SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

29 May 2025

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

Since our last meeting, global economic conditions have been volatile. Higher tariffs on imports into the United States have been announced, and then partly reversed. US assets have sold off, while alternative safe havens, such as gold and the euro, have performed well.

The combination of higher trade barriers, plus elevated uncertainty, is likely to weaken the world economy. We have therefore lowered our global growth projections.[1]

Prospects for global inflation are more complex. The United States could experience higher inflation from tariffs and supply-chain disruptions. Those supply-chain problems could also raise prices in other economies. At the same time, inflation could be lower given weaker world growth, cheaper oil and abundant capacity in economies like China.

Given these conditions, we see global interest rates slightly lower this year. The US Federal Reserve has kept rates unchanged recently, but other major central banks such as the Bank of England and the European Central Bank have cut their policy rates.

[1] For world growth, on an SA trade-weighted basis, 2025 has been marked down from 3.1% to 2.5%, and 2026 from 3.1% to 2.9%.

Turning to South Africa, we do not yet have the official data for growth in the first quarter.[2] However, the indicators for sectors like mining and manufacturing have been disappointing, and unemployment has risen. In our last meeting we warned of downside risks to our growth forecast. We have now trimmed our GDP projections, and currently expect growth of 1.2% this year, rising to 1.8% by 2027.[3] The outlook for structural reforms remains positive, but there are also headwinds like lower global growth.[4]

Given the lower forecast, we assess the risks to growth as balanced.

Moving to prices, inflation was below 3% again in April. The undershoot of the target mainly reflects falling fuel costs, but underlying inflation is also well contained. Core inflation came in at 3%, at the bottom of our target range.

Looking forward, we have revised down our inflation forecasts. This reflects the lower starting point, as well as a stronger exchange rate assumption and lower world oil prices.[5] These factors offset pressure on fuel costs from the higher fuel levy announced in the Budget. In addition, our previous forecast included VAT increases, which have since been cancelled.[6]

We see balanced risks to this forecast.

The threat of rand depreciation that we warned of at our last meeting, given both global and domestic factors, manifested last month, with the currency briefly touching a multi-year low against the US dollar.[7] However, the exchange rate has since recovered, and conditions seem more settled than they did in March, even if the global environment remains uncertain.

Against this backdrop, the MPC decided to reduce the policy rate by 25 basis points, with effect from 30 May. Five members favoured this action, while one preferred a cut of 50 basis points.

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[2] Stats SA will release the 2025Q1 GDP data on 3 June.
[3] The 2025Q1 projection is for growth of 0.1%. The March 2025 forecasts had 2025 growth at 1.7%, rising to 2% by 2027.
[4] The output gap estimate for 2025 has been revised from -0.2% of potential GDP to -0.4% of potential GDP. Potential growth for 2025 has been revised down from 1.4% to 1.1%.
[5] The rand/dollar starting point for the forecast is R18.33 (2025Q2)
[6] The removal of VAT lowers 2025 inflation by about 0.13pp, and 2026 by 0.25pp.
[7] According to Bloomberg data, on 8 April 2025, the USDZAR exchange rate was 19.76 per US$. The previous peak was R19.80 on 25 May 2023. These numbers reflect daily data, not intraday pricing.

While the inflation outlook appears benign, we considered an adverse scenario, which illustrates the upside risks. This was based on a global slowdown, triggered by escalating trade tensions, where the rand depreciates sharply. The scenario showed how a country with some fundamental vulnerabilities, like South Africa, risks stagflation, with growth moving lower while inflation rises due to currency weakness. In these conditions, monetary policy tightens to stabilise the macroeconomy.[8]

In this meeting, we also considered a scenario with a 3% inflation objective, which corresponds to the low end of our target range. For some years now, internal and external analysis has shown that our inflation target is too high and too wide.[9] The National Treasury and the South African Reserve Bank have engaged extensively on this issue, and technical work is at an advanced stage. Now that inflation has slowed, we have a chance to lock in lower inflation at low cost. This scenario illustrates that opportunity.

For a 3% objective, our Quarterly Projection Model shows a lower path for interest rates. Both our baseline and the 3% scenario have a cut in this quarter. However, rates move steadily lower in the scenario as inflation comes down.[10] The policy rate falls to just under 6%, rather than staying above 7%, as in the baseline.[11] Inflation expectations stabilise at 3% during 2026, helped by the experience of lower inflation. Growth is somewhat slower at first, because real rates are initially higher, but the economy does better later in the forecast, as rates ease further.[12]

The MPC is of the view that the 3% scenario is more attractive than the 4.5% baseline, and we would like to see inflation expectations move lower, towards the

[8] This scenario had global tariffs higher by 10%. Global growth was lower, and global inflation higher. Given risk-off sentiment, the rand depreciated by about 10% in the first year and a further 3% in the second year. Despite lower commodity prices (like oil) and a more negative output gap, inflation is higher by 0.4pp and 0.8pp in the first and second years, and in response the policy rate is 0.7 and 0.3pp higher, respectively.

[9] See for example Patrick Honohan and Athanasios Orphanides. March 2022. "Monetary policy in South Africa, 2077-2021" https://sa-tied.wider.unu.edu/sites/default/files/SA-TIED-WP208.pdf; this was also a major theme of the SARB's 2025 Biennial Research Conference https://www.resbank.co.za/en/home/what-we-do/research/Biennial

[10] The baseline has a 2025Q2 policy-rate projection of 7.14%; the 3%-target scenario has 7.06%.

[11] The baseline projected policy rate in 2027Q4 is 7.11%; in the 3%-target version it is 5.79%.

[12] Growth for 2025 in the baseline is 1.2%, 1.5% and 1.8%, for 2025, 2026 and 2027 respectively; in the 3%-objective scenario it is 1.0%, 1.4% and 2% for 2025, 2026 and 2027, respectively. Given the difference in real interest rates, the output gap is initially more negative in the 3% scenario, with a trough of 0.6% in 2026, compared with a trough of 0.4% in 2025 for the baseline.

bottom end of our target range. We will also consider scenarios with a 3% objective at future meetings.

The global environment remains difficult, which makes domestic reform critical for achieving healthy growth. The SARB's main contribution is to deliver price stability, and we see scope 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, 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 31 July 2025.

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