momentum group

The macro signal

South African monetary policy

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September 2026

SARB's insurance policy against inflation risks

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	7.25%	3.75% - 4.00%	3.75%	2.50%	1.25%	3.00%
Previous meeting:	7.00%	3.50% - 3.75%	3.75%	2.25%	1.00%	3.00%
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate

So what?

1. The South African Reserve Bank (SARB) increased the repo rate by 25-basis points to 7.25% in September, in response to renewed inflation risks and concerns about second-round effects.
2. The SARB noted that monetary policy is now more restrictive, which should help contain inflation risks, keep inflation expectations anchored and limit second-round effects.
3. We do not expect further hikes in this cycle, unless geopolitical risks deteriorate materially, El Niño intensifies or major central banks tighten more aggressively, putting additional pressure on the rand and imported inflation.

CONSUMER LENS

Home loan repayments
Prime rate increased to 10.75% (+25bps)

Size*	Bond value	Previous monthly payment	New monthly payment	Monthly Increase
S	≤ R1.6 million	R15 974.08	R16 243.66	R269.58
M	R2.6 million	R25 957.88	R26 395.95	R438.07
L	≤ R3.6 million	R35 941.68	R36 548.24	R606.56

Vehicle finance repayments
Prime rate increased to 10.75% (+25bps)

Size**	Vehicle value	Previous monthly payment	New monthly payment	Monthly Increase
E	≤ R350 000	R7 617.82	R7 661.39	R43.57
M	R525 000	R11 379.25	R11 444.53	R65.28
L	≤ R700 000	R15 140.68	R15 227.67	R86.99

* S = small | M = medium (mid-point of R1.6 million to R3.6 million) | L = large
Assumptions: Prime lending rate, no deposit, 20-year term

** E = entry level | M = mid-entry (mid-point of R350k to R700k) | L = luxury segment
Assumptions: Prime lending rate, no deposit, no ballon payment, 5-year term

Near-term growth revised lower; medium term outlook maintained

The local economy contracted by 0.2% quarter-on-quarter (q/q) in the second quarter of 2026, marginally worse than the SARB's estimated decline of 0.1% q/q. First-quarter growth was also revised lower by 0.1 percentage point (pp), leaving growth in the first half of 2026 weak at an average of just 0.1%. Growth is expected to improve somewhat in the second half of the year. High-frequency data for July are providing some early signs of a recovery. After three consecutive months of contraction, manufacturing production increased by 1.1% year-on-year (y/y) in July, while motor trade sales grew strongly by 3.2% y/y and retail trade sales rose by 3.4% y/y. However, the recovery remains uneven, with mining production contracting sharply by 7.5% y/y over the same period.

> ***The SARB revised its 2026 growth forecast down to 1.2%, from 1.4% previously. Growth forecasts for 2027, 2028 and 2029 were unchanged at 1.7%, 1.9% and 2%, respectively.***

Renewed threats of further military action by President Donald Trump against Iran at the United Nations General Assembly raises the risk of a prolonged conflict, with potential implications for energy prices and financial conditions presenting downside risks to inflation and growth. Furthermore, higher-for-longer interest rates and weak investment continue to constrain activity. Stats SA's rebasing and benchmarking of the national accounts, due to be released in October, could provide some offset. Revisions have historically resulted in higher measured growth, although the size of the revisions has varied significantly.

We maintain our 2026 growth forecast at 1.2%, although risks remain skewed to the downside, in line with the SARB's assessment. Our forecasts for 2027 and 2028 are lower than the SARB's, at 1.5% and 1.8%, respectively.

Chart 1: Revisions to SARB's annual growth estimates across previous Monetary Policy Committee (MPC) meetings

Source: SARB, Momentum Group

Inflation forecasts revised higher and expected to breach 5% in some quarters

> ***Inflation pressures are two-sided, with renewed upside risks from the external environment but some moderation in domestic pressures.***

The end of the ceasefire and renewed threats of military escalation in the Middle East have pushed Brent crude back above US$100/bbl, raising the risk of further local fuel price increases and higher transport costs. Refined fuel prices also remain elevated, with diesel crack spreads (price difference between the cost of crude oil and the market value of the diesel fuel produced from it) still high. Furthermore, the risk of an El Niño presents an upside risk to food inflation.

On the other hand, core inflation eased from 4.2% y/y in July to 4.1% y/y in August suggesting limited evidence of broad-based underlying pressures from the oil price shock. Furthermore, food and non-alcoholic beverages (NAB) inflation remains contained.

The third-quarter inflation expectations survey results were also slightly encouraging, with 2027 and five-year expectations easing by 0.1pp to 4.1% and 4%, respectively, while 2026 and 2028 expectations remained unchanged at 4.4% and 3.9%, respectively. Household expectations also declined sharply, more than reversing the increase recorded in the second quarter. However, expectations remain above the 3% target.

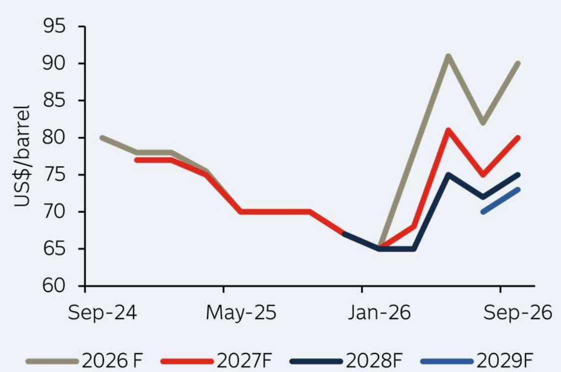
The rand has remained relatively resilient, providing some buffer against imported inflation. However, this resilience could come under pressure if higher global interest rates and tighter financial conditions persist.

The United States Federal Reserve has tightened rates for the first time in three years, while markets are pricing a further three 25-basis point hikes by the end of next year. Expectations for further tightening are also evident across other major central banks, with markets pricing three 25-basis point hikes by the European Central Bank, four by the Bank of England and two by the Bank of Japan over the same period.

Lastly, the risk of second-round effects also remains contained for now, with wage settlements showing limited evidence of a broad-based acceleration in underlying inflation pressures. However, the SARB noted that the likelihood of second-round effects have increased.

The SARB revised its Brent crude assumptions higher, largely reversing the downward revisions made in the July MPC. Brent crude is estimated to average US$90/bbl in 2026, up from US$82/bbl previously, US$80/bbl in 2027, up from US$75/bbl and US$75/bbl in 2028, up from US$72/bbl (see chart 2).

Chart 2: Revisions to SARB's Brent crude price estimates across previous MPC meetings



Source: SARB, Momentum Group

Headline inflation was consequently revised higher to 4.4% in 2026 from 4% previously and is expected to moderate to 4% in 2027 (3.8% previously) and 3.2% in 2028 (3.1% previously) before reaching 3% in 2029.

Chart 3: Revisions to SARB's annual headline inflation estimates across previous MPC meetings

Source: SARB, Momentum Group

Inflation is expected to rise to 5.4% in the fourth quarter of 2026 and remain elevated at 5.3% in the first quarter of 2027, before easing below 4% thereafter.

The forecast for food and non-alcoholic beverage inflation was revised lower for 2026 to 2.7% from 2.9%, but higher for 2027 and 2028, to 4.9% from 4% and 3.4% from 3%, respectively. The upward revisions mainly reflect higher fuel and fertiliser prices.

The SARB noted that El Niño is currently incorporated into the global rather than the local food inflation forecast, suggesting further upside risks to food prices should its effects become more pronounced locally.

The SARB's overall assessment of inflation risks remained skewed to the upside, with services inflation a particular concern. As of July 2026, 76.7% of services had inflation above 3%, 61.6% above 4% and 35.6% above 5%.

Unanimous decision to hike interest rates

As anticipated, the SARB increased the repo rate by 25 basis points to 7.25% at its September meeting. The unanimous decision was, however, a surprise and signals a more hawkish response to renewed inflation risks. The question-andanswer session revealed that the MPC had considered both a 50-basis point increase and a hold, underscoring the wide range of views on the appropriate policy response.

Table 1: Shift in MPC member preferences at the scheduled September 2026 meeting

No. of committee members	Favoured a 50-basis point cut	Favoured a 25-basis point cut	Favoured no move	Favoured a 25-basis point hike
19 September 2024	-	6	-	-
21 November 2024	-	6	-	-
30 January 2025	-	4	2	-
20 March 2025	-	2	4	-
29 May 2025	1	5	-	-
31 July 2025	-	6	-	-
18 September 2025	-	2	4	-
20 November 2025	-	6	-	-
29 January 2026	-	2	4	-
26 March 2026*	-	-	5	-
28 May 2026	-	-	2	4
23 July 2026	-	-	4	2
23 September 2026	-	-	-	6

Source: SARB, Momentum Group

** Only five MPC members*

A measured response to renewed inflation risks

In our view, the 25-basis point hike reinforces the MPC's commitment to containing renewed inflation pressures and helps limit the risk of inflation remaining above the 3% target for longer. Furthermore, the higher policy rate should help keep inflation expectations anchored and limit second-round effects.

We do not expect further interest rate hikes in this cycle, given the weaker growth outlook and relatively contained underlying inflation pressures. However, this view is not without risks. A material deterioration in geopolitical conditions or a stronger-than-anticipated El Niño could result in a more persistent inflation shock and warrant further tightening. Similarly, a more aggressive tightening cycle by major central banks could place additional pressure on the rand and imported inflation, requiring a reassessment of the local policy stance.

According to the SARB's scenario, if major central banks raise rates by a full percentage point, compared with the 0.5pp increase in the baseline, between this year and next, the rand could weaken beyond R18/US$ and inflation could be 0.6pp higher in 2028 (see chart 4). This would require one additional rate hike, followed by a slower pace of rate cuts.

Chart 4: Local headline inflation rates under the higher global interest rates scenario

Source: SARB, Momentum Group

In a second scenario involving higher inflation expectations and wage increases, a tighter policy stance would also be required, with between one and two additional hikes above the baseline peak and interest rates remaining higher for longer.