Denzel Makombe

University of Johannesburg

Funding: Parents

More about Denzel

Favourite subjects: Microeconomics, Macroeconomics and Risk Management.

Interests: Gym, hiking, running and community engagement.

Community activity: Church outreach programmes and volunteering at a children's home.

Inspired by: My parents; and ordinary South Africans who show resilience and integrity despite difficult circumstances.

What I love/hate about South Africa: I love that despite deep economic and social challenges, South Africans continue to adapt, innovate and persevere; I hate the chronic unemployment, especially among the youth, due to slow structural reform.

In 10 years' time I see myself... as a senior investment or public-finance professional contributing to South Africa's economic development, growing the economy and improving lives.

ESSAY SYNOPSIS

South Africa adopted its inflation-targeting framework in 2000 to restore credibility, anchor expectations and prevent inflation from returning to the double-digit levels of the late 1980s. However, inflation frequently hovered near the upper limit, while unemployment rose steadily. These outcomes prompted debate about whether South Africa should adopt a lower optimal inflation target, writes Denzel.

International comparisons provide insight. India's 4% target with a ±2% band has helped stabilise inflation despite supply-chain disruptions, though its success is supported by stronger growth dynamics. South Africa's weak growth means higher interest rates could suppress investment and consumption, while the country's deeper structural challenges – energy shortages, high inequality and persistently weak output – mean adopting India's framework could reduce policy flexibility and worsen unemployment.

Brazil's longstanding inflation-targeting regime shows that gradual policy adjustment can stabilise prices over time, but its more aggressive and flexible approach may be too risky for South Africa's fragile economy.

The USA, which targets 2% but allows temporary overshooting, highlights the importance of incorporating employment and growth considerations rather than focusing exclusively on inflation.

Overall, Denzel concludes that South Africa's current lower bound of 3% remains appropriate, and that inflationary pressures are manageable under the current framework. Structural reforms such as improving productivity, reducing energy constraints and stabilising debt are prerequisites for any shift to a lower target. Enhanced communication, stronger forward guidance, and further research into the growth and employment impacts of alternative targets would help refine South Africa's inflation-targeting regime in the years ahead.