



Assessing inflation targeting in the South African economy

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DECLARATION

I declare that this mini-dissertation, titled *Assessing inflation targeting in the South African economy*, is my own work. I acknowledge that all external work quoted in this document is properly cited with author's name and a bibliography is provided at the end of the document in accordance with the NWU guidelines.

Signed : Shashaoka Moerane Modisakeng

Date : 19 November 2025

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ABSTRACT

This study looks at the South African Reserve Bank's 25-year-old inflation targeting model, its success in bringing price stability and business confidence, and the consequences of a suggested shift in a 3-6% price band to a 3%-point target. The study utilised a mono-qualitative, inductive document analysis based on grounded theory to analyse 12 appropriate academic and institutional documents. Results show that inflation targeting was able to transition from a framework calculated through consumer price index to provide price stability and assists in anchoring inflation expectations. Initial inflation target misses during the first decade of inflation implementation (2000 – 2010) and initial uncertainty on the midpoint target impeded inflation credibility and increased business uncertainty. This study concludes that inflation targeting is essential to price stability, but its complete effectiveness in increasing business confidence and overall economic performance requires, open communication (preferably with clear target tolerances), and structural changes. The study recommends a 3%-point target with tolerance of $\pm 1\%$ which will lead to clarity in inflation expectations anchoring and global alignment.

Keywords: Inflation targeting, monetary policy, SARB, business confidence

LIST OF ABBREVIATIONS

BCI	Business Confidence Index
BER	Bureau of Economic Research
COSATU	Congress of South African Trade Union
CPI	Consumer Price Index
CPIX	Consumer Price Index Excluding Mortgage Costs
EPU	Economic Policy Uncertainty
NWU PUI	North-West University Policy Uncertainty Index
RBNZ	Reserve Bank New Zealand
REPO RATE	Repurchase rate
SACCI	South African Chamber of Commerce and Industry
SARB	South African Reserve Bank
STATSSA	Statistics South Africa
US	United States
MPC	Monetary Policy Committee

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Chapter 1 SCOPE AND NATURE OF THE STUDY

1.1 INTRODUCTION

In a historic address by South African Reserve Bank governor Lesetja Kganyago in July 2024, he acknowledged three key failures of the central bank in relation to inflation targeting: (i) targets are being missed too often, (ii) average inflation is regularly at the upper limit of 6%, and (iii) structural growth issues continue to persist (Kganyago, 2024:4). His solution is to move to a 3%-point target by 2027 from the current 3-6% band. This is the largest recalibration of the monetary policy framework used by South Africa's policymakers since the formal adoption of the latter in February 2000. However, like Milton Friedman cautioned to South Africa, inflation is "a disease" that in its extreme form can cripple a nation; in less extreme forms, it still has the potential to cripple the productive power of the nation (Feldberg *et al.*, 1976:11). The question in the minds of the policymakers, business leaders, and economists today is whether South Africa's economy is struggling with the extreme or the less extreme form of inflation imposed economy since February 2000 with 33.2% unemployment rates in 2025 and extreme levels of inequality.

Milton Friedman declared in South Africa that inflation is a disease (Feldberg *et al.*, 1976:11). In his speech, he compares inflation to a disease because, in its extreme form, it can destroy a nation, while in its less extreme form, it can undermine a nation's productive strength. From a macroeconomic perspective, this statement is accurate. Inflation is often defined as a continuous and considerable rise in prices in general (Mohr, 2015). The challenges related to inflation seem to align with earlier theories of macroeconomics, such as the original Phillips curve, as coined by Samuelson & Solow (1960). The Phillips curve is an economic concept that shows a relationship between unemployment and inflation (Buthelezi, 2023:1). Macroeconomists use it to explain the trade-off between inflation and unemployment in their respective economies: when unemployment increases, inflation decreases, and vice versa.

Almost two decades after Samuelson and Solow (1960) coined the term "Phillips curve", Milton Friedman, a United States (US) economist, expanded on the relationship between

unemployment and inflation. In his 1976 Alfred Nobel Memorial Lecture, he explained that when the Phillips curve was in a state of economic growth. Once the minimum unemployment rate has been achieved, if inflation is managed consistently, there is a risk that the natural rate of unemployment shifts from a low to a high percentage (Friedman, 1976:14).

Unfortunately, the Phillips curve is not a perfect economic model for the South African economy. Its first challenge came during the 1970s, when the US economy saw a rise in both inflation and unemployment (Vermeulen, 2017:28). At the time, many economists questioned the validity of the Phillips curve and whether it could be a reliable tool for predicting the relationship between unemployment and inflation. While this was the first time that the model had come under some scrutiny, it was not the last. The 2008 global financial crisis raised further questions about the model, as the failure to predict the crisis during this time could not be averted (Rand *et al.*, 2023:2).

This again raised questions about whether the Phillips curve model could finally be put to rest. The Phillips curve model lost its popularity in the late 1970s. However, inflation is still seen as an important metric for measuring the trade-off between inflation and unemployment in a country's economic policy. It became important for central banks to use the curve in the short-run to stimulate demand (lowering interest rates) in order to reduce unemployment or in the long-run by adjusting only inflation while unemployment remains constant. Some countries, such as the United States, still use the Phillips curve to monitor unemployment and inflation, even though there has been a drive to forecast both unemployment and inflation to agreed confidence levels to provide a clear picture of both.

1.1.1 Background to the study

In 1990, the Reserve Bank of New Zealand (RBNZ) introduced the world's first inflation targeting framework (Murray, 1999:15). A framework that the central bank used to communicate inflation, inflation targets, inflation expectation to its population, provide price stability and demonstrate accountability (Murray, 1999:18). This was an effort to demonstrate RBNZ's commitment to anti-inflation drive. The target was set to achieve inflation at 0-2% by 1992; the result was a target achieved in 1991 (Brash, 2001:2). By

1997, eight countries had used inflation targeting or were actively using it with their time horizons, bands or point targets and CPI target measures as shown on figure 1.1 (Bernanke & Mishkin, 1997:99).

<i>Country (date of adoption)</i>	<i>Target Series Definition</i>	<i>Target Level (percentage annual inflation)</i>	<i>Time Horizon</i>
Australia (1993)	Underlying CPI (excluding fruit and vegetables, petrol, interest costs, public sector prices and other volatile prices)	2-3	Ongoing
Canada (February 1991)	Core CPI (excluding food, energy and first-round effects of indirect taxes)	1-3	18 months
Finland (February 1993)	Underlying CPI (excluding government subsidies, indirect taxes, housing prices and mortgage interest payments)	about 2	Ongoing
Israel (December 1991)	CPI	8-11	1 year
New Zealand (March 1990)	Underlying CPI (excluding changes in indirect taxes or government charges, significant changes in import or export prices, interest costs and natural disasters)	0-2 (until November 1996; 0-3 thereafter)	1 year
Spain (January 1995)	CPI (excluding first-round effects of indirect tax changes)	below 3	Through 1997
Sweden (January 1993)	CPI	2 ± 1	Ongoing
United Kingdom (October 1992)	RPIX (RPI excluding mortgage interest payments)	lower half of 1-4 until spring 1997; 2.5 or less thereafter	Until the end of this Parliament

Figure 1-1 Inflation target countries & time Horizon

(Source: *Bernanke & Mishkin 1997:99*).

To date, many other countries have followed New Zealand in targeting inflation, with mixed results. Figure 1.1 shows the first eight countries to adopt an inflation target between 1990 and 1997, along with their communicated time horizon, target definition, and target level. These countries chose to measure CPI with exclusion rather than headline inflation, with Sweden and Israel being the two exceptions. The success in New Zealand was applied to other countries, and to date, approximately 33 countries use inflation targeting as a framework, with varying degrees of success. Some of the countries that have joined in targeting inflation in their economies are shown in Figure 1.2. In 2020, South Africa's inflation was recorded to be 1.4% above the upper bound of the inflation target band.

Country	Inflation target	Annual inflation rate (%)	Trend
China	$\pm 3.00\%$	2.1	Upward trending
Saudi Arabia	-	2.2	Stable
Japan	2.00%	2.5	Upward trending
Australia	2.00%–3.00%	5.1	Upward trending
France	-	5.8	Upward trending
South Africa	3.00%–6.00%	7.4	Upward trending
India	4.00% $\pm$ 2.00%	7.1	Upward trending
Euro Zone	2.00%	8.6	Upward trending
US	2.00%	8.6	Upward trending
Brazil	3.75% $\pm$ 1.50%	11.7	Upward trending
Russia	4.00%	17.1	Upward trending

Figure 1-2 Annual Inflation rates of selected G20 countries in 2020
(Source: Meyer & Hassan, 2024:3).

When inflation targeting framework was officially adopted in February 2000, the South African Reserve Bank (SARB) had intended it to have a 2-year time horizon ending in 2002 (van der Merwe, 2004:4). During this period, the SARB had intended to measure consumer price index excluding the effects of mortgage interest rates (CPIX) (Parsons, 2020:99). Although economists have received inflation targeting with optimism, there have been critics. The Congress of South African Trade Unions (COSATU) has been the biggest critic of inflation targeting, perceiving it as an instrument to create unemployment and stifle economic growth (Parsons, 2020:105). Mlangeni & Buthelezi (2023:10) noted that unemployment influences inflation expectations, especially for trade unions concerned with wages. Other economists through comparisons between selected African and European countries found that inflation targeting had less impact on economic growth in European countries (Nene *et al.*, 2022:13). To some economists these views suggest that inflation targeting might not have been implemented the same in South Africa as it was in Europe (Nene *et al.*, 2022:12). Other economists believe that a rise in inflation will not be an exercise worthy of exploring as the effects will be comparable to the outcomes of countries such as Venezuela and Zimbabwe who have been experiencing high inflation (Parsons, 2020:106).

Preceding the February 2000 announcement, the SARB had already made efforts to adapt “*informal inflation targeting*” as a monetary policy framework (Van Der Merwe, 2004:1). The introduction of informal inflation targeting differed from the formal inflation targeting adopted in 2000. The reason for the contrast between the formal and the informal inflation targeting was that the growth in money supply still anchored monetary policy decisions (van der Merwe, 2004:1). The initial results of the informal inflation target delivered lower inflation rate, below double digits in 1992 before declining further to an average of 5.2% in 1999 (Van Der Merwe, 2004:1).

The success gained from the informal inflation targeting meant that the central bank had collated enough information and felt validated to implement inflation targeting formally as the monetary policy framework (Van Der Merwe, 2004:1). The significant differences between the informal and formal inflation targets were that the informal process was focused on price stability (Van Der Merwe, 2004:4). Outstanding from the informal framework was the time horizon and the correct CPIX metric (Bernanke & Mishkin, 1997:99). The SARB gave four reasons as the rationale for adopting a formal inflation targeting, these were namely (Van Der Merwe, 2004:1-2):

1. Informal inflation targeting created uncertainty among the public about the authorities’ monetary policy stance.
2. Inflation targeting improves the coordination between monetary policy and other economic policies, provided the target is consistent with other objectives.
3. Inflation targeting serves to discipline monetary policy and increase the central bank’s accountability.
4. The application of inflation targeting affects inflationary expectations, which should facilitate a reduction in inflation.

To be successful, inflation targeting requires the central bank and its board to exercise independence from government and politicians (Mishkin, 2000:3). The constitution proclaims the secondary objective of the SARB as “... *to perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank (SARB) and the Cabinet member responsible for national financial matters.*” (The Constitution of South Africa, 1996:125). For inflation targeting to be

adopted correctly, there needs to be a level of independence from the central bank (Mishkin, 2000:3). What Van Der Merwe (2004) fails to mention are the disadvantages of inflation targeting. Discussing inflation targeting in emerging markets, Mishkin (2000:4) identifies four disadvantages of implementing it during the transition period from a monetary policy framework. These are: *inflation targeting is too rigid, it allows too much discretion, it has the potential to increase output stability, and it lowers economic growth.*

Svensson *et al.* (1996:4) argue that the potential problem in implementing inflation targeting consists of making the central bank's inflation forecast an explicit intermediate target. He also discusses how inflation targeting should be implemented by forecasting inflation. Inflation targeting should combine both the formal and informal components, with additional judgments for structural forecasts (Svensson, 1996:9). Intermediate inflation targeting is at the discretion of the central bank, government, or parliament. The SARB makes its decisions through its monetary policy committee (MPC), which used to consist of 15 members split between the governor, three deputy governors and senior members (van der Merwe, 2004:6). Currently, the MPC is made up of 7 members consisting of the governor, three deputy governors and senior members (SARB, 2020).

The MPC through several meetings deliberated over targeting inflation by setting up a band, point target or a ceiling (Van Der Merwe, 2004:5). The two other challenges for the central bank was the width of the band and the average inflation between the high point and the lowest point of the set band (Van Der Merwe, 2004:5). From previous experiences of the informal inflation targeting it was noted that it takes the central bank between 18 – 24 months after the change for the full impact of inflation to be recorded (Van Der Merwe, 2004:5). The MPC further decided to not adopt the midpoint target withing the band which further left the band as the target without a midpoint target (Van Der Merwe, 2004:5). The target band chosen for inflation was 3-6% adopted from February 2000. The band was measured against CPIX between 2002 and 2003. However, the band was changed between 2004 and 2005 to 3-5%, before being reinstated at 3-6% from 2005 onwards (Van Der Merwe, 2004:6).

In his 2024 speech, the governor of SARB, Mr Lesetja Kganyago, made a compelling argument for South Africa's economy shifting its inflation from a higher position within the

inflation band to settle at the midpoint. In his speech he mentioned two lessons learned from his time in charge of the central bank, these are: people hate inflation and the necessity to have effective monetary policy (Kganyago, 2024:2). Since the beginning of his tenure, the governor identified three shortcomings in his record; these are: *targets being missed too frequently, average inflation rate was recorded near 6%* which is on the upper end of the band and lastly, *the economy had structural growth problem* (Kganyago, 2024:4).

These issues lead to a significant shift in approach from the SARB's leadership in communicating a clear message to its preferred targets (Kganyago, 2024:4). A clear communication to shift average inflation to 4.5% was communicated to the public (Kganyago, 2024:4). Communication is a component of inflation targeting that economists Bernanke and Mishkin (1997), Buthelezi (2022) and Brash (2002) mention as being a critical component of inflation targeting. The SARB adopted a new Quarterly Projection Model, a flagship model that includes 4.5% as an objective (Kganyago, 2024:5). The result of these changes caused headline inflation to drop, as administered prices did in 2017 (Kganyago, 2024:7).

During the adaptation of inflation targeting in 2000, SARB commissioned Stellenbosch University's Bureau of Economic Research (BER) to assist them with collecting inflation expectation survey data and provide information viewed as central to impact monetary policy framework (Reid *et al.*, 2000:2). The survey which is sent to selected company's senior management using purposive sampling¹ is to ensure business industries are represented according to the country's representation (Reid *et al.*, 2000:7). Purposive sampling is a type of sampling in which the researcher's judgement is used to select the sample documents based on the range of possible reasons (Saunders & Lewis, 2018:138). The survey is assigned post-stratification weights to reflect the company's contribution to the economy and uses SARS auxiliary administrative data to represent the company's size, industrial sector and municipality (Reid *et al.*, 2000:4).

¹ Purposive sampling is a type of sampling in which a researcher's judgement is used to select the sample members based on a range of possible reasons and premises (Saunders & Lewis, 2018:138)

1.1.2 Significance of the study

This research addresses a critical point in the South African monetary policy. The SARB's monetary policy leadership has been considering transitioning from a continuous inflation target band of 3%-6% to a point target of 3% by 2027. The significance and contribution of this study are as follows:

1.1.3 Theoretical contribution

This study contributes to the limited body of literature that examines inflation targeting frameworks in emerging market economies with continuous structural challenges. While extensive research has been dedicated to developed economies, few studies have been conducted over the years to assess the experience of African economies operating under this framework, by applying established monetary policy theory (Taylor Rule, inflation expectations anchoring, credibility theory) to South Africa's context which is characterised by high unemployment (33.2%), extreme inequality (GINI coefficient of 66%) and lack of growth-related issues. This research helps us understand how inflation targeting operates under non-ideal conditions.

1.1.3.1 The Taylor rule framework

The Taylor rule was developed by economist John B. Taylor in 1993. It provides a framework for how central banks should adjust their policy interest rates in response to changes in the economic conditions. The rule suggests that central banks should raise interest rates when inflation rises above target or when the economy is above its potential output, and lower interest rates when the opposite occurs.

1.1.3.2 The Taylor principle

A critical component is the "Taylor principle", which states that central banks should increase nominal interest rates by more than the increase in inflation. This ensures that real interest rates (nominal rates minus inflation) rise when inflation increases, thereby cooling demand and bringing inflation back to target.

1.1.4 Practical contribution to policy development

The timing of this research is specifically important as the SARB governor has publicly advocated for the 3%-point target for numerous years. This research provides evidence-based analysis to inform this consequential decision. The research will integrate international experiences with band-to-point transitions, assess South Africa's readiness for such a transition, and evaluate the potential impact on business planning and investment confidence. Findings will directly support the SARB's monetary policy committee (MPC), the National Treasury and the Minister of Finance in making informed decisions that balance price stability and economic growth.

1.1.5 Contribution to the private and business sectors

South Africa's business sector operates in an environment of immense macroeconomic uncertainty, including load shedding, political instability, and global economic challenges. This research seeks to clarify how the design of the inflation targeting framework influences business confidence and policy uncertainty indexes (NWU PUI). By documenting the relationship between monetary policy communication and business planning certainty, this research provides private-sector stakeholders with insight into how to interpret and respond to SARB policy signals.

The initiation of this study comes as the SARB has implemented inflation targeting for 25 years, but still struggles to agree on transitioning from the initial band of 3-6%. The band is typically used for short- to medium-term inflation targets, but for the South African central bank, it has been in place for more than two decades. The governor of the Reserve Bank has advocated for the transition of the band to a more pragmatic point target. The intention behind this move is to anchor inflation expectations closer to the point target.

There has been a lot of research on the inflation point target and inflation expectations, which correlate the two variables. However, there are those in society, such as trade unions and anti-inflation targeting economists, who hold the opinion that inflation targeting has contributed to unemployment and lack of growth. However, as things stand, the SARB has indicated that their mandate is to target inflation. Theoretical economic researchers warn against targeting inflation as the only variable; they deem this to be the catalyst to cripple the economy.

The question that remains for the SARB to answer is what is the right point target? This question is difficult to answer even for economists, as the central bank. However, there are other segment of economist who believe that an inflation point target or band leads to the same results. However, a band provides flexibility, and a point target requires more discipline from the central bank. The SARB governor has indicated that inflation will likely be targeted at 3% from 2027.

The central bank's 3% inflation target is supposed to support the South African economy by anchoring inflation expectations to a lower rate. The central bank has accepted the Bureau of Economic Research (BER) forecast that inflation expectations will fall to around 3% in 2027.

1.1.6 Problem statement

The SARB has implemented inflation targeting for 25 years (2000-2025), which has resulted in price stability by reducing inflation from double digits in the late 1980s to a single digit below 6%, falling within the set band target. However, the success achieved from the inflation target came with its own problems. During the first decade (2000-2010), inflation exceeded the upper bound of 6% in 40% of months. These missed targets undermined credibility and anchored inflation expectations at the top half of the 3-6% band (Kganyago, 2024:4). Analysis showed inflation between 2008 and 2011 was recorded at the top end of the 3-6% band between 5.5-6% rather than around the midpoint (4.5%), undermining credibility and creating ambiguity about the central bank's true intentions (Klein, 2012:7).

The implementation coincided with the deterioration of macroeconomic conditions:

Unemployment rose from 25.5% in 2000 to 33.2% in 2025; youth unemployment, including discouraged job seekers, was 62.1% in 2025; and the GINI coefficient was 66%, the highest in the world. The Congress of South African Trade Unions (COSATU) argues that inflation targeting, with its primary focus on price stability, has not only failed to achieve price stability but also contributed to the lack of growth and unemployment

(Parsons, 2020:105). In the interim, business confidence, which is the transmission channel through which monetary policy decisions and effectiveness remain vulnerable to policy uncertainty. This extends to include the current debate which discusses the change of target from a band of 3-6% to a point target of 3% with or without tolerances.

With inflation targeting providing price stability there is a lack of research on the impact the transition will have on business confidence when inflation framework is changed from a band to a point target of 3%.

1.2 AIM OF THE STUDY

To assess the effectiveness of South Africa's inflation targeting framework (2000-2025) in achieving price stability and influencing business confidence, and to evaluate the potential implications of transitioning from the 3-6% band to a 3%-point target.

1.3 OBJECTIVES OF THIS RESEARCH

1.3.1 Primary objective

To assess the performance of South Africa's inflation targeting framework (2000 – 2025) in achieving price stability and influencing business confidence indicators, and to assess the theoretical and practical implications of transitioning from a 3-6% band to a 3% point target, using qualitative document analysis of secondary data from academic literature, central bank publications, and policy documents.

1.3.2 Secondary objectives

1. To analyse how South Africa's inflation targeting framework has performed in achieving price stability, including evaluation of:
 - 1.1 Target achievement rates across the 25-year implementation period.
 - 1.2 Credibility development and evolution.
 - 1.3 The effectiveness of communication strategies (including midpoint preference).
 - 1.4 Alignment between implicit and explicit inflation targets.
2. To synthesise international experiences with inflation targeting specifications, identifying implementation patterns that compare band versus point target

approaches, transitioning strategies employed by developed economies (New Zealand, Canada, etc.)

3. To investigate the relationship between inflation targeting implementation and broader macroeconomic outcomes such as framework's impact on unemployment (2000 – 2025).

1.4 RESEARCH QUESTION

How has South Africa's inflation targeting framework performed in achieving price stability and influencing business confidence over the period 2000-2025, and what would be the implications of replacing the 3-6% band with a 3% point target.

1.5 LITERATURE REVIEW: A CRITICAL REVIEW

1.5.1 Introduction

In South Africa's economy, inflation has emerged as a pivotal subject of analysis since the adoption of the inflation target as a framework. Globally, inflation gained prominence in the 1950s after a New Zealand economist, Phillips (1958), found a trade-off relationship between unemployment and wage inflation. Inflation was highly popular during the 1960s, with many leading economists such as Samuelson & Solow (1960) making minor changes to the original Phillips curve by replacing wage inflation with price inflation and highlighting the relationship as a more universal relationship. Between 1965 and 1982, the United States and many other developed countries experienced what was then called the Great Inflation (Bryan, 2011). Inflation rose to 14% mid-1980s at this point.

The United States (US) and many other countries experienced a period of high inflation between 1965 and 1982, named "The Great Inflation". The primary motive for high inflation in the US was the country's drive for low unemployment following the passing of the *Employment Act of 1946* (Bryan, 2011). By the mid-1980s inflation in the US had risen to 14%; however, some critics of the Phillips curve were quick to point out that driving unemployment by increasing inflation may not be solution for the economy (Bryan, 2011)

(Friedman, 1976) The South African economy during the same period had positive results recording 6% in 1965 but by 1982 inflation had risen to 16% (STATSSA, 2021).

1.5.2 Inflation targeting lessons from New Zealand

In 1989, the New Zealand Reserve Bank (NZRB) governor and the Minister of Finance deliberated on introducing a framework for monetary policy to provide price stability to the country's economy (Brash, 2001:4). Economists Bernanke and Mishkin (1997:99) defined inflation targeting as a framework to achieve price stability within a single or multiple *time horizons*. Inflation targeting is characterised by acknowledging that low and stable inflation is the overriding goal of monetary policy (Bernanke & Mishkin, 1997: 97).

With inflation targeting as the overruling goal, New Zealand expected to target inflation for 2 years. However, success was achieved in one year (Brash, 2002:2). Due to inflation-targeting characteristics, achieving the targeted inflation came without the challenges, as unemployment increased as a result of the trade-off between unemployment and inflation when economic growth slowed during the same period. New Zealand somehow managed to overcome this double-digit unemployment by working to grow the country's economy without sacrificing its inflation goals. One of the main features of inflation targeting is the central bank's increased communication with its population about its plans and objectives. In doing so, the central bank shares its accountability and its responsibilities for attaining the set objectives (Bernanke & Mishkin, 1997:97).

Inflation targeting is preferred as a framework rather than as a monetary policy rule. The reason is that if inflation targeting is applied for an extended period, it can harm the country's economy (Bernanke & Mishkin, 1997:9). Economic researchers found that either a *band* or a *point target* is suited for targeting inflation. Figure 1.1 shows countries that used either the band or point target to target inflation. Central banks should be aware that, in using an inflation targeting framework, it should not be used as a rule, as this would be too rigid for the monetary policy (Bernanke & Mishkin, 1997:98). To shift monetary policy by changing short-term rates would benefit the economy in reaching the inflation target (SARB, 2024).

1.5.3 The origins of inflation targeting in South Africa

Inflation targeting framework is a monetary policy strategy that aims to maintain low and stable inflation while also supporting other economic objectives such as reduced unemployment and increased output (Cheteni *et al.*, 2025:4). Other economists have iterated this sentiment that inflation targeting will impact other variables from inception for a short time horizon (Bernanke & Mishkin, 1997:99). However, some South African economists refute this claim citing other economic environments in South Africa affect economic growth and unemployment (Parsons, 2020:106).

The SARB adopted a band to target inflation between 3% and 6%, providing price certainty that the central bank is working to maintain inflation within the set target range. The SARB communicates its decision through its Monetary Policy Committee (MPC), which meets at least 6 times a year to review and, if necessary, change the repo rate. Figure 1.3 shows that the inflation distribution 2 years ahead of business inflation expectations increased in standard deviation between 2019 and 2023 (SARB, 2024:6).

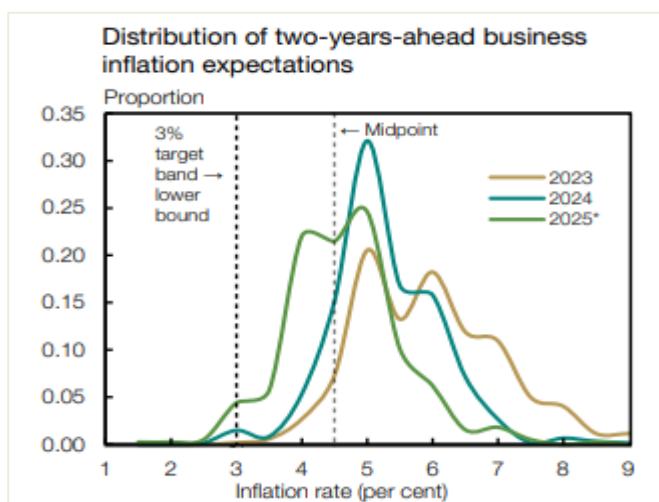


Figure 1-3 BER & SARB
(Source: SARB 2025:6)

The authors of South Africa's constitution carefully worded the central bank's primary objective as "*to protect the value of the currency in the interest of balanced and sustainable growth in the Republic*" (The Constitution of the Republic of South Africa, 1996, 1996:125). The SARB is responsible for protecting the currency by keeping

monetary policy anchored firmly in an interest rate suited to the country's economy. Inflation is measured by forecasting future values, calculating previous-period values, and averaging and square-rooting the differences to obtain the Root Mean Square Error (RMSE) (SARB, 2024:6). Inflation is forecast using time-series methods with different confidence levels, as shown in Figure 1.4.

The SARB, in consultation with the Minister of Finance, has determined an inflation band where inflation is most likely to provide price stability, to communicate to the public where they perceive inflation to be headed in the future and to explain to what extent inflation has been falling short of the target due to errors. The forecast shown in Figure 1.4 supports the central bank's plan for the likely range within selected confidence intervals (CIs) where inflation will end up. Figure 1.4 helps the SARB governor plan for the best-, normal-, and worst-case scenarios for the new year ahead.

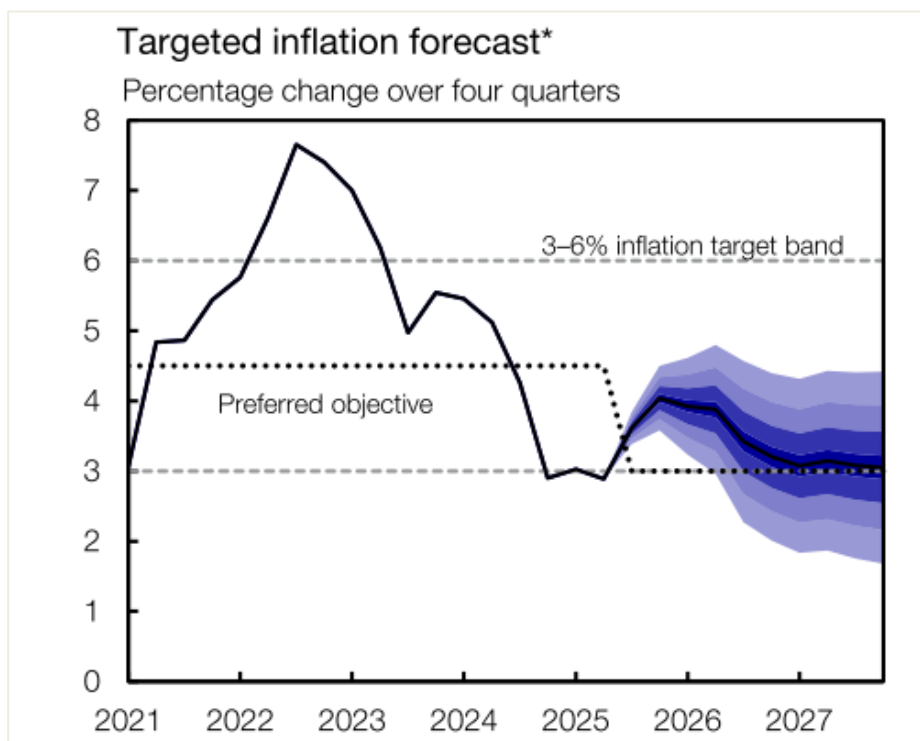


Figure 1-4 Targeted Inflation Forecast
(Source: SARB 2025:4).

Inflation can be forecast as shown in Figure 1.4. It can be supplemented by calculations shown in Figure 1.1, which differ in error as described in the paragraph above and will therefore have errors as shown in Figure 1.5.

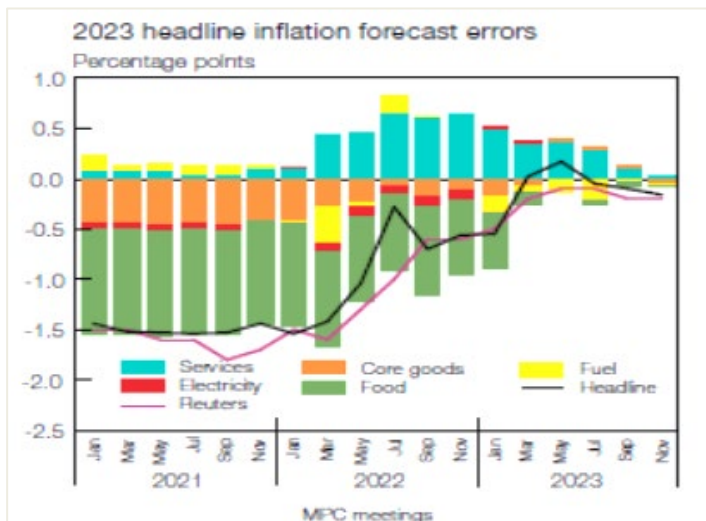


Figure 1-5: Headline Inflation Forecast Errors

(Source: SARB 2024:37).

In September 2025, the SARB announced its recommended inflation target would shift to 3% in line with its Quarterly Projection Model (Fowkes, 2025:3). This move will anchor inflation expectations at a lower rate, unlike the 4.5% midpoint currently in use, which anchors expectations at a higher rate. By November, the Minister of Finance, through consultation with the SARB, cabinet, and the president, made the change to a point target of 3% with a 1% tolerance (Godongwana, 2025:1). The new target immediately replaced the 3-6% band.

1.5.4 The effect of inflation on unemployment

Inflation and unemployment have been connected since a New Zealand economist, A. W. Phillips (1958), wrote a paper titled “*The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861 – 1957*”. In it, he developed a series of diagrams that explain how important the relationship between wage inflation and unemployment became. Later, Samuelson & Solow (1960) changed “wage inflation” to “inflation” in their paper.

In South Africa's economy, the Phillips curve has not been proven effective. Economist, J. C. Vermeulen (2017:45) found a weak positive relationship between unemployment and inflation for the South African economy and concluded that there is no trade-off between the two variables. Another economist found that when inflation is increased by 1% there is a 2.61% increase in unemployment in stage 1 of unemployment and a 0.06% decrease in stage 2 of unemployment (Buthelezi, 2023:10). The argument presented against inflation targeting has been that it limits economic growth that is necessary to create employment (Buthelezi, 2023:10).

Inflation targeting is known to create unemployment if left in place for the medium- to long-term (Bernanke & Mishkin, 1997:107). It has become accepted that low inflation promotes long-run economic growth and efficiency (Bernanke & Mishkin, 1997:104). South Africa, coming from high inflation in the 1980s, averaging around 15% (van der Merwe, 2004:1), will benefit greatly from low inflation relative to economic growth. However, the challenge for South Africa has been balancing the two ends of the scale, unemployment and growth.

1.5.5 Inflation and repurchase rate: the South African economic perspective

The SARB controls inflation through monetary policy, setting the short-term policy rate (i.e., repo rate) (SARB, 2020). National Treasury, in consultation with the SARB, sets the inflation target, which serves as the benchmark for measuring price stability (SARB, 2020).

To protect the value of the currency, the central bank uses inflation targeting to maintain consumer price inflation between 3% to 6% (SARB, 2020). To achieve its objective, the central bank sets a short-term policy rate, also known as the repurchase rate (repo rate), which affects the financial sector's borrowing costs and cascades to the broader economy.

Figure 1.6 shows the relationship between headline inflation and the nominal repo rate. Figure 1.6 also shows how inflation is controlled through the repurchase rate (repo rate), which is set to maintain it within the benchmark target range of 3% to 6%. The SARB does not measure inflation against unemployment; these variables are usually measured

separately. However, economists (Buthelezi, 2023:2) and Vermeulen (2017:33-34) found that emulating the Phillips curve led to undesired results with South Africa's economy adding to its unemployment figure while lowering inflation.

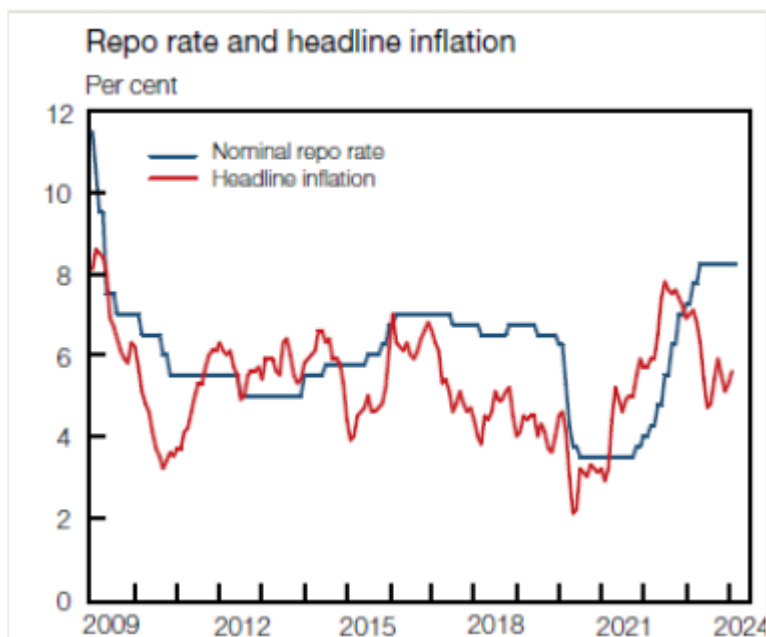


Figure 1-6: Repo Rate and Headline Inflation
(Source: SARB, 2024: 6).

1.5.6 Business confidence and uncertainty

Business confidence is a standardised confidence indicator providing information on future business developments. It is based on opinion surveys on development in production, orders and finished goods stocks in manufacturing. In South Africa, the South African Chamber of Commerce and Industry (SACCI) periodically measures business confidence to gauge the private sector's outlook on inflation.

Researchers have been exploring the usefulness of consumer and business surveys and indices for assessing the cyclical position of the economy and forecasting output movements (Kleynhans & Coetzee, 2021). The research has focused on whether there is a causal relationship between the business index and other economic variables, such as growth, unemployment, and inflation.

In contrast to business confidence, there is business uncertainty, the result of the business sector being unable to predict or directly influence events, which can lead to negative outcomes. Business uncertainty can be caused by factors such as *technological advances, data breaches, natural disasters, new business regulations, economic fluctuations, market volatility and changes in society*.

Business uncertainty can be measured using a few indices; examples include the North-West University Policy Uncertainty Index (PUI), economic policy uncertainty (EPU), and the World Uncertainty Index (WUI). The sole aim of the PUI is to provide South African decision-makers with better guidance to understand and manage the effects of policy uncertainty (NWU, 2016). The PUI is measured using three components:

1. News coverage of uncertainty
2. The views of a group of leading economists in the country.
3. Input from the University of Stellenbosch's Bureau for Economic Research.

1.5.7 Conclusion

In conclusion, the literature review highlights the evolution and challenges facing economies that implement inflation targeting as a monetary policy framework, particularly from the South African perspective. New Zealand, being the first country to formally introduce inflation targeting, faced the same challenges, such as setting the correct target, defining the time horizon, and measuring the correct CPI. South Africa began implementing inflation targeting in 2000, initially focusing on three areas of its inflation target: the band (3-6%), the end period (2002), and the CPIX measure. The results have not been the same as those of developed countries such as New Zealand and Canada.

The Phillips curve dilemma further complicates matters as the South African model does not follow the traditional trend as first predicted by A. W. Phillips (1958). The literature further indicates a gap in the efficacy of the inflation target band. These complex issues have exacerbated inflation targeting by depriving the central bank of a trade-off between unemployment and inflation.

This review highlights the need for research and dialogue on the effectiveness of inflation targeting in the South African economy as the country continues its journey towards economic success.

1.5.8 Gap in research

The research gap stems from the period when inflation targeting was implemented, which was over 24 years ago. After two decades of inflation targeting, the questions needing to be answered are as follows:

- (i) Does South Africa's economy need to revisit the inflation framework?
- (ii) Does South Africa's economy need to revise the band of 3-6%, and
- (iii) if a change to a single-digit inflation target will be a better option than a band.

1.6 RESEARCH METHODS AND DESIGN

1.6.1 Philosophical assumptions

For this study, the researcher will embark on a document analysis. Document analysis is used to analyse preexisting texts (Morgan, 2022:64). Bowen (2009:27) defines document analysis as a systematic procedure for reviewing or evaluating electronic and printed material. The research will be a qualitative study approach that was taken from the eight Semantic Publishing and Referencing ontologies (SPAR) combined with the Document Component Ontology (DoCo) to form the original set of SPAR ontologies (Constantin *et al.*, 2016:169). The research will use the Publishing Roles Ontology (PRO) for the characterisation of the roles of agents (i.e. authors, editors, reviewers, publishers and librarians) (Constantin *et al.*, 2016:169). The researcher will adopt a content analysis epistemology in the form of heterodox economics. Within this interpretivist framework, the researcher embraces elements of heterodox economics as its epistemological orientation. Heterodox economics is defined as the idea that economics is a working epistemology but does not comprise a closed set, unified theoretical system (Bogenschneider, 2022:134).

1.6.2 Research approach and design

The research will follow an inductive approach, selecting documents relevant to the inflation-targeting framework and its impact on other economic variables. The methodological choice will be a mono-qualitative method focusing on inflation targeting in the literature. The strategy the researcher will follow is a document analysis method. A document analysis method is defined as a systematic procedure for reviewing or evaluating documents -both printed and electronic (Bowen, 2009:27). The researcher will develop a coding scheme for the document before analysing and interpreting the data in an attempt to understand the plethora of documents. The researcher will conduct a cross-sectional document analysis as the time horizon. Data collected will be secondary in nature, and the researcher intends to minimally analyse data to make a significant point where necessary, as shown in Figure 1.5.

This research will adopt an inductive research design focusing on the collection and analysis of secondary data from various databases. This approach allows for the exploration of existing literature and documents on inflation targeting, providing insights into its impact on economic variables such as inflation rates, unemployment, and business uncertainty.

1.6.3 Data collection

The data collection method for this research will use a document analysis approach. Document analysis is a systematic procedure for reviewing and evaluating both electronic and printed materials relevant to the research topic (Bowen, 2009:27). This method enables the researcher to analyse pre-existing texts to gain insights into the inflation-targeting framework and its impact on the South African economy.

The data collection process will begin with a comprehensive search of documents from multiple reliable databases. The researcher will screen these documents by reviewing abstracts and titles to identify those relevant to the topic and time period. The period will commence from the time inflation targeting was first used by the RBNZ and will include local and international perspectives on the subject. Selected documents will include peer-reviewed academic articles and non-academic publications that offer contrasting viewpoints on inflation targeting and its impact.

A coding scheme will be developed prior to detailed analysis to categorise and interpret the content systematically. This coding will facilitate understanding of patterns, themes, and differences across the literature, enabling a thorough comparison of inflation-targeting methods applied in various economies, with particular attention to the South African context.

For this qualitative document analysis, data saturation will be achieved through a systematic and iterative approach to literature collection and coding. Data saturation occurs when additional documents yield no new themes, concepts, or insights relevant to the research objectives regarding inflation targeting's impact on business confidence in South Africa (Bowen, 2009:15).

The researcher will employ a three-stage saturation verification process. Firstly, documents will be coded using the predetermined coding scheme, with new codes added as emergent themes arise. Secondly, saturation will be considered reached when five consecutive documents produce no new codes or themes. Thirdly, a final validation phase will involve reviewing an additional five documents from diverse sources (academic journals, central bank publications, and policy reports) to confirm that no new relevant information emerges (Saunders & Lewis, 2018:158).

This approach ensures theoretical saturation rather than simply reaching a predetermined number of documents. The researcher will maintain a code saturation log documenting when each theme stabilises, following protocols established by Fusch & Ness (2015:1411), who emphasise that saturation in document analysis depends on data richness and scope rather than sample size alone to provide validity. Data triangulation will be used to correlate findings, correlate multiple data collection methods, or multiple theoretical strategies to ensure reliability and validity.

1.6.4 Data analysis

Data analysis will involve a systematic review of existing electronic and print materials relevant to the inflation-targeting framework and its impact on other economic variables. The process will involve the following steps:

1. **Document search:** the researcher will begin by searching multiple reliable databases for relevant documents, focusing on literature on inflation targeting since its initial implementation in New Zealand in 1990, and extending to South Africa and other international contexts.
2. **Screening:** The researcher will screen collected documents by reviewing titles and abstracts to select those that are relevant in terms of topic, time, and context.
3. **Selection:** Documents that meet the eligibility criteria will be included for detailed analysis. These will include peer-reviewed articles, non-academic publications, and official reports from local and international authors with varying perspectives on inflation.
4. **Coding:** A coding system will be developed to categorise and organise the data extracted from the documents. This coding will help identify themes, patterns and contrasts within the literature.
5. **Analysis and interpretation:** The researcher will analyse the coded data to understand the theoretical views supporting documents, practical applications and outcomes of inflation targeting. The analysis will seek to explain the reasons for differing views on the inflation targeting band, the potential shift to a point target, and the implications for business certainty.
6. **Cross-sectional analysis:** The study will adopt a cross-sectional time horizon, analysing documents across the timeline of inflation targeting implementation to capture changes and developments.

The data analysis process will follow the steps outlined above and a framework depicted in Figure 1.7. Researchers Kayesa and Shung-King (2021:4) follow the protocol shown in Figure 1.7 to select a document and apply the inclusion and exclusion criteria to pick the right document to analyse for this research study.

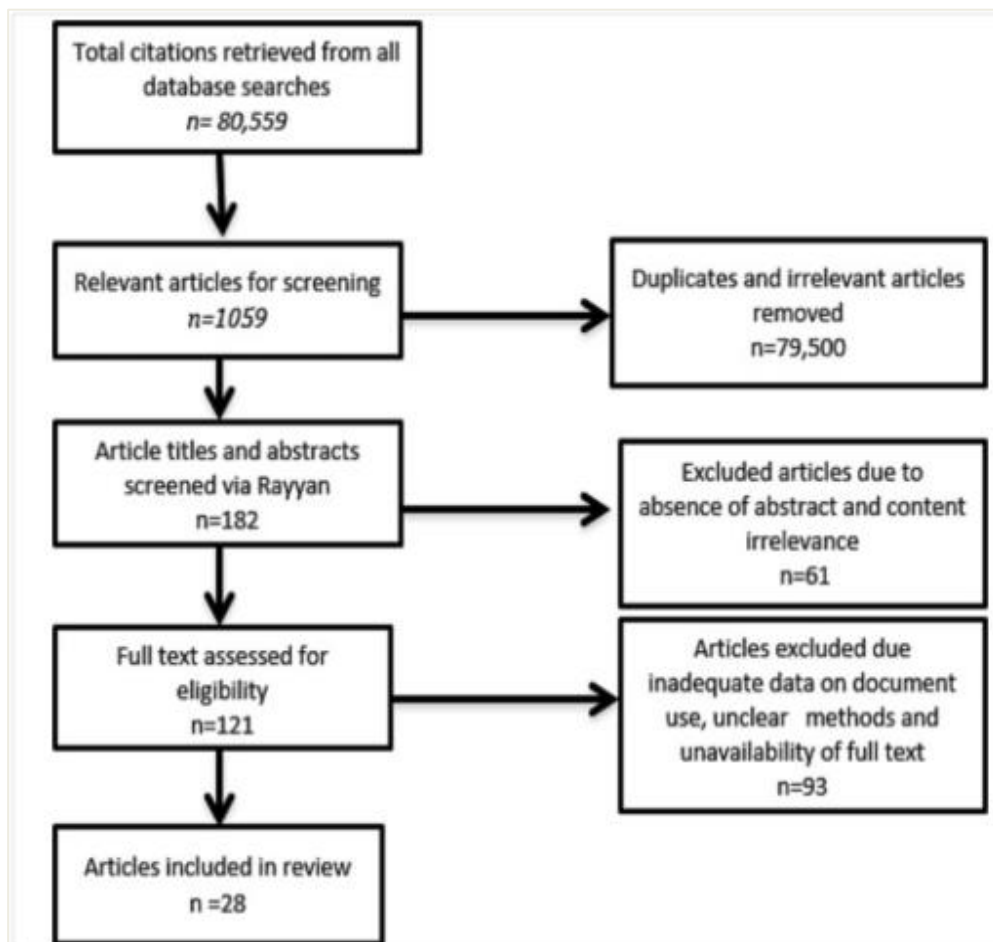


Figure 1-7 Step-by-step article selection process involved in this review
(Sources: Kayesa & Shun-King, 2021:4).

1.6.5 Ethical considerations

The research will conform to the standards approved by the NWU's Ethics Committee. The research will use secondary data from the Central Bank of South Africa and/or Statistics South Africa.

Ethical considerations for this proposal primarily involve the use of secondary data and document analysis. The following ethical considerations apply:

1. **Use of secondary data:** The research uses secondary data from credible sources, such as the SARB and STATSSA. Ensuring that this data is used responsibly and accurately is essential to maintain the integrity of the research.
2. **Adherence to institutional ethics standards:** The research will conform to the ethical standards approved by the North-West University's Ethics Committee. This

implies that the researcher must ensure confidentiality, proper citation and respectful use of all sourced materials.

3. **Proper attribution and avoidance of plagiarism:** Since the study involves analysing existing literature and reports, it is crucial to attribute all sources correctly, as demonstrated in the reference list provided, to avoid plagiarism.
4. **Transparency and accountability:** The researcher commits to transparent methodology, ensuring that document analysis is conducted systematically and ethically. The researcher also commits to providing accurate interpretations without manipulating data to fit preconceived conclusions.
5. **Respecting intellectual property rights:** The researcher will ensure permissions are obtained where necessary, especially when using non-academic articles or unpublished documents. The researcher will also show respect for copyright laws and intellectual property rights.
6. **Minimising harm:** As the research involves economic public opinion or policy. The researcher will take care to present findings objectively and responsibly to avoid misinforming stakeholders or causing undue alarm or false confidence.

1.6.6 Validity

In this study, validity is ensured using secondary data collected from reputable and authoritative sources such as STATSSA and the SARB. In qualitative research, validity (also termed trustworthiness or credibility) refers to the extent to which the research accurately represents the phenomena under investigation and produces findings that are believable and defensible. Furthermore, the document analysis method systematically reviews peer-reviewed, governmental, and institutional documents widely accepted in economic research, thereby further supporting construct validity. The research also employs a cross-sectional design to analyse documents for temporal validity in capturing the evolution of the inflation targeting framework over more than two decades.

1.6.7 Reliability

Reliability relates to the consistency and dependability of the research findings. This study leverages established secondary data and official reports from SARB and STATSSA. These documents will enhance the reliability of the data sources due to their recognised

methodological rigour and standardised measurement procedures. The systematic document analysis approach includes developing a coding scheme before analysing and interpreting the data, thereby maintaining consistency in how information is extracted and assessed across multiple documents. The use of a mono-qualitative method, focusing specifically on inflation-targeting documents, also reduces variability and potential bias in data interpretation. The use of standardised survey instruments, such as the BER's business expectations survey, enhances the reliability of the qualitative data streams.

1.6.8 Software

Given the research's qualitative nature, the researcher has used appropriate qualitative data analysis software to support the systematic document analysis. The software, ATLAS.ti, is the preferred research analysis software because it effectively facilitates coding, grouping, and thematic analysis of large volumes of textual data. These techniques will facilitate the systematic organisation of coded segments and support thematic analysis aligned with the research question. The researcher has also used reference management software, Mendeley, to manage citations and bibliographic data throughout the research process. The other software used was Microsoft Excel, which was used to organise and keep records of secondary documents, develop thematic categories, and assign codes.

1.7 CHAPTER SUMMARY

In summary, this research study will examine the theoretical analysis of inflation targeting, which has been adopted for 25 years in South Africa and 35 years globally. Inflation targeting has been successful when implemented correctly in other countries; however, when it was implemented in South Africa, there have been differing conclusions: economists agree it adds value to the country's economy, but trade unions disagree. Inflation targeting clearly works in Europe, North America, and Asia, as documented, but in South Africa, some challenges have not been resolved over the two-decade period to definitively make it a success. The areas the researcher aims to explore are to trace the theory and principles identified since Bernanke and Mishkin's (1997) work and relate them to the South African context.

The SARB, having changed its inflation-targeting band in 2005 before restoring it, did not set up a new CPIX and time horizon. By not including these two variables, the central bank could have inevitably adopted partial inflation targeting or an “informal” approach, as they exceeded their original time horizon from 2000 to 2002. By analysing a document on inflation targeting, the researcher will attempt to identify the reasons for the contrasting views on inflation targeting, the band, and the central bank’s future objectives. However, the business sector will be affected by inflation targeting and its impact on the macroeconomy.

1.8 LIMITATIONS

The research will acknowledge the following potential limitations, such as the reliance on secondary data, which may not capture all distinctions of the inflation targeting framework. Additionally, the availability of documents and differing interpretations of data may affect the comprehension of the analysis.

Chapter 2 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter commences with a brief introduction to the literature. A conceptual framework follows the introduction in the form of a diagram that shows how the literature's concepts were explored. Following a brief conceptual framework, the chapter proceeds to the theoretical framework, which begins with the topic's timeline from its inception through the various stages of theory development to the current stage. Following the timeline, there are discussion sections on the topic's impact on other macroeconomic variables. The timeline will be grouped chronologically into decade-long segments from the time of implementation to the current state of inflation targeting in 2025. Finally, the chapter will conclude with a brief and concise conclusion.

2.2 CONCEPTUAL FRAMEWORK

In this study, the conceptual framework incorporates three interrelated areas: monetary policy tools, the transmission process, and the business sector's reaction in the South African economy. Figure 2.1 shows how the SARS inflation targeting system serves as a communication tool that affects business confidence and economic performance through specific channels.

The heart of this structure is the Monetary Policy Committee (MPC) of the SARB, which determines the policy rate (repo rate) to meet the inflation target band of 3-6. Inflation forecasts prepared with the Bureau of Economic Research (BER) at Stellenbosch University inform the MPC's decisions. These predictions include both business and household inflation expectations, which are key to the effectiveness of the framework (Reid & Siklos, 2021:2).

The model has four channels of transmission. First, there is the interest rate channel, which concerns the cost of borrowing for consumers and businesses, thereby influencing consumption and investment. Second, the expectations channel anchors inflation expectations through credible communication of targets and policy intentions. Third, the exchange rate channel influences import prices and competitiveness. Fourth, the credit channel is related to the accessibility and rate of business financing. Factors moderate

these mechanisms of transmission. This relates to structural limitations such as high unemployment rates (33.2% in Q2 2025), high levels of inequality (GINI coefficient of 66%), and a narrow fiscal space that limits the frameworks from having an impact on real economic performance.

External shocks, such as fluctuations in commodity prices, exchange rate changes, and developments in the global economy, are complicating factors. Issues of credibility (regarding multiple target misses and communication difficulties) also moderate effectiveness. Responses in the business sector are reflected in the adjustment to the SACCI Business Confidence Index (BCI), investment patterns, employment creation, and price mechanisms. These reactions are transmitted into the system through their impacts on inflation expectations and real inflation performance, leading to an interactive relationship between monetary policy and business performance.

The framework's final goal is to provide price stability while maintaining sufficient flexibility to support economic growth and job creation. The argument concerning the switch between band and point targeting, though, raises some conflicts between these two goals. The Constitution required the SARB to protect the value of the currency in the interest of balanced and sustainable growth (The Constitution of the Republic of South Africa, 1996, 1996:125), but critics, especially COSATU, claim that the existing policy focuses on price stability to the detriment of employment and growth (Parsons, 2020:105). Such a conceptual framework considers the fact that inflation targeting in South Africa does not exist in a vacuum but is embedded in a complex system of economic, political, and institutional forces that determine its success and its legitimacy.

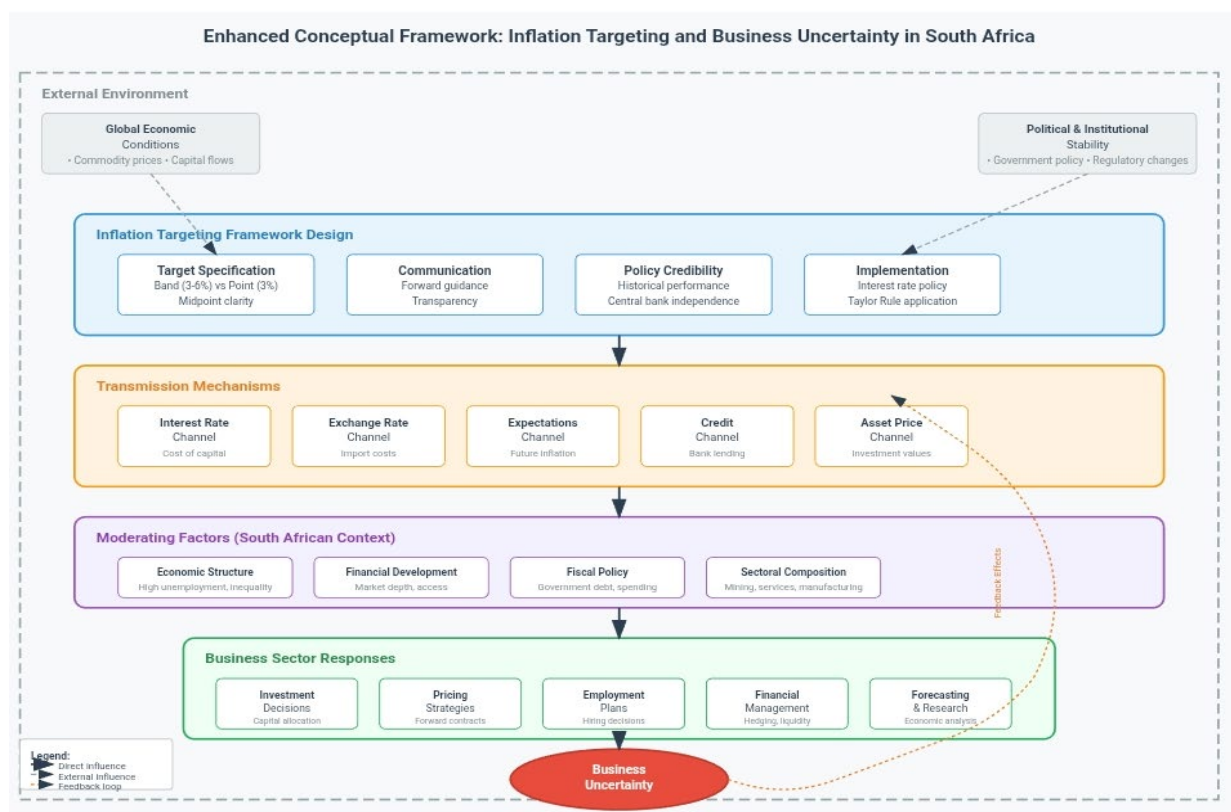


Figure 2-1 A conceptual framework of the study.

2.3 HISTORICAL DEVELOPMENT PERSPECTIVE

The theoretical framework for this study is underpinned by established monetary policy theory and empirical evidence taken from global economies that have implemented inflation targeting. The framework provides a conceptual understanding of why SARB has proposed shifting inflation targeting from a 3-6% band to a 3% point target and how this shift may impact the business sector of the economy.

The theoretical underpinning of this study is grounded in three primary constructs: inflation targeting as developed by Bernanke & Mishkin (1997); the Taylor rule (1993) for monetary policy implementation; and business confidence as it relates to investment decisions and forecasting. The mentioned constructs will follow in a chronological decade grouping, as previously mentioned. This chapter reviews the research literature on inflation targeting chronologically, examining its evolution from global inception to implementation in South Africa. The literature is organised by decades to demonstrate the progression of inflation targeting theory and practice, with particular focus on South

Africa's experience since February 2000. This chronological approach reveals how inflation targeting has evolved as a monetary policy tool and how its impacts on business confidence and economic stability have varied. The scope of this literature review encompasses global experiences with inflation targeting, theoretical developments, and empirical evidence, with specific attention to South Africa's development and implementation of inflation targeting. This literature review draws from academic journals, South African Reserve Bank (SARB) working papers, International Monetary Fund (IMF) working papers, Monetary Policy Committee (MPC) proceedings, and international monetary policy research.

2.3.1 Pre-1990: The search for a nominal anchor

Prior to the emergence of inflation targeting as a specific model, central banks used several approaches to attain price stability. The prevailing strategies were exchange rate pegging, monetary aggregate targeting, and discretionary monetary policy (Hammond, 2012:5). Each served as a nominal anchor, a commitment device that binds a nominal variable and sets inflation expectations. Pegged exchange rates, applied by Sweden and the United Kingdom, among others, linked the currency to a low-inflation country.

This provided an external discipline mechanism without exposing countries to external shocks and without restricting domestic policy independence. This method was proven to be unsustainable by the collapse of the Bretton Woods system in the early 1970s and the failures of the fixed exchange rate regimes that followed (Bernanke and Mishkin, 1997:103-104). Monetary aggregate targeting, which was first used by countries as Germany and Sweden, was based on the idea that by keeping the growth of money supply down, price stability would be achieved. The SARB sought this strategy under Dr Chris Stals in the late 1980s. It included the idea that the money supply growth should be reduced to levels that could be reconciled with inflation (Gidlow, 2011:16). Innovations in finance and unstable money, however, brought the relationship between monetary aggregates and inflation to be less efficient, with new demand for money and reliance on unstable money (Mishkin, 1998). Limitations of current structures were revealed in the 1970s and 1980s inflationary period in developed and emerging markets, such as South Africa, where inflation rose to 16% in 1982 (STATSSA, 2021). Policymaking was made

more difficult by the theoretical problem Friedman (1977) noted about the Phillips curve trade-off between unemployment and inflation.

2.3.2 1990 – 1999: Genesis and global adoption of the inflation targeting framework

2.3.2.1 New Zealand's pioneering implementation of inflation targeting

In 1990, New Zealand became the first country to implement a formal inflation targeting regime, a turning point in the history of the development of monetary policy (Kumo, 2015:9). The framework was developed out of the fight with the continually high rates of inflation and the loss of credibility of the monetary policy in New Zealand. The Minister of Finance, together with the Reserve Bank of New Zealand (RBNZ), developed Policy Target Agreements (PTAs) that outlined numerical inflation targets, timeframes, and accountability mechanisms (Brash, 2001:4).

The first target was to bring down inflation to 0-2% by 1992. This was an ambitious target, which was realised one year before the scheduled due date in 1991, indicating the possible efficacy of the framework (Brash, 2001:2). The inflation control, however, paid a price. Unemployment soared to double-digit figures, with the requisite monetary tightening bringing down the economic activity. This highlighted the basic conflict in the concept of inflation targeting: short-term trade-offs between output/employment objectives and price stability.

New Zealand's practice created several precedents. First, numerical targets placed greater accountability and transparency. Second, frequent communication between the central bank governor and the government helped clarify policy intentions. Third, the theory demanded independent decision-making by the central bank on matters, but it was accountable for the results. Fourth, inflation targeting worked best as a framework rather than a strict rule, allowing it to be flexible in responding to shocks.

2.3.2.2 Theoretical development and expanding adoption

The 1991 introduction of inflation targeting in Canada showed that the framework was not exclusive to small and open economies. Canada, as a trading nation, is considered a key

player in global trade; its success has drawn the attention of other countries (Melino, 2012:105). By 1997, eight nations had adopted inflation targeting: New Zealand, Canada, the United Kingdom, Sweden, Finland, Spain, Australia, and Israel (Bernanke and Mishkin, 1997:99).

These early adopters used variation in target specification (bands vs. points), time horizons (1 to 3 years), and measurement (headline versus core inflation). With majority of countries choosing to have a band instead of a point target; inflation is unpredictable and as such attention is required for central banks to provide credibility when targets are not achieved (Ortiz Martínez, 2008:99). Bernanke and Mishkin (1997) who studied the first eight inflation targeting countries contributed the seminal theoretical contribution by defining the characteristics defining the framework: The first monetary policy objective of institutional commitment to price stability. An information-based strategy that employs a set of indicators as opposed to a single intermediate target. Secondly, greater openness through systematic communication of policy plans and decisions. Third, responsibility for means of describing variances against targets. Importantly, Bernanke and Mishkin (1997:107) stressed that inflation targeting is best understood as constrained discretion, a blend of rule-like qualities and flexibility in responding to shocks. This hybrid approach to rules and flexibility made inflation targeting a contrast to rigid monetary rules without the credibility issue of pure discretion.

2.3.2.3 Taylor Rule and implementation of policy

Simultaneously with the dissemination of inflation targeting, Taylor (1993) developed an empirical rule on how the central banks are expected to change their interest rates in relation to the inflation and output gaps. The initial formula of the Federal Reserve in the United States was:

$$i = r^* + p + 0.5(p - p^*) + 0.5(y - y^*)$$

Where:

i = nominal federal funds rate

r^* = the real rate of interest in equilibrium.

p = actual inflation rate

p^* = target inflation rate

y = actual output

y^* = potential output.

The Taylor rule served as a guide for determining whether monetary policy was adjusted correctly. Taylor rule can be used to calculate the nominal interest rates according to where the monetary policymakers are willing to adopt on their economy. The Taylor principle is in such that when the economy is in recession or slowdown the output gap ($y - y^*$) and inflation ($p - p^*$) will both be either negative or low which should prompt policymakers to lower nominal interest rates in the attempt to stimulate the economy. Notably, the rule included the inflation deviations and output gaps, which is a balanced strategy towards the various policy objectives (Taylor, 1993:202). The Taylor rule, according to which central banks ought to increase nominal interest rates by more than once in response to increases in inflation, has proven to be a pillar of efficient monetary policy. It guarantees that real interest rates rise when inflation rises, which provides a proper check on aggregate demand (Doran & Ná N Hickey, 2009:84).

2.3.2.4 Informal Inflation Targeting in South Africa.

Other countries institutionalised inflation targeting, but in the 1990s, South Africa engaged in what Van Der Merwe (2004:1) refers to as informal inflation targeting. This was a strategy that stressed price stability as the goal without being expressly endowed with the characteristics of formal inflation targeting: (i) no stated numerical goal, (ii) no time horizon, and (iii) reliance on the growth of monetary aggregates still as an intermediate goal. Despite informality, the method was a great success. The rate of inflation dropped to an average of 5.2% in 1999, compared with the high rates at the beginning of the 1990s (Van Der Merwe, 2004:1). This experience established the confidence of policymakers and a basis for future formalisation. The SARB gained real-world experience in inflation dynamics, forecasting models, and communication techniques that would be useful in a formal setting.

2.3.3 2000-2009 South Africa Formal Adoption and the Global Financial Crisis.

The SARB officially became an inflation-targeting regime in February 2000, becoming one of 20 countries at the time to implement the strategy (Van Der Merwe, 2004:4). The ruling arrived after long preparations and was based on four major arguments:

1. The informal targeting caused the uncertainty of the monetary policy stance to the populace.
2. Formal targeting would enhance coordination among monetary and other economic policies.
3. Clear objectives would enhance the central bank's accountability.
4. Well-defined inflation targets would help anchor inflation expectations and facilitate disinflation² (Van Der Merwe, 2004:1-2).

The first system indicated a target range of 3-6% for consumer prices excluding mortgage interest charges (CPIX), with a two-year time frame to be completed in 2002. The use of CPIX instead of headline CPI was to avoid the circularity error in which changes in interest rates directly affected the measurement of inflation based on mortgage costs. A 3% point compromise in bandwidth was made. Smaller bands would require greater forecast accuracy than would be allowed, and broader bands would not provide sufficient guidance. The experience of developed economies implied that the band of 2-4% was effective in ensuring credibility and flexibility (Klein, 2012:3).

2.3.4 2000 – 2009: Formal implementation in

2.3.4.1 Implementation of Formal Inflation Targeting

Post formal implementation in February 2000, the SARB policymakers decided to extensively prepare and reflect on four key rationales (Van Der Merwe, 2004):

1. Informal targeting created public uncertainty about the monetary policy stance.
2. Formal targeting would improve coordination between monetary policy and other economic policies.
3. Explicit targets would enhance central bank accountability.
4. Clear inflation targets would help anchor inflation expectations and facilitate disinflation.

² Disinflation is a decrease in the rate of inflation.

The initial framework specified a target band of 3-6% for consumer prices excluding mortgage interest costs (CPIX), with a two-year time horizon ending in 2002. The choice of CPIX rather than headline CPI aimed to avoid the circularity problem where interest rate changes directly affected the inflation measure through mortgage costs.

The 3% bandwidth represented a compromise. Narrower bands would demand greater precision than forecast accuracy permitted, while wider bands would provide insufficient guidance.

2.3.4.2 Early Challenges and Target Modifications

Implementation immediately encountered difficulties. Between January 2002 and December 2007, inflation exceeded the 6% upper bound in 29 of 72 months—40% of the time (Burger & Marinkov, 2008:5). This poor early track record threatened to undermine the framework's credibility before it became established. Several factors contributed to frequent target misses. Sharp and rapid depreciation in 2001-2002 generated imported inflation. Oil price shocks, particularly after 2004, fed through to broader prices. Electricity tariff increases following Eskom's capacity constraints added to administered price pressures.

These external and supply-side shocks proved difficult to control without unacceptable output costs. In response, the SARB made two significant adjustments. First, the target band was temporarily narrowed to 3-5% for 2004-2005. This signalled greater commitment to disinflation but proved unsustainable given the shock environment. The band was restored to 3-6% from 2005 onwards (Van Der Merwe, 2004:6). Second, the measurement switched from CPIX to headline CPI in 2009 as mortgage debt became less prevalent and direct measurement of consumer prices became preferable.

These modifications revealed the tension between commitment and flexibility. Changing targets risked appearing opportunistic and eroding credibility, yet maintaining unachievable targets also damaged credibility. The experience highlighted that emerging markets face more volatile inflation than developed economies, complicating the implementation of inflation targeting (Mishkin, 2000:5).

2.3.4.3 Institutional Framework and Decision-Making

The SARB's Monetary Policy Committee (MPC) operationalises inflation targeting through six scheduled meetings annually. The MPC originally comprised 15 members, including the Governor, three Deputy Governors, and senior SARB officials. This was subsequently reduced to seven members to improve decision-making efficiency (SARB, 2020). The Constitution provides the SARB with operational independence: "The South African Reserve Bank... must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the bank and the cabinet member responsible for national financial matters" (The Constitution of the Republic of South Africa, 1996, 1996:125). This clause balances independence with accountability. The SARB controls policy instruments but coordinates with the government on target setting. Crucially, the Minister of Finance must approve changes to the inflation target. This requirement ensures democratic accountability for fundamental policy choices, but it can create friction when the SARB leadership and the government prioritise different objectives. This tension becomes relevant in evaluating the current debate over transitioning to a point target.

2.3.4.4 Inflation Expectations and the BER Survey

Recognising that expectations play a central role in inflation dynamics, the SARB commissioned Stellenbosch University's Bureau of Economic Research (BER) to conduct quarterly inflation expectations surveys beginning in 2000 (Reid *et al.*, 2021). The survey targets senior management across economic sectors using purposive sampling to ensure representative industry coverage. The survey design applies post-stratification weights reflecting companies' economic contributions, using SARS administrative data to calibrate by company size, industrial sector, and municipality (Reid *et al.*, 2024:4). This methodology aims to capture the inflation expectations of key price-setters in the economy.

Inflation expectations data serve multiple purposes. First, they provide forward-looking indicators of inflation pressures. Second, they measure the framework's credibility. Well-anchored expectations near the target midpoint suggest policy credibility, while

expectations consistently at the upper bound or drifting outside the band indicate problems. Third, expectations data inform policy decisions and communication strategies.

2.3.4.5 The Global Financial Crisis and Inflation Targeting's Resilience

The 2008-2009 global financial crisis tested inflation targeting frameworks worldwide. The crisis originated in developed economies but rapidly transmitted to emerging markets through financial, trade, and confidence channels. South Africa experienced sharp rand depreciation, capital outflows, declining export demand, and rising risk premiums (Ncube & Ndou, 2011:16). Inflation targeting regimes demonstrated resilience during the crisis. Klein (2012:10) found that potential growth decelerated in both advanced and emerging economies, but inflation-targeting countries generally maintained policy credibility.

The framework's flexibility allowed aggressive monetary easing when inflation threats subsided, supporting economic recovery. However, the crisis exposed limitations. Exchange rate volatility posed challenges for emerging market inflation targeters. Roger (2009:25) documented that high vulnerability and dollarisation complicated policy responses. When capital flows reversed sharply, emerging market central banks faced difficult trade-offs between stabilising exchange rates, controlling inflation, and supporting growth. For South Africa, the crisis reinforced that inflation targeting alone could not insulate the economy from global shocks. Coordination with fiscal policy, financial sector regulation, and structural reforms remained essential. The crisis also intensified debates over whether the inflation-targeting framework paid sufficient attention to financial stability and output stabilisation.

2.3.5 2010 – 2019: SARB's preference for a midpoint

2.3.5.1 The strategic shift of Governor Kganyago

In 2014, Lesetja Kganyago became SARB Governor, with an apparent emphasis on inflation-targeting credibility. In a historic speech in 2017, he cited three failures of the SARB in its inflation targeting record: (i) which included targets being missed too often, (ii) average inflation targets were set at 6% (the upper bound) and (iii) structural growth problems had not been resolved (Kganyago, 2017:4). Kganyago declared a new policy direction, the SARB will have inflation targeted at 3-6% with a midpoint target of 4.5%.

Previously the midpoint target was absent; however, its inclusion gives more credibility to the central bank.

This communication was a major policy development. In the past, the SARB did not distinguish between the whole band as a matter of acceptable conduct. The new practice indicated that persistent inflation at 6% was not optimal, even though it was technically within the target. The reason was a mixture of technical and strategic factors. In technical terms, the midpoint target provided a buffer against both downside and upside risks. Assuming that inflation was 4.5% on average, temporary shocks pushing inflation towards either bound would be less likely to exceed the band. Tactically, the midpoint emphasis was a response to the view that the SARB was condoning high inflation within the band, a factor that could have led expectations to run higher. This was done in two changes. First, communication systematically underscored that 4.5% is the desirable inflation growth rate, not a 3-6% range of indifference. Second, the SARB implemented a new Quarterly Projection Model (QPM), which was designed to use a 4.5% convergence point in medium-term forecasts (Kganyago, 2017:5).

2.3.5.2 Estimating an explicit inflation target

Klein (2012:4) conducted an econometric analysis to estimate implicit inflation target by the SARB, which revealed by the organisation's actual decisions rather than its official announcements. Klein (2012:4) followed the premise that South Africa's economy follows the following Taylor rule equation:

$$i^* = r^n + \pi_t^e + \alpha(\pi - \pi^*) + (\beta - 1)(\pi_t^e - \pi_t^*) + \gamma \check{y}_t$$

Where i^* is the target level of SARB repo rate, π_t^e is the expected inflation, $\check{y}_t$ is the output gap, r^n is the natural rate, π^* is the desired inflation rate or the inflation target, it is noted that β should be above 1 to allow for inflation stabilisation. Klein (2018:8) found that implicit inflation target which consists of the observed policy rates changes over time. In 2001-2002, this implicit target came close to the upper limit of 6%. It remained at 5.5 between 2003 and 2008. After the 2008 financial crisis, the implicit target returned to 6% (Klein, 2012:7). The calculated Wald tests rejected the null hypothesis that the implicit target was equal to 4.5% with 99% confidence level. The implications of these results

were credibility issues. Officials' rhetoric indicated that outcomes within the 3-6% band were equally acceptable, yet it also showed a bias toward higher inflation within the band.

This could have indicated to the population that the SARB would accept 5.5-6% inflation, allowing expectations to be set above the midpoint. In 2017, the midpoint preference was to resolve this anomaly, so that communication is consistent with implicit policy preferences. The SARB aimed to anchor expectations more directly by focusing on 4.5% to lower the upward trend Klein (2012) identified in his analysis.

2.3.5.3 Learning results and ongoing difficulties.

Inflation dynamics improved a bit after the 2017 announcement. In 2017-2019, headline inflation dropped to 4.6% on average, compared to 6.3% in 2016 (Kganyago, 2024:7). Price inflation, especially that of electricity, was administered and tamed. Inflation expectations among businesses, as measured by surveys, gradually decreased in the middle. But trouble continued. Unemployment remained high at 29.1% as of Q4 2019, ranking among the highest in the world. The growth in GDP has been poor, with an average of 1.4% each year being recorded between 2015 and 2019, a far cry from the estimated 5-6% needed to make any meaningful difference in the unemployment rate. The GINI coefficient did not decrease much, as it remained close to 63% which indicates the existence of inequality (Maduku & Kaseeram, 2018:88). Critics, especially COSATU and some economists, insisted that the inflation-targeting system caused poor growth and high unemployment as it supported extremely tight policy. They cited the cumulative 200 basis point interest rate increase between 2014 and 2016, in the face of slow growth (Kganyago, 2017:8). There was increased debate over whether inflation targeting was giving sufficient attention to employment and growth targets alongside price stability.

2.3.5.4 2020 - 2025: Proposal for point target

2.3.5.5 Context for change

Three developments made a shift to point targeting possible. To begin with, there was an evolution in global inflation-targeting practice. Most nations which originally used bands moved to point targets or thin bands. The emerging-market average inflation targets fell to around 3%, and South Africa's 3-6% band has not changed since 2005 (Loewald *et*

al., 2025:5). Second, forecasting ability improved. The SARB's Quarterly Projection Model and associated forecasting tools were more accurate, in theory allowing a tighter specification of the target. The improvement in forecasting reduced the technical argument for wide bands to accommodate forecast errors. Third, inflation performance was better. The average headline inflation stood at 4.4% between 2017 and 2019, spending a long time within the band. The BER inflation expectations decreased slowly towards the middle. Such a track record gave grounds to think about more ambitious goals.

2.3.5.6 Proposal of Governor Kganyago of 3%

The SARB governor, Lesetja Kganyago, presented the case for moving towards the 3%-point target by 2027 in his 31 July 2025 address. He gave three arguments: The emerging-market inflation ambitions appear to be around 3%, which implies that this is best practice derived from accumulated international experience. The BER predicts a gradual decline in projected inflation expectations to around 3% by 2027, and this will be a good time to establish it as the target. A point target would eliminate ambiguity regarding the SARB's inflation goal, giving businesses and households better guidance. The proponents pointed out that the 3% level would enhance the credibility of the policy, better anchor expectations, and approximate South African norms to global ones. Opponents questioned the viability due to South Africa's structural limitations, the possible costs of reaching 3% inflation, and the ability to increase business confidence.

2.3.5.7 Theoretical views of bands versus point targets

The target-setting literature provides conflicting guidance on the optimal specification of targets. Mishkin (1998:26) advocates flexibility and says that central banks encountering unpredictable inflation patterns should exercise appropriate discretion through bands. Rigid point targets risk excessive policy responses to minor variations, potentially destabilising output. On the other hand, point targets that include escape clauses can be more credible because they avoid the impression that central banks can be content with high-end results. The point targets proposed by Svensson *et al.* (1996:9) are backed by probabilistic confidence intervals to recognise uncertainty, as well as having clear goals. The point-versus-band issue ultimately concerns the ideal level of commitment. Bands

provide flexibility; however, in the process of enabling expectations to drift. The point targets make it more straightforward but less precise. The decision to do so is based on the ability to predict the future, the volatility of shocks, and the relative significance of anchoring expectations versus stabilising output. The question for South Africa is whether a 3%-point target is the right level of ambition within structural constraints. Loewald *et al.* (2025:33) simulated the short-term costs of bringing inflation down to 3% under current conditions. They indicated non-trivial output losses from the change, especially when expectations were held close to existing levels but did not change smoothly.

2.3.5.8 Institutional considerations.

Any alteration to the target will require the consent of the Minister of Finance, indicating the constitutional necessity of coordination between the SARB and the government. This generates a friction possibility. The Minister has focused on national priorities of growth and job creation. During this mid-term budget presentation, concerns were raised on whether reduced inflation targets would be incompatible with growth targets (Honohan & Orphanides, 2022).

When the governor of the SARB uses the argument to support 3% targeting, while the minister of finance focuses only on growth, negotiation and compromise are the way to go. This can be determined by empirical evidence on whether the growth-inflation trade-off exists and whether tighter targeting provides credibility. More general issues of central bank independence and democratic accountability are also involved in the debate. Is this a fundamental normative choice about policy priorities that must be made by the technically expert SARB or by elected government officials, if they feel that inflation targets should be set using economic analysis? These considerations are intended to be harmonised by the constitutional framework; however, there is room for disagreement.

2.4 THE EFFECT OF INFLATION TARGETING ON UNEMPLOYMENT

The connection between inflation targeting and unemployment creates a heated debate in South Africa. The unemployment rate in Q2 2025 in the country stands at 33.2%, the highest among major economies, and youth unemployment is 46.1% (STATSSA, 2021).

Critics explain such consequences in part due to inflation targeting since the framework has focused more on price stability at the expense of job creation.

2.4.1 Theoretical perspectives

The Phillips curve, a theory developed by Phillips (1958) and modified by Samuelson and Solow (1960), posits that a negative trade-off relationship between unemployment and inflation can be achieved by tolerating higher inflation while reducing unemployment. This trade-off implied that the policymakers could choose the unemployment-inflation combination. Friedman (1977) refuted this argument by saying that the Phillips curve trade-off was not long-lasting but short-run.

Efforts to keep unemployment below its natural level by accepting higher inflation would just create runaway inflation without long-term job gains. The natural rate hypothesis argued that monetary policy could regulate inflation levels but not permanently regulate unemployment levels. It is now widely accepted in modern consensus that monetary policy is a short-run trade-off, but not a long-run trade-off between inflation and unemployment. Monetary tightening to contain inflation normally leads to short-term output losses and a rise in unemployment. Nonetheless, when inflation settles at a lower rate, unemployment returns to its structural rate, set by institutions of the labour market, skills, and the economic structure rather than by monetary policy (Bernanke and Mishkin, 1997:107).

2.4.2 Empirical evidence

The South African evidence of the relationship between inflation and unemployment is still debated. Vermeulen (2017:45) found that in South Africa's economy, the relationship between unemployment and inflation is weakly positive, suggesting no evident trade-off. This finding implies that the unemployment issue in South Africa is more structural, driven by inadequate education, skills, labour-market inflexibility, and a lack of growth, rather than by monetary policy decisions.

However, in a different study (Buthelezi, 2023:10), the author obtained varying results: a 1% rise in inflation produced a 2.61% rise in unemployment at one estimation level and

a 0.06% fall at the other. The irregularity in the specifications raises the point of instability in the relationship, which can be explained by the fact that unemployment in South Africa is not responsive to inflation or monetary policy. Such empirical results have significant implications for the inflation targeting debate. To the extent that there is no strong systematic correlation between unemployment and inflation, the argument that loosening inflation targets will cause unemployment to decline significantly lacks empirical support. On the other hand, the fears that tightening the targets to 3% would create a serious effect on unemployment levels can be exaggerated.

2.4.3 The growth channel

The relationship between unemployment and inflation targeting is mainly associated with economic growth. Low, steady inflation will provide a good climate for investing, planning, and growing (Bernanke and Mishkin, 1997:104). Employment gains from inflation targeting are driven by higher, long-run average growth, but this is a slow process that works through investment and capital accumulation rather than offering one-time employment relief. The difficulty South Africa faces is that inflation targeting in isolation cannot generate growth in the presence of structural constraints. A lack of infrastructure (especially electricity), shortage of skills, unpredictability in policy, crime, and corruption all hamper growth, irrespective of inflationary results. It was noted by Governor Kganyago (2017:8) that without growth, South Africa cannot decrease its unemployment. It was due to this understanding that the idea of constrained discretion came up in the South African implementation of inflation targeting. Although price stability is the most important requirement, the SARB takes into account the impact of growth and employment in policy-setting, especially the rate of change towards the inflation goals. The concern is whether this balance is justified or the SARB has been too tight with its policy despite growth and employment issues.

2.4.4 Interest rate policy and growth.

Critics point out individual policy episodes as an indication of over-tightening. The SARB has adopted cumulative interest rate increases of 200 basis points between 2014 and 2016, despite poor growth averaging below 2% yearly (Kganyago, 2017:8). The tightening was in response to inflation pressures from rand depreciation and drought-

related food price increases. Other policies also had risks. Smoothing the shocks of supply-side inflation would have enabled the temporary spurts to be anchored in expectation and necessitated further extreme tightening in the future. One of the frameworks for evaluating the appropriateness of the policy is provided by the Taylor Rule analysis. The comparison of the actual policy rates with the Taylor Rule prescriptions tells whether the policy was too tight or expansionary. The specification of a Taylor rule in South Africa was created by (Pirozhkova *et al.*, 2023:20):

$$i = r^* + p + 0.5(p - p^*) + 0.5(y - y^*)$$

Their analysis indicated that SARB policy rates tended to follow Taylor Rule prescriptions, suggesting that the policy was neither systematically tight nor loose with respect to inflation and output levels. This will justify the SARB's defence that the policy has been suitable within its mandate, but there is a reasonable debate over the weights (alpha and beta) of the two gaps (inflation and output).

2.5 THE IMPACT OF INFLATION TARGETING ON BUSINESS CONFIDENCE

Business confidence is a very important conduit through which the monetary policy influences real economic results. Businesses that are confident invest, hire, and grow, whereas businesses that are not certain delay business decisions, lay off workers, and shrink. There are various channels through which inflation targeting structures affect business confidence.

2.5.1 Theoretical mechanisms

Bernanke and Mishkin (1997:18) highlighted that it is in inflation targeting that transparency and policy uncertainty are minimised. Central banks can assist businesses to make more accurate future economic environment expectations by clearly communicating their inflation targets, time frames, and their reaction to these changes. This lowers risk premiums of uncertainty and promotes long-term planning. These benefits, however, require credibility to come to pass. Announced targets give minimal guidance when businesses are unsure of the central bank's commitment to targets or whether the central bank could deliver on targets.

Misses in targets, as South Africa suffered in 2002-2007, can, in fact, create more uncertainty because they demonstrate that the central bank is only partially in control of inflation. Inflation targeting and business confidence are also dependent on the value of the business. Credible inflation targeting should boost confidence, as businesses may be planning their operations around price stability. When businesses focus on growth and believe that tight inflation targeting limits it, a negative relationship may emerge.

2.5.2 Business confidence as a measure

The South African Chamber of Commerce and Industry (SACCI) publishes the leading business confidence index in South Africa. The index consists of surveys of business leaders in various fields, where they are requested to answer about the present situation, their future outlook, and aspects influencing their confidence (Kleynhans and Coetzee, 2024:22). Studies on business confidence indices explore the question of whether they offer any valuable information on economic cycles and predict future output movements. Kleynhans and Coetzee (2024:22) discovered that the business confidence indices include predictive information about South African GDP growth, indicating that the indices have an economically significant sentiment. The question in this research is whether the implementation of inflation targeting, the communication, and the performance of inflation targeting all relate to business confidence. Are there high confidence periods when low and stable inflation lies in the target band? Are target misses de-escalating the confidence? Does more effective communication increase confidence? These empirical questions presuppose the systematic analysis of the association between the variables of inflation targeting and the SACCI index over time.

2.5.3 The policy uncertainty and business decision.

In addition to business confidence, policy uncertainty has a direct influence on business investment and employment decisions. Wait-and-see strategies are also employed by business when companies have a strong uncertainty regarding the future course of policies where irreversible investments are postponed until the uncertain situation is cleared (Baker *et al.*, 2016:1). The North-West University Policy Uncertainty Index (NWU PUI) uses three factors to quantify South African policy uncertainty: (i) news reports on

uncertainty, (ii) a survey of top economists, and (iii) BER (NWU, 2016). The index reflects uncertainty within the policy areas such as monetary policy, fiscal policy, regulatory policy and political developments. The uncertainty surrounding economic policy (EPU) in the world surged around high-profile events; close presidential campaigns, 9/11 attacks, the Lehman Brothers collapse, debt ceiling crises, and politicking over fiscal policy (Baker *et al.*, 2016:1). In the case of South Africa, EPU rose when there was some change of political parties, downgrades by credit rating agencies, and when there was also a policy conflict between the government and the SARB. Bernanke and Mishkin (1997:18) reported that in 1995, New Zealand had to revise inflation and growth estimates mainly because of policy uncertainty. The Bundesbank of Germany developed the Central Bank monetary stock (CBM) measure to reduce policy uncertainty by providing explicit signals about monetary intentions. These instances demonstrate that policy uncertainty is clearly viewed as a cost which is to be minimised by central banks. In the case of inflation targeting, uncertainty can be caused by a variety of sources:

1. **Target uncertainty:** Uncertainty regarding the real target inflation of the central bank.
2. **Instrument uncertainty:** Poor policy response roles.
3. **Uncertainty in communication:** Unclear or inconsistent communication.
4. **Political uncertainty:** There is a potential interference with the central bank's independence.

The existing controversy surrounding the shift from 3-6% to a 3% target creates some short-term uncertainty. Businesses and investors are required to determine whether the change will take place, when it may occur, and the direction the SARB will take in the transition. This uncertainty might have a short-term effect of dragging down confidence and investment, even when the final result would be desirable.

2.6 CRITICAL ASSESSMENT OF INFLATION TARGETING

South Africa's inflation targeting framework has achieved important successes. Inflation declined from an average of 15% in the 1980s to an average of below 6% since 2000 (Van Der Merwe, 2004:1). This disinflation occurred relatively smoothly compared to high-cost stabilisations in other countries. Price stability improved substantially, reducing the

uncertainty and distortions associated with high inflation. The framework enhanced monetary policy transparency and accountability. Regular MPC statements, inflation reports, and public communications from the governor provide systematic information about policy intentions and economic assessments.

2.6.1 Success of the framework

The inflation targeting mechanism in South Africa has been successful when compared to other economies on price stability. Inflation has fallen, compared to the average of 15% in the 1980s, to an average below 6% since the year 2000 (Van Der Merwe, 2004:1). This disinflation was relatively smooth compared to the high-cost stabilisations experienced in other countries. High inflation created uncertainty and distortion in prices that were largely reduced. The framework increased transparency and accountability in monetary policy. Routine MPC statements, inflation reports, and the governor's open communications are institutional sources of information on policy intentions and economic evaluations.

This is a significant improvement compared to the pre-2000 era, when the rationales for monetary policy were less clearly communicated. The BER surveys showed that inflation expectations were usually anchored within or close to the target band, even when actual inflation was high. This implies that the framework gained some credibility among economic agents. The midpoint preference announcement in 2017 and the ensuing drop in inflation to 4.5% demonstrated SARB's ability to drive results through credible commitment.

2.6.2 Continued problems and disorientations

The first decade of the framework was marked by too many missed targets, as Governor Kganyago (2024:4) himself admitted. Inflation was greater than 6% in 40% of months between 2002 and 2007. Such a history of achievement weakened credibility and could have caused expectations to be blown out to the high end. Economic growth was poor during the period of inflation targeting, averaging about 2.7% per year between 2000 and 2019, and even worse due to COVID-19.

Although various reasons besides monetary policy led to poor growth, infrastructure shortages, policy uncertainty, governance, and skills shortages, the coincidence of the adoption of inflation targets with falling growth patterns stoked criticism. The unemployment situation worsened significantly. The unemployment rate increased from 25.5% in 2000 to 33.2% in 2025, with youth unemployment at 46.1%. The GINI coefficient in South Africa is 66%, making it the most unequal major economy in the world. According to COSATU and other critics, the fact that inflation targeting led to these outcomes implies that monetary policy remained overly tight, limiting growth and job creation (Parsons, 2020:105).

2.6.3 The single mandate problem

One of the biggest criticisms concerns how the SARB has understood its constitutional mandate. The Constitution of the Republic of South Africa, 1996, (1996:125) states that the role of the SARB is to protect the currency in the interest of balanced and sustainable growth. Critics claim that such a formulation would treat growth as an equal goal with price stability, rather than a secondary consideration. Nevertheless, the SARB understands its mandate to be hierarchical price stability as the goal that facilitates growth instead of dual equal goals.

This meaning aligns with international practice in inflation targeting, in which price stability is given precedence. Bernanke and Mishkin (1997:97) asserted that inflation targeting demands institutionalised price stability as a monetary policy end, and other monetary policy ends are secondary to it. Whether this interpretation best suits the situation of extreme unemployment and inequality in South Africa or not is the question. High inflation was experienced in most countries that employed inflation targeting, without chronic mass unemployment. The interplay of issues in South Africa might have to be prioritised differently, or the implementation of employment targets might have to be made more explicit.

2.6.4 The Taylor rule critique

Before South Africa can realise its economic potential, Taylor (2014:19) opines that the emerging market should adopt rules-based inflation targeting, coupled with

macroprudential policy aimed at systemic risk, rather than fine-tuning. The SARB's implementation, however, may not be quite in line with the Taylor Rule. In his initial formulation, Taylor assigned equal weights to both inflation and output gaps (both 0.5). According to Klein (2012), the preferences revealed by the SARB are biased towards greater weight on inflation deviation as compared to output gaps. This asymmetry means that the SARB will react more strongly to inflation above the target than to output below potential.

Their estimates found that the coefficient on the inflation gap (0) is significantly greater than the coefficient on the output gap (1), which supports asymmetric preferences. Although this policy is justifiable due to the inflation targeting requirement, it can also help to create a sense that the SARB is not focusing on the growth and employment indicators.

2.6.5 Friedman's dictum and monetary growth

The well-known quote of Milton Friedman, who said that inflation is always and everywhere a monetary phenomenon, is still topical in the South African debates (King, 2024:18). Friedman believed that the ultimate cause of inflation was the growth in money supply and therefore, central banks would reduce inflation by containing monetary aggregates. That the growth in the money supply is a precondition for continued inflation was recognised by former SARB governor Mboweni (1999:1), but he also posited that other factors, such as supply shocks, exchange rate movements, and administered prices, also play a role in the dynamics of inflation.

The adoption of inflation targeting over monetary aggregate targeting was driven by the recognition that the relationship between money demand had changed and that the money supply was not a consistent indicator. The Friedman school of thought, however, opines that monetary discipline is needed in the long run to control inflation. Short-term deviations are less important than longer-term average action. In perspective, the 25-year commitment of the SARB to inflation targeting, however imperfectly implemented, is a proper use of long-term discipline, and that, with time, the benefits will be realised.

2.6.6 Frederic Mishkin's warning: not a panacea

Mishkin (1998:1) warned that inflation targeting is no panacea; it does not allow countries to eradicate inflation at no cost, and anti-inflation credibility cannot be established immediately upon adopting an inflation target. These are the warnings that apply to the South African experience. The structure failed to remove inflation; costly disinflation persisted, and low inflation persisted alongside poor growth and increasing unemployment. There was a slow and partial development of credibility, as demonstrated by regular misses of targets and expectations positioned close to the upper limit, without a middle.

The framework failed to shield South Africa from global shocks, exchange rate volatility, and supply-side pressures. Inflation targeting provides monetary policy with structure, transparency, and accountability, but not structural constraints on the economy or broader economic reforms. Critics have been frustrated by this limitation, as they had hoped that inflation targeting would lead to overall economic improvement. The less romantic version is that, though inflation targeting met its key goal of reducing more stable inflation, it could not, alone, address South Africa's growth, employment, and inequality problems.

2.7 POLICY UNCERTAINTY IN THE ECONOMIC FIELD

2.7.1 Conceptual foundations

The economic policy uncertainty is another aspect of the volatility of the business environment. Baker *et al.* (2016:1) created the Economic Policy Uncertainty (EPU) index based on the frequency of news coverage, the date of the tax code's expiration, and the level of disagreement among forecasters. Their study reported that EPU peaks during economic and political shocks, large election contests, wars, economic crises, and fiscal conflicts, and that high uncertainty levels mute investment and employment. Policy uncertainty is not the same as general economic uncertainty since it is caused by uncertainty about the actions of the government.

The adaptive ability of businesses to a stable policy environment, despite suboptimal policy, enables them to adjust to such policies, whereas unpredictable policy changes

demand expensive adjustments and create option value to delay irreversible investments. In the case of monetary policy, uncertainty arises when companies are unable to accurately predict the central bank's response to economic events. In West Germany during the 1970's and 1980's, the Bundesbank (the central bank of the Federal Republic of Germany) established the Central Bank Money Stock (CBM) as an intermediate monetary target to provide more definitive policy signals and reduce uncertainty about monetary policy intentions (Bernanke and Mishkin, 1997:18). It happened in New Zealand in 1995 when the policy uncertainty led to a revision of inflation and growth predictions (Bernanke and Mishkin, 1997:18).

2.7.2 Measurement of policy uncertainty in South Africa

The North-West University Policy Uncertainty Index (NWU PUI) is a measure of policy uncertainty in South Africa based on three indices: (i) news coverage analysis, measuring uncertainty in major South African news outlets using keywords. (ii) surveys conducted by economists - this is a measure of expert judgment on policy unpredictability. (iii) BER input - inclusion of the data of the survey of inflation expectations that illustrates uncertainty. The NWU PUI is also intended to help policymakers understand and address the impact of policy uncertainty (NWU, 2024).

Increased index values translate to increased perceived uncertainty regarding the policy directions in the monetary, fiscal, regulatory, and political areas. During several episodes, South African policy uncertainty levels rose, namely: the 2015-2018 political turmoil with ministerial transitions and state capture claims; monetary policy rating downgrades to sub-investment grade; land reform and property rights debates; and disputes between the SARB and the government over monetary policy priorities.

2.7.3 Uncertainty and inflation targeting

Ironically, monetary policy uncertainty should be minimised through greater transparency and accountability within the inflation-targeting framework. Central banks can give clearer signals regarding the future course of policy by making their stated targets, time horizons, and policy reaction functions explicit. Companies can improve forecasting and make

monetary policy predictability part of their planning. Yet, several things can destroy these advantages:

Target credibility: With repeated missing or alteration of targets, there is little certainty with announced targets. South Africa has a record of missing targets in 40% of months during 2002-2007, which could have increased rather than reduced uncertainty.

Message consistency: A discrepancy among SARB officials or between the SARB and the government will be confusing. At present, the SARB governor and the finance minister are recommending a 3%-point target to provide price stability and to be able to lower interest rates in order to boost economic growth.

Implementation ambiguity: The business has no idea of the actual policy target when central banks announce band targets without specifying the desired midpoint. This ambiguity was caused by the SARB taking until 2017 to communicate its midpoint preference.

Transition uncertainty: Suggestions to change inflation-targeting frameworks, such as the ongoing debate over adopting a 3%-point target, create uncertainty, though this may eventually turn out to be advantageous. Businesses need to evaluate whether changes will be made, when and transition routes.

2.8 RESEARCH GAPS AND THEORETICAL INTEGRATION

2.8.1 Identified research gaps

From this chronological overview multiple gaps in the evaluated research can be identified, including the following 6 key gaps:

Gap 1: *Band versus point targeting in emerging markets*: The existing literature focuses on the general setting of inflation targeting, but little exists that compares the outcomes of band and point targeting in emerging markets with structural limitations like those South Africa faces. The majority of band-to-point transition research is focused on developed economies with varying institutional settings.

Gap 2: *Inflation targeting and business confidence mechanisms*: The mechanisms by which the design of inflation target settings can affect business confidence are not well studied. General studies have been done on the relationship between macroeconomic stability and confidence, but more specific issues of target specification (band vs. point), communications measures, and credibility construction need to be explored.

Gap 3: *Policy uncertainty in transitions to inflation targeting*: The temporal uncertainty of debates over the shift to an inflation-targeting system (such as the present band-to-point debate in South Africa) has not been adequately addressed. Knowing the impacts of the proposal and transition phases of business-to-business behaviour is important in designing policy.

Gap 4: *Effectiveness of inflation targeting under structural constraints*: The high unemployment rate (33.2%), extreme inequality (GINI 66%) in South Africa, and the lack of infrastructure put it in a unique situation compared with most inflation-targeting countries. The application of standard inflation-targeting instructions in this case needs to be analysed.

Gap 5: *Implicit and explicit targets*: The fact that the implicit inflation target in South Africa was significantly different from the declared band, as found by Klein (2012), raises questions about the credibility of the target and its mechanisms. What is the interaction between implicit targets revealed by the actions of the policy and explicit announced targets in helping to mould expectations and business confidence?

Gap 6: *Midpoint targeting as intermediate*: The 2017 move by the SARB to midpoint preference is an intermediate between point targeting and pure band targeting. This step-based change plan does not have a theoretical analysis or empirical assessment.

2.8.2 Theoretical integration

As this literature review shows, various theoretical frameworks inform the understanding of the experience of inflation targeting in South Africa: Credibility Theory: Credibility of central banks defines the effectiveness of inflation targeting. They can only anchor expectations when such agents are convinced that the central bank can and will

accomplish targets. The credibility enhancement through informal targeting (1990s), formal adoption (2000), midpoint preference (2017), and proposed point target (2027) is a sequence of credibility improvements for South Africa.

Taylor rule and the optimal policy: The Taylor rule, which balances the objectives of inflation and output, serves as a guide for assessing the suitability of a policy. There is an indication that South Africa is giving greater weight to inflation deviations than to an economy's output gaps, which is also questionable given the unemployment problems.

Expectations formation: The Rational expectations models suppose that agents form expectations based on available information. The effects of announced targets on the formation of expectations determine the effectiveness of inflation targeting. South Africa has the BER surveys, which give empirical insight into this process.

Policy communication: The theory of Modern monetary policy emphasises communication as a policy instrument alongside interest rates. Effective, ongoing communication regarding targets and responses to policy reduces ambiguity and enhances the transmission of policy. The development of communication in South Africa, from no announced target to a band to a proposed point, indicates that people learned the importance of communication.

Time consistency and commitment: Institutional arrangements based on policy commitment are motivated by the time-consistency problem, the temptation to pursue short-run production at the cost of greater inflation. The targeting of inflation frameworks offers commitment devices. The question is whether the framework in South Africa gives proper commitment based on structural challenges.

Optimal target level: Theory offers a little advice on optimal numerical inflation targets. Low positive inflation (2-3) is a way to strike a balance between the costs of inflation distortion and measurement bias, negative nominal rigidity, and seigniorage implications. Depending on a country's structural features, the appropriate level can vary.

2.8.3 Synthesis

South Africa has experience of interaction between these theoretical frameworks. Formal adoption of inflation targeting meant that the SARB was trying to establish monetary policy credibility. This was implemented in accordance with the Taylor rule, but with uneven weights of inflation control. The communication approaches were also developed to ensure anchoring. The framework offered commitment and had discretion to act in response to shocks.

However, tensions persist. The language of the constitution's mandate is ambiguous regarding whether growth must be a coequal objective. The suggestion to reduce the target band from 3-6% to a 3%-point target is an issue for optimal target levels, given the structural limitations. The quality of implementation influences the extent of the decrease or increase in policy uncertainty. This review frames the current study to fill gaps by considering how the design of inflation-targeting frameworks impacts business confidence within South Africa's unique set-up, with close attention to the proposed band-to-point transition.

2.9 CHAPTER SUMMARY

In summary, this literature review has traced the development of inflation targeting from experimental policy innovation in New Zealand (1990) through international adoption and subsequent development of the subject matter to where South Africa is in terms of a possible transition to a 3%-point target. Several conclusions emerge:

First, inflation targeting is a major improvement in monetary policy systems, as it offers transparency, accountability, and nominal anchoring where past policies had failed. The fact that the framework has been adopted in 33 countries worldwide demonstrates real benefits in providing price stability.

Second, the quality of implementation is critical. Those countries that have built credibility through regular target achievement, effective reporting, and appropriate policy responses have gained greater benefits than those that frequently miss targets and communicate inconsistently. The mixed record of implementation in South Africa is successful

disinflation, accompanied by common early misses of targets, late specification of midpoint, continuing debate over mandate limits, and effective implementation.

Third, structural economic constraints cannot be overcome using inflation targeting only. The underlying causes of persistent unemployment, inequality, and poor growth in South Africa are largely due to a lack of infrastructure, skills, policy uncertainty, and governance issues, rather than monetary policy options. The expectation that inflation targeting will solve such problems is a case of misplaced expectations.

Fourth, the band-versus-point targeting discussion lacks a conclusive theoretical solution. Bands give flexibility, which is useful in an unpredictable environment with fluctuating shocks. The points offer clarity that is useful in setting expectations. The accuracy of the forecasts determines the correct decision, the nature of the shocks, and the relative significance of anchoring expectations compared to output stabilisation.

Fifth, credibility building is time-consuming and requires consistency. Most countries took a long time to gain credibility through rapid target achievement, whereas New Zealand did so quickly. The 25-year implementation period in South Africa, with changing specifications (band changes, midpoint addition, proposed point target), indicates that it may face ongoing issues with credibility.

Sixth, communication is now a key policy instrument used alongside interest rates. The development of communication at the SARB, through informal, unannounced targeting of bands, and more formal targeting of the band, to explicit midpoint preference, and proposed point targeting, has been a progression of understanding the value of communication in expectation and uncertainty management.

Seventh, institutional arrangements are extremely important. The fact that Ministerial approval is required for changes in targets creates democratic accountability; however, the SARB and government may not get along well due to differing priorities. This strain is evident in the present day discussions of the 3%-point target proposal.

Eighth, important gaps in the literature exist regarding the effectiveness of inflation targeting in emerging markets that face serious structural bottlenecks, the identity of the mechanisms linking framework design and business confidence, and the costs and benefits of band-to-point transitions.

The literature review confirms that inflation targeting experience in South Africa is both globalised and peculiar to the country. The framework prioritised price stability as its main goal, but struggled to build full credibility and was accompanied by rather weak growth and employment results. It is controversial whether these weaknesses are indicative of the quality of implementation, a structural constraint that is not attainable under monetary policy, or a basic framework constraint. The suggested shift to a 3% target is a consequential move that warrants its own evaluation.

The transition from a band to a point target has greater advantages, such as clearer anchoring of inflation expectations, greater international alignment, and greater credibility, as well as potential costs, including the risk that inflation needs to fall further, possible losses to potential output from tighter targeting, and uncertainty over the process of transition. Such a review gives both the theoretical and empirical basis for further analysis of the role of inflation targeting in business confidence and evaluation of the proposed change in the framework. The above-stated research gaps explain the contribution of the present study to the knowledge base on how the design of monetary policy frameworks affects business decision-making in emerging markets characterised by structural limitations.

Chapter 3 EMPIRICAL INVESTIGATIONS

3.1 INTRODUCTION

This chapter provides a detailed account of the research methodology used to address the main research question and the objectives that relate to inflation targeting against several variables such as business uncertainty, business confidence, and the comparison between a target band and a point target, as mentioned in Chapter 1. This section introduces the research methodology used in the study, followed by a brief explanation

of the grounded theory, target population, measuring instrument, data collection, data analysis, limitations of this study, and ends with the chapter summary.

Inflation targeting is a topic widely covered by developing countries; in this research study, a mono-qualitative approach was employed to investigate the topic. A document analysis was used to answer the research question. Document analysis is defined as the process of reviewing documents (electronic or printed, computer-based, and internet-transmitted material) (Bowen, 2009:27). The documents selected were targeted at both developed and developing economies to determine fundamentally unique areas of inflation targeting countries.

The methodology used is to better understand the framework that is inflation targeting and the manner of implementation in South Africa, and the slight differences between the framework implementation between the developed and developing economies. This analysis will hopefully assist with interpreting how SARB's implementation of inflation targeting can be useful to curb the high unemployment (33.9%) and an extreme GINI coefficient (66%).

3.2 RESEARCH DESIGN

The research design used in this study is a qualitative interpretivist paradigm. Document analysis is a research paradigm founded on an interpretivism philosophy that recognizes that documents are subjectively constructed by authors depending on their own perceptions of the social world (Bryman *et al.*, 2021:33). Interpretivism is an epistemological standpoint, a position on how knowledge is acquired and what constitutes valid knowledge which is typically aligned a co constructivist or relativist ontology.

The study uses an inductive method of data collection and analysis. This inductive research methodology contrasts with deductive research, in which researchers test previously established theories that are then derived from the data. Such a method is especially suitable for document analysis when the researcher aims to gain conceptual insight into the existing literature rather than to subject the investigation to a priori theoretical constructs.

The paper is described as mono-qualitative, focusing solely on qualitative data sources and containing no quantitative aspects of the study. This research design is indicative of the type of research questions, which aim to develop the conceptual foundations, theoretical discussions, and policy implications of inflation targeting rather than to make statistical correlations among the variables.

The analytical frame adheres to the principles of grounded theory used to analyse documents. Originally created by Glaser and Strauss (1967), grounded theory offers a methodological approach to theory development, which is based on the systematically collected and analysed data. In the case of document analysis, this will be done through an iterative process of open coding (identifying preliminary concepts), axial coding (relating concepts), selective coding (developing and refining theory), and, finally, constructing a coherent theoretical framework that explains the phenomena being studied.

Research design will be conducted through the following phases:

- **Document identification and selection** – systematic search and screening of relevant literature based on predetermined inclusion and exclusion criteria.
- **Document organisation and preparation** – categorisation of documents into thematic groups.
- **Initial coding and concept identification** – open coding process to identify key concepts, themes, and patterns within documents.
- **Relationship mapping** – axial coding to determine relationships between identified concepts.
- **Theory development** – selective coding to integrate findings into a coherent theoretical framework.
- **Validation and refinement** – verification of findings against original documents of emergent theory.

3.3 SAMPLING

The sampling strategy for this research study used purposive sampling, with variations to achieve maximum coverage of inflation targeting. Purposive sampling is a type of non-probability sampling in which the researcher uses their judgement to select the sample of members of documents based on a range of possible reasons and premises (Saunders & Lewis, 2012:138). This sampling method is particularly good for document analysis, where statistical generalisation is not used but rather conceptual saturation and theoretical insight.

3.3.1 Sampling framework

Documents were sampled from two economic categories: (i) developed economies and (ii) developing economies. This dual-category approach enables comparisons among implementation factors, contextual factors, and adaptations necessary across various economic development levels.

- 1 **Developed economies** – documents from this category primarily consisted of theoretical work by internationally known economists who have contributed to the foundational theory of inflation targeting. These documents include the work of Bernanke and Mishkin (1997), Taylor (1993), and other prominent economists.
- 2 **Developing economies** – documents from this category consist of the work of economists about the SARB. These documents include work by authors like Mboweni (1999), Loewald (2025), SARB documents, and other works about the SARB from a different perspective, such as Klein (2012).

3.3.2 Selection criteria

a Inclusion criteria

- Documents directly addressing the topic of inflation targeting theory as a framework, its implementation or evaluation.
- Documents published between the first implementation of inflation targeting in 1990 and 2025, the current moment.
- Documents addressing inflation targeting and other variables such as business confidence, policy uncertainty, unemployment, and growth.

b Exclusion criteria

- Documents predating the inflation targeting era.
- Duplicate publications or substantially overlapping content from the same authors.
- Non-peer-reviewed sources lack a credible institutional affiliation.
- Documents found exclusively on unrelated monetary policy frameworks.

3.3.3 Document theme categorisation

The number of works produced by research economists on inflation targeting over the past 30 years underscores the need for theme categorisation. The documents were classified into five themes (as shown in Figure 3-1) based on their primary focus and contribution to research objectives.

☒	Name	
☒	 Business confidence & monetary policy	2
☒	 Developed Economies Inflation Targeting	3
☒	 Emerging markets	3
☒	 Inflation targeting lessons from international experience	2
☒	 SARB	4

Figure 3-1 Document theme categorisation

The 5 document themes are as follows:

Theme 1: Monetary policy and business confidence - these documents include both keywords and address the impact of inflation targeting on the business sector. These documents were taken from a journal article on business confidence and inflation targeting, and another from the South African Chamber of Commerce and Industry (SACCI).

Theme 2: Inflation targeting in developing economies – these documents examined inflation targeting from the perspective of developing countries. These documents include the works of Bernanke & Mishkin (1997) and King (2024).

Theme 3: Inflation targeting from emerging markets – the documents from emerging markets are scarce, but a couple of documents were sourced from Mishkin (2000) and Taylor (2014).

Theme 4: Inflation target lessons from international experiences – These documents were of great importance in comparing inflation targeting implementation to the four developed economies, the success found by implementing inflation targeting, and the difference between emerging inflation targets and developed economies' inflation targeting.

Theme 5: SARB – The four documents sourced begin with the inflation targeting from the perspective of the former governor Mboweni (1999), a document discussed in the literature review by Klein (2012), Williams (2014), and a working paper from the SARB written and published earlier in 2025.

Document theme categorisation assists this research study in two ways. The first is to systematically categorise documents in a manner that is easy to understand. This is achieved by assigning themes to documents, which provides structure. The second is to assist with the comparable analysis, which helps visually understand how code groups relate to document themes.

3.3.4 Saturation in the document sample

For a qualitative document analysis, determining an appropriate sample size requires applying the concept of theoretical saturation. Theoretical saturation is defined as the stage at which additional data collection yields few, if any, new insights into the research question and objectives (Saunders & Lewis, 2012:158). Document saturation for this research study was achieved after 12 documents were analysed, during which no new concepts, codes, or themes were identified.

The following process was used to reach saturation for this study:

- 1 **Familiarisation and planning** – Clearly defining the research question in chapter 1 and assessing the documents cited in the literature review in chapter 2 would assist in developing the initial criteria for coding and theme development.

- 2 **Initial coding and categories** – Codes were generated for the initial documents that were used in the literature review. From initial coding, these codes were categorised accordingly to themes.
- 3 **Iterative data collection and analysis** – During this stage, data were collected and documents analysed concurrently. Also, at this stage, the analysed documents were compared with the initial document and the codes to determine whether they fit the same themes or whether new themes emerged from the new documents.
- 4 **Assessing saturation** - By adding new documents, the researcher determined that no new codes were added to the code groups and that no new themes emerged that fit the research question. It was at this point that the researcher determined data and document saturation.

3.4 MEASURING INSTRUMENT

For this research study, the measuring instrument consists of a document analysis procedure designed to extract, code, and analyse relevant information from selected documents. The collected documents were categorised into four sections to simplify the analysis and answer the research question. The document analysis incorporates several key components:

- *Document information capture* – data template consisting of author, title, publication year, document publication, institutional affiliation, geographical focus, and thematic classification.
- *Content extraction framework* – a structured framework guided the extraction of relevant content addressing the research questions. This framework included predetermined categories aligned with the study's objectives:
 - Inflation targeting framework specifications (band vs. point, width, time horizon, measurement index)
 - Theoretical arguments and empirical evidence regarding framework effectiveness, Implementation challenges and adaptive strategies
 - Relationships between framework design and economic outcomes
 - Business sector responses and confidence indicators
 - Policy uncertainty sources and measurement

- Recommendations for framework optimisation

3.4.1 Coding framework

Table 3-1: The coding framework

Thematic domains	Conceptual category	Colour coding	Codes
Framework & price stability	Monetary policy Fiscal policy	Green	• Central bank independence • Developed economies • Developing economies • Fiscal policy • High inflation • Inflation targeting framework • Price stability • output
Anchoring inflation expectation	BER	Red	• Constrained discretion • Credibility • Inflation expectation • Nominal anchor • Central bank • Inflation target

Thematic domains	Conceptual category	Colour coding	Codes
			• Monetary policy
Business confidence	SACCI	Brown	• Business • Cost of capital • Finance costs • Financial stability • Tax revenue • Unemployment • Unit labour costs
Band vs point target	Developed economies Developing economies	Black	• Band • 3% inflation • 3-6% • CPIX • Midpoint target
Policy uncertainty	NWU PUI Business investment Investment risk	Purple	• Investment • Risk • Rules-based policy • Sacrifice ratio • Uncertainty

3.5 DATA COLLECTION

The data collection process begins with a search across multiple academic databases and sources. The search strategy used database queries, citation tracking, and expert consultation. The primary keywords from the study were obtained from the following databases:

- Google Scholar
- JSTOR
- SARB working papers
- IMF and World Bank publication websites
- Central bank websites (RBNZ, Bank of England, Bank of Canada, Federal Reserve)

3.5.1 Document screening process

The selection of documents followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) protocol.

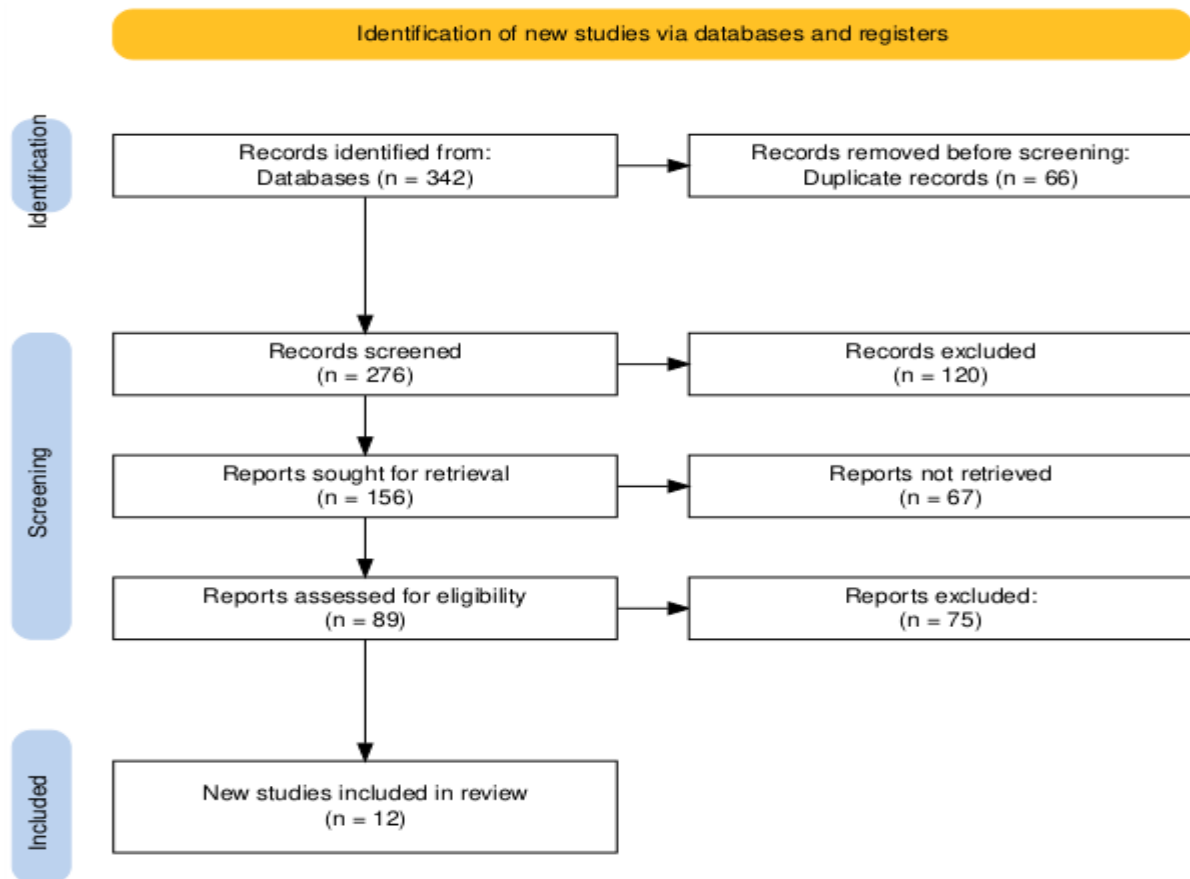


Figure 3-2: PRISMA flow diagram of document selection

3.6 DATA ANALYSIS

Data analysis followed a grounded theory methodology, as applied to a document analysis. The analysis progresses through a series of phases: open coding, axial coding, selective coding, and theoretical coding.

3.6.1 Open coding

Open coding is the initial phase in which the researcher examines the document line-by-line or paragraph-by-paragraph to determine concepts (Strauss & Corbin, 1998:61). Open coding was performed by studying each document, highlighting sentences or paragraphs, and assigning codes to each segment. Figure 3.2 shows the codes assigned to segments of an SARB document on inflation expectations, fiscal policy, and high inflation.

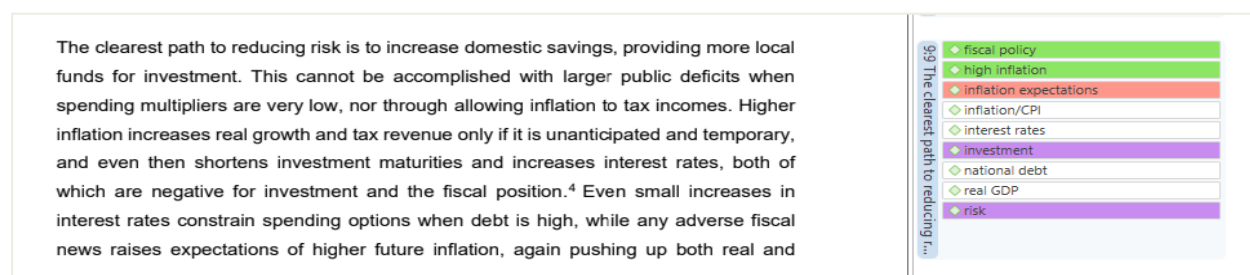


Figure 3-3: Open coding on SARB working paper

The coloured codes shown in Figure 3.2 are the same codes shown in the framework table 3.1. These codes are important for creating code groups categorised on the left of Figure 3.3. The codes are identified in two ways: through grounded and density. Grounded describes the number of times a code appears on documents to which it has been assigned. Density links the codes to other codes, forming code themes.

Search Code Groups		Search Entities			
Name		Name	Grounded	Density	Groups
MQ_Theme_1_Framework & price stability	9	◆ risk	112	1	[MQ_Theme_5_Policy uncertainty business planning]
◆ MQ_Theme_2_Anchoring expectation	7	◆ sacrifice ratio	13	1	[MQ_Theme_5_Policy uncertainty business planning]
◆ MQ_Theme_3_Business confidence	10	◆ uncertainty	47	1	[MQ_Theme_5_Policy uncertainty business planning]
◆ MQ_Theme_4_Band vs point target	7	◆ planning	2	1	[MQ_Theme_5_Policy uncertainty business planning]
◆ MQ_Theme_5_Policy uncertainty business planning	6	◆ investment	61	2	[MQ_Theme_5_Policy uncertainty business planning]
		◆ rules-based policy	17	4	[MQ_Theme_5_Policy uncertainty business planning]
		◆ employment	13	1	[MQ_Theme_1_Framework & price stability]
		◆ high inflation	27	1	[MQ_Theme_1_Framework & price stability]

Figure 3-4: Codes and code groups

The coding phase generated a total of 1451 coded segments across 12 documents, as shown in Figure 3.4, using 39 district codes that were established during the coding framework.

The co-occurrence table is a cross-tabulation of codes or code groups by documents or document groups. The co-occurrence table is used to study the potential relationship between two items that appear in the same dissertation (Zhou *et al.*, 2022:1). Figure 3.5 below shows the co-occurrence between the thematic groups and the document group. Interactions totalled 1451, with the second row and third column making up the highest interactions.

		Business co... 2 127	Developed... 2 358	Emerging... 2 200	Inflation tar... 2 1281	SARB 4 233	Totals
MQ_Theme_1_Framework & price stability	9 340	6	25	29	211	69	340
MQ_Theme_2_Anchoring expectation	7 568	3	75	81	305	104	568
MQ_Theme_3_Business confidence	10 197	66	32	2	56	41	197
MQ_Theme_4_Band vs point target	7 98		5	4	55	34	98
MQ_Theme_5_Policy uncertainty business planning	6 248	17	66	16	111	38	248
Totals		92	203	132	738	286	1451

Figure 3-5: Co-occurrence analysis table

The Sankey diagram shown in Figure 3.6 shows how the interactions from the table above flow towards themes. The interpretation of the diagram is as follows: the SARB documents have a prominent interaction flowing towards anchoring inflation expectations (theme 2). Documents on lessons from international experiences have the biggest node with the two prominent interactions flowing towards monetary policy frameworks and anchoring inflation expectations. Inflation-targeting documents from emerging markets and developed countries exhibit strong interactions that anchor inflation-targeting expectations. Business confidence documents have a thick interaction with business confidence (theme 3).

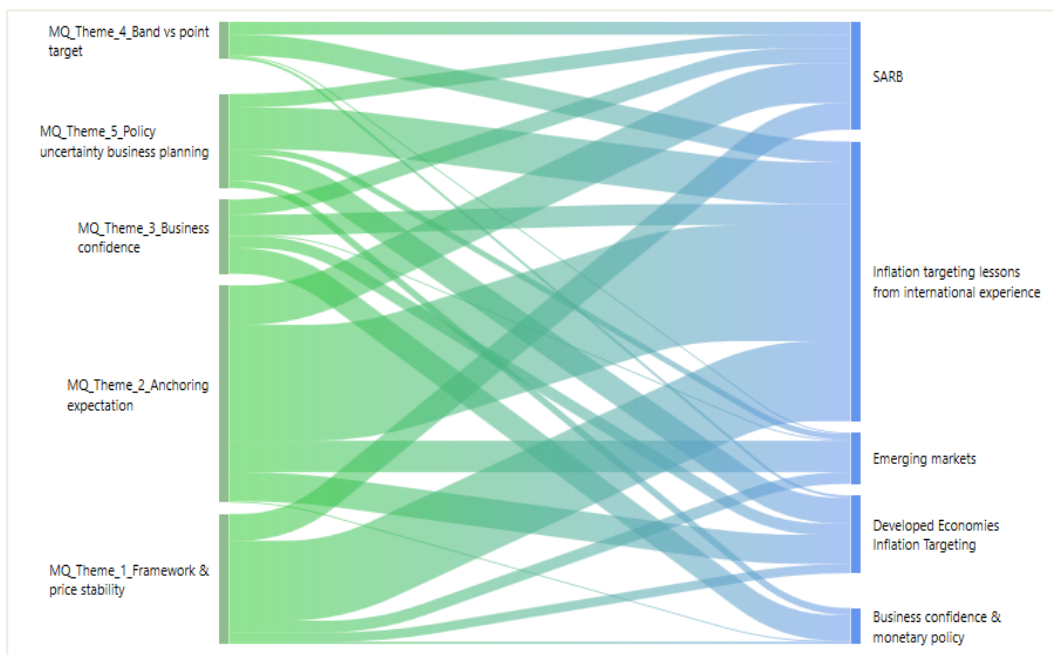


Figure 3-6 Sankey diagram of the code document analysis

3.6.2 Axial coding

Axial coding is the procedure by which data are put back together after open coding, by making connections between categories (Strauss & Corbin, 1998:96). It is the second stage of analysing data, in which open coding concepts are connected in a network. Figure 3.7 shows one of the axial coding networks which connects various codes.

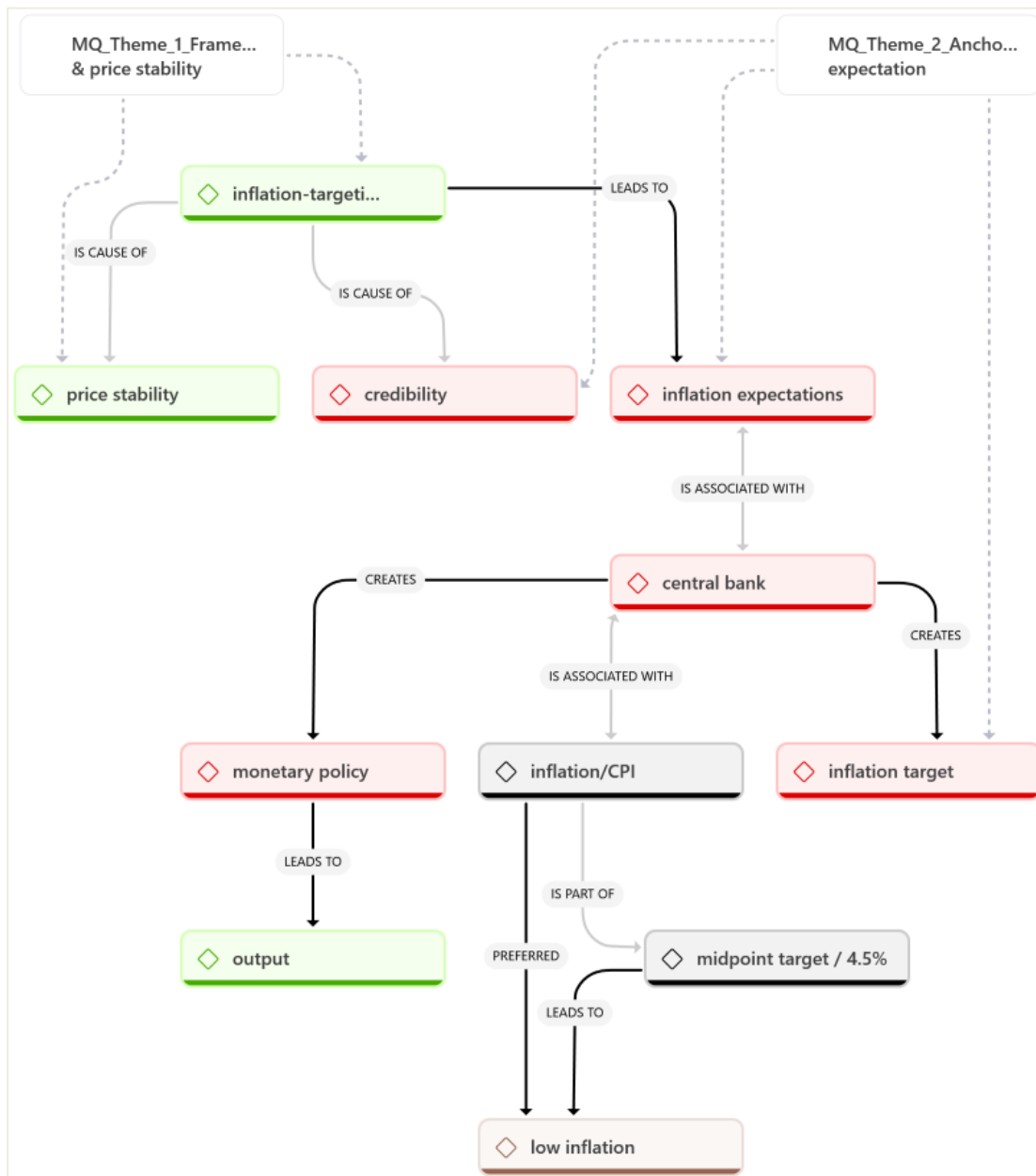


Figure 3-7: Axial coding

3.6.3 Selective coding

Selective coding is the third stage in data analysis, which is defined as the process of selecting core categories, systematically relating them to other core categories, validating

those relationships, and filling in other categories that need further refinement and development (Strauss & Corbin, 1998:116).

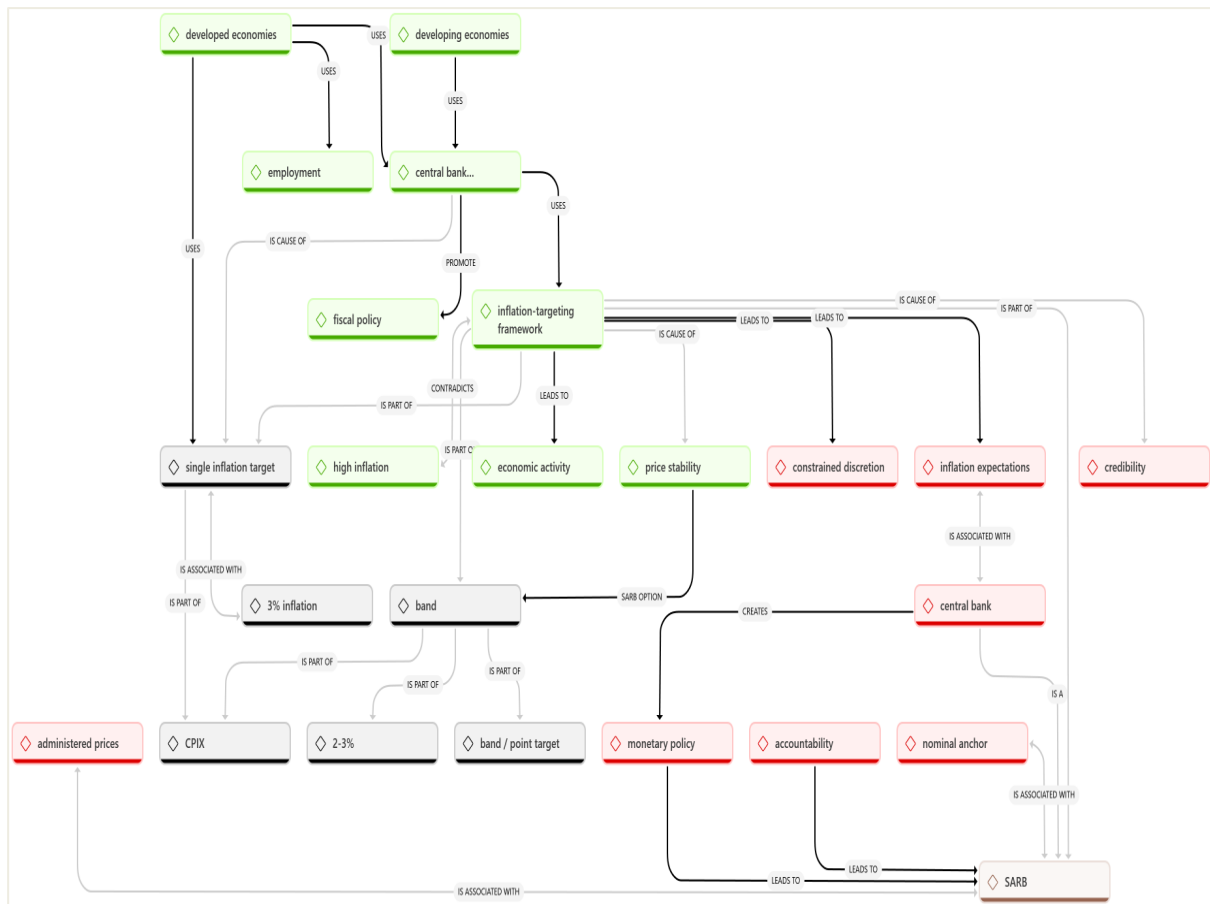


Figure 3-8 Selective coding

The summary behind Figure 3.8 is that both developed and developing economies use the central bank's independence to adopt the inflation-targeting framework for their monetary policy. The inflation targeting framework will assist the central bank in exercising constrained discretion, anchoring inflation expectations, and enhancing its credibility. The SARB benefits from this knowledge by combining its monetary policy strategy with a nominal anchor to become more accountable to the population.

3.6.4 Formulated theory

Theory is formulated by applying co-occurrence to concepts. ATLAS.ti software is great at pitting conceptual codes against each other to help determine interactions between open coding concepts.

	central bank ⑩ 278	credibility ⑩ 82	inflation... ⑩ 101	inflation target ⑩ 396	inflation-tar... ⑩ 82	inflation/CPI ⑩ 165	monetary policy ⑩ 400	price stability ⑩ 164
central bank ⑩ 278		10 (0,03)	12 (0,03)	26 (0,04)	3 (0,01)	18 (0,04)	29 (0,04)	9 (0,02)
credibility ⑩ 82	10 (0,03)		10 (0,06)	9 (0,02)	4 (0,03)	8 (0,03)	10 (0,02)	2 (0,01)
inflation expectations ⑩ 101	12 (0,03)	10 (0,06)		25 (0,05)	2 (0,01)	21 (0,09)	16 (0,03)	8 (0,03)
inflation target ⑩ 396	26 (0,04)	9 (0,02)	25 (0,05)		12 (0,03)	21 (0,04)	39 (0,05)	22 (0,04)
inflation-targeting fra... ⑩ 82	3 (0,01)	4 (0,03)	2 (0,01)	12 (0,03)		3 (0,01)	7 (0,01)	3 (0,01)
inflation/CPI ⑩ 165	18 (0,04)	8 (0,03)	21 (0,09)	21 (0,04)	3 (0,01)		15 (0,03)	9 (0,03)
monetary policy ⑩ 400	29 (0,04)	10 (0,02)	16 (0,03)	39 (0,05)	7 (0,01)	15 (0,03)		15 (0,03)
price stability ⑩ 164	9 (0,02)	2 (0,01)	8 (0,03)	22 (0,04)	3 (0,01)	9 (0,03)	15 (0,03)	

Figure 3-9 Co-occurrence of coding concepts

Figure 3.9 shows the most frequently coded concepts in the documents. The five highest interactions will be further analysed in this section. The five interactions are listed in Table 3.2:

Table 3-2: Table of interactions from co-occurrence

No	Row – column	Interactions
1	Inflation target – monetary policy	39
2	Monetary policy – central bank	29
3	Inflation target – central bank	26
4	Inflation target – inflation expectations	25
5	Price stability – inflation target	22

Proposition 1: Inflation targeting and monetary policy (39)

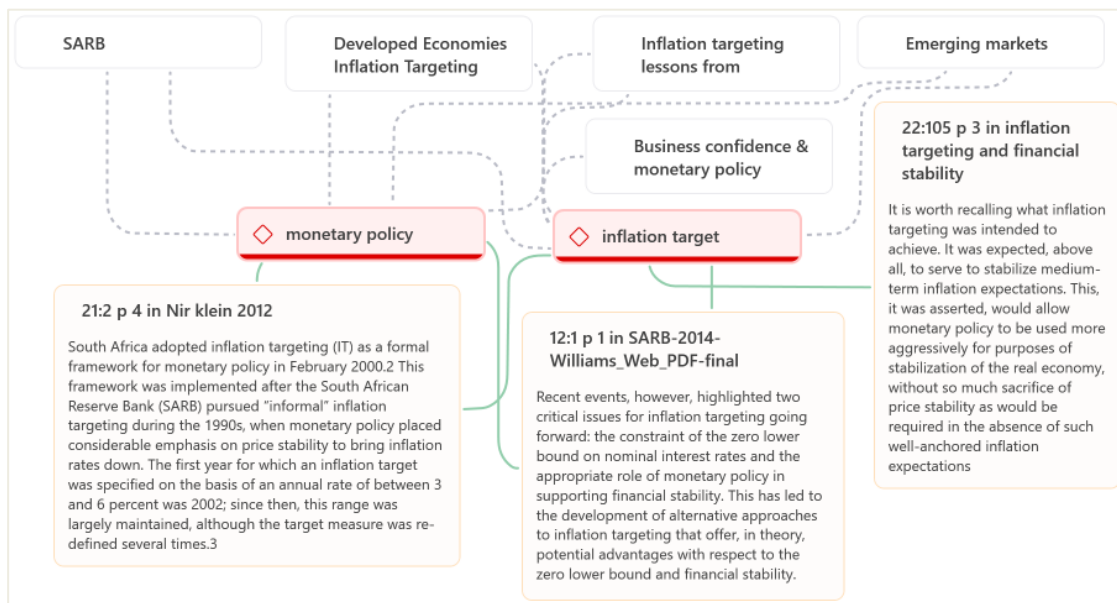


Figure 3-10: Monetary policy and inflation target theory

Figure 3.10 explains the origins of the SARB's inflation targeting in South Africa. Figure 3.10 also explains the origins of the 3-6% band, the implementation of informal inflation targeting and its goal in achieving price stability. The broad perspective on inflation targeting is that it stabilises medium-term inflation expectations, allowing monetary policy to be used aggressively to stabilise the real economy without sacrificing price stability. The two issues highlighted for inflation targeting are: the constraint imposed by the zero lower bound on interest rates and the role of monetary policy in supporting price stability.

Proposition 2: Monetary policy and the central bank (29)

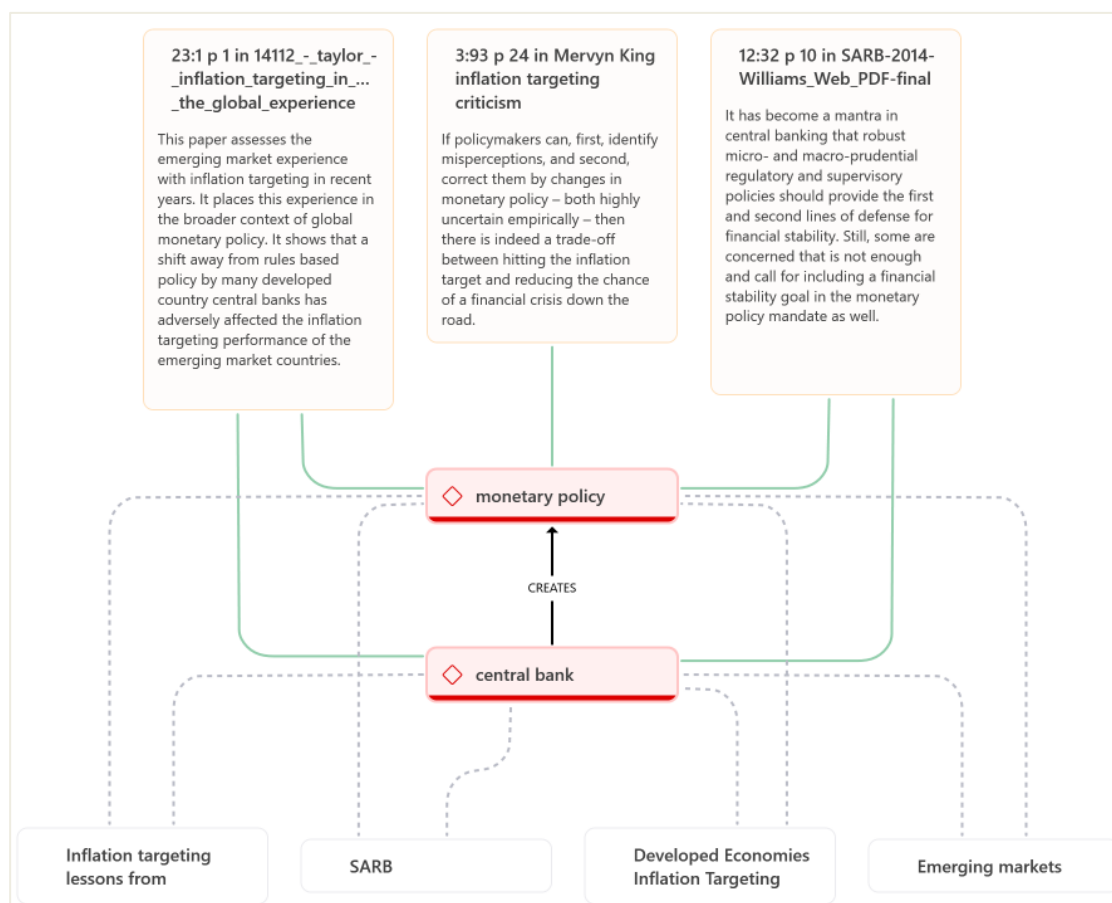


Figure 3-11: Monetary policy and the central bank

In Figure 3.11, the author explains that inflation targeting cannot be applied in the same way in both developed and developing economies. Developing countries use rules-based inflation-targeting policies to ensure price stability, which is encouraged compared to those that have mostly moved away from rules-based policies. When the central bank removes *misperceptions* about inflation, it helps with the trade-off between meeting the inflation target and reducing economic crises, such as the global financial crisis, in later years.

Proposition 3: Inflation target and central bank (26)

Figure 3.12 shows how the central bank should look to implement the inflation target. The explanation is that most central banks, including the SARB, have adopted a rules-based approach to inflation targeting. The explanation is also that most emerging economies have adopted a rules-based inflation-targeting framework. However, despite successes

by most economies in lowering inflation, there are still issues related to that that need to be monitored as they manage further decreases.

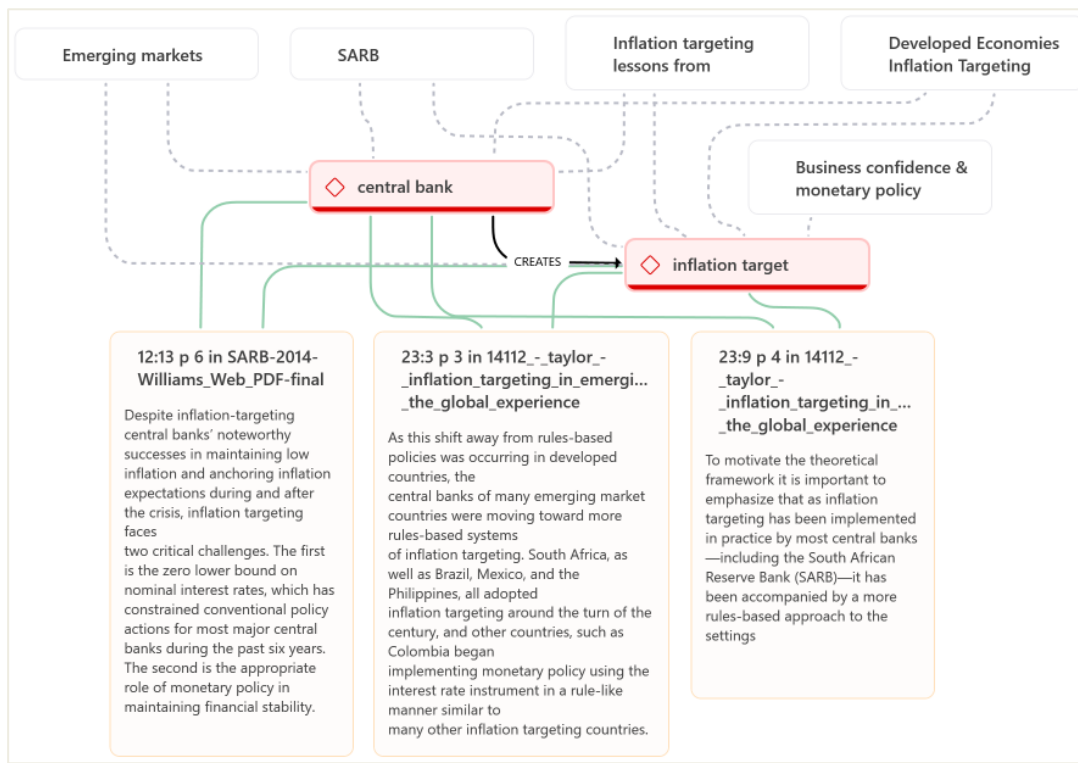


Figure 3-12 Inflation targeting and the central bank

Proposition 4: Inflation targeting and inflation expectations (25)

Figure 3.13 interactions picked investigates the macroeconomic model the SARB uses, which includes an enhanced role for inflation expectations. The other theory holds that researchers struggle to determine exactly what the inflation target looks like as an economic model, with many choosing the Taylor rule or a model with a long-term inflation target.

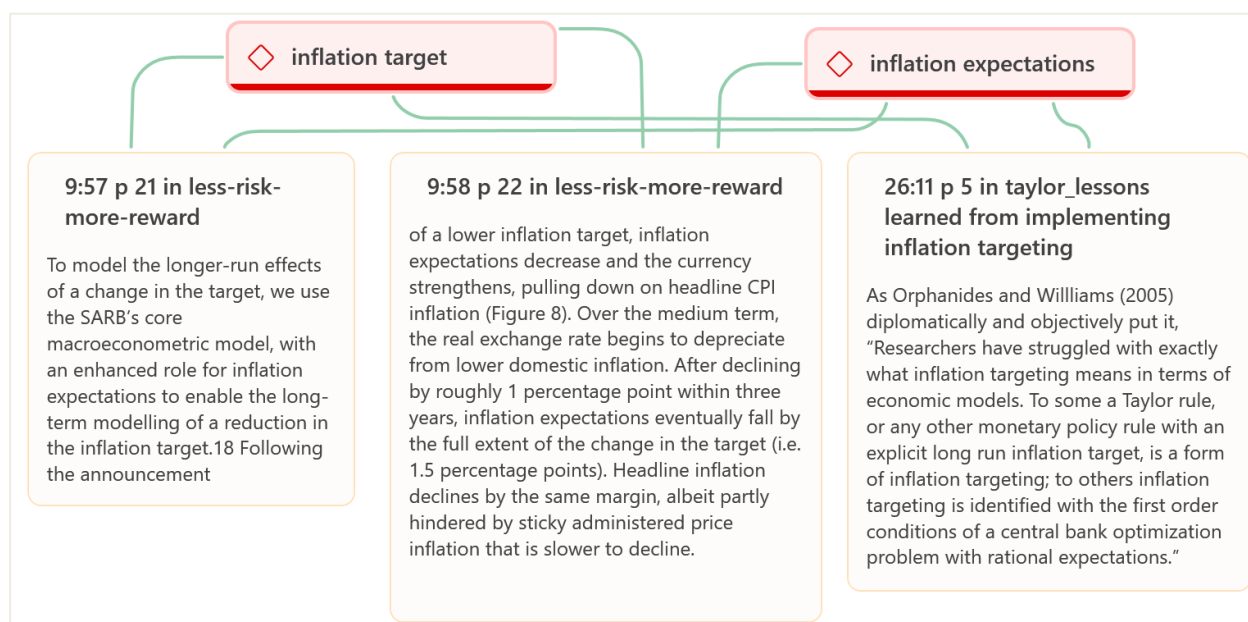


Figure 3-13 Target and inflation expectations

Proposition 5: Price stability and inflation target (22)

The price stability theory in Figure 3.14 is strengthened by the authorities' commitment to the objective of price stability. There should be coordination between inflation and monetary policies. The other theory stresses the commitment to keeping inflation as close to the target when the inflation target is implemented. Inflation targeting gives an answer to the monetary policy in the form of a nominal anchor. The warning for inflation targeting is that it should not rely excessively on its model forecasts; with its anchoring, it enables greater short-run macroeconomic stability but, in the long run, price stability.



Figure 3-14: Price stability and inflation targeting theory

Sankey diagram covering the proposition

This Sankey diagram is taken from the co-occurrence diagram of concepts in Figure 3.8. This diagram in Figure 3.14 further explains the code movements from one starting node (central bank) to the end node (price stability). The Sankey diagram starts with the central bank, which is in charge of monetary policy and the inflation-targeting framework, and flows mainly towards the inflation target. The inflation target also has a big flow towards monetary policy as the transmission node. Inflation targeting and monetary policy have a big impact on price stability. This is indeed sufficient to support the theory that inflation targeting begins with the central bank setting targets to become credible and anchor inflation expectations, thereby providing price stability through monetary policy decisions.

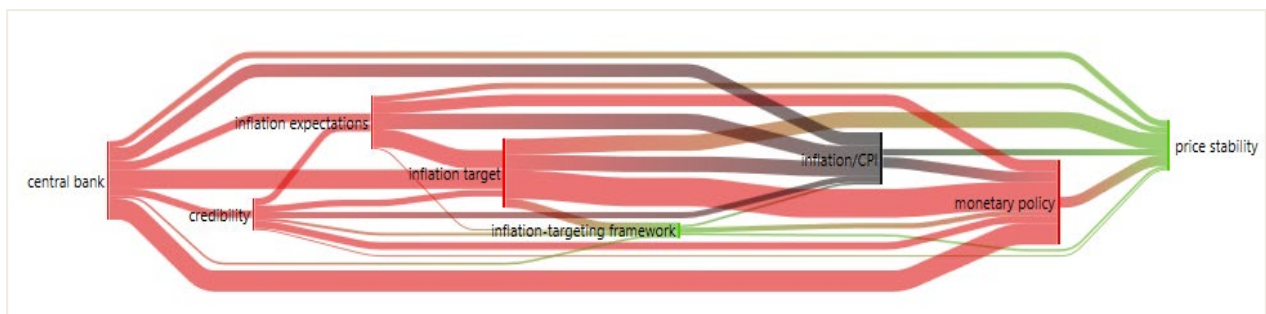


Figure 3-15 Sankey diagram of co-occurrence

3.7 VALIDITY

The validity of qualitative document analysis is the degree to which the study reflects the phenomena under study and yields reliable and credible results (Bowen, 2009:33). In this study, several methods are used to ensure validity.

3.7.1 Construct validity

Construct validity was defined using the existing theoretical frameworks in the inflation-targeting literature. The coding framework (Table 3.1) has been constructed based on well-established literature in seminal works by Bernanke and Mishkin (1997), Taylor (1993), and other scholars who have studied monetary policy. All the thematic areas, framework and price stability, anchoring inflation expectation, business confidence, Band

vs point target, and policy uncertainty, have identifiable theoretical concepts in the literature.

3.7.2 Internal validity

The mechanisms to enhance internal validity were:

Triangulation – The paper has used reports from various sources, including scholarly journals, central bank working papers, IMF publications, and institutional reports. It is this variety of sources that makes it possible to cross-verify results of various types of documents and various authorial viewpoints.

Systematic coding process – The three-stage coding method (open coding, axial coding, selective coding) offers an analytically rigorous framework that minimises researcher bias and ensures that the findings emerge from the data rather than from assumptions.

Peer debriefing – During the analysis, the preliminary findings were discussed with the research supervisors (Prof. R. Parsons, Mr L. Venter, and Mr J. Coetzee), who provided critical feedback and alternative interpretations of the findings and assisted in refining the analytical approach.

Member checking parallel – Traditional member checking with participants would not be feasible in document analysis, but in this case, a validation process was utilised, with sections successively checked against the author's original texts to establish the correct interpretation of the authorial intent.

3.7.3 External validity

Although qualitative research does not seek statistical generalisation, the following research improves transferability by:

Thick description – Proper documentation of the research context, sampling methods, and analytical methods helps determine how the findings would apply to other contexts.

Theoretical sampling: The purposive sampling method, which comprises both developed and developing economies, offers a broader scope for understanding inflation targeting frameworks across various economic settings and, consequently, increases the likelihood of the findings' transferability.

Saturation – Theoretical saturation, established by evaluating 12 documents, is also a good sign that the results are representative of the set of applicable ideas within the scope of the study, which reinforces the belief that the results are comprehensive.

3.7.4 Confirmability

Confirmability: how much the research was influenced by the respondents (or, in this instance, document authors) instead of researcher bias was dealt with by:

Audit trail – The study maintains an elaborate record of all analysis-based decisions, including coding structure development, the application of codes, and the network diagrams produced by ATLAS.ti software. This documentation enables external verification of the analytical process.

Reflexivity – The researcher was aware of potential biases arising from the interpretivist paradigm and the South African context, and these were addressed in the research design section.

Software-assisted analysis – ATLAS.ti offers clearly visible, reproducible coding and analysis procedures, as all the coded parts and analytical relations are recorded in the software environment.

Credibility was improved by:

Extensive interaction – The research period covers the entire history of inflation targeting from 1990 to 2025, enabling a thorough picture of the phenomenon's development. Document selection rigour: The PRISMA protocol (Figure 3.2) uses a systematic, transparent approach with explicit inclusion and exclusion criteria to minimise selection bias.

Co-occurrence convergence – The co-occurrence analysis (Figure 3.5) and the Sankey diagrams (Figures 3.5 and 3.15) reveal consistent patterns across the various documents and coding categories, which will lend more weight to the results.

3.8 RELIABILITY

The concept of reliability in qualitative research means consistency and dependability of research results- would the procedures of the study be repeatable with the same results (Bryman *et al.*, 2021:45). Reliability issues regarding document analysis focus on how the coding decisions can be deemed to be stable and the analytical procedures being transparent.

3.8.1 Dependability

Dependability, the qualitative counterpart of reliability, was guaranteed with:

Systematic coding framework – The systematic coding framework (Table 3.1) consists of five thematic domains, conceptual categories associated with these domains, colour coding, and specific codes, offering a uniform analytical framework. The framework was systematically applied across all 12 documents and ensured consistency in how concepts were identified and categorised.

Software consistency – ATLAS.ti software ensures consistent use of codes across documents. When a code is specified, it remains the same throughout the analysis, eliminating discrepancies that could occur during manual coding.

Inter-coder reliability consideration – Although this research was based on the participation of one researcher to guarantee the uniformity of coding, the comprehensive coding scheme, as well as the samples of coded passages (Figure 3.2), is enough to ensure that other researchers can use the same coding scheme and the results are likely to be similar.

Analytical decision documentation – The steps between open coding (Figure 3.3), the axial code (Figure 3.6), and selective coding (Figure 3.8) are documented in detail and provide a clear audit trail, leading to more accurate analysis results.

3.8.2 Consistency Checks

A number of mechanisms were used to guarantee internal consistency: Code-recode procedure: When the researcher was analysing the data, he/she revisited previously coded documents to confirm consistency in coding; that is, the application of the codes was similar throughout the dataset.

Grounded and density measures – Grounded (frequency of application of codes) and density (number of connections between codes) of ATLAS.ti were quantitative measures of the consistency of coding. A large number of key codes across several documents indicates robust detection of central concepts.

Co-occurrence analysis validation – The co-occurrence Table (Figure 3.5), which displays 1,451 coded interactions, provides evidence of the use of the same codes within document groups and theme categories.

3.8.3 Transparency and Replicability.

The research improves the reliability due to extensive methodological transparency:

Explicit sampling criteria – The elaborate inclusion and exclusion criteria (Section 3.3.2) allow the replication of the document selection process by other researchers.

Document categorisation – The categorisation of documents (Figure 3.1) into five themes is well organised and can be used by other scholars studying related literature.

Visual documentation – Network diagrams, Sankey diagrams, and co-occurrence tables are a source of visual evidence of the analytical procedures and findings, which allow an external evaluation of the research process.

Observance of the PRISMA protocol – Compliance with the PRISMA protocol for document selection (Figure 3.3) will ensure methodological rigour and allow the study to be replicated by other researchers.

Constraints that affect Reliability.

The research admits that such limitations could have implications for reliability:

Single coder – Only one researcher took part in the analysis, and this could have created individual interpretation bias. Yet, the systematic coding structure and computer-aided

Document availability – Some documents (especially central bank working papers and institutional reports) may not always be available, which can affect the replication of a precise sample.

Contextual interpretation – This is because the interpretivist paradigm recognises that documents are subjectively constructed, and different scholars can focus on various things about the same texts. This variability, however, is constrained by the structured coding framework.

Temporality sensitivity – Since inflation targeting is still underway, especially with South Africa's proposed move to a 3%-point target, future analysis may include new documents that could alter the results.

3.8.4 Controlling Reliability Concerns.

To overcome possible reliability issues:

The study provides many examples of coded passages (e.g., Figure 3.3) that illustrate how the coding construct was put into practice. Co-occurrence analysis and theoretical formulation (Section 3.7.4) demonstrate how individual coding choices combine into larger trends, thereby supporting the view that the samples are being analysed systematically rather than idiosyncratically. The grounded theory approach (based on its iterative approach of constant comparison) has the inherent benefit of developing reliability by repeatedly checking the emergent patterns against source data.

3.9 LIST OF DOCUMENTS

Name	ID	Name	Media Type	Location	Groups	Quotations
Business confidence & monetary policy	2	D 1 Tito Mboweni's take on inflation targeting	PDF	Library	[SARB]	34
Developed Economies Inflation Targeting	2	D 3 Mervyn King inflation targeting criticism	PDF	Library	[Developed Economies Inflation Targeting]	97
Emerging markets	2	D 9 less-risk-more-reward	PDF	Library	[SARB]	110
Inflation targeting lessons from international exp	2	D 12 SARB-2014-Williams_Web_PDF-final	PDF	Library	[SARB]	49
SARB	4	D 14 Business confidence and inflation in South Africa	PDF	Library	[Business confidence & monetary policy]	111
		D 17 SACCI-BCI-SEP-2024-	PDF	Library	[Business confidence & monetary policy]	16
		D 20 Inflation targeting in emerging market countries	PDF	Library	[Emerging markets]	150
		D 21 Nir klein 2012	PDF	Library	[SARB]	40
		D 22 inflation targeting and financial stability	PDF	Library	[Developed Economies Inflation Targeting]	261
		D 23 14112_-_taylor_-_inflation_targeting_in_emerging_marke...	PDF	Library	[Emerging markets]	50
		D 25 Inflation targeting lessons from 4 countries	PDF	Library	[Inflation targeting lessons from international experience]	1257
		D 26 taylor_lessons learned from implementing inflation targ...	PDF	Library	[Inflation targeting lessons from international experience]	24

Figure 3-16 List of document groups, documents and grounded codes.

3.10 WORD CLOUD ANALYSIS

A thematic approach to generating a word cloud was used in ATLAS.ti, and the resulting word cloud is shown in Figure 3.17. The five theme code groups assembled at the beginning of chapter 3 are shown to have generated the words that appear most frequently in the literature documents analysed in chapter 3.

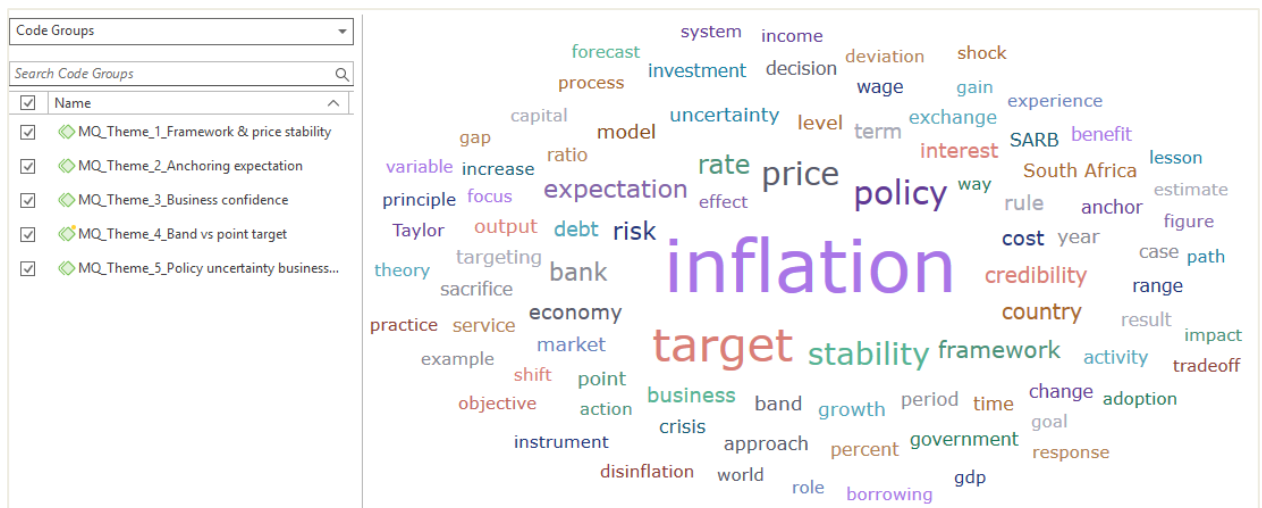


Figure 3-17 Thematic word cloud

3.11 ETHICAL CONSIDERATIONS

This study was conducted in accordance with rigorous ethical standards. The sample of documents was selected from a large population of documents on the topic, and the codes were generated from an analysis of initial document groups using iterative grounded theory methods. Although the sampling method was purposive, it met the sampling standards.

Ethical clearance was acquired from the Economic and Management Sciences Research and Ethics Committee (EMS-REC) with the number **NWU-00655-25-A4**. This study did not require informed consent, as the data collected were secondary.

3.12 CHAPTER SUMMARY

This chapter has provided a detailed methodological approach to the research problem of the inflation-targeting structure in South Africa, using a qualitative analysis of documents grounded in an interpretive paradigm. The study utilised a monological, inductive methodology grounded in theory to systematically analyse 12 carefully selected documents on the global history of inflation targeting over the last 35 years, since 1990. The purposive sampling technique included developed and developing economies, and documents were grouped into five thematic areas: monetary policy and business confidence; inflation targeting in developing economies; emerging markets perspectives; international implementation lessons; and South African Reserve Bank (SARB)- specific experiences. The collection of data was conducted in accordance with the strict PRISMA standards, whereas the process of analysis unfolded in three stages, namely, open coding (identification of 39 different codes and 1,451 coded sections), axial coding (establishing connections between concepts), and selective coding (integrating the results into consistent theoretical frameworks), all of which were conducted with the help of ATLAS.ti analysis qualitative software.

The chapter demonstrated the rigour of its methodology through various mechanisms of validity and reliability. Construct validity (with reference to existing theoretical frameworks) was used to establish validity. Triangulation of various sources of documents, systematic three-stage coding, and theoretical saturation were achieved. The

analysis used co-occurrence analysis, Sankey diagrams, and network visualisations to find similar patterns in the documents. The largest interactions were monetary policy and inflation targeting (39 instances), monetary policy and central banks (29 instances), and inflation targeting and central bank independence (26 instances). Reliability was measured using a pre-defined coding system with colour-coded thematic domains, automated consistency in code use, detailed documentation of analysis decisions, and clear audit trails. Limitations of the chapter included the single-coder analysis and the time sensitivity of the results, but the systematic framework, comprehensive recording in visual representations, and compliance with the recommended guidelines in qualitative research are sufficient to ensure the reliability of the research results and allow them to be critically evaluated by other scientists.

Chapter 4 FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

4.1 INTRODUCTION

The final chapter of this study concludes the study and provides recommendations on the research question posed in Chapter 1 and the objectives set out in the opening chapter. To restate the research question: **To what extent has the SARB's inflation targeting framework in the last 25 years, since its implementation, achieved price stability while maintaining business confidence, and what will be the implications of transitioning from a band target of 3-6% to a target 3%?**

While the research question examines the relationship between the inflation targeting framework and business confidence, it also examines the transition from a band to a point target. The main objective of the study was to assess the relevance of SARB's inflation targeting framework and whether it supports business confidence and economic stability. Many of the countries that initially adopted inflation targeting with a band transitioned to a point target over time. The band, while flexible, hinders anchoring medium- and long-term inflation expectations to a low level (Klein, 2012:3).

The SARB policymakers are exploring the view that inflation target should be changed to a point target of 3%. This will provide effective anchoring as the target will be articulated to the population and the business sector. European Union economist Ehrmann (2021:1) found in his research that targets with tolerances perform better than those without. In his paper, he admits that anchoring inflation expectations depends on the economic context and that no target performs better than another.

4.2 SUMMARY OF KEY FINDINGS

In this section, a summary of key findings from the study will be presented, focusing on topics previously discussed in earlier chapters. There will also be summaries on topics such as dealing with the inflation targeting framework, its relevance and effectiveness in today's economy, its impact on macroeconomic variables, insights into the literature review, and the theoretical and practical implications of transitioning from a band to a point target.

4.2.1 Achievement and price stability

The SARB needs to address the achieving price stability. The inflation-targeting policy in South Africa has achieved its main aim of price stability. This was a significant drop in inflation, which fell below 6% since 2000, compared to a 15% average in the 1980s, and even better performance between 2017-2019, with headline inflation of 4.6%.

This is a major macroeconomic success that has enabled transparency and accountability by releasing MPC statements regularly and through systematic public communications. Nevertheless, there were still implementation problems. Inflation variables exceeded the 6% upper bound in 40% of months during the period from 2002 to 2007, posing a threat to credibility in the early years of the framework.

The econometric analysis conducted by Klein (2012) indicated that the SARB's implicit inflation target (actualised through its policies) was quite different from the announced band, averaging 5.5-6% rather than 4.5, which would be the middle of the band. This credibility gap helped inflation expectations reach the upper band rather than the middle. Switching to explicit midpoint preference in 2017 has led to higher performance, which can be explained by the fact that clarity of communication leads to better expectations anchoring. SARB's new Quarterly Projection Model, with a 4.5% convergence objective, brought greater clarity to the band's flexibility.

4.2.2 Business confidence and policy uncertainty

According to the document analysis, 1,451 coded interactions were identified across 12 documents, indicating that business confidence is a crucial transmission channel of monetary policy effectiveness. The most significant correlation was found between inflation target and monetary policy (39 instances), followed by monetary policy and central bank (26 instances), which confirms that the independence of the central bank determines effective inflation targeting, credible commitment, and effective communication.

Theoretical models indicate that inflation targeting minimises policy uncertainty by clearly communicating targets and response policies. Nevertheless, there has been no indication that South Africa reduced uncertainty in the formative years when early target misses and

later mid-way clarification became more common than uncommon. The band-to-point debate is creating short-term uncertainty in transition, as businesses evaluate the likelihood of implementing and when to do so, which is squashing confidence in the short term, even though it would yield long-term gains.

The NWU Policy Uncertainty Index model identified several sources of uncertainty: ambiguity in targets, unspecified roles for policy responses, conflicting messages (such as the current disputes between the Governor and the Minister), and political interference with the independence of the central bank.

4.2.3 Insights into literature review

Unemployment in South Africa rose to a record 33.2% (2025) from 25.5% (2000), but among young people it stood at 46.1%, and the average GDP growth was 2.7% per year (2000-2019). These are, in part, due to inflation targeting, which, according to critics, especially COSATU, puts more emphasis on price stability than on employment. But the empirical evidence points to a different conclusion. Vermeulen (2017) found a weak positive correlation between unemployment and inflation, whereas Buthelezi (2022) did not, and it is possible that unemployment in South Africa is structurally determined rather than monetarist-based.

The lack of both infrastructure (electricity blackouts), skills imbalance, labour bureaucracy, policy unpredictability, governance issues, crime, and abject inequality (GINI 66%) are factors that reduce growth, unrelated to monetary policy. In the Pirozhkova *et al.* (2023) research on the Taylor Rule, SARB policy rates tended to follow the best prescriptions for inflation and output levels.

The SARB, however, places greater emphasis on inflation gaps than on output gaps, as it interprets mandates that prioritise price stability over growth. The question of whether such a balance is appropriate in the context of South Africa, with extreme unemployment, remains debatable.

4.2.4 Theoretical and practical implications

The study did not establish a specific theoretical advantage for either specification. The accuracy of the forecasting can determine the performance, the volatility of shocks, institutional credibility, and the comparative significance of expectations anchoring and output stabilisation.

Band benefits: Flexibility to address forecast uncertainty, interim shocks, and realistic expectations that take into account the control constraint, medium-term convergence policy space, and shock-absorbing capacity.

Point advantages: Clarity, which eradicates objective ambiguity; anchoring straight to expectations; hardening accountability; and cross-country alignment, which permits comparisons. International experience (Canada, UK, Sweden, New Zealand). International transition experiences have found that successful implementations tend to include aspects of hybridity, namely, point targets to achieve clarity with expressive tolerance ranges to reflect control constraints. Ehrmann (2021) found that targets with tolerances perform better than those without, and that performance in an economic situation is determined by target tolerance.

The 3% target set by Governor Kganyago to be achieved by 2027 is indicative of international alignment (emerging-market convergence towards 3%), a positive expectations path (BER predicts it will drop to 3%), and possible improvement in credibility through clarity of purpose. There are, however, concerns such as feasibility due to structural supply-side pressures, transition output costs as defined by Loewald *et al.* (2025), institutional tensions that require Ministerial approval due to disagreements over growth priorities, and incomplete specification regarding tolerances and time horizon.

4.3 CONCLUSIONS

4.3.1 Stability of price achievement

The inflation-targeting system in South Africa was very successful in achieving price stability, as inflation fell to single digit, averaging below 6%. The fact that early target hits are common and the implicit-explicit target gap also point to credibility not having been

established entirely. The 2017 midpoint clarification improved performance, underscoring the significance of communication.

4.3.2 Business confidence relationship

The framework made the process more transparent than before 2000, although the gains were realised in bits due to implementation issues. Target misses, dubious midpoint direction until 2017, and continued specification debate generated countervailing uncertainty, cancelling part of the confidence gain. The existing debate of transition creates a temporary uncertainty that should be handled.

4.3.3 Impact Assessment on Macroeconomic Matters

Inflation targeting cannot be blamed primarily for poor unemployment and growth performance. The evidence consists of poor/non-existent Phillips curve relationship, adherence to the Taylor Rule, which suggests proper policy calibration, and the discovery of various constraints on monetary policy beyond structural ones. Nonetheless, there are valid concerns about whether asymmetric Taylor Rule weights and hierarchical interpretations of the mandate are the best means to strike a balance in the goals regarding the situation of extreme unemployment (33.2) and inequality (GINI 66%) in South Africa.

4.3.4 Transition feasibility

However, it is reasonable to switch to a point target after 25 years due to the development of international practice, potential anchoring advantages, credibility as a signal of opportunity, and improved forecasts. Nonetheless, the ability to succeed critically relies on the inclusion of explicit tolerances ($\pm 1\%$ in line with international precedents), medium-term evaluation horizons that reflect the constraints of control and transition management, clear communication, and stakeholder involvement, in line with the requirements of institutional coordination.

4.4 RECOMMENDATIONS

4.4.1 Recommendation 1: Use a point target along with tolerances

Should transition be undertaken, a 3-point target to be met with a ± 1 % explicit tolerance band, evaluated within a medium-term horizon of 2-3 years. This specification provides clarity with realistic flexibility, adhering to the successful Canadian, UK, and Swedish precedents, while accounting for South Africa's higher shock volatility relative to developed economies.

4.4.2 Recommendation 2: Improve institutional coordination

Harness formal means of coordination between the SARB and National Treasury preceding public proposal of significant framework changes. The existing popular division brings about opposite uncertainty. Co-existence of negotiated framework adjustments, combined with a clear recognition of the price stability and growth targets, should be encouraged to improve coherence of the policy.

4.4.3 Recommendation 3: Aligning interpretation of constitutional mandate

Lead an official discussion involving the SARB, National Treasury and concerned parliamentary committees in elucidating the constitutional requirement of whether the mandate is hierarchical or coequal. This explanation ought to guide proper weighting of the Taylor rule, with a more balanced weight given to the inflation and output gaps, given the special issue facing South Africa.

4.4.4 Recommendation 4: Introduce a gradual transition strategy

Instead of direct point target adoption, make a gradual transition over 2-3 years with transparent communication milestones: (1) announce that transition will indeed happen; (2) specify details of transition such as tolerances; (3) communicate transitional path outlining where inflation should superficially converge to range of $3\% \pm 1\%$; (4) involve stakeholders such as business associations, labour unions, and civil society to resolve concerns; (5) formally adopt point target when inflation is fixed at sustainable range of $3\% \pm 1\%$.

4.4.5 Recommendation 5: Empower the communication framework

Greater systematic description of policy trade-offs, more effective expression of medium-term inflation paths, greater incorporation of growth considerations in inflation reports and MPC statements, and express recognition of monetary policy constraints in tackling structural unemployment and growth constraints.

4.4.6 Recommendation 6: Recommend complementary structural reforms

The SARB ought to clearly admit that the issue of unemployment and growth cannot be solved solely by monetary policy. Proactive lobbying for the requisite structural changes in education, infrastructure (especially electricity), governance, and labour markets would rightly set expectations without making empty pledges about how inflation targeting can resolve structural issues.

Recommendation 7: Have a systematic framework review process.

Introduce systematic reviews of framework performance (after every 5 years), including independent external appraisal, stakeholder consultation, and global review of peers, with a view to maintaining relevance and seeing ways of improvement.

4.5 LIMITATIONS OF THIS STUDY

The method applied in this research, document analysis, was appropriate for answering theoretical and conceptual questions, but it does not allow for the statistical testing of hypotheses. Empirical testing of the relationship between the specifications of frameworks, business confidence measures (SACCI index), and investment behaviour can be conducted in future quantitative studies that utilise econometric methods. These qualitative findings would be complemented by time series analysis of structural breaks related to structural changes (2000 adoption, 2017 midpoint preference). Primary research, which involves surveys or interviews with business decision-makers, may provide first-hand evidence on the impact of structural design on planning and investment decisions.

4.6 FINAL REMARKS

The experience of 25 years of inflation targeting in South Africa demonstrates the value of the framework in achieving price stability and further underscores the complexity of pursuing monetary policy in emerging markets with severe structural constraints. The suggested move to a 3%-point target is a sensible continuation of the practice in the global scene, yet success must be grounded in the specification, the management of transition, the integration of institutions, and the acknowledgement of the realistic outcomes of what monetary policy can and cannot do. Inflation targeting, above all, provides the necessary but not sufficient conditions for prosperity, complemented by structural reforms that address unemployment, inequality, and growth constraints, and guarantee balanced and sustainable economic development.

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