Address by Deputy President of the Republic of South Africa Kgalema Motlanthe during the 90th Anniversary of the South African Reserve Bank, Tshwane
30 June 2011

Programme director;
Governor of the Reserve Bank of South Africa, Ms Gill Marcus;
Deputy Governors and Members of the Board of the South African Reserve Bank;
Representatives of Central Banks from Neighbouring States;
Ministers;
Members of Diplomatic Corp;
Ladies and gentlemen:

I am honoured to be able to address you today on the occasion of the 90th Anniversary of the South African Reserve Bank.

Ever since the South African Reserve Bank was established, its primary function, as is the case with most central banks, has been to maintain the value of the currency, that is, to keep inflation under control.

Although the operating framework may have changed over time, the underlying objective has not. Inflation – the rate of change of prices generally – peaked in 1991 at above 15 per cent.

In such an environment of hyper-inflation economic activity eventually fails, people stop saving, investment falls, and jobs are lost permanently.

High inflation imposes serious costs on an economy.

Productivity itself, which determines our income, slows and we grow poorer. And it is the poorest in society who are least able to protect themselves from the ravages of high inflation.

Since the dawn of our democracy, inflation has fallen, with considerable ups and downs along the way, to its current rate of 4.6 per cent in May 2011.

This has been achieved as part of our collective understanding that low inflation is better over the long term for our economy and for the achievement of our goals of poverty reduction.

As inflation has moderated over the years, our interest rates - long and short term - have come down, and our economic growth rate has improved.

Businesses have expanded, and between 2004 and 2008 when investment accelerated, we created a significant number of new jobs.

Unfortunately the global economic crisis in 2008 reversed some of these gains and caused serious economic dislocation, job losses and business failures.

Fortunately much of that economic slowdown is in the past. Our level of production in the economy today is higher than it was before the crisis.

Our fiscal and monetary policies are supportive of stronger sustainable economic growth at present and for the medium term.

Our challenge is to avoid new risks that are surfacing in the global economic environment and to move forward with efforts to grow the economy more rapidly and to create millions of new jobs.

On the global stage, inflation pressures are again rising, driven mainly by food and oil price increases, and we have seen these in recent months creep into our consumer prices.

Providing a favourable macroeconomic environment for economic growth means that the Reserve Bank considers these inflation risks and acts in the best interests of sustainable economic growth and job creation by aiming to moderate these inflationary pressures.

But monetary policy cannot be expected to be the driver of long run growth in the economy. For this we need structural interventions to achieve a sustained increase in our growth potential.

South Africa desperately needs faster, sustained growth in order to tackle its critical socio-economic challenges of poverty and high unemployment, particularly among younger and less skilled individuals.

The Commission for Growth and Development suggests that an average GDP growth rate of 7 per cent a year sustained for a period of 25 years is “sustained, high growth.”

At this pace, an economy almost doubles in size every 10 years. The Commission’s report sets out a useful template to judge how far we need to go in South Africa.

Government has also looked at what constrains the South African economic growth.

This assessment has highlighted the importance of network infrastructure, transport and logistics costs, competition, labour market constraints and skills.

Energy, logistics (ports and transport) and communications networks are significant determinants of the costs facing businesses.

Making energy, logistics and communications networks accessible, cost-effective, efficient and reliable will stimulate private investment, exports and raise potential for growth.

Communications and logistics costs in South Africa are high by world standards, pushing up the cost of doing business and undermining competitiveness and productivity.

Broadband penetration is low, given the available fixed lines and bandwidth capacity, and while our logistics infrastructure is relatively developed (ranked 28th out of 155 countries), costs are very high (ranked 124th).

Improving the infrastructure for bulk freight is also an important intervention. From an international perspective, South African ports have the highest port charges but low productivity levels.

High port costs act as a tax on imports, which raise their cost to all South Africans, and a tax on exports which makes them less competitive in foreign markets.

Perhaps the best illustration of where infrastructure can be a binding constraint on economic growth is in energy.

Consequently, Eskom has embarked on a significant capital build programme, including the construction of Medupi and Kusile and the de-mothballing of power stations in Camden, Grootvlei and Komati.

These investments will start to come on-stream from 2012, providing a reliable supply of electricity and raising the economy’s capacity and sustainable growth rate.

More cost reflective pricing and facilitating private sector participation and investment will further improve our electricity generation capacity.

There is an important role for competition authorities to prevent the abuse of market power and for economic integration with the rest of the world to support competition.

However, the unintended consequence of unbalanced application of competition laws also means that the South African companies will remain vulnerable to hostile take-overs by foreign companies.

To avoid this negative economic development merges among South African companies should be favourably considered to create sufficient capital base and capacity to play competitively, globally.

Government has to also actively encourage the creation of new firms.

Ladies and gentlemen,

A slow pace of job creation has a larger negative impact on some groups in society more than others, especially young people.

A youth employment incentive that makes it more attractive to hire young workers would give young people a better chance in today's hostile economic environment.

There is no silver bullet for the broader unemployment problem in South Africa. What is needed is faster growth, improved education outcomes, and a comprehensive set of short-term and long-term reforms that maximise job creation.

Increasing the number of skilled workers is one of the most important things we can do to boost economic growth.

Higher skill levels allow workers to perform high-value added tasks more efficiently and quickly, resulting in higher productivity, rising incomes and indirectly greater innovation, investment and job creation.

More highly skilled workers mean, directly, more employment for workers with less developed skills.

South Africa's skills shortage is large. The Department of Labour estimated the shortage to be more than half a million professionals in 2008.

Over the medium to long term, education reforms need to ensure the schooling system produces high quality graduates.

A more forward-looking, high-skills immigration policy, would do much to ease this constraint in the short run by helping businesses find the skills needed to make investment work.

Programme director,

Early in the term of this government, we set up a monitoring and evaluation framework to set out what we will do as government.

In terms of economic growth and poverty reduction this framework identifies targets for economic growth, employment creation and macro-economic stability.

The framework is supported by the national budget. The current medium term expenditure framework sets out spending allocations for the public sector, with a focus on ensuring financing for public service delivery aimed at national, provincial and local levels.

The budget gives considerable detail on the extent of public sector corporations' capital expenditure plans, all of which are important for short-term growth in overall investment and long-term growth in the economy.

Our New Growth Path sets out key areas that government will focus on to achieve stronger economic growth, job creation and poverty reduction.

Macro-economic stability, prudent fiscal policy and microeconomic and regulatory interventions can and should work together to improve competitiveness, increase investment and support employment creation.

The New Growth Path seeks to increase investment in a range of sectors, raising value addition in the economy and indirectly boosting government tax revenue.

Rising revenue, in turn, enables fiscal policy to lower public debt levels and strengthen financing for public service delivery.

Low and stable inflation keeps interest rates low and stable, and enables households and firms to borrow and invest confidently, secure in a stable, growing economy in the future.

Low inflation and high growth in themselves are not ends – rather they are the vehicle that allows governments and societies to realise the social and economic goals of poverty reduction and improved living standards.

Programme director,

The global financial and economic crisis posed challenges for the Central Banks across the globe. A question that was being raised is whether a central bank can pursue exclusively the mandate of price stability and ignore the systemic issues with respect to the financial sector or the sustainability of economic growth.

The Constitution of South Africa sets as the primary object of the SARB as “to protect the value of the currency in the interests of balanced and sustainable growth in the Republic”.

So as a country we realised much earlier that the protection of the value of our currency, in other words, the pursuit of the price stability is crucial for sustainable growth.

In the aftermath of the global crisis, the Minister of Finance added the pursuit of financial stability as an explicit mandate of the Bank – this is in line with Section 225 of the Constitution.

In celebrating the 90th anniversary of the South African Reserve Bank, we recognise the contribution this institution can make to the future of our country, by ensuring a low inflation environment conducive to sustainable economic growth.

In pursuing this mandate, we expect the Bank to act without fear, favour or prejudice.

Thank you.