MONETARY POLICY REVIEW

APRIL 2025

SOUTH AFRICAN RESERVE BANK

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Preface

The primary mandate of the South African Reserve Bank (SARB) is to achieve and maintain price stability in the interest of balanced and sustainable economic growth. In addition, the SARB has a complementary mandate to oversee and maintain financial stability.

Price stability helps to protect the purchasing power and living standards of all South Africans. It provides a favourable environment for investment and job creation and supports international competitiveness. The goal of price stability is quantified through an inflation target, which is set in consultation with government. The target is a band of 3–6%, which has been in place since 2000.

The SARB has full operational independence. Monetary policy decisions are made by the SARB's Monetary Policy Committee (MPC), which is chaired by the Governor and includes the deputy governors and other senior officials of the SARB.

The inflation-targeting framework is flexible, meaning that policymakers will seek to look through temporary shocks, thereby avoiding excessive volatility in interest rates and economic output. The MPC takes a forward-looking approach to account for the time lags between policy adjustments and economic effects. MPC decisions are communicated at a press conference at the end of each meeting, accompanied by a comprehensive statement.

The *Monetary Policy Review (MPR)* is published twice a year and is aimed at broadening the public's understanding of the objectives and conduct of monetary policy. The *MPR* covers domestic and international developments that affect the monetary policy stance.

The *MPR* is presented by senior officials of the SARB at Monetary Policy Forum meetings held at major centres across South Africa in an effort to develop a better understanding of monetary policy through direct interactions with stakeholders.

Questions about the publication may be directed to Marlene Hugo at Marlene.Hugo@resbank.co.za.

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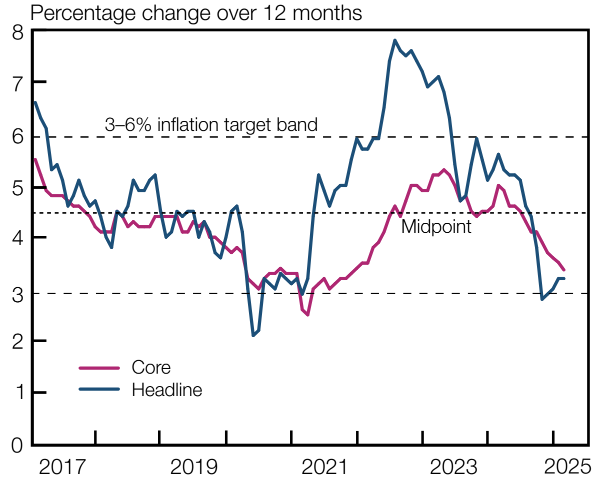
Watch your step

Executive summary and overview of the policy stance

Headline inflation cooled markedly in the second half of 2024, pulling the average for the year down to 4.4% from 6.0% the year before. Lower fuel, food and core price inflation improved the outlook and helped inflation expectations ease significantly. The Monetary Policy Committee (MPC) cut rates by 50 basis points to 7.5% in the six months from October 2024 to March 2025 (the review period). Headline inflation is projected to average 3.6% this year and to revert to around the 4.5% target midpoint from 2026. However, inflation risks remain, and high global economic uncertainty has reduced confidence in the medium-term inflation outlook. Global macroeconomic risks have heightened amid tariff increases and geopolitical tensions, while inflation has still not fallen to pre-pandemic levels. Services inflation in major advanced economies remains above target rates and policy rates are likely to remain higher for longer. Regarding domestic output, despite the downside risks, ongoing reforms in the energy and logistics sectors, along with improvements in household real disposable income, are forecast to lift growth to 1.7% this year, rising to 2.0% by 2027.

Headline and core inflation

Percentage change over 12 months



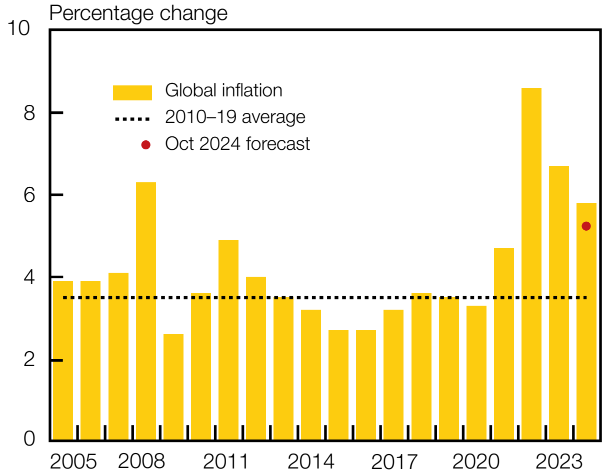
Sources: Stats SA and SARB

Global economic developments

Global headline inflation continued to ease from its 2022 peak of 8.6%, decreasing to 6.7% in 2023 and 5.8% in 2024. For 2025, global headline inflation is forecast to be 4.2%, with a further decline to 3.5% in 2026.[1] The trajectory of global inflation has been shaped primarily by moderating food and fuel prices, while global supply chains and shipping costs continued to stabilise. Restrictive monetary policy also cooled price pressures, especially in core goods, by bringing demand and supply into better balance. However, the global headline inflation outturn for 2024 was 0.4 percentage points higher than projected in the International Monetary Fund's (IMF) October 2024 *World Economic Outlook (WEO)*, and forecasts for 2025 have been volatile. The disinflation process has clearly slowed, the question is whether it has stalled entirely and is at risk of reversal.[2]

Global inflation

Percentage change



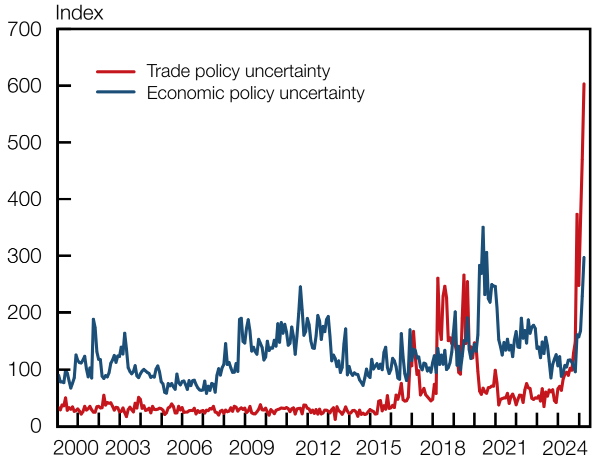
Source: IMF

Inflation remains above the targets of most major advanced economies. Robust services consumption demand and strong wage growth from tight labour markets have underpinned persistence in services price inflation. Meanwhile, declining inflation and interest rate cuts have boosted real household spending power and, together with sustained government spending, have supported demand growth. Some emerging

1 International Monetary Fund's (IMF) *World Economic Outlook (WEO) Update*, Washington DC: IMF, January 2025.

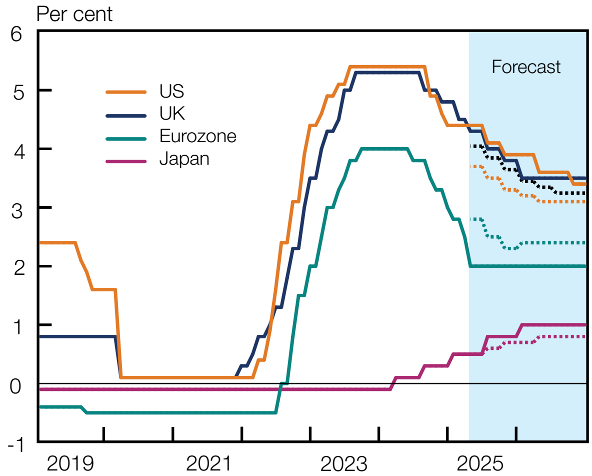
2 IMF, *WEO*, Washington DC: IMF, October 2024.

Economic and trade policy uncertainty



Source: S R Baker, N Bloom and S J Davis, 'Measuring economic policy uncertainty', *The Quarterly Journal of Economics* 131(4), 2016, pp 1593–1636

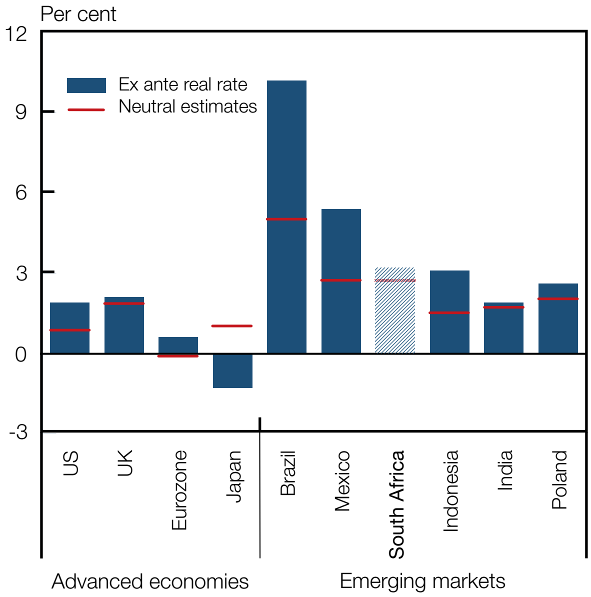
Policy rates in advanced economies*



* Dotted lines indicate forecasts as at Oct 2024

Sources: Bloomberg and central banks

Ex ante real interest rate and neutral estimates



Sources: Bloomberg, IMF, various central banks and SARB

market economies, including Brazil, have also grappled with strong demand-driven inflation pressures, despite tighter monetary policy settings.

Moving beyond demand and supply challenges to inflation, global disinflation faces new obstacles. Escalating trade tensions and geoeconomic fragmentation, reflected primarily in rising tariffs, have raised global economic policy uncertainty to levels last seen during the COVID-19 pandemic. The risk of disruptions to global supply chains and broader trade policy uncertainty have increased sharply, offsetting the cooling effects of weaker job growth on inflation. For the first time in several years, the risk that disinflation at a global level will stall, if not reverse, has increased sharply. As a consequence, market views of risk and short-term rate expectations have shifted higher. Recession risk has, however, also increased, as higher tariffs on global trade also carry the potential for much weaker economic growth.

With inflation stubborn and new risks emerging, central banks have moved cautiously. The United States (US) Federal Reserve (Fed) and the Bank of England (BoE) have cut rates by 100 basis points and 75 basis points respectively so far, much less than anticipated at the time of the previous *Monetary Policy Review (MPR)*. The European Central Bank (ECB) has lowered rates more, given slow growth and better inflation outcomes.[3] Japan has been an exception among the major economies, raising rates by a cumulative 60 basis points since March 2024 as inflation finally returned after decades of deflation.

Across emerging markets, restrictive monetary policy, less labour market pressure, and subdued food and fuel price increases have also resulted in better inflation outcomes. These factors have enabled emerging market central banks to ease rates but they have, on average, cut rates less than advanced economies, reflecting greater volatility in inflation. Some economies, in particular Brazil and Russia, have hiked rates amid signs of de-anchoring inflation expectations. Meanwhile, rates in South Africa have been reduced by 75 basis points over the past year as inflation and inflation expectations have moderated, with a relatively benign medium-term outlook.

The slower pace of disinflation around the world reflects both near-term factors, such as macroeconomic policy settings, and longer-term drivers, such as demographics and productivity growth.[4] Together they help shape how central

3 The ECB has lowered rates by a cumulative 150 basis points since June 2024. Market-implied rate expectations in October 2024 suggested the Fed would cut rates by a cumulative 275 basis points by December 2025 and the ECB by a cumulative 200 basis points by September 2025.

4 See I Schnabel, 'No longer convenient? Safe asset abundance and r*', Speech by Isabel Schnabel, Member of the Executive Board of the ECB, at the Bank of England's 2025 BEAR Conference, London, 25 February 2025. See also G Benigno, B Hofmann, G N Barrau and D Sandri, 'Quo vadis, r*? The natural rate of interest after the pandemic', *BIS Quarterly Review*, Basel: Bank for International Settlements (BIS), March 2024. Others, however, argue that r-star has not risen as its main drivers are 'slow-moving' variables (see M Obstfeld, 'Natural and neutral real interest rates: past and future', *National Bureau of Economic Research Working Paper No. 31949*, Cambridge: National Bureau of Economic Research (NBER), December 2023).

banks think about the neutral level of interest rates and assess policy settings in relation to them. Given extraordinarily high uncertainty and new risks to inflation, central banks will likely remain data-dependent and expand the use of scenarios to understand alternative economic paths and to assess risks.

Despite the shifting balance of inflation risks, modest policy adjustments by major central banks are still expected this year. Nevertheless, rates are likely to remain above their pre-pandemic levels for longer, as central banks look to settle and anchor inflation at targets.

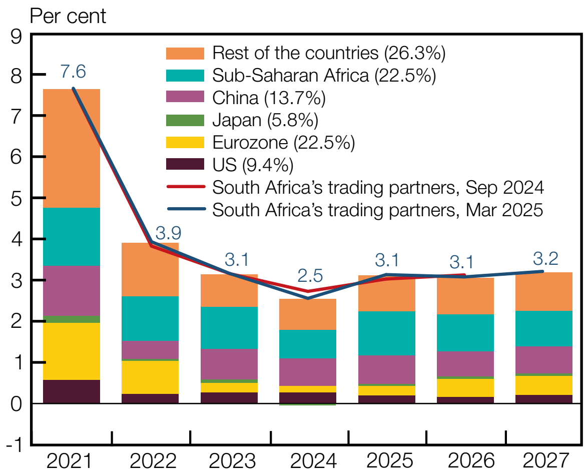
The decline in global inflation over the past year was accompanied by a modest softening in global growth to 3.2% in 2024 from 3.3% the year before, sustaining a trajectory from the post-pandemic recovery.[5] However, the fall in South Africa's trading-partner growth was much larger, with economic activity expanding by only 2.5% in 2024, down from 3.1% in the previous year. This sharp decline reflects slower growth in South Africa's key trading partners, namely sub-Saharan Africa (SSA), the eurozone and China.[6] The US was an exception, with the economy expanding by a solid 2.8% in 2024. Nevertheless, recent US high-frequency data suggests growth could be less robust this year.[7] Looking ahead, the South African Reserve Bank (SARB) projects trading-partner growth to rebound to 3.1% this year, rising marginally to 3.2% by 2027.

Risks to global economic activity were tilted to the downside for much of the past six months, and are now aggravated by recent developments. Trade tensions are expected to deepen geoeconomic fragmentation, disrupt supply chains and restrict market access – dampening private investment, consumption, and growth. The impact of tariff hikes on global growth and inflation is potentially large, with estimates ranging widely depending on how they are implemented.[8]

Domestic economic developments and outlook

With the large influence of food and fuel price changes in global and domestic inflation, South Africa's headline inflation has broadly tracked global outcomes. However, domestic inflation came out somewhat below forecast in the second half of 2024. After averaging 5.3% in the first six months of

Contributions to trading-partner growth*



* Weights in brackets

Source: SARB

5 IMF, *WEO Update*, Washington DC: IMF, January 2025.

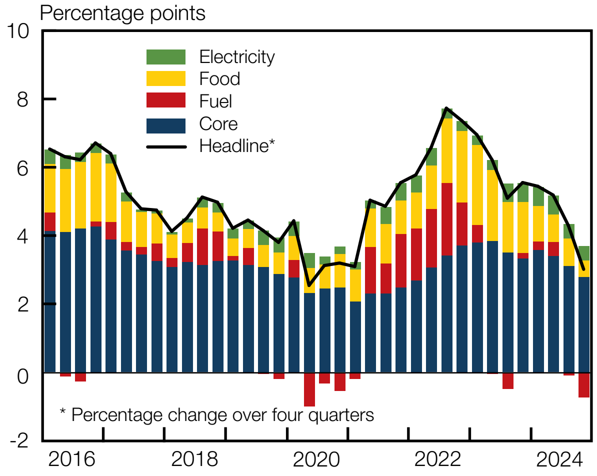
6 SSA grew by 3.8% in 2024 and the eurozone and China by 0.8% and 4.8% respectively – well below long-term averages.

7 Recent US sentiment indicators and high-frequency activity data softened unexpectedly, along with growth expectations, while the US dollar weakened. Meanwhile, stimulus measures in Germany (targeted at infrastructure and defence) and China are expected to boost growth in these economies. See, for instance, BBVA Research, 'China Economic Outlook', Madrid: BBVA Research, 13 March 2025.

8 According to the Kiel Institute, a 25% tariff increase on all eurozone imports to the US could reduce growth in the short term by 0.4 and 0.2 percentage points for the eurozone and US respectively, rising to around 0.5 and 0.3 percentage points respectively with retaliatory measures. See Kiel Institute for the World Economy, 'Trump's tariff threats on EU could trigger economic turmoil'. Media release, Berlin: Kiel Institute for the World Economy, 27 February 2025.

Contributions to headline inflation

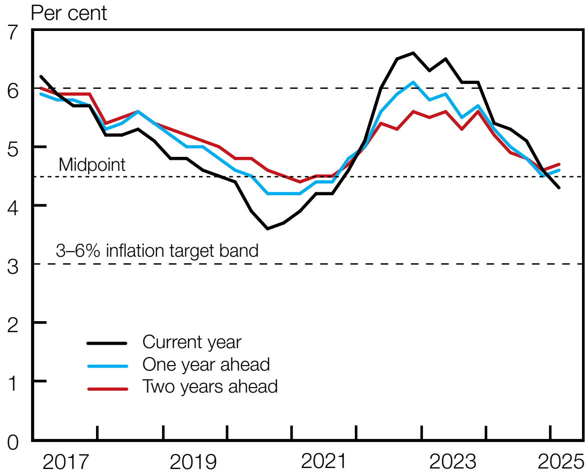
Percentage points



Sources: Stats SA and SARB

Inflation expectations: all participants

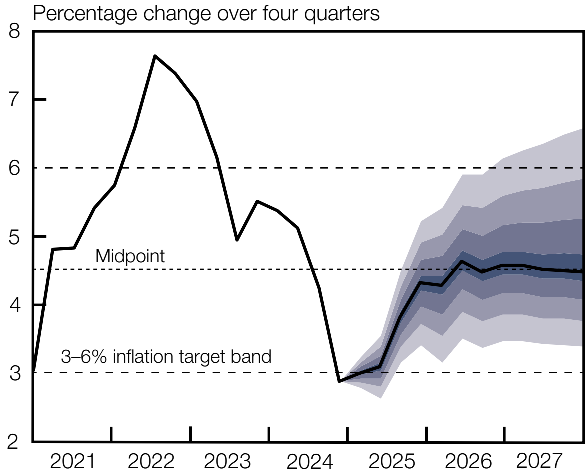
Per cent



Sources: BER and SARB

Targeted inflation forecast*

Percentage change over four quarters



* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.

Sources: Stats SA and SARB

the year, inflation decelerated quickly, slowing to below the lower limit of the target band in October and November, before edging back into the target band from December. At 3.2% in February 2025, inflation is presently subdued. Both services and goods price inflation have softened, with services easing to 3.8% in February 2025 from 4.4% in September 2024, and goods moderating to 2.5% from 3.3% over the same period. The marked deceleration in goods inflation was on account of lower food price increases and fuel price deflation, reflecting a stronger rand exchange rate, lower Brent crude oil prices as well as base effects. Monetary policy also helped slow the rate of price increases by containing demand at a time when supply was constrained and curbing second-round effects from earlier rises in food, fuel and electricity inflation. The sharply lower inflation readings in the final quarter of the year helped pull the headline inflation average down to 4.4% for the full year, from 6.0% in 2023.

Looking ahead, headline inflation is expected to rise gradually as fuel, food and other inflation components normalise. Upward price pressures will also emanate from the proposed value-added tax (VAT) increases of 0.5 percentage points per year over the next two years. The SARB projects an addition of 0.2 percentage points to headline inflation per year from the VAT increases. The precise impact of the VAT increases on inflation will, however, depend on the extent to which sellers pass on the increases to consumers.[9] Meanwhile, unit labour cost (ULC) growth is expected to remain muted. Similarly, inflation expectations have eased closer to the target midpoint and may moderate further, supporting a slower rise in services inflation. The inflation profile also benefits from a relatively stable rand exchange rate, less steep electricity price increases than previously assumed and a lower oil price assumption. Headline inflation appears little affected by Statistics South Africa's (Stats SA) recent adjustment to the consumer price index (CPI) basket and its weightings.

Overall, headline inflation is projected to average 3.6% this year before reverting to around the target midpoint over the medium term. The trajectory of core inflation is broadly similar to that of headline inflation, although core goods inflation shows a slight target overshoot in 2026 and 2027 on account of currency weakness and VAT increases. Other domestic risks include administered price increases and wage growth in excess of productivity gains. Risks emanating from the global environment include tariff increases and heightened global uncertainty leading to further currency depreciation (See Box 7).

9 Two VAT increases of 0.5 percentage points each are expected to become effective on 1 May 2025 and 1 April 2026. Each VAT increase is expected to add 0.2 percentage points to headline inflation over the 12-month implementation period. The 0.2 percentage points estimate assumes that about three-quarters of the increase will pass through to prices, in line with estimates of the 2018 VAT pass-through effect. This estimate does not fully account for possible second-round effects. See S Nomdebevana, T Janse van Rensburg and D Fowkes, 'Additional perspectives on VAT hikes', *South African Reserve Bank Economic Note No. EN/2018/24*, Pretoria: South African Reserve Bank (SARB), July 2018; and T Janse van Rensburg, E Visser and D Fowkes, 'The meat of the matter: quantifying VAT effects', *South African Reserve Bank Economic Note No. EN/2018/34*, Pretoria: SARB, September 2018.

Domestic economic activity has been subdued over the past two years. After a strong COVID-19 rebound to 5.0% in 2021, output growth slowed to 1.9% in 2022. Economic activity slowed further to 0.7% in 2023 and to 0.6% last year. The slow growth largely reflects the marked decline in the performance of key state-owned network industries, with severe load-shedding and logistical challenges hampering economic activity and reducing the potential growth rate of the economy. High production costs and a loss of competitiveness have also dragged down output growth.

Looking at demand and spending, a decline in imports and more-robust-than-expected export prices, alongside sustained but modest household spending, contributed positively. Import volumes fell more than exports, mainly because of weaker investment demand and reduced spending on oil, improving the contribution of net exports to growth. Meanwhile, lower inflation, the two-pot retirement system withdrawals and interest rate cuts lifted household consumption spending. Government spending also supported growth in 2024, albeit marginally, consistent with fiscal consolidation. Growth in real gross fixed capital formation (GFCF) was, however, poor. All components of GFCF detracted from growth in 2024 and remained well below their 2019 levels.

Looking ahead, household spending is expected to underpin economic activity in the near and medium term, benefiting from low inflation and reduced borrowing costs. Two-pot retirement system withdrawals are expected to continue, although their impact is likely to diminish over time. However, the tax increases (VAT and fiscal drag) announced in the 2025 Budget should moderate growth in household spending.[10] At the same time, ongoing reforms in ports and rail, together with maintenance by Eskom and transmission system development, should gradually ease supply bottlenecks and spur investment. After contracting by 3.7% in 2024, investment growth is expected to rebound to 2.1% this year and rise to 3.6% by the end of the forecast period, underpinned by both the public and private sectors.[11] The contribution of government spending to growth over the medium term is projected to be broadly neutral.

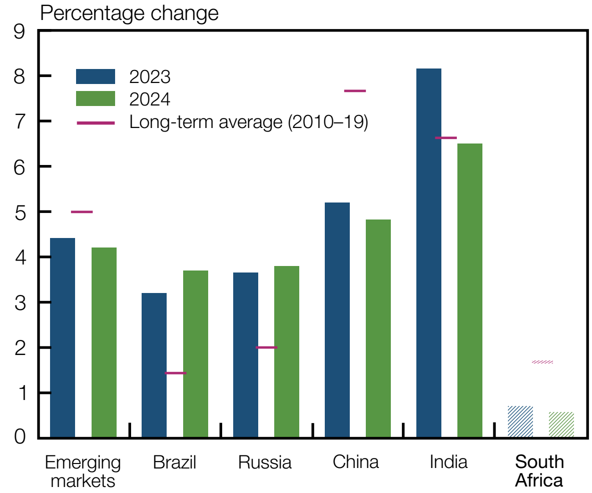
Growth in gross domestic product (GDP) is projected to rise to 1.7% this year, while potential growth in 2025 is forecast to strengthen to 1.4%. Actual and potential growth are expected to converge over the medium term, averaging 1.9% per year. While the attainment of these growth rates would mark a significant shift in the economy's GDP trajectory, they remain below South Africa's long-run growth rate of 2.5% and are far lower than the average for emerging markets of 4.2%. Domestic growth can be boosted further by adopting policy measures that permanently lower inflation risk and strengthen competitiveness.

10 Overall, household spending is expected to increase by 2.0% this year and to average 1.8% over the outer years of the forecast period.

11 See Nedbank, *Nedbank Capital Expenditure Project Listing 2024*, Johannesburg: Nedbank, 13 February 2025.

GDP: South Africa versus emerging markets

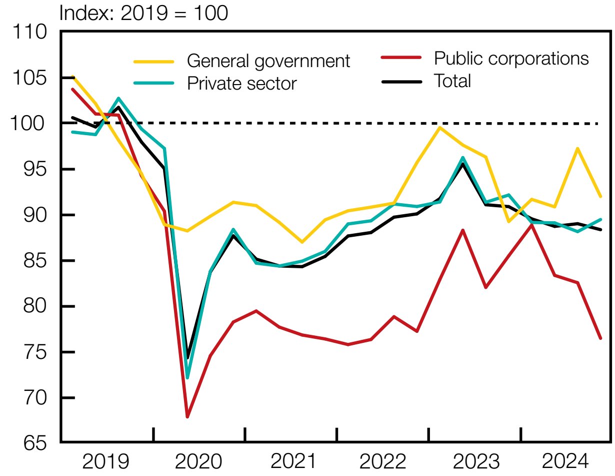
Percentage change



Sources: IMF and Stats SA

Real GFCF

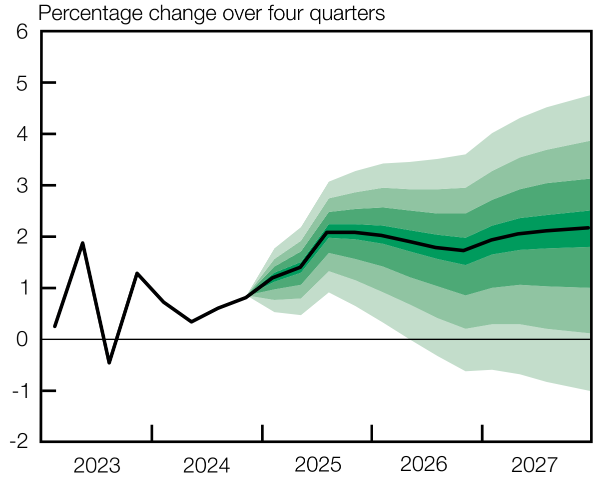
Index: 2019 = 100



Source: Stats SA

Real GDP growth*

Percentage change over four quarters

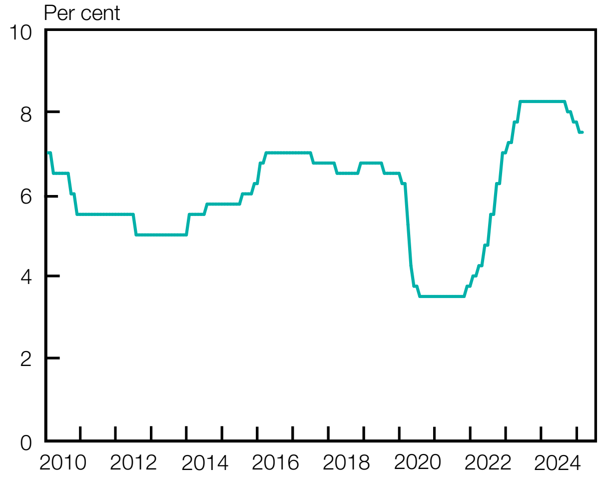


* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.
This chart shows seasonally adjusted data, as used in the Quarterly Projection Model.

Sources: Stats SA and SARB

Repo rate

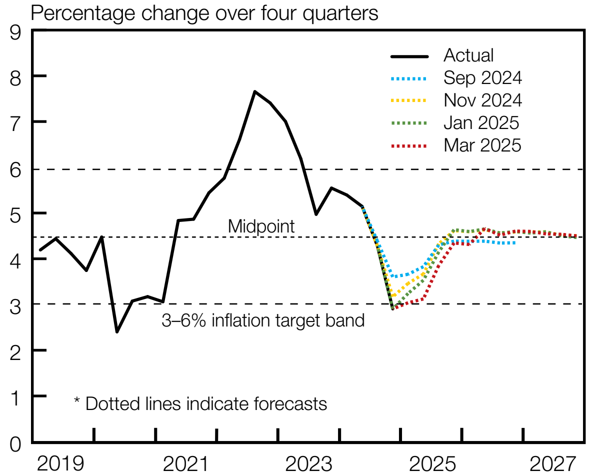
Per cent



Source: SARB

Headline inflation forecasts*

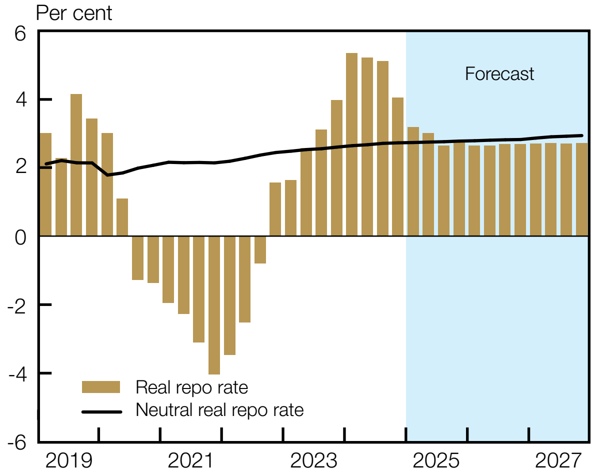
Percentage change over four quarters



Sources: Stats SA and SARB

Real repo and neutral real repo rates

Per cent



Source: SARB

Overview of the policy stance

The MPC lowered the policy rate by 50 basis points over the review period, bringing it to 7.5%. The rate adjustments are consistent with the policy rate path implied by the Quarterly Projection Model (QPM).

Inflation forecasts at the November 2024 and January 2025 MPC meetings were favourable, reflecting muted domestic price pressures and inflation expectations around the target midpoint. However, the medium term appeared more uncertain than usual due to rising global trade tensions and economic uncertainty. Rand depreciation risk on account of elevated interest rates or policy reversals, especially in advanced economies, was also flagged. At the January MPC meeting, higher prices for food, electricity and water as well as insurance premiums and wage settlements were noted as medium-term inflation risks. Some of these risks were captured and evaluated in forecast scenarios. The MPC found risks to be balanced at the November 2024 meeting but tilted to the upside at its January 2025 meeting.

By the March 2025 MPC meeting, some risks flagged in previous meetings had materialised, including trade tensions and higher-than-expected public sector wage growth. New risks included a staggered 1.0 percentage point VAT increase over two years announced in the 2025 Budget. The medium-term outlook, however, remained moderate and in line with previous forecasts. Downward revisions to electricity tariff increases and oil price assumptions helped pull the headline inflation trajectory marginally lower.[12] Nevertheless, uncertainty around the inflation outlook from global factors was assessed to be unusually high. Domestic uncertainties had also increased, particularly as the 2025 Budget process remained incomplete. Overall, risks were seen to both sides in the near term, with a skew to the upside in the policy-relevant medium-term horizon. Accordingly, the MPC kept the policy rate unchanged at its March 2025 meeting.

Monetary policy always involves making decisions under uncertainty, particularly in an environment of rising risks and a higher long-term inflation-neutral rate. The three successive rate cuts since the September 2024 MPC meeting have progressively reduced the degree of policy restrictiveness, with the inflation-adjusted real rate declining to 3.2% in the first quarter of this year, from 5.1% in the third quarter of 2024.[13] Compared to an estimated real neutral rate of approximately 3.0%, this reflects significant unwinding of policy restrictiveness. Accordingly, policy is now assessed to be near neutral.

12 Relative to the January forecast, headline inflation is 0.3 percentage points and 0.1 percentage points lower in 2025 and 2026 respectively in the March forecast.

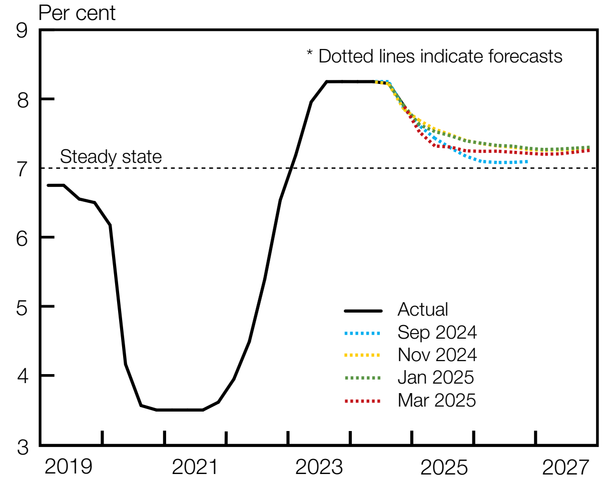
13 This is calculated as the nominal policy rate *less* expected inflation four quarters ahead.

Conclusion

Rising global tariffs and possible countervailing measures present risks to the outlook for global growth and inflation, threatening deeper stagflation. With such high global policy uncertainty and risks, confidence around how the medium-term outlook will play out is reduced. Broadly speaking, central banks will remain 'cautious and data-dependent' until clearer data emerges that increases confidence about the path over the medium term. In some instances, interest rates are likely to stay elevated for an extended period.

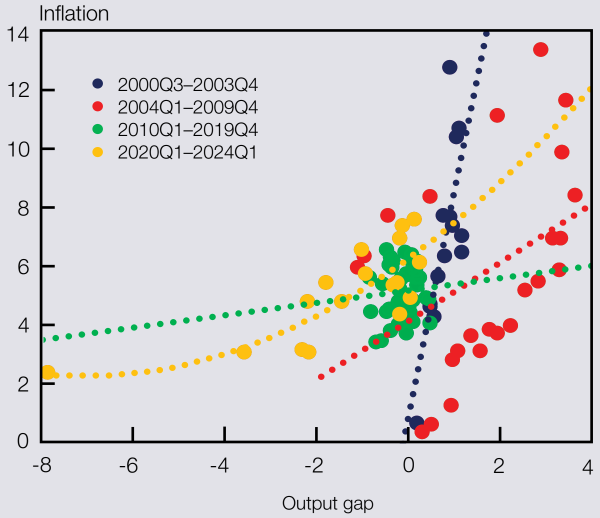
Exiting the combination of low growth and higher than desired inflation is never straightforward, particularly where negative supply shocks abound. The resilience of the South African economy from external and domestic shocks can be enhanced by sustaining domestic reform momentum. This entails both structural reforms to enhance the economy's productive capacity and efforts to rebuild fiscal and monetary policy space. Other important measures include macroeconomic reforms to bring domestic inflation closer to that of trading partners to permanently lower inflation risk and improve competitiveness.

QPM-implied repo rate versus actual*



Source: SARB

Implied Phillips curve slopes



Sources: Stats SA and SARB

Box 1 Curve flattening: Less inflation and more growth

The Phillips curve posits a short-run trade-off between economic slack and inflation, suggesting that reducing inflation comes at a cost to output.[1] However, Phillips curves shift over time with changes in economic conditions and the public's perception of central bank anti-inflation credibility.[2] Greater central bank credibility flattens the Phillips curve, reducing the impact of growth on inflation. When this relationship is weak, economic agents are said to be 'rationally inattentive' to inflationary shocks, not changing their investment or spending decisions in response to changes in a more stable inflation rate.

The South African Phillips curve appears to show four distinct changes in slope. In the early 2000s, inflation expectations were not yet well anchored, and inflation shocks fed strongly through to inflation. However, with monetary policy credibility improving quickly, by 2004 inflation expectations had become better anchored and the slope was flatter – a trend that carried through to 2009. The post-global financial crisis period (2010–19) showed the flattest average slope.[3] Inflation expectations first became anchored around the upper limit of the target band but later moved significantly lower following the South African Reserve Bank's (SARB) 2017 communication preference for inflation to be at the 4.5% midpoint. The 2017–19 experience illustrated that effective communication and healthy credibility reduces the trade-off, as reflected in the flatter curve.[4]

After COVID-19, the worsening inflation surge resulted in a de-anchoring of inflation expectations and a steeper slope. But the steeper curve implies that monetary policy can reduce inflation faster and with limited effects on output – achieving a soft landing.[5] Indeed, South Africa raised rates much less than its peers at the height of the inflation surge, minimising output costs. As inflation and inflation expectations re-anchor at the SARB's preferred midpoint, the slope of the Phillips curve is again expected to flatten.

1 A W Phillips, 'The relation between unemployment and the rate of change of money wage rates in the United Kingdom, 1861–1957', *Economica, New Series* 25(100), 1958, pp 283–299.

2 See K Forbes, J Gagnon and C Collins, 'Low inflation bends the Phillips curve around the world', *NBER Working Paper No. 29323*, Cambridge: NBER, October 2021. See also C Borio, M Lombardi, J Yetman and E Zakrajsek, 'The two-regime view of inflation', *BIS Working Paper No. 133,* Basel: BIS, March 2023; and O Coibion and Y Gorodnichenko, 'Is the Phillips curve alive and well after all? Inflation expectations and the missing disinflation', *American Economic Journal: Macroeconomics* 7(1), 2015, pp 197–232.

3 See A Kabundi, E Schaling and M Some, 'Estimating a Phillips curve for South Africa: a bounded random-walk approach', *International Journal of Central Banking* 15(2), 2019, pp 75–100.

4 See R Barnichon and G Mesters, 'The Phillips multiplier', *Journal of Monetary Economics* 117, 2021, pp 689–705. See also C Loewald, K Makrelov and E Pirozhkova, 'The short-term costs of reducing trend inflation in South Africa', *South African Reserve Bank Working Paper Series No. WP/22/08*, Pretoria: SARB, August 2022.

5 See F Furlanetto and A Lepetit, 'The slope of the Phillips curve', *Finance and Economics Discussion Series 2024-04*3, Washington DC: Board of Governors of the Federal Reserve System, May 2024.

Box 2 Scenario use under uncertainty

The Monetary Policy Committee (MPC) regularly employs forecast scenarios to better understand the risks to its baseline forecasts. Two such scenarios were considered at the March 2025 MPC meeting.[1] The first scenario considered tariffs on South African–United States (US) trade, while the second explored a weaker US dollar and higher commodity prices.[2]

Scenario 1: Tariffs on South African–US trade

Consistent with the tariff rates proposed for other US trading partners, a 25% tariff increase was modelled on all South African imports into the US. Three possible sub-scenarios were considered:

i. The African Growth and Opportunity Act (AGOA) is terminated without retaliatory tariffs.

ii. AGOA is terminated alongside the imposition of a 25% tariff on South African exports.

iii. Similar to the second sub-scenario, with the addition of a 15% rand depreciation caused by risk premium spillovers.

Scenario 1 results*

Variable	Sub-scenario 1	Sub-scenario 2	Sub-scenario 3
	AGOA loss	AGOA loss *plus* 25% blanket tariffs	AGOA loss *plus* 25% blanket tariffs *plus* exchange rate depreciation
Total real exports	-0.11%	-0.56%	-0.30%
Exchange rate	–	–	-15.20%
Inflation	-0.01%	-0.04%	0.94%
Nominal repo rate	-0.03%	-0.08%	1.24%
Real GDP	-0.04%	-0.23%	-0.69%

* Average percentage change from baseline

Source: SARB

Scenario 2: Weaker US dollar and higher commodity prices

This scenario assumed a 5% US dollar depreciation against the euro and a 10% rise in commodity prices (level shift) throughout the forecast period

Scenario 2 results

Variable		2025	2026	2027
GDP growth	Baseline	1.66%	1.83%	2.04%
	Scenario	1.83%	1.90%	1.99%
Inflation	Baseline	3.59%	4.52%	4.54%
	Scenario	3.54%	4.32%	4.45%
Nominal repo rate (end of period)	Baseline	7.25%	7.21%	7.26%
	Scenario	7.14%	7.13%	7.31%

Source: SARB

1 The November 2024 MPC meeting considered a higher administered price scenario and scenarios that assumed an escalation/de-escalation of global geopolitical tensions. Similarly, the January 2025 MPC meeting also considered multiple scenarios, including a global trade war and faster pace of reform implementation in the domestic economy.

2 In his recent review of the Bank of England's forecasting framework, former US Federal Reserve Chair Ben Bernanke recommended greater use of scenarios to assess risks and reduce the over-dependence of decisions on the central projection, which may be erroneous.

Global economy: Into the great unknown

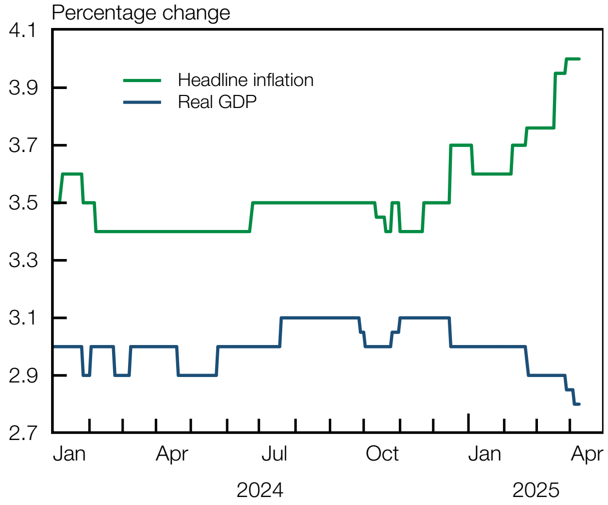
The global economy is confronted with unusually high uncertainty amid shifting trade policies and elevated geopolitical tensions. Trade tensions could depress economic activity and raise supply costs. World economic activity is expected to increase at a steady pace of 3.3% this year and the next, with risks tilted to the downside. Inflation also faces new risks due to the potentially disruptive effects of tariff hikes on supply chains and trade, while risks related to sticky services pressures persist. This threatens to stall or reverse the disinflation of the past two years, achieved on account of tight monetary policy and favourable price developments in fuel, food and core goods. Although policy rates are expected to decline further in major economies, the new risks that have emerged suggest they will remain higher for longer.

Over the past five years, the world economy has endured a series of overlapping shocks. It started with the COVID-19 pandemic and its aftermath, including the surge in inflation. This was followed by Russia's war in Ukraine (which is partly responsible for the 2022 inflation surge) and geopolitical tensions in the Middle East. More recently, global trade tensions have escalated, raising uncertainty to levels not seen since the pandemic. These adverse events significantly impacted global economic activity, with growth remaining below pre-pandemic levels. Despite these challenges, the global economy expanded by 3.2% last year – a similar pace as in 2023.

Growth in world economic activity is projected to stabilise at 3.3% in 2025 and 2026, remaining below its pre-COVID-19 average of 3.7%.[14] Rising uncertainty is expected to weigh on activity as firms and households adopt a wait-and-see approach to investment and spending decisions. Although weak demand and trade restrictions are expected to hamper manufacturing, global growth should, nonetheless, continue to benefit from resilience in the services sector.

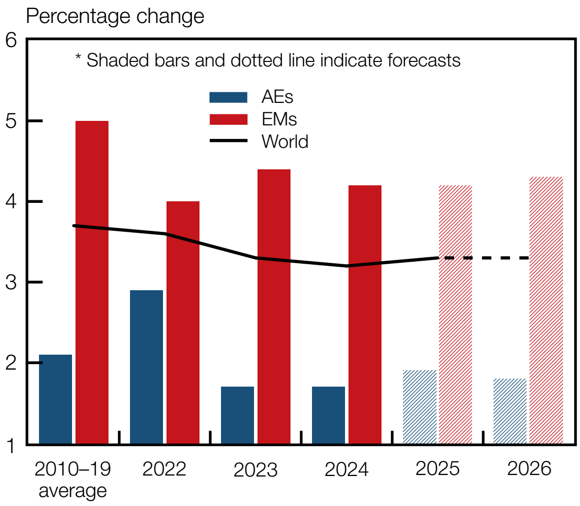
Among the major advanced economies, the US's economic performance was exceptional last year as its economy grew above its long-term trend, while most other economies struggled. After expanding by 2.8% in 2024, the US economy may again outperform its peers this year, depending on consumer demand and investment appetite. However, US tariffs on its major trading partners and potential retaliatory measures pose downside risks to US economic activity. Uncertainty around tariff policies, signs of weaker consumer spending, and declining consumer and business sentiment have reignited recessionary fears.

Evolution of 2025 global real GDP and inflation forecasts



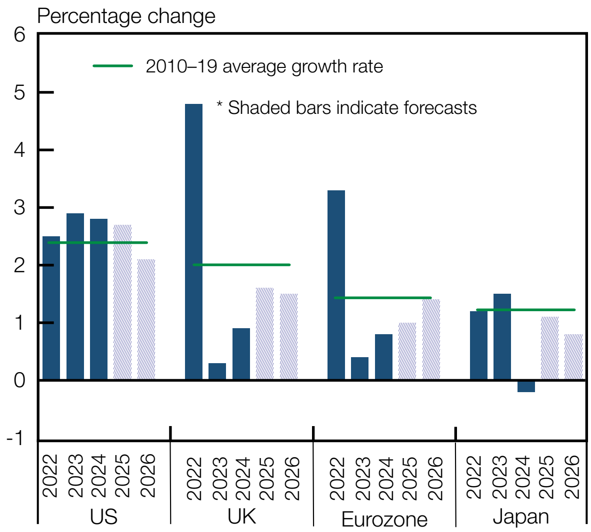
Source: Bloomberg Consensus

Global real GDP growth projections*



Source: IMF

Real GDP growth projections for advanced economies*



Source: IMF

14 Unless indicated otherwise, the growth figures reported in this section are from the IMF's January 2025 *WEO Update*.

In the eurozone, economic activity remains sluggish amid weak fixed investment and poor manufacturing performance. Growth in Germany has been weighed down by weak demand and ailing manufacturing conditions, with the automotive sector facing challenges from the shift to electric vehicles, growing competition from China as well as rising protectionism. Household spending in the eurozone has been muted amid rising savings; however, easing monetary conditions should provide some impetus to spending over the medium term.[15] Real GDP is projected to expand by a modest 1.0% this year from 0.8% in 2024, although plans to increase defence and infrastructure spending across Europe could boost growth from 2026.

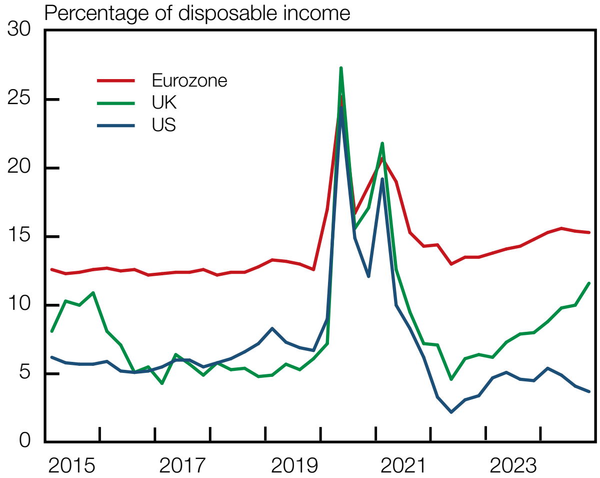
In the United Kingdom (UK), growth is forecast to accelerate to 1.6% this year, as real income gains and declining interest rates support spending. Japan's total output is seen to expand by 1.1% this year, underpinned by increased capital investment and improved consumer spending amid rising wages.

Divergent growth is also evident across emerging markets. China's economy is projected to slow to 4.6% this year from 5.0% in 2024, despite recent fiscal support measures. Demand remains weak due to the delayed recovery in the property sector and subdued consumer confidence. China's growth outlook remains highly uncertain, with significant downside risks related to US trade relations. India is expected to remain one of the fastest-growing economies in the world this year, expanding at 6.5%. Robust private consumption and investment underpin the forecast. Meanwhile, in Latin America, growth is projected to recover only marginally to 2.5% this year, weighed by slowdowns in the region's largest economies – Brazil and Mexico.[16] Economic activity in SSA is forecast to rise by 4.2% in 2025, owing to strong growth in several smaller economies. The larger economies of Nigeria and South Africa are seen to expand by 3.2% and 1.5% respectively this year.

Risks to the global growth outlook are tilted to the downside. Rising trade protectionism and threats as well as geopolitical realignments could disrupt trade flows. Additionally, debt levels remain a concern. However, there are also upside risks, such as a potential ceasefire in Ukraine, which could reduce geopolitical tensions and put some downward pressure on commodity prices.

Household savings rates in advanced economies

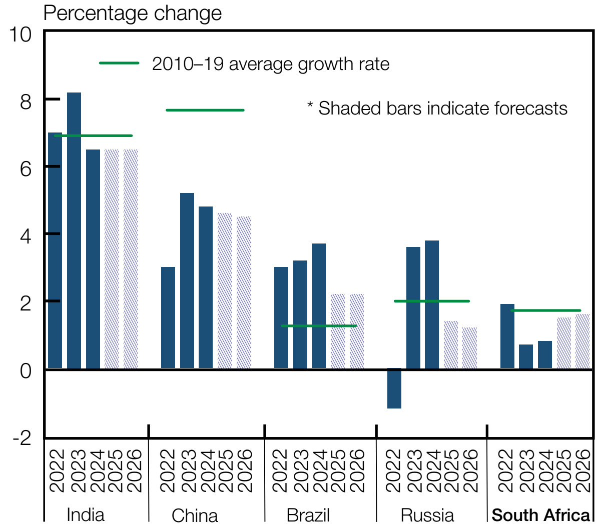
Percentage of disposable income



Sources: Bureau of Economic Analysis, Eurostat and Office for National Statistics

Real GDP growth projections for emerging markets*

Percentage change



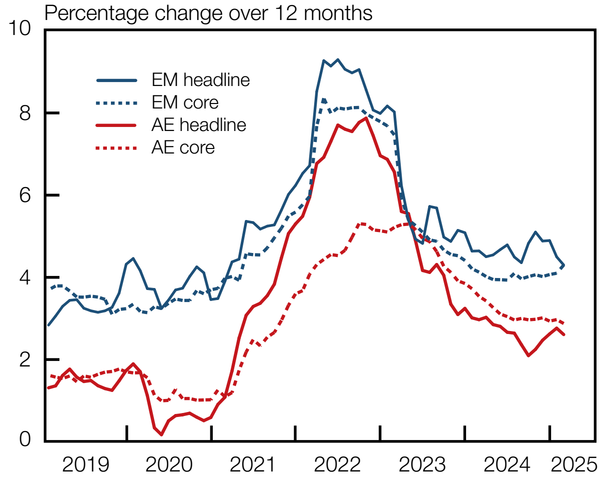
Source: IMF

15 See A Bobasu and J Gareis, 'What explains the high household saving rate in the euro area?', *European Central Bank Economic Bulletin, Issue 8/2024*, Frankfurt: ECB, January 2025.

16 Brazil's economy is expected to weaken to 2.2% in 2025 from 3.7% in 2024, while Mexico's economy is forecast to slow to 1.4% in 2025 from 1.8% the year before as consumption and investment growth slow.

Headline and core inflation in emerging markets and advanced economies

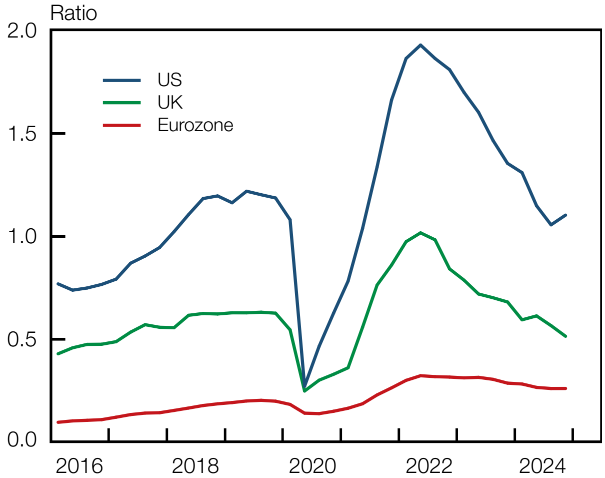
Percentage change over 12 months



Sources: Haver and SARB

Job vacancies per unemployed person

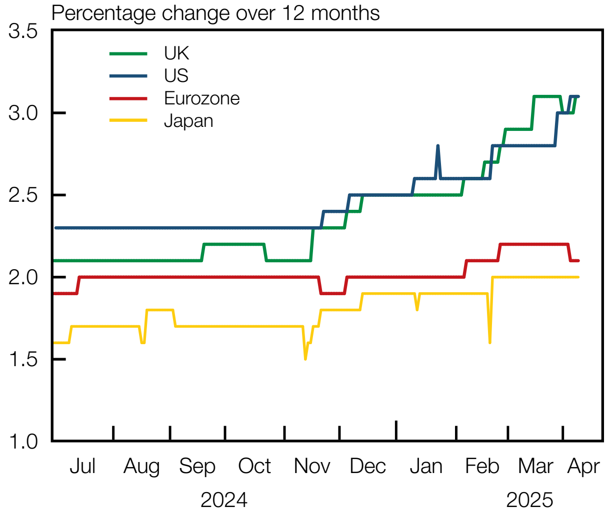
Ratio



Sources: Bureau of Labor Statistics, Eurostat and Office for National Statistics

Evolution of headline inflation forecasts in advanced economies

Percentage change over 12 months



Source: Bloomberg

Inflation: Uncertainty is the only certainty

After a sharp deceleration from mid-2022 due to monetary policy tightening and the unwinding of supply shocks, the disinflation process stalled somewhat in major advanced economies during the six-month review period. Persistent inflation in services prices and still-high wage growth continue to limit disinflationary momentum, while rising goods inflation – along with the looming trade tensions – threaten to reverse these trends. In the US, elevated food inflation has added to price pressures, slowing the rate of decline in headline inflation. In the eurozone, however, disinflation remains largely on track amid relatively softer demand and a stronger euro as well as lower energy prices. Japan, however, has been experiencing rising inflation, owing to a depreciated yen and a relatively tight labour market.

Across many advanced economies, labour markets have become less tight, which is expected to exert more disinflationary pressure to inflation as labour market slack increases. Vacancy rates have declined closer to pre-COVID-19 averages. In the US, monthly payrolls have been moderating since the beginning of the year, while the unemployment rate has edged higher. Although layoffs of US government workers are likely to add to the cooling job market, this could be offset by changes in immigration policies.[17]

Tariff-related price increases remain a major upside risk to the global inflation outlook. In the US, for instance, tariffs are estimated to push personal consumption expenditure (PCE) inflation up by between 1.0 and 1.2 percentage points in the short term.[18] In those sectors where US import-substitution is low – such as recreational goods, education and communication goods, and household furnishings – tariffs are expected to result in higher goods prices. Indeed, US short-term inflation expectations have been revised higher, even as longer-term forecasts have remained stable.[19] Similarly, in the eurozone, short-term inflation forecasts have shifted higher, while longer-term expectations remain anchored at 2.0%.

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17 In February 2025, US employers announced 172 017 layoffs, a 245% increase from the previous month and the highest monthly increase since July 2020, according to US Challenger, Gray and Christmas. The government sector had the most layoffs, accounting for 36% of the total.

18 The Budget Lab at Yale, 'The fiscal, economic and distributional effects of 20% tariffs on China and 25% tariffs on Canada and Mexico', New Haven: Yale University, March 2025. The analysis suggests that recent tariff increases could raise the US effective tariff rate to its highest level since the early-1940s.

19 The University of Michigan's 3- and 5-year inflation projections have risen steadily, while 10-year-ahead forecasts have been stable. Survey-based forecasts of 1-year-ahead US inflation have also been revised higher, while 10-year-ahead projections have remained stable near 2.0%.

Disinflation has continued in emerging markets, despite currency weakness and other idiosyncratic factors. In Brazil and Mexico, however, disinflation appears to be stalling, mainly due to expansionary fiscal policy and large currency deprecations. Across emerging Asia, inflation has also slowed appreciably and is expected to remain very low in China.[20] The outlook, however, remains subject to significant uncertainties surrounding tariffs and other policies from major economies.

Monetary policy to remain cautious

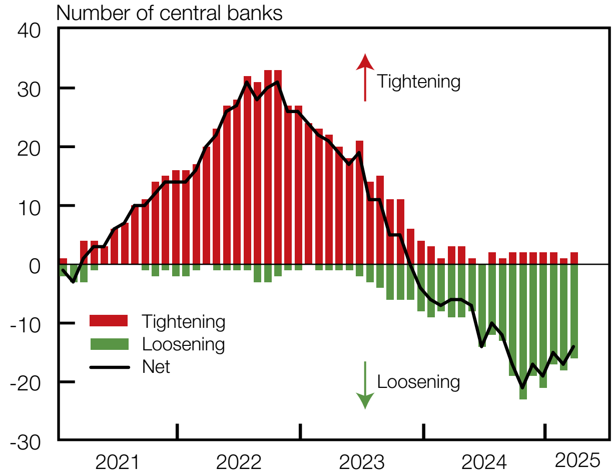
Inflation in many countries continues to face upside risks, owing to weak productivity growth, currency volatility and trade fragmentation. Elevated debt levels add to currency risk and thus inflationary pressures. These factors, along with the rise in short-term inflation expectations, highlight the fragility of the current disinflation process. The highly uncertain economic environment implies wider uncertainty bands around inflation projections and suggests a more cautious approach by central banks in setting monetary policy over the coming months. Central banks could face a difficult combination of upside inflationary pressures and weaker economic activity.

Most central banks have been easing policy over the past year, with rate cuts expected to continue in 2025, but the scope for easing has narrowed. Inflation uncertainty has risen, presenting central banks with a challenge similar to that posed by the supply shocks of 2021: determining whether the tariff-induced price increases will be transitory or persistent. Typically, tariff hikes have short-lived effects. However, heightened uncertainty around tariff policies and the fact that many economies have not yet returned to the 'low-inflation regimes' that preceded the COVID-19 pandemic could push inflation expectations higher.

Global economic growth is expected to remain below pre-COVID-19 averages, while the trajectory of inflation has become less certain. Risks to global growth have risen, with tariff increases and heightened uncertainty expected to lower it further. Amid extreme levels of uncertainty, many central banks have held policy rates steady in recent months as they look to incoming data to better assess risks.

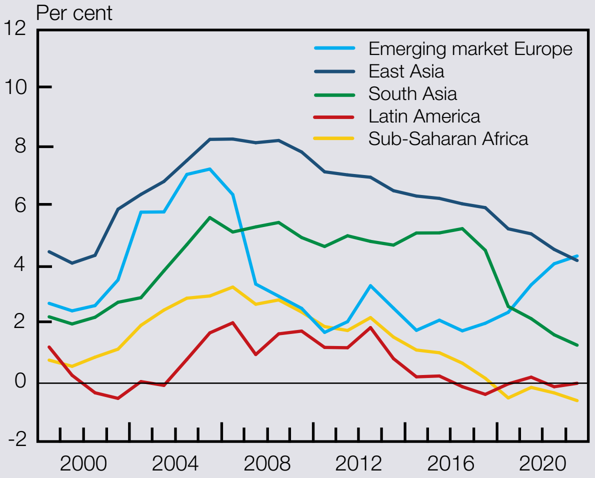
20 In February 2025, Indonesia experienced a shift from inflation to deflation following massive discounts (50%) in electricity bills which were implemented to stimulate the economy. See Reuters, 'Indonesia sees first deflation reading in more than two decades', 3 March 2025.

Central bank policy rate decisions



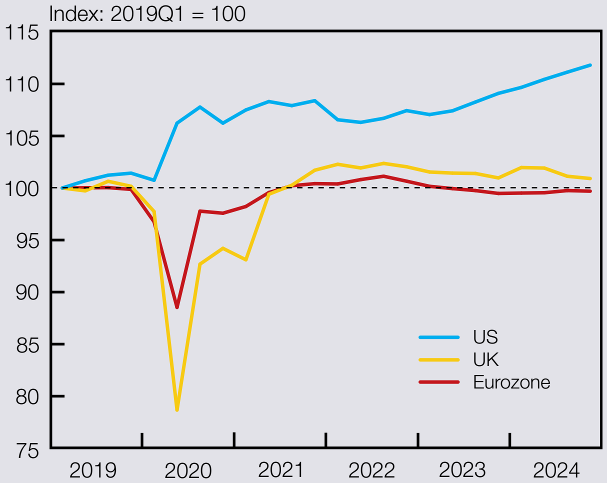
Sources: Central banks and SARB

Five-year productivity growth rates



Source: World Bank

Productivity levels in advanced economies



Sources: Bureau of Labor Statistics, Eurostat and Office for National Statistics

Box 3 Does artificial intelligence imply stronger growth?

Global growth has averaged 3.3% over the past three years, which is below the 3.7% average of the 2010–19 period. Medium-term growth forecasts by the International Monetary Fund (IMF), a proxy for global potential growth, remain around the 3.0% level up to 2029, while the World Bank sees potential growth averaging only 2.2% from 2022 to 2030.[1, 2] In the absence of major productivity shocks, this modest performance may well become the new normal, with the world economy revisiting secular stagnation.

Secular stagnation was attributed to reduced capital accumulation rates following the global financial crisis and a slowdown in total factor productivity amid allocative inefficiencies, including weak growth in labour supply and lower participation rates.[3]

Productivity differences explain the differences between national economies. For example, the United States (US) has shown exceptional productivity growth over time, reflecting robust within-sector gains driven by higher labour turnover and investment in digital technologies.[4] Industry-level data shows strong gains in data processing, internet broadcasting and some sectors (such as e-commerce) that may have benefited from early artificial intelligence (AI) implementation.[5] US productivity growth has, however, slowed in recent quarters, suggesting that part of these gains may have been cyclical.

1 See IMF, ‘Chapter 3: Slowdown in global medium-term growth: what will it take to turn the tide?’, *International Monetary Fund World Economic Outlook*, Washington DC: IMF, April 2024.

2 S K Celik, M A Kose and F Ohnsorge, ‘Potential growth prospects: risks, rewards and policies’, *World Bank Group Policy Research Working Paper No. 10355*, Washington DC: World Bank, March 2023.

3 The IMF (op. cit.) estimated a 0.6 percentage point drag on total factor productivity growth from across-firm productivity, as labour and capital markets became less efficient at allocating resources to higher-productivity firms. The US appeared to be a notable exception.

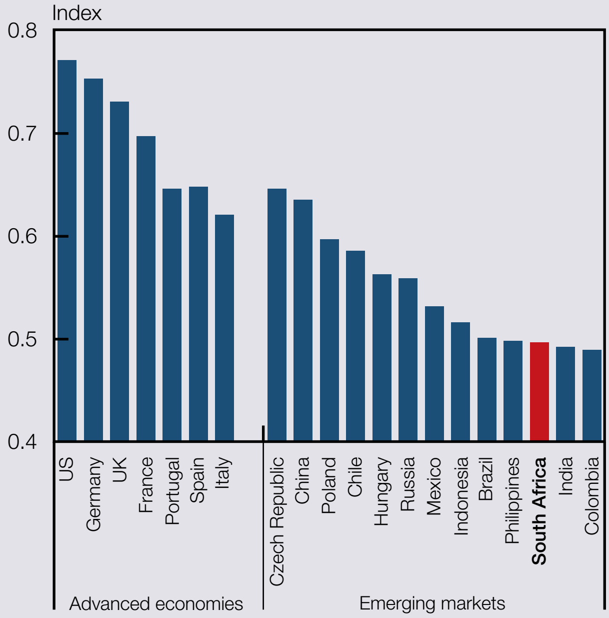
4 See M Dao and J Platzer, ‘Post-pandemic productivity dynamics in the United States’, *International Monetary Fund Working Paper No. WP/24/124*, Washington DC: IMF, June 2024. See also A D da Silva, P D Casola, R Gomez-Salvador and M Mohr, ‘Labour productivity growth in the euro area and the United States: short and long-term developments’, *European Central Bank Economic Bulletin: Issue 6/2024*, Frankfurt: European Central Bank, September 2024.

5 See B Hobijn, M Mestieri, N Werquin and J Zhang, ‘Quarterly industry-level labor productivity data for the US’, *Economic Perspectives No. 1*, Chicago: Federal Reserve Bank of Chicago, 2025. Since the fourth quarter of 2019, the data has shown average annual productivity growth of 10.4% in data processing and internet publishing, 7.7% in computer systems design, 6.2% in information and 4.5% in ‘other retail’ (including e-commerce).

Recent analyses suggest that AI could substantially increase global potential growth by making production processes more efficient and accelerating innovation. However, the technology is still in its early stages, with the projected impacts of AI ranging from 'moderate gains' to 'explosive growth'.[6, 7] In the meantime, uncertainty over the true long-term growth benefits of AI may trigger 'boom-and-bust' cycles in equity markets, similar to what other highly transformative technologies (railways, the internet) did in the past.[8]

What is clearer is that the growth benefits of AI will vary across countries depending on their AI preparedness and resources disparities. AI adoption is lagging in most emerging markets, partly due to a lack of capital and skills.[9] To bridge these gaps, emerging economies need to increase investment in research and development and digital infrastructure as well as boost education spending, particularly those leaning towards AI skills.[10] Policy efforts should also focus on lowering administrative obstacles and regulatory burdens.[11] AI preparedness and adoption are among the priority areas for discussion this year in the Group of Twenty (G20), currently chaired by South Africa.

AI preparedness index



Source: IMF

6 See J Solomons, S Pulumo, K Mphahlele and T Mononyane, 'The macroeconomic implications of artificial intelligence', *South African Reserve Bank Economic Note No. EN/2025/04*, Pretoria: SARB.

7 See for example A Cline, J Kahn and R Rich, 'Is high productivity growth returning?', *Federal Reserve Bank of Cleveland Economic Commentary*, Cleveland: Federal Reserve Bank of Cleveland, January 2025.

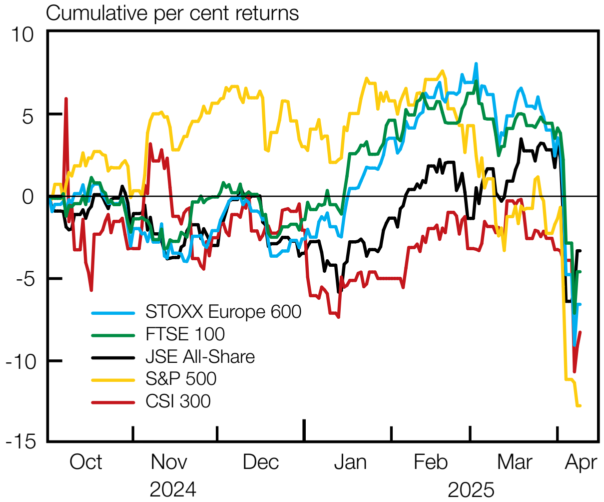
8 See Deutsche Bank Research, 'Capex booms and busts through history', *Cross-discipline Thematic Research*, 27 February 2025.

9 According to E Humeau and T Deshpande, 'AI for Africa: use cases delivering impact', AI represented only a small proportion of Africa's US$4 billion in total funding for tech startups in 2023.

10 L Signe, 'Chapter 5: leveraging AI and emerging technologies to unlock Africa's potential', *Brookings Institution Foresight Africa 2025–2030*, Washington DC: Brookings Institution, January 2025.

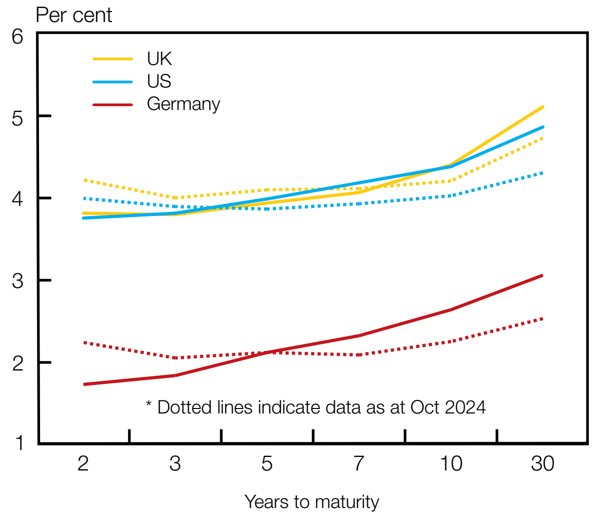
11 M Draghi, 'The future of European competitiveness Part A: a competitiveness strategy for Europe', *European Commission Report, Brussels*: European Commission, September 2024.

Equity market performance



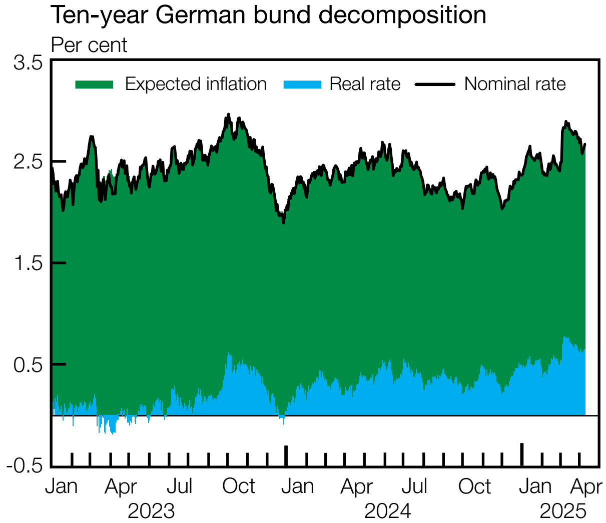
Source: Bloomberg

Selected advanced economies' bond yield curves*



Source: Bloomberg

Ten-year German bund decomposition



Source: Bloomberg

Global financial markets: Tariffs upend markets

After relative calm in financial markets in the five months since October 2024, large shifts in global trade policy and increased risks of weaker global economic growth have upended markets. Equities plunged at the start of April, as the fallout from the more-aggressive-than-expected US tariffs fuelled a flight to fixed-income instruments. The US dollar weakened as investors reduced positioning in US dollar assets, but risk-off sentiment also spread through to emerging market assets and currencies, resulting in abrupt depreciation and higher emerging market bond yields. South African government bond yields also increased, and the curve steepened, reflecting the unfavourable global and domestic news-flow. The rand weakened sharply to a one-year low at the start of April, reversing gains made in the first quarter of this year. Amid elevated global and domestic uncertainty, local markets now see lower interest rates later this year, although it is likely that these expectations will exhibit high volatility for some time.

The future is not what it used to be

Following a strong start to 2025, economic uncertainty has progressively weighed on consumer and corporate confidence as well as global growth prospects. Technology stocks, the main beneficiary of investor sentiment in 2024, were increasingly perceived to be over-valued, while enthusiasm for other sectors remained relatively muted. With confidence weaker, a big market rout was triggered at the start of April after the US announced more-aggressive-than-anticipated tariff increases on all imports, followed by retaliatory measures by China. The S&P 500 Index slumped by over 17% from its February peak as of the first week of April 2025. The STOXX Europe 600 Index fell by a similar magnitude from a record high in March – reached at a time when European Union government leaders' committed to increase spending on defence and infrastructure.

The stronger sentiment in January 2025 resulted in the 10-year US government bond yield climbing to a high of 4.8% as markets scaled back anticipated interest rate cuts by the Fed. Elsewhere, UK gilt, German bund as well as peripheral bond yields all rose in the five months to March this year. The 10-year Germany bund yield increased by 70 basis points between October 2024 and March 2025, driven largely by higher public borrowing and expected economic growth, rather than higher inflation expectations. The sharp reversals in markets in April have changed expectations, with stronger inflation and much weaker economic growth seen as distinct possibilities. As a result, bond yields declined notably.[21]

21 By early April 2025, the focus had shifted to downside economic growth risks, causing the yield on the 10-year US Treasury note to drop by around 80 basis points relative to its January peak.

For the six months prior to the US tariff announcement, emerging market bonds had performed better than their advanced economy counterparts, reflected by higher total returns as well as 10 successive months (up until February) of non-resident net portfolio inflows.[22] The tariff announcement of 2 April triggered a broad sell-off of emerging market assets, but among them, idiosyncratic risks have generated further downturns. South African and Turkish bonds have, in particular, underperformed relative to Brazilian and Mexican peers, partly reflecting domestic factors.

Dollar weaker, gold stronger

The post-pandemic era saw the US economy outperform other advanced economies. China's growth model came under increased strain, while India's strengthened. Higher debt levels and less growth weighed on other emerging economies. This pattern was broadly reflected in currencies. In more recent months, these trends have changed, in part reflecting the increased concerns about the sustainability of growth. After rising strongly against most currencies since October 2024, the US dollar reached a multi-year high in January 2025, before declining sharply into March.[23, 24] Most advanced economy and emerging market currencies strengthened against the greenback in the first quarter of 2025. However, the tariff turmoil has reignited currency depreciations for some emerging markets, reversing the earlier gains. Advanced economy currencies such as the Japanese yen, Swiss franc and euro benefited from a flight to safety. Even the Canadian dollar, which had come under pressure over the past six months, managed to recoup some losses.

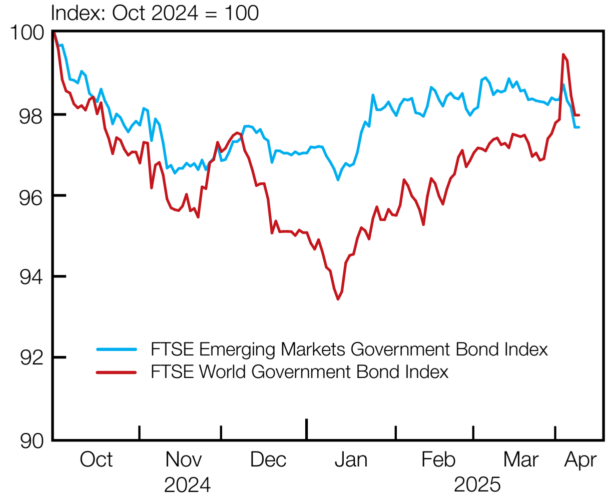
One part of the rise in certain asset prices up to January this year reflected increasing concern about equity market valuations, in particular whether growth in technology companies was sustainable. This gave rise to stronger gold prices as some investors sought safe havens, backed up by increased purchases by central banks. The gold price rose to a record nominal high of over US$3 000 per fine ounce in early April. Another trend emerged in speculative assets, with the price of Bitcoin reaching a record high above US$107 000 in January as a more supportive stance in the US towards digital assets encouraged retail, speculative and institutional investors to increase their holdings. However, similar to the dollar, its price has since declined.

22 According to the Institute for International Finance's March 2025 *Capital Flows Tracker* report.

23 The Intercontinental Exchange Dollar Index (DXY) climbed to its highest level in 26 months, while the Fed's nominal dollar index reached a record high in late February 2025.

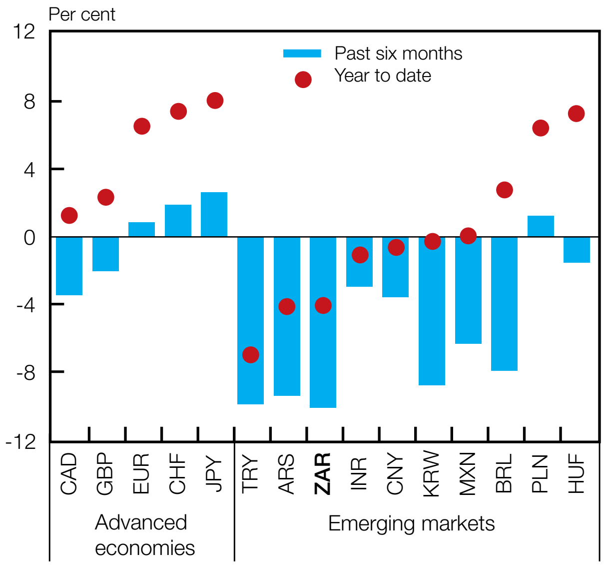
24 According to the Commodity Futures Trading Commission, speculative traders, including hedge funds and asset managers, were the least bullish on the US dollar since October 2024, before the US presidential elections.

Bond returns



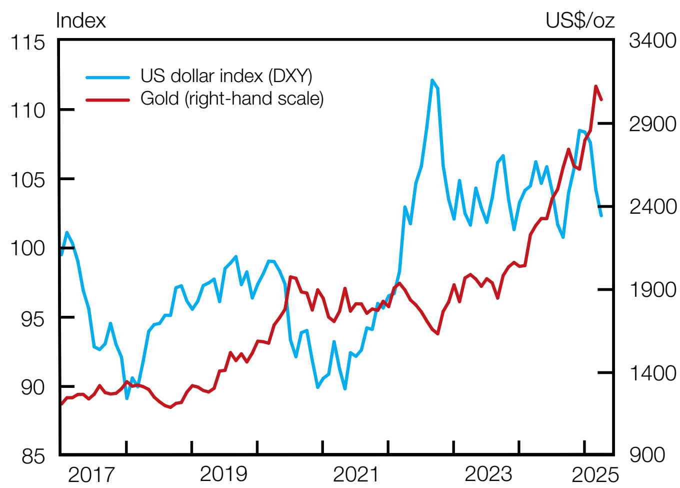
Sources: Bloomberg and FTSE

Selected foreign exchange performance versus the US dollar



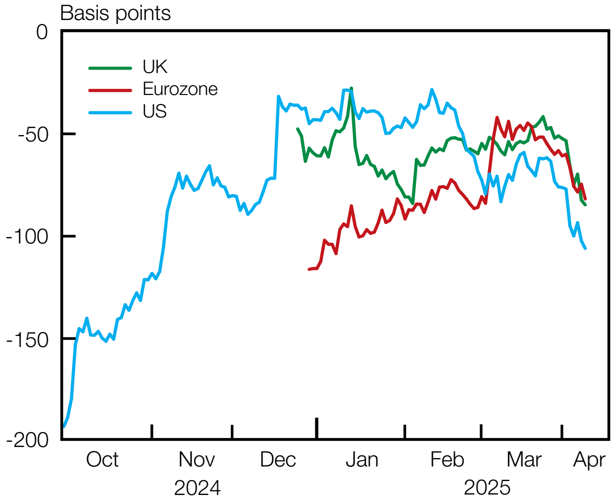
Source: Bloomberg

Gold price and US dollar index



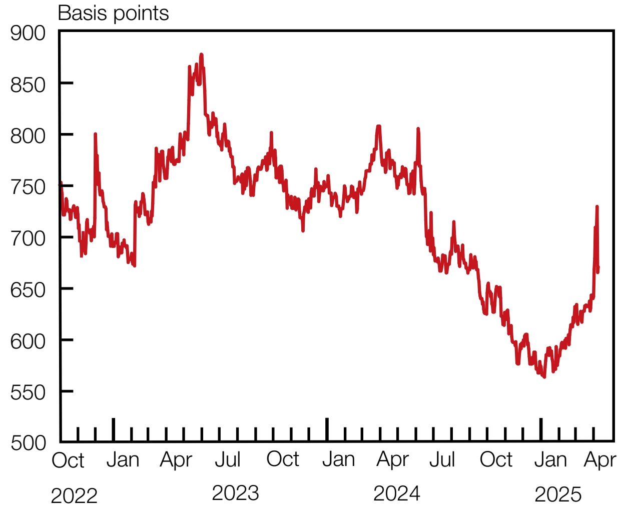
Source: Bloomberg

Market-implied change in policy rate by end-2025



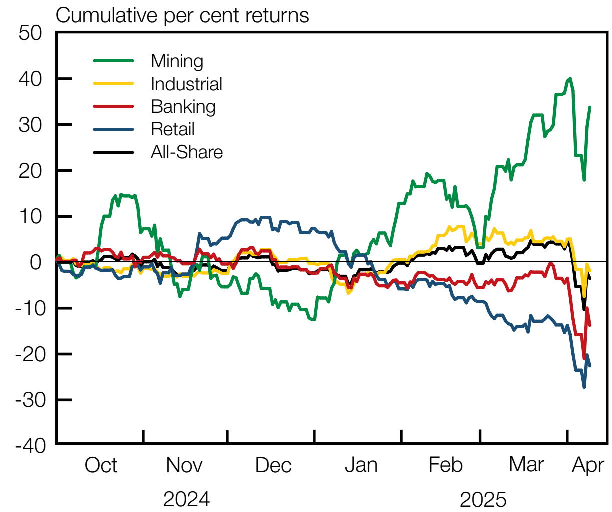
Source: Bloomberg

Ten-year US Treasury and South African bond yield spread



Source: Bloomberg

JSE indices



Source: Bloomberg

Despite shifts in confidence and elevated policy uncertainty, markets now anticipate more rate cuts this year, and more so for the US, than they did at the start of March, as the tariff increases are expected to slow growth while adding to inflationary pressures. However, rate expectations are likely to remain volatile as the medium-term implications for inflation and growth are hard to assess. The recent lowering of rate expectations suggests markets are more concerned about the trajectory of growth than inflation.

South African financial market developments

Local factors appear to have driven domestic market performance, at least during the first half of the review period. With South Africa's inflation and inflation expectations easing significantly, the spread between the 10-year US Treasury and South African bond yield – often seen as an indicator of the risk premium of South African debt over 'safe' assets – narrowed to pre-pandemic levels by year-end. A stable political climate and the unwinding of election-related risks, along with S&P Global Ratings' revision of the country's rating outlook from stable to positive in November 2024, also supported the rally. However, the trend has reversed since the start of 2025 due to less favourable domestic and global factors. In addition, tensions with the US may have added to perceived risk.[25]

The domestic yield curve has 'bear steepened' since October 2024, making borrowing more expensive for long term borrowers, including the government.[26] This steepening became more pronounced into early April 2025, reflecting the global risk-off environment and uncertainties related to the steadiness of the existing coalition government. Non-resident investors have supported the domestic bond market, with net purchases of about R18 billion in South African government bonds up to the end of March.

After brushing off global trade policy uncertainty to reach a record high in March 2025, the JSE All-Share Index, similarly to most other global bourses, came under serious pressure at the start of April, and declined by over 10% from its peak. Mining stocks have been a noteworthy outperformer since the release of the October 2024 *MPR*, mostly driven by gains in precious metals prices. However, equities have seen large foreign net outflows of R74 billion in the first quarter of this year, in part a reflection of a still muted domestic growth environment.

25 See, for instance, M Gavin, 'Trump's misguided policy towards South Africa', *Council on Foreign Relations* blog, 12 February 2025.

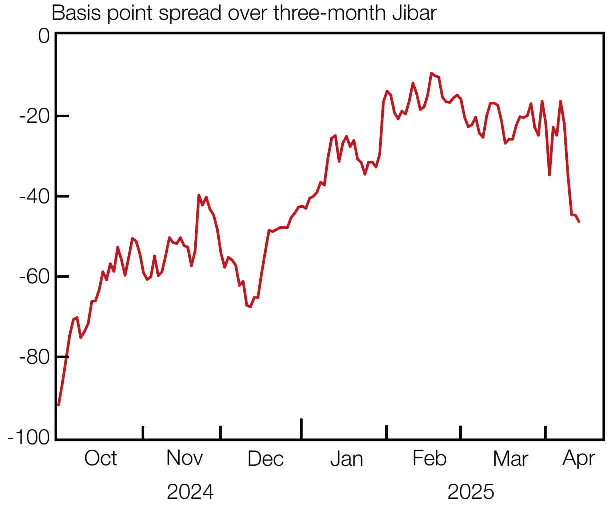
26 A yield curve 'bear steepens' when longer-term yields rise more than short-term ones – increasing the spread, while it 'bear flattens' when short-term yields rise faster than long-term ones, resulting in a flatter yield curve.

The rand was volatile over the six-month review period, driven by global and domestic factors. After benefiting from the US dollar weakness between January and March this year, the local currency depreciated sharply at the start of April amid heightened global economic uncertainty and unfavourable domestic news-flow. The rand has weakened by around 10% since October 2024, with a 4.0% depreciation for the year so far.

Domestic policy rate expectations implied in forward rate agreements have also shown volatility. After having been dialed back significantly to just one more rate cut this year, the dynamics have shifted more recently, with nearly two 25 basis point interest rate cuts anticipated in six months' time.

Interest rate projection: 6x9-month FRA

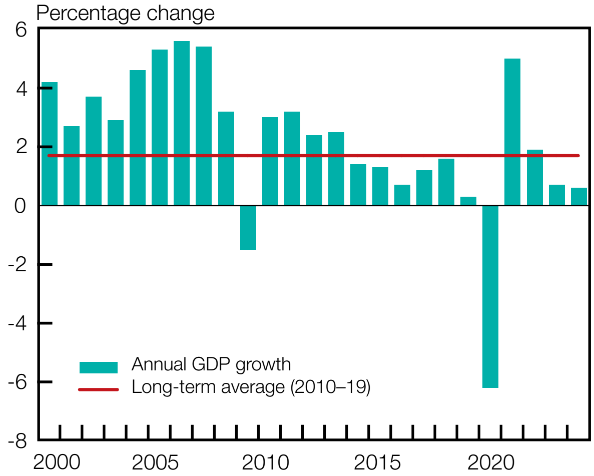
Basis point spread over three-month Jibar



* Indicates market expectations of the change in the policy rate, starting six months from each point in time

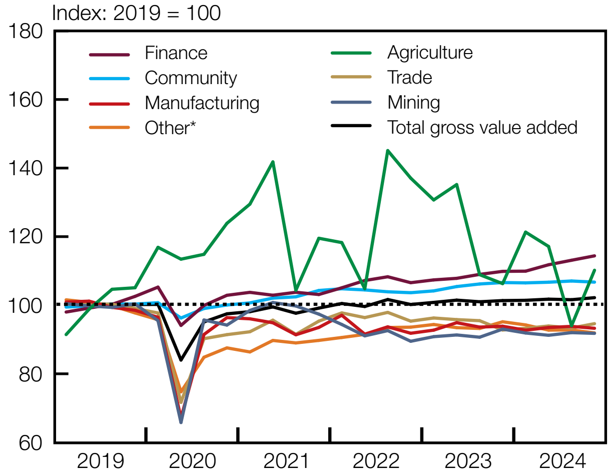
Sources: Bloomberg and SARB

Real GDP growth



Sources: Stats SA and SARB

Real GDP by sector



* Includes construction, electricity and transport

Source: Stats SA

Real economy: Will economic activity lift off this year?

The domestic economy expanded by 0.6% in 2024. The modest expansion was underpinned by steady growth in household spending, with support from government consumption and the foreign sector. Investment detracted from total output last year. On the production side, activity was driven by the tertiary sector, while the primary and secondary sectors both contracted. The economy is forecast to expand by 1.7% this year, buoyed by continued growth in household demand, as consumers benefit from softer inflation, lower borrowing costs and two-pot retirement system withdrawals. With business confidence on the mend, some recovery in fixed investment is anticipated this year. Looking further ahead, real GDP and potential growth are both projected to rise to 2.0% by the end of the forecast period, conditional on further improvements in the supply of electricity and logistical services.

Recent economic developments

South Africa's annual growth rate stood at 0.6% in 2024, slightly down from 0.7% in 2023, highlighting the economy's ongoing struggle to escape its low growth environment. Despite a sustained improvement in electricity supply and some signs that logistical bottlenecks are beginning to ease, the recovery in economic activity has been sluggish. This mostly reflects the overhang from prolonged supply-side constraints.[27] Expansion in production has also been hampered by ongoing industry challenges, including muted global and domestic demand as well as a loss of competitiveness.

As in previous years, sectoral performance was mixed. Economic growth was again led by the tertiary sector, despite the transport and trade sectors contracting.[28] The finance industry, which accounts for nearly a quarter of total GDP, was the main contributor to growth in the second half of 2024, expanding by 4.0%. The trade sector's output was flat in the second half of the year, after contracting markedly in the first half of the year.

27 See A Khoza, K Morema, M Mofokeng and M Tshenkeng, 'Will GDP firmly lift from supply-side improvements or is the economy scarred?', *South African Reserve Bank Economic Note No. EN/2024/22*, Pretoria: SARB, December 2024.

28 The sector grew by 1.2% year on year in the final six months of 2024, contributing 0.9 percentage points to GDP growth.

The primary and secondary sectors both detracted from GDP growth in 2024, with the former subtracting the most.[29,30] Modest field crop harvests following the 2023–24 mid-summer drought negatively affected agricultural performance in the second half of the year. Meanwhile, total mining production remained weak despite improved electricity supply. South African gold miners were unable to fully capitalise on the record-high gold prices partly due to structural headwinds, including high energy and operating costs as well as lengthy permitting processes for exploration.[31] A plethora of factors also continued to weigh on production in mining, manufacturing and other activities. Output growth remained constrained by logistical challenges in ports and rail, muted demand and reduced competitiveness due to high input costs, skills shortages and low investment.[32]

Data from Stats SA suggests that the labour market has recovered fully from the pandemic shock in 2020. However, employment growth in the past two years has been muted, in line with the sluggish output growth during this period. While the *Quarterly Labour Force Survey (QLFS)* indicated some modest employment gains in the second half of 2024, the *Quarterly Employment Statistics (QES)* data pointed to a contraction.[33] This discrepancy may stem from differences in sampling approaches, with the *QLFS* sampling households, while the *QES* samples non-agricultural enterprises. However, when considering the SARB's linked employment series – which is based on the Stats SA *QES* data – the post-COVID-19 recovery in employment is more subdued – consistent with a broadly flat profile of real total employee compensation.

Household consumption increased by 1.8% in the final six months of 2024 compared to a year earlier. Spending benefited from improving household real disposable income as inflation declined and interest rates were cut, with the expectations of

29 The primary sector shrunk by 1.8% year on year in the second half of 2024, mostly driven by agriculture which contracted by 5.1%. Growth in the mining sector was flat (0.1% year on year) during the last six months of 2024. On a quarter-on-quarter basis, the sector contracted by 0.2% in the fourth quarter, following an increase of 0.8% in the third quarter. See T Liebenberg, 'AgriSA highlights positive developments in agricultural sector amid mixed fortunes in Q3 2024', Media release, Pretoria: AgriSA, 3 December 2024.

30 All the secondary sub-sectors contracted in the fourth quarter of 2024, on a quarter-on-quarter basis. The manufacturing sector contracted by 0.6% after a 0.3% expansion in the third quarter; the construction sector fell by 0.4% following an increase of 0.8% in the third quarter, while electricity contracted by 1.4% in the fourth quarter after growing by 1.3% in the third quarter.

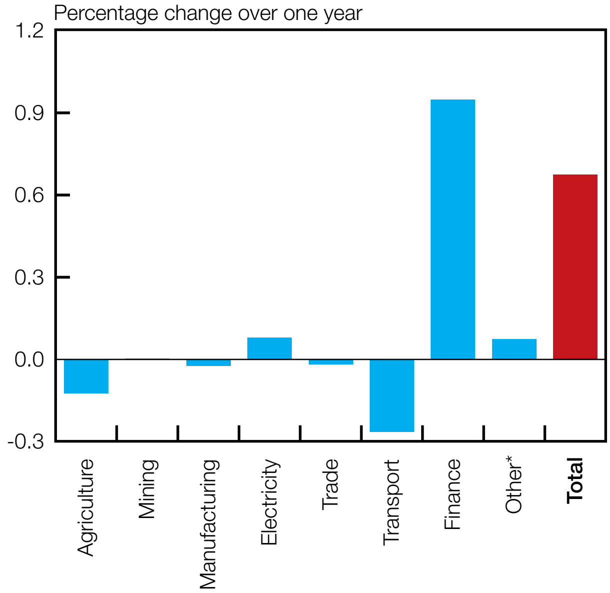
31 See P Masilela, 'Exploration: key to South Africa's growth', *Mining Review Africa*, 31 January 2025.

32 See Minerals Council South Africa, *2023 Comprehensive Facts and Figures Pocketbook*, Johannesburg: Minerals Council South Africa, 2024. See also A Fortunato, 'Getting back on the curve: South Africa's manufacturing challenge', *Center for International Development Research Fellow and Graduate Student Working Paper No. 139*, Cambridge: Center for International Development, Harvard University, November 2022.

33 On a quarterly basis, employment in the *QLFS* increased by 1.9% and 1.1% during the third and fourth quarters of 2024 respectively, helping drive unemployment down to 31.9% in the fourth quarter. In the *QES*, employment declined by 1.2% and 0.4% during the third and fourth quarters respectively.

Contributions to real GDP growth in 2024H2

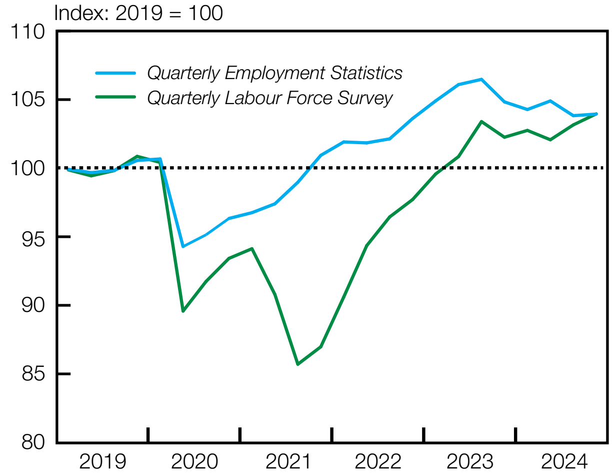
Percentage change over one year



* Includes construction, community services and taxes *less* subsidies
Source: Stats SA

Formal employment

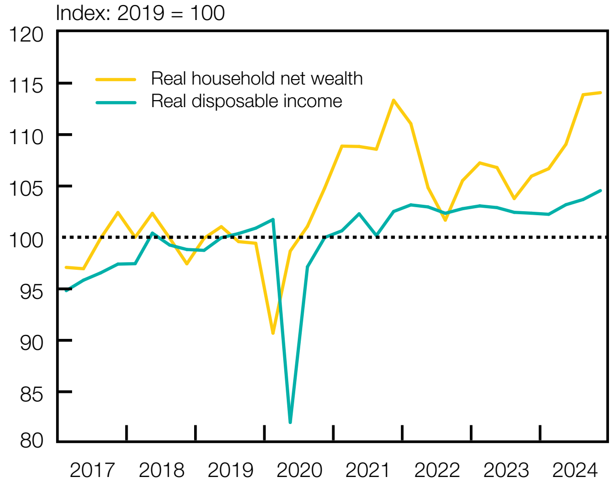
Index: 2019 = 100



Source: Stats SA

Household balance sheet

Index: 2019 = 100



Source: SARB

Private sector fixed investment*

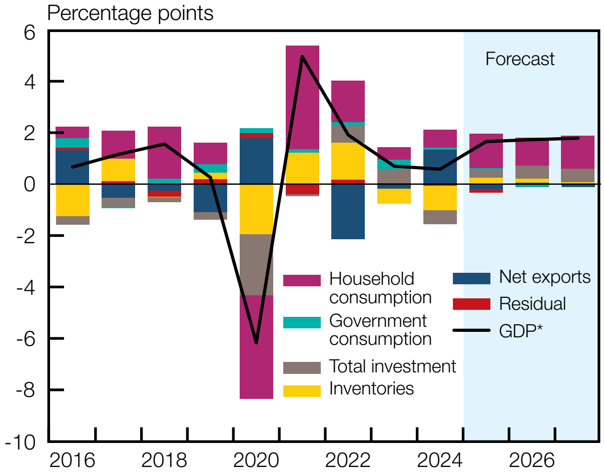
Percentage change over one quarter

* Four-quarter moving average

Source: Stats SA

Contributions to real GDP growth

Percentage points



* Percentage change

Sources: Stats SA and SARB

further rate cuts supporting consumer confidence.[34] The two-pot retirement system withdrawals, which cumulated to roughly R35 billion by year-end, also played a key role in propelling household consumption in the final quarter of the year.

By contrast, investment spending disappointed, with capital expenditure by all organisations and all asset classes still below pre-pandemic levels. The second half of 2024 saw significant year-on-year declines of 3.2% in private investment and 5.1% in public corporation investment, while general government investment rose by 2.0%. For the full year, total investment contracted by 3.7%. This poor performance in investment was at odds with the generally more upbeat business sentiment. After surging in 2023, reduced spending on embedded electricity generation, as evidenced by capital goods import data, was likely among the proximate causes of the drop in private investment. At state-owned companies, insufficient market competition and balance sheet strain continued to weigh on investment.

More broadly, muted demand growth and negative supply shocks continued to subdue investment appetite. Faced with these constraints, it is unsurprising that the announced fixed investment projects in 2024 were mostly related to replacement capital (61.2%), which dwarfed expansionary investment (14%).[35]

Growth outlook

Growth over the medium term is anticipated to be driven by household spending, with support from investment. Government spending is expected to be broadly neutral, while net exports are expected to detract from growth this year and remain largely neutral from 2026. Further progress in reducing domestic supply-side constraints would enhance the contribution of these components to growth.

A low inflation environment, continued withdrawals from the two-pot retirement system and declining debt-service costs are expected to improve household finances. Lower borrowing costs and stronger household balance sheets should also improve credit demand and affordability, further boosting consumer confidence. The recovery in employment and earnings as real economic activity strengthens should further buoy consumer confidence and incomes. However, the proposed VAT increases as well as further fiscal drag could dampen household spending growth. Overall, real spending by households is projected to grow by 2.0% in 2025, 1.6% in 2026 and 1.9% in 2027.

34 Real household net wealth has increased strongly over the past two years as growth in the value of financial assets, especially in pension funds and long-term insurers, outpaced that of liabilities.

35 See Nedbank, *Nedbank Capital Expenditure Project Listing 2024*, Johannesburg: Nedbank, 13 February 2025.

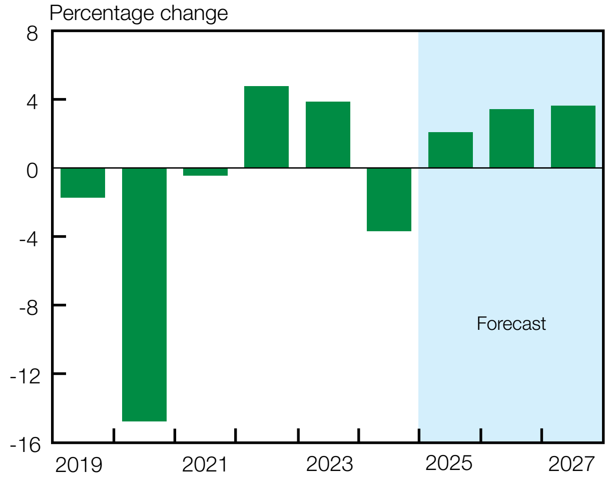
Investment spending is projected to increase by 2.1% this year, rising to 3.6% in the outer year of the forecast. Capital spending is expected to benefit from the implementation of embedded-generation plans with a capacity of approximately 8 700 megawatts (MW).[36] Meanwhile, stronger consumption demand and improved business confidence should start to spur private investment beyond the energy space. Public sector infrastructure investment could complement and potentially incentivise private sector capital formation, with National Treasury allocating R1 trillion over the next three years. However, possible delays in project approval processes and underspending on public sector investment projects pose downside risks to the outlook for capital expenditure.

Economic activity is expected to receive additional support from the foreign sector. Over the forecast horizon, a slower deceleration in commodity export prices relative to those predicted in the October 2024 *MPR* is expected to improve the terms of trade and thus domestic demand.

Although risks relating to electricity supply remain, as seen in the short bouts of load-shedding during the first quarter of this year, the SARB continues to assume that load-shedding will have no material impact on growth over the medium term. Logistics reforms should also support the growth outlook, with government providing a roadmap for private train operator companies to access the rail network.[37]

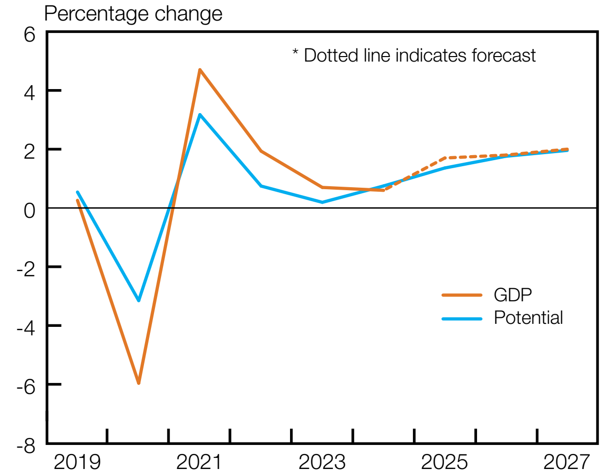
Overall, the SARB forecasts real and potential GDP to expand by 1.7% and 1.4% respectively this year, reaching 2.0% in 2027. These growth projections remain sensitive to the full implementation of the ongoing structural reforms in the energy and logistics sectors as well as the evolution of the global economy. Tariffs and trade restrictions present a serious threat to global economic activity, with spillovers to South Africa.

Total GFCF



Sources: Stats SA and SARB

Real GDP and potential growth*



Sources: Stats SA and SARB

36 A total capacity of 2 707 MW (1 088 MW photovoltaic, 1 601 MW wind and 18 MW biogas) is expected to reach commercial operation in 2026, rising to a cumulative 8 681 MW by 2027. See Eskom, *Medium-Term System Adequacy Outlook 2025–2029,* Johannesburg: Eskom, 30 October 2024.

37 See Transnet, *Network Statement*, Johannesburg: Transnet, December 2024.

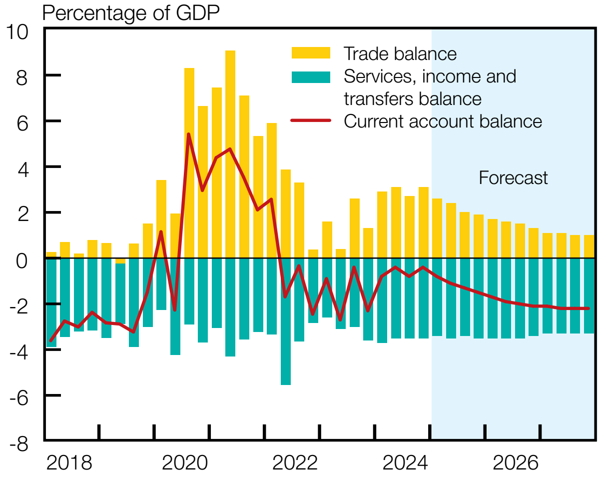
Macro balances

The current account and its drivers

The current account deficit narrowed markedly to -0.6% of GDP in 2024 from -1.6% in 2023. This improvement can primarily be attributed to a rising trade surplus. Net exports benefited from higher agricultural and manufacturing exports, while imports softened due to weak investment demand and lower oil prices.[38] The services, income and transfer account deficit remained relatively unchanged over the review period. However, the current account is still forecast to deteriorate over the medium term as commodity export prices normalise towards pre-COVID-19 levels, while the recovery in domestic investment is expected to stimulate imports. The current account deficit is forecast to average 1.2% (compared to 2.2% in the October *MPR*) this year, widening to 2.2% by 2027.

Current account balances

Percentage of GDP



Source: SARB

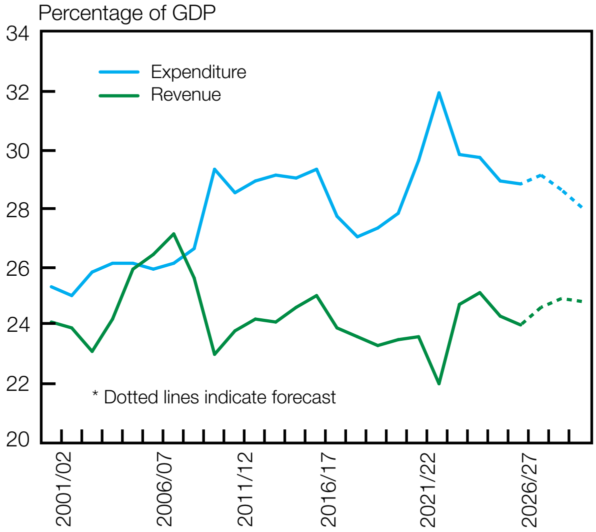
Fiscal balances

The medium-term fiscal framework presented in the 2025 Budget showed a slight deterioration in the fiscal position compared with last year's Budget. The ratio of debt to GDP is now expected to peak 0.9 percentage points higher at 76.2% this fiscal year, driven by a wider main budget deficit. However, the disappointing GDP growth outturn in the fourth quarter of 2024 raises the risk of debt levels rising even higher. This deterioration is partly due to total expenditure, which is projected to increase by roughly R160 billion over the medium term compared with previous projections, while revenue – buoyed by new tax measures – rises by R100 billion.[39] Accordingly, the trajectory of the primary surplus is moderately lower relative to the 2024 Budget. The 2025 Budget continues to target a rising primary surplus as the key metric to stabilise debt.

South Africa's debt is high and is becoming increasingly costly for the economy as it exerts upward pressure on the risk premium and the exchange rate. Real long-term government bond yields remain high and debt-service costs consume nearly a quarter of total revenue – resources that could be deployed to support investment and growth as well as enhance the resilience of the domestic economy. On the whole, the fiscal position is subject to risks, including possible support to state-owned enterprises with fragile balance sheets and lower-than-expected growth.

Main budget components*

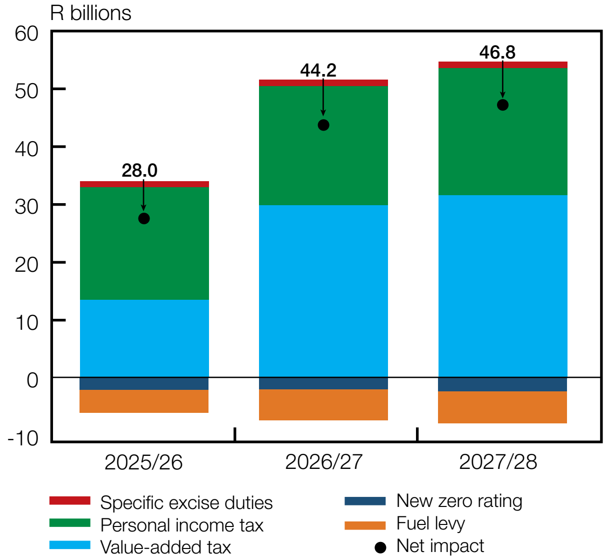
Percentage of GDP



Source: National Treasury

Tax proposals

R billions



Source: National Treasury

38 Total agricultural and manufacturing exports increased by 2.7% and 3.3% respectively in 2024, while total imports declined by 4.0%.

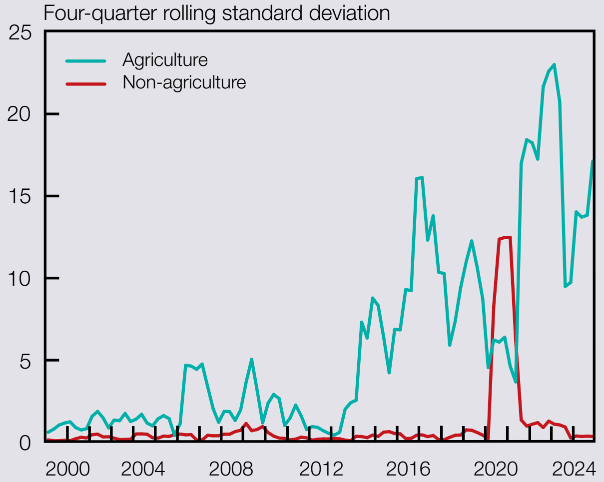
39 The Budget proposed a phased-in 1 percentage point VAT hike, along with fiscal drag (no inflationary adjustment to income tax brackets).

Conclusion

Despite slowing over the past two years, stronger domestic growth is expected this year and over the forecast horizon. The Reuters median growth forecast predicts a 1.7% increase in 2025, in line with the SARB's latest forecast, with growth expected to reach 2.0% by 2027. However, these growth rates still remain below long-run growth estimates of 2.5%. Broadening the scope of reforms beyond energy and logistics, including stabilising public debt and lowering the risk premium, is key to further unlocking the economy's productive potential, bringing it closer to the level of other emerging economies at around 4.0%.

Volatility of agricultural GVA

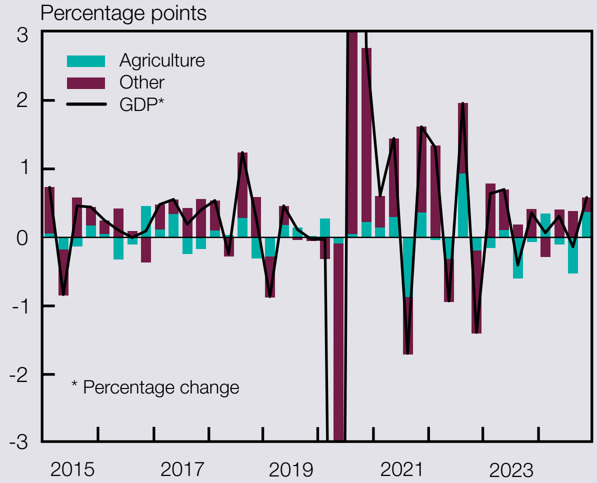
Four-quarter rolling standard deviation



Sources: Stats SA and SARB

Contributions to real GDP growth

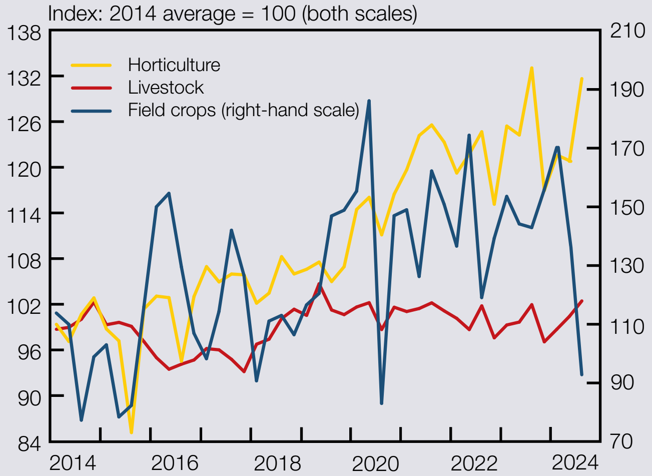
Percentage points



Source: Stats SA

Agriculture real gross income

Index: 2014 average = 100 (both scales)



Sources: DALRRD and SARB

Box 4 So small, yet so consequential for gross domestic product growth

Despite its small share (2.5%) in gross domestic product (GDP), agriculture has had a disproportionately large impact on total GDP growth in recent years. The rising volatility of quarterly agricultural gross value added (GVA) over the past few years has contributed to the increased unpredictability of overall GDP and largely explains GDP growth forecast errors.

The total output of the agricultural sector is made up of activity from its three core subsectors, namely field crops, horticulture and livestock. The field crops subsector (28% of gross income) is the most volatile, partly reflecting the increasingly changing and unpredictable weather conditions. Horticulture (28%) and livestock (44%) exhibit significantly less volatility.

The increased volatility in agricultural output has various sources. Cycles of droughts and floods have impacted crop yields and led to the death or slaughter of livestock.[1] Severe load-shedding in 2022 and 2023 disrupted farming processes and caused significant losses across all subsectors.[2, 3] Volatility in agricultural GVA has also reflected shifts in the timing of planting and harvests as well as potential measurement challenges.[4] For example, in 2022, the maize crop was harvested later than usual due to heavy rains, which shifted a large share of deliveries to the third quarter.[5] By contrast, the drought of 2024 led to an earlier-than-usual maize harvest, with the bulk of deliveries taking place in the second quarter.

The volatility of agricultural output affects GDP growth forecasts and subsequently impacts output gap estimates. To minimise distortions to output gap estimates caused by supply-side volatility in GDP growth, the South African Reserve Bank frequently adjusts its potential GDP growth estimates.

1 Nearly 3 million cattle were slaughtered in 2016 during a drought-driven herd reduction. See AgriSA, *Status Report on the Current Drought Crisis: A Raindrop in the Drought*. Centurion: AgriSA, February 2016. Also see Red Meat Industry Services, *Red Meat Industry Report: Global and Domestic Perspective*, Pretoria: Red Meat Industry Services, December 2024.

2 Since 2019, South Africa has experienced 10 outbreaks of foot-and-mouth disease (FMD), ending its previous status as an FMD-free zone without vaccination. Notably, 2022 marked the first time in the country's history that the disease became widespread, with six out of the nine provinces reporting outbreaks. See Department of Agriculture, Land Reform and Rural Development, *Foot and Mouth Disease Outbreak Report*, Pretoria: Department of Agriculture, Land Reform and Rural Development, 2025, pp 1–9.

3 See Cliffe Dekker Hofmeyr, *Alert: Agriculture, Aquaculture & Fishing Sector*, Johannesburg: Cliffe Dekker Hofmeyr, April 2024.

4 See Bureau for Food and Agricultural Policy (BFAP), *Perspectives on Agriculture Performance in Q3 of 2024*', Pretoria: BFAP, December 2024.

5 Producer deliveries declined by 55% in the second quarter of 2022 before jumping to 38.4% in the third quarter.

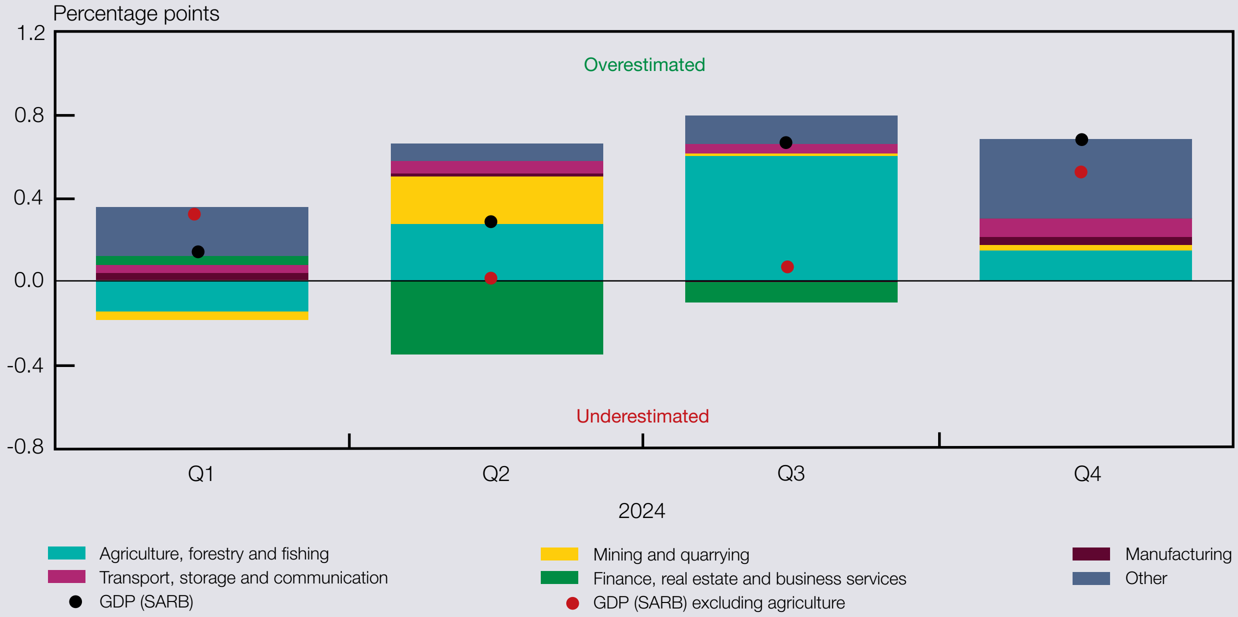
Box 5 Agriculture and inventories drive 2024 growth forecast misses

Gross domestic product (GDP) growth forecasts, along with those of potential growth, help determine the degree of slack in the economy. Accurate and unbiased growth forecasts support better monetary policy decision-making, all other things being equal.[1] This box assesses the accuracy of the South African Reserve Bank's (SARB) growth predictions for 2024.

The SARB overestimated GDP growth in 2024. The first in-year forecast in January 2024 had the SARB projecting growth of 1.2% for the year, against the actual outturn of 0.6%. Much of the difficulty in forecasting GDP reflects increased volatility in key components and the prevalence of large supply shocks.[2] On the production side, the volatile agricultural sector was the largest contributor to last year's forecast error. In the third quarter of 2024, agricultural production contracted by 28.8%, well beyond expectations. Subsequent forecast revisions also proved overly optimistic as data revisions by Statistics South Africa reduced the size of the initial quarterly outcome, but not by as much as expected.[3, 4]

Excluding agriculture from GDP improves the SARB's forecast errors significantly, although transport, storage and communication as well as the grouping 'other' were also consistently overestimated.[5, 6] By contrast, finance, real estate and business services tended to be underestimated. Part of the challenge in forecasting these sectors is the absence of relevant high-frequency data. The forecasting difficulty extends to the entire economics community, as seen in the Reuters median, which shows similarly large GDP forecast errors for 2024.[7]

Contributions to the 2024 GDP forecast errors (forecast minus actual)



Sources: Stats SA and SARB

On the expenditure side, private investment and the change in inventories were overestimated. Following strong growth of 6.0% and 3.0% in 2022 and 2023 respectively, private investment was forecast to expand by 2.9% last year, underpinned by spending on renewable energy projects. However, private investment contracted by 4.1%. Inventories experienced unexpected drawdowns in all four quarters.[8] Conversely, net exports were underestimated mainly due to lower-than-expected imports, in line with overall domestic growth and investment forecast errors. This slightly offset some of the overestimated components and improved the overall forecast accuracy.

1 Forecasts are accurate if predictions are close to actual outcomes and unbiased if there is no tendency to over- or underestimate actual outcomes.

2 The standard deviation of quarter-on-quarter growth increased to 0.85 in 2022–24 compared with 0.57 in 2017–19. It is important to note that the post-COVID-19 period in this case excludes 2021 as the rebound from the low levels of 2020 could skew the results.

3 See Bureau for Food and Agricultural Policy (BFAP), *Perspectives on Agriculture Performance in Q3 of 2024*, Pretoria: BFAP, December 2024.

4 The SARB projected agriculture to increase by 27.4% in the fourth quarter of 2024, but it grew by 17.2%.

5 The SARB's one-quarter-ahead root mean square error (RMSE) is 0.5, marginally higher than the Reuters median RMSE of 0.4. Excluding agriculture, the SARB's RMSE improves to 0.3.

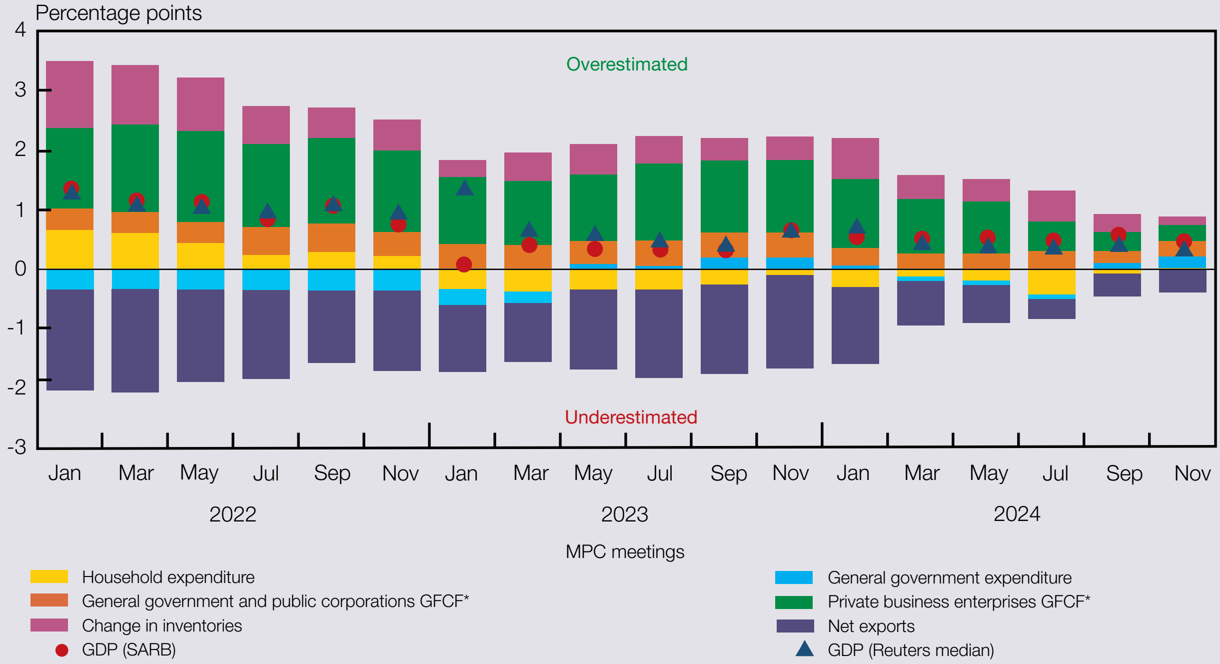
6 'Other' includes the electricity, construction, trade and community services sectors.

7 Both the SARB and private analysts (Reuters median) overestimated 2024 GDP growth at every MPC meeting. The SARB's average forecast error – a measure of forecast bias – was 0.68 (compared to 0.85 for the Reuters median). Similarly, other institutions' 2024 growth forecasts for South Africa were also biased on the upside, with average forecast errors of 0.49 for the Organisation for Economic Co-operation and Development (OECD); 0.73 for the International Monetary Fund (IMF); and 0.94 for the World Bank.

8 The change in inventories detracted a full percentage point from overall growth in 2024.

In conclusion, heightened volatility in agricultural output caused unpredictable swings in realised GDP and explains much of the forecast errors and bias. As hard data either comes with significant lags or is not available, errors can also stem from the use of near-term projections and wide-ranging nowcast estimates to determine starting points for forecasts. The Monetary Policy Committee's use of scenarios and other inputs help to moderate the influence of challenging forecasting on policy decisions.

Contributions to the 2024 GDP forecast errors (forecast minus actual)



* Gross fixed capital formation

Sources: Stats SA and SARB

Price developments: Inflation in target, but will it stick?

Headline inflation softened markedly in the second half of 2024, falling to 2.8% in October before edging higher to 3.2% in February this year. The rapid deceleration stemmed from sharply lower food and fuel inflation that benefited from rand appreciation and falling oil prices, along with base effects. A stronger rand, together with monetary policy choices, declining inflation expectations and subdued ULC pressures, exerted downside influence on core prices, further pulling headline inflation lower. Some of these disinflationary tailwinds have since weakened or reversed, while new risks have emerged. The SARB expects headline inflation to slow to 3.6% this year from 4.4% in 2024 before stabilising at the target midpoint from 2026. However, confidence around the medium-term outlook has reduced significantly due to heightened global trade tensions and elevated domestic uncertainties.

Oil prices and fuel inflation

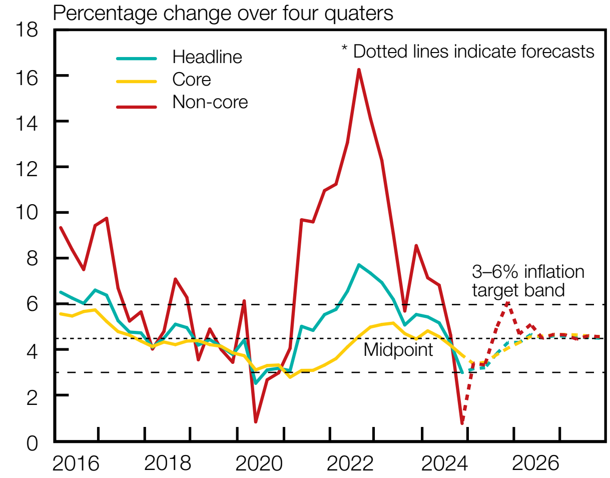
Lower oil prices and a stronger rand were key drivers of headline disinflation in the second half of 2024. The Brent crude oil price eased to US$80 per barrel in 2024, down from US$83 per barrel in the previous year. The rand exchange rate also strengthened appreciably in the second half of 2024. These dynamics contributed to fuel deflation of 0.8% in 2024. However, the start of 2025 brought some volatility to oil prices, with a 7.6% month-on-month Brent crude oil price surge in January followed by a 4.8% decline in February.[40]

Looking ahead, Brent crude oil prices are projected to benefit from the expected sustained oversupply of around one million barrels per day into the medium term, reflecting expectations of weaker global demand and rising production by OPEC+ members (members of the Organization of the Petroleum Exporting Countries (OPEC) plus other oil-producing countries).[41] Accordingly, the SARB has lowered its medium-term crude oil price assumption from US$81 per barrel in the October 2024 *MPR* to an average of US$76 per barrel.

Administered price inflation

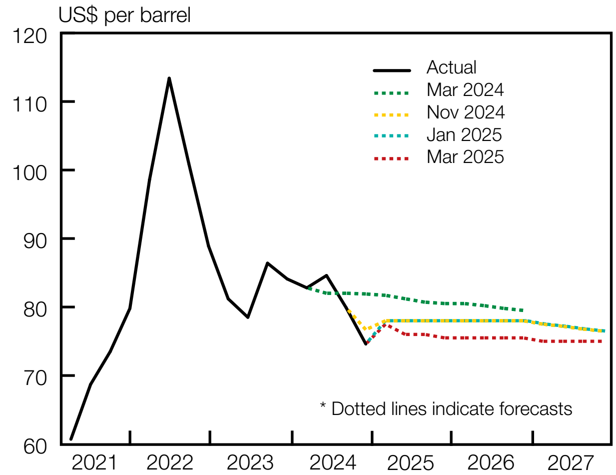
As a result of falling fuel prices, administered price inflation has slowed sharply in recent months, moderating from an average of 8.1% in the first half of the year to just 2.6% in the second half. Administered price inflation averaged 1.8% over the five months to February 2025. When excluding the basic fuel price, which is determined by movements in international oil

Core versus non-core inflation*



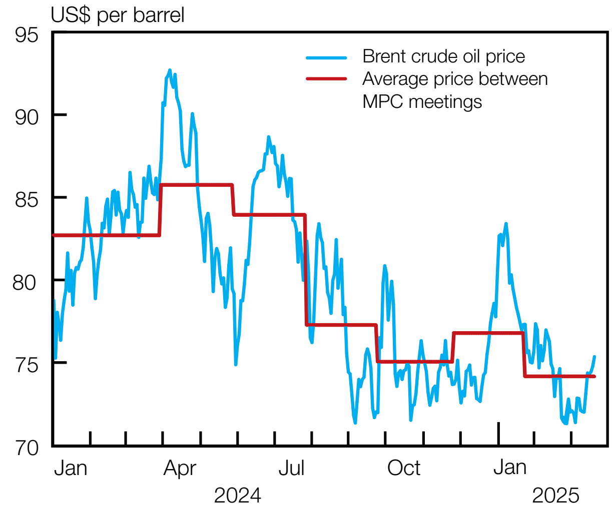
Sources: Stats SA and SARB

Brent crude oil price forecast evolution*



Source: SARB

Daily Brent crude oil price

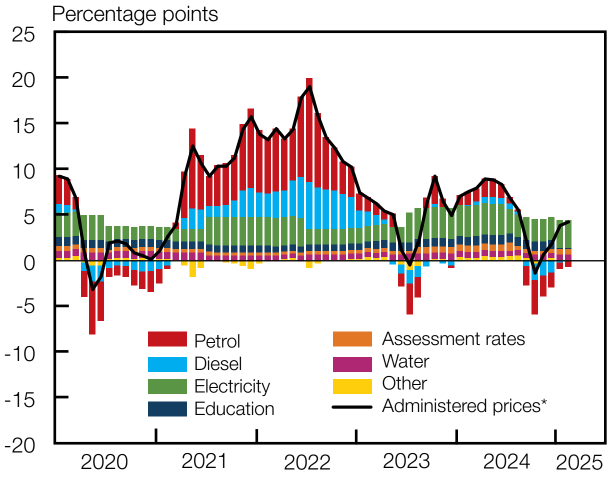


Source: SARB

40 The January 2025 increase in Brent crude oil prices was spurred by fears of tighter sanctions on Russia and Iran and colder-than-expected weather conditions in North America. Concerns surrounding trade tensions and more subdued global growth, and their impacts on oil demand, returned in February, however, causing oil prices to recede.

41 See US Energy Information Administration, *Short-Term Energy Outlook*, Washington DC: US Energy Information Administration, February 2025.

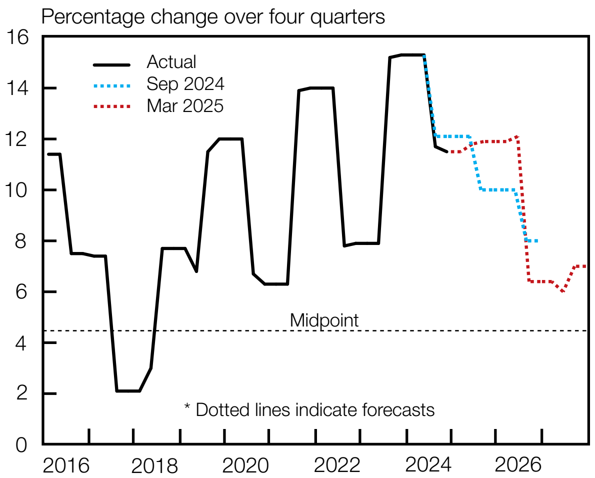
Contributions to administered price inflation



* Percentage change over 12 months

Sources: Stats SA and SARB

Electricity inflation forecast evolution*



Sources: Stats SA and SARB

prices and the rand exchange rate, administered price inflation remained exceedingly high at 7.5% in 2024.[42] Inflation for this component is, however, projected to ease to 5.1% by 2027.

Unlike the cyclical nature of fuel prices, electricity price inflation has continued to exert steady upside pressure on administered prices. Since 2009, electricity prices have risen more than five-fold, while other administered prices excluding electricity have roughly tripled. Over the past year, electricity prices climbed by 13.3%, while average price increases in the economy (inflation) rose by just 4.4%. Another large electricity price increase is projected for this year.[43] Domestic electricity prices have both the scope and tendency to increase above the inflation rate, reflecting the need to entice more investment in the sector and the nature of the regulatory framework, which includes provisions for cost recovery on diesel usage.[44] The SARB expects electricity inflation to average 11.8% this year, easing to 6.6% by 2027, but risks are tilted to the upside considering possible clawbacks related to diesel usage to avert load-shedding.

Inflation for the other components of administered prices, such as water and assessment rates, remained elevated in 2024, averaging 8.5% and 7.1% respectively. Historical underinvestment in water infrastructure and broader concerns about municipal financial viability have continued to hinder service provisioning while raising costs, contributing to expectations that inflation in these components will remain elevated.

Large administered price increases not only affect consumer inflation but also raise the cost structure of the economy as most administered components serve as factors of production. Administered price increases are therefore often passed on to consumers. Importantly, while administered price inflation exerts upside pressure on headline inflation, muted headline inflation simultaneously acts to depress administered price inflation.[45] Administered price inflation can be reduced through regulatory interventions to ensure price increases are cost-reflective as well as indirectly by achieving a low and stable headline inflation on a sustained basis.[46]

42 Administered components of the fuel price include fuel taxes, the Road Accident Fund levy and margins.

43 The National Energy Regulator of South Africa (NERSA) recently approved a 12.74% electricity tariff increase for the 2025/26 financial year, effective from April 2025, and increases of 5.36% in 2026/27 and 6.19% in 2027/28.

44 Z Ismail and C Wood, 'Review of administered prices in South Africa: The electricity tariff', *Special Occasional Bulletin of Economic Notes: Special OBEN/23/01*, Pretoria: SARB, August 2023.

45 C Loewald, K Makrelov and E Pirozhkova, 'The short-term costs of reducing trend inflation in South Africa', *South African Reserve Bank Working Paper Series No. WP/22/08,* Pretoria: SARB, August 2022.

46 See K Walsh, 'Review of administered prices in South Africa: Municipal rates and taxes', *Special Occasional Bulletin of Economic Notes: Special OBEN/23/01*, Pretoria: SARB, August 2023.

Food and non-alcoholic beverages inflation

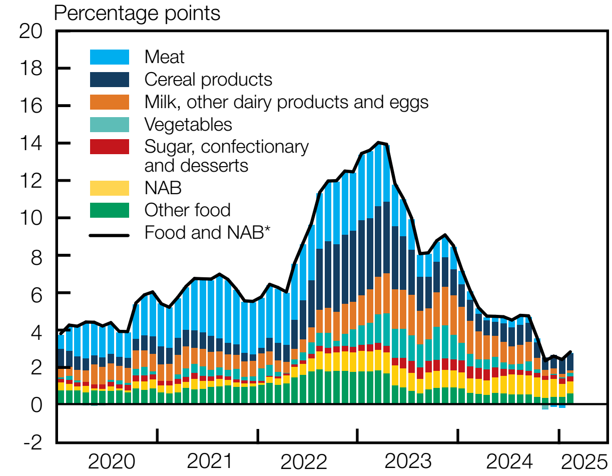
Food and non-alcoholic beverages (NAB) inflation fell significantly in 2024, averaging 4.5% for the year, down from 10.7% in the previous year. This 6.2 percentage point decline is the largest year-to-year slowdown since 2010. As was characteristic of non-core components in the second half of 2024, food and NAB price dynamics benefited from rand strength. The containment of domestic idiosyncratic shocks such as foot-and-mouth disease, avian influenza and load-shedding, along with base effects and deflationary global agricultural commodity prices, also helped spur a more rapid and broad-based disinflation.

The meat as well as the milk, other dairy products and eggs components contributed the most to the deceleration in food and NAB inflation, with both components experiencing base effect-driven easing as the impacts of avian influenza worked out of the year-on-year numbers. Cereal products inflation also eased notably, troughing at 3.7% in November 2024 before ticking up modestly. The turn likely reflected the pass-through of higher maize prices induced by the 2023–24 El Niño-related drought.

Looking ahead, the SARB expects higher inflation for meat and cereal products in 2025, at 2.6% and 5.2% respectively. Rising meat inflation is due to fading base effects and the expected recovery in the demand for red meat. Meanwhile, higher white maize spot prices will likely continue to exert upside pressures on cereal products for the remainder of the first half of 2025. However, the return of La Niña weather conditions should support a moderation in price increases in the second half of this year.

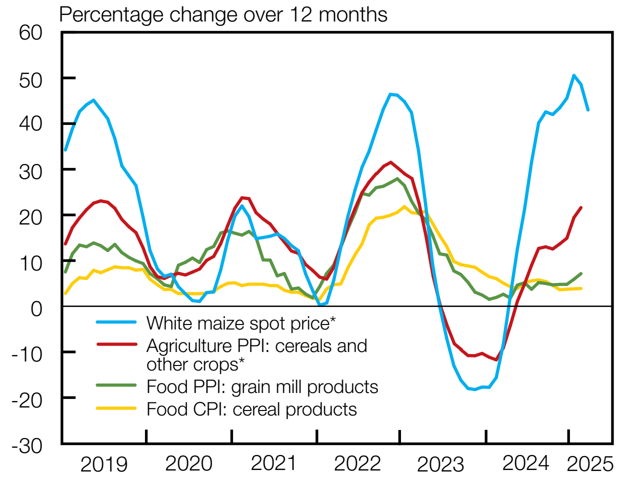
Despite some upside pressures from the large-weight components (meat and cereals), along with rising global agricultural commodity prices, the SARB expects overall food and NAB inflation to remain contained at 3.8% this year, rising to the target midpoint from 2026. Risks to this forecast include exchange rate movements and the pass-through effect of VAT increases.

Contributions to food and NAB inflation



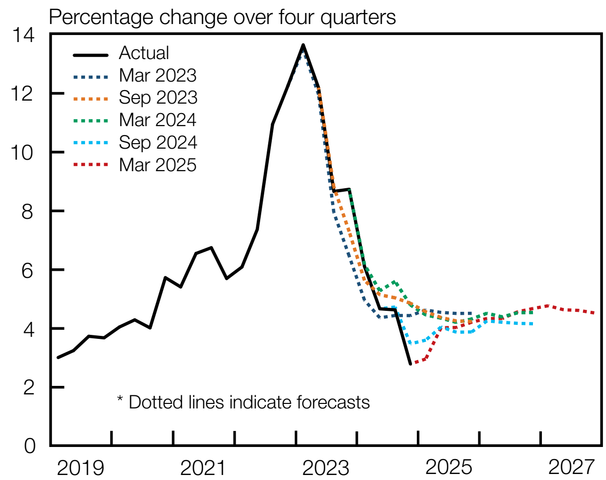
* Percentage change over 12 months
Sources: Stats SA and SARB

Cereal products inflation along the value chain



* Six-month moving average
Sources: SAFEX, Stats SA and SARB

Food and NAB inflation forecast evolution*



Sources: Stats SA and SARB

Consumer food price inflation (March 2025 forecasts)

Percentage change over four quarters, September 2024 forecasts in brackets

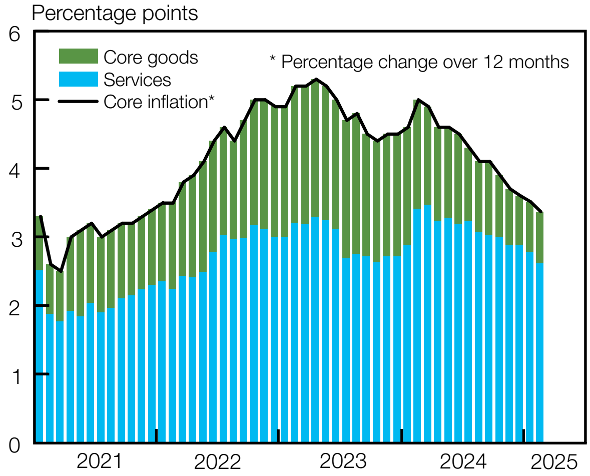
	Actual					Forecast				
	Weight	2014–24	2024Q3	2024Q4	2024*	2025Q1	2025Q2	2025Q3	2025Q4	2025*
Food and non-alcoholic beverages	18.23	6.6	4.6	2.8	4.5	3.0	4.0	4.0	4.2	3.8
			(4.7)	(3.5)	(4.7)	(3.6)	(4.1)			
Cereal products	4.14	6.6	5.6	4.0	5.0	4.7	6.0	4.8	5.2	5.2
			(5.4)	(5.5)	(5.3)	(5.9)	(6.0)			
Meat	5.10	6.3	1.1	0.0	0.8	0.3	2.6	4.1	4.8	2.6
			(1.5)	(1.3)	(1.2)	(2.4)	(4.3)			
Beef....................................	1.15	6.3	-0.2	-0.5	-1.1	1.4	3.7	5.5	5.9	3.7
			(0.2)	(0.9)	(-0.7)	(0.9)	(3.2)			
Poultry	1.90	7.1	3.0	0.8	3.1	0.1	2.4	3.6	4.2	2.2
			(3.5)	(2.9)	(3.8)	(3.8)	(5.8)			
Milk, other dairy products and eggs................................	1.83	6.6	6.7	2.8	7.1	1.8	1.9	1.7	3.0	2.1
			(6.7)	(3.8)	(7.4)	(4.2)	(4.3)			

* Annual average percentage change

Sources: Stats SA and SARB

Contributions to core inflation

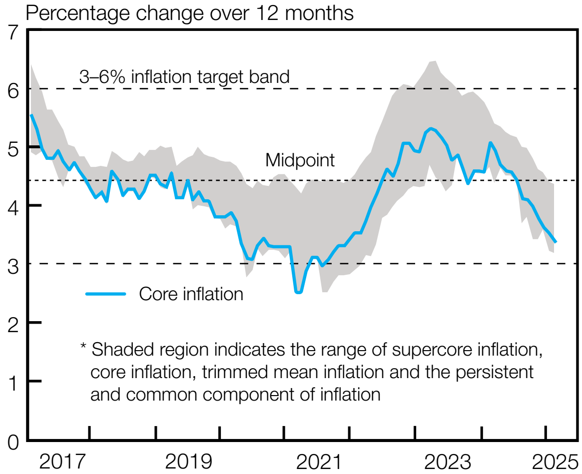
Percentage points



Sources: Stats SA and SARB

Underlying inflation*

Percentage change over 12 months



Sources: Stats SA and SARB

Core inflation

After remaining relatively elevated in the first half of 2024 when it averaged 4.7%, core inflation softened in the second half of the year, averaging 4.0%. For the full year, core inflation averaged 4.3%, down from 4.8% the year before. Average annual inflation was dragged lower by a sharp deceleration in core goods inflation.

Measures of underlying inflation tracked by the SARB, namely core, trimmed mean, supercore and the persistent and common component of inflation (PCCI), have shown substantial cooling in price pressures.[47] The fading second-round effects of past shocks, coupled with better balance between demand and supply in the economy – supported by previous interest rate increases – have been key drivers in dampening underlying inflationary pressures.[48] Looking ahead, core inflation is expected to remain subdued at 3.7% this year, rising to the target midpoint over the outer years of the forecast period.

After peaking at 6.6% in August 2023, core goods inflation moderated to reach a low of 2.2% in both January and February 2025. Disinflation in this component was spurred by a stronger rand and base effects. Vehicles, along with several smaller-weight components of the core goods basket, contributed the most to disinflation. However, the announced VAT increases and global trade tensions present upside risks. The SARB projects core goods inflation to average 3.2% this year and rise to 4.6% by 2027.

47 Over the review period, core inflation averaged 3.6%, trimmed mean inflation 3.6%, supercore inflation 3.5% and PCCI 4.5%.

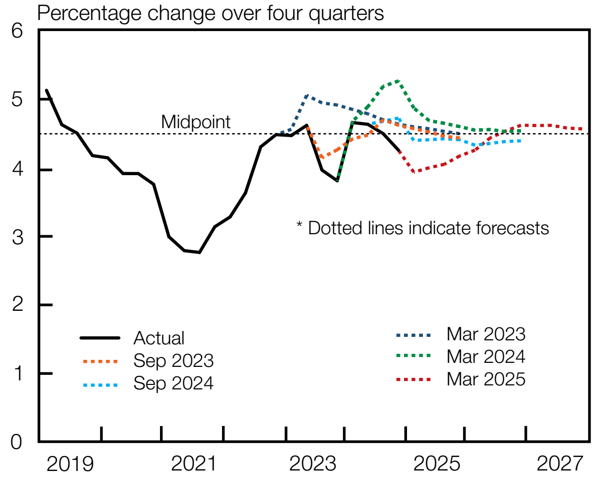
48 A Amaral, S de Kock and K Sun, 'Slowly fading shocks: unpacking demand- and supply-drivers of PCE inflation', *South African Reserve Bank Economic Note No. EN/2025/02*, Pretoria: SARB, January 2025.

After remaining subdued since the COVID-19 pandemic, services inflation shifted higher in 2024, underpinned by normalising medical insurance inflation. Other large-weight services components, such as education, also recorded above-target inflation increases. In contrast, housing continued to provide downward impetus, having remained below its long-term average since the pandemic.[49]

Services inflation eased significantly over the past six months, declining from 4.4% in October 2024 to a low of 3.8% in February 2025. The moderation was broad-based. At a macro level, services disinflation benefited from moderating inflation expectations, subdued wage increases and muted ULC growth. These forces are expected to continue exerting disinflationary pressures over the near term, contributing to a target undershoot in services inflation before it rises towards the target midpoint in the outer years of the forecast period. VAT increases and administered prices, however, pose upside risks to this forecast.

Services inflation forecast evolution*

Percentage change over four quarters



Sources: Stats SA and SARB

Headline inflation (March 2025 forecasts)

Percentage change over four quarters, September 2024 forecasts in brackets

	Actual					Forecast				
	Weight	2014–24	2024Q3	2024Q4	2024*	2025Q1	2025Q2	2025Q3	2025Q4	2025*
Headline inflation	100.00	5.1	4.3	2.9	4.4	3.0	3.1	3.9	4.3	3.6
			(4.4)	(3.6)	(4.6)	(3.7)	(3.8)			
Core inflation**	74.44	4.5	4.2	3.7	4.3	3.4	3.4	3.8	4.1	3.7
			(4.3)	(4.1)	(4.4)	(3.9)	(4.0)			
Rentals***	15.53	3.5	2.9	2.8	3.0	2.5	2.7	3.0	3.3	2.9
			(3.0)	(3.2)	(3.1)	(3.2)	(3.5)			
Insurance	8.41	6.9	8.2	8.2	8.2	8.2	8.5	8.5	8.5	8.4
			(8.3)	(8.3)	(8.2)	(8.3)	(8.7)			
Education	2.41	6.4	6.3	6.3	6.2	6.2	5.9	5.9	5.9	6.0
			(6.3)	(6.3)	(6.2)	(6.2)	(6.0)			
Vehicles	5.61	5.1	3.7	2.7	4.7	2.6	3.2	3.8	4.4	3.5
			(4.0)	(3.5)	(4.9)	(3.7)	(4.0)			
Fuel	3.89	6.2	-1.2	-14.4	-0.8	-5.7	-9.9	-2.5	2.7	-4.1
			(-1.3)	(-8.9)	(0.6)	(-3.7)	(-4.5)			
Electricity	3.44	9.1	11.7	11.5	13.3	11.5	11.8	11.9	11.9	11.8
			(12.1)	(12.1)	(13.6)	(12.1)	(12.1)			

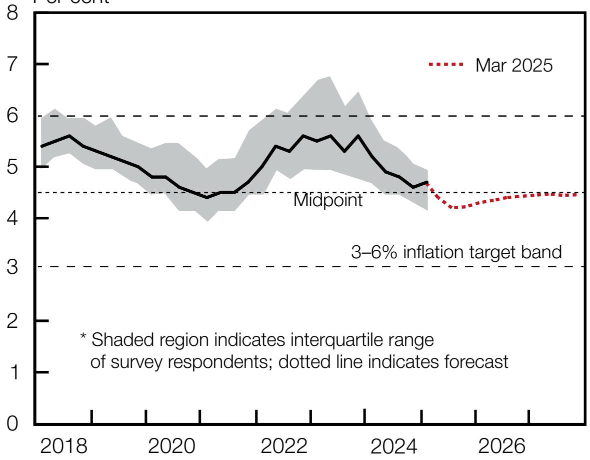
* Annual average percentage change
** CPI excluding food, NAB, fuel and electricity
*** Combines actual rentals and owners' equivalent rent

Sources: Stats SA and SARB

49 See, 'Box 7: Muted housing inflation but how sustainable?', Monetary Policy Review, Pretoria: SARB, October 2024.

Two-year-ahead inflation expectations: all groups*

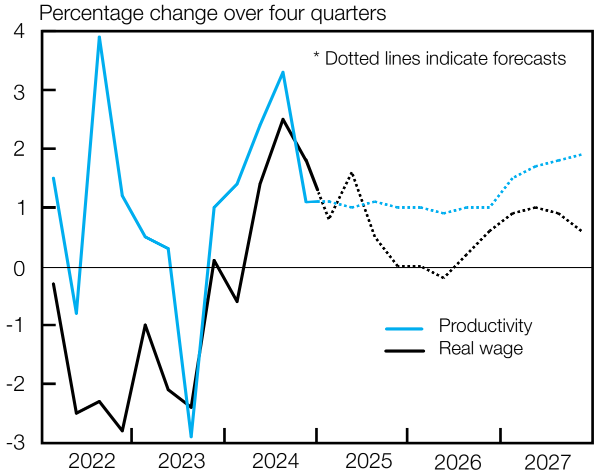
Per cent



Sources: BER and SARB

Productivity and real wage growth*

Percentage change over four quarters



Source: SARB

Medium-term inflation outlook

Over the medium term, the trajectory of core inflation, and by extension headline inflation, is explained by four factors, namely inflation expectations, the output gap, ULCs and the exchange rate gap.

Inflation expectations capture the views of economic agents about the evolution of prices in the economy. When agents act based on these views, inflation expectations can influence inflation. The Bureau for Economic Research's (BER) policy-relevant two-year-ahead inflation expectations have eased closer to the midpoint of the target band with signs of re-anchoring.[50] Given the backward-looking nature of surveyed inflation expectations, further moderation is expected in the coming quarters. Inflation expectations are expected to hover around the target midpoint over the forecast period.

The output gap, which measures the extent of demand pressures on inflation, is expected to be modestly negative in the near term but to close over the medium term, implying broadly neutral inflationary pressures.[51] In the absence of other sources of inflationary or disinflationary pressures, a closed output gap is consistent with inflation around the target midpoint.

Inflationary pressures from the labour market surprised to the downside this past year as expectations of backward indexation failed to materialise. In the QPM, labour market inflationary pressures stem from the real ULC gap and nominal ULC growth. The former captures whether the real wage per worker, per unit of output, deviates from its productivity-aligned (equilibrium) level, while the latter is the nominal labour cost growth of producing a unit of output. Given expectations for stronger GDP growth, productivity growth is forecast to exceed real wages growth over the medium term, while nominal ULC growth is projected to average 3.5% over the medium term.[52] Together, these dynamics suggest reduced labour market pressures on headline inflation over the forecast horizon.

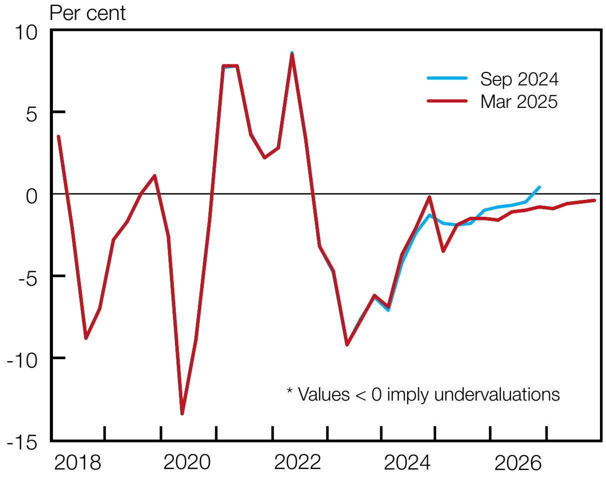
50 Two-year-ahead inflation expectations reached 4.6% in the fourth quarter of 2024 before ticking up slightly to 4.7% in the first quarter of 2025. Measures of 'anchoring' tracked by the SARB, such as the dispersion of expectations of the respondents or the sensitivity of inflation expectations to past inflation, continued to improve throughout 2024.

51 The output gap is projected at -0.2% this year, -0.1% in 2026 and 0.0% in 2027.

52 Nominal ULC growth is forecast at 3.2% this year, rising to 3.7% in both 2026 and 2027.

The rand exchange rate influences medium-term inflation through its impact on imported inflation and the real marginal cost of firms. The rand proved to be volatile over the review period. The starting point for the rand to the US dollar was R17.73 at the November 2024 MPC meeting but depreciated to R18.50 by the March 2025 MPC meeting. Meanwhile, the real effective exchange rate was estimated to have been undervalued since the end of 2022. Although the real exchange rate gap has narrowed, implying less inflationary pressures, the exchange rate is still expected to remain undervalued throughout the forecast period.

Real effective exchange rate gap*



Source: SARB

Conclusion

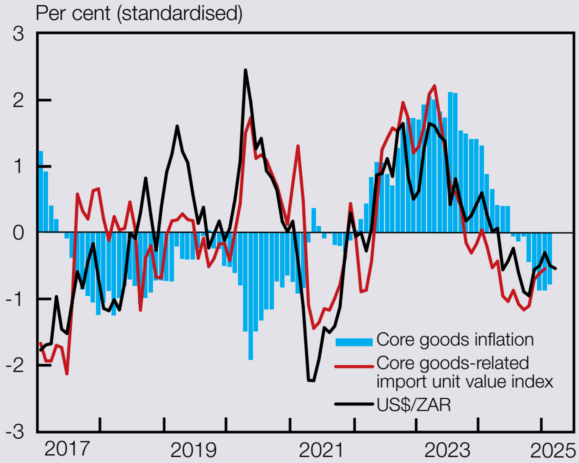
Headline inflation moderated strongly during the second half of 2024, benefiting from favourable oil price developments, a stronger rand and easing core price pressures. Monetary policy has played a role, helping keep demand and supply in better balance. As these forces dissipate or reverse and the impacts of higher VAT begin to transmit, inflation is expected to rise. The SARB expects headline inflation to remain contained this year, averaging 3.6%, before converging to the target midpoint over the outer years of the forecast period. The inflation projection is, however, subject to unusually high forecast uncertainty due to the difficult-to-quantify impacts of the VAT increases and exceptionally high global economic uncertainty.

Box 6 What is the pass-through risk?

Heightened global uncertainty and geopolitical tensions can cause large swings in exchange rates. Depreciating currencies tend to generate rising prices, but the extent of this depends on how much of the exchange rate change gets passed into the rand prices of goods and services – termed the degree of exchange rate pass-through.

The degree of exchange rate pass-through varies over time and across different states of the economy. Severe and sustained currency depreciations are typically associated with greater exchange rate pass-through, especially in emerging economies.[1] Large depreciations squeeze profit margins by directly increasing the costs of imported goods (conversion effect) and indirectly by raising firm's marginal costs. Similarly, pass-through tends to be stronger during high inflation periods or economic upturns when firms have greater pricing power and demand is generally robust.[2,3] High and rising price increases allow firms to pass through more cost increases to consumers with little fear of losing market share. Global uncertainty as well as the elasticity of firms' costs with respect to output have also been found to affect the pass-through

Core goods inflation and the exchange rate*



* Percentage change over 12 months standardised around zero

Sources: Stats SA and SARB

1 See F Caselli and A Roitman, 'Non-linear exchange rate pass-through in emerging markets', *International Monetary Fund Working Paper No. WP/16/1*, Washington DC: IMF, January 2016.

2 See E Choudri and D Hakura, 'Exchange rate pass-through to domestic prices: Does the inflationary environment matter?', *Journal of International Money and Finance* 25(4), 2006, pp 614–639.

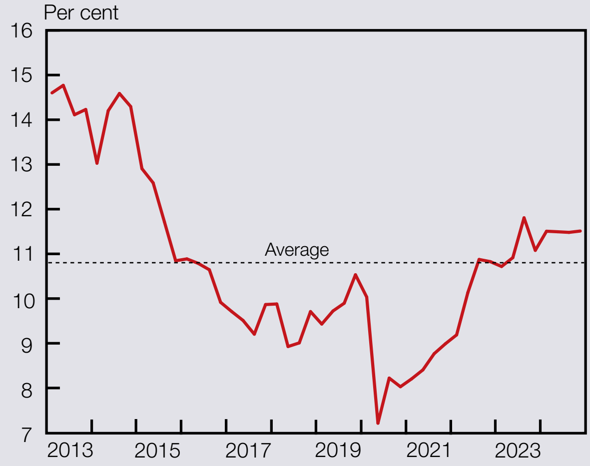
3 See A Kabundi and A Mbelu, 'Has the exchange rate pass-through changed in South Africa?', *South African Reserve Bank Working Paper No. WP/2016/10*, Pretoria: SARB, November 2016.

rate.[4] By contrast, stable inflation expectations (indicating more credible monetary policy) are, other things being equal, associated with lower exchange rate pass-through.[5]

South Africa's exchange rate pass-through rate was at historical lows from 2017 to 2021. This coincided with a period of stable inflation around the target midpoint, a virtually closed output gap, and moderating and relatively stable inflation expectations. The macroeconomy, however, shifted markedly in 2022–23, with both inflation and inflation expectations rising strongly. As a result, pass-through also rose.

Although domestic inflation has eased markedly, with recent outcomes in the lower half of the 3-6% target band, and underlying inflation and inflation expectations around the target midpoint of 4.5%, inflation expectations have yet to fully re-anchor.[6] In addition, the pass-through coefficient is still elevated as not enough time has passed since the return to the low-inflation regime. Similarly, global economic uncertainty is at highs last seen during the COVID-19 pandemic. Therefore, on balance, the risk associated with exchange rate pass-through remains high.

Exchange rate pass-through estimates



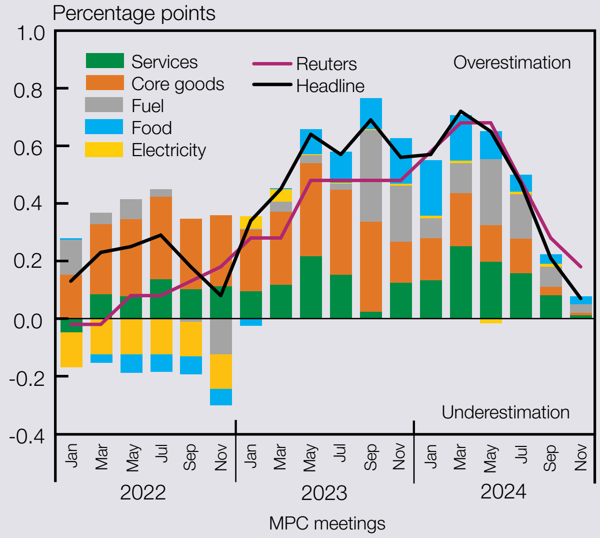
Source: SARB

4 See Y Carrière-Swallow, M Firat, D Furceri and D Jiménez, 'State-dependent exchange rate pass-through', *International Monetary Fund Working Paper No. WP/23/086*, Washington DC: IMF, April 2023. On convexity, see M Floden, W Simbanegavi and F Wilander, 'When is a lower exchange rate pass-through associated with greater exchange rate exposure?', *Journal of International Money and Finance* 27(1), 2008, pp 124–139.

5 See A Kabundi and M Mlachila, 'Monetary policy credibility and exchange rate pass-through in South Africa', *South African Reserve Bank Working Paper No. WP/18/04*, Pretoria: SARB, August 2018.

6 Anchoring is assessed by evaluating the sensitivity of inflation expectations to actual inflation outcomes, with expectations more anchored when insensitive to inflation news. See 'Box 1: Floating away?' in the October 2024 edition of the *Monetary Policy Review*.

Contributions to 2024 inflation forecast errors



Source: SARB

Box 7 A pleasant monetary policy surprise

Forecast error analysis allows the South African Reserve Bank (SARB) to evaluate the accuracy of its model predictions and identify the necessary improvements to its forecasting framework to enhance efficacy and robustness. This box unpacks the inflation forecast errors of 2024.

While headline inflation averaged 4.4% in 2024, the SARB's forecasts had anticipated higher rates for much of the year. Analysts' forecasts showed similar discrepancies to those of the SARB, with comparable root mean squared errors (RMSEs).[1]

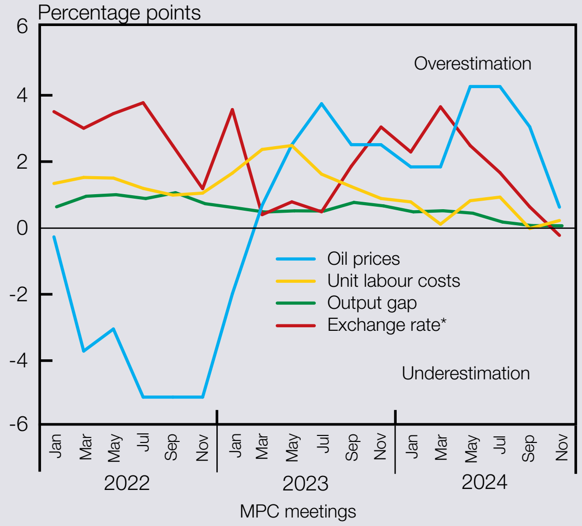
Forecast errors worsened through much of the first half of 2024 and improved towards the end of the year. Typically, forecasts improve progressively as more information becomes available and is incorporated into the model. A breakdown for 2024 shows that the errors mostly stemmed from components linked to the exchange rate, which depreciated less than expected. The rand was forecast

1 For the SARB, the RMSEs were 0.5, 0.6 and 0.2 for the current, one-year-ahead and two-year-ahead horizons respectively, while analysts' RMSEs were 0.6, 0.4 and 0.1 respectively. Average forecast errors – a measure of forecast bias – are also similar across forecasters, being 0.39, 0.33, 0.32 and 0.41 for the SARB, Reuters median, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) respectively.

to weaken in response to heightened financial market volatility following unusually uncertain elections around the world. However, the rand showed a secular appreciation for other reasons, including domestic policy settings, resulting in lower inflation in exchange rate-sensitive goods, in particular core goods and fuel, and to a lesser extent, food. Oil prices also increased less than expected. Similarly, unit labour costs came out lower than projected, and this, coupled with output gap estimates that were slightly more negative than initially expected, led to less pressure on services and food inflation than the forecasts had anticipated.

In addition to starting points and assumptions, monetary policy also impacts on forecast errors, in particular as policy is not fully reflected in near-term shifts in the forecast. If, for instance, interest rates are higher than implied by the SARB's Quarterly Projection Model (QPM), better-than-expected outcomes may occur in the various drivers of inflation. Therefore, the pleasant surprise in the lower inflation outcome could, in part, be attributed to effective monetary policy.

2024 forecast errors of selected QPM drivers



* Nominal effective exchange rate (inverted)

Source: SARB

Conclusion

The world economy is experiencing extraordinarily high uncertainty. Economic fault lines, stemming from policy shifts and heightened trade tensions, have emerged, adding to pre-existing geopolitical tensions. These shocks present new risks to both growth and inflation, and have rendered the global economic outlook more difficult to predict. US economic data, particularly consumer and business sentiment as well as stocks, has softened unexpectedly and the US dollar has weakened, while inflation remains relatively stubborn. Meanwhile, stimulus measures in Germany and China could see growth strengthen in these economies, narrowing the growth divergence of the past year among the world's largest economies.

Global headline inflation is expected to moderate further this year and the next, but confidence is now lower. Core inflation in advanced economies remains above targets, while inflation has been elevated in some emerging economies owing to strong demand, fiscal concerns and currency weakness. The combination of persistent services inflation and potential tariff-induced price increases presents material upside risks to global inflation.

Central banks are expected to remain cautious due to increased inflation risks and the potential rise in neutral interest rates. Modest further cuts by major central banks are, however, still projected for this year, but policy rates will likely remain higher for longer. With global interest rates high and risks elevated, the possibility for further rate cuts in emerging economies is limited as interest rate differentials narrow.

Inflation in South Africa is currently contained, and the outlook appears moderate and in line with the 4.5% target midpoint. However, the uncertainty around this outlook has risen markedly since the beginning of the year due to global and domestic risks, particularly heightened geopolitical and trade tensions as well as the proposed VAT increases. The VAT impacts are difficult to quantify in advance as they depend on an unknown pass-through rate and are staggered, which raises the risk of second-round effects.

The MPC lowered the policy rate by 50 basis points over the six-month period from October 2024 to March 2025, bringing it closer to its estimated neutral level. The QPM suggests one more 25 basis point rate cut in the second quarter of this year. Financial markets and economic analysts broadly agree with this assessment, although rate expectations in Forward Rate Agreements have exhibited some volatility. However, with risks and uncertainty unusually high, policy calibration will likely remain data-dependent, while also underpinned by scenario analysis.

The South African economy recorded disappointing growth over the past two years, mostly reflecting serious bottlenecks in the energy and logistical sectors. While notable progress has been achieved in stabilising these sectors, they may continue to drag on economic activity for some time. These hysteresis effects are exacerbated by competitiveness factors, including elevated long-term borrowing costs as well as high costs of production skills, gaps and red tape, the materiality impact of which is becoming increasingly evident.

To ensure growth is more robust and resilient to shocks, domestic investment needs to rise significantly to rebalance the economy and complement household consumption spending. Investment and output growth can be boosted further by adopting policy measures that *permanently lower* inflation risk and strengthen competitiveness.

Glossary

Advanced economies: Advanced economies are countries with high gross domestic product (GDP) per capita, diversified exports and close integration into the global financial system.

Balance of payments: This is a record of transactions between the home country and the rest of the world over a specific period of time. It includes the current and financial accounts. See also 'Current account' below.

Brent crude: Brent crude is a light and sweet blend of oil from five different fields in the North Sea. The price of Brent crude is one of the benchmark oil prices in international markets.

Budget deficit: A budget deficit indicates the extent to which government expenditure exceeds government revenue.

Business and consumer confidence: These are economic indicators that measure the level of optimism about the economy and its prospects among business managers and consumers.

Commodities: Commodities can refer to energy, agriculture, metals and minerals. Major South African-produced commodities include platinum and gold.

Consumer price index (CPI): The CPI provides an indication of aggregate price changes in the domestic economy. The index is calculated using a number of categories forming a representative set of goods and services bought by consumers.

Core inflation: Core generally refers to underlying inflation, excluding the volatile elements (e.g. food and energy prices). The SARB's forecasts and discussions refer to headline CPI excluding food, non-alcoholic beverages (NAB), fuel and electricity prices.

Crude oil price: This is the United States (US) dollar price per barrel of unrefined oil. See also 'Brent crude' above.

Current account: The current account of the balance of payments consists of net exports (exports less imports) in the trade account as well as the services, income and current transfers.

Emerging markets: Emerging markets are countries with low to middle income per capita. They are advancing rapidly and are integrating with global (product and capital) markets.

Exchange rate depreciation (appreciation): Exchange rate depreciation (appreciation) refers to a decrease (increase) in the value of a currency relative to another currency.

Exchange rate pass-through: This is the effect of exchange rate changes on domestic inflation (i.e. the percentage change in domestic CPI due to a change in the exchange rate). Changes in the exchange rate affect import prices, which in turn affect domestic consumer prices and inflation.

Forecast horizon: This is the future period over which the SARB generates its forecasts, typically between two and three years.

Gross domestic product (GDP): GDP is the total market value of all the goods and services produced in a country. It includes total consumption expenditure, capital formation, government consumption expenditure and the value of exports less the value of imports.

Gross fixed capital formation (investment): The value of acquisitions of capital goods (e.g. machinery, equipment and buildings) by firms, adjusted for disposals, constitutes gross fixed capital formation.

Headline consumer price index (CPI): Headline CPI refers to CPI for all urban areas, as measured on a monthly basis by Statistics South Africa (Stats SA). Headline CPI is a measure of price levels in all urban areas. The 12-month percentage change in headline CPI is referred to as 'headline CPI inflation' and reflects changes in the cost of living. This is the official inflation measure for South Africa.

Household consumption: This is the amount of money spent by households on consumer goods and services.

Inflation (growth) outlook: This outlook refers to the evolution of future inflation (growth) over the forecast horizon.

Inflation targeting: This is a monetary policy framework used by central banks to steer actual inflation towards an inflation target level or range.

Monetary policy normalisation: This refers to the unwinding of an unusually accommodative monetary policy. It could also mean adjusting the economy's policy rate towards its real neutral policy rate.

Neutral real interest rate (NRIR): The NRIR is the level at which the real interest rate will settle once the output gap is closed and inflation is stable.

Nominal effective exchange rate (NEER): The NEER is an index that expresses the value of a country's currency relative to a basket of other (trading-partner) currencies. An increase (decrease) in the NEER indicates a strengthening (weakening) of the domestic currency with respect to the selected basket of currencies. The weighted average exchange rate of the rand is calculated against 20 currencies. The weights of the five major currencies are as follows: the euro (30.68%), the Chinese yuan (24.53%), the US dollar (10.56%), the Japanese yen (4.95%) and the Indian rupee (4.85%). Index: 2015 = 100. See also 'Real effective exchange rate' below.

Output gap/potential growth: Potential growth is the rate of GDP growth that could theoretically be achieved if all the productive assets in the economy were employed in a stable inflation environment. The output gap is the difference between actual growth and potential growth, which accumulates over time. If this is negative, then the economy is viewed to be underperforming and demand pressures on inflation are low. If the output gap is positive, the economy is viewed to be overheating and demand pressures are inflationary.

Policy rate: A policy rate is the interest rate used by a central bank to implement monetary policy.

Productivity: Productivity indicates the amount of goods and services produced in relation to the resources utilised in the form of labour and capital.

Real effective exchange rate (REER): The REER is the NEER adjusted for inflation differentials between South Africa and its main trading partners. See also 'Nominal effective exchange rate' above.

Repurchase (repo) rate: This is the policy rate that is set by the Monetary Policy Committee (MPC). It is the rate that commercial banks pay to borrow money from the SARB.

Real repo rate: This is the nominal repo rate, as set by the MPC, adjusted for expected inflation.

Terms of trade: This refers to the ratio of export prices to import prices.

Unit labour cost (ULC): A ULC is the labour cost to produce one 'unit' of output. This is calculated as the total wages and salaries in the non-agricultural sector divided by the real value added at basic prices in the non-agricultural sector of the economy.

Abbreviations

AI	artificial intelligence
ARS	Argentine peso
BER	Bureau for Economic Research
BIS	Bank for International Settlements
BoE	Bank of England
BRL	Brazilian real
CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan
CPI	consumer price index
DALRRD	Department of Agriculture, Land Reform and Rural Development
DXY	US dollar index
ECB	European Central Bank
EM	emerging market
EUR	euro
Fed	Federal Reserve (United States)
FRA	forward rate agreement
GBP	British pound sterling
GDP	gross domestic product
GFCF	gross fixed capital formation
GVA	gross value added
Haver	Haver analytics
HUF	Hungarian forit
IMF	International Monetary Fund
INR	Indian rupee
Jibar	Johannesburg Interbank Average Rate
JPY	Japanese yen
JSE	JSE Limited
KRW	South Korean won
MPC	Monetary Policy Committee (South African Reserve Bank)
MPR	*Monetary Policy Review*
MTBPS	*Medium Term Budget Policy Statement*
MW	megawatt
MXN	Mexican peso
NAB	non-alcoholic beverages
NBER	National Bureau of Economic Research
OBEN	*Occasional Bulletin of Economic Notes*
OPEC	Organization of the Petroleum Exporting Countries
PCCI	persistent and common component of inflation
PCE	personal consumption expenditure
PLN	Polish zloty
PPI	producer price index
QES	*Quarterly Employment Statistics*
QLFS	*Quarterly Labour Force Survey*
QPM	Quarterly Projection Model

repo (rate)	repurchase (rate)
RMSE	root mean square error
r-star	long-run real neutral interest rate
S&P	Standard & Poor's
SA	South Africa
SARB	South African Reserve Bank
SSA	sub-Saharan Africa
Stats SA	Statistics South Africa
TRY	Turkish lira
UK	United Kingdom
ULC	unit labour cost
US	United States
VAT	value-added tax
WEO	*World Economic Outlook*
ZAR	South African rand