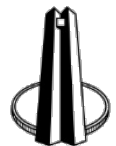




Communicating Monetary
Policy and Financial Stability:
the South African case

*Presentation to the AACB Continental Seminar on
“Credible Communication Strategies of Central Banks in
the Framework of Monetary Policy and Financial
Stability”*

Accra, Ghana, May 3-5 2017



South African Reserve Bank

Introduction

- Prior to 2000, monetary policy communication was limited.
- The main Bank publication was the Quarterly Bulletin, which is an in-depth backward-looking assessment of economic content, with limited policy content or forward-looking analysis. This publication still exists today.
- Apart from this, there was the annual address of the Governor to shareholders of the Bank, as well as occasional speeches.
- Monetary policy decision-making was by the Governor, and decisions were at random times, and often limited explanation, or forward guidance.
- A Monetary Policy Committee (MPC) was established in October 1999 and formal Inflation targeting was introduced in February 2000.
- This led to a change in communication strategy, and has evolved over the years in the direction of increased transparency and openness.



Monetary Policy Communication Innovations

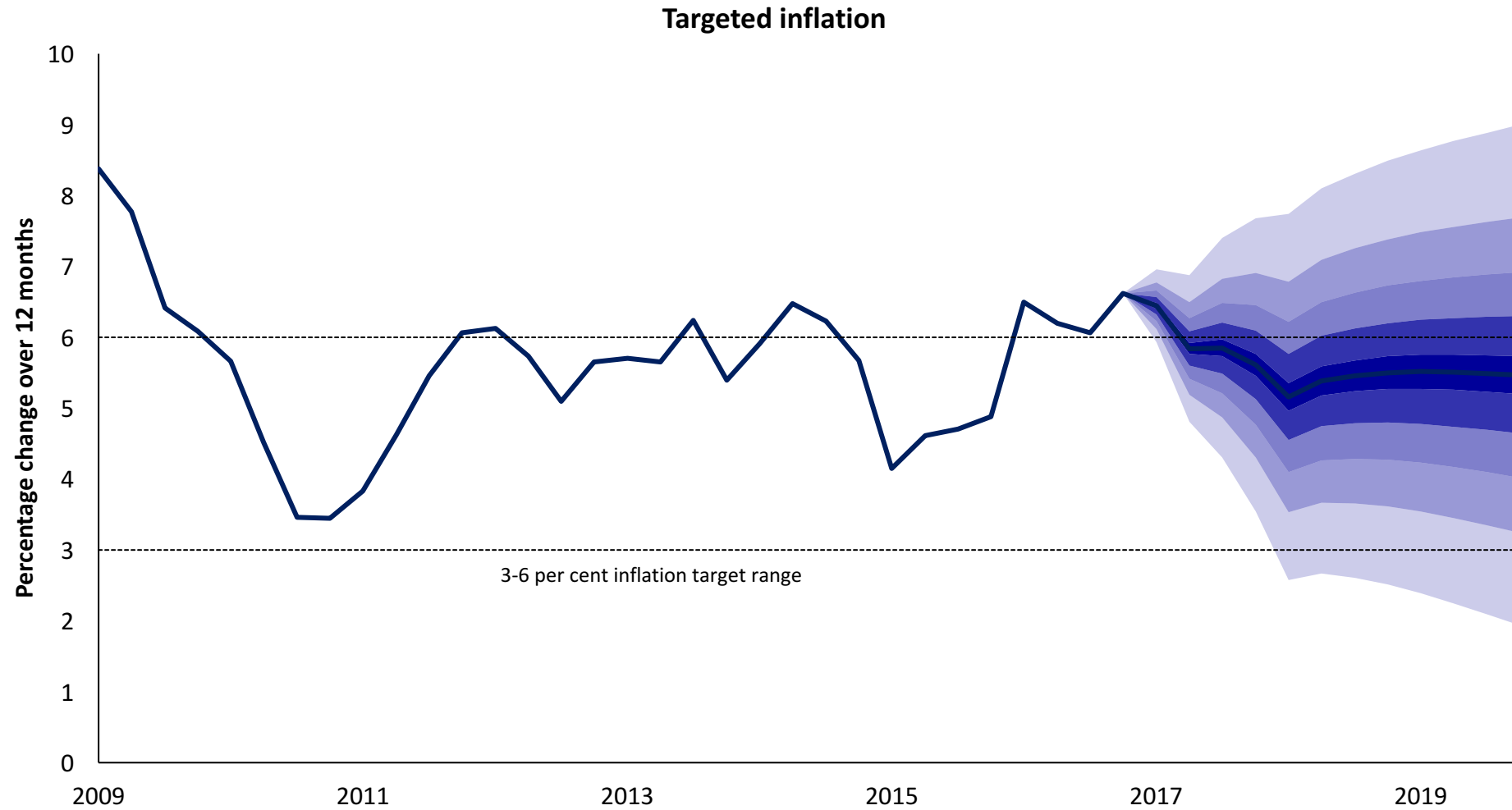
- With the introduction of the MPC and inflation targeting, communication changed dramatically:
 - The schedule of meetings for the calendar year is published in advance of the year (although there is provision for emergency or unscheduled meetings).
 - A Monetary Policy Statement is issued after the meeting and published on the Bank's website. The Statement is read by the Governor at a live press conference at 3pm on the last day of the MPC meeting, and covered by a number of TV stations. There is also live streaming on Facebook and a twitter feed. All press conferences are available as podcasts on the Bank website.
 - The statement includes forecasts of inflation and growth, as well as the exogenous assumptions of the model (more details below).
 - The Governor and MPC members form the panel that answers questions from journalists. Analysts can dial in and ask questions.



Monetary Policy Communication Innovations

- The Bank's core model is published on the Bank's website.
- The Bank publishes a Monetary Policy Review twice a year, which sets out the stance of monetary policy over the past 6 months, and presents a forward-looking analysis. The latest inflation and GDP forecasts are also published with fancharts.

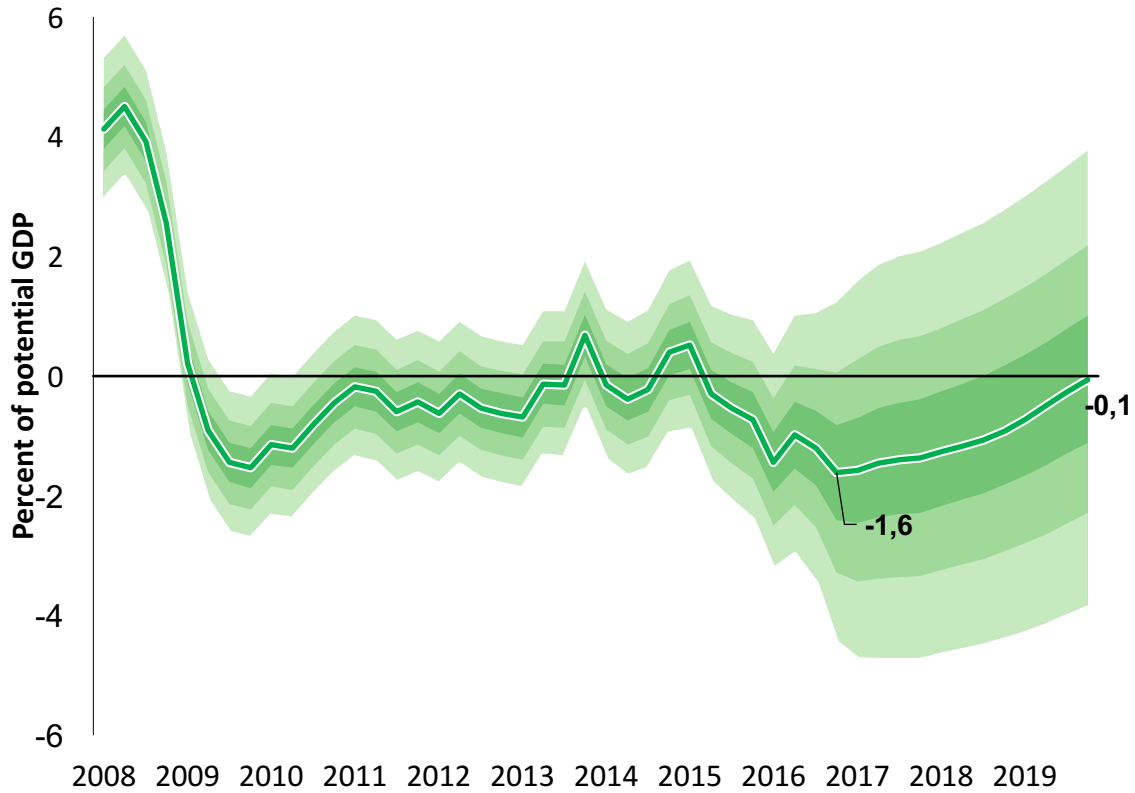
Inflation forecast and fanchart published in MPR (April 2017)



Source: Statistics South Africa and South African Reserve Bank

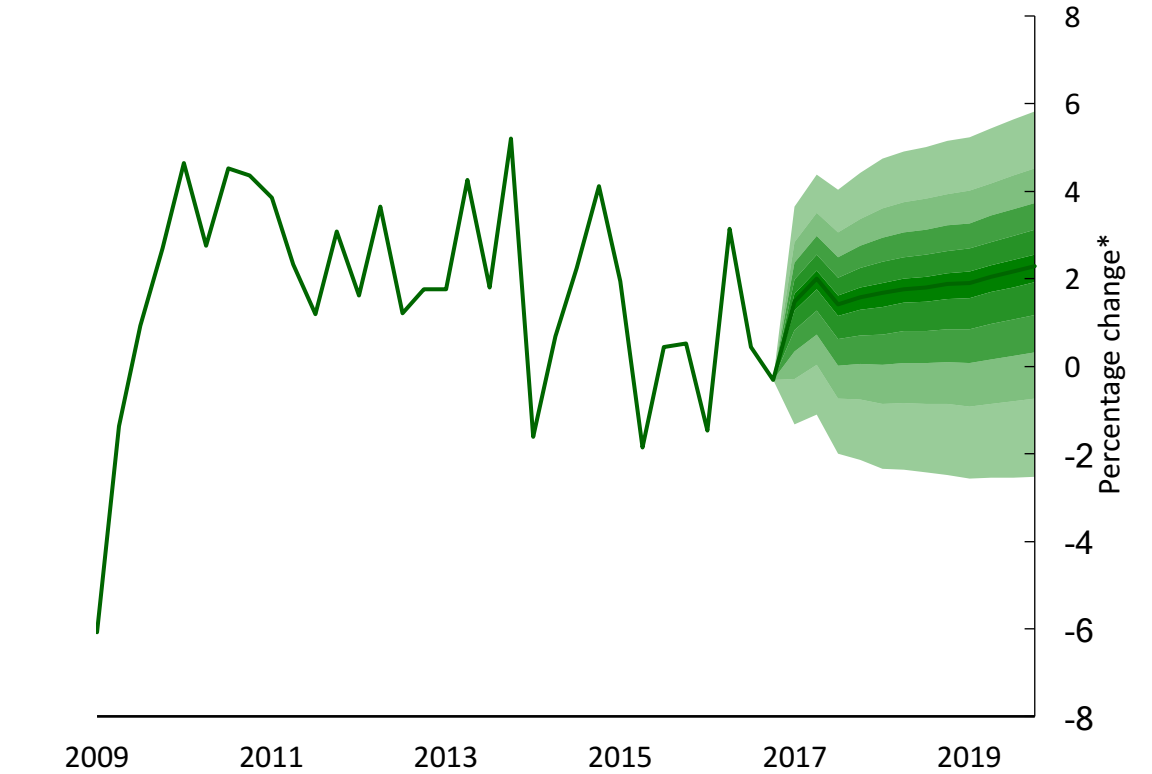
GDP Growth and output gap forecasts (MPR April 2017)

Output gap



Source: South African Reserve Bank

Real GDP growth



* At seasonally adjusted annualised rates

Sources: South African Reserve Bank and Statistics South Africa



Monetary Policy Communication Innovations

- The MPR forms the basis of the Monetary Policy Forums which are sessions conducted around the country in about 10 different venues for interested parties. These include politicians, academics, trade unionists and business people.
- The National MPF, which coincides with the launch of the MPR, usually attracts about 300 people, while the regional MPFs attract between 50 and 200 people. All MPC members are part of the national MPF panel, and the regional MPFs are chaired by an MPC member.
- MPC members are often invited by local financial institutions to give feedback to their institutional clients in the days following the MPC.
- Local and foreign investors regularly visit the Bank to have sessions with MPC members to discuss monetary policy issues and other central bank policy issues. However, MPC members may not meet with market participants within 10 days of the next MPC.



Monetary Policy Communication Innovations

- The Governors and other MPC members are regularly invited to give public speeches or lectures at universities around the country.
- The Bank also has an outreach programme which allows for meetings with different sectors in the economy, political parties, trade unions, business associations and other relevant stakeholders.
- An Annual General Meeting of shareholders of the Bank is held once a year, where the Annual Report and financial reports of the Bank and its subsidiaries are released. The annual report includes reports on monetary policy and financial stability.
- MPC School's Challenge introduced, to encourage school pupils to continue with economics studies.



The Monetary Policy Statement (content)

- We do not publish minutes of the MPC meeting. We publish a detailed statement (approx. 2,500 words) in lieu of minutes, in the afternoon of the final day of the MPC meeting.
- The statement has the following format:
 - Recent inflation developments
 - The Bank's forecast of headline and core inflation
 - Measures of inflation expectations
 - Global economy developments and outlook (growth, inflation and monetary policies)
 - Rand exchange rate developments and outlook



The Monetary Policy Statement (content)

- Domestic growth outlook and output gap developments and employment
- Expenditure developments and outlook (investment, household consumption)
- Wage developments
- Fiscal policy developments
- Food price and international oil price developments.
- The monetary policy stance, including assessment of risk; decision; and forward guidance:



Overall assessment of the risks to the inflation and growth forecasts:

- *However, the risk to the inflation forecast has been affected by the reaction of the exchange rate to the current elevated levels of political uncertainty.As always, the MPC will attempt to “look through” short term fluctuations and focus on longer term trends in its policy settings.....*
- *Not all the inflation risk factors are on the upside..... There is a downside risk to this [international oil price] assumption, given the possibility of these more moderate trends persisting.....A further downside risk comes from electricity price increases.....*
- *Overall, the MPC assesses the risk to the inflation outlook to be moderately on the upside, mainly due to the high degree of exchange rate uncertainty.*
- *The MPC sees no evidence of significant demand pressures impacting on inflation. The growth outlook remains disappointing..... The risks to the growth outlook are therefore assessed to be on the downside. March 2017 MPC statement)*

Announcement of decision and member votes: (the identities of the votes are not revealed, to avoid personalising the decisions).

- *Given the deterioration in the inflation outlook, the MPC decided to increase the repurchase rate by 50 basis points to 6,75 per cent per annum, effective from 29 January 2016. Three members supported a 50 basis point increase, two members preferred a 25 basis point increase, while one member preferred no change. (January 2016)*
- *While the committee remains concerned about the overall inflation trajectory, the assessment of the balance of risks to the inflation outlook and the weak domestic economy has provided some room to delay further tightening of the monetary policy stance for now. Accordingly the MPC has unanimously decided to keep the repurchase rate unchanged at 7,0 per cent per annum. (July 2016)*
- *In light of these developments the MPC has decided to keep the repurchase rate unchanged at 7.0% per annum. Five members preferred an unchanged stance and one member preferred a 25 basis point reduction. (March 2017)*

Forward guidance is of a qualitative nature:

- *The MPC has decided to keep the repurchase rate unchanged at this meeting.The deteriorating inflation outlook suggests that this unchanged stance cannot be maintained indefinitely. (May 2015)*
- *The MPC has therefore decided to continue on its path of gradual policy normalisation.... (July 2015)*
- *The MPC is of the view that we may have reached the end of the tightening cycle. However the Committee would like to see a more sustained improvement in the inflation outlook before reducing rates. This assessment may however change if the inflation outlook and the risks to the outlook deteriorate. (March 2017)*

Forecasts also published as addendum to the statement

Forecast table: March 2017 MPC Press report

* Figures below the forecast in parentheses represents the previous MPC forecast

| Selected forecast results (quarterly) | | | | | | | | | | | | | | | | |
|---------------------------------------|----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----|-----|-----|-----|------|
| Year on Year percentage change | Forecast | | | | | | | | | | | | | | | |
| | 2016 | 1 | 2 | 3 | 4 | 2017 | 1 | 2 | 3 | 4 | 2018 | 1 | 2 | 3 | 4 | 2019 |
| 1 Headline inflation | 6.3 | 6.4 (6.6) | 5.8 (6.2) | 5.8 (6.2) | 5.6 (5.9) | 5.9 (6.2) | 5.2 (5.4) | 5.4 (5.4) | 5.5 (5.5) | 5.5 (5.6) | 5.4 (5.5) | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| 2 Core inflation | 5.6 | 5.4 (5.7) | 5.5 (5.7) | 5.4 (5.5) | 5.3 (5.3) | 5.4 (5.5) | 5.1 (5.1) | 5.1 (5.2) | 5.2 (5.2) | 5.3 (5.3) | 5.2 (5.2) | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |

Forecasts also published as addendum to the statement

Forecast table: March 2017 MPC Press report

* Figures below the forecast in parentheses represents the previous MPC forecast

| Forecast results (annual) | | | | | | |
|---|--------|--------|--------|----------|--------|------|
| Percentage changes | Actual | | | Forecast | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 1 Gross domestic product (Real) | 1.7% | 1.3% | 0.3% | 1.2% | 1.7% | 2.0% |
| | (1.6%) | | (0.4%) | (1.1%) | (1.6%) | |
| 2 Current account as a ratio to nominal GDP | -5.3 | -4.4 | -3.3 | -3.2 | -3.9 | -4.0 |
| | | (-4.3) | (-4.1) | (-3.5) | (-4.1) | |

Exogenous assumptions published as addendum to the statement

Summary of assumptions: March 2017 MPC

* Figures below the assumption in parentheses represents the previous MPC assumption

| 1. Foreign sector assumptions | | | | | | |
|---|----------------|----------------|------------------|------------------|------------------|-------|
| Percentage changes (unless otherwise indicated) | Actual | | | Forecast | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 1 Real GDP growth in South Africa's major trading partner countries | 3.3% (3.2%) | 3.2% (3.0%) | 2.9% (2.8%) | 3.1% (2.9%) | 3.3% (3.1%) | 3.3% |
| 2 International commodity prices in US\$ (excluding oil) | -10.5% | -18.7% | -3.6% | 15.5% (9.9%) | -4.0% (-4.2%) | 2.5% |
| 3 Brent crude (US\$/barrel) | 99.2 | 52.5 | 43.6 | 56.0 | 60.0 | 62.0 |
| 4 World food prices (US\$) | -3.8% | -18.7% | -1.5% (-1.6%) | 7.0% (6.0%) | 2.7% (2.5%) | 3.4% |
| 5 International wholesale prices | -0.1% | -3.5% | -0.8% (-1.2%) | 3.0% (1.5%) | 2.0% (1.2%) | 2.0% |
| 6 Real effective exchange rate of the Rand (Index 2010=100) | 79.17 | 80.08 | 77.08 (77.28) | 87.25 (84.00) | 87.00 (84.00) | 87.00 |
| 7 Real effective exchange rate of the Rand | -3.3% | 1.1% | -3.7% (-3.5%) | 13.2% (8.7%) | -0.3% (0.0%) | 0.0% |



Exogenous assumptions published as addendum to the statement

Summary of assumptions: March 2017 MPC

* Figures below the assumption in parentheses represents the previous MPC assumption

| 2. Domestic sector assumptions | | | | | | |
|--|----------------|----------------|----------------|------------------|-----------------|-------|
| Percentage changes (unless otherwise indicated) | Actual | | | Forecast | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 1 Real government consumption expenditure | 1.1% (1.8%) | 0.5% (0.2%) | 2.0% (1.6%) | 1.0% | 1.0% | 1.0% |
| 2 Administered prices | 6.7% | 1.7% | 5.3% | 6.7% (8.3%) | 6.7% (7.6%) | 6.4% |
| - Petrol price | 7.2% | -10.7% | 1.6% | 7.80% (12.8%) | 6.90% (8.9%) | 6.00% |
| - Electricity price | 7.2% | 9.4% | 9.3% | 7.7% | 8.0% | 8.0% |
| 3 Potential growth | 1.7% | 1.5% | 1.3% | 1.4% | 1.5% | 1.6% |
| 4 Repurchase rate (per cent) | 5.57 | 5.89 | 6.91 | 7.00 | 7.00 | 7.00 |



Communication challenges

- Who should the statement and other forms of communication be aimed at?
- How to communicate to the public and the markets between meetings, when decision-making is by committee?
- How much forward guidance should be given? At this stage we do not publish a future interest rate path, but we do have one generated internally by the QPM model (endogenous interest rate path), and consideration is being given to adopting this approach.



Financial Stability Communication

- A Financial Stability Review (FSR) is published twice a year, and presents the Bank's analysis and assessment of financial stability risks. The focus is on macroprudential issues.
- The FSR is released at a Financial Stability Forum, to which interested stakeholders are invited. These include financial analysts, politicians, academics, trade unions and other interested parties.
- At this stage, no statement is released after meetings of the Financial Stability Committee (which meets 4 times per year), but we envisage releasing a statement following each meeting in the near future.
- An annual report of the Registrar of Banks is published, which gives an in-depth analysis of the banking sector and microprudential issues.



Financial Stability Communication

- A revised framework and architecture for financial stability is to be introduced in the near future. The Bill is currently before parliament, and once passed into law, the new architecture will increase the responsibilities of the Bank and the Financial Stability Committee, and new communication channels will be introduced.
- Governors and other senior staff regularly give speeches on financial stability.
- Communication of Financial Stability is very much a work in progress at this stage.

