



Monetary Policy Statement

ECONOMICS | SOUTH AFRICA | MONETARY POLICY

Interest rates on hold amid mounting global risks.

- As expected, the MPC kept the repo rate unchanged at 7.50% due to the upside risks posed by the unfolding global trade war to the domestic inflation outlook over the medium term. The outcome was the result of another split vote, with two members voting for a 25-basis-points (bps) cut.
- Inflation forecasts:** The SARB concluded that inflation remains well contained over the short term. They expected lower global oil prices to offset the impact of the gradual increase in the VAT rate over the next two years. The SARB sees global oil prices easing to \$75 per barrel by 2027. They expect the VAT rate hikes to come into effect in May 2025 and April 2026, adding around 0.2 percentage points to headline inflation over 12 months. Finally, the scheduled increases in electricity tariffs turned out to be more benign than envisioned in January. Consequently, they have lowered their inflation forecasts to 3.6% in 2025 (vs 3.9%) and 4.5% in 2026 (vs 4.6%). While the SARB reduced its core inflation forecast for 2025 to 3.7% from 3.8%, it slightly upped the forecasts for 2026 and 2027.
- The Committee again concluded that **the inflation outlook faced upside risks** over the medium term. The MPC remained concerned that the uncertain global environment, particularly the unfolding trade war, could still unsettle the rand and dislodge inflation from its subdued trajectory.

Chart 1: SARB's headline inflation forecasts

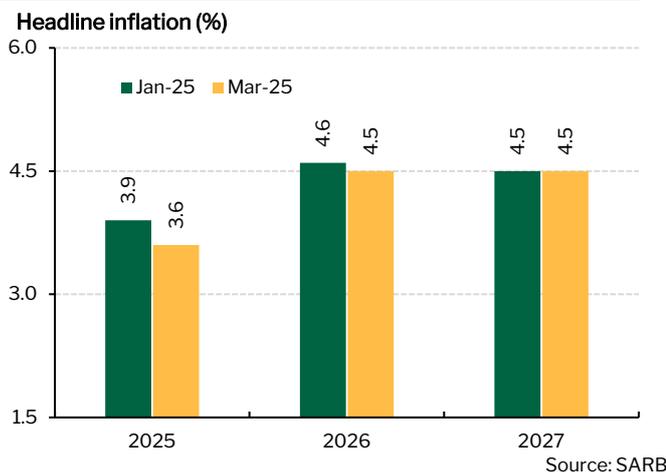


Chart 2: SARB's core inflation forecasts

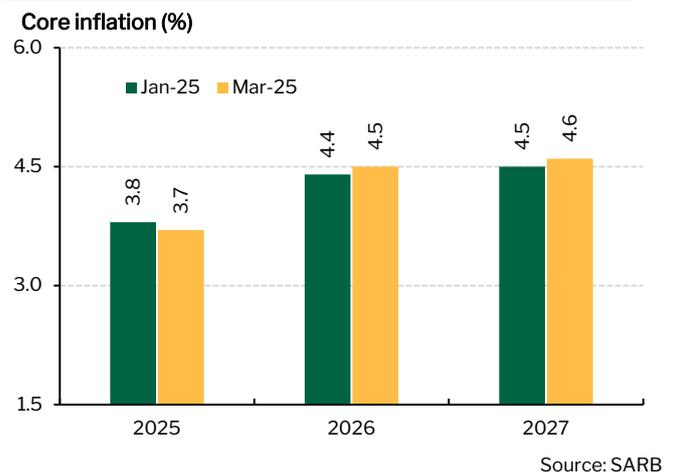


Table 1: SARB's quarterly inflation forecasts

	2024	2025				2026				2027			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline													
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
Mar-25		3.0	3.1	3.9	4.3	4.3	4.7	4.5	4.6	4.6	4.5	4.5	4.5
Core													
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
Mar-25		3.4	3.4	3.8	4.1	4.3	4.6	4.6	4.6	4.6	4.6	4.6	4.6

Source: SARB

- GDP growth forecasts:** The growth outlook remained broadly unchanged. The SARB expected the economy to grow by a slightly softer 1.7% in 2025 (vs 1.8%), before picking up pace to 1.8% and 2% in 2026 and 2027, respectively. The MPC felt the growth outlook faced downside risks, given generally subdued demand and continued supply-side vulnerabilities.
- The projected rate path:** The SARB's Quarterly Projection Model still reflects space for another 25-bps cut over the next three years, with the repo rate stabilising around 7.25%.

Chart 3: SARB's growth outlook

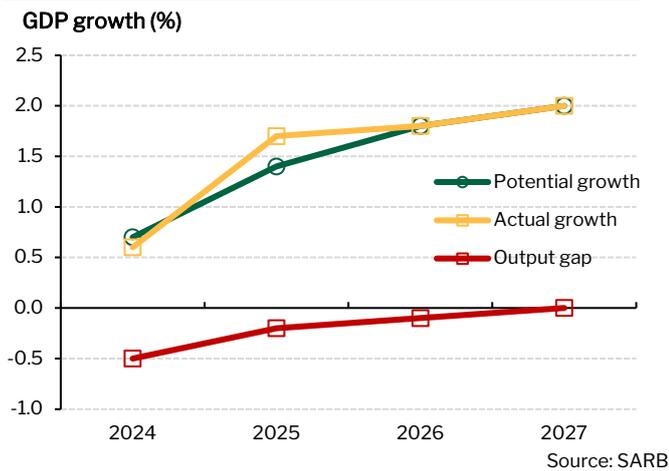
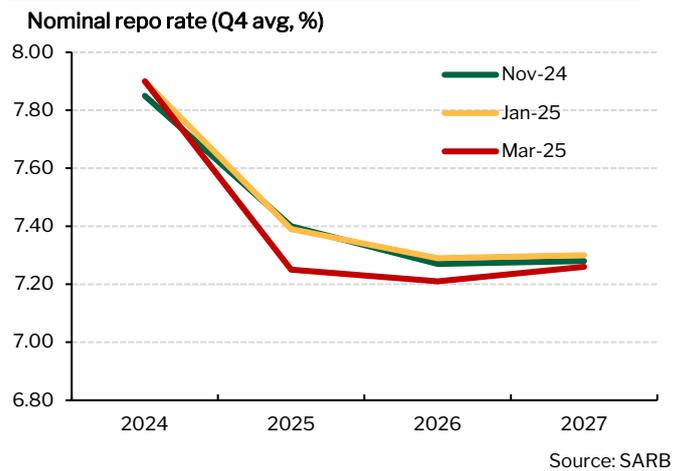


Chart 4: QPM repo rate projections



- Outlook:** The MPC will likely remain cautious. The Committee again stressed that its decisions will be made on a 'meeting-by-meeting basis'. This statement carries significant weight in the current unsettled environment. Yesterday, the US Fed left its policy rate unchanged for the second consecutive meeting, pointing to the upside risks to its inflation outlook posed by sharply higher tariffs and tighter immigration controls. Given the on-and-off nature of the global trade war and the unexpected pressure on the US dollar, it is difficult to see how the external environment will unfold over the next four years. In many ways, the world appears to be entering uncharted territory. If the greenback remains subdued because investors doubt the wisdom of the US's economic policies, then the impact of the global trade war on inflation in SA and other emerging markets will likely be less damaging than initially feared. However, the escalating trade war will hurt international trade volumes and undermine global growth. If the US weathers the growth storm better than the rest of the world, US economic exceptionalism could be reaffirmed, and the US dollar could rebound, placing pressure on the rand and other emerging market currencies. Given that the impact could be significant, the MPC will probably keep interest rates on hold until there are fewer moving parts to fret about.

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

	2024	2025	2026	2027
Headline inflation				
Jan-25	4.4	3.9	4.6	4.5
Mar-25		3.6	4.5	4.5
Core inflation				
Jan-25	4.3	3.8	4.4	4.5
Mar-25		3.7	4.5	4.6
Food CPI				
Jan-25	4.5	3.9	4.3	4.5
Mar-25		3.8	4.5	4.6
Fuel CPI				
Jan-25	-0.8	-1.4	2.3	1.2
Mar-25		-4.1	1.0	1.5
Electricity CPI				
Jan-25	13.3	13.3	12.3	9.0
Mar-25		11.8	9.1	6.6
Real GDP growth				
Jan-25	0.7	1.8	1.8	2.0
Mar-25	0.6	1.7	1.8	2.0
Potential growth				
Jan-25	0.8	1.5	1.8	2.0
Mar-25	0.7	1.4	1.8	2.0
Output gap				
Jan-25	-0.4	-0.1	-0.1	0.0
Mar-25	-0.5	-0.2	-0.1	0.0
Repo rate				
Jan-25	7.90	7.39	7.29	7.30
Mar-25		7.25	7.21	7.26
Neutral real interest rate				
Jan-25	2.67	2.73	2.80	2.90
Mar-25	2.69	2.76	2.81	2.91

Source: SARB

Next meeting: 29 May 2025

GROUP ECONOMIC UNIT

Nicky Weimar

+27 10 234 8357

nickywe@nedbank.co.za

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