

BANKINDABA

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A purposeful journey



SOUTH AFRICAN RESERVE BANK



A purposeful journey



In the decade since that evening, I have steadily increased my own and the Peterson Institute's engagement with the SARB. I have learnt from this exchange a great deal about the Bank's thought leadership in Africa as well as its practical management of exchange rate stability for the Common Monetary Area, with positive spillovers on the Southern African Customs Union and the region more broadly. More importantly, I have learnt about how a consistent transparent message from the Bank can act as a stabilising pressure on government fiscal policy, particularly in a democratic but still somewhat divided society. These contributions are of course on top of the Bank delivering on its core mission of low inflation and financial stability for the 30 years since South Africa's democratic transition began, which should not be taken for granted.

As Governor Lesetja Kganyago expressed in his 2019 Niarchos Foundation lecture at the Peterson Institute, both central bank independence and credibility depend on forthrightly addressing all

the major financial and macroeconomic issues in a society – particularly in showing how the policy choices affect people's future, and using that longer-term perspective to speak truth to power. While the SARB and its leadership are not shy about making their views known, the significance of their example of honest, uncorrupted, unpoliticised, analytically-based policymaking extends to other areas of South African governance, to central banks throughout Africa, and to traction in international financial forums, including the Group of Twenty (G20) and the International Monetary and Financial Committee.

I am fortunate to be one of the many people in economic policy debates to have been turned around by well-intentioned but also forceful argument from the SARB. I hope and expect that the Bank will continue to be a pillar of stability for the country and increasingly for the world as the separation narrows between nations, between fiscal and monetary policy, and between high- and low-income economy policy concerns.

FROM PAPERS TO POLICY: 25 YEARS OF SUCCESSFUL RESEARCH COLLABORATION

By John Muellbauer



I am fortunate to be married to the South African economist Janine Aron, who introduced me to this beautiful country. In 1996, she was approached by World Bank economists Luis Servén and Klaus Schmidt-Hebbel to determine whether South Africa could be a country case study for their international project, 'Saving Across the World'. I had just published an international survey paper on household saving, so it seemed opportune to co-author the study.

We first visited the SARB in 1997, and subsequently presented our work on modelling aggregate household saving. We were treated to lunch and magnificent views at the top of the Bank. This began a steep learning curve to understand the South African economy, especially its credit markets.

The SARB was the leading central bank in Africa in publishing quality national accounts at a quarterly

frequency, and the only one with flow-of-funds financial accounts. There were sufficient data on the balance sheets of pension and insurance funds and on asset prices to take a first stab at putting together comprehensive household balance sheets, crucial to understanding household saving. Our *World Bank Economic Review* article in 2000 explained the decline in the South African household saving rate (partly through the easing of credit conditions) and contained the first serious econometric analysis of the corporate saving rate in South Africa.

Constructing household balance sheets turned out to be a mammoth exercise as we needed to piece together the partial balance sheet and flow-of-funds information into a complete set of quarterly data from 1970 on aggregate household portfolios. Our *Review of Income and Wealth* article (2006) outlined the methodology and presented components of net wealth for South Africa for the first time. We received significant advice from SARB economists, and later invited Johan Prinsloo to co-author a chapter in James Davies' influential book on global wealth, *Personal Wealth from a Global Perspective* (2008), which also resulted in a *Quarterly Bulletin* article and a SARB working paper.

We produced the first quarterly balance sheets for the household sector from 1970 to 2005, and provided the coding, the regular updating and the publication, all of which is now carried out by the SARB. Our research on wealth, credit conditions

and consumption in South Africa was published in the *Review of Income and Wealth* (2013).

Together, we have contributed well over 20 policy-relevant research papers on South Africa – some co-authored with SARB economists – covering monetary policy, forecasting output and inflation, modelling consumption and debt, and measuring the exchange rate pass-through. (Janine Aron's contribution will outline this in more detail.)

We have had wonderful cooperation from many SARB staff members in our research. With limited staff compared to the many economists at, for example, the Bank of England, the SARB has done remarkably well in producing quality analysis and sound evidence-based policy decisions. The SARB has been a shining light for democracy in South Africa, a vital independent institution free of the taint of 'state capture'. At the 2017 Bank of England conference celebrating 20 years of independence, I had the opportunity to publicly emphasise the SARB's crucial role in civil society and the bravery of its Governor, Lesetja Kganyago.

The SARB is the guardian of financial stability in a world buffeted by huge shocks, and of preserving the value of money in people's pockets. The failure of financial institutions and the economic disruption they cause, along with inflation shocks, have severe consequences for the poor. One of my hopes for the continual flourishing of the SARB is that it be widely perceived among South African citizens as a friend of the poor.



John Muellbauer and his wife Janine Aron visiting the Bank



DEVOTED TO WORKING ON THE SOUTH AFRICAN ECONOMY

By Janine Aron

I originally studied chemistry for many years at the University of the Witwatersrand before changing to economics and travelling to Oxford University for another Master's degree and Doctorate. It was my intention to return to South Africa and make a contribution as an economist, but instead, I married one of my professors.

To make up for remaining in Oxford, I devoted much of my professional life to working on the South African economy, frequently together with my husband, John Muellbauer. One of my co-authors, Professor Ibrahim Elbadawi, used to refer to him as 'Janine's positive externality', in that his considerable skills were fortuitously refocused on making a contribution to South African economic research, and often involving the SARB.

Most recently, we were elected as SARB research fellows (2018-19, extended to 2021). The Bank commissioned two papers from us: 'Housing and Financial Stability' and 'Communication and Governance and Financial Stability'. We presented these at the Biennial Conference in October 2019. We also spent an intensive period interacting with staff to improve the SARB's *Financial Stability Review* journal and to develop the Core Model by making the credit channel linkages more explicit, aiding clarification of the role of macroprudential instruments.

Although the pandemic has intervened in our fellowships, we continue to work on models for house prices and non-performing loans. In 2018, we were invited to the Monetary Policy Committee (MPC) retreat. It was a privilege to have had the confidence of the SARB to participate in these confidential discussions. We have presented several times at the SARB, at seminars and annual conferences when Tito Mboweni was still Governor.



Janine Aron with Pamela Mjandana

We have had good experiences of co-authorship at the Bank, and interesting and helpful interactions with several SARB staff members in all our research over many years. Most recently, Rashad Cassim and Hendrik Nel have encouraged our work. There are others, too numerous to name, who have generously given of their expertise. Greg Farrell co-authored the financial stability research with us and research on the exchange rate pass-through in South Africa, presented in three papers in the *Journal of Development Studies* (2014).

I worked with Brian Kahn on real exchange rates before he became such an important force on the SARB's MPC. In 2009, he and I co-edited the book *South African Economic Policy Under Democracy* published by Oxford University Press (which, after a conference, came out as a special-issue journal). The publication included a strong evaluation with John Muellbauer, backed by extensive econometric work, of the success of inflation targeting initially under the leadership of Tito Mboweni, and seeing off some private sector critics.

We published related work on inflation modelling and inflation forecasting in South Africa. One of the forecasting papers was co-authored with Coen Pretorius, then Head of Macro-Models at the SARB (*SAJE*, 2009). Another paper, 'Some Issues in Modelling and Forecasting Inflation in South Africa', was collected in the 2008 conference series of the SARB.

Many SARB staff members – including Pamela Mjandana, Daleen Smal, Coen Pretorius, Brian Kahn and Johan Prinsloo – may remember visiting us in Oxford for week-long stays of ‘capacity-building’ for which I arranged funding, meetings, and seminars; for sessions of the African Central Banking Network that I had organised in Oxford in the early 2000s.

In our experience, it is quite difficult for busy central bankers and academic researchers to interact and learn from one another. They operate at different levels of detail and with different demands and time frames. That is why we are grateful to the SARB and its staff for graciously helping us bridge this gap, often successfully. We are proud to have been able to make a contribution to practical policy.



BANK OF ENGLAND

TWO DECADES OF INTERACTION WITH THE SARB

By Andrew P Blake, Senior Adviser, Centre for Central Banking Studies, Bank of England

My introduction to the world’s central banking community came all at once when I joined the Bank of England’s Centre for Central Banking Studies (CCBS). Suddenly, my mission became to educate central bankers all over the world, sharing best practices, explaining new methods, and channelling my experience into helping with the multiple tasks of a modern central banker.

Contact with the SARB came soon after, going back – I think – to 2003 when the new Head of the (then) SARB College, Gilbert Wesso, visited London to recon a CCBS event on modelling and forecasting. I recall sincerely hoping that he

approved of the course. He must have, as he invited us to visit the SARB College the next year.

And so we went. A novice to Africa and fresh from the drizzle of London, the sight of galloping giraffes wasn’t quite what I was expecting. Now a familiar (albeit thrilling) sight, it served then to emphasise that I was visiting a country whose experience was far removed from my own. But the language of economics is universal, and the thoroughly engaged audience I met at the SARB that week – as in my many visits since – was kind enough to help me help them and educate me in what they needed to know.

Further events have followed, their various topics following the evolution of central banking practice, mirroring an expansion in my own knowledge and expertise. As I learned more about central banking,