NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

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Mr M G Oriani-Ambrosini (IFP) to ask the Minister of Finance

Whether he has developed any contingency plan to deal with any impending risk of a global financial meltdown (details furnished); if not, why not; if so, what are the relevant details of the plan?

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REPLY:

Yes. South Africa weathered the global financial meltdown sparked by the collapse of Lehman Brothers in September 2008 reasonably well. Real GDP growth contracted by 1.8% in 2009 as a result of the sharp contraction in global demand, but we did not experience any major disruptions to our banking system like many other countries did, and our fiscal position remains sound despite having to run a higher fiscal deficit. For this reason we have been able to finance our fiscal deficit at reasonable interest rates in domestic and international capital markets. We remain committed to managing risks in a volatile global international environment, fully cognisant of the risks posed by the fiscal crisis in Greece and other European countries.

Our broad strategy to deal with future crises is a commitment to maintaining macroeconomic and financial stability through supportive and responsible fiscal and monetary policy, prudential management of foreign exposure risk, and improved management of capital flows. Our decision to reduce the fiscal deficit over the next five years is an important part of our counter cyclical management of fiscal policy that will provide us with the fiscal space to respond appropriately in the event of future crises. Our inflation targeting framework has proven itself in the past as a valuable signal for credible policy, which provides investors with confidence in times of crisis and flexibility for the Reserve Bank to respond appropriately during a crisis. The flexible exchange rate also acts as a buffer against shocks and helps to reduce the volatility of interest rates.

Joint standing committees between the National Treasury and the Reserve Bank support regular communication and effective coordination between the two institutions, particularly in the areas of macroeconomic performance, financial market risk and the monitoring of financial stability issues.

The Financial Sector Contingency Forum was established in 2002 to facilitate contingency planning in the South African financial sector and to improve its resilience to various types of shocks. As part of its activities, a manual has been developed with inputs from various stakeholders.

At the meeting of the Forum in August 2009, its structures and activities were reviewed and rationalised to strengthen its planning capabilities for various kinds of pure financial crises. Existing task teams and sub-committees were streamlined into two main sub-committees focusing on operational risk and financial risk.

Regular meeting between the Minister of Finance and the Governor further enhance oversight and facilitate flexible policy responses to any emerging crisis.

Our banking system weathered the storm well compared to many developed countries. It is strongly capitalised, and remains robustly regulated. Nonetheless, oversight continues to be strengthened as we continue to ensure prudential regulation of domestic savings.

The ongoing build up of foreign reserves acts as a liquidity buffer for the country and helps to reduce external vulnerability. Gross foreign exchange reserves stood at US$41.6 billion at the end of May 2010. In August 2009, the value of reserves was boosted when the International Monetary Fund (IMF) made a general allocation of Special Drawing Rights (SDRs) to member countries worth about US$250 billion, of which South Africa received US$2.166 billion. In the case of extreme disruption to liquidity, South Africa would also be able to source additional financing through the IMF's Flexible Credit Line (FCL) for countries with very strong fundamentals, policies, and track records of policy implementation. Throughout the recent crisis, however, South Africa was able to attract sufficient foreign capital to finance its commitments without having to resort to extraordinary measures.

We recognise however, that the recent crisis has revealed flaws in the architecture of the global financial system which need to be addressed to reduce the probability of future calamities. A large portion of the work being undertaken by the G-20, under the chairmanship of South Korea, is currently focused on developing a new global financial architecture. South Africa is actively participating in efforts by the G-20 to bolster financial safety nets and to reach agreement on global financial regulatory reforms.