



Monetary Policy Committee Scenario report : 3% target

May 2025 MPC meeting
29 May 2025



SOUTH AFRICAN RESERVE BANK

Summary of selected QPM scenario results May 2025 MPC: 3% target

* Figures below the forecast in parentheses represents the May MPC forecast

1. Selected forecast results (quarterly)																						
Percentage change (year-on-year)		Actual						Forecast														
		24Q1	24Q2	24Q3	24Q4	2024	25Q1	25Q2	25Q3	25Q4	2025	26Q1	26Q2	26Q3	26Q4	2026	27Q1	27Q2	27Q3	27Q4	2027	Steady state
1.	Headline CPI	5.4	5.1	4.3	2.9	4.4	3.0	2.6	3.1	3.4	3.0	3.1	3.3	3.0	3.0	3.1	3.0	3.0	3.0	3.0	3.0	3.0
		(5.4)	(5.1)	(4.3)	(2.9)	(4.4)	(3.0)	(2.6)	(3.3)	(3.9)	(3.2)	(3.9)	(4.4)	(4.2)	(4.2)	(4.2)	(4.3)	(4.5)	(4.4)	(4.4)	(4.4)	(4.4)
2.	Core CPI	4.8	4.6	4.2	3.7	4.3	3.3	2.9	3.0	3.1	3.1	3.0	3.1	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
		(4.8)	(4.6)	(4.2)	(3.7)	(4.3)	(3.3)	(2.9)	(3.2)	(3.6)	(3.3)	(3.9)	(4.2)	(4.2)	(4.3)	(4.1)	(4.3)	(4.6)	(4.5)	(4.5)	(4.5)	(4.5)
3.	Food CPI	6.1	4.7	4.6	2.8	4.5	2.6	3.9	3.6	3.6	3.4	3.5	2.9	2.9	3.0	3.1	3.1	3.2	3.1	3.1	3.1	3.0
		(6.1)	(4.7)	(4.6)	(2.8)	(4.5)	(2.6)	(3.9)	(3.7)	(4.0)	(3.6)	(4.2)	(3.9)	(4.1)	(4.3)	(4.1)	(4.4)	(4.6)	(4.6)	(4.5)	(4.5)	(4.5)
4.	Fuel CPI	5.0	8.6	-1.2	-14.4	-0.8	-5.7	-13.3	-4.3	2.1	-5.6	-2.7	3.8	1.9	1.1	1.0	0.7	0.6	0.5	0.6	0.6	3.0
		(5.0)	(8.6)	(-1.2)	(-14.4)	(-0.8)	(-5.7)	(-13.3)	(-4.0)	(2.6)	(-5.4)	(-2.2)	(4.3)	(2.1)	(1.3)	(1.4)	(1.0)	(0.9)	(0.9)	(1.1)	(1.0)	(1.0)
5.	Electricity CPI	15.3	15.3	11.7	11.5	13.3	11.5	11.5	10.4	10.4	10.9	10.4	10.4	6.0	6.0	8.1	6.0	6.0	4.5	4.5	5.2	3.0
		(15.3)	(15.3)	(11.7)	(11.5)	(13.3)	(11.5)	(11.5)	(10.4)	(10.4)	(10.9)	(10.4)	(10.4)	(7.0)	(7.0)	(8.6)	(7.0)	(7.0)	(6.0)	(6.0)	(6.5)	(6.5)

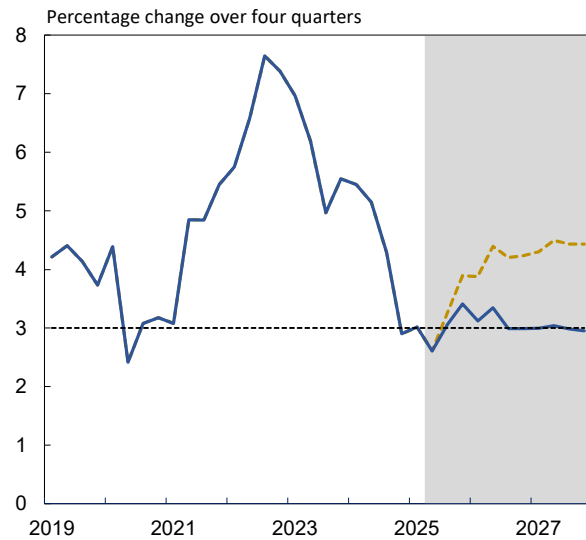
2. Selected forecast results (annual)						
Percentage changes (unless otherwise indicated)		Actual	Forecast			
		2024	2025	2026	2027	Steady state
1.	GDP growth	0.6% (0.6%)	1.0% (1.2%)	1.4% (1.5%)	2.0% (1.8%)	2.5%
2.	Output gap	-0.5% (-0.5%)	-0.6% (-0.4%)	-0.6% (-0.3%)	-0.3% (-0.1%)	0.0%
3.	Nominal effective exchange rate	2.1% (2.1%)	-0.3% (-1.2%)	1.1% (-0.2%)	1.8% (0.9%)	1.0%
4.	Real effective exchange rate	3.8% (3.8%)	-0.1% (-0.8%)	1.7% (1.5%)	2.8% (3.3%)	0.0%
5.	Real exchange rate gap	-3.2% (-3.2%)	-1.6% (-2.3%)	-0.6% (-1.5%)	-0.1% (-0.5%)	0.0%
6.	Unit labour cost	3.6% (3.6%)	3.8% (3.7%)	3.2% (3.6%)	2.4% (3.7%)	3.0%
7.	Repurchase rate (end of period i.e. fourth quarter)	7.90% (7.90%)	6.48% (6.93%)	5.85% (6.90%)	5.79% (7.11%)	5.50%
8.	Neutral real interest rate	2.69% (2.69%)	2.78% (2.78%)	2.84% (2.84%)	2.94% (2.94%)	2.50%
9.	Current account balance (ratio to GDP)	-0.6% (-0.6%)	-1.1% (-1.0%)	-2.1% (-2.0%)	-2.5% (-2.2%)	

Notes

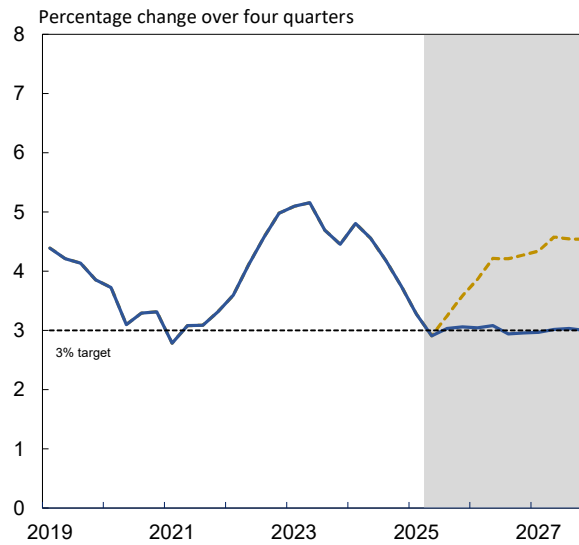
1. **Domestic inflation target** is assumed to change from the third quarter of 2025 to 3.0% from 4.5%.
2. **Nominal effective exchange rate:** This is based on the bilateral exchange rates of our three largest trading partners (euro area, United States and Japan). The bilateral exchange rates are weighted by export trade weights.
3. **Nominal effective exchange rate steady state:** This is estimated using the Purchasing Power Parity (PPP) condition, which links the depreciation of the nominal exchange rate to the inflation differential between SA and abroad. Given that the REER depreciation is zero at steady state, the nominal exchange rate will therefore depreciate by 1.0% per year in steady state, reflecting the inflation (target) differential between domestic (3.0%) and foreign (2.0%) inflation.
4. **Real effective exchange rate:** This is the nominal effective exchange rate deflated by the consumer price differential (between South Africa and the trade weighted CPI of euro area, United States and Japan).
5. **Repurchase rate:** End of period refers to the average repo rate for the last quarter of the year. The nominal repo rate steady state is calculated as the sum of SA inflation target (3.0%) and the steady state neutral real interest rate (2.5%).
6. **Neutral real interest rate (NRIR):** The NRIR is the policy rate, minus inflation, which prevails when the economy is fully in balance, with inflation at target and output at potential. The policy stance is measured as either tight or loose based on whether actual rates are above or below this neutral rate, respectively. The steady state NRIR is calculated as the sum of the respective steady states for the G3 neutral real interest rate (0.5%), South Africa's risk premium (2.0%), and the change in the real effective exchange rate REER (0.0%). Before the steady state is reached it is possible for the REER equilibrium to appreciate or depreciate, so this value can have a non-zero value over the medium term. It is nonetheless always zero in the long run.
7. **Steady state:** This is the long run value in the model. While model equilibriums can have different values over the medium term, as conditions change, all equilibriums eventually reach a steady state, where they stabilise. For more details on the estimation of steady states, see Botha, De Jager, Ruch and Steinbach (2017) - South African Reserve Bank Working Paper Series No. WP/17/01.
8. **Current account balance as a percentage of GDP:** Forecast is obtained from the SARB's Core macroeconomic model.
9. **Electricity price:** is an administered price measured at the municipal level with a weight of 3.44 per cent in the headline CPI basket. Electricity price adjustments generally take place in the months of July and August of each year, and the assumed pace of increase over the forecast period reflects the multi-year price determination (MYPD) agreement between ESKOM and NERSA with a slight adjustment for measurement at the municipal level.

QPM selected scenario results: 3% target

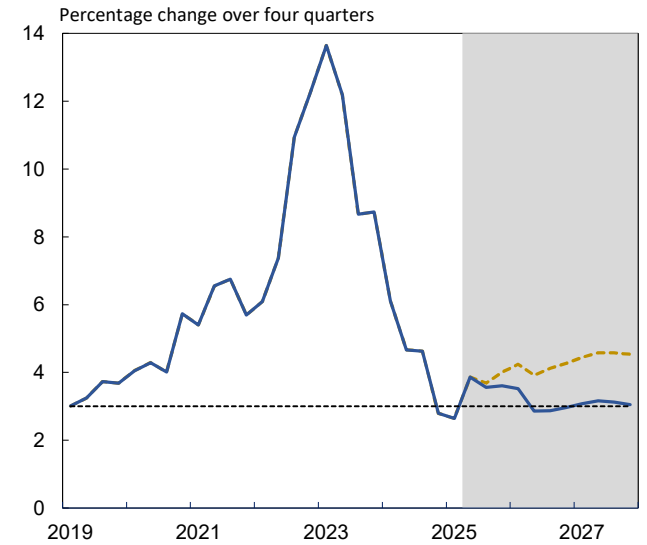
Headline inflation



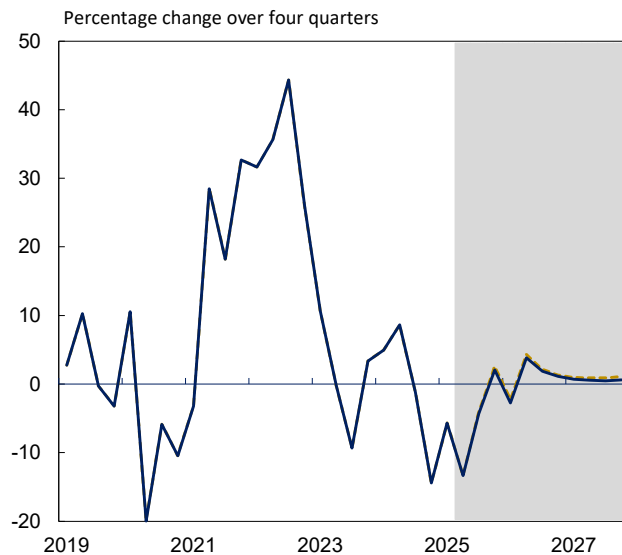
Core inflation



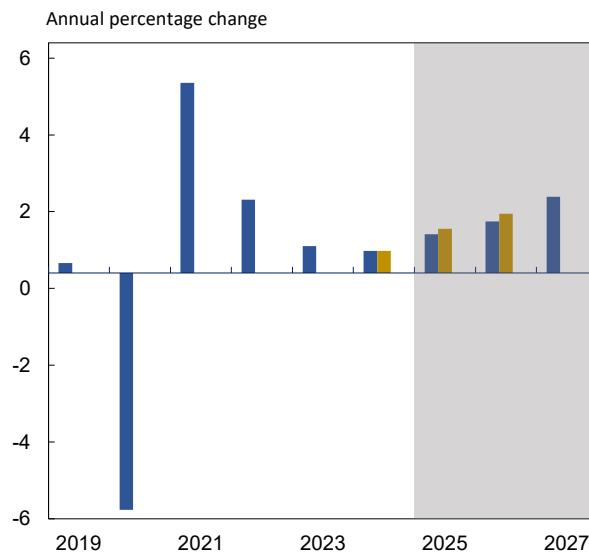
Food inflation



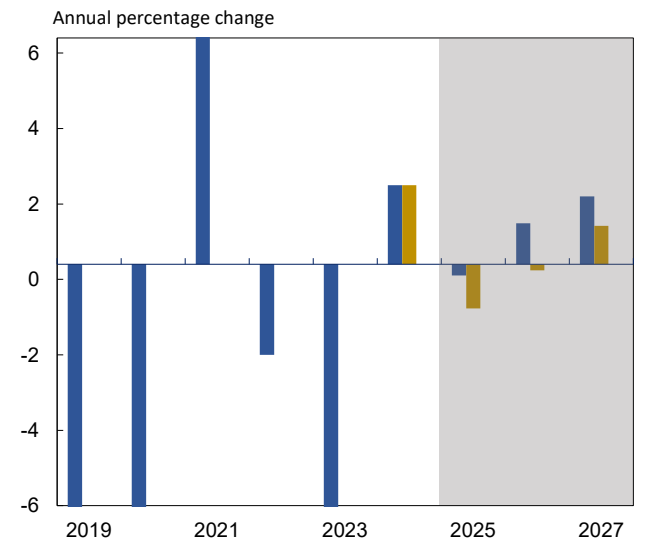
Fuel inflation



Real GDP growth



Nominal effective exchange rate



May 25 MPC



Scenario: 3% target

