

Big win for the South African Reserve Bank



Inflation is expected to decline to 3.0% in 2026, aligning with the new inflation target that the South African Reserve Bank (SARB) has been working towards.

The SARB, led by Governor Lesetja Kganyago, pushed for a lowering of the inflation target by the National Treasury.

While the SARB aims to hit the inflation target via monetary policy, the Minister of Finance actually sets the target.

The SARB previously said that the 3% to 6% target band, which included a 4.5% midpoint target, was too large and made South Africa uncompetitive with its largest trading partners.

It also argued that a lowering of the inflation target would eventually result in lower interest rates, which would boost the economy.

After lengthy negotiations, Finance Minister Enoch Godongwana decided to lower the inflation target to 3% in his Medium-Term Budget Policy Statement.

The new target allows for fluctuations of up to 1 percentage point, accommodating normal economic fluctuations.

While the latest inflation figure for November 2025 stood at 3.5%, inflation is expected to remain subdued, reaching 3.0% by February.

Investec Chief Economist Annabel Bishop said that December 2025 is expected to see a similar rate, on lower international food prices and slightly elevated fuel costs.

In addition to the stronger rand, the ample rains in 2025 have positively moderated food price inflation, resulting in some food prices declining.

The moderation in maize and soybean prices also benefited the meat industry, especially poultry.

Although foot-and-mouth disease impacted many other meats, 2026 should see vaccinations reduce the spread.

For January, Bishop said that CPI is likely to benefit from a fuel price cut of over 60 cents per litre.

The moderate nature of food price inflation is expected to persist after the festive period, but the start of the year costs should keep it near current levels.

Bishop noted that the usual increase in sin taxes in the budget will place upward pressure on inflation in Q1 2025, while salary and wage increases have not moderated to the new inflation target of 3.0%.

Nevertheless, Investec's forecasts predict that inflation will decline to 3.0% in February 2026, reaching as low as 2.7% by July.

Date	Annual y/y (%)	Monthly m/m (%)	Quarterly y/y (%)
Nov 2025	3.5	-0.1	
Dec 2025	3.4	0.0	3.5
Jan 2026	3.3	0.2	
Feb 2026	3.0	0.6	
Mar 2026	3.0	0.4	3.1
Apr 2026	2.9	0.2	
May 2026	2.8	0.1	
Jun 2026	2.8	0.3	2.8
Jul 2026	2.7	0.8	
Aug 2026	3.0	0.2	
Sep 2026	2.9	0.1	2.9
Oct 2026	3.1	0.3	
Nov 2026	3.6	0.3	
Dec 2026	3.7	0.1	3.5

Investec's CPI Forecasts

Interest rate cuts incoming

While inflation remains within its new target band, the SARB is expected to cut interest rates over the coming year.

The SARB cut interest rates by 25 basis points in November 2025, bringing the repo rate to 6.75%. It had cut interest rates by a cumulative 125 basis points since September 2024.

With inflation at acceptable levels, Standard Bank expects the SARB to deliver another 50 basis points worth of cuts by the end of 2026.

“This sustained easing cycle creates a more favourable backdrop for wealth building,” it said.

“Lower borrowing costs reduce the expense of credit, while shifts in relative valuations across bonds, property, and other rate-sensitive assets open up tactical opportunities for portfolio positioning.”

The SARB predicts a 75-basis-point decline in the repo rate over the next 15 months, with the repo rate expected to stand at 6.0% by March 2027.

The prime lending rate currently stands at 10.25%, which would drop to 9.5% by March 2027 if the SARB's expectations are met.