

## **Estimating the Monetary Conditions Index for South Africa**

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The Monetary Conditions Index (MCI) is a concept with a twofold use in the analysis of monetary conditions and in the development of monetary policy strategies. The idea of this concept is that (real) interest rates are not a sufficient indicator for monetary conditions in rather small and open economies. Apart from interest rates exchange rates also have a significant influence on monetary conditions. Therefore, the MCI combines interest rates and exchange rates to a single measurement of monetary conditions within an economy. The MCI can be employed to measure conditions in order to evaluate monetary policy in an early stage and to give a guideline to policy makers to set their instruments and operating targets according to target final objectives such as inflation targets. The paper provides a very short introduction into the concept of the MCI and focuses on the estimation of the respective parameters of this index concept for South Africa. The estimated weights of the MCI suggest that changes of the real interest rates have a 1.9 times higher influence on monetary conditions than changes in real exchange rates have. Finally, South Africa's MCI is estimated for the period from 1994 to 2003. This estimated MCI gives an impression on how monetary conditions developed in South Africa during the post-Apartheid period.