



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, hopes for a quick end to the Middle East crisis have faded. The Strait of Hormuz is still largely closed. Oil prices have fluctuated around 100 dollars per barrel. In this context, global growth forecasts have been marked down, while inflation forecasts have been revised higher.

Some countries have been grappling with energy shortages, especially South Asian economies that depend on Gulf producers. Elsewhere, supplies are intact, supported by large pre-existing inventories, but prices are still up sharply. Households are being squeezed, with consumer prices in the United States, for example, rising 3.8% in April, and euro-area inflation at 3%. Bond yields have also risen, especially in advanced economies, which are now borrowing at rates last seen in the 2000s.¹

Given the uncertainty, central banks are still mostly on hold. Markets now project major central banks will increase rates this year, having dropped expectations for cuts.

Moving to South Africa, we have lowered our growth forecasts for the next two years. Before this shock hit, the economy seemed to be gaining momentum, with the

¹ This refers to G3 averages for 10-year and 30-year instruments. Yields for some advanced countries and specific tenors have been higher more recently (e.g. Germany's 10-year is at its highest since 2011); 30-year tenors for Japan and the UK are at their highest levels this century.

incoming data mostly positive.² Now, however, we face a painful combination of higher global uncertainty and reduced disposable income.³ This will hit both investment and household consumption, which have been our main growth drivers.⁴

The recent floods in the Western Cape, Eastern Cape and North-West provinces have also done severe, if localised damage. The frequency of these extreme-weather events underscores the threat from climate change.

We see downside risks to growth.

That said, the fundamentals of South Africa's recovery remain intact – as reflected in the recent decision by Moody's to assign a positive outlook to the sovereign credit rating. The macroeconomy is demonstrating resilience to global challenges. South Africa's terms of trade remain elevated, lifted by favourable prices for key exports. Domestic reforms continue to support a pick-up in growth potential.

Moving to inflation, consumer prices rose 4% in April, up from 3.1% previously. This was mostly due to higher energy costs. After falling by 8.7% in March, fuel prices increased by 11.4%. This is one of the largest jumps in fuel inflation on record.⁵ Services inflation also accelerated to 4.6%, well above our 3% target. This partly reflected transport costs, but it also showed non-fuel pressures, in areas such as insurance and financial services.

At the same time, the exchange rate remains stronger than it was last year.⁶ This has helped to contain import prices. Food inflation has also been easing.⁷

² This covers indicators like mining, finance, wholesale and car sales, as well as credit extension and the SARB's leading indicator. The QLFS data on employment showed a significant drop in 2026Q1, partly due to the conclusion of Phase V of the Presidential Youth Unemployment Initiative in 2025Q4. The trend in employment growth is less clear; the three preceding quarters were positive.

³ The forecast has 0.2% growth for 2026Q1 (q/q, seasonally adjusted, not annualized), and 0.1% for 2026Q2.

⁴ Household consumption is expected to contract in 2026Q2 (-0.1%) and 2026Q3 (-0.2%), although a strong 2026Q1 (0.6%) means it is still positive for the year (2.1%, revised down from 2.3% as of the March forecast round).

⁵ The increase was 19.98 percentage points. There are only two larger changes on record, of 22.7pp and 24.1pp, in December 2009 and January 2010 (for data starting in January 2003).

⁶ The implied dollar/rand starting point is R16.69 for 2026Q2, unchanged from last time; for 2026Q3 it is R16.64, from 16.83 previously. The 2026 annual average is R16.63, compared with R16.67 for the March forecast, and R17.89 for 2025.

⁷ Food inflation was 2.8% in April, a 13-month low.

Looking forward, we have raised our oil price assumptions.⁸ In addition, we see renewed pressure on food prices, with the agricultural sector facing higher costs for both diesel and fertiliser. Our forecast now has headline inflation averaging 4.4% this year and 3.7% next year, before returning to the 3% target in 2028. Core inflation is also higher, peaking early next year.⁹

These projections entail some second-round effects, as the shock broadens out into wages and inflation expectations. At this early stage, we do not have clear confirmation of these effects in the data. New results from our main survey of inflation expectations will only be available next month.¹⁰ However, market indicators and analyst expectations are edging higher.¹¹

Given the forecasts, we see upside risks to inflation.

Against this backdrop, the committee decided to increase the policy rate by 25 basis points, to 7%, effective from 29 May.

Four members preferred this action, while two favoured no change. The committee agreed that inflation risks had intensified, and that the challenge of large and overlapping shocks would likely trigger second round effects, requiring a monetary policy response. Our decision was aimed at managing risks and ensuring that inflation returns to target.

The forecast from our Quarterly Projection Model (QPM) shows one hike this quarter. As inflation falls later in the forecast, our model then has rates easing again, towards neutral levels.¹² Real rates are lower this year, given higher inflation, so the policy stance is now less restrictive than it was in March.

⁸ The assumption for the Brent crude price, per barrel, is \$77.80 for 2026Q1, \$103.80 for 2026Q2, \$94.0 for 2026Q3 and \$88.30 for 2026Q4. The average for 2026 is now \$91, versus \$78 for the March forecast round.

⁹ The quarterly peak is 4.1% in 2027Q1

¹⁰ The QPM projection for the BER survey has 3.3% for 2026Q2, 3.4% for 2026Q3 and 3.5% for 2026Q4 (previously 3.3%, 3.3% and 3.2% for those three quarters, respectively).

¹¹ The Reuters analyst survey for May 2026 showed median inflation forecasts for 2028 rising from 3.1% to 3.2%. Breakeven rates are around 4.4% and 4.6% for the 5-year and 10-year measures, respectively. Both measures were below 4% before the shock.

¹² The nominal policy rate in the forecast peaks at 7.11% in 2026Q2, easing to 6.99 in 2026Q3. It then declines gradually towards 6% over the subsequent five quarters, reaching 6.04% in 2027Q4.

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.

Given elevated uncertainty, we continue to find value in scenarios. For this meeting, we explored three risks. One is a prolonged Middle East crisis, leading to higher food and oil prices, plus a weaker rand. The second included El Niño, a weather pattern that seems to be forming currently, and which typically brings drought to parts of South Africa. The third scenario added non-linear effects – basically the risk that big shocks have proportionally larger effects on inflation, with more costs passed on to consumers.

All these scenarios imply higher inflation and lower growth.¹³ For the QPM, policy must achieve a balance, supporting economic activity while guiding inflation back to target over time. To this end, the various scenarios all show some additional monetary-policy tightening. The scenario with a longer Strait closure has inflation at about 5%, with two more hikes than the baseline. With El Niño added, rates stay high for longer. The most adverse scenario puts all the risks together, causing inflation to peak above 6%, requiring three extra hikes.¹⁴

These scenarios underscore the importance of food, alongside fuel, in transmitting the ongoing geopolitical shock. They also show the additional risks from a severe El Niño.

We have already had one global inflation surge this decade, and we may well be starting another. In such adverse conditions, it is crucial that central banks maintain their credibility, and prevent higher inflation from becoming entrenched. Although we do not have the tools to prevent the initial effects of supply shocks, monetary policy is responsible for longer-run inflation. We take this duty seriously, and reiterate our commitment to bringing inflation back to 3%, over time.

Lesetja Kganyago

¹³ In the scenario with the prolonged Strait closure, growth is 1.1%, 1.4% and 1.7% for 2026, 2027 and 2028, respectively. For the version which includes El Niño, that declines to 1.1%, 1.2% and 1.6% for the three forecast years, respectively. The baseline has 1.2%, 1.7% and 1.9% for those three years.

¹⁴ The policy-rate peak in the worst scenario is 7.83% in 2026Q3.

GOVERNOR

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

Contact person:

Thoraya Pandey

082.416.8416

media@resbank.co.za