SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

21 November 2024

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Since our previous meeting, the global macroeconomic context has become more challenging. The dollar has appreciated against most currencies, including the rand. Longer-term interest rates have risen, in the United States and across the globe. Short-term rate expectations have likewise shifted up.

In general, monetary policy in major economies remains restrictive, and headline inflation has slowed. While this has provided some room for major central banks to ease rates further, over the past two months,[1] new inflation pressures and heightened uncertainty suggest diminished policy space. With underlying inflation still above target, in several economies, there are risks of policy reversals.

Turning to South Africa, we continue to see a growth recovery taking hold, after a weak economic performance through 2023 and the first half of 2024.

In the near term, we expect output to benefit from a variety of tailwinds, including lower inflation, higher disposable income, and extra spending from pension withdrawals via the new Two-Pot system.[2]

[1] The European Central Bank cut by 25bps in October, and the Bank of England and US Federal Reserve did the same in November.

[2] Other factors supporting near-term growth are base effects and rising confidence. Regarding the Two Pot system, withdrawals are now expected to be R51 billion for the current quarter, compared with a previous forecast of R40 billion, with a larger proportion of withdrawals now expected to be used for consumption rather than debt repayments.

It is unclear how much this will boost the third-quarter growth numbers, which are due in a few weeks.[3] The data flow has been mixed lately, with some indicators disappointing, while others have been positive. For instance, recent manufacturing data was subdued, but mining was stronger. Encouragingly, the most recent labour force survey showed relatively large and broad-based job gains, and lower unemployment.

Over the medium term, we still expect a sustained improvement in growth as reforms take effect.[4] Our forecast now extends out to 2027, and we see growth reaching 2% in that year.

The risks to the growth outlook are assessed to be balanced.

Given mixed data outcomes, it is possible that near-term growth could fall short of current projections. At the same time, growth could be higher from next year, given ongoing reforms. These include structural reforms, especially in the network sectors, such as electricity and transport. Furthermore, the recent positive outlook on South Africa's credit rating, from Standard & Poor's, points to an improving country risk premium. These factors suggest upside risks to the longer-term growth forecast.

Moving to consumer prices, headline inflation has dipped below our target range, reaching 2.8% in October. Goods prices have slowed more than those for services[5], which mainly reflects the benefits of a stronger exchange rate and a lower oil price, relative to last year.[6] These temporary supply shocks are likely to keep inflation below 4% until mid-2025.

Thereafter, we see inflation modestly higher relative to our September projections, reaching 4.6% from late 2025, rather than 4.4%.[7] This is primarily because of a higher electricity price assumption. At the same time, core inflation is marginally lower for this year and next year, which reflects recent data outcomes. We continue

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[3] The latest projections show 0.5% growth in the third quarter and 0.7% growth in the fourth, little changed from the September forecast, which had 0.6% growth in both quarters (quarter-on-quarter).
[4] Growth for 2024 remains 1.1%, 2025 is 1.7% (up from 1.6%) and 2026 remains 1.8%.
[5] For the October CPI print, goods inflation was 1.4% and services was 4.4%.
[6] The implied starting point of the rand/dollar exchange rate is 17.74, for 2024Q4, with 17.96 for 2025Q1. Note also that fuel prices fell by 19.1% in October, year-on-year.
[7] In the current forecast, inflation reaches 4.6% in 2025Q4 and stays there throughout 2026. Previously, inflation was at 4.4% from 2025Q4 to 2026Q2, and 4.3% for 2026Q3 and 2026Q4

to see headline inflation stabilising near our midpoint objective over the forecast horizon.[8]

In this context, we anticipate inflation expectations will moderate further. These expectations have been quite backward-looking, with higher past inflation projected well into the future. Survey expectations remain above our midpoint objective.[9] We expect that our policy stance, and the experience of lower inflation, will anchor expectations more firmly at lower levels.

The risks to the inflation outlook are assessed as balanced.

In the near term, inflation appears well contained. However, the medium-term outlook is highly uncertain, with material upside risks. These include higher prices for food, electricity and water, as well as insurance premiums and wage settlements.

Against this backdrop, the MPC decided to reduce the policy rate by 25 basis points, to 7.75%, with effect from 22 November 2024. The decision was unanimous.

The Committee agreed that reducing the level of policy restrictiveness is still consistent with achieving the inflation target.

The risk outlook, however, requires a cautious approach.

Global interest rates could well shift higher again, and the recent rand depreciation demonstrates how rapidly changes in the global environment can affect South Africa.

The forecast sees rates easing further in future, stabilising a bit above 7%. But this rate path from the Quarterly Projection Model remains a broad policy guide. The MPC would like to emphasise that its decisions will be made on a meeting-by-meeting basis, with no forward guidance and no pre-commitment to any specific rate path. Such decisions will continue to be outlook dependent, responsive to data developments, and sensitive to the balance of risks to the forecast.

There are scenarios where inflation is higher than in our baseline. During the meeting, the MPC explored two such risk cases. One assumed higher administered

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[8] The projections are modestly higher than in the previous forecast round, mainly due to higher electricity prices. Headline now averages 4.6% in 2026, versus 4.4% previously.

[9] Average BER survey expectations for 2 years ahead were at 4.8% in the most recent survey, as noted in the previous MPC statement. Market-based expectations, from breakevens, are around 5.4% for the longer-term, 10-year measure, while medium-term expectations, up to 5-years, are around 4.3%

price inflation.[10] The other envisioned a more difficult external environment, with a weaker rand and higher oil prices.[11]

We also considered a favourable scenario where geopolitical tensions subside and the oil price falls.[12]

These scenarios underscored the uncertainty surrounding the outlook.

Given a challenging external environment, it remains crucial to sustain domestic reform momentum. This entails both structural reforms to support growth capacity, and macroeconomic efforts to rebuild fiscal and monetary policy space.

The MPC's main contribution is to deliver low and stable inflation, with well-anchored inflation expectations.

Additional measures that would improve economic conditions include reaching a prudent public debt level, further repairing and strengthening 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 January 2025.

The MPC dates for 2025 are as follows:

30 January

20 March

29 May

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[10] This scenario assumed a 25% bulk-price increase for electricity, as well as higher water price increases. Relative to the baseline, electricity inflation is higher by around 5-6pp through 2025 and 2026, while water inflation is around 3-5pp higher.

[11] This scenario had oil prices about 11% higher than in the baseline, from 2025-2027, with the rand weakening to a low of 19.54 per US dollar.

[12] This scenario had oil prices about 4% lower than in the baseline, with the rand appreciating to a high of 16.02 per US dollar.

31 July

18 September

20 November

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