Email: info@hei.com.na
Website: www.hei.com.na
Tell: +264-61-307-728
Address: 04 Stauch Street, Klein Windhoek, Windhoek, Namibia

South African MPC

21 September 2026

Executive summary

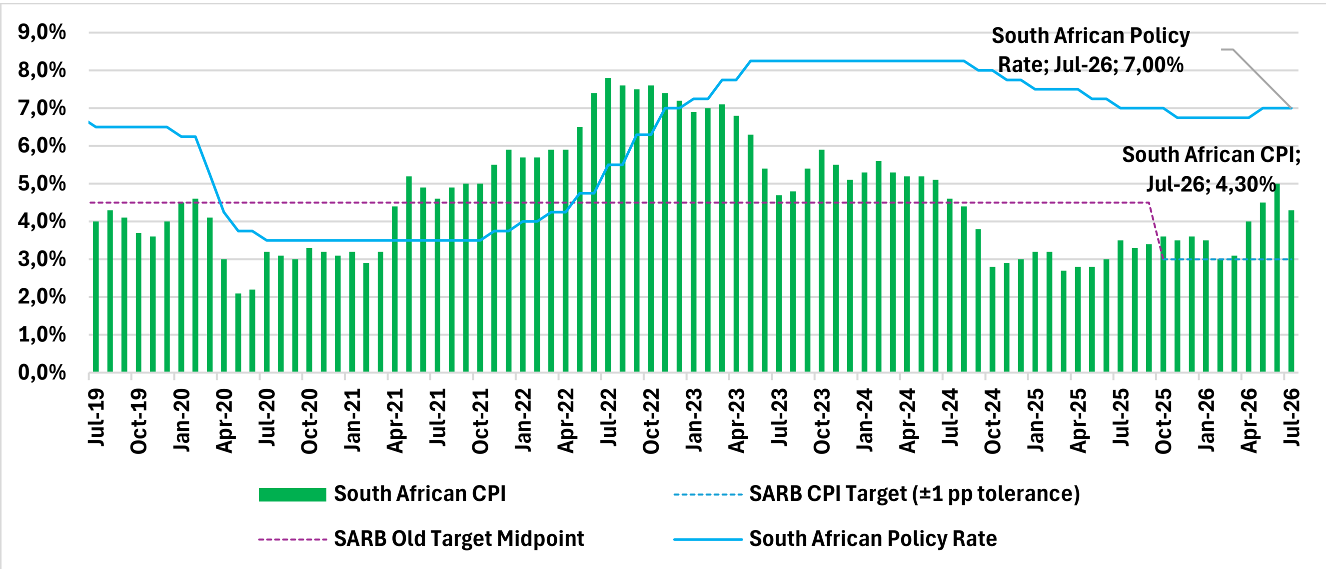
South Africa enters the September 2026 MPC meeting with headline inflation at 4.3%, down from 5.0% in June, while the repo rate remains at 7.00%. The moderation in inflation provides some relief, although underlying price pressures remain firm and renewed increases in global oil prices pose fresh risks to the outlook.

Since the previous meeting, external conditions have become less favourable. Brent crude has risen above US$100 per barrel, well above the SARB's July assumption of US$82 per barrel for 2026, while major central banks have maintained restrictive policy settings. These developments increase the risk of renewed pressure on the rand and imported inflation.

The September decision is therefore finely balanced, with the MPC weighing softer headline inflation and weak domestic activity against a clear deterioration in external inflation risks. **On balance, the assessment leans towards a 25-basis point increase to 7.25%, although a hold at 7.00% remains a credible alternative.**

Analysis

Figure 1: South Africa Repo Rate vs Inflation Rate



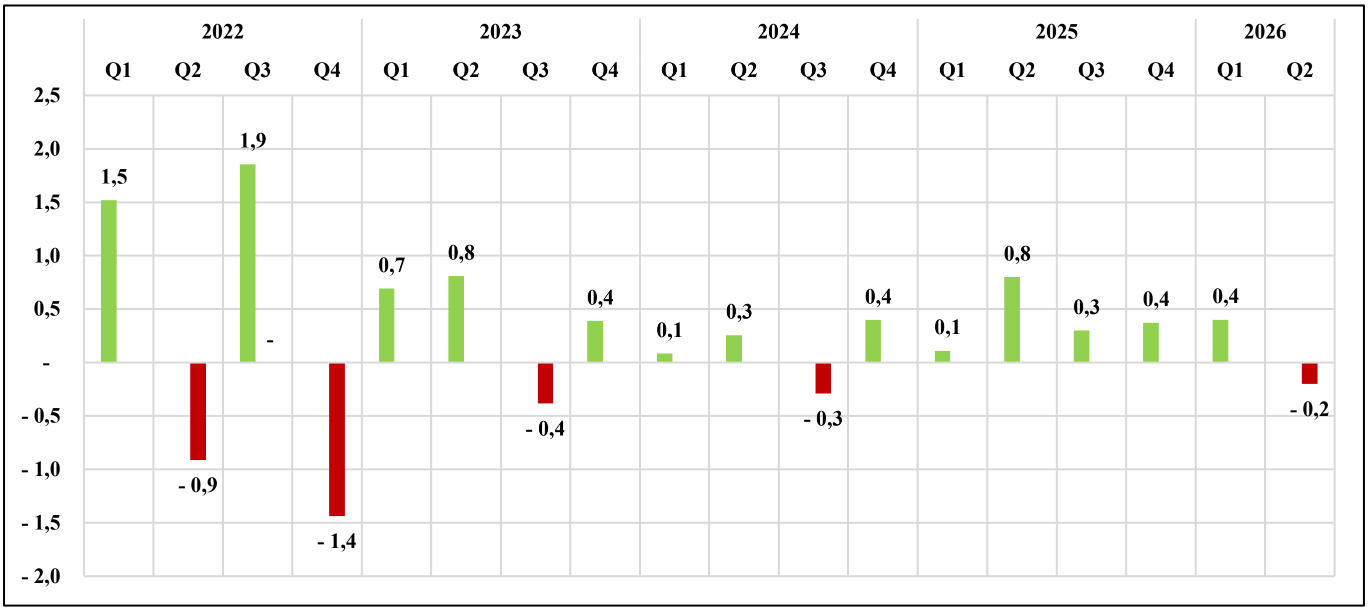
Source: SARB & StatsSA

As shown in Figure 1, headline consumer inflation eased to 4.3% in July 2026 from 5.0% in June, while monthly inflation slowed to 0.2% from 0.7%. The moderation was driven largely by softer food inflation and lower transport costs following reductions in domestic fuel prices.

Food and non-alcoholic beverage inflation declined to 0.9%, while transport inflation eased to 8.9% from 12.7% in June. Transport nevertheless remained a significant contributor to headline inflation, reflecting still-elevated fuel costs.
Despite the decline in headline inflation, underlying price pressures remained relatively firm. Services inflation stood at 5.0%, while inflation excluding food, non-alcoholic beverages, fuel and energy was 4.2%. The July headline outcome was also broadly consistent with the SARB's July forecast of 4.2% inflation in the third quarter and 4.3% in the fourth quarter, suggesting that domestic inflation developments have not materially deviated from the Bank's previous baseline forecast.

SOUTH AFRICAN ECONOMIC PERFORMANCE

Figure 2: South Africa Quarterly GDP Growth 2022Q1 – 2026Q2

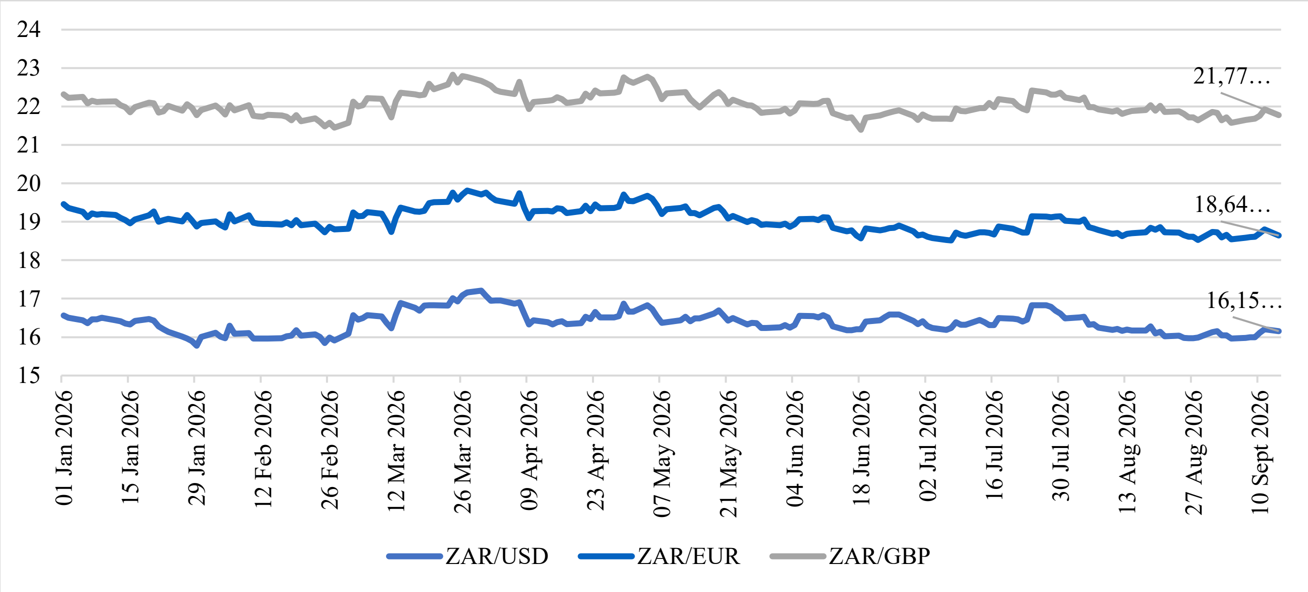


Source: StatsSA

South Africa's economic recovery lost momentum in the second quarter of 2026, with real GDP contracting by 0.2% quarter-on-quarter after growing by 0.4% in the first quarter. The decline was driven mainly by weaker activity in trade, manufacturing and mining, with manufacturing falling for a third consecutive quarter.

On the expenditure side, household consumption remained modestly positive, while gross fixed capital formation declined by 0.2%. Imports rose by 4.9%, far outpacing export growth of 0.9%, resulting in net exports subtracting 1.1 percentage points from growth. Overall, the Q2 data point to a weaker growth environment and limited investment momentum, increasing the policy trade-off between supporting economic activity and maintaining restrictive monetary conditions.

Figure 3: ZAR vs Major Currencies January 2026 - September 2026



Source: HEI Research

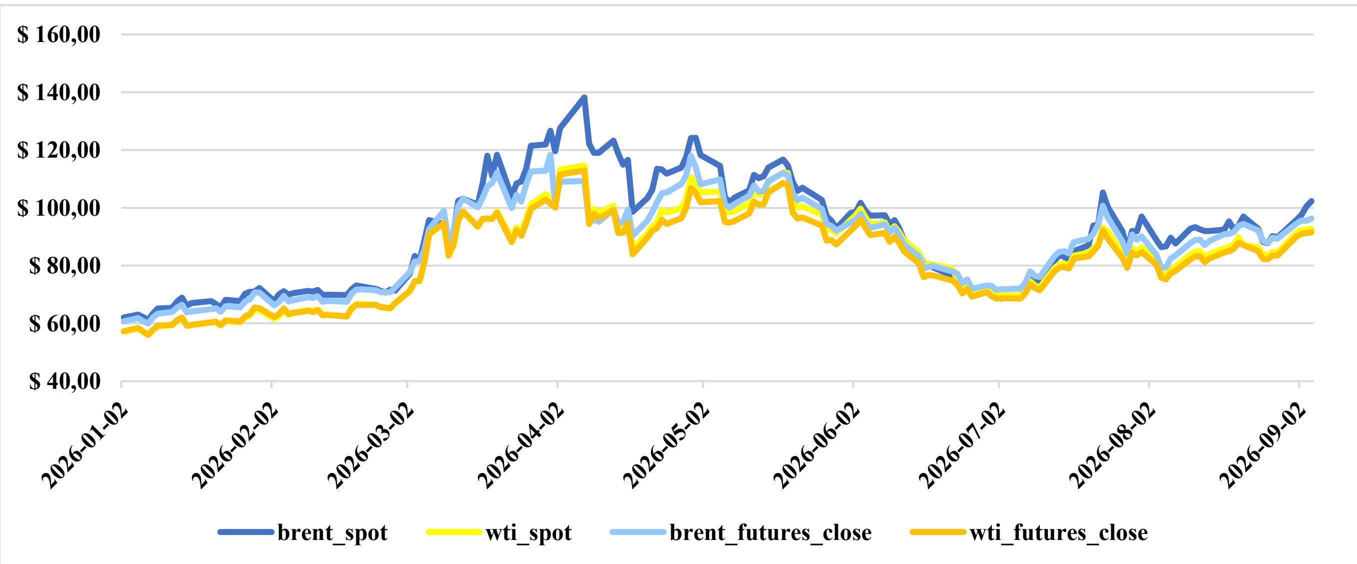
As shown in Figure 3, The rand has remained relatively volatile since the previous MPC, although it was modestly stronger overall by mid-September. The currency appreciated by approximately 1.8% against the US dollar, 0.4% against the euro and 0.6% against the pound over the period. The strongest gains were recorded against the dollar, although some of these gains were reversed more recently.

The rand remains sensitive to global financial conditions, monetary policy developments in major economies and geopolitical risks. While the recent appreciation provides some relief for imported inflation, renewed oil-price pressures and shifts in global risk sentiment could place pressure on the currency and increase the cost of imported goods and fuel.

GLOBAL CONDITIONS

Since the July MPC meeting, global conditions have become more challenging since the July MPC meeting, particularly following the sharp increase in international oil prices.

Figure 4: Daily Brent Spot vs Futures Price Jan 2026– September 2026



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

Brent crude has risen above US$100 per barrel amid renewed geopolitical tensions and concerns over global oil supply and shipping routes. The increase is particularly significant relative to the SARB's July forecast, which assumed an average Brent price of US$82 per barrel for 2026. A sustained oil price above US$100 would therefore represent a material upside deviation from the assumptions underlying the July inflation forecast.

Higher oil prices present a direct risk to South Africa through domestic fuel prices and broader transport and production costs. The SARB's July forecast had already projected fuel inflation of 14.7% in the third quarter and 10.3% in the fourth quarter of 2026, meaning a sustained oil shock could place these projections under renewed upward pressure.

Global monetary conditions remained restrictive. In September, the US Federal Reserve raised its policy rate by 25 basis points, while the European Central Bank also increased rates by 25 basis points. The Reserve Bank of Australia held rates in August, with its next decision scheduled for 29 September, while the Bank of Canada kept rates unchanged in September. The Bank of England maintained while the Bank of Japan raised its rates to 1.25% the highest level since 1995. Overall, tight global monetary conditions were expected to keep borrowing costs elevated and contribute to volatility in emerging-market currencies, including the rand.

These developments suggest that global monetary conditions may remain tighter than anticipated in the SARB's July assumptions, which incorporated an international policy interest rate of 2.8% for 2026. Persistently restrictive global policy settings could increase capital-flow and exchange-rate volatility in emerging markets, including South Africa.

Outlook

The September MPC meeting presents a different balance of risks from July. Headline inflation has moderated broadly in line with the SARB's previous forecast, while economic activity remains subdued and investment weak. With domestic developments largely tracking, or in some cases underperforming, the Bank's July baseline, there has been limited domestic evidence requiring a change in the current policy stance.

The main shift since July has come from the external environment. Brent crude trading above US$100 per barrel represents a significant upside deviation from the SARB's US$82 assumption for 2026, while tighter monetary policy in major economies could add pressure to the rand and imported inflation. The rand has, however, remained relatively resilient, providing some offset to these risks.

The September decision will therefore depend on how the MPC weighs domestic conditions that remain broadly consistent with its previous forecasts against the deterioration in external inflation risks. The absence of a significant domestic deviation from the July outlook supports maintaining the current policy stance, while the sharp increase in oil prices has strengthened the case for caution.

Ahead of the SARB's 23 September 2026 MPC announcement, the decision remains finely balanced. Moderating inflation, weak economic activity, relative rand stability and domestic outcomes broadly in line with the SARB's July forecasts support maintaining the policy rate at 7.00%. Conversely, oil prices well above the Bank's assumptions and restrictive global monetary conditions have materially increased external inflation risks. **On balance, the assessment leans towards a 25-basis point increase to 7.25%, although a hold at 7.00% remains a credible alternative.**