INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

STATEMENT

May this repo rate hold herald a turnaround in monetary policy

23 July 2026

With the Monetary Policy Committee's (MPC) decision today to hold the policy rate at 7% and keep the prime lending rate at 10.5%, additional economic pain has been avoided for now. But it remains to be seen whether this signals the beginning of the paradigm shift we need in inflation management in South Africa. The South African Reserve Bank (SARB) acknowledged in May 2026 that the combination of higher global uncertainty, a surge in global oil prices,[1] and reduced domestic disposable income would hit both investment and household consumption, which have been the main growth drivers. Interest rates remain very high and risk deepening a domestic slowdown by stifling investment in response to rising prices, which have already pushed essential goods beyond the reach of South Africans. Given its track record, we should remain cautious about whether the MPC truly understands how to navigate the current wave of inflation in South Africa.

Inflation continues to be driven by war-related fuel price increases and administered prices

The clear evidence from Stats SA's June 2026 Consumer Price Index (CPI) indicates that what is driving the current wave of inflation will not be solved through higher interest rates. Transport inflation accelerated to 12.7% (a 1.7 percentage point or 34% contribution to the 5% headline rate). Within transport, fuel prices were 34.3% higher than a year earlier, with petrol and diesel up by 31.7% and 50.8%, respectively. The fuel shock has also already passed through into the public transport sector.[2] This pass-through is particularly concerning due to price stickiness, meaning that even if inflationary pressures on fuel were to subside, the price of taxi fares is unlikely to decrease proportionately.

[1] Global oil prices (Brent crude) are currently trading around \$88 to \$93 per barrel, heavily driven by supply risks in the Middle East.

[2] Passenger-transport prices rose by 8.1% in June 2026 alone, pushing annual passenger-transport inflation to 12.5%; minibus-taxi fares increased by 11.5% month on month, e-hailing by 8.7%, long-distance buses by 8.4%, and school transport by 3.7%.

These increases reflect the transmission of international oil prices from geopolitical and value-chain disruptions related to the United States and Israel's war of aggression against Iran, and South Africa's dependence on imported petroleum. It is therefore not booming household credit or wage-driven demand driving inflation. The counterfactual is illustrative: headline inflation, excluding fuel, was only 3.8%, while inflation excluding all administered prices was 3.4%, and the trimmed-mean measure was also 3.4%. In other words, once the most direct fuel and administered-price effects are removed, underlying inflation remains close to the upper edge of the new 3% target's tolerance band, and thus doesn't indicate an economy-wide price spiral.

These data sets illustrate a concentrated shock arising principally from fuel, housing costs, and administered prices and services. Second-round effects must be monitored, but they should not be presumed. For instance, the second-quarter survey by the Bureau for Economic Research reportedly placed average inflation expectations at about 4.4% in June 2026, up from 3.6% in May 2026. However, inflation expectations that respond to a visible fuel-price shock are not the same as an entrenched wage-price spiral. In particular, wage-price spirals where increases in input costs are permanently passed on to goods and services, leading workers to demand higher wages.

The other major contributions, such as housing and utilities, reinforce this diagnosis.[3] Public services such as water, refuse, and electricity are becoming more expensive while the quality and provision of services is deteriorating. Municipalities' failure to generate sufficient revenue to finance their mandates often leads to exorbitant increases in municipal tariffs. The failure to raise sufficient revenue at the municipal level is a combination of inadequate capacity to collect revenues and insufficient disposable incomes for households to pay for utilities.

In June 2026, the Institute for Economic Justice (IEJ), alongside other organisations of the Budget Justice Coalition, visited eMalahleni, Mpumalanga, where the government stipulated in 2025/26 that for 2026/27 property rates would increase by 4.6%, electricity tariffs by 15.7%, water tariffs by 4.6%, sanitation by 4.6%, and refuse by 4.6%. These tariff increases were all higher than the expected inflation of 3.4% for 2026/27. This is despite the community facing high levels of unemployment, poor access to services, and thousands of unfilled local government vacancies.

[3] Housing and utilities contributed 1.3 percentage points to headline inflation, with electricity, gas, and other fuels increasing by 9.9%, water and related municipal services by 6.9%, actual rentals by 4.1% and owners' equivalent rent by 4%. Insurance and financial services contributed another 0.6 percentage points, with insurance inflation at 6.1%. Together, transport, housing and utilities, and insurance and financial services accounted for 3.6 percentage points or 72% of headline inflation.

The economic costs of high interest rates

The context of the decision to maintain high interest rates is an economy in which GDP grew by only 0.5% in the first quarter of 2026, manufacturing contracted by 4.3% year-on-year, and the expanded unemployment rate rose to 43.7%, with 345,000 fewer people employed. The consequence is an ex-post real interest rate of 2% (the difference between a 7% repo rate and a 5% inflation rate in June 2026). This is high for an economy operating well below full employment and facing severe investment and infrastructure deficits.

High real interest rates impose immediate and concrete costs on low- and middle-income households and small, medium and micro enterprises (SMMEs). An increase of a further 25 basis points would add about R336 a month for a household with a R1 million, 20-year prime-linked mortgage. This additional rising cost is before accounting for higher taxi fares, fuel, electricity, insurance, and food bills. Vehicle loans, credit cards, and overdrafts would have become more expensive at the same time that fuel and transport costs are eroding disposable incomes. SMMEs face a similar squeeze: a business with a R2 million floating-rate facility would have to pay roughly R10,000 more in annual interest after a 50-basis-point cumulative increase; all the while absorbing more expensive diesel, freight, and working capital.

The burden of high interest rates is regressive: wealthier savers, banks, and financial institutions benefit from higher interest income, while indebted and women- and pensioner-headed households, social grant recipients, informal traders, small firms, young workers, and communities dependent on public transport bear the adjustment. These households and businesses often face borrowing rates that far exceed the prime interest rate, meaning that higher rates disproportionately impact their already high cost of debt and increase the cost of care.

Women are 15% more financially stressed than men due to concerns about home-life strain, debt payments, and rising living costs, and high interest rates further worsen their lived experience. Monetary tightening through interest rate hikes also tends to disproportionately reduce women's employment and labour force participation relative to men, widening existing gender gaps in labour markets in the short term and potentially generating harmful longer-term implications.

Higher rates also transmit into government borrowing costs and weaker tax revenues, further constraining public investment precisely when energy, transport, logistics, and care infrastructure are needed to reduce structural inflation.

The MPC should do more

The IEJ acknowledges that some reason has prevailed within the MPC, however, a rate reduction, by at least 25 basis points, would have provided much-needed relief in a struggling economy. A hold recognises the limits of the interest-rate instrument and can help avoid compounding a negative supply shock with a policy-induced demand shock. Going forward, the SARB can make use of its macroprudential tools such as sector-specific loan-to-value (LTV) and debt-service-to-income limits for households or preferential funding facilities for

SMMEs and municipalities for industrial and infrastructure upgrading to address pockets of speculative credit or financial instability without raising the cost of productive borrowing across the entire economy.

The SARB should also publish a more transparent breakdown of inflation into fuel, administered-price, exchange-rate, food, profit-margin, wage, and demand components, together with an assessment of which components are plausibly responsive to the repo rate. Monetary policy credibility should not be defined as mechanically raising rates whenever headline inflation moves above 3%; credibility also requires demonstrating that the chosen instrument is proportionate to the source of inflation and accountable to the constitutional objective of balanced and sustainable growth.

The present episode of inflation confirms the need for a broader national inflation policy, including a broader interpretation of the SARB mandate. A broader interpretation of its mandate would move the SARB towards a flexible inflation targeting regime. Consequently, this would reduce the indiscriminate use of the policy rate. Government, with the support of SARB, should act directly on the sources of price pressure through:

1. The extension of the temporary reduction in the general fuel levy and direct financial support for public transport owners of taxis and e-hailing vehicles;
2. Accelerated green public transport investment, faster renewable-energy, and grid expansion;
3. The acceleration of the strategic fuel reserves initiative and procurement, and a similar instrument for food buffer stocks to be established;
4. Strengthen the Competition Commission’s oversight to address excessive mark-ups and pricing power in freight and food value chains;
5. Municipal tariff reform accompanied by sustainable infrastructure financing; and
6. Targeted development-finance support for firms facing imported-input shocks.

These interventions would reduce inflation at source, while expanding productive capacity, and the SARB should work on complementing whole-of-government attempts at reducing energy, food, and administered costs through its policy toolkit.

[ENDS]

For media inquiries, please contact:
Dalli Weyers | dalli.weyers@iej.org.za | 082 460 2093

The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

www.iej.org.za