

MNI South African Reserve Bank Review: January 2026

Executive Summary:

- By a 4–2 vote, the MPC opted to hold rates instead of delivering a 25bp cut.
- The language around the inflation outlook became more optimistic.
- Heightened uncertainty may have helped convince the MPC to stay put.

Key Links:

- [MPC Statement](#)
- [Press Conference](#)
- [Forecast Report](#)

Key Takeaways: Better Outlook Fails To Bring Cut

The South African Reserve Bank (SARB) left the repo rate unchanged at 6.75%, a slightly restrictive setting, with a couple of members breaking ranks in favour of a 25bp cut. The Monetary Policy Committee (MPC) took the decision to err on the side of caution despite the increasingly benign domestic inflation outlook, with headline CPI expected to ease off a cyclical peak reached in December and converge with the target by 2028. Heightened uncertainty around the external environment, some fading but still lingering domestic risks, and signs of modest concern about the sustainability of recent trends may have underpinned the decision to press pause for now and gather more information ahead of the March meeting.

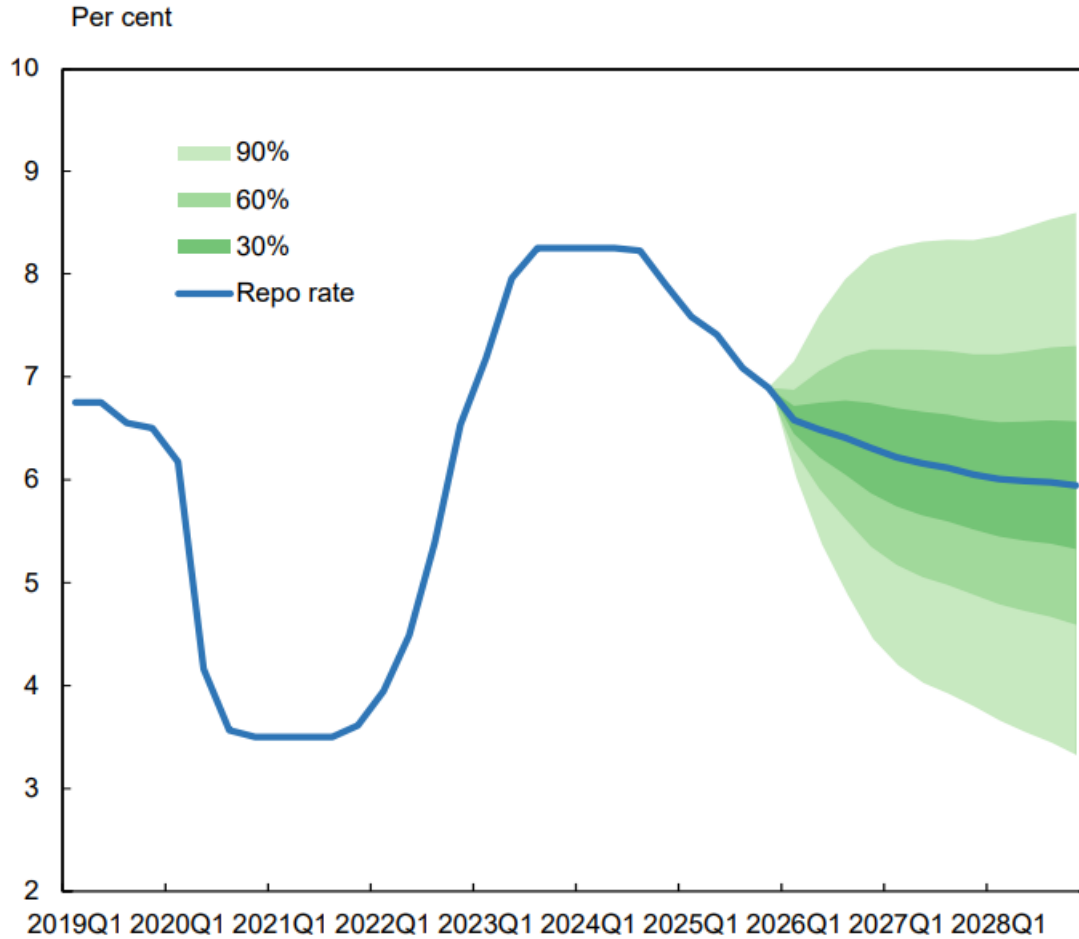
On surface value, the outcome of the meeting amounted to a ‘dovish hold’ — interest rates stayed unchanged, but the tone of the statement shifted to the dovish side, and two dissenters indicated their preference for a cut. Although the MPC was upbeat about the growth prospects, with the balance of risks tilted to the upside, they revised the near-term inflation forecast lower on the back of a stronger rand and a lower oil price assumption. During the Q&A session, Governor Lesetja Kganyago confirmed that the baseline is that ‘inflation will converge to target by 2028, will be bang on target in 2028’. He insisted that ‘inflation is not running away from us’ and that the SARB is on track to anchor inflation at the new +3% Y/Y objective. Consequently, the QPM showed that under the baseline scenario, interest rates would reach neutral settings in 2027.

On the other hand, the impact of the outbreak of foot-and-mouth disease on food prices, the prospect of a correction in electricity prices, and slightly elevated services inflation (at around +4% Y/Y versus the preferred +3%) were listed as factors that policymakers will continue to keep an eye on in the coming period. In addition, the Governor noted that the output gap is narrowing should close by 2028, which suggests that ‘monetary policy should be tightening’ (admittedly, he then played it down as merely one piece of data among many). Meanwhile, the SARB was wary of external developments and the potential of an inflationary correction. Governor Kganyago pointed to the terms-of-trade shock from a rally in precious metals, which helped boost the exchange rate by attracting foreign capital inflows, but which might at some point reverse. Furthermore, he emphasised elevated geopolitical and trade uncertainty which may have unpredictable consequences, warranting a more incremental (‘meeting-by-meeting’) policy approach.

That being said, risk scenario analyses run by the central bank showed that inflation should converge with the target regardless of potential adverse shocks. We stand by our assessment that positive takeaways from two next sets of CPI data, Q1 BER Inflation Expectations Survey, and Finance Minister Enoch Godongwana’s National Budget Speech on February 25 may tip the balance in the MPC in favour of a 25bp cut in March. Looking further afield, the improving inflation outlook should allow the SARB to continue with its easing cycle, adjusting the timing of cuts on a meeting-by-meeting basis, in line with its opportunistic stance.

SARB Interest-Rate Forecast

Repurchase rate forecast*



*The uncertainty bands for the repo rate are based on historical forecasting experience and stochastic simulations in the Quarterly Projection Model (QPM). The bands are symmetric, and therefore do not reflect any assessment of upside or downside risk. For details on the QPM see 'Enhancing the Quarterly Projection Model', South African Reserve Bank Working Paper Series No. WP/23/05, June 2023.

Source: SARB

Analyst Views (Alphabetical Order)

Goldman Sachs: SARB To Reach 5% Terminal Rate In Early 2028

- They observe that the statement noted 'sturdier growth' as well as the decline in inflation expectations to the lowest reading on record (+3.7% Y/Y at the 2-year horizon). The Governor emphasized geopolitical tensions, global imbalances and threats to central bank independence (globally) as factors contributing to their assessment of the backdrop, in Goldman's view likely implying a cautious stance.
- With respect to policy guidance, the QPM model points to a return to neutral rates in 2027 cited in the statement. The Governor indicated that their alternate scenarios suggest the possibility of reaching neutral already in 2026 under positive shocks or, conversely, one year later than the baseline under adverse shocks.

- Goldman maintain their forecast for rate cuts at alternating MPC meetings down to a 5.0% terminal rate reached in early 2028.

JP Morgan: Outlook Improving Sufficiently To Support 25bp Cut In March

- JP Morgan write that despite the hawkish tone, they think the inflation outlook is improving sufficiently to now support a 25bp cut in March (previously May), if the Q1 inflation expectations survey declines as expected.
- Their sense from the statement and Q&A was that the MPC viewed the rapid rise in terms-of-trade (TOT) and strong rally in ZAR as vulnerable to a reversal at some time during their forecast horizon. This was reflected in its comments on safe-haven flows to metals, (global) fragilities and shocks, and large global imbalances.
- To be sure, fiscal policy in South Africa has a track record of a pro-cyclical stance during term-of-trade booms (although less so recently) which later proved difficult to unwind when TOT normalized; a dovish SARB could compound this challenge. The FY26/27 Budget will be presented next month and will be important to assess in this regard.
- JP Morgan's back-of-envelope calculations suggest that the SARB utilizes an average USD/ZAR of 16.50 for 2026 (+5% Y/Y NEER) and 17.2 for 2027 (-2% Y/Y NEER). Their understanding is that the SARB does not incorporate TOT directly into its rand fair value model and the trade balance has not (yet) notably improved. This therefore makes it unsurprising that the FX assumptions are conservative and some of recent gains are seen as temporary.
- Despite the hawkish tone, JP Morgan think the SARB maintains an easing bias and will reduce the currently moderately restrictive stance. If the March Q1 inflation expectation survey declines further to +3.5%, as they expect, and global risks do not rise, they believe the SARB will cut 25bp in March (previously May).
- They leave their policy rate outlook beyond 2Q26 unchanged, with a second cut in 3Q26 and a final cut in 1Q27. Beyond the inflation expectation survey and global risks, the SARB will likely also closely monitor service inflation dynamics, which should peak at mid-year. Moreover, the fiscal reaction function in the February Budget is also relevant, in order to avoid procyclical macro policies on the back of the TOT shock.

Morgan Stanley: Seeing Gradual Slide Towards Terminal Rate Of 6%

- Having correctly predicted the on-hold outcome, Morgan Stanley still see a gradual glide path towards a terminal rate of 6.00% in the quarters ahead, with risks skewed toward earlier delivery. Their NLP model scores as a more dovish statement compared to November 2025.
- They appreciate the argument for easing in light of the appreciation in ZAR. They believe that the SARB prefers to move cautiously towards neutral, even if it means falling behind the curve at times. Ultimately, its strategy of opportunistic disinflation prevailed.
- The MPC statement made explicit mention of the elevated nature of geopolitical risk. Issues related to the multipolar world, the outlook for safe-haven assets and renewed concerns around central bank independence were specific focus points at the Davos meetings attended by Governor Kganyago.
- Notwithstanding the appreciation in ZAR, the main changes to the SARB's inflation forecasts are in the front months of its CPI profile (specifically out to 3Q26). Thereafter, the committee's outlook for inflation remains mostly unchanged.
- Given anchored inflation expectations, supply shocks from lower oil prices tend to fade and what's left are the underlying drivers of inflation, determined by typical Phillips curve relationships. This was the central argument Morgan Stanley made as to why they had expected the committee to pause.
- An unchanged medium-to-long-run inflation profile weakens the argument to front run what the MPC determines as the optimal monetary policy response (represented by its Taylor rule). A 25bp cut at the next meeting is what the model suggests given the information at hand.

Nedbank: Interest Rates Stay Put

- Nedbank note that the SARB painted a benign inflation picture and concluded that inflation's upward drift towards the end of last year was mainly due to temporary factors. The new forecast reflects this softer trajectory, with headline inflation expected to average a lower +3.3% in 2026 (vs. +3.5% previously), a slightly higher +3.2% in 2027 (vs +3.1%) and an unchanged +3% in 2028.
- The MPC still viewed the risk to the outlook as balanced. Downside risks emanated from a stronger rand, low global oil prices and easing inflation expectations. Meanwhile, upside risks still stemmed from the ongoing threat of foot-and-mouth disease to meat and, therefore, food prices, the possibility of an even greater upward

adjustment to already punishing electricity tariffs, and continued stickiness in services inflation. The Governor stressed that it would be 'desirable to have services inflation moving closer to 3%'.

- Nedbank see space for further easing later this year. They still expect inflation to remain sticky over the next six months, ranging between +3.5-3.7% Y/Y. Over this period, upward pressure will come from a combination of base effects, high utility charges, and elevated meat prices driven by foot-and-mouth disease. These forces appear isolated and temporary, suggesting limited risk of meaningful or lasting secondary price effects. At the same time, they expected several disinflationary forces to intensify, eventually gaining the upper hand in the second half of the year and setting inflation on a clear path towards the +3% target. Given the anticipated trajectory, Nedbank expected the first 25bp cut in July, followed by another in September.
- However, the downward forces gathered considerable strength over the past two weeks. The rand dipped below ZAR16 to the US dollar, supported by a combination of renewed dollar weakness and improved domestic fundamentals. In contrast, crude oil prices drifted higher, partly on increased demand driven by a harsh winter in the Northern Hemisphere and partly on persistent concerns about US military intervention in Iran. Even so, the global oil market remains oversupplied, pointing to a downward bias in prices. Finally, global food prices also eased further, reflecting higher food production and healthy stockpiles.
- If these benign conditions persist, inflation could head towards +3% sooner and faster than Nedbank's forecast currently reflects, which would make it possible for the MPC to resume its rate-cutting cycle from around May onwards. All said, they still forecast a cumulative 50bp reduction in interest rates this year, but the first cut could come sooner than initially anticipated.