



South African Reserve Bank
Executive Management Department

An address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the launch of the MPC Schools Challenge, Pretoria

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Good morning ladies and gentlemen

Decisions whether to cut, increase, or keep interest rates unchanged are of enormous importance to the economy general, and they affect most people, either directly or indirectly. This often raises the question: how do central banks make these decisions, and specifically, what factors do they take into account in making these decisions.

One of the channels that many central banks use to explain how they make these decisions and what factors they take into account is to run a competition for high school learners. Typically, these competitions involve a group of learners forming themselves into a Monetary Policy Committee and making a case either to cut, increase, or keep interest rates unchanged.

The South African Reserve Bank began a pilot in 2012 in partnership with the Gauteng Department of Education to:

- Offer learners the opportunity to enhance their understanding of monetary policy and how it relates to the economy as a whole;
- Help learners understand better how the economy works;
- Assist learners to better understand how the SARB's Monetary Policy Committee makes decisions;
- Improve broad economic literacy in the country;
- Create an opportunity for learners to put the classroom economic theory into practice and thereby enhancing their understanding of economics;
- Stimulate interest among learners in a career as an economist; and
- Raise awareness and understanding of the role and responsibilities of the SARB.

The MPC Schools Challenge has since been expanded to cover 7 provinces. We have also since partnered with the Department of Basic Education and the provincial departments. We have had 450 schools participate in the challenge since 2012, involving 1 340 learners. By participation we mean schools whose team submitted an essay.

A requirement of the programme is that participants take a combination of economics and mathematics subjects, excluding maths literacy. Certain schools therefore do not qualify as they do not provide this learning combination.

Next year, the challenge will become national with the addition of KwaZulu-Natal and the Western Cape provinces. Hence, today's launch of the MPC Schools Challenge.

The way the competition works is that each school must constitute a team of four learners who model themselves on the Monetary Policy Committee (MPC). The team presents its case to a panel of SA Reserve Bank economists. Representatives of the Department of Basic Education moderate the outcome. To ensure that all entrants have access to the same basic data, the SARB provides learners with relevant economic data.

Accessing data is perhaps the easy part. The first hurdle is deciding how the outlook for domestic and global economy impacts on future inflation. To clear this hurdle requires the team to interpret current economic conditions and events, and to apply judgement about the likely future path of the economy. There are many factors that the team must consider, and they are often moving in different directions, making judgment on how they will affect future inflation that much more difficult. At the end of it all, committees rely on judgement in making the call whether to cut, increase, or keep interest rates unchanged.

Monetary policy decisions in the SARB are made by the Monetary Policy Committee (MPC). The MPC currently comprises six members, being the Governor, the three Deputy Governors, and two other senior officials of the SARB.

Every decision of the MPC is an outcome of in-depth discussion and debate. Even a 'no change' decision is a policy decision. I should also note that the monetary policy decision is not a one-off event; it is a continuous process which culminates in the MPC meeting where decisions are finally taken. We are constantly talking to each other, discussing what we see and how we interpret what we see.

There is a sizeable literature on the relative efficiency of committee-based decision making. A committee tends to pool information and ideas from a group comprising different skills and views, and it also provides insurance against extreme preferences and outcomes.

So, there is an additional benefit that participation in the MPC Schools Challenge potentially offers learners. And that is that those learners get an opportunity to develop or put their social skills into practice. By social skills I mean the ability to interact with fellow human beings. Literature shows that the ability to interact with fellow workers, successfully working as a team remains among the most important skills in the modern economy. This is because technology has yet to successfully simulate human interaction.

The ability to listen to the views of your colleagues, question or debate the issues they raise and attempt to persuade them otherwise has a broad societal benefit, way beyond application in policymaking. In that sense, the ability to engage with the ideas of fellow workers and collaborate with them will, for a long time to come, remain one of the prized skills by employers.

The MPC Schools Challenge is therefore a contribution by the SA Reserve Bank towards improving the understanding by young South Africans of how the economy works, why high inflation is bad for an economy and how the Monetary Policy Committee makes decisions.

Thank you