



## Watch Your Step

SOUTH AFRICAN RESERVE BANK

MONETARY POLICY FORUM

15 April 2025



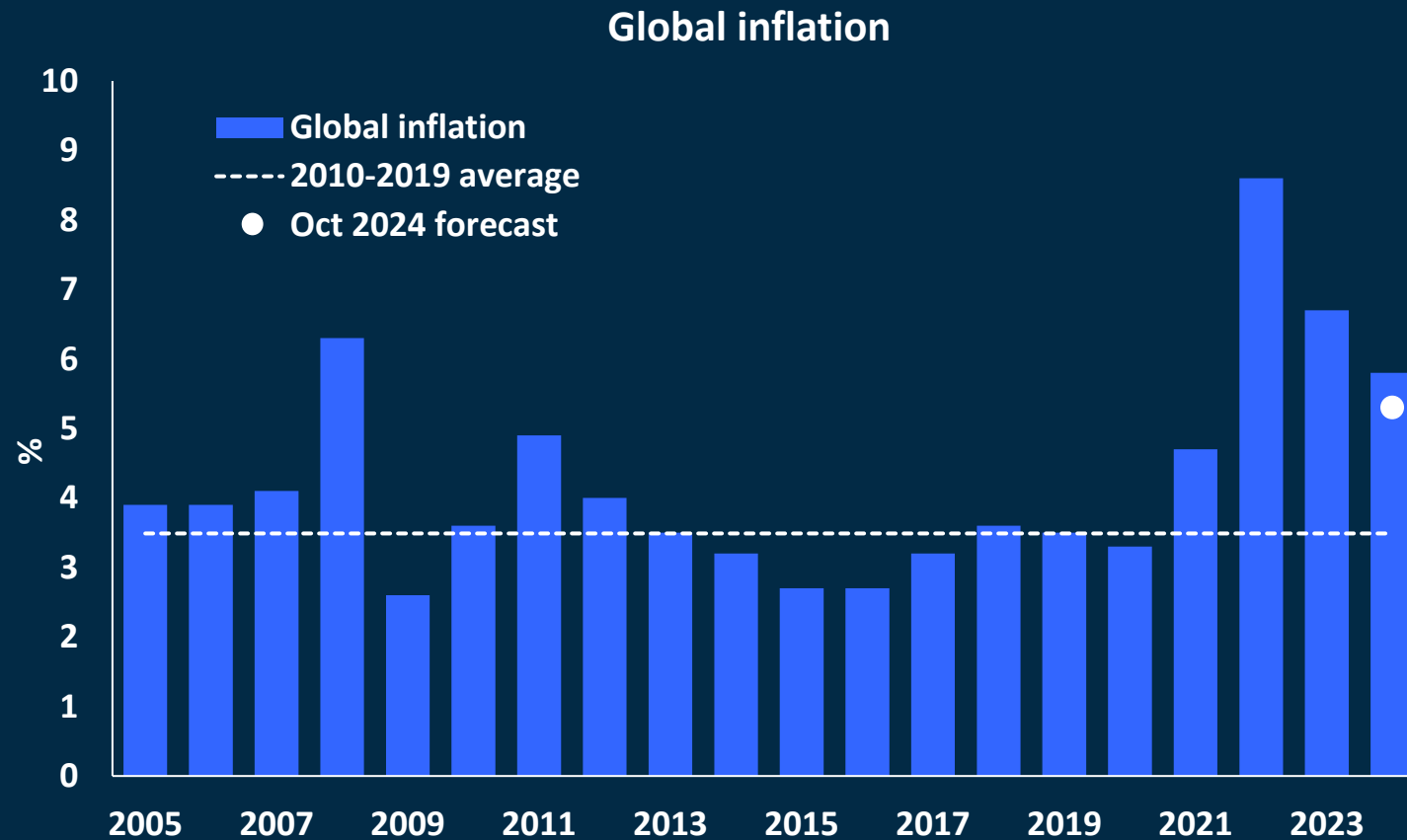
SOUTH AFRICAN RESERVE BANK



# Overview

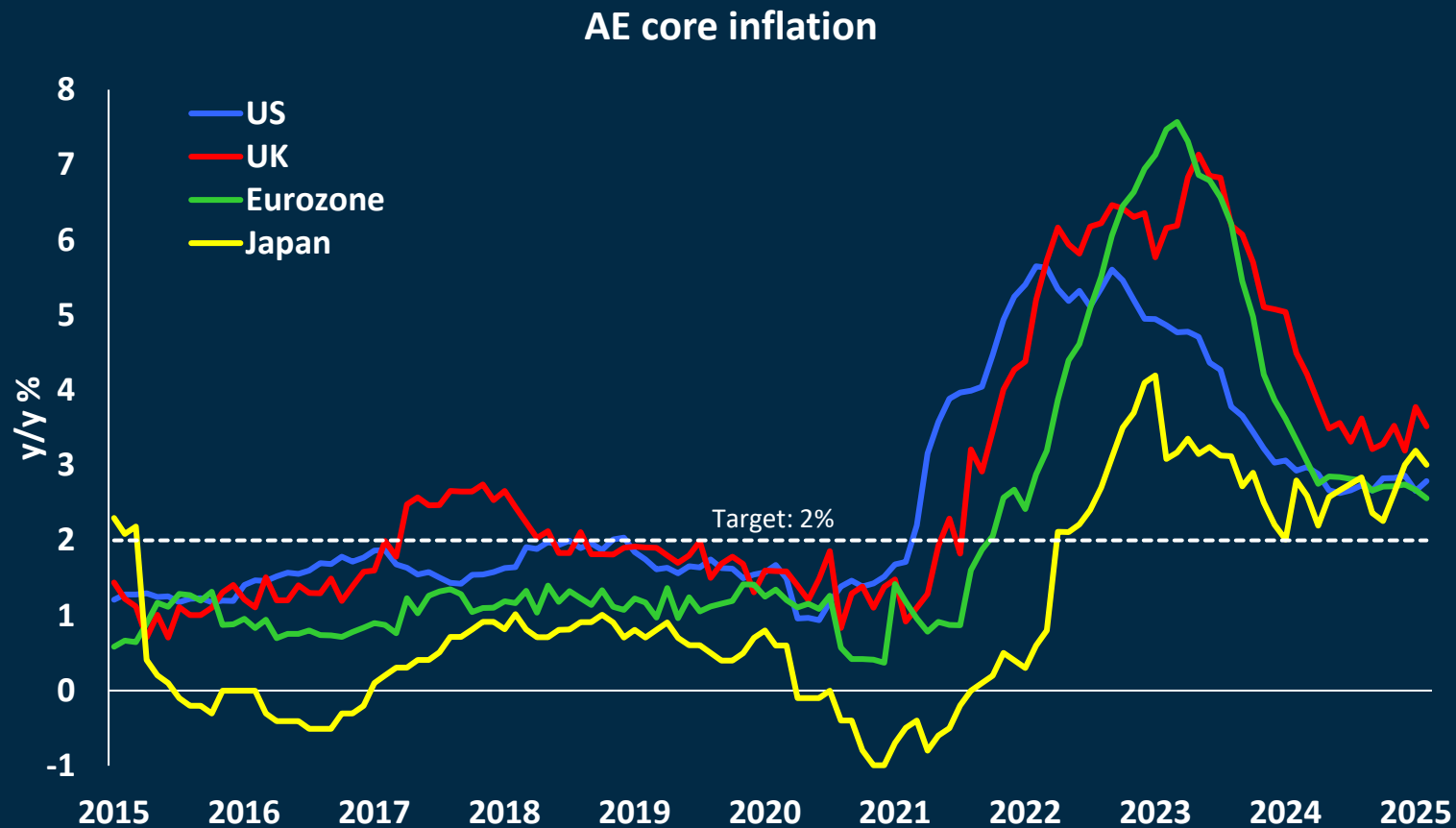
- Uncertain global environment: current conditions, policy, trajectories
- Global disinflation has slowed, stalling: reversal next?
- Global growth modest and fragile, with large downside risks
- In stagflation: policy path more uncertain
- Domestic growth inconsistent, but seen lifting gradually
- Inflation contained for now & outlook moderate
- Rates lowered (75 bps), stance above but close to neutral
- Range of risks lead to low forecast confidence

## Global headline inflation eased further in 2024, but less than expected...



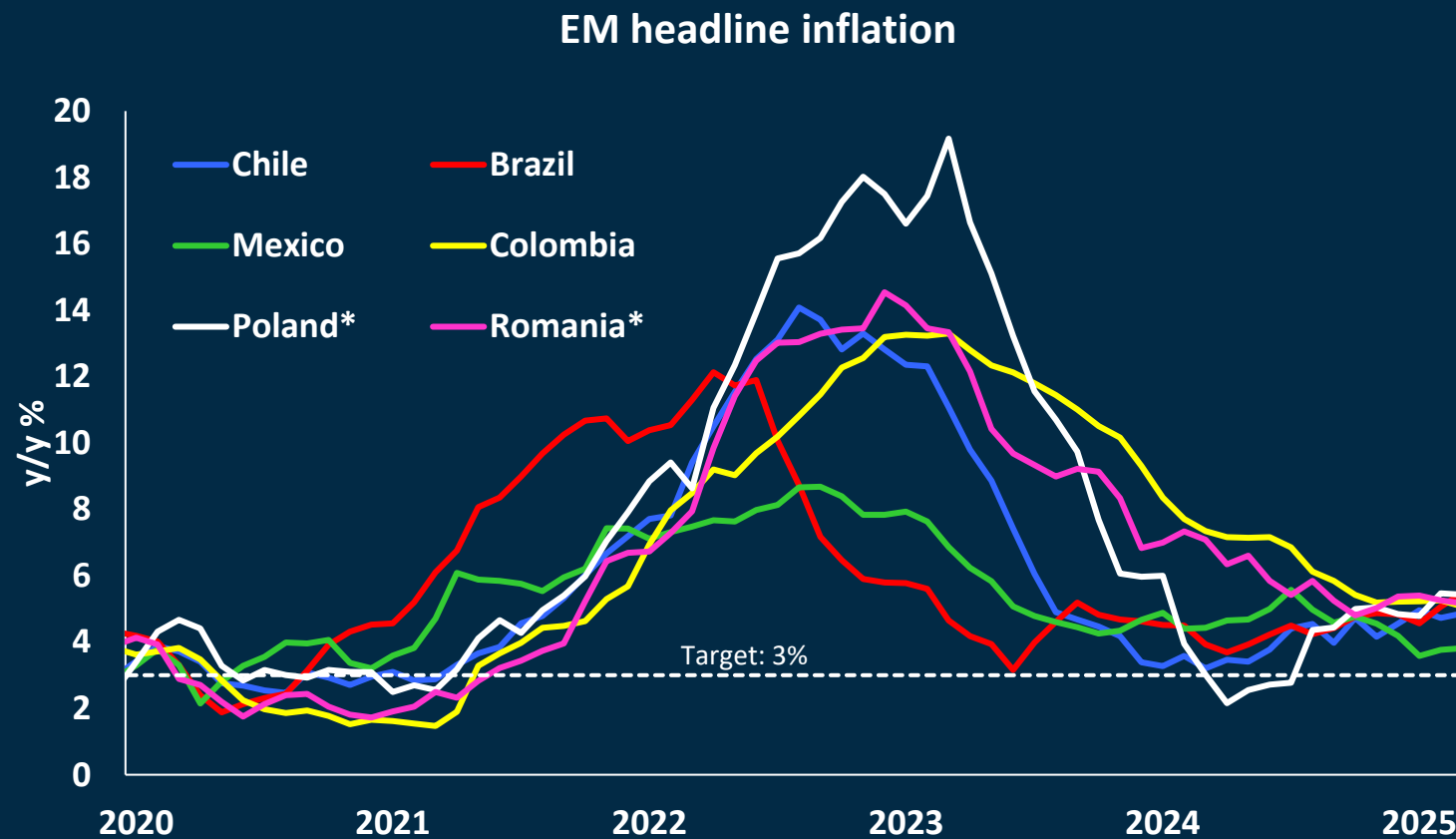
Source: IMF

## Inertia from core inflation, remaining above targets



Source: Haver

## Inflation also stubborn in some EMs

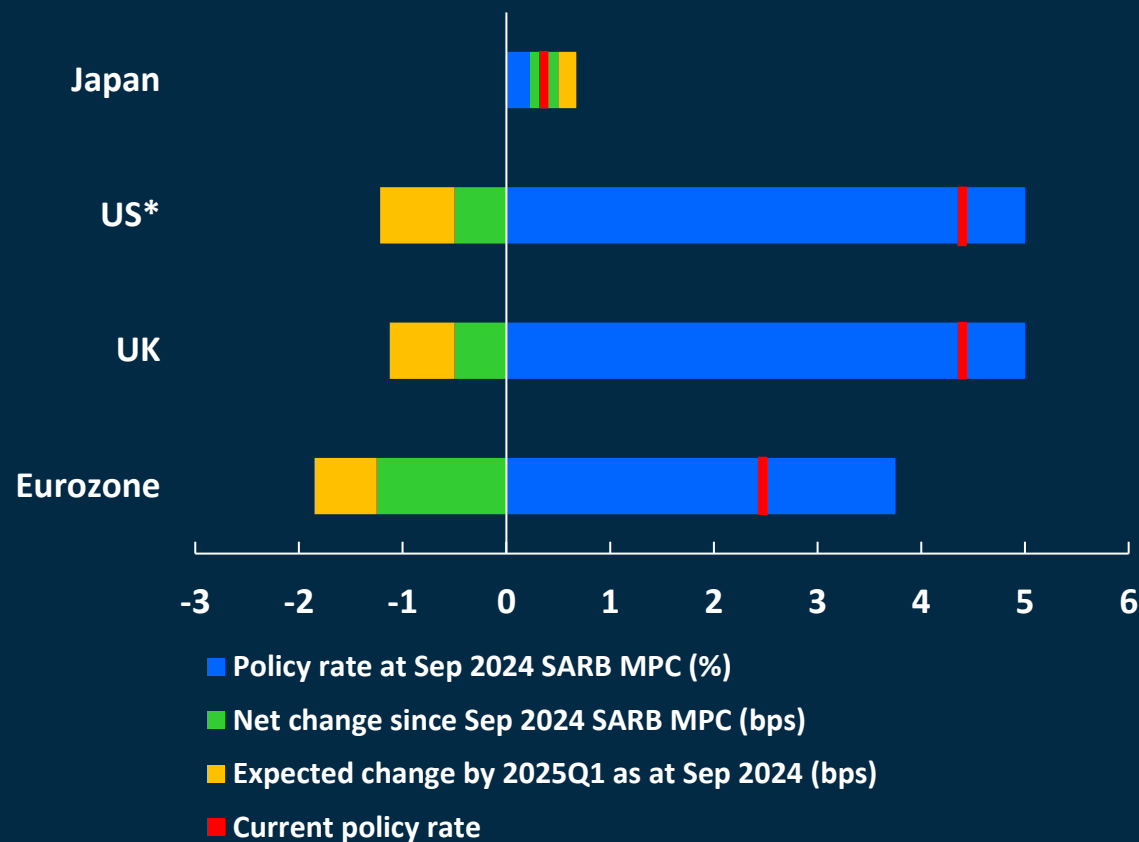


\* Inflation target is 2.5% for these countries

Source: Haver

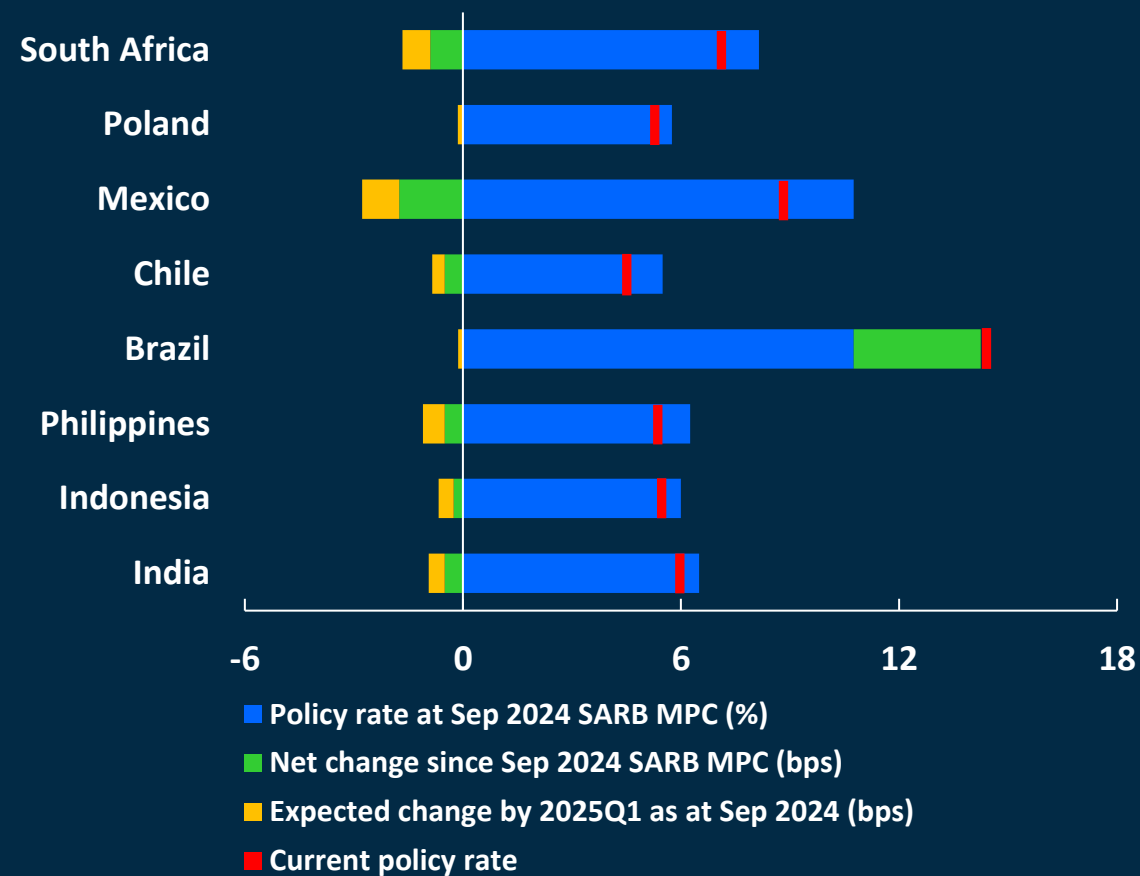
# Policy eased, but by less than expected

## AE Nominal policy rates



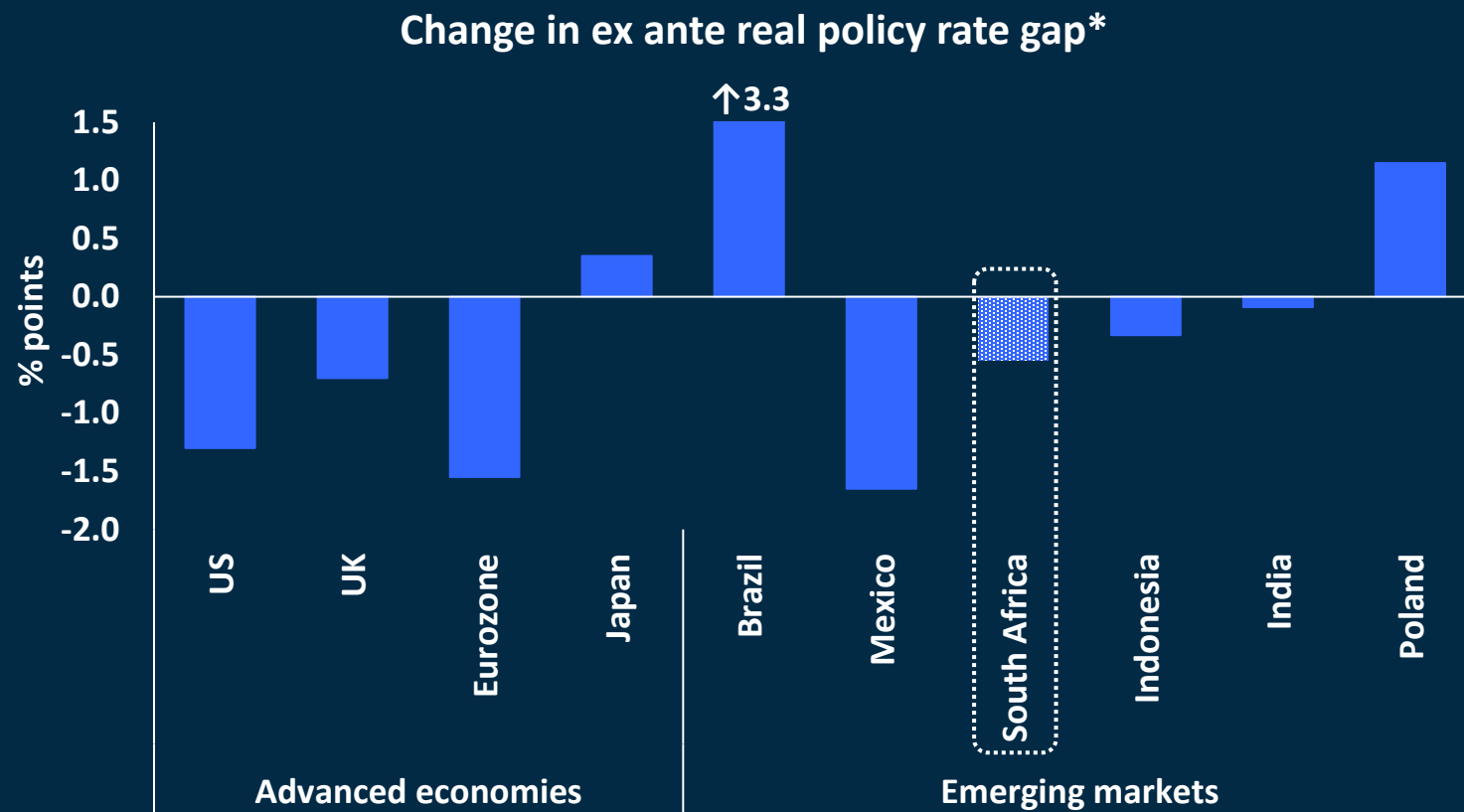
\*Upper bound of the Fed Funds range  
Sources: Bloomberg and Central banks

## EM Nominal policy rates



Sources: Bloomberg and Central banks

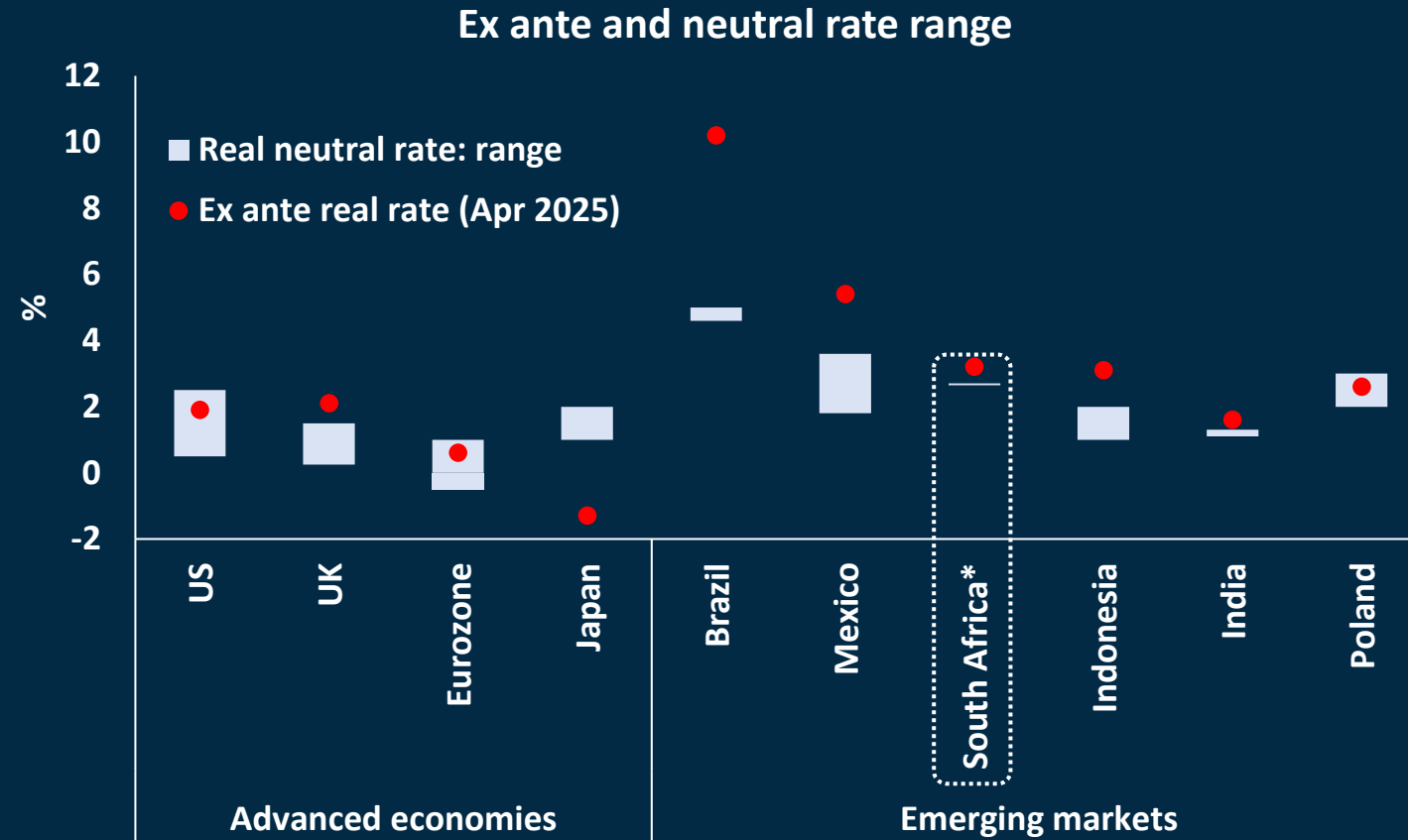
## Policy now less restrictive



\* Difference between Apr 2025 real policy rate gap and Oct 2024 real policy rate gap

Source: Bloomberg, IMF, various Central banks and SARB

...but measuring precisely hard, leads to caution

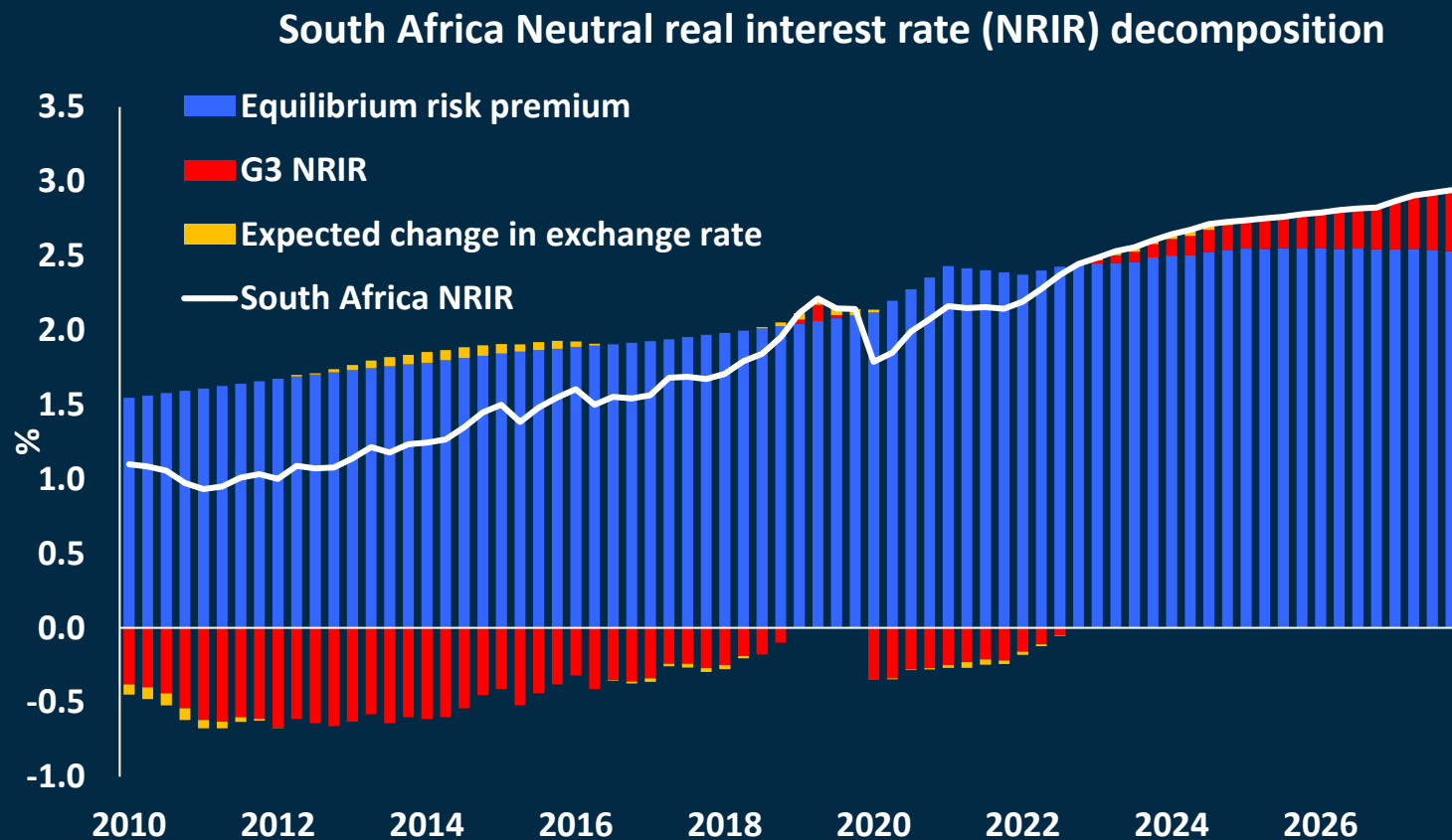


\* Point estimate from QPM

Sources: Bloomberg, IMF, various Central banks and SARB



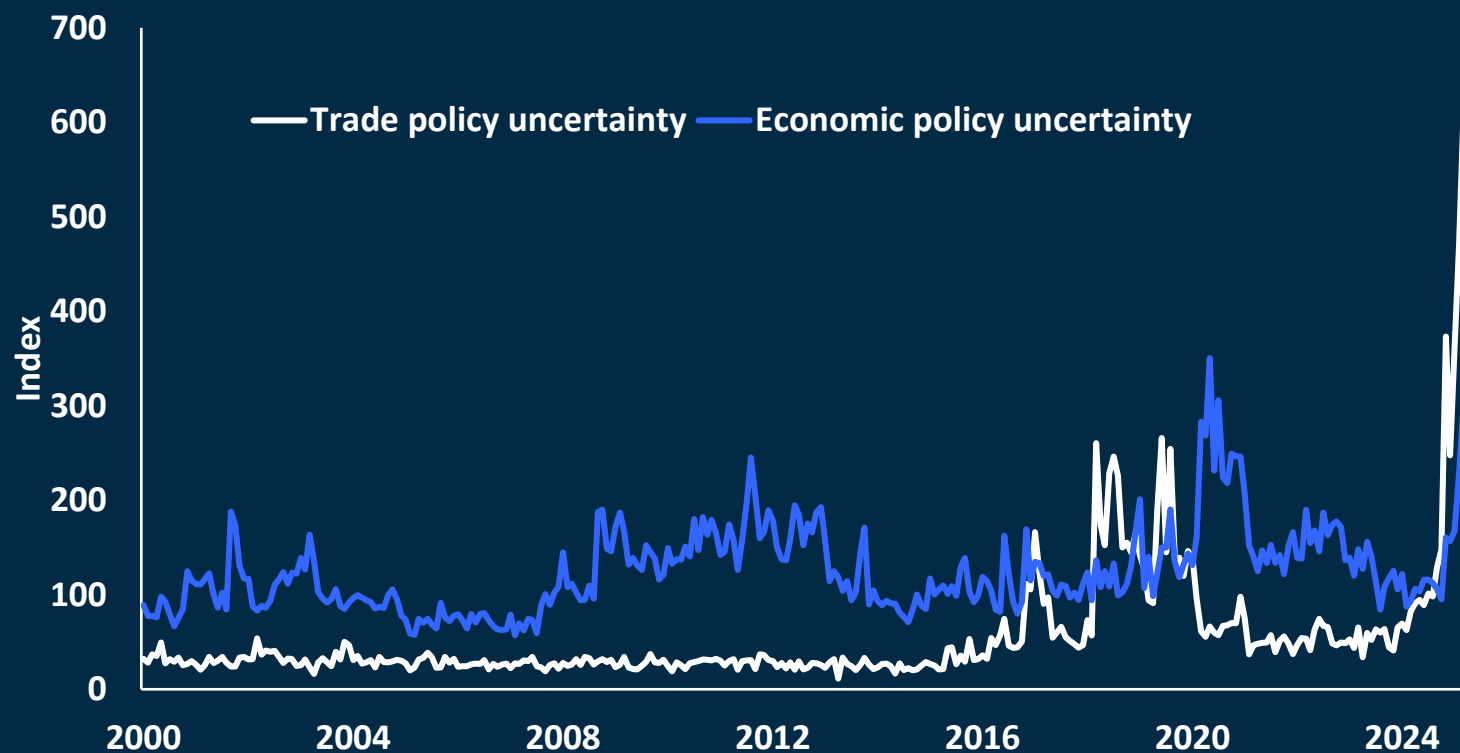
## Neutral rates in SA mostly domestic risk



Source: SARB

# Global policy environment with rising uncertainty

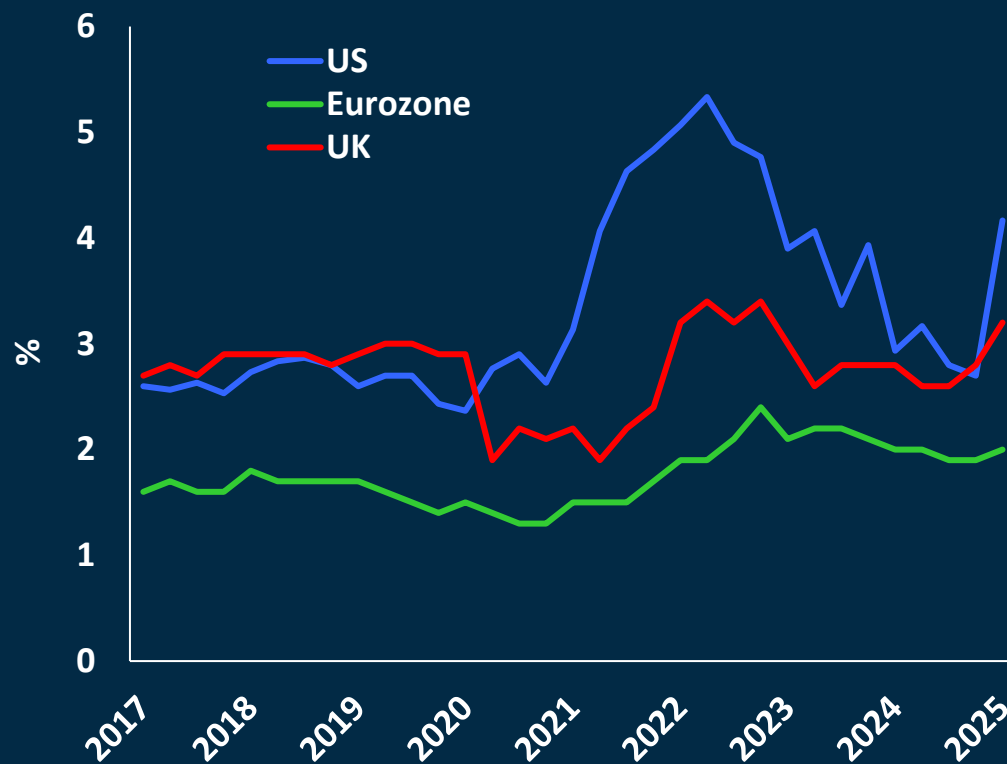
## Economic and trade policy uncertainty



Source: S R Baker, N Bloom and S J Davis, 'Measuring economic policy uncertainty', 2016

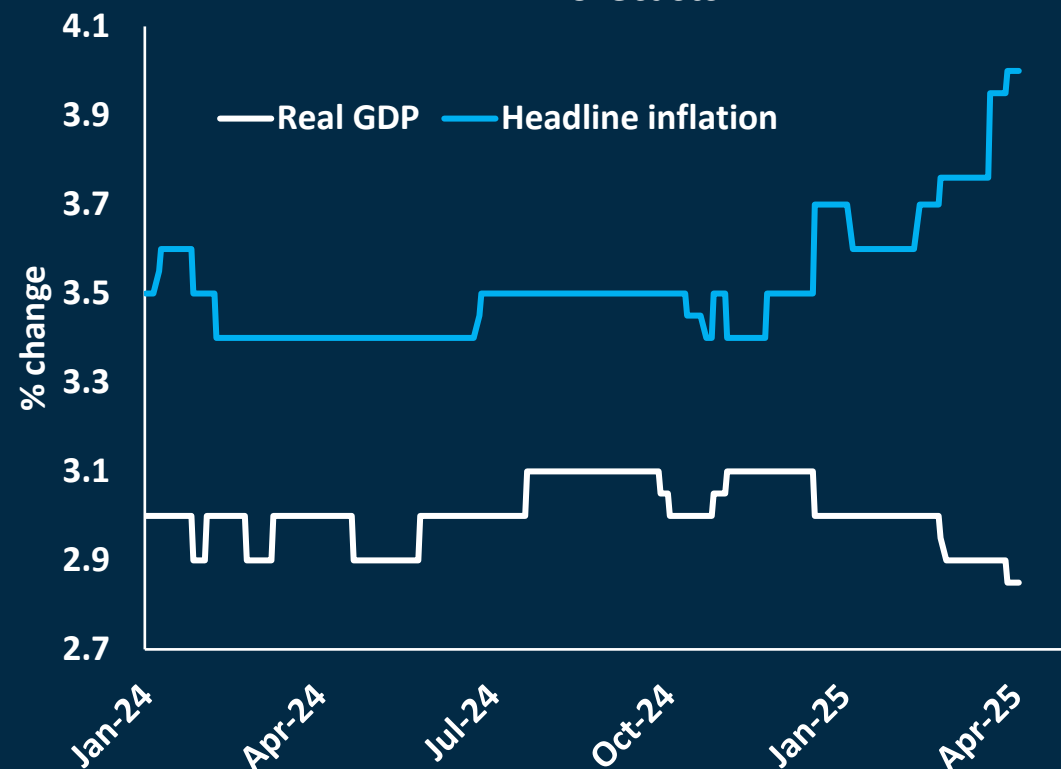
# With inflation expectations and recession risk up, greater stagflation risk

## Inflation expectations\*



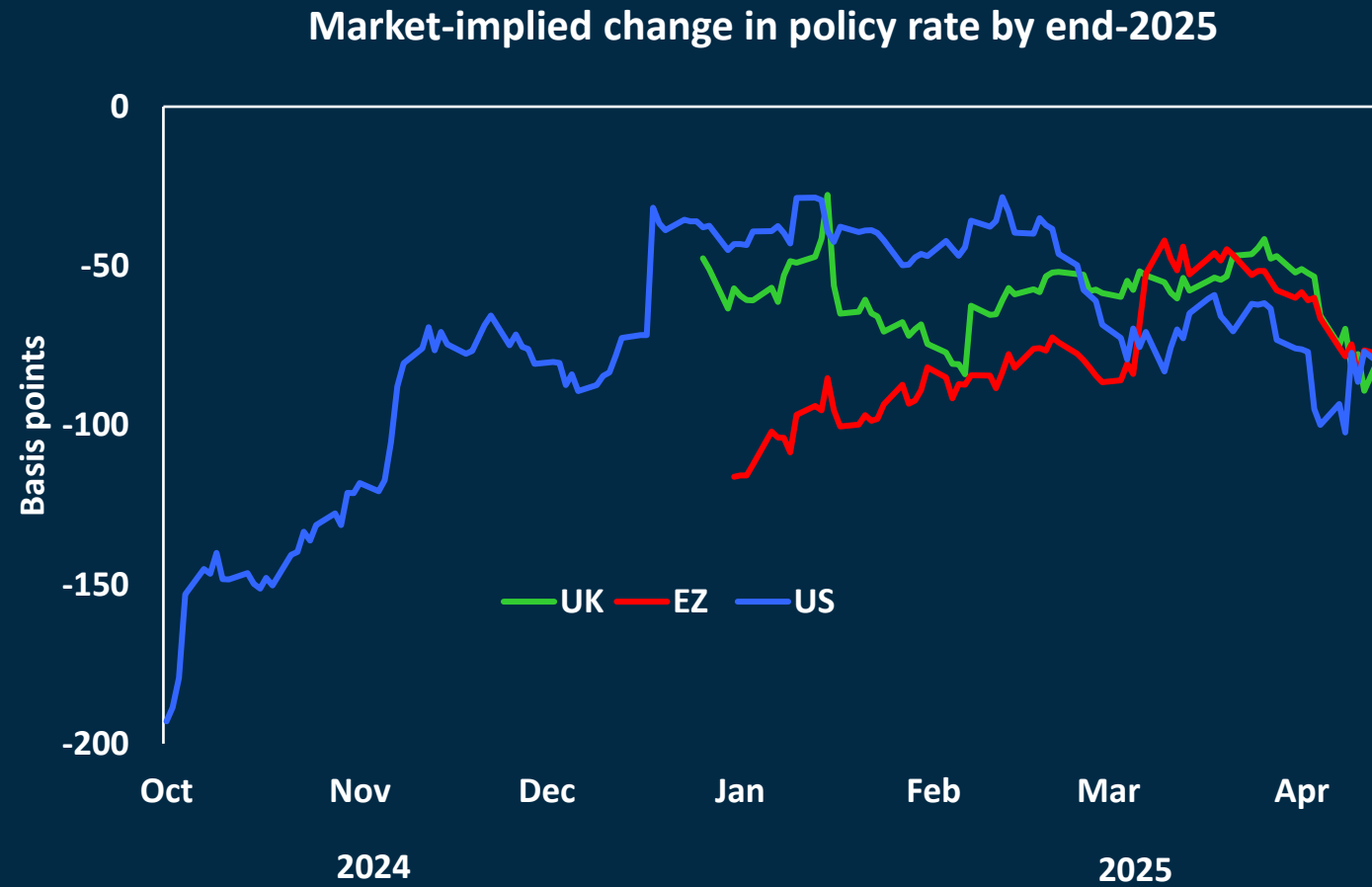
\* US and UK one-year ahead; EZ two-years ahead  
Source: Haver

## Evolution of 2025 global real GDP and inflation forecasts



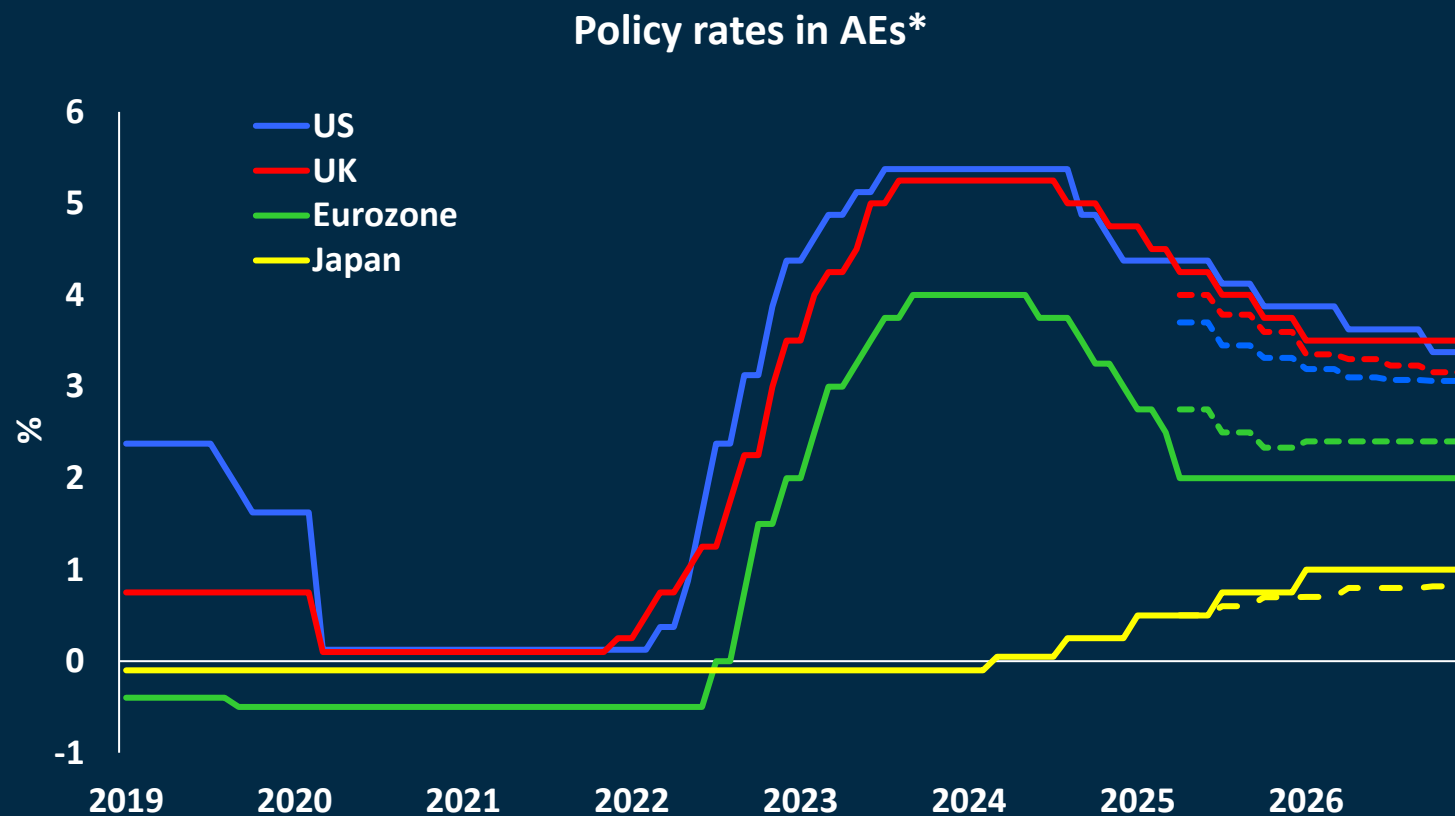
Source: Bloomberg consensus

## Growth relative to inflation outcomes lead market volatility





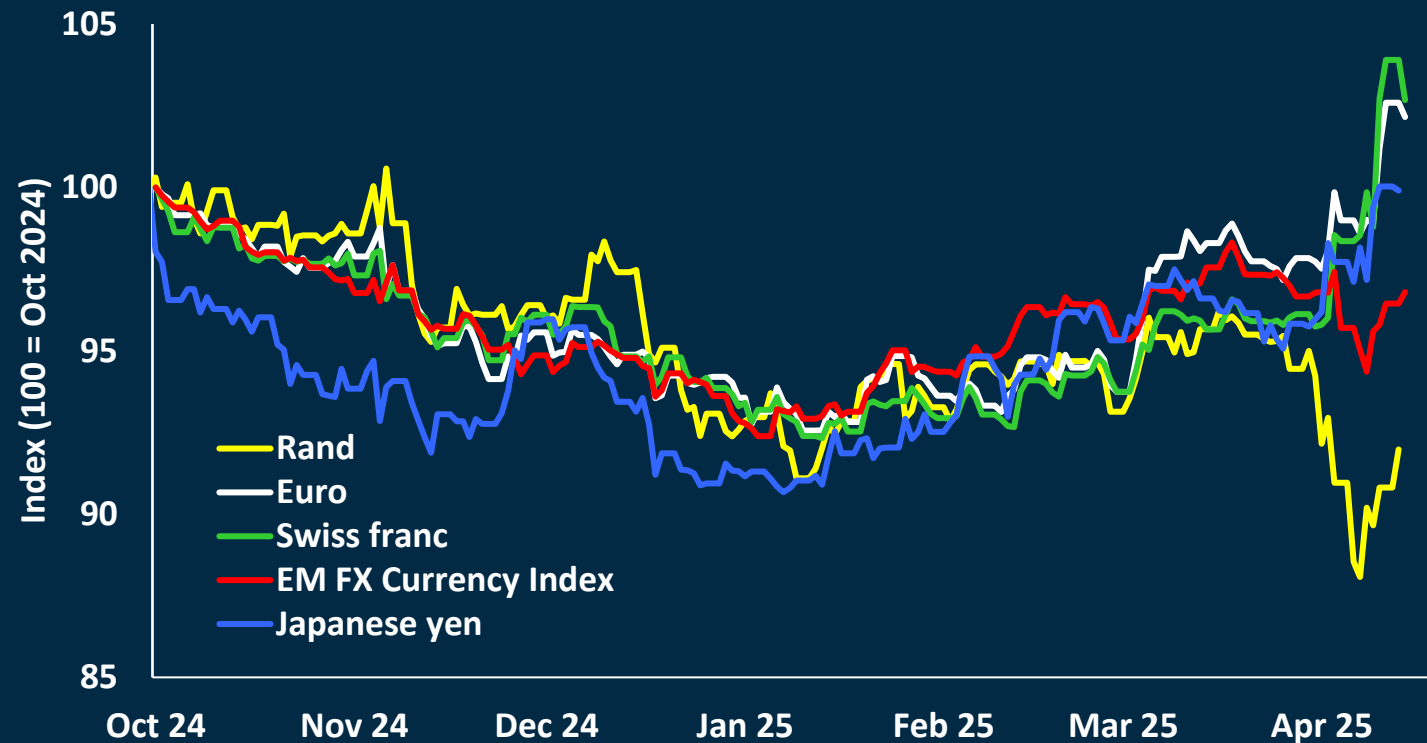
## Policy rate path now much less certain, but likely to remain higher for longer...



\* Dotted lines indicate Oct 2024 forecasts  
Source: Haver

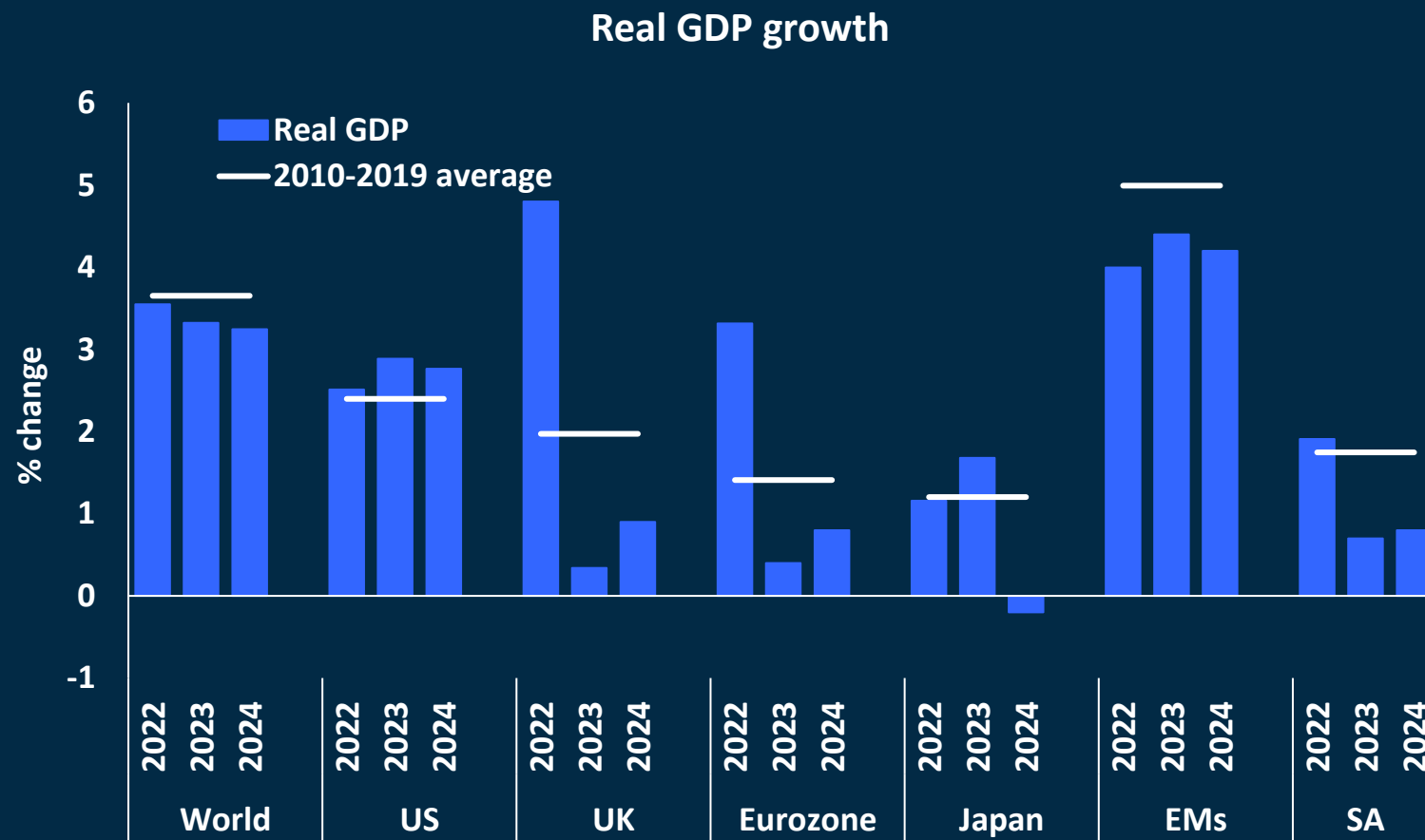
...more so in EMs given currency risk

Selected currency performance



Sources: Bloomberg and JP Morgan

## Global growth modest, with major downside risks, more fragile...



Source: IMF

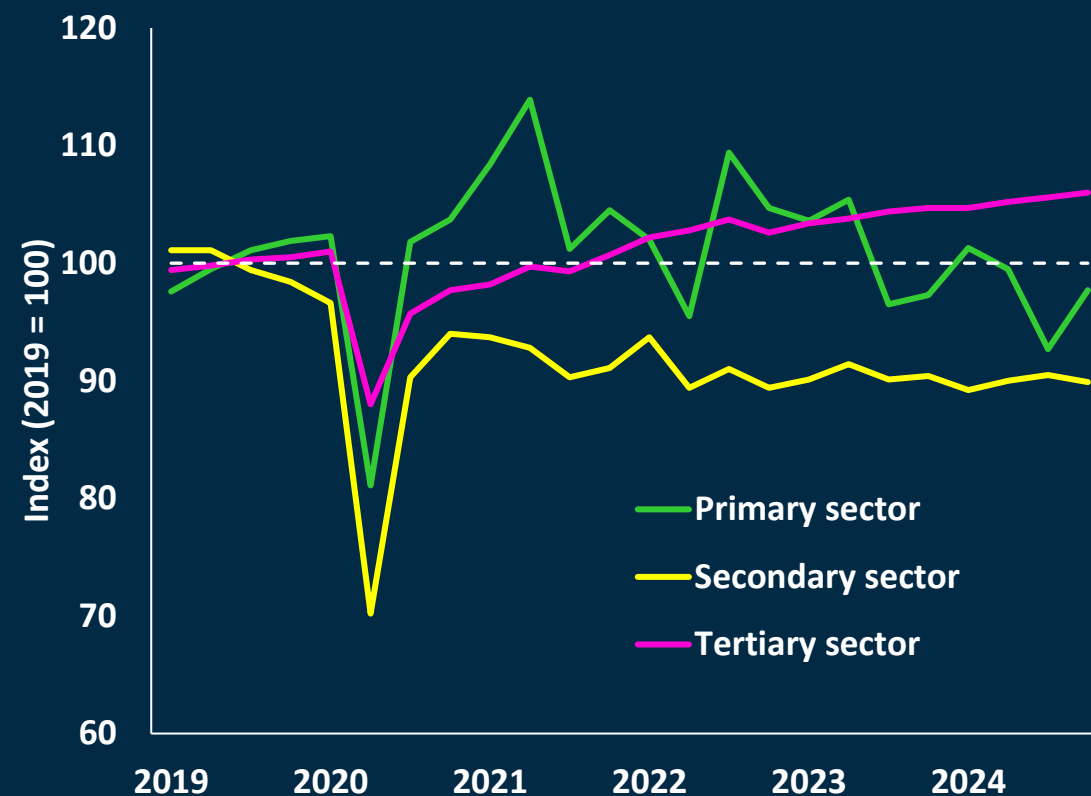
## SA reflecting weak productive capacity and path dependency...

### GDP and potential growth



Sources: Stats SA and SARB

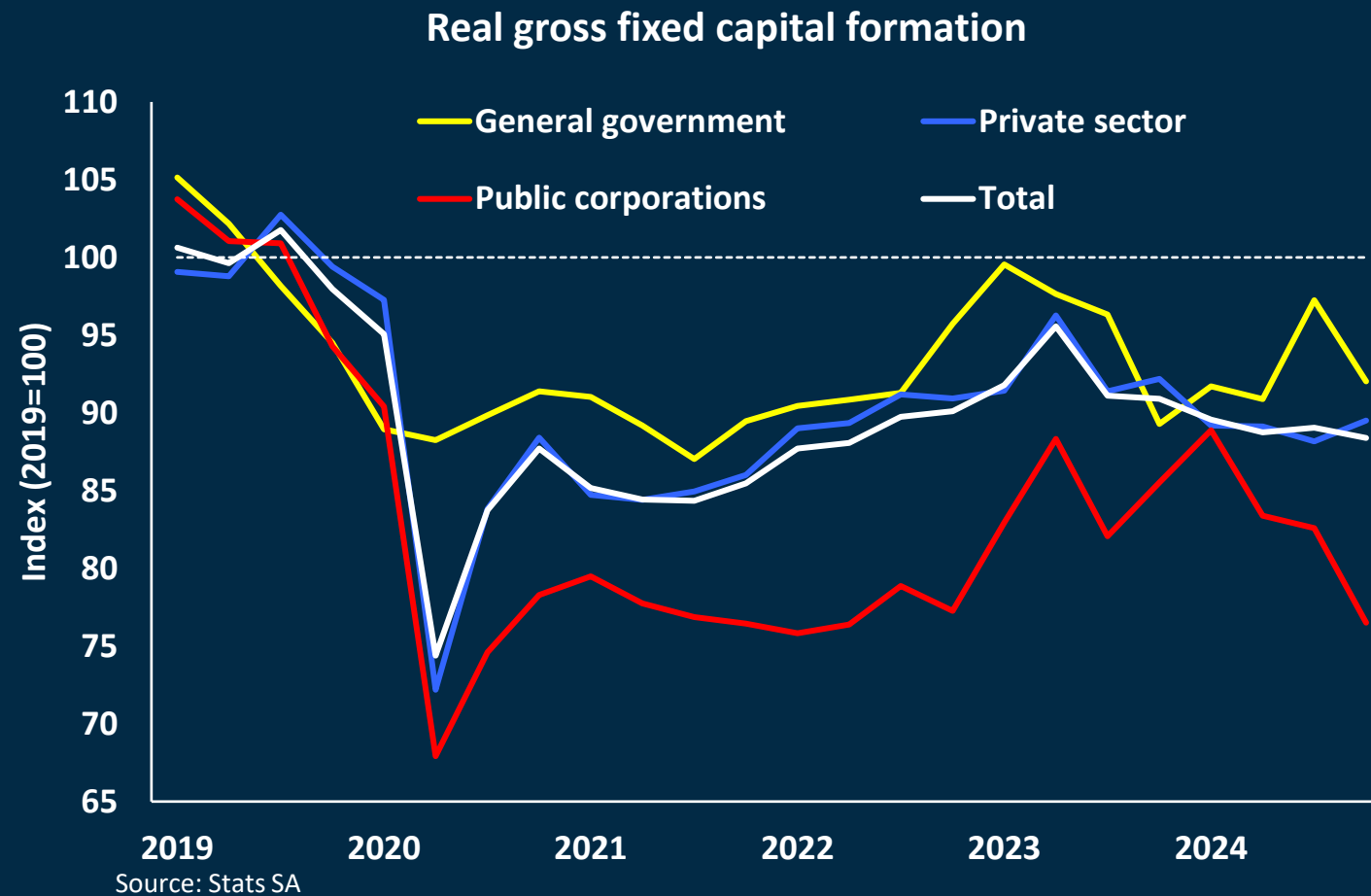
### Output: distance from 2019 levels



Sources: Stats SA and SARB

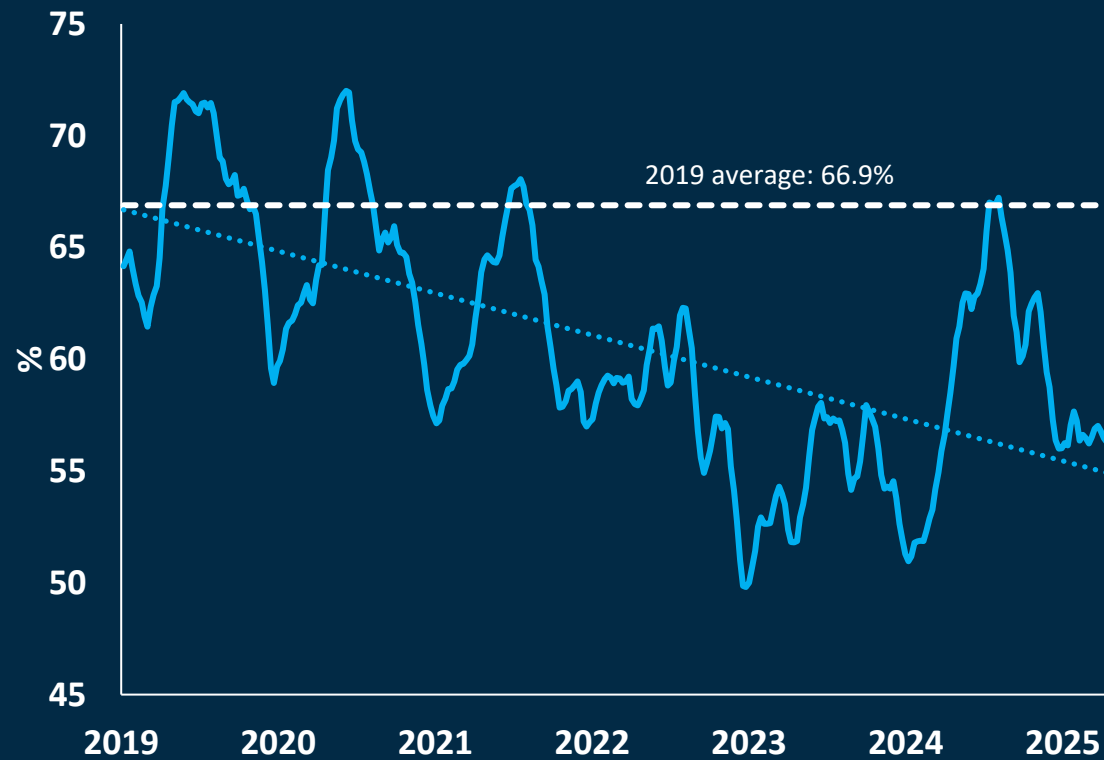


## And broader demand and supply contributing to weak investment



## ...weighed down by supply-side bottlenecks

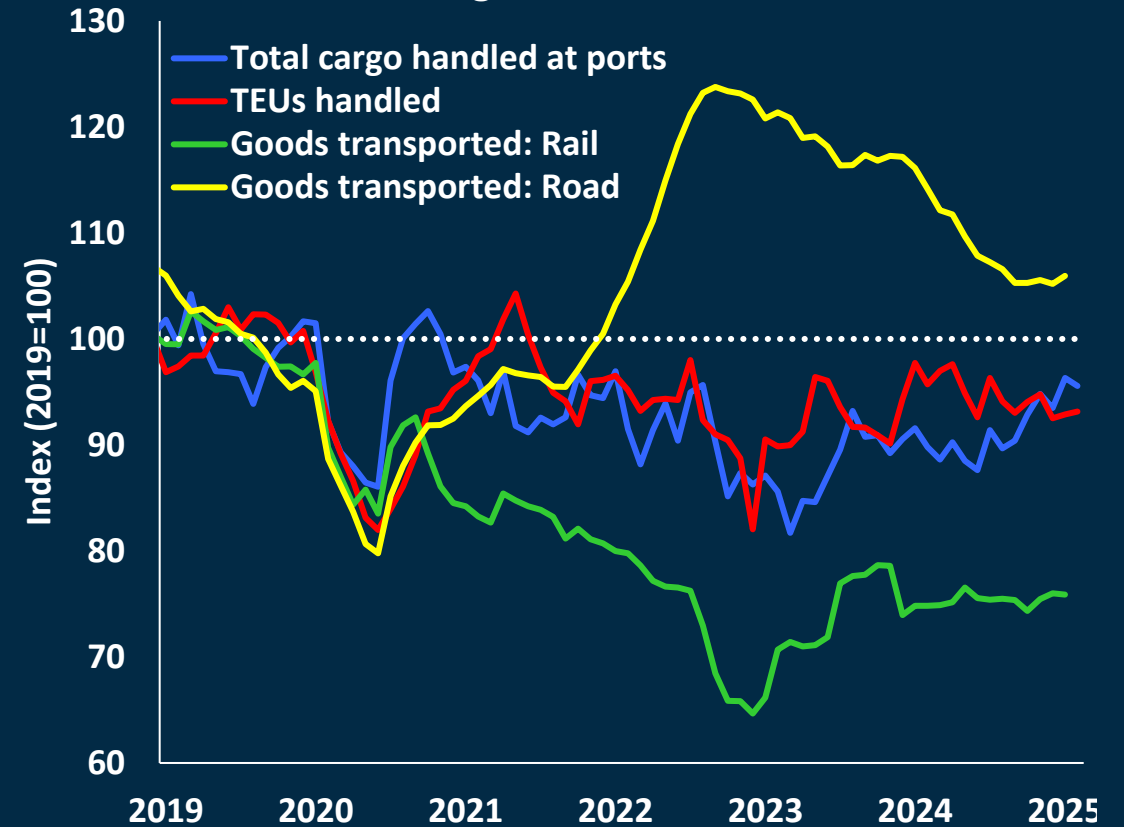
### Weekly Energy Availability Factor\*



\* Five-week centred moving average

Sources: Eskom and SARB

### Cargo handled\*

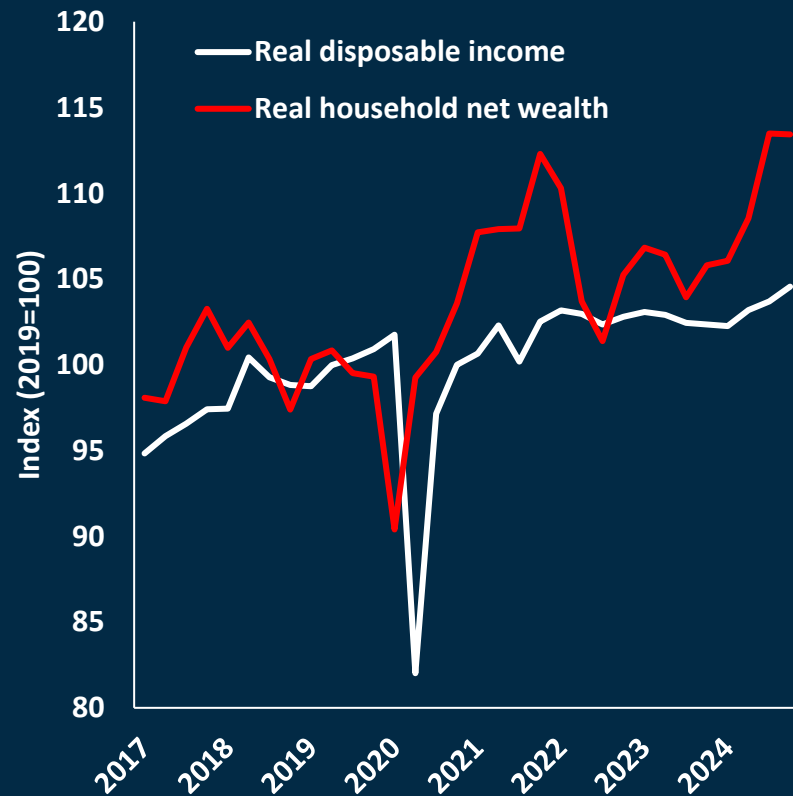


\* Five-month centred moving average

Source: Transnet

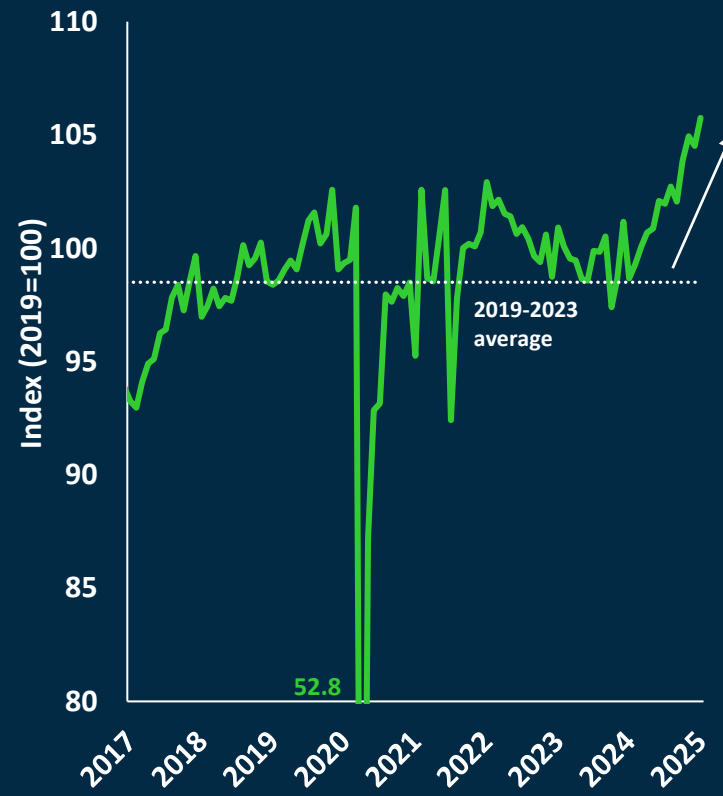
...leaving consumer spending to do the heavy lifting on growth

Household balance sheet



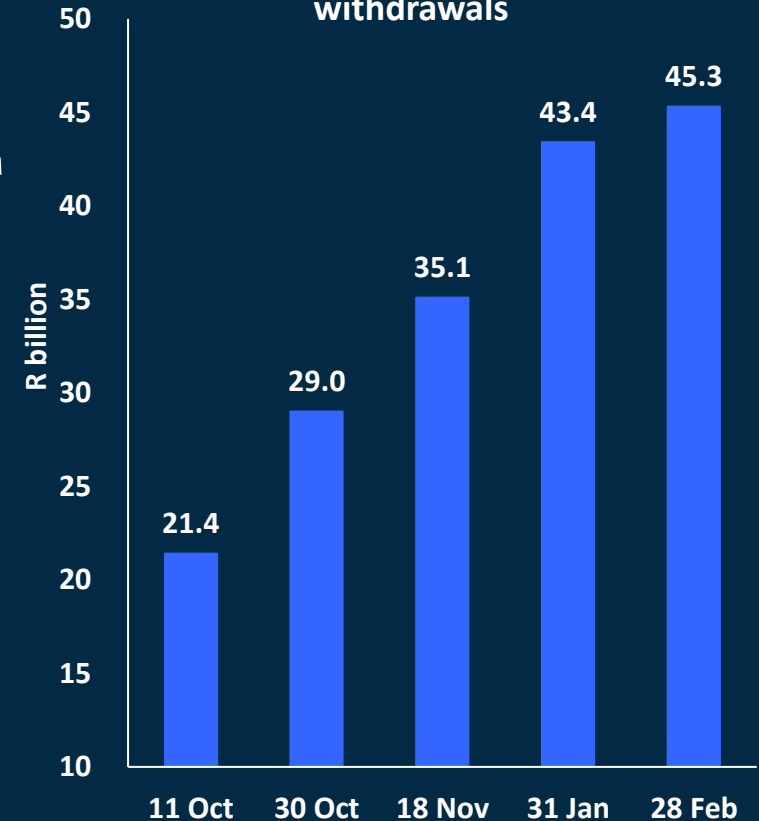
Source: SARB

Real retail sales



Source: Stats SA

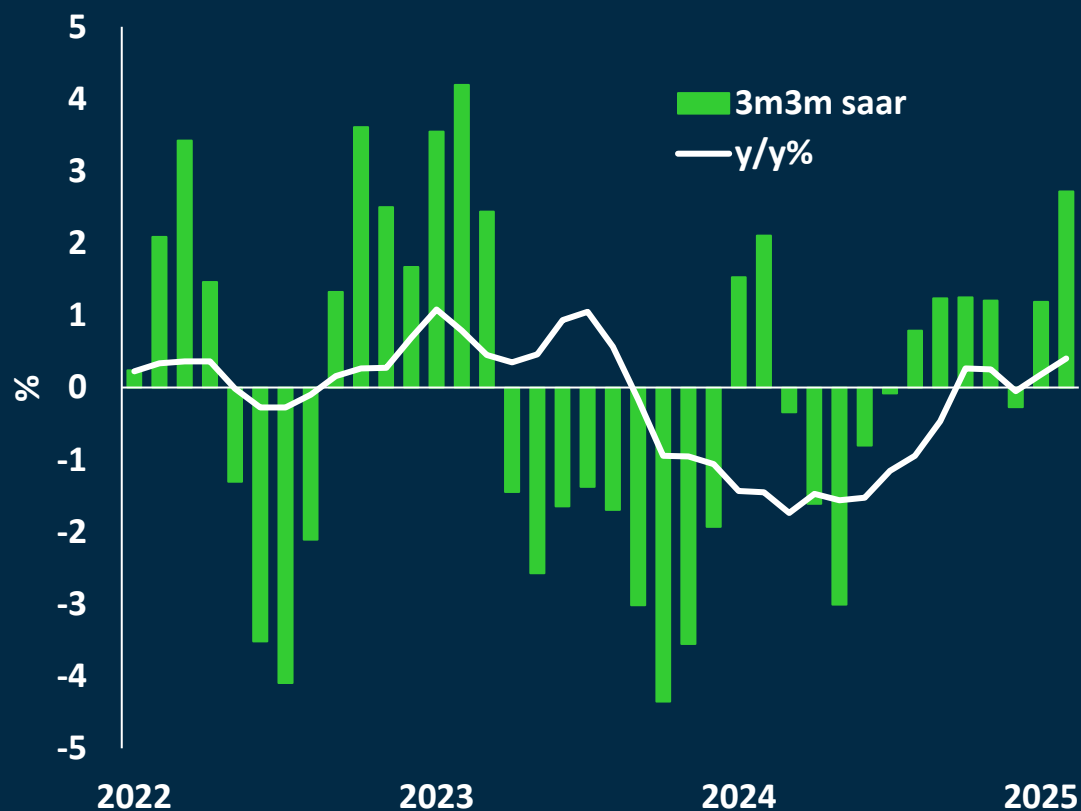
Cumulative two-pot gross withdrawals



Source: SARS

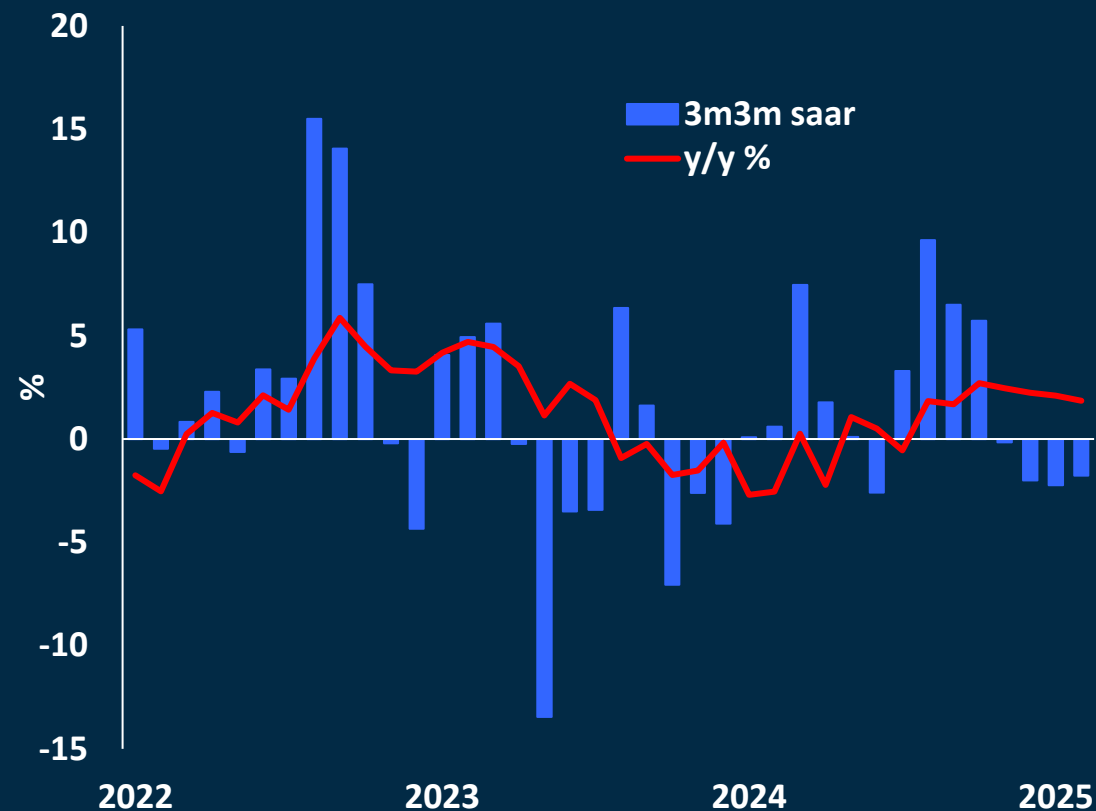
## Rate cuts transmitting to economy

### Momentum in real household credit extension



Source: SARB

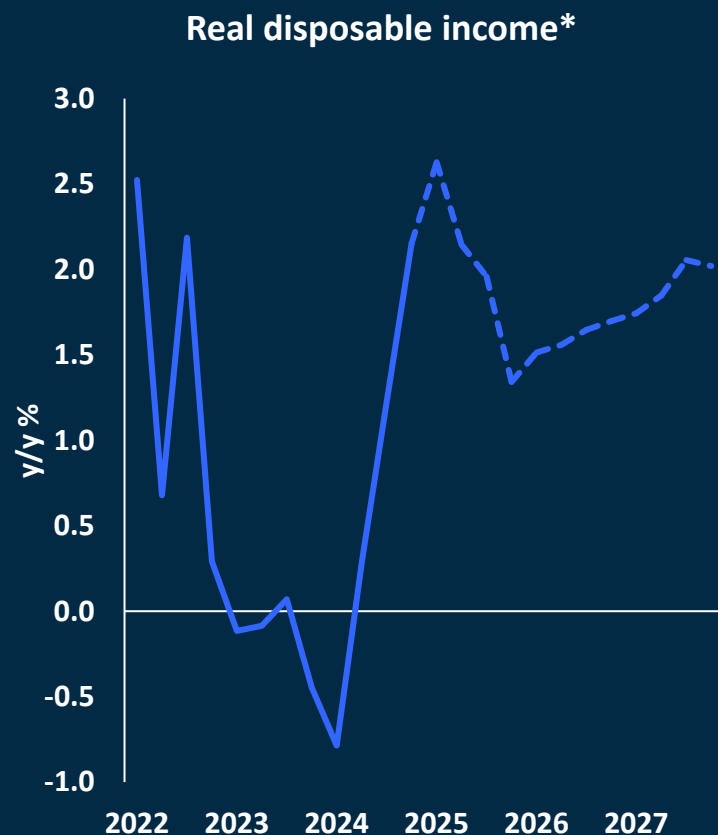
### Momentum in real corporate credit extension



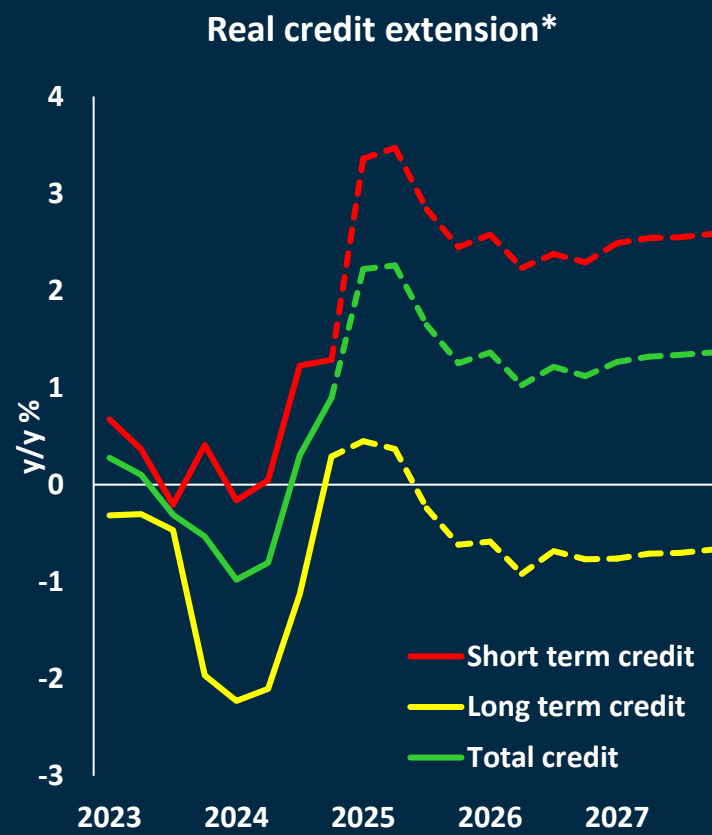
Source: SARB



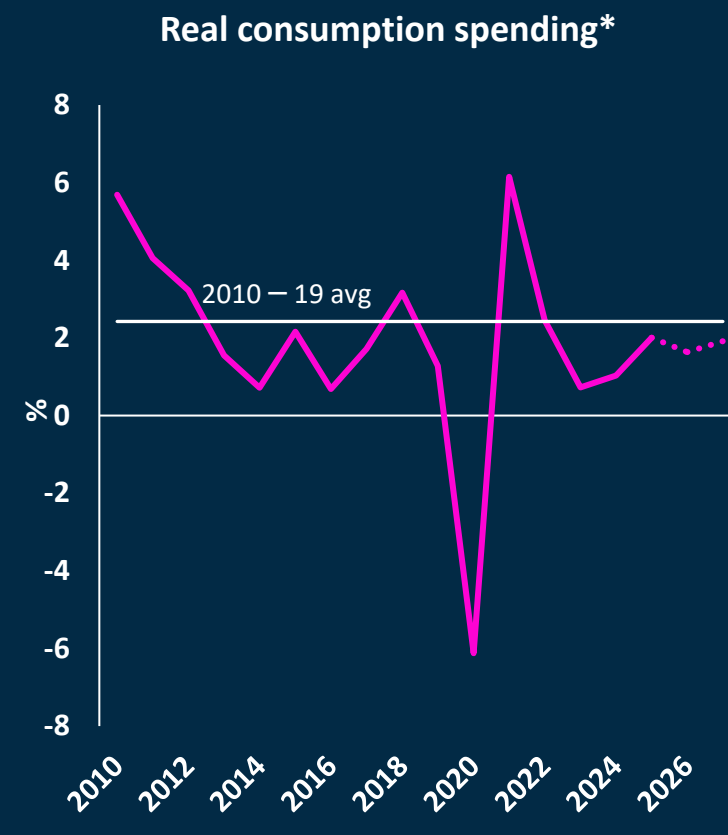
## ...while HH spending growth sustains on improving finances



Source: SARB

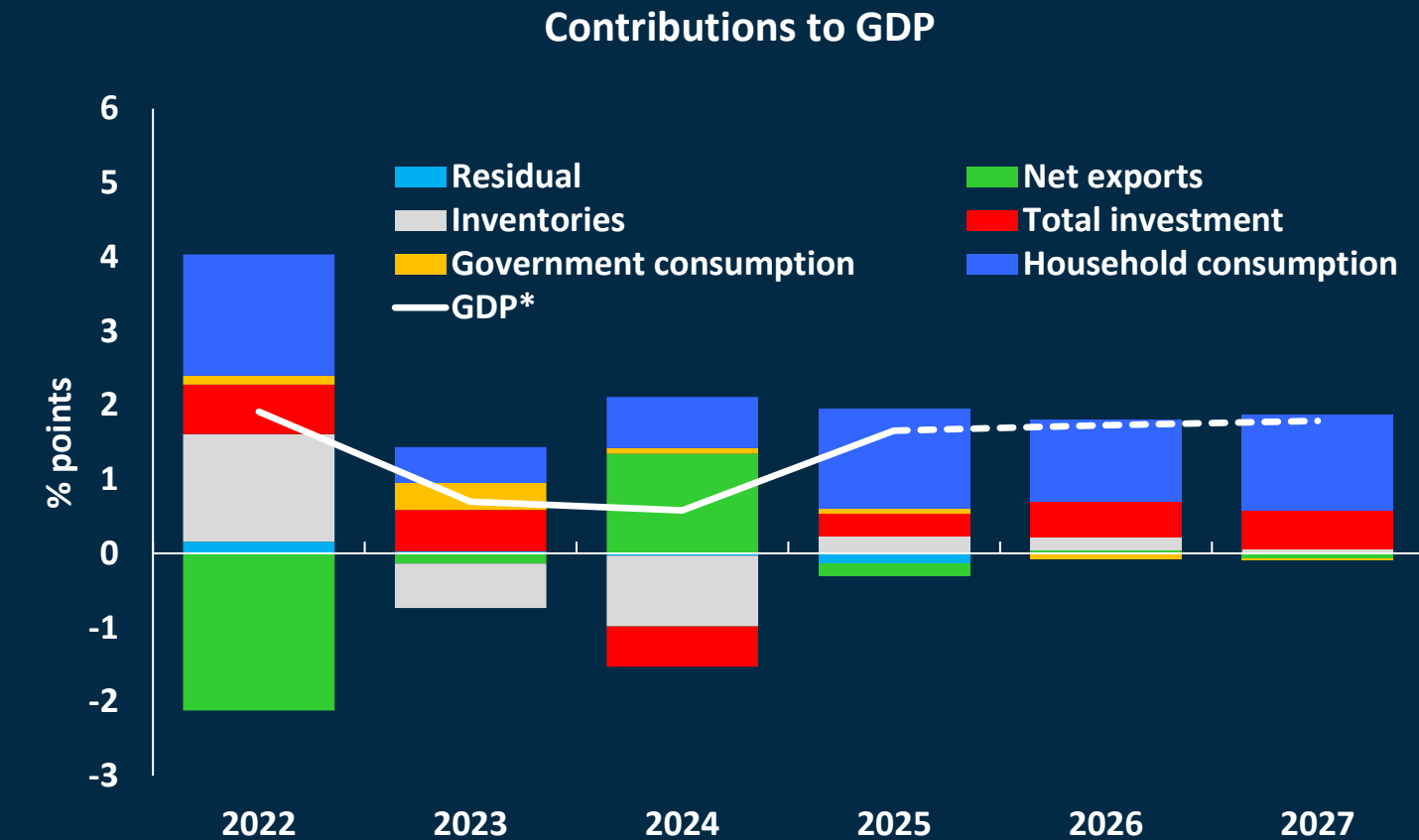


Source: SARB



Sources: Stats SA and SARB

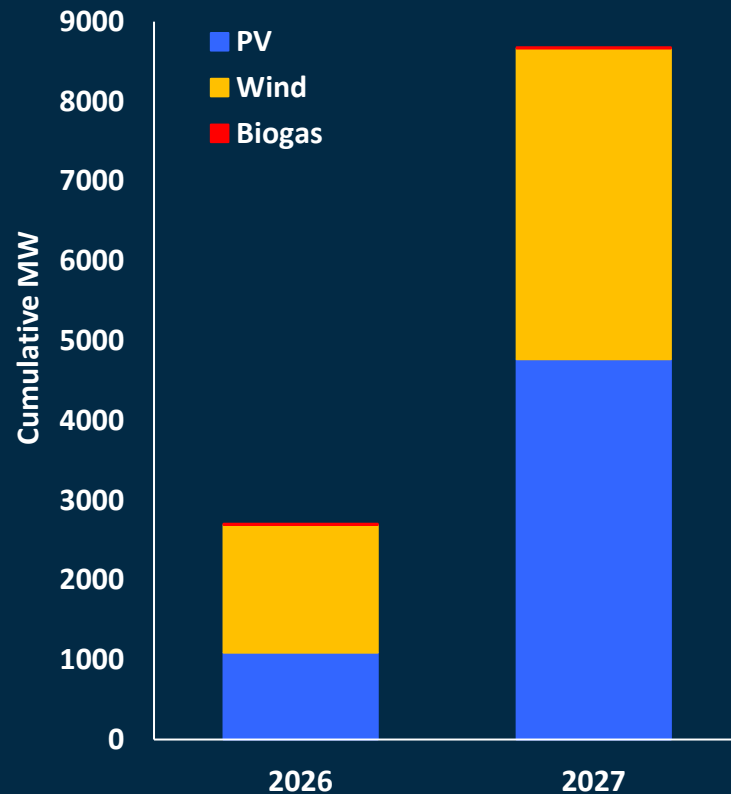
## Medium-term growth lifts to around 2.0%, while public spending & net X neutral



\* Percentage change  
Sources: Stats SA and SARB

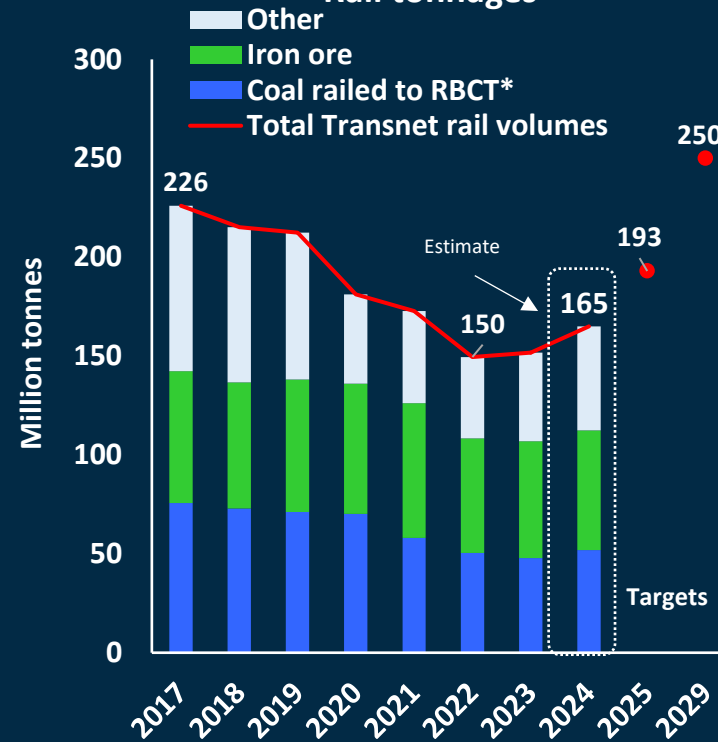
# Looking ahead, improved energy supply & policy reform to provide impetus...

Private sector generation initiatives



Source: Eskom

Rail tonnages



\* Richards Bay Coal Terminal

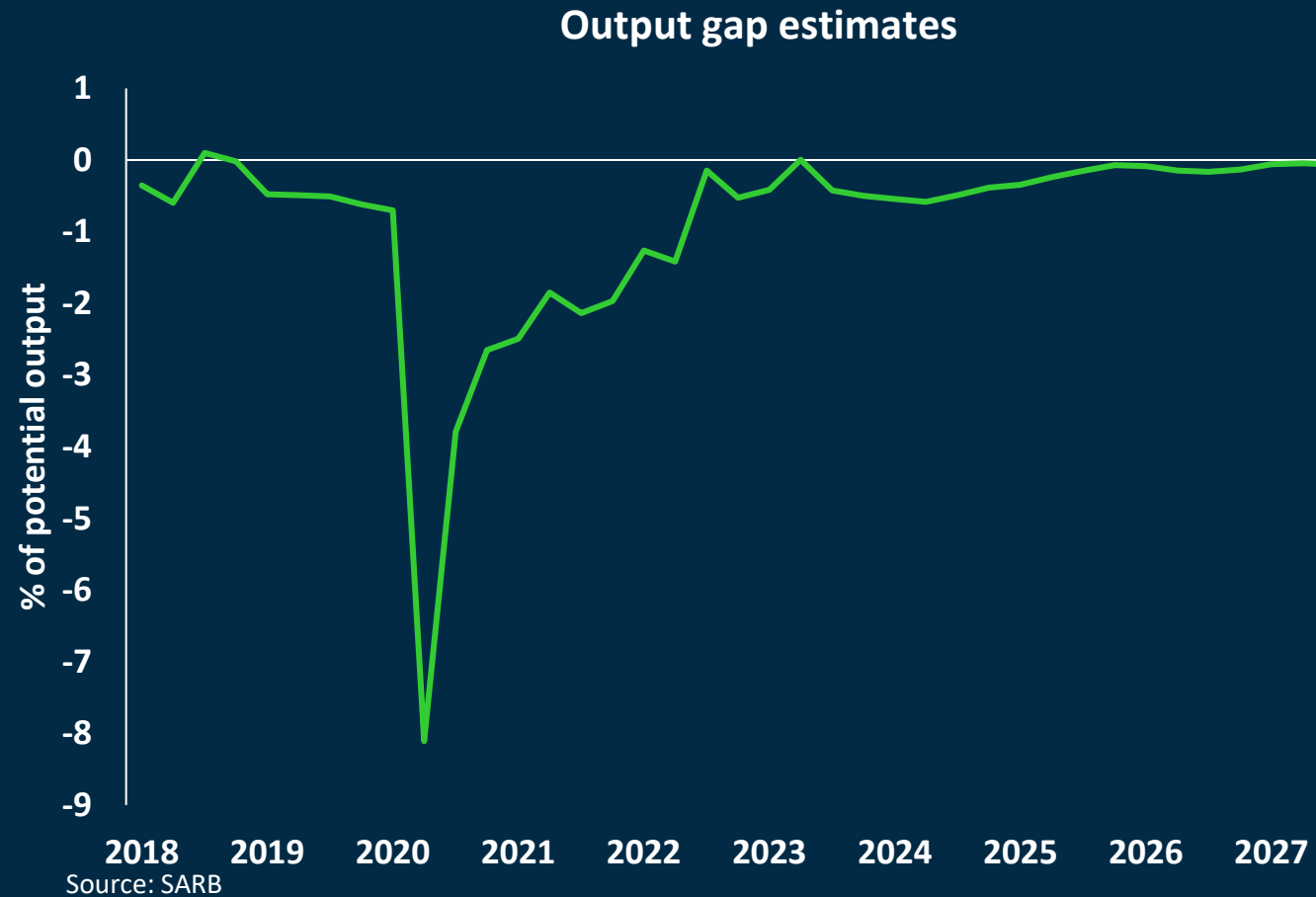
Sources: Minerals Council South Africa, Richards Bay Coal Terminal and SARS

Real investment\*



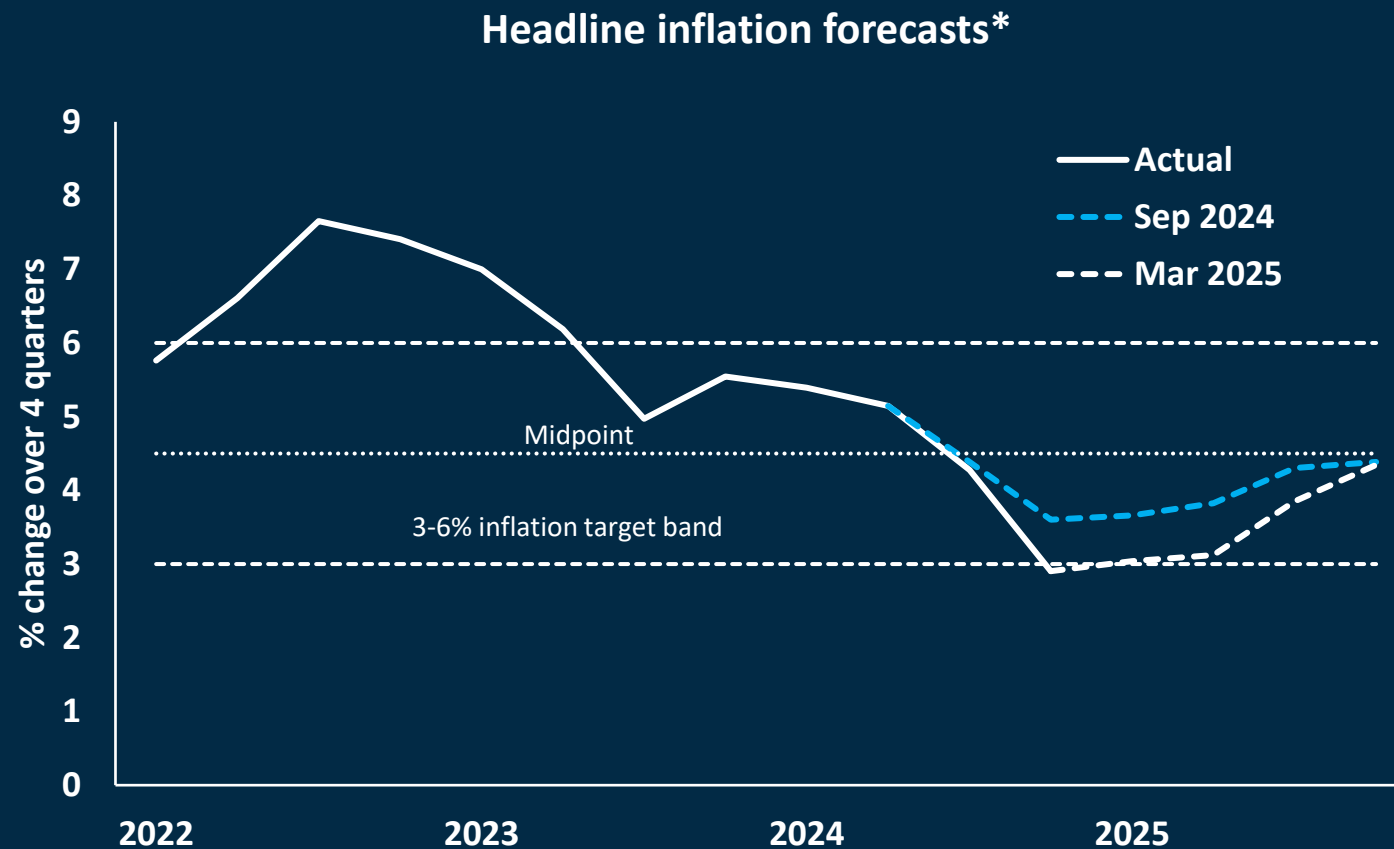
\* Horizontal dotted line indicate 2010-2019 averages. Small dotted line indicates forecast  
Sources: Stats SA and SARB

# Demand and supply broadly balanced



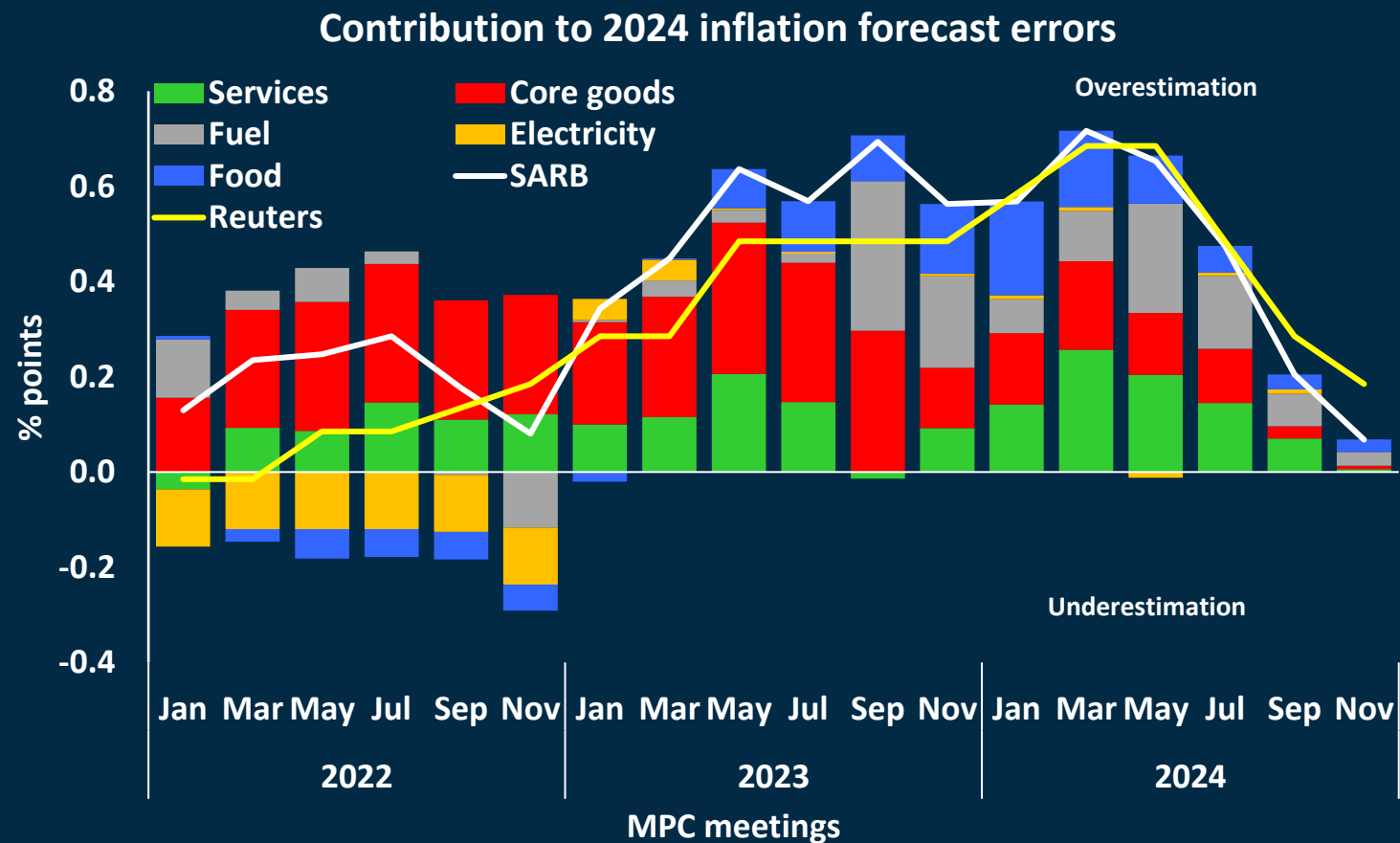


## Inflation surprised to the downside in past six months



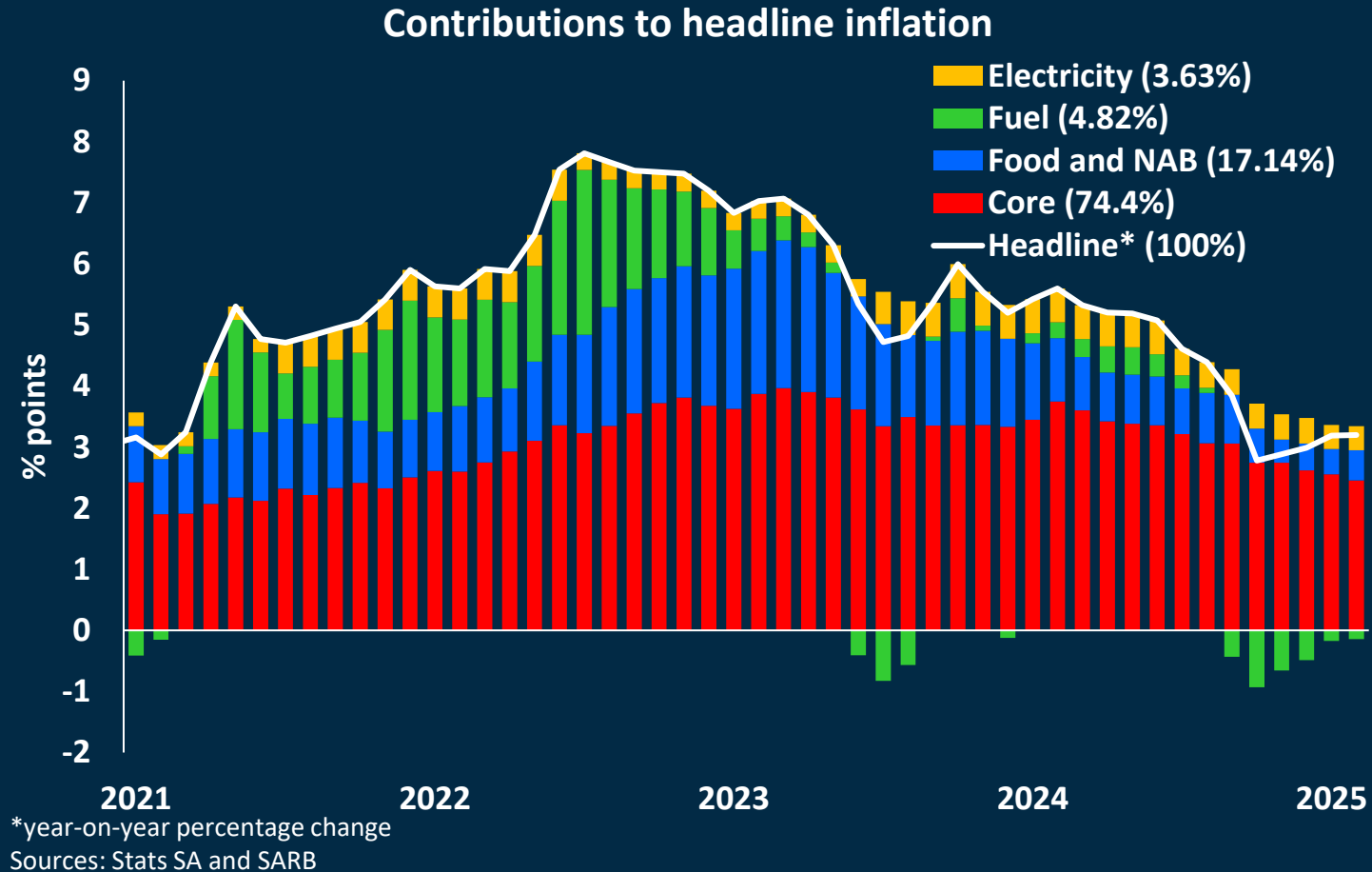
\* Dotted lines indicate forecasts  
Sources: Stats SA and SARB

## CPI forecast error from components, turning points, and policy...

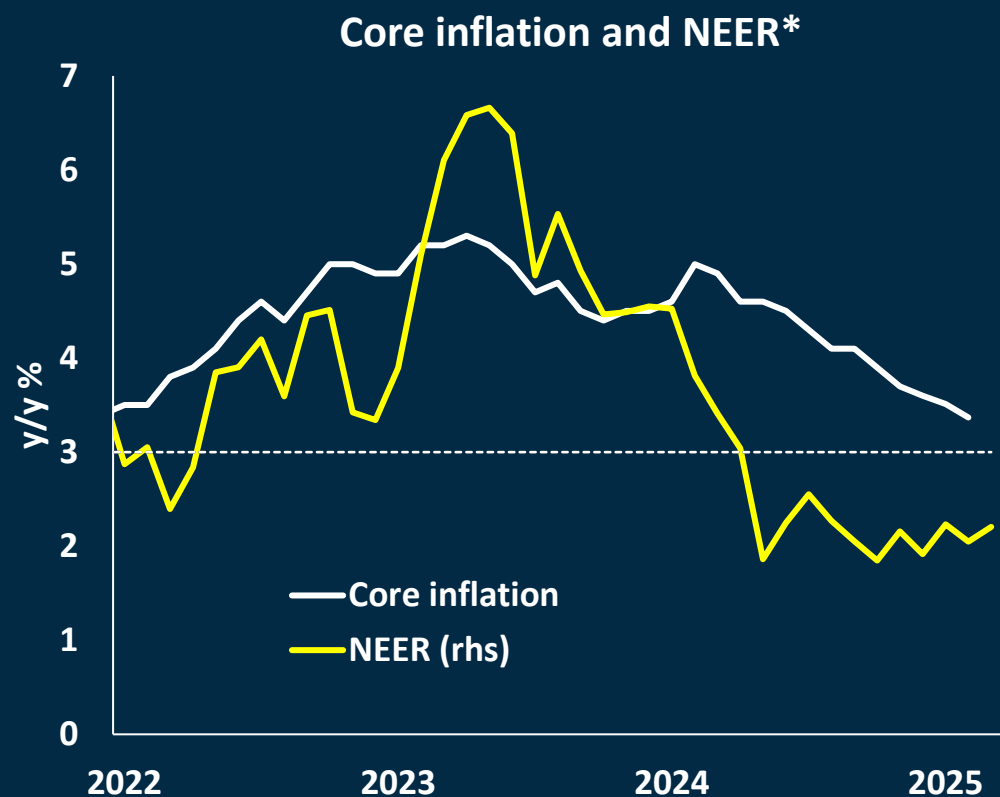


Source: SARB

## ...on favourable price developments in food & fuel

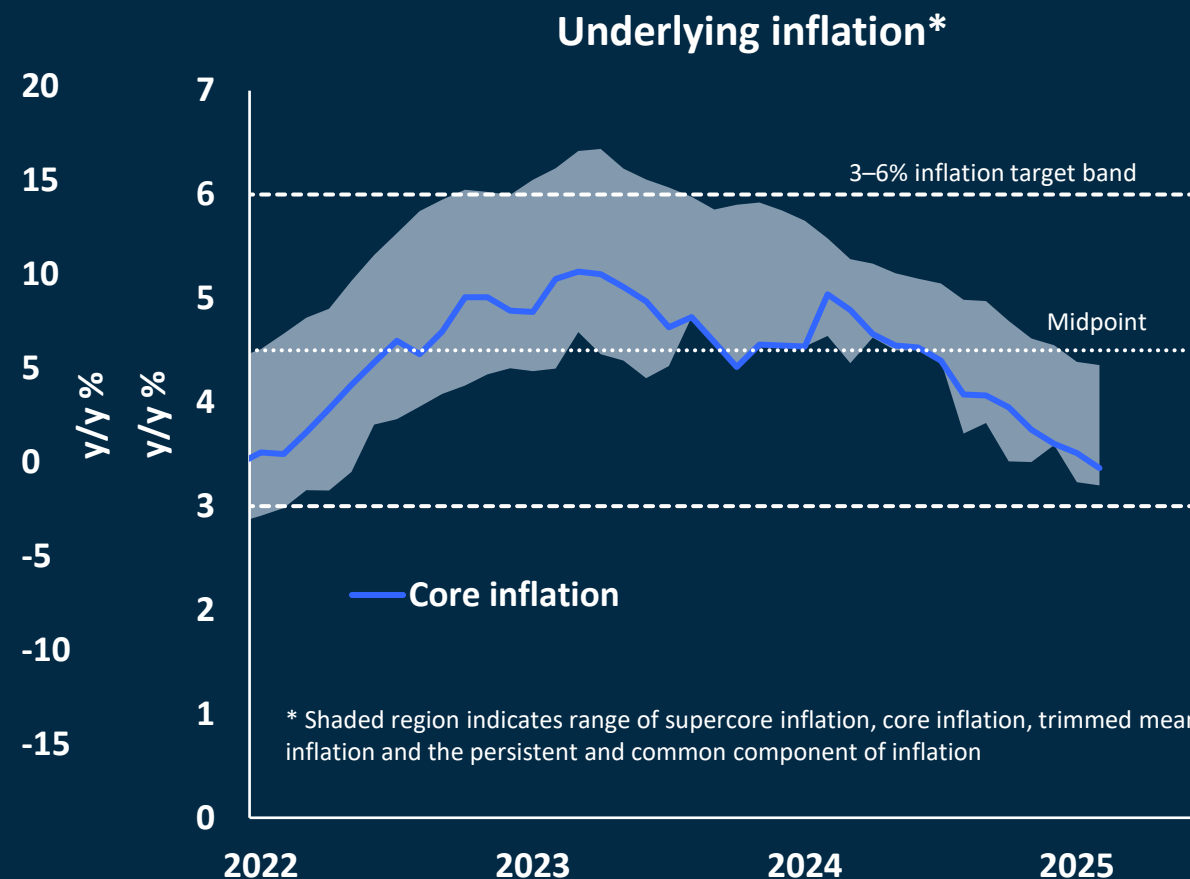


## And policy impacting on currency level & pass-through into core



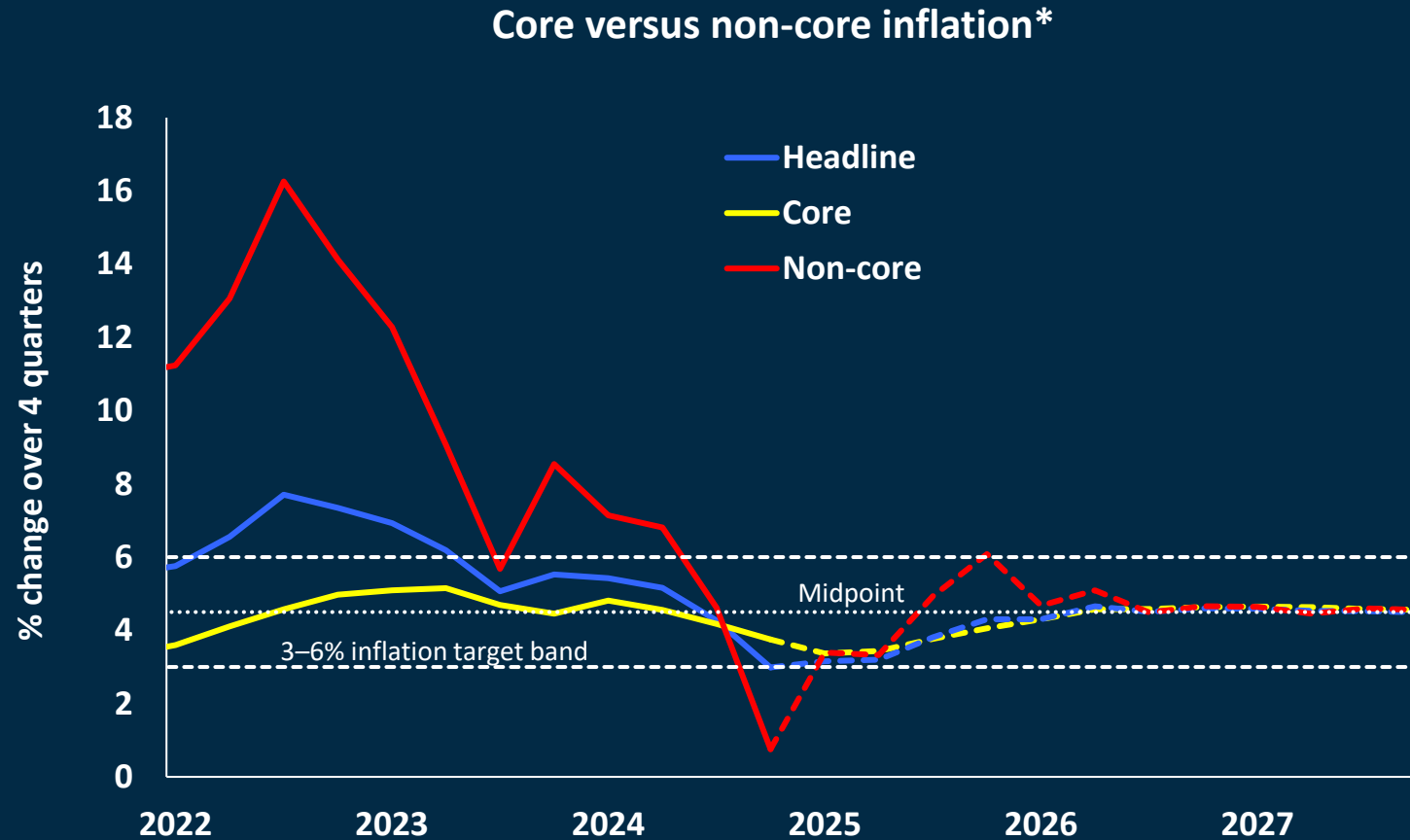
\* > 0 = depreciation

Sources: Stats SA and SARB



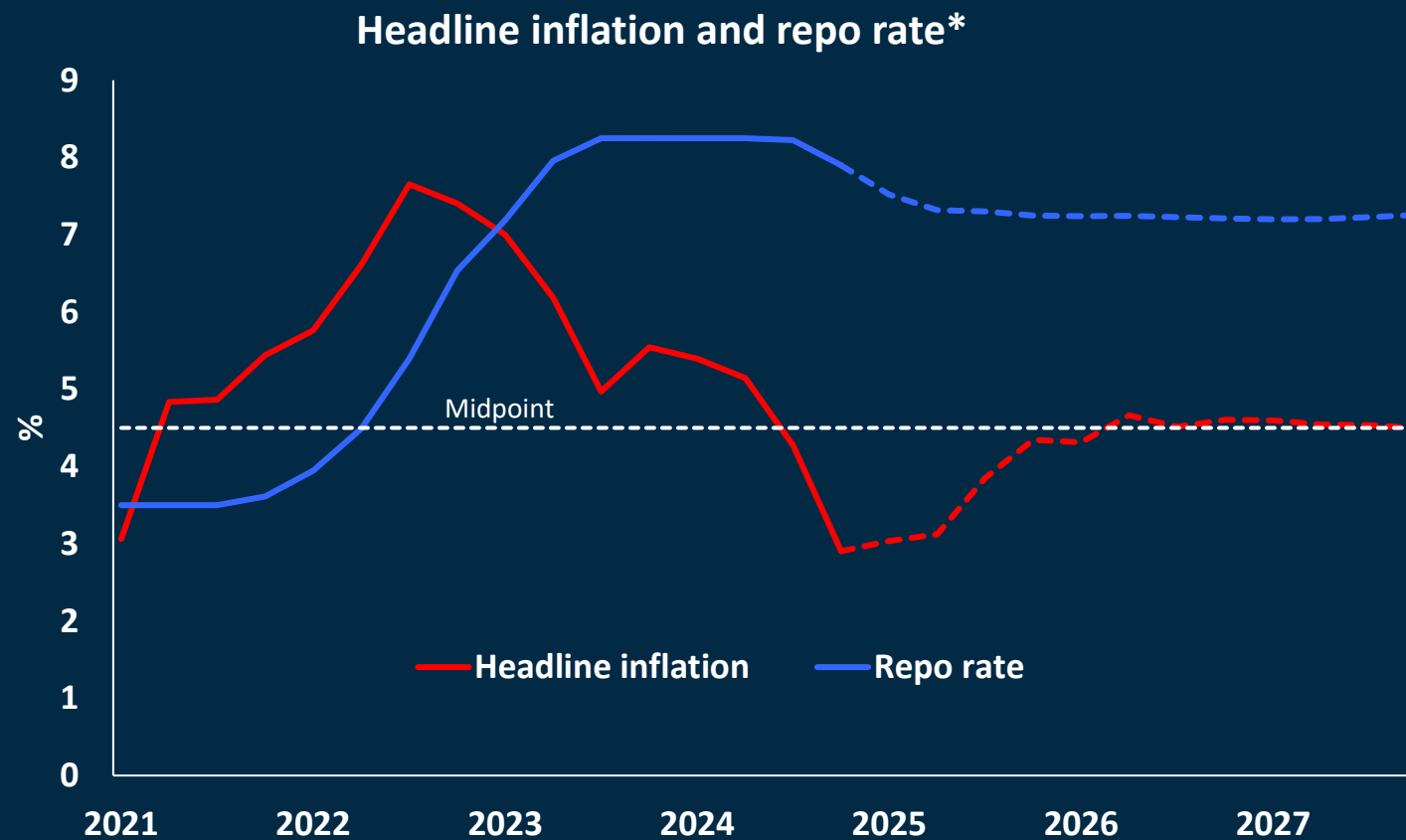
Sources: Stats SA and SARB

# Inflation seen bottoming out this year before reverting to target midpoint from 2026



\* Dotted lines indicate forecast  
Sources: Stats SA and SARB

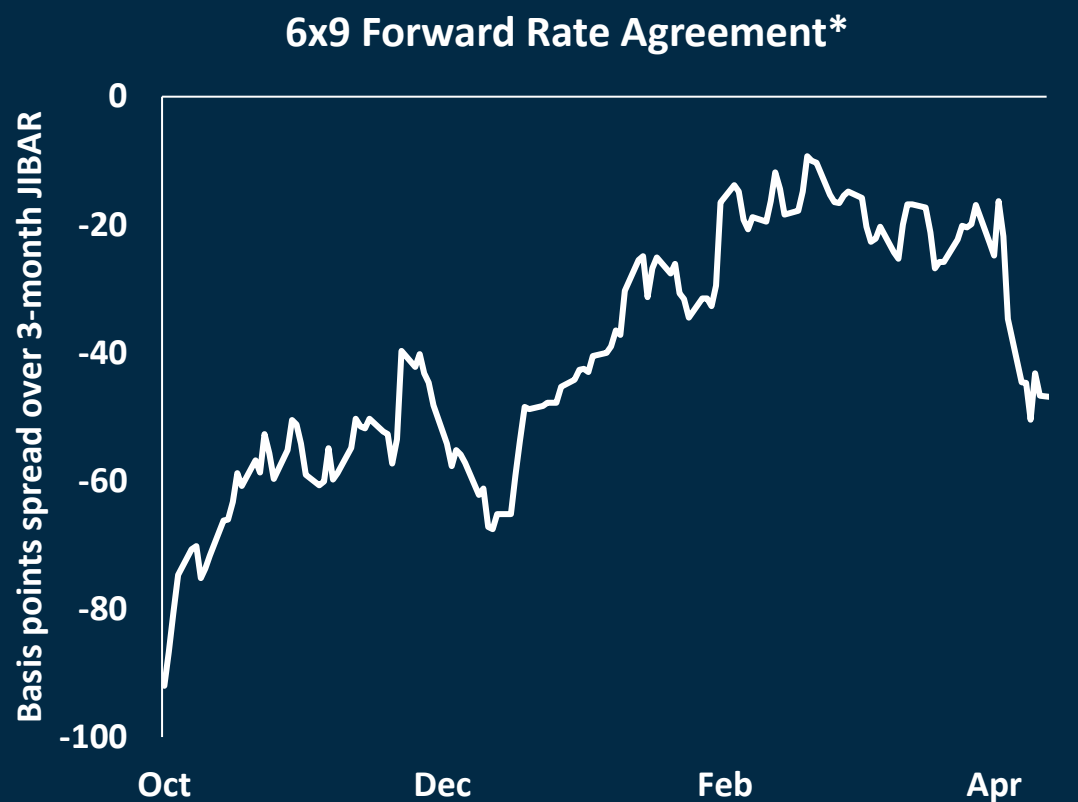
## Forecast enables policy settling around neutral



\* Dotted lines indicate forecasts  
Sources: Stats SA and SARB

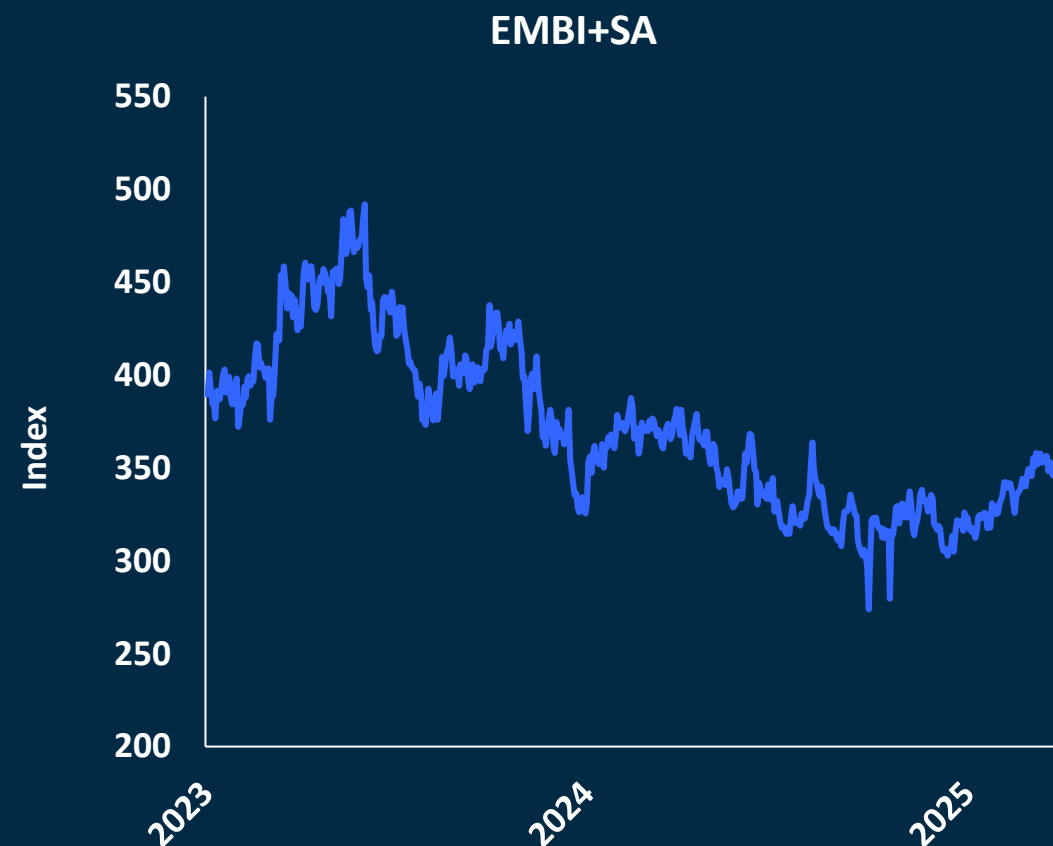


## Market volatility spilling over into risk in the near term



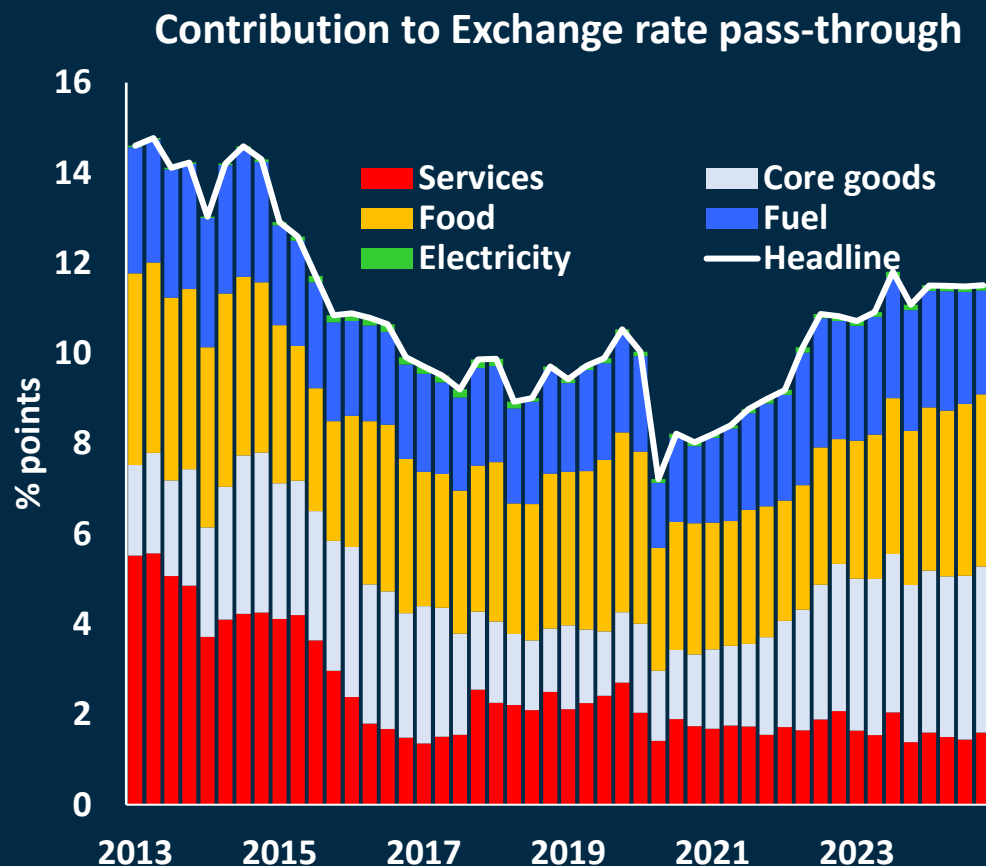
\* Indicates the market expectation of the change in policy rate starting 6-months from that point in time.

Sources: Bloomberg and SARB



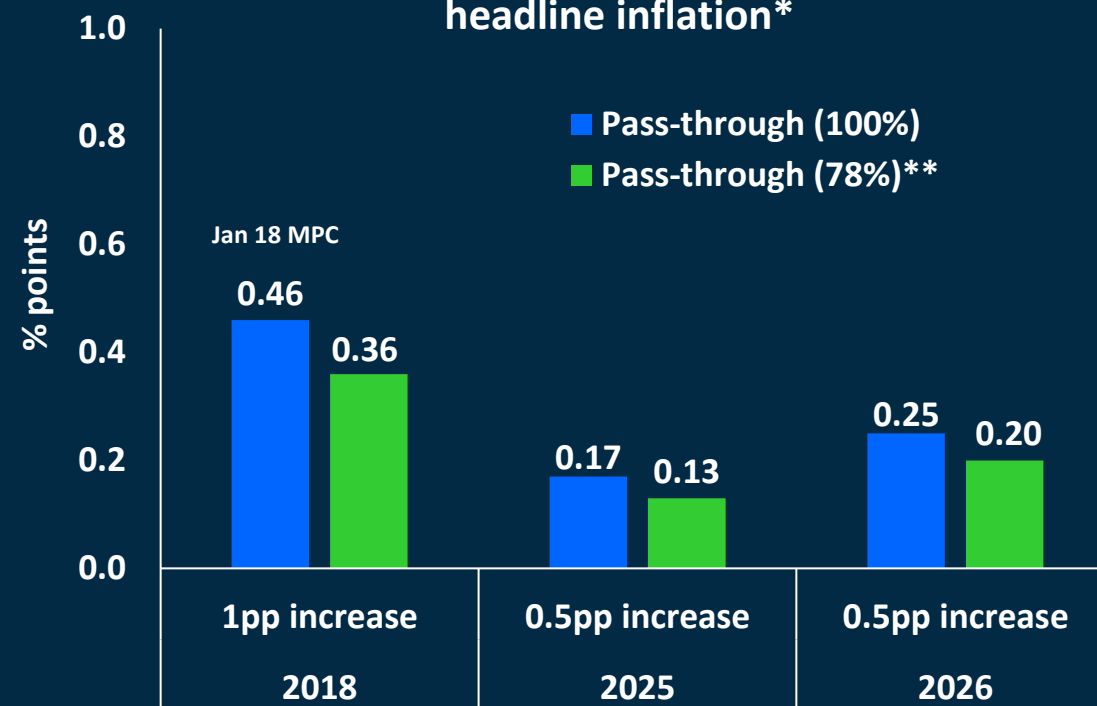
Source: SARB

# Tailwinds to inflation from rising production costs & exchange rate pass-through



Source: SARB

## Estimated direct impact of increase in VAT on headline inflation\*



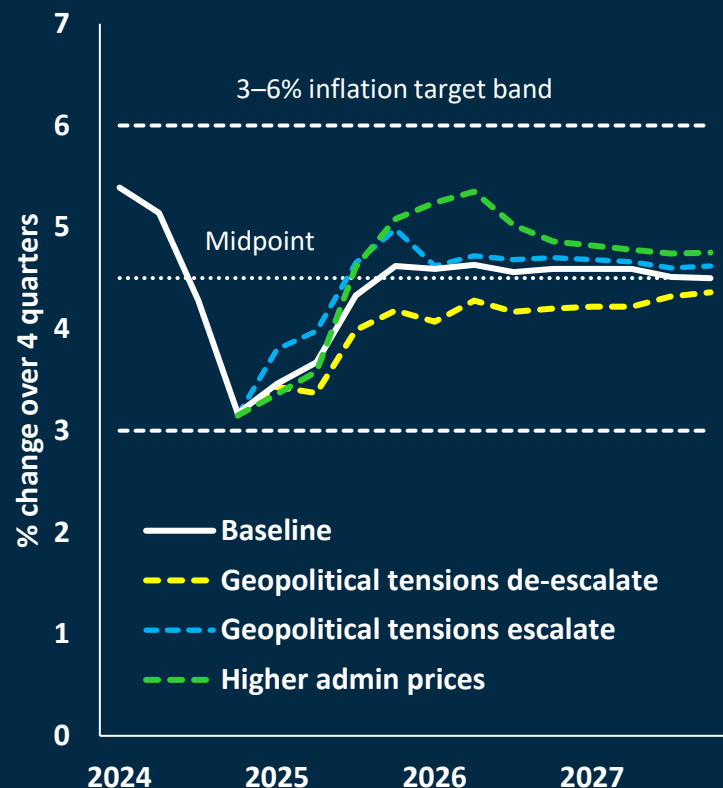
\* Weight of VAT sensitive items in CPI basket is 56.50% for 2018 and 58.42 % for 2025 and 2026.

\*\* Research by Janse Van Rensburg, Visser and Fowkes (EN 1834) found VAT pass-through to be 78%.

Source: SARB

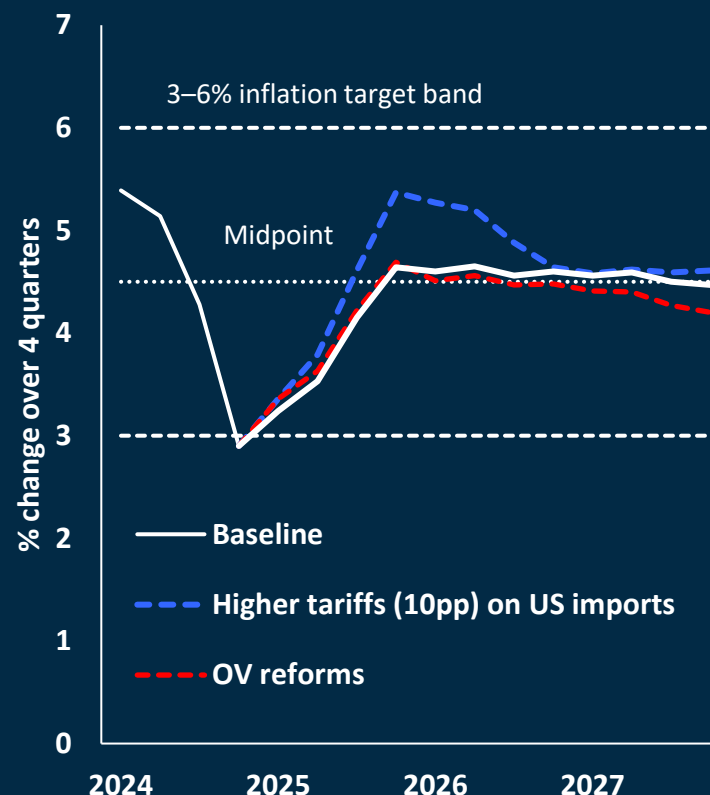
# Scenarios suggested potential tilt in risk in November and January

Nov24 MPC: Headline inflation with scenarios



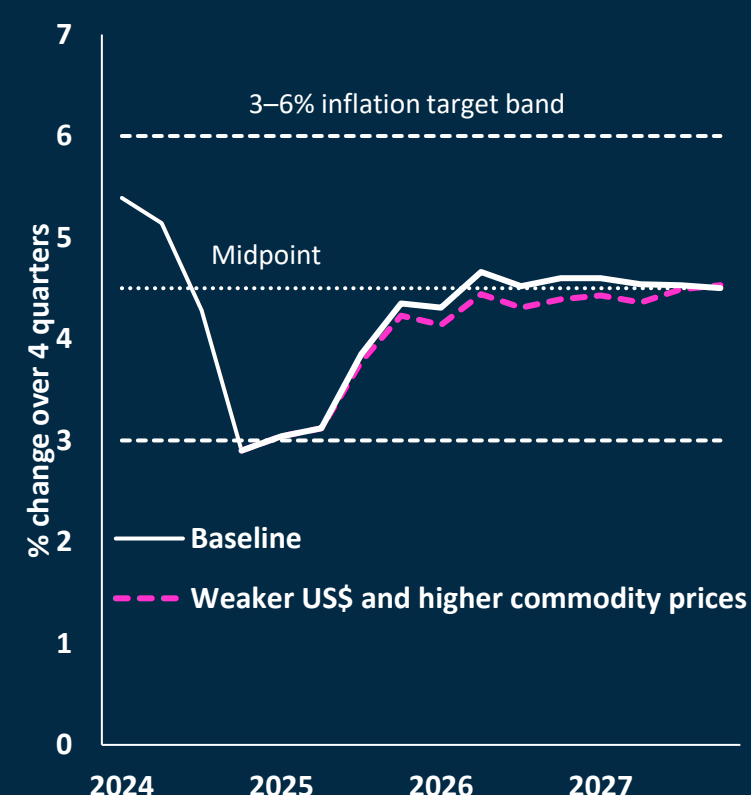
Sources: Stats SA and SARB

Jan25 MPC: Headline inflation with scenarios



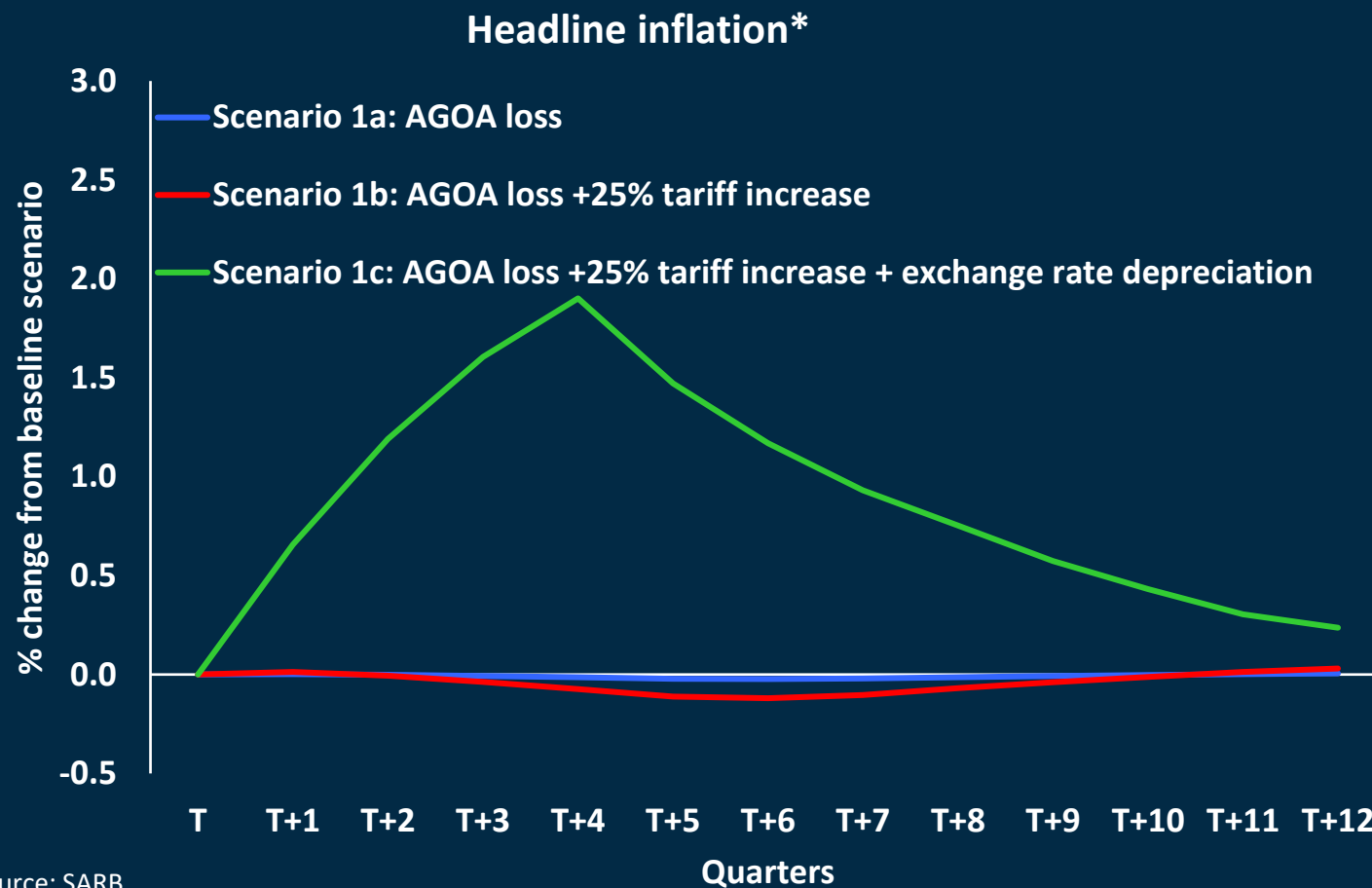
Sources: Stats SA and SARB

Mar25 MPC: Headline inflation with scenarios



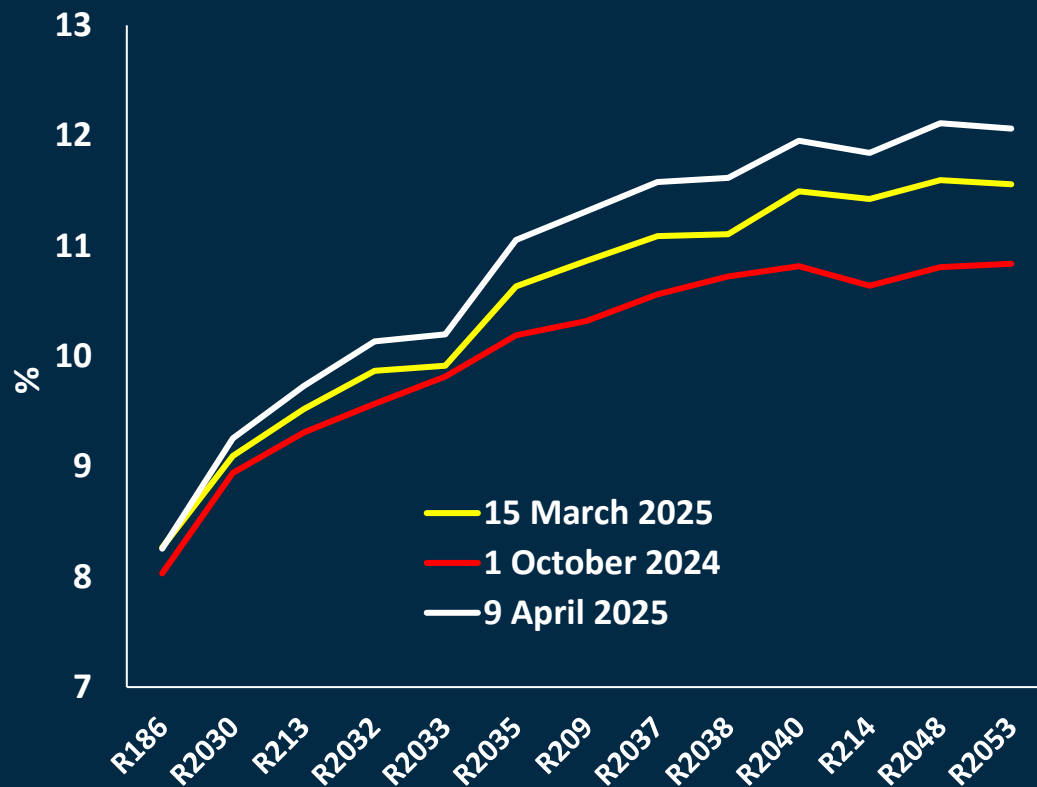
Sources: Stats SA and SARB

## And into lower medium-term forecast confidence in March



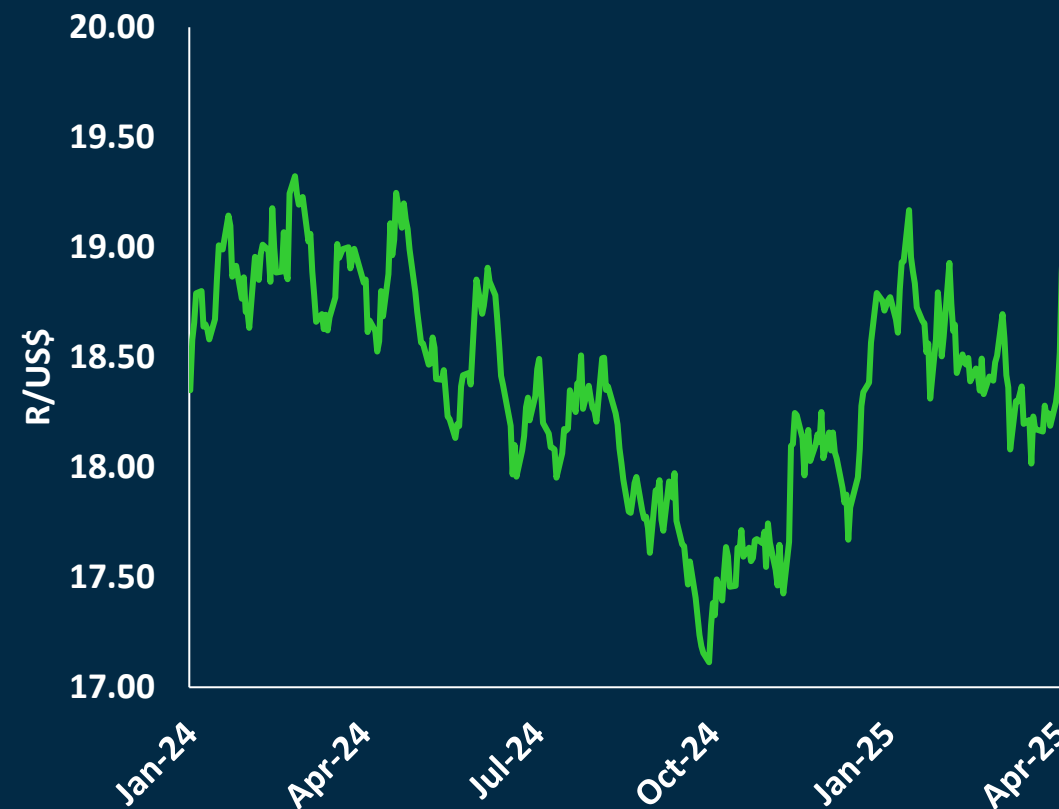
# Highlighting the costs of rising uncertainty & yields, feedback into exchange rate

## South African government bond yield curve



Source: Bloomberg

## Nominal USD exchange rate



Source: SARB

## Conclusion

- Disinflation slowing; tariff-induced surge?
- Stagflation risk rising... how credible is your central bank?
- Do EMs have the policy space for sustained responses?
- Inflation forecast better: can we make it stick?





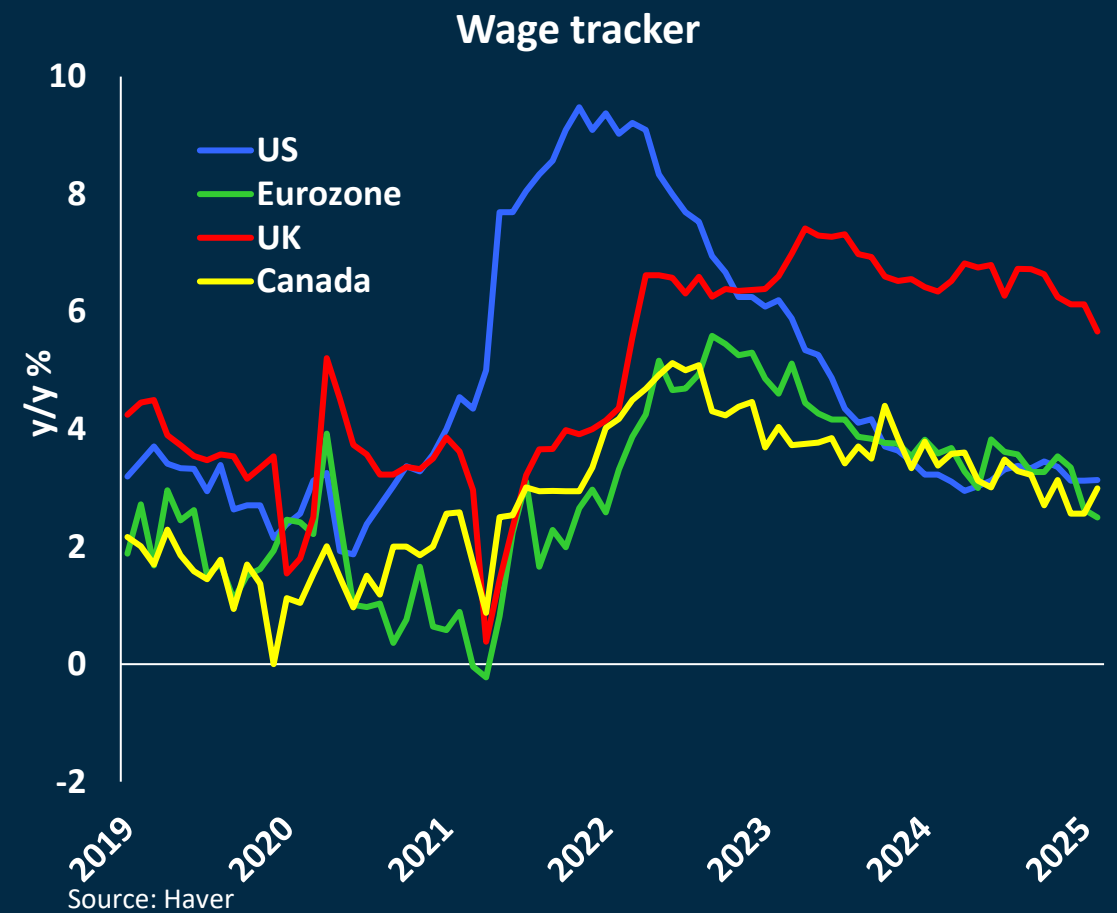
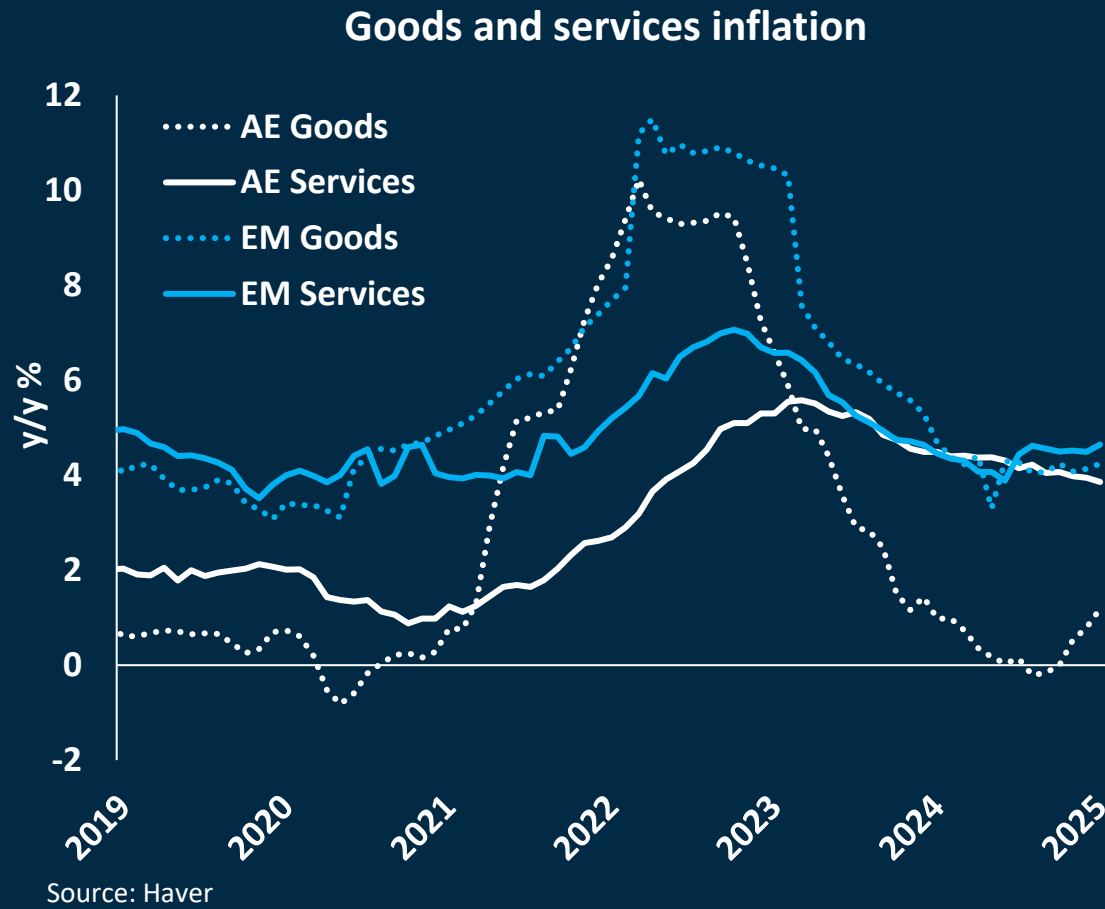
**Thank you for your  
attendance**



**SOUTH AFRICAN RESERVE BANK**

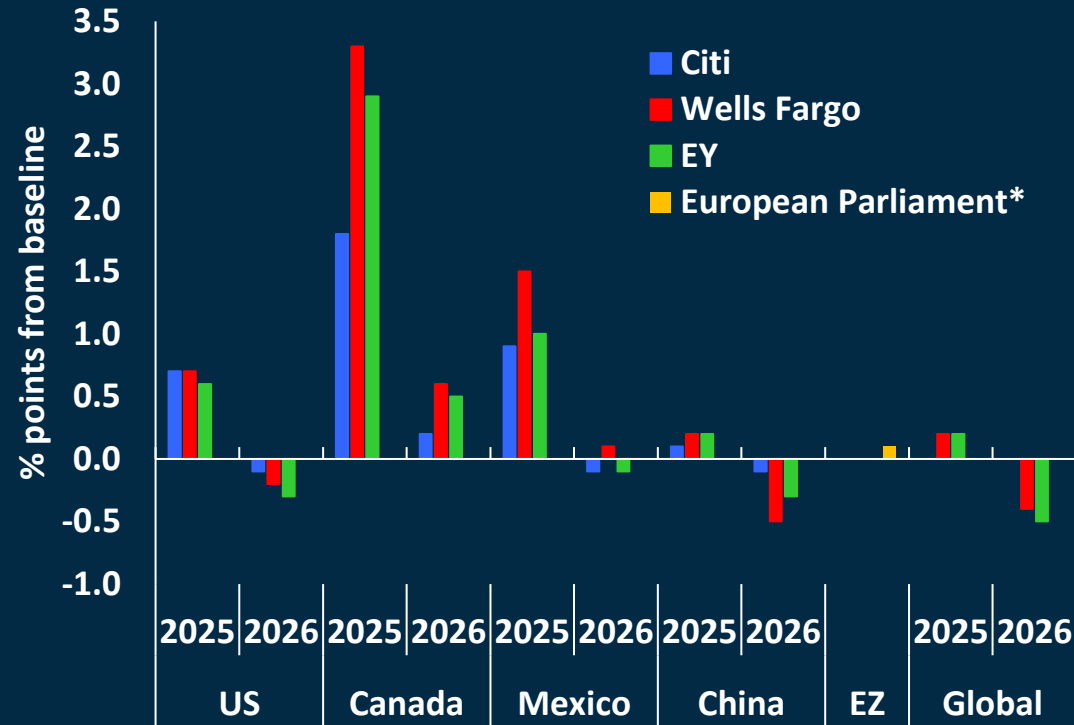


# Unpacking core: wages, services inflation sticky and goods inflation off lows



## ...with material implications for growth prospects

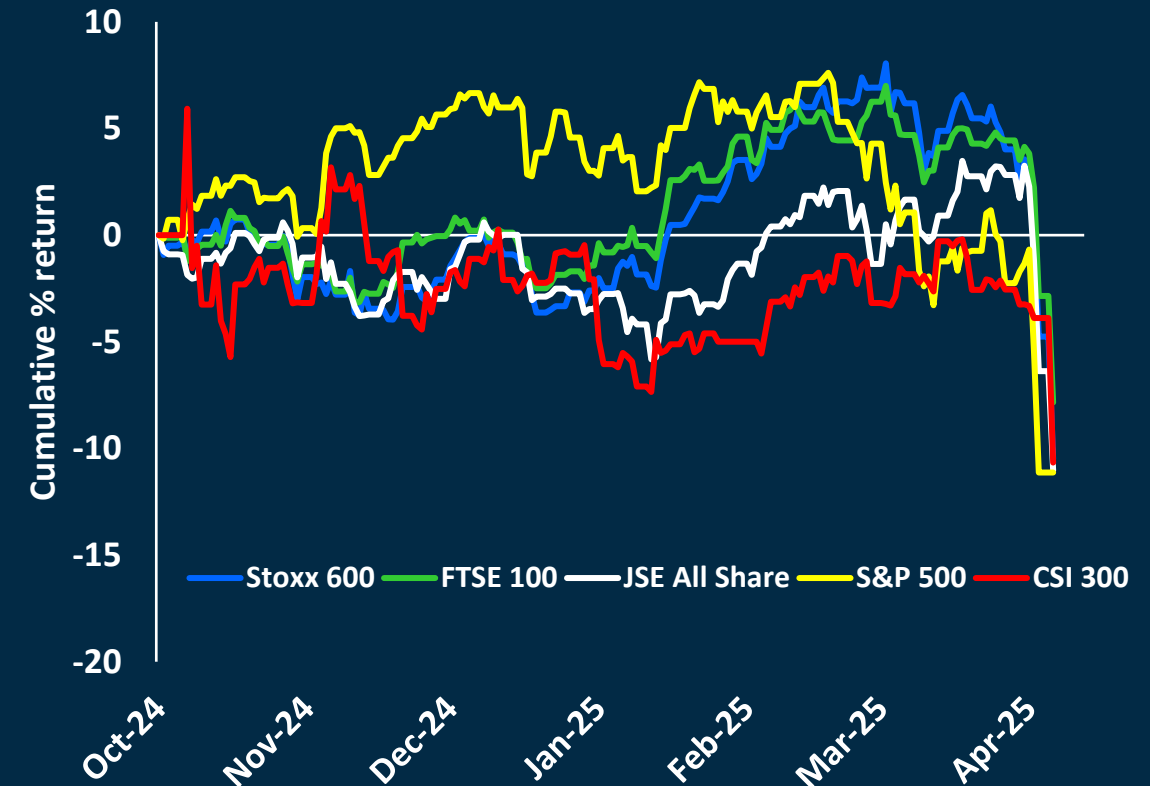
### Estimated impact of tariffs on inflation



\* Eurozone estimate less than 0.1 pp overall

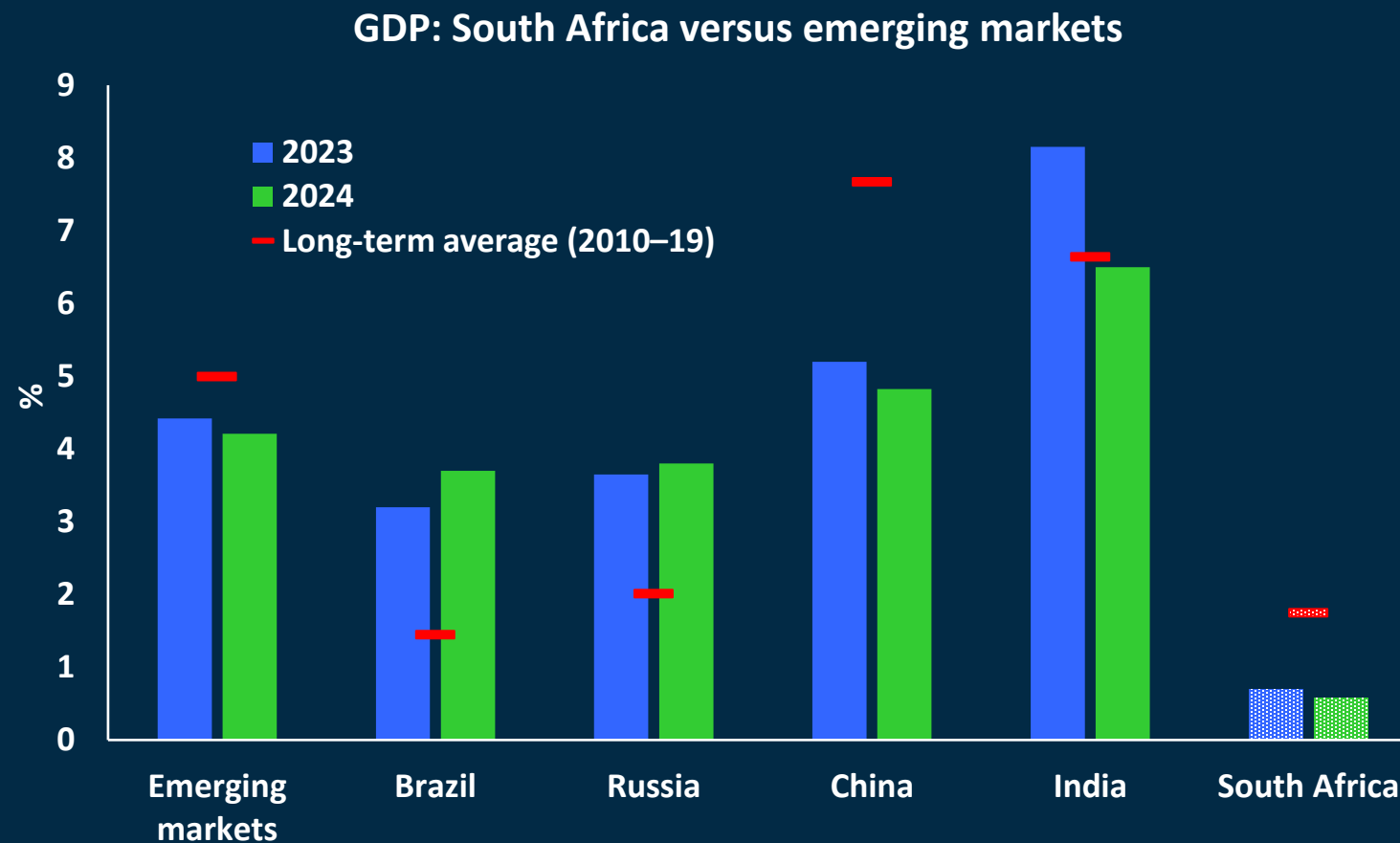
Sources: City, European Parliament, EY and Wells Fargo

### Equity market performance



Source: Bloomberg

## Still more economic expansion in EMs, but SA out of step...



Sources: IMF and Stats SA

## SA financing needs modest, reducing pressure on yields and currency...

