Economic Insights | 23 September 2026

Monetary Policy Statement

ECONOMICS | SOUTH AFRICA

NEDBANK

SARB hikes as inflation risks outweigh growth concerns

- The MPC unanimously decided to hike the repo rate by 25 basis points (bps) to 7.25%. The decision was motivated by rising price pressures and pervasive upside risks to the inflation outlook as the global energy shock proves more persistent, services inflation remains too high, the threat of El Niño looms large and longer-run inflation expectations seem stuck around 4% instead of the 3% target.
- The SARB upped its inflation forecasts, with the headline figure expected to rise above 5% in Q4 2026 and Q1 2027, before dipping towards the target in Q4 2027.
- Given the uncertainty surrounding the Middle East conflict, future policy decisions will remain data dependent, with the MPC responding to evidence of second-round effects from the global energy shock. With price pressures increasingly broadening and interest rates rising across the world, the risk of further tightening at home remains high.

September 2026

Repo rate (%)

Hike

7.25%

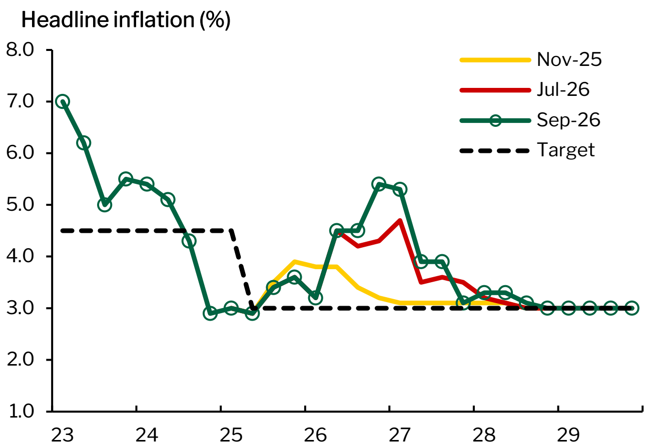
In line with expectations

Key metrics:

	2026	2027	2028	2029
Headline				
Jul-26	4.0	3.8	3.1	3.0
Sept-26	4.4	4.0	3.2	3.0
Core				
Jul-26	3.8	3.7	3.1	3.0
Sept-26	3.8	4.0	3.3	3.0
GDP				
Jul-26	1.4	1.7	1.9	2.0
Sept-26	1.2	1.7	1.9	2.0
Repo rate				
Jul-26	6.79	6.24	5.95	2.85
Sept-26	6.98	6.34	5.98	5.84
Neutral real repo				
Jul-26	2.81	2.90	2.91	2.85
Sept-26	2.81	2.90	2.92	2.87

Source: MPC Statement

Chart 1: The evolution of the SARB's inflation forecasts



Source: MPC Statement

The MPC's view on inflation:

The SARB upped its inflation forecasts substantially. They now see headline inflation rising above 5% in Q4 2026 and Q1 2027, before easing gradually and sliding more decisively to 3% by the end of next year. Core inflation follows a similar trajectory, hovering around 4% until Q3 2027, before resuming a clear downward trend from the end of next year onwards and reaching the 3% target on a more sustainable basis at the end of 2028.

The upward revisions mainly reflect the impact of further fuel price increases as the war in the Middle East drags on and the flow of traffic through the key waterways remains below pre-war levels, which could persist for longer. The MPC noted that food inflation was at its lowest since 2010, while a resilient rand kept import prices well contained. The same could not be said of services inflation, where the pressures extended beyond the direct and indirect effects of higher fuel prices. The Committee stressed that lower inflation expectations are key to taming services inflation. The MPC felt longer-run expectations were still too high at around 4% instead of the 3% target. They also mentioned that the BER conducted the Q3 survey before the September fuel price hikes came into effect, suggesting that they did not expect the softer trend to continue.

The Committee saw continued upside risks to inflation, stemming mainly from a more pervasive energy price shock but also from broader global inflation, a more vulnerable rand as the US and other advanced countries tighten their respective policy rates, and finally from the threat posed to food prices by the anticipated El Niño weather pattern.

The SARB again considered two possible adverse scenarios. In the first scenario, they considered the impact on the rand of 100-bps increase in the interest rates of major central banks between this year and next year. These assumptions push the rand to above R18 to the US dollar, pushes inflation up to 4.6% in 2027, and necessitates another rate hike followed by a slower pace of easing. In the second scenario, the MPC stressed inflation expectations and wage increases. They assumed that inflation expectations climb to 4.8% and unit labour costs jump to 7.4% in 2027. In this scenario, inflation accelerates to 4.8% in 2027, pointing to one to two additional rate hikes.

Table 1: SARB's quarterly inflation forecasts

	2026				2027				2028				2029			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline																
Jul-26	3.2	4.5	4.2	4.3	4.7	3.5	3.6	3.5	3.2	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Sep-26	3.2	4.5	4.5	5.4	5.3	3.9	3.9	3.1	3.3	3.3	3.1	3.0	3.0	3.0	3.0	3.0
Core																
Jul-26	3.2	3.8	4.0	4.0	4.1	3.8	3.5	3.3	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Sep-26	3.2	3.8	4.1	4.1	4.2	4.1	4.0	3.9	3.6	3.4	3.2	3.1	3.1	3.1	3.0	3.0

Source: September 2026 MPC Forecast Report

The MPC's view on economic growth:

The SARB reduced its GDP growth forecast for 2026 from 1.4% to 1.2% to reflect the weaker-than-expected outcomes in the first half of the year. However, the SARB still expected a rebound in the second half of the year as structural reforms lift supply constraints and the global environment stabilises. As a result, they left their growth forecasts for 2027, 2028 and 2029 unchanged at 1.7%, 1.9% and 2%, respectively. All said, the MPC still saw downside risks to the growth outlook.

The Quarterly Projection Model's recommended rate path:

The SARB's Quarterly Projection Model (QPM) shows the policy rate remaining relatively steady for the rest of this year, followed by a slightly slower pace of easing in 2027 through to 2029 than reflected in July's forecasts.

Outlook and implications

We still expect the tightening bias to persist for the rest of this year. The inflation outlook remains heavily dependent on how the US-Iran war evolves and its impact of global energy markets. Encouragingly, oil prices softened in recent days on news that Saudi Arabia restored the war-damaged East-West Pipeline quickly and hopes of a diplomatic breakthrough resurfaced amid direct talks between US and Iran on the sidelines of the UN General Assembly in New York. However, the underlying situation has not changed much, energy supply remains tight as the world burns through its inventories at a record pace and trade through the straits of Hormuz and Bab El-Mandeb remains severely constrained. At the same time, price pressures broadened and monetary policy tightened across advanced economies, fuelling risk-off sentiment and driving safe-haven demand for US dollars, thereby dimming the rand's prospects for continued resilience. Finally, meteorologists still place a high probability of a severe El Niño over October to February, which could lead to disappointing summer crops and renewed upward pressure on food prices. With energy prices still high, global inflation rising, the rand looking more vulnerable, and the threat of drought-induced food inflation looming, cost-push pressures will likely increase in the months ahead.

Monetary policy is not the most effective tool for dealing with this type of inflation. The more effective solutions lie with government, including diversifying the country's imports of oil and refined petroleum products, rebuilding South Africa's strategic stockpiles, reviving domestic refining capacity, and dramatically lowering the cost of energy, logistics, water and compliance to make refining financially feasible, reverse water wastage through infrastructure decay, and boost domestic productivity. Since we do not believe these interventions can be delivered quickly enough to alter inflation's course over the next 6 to 8 months, monetary policy will continue to carry the bulk of the inflation fighting burden and must lean against the second-round price effects. In this regard, inflation is now widely expected to remain above the SARB's 4% tolerance band for much longer than initially anticipated. The longer inflation stays above target, the greater risks of second-round effects developing and inflation expectations resuming an upward trajectory. Given these considerations, the risks of another rate hike in November remains high, especially the US Fed tightens further and the dollar rebounds convincingly. Even so, we think inflation will peak above 5% in October and then descend gradually towards 3% throughout 2027 as weaker domestic demand and tighter monetary policy slowly filters through to dull wage demands and cap companies' pricing power. Consequently, our best guess is that the SARB has brought enough space to look through the energy shock for now.

Table 2: SARB's detailed annual forecasts

	2025	2026	2027	2028	2029
Headline inflation					
May-26	3.2	4.4	3.7	3.0	
Jul-26		4.0	3.8	3.1	3.0
Sep-26		4.4	4.0	3.2	3.0
Core inflation					
May-26	3.2	3.7	3.7	3.1	
Jul-26		3.8	3.7	3.1	3.0
Sep-26		3.8	4.0	3.3	3.0
Food CPI					
May-26	0.1	3.6	4.2	3.0	
Jul-26		2.9	4.0	3.0	3.0
Sep-26		2.7	4.9	3.4	3.0
Fuel CPI					
May-26	-5.8	15.6	-2.1	-1.9	
Jul-26		10.5	2.4	0.1	0.2
Sep-26		19.7	-2.3	-2.9	0.1
Electricity CPI					
May-26	10.9	9.1	7.9	6.9	
Jul-26		9.4	8.2	7.0	6.0
Sep-26		9.2	8.0	7.0	6.0
Real GDP growth					
May-26	1.1	1.2	1.7	1.9	
Jul-26		1.4	1.7	1.9	2.0
Sep-26		1.2	1.7	1.9	2.0
Potential growth					
May-26	1.0	1.3	1.7	1.8	
Jul-26		1.3	1.7	1.8	2.0
Sep-26		1.3	1.7	1.8	2.0
Output gap					
May-26	-0.3	-0.4	-0.4	-0.2	
Jul-26		-0.2	-0.2	-0.1	0.0
Sep-26		-0.4	-0.3	-0.2	-0.1
Repo rate					
May-26	6.89	6.70	6.04	5.88	
Jul-26		6.79	6.24	5.95	5.85
Sep-26		6.98	6.34	5.98	5.84
Neutral real interest rate					
May-26	2.76	2.81	2.90	2.92	
Jul-26		2.81	2.90	2.91	2.85
Sep-26		2.81	2.90	2.92	2.87

Source: September 2026 MPC Forecast Report

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