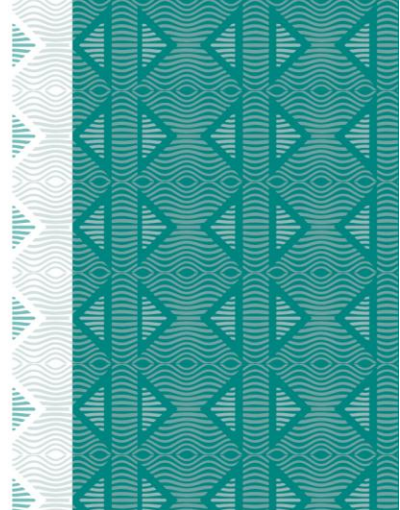


MONETARY POLICY REVIEW

6 October 2026



SOUTH AFRICAN RESERVE BANK



Staying the course

South African Reserve Bank
Monetary Policy Forum



Summary

- Global inflation rising again; major CBs tightening while response less synchronised in EMs
- Global growth resilient, thanks to AI-related activity & valuations
- SA growth shaken but not derailed; risks are tilted to the downside
- Inflation has risen and is broadening as shock persists...
- Risk of large second-round effects increasing, prompted SARB to raise policy rate

The Middle East conflict shock has put inflation back in the spotlight

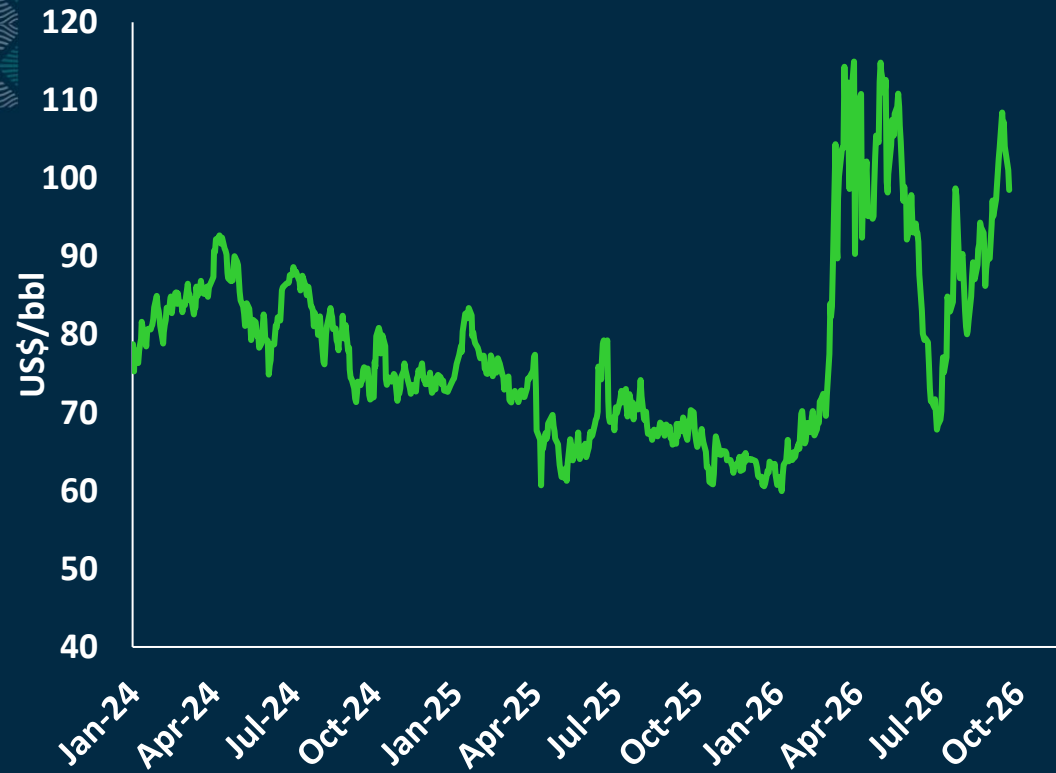
Global headline inflation



Sources: Bloomberg and IMF

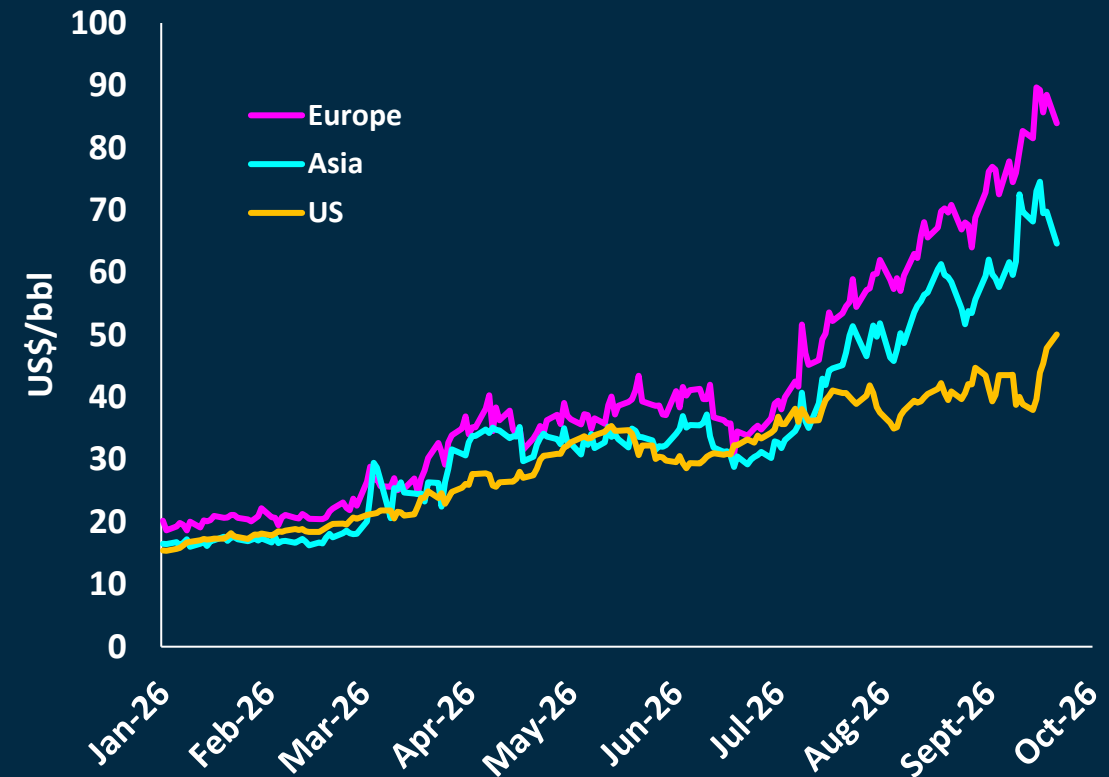
Oil prices & refinery margins have increased markedly since March & stayed elevated

Brent crude oil



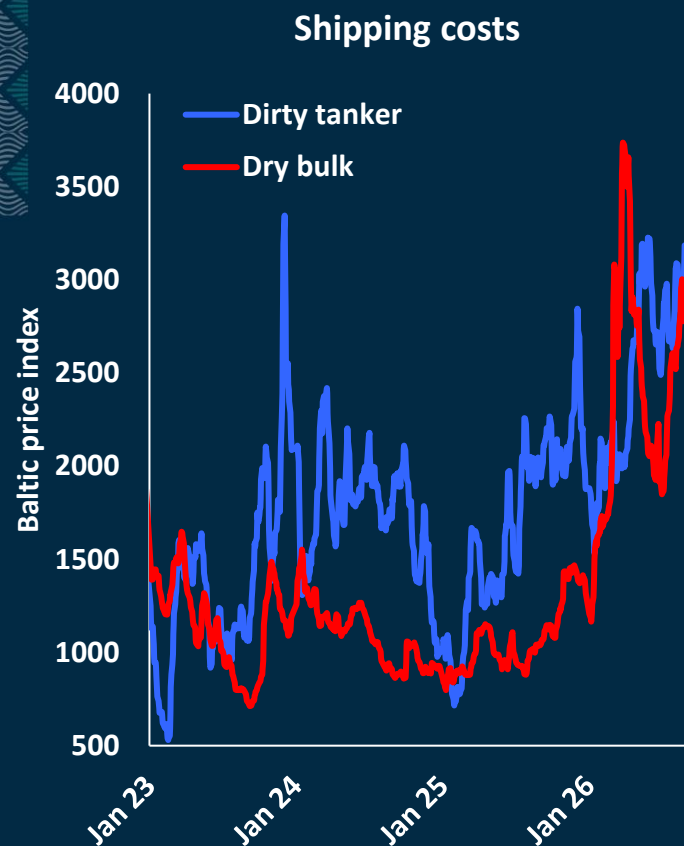
Source: SARB

Selected product crack spreads

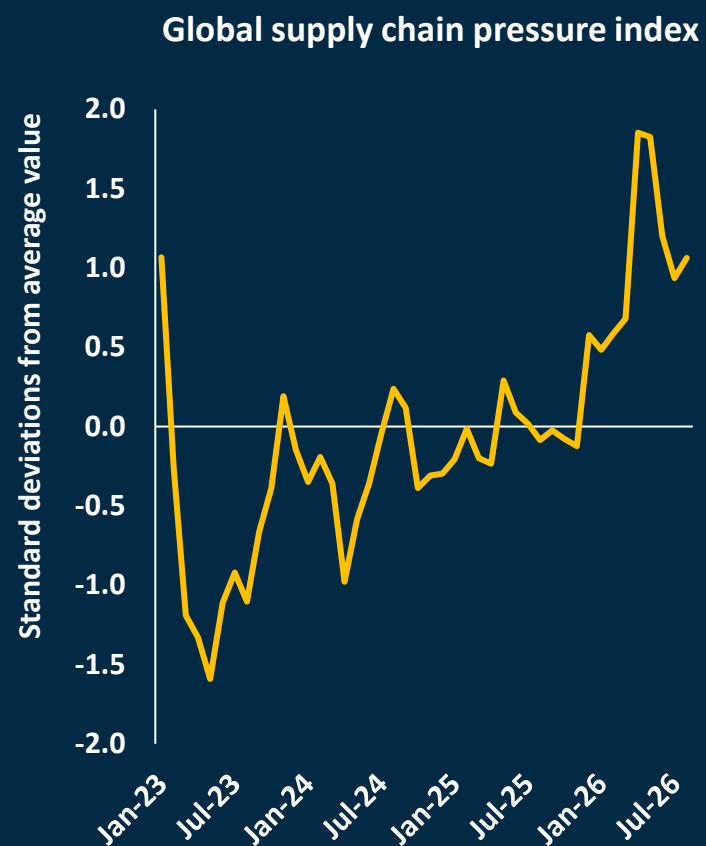


Sources: Bloomberg and SARB

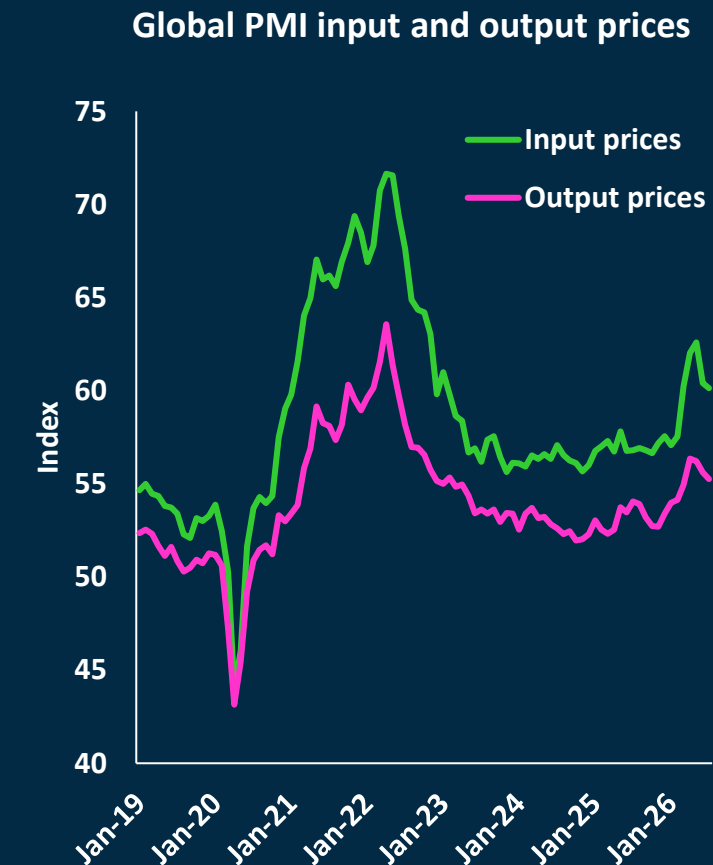
Shipping costs have risen sharply and supply-chains disrupted, raising supply costs



Source: Reuters



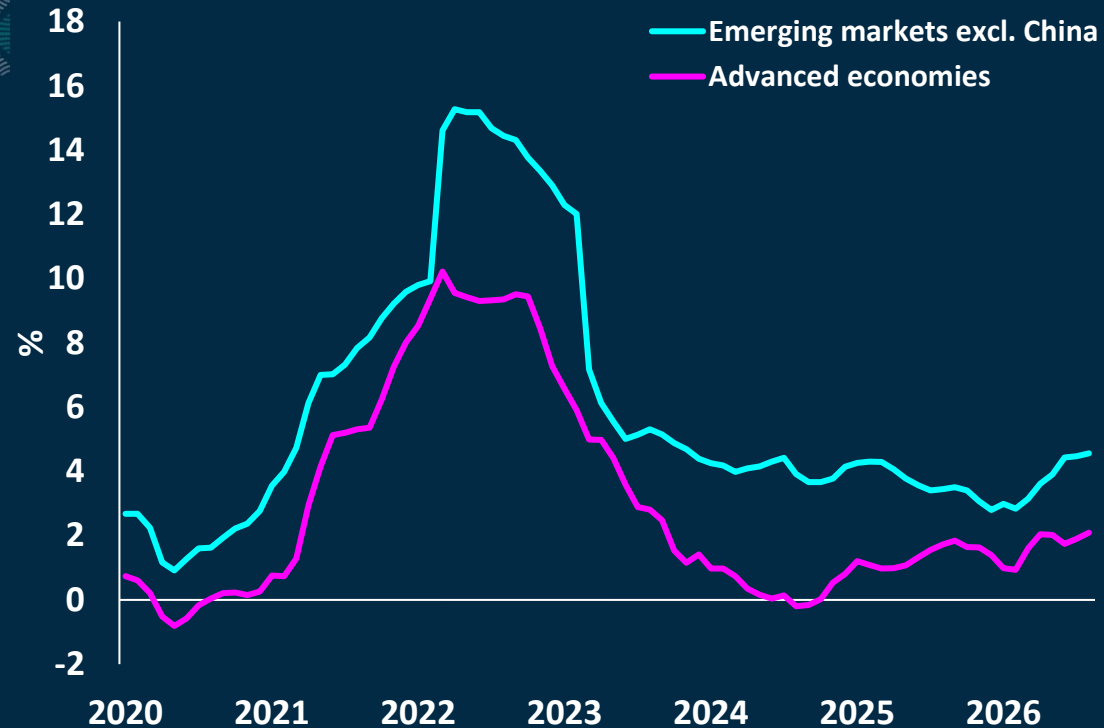
Source: Federal Reserve Bank of New York



Source: JP Morgan

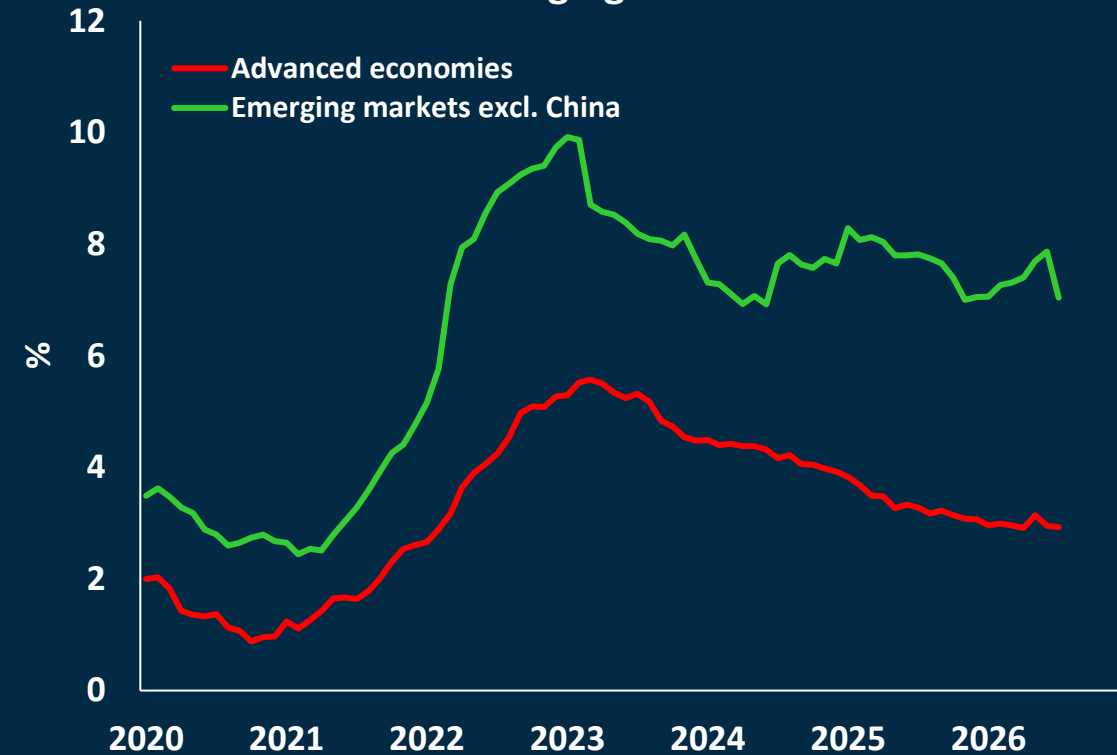
...lifting goods prices (but shock yet to transmit to services)

Goods inflation in advanced economies and emerging markets



Sources: Haver and SARB

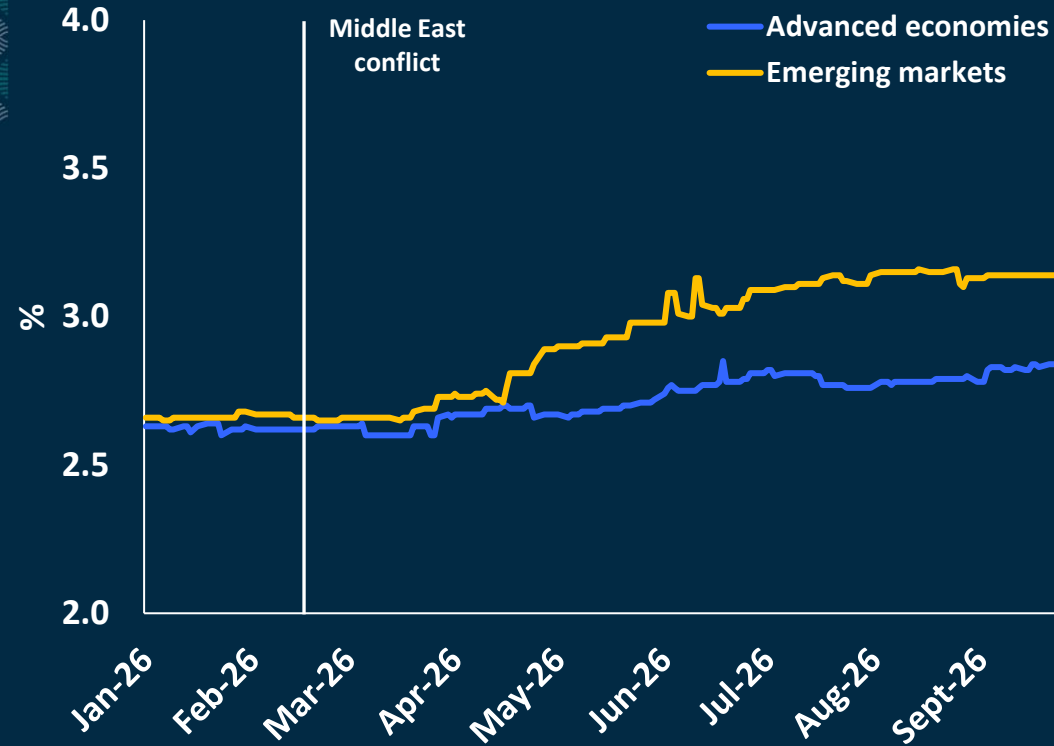
Services inflation in advanced economies and emerging markets



Sources: Haver and SARB

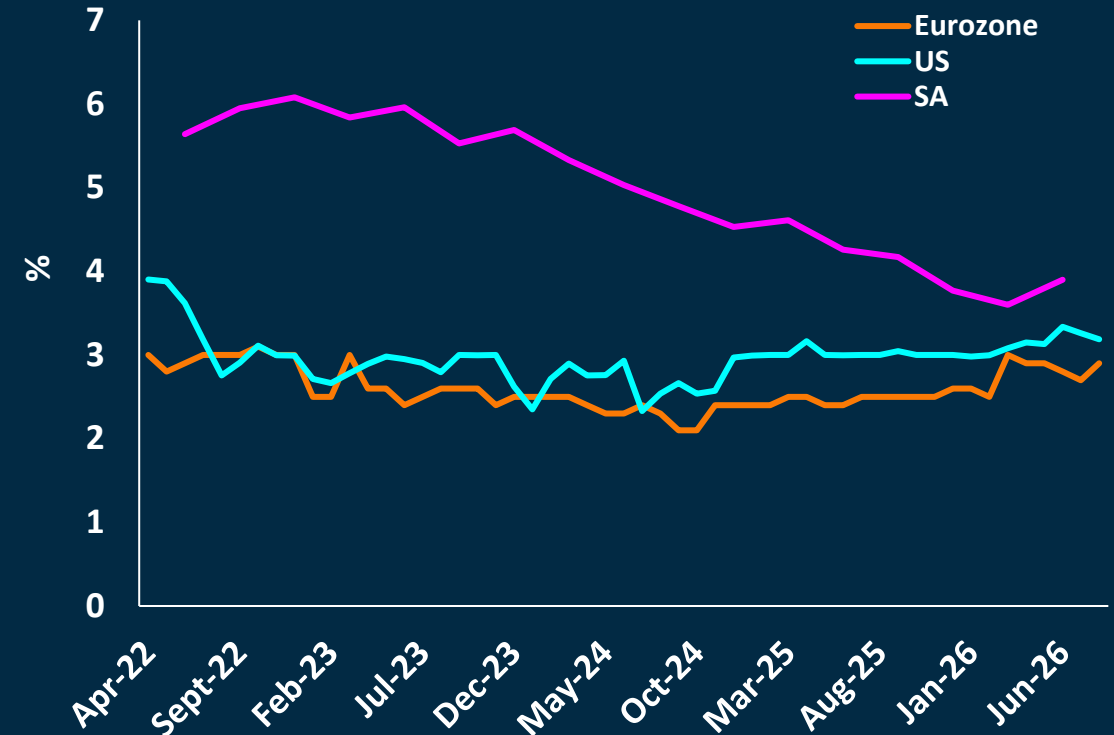
Prolonged shock raises the risk of deanchored expectations, persistent inflation

Evolution of headline inflation forecasts for 2027



Source: Bloomberg consensus

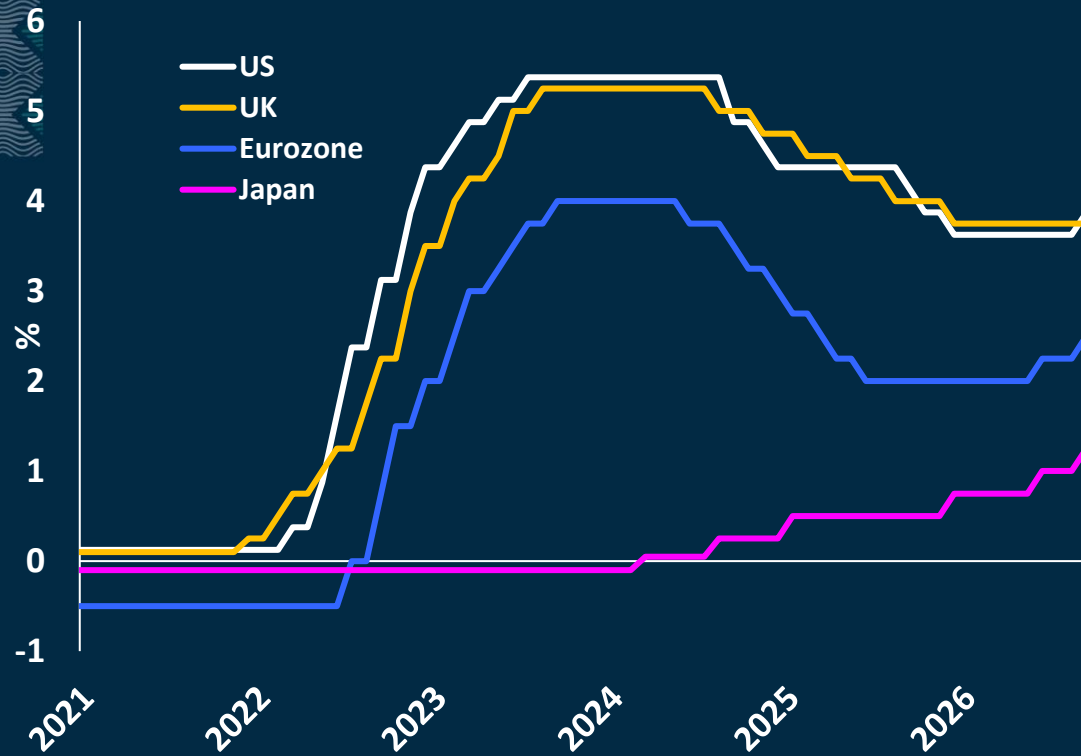
Inflation expectations*



* Three years ahead for Eurozone and US. Two years ahead for SA
Source: Haver

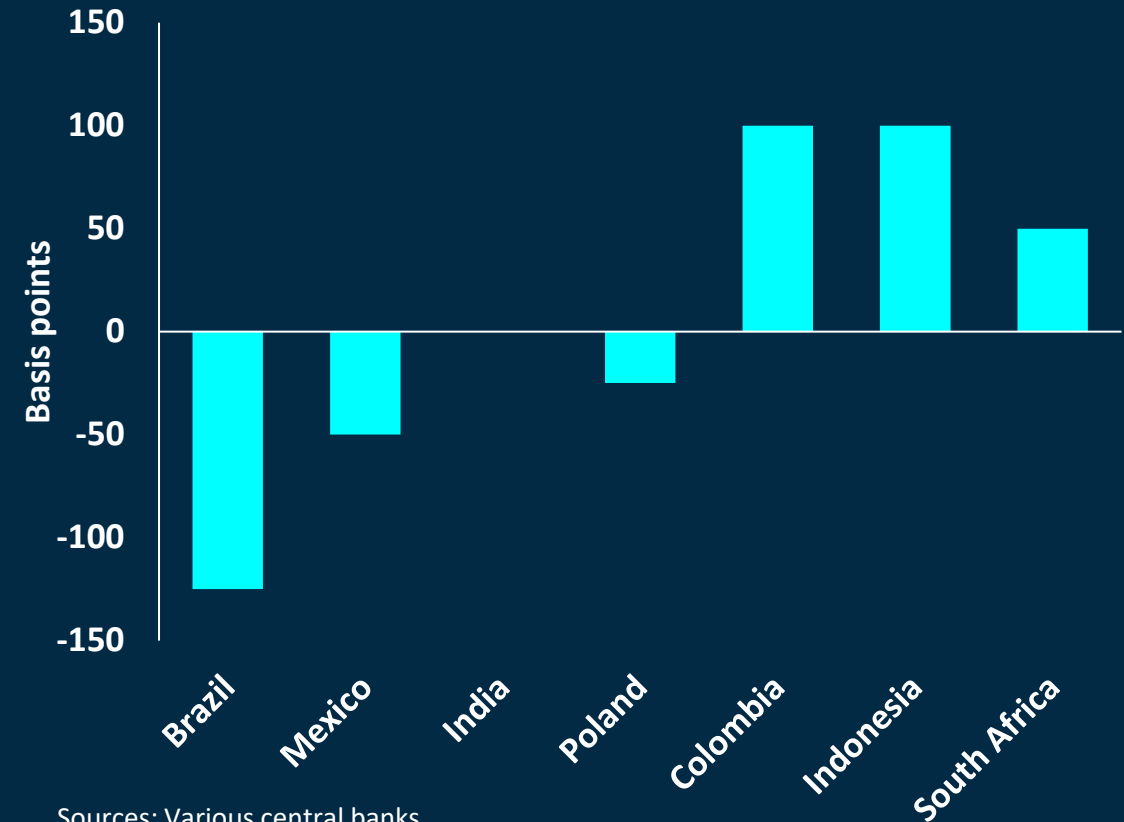
Major CBs have synchronised around a tightening bias

Policy rates in advanced economies



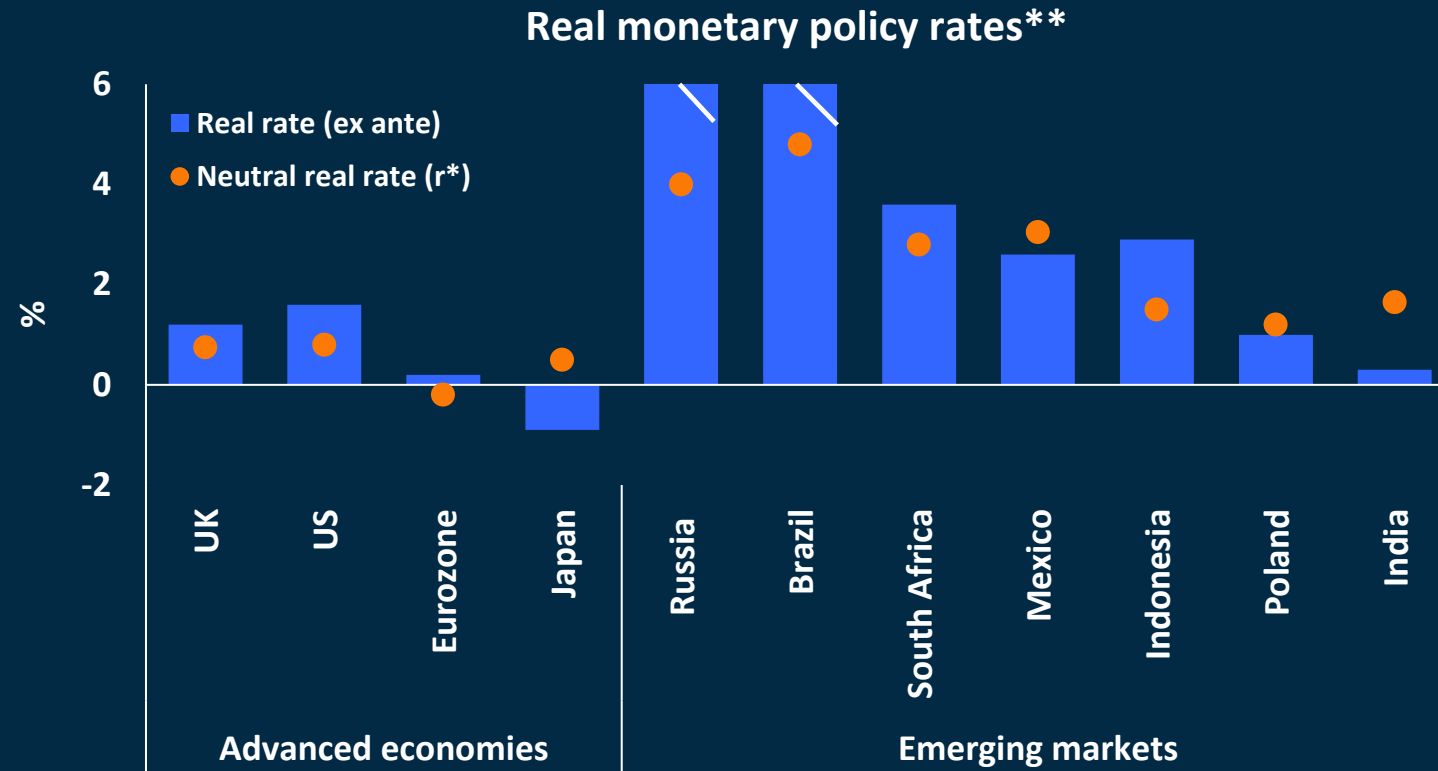
Sources: Bloomberg Consensus and central banks

Change in policy rates since Feb 2026



Sources: Various central banks

With few exceptions, policy marginally restrictive to neutral

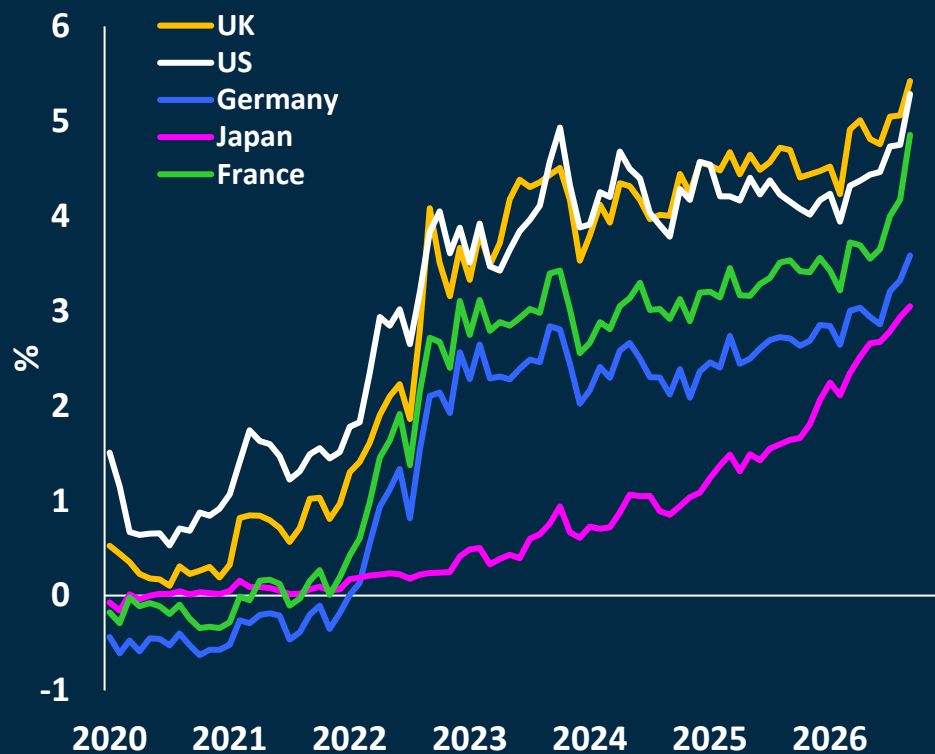


** Real rates (ex ante) calculated as current nominal policy rate *less* headline CPI forecast for 2027Q4

Sources: Bloomberg, central banks and SARB

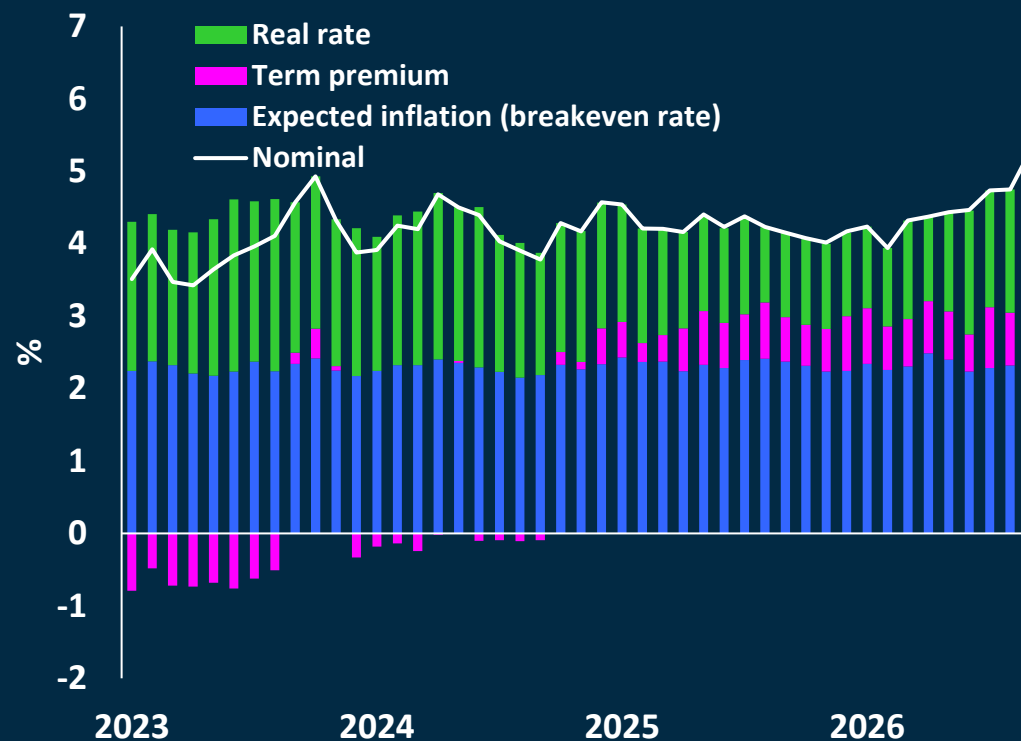
Yields at record highs in AEs, helping tighten financial conditions

Advanced economy 10-year bond yields



Source: Bloomberg

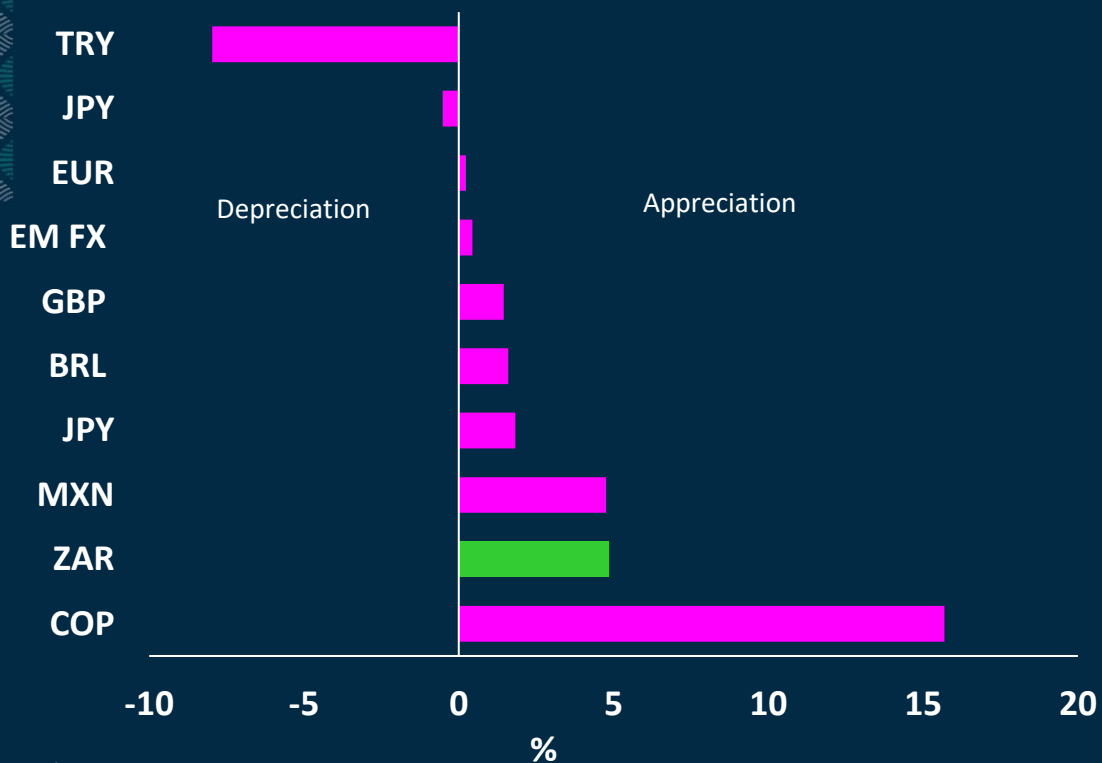
10-year US Treasury decomposition



Sources: Bloomberg and SARB

While relatively strong currencies moderated imported inflation pressures

Selected FX performance vs US dollar*



* Since Apr 2026
Source: Bloomberg

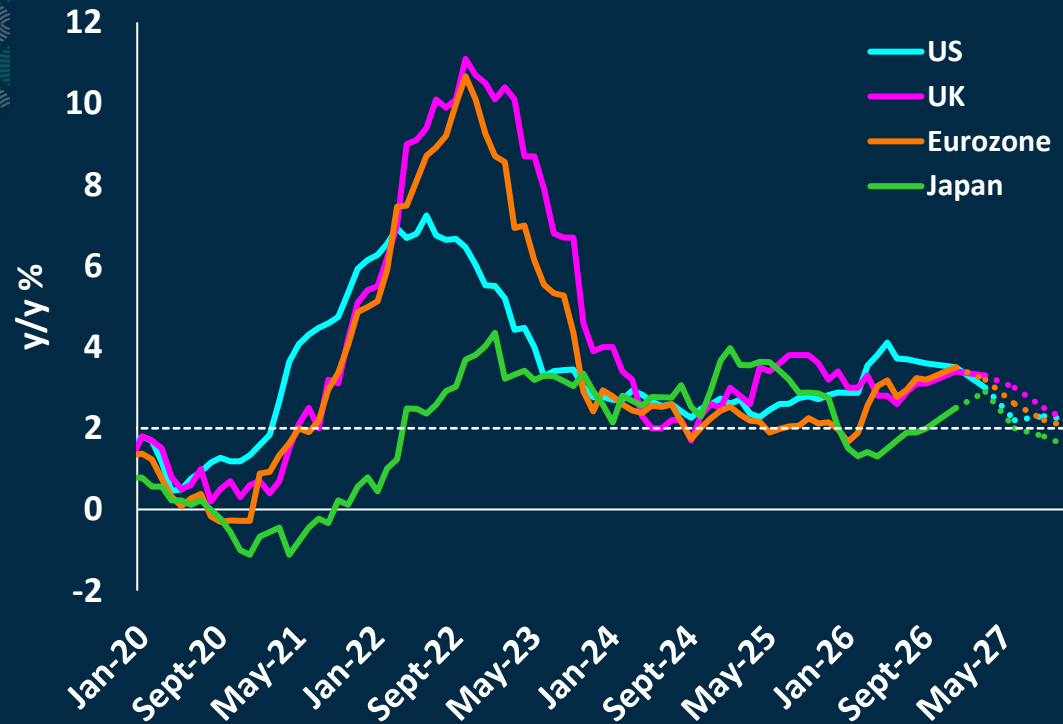
Rand exchange rate



Source: SARB

Inflation projected to return to targets from end-2027...but risks?

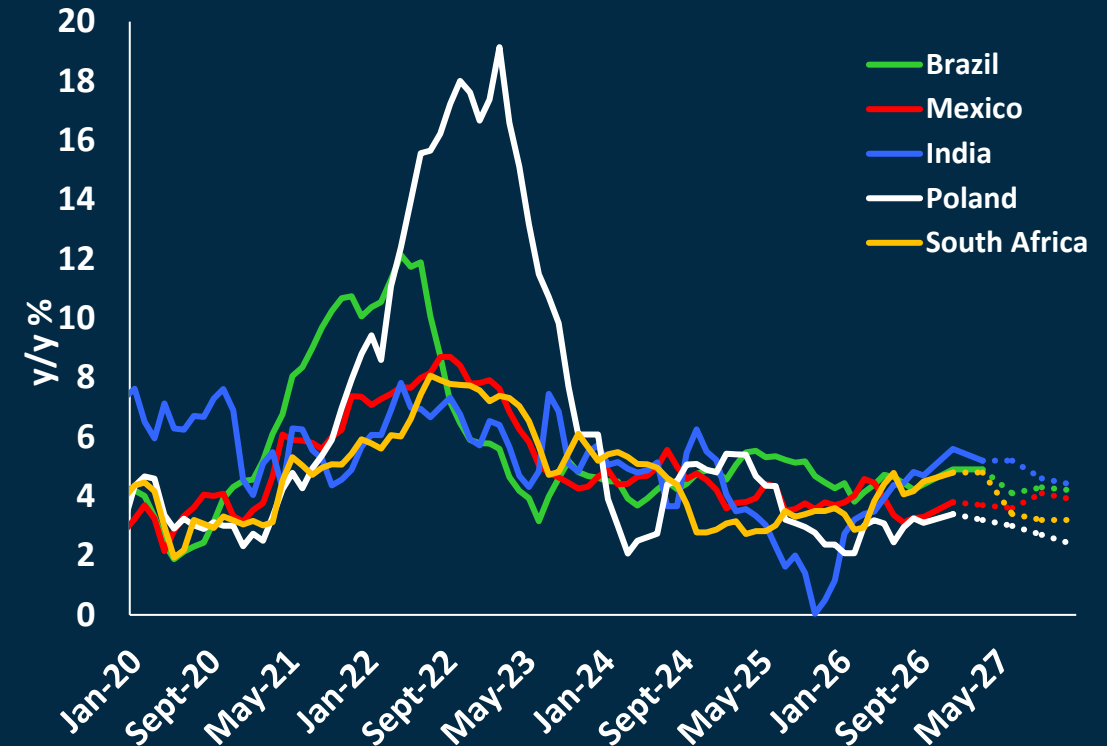
Headline inflation in advanced economies*



* Dotted lines indicate forecasts

Source: Statistical offices and Bloomberg Consensus

Headline inflation in emerging markets*

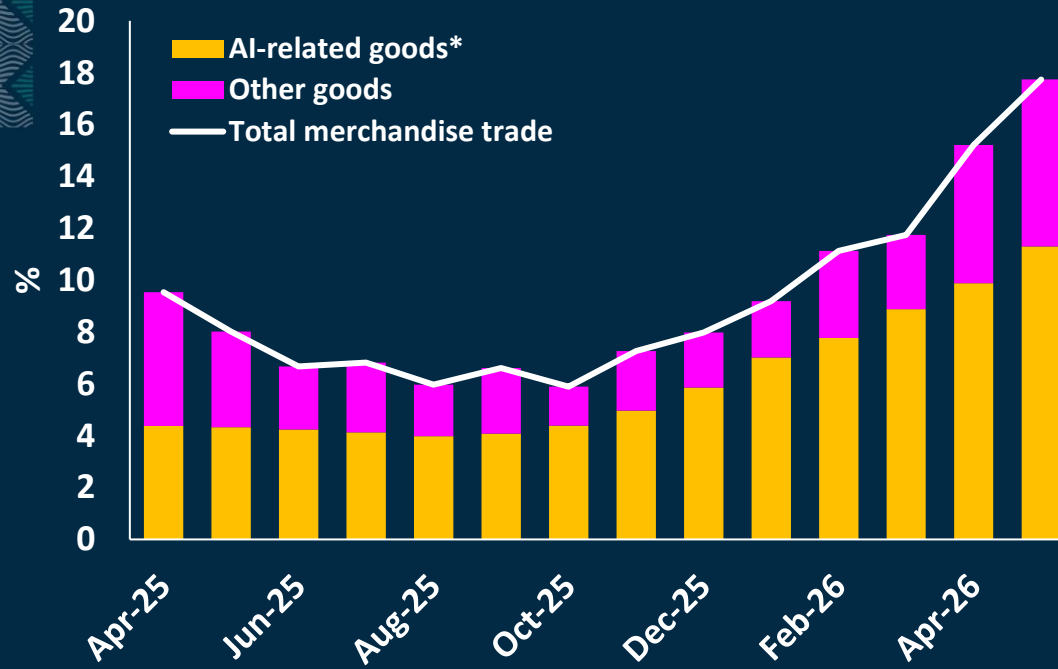


* Dotted lines indicate forecasts

Source: Statistical offices and Bloomberg Consensus

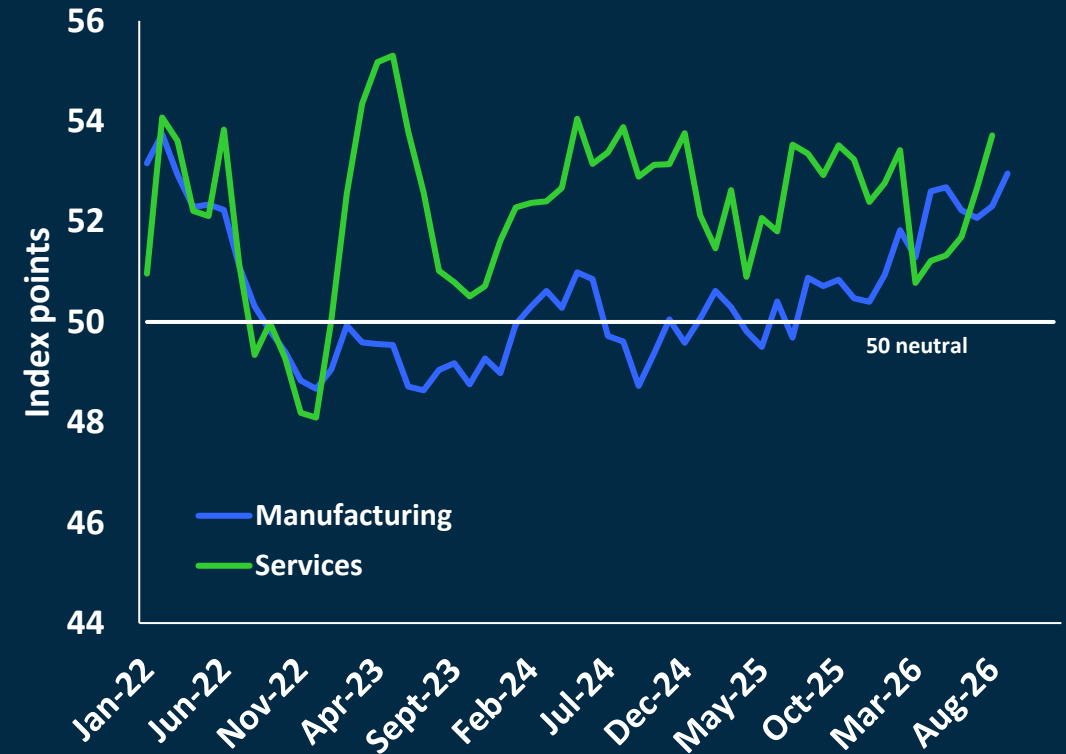
Turning to the real economy, AI-related activity has underpinned global growth resilience

Contributions to global merchandise trade



* AI-related goods are the 104 products at the HS6 level defined by the WTO. Examples include semiconductor manufacturing equipment, computing and processing hardware
Source: OECD

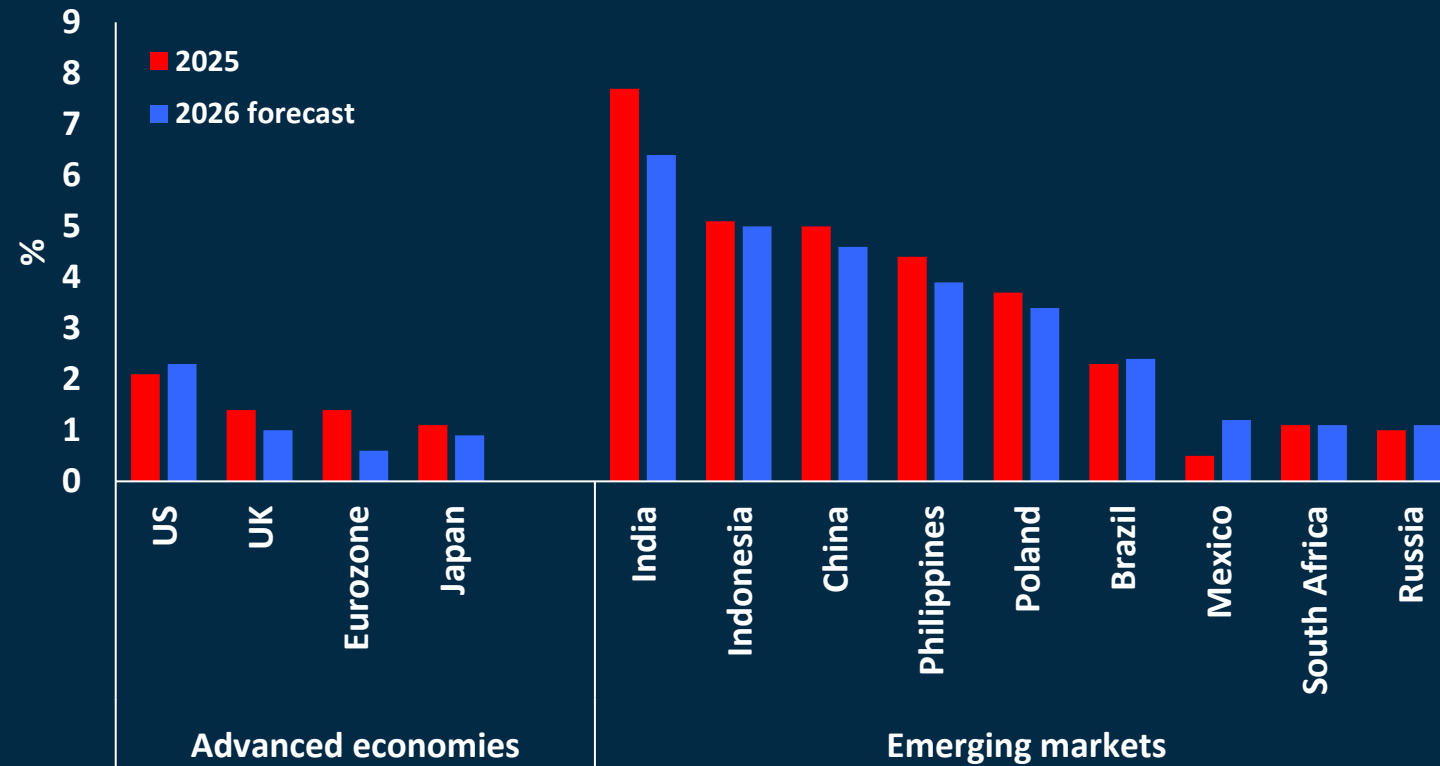
Global PMI



Source: S&P Global

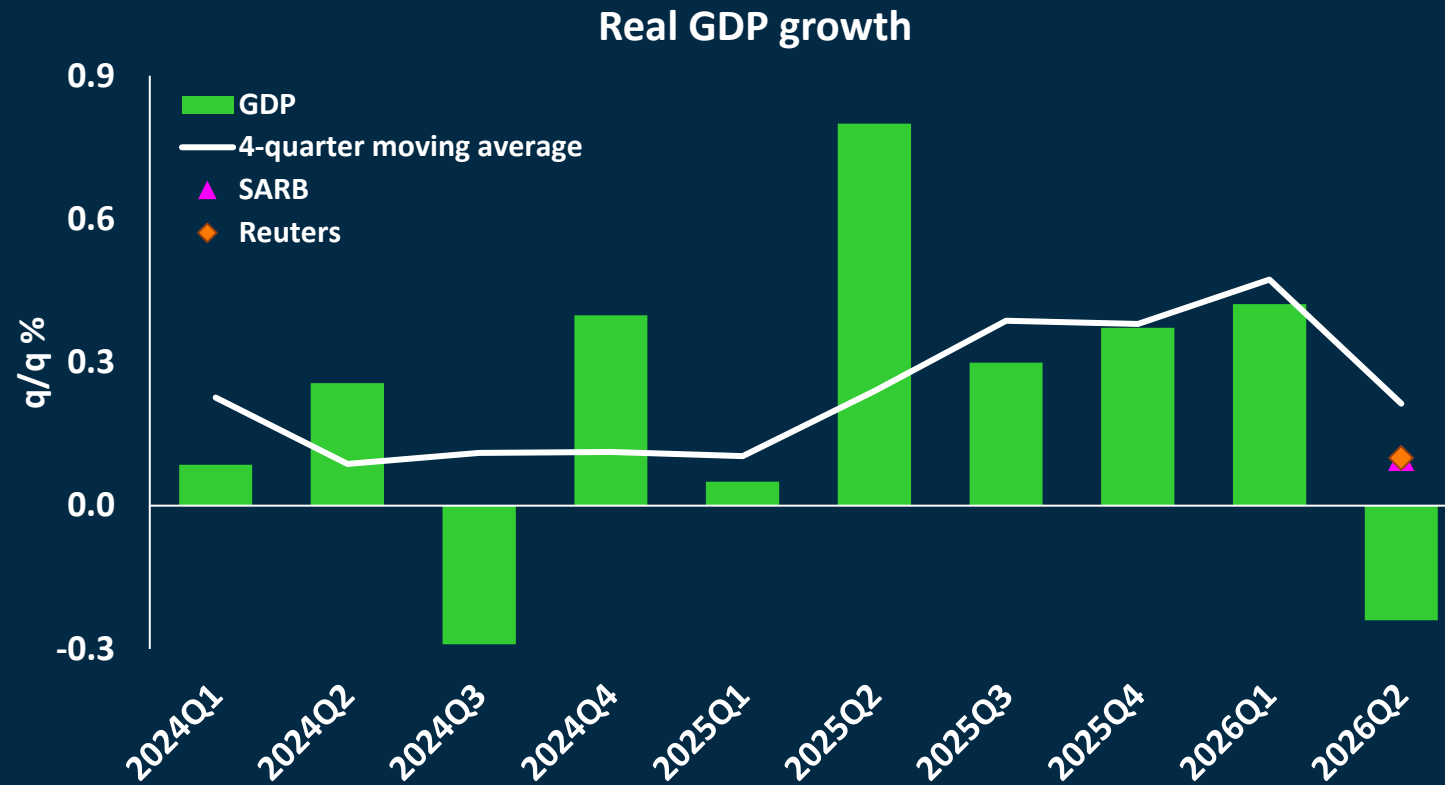
...but performance varied – largely reflecting exposure to AI; SA lagging peer EMs

Real GDP growth projections in major economies



Source: IMF

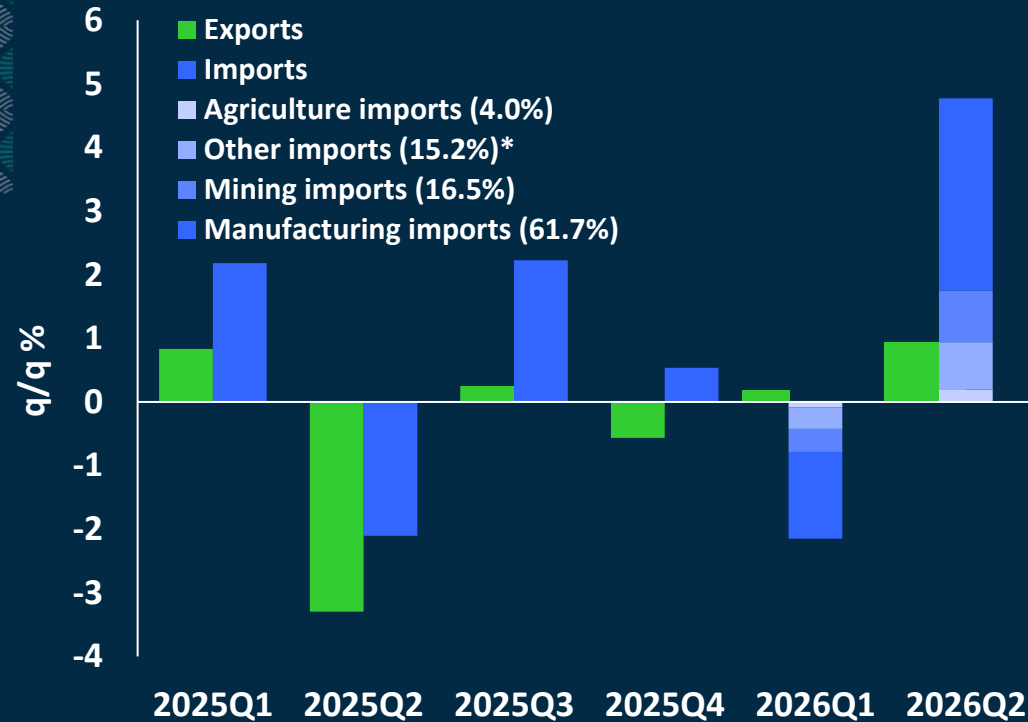
SA's positive growth run interrupted by the conflict shock



Sources: Reuters, Stats SA and SARB

Net exports reversed sharply in Q2 on higher fuel imports

Exports and imports

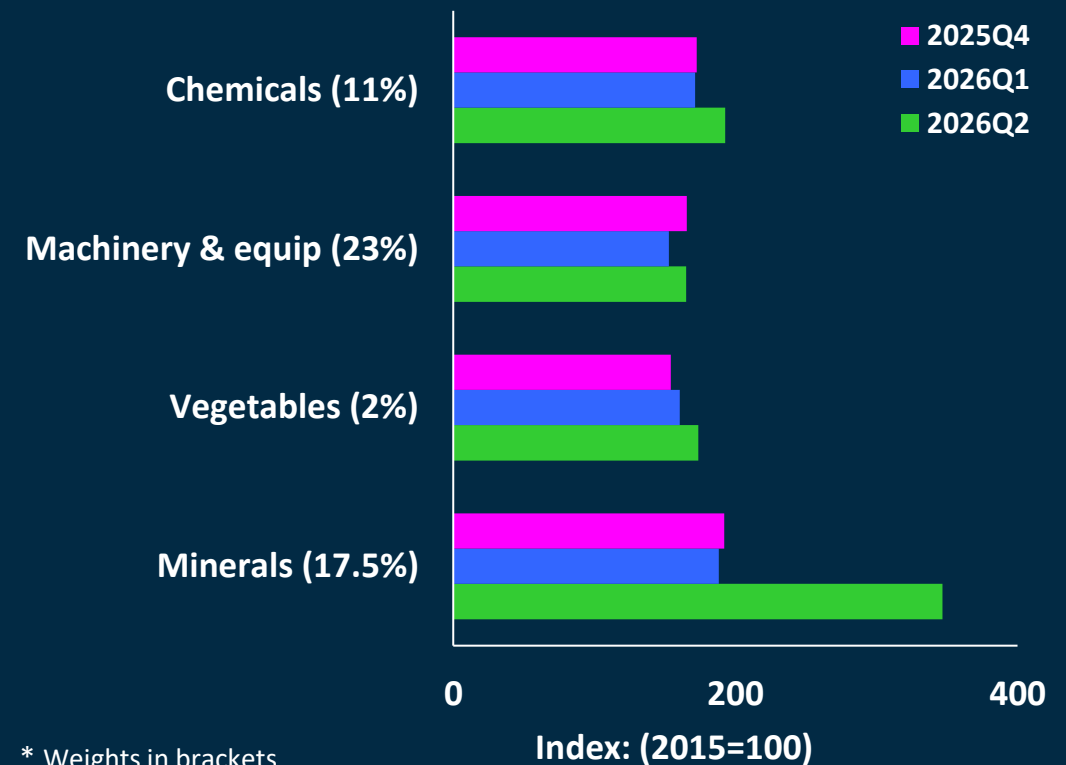


* Includes: Other goods and services

** Weights of import components in brackets

Sources: Stats SA and SARB

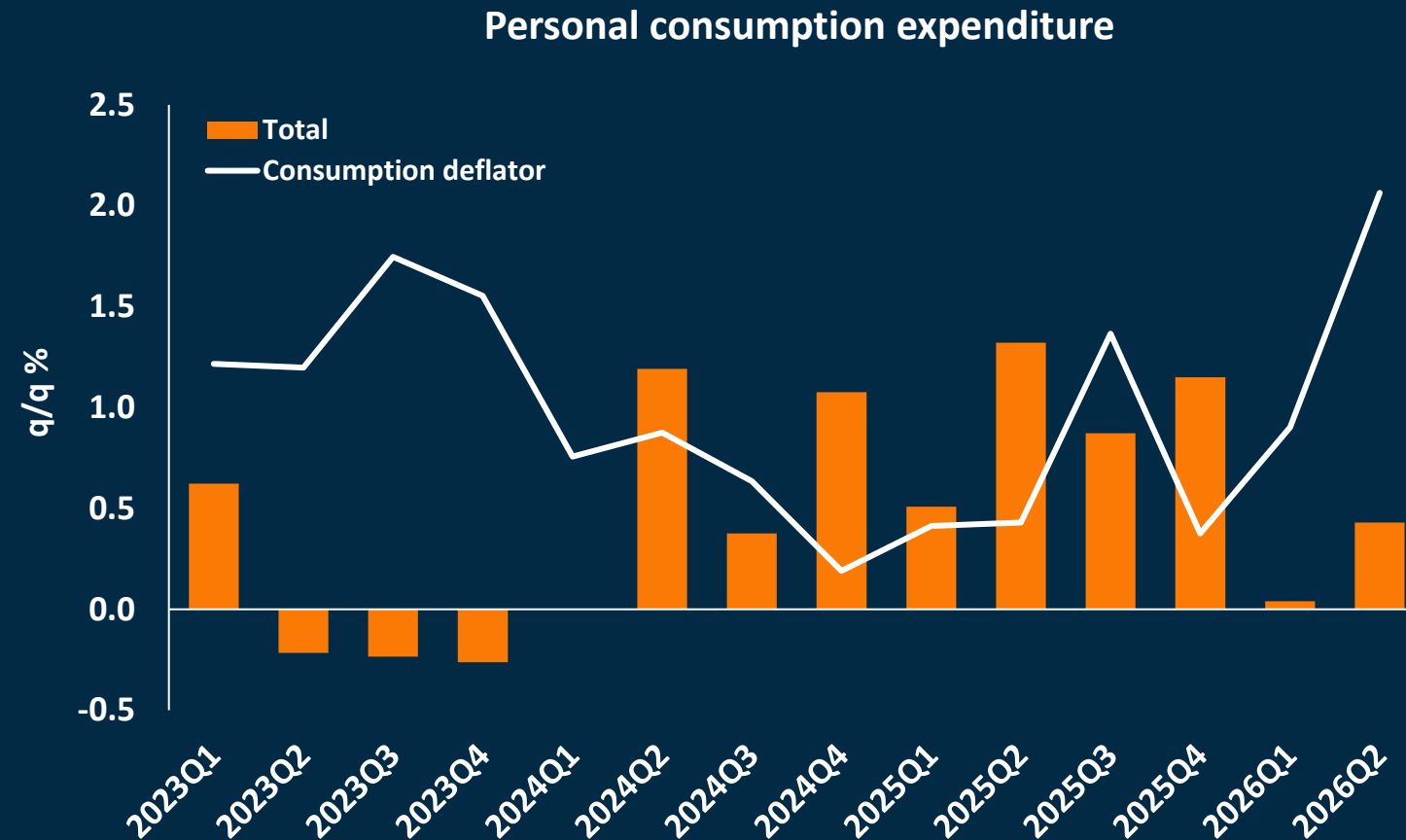
Selected components for imports*



* Weights in brackets

Source: SARB

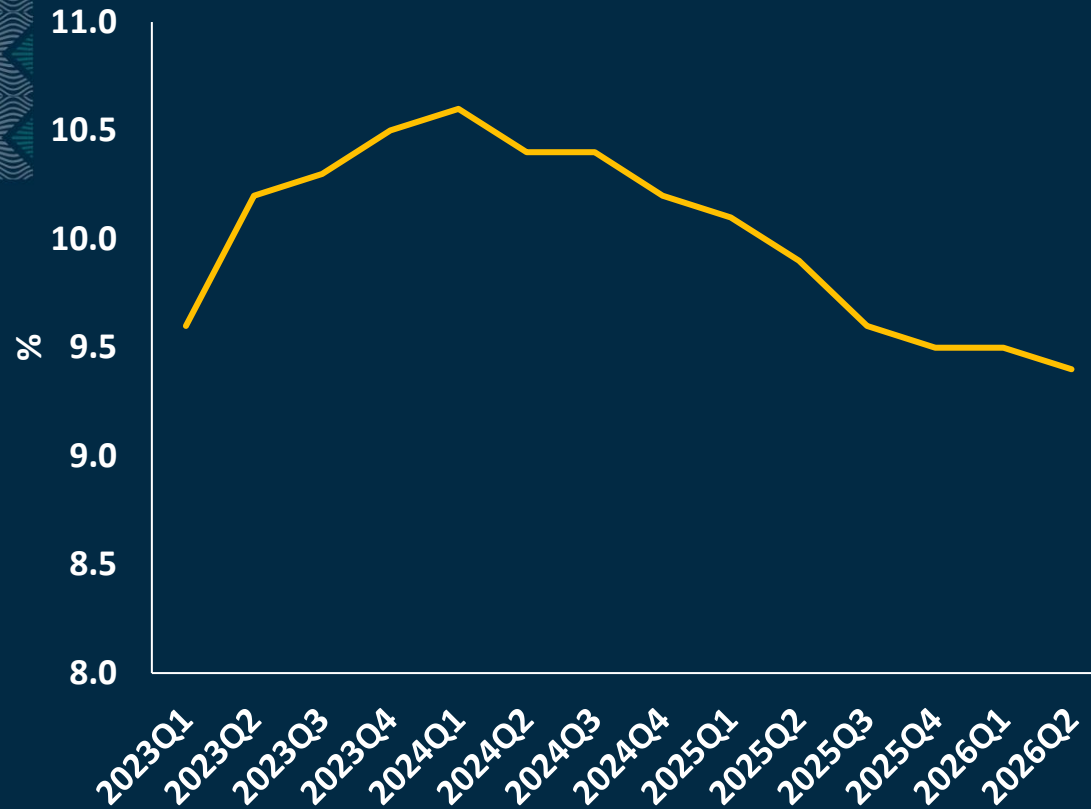
...outweighing the modest rebound in HH spending growth



Source: Stats SA

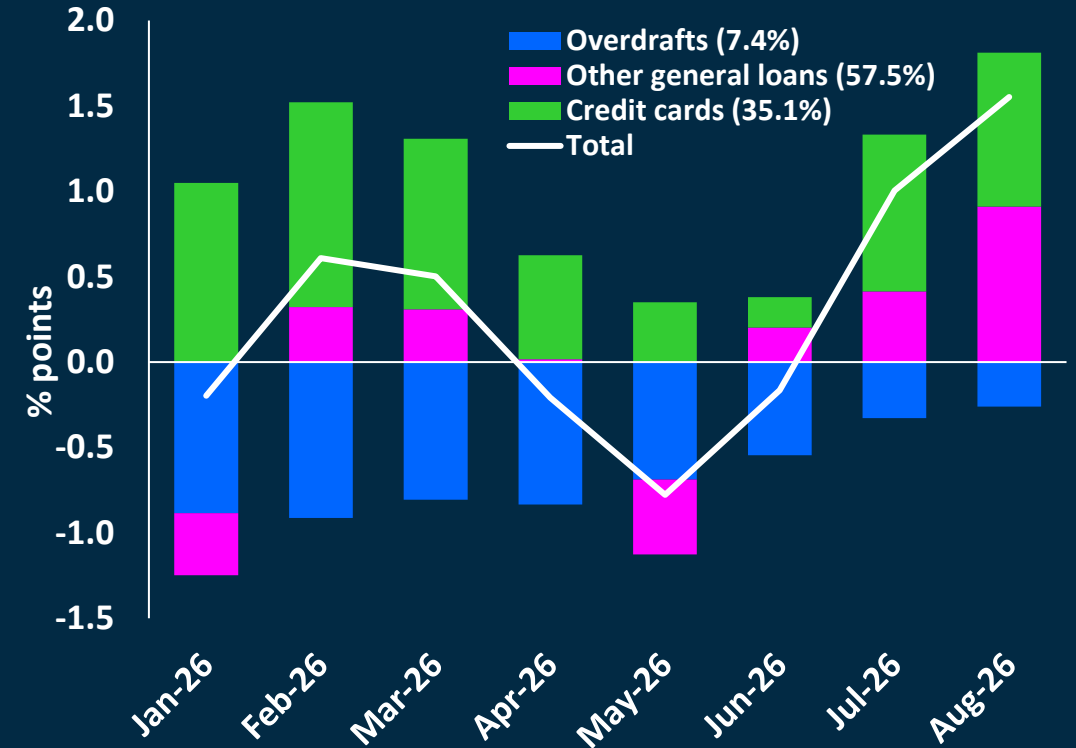
HH spending benefited from easing debt-service costs and credit

Ratio of debt-service cost to disposable income



Source: SARB

Contributions to unsecured loans*

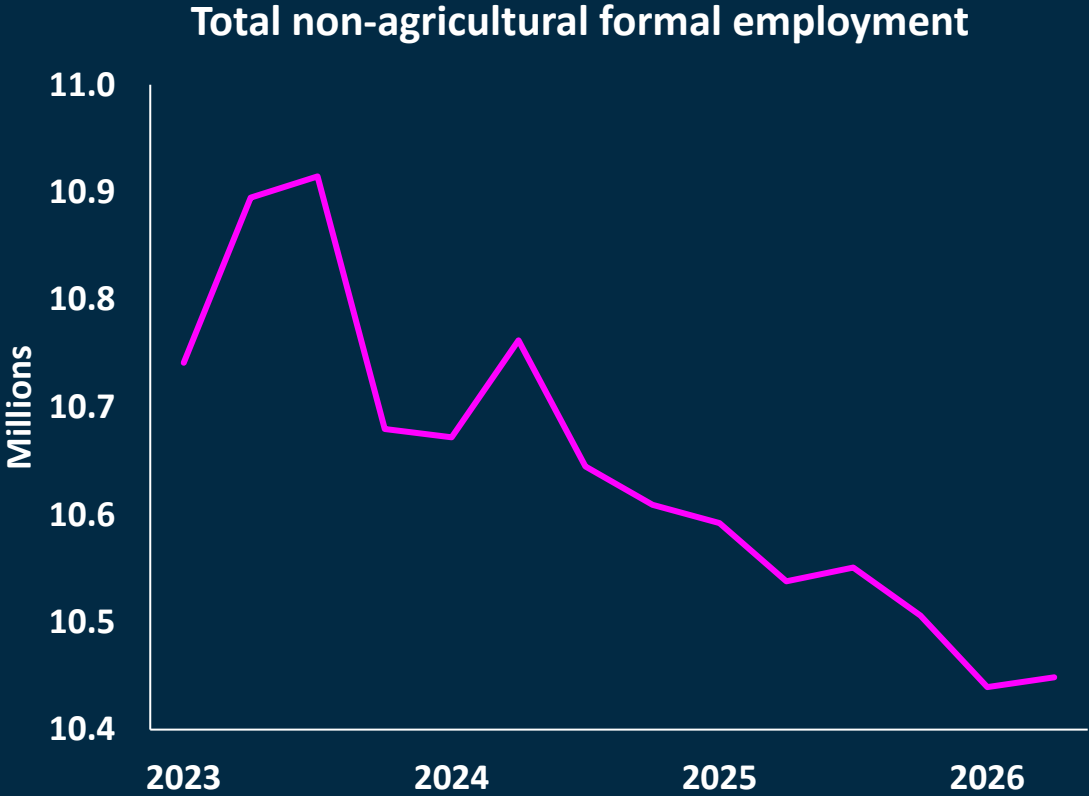


* Weights in brackets

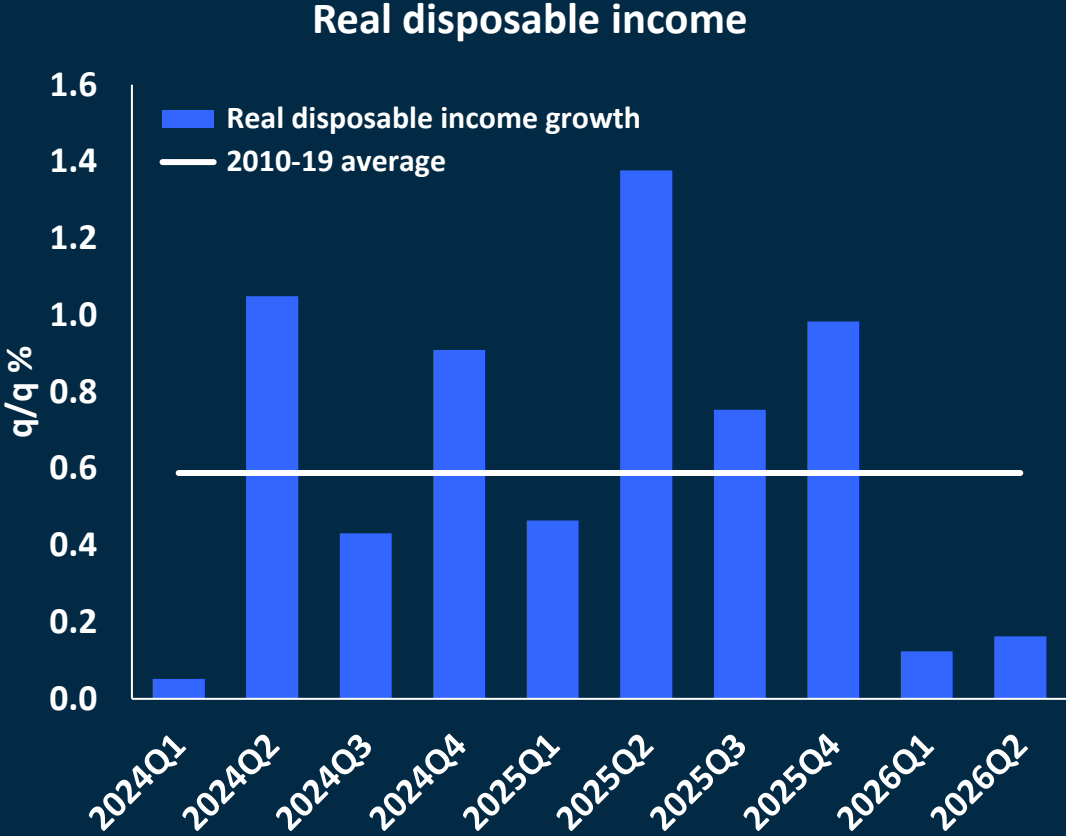
** year-on-year percentage growth

Source: SARB

On the whole, household pressures have not abated

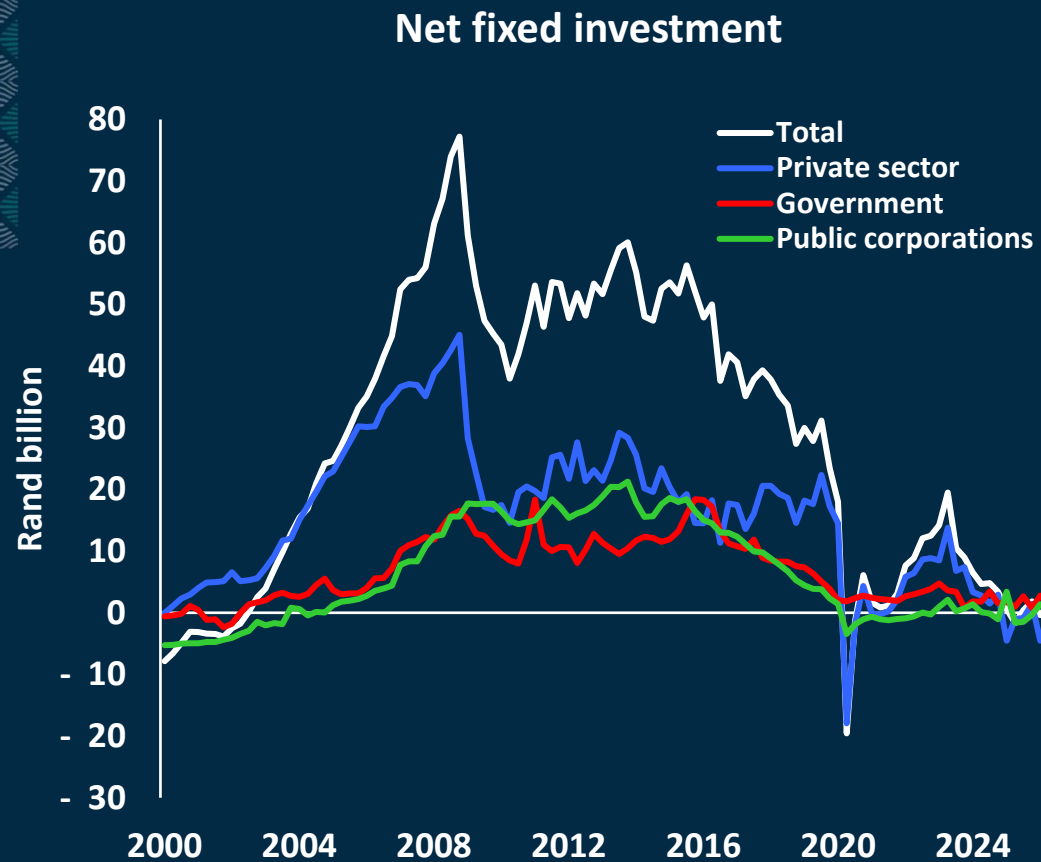


Source: Stats SA QES

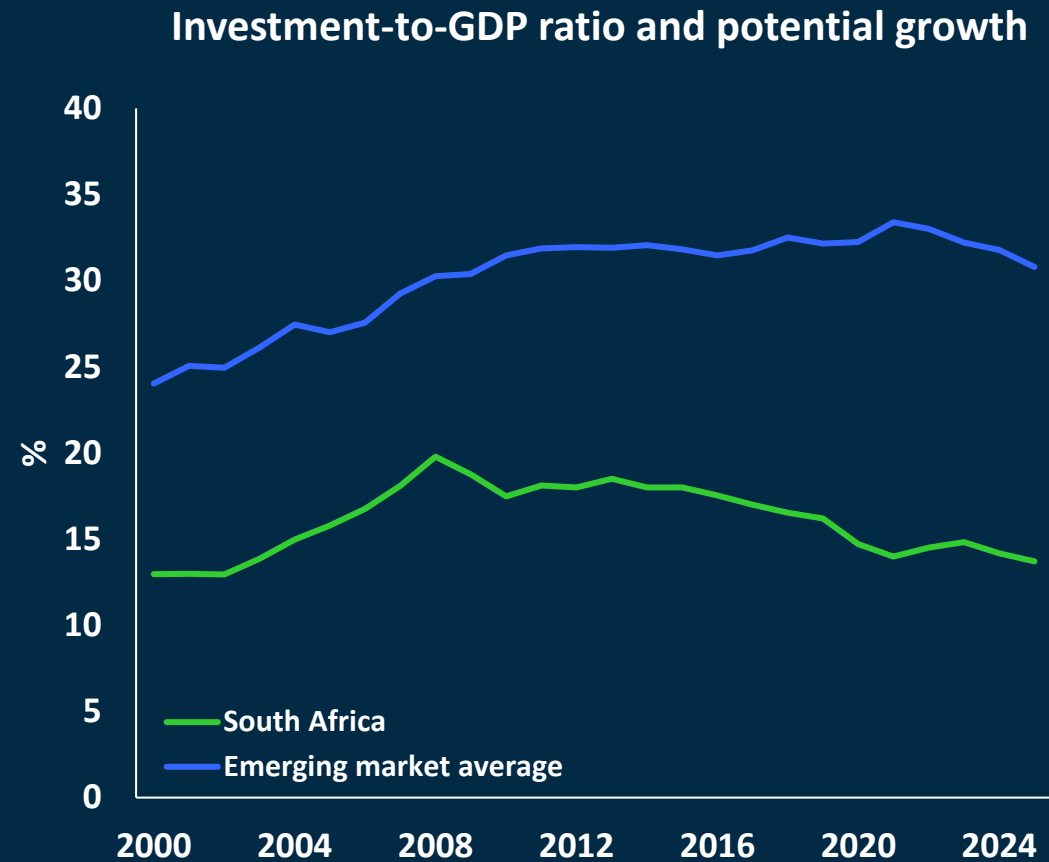


Source: SARB

Investment remains the missing growth engine ...and explains SA's growth underperformance relative to peer EMs

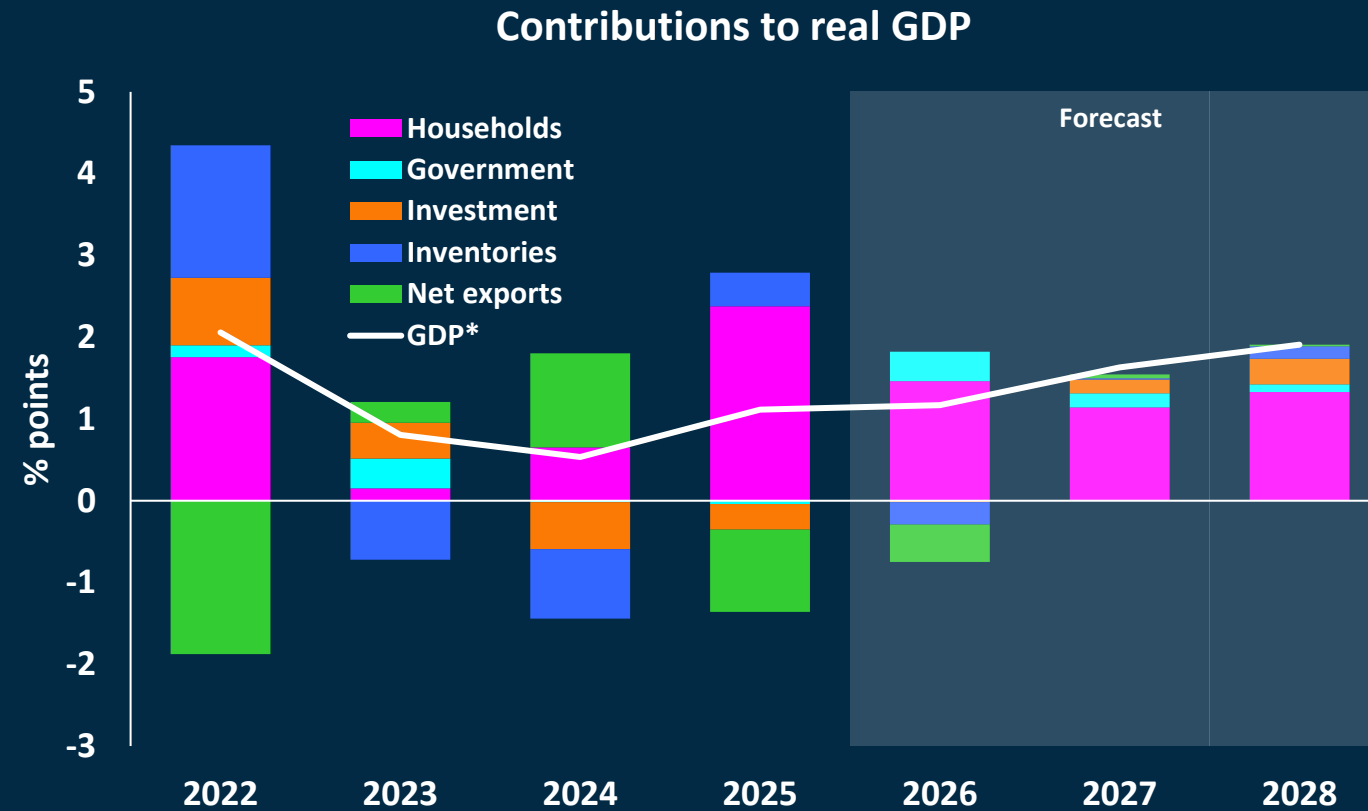


Source: SARB



Sources: IMF and Stats SA

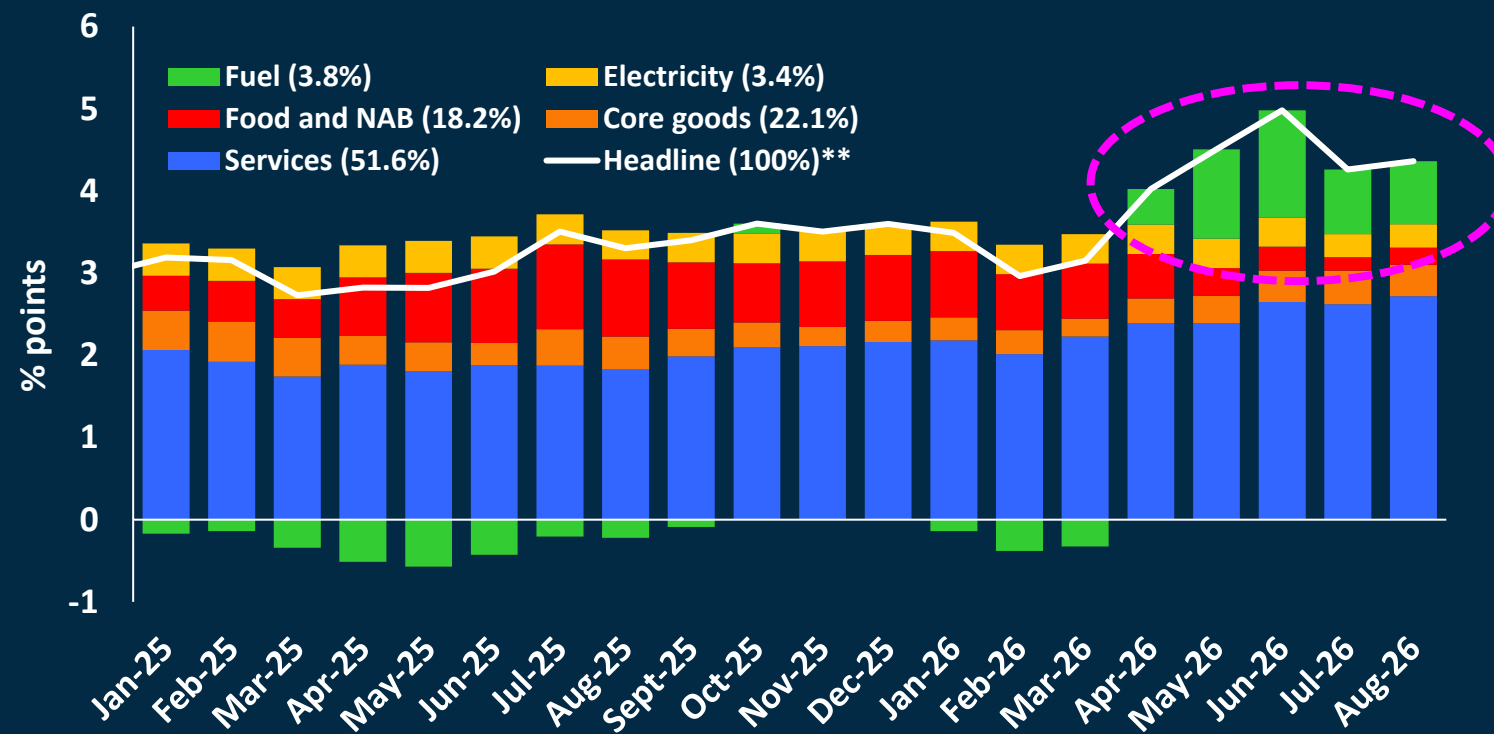
Households continue to underpin GDP growth over the medium term



* percentage change
Sources: Stats SA and SARB

Middle East conflict abruptly reversed the domestic inflation trend

Contributions to headline inflation*



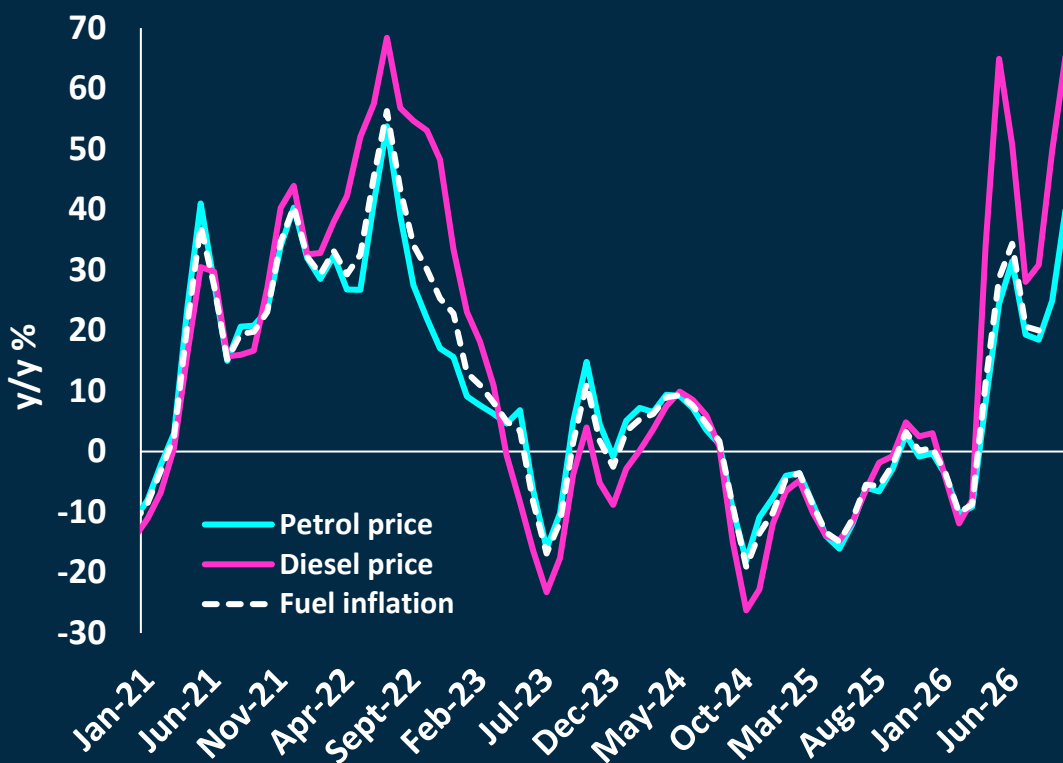
* Weight to headline inflation denoted in brackets

** year-on-year percentage change

Sources: Stats SA and SARB

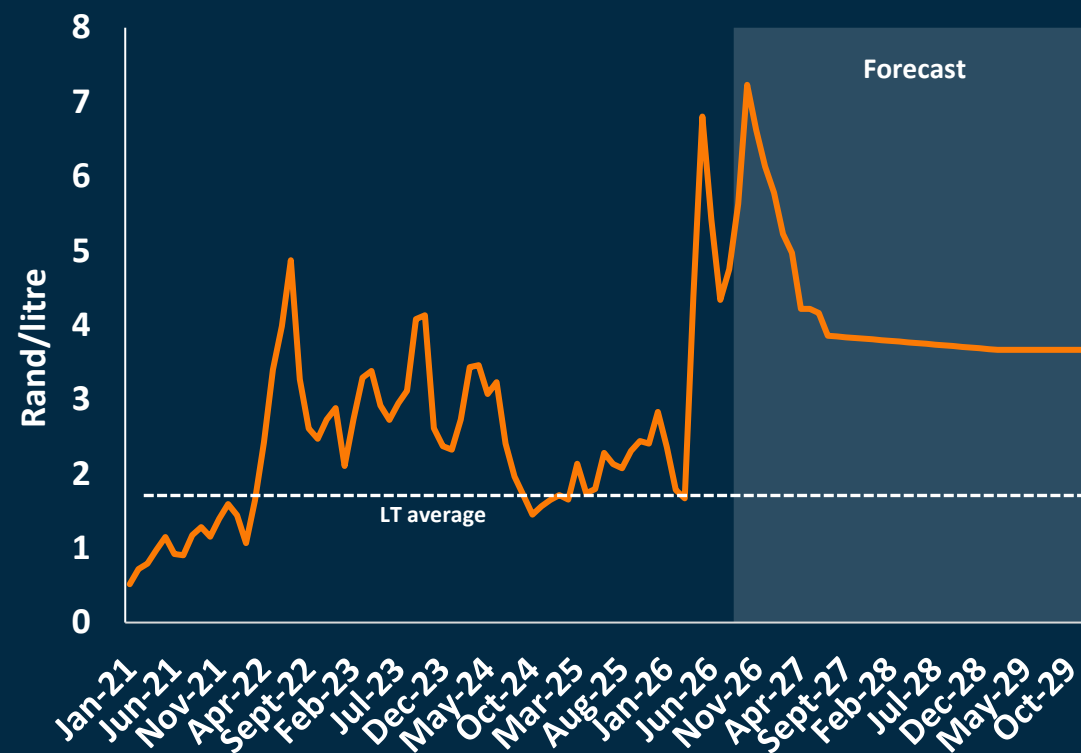
Renewed hostilities and constrained global refinery capacity add upward pressure

Fuel inflation, petrol and diesel prices*



* Gauteng prices; petrol price is for unleaded 95
Sources: CEF, Stats SA and SARB

Refinery margin proxy

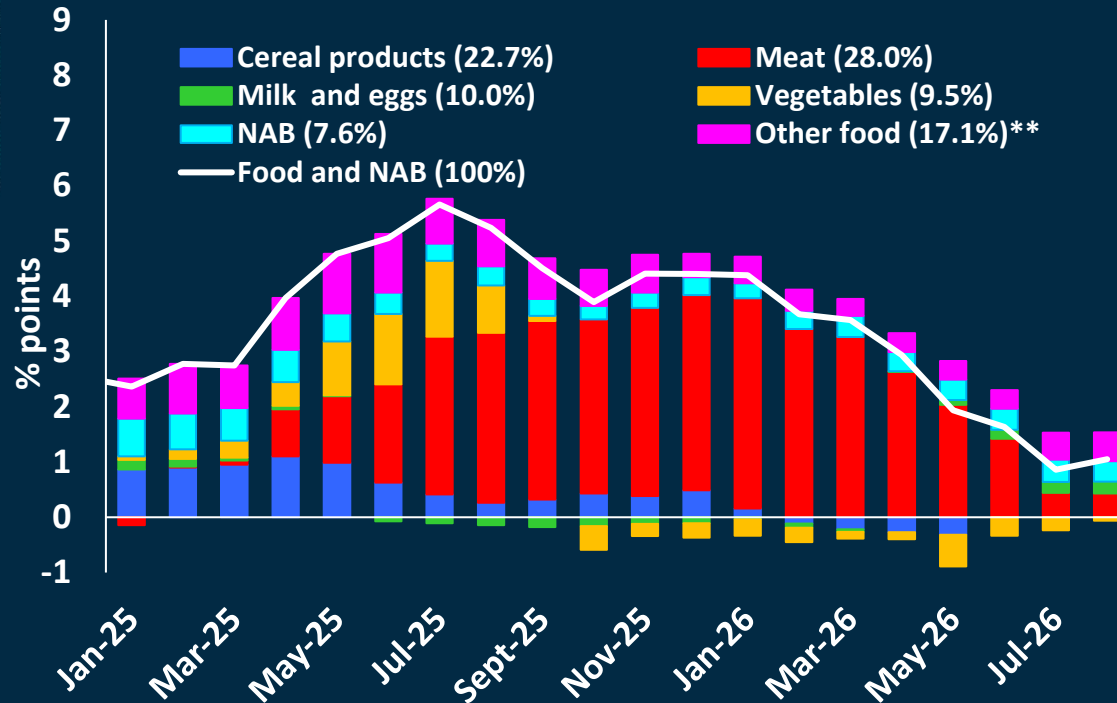


Source: SARB

...while food's disinflationary impetus has likely troughed

Fertiliser and diesel costs could affect planting decisions and thus supply

Contributions to food inflation*

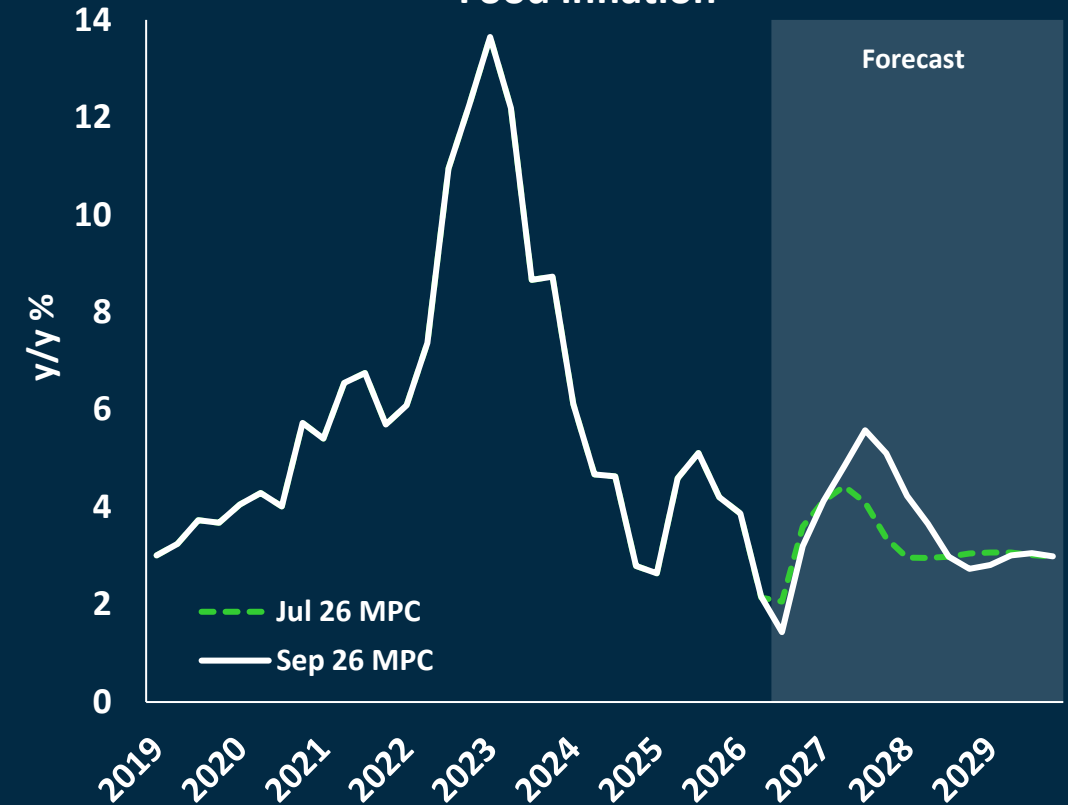


* Weight to food and NAB inflation in brackets

** Includes: fish and other seafood, oils and fat, fruits and nuts, sugar confectionary and desserts and other foods

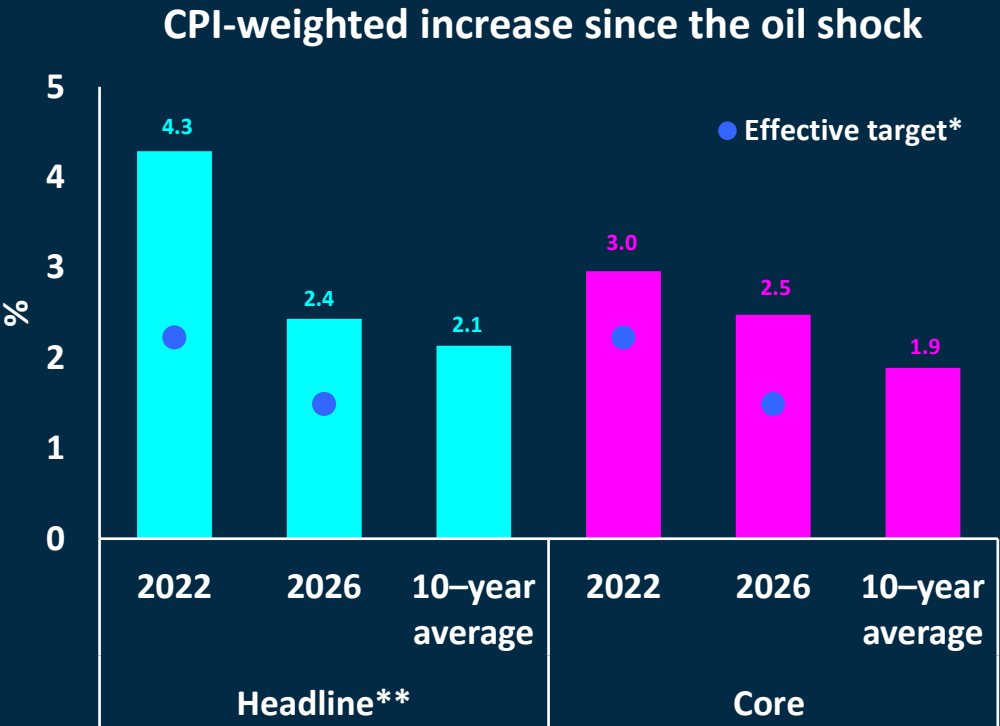
Source: Stats SA

Food inflation

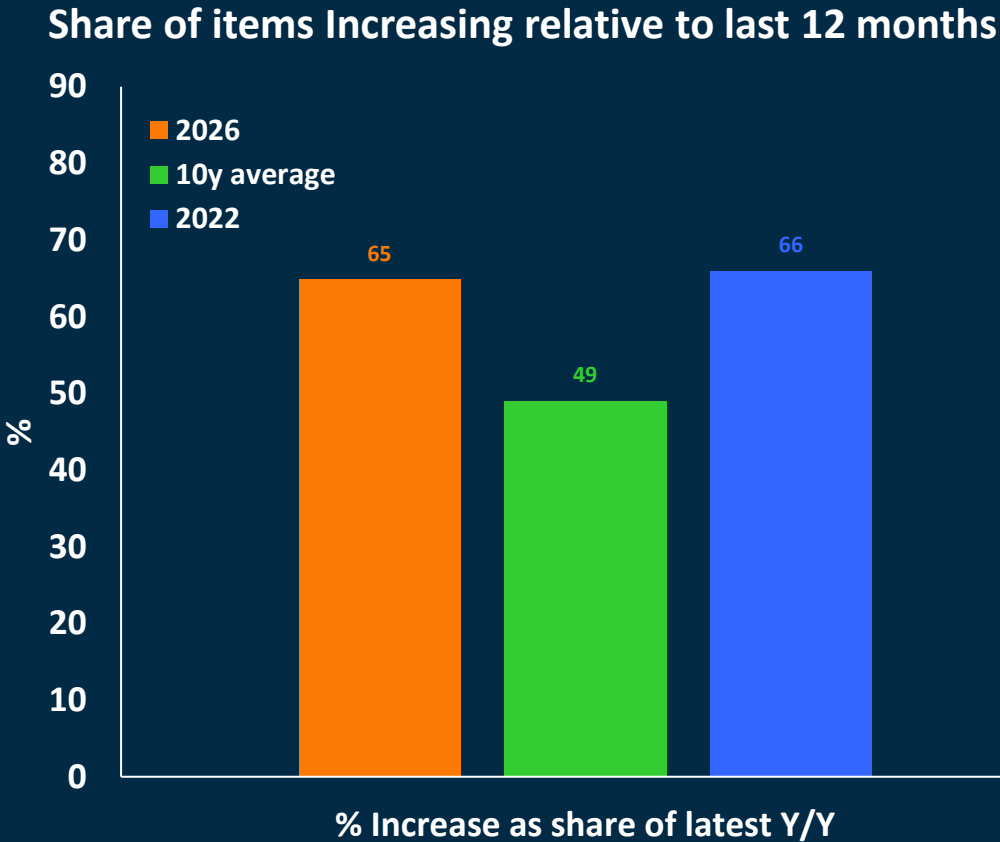


Sources: Stats SA and SARB

Inflation has increased strongly since the shock; intensity of price increases similar to 2022 despite muted food pressures

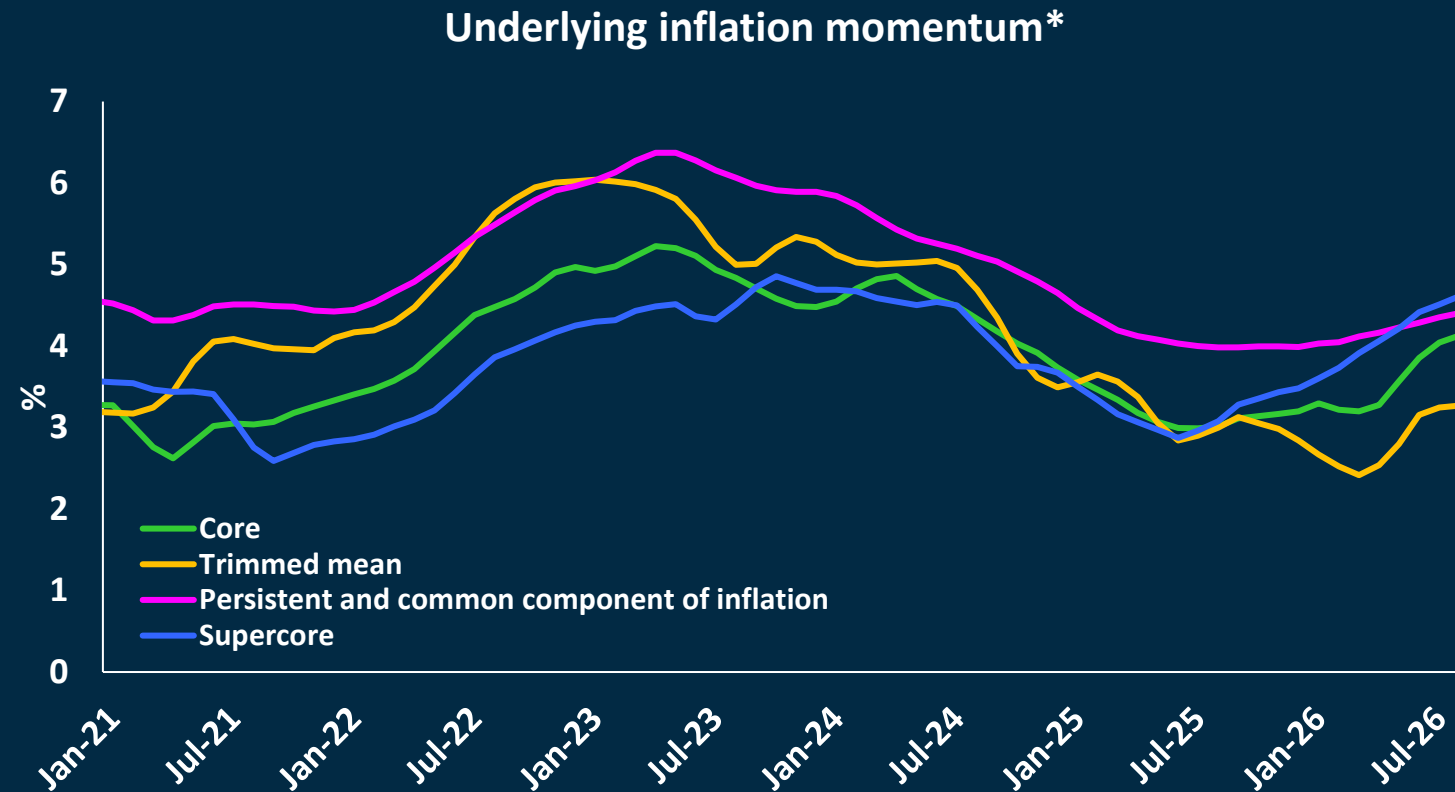


* The effective target indicates headline and core inflation that would have aligned with the inflation target over the six-month period.
** Weighted CPI excludes petrol and diesel
Source: SARB



Source: SARB

Measures of underlying inflation also show increasing price pressures

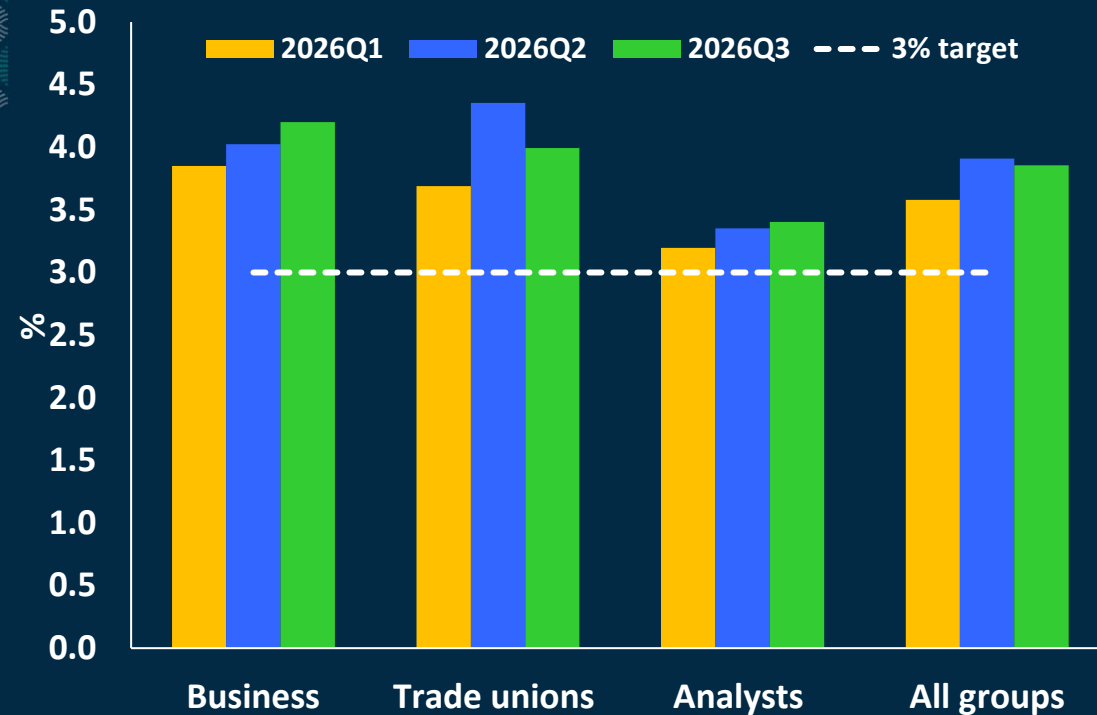


* 3-month moving average

Source: SARB

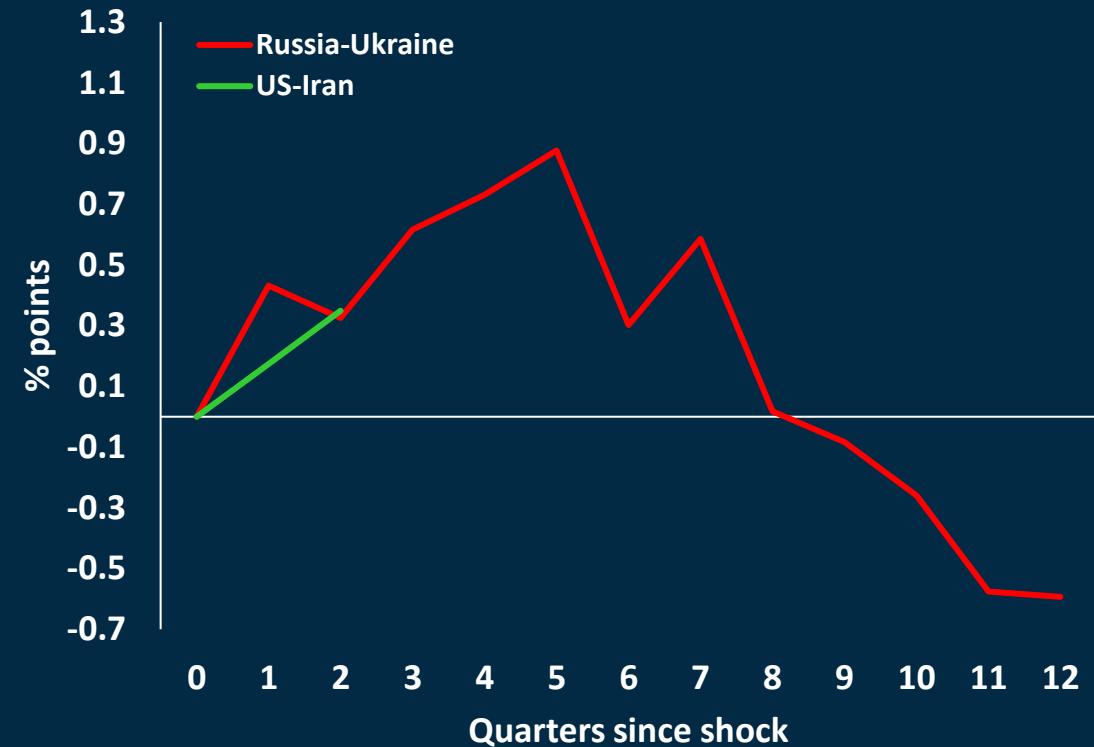
Expectations have climbed modestly, so far, but group dynamics vary

Two-years-ahead inflation expectations: All groups



Source: BER

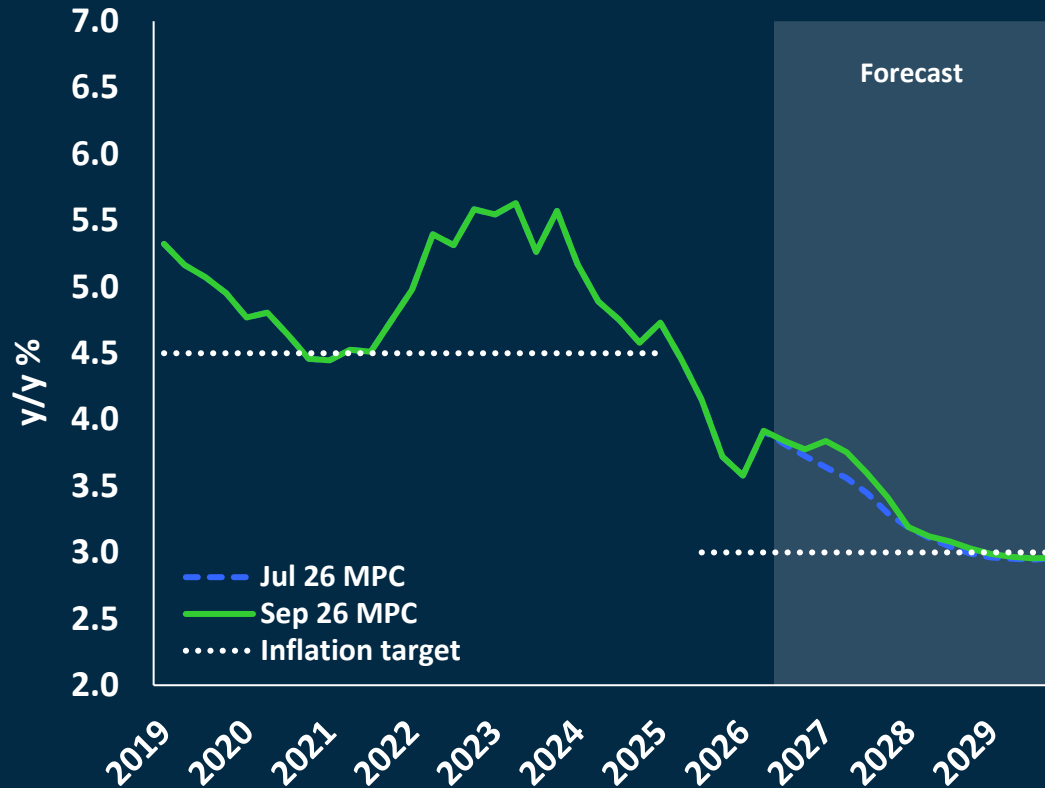
Changes in two-years-ahead business inflation expectations



Sources: BER and SARB

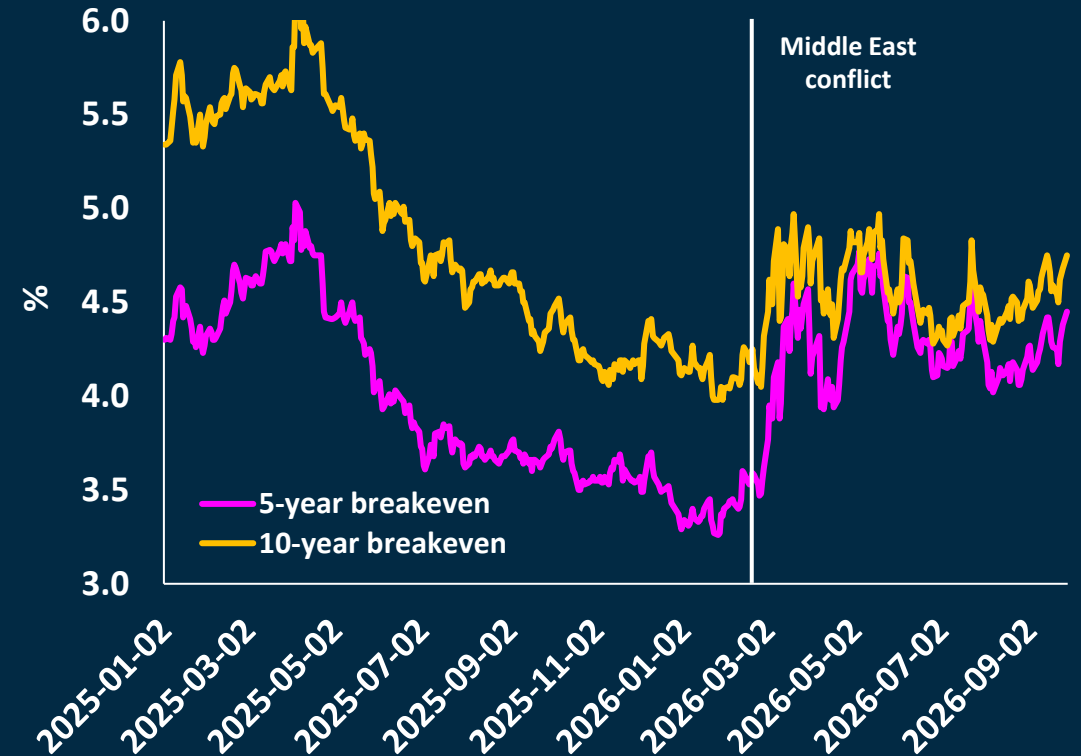
SARB forecasts expectations to remain elevated into 2028 but upside risk as (poly)shock persistent (break-evens also elevated)

BER inflation expectations



Sources: Stats SA and SARB

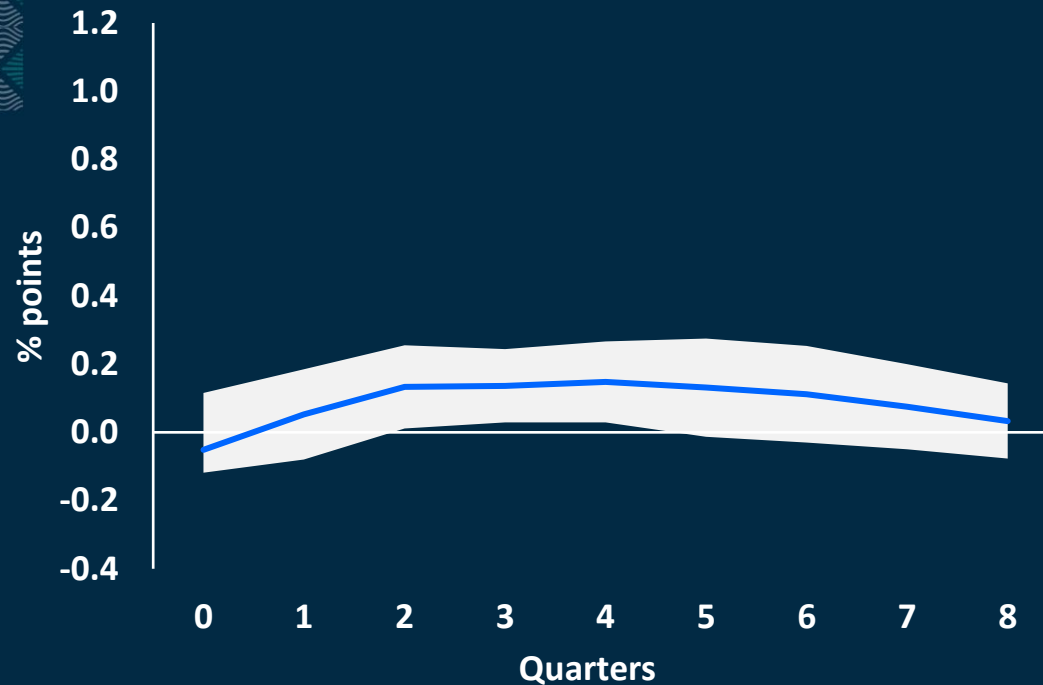
Breakevens



Source: Bloomberg

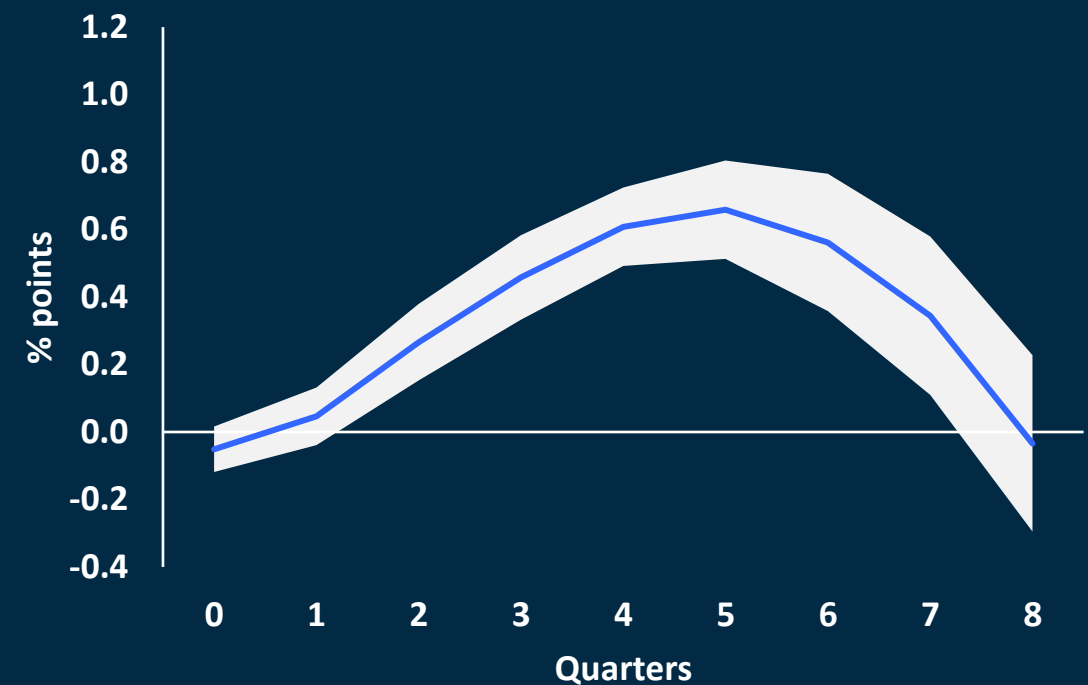
Shock persistence increases risk of strong second-round effects significantly

Response of business two-year expectations to a temporary fuel price shock*



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

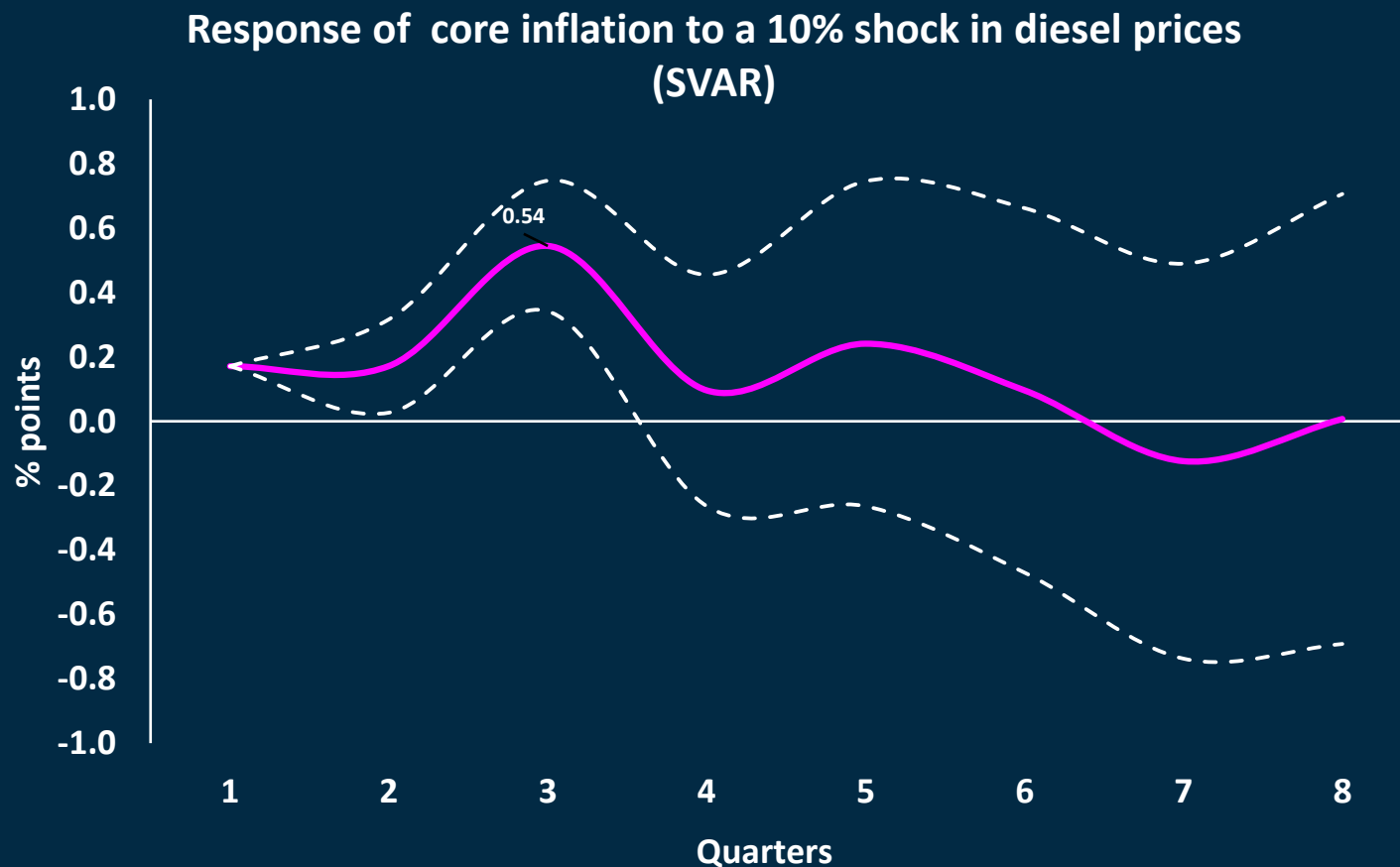
Response of business two-year expectations to a persistent fuel price shock*



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

Sharply higher diesel prices a serious threat to underlying inflation

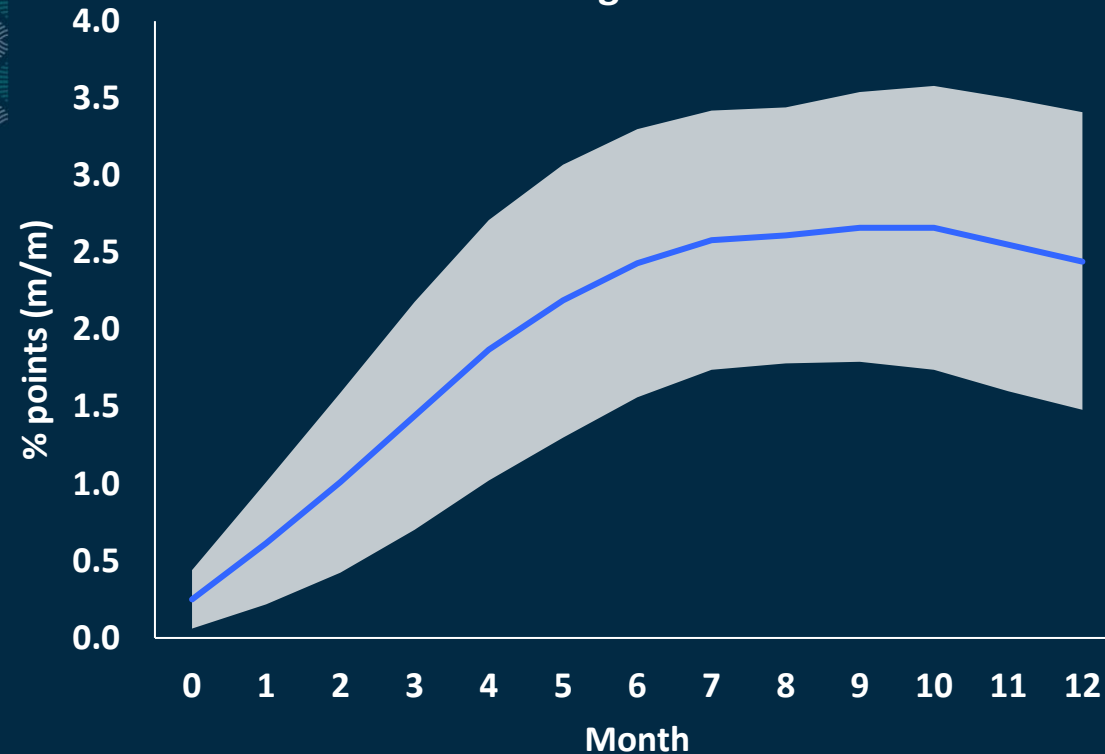
...with possible non-linearities given size of shock



Source: SARB

...while El Niño likely adds to food-price pressure, lifting expectations further

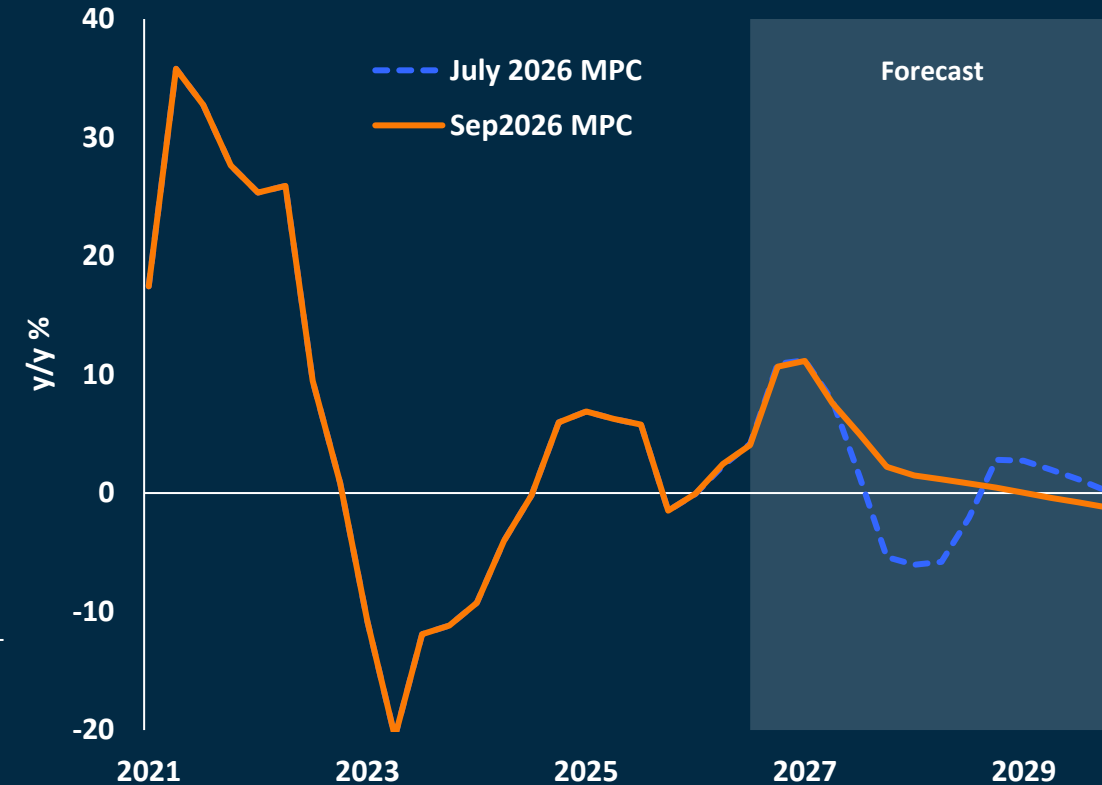
Cumulative food inflation response to a very strong El Niño



* Confidence bands are reported at the 90% level.

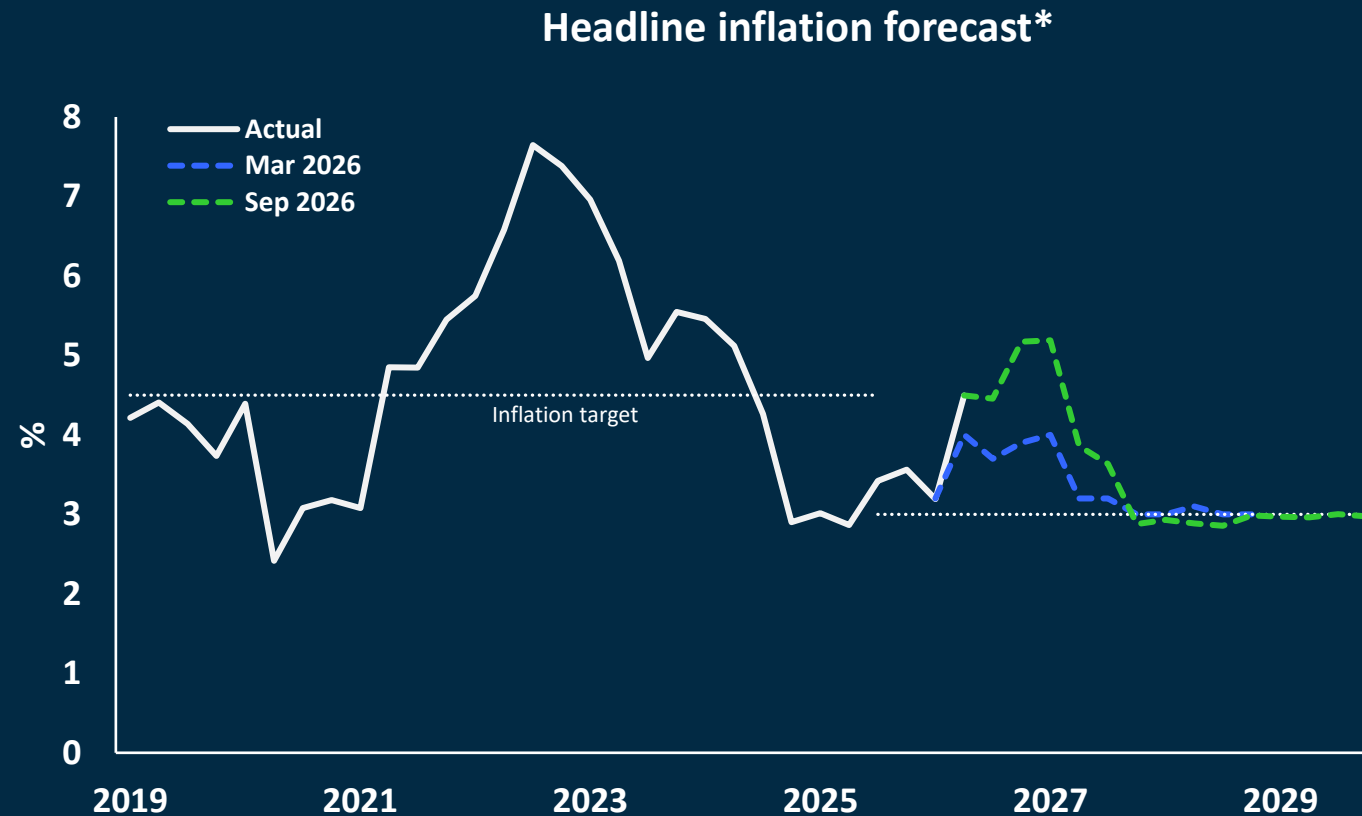
Source: Koopman et al., EN Forthcoming

Contributions to the FAO Food Price Index



Sources: UN FAO and SARB

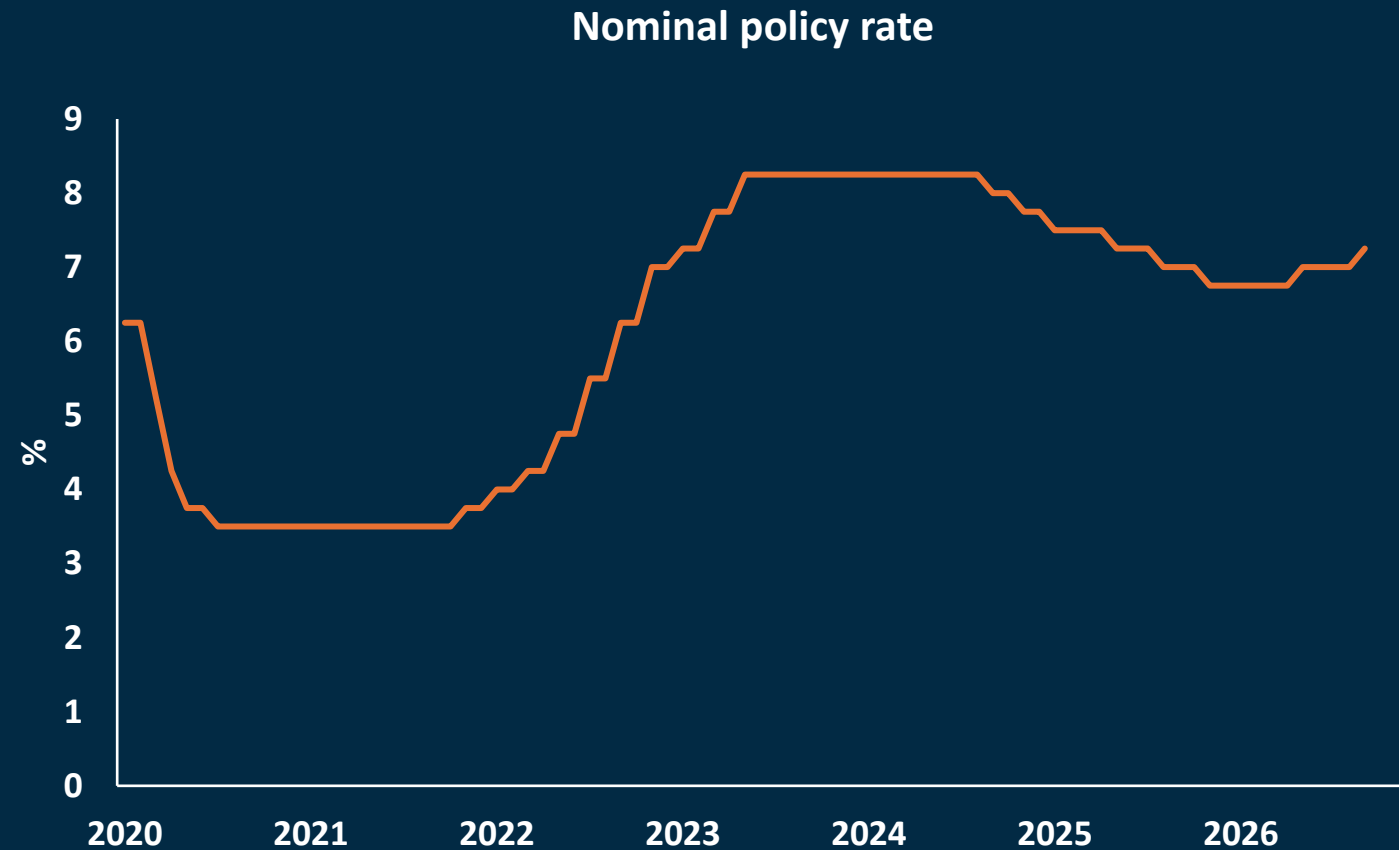
Overall, headline inflation markedly higher with risks to the upside, threatening the credibility of our target



* Dashed lines indicate forecasts

Sources: Stats SA and SARB

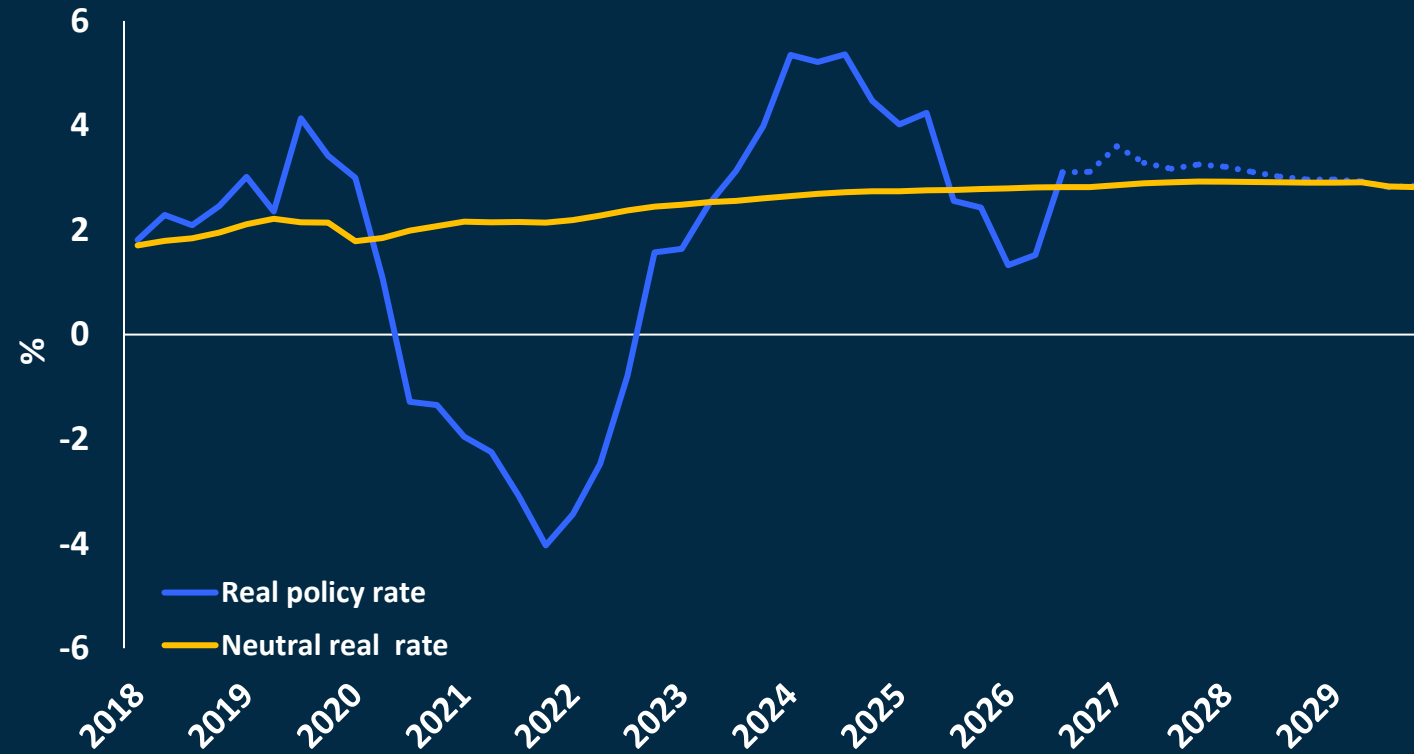
SARB adopted a cautious approach, raising the policy rate (by 50 bps) as outlook deteriorated



Source: SARB

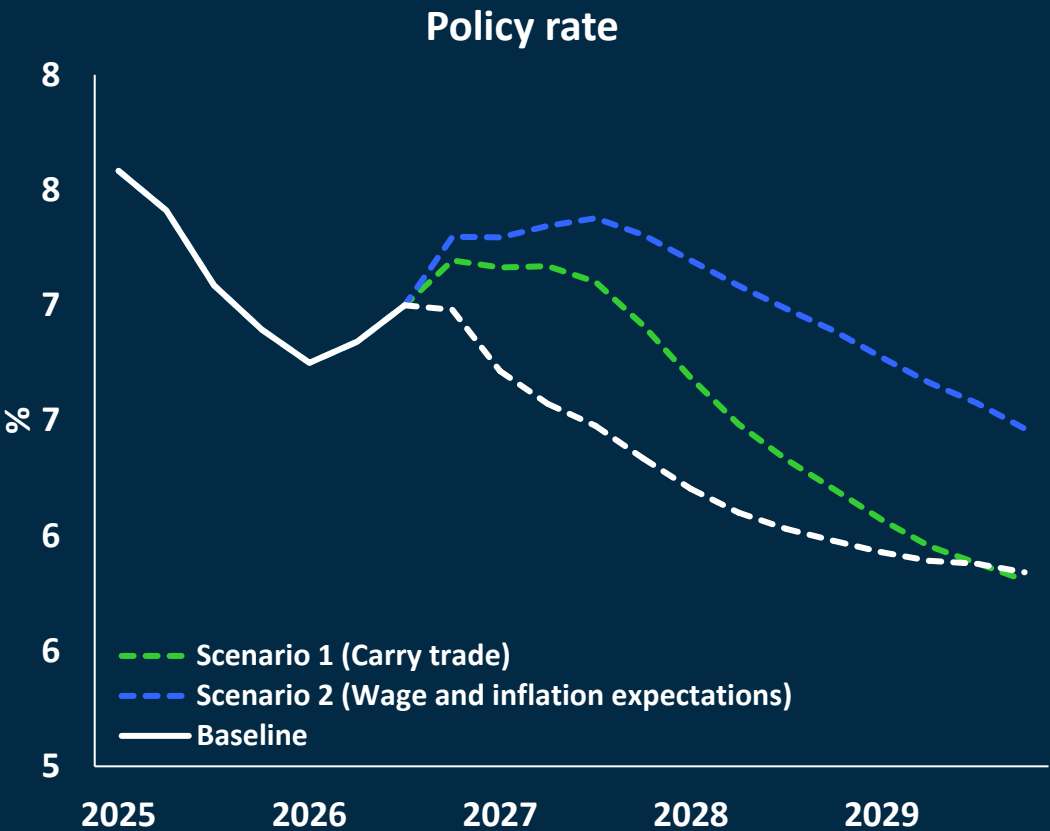
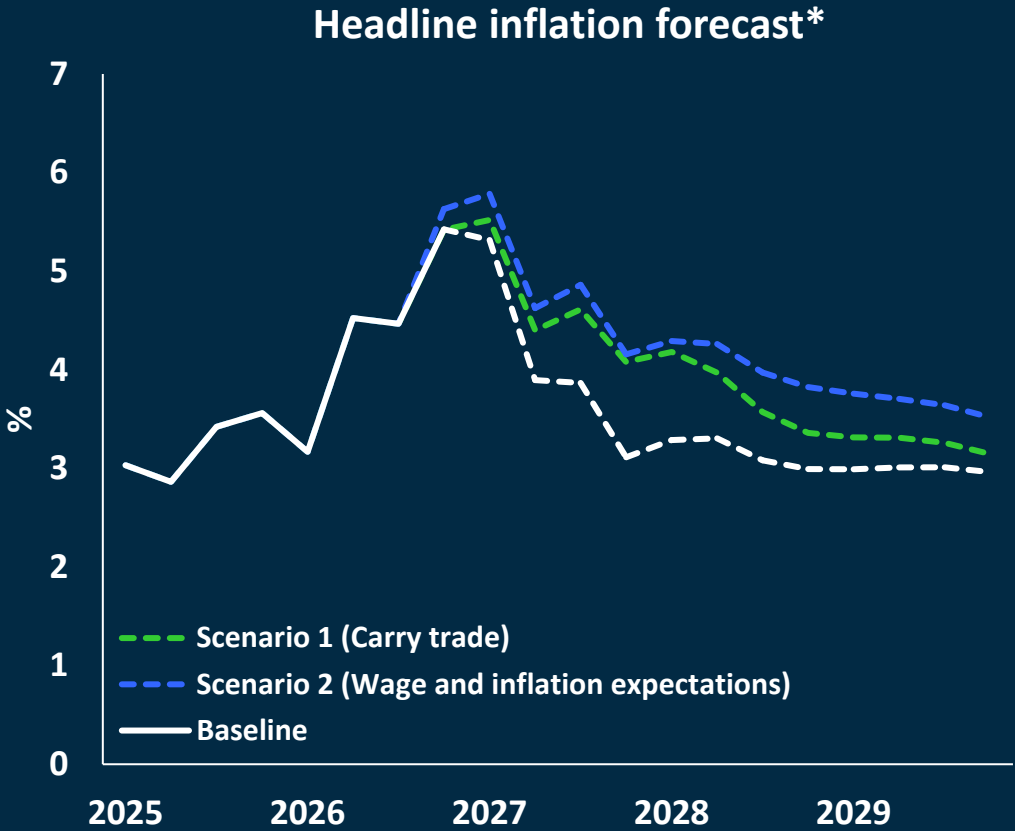
Policy must prevent shock from becoming embedded in inflation

Real policy and neutral real rate



Source: SARB

SARB scenarios highlight additional risks & their implications on rates



* Dashed lines indicate forecasts
Sources: Stats SA and SARB

Source: SARB

Conclusion

- The global inflation surge is not purely temporary: the shock has been prolonged and policy settings may need to become more restrictive.
- Global growth has been resilient so far, but a two-speed world economy is emerging, and an AI-driven asset bubble is a real risk.
- Continued reform progress underpins our growth outlook, though the risks to that outlook are tilted to the downside.
- Inflation will only return to target next year if policy succeeds in preventing second-round effects.

MONETARY POLICY REVIEW

6 October 2026



SOUTH AFRICAN RESERVE BANK



Thank you for your attendance

