

Sanisha Packirisamy
Chief Economist



Tshiamo Masike
Economist



SARB hikes as war fuels inflation concerns



South Africa



United States



United Kingdom



European Union



Japan



China

Current rate:	7.00%	3.50% - 3.75%	3.75%	2.00%	0.75%	3.00%
Previous meeting:	6.75%	3.50% - 3.75%	3.75%	2.00%	0.75%	3.00%
	Repo rate	Federal funds rate	Bank rate	Deposit facility rate	Key policy rate	Loan prime rate



So what?



The South African Reserve Bank's (SARB's) decision to increase the repo rate by 25 basis points to 7% can be viewed as a move to contain inflation and inflation expectations. The sharp rise in inflation to 4% in April, alongside higher services and core inflation, suggests emerging broader price pressures which the SARB reflected in higher core inflation estimates. Given the SARB's upward revision in its 2026 headline inflation forecast to above the upper end of its 2% to 4% tolerance band and its commitment to a restrictive policy stance to

return inflation to the new 3% inflation target, we maintain our view that interest rate cuts are off the table for 2026.

While fixed income markets are pricing in 75 basis points of cumulative hikes over the next 12 months, we do not expect as aggressive a tightening cycle given weak growth and the lagged effects of monetary policy, especially as inflation is still expected to moderate next year, unless further upside inflation risks materialise in prolonged war or intense El Niño scenario.

Consumer lens



Size*	Bond value	10.25% Previous monthly payment	10.50% New monthly payment	Monthly increase
S	≤ R1.6 million	R15 706.29	R15 974.08	R267.79
M	R2.6 million	R25 522.73	R25 957.88	R437.15
L	> R3.6 million	R35 339.16	R35 941.68	R602.52



Size**	Vehicle value	10.25% Previous monthly payment	10.50% New monthly payment	Monthly increase
E	≤ R350 000	R7 574.40	R7 617.82	R43.42
M	R525 000	R11 314.19	R11 379.25	R65.06
L	> R700 000	R15 053.99	R15 140.68	R86.69

* S = small, M = medium (mid-point of R1.6 mil to R3.6 mil), L = large ** E = entry level, M = mid-entry (mid-point of R350k to R700k), L = luxury segment
The repayment amounts for both home and vehicle finance are calculated on the prime lending rate with an assumption of no deposit or balloon payment. The assumption for a home loan repayment period is 20 years and five years for a vehicle loan.

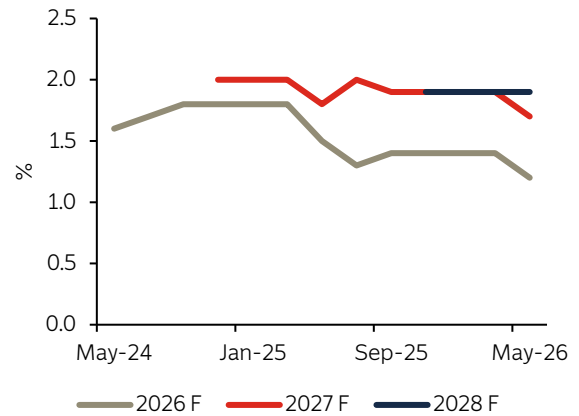
Economic growth forecast trimmed as Middle East conflict spillovers start to show

In the March Monetary Policy Committee (MPC) meeting, the SARB kept its economic growth forecast unchanged over the forecast period but shifted its assessment of growth risks from the upside to the downside. The key concern was the conflict in the Middle East and its potential impact on sentiment, inflation and interest rates.

While SA's second quarter Bureau for Economic Research sentiment survey results are yet to be released (Business Confidence Index is due on 2 June and Consumer Confidence Index on 23 June), several developments suggest that sentiment is likely to deteriorate. These include higher fuel prices, a weaker rand, fading optimism regarding economic growth and renewed risks around the president's involvement in the Phala Phala saga. In addition, some of the effects of the conflict have already started filtering through into inflation data.

As a result, the SARB revised its 2026 economic growth estimate lower to 1.2% from 1.4% and its 2027 forecast to 1.7% from 1.9%. The 2028 growth estimate was unchanged at 1.9% (see chart 1).

Chart 1: Revisions to SARB's annual growth estimates across MPC meetings



Source: SARB, Momentum Group

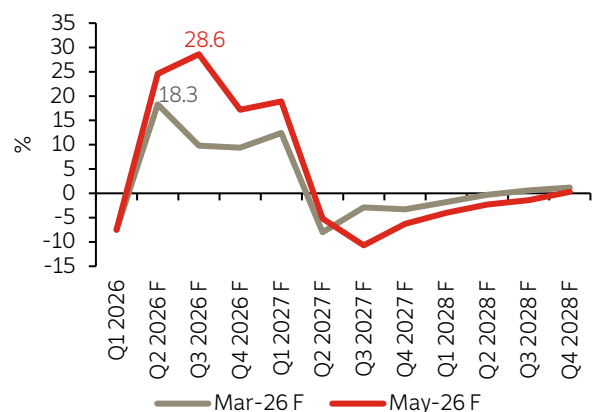
Our revised growth forecast of 1.2% for 2026 is in line with the SARB's and slightly below the Reuters median consensus of 1.3%. However, we are slightly more conservative than the SARB and Reuters thereafter. We expect growth of 1.5% in 2027 and 1.8% in 2028, compared to Reuters median consensus of 1.6% and 1.9%, respectively.

Overall, risks to the growth outlook are still viewed as tilted to the downside.

Inflation is expected to peak at a higher level as risks intensify

SA's headline inflation rate accelerated sharply from 3.1% year-on-year (y/y) in March 2026 to 4% y/y in April mainly due to higher fuel prices. Fuel prices increased further in May, with petrol prices rising to near-record highs of R26.63/l (up 32.5% since February) and diesel reaching a record R31.17/l (up 74% over the same period). This points to additional upside pressure on headline inflation in May. The SARB's fuel inflation forecast surges to a peak of 28.6% in the third quarter of 2026 before moderating (see chart 2).

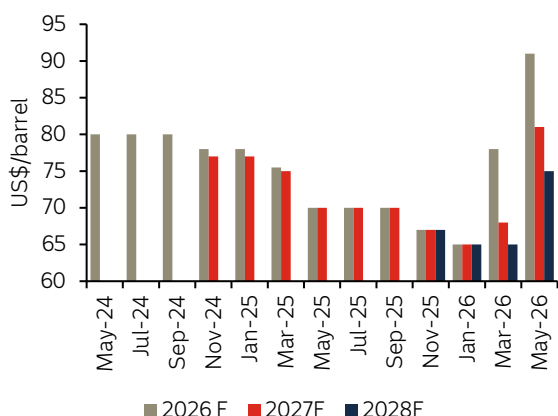
Chart 2: SARB's fuel inflation forecasts in the last two MPC meetings



Source: SARB, Momentum Group

The higher fuel inflation forecasts partly reflect higher oil price assumptions of US\$91/bbl in 2026 (previously US\$78/bbl), US\$81/bbl in 2027 (previously US\$68/bbl) and US\$75/bbl in 2028 (previously US\$65/bbl) as seen in chart 3. This is on the back of a longer-than-previously anticipated war. At the time of writing, the Middle East conflict has persisted for three months while the Strait of Hormuz remains closed. The price of Brent crude oil has averaged US\$109/bbl since 28 February with prices remaining volatile due to bouts of optimism around a potential ceasefire agreement between the United States (US) and Iran.

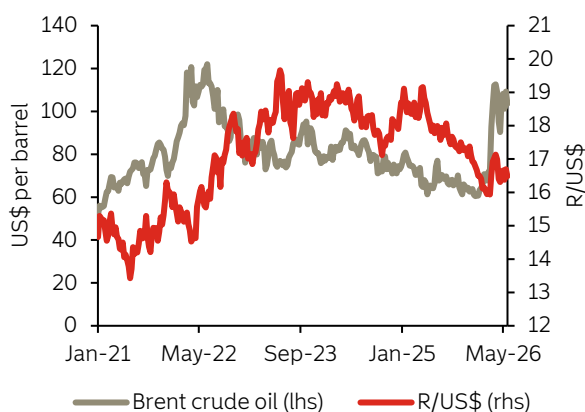
Chart 3: Revisions to SARB's Brent crude oil price estimates across MPC meetings



Source: SARB, Momentum Group

The rand has, however, remained relatively resilient, depreciating by only 2.8% against the US dollar since the start of the war compared to a 61.1% increase in the oil price (see chart 4).

Chart 4: Oil price shock exceeds rand weakness



Source: Bloomberg, Iress, Momentum Group
Weekly data until 22 May 2026

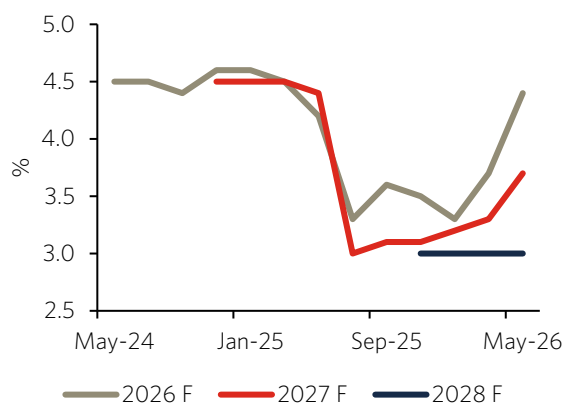
“ The rand’s relative resilience has helped cushion some of the inflationary impact from the higher international oil prices. ”

In addition to energy price risks, the SARB is also concerned about food inflation risks due to the rising probability of El Niño weather conditions, which result in drier-than-average weather, as well as high fertiliser costs. However, these risks are expected to materialise later in the year and into 2027. As such, food and non-alcoholic beverages inflation is expected to be contained at 3.6% this year (unchanged) before accelerating to 4.2% in 2027 (previously 3.6%) and moderating to 3% in 2028.

“ Due to compounding inflation risks, the SARB raised its 2026 headline inflation forecast significantly higher from 3.7% to 4.4% and its 2027 forecast from 3.3% to 3.7%, while leaving its 2028 estimate unchanged at 3%. ”

The SARB’s revised headline inflation forecasts are more hawkish than both our forecasts and the Reuters median consensus. We forecast inflation to average 4.3% in 2026 and 3.5% in 2027, while the Reuters median consensus stands at 4% and 3.5%, respectively. As such, we see the consensus as likely to lift their inflation projections to more closely match those of the SARB in the coming weeks.

Chart 5: Revisions to SARB's annual headline inflation estimates across MPC meetings



Source: SARB, Momentum Group

Estimates for core inflation were also revised higher to 3.7% for 2026 and 2027 (previously 3.3%, respectively) while the 2028 forecast was lifted marginally from 3% to 3.1%. These estimates incorporate second round effects.

According to the Department of Mineral Resources and Petroleum (DMPR), most of the diesel consumed in SA was in the commercial sector, indicating that elevated diesel prices will weigh on economic activity. However, some near-term price decreases are expected. Recoveries from the Central Energy Fund currently point to fuel price decreases in June of R5.29/l for diesel and 21c/l for petrol. If government proceeds with its previous announcement of halving the fuel levy relief in June, diesel prices would still decrease while

petrol prices will increase. The fuel levy relief is expected to be fully withdrawn from July.

Overall, inflation risks are still assessed as being to the upside, unchanged from the previous assessment.

The SARB modelled three upside scenarios given elevated uncertainty. The first assumes a prolonged Middle East conflict, which lifts food and oil prices and weakens the rand, pushing inflation to around 5% and requiring two additional interest rate hikes. The second incorporates emerging El Niño conditions which keeps rates elevated for longer as inflation pressures persist. The third combines all risks, where large shocks have disproportionate inflation impacts. In the third scenario, inflation peaks above 6% and would require three additional interest rate hikes.

Repo rate increased to 7% in a split vote

In a split vote, the MPC decided to increase the repo rate by 25-basis points to 7%. This represents the first interest rate hike in three years.

Four committee members voted for a hike, while two preferred a hold. This aligns with the Reuters Economist poll results where 15 of the 22 surveyed analysts, including us, expected an interest rate increase while the remaining seven expected a hold.

The MPC returned to six members following the appointment of Konstantin Makrelov.

In the question-and-answer session, it was indicated that a 50-basis point hike was debated but given that there is a lot of uncertainty, the committee settled on a more cautious 25-basis point increase.

Table 1: Shift in MPC member preferences at the scheduled May 2026 meeting

Number of committee members	Favoured a 50-basis point cut	Favoured a 25-basis point cut	Favoured no move	Favoured a 25-basis point hike
18 July 2024	-	2	4	-
19 September 2024	-	6	-	-
21 November 2024	-	6	-	-
30 January 2025	-	4	2	-
20 March 2025	-	2	4	-
29 May 2025	1	5	-	-
31 July 2025	-	6	-	-
18 September 2025	-	2	4	-
20 November 2025	-	6	-	-
29 January 2026	-	2	4	-
26 March 2026*	-	-	5	-
28 May 2026	-	-	2	4

Source: SARB, Momentum Group

* Only five MPC members

Higher-for-longer interest rate environment likely to persist, globally and locally

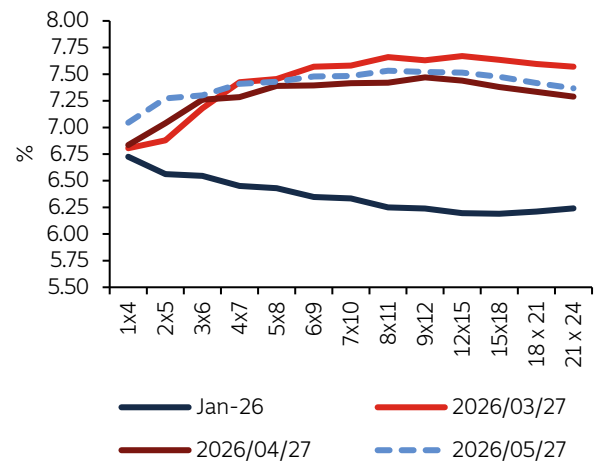
The SARB’s decision to increase the repo rate by 25 basis points to 7% can be viewed as an attempt to contain inflation and inflation expectations, which the SARB views as an indicator of second-round inflation effects. SA’s inflation rate already accelerated sharply in April to 4%, reflecting the impact of the Middle East war. Further evidence of the war spillovers is expected to emerge in upcoming inflation figures. Moreover, the acceleration in services and core inflation in April may be early signs of broader inflation pressures. The SARB has, nevertheless, accounted for this by raising its core inflation estimates.

Given the SARB’s upward revision of its 2026 inflation forecast to above the upper end of its 2% to 4% tolerance band and its previous signal that it intends to keep monetary policy restrictive in order to guide inflation back towards the new 3% inflation target, we maintain our view that interest rate cuts are off the table for 2026.

The fixed income market is currently fully pricing in 75 basis points of cumulative rate hikes over the next 12 months (including the May hike). However, we do not expect the SARB to embark on an aggressive hiking cycle because of the weaker economic backdrop and lagged effects of monetary policy.

Whether the hike to 7% will be sufficient to contain inflationary risks will depend largely on the duration and intensity of the conflict, as well as the extent of any second-round effects on inflation expectations and the currency. The SARB is likely to remain data dependent and responsive to evolving inflation risks, particularly as its credibility in anchoring inflation closer to the midpoint, and ultimately aligning with its proposed 3% inflation objective, comes under greater scrutiny.

Chart 6: FRA* market switched from expecting rate cuts to rate hikes in the first month of the conflict



Source: Bloomberg, Momentum Group
*Forward Rate Agreement

The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at momentum.co.za. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.