



SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

EMBARGO DELIVERY

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STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

Since our last meeting, the key event has been the outbreak of conflict in the Middle East. Prices for commodities like oil, gas and fertiliser have moved sharply higher. Meanwhile, there have been broad losses across equity, bond and currency markets, with only a few safe havens and energy producers showing gains. This repricing has been largely orderly, with few signs of financial-market dysfunction so far.

We are just a few weeks into this shock, and conditions remain extremely uncertain. At this stage, it is obvious that global inflation will be higher in the near term, while growth will probably suffer from supply-chain disruptions and rising costs. But the longer-term outlook is less clear.

In these circumstances, leading central banks have generally kept rates unchanged, as they wait for more information.¹ Markets have largely dropped expectations for rate cuts, in major economies, and probabilities of rate hikes have risen.

Turning to South Africa, the latest data show the economy grew further in the fourth quarter of 2025, with output rising by 1.1% for the year as a whole. This is better

¹ This covers the recent meetings of the United States Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England. The Reserve Bank of Australia raised rates last week, while the Central Bank of Brazil cut.

than recent years but still well below longer-run averages.² We have been encouraged by green shoots such as rising confidence and stronger investment,³ but the ongoing war could interrupt the growth recovery.

For the time being, our growth projections are largely unchanged. There have been data revisions which lowered 2025 growth, making 2026 look a bit stronger in comparison. This offsets some of the impact from the current shock.⁴ We still have growth rising to around 2% over the next few years, but we now see downside risks to the outlook.⁵

Moving to prices, inflation was 3.0% for February, with core inflation also at 3.0%. This is precisely in line with our target. Higher energy prices will raise inflation in the near term.⁶ We expect headline will soon accelerate to around 4%, with fuel inflation over 18% for the second quarter.⁷ Our baseline forecast then has a gradual unwinding of the shock, taking inflation back to 3% late next year.⁸

The ongoing Middle East conflict is a clear instance of a supply shock, which raises prices while weakening demand. The standard response to a supply shock is to look through first-round effects, which are unavoidable and cannot be stopped by interest rate changes. At the same time, central banks should be alert to second-round effects, where an initial shock triggers broad price increases.⁹ Getting policy right

² Growth for 2023 was 0.8% and for 2024 it was 0.5%. Longer-run average growth has been around 2%–2.5%; steady-state growth in the QPM is 2.5%.

³ Real gross fixed capital formation grew 1.4% in 2025Q3 and 1.3% in 2025Q4.

⁴ The latest GDP release from Stats SA revised growth lower for 2025Q2 and 2025Q3, so despite the upside surprise in 2025Q4 (0.4% vs 0.3% expected), the full-year growth estimate was revised down from 1.3% to 1.1%.

⁵ Growth for 2026Q1 is projected at 0.2% (q/q, s.a.), with 0.3% for 2026Q2.

⁶ While the rand has weakened during March, earlier forecasts did not fully incorporate the rand strength of early 2026, so the change to the exchange rate is significantly smaller than the change to the oil price assumption. The 2026Q1 implied dollar/rand exchange rate is revised from 16.54 to 16.33 (more appreciated) while 2026Q2 is now R16.69 and 2026Q3 is R16.83 (previously R16.73 and R16.85, respectively).

⁷ The peak in the forecast is 4.3% in April. The average for 2026Q2 is 4.0%.

⁸ The baseline has the oil shock unwind by 2028, with prices back to US\$65 per barrel by 2028Q2, in line with the January projections (also equivalent to the pre-war starting point; the January projections had US\$64.3 for 2026Q1). But oil now averages US\$78 in 2026 and US\$68 in 2027, instead of staying flat at US\$65 over the medium term, as in the January forecast round.

⁹ For an extended discussion of monetary policy responses to supply shocks, see this 2022 speech: <https://www.resbank.co.za/content/dam/sarb/publications/speeches/speeches-by-governors/2022/Keynote%20address%20by%20Dr%20Rashad%20Cassim.%20Deputy%20Governor%20of%20the%20South%20African%20Reserve%20Bank.%20at%20the%20ACI%20Financial%20Markets%20Association%20South%20Africa.pdf>

means ensuring that the price response to supply shocks is transitory, and not persistent.

It is always difficult to assess second-round effects in time. Waiting for clear evidence risks leaving the policy response too late. We therefore rely on forecasts, as well as indicators like wages and inflation expectations, to judge if there is a broader build-up of inflation pressure.

For expectations, the latest survey once again showed all respondents lowering their projections, closer to our target – but this survey was in the field before the war started.¹⁰ Market-based indicators of inflation expectations have picked up recently, but they tend to be volatile.¹¹

The fact is, we are still only a few weeks into this crisis. The coming months will be crucial for assessing the longer-term inflation consequences.

Given current forecasts, we see inflation risks to the upside.

Against this backdrop, the committee decided to keep the policy rate unchanged, at 6.75%. The decision was unanimous.

In previous meetings we warned of elevated risks, and we have been proceeding cautiously in our rate setting. Now a crisis has hit, this prudent approach is proving appropriate.

The latest forecasts from our Quarterly Projection Model show rates unchanged for a longer period, postponing the cuts from the January projections.¹² The policy stance is treated as moderately restrictive, which helps bring inflation back to target. 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.

¹⁰ Average expectations shifted lower, converging at 3.6% for all the measures (2026, 2027, 2028, and 'over 5 years').

¹¹ For breakeven rates, the 5-year measure is up from 3.36% as of the previous MPC meeting to 4.46%, a change of 110bps. The 10-year measure has moved from 3.98% to 4.65% over that period, a change of 67bps. Although these indicators have a long horizon, they typically respond aggressively to short-term shocks.

¹² The policy rate projection now averages 6.75% for 2026Q1, 6.83% for 2026Q2, 6.63% for 2026Q3 and 6.47% for 2026Q4. The previous forecast had two cuts implied for 2026, one early in the year and one in the second half; the new forecast has one implied cut in 2026, in the second half.

Given global uncertainty, it is useful to consider scenarios. For this meeting we looked at two alternatives, both with more adverse assumptions than our baseline. The first scenario assumes that the conflict lasts another two months or so, with oil prices averaging nearly US\$100 per barrel for this period and the rand about 5% weaker against the dollar. The second, more extreme scenario has the war lasting over a year, with oil prices staying above US\$100 per barrel and the rand 10% weaker.¹³

In both scenarios inflation is higher, exceeding 4% in the first version and 5% in the second. Both call for higher interest rates this year, with one hike in the first scenario and several more in the other.¹⁴ Inflation then slows as oil prices start easing and the policy response takes effect. In the first scenario we are back to target during 2027. In the second scenario this only happens in 2028. In both cases, growth is weaker initially but there is some catch-up later.

When we adopted the new 3% inflation target, we were clear that achieving it could take a couple of years.¹⁵ Until recently, conditions were favourable, and it looked like we would get there fast. Now there has been a negative shock, and it could take a bit longer. Nonetheless, all our forecasts show inflation reverting to 3% during the next two years. We are committed to delivering that outcome, and stand ready to act as needed to fulfil our mandate.

To conclude, South Africa has made important macroeconomic progress recently, with a lower inflation target, improved fiscal prospects and steadier growth. Prudent monetary policy will help sustain these gains, despite difficult global conditions. Further support would come from reaching a prudent public debt level, lowering administered price inflation, and continuing structural reforms that raise potential growth.

¹³ In the baseline, Brent crude averages US\$78, US\$68 and US\$65 per barrel, for 2026, 2027 and 2028 respectively. In the intermediate scenario it is US\$85, US\$72 and US\$67 for those three years; in the worse-case scenario it is US\$97, US\$118 and US\$103. The scenarios also used higher country risk premiums, up 10% in the intermediate scenario and 20% in the severe scenario.

¹⁴ The rate peak in this scenario is approximately aligned with the peak of the 2021-2023 hiking cycle, which was 8.25%.

¹⁵ Accordingly, the November 2025 announcement of the new inflation target stipulated that it would “be implemented over the next two years.” See

<https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2025/new-inflation-target>

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GOVERNOR

The next statement of the Monetary Policy Committee will be released on 28 May.

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