

MPC COMMENT | 20 MARCH 2025

# The SARB holds as it remains concerned about medium-term risks to inflation

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In line with our expectations heading into the meeting, the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) opted to keep the interest rate unchanged. The decision was likely a close call, reflected in split votes by MPC members. The repo rate will remain unchanged at 7.5% (prime at 11%).

**In March, only two members wanted to cut the interest rate, with the majority voting for no change.** This is a tilt in the balance from last month. In January, two of the six MPC members wanted to keep the interest rate unchanged amid concerns about how global factors, in particular, would impact the local inflation outlook. During that meeting, four members still saw the scope for a 25bps cut, so the majority decision for a cut was implemented.

**For now, we think today's decision could be more of a pause rather than an outright stop of the shallow cutting cycle, but the scope for significant further easing is limited.**

## SOMEWHAT LESS EMPHASIS ON UPSIDE RISKS OVER THE SHORT TERM, BUT MEDIUM TERM STILL WORRIES SARB

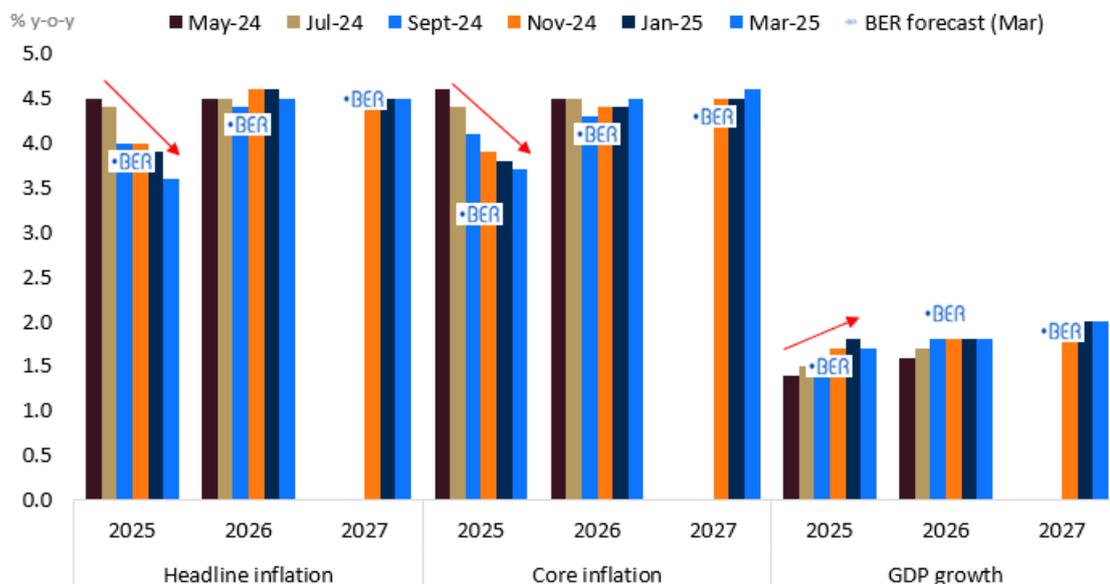
**Similar to the statement last month, there was a significant focus on the global environment in the (short) statement.** The SARB listed several major economies where headline and core inflation remains stubbornly above 2%, and emphasised that rates are likely to remain higher for longer despite some anticipated adjustments. While local inflation is under control "for now", external risks remain elevated.

**On growth, the SARB revised its 2025 GDP growth forecast downward to 1.7%.** This is a touch better than where we think growth may end up in 2025. The SARB left the medium-term view unchanged, with 1.8% in 2026 and 2% in 2027. However, after being seen as balanced for some time, the risks to growth are now seen to be the downside. The Governor was once again quite vocal on what needs to happen to lift growth, including "reaching a prudent public debt level, further repairing and strengthening network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains".

**Meanwhile, the inflation forecast was adjusted slightly lower, with 3.6% expected for 2025.** However, the SARB noted that this outlook has more moving parts than usual, reflecting ongoing uncertainty. From being very hawkish on inflation risks in January, the near-term view was now seen as having some upside and downside potential. However, the emphasis was on

the medium term, and it was noted several times that inflation trends upward over time, with some price pressure building in Q3 and Q4. The SARB forecasts 4.5% average inflation in 2026 and 2027, and assesses the risks over the medium term to be on the upside.

**Figure 1: The SARB, like many other analysts, has consistently underestimated inflation**



Source: SARB, BER

## SARB MAY RESTART THE CUTTING CYCLE LATER THIS YEAR

**The Quarterly Projection Model’s (QPM) repo rate “path” remained largely unchanged from the January meeting, despite the downward revision in near-term inflation.** This likely reflects stability in the outer-year projections, as monetary policy remains forward-looking. That said, the model still signals a single cut of 25bps in 2025 and then holding steady through to 2027 - further supporting our view that this could be a pause, with limited scope for further cuts. In the Q&A session, the MPC members emphasised that while the model uses data to inform these pathways, there is still a human element to policymaking, where the MPC members need to consider evolving risks in making repo rate decisions.

**The SARB was careful to emphasise that it makes decisions on a meeting-to-meeting basis and did not want to commit to a future interest rate path.** Depending on how some of the main drivers of inflation play out in the coming months, we think there might be scope for a cut later this year.

- In Q1, inflation expectations, as surveyed by the BER, dipped below the midpoint of the target for 2025, but edged slightly higher in the next two years – although remaining very close to 4.5%. Should inflation expectations remain anchored even as actual inflation starts to tick up in the coming months, this bodes well for potential rate cuts later this year.
- The rand exchange rate has remained relatively strong against a weaker dollar. The dollar, of course, has weakened because markets are repricing in rate cuts by the US Federal Reserve (Fed). Currently, the Fed (and the markets) expect 50bps of cuts this year. Should this, or more, be implemented by the Fed, it could give the SARB some

scope to cut the SA interest rate, too, as the change in the relative interest rate limits the potential negative impact on capital flows.

- Should the Brent crude oil price remain relatively low (currently trading just above \$70/bbl vs close to \$80/bbl by the time of the previous meeting), this will help keep inflation projections under control. A lower oil price helps contain inflation and “matters a lot to the forecast”. Indeed, global geopolitical risks - particularly in the Middle East - could drive renewed price volatility.
- While the SARB is forward-looking, if inflation continues to undershoot expectations as it has for some time, despite it being “yesterday’s inflation”, this should start tilting the projections down too, strengthening the case for rate cuts.
- On the flip side, the VAT hike should be inflationary. While the SARB will look through the initial shock, they will be keen to see how the second-round effects work through the economy. The SARB estimates that the VAT hike in the Budget tabled earlier this month should lift inflation by 0.2%pts – but this is countered on their headline forecast by some more favourable developments elsewhere.

**One understands why the SARB kept rates on hold today—the global environment is particularly “unpredictable” at the moment.** However, with minimal tweaking, the statement could have supported a rate cut, too. Indeed, with hindsight being 20/20, a slightly more aggressive start to the cutting cycle last year would have likely been warranted.

In closing, the Governor emphasised that upside risks necessitate a prudent approach to monetary policy, reinforcing the SARB’s cautiousness. The Governor mentioned again that monetary policy action should be calibrated to the outlook four to six quarters out, and it is over the medium term where they see upside risks.

**Remaining meetings in 2025:**

- 29 May
- 31 July
- 18 September
- 20 November

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