

12 March 2024

Re: Submission to the Standing Committee on Appropriations on the 2024 Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Bill

Dear Chairperson and Members of the Committee,

Please find below a short submission regarding the 2024 Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Bill (the Bill).

I would like the opportunity to present to the Committees on the 14th of March. If possible, I would prefer to present in any available timeslot between 9:00 and 10:00 due to other commitments.

Yours sincerely,

Dr Seán Mfundza Muller

Submission on the 2024 Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Bill

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The 2024 Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Bill (henceforth 'the GFECRA Bill') is intended to facilitate the drawing down of R100billion from the GFECRA account to reduce the public sector borrowing requirement. This effect and intention is shown clearly in the relevant table from the 2024 Budget Review:

Table 3.11 Public-sector borrowing requirement¹

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24			2024/25	2025/26	2026/27
	Outcome			Budget	Budget	Deviation	Medium-term estimates		
				2023	2024		2024/25	2025/26	2026/27
Main budget	550.6	323.0	309.9	275.4	331.4	56.0	320.9	308.2	287.2
Social security funds	46.7	6.2	-8.4	8.2	0.1	-8.1	0.1	-23.3	-27.0
Provinces	-3.0	-2.1	-13.4	1.0	11.5	10.4	3.9	-0.3	-0.5
Public entities	-39.3	-35.5	-43.2	-0.9	4.6	5.5	7.5	10.6	14.7
RDP Fund	0.1	0.6	-0.2	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Consolidated government	555.2	292.2	244.7	283.7	347.4	63.8	332.4	295.0	274.2
National borrowing for Eskom debt-relief arrangement	-	-	-	78.0	76.0	-2.0	64.2	110.2	-
GFECRA settlement	-	-	-	-	-	-	-100.0	-25.0	-25.0
Consolidated borrowing	555.2	292.2	244.7	361.7	423.4	61.8	296.5	380.2	249.2
	9.9%	4.6%	3.6%	5.2%	6.0%		4.0%	4.8%	3.0%
Local authorities²	6.8	7.5	8.8	13.0	13.1	0.1	14.5	17.2	15.9
	0.1%	0.1%	0.1%	0.2%	0.2%		0.2%	0.2%	0.2%
State-owned companies³	32.9	15.6	53.1	11.3	33.5	22.2	21.4	27.3	13.9
	0.6%	0.2%	0.8%	0.2%	0.5%		0.3%	0.3%	0.2%
Borrowing requirement	594.8	315.3	306.6	385.9	470.0	84.1	332.5	424.7	279.0
	10.6%	5.0%	4.6%	5.5%	6.7%		4.5%	5.4%	3.3%

On the face of it, when it comes the simple fiscal merits, this seems like a reasonable proposal. However, it raises a number of concerns of both a procedural and substantive nature, which I will address briefly here.

1. Procedural concerns in relation to the Money Bills Amendment Procedure and Related Matters Act ('Money Bills Act')

The processing of the GFECRA Bill will occur after the processing of the Fiscal Framework and Revenue Proposals by the finance committees of Parliament. In processing the fiscal framework in accordance with the requirements of the Money Bills Act, the finance committees have already taken a position on the balance of expenditure, revenue and borrowing, as well as on the proposed debt path contained in the 2024 Budget Review. However, the proposed fiscal framework in the Budget Review is based on the GFECRA transaction. Strictly speaking, therefore, it is illogical to process the GFECRA Bill separately from the fiscal framework.

The separation of the legislative amendment required to facilitate the GFECRA transaction from the consideration of the fiscal framework creates a similar problem to the existing situation where tax proposals are only finalised late in the fiscal year (between August and November), even though in theory the finance committees approved a fiscal framework premised on those proposals at the time of the Budget (February or March).

The only reason these procedural inconsistencies and contradictions have not caused serious problems is because there have been no substantive changes or amendments to the proposals put forward by the Minister of Finance and National Treasury. That is not a situation that can (or should) be taken for granted.

I have made submissions in the past, including during the 2017-18 process of amending the Money Bills Act, to rectify such problems. I continue to suggest that the approach to such matters be improved with much more careful attention given to the sequencing of such decisions in order not to render one part of the process redundant, or risk creating serious conflicts within the oversight process.

2. The unclear origins of the GFECRA Bill

Given the magnitude of the transactions that the GFECRA Bill is intended to facilitate, questions arise as to the reasons this proposal emerged in the way it has. There are two different versions, which may or may not be in conflict.

The first version attributes credit for the idea to the Institute for Economic Justice (IEJ). The second attributes credit to a working paper by some foreign finance consultants and academics (students) in the United Kingdom.

The working paper in question was published in November 2023, entitled “Central Bank Equity Transfer Rules: The Special Case of the South African Reserve Bank”, by Ketterle, Maia and Maia. The paper acknowledges discussions with David Fowkes who has recently been appointed to the Monetary Policy Committee and was previously advisor to the Governor of the SARB, Mamokete Lijane who works for Standard Bank but also has an appointment at ‘Economics Research Southern Africa’ which is funded by the SARB, and Peter Attard Montalto a UK-based economist who works for the firm Krutham which obtains much of its funding from the South African financial sector.

Representatives of the IEJ appear to have first referred to GFECRA in an opinion piece published in October 2024, followed rapidly by a petition calling for, amongst other things, use of the GFECRA ‘surplus’.

Although the IEJ does appear to have been the first to mention the issue in public, it is unlikely that the IEJ was the source of the idea. There are two reasons. First, no member of the IEJ has significant technical expertise or competence in fiscal or central bank matters so it appears unlikely that such an idea would have been generated within the IEJ. Second, those familiar with the nature of academic research will be aware that it typically takes a great deal more time to produce a substantive working paper than it does to produce an opinion piece. What seems most likely, then, is that the IEJ became aware of other discussions taking place relating to this idea and jumped on the proverbial bandwagon.

While the above has resulted in rather petty public spats for credit, most notably from the IEJ, these issues do have broader importance.

The question that then arises is what the origins of the original working paper were. Given that it is not very lengthy it may not have taken more than a couple of months to draft. The acknowledgement of Fowkes and Lijane suggests that the SARB may have been actively involved in initiating or facilitating the germ of the proposal. One wonders why that occurred outside the relevant public sector structures and with researchers based outside of the country.

Related to the above, I suggest there are a number of key questions that have not been adequately ventilated or addressed:

1. What was the involvement of SARB officials or advisors in generating the GFECRA idea that subsequently emerged through other stakeholders? And why was that not done within the relevant public sector structures and indeed public fora in South Africa?
2. If the National Treasury and the Reserve Bank now except that the 'surplus' built-up in the GFECRA was excessive, why was that allowed to happen in the first place?
3. Had the growing (excess) 'surplus' in the GFECRA not come to the attention of the SARB and the Treasury previously, and had no official thought about the possibility of offsetting national debt obligations with some of that amount? If not, what does say about the capacity of these institutions staffed with highly-paid employees responsible for these matters?
4. Why has the proposal been tabled at this particular time?
5. Linked to the above: why has the GFECRA transaction not been used to offset harsh expenditure cuts, which the appropriations committees with deal with when they consider the Appropriations Bill?

These questions have not be adequately raised or addressed in the public domain. To some degree they also relate to the responsibilities of the finance committees in ensuring the accountability of the National Treasury and the SARB.

3. More politically-motivated fiscal decision-making?

While the questions remain unanswered, they do raise one specific concern, which I will briefly outline as follows.

- On the basis of the publicly available facts, it appears that the SARB and National Treasury deliberately allowed a very large 'surplus' to grow in the GFECRA while simultaneously proposing and implementing large cuts in public expenditure on the basis that those are necessary for fiscal consolidation.
- Consideration of the possibility of using some of the GFECRA 'surplus' was left as late as possible in order to maintain planned expenditure cuts before the election.
- The proposed use of the GFECRA transaction to reduce debt appears intended to increase fiscal space after the elections. A more obvious use would have been to prevent expenditure cuts and use the remainder of the amount to reduce debt obligations.
- One may then interpret the sudden and relatively dramatic nature and timing of the GFECRA proposal as being linked to unstated political interests rather than purely technical considerations.

That this is in line with concerns I raised about the 2023 Budget proposal (now rescinded) to cut the SRD Grant immediately before the 2024 elections and the 2024 Budget proposal to cut employment programmes before the elections (which I will raise in relation to the Appropriations Bill hearings). The concern in essence is that the origins, timing and nature of the GFECRA proposal potentially suggest major fiscal proposals driven by political rather than technocratic motives.