



SOUTH AFRICAN RESERVE BANK

**Address by Lesetja Kganyago,
Governor of the South African Reserve Bank, at the
Italian-South African Chamber of Trade and Industries
dinner engagement, Johannesburg,
29 October 2026**

**Can South Africa break out of low growth?
What monetary policy can and cannot do**

Distinguished guests, good evening.

Thank you for inviting me to join you.

I have been asked to answer two questions. Can South Africa escape its low growth trajectory, and what role can monetary policy play?

My conviction is that South Africa is not trapped in low growth. Our low growth trend was mostly caused by domestic factors, and it can be reversed by domestic reforms, many of which are already underway. Thanks to these reforms, we saw growth pick up until the war started earlier this year.

We expect that the conflict shock will interrupt but not derail the recovery. But we are still not even close to 2% growth, let alone healthy rates above 3%. This economy is still underperforming relative to its own history and relative to peer countries.

To flesh out my argument, I will begin by considering how South Africa succumbed to low growth. I will then discuss what is required to revive the economy, before turning to the role of the South African Reserve Bank (SARB) and monetary policy.

Why South Africa succumbed to low growth

Low growth has not always defined South Africa. Between 2000 and 2007, output grew by an average of 4.3% a year. The global financial crisis brought that momentum to an abrupt end.

Since then, South Africa has diverged from other major emerging markets. Most recovered and returned to trend growth. Our growth steadily weakened, averaging just 0.8% between 2015 and 2025. Per capita income, a key measure of living standards, declined over the past decade. That means living standards have fallen.

This performance cannot be blamed on the global environment. It occurred despite a broadly supportive world economy, relatively high commodity prices and generally accommodative global financial conditions. The main constraints have been domestic.¹ Indeed, our estimates indicate that load-shedding alone subtracted about 1.7 percentage points from gross domestic product growth in 2023, suggesting that the economy could have expanded by at least 2.5% that year.

One may ask: how did we get here, and why has the economy found it so difficult to rebound in a meaningful way?

It is worth noting that the period after the global financial crisis coincided with deep and prolonged dysfunction in our political economy.

State capacity eroded significantly at all levels of government, including state-owned enterprises. Electricity and freight logistics began deteriorating around 2008 and

¹ See E L Kganyago, '[Address at the South African Reserve Bank's 105th annual Ordinary General Meeting](#)', Address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the 105th annual Ordinary General Meeting, 8 August 2025; and South African Reserve Bank, [Monetary Policy Review](#), October 2026.

became progressively worse. For instance, the number of load-shedding days rose from 35 in 2020 to 300 in 2023 – the worst year of electricity shortages.² Similarly, South Africa's ports have consistently ranked low in the World Bank's Container Port Performance Index, with Cape Town ranked last among 405 ports in 2023, while Ngqura, Durban and Gqeberha were all huddled near the bottom.

Weaker state capacity undermined the infrastructure and public services on which a productive economy depends.³ Business costs rose, expansion was constrained and profitability fell. Policy uncertainty increased, competitiveness declined and long-term investment suffered. Meanwhile, fiscal bailouts for failing state-owned enterprises placed further strain on public finances.

As state capacity worsened, South Africa entered a low investment cycle. Rising public debt pushed up borrowing costs, ultimately costing us our investment-grade credit rating. These pressures weakened confidence and entrenched low investment and sluggish growth. Investment fell from about 20% of national output in 2008 to around 14% today.

This is not really a story about shortages of capital. South Africa's sophisticated financial system can mobilise funding when viable opportunities emerge. We have a low savings rate, but over the past 10 years we have run small current account deficits or even surpluses. This means we are not borrowing much from the rest of the world. The fundamental problem is that weak productivity, red tape and other institutional barriers have raised the hurdle rate on productive investment.

This cycle has become self-reinforcing. Weak confidence discourages investment and expansion. That limits jobs and household income. Weak demand then further reduces the incentive to invest. This is the cycle we must break.

² Based on SARB estimates at the time of the November 2023 Monetary Policy Committee meeting. J Davimes and K Scheuermaier and report 335 days of load-shedding in 2023. See J G Davimes and K Scheuermaier, '[Hello darkness, my old friend: Electricity loadshedding effects on sleep and studying habits in South African university students](#)', *Sleep Health: Journal of the National Sleep Foundation* 12(5), 2026, pp 811–820. See also MyBroadband, '[South Africa just had its worst year of load-shedding: Eskom warns to expect even worse in 2024](#)', 7 January 2024.

³ See R Hausmann et al, '[Growth through inclusion in South Africa](#)', *CID Faculty Working Paper* No. 434, November 2023.

A coordinated strategy for stronger growth

This brings me to the question of what is required to revive growth. We must begin with a simple point: economic growth is a team sport.

Sustained growth requires institutions across government to work together and fulfil their mandates. No single policy or institution can remove every obstacle to investment, productivity and employment.

In the 2026 Medium Term Budget Policy Statement, the Minister of Finance identified three pillars for faster growth: macroeconomic stability, structural reform and state capacity. This is a useful framework for analysis.

Under *macroeconomic stability*, fiscal policy must place public finances on a sustainable path, while monetary policy maintains price stability. Better macroeconomic policy alignment should lower long-term borrowing costs and improve the business environment.

Structural reform priorities are well known: reliable and affordable electricity; efficient transport and logistics; and clear, predictable policies that support investment, productivity and competition.

Under *state capacity*, public institutions must provide reliable infrastructure and essential services, apply policy consistently, maintain public assets and deliver effectively.

Responsibility for these pillars is shared across government. Progress is encouraging but implementation must accelerate. Growth is strongest when institutions fulfil their mandates and their policies reinforce one another.

What monetary policy can, and cannot, do

This brings me to the role of monetary policy. There are many opinions on this subject, but fewer sound ones.

The SARB's constitutional mandate is to protect the value of the currency in the interest of balanced and sustainable economic growth. Clearly, the framers of our Constitution understood well that high inflation is not merely an inconvenience. It imposes real economic and social costs.

High and unpredictable inflation makes planning difficult. Businesses struggle to estimate costs and returns. Lenders demand compensation for inflation risk. Households become uncertain about the future purchasing power of their incomes and savings. The poor suffer most as they have the least protection against rising prices.

By contrast, low and stable inflation does the opposite. It gives households, businesses and investors greater certainty. It supports longer planning horizons and lowers the hurdle rates that prospective investments must clear.

In July 2025, the SARB announced a preference for 3% inflation, the lower bound of our then target range of 3–6%. In November of the same year, a 3% point inflation target with a tolerance of plus or minus one percentage point was adopted. We are committed to anchoring inflation expectations around that target. Recent developments show why this matters.

When the Middle East shock emerged, inflation was at the 3% target, expectations were moderating and monetary policy was moderately restrictive. This gave us scope to move cautiously while assessing the shock's transmission. Since March 2026, we have raised the policy rate by a cumulative 50 basis points.

Monetary policy cannot prevent the initial price increase caused by the fuel shock. But it must ensure that the temporary rise in inflation does not become entrenched in expectations, wage formation and broader price-setting behaviour.

So far, our modelling indicates that prevailing policy settings are sufficient to return inflation to target after the initial shock has passed. We remain firmly focused on our mandate, and will act as needed to prevent higher inflation from becoming entrenched.⁴

Price stability supports long-term growth. But it cannot produce growth on its own. It is a necessary condition, not a sufficient one.

Monetary policy can influence demand and smooth short-term fluctuations in activity. But it cannot determine how quickly the economy's productive capacity expands over the longer term. Potential growth is determined by structural factors.

The same applies to South Africa's elevated unemployment rate, which is above 33%. This mostly reflects skills mismatches, spatial barriers, labour market rigidities and low potential growth. High unemployment has persisted when interest rates were high and when they were low. Clearly the problem is much bigger than cyclical fluctuations that are responsive to monetary policy.

The primary determinants of long-term growth, including infrastructure, logistical performance, skills, institutional capacity and productivity, lie beyond the scope of monetary policy. The SARB does not possess the instruments to fix these constraints.

Reasons for cautious optimism

I have set out a demanding diagnosis. Even so, I remain net positive.

At the SARB, we believe South Africa is turning a corner. Several foundations are stronger today than they were only a few years ago:

⁴ Higher interest rates are expected to moderate cyclical growth relative to trend. This temporary loss of output is a short-term cost incurred to secure the longer-term benefits of low and stable inflation – the foundation for sustainable growth.

- Electricity supply has improved significantly, with the energy availability factor at levels last seen about a decade ago.⁵
- Operation Vulindlela is advancing reforms in electricity, logistics and municipal services, easing long-standing constraints on economic activity.
- Fiscal credibility has improved as government has made progress in stopping debt growth. We have moved from credit ratings downgrades to upgrades.
- The lower inflation target provides a stronger anchor for inflation and inflation expectations.

These developments should lift confidence, investment and growth.

I hope members of the Italian South African Chamber of Trade and Industry are already beginning to see the benefits of reform. At a macrofinancial level, the change is clear and large: markedly lower borrowing costs, especially longer term, with the rand very resilient recently and volatility unusually low. The real economy changes are not so clear cut yet, but we believe the turnaround puts South Africa in a much better place.

The global environment will continue to present risks, particularly for middle powers like us. But we have both values and economic interests in common, and the relationship between our countries should only grow.

Conclusion

Let me conclude by returning to the central question: can South Africa escape low growth? My answer is an emphatic “yes”.

Breaking out of the low growth trajectory is both an economic and a social imperative. South Africa is also not short of credible plans to get there. Failure would deepen poverty and unemployment and increase the risk of social instability. We cannot afford that.

⁵ Reforms supporting embedded generation and rooftop solar have injected new supply and reduced pressure on Eskom’s generation fleet.

Recent reform progress makes stronger medium-term growth increasingly achievable.

The SARB projects growth to reach 2% by 2029. Faster implementation of reforms could lift medium-term growth further, as scenarios by National Treasury and the Bureau for Economic Research indicate.⁶

For its part, the SARB will continue to fulfil its mandates by:

- maintaining price stability;
- preserving financial stability and the integrity of the payments system; and
- providing a stable monetary environment for long-term decisions.

Monetary policy cannot substitute for structural reform. What it can do is provide a stable foundation on which reform, investment and enterprise can build. If each institution does its part, and does it well, South Africa can return to stronger, more inclusive and sustainable growth.

Thank you.

⁶ National Treasury, '[Economic Outlook](#)', 2026 *Budget Review*, 25 February 2026, pp 11–22. See also Bureau for Economic Research, '[Pick a bird. Any bird. Scenarios for the SA economy \(2026–2030\)](#)', media release, 26 March 2026.