Should the South African Reserve Bank do more?

By Ben Turok

In this issue we give prominence to a discussion about the role of the South African Reserve Bank (SARB). We all appreciate the sensitivities around this issue, especially as the capital markets and the rating agencies seem to be anxious that action may be taken that will endanger their assets.

Despite this sensitivity, the ANC continues to talk about taking ownership and various other interventions. Many others are commenting and the press is providing opportunities for a range of views. In short, the debate will not go away. The key issue is whether the Bank should play an interventionist role when the economy is performing poorly and what that role should be.

We are privileged to receive a submission by Kuben Naidoo, Deputy Governor of the SARB, setting out in the clearest terms the policy of the Bank. We have also been able to interview Duma Gqubule, an economist who has a regular column in *Business Day* where he has written extensively on this topic. So in this issue we include a serious discussion of critical issues in the economy without the sniping and political posturing that has featured in the public arena.

Naidoo argues that monetary policy is largely defensive in nature. It can provide a reasonably stable environment in which growth can occur. As the Constitution requires, “it must protect the value of the currency in the interest of balanced and sustainable economic growth”. However, he argues that monetary policy cannot contribute directly to growth and development on its own.

That task belongs primarily to government departments and other entities that manage microeconomic policy. And it is here that our problems lie. Naidoo is quite explicit about the poor performance of the economy. It is experiencing the longest economic downturn since records began in the 1960s. The reasons are twofold; incomplete structural change from apartheid and poor governance. Neither of these fall principally within the domain of the Reserve Bank, which has kept inflation down and maintained a reasonably stable and competitive currency. Lack of progress has not been the result of restrictive monetary policy. Even if interest rates were cut to zero there is no evidence that consequent growth would be sustainable.

The real problem lies in the structure of the economy where policy fails to create jobs or raise skill levels. It is about raising productivity, investment and employment by a capable state, and this is beyond the remit of the Bank.

Gqubule has a different view. He argues that monetary policy has been too hawkish and the Reserve Bank has not been responding to the serious economic conditions in the country. The Bank has been excessively focused on inflation targeting, thereby neglecting the real economy. Furthermore, there is a mistaken view that inflation is due to excessive demand when the real problem is weaknesses in supply, as is evidenced by the fact that our factories are working at 80 percent of capacity. So we need to stimulate demand to meet supply and bring them into balance. In any case, if the economy were to take off some inflationary effect is acceptable, as has been the experience in several Asian countries such as South Korea.

He argues that the Reserve Bank has a role in providing that stimulus to the economy and that it should do this in cooperation with both the Treasury and the private sector. He insists that there needs to be close coordination between the fiscal policy role of Treasury and monetary policy of the Bank. Furthermore, the Bank should deliberately target growth and not just control prices.

The Reserve Bank should also provide additional funding through development windows with the private banks and other agencies. This could fund specific projects such as housing, infrastructure, etc at lower rates. China uses a lot of such development windows as do other countries. The point is that the SARB could use several instruments to stimulate the economy.

New Agenda believes that there may be useful lessons from practices in other developing countries with problems similar to ours. Discussion should continue as economies face serious problems everywhere.

A panel at the 2019 Treasury Winter School “broadly agreed that accommodative monetary policy could support stronger growth. However, without complimentary structural reforms and development policy, this would be insufficient to address the deep-rooted growth and employment challenges facing the country.” NA