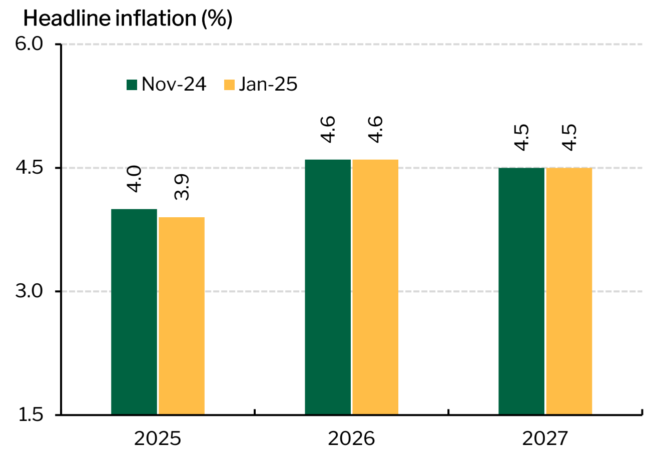
Monetary Policy Statement

ECONOMICS | SOUTH AFRICA | MONETARY POLICY

The MPC delivered another rate cut but struck a cautious tone.

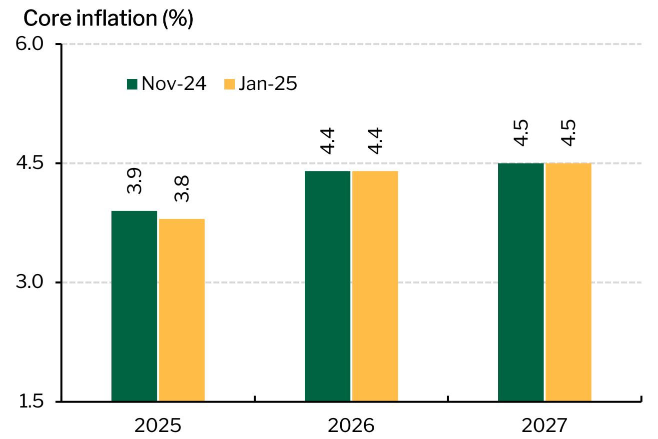
- As was widely expected, the MPC reduced the repo rate by 25 basis points (bps) to 7.50%. It was a split decision, with two members voting for no change in rates. The decision was motivated by recent below-target inflation outcomes and a benign near-term inflation outlook. However, the committee struck a cautious tone, warning that the medium-term inflation outlook is '*more uncertain than usual*', with the external environment posing '*material*' upside risks. The MPC was clearly worried about the more hawkish tilt in US monetary policy and its likely negative implications for the rand's future course. The US Federal Reserve (Fed) opted to leave its policy rate unchanged, choosing to wait-and-see how President Trump's economic policies will impact US inflation in the months ahead. No further US rate cuts would support a strong US dollar and weigh on the rand. If sustained, a weakening rand would place upward pressure on domestic inflation. Other upside risks included the threat of potentially hefty electricity tariff hikes and above-target increases in other administrative prices.
- The SARB tweaked its inflation forecasts here and there, but the trajectory still pointed to contained price pressures. Headline inflation is forecast to rise off a low base, albeit at a slightly slower pace than envisaged in November. Inflation remains comfortably below the target until Q3 2025, then climbs to 4.6% in Q4 2025 and stays there for much of 2026, before easing to 4.5% in the second half of 2027. The slight downward adjustments mainly reflect the lower base (or starting point) and generally subdued price increases in most CPI components, which largely offsets the impact of a weaker rand. Core inflation is forecast to remain below 4.5% throughout 2025, rising at a much slower pace than headline and ending the year at 4.1%. Thereafter, core inflation is projected to increase further, reaching 4.5% by around Q3 2026 and holding steady at target until the end of 2027.

Chart 1: SARB's headline inflation forecasts



Source: SARB

Chart 2: SARB's core inflation forecasts



Source: SARB

Table 1: SARB's quarterly inflation forecasts

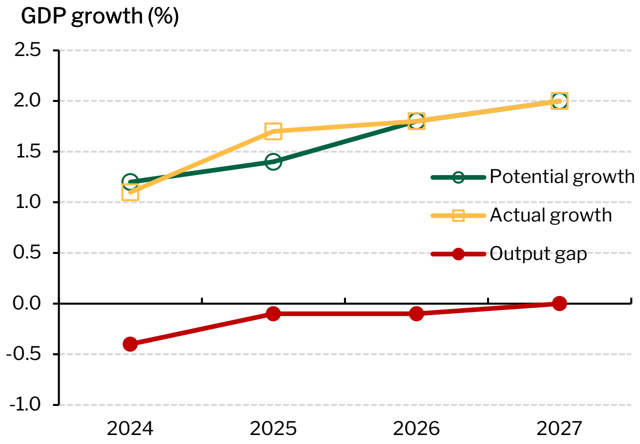
	2024	2025				2026				2027			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline													
Nov-24	3.2	3.5	3.7	4.3	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Jan-25	2.9	3.2	3.5	4.1	4.6	4.6	4.7	4.6	4.6	4.6	4.6	4.5	4.5
Core													
Nov-24	3.8	3.7	3.8	3.9	4.2	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.5
Jan-25	3.7	3.5	3.8	3.8	4.1	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.5

Source: SARB

- The SARB lowered its GDP forecast for 2024 to 0.7% (vs 1.1% in Nov-24) to account for the disappointing Q3 outcomes. The economy likely rebounded in Q4, supported by a recovery in agriculture and strong consumer spending driven by lower inflation and the 2-pot pension withdrawals. The SARB still expected moderately faster growth over the next three years, forecasting GDP growth of 1.8% for 2025 and 2026, followed a pick-up to 2% in 2027. They also see a change in the composition of growth. On the supply-side, recoveries in the primary and secondary sectors, supported by easing structural constraints, are expected to replace services as the engine of economic growth. On the demand-side, the momentum is forecast to come from a revival in fixed investment rather than household and government spending. The SARB's estimates of potential growth remained mostly unchanged, projected at 1.5% in 2025, 1.8% in 2026 and 2% in 2027. Importantly, they expected the output gap to close gradually, with the economy operating around its potential from 2026 onwards.

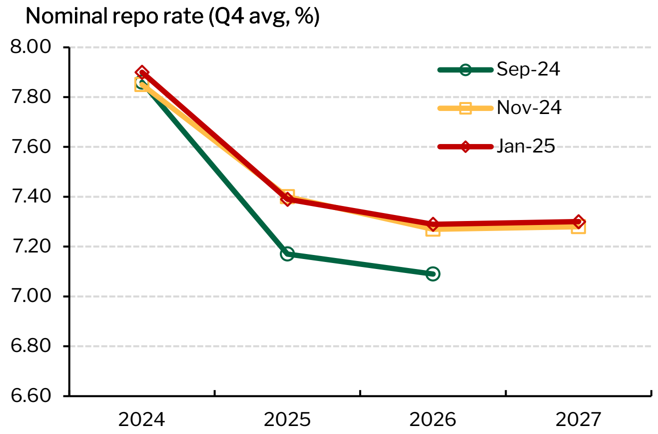
- Against this backdrop, the SARB's Quarterly Projection Model continued to reflect space of another 25-bps cut over the next three years. The repo rate was projected to stabilise around 7.25%.

Chart 3: SARB's growth outlook



Source: SARB

Chart 4: QPM repo rate projections



Source: SARB

- The underlying message of today's MPC meeting is that the inflation and interest rate outlooks are uncertain and face significant upside risks. The Committee appears to be setting the stage for a shallow easing cycle and a likely pause in the meetings ahead. Fears of renewed rand weakness against the backdrop of a more hawkish Fed seem to be main reason for today's cautious message. Since it would probably take time for Trump's policies to crystalise and even longer for the impact on inflation to emerge, the Fed appears to be a signalling a prolonged pause in US interest rates. This would sustain interest rate differentials in the US's favour, potentially keeping high-risk emerging market currencies under pressure and thereby reducing the monetary policy space available to their central banks. The SARB captured these developments in the gradual upward revisions to its repo rate projections during the past two meetings. Consequently, meaningful further rate cuts look increasingly unlikely. We still expect the SARB to follow through with another 25-bps reduction in the repo rate, but it now appears more likely around the middle of the year. The rand has stabilised somewhat over the past two weeks, trading between R18.30-R18.90 against the US dollar. There is an outside chance that the most significant adjustments to Trump's policies have already occurred, suggesting the rand could continue to trade in a narrow band over the near term. At the same time, the other major drivers of domestic inflation will likely remain relatively subdued. Global oil prices receded in recent weeks and will likely decline further as oil supply outpaces global demand. Although domestic demand picked up, the upturn was moderate and largely matched by easing supply-side constraints.

Table 1: SARB's Annual forecasts of key macroeconomic variables

	2024	2025	2026	2027
Headline inflation				
Nov-24	4.5	4.0	4.6	4.5
Jan-25	4.4	3.9	4.6	4.5
Core inflation				
Nov-24	4.3	3.9	4.4	4.5
Jan-25	4.3	3.8	4.4	4.5
Food CPI				
Nov-24	4.7	4.1	4.3	4.5
Jan-25	4.5	3.9	4.3	4.5
Fuel CPI				
Nov-24	-0.2	-1.2	2.5	1.6
Jan-25	-0.8	-1.4	2.3	1.2
Electricity CPI				
Nov-24	13.3	13.3	12.3	9.0
Jan-25	13.3	13.3	12.3	9.0
Real GDP growth				
Nov-24	1.1	1.7	1.8	2.0
Jan-25	0.7	1.8	1.8	2.0
Potential growth				
Nov-24	1.2	1.4	1.8	2.0
Jan-25	0.8	1.5	1.8	2.0
Output gap				
Nov-24	-0.4	-0.1	-0.1	0.0
Jan-25	-0.4	-0.1	-0.1	0.0
Repo rate				
Nov-24	7.85	7.40	7.27	7.28
Jan-25	7.90	7.39	7.29	7.30
Neutral real interest rate				
Nov-24	2.66	2.73	2.80	2.90
Jan-25	2.67	2.73	2.80	2.90

Source: SARB

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