SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

20 March 2025

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

The world economy is experiencing extreme levels of uncertainty. Trade tensions have escalated, and longstanding geopolitical relationships are shifting abruptly. In these circumstances, the global economic outlook is unpredictable. Germany has set out plans for large investments in security and infrastructure, which are likely to lift European growth. Meanwhile, China has announced new stimulus measures to bolster demand.

In the United States, economic sentiment is volatile. The year started with surging stock prices and a stronger dollar. More recently, however, the disruptive effects of tariffs and policy uncertainty have come into focus. Growth expectations have now slipped, the dollar has weakened, and US stock markets have given up recent gains. By contrast, asset prices in other economies have been resilient, with most major currencies strengthening against the dollar.

Inflation in advanced economies remains elevated, with both headline and core above 2% in the United States, the Euro area, the United Kingdom and even Japan. Some policy adjustments by major central banks are still expected this year, but rates are likely to remain high for longer, given new inflation risks.

Turning to South Africa, growth picked up in the fourth quarter of last year. As expected, the uptick was led by the household sector, boosted by lower inflation and withdrawals from the Two-Pot pension system. That said, the overall growth picture was disappointing, with other sectors showing weakness.[1] Growth for 2024 as a whole was 0.6%, marginally below our expectations[2], and slightly worse than in 2023.

We have now revised down our 2025 growth forecast slightly, to 1.7%, while leaving the outer years unchanged.[3] We attribute lower growth partly to subdued demand, and partly to lingering supply-side fragilities.

We assess that the risks to growth are to the downside.

Moving to prices, while inflation is still in the bottom half of our target range, it has edged higher over the past few months. We continue to see low inflation for goods, which is likely to be temporary. Services inflation is somewhat higher, but still below the 4.5% target midpoint.[4] Inflation expectations are close to the midpoint.[5] For now, inflation appears contained.

In terms of the outlook, the current forecast had more moving parts than usual, including a reweighting of the Consumer Price Index by Statistics South Africa, and the proposed Value Added Tax (VAT) increases announced in the Budget. We also adjusted assumptions such as the oil price, to reflect shifts in global markets.[6]

The overall result of these changes is a marginally lower inflation outlook, with headline now projected at 3.6% this year and 4.5% next year.[7] This is mainly due to the better fuel-price projections. It also reflects a more benign path for administered prices, given the lower electricity tariffs announced by NERSA in February. These

[1] Gross fixed capital formation declined by 0.7% while government consumption fell 0.8% (quarter-on-quarter, seasonally adjusted, for both measures).

[2] The January 2025 forecast had 0.7% growth for 2024, versus an outcome of 0.6%. Although the 2024Q4 print was well below the forecast, the upward revision to the 2024Q3 data by Statistics South Africa brought the level of GDP for the full year closer to previous SARB estimates.

[3] The 2025Q1 GDP projection is 0.4% (q/q, seasonally adjusted), while 2025Q2 is 0.5%. Growth for the current calendar year has been marked down slightly, from 1.8% to 1.7%.

[4] In the February 2025 CPI print, goods inflation was 2.5% and services was 3.8%.

[5] According to the most recent BER survey of inflation expectations, average expectations for inflation for 2025 are at 4.3%, down from 4.5% in the previous survey, while two-year ahead expectations are at 4.7%, up from 4.6% previously. The 5-year breakeven rate is at 4.77% currently, compared to 4.27% at the previous MPC meeting.

[6] The oil price assumption is lower by $2 per barrel, relative to the January MPC, at $76, $76 and $75 for 2025, 2026 and 2027, respectively. The starting point for the exchange rate is R18.50 per US$, for 2025Q1; 2025Q2 has R18.67 per US$.

[7] Previously these projections were 3.9% and 4.6%, respectively.

factors offset pressure from the proposed VAT increases, which we think will add about 0.2 percentage points to headline inflation.[8]

We see risks to this forecast on both the upside and the downside, with the balance of risks in the medium term skewed to the upside.

Against this backdrop, the MPC decided to keep the policy rate unchanged, at 7.5%. Four members preferred this action, while two favoured a cut of 25 basis points.

For several quarters we have enjoyed rising confidence in South Africa, with a smaller country risk premium and lower bond yields. However, the global economy is not on a stable footing and there are also domestic uncertainties, which put these favourable trends at risk. This calls for a cautious policy approach.

As before, the forecast sees rates stabilising at a neutral level of about 7.25%. This rate path from the Quarterly Projection Model remains a broad policy guide. The MPC would like to emphasise that its decisions will be made on a meeting-by-meeting basis, and will continue to be outlook dependent, responsive to data developments, and sensitive to the balance of risks to the forecast.

Given the uncertain global situation, the MPC spent time during this meeting exploring different external scenarios.

For one, we considered a slowdown in the United States, with a weaker dollar and higher commodity prices, especially for gold. This implied some modest benefits for the South African economy, given better terms of trade and a stronger rand. Both inflation and the policy rate were therefore a little lower, relative to the baseline forecast.[9]

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[8] The VAT increases, of 0.5pp each, are expected to occur on 1 May 2025 and 1 April 2026. The 0.2pp estimate assumes that about three-quarters of the increase passes through to prices, in line with estimates of the 2018 VAT increase effect. The 0.2pp estimate refers to the 12-month impact on headline inflation, not just the VAT-exposed portion of the CPI basket, and applies to each VAT increase. The impacts are spread over several years, with about 0.13pp in the calendar year 2025, given that the increase occurs only in the second quarter.

[9] For this scenario, inflation is 3.5% in 2025 and 4.3% in 2026, relative to 3.6% and 4.5%, respectively, for the baseline forecast. The policy rate averages 7.13% in both 2025 and 2026, versus 7.25% and 7.21% for 2025 and 2026, respectively, in the baseline.

We also explored scenarios built around changes in South Africa's access to US markets. If South Africa were to lose AGOA[10] benefits, we see some weakening of exports and slightly lower growth. If that were compounded with tariffs on South African exports, the effects would be larger.[11] The most severe scenario we considered added a sentiment shock, with a weaker rand, higher domestic inflation and therefore a tighter policy stance. In this case, growth would be lower by 0.7 percentage points, with the exchange rate depreciation offsetting some of the tariff effects on exports.[12]

In a difficult global environment, it is vital to sustain domestic reforms that boost growth, while preserving macroeconomic stability.

The MPC's main contribution is to deliver low and stable inflation, with well-anchored inflation expectations. The committee remains vigilant, and ready to adjust policy as needed.

Additional measures that would improve economic conditions include reaching a prudent public debt level, further repairing and 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 29 May 2025.

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[10] The Africa Growth and Opportunity Act (AGOA) provides tariff-free access to US markets for a range of SA exports. This scenario also assumed South Africa would lose Generalised System of Preferences access.
[11] This scenario used tariffs of 25% across the board.
[12] Exports to the US are 7.6% of total South African exports, a relatively small share, which affects how much trade access can impact growth. The exact modeled growth impacts are -0.04 pp for the first variant, -0.23pp for the second variant and -0.69pp for the third variant.