SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

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STATEMENT OF THE MONETARY POLICY COMMITTEE

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank

Good day

Global economic conditions remain uncertain. The United States paused tariff increases in April, but that pause expires tomorrow, and many countries do not yet have new trade deals. World oil prices spiked in June, due to escalating conflict in the Middle East, but have since eased again. To date, global economic activity has been broadly resilient to these stresses. The world growth outlook is largely unchanged from our last meeting. But there are risks that permanently higher tariffs, or adverse geopolitical developments, could cause more disruption to the global economy than we have seen so far this year.

For the major central banks, policy is generally in a wait-and-see phase. In the United States, there are signs of new inflationary pressures, from tariffs. Monetary policy remains 'modestly restrictive'.[1] In Europe, by contrast, inflation is lower, and policy is more neutral. All the major central banks kept their policy rates unchanged at their most recent meetings.

Turning to South Africa, in May we warned that economic activity for the first quarter of 2025 was looking weak. Statistics South Africa has since reported that growth was just 0.1%, in line with our expectations. However, there was also a downward

[1] 'Modestly restrictive' is the characterisation Fed Chair Jerome Powell used to characterise US monetary policy in June 2025.

revision to earlier GDP data. Along with an assumption of higher US tariffs on South Africa, this has caused us to mark down our 2025 growth forecast.[2] That said, the recent data flow has been positive, suggesting that the economy picked up in the second quarter of the year.[3]

The economy's underlying growth trend remains low, mainly due to persistent supply-side problems, for instance in logistics. Higher levels of uncertainty also seem to have affected output, with business and consumer confidence deteriorating in the first half of the year.[4] However, we still expect modestly higher growth in the coming years, supported by ongoing structural reforms.

The risks to the growth forecast are assessed as balanced.

Moving to inflation, the rand has strengthened[5] and inflation expectations have moderated.[6] The June CPI print showed headline inflation at 3% and core at 2.9%, still at the bottom of our target range. That said, food inflation has risen, mainly due to meat prices.[7] Fuel prices are also falling more slowly now, compared to the recent past. We therefore expect headline inflation to rise over the next few months, averaging 3.3% for the year, in line with our earlier forecasts. Prices then stabilise around the target objective over the rest of the forecast period.

The risks to this outlook appear balanced.

Against this backdrop, the MPC decided to reduce the policy rate by 25 basis points, to 7%, with effect from the 1st of August. The decision was unanimous.

At our previous meeting we considered a scenario with a 3% inflation objective. We did this based on analysis that our existing 3-6% target is too high and too wide, and

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[2] The May MPC forecast had 2025 GDP growth at 1.2%. About half the reduction in the growth forecast reflects tariffs, assumed at a rate of 30% but with exemptions for certain commodities.
[3] The 2025Q2 and 2025Q3 growth projections are both 0.4%, q/q. For the May MPC 2025Q2 was at 0.3% q/q.
[4] The RMB/BER business confidence index declined by 5 index points to 40 in 2025Q2. The FNB/BER consumer confidence index dropped in 2025Q1, to -20, before recovering partially to -10 in 2025Q2.
[5] The starting point for the forecast is R17.80 per US$, for 2025Q3; for the May forecast round the exchange rate assumption for 2025Q3 was R18.27
[6] For the 2025Q2 BER survey, average expectations declined at all tenors and for all categories of respondents. On average, two-year ahead inflation declined to 4.5%, versus 4.7% previously, while inflation over five years came down to 4.4%, from 4.7% previously. For breakeven rates, at a 5-year horizon, expectations are down to around 3.8%.
[7] The food inflation forecast for 2025 is up from 3.6% to 4.2%.

should be reformed. With actual inflation close to 3%, we wanted to highlight the opportunity to achieve permanently lower inflation at minimal cost.

For this meeting we updated the 3% forecast. Like the projections based on the target midpoint, this showed a near-term rise in headline inflation. A key difference between the two forecasts, however, is what happens to core inflation. With a 3% objective, core inflation stays roughly where it is currently, which is close to 3%. Expectations settle around a 'new normal' of 3% during 2027, as stakeholders observe lower inflation and learn about the new target. Inflation also benefits from a somewhat stronger rand.[8] In the alternative forecast with the 4.5% objective, by contrast, there is no learning, and the exchange rate is more depreciated, so inflation reverts to 4.5% instead.

For policy, as we showed last time, lower inflation allows for lower interest rates. In our Quarterly Projection Model, for a 4.5% objective, rates bottom out around 7%. By contrast, the forecast for a 3% objective has roughly five more cuts, over the medium term, taking interest rates slightly below 6%.[9] The logic of the model is that interest rates need to fall as inflation eases, to prevent the inflation-adjusted rate, or real interest rate, from rising too much. Real rates are nonetheless temporarily higher for a 3% objective, and there is a modest growth sacrifice, which helps anchor expectations at lower levels.

Over the past few months, the prospect of a lower inflation target has bolstered the rand and lowered long-term borrowing costs. It is important to sustain this progress, and to minimise uncertainty about the longer-term objectives of monetary policy.

Therefore, the MPC now prefers inflation to settle at 3%. In line with this, we have decided to aim for the bottom of our inflation target range, of 3-6%. We welcome the recent moderation in inflation expectations and would like to see expectations fall further. This would expand policy space and make our framework more robust to shocks. We will use forecasts with a 3% inflation anchor at future meetings. The

[8] The implied rand/dollar exchange rate is 18.05, 17.81 and 17.57 for 2025, 2026 and 2027, respectively, in the 3% forecast. For the 4.5% forecast the exchange rates are 18.12, 18.17 and 18.06, respectively, for the three forecast years.

[9] The terminal rates are 7.03% and 5.86% respectively, a difference of 117 basis points or approximately five cuts of 25bps each.

South African Reserve Bank will also continue working with the National Treasury to complete target reform and achieve permanently low inflation.

The challenges of the global environment highlight the urgency of domestic reform for accelerating growth. The SARB's main contribution is to deliver price stability. We have an opportunity now to lock in low inflation and clear the way for sustainably lower interest rates. Additional measures that would improve economic conditions include reaching a prudent public debt level, strengthening network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 18 September 2025.

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