

**Sanisha Packirisamy**  
Chief Economist



**Tshiamo Masike**  
Economic Analyst



## Another cautious cut in interest rates to 7.75% in November



South Africa



United States



United Kingdom



European Union



Japan



China

<b>Current rate:</b>	<b>7.75%</b>	<b>4.50% - 4.75%</b>	<b>4.75%</b>	<b>3.25%</b>	<b>0.25%</b>	<b>3.10%</b>
<b>Previous rate:</b>	<b>8.00%</b>	<b>4.75% - 5.00%</b>	<b>5.00%</b>	<b>3.50%</b>	<b>0.10%</b>	<b>3.35%</b>
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate



### So what?



The Monetary Policy Committee (MPC) unanimously decided to cut interest rates by 25 basis points to 7.75% at the November meeting as expected. Inflation forecasts were changed slightly with inflation still expected to undershoot the midpoint of the inflation target (4.5%) in the near-term but tick up in 2026. The South African Reserve Bank (SARB) emphasised the uncertain environment, which partly explains the preference of 25-basis point rather than 50-basis points cut.

In the absence of a lower inflation target, we continue to project two more 25-basis point cuts in 2025 with the next one in January 2025. This would accumulate to a total of 100 basis points worth of cuts since the start of the cutting cycle in September 2024 and result in an interest rate of 7.25% at the end of 2025. We acknowledge that a return of Donald Trump to the White House may raise protectionist measures which could lift inflationary pressures around the globe, limiting the extent of easing in countries like South Africa (SA).

### Consumer lens



Size*	Bond value	11.5% Previous monthly payment	11.25% New monthly payment	Saving
S	≤ R1.6 million	R17 062.87	R16 788.10	R274.77
M	R2.6 million	R27 727.17	R27 280.66	R446.51
L	> R3.6 million	R38 391.47	R37 773.22	R618.25



Average vehicle loan value**	11.5% Previous monthly payment	11.25 New monthly payment	Saving
R400 000	R8 892.60	R8 842.33	R50.27

\* S = small, M = medium (uses mid-point of R1.6 mil to R3.6 mil), L = large  
The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit.  
The assumption for a home loan repayment period is 20 years and 5 years for a vehicle loan.

\*\*In the second quarter of 2024 according to TransUnion

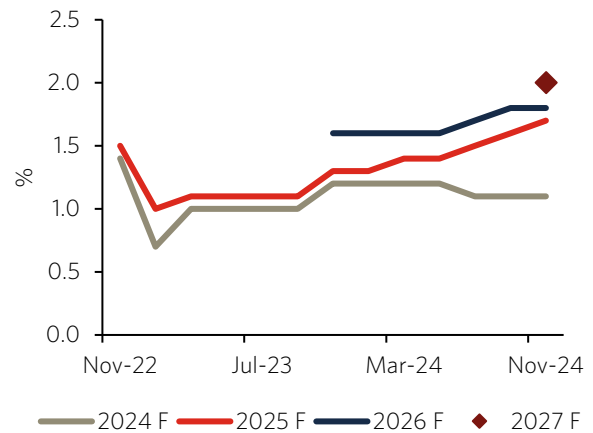
## Economic growth recovering off a low base

The SARB expects economic growth to improve in the near-term on the back of lower inflation, higher disposable income, two-pot pension withdrawals, base effects and improving consumer confidence. However, the bank acknowledged that growth could disappoint in the near-term based on subdued growth in some of the sectors in the third quarter. For example, manufacturing production growth was subdued at 0.2% quarter-on-quarter.

Economic growth was left unchanged at 1.1% in 2024. Growth for 2025 was revised up to 1.7% (previously 1.6%) and is expected to reach 2% in 2027.

While near-term economic growth risks were assessed as balanced, medium-term forecasts could surprise positively on structural reform efforts materialising.

Chart 1: SARB's real economic growth revisions



Source: SARB, Momentum Investments

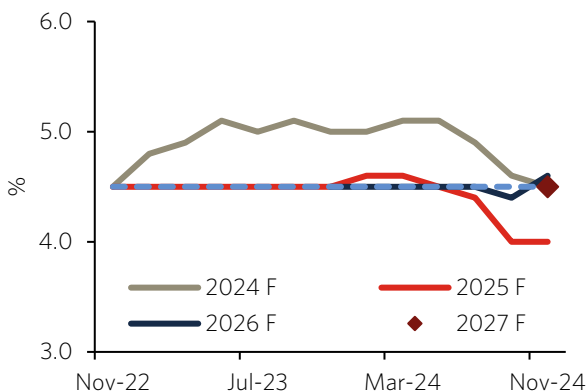
## Inflation remains contained but there is uncertainty around the medium-term forecasts

In the SARB's inflation forecast, headline inflation remains contained in the medium term but is expected to pick up slightly in 2026 (see chart 2).

Headline inflation was revised slightly lower to 4.5% in 2024 (previously 4.6%), kept unchanged at 4% in 2025 and revised up to 4.6% in 2026 (previously 4.4%).

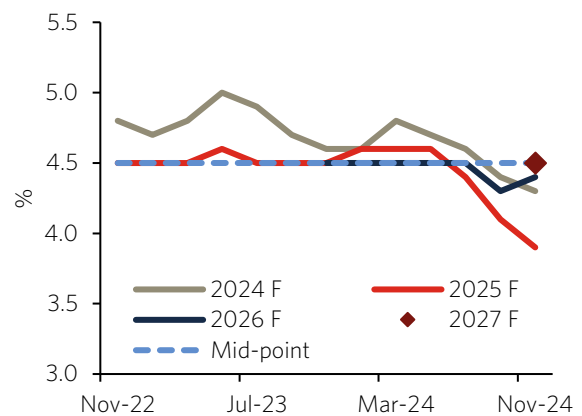
For the near-term forecasts, headline inflation was revised lower from the fourth quarter of 2024 until the second quarter of 2025 and is expected to undershoot the midpoint.

Chart 2: SARB's headline inflation revisions



Source: SARB, Momentum Investments

Chart 3: SARB's core inflation revisions



Source: SARB, Momentum Investments

Core inflation was revised lower this year and next and is estimated to remain below the mid-point through 2026 (see chart 3).

Core inflation is estimated at 4.3% in 2024 (down from 4.4%) and 3.9% in 2025 (down from 4.1%). Core inflation is estimated to tick up to 4.4% in 2026 (previously 4.3%).

Risks to the inflation outlook were assessed as balanced but the SARB provided scenarios that could result in inflation deviating from the forecasts (baseline).

The upside risks were based on higher administered prices and a more challenging external environment characterised by a weaker rand and higher oil prices. The downside risk considered geopolitical tensions easing (see estimated impact in table 1.). These scenarios were highlighted to emphasise “uncertainty surrounding the outlook”. These scenarios further explain the SARB’s cautious approach to the interest rate cutting cycle.

Table 1: Headline inflation scenarios

	Risk	Breakdown of risk	Detailed impact
Upside	Higher administered price inflation	25% electricity price increase	Electricity inflation 5-6 percentage points higher through 2025 and 2026
		Higher water price increases	Water inflation around 3-5 percentage points higher
	More difficult external environment	Weaker rand	Rand weakening to a low of R19.54/US dollar
		Higher oil prices	Oil prices are about 11% higher than baseline from 2025 to 2027
Downside	Easing geopolitical tensions and lower oil prices	Stronger rand	Rand appreciating to a high of R16.02/US dollar
		Lower oil prices	Oil prices are about 4% lower than in the baseline

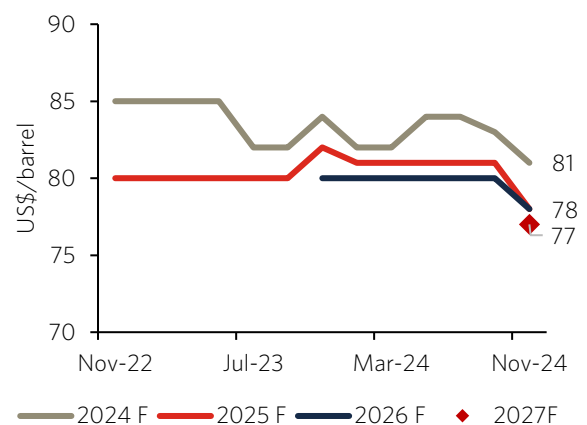
Source: SARB, Momentum Investments

Both upside and downside scenarios include an assumption on oil prices which indicates the importance of the oil price for the direction of inflation, particularly in this uncertain environment.

In the latest estimates, the SARB revised the Brent crude oil price forecast down for 2024, 2025 and 2026 (see chart 4).

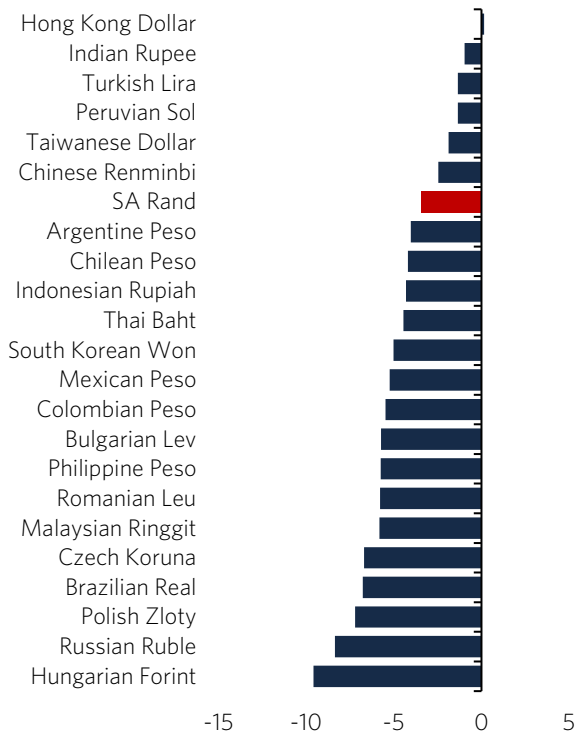
Since the last MPC meeting, the dollar has strengthened against most emerging currencies (see chart 5). Dollar appreciation can be due to backpedalling in the number of interest rate cuts expected from the Federal Reserve as well as Donald Trump’s re-election following the November 2024 United States (US) elections.

Chart 4: SARB’s Brent crude oil price revisions



Source: SARB, Momentum Investments

**Chart 5: Broad-based currency depreciation across emerging markets since the September MPC\* (%)**



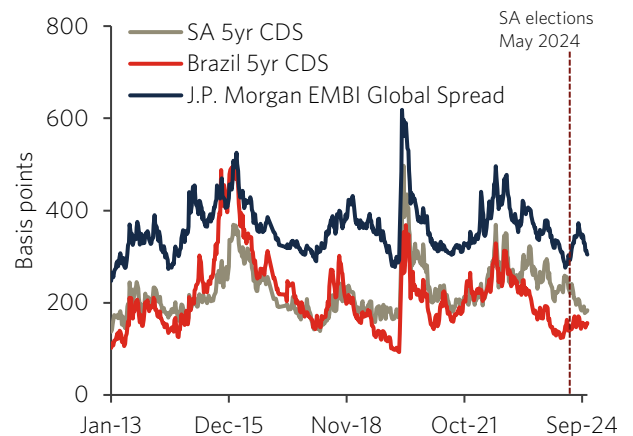
Source: Bloomberg (21 November), Momentum Investments  
\* 19 September - 21 November 2024

SA's five-year credit default swap (CDS, proxy for country risk premium) spread has narrowed following SA's national elections in May (see chart 6). This has resulted in a divergence from the J.P. Morgan EMBI Global Spread (an index that includes dollar-denominated debt of emerging market governments)

and is tracking closer to the Brazilian five-year CDS spread. The narrower five-year spread reflects political stability following the formation of the government of national unity, improvements in energy supply and logistics and government maintaining fiscal consolidation in the 2024 Medium-Term Budget Policy Statement (MTBPS) despite some fiscal slippage.

“The lower risk premium likely shielded SA from a more pronounced rand depreciation. The improved risk premium also contributed to the recent favourable shift in S&P's outlook for SA.”

**Chart 6: Lower SA risk premium**



Source: Bloomberg, Momentum Investments  
Data until 21 November 2024

## MPC unanimously cut the repo rate by 25 basis points

“The SARB announced the second 25-basis point interest rate cut since the start of the cutting cycle at the November 2024 meeting, taking the repo rate down from 8% to 7.75%.”

The announced cut and magnitude are in line with our and the Reuters median consensus. Out of the 19 analysts surveyed in the November 2024 Reuters Econometer poll, an overwhelming majority of 16, us

included, had pencilled in the 25-basis point cut. One analyst thought interest rates would be kept unchanged and two analysts expected a bigger cut of 50 basis points. Following the big drop in October's inflation rate, the forward-rate agreement (FRA) curve increased its expectation of a 50-basis point interest rate cut.

The governor emphasised that a 50-basis point interest rate cut was not discussed at the November interest rate meeting, unlike the September meeting.

Table 2: Shift in MPC member preferences at the scheduled November 2024 meeting

Number of committee members	Favoured a 50-basis point cut	Favoured a 25-basis point cut	Favoured no move	Favoured a 25-basis point hike	Favoured a 50-basis point hike	Favoured a 75-basis point hike
24 November 2022	-	-	-	-	2	3
26 January 2023	-	-	-	3	2	-
30 March 2023	-	-	-	2	3	-
25 May 2023	-	-	-	-	5	-
20 July 2023	-	-	3	2	-	-
21 September 2023	-	-	3	2	-	-
23 November 2023	-	-	5	-	-	-
25 January 2024	-	-	5	-	-	-
27 March 2024	-	-	5	-	-	-
30 May 2024	-	-	6	-	-	-
18 July 2024	-	2	4	-	-	-
19 September 2024	-	6	-	-	-	-
21 November 2024	-	6	-	-	-	-

Source: SARB, Momentum Investments

## The downward adjustment to the inflation target may take longer

Over the past few months, the SARB governor (Lesetja Kganyago) has been increasingly advocating for a lower inflation target (possibly 3%) on platforms such as the lecture at the University of Stellenbosch and the annual International Monetary Fund and World Bank meetings. More frequent comments about the target change have created an expectation that the target could be lowered soon.

At the MTBPS and the November interest rate setting meeting, it was noted that Treasury and the SARB are still engaged in discussions about lowering the inflation target but no timelines have been given. While the governor indicated that “discussions are coming to a conclusion”, we could still be some time away from an announcement about a lower inflation target.

We have previously argued that current conditions are conducive to implementing a lower inflation target. This was on the basis of inflation trending lower and inflation expectations moderating. Following the 2.8% year-on-year inflation rate in October, inflation is expected to trend higher in the coming months, albeit remaining contained. It has been previously noted that it would

not be ideal to implement a lower target when inflation is trending upward. Furthermore, the delay so far is creating a perception that Treasury’s intention could be to focus on its objective of fiscal consolidation. Standard Bank highlighted that countries typically have a lead time of two years when implementing a lower target change, so SA taking longer to reduce the inflation target would not be an anomaly.

“ In the absence of a lower inflation target, we continue to project two more 25-basis point cuts in 2025. This would accumulate to a total of 100 basis points worth of cuts since the start of the cutting cycle in September 2024 and result in an interest rate of 7.25% at the end of 2025.

Our view of the terminal interest rate is in line with the FRA market (21 November 2024) but slightly more conservative than the Reuters median consensus of 7% (November 2024 survey). The SARB’s quarterly projection model is guiding us to a terminal rate of 7.4% in 2025.

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