

SA central bank tweaks interest-rate decision model

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South Africa's central bank will for the first time modify the model that partly influences its interest rate decisions, it said on its website on Tuesday, 20 June.



Source: Reuters.

The new, enhanced version of its model, the Quarterly Projection Model (QPM), will factor in more accurately the changing dynamics of South Africa's fiscal characteristics. It will likely be employed when the central bank next meets to discuss monetary policy on 20 July.

In the last decade South Africa's economy has changed drastically with analysts and economists claiming that the country has de-industrialised heavily.

At the same time, its economic indicators have deteriorated, including its debt-to-GDP ratio, widening unemployment and government trade and account balances.

"In its current form, the QPM has no mechanism to account for fiscal policy in a systematic manner, limiting its ability to help explain how fiscal dynamics impact on inflation, growth and monetary policy," the South African Reserve Bank (Sarb) said.

"This limitation has become more pronounced in the past 10 years as fiscal metrics have changed greatly," it said, adding that huge fiscal stimulus pumped into the economy during the pandemic also impacted fiscal projections.



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South Africa's ratio of public debt to gross domestic product (GDP) almost tripled from 23% in 2008 to nearly 70% in early 2022 amid persistently large fiscal deficits, the bank said, adding that the country's risk premium has also doubled.

Last month, amid a diplomatic crisis, offshore investors fled South Africa's bond market, sending yields up over 12.5% and flagging a default risk.

At the same time, monopoly state-owned utility Eskom has implemented record rolling power cuts as aging coal-fired power plants falter.

The "enhanced" QPM model will factor in changes in international sentiment towards the country and its risk premium, the bank said, adding it will also consider public and private wages separately, change the way the inflation estimate is reached and include spikes in fuel and electricity prices.

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