

**ADDRESS TO SOUTH AFRICAN RESERVE BANK LEADERSHIP CONFERENCE  
BY DEPUTY PRESIDENT OF SOUTH AFRICA CYRIL RAMAPHOSA  
AT MULDRSDRIFT,  
28 AUGUST 2014.**

“Economic and political challenges facing South Africa”

Governor Marcus,  
Deputy Governors Kganyago, Mminele and Groepe,  
Senior staff of the Reserve Bank,  
Ladies and gentlemen

Thank you for your very kind invitation to speak here today.

The Reserve Bank performs a vital function in our economy and in the pursuit of our national development objectives.

This is an opportunity for you to reflect on the challenges facing our country, and the role the Reserve Bank should play in addressing these.

When considering where we stand today, it is worth recalling the words of the Nigerian novelist Ben Okri, who in *‘The Famished Road’* writes the following:

*“When I sat up and looked around I knew we were in the divide between past and future. A new cycle had begun, and an old one was being brought to a pitch. Prosperity and tragedy rang out from what I saw, and I knew that [it] would never be the same.”*

We are now in that divide between past and future.

The global economy is slowly spluttering to life.

Yet, uncertainty remains about the path forward.

Growth is uneven and downside risks remain. Growth in developed countries has gained momentum, but the expansion in emerging markets has slowed.

Developing economies remain vulnerable to volatile capital flows.

Slower growth in China has negatively affected the price of many of our export commodities and led to a deterioration in our terms of trade.

Recently the IMF revised downwards its forecast for global growth in 2014 from 3.7 per cent to 3.4 per cent.

However, the key challenges to economic growth in South Africa are domestic. The economy contracted by 0.6 per cent in the first quarter of the year, and barely grew in the second quarter, as mining and manufacturing production fell sharply and growth in other sectors remained modest.

Supply side disruptions have plagued the domestic economy over the last couple of years, weakening confidence and reducing the level of investment and household consumption.

Concerns about the reliability of electricity supply, strike action, infrastructure blockages and poor service delivery all negatively impact on economic growth and job creation. These are exacerbated by longer term structural issues such as low skills levels, widespread poverty and spatial segregation.

It is to tackle precisely these constraints that government has developed the Medium Term Strategic Framework. Guided by the National Development Plan, it sets out our priorities and key targets for the next five years.

Our key priorities in the area of economic policy include:

- implementation of the National Infrastructure Plan;
- driving growth in key productive sectors of the economy;
- addressing spatial imbalances in economic opportunity;
- elimination of unnecessary regulatory burdens;
- education and skills development appropriate for a growing economy;
- a macroeconomic and financial framework to support job creating growth;
- expanded opportunities for historically excluded groups; and,
- growing public employment schemes.

We aim to radically transform the South African economy.

We seek a qualitatively different economy.

We seek an economy that grows at no less than 5 per cent a year, an economy with a higher share of investment and lower consumption.

We seek an economy with higher employment, with better export competitiveness and where the fruits of progress are shared more equitably.

Economic transformation and inclusive growth will not result from a single intervention, but from a range of mutually supporting initiatives. In many cases, this does not require new strategies, but better implementation of existing ones.

We will continue to pursue a counter-cyclical fiscal policy where government saves during good times and spends to stabilise the economy during downturns. We seek a fiscal policy that gradually shifts spending from consumption towards investment.

We see a greater role for development finance institutions in supporting investment in infrastructure, agriculture, small business development, black economic empowerment and industrialisation.

Banks will be encouraged to broaden access to financial services to enable people to build up their assets and to help small businesses to emerge and grow.

Measures will be introduced to address poor lending practices and excessive charges in some parts of the financial sector, and make the financial sector more inclusive and accessible.

Government will continue to strengthen the regulation of financial institutions to ensure that savings are protected and customers are treated fairly. The Postbank will play an expanded role in banking services.

We need to work together to ensure the financial sector serves the real economy.

Programme Director,  
The Reserve Bank has a critical role to play in supporting the National Development Plan.

A capable Reserve Bank is a crucial part of a capable state.

The Constitution provides it with a clear and unambiguous mandate: “To protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.”

The independence to execute monetary policy without fear or favour, without regard for political or electoral cycles, is a critical aspect of our policy architecture.

Independence does not however mean that the central bank is not accessible or accountable. The Reserve Bank is accountable to the people of South Africa and reports to parliament on its activities. In a democracy, continued accountability of the central bank is critical for its credibility and for its ongoing independence.

It needs to constantly engage with South Africans on its policies and its decisions.

In addition to price stability, which is defined by government under a flexible inflation targeting framework, the Reserve Bank also has an explicit mandate for financial stability.

South Africa has been praised for the strength of its banking system and the quality of its oversight and regulation. South Africa was one of the few countries to avoid a significant financial sector crisis when the global financial crisis hit in 2008.

We wish to commend the Reserve Bank for the manner in which the situation at African Bank was managed.

The Reserve Bank’s intervention contained any potential repercussions that the failure of African Bank could have had on the broader financial system. Retail depositors have been protected, and investors and corporate depositors have certainty about their risks and returns.

We are hopeful that the bulk of African Bank’s business will survive and the 3.2 million people served by this bank will continue to be served in the future.

The regulation of our financial sector is in good hands.

We look forward to a discussion with the Reserve Bank on how best we can achieve our objective of financial inclusion while maintaining a sound and sustainable financial sector free of abusive lending practices.

The Medium Term Strategic Framework calls on government to take steps to improve the stability of the exchange rate at a competitive level, accompanied by measures to reduce the impact of currency volatility on the productive sectors.

In particular, we commit government to raise the level of foreign exchange reserves in a prudent manner. This requires the active involvement of the Reserve Bank and clear coordination between fiscal and monetary policy.

This objective is consistent with our present policy of flexible inflation targeting and a floating exchange rate.

Programme Director,

Government is acutely aware of the challenges in our economy.

While we are much affected by global conditions, the challenges in our economy are caused in great measure by domestic factors.

We will accelerate the implementation of the National Development Plan to deal with both the immediate challenges and the long term structural problems that constrain our country's development.

We recognise that a major reason for the low level of investment is weak business confidence. This is driven, at least in part, by perceptions of policy uncertainty.

There should be no grounds for such uncertainty.

This administration has entered office with a clear and emphatic mandate to implement the National Development Plan.

The key elements of that plan are captured in the Medium Term Strategic Framework, and all institutions of state have gone to work to achieve its objectives.

Government will increase its engagement with business to ensure that business better understands the policies and programmes of this administration.

For our part, we hope to better understand what is required to unlock private sector investment and ensure that we work together to build investor confidence.

We will continue to engage all social partners to address their concerns and ensure their participation in all economic and social programmes.

As a government, we are centrally concerned with forging partnerships across society to address our shared challenges. We want to build consensus and promote collaboration.

Programme Director,

We are proud of the South African Reserve Bank. It is an institution with a formidable reputation; a reputation for integrity and quality that many others in the public sector should seek to emulate.

We hope that you will work with government in solving many of the complex economic policies that our country confronts. We know that we can rely on advice of the highest quality from this esteemed institution.

The Reserve Bank is an integral part of society and part of the broader economic architecture of government.

We are confident that the Reserve Bank will continue to perform its constitutional mandate, and, in so doing, advance the development of our country and promote the well-being of its people.

The Reserve Bank is an instrument of transformation.

It is a guarantor of stability.

It is an agent of meaningful, sustainable and fundamental change.

I thank you.