Sikelelwe Magoda

University of the Witwatersrand

Funding: National Research Foundation scholarship

More about Sikelelwe

Favourite subjects: Development Economics, International Finance and Impact Evaluation.

Community activity: I help out at my local orphanage, Salem Baby Care.

Inspired by: Former prime minister of Singapore Lee Kuan yew and Nelson Mandela, for their great service to their respective countries.

Main achievements: Winning the National Research Foundation scholarship.

What I love/hate about South Africa: I love the diversity of the country and its rich history of always punching above its weight; I hate the immense inequality still present in the country mainly in income and wealth.

In 10 years' time I see myself... in a policy role within the public or private sector, with main interests in poverty alleviation and education.

ESSAY SYNOPSIS

Since the adoption of inflation targeting in 2000, the SARB has maintained a 3–6% inflation band, and recent calls to narrow this to 2–4% are framed as refinements that will enhance credibility. However, Sikelelwe contends that these calls ignore South Africa's deep structural constraints – high unemployment, concentrated markets and cost-push inflation – and would intensify economic stagnation.

Advocates of lowering South Africa's lower bound to 2% argue that it would strengthen expectations, reduce borrowing costs and align the country with advanced-economy norms. Yet these arguments assume that inflation is demand-driven and responsive to monetary tightening, while in South Africa inflation is overwhelmingly driven by administered prices (eg, for water and power), monopoly mark-ups, energy and transport tariffs, and imported price shocks. Because interest rate changes do not influence these sectors, lowering the target merely constrains demand, weakens employment and disciplines wages, rather than moderating inflation.

Sikelelwe's proposed Developmental Price and Investment Framework (DPIF) draws on lessons from Japan, South Korea and China, where industrialisation succeeded not through strict inflation control but through active state intervention, credit allocation and the prioritisation of productive investment. A DPIF for South Africa would permit a wider inflation band (4–8%), regulate administered prices directly, strengthen competition policy and expand developmental credit through state-aligned financial institutions. Monetary and fiscal policy would be coordinated around industrialisation, employment and structural transformation, rather than narrowly defined inflation targets.