

NATIONAL COUNCIL OF PROVINCES
QUESTION FOR ORAL REPLY
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★148. Mr Z Mlenzana (COPE-EC) to ask the Minister of Finance:

With reference to the creation of a reserve fund by the Brazil, Russia, India, China and South Africa (BRICS) countries, what effect does the downgrading of South Africa by Moody's and Standard & Poor's (S&P) have in this regard?

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REPLY:

What is the BRICS contingent Reserve Pool?

In June 2012, Brazil proposed the establishment of a BRICS Contingent Reserve Pool and on 18 June 2012, BRICS Leaders asked their Finance Ministers and Central Bank Governors to assess the feasibility of establishing the Contingent Reserve Pool and report back at the 2013 BRICS Summit. A Working Group of senior treasury officials from the BRICS countries has been established for this purpose.

The BRICS Contingent Reserve Pool would serve as a precautionary measure to help the BRICS countries forestall short-term liquidity pressures, provide mutual support and further strengthen financial stability. It would also contribute to strengthening the global financial safety net as well as complement existing international arrangements such as those offered by the IMF.

Under the proposed pooling scheme, countries would pledge to contribute up to a pre-determined amount, and these resources would only be drawn upon in case one of the member countries should require support. The agreement would not require the countries to make immediate payments and the countries would only make payments in the future if any of the Parties requests to draw on the pool. Thus, the agreement is not a fund but a safety net that countries can draw on should the need arise.

Will the Recent Downgrades Affect the Reserve Pool Agreement?

The downgrades will not affect the BRICS Contingent Reserve Pool because of the following reasons:

Firstly, a credit downgrade affects the cost of borrowing for a country in both the domestic and international capital markets, not the ability of a country to contribute to a reserve pool. Secondly, the BRICS Reserve Pool does not yet exist and discussions among BRICS countries are in their early stages.