



Compiled by
Jacques du Toit
Property Analyst
Absa Home Loans

15 Troye Street
Johannesburg, 2001
South Africa

PO Box 7735
Johannesburg, 2000
South Africa

T +27 (0)11 350 7246
jacques@absa.co.za
www.absa.co.za

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Interest rates

18 July 2019

Lending rates lowered by 25 basis points

After assessing the international and domestic economic and financial market trends, current conditions and prospects, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) lowered the key monetary policy interest rate – i.e. the repurchase, or repo rate – by 25 basis points from 6,75% to 6,50% per annum at the July MPC meeting, effective from 19 July 2019.

As a result of the cut in the repo rate (the rate at which commercial banks borrow funds from the Reserve Bank), Absa announced that its prime lending and variable mortgage interest rates will be lowered from 10,25% to 10,00% per annum, effective from 19 July 2019. The lower lending rates will bring some much-needed financial relief to many indebted and financially-strained consumers, while also supporting the residential property sector and mortgage market in terms of lower monthly mortgage loan repayments, as indicated in the relevant table on the next page.

The rate-cut decision came against the background of a sharp quarter-on-quarter contraction of 3,2% in the country's real gross domestic product in the first quarter of the year, a stronger rand exchange rate since the previous MPC meeting, headline consumer price inflation that remained within the inflation target range of 3%-6% so far this year, averaging 4,3% year-on-year in January to May, low levels of confidence, the composite leading business cycle indicator trending lower, as well as a cut in policy rates by some prominent international central banks in recent times. Key prospects that also influenced the MPC's decision to lower the repo rate include an expected gradual recovery in economic growth over the forecast period up to 2021, the headline inflation rate projected to remain within the target range over this period and the possibility of further cuts in international central bank policy rates over the short to medium term.

Against the background of the lower lending rates, deposit rates offered by financial institutions are also likely to decrease, implying that going forward, less interest will be earned on savings and investment products than before, depending on the nature and contract terms and conditions of these products.

Future interest rate movements will remain largely dependent on trends in relevant key economic and financial market data, as well as the future performance of the economy. The Reserve Bank's latest assumptions and forecasts in respect of key macroeconomic variables are presented in the relevant table on the next page.

Inflation and interest rates

Variable	2018					2019						
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CPI headline inflation (y/y % change)	4.9	4.9	5.1	5.2	4.5	4.0	4.1	4.5	4.4	4.5	-	-
CPI food inflation (y/y % change)	2.9	3.4	2.9	2.8	2.4	2.3	2.3	2.3	2.3	2.8	-	-
CPI fuel inflation (y/y % change)	23.6	18.5	22.8	23.1	8.7	-1.2	0.9	8.8	12.0	11.6	-	-
CPI core inflation (y/y % change) ¹	4.2	4.2	4.2	4.4	4.4	4.4	4.4	4.4	4.1	4.1	-	-
Repo rate (% per annum) ²	6.50	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50
Prime interest rate (% per annum) ²	10.00	10.00	10.00	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.00
Mortgage interest rate (% per annum) ²	10.00	10.00	10.00	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.00
Prime/mortgage and repo rate margin (%) ²	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

¹CPI headline inflation excluding food, non-alcoholic beverages, fuel and energy

²End of period

Sources: SARB, Stats SA, Absa

Macroeconomic assumptions and forecasts

Variable		2018	2019F	2020F	2021F
Real GDP	% change	0.8	0.6	1.8	2.0
Brent crude oil price	US\$/barrel	71	67	68	68
Fuel taxes and levies	% change	8.9	5.5	6.2	5.6
Electricity price	% change	5.2	9.7	10.4	7.4
CPI headline inflation	% change	4.6	4.4	5.1	4.6
CPI core inflation ¹	% change	4.3	4.4	4.7	4.5
Repo rate (end of period)	% per annum	6.6	6.6	6.4	6.5

¹CPI headline inflation excluding food, non-alcoholic beverages, fuel and energy

Source: SARB (July 2019)

Interest rates and mortgage repayments

Calculated over a period of 20 years

Mortgage loan amount	Monthly repayment at a mortgage rate of		Change in monthly repayment from 19 July 2019
	10.25% per annum from 23 November 2018 to 18 July 2019	10.00% per annum, effective from 19 July 2019	
R 100 000	R 982	R 965	-R 17
R 200 000	R1 963	R1 930	-R 33
R 300 000	R2 945	R2 895	-R 50
R 400 000	R3 927	R3 860	-R 66
R 500 000	R4 908	R4 825	-R 83
R 600 000	R5 890	R5 790	-R 100
R 700 000	R6 872	R6 755	-R 116
R 800 000	R7 853	R7 720	-R 133
R 900 000	R8 835	R8 685	-R 150
R1 000 000	R9 816	R9 650	-R 166
R1 500 000	R14 725	R14 475	-R 249
R2 000 000	R19 633	R19 300	-R 332
R2 500 000	R24 541	R24 126	-R 416
R3 000 000	R29 449	R28 951	-R 499
R3 500 000	R34 358	R33 776	-R 582
R4 000 000	R39 266	R38 601	-R 665
R4 500 000	R44 174	R43 426	-R 748
R5 000 000	R49 082	R48 251	-R 831

Source: Absa

