SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

27 March 2024

STATEMENT OF THE MONETARY POLICY COMMITTEE

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank

Since the start of the year, we have seen persistent global inflation pressures. Headline inflation rates are generally lower than they were a year ago, but underlying inflation is still elevated. Goods inflation has declined significantly, as supply shocks wear off, but there is evidence of stronger inflation in services, across a range of economies. Meanwhile, unemployment rates remain low – especially in the United States.

In these circumstances, major global central banks are expected to cut rates at a slower pace, and to start cutting at a later stage. A few emerging market central banks have been reducing rates already, but these economies had the largest hikes previously, and their interest rates are now well above inflation. The Monetary Policy Committee (MPC) also noted that the Bank of Japan has moved its policy rate into positive territory, increasing interest rates for the first time since 2007.

Turning to South Africa, the economy performed worse than expected in the fourth quarter of last year, expanding just 0.1%. Growth for 2023 as a whole was 0.6%.

The main reason for this bad performance was supply-side problems. Electricity loadshedding was worse than in previous years.[1] Port and rail problems also emerged as binding constraints on output.

Our forecasts indicate a modest growth acceleration from this year, as these supply-side constraints relax. In particular, we expect the loadshedding burden will ease somewhat. While we estimate electricity shortages took 1.5 percentage points off GDP last year, we think this will moderate to 0.6 percentage points this year and 0.2 percentage points in 2025.

Overall, we see growth at 1.2% this year, improving to 1.6% by 2026. These projections are better than the 2023 outcome, but below longer-run averages, which are around 2%.[2]

The risks to this growth forecast appear balanced.

Turning to inflation, South Africa had a more gradual acceleration in inflation than many peer countries, with a lower peak, after Covid. However, the return to target has been slow.

The most recent inflation numbers showed yet another delay on the way back to our 4.5% objective, with headline up to 5.6% in February. This is nearer the top of our target range than the midpoint. Core inflation also rose, to 5.0%.

This rise in core inflation was due to an acceleration in services, led by the medical aid component. Services inflation is now at its highest since 2019. This suggests that South Africa is joining the global trend of services, rather than goods, becoming a major source of inflation.

We still see headline inflation heading back to 4.5%. However, given extra inflation pressure, headline now reaches the target midpoint only at the end of 2025, later than previously expected. As a result, the policy rate in our baseline forecast also starts normalising later.

[1] Loadshedding in 2023 was worse than other years both in terms of the number of days and the volume of gigawatts shed.
[2] The average growth rate for 1980-2022 was 2.1%, based on the IMF World Economic Outlook database.

In assessing this forecast, the MPC noted a range of risks.

Inflation expectations have moderated in the latest survey. This is welcome, but two-year ahead expectations are still in the top half of our target range.[3] Expectations are projected to ease towards our 4.5% objective as inflation slows, but we have little margin to absorb shocks so long as expectations are high.

Regarding food prices, we are at a difficult juncture. Last year, food inflation hit its highest levels since 2008. Food inflation has now slowed. But this is a critical time in the growing season, and it has been unusually hot and dry, which may cause food inflation to pick up again.

Considering the exchange rate, the rand has been trading somewhat weaker than we expected at our last MPC meeting. This is partly due to interest rates in the major advanced economies staying high for longer. The currency is also under pressure from weakening terms of trade. Furthermore, investors see significant near-term domestic uncertainty. We view the exchange rate as undervalued.

On balance, the various risks to the inflation forecast are skewed to the upside.

Against this backdrop, the MPC decided to hold the repo rate unchanged at 8.25%. The decision was unanimous.

At this level of rates, the policy stance is considered restrictive, consistent with the inflation outlook and the need to address elevated inflation expectations.

The inflation and repo rate projections from the Quarterly Projection Model remain a broad policy guide, changing from meeting to meeting in response to new data.

Committee decisions will continue to be data dependent, and sensitive to the balance of risks to the outlook.

Stabilising inflation at the mid-point of the target band will improve the economic outlook and reduce borrowing costs.

[3] According to the inflation expectations survey conducted by the Bureau for Economic Research

Finally, we reiterate the views of the Committee on additional measures that would improve economic conditions. These include achieving a prudent public debt level, improving the functioning of network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 30 May 2024.

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