

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 601 [NW660E]

601. Mr M G E Hendricks (Al Jamah-ah) to ask the Minister of Finance:

In view of the Government's plans to launch a state-owned bank and whilst interest-free banking services may be the first step to reduce the draconian interest choking every South African, (a) what total amount was budgeted to fund interest on debt in the (i) 1995 budget and (ii) latest budget and (b) has he found this to be in line with inflation and/or poor fiscal frameworks year after year?

NW660E

REPLY:

It is generally not possible in South Africa for the state, or any bank or company, to secure loan funding without paying interest except, possibly, for small amounts of concessional funding. No bank in South Africa is likely to lend to customers without covering the full cost of capital, including interest. Some institutions may be able to structure a small part of their loan market for non-interest or sharia-related lending but such lending is very limited, and uses other mechanisms to recover their costs.

The question of whether any state bank can lend at lower interest rates than commercial banks, and whether such a business model will be sustainable, and bring no additional risk to the fiscus, is a separate question that the management of each state bank has to consider, including the extent of non-performing loans and affordability of its customers. It is imperative that no state bank must be a burden on the fiscus and that all state banks must be able to generate sufficient own-revenue to fund their operations. State banks which engage in lending activities need to develop robust lending and risk management models, so that they do not depend on fiscal transfers, or impose losses on depositors. As such, no funds have been budgeted to fund any interest-free lending, by any bank.

- (a) The amount of funds budgeted to fund interest on the national debt is available in the annual Budget documentation, including the Budget Review.
- (i) The total amount of funds that was budgeted to fund interest on the national debt in the 1995 Budget for 1995/96 was R39,5 billion.
 - (ii) The total amount of funds budgeted to fund interest on the national debt in the latest, 2021 Budget is R232,9 billion for 2020/21.
- (b) As announced in the 2021 National Budget, the cost of servicing government's debt, at R232,9 billion or 11,3% of consolidated expenditure in 2020/21, and rising in the next few years, is not sustainable. Hence, in the 2021 Budget, government has undertaken several measures which

are expected to stabilise government debt at 88,9% of GDP in the 2025/26 financial year, and for the ratio to decline thereafter.