

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER:3393 [NW4071E]

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Dr D T George (DA) to ask the Minister of Finance:

- (1) Whether, with regard to the agency functions that had been delegated to the SA Reserve Bank, (a) formal agreements have been signed and (b) performance standards have been outlined; if not, why not, in each case; if so, what are the relevant details in each case;
- (2) whether any changes to the delegated functions have been agreed to in the past 24 months; if not, why not; if so, what are the relevant details?

NW4073E

REPLY:

- (1) The South African Reserve Bank (SARB) accounts for its performance to Parliament in terms of the Constitution of the country, and neither accounts for its performance to any Minister, nor the national executive.

Further, it is generally not easy or possible to always strictly differentiate between core and agency functions performed by the SARB, given the complex nature of the relationship between central banks and treasuries. Further, some non-core or agency-type functions are also integral to, or facilitate core functions like the operation of monetary policy. It is, therefore, not always feasible to try and reduce agency-type functions performed by the SARB to one or more formal agreements. Instead, regular consultations between the Governor and Minister of Finance, or between our officials, take place on overlapping areas of responsibility, while respecting the constitutionally-entrenched operational independence of the SARB.

This approach is in line with international practices in most countries, where a variety of mechanism (letters, written agreements, MoUs) are used depending on the objective. Hence for financial stability and inflation targeting objectives, letters from the Minister

Finance to the Governor, following bilateral consultations, have been used to clarify the SARB's mandate, taking into account global and domestic trends. A recent example is my open letter on 2010 Budget Day to Governor Marcus which reiterated and reaffirmed the SARB's Constitutional mandate to protect the value of the currency in the interest of balanced and sustainable economic growth, and its role in overseeing financial stability.

Where MoUs have been used, they have focused on the need to enhance information-sharing and co-ordination between the SARB and National Treasury. Hence an existing MoU establishes three standing committees between the SARB and National Treasury: Macroeconomic Research, Financial Regulatory Issues and Banking, and Financial Markets Issues.

Formal agreements are also in place covering the role of the SARB in managing Government's cash balances through the Corporation for Public Deposits (CPD). These agreements and indemnities have been signed between the Provinces/National Treasury/CPD and SARB, as well as between the National Treasury/CPD and SARB. These agreements are inclusive of the entire scope of standard legal requirements and performance standards, of which the SARB's responsibilities are mainly:

- to provide an electronic link between the Bank's Direct Banking System (DBS) and the government's countrywide routing inter-network.
- for the maintenance of the router and all components of the SARB's internal networks that allow access to the mainframe.

Further, Regulation 22E(1) of the Exchange Control Regulations, 1961, enables the Minister of Finance to delegate to any persons, any power or function conferred upon the Treasury by any provisions of these Regulations. In this regard, formal delegation letters to the SARB, to conduct the administration of exchange controls through its Financial Surveillance Department, have been sent in the past. The policy on exchange controls remains with the Ministry of Finance. Formal and regular meetings and consultations take place between the National Treasury and the SARB on both policy and administrative issues on exchange controls.

I am not aware of any performance issues with the abovementioned two delegated functions.

- (2) As noted above, the letter from the Minister to the Governor on 2010 Budget Day made the financial stability mandate of the SARB explicit and clarified aspects of the inflation targeting framework. The letter is available on the National Treasury website.