

Monetary Policy Statement

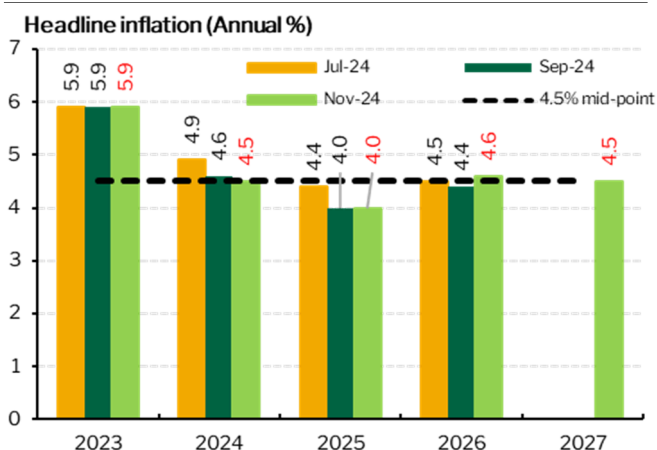
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The MPC cuts interest rates by another 25 basis points.

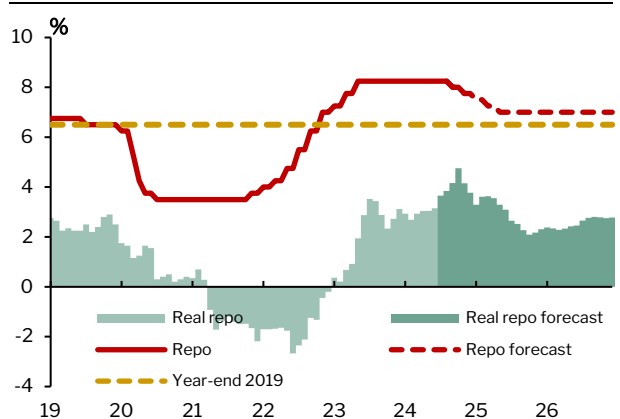
- As expected, the MPC cut the repo rate by another 25 basis points (bps), the second and final cut for 2024, taking the repo rate to 7.75% and the prime rate to 11.25%. The decision was unanimous, with the rate cut still considered consistent with achieving its inflation target. However, the MPC's tone was slightly cautious, reflecting its concern about the uncertain and changing global environment. Unlike September, the Governor indicated that a 50-bps cut was not discussed. Overall, the central bank views the risks to the inflation and growth outlook as balanced.
- The SARB expects inflation to trend at or close to the midpoint of the target range throughout the forecast period of 2024 to 2027. Headline inflation now averages 4.5% in 2024 from 4.6% previously. The inflation forecast was left at 4% for 2025 but raised 4.6% from 4.4% for 2026. The upward revision for 2026 mainly reflects more aggressive electricity price increases, averaging double-digit rates of 13.3% (from 13.6%), 13.3% (from 11%) and 12.3% (9%) in 2024, 2025 and 2026, respectively, before moderating to 9% in 2027. Headline inflation dips again to 4.5% in 2027. The core inflation forecast was revised lower to 4.3% (from 4.4%) in 2024 and 3.9% (from 4.1%) in 2025. Thereafter, core inflation is expected to rise slightly to 4.4% (from 4.3%) in 2026 and 4.5% in 2027. Price pressures will be kept in check by subdued food inflation and declining oil prices.
- The MPC noted that although the implied starting point for the rand is R17.74/\$ for Q4 2024 compared to R18.04 at the time of the September meeting, the local unit has come under renewed pressure and is vulnerable to further weakness.
- Brent crude oil is forecast to average \$81/per barrel in 2024, lower than the \$83 anticipated previously. Oil prices are expected to ease to \$78/per barrel in 2025 and 2026, declining further to \$77/per barrel in 2027. Food inflation is forecast to climb over the next three years but will remain within target. Although inflation expectations continue to trend above the midpoint of the target range, the SARB stated that it expects its policy stance and the current low inflation outcomes to anchor expectations more firmly at lower levels. Despite some upward revisions to the forecasts, the MPC still assesses the risks to the inflation outlook as balanced.
- The SARB sees the domestic recovery taking hold following weak performances in 2023 and at the start of 2024. In the near term, output is expected to edge higher on lower inflation, higher disposable income and additional spending following withdrawals from the two-pot retirement system. Over the medium term, growth will likely accelerate as structural reforms take effect. Growth is forecast at 1.1% (unchanged) in 2024, 1.7% (from 1.6%) in 2025, 1.8% (unchanged) in 2026 and 2% in 2027. The MPC assessed the risks to the growth outlook as balanced.

Chart 1: Inflation is set to hover around 4.5% until 2027



Source: Stats SA

Chart 2: Nedbank repo rate forecast



Source: SARB, Nedbank

- The SARB's decision comes as no surprise, given the ongoing moderation in inflation. Headline inflation dipped to 2.8% in October, its lowest since May 2020. Core inflation also edged lower, declining to 3.9% and reaffirming the ongoing dissipation in underlying price pressures. On the global front, inflation has reversed its rapid downward trend in some economies but remains close to central bank targets. Price pressures should be well contained in most economies amid relatively muted growth and soft demand. The direction of US inflation is less certain, given concerns about the possible impact of President-Elect Donald Trump's proposed policies. Nonetheless, market polls suggest that the Fed will continue easing monetary policy until Q3 2025, with policy rates expected to decline by a cumulative 75 bps next year. Despite the current favourable trend in domestic inflation, the risks to the outlook have increased slightly since the September meeting. The rand will likely face bouts of pressure amid the anticipated changes in US economic policies. In addition, the

ongoing geopolitical conflicts still pose upside risks to oil prices, but these will likely be countered by muted global demand. Further upside pressure could emanate from elevated electricity and administered prices. Looking ahead, we expect headline inflation to edge higher from November and throughout next year as the base normalises. However, the outlook still reflects a subdued picture, with inflation hovering around 4.5% over the forecast period. Against this backdrop, we expect the SARB to continue its easing cycle, cutting by a cumulative 75 bps in 2025.

Table 1: SARB's Quarterly Inflation Forecasts

Quarterly headline and core inflation forecasts													
	2024	2025				2026				2027			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline													
Jul-23	4.7	4.6	4.6	4.5	4.5								
Sep-23	4.7	4.6	4.5	4.4	4.5								
Nov-23	4.6	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5				
Jan-24	4.4	4.7	4.7	4.5	4.5	4.5	4.6	4.5	4.5				
Mar-24	4.7	4.7	4.7	4.6	4.5	4.5	4.5	4.5	4.5				
May-24	4.7	4.6	4.5	4.5	4.5	4.6	4.5	4.5	4.5				
Jul-24	4.3	4.2	4.2	4.5	4.5	4.6	4.5	4.5	4.5				
Sep-24	3.6	3.7	3.8	4.3	4.4	4.4	4.4	4.3	4.3				
Nov-24	3.2	3.5	3.7	4.3	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Core													
Jul-23	4.6	4.5	4.4	4.4	4.4								
Sep-23	4.6	4.5	4.5	4.4	4.4								
Nov-23	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5				
Jan-24	4.7	4.6	4.6	4.5	4.5	4.5	4.6	4.5	4.5				
Mar-24	4.9	4.8	4.6	4.6	4.5	4.5	4.5	4.5	4.5				
May-24	4.9	4.7	4.6	4.6	4.5	4.5	4.5	4.5	4.5				
Jul-24	4.6	4.4	4.4	4.5	4.4	4.5	4.5	4.5	4.5				
Sep-24	4.1	3.9	4.0	4.2	4.3	4.3	4.3	4.4	4.4				
Nov-24	3.8	3.7	3.8	3.9	4.2	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.5

Source: SARB forecast, MPC Statement

Table 2: SARB's Annual Forecasts

Annual forecast of key macroeconomic variables													
	Headline				Core				GDP				
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	
Nov-23	5.0	4.5	4.5		4.6	4.5	4.5		1.2	1.3	1.6		
Jan-24	5.0	4.6	4.5		4.6	4.6	4.5		1.2	1.3	1.6		
Mar-24	5.1	4.6	4.5		4.8	4.6	4.5		1.2	1.4	1.6		
May-24	5.1	4.5	4.5		4.7	4.6	4.5		1.2	1.4	1.6		
Jul-24	4.9	4.4	4.5		4.6	4.4	4.5		1.1	1.5	1.7		
Sep-24	4.6	4.0	4.4		4.4	4.1	4.3		1.1	1.6	1.8		
Nov-24	4.5	4.0	4.6	4.5	4.3	3.9	4.4	4.5	1.1	1.7	1.8	2.0	
	Potential GDP				Output gap				Repo Rate				
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	
Nov-23	1.00	1.20	1.60		0.20	0.20	0.10		7.55	7.32	7.30		
Jan-24	1.00	1.20	1.60		0.00	0.00	0.00		7.54	7.29	7.30		
Mar-24	1.00	1.20	1.60		0.00	0.10	0.00		7.72	7.37	7.33		
May-24	1.10	1.20	1.60		-0.10	0.10	0.00		7.64	7.34	7.33		
Jul-24	1.20	1.30	1.70		-0.30	0.00	0.00		7.65	7.29	7.25		
Sep-24	1.20	1.40	1.80		-0.40	-0.20	-0.10		7.86	7.17	7.09		
Nov-24	1.20	1.40	1.80	2.00	-0.40	-0.10	-0.10	0.00	7.85	7.40	7.27	7.28	

Source: SARB forecast, MPC Statement

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