the quality and quantity of available land and water for producing food, and constructing new housing, education and health facilities. These factors can affect migration patterns, agricultural and other commodity prices. They can also affect aggregate demand, employment levels, public health and confidence in an economy. These are among the factors that often impact on financial stability and inflation.

Climate also poses a legal challenge

The South African Reserve Bank s mandate is set out in the country s Constitution. Article 224 states that the SARB must protect the value of the currency in the interest of balanced and sustainable economic growth . This is an unusual but not unprecedented mandate. Central banks with similar mandates include those of the Philippines, Russia, Malaysia and Tanzania.

But what exactly does this mean? The term balanced and sustainable growth has no precise and universally accepted economic meaning. It is also not clear what the Constitution means when it says that the SARB s mandate is to protect the value of the currency in the interest of balanced and sustainable growth.

As the SARB s Governor recently noted, the Constitution tells us what to do, but it is not explicit about how we do it . This is true. The Constitution gives the SARB wide discretion in interpreting its mandate. The SARB currently interprets its mandate narrowly as requiring it to prioritise protecting the value of the currency. This certainly falls within the scope of its constitutional authority. However, it is not the only interpretation that would satisfy this requirement.

For example, the mandate also could be interpreted more broadly as imposing a dual responsibility on the SARB: to protect the value of the currency and to promote environmentally sustainable growth. Sustainable growth could mean growth that meets the needs of the present generation without compromising the ability of future generations to meet their needs. In this case, the SARB would be failing to meet its Constitutional responsibilities if its policies and actions protected the value of the currency but were implemented in a way that resulted in increased funding for large carbon emitters.

What a different approach would look like

A more environmentally responsible approach to its mandate may not lead the SARB to adopt different policy decisions. However, it would lead it to pay more attention to their implementation.

For example, Article 10 of the South African Reserve Bank Act gives the SARB broad authority to trade in different types of financial instruments. These include those issued by government as well as those issued for commercial, industrial and agricultural purposes. The environmental impact of its decision to raise or lower interest rates could vary depending on which financial instruments it decided to buy or sell in implementing its interest rate decision.

The SARB’s decision to join the Network is prudent and responsible. Climate change is a reality and it is adversely affecting the financial sector. However, the SARB now needs to take the next step. This would be to reconsider whether it is interpreting its mandate in a way that is both constitutionally defensible and environmentally and socially responsible.

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