

Pravin clarified the Reserve Bank's mandate years ago



The role and purpose of the South African Reserve Bank (SARB) was the subject of a letter written in 2010 by former finance minister Pravin Gordhan. Below is an extract from that letter.

The recession, and its negative impact on the lives of ordinary people, has taught us many lessons about the importance of pursuing policies that promote sustainable and balanced growth. It has also heightened the urgency for South Africa to chart a new growth path that allows the economy to achieve faster growth with more job growth.

I thought it important to reiterate the constitutional mandate of the South African Reserve Bank and indicate how the lessons of the recession and the reality of the aftermath should be taken into account.

Balanced and sustainable growth requires the composition of growth to be such that it does not give rise to an unsustainable balance of payments position (either surplus or deficit) or unsustainable debt burdens for the private and public sectors.

In exercising this mandate, the Bank should continue to pursue a target of 3 to 6 percent for headline CPI inflation. Monetary policy should be conducted in a consistent and transparent manner within a flexible inflation targeting framework. Monetary policy acts with a lag, and for this reason should continue to focus on a medium term time horizon.

Notwithstanding the imperative to anchor inflation expectations, I wish to confirm that the existing framework allows for temporary deviations of inflation from the target in the event of shocks over which monetary policy has no control. While it would be important to bring inflation back to within the target range, the time frame for the adjustment should attempt to avoid unnecessary instability in output and interest rates. In such cases, the Bank is required to explain clearly to the public the policy time horizon. The policy response should have due regard to the factors that might impact on the attainment of balanced and sustainable growth. These factors include the source of the inflation shock, the size of the gap between actual and potential economic growth; credit extension and asset bubbles, employment and other labour market developments; and the stability and competitiveness of the exchange rate.

As government, we are fully cognizant of the fact that better alignment is needed between macroeconomic policies on the one hand, and microeconomic reforms to remove constraints to growth on the other. I can assure you the National

Treasury will endeavour to manage fiscal policy in a manner that supports these aims.

Credible monetary policy is essential for South Africa to achieve a new growth path and more job creation. Improved communication with the public about the role of monetary policy in supporting growth will increase the effectiveness of the Bank in achieving its mandate. Ongoing assessment, discussion and commentary about our monetary policy by analysts, interested members of the public, interest groups, and the broader research community, is constructive for the emergence of a social consensus in this area over the long term.

The crisis has also demonstrated the importance of a stable and well-regulated financial sector. An important lesson from the crisis has been the need for central banks to have a deeper understanding of the banking sector and financial stability. This requires greater focus on both macro- and microprudential analysis, regulation and supervision. I also wish to commend the Bank for the vital role played in successfully supervising the banking sector over these difficult times, and reaffirm the role that the Bank plays in overseeing and maintaining financial stability.

In these challenging times there is a great need for our responses to be agile and dynamic. This requires vigilance, ability and strong leadership. I trust that in working together, we will be able to move closer to our goal of raising employment and living standards of all South Africans. **NA**

Dear President Ramaphosa,

Re: Need for public debate on macroeconomic policy

We have read with great interest and appreciation the broad comments by Deputy Minister of Finance, Dr David Masedo, in an interview with *Business Day* on Thursday 4 July. While some may feel that parts of his comments are controversial such as those on monetary policy, we nevertheless welcome the frank views on politically sensitive issues indicating that there is still scope for discussing difficult choices without being labeled as dogmatists. It was refreshing to have a contribution that got to the substance of the policy matters at hand from someone who clearly possesses a serious intellect. We should continue in this vein, insisting on separating the substantive policy debate from politicking and alarmism.

We do not wish to get entangled in the debate on the SA Reserve Bank except to say that a recognition of the independence of the bank does not preclude proper consultation with the Treasury. Fiscal and monetary policy must work in tandem.

We particularly welcome Dr Masedo's comments on the need for a developmental state. We are reminded daily that South Africa is a developing country with huge numbers living in desperate conditions. These conditions are not being improved significantly by welfare payments and it may be that over the years we have lost some focus on development in favour of welfare spending. While welfare is necessary, we need a primary focus on development spending. It is abundantly clear that poverty and unemployment can only be overcome by deliberate interventions by the state to draw people into economic activity. Investment itself, however, will not lead to redistribution. We have to develop redistributive fiscal mechanisms which ensure that not only the wealthy benefit from such investment and here social policy can play a role.

We also agree that a priority is to encourage investment to boost demand for employment to grow. This applies to both the state and the private sector. The primacy of investment is now common cause by all commentators on the economy. The challenge however, is to identify by what means this is to be achieved and where such investment should be directed so that it serves the majority of our people. There is ample room for debate on this now.

We need to consider providing meaningful stimulus to grow the economy using all available instruments at hand to do so in the spirit of the developmental state. This can be done responsibly and within the bounds of our fiscal position along with other market realities and in this effort, monetary policy too has a role as Dr Masedo has alluded to, albeit not in isolation from other policy interventions and structural reforms.

There are some prospects that government, business, labour and civil society can find common ground here and we, the undersigned, offer our support.

Yours,



Prof Ben Turok
The undersigned:

Signatories

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