SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

EMBARGO DELIVERY

29 January 2026

STATEMENT OF THE MONETARY POLICY COMMITTEE

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank

Good day

Last year was marked by extreme global uncertainty, and 2026 has begun with a new round of shocks. Geopolitical tensions remain elevated, reflecting what appears to be a rupture in the global political order. There are also new threats to central bank independence.

Markets are jittery, and precious metals like gold have received safe-haven flows.[1] There are also ongoing risks of an Artificial Intelligence (AI) bubble. Furthermore, global imbalances have become very large. For instance, China's trade surplus was over a trillion dollars last year, a new record.[2] Meanwhile, government debt is still growing fast in key economies, with the US fiscal deficit, for example, approaching two trillion dollars.[3] These trends are not sustainable.

Despite these fragilities, asset prices have been resilient and global growth is holding up,[4] supported by investments in AI, as well as fiscal stimulus in major economies. Inflation generally slowed last year, and many central banks have had space to

[1] Relatedly, for the World Economic Forum's 2026 global risk report, survey respondents identified 'geoeconomic confrontation' and 'state-based armed conflict' as the top two risks 'most likely to present a material crisis on a global scale in 2026'.
[2] The official figure was $1.19 trillion, about a fifth higher than 2024.
[3] The FY2025 deficit was $1.78 trillion. The US fiscal year runs to October.
[4] The global growth rate used in the forecast has been revised up slightly, from 2.7% to 2.8% for 2025, with 2026 unchanged at 2.9%. The IMF's January update to the World Economic Outlook projections likewise had small upward revisions for global growth.

adopt more neutral policy settings. Financing conditions for emerging markets remain benign.

Turning to South Africa, growth looks steadier. The economy has expanded for four consecutive quarters, and the available data suggest it grew further in the most recent quarter.[5] This would mark the longest unbroken growth phase since 2018.[6]

The main growth driver has been household consumption, up by more than 3% last year, compared to an estimated 1.3% for the overall economy. Unfortunately, investment has been weak, contracting during the first half of 2025. However, the third-quarter data showed a rebound. We hope this investment recovery will be sustained, allowing the economy to achieve structurally higher growth.[7]

Our forecasts continue to show growth moving somewhat higher, approaching 2% over the medium term. We see some upside risks to these projections.

Moving to prices, inflation last year was 3.2%, close to our 3% objective. Inflation was a bit higher towards the end of the year, mainly because of temporary factors. The December print came in at 3.6%. However, we expect this was the peak, and that inflation will slow from here.

Indeed, our near-term inflation forecast has fallen, with the rand stronger[8] and a lower oil price assumption.[9] We are, however, keeping an eye on food inflation, especially meat prices, which are being affected by a serious outbreak of foot and mouth disease. We are also concerned about electricity prices, given that NERSA's price correction may rise from R54 billion to R76 billion.[10]

More positively, inflation expectations have fallen, with the latest survey showing longer-term expectations at record lows.[11] We look forward to expectations declining

[5] 2025Q4 growth is estimated at 0.3% (q/q, sa)
[6] The economy achieved six consecutive growth quarters between 2016Q4 and 2018Q1. To put that in context, it expanded for 18 consecutive quarters between 2009Q3 and 2013Q4, and 40 quarters from 1998Q4 to 2008Q3.
[7] Investment is estimated to have contracted by 2.1% for the year as a whole
[8] The implied starting point for the forecast is R16.54 per US$ (2026Q1), followed by 16.73 (2026Q2)
[9] The November 2025 projection for 2026 inflation was 3.5%. The latest projection is 3.3%.
[10] While the baseline forecast keeps the electricity price assumptions unchanged, a larger recovery to unwind the additional error would raise 2027 inflation to 3.3% and 2028 inflation to 3.1%, compared with 3.2% and 3.0% for those two years, respectively, in the baseline.
[11] The BER survey for 2025Q4 had both 2-year ahead average expectations, and expectations over 5 years, at 3.7%. These categories were both at 4.2% in the 2025Q3 survey.

further, as South Africans experience ongoing lower inflation and learn more about the new target.[12]

In turn, lower expectations will be important for getting inflation to settle at 3%. Currently, we are benefitting from low goods price inflation, supported by factors like the stronger rand. Goods inflation is at 3%, and core goods is at 1.2%. By contrast, services inflation is still over 4%. It is desirable to have services inflation moving closer to 3%, as low inflation becomes the new normal for South Africa.

We assess the risks to the inflation outlook as balanced.

Against this backdrop, the MPC decided to keep the policy rate unchanged, at 6.75%. Two members favoured a cut of 25 basis points, while four preferred a hold.

The Quarterly Projection Model continues to forecast gradual rate cuts as inflation subsides. The model interprets the policy stance as moderately restrictive currently, with rates reaching neutral levels during 2027. As before, this rate path remains a broad policy guide. Our decisions will continue to be taken on a meeting-by-meeting basis, with careful attention to the outlook, data outcomes, and the balance of risks to the forecast.

Moving to our scenarios:

Over the past year, there have been large changes in both the rand exchange rate and oil prices. Our baseline forecasts assume these prices will stay roughly where they ended 2025,[13] but the outlook is uncertain. We therefore considered a pair of scenarios: a favourable one where the rand is stronger and the oil price keeps falling, and a more challenging one where the rand weakens and oil goes up again.[14]

In the adverse scenario, inflation peaks at 4%, and the convergence to the 3% target is slower. Interest rates are largely unchanged in the near term, with the shift down to neutral delayed by about a year. In the positive scenario, inflation gets as low as

[12] Breakeven rates have also moderated somewhat since the November 2025 MPC. The 5-year metric is around 3.3%, and the 10-year is just below 4%, a record low.
[13] The oil price assumption is US$65 per barrel over the forecast horizon while the implied rand dollar stays in a range of 16.54-17.10.
[14] The scenario assumptions roughly correspond to the high and low ends of the range of Bloomberg consensus forecasts. The adverse scenario has the rand weaken to R18.50 per US$, with oil reaching US$75 per barrel, while the positive scenario has the rand as strong as R15.50 per US$ (and ending at R16.00 per US$), and oil down to US$51 per barrel (ending at US$55 per barrel).

2.3%, temporarily. In this context, expectations ease faster and inflation ultimately settles near 3% more quickly. This allows front-loading of interest rate cuts, with neutral reached during the current year.

These scenarios show that even quite large shocks, like those modelled, would not push inflation outside our tolerance range of 3% plus or minus one. They also demonstrate how supply shocks interact with inflation expectations, affecting how fast we deliver on the 3% target. We are trying to anchor expectations at 3%. Positive shocks get us there sooner, while negative shocks delay the process, but don't block it. Overall, monetary policy appears well positioned to manage the range of shocks that might come our way.

To conclude, 2025 was a watershed year for the South African economy. Despite a volatile global backdrop, there was significant progress on domestic reforms, including a new inflation target. These efforts have been rewarded with lower borrowing costs, a rapid decline in inflation expectations, and steadier growth. It is crucial to sustain this progress. For monetary policy, our main contribution is to deliver on the new target, which means stabilising inflation at 3% over the next few years. Further gains in economic performance would come from reaching a prudent public debt level, lowering administered price inflation, and continuing structural reforms that raise potential growth.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 26 March.

Contact person:

Thoraya Pandy

082.416.8416

media@resbank.co.za