









## SARB signals implicit 3% target amid rate cut

	 South Africa	 United States	 United Kingdom	 European Union	 Japan	 China
<b>Current rate:</b>	<b>7.00%</b>	<b>4.25% - 4.50%</b>	<b>4.25%</b>	<b>2.00%</b>	<b>0.50%</b>	<b>3.00%</b>
<b>Previous meeting:</b>	<b>7.25%</b>	<b>4.25% - 4.50%</b>	<b>4.25%</b>	<b>2.00%</b>	<b>0.50%</b>	<b>3.00%</b>
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate



### So what?



The 25-basis point rate cut in July brought the repo rate to 7%. With inflation at 3% in June and expected to average 3% in the third quarter of 2026, the real neutral rate is still restrictive at 4%, well above the estimated steady-state neutral real rate of 2.5%. This indicates that the policy stance of the South African Reserve Bank (SARB) remains tight, suggesting scope for further cuts. For now, however, we anticipate an extended pause at 7%, though risks are tilted toward additional easing.

In a surprising move, the SARB announced it would target the lower end of the inflation band — although a move not unprecedented, as seen with the 2017 shift to the 4.5% midpoint.

The SARB's model suggests the 3% target could allow for four more cuts by end-2027, reaching a terminal rate of 5.84%. However, this hinges on inflation expectations declining.

## Consumer lens



Size*	Bond value	10.75% Previous monthly payment	10.50% New monthly payment	Monthly saving
S	≤ R1.6 million	R16 243.66	R15 974.08	R269.58
M	R2.6 million	R26 395.95	R25 957.88	R438.07
L	> R3.6 million	R36 548.24	R35 941.68	R606.56



Size**	Vehicle value	10.75% Previous monthly payment	10.50% New monthly payment	Monthly saving
E	≤ R350 000	R7 661.39	R7 617.82	R43.57
M	R525 000	R11 444.53	R11 379.25	R65.28
L	> R700 000	R15 227.67	R15 140.68	R136.99

\* 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

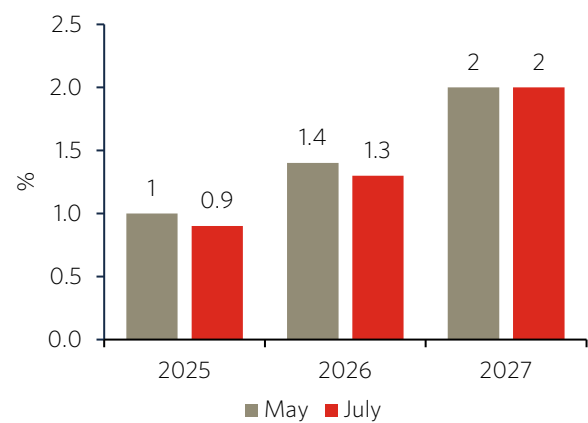
The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit or balloon payment. The assumption for a home loan repayment period is 20 years and five years for a vehicle loan.

Local economic growth underperformance persists

While global growth has, according to the International Monetary Fund, shown modest resilience despite trade policy uncertainty, SA has not enjoyed the same fortune.

The SARB revised its 2025 growth forecast slightly down from 1% in the May MPC to 0.9%, based on a 3% inflation target (see chart 1). The downward revision factors in the potential impact of 30% tariffs on SA goods.

Chart 1: SARB’s real growth revisions\*



\* Modelled on the 3% target  
Source: SARB, Momentum Investments

While growth in the first quarter came in at just 0.1% (Statistics SA), the SARB expects some recovery in the second quarter. The 2026 growth estimate was also lowered to 1.3% (from 1.4%), while the 2027 forecast remains unchanged at 2% (see chart 1). The assumption for stronger growth in 2027 is supported by structural reform efforts under Operation Vulindlela.

Risks to the growth outlook were assessed as being balanced, in line with the previous Monetary Policy Committee (MPC) assessment.

Relative to the estimates modelled on the 4.5% inflation target, economic growth is weaker across the forecast horizon in the 3% target scenario (see table 1).

Table 1: A 3% inflation target leads to lower growth estimates

Real GDP growth	3% target		4.5% target	
	May	July	May	July
2025	1	0.9	1.2	1
2026	1.4	1.3	1.5	1.5
2027	2	2	1.8	1.8

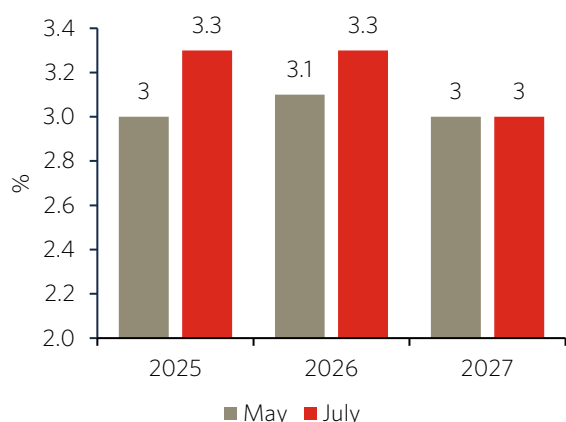
Source: SARB, Momentum Investments

A modest rise in inflation ahead

Contrary to the economic growth dynamics, the inflation picture is more favourable locally. While advanced economies, including the United States, are still grappling with above-target inflation, SA has seen price pressures remaining contained at the lower end of the inflation target range (3% to 6%). This has been supported by a stronger rand, lower oil prices and muted housing inflation.

Inflation is expected to rise modestly in the coming months, with the 2025 average revised up to 3.3% (from 3%). The 2026 forecast was also increased to 3.3% (from 3.1%), before stabilising at the SARB’s new implicit target of 3% in 2027 (see chart 2).

Chart 2: SARB's annual headline inflation revisions\*



\* Modelled on the 3% target

Source: SARB, Momentum Investments

Relative to the estimates modelled on the 4.5% inflation target, inflation estimates are lower in the 3% target in the outer years (see table 2). This aligns with the SARB's argument that adopting a lower inflation target will lead to reduced inflation over time.

Table 2: A 3% inflation target leads to lower inflation estimates

Headline CPI	3% target		4.5% target	
	May	July	May	July
2025	3	3.3	3.2	3.3
2026	3.1	3.3	4.2	4.2
2027	3	3	4.4	4.4

Source: SARB, Momentum Investments

Core inflation is expected to be contained around 3% over the forecast period at 3.3% in 2025, 3.2% in 2026 and 3.1% in 2027.

Risks to the inflation outlook were viewed as balanced, in line with the previous MPC assessment.

## Unanimous interest rate cut

The SARB's 25-basis point interest rate cut was in line with the Reuters median consensus. Of the 27 analysts surveyed, 17 expected a cut, while 10 anticipated no change. This highlights the high degree of uncertainty

ahead of this decision, which is typical when the MPC fine-tunes monetary policy in both hiking and cutting cycles.

Table 2: Shift in MPC member preferences at the scheduled July 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
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	-	-
31 July 2025	-	6	-	-

Source: SARB, Momentum Investments

## All eyes on the inflation target change

The July 25-basis point interest rate cut brought the repo rate to 7%. With inflation at 3% in June and expected to average 3% in the third quarter of 2026 (based on the SARB's one-year ahead expectations), the real neutral rate is still restrictive at 4%, well above the estimated steady-state rate of 2.5%. This indicates that the SARB's policy stance remains tight, suggesting scope for further cuts. For now, however, we anticipate an extended pause at 7%, though risks are tilted toward additional easing.

In a surprising move, the SARB announced it would explicitly target the lower end of the inflation band. This came without a formal target change announcement from the Finance Minister. However, this is not unprecedented given that a similar approach was taken in 2017, when the SARB shifted guidance to targeting the midpoint of the inflation band (4.5%).

According to the SARB's Quarterly Projection Model, the 3% target could allow for four additional interest rate cuts between now and the end of 2027, with a terminal rate of 5.84%. However, this hinges strongly on the projection that inflation expectations trend lower.

The reaction of economic agents (including analysts, businesses, and trade unions) is central to the inflation target discussion. If a lower target guides inflation expectations down, this would translate into lower actual inflation over time. In such a scenario, real interest rates would become more restrictive, creating space for the SARB to cut interest rates further.

The SARB expects inflation expectations to adjust over two years, consistent with the usual monetary policy lag and within their forecast horizon.

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