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Economies at a glance

Unlocking growth through tighter inflation control



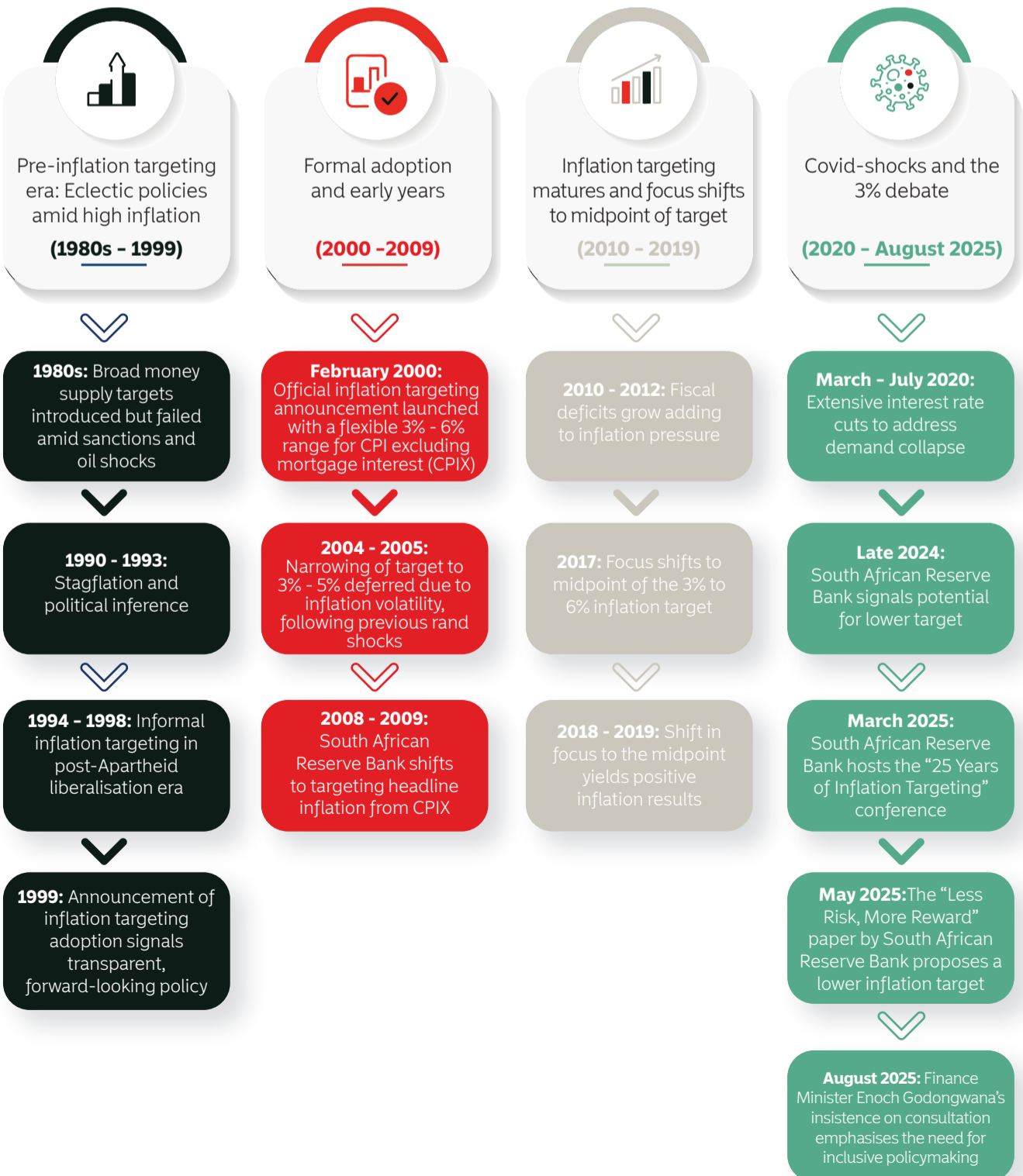
How does inflation targeting work?

The central bank forecasts the future path of inflation and compares it with the target inflation rate (the rate the government believes is appropriate for the economy). The difference between the forecast and the target determines how much monetary policy has to be adjusted. Some countries have chosen inflation targets with symmetrical ranges around a midpoint, while others have identified only a target rate or an upper limit to inflation. ~ **International Monetary Fund**

A major advantage of inflation targeting is that it combines elements of both “rules” and “discretion” in monetary policy. This “constrained discretion” framework combines two distinct elements: a precise numerical target for inflation in the medium term and a response to economic shocks in the short term. ~ **International Monetary Fund**

History of inflation targeting in South Africa

The history of inflation targeting in South Africa evolved from pre-inflation targeting eclectic policies to formal adoption in 2000 and ongoing refinements up to 2025. Inflation targeting was introduced to enhance transparency, anchor expectations, and achieve price stability amid high inflation predating 2000, driven by shocks, sanctions and loose policies.



The global spread of inflation targeting



Country	Inflation targeting adoption date	Target adopted	Current target
New Zealand	1990	1-3	1-3
Canada	1991	2 ±1	2 ±1
United Kingdom	1992	2 (point target)	3 (point target)
Australia	1993	2-3	2-3
Sweden	1993	2 (point target)	2 (point target)
Czech Republic	1997	3 ±1	2 ±1
Israel	1997	2 ±1	2 ±1
Poland	1998	2.5 ±1	3 ±1
Brazil	1999	4.5 ±2	3, 2-5
Chile	1999	3 ±1	3 ±1
Colombia	1999	2-4	2-4
Euro area	1999	Below 2	2
South Africa	2000	3-6	3-6
Thailand	2000	0.5-3	1-3
Hungary	2001	3 ±1	3 ±1
Mexico	2001	3 ±1	3 ±1
Iceland	2001	2.5 ±1.5	3, 1-4
South Korea	2001	3 ±1	2
Norway	2001	2.5 ±1	2 ±1
Peru	2002	2 ±1	2 ±1
Philippines	2002	4 ±1	4 ±1
Guatemala	2005	5 ±1	4 ±1
Indonesia	2005	5 ±1	3 ±1
Romania	2005	3 ±1	3 ±1
Serbia	2006	4-8	3, 2-5
Türkiye	2006	5.5 ±2	5 ±2
Armenia	2006	4.5 ±1.5	4, 3-6
Ghana	2007	8.5 ±2	8 ±2
Uruguay	2007	3-7	5, 3-6
Albania	2009	3 ±1	3
Georgia	2009	3	3
Paraguay	2011	4.5	4 ±2
Uganda	2011	5	5
Dominican Republic	2012	3-5	4 ±1
United States	2012	2	2
Japan	2013	2	2
Moldova	2013	3.5-6.5	5, 4-7
India	2015	2-6	4 ±2
Kazakhstan	2015	4	4-5
Russia	2015	4	4
Costa Rica	2017	2-4	3 ±1
Jamaica	2017	4-6	5 ±1
Ukraine	2017	6-10	5
Sri Lanka	2019	3-7	5 ±2
Kenya	2020	3-8	5, 3-8
Uzbekistan	2021	10	5

Global drawbacks of stricter inflation goals



Short-term growth trade-off

The “sacrifice ratio” (output or job losses per percentage point of inflation reduction) can be politically and socially costly, especially in countries with high inequality.

2002-2003



Brazil (2002-2003) → higher interest rates were needed to meet inflation targeting goals, exacerbating the slowdown.

Vulnerability to external shocks

Central banks may overreact to temporary shocks, causing unnecessary economic tightening, or underreact, risking de-anchored expectations.

2018-2021



Türkiye (2018-2021) → interest rate hikes were delayed → credibility eroded due to political interference and external shocks.

Limited effectiveness in low inflation environment

A rigid focus on a low target can prevent aggressive easing, worsening growth and employment outcomes in a slowdown.

2013-2025



Japan (2013-2025) → the Bank of Japan’s inability to reach 2% led to criticism that inflation targeting was too rigid for deflationary contexts.

Inflation goals overemphasised

Neglecting broader goals can exacerbate social tensions or financial risks, reducing public support for inflation targeting.

2008-2012



South Korea (2008-2012) → inflation targeting needs balance with other policies (e.g., fiscal or macroprudential) to address broader economic risks such as property risks and household debt.

Dependence on central bank independence and data quality

Without independence, central banks may fail to act decisively, and inaccurate data can lead to misinformed policy.

2016-2019



Argentina (2016-2019) → The central bank’s lack of autonomy and data issues crippled policy effectiveness.

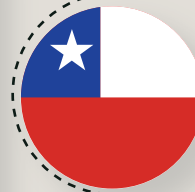
Global merits of tighter inflation targets



Anchoring inflation expectations more effectively

Lower targets help solidify low inflation by providing a clearer focal point for expectations, reducing the risk of upward drifts and making policy more predictable.

1990



Chile (1990) → higher interest rates were needed to meet inflation targeting goals, exacerbating the slowdown.

Building credibility

Lowering targets after a period of their initial implementation to gain trust sends a strong signal of commitment.

1999



Brazil (1999) → adopted inflation targeting after a foreign exchange crisis. To avoid economic disruption from aggressive tightening, the Central Bank of Brazil used a step-wise reduction in targets to build credibility and manage shocks in an emerging market with initially weak institutions.

Adapting to benign inflation environments

In periods of subdued inflation, lower targets prevent deflation risks and allow room for stimulus, adapting to structural factors like globalisation.

2008



Sweden (2008) → dropped its inflation tolerances to adopt a point target, to adapt to low inflation risks, and it emphasised real economy support

Enhancing economic stability

Lower targets reduce borrowing costs and uncertainty, boosting investment and policy transmission.

1995



Canada (1995) → a lower 2% midpoint aimed to lock in low inflation, reduce borrowing costs, and boost investment by stabilising expectations in a post-recession economy

Aligning with global norms

Countries lower inflation targets to match international standards, influenced by successful peers and institutions, which can improve trade competitiveness and capital inflows.

1998



Czech Republic (1998) → starting with a 4-5% range amid high inflation, the country lowered its inflation target to 3% (±1%) in 2002 and further to 2% in 2006, aligning with European Union norms.