

Monetary policy and the new regime

With the appointment of trade unionist Ebrahim Patel as minister of economic development, and comments from the new finance minister Pravin Gordhan stating that inflation targeting will be debated, the media has been quick to pronounce a leftward shift in economic policy. Similar fears were espoused back in 1998, when Tito Mboweni was appointed Reserve Bank governor from his cabinet position as labour minister. There was widespread speculation that his appointment heralded the start of a cheap money era, but his commitment to inflation targeting saw those fears quickly dispelled. The fear is that inflation targeting may now fall by the wayside, with a greater focus on growth and unemployment.

Containing inflation is an important part of ensuring the economic well being of the country's citizens. Their well being is not dependent on how much money they have, but rather how much goods and services they can acquire with that money. The price of those goods and services is therefore a key factor. Many emerging market countries have shown that you cannot inflate your way to prosperity, while developed countries have recently shown us that you cannot borrow your way to prosperity either. Government's task is to create an environment conducive to long term economic growth. The key to this is a stable macroeconomic environment, which has to include price stability.

Tito Mboweni has often emphasised the fact that monetary policy is a blunt instrument, which cannot have the sole responsibility for containing inflation. With inflation remaining at an elevated level even as rates were hiked significantly, the need for government to contribute to containing inflation has been emphasised. It is important that the aim of price stability is entrenched within government structures, where ministries such as Agriculture, Health, Economic Development, Communications and Transport have an important part to play in increasing productivity and competition within their respective spheres.

The Reserve Bank under Tito Mboweni has been right to place a high degree of emphasis on price stability, as they looked to bring down inflation from its historically high levels. This focus has led him to be vilified by the ANC's alliance partners, who have openly called for him to be replaced. However, the Reserve Bank has always adopted a broader approach behind the scenes, with Tito Mboweni stating their overall aim to "contain inflation in pursuit of the broader economic objectives of sustainable high economic growth and employment creation." With the problem of persistently high inflation behind us, there is now room to adopt a broader range of explicit targets more suited to the economic environment. These broader targets would enable the reserve bank to more effectively communicate their analysis and decisions regarding monetary policy. While economic growth

and job creation are factors likely to increase in importance going forward, the recent crisis has highlighted the need to also pay close attention to credit growth when setting interest rates. South Africa can learn from the mistakes of the US Fed, which kept rates low for an extended period even as consumer credit was skyrocketing. A broader range of targets for the Reserve Bank, encompassing inflation, growth, unemployment and credit growth would be a welcome change, and would not necessarily have a negative effect on sentiment towards South Africa.

While left wing organisations such as COSATU and the SACP have questioned the implementation of monetary policy, they cannot deny that a low inflation environment is positive for the citizens of the country, especially the lower income households which constitute their support base. Despite the fact that the only explicit target for the Reserve Bank has been the inflation target, they have always taken into account a range of factors when setting monetary policy. Incorporating these broader targets more explicitly would bring clarity to the process, and counter the claims that the policies of the Reserve Bank are at odds with the needs of the country.

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