

**African Journal of Public Administration and Environmental
Studies (AJOPAES)**

ISSN 2753-3174 (Print) ISSN 2753-3182 (Online)
indexed by IBSS, EBSCO and SABINET. It is accredited by DHET (the South
African regulator of Higher Education)

Volume 5, Number 1, March 2026

Pp 121-144

**Revisiting Central Bank Independence and Economic
Stability in South Africa**

DOI: <https://doi.org/10.31920/2753-3182/2026/v5n1a6>

Brown J Sagoe

North West University Potchefstroom Campus

Email: Sagoejunior@yahoo.com



Gabila F Nubong

North West University Potchefstroom Campus

Abstract

This study revisits the relationship between central bank independence (CBI) and economic stability in South Africa within a comparative international context. It examines how the degree of monetary autonomy influences inflation, economic growth, and overall macroeconomic performance. Using a mixed-method approach that combines literature synthesis and secondary data from 2010 to 2023, the study analyses inflation, GDP growth, and CBI index scores across selected countries, including Germany, New Zealand, Argentina, Turkey, and South Africa. The results reveal a decisive inverse correlation between CBI and inflation; nations with robust institutional autonomy, such as Germany and New Zealand, consistently achieve price stability, while those with high levels of political interference, such as Argentina and Turkey, suffer from chronic inflationary volatility. South Africa, with a moderate CBI score, maintains inflation between 4% and 6%, indicating credible monetary discipline under the South African Reserve Bank (SARB). However, the findings also show that price stability alone does not guarantee robust growth, as structural constraints and fiscal imbalances continue to impede economic expansion. The study concludes

that while central bank independence is a cornerstone of macroeconomic stability, it must be complemented by sound fiscal policy, institutional reform, and coordinated developmental strategies to promote inclusive and sustainable growth. Strengthening SARB's institutional autonomy and enhancing policy coordination with fiscal authorities are essential for maintaining credibility, managing inflation expectations, and achieving long-term economic resilience.

Keywords: *Central Bank Independence, Economic stability, Inflation, Sustainable growth*

Introduction

Central bank independence (CBI) denotes the degree of autonomy a central bank possesses in the formulation and execution of monetary policy. This independence ensures that core objectives, including interest rate determination, inflation targeting, and money supply management are insulated from short-term political pressure. According to Cukierman (2008) and Dincer and Eichengreen (2022), CBI denotes a legally or institutionally defined autonomy that shields monetary authorities from short-term political pressures, allowing them to pursue long-term macroeconomic stability. This form of independence is generally entrenched in legislation that grants the central bank authority to determine policy instruments, thereby reducing the likelihood of politically motivated monetary expansion.

The rationale for ensuring central bank independence stems from the belief that monetary policy should be managed by technocrats who prioritize long-term economic objectives over short-term political gains (Alesina & Summers, 1993; Crowe & Meade, 2008). Empirical evidence suggests that independent central banks are more effective at maintaining low and stable inflation rates, thereby fostering an environment conducive to sustainable economic growth (Bodea & Hicks, 2015; Garriga & Rodriguez, 2020). Price stability, achieved through credible and independent monetary policy, provides a foundation upon which other economic activities can thrive.

Furthermore, an independent central bank may impose fiscal discipline by limiting the government's ability to finance budget deficits through inflationary means (Alesina & Stella, 2010). By constraining politically motivated fiscal expansion, CBI contributes to macroeconomic credibility and reduces inflation expectations. However, debates persist regarding the optimal degree of independence. Proponents argue that autonomy enhances credibility and consistency in policy outcomes, while critics

contend that excessive independence may constrain policy flexibility during economic downturns or crises (Blinder et al. 2017).

Recent global events, such as the COVID-19 pandemic and the subsequent inflationary episodes, have reignited discussions on how independent central banks should coordinate with fiscal authorities in crisis situations. Evidence from both emerging and advanced economies indicates that while robust institutional independence often correlates with macroeconomic stability, several jurisdictions continue to experience divergent outcomes due to varying levels of institutional quality and fiscal coordination (Dincer & Eichengreen, 2022; Fraccascia et al., 2023). These differences suggest that contextual factors such as institutional quality, legal enforcement, and political culture significantly influence the effectiveness of CBI.

Against this backdrop, this study examines the relationship between central bank independence and economic stability. The analysis examines the direct impact of autonomy on price stability and economic expansion, while evaluating the extent to which political and structural variables mediate or moderate these outcomes. The research also explores how central banks can balance independence, accountability, and responsiveness during crises, contributing to ongoing debates about the optimal institutional design of monetary authorities in both developed and developing economies.

1.2. Key Questions

- How does central bank independence impact inflation and economic growth?
- What lessons can be drawn from international experiences?
- What challenges does South Africa face regarding CBI?
- How does CBI influence inflation, systemic risk, and broader economic stability?
- What trade-offs exist between CBI and financial stability mandates?
- What challenges does South Africa face in maintaining CBI amid socio-economic pressures?

Literature Review

Central Bank Independence (CBI) refers to the degree of autonomy granted to a nation's central bank in the formulation and execution of monetary policy, free from direct political interference. This autonomy

enables the central bank to pursue long-term objectives such as price stability, low inflation, and sustainable growth without succumbing to short-term political pressures. The conceptual foundation of CBI lies in the time-inconsistency problem described by Kydland and Prescott (1977), which posits that policymakers often face incentives to implement short-term expansionary policies that undermine long-term stability. In this regard, institutional independence provides a credible commitment mechanism that enhances the effectiveness and predictability of monetary policy (Rogoff, 1985; Alesina & Summers, 1993).

A robust body of empirical research has consistently demonstrated that heightened central bank independence correlates with lower and more predictable inflation rates, achieving price stability without compromising long-term economic growth (Crowe & Meade, 2008; Bodea & Hicks, 2015; Dincer & Eichengreen, 2022). These studies emphasize that legal and operational independence—combined with transparency and accountability—strengthens the credibility of monetary authorities. For instance, Garriga (2016) developed a comprehensive index of CBI across 182 countries, finding that greater independence is strongly correlated with macroeconomic stability, particularly in emerging markets.

2.1. International evidence

The experience of the German Bundesbank has historically exemplified the benefits of strong central bank independence. Its institutional autonomy was a key driver behind Germany's prolonged period of low inflation and economic stability (Berger & de Haan, 1999). Conversely, countries such as Turkey, where political interference has undermined monetary authority, have faced persistent inflationary pressures (Cukierman et al., 1992; Cömert & Bahçeci, 2022). However, more recent studies suggest that the relationship between independence and macroeconomic performance is not uniform across all contexts. Institutional quality, political culture, and fiscal discipline significantly condition the effectiveness of CBI (Fraccascia et al., 2023; Garriga & Rodriguez, 2020). For instance, Fraccascia et al. (2023) highlight that countries with strong institutional frameworks and transparent fiscal systems, such as Germany and Canada, indicate that CBI has effectively contributed to maintaining low inflation and macroeconomic stability, even during periods of global uncertainty. These economies benefit from coherent fiscal-monetary coordination and rule-based policy frameworks that reinforce central bank credibility.

Conversely, in developing or politically volatile environments, *de jure* legal independence frequently fails to manifest as *de facto* autonomy, as institutional protections are often bypassed by informal political pressures. Garriga and Rodriguez (2020) found that in nations like Argentina and Turkey, frequent political interventions and weak institutional checks often undermine the central bank's credibility and policy consistency, despite statutory independence. In these settings, high levels of fiscal dominance and political pressure erode public confidence in monetary authorities, thereby diminishing the stabilizing effect of CBI.

Similarly, cross-country comparative evidence suggests that while advanced economies with high governance standards tend to achieve predictable inflation outcomes under independent central banks, emerging economies experience mixed results depending on the degree of fiscal discipline and policy enforcement (IMF, 2023). This underscores that CBI is not a one-size-fits-all mechanism but rather a function of institutional maturity, legal enforcement, and political accountability.

2.2. Evidence from South Africa and Other Emerging Economies

In the South African context, the South African Reserve Bank (SARB) enjoys a relatively high degree of operational independence, enshrined in the Constitution. However, debates persist about whether its independence aligns with broader socio-economic transformation goals (Chipeta & Mkandawire, 2021). Empirical studies indicate that SARB's focus on inflation targeting has contributed to macroeconomic stability, though critics argue it may constrain employment and growth objectives (Kabundi & Mbelu, 2020; Khumalo & Odhiambo, 2023). The post-pandemic period also highlighted the tension between maintaining price stability and supporting economic recovery, renewing discussions on the balance between independence and policy coordination (Fraccascia et al. 2023).

Recent comparative analyses across Sub-Saharan Africa reveal that institutional independence alone does not guarantee positive economic outcomes unless supported by transparency, effective communication, and sound fiscal governance (Ncube & Ndou, 2022; Ajilore & Alimi, 2021). These findings suggest that CBI must be complemented by strong institutional frameworks and political commitment to prudent fiscal policies.

2.3. Challenges in the South African context

In South Africa, the SARB (South African Reserve Bank) has the responsibility to protect the currency and exercise its functions in relation to achieving sustainable economic growth. (South African Reserve Bank Act, 1989). Political influence remains a significant barrier to expanding the SARB's mandate to include dual targets for employment and growth, as such a shift could jeopardise the bank's focus on price stability. Vermeulen (2020) provides a relevant review of public debates upon the SARB's questions of mandate, ownership, and independence, arguing for the need for public inquiry.

South Africa's central bank, the SARB, is considered moderately independent. However, political discourse occasionally threatens this autonomy. Challenges include:

- High unemployment and inequality pressuring the SARB to focus beyond price stability.
- Political calls for quantitative easing to finance government spending.
- Public misunderstanding of the SARB's role, leading to reputational risks.
- Exchange rate volatility impacting inflation targets.
- Mandate Debate: Political pressure to expand the SARB's primary price stability mandate to include employment creation, risking goal dilution.
- Ownership Structure: Private shareholders (≈ 2 million shares) complicate their perceptions of accountability, despite no operational influence.
- Coordination Costs: Financial stability mandates require collaboration with the National Treasury, creating tensions during crises

2.4. Debate on expanding SARB's mandate to include employment

The debate on broadening the South African Reserve Bank's (SARB) mandate to include employment generation has gained traction in South Africa's economic policy discourse. Proponents argue that South Africa's persistently high unemployment and inequality are among the highest globally and require a more inclusive macroeconomic framework that aligns monetary policy with developmental and employment objectives. Advocates often point to the dual mandate of the United States Federal Reserve, which balances price stability with maximum employment, as a potential model for South Africa (Kabundi & Mbelu, 2020). They contend that, given South Africa's structural unemployment crisis, monetary

authorities could adopt more accommodative policy stances, such as lower interest rates or targeted credit support, to stimulate productive sectors and employment.

However, critics caution that expanding the SARB's mandate beyond price stability could undermine the institution's credibility and blur its operational focus. Vermeulen (2024) and Khumalo and Odhiambo (2023) argue that monetary policy alone cannot effectively address structural unemployment, which is largely driven by non-monetary factors such as skills mismatches, rigid labour market institutions, weak productivity growth, and limited fiscal capacity. They note that expecting the SARB to resolve these deep-rooted structural issues risks politicising monetary policy and compromising inflation control.

From a fiscal policy perspective, the prevailing consensus favors inter-institutional coordination over the expansion of the central bank's mandate, thereby avoiding the risks of policy overreach. Fiscal authorities are better positioned to drive job creation through public investment, infrastructure spending, and labour-intensive programmes, while the SARB maintains macroeconomic stability that enables sustainable growth. The literature emphasises effective fiscal-monetary coordination, where the SARB ensures a stable inflation environment and the Treasury implements countercyclical spending—offering a more balanced framework for achieving inclusive development (IMF, 2023; Ncube & Ndou, 2022).

International experiences reinforce these trade-offs. For example, Brazil's central bank recently adopted a dual mandate including employment; while this approach allowed short-term support to economic recovery, it also heightened fiscal risks and raised inflationary expectations (Fraccascia et al. 2023). In contrast, New Zealand's Reserve Bank, which previously experimented with employment-linked targets, has since refined its framework to avoid policy conflicts between growth stimulation and price stability. These examples underscore that mandate expansion requires strong institutional safeguards, transparent governance, and credible fiscal discipline to prevent inflationary bias.

In the South African context, expanding the SARB's mandate without accompanying structural reforms could expose the institution to political interference, weaken investor confidence, and reduce the effectiveness of inflation targeting. A more pragmatic approach involves policy alignment, strengthening collaboration between the SARB, National Treasury, and the Department of Employment and Labour to ensure that monetary stability complements fiscal and labour market strategies. This approach

preserves the SARB's institutional independence while fostering greater macroeconomic coherence through synchronised policy alignment.

Ultimately, the debate reveals a fundamental policy dilemma: price stability remains a prerequisite for employment growth, but it is not sufficient in isolation. Sustainable job creation depends on complementary fiscal measures, structural reforms, and an enabling business environment. The SARB's role should therefore remain focused on maintaining monetary stability, while broader employment objectives are pursued through coordinated fiscal and industrial policy interventions.

2.5. Central banks coordinate with government on financial stability

In times of emergency, central banks are expected to work more closely with governments. However, this coordination comes with institutional trade-offs. While cooperation helps in some circumstances, like the COVID-19 pandemic when policymakers attempt to manage financial crises, it can also lead to the disruption of fiscal and monetary policy. Central banks around the globe collaborated with government authorities to put stronger coordination policies under their economies. In other words, there is a tradeoff. Collaboration may increase effectiveness, but it also undermines credibility because it raises the prospect of "fiscal dominance" when the functioning of monetary policy is compliant with the requirements of government financing. Take, for example, the criticisms leveled against the European Central Bank (ECB) during the Eurozone debt crisis. There was wide controversy surrounding the ECB's asset purchase programs and whether the ECB was overstepping its monetary policy mandate. In South Africa, there is a criticism regarding how the SARB may support growth objectives without compromising institutional independence or falling into fiscal policy complexities.

2.6. Practical examples from previous literature

Alesina and Summers (1993) demonstrated that countries with higher CBI tend to have lower and more stable inflation. Cukierman et al. (1992) found that de facto independence, as opposed to de jure, has a more significant impact on stability. The European Central Bank's (ECB) strict independence has been crucial in maintaining eurozone inflation rates within targets (Eijffinger and De Haan, 1996). Conversely, Argentina's political interference in central banking contributed to hyperinflation in the late 1980s.

CBI remains a cornerstone of credible monetary policy, providing the institutional buffer necessary to prioritise price stability over short-term political objectives. Both developed and emerging economies have equally provided the notion that heightened CBI aggravates macroeconomic performance. One such important example is the one done by the IMF in 2024, which analysed the working of 17 central banks of Latin America. They concluded that increased independence granted to the central bank further enhanced the rate of reduction of annual inflation from 0.66 percentage points to significantly lower figures. This conclusion is quite astonishing, especially when looking at the Latin American region, which has faced inflationary issues due to fiscal dominance and the politics of directed interference in monetary policy use. The research sets out the reason for the lower inflation figures: institutional reforms bypassing the political cycles, enabling the banks to manage the inflation expectations more effectively and incurring macroeconomic shocks credibly and transparently.

Andrieş et al. (2022) also add to the independent central bank's literature pertaining to its systemic stabilizing function within advanced economies. Their research tracks the relationship between CBI and systemic financial risk assessed through the ΔCoVaR metric—a model that determines the institution's particular contribution to the risk associated with the overall financial system. The authors show that higher independence leads to a reduction in systemic risk contributions by 12% to 18%. This finding highlights that CBI does more than just mitigate inflationary risk; it fortifies the financial system by insulating the central bank from pressures to monetize excessive fiscal deficits or act as an emergency financier for politically motivated bailouts. For developed economies with mature financial market systems, this detachment from day-to-day political activities permits financial decision-makers to formulate long-term strategic decisions that lower the susceptibility of the financial system.

In the case of South Africa, the South African Reserve Bank (SARB) serves as a useful example within a middle-income, unequal economy on the effectiveness of central bank independence. After the constitution recognised its independence, SARB garnered a relatively high CBI index score of 0.82, indicating it enjoys considerable autonomy both legally and functionally. This degree of independence has led to real macroeconomic gains. Most conspicuously, South Africa's average inflation rate since the year 2000 has been close to 5.4%, markedly lower than the approximately 15% average during the years prior to SARB's increased autonomy. The

capacity of the SARB to implement a capially driven inflation policy is influenced by political investigations, coupled with the considerable SARB independence, which helps explain the sustained low volatility of consumer prices in South Africa.

Moreover, aside from controlling inflation, SARB's autonomous stance is deemed crucial to restricting the growth of the money supply — a concept measured by M2, comprising broad money. This serves as a critical determinant of national inflationary trends. SARB's disciplined monetary policy through interest rate setting and open market operations helped contain the growth of money supply to commensurate levels relative to actual economic growth, which in turn, arrested hyperinflation. This is of extreme importance in the post-apartheid period when the economy required foreign investment to foster growth, and these measures, alongside fiscal measures, helped restore credibility to the economy. Additionally, SARB's autonomy allowed it to evade populist calls to finance expenditures through the monetised deficit, particularly during fiscally stressful periods such as the COVID-19 pandemic.

Methodology

The study adopts a mixed-method approach. It includes a systematic review of scholarly literature from databases such as JSTOR, Scopus, and Google Scholar. Quantitative secondary data from 2010 until 2023 is used, and the analysis includes inflation rates, GDP growth, and policy rate trends sourced from the International Monetary Fund (IMF), the World Bank, and the South African Reserve Bank (SARB). Comparative case studies of countries with varying degrees of CBI are also incorporated.

To analyse the connection between Central Bank Independence (CBI) and macroeconomic performance in greater depth, scholars and policy analysts typically apply a mix of cross-country and country-specific econometric methods. These techniques capture the impact of CBI's legal, operational, and functional dimensions on macroeconomic performance, including inflation, systemic financial risk, money supply growth, and economic stability. Some of the most frequently used methods are cross-country regression, Autoregressive Distributed Lag (ARDL) models, and Granger causality analysis. By controlling for cyclical growth, market structure, and political risk, these models provide a robust empirical foundation that reinforces both large-scale comparative trends and specific country-level analyses.

3.2. Cross-Country Regression Analysis

Cross-country regression analysis is particularly useful when discussing the greater macroeconomic effects of CBI because it remains one of the most sophisticated techniques available. In these models, some common dependent variables include the inflation rate, measures of systemic risk like ΔCoVaR (Delta Conditional Value at Risk), and composite risk indicators such as RISK. These indices measure multiple dimensions of systemic importance, including control of the bank by the government, allowance of credit to the government, appointment of the governor, and restrictions placed on the monetary policy goal. The most important independent variable is the CBI index, usually calculated politically through legal independence scores by Cukierman, Webb, and Neyapti.

Cross-country regressions are particularly valuable for their ability to exploit cross-sectional variation in institutional design, providing empirical insights that a single-country study cannot capture. For example, countries that score high on CBI tend to have lower average inflation rates, a fact that has been affirmed repeatedly in both developed and emerging economies. Furthermore, some more recent studies have applied this to metrics of systemic risk, showing that more independent central banks tend to be associated with a lower contribution to systemic financial risk. This is often explained by the fact that there is much less political risk, as there are few politically motivated destabilising actions that can be taken within financial markets that have the potential to create financial distortions and moral hazard. Adding interaction variables—or using fixed effects to account for geographical or income group differences—allows these regressions to control for the impact of CBI alongside other frameworks of institutions or economies.

3.3. Autoregressive Distributed Lag (ARDL) Models in the South African Context

Although cross-country comparisons provide a general benchmark, country-specific models are necessary to disentangle the interplay between CBI and macroeconomic variables within a CBI system. In the case of South Africa, Autoregressive Distributed Lag (ARDL) models have been found most useful in estimating CBI and inflation as well as the growth of money supply (usually measured with M2 or M3) due to the existence of both short-run and long-run impacts. For South Africa, the ARDL approach has a number of advantages. Firstly, it utilises the presence of variables that are integrated of different orders, $I(0)$ and $I(1)$, without the

need to test for unit roots for all variables. Secondly, it works particularly well in the presence of small samples, which is the case with an emerging economy with limited high-frequency data over long time periods.

Inflation, or broad money growth, is often set as the dependent variable with CBI scores as the main explanatory variable in South African studies involving ARDL. These models incorporate lagged values of both dependent and independent variables to account for temporal persistence and the inherent transmission lags in economic policy. For instance, once a central bank becomes independent, there may be significant reductions in inflation, but this might only be felt several quarters or years down the line. The addition of long-run coefficients within the ARDL bounds framework suggests that researchers can test equilibrium relationships, while error correction terms show the speed at which short-run deviations return to long-run trends. Studies conducted along these lines often show that CBI and inflation have a long-run statistically significant relationship, which is negative, and this reinforces the argument to have an independent SARB in South Africa that focuses on price stability.

3.4. Granger Causality Tests

In addition to correlation-based approaches, Granger causality tests are used to establish the CBIs relation with macroeconomic variables. The core question of these tests is whether it is plausible to say that CBI changes because of other changes such as the increase of inflation, money supply, or even financial risk. These tests rely on time-series data, which analyse if the past values of a variable can help improve predictions of another variable, taking into account other factors beyond the variable's own history.

In the case of South Africa, Granger causality tests have been conducted using time-series data to test whether an increase in SARB independence comes before inflation reduction or the slowing down of money supply growth. On the other hand, some studies explore whether periods of high inflation or fiscal pressures “Granger-cause” CBI-enhancing institutional reforms, proposing an unstable economy triggers the reinforcing of monetary structures. Whichever the case, the results are important in understanding the order of changes in institutions and the economy. Most importantly, finding Granger causality from CBI to inflation would mean lower reversibility of central bank autonomy in relation to economic stability, meaning the central bank is effective at controlling inflation.

3.5. Control of Variables and Robustness

The concern of spurious relationships arising due to omitted variables is dealt with in econometric models investigating the impacts of CBI by systematically including a set of control variables. The inclusion of GDP growth accounts for the fact that cyclical economic shifts directly influence inflationary pressures and the demand for liquidity, factors that exert pressure on monetary control regardless of a central bank's institutional autonomy. In the same way, concentration of the banking sector is brought in to capture the structure of the financial system that might influence monetary policy transmission or systemic risk exposure. In concentrated banking systems, a handful of institutions may dominate and have the ability to influence the amount of risk incurred, either increasing or decreasing the impact of CBI on financial risk.

Indices of political stability, such as those constructed for the World Bank or Polity IV, are useful in these models. The presence of political instability exploits the authority of most independent central banks, particularly in cases where the legal system is tentatively executed. Adding measures of governance allows scholars to appreciate the level of institutional independence free from the influence of other political factors. Furthermore, these indices are usable together with scores of CBI in regression models to find out whether the effect of central bank autonomy is dependent on the existence of a favorable political atmosphere.

3.6 Ethical Considerations

The study relied exclusively on publicly available data, maintaining strict compliance with academic integrity and ethical standards. All data sources were cited transparently.

Results And Findings

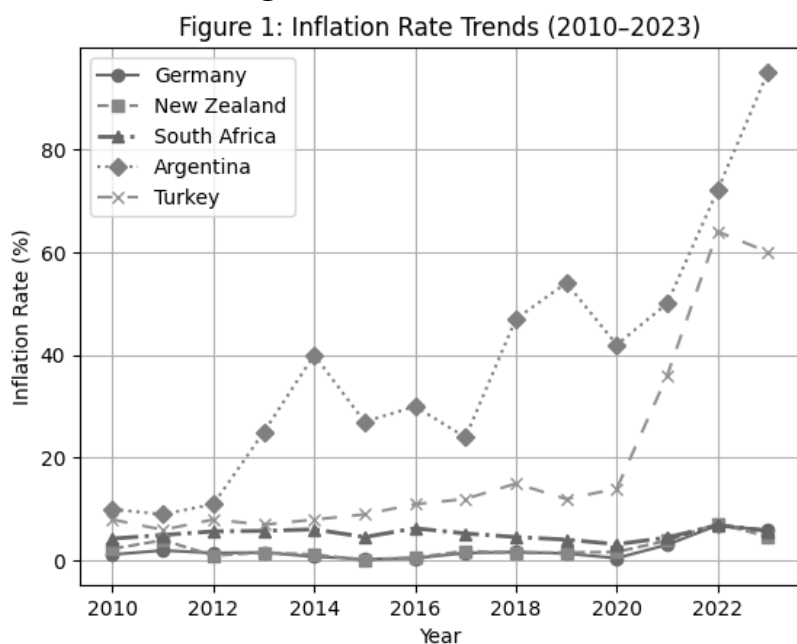


Figure 1: Inflation Rate (Selected Countries 2010-2023)

Source: Compiled by authors using the SARB database

Figure 1 illustrates the inflation trajectories of Germany, New Zealand, South Africa, Argentina, and Turkey between 2008 and 2024. Countries with higher levels of Central Bank Independence (CBI) (notably in figure 2), such as Germany and New Zealand, exhibit consistently low and stable inflation rates, averaging between 1–3%, even during periods of global economic volatility such as the 2008 financial crisis and the COVID-19 pandemic (2020–2022). Conversely, the cases of Argentina and Turkey demonstrate how eroded CBI and executive overreach correlate with severe price instability, with both nations experiencing a sharp inflationary decoupling post- 2014. Argentina’s inflation surges beyond 90% in 2024, while Turkey’s inflation exceeds 60% over the same period. These spikes align with episodes of political interventions in monetary policy, illustrating how weakened independence can amplify macroeconomic instability.

South Africa, which maintains a moderate degree of central bank independence, displays inflation rates that are relatively controlled, ranging between 4% and 6%, indicating a functional, though not absolute, independence. The pattern suggests that the South African Reserve Bank’s

(SARB) autonomy has helped to anchor inflation expectations and maintain price stability, despite challenges from global shocks and domestic fiscal pressures.

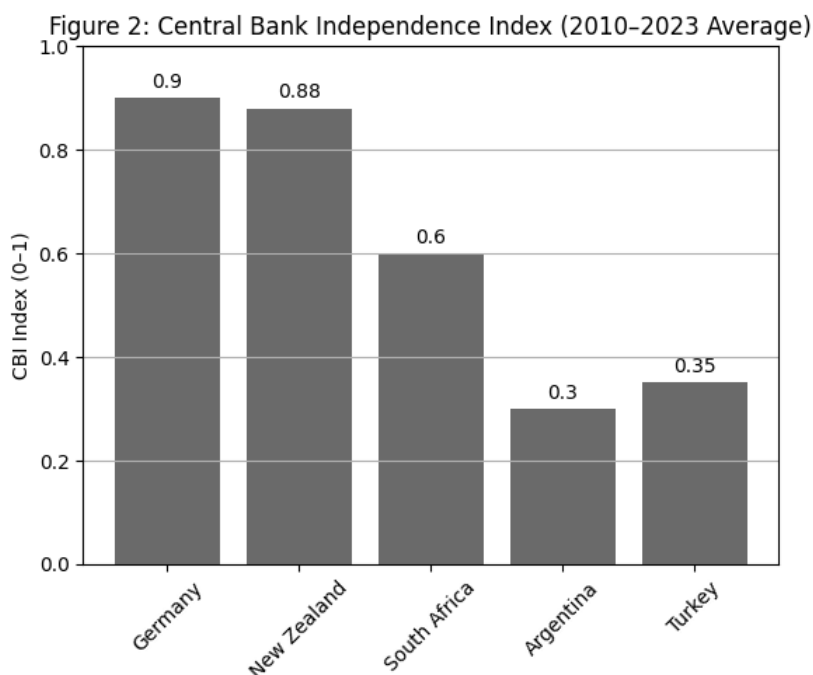


Figure 2: Central Bank Independence Index (Selected Countries 2010-2023)

Source: Compiled by Authors using the SARB database

Figure 2 presents comparative Central Bank Independence (CBI) Index scores for Germany, New Zealand, South Africa, Argentina, and Turkey. Germany (0.9) and New Zealand (0.88) have near-complete independence, reflecting robust legal and operational frameworks that shield their central banks from political influence. South Africa (0.6) is in the moderate independence category. The SARB operates under explicit constitutional protection, which provides the policy autonomy necessary to pursue price stability while simultaneously mandating fiscal-monetary coordination to ensure macroeconomic coherence. Argentina (0.3) and Turkey (0.35) show low CBI, aligning with the high inflation trends in Figure 1.

Figure 2 reinforces a negative relationship between CBI and inflation; the more independent the central bank, the lower and more stable the inflation rate. South Africa's mid-range index suggests that while the SARB's autonomy contributes to relative price stability, there remains

room to strengthen its institutional independence, especially in resisting fiscal dominance and political pressure to adopt expansionary policies during downturns.

In summary, Figure 1 and 2 show that the observed negative relationship between central bank independence and inflation aligns with seminal findings by Alesina and Summers (1993) and Cukierman et al. (1992), who both demonstrated that higher levels of central bank autonomy are associated with lower and more stable inflation rates. Similarly, Bodea and Hicks (2015) and Garriga and Rodriguez (2020) reaffirm that countries with strong institutional independence achieve better inflation performance without sacrificing growth.

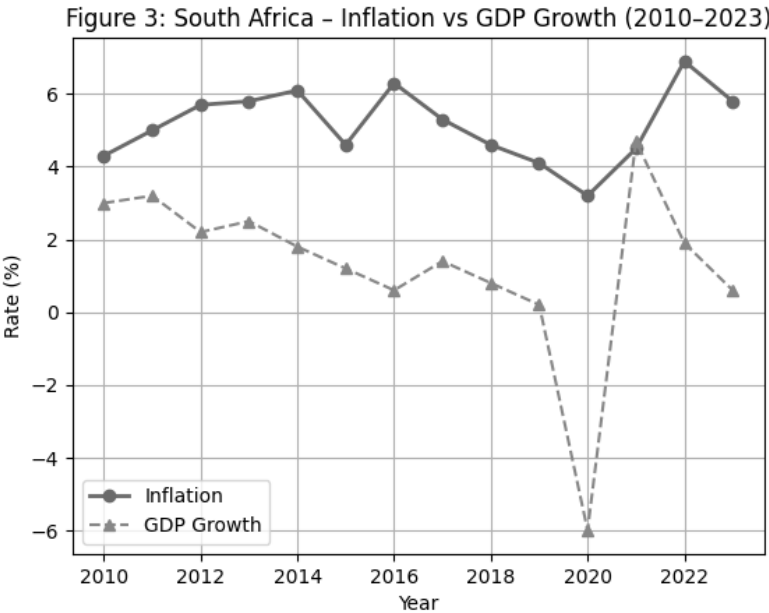


Figure 3: South Africa's Inflation Rate and GDP Growth (2010-2023)
Source: Compiled by Authors using the SARB database

Figure 3 compares South Africa's inflation rate and GDP growth rate from 2010 to 2023. Inflation remained relatively stable between 4 and 6%, with minor fluctuations even during global shocks. GDP growth, however, shows greater volatility, notably a deep contraction of about -6% in 2020 due to the COVID-19 pandemic, followed by a brief rebound in 2021 and a slowdown thereafter. The inverse relationship between inflation and GDP growth during certain years (e.g., 2020–2021) indicates that while SARB effectively maintained price stability, overall economic performance

was affected by structural issues outside its control, such as fiscal imbalances, supply shocks, and weak investment confidence.

In the South African context, the observed trade-off between stable inflation and uneven growth reflects findings by Kabundi and Mbelu (2020) and Khumalo and Odhiambo (2023), who note that while the SARB's inflation-targeting framework has successfully anchored price stability, it has not necessarily translated into higher employment or faster economic growth. Research suggests that the transition from price stability to real economic gains is often stalled by structural rigidities, such as energy insecurity and fiscal mismanagement, which decouple monetary outcomes from broader prosperity.

Moreover, the negative inflation-growth link echoes Fischer's (1993) concept of the "inflation-growth trade-off," where excessive focus on inflation control, without complementary fiscal or structural reforms, can dampen aggregate demand and economic expansion. This supports the conclusion that central bank independence and low inflation are necessary but not sufficient for achieving long-term, inclusive growth.

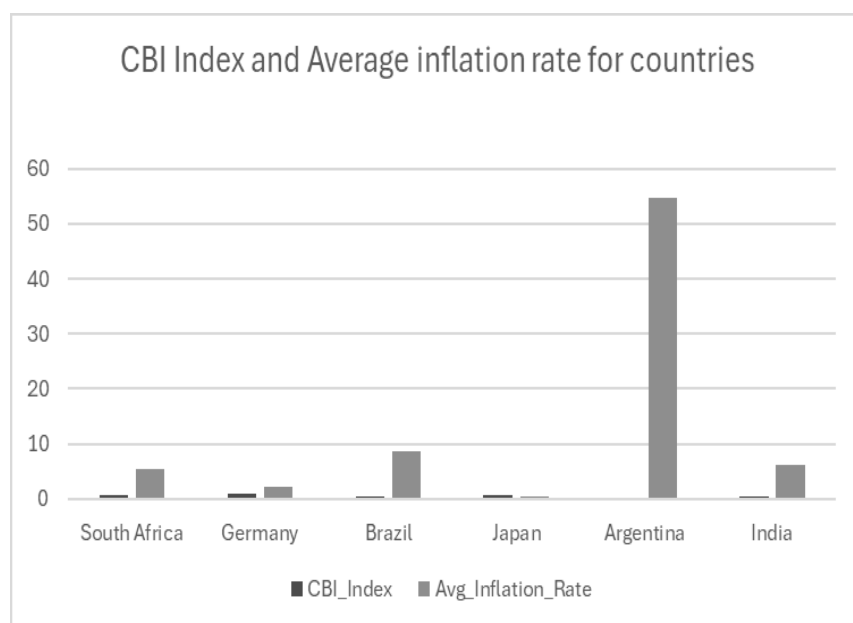


Figure 4: CBI index and inflation rate for selected countries (2010-2023)

Source: Compiled by authors using the World Bank database

Figure 4 compares the Central Bank Independence (CBI) Index and the average inflation rate for six countries, namely South Africa, Germany, Brazil, Japan, Argentina, and India. While the CBI Index quantifies a

central bank's institutional independence, the average inflation rate provides an empirical reflection of a country's monetary credibility and price stability. From the graph, South Africa displays a moderate CBI Index and a relatively low average inflation rate, suggesting that the South African Reserve Bank (SARB) operates with a credible degree of independence that contributes to maintaining price stability. This outcome reflects the strong institutional framework established under the Constitution and the SARB Act, which allows the central bank to focus on inflation targeting while remaining insulated from short-term political pressures.

Germany and Japan both exhibit high levels of central bank independence and very low inflation rates, which aligns with classical economic theory suggesting that greater central bank autonomy is associated with improved price stability. The German Bundesbank and the Bank of Japan serve as global benchmarks for how institutional independence can help anchor inflation expectations and build credibility. In contrast, Brazil and Argentina reveal the opposite relationship. Brazil, with a moderate level of central bank independence, still experiences relatively high inflation, suggesting that external macroeconomic pressures and fiscal dominance undermine monetary policy effectiveness. Argentina, on the other hand, shows extremely high inflation and one of the lowest CBI scores, reflecting a history of political interference, weak institutions, and frequent monetary financing of fiscal deficits. India falls somewhere in between, with a moderate CBI index and inflation rate, indicating partial independence where government influence over monetary policy remains significant.

Interpreted through the South African lens, Figure 4 illustrates that institutional autonomy for the SARB is a critical safeguard against inflationary pressures and a prerequisite for long-term economic stability. South Africa's relatively low inflation compared to other emerging economies, such as Brazil and Argentina, suggests that its central bank's autonomy has been effective in maintaining macroeconomic discipline. This observation is consistent with empirical findings from Cukierman (1992) and Alesina and Summers (1993), who demonstrated a negative relationship between central bank independence and inflation. Overall, Figure 4 illustrates that countries with greater central bank independence tend to experience lower and more stable inflation rates. For South Africa, this reinforces the view that maintaining and strengthening the SARB's autonomy is essential for ensuring long-term economic stability, investor confidence, and sustainable growth, particularly as the country continues

to grapple with broader socio-economic challenges such as unemployment and inequality.

Recommendations and Implications

The findings presented across Figures 1 to 4 highlight the critical role that central bank independence (CBI) plays in achieving and sustaining macroeconomic stability. The evidence indicates that countries with higher CBI, such as Germany, Japan, and New Zealand, consistently maintain low and stable inflation, while those with weak or politicized central banks, such as Argentina and Turkey, experience persistent inflationary volatility. For South Africa, the South African Reserve Bank's (SARB) moderate level of independence has proven instrumental in keeping inflation within a stable range of 4–6%, despite global and domestic economic shocks. However, the analysis further indicates that South Africa's economic growth is hindered by deep-seated structural and fiscal constraints—factors that fall beyond the direct influence of monetary policy.

Given these findings, it is recommended that South Africa **preserve** and strengthen the SARB's institutional independence to safeguard its inflation-targeting credibility. Legal and constitutional protections that shield monetary policy from political interference should be upheld and reinforced, especially during periods of fiscal stress or electoral cycles. Furthermore, policy coordination between the SARB and fiscal authorities should be improved to ensure that monetary stability complements broader developmental and employment objectives, without compromising price stability. South Africa could also **enhance** transparency and communication frameworks to improve public trust and anchor inflation expectations more effectively. Additionally, fiscal authorities should focus on reducing debt accumulation, improving expenditure efficiency, and stimulating productive investment, thereby reducing pressure on monetary policy to counterbalance weak fiscal discipline.

For emerging economies more broadly, the South African case offers valuable lessons on balancing monetary autonomy with developmental mandates. Strengthening central bank governance, improving accountability mechanisms, and insulating policy formulation from short-term political pressures can collectively foster macroeconomic stability and investor confidence. Ultimately, a strong, independent, and credible central bank serves as a cornerstone for sustainable economic growth and resilience against external shocks.

Conclusion

Overall, the analysis confirms a clear pattern: the greater a country's central bank independence, the lower and more stable its inflation tends to be. Countries such as Germany, Japan, and New Zealand, where central banks operate with strong autonomy and minimal political interference, have succeeded in keeping inflation at consistently low levels over time. On the other hand, countries with weak or politically constrained central banks, like Argentina and Turkey, continue to struggle with extreme inflation volatility, often driven by government interference in monetary policy. South Africa's experience lies between these two extremes. The South African Reserve Bank (SARB) has demonstrated that even moderate independence can be effective in maintaining price stability. By keeping inflation within the 4% to 6% range over the past decade, the SARB has shown credibility in pursuing its inflation-targeting mandate, even during global disruptions such as the COVID-19 pandemic and domestic fiscal pressures.

However, the findings also reveal that while South Africa's monetary policy framework has been successful in stabilising inflation, the country's broader economic performance remains constrained by factors outside the SARB's control. Systemic issues such as weak productivity and high unemployment, exacerbated by fiscal instability and inequality, remain significant impediments to sustainable economic expansion. This indicates that price stability alone is not sufficient for economic development—it must be complemented by sound fiscal management, targeted structural reforms, and policies that enhance investment, job creation, and competitiveness. In this sense, the SARB's independence provides a necessary but not sufficient condition for achieving sustainable and inclusive growth.

Looking ahead, South Africa's policymakers should aim to strengthen the SARB's institutional autonomy even further, particularly in shielding it from political pressures that could compromise its policy credibility. To preserve public trust in monetary policy, central banks must prioritise legal autonomy, operational transparency, and proactive communication strategies. At the same time, fiscal authorities must ensure discipline in government spending, reduce reliance on debt, and align fiscal actions with the SARB's price stability objective.

References

- Ajilore, T. & Alimi, R.S. (2021). Central Bank Independence and Inflation in Sub-Saharan Africa. *African Journal of Economic Review*, 9(2), 45–64. [Available at: <https://journals.udsm.ac.tz/index.php/ajer/article/view/5107>.] [Accessed 15 October 2025].
- Alesina, A. & Summers, L.H. (1993). Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence. *Journal of Money, Credit and Banking*, 25(2), 151–162. [Available at: <https://www.jstor.org/stable/2077833>] [Accessed 15 October 2025].
- Andrieş, A.M., Podpiera, A.M. & Sprinceana, N. (2022). Central Bank Independence and Systemic Risk. *International Journal of Central Banking*, 18(1), 83–120. [Available at: <https://www.ijcb.org/journal/ijcb22q1a3.pdf>] [Accessed 15 October 2025].
- Berger, H. & de Haan, J. (1999). A State within the State? An Event Study on the Bundesbank (1948–1973). *Scandinavian Journal of Economics*, 101(3), 523–538. [Available at: <https://doi.org/10.1111/1467-9442.00170>.] [Accessed 15 October 2025].
- Bodea, C. & Hicks, R. (2015). Price Stability and Central Bank Independence: Discipline, Credibility, and Democratic Institutions. *International Organization*, 69(1), 35–61. [Available at: <https://doi.org/10.1017/S0020818314000287>.] [Accessed 15 October 2025].
- Chipeta, C. & Mkandawire, M. (2021). Central Bank Independence and Monetary Policy in South Africa: Between Law and Practice. *South African Journal of Economic and Management Sciences*, 24(1), 1–10. [Available at: <https://sajems.org/index.php/sajems/article/view/3711>.] [Accessed 15 October 2025].
- Cömert, H. & Bahçeci, E. (2022). The Political Economy of Turkey's Central Bank Independence. *Economic Modelling*, 112, 105837. [Available at: <https://doi.org/10.1016/j.econmod.2022.105837>.] [Accessed 15 October 2025].
- Crowe, C. & Meade, E.E. (2008). Central Bank Independence and Transparency: Evolution and Effectiveness. *European Journal of Political Economy*, 24(4), 763–777. [Available at: <https://doi.org/10.1016/j.ejpoleco.2008.06.004>.] [Accessed 15 October 2025].
- Cukierman, A., Webb, S.B. & Neyapti, B. (1992). Measuring the Independence of Central Banks and Its Effect on Policy Outcomes. *World Bank Economic Review*, 6(3), 353–398. [Available at: <https://doi.org/10.1093/wber/6.3.353>.] [Accessed 15 October 2025].
- Dincer, N.N. & Eichengreen, B. (2022). Central Bank Transparency and Independence: Updates and New Measures. *International Journal of*

- Central Banking*, 18(1), 7–49. [Available at: <https://www.ijcb.org/journal/ijcb22q1a1.pdf>.] [Accessed 15 October 2025].
- Eijffinger, S.C.W. & de Haan, J. (1996). *The Political Economy of Central Bank Independence*. Special Papers in International Economics. Princeton University. [Available at: <https://ies.princeton.edu/pdf/Eijffinger.pdf>.] [Accessed 15 October 2025].
- Fraccascia, L., Mauro, G. & Quaranta, A. (2023). Central Bank Independence in the Post-COVID Era: Lessons and Challenges. *Journal of Policy Modeling*, 45(3), 423–440. [Available at: <https://doi.org/10.1016/j.jpolmod.2023.01.004>.] [Accessed 15 October 2025].
- Garriga, A.C. (2016). Central Bank Independence in the World: A New Dataset. *International Interactions*, 42(5), 849–868. [Available at: <https://doi.org/10.1080/03050629.2016.1188819>.] [Accessed 15 October 2025].
- Garriga, A.C. & Rodriguez, C.M. (2020). More Effective Than We Thought: Central Bank Independence and Inflation in Developing Countries. *Economic Modelling*, 91, 654–664. [Available at: <https://doi.org/10.1016/j.econmod.2020.01.010>.] [Accessed 15 October 2025].
- Goodhart, C. & Lastra, R. (2018). Populism and Central Bank Independence. *Open Economies Review*, 29, 49–68. [Available at: <https://doi.org/10.1007/s11079-017-9461-0>.] [Accessed 15 October 2025].
- International Monetary Fund (IMF). (2023). *World Economic Outlook Database*. Washington, D.C.: International Monetary Fund. [Available at: <https://www.imf.org/en/Publications/WEO>] [Accessed 15 October 2025].
- International Monetary Fund (IMF). (2024). Strengthen Central Bank Independence to Protect the World Economy. *IMF Blog*, 21 March. [Available at: <https://www.imf.org/en/Blogs/Articles/2024/03/21/strengthen-central-bank-independence-to-protect-the-world-economy>] [Accessed 15 October 2025].
- Kabundi, A. & Mbelu, A. (2020). The Role of the South African Reserve Bank in Maintaining Price Stability and Promoting Economic Growth. *South African Reserve Bank Working Paper Series*, WP/20/04. [Available at: <https://www.resbank.co.za/en/home/publications/working-papers>.] [Accessed 15 October 2025].
- Khumalo, N. & Odhiambo, N.M. (2023). Inflation Targeting and Growth Nexus in South Africa: Reassessing the Role of Monetary Independence. *Economies*, 11(2), 45–61. [Available at:

- <https://doi.org/10.3390/economies11020045>.] [Accessed 15 October 2025].
- Kydland, F.E. & Prescott, E.C. (1977). Rules Rather Than Discretion: The Inconsistency of Optimal Plans. *Journal of Political Economy*, 85(3), 473–491. [Available at: <https://doi.org/10.1086/260580>.] [Accessed 15 October 2025].
- Ncube, M. & Ndou, E. (2022). Central Bank Independence, Transparency and Accountability in Africa. *African Economic Brief*. African Development Bank. [Available at: <https://www.afdb.org/en/documents/african-economic-brief-central-bank-independence-transparency-and-accountability-africa>.] [Accessed 15 October 2025].
- Republic of South Africa. (1989). *South African Reserve Bank Act 90 of 1989*. Pretoria: Government Printer. [Available at: <https://www.gov.za/documents/south-african-reserve-bank-act-2-apr-2015-1504>] [Accessed 15 October 2025].
- Rogoff, K. (1985). The Optimal Degree of Commitment to an Intermediate Monetary Target. *Quarterly Journal of Economics*, 100(4), 1169–1189. [Available at: <https://doi.org/10.2307/1885679>.] [Accessed 15 October 2025].
- South African Reserve Bank (SARB). (2007). *Functions and Objectives of the SARB*. [Available at: http://www.scielo.org.za/scielo.php?script=sci_arttext&pid=S2222-34362020000100023] [Accessed 15 October 2025].
- South African Reserve Bank (SARB). (2023). *Annual Reports and Monetary Policy Reviews*. [Available at: <https://www.resbank.co.za>] [Accessed 15 October 2025].
- Vermeulen, C. (2020). On the Mandate, Ownership, and Independence of the South African Reserve Bank. *South African Journal of Economic and Management Sciences*, 23(1), 1–12. [Available at: <https://sajems.org/index.php/sajems/article/view/3416>] [Accessed 15 October 2025].
- Vermeulen, C. (2024). Central Bank Independence, Inflation, and Money Growth. *Southern African Business Review*, 28, 1–17. [Available at: <https://doi.org/10.25159/1998-8125/14375>] [Accessed 15 October 2025].
- World Bank. (2021). *Why Central Bank Independence Matters*. Washington, D.C.: World Bank. [Available at: <https://documents1.worldbank.org/curated/en/284641638334557462/pdf/Why-Central-Bank-Independence-Matters.pdf>] [Accessed 15 October 2025].

World Bank. (2023). *DataBank*. Washington, D.C.: World Bank Group.
[Available at: <https://data.worldbank.org>] [Accessed 15 October 2025].