



SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

18 September 2025

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

The global economy appears resilient so far. While the geopolitical environment remains difficult, and trade disruptions continue, growth is holding up and market volatility has subsided. Since our last meeting, policy rates have been cut in the United States and the United Kingdom, and the dollar has weakened. Various commodity prices have risen, although oil prices remain contained. These conditions are supportive for emerging markets like South Africa.

However, while the cyclical factors mean global conditions are currently favourable, there are also more adverse structural developments, which are likely to prove challenging. Long-term interest rates have shifted higher in several major economies. This reflects a range of pressures, especially high and rising debt levels, as well as inflation risks.

Turning to South Africa, at our last meeting we noted positive indicators for second-quarter output. Last week's GDP release still surprised on the upside, with the highest quarterly growth rate in two years.¹ We have therefore marked up our growth

¹ The quarterly growth rate in 2023Q2 was also 0.8%.

forecast for the year, from 0.9% to 1.2%.² This is despite a weaker export outlook, given higher tariffs.³

Although the strong GDP report was welcome, we do not want to overstate the importance of one good quarter. We continue to see modest output gains over the next few years, helped by structural reforms. There are also some cyclical indicators, such as credit extension, which look positive.⁴ However, reaching a healthy growth rate will require much higher investment levels than we are achieving now.⁵

The risks to the growth forecast are assessed as balanced.

Moving to prices, headline inflation has picked up in recent months, broadly as expected. The pressure is coming mainly from meat and vegetables, as well as fuel prices, which have been declining at a slower pace than they were before.

Meanwhile, underlying inflation remains contained, with core around 3%. Inflation expectations also moderated further in the latest survey, which shows South Africans are getting used to lower inflation.⁶

We anticipate that headline inflation will rise over the next few months, peaking at around 4%. Our forecast now incorporates higher electricity price inflation, of nearly 8% rather than 6%, given the recent pricing correction by NERSA.⁷ This is a reminder of the serious dysfunction in administered prices, which undermines purchasing power and weakens growth. The solution to this crisis is not a higher level of inflation, but rather sector-specific reforms to improve efficiency.

Our inflation projections also have upward adjustments to food and services prices, partly offset by a stronger exchange rate assumption.⁸ Overall, we expect headline

² The projected growth rates for the rest of the year are 0.4% for 2025Q3 and 0.3% for 2025Q4.

³ Real export growth for 2025 has been marked down from 2.6% to -0.2%, reflecting tariffs as well as a more appreciated exchange rate.

⁴ For example, real (CPI-adjusted) growth in loans and advances to the private sector was 2.9% in July, its highest rate since October 2019.

⁵ Gross fixed capital formation was 13.5% of GDP in 2025Q2, which is the lowest quarterly level since 2003Q1.

⁶ The 2-year ahead average expectation declined by 0.3pp, from 4.5% to 4.2%. The QPM had previously projected that these expectations would decline to 4.2% in 2025Q3.

⁷ Projected electricity price inflation has been marked up, from 6.0% to 7.9%, for each forecast quarter from 2026Q3 onwards.

⁸ The implied starting point for the forecast is R17.74 for 2025Q3, with R17.61 for 2025Q4.

inflation to average 3.4% this year, and 3.6% next year, before reverting to 3% during 2027.⁹

We assess the risks to the inflation outlook as balanced.

Against this backdrop, the MPC decided to keep the policy rate unchanged, at 7%. Four members preferred to keep rates on hold, while two favoured a cut of 25 basis points. Since September last year, we have reduced rates by 125 basis points, and we want to see how this is affecting the economy, how expectations evolve, and how inflation risks are resolved.

The forecast has rates easing gradually as inflation returns to the bottom end of the 3-6% target range.¹⁰ The MPC emphasises that stabilising inflation at 3%, rather than 4.5%, implies a lower longer-term level for the policy rate. That said, the rate path from the Quarterly Projection Model remains a broad policy guide. As usual, our decisions will be taken on a meeting-by-meeting basis, with careful attention to the outlook, data outcomes, and the balance of risks to the forecast.

In our economic modeling, inflation expectations play an important role in shaping the transition to our 3% preference. Given uncertainty about the behaviour of expectations, for this meeting we considered scenarios where expectations adjust more slowly than they do in our baseline. These scenarios treat expectations as more backward looking, with less attention paid to the SARB's communication.

The scenarios show a slower convergence to 3% inflation. The policy stance is somewhat tighter over the forecast period, with roughly one less cut, and moderately lower growth.¹¹

There are two important takeaways from the scenarios:

First, the disinflation process in our forecasts does not rely on optimistic assumptions about the behaviour of inflation expectations. It is robust to alternative assumptions, which generate similar inflation trends.

⁹ The average for 2027 is 3.1%, but headline reaches 3% at the end of that year.

¹⁰ The projected policy rate is 6.88% in 2025Q4, falling to 6.65% in 2026Q1, 6.44% in 2026Q2, 6.3% in 2026Q3 and 6.18% in 2026Q4. It is close to 6% throughout 2027.

¹¹ These scenarios had inflation expectations 0.5pp higher in 2026 and between 0.3 and 0.5pp higher in 2027, relative to the baseline. The difference between the two relates to how strongly these expectations feed into price setting.

Second, there are gains to be had from clear and credible communication.

In this regard, it is desirable to finalise target reform. Accordingly, and in line with the recent joint statement from the SARB and the National Treasury, we look forward to agreeing a new target as soon as is practical, to better anchor inflation expectations.¹²

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 20 November 2025.

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¹² The statement is available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2025/sarb-treasury-inflation>