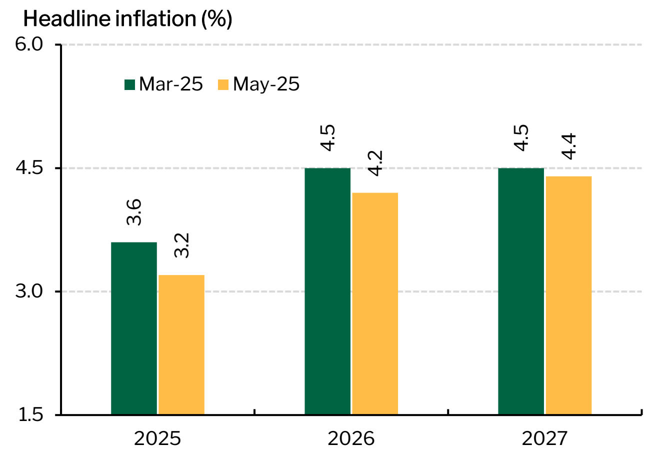
Monetary Policy Statement

ECONOMICS | SOUTH AFRICA | MONETARY POLICY

The MPC delivers a 25-basis-point cut.

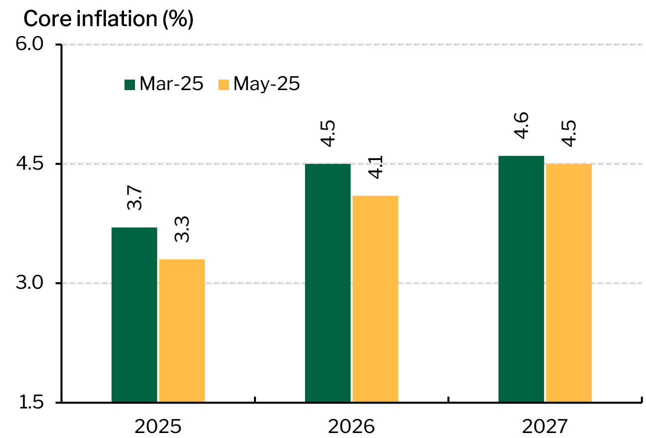
- The MPC reduced the repo rate by 25 basis points (bps) to 7.25%. The decision to cut was unanimous, but one member preferred a larger cut of 50 bps. The votes reflect a remarkable about-turn from the caution that dominated the March meeting. Unsurprisingly, the benign inflation outcomes of recent months, a very subdued inflation outlook and the rand's unexpected resilience in the face of global uncertainty tilted the debate in favour of further easing.
- Inflation forecasts: The SARB again concluded that inflation remains well contained, substantially lowering their headline and core inflation forecasts. They see headline inflation averaging only 3.2% in 2025 before slowly creeping up to 4.2% and 4.4% in 2026 and 2027, respectively. The revisions stem from a lower starting point, expectations of a firmer rand, and lower global oil prices. These factors offset the impact of higher fuel levies. Of course, they removed the earlier VAT increases from their assumptions. The SARB expects core inflation to average 3.3% this year, rising to 4.5% in 2027. Altogether, the SARB's forecasts paint a benign inflation picture for the next three years.
- The MPC also changed its risk assessment of the inflation outlook from upside to balanced. The rand's impressive pullback from the lows of early April likely strengthened the Committee's confidence in their inflation forecasts.

Chart 1: SARB's headline inflation forecasts



Source: SARB

Chart 2: SARB's core inflation forecasts



Source: SARB

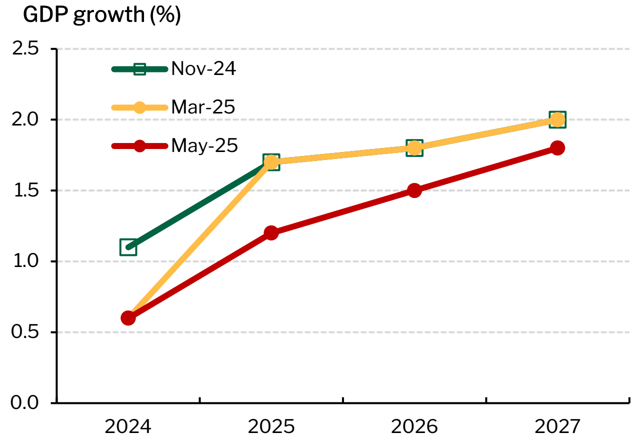
Table 1: SARB's quarterly inflation forecasts

	2024	2025				2026				2027			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline													
Mar-25	2.9	3.0	3.1	3.9	4.3	4.3	4.7	4.5	4.6	4.6	4.5	4.5	4.5
May-25		3.0	2.6	3.3	3.9	3.9	4.4	4.2	4.2	4.3	4.5	4.4	4.4
Core													
Mar-25	3.7	3.4	3.4	3.8	4.1	4.3	4.6	4.6	4.6	4.6	4.6	4.6	4.6
May-25		3.3	2.9	3.2	3.6	3.9	4.2	4.2	4.3	4.3	4.6	4.5	4.5

Source: SARB

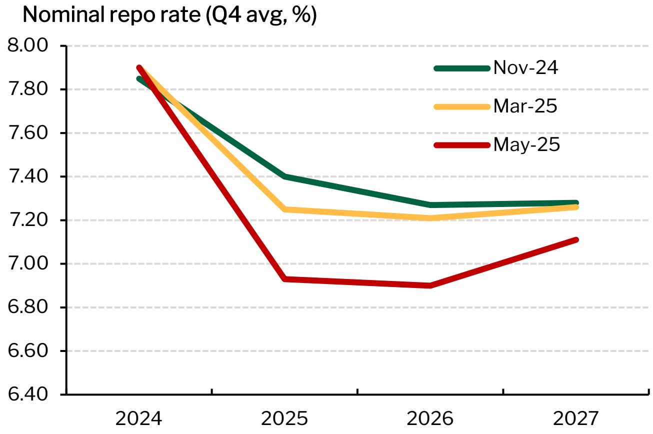
- GDP growth forecasts: Unfortunately, the SARB also lowered its growth forecasts. They noted that economic activity fell short of their expectations in Q1 due to continued weakness in mining and manufacturing output. The SARB expects weaker global growth to limit the benefits of positive structural reforms. As a result, they reduced their GDP growth forecasts by 0.5 percentage points (ppts) to 1.2% for 2025, 0.3 ppts to 1.5% in 2026 and 0.2 ppts to 1.8% in 2027. Following these downward adjustments, the MPC considered the risks to growth as balanced.
- The projected rate path: The SARB's Quarterly Projection Model points to another 25-bps cut in 2025 and 2026.

Chart 3: SARB's growth outlook



Source: SARB

Chart 4: QPM repo rate projections



Source: SARB

- Outlook: While we expected the MPC to hold rates steady today, we felt that the inflation dynamics supported further monetary easing. On the merits, today's decision was the right one. Most measures of inflation are well below the current 4.5% target. Key drivers of the outlook also look benign. Global growth prospects have dimmed, China is exporting chunks of deflation, and international supply chains are coping with the US's erratic tariff policies. Excess supply and soft demand are weighing down global oil prices. The surplus will likely remain in place for some time, keeping oil prices in check. Despite the US Fed's caution, America's fiscal and tariff uncertainties unexpectedly hurt the dollar. These concerns are unlikely to be resolved quickly, suggesting that a sudden and sustained resurgence in the dollar now appears less likely. Finally, the domestic economy remains frail. Structural changes are happening too slowly to lift production meaningfully, while consumers are still cautious as interest rates remain relatively high. We suspect the economy stalled altogether in Q1. Moreover, we forecast GDP growth of only 1% this year. Against this context, we have changed our interest rate forecast to reflect another 25-bps cut later this year. If the markets are right and the US Fed cuts rates by 50 bps in response to slowing US growth, the MPC will also have the space to ease more aggressively.
- The change in the SARB's inflation target: The MPC took the opportunity to address the uncertainty around how the prospect of a lower inflation target would affect interest rates. The SARB wants the target to be reduced to 3%. The governor reiterated that a lower inflation target would lower interest rates through falling inflation expectations. To test this, the SARB ran with the Quarterly Projection Model with a 3% target as the objective. The results recommended today's 25 bps cut and reflected a policy rate of just under 6% rather than the baseline's 7%.

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
May-25		3.2	4.2	4.4
Core inflation				
Jan-25	4.3	3.8	4.4	4.5
Mar-25		3.7	4.5	4.6
May-25		3.3	4.1	4.5
Food CPI				
Jan-25	4.5	3.9	4.3	4.5
Mar-25		3.8	4.5	4.6
May-25		3.6	4.1	4.5
Fuel CPI				
Jan-25	-0.8	-1.4	2.3	1.2
Mar-25		-4.1	1.0	1.5
May-25		-5.4	1.4	1.0
Electricity CPI				
Jan-25	13.3	13.3	12.3	9.0
Mar-25		11.8	9.1	6.6
May-25		10.9	5.6	6.5
Real GDP growth				
Jan-25	0.7	1.8	1.8	2.0
Mar-25	0.6	1.7	1.8	2.0
May-25		1.2	1.5	1.8
Potential growth				
Jan-25	0.8	1.5	1.8	2.0
Mar-25	0.7	1.4	1.8	2.0
May-25		1.1	1.4	1.7
Output gap				
Jan-25	-0.4	-0.1	-0.1	0.0
Mar-25	-0.5	-0.2	-0.1	0.0
May-25		-0.4	-0.3	-0.1
Repo rate				
Jan-25	7.90	7.39	7.29	7.30
Mar-25		7.25	7.21	7.26
May-25		6.93	6.90	7.11
Neutral real interest rate				
Jan-25	2.67	2.73	2.80	2.90
Mar-25		2.76	2.81	2.91
May-25		2.78	2.84	2.94

Source: SARB

Next meeting: 31 July 2025

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