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South African MPC

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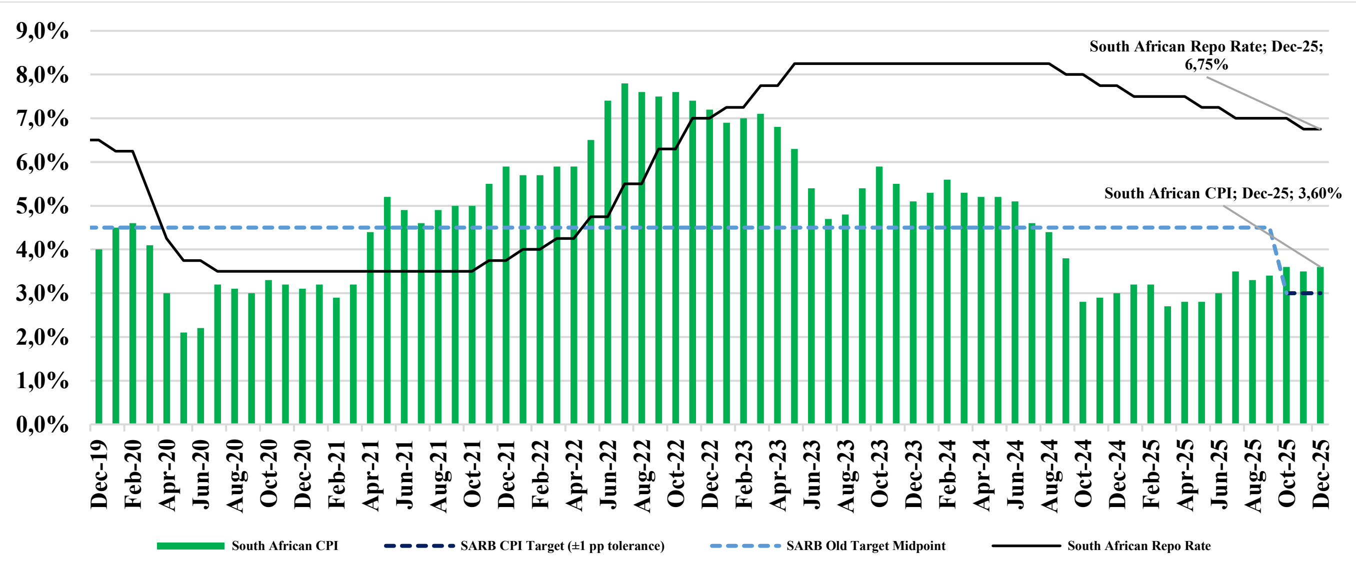
Executive summary

During 2025, South Africa's monetary policy was gradually eased, with the repo rate falling from 7.50% in January to 6.75% by November. The SARB MPC characterised the adjustments as incremental and firmly data-dependent, aligning the pace of policy normalisation with evolving inflation dynamics and the objective of preserving price stability. Inflation remained broadly contained, ranging between 2.7% and 3.6%, and moved toward the upper edge of the new 3% target tolerance introduced in December, remaining slightly elevated but within acceptable limits. Economic activity moderated in Q3, with real GDP growth slowing to 0.5% from 0.9% in Q2; consumption, investment, and exports grew modestly, while imports rose more sharply, widening the trade deficit and tempering net demand. Since November, the rand has strengthened steadily against major currencies, supporting price stability by mitigating imported inflation and providing the MPC with flexibility for measured policy adjustments. Globally, monetary conditions are gradually easing: the US and UK have reduced policy rates amid moderating growth and inflation, while the euro area has maintained restrictive policy to ensure inflation converges to the target. This global backdrop, combined with domestic easing and a firmer rand, creates modestly stimulatory conditions for South Africa. Ahead of the **January MPC meeting, prevailing market sentiment points to the SARB maintaining the repo rate**, allowing assessment of inflation persistence and economic momentum, while leaving scope for potential incremental cuts later in the year if inflation remains anchored and growth remains subdued.

Analysis

Figure 1: South Africa Repo Rate vs Inflation Rate

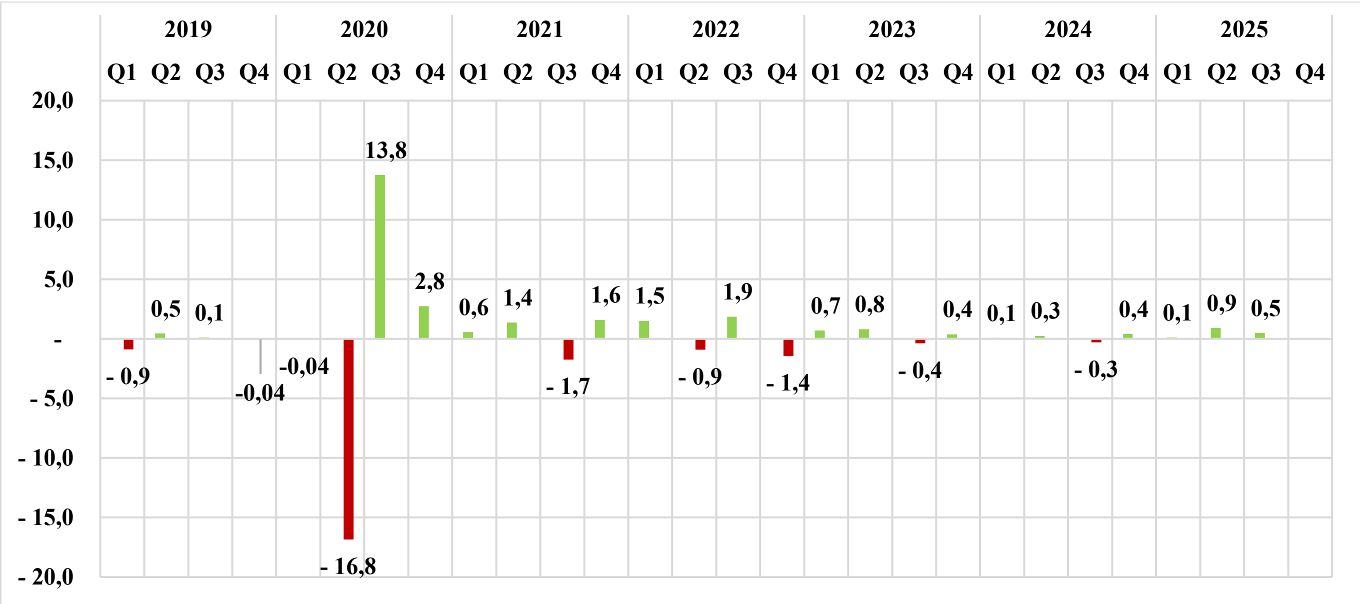


Source: SARB & StatsSA

As shown in Figure 1, Throughout 2025, the repo rate was reduced gradually from 7.50% in January to 6.75% by November, consistent with the SARB MPC's stated preference for a cautious, data-dependent normalisation of policy. Inflation outcomes provided scope for this approach: headline CPI ranged between 2.7% and 3.6% during the year and averaged 3.2%, the lowest annual average in over two decades. Inflation was generally below the pre-December 3–6% framework and, following the adoption of the tighter 3% target with a tolerance of 1pp in December, moved toward the upper edge of the new tolerance range while remaining within acceptable limits. The combination of measured policy easing and sustained inflation containment indicates a modest relaxation in monetary conditions, while the inflation profile continues to warrant vigilance in anchoring expectations firmly at 3%.

South Africa's Economic performance

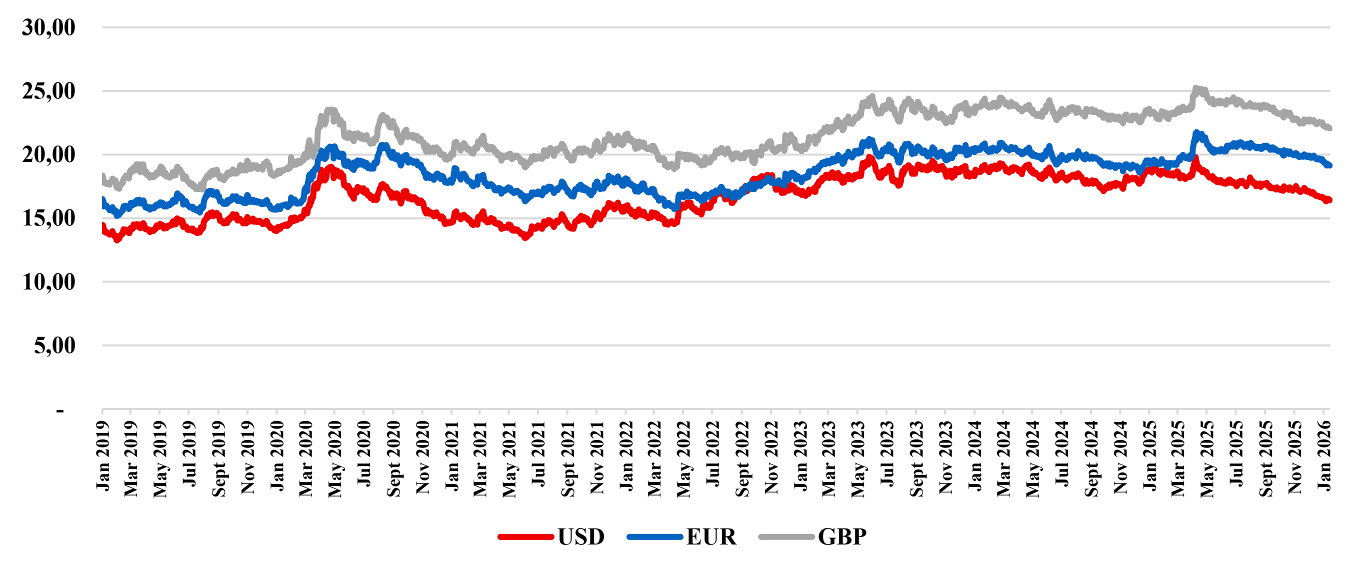
Figure 2: SA Quarterly Real GDP Growth (2019-2025)



Source: StatsSA

Figure 2 shows how economic activity in Q3 2025 moderated slightly compared with Q2. Final consumption expenditure rose from R1,007,596 million to R1,025,814 million, while gross capital formation increased from R167,303 million to R184,732 million, indicating continued support from household spending and investment. Exports increased from R313,702 million to R331,398 million, although imports rose more sharply from R319,169 million to R345,306 million, pointing to a widening trade deficit that may have weighed on net demand. These developments underpin real GDP growth of 0.5% in Q3, down from 0.9% in Q2, signalling some loss of momentum. However, growth in Q3 2025 compares favourably with the contraction of 0.3% recorded in Q3 2024, suggesting that activity has improved on a year-earlier basis despite softer sequential growth.

Figure 3: Rand vs Major Currencies (ZAR)



Source: Bank of Namibia & HEI Research

As seen in figure 3, since November 2025, the rand has strengthened steadily against major currencies. The USD/ZAR rate declined from around R17.31 in early November to R16.41 by mid-January 2026, while EUR/ZAR and GBP/ZAR fell from roughly R19.95–R20.00 and R22.75–R22.83 to R19.13 and R22.06, respectively. The gradual, orderly appreciation reflects improved market sentiment, stable domestic fundamentals, and contained inflation expectations under the tighter CPI target. A stronger rand supports price stability by mitigating imported inflation pressures, giving the MPC additional flexibility for measured repo adjustments without triggering upward pass-through.

Global Monetary Conditions

Global monetary conditions are gradually easing, although major central banks remain cautious and firmly data-dependent. In the United States, economic growth continues at a moderate pace, labour market conditions have softened, and inflation remains above target, prompting the Federal Reserve to cut the federal funds rate by 25 basis points to 3.50–3.75% in December 2025. The Bank of England also reduced Bank Rate by 25 basis points to 3.75%, reflecting declining inflation, easing wage pressures, and subdued growth. In contrast, the European Central Bank kept policy rates unchanged, judging that inflation is on track to stabilise at its 2% target over the medium term, while maintaining a restrictive stance.

For South Africa, the gradual shift toward easing in the US and UK, combined with policy stability in the euro area, has reduced external tightening pressures and supported more favourable global financial conditions. This has contributed to the recent strengthening of the rand, helping to contain imported inflation and improve price stability. The external environment therefore provides some policy space for the MPC, while continued caution is warranted given lingering global inflation risks and the need to preserve interest rate differentials.

Outlook

Market sentiment ahead of the **<u>January MPC meeting points to a preference for maintaining the repo rate at 6.75%</u>**, reflecting a balance between contained inflation and still-subdued growth dynamics. While CPI has remained within the tolerance range around the 3% target, recent readings closer to the upper bound underscore the need for caution under the newly adopted inflation framework, which places emphasis on anchoring inflation at 3% rather than within a broad band. At the same time, real GDP growth remains modest, with Q3 moderating relative to Q2, indicating limited underlying demand pressures.

The gradual easing implemented through 2025, alongside a firmer rand and subdued imported inflation pressures, indicates that monetary conditions are already mildly accommodative. In this context, maintaining the policy rate in January would provide the MPC with space to assess inflation persistence relative to the 3% target and confirm the durability of recent disinflation. While the baseline supports a near-term hold, the outlook leaves room for further policy easing later in the year should inflation remain well anchored and growth conditions stay subdued.