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HOW POLICY CONTINUES TO FAIL SOUTH AFRICANS

To curb inflation, the South African Reserve Bank (SARB) raised interest rates by 4.75% to a 14-year high of 8.25%. Following the various shocks that our economy faced throughout COVID-19, inflation breached the upper limit of the SARB's target range for 13 consecutive months, which led to the SARB tightening monetary policy since November 2021. While inflation has since eased to an annualised 5.4% in September 2023, rates remain at their highest since 2009, prompting many to criticise the SARB for its approach. Some even believe that the biggest obstacle to growth and job creation in the short term is the SARB's obsession with inflation targeting; we tend to agree.

Traditionally, real interest rates around 2% are best for long-term sustainable growth, which means that there is a lot of room for the SARB to cut interest rates and to support struggling South African consumers. The SARB's scope to lower borrowing costs may also improve as its counterpart in the United States (US), the Federal Reserve, potentially nears the end of its rate hiking cycle. More and more analysts are beginning to forecast that US rate cuts are on the horizon. Although analyst predictions vary widely, they all seem to agree that the US will most likely start cutting interest rates in the second half of 2024 and will do so rapidly.

Import inflation, especially that of oil, has been a favourite scapegoat of the SARB, who likes to cite a depreciating rand, elevated global oil price, or even bad weather as credible reasons why the medium-term outlook of inflation does not look rosy enough to cut interest rates. Although the rand will most likely appreciate, the oil price should remain unchanged during 2024. The string of weak macro-economic data, including a slowing global economy, coupled with rising US crude stockpiles, will likely keep prices in check.

Oil headed for a fourth weekly loss after sinking into a bear market when supplies remained healthy, and stockpiles rose to offset attempts by the Organisation of the Petroleum Exporting Countries (OPEC+) to keep price declines in check. Oil price declines have also been supported by the apparent vanishing of an Israel-Hamas war risk premium, as fears about oil production have so far not materialised. OPEC+ will, however, probably do their best to keep the oil price between $80 and $100 during 2024. But even if they do, this will mean that the oil price will remain largely unchanged and, therefore, be no real risk to inflation in South Africa (SA). Global oil demand will most likely also keep the oil price in check. Figures from China, the world's largest importer of crude, showed that refiners cut daily processing rates in October as apparent oil demand decreased from a month earlier. Meanwhile, US unemployment benefits rose to the highest level in almost two years, signalling a slowdown in the world's biggest crude consumer.

A scathing report was published by Harvard University's Growth Lab, whose research aims to help policymakers understand how to accelerate economic growth. The report identified two main reasons for SA's deterioration: The poor capacity of the state and the government's inability to address the spatial exclusion it inherited from apartheid. Unfortunately, the researchers found that the policies that have been put in place by the ruling party since then have only worsened the impact of spatial exclusion. A common thread throughout the research is how the government's poor economic policy fails to yield desired outcomes, such as job creation and economic growth. One of these economic policies is the stringent preferential procurement regulations, which have, at best, supported entrepreneurs from specific ethnic groups but have not led to inclusive growth. Another main growth impediment is labour policies, the forerunner being black economic empowerment, which reduced the overall economic growth in SA. The researchers concluded that SA's trajectory is not one of growth and inclusion but rather one of stagnation and exclusion.

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