momentum investments

in the moment

Interest rate cut to 6.75% with further room to ease

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	6.75%	3.75% - 4.00%	4.00%	2.00%	0.50%	3.00%
Previous meeting:	7.00%	4.00% - 4.25%	4.00%	2.00%	0.50%	3.00%
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate

So what?

At its final meeting of 2025, the Monetary Policy Committee (MPC) lowered the repo rate by 25 basis points, reducing it from 7% to 6.75%. This adjustment brings total easing to 150 basis points since the cutting cycle began in September 2024. Lower interest rates have boosted consumer spending and are expected to stimulate investment and economic growth as the rate cutting cycle has further room to go. According to the South African Reserve Bank's (SARB) Quarterly Projection Model (QPM), there could be a further 50 basis points in rate cuts in 2026. However, their scenario analysis considers risks such as a potentially weaker rand, higher administered prices and elevated inflation expectations, which could slow the pace of rate cuts. The rhetoric from the SARB suggests that the door to further interest rate cuts remains open in 2026 and 2027.

Consumer lens

Size*	Bond value	10.50% Previous monthly payment	10.25% New monthly payment	Monthly saving
S	≤ R1.6 million	R15 974.08	R15 706.29	R267.79
M	R2.6 million	R25 957.88	R25 522.73	R437.15
L	> R3.6 million	R35 941.68	R35 339.16	R602.52

Size**	Vehicle value	10.50% Previous monthly payment	10.25% New monthly payment	Monthly saving
E	≤ R350 000	R7 617.82	R7 574.40	R43.42
M	R525 000	R11 379.25	R11 314.19	R65.06
L	> R700 000	R15 140.68	R15 053.99	R86.69

* 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.

Short-term growth has improved slightly, with medium-term growth expected to approach 2%

High-frequency data published by Statistics SA indicate positive but slower growth in the third quarter of 2025 compared to the second quarter's 0.8% quarter-on-quarter (q/q) surprise. Seasonally adjusted mining production rose 2.5% q/q in the third quarter (vs. 3.8% q/q in the second quarter), manufacturing was nearly flat at 0.1% q/q (vs. 1.3% q/q), vehicle sales grew 0.7% q/q (vs 10.9%) and retail trade sales rose 0.9% q/q, up from 0.6% q/q.

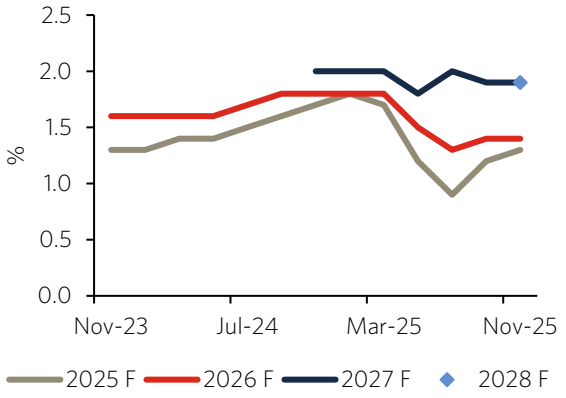
> The SARB remains positive about economic activity in the second half of 2025 and has lifted its economic growth estimate for the third quarter to 0.5% q/q (previously 0.4% q/q) and to 0.4% q/q for the fourth quarter (previously 0.3% q/q).

This took the 2025 growth projection slightly up from 1.2% to 1.3% (marginally higher than the National Treasury's forecast and the Reuters median consensus of 1.2%).

SARB's projected economic growth for the next three years is 1.4% for 2026 and 1.9% for 2027 (both unchanged) and remains at 1.9% in 2028 (see chart 1). This results in an average medium-term growth rate of 1.7%, lower than National Treasury's projection of 1.8%.

Risks to the growth outlook were maintained as balanced.

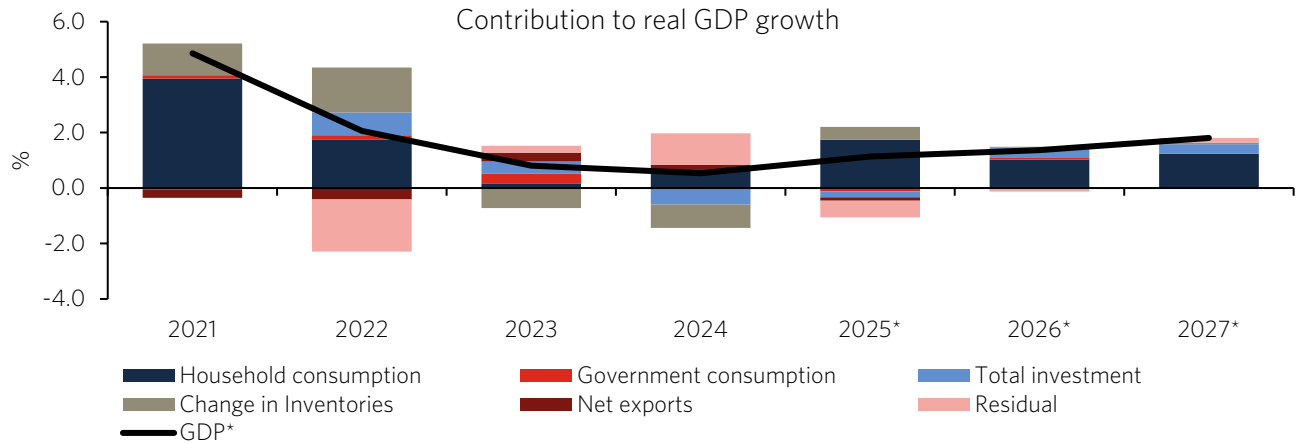
Chart 1: SARB's real growth revisions for SA



Source: SARB, Momentum Investments

Household consumption expenditure is expected to drive economic growth (see chart 2). In the first half of 2025, household expenditure grew by 3% year-on-year (y/y), boosted by low inflation and interest rates, strong performance in the equity market, two-pot retirement withdrawals (R18.2 billion in the first six months of 2025) and improved consumer confidence. While investments are holding back growth this year, it is anticipated to boost growth next year, driven by both public sector initiatives (government's R1 trillion infrastructure plans over the medium term) and private sector activity as structural reforms progress.

Chart 2: Household consumption remains the key driver of economic growth



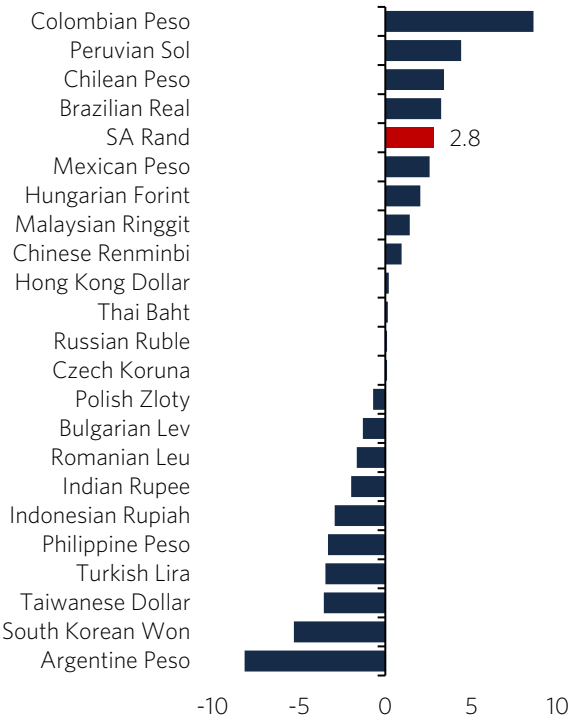
Source: SARB (October 2025 Monetary Policy Review), Momentum Investments
** Estimates*

Stars are aligning for the inflation trajectory

Since the September MPC meeting, inflation has trended higher to 3.6% y/y in October. However, headline inflation figures consistently came in lower than the SARB's forecasts and the Reuters median consensus: August recorded 3.3% y/y versus the Reuters median consensus of 3.6% y/y, September was 3.4% y/y compared to 3.5% y/y and October was at 3.6% y/y compared to 3.7% y/y. These downside surprises were mainly driven by food inflation, especially a significant decrease in vegetable prices from a high of 14.6% y/y in July 2025 to negative 4.4% y/y in October due to improved supply. The SARB remains concerned about beef prices.

The rand has strengthened 2.8% against the United States (US) dollar since the last MPC meeting (see chart 3), core inflation is subdued and Brent crude oil continued to trade below US$70/bbl. The SARB lowered its crude oil estimates from US$70/bbl to US$69/bbl in 2025 and US$67 over the medium term.

Chart 3: Rand fifth best performing EM currency against the US dollar since the September MPC*, (%)

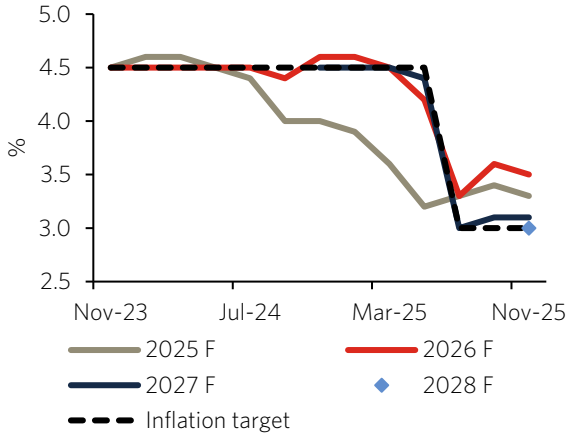


Source: Bloomberg (20 November), Momentum Investments
** 19 August 2025 - 20 November 2025*

> Due to downside inflation surprises, rand strength and a lower oil price assumption, headline inflation was revised slightly lower to 3.3% in 2025 (previously 3.4%) and to 3.5% in 2026 (previously 3.6%).

The headline inflation forecast for 2027 was kept unchanged at 3.1%, while the 3% target is expected to be reached in 2028 (see chart 4). Core inflation is expected to reach 3% a year earlier.

Chart 4: SARB's annual headline inflation revisions



Source: SARB, Momentum Investments

Risks to the inflation outlook were considered as balanced. The SARB noted that food inflation has peaked, the exchange rate is helping to contain core inflation, medical aid increases for 2026 are lower than 2025, but rising housing costs require close monitoring. The National Treasury's formal announcement of a lower target included a one percentage point tolerance band on either side of 3% to account for fluctuations but the Governor reiterated that the goal is 3%.

As reported by *BusinessDay*, National Treasury's endorsement of a lower inflation target was questioned in Parliament by civil society organisations and some economists on 19 November 2025. The criticism centred on concerns that a reduced inflation target would decrease government revenue and negatively

impact indebted households by reducing their nominal wage increases. Additionally, it was indicated that monetary policy has emerged as the primary influence on fiscal outcomes, with National Treasury adjusting the fiscal framework to align with the SARB's disinflationary approach. We maintain that a lower target will benefit the economy over time and lower borrowing costs. Nevertheless, the concerns raised by these groups highlight the risk of inflation expectations adjusting more slowly than anticipated. The results of the fourth quarter inflation expectations will be published on 12 December and we expect to see a moderation in expectations.

Rates cut to 6.75% in a unanimous decision

On the back of a favourable inflation rate trajectory, the MPC decided to cut the repo rate by 25 basis points, bringing the repo rate down to 6.75%. The decision was surprisingly unanimous and it was revealed that a 50-basis-point cut was not considered. Since the start of the cutting cycle in September 2024, the MPC have only cut in increments of 25 basis points, totalling 150 basis points to date.

Table 1: Shift in MPC member preferences at the scheduled November 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
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	-	-
18 September 2025	-	2	4	-
20 November 2025	-	6	-	-

Source: SARB, Momentum Investments

SA still in a rate-cutting cycle

With lower interest rates over the past year, borrowers have seen some relief in debt repayments, providing stimulus to consumer spending and improving overall sentiment. This environment may encourage increased investment activity and support the ongoing growth momentum as the rate-cutting cycle continues.

The SARB's QPM is guiding toward a repo rate of 6.19% at the end of 2026 (see chart 5), implying around 50 basis points in additional cuts next year. In our view, comments by the SARB leave the door open for further monetary policy easing into 2027.

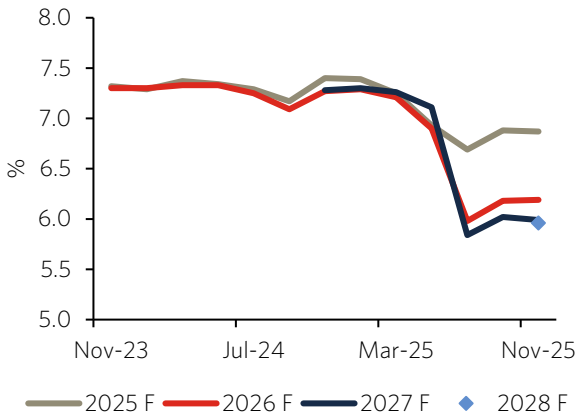
The extent of further easing will be dependent on a continued fall in inflation expectations and

government's ability to maintain fiscal prudence. The formal adoption of the inflation target is likely to lead to a faster favourable adjustment in inflation expectations, given high SARB credibility and its continued commitment to achieving its new inflation target within a flexible framework (including a time horizon and tolerance band to account for possible economic shocks).

This likely leaves more room for monetary policy easing than we initially anticipated (one interest rate cut in 2026 and one in 2027) prior to the formal adoption of the new target.

In its scenario analysis of (1) a strengthening in the US dollar, which leads the rand returning to its 2023 levels (R19/US from around R17/US currently) and (2) higher administered prices and inflation expectations being higher for longer, the SARB indicated that rates would come down slower than what the QPM is suggesting. In the first scenario, rates are projected to be higher at 6.58% in the first quarter of 2028, as opposed to the baseline figure of 6.05%. In the second scenario, rates are anticipated to be 6.41% in the third quarter of 2027, compared to 6.03% under the baseline assumption.

Chart 5: SARB's year-end repo rate revisions



Source: SARB, Momentum Investments

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