



SOUTH AFRICAN RESERVE BANK

Press Release

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A new framework for implementing monetary policy in South Africa

In November 2021, the South African Reserve Bank (SARB) released a consultation paper on a new monetary policy implementation framework (MPIF) for South Africa. Following an extensive consultation process, including engagements with domestic stakeholders and both local and foreign experts, the SARB is ready to implement a new MPIF.

The Monetary Policy Committee (MPC) makes decisions on interest rates and the MPIF is the mechanism through which these decisions are made effective and transmitted through the South African economy. The amendments to the framework are technical in nature and will affect how monetary policy is implemented but will not affect the inflation target range or the interest rate decisions of the MPC.

Since 1998, South African monetary policy has been implemented using a classical cash reserve or shortage system, under which the SARB ensured that there was a shortage of bank reserves in the market. Banks sourced these reserves from the SARB, at the repurchase (repo) rate. The ability to charge the repo rate on these loans was the mechanism that gave effect to the interest rate decisions of the MPC.

Under the new MPIF, the SARB will allow an excess supply of bank reserves in the market and manage this additional liquidity by paying interest on reserves, at the repo

rate. Banks will have 'quotas' or 'tiers' on the amounts they can deposit at the SARB, designed to prevent the hoarding of reserves. The SARB will commence the transition to the new system on 8 June 2022, phasing out the shortage gradually and then building a surplus. The transition is expected to last 12 weeks. The details of this framework are provided in the paper, 'A new framework for implementing monetary policy in South Africa'. A second paper, titled 'Transitioning to a new monetary policy implementation framework' has also been released today, discussing the transition plan in-depth, as well as highlighting major themes from the consultation process and considering the transition quotas for banks. Both papers have been published on the SARB website.

It is expected that this reform will provide the SARB with a resilient and efficient framework for implementing monetary policy in South Africa. We wish to thank all those who participated and contributed to crafting a new MPIF for South Africa.

For media queries, please contact Ziyanda Mtshali at media@resbank.co.za or 078 143 0553 or Samantha Springfield, Senior Manager: Market Operations and Analysis at Samantha.Springfield@resbank.co.za.

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