INSTITUTE FOR ECONOMIC JUSTICE RESEARCH POLICY ADVOCACY

STATEMENT

Who Pays for Price Stability?

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In the announcement of the decision to keep interest rates steady, the Governor of the Reserve Bank of South Africa (SARB) has admitted that this means that monetary policy remains restrictive. While we are relieved that no further interest rate hikes were announced, this admission of the restrictive nature of monetary policy raises a fundamental question about South Africa's economic policy: Why must workers, indebted households, and productive businesses bear so much of the cost of stabilising prices and the currency? As 2026 draws to a close, rising inflation and the cost-of-living crisis, prolonged weak economic growth, and persistently high structural unemployment demand a reassessment of the assumptions underpinning monetary policy, and the role of various government departments (and their institutions) responsible for resolving South Africa's economic instability and structural constraints.

The economic evidence is compelling and calls for an urgent reorganisation of monetary policy priorities. Statistics South Africa (StatsSA) reported that broad unemployment reached 44% in the third quarter of 2026, leaving over 13.2 million people unemployed (approximately 31% of South Africa's total working-age population). Real GDP contracted by 0.2% in the second quarter of this year, and the SARB forecasts growth picking up to about 2% annually over the forecast period. Meanwhile, inflation numbers for October 2026 show CPI at 5.2%. This is the highest it has been in 2026 and represents a 0.7% increase month-on-month, despite an interest rate increase in September.[1] For households already borrowing to afford food, electricity, transport, and care, restrictive interest rates compound the pressures on disposable income and worsen the cost-of-living crisis. For businesses, elevated financing costs weaken investment precisely when expanding productive capacity is essential to create decent employment, expand supply, and grow the economy.

[1] Some research estimates that South Africa requires sustained, employment-intensive GDP growth of approximately 5% annually to make meaningful inroads into unemployment, accounting for labour-force expansion and the existing unemployment backlog. At the projected 1.2% growth rate, job creation is unlikely to keep pace with new labour-market entrants, let alone substantially reduce unemployment.

The SARB's policy framework places considerable weight on utilising interest rate adjustments to prevent external cost pressures from spreading into inflation expectations and wages, while giving far less importance to the negative impact this may have on growth and employment. Its September and November 2026 assessments identify the global energy shock, geopolitical conflict, and disrupted value chains as major inflation drivers. On the back of these, its Quarterly Projection Model prescribes further tightening under scenarios[2] of higher global interest rates or rising expectations, even as the SARB acknowledges downside risks to growth. This reveals a consequential asymmetry whereby risks to inflation expectations and financial markets trigger immediate policy responses, while the economic costs of high unemployment, declining investment and economic growth, and rising household debt receive less explicit weight in monetary policy decisions.

Two changes should be made to this policy framework: greater weight should be placed on the real economy effects of monetary policy decisions, and deeper integration of so-called second-round effects is needed. The SARB must strengthen its assessment of second-round inflation by distinguishing observable wage, pricing, and demand pressures from inflation expectations.[3] Furthermore, the SARB must publicly demonstrate whether the additional inflation reduction from higher interest rates justifies the associated costs to employment, investment, and indebted households. This is particularly important when expectations rise as a result of a temporary energy-price crisis rather than evidence of sustained domestic inflationary pressures.

In addition, the existing policy toolkit should be augmented. International research increasingly challenges the adequacy of interest-rate-centred inflation management. In their 2026 study on *shockflation*, economists Isabella Weber and Jens van 't Klooster show how disruptions to systemically important prices, particularly energy and food, propagate throughout economies. Their work advances a compelling institutional alternative - identifying and stabilising strategic prices before shocks become generalised inflation. For South Africa, this means examining how petroleum prices, electricity tariffs, agricultural inputs, logistics costs, and concentrated market structures transmit inflation. Targeted supply interventions, competition enforcement, and productive investment can complement monetary policy by reducing inflationary pressures at their source and avoid deepening the cost-of-living crisis.

South Africa's monetary choices are also constrained by an unequal international financial system, and deploying a wider policy toolkit would allow authorities to navigate this more

[2] The QPM links global interest rates, country risk, and expected exchange rate movements to South Africa's neutral interest rate through the uncovered interest parity relation. That is, higher global rates or risk premiums can weaken the rand, raising import prices, and inflation expectations. The model's monetary policy reaction rule then implies higher domestic interest rates to contain inflation and stabilise expectations, partly through exchange rate appreciation and weaker domestic demand.

[3] While the SARB already monitors these, there is a need for greater transparency about their relative contributions to inflation forecasts and the employment and output costs of alternative policy responses, similar to the scenario-based assessments published by the Bank of England.

effectively. Higher global interest rates can encourage capital outflows, weaken the rand, and amplify imported inflation. However, responding principally through domestic interest rate hikes makes employment, household consumption and care needs, and productive investment bear the adjustment costs of international financial volatility. The recent International Monetary Fund's (IMF) Integrated Policy Framework recognises that foreign exchange intervention, macroprudential regulation, and appropriately designed capital-flow measures can complement interest rate policy. IMF research on emerging economies found that the appropriate instrument for addressing external instability often depends on the cause, and foreign exchange intervention can be particularly relevant to foreign interest rate pressures, while macroprudential measures can address domestic financial vulnerabilities. These findings challenge the assumption that higher interest rates are necessarily the preferred response to rand volatility. This further departs from the notion that inflation and currency stability are purely a monetary phenomenon and establishes the need to balance preserving exchange rate flexibility and managing destabilising financial exposures with strengthening export capacity, value chain resilience, and increasing domestic production.

As South Africa concludes its final Monetary Policy Committee (MPC) meeting of 2026, and as we reflect upon the year that was, an unsettling question looms: Is our monetary policy significantly worsening the affordability crisis? South Africans enter the festive season this year, worse off than they were last year at this time. Their pain points have been made worse by a monetary policy that is not agile and fit for purpose to respond to external pressures in a way that ameliorates their distress/suffering and builds a resilient economy.

What is urgently required in 2027 is a measure of monetary credibility that extends beyond the inflation rate to the economic costs and institutional choices through which price stability is achieved. That may include a strategic inflation mechanism, coordinated by the National Treasury with the Department of Trade, Industry and Competition (dtic), Competition Commission, and Departments of Agriculture and Mineral and Petroleum Resources, to identify systemically important prices and develop cost interventions for fuel, food, and essential production inputs. This should be complemented by assessments of strategic reserves, value chain diversification, market concentration, and targeted productive financing. In managing external stability, the SARB and National Treasury should strengthen the foreign exchange intervention policy framework and targeted measures to manage volatile capital flows to effectively complement interest rate policy. This would strengthen the country's ability to protect the rand while limiting unnecessary costs to employment, investment, and household borrowing, which are often imposed by interest rate hikes and worsen livelihoods, while improving financial markets profitability.

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