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NOTE OF COMMENT ON INFLATION AND GROWTH IN SA

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'The rise in the annual consumer price inflation in March from 7.0% to 7.1% was contrary to market expectations, which had anticipated that the CPI might now have shown a modest decline to about 6.7%. Food prices are the main culprit. The rate of inflation, therefore, at 7.1% remains well above the SARB's target range of 3% to 6%. As several analysts had already pencilled in a further rise of 25 basis points (bps) in interest rates at the next Monetary Policy Committee (MPC) in May on their expected lower rate of inflation, it is now even more likely that the MPC will continue to take a hawkish line then.

This must be seen against a background in which the SARB has now raised borrowing costs by a cumulative 425 bps since the interest rate-raising cycle commenced in November 2021. The repo rate is now at its highest since 2010. In assessing the economic data available in its forthcoming May meeting – and in deciding on yet higher interest rates – the MPC will also need to allow for the overall lag effects of previous interest rate hikes. These usually take 12-18 months to have their full

impact on the economy. But higher borrowing costs are not the only factor influencing the economic and business outlook. There are whirlpools on both sides, not on one only.
The red lights are also now flashing even more strongly for SA's growth outlook. Widespread concern and uncertainty have mounted about the further negative economic and business impact of Eskom's level present persistent Levels 5 and 6 rolling blackouts. The latest intensified Eskom load-shedding regime has raised the risk that the economy may now have moved into a technical recession, i.e., two successive quarters of negative growth – it being the cumulative outcome of these and other developments in the recent past.

The energy challenge has now nonetheless been identified as the biggest single threat to SA's economic performance. Against the background of a -1.3% GDP growth in 4Q 2022, combined with a series of mainly negative high-frequency economic data in 1Q 2023, it is therefore now probable that the recent devastating rolling blackouts have inevitably tilted the balance of risks towards a technical recession in SA. 'The chances of slipping into a technical recession', also says the latest Nedbank Guide to the Economy, 'are high'. This would confirm the recent weak GDP growth forecasts for 2023 as a whole by, for example, the IMF (0.1%), the SARB (0.2%), Fitch (0.2%) and Nedbank (0.2%). The risk of a 'stagflation' scenario emerging also exists.

These scenarios inject much more urgency into the electricity situation. To therefore ameliorate and reverse the highly disruptive costs being imposed on the economy by aggressive load-shedding, especially as winter approaches, requires urgent short-term measures that will help to keep load-shedding to more manageable levels in the months ahead. The short-term action plan to relieve the acute stringency of persistent rolling blackouts promised by Electricity Minister Ramokgopa needs to be announced soon and rapidly implemented. This will also enable business and consumers to better plan for an inevitably difficult period ahead.

There needs to be transparent, coordinated and consistent communication around whatever emergency steps are to be taken, so as to stem the loss of confidence that is now seriously affecting both businesses and consumers. The issue of confidence remains paramount. Restoring confidence is half the battle now for policymakers as they seek to action agreed solutions to the energy

challenges. Negative trends can be reversed and 'rising tides' be turned only if sensible remedies are expeditiously and effectively implemented in collaboration with the private sector.'

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