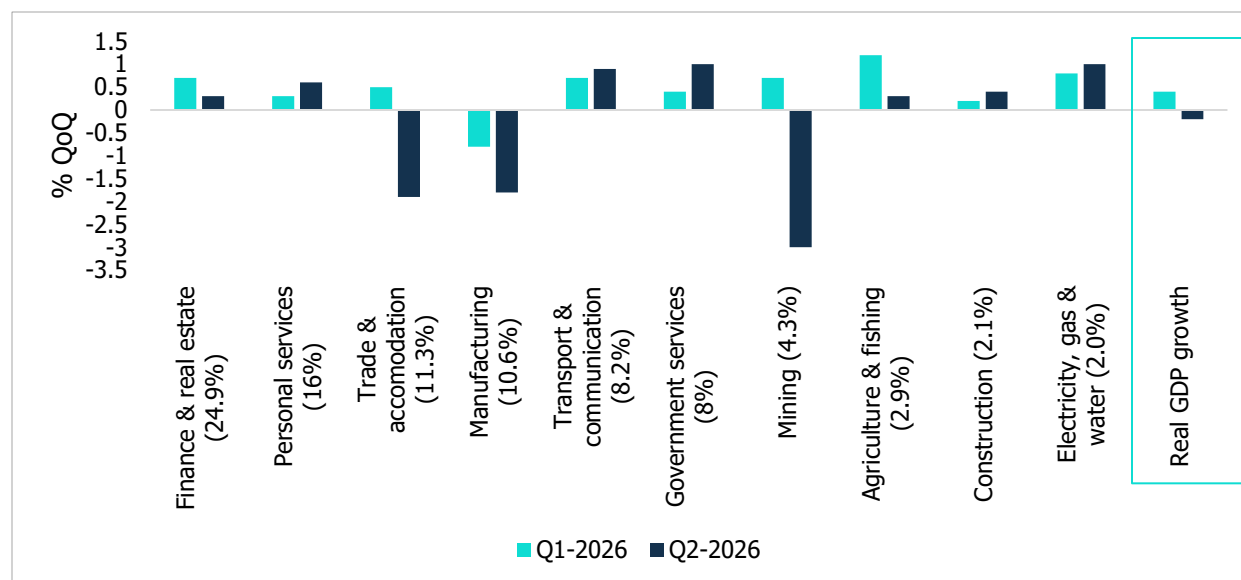


GDP contracts in Q2 2026

The South African economy contracted by 0.2% QoQ in Q2 2026, following growth of 0.4% in Q1 2026 (revised from the initial 0.5% estimate). The contraction marked the first decline after six consecutive quarters of growth and was driven by weaker activity in the trade, manufacturing and mining sectors.

GVA growth rates (seasonally adjusted)



Source: Statistics South Africa

Note: Sectoral contribution to GDP in parentheses

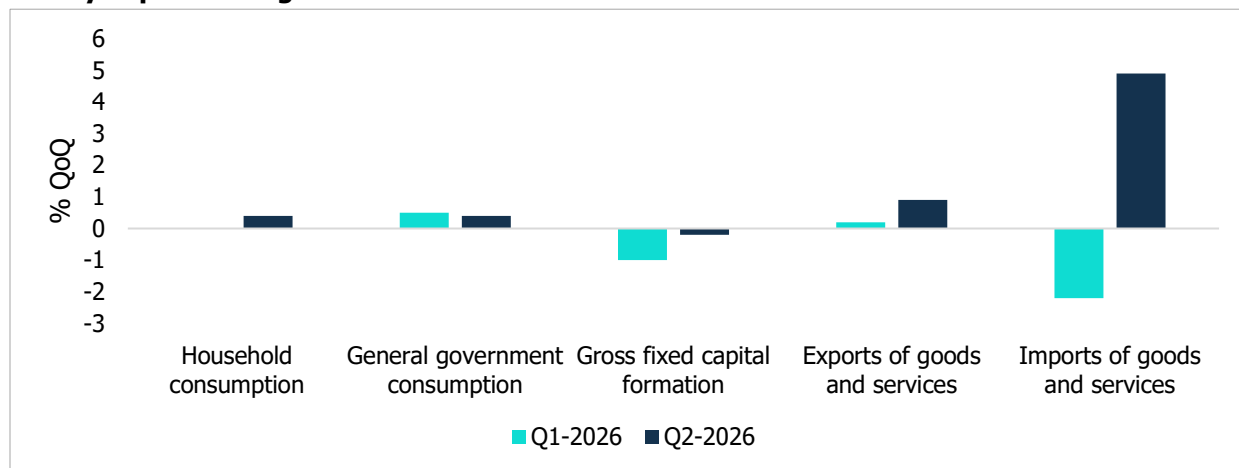
Mining activity contracted by 3.0% QoQ, reflecting lower production of platinum group metals (PGMs), manganese ore, gold and iron ore. The trade and accommodation sector contracted by 1.9%, reflecting softer wholesale trade, motor trade and food & beverages activity, though retail and accommodation remained comparatively resilient. Manufacturing recorded a third consecutive quarterly decline, with seven of ten divisions in negative territory, with food & beverages, furniture and other manufacturing, and basic iron & steel, non-ferrous metals, metal products and machinery being the largest negative contributors.

On the other hand, transport, storage and communication grew by 0.9%, supported by stronger land transport activity. Construction expanded for a second consecutive quarter on higher residential and non-residential building activity, while agriculture recorded another increase, supported by higher production of horticultural products and field crops. However, the momentum in these sectors was not enough to lift the headline growth figure into positive territory.

On the expenditure side, imports rose sharply by 4.9%, largely reflecting higher trade in machinery & electrical equipment and mineral products, which outpaced a 0.9% increase in exports led by pearls, precious & semi-precious stones and precious metals. Gross fixed capital formation contracted for a second consecutive quarter, with construction works and transport equipment the largest negative contributors.

This follows the scaling back of investment by public corporations and private business enterprises. On the other hand, general government spending increased slightly by 0.4%, the same as household consumption. Within the latter category, the strongest increases were recorded for food & non-alcoholic beverages, alcoholic beverages, and restaurants & hotels, broadly consistent with firmer retail trade and accommodation observed on the production side.

GDP by expenditure growth



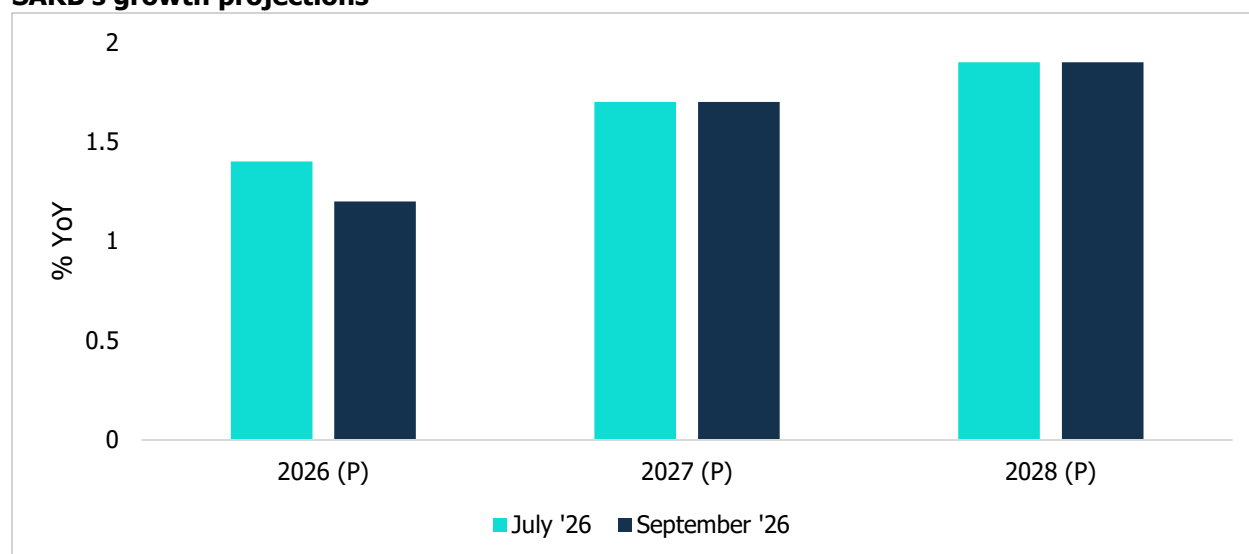
Source: Statistics South Africa

Overall, the Q2 contraction ended six consecutive quarters of growth, the longest uninterrupted growth streak in almost a decade. Nevertheless, 2026 GDP growth is still expected to reach around 1.2% in 2026, with a recovery anticipated in the second half of the year as cost pressures that weighed on Q2 growth are expected to ease.

The growth projections for 2026 of Statistics South Africa are in line with those of the South African Reserve Bank (SARB). At its September 2026 Monetary Policy Committee (MPC) meeting, the SARB lowered its growth projections to 1.2% for 2026, 1.7% in 2027 and 1.9% in 2028, compared with July's projections of 1.4%, 1.7% and 1.9%, respectively, while holding the medium-term outlook steady at around 2%. The downward revisions reflect a combination of heightened global uncertainty and reduced disposable incomes following escalated tensions in the Middle East. Higher oil prices, elevated inflationary pressures, and weaker global growth are expected to continue to weigh on household consumption and investment activity, which previously drove South Africa's recovery.

At the same time, tighter global monetary conditions and higher long-term interest rates are adding to external pressures. In response, more central banks are raising rates, including the European Central Bank, the Bank of Japan and the US Federal Reserve (Fed), which hiked last week for the first time in three years, while longer-term interest rates also moved higher, reaching multi-decade highs on the back of a large fiscal deficit, inflation risk and heavy borrowing tied to artificial intelligence (AI) infrastructure investments.

SARB's growth projections



Source: SARB

Headline inflation edges higher in August

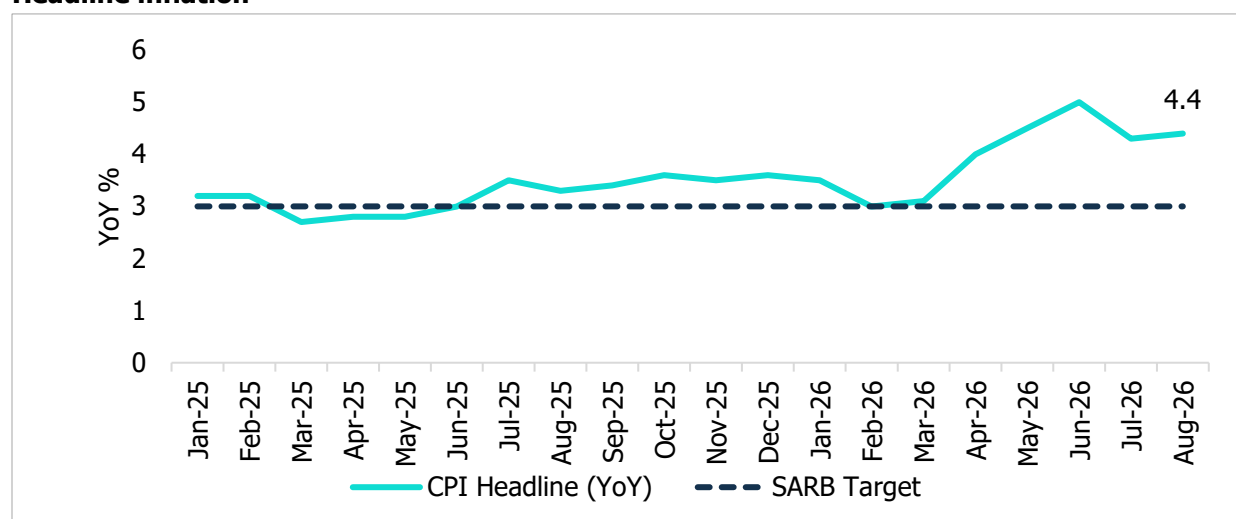
South Africa's headline inflation increased marginally to 4.4% YoY in August 2026 from 4.3% in July 2026. The marginal increase was driven by changes in residual components, while price pressures across the major expenditure categories were broadly contained.

Transport contributed 1.2 percentage points (pp) to headline inflation, driven by fuel prices, which increased by 20% YoY, reflecting the pass-through of higher global oil prices to domestic fuel costs. Housing and utilities inflation remained elevated at 5.2%, contributing a further 1.3 pp, while Insurance and financial services inflation remained elevated at 5.7%, contributing 0.6 pp to overall inflation.

Food and non-alcoholic beverages inflation remained one of the lowest-contributing categories at 1.1% YoY, with strong crop production helping to keep food price pressures contained, notwithstanding the risk of an anticipated El Nino event later in the year. Core inflation, which excludes food, non-alcoholic beverages, fuel and energy, eased to 4.1% in August from 4.2% in July, coming in slightly below expectations and suggesting that underlying, broad-based price pressures remain relatively moderate even as the headline rate edges higher.

Inflation is expected to remain above SARB's target of 3% in the near term, with the outlook still hinging on developments in global oil markets and the durability of the Middle East ceasefire.

Headline inflation



Source: Statistics South Africa

SARB raises repo rate to 7.25% as fuel-driven inflation risks mount

The MPC raised the repo rate by 25 basis points to 7.25%, effective 25 September 2026, in a unanimous decision. The decision reflects a re-intensification of fuel price pressures after a brief easing between June and August, with global interest rates also continuing to move higher. The rate hike action also highlights the growing concern over inflation risks and elevated global uncertainty.

SARB's inflation projections

Scenarios	2026	2027	2028	2029
Baseline	Above 5%	4.0	3.2	3.0
Scenario 1		4.6	3.8	3.3
Scenario 2		4.8	4.1	3.7

Source: SARB

Headline inflation is now expected to average above 5% later this year and into early next year, peaking at 5.7% in November 2026, before gradually easing back towards the 3% target by the end of 2027. The upward revision reflects a sharp increase in the SARB's Brent crude oil assumptions – to USD 90.9/bbl in Q3 2026 and USD 95.1/bbl in Q4 2026, up from USD 78.5 and USD 75, respectively, at the July meeting – with a more cautious rand path, alongside looming second-round effects. In contrast, the SARB flagged more favourable trends in food and core goods prices, with food inflation now at its lowest level since 2010, though services inflation remains elevated and inflation expectations still above target.

The MPC's alternative scenarios suggest that a larger-than-expected rise in global interest rates, or a further deterioration in inflation expectations and wage growth, could weaken the rand and push inflation higher, requiring a more restrictive policy stance than the baseline currently implies. Consequently, the SARB

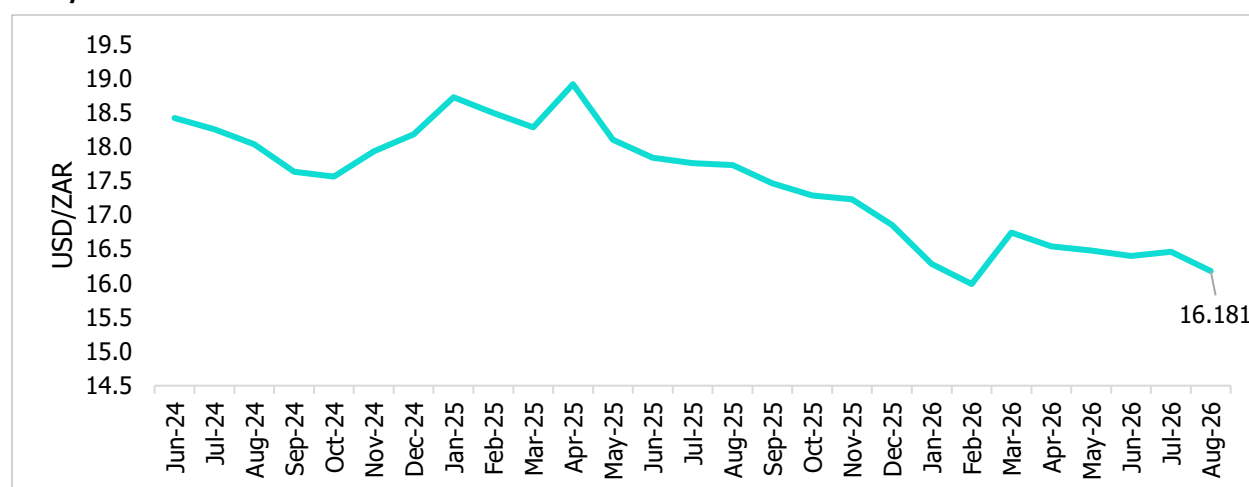
indicated that future policy decisions will remain highly dependent on developments in global energy markets, inflation expectations, and the broader geopolitical environment.

Looking ahead, risks to growth and inflation will be skewed by developments in global energy markets and geopolitical conditions. While the SARB's own model points to a broadly stable policy rate for the remainder of 2026 with gradual cuts thereafter, elevated oil prices, rising costs and a difficult global backdrop are expected to weigh on economic activity in the coming quarters. Resultantly, the SARB is likely to maintain a cautious and data-dependent approach to monetary policy, with inflation developments remaining the key determinant of future interest rate decisions.

Rand strengthens further in August 2026

Between March and August 2026, the South African rand appreciated by 3.4% against the US dollar. In August alone, the rand strengthened by 1.7% month-on-month, averaging ZAR 16.181/USD compared with ZAR 16.461/USD in July, extending its recovery despite a weaker domestic growth backdrop.

USD/ZAR movement



Source: Haver Analytics

The rand's gains in August were driven by external rather than domestic factors, including a broadly weaker US Dollar, firmer gold prices, and supportive portfolio flows, with foreign investors recording their strongest weekly net purchases of South African government bonds since January during the first week of August. South Africa's relatively high interest rate differential also continued to support the currency, helping offset the drag from the Q2 2026 GDP contraction and ongoing uncertainty around the SARB's policy path. However, the external backdrop has since become less supportive following the US Fed's 25-basis-point rate increase in September, which has provided renewed support to the dollar and could temper further rand appreciation.

While the stronger currency provides some relief on the import bill and inflation outlook, the rand remains vulnerable to shifts in global risk appetite and US monetary policy expectations. Renewed dollar strength, a pullback in gold prices, or a reassessment of the US Fed's policy could quickly reverse recent gains.

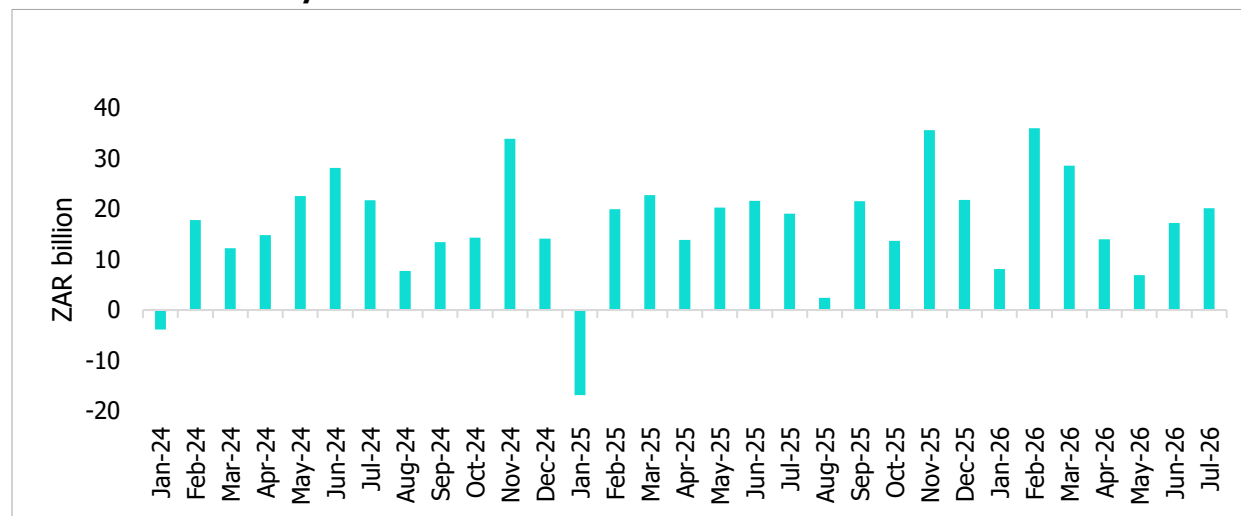
Trade surplus widens to ZAR 20.1 billion in July 2026

South Africa's trade balance strengthened in July, recording a preliminary trade surplus of ZAR 20.1 billion, compared with a revised surplus of ZAR 17.2 billion in June, supported by higher exports and lower imports. Exports grew by 5.8% YoY to ZAR 194 billion, supported by an increase in machinery and electronics, mineral products and vegetable products. Imports also increased by 5.8% YoY to ZAR 173.8 billion, reflecting higher importation of vehicles and transport equipment, chemical products and original equipment components.

On a cumulative basis, exports increased 8.1% YoY to ZAR 1.3 trillion, while imports increased 6.0% to ZAR 1.2 trillion over January-July 2026. While South Africa maintained a cumulative trade surplus, the decrease in mineral products imports in July helped widen the surplus, underscoring resilient export performance despite ongoing global uncertainty.

The trade balance remains vulnerable to rising petroleum import costs and exchange rate volatility, which are expected to place renewed upward pressure on imports and limit the scope for a sustained widening in the surplus in the months ahead. This comes as domestic fuel prices were set to rise sharply following higher international oil prices, a dynamic that could weigh on the import bill and narrow the surplus again in the coming months.

South Africa's monthly trade balance



Source: South African Revenue Service

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