

Economies at a glance

August
2025

Unlocking growth through tighter inflation control



How does inflation targeting work?

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The central bank forecasts the future path of inflation and compares it with the target inflation rate (the rate the government believes is appropriate for the economy). The difference between the forecast and the target determines how much monetary policy has to be adjusted. Some countries have chosen inflation targets with symmetrical ranges around a midpoint, while others have identified only a target rate or an upper limit to inflation. ~ **International Monetary Fund**

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A major advantage of inflation targeting is that it combines elements of both “rules” and “discretion” in monetary policy. This “constrained discretion” framework combines two distinct elements: a precise numerical target for inflation in the medium term and a response to economic shocks in the short term. ~ **International Monetary Fund**

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History of inflation targeting in South Africa



The history of inflation targeting in South Africa evolved from pre-inflation targeting eclectic policies to formal adoption in 2000 and ongoing refinements up to 2025. Inflation targeting was introduced to enhance transparency, anchor expectations, and achieve price stability amid high inflation predating 2000, driven by shocks, sanctions and loose policies.



The global spread of inflation targeting



Country	Inflation targeting adoption date	Target adopted	Current target
New Zealand	1990	1-3	1-3
Canada	1991	2 ±1	2 ±1
United Kingdom	1992	2 (point target)	3 (point target)
Australia	1993	2-3	2-3
Sweden	1993	2 (point target)	2 (point target)
Czech Republic	1997	3 ±1	2 ±1
Israel	1997	2 ±1	2 ±1
Poland	1998	2.5 ±1	3 ±1
Brazil	1999	4.5 ±2	3, 2-5
Chile	1999	3 ±1	3 ±1
Colombia	1999	2-4	2-4
Euro area	1999	Below 2	2
South Africa	2000	3-6	3-6
Thailand	2000	0.5-3	1-3
Hungary	2001	3 ±1	3 ±1
Mexico	2001	3 ±1	3 ±1
Iceland	2001	2.5 ±1.5	3, 1-4
South Korea	2001	3 ±1	2
Norway	2001	2.5 ±1	2 ±1
Peru	2002	2 ±1	2 ±1
Philippines	2002	4 ±1	4 ±1
Guatemala	2005	5 ±1	4 ±1
Indonesia	2005	5 ±1	3 ±1
Romania	2005	3 ±1	3 ±1
Serbia	2006	4-8	3, 2-5
Türkiye	2006	5.5 ±2	5 ±2
Armenia	2006	4.5 ±1.5	4, 3-6
Ghana	2007	8.5 ±2	8 ±2
Uruguay	2007	3-7	5, 3-6
Albania	2009	3 ±1	3
Georgia	2009	3	3
Paraguay	2011	4.5	4 ±2
Uganda	2011	5	5
Dominican Republic	2012	3-5	4 ±1
United States	2012	2	2
Japan	2013	2	2
Moldova	2013	3.5-6.5	5, 4-7
India	2015	2-6	4 ±2
Kazakhstan	2015	4	4-5
Russia	2015	4	4
Costa Rica	2017	2-4	3 ±1
Jamaica	2017	4-6	5 ±1
Ukraine	2017	6-10	5
Sri Lanka	2019	3-7	5 ±2
Kenya	2020	3-8	5, 3-8
Uzbekistan	2021	10	5

Global drawbacks of stricter inflation goals



Short-term growth trade-off

The “sacrifice ratio” (output or job losses per percentage point of inflation reduction) can be politically and socially costly, especially in countries with high inequality.

2002-2003



Brazil (2002-2003) → higher interest rates were needed to meet inflation targeting goals, exacerbating the slowdown.

Vulnerability to external shocks

Central banks may overreact to temporary shocks, causing unnecessary economic tightening, or underreact, risking de-anchored expectations.

2018-2021



Türkiye (2018-2021) → interest rate hikes were delayed → credibility eroded due to political interference and external shocks.

Limited effectiveness in low inflation environment

A rigid focus on a low target can prevent aggressive easing, worsening growth and employment outcomes in a slowdown.

2013-2025



Japan (2013-2025) → the Bank of Japan's inability to reach 2% led to criticism that inflation targeting was too rigid for deflationary contexts.

Inflation goals overemphasised

Neglecting broader goals can exacerbate social tensions or financial risks, reducing public support for inflation targeting.

2008-2012



South Korea (2008-2012) → inflation targeting needs balance with other policies (e.g., fiscal or macroprudential) to address broader economic risks such as property risks and household debt.

Dependence on central bank independence and data quality

Without independence, central banks may fail to act decisively, and inaccurate data can lead to misinformed policy.

2016-2019



Argentina (2016-2019) → The central bank's lack of autonomy and data issues crippled policy effectiveness.

Global merits of tighter inflation targets



Anchoring inflation expectations more effectively

Lower targets help solidify low inflation by providing a clearer focal point for expectations, reducing the risk of upward drifts and making policy more predictable.

1990



Chile (1990) → higher interest rates were needed to meet inflation targeting goals, exacerbating the slowdown.

Building credibility

Lowering targets after a period of their initial implementation to gain trust sends a strong signal of commitment.

1999



Brazil (1999) → adopted inflation targeting after a foreign exchange crisis. To avoid economic disruption from aggressive tightening, the Central Bank of Brazil used a step-wise reduction in targets to build credibility and manage shocks in an emerging market with initially weak institutions.

Adapting to benign inflation environments

In periods of subdued inflation, lower targets prevent deflation risks and allow room for stimulus, adapting to structural factors like globalisation.

2008



Sweden (2008) → dropped its inflation tolerances to adopt a point target, to adapt to low inflation risks, and it emphasised real economy support

Enhancing economic stability

Lower targets reduce borrowing costs and uncertainty, boosting investment and policy transmission.

1995

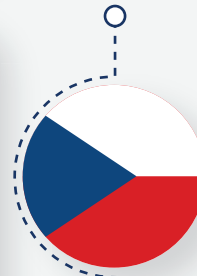


Canada (1995) → a lower 2% midpoint aimed to lock in low inflation, reduce borrowing costs, and boost investment by stabilising expectations in a post-recession economy

Aligning with global norms

Countries lower inflation targets to match international standards, influenced by successful peers and institutions, which can improve trade competitiveness and capital inflows.

1998



Czech Republic (1998) → starting with a 4–5% range amid high inflation, the country lowered its inflation target to 3% ($\pm 1\%$) in 2002 and further to 2% in 2006, aligning with European Union norms.

August 2025

UNITED STATES

In an unsettling shift for United States (US) economic policy, President Donald Trump ordered the removal of Federal Reserve (Fed) Governor Lisa Cook, citing disputed claims of past mortgage fraud. Trump argues he had “cause” to act, intensifying his drive to bend the central bank to his will after clashing with its stance on interest rates. Cook, the first Black woman to sit on the Fed’s Board of Governors, held a 14-year term meant to safeguard independence. Governors, confirmed by the Senate, may only be dismissed for proven misconduct. Together with regional bank chiefs, they shape the Federal Open Market Committee, which sets borrowing costs and charts the path of monetary policy. Trump’s unprecedented intervention rattles the Fed’s credibility, heightening fears of political intrusion into its decision-making. Court battles appear inevitable and financial markets are bracing for turbulence, as investors weigh up the long-term implications.

Forecast 2025:

GDP: 1.2%

HICP Inflation: 2.1%

Forecast 2026:

GDP: 1.0%

HICP Inflation: 1.8%

EUROZONE

Germany’s €117.9 billion pension deficit has become a critical fault line for Europe, with Chancellor Friedrich Merz urging younger citizens to channel savings into equities to ease the strain on the public pension system. Established in 1889 as an “intergenerational contract,” the scheme relies on current workers funding retirees’ benefits. Yet, demographic headwinds are undermining its foundations. Deutsche Welle notes that the worker-to-pensioner ratio has collapsed from 6:1 in the 1960s to just 2:1 today, with the labour force projected to shrink a further 9% by 2036. Merz’s coalition has pledged to avoid pension cuts, contribution hikes, or raising the retirement age beyond 67 before 2029. Unions have nevertheless countered that the pay-as-you-go model must be reinforced, not reformed. Meanwhile, Merz’s proposal of a €10 monthly state top-up for children’s equity investments is derided as largely symbolic, given its vulnerability to inflation.

Forecast 2025:

GDP: 1.2%

Inflation: 3.3%

Forecast 2026:

GDP: 1.1%

Inflation: 2.2%

UNITED KINGDOM

The Bank of England’s (BoE) August 2025 Monetary Policy Report underscored a cautious outlook amid US tariff pressures. The Monetary Policy Committee (MPC) voted five to four to cut the Bank Rate to 4% from 4.25%, as inflation, fuelled by energy and food costs, hit 3.6% in June. The BoE projects headline inflation will peak at 4% in September before nearing 2%. US tariffs, which came into effect in April 2025, impose a 10% baseline and 25% on steel and vehicles, impacting United Kingdom (UK) exports like cars and pharmaceuticals. According to the UK Parliament, the US accounted for 16% (£59.3 billion) of total goods exported from the UK in 2024. The MPC stressed a cautious path of further rate easing, weighing the need to support weak economic growth and a softening labour market against stubborn wage and price pressures. Its forward guidance aims to secure a durable return of inflation to 2%, while limiting economic slack.

Forecast 2025:

GDP: 1.0%

Inflation: 2.8%

Forecast 2026:

GDP: 0.0%

Inflation: 1.8%

JAPAN

The 15th India–Japan Annual Summit, set for 29 and 30 August, in Tokyo, will see Prime Ministers Narendra Modi and Shigeru Ishiba deepen their Special Strategic and Global Partnership. Central to the talks is a new economic security framework spanning semiconductors, critical minerals, artificial intelligence and pharmaceuticals, designed to hedge against China’s growing influence. Japan has pledged to mobilise ¥10 trillion (US\$68 billion) in private investment in India over the coming decade, doubling its 2022 commitment. Key projects include progress on the Mumbai–Ahmedabad high-speed rail corridor and an updated 2008 security declaration that expands bilateral defence cooperation. Given higher tariffs, the critical minerals initiative will reinforce stability across the Indo-Pacific, while encouraging skilled Indian migration to Japan, will further cement a robust economic and strategic alliance.

CHINA

Forecast 2025:

GDP: 4.7%

Inflation: 0.1%

Forecast 2026:

GDP: 4.3%

Inflation: 0.8%

China's manufacturing heartland, Guangdong, is feeling the brunt of drawn-out trade negotiations with the US. In industrial towns, the exodus of low-end manufacturing to Southeast Asia has left factories idle and local businesses struggling. A weakening property market, burdened by indebted developers, like Evergrande, and subdued household demand, have further weighed on growth. Only Shenzhen's technology sector has continued to outperform. Yet, China's appetite for energy underscores persistent demand despite trade frictions and domestic weakness. The *Financial Times* noted that US\$9.6 billion worth of sanctioned Iranian, Russian and Venezuelan crude had been funnelled into China since 2019, using tanker mortgages to skirt US sanctions. While this reinforces China's position as the world's largest oil importer, it also illustrates how the country is sustaining economic resilience, even as vulnerabilities in exports and property threaten its growth model.

Forecast 2025:

GDP: 4.0%

Inflation: 3.1%

Forecast 2026:

GDP: 4.0%

Inflation: 2.9%

EMERGING MARKETS

India and Brazil, two of the Global South's largest economies, are reeling from Trump's tariffs, which have evolved from a baseline 10% reciprocal levy in April 2025 to a punishing 50% on most goods in August. Initially aimed at rectifying trade imbalances, the hikes intensified amid accusations of unfair practices, including an additional 25% penalty on India for Russian oil imports.

Brazil faces similar barriers, prompting both nations to pivot toward deeper BRICS ties and diversified trade.

Brazilian exporters are eyeing Africa and Southeast Asia, while India is boosting its oil partnerships with Brazil, which has recorded the fastest growth in imports from all of India's oil suppliers on a year-to-date basis, this year.

Nevertheless, Standard and Poor's Global Ratings notes that logistical and pricing challenges persist. It currently costs about US\$4-US\$6 per metric tonne (mt) and takes around a week to ship crude oil from Middle Eastern destinations, while it costs between US\$15 and US\$20/mt and takes about a month to import crude oil from Brazil.

Forecast 2025:

GDP: 1.0%

Inflation: 3.3%

Forecast 2026:

GDP: 1.4%

Inflation: 4.1%

SOUTH AFRICA

Finance Minister Enoch Godongwana has responded to the South African Reserve Bank's (SARB) move to target 3% inflation, within the 3% to 6% range, asserting that only the National Treasury, with the President and Cabinet, can formally adjust the inflation-targeting framework. SARB Governor Lesetja Kganyago's push for a 3% target aims to improve consumers' purchasing power, lower borrowing costs for businesses to invest, increase the affordability of housing and reduce borrowing costs for government, ultimately promoting stronger economic growth. Standard and Poor's Global Ratings warned that Treasury's fiscal plans are based on the assumption of inflation stabilising closer to the mid-point rather than the lower end of the inflation target, and this could raise the risk of overspending and cause revenue miscalculations. The consensus view on inflation has drifted lower. According to the Reuters Econometer for January 2025, the median consensus estimate for local headline inflation for 2025 started the year at 4.1% but shifted lower to 3.4% in the latest poll for August. Estimates for 2026 moved lower from 4.5% to 4.1% in the same period. Interest rate expectations have nonetheless moved slower. In January 2025, the median consensus estimate expected the SA repo rate to end 2026 at 7%, but a further 25-basis point cut to 6.75% has been factored in, in the latest Econometer poll for August 2025.

The economics research desk



Sanisha Packirisamy
Chief Economist



Tshiamo Masike
Economist



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Indices summary for August 2025

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	3.53%	8.38%	25.82%	19.13%	15.33%	17.23%	14.89%	12.21%	11.10%
FTSE/JSE Shareholder Weighted Index (Swix)	3.53%	8.38%	25.82%	17.80%	13.73%	15.45%	12.68%	10.02%	9.06%
FTSE/JSE Capped Swix All Share Index	3.54%	8.14%	25.06%	17.51%	13.89%	17.08%	13.40%	10.20%	8.80%
FTSE/JSE All Share Top 40 Index	3.90%	9.10%	27.41%	19.75%	15.71%	17.06%	15.39%	12.58%	11.41%
FTSE/JSE Mid Cap Index	-0.57%	4.74%	17.02%	14.53%	11.00%	16.65%	10.39%	9.06%	7.82%
FTSE/JSE Small Cap Index	1.86%	7.22%	19.00%	18.15%	18.77%	27.63%	18.94%	13.33%	10.12%
FTSE/JSE Resources Index	11.37%	21.97%	54.40%	15.84%	12.05%	14.62%	17.11%	16.09%	14.63%
FTSE/JSE Financials Index	1.05%	3.81%	11.24%	19.69%	16.11%	22.37%	11.48%	8.24%	7.18%
FTSE/JSE Industrials Index	1.15%	4.88%	24.38%	20.87%	15.96%	16.00%	14.10%	11.11%	9.75%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	2.24%	10.51%	24.66%	16.74%	15.13%	20.06%	14.82%	12.09%	11.90%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	1.99%	9.45%	23.37%	16.64%	14.75%	19.85%	14.59%	11.88%	11.48%
FTSE/JSE SA Listed Property Index (Sapy)	2.80%	6.75%	18.10%	21.67%	14.85%	21.31%	6.57%	4.75%	3.22%
FTSE/JSE All Property Index (ALPI)	2.04%	6.26%	18.36%	21.51%	14.57%	21.24%	6.53%	3.77%	1.91%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.75%	5.87%	15.11%	13.64%	10.47%	11.33%	10.10%	10.25%	9.43%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.90%	2.53%	9.36%	9.78%	8.17%	7.43%	8.14%	8.49%	8.32%
FTSE/JSE Inflation-linked Index (Ili)	1.52%	2.67%	5.21%	6.03%	7.07%	8.35%	6.85%	6.40%	5.31%
Short-term Fixed Interest Composite Index (Stefi)	0.57%	1.80%	7.85%	7.90%	7.02%	6.38%	6.39%	6.52%	6.76%
Commodities									
NewGold Exchange-Traded Fund	1.85%	2.66%	36.19%	27.18%	23.05%	12.51%	17.02%	18.96%	14.60%
Gold price (in rands)	1.70%	3.35%	36.28%	27.64%	23.09%	13.02%	17.29%	19.29%	15.00%
Platinum Exchange-Traded Fund	2.18%	24.93%	44.31%	17.70%	12.67%	8.31%	8.61%	10.44%	5.54%
Platinum price (in rands)	-0.38%	26.36%	44.44%	17.79%	12.03%	7.97%	8.55%	10.46%	5.61%
Currency movements									
Rand/euro movements	-0.19%	1.74%	5.39%	6.52%	4.93%	0.43%	3.63%	2.80%	3.36%
Rand/dollar movements	-2.55%	-1.38%	-0.35%	1.27%	5.15%	0.86%	2.58%	2.72%	2.91%
Inflation index									
Consumer Price Index (CPI)			3.5%	4.27%	5.15%	5.06%	4.74%	4.63%	4.81%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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