

Terms of Reference: What drives inflation in South Africa? Assessing sectoral drivers, price transmission, and distributional effects

Terms of Reference	
Project lead	Joan Stott
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Suggested title (to be confirmed)	What drives inflation in South Africa? Assessing sectoral drivers, price transmission, and distributional effects
Report type	1. Working paper (30 - 40 pages) 2. Reproducible decomposition and sectoral visualisations of the core findings of the working paper. 3. Prepare a presentation for academic or policy seminars and conferences. 4. Opinion piece / policy-type summary publication (1,000 words)
Brief background	• South Africa faces persistently low economic growth, averaging 1% in the aftermath of the global financial crisis (GFC), high unemployment rate currently at 43.8% when using the broad measure in quarter two of 2026, extreme poverty and income inequality, and weak productive investment with the nominal gross fixed capital formation (GFCF) as a percentage of GDP hovering around 13.9% in quarter one of 2026. • In the context of these economic challenges and alongside recurrent increases in essential prices, including food, electricity and transport, the South African Reserve Bank's (SARB) monetary policy conduct has remained anchored on inflation targeting utilising interest rate adjustments. This is predominantly a demand-side measure, attempting to lower inflation largely through reducing domestic economic activity.

	• The recent move to a 3% inflation point target, ongoing consideration to abolish the prime lending system, and the high cost of capital have renewed questions whether South Africa's current monetary policy conduct is appropriately responsive to inflation drivers as reflected through the economy's dependence on imported energy and production inputs, exchange rate fluctuations, infrastructure deficiencies, agricultural vulnerability, geopolitical fragmentation, climate catastrophes, and the organisation of domestic markets. • According to the SARB's October 2024 Monetary Policy Review (MPR), electricity prices increased by an average of 12.1% annually between 2009 and 2024, compared with average headline inflation of 5.3% during the same period. Electricity is both a direct household expense and a critical input into food production and manufacturing (Van Reenen, Matomane and Dunstan 2025), thus its inflationary significance extends beyond its weight in the consumer price index. For instance, the Competition Commission's 2024 food-price monitoring report documented how load-shedding increased food producers' and retailers' operating costs, while the 2023/24 drought reduced the white maize harvest by approximately 25%. In addition, the Competition Commission's 2023 report identifies the potential for firms with pricing power to protect or expand margins during periods of cost volatility. Bowman (2025) documents the bargaining power of major South African supermarket chains over suppliers and distribution channels. • These domestic experiences of energy and climate crises illustrate how infrastructure failures can create interconnected inflationary pressures. Other scholars have articulated how international food and energy prices, domestic administered prices, logistics constraints, market concentration (Klein 2011; Cutts and Kirsten 2006; and Budlender 2019), and conflict or climate-related disruptions (Merrino and Sibande 2026), and exchange rate changes affect domestic price formation, expositioning that inflation and inflation persistence depends on domestic production structures, input dependence, and the pricing behaviour of firms Mazorodze (2026) and Akdeniz <i>et al.</i> (2022). • Weber and Wasner (2023) draw on theories of administered prices, market power, and distributional conflict to explain how sector-wide cost shocks can facilitate coordinated price increases and changes in profit margins. Weber <i>et al.</i> (2024) demonstrate how shocks in systemically significant sectors propagate through input-output relationships, while their subsequent research incorporates climate and carbon-price shocks in the case of Germany (Weber <i>et al.</i> 2025).
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	• Given South Africa's stagnant macroeconomic condition and SARB's approach to inflation governance and price stability in the last 25 years, the central research problem identified for this working paper concerns South Africa's limited research on decompositional inflation dynamics, particularly understanding the interaction between sectoral crises, production structures, firms' pricing behaviour, and the distribution of inflationary costs - including sector-specific mechanisms through which price pressures originate and spread. • In this regard, the working paper seeks to establish which sectors and structural conditions drive South African inflation; how domestic and international crises are transmitted and amplified through production and distribution networks; what roles are played by wages, profits and market structures; and how these processes affect different households. A systematic decomposition of these mechanisms is necessary to contribute to an empirical understanding of price formation in South Africa. • Furthermore, it is necessary to understand the limitations of the monetary policy regime that has characterised South Africa's inflation experience in the past 25 years in response to various inflation drivers, and assess what other tools and best practices would have been appropriate to attain the sustainable growth path and development objectives of the SARB's mandate in concert with price stability. • Research is required to combine decompositional analysis with political economy analysis to provide a rigorous empirical assessment of South Africa's inflation drivers, assessing sectoral drivers, price transmission, and distributional effects, and the appropriateness of monetary policy responses during different inflation episodes in the past 25 years. As part of this, the research findings may inform some recommendations around alternative or complementary approaches to achieving the full mandate of the SARB as articulated in Section 224 of the Constitution, which states that the SARB's primary objective is protecting the value of the currency "in the interest of balanced and sustainable economic growth."
Purpose of the activity/output	The study seeks to provide a rigorous empirical evaluation of South Africa's inflation drivers and the effectiveness of monetary policy responses during those inflationary episodes. The primary objective of the study is to identify the relative contributions of domestic and international price pressures, establish how economic crises propagate through production and distribution networks, and examine the roles of firms' pricing decisions, wages, profits, and structural vulnerabilities in determining the magnitude and

	persistence of inflation in South Africa. Specifically, the paper should be guided by the following questions: 1. What drives inflation in South Africa? Assessing sectoral drivers, price transmission, and distributional effect. 2. How effectively does monetary policy respond to different sources of inflation, drawing lessons from different periods of inflationary episodes?
Call for working paper	Contributors are welcome to share abstracts for a working paper focused on drivers of inflation in South Africa between 2000 and 2025 and the appropriateness of monetary authorities' response to different regimes that have characterised South Africa's inflation experience. The working paper is aimed at: • Quantifying and analysing inflation drivers in South Africa by assessing sectoral drivers, price transmission, and distributional effect. • Determining whether inflation in South Africa is a structural or monetary phenomenon. • Analysing the appropriateness of the monetary policy responses to different inflation experiences. This may include analysing the SARB's policy toolkit and the appropriateness of each tool during certain inflation periods.
Other deliverables	Develop a reproducible decomposition and sectoral visualisations of the core findings of the working paper. Prepare a presentation for academic or policy seminars and conferences. The purpose of these outputs is to: • Provide a high-level summary and overview of the key proposals in the working paper and their feasibility. • Share key policy recommendations from the working paper's research findings for policymakers, monetary policy researchers, academics, business forums, and civil society organisations. <i>Note: other deliverables may be determined by the findings of the research paper.</i>
Summary of findings	Prepare a written summary in a clear and simple language for publication on the Econ3x3 to share the research findings with the research community and policymakers.
Outputs/activities	• Detailed outline and inception note: Conceptualise an outline of the working paper. • First draft (working paper): Share and present draft to IEJ team members. • Incorporate comments from the IEJ team members into the working paper. • Second draft (working paper): Share and present draft to IEJ team members.

	• Incorporate comments from the IEJ team members into the working paper. • Third draft (working paper): Share draft with copy editor and IEJ. • Incorporate comments from the copy editor on the working paper. • Final draft (working paper): Submit. • Draft other deliverables for the dissemination of research findings. • Incorporate comments from the IEJ and the copy editor in the recommended outputs for the dissemination of research findings. • Summary of findings: Written summary in a clear and simple language for publication on the Econ3x3 (1,000 words).
Method	• Desktop research. • Quantitative analysis, institutional, and legislative review. • Statistical analysis and/or modelling. • All writing and formatting must align with the IEJ style guide.
Connection with the project	This research will enable the Resourcing for Rights Realisation (RRR) team to advance further research and policy engagements on South Africa's monetary, financial, and macroeconomic policy architecture and how it can contribute to more balanced and sustainable growth, high employment, and structural transformation.
Translation	None needed
Budget	R150,000
Production schedule	16 - 18 weeks

Request for proposal	• Prepare an abstract and an outline detailing an appropriate approach to decomposing inflation drivers in South Africa through assessing sectoral drivers, price transmission, and distributional effects. This may include an approach to analyse the appropriateness of the monetary policy responses to different inflation experiences. • CV and writing samples of the author. • A budget and proposed timelines. Deadline for proposal: 03 November 2026 Criteria for the evaluation of the proposal • Expertise in macroeconomics and monetary policy. • Experience in econometric modelling and policy analysis. • Knowledge of South African macroeconomic institutions, particularly the National Treasury and SARB. • Familiarity with development economics and political economy. • Strong publication record in relevant fields. Experience working on developmental central banking, monetary policy, sustainable industrial policy, and development finance will be advantageous. Please send proposals to helen.bhuka@iej.org.za
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