momentum group

The macro signal

South African monetary policy



Sanisha Packirisamy
Group Economist



Tshiamo Masike
Economist



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% A hawkish pause as inflation risks prompt caution

	South Africa	United States	United Kingdom	European Union	Japan	China
Current rate:	7.25%	3.75% - 4.00%	4.00%	2.50%	1.25%	3.00%
Previous meeting:	7.25%	3.75% - 4.00%	3.75%	2.50%	1.25%	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's (SARB) decision to hold interest rates steady at 7.25% avoids further pressure on borrowers for now, but the 4–3 vote split indicates that the door to further interest rate hikes remains open.
2. The fuel price shock adds to near-term inflation, but the bigger concern is whether higher fuel costs spill over into broader prices, wages and inflation expectations, making the return to the 3% inflation target harder.
3. Under current conditions, we see no case for any further rate hike. Nevertheless, a weaker rand, more persistent inflation or tighter global financial conditions could lead to a further hike if inflation's return to 3% is threatened.

CONSUMER LENS

Home loan repayments
Prime rate unchanged at 10.75%

Size*	Bond value	Previous monthly payment	New monthly payment	Monthly Increase
S	⩽ R1.6 million	R16 243.66	R16 243.66	-
M	R2.6 million	R26 395.95	R26 395.95	-
L	⩽ R3.6 million	R36 548.24	R36 548.24	-

* 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

Vehicle finance repayments
Prime rate unchanged at 10.75%

Size**	Vehicle value	Previous monthly payment	New monthly payment	Monthly Increase
E	⩽ R350 000	R7 661.39	R7 661.39	-
M	R525 000	R11 444.53	R11 444.53	-
L	⩽ R700 000	R15 227.67	R15 227.67	-

** E = entry level | M = mid-entry (mid-point of R350k to R700k) | L = luxury segment

Assumptions: Prime lending rate, no deposit, no balloon payment, 5-year term

Growth recovery gains some traction, but investment remains stagnant

The SARB's growth outlook remained broadly unchanged at the November MPC meeting, with forecasts for 2026, 2027 and 2028 retained at 1.2%, 1.7% and 1.9%, respectively. These are broadly in line with our estimates of 1.1%, 1.7% and 2%, respectively. In comparison, the Reuters median consensus expects 1.1% for 2026, 1.4% for 2027 and 2% for 2028, pointing to a weaker growth outlook for 2027 relative to both our estimates and the SARB's projections.

Economic growth in the second half of 2026 is expected to recover from the weak performance in the first half of the year. The SARB estimates that the economy will expand by 0.3% quarter-on-quarter (q/q) in the third quarter, from a revised negative 0.3% q/q in the second quarter, followed by a further improvement to 0.5% q/q in the fourth quarter. Recent high-frequency indicators provide some support for a recovery in the third quarter, although the improvement has been uneven across sectors.

Household spending remained relatively resilient, with retail trade sales increasing by 1.5% q/q in the third quarter of 2026. This was supported by a 2.8% q/q increase in wholesale trade sales, while manufacturing production also recorded modest growth of 0.9% q/q. In contrast, mining production contracted by 6% q/q.

> *The SARB highlighted that SA's growth recovery is due to an improvement in domestic demand, but it remains vulnerable to weak investment. Total fixed investment was revised slightly lower to negative 0.3% in 2026, from negative 0.1% previously.*

At 13.1% of GDP, SA's investment-to-GDP ratio remains among the lowest internationally and well below its historical peak of 21.3% in 2008. A recovery in fixed investment is critical for sustainable long-term growth in SA.

Inflation remains elevated in the near term, with upside risks persisting

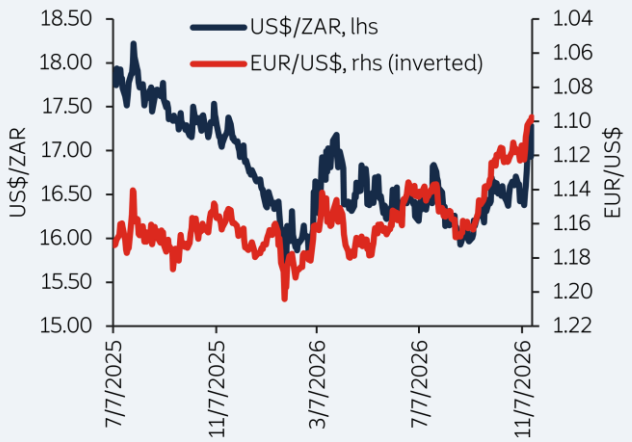
> *The inflation outlook remains challenging, with higher fuel costs driving the near-term acceleration, while food and core inflation present additional risks further into 2027.*

Headline inflation accelerated to 5.2% y/y in October, with transport accounting for 40.4% of the increase as highlighted by the SARB. The acceleration in fuel prices has been a significant contributor, with petrol prices above R30 per litre. Higher refinery margins and shipping costs have added to the pressure, while geopolitical developments continue to leave international energy markets vulnerable to further disruptions.

Although international oil prices have eased in recent weeks, they remain high. The SARB's Brent crude oil price assumption for the fourth quarter of 2026 was revised marginally higher to US$97.90 per barrel, from US$96.60 per barrel previously. The annual average assumption for 2026 was also largely unchanged at US$90.60 per barrel and the assumptions for 2027 and 2028 were maintained at US$80 per barrel and US$75 per barrel, respectively.

However, higher refinery margins and shipping costs continue to add to upward pressures to fuel prices.

Chart 1: The rand has weakened beyond R17/US$



Source: Iress, Momentum Group
Daily data until 18 November 2026

The SARB's exchange rate assumptions point to a gradual depreciation over the forecast period, with the rand averaging R16.53/US$ in the fourth quarter of 2026 and R16.71/US$ in the first quarter of 2027. However, these assumptions were finalised before the latest bout of currency weakness, which saw the rand depreciate beyond R17/US$ (see chart 1). In our view, the recent

pressure on the rand has largely reflected expectations of higher US interest rates, which have supported the dollar, alongside weaker precious metal prices, particularly gold and platinum.

> *The weaker rand presents an additional upside risk to imported inflation, particularly if it persists and coincides with elevated fuel costs.*

According to the SARB, food inflation is another potential source of upward pressure. While food prices have been relatively subdued, the SARB expects food inflation to accelerate from an average of 2.3% in 2026 to 4.5% in 2027. Rising international food prices, higher input costs and the potential impact of El Niño could add to domestic food inflation, particularly if drier conditions affect agricultural production early next year.

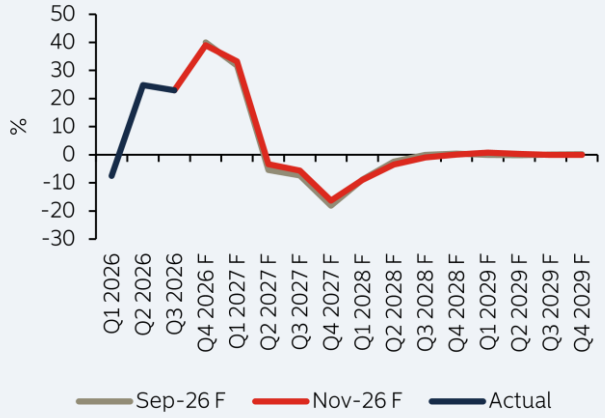
The SARB expressed concern about the upward trend in core inflation, particularly as businesses adjust prices in response to higher input costs. Core inflation is expected to increase from an average of 3.8% in 2026 to 4% in 2027. Meanwhile the SARB expects some moderation in services inflation from the current 5%, as inflation expectations ease.

Inflation expectations will be particularly important in determining whether the current price shock becomes more entrenched. The SARB noted that market-based expectations had eased modestly since September, although there was no new information from the latest Bureau of Economic Research survey measures. It will therefore be important to monitor whether the recent increase in headline inflation influences household and business expectations, as well as wage and price-setting behaviour.

The SARB revised its 2026 headline inflation forecast marginally lower to 4.3%, from 4.4% previously, while the 2027 forecast remained unchanged at 4%. Inflation is forecast to average 3.2% in 2028 before reaching 3% in 2029.

Despite making modest changes to the 2026 annual inflation forecast, the SARB expects the near-term inflation trajectory to remain elevated. The SARB expects headline inflation to peak at 5.4% in November, before moderating to around 5% in December and remaining high into early 2027. The subsequent moderation from the second quarter of 2027 largely reflects the easing of the fuel price shock (see chart 2) and favourable base effects.

Chart 2: Revisions to SARB's fuel inflation estimates



Source: SARB, Momentum Group, F=forecast

Split MPC views highlight that inflation remains a concern

The SARB's decision to keep the repo rate unchanged at 7.25% was a relatively close call, with four members voting in favour of keeping rates unchanged and three preferring a 25-basis-point increase.

In contrast, 24 of the 27 analysts polled by Reuters expected rates to remain unchanged in the run-up to the meeting. The remaining three analysts had anticipated a 25-basis-point hike.

> *While the MPC opted to pause following two policy adjustments earlier in the year, the three votes in favour of a further hike suggest that concerns about the persistence of inflation remain elevated.*

The committee also reiterated that it would not hesitate to increase interest rates if necessary to return inflation sustainably to the 3% target.

Following the appointment of Franz Ruch as an Adviser to the Governors, effective 1 October 2026, the committee returned to its full complement of seven members for the first time since 2018. Previously operating with six members, the addition of a seventh member removes the possibility of an evenly split 50-50 vote, provided all members participate.

Table 1: Shift in MPC member preferences at the scheduled November 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
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
19 November 2026**	-	-	4	3

Source: SARB, Momentum Group

** Five MPC members, ** Seven MPC members*

A cautious pause, but the risk of further hikes remains

In our view, keeping interest rates unchanged was appropriate, given the competing pressures facing the MPC. While inflation has accelerated and the risks remain skewed to the upside, much of the immediate pressure has stemmed from external supply-side factors, particularly higher fuel prices, which monetary policy is less able to control. At the same time, the domestic growth recovery remains fragile, with structural constraints and subdued investment continuing to weigh on economic activity.

The MPC's core inflation concerns are also noteworthy in determining the outlook for monetary policy. Although the initial fuel price shock is largely external, a more prolonged increase in input costs could feed through into broader goods and services inflation, wage demands and inflation expectations. Preventing these second-round effects from becoming entrenched will be important in keeping inflation expectations aligned with the 3% target.

The SARB's alternative scenarios illustrate how quickly the policy outlook could change if external risks materialise. In a scenario where oil prices rise to US$130 per barrel and refinery margins remain elevated, headline inflation could reach 5.4% in 2027, compared with 4% in the baseline. Growth would also slow to 1.3% compared to 1.7% in the baseline, while the repo rate would peak at 7.73%, necessitating approximately two additional rate hikes relative to the baseline.

A second scenario, involving higher global bond yields, increased risk premia and a weaker rand, produces similar outcomes. Inflation could reach 5.6% in 2027, growth could slow to 1.2% and the repo rate could peak at 7.84%, necessitating approximately two additional rate hikes relative to the baseline.



Under current conditions, we see no case for a further rate hikes. However, the 4–3 voting split highlights that the MPC remains divided, with the possibility of further interest rate hikes still on the table. A weaker rand, more persistent inflation or tighter global financial conditions could shift the balance of risks, particularly if they threaten the return of inflation to the 3% target.

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