FUNDAMENTALS

SOUTH AFRICA MPC UPDATE
UNCERTAIN EXTERNAL BACKDROP

04 FEBRUARY 2025

Economist
Churchill Ogutu
+254 711 796 739
churchill.ogutu@ic.africa

IN BRIEF

- As widely expected, the MPC of the South African Reserve Bank (SARB) lowered the repo rate by 25bps to 7.50% at the January 2025 meeting, the third consecutive meeting with a rate cut outcome. The vote was split with 4 MPC members favouring a 25bps cut whereas 2 policymakers favoured a hold decision.
- The policymakers project inflation to average 3.9% this year before climbing slightly to 4.6% in 2026. The reweighting of the CPI basket, coincidentally on the MPC decision day is not expected to have a significant impact on the policymakers' inflation projections.
- Amidst the ongoing tariff threats from the US, the SARB reviewed a 10.0% universal tariff increment. Nevertheless, the monetary authorities seemed to have a high-level assessment of this trade war scenario, given the ambiguity around the exact tariff measures. We may have a better sense in subsequent MPC meetings as the layer of global trade uncertainty fades.
- From a domestic standpoint, SARB considered a much benign scenario that reflects continued reform momentum benefitting from the current GNU regime. In this scenario, the SARB expects growth to be higher by 2.4% from the current 2032 baseline
- As has been the case with recent MPC meetings, clarity around the transition to a lower mid-point inflation target of 3.0% cropped up during the post MPC meeting engagement. The IMF also weighed on the macroeconomic implications of a lower inflation target given its potential benefits.

External risks sway rate cut

As widely expected, the MPC of the South African Reserve Bank (SARB) lowered the repo rate by 25bps to 7.50% at the January 2025 meeting, the third consecutive meeting with a rate cut outcome. The vote was split with 4 MPC members favouring a 25bps cut whereas 2 policymakers favoured a hold decision. The SARB confirmed that 50bps was not in consideration suggesting the fragile external risk environment ahead of the MPC meeting. Regarding the IMF's report that recommended additional information on dissenting votes in its SARB Transparency Code Review report, the sense we took is that status quo would remain the case. The policymakers project inflation to average 3.9% this year before climbing slightly to 4.6% in 2026. The reweighting of the CPI basket, coincidentally on the MPC decision day is not expected to have a significant impact on the policymakers' inflation projections. Nevertheless, the MPC statement was laden with external downside risks that clouds the inflation outlook.

CPI basket reweighting is likely to have muted impact on inflation projections

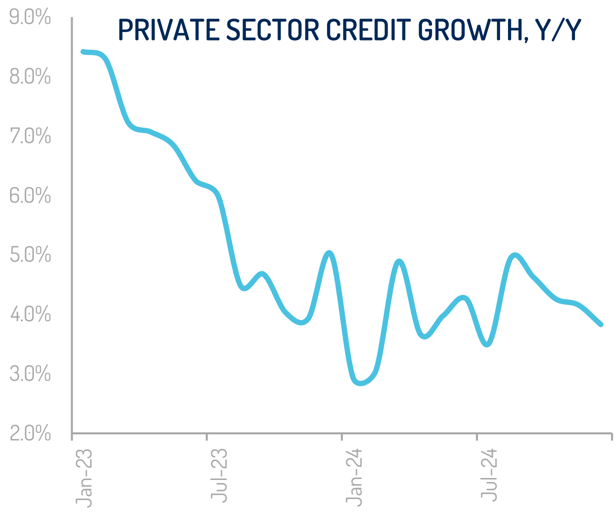
Inflation came in at 3.0% in December 2024 but the administered prices are likely to decelerate the outlook profile given the muted impact on the CPI basket reweighting. The National Energy Regulator of South Africa (NERSA) approved a 12.7% electricity tariff hike for the next fiscal year starting 1st April, 2025 and a further 5.4% and 6.2% for FY27 and FY28, respectively. The electricity tariff hikes were implemented as part of Eskom's sixth multi-year price determination for FY26 – FY28 period, but lower than the earlier applied rates by the electricity producer. The latest NERSA announcement improves the electricity CPI profile in the near-term horizon with the authorities' estimating a 2.1% decline from the 2025 baseline. Notably, the revised CPI basket reduced the electricity weight by 20bps to 3.4%. With FX having steadied under the Government of National Unity (GNU), the policymakers retained the guidance of 10.0% pass-through effect although maize was flagged as posing some upside risk to food inflation in the near-term.

Trade tariff scenario; China angle for now…

Similar to the November 2024 MPC meeting, SARB considered external scenarios that could have some lingering inflation effects if they crystalize. Amidst the ongoing tariff threats from the US, the SARB reviewed a 10.0% universal tariff increment. Notably, the choice of the 10.0% seems apt considering that China is one of South Africa's trading partners and the Trump administration has telegraphed a similar rate magnitude to be applied on the Asian economic powerhouse. Nevertheless, the monetary authorities seemed to have a high-level assessment of this trade war scenario, given the ambiguity around the exact tariff measures. We may have a better sense in subsequent MPC meetings as the layer of global trade uncertainty fades.

Long and variable lags; drags domestic credit

From a domestic standpoint, SARB considered a much benign scenario that reflects continued reform momentum benefitting from the current GNU regime. In this scenario, the SARB expects growth to be higher by 2.4% from the current 2032 baseline. The conservative forecast in the near-term reflects the longer-term gestation period for structural reforms that have plagued the economy. Furthermore, from a demand perspective, the authorities gave guidance with a 12-18-month lag on its monetary policy transmission response. Lending credence to this, private sector credit grew by 3.8% in December 2024 on a 12-month rolling basis. This extended a downtrend from August 2024 peak despite the cumulative 50bps cut in the repo in the last two MPC meetings last year. We think the two-pot pension withdrawal that has been in effect from September 2024 may have partially negated the need for bank credit by potential household-level borrowers. However, the lingering effect of elevated non-performing loans reeling from higher interest rate environment has disincentivized credit mediation.



SOURCE: SOUTH AFRICA RESERVE BANK, IC INSIGHTS

Lower midpoint inflation target is imminent

As has been the case with recent MPC meetings, clarity around the transition to a lower mid-point inflation target of 3.0% cropped up during the post MPC meeting engagement. The IMF also weighed on the macroeconomic implications of a lower inflation target given the potential benefits of reduced borrowing costs, currency stability with its major global trading partners pursuing a lower inflation target and reduced risk premium. The IMF also stressed the need for adequate communication to enhance better anchoring of inflation expectations. In our view, the upcoming conference on inflation scheduled for next month suggests that South Africa is inching closer to lowering its mid-point inflation target.

For more information contact your IC representative

Investment Banking | Business Development & Client Relations

Derrick Mensah
Head, Investment Banking
+233 308 250 051
derrick.mensah@ic.africa

Kelvin Quartey
Analyst, Business Development
+233 308 250 051
Kelvin.quartey@ic.africa

Dora Youri
Head, Wealth Management
+233 308 250 051
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 308 250 051
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Economist and Head,
Insights
+233 308 250 051
courage.martey@ic.africa

Churchill Ogutu
Economist
churchill.ogutu@ic.africa

Kwabena Obeng
Associate, Equity Research
+233 308 250 051
Kwabena.obeng@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
+233 30 825 0051
Emmanuel.dadzoe@ic.africa

Investing

Obed Odenteh
Chief Investment Officer
+233 308 250 051
obed.odenteh@ic.africa

Herbert Dankyi
Portfolio Manager
+233 308 250 051
herbert.dankyi@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 308 250 051
timothy.schandorf@ic.africa

Hannah Mate
Analyst, Risk Assets
+233 308 250 051
Hannah.mate@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+233 308 250 051
Clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 308 250 051
nanaamoa.ofori@ic.africa

Kelly Addai
Fund Accountant
+233 308 250 051
kelly.addai@ic.africa

Trading

Allen Anang
Sales/Trader, Global Markets
+233 308 250 051
allen.anang@ic.africa

Johnson Asiamah
Trader, Equities
+233 308 250 051
johnson.asiamah@ic.africa

Samuel Kwame Ofori
Trader, Fixed Income
+233 308 250 051
Samuel.ofori@ic.africa