NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 499 [NO3742E]

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★499. Mr X S Qayiso (ANC) to ask the Minister of Finance:

Whether, in light of the economy of the Republic that has not been producing the necessary jobs and opportunities to transform our society, the National Treasury's fiscal austerity measures which has impacted on the ability to provide services to the people, and the restrictive monetary policy which is having a detrimental impact on ordinary South Africans and their ability to invest in productive sectors, he will consider consultating with the SA Reserve Bank in accordance with section 224(2) of the Constitution of the Republic, 1996, on amending legislation that will expand its mandate in order for the Bank to play a more developmental role by including employment creation and economic growth as one of its targets; if not, what is the position in this regard; if so, what are the relevant details of the consultations?

NO3742E

REPLY

There are no intentions currently to review the mandate of the South Africa Reserve Bank to include employment creation and economic growth more explicitly as targets.

It is true that the South African economy has not grown and produced the necessary jobs as required by the National Development Plan. However, it is incorrect to characterise this problem as the consequence of fiscal austerity and restrictive monetary policy. South Africa faces a structural growth and unemployment problem, both of which cannot be addressed by a more accommodative monetary policy stance. It is for this reason that the National Treasury, as part of the government's effort to improve our growth and employment outcomes, advocates for the implementation of structural reforms that will put the economy on a higher growth trajectory and support employment creation.

Is fiscal policy austere?

The current fiscal consolidation is growth-enhancing and is not austere. It lowers debt service costs that would otherwise erode resources for the social wage. Government spending has been growing by an annual average of 8.6 per cent per year for over a decade. In addition, the fiscal deficit grew to record levels in 2020/21. Since then, the government has added over R50 billion per year to government spending. The fiscal consolidation measures that the government has embarked upon, are designed to reduce the growth in the government's debt – which has reached over R4.3 trillion in the current year – and narrow the fiscal deficit in the interest of macroeconomic stability which supports sustained growth.

In addition to this, the economy's growth potential needs to be raised to meaningfully address unemployment. To this end, structural reforms are being pursued by the government to raise growth without adversely affecting the fiscal framework while creating more fiscal space in the future.

Is monetary policy restrictive?

Monetary policy is not restrictive and can be considered accommodative in light of the current negative real repo rate. Policy rates have been normalising both globally and domestically since the exceptional accommodative stance in the face of the COVID-19 shock. At the current nominal rate of 5.5%, the repo rate has not yet reached pre-COVID-19 levels even as South Africa experiences significantly higher inflation. Headline consumer price inflation has been increasing rapidly, recently reaching 7.8% in July 2022 –its highest level in 13 years. In response to these developments, the SARB has increased the repo rate to contain inflation, aiming to reduce it to within the inflation target band over the medium term.

Would a change in the mandate of the SARB address the concerns highlighted?

Price stability remains an important precondition for sustainable long-term economic growth. Sustained economic growth is a necessary condition for employment creation. Higher inflation harms economic growth and stifles employment creation. Moreover, higher inflation erodes the purchasing power and living standards of everyone, especially the poor and unemployed. It is resultantly in the interest of all South Africans, particularly the most vulnerable, to maintain price stability and address inflation.