



The DA's Position on Inflation Target Reform

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Summary

On 31 July 2025, the South African Reserve Bank's (SARB) monetary policy committee (MPC) announced a new inflation target of 3 percent for consumer prices, replacing the previous target of 4.5 percent.¹

The Democratic Alliance (DA) recognises the SARB's aim to reduce the inflation target as a step toward securing long-term price stability, a stronger currency, and sustainably lower borrowing costs. However, the DA also recognises the importance of the National Treasury's involvement, through consultation, to ensure that monetary and fiscal policy are aligned in support of sustainable growth, credible public finances, and a coherent macroeconomic framework. Changes in the inflation targeting regime cannot take place in isolation. Without fiscal coordination, the potential gains of a lower target will be undermined or even reversed.

Accordingly, the DA supports a revised inflation target in principle of a tighter band of 2–4 percent and if needed for a period to test the price setting effects of a point target of 3 percent. This tighter target has to be on condition that it is part of a joint fiscal-monetary policy package that ensures credibility, macroeconomic stability, and real benefits for all South Africans.

The Case for a Lower Inflation Target

Since at least 2021, the SARB Governor, Lesetja Kganyago, has expressed his preference for a lower “point target” of inflation for South Africa. According to the Governor, the target range was intended to shift down from 3–6 percent to 3–5 percent by 2004, and then further down to 2–4 percent, following a clear glide path.² However, after losing its nerve in 2001 when the Rand depreciated during the Argentine financial crisis, the potential inflationary consequences led SARB to delay moving below 3–6 percent.³ This was regarded as a significant policy error because it entrenched higher inflation and established higher inflation expectations in the market.

The target range of 3–6 percent was eventually interpreted as a point target of 5.99 percent, resulting in nominal interest rates several percentage points higher than they could have been.⁴ This meant that ordinary South Africans ended up paying more for loans, mortgages, and consumer goods than they should have, as SARB did not implement a lower inflation target.

The Governor now stresses that the global environment highlights the urgency of domestic reform for accelerating growth and that the SARB's main contribution is to deliver price stability. He states that: *“We have an opportunity now to lock in low inflation and clear the way for sustainably lower interest rates. Additional measures that would improve economic conditions include reaching a prudent public debt level, strengthening network industries, lowering administered price inflation, and keeping real wage growth in line with productivity gains.”*⁵

While the SARB had originally intended to narrow the band in the early 2000s, many of South Africa's emerging market peers have since reformed their inflation targeting frameworks to reflect lower, more credible inflation expectations.⁶ South Africa has not.

Table 1: Inflation targets in major South African trading partners and other large emerging market economies⁷

Brazil	3%, +/- 1.5%	Euro area	2%
China	3%	Japan	2%
India	4%, +/- 2%	United States	2%
Indonesia	3%, +/- 1%	United Kingdom	2%
Mexico	3%, +/- 1%		

The SARB's Governor has reaffirmed the Bank's preference for a lower target, especially a 3-percentage-point target, arguing that it would:

- **Support lower long-term interest rates**,⁸ which in turn reduce the cost of capital and debt.
- **Strengthen the Rand**,⁹ which reduces imported inflation and protects household purchasing power.
- **Bring South Africa in line with its emerging market peers**.¹⁰

The Organisation for Economic Co-operation and Development (OECD) 2025 Economic Survey report supports the SARB's position, claiming that South Africa's domestic economic conditions and international competitiveness could be improved further by reducing South Africa's inflation rate. To maintain low and stable inflation, the report suggests lowering the inflation target and possibly narrowing the surrounding band: targeting the midpoint of the band and, in a subsequent step, reducing the band could better align inflation with that of trading partners.¹¹ Making the band narrower could help anchor inflation expectations and prevent any target drift in the future. However, the OECD also warns that any change in the inflation target needs to be carefully timed, coordinated across government, and clearly communicated to help minimise output losses and keep expectations anchored.¹² Strong coordination across government, including the quick integration of a new inflation target into budgets, and transparent and consistent communication, will help minimise transitional economic costs and keep inflation expectations well anchored.¹³

A paper by the United Nations University (UNU) World Institute for Development Economics Research (WIDER) concludes that a point target of 3 percent by the SARB would better promote growth and currency stability, as mandated by the Constitution (Section 224(1)). However, the authors caution against lowering the target point without a firm commitment from the fiscal authorities to uphold their role in keeping budgetary policy and administered prices aligned with the chosen inflation rate.¹⁴ Unfortunately, this lack of commitment from the National Treasury stems from political volatility and historical economic challenges, often caused by the government.



The Benefits of Lower Inflation

Lower inflation benefits South Africa by:

- **Reducing debt service costs.** Reduced inflation expectations can lower nominal interest rates and shrink the inflation risk premium on long-term debt. This means the government and citizens will pay less interest on their loans. Accompanied by higher GDP growth, reduced debt-servicing costs would reduce fiscal pressure as growth outpaces borrowing costs. This is also in line with the SARB model's projections.¹⁵ SARB estimates that over a decade, a lower 3 percent inflation target coupled with a borrowing plan that emphasises short-term and inflation-linked borrowing could generate nearly R870 billion in nominal cumulative savings on debt-service costs.¹⁶ Furthermore, debt service costs are projected to decline to about 4.8 percent of GDP by 2029/30 and 3.8 percent by 2034/35, thereby absorbing a diminishing share of government revenue.¹⁷ The lowering of debt service costs will free public funds for frontline services such as healthcare, policing, and education.
- **Lowering interest rates**¹⁸ for consumers and businesses, which stimulates investment, job creation, and business growth.
- **Enhancing the value of the Rand**,¹⁹ making imports cheaper, and boosting purchasing power.
- **Supporting policy predictability** as there is less economic uncertainty, which boosts investor confidence and facilitates long-term planning.



A Prudent Lower Target – But Fiscal Discipline Is Non-Negotiable

The SARB must independently pursue its primary objective of protecting the value of the Rand, as enshrined in the Constitution.

Section 224(1):

“The primary object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.”

However, this requires regular consultation with the National Treasury (the Minister of Finance).

Section 224(2):

“The South African Reserve Bank, in pursuit of its primary object, 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.”

Institutional coordination and consultation must be respected. Treasury’s refusal at times and at the moment to endorse the shift creates uncertainty and risks undermining both SARB’s credibility and market stability.²¹

Responding to SARB’s announcement on 31 July 2025, Finance Minister Enoch Godongwana issued a statement that there has been no official change of the inflation target, and he will not make such a change at the Medium-Term Budget Policy Statement (MTBPS). He said this has created an expectation that Treasury would formally confirm SARB’s move in the next budget address, but he has no intention of doing so.²²

“It is well-established that policy-making responsibility in this area resides with the Minister of Finance, working with the President and Cabinet, who sets the inflation target in consultation with the South African Reserve Bank (SARB).”²³

“The SARB then operates independently in its pursuit of the inflation target... This means comprehensive consultation between National Treasury, the Reserve Bank, Cabinet, and relevant stakeholders – not unilateral announcements that pre-empt legitimate policy deliberation.”²⁴

Without fiscal commitment, a lower inflation target or range may prove unsustainable.

The DA therefore calls for:

A coordinated commitment to a revised inflation target – not only from the SARB but also endorsed and supported by the National Treasury, with meaningful consultation between both institutions to ensure policy coherence, credibility, and macroeconomic stability.

The DA's Position

The DA supports an inflation target with a tighter band of 2–4 percent, and if needed for a period to test the price-setting effects of a point target of 3 percent, provided it is implemented as part of a broader macroeconomic framework. Specifically under the following conditions, in line with the [DA's Economic Policy](#) and the [DA's Plan to Turbocharge the Economy](#):

- **Ensuring full fiscal alignment and commitment (including fiscal discipline):** Inflation targeting reform must be anchored in a credible fiscal framework. This means:
 - **Fiscal commitment.** There is a need for credible commitment from fiscal authorities. Transitioning to a new inflation target could entail significant risks and uncertainties without such commitment.²⁵
 - **Integration of the inflation target into all fiscal documents and economic planning instruments.** Once commitment and agreement are achieved, the National Treasury must formally support the target shift through the Medium-Term Budget Policy Statement (MTBPS) and embed it in its budget planning.
 - **Restraint in public expenditure.** There must be restraint in public spending. This includes committing to prudent fiscal management, such as refraining from future raids on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), avoiding the accumulation of unsustainable debt, ending repeated bailouts of failing state-owned enterprises (such as Eskom) without reform, and addressing wasteful and corrupt public procurement practices. This should furthermore be complemented by cost-saving measures, such as:
 - A fiscal rule in the expenditure framework to serve as a clear anchor for fiscal discipline by locking national debt to the level presented in the most recent budget.
 - A comprehensive expenditure review to identify wasteful, underperforming, and duplicative programmes.
 - Cutting wasteful expenditure, such as a 50 percent cut in government advertising budgets, a 33 percent cut in travel and catering across departments, and a 12-month hiring freeze for all non-essential positions.
 - A “ghost employee” audit to detect and remove ghost employees, duplications, and payroll fraud across the public service.
- **Public sector wage bill reform.** Ensuring that public sector wages grow in line with inflation over the medium term to offset past overruns.²⁶ Public sector wage growth has repeatedly outpaced inflation, pushing the wage bill's share of GDP above the OECD average and contributing to fiscal pressure. Containing wage growth to sustainable levels will reduce fiscal pressure, free up resources for service delivery, and help anchor inflation expectations.
- **Public procurement reform.** Outlaw cadre deployment, professionalise the public service, and replace race-based preferential procurement under Broad-Based Black Economic Empowerment (B-BBEE) with the DA's outcomes-based, non-racial procurement scorecard, grounded in the UN Sustainable Development Goals (SDGs). According to the 2024 Methodology for Assessing Procurement Systems (MAPS) assessment undertaken by the OECD, World Bank, and African Development Bank (AfDB), there is also a need to further strengthen the independence and capacity of the Public Procurement Office (PPO) alongside digitalisation support and internal audit to detect corruption and improve transparency with strong conflict-of-interest regulations.

- **Structural reforms to support low and stable inflation:** A lower inflation target will only deliver benefits for South Africans if price stability is matched by growth, productivity, and improved competitiveness. **To this end, the DA calls for:**
 - **Reforms of administered prices.** This involves a review and change of the pricing structures (tariffs) at SOEs, mainly Eskom and Transnet. This includes cost-reflective pricing, infrastructure investment, and anti-corruption safeguards. Inflation pressure would be lessened; therefore, it would be easier for the SARB to achieve its target. A comprehensive review of all regulations governing administered prices must be undertaken to ensure that such prices are consistent with economic fundamentals and place an emphasis on efficiency.²⁷
 - **Labour market reform.** Amendments to collective bargaining and labour regulations to enable wage flexibility, reduce inflationary wage pressures, and promote job creation.
 - **Trade and industrial policy reform.** A pivot away from protectionism and localisation mandates toward competitive export promotion, tariff simplification, and supply chain integration to reduce cost-push inflation.

Conclusion

South Africa has the opportunity to **lock in low inflation** under a favourable domestic and international environment. But it will be squandered unless accompanied by real fiscal reform, institutional coordination, and policy credibility.

The DA supports a lower inflation target as a crucial step towards long-term price stability, lower borrowing costs, and a stronger Rand. However, such reform must be accompanied by credible fiscal discipline, meaningful consultation between SARB and Treasury, and structural reforms that can reduce inflationary pressures. If not coordinated, the benefits of a lower inflation target would most likely be lost to incoherent policies and increased economic uncertainty.

If implemented correctly, a lower inflation target will establish a **stronger Rand, reduce borrowing costs**, and promote **faster, more inclusive growth**—precisely what South Africa critically needs.



End Notes

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