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**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 2911 [**NW3225E**]**

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**2911. Mr N L S Kwankwa (UDM) to ask the Minister of Finance:**

Whether, pursuant to his statement that any recommendation about the possibility of extending or broadening the mandate of the SA Reserve Bank (SARB) should be brought to his attention in line with his mandate as the Minister of Finance and in light of the need to ensure better alignment of monetary and fiscal policy in the country as a strategy to unlock job-creating growth, the Government has considered the (a) need to broaden the mandate of the SARB to ensure that it also has a socio-economic development objective and (b) possibility of introducing a 1 percentage point tolerance interval over and above the upper band of the 3-6% inflation target in order to mitigate against central bank overreaction in times of sluggish growth or when the economy is in recession?

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**REPLY:**

1. No, there is no need to review the Constitution on the mandate of the SARB.

Sections 223-225 of the Constitution outline the primary object of the SARB, which is “to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic". Section 224 (2) requires regular consultation between the Bank and the Minister of Finance.

The current Constitution and legislation governing the SARB is therefore very broad, and does not constrain Government from adopting (and legislating) appropriate policies to facilitate inclusive growth and job-creation, achieve the objectives of the NDP, and reduce inequality and deliver basic services to all those residing in SA.

Whilst the debate on the role of the central bank is vibrant, both in South Africa and other countries, it is important that those calling for reviews provide the necessary research and motivation for proposing such reviews, including their understanding of the role of both fiscal and monetary policy, and what specific problems they are seeking to solve. The SARB’s monetary policy mandate cannot be separated from Government’s fiscal policy mandate and performance. Any attempt to amend these constitutional provisions without due regard for this relationship will generate unnecessary uncertainty, and impact negatively on growth and jobs.

1. The existing monetary policy framework, through flexible inflation targeting, allows for temporary deviations of inflation from the target in the event of shocks over which monetary policy has no impact. A specific tolerance level around the target would therefore not be necessary. An explicit tolerance indicator may potentially risk de-anchoring inflation expectations, and thereby constrain the SARB’s ability to respond flexibly to an inflation shock.