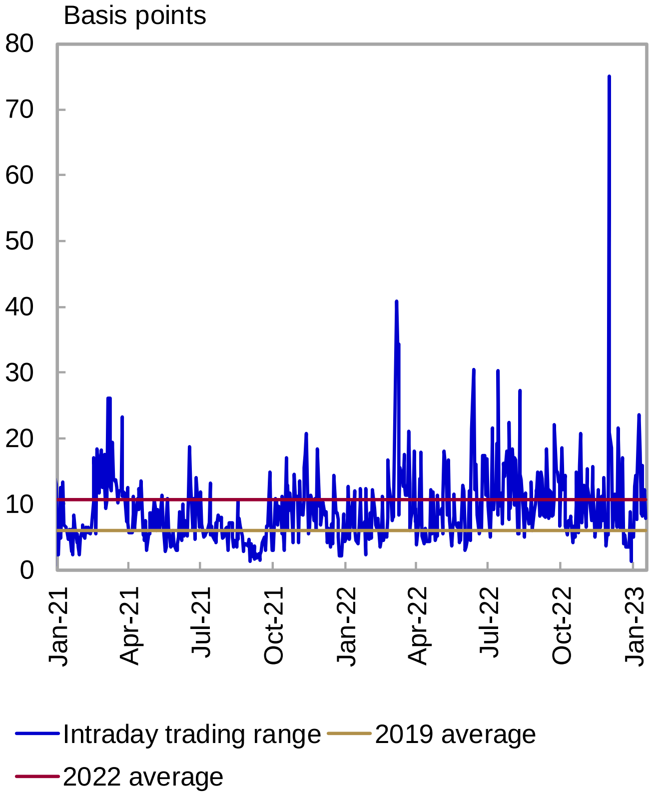
Source: SARB

Monetary Side: Liquidity conditions somewhat tight

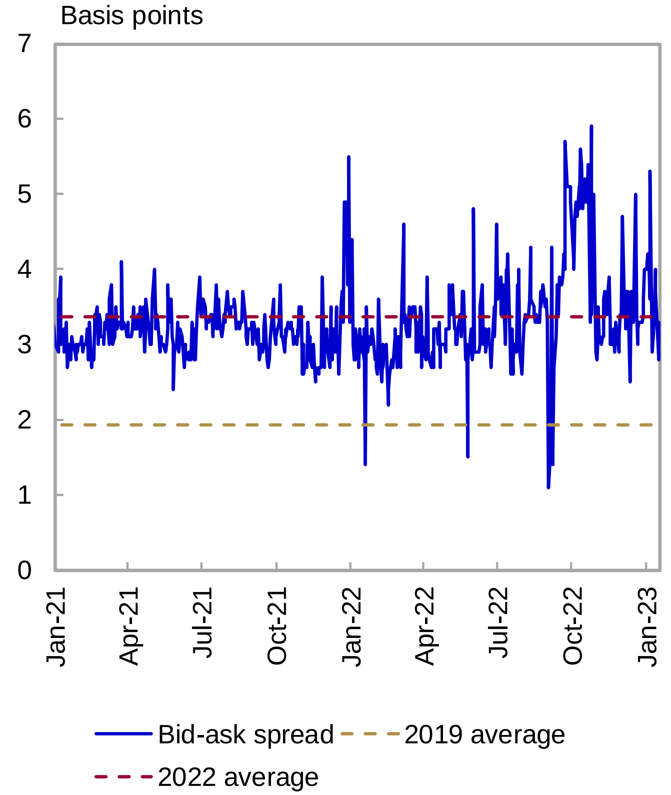
SAGB nonresident flows



R186 bond intraday range



R186 bond bid-offer spread



Sources: Bloomberg, JSE

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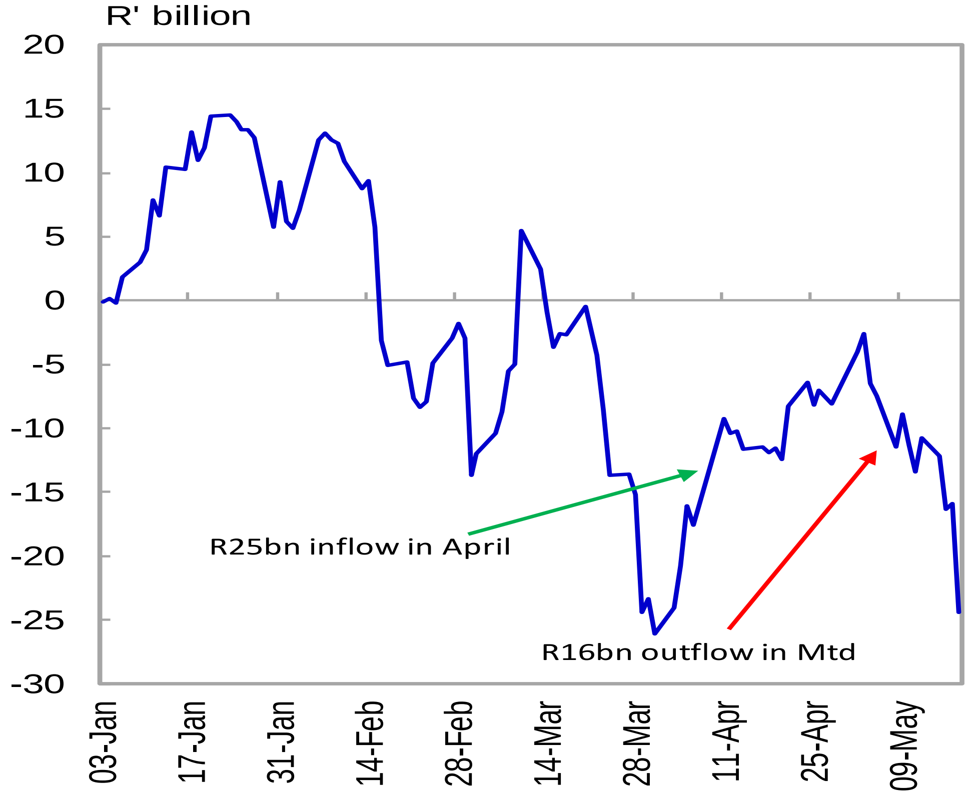
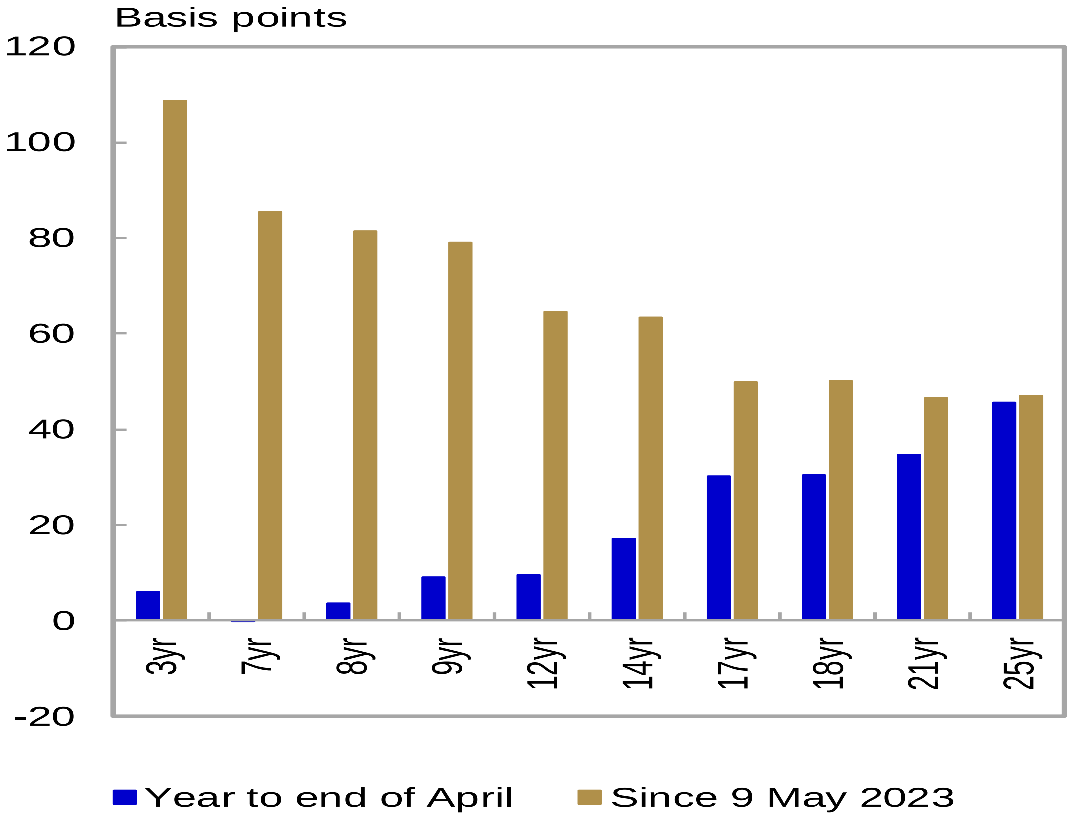
SAGBs sold-off despite good performance by their global counterparts

SA portfolio flows

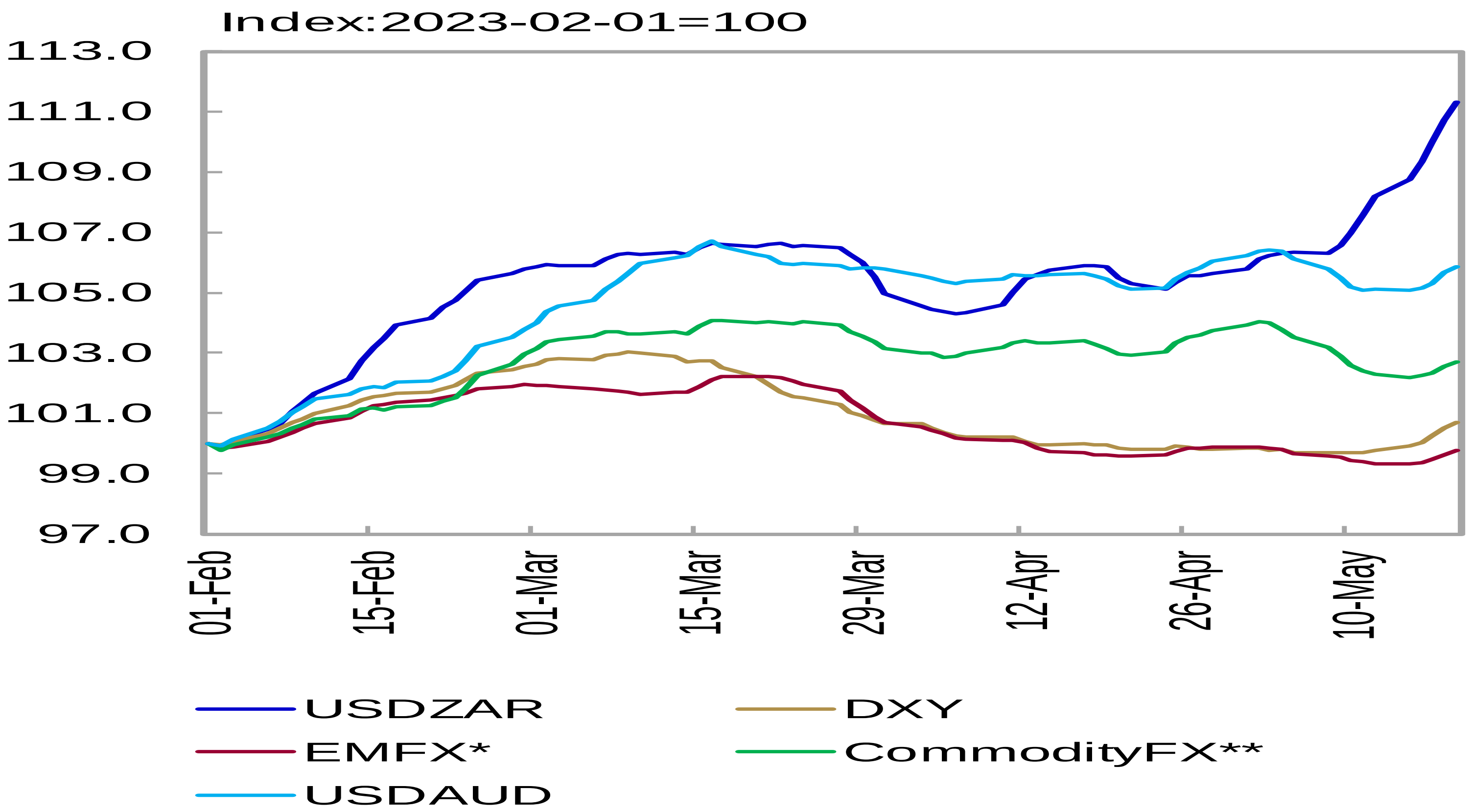


Changes in SAGB yield curve



Source: Bloomberg LP, JSE

Explaining South Africa's Volatile Currency



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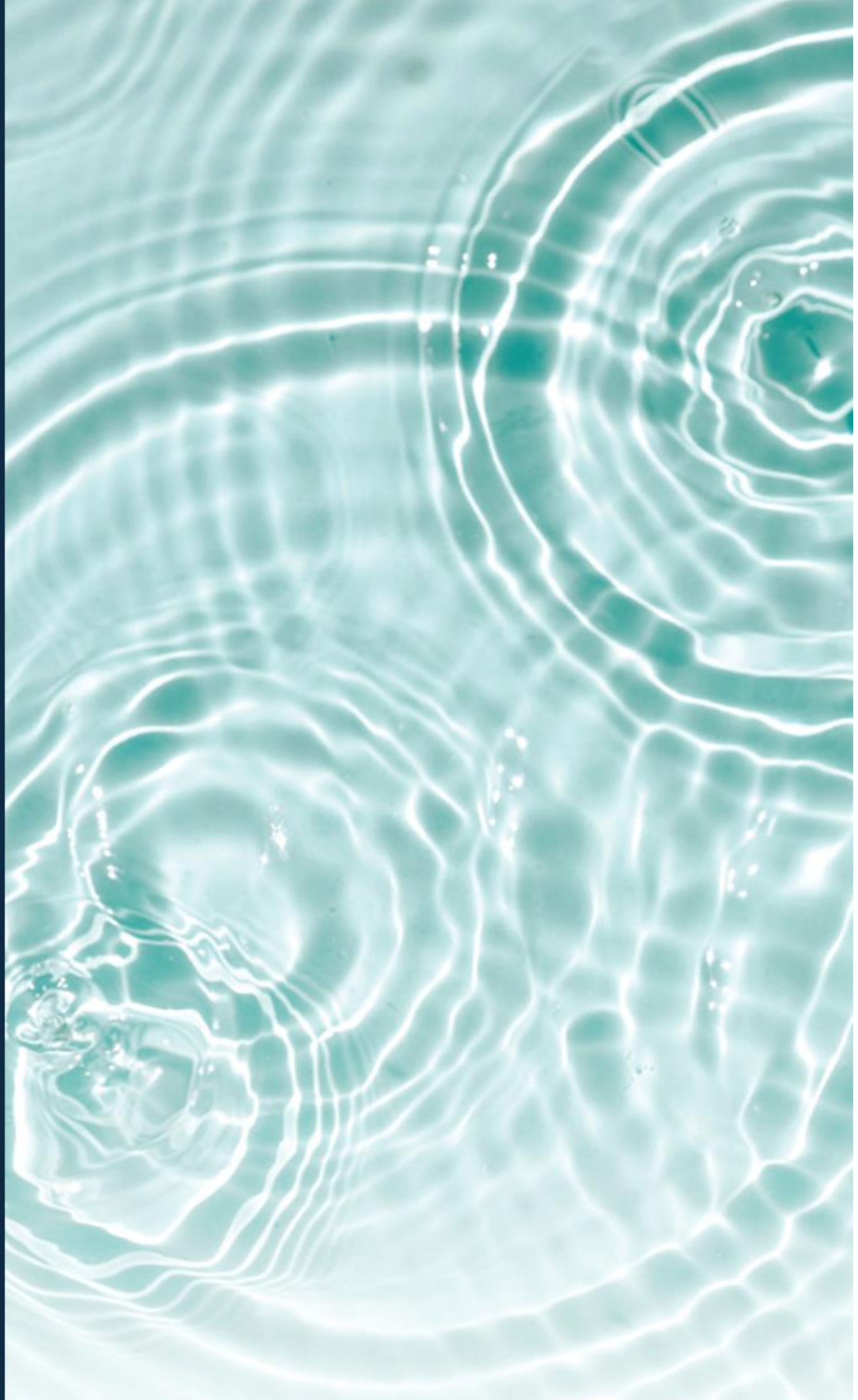
South Africa's idiosyncratic risk

ZAR's underperformance is unlikely to close owing to:

- *Elevated levels of loadshedding (known) and risk of grid collapse (not fully factored in)*
- *SA listed as a high risk (known) and the risk of secondary sanctions (not fully factored in)*
- *Rising fiscal risk (poor domestic growth + unplanned increase in govt expenditure + contingent liabilities)*
- *Further slippage in the sovereign rating*
- *Increased potential for financial market turmoil*
- *Local investors taking advantage of increased offshore prudential limits*
- *But the rand could recover?*



THANK YOU