



SOUTH AFRICAN RESERVE BANK

**An address by Lesetja Kganyago,
Governor of the South African Reserve Bank,
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Delivering on Mandates

Good afternoon

Thank you for having me on this panel and thank you more broadly for the opportunity to engage with you on the topic of building state capacity at the municipal level.

I recently returned from the World Economic Forum in Davos, where people like me try to convince those looking for investment opportunities to choose South Africa. Davos is a very well-resourced town, and its local government runs smoothly, unlike most South African municipalities that are facing power outages, water shortages and long queues at municipal offices.

At Davos, we talk about the big issues facing the global community. Local government does not feature much. But what happens at the local government level affects people's lives just as much as the main Davos themes, like artificial intelligence (AI) and climate change.

Furthermore, if we had a technology that improved local government capacity as drastically as AI has improved recently, I would say that would be a more important breakthrough than what we pondered at Davos.

Of course, we do not have that technology. What we have is you, the officials who manage municipalities. Today's objective is to discuss mandates with you, and to share our knowledge and experience in trying to deliver on our mandates, in the hope that there are some common lessons.

A mandate defines an organisation's mission. In government, it is one of the ways in which a community achieves its goals.

There are different ways, of course, to achieve social objectives. The classic mechanism in modern democracies is to choose people who then make choices on a community's behalf, and if they do not like those choices, then they choose someone else the next time.

But there are many decisions in democracies that are not directly made by voted-in representatives. Rather, they are delegated to specialist organisations that have mandates. The South African Reserve bank (SARB) is one of those organisations.

This model works well when that mandate is clear and you know what is expected of you.

It works best with goals that are generally agreed to be desirable, and for which we have the relevant and effective tools.

It is also a particularly good way of insulating decision making from short-term political pressures, which can get in the way of good outcomes.¹

Let me illustrate these points with the example of central banking which, of course, is the example I know best.

There is a broad global consensus on the model of central banking that we use in South Africa. In that model, a central bank is independent, but independence does not mean that the central bank can do whatever it pleases. The central bank is given independence to achieve specific mandates.

Those mandates are things most people agree are in the interest of society. Our mandates, in common with many other central banks, are for price and financial stability.

We have a toolkit to achieve these mandates. We can set interest rates and we can enact a range of regulations, supervise financial institutions and intervene in the financial market to counter dysfunction and instability.

Central bank independence came about because we tried central bank dependence and it did not work.

In countries where central banks are captives of the political process, they tend to be willing to fund whatever government wants, or to adjust monetary policy to suit election timetables. Ultimately, these come at a huge cost to the economy, paid with an inflation tax, which is levied disproportionately on the poor and vulnerable people in society.

¹ This discussion draws on Paul Tucker, *Unelected Power*, 2019.

You also get central banks that let banks misbehave, take huge risks, then extract bailouts from the public purse to save the financial system.

In the short term, central banks can make themselves popular by providing cheap money and encouraging credit sprees.

Conversely, central banks can also make themselves deeply unpopular by interrupting the ruling party by insisting on protecting price and financial stability.

But ordinary people want stability. They do not want the currency crashing; they do not want prices in the shops spiralling; and they do not want to worry if their money in the bank is safe.

Simultaneously, most citizens do not have the time or the power to enact policies to protect price and financial stability. What they have is us.

This is not to speak disparagingly of our stakeholders, but we cannot expect citizens to master these issues. They have their own priorities; they have their own projects. There is too much information for them to understand everything and it is not their job to do the things we are responsible for. This is a phenomenon economists call 'rational ignorance'. Just like with smartphones or cars, you want to be able to leave the technical details to someone else and rely on the system to work.

Of course, when it does not work, there is a reckoning. People complain, they take to the streets and they shout at you through the media. This can bring some accountability.

And yet, unfortunately, there are ways to dodge criticism. You can always find reasons why you did not deliver. There is a sad history of central banks finding excuses for why they cannot protect the value of their currencies. They talk about how they do not control oil prices or food prices, or how they are being attacked by unethical speculators, or how the political mood of the country just makes inflation inevitable.²

However, even where these things are true, after a year or so you get two kinds of countries. You have countries that make excuses and you have countries that have price stability. There are people who get the job done and there are people who make excuses. They are rarely the same people. The people who stick to their mandates eventually get results.

² A classic example is Arthur Burns, 'The anguish of central banking', September 1987, available at: https://fraser.stlouisfed.org/files/docs/publications/FRB/pages/1985-1989/32252_1985-1989.pdf. For a discussion, see Lesetja Kganyago, 'In the shadow of COVID: lessons from 20 years of inflation targeting', 12 August 2020, available at: <https://www.resbank.co.za/en/home/publications/publication-detail-pages/speeches/speeches-by-governors/2020/565>

Of course, there are some good excuses out there. Everyone makes mistakes, honest mistakes. We call these mistakes 'excusable' for a reason. But I have seen clearly, in the history of central banking, many unconvincing excuses. And the longer the excuses go on, the weaker they get.

Reviewing this history, I think the practical policymaking lesson is that we need to practice **error-tolerance** and **excuse-scepticism**.³

Error-tolerance means you come forward, confess your mistakes honestly, discuss your plans for recovering the situation, and you get a fair hearing.

Excuse-scepticism means you get a harsh reception when you say nothing is your fault and you cannot be held accountable, even though the mandate you were trusted with is not being delivered on.

Quite a few central banks got it wrong in recent years. They did not see inflation coming and they did not understand it when it did.

In emerging markets, we have taken some satisfaction in the verdict of many in the policy community⁴ that some of us did better here than the developed countries. But the big central banks are high-quality organisations and they demonstrate that quality, not by avoiding mistakes but by dealing with them and being honest about their errors.

In the 1970s – the last big global inflation surge – central banks made many mistakes, gave many excuses and lost control of inflation. In the 2020s, I am confident we will do better, with far fewer excuses and much more success.⁵ We are going to deliver on our mandates.

Of course, I am not a municipal manager. I doubt that my challenges, and the challenges of my profession, map directly to your challenges.

That said, there is one area where our work overlaps, and that is the issue of inflation. At the SARB, our fundamental mission is to protect the buying power of the rand, and we specifically aim to protect it from increases in the cost of living, as measured by the consumer price index from Stats SA.

If you go to that index, you see some significant components where prices are set at the municipal level. Think of water, think of rubbish collection, think of municipal rates.

³ This discussion draws on Amy Edmondson. *Right kind of wrong: The science of failing well*. 2023

⁴ An example is <https://www.piie.com/publications/working-papers/central-banks-and-policy-communication-how-emerging-markets-have>

⁵ <https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm>

Unfortunately, these prices are often rising by more than headline inflation. In the latest inflation report from Stats SA, for example, water inflation was 9.6%. Housing assessment or municipal rates was 8.4%. These numbers should be much closer to the midpoint of the SARB's target of 4.5%.

High municipal inflation eats away the incomes of our people, keeps our inflation rate elevated, and makes it harder for us to lower interest rates. It's OK for prices to keep up with inflation; it's not OK for some prices to always be rising by more than inflation. And we need you to take the lead to tackle this.

Let me conclude by summarising the main points I have made today.

- It is important to understand mandates as part of the democratic process – a system for producing specific outcomes in the interest of society.
- This model works best when there are specific powers, requiring expert knowledge to achieve outcomes driven by a clear mandate that ensures transparency and accountability, and importantly, is devoid of short-term political considerations.
- It is important to have the courage to acknowledge mistakes and how you plan to fix them, rather than covering them up or making excuses.
- Ultimately, mandates represent a duty to South Africans who need us and trust us to deliver.

For those of us who commit ourselves to delivering on these mandates, it can be difficult if you do not have the requisite skills and resources. But we have seen enormous commitment, creativity and perseverance across society to deliver on our mandates. We should all feel great pride in our work, serving the people of South Africa.

Thank you.