MNI South African Reserve Bank Preview: September 2025

Details:

Decision due Thursday, September 18th, alongside a press conference with Governor Lesetja Kganyago. The presser will start at 14:00BST/15:00SAST and will be broadcast via the central bank's website and social media channels.

MNI Point of View: Inflation-Target Reform Clouds Outlook

The South African Reserve Bank (SARB) is expected to stand pat on interest rates this week, leaving the repo rate at 7.00% after a series of five sequential cuts interrupted by a brief pause in March. The inflation picture remains benign, as survey- and market-based measures confirm an ongoing moderation in inflation expectations, while a strong exchange rate weighs on import prices. However, current inflation is in a phase of cyclical upturn, which may encourage the Monetary Policy Committee (MPC) to sit on their hands as they remain under pressure to demonstrate credibility and resolve amid the ongoing inflation-target overhaul.

Complicating the picture ahead of this week's meeting, it will be the first interest-rate decision taken after Governor Lesetja Kganyago unexpectedly announced a downward shift in the implicit inflation target. Although the formal regime specifying the inflation objective as the +3.0-6.0% Y/Y range remains unchanged, the SARB has shown a degree of operational autonomy in enforcing its mandate. Since 2017, the central bank had been aiming for the +4.5% Y/Y mid-point, before declaring preference for the +3.0% Y/Y lower bound of the target range after the July MPC meeting, as technical work on the overhaul of formal inflation-targeting framework is in full swing.

The success of the ongoing reform hinges on the SARB's ability to signal a credible commitment to the new inflation objective. For that reason, South African policymakers need to put extra effort to reaffirm their inflation-fighting credentials in the eyes of various stakeholders, at least during the transition phase of unspecified duration. This may prove consequential for current monetary policy decisions, potentially amplifying the SARB's earlier hawkish bias. It could be cautiously assumed that once the new target becomes embedded in expectations and price-setting behaviour, this could free up some space for the SARB to resume cuts, but it is difficult to speculate on specific timing.

Meanwhile, the data released since the previous meeting was a mixed bag. On the one hand, the latest BER survey (released only a couple of days ago) showed that inflation expectations continued to moderate in Q3, with the most closely watched two-year ahead index falling to +4.2% Y/Y from +4.5%. Market-based measures of inflation expectations have also remained at depressed levels, with the 10-year breakeven inflation rate hitting all-time lows earlier this week. In addition, continued rand appreciation helps mitigate imported inflation, which has coincided with a further decline in global oil prices.

On the other hand, headline CPI inflation has entered a phase of a cyclical upturn, which the SARB will likely want to keep in check. It accelerated to +3.5% Y/Y in July (August data have not been released when this report went to print), with the SARB forecasting it to average at +3.7% Y/Y in 4Q25 and stay above the modified implicit target through 1H26. At the same time, Q2 GDP growth beat expectations – with the significant caveat that risks from US tariffs continue to linger, raising the prospect of firmer constraints on demand-side pressures.

In our view, under normal conditions the short-term upturn in CPI inflation might not be enough to persuade the MPC to stay put, as the structure of inflation and forward-looking indicators remain benign. However, the sensitive nature of the inflation-target overhaul should amplify the SARB's on-brand strategic hawkish bias. For the record, the central bank had previously communicated that it sees the current period of 'opportunistic disinflation' as the right moment for pressing ahead with the inflation-target reform. This sweet spot may have already been passed and the window of opportunity is slowly closing, as inflation creeps higher, placing a greater burden on the MPC amid its efforts to reaffirm its credibility. As a result, we align with consensus in expecting an on-hold decision this week, although with moderate conviction. A significant miss in the August CPI print could sway the MPC in the other direction.

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Data Watch

mni Central Bank Watch - SARB

September 16, 2025

MNI SARB Data Watch List												
Inflation		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
CPI YoY	% y/y	3.5	2.8	↑	3.2	↑					-0.62
Core CPI YoY	% y/y	3.0	3.0	→	3.5	↓					-0.70
PPI YoY	% y/y	1.5	0.5	↑	1.1	↑					1.73
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance Rand	ZARbn	20.3	13.0	↑	-16.8	↑					0.62
Manufacturing Prod YoY	% y/y	-0.7	-6.6	↑	-2.8	↑					0.36
Absa Manufacturing PMI	Index	49.5	43.1	↑	44.7	↑					0.93
SACCI Business Confidence	Index	116.7	123.5	↓	121.0	↓					-0.72
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Money Supply M3 YoY	% y/y	6.75	6.12	↑	7.10	↓					0.22
Private Sector Credit YoY	% y/y	5.84	4.57	↑	4.59	↑					1.69
Total Loans and Advances	ZAR bn	4632	4535	↑	4440	↑					1.33
Net Reserves	$bn	65.90	64.80	↑	61.73	↑					1.15
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales YoY	% y/y	1.6	1.2	↑	3.1	↓					-0.12
BER Consumer Confidence	Index	-10.0	-20.3	↑	-6.2	↓					0.44
Unemployment	%	33.2	32.9	↑	31.9	↑					1.00
Non-farm payrolls QoQ	%q/q	-0.7	0.2	↓	-1.0	↑					-0.59
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity (FTSE/Jse Top 40)	Index	97561	86553	↑	78549	↑					2.20
SA 10-Year Yield	%	9.21	10.15	↓	10.55	↓					-1.47
SA 2-Year Yield	bps	182	224	↓	224	↓					-0.99
Effective Exchange Rate	Index	98.39	93.50	↑	98.12	↑					-0.13

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Sell-Side Views

BNY Mellon: Keeping Rates On Hold, Stressing Data-Dependence

- The South African Reserve Bank is expected to keep its repo rate unchanged at 7%, given most recent inflation readings remain within or close to its target range.
- The latest official CPI figure from South Africa's statistics agency shows annual headline inflation at +3.5% Y/Y in July 2025, up from +3.0% in June (the August number will be available before the decision). This increase represents the highest inflation rate in approximately 10 months. Core inflation (excluding food, non-alcoholic beverages, fuel and energy) also rose slightly to about 3.0% y/y in July. Food inflation remains one of the biggest contributors, especially in meat, vegetables and other food items, which have shown notable annual rises.
- Given these figures, as well as moderate domestic price pressures and external risks (including import costs), the Bank is likely to emphasize data-dependence in its communications before making any moves.

Goldman Sachs: Strong Case For Easing But It's Close Call

- Goldman expect the SARB's MPC to cut its repo rate by 25bp to 6.75%, against consensus for a hold and market pricing of around a 30% probability of a cut. While they think the economic case for easing is strong, especially if supported by the decline in BER inflation expectations, they see the decision as a close call that may result from a split vote within the MPC. Their confidence in the near-term rate outlook is lower than usual given uncertainty over the Bank's reaction function in the context of the transition to a lower inflation target.
- In their assessment, recent data and developments since the July MPC meeting have been mixed. On the one hand, food inflation rose by more than the SARB expected in July and may result in an upward revision to the near-term inflation path. On the other hand, the rand has strengthened and declining inflation expectations should provide more confidence in the medium-term inflation outlook. As such, they do not expect major changes to inflation forecasts, where they think the SARB will maintain its assessment of

balanced risks. Growth data surprised to the upside in Q2, likely implying an upward revision to the SARB annual growth forecast, but they do not expect this to have a material bearing on the monetary policy calculus.

- From a policy standpoint, they view inflation expectations as by far the most important metric and input into the rate decision for the MPC. In their view, if their estimate of a 0.3pp decline in expectations at a 1y-2y horizon is correct[1], this would imply that the SARB could deliver a 25bp rate cut without effectively easing its real monetary policy stance, a decision that they would view as appropriate given the inflation outlook and consistent with the SARB's macro projections.
- However, recent SARB communication has been somewhat hawkish and uncertainty stemming from various domestic and global cross-currents may instead cause the SARB to exercise caution and remain on hold. Additionally, the SARB's reaction function in the transition to a lower inflation target may differ somewhat from that in recent years (which has been characterized by a hawkish predisposition). As such, Goldman’s confidence in the near-term rate outlook is lower than usual even though we see a strong case for continued easing.

JP Morgan: Rate Cuts Could Resume In 2H26

- They expect the SARB to keep the policy rate steady at 7% at its upcoming MPC meeting this week, although the bias remains for a lower policy rate.
- At its last meeting, the MPC surprised markets by announcing a change to its “policy objective” to target an inflation rate of +3% Y/Y, lower than the +4.5% midpoint of the inflation target band.
- JP Morgan think policy makers will await an improvement in inflation expectations before resuming rate cuts in 2H26.

Morgan Stanley: Biased Towards Hold This Time

- Notwithstanding supportive external conditions and a dovish tone, MS believe that a majority on the MPC will prefer to pause and observe at its September rate-setting meeting. However, risks are elevated, and their subjective probability of a 25bp reduction stands at approximately 40%. While they acknowledge that external conditions have become supportive of a cut (FX appreciation and likely Fed easing), several domestic arguments carry more sway in shaping their expectations.
- They note that the key catalyst for this meeting is the BER’s 2-year forward inflation expectation survey. The SARB’s QPM points to a 3Q25 outcome of +3.8% Y/Y for this variable (60/40 split of backward versus forward-looking components). MS model points towards an outcome of +4.2% Y/Y (75/25 backward versus forward split). If the SARB is correct, the decline in expectations from 2Q25 (-70bp) may provide strong evidence that the transition to a +3% Y/Y inflation environment is on track and consistent with a slightly lower policy rate at this point. If the decline is limited to about 25bp (their estimate), the MPC may prefer to proceed cautiously.
- MS have argued that the SARB's near-term inflation forecasts appear too low and will likely have to be revised higher. The size of the 4Q25 and 1Q26 revision could be quite material, at around 50-70bp to headline CPI, on their estimates. Lowering the policy rate while simultaneously lifting inflation forecasts by this order of magnitude risks stoking a time inconsistency problem – a situation where the central bank's ex post decision function differs from what was communicated ex ante. Time inconsistency needs to be guarded against since National Treasury has not endorsed the SARB's de facto new inflation target. This sort of coordination failure can impact credibility, which their simulation exercises show tends to deliver suboptimal outcomes, particularly as they relate to inflation, monetary and fiscal policy.
- Although MS expect the tone of the statement to remain dovish, they maintain their view that a majority on the MPC will prefer to pause and observe at this point. Getting through the peak of near-term inflation readings, and/or official endorsement from National Treasury of the new target, would go a long way towards opening the door for further easing.

Nedbank: Expecting Pause As Inflation Drifts Higher

- They believe the MPC will leave the repo rate unchanged at this week's meeting, pausing its easing cycle, which started in September last year.

[1] The note was released before the publication of the BER’s Q3 Inflation Expectations Survey on Monday, September 15.

- Nedbank describe the July meeting as a watershed moment for monetary policy in South Africa, with the MPC taking the initiative to lower its preferred inflation anchor within the existing +3-6% Y/Y target range from +4.5% to +3%. They support the adoption of a lower target, but the timing of the move complicates the outlook for monetary policy. It comes as the inflation cycle turns upwards. Their view of inflation's path is not materially different from that of the SARB or most other analysts. Most forecasts reflect a relatively benign inflation outlook. For them, the bigger question is: How will the SARB react as inflation moves further away from its 3% target?
- Nedbank remind that the MPC believe it will take time to anchor inflation expectations at +3%. Consequently, there will be an adjustment period. During this transition, they will approach spells of rising inflation like they have always done. They will consider the sources of upward pressure and the risks of persistence. If they are reasonably confident that the pressures are isolated and temporary, they will look through the upturn without adjusting monetary policy. Conversely, if they see evidence of secondary effects or persistence, they will adjust interest rates accordingly.
- At this stage, the drivers of inflation appear relatively isolated and temporary in nature. The upward pressure is coming mainly from food and utilities. Given that electricity and water are essential inputs, the threat of secondary effects is greater. But, subdued global oil prices and a firmer rand are providing some counterweight, partially offsetting the impact of high electricity and water charges on operating costs. At the same time, services inflation held relatively steady, helping to contain core inflation at the SARB's 3% target.
- Nedbank forecast a modest upcycle in inflation, which will probably lead to a pause in the rate-cutting cycle this week. They do not expect meaningful or sustained secondary price effects and therefore believe that the MPC will look through the upturn in inflation and leave interest rates unchanged. If meat prices reverse course, the impact of utilities remains contained and the rand strengthens more than they currently anticipate, the upward pressure on inflation could fall away relatively quickly and open the door to further easing.

Scotiabank: Sharp Surprise In CPI Could Motivate Cut

- Scotiabank note that consensus is somewhat divided. A majority of forecasters expect the repo rate to hold at 7% but a sizeable minority expects a 25bps cut.
- They remind that the SARB's July Quarterly Projection Model showed rates bottoming out at the current level after it cut by 25bps. It then muddied the waters with confusing guidance on its inflation target that may be further clarified at this meeting.
- Still, after Q2 GDP growth exceeded expectations, it may take a sharp surprise in Wednesday's CPI update for August to motivate a cut.