SOUTH AFRICAN RESERVE BANK

26 November 2021

Media statement: release of a consultation paper on reforming South Africa's monetary policy implementation framework

Over the past few years, the SARB has worked on reviewing its framework for implementing monetary policy. The onset of the COVID-19 pandemic has highlighted the urgency of reform, prompting the SARB to accelerate its efforts − a process which has culminated in the reform proposal contained in the paper published today.

For clarity, a monetary policy implementation framework (MPIF) should not be confused with a monetary policy framework (MPF). The MPF sets the objectives for monetary policy, which in the South African case takes the form of a 3-6% inflation target. The responsibility for achieving this objective lies with the Monetary Policy Committee (MPC) convened by the Governor. To deliver on the target, the MPC adjusts the repurchase rate (repo rate), as deemed necessary. The consultation paper published today entails no change to any part of the MPF.

A monetary policy *implementation* framework (MPIF) provides the practical mechanisms for implementing the decisions of the MPC. The MPIF takes the MPC's decisions as given and seeks to operationalise them as efficiently as possible. In the South African case, the MPIF is the responsibility of the Financial Markets Department under the supervision of a designated Deputy Governor.

Since 1998, monetary policy in South Africa has been implemented using a classical cash reserve or shortage system. Under this framework, the SARB ensures that there are not enough bank reserves circulating in the market for banks to meet their reserve requirements. This obliges banks to source reserves from the SARB, which the SARB makes available at the repo rate. The ability to charge the repo rate on these loans is the mechanism which gives effect to the interest rate decisions of the Monetary Policy Committee.

Based on a review of global practices, the SARB is now proposing to replace the shortage system with a tiered floor. In this framework, rather than creating a shortage, the SARB would allow an excess supply of bank reserves and then manage this additional liquidity by paying interest on reserves, at the repo rate. Banks would face limits ('tiers') on the amounts they could deposit at the SARB, which would prevent hoarding of reserves and safeguard the SARB's balance sheet. The details of this framework are provided in the paper.

The SARB welcomes inputs on the ideas outlined in this consultation paper. Media questions should be directed to Samantha Springfield and David Fowkes via Thoraya.Pandy@resbank.co.za.

Issued by SARB Media Relations

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