

South African MPC

26 May 2026

Executive summary

South Africa enters the 28 May 2026 MPC meeting with inflation risks shifting materially to the upside, although the policy decision remains finely balanced. Headline inflation accelerated to 4.0% in April from 3.1% in March, driven mainly by fuel, transport and administered prices following the sharp rise in global oil prices linked to tensions around the Strait of Hormuz. Further fuel price increases in May are expected to sustain near-term pressure, while rand depreciation and rising goods and services inflation suggest that external cost shocks may be gradually transmitting into broader prices.

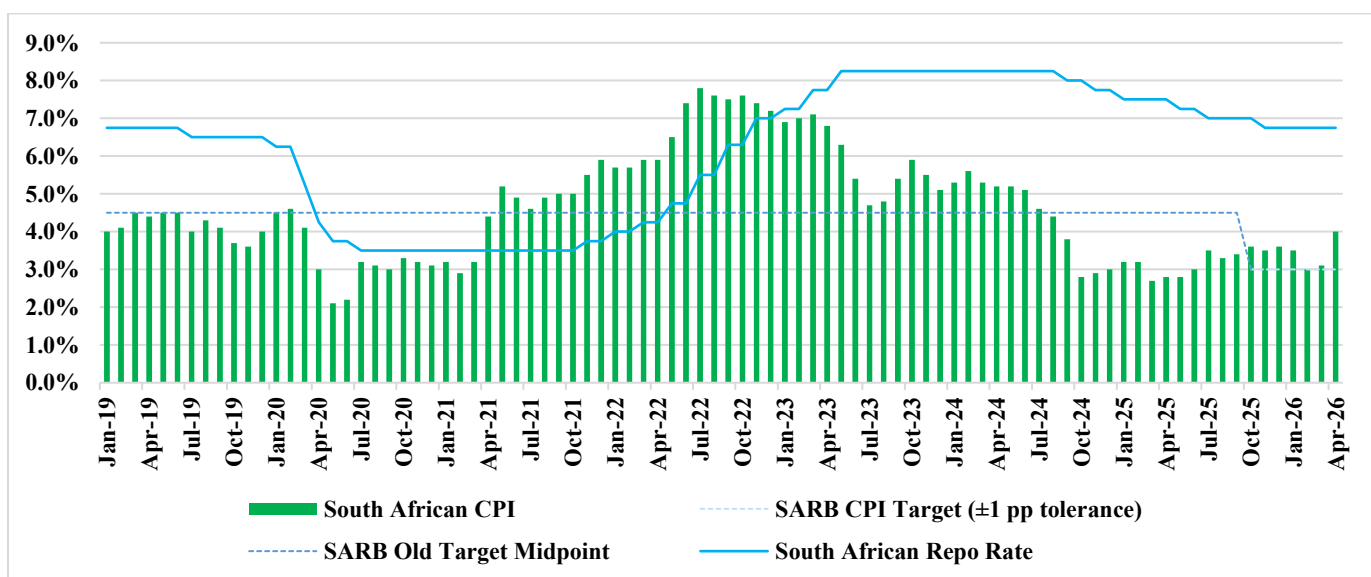
However, South Africa entered the current shock from a position of relatively contained inflation near 3%, while available labour market indicators point to weaker underlying economic conditions ahead of the Q1 GDP release. This provides the SARB with some flexibility to assess whether recent inflation pressures remain concentrated in fuel and transport or begin filtering more persistently into broader prices. At the same time, the SARB's evolving 3% inflation objective with a 1pp tolerance framework increases the policy significance of inflation reaching 4.0%.

Regional and global monetary conditions have also become more cautious. Botswana and Rwanda both raised policy rates in response to fuel-driven inflation risks and broader inflation persistence, while major central banks maintained rates amid concern over the inflationary effects of higher oil prices and supply disruptions.

Market conditions and our assessment suggest that the balance of risks has shifted marginally toward a more restrictive policy outcome, with either a hold at 6.75% or a pre-emptive 25bps increase now appearing plausible.

Analysis

Figure 1: South Africa Repo Rate vs Inflation Rate



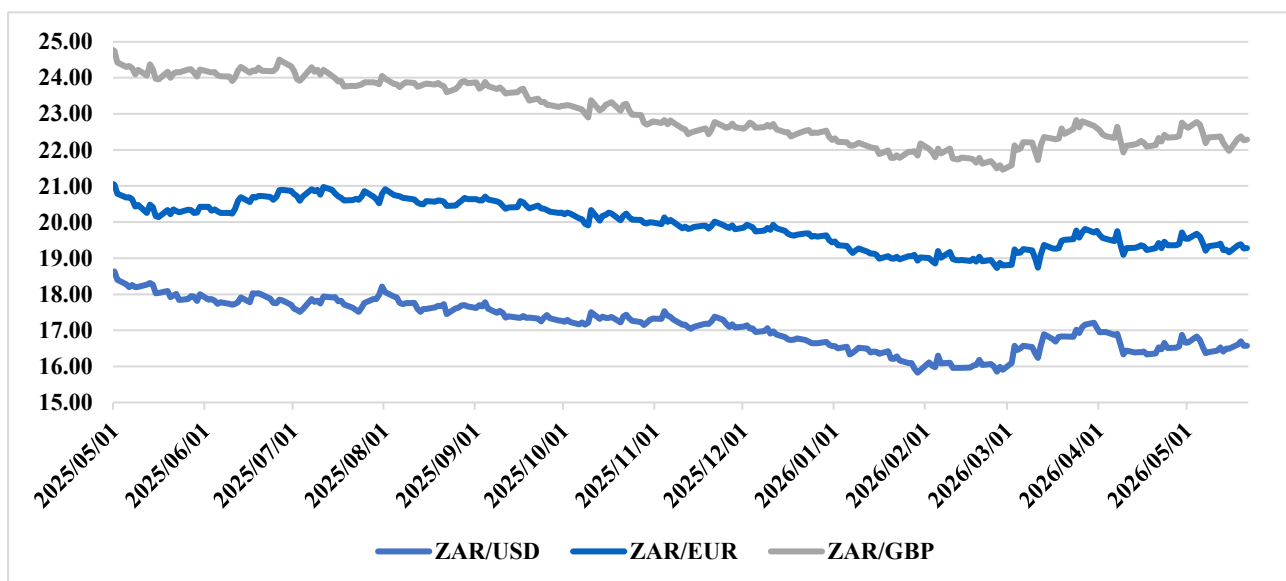
Source: SARB & StatsSA

As shown in *Figure 1*, inflation accelerated sharply in April 2026, with headline CPI rising to 4.0% from 3.1% in March, while monthly inflation increased by 1.1%. The increase was driven mainly by transport and energy costs, with fuel prices rising 18.2% month-on-month and 11.4% year-on-year. Housing and utilities also remained a key source of pressure, supported by electricity inflation of 8.2%.

The fuel shock reflects the pass-through from higher global oil prices linked to disruptions around the Strait of Hormuz and the resulting increase in global energy, freight and insurance costs. There are early signs that second-round effects may be beginning to filter into broader prices, with goods inflation rising from 1.8% in March to 3.4% in April and services inflation increasing to 4.6%. Even if the conflict eases, the lagged effects of higher transport, logistics and production costs may continue to influence inflation in coming months. With headline inflation already at 4.0%, the risk is that further pass-through could push headline inflation beyond the 3% target's 1pp tolerance threshold.

SOUTH AFRICAN ECONOMIC PERFORMANCE

Figure 2: ZAR vs Major Currencies January 2025- May 2026*



Source: HEI Research

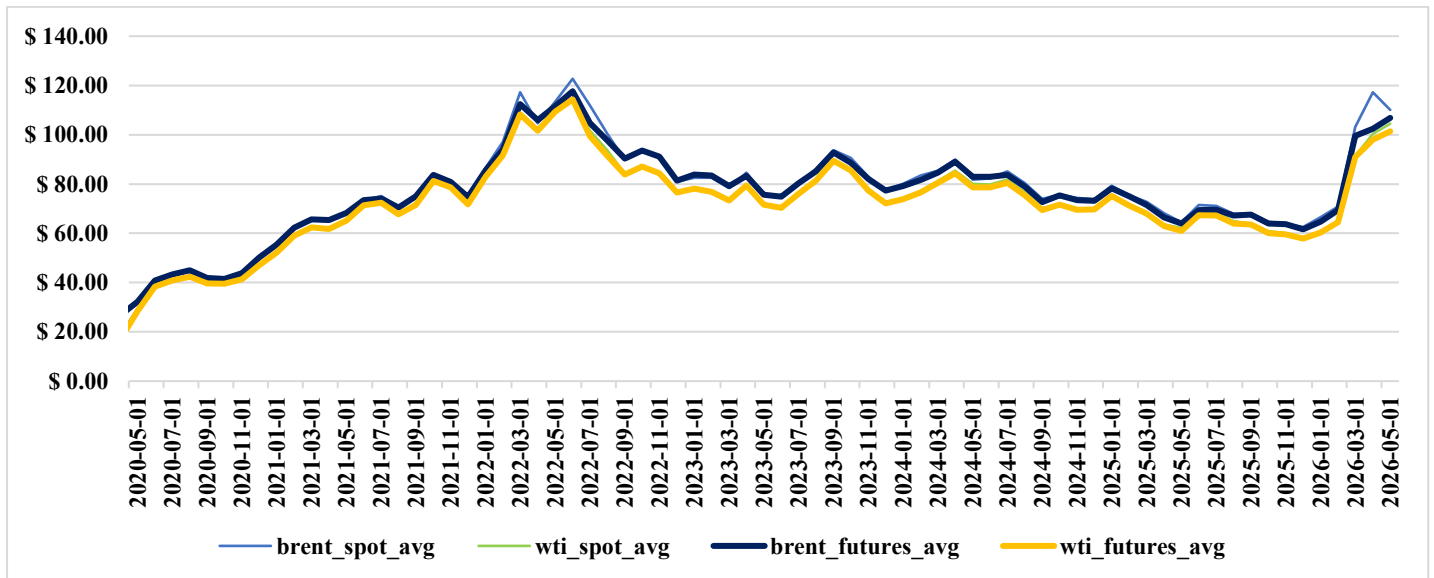
Although South Africa's Q1 2026 GDP figures have not yet been released, available labour market data suggest that economic activity likely remained subdued during the quarter. The unemployment rate increased to 32.7% from 31.4% in Q4 2025, while total employment declined by 345,000 jobs. The fall in employment, alongside a lower absorption rate, points to weak labour demand and limited support for household income growth. These developments suggest that domestic demand conditions remain fragile, with limited evidence of demand-driven inflationary pressure. In this context, the current inflation risks appear to be driven primarily by external cost shocks rather than by stronger underlying economic momentum.

As illustrated in *Figure 2 above*, the rand initially strengthened against the US dollar, euro and pound between late 2025 and February 2026, supported by improving global financial conditions, easing inflation and expectations of policy normalisation. However, this trend reversed from March onward as oil prices rose sharply following tensions around the Strait of Hormuz. The rand subsequently weakened across major currencies, particularly against the pound and euro, reflecting rising external uncertainty, stronger demand for safe-haven currencies and growing concern over South Africa's exposure to imported energy costs. This depreciation has important inflation implications, as a weaker rand raises the local-currency cost of fuel, transport inputs and other traded goods. Combined with higher global oil prices, exchange rate weakness reinforces the role of imported cost pressures in the current inflation environment and may further constrain household purchasing power and business margins if sustained.

GLOBAL CONDITIONS

Global monetary conditions shifted materially from March 2026 as energy markets reacted to escalating tensions around the Strait of Hormuz, a critical route for global oil shipments. *As shown in Figure 3 below*, Brent crude rose from about USD 71 per barrel in February to above USD 103 in March, before increasing further to over USD 117 in April. This sharp increase represents a clear break from the softer oil price environment observed earlier in the year and points to a significant repricing of global supply risk. WTI followed a similar trend, confirming that the pressure was broad-based across global oil markets rather than isolated to one benchmark. The simultaneous rise in both benchmarks suggests that markets were pricing in tighter supply conditions, higher risk premiums and greater uncertainty around the availability and transport of crude oil.

Figure 3: Daily Brent Spot vs Futures Price May 2020 – May 2026



Source: U.S. Energy Information Administration (EIA), via FRED & Market Data, via Yahoo Finance

The increase in both spot and futures prices points to current and expected fuel price pressure. In response, major central banks maintained cautious policy settings: the Federal Reserve held the federal funds rate at 3.50% to 3.75%, the Bank of England maintained Bank Rate at 3.75%, and the Bank of Japan kept policy unchanged while signalling concern over energy-driven inflation risks. Oil price shocks also have a clear precedent of generating second-round inflation effects, as seen during the 2022 Russia-Ukraine energy shock, where higher fuel and transport costs gradually filtered into broader goods and services inflation.

Similar dynamics are beginning to emerge in South Africa. April headline inflation accelerated to 4.0% from 3.1% in March, driven largely by fuel and transport costs, while goods inflation increased from 1.8% to 3.4% and services inflation rose to 4.6%. These developments suggest that higher energy and logistics costs may already be beginning to filter into broader pricing structures. For South Africa, this raises upside risks to inflation through fuel prices, transport costs, imported goods and exchange rate pressures, particularly if higher oil prices continue to support the US dollar and weigh on the rand.

Outlook

The May MPC decision has become increasingly balanced since the March meeting. Headline inflation rose to 4.0% in April, reaching the upper limit of the SARB's effective 3% target framework with a 1pp tolerance range. Transport shifted from a negative annual contribution in March to contributing 0.7 percentage points in April, while further fuel increases in May suggest that energy-related inflationary pressure is likely to remain elevated in the near term.

Although broad-based second-round inflation effects are not yet fully entrenched, recent indicators suggest that pass-through pressures may be strengthening. Goods inflation rose to 3.4% from 1.8%, services inflation increased to 4.6% from 4.2%, and CPI excluding fuel remained elevated at 3.7% year-on-year. The current environment resembles the early stages of the 2022 energy shock, where fuel and transport pressures gradually filtered into broader prices.

However, South Africa entered 2026 from a period of relatively subdued inflation near 3%, providing the SARB with more flexibility than economies already facing more persistent inflation.

Recent regional decisions reinforce the shift toward greater inflation caution. Botswana raised its policy rate by 200bps, while Rwanda increased its policy rate by 100bps after headline inflation accelerated to 13.0% in April and its inflation outlook was revised sharply higher amid rising energy and transport costs linked to the Strait of Hormuz disruptions. However, inflation conditions in both economies were already more elevated than in South Africa prior to the recent oil shock, meaning South Africa retains greater scope to either hold rates or implement only a limited adjustment.

At the same time, labour market indicators point to weaker underlying economic conditions ahead of the 2026Q1 GDP release, suggesting that current inflationary pressures remain largely externally driven rather than demand-led. This complicates the policy response, as tighter monetary conditions may further weigh on household and business activity.

Ahead of the 28 May 2026 MPC announcement, the policy decision appears increasingly balanced, with the risk assessment shifting marginally toward a more restrictive outcome as the SARB weighs maintaining the repo rate at 6.75% against a pre-emptive 25bps increase to limit the risk of inflation remaining above the effective 3% target framework.