Policy for the long term

SOUTH AFRICAN RESERVE BANK

MONETARY POLICY FORUM

23 October 2025

SOUTH AFRICAN RESERVE BANK

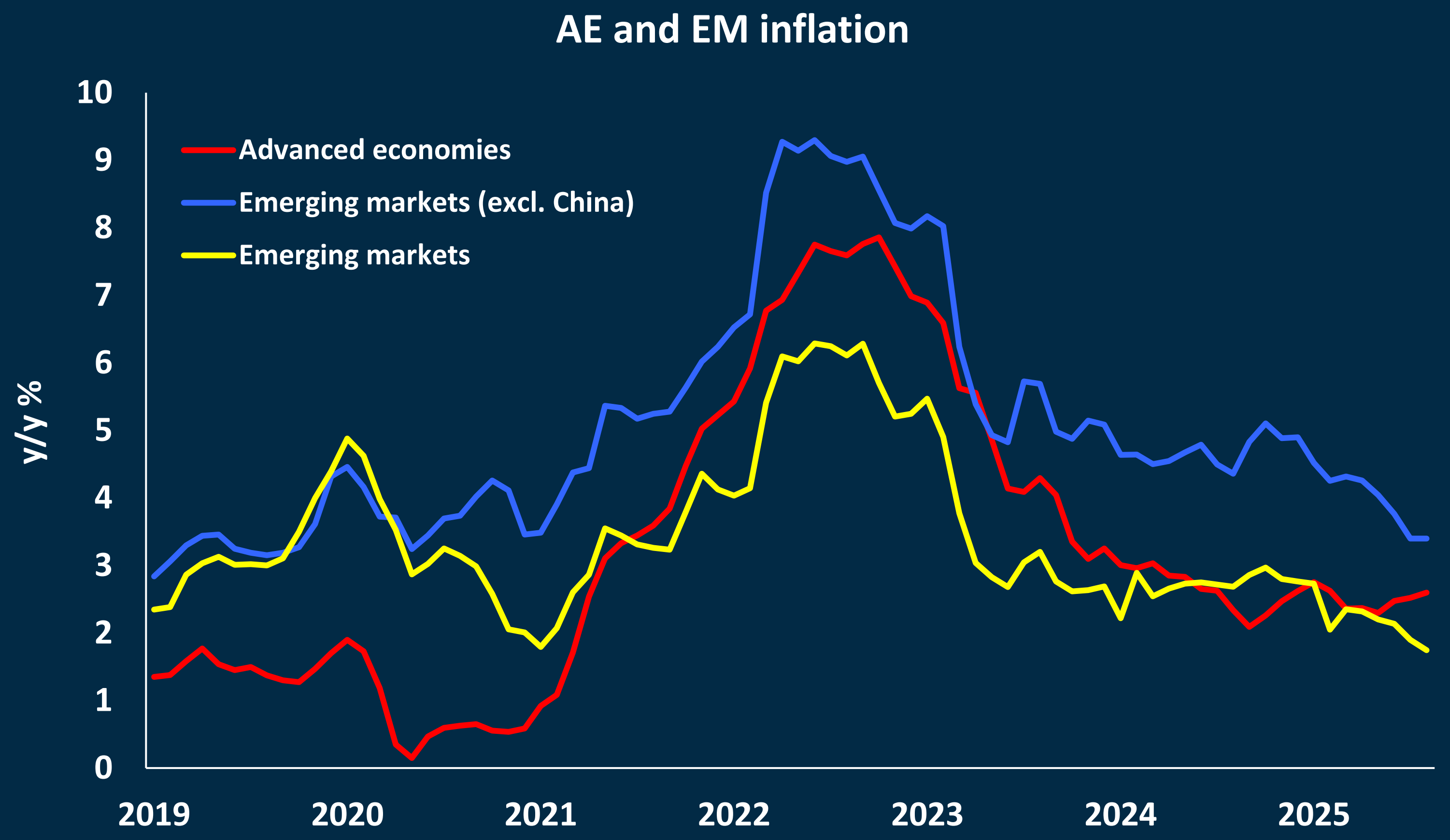
Overview

- Global disinflation trend, from energy & goods to services, allowed broad policy easing
- Global growth resilient in H1 2025, despite shocks
- Disinflation weakening, with risks mixed... further move or deepening stagflation?
- Trade & climate shocks, high leverage and mixed financial conditions... r-star rising?
- Better domestic macro: global conditions provide space or counter?
- Inflation contained closer to 3%, near term up, long-term better anchored

Global disinflation ongoing, but weakening

Sources: Haver and SARB

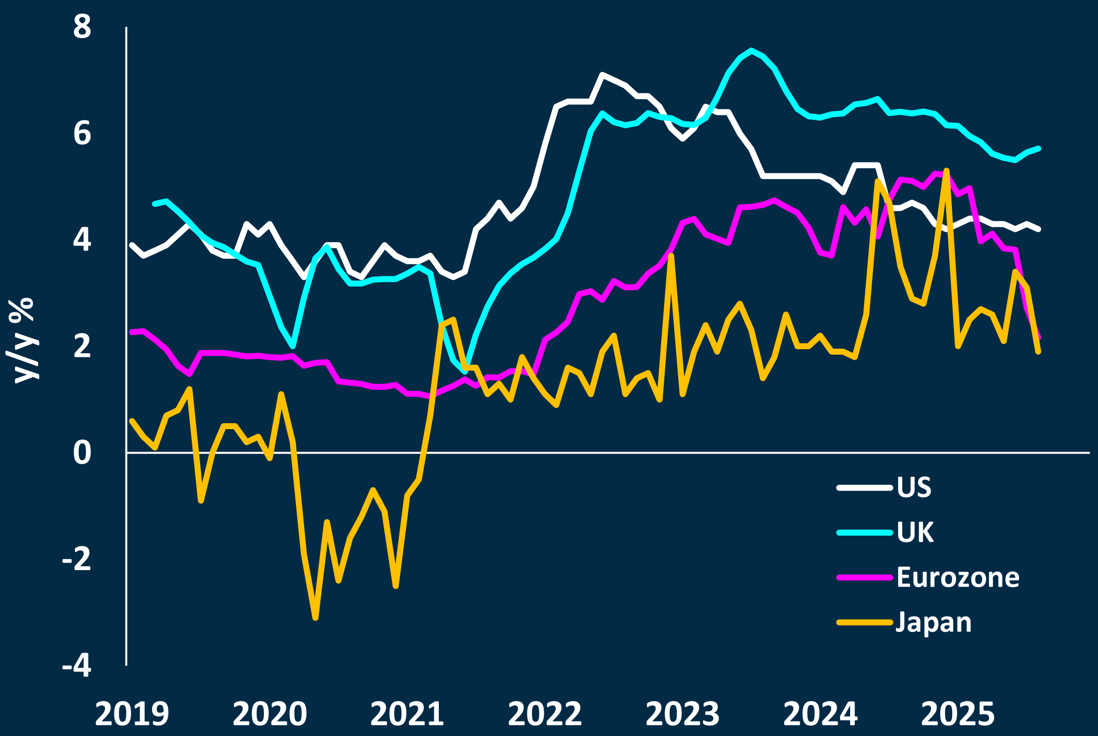
More disinflation in EMs, but offset partially by stickiness in AEs



Sources: Haver and SARB

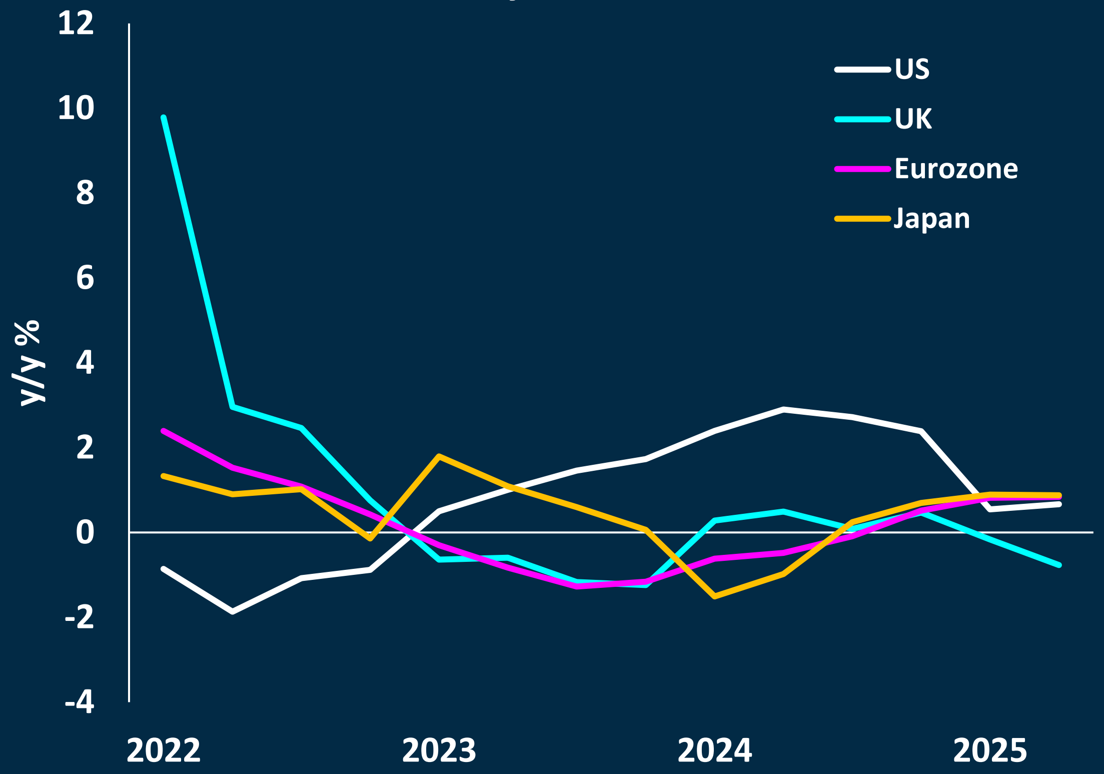
Inflation's rise and persistence from wages...

Wages in selected AEs



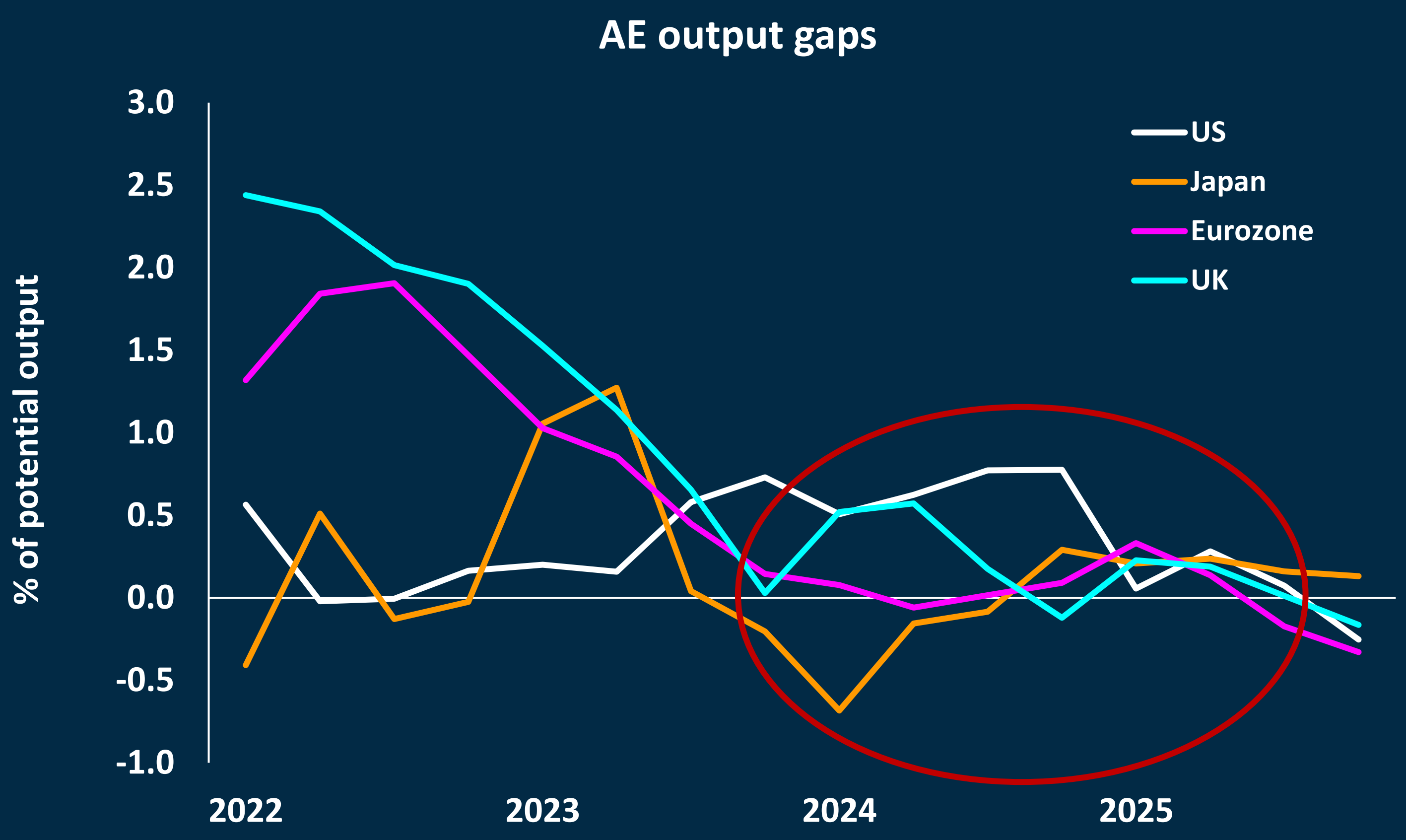
Sources: Atlanta Fed, European Central Bank, Indeed Hiring Lab and Ministry of Health, Labor & Welfare

Productivity in selected AEs



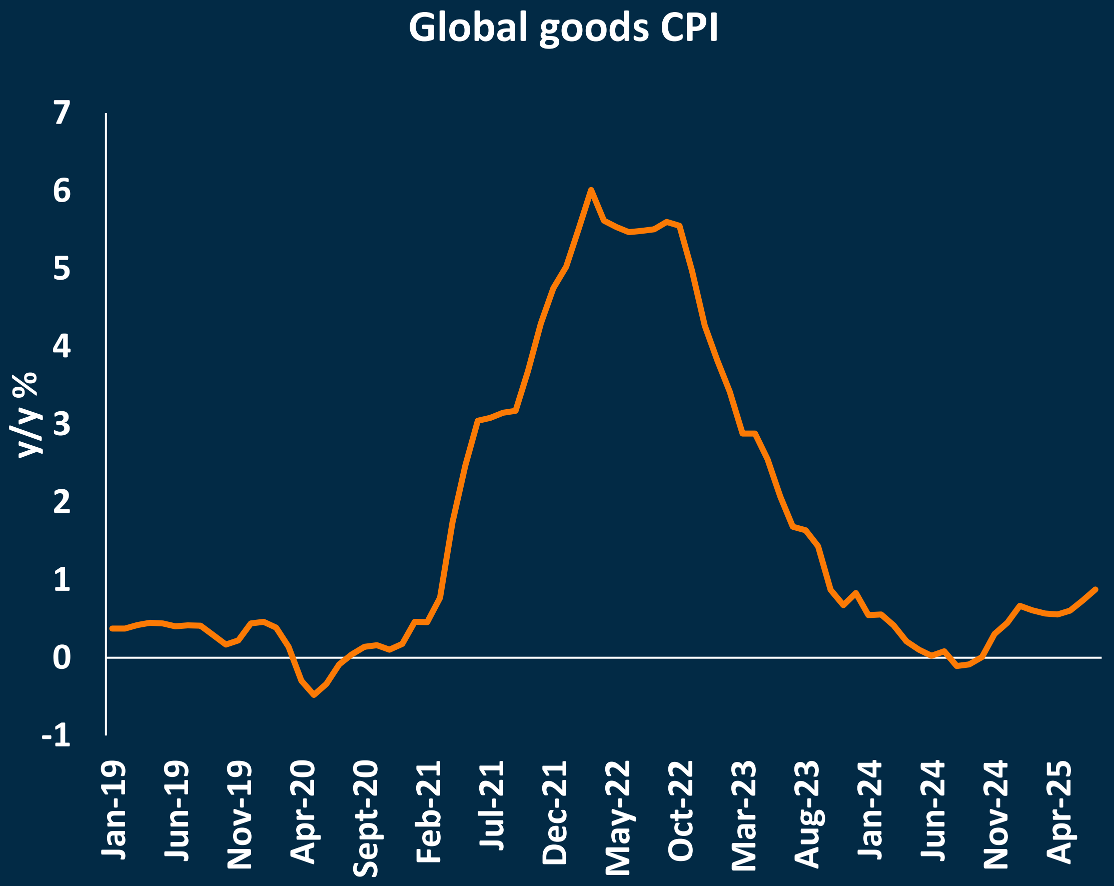
Sources: Bureau of Economic Analysis, Haver and Ministry of Health, Labour & Welfare

...and strong demand & supply shocks

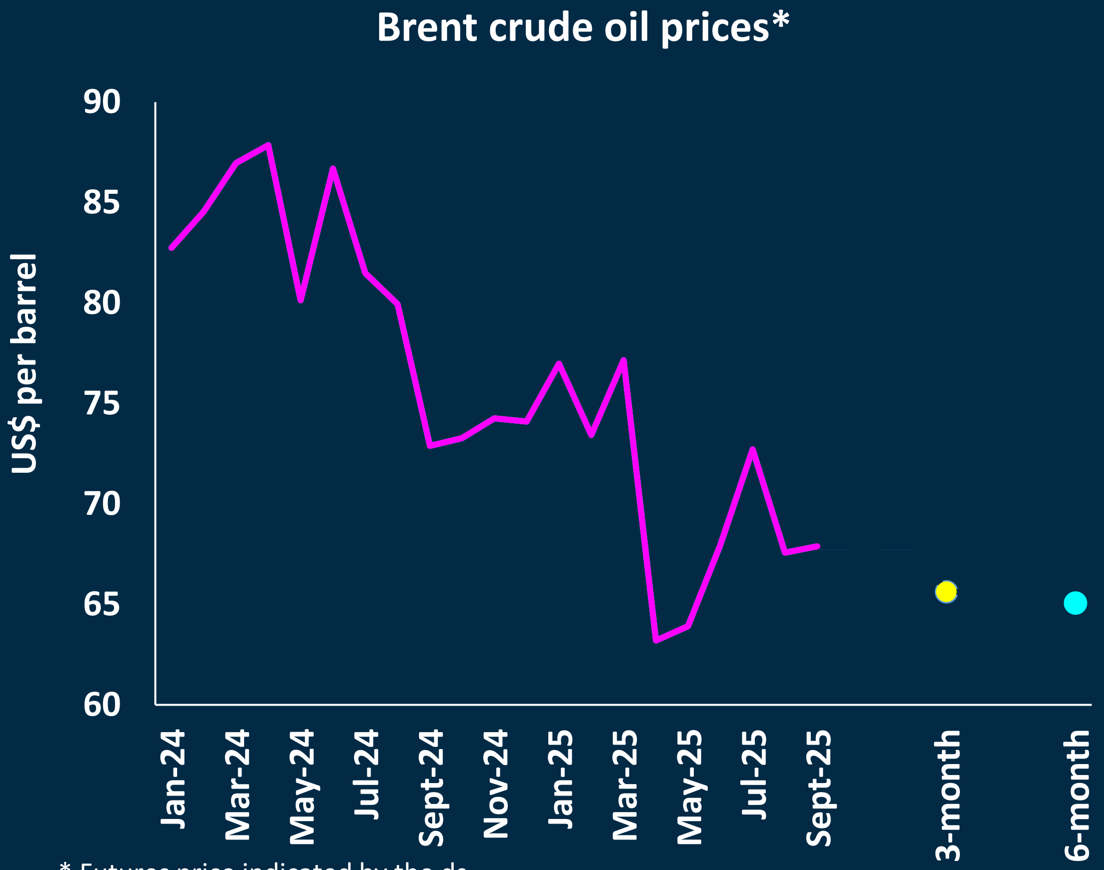


Sources: Haver and SARB

Goods prices and energy critical to disinflation

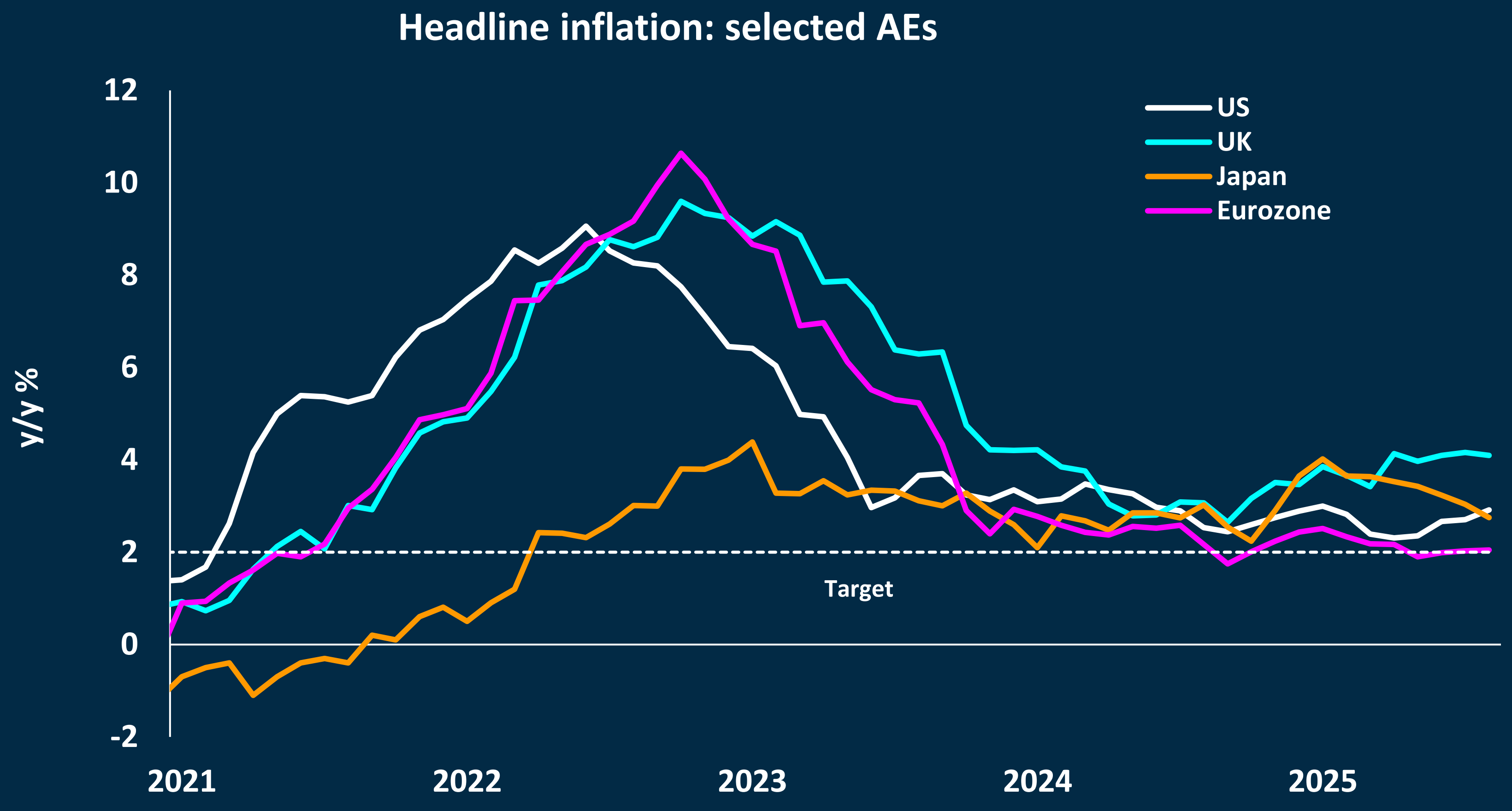


Sources: IMF, Haver and SARB



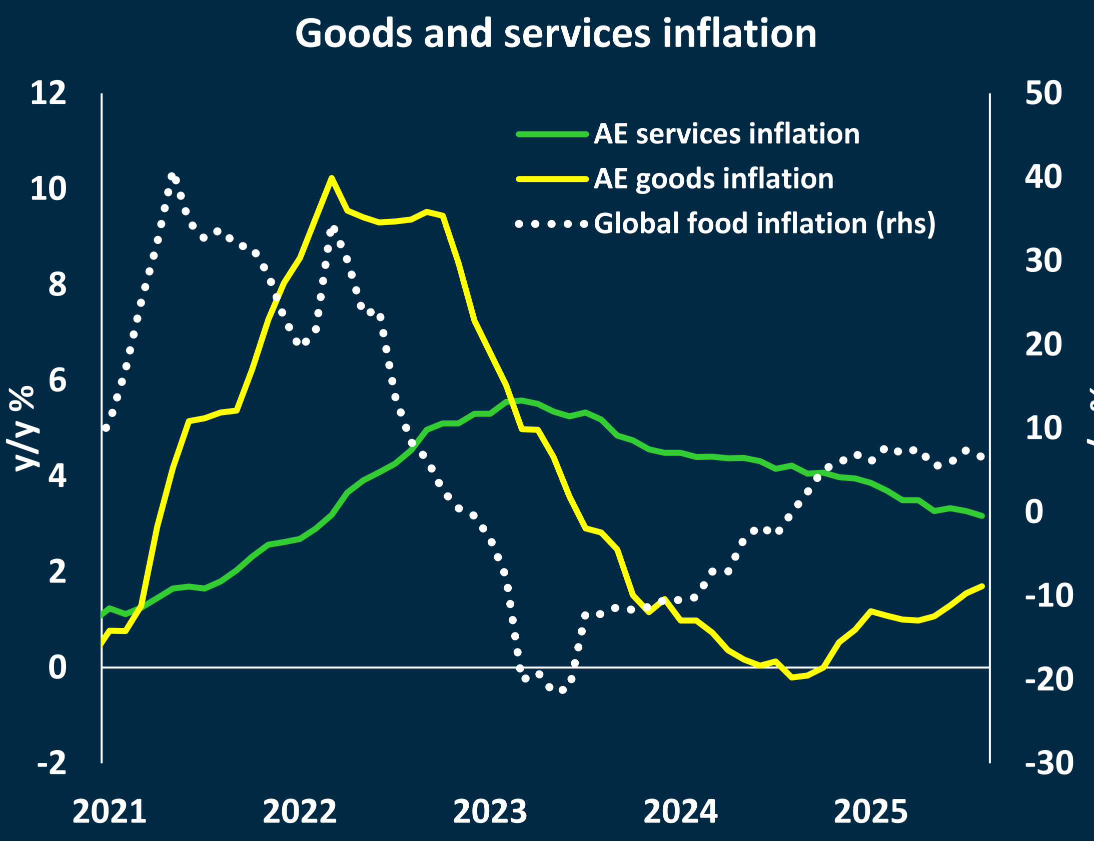
* Futures price indicated by the ds
Source: Bloomberg

As we roll forward, some divergence, notably due to energy among AEs

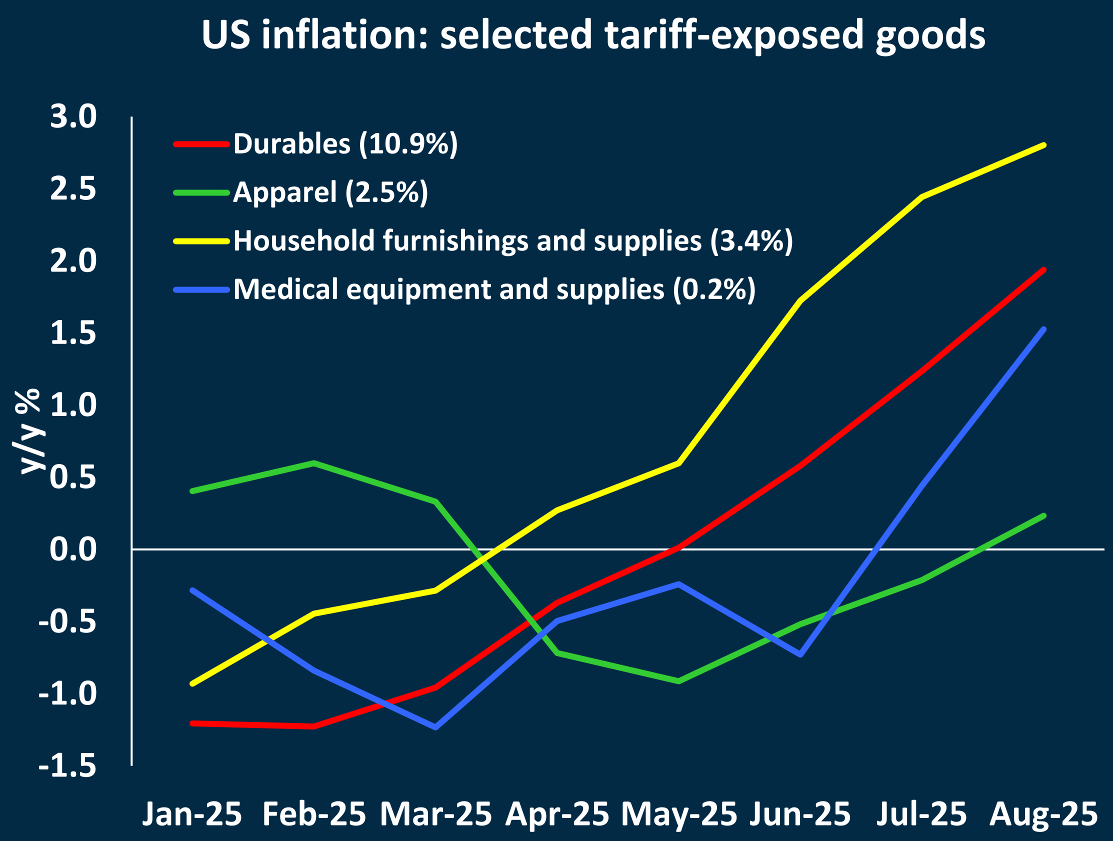


Sources: National statistical offices

Services fading, goods rising

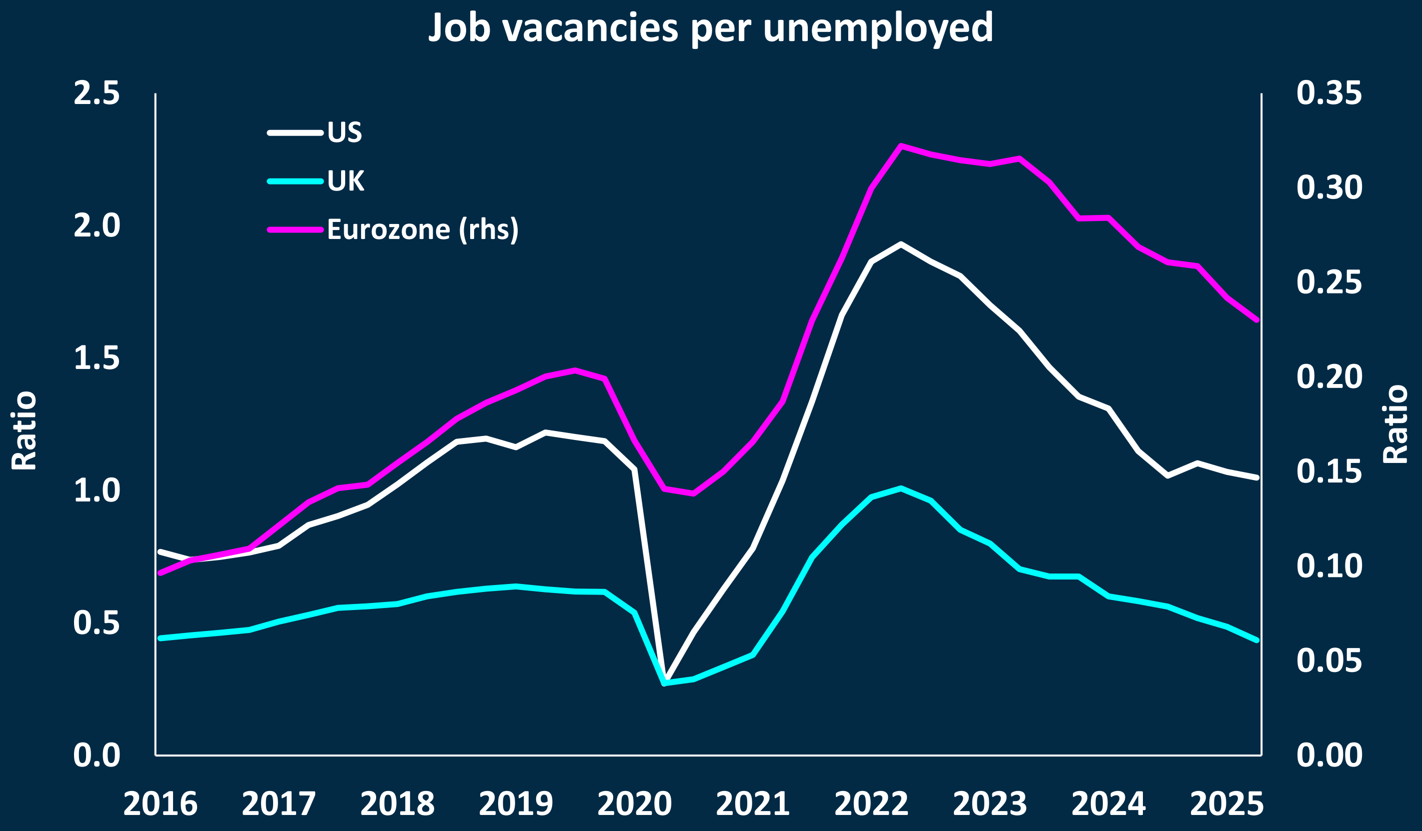


Sources: FAO, Haver and SARB



Source: Bureau of Labor Statistics

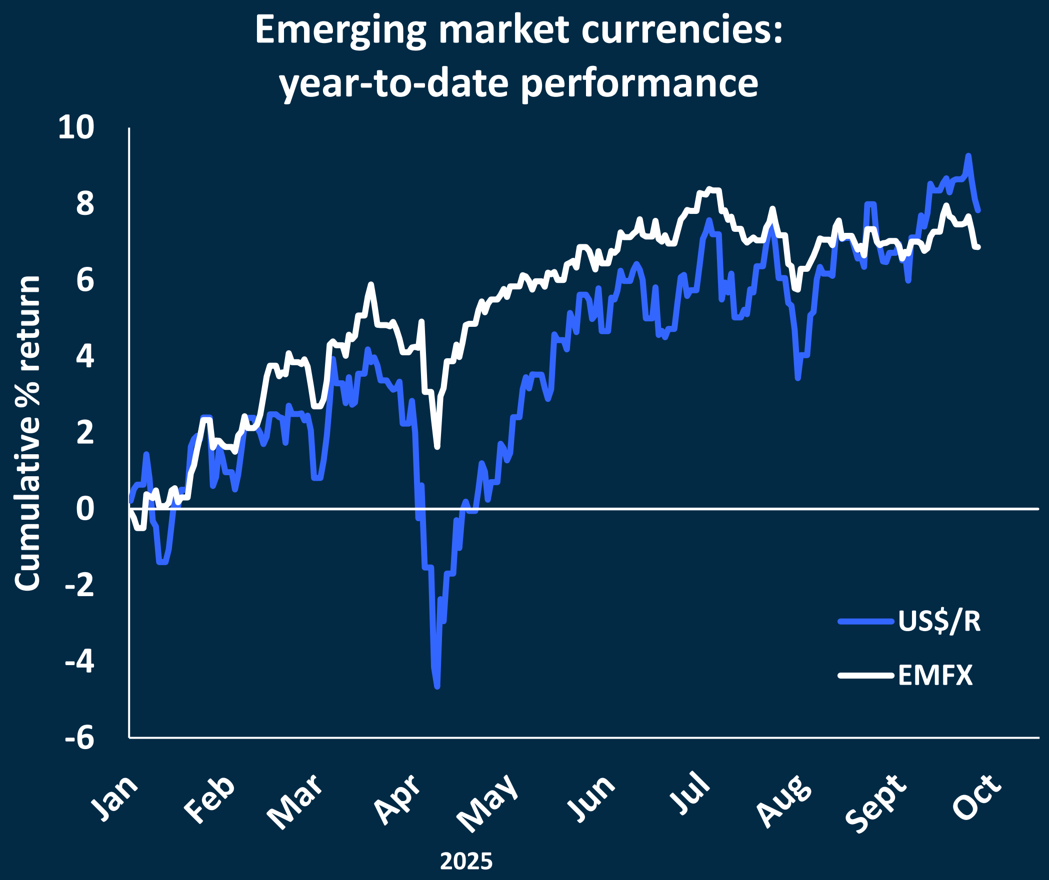
While labour markets exerting downward pressure, for now



Source: BLS, ONS and Eurostat

For emerging markets and some AEs, weaker US dollar helps disinflation

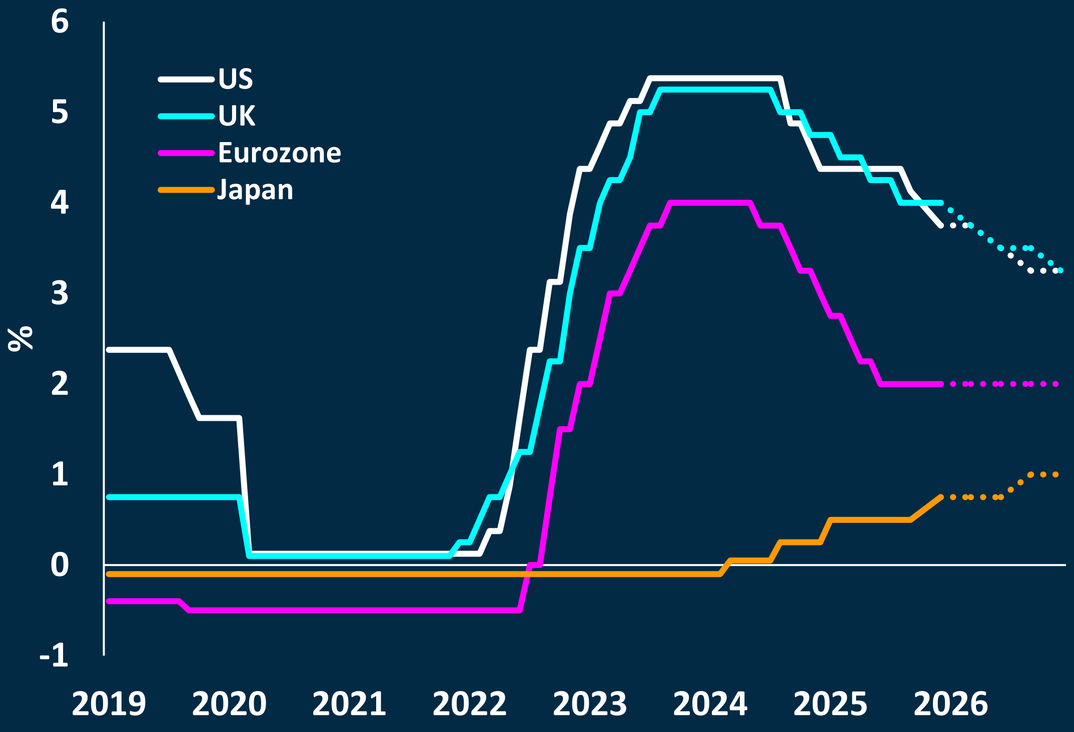
Source: Bloomberg



Sources: Bloomberg, JP Morgan and SARB

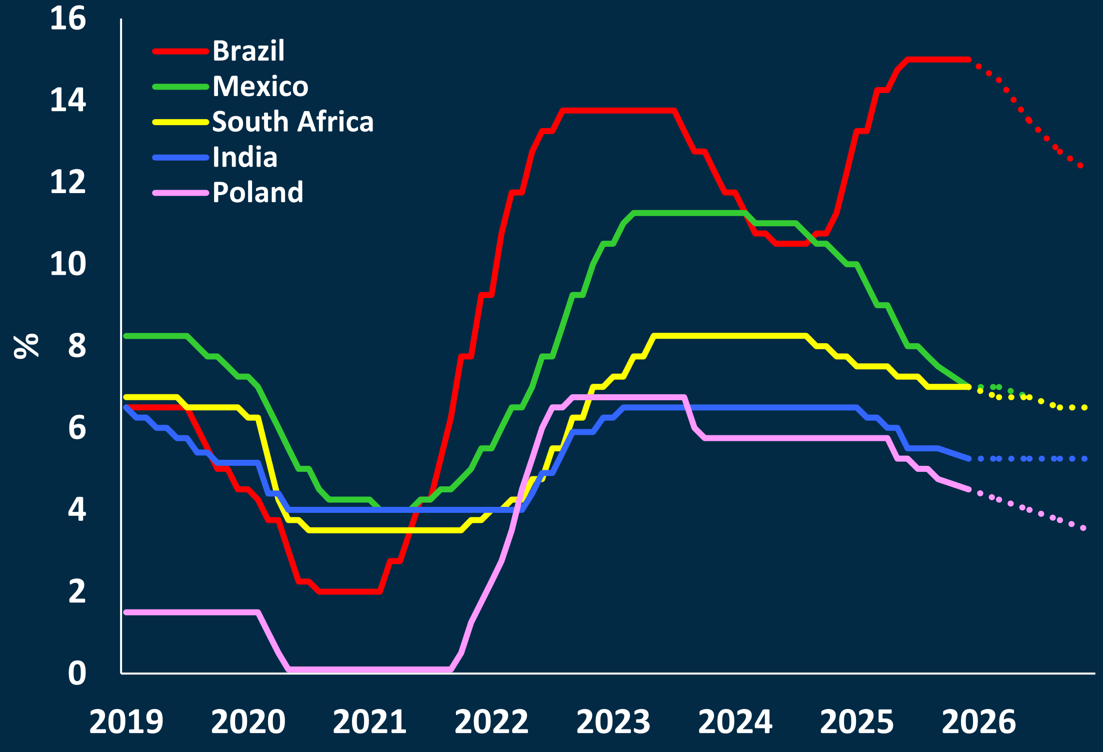
Rate cut trajectories broadly similar

Policy rate projections in advanced economies*



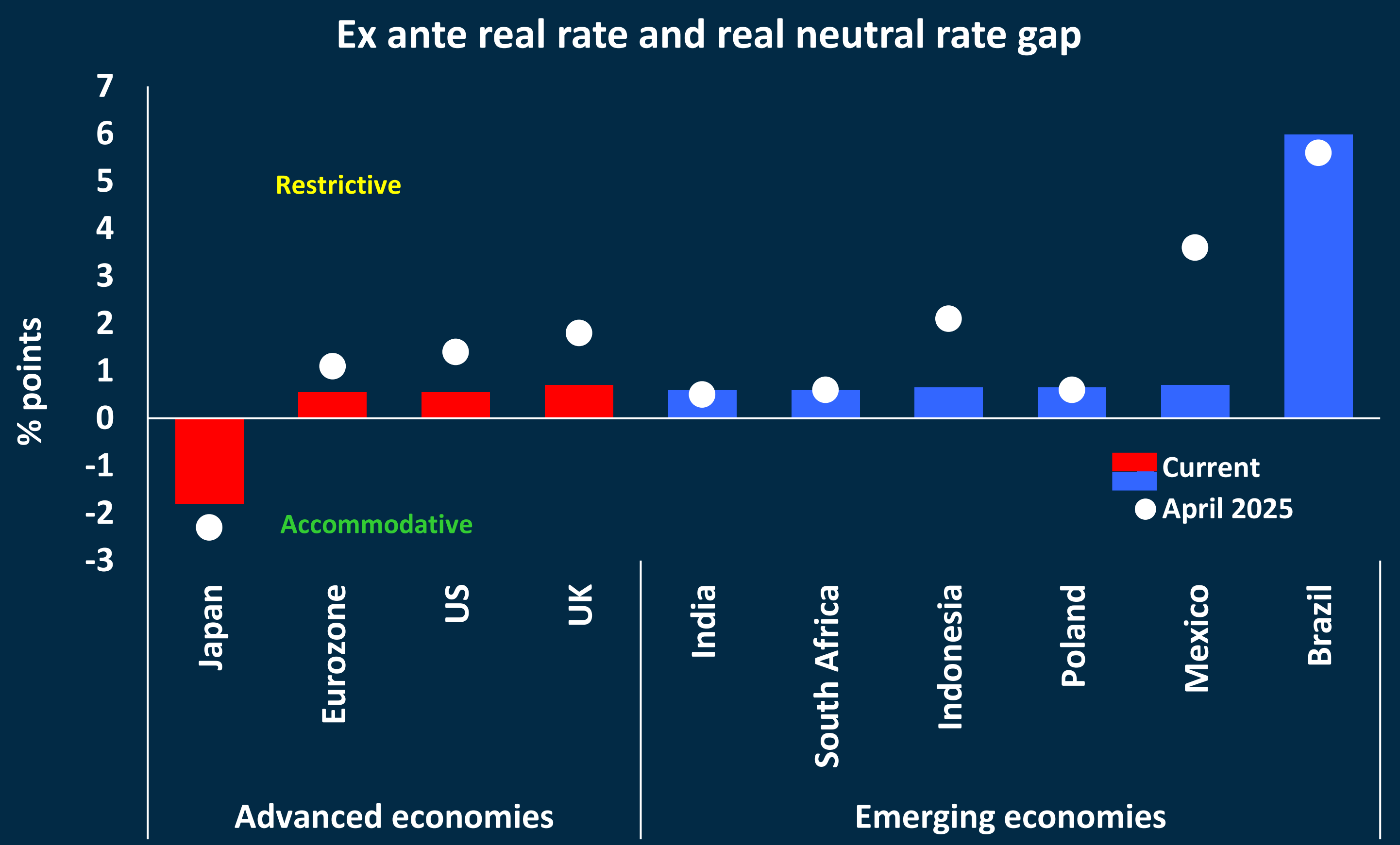
* Dotted lines indicate forecasts
Sources: Bloomberg Consensus and Central Banks

Policy rate projections for emerging markets*



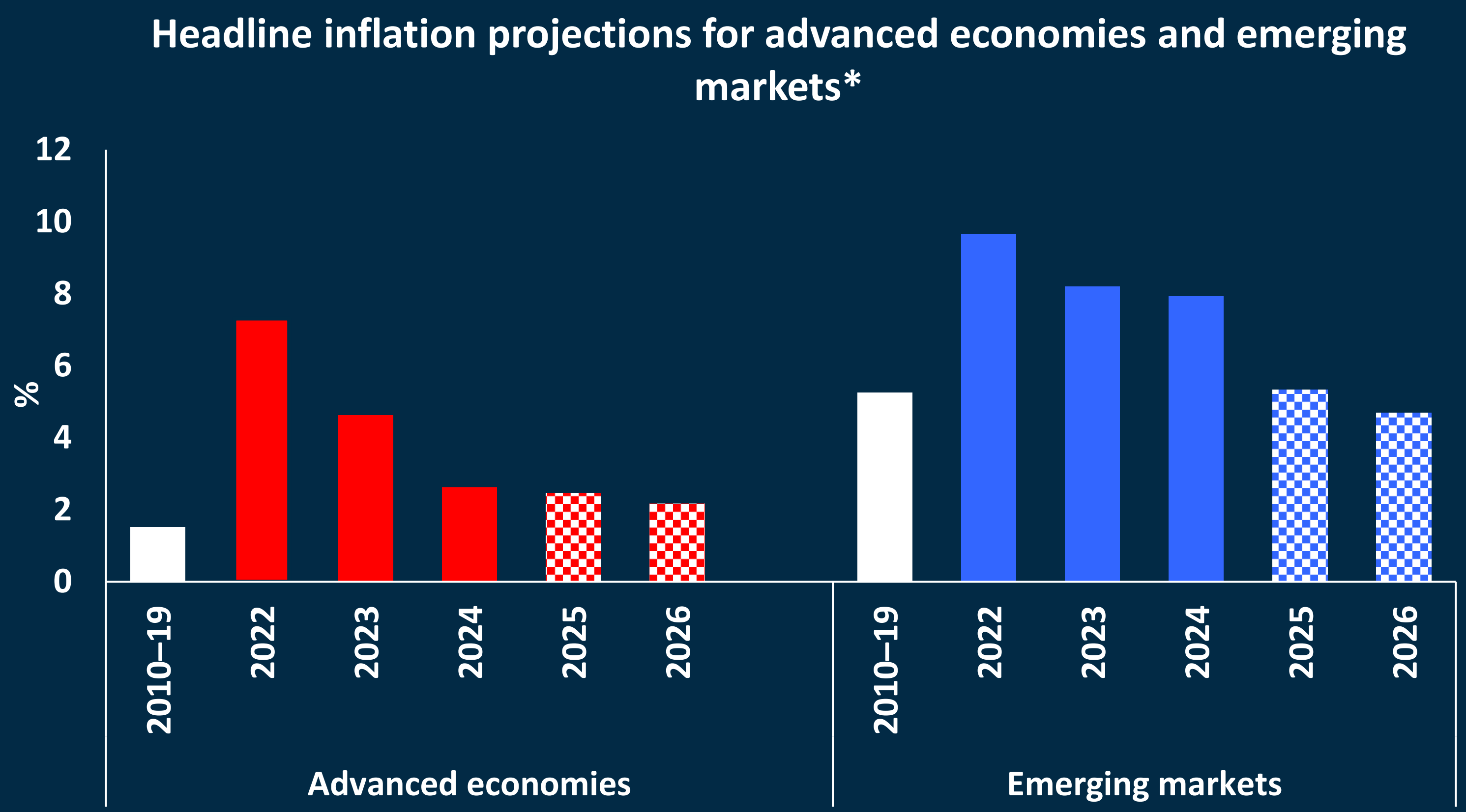
* Dotted lines indicate forecasts
Sources: Bloomberg Consensus and central banks

Policy settings still showing real rates above but easing toward neutral



Sources: Bloomberg and Central Banks

Helping to drag inflation closer to target as 2025 closes



* Shaded bars indicate forecasts
Source: IMF

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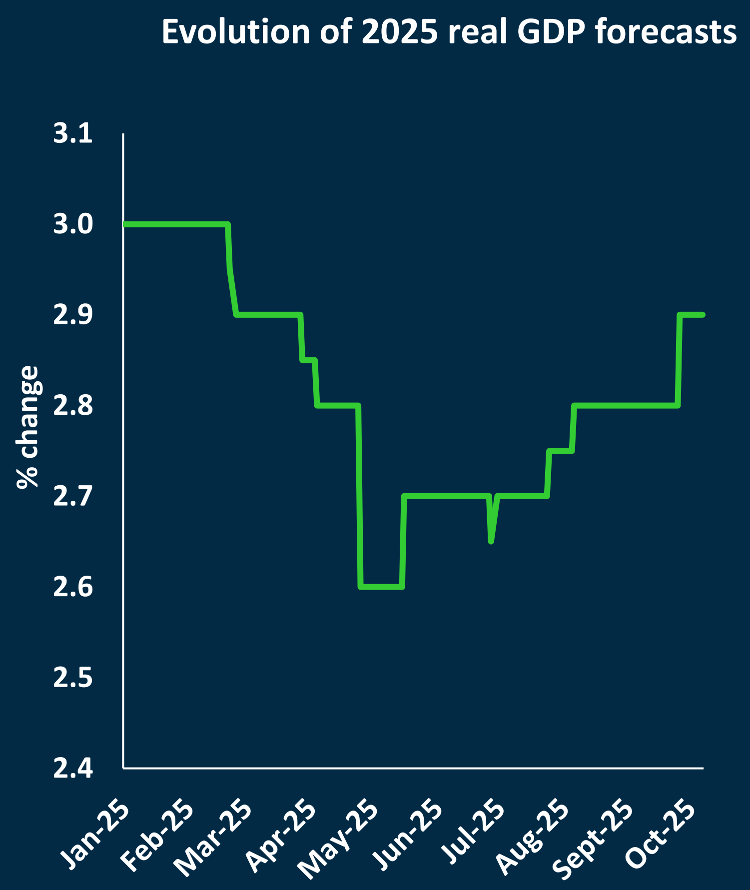
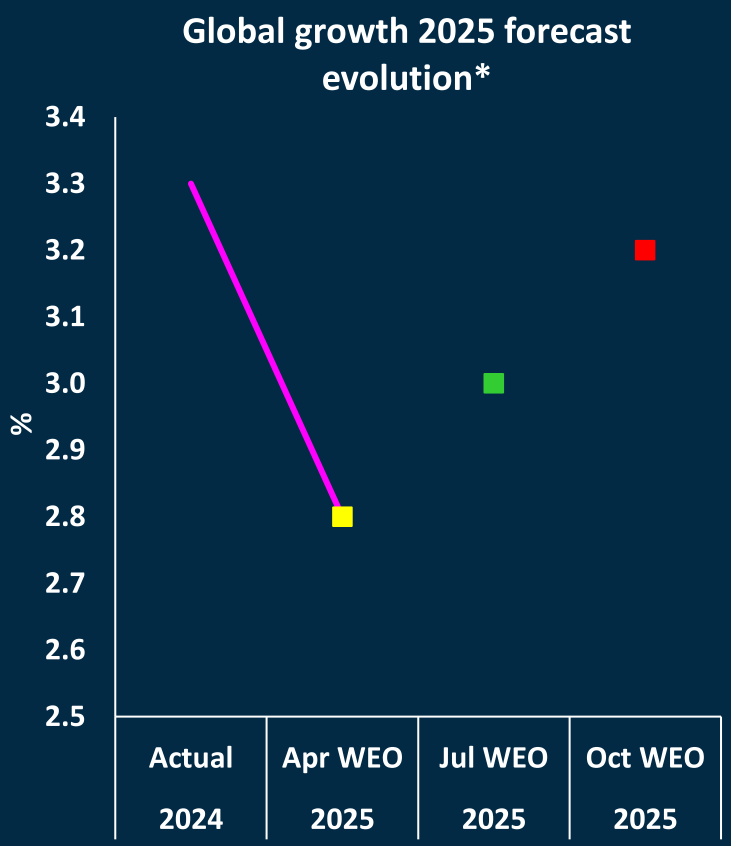
But also supporting economic activity in the face of negative shocks

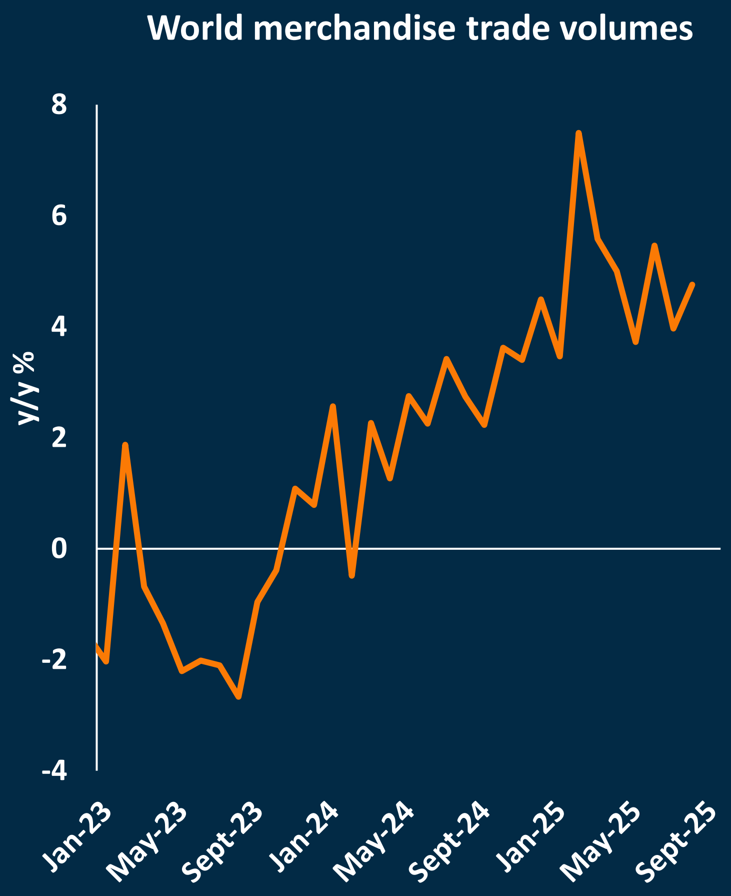


Source: Bloomberg consensus



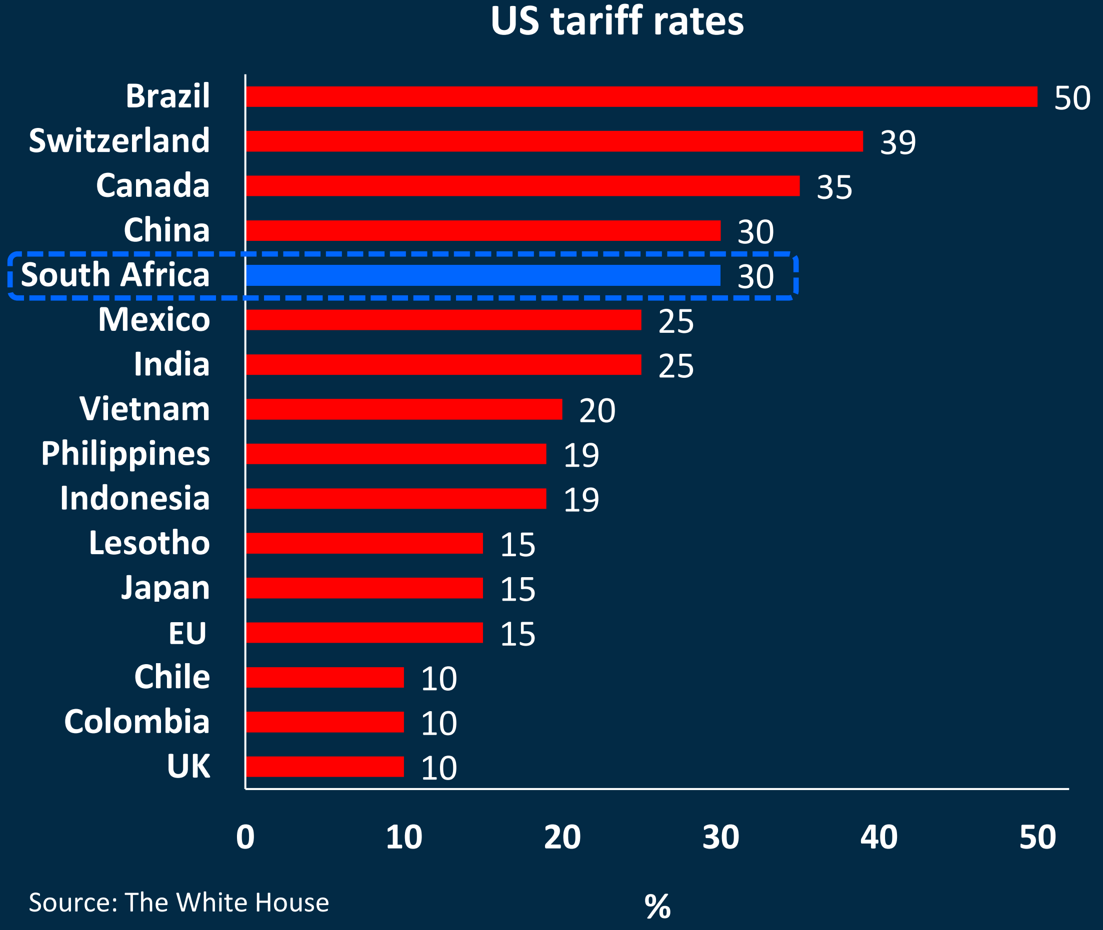
* Dots denote forecasts at respective WEO

Source: IMF

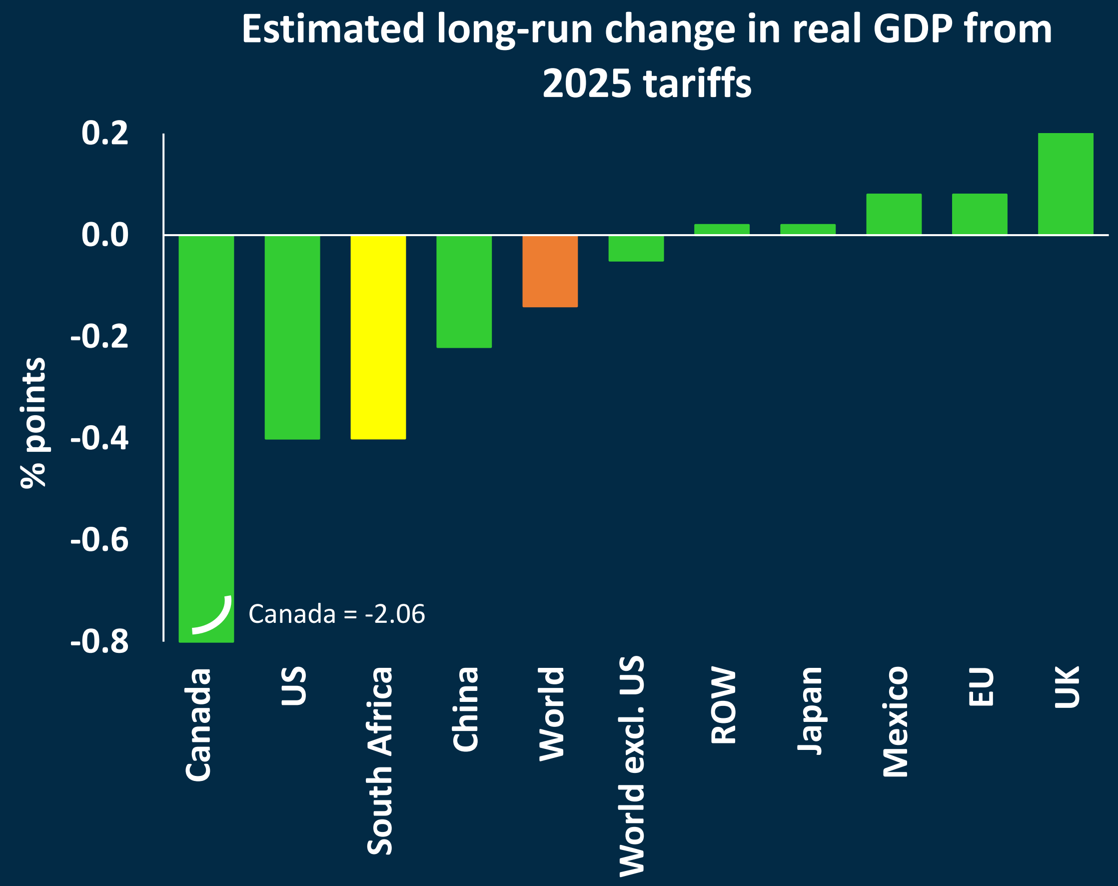


Source: CPB Netherlands Bureau for Economic

…chief among them tariffs & uncertainty

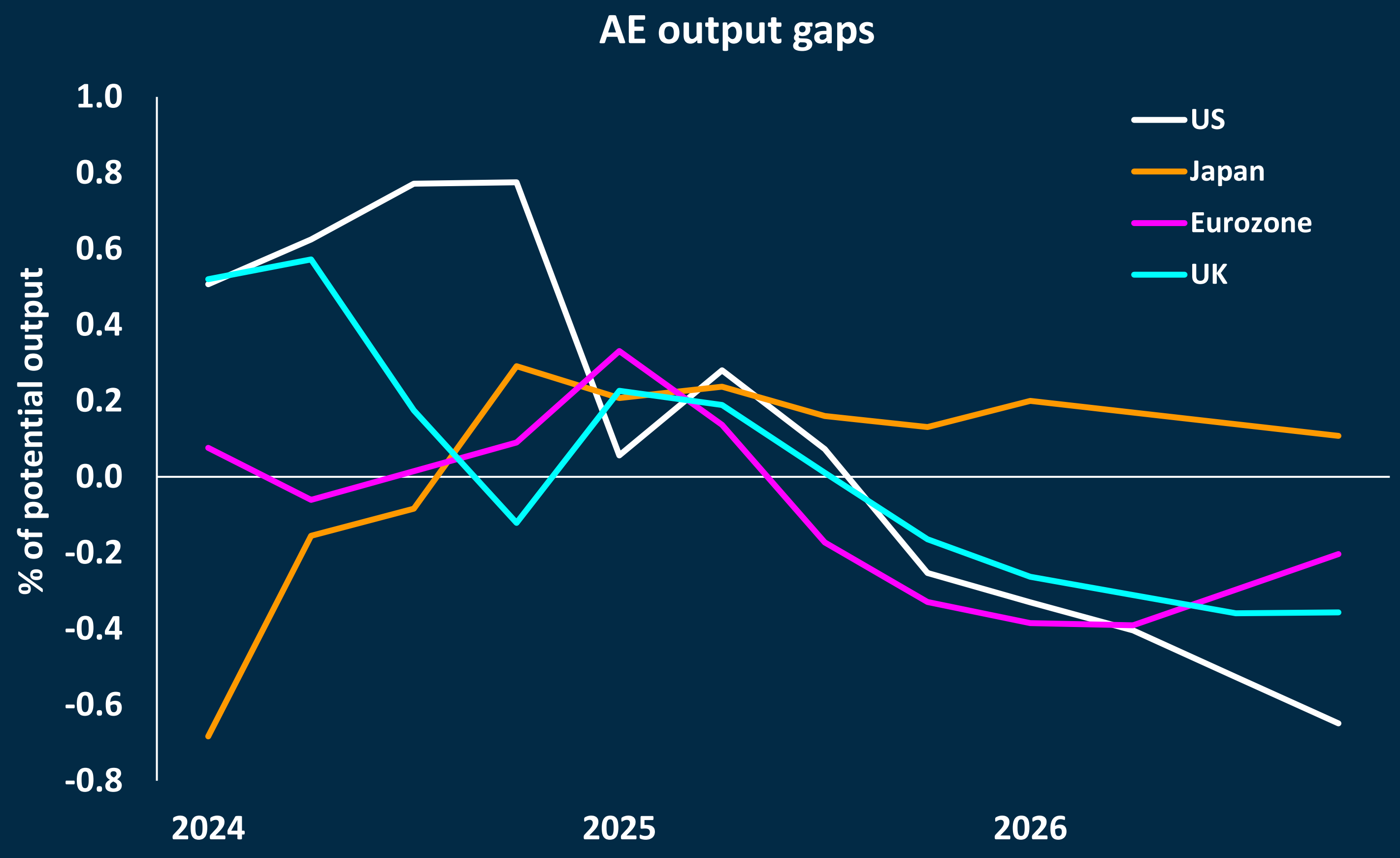


Source: The White House



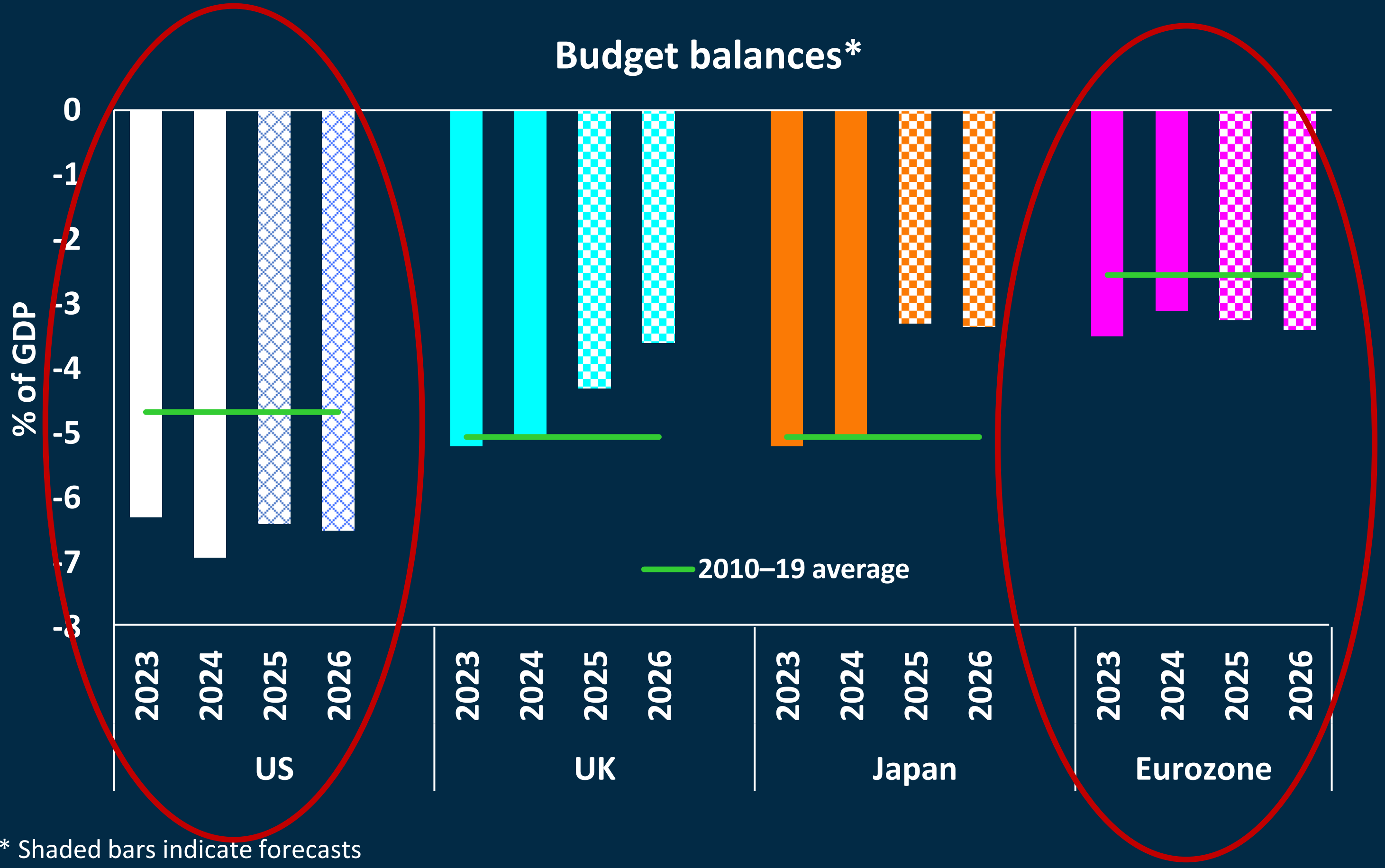
Sources: Yale Budget Lab and SARB

Output gap forecasts turn negative in H2 2025 & 2026



Sources: Haver and SARB

Budget balances extended, with debt likely to rise in key economies



* Shaded bars indicate forecasts
Source: Bloomberg

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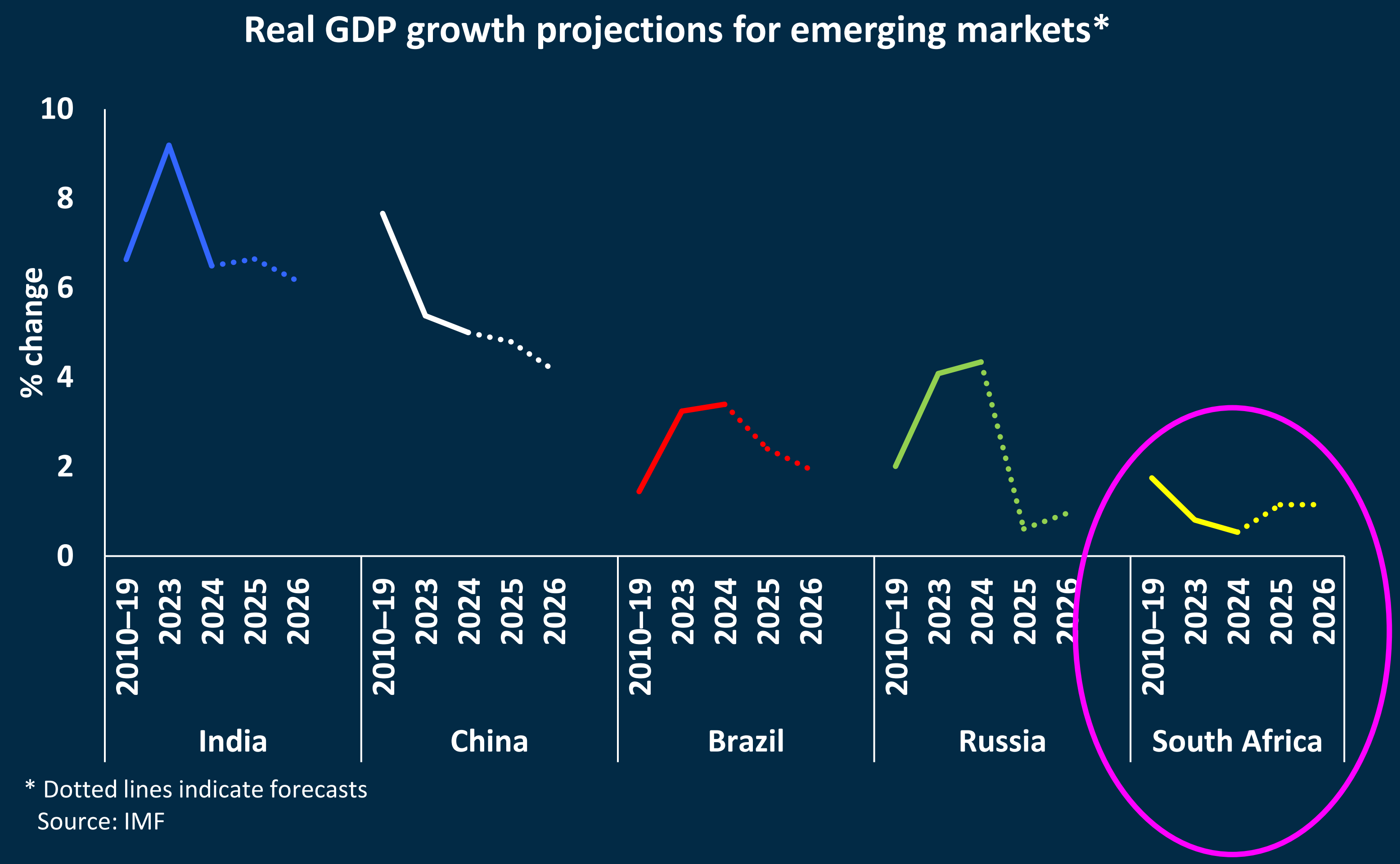
Broadly, and despite capital inflows, EMs projected to slow



* Dotted lines indicate forecasts
Source: IMF

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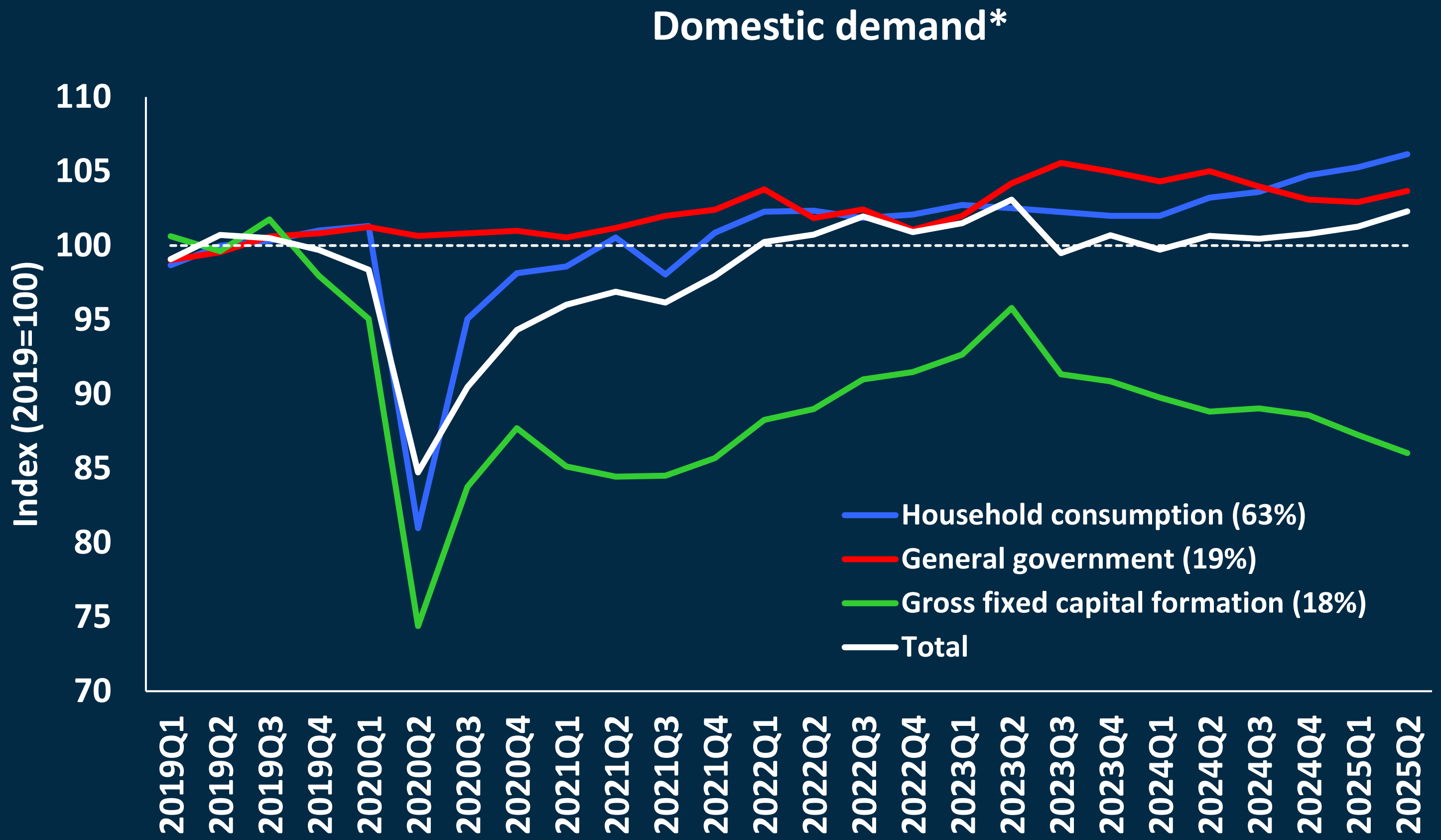
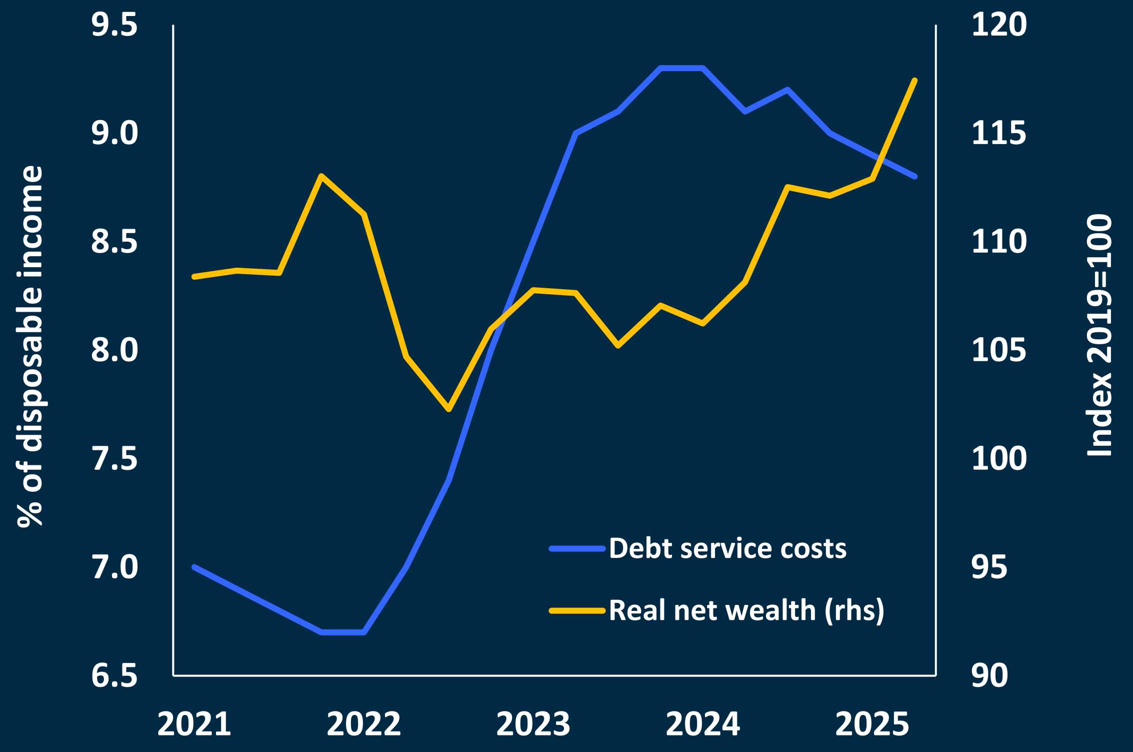
Consumption sustained, not investment



* Weight in brackets
Source: Stats SA

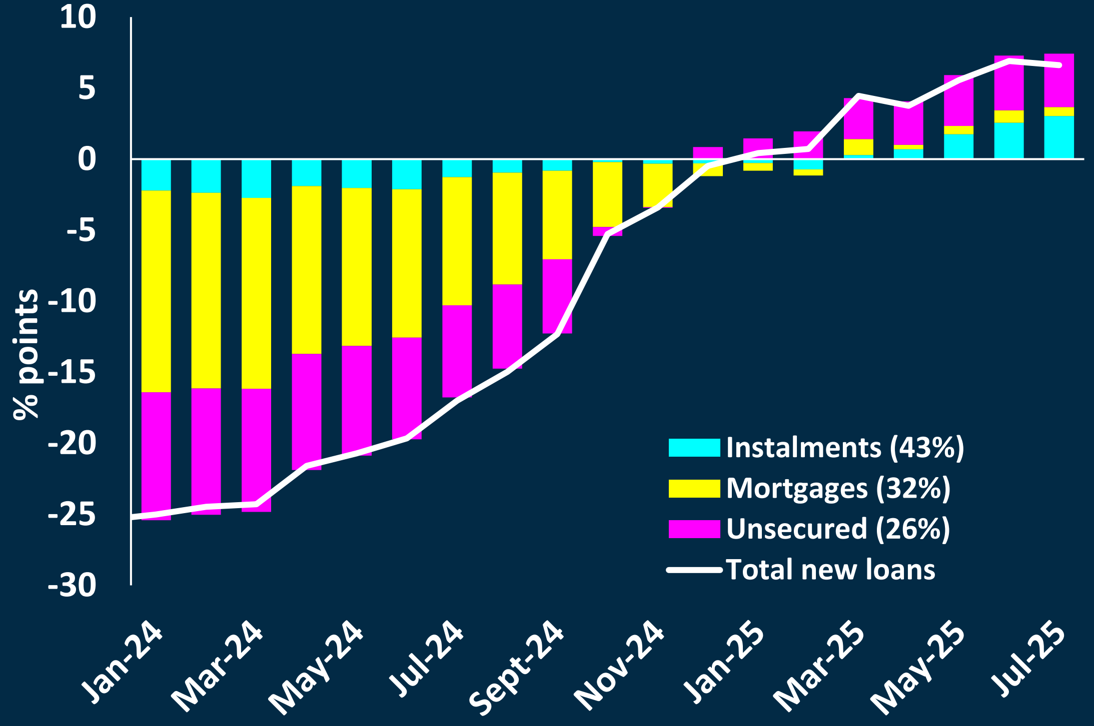
…supported by household finances & transmitting MP

Household debt service costs and real net wealth



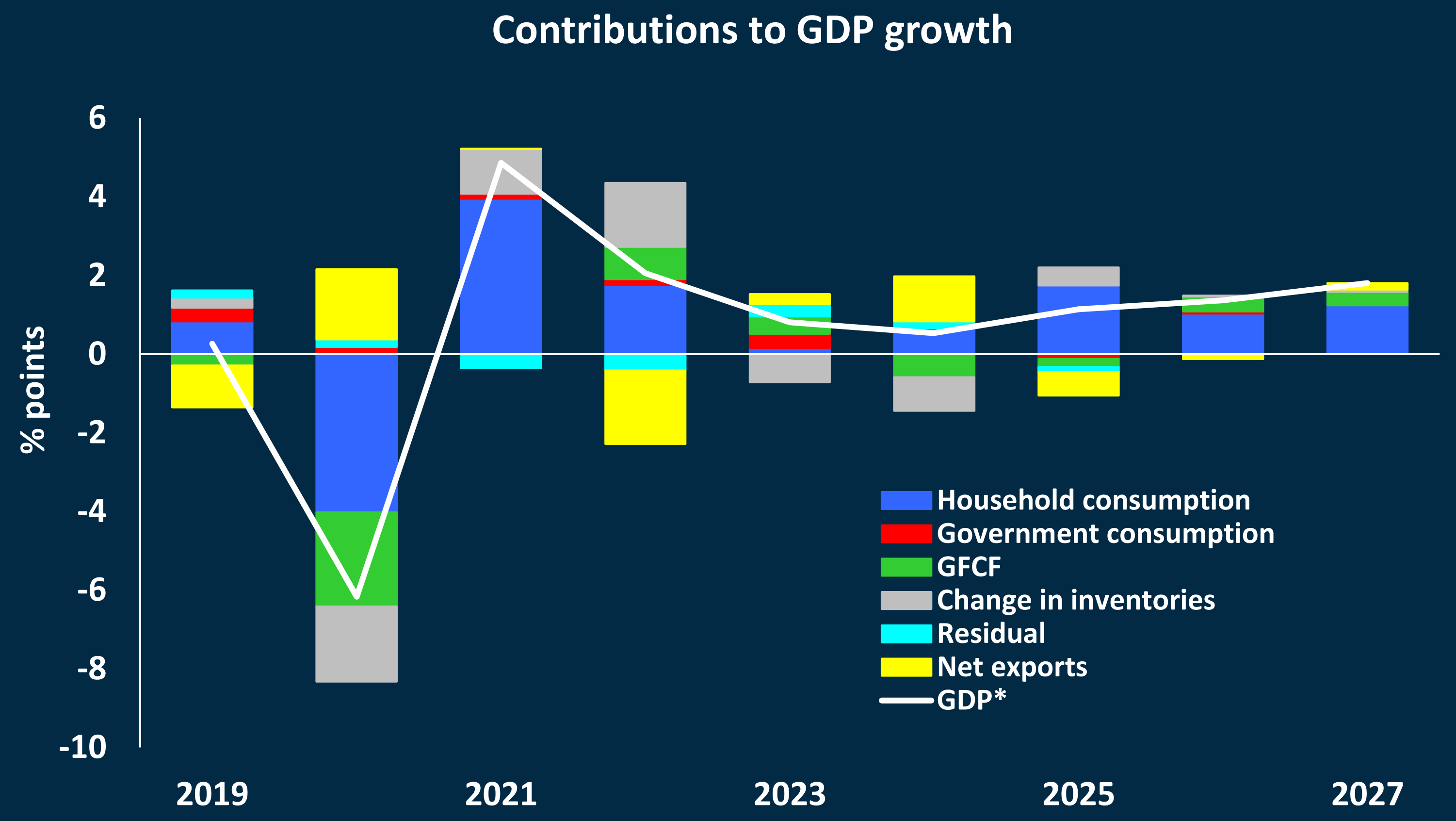
Source: SARB

Contributions to real new loans granted*



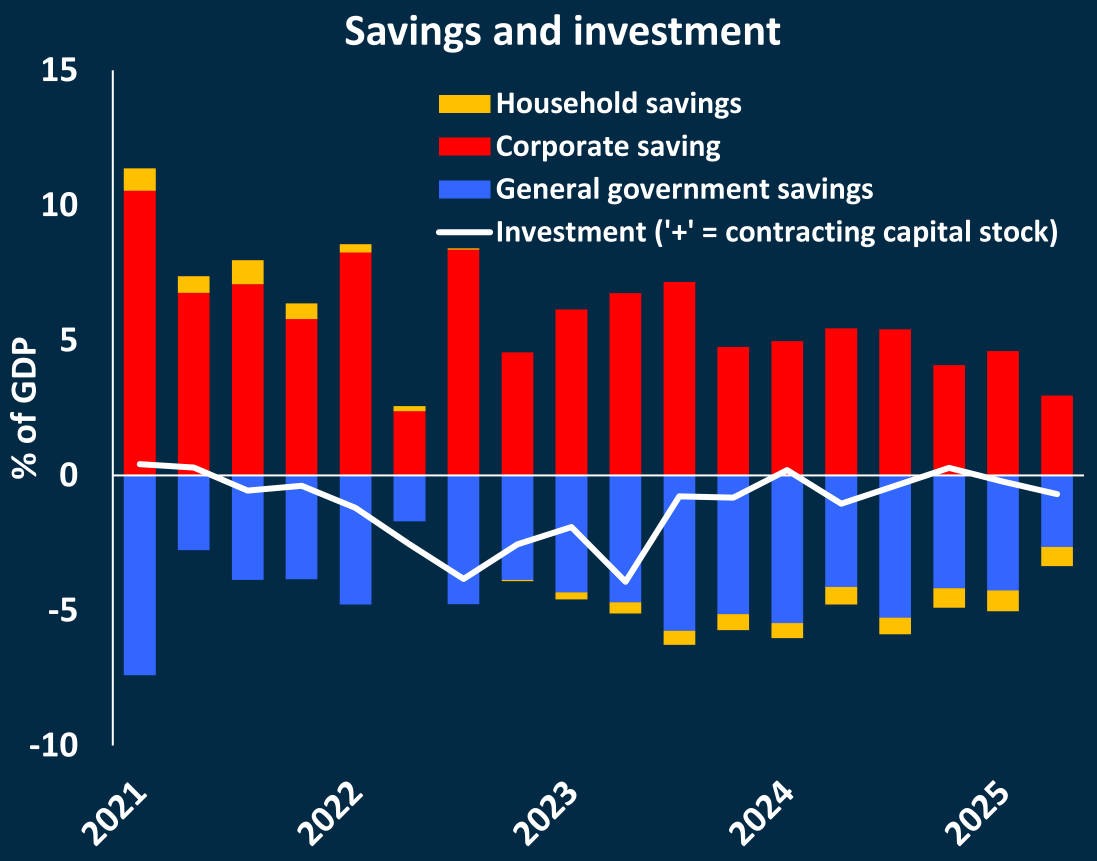
* year-on-year percentage change
Source: SARB

…lifting medium term growth to around 2%

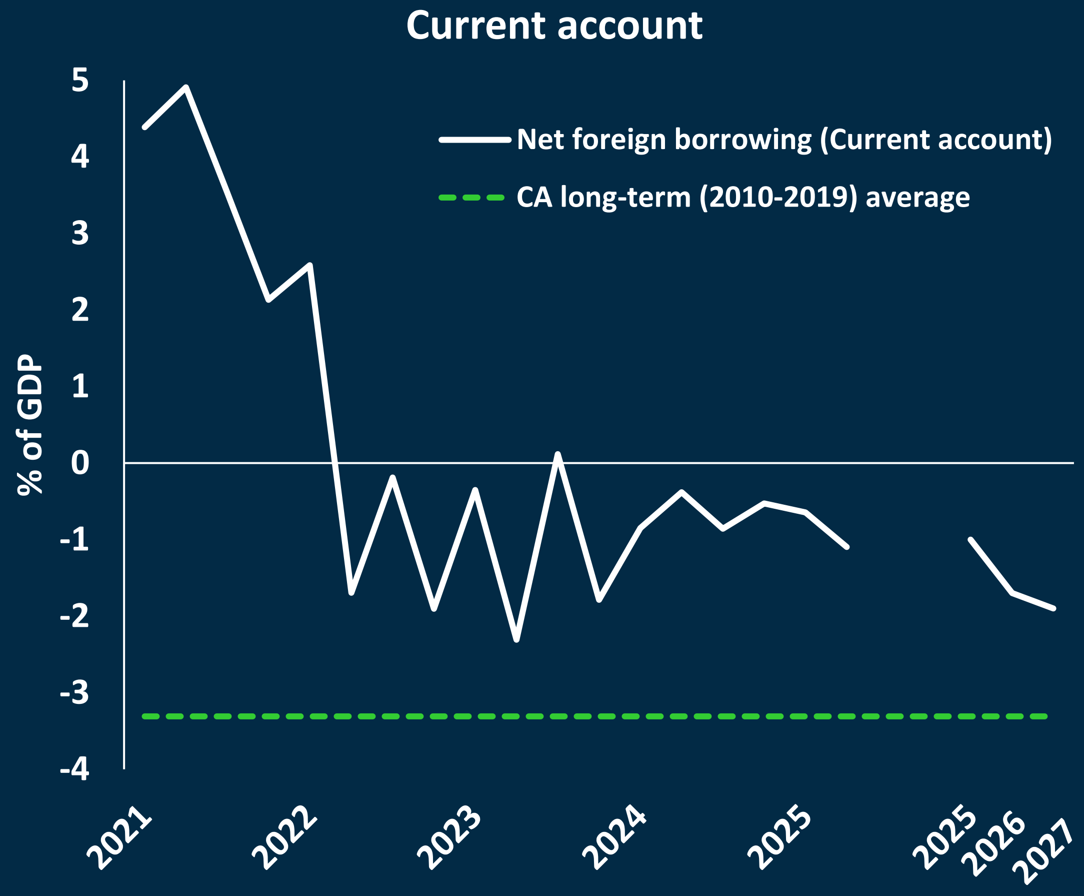


* Percentage change
Source: Stats SA and SARB

Less dissaving & low investment contain current account deficit

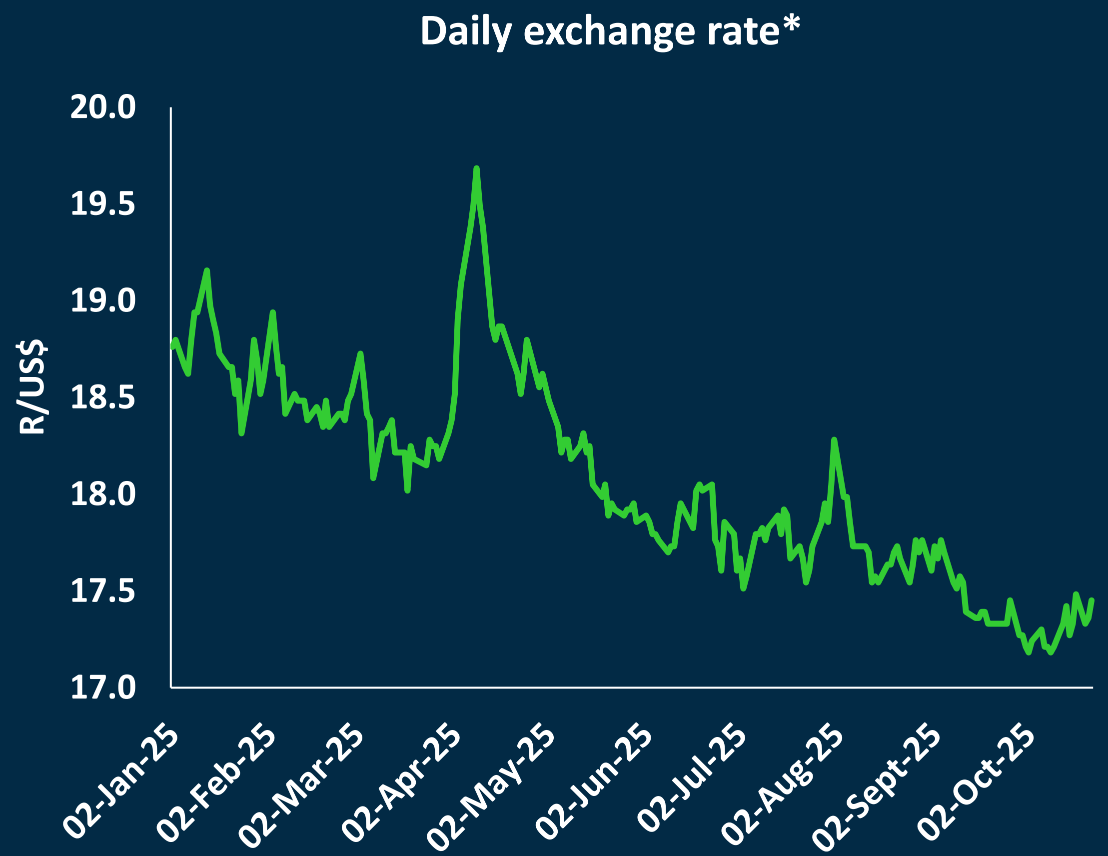


Source: SARB

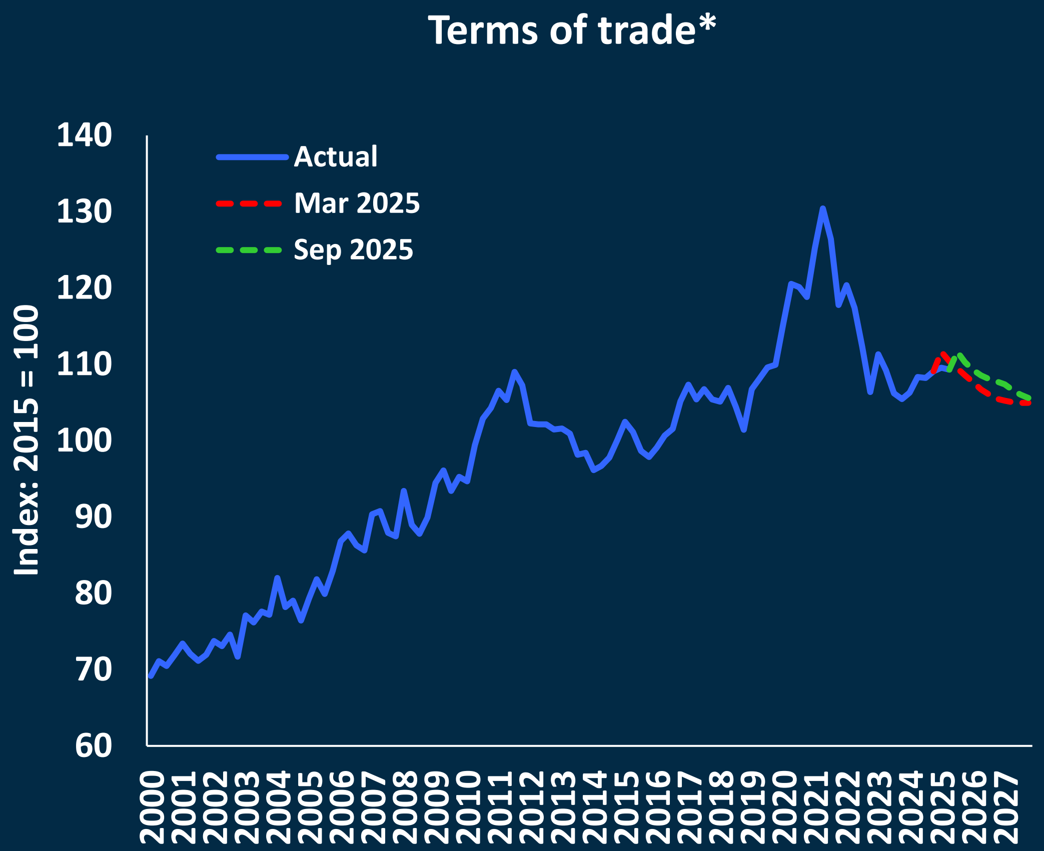


Source: SARB

While global risk appetite, policy settings & terms of trade support the rand

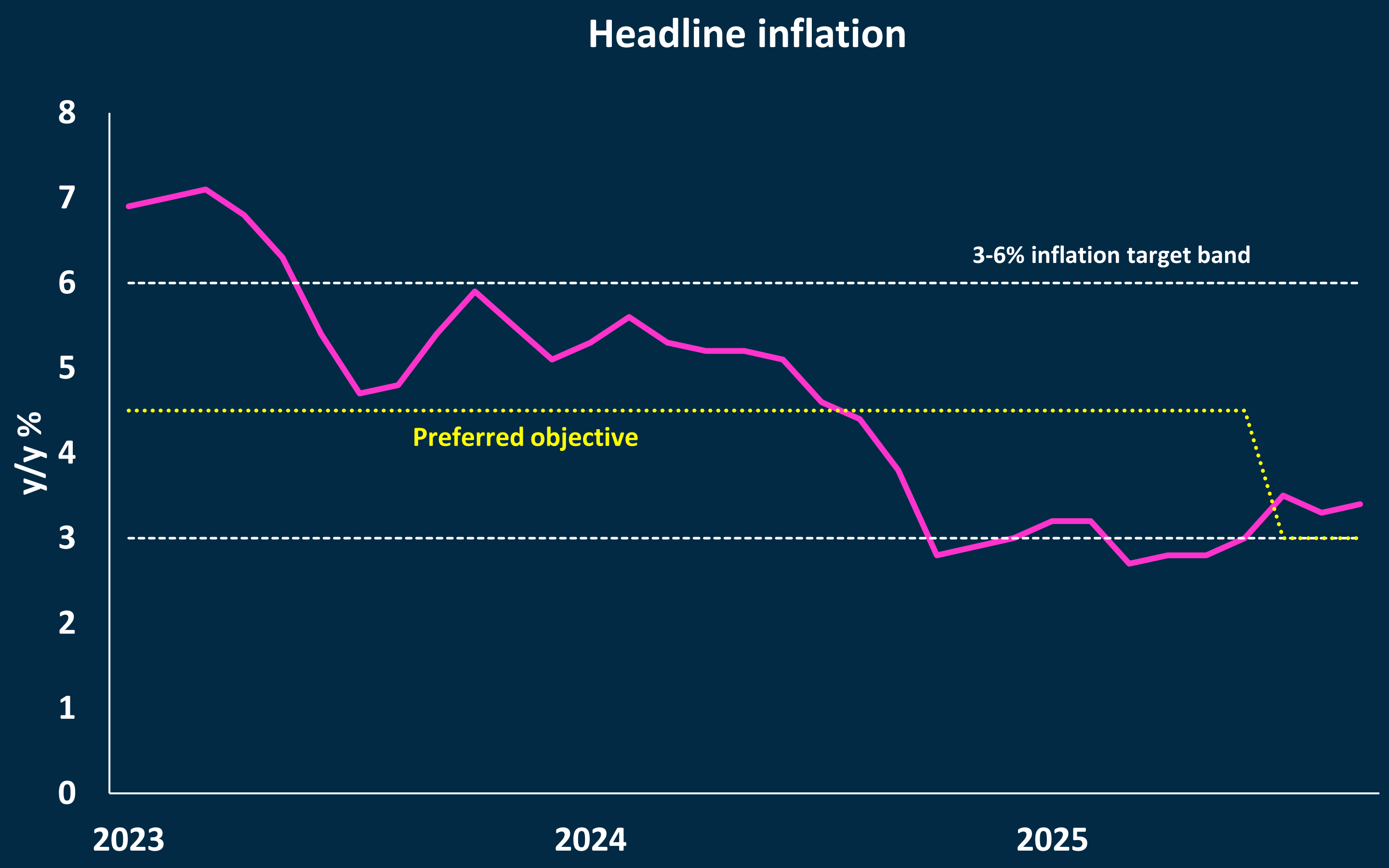


* as at 22 October 2025
Source: SARB



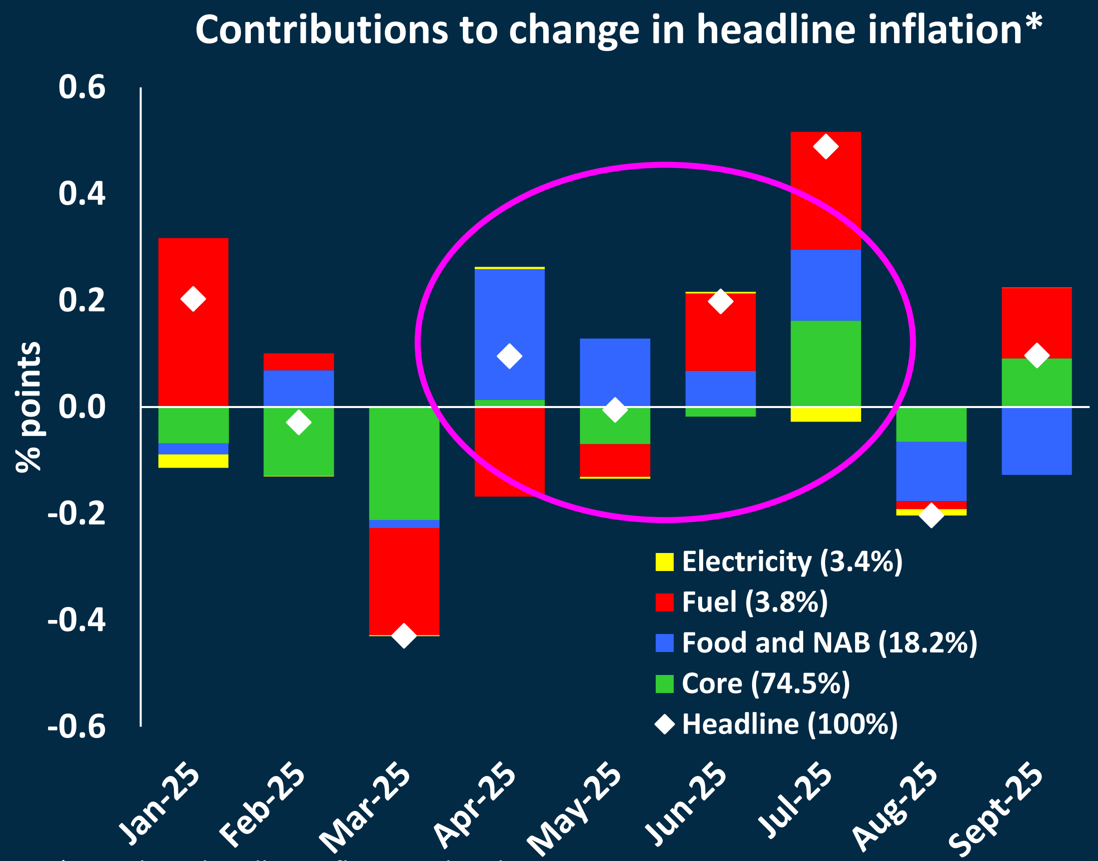
* Dotted lines indicate forecasts
Source: SARB

Headline inflation well contained over the past year…

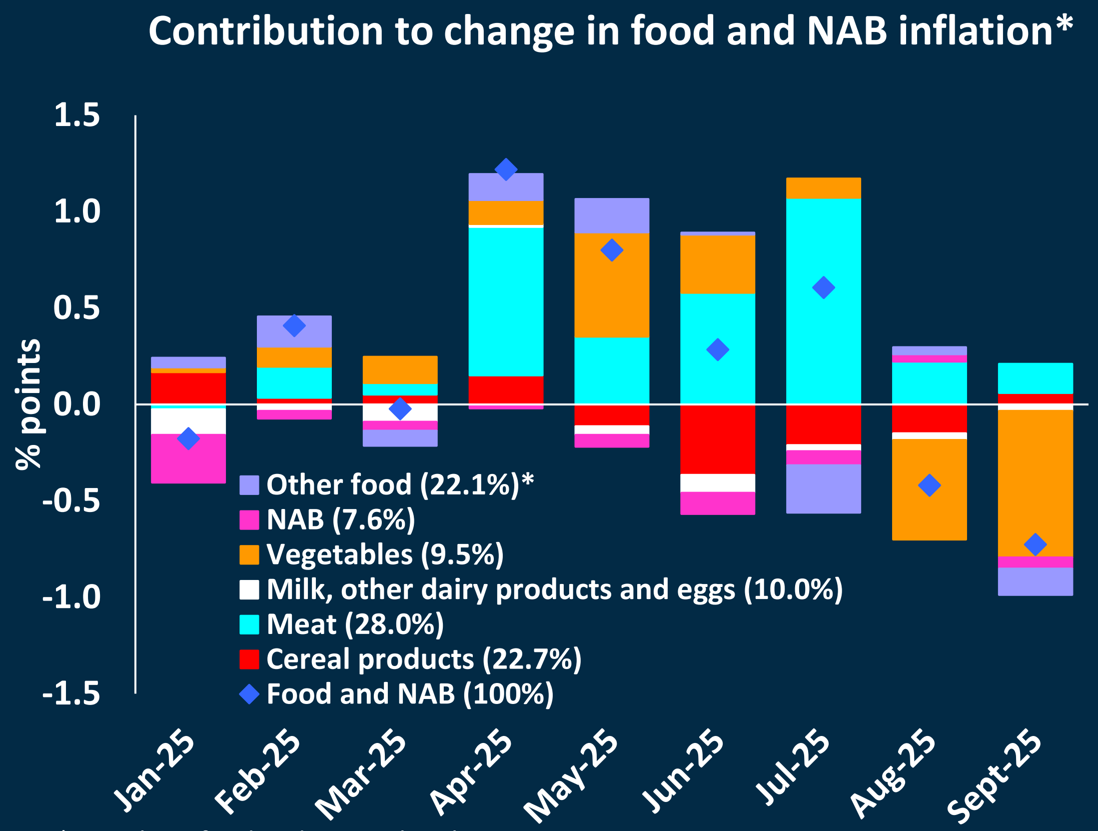


Sources: Stats SA and SARB

Recent uptick driven mostly by fuel and food



* Weight to headline inflation in brackets
Sources: Stats SA and SARB



* Weight in food and NAB in brackets
** Includes fish; oils and fat; sugar; fruits and nuts
Sources: Stats SA and SARB

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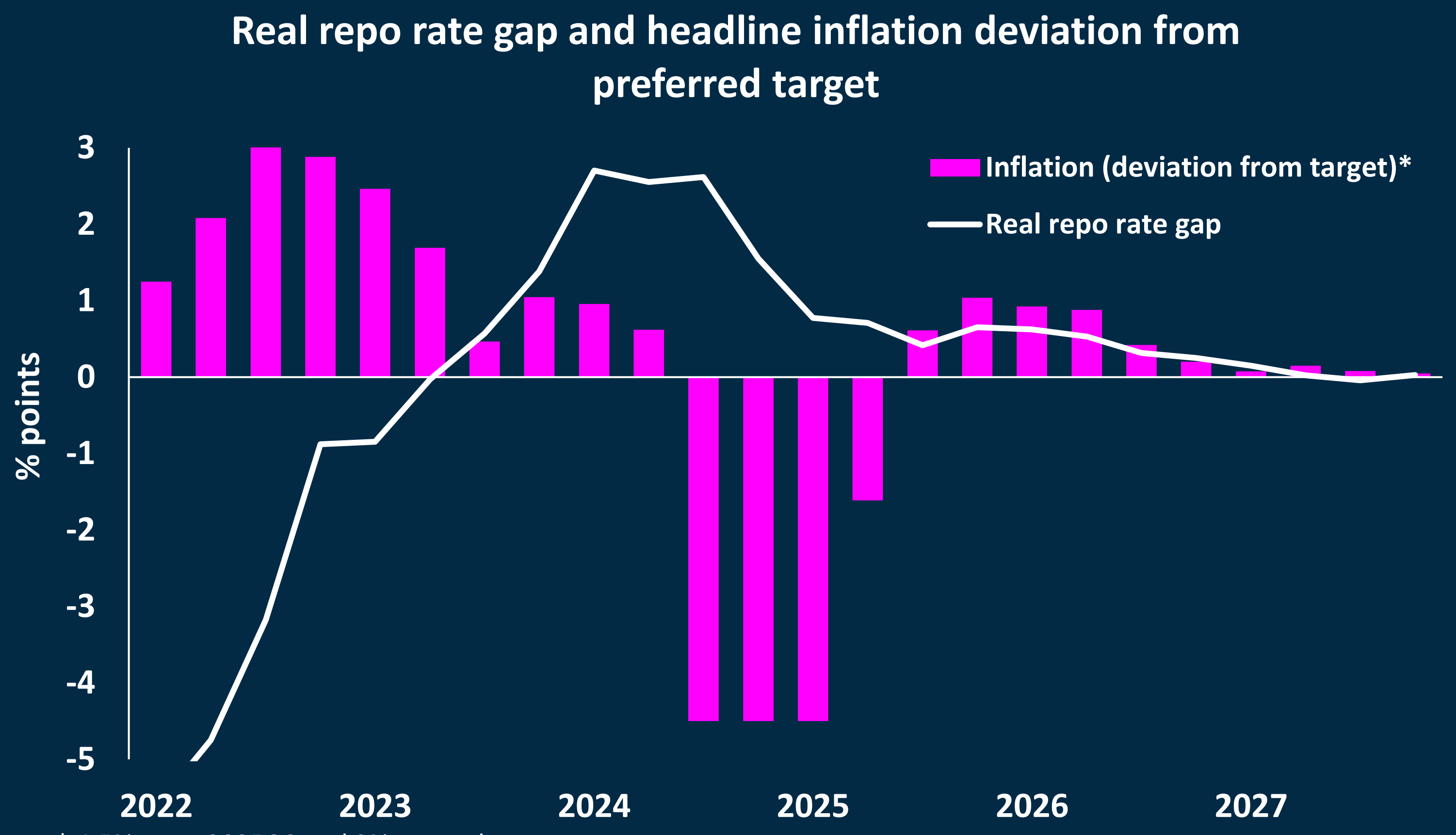
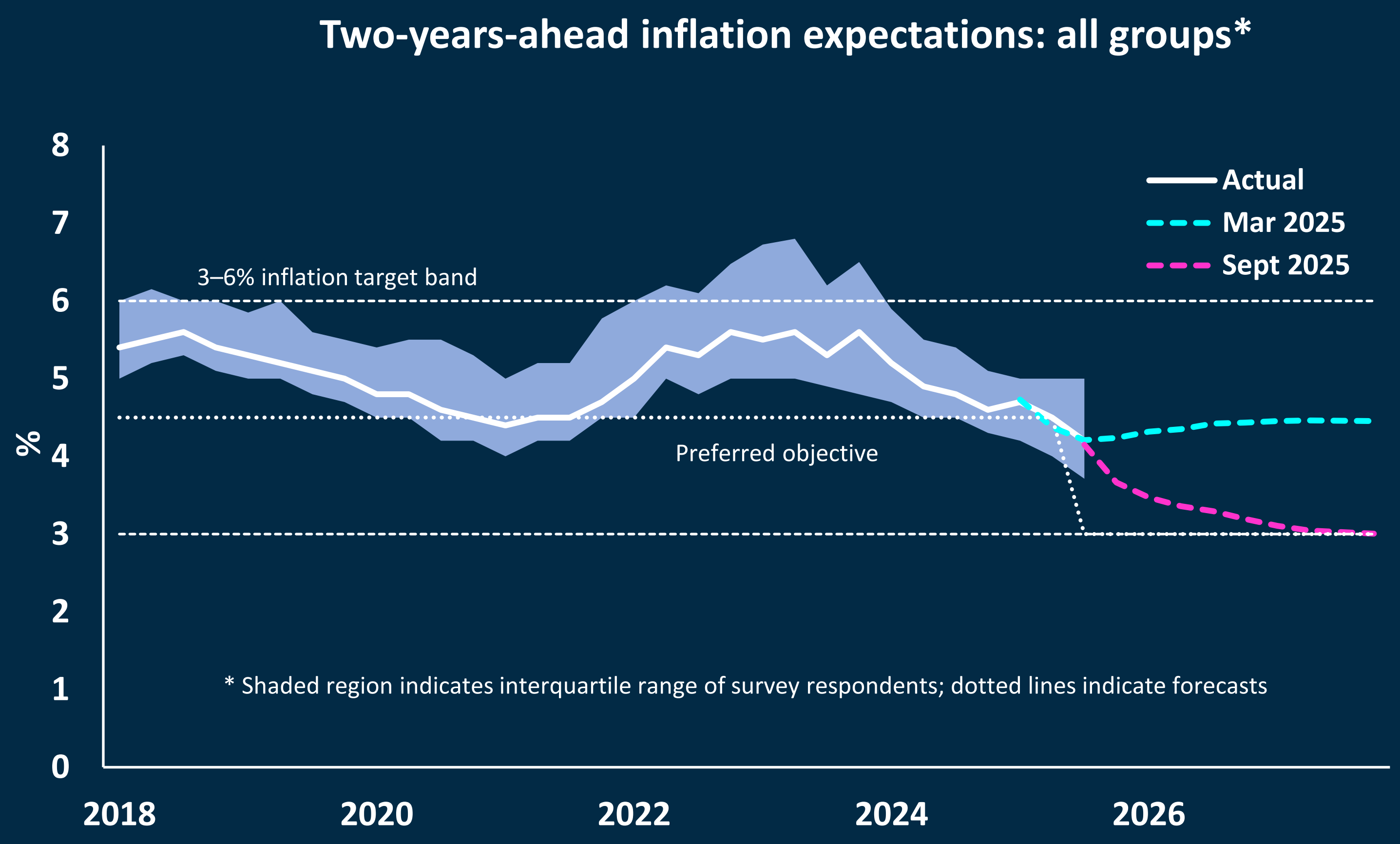
Global factors, modest real repo contains price pressures



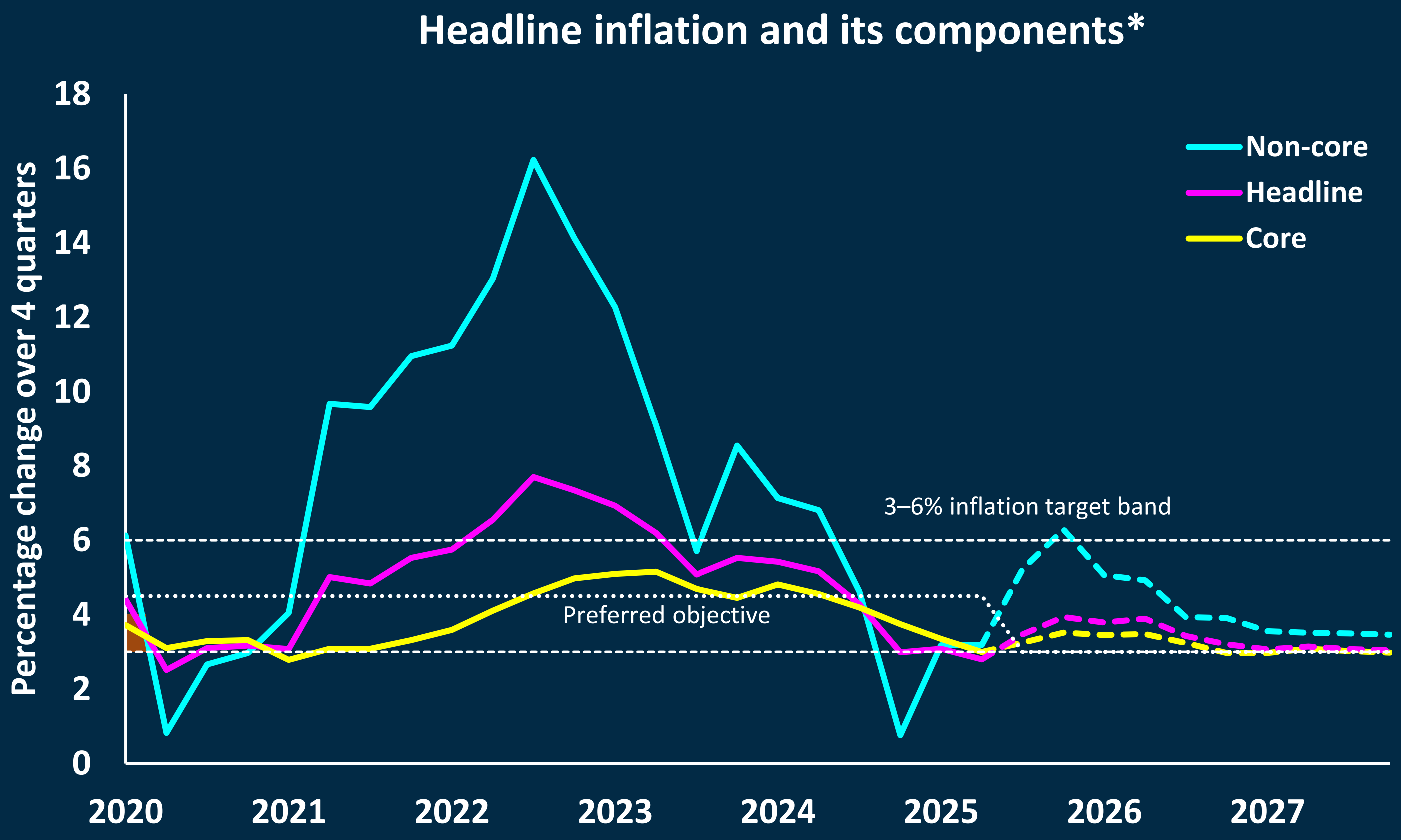
* 4.5% up to 2025Q2 and 3% onward
Sources: Stats SA and SARB

And shift expectations down & forward



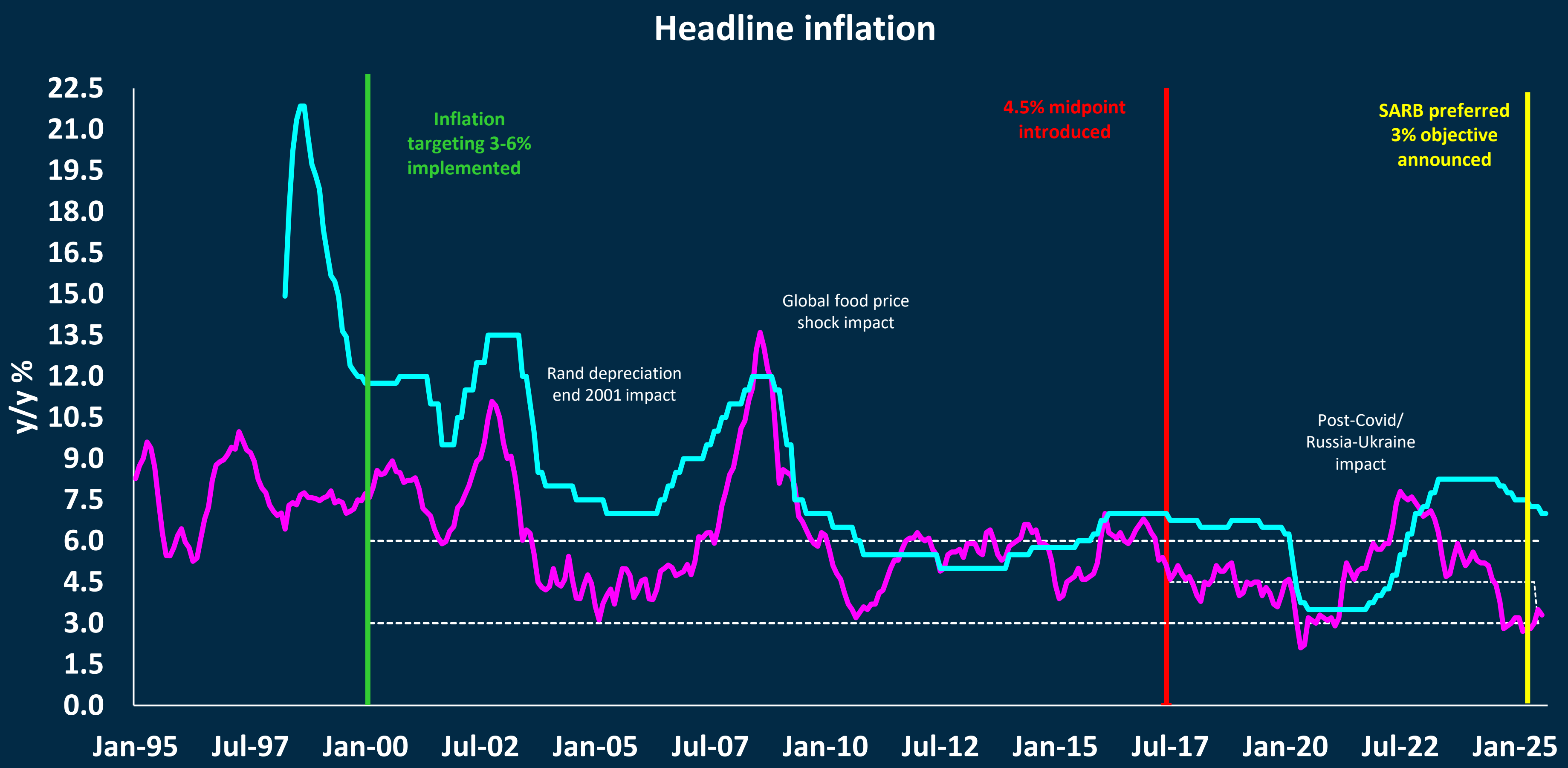
Sources: BER and SARB

…in line with 3% preference by 2027



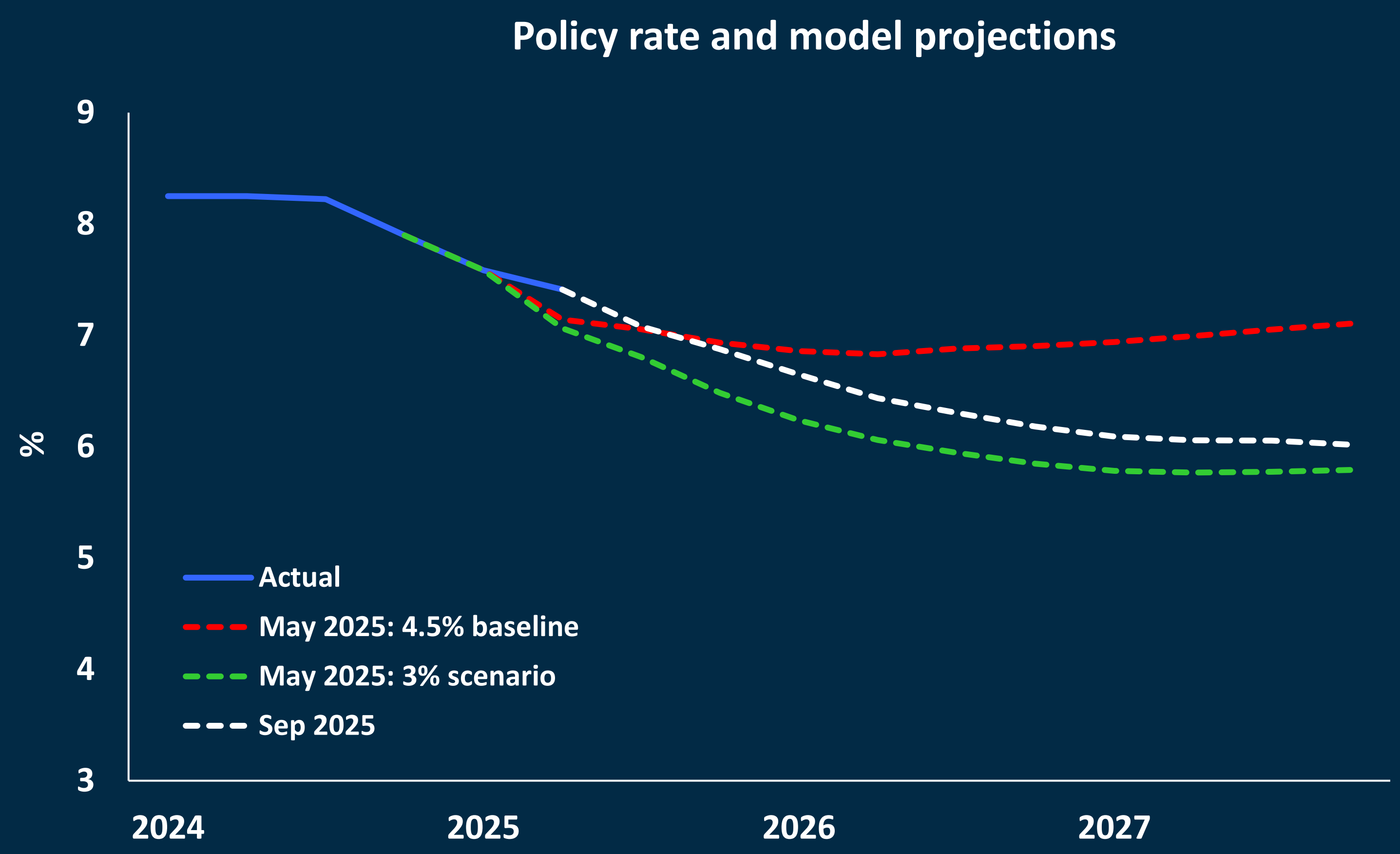
* Dotted lines indicate forecasts
Sources: Stats SA and SARB

Over long term, clear efficiency gains from focused policy framework



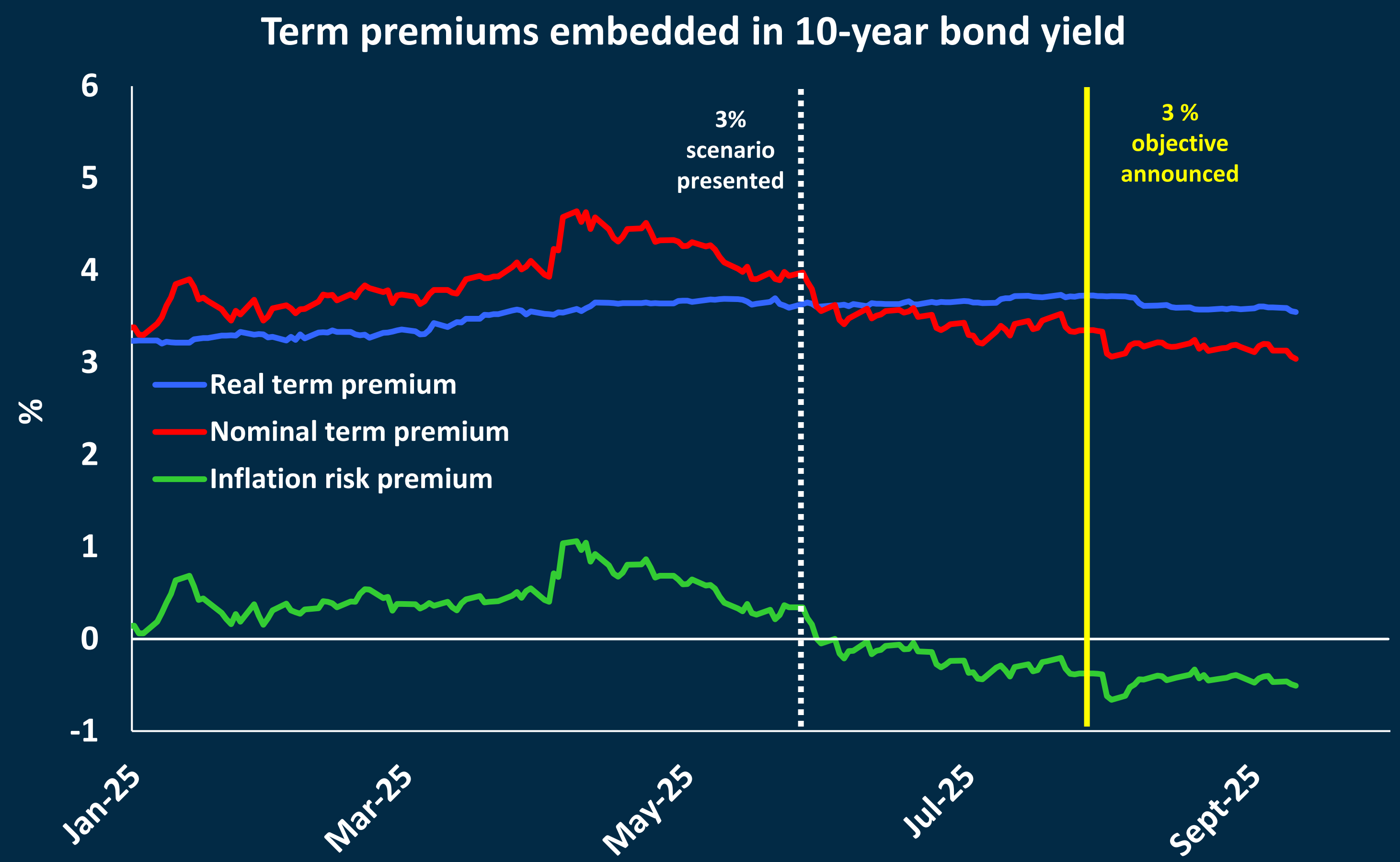
Sources: Stats SA and SARB

Creating policy space as the regime shifts



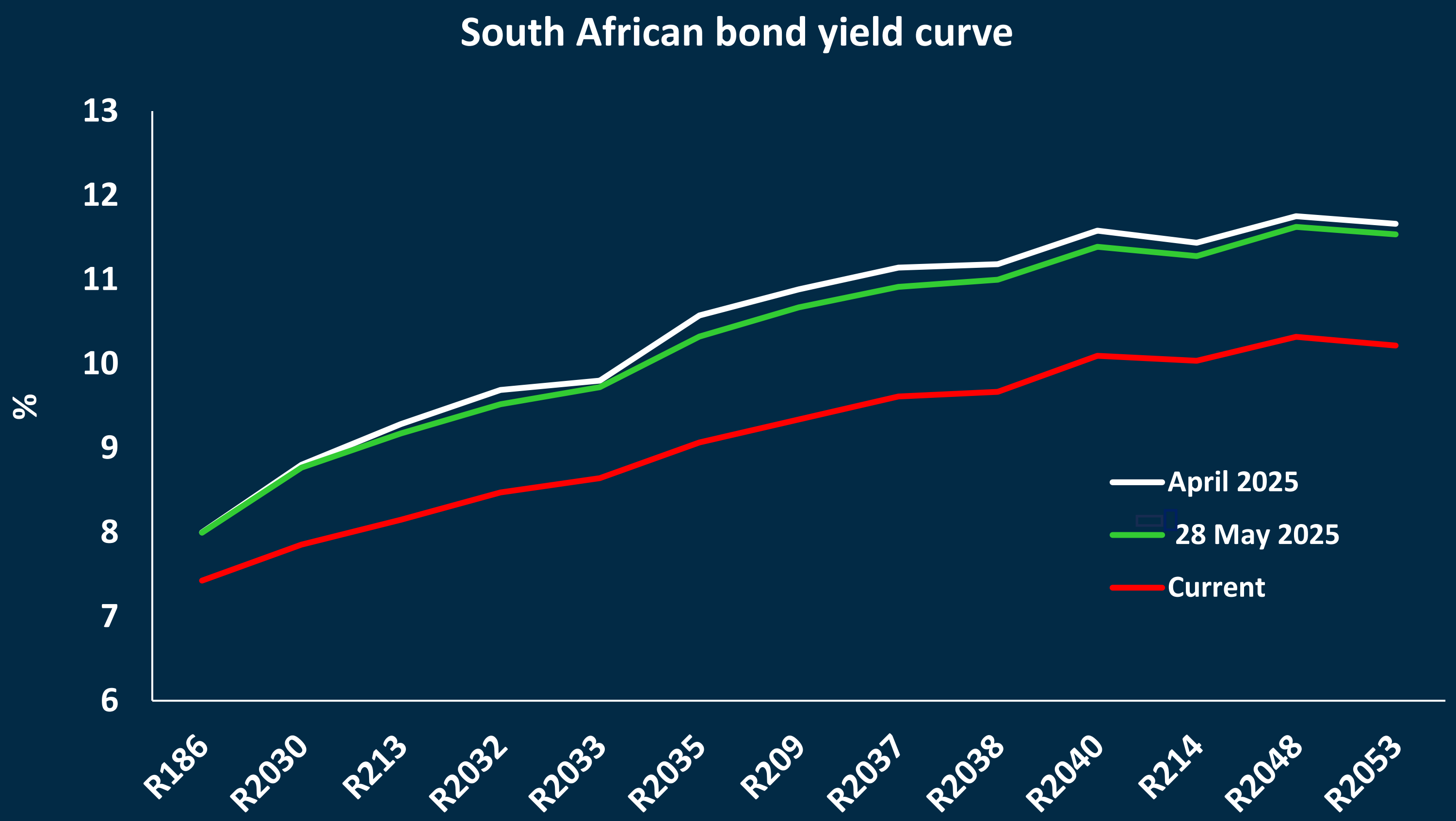
Source: SARB

A lower target + low inflation = lower inflation risk & real term premiums



Sources: Bloomberg and SARB

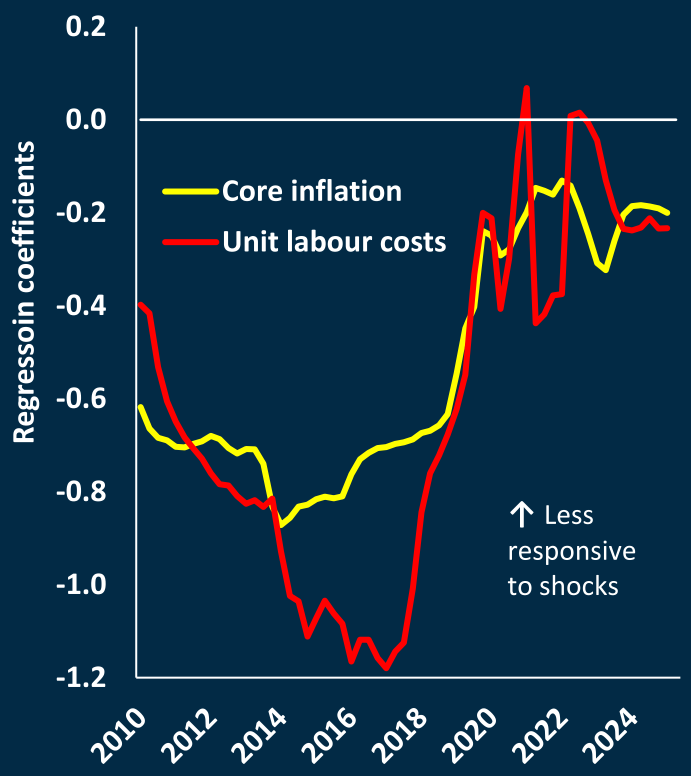
Filtering through into lower borrowing costs



Sources: Bloomberg and SARB

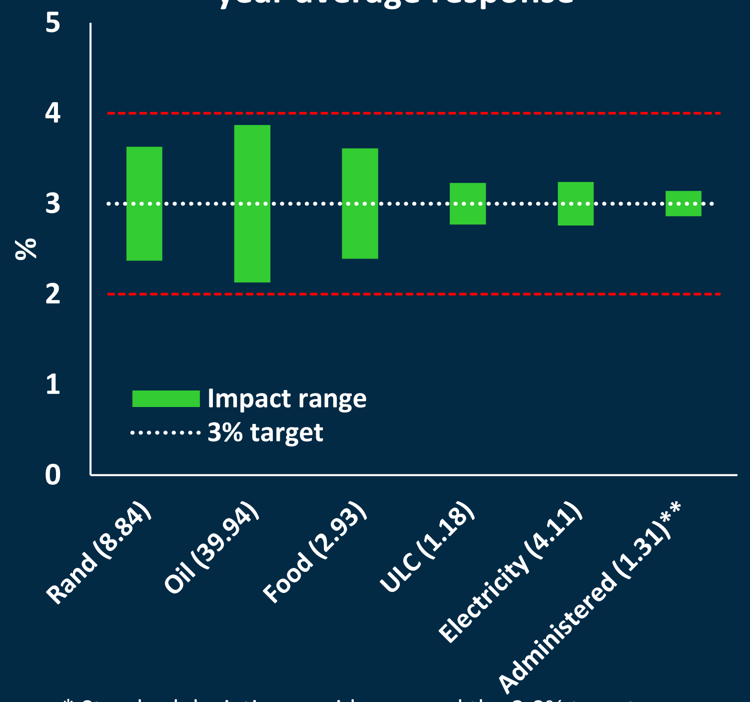
Robust to normal inflationary shocks, reflecting shift to "rational" expectations

Responsiveness to inflation shocks



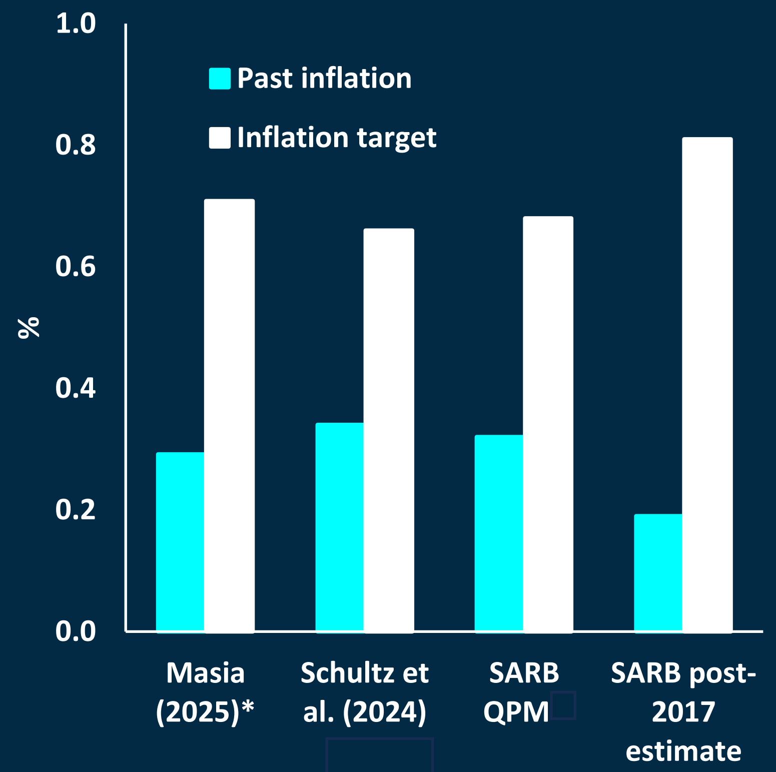
Sources: Stats SA and SARB

Impact on headline inflation: one-year average response*



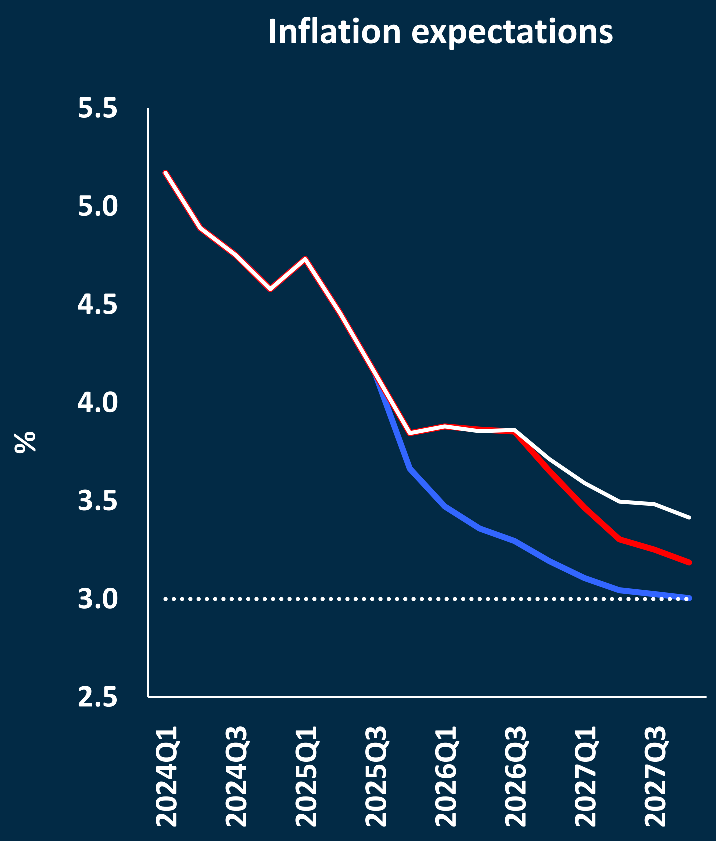
* Standard deviation corridor around the 3.0% target, proportionally adjusted for the reduction in inflation from 4.5% to 3.0%, and rounded to the nearest integer.
** Excluding fuel and electricity
Source: SARB

Regression coefficients for drivers of inflation expectations

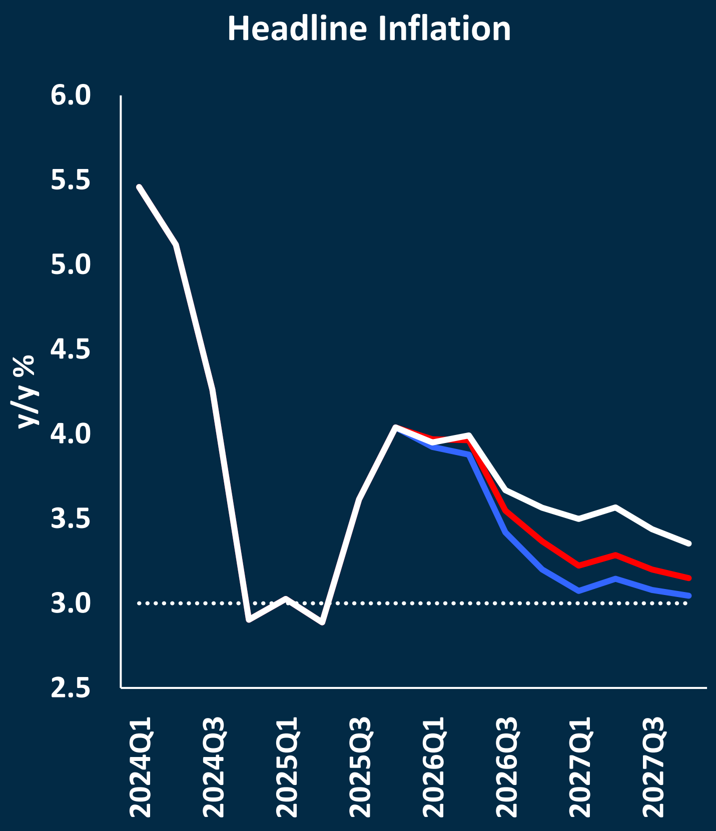


Source: SARB

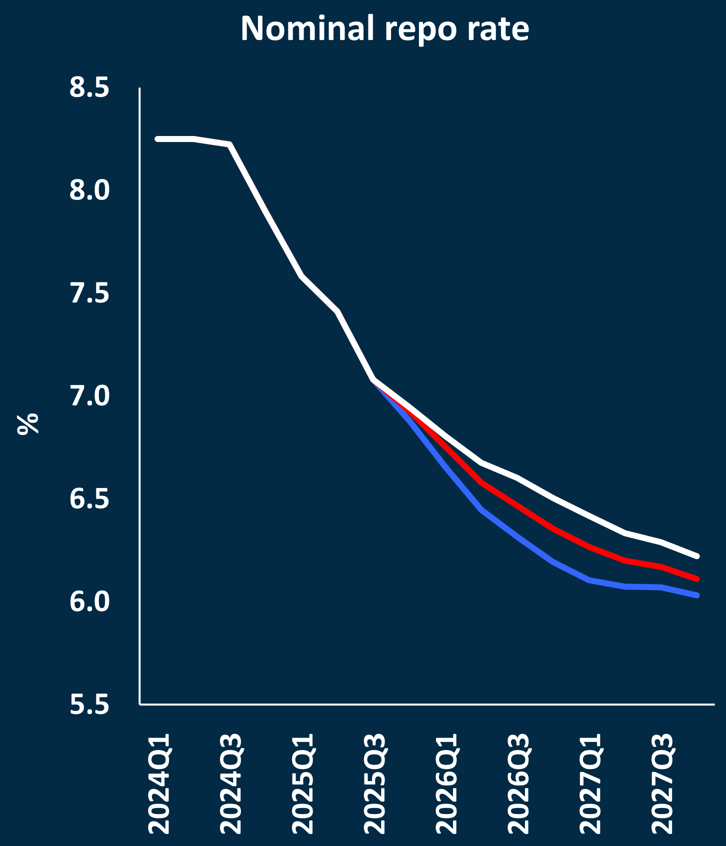
…and different assumptions about expectations dynamics



Source: SARB



Source: SARB

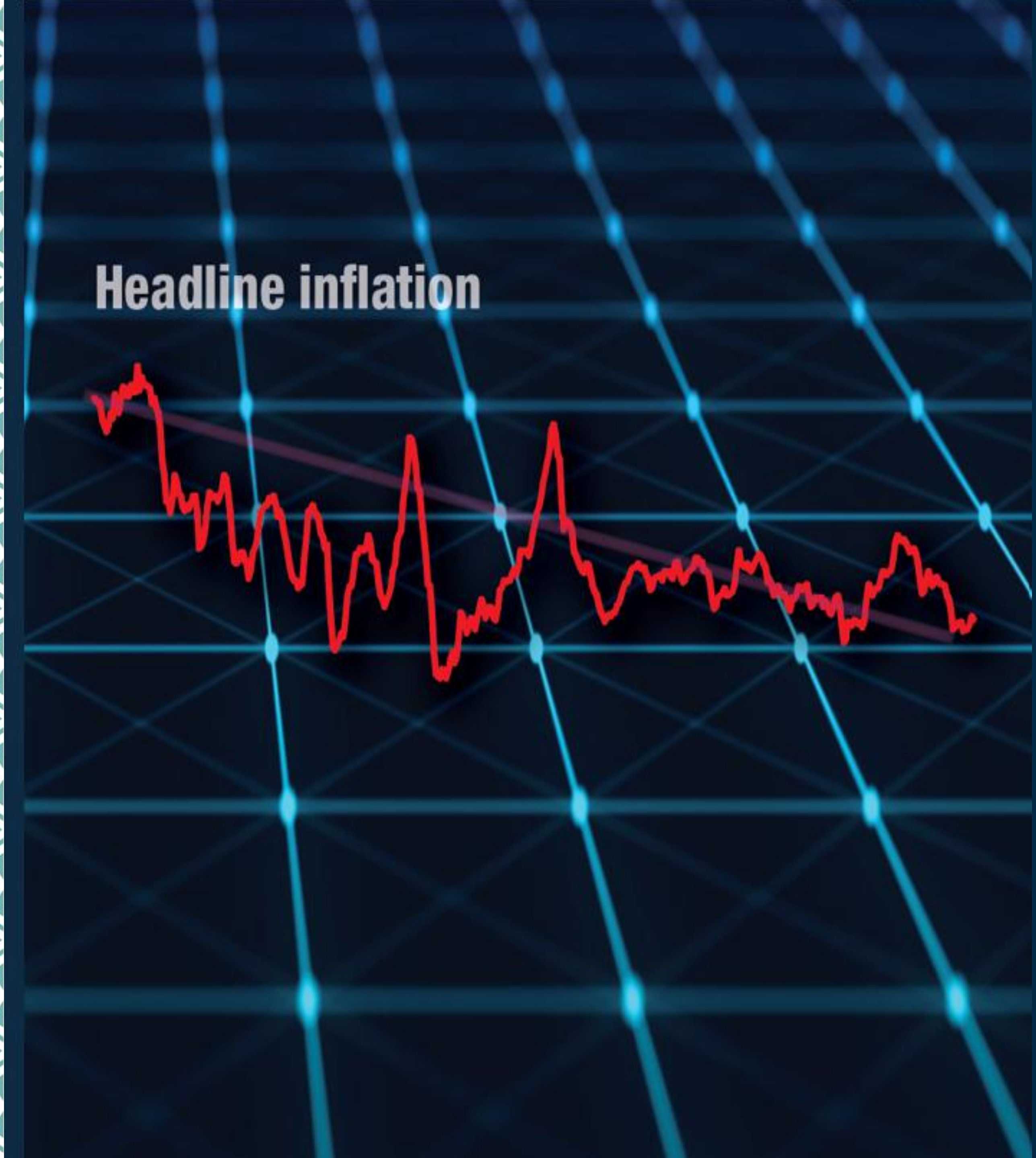


Source: SARB

- Baseline: Backward inflation expectations at 16%
- Subscenario 1: Backward inflation expectations at 50%
- Subscenario 2: Subscenario 1 + BER inflation expectations 3x baseline weight

Conclusion

- Uncertainty high & interacting with tight structural challenges, from trade & imbalances, climate & demographics, to leverage & finance
- Productivity trend weak; near-term weaker… upsides from technology?
- South African exports mixed on TOT and tariffs, investment clearly negative
- Upside as supply constraints ease & global and local uncertainty dissipates
- Near-term inflation rising, but volatility evident & likely temporary
- Setting policy for the long term… robust to different shocks & assumptions



Thank you for your attendance

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