

T T Mboweni: The relationship between the South African Reserve Bank and academia

Welcoming address by Mr T T Mboweni, Governor of the South African Reserve Bank, at the First "Macroeconomic Policy Challenges for South Africa" Conference, held at the South African Reserve Bank, Pretoria, 23 October 2006.

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Honoured guests,
Colleagues,
Ladies and Gentlemen,

1. Introduction

It is with great pleasure that I welcome you to Pretoria on the occasion of the first South African Reserve Bank (Bank) conference entitled "Macroeconomic Policy Challenges for South Africa". I would like to extend a warm welcome to the keynote speakers and presenters of the papers and to all the discussants who will be participating in our proceedings. All those attending the conference are likewise heartily welcomed and we hope you will participate actively in the series of discussions.

This conference is the first in a series of conferences that the Bank plans to hold every second year. It is our contribution to a process of open interaction between economists concerned with macroeconomic and central banking issues. The conference series should further serve as a vehicle for bringing together researchers from academic and financial institutions. The main purpose is to provide a platform where current ideas on macroeconomic issues can be shared. This should signal clearly our commitment to a continuous and active exchange of information between the Bank, academia and private-sector economists.

This initiative has been inspired by the examples set by a number of central banks. Other central banks that host similar conferences in collaboration with universities include the Central Bank of Chile, the European Central Bank, the Federal Reserve Banks in the United States, the Swiss National Bank, the Bank of Canada, and the Deutsche Bundesbank. Generally, the aim is to facilitate debate on monetary policy and related issues. Our economists regularly participate in some of these conferences and we are pleased to be able to provide a similar forum. The proceedings of the conference will be published, in order to reach a wider audience.

2. The relationship between the Bank and academia

The Bank's relationship with local universities has been evolving over time. In 1994 the Bank launched a 12-month Cadet Programme providing young graduates with high potential the opportunity to learn more about the operations of a central bank and to gain first-hand practical experience. The programme is managed by the SARB College in collaboration with subject experts from leading local and international academic institutions. To offer life-long learning opportunities to these learners, the College has embarked on a process to develop and register qualifications on the National Qualifications Framework from levels 4 to 6, in collaboration with formal educational institutions.

Regular contact is maintained between academics and researchers in the various departments of the Bank and other central banks. A number of conferences and workshops have been organised by the Bank in the past, and an increasing number of academics have been presenting their research findings at seminars in the Bank. During the past two years, a number of collaborative research projects have also been initiated and completed. This latter initiative has become more formalised with the launch this year of the Visiting Research Fellows Programme which will enable leading academics or researchers from other central banks to spend time at our Head Office pursuing their research and interacting with Bank staff. Visitors from the academic world will thus be able to discuss their latest research work and collaborate with Bank staff as co-authors of research papers on a regular basis.

The Bank also collaborates formally with tertiary institutions as part of the strategy to enhance central banking skills and knowledge in South Africa. To this end, the Bank is currently sponsoring a Chair in Monetary Economics at the University of Pretoria. This should ensure the development and promotion

of research and tuition in the field of monetary economics at the post-graduate level. The incumbent serving as Chair will become a visiting research fellow at the Bank to foster closer collaboration and research synergies between the Bank and the University.

In an effort to improve the quality of economic journalism in Africa, the Bank, in partnership with Rhodes University, is in the process of establishing the African Economics Journalism Centre at the School of Journalism and Media Studies at the university. From 2007, the Bank will provide funding and institutional support, as well as funding for scholarships to attract students from previously disadvantaged backgrounds to economics and financial journalism. The SARB College will furthermore assist with the design of the macroeconomics curriculum as part of the programme. Furthermore, from 2008, Rhodes University will offer a dedicated postgraduate diploma in economics journalism, aimed at mid-career journalists and journalism graduates who lack an economics or commerce background.

Our contributions to universities are not confined to funding. A number of Bank staff give specialised lectures or courses at various universities. I have the honour of being an honorary professor at Unisa, the University of Pretoria, the University of Stellenbosch and the University of Limpopo. This commits me to present a number of lectures and seminars to staff and students. I particularly value the interaction with students and I often feel comforted by the quality of the training that our future economists are receiving.

Overall, the collaboration with universities and research centres plays a key role in the continuous upgrading of our intellectual capabilities and the deepening of our knowledge of relevant subjects. These interactions are fundamental to the fulfilment of our strong commitment to excellence in economic analysis and research at the Bank, which is reflected in our series of working papers and periodic bulletins. The close collaboration between the Bank and the academic world mirrors what is occurring more broadly between academia and the new knowledge-based industries. It facilitates the continuous elaboration and improvement of a large set of tools that are of utmost importance for decision-making at the Bank, ranging from models for forecasting and policy evaluation to analytical frameworks for monitoring monetary developments.

3. The interaction between research and policy-making

Macroeconomic policy has attracted a great deal of research in recent years. Much of this research work has concerned issues that are highly relevant to those of us who are engaged in monetary policy decisions. One example is the misconception that there is a permanent trade-off between inflation and unemployment (or output). We are indebted to academic research for proving that the attempts to exploit such trade-offs eventually only lead to higher inflation. It therefore re-established a firm basis for the concept of the long-term neutrality of money. Indeed, this is a perfect example of an academic insight that has become a deep-seated principle of central banking around the world.

I have spoken to you about the important input that economic research provides to central banking. Let me briefly touch on the other leg of this exchange, from policy to science. By facing the challenge of decision-making in real time and in the real world, policy-makers continuously uncover a wealth of new intellectual problems that may be unknown to academic researchers. Moreover, economic policy-makers have a better knowledge of the institutional constraints affecting policy and are therefore able to transmit a sense of realism to economists who analyse monetary policy issues. An example that springs to mind is that of inflation targeting, which did not originate in any textbook, but at central banks. This widely implemented monetary policy framework has in turn spawned a significant academic literature.

An additional, less obvious, but very important aspect of this exchange is that policy-making introduces a form of discipline in the science of monetary economics by placing a premium on analytical results that prove to be robust across different approaches and time horizons. A central bank needs to be very cautious about "jumping on the bandwagon" of any new but untested paradigm that academic researchers, or other observers, may provide. Here I agree with Friedrich Hayek and "confess that I prefer true but imperfect knowledge, even if it leaves much undetermined and unpredictable, to pretence of exact knowledge that is likely to be false." One thing is clear, however—the sounder the theoretical foundation for monetary policy, the easier the life of a central bank governor.

4. Macroeconomic policy challenges for SA

The theme of the conference is "*macroeconomic policy challenges*". I do not want to pre-empt the forthcoming discussions, but I thought it would be appropriate to mention some of the macroeconomic challenges that I see facing South Africa.

The fundamental macroeconomic challenge in South Africa is the alleviation of poverty. The best way to alleviate poverty on sustained basis is to generate employment which in turn requires economic growth. Although the economy is growing at its highest rate since the advent of democracy, it is generally accepted that to make sustained and significant inroads into the employment and poverty situation, a higher growth trend is required. This is recognised by the accelerated and shared growth initiative (ASGISA) strategy of government. Some of the questions that need to be considered are the challenges and the risks the strategy faces.

We face some monetary policy challenges as well. In recent months the risks to the inflation outlook have increased. Factors leading to this deterioration include high growth in consumer spending, rising levels of credit extension to the private sector and developments in the international oil prices. Although oil prices have moderated recently, upside risks remain, and a challenge we face in the Bank is to keep inflation within the inflation target range in the face of significant exogenous shocks as posed by the oil price movements. Research on the first and second-round inflationary effect of oil price increases is therefore important for making good monetary policy decisions.

High levels of domestic expenditure have contributed to the widening deficit on the current account of the balance of payments. While the deficit is currently more than adequately financed by capital inflows, investor fears relating to the sustainability of the deficit increase the risks of exchange rate adjustments which could threaten the longer-term attainment of the inflation target. The policy challenge is to maintain low inflation within the context of a growing economy and a sustainable external balance.

There are also challenges facing our financial markets. South Africa is a small open economy by international standards. This in itself presents some challenges for the pursuit of domestic price stability. Our foreign exchange market is very liquid which makes it an easy target for portfolio realignment by international investors. Therefore, there is always a potential threat of a direct impact on the exchange rate of the rand emanating from this source.

Finally, there are challenges posed by globalisation and regional co-operation. Regional co-operation is vital for success in our modern world, one that is becoming increasingly globalised. Although globalisation has brought many benefits, the painful experience emanating from the adverse developments in international financial markets is still fresh in our memories, and hence one cannot over-emphasise the importance of co-operation, particularly among central banks.

5. Conclusion

It is important that policy-makers assess the current economic situation and establish the areas in which further action will be required. A lot has been achieved, but many economic challenges still remain. I believe that the subjects and the quality of the papers to be presented, the impressive expertise and experience of our speakers, discussants and panelists will provide fertile ground to nurture fruitful debates, enhance our understanding and generate new ideas regarding the challenges facing our economy. Thank you for your willingness to share your knowledge and experience with us.

We also trust that you will enjoy the opportunity of meeting with other economists, enjoy the Bank's hospitality, and to those who are from outside our country's borders, enjoy your visit to our beautiful country.

I thank you.