

## Statement after the first Monetary Policy Forum

20 March 2000

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank

The Monetary Policy Forum (MPF) met for the first time today, 20 March 2000, in the South African Reserve Bank Head Office in Pretoria. The MPF is a mechanism for interaction and communication between the Bank and outside stakeholders who take interest in the economic and financial developments locally and internationally. In his opening remarks, Mr Tito Mboweni, Governor of the South African Reserve Bank, outlined the objectives of the Forum as follows:

- To enhance transparency in the decision-making process around monetary policy
- To open an avenue for constant discussions on monetary policy and general economic developments here and abroad
- To ensure that the views of organised entities are taken into account in the determination of monetary policy
- To ensure a healthy, ongoing debate and mutual exchange of views on macro-economic policy.

In attendance were various organised entities, including business, the trade union movement, community organisations, private sector economic analysts, the chairpersons of the Finance Committee in the National Council of Provinces and the National Assembly. Also present were Reserve Bank deputy governors, senior managers and other staff members.

A wide-ranging discussion was held on recent monetary policy developments as well as general economic developments. Overall, the local economy is expected to continue growing. The Forum made the following observations:

- South Africa is experiencing recovery both in the agricultural and non-agricultural sectors of the economy
- The past three quarters were characterised by a decline in interest rates. This is one of the developments that spurred economic recovery
- The gold and foreign exchange reserves grew substantially in the past few quarters
- The net open foreign currency position has been reduced significantly in the past year and now stands at 11.1 billion American dollars
- The fiscal discipline of the general government has resulted in a significantly lower budget deficit as a percentage of the gross domestic product
- Wages and salaries per worker exceeded the inflation rate, but the impact was neutralised somewhat by high productivity
- The high recorded surplus on the financial account of the balance of payments more than offset the negative effects of a deficit on the current account.

The Forum observed that the increase in the deficit on the current account of the balance of payments during the last six months of 1999 was primarily attributable to the country's deteriorating terms of trade with the rest of the world.

Furthermore the Forum looked at the international economic situation. The main conclusions in this regard were

- the global economy is expected to grow by 3.5 per cent in the years 2000 to 2001;
- Japan's negative growth in the last six months of 1999 is expected to improve over the next year;
- Africa should expect high positive economic growth in the coming year;
- Asia is showing signs of a rebound in the wake of the turbulences of 1998; and
- although the world is currently experiencing an acceleration in the growth rate of inflation, there are signs that Africa should record a healthy reduction in the overall inflation rate.

The Monetary Policy Forum also considered the Reserve Bank's ongoing process of developing simpler but effective econometric models. The Forum took note of the fact that although models are not enough in themselves to enhance the chances of meeting the inflation targets, they are nevertheless an important tool in ensuring that the future path of inflation is measured with a certain degree of certainty.

The Monetary Policy Forum will meet twice a year and more stakeholders will be invited in future.