

ESSAY SYNOPSIS

Since adopting inflation targeting in 2000, South Africa has relied on a 3-6% target band to anchor expectations, enhance policy credibility and stabilise prices. The effectiveness has been mixed: inflation has generally stabilised, but unemployment has remained high and inequality entrenched. More than two decades later, debate continues about whether this framework remains optimal, given South Africa's structural challenges, writes Karabo.

In theory, tight inflation control can impose real economic costs, especially where price pressures stem from food or administered prices (such as for fuel or power) rather than domestic demand. In practice, reducing inflation close to 3% would require prolonged tight monetary policy, suppressing credit extension, raising borrowing costs and dampening investment. High interest rates used to target the lower bound may disproportionately harm low-income households through job losses and costlier debt.

International comparisons provide potential lessons. New Zealand shows the value of transparency in a stable economy, Brazil demonstrates the benefits of flexible inflation targeting that accommodates temporary deviations, and Ghana highlights the need for complementary fiscal and structural reforms.

Karabo suggests that reforms that could strengthen South Africa's approach include adopting a more flexible inflation-targeting regime that allows temporary deviations in response to supply shocks, adjusting the target band (e.g. raising the lower bound to 4%) to reflect structural inflation drivers, strengthening SARB communication to enhance transparency, coordinating monetary policy with fiscal reforms and structural interventions, and improving tools to manage exchange rate volatility. Reducing pressure from administered prices, especially electricity tariffs, and enhancing inflation forecasting models are also key.



Karabo Chauke



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Funding: Self

More about Karabo

Favourite subjects: Economics.

Interests: Volunteering and learning new things.

Inspired by: My parents, whose sacrifices, resilience and unwavering support have shaped my academic journey.

Main achievements: Consistent performance in honours degree and completing it in record time.

What I love/hate about South Africa: I love the country's resilience, diversity and potential; what I find most challenging is the persistent inequality and unemployment, which highlight the need for effective and inclusive economic policies.

In 10 years' time I see myself... as an established professional in the economics field, working in a role where I can contribute to policy analysis, research or financial regulation.