SARB July MPC Review

TreasuryONE Optimising Your Cash Flows

etm ANALYTICS

Outcome

Rates Unchanged

Repo Rate: 7.00%

Vote Split: 4-2

Summary

The SARB's decision to leave the repo rate unchanged at 7.00% was surprising to say the least. The Bank continues to expect inflation to moderate over the medium term, but risks are viewed as skewed materially to the upside.

The decision is viewed as a hawkish hold rather than a dovish pause. Further rate hikes remain likely if inflation risks intensify.

Initial market reaction suggests that this may be viewed as a policy error with the ZAR weakening sharply. Time will tell. Positive developments in the US-Iran war would vindicate the hold, but prolonged conflict, further ZAR weakness, and persistently elevated global crude prices would require a policy response that may then need to be more severe than if the SARB had acted now.

Dashboard

		Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Economics	Consumer Inflation	2,2	0,8	1,4	3,2	3,6	4,6
	Credit Growth	5,8	7,8	8,8	9,2	9,0	8,8
	SARB's Leading Indicator	6,9	7,1	8,6	6,8	6,8	6,8
	ABSA PMI	3,7	2,5	4,4	7,6	5,9	2,5
Market	SA-US Yield Spread	0,0	0,0	0,3	0,8	0,7	0,3
	SA 5y Breakeven Rate	0,0	0,2	0,7	2,4	3,9	1,9
	SA 10y Breakeven Rate	0,0	0,0	0,7	1,4	1,5	0,8
ETM	ZAR Sentiment Indicator	6,5	6,9	8,5	9,7	8,5	5,4
	Inflation Risk Indicator	6,9	6,8	7,5	8,6	8,6	9,7

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

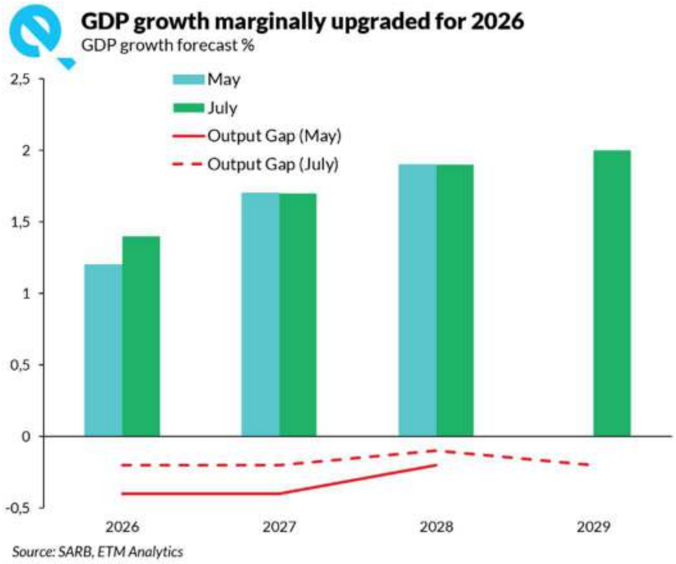
***Green indicates the measure favours looser monetary policy, Red favours tighter policy*

The Monetary Policy Committee's decision to leave the repo rate unchanged at 7.00% reflects an unexpected confidence that the current policy stance is already sufficiently restrictive. The global macroeconomic environment remains characterised by elevated uncertainty and persistent inflation risks. Inflation has accelerated in recent months and the risk is that disinflation from here on is gradual at best. Renewed geopolitical tensions, higher energy prices and increasingly fragmented global trade will likely continue to complicate the global disinflation process. Central banks have consequently become more cautious, with most maintaining restrictive policy settings as they seek greater confidence that inflation will return sustainably to target.

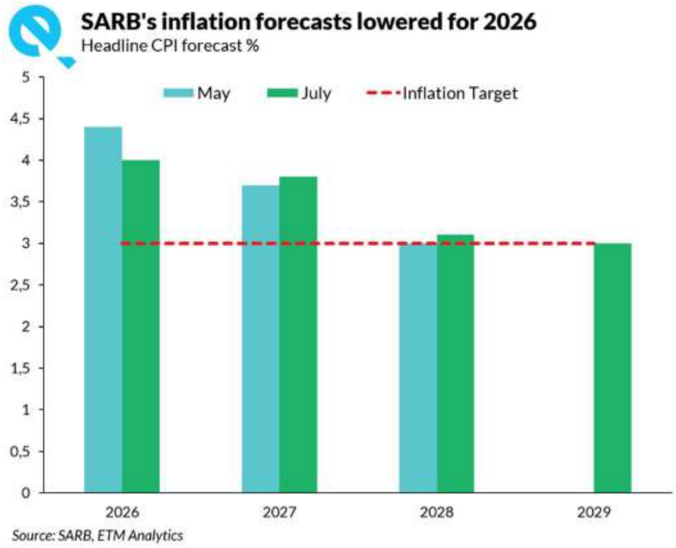
Although domestic demand remains relatively subdued, the economy has been exposed to imported inflation through higher oil prices and fuel costs, while inflation expectations have become less favourable. Headline CPI has accelerated over recent months and, importantly, core inflation has also begun to firm, suggesting that some second-round effects are emerging. At the same time, growth remains modest, reflecting weak private investment, structural supply constraints and subdued consumer spending. This leaves policymakers balancing a deteriorating inflation outlook against an economy that continues to operate below its potential.

Our dashboard reflects this changing macro environment. Consumer inflation has steadily moved into more restrictive territory during 2026, while market-based inflation expectations, as measured by the 5-year and 10-year breakeven inflation rates, have increased materially since March. The Inflation Risk Indicator has risen to its highest level of the year, signalling that upside inflation risks remain elevated despite some recent moderation in energy prices. Meanwhile, credit growth remains resilient, suggesting monetary conditions have not become sufficiently restrictive to materially constrain lending, while the SARB Leading Indicator points to slower, but still positive, economic activity. Manufacturing conditions remain uneven, with the ABSA PMI highlighting the continued headwinds facing the production sector.

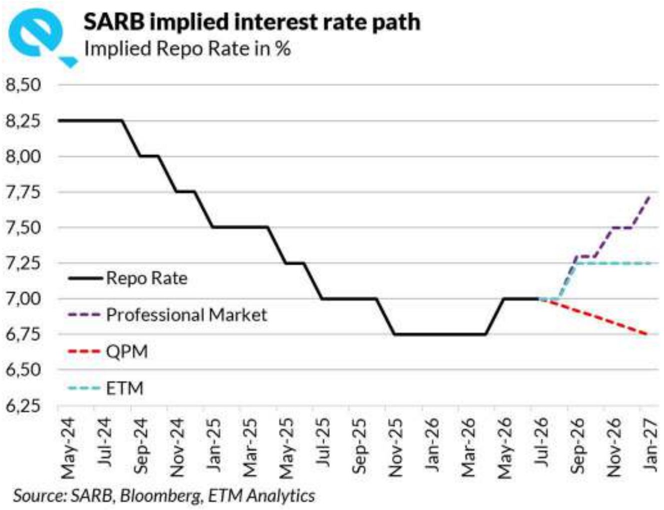
Analysis



The SARB's latest forecasts continue to point to a subdued growth environment, highlighting the difficult balance between containing inflation and supporting economic activity. While the Bank expects GDP growth to improve gradually over the forecast horizon, the recovery remains modest and well below South Africa's long-run potential. Household consumption is expected to remain constrained by elevated borrowing costs and higher living costs, while private investment continues to be held back by policy uncertainty, infrastructure bottlenecks and weak business confidence. Although improved electricity supply and ongoing logistics reforms should provide some support to activity, external demand remains uncertain amid slower global growth and geopolitical tensions. Overall, the SARB's projections suggest that economic growth will remain insufficient to meaningfully reduce unemployment or generate significant demand-driven inflationary pressures, reinforcing the view that structural reforms, rather than monetary policy, remain the key driver of South Africa's long-term growth prospects.



The inflation outlook has deteriorated modestly since the previous meeting, with the SARB revising its 2026 forecasts marginally lower while raising its estimates for the following two years. While much of the recent increase in inflation has been driven by external supply-side factors, the Bank also noted signs that underlying price pressures are becoming more persistent, with core inflation expected to remain elevated over the coming quarters. Importantly, inflation expectations have drifted higher and continue to sit above the SARB's preferred 3% objective, increasing the risk that temporary price shocks become more entrenched. While, the Bank continues to expect inflation to gradually moderate over the medium term as the impact of higher energy prices fades and restrictive monetary policy continues to restrain domestic demand. The inflation outlook is deemed manageable by the SARB but it is subject to significant upside risks from oil prices, exchange rate volatility and global geopolitical developments.



The Monetary Policy Committee's decision to leave the repo rate unchanged at 7.00% surprised many and comes with some notable risks. While the accompanying statement and revised projections indicate that the Bank remains firmly focused on inflation risks, it may be underestimating these risks. Markets should therefore interpret the outcome as a hawkish hold and will thus likely keep the risk of further hikes priced in. Currently, FRAs price in the risk of three 25bp hikes over the next three MPC meetings. This may moderate over the near term, but will remain very sensitive to oil market and FX developments.

Given the elevated levels of global uncertainty, a base case is difficult to form. The meeting today suggests that the SARB may remain on hold for the remainder of the year, but as noted before, the risk is skewed toward further hikes with a 25bp increase likely in September if oil prices do not recede in the near term and if the ZAR weakens further.

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