702 Cape Talk 20 March 2025 Interest Rate decision

Current context

If the SARB cuts by 25 basis points today – that would be 100 basis point cut for SA in the six months from September last year to March this year i.e. the repo rate will have been cut from 8,25% to 7,25% over a 6 month period.

But in deciding whether to further reduce interest rates today the SARB will weigh up the following factors:

SA inflation has remained low at 3,2% in Feb – this fact would to allow for a further reduction in interest rates

But global and local factors will make members of SARB's MPC cautious– and perhaps pause in the interest cuts and wait and see how the land lies at the time of the next MPC in two months time

Globally – overnight US FED has decided not to cut rates because of uncertainty about US tariffs and the impact this is having on US inflation (usually SA rates and US rates move together – if US holds rates and SA cuts rates the reduced interest differential will put downward pressure on the rand which will be inflationary
Locally – GNU Budget crisis – if Parliament does not pass a budget that effectively contains SA's rising debt this will push up the borrowing by the SA government and will have inflationary effects and put upward pressure on SA interest rates

Expectations – managing of price expectations and price and wage setting behaviour

It is a balancing act for SARB as it seeks to get the balance right.

On the one hand, lower interest rates will boost growth and investment and take some pressure off those consumers who are paying mortgages on their homes

On the other hand, if they cut interest rates too much then inflation might start to rise again which will hurt consumers as prices start to rise, if the rate cut leads to Rand weaknesses then inflationary pressures become worse on imported fuel and technologies.

In recent years the global economy had experienced high inflation and high interest rates, and there are new inflationary risks associated with US President Trumps pro-tariff policies.