

RESERVE BANK WARNED IT MIGHT DRIVE UNEMPLOYMENT AFTER HIKING RATES

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Several organisations have criticised the South African Reserve Bank (Sarb) for raising interest rates by 25 basis points, with the Institute for Economic Justice (IEJ) warning it will further indebt already struggling households and put pressure on businesses.

The Reserve Bank's Monetary Policy Committee (MPC) on Wednesday increased the repo rate to 7.25% and the prime lending rate to 10.75%.

This was done to control inflation. The economic policy think tank IEJ said the Reserve Bank needs a better way to control inflation, rather than punishing households.

"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."

DIFFERENT APPROACH TO CONTROL INFLATION

The IEJ said maintaining a stable inflation rate requires government-wide efforts to reduce South Africa's dependence on key imported inputs such as refined oil and fertilisers.

South Africa imports both crude oil and finished petroleum products to meet its domestic energy and transport demands.

"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 to decarbonisation, the government can expand clean energy production and use renewable-energy-based public transportation.

"Rand stability should be pursued, among other things, through capital management techniques that can neutralise short-term speculative flows."

RATES HIKE A BLOW TO HOUSEHOLDS

The IEJ added that increasing the policy rate showed the 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."

INCREASE IN UNEMPLOYMENT

Neil Roets, CEO of Debt Rescue, said rising interest rates will also hurt businesses, which can lead to job losses.

"We can expect a serious disruption to the working economy. Higher borrowing costs affect households directly, but they also flow through to small businesses — a critical part of South Africa's economy," Roets said. "Pressure on business cash flow can constrain expansion and hiring, while increasing the risk of job losses at a time when unemployment is exceptionally high. What concerns me most is the cumulative pressure on household affordability.

"Reduced disposable income will weaken consumer spending, further pressuring economic activity, while persistent fuel, transport and other input-cost pressures can keep household inflation elevated," Roets said.

FARMERS UNDER PRESSURE

Brendan Jacobs, head of agribusiness at business and commercial banking at Standard Bank South Africa, said the rate hike comes at a difficult time, with farmers already facing higher fuel, fertiliser and other input costs.

In addition, an El Niño weather event could further pressure farming conditions and food production, he said.

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