STATEMENT

SARB Deals Another Blow to a Struggling Economy

23 September 2026

The Institute for Economic Justice (IEJ) is deeply disappointed by the South African Reserve Bank (SARB) Monetary Policy Committee (MPC)'s decision to increase the policy rate by 25 basis points, from 7% to 7.25%. The IEJ believes that keeping the policy rate unchanged would have recognised the inadequacy of rate hikes in dealing with imported inflation. By increasing rates, the MPC further restrains a depressed economy. Instead, the SARB should consider expanding the tools it uses to control inflation and stabilise the currency.

Maintaining a stable rate of inflation requires government-wide efforts centred around reducing South Africa's dependence on key imported inputs such as refined oil and fertilisers. In the short term, this may involve increasing South Africa's food buffer stocks and strategic fuel reserves. Over the long term, in line with its commitments towards decarbonisation, the government can expand the production of clean energy and the use of renewable energy-based public transportation. Whereas rand stability should be pursued through, among other things, capital management techniques that can neutralise short-term speculative flows.

Increasing the policy rate evidenced the entrenched contradiction in South Africa's macroeconomic policy. Increasing the repo rate for the second time in 2026 directly transfers the adjustment costs of war, climate shocks, and global financial tightening onto workers, indebted households, small businesses, and the unemployed. Similarly, cutting government expenditure to lower sovereign debt passes the cost of basic services onto consumers who are already facing cost-of-living pressures. South Africa's narrow reliance on the myopic monetary policy tool of inflation targeting by the South African Reserve Bank (SARB) to manage macroeconomic conditions is insufficient and compounded by the inadequacy of the SARB's narrow interpretation of its mandate.

South Africa should be cautious about mechanically following global financial tightening

South Africa's decision to raise rates follows similar decisions elsewhere, despite very different domestic conditions. The United States (US) Federal Reserve ('the Fed') raised its policy rate targeting range by 25 basis points to 3.75% - 4% on 16 September 2026. But the Fed reported the economy expanding at a "solid pace",[1] with resilient domestic expenditure, robust capital investment, and relatively stable unemployment. South Africa, however, is fundamentally, and structurally, in a different position as compared to the US economy. Recently, Statistics South Africa (Stats SA) reported that GDP contracted by 0.2% in quarter 2 of 2026. Manufacturing contracted 1.8%, mining 0.3%, and wholesale and retail trade 1.9%. Importantly, gross fixed capital formation (i.e. new investment in fixed assets) declined for a second consecutive quarter, with both private and public corporations reducing investment.

These poor economic circumstances have been exacerbated by prevailing monetary policy approaches. The SARB's inflation targeting stance over the last 20 years has kept real borrowing rates elevated, which discourages long-term investments. Alongside worldwide demand shocks (the Global Financial Crisis and Covid-19), this has accelerated the decline in the country's manufacturing capacity. Stats SA also published that the composite measure of labour underutilisation[2] stood at 46.3% in the second quarter of 2026, up from 36.4% just a decade earlier. Youth (people aged 15 - 24) unemployment rate reached 72.4%, a significant jump from 66.3% in April-June 2016. This translates to about five million young people, and among this cohort, 36% are not in employment, education, or training (NEET). The official rate for young women is even higher at 38%.

Beyond serving as a guide to 'appropriate' monetary policy decisions, the decisions of the US Fed have other implications for an economy like South Africa. This is because higher US yields can strengthen the dollar, alter capital flows, and increase financing pressures in other countries. For instance, depreciation of the rand can increase the cost of imported oil, fertiliser, machinery, and other essential inputs, adding to the original inflation shock. Further, the National Treasury recently took a loan from the World Bank at a quoted variable interest rate[3] of 4.96%, and the Fed's recent decision to hike the policy rate automatically increases the cost of South Africa's loan repayment. This spills over into uncertainty in South Africa's fiscal space. A more restrictive stance from the SARB therefore forces South African employment creation and investment acceleration to absorb an adjustment generated abroad.

This is precisely why other developing countries are moving beyond the idea that every external shock must be managed through changes to the central bank's main policy rate. The IMF's own Integrated Policy Framework recognises combinations of monetary policy,

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[1] The U.S. Bureau of Economic Analysis (BEA) published that real gross domestic product (GDP) increased at an annual rate of 1.5% in the second quarter of 2026. In the first quarter, real GDP increased 2.1%.

[2] This combines time-related underemployment, unemployment and potential labour force as a proportion of extended labour force. See the latest StatsSA quarterly labour force survey publication here.

[3] This is the 6-month Secured Overnight Financing Rate (SOFR) plus 1.35%. SOFR is an interest rate which fluctuates depending on the United States' monetary policy.

foreign-exchange intervention, macroprudential measures, and capital-flow-management measures to address different external and financial frictions. Indonesia, Malaysia, the Philippines, and Thailand have already used combinations of policy rates, foreign-exchange intervention, and macroprudential tools to navigate recent external shocks. The SARB should also consider using a combination of these measures[4] instead of responding with interest rates adjustments that produce a self-inflicted demand drag on the economy.

Inflation continues to be driven by supply factors

While food inflation currently remains low, mounting cost drivers in fertiliser and fuel as a result of the United State's war on Iran, and the impacts of El Niño (predicted to be the strongest on record), will likely add impetus to food inflation in 2027. In August 2026, the Food and Agriculture Organisation (FAO) Food Price Index increased by 1,9%, with every major commodity category rising. Black Sea disruptions continue to affect wheat and maize trade and the ongoing war in the Gulf region and Russia-Ukraine pose risks to future supply.

Higher interest rates risk adding a domestic financing shock to these existing food-supply pressures. Stats SA recorded a 38% month-on-month increase in ammonium-nitrate fertiliser prices and a 20% increase in other fertilisers in April 2026, while diesel prices were 51% higher year-on-year by June 2026. The SARB has recognised that higher diesel and fertiliser costs, combined with a possible El Niño-induced drought, pose upside risks to food prices. Therefore, the appropriate approach is to protect food supply before those costs reach supermarket shelves and reduce the costs for farmers to invest.

The Land Bank, which provides finance for projects in the agricultural sector, already identifies these specific activities as requiring dedicated, sustainable, and predictable financing instruments. In this regard, the SARB should allow lower economy-wide rates, while government and development financial institutions (DFIs) expand affordable (that is, at below market rates) and targeted credit for sustainable food production, climate resilience, building food buffer stocks, and agroprocessing. This has been identified by Parliament which expressed concerns over the sustainability of the Blended Finance Scheme (BFS), stating that agricultural finance requires about R1.5 billion a year to meet demand but received only R613 million in 2026/27.

A gender-responsive monetary policy asks who absorbs the shock

An interest-rate change has a greater impact on women given their weaker labour-market position and disproportionate share of unpaid care work. Stats SA's latest research demonstrates that childcare, eldercare, meal preparation, and household maintenance remain predominantly women's work. Fuel price hikes, and annual electricity and water tariff increases fall more heavily on female-headed households. The average annual income of female-headed households is R158 481, one-third below the R239 590 of male-headed households, illustrating extreme gender pay gaps persistent in the economy.

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[4] Such measures could include stronger safeguards against excessive short-term foreign-currency borrowing and unhedged currency exposures, alongside temporary interventions where demonstrably destabilising capital movements threaten financial stability.

Other existing inequalities similarly shift the burden of adjustment onto women. In 2020 a Stats SA report found that only 18% of female-headed households had access to a private car, compared with 36% of male-headed households, increasing their dependence on public transport.[5] Among households collecting water, 80% of male-headed households completed collection within 30 minutes compared with only 70% of female-headed households. This shows that where female-headed households cannot purchase alternatives to public infrastructure, the economic adjustment is transferred through increased time poverty, worsened burden of unpaid work, and a reduction in women's economic participation.

Restrictive monetary policy adds a second adjustment through the financial system. Household debt stands at 62% of disposable income in quarter 1 of 2026, and debt-service costs absorb 8% of take-home pay in 2026. High fuel and transport costs are eroding real incomes and prolonging distress among indebted households. Monetary policy responses should be geared towards supporting productive credit and public investment in care and physical infrastructure, desperately required to reduce women's unpaid care burden and unlock women's full, equal, and meaningful labour market participation and financial inclusion.

Sustainable industrialisation is an anti-inflation policy

The South African economy remains unacceptably exposed to international oil prices, shipping disruptions, and exchange rate volatility, factors that drive inflation and must be tackled through sustainable industrial policy. SARB researchers estimate that domestic oil refining capacity has halved over the past decade and that imported refined petroleum products now supply more than half of domestic fuel demand. Refinery closures have simultaneously reduced petroleum-related manufacturing output by around 20% since 2019, and displaced an estimated 5,400 direct and indirect jobs. For September 2026, the resumption of escalations of the US-Israel war in Iran contributed to petrol rising by R1.29 per litre and diesel by as much as R3.15 per litre. Therefore, in addition to impacting households and agriculture costs, higher interest rates raise the financing hurdle for green industrial, energy, and infrastructure investments needed to reduce these vulnerabilities.

The government plans around R1 trillion of public infrastructure investment over the next three years across energy, logistics, transport, water, and social infrastructure. While this is still R800 billion short of what is needed to achieve National Development Plan goals of public investment composing 10% of GDP, monetary, fiscal, and industrial policy should work together to ensure that public investment crowds in productive investment. Interventions could, for example, include targeted refinancing,[6] a practical instrument within SARB's own toolkit, which could provide cheaper term funding to commercial banks conditional on verified lending to renewable energy, storage, and other qualifying productive investments. Furthermore, with a change to how the IDC and DBSA operate, greater concessional terms and grace periods can be offered on additional lending to renewable energy and storage, grid

[5] In June, fuel was 34.3% more expensive than a year earlier, pushing minibus-taxi fares up by 11.5% in a single month, petrol and diesel remained at 19.3% and 28.8% higher year-on-year, while municipal electricity and water tariffs rose by 8.1% and 10.2%.

[6] The ECB's targeted refinancing programme provided more than 2 trillion euros to banks, with borrowing costs explicitly linked to their lending to firms, while Japan and China have operated climate-linked refinancing facilities.

and water infrastructure, climate-resilient agriculture, food processing and storage, and industrial decarbonisation.

Alongside the crowding in of productive investment, the government can put up measures that protect fuel-dependent consumers in the short term, and minimises the country's reliance on imported oil. Possible interventions include: The extension of the fuel levy relief introduced in April 2026 and revoked in June 2026; the acceleration of the Cabinet's new Strategic Petroleum Stocks Policy proposal requiring reserves equivalent to 60 days of net crude and refined-product imports, rising eventually to 90 days, alongside increased domestic refining capacity; and lastly increasing renewable energy capacity, storage, electric vehicles and enhanced public transport, and grid expansion.

Our response should be resilience, not permanent monetary tightening

South Africa must invest towards greater productive, energy, and food sovereignty as structural anti-inflation policies. The IEJ therefore proposes immediate reforms to transform South Africa's monetary conduct and support economic resilience, including:

- Require an Inflation Source and Distributional Impact Assessment with every MPC decision. SARB should publish a standard decomposition identifying the contribution of demand, supply, and external shocks, and identify which components it expects the policy rate to influence.
- Make macroprudential policy an active substitute for indiscriminate tightening where the problem is financial rather than economy-wide overheating.
- Establish a climate-and-food inflation resilience mechanism before El Niño intensifies.
- Review the governance and statutory framework of monetary policy. At present the MPC comprises only SARB officials appointed within the Bank. The IEJ calls for a public review of the SARB Act and monetary-policy governance, including the composition and appointment process of the MPC, transparency and accountability arrangements, and how the constitutional requirement to protect currency value "*in the interest of balanced and sustainable economic growth*" should be operationalised.

Further, the IEJ proposes that in the period before the November 2026 MPC meeting, the SARB and National Treasury begin a broader process involving social partners to develop an integrated inflation-governance framework, and to review the institutional architecture through which monetary policy gives effect to South Africa's constitutional mandate.

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