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BER special question: Do firms know about the new inflation target? Implications for the path to 3%

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Abstract

In this note, once-off questions in the 2025Q4 Bureau for Economic Research inflation expectations survey are used to assess whether South African firms are aware that the inflation target was lowered to 3%. Nearly half of the sample (48%) of surveyed firms correctly identified the new target of 3%. When asked why they believed that is the target, most of this group referred to the announcement of the target by the Minister of Finance. A large proportion of the remaining respondents (38%) reported that the target is between 3% and 4.5%. This group relied on a range of macroeconomic conditions to motivate their view of the South African Reserve Bank's preferred target. Both groups of respondents have revised their inflation expectations downward significantly throughout 2025. These findings indicate that firms are attentive to news about inflation. This is encouraging for policymakers as it suggests that risk from inattention creating a drag on the path to 3% is not present in the 2025Q4 data.

1. Introduction

The inflation target was officially lowered to 3% with a 1% tolerance band on 12 November 2025. For a range of reasons, communicated in Loewald, Steinbach and Rakgalakane (2025), policymakers believe South Africa will benefit from adopting a lower inflation target. However, given persistent concerns about slow economic growth, high levels of unemployment and an unsustainable fiscal position, there is concern about the potential costs of this adjustment.

Much of the public debate about whether to lower the inflation target revolved around the degree to which inflation expectations are forward- or backward-looking. However, developments in both the international and South African literature suggest that the degree of attention that the public pays to the available information is at least as important as, if not more so than, whether they use forward- or backward-looking information when updating their expectations (Pfauti 2025; Foresto, Reid and Rakgalakane 2025; Foresto et al. 2026). South African Reserve Bank (SARB) research (Foresto et al. 2026) suggests that persistent beliefs (i.e. lagged inflation expectations) explain a large portion of the variation in inflation expectations. The question of whether the public is paying attention to information about the changing of the target and therefore making their own economic decisions based on up-to-date information is important.

Following the post-pandemic inflation, the public in most countries was far more attentive to developments in inflation and monetary policy (Pfauti 2025; Weber et al. 2025). In line with the theory of rational inattention (Sims 2003), inflation that was persistently high for an extended period had increased the costs of being inattentive. Within this high attention context, when South African inflation fell to levels around 3% in October 2024, an opportunity arose to lower the target. The Minister of Finance formalised this process in the 2025 Medium Term Budget Policy Statement (National Treasury 2025). It is important to continue monitoring inflation expectations to assess whether policy action is needed for convergence to a level close to the new target.

In pursuit of this objective, the Bureau for Economic Research (BER) included special questions for the SARB in the BER inflation expectations survey for the second time in 2025Q4. The aim was to determine the extent to which firms have knowledge about the new inflation target. We report on the results of the survey data in this note.

2. The role of inflation expectations in the path to 3%

2.1 Public debate: forward- vs backward-looking expectations

Much of the public discussion about the cost of lowering the inflation target, or the speed with which the target would be reached, revolved around the weight placed on forward- or backward-looking expectations. Those that believe that inflation would be difficult and costly to bring down argued that a higher sacrifice ratio in the post-pandemic period and the backward-looking behaviour of expectations will increase the costs associated with reducing the inflation target in South Africa (Du Rand, Hollander and van Lill 2023; Kabundi, Schaling and Some 2014). In a modelling sense, this is usually captured by placing a greater weight on historical inflation (lagged inflation, α_1 in Equation (1)).

$$\pi_t^e = \alpha_1 \pi_{t-1}^{CPI} + \alpha_2 \pi_t^{target} \tag{1}$$

In contrast, those that believe that inflation expectations are more forward-looking tend to argue that the SARB is credible and the public generally places more weight on the target (α_2 in Equation (1)) than historical inflation (Loewald, Steinbach and Rakgalakane 2025). For some economic decision makers, this focus on the target might capture explicit knowledge of the formal target, but for others it might simply capture a tendency to believe that inflation will revert to some long-term average that would be close to the target if the central bank is credible. This need not mean that the decision makers have knowledge about the target or the mechanics of monetary policy. Instead, if they just believe that there is a tendency to revert to some long-term trend that is at the level of the target, it would be *as though* they have knowledge of the target and trust the ability of the SARB to achieve it.[1] In this case, deviations from the target are viewed as temporary, as transitory movements in headline consumer price index do not feed through into inflation expectations.

1 A credible central bank would have a track record in line with its inflation target. If the firms come to trust that inflation itself is generally at this level, they do not need to have knowledge about the institutional structure to set their expectations in line with the target. The reality is that many decision makers do not have direct knowledge.

2.2 Inattention is where the risk lies in 2026

Foresto et al. (2026) point out that inflation expectations are very persistent, because decision makers are often inattentive to new information. In other words, it is not enough to ask which information (forward- or backward-looking) decision makers are using to update their expectations. We also need to ask to what extent they are updating their expectations with any information at all – to what extent are they paying attention to new information?

It is difficult to model expectations without a weight on lagged inflation expectations (β_1 in Equation (2)) that is far larger than that on the target (forward-looking) or historical inflation (backward-looking). It is important to critically consider the interpretation of this lagged inflation expectations term, as it is, in fact, typically doing most of the work.

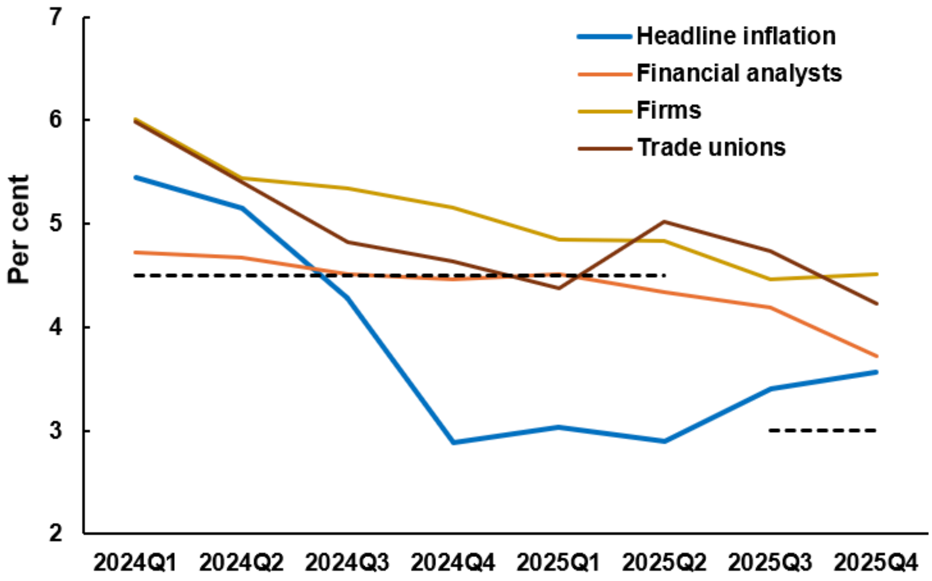
$$\pi_t^e = \beta_1 \pi_{t-1}^e + \beta_2 \pi_{t-1}^{CPI} + \beta_3 \pi_t^{target} + \varepsilon_t \qquad (2)$$[2]

It is natural to argue that the lagged inflation expectations are themselves a backward-looking term. In contrast, Foresto et al. (2026) argue that when survey respondents made their decisions in earlier periods, they also used the inflation target as one of their information inputs. Since the target is typically constant over time, it will cause the same convergence to the target as the forward-looking term does. This logic breaks down when the target is adjusted. If the decision makers who respond to the survey still have the outdated inflation target (4.5% in the case of South Africa) in their lagged expectations, this will keep their current expectations higher. Once they update these beliefs (to a 3% target), the lagged expectations will again have a component that we can treat *as though it is forward-looking*. It is therefore important that the economic decision makers in South Africa update their beliefs about the long-term trend of inflation as soon as possible.

Under the conditions when the target was formally lowered at the end of 2025, inattention was a greater risk than backward-looking expectations for the path to 3% inflation. The target has now officially been lowered to 3% (dashed line in Figure 1) and historical inflation was 3.5% year on year in November 2025. Lagged expectations of financial analysts, trade unions and firms were 4.2 (4.3), 4.7 (5.0) and 4.5 (4.8) in 2025Q3 (2025Q2), lying above the target and historical inflation in late 2025.

2 The first term on the right-hand side represents a lack of updating or inattention, measured as agents' expectations that were formed in the previous period for the current period.

Figure 1: Headline inflation (year on year) and lagged two-year-ahead expectations for financial analysts, firms and trade unions*



Note: * The black dotted line represents the inflation target.

Source: Stats SA and BER.

2.3 How quickly will firms follow the opinion leaders?

It is intuitive and well established in the literature that financial specialists tend to be better informed about inflation than trade unions and firms.[3] Price setters tend to follow the lead of financial experts (Carroll 2003; Reid 2015), so in this sense, financial analysts can be viewed as opinion leaders.[4] The trade unions component of the South African data receives far less attention because the sample is the smallest and there is some hesitance about how consistently the key decision makers within the unions are the ones who respond to the survey. There is, however, evidence that trade unions forecast a little more accurately than firms, suggesting that the information content is reasonable (Reid and Siklos 2021). With the high level of unionisation in South Africa,[5] trade unions remain important opinion leaders with respect to the price of labour.

Relative to the other two groups, the sample of firms is far larger and more heterogenous.[6] They are the least rational (Crowther-Ehlers 2019) and forecast with the least precision (Reid and Siklos 2021). They pose the most significant risk of sticky inflation expectations. Foresto et al. (2026) find that when the SARB announced in 2017 that it planned to shift the de facto target from 6% to 4.5%, the firms adjusted at a notably slower pace (7 quarters) than the financial analysts and trade unions (4 and 2 quarters, respectively). They point out, however, that conditions in 2025/26 are different to those in 2017. There is evidence (Foresto et al. 2026) that the level of attention to inflation is far higher in 2025/26 than it was in 2017. The

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3 There is a lot of South African literature that shows that on average financial analysts tend to be more rational and better at forecasting inflation than trade unions and firms. See Crowther-Ehlers (2019) for a good summary of this literature.

4 Smuts (2023) started using the term ‘opinion leaders’ to describe a role played by analysts.

5 The level of labour unionisation in South Africa (27.5% in 2023) is higher than the Organisation for Economic Co-operation and Development (OECD) average (14.7% in 2023) (see OECD 2025).

6 See Kershoff and Smit (2002) and Reid and Siklos (2021) for more detailed information about the composition of the BER inflation expectations surveys.

first BER survey results (2025Q4) following the 2025 announcement recorded sharp decreases of 11.1% for financial analysts and 10.6% for trade unions, and a more muted 1.1% increase for firms.

3. BER special question: knowledge about the lowering of the inflation target

To move beyond speculation about firms' knowledge regarding the formal lowering of the inflation target, a BER special question was added at the end of the BER's inflation expectations survey.[7] Respondents were asked two questions.

3.1 Question 1: Are firms aware of the new target?

> *Question 1: In your opinion, at what level of inflation (percentage change) does the South African Reserve Bank prefer to keep inflation (what is the preferred target of the South African Reserve Bank)?*

The decision was made to avoid providing ranges for respondents to select because it can cause priming (Coibion et al. 2020).[8] We also chose to refer to a preferred target to avoid any reference to a formal position or announcement, which might increase the likelihood that survey respondents search the internet to learn more before answering the question.[9]

The results, summarised in Table 1 and Figure 2, show that the non-response rate was low, and few respondents (4%) responded with a range rather than a point target. Of those that answered the question, 48% gave the correct answer of 3%. It is encouraging to see that almost half of all firm respondents believe the SARB is now targeting 3% only four days after the formalisation of the target,[10] given that firms tend to be the less attentive group.[11] Perhaps even more encouraging is that 38.4% of the remaining respondents selected a number greater than 3% but less than 4.5% – a figure lower than the midpoint of the old target band. Only a small share of respondents chose 4.5% or some number in the upper half of the old target range (4% and 2.4%, respectively).

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[7] The Economic Research Department of the SARB includes a single extra question each quarter in the inflation expectations survey. This 'special question' allows the SARB to collect survey data about topics as the need arises.

[8] For example, the old target was a range whereas the new one is a point target with a tolerance band. To avoid nudging the respondent to the kind of answer we wanted, we would need to offer a lot of different options. We would also have had to offer options that are very high because there are always some respondents that offer unrealistically high forecasts.

[9] In other words, the slightly less formal phrasing of the question was intentional.

[10] This is not a comment about when respondents became aware that the SARB prefers inflation to be at 3%, but rather an observation about their awareness at a point in time (four days after the official announcement).

[11] The BER survey was sent on 18 November 2025, shortly after the inflation target was formalised on 12 November 2025.

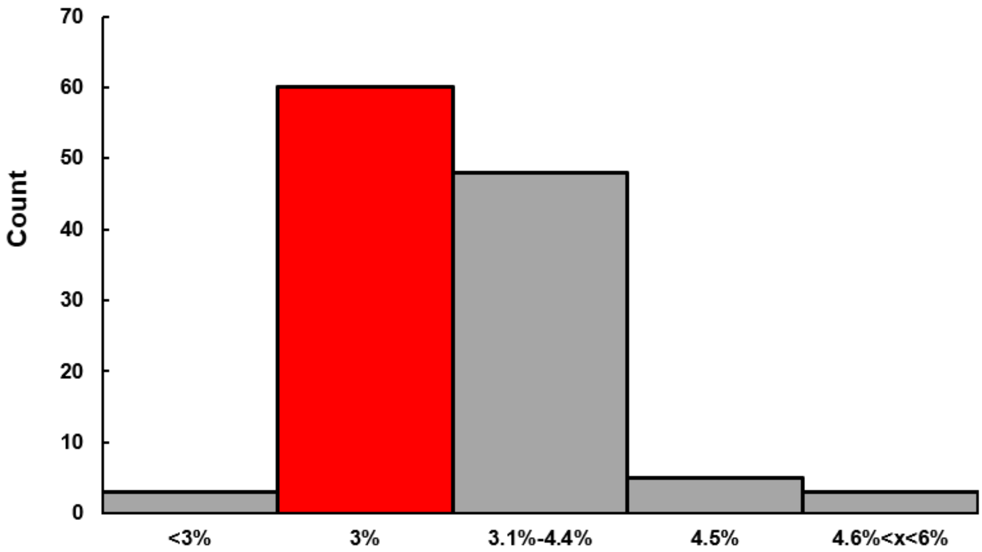
Table 1: Detailed results to question 1*

	Total	% (of those that answered the question; /125)
Total surveyed	133	
Total that answered	125	
No response	8	
Inflation range	5	
<3%	3	2.4%
3%	60	48%
3%<x<4.5%	48	38.4%
4.5%	5	4%
4.6%<x<6%	3	2.4%

Note: * Of the group that reports that the SARB prefers inflation to be 3<x<4.5%, 50% report that the SARB prefers 3.5%.

Source: Own calculation based on BER survey data.

Figure 2: Firms' view of the SARB's preferred target



Source: Own construction based on BER survey data.

The most surprising result was that 19.2% of the respondents selected 3.5%. Given that it is common to round numbers in surveys (Crowther-Ehlers 2019) and the most recent historical inflation figure (October 2025) was 3.6%, it is likely that this group was strongly influenced by recent experience of inflation.

3.2 Question 2: Open-ended question

Question 2: Please give a reason for your answer above.

Question 2 elicited text answers from respondents, allowing them to provide reasons for their answer to the first question. This open-ended question allowed us to avoid priming again and to explore unknown unknowns. They might have knowledge about the new target for reasons we have considered, but we might also learn new things about their understanding of the new target if we do not limit the answers they can give and do not nudge them in one of the directions we have already considered. A reasonable proportion of the survey respondents answered the question (66%).[12]

The sample is small, and the answers given tend to be brief, but they do offer some insight into the primary motivation behind survey respondents' answers to question 1. We noticed that the answers of respondents that chose 3% (group 1) tended to fall into one of two broad categories: (i) those that reported knowledge about the formalisation of the target through the announcement by the Minister of Finance, and (ii) those that gave an economic motivation for the choice of the SARB. Of the respondents that chose 3%, 61% relied on the official announcement by the Minister of Finance as the primary motivation for their choice, reflected in the fact that words about the announcement were dominant in a word cloud (Figure 3).[13] The smaller group that provided an economic motivation for their 3% answer used language that focused on the economy more broadly, without mentioning the inflation target directly. Similarly, the motivations of respondents that believe the target is 3%<x<4.5% (group 2) encompass a range of macroeconomic considerations (Figure 4).

Figure 3: Firms that believe the target is 3%

Source: Own construction using text from the BER special question (2025Q4).

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12 For group 1, 43 respondents answered question 2, and 32 respondents in group 2 gave a reason for their response to question 1.

13 While respondents appear to be highly attentive to information about the new target, we are unable to distinguish between the effects of the SARB's announcement in the July Monetary Policy Committee press release about its preferred target and the statement in the Medium Term Budget Policy Statement about the official lowering of the target. The timing of both announcements falls between the Q3 and Q4 surveys. It is unclear if respondents with knowledge of the target formalisation focused on language related to the announcement by the Minister of Finance due to recency bias or because it was the only source of information behind their decision.

Figure 4: Firms that believe the target is between 3 and 4.5%

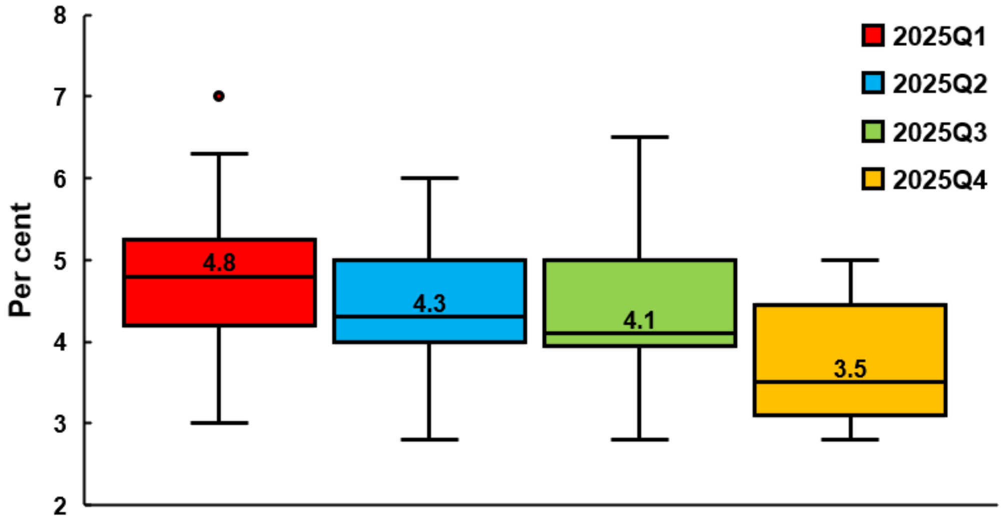
Source: Own construction using text from the BER special question (2025Q4).

3.3 Relationship between beliefs about the target and inflation expectations

Sticking to the respondent grouping analysed in section 3.2, we ask if group 1 reported inflation expectations that were systematically different from group 2. We are testing if knowledge of the new target affected inflation expectations. We conducted formal regression analysis (based on Equation (2)) to provide greater confidence in our conclusions about the information survey respondents relied on to form their beliefs about the target (see the annexure). The formal analysis supports the evidence from the unconditional relationships displayed in Figures 5 and 6.

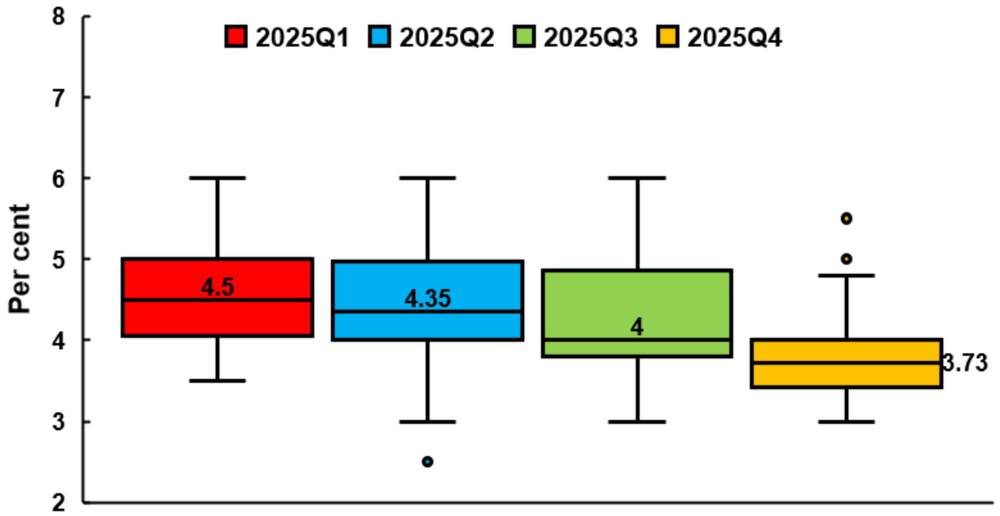
Representing the distributions of the two groups in Figures 5 and 6, we find that both groups have consistently revised their two-year-ahead expectations down throughout 2025. The revisions by group 1 were larger (1.3 percentage point fall in the median) than that of group 2 (0.77 percentage point drop in the median) over the full year. However, we cannot overinterpret quarter-to-quarter revisions, because the differences are potentially statistically indistinguishable (Figure 7).

Figure 5: Two-year-ahead expectations for group 1*[14]



Note: * The expectations reported are for firms that responded to the survey in each quarter of 2025.
Source: Own construction using text from the BER special question (2025Q4).

Figure 6: Two-year-ahead expectations for group 2*



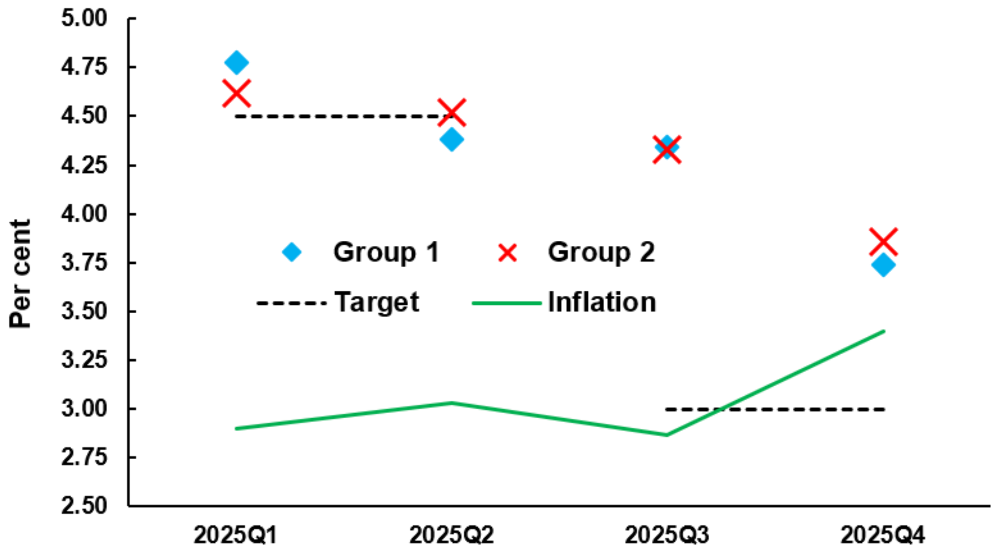
Note: * The expectations reported are for firms that responded to the survey in each quarter of 2025.
Source: Own construction using text from the BER special question (2025Q4).

It is worth noting that revisions of expectations could have been affected either by new information about the lower target or new information about the consumer price index, which was low at the time (Figure 7). Under conditions at the time the survey was conducted, if attention to the historical inflation figures was high, this would also cause downward revisions. These results suggest that, irrespective of the source of information, both sets of respondents are updating their beliefs either directly (target) or indirectly (track record). This is encouraging

[14] There were 31 respondents who answered the survey in each quarter of 2025 for group 1 and a further 26 in group 2.

for policymakers as it suggests that the risk from inattention (lack of updating) creating drag on the path to 3% is not present in the data at this point in time.

Figure 7: Mean two-year-ahead expectations for both groups*



Note: * Mean expectations are calculated using firms that responded in each quarter of 2025.
Source: Own construction using text from the BER special question (2025Q4).

4. Conclusion

The findings from the BER special question reveal that nearly half of the respondents are aware of the new 3% inflation target (48%). Despite firms historically being less informed than the other social groups (financial analysts and trade unions) (Crowther-Ehlers 2019), the recent high inflation experience and heightened public discourse about the formalisation of the target appear to have increased attention. Convergence of expectations to the new target could be driven by respondents who update their beliefs about the future path of inflation, given the lower target (forward-looking). Alternatively (or in addition), respondents could rely on historical inflation (backward-looking). Under conditions of high attention and low levels of inflation, using this second source will also result in large downward revisions.

The results indicate that firms directly informed about the target and those deducing a change from economic conditions have consistently revised their inflation expectations downward throughout 2025, suggesting that attention to new information, irrespective of the source, has supported the convergence of inflation expectations towards 3%. These results discount the risk that inattention by decision makers would present a drag in the convergence to 3%. The survey results support evidence from SARB research (Amaral, Foresto and Mosoma 2026) that a combination of communication about a major policy shift and the build-up of a track record plays a role in anchoring expectations at the new target.

Annexure

Table A1: Results for groups 1 and 2 based on Equation (2)

Variables	Group 1	Group 2
Lagged inflation expectations	0.54***	0.59***
Historical inflation	0.37	0.45**
Target	0.21*	0.05

Note: The asterisk symbolises significance at the 10% (*), 5% (**) and 1% (***) level. We rely on the real-time historical inflation measure from Foresto et al. (2026).

Source: Authors' own calculations based on BER data.

The regression results in Table A1 suggest that respondents in group 1 are revising more using the inflation target, placing a larger weight on beta 3, while group 2 places a significant weight on historical inflation (beta 2). The inflation expectations of both groups remain persistent (large beta 1), but the weight placed on past expectations (inattention) is lower than the estimates from Foresto et al. (2026) for the period 2009–2025. This supports the idea that attention is presently higher than the long-term trend.

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