SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

EMBARGO DELIVERY

23 July 2026

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

The crisis in the Middle East has entered a new and volatile phase. Traffic through the Strait of Hormuz has picked up, and then fallen again. Oil prices, which had declined to about 70 dollars a barrel earlier this month, have now rebounded to roughly 90 dollars.[1]

For the global economy, the war has disrupted supply chains and hurt incomes. At the same time, the Artificial-Intelligence (AI) boom has delivered an offset, with huge investments in data centres, and elevated valuations for AI-related companies. Overall, world growth and inflation forecasts are largely unchanged since our last meeting.

Among the major central banks, both the Bank of Japan and the European Central Bank raised rates at their June meetings, as expected. Meanwhile, the Bank of England, the People's Bank of China, and the US Federal Reserve have been on hold. That said, Fed communications have emphasised the importance of price stability, and rates have shifted up significantly at the short end of the US yield curve. In this context, the dollar has strengthened against other major currencies.[2]

[1] The QPM oil price assumptions have been revised down, from $103.80 to $96.60 for 2026Q2; $94 to $78.50 for 2026Q3; and $88.30 to $75 for 2026Q4.
[2] The DXY index is up about 2% since May 2026

Moving to South Africa, first-quarter growth was stronger than expected, running close to 2% year-on-year.[3] However, this was due to higher net exports rather than domestic demand.

We anticipate slower growth through the second and third quarters of this year. Consumer confidence has fallen sharply, and business confidence has also weakened. Sectoral data show generally lower activity, since the start of the war. Prices for our export commodities have also fallen[4], although terms of trade are better, given lower prices for imports.[5]

We started this year with good momentum, but households have suffered from higher fuel prices, while uncertainty has weighed on investment. It is also increasingly clear that municipal dysfunction has become a binding constraint on growth. With domestic reforms, we think the economy can get back to a rising growth trend, as global conditions stabilise. Our baseline forecast is that the economy starts to recover in the second half of this year, as the shock fades. But the outlook is uncertain.

We see downside risks to growth.

Turning to inflation, recent prints have been well above target, mainly because of higher fuel costs. Petrol and diesel prices eased this month,[6] but global prices have now risen again. We expect headline inflation to stay above 4% until early next year.[7]

Aside from fuel, goods prices have been relatively contained. The exchange rate has been resilient, with the rand close to where it started the year against the dollar, and stronger against the euro.[8] This has helped with import prices.

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[3] The y/y rate was 1.9%, not seasonally adjusted

[4] The SARB Index of commodity prices declined by 8% in June (for USD prices) and 8.5% (in ZAR), measured month-on-month

[5] The forecast for 2026 terms of trade has improved slightly, from 113.2 index points to 114.5.

[6] For example, the fuel-pump price of petrol in Gauteng has gone from R20.30 per litre in March, to R23.36 in April, R26.63 in May, R28.06 in June and then down to R26.10 in July.

[7] Fuel inflation stays elevated until 2027Q2 (17.5% in 2027Q1; -6.7% in 2027Q2).

[8] The implied starting point for the dollar/rand is R16.47 per US$ in 2026Q2, followed by R16.39 for 2026Q3 and R16.88 for 2026Q4

Food inflation has also slowed recently, which reflects good harvests, as well as fading effects from the outbreak of foot-and-mouth disease. El Niño may start affecting food supply next year, but this is still a risk factor, not part of our baseline.

For services inflation, conditions look problematic, with most components now well above 3%, including insurance, transport, and housing. Our various measures of underlying inflation also indicate stronger inflation pressures.[9]

According to the latest survey from the Bureau for Economic Research, inflation expectations have risen. The changes are bigger for the near term than the longer term. All survey groups anticipated higher inflation, with the biggest change coming from trade unions.[10] As for market expectations, breakeven rates have eased since May, but they are still higher than they were at the start of the year.

We see upside risks to inflation.

Against this backdrop, the committee decided to keep the policy rate unchanged, at 7%.

Four members preferred a hold, while two favoured an increase of 25 basis points. The committee agreed that the outlook is uncertain, and with the rate increase at our previous meeting, the policy stance is appropriate for now, with rates somewhat restrictive.

The forecast from our Quarterly Projection Model (QPM) shows the policy rate broadly stable through the remainder of the year. The model shows cuts later in the forecast, as inflation falls to 3% and rates adjust towards neutral levels.[11]

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.

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[9] The trimmed mean, core, supercore and PCCI (Persistent and Common Component of Inflation) measures are all trending higher, and are now all above 3%

[10] For 2-year ahead average expectations, the QPM has 3.8% for 2026Q3 and 3.7% for 2026Q4. The projections for 2027 are 3.6%, 3.6%, 3.5% and 3.4% for the four quarters of the year, respectively.

[11] The nominal policy rate for the forecast averages 6.84% for 2026Q2, 6.88% for 2026Q3 and 6.79% for 2026Q4. It then declines gradually, ending 2027 at 6.24% and stabilising a little below 6% thereafter (the average for 2029 is 5.88%).

To support our risk assessment, for this meeting we considered scenarios for inflation expectations, as well as fuel prices.

For expectations, after the upside surprise in the recent survey, we looked at what could happen if expectations keep on rising throughout this year.[12] The scenario showed extra pressure on wages, which feeds through to core inflation. The model therefore sees tighter policy, with one more rate hike than the baseline forecast, and rates staying higher-for longer after that.[13]

For fuel, the recent volatility in oil prices shows that we face both upside and downside risks, depending on how the Middle East conflict evolves. We therefore considered an adverse case, with oil at 100 dollars a barrel for 2026, easing slowly to 80 dollars by 2029. That was paired with a positive scenario, where oil is 78 dollars this year, falling to 60 dollars by 2029.

The adverse scenario has inflation persistently above target, with the shock feeding through to food prices as well as core. This requires an extra hike this year and an extended period of restrictive policy.[14] By contrast, the favourable scenario shows inflation returning to target more rapidly, implying that rates start easing in the current year.[15]

To conclude, the inflation outlook has improved slightly since our last meeting, but inflation is still too high, while growth is weak. We are setting policy to achieve 3% inflation over time, ensuring the current supply shock does not de-anchor inflation expectations.

At the same time, we recognise that South Africa’s growth prospects will be driven mainly by domestic reforms. This covers structural interventions, such as fixing local government, and improving productivity in the network sectors, like transport and energy. It also includes the macroeconomic goals of sustainable debt and permanently lower inflation.

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[12] For this scenario, 2-yr ahead average BER expectations are 4.3%, 4.5%, 3.8% and 3.2%, for 2026, 2027, 2028 and 2029, respectively. That contrasts with annual averages of 3.7%, 3.5%, 3.1% and 3.0% for those four years, respectively, in the baseline forecast.

[13] The rate peak in this scenario is 7.17% in 2027Q1, versus 6.88% in 2026Q3, in the baseline. The gap is persistent; by 2028Q4 the scenario has the policy rate at 6.61%, versus 5.95% in the baseline.

[14] The peak rate in this scenario is 7.27% in 2026Q3. The 2028Q4 rate is 6.18%.

[15] The rate for 2026Q3 is 6.72%; for 2026Q4 it is 6.58%. By 2028Q4 it is 5.76%.

Our main contribution is to stabilise inflation in line with our 3% target, over time, and the MPC will act as needed to achieve that.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 23 September.

Contact person:

Thoraya Pandy

082.416.8416

media@resbank.co.za