



NATIONAL ECONOMIC DEVELOPMENT AND LABOUR COUNCIL

STATEMENT ON THE ENGAGEMENT BETWEEN THE NEDLAC EXECUTIVE COUNCIL AND THE SOUTH AFRICAN RESERVE BANK

28 November 2011

The Governor of the South African Reserve Bank (SARB), Ms Gill Marcus, and Deputy Governors Kganyago and Mminele accompanied by a senior technical team briefed the Nedlac social partners at the NEDLAC Executive Council (Exco) meeting held on Friday, 25 November 2011. The focus of the session was on monetary policy, the state of the global economy and its impact on the South African economy.

The Governor and her team highlighted disquieting facts about the current state of the global economy, including the looming recession in Europe, an uncertain recovery in the US and poor growth prospects in Japan. The Governor said, “We are facing high-level of global uncertainty” and it was clear that the sovereign debt crisis in Europe coupled with a synchronised downturn in the leading advanced economies continued weighing heavily on global confidence and economic activity.

The global economic situation poses serious challenges for emerging markets, including South Africa. Domestically we face the prospect of slow growth combined with rising inflation and increased currency volatility. In response, the need to find market opportunities is a major imperative for emerging countries that increasingly have to diversify from traditional markets to seek domestic and regional opportunities. In this regard South Africa will have to accelerate the process of diversification in its exports.

On the positive side, the Deputy Governor Kganyago expressed continued confidence in the state of the South African banking system, citing that the sector had been well capitalised and could therefore absorb incurred losses. He also noted that the interbank market in South Africa remained in a healthy state. Globally some comfort may be taken from the fact that the level of Trade Financing has not dropped, as was the case during the 2008 crisis. However, the SARB is keeping a close watch on this development.

Deputy Governor Mminele noted the fragility in the confidence of markets. This was exacerbated by the dilemma in the European financial system, as banks were required to shore-up capital while improving the quality of their assets in an environment where lending need had increased. A particularly worrying development was the failure in the recent bond auction by the Bundesbank. In South Africa equity markets lost ground since the beginning of the year but the bond market was still positive but this could change suddenly.

In his input, the Deputy Head of Research, Johan Van den Heever noted that the SA indicators were mixed bag but that overall, South Africa's recent economic growth had been lustreless. Although retail and vehicle sales grew strongly, manufacturing growth was tepid and there were very disappointing growth figures in the mining and agricultural sectors. The inflation rate is expected to increase above 6%, and although the level of employment was edging higher, the unemployment rate remained a concern. According to the medium-term projections in the MTBS, lower GDP growth and a wider budget deficit were predicted for the next two to three years.

The Nedlac social partners were in unison about the country adopting a "business unusual" approach. That perhaps the sustained global economic crisis should be an indication of the need for the country to do things differently.

Labour stated that unemployment, poverty and inequality remained key features of South Africa's economy and that stakeholders should work together to develop a credible solution that will respond to the current environment. Labour welcomed the offer from the Governor to continue engagements on monetary policy, as Labour believed that issues such as the weighting of the CPI basket, maintaining a competitive exchange rate and the link between monetary policy and industrial policy required further engagement.

Business believed that the current monetary policy regime is broadly appropriately structured and successfully implemented. Business said that with commodity prices high, it is imperative that inflation is managed carefully to ensure the overall competitiveness of the economy as well as for living standards to be maintained. The financial sector, compared to other sectors, was well regulated. The other sectors were unpredictable thus deterring investors from making investment decisions in favour of the country. By virtue of how this encroached on the country's ability to mitigate risk or embark on expansionary activities, Business believed that the policy framework in which administered prices are set is in need of a review.

Community stated that South Africa is at a disadvantage with the high levels of unemployment, particularly unemployment of the youth, and requested the leadership of the Reserve Bank to share their thoughts on policy considerations needed to address the impact of the crisis.

The fact remained that South Africa is not immune to the impact of the challenges experienced around the world and urgent action is clearly called for. Social partners agreed that action by all stakeholders is essential and that the imminent impact of the global recession required a "business unusual" approach. Exco resolved that discussions on monetary policy, on how to respond to the global economic crisis and on the kind of stimulus needed to accelerate economic growth and employment in South Africa should take place in

NEDLAC. This meeting was the first of a series of engagements between social partners and the SARB, the objective of which would be to work out solutions and a response mechanism to the crisis.

In conclusion, the Governor indicated that this was one of the worst crises, thus the country could not afford to have a business as usual approach, a sense of urgency and decisiveness was necessary.