SARB January MPC Review

Outcome

Rates Unchanged

Repo Rate: 6.75%

Vote Split: 4-2

Summary

The SARB matched consensus expectations and kept interest rates unchanged at its January MPC meeting, with the vote split 4-2, with the dissenters favouring a 25bp cut.

Once again, the SARB's inflation forecasts were trimmed marginally compared to those from the previous meeting, while GDP growth estimates were left unchanged.

The QPM, interestingly, points to a more gradual easing path ahead compared to the November MPC meeting, with rates expected to average 6.31% by the end of 2026 (compared to 6.19% previously) and 6.05% by the end of 2027.

Dashboard

		Jul-25	Aug-25	Sept-25	Oct-25	Nov-25	Dec-25
Economics	Consumer Inflation	2,9	2,5	2,7	2,9	2,5	2,7
	Credit Growth	4,2	3,6	3,1	6,1	7,3	7,3
	SARB's Leading Indicator	5,8	6,6	6,4	6,8	7,1	6,9
	ABSA PMI	3,9	3,9	4,9	4,1	0,0	0,0
Market	SA-US Yield Spread	0,0	0,0	0,2	0,0	0,0	0,0
	SA 5y Breakeven Rate	1,2	1,0	1,0	1,0	0,5	0,3
	SA 10y Breakeven Rate	0,0	0,0	0,2	0,0	0,0	0,0
ETM	ZAR Sentiment Indicator	3,1	4,5	5,0	5,1	6,2	6,8
	Inflation Risk Indicator	4,1	4,2	4,9	6,1	6,4	6,9

**Ranked 1 – 10 based on 5-year history*

***Green indicates the measure favours looser monetary policy, Red favours tighter policy*

The SARB kept rates on hold at its first MPC meeting for 2026. Predictions for the meeting were almost evenly split, with those calling for a hold pointing to global economic and political uncertainty, and the need to build credibility around the SARB's new lower inflation target. The case for a rate cut was strong, with contained inflation, lower inflation expectations, and a massive rally for the ZAR since the last MPC meeting.

However, the SARB opted for the more cautious path, matching its previous proclivity under current Governor Kganyago. Either decision today would have been justified, but with the split of 4-2, there is scope for a potential rate reduction at the March MPC meeting if the ZAR manages to hold onto its recent gains and no major external shocks materialise.

Looking at our dashboard above, we see that it has turned slightly less in favour of monetary policy easing than before. This is largely due to stronger economic performance, with credit growth picking up and the SARB's own leading indicator continuing to rise.

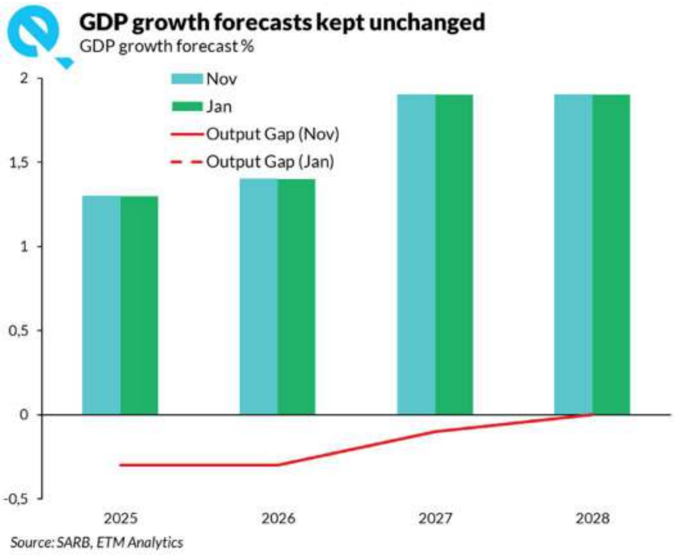
However, SA's economy is still a long way from manifesting any major demand-driven inflation. This is clear in the broader expectations for inflation, with market indicators still at their lowest levels in many years, while inflation expectation surveys continue to point to moderating price growth.

While our ZAR Sentiment Indicator shows a weakening in positive sentiment towards the currency, this is largely a function of how far the ZAR has already appreciated, suggesting it may lose some momentum in the near term but that it is unlikely to face any sustained periods of significant depreciation.

Meanwhile, ETM's proprietary inflation risk indicator has ticked higher, but this is largely due to positive factors such as recent equity market performance and improving business confidence indicators. These factors suggest that there is some scope for inflation to increase, but do not indicate that this will necessarily materialise.

Looking ahead, fuel costs are expected to moderate again in February, while the ZAR is expected to continue to perform well against the USD. These key factors suggest that inflation prints could actually fall back slightly through the next few months.

Analysis



The SARB kept its estimates for domestic economic growth unchanged after raising them in the two prior meetings. Growth has been historically weak and remains modest relative to what would be needed for significant job creation and robust economic development.

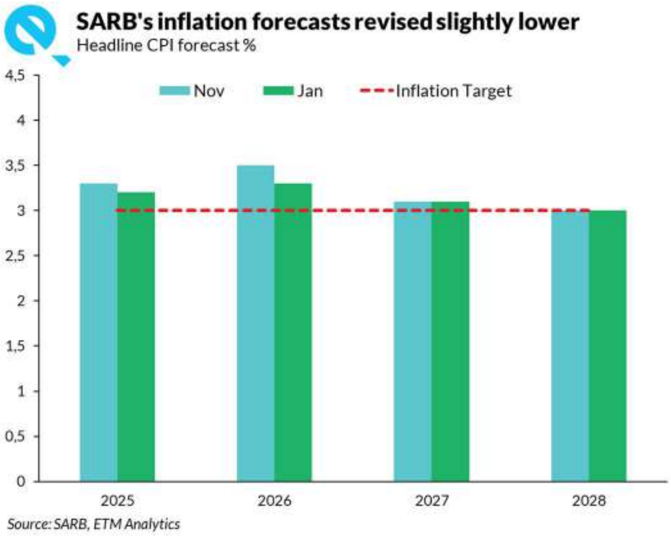
Although the economy is weak overall, household consumption has shown resilience, supported by lower inflation and softer interest rates. This has helped limit the downturn in activity.

Investment (especially gross fixed capital formation) has long been a drag on economic growth, though some recovery is expected as confidence improves and public infrastructure spending scales up.

Overall, therefore, the SARB views the risks to economic growth as balanced

As we have noted before, the rate cut at the November MPC meeting will support growth at the margin, but monetary policy remains relatively restrictive after this month's hold.

Furthermore, monetary policy has not hampered SA's growth in the past and will not be the main driver in the near future.

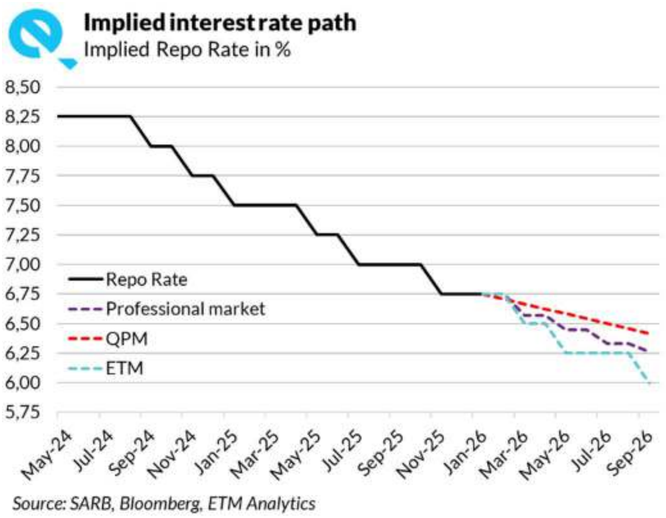


There was a slight downward revision to the SARB's inflation forecasts for this year, following the lower-than-expected final figure for 2025. As seen in the chart to the left, the SARB expects consumer inflation to reach its 3% target at the end of 2028, with the progress from the current levels gradual.

However, it must be noted that the SARB does not expect inflation to accelerate from current levels, claiming that the December print of 3.6% is likely to be the peak.

ETM's inflation risk indicator suggests that there may be scope for inflation to pick up in the coming months, with risks coming from easing credit conditions, sticky food inflation, and high administered price increases.

However, ZAR strength, still-subdued global oil prices, and relatively weak domestic demand all suggest that any increase will be contained and kept within the SARB's estimates, which will allow it to ease monetary policy further in the coming months.



Despite the ZAR having gained almost 10% since the November MPC meeting, and inflation remaining contained, the SARB's cautiousness prevailed. However, the SARB will find it difficult not to cut rates in the coming months should the ZAR maintain its gains and contribute to lower inflation outcomes.

The SARB will become more comfortable with its new inflation target following a few months of CPI data that suggests inflation pressures are moderating and with risks skewed toward the downside.

The change to the QPM outcome for this year was a bit of a surprise, but the model still points to at least two more rate cuts this year, with the possibility of a third.

The decision to hold rates at the start of the year will also provide the ZAR with a boost to its resilience, turning it into a buffer against external shocks that will help insulate South Africa from any rising cost pressures from abroad.