What to expect for interest rates in South Africa tomorrow

The South African Reserve Bank's (SARB's) Monetary Policy Committee (MPC) will be holding its penultimate meeting next week, with economists split between expecting a pause or another cut to interest rates.

The MPC will announce its next policy move on Thursday, 18 September, marking the second-last meeting for the year. The final meeting will be held in November.

Following the start of the local rate-cutting cycle in September 2024, the Reserve Bank has cut rates by a cumulative 125 basis points, reducing the repo rate from 8.25% before the cycle to 7.00%.

Similarly, the prime lending rate has been cut from 11.75% to 10.50% over the past year.

While the cutting cycle has been gradual, there has only been one meeting this year so far—March 2025—where the MPC held rates.

This was amid local budget issues, where the Government of National Unity (GNU) could not pass a budget in February, and rising uncertainty over the Trump administration's policy direction in the United States.

Despite the uncertainty and risks to the downside, consumer and producer inflation in South Africa continued to cool, dragging the SARB's expected annual average from the 4.5% midpoint it had been targeting to below 3%.

This not only provided ample room for the rate cuts but also gave the central bank the opportunity to start targeting a lower inflation rate in general.

While the reprieve in inflation was welcome and has helped ease pressure on indebted households, it also could not outlast wider economic challenges.

Electricity and utility hikes far above inflation, coupled with other consumer-facing increases like those seen in food and non-alcoholic beverages, have slowly caused inflation to tick higher.

Because of this, economists at Nedbank expect inflation to drift upwards from the SARB's preferred 3% target, and will likely move towards 4.5% in 2026.

Over the long term (by the end of 2027), inflation is expected to head back towards the 3% mark, but in the meantime, further rate cuts would likely run counter to the SARB's intention to target this lower rate.

"We believe the MPC will leave the repo rate unchanged (in September), pausing its easing cycle, which started in September last year," the bank said.

It added that, since the July meeting, the risks to the inflation outlook have not changed much and appear relatively balanced.

However, food and electricity prices still pose the most significant upside risk over the near term. South Africa's growth trajectory also remains weak, "so there is no demand pressure on prices," it added.

Absa has expressed **similar views**, saying that the Reserve Bank will struggle to deliver interest rate cuts amid rising inflation, while also pursuing a lower target.

As a result, South Africans are unlikely to see any meaningful rate cuts until 2027, it said.

Meeting	**Repo Rate**	**Prime**	**Change**
September 2024	8.00%	11.50%	-25bp
November 2024	7.75%	11.25%	-25bp
January 2025	7.50%	11.00%	-25bp
March 2025	7.50%	11.00%	Hold
May 2025	7.25%	10.75%	-25bp
July 2025	7.00%	10.50%	-25bp
September 2025 (expected)	*7.00%/6.75%*	*10.50%/10.25%*	*Hold/-25bp*

The argument for rate cuts this month

However, some economists see room for more than one rate cut in the near term.

According to Investec Chief Economist Annabel Bishop, South Africa could follow the lead of the US Fed and cut rates in either September or November.

Weak jobs data, higher inflation and growing job support figures in the United States have paved the way for the Fed to cut rates in September.

Markets are anticipating a relatively aggressive rate-cutting cycle in the US, which could feed into more cuts back home.

While the SARB does not strictly follow the US Fed's lead in cutting or hiking rates, the interest rate differential between the two countries is a crucial factor at play.

The SARB is unlikely to cut too aggressively and narrow the differential, as this has an impact on the value of the rand. However, if the US Fed cuts, there is more room for the SARB to cut too.

Given that context, Bishop said that a 75 basis point cut in the US over the coming months could signal another 25 basis point cut by the SARB—either in September or in the final meeting for the year in November.

The US Fed reviews its monetary policy every four weeks, while the SARB does so every six weeks. The SARB's announcement will come a day after the Fed makes its policy move next week.

Bishop said her baseline expectation is for a 25 basis point cut, but this could be pushed out to November.

The Investec chief economist added that financial markets also now expect a 75bp cut in the repo rate out to September 2027, adding the caveat that the Forward Rate Agreement (FRA) curve is changeable.

The FRA curve has fully priced in a 25bp cut for the remainder of this year, hence the expectations for a cut of that size in September or November.

She added that the FRA hasn't priced in a second 25bp easing this year, but there is still a 50% chance it could happen.

Reserve Bank governor Lesetja Kganyago will announce the MPC's decision on Thursday, 18 September, at 15h00.