

MONETARY POLICY REVIEW

OCTOBER 2025



SOUTH AFRICAN RESERVE BANK

Headline inflation





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Preface

The primary mandate of the South African Reserve Bank (SARB), as set out in section 224 of the Constitution, 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.

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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Policy for the long term

Executive summary and overview of the policy stance

Headline inflation has hovered around 3% since October 2024, opening up the prospect of further improvement in the stability of South Africa's price level. With muted core price pressures and moderating inflation expectations, the outlook remains benign. In July 2025, the Monetary Policy Committee (MPC) announced a preferred inflation objective of 3%, aiming to lock in recent disinflation gains and to lower equilibrium interest rates. While headline inflation is expected to rise in the short term, it is forecast to fall back to the 3% objective by 2027. Following 75 basis points of cuts from September 2024 to March 2025, the MPC reduced rates by a further 50 basis points to 7% over the review period (April–October 2025). The global environment, however, remains highly uncertain due to ongoing tariff risks to inflation and geopolitical tensions. Major global central banks have cut rates, and markets expect further modest reductions later this year, even though inflation remains elevated in some major economies.

Global economic developments

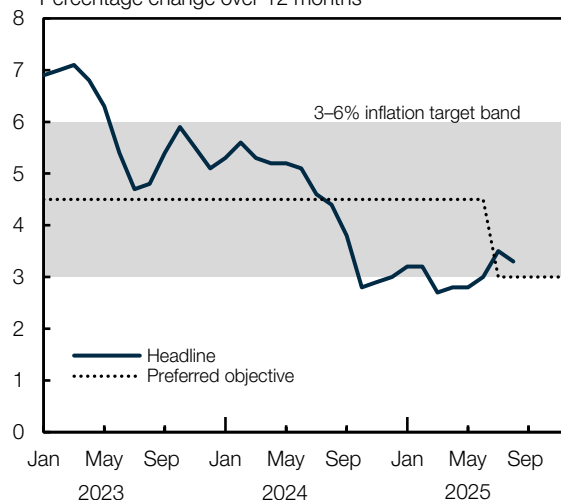
Waiting game

Over the past six months, the global economy has proven resilient following the market sell-off triggered by the United States' (US) 'Liberation Day' tariff announcement in April 2025. As potential tariffs soared, so too did economic uncertainty, spiking in April before easing as new trade deals were struck and tariff rules clarified. So far, global supply chains have held up well, as exports surged ahead of tariff implementation, while real incomes and improved financial conditions spurred domestic demand. As a result, global economic activity grew at a better-than-expected annualised rate of 3.2% in the first half of 2025.¹

¹ See Organisation for Economic Co-operation and Development (OECD), *Economic Outlook, Interim Report September 2025: Finding the right balance in uncertain times*, Paris: OECD Publishing, 2025.

Headline inflation

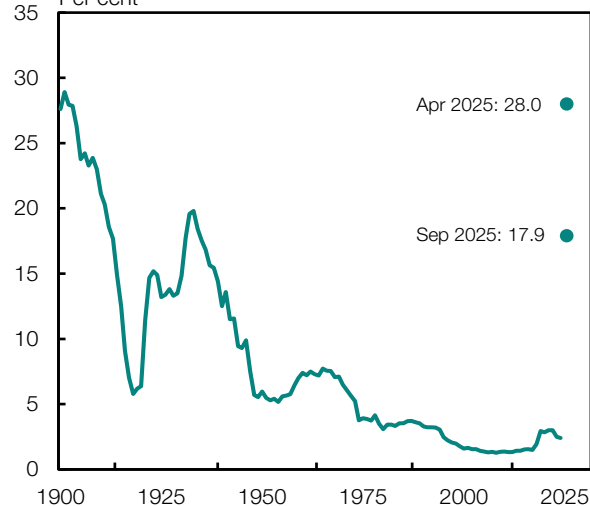
Percentage change over 12 months



Sources: Stats SA and SARB

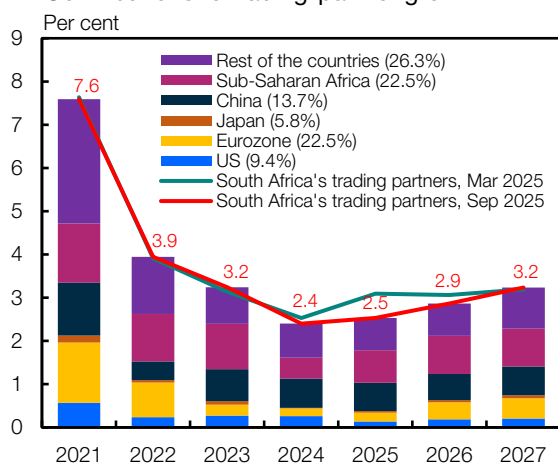
US effective tariff rate

Per cent



Source: Yale Budget Lab

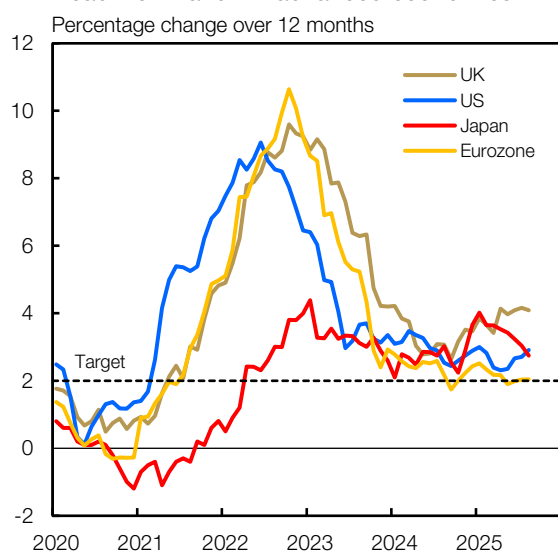
Contributions to trading-partner growth*



* Weights in brackets

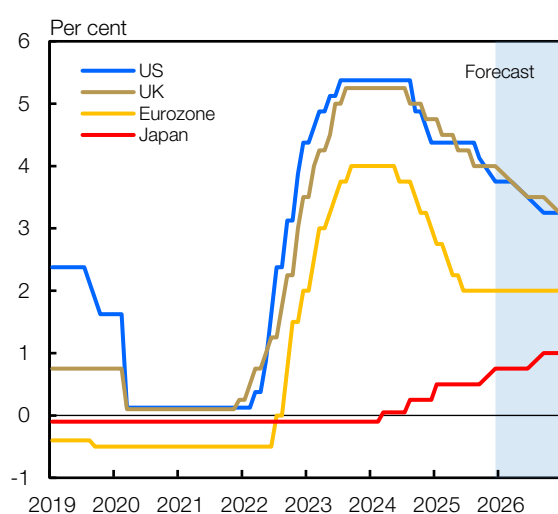
Source: SARB

Headline inflation in advanced economies



Sources: National statistical offices

Policy rate projections in advanced economies



Sources: Bloomberg Consensus and central banks

The performance of individual economies has, however, varied, and prospects appear mixed. Tariffs may adversely impact growth in the US and China as costs rise while consumer and business confidence softens. In contrast, other major economies – such as the eurozone, Japan and the United Kingdom (UK) – may grow slightly faster than previously expected.² Overall, global growth forecasts for 2025 have generally been revised upward, even if the outlook for the back-end of the year is still uncertain.³ Fiscal stimulus measures in the US, Europe and China may provide additional support to global growth.

Overall, the South African Reserve Bank (SARB) projects trading-partner growth of 2.5% this year (lower than in the April *Monetary Policy Review (MPR)*), increasing to 2.9% in 2026 and 3.2% in 2027.

Turning to prices, global inflation continued to ease over the past year, as energy and food prices moderated, and as currencies strengthened in many economies, primarily against the US dollar. Global disinflation also benefitted from the lagged effects of tighter monetary policies and cooling labour markets. After averaging 5.7% in 2024, global inflation is projected to decline to 4.2% in 2025 and to 3.7% in 2026.⁴ While global disinflation is set to continue, risks to the inflation outlook are evident and, despite inflation broadly easing, it remains above target in several major economies.⁵ For instance, US personal consumption expenditure inflation reached a low of 2.3% in April this year but rose to 2.7% in August, coinciding with a pickup in inflation of trade-exposed products.⁶

Disinflation provided space for central banks to ease policy over the past year, but the pace and magnitude has varied, reflecting domestic idiosyncrasies. In the US, the Federal Reserve (Fed) kept interest rates unchanged from December 2024 until September 2025, when weaker-than-expected employment data prompted a 25 basis points rate cut. In contrast, the European Central Bank (ECB) reduced rates more decisively, supported by subdued demand, lower energy prices and a stronger euro. The Bank of England (BoE) also lowered rates, but sticky services inflation and high wage growth suggest that further rate cuts are unlikely this year. Meanwhile, the Bank of Japan (BoJ) kept rates steady, balancing risks to growth against a nominal policy rate below its neutral level.

2 The United States (US) economy is expected to slow to 2% this year from 2.8% in 2024, and China to 4.8% from 5% in 2024. The eurozone is projected to expand by 1.2% from 0.9% in 2024, the United Kingdom (UK) by 1.3% (1.1%) and Japan by 1.1% (0.1%). See International Monetary Fund (IMF), *World Economic Outlook (WEO)*, Washington, D.C.: IMF, October 2025.

3 The IMF upgraded its global growth projections to 3.2% for this year and 3.1% for 2026 in its October 2025 *WEO*, up from 2.8% and 3% for 2025 and 2026 respectively in the April *WEO*.

4 IMF, *WEO*, Washington, D.C.: IMF, October 2025.

5 The consumer price index rose by 3.8% in August 2025 in the UK, unchanged from the previous month, and increased by 2.7% in Japan, from 3.1% in July.

6 G Meyer, 'Impact of Trump tariffs is beginning to show in US consumer prices', *Financial Times*, 5 October 2025.



Emerging market economies have generally eased policy in response to improved inflation outcomes and outlooks. As a result, the scope for further rate cuts is now limited, except in major Latin American economies and Russia, where inflation remains high. Persistent global economic uncertainty continues to threaten renewed market volatility and a shift towards safer assets, which may result in currency depreciation and increased inflation.

Despite broadly better near-term economic results, structural challenges remain. Fiscal slippage in advanced economies, along with increased borrowing to fund climate- and defence-related investments, has worsened fiscal pressures and pushed public debt to new highs across a wide range of economies. Large fiscal deficits and rising debt levels have exacerbated inflation risks, contributing to rising long-term interest rates and raising estimates for neutral real interest rates (r^*). This, together with the limited room for further rate cuts, suggests that interest rates may remain elevated for longer. Central banks are likely to continue being cautious and data-dependent as they work to anchor inflation and inflation expectations at target.

Domestic economic developments and outlook

Anchoring lower

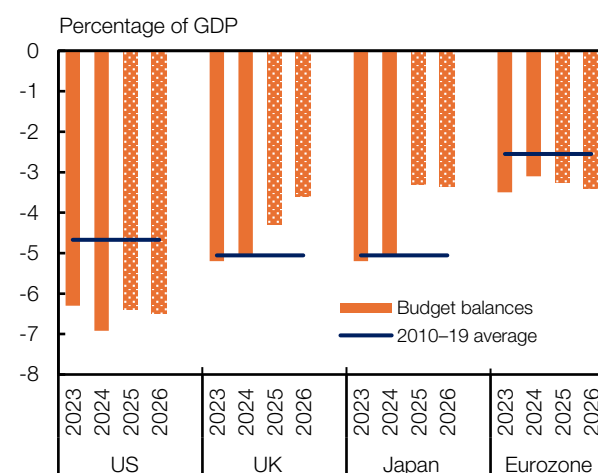
Domestic inflation has remained relatively subdued since falling to the lower bound of the 3–6% target band in the second half of 2024. Headline inflation averaged 3% in the 11 months since October 2024, despite the recent uptick to 3.5% in July 2025, before moderating slightly to 3.3% in August.

With Brent crude oil prices low and stable, and the rand stronger, fuel prices declined for much of the period, pulling headline inflation down. Food inflation was, until recently, also contained, averaging 2.1% between October 2024 and April 2025, supported by a bumper domestic harvest that led to sharply lower grain prices.

Despite lower global food prices, meat and vegetable price inflation has increased markedly since April 2025 due to supply constraints related to foot-and-mouth disease and adverse weather conditions. Encouragingly, supply conditions have begun to improve, suggesting that these inflationary pressures may be temporary (see Box 9).

Unlike the more volatile items (i.e. food and fuel), core inflation remained stable around 3% during the review period. Wage-setting in the private sector consistent with productivity growth, rand strength and easing inflation expectations have all contributed to the moderation in underlying price pressures.

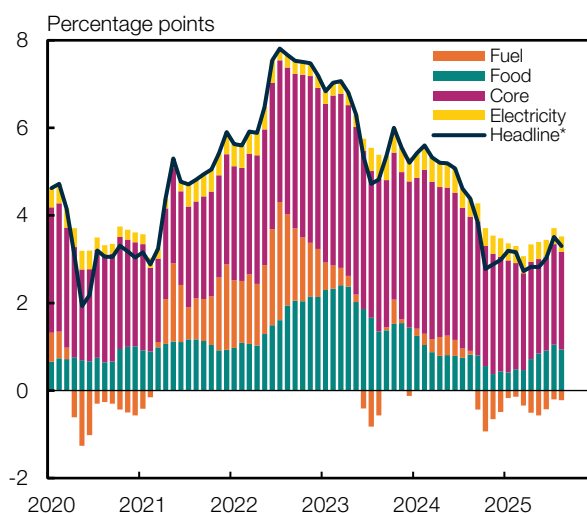
Budget balances*



* Shaded bars indicate forecasts

Source: Bloomberg

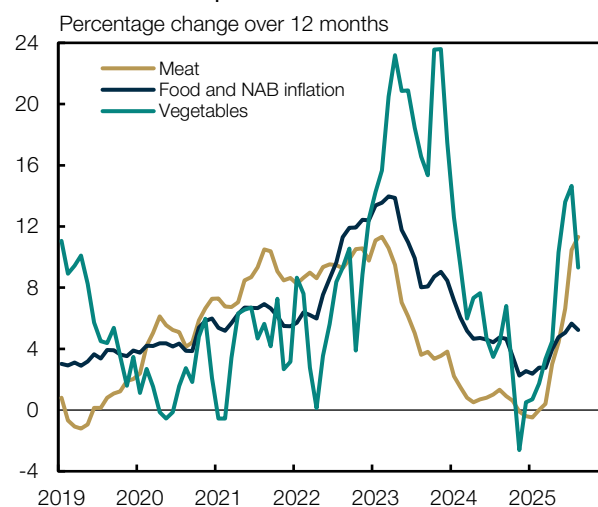
Contributions to headline inflation



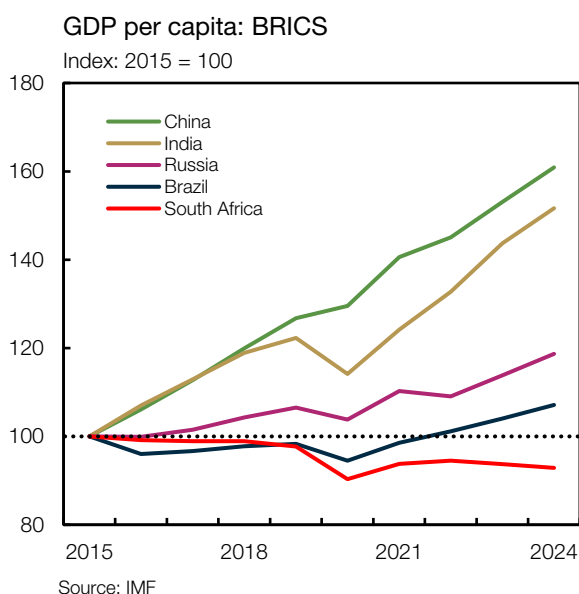
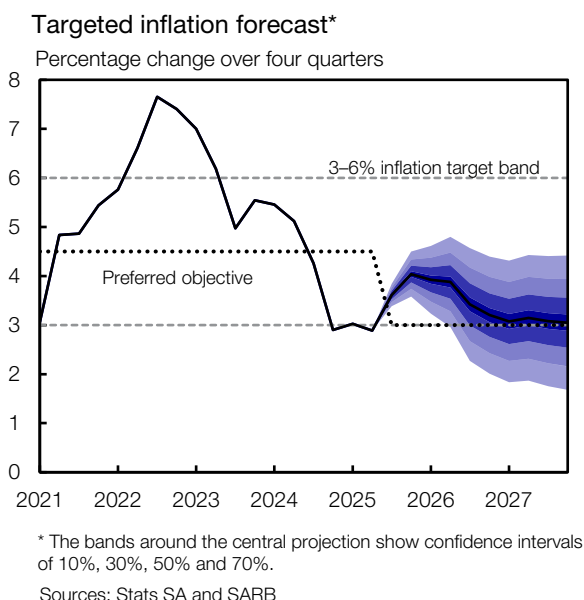
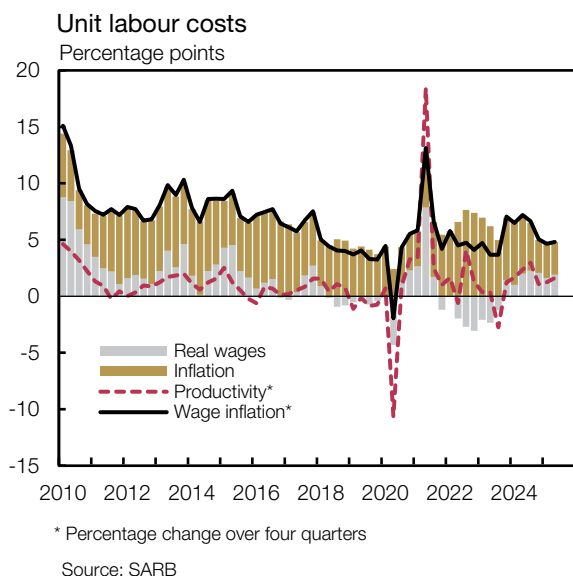
* Percentage change over 12 months

Sources: Stats SA and SARB

Selected components of food inflation



Source: Stats SA



With sustained low inflation and modest forecasts, the Monetary Policy Committee (MPC) moved to lock in recent disinflation gains, announcing at its July 2025 meeting a shift in its preferred inflation objective to 3% from 4.5%. This aligns South Africa's long-term inflation rate with those of its key trading partners and peers, and offers greater protection to vulnerable groups, including the poor and those on fixed incomes.⁷ The change mirrors the 2017 adjustment to the midpoint of the band, which resulted in inflation and inflation expectations stabilising closer to 4.5% until they were temporarily dislodged by the post-pandemic inflation surge.

The MPC's policy decisions are now guided by the 3% objective, even though the official target band remains unchanged. Inflation expectations, unit labour costs (ULCs) and core inflation appear to be robust to typical inflation shocks (see Box 1).

Looking ahead, headline inflation is projected to rise in the short term, averaging 3.6% in 2026, before easing towards the 3% objective by the end of the forecast period.⁸ These projections are slightly higher than the July forecast, which had headline inflation at 3.3% in both 2025 and 2026, and declining to 3% in 2027. The upward revision mainly reflects higher-than-expected electricity price inflation following the recent price corrections by the National Energy Regulator of South Africa (NERSA).⁹

Still-modest growth

The challenge to break out of the low-growth trajectory remains. In the first half of 2025, real gross domestic product (GDP) increased by 0.8% year on year following growth of 0.5% in 2024 and 0.8% in 2023. Over the past 10 years, growth has averaged 0.8% while population growth was about 1.4%. As a result, South Africa's per capita GDP has declined at an average annual rate of 0.6% over the past decade.

On a quarter-on-quarter basis, output growth has been volatile. The economy expanded at a stronger-than-expected 0.8% in the second quarter of 2025 following a very subdued 0.1% increase in the first quarter. The volatility in the quarterly growth rates reflects persistent structural weaknesses that drag economic activity as well as swings in household spending growth.

7 See C Loewald, R Steinbach and J Rakgalakane, 'Less risk and more reward: revising South Africa's inflation target', *South African Reserve Bank Working Paper Series No. WP/25/05*, Pretoria: South African Reserve Bank (SARB), May 2025; see National Treasury, *Macroeconomic policy: A review of trends and choices*, Pretoria: National Treasury, 2024; see also S Hall, 'An optimal inflation rate for South Africa', *Economic Change and Restructuring* 58(43), 2025, pp 1–29.

8 Core inflation is forecast at 3.3% in both 2025 and 2026, declining to 3% in 2027.

9 The National Energy Regulator of South Africa (NERSA) adjusted electricity price increases upwards to 8.76% and 8.83% for 2026/27 and 2027/28 respectively. Originally, NERSA had announced tariff increases of 5.36% and 6.19% over the respective periods.

Broadly, economic activity remains hamstrung by logistical inefficiencies in ports and rail, a regulatory environment that impedes competitiveness, skills shortages, low investment levels as well as challenges related to energy supply and cost. Although energy availability has improved, safety margins remain tight, with the energy availability factor averaging 62.6% so far this year, well below the desired 75%, while the lingering effects of the intensive load-shedding of recent years, including depressed sentiment, continue to weigh on economic activity.¹⁰

The domestic economy is expected to grow by 1.2% this year, rising to 1.9% by 2027, broadly in line with the estimated path of potential output, forecast at 1.1% this year and rising to 1.7% in 2027. Investment is projected to recover and strengthen as reforms in key sectors – energy, logistics and water – advance further, encouraging greater private sector participation through initiatives such as embedded energy generation and concessioning in rail and port infrastructures. Accelerated and comprehensive implementation of the Operation Vulindlela reforms could further enhance both potential and actual GDP growth.

Overview of the policy stance

Since September 2024, the MPC has reduced the policy rate by a cumulative 125 basis points, including 50 basis points of cuts during the current review period. This has brought the policy rate down to 7%, and the stance remains moderately restrictive. The rate reductions were consistent with the policy path implied by the Quarterly Projection Model (QPM).

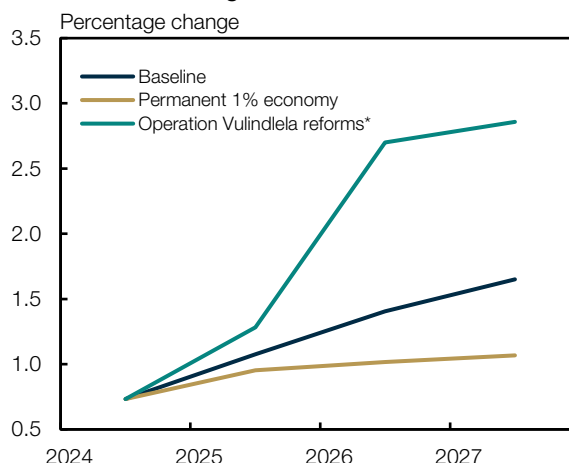
The May and July headline inflation remained contained and risks balanced, prompting the MPC to cut rates by 25 basis points at each meeting.

Compared with the 4.5% baseline, the 3% baseline suggested future scope for lower rates and further easing of the policy stance, provided inflation expectations evolve in line with model assumptions.

The lead-up to the September 2025 MPC meeting had several developments that affected the inflation outlook. NERSA announced large unanticipated additional increases in electricity prices, with electricity price inflation now projected at 9.1% and 7.9% in 2026/27 and 2027/28 respectively from 8.1% and 5.2% respectively in July. This contrasts with administered price inflation excluding electricity of 3.8% and 2.7% respectively over the same periods. Additionally, the stronger-than-expected economic growth in the second quarter narrowed the negative output gap slightly over the forecast horizon, implying somewhat less disinflationary pressure. Downward pressure on the inflation forecast emanated from the rand's improved performance against the US dollar, with an improved outlook and the continued moderation of inflation

¹⁰ 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/2024/114*, Pretoria: SARB, December 2024.

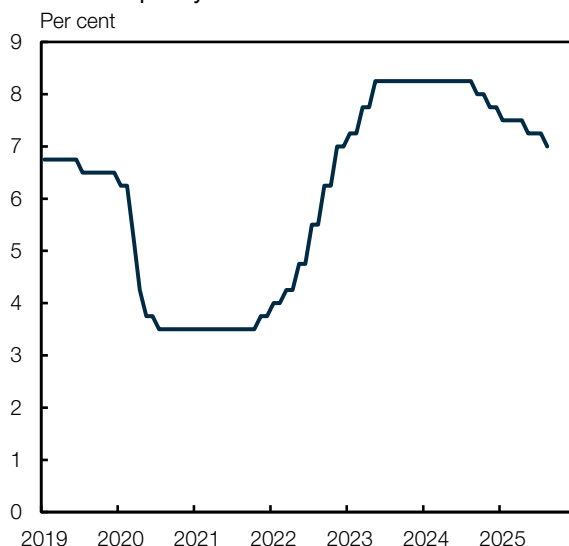
Potential GDP growth



* The SARB assumes close to 80% of the impacts calculated by National Treasury from the 2024 Medium Term Budget Policy Statement.

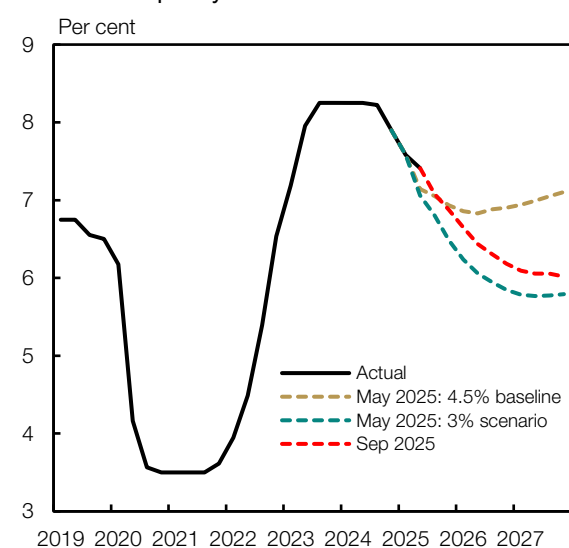
Sources: National Treasury and SARB

Nominal policy rate



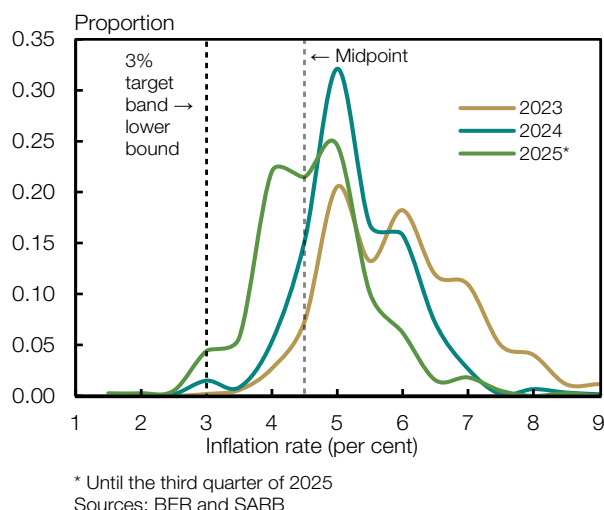
Source: SARB

Nominal policy rate with forecasts

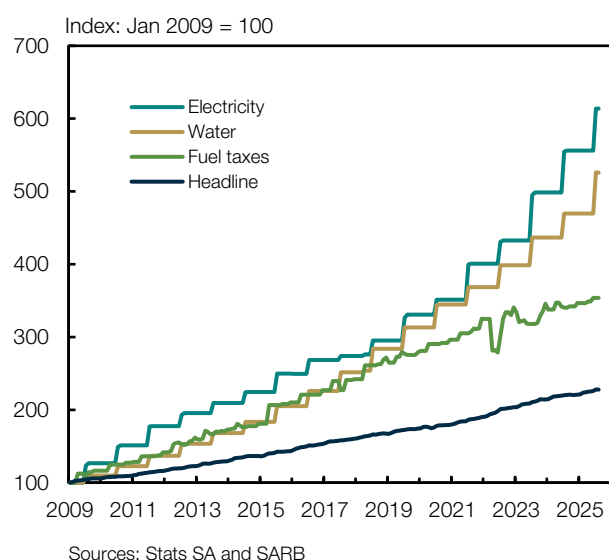


Source: SARB

Distribution of two-years-ahead business inflation expectations



Headline and selected administered components



expectations. On balance, however, headline inflation was forecast slightly higher compared with July.

The MPC opted to keep the policy rate unchanged at the September meeting, allowing time to assess the transmission of the cumulative 125 basis points policy easing to date, monitor the evolution of inflation expectations, and evaluate how inflation risks unfold. This decision aligned with the policy rate path implied by the QPM, which indicated no cut in the third quarter of this year.

Conclusion

Global growth remains resilient while inflation continues to moderate. This has created room for countries with policy space to ease rates further. However, the pace of rate normalisation has varied, reflecting country-specific inflation dynamics. Economies imposing tariffs may face stagflationary pressures, while the tariffed economies are likely to experience disinflationary adverse demand shocks. Although further rate cuts are anticipated in several jurisdictions, terminal rates are expected to remain above pre-pandemic levels, reflecting structurally higher interest rates.

The SARB's decision to lower its preferred inflation objective to 3% brings the country in line with international peers. Double-digit increases in administered prices – against a realised inflation rate of 4.4% in 2024 and an expected inflation rate of 3.4% this year – highlight the dysfunction in the pricing of these goods and services. Administered price increases that bear little relation to the overall inflation rate undermine the competitiveness of domestic producers. Comprehensive sector-specific reforms are needed to improve efficiency in administered pricing. Sustained and accelerated progress on domestic structural reforms, alongside efforts to rebuild fiscal and monetary policy space, will be critical to supporting long-term growth.

Box 1 Stress-testing 3% inflation¹

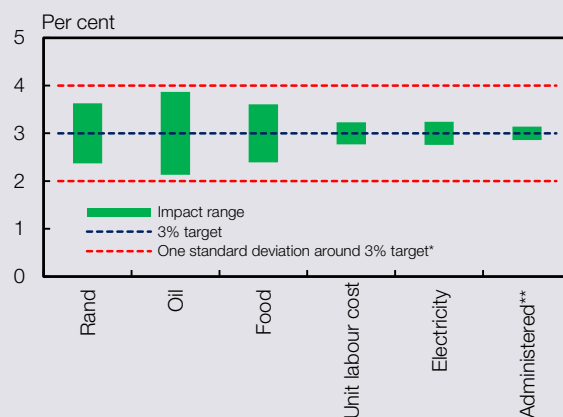
The Monetary Policy Committee announced at its July 2025 meeting that future policy decisions would be guided by the objective to stabilise inflation at 3%. Stress tests indicate that a 3% inflation objective is readily achievable under normal inflationary shocks, without excessive reliance on the policy rate.² Typical one standard deviation shocks account for roughly 70% of the observed fluctuations in South Africa's headline inflation.

Applying one standard deviation shocks individually to unit labour cost, the exchange rate as well as oil, food, electricity and administered prices shows a modest average impact in the first year of the shock. Headline inflation remains within 1 percentage point around the target while inflation expectations remain stable around 3% under each shock scenario.

Spillovers to inflation expectations from one standard deviation shocks are quite small, indicative of stable and well-anchored inflation expectations. Indeed, decompositions of inflation expectations show that they are predominantly driven by the forward-looking component (proxied by the target) and less by the backward-looking component (headline inflation).³

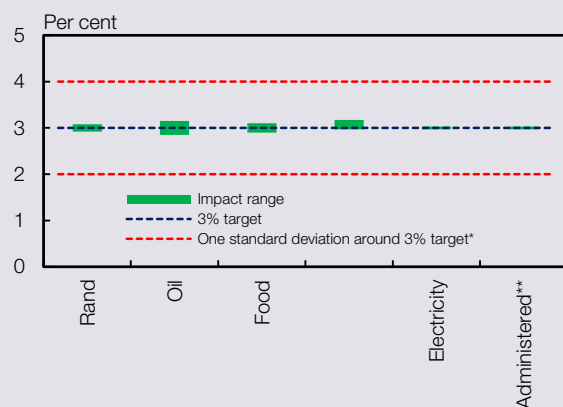
However, in real life, the economy is continually buffeted by shocks of varying degrees and durations.⁴ Tests of target robustness thus ought to account for these plausible constellations. To this end, a range of possible outcomes is simulated in the Quarterly Projection Model by randomly drawing shocks from statistical distributions.⁵ As with the simple one-standard deviation shocks, the distribution of simulations shows that inflation will stay close to the 3% objective, with around two-thirds of the outcomes falling between 1.8% and 4.2%. In the more extreme cases of correlated shocks (a 'perfect storm' of shocks), inflation could rise above 7% or fall below 0%.

Impact on headline inflation: one-year average response



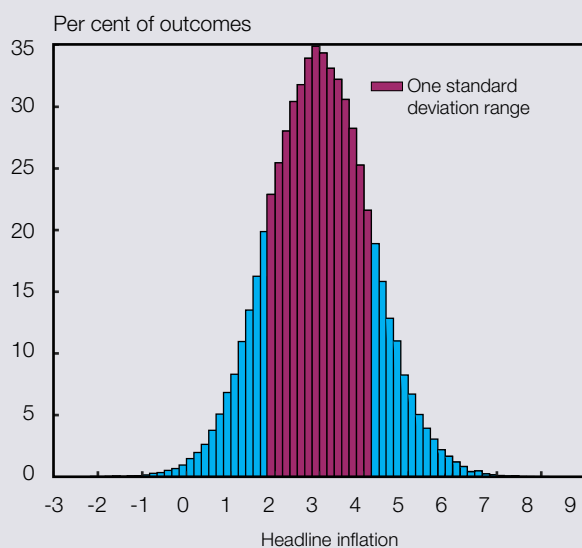
* Standard deviation corridor around the 3% target, proportionally adjusted for the reduction in inflation from 4.5% to 3% and rounded to the nearest integer
 ** Excluding fuel and electricity
 Source: SARB

Impact on inflation expectations: one-year average response



* Standard deviation corridor around the 3% target, proportionally adjusted for the reduction in inflation from 4.5% to 3% and rounded to the nearest integer
 ** Excluding fuel and electricity
 Source: SARB

Distributional impact of a combination of shocks over the inflation forecast



Source: SARB

- 1 T Janse van Rensburg, J Rakgalakane and R Steinbach, 'Stress testing the 3% inflation target', *South African Reserve Bank Economic Note No. EN/2025/16*, Pretoria: South African Reserve Bank (SARB), September 2025.
- 2 Between the third quarter of 2017 (when the 4.5% inflation target was announced) and the second quarter of 2025, headline inflation averaged 4.7% with a standard deviation of 1.3%. If we assume that the ratio of the standard deviation to inflation remains unchanged, 'normal' oscillation around the 3% inflation target should be around 0.9 percentage points which is rounded up to 1 percentage points. Therefore, for the inflation target to be robust, inflation should not deviate by more than 1 percentage points from the 3% inflation target.
- 3 M Reid, A Foresto, R Steinbach and J Rakgalakane, 'The role of inflation expectations in the path to 3%: calibrating the models and understanding behaviour', *South African Reserve Bank Working Paper Series*, forthcoming.
- 4 Sometimes these shocks (partially) neutralise each other, but it may also result in 'perfect storms' that exacerbate the inflation outcomes.
- 5 We cannot test specific scenarios here as it is impossible to predict the exact nature, size or direction of a combination of future shocks. Each shock is based on its historical mean and variability, allowing for both positive and negative shocks of varying magnitudes.

Box 2 A more stable core?

Less sensitivity of core inflation to external inflation shocks increases the odds of achieving a given inflation target rate. Mature monetary policy frameworks, exemplified by inflation-targeting in advanced economies, generally exhibit these attributes. Where sensitivity is low, the flexibility to look through shocks is higher, enabling more stable policy rates.¹

The volatility of unit labour cost (ULC) and core inflation has declined over time. The standard deviation of year-on-year ULC and core inflation averaged 2.2 and 1.6 percentage points respectively over the 2000–09 period, but declined to 1.1 and 0.8 percentage points respectively between 2010 and 2017. From 2018 to 2024, the standard deviation of core inflation fell further to 0.4 percentage points, despite the multiple inflationary shocks of this period.^{2, 3} Similarly, reversion tests confirm that ULC and core inflation have become less sensitive to shocks to headline inflation than they were a decade ago.⁴

The decline in the sensitivity of ULC and core inflation to exogenous shocks reflects better anchoring of both wages and inflation expectations.⁵ Firms may also have partly absorbed wage increases in excess of productivity growth (perhaps reflecting greater product market competition), which tempered the risks of wage-price spirals and thus the sensitivity of ULC inflation (and, by extension, core inflation) to exogenous shocks.

Responsiveness to inflation shocks

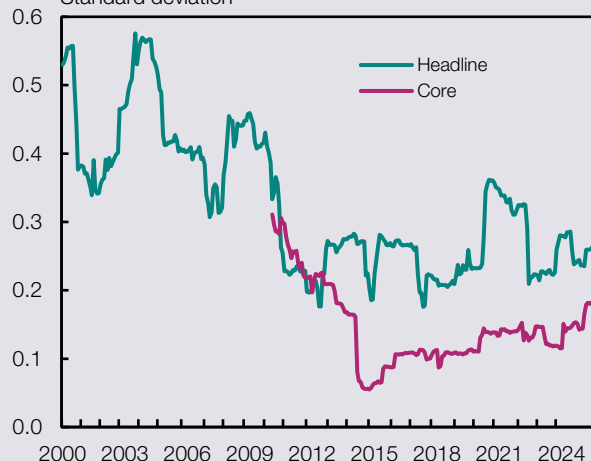
Regression coefficients



Sources: Stats SA and SARB

Inflation volatility

Standard deviation*



* 24-month rolling standard deviation of month-on-month percentage changes

Sources: Stats SA and SARB

- 1 See N Bandera, L Barnes, M Chavaz, S Tenreyro and L von dem Berge, 'Monetary policy in the face of supply shocks: the role of inflation expectations', a paper presented at the European Central Bank (ECB) Forum on Central Banking, Frankfurt: ECB, June 2023.
- 2 To account for base effects-induced volatility, we exclude the pandemic years of 2020 and 2021 as these were extreme outliers.
- 3 The volatility of headline inflation has also moderated appreciably over the past 25 years, as the (implied) inflation target preferences of the South African Reserve Bank (SARB) have changed. See L Kganyago, 'From fragility to strength: The role of price stability', a speech by the SARB Governor to the National School of Government, August 2025.
- 4 The sensitivity of core inflation and ULC to shocks to headline inflation is tested by evaluating whether these series revert to headline inflation trends following an inflationary shock. See A Palazzi and W Simbanegavi, 'Mind-second round effects! The effects of food and energy inflation on core inflation in South Africa', *South African Reserve Bank Occasional Bulletin of Economic Notes OBEN/23/01*, Pretoria: SARB, June 2023. The main departure from earlier work is to run a 40-quarter rolling window regression to evaluate the sensitivity of core and ULC inflation to shocks over time, with dummies for the global financial crisis (2009–10) and COVID-19 (2020–21) periods. The ULC reversion model uses a lag length of eight quarters to allow for a longer reversion time given wage rigidities.
- 5 See, for example, P Honohan and A Orphanides, 'Monetary policy in South Africa, 2007–21', *SA-TIED Working Paper No. 208*, Pretoria: Southern Africa – Towards Inclusive Economic Development (SA-TIED), March 2022; see also SARB, 'Box 1: Floating away?', *Monetary Policy Review*, Pretoria: SARB, October 2024.



Box 3 Do slow-motion expectations matter?

In the Quarterly Projection Model, inflation expectations play a central role in shaping the transition towards the preferred 3% inflation objective. While the assumption of more forward-looking expectations is broadly supported, this box investigates a scenario where expectations adjust more slowly than in the baseline.¹ Two sub-scenarios are considered:

- Sub-scenario 1 assumes that agents are more backward-looking, placing a greater weight (50% vs 16% in the baseline) on past inflation outcomes when forming their expectations.
- Sub-scenario 2 builds on sub-scenario 1, but assumes a much stronger influence of Bureau for Economic Research survey-based expectations on price-setting.

The modest deviations of inflation and growth from the baseline indicate that the disinflation path towards the 3% objective is robust to different assumptions about the inflation expectations formation process.

Scenario results*

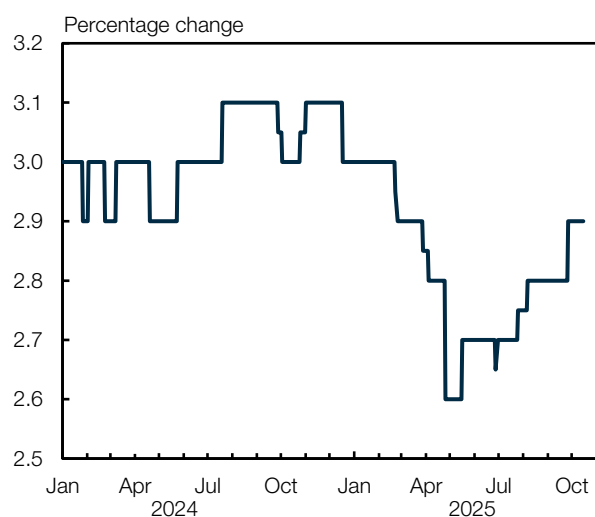
Variable	Sub-scenario	2026	2027
Inflation expectations	Sub-scenario 1	0.5%	0.3%
	Sub-scenario 2	0.5%	0.5%
Headline inflation	Sub-scenario 1	0.1%	0.1%
	Sub-scenario 2	0.2%	0.4%
Nominal policy rate	Sub-scenario 1	0.1%	0.1%
	Sub-scenario 2	0.2%	0.2%
Real GDP growth	Sub-scenario 1	0.0%	0.0%
	Sub-scenario 2	-0.2%	-0.1%

* Average percentage change from baseline

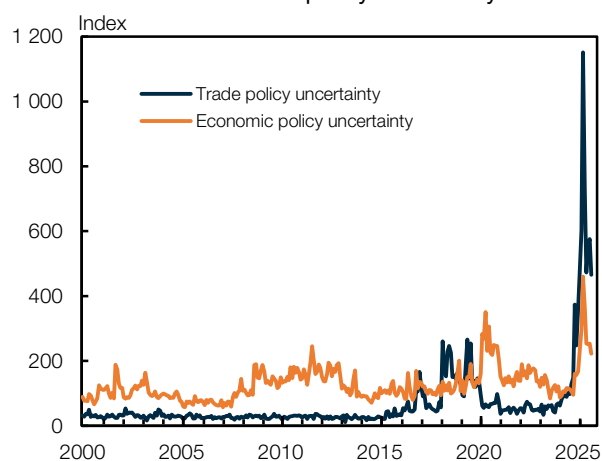
Source: SARB

¹ See K Miyajima and J Yetman, 'Assessing inflation expectations anchoring for heterogenous agents: analysts, businesses and trade unions', *Bank for International Settlements Working Papers* No. 759, Basel: Bank for International Settlements, November 2018.

Evolution of 2025 global real GDP growth forecast



Economic and trade policy uncertainty



Global economy: resilient ... for now

The global economy was resilient in the first half of 2025, but growth is expected to slow in the second half of the year as the momentum from the front-loading of exports fades. Policy uncertainty and weakening confidence, along with pressure from debt-induced tightening in financial conditions, are expected to keep activity modest over the medium term. Inflation is projected to ease further and to stabilise at targets by the end of 2026 in most economies, supported by cooling labour markets. Central banks are expected to continue to ease policy, but the pace and extent of rate cuts is likely to be modest given limited policy space.

The global economy has proven resilient so far this year, despite increased trade tensions and geopolitical conflicts in Eastern Europe and the Middle East. Economic activity was supported by robust global trade, which increased by 4% in the first half of 2025 compared with the same period in 2024. Reflecting this stronger-than-expected performance, global growth is now projected at 3.2% for the year – an upward revision of 0.4 percentage points from the April forecast – broadly in line with the 2024 outcome of 3.3%.¹¹

Although economic activity has held up so far, medium-term prospects are less clear. This uncertainty partly reflects the distortions caused by the front-loading of exports ahead of tariff implementation and the still-to-be-resolved trade tensions. Trade imbalances are likely to keep tariffs in focus, which could further disrupt supply chains and dampen both investment and trade. Meanwhile, increased borrowing requirements and elevated debt levels in major economies could drive long-term interest rates even higher, tightening financial conditions. As a result, medium-term global growth is expected to remain modest or even weaken somewhat.¹²

The US economy expanded by 1.6% in the first half of 2025, supported by strong investment and consumer spending.¹³ Although this marks a slowdown from the 2.3% growth recorded in the same period of 2024, it nonetheless reflects notable resilience given uncertainty in trade policy. Recent labour market data, however, suggests some fragility. Growth for the full year is projected at 2%, down from 2.8% in 2024.

Economic activity in the eurozone was stronger in the first half of 2025 compared with the same period of last year, driven by consumption and exports. However, tariffs on eurozone exports to the US, along with intense competition from China,

11 Unless indicated otherwise, the global growth figures reported in this section are from the IMF's *WEO* October 2025.

12 The IMF sees growth of 3.1% in 2026 from 3.2% in 2025 while the OECD projects growth to soften to 2.9% in 2026 from 3.2% in 2025.

13 After contracting by 0.6% in the first quarter of 2025 following a sharp increase in imports ahead of new tariffs, the US economy rebounded, increasing by a 3.8% quarter-on-quarter, seasonally adjusted and annualised rate in the second quarter of 2025. See US Bureau of Economic Analysis.



are expected to weigh on manufacturing. On the upside, the proposed increases in spending on defence and infrastructure, particularly in Germany, should support eurozone growth. Overall, growth is expected to remain subdued at 1.2% in 2025 and 1.1% in 2026, from 0.9% in 2024, with significant variation across member states.¹⁴

Other advanced economies, including the UK and Japan, also performed well, but the momentum is unlikely to carry as fundamentals remain unchanged. Real GDP is forecast to grow by 1.3% in both 2025 and 2026 in the UK, while it drags along in Japan, expanding at 1.1% and 0.6% over the respective periods, supported primarily by a recovery in household consumption.

Emerging markets were also resilient, with activity broadly supported by the front-loading of exports, trade diversion and firm domestic demand. Growth was led by the Asian economies, which helped offset weaker performance in regions such as Latin America. Emerging markets have seen their share of global output increase to 44% in 2024, up from 36% in 2010 - making economic developments in these economies an important driver of global growth.

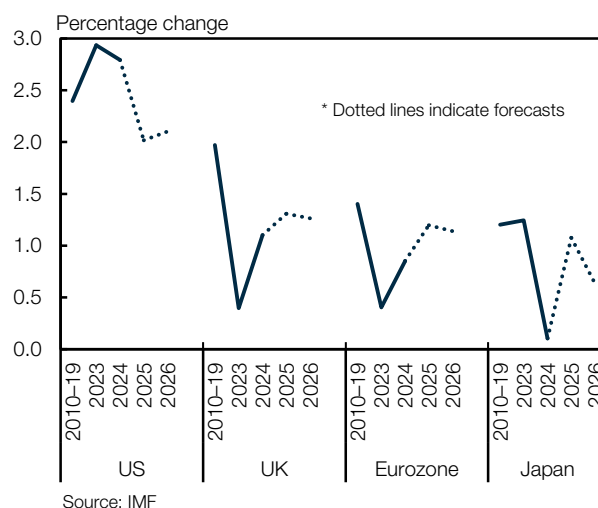
China's economy expanded by 5.3%, underpinned by strong industrial output and firm export performance, even as domestic demand was subdued. Growth of 4.8% is expected this year, slowing to 4.2% in 2026, reflecting persistent weakness in consumer demand, a prolonged downturn in the property sector, a shrinking labour force as well as continued trade tensions. By contrast, India is projected to grow by 6.6% this year and by 6.2% in 2026, supported by strong investment and resilient domestic demand. Nonetheless, the country remains vulnerable to sharply higher US tariffs, which could dampen demand. In Latin America, Brazil and Mexico are expected to slow, weighed down by tighter financial conditions and trade tensions with the US.¹⁵ Meanwhile, growth in sub-Saharan Africa is projected to remain steady at 4.1% in 2025, rising to 4.4% in 2026, supported by improved commodity prices and easing inflation. At a projected 3.9% this year, growth remains strong in Nigeria, while it is lethargic (1.1%) in the region's largest economy, South Africa.

Overall, the outlook for global growth remains uncertain, with risks skewed to the downside. Persistent policy unpredictability is likely to dampen confidence and limit activity. Tariff reversals and heightened geopolitical tensions could further disrupt supply chains and weaken global trade. Similarly, rising fiscal deficits and debt levels may further increase long-term interest rates, tightening global financial conditions. While less probable, global growth could exceed current projections

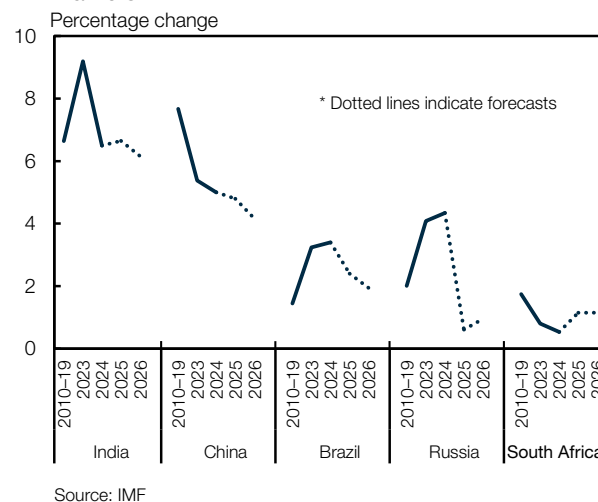
14 Among the major economies in the region, Spain is expected to outperform, growing by 2.9% in 2025, while Germany, France and Italy are projected to grow by 0.2%, 0.7% and 0.5% respectively.

15 The Brazilian economy is projected to slow to 2.4% this year from 3.4% in 2024, and to ease further to 1.9% in 2026. Economic activity in Mexico is forecast to ease to 1% this year from 1.4% in 2024 before rising to 1.5% in 2026.

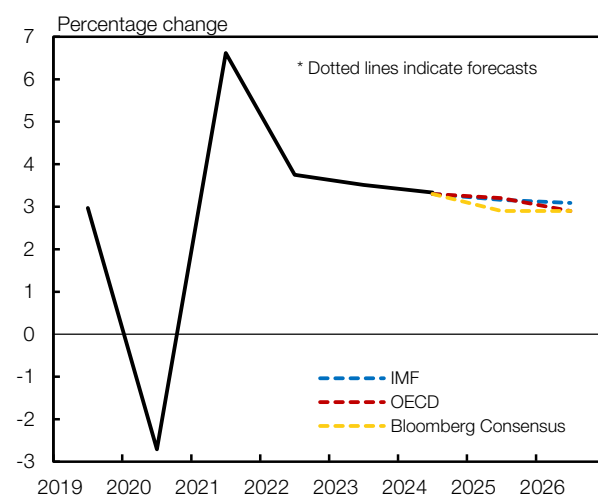
Real GDP growth projections for advanced economies*



Real GDP growth projections for emerging markets*



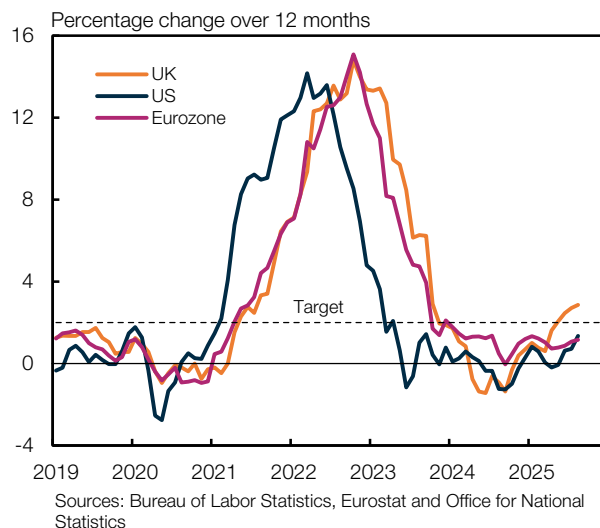
Global real GDP projections*



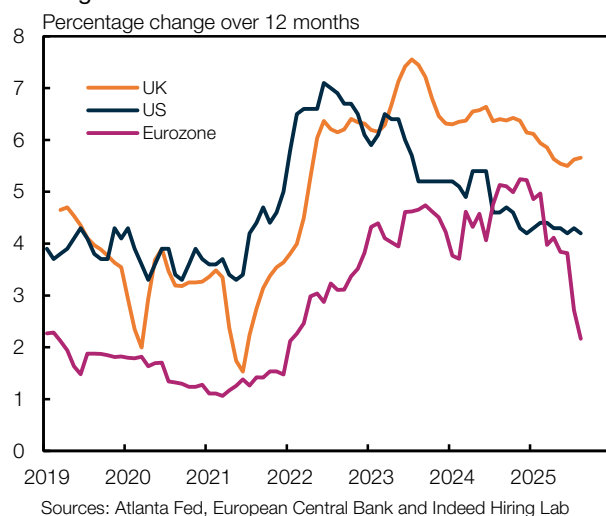
Headline inflation in advanced economies and emerging markets



Goods inflation in advanced economies



Wages in advanced economies



if trade negotiations result in significantly lower tariffs or if productivity gains from artificial intelligence are realised more rapidly and spread more widely.

Inflation – a gradual return to targets

Global inflation has continued to moderate. However, outcomes have varied across major advanced economies: falling close to target in the eurozone and easing further in Japan while reaccelerating in the US and UK. Core inflation has been stubborn above target, driven by firm services prices and strong wage growth. Goods price inflation, which was muted for much of the past 18 months, has begun trending higher and remains vulnerable to potential supply-chain disruptions arising from trade tensions (see Box 4). Nevertheless, inflation is expected to return to targets by the second half of 2026, except in the US, where convergence is expected only from 2027.

Disinflation has progressed faster in emerging markets, with most now back at targets. This trend was supported by currency appreciation against the US dollar as well as softer energy and food price increases – large-weight components in the inflation baskets of most emerging economies.

Inflation is expected to rise in the countries imposing tariffs, although the timing and magnitude will depend on the extent of import front-loading and the speed with which firms pass higher costs on to consumers.¹⁶ In contrast, countries subject to tariffs may experience a disinflationary shock driven by the negative income effects associated with reduced trade flows. Trade diversion could also result in further disinflationary pressures in the rest of the world, with China likely to export deflation.¹⁷

Early evidence suggests that tariffs are beginning to affect US prices, with modest increases observed in tariff-exposed goods such as furnishings and recreational items.

Typically, tariffs result in a one-off upward shift in the price level. Therefore, the current tariffs are expected to temporarily raise US headline inflation, with the inflationary impulse fading by the second half of 2026. However, the current tariff regime remains uncertain and is being implemented in stages due to protracted trade negotiations as well as policy reversals, increasing the risk of second-round effects, more so in an environment characterised by elevated short-term household inflation expectations. Nonetheless, US inflation is projected to return to the 2% target by late 2027.

In many advanced economies, wage growth remains at levels inconsistent with the 2% inflation target, which has contributed

16 See E Kohlscheen, P Rungcharoenkitkul, D Xia and F Zampolli, 'Macroeconomic impact of tariffs and policy uncertainty', *Bank for International Settlements Bulletin No. 110*, Basel: Bank for International Settlements, August 2025.

17 SARB, 'Box 4: Will Chinese growth sink the global economy and commodity prices?', *Monetary Policy Review (MPR)*, Pretoria: SARB, April 2024.



to stickiness in inflation. At 3.8% in August 2025, UK inflation is elevated and higher than in comparable economies. Inflation is expected to peak towards the end of 2025 before declining towards the 2% target in 2026.¹⁸ Similar dynamics have also been observed in Japan where, although inflation has moderated, it remains above the 2% target. Elevated food price increases have contributed to this persistence, raising concerns about potential second-round effects. In contrast, in the eurozone, inflation has steadily declined and stabilised around the 2% target. This moderation has been supported by easing wage pressures, a stronger currency and lower energy price increases.

Except for the large Latin American economies, disinflation has continued across emerging markets, although the pace has slowed due to rising food price pressures in some countries, including South Africa. China continues to face deflationary pressures, reflecting weak consumer demand and intense price competition.

Monetary policy outlook – caution ahead

Despite uncertainty remaining elevated, central banks are expected to cut rates further. However, the extent of easing is likely to be limited, as inflation risks remain high and r-star has likely risen. Given the unpredictable global environment and other uncertainties, a cautious and data-driven approach remains important.

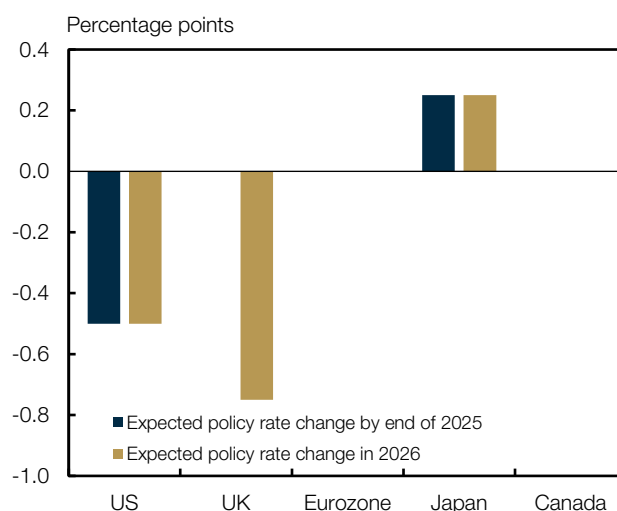
In the US, market consensus anticipates a further 125 basis points reduction in the policy rate by the end of 2026, driven by concerns over labour market weakness. Nonetheless, persistent high inflation may temper these expectations. The BoE is expected to pursue a gradual easing path given ongoing inflationary pressures, with rates projected to reach a terminal level of 3.5% by the end of 2026. In the eurozone, where inflation is at target, the ECB is expected to keep rates unchanged through 2026. In contrast, the BoJ is expected to raise rates further given that policy is currently stimulatory.

In emerging markets, the pace and extent of policy easing is also expected to vary. Broadly, modest further rate cuts are anticipated, except in Türkiye, Russia, and Brazil, where inflation remains high. Meanwhile, persistent deflationary pressures may prompt the People's Bank of China to introduce additional policy measures to support demand.

Conclusion

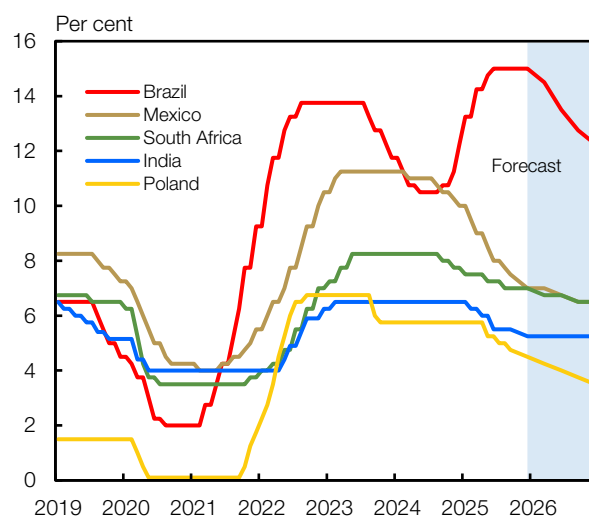
Global growth has been resilient, supported by front-loading activity ahead of tariff implementation. The inflationary effects of the tariffs have not fully reflected in the data yet, and are expected to be concentrated in the US. Inflation is projected to gradually return to target levels from the second half of 2026, creating scope for further policy easing. However, given the elevated uncertainty, central banks are expected to remain cautious and data-dependent in their decision-making.

Expected policy rate changes in advanced economies



Source: Bloomberg Consensus

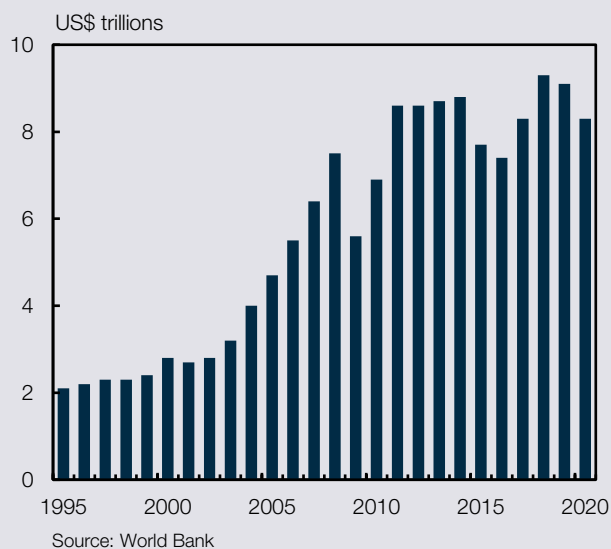
Policy rate projections for emerging markets



Sources: Bloomberg Consensus and central banks

¹⁸ According to Bloomberg Consensus.

Global value chain-related trade



US supply chain pressure index



Box 4 Breaking the chain?

Globalisation and the integration of supply chains have contributed to higher productivity, lower inflation and rising incomes, especially in emerging markets.^{1, 2} However, rising protectionism and higher tariffs threaten to break global supply chains.^{3, 4} Significant changes in supply-chain structures could reduce global trade by up to 18% and real gross domestic product (GDP) by as much as 5%, potentially reversing many of the gains achieved through globalisation.⁵

Supply chains came under considerable strain following the COVID-19 pandemic and the war in Ukraine, contributing to the post-pandemic inflation surge. In response, firms and governments invested in reshoring, nearshoring and friendshoring to reduce vulnerabilities.

The recent trade disruptions may again prompt a restructuring of supply chains, leading to more fragmented global trade. Changes to supply-chain structures, particularly for complex goods, are likely to be slow and more costly.⁶ Producer prices are expected to be impacted first, with these cost increases likely to be passed on to consumers, especially if market competition weakens.⁷

South Africa is among the countries subject to high US tariffs. Key export-dependent sectors such as agriculture and the automotive industry face viability challenges as a result. For certain specialised value chains, such as the automotive chain, high tariffs could weaken South Africa's role in the relevant global supply chains and negatively affect economic growth. Accelerating structural reforms could boost productivity, mitigating the loss of export competitiveness. Efforts should also focus on diversifying export markets and strengthening existing trade partnerships, including full implementation of the African Continental Free Trade Area agreement.

Supply-chain disruptions pose challenges for central banks too, as they can fuel expectations of persistent high inflation. During the COVID-19 pandemic, supply-chain shocks played a major role in driving up global inflation and inflation expectations.⁸ While the price effects of one-off tariffs may be short-lived, ongoing trade uncertainty as well as the breakdown of long-standing trade relationships and supply chains could lead to second-round inflationary effects and lasting changes in how prices are set.

1 See C Criscuolo and J Timmis, 'The relationship between global value chains and productivity', *International Productivity Monitor*, Ottawa: Centre for the Study of Living Standards, 2017, pp 61–83. See also Organisation for Economic Co-operation and Development (OECD), *OECD Supply Chain Resilience Review*, Paris: OECD, 2025.

2 J Baldwin and B Yan, 'Global value chains and the productivity of Canadian manufacturing firms', *Economic Analysis Research Paper Series*, Ottawa: Statistics Canada, 2014.

3 The United States (US) National Association of Manufacturers (NAM) Manufacturer's Outlook Survey for the second quarter of 2025 revealed that 40% of the respondents indicated supply-chain challenges as concerning, compared to 26% of the respondents the same time a year ago.

4 See G M Grossman, E Helpman and S J Redding, 'When tariffs disrupt global value chains', *American Economic Review* 114(4), 2024, pp 988–1029. They found that, during President Donald Trump's first term (2017–21), higher tariffs led US companies to either renegotiate trade agreements or move part of their supply chains from abroad.

5 OECD, *OECD Supply Chain Resilience Review*, Paris: OECD, 2025.

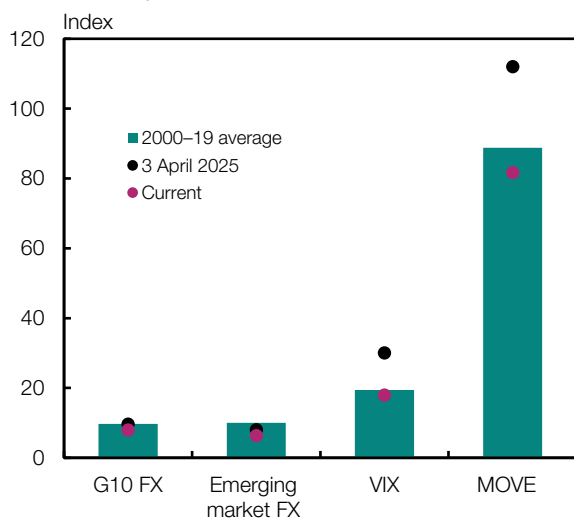
6 See Morgan Stanley Research, *Multipolar world: supply chain strain*, New York: Morgan Stanley, 2025.

7 M G Attinasi, M Balatti, M Mancini and L Metelli, 'Supply chain disruptions and the effects on the global economy', *European Central Bank Economic Bulletin* 8/2021, Frankfurt: European Central Bank, December 2021.

8 D Rees and P Rungcharoenkitkul, 'Bottlenecks: causes and macroeconomic implications', *Bank for International Settlements Bulletin* No. 48, Basel: Bank for International Settlements, November 2021.

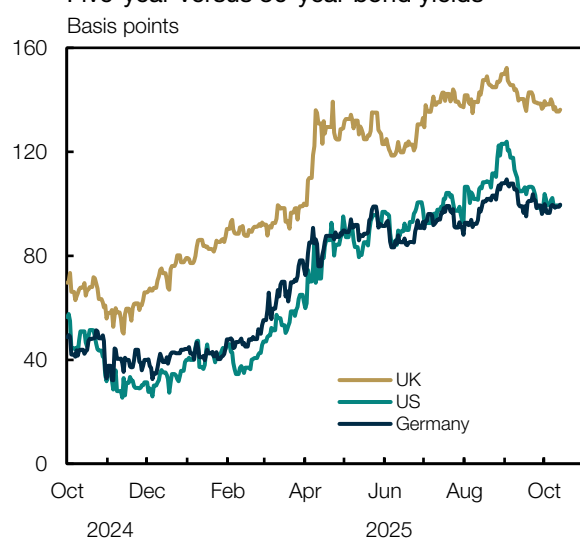


Volatility measures



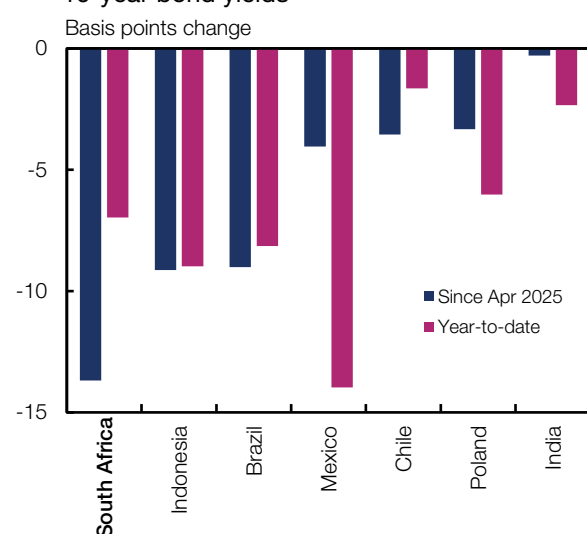
Sources: Bloomberg and SARB

Five-year versus 30-year bond yields



Sources: Bloomberg and SARB

10-year bond yields



Sources: Bloomberg and SARB

Global financial markets: an uneasy calm

Financial markets have calmed significantly since the acute unpredictability caused by the US 'Liberation Day' tariffs in April 2025, with volatility indicators now below their long-term averages. US bond yields initially rose due to trade policy uncertainty but later eased as growth slowed and expectations of Fed rate cuts increased. Global equities rallied, buoyed by strong corporate earnings and expectations of policy easing by the Fed, while the paring of US dollar-denominated portfolios boosted emerging market assets and precious commodities prices. Higher net debt issuance, amid already elevated debt levels, contributed to rising long-term yields across most advanced economies. South African assets benefitted from these global trends, with bond yields declining and the rand strengthening. The MPC's announcement of a lower preferred inflation objective, persistent low domestic inflation and the approval of Budget 2025 enhanced the appeal of domestic assets.

Risk-on shift amid uncertainty

Since the last MPR, financial market outcomes have been shaped by trade disruptions and growing fiscal concerns as well as changing expectations around monetary policy and unexpectedly strong corporate performance in the US. Market volatility rose sharply in April 2025 following the announcement of broad-based US tariffs, amid fears of escalating trade tensions. Barring a spike in the second week of October 2025, conditions have generally stabilised, as most countries refrained from retaliatory measures and the US partially reversed some import duties. Volatility indicators are currently below their long-term averages. However, recent volatility demonstrates that markets remain sensitive to trade policy uncertainty, while concerns about the sustainability of US fiscal policy persist.¹⁹

In bond markets, the US 10-year Treasury yield fluctuated within a broad range of 4% to 4.7% and is currently close to April 2025 lows. The 30-year yield rose above 5% in May – its highest level since late 2023 – as investors sought greater compensation for fiscal and inflation risks. However, softer labour market data and concerns about economic growth have increased expectations of further monetary policy easing by the Fed. As a result, and despite some pull-back in the long-bond yields, the US yield curve has steepened since the previous MPR.

A similar trend has been observed in Europe and the UK, where long-term yields have increased due to large borrowing needs, slower growth and reduced prospects for further rate cuts. In contrast, emerging market bonds have performed better, with yields declining across a wide range of countries.

¹⁹ See, for instance, S Ajovalasit, A Consiglio and S Zenios, 'How much of a threat to US debt sustainability is Trump's One Big Beautiful Bill Act?', *Bruegel Analysis*, 22 September 2025.



This improvement reflects a more favourable risk environment and relatively better inflation outcomes.

Meanwhile, equity markets have continued to rise steadily following their recovery from the sharp sell-off in April. Developed market stocks have posted double-digit gains year-to-date, led by strong performance from major US technology firms. US indices, including the S&P 500, Nasdaq and Dow Jones, reached record highs in early October, fuelled by renewed expectations of monetary policy easing and resilient corporate earnings. In Europe and Japan, equities also benefitted from improved investor sentiment, although sectoral performance remained uneven. However, equity valuations appear stretched, raising risk of a market correction if adverse shocks occur. The brief October sell-off highlighted how easily trade tensions can quickly disrupt the momentum underpinning recent market gains.

US dollar loses its shine

Since April 2025, emerging markets have benefitted from stronger commodity prices and a weaker US dollar, which have eased financial pressures and improved returns. Investor sentiment was further supported by signs of stabilisation in China and a shift in capital flows away from overvalued developed markets towards underrepresented emerging market assets. These developments have led to broader participation across regions and sectors.

The US dollar weakened in seven of the nine months leading up to September 2025, and showed modest strengthening into October. Despite ongoing uncertainty, most advanced and emerging market currencies have appreciated against the dollar (see Box 5). For some emerging markets, this has resulted in gains on a nominal effective exchange rate basis – a favourable development for economies that are particularly sensitive to imported inflation.

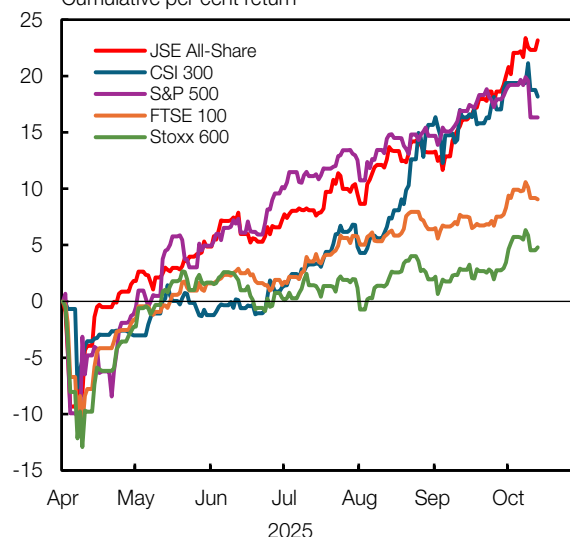
Meanwhile, the gold price has continued to rise, reaching a new high above US\$4 000 per ounce in October 2025. In addition to gold being considered as a safe-haven asset, the increase in the gold price may also reflect investor concerns about elevated equity market valuations.

Cycle still asynchronous

During the review period, most major central banks, except the BoJ, reduced policy rates. Although US inflation remains above target, markets are pricing in an additional 50 basis points of easing for the remainder of the year. In the UK, expectations for further rate cuts have diminished since the June cut, as inflation remains persistent, while no further easing by the ECB is anticipated this year. In emerging markets, investors expect the easing cycle to continue into 2026, although the outlook varies across regions. Latin America retains substantial scope

Equity market performance

Cumulative per cent return



Source: Bloomberg

Equity risk premium

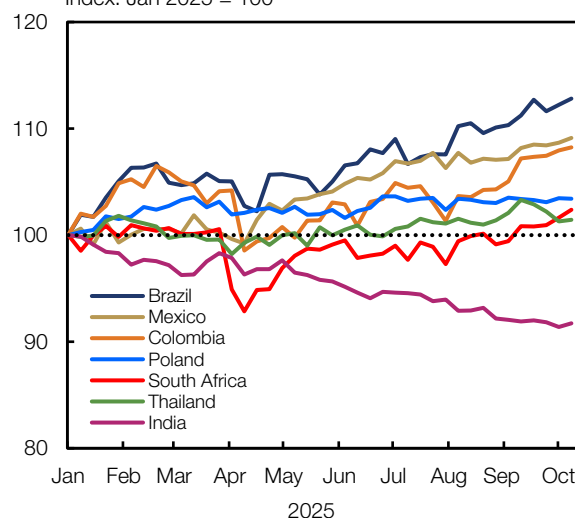
Basis points



Sources: Bloomberg and SARB

Nominal effective exchange rates

Index: Jan 2025 = 100



Sources: BIS and SARB



for further rate cuts, while in Asia forward curves suggest that most central banks are nearing the end of their easing cycles, reflecting more moderate prior tightening.

South African financial market developments

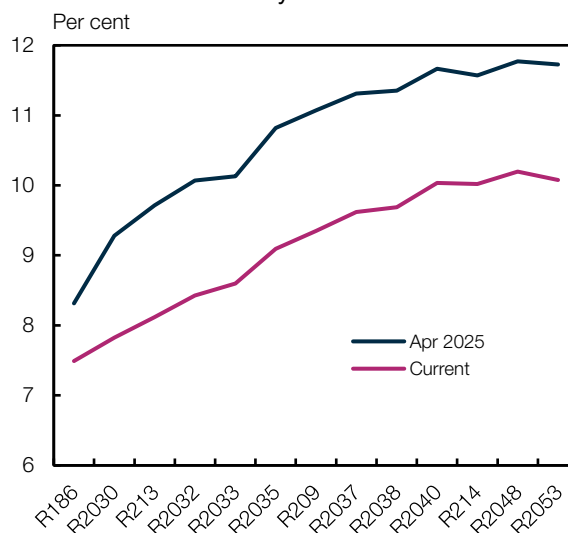
South African financial markets shared in the broader global upswing, supported by favourable international yield conditions and distinct domestic factors. Government bonds have rallied strongly from May 2025 onwards, with the 10-year yield declining from above 10% to around 9.1% by early October – its lowest level in nearly four years. Local drivers, particularly the MPC's signal and subsequent announcement of a preferred inflation anchor at 3% as well as sustained low inflation, contributed to the rally (see Box 6). Short-term rates declined in response to successive interest rate cuts, while anchored inflation expectations and robust foreign demand supported the broader curve. Non-residents' purchases of government bonds exceeded R90 billion on a year-to-date basis as of September 2025.

The JSE All-Share Index recorded seven consecutive monthly gains through September, rising by over 30% year-to-date. Precious-metal mining stocks were the primary drivers of this performance, benefitting from higher gold and platinum prices. In contrast, domestically oriented stocks – particularly retailers – underperformed, reflecting subdued local economic conditions.

The rand experienced a notable recovery following a volatile first half of the year. It came under significant pressure in April 2025, weakening to above R19.50 to the US dollar due to US tariff announcements and domestic political uncertainty. However, the local currency rebounded as global risk sentiment improved. The rand rallied in early October, briefly strengthening to below R17.20 to the US dollar – its firmest level since late 2024. Rand volatility has also declined significantly. These developments point to improved investor sentiment towards South African assets, despite ongoing structural economic challenges. Nonetheless, given the weak underlying fundamentals, the rand remains vulnerable to shifts in global risk appetite.

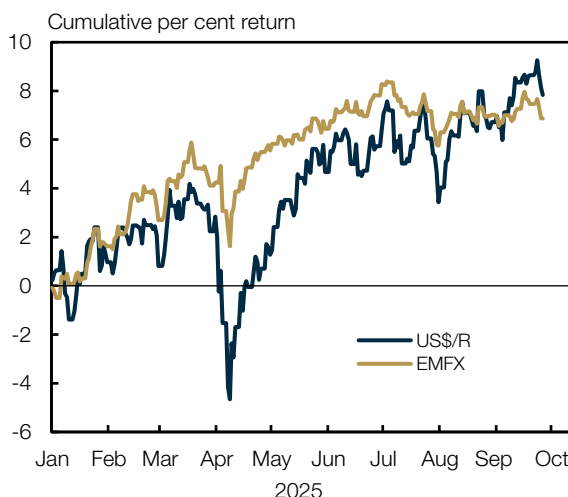
Market expectations, as reflected in forward rate agreements (FRAs), indicate that no further policy easing is anticipated for the remainder of this year. Rate cuts are expected to resume in 2026.

South African bond yield curve



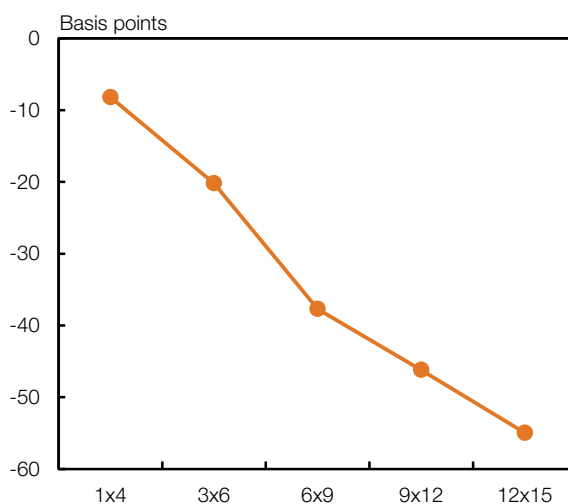
Sources: Bloomberg and SARB

Emerging market currencies: year-to-date performance



Sources: Bloomberg, JP Morgan and SARB

FRA less three-month Jibar



Source: Bloomberg

Box 5 Still risk free?

The United States (US) dollar has declined steadily and steeply, and is now at its lowest level since 2022.

The DXY index, which tracks the dollar against other major currencies, surged to 109.95 in January this year, up from 100.48 in September 2024, following President Donald Trump's re-election amid expectations for business-friendly policies. But since then, the dollar has lost momentum, and by early September 2025, the DXY index had dropped to 97.45 – a nearly 10% fall.¹

European currencies have gained the most from the dollar's slide. The euro started the year at US\$1.04 and climbed to over US\$1.18 by July helped by a slightly better growth outlook and fewer expected further rate cuts from the European Central Bank. By September, the euro was holding steady around US\$1.17. The trade-weighted dollar index also fell, showing that the decline is broad-based. Emerging market currencies have also seen marked appreciations over the review period.

US tariffs, policy reversals and lingering uncertainty have rattled markets and investor confidence, resulting in reduced demand for the US dollar. With the uncertainty mostly concentrated in the US, many investors have diversified out of US assets or hedged against their dollar exposures.² Reduced demand for the US dollar also reflects investors' expectations of a narrowing US growth gap vis-à-vis the eurozone and other advanced economies. Expectations for rate cuts by the Federal Reserve have added pressure on the US dollar.

The outlook for the US dollar will also depend on the size and pace of future rate cuts. Unexpected additional slowdown in US economic growth or trade policy disruptions could weaken it further. However, the depth of US financial markets and the strength of American companies remain important sources of support for the currency.

US dollar index



Source: Bloomberg

¹ The real effective exchange rate also declined alongside the DXY index, with losses of approximately 7%. However, both are currently trending above their long-term averages (since 2010).

² See H S Shin, P Wooldridge and D Xia, 'US dollar's slide in April 2025: the role of FX hedging', *Bank for International Settlements Bulletin No 105*, Basel: Bank for International Settlements June 2025.



Box 6 All fall down

The term premium, which captures the extra yield that investors demand for holding South Africa's 10-year government bond as opposed to rolling over short-term instruments, has been declining since April 2025. This stands in sharp contrast to some major economies, where term premiums have been rising.^{1, 2}

The main reason for this decline is a more positive outlook on inflation, especially before the July 2025 Monetary Policy Committee (MPC) meeting. Since the July MPC meeting, the yield has fallen by more than 20 basis points. Most of the decline was due to a lower term premium, particularly the part that reflects inflation risk.³

Break-even rates, which show market expectations for inflation, have declined by more than 100 basis points since the last *Monetary Policy Review*.⁴ Breaking these rates down into the inflation risk premium component – estimated from the nominal and real term premium – and an inflation expectations component shows that the latter has declined by around 20 basis points since April 2025. Declines in break-even rates reflect multiple drivers, including shifts in risk premiums and increased liquidity in bond markets. The current decline signals that investors believe future inflation will be lower.

Overall, the decline in long-term bond yields and inflation expectations suggests that markets see the 3% inflation objective as realistic and believe that it will help keep inflation steady. Further gains are likely to emerge from the formal adjustment of the inflation target.⁵

1 The term premium on the 10-year United States (US) bond has increased by more than 40 basis points since April 2025 to 0.74% in August. See Federal Reserve Bank of New York, *Treasury Term Premia*, New York: Federal Reserve Bank of New York, 2025.

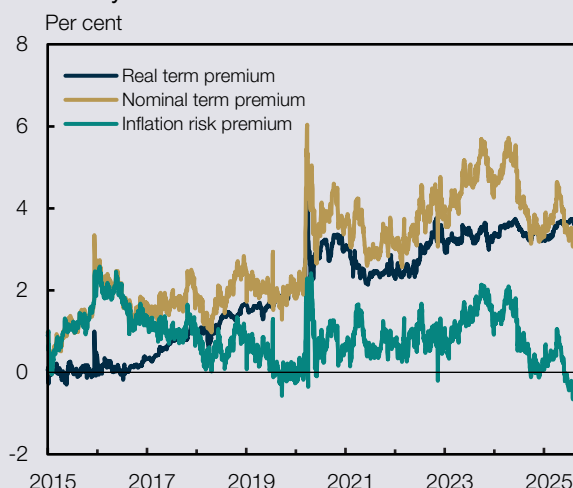
2 See L Soobyah and D Steenkamp, 'Term premium and rate expectation estimates from the South African yield curve', *South African Reserve Bank Working Paper Series No. WP/20/03*, June 2020. The real term premium is estimated similarly using inflation-linked bonds. The inflation risk premium is the spread between the nominal and real term premium.

3 The inflation risk premium is ordinarily positive as investors seek higher nominal yields to offset potential inflation risks. However, a negative inflation risk premium is not uncommon (see, for instance, G Camba-Mendez and T Werner, 'The inflation risk premium in the post-Lehman period', *European Central Bank Working Paper No. 2033*, Frankfurt: European Central Bank, March 2017 as well as B Feunou and Z Tarshi, 'Deriving longer-term inflation expectations and inflation risk premium measures for Canada', *Bank of Canada Staff Discussion Paper 2024-9*, Ottawa: Bank of Canada, July 2024). The recent episode of a negative inflation risk premium likely reflects both subdued inflation and reduced inflation volatility.

4 Break-even inflation rates are the spread between nominal and inflation-linked bond yields, and are comprised of an inflation risk premium and an inflation expectations component.

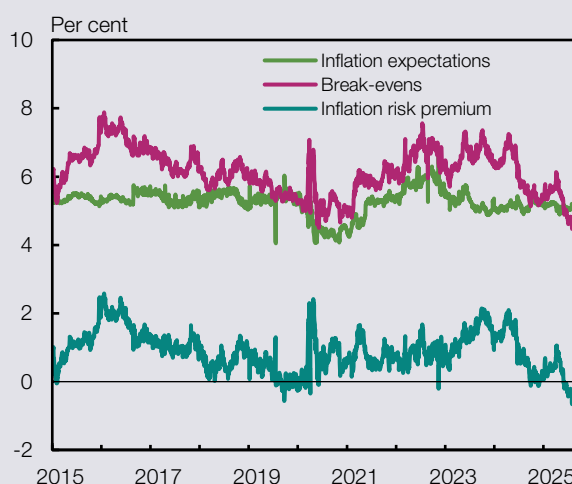
5 Hall (2025) highlights the benefits of a lower inflation target and that for South Africa this should include 2% in its range; see S G Hall, 'An optimal inflation rate for South Africa', *Economic Change and Restructuring* 58(43), 2025, pp 2–29. Burger (2025) estimates a Markov-switching regime model and finds that a 3% inflation target for South Africa would lower inflation volatility, reduce nominal exchange rate risk and support economic growth; see P Burger, 'Twenty-five years of inflation-targeting in South Africa', *UNU-WIDER Working Paper*, Helsinki: UNU-WIDER, June 2025. Kima and Lesame (2025) find that a lower target in South Africa would lead to growth in output; see R Kima and K Lesame, 'Macroeconomic effects of lowering South Africa's inflation target: an SVAR analysis', a paper presented at the Economic Research Southern Africa conference titled 'Back to Inflation', Pretoria: UNU-WIDER and National Treasury of South Africa, 8–9 May 2025.

Term premiums embedded in the 10-year bond yield



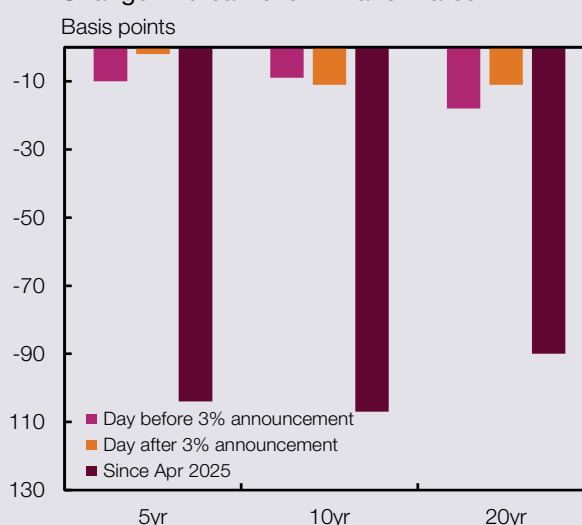
Sources: Bloomberg and SARB

Decomposition of the 10-year break-even inflation rate



Sources: Bloomberg and SARB

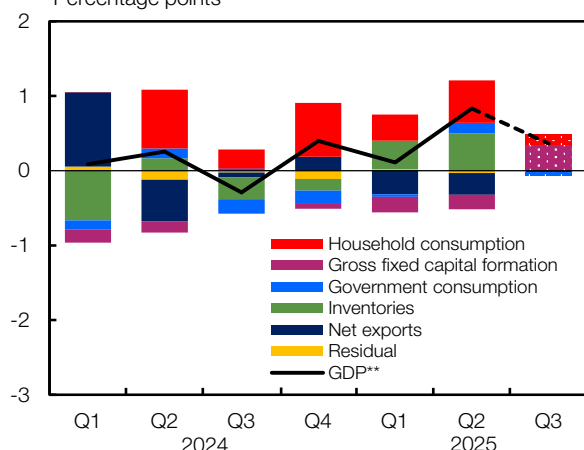
Change in break-even inflation rates



Source: Bloomberg

Contributions to real GDP growth*

Percentage points



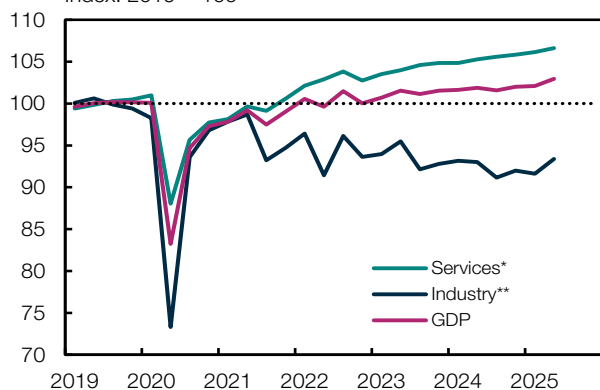
* Dotted line and shaded bar indicate forecasts

** Percentage change over one quarter

Sources: Stats SA and SARB

Real GDP breakdown

Index: 2019 = 100



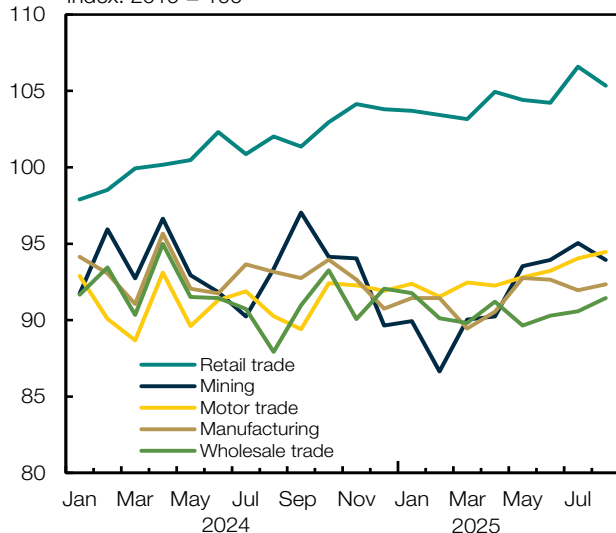
* Includes trade, transport, finance, government and personal services

** Includes agriculture, mining, manufacturing, electricity and construction

Source: Stats SA

High-frequency data

Index: 2019 = 100



Source: Stats SA

Real economy: still hamstrung

The domestic economy expanded at a relatively fast pace of 0.8% in the second quarter of 2025 – a marked improvement on the 0.1% growth recorded in the first quarter. Household consumption expenditure was the primary driver of this growth, with support from inventories and government spending. By contrast, investment again detracted from growth, having registered contractions in seven of the past eight quarters.²⁰ The sustained decline in investment reflects enduring structural constraints that depress confidence and undermine long-term potential economic growth. Near-term growth rates of 0.4% per quarter are projected for the third and fourth quarters of this year, bringing the annual rate to 1.2%. Growth rises to 1.9% by 2027.

Recent economic developments

South Africa's economy grew by 0.8% year on year in the first half of 2025, reflecting modest momentum despite a challenging global and domestic environment. High-frequency data suggests that the gains achieved in the second quarter will likely carry through into the third quarter, but a 'lift-off' is not anticipated. While electricity supply has improved significantly, both actual and potential growth continues to underperform, highlighting the influence of other structural bottlenecks, along with cyclical impediments, that weigh on economic activity and overall performance.²¹

At the broad sectoral level, the tertiary sector underpinned economic growth in the first half of 2025, driven by robust activity in the financial services and trade sectors which were partly buoyed by low inflation and interest rates.²² In contrast, the secondary sector was a drag on growth primarily due to continued underperformance of the manufacturing sector. The primary sector added to growth despite a contraction in mining. Activity in the agricultural sector was supported by the animal and horticulture subsectors despite field crop deliveries declining due to heavy rains.

On a quarter-on-quarter basis, performance by the mining and manufacturing sectors was volatile; output contracted in the first quarter mainly on cyclical factors before rebounding in the second quarter. Looking ahead, mining is expected to benefit from firmer commodity export prices and the subsidence of cyclical shocks, while agriculture should be buoyed by the shift of harvests from the second quarter to the third quarter of this

20 Investment by private enterprises contracted in five of the eight quarters.

21 Cyclical factors such as excessive rains and labour unrest impacted mining activity and delayed agricultural harvests while reducing maize quality. The foot-and-mouth disease outbreak affected livestock slaughter rates, but its impact on sectoral output is less clear. Structural bottlenecks include investment inefficiencies, a prohibitive regulatory environment, logistical challenges as well as higher long-term borrowing costs. See T Janse van Rensburg, A van Niekerk and R Ehlers, 'What is holding back investment in South Africa?', *South African Reserve Bank Economic Note No. EN/2025/13*, Pretoria: SARB, 2025.

22 The financial and trade sectors added 0.8 and 0.3 percentage points respectively to growth in the first half of 2025.



year as well as the subsidence of foot-and-mouth disease. The tertiary sector should continue to receive support from low inflation and interest rates.

A prolonged period of low economic growth, skills mismatches and other entrenched structural factors have resulted in persistent high unemployment in South Africa.²³ Over the past decade, employment grew by 0.7% per annum while the labour force increased at an average rate of 2.1% per year, resulting in rising long-term unemployment and elevated youth unemployment which reached 46.1% in the second quarter of this year. The labour market remains fragile, as reflected in persistent job-shedding since mid-2023.

Labour market outcomes map directly into employee earnings and feed through into real disposable income growth and ultimately household spending. Despite weak employment outcomes, real total compensation of employees increased by 1% in the first half of this year, benefitting from wage growth of 3.2% along with subdued inflation.

Household spending registered a solid 3% increase in the first six months of 2025 on a year on year basis, and underpinned output growth. Spending benefitted from growth in employee earnings, low inflation and interest rates as well as the two-pot retirement withdrawals. Declining debt-service cost, along with the rebound in consumer confidence from its lowest point in almost two years in the first quarter of 2025, also supported real consumption spending by households.

Turning to capital formation, the trend of declining investment persisted during the period under review as gross fixed capital formation (GFCF) contracted by 3% year on year between January and June 2025, with both the private and the public sectors contributing to the decline.²⁴ All asset classes, except transfer costs, reflected a contraction, with spending on residential buildings dropping sharply.²⁵ As a share of GDP, investment declined precipitously from 20% in 2008 to around 14% by 2024. Persistent energy and infrastructure failures, policy uncertainty as well as muted economic growth, coupled with governance issues like corruption and political instability, have slowed private sector investment.²⁶

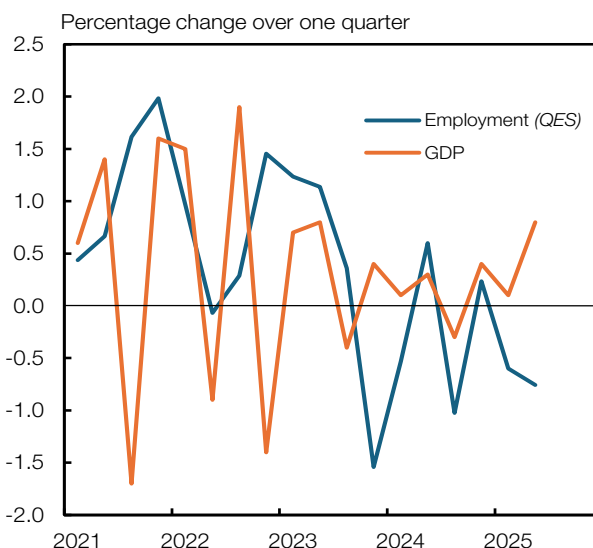
²³ These include low labour utilisation, structural barriers (e.g. high costs of job creation and rigid labour regulations), school-to-work transition and ineffective labour market institutions. See C Loewald, K Makrelov and A Wörgötter, 'Addressing low labour utilisation in South Africa', *South African Reserve Bank Working Paper Series, No. WP/21/09*, Pretoria: SARB, June 2021.

²⁴ Contractions of 1.5% and 1.4% were recorded in the first and second quarters of this year respectively.

²⁵ Residential buildings account for 13.2% of the total and recorded a drop of 10.7%, while machinery and equipment – the largest component (33.8%) – contracted by 2.8%. Transfer costs (1.9%) increased by 3.9%.

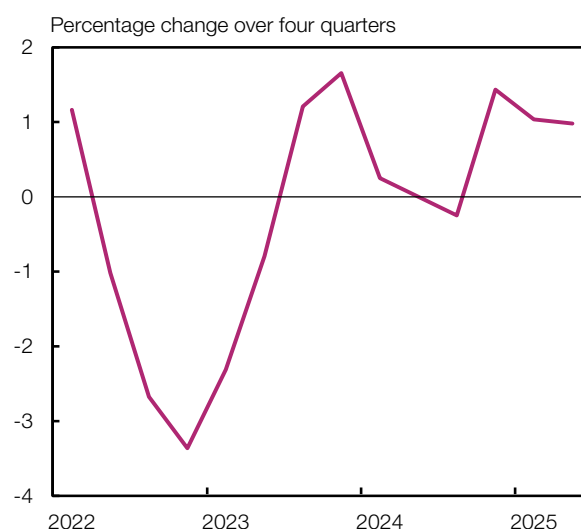
²⁶ See L Fraser, 'South Africa's plan to stop its biggest cities from collapsing', *BusinessTech*, 18 September 2025.

Employment and real GDP growth



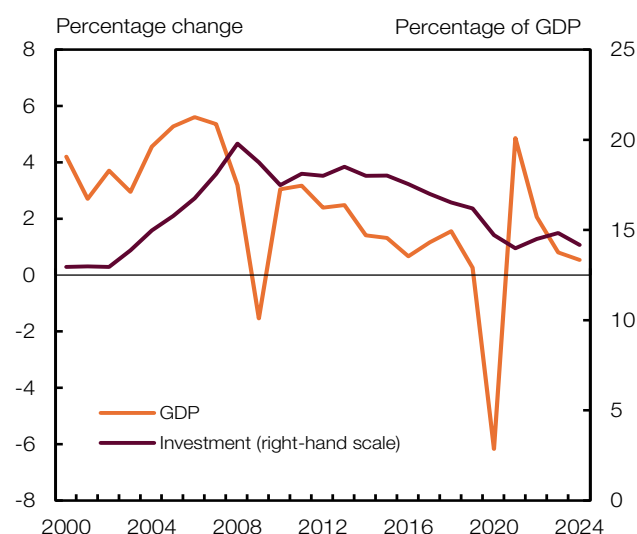
Source: Stats SA

Real compensation of employees



Source: Stats SA

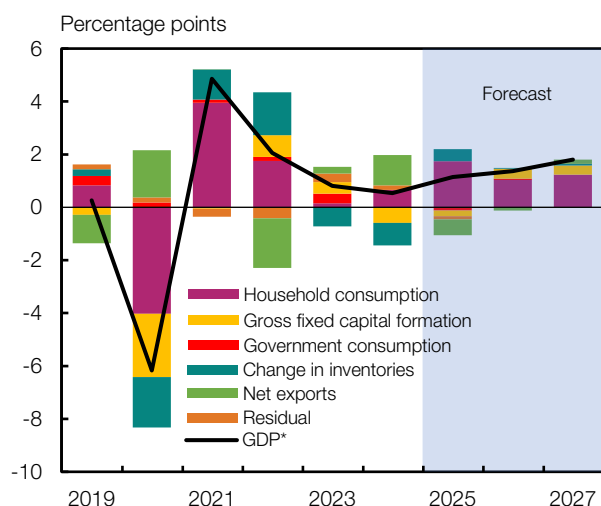
Real GDP and investment



Source: Stats SA



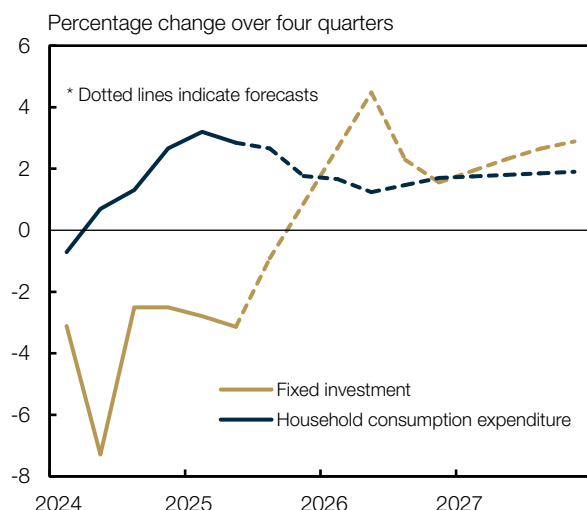
Contributions to real GDP growth



* Percentage change

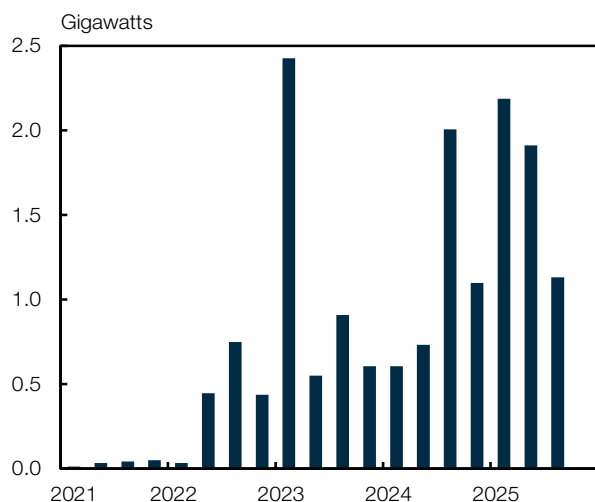
Sources: Stats SA and SARB

Household consumption expenditure and fixed investment*



Sources: Stats SA and SARB

Projects registered with NERSA



Source: NERSA

Overall, domestic economic activity remains subdued, indicating the presence of forces that continue to drag it. This is despite improvements in energy supply and, to a lesser extent, logistical performance. The economy is expected to expand at a modest pace of 0.4% each quarter in the second half of this year.

Growth outlook

The SARB's baseline forecast anticipates a gradual pickup in economic activity over the medium term, but the pace has been scaled back compared with the previous *MPR*. Growth rates of 1.2% in 2025 rising to 1.9% by 2027 are projected, partly enabled by the expected improvement in the economy's productive capacity, as seen in potential growth that increases from 1.1% this year to 1.7% by 2027.²⁷ The slightly lower trajectory for both real GDP and potential growth mostly reflects the lower investment profile relative to the April *MPR*.

With household consumption accounting for nearly two-thirds of gross domestic expenditure, growth in South Africa can be characterised as 'consumption-led'. Household consumption spending is expected to remain resilient, benefitting from low inflation and interest rates as well as improvements in real disposable income. Real disposable income is projected to increase at an average rate of 1.7% per annum over the next two years, driven by rising wage income. The two-pot retirement withdrawals are also expected to provide some support, even as their impact is expected to fade. Expected further interest rate cuts should improve credit affordability while lowering debt-service costs, further boosting households' real disposable income. Overall, real household spending is projected to rise by 2.6% in 2025 before softening to 1.5% in 2026 and 1.8% in 2027.

After two consecutive years of disappointing performance, GFCF is projected to contribute to growth from 2026.²⁸ Investment should benefit from the recovery in government capital spending, which is seen rebounding to 2.5% per year in both 2026 and 2027 from a projected contraction of 3% this year. This recovery is expected to be underpinned by the R1 trillion in capital spending over the Medium Term Expenditure Framework announced in Budget 2025. GFCF should also benefit from strengthening GDP growth as well as pent-up investment demand. Expected low interest rates as well as improved confidence stemming from Operation Vulindlela reforms in the network industries should further boost investment demand while embedded generation should provide additional impetus.^{29, 30}

27 In the previous *MPR*, growth of 1.7% was projected for 2025, rising to 2% in 2027; potential growth was forecast to average 1.4% in 2025, increasing to 2% in 2027.

28 Gross fixed capital formation (GFCF) is expected to expand by 2.7% and 2.4% in 2026 and 2027 respectively. This follows an expected contraction of 1.5% this year and a decline of 3.9% in 2024.

29 See K Khumalo, 'Transnet courts Gulf investors in R125bn recovery drive', *Business Day*, 25 September 2025.

30 Generation capacity of 5 229 megawatts was registered with NERSA in the first three quarters of this year while 7 615 megawatts of capacity are expected to reach commissioning stage by 2027. See Eskom, *Generation Connection Capacity Assessment (GCCA) 2025*, Johannesburg: Eskom, 2023.



Net exports are expected to detract from growth in the short term but to add to growth in the outermost year of the forecast. Export volumes are projected to be boosted by commodity prices and a recovery in trading-partner growth, while the slow rise in investment should help contain imports.

Macro balances

Current account

South Africa's current account deficit deteriorated to 0.9% of GDP in the first half of this year from 0.6% a year ago. The services, income and transfers (SIT) account was broadly unchanged while the trade surplus shrank by R23 billion, mainly due to a larger manufacturing deficit and a smaller mining surplus. Agriculture helped, but not enough to reverse the decline.

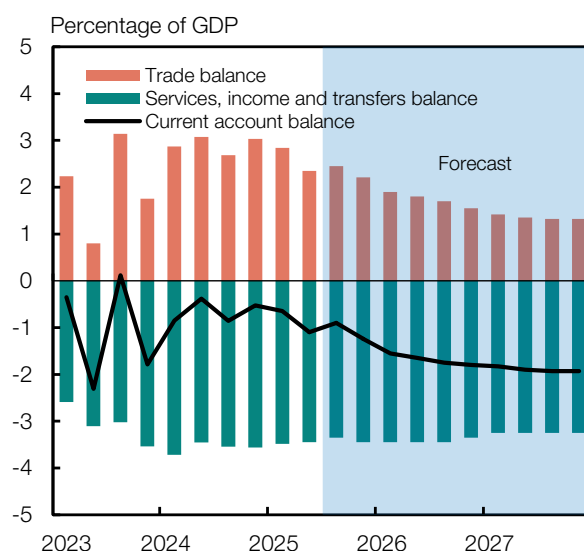
The trade surplus is expected to improve in the third quarter of 2025, lifted by higher gold and platinum group metals (PGMs) prices, while the SIT deficit is projected to remain flat. The current account deficit is expected to narrow to 1% of GDP this year, an improvement over the April forecast, before widening again to 1.9% by 2027. Despite the projected deterioration, the current account deficit remains favourable compared with its long-term average of 3.3% of GDP. A stronger current account reduces pressure on the rand exchange rate, supporting disinflation.

Despite these gains, South Africa remains vulnerable to global market swings and commodity price shocks, which can disrupt capital flows and complicate policy. Sustaining the current account's recovery will depend on export competitiveness and further diversification.

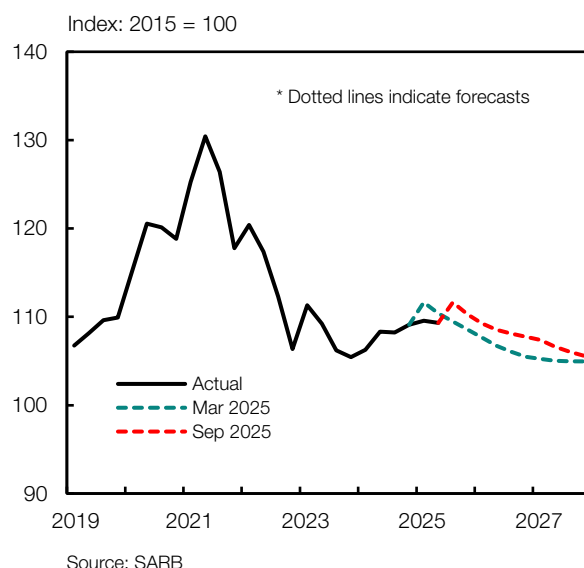
Fiscal balances

Revenue and expenditure trends over the first five months of the 2025/26 fiscal year suggest that National Treasury may be on course to realise yet another primary surplus this year. Gross tax revenue increased by 6.5% in the five months up to August 2025, higher than the 4.3% growth achieved over the same period in 2024/25. Tax revenue growth was supported by strong performance in corporate income tax (6.9%), personal income tax (8.4%) and value-added tax (11.5%). Meanwhile, expenditure grew by 4% over the same period, slightly down from 4.3% in the previous fiscal year, partly reflecting the delayed finalisation of Budget 2025. These dynamics have led to a narrower budget deficit over the review period.

Current account balance

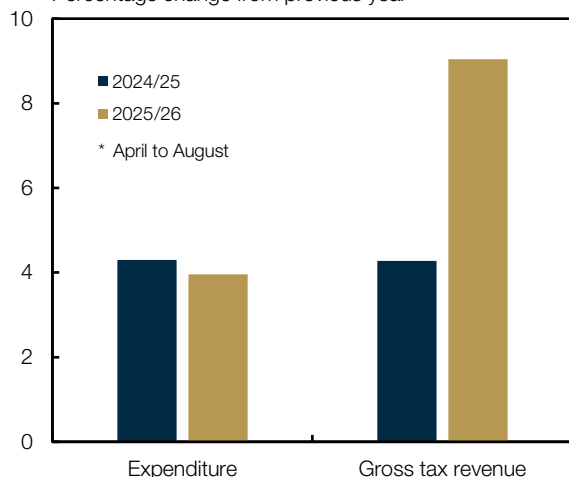


Terms of trade*



Year-to-date main expenditure and gross tax revenue*

Percentage change from previous year



Source: National Treasury

For the full fiscal year, however, fiscal outcomes remain indeterminate, as both revenue and expenditure trajectories could shift. Spending remains vulnerable to potential bailouts for financially distressed state-owned enterprises.

Conclusion

Near-term economic prospects remain modest, with quarterly growth rates of 0.4% projected for each of the remaining two quarters of 2025, bringing growth for the year to 1.2%. Over the medium term, growth is expected to be buttressed by household consumption spending on the back of an improving financial position and by a pickup in capital formation spurred by further progress in the implementation of structural reforms, particularly in the energy and logistics sectors.



Box 7 What's driving real disposable income growth?

The relative contributions of the components of real disposable income have shifted since the COVID-19 pandemic, with non-labour income becoming more important. Real disposable income – the income available to households after taxes for spending or saving – grew by 1.5% this past year, but compensation of employees contributed only 27% of this growth, compared with an average of 86% in the previous decade.¹ Understanding the sources of these shifts and their potential implications is important given the centrality of real disposable income for household expenditure growth.

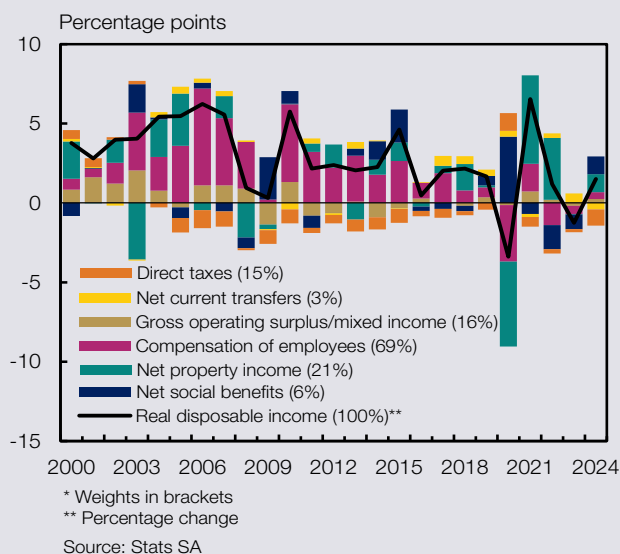
Before the COVID-19 pandemic, compensation of employees was consistently the main contributor to real disposable income growth. Although it remains the largest component, its relative contribution has declined.² Non-labour income, which is primarily net property income and social benefits, has seen its relative contribution to households' real disposable income growth increase strongly over this period.³ Given the documented volatility of non-wage income, this shift raises questions regarding the resilience of South Africa's consumption-led growth.⁴

Net property income has been buoyed by dividend payouts by property investment firms, mostly in commercial property, as well as gains realised in the residential property segment. Solid net property income may also reflect the buoyant equity market performance, both domestically and internationally, as well as generally higher dividend payouts given muted investment activity. Net social benefits, reflecting support provided to individuals by government and non-profit institutions to meet mostly basic needs, along with the two-pot retirement withdrawals, also became an important driver of real disposable income growth during this period, but have been volatile.

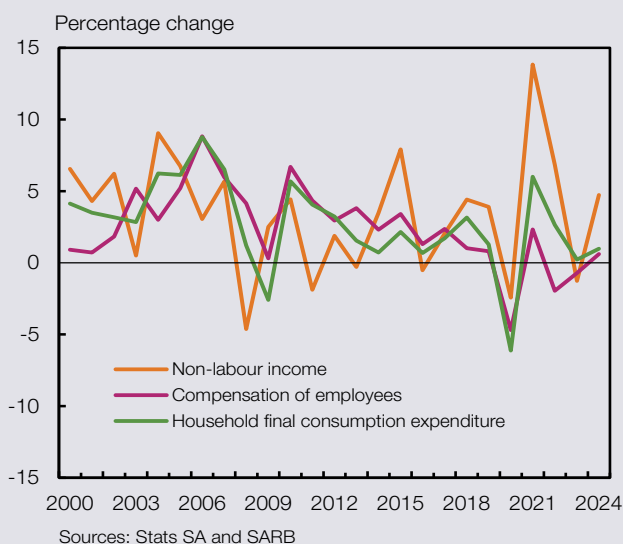
However, the relationship between real disposable income growth and household consumption spending growth has not changed materially. This may reflect the relative stability in net property income so far, although its future performance remains uncertain. The unchanged relationship could also be a result of the shorter time period since the shifts began.

- 1 Real disposable income comprises gross operating surplus/mixed income, primary income components such as compensation of employees and net property income, as well as net social benefits and current transfers.
- 2 This decline is partly the result of the large-scale job and earnings losses during the pandemic as well as the changing nature of employment/income-generating activities since then.
- 3 Property income is derived from the ownership of financial or tangible non-produced assets (mainly land or sub-soil assets), and includes dividends received and income attributed to insurance policy holders and pension fund members, as well as net interest and net rent received.
- 4 See N Wang-Ly and B R Newell, 'Income volatility and saving decisions: Experimental evidence', *Journal of Experimental Finance* 43, 2024, pp 1–19. See also J Peets and J Robson, 'Living gig to gig and paycheque to paycheque: how income volatility affects financial decisions', *Think Forward Initiative Technical Report*, Berlin: Think Forward Initiative, February 2021.

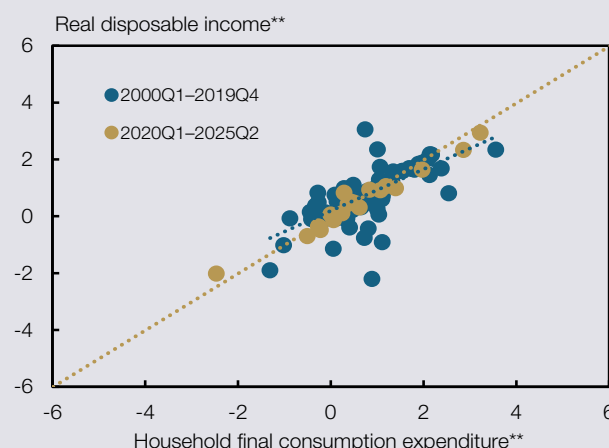
Contributions to growth in real disposable income*



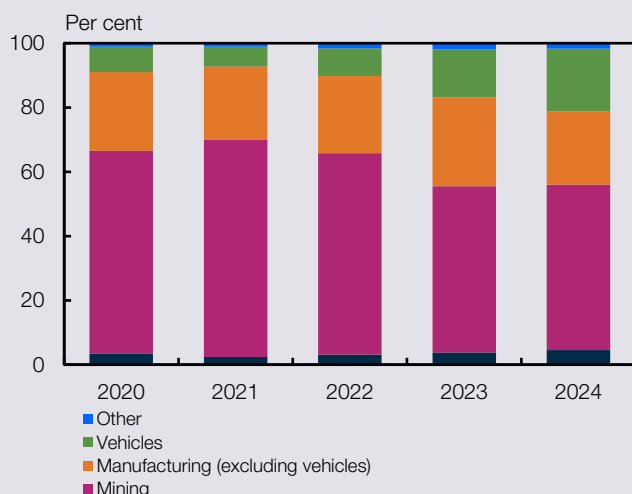
Income sources and household spending



Household final consumption expenditure and real disposable income*



Share of South Africa's exports to the US



US tariffs applicable to South Africa's products

Sector	Products	Applicable sectoral tariffs
Agriculture	All agricultural products	30%
Manufacturing	Vehicles and auto-parts	25%
	All other manufacturing	30%
	Pharmaceuticals	100%*
	Semiconductors and energy products	Exempted
	Lumber articles	Exempted
Mining	Iron ore	30%
	Precious metal jewellery	30%
	Diamonds	30%
	Aluminium	50%
	Copper products	50%
	PGMs, manganese, coal, gold, chromium, bullion, niobium, tantalum, vanadium or zirconium ores and concentrates	Exempted

* On average, pharmaceutical products account for 0.5% of South Africa's total exports to the US.

Sources: Various sources

Box 8 Shifting trade winds

On 7 August 2025, the United States (US) imposed a 30% import tariff on most of South Africa's exports, effectively ending the country's preferential access under the African Growth and Opportunity Act as well as the Generalised System of Preferences. Nearly two-thirds of South Africa's exports to the US are now subject to tariffs. For marginal exporters, the loss of preferential access raises concerns about commercial viability and increases the risk of job losses in the affected industries, with potential spillover effects on other sectors.

The US is a significant trading partner to South Africa, accounting for 7.7% of the country's exports in 2024. Exports to the US are dominated by mining (about 60%), manufacturing (30%) and agriculture (5%).¹

Platinum group metals (PGMs) account for the lion's share of South Africa's mining export basket to the US. Of the total non-gold mining exports to the US in 2024, PGMs, manganese and coal accounted for around 65% by value.² With the key mining export commodities exempted from tariffs, the overall impact on mining is expected to be modest, although segments such as aluminium, with a tariff rate of 50%, will be heavily impacted.

In contrast, the bulk of manufactured goods exported to the US are subject to import tariffs. The US is South Africa's third-largest export market for vehicles and parts, with exports worth R35 billion in 2024. The 25% tariff levied on South Africa's auto and parts exports is higher than that for most competitors and will sharply reduce South Africa's competitiveness in the US market, threatening output and jobs in a sector that anchors the broader manufacturing base.^{3, 4} Other manufactured goods, already under strain from low competitiveness and other structural impediments, face a 30% import duty.

1 The averages of export volumes are calculated over the past five years (2019–24) using data from the South African Revenue Service (SARS).

2 SARS does not publish gold exports to individual countries.

3 The US has reached or is in the process of reaching agreements with Japan, South Korea and the European Union (EU) to reduce certain vehicle and auto-part tariffs from 25% to 15% under the new 'reciprocal' trade arrangements. For the United Kingdom, a 10% tariff applies to the first 100 000 vehicles exported annually, which is approximately the number of cars sold in 2024. Additional vehicles will be subject to the standard 25% tariff. See J Irwin, 'EU, Japan, South Korea await lower auto tariffs as new reciprocal duties take effect', *Automotive News*, 7 August 2025.

4 According to the Steel and Engineering Industries Federation of Southern Africa (SEIFSA), a survey of 126 firms found that one-third of the respondents expected revenue declines of 10–20% and job losses due to the new US tariffs. Some companies described the measures as an 'existential threat', citing halted investments and trade diversion pressures. See D Parker, 'US tariffs expected to have significant impact on metals, engineering sector, SEIFSA warns', *Engineering News*, 4 August 2025.



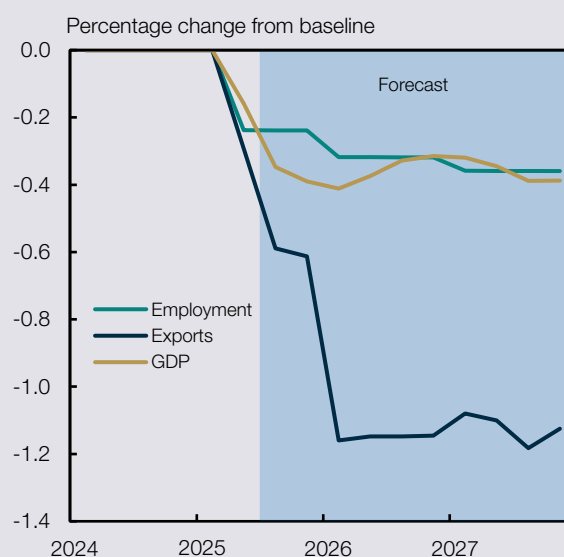
Agricultural exports, although a small share of total exports to the US (4.2%), are fully exposed to the new tariffs. Citrus, sugar and wine are among the most-affected products, both directly because they face a 30% tariff but also indirectly given that competing products from other regions face lower tariffs.⁵ The loss of jobs and incomes could decimate some rural communities through localised general equilibrium effects.⁶

South African Reserve Bank modelling indicates that the tariffs could reduce domestic output growth by 0.4 percentage points in 2026, while economy-wide employment is lower by about 40 000 compared with the baseline. Other studies estimate that up to 22 000 jobs could be lost under the new tariffs.⁷

Reduced US demand could also disrupt global supply chains and depress the prices of key exports, presenting additional impact channels.⁸ Trade diversion, where exports are redirected to other markets, may offer some relief, but the low competitiveness of South African producers and subdued growth in trading-partner economies suggest diminished prospects.

Overall, the South African economy faces modest macroeconomic effects from the US trade tariffs, but sectoral impacts are likely to be significant.

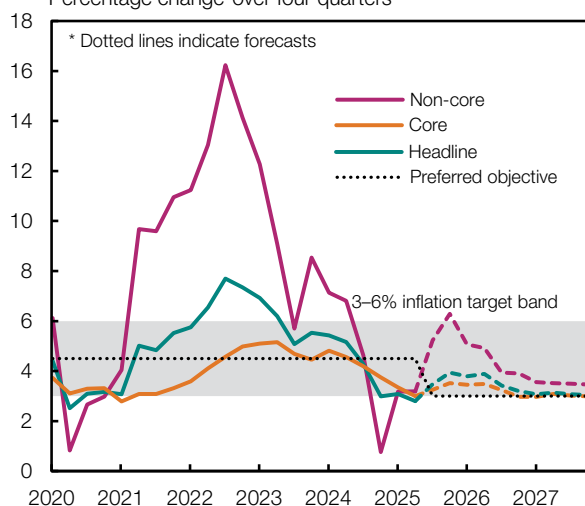
Tariff impact



- 5 South Africa faces a tariff of 30% on its citrus exports compared with Chile, Peru, Argentina and Australia who each face a 10% tariff. See Citrus Growers' Association of Southern Africa, *Overview of SA citrus in the USA: Briefing note*, Durban: Citrus Growers' Association of Southern Africa, 2025.
- 6 Sugar and citrus are labour-intensive, supporting around 300 000 jobs, and have little scope for trade diversion. See S Skweyiya, 'South Africa's sugar farmers face 'double whammy' from Trump tariffs, cheap imports', *Reuters*, 4 September 2025.
- 7 See L Edwards and J Chien, 'Tariff Turbulence: The Consequences of United States Tariff Increases for South African Exports', *Economic Research Southern Africa Policy Paper 41*, Pretoria: Economic Research Southern Africa, July 2025.
- 8 Although, platinum group metals (PGMs) are exempted, the sector, remains vulnerable due to secondary effects on the automotive industry, which is the largest global consumer of PGMs. See Bishop Fraser Attorneys, *US Tariffs and the South African Mining Industry: Trade Friction and Sector Risk*, 16 April 2025.

Headline inflation and its components

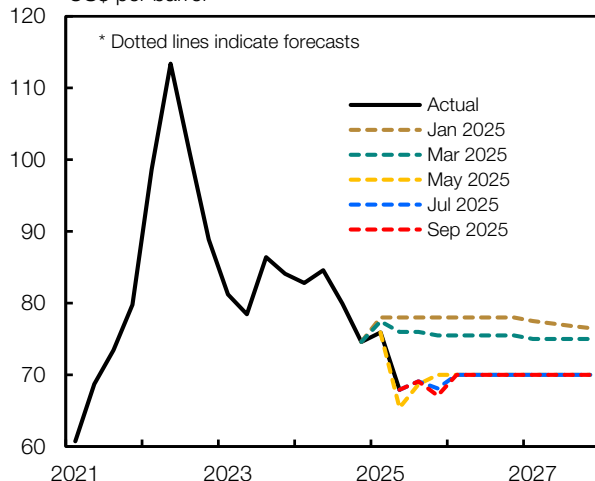
Percentage change over four quarters



Sources: Stats SA and SARB

Oil price forecast evolution*

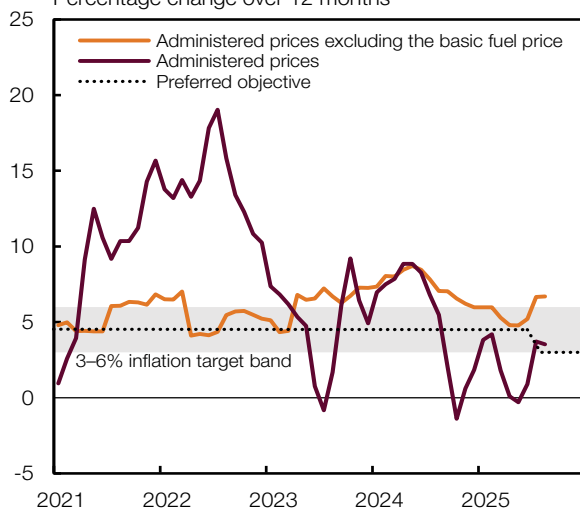
US\$ per barrel



Source: SARB

Administered price inflation

Percentage change over 12 months



Sources: Stats SA and SARB

Price developments: stability at the core

Headline inflation has accelerated recently, driven by higher food inflation and declining fuel deflation. In contrast, core inflation has remained subdued, hovering around the SARB's preferred 3% objective. Muted core inflation reflects a moderately negative output gap, subdued ULC growth and a stronger rand exchange rate. Inflation expectations continued to edge lower, further easing pressures. The SARB expects headline inflation to average 3.4% this year and to rise to 3.6% in 2026 before softening to 3.1% in 2027. Near-term pressures stem from food inflation, while the additional electricity tariffs in 2026 and 2027 are expected to be the primary source of upward price pressure. Core inflation is expected to remain stable and close to target over the forecast horizon.

Oil prices and fuel inflation

Since April, the Brent crude oil price has remained stable at approximately US\$68 per barrel. This reflects ample supply and subdued demand linked to moderate global economic activity. Combined with a relatively stable rand exchange rate, domestic fuel prices experienced only minor month-to-month changes during the review period. Consequently, domestic fuel inflation was largely influenced by base effects.

The oil market is projected to remain in oversupply over the medium term, driven by increased production by OPEC+ (members of the Organization of the Petroleum Exporting Countries (OPEC) plus other oil-producing countries).³¹ While uncertainty persists regarding global economic activity and oil demand, risks to global growth are tilted to the downside, placing downward pressure on oil prices. The SARB has accordingly lowered its medium-term crude oil price assumption from US\$76 per barrel in the April 2025 MPR to US\$70 per barrel.

Administered price inflation

Fuel deflation exerted a moderating influence on administered price inflation over the past year, and pulled it lower to average 1.6% over the review period. However, as the impact of earlier fuel price declines began to fade, administered price inflation rose to 3.7% in July 2025 before slowing somewhat to 3.5% in August. Excluding fuel and paraffin, administered price inflation remained high, averaging around 7% over the past year.

³¹ See US Energy Information Administration, *Short-Term Energy Outlook*, Washington, D.C.: US Energy Information Administration, September 2025.



Fuel price inflation is driven by the basic fuel price (which is determined by international oil prices and the exchange rate and is therefore not 'regulated') and adjustments to fuel taxes, the Road Accident Fund levy as well as margins. When the basic fuel price was excluded, administered price inflation averaged 5.6% over the review period.

Electricity and water price inflation remain the primary sources of upward pressure within the administered price basket. Since 2009, electricity prices have increased by more than 600% and water prices by more than 500%, while overall consumer prices have roughly doubled. The respective 10.4% and 12% increases announced in August 2025 mean that these components will average around 10% this year, compared with a projected headline inflation rate of 3.4%. The large increases in water tariffs reflect financial pressure on municipalities and long-standing underinvestment in water infrastructure, where non-revenue water has consistently exceeded 40%.³²

The outlook for electricity inflation has worsened following NERSA's approval of an additional R54 billion in revenue for Eskom over the next two years. The SARB now expects electricity inflation to average 7.9% over the medium term, up from 6.6% in the April *MPR*.

With headline inflation hovering around the 3% objective, large increases in administered prices are becoming more difficult to justify and call for urgent policy measures to align increases in these prices with broader price trends in the economy. Low headline inflation also contributes to moderations in administered price inflation through partial indexation.³³

Food and non-alcoholic beverages inflation

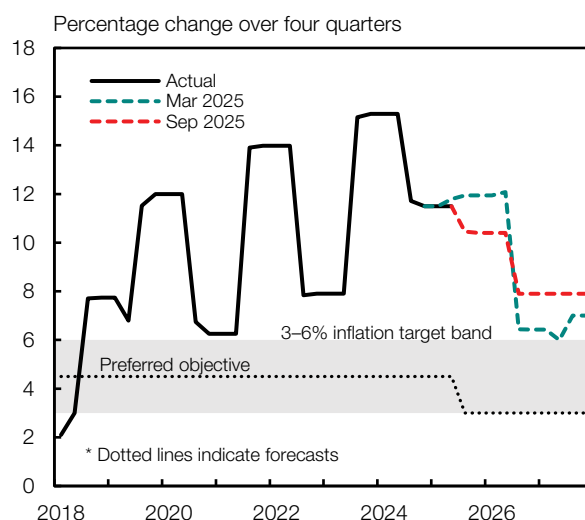
Food and non-alcoholic beverages (NAB) inflation rose sharply to 5.7% in July 2025 before easing slightly to 5.2% in August, up from 2.7% in March, amid supply disruptions in the meat and vegetable categories. Inflation remained contained in most of the higher-weighted categories, including cereal products, milk, other dairy items and eggs.

Meat supply was constrained by a severe outbreak of foot-and-mouth disease, resulting in record-high beef prices, while vegetable supply was affected by adverse weather and disease-related challenges (see Box 9).

³² See Department of Water and Sanitation, *2023 No Drop Report*, Pretoria: Department of Water and Sanitation, 2023. Non-revenue water is water produced and supplied by water utilities but which earns no revenue as a result of physical and other losses such as leaks and billing errors.

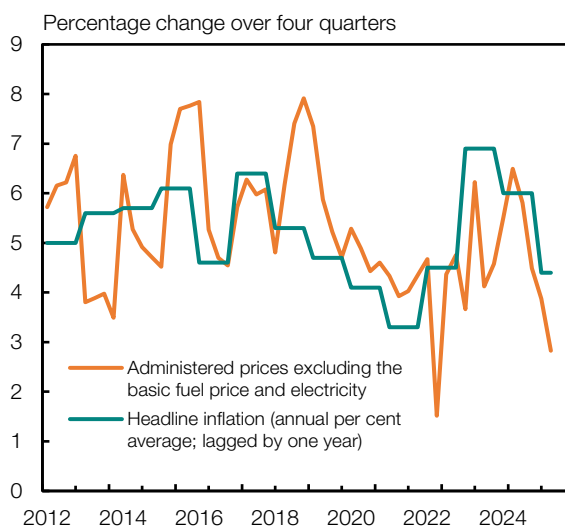
³³ See C Loewald, K Makrelov and E Pirozhkova, 'The short-term costs of reducing trend inflation in South Africa', *South African Reserve Bank Working Paper Series No. WP/22/08*, Pretoria: SARB, August 2022.

Electricity inflation forecast evolution*



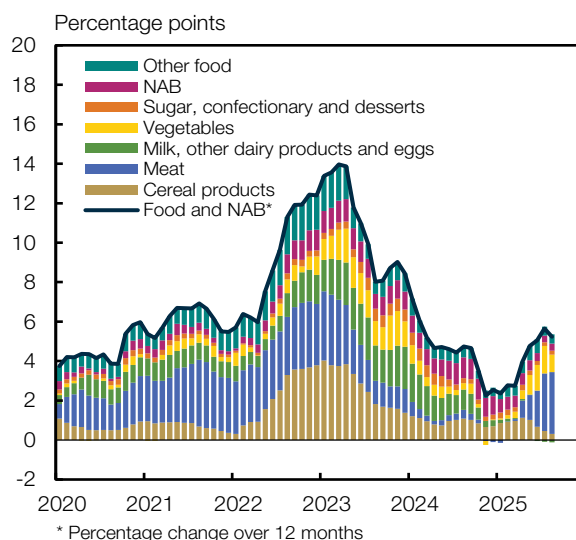
Sources: Stats SA and SARB

Administered price inflation and indexation



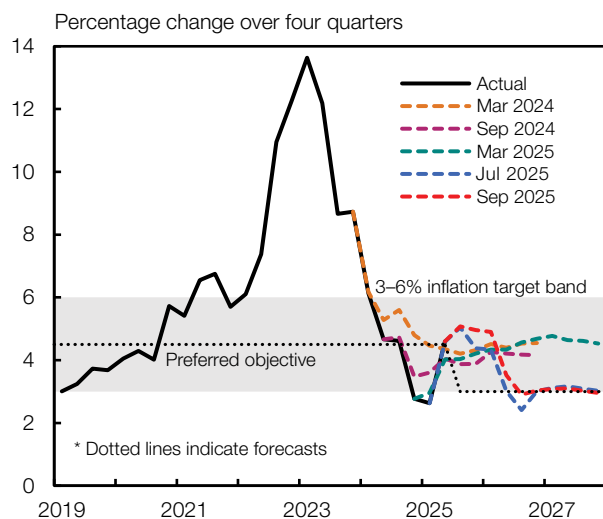
Sources: Stats SA and SARB

Contributions to food and NAB inflation



Sources: Stats SA and SARB

Food and NAB inflation forecast evolution*



Sources: Stats SA and SARB

However, supply conditions for meat and vegetables have begun to improve, supported by policy interventions and the natural easing of earlier shocks.³⁴ Meanwhile, declining white maize spot prices following a bumper crop this past season have helped contain cereal inflation, partially offsetting the impact of the elevated meat and vegetable inflation. Looking ahead, food and NAB inflation is expected to average 4.3% this year and to ease gradually to 3% by the end of the forecast horizon, supported by further improvement in supply conditions and expectations of a strong field crop harvest in the 2025/26 season.

Consumer food price inflation (September 2025 forecasts)

Percentage change over four quarters, March 2025 forecasts in brackets

	Weight	Actual				Forecast				
		2014–24	2024*	2025Q1	2025Q2	2025Q3	2025Q4	2025*	2026Q1	2026Q2
Food and non-alcoholic beverages	18.23	6.6	4.5	2.6	4.6	5.1	5.0	4.3	4.9	3.5
				(3.0)	(4.0)	(4.0)	(4.2)	(3.8)		
Cereal products	4.14	6.6	5.0	4.0	4.1	1.6	2.0	2.9	1.2	0.5
				(4.7)	(6.0)	(4.8)	(5.2)	(5.2)		
Meat	5.10	6.3	0.8	0.0	4.7	11.0	11.5	6.8	11.2	7.9
				(0.3)	(2.6)	(4.1)	(4.8)	(2.6)		
Beef.....	1.15	6.3	-1.1	-0.7	13.4	29.5	28.7	17.6	26.2	11.8
				(1.4)	(3.7)	(5.5)	(5.9)	(3.7)		
Poultry	1.90	7.1	3.1	-0.2	0.7	2.4	3.4	1.6	4.6	6.2
				(0.1)	(2.4)	(3.6)	(4.2)	(2.2)		
Milk, other dairy products and eggs.....	1.83	6.6	7.1	1.2	0.1	-0.9	-0.5	0.0	1.2	2.1
				(1.8)	(1.9)	(1.7)	(3.0)	(2.1)		

* Annual average percentage change

Sources: Stats SA and SARB

³⁴ To curb the spread of foot-and-mouth disease, farms and feedlots with outbreaks have been quarantined, and, in severe cases, entire areas have been classified as Disease Management Areas, as in the case of parts of the Eastern Cape and KwaZulu-Natal. Vaccination stocks have been built up with the purchase of more than 900 000 doses, and the pace of inoculations has been scaled up. See Reuters, 'South Africa to ramp up vaccinations as foot-and-mouth disease spreads', *Reuters*, 6 June 2025.

Core inflation

Core inflation, which accounts for about three-quarters of the headline consumer price index basket, remained contained around 3% over the review period, reflecting subdued price increases in both core goods and services. Other measures of underlying inflation monitored by the SARB, in particular trimmed mean and supercore, have also remained stable around 3%. The persistent and common component of inflation, although slightly elevated, also moved in tandem with the other measures.³⁵

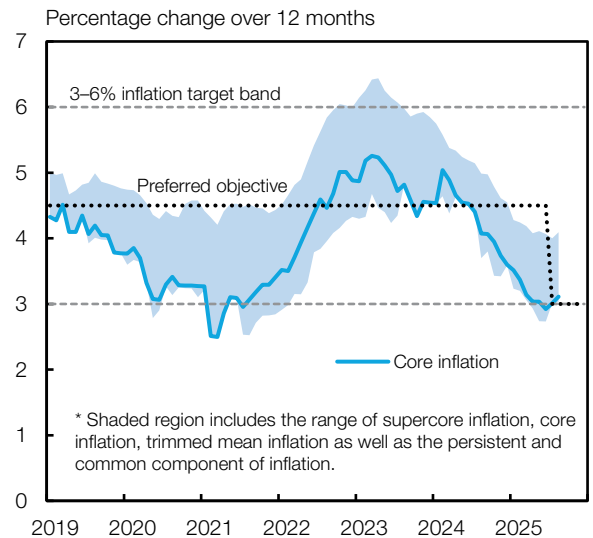
Core goods inflation eased to a five-year low of 1.3% in June 2025 before rising to 1.9% in August. The increase was driven by higher inflation in alcoholic beverages and tobacco as well as several smaller-weighted components of the basket, largely due to exchange rate effects. Going forward, core goods inflation is expected to gradually normalise, driven by household spending on durable and semi-durable goods as well as fading base effects. The SARB projects core goods inflation to average 2.2% in 2025 and 3% over the medium term.

Services inflation, unlike core goods, remained relatively elevated but stable around 3.7% over the review period. The somewhat higher services inflation was mainly due to medical insurance which recorded an increase of 10.6% in April 2025 and is expected to stay at this level for the remainder of the year. Softer inflation in restaurants and accommodation, along with deflation in transport services, helped to offset increases in housing and utilities as well as in the smaller-weighted components of the services basket. As utilities and health insurance are unlikely to be surveyed again this year, and as inflation in other components is seen as relatively contained, services inflation is expected to average 3.8% in 2025.

Moderate growth in wages and ULCs, along with easing inflation expectations, has helped keep services inflation relatively contained (see Box 2). Excluding insurance, services inflation averaged 2.8% over the review period. Services inflation is projected to slow to 3.5% in 2026 and 3% in 2027.

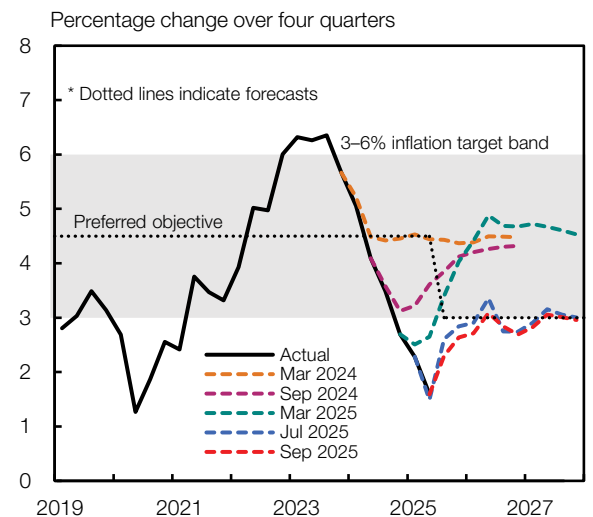
³⁵ Trimmed mean inflation, supercore inflation as well as the persistent and common component of inflation (PCCI) averaged 3%, 3% and 4.1% over the review period respectively. PCCI is derived from a factor model which extracts a common trend inflation rate from the full consumer price index basket, which explains its relatively elevated level. For more details, see A Amaral, M Kruger, D Lekgeu and W Simbanegavi, 'PCCI of SA's CPI: Estimating the persistent and common component of inflation for South Africa', *South African Reserve Bank Special Occasional Bulletin of Economic Notes No. Special OBEN/24/02*, Pretoria: SARB, August 2024.

Underlying inflation*



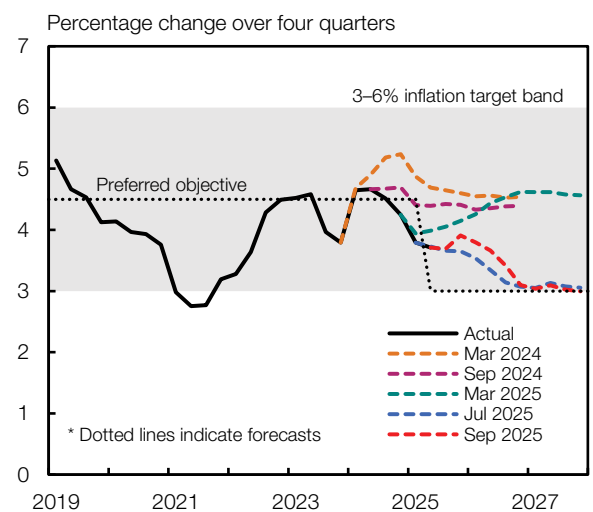
Sources: Stats SA and SARB

Core goods inflation forecast evolution*



Sources: Stats SA and SARB

Services inflation forecast evolution*



Sources: Stats SA and SARB



Headline inflation (September 2025 forecasts)

Percentage change over four quarters, March 2025 forecasts in brackets

	Actual					Forecast				
	Weight	2014–24	2024*	2025Q1	2025Q2	2025Q3	2025Q4	2025*	2026Q1	2026Q2
Headline inflation	100.00	5.1	4.4	3.0	2.9	3.6	4.0	3.4	3.9	3.9
				(3.0)	(3.1)	(3.9)	(4.3)	(3.6)		
Core inflation**	74.44	4.5	4.3	3.3	3.0	3.2	3.5	3.3	3.5	3.5
				(3.4)	(3.4)	(3.8)	(4.1)	(3.7)		
Rentals***	15.53	3.5	3.0	2.5	2.6	2.6	2.6	2.6	2.7	2.9
				(2.5)	(2.7)	(3.0)	(3.3)	(2.9)		
Insurance	8.41	6.9	8.2	8.1	8.1	7.7	7.6	7.9	6.4	6.0
				(8.2)	(8.5)	(8.5)	(8.5)	(8.4)		
Education	2.41	6.4	6.2	5.7	4.5	4.5	4.5	4.8	4.9	5.8
				(6.2)	(5.9)	(5.9)	(5.9)	(6.0)		
Vehicles	5.61	5.1	4.7	2.5	1.9	1.7	2.3	2.1	2.7	3.6
				(2.6)	(3.2)	(3.8)	(4.4)	(3.5)		
Fuel	3.89	6.2	-0.8	-5.7	-13.1	-4.1	1.9	-5.5	0.0	6.6
				(-5.7)	(-9.9)	(-2.5)	(2.7)	(-4.1)		
Electricity	3.44	9.1	13.3	11.5	11.5	10.5	10.4	10.9	10.4	10.4
				(11.5)	(11.8)	(11.9)	(11.9)	(11.8)		

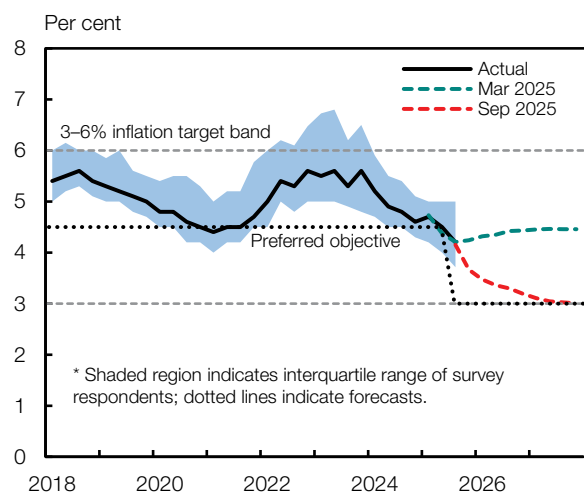
* Annual average percentage change

** CPI excluding food, non-alcoholic beverages, fuel and electricity

*** Combines actual rentals and owners' equivalent rent

Sources: Stats SA and SARB

Two-years-ahead inflation expectations: all groups*



Sources: BER and SARB

Medium-term inflation outlook

The medium-term trajectory of core inflation – and, by extension, overall inflation – is shaped by four key drivers in the QPM: inflation expectations, ULCs, the exchange rate gap and the output gap. In addition, the July MPC meeting saw the inflation anchor in the QPM lowered to 3% from 4.5%. This change in steady states explains the divergent trajectories for these drivers in the outer years compared with the April *MPR*.

Inflation expectations reflect how economic agents anticipate future prices to evolve. These expectations are shaped either by past inflation trends (backward-looking) or by the central bank's credibility, policy actions and stated inflation target (forward-looking).³⁶ The Bureau for Economic Research two-years-ahead inflation expectations eased to 4.2% in the third quarter of 2025 from 4.7% in the first quarter. The SARB expects inflation expectations to continue to trend lower and to converge to 3% by 2027, influenced by the low inflation observed over the past year (around 3%) and by the SARB's preferred 3% anchor.

Inflation pressures also emanate from the labour market. Two key indicators are the real ULC gap, defined as the deviation of real wages per worker from productivity-aligned (equilibrium) levels, and nominal ULC growth, which reflects the increase in labour costs per unit of output. Over the

36 See E Pirozhkova, J Rakgalakane, L Soobyah and R Steinbach, 'Enhancing the Quarterly Projection Model', *South African Reserve Bank Working Paper Series No. WP/23/05*, Pretoria: SARB, June 2023.



review period, both average salaries and nominal ULC growth remained contained, with real wage growth broadly aligned with productivity gains. The SARB expects this trend to continue over the medium term, as wage formation is likely to be guided either by backward indexation to the lower inflation observed over the past year or by the 3% inflation objective.

The exchange rate influences medium-term inflation by affecting import costs and firms' real marginal costs. During the review period, the rand appreciated against the US dollar, strengthening from R18.33 to the US dollar at the May 2025 MPC meeting to R17.61 by September. The rand trajectory benefits from a lower inflation target which reduces the inflation differential with trading partners, while the real rand is less undervalued, compressing the real effective exchange rate gap. These developments imply reduced inflationary pressure on headline inflation over the forecast horizon.

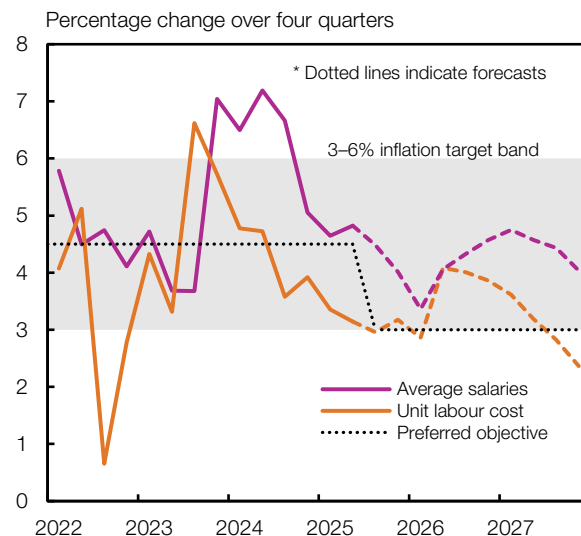
The output gap is projected to remain slightly negative but to close over the medium term, exerting modest disinflationary pressure. This trajectory reflects the mild dampening effect of the moderately higher real interest rates in the QPM, as inflation is forecast to decline more rapidly than nominal interest rates.³⁷

Conclusion

The recent increase in headline inflation reflects pressures from the non-core components of the consumer basket, mainly due to food price shocks and the fading impact of earlier fuel price declines. These supply-side pressures are expected to be temporary, as supply conditions in meat and vegetable markets continue to improve. Underlying inflation remains contained and less responsive to external shocks. Headline inflation is projected to rise to 3.6% in 2026 before easing to the 3% objective from 2027. The slower return to target is largely due to unexpectedly high electricity price inflation.

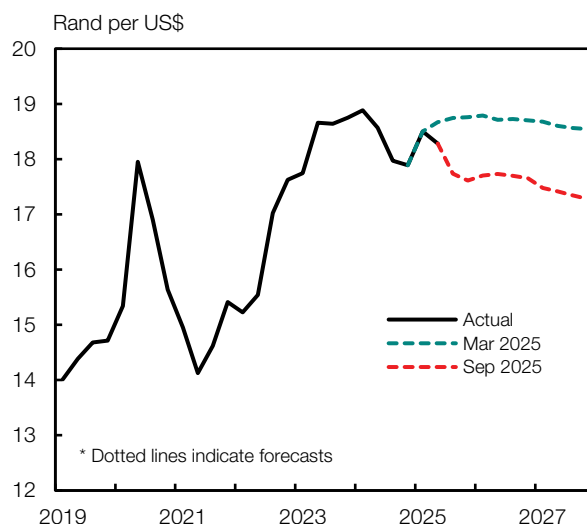
³⁷ The output gap is expected to be -0.3%, -0.4% and -0.1% of potential GDP in 2025, 2026 and 2027 respectively.

Average salaries and unit labour cost*



Source: SARB

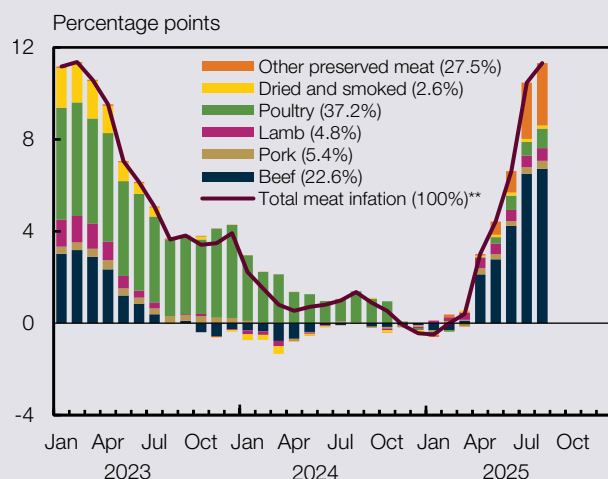
Exchange rate: rand to US dollar*



Source: SARB



Contributions to meat inflation*

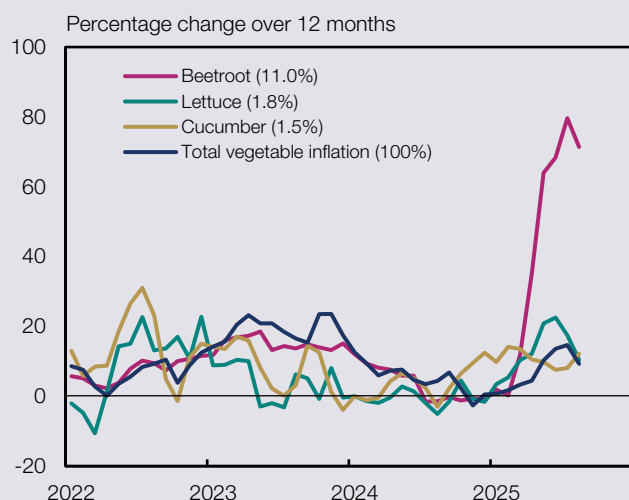


* Weights in brackets

** Percentage change over 12 months

Sources: Stats SA and SARB

Selected vegetable inflation components*



* Weights in brackets

Source: Stats SA

Box 9 The 'meat' of the food inflation story

A surge in food price increases pushed headline inflation above 3% in recent months. Price pressures in the food basket have been concentrated in the meat as well as vegetable subcomponents. This box unpacks the drivers of the recent acute increases in food prices as well as the outlook for food inflation.

Meat price increases, which had remained flat closer to 0% for the six months from October 2024, surged during the review period. Meat inflation rose to 3% in April 2025 and jumped to 11.3% by August, driven primarily by a domestic outbreak of foot-and-mouth disease which disrupted beef slaughter activity. This, along with lingering drought effects, pushed beef inflation sharply higher – from just 0.5% in March to 30% in August. The current outbreak appears to be more severe and widespread than the one in 2022.¹ Other factors have added to the pressure, including restrictions on poultry imports from Brazil due to avian flu, panic-buying and increased demand for pork as consumers looked for cheaper alternatives to beef and chicken.²

Vegetable inflation, although a small part of the food basket, also surged in recent months, rising from 3.3% in March 2025 to 9.3% in August. The spike is mainly due to heavy rains, crop diseases and harvest disruptions in key farming regions. Damaged roads due to the heavy rains caused temporary distribution challenges, pushing prices further higher.³

Looking ahead, the supply of meat and vegetables is expected to improve further, easing price pressures. Cattle slaughter activity has resumed in the affected feedlots, while the ban on Brazilian chicken imports has been lifted.⁴ For vegetables, supply is improving as weather conditions return to normal.

1 During the 2022 episode, beef inflation peaked at 13.7%, whereas currently it has soared to more than double that level.

2 See N Wilson, 'Red meat prices surge amid panic buying as foot-and-mouth spreads', *News24*, 4 July 2025; see also N Wilson, 'SA pork prices jump as shoppers switch from pricey FMD-hit beef', *News24*, 5 August 2025.

3 See W Sihlobo, *SA consumer food price inflation rises again*, Pretoria: Agricultural Business Chamber, August 2025.

4 See Bureau for Food and Agricultural Policy, *Food inflation brief*, Pretoria: Bureau for Food and Agricultural Policy, July 2025.



Conclusion

The global economy has shown resilience in the face of recent trade disruptions and heightened geopolitical tensions. Stronger-than-expected performance in the first half of the year has led to upward revisions in the annual growth forecasts. Among major advanced economies, growth rates are expected to converge: the US is slowing, while others are projected to grow faster than they did last year. However, the medium-term growth outlook remains uncertain due to rising trade protectionism and the increased use of tariffs for non-trade purposes, which could further disrupt supply chains and global trade.

Global disinflation has continued, aided by lower energy prices and cooling labour markets in advanced economies. A weaker US dollar has also helped reduce imported inflation in other countries. In countries that have imposed tariffs, signs of pass-through to consumer prices are emerging, and are likely to delay the achievement of inflation targets.

Central banks are expected to ease policy further, but the extent and pace of rate cuts will differ due to divergent inflation risks and distances from neutral. Across emerging markets, policy rates are mostly near neutral. Elevated global economic uncertainty increases the risk of abrupt currency depreciations and potential rises in inflation, especially in emerging economies. As a result, central banks are likely to remain cautious and data-dependent as they work to stabilise inflation at target levels.

Challenges for monetary policy are also likely to emanate from high fiscal deficits and elevated debt levels that stimulate demand and raise long-term interest rates. This can potentially undermine the efficacy of monetary policy and raise the risk of fiscal dominance. For emerging markets with high debt levels, rising global interest rates increase the cost of accessing international capital, posing risks to both the balance of payments and fiscal sustainability.

South Africa's inflation hovered around the lower bound of the 3–6% target band over the past year, while forecasts were benign. Core inflation has been stable at around 3%. The favourable inflation outlook enabled the MPC to reduce the policy rate by a further 50 basis points during the review period.

In July 2025, the SARB revised its preferred inflation objective down to 3% from 4.5% to lock in recent disinflation gains. The rand and bond yields responded positively to the improved inflation dynamics. A low long-term inflation rate is associated with reduced borrowing costs and improved macroeconomic stability. However, inefficiencies in administered pricing remain a challenge. While lower headline inflation helps moderate administered price inflation, sector-specific reforms are needed to improve pricing efficiency.

The domestic economy grew by 0.8% quarter on quarter in the second quarter of 2025, exceeding expectations. However, growth projections for the remainder of the year remain modest at 0.4% per quarter, reflecting weak investment and the higher US tariffs on South African exports. Unlocking investment at scale requires comprehensive and coordinated reform efforts across various sectors. Addressing only a single constraint, as has been the case so far with regards to load-shedding, has proven insufficient to restore investor confidence. Persistent logistical bottlenecks and high costs of doing business remain key barriers and require urgent attention. A more favourable macroeconomic environment, characterised by low inflation and progress towards fiscal sustainability, would significantly enhance the investment climate.

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 inflation generally refers to underlying inflation excluding the volatile elements (e.g. food and energy prices). The South African Reserve Bank's (SARB) 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 one percent 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 relative 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 SARB's 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

BER	Bureau for Economic Research
BIS	Bank for International Settlements
BoE	Bank of England
BoJ	Bank of Japan
BRICS	Brazil, Russia, India, China, South Africa
COVID-19	coronavirus disease 2019
CPI	consumer price index
DXY index	United States dollar index
ECB	European Central Bank
<i>EN</i>	<i>Economic Note</i>
EUR	euro
Fed	Federal Reserve (United States)
FMD	foot-and-mouth disease
FRA	forward rate agreement
FX	foreign exchange
G10	Group of Ten
GCCA	<i>Generation Connection Capacity Assessment</i>
GDP	gross domestic product
GFCF	gross fixed capital formation
GVA	gross value added
Haver	Haver analytics
HUF	Hungarian forint
IMF	International Monetary Fund
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
MOVE	Merrill Lynch Option Volatility Estimate
MPC	Monetary Policy Committee (South African Reserve Bank)
<i>MPR</i>	<i>Monetary Policy Review</i>
NAB	non-alcoholic beverages
NAM	National Association of Manufacturers
NEER	nominal effective exchange rate
NERSA	National Energy Regulator of South Africa
NRIR	neutral real interest rate
<i>OBEN</i>	<i>Occasional Bulletin of Economic Notes</i>
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPEC+	OPEC members plus other oil-producing countries
PCCI	persistent and common component of inflation
PGM	platinum group metal
QES (survey)	Quarterly Employment Statistics (survey)
QPM	Quarterly Projection Model
R	rand



REER	real effective exchange rate
repo (rate)	repurchase (rate)
r-star	long-run real neutral interest rate
SA	South Africa(n)
SARB	South African Reserve Bank
SARS	South African Revenue Service
SA-TIED	Southern Africa – Towards Inclusive Economic Development
SEIFSA	Steel and Engineering Industries Federation of Southern Africa
SIT (account)	services, income and transfers (account)
S&P	Standard & Poor's
Stats SA	Statistics South Africa
SVAR	standard vector auto-regression
UK	United Kingdom
ULC	unit labour cost
US	United States
USA	United States of America
VIX	Volatility Index
WEO Update	World Economic Outlook Update
WP	Working Paper