

Contents

Highlights
Core indicators
GDP growth
Business environment
Household consumption
International trade
Financial markets
Money and prices
Labour
Government

Note: Shaded area in graphs denotes the downward phase of the business cycle.

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Highlights

FINANCE MINISTER TABLES BUDGET 3.0

On 21 May, the Minister of Finance tabled the third iteration of the National Budget, following the 2%-VAT hike debacle. As such, National Treasury had the difficult task of balancing the books without the previously proposed VAT hike and an economic backdrop that has deteriorated since their first attempt in February. Net new expenditure for 2025/2026 has been halved – from R142bn in March to R74.4bn now. Despite this revision, government expenditure as a ratio to GDP, at 32.8% this fiscal year, is even higher than indicated in February (at 32.5%), and much higher compared to the 31.3% pencilled into the October mini budget. To finance this increase, taxpayers will receive no inflation adjustment to their tax brackets or medical tax credits for the second year in a row, the fuel levy will now be raised after remaining unchanged for three years, and above-inflation increases to sin taxes will remain in place.

CPI INFLATION EDGES LOWER IN MARCH

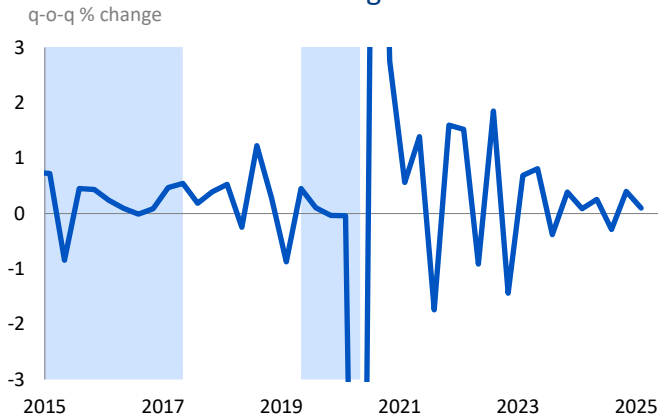
Annual consumer price inflation (CPI) rose marginally to 2.8% in April, from 2.7% in March. Core inflation, which excludes food and energy, slowed by 0.1 percentage point to 3.0% in April, the lowest in nearly four years. The headline increase was driven by an acceleration in price increases of food and non-alcoholic beverages, driven by higher prices in cereal, meat, oils and vegetables. Conversely, lower fuel prices placed downward pressure on transport costs. On a monthly basis, headline CPI moderated to 0.3% in April from 0.4% in March.

MPC LOWERS REPO RATE AND SIGNALS 3%-CPI TARGET

On 29 May the Monetary Policy Committee (MPC) of the SA Reserve Bank decided to cut the repo rate by 25bps to 7.25% (prime to 10.75%). The dovish tilt with all six members voting for a cut (and one even preferring a 50bps cut) was surprising – but welcome. The governor announced a lower inflation forecast with risks assessed to be balanced; the Bank also lowered its GDP growth forecast, with risks also seen as balanced. The most interesting part of the statement (and Q&A) were the details presented around the 3% inflation target. Modelling by the Bank shows that even with a 3% target, there was scope for a 25bps rate cut this quarter. The lower inflation target scenario comes with a 'cost' to growth in the short term but improved economic prospects over the longer term. This scenario analysis is the clearest indication yet that the SARB will be moving to a 3% target in due course, although there has been no detail on the timeline yet.

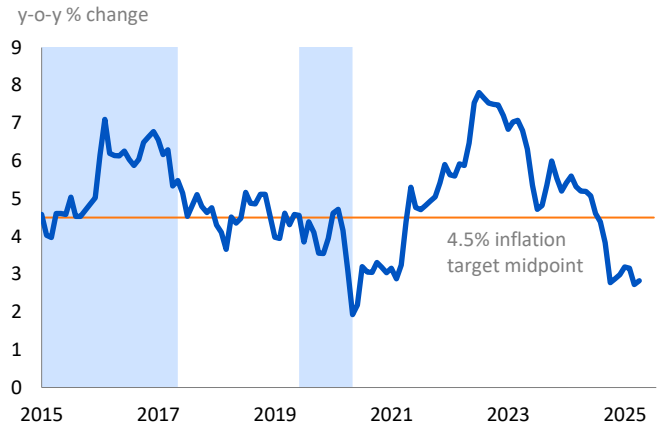
Core indicators

Real GDP growth



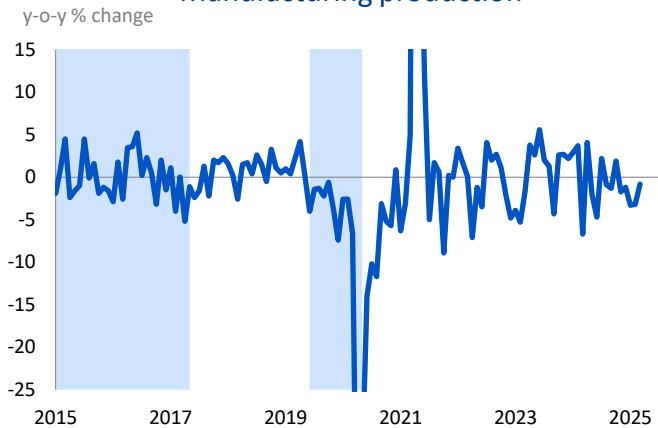
Source: Stats SA

CPI inflation



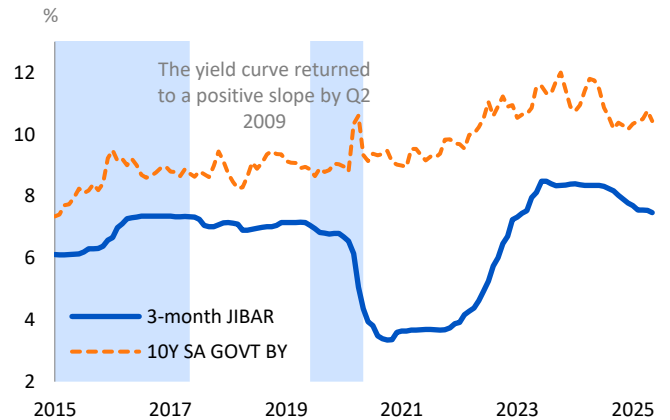
Source: Stats SA

Manufacturing production



Source: Stats SA

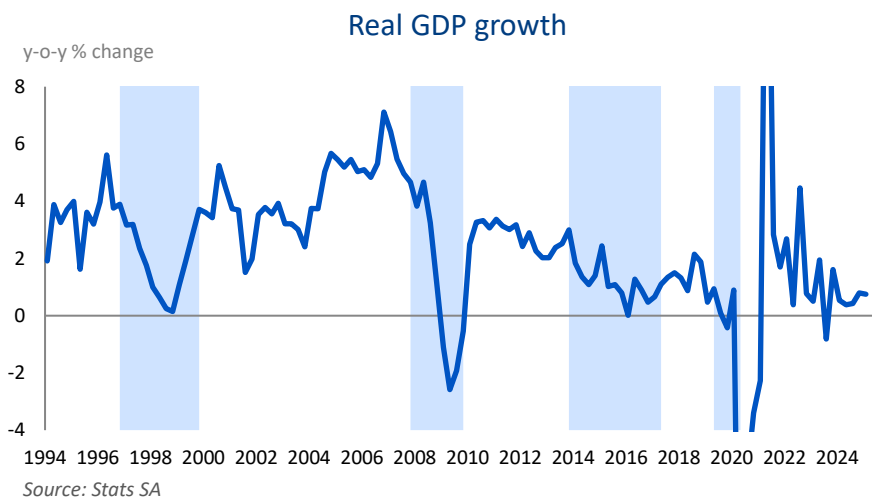
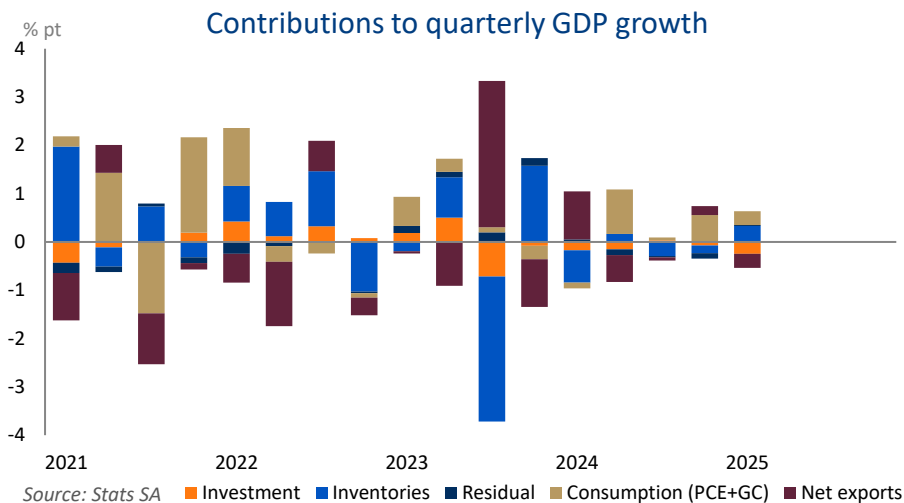
Interest rates



Source: DataStream

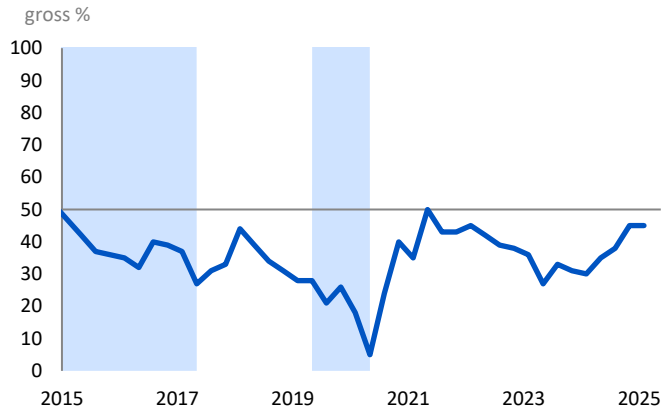
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GDP growth



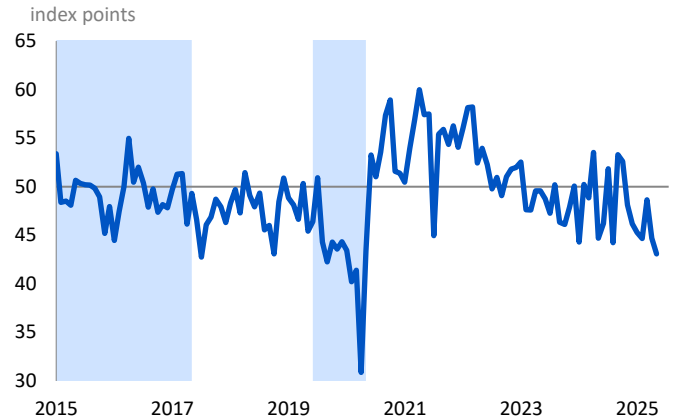
Business environment

RMB/BER Business Confidence Index



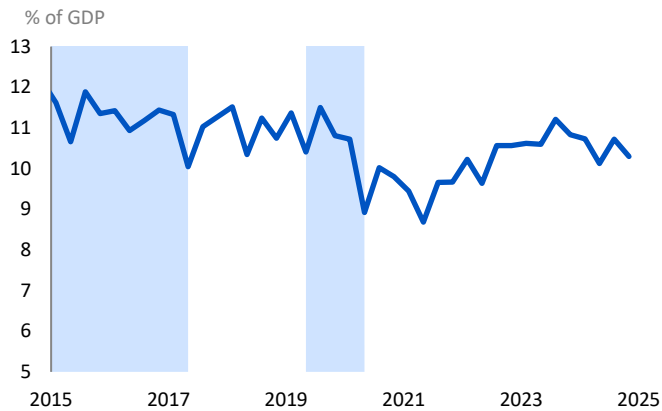
Source: BER

Absa Purchasing Managers' Index



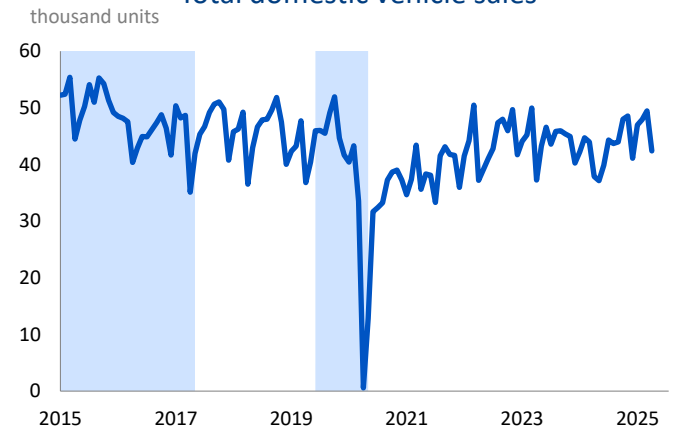
Source: BER

Private fixed investment



Source: SARB, Stats SA

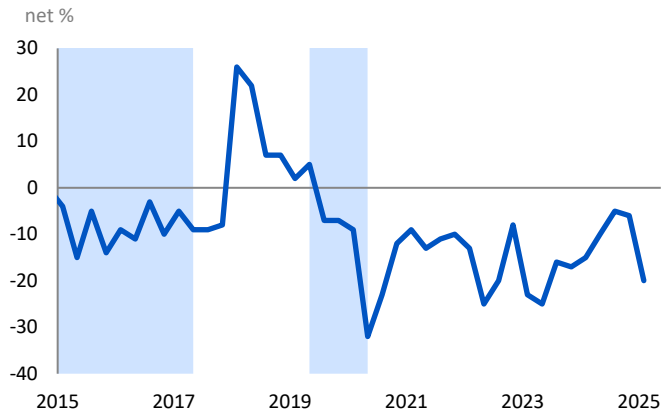
Total domestic vehicle sales



Source: Naamsa

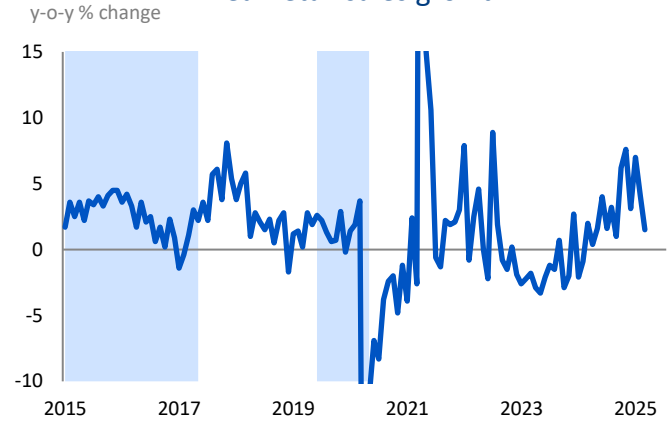
Household consumption

FNB/BER Consumer Confidence Index



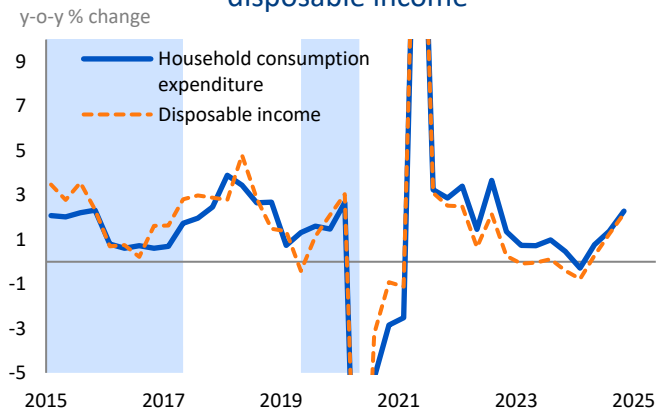
Source: BER

Real retail sales growth



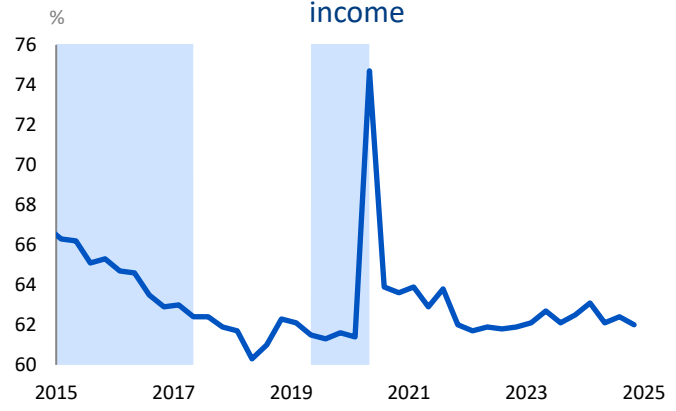
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

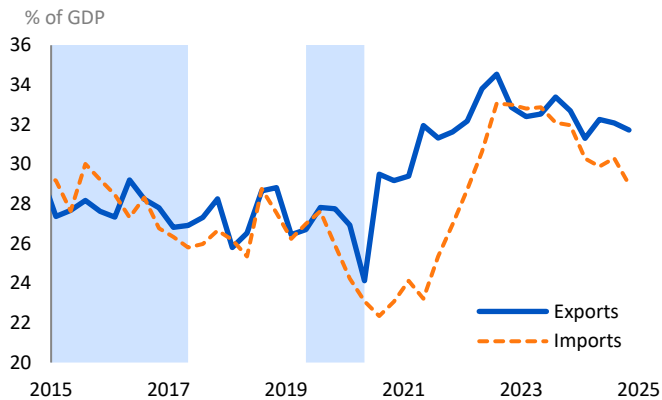
Ratio of household debt to disposable income



Source: SARB

International trade

Imports and exports



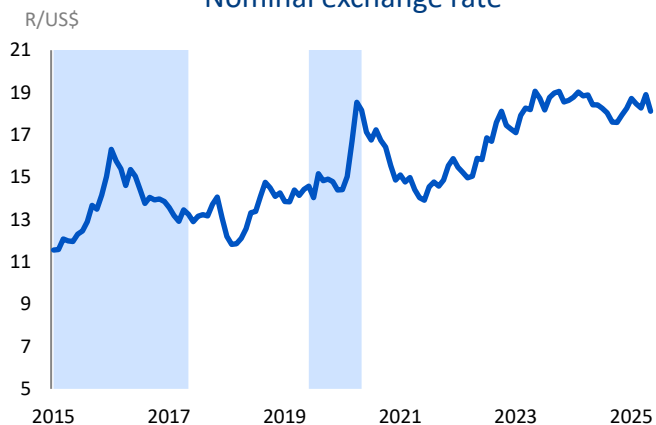
Source: SARB

Current account balance



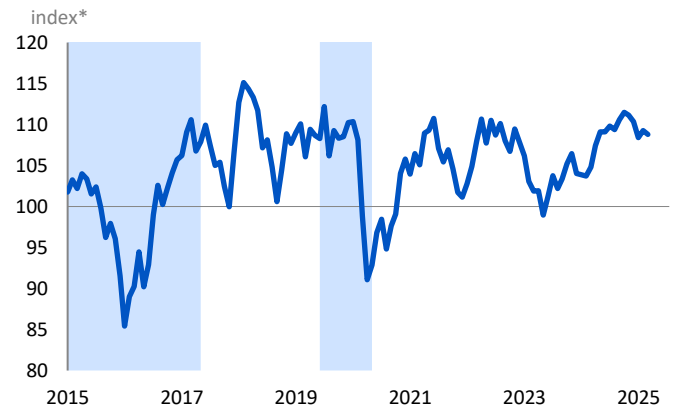
Source: SARB

Nominal exchange rate



Source: DataStream

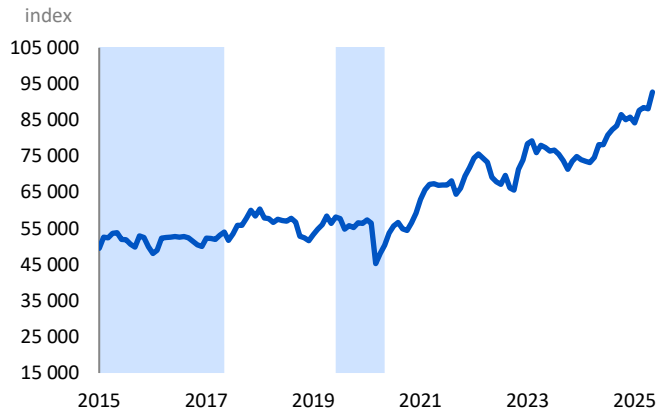
Real effective exchange rate of the Rand



Source: SARB *higher values denote a stronger rand

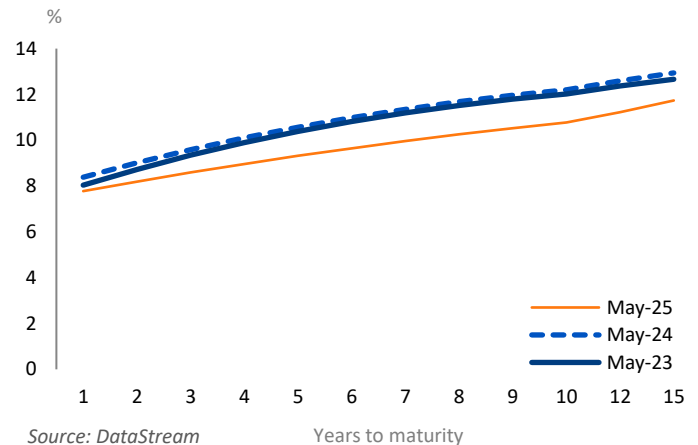
Financial markets

JSE all share index



Source: DataStream

Yield curve comparisons



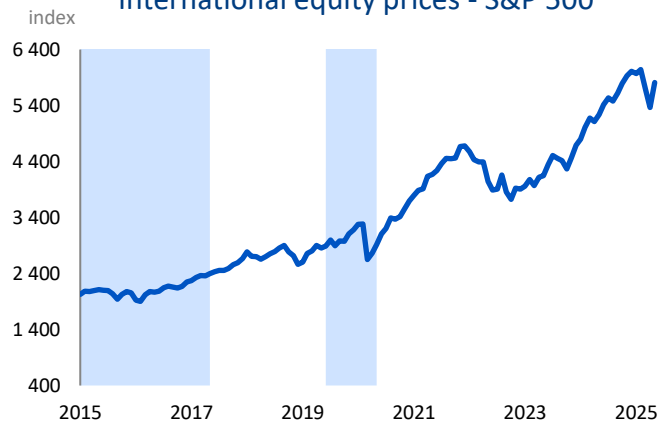
Source: DataStream

Economist all commodities index



Source: Economist

International equity prices - S&P 500

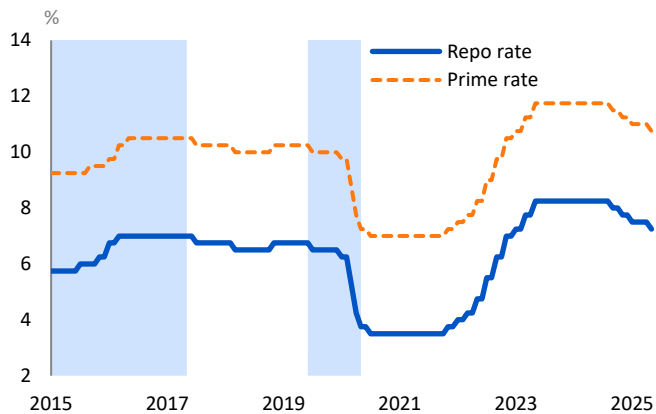


Source: DataStream

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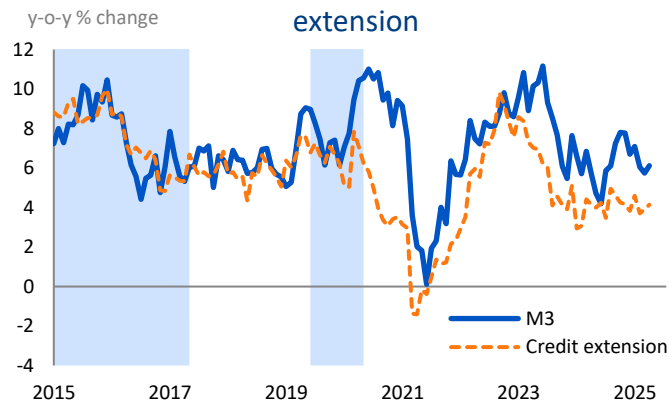
Money and prices

Repo and prime interest rate



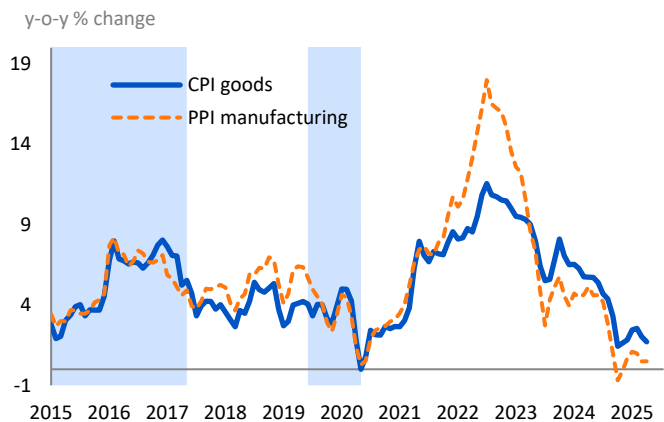
Source: SARB

M3 monetary aggregates and credit extension



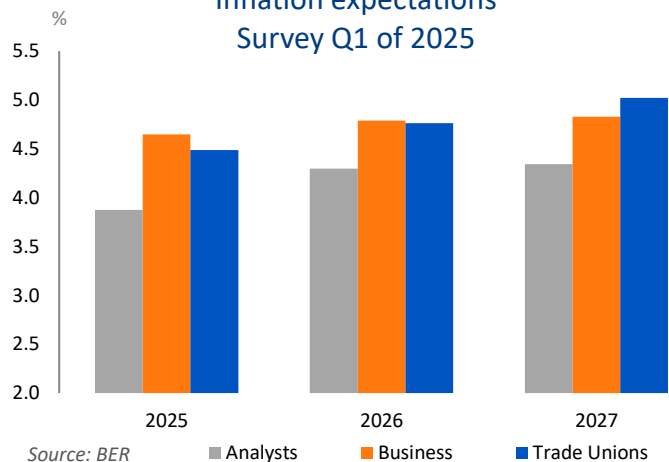
Source: SARB

Consumer and producer prices



Source: Stats SA

Inflation expectations Survey Q1 of 2025



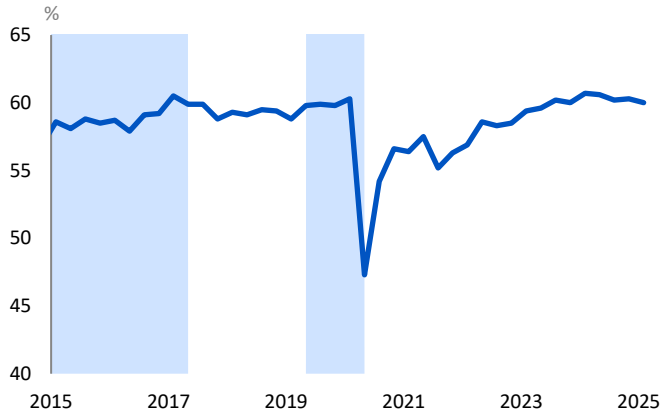
Source: BER

■ Analysts ■ Business ■ Trade Unions

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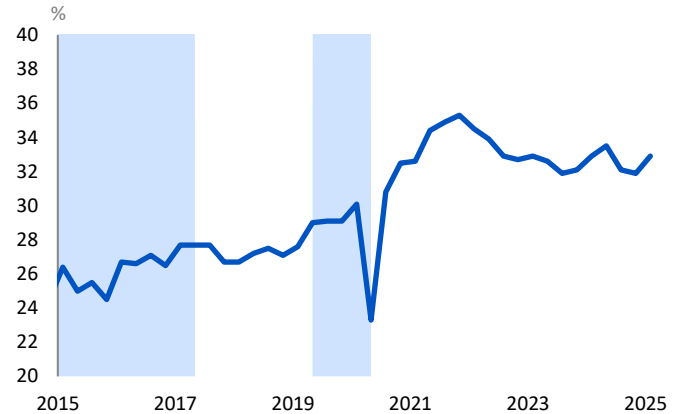
Labour

Labour force participation



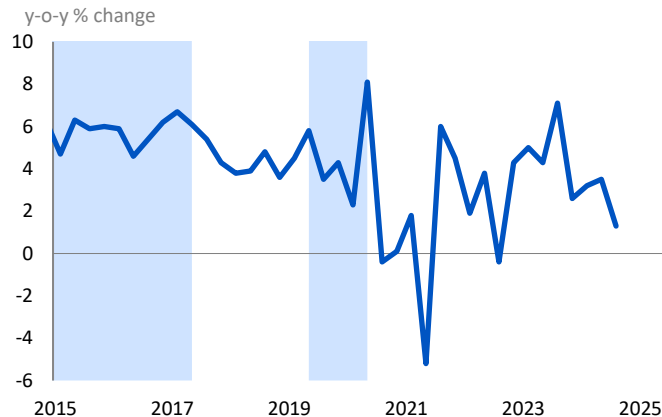
Source: Stats SA

Unemployment rate



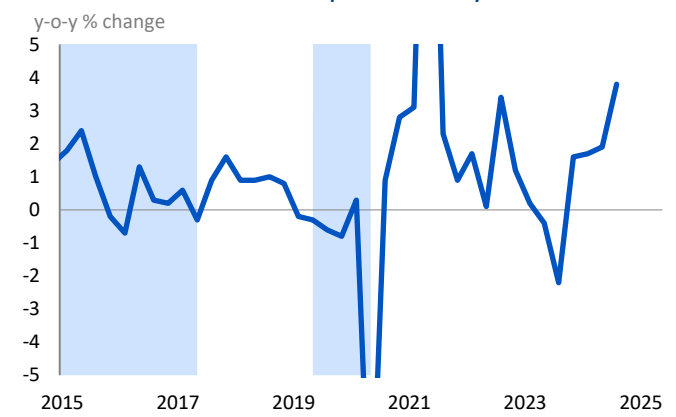
Source: Stats SA

Unit labour cost



Source: SARB

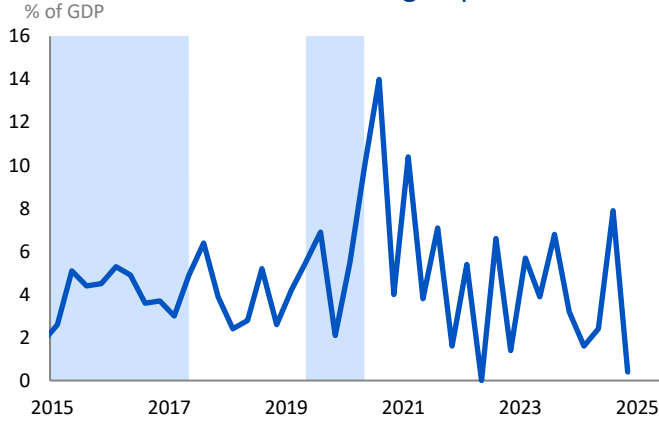
Labour productivity



Source: SARB

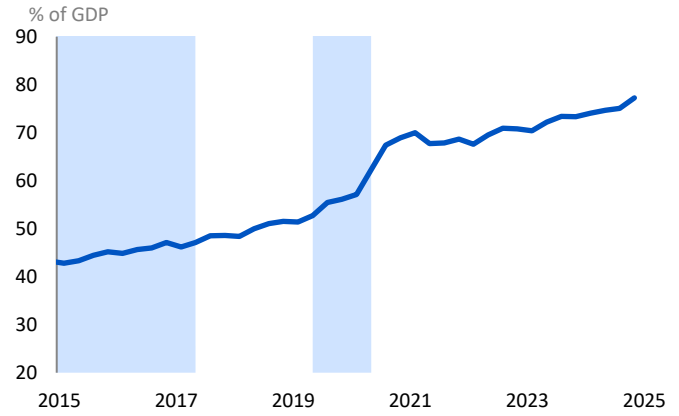
Government

Public sector borrowing requirement



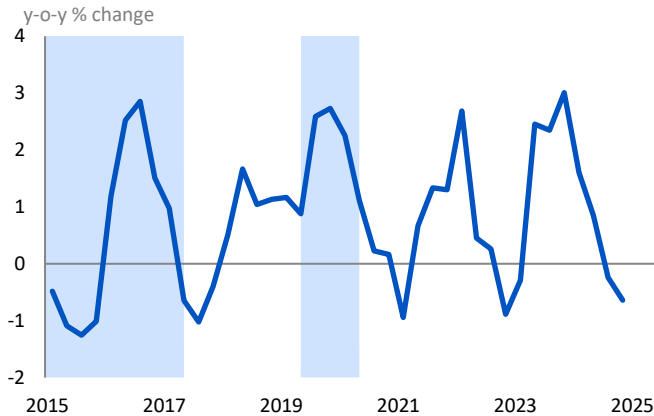
Source: SARB

Gross government debt



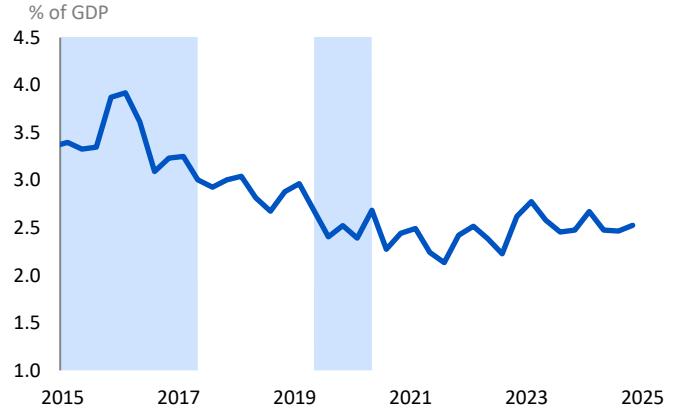
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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