



SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

30 May 2024

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

We had an uncertain start to 2024, but recently, developments have been somewhat more positive.

Inflation outcomes were worse than expected early in the year, leading to a repricing of rate expectations. There is still considerable uncertainty about the longer-run inflation outlook, globally. That said, inflation outcomes in the United States have been more benign recently, and markets still see some room for adjustments by the US Federal Reserve this year. We may also see easing by other major central banks.

Meanwhile, oil prices are back to where they were at the start of the year, close to \$80 per barrel, after briefly exceeding \$90. Although geopolitical tensions are far from resolved, some of the more adverse economic scenarios, such as oil prices above \$100 per barrel, appear less probable now. Our own forecast suggests oil prices will remain near their current levels.

The exchange rate of the rand has been particularly volatile since the previous MPC.¹ It briefly appreciated to a 10-month high against the dollar last week. The starting point for our forecast is R18.57.² Markets remain focused on the direction of domestic policy,

¹ Since the previous MPC, it has traded in a range of R19.32 per US\$ (April 19) to R18.05 per US\$ (May 22)

² The rand is the third-best performing major currency for the period since the previous MPC. It is fifth for the year to date.

a theme that has dominated many investor conversations over the past few months. Conditions remain uncertain, but we expect greater clarity in due course.

Turning to the outlook, we now see inflation stabilising at our 4.5% objective in the second quarter of next year. This is an improvement on our March forecast, which only reached this milestone at the end of 2025. The changes to the outlook, however, are not large when compared to our March forecast. Average inflation for 2025 is only a tenth of a percentage point lower. The task of achieving our inflation objective is not yet done.³

The change in our inflation forecast mostly reflects recent data outcomes, with the CPI releases for March and April turning out slightly better than expected. We have revised down our 2024 food and core forecasts marginally.

Fuel price inflation is now expected to be higher, in the near-term, but it improves for 2025. This helps our forecast get to the target midpoint sooner.

Nonetheless, the Committee remains concerned that inflation expectations are elevated. After three years⁴ of inflation being above 4.5%, few survey respondents, especially from businesses and trade unions, now believe that inflation will be at 4.5% in two years' time.

Although the MPC assesses the inflation forecast risks to be broadly balanced at present, high inflation expectations require that we deliver on our target sooner rather than later, to re-anchor expectations.

Turning to the growth outlook, economic activity indicators for the first quarter have been coming in worse than expected, despite reduced electricity loadshedding. However, these higher-frequency data can be volatile. We expect slightly weaker first-quarter growth, but this will be offset by better second-quarter growth.⁵ We still forecast

³ The July 2023 forecast had inflation at 4.5% by 2025Q3. September 2023 had 2025Q2, which is the last time this was moved up; November 2023 had 2025Q3; January 2024 had 2025Q3; March 2024 had 2025Q4.

⁴ Headline inflation was 4.4% in April 2021, and 5.2% in May 2021. Headline has been above 4.5% for every subsequent print, a period of 36 months.

⁵ The 2024Q1 growth rate has been marked down to 0.2% from 0.4%, q/q; at the same time, 2024Q2 has been marked up, from 0.4% to 0.7%.

GDP growth of 1.2% this year. The growth numbers for the outer years also remain unchanged.

We assess the risks to the growth outlook as balanced.

The recent improvement in the power supply, with no loadshedding since 26 March, is a welcome development. We have revised our loadshedding assumption down, but additional revisions may be required if this performance is sustained.⁶

Overall, our forecasts show a modest acceleration in growth, over the next few years, alongside a gradual stabilisation of inflation at our target. However, uncertainty is unusually elevated at the moment.

Considering this outlook, the MPC decided to keep the repo rate unchanged at 8.25%. The decision was unanimous.

The forecast continues to see policy normalisation, with rates easing into more neutral territory by next year. As before, the rate path from the Quarterly Projection Model remains a broad policy guide, changing from meeting to meeting.

Decisions of the MPC will continue to be data dependent, and sensitive to the balance of risks to the outlook.

We are committed to stabilising inflation at the mid-point of the target band. Achieving this outcome will improve the economic outlook and reduce borrowing costs.

Finally, we reiterate the views of the Committee on additional measures that would improve economic conditions. These include reaching 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

⁶ The number of loadshedding days has been reduced from 200 days to 180, where a day is 24 hours of loadshedding and not any calendar day with loadshedding. The projected cost to GDP from loadshedding, for 2024, is down to 0.5pp, from 0.6pp in the March forecast, with -0.2pp for 2025 and -0.04pp for 2026.

The next statement of the Monetary Policy Committee will be released on 18 July 2024.

Contact person:

Thoraya Pandy

0824168416

media@resbank.co.za