Publication: Herald (Morning Final), Business
Date: 08 Sep 2016
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Silver bullet for SA's economic woes

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Structural changes, not monetary policy, are solution to troubling mix – Kganyago

STRUCTURAL changes to the national economy as envisioned by government national development plans are the solution to the "troubling mix of little growth, high inflation, and growing unemployment" which has dogged South Africa since 2011.

This is according to South African Reserve Bank Governor Lesetja Kganyago, who yesterday pointed to structural changes, as opposed to monetary policy, as the silver bullet to address the country's three most pressing economic concerns.

Kganyago was addressing a full auditorium at the Nelson Mandela Metropolitan University Business School in Port Elizabeth yesterday.

His lecture, "The influence of South Africa's price-setting environment on monetary policy trajectory", focused on one of the Reserve Bank's core functions – inflation targeting, which he framed within the context of currently high food price inflation, the exchange rate, the rigidities in the labour and product markets and how the bank has "operationalised" inflation targeting.

The governor opened his lecture with commentary around the state of the national economy.

"South Africa's economy has been slowing since 2011 in an environment of sluggish global growth and falling commodity prices," he said.

"In July, we expected the GDP growth rate for 2016 to be about 0%.

"With the relatively good second-quarter figures released on Tuesday, the Monetary Policy Committee (MPC) of the South African Reserve Bank will be able to revise up its annual estimates at the September meeting, but the annual figure will remain low."

"At the same time, inflation has been elevated.

"Since 2011, it has averaged 5.5%, and so far this year it has averaged 6.3%, above the target range of 3%-6%," Kganyago said.

He said that, all things being equal, the MPC would have liked to respond to slow and below-trend growth with lower interest rates.

"But all other things have been far from equal. We have had to make decisions where we don't like all the consequences because of the nature of the factors driving inflation out of the target range."

On food price inflation, he singled out the drought.

"The result has been double-digit food price inflation in 2016. This is adding about 1.5% to inflation, which is enough to push headline inflation outside the 3% to 6% target range."

Pointing out that the price inflation had most affected bread, cereals, fruit and vegetables, the governor said meat prices were also expected to rise later this year.

Kganyago's lecture also addressed what he termed the rigidities in labour and product markets which prevent wages and prices from adjusting in line with economic conditions.

"The typical pattern is that wages and salaries, or overall remuneration, rise strongly, usually faster than prices and irrespective of where we are in the business cycle.

"However, unlike food prices that can cause widespread inflation, rising remuneration doesn't have to become an inflation problem," he said.

"If workers and firms negotiate pay and in the end agree on lower profits with higher pay, that's a distributional issue, not an inflationary one.

"Inflation pressures occur when remuneration goes up and firms just pass the higher costs on to consumers."