

South Africa's path to inflation stabilisation uncertain-cenbank

South Africa's central bank said on Tuesday, 17 October, that upside risks to inflation had strengthened over the past months, heightening uncertainty about a precise path for inflation.



Source: Reuters.

The South African Reserve Bank (Sarb) in its October Monetary Policy Review said the rise in oil prices, dry weather conditions and elevated inflation expectations were all negatively impacting the inflation outlook.

The central bank aims to keep inflation within its target band of 3%-6% with a mid-point of 4.5% as the preferred anchor.

Headline inflation rose to 4.8% in August.

Core inflation, which excludes food and fuel costs, has also remained elevated above the preferred midpoint.

"Core goods inflation is projected higher at 6.3% this year... this sharp increase reflects the effects of a weaker rand exchange rate with generally elevated global goods prices," said the bi-annual review document.

It highlighted that the output gap - difference between actual output and potential output of an economy - has also begun to exert inflationary pressure, adding that the supply side of the economy was constraining monetary policy's role.

However, Sarb's projection model indicates that the current level of interest rates will be enough to steer inflation back to its targeted midpoint over a medium term.

The central bank will make its final interest rate decision for the year in November.

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