



How South Africa Avoided the post-Covid Inflation

by John Greenwood

This edition of the IMM Newsletter marks a return to publication following a break of some 15 months when I had surgery and chemotherapy for cancer. Fortunately, I was given the all-clear by doctors in late 2025 and I have been able to resume publication. However, my output going forward will be intermittent rather than regular. On the other hand, all issues of my IMM Newsletter as well as other publications and videos featuring my research will be now freely available on a new website built by my son, Geoff Greenwood at [International Monetary Monitor](https://www.internationalmonetarymonitor.com). The website includes space for readers' comments on each Newsletter.

Introduction and Overview

- During January and February I visited Cape Town for a month to escape the European winter so I thought it would be a good idea to look at some features of the economy of this amazing country.
- My main finding was that South Africa -- like China, India, Switzerland and a few others -- did NOT suffer from the surge of inflation experienced during and after the Covid pandemic by other economies. Why not?
- Central bankers and the majority of consensus economists in the US, the UK, the Eurozone and elsewhere have pinpointed supply-chain disruptions (and later, fiscal spending and the war in Ukraine) as the principal sources of the inflation problem.
- Moreover, these economists have tended to assert that all countries suffered broadly similar inflationary consequences.
- Both contentions are wrong. First, as I have just stated, some countries did not experience any unusual surge of inflation. Second, the idea that changes in specific **relative** prices inevitably get translated into a rise in **overall** prices is also wrong. Unless there is a significant increase in the quantity of money relative to output, the rise in particular relative prices will be offset by declines in other relative prices.
- In this article I will explain how South Africa avoided the Covid-period inflation that affected the US, UK, the eurozone and other economies.

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Introduction: The Shift in South African monetary growth after the GFC

As Figure 1 below shows, between 1970 and 2009, broad money growth in South Africa was high and erratic, averaging 15.5% p.a. On a monthly basis the year-on-year growth rate fluctuated in a wide range of 2% to 30%. (I am using M3, measured in the chart as a year-on-year rate of change and averaged over 12 months.)

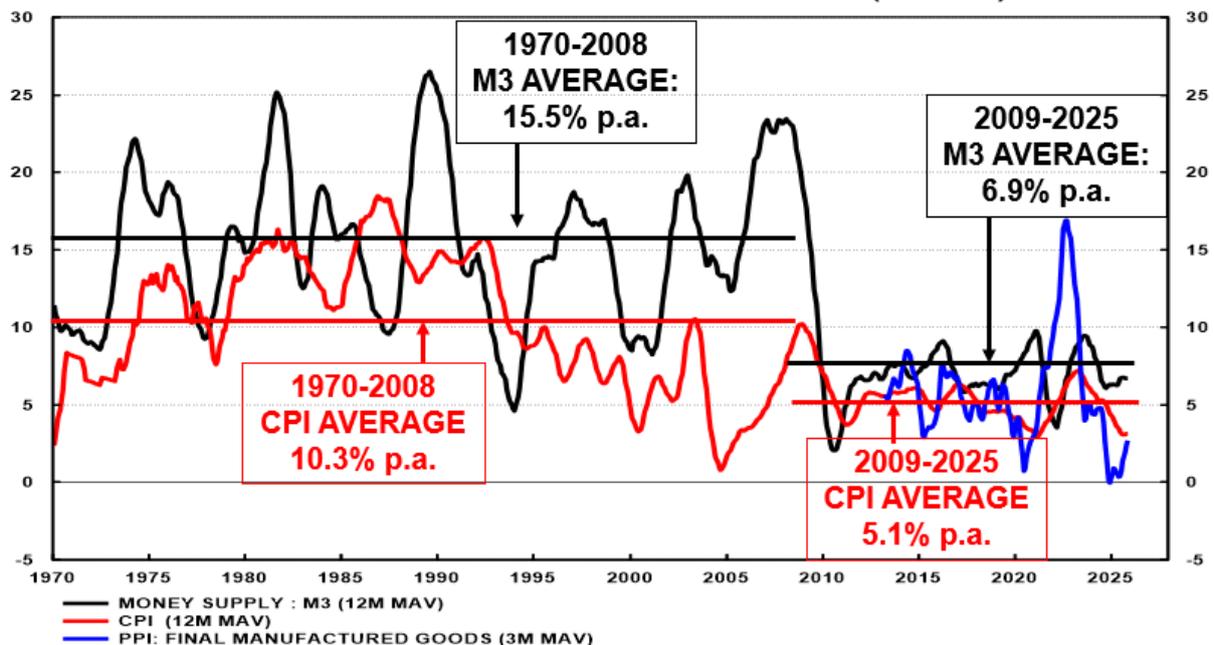
Inflation, measured by the CPI (also on a year-on-year basis and averaged over 12 months) averaged 10.3% p.a. during the same period, 1970-2008.

However, following the Global Financial Crisis (GFC) of 2008-09, the rate of growth of South African M3 slowed sharply, averaging just 6.9% p.a. between 2009 and 2025.

In response, CPI inflation fell steeply to an average of 5.1% over the same period.

In a rough summary, it would be fair to say that with M3 experiencing a halving of its growth rate, the CPI inflation rate also halved.

Figure 1. The Shift in South African Monetary Policy after the GFC.
SOUTH AFRICA: MONEY & INFLATION (% YOY)



It is not clear that the downward shift in average broad money growth was the result of a deliberate change in strategy by the SARB (South African Reserve Bank). Rather, it seems to have been the result of a series of changes that occurred in the post-GFC economic and financial environment.

Whereas the Federal Reserve, the ECB, and the Bank of England all conducted QE (Quantitative Easing) operations on a large scale after the GFC, the SARB did not engage in such balance sheet expansion. But it is also true that in the decade after the GFC, QE did not lead to an inflation problem in the major economies.

A summary of the factors underlying the South Africa’s M3 growth slowdown between 2009 and 2025 is shown in the Table below.

Table 1. Factors Underlying M3 Slowdown in post-GFC South Africa

Driver	Effect on M3
Weak credit demand	Lower money creation through bank lending
SARB’s disciplined monetary stance	Contained liquidity expansion
Structural economic stagnation	Reduced demand for money and credit
Rising government borrowing	Crowding out private-sector credit
Volatile capital flows	Constrained balance-sheet expansion
Basel III reforms	More conservative banking behavior

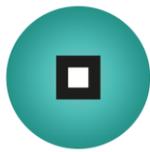
The slowdown in M3 growth during the decade preceding the Covid outbreak is clearly something that must be considered when assessing the SARB’s response to the Covid shock. A new norm had been adopted since 2009, and it would have been surprising if a radical shift had occurred in 2020 unless the SARB wanted to adopt a QE strategy.

In this article I propose to look, primarily, at the actions of the SARB relating to the size of its balance sheet following the Covid outbreak. In contrast to other central banks, the South African central bank (1) only expanded its balance sheet very briefly by a relatively small amount, and (2) reduced the size of its balance sheet back to its pre-crisis level soon after the early panic in financial markets had subsided.

Section 1. Announcements and actions by SARB in the early months of Covid

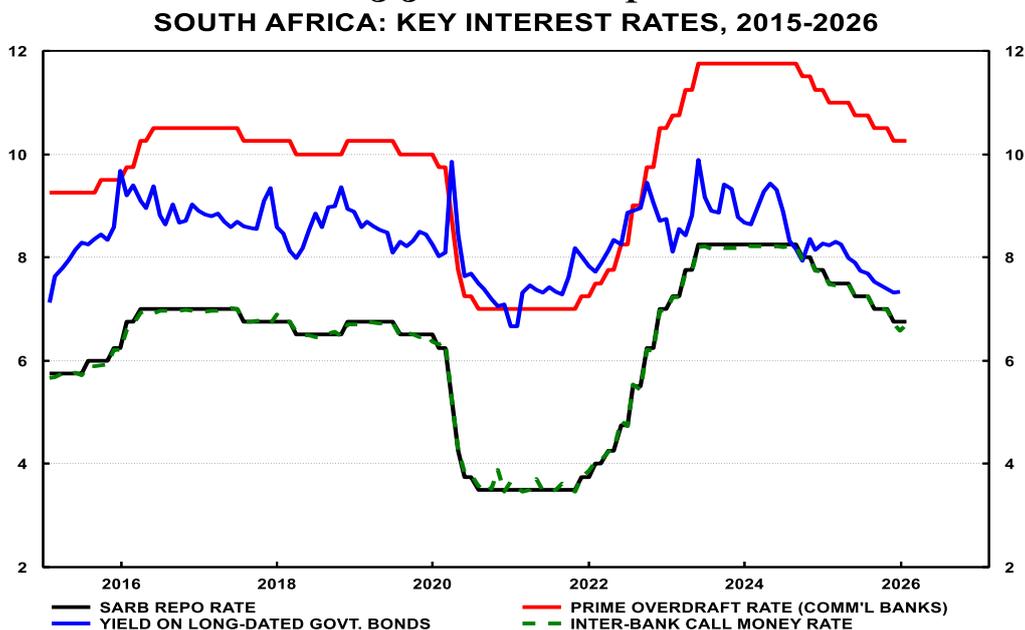
The SARB Monetary Policy Committee (MPC) normally meets six times a year to set the repo rate which indirectly influences the growth of broad money (M3). In key meetings in 2020, the year of the Covid outbreak, the SARB MPC made the following announcements affecting the repo rate:

- **SARB MPC Statement, 19-March-2020:** “Against this backdrop, the MPC decided to cut the repo rate by 100 basis points. This takes the repo rate to 5.25% per annum, with effect from 20 March 2020. The decision was unanimous.”

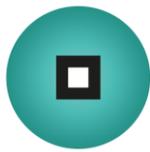


- **SARB MPC Statement, 14-April-2020:** “Against this backdrop, the MPC decided to cut the repo rate by 100 basis points. This takes the repo rate to 4.25% per annum, with effect from 15 April 2020. The decision was unanimous.”
- **SARB MPC Statement, 21-May-2020:** “Against this backdrop, the MPC decided to cut the repo rate by 50 basis points, taking it to 3.75% per annum, with effect from 22 May 2020. Three members preferred a cut of 50 basis points and two preferred a cut of 25 basis points.”
- **SARB MPC Statement, 23-July-2020:** The rand has depreciated by 15.2% against the USD since January and appreciated by 8.8% since the May meeting of the MPC....Against this backdrop, the MPC decided to cut the repo rate by 25 basis points, taking it to 3.50% per annum, with effect from 24 July 2020. Three members preferred a cut of 25 basis points and two preferred to keep rates on hold.”
- **SARB MPC Statement, 23-September-2020:** “Against this backdrop, the MPC decided to keep rates unchanged at 3.5% per annum. Two members of the committee preferred a 25 basis point cut and three preferred to hold rates at the current level. “

Figure 2. During Covid, the SARB lowered the repo rate from 6.25% to 3.5% in four steps



Separately, however, the SARB took steps to increase its provision of “liquidity” to the money markets. As reported in the April 14 Statement of the MPC, the SARB said: “In addition to continued easing of interest rates, the Bank has taken steps to ensure adequate liquidity in money and government bond markets and to ease capital requirements to free capital for onlending by financial institutions. Each of these steps make more capital available to households and firms.”



Later in the year, an article in the September Quarterly Bulletin stated that “The SARB’s portfolio of government bonds grew from R8.1 billion in February 2020 to R38.4 billion in July on account of such purchases to increase money market liquidity. ‘Normal’ liquidity provision by the SARB – which includes the utilisation of cash reserves, resale agreements and the South African Multiple Option Settlement (SAMOS) system position – increased from R65.8 billion in December 2019 to R103.9 billion in March 2020 before declining to R54.3 billion in July.” (See Table 2 below.)

Table 2. SARB Operations to Increase Liquidity Temporarily.

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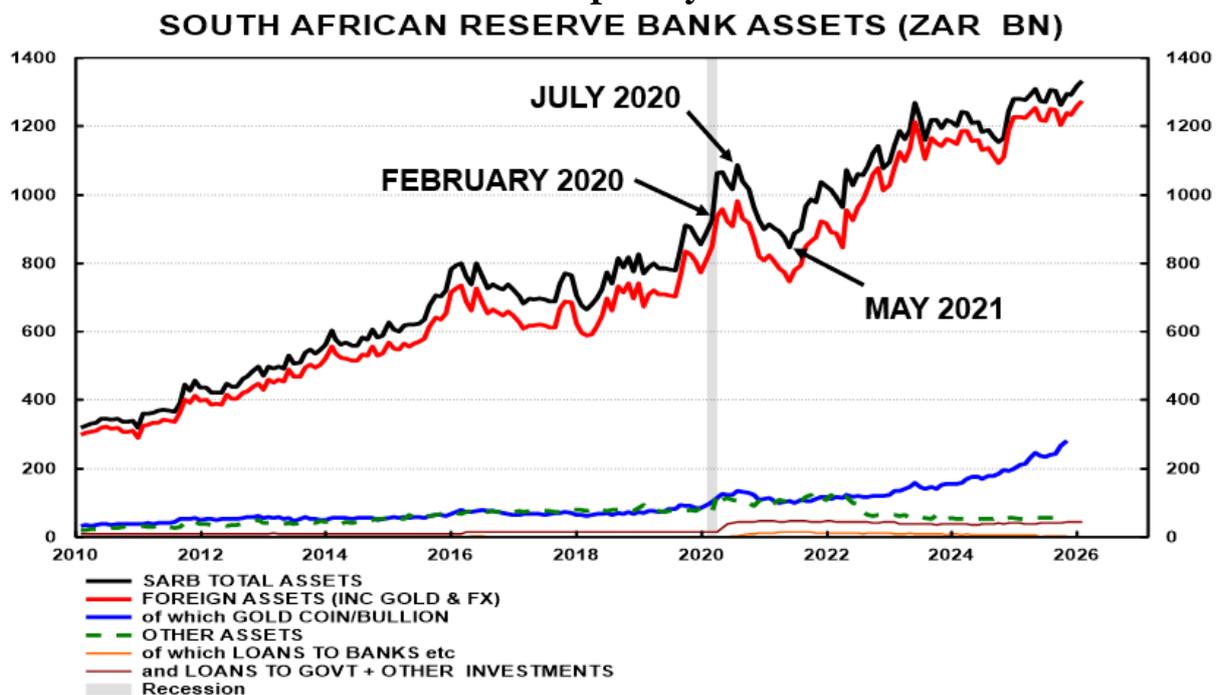
	Jan 2000	Dec 2019	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
Assets							
Government bonds	6 299	8 103	9 222	20 644	30 830	35 890	38 383
Liquidity provided*	6 502	65 849	103 872	77 961	74 566	62 112	54 278
Total	12 801	73 952	113 094	98 605	105 396	98 0002	92 661
Liabilities							
Private bank deposits at the SARB..	7 174	126 306	149 394	115 712	116 358	116 915	131 790

* Utilisation of cash reserves, resale agreements and the SAMOS system position

Source: SARB

The brief increase followed by decline in SARB assets can also be seen in Figure 3. SARB’s total assets surged in early 2020 due to both SARB purchases and FX inflows, peaking in July, but by May 2021 they had returned to pre-Covid levels.

Figure 3. The Increase in SARB Assets during Covid was Strictly Temporary



Source: LSEG Datastream



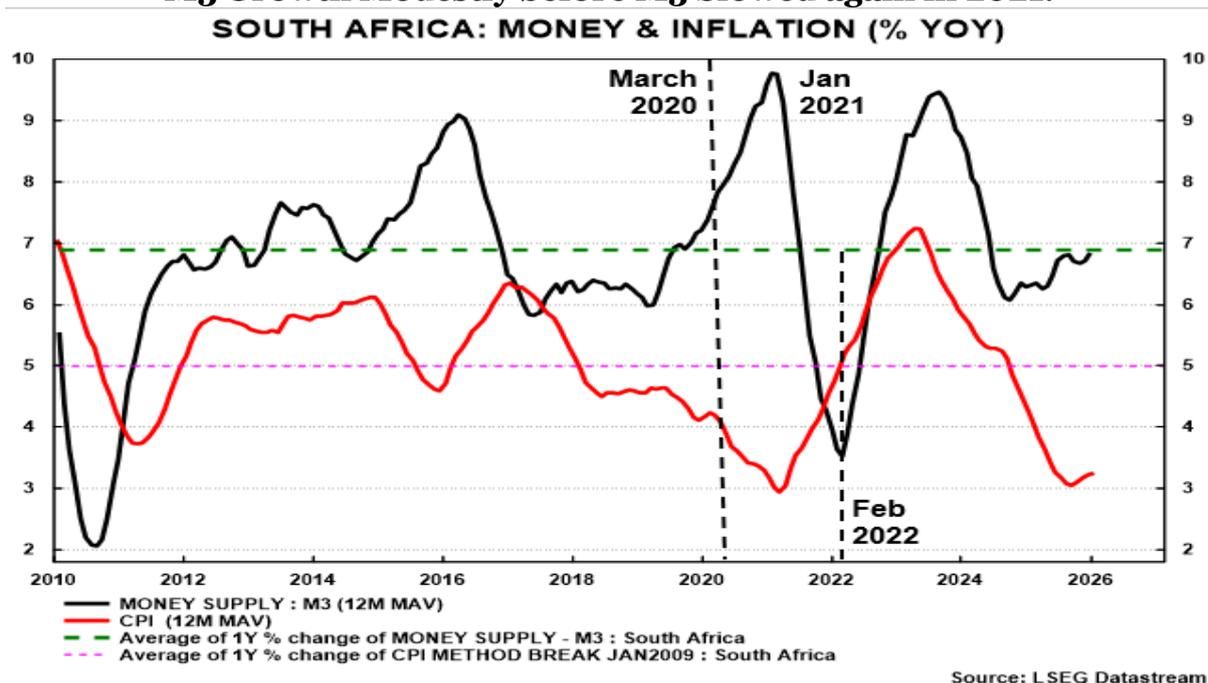
The same article noted that “Central banks create money under ‘normal’ circumstances and could also do so, to a much larger extent, under unusual circumstances by providing liquidity as part of efforts to ensure the continued functioning of financial markets. In addition to an increase in banknotes and coin in circulation, the central bank could also extend loans to banks and purchase government securities, both of which might increase bank deposits at the central bank and hence the monetary base, and through that the money supply. The intention is for banks to use the increased liquidity to extend credit to the private sector. However, when conditions allow, and as an interim measure, some excess liquidity may also end up being used to purchase short term market instruments such as Treasury bills. **The creation of money could be inflationary if it were out of kilter with the demand for money and underlying economic activity, and could also contribute to asset price bubbles. It should therefore be very carefully managed by the monetary authority.**” (Emphasis added.)

The key point is that the SARB evidently understood the dangers of creating excess broad money and therefore provided additional liquidity *on a temporary basis only* and then withdrew it later in 2020.

The withdrawal of excess liquidity showed up not only in the SARB balance sheet data above, but also in the growth of broad money in Figure 4.

At the onset of the Covid pandemic in March 2020 the M3 money supply was growing at 8.1% year-on-year. Following the SARB’s actions to inject liquidity, the rate of growth of M3 accelerated modestly to 9.8% year-on-year in January and February 2021, but by February 2022 it had fallen back to just 3.5%.

Figure 4. The SARB’s Temporary Injection of Liquidity only Increased M3 Growth Modestly before M3 Slowed again in 2021.

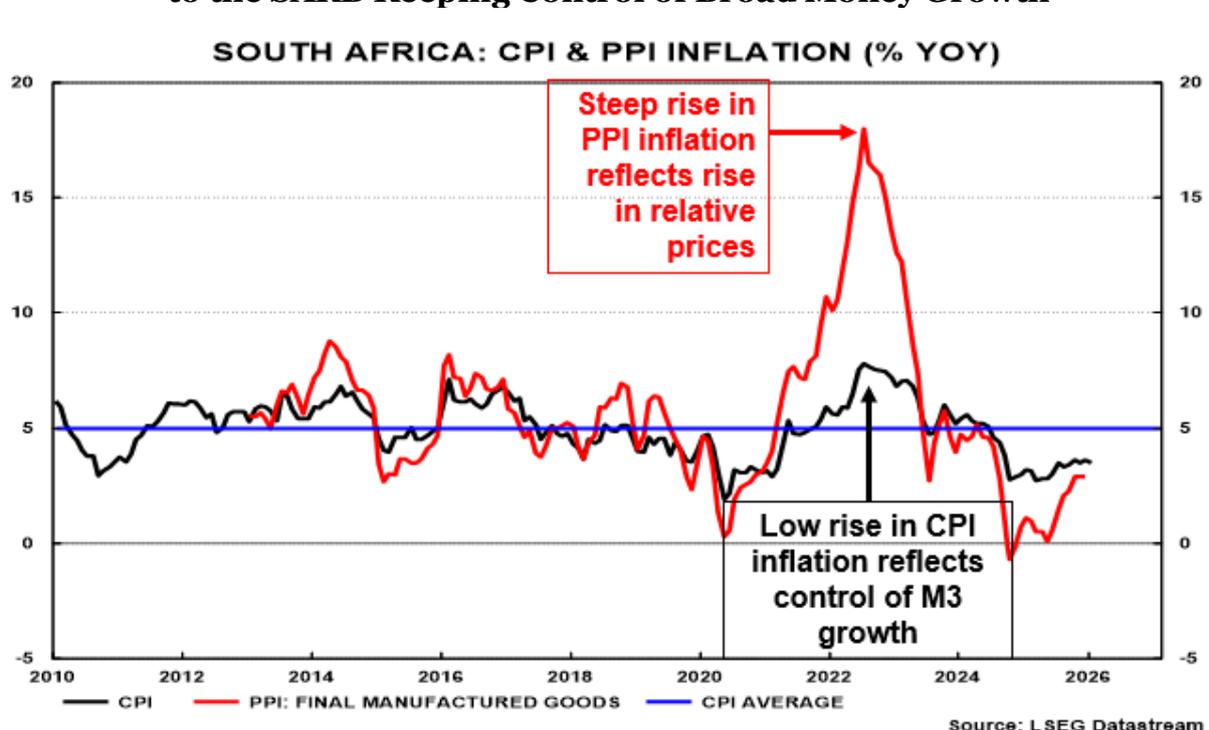


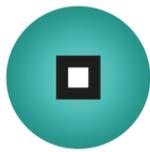
The effect was to limit significantly any inflation in South Africa resulting from monetary policy actions. As shown in Figure 5 below, although the producer price index increased steeply, peaking at 18.0% year-on-year in July 2022, the CPI peaked at just 7.8% in the same month. This compares with minor peaks of 6.8% in June 2014 and 7.1% in February 2016.

Until November 2025 the SARB’s inflation target had been set by the South African National Treasury as a range between 3 and 6%, but on November 12, 2025 it was announced by the Ministry of Finance and the SARB jointly that the new target would be 3% with a tolerance band of 1% on either side, to be implemented over the next two years. One of the arguments mentioned in the announcement was that “Over time, the lower target will decrease inflation expectations and inflation, creating room for lower interest rates. This supports household spending and business investment, boosting economic growth and job creation.”

It is to be hoped that the SARB does not come to depend too much on will o’ the wisp expectations. It remains crucial that inflation is controlled by ensuring moderate and stable growth of broad money (M3). Ignoring money growth and focusing too much on expectations of inflation was one of the mistakes that central banks elsewhere made in their (mis)management of monetary policy during Covid, and as a result they ended up with the highest rates of inflation in 40 years.

Figure 5. South Africa’s Low CPI Inflation Rate during Covid was to due to the SARB Keeping Control of Broad Money Growth





Conclusions

- To its great credit, the SARB's Monetary Policy Committee did not follow the consensus of leading central banks in North America, UK and Europe which allowed broad money growth to surge in response to the Covid pandemic.
- By expanding its balance sheet only **temporarily**, the SARB effectively prevented a sustained increase in broad money (M3) and thereby avoided the onset of a serious episode of inflation. (For an example from 19th century of the Bank of England expanding its balance sheet temporarily to deal with a crisis using short-term instruments only, see IMM#8 US and Global Outlook, p.7.) [US and Global Outlook – International Monetary Monitor](#)
- **Relative** prices – for gas and petroleum, computer chips, and a number of consumer goods – increased sharply, but **overall** prices were constrained by the fact that overall money growth remained subdued on average. Broad money growth (M3) therefore did not provide the fuel needed to push the overall price level higher.
- The SARB cannot be described as having a monetarist approach, but its staff and MPC members appear to be cognisant of the necessity of maintaining low and stable growth of the broad money supply.
- Following Covid, the SARB first raised rates steeply, increasing its repo rate from 3.5% in October 2021 to 8.25% by May 2023, suggesting an intention to keep monetary conditions tight.
- More recently, the SARB has lowered its repo rate from 8.5% in August 2024 to 6.75% in February 2026. Meantime, M3 has fluctuated in a range between 4% and 8% year-on-year, in line with the monetarist formula for attaining the 3%(+/- 1%) CPI inflation target.
- Monetary analysis and monetary tools are not sufficient for very close control of inflation. At any moment, there will be random factors affecting reported prices, and the lower the overall inflation rate, the higher the ratio of noise to signal. However, by maintaining steady growth of broad money on average over a period of years, the central bank can come close to achieving its intended inflation target in the medium term.

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