MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MR TITO MBOWENI AT THE SARB'S CENTENARY CELEBRATION

30 JUNE 2021

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Good afternoon.

Thank you very much to the participation of the
International Monetary Fund (IMF) MD, Kristalina Georgieva
General Manager of the Bank for International Settlements (BIS), Agustín Carstens
Retired Governors of the South African Reserve Bank (SARB), Dr Chris Stals and Ms Gill Marcus
African Central Bank Governors and
The Banking Association.

At the outset, let me offer my congratulations to Governor Lesetja Kganyago, the management and staff of the South African Reserve Bank on the one hundredth anniversary of our Central Bank. As the eighth Governor of the Bank, it is a great honour for me to participate in this event as its steward for 10 of its 100-year lifespan.

One cannot help but feel like a war veteran of the South African Reserve Bank, considering the journey we have travelled. It was one of the most significant moments in my lifetime when Former President Thabo Mbeki announced my appointment as an Advisor to the Governor of the South African Reserve Bank on July 4 1998 and of course that was a diplomatic way of saying that I was the Governor Designate. It was in many ways a momentous occasion. Africa was indeed on a path of transformation and on a new path in South Africa where we would integrate the old and the new and still move forward as one country.

Let me briefly reflect on that time. I assumed duty as the eighth Governor in August 1999, a title I still hold on to firmly. The task at hand was to repair the South African economy, gain investor confidence and enhance the functions and policy decisions of the Bank. As the work of the South African Reserve Bank is much easier with public support, it was necessary to improve the general public understanding of the role and functions of the central bank.

On the occasion of the retirement of my predecessor, Dr Chris Stals, it was a much younger, starry-eyed Governor Number Eight who made the point that some people thought, as a former Cabinet Minister, my appointment heralded the start of a cheap money era in the Bank. History shows that those people were wrong.

What I said then, in August 1999, continues to be the guiding principle of the South African Reserve Bank: “The role of the Bank is to create a climate of financial stability in which sustainable economic growth and wealth creation can be achieved; an environment in which an economic boom will not be followed by an inevitable bust. We are not Icarus; there is no need to fear that we will fly too close to the sun.”
I will not comment on Icarus and the Ministry of Finance at this point.

During my time as Governor, the importance of containing inflation took centre stage in the strategy to improve communication. It was necessary to convey the message that inflation is not a policy tool, but an aberration that has a negative impact on the country, with a particularly heavy burden on the poor. Important changes in respect of media engagement and communication in general to achieve the goal of a better-informed public.
Several milestones during my time included;

- Establishment of the Monetary Policy Committee (MPC), with responsibility for setting monetary policy. It gave certainty about the decision-making structure and the cycle of monetary policy decisions.

- Some analysts link the establishment of the MPC with the adoption of an inflation target, but these were two separate processes. An MPC is not a precondition for inflation targeting, while inflation targeting is also not a precondition for an MPC.
- A further important step was the introduction of a media briefing after each MPC. This enhanced public dissemination of information and made a further contribution to improved communication.

The South African Reserve Bank used the signalling system for policy rate setting, with banks submitting tenders for liquidity to the central bank. Much has been written on the advantages and shortcomings of the signalling and tendering system and its comparison with a system of interest rate fixing. The signalling system was replaced by a system of repurchase (repo) rate setting by the South African Reserve Bank, perhaps in a somewhat roundabout way.

The central bank had to lead the South African banking system and the national payment system through the uncertain period in the run-up to the millennium change-over (Y2K) period. Proper nation-wide preparation ensured that South Africa sailed through this period without any hick-ups. After the Y2K changeover it was obvious that a fixed repo system delivers better results than the signalling and tendering system.

Inflation targeting was adopted shortly after the millennium change-over. The inflation target serves as a clear anchor for monetary policy, thus focusing attention on the ultimate objective of the South African Reserve Bank. With a clear policy focus, the general understanding of the monetary policy framework improved, thus linking the understanding of interest rate adjustments and the focus on the rate of inflation.

The introduction of inflation targeting as a monetary policy framework replaced the previous eclectic policy framework. The goal of exchange rate stability was one of the elements of the eclectic policy framework. Exchange rate management with the objective of exchange rate stability resulted in a large NOFP (*NOFP* is an acronym for Net Oversold Foreign-exchange Position, Net Open Forward Position, or Net Open

Foreign-currency Position, depending on who speaks on the matter). Expunging this position was a major milestone.

The international standing of the South African Reserve Bank improved during this period. International institutions and agencies enhanced their engagement with the Central Bank, which earned its rightful place in the international arena, for instance at the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

Staff transformation was an important focus area at the central bank during my tenure as Governor. Transformation had to be managed in a very responsible manner and it was imperative to ensure that expertise was retained while ushering in staff transformation. The South African Reserve Bank serves as a case study in how to usher in successful transformation with minimum disruption.

Towards the end of my tenure, the global financial crisis struck. The global financial crisis would have profound implications for the Reserve Bank as well as central banks all around the world. The crisis shook the very foundations of central banks' approach to monetary policy and its possible contribution to the build-up of vulnerabilities. Central banks begun to expand on their understanding of how benign periods of inflation, and low rates can obscure risks in the financial system and that those (financial sector) risks had massive implications for the broader economy.

These lessons had been partially learnt by emerging economies through the painful experiences in Asia and Latin America. That global crisis, whose epicentre was in western economies, led to the loss of more than a million jobs domestically. We once again were reminded that we were part of a highly interconnected and interdependent system which brought benefits and responsibilities.

In February 2011, driven by our experiences from the global financial crisis, as well as lessons learnt domestically, government signalled the process of implementing significant and far-reaching changes to the country's financial regulatory structure.

In this respect, Cabinet approved the publication of a policy paper entitled *"A Safer financial sector to serve South Africa better"*. The policy paper proposed the establishment of two dedicated regulators (the Prudential Authority and the Financial Sector Conduct Authority) (the Twin Peaks) to ensure a more intensive, intrusive and effective regulation of prudential and market conduct aspects of the financial sector.

The Twin Peaks process culminated in the enactment of the Financial Sector Regulation Act of 2017, which piece of legislation expanded the mandate the mandate of the Reserve Bank to include protecting and maintaining financial stability. What I learnt from the global financial crisis turned out to be very useful for when I returned to the public service in 2018 as Minister. That is: policy requires a flexibility of thought, an acceptance of new ways and paradigms but this should be in terms of evidence.

As Minister of Finance, I am now seized with supporting the South African Reserve Bank to execute its broader mandate. Financial stability may be the mandate of the Central Bank, but it is the collective responsibility of many authorities like the Financial Sector Conduct Authority, which have a duty to support the Reserve Bank in maintaining financial stability. At the National Treasury, our support comes in the way of developing a legal structure within which the regulatory authorities and the Reserve Bank can execute their mandate.

Let me conclude by thanking Governor Kganyago and his exceptional team at the South African Reserve Bank for steering the ship with such excellence and proficiency. It cannot go unnoticed that we have some of the most talented and dynamic South Africans doing service to the country at the Central Bank. I must also acknowledge those who worked with me in my time as Governor to build a credible and world-renowned Central Bank. On behalf of the government and people of the Republic of South Africa, I wish Governor Kganyago and the team well in the journey ahead. We look forward to working together to strive for inclusive and sustainable economic growth in the Republic.

I thank you.