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**NATIONAL ASSEMBLY**

**WRITTEN REPLY**

**PARLIAMENTARY QUESTION 1955**

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**Mr L G Mokoena (EFF) to ask the Minister of Economic Development:**

What has he found to be the impact of petrol price increases on the economy? NW2113E

**REPLY:**

Changes in the prices of petrol, diesel and other fuels are published by the Central Energy Fund on their website: <http://www.cefgroup.co.za/petrol-price/>.

As of 6 June 2018, the price of both grades of Petrol (i.e. unleaded and lead replacement) has increased by 82 cents per litre.

The change in the price of petrol is typically a function of both changes in international exchange rates (particularly the US Dollar-Rand exchange rate) and the change in international product prices (particularly crude oil).

For June 2018, the depreciation of the rand contributed roughly 30 cents of the increase in the price of petrol, while changes in the price of international product contributed roughly 52 cents to the increase. As an oil importing country, South Africa is unavoidably vulnerable to changes in international markets.

According to Stats SA, the price of fuel for consumers increased by 3.6% between April and May 2018, and 9.4% over the 12 months to May 2018. This is in line with petrol price inflation over the period since 2010.

This is expected to have both a short-term direct impact on inflation, and a long-term indirect impact on inflation. A study by the South African Reserve Bank, published in the Journal of Energy in Southern Africa in February 2017, found that a 10% year-on-year increase in the price of petrol resulted in a 1.2 percentage point increase in headline inflation across the economy over the long-run.

The cost of fuel has an important impact on overall inflation in the economy. These effects are both direct and indirect. Higher petrol prices directly impact the consumer in terms of higher fuel costs and higher public transportation costs. Higher petrol prices indirectly impact consumers, as an input cost, which will ultimately increase the cost for goods and services rendered.

Fuel prices also impact on the cost of production. The impact varies by sector. In a reply provided to parliament to a similar question, my colleague the Minister of Trade and Industry, discusses the direct and indirect impact on the manufacturing sector and current efforts to diversify sources of energy.

Fuel price inflation is challenging to manage, given that South Africa imports the bulk of its fuel and is therefore subject to changes in international market prices.

Fuel levies are applied to the price of fuel, and are used to raise funding for transport infrastructure. This investment in transport infrastructure reduces transport costs in the economy, which in turn enables more economic participation by businesses as well as households and in turn can moderate overall inflation.

Finally, it should be noted that according to an independent tracking service ([www.globalpetrolprices.com](http://www.globalpetrolprices.com)), the price of petrol in South Africa at the pump is in line with the global average, and amongst the lowest when compared to non-oil-producing countries.

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