SOUTH AFRICAN RESERVE BANK

Address by Lesetja Kganyago,
Governor of the South African Reserve Bank (SARB),
at the 105th annual Ordinary General Meeting of the SARB shareholders
South African Reserve Bank, Pretoria
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Good morning, ladies and gentlemen.

The global economy is experiencing a turbulent year. So far, it has proven resilient, despite the shocks from wars and tariffs. We should not overstate this. Late last year, the International Monetary Fund (IMF) still expected growth of 3.2% for 2025, which is now down to 3%. But in April, it was expecting 2.8%, so we have actually had some upward growth revisions. For all that has happened in the first half of the year, it is surprising that growth has held up this well, and that forecasts are moving up rather than down.

That said, there are not many reasons to feel safe. In the United States (US), businesses have front-loaded imports, and many have been in wait-and-see mode as a way of dealing with tariff uncertainty. It is now increasingly clear that tariffs will settle at high rates. The Yale Budget Lab calculates the effective tariff as of August at 18.3%, the highest since 1934. This implies significant price pressures that will have to be absorbed somewhere in the system. In this context, it is unsurprising that the US Federal Reserve has been keeping policy rates on hold, with the stance still somewhat on the restrictive side.

In other regions, it has been clearer that trade disruptions are not causing significant inflationary pressure. The main concern has been that supply chain disruptions would push up prices, seeing as most other countries have taken an enlightened approach and refrained from raising their own tariffs to match US measures. As the year has developed, what we have seen is mostly modest disinflationary effects, stemming from weaker demand and excess capacity. A weaker dollar has also been supportive of other countries, especially emerging markets. This has given many central banks the scope to ease policy rates and adopt more neutral policy stances.

In South Africa, our preliminary assessment is that tariffs and the other uncertainties in the global economy are causing modest damage to growth while leaving inflation broadly unchanged. The US is a large trading partner for South Africa, but it is not as important as Europe, China or the Southern African Development Community (SADC). Our exports to the US mostly consist of commodities − some of which are exempted − and manufactured products such as cars. Some parts of the agricultural sector are exposed, but total agricultural exports are only about 3% of our total exports to the US.

For our latest forecast round, we factored in a higher tariff rate. This moved our growth projection lower for the year down by about 0.1 percentage points. This is a setback, but not catastrophic.

Unfortunately, our growth rate for the year is still looking low, close to 1%. This continues a stagnation trend that has been in place for roughly a decade. The economy grew at about 4% a year during the 2000s, then slowed down steadily during the first half of the 2010s, and has hovered at growth rates of about 1% ever since. As we have said repeatedly in our monetary policy statements, the drivers of weak growth are mainly structural and require structural reforms. Put in plainer language, without economic jargon, we need the trains to run and the cities to function. Given the reform momentum underway – perhaps best illustrated by improved electricity availability – we see some scope for better growth in the coming years. We also believe National Treasury’s efforts to stabilise debt can bolster confidence. In addition, the economy is enjoying some support from lower interest rates, with the yield curve shifting lower over the past year or so, and our policy rate down by 125 basis points since September 2024.

Like almost all other economies, we suffered high inflation during the global inflation surge of 2022 and 2023. However, inflation decelerated sharply in 2024. We have had space to ease rates because inflation has been well contained, with prices up 3% over the past 12 months. There have been notable risks to prices this year, such as the spike in oil prices after the bombing of Iran in June, and the sharp depreciation of the rand back in April. But these risks have been resolved quite rapidly, and inflation has remained moderate.

Looking ahead, inflation is expected to rise over the next few months. Food inflation has picked up, mainly because of meat prices. Fuel prices are also falling more slowly now, compared to the recent past. However, we expect this uptick in headline inflation to be temporary, and we look forward to inflation coming back to around 3% over the medium term, which is at the bottom of our 3−6% target range.

To the extent that inflation settles at 3%, and that inflation expectations continue their move lower, the Bank's forecasting model shows lower interest rates if inflation remains contained at current levels. Given that this is the year of uncertainty, I do not want that projection to be mistaken for a promise. Events may not unfold exactly in line with our forecasts.

Moving beyond monetary policy, we have started a new strategy cycle this year. One important change is that we have streamlined our strategic focus areas to just three: price stability, financial stability, and payments. These are the three integral functions of the SARB: our fundamental value to society is money that holds its value, and that can be used in a stable financial system to make payments efficiently. Elevating these three roles will help keep the organisation focused on its unique contribution to the well-being of South Africans.

For financial stability, we conduct macroprudential policy led by our Financial Stability Department to protect the health of the overall system, and we undertake micro-prudential policy through our Prudential Authority to ensure the health of individual regulated institutions. We also have the Corporation for Deposit Insurance to make sure depositors' money is safe, even in the event of a bank failure, up to a limit of R100 000, which covers most depositors in the country.

Our financial system has remained resilient over the years. We have, nonetheless, recently needed to take several enforcement actions regarding individual institutions. We are also paying special attention to new technologies, particularly artificial intelligence. These offer new efficiencies but also pose new threats, for instance, through sophisticated and more dangerous cyberattacks.

For payments, it has been a year of exciting developments, given our Payments Ecosystem Modernisation project. In South Africa, we have long taken pride in our relatively sophisticated payments systems, but the truth is that we have fallen behind some of our peers. New digital technologies have emerged. In countries such as Brazil, digital retail payments have spread rapidly across society. Meanwhile, here in South Africa, cash – a technology that is literally centuries old – remains the single most popular form of payment.

We are happy to provide notes and coin to the economy, and we want these offerings to be world class, too. But cheap, safe and fast digital payments would offer many benefits to South Africans, and we intend to see that the gains of technological advancement are shared and not reserved for the small fraction of consumers who carry the latest smartphones. To do this, the SARB has been proactively working with the private sector to scale up a fast payments system in the country that will be more accessible, efficient and affordable. We also expect these efforts will attract innovative firms to help South Africa regain its place at the forefront of the payments frontier, instead of lagging behind. In SADC, we continue our journey to modernise our payment ecosystem, and have been working with other central banks in the region to deliver more efficient and cost-effective cross-border payments.

Apart from our three focus areas of price stability, financial stability and payments, the SARB also undertakes a range of other work that supports the apex objectives.

For this year, our international engagements have been particularly important, given South Africa’s presidency of the Group of Twenty (G20). Clearly, this is not the easiest year to manage a forum like the G20, which is consensus-based, given the disagreements between member countries. Still, together with National Treasury, we have been able to host constructive meetings for the Finance Track. At Zimbali last month, it was possible to agree on a communiqué for the first time since October 2024. The personal feedback I have received has also shown just how much our G20 partners appreciate the warm welcome we have shown them as South Africans.

We are also focused on maintaining a strong balance sheet. In this year's accounts, you will see the results of significant reforms undertaken last year. A notable figure is our unusually large profits, of R118 billion after tax, and I can tell you we have received queries prior to this meeting from shareholders wanting to understand this number. Most of it reflects the R100 billion received from National Treasury as part of the new Gold and Foreign Exchange Contingency Reserve Account (GFECRA) settlement agreement. This strengthened our capital position so that we could also pay out a portion of the GFECRA funds to government, which is the legal owner of these balances, and we could do so without selling off foreign exchange reserves.

On that subject, I can also report that foreign exchange reserves are now around US$68 billion, up by about US$20 billion over the past 10 years. We are a long way from having the strongest reserve position among emerging markets, but we are no longer the laggard we once were.

The South African economy no doubt has its vulnerabilities, but it also has strengths, and I am proud to say the SARB is one of them.

This SARB would not be the institution that it is without its people. The past five years have been one of intense change for the organisation, which for decades was largely office-based. We started our previous strategy journey with the onset of COVID-19 and a hard lockdown. We quickly had to adapt our operations, first to remote work and later to a hybrid way of work due to renovations of our Head Office, which is nearing completion. It is perhaps fitting then that as we begin the next five-year strategy cycle, we do so from our refurbished Head Office.

On Monday, 4 August, the first group of SARB staff began their full-time return to the office. We believe this will reinvigorate a culture of collaboration, helping us to continue serving the people of South Africa with excellence.