South Africa MPC

19 September 2024

On September 19, 2024, the South African Reserve Bank's Monetary Policy Committee announced a 0.25% cut in the repo rate, bringing it down to 8.0% from 8.25%. This decision was largely driven by headline inflation moving closer to the SARB's target range. The MPC aims to stabilize inflation expectations around the midpoint of the 3%–6% target range, which is currently at 4.4%. The Reserve Bank Governor noted that this move supports maintaining the inflation target over time, stating that a less restrictive policy is consistent with sustainably lower inflation in the medium term.

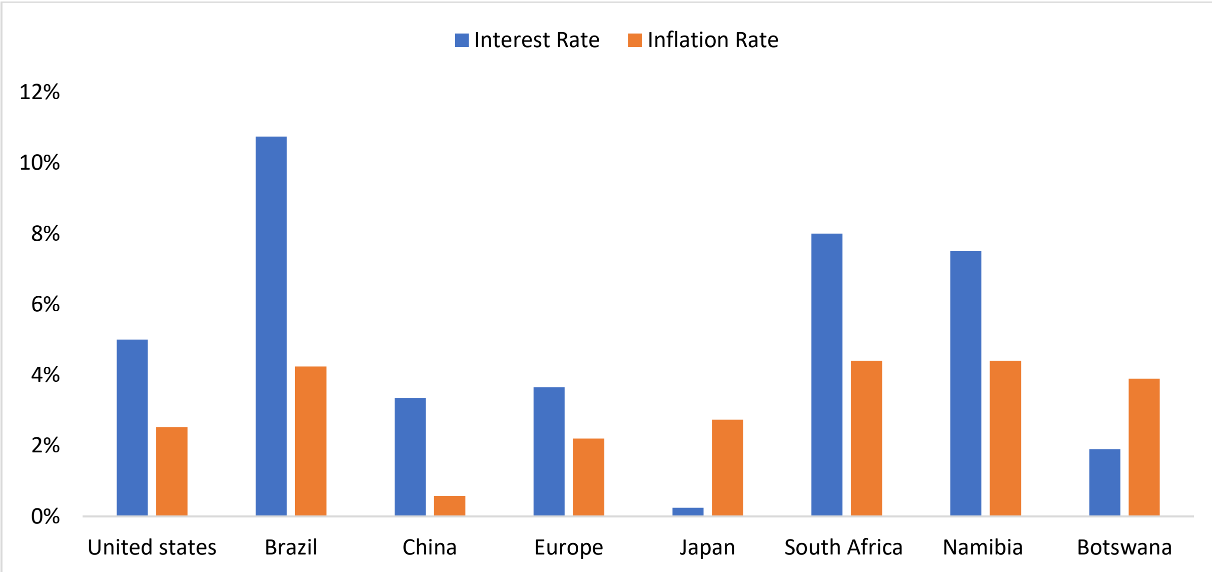
Global Economic Context

Globally, inflation trends are also showing signs of moderation, with many countries approaching their respective policy targets. However, risks remain due to geopolitical tensions and potential supply chain disruptions that could trigger inflationary shocks. The International Monetary Fund (IMF) has highlighted these risks, noting that while global inflation is expected to decline further projected at around 5.4% for 2024 persistent pressures from services and commodities could complicate the outlook. See figure 1

Despite these challenges, the overall economic sentiment appears cautiously optimistic as central banks worldwide navigate through these complexities while trying to balance growth and inflation control. The SARB's decision aligns with this broader trend of adjusting monetary policies in response to evolving economic conditions both domestically and internationally.

Given the recent cut in the South African Reserve Bank's (SARB) repo rate to 8.0%, the Bank of Namibia (BoN) is likely to respond by adjusting its own monetary policy to maintain the one-to-one peg between the Namibian dollar and the South African rand. The BoN had previously reduced its repo rate to 7.5% in August 2024, and with the SARB's latest decision, it may consider further cuts to align its rates more closely with those of South Africa. The prediction is that, the BoN may consider to cut its repo rate further to around 7.25% by the end of 2024, following a trend of easing monetary policy as inflation moderates and economic conditions improve. This would help ensure that the interest rate differential between Namibia and South Africa does not widen excessively, which could lead to capital outflows and pressure on foreign reserves. With Namibia's inflation forecasted to decrease to approximately 4.7% for 2024, down from previous estimates, this provides additional room for the BoN to implement further rate cuts without risking inflationary pressures. The easing inflation environment supports a less restrictive monetary stance, aligning with similar trends observed in South Africa.

Figure 1: Global inflation and Central Bank Interest Rates



Source: Various Central banks & HEI RESEARCH