SOUTH AFRICAN RESERVE BANK

PRESS STATEMENT

EMBARGO DELIVERY

23 September 2026

STATEMENT OF THE MONETARY POLICY COMMITTEE

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

Good day

The global environment remains challenging and uncertain. Since our last meeting, the Middle East conflict has escalated further. Not much oil is getting through the Strait of Hormuz. Meanwhile, oil exports from Saudi Arabia are being interrupted by fighting in Yemen. Furthermore, the Russia-Ukraine war is causing ongoing destruction of refinery capacity, and also affecting food exports through the Black Sea. These geopolitical events add up to a large, negative and persistent global supply shock, creating additional inflationary pressures.

In this context, more central banks are raising rates. These include the European Central Bank, the Bank of Japan, as well as the United States Federal Reserve, which hiked last week for the first time in three years.[1]

We have also seen longer-term interest rates moving higher recently, with various benchmarks reaching multi-decade highs.[2] The main drivers of this include large fiscal deficits in major economies, as well as inflation risks, and heavy borrowing to fund infrastructure for Artificial Intelligence.

[1] The most recent previous hike by the US Fed was 26 July 2023
[2] For instance, the US 10-year Treasury bond yield recently reached its highest level since 2007

Despite these stresses, world growth is holding up. Nonetheless, shocks are multiplying and vulnerabilities are increasing. The global economy is not in a healthy space.

Turning to South Africa, in our last meeting we warned of downside risks to growth. The data has now shown that the economy contracted in the second quarter, by 0.2%.[3] We still expect a rebound during the second half of the year, with annual growth projected at 1.2%.[4]

The global shocks are clearly hurting our economy. We continue to project growth of around 2% over the medium term. This is based on global conditions stabilising, and domestic reforms delivering a better business environment. Our assessment is that growth risks are skewed to the downside.

Moving to inflation, we have raised our near-term forecasts. This is mainly because of higher fuel prices.[5] For example, petrol is rising again after moderating between June and August, with an average under-recovery of R2.83 per litre, currently. Headline inflation will likely be above 5% later this year and early next year, before slowing as the fuel shock recedes.[6] We currently expect inflation to be back around 3% towards the end of 2027.[7]

In contrast to fuel, inflation developments in food and core goods have been more favourable. Import prices remain contained, with help from the rand, which has been notably resilient throughout the year.[8] Meanwhile, food inflation is at its lowest since 2010. This reflects strong harvests, as well as a levelling off in meat prices following the outbreak of foot-and-mouth disease. We may start to see drought pressures from El Niño soon, but for now agricultural conditions are broadly favourable.[9]

By contrast, services inflation is elevated. Some of this reflects temporary pressures, for instance in transport. But we also see price hikes well above the 3% inflation

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[3] The contraction was 0.2%, following a revised expansion of 0.4% in 2026Q1

[4] The 2026Q3 projection is 0.4%; for 2026q4 it is 0.3% (q/q, seasonally adjusted). The annual projection for 2026 is 1.2%, down from 1.4%.

[5] The Brent crude oil assumption for 2026Q3 has been revised up to \$90.9, with 2026Q4 up to \$95.1 (versus \$78.5 and \$75 for those quarters, respectively, as of the July MPC meeting)

[6] The monthly peak is currently projected at 5.7% for November 2026

[7] Headline CPI is projected at 3.1% for 2027Q4, and averages 3.2% in 2028 and 3.0% for 2029.

[8] The implied starting point for the forecast is R16.29 per US dollar, for 2026Q3, with 2026Q4 at R16.40; 2027Q1 at 16.71 and 2027Q2 at 17.10

[9] For instance, dam levels are at 96% as of August 2026, and rainfall has been higher than usual for much of the grainbelt area in the 2026/27 season, so far.

target in many other categories.[10] These increases often do not reflect a true picture of where inflation has been and where it is going. Accordingly, an important part of lowering services inflation is getting inflation expectations lower.

Based on the latest survey from the Bureau for Economic Research, expectations have eased slightly, after rising in the previous quarter.[11] That said, they remain high, with longer-run expectations around 4% rather than our 3% target.[12] We are also cognisant that this survey was conducted before the recent fuel price increases. In this context, we note that market-based measures of expectations have picked up lately, after moderating earlier in the quarter.

We see upside risks to inflation.

Against this backdrop, the committee decided to raise the policy rate by 25 basis points, to 7.25%, effective from 25 September. The decision was unanimous.

A few months back, it seemed that the fuel-price shock might be unwinding, but now it has intensified. We are also seeing global rates moving higher. We have taken a measured approach to rate setting, in conditions of high uncertainty, but we remain focused on our price-stability mandate. It is crucial that inflation reverts to 3% as the current shock fades, and we take responsibility for delivering that outcome.

The forecast from our Quarterly Projection Model (QPM) has the policy rate broadly stable through the remainder of this year. The model shows cuts later in the forecast, as inflation falls to 3% and the QPM moves to a more neutral policy stance.[13]

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.

To support the risk assessment, for this meeting we considered a scenario with higher global interest rates. Our baseline forecast has the major central banks raising rates by about half a percentage point, between this year and next. Our

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[10] There are 73 items in services at the COICOP 8-digit level. As of July 2026, 76.7% had inflation over 3%; 61.6% were above 4%; and 35.6% were above 5%

[11] The forecast for 2-year ahead expectations is at 3.8% for each quarter from 2026Q3 through to 2027Q2, inclusive, before easing gradually to 3% over the subsequent 6 quarters

[12] Average expectations as of the 2026Q3 survey were 4% for 2027, 3.9% for 2028, and 4% over five years. Note that the 2028 number has been reported as both 3.8% and 3.9%, but the confirmed number is 3.9%

[13] The nominal policy rate for the forecast averages 6.98% for 2026Q4, 6.71% for 2027Q1, 6.57% for 2027Q2, 6.48% for 2027Q3 and 6.34% for 2027Q4.

scenario doubled that, taking the increase to a full percentage point. This causes rand depreciation, which lifts inflation.[14] The model responds with a tighter policy stance, with rates about one hike above the baseline path and slower cuts subsequently.

We also looked at a scenario with higher inflation expectations and wage increases.[15] This also showed a tighter policy stance, with between one and two hikes above the baseline peak, and rates staying higher for longer.[16]

Overall, this is proving to be a difficult year for the global economy, and for South Africa. Geopolitical conflicts have caused severe negative supply shocks, which weaken output and raise inflation. South Africa's growth recovery has slowed, while inflation has increased well above our target.

Our approach is to look through the initial effects of price shocks, while ensuring that they do not entrench higher inflation. Unfortunately, large and sustained shocks, like those we are experiencing now, are more likely to trigger second-round effects, where individual price changes evolve into widespread increases. To prevent this, we are adopting a more restrictive monetary policy, with rates above longer-term levels.

Because of the adverse global environment, domestic reforms are our best growth option. This covers structural interventions, such as improving productivity in the transport and energy sectors. It also includes the macroeconomic goals of sustainable debt and permanently lower inflation. Indeed, in a world of excessive debt and elevated inflation, our macro fundamentals are becoming a differentiating factor for South Africa, lowering our country risk premium and helping to protect us from the global bond selloff.

As the Monetary Policy Committee, our primary role is to protect the value of the currency, by getting inflation back to 3% over time. We will act as needed to achieve this goal.

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[14] In the scenario, inflation is 4.6%, 3.8% and 3.3% in 2027, 2028 and 2029, respectively, a difference of 0.6pp, 0.6pp and 0.3pp to the baseline, respectively. (Inflation is the same for 2026 in the baseline and the scenario.) The scenario has the rand weakening past R18 per US dollar

[15] This scenario had had 2-year ahead BER expectations at 4.0%, 4.8%, 3.9% and 3.3% for 2026, 2027, 2028, 2029, respectively. Unit labour cost inflation was 4.7%, 7.4%, 5.3% and 3.7%, for 2026, 2027, 2028 and 2029, respectively, compared with 4.4%, 5.4%, 3.5% and 3.0% in the baseline. Headline inflation peaks at 4.8% in 2027, followed by 4.1% in 2028 and 3.7% in 2029.

[16] The rate peak in the scenario is 7.38%, in 2027Q3.

Lesetja Kganyago

GOVERNOR

The next statement of the Monetary Policy Committee will be released on 19 November.

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The dates for the 2027 MPC policy rate announcements will be as follows:

28 January
18 March
27 May
22 July
29 September (Wednesday)
25 November