



CONCEPT NOTE | The controversy around monetary policy and the inflation target - are we sacrificing sustainable growth and full employment?

Economic Justice Matters series | #11

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Topic: The controversy around monetary policy and the inflation target - are we sacrificing sustainable growth and full employment?
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Executive summary

South Africa's macroeconomic debate has increasingly centred on the conduct of monetary policy and its consequences for growth, investment, and employment. Since 2022, the South African Reserve Bank (SARB) has pursued a restrictive interest-rate cycle to curb inflation and anchor expectations.

While framed as necessary to protect price stability, critics argue that this stance has imposed significant real-economy costs in an economy already characterised by stagnation, extreme inequality, and mass unemployment. With growth hovering around 1% and unemployment above 32%,¹ the central question is whether the current inflation-targeting framework is appropriately calibrated for South Africa's structural economic realities.

This episode of the Economic Justice Matters series examines the controversy around monetary policy and the inflation target at a moment of renewed inflation pressures from rising fuel and food prices. Evidence suggests that much of the recent inflation surge was driven by global supply shocks, particularly energy and logistics costs, rather than domestic demand.

¹ According to the [latest report from Stats SA](#), the strict unemployment rate in South Africa is 31.4% (Q4 2025/Early 2026) while the expanded unemployment rate is approximately 42.9%. The official (strict) unemployment rate is calculated using the number of people looking for work in the last four weeks divided by the labour force (unemployed + employed), while the expanded unemployment rate includes discouraged workers in the official unemployment rate.

In such circumstances, aggressive interest-rate tightening may suppress investment, weaken household demand, and slow job creation without materially addressing the underlying drivers of inflation. Bringing together perspectives from civil society, academia, and the central bank, the discussion asks whether South Africa's monetary policy framework should evolve toward a more flexible, development-oriented approach that better supports productive investment, employment creation, and inclusive economic transformation.

Discussion focus

This discussion examines whether South Africa's current monetary policy framework appropriately balances inflation control with the broader developmental imperatives of growth, employment creation, and structural transformation. The episode critically explores the assumptions underlying inflation targeting and whether a more flexible or development-oriented approach to monetary policy may be warranted in an emerging economy with persistent unemployment and structural inequality.

Background and context

1. The implications of a lower inflation target

In November 2025, the [Finance Minister announced](#) the change in South Africa's inflation target from the 3-6% range to a point target of 3% with a 1 percentage point tolerance band.² This followed after a series of [calls by the Monetary Policy Committee \(MPC\)](#) that the old range was "too high and too wide" and that it preferred to settle at a lower inflation target. Section 224 of the Bank's constitutional mandate requires it to "protect the value of the currency in the interest of balanced and sustainable growth," alongside its financial stability mandate.

However, the Bank has consistently taken a narrow interpretation of the mandate and has simply focused on fighting inflation. Over the years, the conduct of SARB has evolved from flexible inflation targeting in form to a much harder anti-inflation stance in practice, with the growth side of the mandate increasingly subordinated to credibility, expectations, and disinflation.

The Bank has increased the repo rate by about 475 basis points since 2022, significantly raising borrowing costs across the economy. Between March 2022 and May 2023, the repo rate was raised from 4.25% to 8.25%. This is despite its own admission, and IMF reports that inflation was being driven heavily by fuel and food prices, logistics and shipping costs, exchange-rate pressures and other external shocks rather than overheating domestic demand. Meanwhile, South Africa's growth³ remained anaemic and unemployment⁴ extraordinarily high. In that sense, SARB has fulfilled the narrow disinflation objective more effectively than the constitutional injunction to support balanced and sustainable growth.

Conducting a study on South Africa, using quarterly data from 1995-2022, Meyer and Hassan (2024) estimate an optimal inflation threshold of about 6% for growth and find that both the repo rate and the real effective exchange rate have a negative relationship with economic growth. Even though the lower inflation target has been welcomed in certain sections of business and government

² The tolerance band refers to the deviations from target that the bank is willing to concede to without changing the policy rate. A 1 percentage point tolerance would mean the effective inflation target band is 2-4%.

³ IMF data indicate that South Africa's real growth rate averaged 1.2% in the post-GFC period. In February 2026, the [National Treasury](#) projected a growth rate of 1.6% for 2026, which has been recently revised to 1% by the [IMF](#) due to the ongoing war in Iran.

⁴ Stats SA's latest [report](#) shows that South Africa's official unemployment rate dropped to 31.4% in the fourth quarter (Q4) of 2025, down from 31.9% in Q3, marking two consecutive quarterly declines.

to anchor expectations and boost investor confidence, labour and civil society organisations have cautioned that lowering the target without supportive fiscal and structural policy risks imposing disproportionate costs on a structurally constrained economy.

2. A proposal for a more developmental SARB

A more developmental monetary policy requires interpreting price stability through South Africa's structural reality. This requires a shift in conduct to address drivers of inflation, manage the manner in which repo rate changes affect the financial markets, households, government consumption, and productive sectors, and greater coordination with other stakeholders in government, civil society, and international partners.

- SARB must institutionalise a “look-through”⁵ rule for temporary supply shocks. MPC communication should clearly indicate that when inflation is being driven mainly by fuel, food, weather, tariffs, exchange-rate pass-through, or other imported cost shocks and administered costs, the Bank will respond only if there is evidence of persistent second-round effects, not automatically with aggressive tightening or immediate convergence to the target (3%). At each meeting, the MPC should publish a simple decomposition: what share of the inflation forecast is coming from food, fuel, administered prices, exchange-rate effects, and domestic demand.
- The Bank should make the real-economy side of its mandate operational. This requires every repo decision to include an explicit assessment of the expected transmission effects on investment, employment, household debt service, capital flow movement, and SME credit conditions. This approach would force transparency about the trade-off: before hiking or holding, the MPC should show what it expects the move to do to private fixed investment, mortgage, and business borrowing costs, and labour-market absorption over the next 6-8 quarters.
- Monetary policy conduct must be consistently aligned to a standing macroeconomic coordination mechanism with the Presidency, the Treasury, the DTIC, Eskom, Transnet, competition authorities, and key development finance institutions.⁶ This is essential because South Africa's recurring inflation is often rooted in [logistics failures, energy constraints, concentrated food value chains, and exchange-rate-sensitive import costs](#), none of which can be solved with the repo rate.

For example, if inflation is driven by a spike in global oil prices, raising domestic interest rates will do little to reduce fuel costs. The appropriate policy response would include temporary adjustments to the fuel levy, strategic management of fuel reserves, accelerated investment in renewable energy and public transport, and measures to reduce logistics costs across the freight system. Suppressing domestic demand through tighter credit would risk weakening investment, raising household debt burdens, and slowing employment growth without materially affecting the underlying price pressures.

- The SARB must create targeted funding and prudential tools that lower the cost of credit to productive sectors without abandoning inflation control. The [Bank of England's Term](#)

⁵ This would refer to a decomposition of inflation drivers, and thus a response to inflation would require addressing those driving factors.

⁶ This approach to monetary policy conduct would ensure that appropriate macroeconomic tools are utilised. For instance, if a major economy such as the U.S. implements tariffs on South Africa's automotive sector, concessional loans or grants can be directed to those sectors to lower the producer price index (PPI).

[Funding Scheme](#) (BETFS) with additional incentives for SMMEs offered four-year funding at or near Bank Rate specifically to support pass-through and encourage lending to small and medium firms.

The SARB can design schemes similar to the BETFS or European Central Bank's (ECB) Targeted longer-term refinancing operations ([TLTROs](#)), creating a time-bound funding window or prudential incentive tied to verified lending for manufacturing upgrading, renewable energy localisation, affordable housing, municipal infrastructure contractors, or SMMEs in labour-intensive sectors.