**South African Reserve Bank**

**PRESS STATEMENT**

**EMBARGO DELIVERY**

**21 November 2019**

# STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Since the September meeting of the Monetary Policy Committee (MPC), global economic indicators have remained weak and global inflation low. Central banks in advanced economies provided more monetary accommodation, helping to ease global financing conditions, but further easing appears less likely. Downside risks from heightened trade tensions and geo-political developments remain.

Despite a rebound in local GDP in the second quarter of this year, indicators suggest that economic activity will remain weak for the rest of the year. Recent monthly inflation has been lower than the mid-point of the inflation target range, as owners' equivalent rent, food and services inflation remain subdued.

The year-on-year inflation rate, as measured by the consumer price index (CPI) for all urban areas, was 3.7% in October (down from 4.1% in September). Goods price inflation in October was 3.1% (down from 4.0% in September), while services price inflation remained at 4.2%. Food and non-alcoholic beverage price inflation slowed to 3.6% (down from 3.9%). The Bank's measure of core inflation, which excludes food, fuel and electricity, remains unchanged at 4.0%. Producer price inflation for final manufactured goods decreased to 4.1% in September (compared to 4.5% in August).

The medium-term inflation outlook is largely unchanged since September. The inflation forecast generated by the SARB's Quarterly Projection Model (QPM) is unchanged compared to September, averaging 4.2% in 2019, 5.1% for 2020 and 4.7% for 2021. Headline CPI inflation is expected to peak at 5.3% in the first quarter of 2020 and settle at 4.5% in the last quarter of 2021. The forecast for core inflation is lower at 4.2% in 2019 (down from 4.3%), at 4.5% in 2020 (down from 4.7%) and remains steady at 4.6% in 2021. Food price inflation continues to surprise to the downside on a monthly basis, and is expected to peak at about 6.1% in the third quarter of 2020.

Inflation expectations have continued to moderate gradually. According to the Bureau for Economic Research (BER) third quarter survey, expectations for headline inflation are down slightly for 2019 to 4.6% (from 4.8%). Expectations for 2020 remain unchanged at 5.0% and eased from 5.2% to 5.1% for 2021, reaching the lowest levels since 2007. Five-year-ahead inflation expectations also declined to 5.0% (from 5.1%).

The inflation expectations of market analysts in the November 2019 Reuters Econometer survey remain unchanged at 4.3% for 2019, revised lower to 4.7% (from 4.9%) for 2020 and are unchanged at 4.8% in 2021.

Market based expectations implicit in the break-even inflation rates (the yield differential between conventional and inflation-linked bonds) have moderated somewhat since the previous MPC. Five-year break-even inflation rates are currently about 4.5% and ten-year break-even rates are at 5.4%.

Global GDP is expected to average 3.0% in 2019, rising to about 3.4% in 2020. While trade and manufacturing indicators continue to be weak, services have remained more resilient, keeping overall global growth rates up. However, services have shown weakness in some regions and a range of downside risks to growth remain. These include geo-political developments, trade tensions, further oil price shocks, and high levels of corporate and sovereign debt. Across most countries, there is limited policy space to respond to shocks.

Inflation outcomes and inflation expectations in most advanced economies remain below targeted levels. Barring significant shocks, monetary policy in major advanced economies will remain accommodative over the medium term. While global financial market sentiment has turned more positive in recent weeks, the risk of renewed market volatility remains high.

Since the September MPC, the rand has depreciated slightly by 0.6% against the US dollar, and by 0.8% against the euro. The implied starting point for the rand is R14.94 against the US dollar, compared with R14.88 at the time of the previous meeting. While the rand has benefited from improvements in global sentiment, investors remain concerned about domestic growth prospects and fiscal risks.

Although GDP growth rebounded to 3.1% in the second quarter, longer term weakness in most sectors remains a serious concern. Based on recent short term economic indicators for the mining and manufacturing sectors, the third quarter GDP outcome is expected to be weak. Public sector investment has declined, export growth remains low, whereas government and household consumption continue to grow, albeit modestly.

Business confidence remains weak. The RMB/BER Business Confidence Index fell to 21 points (from 28), while the Absa Purchasing Managers' Index rose to 48.1 points in October (from 45.1). The SARB's composite leading business cycle indicator also continued to trend lower, and the coincident indicator decreased month-on-month while remaining positive on a year on year basis.

The forecast of GDP growth for 2019 is revised lower at 0.5% (from 0.6%). The forecasts for 2020 and 2021 have decreased to 1.4% (from 1.5%) and 1.7% (from 1.8%), respectively, due to lower growth than previously expected in the third and fourth quarters and downward revisions to global growth.

The MPC assesses the risks to the growth forecast to be to the downside. Escalation in global trade tensions, geo-political risks, further domestic supply constraints and/or sustained higher oil prices could generate headwinds to growth. Public sector financing needs have risen, raising the prospect of further pressure on the currency and pushing borrowing costs for the broader economy higher. Implementation of prudent macroeconomic policies and structural reforms that lower costs and increase investment, potential growth and job creation, remains urgent.

The overall risks to the inflation outlook are assessed to be balanced, but uncertainty about inflation risks is unusually high. Demand side pressures remain subdued and house rental prices are expected to increase at only moderate rates. Global inflation should also remain low. Food price inflation has continued to surprise to the downside, but rising imported food prices and uncertain domestic weather patterns raise uncertainty about the future price trajectory. Further upside risks to the inflation outlook include wage growth and fuel, electricity and water prices. The risk of further capital flow volatility has also increased, which could put pressure on the exchange rate.

The MPC welcomes the sustained moderation in inflation outcomes and inflation expectations and would like to see inflation expectations anchored closer to the mid-point of the inflation target range on a sustained basis.

Against this backdrop, the MPC decided to keep the repurchase rate unchanged at 6.5% per annum. Three members preferred to keep interest rates on hold and two members preferred a cut of 25 basis points.

Monetary policy actions will continue to focus on anchoring inflation expectations near the mid-point of the inflation target range in the interest of balanced and sustainable growth. In this persistently uncertain environment, future policy decisions will continue to be highly data-dependent, sensitive to the balance of risks to the outlook, and will seek to look-through temporary price shocks.

The implied path of policy rates over the forecast period generated by the Quarterly Projection Model indicated one repo cut of 25 basis points in the third quarter of 2020. This remains a broad policy guide which could change in either direction from meeting to meeting in response to new developments and changing data and risks.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 16 January 2020.

**Monetary Committee Meetings dates for 2020:**

14 – 16 January

17 – 19 March

19 – 21 May

21 – 23 July

15 – 17 September

17 – 19 November

**SARB media contact:**

Ziyanda Mtshali

012 399 7966

media@resbank.co.za