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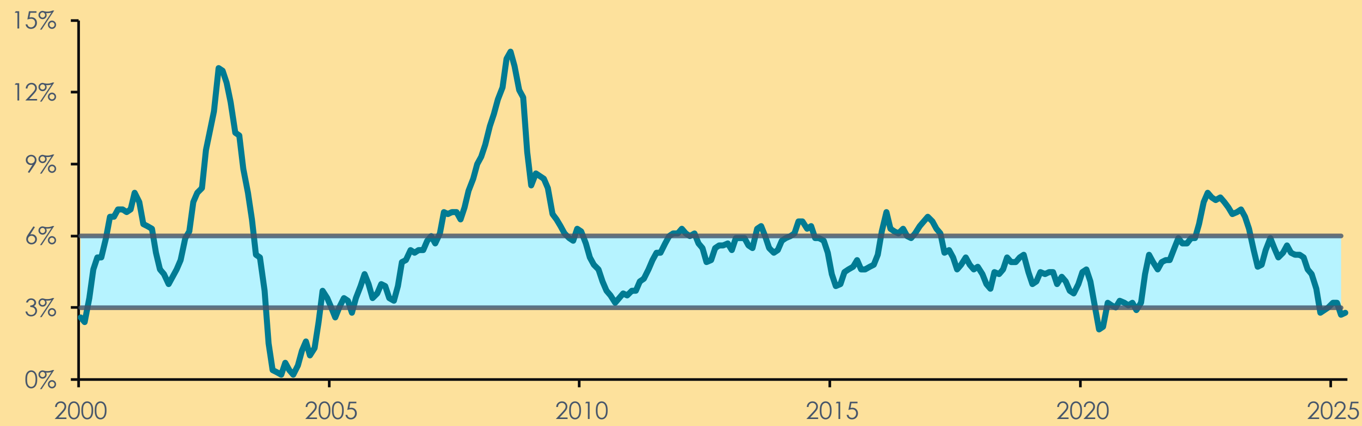
Image in Focus: The SARB caught between a rock and a hard place

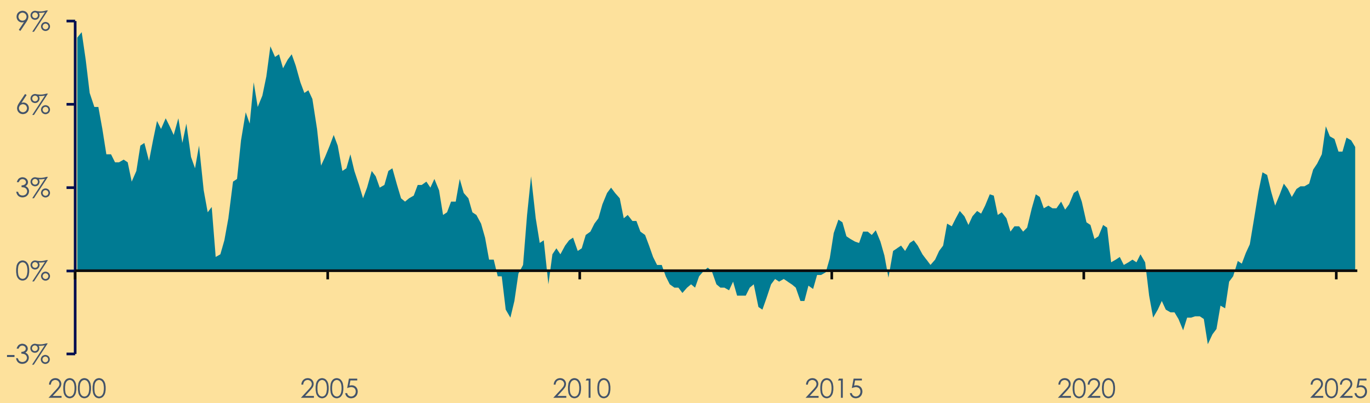
The South African Reserve Bank (SARB) is at a policy crossroads with important implications for growth, interest rates and bond market dynamics. This week, Visio Fund Management, the manager of the Curate Momentum Balanced Fund, shares insights on two key macroeconomic trends shaping South Africa's outlook: Inflation has fallen below the SARB's 3% lower target bound, while the real policy rate remains elevated.

Chart 1: South African inflation rate compared with the SARB target range (3% to 6%)



Source: Visio Fund Management, Bloomberg, January 2000 to May 2025

Chart 2: South Africa real policy rate (repo rate minus inflation)



Source: Visio Fund Management, Bloomberg, January 2000 to May 2025

Summary of the charts

The charts highlight two important trends shaping South Africa's macroeconomic landscape:

Chart 1: Inflation is below the SARB's lower target bound
Since February 2000, South Africa has maintained an inflation-targeting framework with a formal range of 3% to 6%, designed to provide a balance between controlling inflation and supporting economic growth. The undershoot below the 3% lower bound is notable because it signals unusually low inflation relative to the framework that has guided monetary policy for more than two decades.

Chart 2: The real policy rate has risen meaningfully
This has several important implications for economic growth. A high real policy rate generally acts as a brake on economic growth by raising borrowing costs, reducing investment and consumption, as well as increasing fiscal pressures due to higher debt servicing costs in the near term.

How does this link to the positioning of the Curate Momentum Balanced Fund?

The trends illustrated place the SARB at a policy crossroads, with two plausible scenarios ahead.

Scenario 1
Following the most recent MPC meeting, the SARB cut the repo rate to 7.25%. The decision to lower the repo rate was unanimous, but one MPC member preferred a 0.5% cut. If inflation remains below the target, the SARB may continue to lower the repo rate to stimulate economic growth.

Scenario 2
Alternatively, if the SARB revises its inflation target downward, the repo rate will remain higher for longer to bring inflation down to the new target. This will keep real interest rates elevated, further constraining the economy in the short term. It is worth mentioning that the SARB is well aware that growth risks persist, with its latest growth forecast for gross domestic product revised downward to 1.2% (from 1.7%).

Being overweight bonds, reflects Visio's tactical approach to capture opportunities in both scenarios, while carefully monitoring fiscal risks, which could influence bond market dynamics.

Key takeaways from the chart

- ✓ South Africa's inflation rate fell below the SARB's lower target bound of 3% for two consecutive months. Inflation was 2.7% year on year in March 2025 and remained subdued at 2.8% in April 2025, well below the 3% to 6% target range.
- ✓ At its latest MPC meeting, the SARB cut the repo rate by 0.25% to 7.25%, lowering the real policy rate and extending the cutting cycle started last year.
- ✓ The SARB faces tough choices – a balancing act between controlling inflation and supporting economic growth.

Curate Momentum Balanced Fund

Managed by Visio Fund Management, FSP 49566

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Fund overview of the Curate Momentum Balanced Fund

This fund is designed to generate returns well above inflation over time. It is ideal for use within a retirement annuity, or for investors looking to build their wealth over periods longer than five years.

News and insights

Click **here** to read how Visio leaves no stone unturned when analysing companies.

For more information, visit our website **here** or please reach out to one of our Curate fund specialists. Their details are below.

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