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in the moment

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SARB delivers a 25bp cut and hints at a lower inflation target

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	**7.25%**	**4.25% - 4.50%**	**4.25%**	**2.25%**	**0.50%**	**3.00%**
Previous meeting:	**7.50%**	**4.25% - 4.50%**	**4.50%**	**2.50%**	**0.50%**	**3.10%**
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate

So what?

The announced 25 basis point-interest rate cut at the May 2025 meeting brings the cumulative easing to 100 basis points since the cutting cycle started in 2024. While the easing process has been more staggered than expected, the implemented cuts have offered some relief to debt-laden consumers and will continue to do so. Despite the interest rate cuts, the real interest rate remains restrictive due to subdued inflation outcomes.

Recent remarks by government officials suggest progress on lowering the inflation target range. Given the voting outcome where one member preferred a 50-basis point cut, along with headline inflation forecasts expected to undershoot the midpoint of the target range and a scenario showing that a lower inflation target could be achieved without raising interest rates (in fact, by cutting them), we believe another 25-basis point rate cut this year cannot be ruled out.

Consumer lens

Size*	Bond value	11.00% Previous monthly payment	10.75% New monthly payment	Monthly saving
S	≤ R1.6 million	R16 515.01	R16 243.66	R271.35
M	R2.6 million	R26 836.90	R26 395.95	R440.95
L	> R3.6 million	R37 158.78	R36 548.24	R610.54

Size**	Vehicle value	11.00% Previous monthly payment	10.75% New monthly payment	Monthly saving
E	≤ R350 000	R7 705.10	R7 661.39	R43.71
M	R525 000	R11 510.03	R11 444.53	R65.50
L	> R700 000	R15 314.95	R15 227.67	R87.28

* S = small, M = medium (mid-point of R1.6 mil to R3.6 mil), L = large

** E = entry level, M = mid-entry (mid-point of R350k to R700k), L = luxury segment

The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit or balloon payment. The assumption for a home loan repayment period is 20 years and five years for a vehicle loan.

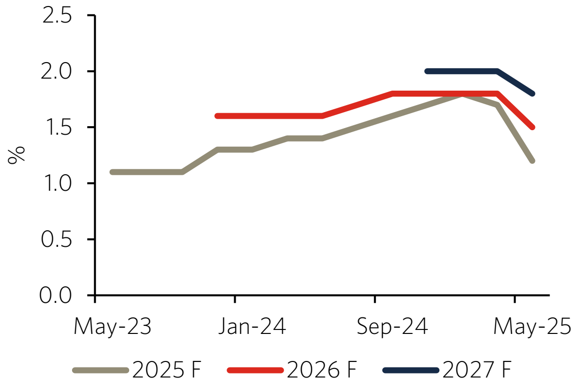
Growth outlook revised sharply lower on expectations of a weak quarter one performance

High-frequency data published by Statistics (Stats) SA —including contractions in manufacturing production, mining production, building statistics and wholesale trade, as well as a slowdown in retail and motor trade sales — point to weak economic growth in the first quarter of 2025.

> The SARB estimates that the economy will grow by 0.1% quarter-on-quarter in the first quarter of 2025. This sets a poor momentum base for economic growth for the year.

Against this backdrop, the SARB significantly revised its economic growth forecast down to 1.2% for 2025 (previously 1.7%). The revised estimate is in line with the Reuters median consensus. Growth prospects for 2026 and 2027 were also revised lower to 1.5% (previously 1.8%) and 1.8% (previously 2%), respectively (see chart 1).

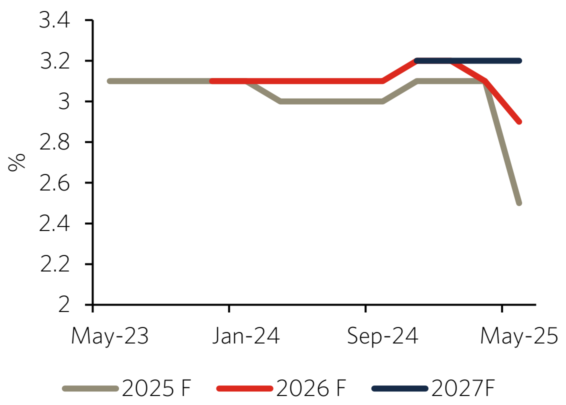
Chart 1: SARB's real growth revisions



Source: SARB, Momentum Investments

In addition to a softer domestic growth outlook for the first quarter, the SARB lowered its growth projections for SA's key trading partners in 2025 and 2026 (see chart 2), contributing to a weaker annual growth forecast locally.

Chart 2: SARB's revisions of real GDP growth in SA's major trading partner countries



Source: SARB, Momentum Investments

National Treasury had estimated that a 0.5 percentage point (pp) value-added tax (VAT) increase would detract a marginal 0.07pp from economic growth in year one. While marginal, the reversal of the VAT hike did potentially limit the extent of the downward revision in economic growth.

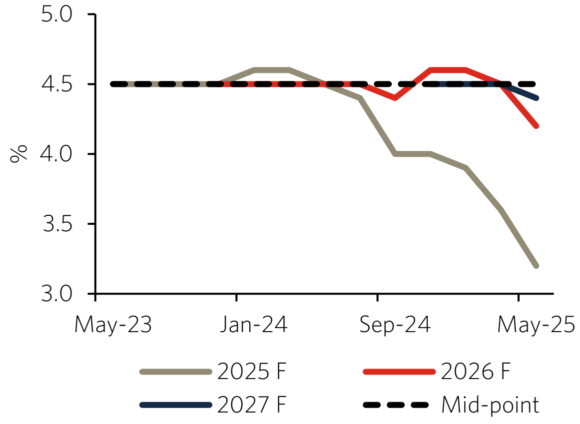
With growth forecasts revised significantly lower, the SARB now sees risks to the economic outlook as balanced, compared to the previous assessment of downside risks.

Reversal of VAT hike, lower oil prices and stronger rand drive inflation forecasts lower

> Similar to the growth outlook, the SARB revised its headline inflation forecast for 2025 notably lower to 3.2% from 3.6%.

Forecasts for 2026 and 2027 were also trimmed to 4.2% (from 4.5%) and 4.4% (from 4.5%), with headline inflation now projected to remain below the midpoint of the target range throughout the forecast period (see chart 3).

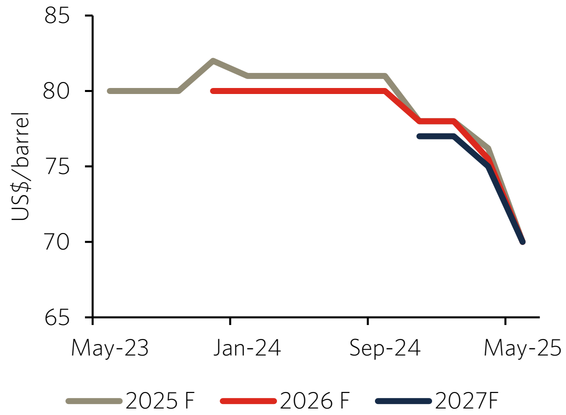
Chart 3: SARB's annual headline inflation revisions



Source: SARB, Momentum Investments

Reasons cited for this downward revision included a lower inflation starting point, the scrapping of the initially-proposed VAT hike which the SARB had estimated would add 0.13pp to headline inflation in year one and 0.25pp in year two, lower oil prices (see chart 4) driven by expectations that oil supply growth will outpace growth in oil demand and a stronger currency, with the rand having appreciated by 4.5% year-to-date.

Chart 4: SARB's Brent crude oil price revisions



Source: SARB, Momentum Investments

While revised lower, the SARB's oil price forecast remains higher than other agencies' forecasts (see table 1). However, this is in line with the SARB's cautious approach to oil revisions.

Table 1: Brent crude oil largely expected to average below the US$70/bbl mark

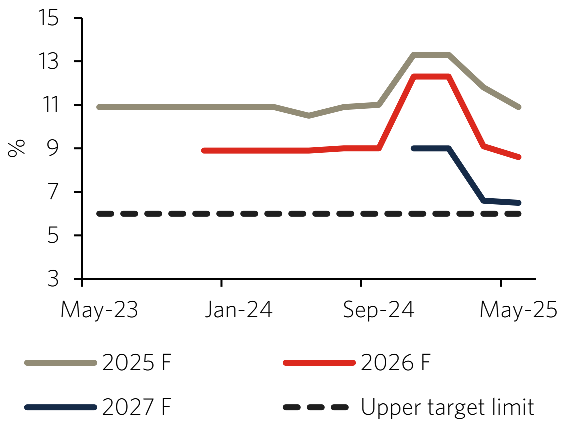
USD/bbl	2025	2026
EIA (May)	$65.9	$59.2
IMF (April)	$66.9	$62.4
World Bank (May)	$64	$60
SARB (May)	$70	$70

Source: Energy Information Administration (EIA), International Monetary Fund (IMF), World Bank, SARB, Momentum Investments
Month in brackets refers to when the estimate was published

> Other factors supporting the subdued inflation outlook include downward revisions to electricity inflation, which is now trending closer to the upper limit of the inflation target range (see chart 5).

Furthermore, core inflation is contained and was revised lower to 3.3% in 2025 (previously 3.7%), 4.1% in 2026 (previously 4.5%) and 4.5% in 2027 (previously 4.6%).

Chart 5: SARB's electricity inflation revisions



Source: SARB, Momentum Investments

On the back of the inflation-linked increase in the general fuel levy, the SARB revised its fuel taxes and levies inflation forecast higher to 3.1% in 2025 (previously 1.5%). However, the upward pressure from the fuel levy increase is said to be offset by the downward pressure from lower oil prices and a stronger rand.

The SARB assessed risks to the inflation outlook as balanced.

Near consensus repo rate cut with a dovish tilt

> With inflation performing consistently better than anticipated over the past few months and a more benign inflation outlook forecasted, the SARB decided to reduce the repo rate by 25 basis points to 7.25%.

Five members preferred the announced decision, while one preferred a 50 basis-point cut.

This decision was in line with the Reuters median consensus with 15 of the 25 surveyed analysts, including us, expecting interest rates to be reduced by 25 basis points at the time of the May 2025 survey. One analyst had pencilled in a 50-basis point cut while the remaining nine thought rates would be maintained at 7.5%. A majority of the analysts' views, including us, shifted to an expectation of a cut in the May Reuters survey as opposed to a hold in the April survey due to incoming soft inflation data, a revised Budget 3.0, which maintained fiscal consolidation and scrapped the VAT hike, and newsflow of ongoing trade discussions between the United States and other countries.

Table 2: Shift in MPC* member preferences at the scheduled May 2025 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
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	-	-	-
30 January 2025	-	4	2	-	-
20 March 2025	-	2	4	-	-
29 May 2025	1	5	-	-	-

Source: SARB, Momentum Investments

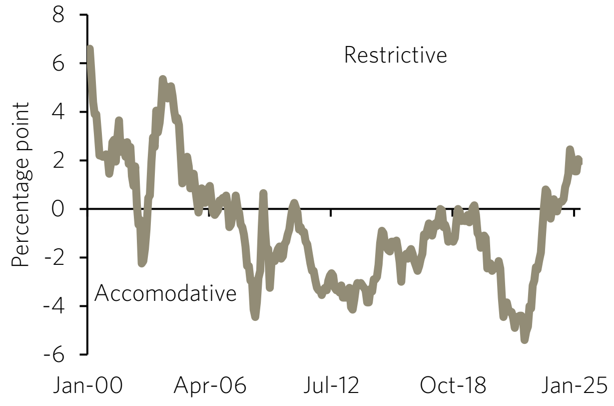
** Monetary Policy Committee*

Lower inflation target seen as achievable at a low cost to the economy

The announced 25 basis-point interest rate cut at the May 2025 meeting brings the cumulative easing to 100 basis points since the start of the cutting cycle in September 2024. Rate cuts in the current cycle have been more staggered than initially anticipated, with the last interest rate hike announced precisely two years ago. Nevertheless, the implemented interest rate cuts have been welcomed and provided some relief to debt-laden consumers in SA.

At the current repo rate (7.25%) and using the prevailing inflation rate, the real interest rate remains restrictive (see chart 6). When considering the SARB's expected inflation rate of 4.2 % in 2026, the restrictiveness persists albeit to a lesser extent.

Chart 6: Subdued inflation has driven real interest rates deeper into restrictive territory

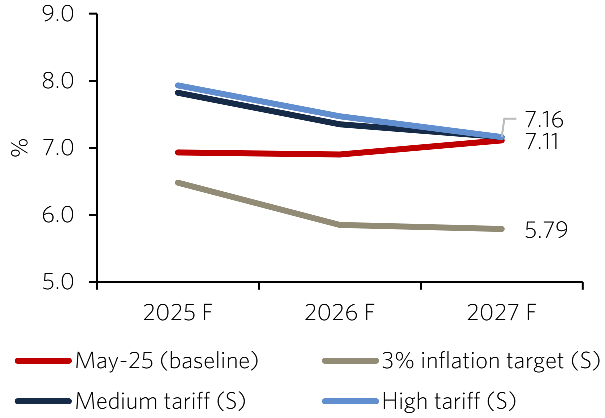


Source: Iress, SARB, Stats SA, Momentum Investments
Data until April 2025

Recent comments by the deputy governor (Fundi Tshazibana) and deputy finance minister (David Masondo) reported by Bloomberg News indicated potential progress regarding ongoing discussions about lowering the inflation target range from the current 3% to 6%. The progress was confirmed by Governor Lesetja Kganyago by stating that the technical work (i.e. determining the optimal target and sacrifice ratio) is at an "advanced stage" and now it is time for the mechanics (i.e. how to achieve the target, the timeline to achieve the target and whether other policies are needed alongside monetary policy).

For the first time, the statement was published with a scenario of the preferred lower inflation target of 3% and the results indicate that lowering the target would come at a low cost to the economy (0.2pp lower economic growth in 2025 and 0.1pp lower in 2026 against the baseline). Furthermore, inflation trends around the lower target (3% in 2025, 3.1% in 2026 and 3% in 2027) and interest rates are lower in this scenario (see chart 7).

Chart 7: Estimated repo-rate path under different scenarios (S)



Source: SARB, Momentum Investments

Given the voting outcome where one member preferred a 50 basis-point cut, along with headline inflation forecasts expected to undershoot the midpoint of the target range and a scenario showing that a lower inflation target could be achieved without raising interest rates (in fact, by cutting them due to successful open mouth operations to guide inflation lower), we believe another 25-basis point rate cut this year cannot be ruled out.