NATIONAL ASSEMBLY

QUESTIONS FOR WRITTEN REPLY

QUESTION NUMBER: 851 [NW1094E]

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851. Mr C G Niehaus (EFF) to ask the Minister of Finance:

(1) Whether he has found that the Republic can do away with a regime of high interest rates; if not, (a) what is the position in this regard and (b) who are the officials that he has appointed as his advisers on the interest rates regime; if so, what are the reasons that he is not implementing such a regime;

(2) whether he is ready for evidence-based reform of the current system that gives rise to high interest rates; if not, why not; if so, what are the relevant details? NW1094E

REPLY:

1) South Africa does not have a regime of high interest rates. The South African Reserve Bank (SARB) has the constitutional responsibility to maintain low and stable inflation consistent with the inflation target. This mandate is fulfilled through the inflation targeting framework under which the SARB uses the benchmark interest rate to stabilise prices at the 4.5 per cent midpoint target, which is the nominal anchor for general prices in the economy. Tolerating high inflation does not reduce interest rates. Lender's factor higher inflation and inflation risk premia, which increases borrowing costs in the medium to long-run even if the policy rate remains low. The high cost of high inflation in 2022 led to many protests globally.

   The inflation targeting framework is the most appropriate framework to achieve price stability as such there are no plans to abandon this policy framework. South Africa achieved price stability with lower policy rate increases compared to other emerging and advanced markets during the recent inflationary surge. Furthermore, Economic Policy division at the National Treasury advises the finance minister on economic policy matters including those related to monetary policy. The division conducts regular reviews and draws on the local and international literature and experience. All of South Africa's trading partners use the same framework to control inflation.

2) The inflation targeting framework has proven to be the most effective and practical framework for achieving price stability which is why it has been adopted by many advanced and emerging market economies including Chile, India, Brazil, Australia and the Eurozone. The framework and the choice of target is based on continuous analysis, reviews and global experience. Part of the framework’s success is its core pillar of publicly announcing and committing to a nominal target as a monetary policy objective to help anchor all prices of goods and services at that target, in our case 4.5 per cent, thereby keeping prices low and stable. Furthermore, interest rate decisions by the SARB’s monetary policy committee are informed by data.