

South African MPC

19 November 2025

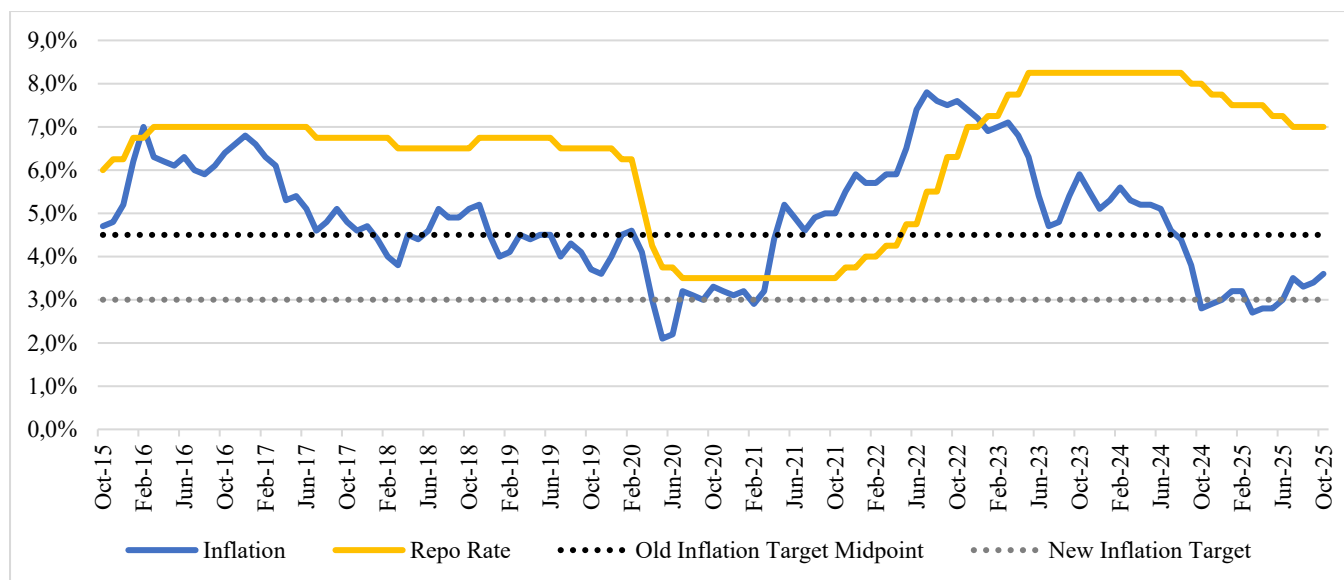
Executive summary

Over the past decade, South Africa's repo rate tracked inflation relative to the previous 3–6% target range, with a 4.5% midpoint. Rates rose when inflation exceeded the midpoint and eased when it neared the lower bound. Sharp cuts during the covid-19 pandemic lowered the repo to 3.50% in mid-2020, while a tightening cycle from 2021 to 2023 saw the rate peak at 8.25%, moderating to 7.00% by mid-2025 as inflation eased toward the new 3% target.

The November 2025 medium term budget policy statement formalized the 3% inflation target with a 1 percentage point band. Headline inflation rose from 2.8% to 3.6% over the past year, with core inflation stable, suggesting underlying price pressures remain contained. With repo rates having declined and inflation approaching the target, near-term policy is likely easing-biased, supporting investment, household spending, and moderate economic growth while maintaining price stability.

Analysis

Figure 1: Inflation and Interest Rate (Oct 2015- Oct 2025)



Source: SARB & Statistics South Africa

The South African repo rate has experienced multiple phases of adjustment over the past decade, closely reflecting underlying inflation dynamics relative to the old target range of 3–6%, with a midpoint of 4.5%. From October 2015, the repo rate rose from 6.00% to 7.00% by March 2016, responding to inflation climbing from 4.7% to 6.3%, above the midpoint of the previous target range. The rate held at 7.00% throughout much of 2017, during which inflation moderated from 6.6% in January to around 5.1% by September, before easing to 6.75% mid-2017 and further reducing to 6.50% through mid-2018 as inflation moved lower, fluctuating between 3.8% and 5.1%.

From late 2018 to early 2019, the repo rate stabilized at 6.75% while inflation hovered around 4.0–4.5%, close to the old target midpoint. Beginning in January 2020, the economic impact of the COVID-19 pandemic prompted a series of sharp rate cuts, reducing the repo rate from 6.25% to a record low of 3.50% by July 2020. This period coincided with a marked decline in inflation from 4.5% to 3.2%, bringing it near the lower bound of the old target range. The rate remained at 3.50% through most of 2021, even as inflation gradually increased from 3.2% in January to 5.0% by September.

In November 2021, the repo rate rose modestly to 3.75% in response to accelerating inflation, which reached 5.9% by December 2021. Throughout 2022, the rate climbed further in tandem with escalating inflation, peaking at 7.00% by November as headline inflation surged above the 4.5% midpoint of the old target range, reflecting higher fuel, food, and electricity prices. During 2023, the repo rate peaked at 8.25% in May and held steady through August 2024, while inflation gradually moderated from 7.1% in March 2023 to 3.8% by September 2024. Following this moderation, the rate began to decline, reaching 7.00% by July 2025 and remaining unchanged through October, as inflation continued its gradual approach toward the newly adopted 3% target, standing at 3.6% by October 2025.

Overall, the past decade illustrates a clear pattern of monetary policy cycles under the previous 3–6% target, with the repo rate rising when inflation exceeded the 4.5% midpoint and easing when inflation approached the lower bound. The data indicate that monetary authorities actively balanced price stability with support for economic growth, adjusting policy in line with both domestic and global developments.

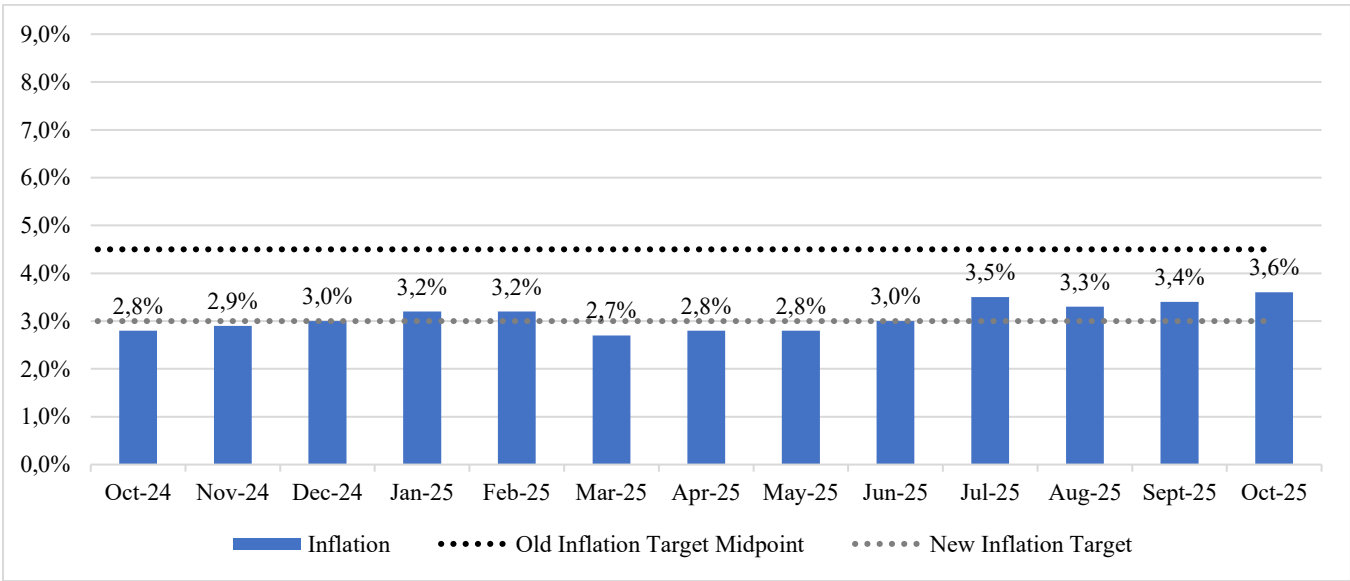
Previous Decision

The September 2025 MPC statement was accompanied by forecasts indicating that headline inflation would average 3.3–3.6% in 2025, with core inflation around 3.2–3.3%. GDP growth was projected at 1.4%, reflecting a moderate economic recovery. Fuel and electricity prices were expected to exert upward pressure on inflation, while global commodity prices were assumed to remain broadly stable. The nominal effective exchange rate was projected to remain near previous levels, helping to contain imported inflation.

These forecasts incorporated the reduction of the inflation target from 4.5% to 3.0% in the third quarter of 2025, providing a formal framework for anchoring expectations. The neutral real interest rate was estimated at 2.5%, suggesting that a repo rate near this level would be accommodative, whereas rates materially above it would be contractionary. In this context, the MPC maintained the repo rate at 7.00%, underscoring that policy would remain responsive to incoming data on inflation, growth, and expectations.

New Inflation Target

Figure 2: Inflation Rate (Oct 2024 – Oct 2025)



Source: Statistics South Africa

In the November 2025 Medium Term Budget Policy Statement, the National Treasury formalized a 3% inflation target with a 1 percentage point tolerance band. Historical data show that South Africa’s average inflation has exceeded peer countries, reducing

competitiveness, pressuring the rand, and raising the cost of living, particularly for lower-income households. Over the past year, headline inflation rose from 2.8% in October 2024 to 3.6% by October 2025, reflecting a gradual recovery in demand, adjustments in food and energy prices, and base effects from the prior year. Core inflation remained relatively subdued throughout this period, indicating that underlying price pressures outside volatile components such as food and fuel have remained contained. These developments follow a decade in which the repo rate closely tracked inflation relative to the old 3–6% target range with a 4.5% midpoint, rising when inflation exceeded the midpoint and easing when it approached the lower bound.

The new 3% target provides scope for further monetary accommodation. Nominal GDP and revenue growth may initially slow, slightly constraining fiscal space, but fiscal stabilization measures and structural reforms are expected to mitigate these effects. Inflation and expectations are projected to gradually converge toward the 3% target over the next two years, with coordinated monetary and fiscal policy supporting the transition. The recent one-year trajectory, with inflation steadily approaching the target band and repo rates having declined from 8.00% in October 2024 to 7.00% by mid-2025, suggests that the central bank has the scope to ease monetary policy in a measured manner, supporting investment, household spending, and broader economic growth.

Outlook

Considering the repo rate history, September 2025 MPC forecasts, and the newly adopted 3% inflation target, the near-term policy stance is likely to remain easing-biased. Following a prolonged tightening cycle that peaked at 8.25% in 2023, the repo rate has declined to 7.00% by mid-2025. With headline inflation approaching the new target and core inflation remaining stable, the policy rate is near or slightly above neutral, suggesting scope for modest cuts.

GDP growth forecasts remain moderate, and inflation expectations are anchored by the new target. In light of these conditions, the repo rate at the **20 November 2025** MPC meeting is **likely to be maintained at 7.00% or reduced by 25 basis points** to support economic activity while ensuring inflation remains within the revised target band.