Exploring the Interactions between Monetary and Macro-prudential Policies for Output Growth in South Africa

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ABSTRACT

Given the framework or an economy where the policies target both the price and financial stability objectives, this study examines the macroeconomic effects of monetary and macro-prudential policy shocks on output growth in South Africa. Using the Vector Autoregression (VAR) model and quarterly time series data spanning the period 2008Q1 – 2023Q4, we show that tighter monetary and macro-prudential policies used to contain inflation and credit growth have also had a declining effect on output growth in the country. Consistent with economic theory, we also find that interest rate shock reduces inflation while money supply increases inflation in the economy. In the same way, the macro-prudential policy shock of an increase in the capital-based reduces the bank credits. Regarding the interaction and coordination of the two policies, we reveal that macro-prudential policy could interact with the monetary policy. As a result, we recommend that macro-prudential policy should continue to have a distinctive policy target different from monetary policy. It should be made a second mandate to work with the monetary policy to stimulate output growth in the country.

Keywords: Monetary Policy, Macro-prudential Policy, Output Growth, VAR Model

JEL Classification: E52; E61; E23; C22

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