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MONETARY POLICY IN A CHANGING WORLD – WITH SPECIAL REFERENCE TO THE SA RESERVE BANK

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1. INTRODUCTION – A CHANGING WORLD

The dilemmas of central banking today are embedded in a changing world. The world has been changing, and the debate around monetary policy is changing with it. There are, of course, the ongoing challenges of dealing with inflation and economic growth, but now set in a shifting global environment that often lies beyond monetary policy. Not surprisingly, the SARB's April 2024 *Monetary Policy Review* (MPR) is titled 'Walking a Tightrope', a theme to which we will return later in this paper.

Policymakers in general, and central banks in particular, therefore, have to respond to a world that has changed or is changing in several crucial respects, especially in *risk management*. No economy, whether large, medium or small, is therefore entirely immune from having to navigate, manage or 'surf' the following *nine* key global trends:

i. A *shift in global economic and, therefore, political power.* In 2000, advanced economies produced 57% of global output. By this year, according to IMF forecasts, that share will decline to 37%. China's share will rise to 21% from 7%, and the rest of emerging Asia will represent 39% of global output, compared with 14% for the US and 15% for the EU. Countries are having to come to terms with the emerging realities of a multi-polar world ('Unipolarity to Multipolarity').

ii. A *global monetary system* based largely on the US dollar has seemed eternal and unchanging. The dollar remains dominant. Debate has nonetheless begun to emerge in several circles on the continued 'hegemony' of the dollar and a search for an alternative currency and payments system, in which changing markets and central banks will inevitably be involved. BRICS, for example, has these issues on its agenda.

iii. Heightened level of *great power rivalry and conflict* as relations deteriorate between the Western Powers, a rising China and a belligerent Russia. The Russia-Ukraine and the Hamas-Israel wars are exacerbating geopolitical tensions in ways that make cooperation more difficult. The world has become a more dangerous place at several levels.

iv. Globally there has been a turn to *populist policies*, not least within advanced economies. With the current large number of elections being held in about 50 countries this year the overall picture on this front still needs to finally unfold. But one obvious consequence has already been the rising global public debt levels.

v. Another feature of this 'populism' is the heightened mistrust of technocratic expertise. This affects not only *domestic technocratic institutions* like central banks and finance ministries but also global institutions like the IMF. The era of high inflation and high interest rates has led to inflation targeting also now being challenged in several economies.

vi. There is the slowdown, or even reversal, of *globalisation*. The London 'Economist' has described it as 'slowbalisation'. World trade growth is now barely keeping pace with world output. The WTO, as a 'rules-based' international institution for global trade, has been steadily weakened. The latest development of outright protectionism in the United States is an immediate example of the 'New Mercantilism' that is emerging (the AfCFTA is fortunately a necessary instrument in the opposite direction for Africa).

vii. *Technological progress* has been the main driver of global economic growth. But recent developments around the internet and artificial intelligence have created new vulnerabilities and upheavals, including cyberattacks and serious shifts in some labour markets. The digital age presents opportunities *and* challenges to central banks.

viii. *Financial fragility* has increased over recent decades despite efforts by the IMF to minimise it. The ratio of debt to gross output has risen globally. Several warnings have recently been given about the extent to which debt has shifted from the private to the public sector and that 'populism' will only worsen it. And experience has shown that in emergencies, Ministers of Finance cannot be strapped down. This heightens the risks of further financial disruption.

ix. Finally, there is the present salience of *climate change* as a policy. This is having an important impact on development strategies and macroeconomic policies in all

countries, especially more vulnerable ones. Central banks are also being urged to include climate change in their mandate. It should be noted, though, that a backlash seems to be developing among voters to excessive regulatory pressure and costs to combat climate change. Some analysts see this as partly behind the emergence of the swing to populism in some countries.

2. WHAT MIGHT THIS MEAN FOR SOUTH AFRICA?

Against these background factors, the main implications for SA would seem to be:

First, as a small, open economy, SA has gained by outward-looking policies that take advantage of the possibilities for international trade and capital flows. But by linking itself to the world economy, a country also inevitably exposes itself to external shocks. Building resilience, creating financial buffers, and reducing excessive indebtedness to cope with such external shocks are often the most crucial tests facing central bankers and policymakers. Global circumstances change and present new challenges to a country's 'global competitiveness'. It puts a premium on prudent risk management.

Second, the higher level of economic uncertainty in the world seems likely to be the 'new normal'. In 2020, the IMF Managing Director Kristalina Georgieva said that 'if I had to identify a theme at the outset of the new decade, it would be increasing uncertainty'. And recent trends in the World Uncertainty Index (WUI) – as developed by the IMF and Stanford University in 2019 – have indeed confirmed elevated levels of global uncertainty. These outcomes have flowed from a combination of factors, including the economic aftermath of the Covid-19 pandemic and, of course, rising geopolitical tensions.

Third, higher global uncertainty coincides with an extended period of elevated *domestic policy uncertainty* in SA. Since its launch eight years ago, the NWU Policy Uncertainty Index (PUI) has been in negative territory to a greater or lesser extent for almost the whole period. Policy uncertainty has hampered SA's investment and growth performance and created its own vulnerabilities. The MPR also assigns an important role to 'domestic risks'.

Fourth, the pending SA watershed elections and the uncertainty surrounding them have raised questions about the country's future economic direction and what is required post-election to ensure that 'good economics' will be supported by 'good politics'. Ideally, what is sought is the right balance between *continuity* and *change* in policies (and especially their implementation) in the post-election period to give SA the job-rich growth it needs.

Fifth, we know that the prevailing 'higher-for-longer' outlook for interest rates globally has important implications for emerging markets, including SA, as it seriously affects currencies and capital flows. That tighter global financial conditions will raise the risk profile of several emerging economies like SA has been a constant theme in recent MPC statements. The MPR, however, also suggests that, despite the 'higher-for-longer' US interest rates and strong US dollar, the rand has nevertheless also been weak for other reasons.

Sixth, this potential volatility complicates the nuancing of monetary and fiscal policy, as well as highlighting the SARB's commitment to protect financial stability. Financial stability remains important, especially as local banks are now more heavily invested in government bonds. All that can be said is that, if financial stability were to coincide with monetary tightening, central banks may face a tough choice between stabilising markets and curbing inflation. [It would be difficult to do full justice to this aspect here].

Seventh, in the background still lurks the ANC's political desire to 'nationalise' the Bank. While this prospect is still *unknowable* it is not *unimaginable*, depending on political developments after the 2024 elections.

Eighth, the SARB is also at a strategic point in its affairs. With the reappointment of Lesetja Kganyago as SARB Governor for a third term, together with the consolidation of his senior team, there is *continuity*. And the SARB is currently working on its own five-year strategic plan. This is *also* an opportunity for economists and analysts outside the Bank to seize the moment to debate key aspects of the SARB's role and performance.

3. FOCUSING ON THE SARB – 'WALKING A TIGHTROPE'?

Over its 103 years of existence, the SARB has built up a fine track record of achievement as one of the major custodians of SA's economic performance. Its high professionalism and expertise over the years have come to be highly respected by the markets and many stakeholders both externally and domestically. In a country where, for well-known reasons, many institutions have been 'hollowed out' by mismanagement or corruption, the SARB remains a pillar of integrity and credibility.

The SARB's prestige and integrity are therefore among the country's national assets in an uncertain and volatile world and a vital component of *market confidence*. We know that interest rate decisions and how monetary policy fits into the broader changing economic landscape demand the highest degree of professionalism and expertise in any central bank. And with the introduction of inflation targeting in SA in 2000 has also come greater *transparency* and *openness* in the SARB's decision-making under successive Governors.

It is therefore appropriate that, as the SARB formulates its own five-year strategic plan, an opportunity should be taken to highlight some aspects of its future role. It not only helps to debate where the SARB's performance might be strengthened but also should explore the *limits* of monetary policy in tackling SA's socioeconomic challenges. The mantra that 'expectations must be well-managed' should also apply to monetary policy and what we can legitimately expect of it.

An overarching consideration would be to note that the strategic formulation process in the SARB is different in the sense that the basic strategy actually does not change because it is embedded in the constitution. It is more about 'the how', where based on changes in the operating environment, the focus for policy formulation and implementation should be placed. Hence, it is more about *how* to give effect to the SARB's role, rather than any considerations that would include the future role itself. The latter is, in essence, cast in concrete. It would also be interesting to know whether and to what extent the SARB's Board of Directors will play a role in shaping the Bank's new strategic plans.

My approach in this paper is therefore to encourage *debate* about aspects of the future strategies of the SARB, rather than be prescriptive about my own views. So, what might be several areas of discussion as the SARB walks its 'tightrope'?

3.1 Inflation Targeting – Point or Band Targets for Inflation?

SARB Governor Lesetja Kganyago has already emphasised his preference for a future fixed inflation target of 3%. He has indicated that a team of policymakers, comprising the SARB and the National Treasury, is busy identifying the appropriate new range and the 'associated risks'. Along with identifying the risks, added the SARB Governor, the team must advise him on the appropriate timeline for achieving the target.

What is the perspective here? The 3%-6% inflation target range was set by the Cabinet in 2000, and the SARB has 'operational independence' in achieving it. Since then, the practice of inflation targeting has evolved, as has the economic environment within which policy decisions need to be taken.

After 24 years, it is therefore not unreasonable to review the inflation targeting regime in SA and, if necessary, refine the approach. As mentioned, there is now the SARB Governor's proposal that a narrower, lower range of 3% would be more appropriate for SA. Since 2017, the MPC has, in any event, aimed at inflation being fixed around the *middle* of the current band, i.e. at 4.5%, as being the desired target.

The SARB has also been revisiting and redefining the 'headline' and 'core' components of inflation in order to better understand the underlying dynamics and drivers of price inflation in SA. It would also be helpful to know more about the extent to which wages and prices have moved in lockstep in the economy and probing the risks of 'second-round' inflationary effects. In addition, it would be advantageous if the SARB could, as SA's monetary policy moves through the business cycle, mobilise more definitively in its terminology the various known concepts of 'demand inflation', 'cost inflation', and 'stagflation'.

How has inflation targeting in SA broadly fared so far in meeting its target? At first glance, given SA's tough political economy and occasional external 'shocks' over the years, it has performed commendably. Rough gauges of the degree of success might look as follows:

- Average (CPI) inflation for the period January 2003 to March 2024 is 5.08% (y-y). Out of 255 months, the SARB met its target 137 times, i.e. 53.7%.

- Average (CPI) inflation for the period May 2015 to March 2024 is 5.14% (y-y). Out of 107 months, the SARB met its target 72 times, i.e. 67%.

The MPR also reminds us that SA's inflation peak of 7.8% in July 2022 was one of the lowest among emerging markets in the recent round of global inflation. But these evaluations are only so helpful. No doubt, more rigorous tests of inflation targeting's performance over the years in SA are required to decide the degree of success.

Yet, we must accept that inflation targeting is nonetheless 'a house of many mansions'. In various countries, anchoring inflationary expectations (when inflation targeting is used) is done in different ways – most often by adopting point targets, by having tolerances around a point target, or by specifying target ranges, as is the case with countries like South Africa and Australia. Overall, there is *no* consensus in the academic literature as to whether a point or a band target is the best monetary policy framework (as Dani Rodrick would say if he were present: 'It all depends').

It would also be worth recalling that a central bank can hit its target for the wrong reasons, as well as miss the target for the right ones.

One recent ECB research study finds that target ranges or (in some cases) tolerance bands outperform the other types. In other words, the band targets are missed less frequently by central banks. However, the effects partially depend on the economic context of the country concerned and no target type was found that *consistently* outperformed all others. This suggests that there are some benefits in adopting intervals, but central banks can anchor inflation expectations by other means.

Another Swedish Central Bank / Orebro University working paper explains that the preferred target type rests on the inflation-output stabilisation preferences of the central bank. A central bank with a strong preference for output stability would find a band target more attractive than a point target. But for a central bank with 'hawkish' preferences, a point target tends to be preferred to a band target. In the case of the latter, says the study, a point target almost always outperforms a band target. In any event, apart from other 'trade off' considerations, there remain key technical issues involved in the choice of options.

The *timing* of any proposed changes in the inflation-targeting regime could have unintended consequences for 'expectations management', with possible implications for an already weak economy. The existing band caters for the flexibility that, for an economy still undergoing structural changes that make linkages to the transmission mechanism more uncertain, opting for a fixed target creates risks for central bank credibility. Against the background of ongoing structural changes, the more specific the target, the more it is likely for such a target to be missed.

It needs to be recalled that when the existing target was introduced in 2000, it was later tightened to 3%-5%. But following the massive deprecation of the rand towards the end of 2001 and the significant pass-through to inflation expected to follow, this was suspended and eventually abandoned. Why? *Because a tighter target would have required a disproportionate tightening response from the SARB and unacceptably damaged growth.*

An important reality test in SA is for the inflation targeting regime to enjoy as much consensus and support as possible among stakeholders – such as business and labour as well as government – whose decisions shape inflationary expectations. The inflation target in SA in 2000 was not formulated and decided in a vacuum. The target type, which is socially optimal in SA circumstances, may therefore not necessarily be the target type against which the SARB would want to be tested in future.

Hence, whatever the outcome of the technical discussions at present underway between the SARB and the National Treasury, a persuasive case for a change will still need to be made at the level of the (new) Cabinet, the social partners in Nedlac and perhaps also to the more recent Presidential Economic Advisory Council. In short, the political economy of a narrower and lower inflation target in SA is also a 'risk' that needs to be managed by its advocates. Therefore, the widest degree of support needs to be solicited, especially since there are some interest groups recently calling for SA's inflation target to be shifted *upward* from 3% to 6%.

3.2 Widening the SARB's Mandate?

One major criticism in some circles is that the SARB should target output fluctuations more directly. In other words, this would be an explicit mandate to stabilise output – similar to the US Federal Reserve's so-called 'dual mandate'. In this 'dual-mandate' framework, central banks' decisions would be based not only on their views about inflation but also on direct

measures of output and unemployment 'gaps'. In this way, it is intended that it should complement the inflation target in future MPC decision-making.

The response to this criticism has been that the SARB has, indeed, over the years practised 'flexible inflation targeting' and has often, as MPC statements frequently put it, 'looked through temporary price increases'. The recent MPR again restated this commitment right up front in its initial introduction. The existence of the current band of 3%-6% over the years, and one of the highest internationally, may be said to have provided flexibility. The challenge for the SARB's communication strategy may be, though, to explain why certain shocks are being ignored and why others are addressed.

We need to remind ourselves that in a discussion on the possible widening the SARB's mandate, we should not lose sight of the fact that the mandate as currently specified in the constitution actually talks to price stability as a means to an end and not an end in itself, '…in the interest of balanced and sustainable growth'. Not only is growth where we should end up, but also in a balanced and sustainable way, which in essence recongnises the complementary mandates of financial stability and growth. Does this not cover what some stakeholders are seeking in a proposed wider mandate?

Would lengthening the target horizon help or not? Would a lengthened target horizon, say beyond two years, provide the SARB with additional flexibility to tolerate persistent, idiosyncratic shocks to inflation? As previously indicated, the SARB Governor is seeking advice on this aspect in connection with his proposal for a lower fixed inflation target of 3% so as to address the question of the time period involved. The risks of extending the time horizon would need to be interrogated.

In this regard, the MPR and the March 2024 MPC statement both emphasised the recent 'stickiness' of inflation and other uncertainties to explain why interest rate cuts are likely now to be delayed. They now believe that 'core' inflation in SA is unlikely to reach the current 4.5% mid-point target and stabilise until the fourth quarter of 2025. If the new inflation target is to eventually be 3%, this will have important implications for how long monetary policy and, hence, borrowing costs in SA will remain in restrictive territory to achieve that lower goal.

Hence, in assessing the future options we may all tolerate:

(a) 1% annual inflation to get 10% growth, while hardly anyone would consider
(b) 10% inflation compensated by 1% growth,

the choice between:

(c) 3% growth and 3% inflation, or
(d) 4% growth with 5% inflation

is much more difficult to make *in general*. We therefore need, eventually, to craft what is seen as a *credible* choice for any new path to *sufficiently low* and *stable inflation* in SA.

It has also been suggested that the SARB should worry more about unemployment and be given a *formal* jobs target to achieve. It seems this line of thought fails to understand what the limits of monetary policy are, especially in a country like SA. In his response, the SARB Governor said that if the Bank were given a formal jobs target, it would also have to have the policy instruments to deliver such an outcome, including the clear power and independence to intervene in labour market regulation.

Then there is the persistent negative role of *administered prices* in SA's inflation outlook, ranging from Eskom tariffs to education fees and municipal rates. This is an impediment apparently not faced by many other central banks. The MPR again emphasised the distorting impact this has on the inflation outlook. The SARB's previous study of the role of administered prices in complicating its anti-inflation task needs much more traction. The National Treasury has long been committed to reviewing the fuel price structure. Solutions here could provide further space to implement 'flexible inflation targeting' in a world in which ultimately idiosyncratic shocks are becoming more persistent – without some of the downsides that more radical proposals for SARB reform suffer from.

3.3 Economic Forecasting

At the outset of inflation targeting globally many years ago, the development of inflation forecasting was seen as a breakthrough in order to be 'forward looking'. The long and variable lags in monetary policy meant that, in responding to inflation one or two years hence, timely

decisions must already be made about interest rates today. Future inflation is, of course, uncertain. This has led many central banks, including the SARB, to quantify and illustrate this uncertainty through so-called ‘fan charts’.

Many central banks have nonetheless struggled with forecasting, and the track record is, on the whole, poor. They have been constantly tripped up by time lags and structural changes. The failures that many central banks have experienced with existing forecasting models have now led to much heart-searching as to how to better unpack and assess future economic trends. This resonates with an increasing need already expressed by academics and policymakers to reassess macroeconomic models.

Christine Lagarde, the ECB’s President, told the ‘Financial Times’ recently that the central bank needs to learn from its mistakes. ‘What we have learned is that we cannot just rely only on textbooks and pure models. We need to think with a broader horizon’, she said. One outcome has been a move for central banks to now focus more on alternative ‘scenarios’, to illustrate how policy may react.

Last year, the Bank of England (BoE) commissioned a review from Ben Bernanke (former Chairman of the US Fed) to examine the BoE’s forecasting and communication. The BoE’s framework has been largely unchanged since the inflation targeting was put in place by the Tony Blair Labour government in 1997. In his 75-page report released in April 2024, Bernanke *inter alia* recommended that the BoE put less emphasis on the bank’s so-called central forecast for inflation (which is partly based on what traders expect rates will be) and use alternative scenarios more frequently to show the risks and uncertainty.

The SARB also has its Quarterly Projection Model (QPM). The QPM undertakes the macroeconomic modelling and forecasting process for the SARB by making use of a suite of models to facilitate forecasting. In 2023, the SARB enhanced its QPM, which now explicitly incorporates the fiscal stance into the monetary transmission mechanism. The link here revolves around the calibration of SA’s risk premium and its implications for monetary policy.

The limitation of the QPM was, for example, nonetheless again acknowledged by the MPR recently, pointing out that the QPM had presaged interest cuts in the first half of 2024, which the MPC had overridden in the light of real-time inflation data. The SARB Governor has indeed

been very meticulous in emphasising at each MPC meeting that the QPM is only *one* input to the Committee's deliberations. The role of the QPM is seen as promoting discussion within the Bank, not substituting for it. Other data is also interrogated in arriving at MPC decisions.

Monetary policymaking, indeed, requires complex real-time judgements, and this will be even more necessary in future. Judgement and common sense remain essential for interpreting incoming data, assessing the contours of the economic outlook, and identifying emerging risks to that outlook. Monetary policy cannot be reduced to mechanistic rules of thumb, even if we had exact daily figures for everything in theory we require to know. *In fact, the extent to which central bank decisions are increasingly being said to be 'data dependent' from meeting to meeting confirms this caution and reminds us of the limitations of economic forecasting.*

As long ago as 2003, in an address to a US Fed conference on *Monetary Policy under Uncertainty,* then Fed Chairman Alan Greenspan also warned:

'For such judgement, we policymakers, rather than relying solely on specific linkages expressed, have tended to draw from broader, though less mathematically precise, hypotheses of how the world works.....our problem is not the complexity of our models but the far greater complexity of a world economy whose underlying linkages appear to be in a constant state of flux'.

And in 2020, in a book, '*Radical Uncertainty: Decision-making for an Unknowable Future,* a former Bank of England Governor Lord Mervyn King, said:

'In the end, a model is useful only if the person using it understands that it does not represent the world as it is, but is a tool for exploring ways in which a decision might or might not go wrong'.

On the growth front, the MPR recognised that SA's GDP grew by less than a very low 0.6% in 2023 but claimed that this poor growth rate was hard to see before the year started. There were a number of private sector forecasts that *did* foresee it. The SARB's best forecasts could reduce the risk of being wrong if the assessment was more obviously tested against parallel and credible private sector prognostications, such as on the growth outlook.

There remains the persistent role of policy uncertainty in the economy. It is noteworthy that in recent years the role of 'policy uncertainty' has featured strongly in most assessments of the SA economy by various domestic and foreign analysts, including the SARB. So, how often has 'policy uncertainty' been mentioned in MPC statements over the years? The median occurrence of the concept 'uncertainty' for the period May 2015 to March 2024 is 3 times per MPC statement.

More recently, the SARB Governor Lesetja Kganyago said in an interview (News 24, Business, April 9) that the uncertainty over the outcome of the looming national election meant that there were many investors sitting on the sidelines, who would otherwise have been trading bonds or stocks, waiting to see which way the voting goes. Regarding the rand, Kganyago said, 'it's going to come down to which investors took which position, and how those balance out'.

The North-West University Business School's Policy Uncertainty Index, which Governor Kganyago cited as an example in the interview, showed that policy uncertainty intensified in the first quarter of 2024. The SARB Governor added that, 'the uncertainty about the election and the election outcome, which should be felt through the country risk premium, which should be felt through the exchange rate and so forth – that is a short-term risk. The outcome of elections is another'.

Another pending development that needs to be factored into the macro picture now is the so-called 'two-pot' system, allowing citizens to easily draw down accumulated wealth and retirement annuities from their pension funds. The MPR estimated that this could amount to about R40 billion in 4Q 2024 and about R20 billion annually thereafter. It will in any event be necessary for the SARB and other analysts to now assess what impact this additional income might have on future spending, in general, and on financial and real estate markets, in particular.

3.4 Risks to the Fiscal Outlook

The National Treasury's struggle to maintain fiscal balance in recent years is well-known and was dealt with in an earlier paper today. The MPC has more than once urged government to seek a prudent public debt level that would strengthen monetary policy effectiveness and its transmission to the broader economy. Even after the more successful attempt by the National

Treasury to 'balance the books' in the 2024/25 Budget in February, significant risks to the fiscal outlook remain. The outcome of pending elections will also influence the extent to which additional spending pressures, such as new unfunded social spending programmes or the realisation of contingent liabilities, may again emerge.

Two other measures of significance for monetary policy are:

Firstly, the request from government to the SARB to realise the significant paper profits on SA's gold and foreign exchange contingency reserves to help limit the state's borrowing requirement. It would seem as if this 'dipping into reserves' to fund government has been skillfully handled, with guardrails in place, and dedicated to reducing public debt. 'You can see it as a windfall', said the SARB Governor (in the above April 9 interview) and added, 'if you have a windfall, you sort out the basics, and it is quite welcome that the Treasury said this money will be used to reduce debt'. It remains important in future to closely monitor access to these contingency reserves.

Secondly, the ANC has suggested that SA should return to the apartheid-driven measure of 'prescribed assets', which would now have serious implications for a bond market already holding a large amount of government paper. If this should materialise, it would raise concerns about financial stability.

3.5 MPC – Size, Voting and Composition

Institutional arrangements do matter, especially for central banks like the SARB. The MPC meets every two months to review the economy and decide on interest rates. In making the announcement, the SARB Governor has, since May 2015, has usefully indicated how the MPC voted on the decision. Majority voting, as opposed to unanimity or consensus, serves a valuable purpose and encourages transparency. It is a healthy development and creates a new set of dynamics for analysts to interrogate. It lessens the risks of 'group think' and 'confirmation bias' in MPC deliberations.

How many times has the vote been unanimous since voting was disclosed? 23 times since May 2015, i.e. 23 out of a possible 55, or 42% over the period of nine years. Voting recognises that among MPC members there may, at times, be legitimate differences of opinion about the

economic outlook. In interpreting the relevant data at any particular point in the business cycle and assessing the balance of risks, there can always be room for diverse views.

Fortunately, there has been a valuable accumulation of international research over the past couple of decades on which to draw about committee decisions around monetary policy (and their particular voting dynamics) in different central banks. This has mainly been in response to the global trend, including by the SARB, to move away from unilateral monetary policy decisions by a single all-powerful central bank governor and towards more inclusive decision-making.

Since the late 1990s the MPC system in various guises has ushered in collective decision-making to the point at which it has become the rule rather than the exception. So, how does the SARB measure up to the research outcomes so far? In assessing the SARB's institutional arrangements, it remains important to nonetheless retain perspective. We must accept that 'one size does not fit all' and that institutional and historical differences require to be acknowledged.

Central banks, like all institutions, are the product of a particular history. Although research assists in identifying convergent global trends, allowance must inevitably be made for the different overarching factors of history, tradition, structural characteristics, and domestic political economy embedded in monetary policy decision-making processes. What the global data *can* helpfully yield is what so far has been found to work internationally, and where.

So, what is the 'right' size for an MPC? There is obviously a trade-off between ensuring that the MPC is big enough to include members with all the relevant expertise, but small enough to have a meaningful debate. From the academic literature, the 'ideal' MPC size is, generally, said to be *seven* to *nine* members. The MPC membership since April 2024 is now six, with a commitment to bring it up to seven. Hypothetically, its terms of reference allow up to eight members (but an odd number is obviously to be preferred).

How has the size of the MPC fluctuated over the past decade?

6 members (May 2015 - January 2018)
7 members (March 2018 - September 2018)
6 members (November 2018 - March 2019)
5 members (May 2019 - March 2024)

The five-member MPC prevailed for about half of the period outlined above. Global research has also emphasised that times of economic turbulence make 'information pooling' more difficult, and countries with elevated uncertainty need more MPC members. Global studies also confirm that where there is high economic uncertainty, groups are better able to form a view of appropriate policies. They also interestingly suggest that in a more uncertain environment, the policy proposals emanating from central bank staff are less likely to be right.

That said, regarding the *composition* of an MPC internationally, such structures usually have *external* members. These members may be chosen to both increase the legitimacy of the central bank, as well as to diversify its range of expertise. 'Cognitive diversity' is viewed as an advantage in MPC decision-making. The balance between internal and external membership is seen as less important when the minutes of the MPC meetings are disclosed so that members are held accountable. However, for some central banks, like the SARB, the environment may be too politicised to make a success of external membership and they are therefore reluctant to contemplate such an enlargement.

3.6 Communication Strategy

Communication is one of the SARB's most powerful tools. Over the past couple of decades, central bank communication has generally seen big changes. Central banks have strengthened their transparency and openness in order to support monetary policy goals. Big strides have therefore been made by many central banks, including the SARB, in disseminating relevant information to markets and stakeholders. Mistakes have been made but on the whole soon corrected.

In a recent study (Macklem & Vardy, 2023), several lessons have been identified arising from an analysis of the changed central bank communication strategies to date and against which to test success. They are:

- public support of inflation-targeting objectives and means is essential
- central banks' mandates must be focused and achievable
- credibility is enhanced when central banks acknowledge uncertainty
- crises require a different style of communicating
- public demand for information has increased
- central banks must deploy new ways of reaching audiences
- central banks need to listen to a wide range of stakeholders

The SARB has had a successful 'outreach' program for some years, such as arranging informative Monetary Policy Forums to facilitate communication with stakeholders. However, stakeholders need to know more about the extent to which the SARB is held *accountable* through its interaction with Parliament's *Standing Committee On Public Accounts* and regular consultation with the Minister of Finance. As the Bank interrogates its five-year strategy it will no doubt examine whether any changes are required to its current communication approach – in the light of experience gained both internally and from other central banks.

A possible future adaptation of the SARB's MPC statement might also be to accommodate an outline of *minority views* in the Committee's public statement, where there are such views. It could follow the standard practice in the judicial system, where a panel of judges conveys each decision by issuing the majority ruling, together with concurring opinions and any dissentient views. However, in the case of the SARB's MPC the identity of the individual members would *not* be revealed – only the economic motivation for the majority and minority opinions respectively. This would also help the general public to better understand the complexity of monetary policy decision-making.

4. THE WAY FORWARD

In its latest MPR, the SARB has emphasised that it is 'walking a tightrope'. It is therefore clear that the SARB finds the list of global and domestic challenges long and complex. The SARB cannot solve them all – several fall outside its sphere of influence; others are beyond its remit.

And while some challenges will ease, new ones will arise. Any new inflation path and target will also need careful design, good communication and wide buy-in. Economic diagnosis and policy prescriptions will be strongly tested, and the SARB will need to be nimble but consistent.

This is because these new challenges also embody a serious risk – the danger that the SARB, like several other central banks, will gradually be pushed into becoming more of an *all-purpose policymaker*. Central banks, including the SARB, are constantly being pressed to broaden their mandate. These pressures include doing more to intervene in financial markets, to create jobs, reduce inequality, combat climate change, introduce digital currencies, and react to geopolitics. They are frequently being urged to solve various structural problems and to help in curing social ills.

Yet many central banks, like the SARB, enjoy independence *because* they have a focused remit, which gives them credibility with the public. So far the SARB boundaries have been respected. Past performance is, however, no guarantee of future results. An excessive proliferation of aims could weaken the basic role that ultimately only central banks and the SARB can play, namely, to uphold monetary stability. The SARB, like other central banks, must therefore ensure that any new aims do not distract them but are aligned with their core task.

Whatever the outcome of the 2024 elections, the real work for the country will nonetheless need to continue to tackle SA's immense challenges of unemployment, poverty and inequality. And the SARB will still be the custodian of macroeconomic stability and be supportive of policy actions that minimise SA's risk premium. Monetary policy remains embedded in the 'good economics' that SA will need in the post-election period.

What matters for the SARB is that there is indeed 'a stable government with a clear policy with which the Bank can interact'. We must also remain mindful of the need to preserve the SARB's independence in ways to ensure that its credibility as a major economic institution in SA is not jeopardised. There is an old economics saying that macroeconomic stability is not everything, but without it, you have very little.

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