# The South African Reserve Bank's response towards calls to pursue unconventional monetary policy

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**Case summary**

**Learning outcomes:** On completion of the case study, students will understand the following learning objectives: the characteristics of quantitative easing (QE) and when it may be appropriate to implement QE; how QE differs from a conventional bond purchasing programme; the impact of direct financing of the fiscus by the central bank on its independence; how the macro-economic and political environments affect and influence national economic policy; the difference between traditional and unconventional monetary policies and potential implications for an economy like South Africa. The learnings from this case study can be used in other global economic environments, particularly in emerging markets. This case study provides valuable insights into decision-making, institutional independence, policy coordination, deficit financing, causes and consequences of price inflation, risks relating to monetary instability and the correct application of monetary policy.

**Case overview/synopsis:** After the announcement of the COVID-19-related lockdown in March 2020 and the subsequent slow-down of economic activity in South Africa, the South African Reserve Bank (SARB) had to consider appropriate macro-economic tools to ensure both price and financial stability in South Africa. The macro-economic policy tools had to be considered in light of the South African economic context, which included acknowledgement of South Africa's debt crisis and slow economic growth. The central bank responded by introducing the following measures: reducing interest rates to a record low of 3.5% to give consumers financial relief and to promote spending in the economy; purchasing government bonds in the secondary markets to stabilise financial markets; facilitating the loan guarantee scheme that was aimed at providing financial relief to small- and medium-sized enterprises; relaxing the capital and liquidity adequacy requirements that commercial banks are required to meet; and ensuring availability of liquidity to banks through facilities such as the weekly repo auctions. However, despite introducing these interventions, the SARB faced calls from politicians, analysts and academics to do more. Various commentators argued that the SARB could introduce QE and directly finance government spending by purchasing government bonds. Some commentators argued that the reluctance of the SARB to pursue these suggestions was a result of the close alignment and relationship between the SARB and National Treasury. The dilemma faced by Governor Lesetja Kganyago of the SARB was threefold, namely,

whether it was appropriate for the central bank to pursue the initiatives and, if so, whether the bank could pursue them without compromising its independence, and if the introduction of those initiatives would not adversely affect the ability of the central bank to fulfil its mandate of price stability and financial stability. In this regard, the governor and his executive team were required to consider the long-term implications of introducing the initiatives on consumer price inflation, independence of the SARB and the appropriate use of monetary policy tools to fulfil the central bank's mandate. But the question was: What policies should the governor favour?

**Complexity academic level:** This case study is based on various macro-economic theories. Therefore, it would be useful to teach this case study in macro-economic courses in the following programmes: master's in business administration, bachelor of commerce, bachelor of economic sciences and business science studies, as well as on executive education programmes, which consider macro-economic policy. In general, students who undertake economics, business and general management, finance, legal, commerce and banking studies could learn from this case study.

**Supplementary materials:** Teaching notes are available for educators only.

**Subject code:** CSS 3: Entrepreneurship.

**Keywords:** Banks; Financial institutions; Regulatory policy; Treasury management

## Introduction

In July 2020, during the peak of the coronavirus (COVID-19) lockdown restrictions, the South African economy was in dire straits. A fiscally constrained government had increased pressure to care for an already ailing economy with soaring unemployment rates. The country's central bank, the South African Reserve Bank (SARB), implemented monetary policies to support the economy. One of these policies was to initiate a bond purchasing program. However, there was mounting pressure on the SARB to do more to support the government's effort to aid and stimulate the economy. Lesetja Kganyago, SARB's governor, had various options to consider. However, the question was: What was the best option for the frail economy of South Africa?

## Background of Governor Lesetja Kganyago

Kganyago was born in 1965 in Alexandra, a township located in Johannesburg. At an early age, he moved to Limpopo province [1] with his mother, where he finished his secondary schooling. He completed his bachelor of commerce degree at the University of South Africa and his master of science in development economics from the University of London (School of Oriental and African Studies).

Kganyago was highly regarded as a central banker; he had served at senior levels for over 25 years within the National Treasury and the SARB. During this time, he represented South Africa at international organisations such as the African Development Bank (ADB), the G20, International Monetary Fund (IMF) and the World Bank. He also experienced various significant events, including the Asian crisis of the late 1990s and the global financial crisis of

2008/09. In October 2014, Kganyago was appointed as governor of the SARB, and in 2019, his appointment was extended for another five-year term (South African Reserve Bank, 2023).

**Mandates of the SARB**

The SARB had a primary mandate to ensure price stability and a secondary mandate to ensure financial stability. Its primary mandate was set out in Section 3(1) of the SARB Act of 1989, which provides that the bank must: "protect the value of the currency of the Republic in the interest of balanced and sustainable economic growth in the Republic" (South African Government, 2023). SARB's secondary mandate for protecting and enhancing financial stability in South Africa is detailed in Section 11(1)(a) of the Financial Sector Regulation Act. When South Africa transitioned into a democratic dispensation, the mandates of the SARB became enshrined in the Constitution [Section 224(1) of the Constitution of the Republic of South Africa, No. 108 of 1996 ("the Constitution")]. The independence of the SARB was also entrenched in the Constitution. Section 224(2) of the Constitution provided that the SARB "must, in the pursuit of its primary objective, perform its functions independently and without fear, favour, or prejudice" (South African Government, 2023).

The legislation related to SARB's independence was rooted in the assumption that the SARB could make monetary policy decisions with a focus on long-term monetary stability, without considering short-term political perspectives and political influence (Fischer, 2016). The evidence from other markets indicated that longer-term economic prosperity corresponded with lower inflation that corresponded with financial stability, and that typically yielded better growth and employment outcomes (Tindleni, 2006). Thus, SARB's independence empowered the governor to pursue the long-term public interest without being pressured to satisfy the interests of certain groups (Fischer, 2016) at the expense of long-term public good (Binder, 2021). Politicians, on the contrary, might be incentivised to use policies with short-term impulses that were negative for society in the long term (Binder, 2021) [2].

**The state of the economy**

In 2020, South Africa experienced a continued deterioration in economic position, with the economy expected to grow by only 0.5% (SARB, 2020) [3]. The economy had grown by only 0.2% in the previous year, with the country having experienced technical recession in the second half of 2019 [4]. To add to this low-economic-growth environment, the country was confronted by the global COVID-19 pandemic, which originated in China in December 2019.

To combat the spread of COVID-19, the government announced a nationwide lockdown, which commenced on 26 March [5]. The lockdown meant that only individuals who offered essential services could continue to operate, including people involved in the food industry, medical services, security services, fuel supply and other related activities. The rest of the population had to stay at home and could travel only under certain permitted circumstances, such as to buy food or seek medical care. The lockdown was expected to have a dire impact on the South African economy, with the SARB expecting a contraction of gross domestic product (GDP) of 7% for the full year [6]. This would be the largest contraction since the Great Depression of 1931, where output contracted by 6.1%.

## South Africa's fiscal position

In his February 2020 national budget speech, Tito Mboweni, minister of finance, painted a worrying picture of South Africa's fiscal position. He said that the state's revenue was projected to grow by 4.9% to R1.58tn with expenditure of R1.95tn [7]. This meant that South Africa was anticipating a budget deficit of R370bn. Before the impacts of the COVID-19 shutdown, the country's gross national debt was projected to reach R3.56t, or 65.6% of GDP, by the end of the 2020/21 fiscal year [8].

In June, exactly 90 days into the continuing nationwide lockdown, Mboweni delivered a COVID-19 emergency budget speech. In this address, the Mboweni painted an even more worrying picture. Given the impact of COVID-19 and the resultant lockdown, the consolidated budget deficit was now expected to double to R761.7bn [9]. The gross national debt was now projected to be close to R4tn, or 81.8% in 2020, up 15.6% from the February projection [10].

## South Africa's debt crisis

South Africa had a widely referenced debt problem even before the COVID-19 pandemic hit the country. In 2019, South Africa's budget deficit was over 6% of GDP [11]. The COVID-19 crisis simply added to this fiscal deterioration. As a result, South Africa lost its last remaining investment-grade credit rating in April 2020. In this regard, Fitch Ratings announced that it had reduced South Africa's rating from BB+ to BB [12]. This fiscal deterioration resulted in an increased sovereign risk for South Africa. Mboweni, in his June 2020 address, described the South African debt condition as follows:

> Debt is our weakness. We have accumulated far too much debt; this downturn will add more. This year, out of every rand that we pay in tax, 21 cents go to paying the interest on our past debts. This indebtedness condemns us to ever higher interest rates. If we reduce debt, we will reduce interest rates for everyone, and we will unleash investment and growth. Our Herculean task is to stabilise debt [13] (Exhibit 1).

Mboweni further added that, in 2020, South Africa would spend R236.4bn to service debt, up from R229.3bn as projected in February, and R184bn in 2018 [14]. If the government failed to arrest the debt trajectory, the stock of debt would cross 100% of GDP in 2023/24 and reach 140% in 2028/29. In addition, debt-service costs would increase to 31% of the main budget revenue by 2024/25 [15] (Exhibit 2).

In recognition of the dire debt condition, the Mboweni's primary message was that South Africa must act urgently to stave off the fiscal crisis and deal with the debt that would hit R4tn in 2020. For the Mboweni, acting now meant adopting zero-based budgeting, which meant allocating funds only after scrutinising costs and benefits for a particular period [16].

## Funding options for South Africa

In April 2020, in response to the impact of COVID-19 on South Africa's economy, Cyril Ramaphosa, the President of South Africa, , announced a historic economic and social support package of R500bn [17]. The president also mentioned that the government would approach international finance institutions such as the International Bank for Reconstruction and Development (World Bank) and the IMF to source unconditional loans for COVID-19 relief at low interest rates. This announcement was not welcomed by all. The country's National

Treasury confirmed that it was seeking R95bn in credit from international financial institutions [18]. Various commentators argued that the government would risk its sovereignty if it signed loan agreements with specific international financial institutions, which were known for imposing strenuous loan conditions. Some commentators proposed that the government should borrow the required funds from the SARB [19].

Thus, the government had various options for raising the funds, which included the following:

- borrowing from international financial institutions such as the New Development Bank (also known as the BRICS Bank), the ADB, the IMF and the World Bank;
- increasing debt through government bond auctions;
- entering into bilateral loans with developed countries; or
- issuing government bonds to the SARB.

It was widely accepted that it would be prudent for the government to source the cheapest funding that comes with the least stringent conditions. However, South Africa was not the only emerging market country seeking such funding; many other countries had high indebtedness and financing needs on the back of the COVID-19 pandemic.

In weighing up the options, it would be expensive for the South African Government to raise funds through the issue of government bonds because bond yields were high. The bond yield on a five-year government bond was above 8.8% in June [20]. Similarly, the global economic environment was not conducive for the grant of bilateral loans amongst countries, given that most countries were facing economic and financial pressures flowing from the global pandemic.

Moreover, there were limits on the amounts that South Africa could borrow from international financial institutions. South Africa had access up to R19bn from the NDB and R1bn from the World Bank for specific health and infrastructure projects. This situation left the government with two avenues to raise the bulk of the required R95bn: either loan funding from the IMF or a direct financing of government bonds by the SARB.

**International Monetary Fund versus South African Reserve Bank funding**

Due to its membership in the IMF, South Africa was entitled to draw down approximately $4.3 billion of its special drawing rights quota in the form of a rapid financing instrument (RFI). The RFI was available to each member of the IMF at an interest rate of 1.1% and repayable over a period of three to five years in USD. Therefore, the government would be exposed to currency fluctuation risk if they availed this loan. In this regard, by June, from January, the value of Rand depreciated by 18.1% against the USD [21].

With respect to the direct financing of government bonds, the SARB was permitted by the South African Reserve Bank Act to acquire government securities directly from the National Treasury, subject to a limit. Section 13(f) of the South African Reserve Bank Act precluded the SARB from holding government securities acquired from the National Treasury if such holding exceeded its capital reserves plus one-third of its liabilities to the public. Various commentators had estimated this to be between R220bn and R350bn [22]. Funding from the SARB would be denominated in rands and earned interest at the repo rate, which was 3.75% in June. Some commentators argued that this was an attractive option and that the SARB should exploit some of its capacity and use this to fund the deficit [23].

**Initiatives introduced by the South African Reserve Bank**

The SARB had been following an inflation-targeting framework since 1999. In 2020, the central bank had successfully managed to keep inflation anchored close to 4.5%, the mid-point of the 3%–6% target range [24]. This, the SARB argued, gave them space to respond to external shocks to the economy such as the adverse impacts caused by the lockdown.

In this regard, in the first half of 2020, the SARB took various initiatives. Firstly, SARB's Monetary Policy Committee (MPC) reduced the repo rate by 225 basis points (2.25%) over the course of three months. This was composed of the following:

- a 100-basis point cut in March 2020;
- a 100-basis point cut at a special MPC meeting in April 2020; and
- a 50-basis point cut in May 2020.

The interest rate (repo rate) was now at the lowest on record, with the cumulative 225-basis point cut aimed to provide financial relief to borrowers and boost spending in the economy. By comparison, the median interest rate reduction in emerging markets was 100 basis points. Exhibit 3 shows the extent of interest rate reductions that were implemented by the central banks of various emerging and developed economies. In this regard, SARB's monetary response was more than double the median policy of the 40 biggest emerging market economies.

Secondly, the SARB partnered with the National Treasury and the Banking Association of Southern Africa and launched a COVID-19 loan funding-for-lending scheme of R200bn, which was guaranteed by the National Treasury. The aim of the scheme was to assist small- and medium-sized businesses with loans, where the funds could be used for operating expenses, such as salaries, rent, lease agreements and supplier payments. Interests on the loans would be accumulated from the date of the first drawdown, and businesses had 60 months to repay the capital and interest.

Thirdly, the SARB (acting through the prudential authority) provided a range of temporary regulatory and supervisory relief measures to banks. These included capital relief on restructured loans for households and businesses that were in good standing before the pandemic, a lower liquidity coverage ratio from 100% to 80% and lower minimum capital requirements with clear criteria, enabling banks to dip into their capital conservation buffer.

Fourthly, the SARB undertook a bond purchasing program in terms of which it purchased government bonds from market participants in the secondary markets. The SARB stated that it undertook this bond-buying programme to improve market functioning in bond markets [25]. The objective of SARB's programme to purchase government bonds was to reduce excessive volatility in the government bond market, make it easier for buyers and sellers to agree on prices and ease liquidity concerns.

Fifthly, the SARB introduced changes to its domestic money market liquidity management operations. The SARB:

- put in place Intraday Overnight Supplementary Repurchase Operations to provide liquidity to support commercial banks;

- introduced a three-month repo facility, which was offered in addition to the weekly main refinancing operations; and
- reduced the end-of-day lending rate on the standing facility from repo plus 100 basis points to the repo rate.

**The call for the SARB to fund the fiscus**

In recognition of the crisis within which South Africa found itself, there were calls from various politicians and economists for the SARB to provide funding to the National Treasury to alleviate the pressure on the fiscus [26]. In May 2020, the deputy minister of finance urged the SARB to fund the government's response to the COVID-19 pandemic and its economic fallout. The deputy minister called on the SARB to buy government bonds directly from the National Treasury to fund the country's deficit during the COVID-19 crisis. In this regard, he said:

> Such bonds must be once-off special bonds with earned proceeds and [this] should be treated as a temporary measure with a clear exit plan. Such money from the SARB must be used for immediate COVID-19 health-related interventions and economic recovery measures [27].

Various economists also wrote an open letter to the SARB titled "The Responsibility of the South African Reserve Bank", in terms of which, amongst other things, they called on the "SARB and National Treasury to stop being so ideological and to break with old neoliberal dogma" [28]. By the end of June 2020, 34 economists and academics had added their names as signatories to this letter. The authors argued that the SARB should change its policies and support the direct financing of the fiscus. [29] The authors also criticised the SARB for their "copy-catting central bank financing strategies" (Binder, 2021) that mainly bailed out commercial banks. Moreover, the authors called on the SARB and National Treasury to "transcend their failed mainstream macroeconomic views and become more accountable to the people of South Africa" [30]. By doing this, the authors argued that the two institutions would gain credibility and would not lose integrity or independence.

**Central bank independence and unconventional policies**

When the COVID-19 pandemic arrived in South Africa, the governor of the SARB had already spoken on numerous occasions during his term about the importance of the independence of the central bank. Kganyago had been lauded for playing a crucial role in warding off pressure from politicians to change SARB's stance on monetary policy, against a backdrop of calls to nationalise the central bank and to influence decisions in the banking sector affecting politically exposed individuals.

With regard to the purchase of government securities from the National Treasury, the SARB ruled out the possibility of funding the government directly through bond purchases. When interviewed about this, Deputy Governor Kuben Naidoo said:

> We do not think it is prudent to finance government directly. It would increase inflation risks. It would blur the lines between an independent central bank and publicly-elected office bearers. If we were to finance government directly, there would be no pressure on government to manage their costs in any way [31].

The position taken by the SARB evidently enjoyed the support of the minister of finance. Mboweni was a former central banker, and he had been the governor of the SARB from 1999 to 2009. In reference to the pressure mounting on the SARB to finance the government directly, the Mboweni stated on a social media platform: “We faced many challenges at the South African Reserve Bank. I suppose that today, there is pressure on the institution to do wrong things. Then, we had a good understanding of the role of the SARB. What is a central bank?” [32] The Mboweni had previously reiterated that he was against the SARB printing money and wanted an independent central bank [33].

Regarding the independence of the central bank, Section 224 of the Constitution of South Africa provided that, in pursuit of its primary object, the SARB must perform its functions independently, but there must be regular consultation between the SARB and the minister of finance. The governor often commented that he regularly consulted with the minister of finance.

Some commentators believed that the SARB could finance the National Treasury directly without affecting its independence if the purpose of such financing was articulated clearly. In this regard, Professor Malikane, an associate professor of economics at the University of Witwatersrand, commented:

> In a number of cases central banks that directly finance their governments exhibit a higher degree of independence than the [South African] Reserve Bank. The Bank of Thailand directly subscribed to a variety of government debt instruments, yet it scores substantially higher than the Reserve Bank when it comes to independence. The same is true for the Bank of Korea, which lends directly to its government. The central banks of Uganda, Nigeria and Malawi all score better than the Bank on independence, and directly purchase bonds and make advances to their governments. This is also the case with the Central Bank of Cuba, which exhibits more independence than South Africa’s central bank [34].

Drawing on the words of Kganyago, it was evident that the SARB saw the independence of a central bank as being a fundamental basis in any consideration of unconventional policies. Given this stance, Kganyago emphasised the significance of SARB’s independence, warding off external pressures, and, taken at face value, it seemed that SARB’s decision to not directly finance the government was testament to maintaining this independence while navigating monetary policy choices.

**Central bank asset purchases**

In response to the COVID-19 global pandemic, various central banks of developed countries and those of emerging markets undertook bond purchase programmes. The central banks purchased the bonds either from the primary markets (that is, from the country’s treasury as issuer) or secondary markets (in other words, from market participants who were seeking to sell those bonds). The reasons for these bond-purchasing programmes varied from one country to another.

Some central banks purchased government bonds to provide stimulus to the economy. Others, like the SARB, purchased government bonds to improve market functioning. By purchasing the bonds in the secondary markets, the SARB helped restart price discovery, and this contributed to a fall in the bond yield curve [35].

Notwithstanding the various measures that had been introduced by the SARB in the first half of 2020, there were continuing calls in June of the same year for the SARB to fund the country's fiscus. This prompted Kganyago to address this issue in a public lecture, which was hosted by the Wits School of Governance on 18 June 2020. Kganyago made the following remarks:

> As many economists have pointed out, sustainability concerns have to be addressed at a fiscal level. This means that the debt-to-GDP ratio has to stabilise, and those projections need to be realistic. If debt sustainability can be assured, with high probability, then near-term borrowing will be more readily available. In these circumstances, were government still to experience financing disruptions, we would feel confident that these were liquidity problems which the SARB could help address. However, presently, sustainability is not assured, which makes large-scale sovereign bond buying potentially inflationary [36].

**Unconventional monetary policies and quantitative easing**

Unconventional monetary policies were non-traditional measures taken by central banks to address adverse economic conditions when traditional tools became ineffective or were rendered redundant. These included quantitative easing (QE), negative interest rates, forward guidance and moral suasion. The merits of such policies included injecting liquidity into the economy, stabilising financial markets and promoting lending. However, demerits included potential asset bubbles, diminishing central bank balance sheets and challenges in policy reversal.

Even before the COVID-19 pandemic, there were calls on the SARB to introduce QE as a monetary tool in its framework, where QE was seen as a basis for boosting economic growth in South Africa [37]. QE generally referred to central bank asset purchases that were aimed at achieving monetary policy objectives, by using SARB's balance sheets to reduce the long-term interest rates and, in doing so, to create some stimulus in the economy (Bhattarai & Neely, 2016; Carvalho et al., 2016). The effect of this was that the central bank would purchase assets – especially government bonds – from the private sector and hold them. In turn, the private sector would use the newly available funds to purchase or finance other assets in the economy, thereby increasing the stimulus in the economy (Altavilla & Carboni, 2003). It was generally accepted that these purchases must be substantial in scale, as small-scale interventions were unlikely to have macro-economic consequences commensurate with monetary policy objectives.

However, in general, it was considered appropriate to introduce QE in the existence of the following three conditions : if key interest rates were at zero or at levels that were below zero, if there was a deflationary environment and when the financial sector is in distress (Bhattarai & Neely, 2016, Eberly et al., 2020), such as if banks were not willing to issue credit or there was ineffective transmission of monetary policy in the financial system.

A further consideration for QE was related to the financial independence of the central bank. If SARB directly financed the government, SARB's independence could be reduced. For example, if the government chooses not to pay the bonds or default on them, it could render the central bank insolvent and potentially require a recapitalisation of the SARB by the government (Christensen & Krogstrup, 2016).

Kganyago had consistently rejected calls for QE, stating that it was not suitable for South Africa [38]. He argued specifically that for QE to be justified, interest rates needed to be at zero or very close to zero, and that the economy must be facing price deflation [39]. Kganyago argued as follows:

> In deflation, people delay buying goods and services in anticipation of prices dropping. This, and other forces, such as debt deflation, reinforce a fall in demand and drive the economy into a severe contraction. Because the short-term interest rate is impotent at zero percent, the use of QE aims to raise inflation, to make people anticipate a rise in prices and to buy goods and services now [40].

However, some economists did not agree with the views of the Kganyago. As a proponent of QE by the SARB, Professor Malikane argued as follows in relation to the suggestion that interest rates must be edging close to zero:

> When the advanced economy hits a zero percent lower bound, the emerging-market interest rate will equal the sovereign risk premium, which is not zero percent. Therefore, while the advanced economy embarks on QE at a zero percent interest rate, the emerging market does so at some positive rate equal to the sovereign risk premium. It is wrong to expect South Africa to hit zero percent interest before QE can be pursued. By extension it is also incorrect to say the currency will automatically depreciate if QE is implemented. It depends on the specific aims and design of the QE [41].

Regarding the suggestion by the Kganyago that the economy must be facing a deflation, Professor Malikane in May 2020 argued:

> A related argument against the QE proposal is that it is strictly for economies on the verge of a deflation. This is also not correct. When an advanced economy hits its inflation target, say 2%, the emerging market hits its own target of say 4.5%. Now if the advanced economy hits 0% inflation, the emerging market reaches 2.5% inflation. Therefore, an inflation rate that is on, or below, the target and an interest rate that is at the sovereign risk premium are sufficient conditions for an emerging market to embark on QE. This is where South Africa is now [42].

**Responses of central banks in emerging market economies**

In certain emerging markets, various central banks had also undertaken bond purchase programmes, which were largely aimed at ensuring the normal functioning of government bond markets. These bonds were purchased from market participants in the secondary markets. Many central banks of emerging markets undertook bond purchasing programmes during 2020 (Exhibit 4).

**Responses of central banks in advanced economies**

Various central banks of developed countries, such as the United States' Federal Reserve, the European Central Bank and the Bank of Japan, adopted QE measures to stimulate their respective economies in response to the COVID-19 pandemic (Exhibit 5). But this was not the first time that these central banks had conducted QE operations – these central banks had done so after the 2007/8 global financial crisis. This QE commonly took the form of the central banks purchasing assets or directly financing the government.

## The next steps

It was the beginning of July and there remained several remaining questions about where the government would source the bulk of the funding needed to finance the budget deficit. Consumer price inflation was at 2.2%, well below the floor of SARB's inflation target range of 3%–6%. The key interest rate was also at a record low of 3.75%.

With mounting pressure on the SARB to do more to support the government, what should Kganyago recommend? And what would be the best option for the frail economy of South Africa?


## Acknowledgements

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The authors may have disguised names; financial and other recognisable information to protect confidentiality.


## Notes

1. South Africa was divided into nine provinces: Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, North West, Northern Cape and Western Cape.
2. In Argentina, for example, where the central bank was closely linked and under the control of the president, inflation neared triple-digit figures and the peso had lost half of its value between 2020 and 2022, www.reuters.com/business/finance/what-is-central-bank-independence-2022-08-05/.
3. See statement of the Monetary Policy Committee January 2020. (January), 1–6.
4. See http://www.statssa.gov.za/?p=13049.
5. See http://www.thepresidency.gov.za/speeches/statement-president-cyril-ramaphosa-escalation-measures-combat-covid-19-epidemic%2C-union.
6. See statement of the Monetary Policy Committee May 2020. (January), 1–6.
7. See the 2020 Minister of Finance Budget Speech, available on http://www.treasury.gov.za/documents/National%20Budget/2020/speech/speech.pdf.
8. See the February 2020 Minister of Finance Budget Speech, available on http://www.treasury.gov.za/documents/National%20Budget/2020/speech/speech.pdf.
9. See the June 2020 Minister of Finance Supplementary Budget Speech, available on https://www.gov.za/speeches/minister-tito-mboweni-2020-supplementary-budget-speech-24-jun-2020-0000.
10. See the June 2020 Minister of Finance Supplementary Budget Speech, available on https://www.gov.za/speeches/minister-tito-mboweni-2020-supplementary-budget-speech-24-jun-2020-0000.
11. See the February 2020 Minister of Finance Budget Speech, available on http://www.treasury.gov.za/documents/National%20Budget/2020/speech/speech.pdf.
12. Fitch Ratings was an international rating scale that rated the relative ability of an entity to meet financial commitments. Ratings ranged from "AAA" (investment grade) to "BB" to "D" (speculative grade) with an additional +/– for AA through to CCC levels indicating potential differences of probability of default, www.fitchratings.com.
13. See the June 2020 Minister of Finance Supplementary Budget Speech, available on https://www.gov.za/speeches/minister-tito-mboweni-2020-supplementary-budget-speech-24-jun-2020-0000.

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**Further reading**

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Exhibit 1. National Government's debt-service costs

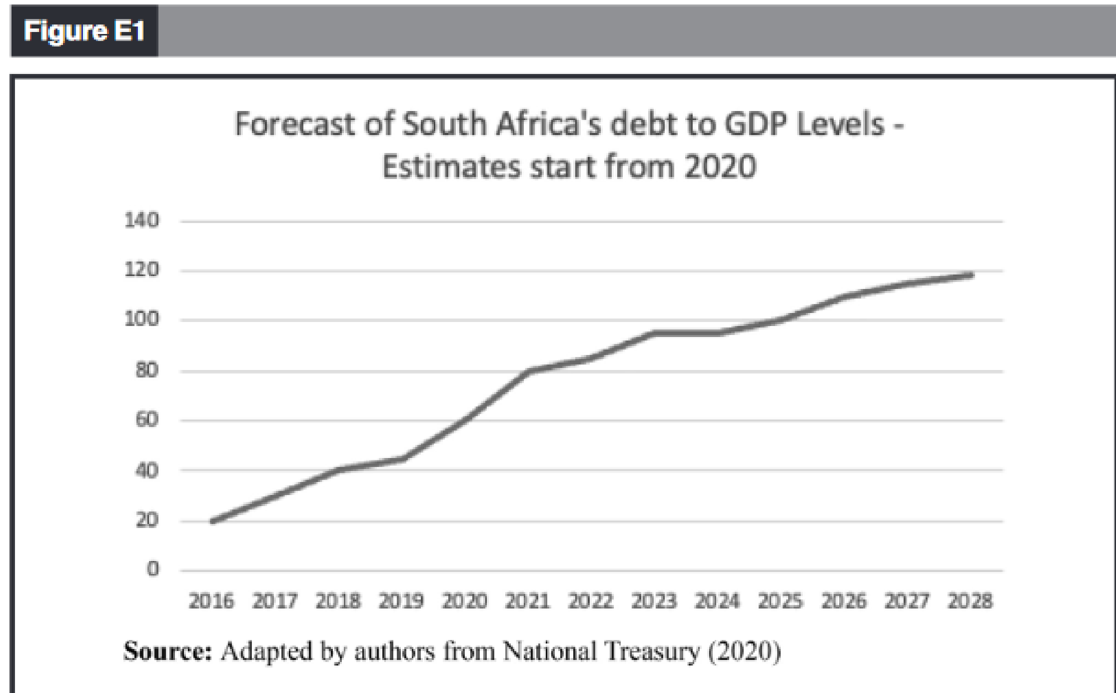
**Table E1**

| Rand million | 2019/2020 Outcome | 2020/2021 Budget | 2020/2021 Revised | 2021/2022 | 2022/2023 | 2023/2024 |
|---|---|---|---|---|---|---|
| | | | | Medium-term estimates | | |
| Domestic loans | 187,276 | 211,144 | 213,794 | 249,054 | 285,056 | 312,096 |
| Short term | 32,096 | 25,441 | 21,133 | 18,025 | 21,802 | 25,566 |
| Long term | 155,180 | 185,703 | 192,661 | 231,029 | 263,254 | 286,530 |
| Foreign loans | 17,493 | 18,126 | 19,058 | 20,687 | 22,957 | 26,495 |
| *Total* | *204,769* | *229,270* | *232,852* | *269,741* | *308,013* | *338,591* |
| As % of: | | | | | | |
| GDP | 4.0 | 4.2 | 4.7 | 5.0 | 5.4 | 5.6 |
| Expenditure | 12.1 | 13.0 | 12.9 | 14.7 | 16.5 | 17.7 |
| Revenue | 15.2 | 16.4 | 19.4 | 20.0 | 21.2 | 22.2 |

**Source:** Adapted by the authors from National Treasury (2020)

Exhibit 2. Forecast of South Africa's debt-to-GDP levels

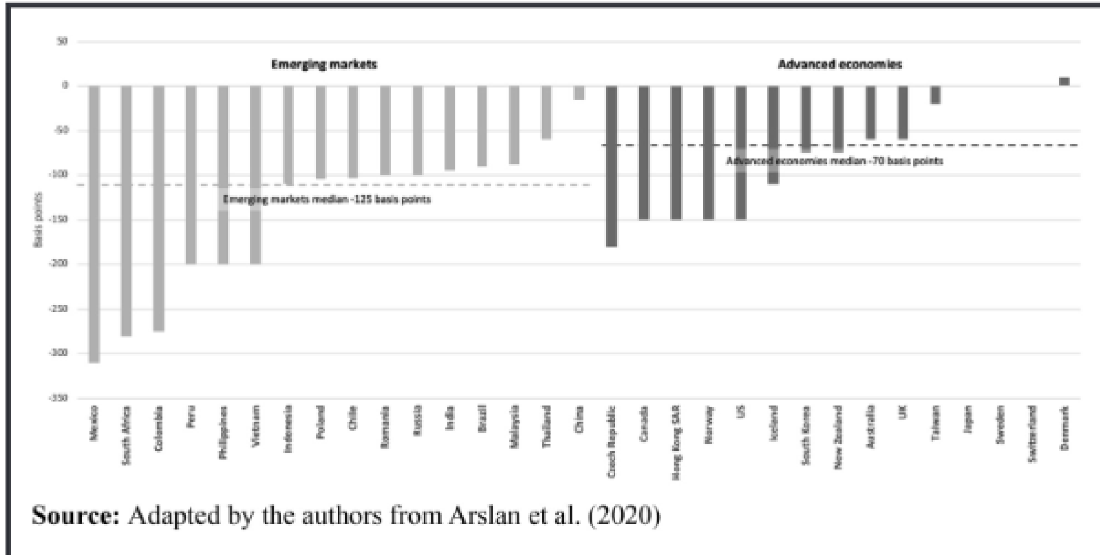
**Figure E1**




**Source:** Adapted by authors from National Treasury (2020)

Exhibit 3. Changes to interest rates across emerging and advanced economies in 2020

**Figure E2**




**Source:** Adapted by the authors from Arslan et al. (2020)

Exhibit 4. Summary of emerging markets central banks' bond purchasing programmes

**Table E2**

| *Country* | *Stated objective (Announcement date)* | *Size (% of GDP)* | *Market* | *Type* | *Policy rate* | *Inflation target* |
|---|---|---|---|---|---|---|
| Chile | To contain the effects of high-volatility events in the fixed income market. [19/03, 08/04] | 2.8 | Bank | Outright | 0.5 | 3.4 [2–4] |
| Colombia | To inject permanent liquidity to ensure the proper operation of financial markets. [23/03] | 0.8 | Government bank | Outright | 3.75 | 3.5 [2–4] |
| Hungary | To restore the stable liquidity position of the government securities market and to improve the long-term supply of funding to the banking sector. [07/04] | N/A | Government mortgage | Outright | 0.9 | 2.4 [2–4] |
| India | To ensure that all market segments remain liquid and stable, function normally with adequate turnover. [18/03, 20/03, 23/04] | 0.2 | Government | Outright, Swap | 4.4 | 5.8 [2–4] |
| Indonesia | To assist the government finance the handling of COVID-19 impact on financial system stability if the market is unable to absorb fully the SBN issued by the government | N/A | Government | Outright | 4.5 | 2.8 [2–4] |
| Korea | To stabilise the bond market, and to improve the supply and demand of KTBs by expanding the bond buying capacity of financial companies. [19/03, 09/04] | 0.1 | Government | Outright | 0.75 | 0.1 [2] |
| Mexico | To promote the proper functioning of the government debt market. [21/04] | N/A | Government | Swap | 6.0 | 2.2 [2–4] |
| Poland | To change the long-term liquidity structure in the banking sector, ensure liquidity in the secondary securities market and strengthen the monetary policy transmission mechanism. [17/03, 08/04] | N/A | Government | Outright | 0.5 | 3.4 [1.5–3.5] |
| Romania | To consolidate structural liquidity in the banking system that should contribute to the smooth financing of real economy and the public sector. [20/03] | N/A | Government | Outright | 2.0 | 2.7 [1.5–3.5] |
| Philippines | To reassure market participants for demand for Government Securities (GS) should they need to liquidate their holdings, thus encouraging participation in the GS auctions. [10/04] | N/A | Government | Outright | 2.75 | 2.2 [2–4] |
| South Africa | To add liquidity to the market, to promote the smooth functioning of domestic financial markets, to enhance its Monetary Policy Portfolio (M PP). [25/03] | N/A | Government | Outright | 4.25 | 4.1 [3–6] |
| Thailand | To provide liquidity to and ensure normal functioning of government and corporate bond markets. [19/03, 22/03, 07/04] | 0.6 | Government Corporation | Outright | 0.75 | −3.0 [1–3] |
| Turkey | To strengthen the monetary transmission mechanism by boosting the liquidity of the government bond market. [31/03, 17/04] | N/A | Government | Outright | 8.75 | 10.9 [3–7] |

**Source:** Adapted by authors from Alberola-Ila & Urrutia (2020)

Exhibit 5. Summary of responses of Central banks in advanced economies

**Table E3**

| | Bank of Canada | Bank of England | Bank of Japan | Euro system | US Federal Reserve system |
|---|---|---|---|---|---|
| *Interest rate* | –1.5% | –0.65% | | | –1.5% |
| Short term | TROs, STLF, CTRF | CTRF, W&MF | FSOs, Ros, SLF | LTROs | ROs, PDCF, MMLF |
| Long term | TROs | TFSME | SOCF, SOSME | TLRO III, PELTROs | TALF, MSLP, PPPLF |
| *Asset purchases* | | | | | |
| Short term | BAPF, PMMP, CPPP | CCFF | CPPPs | APP, PEPP | CPFF, MLF |
| Long term | CMBP, GCSPs, PBPP, CBPP | APF | JGBPs, CBPs, ETFPs, JREITPs | APP, PEPP | SOMA, PMCCF, SMCCF |
| *Foreign exchange* | | | YEN SL | EU SLs | USD SLs, FIMA RF |

Source: Adapted by authors from Alberola-Ila & Urrutia (2020)

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