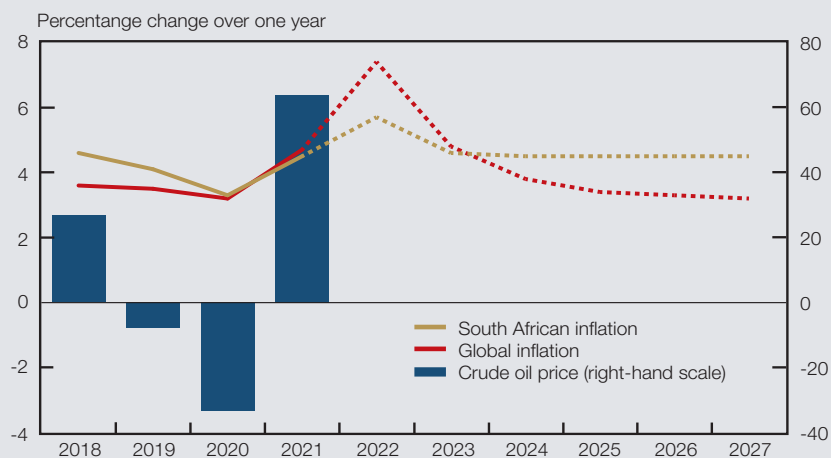


Box 1 International crude oil prices as a driver of domestic consumer price inflation

Global and domestic consumer price inflation, which were mostly driven by higher international crude oil prices, have accelerated notably from a multi-year low recorded in April 2020 during the initial coronavirus disease 2019 (COVID-19) hard lockdown.

Consumer price inflation and the price of crude oil*

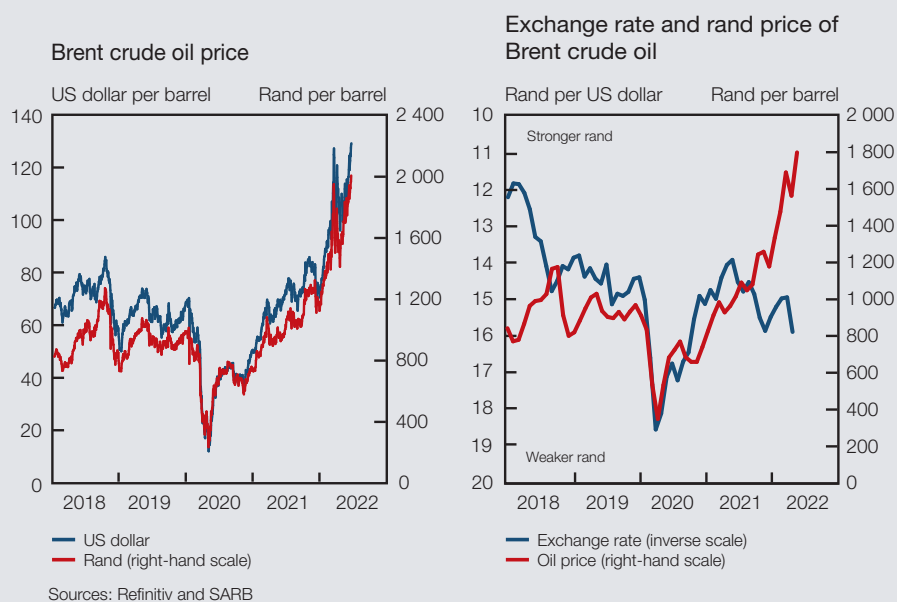


Dotted lines represent IMF forecasts

*Average spot prices of Dated Brent, West Texas Intermediate and the Dubai Fateh

Sources: IMF, Refinitiv and Stats SA

Strict COVID-19 lockdown measures by most countries abruptly halted economic activity which led to a decline in the price of Brent crude oil to about US\$12 per barrel in April 2020. Subsequently, with the gradual lifting of these measures, economic activity resumed, and in early 2022 the price of Brent crude oil breached the 2018 level of US\$80 per barrel. In addition, global inflationary pressures also reflected severe supply chain constraints as demand exceeded supply for many final and intermediate goods. The price of Brent crude oil then surged further following Russia's invasion of Ukraine on 24 February 2022, to almost US\$128 per barrel in early March 2022, with Russia being the third-largest crude oil producer in the world. Since then, the Brent crude oil price has fluctuated within a range of between US\$100 and US\$125 per barrel. The ongoing conflict in Ukraine and the sanctions imposed on Russia by many countries have also exacerbated and prolonged the global supply chain disruptions, adding further upward pressure on consumer prices in most economies.



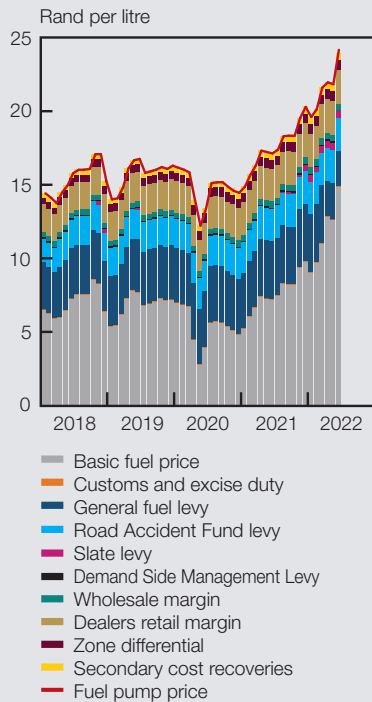
The impact of the post-lockdown increase in the international price of crude oil on the South African economy was initially softened somewhat by the appreciation in the exchange value of the rand, but since June 2021 the depreciation in the exchange value of the rand has exacerbated the further increase in the US dollar price of Brent crude oil.

In South Africa, the Department of Mineral Resources and Energy adjusts the regulated prices of fuel monthly. The final inland pump price of 95-octane petrol comprises the basic fuel price (50.9% of the total price),¹ several duties and levies (31.1%), margins (12.7%) and other costs (5.3%). As a net importer of fuel, the basic fuel price in South Africa reflects the prices of international petroleum products and the exchange value of the rand against the US dollar, as well as shipping costs. The general fuel and Road Accident Fund (RAF) levies are determined annually in the Budget by the Minister of Finance, with the former providing funding for road infrastructure and the latter for third-party vehicle accident claims.

The increase in domestic fuel prices since early-2021 was driven largely by the basic fuel price, which reflected the sharp increase in international petroleum product prices. In response, the Minister of Mineral Resources and Energy and the Minister of Finance jointly announced temporary short-term relief² on 31 March 2022, which included a reduction of R1.50 per litre in the general fuel levy for April and May 2022. Without this temporary relief, the price of inland 95-octane petrol would have amounted to R23.34 per litre in May 2022 and the year-on-year percentage change would have been 35.5% instead of 26.8%. Subsequently, the ministers issued another joint statement on 31 May³ announcing the extension of the temporary relief by a further two months; the R1.50 reduction in the general fuel levy was extended to June 2022, whereafter it will be reduced to 75 cents in July before being discontinued altogether from August.

1 The percentages in brackets represent the contribution to the total inland 95-octane petrol price in March 2022, before the temporary fuel levy relief.
 2 See <https://www.gov.za/speeches/ministers-enoch-godongwana-and-gwede-mantashe-short-term-relief-measures-address-fuel-price>
 3 See http://www.treasury.gov.za/comm_media/press/2022/2022053101%20Joint%20statement-extension%20of%20the%20temporary%20reduction%20in%20the%20general%20fuel%20levy.pdf

Composition of the South African inland 95-octane petrol price



Source: Department of Mineral Resources and Energy

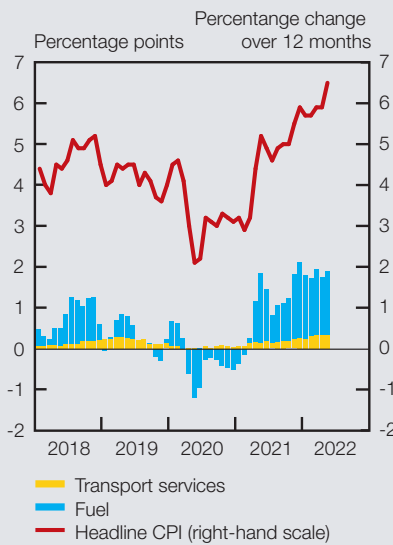
Brent crude oil and the inland 95-octane petrol price



The price of inland 95-octane petrol increased by 97.8% from a low of R12.22 per litre in May 2020 to a record high of R24.17 per litre in June 2022. The price of diesel more than doubled from R11.09 per litre to R23.09 per litre over the same period, and temporarily surpassed that of petrol in May 2022 for the first time since 2009 following a shortage of diesel supply due to lower Russian exports of distillate fuel and the depreciation in the exchange value of the rand.

Higher fuel prices directly influence domestic consumer price inflation, with a weight of 4.82% in South Africa's overall consumer price basket. Consumer fuel price inflation accelerated to a recent high of 33.2% in March 2022 and contributed 1.6 percentage points to headline consumer price inflation. Higher fuel prices

Contribution to headline consumer price inflation



Source: Stats SA

Headline and underlying consumer prices





also directly impact air and public road transport prices, and as most goods are transported by road, this often leads to price increases in other consumer goods. Consequently, the sharp increase in domestic fuel prices translated into transport services price inflation accelerating to 10.6% in March 2022 and contributing 0.34 percentage points to headline consumer price inflation, with a weight of 3.19% in the overall consumer price basket.

The acceleration in headline consumer price inflation to 6.5% in May 2022 primarily reflected the effects of higher domestic fuel prices. This is evidenced by the more benign domestic inflationary pressures of 5.1% in May 2022 when the impact of fuel prices is excluded from headline consumer price inflation. However, this measure of underlying inflation has nevertheless accelerated somewhat since early-2021 and could possibly reflect the gradual emergence of second-round price pressures.