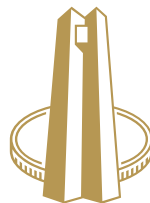


MONETARY POLICY REVIEW

October 2026



SOUTH AFRICAN RESERVE BANK



MONETARY POLICY REVIEW

OCTOBER 2026



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Preface

The primary mandate of the South African Reserve Bank (SARB), as set out in section 224 of the Constitution, is to achieve and maintain price stability in the interest of balanced and sustainable economic growth. In addition, the SARB has a complementary mandate to oversee and maintain financial stability.

Price stability helps to protect the purchasing power and living standards of all South Africans. It provides a favourable environment for investment and job creation, and supports international competitiveness. The goal of price stability is quantified through an inflation target, which is set in consultation with government. The target is 3%, with a tolerance band of plus or minus 1 percentage point. The 3% point target was adopted in 2025 and replaced the 3–6% target band set in 2000.

Monetary policy decisions are made by the SARB's Monetary Policy Committee (MPC), which is chaired by the Governor and includes the deputy governors and other senior officials of the SARB.

The inflation-targeting framework is flexible, meaning that policymakers will seek to look through temporary shocks, thereby avoiding excessive volatility in interest rates and economic output. The MPC takes a forward-looking approach to account for the time lags between policy adjustments and economic effects. MPC decisions are communicated at a press conference at the end of each meeting, accompanied by a comprehensive statement.

The *Monetary Policy Review (MPR)* is published twice a year and is aimed at broadening the public's understanding of the objectives and conduct of monetary policy. The *MPR* covers domestic and international developments that affect the monetary policy stance.

The *MPR* is presented by senior officials of the SARB at Monetary Policy Forum meetings held at major centres across South Africa in an effort to develop a better understanding of monetary policy through direct interactions with stakeholders.

Questions about the publication may be directed to Marlene Hugo at Marlene.Hugo@resbank.co.za.



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Staying the course

The October 2026 *Monetary Policy Review* at a glance

The *Monetary Policy Review* (MPR) gives a more detailed look into the local and international economic developments shaping domestic monetary policy.

The South African Reserve Bank's (SARB) primary mandate is to "protect the value of the rand in the interest of balanced and sustainable economic growth". Since the release of the April MPR, the Monetary Policy Committee (MPC) has raised the policy rate by a cumulative 50 basis points to help protect the buying power of the rand from inflation.

The ongoing conflicts in the Middle East and attacks on energy infrastructures in the Russia-Ukraine war have pushed international oil prices and domestic fuel prices very high. If monetary policy fails to contain these price pressures now, inflation could increase further, hurting consumers and businesses. This would require significant increases in the policy rate to bring inflation down back to target.

The actions of the MPC are akin to firefighting: it is best to extinguish a fire before it gains its full force, otherwise it becomes more challenging to tame. Similarly, the committee has had to act to prevent the energy shock from creating a persistent inflation challenge. Amid unusually high uncertainty and a shifting inflation outlook, the committee has taken a measured approach to policy setting, with decisions informed by incoming data and a careful assessment of the balance of risks.

The SARB takes its constitutional mandate seriously and remains committed to bringing inflation back to our 3% target within the three-year forecast horizon, by 2029.

The prolonged oil price shock has intensified domestic inflation pressures, raising the risk that inflation will stay high for longer. Inflation increased from 3% in February 2026 to 5% in June mainly due to higher fuel and transport costs. Inflation eased slightly in July and August but is forecast to rise further and to average 4.4% in 2026, before returning to the 3% target from the fourth quarter of 2027.

Oil prices averaged US\$97 and US\$90 per barrel in the second and third quarters of 2026 respectively. Recently, crude oil prices are back around US\$100 per barrel while refinery margins have risen acutely. These oil price levels are well above the US\$65 per barrel that was projected by the SARB in the April MPR.

Our policies over the past year, particularly the revision of the inflation target from a band of 3–6% to a point target of 3% in July 2025, keeping inflation around 3% and fiscal consolidation, placed the country in a favourable position when the shock struck. The improved macroeconomic outlook supported the rand and saw expectations moderate significantly up until the time of the shock.

Considerations shaping policy

This edition of the MPR profiles several topical issues, including:

Analysis of second-round effects

The second chapter of this report is dedicated to a key issue that the MPC has grappled with since the outbreak of the Middle East conflict. The question is: Will the oil shock spread into generalised inflation and what should the SARB do about it?

The main finding is that the risk of second-round effects (i.e. more generalised inflation with rising wages and prices) has increased as the shock has persisted. The chapter argues that policy cannot wait for clear evidence of second-round effects given that monetary policy operates with long lags. Once evidence shows, it means policy is late. That would be a costly policy mistake. Inflation is a regressive tax; it hurts the least well-off citizens the most.

Special topics/boxes

Several boxes highlight issues likely to shape policy in the period ahead. Box 3, for example, notes that refinery margins could keep fuel inflation elevated even if crude oil prices fall back to pre-conflict levels. As South Africa now relies mainly on imported refined fuel, reduced global refining capacity has a stronger impact on domestic fuel prices. Other topics include El Niño risks and weak investment performance.



Risks on the watchlist

This edition of the *MPR* highlights the following risks:

- **The ongoing energy shock:** South Africa and the world at large have been hit by a severe and prolonged energy shock. Oil infrastructure and refineries have been severely damaged and this is likely to keep fuel prices elevated even after peace is restored. At this stage, there just is not enough capacity to refine crude oil to meet global demand for refined fuel products.
- **El Niño and food inflation:** While domestic food inflation has moderated, extreme weather conditions as well as higher input costs could see prices rise. Already, global agricultural commodity prices have begun to rise. It is a matter of time before local prices also start to increase.
- **Rising inflation expectations:** Higher fuel prices continue to shape inflation expectations which, if they become de-anchored, could entrench inflation. A serious concern is the sharply higher diesel margins and thus pump prices. While diesel has a small weight in the consumer price index (CPI) basket, it is a major industrial input and therefore raises the risk that producers could pass cost increases to consumer prices, especially as the shock has become persistent.
- **Rand depreciates significantly:** A relatively strong rand has helped to cushion the effects of higher crude oil prices on domestic fuel prices and other imported goods. A sharp strengthening of the United States (US) dollar or rising policy rates in advanced economies could induce capital outflows from emerging markets, including South Africa. That would weaken the rand and cause firms to raise prices – feeding into inflation.

What this means for monetary policy

The SARB's MPC raised the policy rate by a cumulative 50 basis points to 7.25% between April and October 2026 to stabilise inflation given the persistent nature of the energy shock. The policy stance is assessed as moderately restrictive, meaning that the current levels of interest rates are not curtailing economic activity much.

The modest rate increases reflect favourable initial conditions: inflation was at target when the oil price shock hit and monetary policy was marginally tight, exerting disinflationary pressure. The rand has remained relatively strong and has been one of the better-performing emerging market currencies, which helped to fend off imported inflation pressures. Expectations have risen modestly compared with previous shocks. These conditions provided the MPC space to adjust policy cautiously as it monitored the shock's transmission.

As indicated earlier, the 2026 fuel shock is massive and persistent. The policy priority now is to prevent this temporary inflation from becoming entrenched. In the absence of a firm policy response, higher fuel and El Niño-related food price increases could lift inflation expectations further and later broaden into wage-setting. The SARB will act decisively to prevent that from happening.



Executive summary and overview of the policy stance

Global inflation rose in the first half of 2026 as the Middle East conflict disrupted energy supplies, widened refinery margins and lifted transport and production costs. The shock has become increasingly visible in core inflation, while the prospects of El Niño and fertiliser constraints add to food-price risk. Major central banks initially responded differently because of varying exposure, initial conditions and domestic inflation persistence, but their policy responses have since become more synchronised around a tightening bias. In South Africa, headline inflation increased from 3.2% in the first quarter of this year to 4.5% in the second and is projected to remain elevated above 5% until the second quarter of 2027, before easing back to target from the fourth quarter. The MPC raised the policy rate by a cumulative 50 basis points to 7.25% over the review period (April–October 2026). Policy must guard against the risk that persistent fuel, administered price and food shocks become embedded in expectations and wages thereby undermining the credibility of the target. Turning to economic activity, growth is forecast to average 1.2% in 2026, from 1.4% in April, rising gradually towards 2% by 2029 as structural reforms progress.

Global economic developments

Since March 2026, global inflation dynamics have been shaped primarily by the conflict in the Middle East. Renewed hostilities and continued disruption in the Strait of Hormuz as well as the Red Sea, along with attacks on oil infrastructures in the Russia-Ukraine war, have worsened global inflation prospects. Inflation, which was expected to ease to 3.8% this year, is now projected higher at 4.7%.¹ The conflict has persisted longer than initially expected. Consequently, oil prices have remained elevated and volatile and the outlook for inflation highly uncertain.²

The source of an oil-price increase matters for both forecasts and policy. A demand-driven rise in oil prices normally accompanies stronger global activity and export demand. A geopolitical supply-driven increase instead raises production costs while weakening consumption and investment and heightening uncertainty.³ The current episode is predominantly supply driven, which implies a more adverse inflation-growth trade-off for energy-importing economies.

¹ International Monetary Fund (IMF), *World Economic Outlook (WEO) Update*, July 2026. See also, IMF, *WEO*, January 2026.

² Oil prices peaked at US\$115 per barrel towards the end of March and traded in a wide range between US\$85 and US\$105 per barrel since June 2026.

³ See P R Lane, 'Analytical perspectives on energy supply shocks'. Dinner remarks by Philip R. Lane, Member of the Executive Board of the ECB, at the Centre for European Reform, London, 12 May 2026.

Headline inflation forecast*

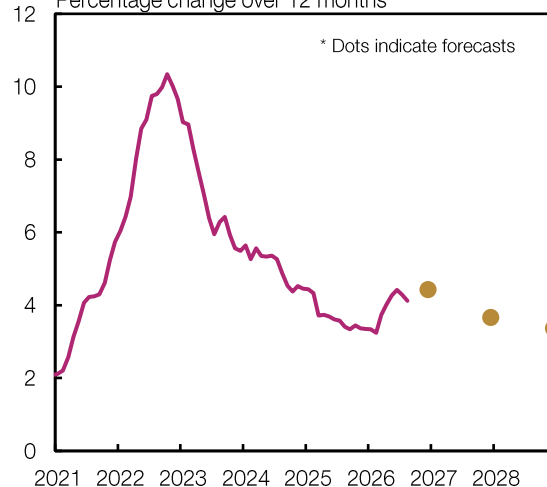
Percentage change over four quarters



Sources: Stats SA and SARB

Global headline inflation projection*

Percentage change over 12 months



Sources: Bloomberg and IMF

Brent crude oil

US\$ per barrel

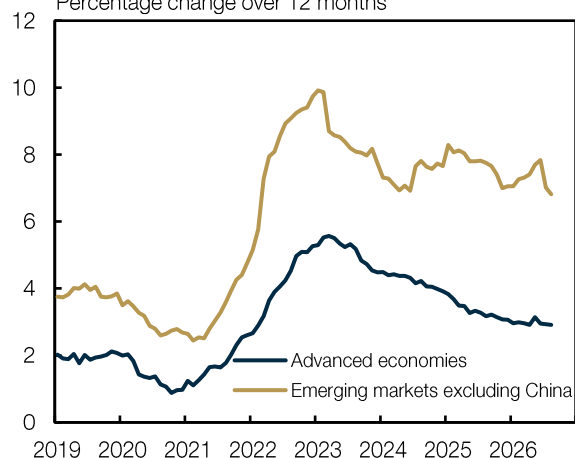


Source: SARB



Services inflation in advanced economies and emerging markets

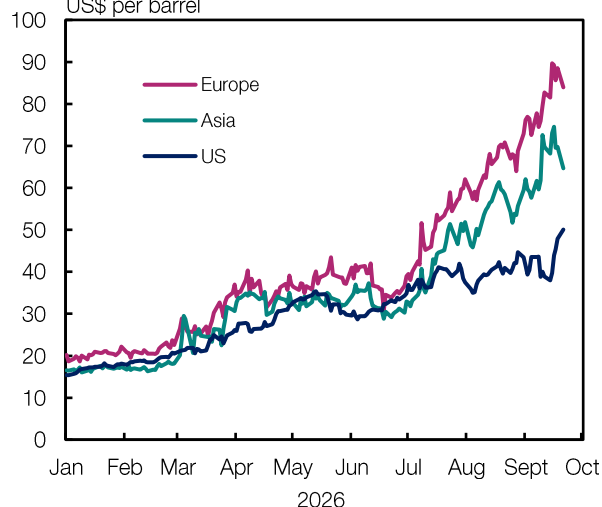
Percentage change over 12 months



Sources: Haver and SARB

Selected product crack spreads*

US\$ per barrel

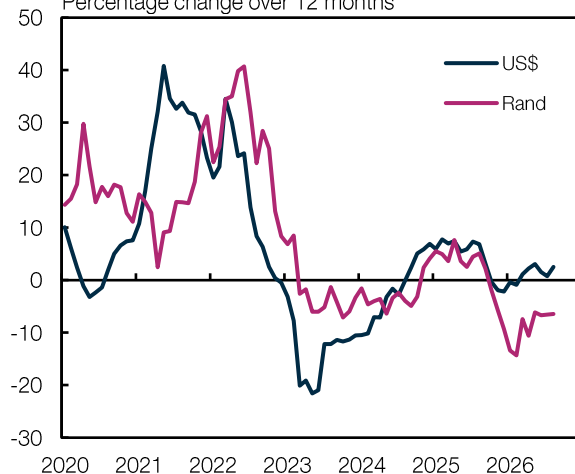


* Regional product crack spreads are based on region-specific refined petroleum products relative to their corresponding crude oil benchmarks. Asia is represented by Singapore jet fuel, Europe by ICE gasoil, and the US by NYMEX gasoline.

Sources: Bloomberg and SARB

Global food prices

Percentage change over 12 months



Sources: UN FAO and SARB

Before the conflict, global goods inflation was subdued and services inflation was easing. Higher fuel prices and supply-chain disruptions are now lifting goods prices, with broader risks if firms pass higher production costs to consumers. Short-term inflation expectations in advanced economies have risen modestly, while medium- and longer-term expectations remain anchored, indicating confidence that central banks will prevent persistent high inflation.

US inflation has exceeded target since 2021. Recent higher fuel price increases have compounded lagged tariff effects, although tariff-related base effects should support moderation later this year. In the eurozone and fuel-import-dependent emerging economies, direct and indirect fuel price pressures have increased the risk of persistent inflation.

Even if the conflict ends soon, Brent crude oil prices may stay elevated in the near term as supply remains constrained and inventory as well as strategic-reserve replenishment boosts demand.⁴ Unlike in previous oil shocks, refinery margins have become a significant, largely independent source of fuel price pressure. Strained refining capacity has driven refinery margins sharply higher since March and they remained elevated even as oil prices eased and stabilised near US\$85 per barrel between June and August (Box 3).⁵

Meanwhile, global food inflation has risen, with the United Nations Food and Agriculture Organisation (UN FAO) index up by 2.5% in the year to August as all commodity groups increased.⁶ Higher energy and food price increases, elevated short-term inflation expectations and a strong El Niño raise the risk of strong second-round effects. However, more restrictive monetary policy should contain these pressures, unlike during the post-pandemic inflation surge when policy was accommodative.

Financial markets were volatile at the onset of the US-Iran conflict but have since calmed despite continued hostilities. Long-term yields in advanced economies have risen amid inflation and fiscal sustainability concerns. This uneasy calm may understate risks, leaving markets vulnerable to renewed volatility and capital-flow reversals that could weaken emerging-market currencies and raise imported inflation.

⁴ A Perry, 'Ceasefire reopens Hormuz but Mideast oil and gas flows will take months to fully recover', *The Parliament Politics*, 15 June 2026.

⁵ Brent crude oil prices averaged around US\$100 per barrel since September 2026.

⁶ In rand terms, it decreased by 6.4% year on year in August, reflecting rand strength.

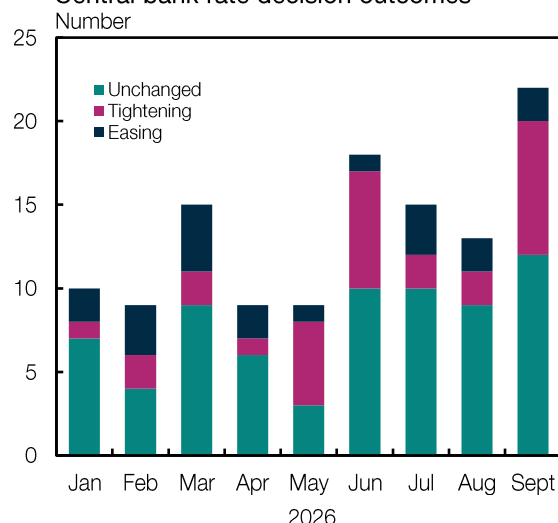


Advanced-economy central bank responses to the Middle East conflict have become more synchronised. Persistent above-target inflation amid continued resilience in economic activity prompted the US Federal Reserve (Fed) to raise rates at its September 2026 meeting, reversing April expectations of no increases this year. The European Central Bank (ECB) and Bank of Japan (BoJ) tightened policy twice each since the conflict began, with further hikes anticipated by year-end, while the Bank of England (BoE) held rates despite elevated inflation.⁷ Across emerging markets, responses remained mixed, reflecting domestic price pressures and pre-conflict policy settings. Countries with high real rates, such as Brazil, Mexico and Russia, cut or held rates, while less restrictive or more inflation-prone economies, such as South Africa, raised them.

Global economic activity remained resilient in the first half of 2026 despite the conflict shock, with Purchasing Managers' Indices (PMIs) above the neutral 50 level. Growth was supported by household consumption and a boom in artificial intelligence (AI)-related investments, especially in the US, as well as higher military and infrastructure spending. Eurozone growth is expected to remain modest as the oil shock and tighter monetary policy constrain investment, consumption and manufacturing competitiveness. Major emerging markets, notably India and China, continue to expand on stronger domestic demand and exports respectively.

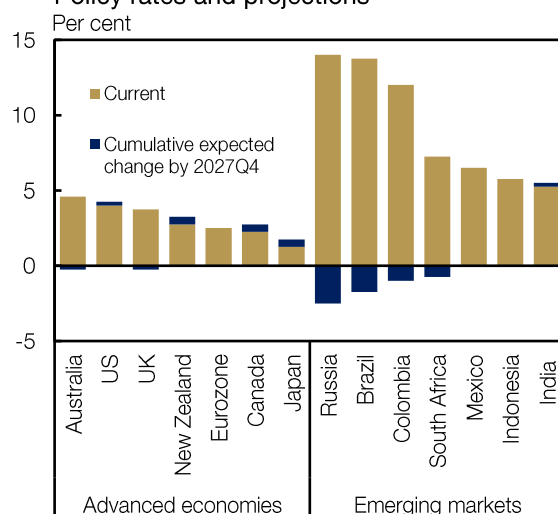
South Africa's trading-partner growth is projected at 2.6% in 2026, rising to 3% by 2028, but downside risks have intensified. The main near-term risk is the Middle East conflict, which threatens energy supplies and has raised inflation. Prolonged hostilities could further disrupt oil production, refining and transportation amid declining inventories and strategic reserves, intensifying generalised price pressures and requiring tighter monetary policy in many economies. A correction in the highly valued AI-related assets could also weigh on global growth by reducing wealth, confidence and spending. Overall, the materialisation of these risks would weaken global trade and commodity demand, weighing on South Africa's exports.

Central bank rate decision outcomes



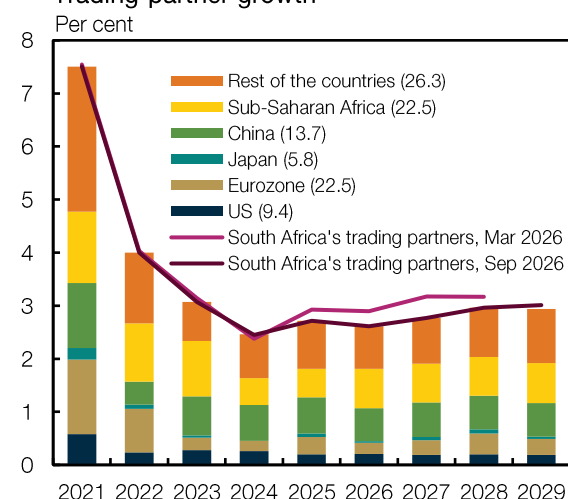
Sources: Various central banks

Policy rates and projections



Source: Bloomberg

Trading-partner growth*



* Weights in brackets

Source: SARB

⁷ As of early October, market implied rates indicate cuts by the end of 2026 as follows: US Fed 25 basis points, ECB 23 basis points, BoJ 23 basis points and BoE 31 basis points.



Domestic economic developments and outlook

The conflict shock has interrupted South Africa's disinflation. Domestic inflation has risen markedly, driven mainly by fuel and fuel-related components of the CPI basket on the back of sharply higher international oil prices and refinery margins. Other goods price increases were contained, while food inflation moderated. Headline inflation rose from 3.1% in March 2026 to 5% in June and remains elevated at 4.4% in August. It is now projected to peak at an average of 5.4% in the fourth quarter of this year.

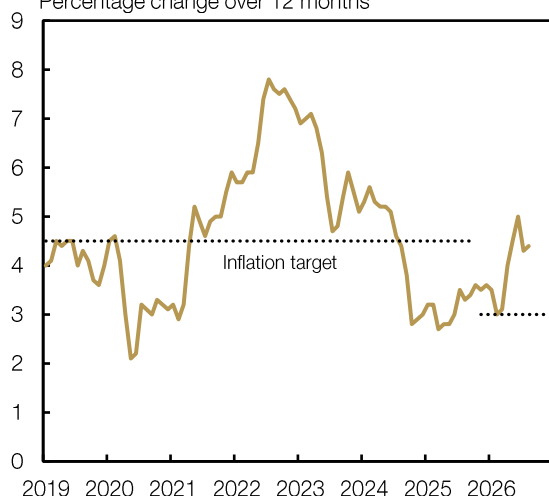
Underlying price pressures have strengthened. Core inflation rose from 3.2% in March this year to 4.1% in August. This increase was driven by its services component, where inflation climbed by a full percentage point to reach 5.2% in June and stayed high at 5.1% in August.⁸ Core inflation would have been higher if not for subdued core goods inflation, which benefited from rand strength, moderate global goods inflation and greater domestic competition. Other measures of underlying inflation, namely the persistent and common component of inflation, supercore and trimmed mean inflation, have also risen.

Headline inflation is forecast to average 4.4% this year and remain elevated until returning to target in the fourth quarter of next year. The expected easing reflects a moderately restrictive policy stance in the quarterly projection model (QPM) and the assumed decline in fuel prices. However, substantial upside risks remain, including renewed geopolitical tensions in the Middle East and the Russia-Ukraine conflict and their impacts on refinery margins. Uncertainty over fertiliser availability and costs as well as El Niño conditions present further risks. Although the probability of a severe El Niño event has risen sharply in recent months, the SARB baseline assumes a limited food price response because initial conditions remain favourable, with high soil moisture, elevated inventories and dams near capacity (Box 7).

Turning to economic activity, output was volatile in the first half of the year. The economy unexpectedly contracted in the second quarter, after growing by 0.4% in the first quarter. The slowdown reflected the fuel-price shock, weaker confidence and a reversal in net exports. First-quarter growth benefited from carry-over momentum from late 2025, where progress in energy and logistics reform, the adoption of the 3% inflation target and clearer signs of debt stabilisation strengthened confidence.

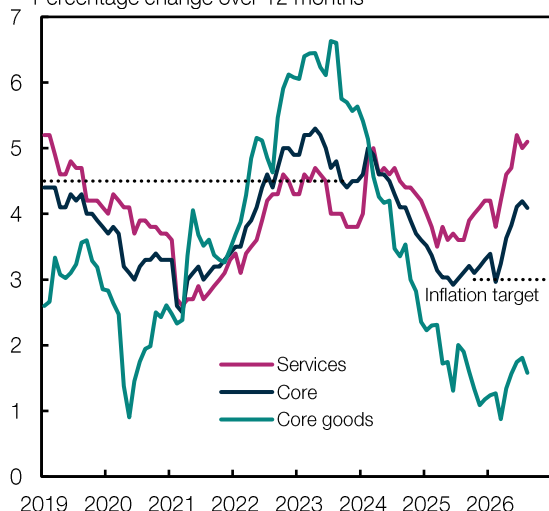
⁸ Diffusion indices based on the 8-digit COICOP show that 39% of the core inflation basket is now inflating above the 3% target, up from 35.4% in March. However, this is much higher for services, at 76.7% in August 2026.

Headline inflation
Percentage change over 12 months



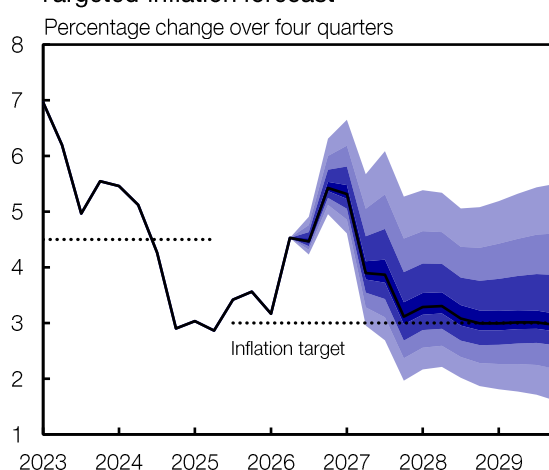
Sources: Stats SA and SARB

Core inflation and its components
Percentage change over 12 months



Sources: Stats SA and SARB

Targeted inflation forecast*



* The bands around the central projection show confidence intervals of 10%, 30%, 50% and 70%.

Sources: Stats SA and SARB



Despite near-term headwinds, the domestic economy is projected to grow by 1.2% this year, up from 1.1% in 2025, with the annual number benefiting from a relatively strong first-quarter growth. Medium-term activity should strengthen as global growth improves and confidence as well as investment recover as Operation Vulindlela reforms advance. Real gross domestic product (GDP) and potential output are projected to reach about 2% by 2029.

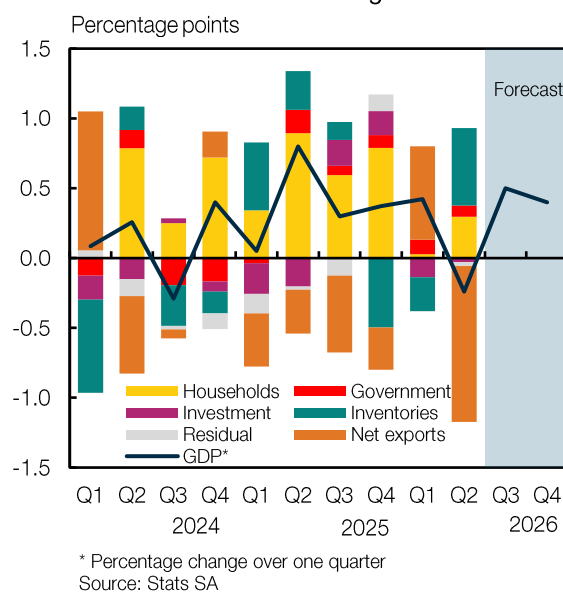
Overview of the policy stance

The MPC raised the policy rate by 50 basis points to 7.25% over the review period amid increased risks of persistent inflation. Rates were increased by 25 basis points at the May and September meetings respectively but kept unchanged at the July MPC meeting. Given sharply higher inflation since the second quarter of this year, the real policy rate turned negative for much of the period under review. With the September hike, the real policy rate should remain moderately restrictive before converging to neutral from the second half of 2028.

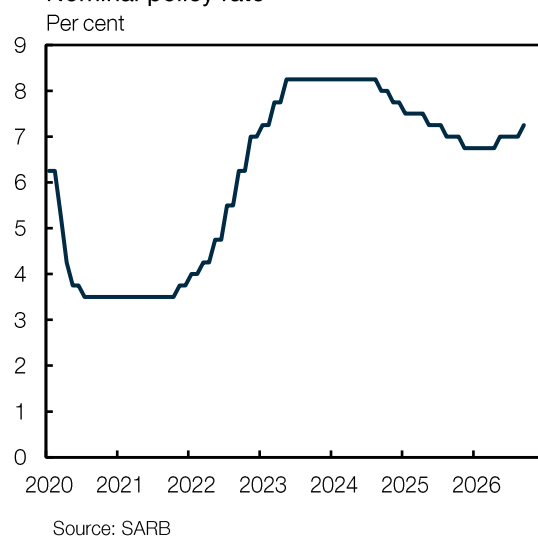
Supply shocks such as fuel price increases can generate strong second-round effects, depending on the size and duration of the shock and the time consistency of policy actions. Policy rate decisions in the May and July MPC meetings aligned with the QPM-generated policy path, which suggested a hike at the May meeting and a hold at the July meeting. Downward revisions to the oil price assumption following the memorandum of understanding between the US and Iran and better-than-expected food inflation outcomes led to improvements in the outlook for inflation at the July meeting.

In the period leading up to the September MPC meeting, renewed geopolitical tensions and increased attacks in the Red Sea pushed oil prices back above US\$100 per barrel. The Bureau for Economic Research (BER) surveyed inflation expectations, which showed a modest rise in the second quarter, remained steady in the third quarter. However, the prolonged fuel price shock and elevated headline inflation increased the risk of second-round effects. With a deteriorated outlook, the MPC raised the policy rate by a further 25 basis points at the September meeting. Risks remained tilted to the upside.

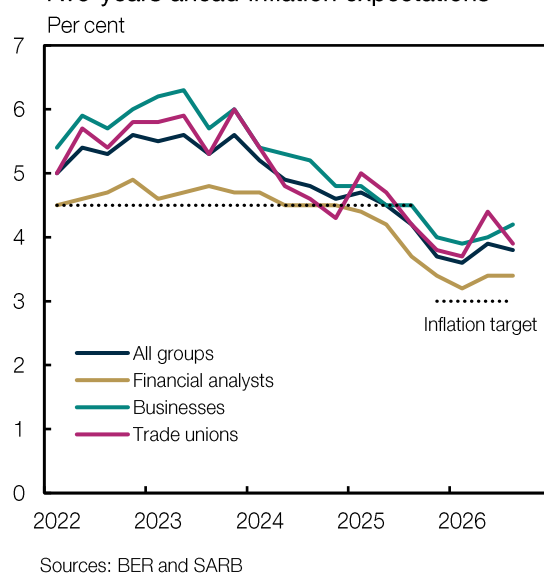
Contributions to real GDP growth



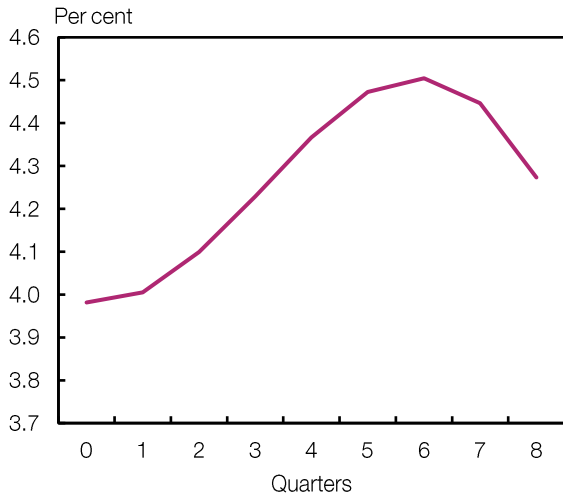
Nominal policy rate



Two-years-ahead inflation expectations

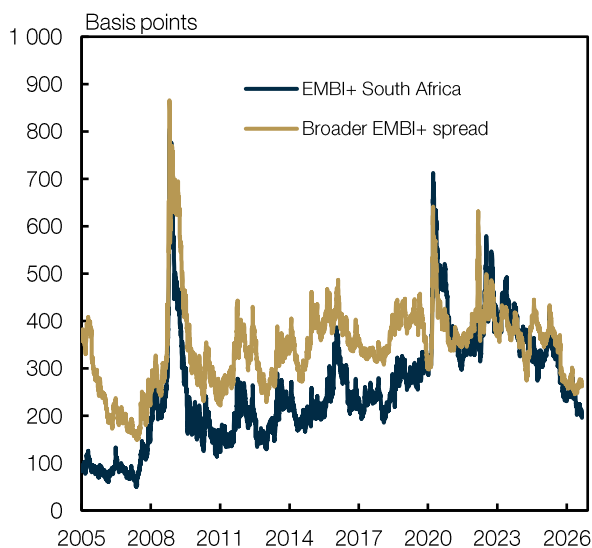


Implied pass through of inflation expectations to headline CPI



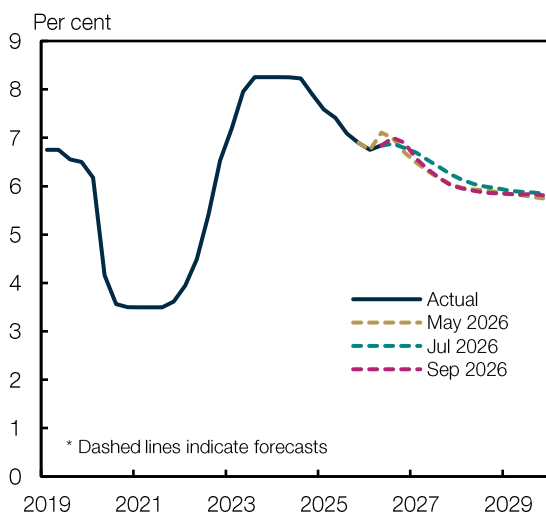
Source: SARB

EMBI+ spread



Source: JP Morgan

Nominal policy rate with forecasts*



Source: SARB

The policy priority is to prevent the fuel-price shock from becoming permanently embedded in inflation. Supply shocks create a difficult trade-off by raising inflation while weakening economic activity. Although monetary policy cannot reverse them directly, allowing supply-driven inflation to persist could raise inflation expectations and undermine medium-term growth, particularly in an environment of intensifying price pressures. As second-round effects are difficult to measure in real time, policy must remain forward-looking. Waiting for clearer evidence could result in a policy error, given monetary policy's long and variable lags. Judgement informed by forecasts and experiences with similar past shocks is therefore essential (see special chapter).⁹

South Africa's country risk has declined significantly over the past few years. The South Africa Emerging Market Bonds Index plus (SA EMBI+) is at 13-year lows. This decline partly reflects global factors and partly improved domestic fundamentals (see financial markets chapter). South Africa's debt ratio is estimated to have peaked in 2025/26 and is expected to decline gradually towards its long-run level.

Conclusion

Global inflation is expected to rise this year relative to 2025, before easing from next year. Inflation in major economies should return to target from 2027, supported by more restrictive policy stances. However, a prolonged conflict and materialisation of strong El Niño conditions increase the risk of more persistent inflation. Similarly, an unexpected reversal of the US dollar or significant tightening in advanced economies present exchange rate risk, especially for emerging economies. Policy is now tighter and rates are higher across both advanced and emerging economies than they would have been in the absence of the conflict shock.

Domestic inflation pressures have intensified since April, increasing the risk of persistent inflation. The MPC has raised the policy rate by a cumulative 50 basis points over the review period. However, real rates have increased only modestly, reflecting upside inflation surprises. The SARB forecasts inflation to average well above the upper limit of the tolerance band this year and to return to target from the fourth quarter of 2027. The QPM-implied policy rate path suggests delaying rates easing to ensure inflation's sustainable return to target.

⁹ R Cassim, 'Seeing like a central bank: the SARB, supply shocks and the logic of higher interest rates in a world of low economic growth', Keynote address at SARB ACI Financial Market Association South Africa, 6 September 2022. See also L Kganyago, 'Managing supply shocks: The role of monetary policy', Keynote address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the BER Annual Conference, 2 June 2026.



Domestic reforms remain the cornerstone of macroeconomic resilience and economic growth. Immediate priorities include fixing local government and improving the performance of logistics and energy. At the macroeconomic policy level, attention should be focused at returning inflation to target and reducing public debt to prudent levels.



Box 1 Beyond the spreadsheets: Economic intelligence for robust policy

The South African Reserve Bank (SARB) has established a business liaison programme to obtain timely, structured and nuanced qualitative insights on economic activity from firms as well as industry stakeholders (called 'contacts' from hereon). This initiative complements official statistics and supports monetary policy decisions. Following pilot interviews in August 2025, the programme has expanded across most major economic sectors. Bilateral engagements with senior industry executives focus on demand, investment, employment and pricing.

Industry engagement is standard practice among leading central banks.¹ It provides timely indicators of economic activity and pricing pressures, supports interpretation of official data and is particularly valuable during periods of heightened uncertainty or when data are published with long lags (such as gross domestic product). Since March 2026, the SARB's industry contacts have reported weakening economic momentum, reversing their optimism at the start of the year.² Combined with other high-frequency indicators, these insights helped the Monetary Policy Committee gain a nuanced view of the domestic effects of the Middle East conflict, particularly the timing and extent of transmission of the fuel price shock to consumer prices.

Generally, the SARB contacts are reporting a challenging business environment marked by value-conscious and price-sensitive consumers. Retailers report extensive promotional activity to drive volumes and maintain market share. Despite some spare capacity, manufacturers see little reason to raise production; meanwhile price increases have, in some instances, reduced volumes more than expected. Cheaper imports have intensified competition and compressed margins, with little near-term improvement anticipated.

In a low growth and highly competitive environment, firms have prioritised efficiency and maintenance over plant expansion (Box 6). Higher-than-usual uncertainty and the cost of mitigating municipal failures continue to constrain investment, as they did before the Middle East shock.

Contacts reported elevated input costs, driven by fuel and transport surcharges as well as administered prices. Some near-term pass through is likely, but strong competition and changing consumption patterns have been limiting firms' ability to fully recover these costs from consumers.³

Despite wage growth above the inflation target, contacts indicated that total employee costs remained contained as productivity is improving. Other labour-cost containment measures include smaller increases for higher earners and headcount reductions through attrition and unfilled vacancies. Hiring is largely confined to firms expanding organically, such as through new store openings.

The findings from engagements with industry should be interpreted with caution as the sample is not yet nationally representative. Nevertheless, the current design supports cross-validation to verify the insights.⁴ The SARB continues to enrol new firms while also stratifying the sample to make the contacts pool more representative of the structure of the economy.

¹ The SARB's programme has benefited from regular engagements with the Reserve Bank of Australia (RBA) and is closely modelled on its business liaison programme; see J Dwyer, K McLoughlin and A Walker, 'The Reserve Bank's Liaison Program Turns 21', *RBA Bulletin*, September 2022. Many central banks have drawn on the RBA's approach. Engagements with other central banks, including the Bank of England, Bank Negara Malaysia and Banco de Mexico, were also invaluable.

² Concrete examples include reports of delayed project outlays or lost export sales due to shipping disruptions, along with some firms indicating a slowdown in retail and wholesale trade activity towards the end of June, resulting from the '30 June Protests'.

³ Contacts commonly cite consumers increasingly willing to purchase house brands, with value offering trumping brand loyalty.

⁴ For example, retailers and manufacturers cited price pressures from transport and fuel surcharges. Subsequent engagements with logistics firms were sought to validate these assertions while providing information on the extent and duration of their imposition.



Box 2 Cheaper electricity would boost growth

Electricity prices have risen by more than 600% since 2009, far faster than the overall price level, which roughly doubled. Large real increases in electricity prices raise inflation and production costs, weakening economic growth. Recently, President Ramaphosa made a similar observation in his weekly letter.¹ This box examines how aligning electricity price increases with the 3% inflation target affects growth and inflation.

Over the past decade, electricity consumers have become more responsive to electricity price increases than before. Over the period 2003 to 2015, a 10% price increase reduced electricity demand by only 0.6% (inelastic demand), indicating limited options for consumers to switch to alternative sources for their power needs. However, over the past decade, the same price increase reduced demand by about 2.5%. This greater sensitivity reflects shifting consumption patterns and growing self-generation supported and enabled by policy reforms as well as declining costs of renewable energy technologies.

Three electricity-tariff increase scenarios were modelled, namely an inflation target aligned (3%) tariff increase scenario, a medium-tariff-increase scenario and a high-tariff increase scenario.²

Large electricity price increases raise inflation and expectations, adding pressure to wages and other costs. To prevent this from spreading, monetary policy may need to tighten, unless firms absorb the costs. Either way, growth would weaken.

Economic benefits of 3% electricity price increases

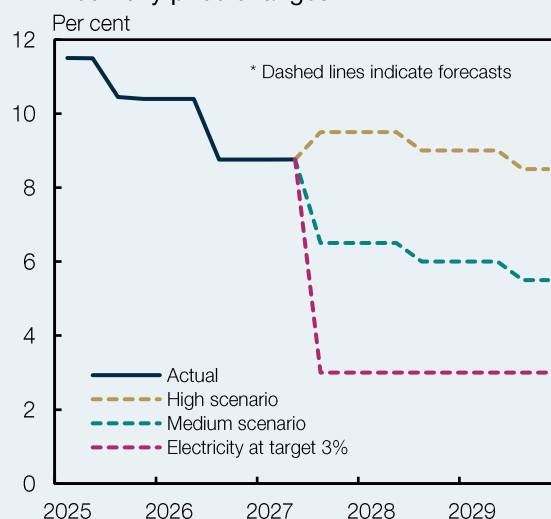
Change from high/medium tariff increase to 3% tariff scenario (%)	GDP growth		Inflation		Policy rate		Household consumption expenditure	
Scenario	High*	Medium*	High	Medium	High	Medium	High	Medium
2027	0.18	0.06	-0.38	-0.07	-0.22	-0.08	0.20	0.11
2028	0.57	0.17	-0.62	-0.14	-0.43	-0.14	0.72	0.29
2029	0.52	0.21	-0.39	-0.06	-0.38	-0.07	0.68	0.35

* Table should be read as gains moving from high/medium-tariff increase scenario to 3% tariff increase.
Source: SARB

Compared with the high-tariff increase scenario, headline inflation and the policy rate are significantly lower when electricity-price increases are aligned with the 3% inflation target. Lower electricity inflation and reduced borrowing costs support household purchasing power, reduces firms' production costs and strengthen consumption and output.³ The growth gains are significant: aligning electricity price increases with the inflation target raise cumulative output by about 1.3 percentage points by 2029, while the medium-term scenario adds 0.4 percentage points. The growth dividend from lowering electricity price inflation is large. In rand terms, the growth dividend amounts to R91.1 billion.⁴

Load-shedding has eased, but high electricity price increases still weigh on growth. Completing energy reforms and creating a competitive electricity market would support growth, reduce inflation pressure and lower long-term borrowing costs.

Electricity price changes*



Sources: Stats SA and SARB

¹ See C Ramaphosa, 'Transforming our energy system to ensure reliable and affordable electricity for all', *From the desk of the president*, 31 August 2026.

² In the 3% scenario, electricity tariffs increase by 3% each year, in line with the inflation target, from 2027 to 2029. In the medium-tariff-increase scenario electricity tariffs rise by 6.5%, 6% and 5.5% over the same period. In the high-tariff-increase scenario tariffs rise by 9.5%, 9% and 8.5%.

³ By contrast, larger real electricity-price increases raise inflation and require a tighter policy response, compounding the drag on spending.

⁴ Sum of 3% baseline real gross domestic product (GDP) less sum of scenario real GDP.

Special chapter: Watch out for second-round effects!

The question of whether, and under what conditions, the current fuel-price shock could transmit into generalised inflation has occupied the MPC since its March meeting. This chapter summarises the analytical work on the shock's transmission conducted by the SARB to inform policy debates. Evidence shows that inflation pressures and price dispersion have increased over the first six months of the shock, while inflation expectations have become less anchored. Accordingly, the risk of large second-round effects is increasing as the initial oil shock lasts longer and new shocks emerge.

Propagation of a fuel price shock

Fuel inflation increased by nearly 25% in the second quarter of 2026, shifting from deflation in fuel prices to one of the largest recorded inflation increases. A fuel price shock can affect domestic inflation directly and indirectly. The direct effect reflects the (mechanical) impact of higher pump prices on measured inflation. Indirect effects arise when producers and service providers pass some of the higher fuel costs on to consumers through price increases. The sharp rise in transport inflation in recent months is a case in point. Direct and indirect effects constitute the first-round effects of an oil shock and mostly reflect relative price movements rather than generalised inflation.¹⁰ They are indicative of a properly functioning price system: fuel is now scarcer and prices need to give incentives to economise on fuel. Direct and indirect effects manifest in data almost immediately and thus operate outside the horizon of monetary policy.¹¹

The channel of greater importance for policy is second-round effects, whereby higher fuel price increases affect inflation expectations and wage-setting behaviour, with feedback effects to prices – the so-called wage-price spiral. When these adjustments reinforce each other, they can lead to generalised inflation. Economic agents are more likely to change their behaviour when facing a large and persistent shock or when the shock is salient and they are especially attentive to it.^{12,13}

¹⁰ See P R Lane, 'Analytical perspectives on energy supply shocks'. Dinner remarks by Philip R. Lane, Member of the Executive Board of the ECB, at the Centre for European Reform, London, 12 May 2026.

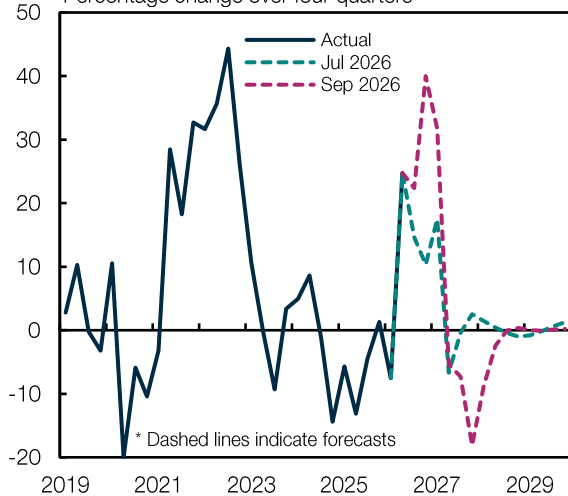
¹¹ Firms can choose to stagger price adjustments or to absorb costs in margins. This creates uncertainty about the size and timing of indirect effects and make them harder to identify in the data.

¹² For example, large oil price shocks can lead firms to adjust prices more frequently as they try to restore margins. See A Cavallo, F Lippi and K Miyahara, 'Large shocks travel fast'. *American Economic Review: Insights*, 6(4), 2024, pp 558–574.

¹³ See W Simbanegavi and M Tshenkeng, 'Of first- and second-round effects', *SARB Economic Note*, forthcoming.

Fuel inflation*

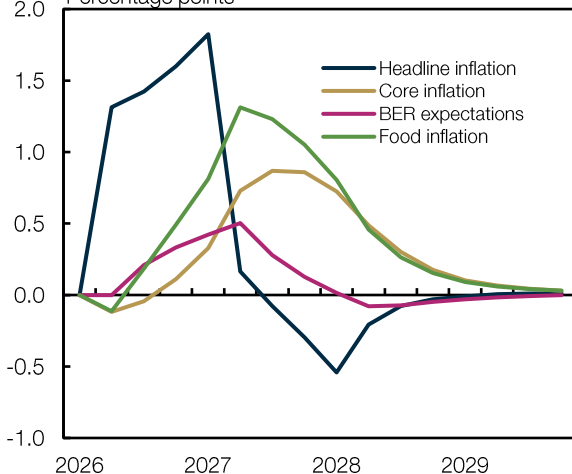
Percentage change over four quarters



Sources: Stats SA and SARB

Fuel price shock*

Percentage points

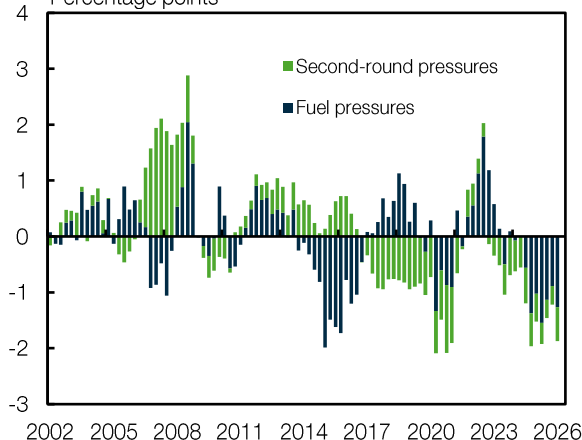


* Responses to a 30 percentage points fuel inflation shock over four quarters.

Sources: BER, Stats SA and SARB

Historical incidence of fuel and second-round pressures*

Percentage points



* The analysis covers the period between the first quarters of 2002 and 2026 inclusive.

Sources: BER, Stats SA and SARB



However, second-round effects are difficult to identify in real time and often require policymakers to rely on judgement and models rather than direct observation.

How much inflationary pressure so far?

Past oil shocks provide a useful context for assessing current inflation pressures and the potential for their persistence. The 2008 shock caused the largest increase in headline inflation when compared with a six-months pre-shock average, while the 2011 shock had a smaller but more persistent effect. Both occurred alongside food and commodity-price shocks, and weakness and less firmly anchored inflation expectations. By contrast, the impact of the Russia-Ukraine war-induced oil price shock of 2022 dissipated rather quickly.¹⁴ Inflation peaked within six months before reverting to pre-shock levels. Differences in inflation responses may reflect both the nature of each shock and the broader conditions under which the shock unfolded, including monetary policy settings. Importantly, however, the inflationary impacts of all previous shocks persisted long after the oil prices had normalised.

The 2022 shock most closely resembles the 2008 oil shock, although there are significant differences. Both were triggered by sudden geopolitical conflicts that disrupted key global energy supply routes and pushed Brent crude above the US\$100 per barrel threshold. These shocks also occurred in an environment of greater emphasis on price stability by the SARB, although the targeted inflation levels differ. However, the 2022 shock was not a pure oil shock but a combination of an oil and food price shock. Additionally, the rand weakened from R15 to the US dollar to over R17 to the US dollar in 2022, which added inflation pressures. By contrast, the rand has remained relatively stable so far this year and food price increases muted.

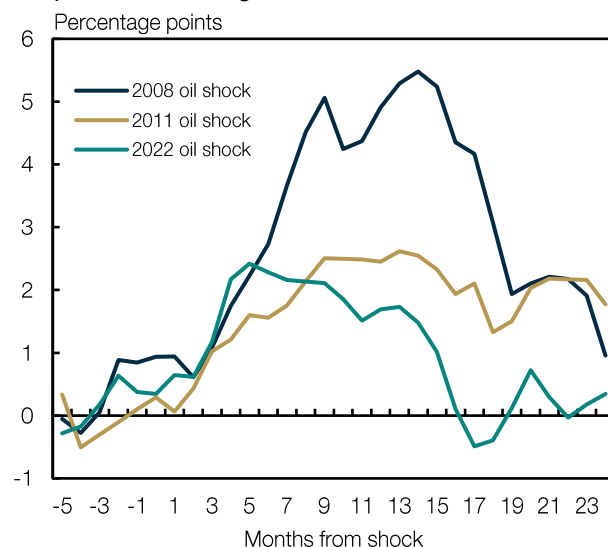
Preliminary evidence shows that inflation has risen strongly over the first six months (February to August) of the current shock, but less than the increase over the same period in the 2022 shock. Price increases since February this year have far exceeded the pace that would have aligned with the 3% inflation target. The weighted price increase across the 389 CPI items (excluding petrol and diesel) was a cumulative 2.4%, compared with 4.3% over the same period in 2022 and an average of 2.1% over the last 10 years.^{15,16} For core inflation, the increase has been 2.5% this year, compared with 3% in 2022. With respect to inflation diffusion, price increases have

¹⁴ See M Rapapali, K Mantsena and M Manguzvane, 'Oil price shocks and inflation: stylised facts from historical oil shocks' *SARB Economic Note*, forthcoming.

¹⁵ The high average inflation this year is despite food inflation softening significantly over the comparison period.

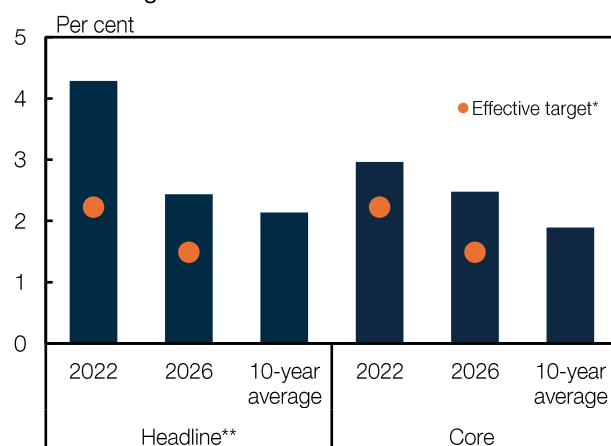
¹⁶ The 10-year average reflects the average monthly inflation rate per component transformed to an effective six-month rate.

Headline inflation deviation from pre-shock average



Source: SARB

CPI-weighted increase since the oil shock

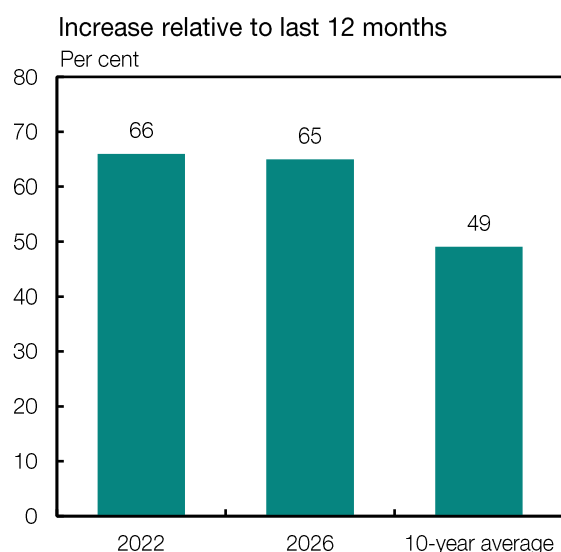


* The effective target indicates headline and core inflation that would have aligned with the inflation target.

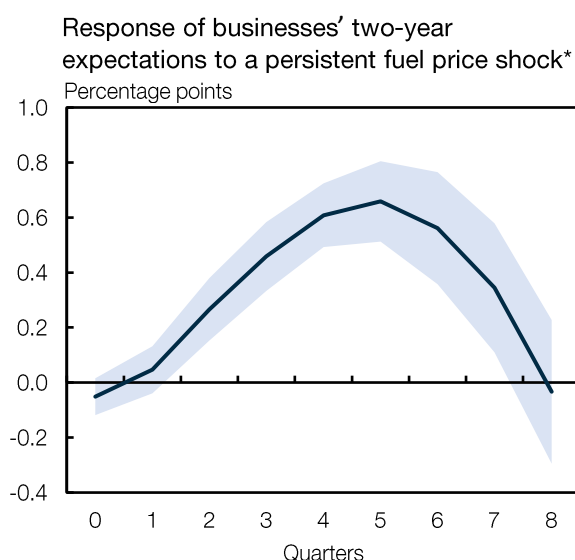
** Weighted CPI excludes petrol and diesel

Source: SARB





Source: SARB



* Shock is scaled to realised petrol price increase of 30%.
Shaded area indicates 90% confidence interval
Source: SARB

been more broad-based than average, but still less than in 2022. Since February, around half of the CPI basket has recorded inflation above the 3% target. By comparison, 63% of the basket exceeded the 4.5% target between February and July 2022, against a decade average of 40%.

Although price increases have been less dispersed in the first six months following this year's shock compared with 2022, inflation has risen just as sharply as in 2022. Price increases over the past six months account for 65% of the latest year-on-year inflation rate, relative to 66% in 2022.¹⁷

Indicative evidence on second-round effects

Early evidence suggests that stronger second-round effects are likely to emerge from the current oil-price shock. Business expectations are found to respond strongly to a one-off shock to the fuel price, with the effects lingering, particularly at the policy-relevant two-year horizon.¹⁸ A temporary one-quarter shock increases inflation expectations by a modest 0.16 percentage points on impact and inflation by a cumulative 0.12 percentage points over eight quarters. However, a more persistent shock exhibits nonlinear effects; it raises inflation expectations by 0.65 percentage points on average and inflation by a cumulative 0.5 percentage points.¹⁹ Indeed, the BER surveyed two-years-ahead business expectations have risen by 0.3 percentage points between the first quarter and the third quarter of this year.

Notably, the impact on firm expectations is not uniform across sectors. Expectations in sectors for which fuel constitutes a larger share of total costs, such as manufacturing, wholesale and retail, respond more strongly. Nevertheless, that does not necessarily translate into higher price increases for these sectors. The path from expectations to prices is intermediated by other factors such as margins and the responsiveness of demand to price increases. Narrow margins and high demand sensitivity in these sectors are likely to dampen the near-term pass through of the current fuel cost shock (see Box 1). This suggests that adjustment in these sectors could weigh more heavily on real activity in the short term but shift to prices as the

¹⁷ See R Steinbach and K Morwane, 'Fuel price passthrough in SA following the war in the Middle East', *SARB Economic Note*, forthcoming.

¹⁸ See A Foresto, M Reid and C Vermeulen, 'Quantifying the passthrough of an oil price shock to inflation expectations and inflation in an attentive environment'. *SARB Economic Notes Series* No. EN/26/18, 2026. For international experiences see O Coibion, Y Gorodnichenko and S Kumar, 'How do firms form their expectations? New survey evidence', *American Economic Review* 108(9), 2018, pp 2671–2713.

¹⁹ The shock is first identified from a structural vector autoregression model (SVAR) and is scaled to the realised 30% increase in the fuel price. A second stage model is estimated to quantify how responsive business inflation expectations are to the scaled shock.



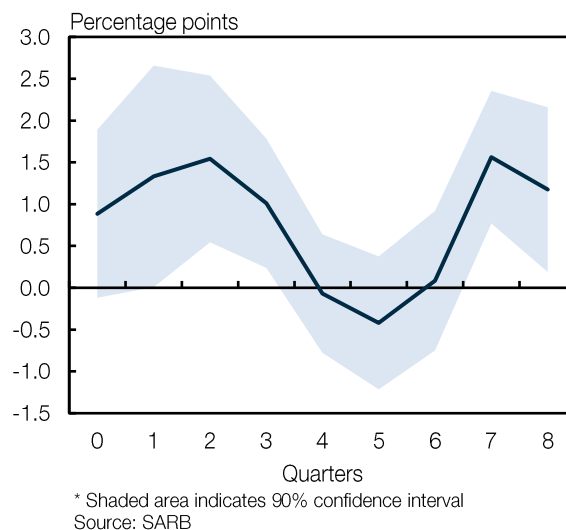
shock prolongs and margins compress further.²⁰ By contrast, business services firms have the space to pass through the shock, but their inflation expectations appear less sensitive to a fuel price shock.

Fuel price shocks can also influence wages by shaping wage expectations. So far, surveyed wage expectations have remained subdued, with the one-year-ahead expectations rising by 0.1 percentage points to 4.8% between the first and the third quarters of this year. Generally, wage expectations in the BER survey adjust on impact, but peak after several quarters.²¹ These higher wage expectations are subsequently associated with stronger realised wage growth. This timing gap suggests that wage expectations may serve as a leading indicator of second-round price pressures. Realised wages are often set in multi-year agreements and adjust only when contracts are renegotiated.²² Although wage expectations have changed little so far, they could still rise further since the shock is continuing and intensifying. Additionally, wage expectations generally co-move with price expectations, presenting the risk of a wage-price spiral.

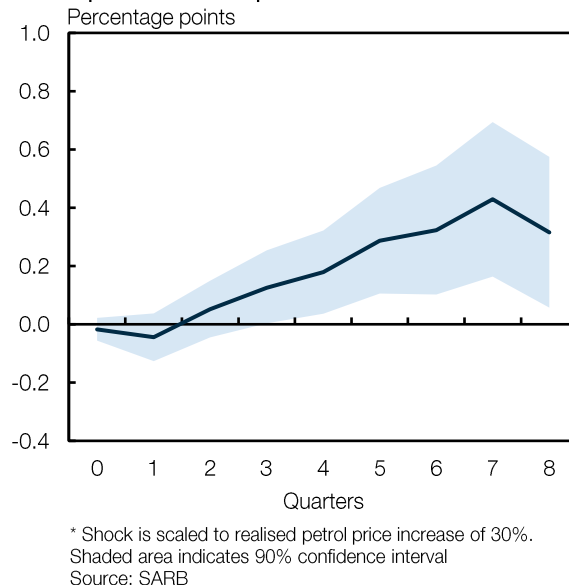
Using the BER analysts' two-years-ahead inflation expectations as a proxy for financial market expectations generates slightly different results. Analysts' inflation expectations remain largely invariant to a temporary fuel price shock but rise gradually if the shock is more persistent, peaking at around 0.4 percentage points after seven quarters. These findings have two immediate implications. First, the moderate response supports evidence that analysts' expectations are better anchored and more forward-looking.^{23,24} Second, even well-anchored expectations can be dislodged by a large and persistent fuel price shock.

Taken together, the analyses above show several channels through which second-round effects could emerge. The 2026 oil price shock is more prolonged, which could generate larger or more persistent effects than implied by the analyses. Additionally, in practice, surprises tend to compound

Response of realised wages to an oil price shock*



Response of analysts' two-year expectations to a persistent fuel price shock*



²⁰ RMB Morgan Stanley, 'Corporate margins and inflation transmission', May 2026.

²¹ A 40% oil shock lifts wage expectations by 0.52 percentage points when the shock hits, with the impact peaking at 0.65 percentage points after two quarters.

²² C Allison and P Mavuma, 'Waiting for wages: Oil price shocks, wage expectations and wage growth in South Africa', *SARB Economic Notes*, forthcoming.

²³ A Amaral, A Foresto and P Mosoma, 'Finding the anchor: an assessment of inflation expectations in South Africa', *SARB Working Paper Series*, forthcoming.

²⁴ Evidence from the analysis of break-even rates indicates that a 40% oil price shock that persists for three quarters raises the five-year break-even rate by about 20 basis points after two months, with the effects lasting for up to five months. See L Soobyah and P Mnguni, 'Oil price shocks and inflation risks: Evidence from South African market pricing' *SARB Economic Notes*, forthcoming.

(with potential feedback effects between them) as other things do not remain equal.

Conclusion

Oil shocks affect domestic inflation through both first- and second-round channels, with the latter of greater relevance for monetary policy. Although inflation pressures have so far been less severe compared to the 2022 oil price shock, evidence indicates greater risk of second-round effects from the current shock. Indeed, the prospect of stronger and more persistent inflation is increasing with the duration of the shock. The longer the oil shock lasts, the more likely it is to lift expectations and affect wage settlements, with feedback effects to prices. Higher global food prices and a possible severe El Niño event could add further pressure. Although the economy is better positioned to contain the pressures compared to 2022, the risk of second-round effects has heightened.



Box 3 Widening refinery margins pose a risk to domestic inflation

Global refinery margins rose sharply in 2026, driven by major disruptions to global refined-product supply. Damage to refining capacity in the Middle East and restricted oil flows through the Strait of Hormuz have reduced the availability of refined fuels from a key export region.¹ The supply situation has been exacerbated by the strikes on Russian refineries and China's temporary suspension of exports in March.² At the same time, demand has remained broadly unchanged, which has resulted in a relative tightening in the market.

The rise in global crack spreads coincides with a widening premium of physical (dated) Brent crude prices over futures (paper) prices, indicating tighter conditions in physical crude markets.³ Higher freight and insurance costs further reinforced these pressures, increasing the delivered cost of crude oil and refined fuels and placing further upward pressure on international fuel prices. These dynamics have raised South Africa's implied 'refinery margins' proxy, which incorporates factors beyond crack spreads (see footnote 5 below).

Consistent with the widening in global refining margins, implied domestic refinery-margin proxies have increased sharply since March 2026, indicating a growing contribution of crack spreads to the domestic basic fuel price and fuel inflation.^{4, 5} The effect is particularly pronounced for diesel, with the diesel refinery-margin proxy rising well above levels observed during previous episodes of fuel market stress.⁶

During previous oil price shocks, the refinery-margin proxy tended to move broadly in line with crude oil prices, easing as the oil market normalised. However, constrained refining capacity has seen crack spreads decouple from the oil price. This suggests domestic fuel prices could remain elevated even if the conflict ended and oil prices moderated. In addition, higher diesel prices generate large indirect cost pressures on food and core inflation through transport and production costs, presenting the risk of second-round effects.

¹ In March 2026, the International Energy Agency (IEA) identified more than 4 million barrels per day (mb/d) of refining capacity at risk against Gulf refined product exports of 3.3 mb/d in 2025.

² Damage to Russian refineries has worsened global refinery throughput, remaining 5 mb/d below a year ago. Diesel exports from Russia, Middle East and Asia were 1.3 mb/d lower year on year (20% of global trade).

³ Dated Brent reflects the assessed value of physical North Sea crude cargoes for prompt delivery, whereas paper Brent refers to Brent futures contracts traded on ICE. See S&P Global 2026, Dated Brent Price Assessment.

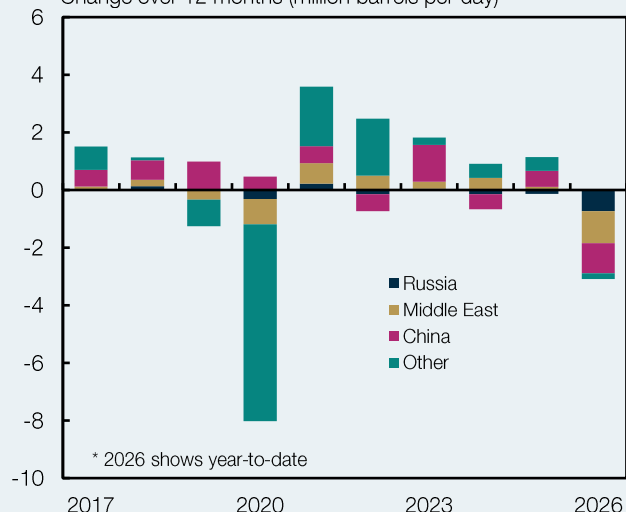
⁴ From April 2026 to May 2026, the general fuel levy (GFL) per litre for petrol was reduced by R3.00 while diesel was reduced by R3.00 in April 2026 and R3.93 in May 2026. The relief on petrol was extended to R1.50 in June 2026 and R1.96 in diesel and withdrawn in July 2026. The fuel price intervention helped curb the direct impact of fuel prices on headline inflation during that time.

⁵ The South African Reserve Bank estimates the implied refinery margin proxy as the difference between the monthly basic fuel price (BFP), published by the Central Energy Fund and the Brent crude oil price lagged by one month, measured in South African cents per litre. The BFP includes rand crude costs, freight, insurance, losses, port and storage charges, financing costs and refining margins reflected in international benchmarks. Although BFP forecasts are usually driven by oil-price and exchange-rate assumptions, currently high refinery margins need to be considered explicitly. The fuel-price forecast therefore includes an assumed path for refinery margins over the projection period. As a result, the projected BFP reflects oil-price and exchange-rate assumptions as well as expected changes in refinery margins.

⁶ Domestic refinery margins have risen to 36% of the BFP over the period April to September 2026, from 18% over the period 2010–2019. The increase over the period February 2022 to June 2024 was 21%.

Global refinery crude throughput*

Change over 12 months (million barrels per day)



Source: OPEC

Baltic dirty tanker index

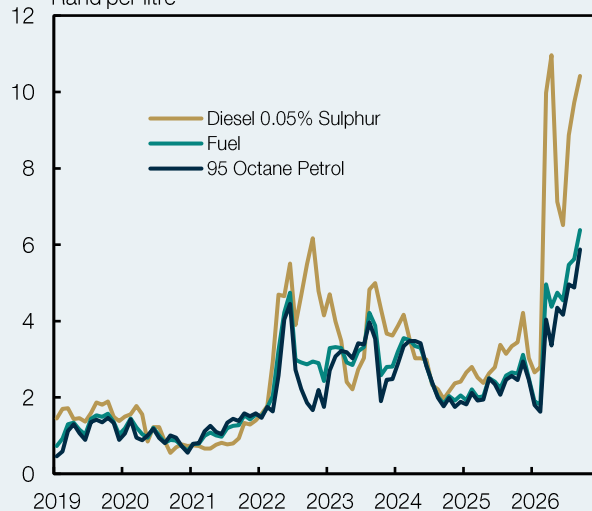
Index points



Source: Datastream

Refinery margin proxies

Rand per litre



Sources: Haver and SARB



Global economy: Steady growth, rising inflation

The global economy remained resilient in the first half of this year despite the ongoing US-Iran conflict. Growth was steady in both advanced economies and emerging markets, supported by AI-related investment and activity as well as steady household consumption. Inflation increased on higher energy costs and has begun to broaden to non-fuel goods and services, while escalating Russia-Ukraine tensions and El Niño conditions pose further risks. Major central banks have raised interest rates, while emerging market policy responses have varied, reflecting divergent inflation dynamics and policy starting points. In general, central banks are expected to maintain more restrictive policies to prevent inflation from becoming entrenched.

Back to inflation

The steady global disinflation of the past four years was abruptly interrupted by the Middle East conflict shock. Inflation rose in the first half of 2026, mainly on the back of higher energy prices and supply disruptions that pushed up transportation and input costs, broadening price pressures. The inflation outlook has become more uncertain as the conflict has prolonged, trade tensions have persisted and El Niño risks have heightened.

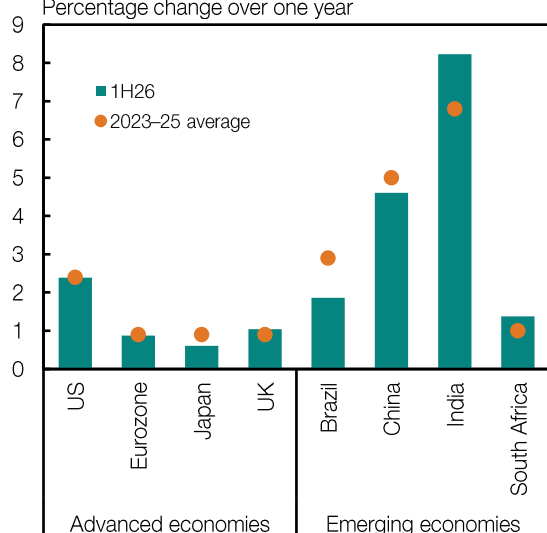
After remaining subdued over the past two years, global goods inflation has trended higher in recent months, despite fuel subsidies and price caps in some economies.²⁵ The effect has been more pronounced in emerging economies, reflecting the high weight of fuel in their inflation baskets. By squeezing margins, as reflected by the sharper increases in global PMI input prices than in output prices, firms have contributed to a slower rise in goods inflation than would otherwise have been. Services inflation has also remained elevated as higher fuel and transport costs spread across the sector. Meanwhile, housing, insurance and other labour-intensive services continue to keep core inflation high across advanced and emerging market economies.²⁶

Near-term expectations have moved higher with energy prices. However, medium- and longer-term expectations remain relatively anchored in most major economies. If fuel price volatility persists or additional supply shocks emerge, longer-term expectations could shift higher, especially since inflation has remained persistent above target.

²⁵ World Bank, *Global Economic Prospects*, June 2026.

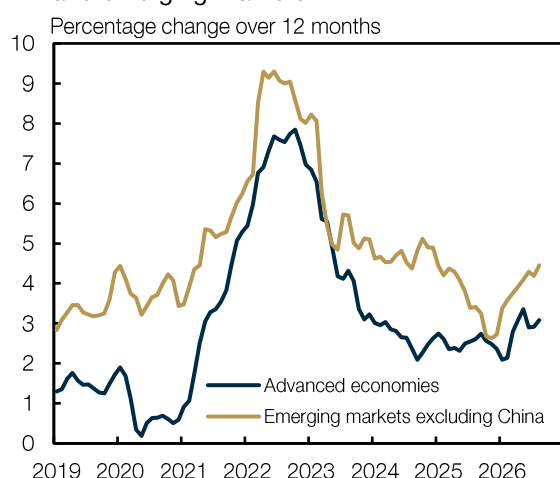
²⁶ Housing inflation remained elevated across major advanced and emerging market economies in August: the US (3.2%), UK (4.0%), eurozone (3.1%), Mexico (3.0%), Poland (4.6%) and Brazil (4.9%). Insurance inflation was also high in the US (4.0%), UK (4.3%) and eurozone (3.5%).

Real GDP growth
Percentage change over one year



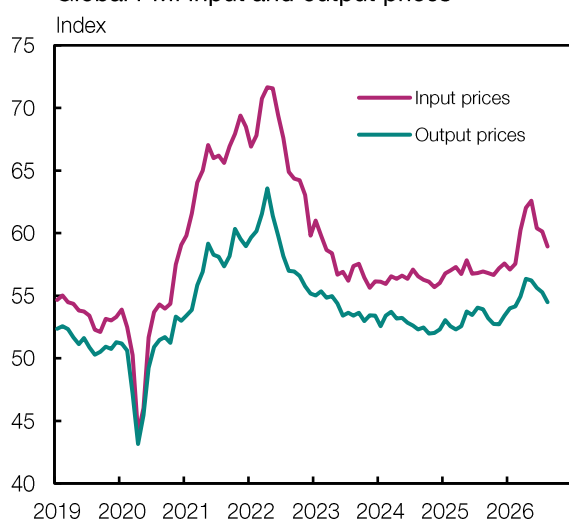
Source: Haver

Headline inflation in advanced economies and emerging markets
Percentage change over 12 months



Sources: Haver and SARB

Global PMI input and output prices



Source: JP Morgan



Inflation is projected to average higher this year but to return to target by the end of 2027 in most economies. This expectation is anchored on the assumed de-escalation of the US-Iran conflict and the resulting easing of energy pressures as well as monetary policy leaning firmly against possible second-round effects. Relatively anchored longer-term expectations indicate that major central banks retain their credibility despite inflation remaining above target for extended periods. The continuation and further escalation of the conflicts in the Middle East and Russia-Ukraine, a severe El Niño or inconsistent central bank policy responses could delay inflation's return to target. Meanwhile, China's exit from more than three years of deflation could weaken the disinflationary effect it has exerted on global goods prices.

Wage dynamics add further uncertainty. Wage growth has picked up in recent months in advanced economies and remains elevated in emerging markets, raising the risk that these costs could be passed onto consumer prices – rendering services inflation more persistent.

Meanwhile, technology-related costs are emerging as a new source of inflationary pressure. AI investment is increasing the demand for goods (inputs) such as electricity and water as well as computing infrastructure (including data centres) and semiconductors. At the same time, memory chip shortages are raising hardware and related digital services costs. Although the impact on consumer inflation remains limited, these pressures could broaden and spread through sectors such as telecommunications and electronics.

Growth holding firm

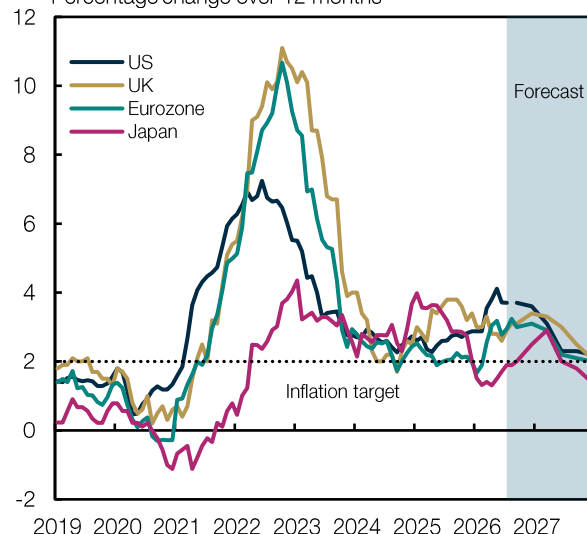
Global growth remained resilient in the first half of 2026, despite the energy shock and geopolitical uncertainties. Household consumption and robust AI-related investment provided support. However, performance varied across economies. The US expanded steadily, supported in part by fiscal spending. Although modest, eurozone growth outturn exceeded expectations, even as country experiences diverged.²⁷ The Indian economy continued to outperform, with growth surpassing long-term averages. In China, ongoing weak domestic demand weighed on activity even as exports of integrated circuits, computers, electric vehicles and other manufactured goods supported production.

Consumer spending remained firm across major economies, even as higher energy costs eroded real purchasing power. Households were able to cushion the shock by reducing savings. At the same time, gains in equity and housing markets

²⁷ Among the major eurozone economies, Spain expanded at a robust pace of 2.7% in the first half of 2026 compared to the same period last year, supported by solid household and government expenditure as well as robust investment. Germany's economic performance also improved in the first half of 2026, supported by strong government expenditure. Meanwhile, the French economy slowed in the first half of this year, growing by 0.6%.

Headline inflation in advanced economies

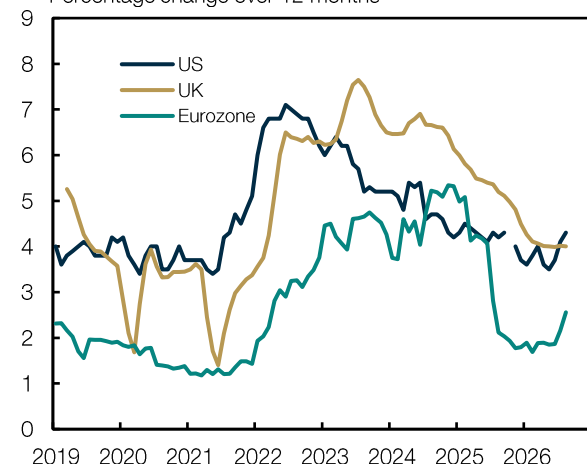
Percentage change over 12 months



Sources: Bloomberg Consensus and Statistical offices

Wages in advanced economies

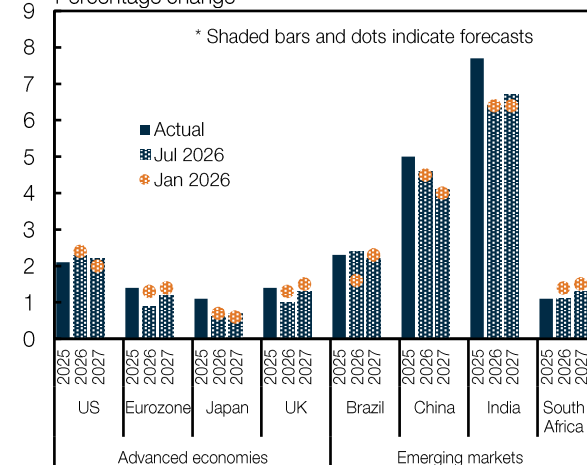
Percentage change over 12 months



Sources: Atlanta Fed, ECB and Indeed Hiring

Real GDP growth projections in major economies*

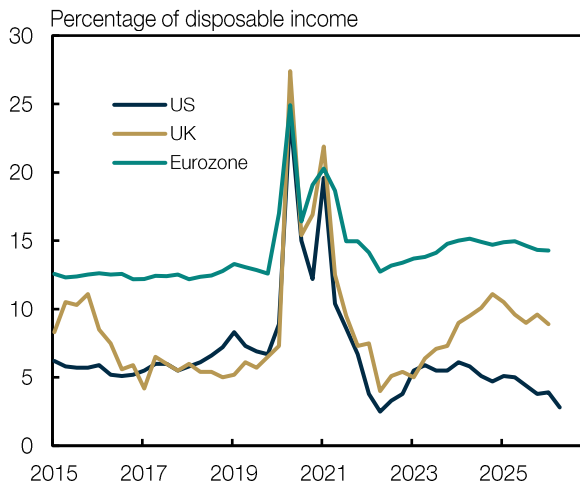
Percentage change



Source: IMF



Household savings



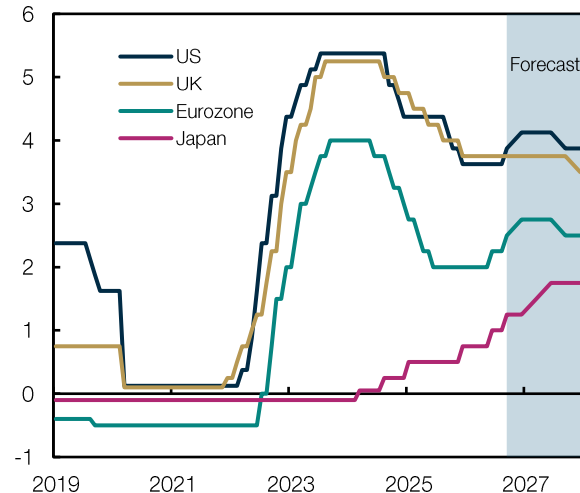
Sources: Bureau of Economic Analysis, Eurostat and Office for National Statistics

strengthened household balance sheets and supported confidence, making households more willing to spend.

Looking ahead, the baseline is for global growth to remain broadly unchanged, holding at around 3% in 2026 and 2027. This relatively steady outlook, however, masks important differences across economies. Growth is expected to remain strong in economies benefiting from AI-related investment, while energy-importing countries may face greater pressure. Global growth could slow if geopolitical tensions deteriorated acutely or if a marked correction in technology assets weakens investment and consumer sentiment.

Elevated global debt also remains a key risk to the outlook, as rising debt burdens reduce fiscal space, heighten concerns about sustainability and increase neutral interest rates. Advanced economy long-term government bond yields continue to reach new highs, pointing to a broad repricing of fiscal risk and presenting perils for emerging market risk assets.²⁸ A disorderly carry trade unwind induced by higher advanced economy yields or US dollar reversal could amplify capital outflows, currency depreciation and risk premiums, particularly in emerging markets. In addition, persistently high global rates may weaken credit demand and investment as well as slow global growth.

Policy rate projections in advanced economies



Sources: Bloomberg Consensus and Central banks

Monetary policy: Relatively tight

Central banks have raised interest rates or adopted a more hawkish tone as high energy costs feed into goods and services prices. While responses have varied, reflecting differences in exposure to the Middle East conflict as well as domestic inflation dynamics, policy is generally tighter compared to a no-shock counterfactual.

Across advanced economies, monetary policy has shifted towards tightening with the recent Fed rate hike. The US Fed raised its policy rate by 25 basis points in September this year, joining the ECB and the BoJ which both hiked during the review period. Markets expect further rate hikes by major central banks by year-end. The BoE, which has been on hold since the start of this year, is also expected to hike before year-end amid elevated underlying inflation. However, policy is expected to remain divergent in emerging markets. Whereas countries with elevated real interest rates, such as Russia, Brazil and Colombia are expected to still cut rates this year, most others face the prospect of rising interest rates.

²⁸ In 2026, the US 30-year yield has risen by 43 basis points, compared with 79 basis points in Japan, 65 basis points in the UK and 34 basis points in Germany.



Box 4 US monetary policy spillovers and emerging markets vulnerabilities

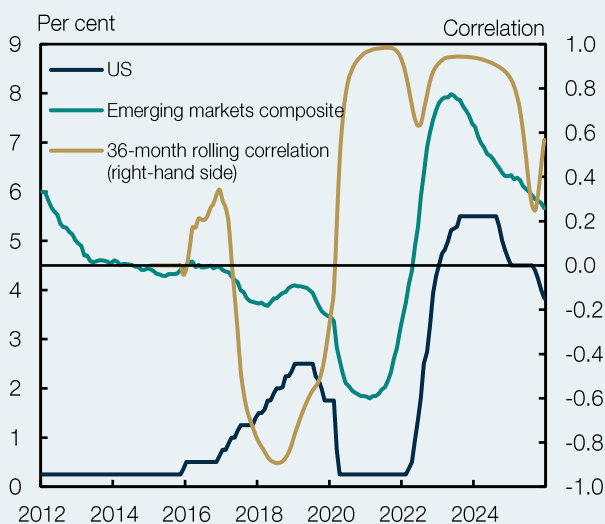
United States (US) markets play an outsized role in shaping global rates. Changes in US rates impact global borrowing costs, capital flows and exchange rates. With US inflation remaining above target, markets are focused on near-term Federal Reserve (Fed) policy moves. For many emerging markets, Fed hikes can quickly feed into domestic inflation and financial conditions through the exchange rate channel.¹

Since 2020, emerging market policy rates have mostly co-moved with the US Fed rate – suggesting that US policy-rate changes influence domestic monetary policy decisions.

Sensitivity tests show that for most of the sampled countries changes in US rates matter.² Across the selected emerging markets, a 100-basis-point increase in the US policy rate is associated with a 43 basis-points increase in the domestic policy rate, on average. However, there is substantial heterogeneity across countries. Countries that have higher external debt, lower reserve cover or small negative current account balances appear to be more sensitive to US Fed rates, reflecting more pronounced vulnerability of their exchange rates.³

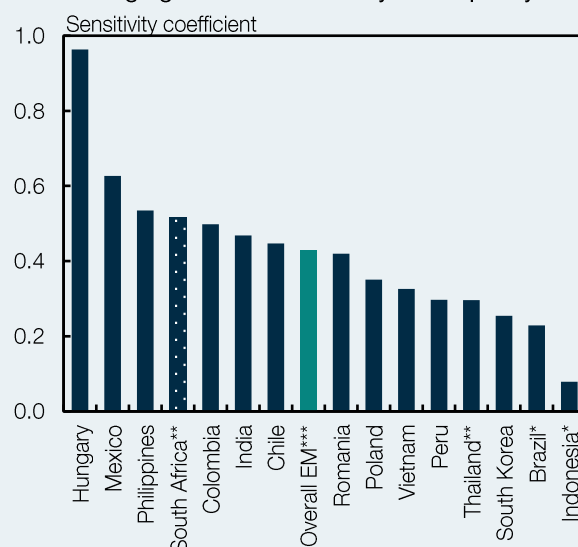
In South Africa, monetary policy is shaped primarily by domestic inflation and economic activity dynamics. US monetary policy matters mainly through its effect on the rand exchange rate. The larger coefficient of 0.52 may reflect the rand's high-beta characteristics and its sensitivity to capital flows driven by US policy.

Emerging markets composite and US policy rate



Sources: US Fed and SARB

Emerging markets sensitivity to US policy rate



* Sensitive to the level of US policy rates

** Sensitive to both the change and level of US policy rates

*** Emerging markets

Source: SARB

¹ See N Kelder and L Soobyah, 'Drivers of emerging market monetary policy sensitivity to US interest rates', *SARB Economic Note* No. EN/2026/23, September 2026; S Kalemlı-Ozcan and F Unsal, 'Global shocks are back: Emerging markets holding up', *Centre for Economic Policy Research*, 14 April 2026. Also see S Ahmed, O Akinci and A Queralto, 'U.S. monetary policy spillovers to emerging markets: Both shocks and vulnerabilities matter', Federal Reserve Bank of New York Staff Reports, No. 972 (originally issued June 2021; revised September 2024), Federal Reserve Bank of New York.

² To assess the extent of this influence, a panel Taylor-rule framework was estimated for 15 inflation-targeting emerging markets with floating exchange rates over the period covering the first quarter of 2012 to the fourth quarter of 2025. See N Kelder and L Soobyah, 'Drivers of emerging market monetary policy sensitivity to US interest rates', *SARB Economic Note* No. EN/2026/23, September 2026. Also see N Szentivanyi, F Tomasoni and J Aziz, 'EM: More space to ease than meets the eye', J.P. Morgan Global Economic Research, 19 February 2026 and E Takáts and A Vela, 'International monetary policy transmission', *BIS Paper* No. 78, August 2014.

³ Countries with sustained large current account deficits may have factors or policies to mitigate such vulnerabilities, such as strong gross domestic product growth, attractive investment policies, higher interest rates or other regimes that sustainably attracts foreign capital. See L Carranza, '5 current account sustainability', *Macroeconomic management: Programs and policies*, International Monetary Fund, 2002, pp 98–138.



Financial market developments: Orderly repricing?

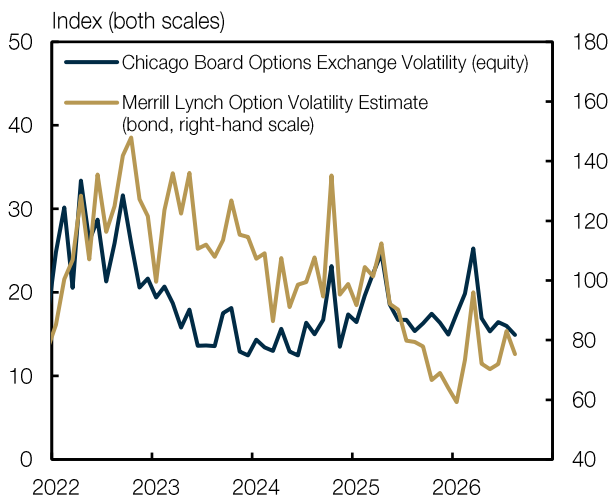
Financial markets have demonstrated resilience since the April MPR, despite a persistently challenging geopolitical environment and rising inflation. The immediate market volatility following the outbreak of the Middle East conflict has eased even as the conflict and disruption to global energy supplies have persisted. Higher energy prices have lifted global inflation and revived expectations of rate increases. Advanced economy sovereign bonds have sold off sharply, with longer-term yields rising amid fiscal concerns. Global equities performed strongly, supported by AI-related stocks. Emerging market assets have continued to outperform their developed market counterparts, narrowing spreads. However, this resilience remains vulnerable to a further repricing of the global monetary policy outlook. South African markets performance has been mixed: the rand and government bonds have held up, while equities dropped. Markets anticipate two more SARB-rate increases over the next six months, following the May and September 2026 adjustments.

The initial financial market shock following the outbreak of the Middle East conflict quickly faded. Although periodic escalations have pushed oil prices and bond yields higher, they have not resulted in market dislocations. Implied bond market volatility has been relatively contained, suggesting that much of the repricing has occurred in an orderly manner.

Government bond yields have risen sharply across major advanced economies, with the increase particularly pronounced at longer maturities. Increasing yields are driven mainly by higher real yields and rising term premiums, indicating growing concerns about fiscal positions and the supply of sovereign debt, alongside some repricing of the monetary policy outlook. Large fiscal deficits, high defence spending and elevated government borrowing have increased the compensation investors demand to hold long-dated sovereign debt. Substantial corporate borrowing associated with AI and data-centre investment has intensified competition for global capital, potentially raising global neutral interest rates.²⁹ In early September, the US 10-year Treasury yield exceeded 5%, its highest level since 2023, while Japanese 10-year government bond yields moved above 3% for the first time since 1996. Yields across the euro area and the United Kingdom (UK) have similarly risen to multi-year highs.

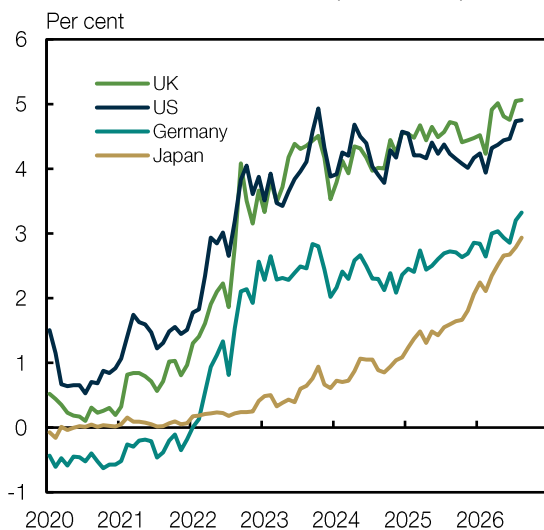
²⁹ Over the medium- to longer-term, AI could raise r^* by sustainably increasing productivity across sectors. See E Cerutti, A G Pascual, Y Kido, L Li, G Melina, M M Tavares and P Wingender, 'The Global Impact of AI: Mind the Gap', IMF Working Paper WP/25/76 April 2025. See also J H E Christensen and G D Rudebusch, 'Can Fiscal, AI, or Monetary News Explain the Rise in r^* ?', Federal Reserve Bank of San Francisco Working Paper 2026-19, 18 August 2026.

Volatility indices



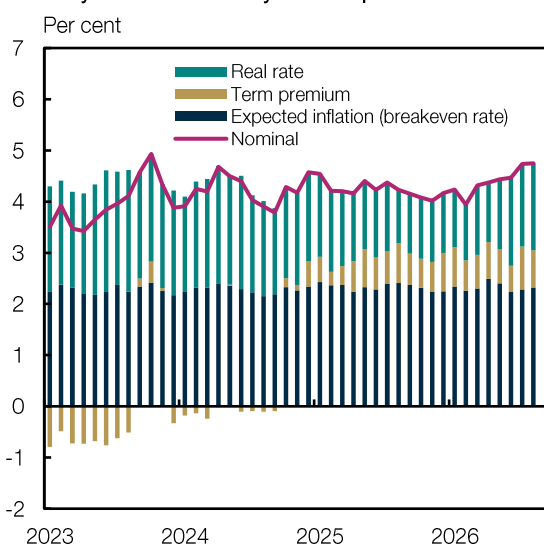
Source: Bloomberg

Advanced economies 10-year bond yields



Source: Bloomberg

10-year US Treasury decomposition



Sources: Bloomberg and SARB



By contrast, global equities have risen since the onset of the conflict, albeit with periodic corrections. The resilience has been particularly pronounced in the US (see Box 5), but European equities also performed well, supported by better-than-expected earnings.

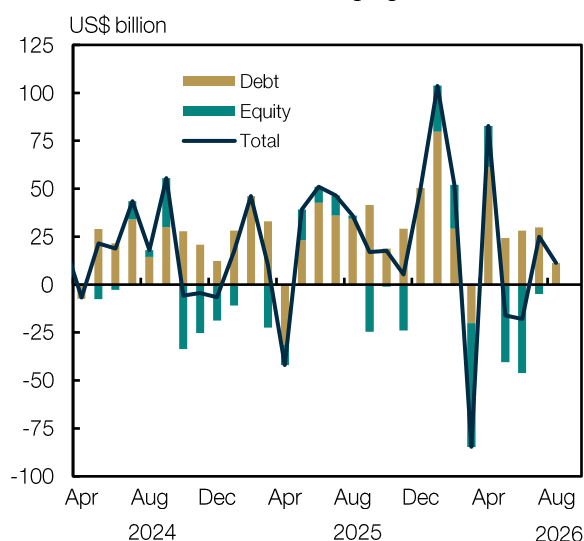
Emerging market assets have been comparatively resilient, although performance has diverged. While economies with greater external vulnerabilities have faced more pressure on currencies and inflation, emerging-market currencies generally have had a good year so far. Relatively high real interest rates and improved macroeconomic policy frameworks have supported demand for emerging market debt more broadly. Year-to-date emerging market debt inflows reached US\$243 billion by August, with sovereign spreads over US Treasuries narrowing further. Currencies have also benefited from buoyant commodity prices that improved the terms of trade. By contrast, equities recorded a net outflow over the same period, partly reflecting portfolio retrenchment from technology-heavy Asian markets.

The outlook for global monetary policy has tilted towards rate increases as the risk of persistent inflation has risen. At the time of the April *MPP*, major central banks had already paused their easing cycles. Since then, most major central banks have raised policy rates, with the Fed having its first hike since September 2023, while the BoE has remained on hold. Market expectations have shifted towards a greater likelihood of renewed tightening.

Renewed oil-price volatility and rising public debt could raise financial-market risks. Higher inflation expectations, increased government borrowing and rising term premiums may drive global bond yields higher further. Leveraged investors and the unwinding of carry trades could worsen these moves, tightening financial conditions and weakening emerging-market currencies. For South Africa, the main risks are a weaker rand, higher bond yields, lower capital inflows and wider risk premiums. Improved fiscal credibility and lower external financing needs offer some protection, but the economy remains exposed to sudden changes in global market sentiment.

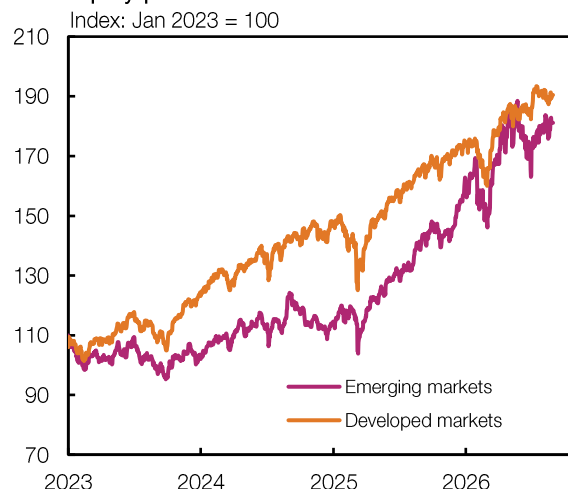
Traditional safe-haven assets have provided uneven protection during the review period. The US dollar strengthened during episodes of acute risk aversion and rising expectations for Fed tightening, but these gains have generally proved short-lived. Gold weakened through much of the second quarter before recovering from July, supported more recently by a weaker dollar, renewed investment flows and continued central bank demand. US government bonds have offered more limited protection as rising real yields and fiscal concerns have pushed longer-term yields higher. Overall, no single asset has consistently provided protection against the combination of geopolitical, inflation and fiscal risks. The need for a suite of

Portfolio flows into emerging markets



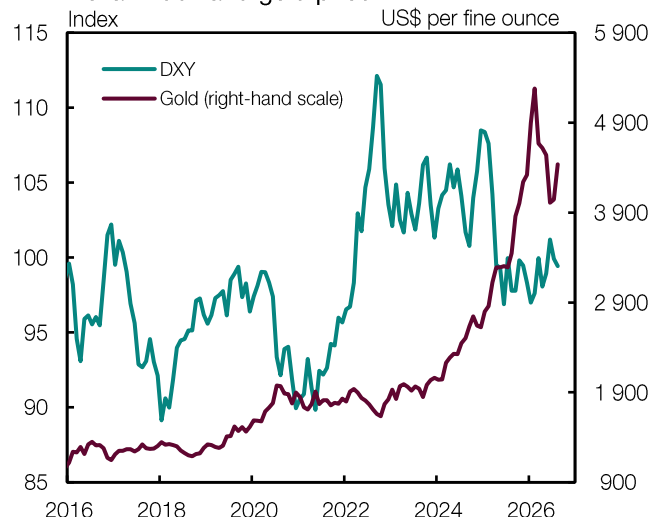
Source: Institute of International Finance

Emerging and developed market equity performance



Sources: Bloomberg, MSCI and SARB

Dollar index and gold price



Source: Bloomberg



asset classes to protect against different risk types has underpinned risk appetite and supported the demand for emerging market assets, particularly those with sound macroeconomic fundamentals. South Africa has benefited from the risk-on environment on the back of recent macroeconomic reforms.

South African financial markets

South African financial market performance has diverged across asset classes. The rand has performed relatively stronger over the review period. After weakening sharply following the outbreak of the Middle East conflict, the currency recovered through much of the review period and is currently trading around R16.30 to the US dollar, marking a roughly 3% appreciation since April. Improved global risk sentiment, relatively favourable terms of trade and a small current account balance have provided support.

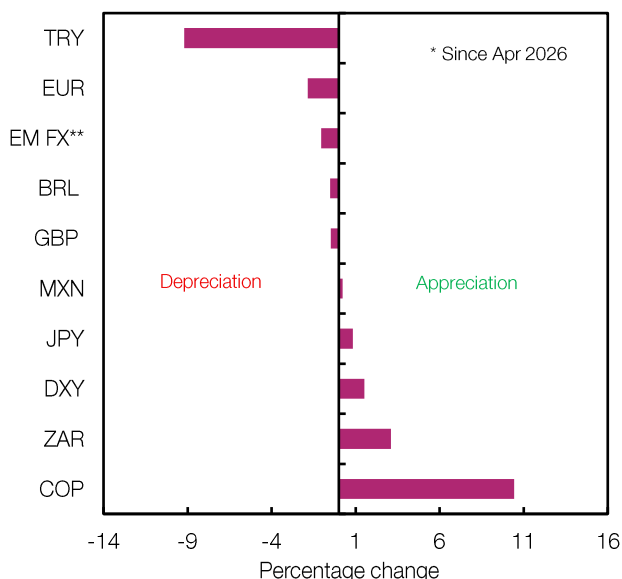
This relative resilience has also been evident in the bond market. Government bonds have held up comparatively well, despite a less supportive global rates environment.³⁰ Local yields have benefited from improved confidence in South Africa's macroeconomic and fiscal trajectory, helping to offset upward pressure from rising advanced economy yields as well as domestic inflation. This improvement in sentiment is also reflected in South Africa's five-year credit default swap spread, which has fallen to a multi-year low, signalling a marked decline in the sovereign risk premium. Although yields have increased recently, they remain well below their peaks at the start of the year.

Equity performance has been more uneven. The JSE All-Share Index has remained heavily influenced by movements in commodity prices, with resource shares accounting for much of the volatility over the review period. While precious-metal shares have provided support more recently, performance among more domestically exposed sectors, including retailers, has remained relatively weak. Equity gains have therefore not been broad based and remain consistent with a subdued domestic growth environment.

The MPC raised the policy rate by 50 basis points to 7.25% over the review period as higher fuel prices increased the risk of more persistent inflation. Market-implied interest rate expectations now suggest scope for about two 25-basis point interest rate increases over the coming six months.

Taken together, stronger domestic fundamentals have provided an important buffer against a challenging external environment. Nevertheless, local financial conditions remain sensitive to developments in global rates, risk sentiment and commodity markets, which could easily reverse the current year gains.

Selected FX performance versus US dollar*



** Emerging market FX
Source: Bloomberg

South African 10-year bond yield



Sources: Bloomberg and SARB

³⁰ Year-to-date bond inflows totalled R38 billion as of end-August.



Box 5 From artificial intelligence euphoria to scrutiny: New risks?

Artificial intelligence (AI)-related equities have experienced a shift in sentiment since April 2026. After rallying strongly on expectations of sustained demand for semiconductors and data-centre infrastructure, the sector has become more volatile as concerns around valuations and future returns intensify.

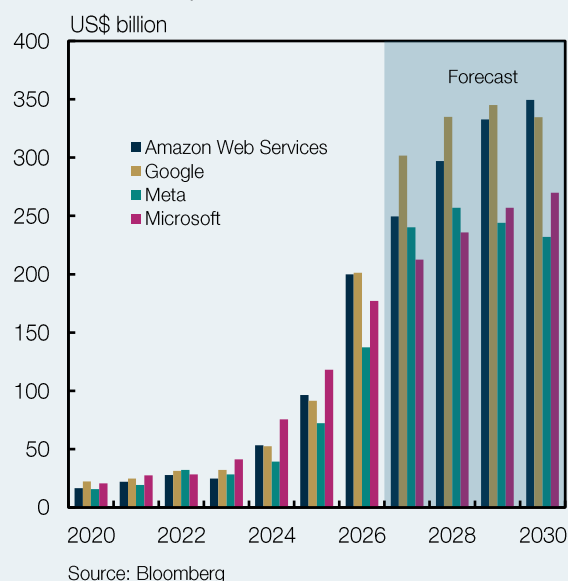
This shift in sentiment has drawn greater attention to the scale of investment underpinning the AI boom. Spending by major technology companies on data centres, computing capacity and related infrastructure has risen sharply and is expected to increase further. Strong equity-market gains have reflected expectations that these investments will generate substantial future earnings. However, the scale of expenditure has also raised questions about whether those earnings will be sufficient to justify current valuations.¹ These concerns contributed to a correction in AI-related equities during June and July, although some of these losses have subsequently been recovered.

The financing of the investment boom also creates new vulnerabilities. Whereas much of the initial wave of AI investment by the large technology firms was self-financed, market financing (including corporate debt, private credit and off-balance-sheet structures) has grown as capital expenditure ramped up. This shift has strengthened the links between technology companies, financial institutions and private capital markets, increasing the potential for stress in the AI sector to spread more widely through the financial system.²

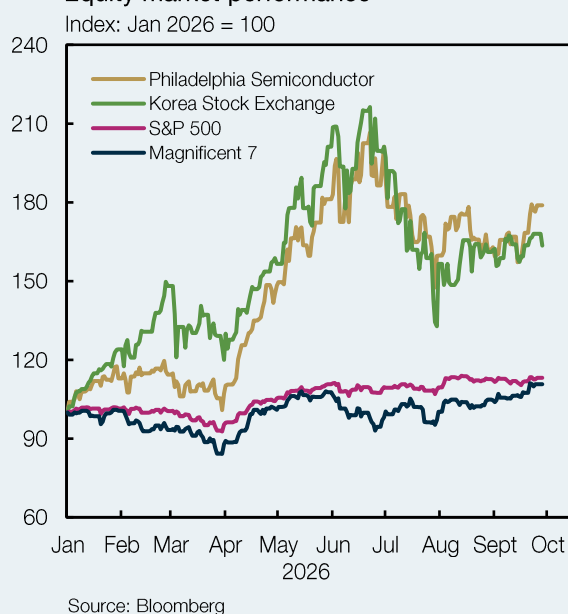
The macroeconomic consequences of an AI-related repricing would depend on the scale of the correction and the extent to which it spills over into broader asset markets. A broad decline in equity prices could have important effects in the US, given households' substantial exposure to equities and the large weight of major technology firms in benchmark indices. Lower household wealth and weaker business confidence could weigh on consumption and investment.

A correction in US AI-related equities is likely to have limited direct effects on South Africa. The greater risk is a broader deterioration in global risk sentiment that tightens financial conditions and affects the economy through capital flows, asset prices and the exchange rate, with implications for inflation and monetary policy.³

Selected hyperscaler capital expenditure



Equity market performance

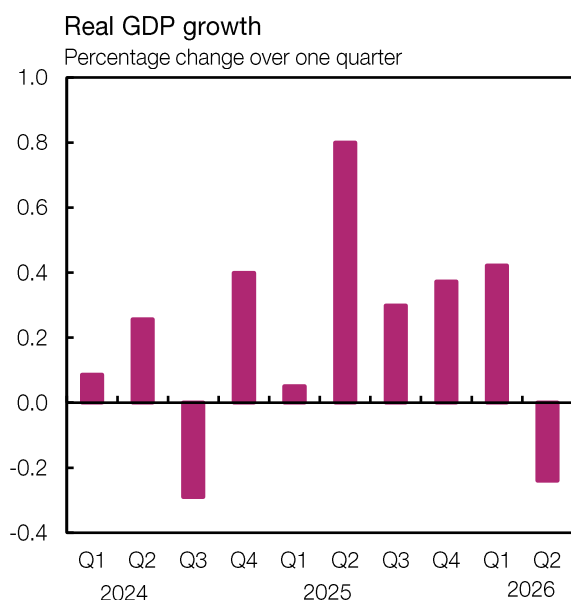


¹ These concerns may be amplified by rapid advances among Chinese AI developers, which have demonstrated the potential to deliver increasingly capable models at significantly lower cost. See J A Wachter and J Wachter, 'What investment data implies about the AI transition' *The Wharton School Research Paper*, March 2026.

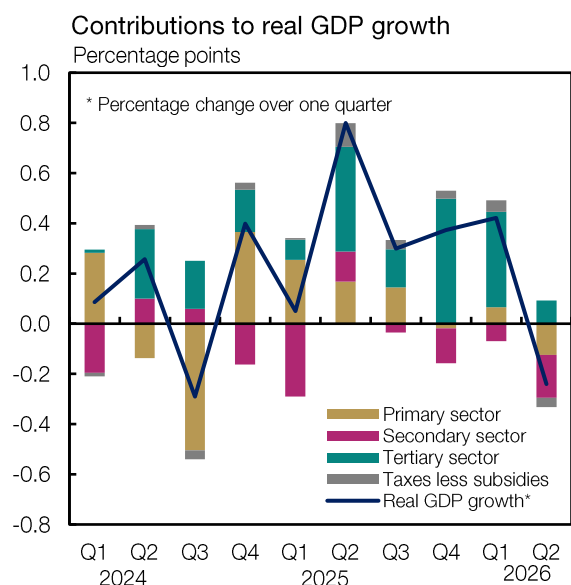
² See P Rungcharoenkitkul, 'The AI investment race', *BIS Working Paper* No. 1367, 7 July 2026. The Fed makes a similar point – survey respondents flagged that AI capex is increasingly funded by debt, creating more leverage in the system. See Board of Governors of the Federal Reserve System, *May 2026 Financial Stability Report*, 2026.

³ For instance, the BIS notes that US equities account for around 64% of the MSCI Global index, creating scope for a US-led repricing to propagate globally.





Source: Stats SA



Source: Stats SA

Real economy: Momentum holding?

The domestic economy contracted unexpectedly in the second quarter of 2026 as the Middle East conflict weighed on activity. Net exports drove much of the change, supporting growth in the first quarter but dragging it lower in the second. The SARB expects the growth slowdown to be temporary, with a rebound to 0.4% projected for the third quarter, supported by household spending and base effects. Overall, growth prospects have changed little: for 2026 growth is now forecast at 1.2%, slightly lower than the April estimate of 1.4%, while the medium-term outlook remains unchanged at 1.7% in 2027 and 2% by 2029.

Recent economic developments

The first two quarters of the year were marked by significant volatility in output. After expanding by 0.4% in the first quarter, GDP contracted by 0.2% in the second quarter as the Middle East conflict weighed on both consumer and business sentiment. The contraction followed six consecutive quarters of uninterrupted output expansion, starting from the fourth quarter of 2024. Meanwhile, South Africa's trend growth rate remains constrained by structural bottlenecks, underscoring the need for sustained reform implementation.³¹

At the broad sectoral level, activity softened across the board in the second quarter, with the primary and secondary sectors contracting. Over the first two quarters of the year, growth in the tertiary sector was underpinned by finance and transport; trade saw a sharp reversal in the second quarter, partly due to higher fuel costs. In the primary sector, mining remained volatile, expanding in the first quarter as operating conditions improved before contracting in the second.³² Agriculture recorded a seventh consecutive quarterly expansion despite delayed harvests, while persistent manufacturing weakness drove the secondary-sector contraction.³³

The labour market deteriorated in the first and second quarters of this year. Total employment declined, driven by job losses in

³¹ Progress has been made through Operation Vulindlela in tackling long-standing structural issues. South Africa continued to have an uninterrupted supply of electricity as the energy availability factor improved to an average of 67.9% year-to-date. Logistical bottlenecks have also eased somewhat, reflected in higher rail and port volumes.

³² In the first quarter, output was driven by increased production in platinum group metals (PGMs), gold, manganese and chrome, supported by elevated commodity prices and Chinese stockpiling of steel-making inputs. By the second quarter, the external environment had shifted, as conflict related oil price shocks raised costs while logistical constraints and softer demand for bulk commodities weighed on production. See B Motsa, 'PGMs and China's stockpiling strategy fuel mining sector expansion', *Minerals Council South Africa*, 14 April 2026.

³³ For more details on sectoral developments, see SARB, 'Quarterly Bulletin', September 2026.



the formal sector.³⁴ Subdued employment growth likely reflects the economy's shift towards capital-intensive services, compounded by persistent skills mismatches and regulatory rigidities.³⁵ The unemployment rate remained elevated, rising to 33.1% in the second quarter of 2026. Nevertheless, real total compensation of employees increased by 0.7% year on year in the first half of 2026, providing some support to real disposable income.³⁶

Household consumption recovered modestly in the second quarter but spending remained uneven across categories. Services and durable goods rose moderately while semi-durable goods weakened. Consumption spending on transport and fuel declined, likely as households adjusted to higher fuel costs. The modest recovery was in line with a higher consumption deflator, suggesting that rising prices weighed on real purchasing power. Overall, household finances softened in the first half of the year. Real disposable income growth was muted in the first two quarters, reflecting labour market weakness and declines in non-labour income.³⁷ Household net-wealth recovered somewhat in the second quarter, reversing the first-quarter decline caused by lower share prices and weaker total assets.³⁸

Investment continued to drag on gross domestic expenditure (GDE). It contracted in both the first and second quarters due to weak spending by the private sector and state-owned entities.³⁹ General government capital expenditure grew in both quarters. Performance by asset type was mixed and volatile: machinery and equipment, the largest component shifted from a contraction in the first quarter to a positive contribution in the second quarter, while residential investment and transport equipment also recovered from earlier declines. On an annual basis, investment grew by 0.8% in the first half of the year. Muted investment growth outturns are consistent with insights from the SARB's business contacts who indicated that they continued to prioritise efficiency and maintenance over plant expansion given the low-growth and highly uncertain environment (see Box 1). Subdued net investment growth reflects in a stagnant capital stock and limits the country's potential growth.

³⁴ In the first half of 2026, total employment fell by 0.3% year on year. On a quarterly basis, employment contracted by 2% in the first quarter and by 0.1% in the second quarter.

³⁵ See C.Loewald, K.Makrelov and A.Wörgötter, 'Addressing low labour utilisation in South Africa', *SARB Working Paper Series* No. WP/21/09, 1 June 2021.

³⁶ On a quarterly basis, real compensation of employees increased by 2.6% in the first quarter of 2026, before declining by 2.5% in the second quarter.

³⁷ Real disposable income increased by 0.1% and 0.2% in the first and second quarters of 2026. Subdued non-labour income reflected softer growth in interest receipts, dividends and property income.

³⁸ See SARB, *Quarterly Bulletin*, September 2026.

³⁹ Gross fixed capital formation contracted by 1% and 0.2% in the first and second quarters respectively.

Total employment

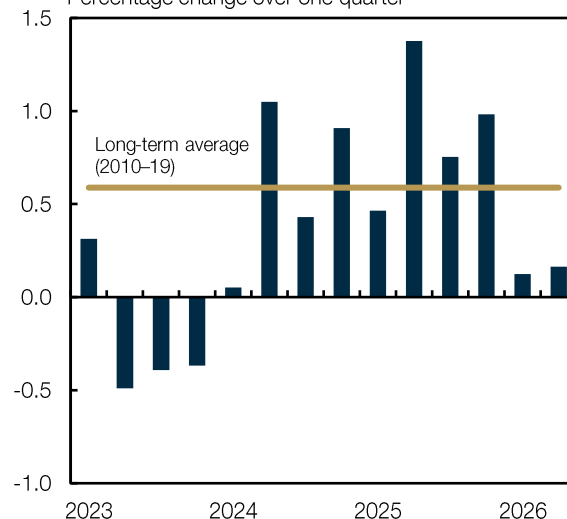
Number of people (million)



Source: Stats SA

Real disposable income

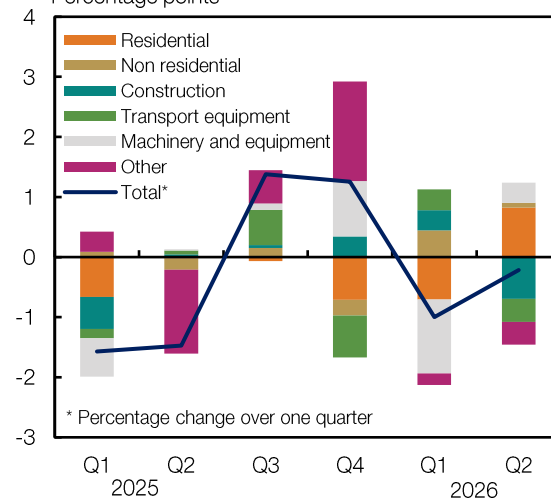
Percentage change over one quarter



Source: SARB

Contributions to gross fixed capital formation by asset composition

Percentage points



Source: Stats SA



Net exports shaped growth dynamics in the first half of the year, supporting activity in the first quarter before weighing it down in the second quarter. Sharp swings in import growth, together with subdued export growth drove these quarter-on-quarter shifts, reflecting volatile demand for machinery and equipment as well as higher oil prices that raised the fuel import bill.

Growth outlook

Looking ahead, growth is projected to rebound to 0.4% in the third quarter, followed by 0.3% in the fourth quarter.⁴⁰ The 2026 annual average growth rate is now forecast at 1.2%, down from 1.4% in the April *MPR*, mainly due to the contraction in GDP in the second quarter and the downward revision to the first quarter growth rate. Even so, the medium-term outlook is unchanged, with GDP growth and potential output expected to rise to 2% by 2029 as reforms progress and structural constraints ease.

Household consumption is expected to remain the main driver of growth, although its contribution has been revised down from the April *MPR* because of weaker real disposable income growth. A recovery in employment growth, along with rising wages, should provide support to real disposable income. The SARB assumes oil prices will ease from next year, providing a further boost while additional support comes from anticipated policy rate cuts as inflation moderates.^{41, 42} Overall, household consumption is forecast to grow by 2.2% this year, before moderating to 1.7% in 2027 and 1.9% in 2028.

Despite strong general government capital expending, and some support from public corporations, fixed investment growth is expected to contract again this year, weighed down by private investment. Private investment is expected to pick up from next year as sentiment improves and reforms progress. Concessions in rail and ports, as well as expanded energy projects, should lift private sector capital spending.^{43, 44} Public sector spending in reform-related projects targeting electricity, logistics and water infrastructure should buoy private sector investment.⁴⁵ However, implementation delays and limited

⁴⁰ Base effects, steady services sector performance and a delayed agricultural harvest should underpin the recovery in the second half of the year.

⁴¹ Employment is projected to increase by 2% in 2027 and 0.6% in 2028.

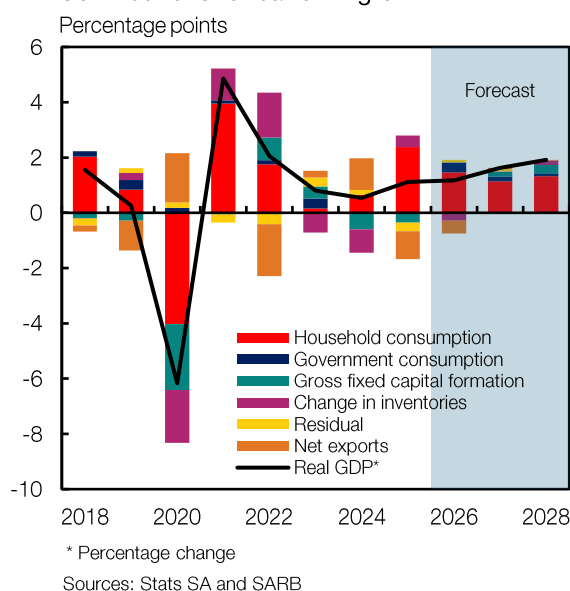
⁴² The QPM projects the policy rate to end at 6.34% by the fourth quarter of 2027.

⁴³ Transnet Rail Infrastructure Manager published the final Network Statement Version 4 in September this year, as part of its ongoing rail reform programme to regulate and manage access to the national rail network. The updated network statement is expected to enhance regulatory certainty and support greater private sector participation in the logistic sector.

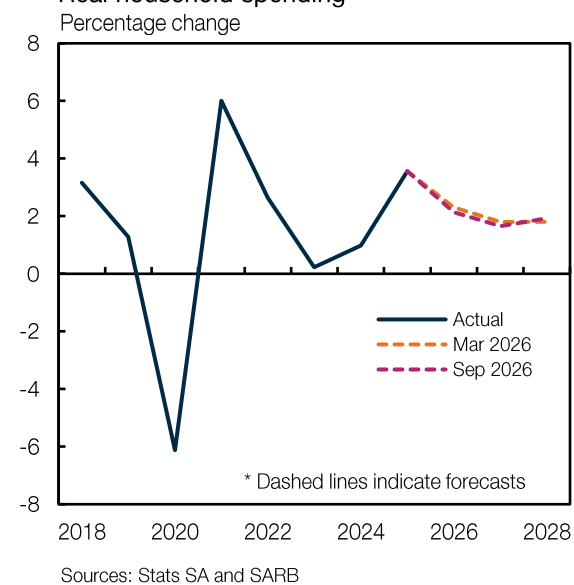
⁴⁴ Private investment in the energy sector faces significant bottlenecks from limited grid capacity, which constrains how fast pipeline commitments convert into actual capital spending. See K Khumalo, 'R400bn in renewable projects is ready to go – the grid is not', *Business Day*, 21 August 2026.

⁴⁵ In the 2026 Budget, government earmarked roughly R1 trillion for public sector infrastructure investment over the medium-term expenditure framework, with public corporations accounting for the largest share at about R445 billion. See National Treasury, *2026 Budget Review: Public-Sector Infrastructure and Public-Private Partnerships Update*, 2026.

Contributions to real GDP growth



Real household spending*



municipal capacity for infrastructure spending may slow progress.⁴⁶ Overall, gross fixed capital formation is projected to decline marginally (-0.1%) this year but to rebound and average about 2% over the medium term. As a share of GDP, investment remains low, around 14% over the medium term.

Macro balances

The current account and its drivers

South Africa's relatively contained current account position since 2020 persisted in the first half of this year, although the balance shifted from a surplus of 2.3% of GDP in the first quarter to a deficit of 2.6% in the second. The deterioration reflected a sharp decline in the terms of trade as import prices rose faster than export prices, along with a wider deficit on the services, income and transfers (SIT) account.⁴⁷ Import volumes also increased sharply, outpacing the modest gain in export volumes.⁴⁸ For 2026 as a whole, the current account deficit is forecast to remain at 0.5% of GDP, partly reflecting subdued domestic demand, particularly weak investment and the associated restraint on imports.

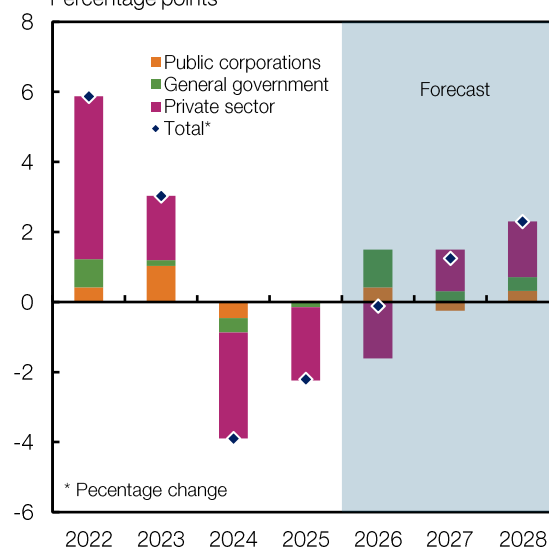
These developments highlight the tension between cyclical gains from favourable commodity prices and persistent vulnerabilities stemming from sluggish export growth and volatile energy markets. Although the current account deficit remains smaller than its long-term average, South Africa's external position remains highly exposed to global shocks, with commodity windfalls offering only temporary support. A stronger recovery in import demand could widen the deficit materially, particularly while output growth in key export-oriented sectors remains subdued.

The SARB forecasts the current account deficit to average 1.4% of GDP in 2027, before widening to 1.7% in 2029.

Fiscal balances

Four months into the fiscal year, overall fiscal performance remains relatively strong, supporting the expectation of a sustained primary surplus for the fourth consecutive year in 2026/27. Revenue has outperformed, particularly corporate income tax (CIT), personal income tax (PIT) and value-added tax (VAT), while expenditure has remained broadly in line with

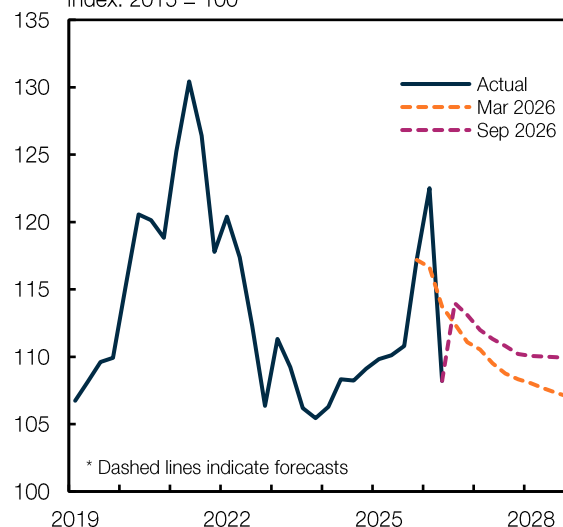
Contributions to gross fixed capital formation
Percentage points



Sources: Stats SA and SARB

Terms of trade*

Index: 2015 = 100

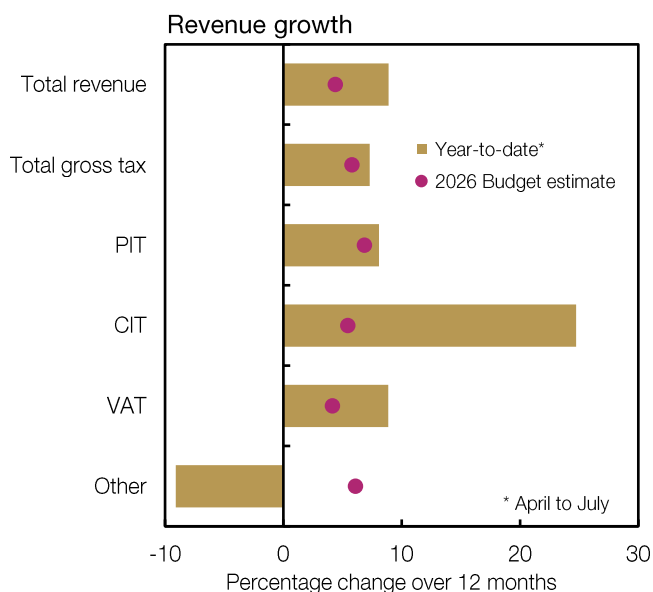


Source: SARB

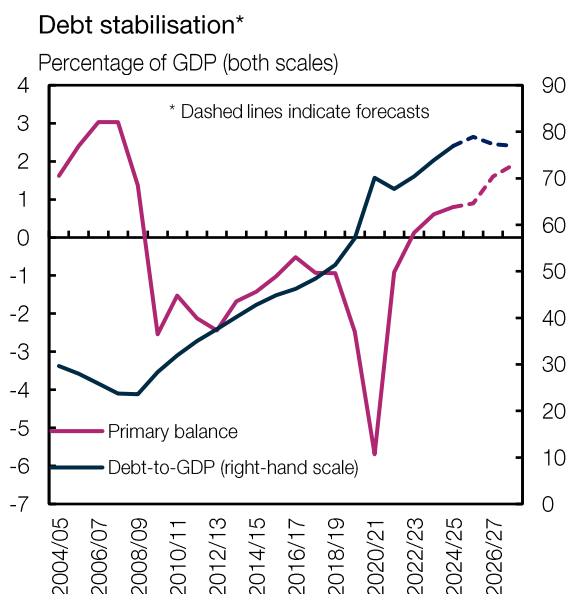
⁴⁶ The Business Leadership South Africa (BLSA) Reform Tracker turned negative in the second quarter of 2026, the first time since its launch in 2024, signalling a loss of momentum in reform implementation. The slowdown was driven mainly by delays in electricity and freight logistics sectors. See BLSA, *Reform Tracker Quarterly Review Issue 4*, 2026.

⁴⁷ The services, income and transfers (SIT) deficit widened partly reflecting a sharp decrease in dividends receipts coupled with higher dividend payments to non-resident investors. See SARB, *Quarterly Bulletin*, September 2026.

⁴⁸ Import volumes rose by 4.9% in the second quarter, while export volumes increased by 0.9%.



Source: National Treasury



Source: National Treasury

budget expectations.⁴⁹ CIT benefited from huge commodity-related revenue windfalls over the past six years as export commodity prices rose and mostly stayed elevated.

This trajectory supports the stabilisation of the debt ratio, which is anticipated to have peaked in 2025/26. The main budget deficit is also projected to narrow steadily over the medium term.⁵⁰ Together, these outcomes signal a credible path of fiscal consolidation, with sustained surpluses anchoring debt stabilisation and driving a gradual reduction in the deficit.

However, the outlook remains vulnerable to the unwinding of cyclical revenue drivers, particularly the commodity cycle, while the fuel shock poses indirect risks to household incomes and company profitability.⁵¹ On the expenditure side, the fragile financial position of most state-owned enterprises (SOEs) remains a significant risk to the budget.

Conclusion

Domestic growth is expected to recover in the second half of this year, albeit moderately as fuel costs and uncertainty remain elevated. Over the medium term, growth and potential output are projected to strengthen gradually towards 2% by 2029 as structural reforms progress. Risks remain tilted to the downside, given the continuing Middle East conflict, persistent oil refinery margin pressures and the potential effects of a severe El Niño event. Slower-than-anticipated reform progress, municipal dysfunction and high electricity prices present further risks to growth.

⁴⁹ PIT was supported by growth in nominal earnings.

⁵⁰ National Treasury expects the main budget deficit to narrow from 4.5% in 2025/26 to an average of 3.6% over the medium term.

⁵¹ Higher input costs could squeeze company profits and CIT, while weaker household incomes could soften domestic VAT and, if activity slows, eventually PIT.



Box 6 South Africa's investment puzzle

The National Development Plan 2030 sets an investment-to-gross domestic product (GDP) target of 30% by 2030. As of 2026, investment remains well below this target, at around 14%. Investment growth has remained subdued despite notable improvements in the domestic economic climate and structural reform progress. This box unpacks South Africa's investment puzzle and identifies two distinct investment regimes.

South Africa's gross fixed investment rose steadily during the early 2000s, with the investment-to-GDP ratio peaking at 19.8% in 2008. Investment subsequently lost momentum in the wake of the global financial crisis (GFC), declining to around 16.2% of GDP by 2019 and further to 14% by 2025. A similar trend is seen in net fixed investment over the same period.¹ This suggests that much of recent investment spending has gone into maintaining the existing capital stock.

South Africa's investment intensity compares poorly with that of emerging market economies; the gap has widened greatly since the GFC. This largely explains South Africa's growth gap vis-à-vis peer emerging markets.

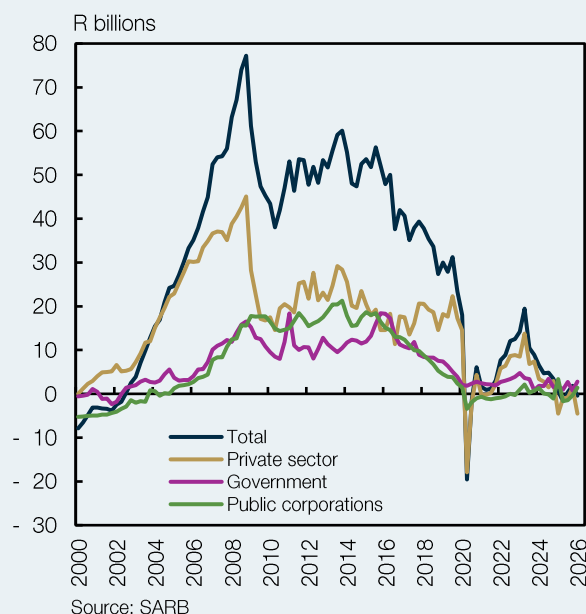
Despite reform progress and modest economic improvement over the past four years, investment performance remains puzzling. Against expectations of a lift, investment has repeatedly surprised to the downside, raising the question whether 'low investment' has become the 'new normal' for South Africa.

Unpacking investment performance through time shows that South Africa has experienced distinct high- and low-investment regimes.² The high-investment regime occurred during the early to mid-2000s and was characterised by investment growth of around 2.8% per quarter. By contrast, the economy transitioned into a low-investment regime following the GFC, with an average growth rate of 0% per quarter and has remained there since. The drag is attributable to all investment categories, namely government, public corporations and private sector.

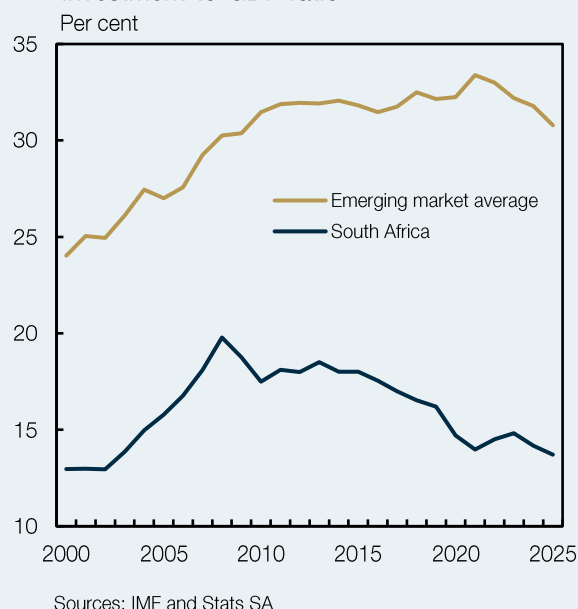
The high-investment regime coincided with the commodity price boom of the early 2000s, favourable global financing conditions and a period of relatively robust domestic economic growth. Strong business confidence, lower sovereign risk premium and large-scale public infrastructure programmes further supported investment spending.

The transition into the low-investment regime occurred alongside a deterioration in the domestic investment environment. Heightened policy uncertainty reduced firms' willingness to commit to long-term investment projects.³ Rising public debt crowded out private investment by placing upward pressure on domestic borrowing costs and risk premiums.⁴ At the same time, the gradual erosion of state capacity weakened both

Net fixed investment



Investment-to-GDP ratio



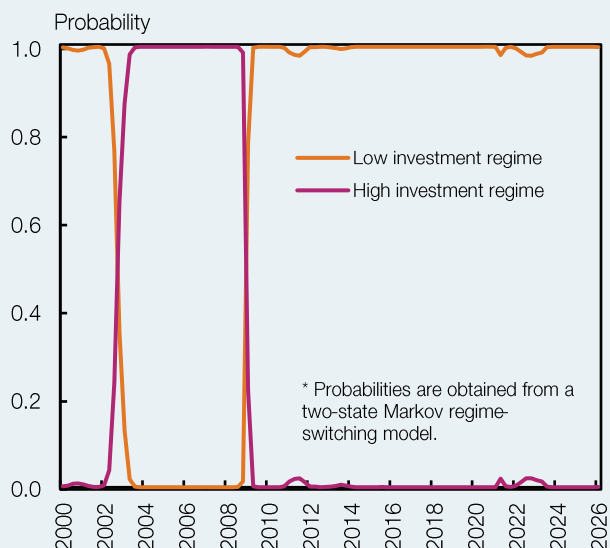
¹ Net investment is defined as gross fixed capital formation less depreciation on existing capital stock.

² A two-state Markov regime-switching model is estimated using quarterly fixed investment growth data from the first quarter of 2000 to the first quarter of 2026. It identifies periods of weak and strong investment growth and estimates the probability of switching between them. The probability of remaining in the low-investment regime is about 99%, suggesting that investment rarely recovers fully after a downturn. The results remain robust after controlling for standard macroeconomic drivers and the COVID-19 pandemic. See A van Niekerk and R Ehlers, 'Is weak investment South Africa's new normal?', *SARB Economic Note* No. EN/2026/22, September 2026.

³ See T Janse van Rensburg, A van Niekerk and R Ehlers, 'What is holding back investment in South Africa?', *SARB Economic Notes* No. EN/2025/13, September 2025.

⁴ See P Mavuma, T Kisten and L Soobayah, 'Does government borrowing crowd out private investment in South Africa? The role of SARB's policy rate', *SARB Working Paper series*, forthcoming.

Investment growth: High versus low regimes



Source: SARB

public investment and the provision of critical public goods and services required for production, particularly at municipal level.⁵ Together, these developments increased the cost of doing business and weighed on business confidence.

Prolonged periods of weak growth and a deteriorating operating environment can become embedded in firms' expectations, weighing on investment and reinforcing caution. These expectations may adjust only gradually, causing investment to lag improvements in economic conditions.⁶

Recent reform progress, including fiscal consolidation and the adoption of a lower inflation target, constitutes an important step towards restoring investor confidence.⁷ However, transitioning back to a high-investment regime will require a substantial lowering of the costs of doing business by, among other things, ensuring improvements in infrastructure reliability and municipal service delivery as well as a more predictable policy environment and a less burdensome regulatory framework.⁸

⁵ See R Hausmann et. al., 'Growth through inclusion in South Africa', *Center for International Development (CID) Faculty Working Paper No.434*, November 15 2023.

⁶ R Harold, 'Are South African firms forward-looking? Evidence from gross fixed capital formation', *SARB Research Brief No. RB/2026/31*, August 2026.

⁷ See R Havemann, 'Accounting for South Africa's remarkable growth deterioration. And how can growth be restored?', *Bureau for Economic Research Research Note*, September 2025.

⁸ See Cape Chamber of Commerce and Industry, '*Constraints to Jobs: What Business Needs Fixed. National Business Environment Survey*', August 2026.



Price developments: Passing or feeding through?

Headline inflation rose sharply over the review period, driven mainly by higher fuel prices and transport costs, alongside broader services price pressures. A stronger currency, competitive goods markets, lower food inflation and a moderately restrictive monetary policy stance provided buffers, slowing the transmission of the fuel price shock. The SARB projects headline inflation to peak in the fourth quarter of this year before easing gradually to target from the second half of 2028. However, volatile fuel prices and elevated inflation expectations as well as geopolitical tensions and El Niño-related food price risks pose upside perils.

Oil prices and fuel inflation

Oil prices averaged US\$97 and US\$90 per barrel in the second and third quarters of 2026 respectively, well above the SARB's projections of US\$84 and US\$71 per barrel respectively at the time of the April MPR. Oil markets experienced acute volatility amid ongoing hostilities in the Middle East, while international refinery margins rose sharply, particularly for diesel and remained elevated (Box 3). Accordingly, domestic fuel prices fluctuated markedly over the review period.

The US Energy Information Administration projects the Brent oil spot price to decline and to reach pre-conflict levels by the end of 2027.⁵² However, significant damage to oil infrastructure, still-curtailed flows through the Strait of Hormuz and disruptions in the Red Sea corridor as well as the need to replenish depleted inventories may make this moderation more gradual. Accordingly, the SARB raised its medium-term Brent crude price assumptions from US\$65 per barrel in the April 2026 MPR to US\$80 per barrel in 2027, US\$75 per barrel in 2028 and US\$73 per barrel in 2029.

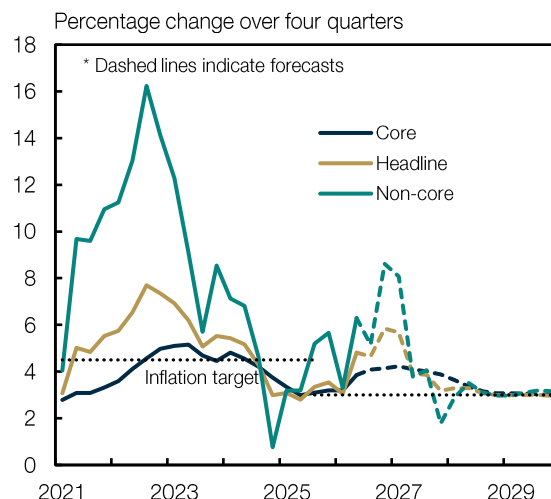
Administered price inflation

Administered price inflation rose markedly on higher fuel and paraffin prices, from 2.1% in March to a peak of 15.5% in June, before easing to around 10% in recent prints. Key components of administered prices, including electricity and water, slowed, although they remain elevated.⁵³ As most administered components are key inputs into production, large real price increases raise the cost structure of the economy.

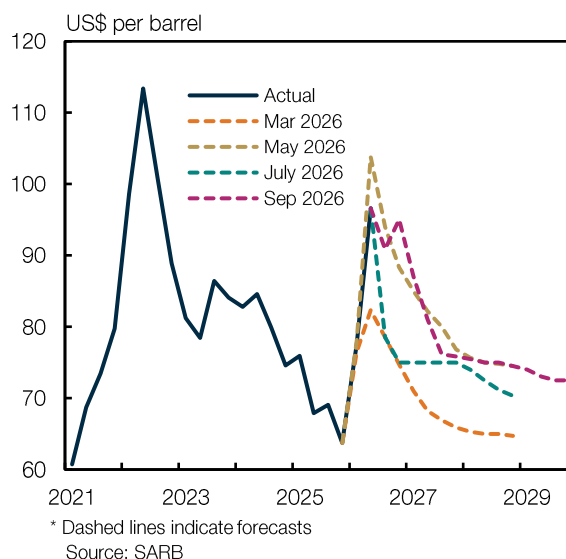
⁵² For demand-supply dynamics in the oil market, see US Energy Information Administration, *Short-Term Energy Outlook*, September 2026. The International Energy Agency (IEA) has a similar outlook. See the IEA, *Oil Market Report*, September 2026.

⁵³ From June to August, electricity inflation eased from 10.4% to 8.1%, water inflation from 12% to 10.2%. Assessment rates inflation increased from 4.9% to 6.8%.

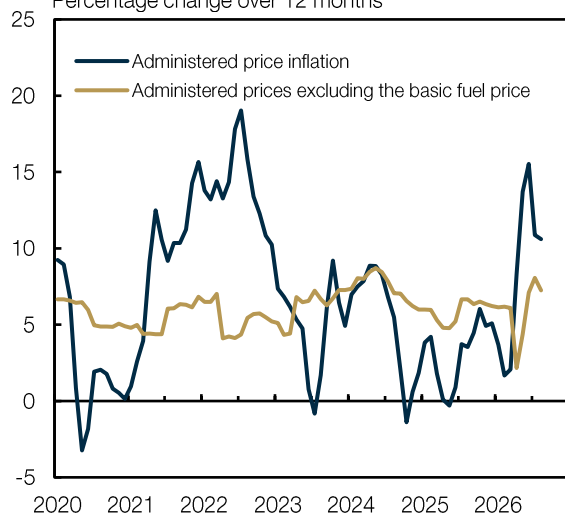
Headline inflation and its components*



Oil price forecast evolution*



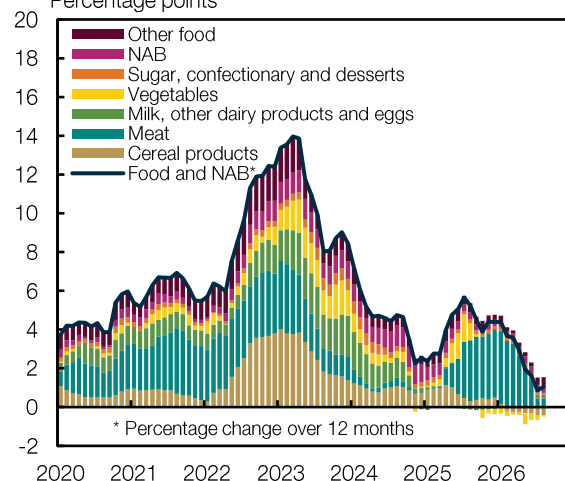
Administered price inflation
Percentage change over 12 months



Sources: Stats SA and SARB

Contributions to food and NAB inflation*

Percentage points



Sources: Stats SA and SARB

The basic fuel price (BFP) is driven by the market-determined international oil prices and the exchange rate. Including it in fuel inflation may therefore distort overall administered price inflation, especially during oil price shocks. The genuinely administered components include domestic fuel taxes as well as wholesale and retail margins. Excluding the BFP, administered inflation is projected at 6.6% this year and to average 4.9% over the forecast period.

Subdued inflation in 2025 likely moderated administered inflation this year through partial indexation.⁵⁴ However, as utility costs rise and revenues fall, utility prices will keep increasing under the current revenue-based regulatory pricing frameworks. While electricity pricing reforms are progressing, they will likely take time to translate into tangible price relief.⁵⁵ The SARB expects electricity price inflation to stay high at 8% in 2027, before declining to around 6% in the outer years of the forecast horizon.

Food and non-alcoholic beverages inflation

Food and non-alcoholic beverages (NAB) inflation has been muted. It averaged 1.7% over the review period, well below the 2.9% and 3.1% forecasts for the second and third quarters at the time of the April 2026 *MPR*. Ample harvests from the 2025–26 season lowered prices for fruit, vegetables and cereal products which, together with meat price base effects, have pulled food and NAB inflation to its lowest level since 2010.

In the near term, food and NAB inflation is expected to edge slightly higher on fading base effects and some pass through from higher transport costs. The moderate uptick is consistent with industry intelligence that suggests conditions may not be conducive to significant cost pass through (Box 1). However, risks to the medium-term outlook are more pronounced. High fuel and fertiliser costs could reduce plantings and constrain domestic supply.⁵⁶ A severe El Niño event would further weaken crop yields and quality in the next production season, while poorer harvests and possible trade restrictions in major producing regions or economies could lift global agricultural commodity prices (Box 7). Food and NAB inflation risks are therefore tilted to the upside. The SARB forecasts food and NAB inflation to peak at 4.9% in 2027, before slowing to 3% from the third quarter of 2028.

⁵⁴ C Loewald, K Makrelov and E Pirozhkova, 'The short-term costs of reducing trend inflation in South Africa', *SARB Working Paper Series* No. WP/22/08, 2 August 2022.

⁵⁵ See Department of Electricity and Energy, 'Revised Electricity Pricing Policy', *Government Gazette* No. 55257, 28 August 2026.

⁵⁶ Global fertiliser supply chains have adjusted, but prices have risen, including in South Africa. See P Foster and S Savage, 'New fertiliser exporters blunt food crisis fears', *Financial Times*, 15 September 2026. See also Bureau for Food and Agricultural Policy (BFAP), *BFAP Baseline 2026 Report*, August 2026.



Consumer food price inflation (September 2026 forecasts)

Percentage change over four quarters, March 2026 forecasts in brackets

	Actual					Forecast				
	Weight	2015–25	2025*	2026Q1	2026Q2	2026Q3	2026Q4	2026*	2027Q1	2027Q2
Food and non-alcoholic beverages	18.23	6.2	4.2	3.9	2.2	1.4	3.2	2.7	4.1	4.8
				(4.0)	(2.9)	(3.1)	(4.1)	(3.6)		
Cereal products.....	4.14	6.2	2.9	-0.3	-1.3	-1.8	-0.9	-1.1	1.8	3.6
				(-0.1)	(-0.1)	(1.2)	(2.7)	(0.9)		
Meat.....	5.10	6.3	6.9	12.4	7.3	1.8	2.8	6.1	3.2	6.0
				(12.7)	(9.9)	(5.4)	(5.8)	(8.3)		
Beef.....	1.15	7.4	17.7	26.0	6.0	-6.6	-4.8	5.2	-1.9	5.1
				(27.3)	(13.5)	(1.8)	(3.6)	(11.6)		
Poultry.....	1.90	6.4	1.7	4.8	6.0	5.4	5.6	5.5	6.4	6.8
				(4.7)	(6.4)	(5.9)	(6.0)	(5.7)		
Milk, other dairy products and eggs.....	1.83	5.7	-0.3	-0.6	0.9	2.2	3.2	1.4	3.6	2.2
				(-0.4)	(0.6)	(1.9)	(3.0)	(1.3)		

* Annual average percentage change

Sources: Stats SA and SARB

Core inflation

Core inflation rose to 3.9% in the second quarter of 2026, against the SARB's forecast of 3.3% in the April *MPR*, as services inflation climbed higher. Other underlying inflation measures, such as the trimmed mean, supercore and the persistent and common component of inflation, also increased over the review period.

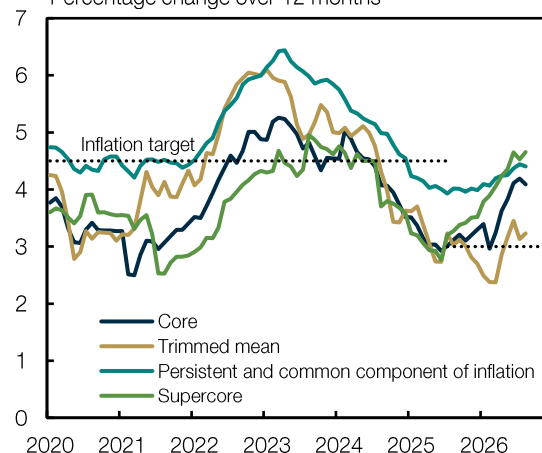
Services inflation breached 5% in June 2026, as transport services prices rose sharply on the back of the fuel-price shock. Some components may have faced demand-driven pressure (exemplified by higher supercore inflation): for instance, robust Western Cape housing demand has contributed to rising overall housing inflation.⁵⁷ Components such as medical insurance remain structurally above target, adding to persistence. The SARB forecasts services inflation to average 4.7% this year and to converge to target by the end of 2029.

Despite edging higher, core goods inflation averaged just 1.6% over the review period, remaining at multi-year lows. The stronger-than-expected rand exchange rate has helped offset some of the increases in transport and freight costs, protecting margins. Core goods prices also benefited from more competitive goods markets and affordable imports. Together, these factors have limited cost pass through (Box 1). The SARB expects core goods inflation to exceed the target in 2027 before returning to it in 2028.

⁵⁷ Other examples, from intelligence, include indications of high hotel occupancy rates and travel services to major cities like Cape Town, Johannesburg and Durban in the run up to the Middle East shock.

Underlying inflation

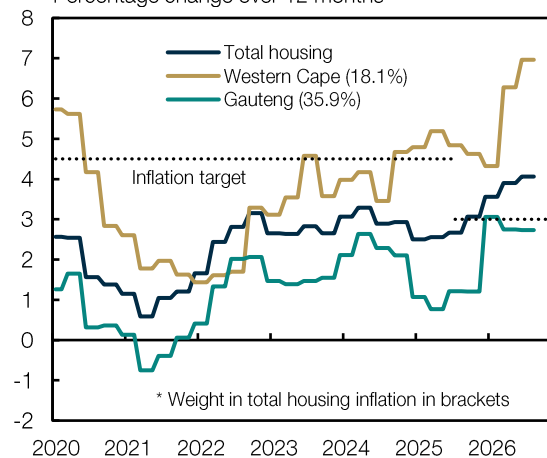
Percentage change over 12 months



Sources: Stats SA and SARB

Housing inflation in selected provinces*

Percentage change over 12 months



Sources: Stats SA and SARB



Headline inflation (September 2026 forecasts)

Percentage change over four quarters, March 2026 forecasts in brackets

	Weight	2015–25	Actual			Forecast				
			2025*	2026Q1	2026Q2	2026Q3	2026Q4	2026*	2027Q1	2027Q2
Headline inflation.....	100.00	4.8	3.2	3.2	4.5	4.5	5.4	4.4	5.3	3.9
				(3.2)	(4.0)	(3.7)	(3.9)	(3.7)		
Core inflation**.....	74.44	4.3	3.2	3.2	3.9	4.1	4.1	3.8	4.2	4.1
				(3.2)	(3.3)	(3.4)	(3.4)	(3.3)		
Rentals***.....	15.53	3.3	2.8	3.7	4.0	4.1	4.1	4.0	4.0	3.6
				(3.6)	(3.8)	(3.8)	(3.6)	(3.7)		
Insurance.....	8.41	6.9	7.8	5.5	5.9	5.9	5.8	5.8	5.7	5.8
				(5.6)	(5.0)	(5.0)	(5.0)	(5.1)		
Education.....	2.41	6.0	4.8	4.8	5.4	5.4	5.4	5.2	5.5	5.7
				(4.9)	(5.8)	(5.8)	(5.8)	(5.6)		
Vehicles.....	5.61	4.8	1.7	0.6	0.6	0.8	1.4	0.8	2.0	2.6
				(0.7)	(1.0)	(1.1)	(1.3)	(1.0)		
Fuel.....	3.89	5.0	-5.8	-7.5	24.7	22.4	40.0	19.7	31.7	-5.4
				(-7.5)	(18.3)	(9.8)	(9.4)	(7.4)		
Electricity.....	3.44	9.5	10.9	10.4	10.4	8.1	8.1	9.2	8.1	8.1
				(10.4)	(10.4)	(7.9)	(7.9)	(9.1)		

* Annual average percentage change

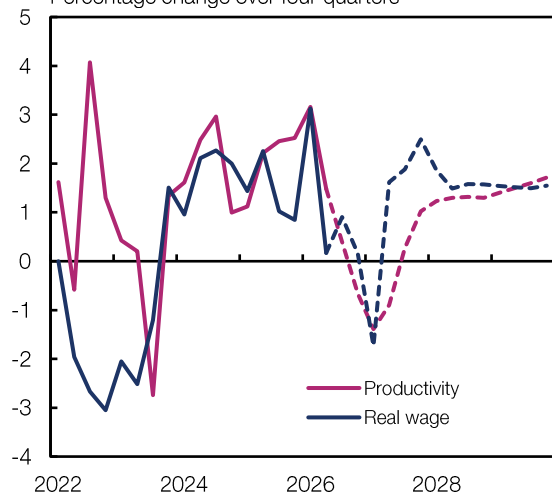
** CPI excluding food, non-alcoholic beverages, fuel and electricity

*** Combines actual rentals and owners' equivalent rent

Sources: Stats SA and SARB

Productivity and real wage growth

Percentage change over four quarters



Source: SARB

Medium-term inflation outlook

Medium-term inflation in the QPM is driven by inflation expectations, unit labour costs (ULCs), the output gap and the exchange rate.

After reaching all-time lows in the first quarter of this year, the BER's two-years-ahead surveyed inflation expectations picked up in the second quarter and stayed elevated in the third quarter, reflecting the salience of factors such as fuel prices in shaping agents' expectations. A key risk is that these high-profile shocks could de-anchor expectations, embedding the shock and making inflation more persistent as highlighted in the special chapter on second-round effects. However, early data indicates that expectations for some groups have risen less than during recent comparable shocks. This is consistent with new research which shows that inflation expectations have become better anchored over time.⁵⁸ The SARB projects inflation expectations to remain elevated this year, then ease gradually from 2027 and stabilise at target by 2029.

Expectations directly influence nominal wage dynamics which, along with the real ULC gap, drive wage inflation in the QPM.⁵⁹ The SARB expects some nominal wage pressures next year, given the tendency to index wages to past inflation. However,

⁵⁸ A Amaral, A Foresto and P Mosoma, 'Finding the anchor: an assessment of inflation expectations in South Africa', *SARB Working Paper Series*, forthcoming.

⁵⁹ The real ULC gap measures the deviation of real wages per worker from productivity-aligned levels, while nominal ULC growth determines the contribution of wage increases or productivity decreases to inflation.



real wage growth is expected to align with productivity gains beyond 2027, moderating inflation pressures. ULCs are projected at 4.4% this year and 5.4% next year before easing to target from the first quarter of 2028.

The output gap exerted broadly neutral inflationary pressures over the review period. However, the gap has widened slightly, reflecting slower near-term growth but is seen narrowing again in the outer years of the forecast as both real GDP and potential growth recover.⁶⁰

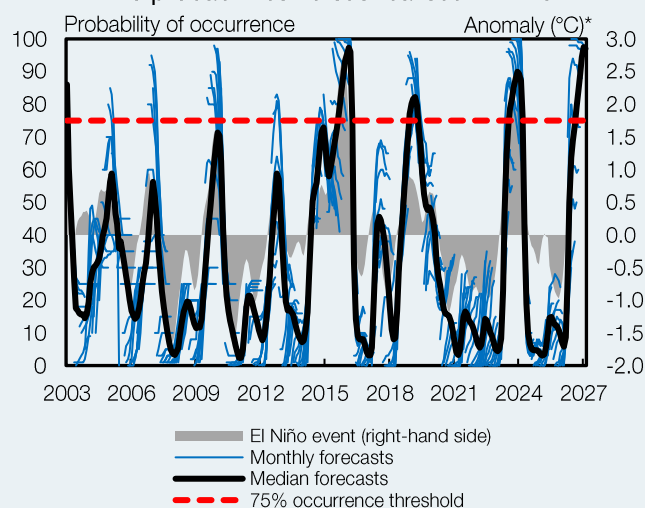
The rand affects import prices and firms' real costs. Since the 3% inflation target was adopted in 2025, the rand has strengthened against the US dollar. During the review period, it appreciated slightly from R16.33 per dollar at the March MPC meeting to R16.29 at the September meeting, easing import prices and cost pressures. This support should fade as the rand weakens towards its equilibrium level. It is projected to reach R17.42 per dollar by the fourth quarter of 2029. For now, stronger fundamentals and a positive real exchange rate gap are helping to lower inflation. However, higher global inflation and interest rates could widen rate differentials and renew pressure on the rand.

Conclusion

Headline inflation has risen and is expected to remain above the tolerance band's upper limit into 2027 before converging to target from late 2027. Pre-shock buffers and market dynamics have curbed cost pass through for now. However, uncertainty around the resolution of the conflicts in the Middle East and between Russia and Ukraine or their escalation, together with the increasing likelihood of a very severe El Niño, could lift inflation as well as inflation and wage expectations further. Similarly, a marked rand depreciation would raise imported inflation and increase exchange rate pass through, thereby adding to overall inflation. These risks could amplify one another and generate much larger inflation impacts. Risks are tilted to the upside.

⁶⁰ The output gap is expected to widen to around -0.4% in 2026 before narrowing steadily and closing by 2029.

El Niño probabilities versus realised El Niño

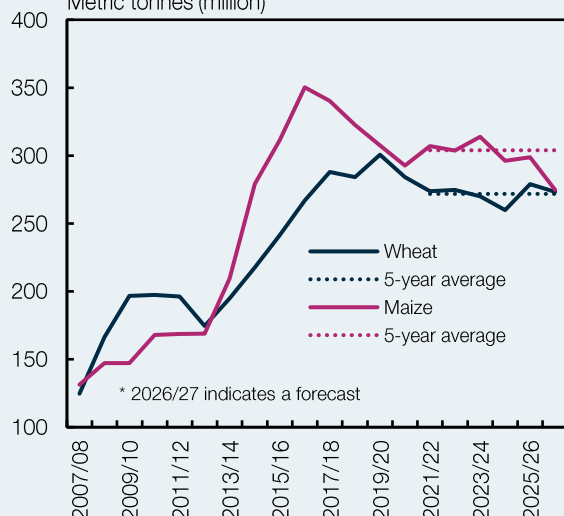


* The anomaly shows how far current ocean temperatures deviate from their normal levels. Positive values indicate El Niño conditions and negative values indicate La Niña conditions.

Sources: Golden Gate Weather Services and International Research Institute

Wheat and maize inventories*

Metric tonnes (million)



Source: United States Department of Agriculture

Box 7 Bracing for impact: El Niño and food prices

The prevalence of climate change-induced shifts in weather patterns presents ongoing risks to agricultural production and food prices. A severe El Niño event in 2026/27 is assessed as highly likely with odds above 75%.^{1,2} Poor harvests in key global producing regions for staples such as maize, wheat and rice as well as palm oil could drive food prices sharply higher.

The inflation impact of El Niño is expected to vary across commodities and regions, with the effects partly driven by inventory levels.³ Rice inventories remain above their five-year average, while wheat and sugar stocks are broadly aligned with historical norms. Maize inventories, by contrast, appear somewhat tight, providing less of a buffer in the event of a poor harvest. The price impact also depends on the realised weather outcomes, trade policy dynamics and underlying market conditions.⁴ Commodity export bans by major producers would worsen the price effects from El Niño.

While developments in global food markets are important for domestic food price dynamics, the pass through to domestic food inflation varies considerably depending on the rand exchange rate, domestic supply conditions and broader economic factors.⁵ The current conditions are broadly favourable. South Africa enters the 2026/27 season with substantial carry-over grain stocks, favourable soil moisture conditions and dams mostly near capacity. These advantageous initial conditions should mitigate against domestic supply shortages.

However, domestic prices for maize and wheat are heavily influenced by global dynamics through import and export parity pricing. Consequently, domestic supply adequacy does not guarantee lower domestic grain prices. In particular, South Africa has tended to be the breadbasket of the Southern African Development Community economies. Therefore, poor harvests in the region may exert upward pressure on domestic food prices.

SARB research suggests that a very strong El Niño will raise food and non-alcoholic beverages (NAB) inflation almost immediately (i.e. within the summer planting season), with the response peaking after around four months.⁶ The cumulative increase in food inflation over the following 12 months amounts to 2.5 percentage points, implying a direct contribution

¹ See International Research Institute for Climate and Society, *CCSR/IRI technical ENSO update and model-based probabilistic ENSO forecast*, June 2026.

² El Niño is associated with droughts in some parts of the world (e.g. Southern Africa) and excessive rains in others.

³ Maize risks are higher in Southern Africa but lower in parts of South America. Sugar, rice and palm oil face broader risks across major producing regions.

⁴ See A Mahlaka, T Maroga, P Mathuloe and N Nesengani, 'A policy framework for assessing El Niño-related global food inflation risks', *SARB Economic Note*, forthcoming.

⁵ See P Mathuloe and R Walter, 'Food prices after the crisis – improving the forecasts', *SARB Occasional Bulletin of Economic Notes* No. OBEN/20/01, February 2020.

⁶ The intensity of El Niño events is commonly categorised as weak, moderate, strong or very strong, depending on the magnitude of sea-surface temperature anomalies in the central Pacific Ocean. Using Jordà's (2005) local projection method, the effect of El Niño on monthly South African food inflation is estimated. Only very strong El Niño events have a significant effect on food inflation. See S Koopman, T Mabugu, S Sidat, F Mondalawa and A Khoza, 'Food price inflation during a super El Niño', *SARB Economic Note*, forthcoming.

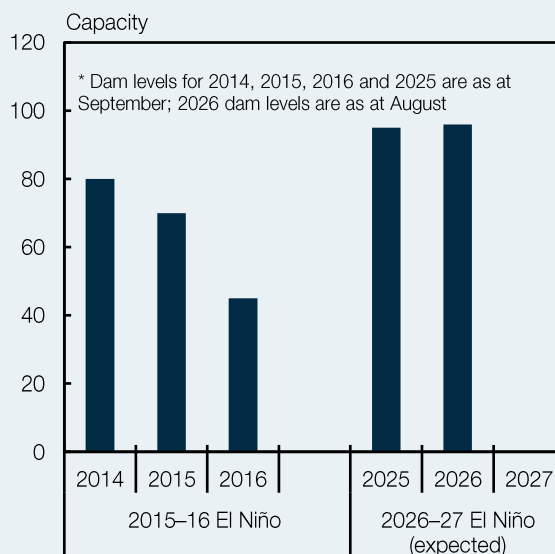


of approximately 0.5 percentage points to headline inflation given the weight of food and NAB in the consumer price index basket.⁷

At present, a very severe El Niño is not part of the SARB baseline forecast – thus it remains an upside risk. Additional risks to domestic food prices include possible lower crop plantings linked to reduced fertiliser use and stronger global food price inflation.

For monetary policy, the main concern is not the direct impact of El Niño on food prices, but whether higher food prices could generate second-round effects – worsening the Middle East conflict-induced inflation pressures.⁸

National dam levels*



Source: Department of Water and Sanitation

⁷ The effects differ across food categories. Cereal and vegetable prices respond quickly, while meat prices rise later as feed costs increase. This keeps food inflation high after the initial crop shock.

⁸ Simbanegavi and Palazzi found evidence of pass through of food and oil price shocks to core inflation in South Africa. See W Simbanegavi and A L Palazzi, 'Mind second round effects! The effects of food and energy inflation on core inflation in South Africa', Occasional Bulletin of Economic Notes No. OBEN 2301, June 2022.



Glossary

Advanced economies: Advanced economies are countries with high gross domestic product (GDP) per capita, diversified exports and close integration into the global financial system.

Balance of payments: This is a record of transactions between the home country and the rest of the world over a specific period of time. It includes the current and financial accounts. See also 'Current account' below.

Brent crude: Brent crude is a light and sweet blend of oil from five different fields in the North Sea. The price of Brent crude is one of the benchmark oil prices in international markets.

Budget deficit: A budget deficit indicates the extent to which government expenditure exceeds government revenue.

Business and consumer confidence: These are economic indicators that measure the level of optimism about the economy and its prospects among business managers and consumers.

Commodities: Commodities can refer to energy, agriculture, metals and minerals. Major South African-produced commodities include platinum and gold.

Consumer price index (CPI): The CPI provides an indication of aggregate price changes in the domestic economy. The index is calculated using a number of categories forming a representative set of goods and services bought by consumers.

Core inflation: Core inflation generally refers to underlying inflation, excluding the volatile elements (e.g. food and energy prices). The SARB's forecasts and discussions refer to headline CPI excluding food, non-alcoholic beverages (NAB), fuel and electricity prices.

Crude oil price: This is the United States (US) dollar price per barrel of unrefined oil. See also 'Brent crude' above.

Current account: The current account of the balance of payments consists of net exports (exports less imports) in the trade account as well as the services, income and current transfers.

Emerging markets: Emerging markets are countries with low to middle income per capita. They are advancing rapidly and are integrating with global (product and capital) markets.

Exchange rate depreciation (appreciation): Exchange rate depreciation (appreciation) refers to a decrease (increase) in the value of a currency relative to another currency.

Exchange rate pass-through: This is the effect of exchange rate changes on domestic inflation (i.e. the percentage change in domestic CPI due to a change in the exchange rate). Changes in the exchange rate affect import prices, which in turn affect domestic consumer prices and inflation.

Forecast horizon: This is the future period over which the SARB generates its forecasts, typically between two and three years.

Gross domestic product (GDP): GDP is the total market value of all the goods and services produced in a country. It includes total consumption expenditure, capital formation, government consumption expenditure and the value of exports less the value of imports.

Gross fixed capital formation (investment): The value of acquisitions of capital goods (e.g. machinery, equipment and buildings) by firms, adjusted for disposals, constitutes gross fixed capital formation.

Headline consumer price index (CPI): Headline CPI refers to CPI for all urban areas, as measured on a monthly basis by Statistics South Africa (Stats SA). Headline CPI is a measure of price levels in all urban areas. The 12-month percentage change in headline CPI is referred to as 'headline CPI inflation' and reflects changes in the cost of living. This is the official inflation measure for South Africa.

Household consumption: This is the amount of money spent by households on consumer goods and services.

Inflation (growth) outlook: This outlook refers to the evolution of future inflation (growth) over the forecast horizon.

Inflation targeting: This is a monetary policy framework used by central banks to steer actual inflation towards an inflation target level or range.

Monetary policy normalisation: This refers to the unwinding of an unusually accommodative monetary policy. It could also mean adjusting the economy's policy rate towards its real neutral policy rate.

Neutral real interest rate (NRIR): The NRIR is the level at which the real interest rate will settle once the output gap is closed and inflation is stable.

Output gap/potential growth: Potential growth is the rate of GDP growth that could theoretically be achieved if all the productive assets in the economy were employed in a stable inflation environment. The output gap is the



difference between actual growth and potential growth, which accumulates over time. If this is negative, then the economy is viewed to be underperforming and demand pressures on inflation are low. If the output gap is positive, the economy is viewed to be overheating, and demand pressures are inflationary.

Policy rate: A policy rate is the interest rate used by a central bank to implement monetary policy.

Productivity: Productivity indicates the amount of goods and services produced in relation to the resources utilised in the form of labour and capital.

Terms of trade: This refers to the ratio of export prices to import prices.

Unit labour cost (ULC): A ULC is the labour cost to produce one 'unit' of output. This is calculated as the total wages and salaries in the non-agricultural sector divided by the real value added at basic prices in the non-agricultural sector of the economy.

Abbreviations

AI	artificial intelligence
BER	Bureau for Economic Research
BFAP	Bureau for Food and Agricultural Policy
BFP	basic fuel price
BIS	Bank for International Settlements
BLSA	Business Leadership South Africa
BoE	Bank of England
BoJ	Bank of Japan
BRL	Brazilian real
CEF	Central Energy Fund
CID	Center for International Development
CIT	corporate income tax
COP	Colombian peso
CPI	consumer price index
DXY	US dollar index
ECB	European Central Bank
<i>EN</i>	<i>Economic Note</i>
EUR	euro
EMBI+	Emerging Market Bonds Index plus
Fed	Federal Reserve (United States)
FX	foreign exchange
GBP	British pound sterling
GDE	gross domestic expenditure
GDP	gross domestic product
GFC	global financial crisis
GFL	general fuel levy
IEA	International Energy Agency
IMF	International Monetary Fund
JPY	Japanese yen
MPC	Monetary Policy Committee (South African Reserve Bank)
<i>MPR</i>	<i>Monetary Policy Review</i>
MXN	Mexican peso
NAB	non-alcoholic beverages
NYMEX	New York Mercantile Exchange
<i>OBEN</i>	<i>Occasional Bulletin of Economic Notes</i>
OPEC	Organisation of the Petroleum Exporting Countries
PCCI	persistent and common component of inflation
PGM	platinum group metal



PIT	personal income tax
PMI	Purchasing Managers' Index
QPM	Quarterly Projection Model
RBA	Reserve Bank of Australia
S&P	Standard & Poor's
SA	South Africa
SARB	South African Reserve Bank
SIT	services, income and transfers
SOE	state-owned enterprise
Stats SA	Statistics South Africa
SVAR	structural vector autoregression model
TRY	Turkish lira
UK	United Kingdom
ULC	unit labour cost
UN FAO	United Nations Food and Agriculture Organisation
US	United States
VAT	value-added tax
WEO	<i>World Economic Outlook</i>
ZAR	South African rand



