

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1568

DATE OF PUBLICATION: 9 OCTOBER 2009

Mr M Swart (DA) to ask the Minister of Finance:

Whether the Reserve Bank will retain (a) its independence and (b) the policy of inflation targeting as a tool to control inflation; if not, what is the position in this regard; if so, what are the relevant details?

NW1974E

REPLY:

- (a) In Section 224, the Constitution enshrines the operational independence of the Reserve Bank in pursuing its mandate. This means that the Reserve Bank is responsible for the operational implementation of monetary policy. However, the Reserve Bank is accountable to Parliament through the tabling of its annual statements and an annual report. Public disclosure of information about monetary policy via monetary policy statements and the bi-annual Monetary Policy Forum also enhances the Reserve Banks' transparency and credibility. Co-ordination of monetary and fiscal policy will continue through regular consultation between the National Treasury and the SARB. Such deliberations facilitate discussions of current economic conditions and the effectiveness of current policies.
- (b) Yes. Inflation targeting remains the framework for monetary policy in South Africa. Low and stable inflation is an important determinant of the economy's competitiveness and it also helps to preserve the purchasing power of workers. Inflation targeting provides a clear nominal anchor for monetary policy and requires the Reserve Bank to be transparent about its goals and actions. These issues are extremely important for policy credibility and for managing inflation expectations effectively. The past year has demonstrated that the Monetary Policy Committee (MPC) implements its inflation targeting mandate in a *flexible* and forward-looking manner that considers a range of

factors when deciding on the monetary policy stance, including international economic developments, the output gap, domestic imbalances, inflation expectations, growth in unit labour costs, and movements in exchange rates and commodity prices. All of these factors are crucial drivers of the Bank's inflation forecast. As a result, interest rates have been lowered by 500 basis points since December 2008 despite the fact that the SARB only expects CPI inflation to return to the target range in the second quarter of 2010.

As with all areas of public policy, debate on the merits and shortcomings of different policies is important to ensure that higher sustainable rates of growth and employment are supported. I welcome public debate on this issue, and have agreed with the Governor of the Reserve Bank that monetary policy must support our aim of balanced and sustainable growth. Lessons can be learned from crisis situations that might result in policies being reviewed. For example, the global financial crisis has highlighted areas where monetary and regulatory policies can be strengthened to avoid the build-up of harmful asset price bubbles that cause volatility in output and employment. These issues are currently the focus of rigorous debate and analysis within the Group of Twenty (G-20), of which South Africa is a member.