

South African MPC

20 March 2026

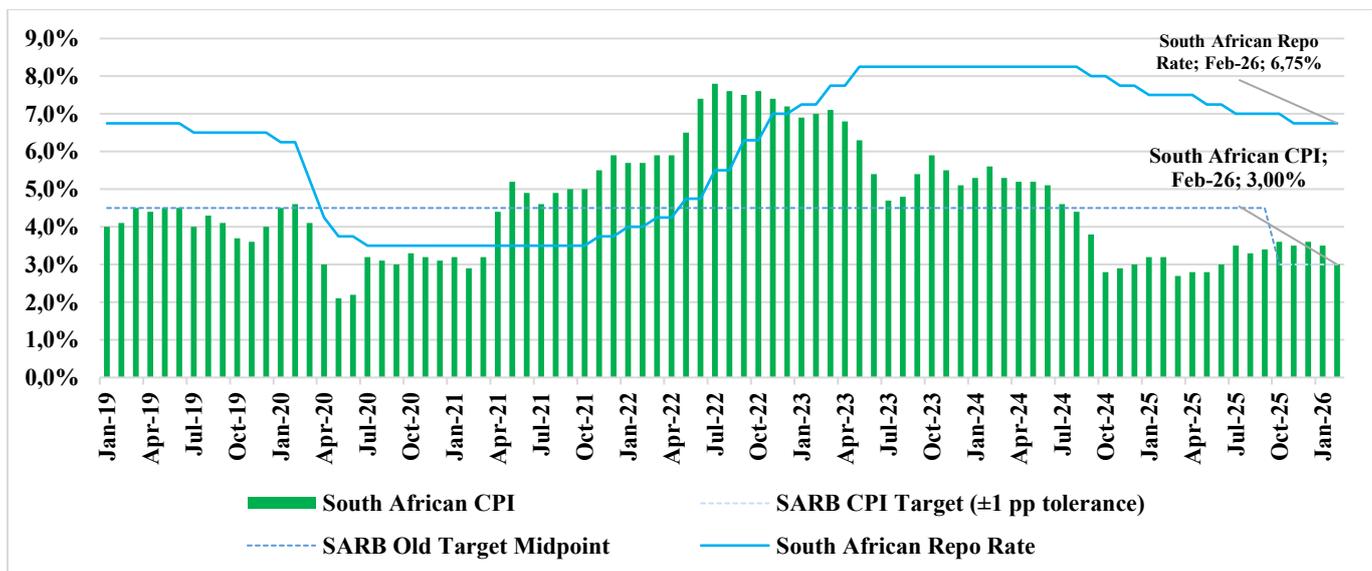
Executive summary

South Africa enters 2026 with inflation close to the 3% target and the repo rate held at 6.75%, placing monetary policy in moderately restrictive territory. While price pressures remain contained, recent upside risks from global energy markets and geopolitical tensions have increased uncertainty around the inflation outlook.

Although the policy trajectory still allows for gradual easing, the balance of risks has shifted. Higher oil prices and potential rand depreciation could slow disinflation, raising the threshold for rate cuts. As a result, the **SARB is likely to maintain a cautious stance in the near term, delaying the start of the easing cycle until there is clearer evidence that inflation will remain sustainably anchored.**

Analysis

Figure 1: South Africa Repo Rate vs Inflation Rate

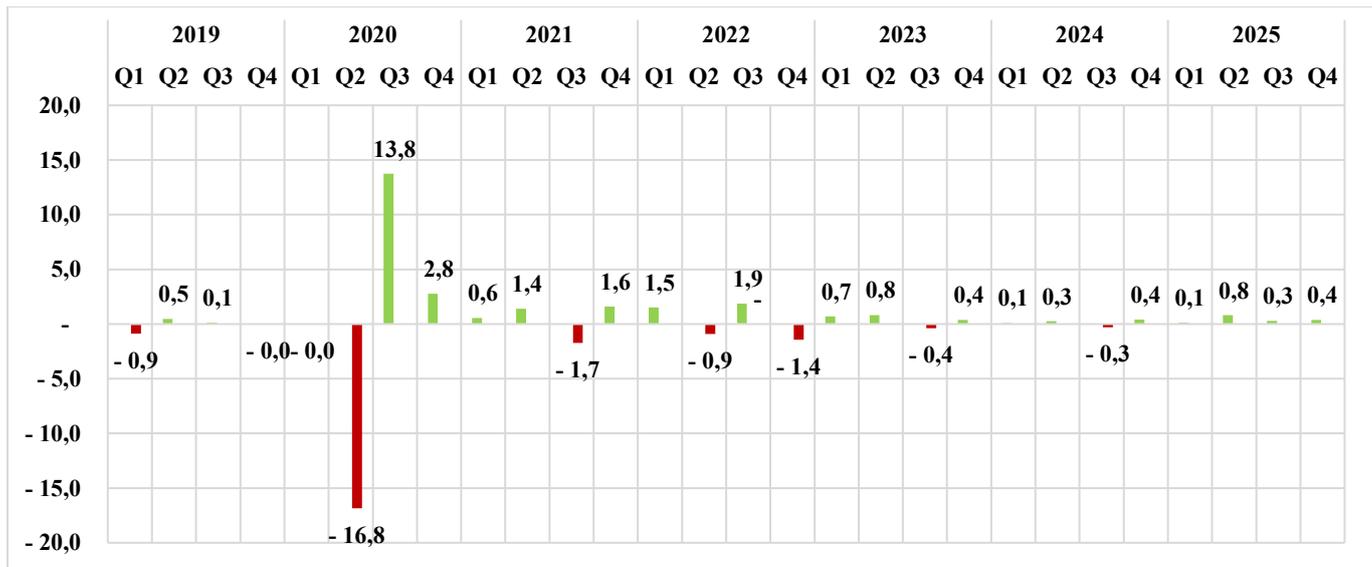


Source: SARB & StatsSA

As illustrated in Figure 1, inflation has moderated significantly from its 2022 peak, stabilising within a narrow range over the past year. Headline CPI averaged 3.2% in 2025 and has remained close to the 3% target in early 2026, with recent prints at 3.6% in December, easing to 3.5% in January and 3.0% in February. This places inflation near the upper end of the tolerance range, suggesting that price pressures are contained but not yet fully settled at target.

The improved inflation environment enabled a measured easing cycle through 2025, with the repo rate reduced from 7.50% to 6.75%. Since November, the SARB has paused, reflecting a preference to assess the durability of disinflation under the new 3% target framework. Current policy settings remain moderately restrictive, providing a buffer against potential upside risks to inflation.

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



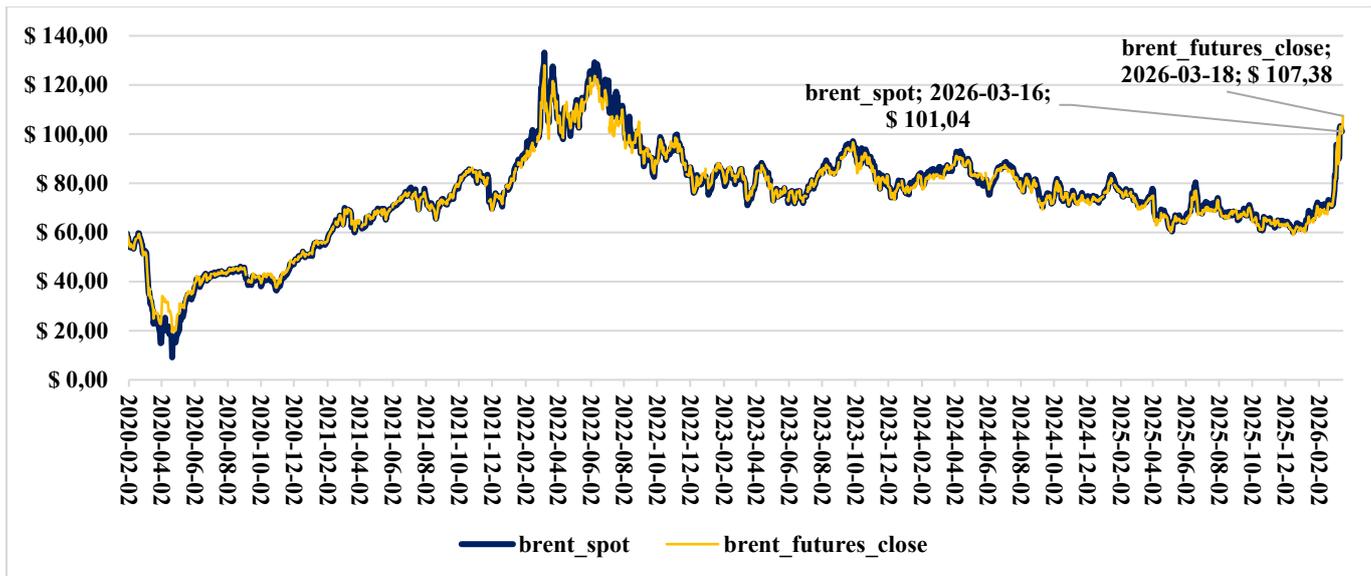
Source: StatsSA

Recent data indicate that South Africa's economic growth remains subdued, with limited signs of sustained momentum. Annual GDP growth improved to 1.1% in 2025 from 0.5% in 2024, suggesting a modest recovery from the weak post-pandemic trajectory. However, growth remains well below historical averages, particularly when compared to the pre-2008 period where expansion consistently exceeded 4–5%. The long-term trend continues to reflect structural constraints, with growth averaging below 2% over the past decade.

As shown in Figure 2, quarterly dynamics reinforce the view of a fragile recovery. In 2025, real GDP growth remained modest and uneven, recording 0.1% in Q1, 0.8% in Q2, 0.3% in Q3, and 0.4% in Q4. The slowdown from Q2 to Q3 indicates a loss of momentum, although activity stabilised slightly in Q4. Compared to 2024, where growth was largely stagnant with intermittent contractions, the 2025 profile suggests a gradual improvement in activity, albeit from a low base.

The broader pattern since 2022, post-Covid, highlights persistent volatility, with alternating quarters of expansion and contraction reflecting weak underlying demand and supply-side constraints. While the positive annual outcome for 2025 signals some resilience, the absence of strong, sustained quarterly growth underscores that the economy remains below economic potential.

Additionally, the South African rand has strengthened steadily since late 2025, appreciating across a broad range of currencies, including the US dollar, British pound, euro, Swiss franc and Swedish krona, indicating a broad-based trend rather than bilateral movements. Against the US dollar, the rand moved from weaker levels earlier in 2025 to below 17.00 by year-end and continued to firm into early 2026. This appreciation reflects improved market sentiment, easing global financial conditions, and reduced external pressures as major central banks shift toward more accommodative policy settings, with capital flow dynamics becoming more supportive of emerging market currencies, including the rand.

Figure 3: Daily Brent Spot vs Futures Price Feb 2020 – March 2026

Source: U.S. Energy Information Administration (EIA), via FRED & Market Data, via Yahoo Finance

Global monetary conditions remain on a gradual easing path, but recent policy signals from major central banks reflect increased caution amid rising geopolitical risk. Disruptions in the Strait of Hormuz have placed upward pressure on energy markets, with Brent crude moving above \$90 per barrel, alongside higher freight and insurance costs. *As shown in Figure 3*, this marks a sharp reversal from the softer oil price environment observed through much of 2025, pointing to renewed cost pressures across global supply chains. This dynamic is consistent with previous episodes, notably in 2022, where the Russia–Ukraine conflict drove a sharp increase in oil prices that fed into producer prices before transmitting to broader inflation. In response, the Federal Reserve, Bank of England, Bank of Japan & European Central Bank have maintained policy settings, reflecting concern that the shock may reintroduce inflationary pressures.

For South Africa, this development introduces a clear upside risk to inflation. Higher oil prices will feed directly into domestic fuel costs and indirectly through transport, agricultural and production channels. At the same time, elevated energy prices tend to support the US dollar, increasing the likelihood of rand depreciation and amplifying imported inflation. While earlier improvements in global financial conditions supported currency strength and disinflation, the shift in oil prices, *as illustrated in Figure 3*, suggests that part of this progress may unwind. The interaction between energy prices and exchange rate dynamics is therefore central to the near-term inflation outlook and reinforces a more cautious monetary policy stance.

Outlook

The outlook for monetary policy has become more finely balanced as external risks begin to materialise. While inflation remains broadly anchored near the 3% target and the SARB’s baseline projections continue to indicate a gradual easing path, recent developments in global energy markets point to a shift toward a less favourable risk environment. The rise in oil prices, alongside heightened geopolitical tensions, aligns more closely with the Bank’s adverse scenario, where higher fuel costs and a weaker rand place upward pressure on inflation and slow its convergence to target.

The January MPC highlighted the sensitivity of the inflation outlook to movements in oil prices and the exchange rate, noting that adverse external shocks could delay the transition toward a neutral policy stance by up to a year. This is particularly relevant in the current context, where elevated energy prices are likely to feed into domestic fuel

inflation and broader import costs, while also supporting a stronger US dollar. The resulting depreciation pressure on the rand could amplify these effects, reversing some of the recent gains in imported inflation.

Although the policy stance remains moderately restrictive and the SARB's model continues to suggest scope for gradual rate reductions, the Committee's decision to hold rates, alongside a split vote in January, underscores a preference for caution. In this environment, the MPC is likely to adopt a wait-and-see approach, assessing the extent and persistence of these external shocks before proceeding with further easing. As such, while rate cuts remain part of the medium-term policy path, their timing is likely to be pushed out, with **the repo rate expected to remain on hold in the near term until there is clearer evidence that inflation will remain sustainably anchored** despite rising global cost pressures.