

STATEMENT

Repo rate hike tightens the noose on a struggling economy

28 May 2026

The Institute for Economic Justice (IEJ) is baffled by the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) decision to increase the repo rate by 0.25 percentage points to 7%, hiking the prime lending rate to 10.5% on the basis that inflation is hovering at the upper end of the tolerance band (4%). The IEJ believes that leaving the repo rate unchanged would have demonstrated flexibility and patience. Reducing the rate would have signalled an appropriate shift towards a more developmental and evidence-based monetary policy framework. Such a framework would allow for substantial interest rate cuts to bring down the excessively high cost of capital, to promote investment and job creation. Further, we await clarity on a decision to abolish the 3.5 percentage point spread charged by commercial banks, as an additional measure that could bring the cost of borrowing down.

Even some members of the MPC dissented from the decision to increase rates (2 against and 4 in favour), presumably because they appreciated that this would have no beneficial effects in reducing imported inflation, only damaging effects on the domestic economy.

South Africa's interest rates remain above emerging market peers, choking lending in an already anemic economy. With [April 2026 CPI headline year-on-year rate](#) at 4% according to Statistics South Africa (Stats SA), the ex-post real policy rate¹ is roughly 3%. This is above other emerging market economies' average real interest rate of 2%. It indicates a restrictive stance in an economy where [unemployment](#) (including discouraged workers) rose to 43.7% in the first quarter of 2026, employment fell by 345,000 jobs, and youth unemployment reached 60.9% for ages 15-24, and 40.6% for ages 25-34.

¹ This is the nominal (policy) interest rate minus inflation. It indicates the real return on investment or the real cost of borrowing after adjusting for inflation.

High real interest rates also worsen the fiscal constraint faced by the government by directly inflating government debt-servicing costs and dampening economic growth. Debt-service costs are [projected](#) at R432.4 billion in 2026/27 (16.2% of total consolidated government spending), absorbing resources that could otherwise support infrastructure, care services, extension of social protection, green industrialisation, food, and energy security. The current monetary policy regime exacerbates the low-growth, low-investment, high-debt, and high-unemployment trap South Africa finds itself in.

Inflation is being driven by administered and supply-side costs, not excessive demand

Inflation in South Africa is driven by external factors, and a continued restrictive monetary policy stance risks deepening the structural weaknesses that make South Africa vulnerable to external inflationary shocks. To overcome this vulnerability to imported inflation, South Africa needs to invest in more robust local productive capacity. This requires, amongst other elements, easier access to credit, something curtailed by high policy rates.

Externally-fueled energy, food, administered prices, insurance, and transport costs overwhelmingly drove inflation. Headline CPI [rose](#) from 3.1% in March 2026 to 4% in April 2026, with the main contributors being housing and utilities at 5.2%, contributing 1.2 percentage points to headline inflation; transport at 4.9%, contributing 0.7 percentage points; and insurance and financial services at 5.7%, contributing 0.6 percentage points. Together, these three categories contributed 2.5 percentage points of the 4% headline rate or more than 60% of total inflation. High energy prices are also likely a driving cause behind inflationary pressures within other sectors.

A rate hike in response to fuel-driven inflation amounts to punishing households and firms already constrained by Eskom's April 2026 [electricity tariff hike](#), failing logistics infrastructure, concentrated food value chains, and facing malnutrition. For instance, the inflationary increases to social grants (excluding the SRD grant) from April 2026 are already being eaten away at. The child support grant's R20 increase for the 2026/27 year, for example, has already been offset in the month of April alone, with the cost of feeding a child a basic, nutritious diet increasing by R30.

The MPC should be considering what it can do to support strategic sectors via reduced borrowing costs. Sustainable disinflation requires energy sovereignty, a caring economy, public transport, logistics repair, food-system resilience, and action on administered prices. This would, among other things, entail the build-up of food buffer stocks and reserves of strategic resources such as oil and fertilisers that cannot easily be produced domestically. One step towards this would be to revitalise domestic oil refining capacity, which has [declined](#) by 50% since 2020.

The real economy is too weak to absorb monetary tightening

South Africa's real economy remains structurally fragile. The SARB's March 2026 [Quarterly Bulletin reports](#) that the ratio of gross fixed capital formation to nominal GDP (the key measure of investment) fell further to 13.9% in 2025. This is far below the level required for

sustained industrialisation, infrastructure renewal, employment creation, and green productive transformation.

This chronic investment deficit dispels the notion that lower inflation through higher interest rates creates a conducive environment for investment. Rather, high interest rates increase the hurdle rate (the minimum acceptable rate of return) for manufacturing expansion, renewable energy localisation, municipal infrastructure contractors, affordable housing, small firms, and labour-intensive sectors. They raise the borrowing costs for households and firms at precisely the moment when the economy needs productive investment and demand recovery.

For households, the high interest rate cost is immediate. SARB data show the household debt-service burden has [remained elevated](#). Household debt-service costs sit at around 9% of disposable income, higher than the emerging market average of 5%, with accumulated household debt above 62% of disposable income in recent years. At the current prime rate of 10.5%, every additional 0.25% [increase adds](#) roughly R208 per month to a R1 million, 20-year mortgage. The post-2022 tightening cycle, which saw an increase of about 475 basis points over 17 months, translated into thousands of rands in additional annual costs for bond-holders, vehicle-finance borrowers, and indebted households. These costs disproportionately affect working families, especially black women-headed households, and lower-middle-income households whose budgets are already squeezed by food, transport, and administered prices.

The limits of using interest rates to manage dynamics of a small open economy

Policy rates remain a blunt instrument for managing South Africa's external financial integration, while damaging the domestic productive economy. The SARB often frames monetary policy around credibility, anchoring expectations, and exchange-rate risk management. These concerns matter in a small open economy. However, they cannot be used to justify a permanent bias toward restrictive policy when the underlying constraints are structural and external.

For instance, South Africa's [current account moved](#) to a surplus of 0.6% of GDP in Q4 2025, from a 0.9% deficit in Q3 2025, due to higher precious-metal prices (a commodities boom) leading to a trade surplus, not because of higher interest rates or market-led exchange dynamics. The [financial account simultaneously switched](#) to a R48.3 billion outflow in Q4 2025, from a R67.4 billion inflow in Q3 2025, illustrating that capital-flow volatility remains a structural feature of South Africa's open economy despite a tighter monetary policy stance to achieve external balance. While exchange-rate pass-through matters, defending the rand mainly through high rates is costly and incomplete. Instead, more direct policy tools than the policy rate are needed to manage external dynamics.

Cumulatively, a broader macroeconomic policy toolkit is required to stabilise a structurally vulnerable small open economy. This would include foreign reserves management,

capital-flow monitoring, macroprudential regulation² (ensuring the stability of the financial system), industrial policy, and development finance, rather than excessive reliance on the repo rate. Further, financing of renewable energy localisation, grid infrastructure, rail and port rehabilitation, climate-resilient agriculture, agro-processing, public transport, and care infrastructure would all serve as anti-inflationary productive investment that expands supply, reduces import dependence, and supports employment. The MPC should be considering what it can do to support such sectors.

The inflation-targeting framework has become too narrow for South Africa's reality

A macroeconomic framework that prioritises low inflation, achieved via high real interest rates, in an environment of chronic unemployment, stagnant investment, and deepening social stress, is completely contrary to development, calling into question South Africa's [move](#) from the 3-6% inflation target range to a 3% point target with a 1 percentage point tolerance band in November 2025. A 3% target may appear credible to financial markets, but this only measures credibility through bond yields and inflation expectations. There is a broader risk of the 3% target imposing a disinflation burden that is too costly for an economy with structurally high unemployment, declining investment, recurring supply shocks, and that operates within an unstable global economy. For instance, at the previous 3-6% inflation target, a 4% prevailing headline inflation rate would not have necessitated a rate hike, further constraining households and firms.

The [constitutional](#) mandate of the SARB is “to protect the value of the currency *in the interest of* balanced and sustainable economic growth of the Republic,” (emphasis added) indicating that balanced and sustainable economic growth must be the animating policy objective. Price stability that undermines balanced and sustainable economic growth is abdication, not fulfilment, of this mandate. The SARB's consistently overly optimistic growth projections indicate its belief that lower inflation on the back of high real interest rates will be growth-producing, but reality contradicts this. Despite a lowering of the inflation target, to be achieved via persistent restrictive policy rates, growth remains inhibited by structural domestic constraints and exposure to a volatile global economic environment.

South Africa needs a developmental monetary policy framework

The SARB should adopt a more developmental interpretation of its constitutional mandate. Protecting the value of the currency *in the interest of balanced and sustainable growth* requires more than hitting a narrow inflation target. In coordinating with other economic departments and social partners, the MPC should:

- Reduce the repo rate and explicitly avoid further tightening in response to imported fuel-price shocks, exercise patience and act only if imported inflation is persistent (3-6 quarters) risking structural domestic inflation.
- Call for the National Treasury to extend the temporary relief of the fuel levy, increase social grants to cushion households against rising prices, and for the Department of Electricity and Energy (DEE) to reverse Eskom's April tariff hike.

² These are financial regulatory measures designed to safeguard the stability of the financial system as a whole by limiting systemic risks such as excessive credit growth, speculative asset bubbles, volatile capital flows, and financial-sector vulnerabilities that can threaten the broader economy,.

- Publish a real-economy impact assessment with every rate decision, including expected effects on fixed investment, employment, household debt-service costs, SMEs lending, municipal borrowing, and sectoral credit.
- Coordinate with fiscal, industrial, energy, transport, and competition authorities to address structural inflation at source.
- Develop targeted credit and prudential tools to support productive investment, green industrialisation, affordable housing, care infrastructure, and labour-intensive SMEs.
- Ensure reform of the prime lending system improves transparency and fairness.
- Adopt a gender-responsive and climate-responsive monetary policy lens.

Finally, this requires expanding the policy imagination beyond a singular reliance on demand suppression, and for Parliament to resolve existing ambiguity in interpreting the central bank mandate by explicitly formulating it so that the SARB operationally supports sustainable growth.

The route to genuine price stability lies in energy sovereignty, food sovereignty, public investment, green industrialisation, fair credit allocation, employment creation, and macroeconomic coordination. True stability requires an economy capable of producing, employing, caring, and transforming. The MPC should have this firmly in view.

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