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Interest rates

28 March 2018

Lending rates lowered by 25 basis points

After considering international and domestic economic and financial market conditions and prospects, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) lowered the key monetary policy interest rate – the repurchase, or repo rate – by 25 basis points from 6,75% to 6,50% per annum at the March 2018 MPC meeting.

Based on the latest 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 29 March 2018.

The latest cut in lending rates came against the background of the MPC's expectation that the headline consumer price inflation rate will on average remain within the inflation target range of 3%-6% in 2018 to 2020, while inflation has been edging lower since early 2017 on the back of base effects driving food price inflation (15,48% weight in the headline index) lower. Declining fuel prices (4,58% weight in the headline index) also contributed to the headline inflation rate slowing down to below the mid-point level of 4,5% of the inflation target range in the first two months of the year. With the positive base effects in respect of food price inflation seemingly coming to an end and an increase in fuel levies of 52 cents/litre in April, inflation is believed to be near a lower turning point and is forecast to rise to above 5% year-on-year towards year-end. A further cut in fuel prices earlier this month may still benefit the March inflation data, but the higher value-added tax (VAT) rate and excise duties announced in the 2018 Budget, together with higher international oil prices in US dollar terms since early this year, are expected to weigh on inflation in coming months. The rand exchange rate, however, strengthened from early 2016 up to early 2017 and again since late last year, which is conducive to lower inflation. Political-related developments over the past few months and Moody's Investor Service's decision in late March to leave the country's credit rating at investment grade level while changing their outlook from negative to stable, contributed much to the current rand exchange rate strength.

Future interest rate movements will remain largely dependent on trends in relevant key economic and financial market data, with the SARB forecasting the repo rate to rise to 7,5% per annum by end-2020. The latest cut in lending rates does, however, provide some further financial relief to indebted consumers. Outstanding household credit balances amounted to a total of R1 548,9 billion at the end of January 2018, of which outstanding mortgage balances were R925,1 billion. The ratio of debt-service costs to household disposable income showed a gradual downward trend from 9,7% in the first quarter of 2016 to 9,1% in the fourth quarter of 2017, mainly as a result of a declining household debt-to-income ratio from 75,4% to 71,2% over this period as well as a cut of 25 basis points in lending rates in July last year. Deposit rates, however, will also be lowered against the background of the latest cut in lending rates, which will cause a decline in interest earned on savings and investment products.

The South African Reserve Bank's latest assumptions and forecasts in respect of key macroeconomic variables are presented in the table below.

Macroeconomic assumptions and forecasts

Variable		2017	2018F	2019F	2020F
Real GDP	% change	1.3	1.7	1.5	2.0
Potential real GDP	% change	1.3	1.3	1.3	1.4
Current account balance	% of GDP	-2.5	-2.8	-3.5	-3.6
Brent crude oil price	US\$/barrel	54	63	62	62
Fuel taxes and levies	% change	8.3	7.6	7.2	6.2
Electricity price	% change	4.7	4.8	7.3	8.0
CPI headline inflation	% change	5.3	4.9	5.2	5.1
CPI core inflation ¹	% change	4.7	4.6	4.9	4.9
Repo rate (end of period)	% per annum	6.8	6.9	7.1	7.5

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

Source: SARB (March 2018)

Inflation and interest rates

Variable	2017									2018		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CPI headline inflation (y/y % change)	5.3	5.4	5.1	4.6	4.8	5.1	4.8	4.6	4.7	4.4	4.0	-
CPI food inflation (y/y % change)	6.6	7.0	7.0	6.8	5.7	5.4	5.3	5.2	4.9	4.6	4.0	-
CPI fuel inflation (y/y % change)	5.6	8.0	2.0	-3.6	5.7	12.2	10.8	7.9	14.2	9.1	5.1	-
CPI core inflation (y/y % change) ¹	4.8	4.8	4.8	4.7	4.6	4.6	4.5	4.4	4.2	4.1	4.1	-
Repo rate (% per annum) ²	7.00	7.00	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50
Prime interest rate (% per annum) ²	10.50	10.50	10.50	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.00
Mortgage interest rate (% per annum) ²	10.50	10.50	10.50	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.00
Prime 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

Interest rates and mortgage repayments

Calculated over a period of 20 years

Mortgage loan amount	Repayment at a mortgage interest rate of				Cumulative change in monthly repayment with the mortgage rate declining from 10.50% to 10.00%
	10.50% per annum as at 20 July 2017	10.25% per annum from 21 July 2017 to 28 March 2018	10.00% per annum, effective from 29 March 2018	Change in monthly repayment from 29 March 2018	
R 100 000	R 998	R 982	R 965	-R 17	-R 33
R 200 000	R1 997	R1 963	R1 930	-R 33	-R 67
R 300 000	R2 995	R2 945	R2 895	-R 50	-R 100
R 400 000	R3 994	R3 927	R3 860	-R 66	-R 133
R 500 000	R4 992	R4 908	R4 825	-R 83	-R 167
R 600 000	R5 990	R5 890	R5 790	-R 100	-R 200
R 700 000	R6 989	R6 872	R6 755	-R 116	-R 234
R 800 000	R7 987	R7 853	R7 720	-R 133	-R 267
R 900 000	R8 985	R8 835	R8 685	-R 150	-R 300
R1 000 000	R9 984	R9 816	R9 650	-R 166	-R 334
R1 500 000	R14 976	R14 725	R14 475	-R 249	-R 500
R2 000 000	R19 968	R19 633	R19 300	-R 332	-R 667
R2 500 000	R24 959	R24 541	R24 126	-R 416	-R 834
R3 000 000	R29 951	R29 449	R28 951	-R 499	-R1 001
R3 500 000	R34 943	R34 358	R33 776	-R 582	-R1 168
R4 000 000	R39 935	R39 266	R38 601	-R 665	-R1 334
R4 500 000	R44 927	R44 174	R43 426	-R 748	-R1 501
R5 000 000	R49 919	R49 082	R48 251	-R 831	-R1 668

Source: Absa





