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SARB and Treasury: work together so the kids are alright

Roy Havemann

After a public fight over the inflation target, the South African Reserve Bank and National Treasury now face an oil price shock from the Strait of Hormuz crisis. They must coordinate, using temporary fuel levy relief to curb inflation without breaking the bank.

The relationship between a country's central bank and its treasury is much like that of an old married couple. They usually fight behind closed doors, with the children outside hearing only muffled shouts and bangs.

Last year was an exception. The South African Reserve Bank (SARB) and the National Treasury had a loud and quite public debate, in front of everyone at dinner, about the inflation target.

Economists fight not with sticks and stones, but with models and papers. Models were built. Papers were written. At the Economic Society of South Africa conference in September 2025, the macroeconomics session was dominated by the two institutions presenting papers on the impact of a lower inflation target.

I had the delicate task of chairing the session. I was worried there would be blood. But boringly, all the papers found that a lower target implemented in a coordinated way would be better for everyone.

The assembled macroeconomists nodded their heads. After a heated skirmish dominated by violent agreement, economics was the winner, and we adjourned for a glass of wine or two and discussed the rugby.

A month later, the Minister of Finance announced a new target, and the home was happy again.

This year an external, existential threat has placed new pressure on the relationship. A week after the Minister of Finance tabled the 2026 Budget, US President Donald Trump meddled in Iran. Consequently, the Strait of Hormuz has been opening and shutting with alarming irregularity.

The oil price has risen to over US\$100 a barrel, and then fallen again, and then risen again. With it, diesel and petrol prices have jumped.

For the real economy, it is diesel we should be worried about. About 57% of South Africa's total refined diesel supply is shipped through the Strait of Hormuz, and only two of five local refineries in South Africa are operational. We import 13 million litres of diesel but only 5 million litres of petrol. About half of that diesel goes into transport, meaning it touches all goods that are transported anywhere.

It is now that fiscal-monetary coordination is keenly needed. The SARB and the National Treasury can coordinate a path through the straits. The trick is for the fiscal response (the reduction in the fuel levy) to be big enough to keep the lid on inflation, but not too big to break the bank.

The idea is that if the Treasury can keep the fuel price from blowing out, then the SARB will not need to raise interest rates. The home will be happy.

Granted, it is going to be very tricky to get this right.

The Treasury announced a temporary, R3-per-litre cut to the general fuel levy, effective from 1 April to 5 May 2026. The cost to the fiscus will be R6 billion a month. Even with the fuel-levy relief, fuel prices still jumped in April - diesel was up R7 per litre and petrol by R3.

The Bureau for Economic Research's view is that without the levy relief, forecast April headline inflation would have been 4.8%. With levy relief, it is likely to be 4.1%.

This is quite a big difference for a central bank as hawkish as the SARB. Governor Lesetja Kganyago has warned menacingly that he will do everything and anything to keep inflation at the target. He has a history of whacking inflation whenever it appears, so people believe him.

So, without the levy relief, we would have likely seen at least 50bps of rate hikes in 2026, assuming the SARB follows its historical reaction function. We still could, unless the war ends soon. This is why it is crucial that the Treasury extends the levy relief for at least another month or two.

Finance Minister Enoch Godongwana's communication has been more about the costs of the intervention but less about the benefits. The worry is that his motivation is political rather than economic. This is a pity, as a path forward that mitigates the economic (and inflationary) impact of the fuel price impact would actually be good for growth and the fiscus, not bad for it.

Perhaps it is time for a joint strategy that highlights that the fiscal costs will be outweighed by lower inflation and higher growth? This would calm the children.

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CONTACT US

Tel: +27 (21) 808 9119

Email: bisseker@sun.ac.za

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