



Monetary Policy Statement

ECONOMICS | SOUTH AFRICA

Another hold as the global supply shock stokes inflation risks.

- The MPC left the repo rate unchanged at 6.75%, marking the second meeting in a row with no change. As we expected, given the heightened global uncertainty, the decision was unanimous, a shift from the January meeting when 2 members favoured a 25-bps cut.
- The MPC flagged risks to inflation from war-related supply shocks and rand weakness. The Governor made it clear that, while the MPC would look past the first-round price effects, it would be on guard to act should second-round effects become entrenched.
- The inflation forecasts have been revised higher. In the base scenario, CPI peaks at 4.3% in Q2 2026 and returns to 3% in late 2027, while core CPI reaches 3.5% in Q1 2027 and slowly drops to 3% in Q3 2028. The SARB has compiled two other scenarios, both more adverse than the base scenario. In these scenarios, the repo rate rises.
- We expect flat interest rates for the remainder of this year. However, chances of a hike will increase if the effects of the initial price hikes lift CPI and inflation expectations by more than expected.

March 2026

Repo rate (%)

Unchanged

6.75%

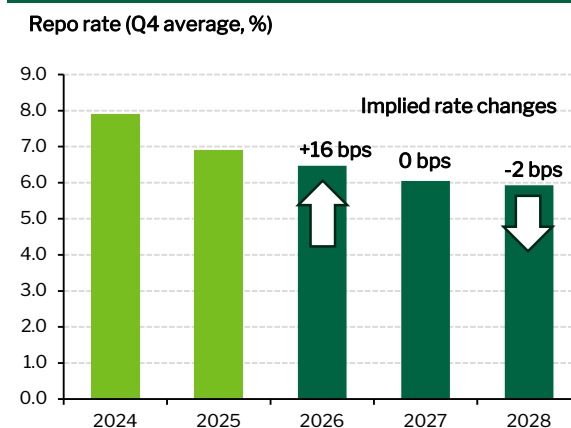
In line with expectations

Key metrics:

	2025	2026	2027	2028
Headline				
Mar-26	3.2	3.7	3.3	3.0
Jan-26	3.2	3.3	3.2	3.0
Core				
Mar-26	3.2	3.3	3.3	3.0
Jan-26	3.2	3.2	3.1	3.0
GDP				
Mar-26	1.1	1.4	1.9	1.9
Jan-26	1.3	1.4	1.9	1.9
Repo rate				
Mar-26	6.89	6.47	6.05	5.93
Jan-26	6.89	6.31	6.05	5.95
Neutral real repo				
Mar-26	2.76	2.81	2.90	2.92
Jan-26	2.76	2.81	2.90	2.92

Source: MPC Statement

Chart 1: QPM repo rate projections



Source: MPC Statement

The MPC's view on inflation:

The MPC flagged the inflation risks raised by the global supply shock. The global oil price spike will increase fuel prices. Furthermore, higher fertiliser prices could pressure food inflation amid the persistent effects of foot-and-mouth disease, with the rand's weakness adding to overall inflationary pressures.

The SARB expects inflation to peak at 4.3% in Q2 2026, averaging 4% for the quarter (vs. 3.3% previously). CPI is then projected to ease to 3% in late 2027, falling to the target level earlier than the previous expectation of Q3 2028. A jump in fuel inflation, which the SARB forecasts will average 18% in Q2 2026, up from its previous forecast of 0.7%, will be the primary driver of higher inflation. Fuel inflation then remains sticky at 9.8%, 9.4% and 12.4% between Q3 2026 and Q1 2027, averaging 7.4% in 2026 from -5.8% in 2025. In this base forecast, the oil price averages \$78 a barrel (vs \$68 previously) in 2026 and drops to \$65 a barrel by Q2 2028.

Inflation risks are skewed to the upside, with the SARB compiling two scenarios that are worse than the base case. In the first scenario, the Middle East war continues for another two months, with oil prices averaging almost \$100 and the



rand depreciating by 5%, while the risk premium rises by 10% over the duration of the conflict. The oil price averages \$85, \$72 and \$67 in 2026, 2027 and 2028, respectively. As a result, CPI exceeds 4%.

The more adverse scenario assumes that the war persists for more than a year. The oil price stays above \$100, the rand falls by 10%, and the risk premium rises by 20%. The oil price averages \$97, \$118, and \$103 in 2026, 2027, and 2028, respectively. CPI exceeds 5% in this scenario.

Both adverse scenarios imply higher interest rates. In the first scenario, where CPI exceeds 4%, the repo rate rises once, whereas in the more adverse scenario, several hikes push the repo rate to a peak close to 8.25%.

Table 1: SARB's quarterly inflation forecasts

	2026				2027				2028			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline												
Jan-26	3.3	3.3	3.2	3.3	3.3	3.3	3.2	3.1	3.1	3.1	3.0	3.0
Mar-26	3.2	4.0	3.7	3.9	4.0	3.2	3.2	3.0	3.0	3.1	3.0	3.0
Core												
Jan-26	3.2	3.2	3.2	3.2	3.1	3.2	3.1	3.0	3.0	3.0	3.0	3.0
Mar-26	3.2	3.3	3.4	3.4	3.5	3.5	3.3	3.1	3.1	3.1	3.0	3.0

Source: Mar 2026 MPC Forecast Report

The MPC's view on economic growth:

The SARB left its growth forecasts largely steady, with real GDP growth rising to 1.9% in 2027. However, risks to the growth outlook are now assessed to be to the downside primarily due to the supply and price shocks.

The Quarterly Projection Model's recommended rate path:

Unsurprisingly, the QPM reflected moderately higher rates in 2026 compared with the projection in January. For 2027, the repo rate is steady, while the model also reflects virtually steady rates in 2028.

Outlook and implications

The MPC's assessment of current conditions aligns with our view that the environment requires caution. Higher oil prices and currency volatility due to the Middle East conflict will feed through to higher fuel costs. The MPC's decision to look through the first-round price effects is prudent, as interest rates are ineffective in dealing with these external shocks. However, there could be second-round effects from the rand's weakness. As a result, inflation expectations will rise materially in the second quarter, reinforcing scepticism about whether a sustained 3% inflation target is attainable for a small, open, and shock-prone economy. The critical issue will be whether elevated inflation expectations persist once the initial price shocks moderate. In that case, the SARB would be compelled to lean against an inflation spiral.

The Governor stressed that the SARB is committed to its inflation mandate of anchoring inflation expectations around the 3% target. Therefore, if initial price shocks pass through to broader price pressures, the MPC would most likely hike the repo rate in 2026. Our base view, however, is that rates will remain flat in 2026.



Table 2: SARB's detailed annual forecasts

	2025	2026	2027	2028
Headline inflation				
Nov-25	3.3	3.5	3.1	3.0
Jan-26	3.2	3.3	3.2	3.0
Mar-26	3.2	3.7	3.3	3.0
Core inflation				
Nov-25	3.2	3.3	3.0	3.0
Jan-26	3.2	3.2	3.1	3.0
Mar-26	3.2	3.3	3.3	3.0
Food CPI				
Nov-25	4.3	3.7	3.0	3.0
Jan-26	4.1	3.6	3.2	3.0
Mar-26	4.1	3.6	3.6	3.0
Fuel CPI				
Nov-25	-5.9	2.2	1.4	1.3
Jan-26	-5.8	-1.4	2.4	1.3
Mar-26	-5.8	7.4	-1.0	-0.1
Electricity CPI				
Nov-25	10.9	9.1	7.9	6.9
Jan-26	10.9	9.1	7.9	6.9
Mar-26	10.9	9.1	7.9	6.9
Real GDP growth				
Nov-25	1.3	1.4	1.9	1.9
Jan-26	1.3	1.4	1.9	1.9
Mar-26	1.1	1.4	1.9	1.9
Potential growth				
Nov-25	1.1	1.4	1.7	1.8
Jan-26	1.1	1.4	1.7	1.8
Mar-26	1.0	1.4	1.7	1.8
Output gap				
Nov-25	-0.3	-0.3	-0.1	0.0
Jan-26	-0.2	-0.3	-0.1	0.0
Mar-26	-0.3	-0.3	-0.1	0.0
Repo rate				
Nov-25	6.87	6.19	5.99	5.96
Jan-26	6.89	6.31	6.05	5.95
Mar-26	6.89	6.47	6.05	5.93
Neutral real interest rate				
Nov-25	2.76	2.81	2.90	2.92
Jan-26	2.76	2.81	2.90	2.92
Mar-26	2.76	2.81	2.90	2.92

Source: March 2026 MPC Forecast Report



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