

NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 223 [NO1145E]

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★223. Mr N F Shivambu (EFF) to ask the Minister of Finance:

Considering the several commitments previously made by the National Treasury, what (a) measures has he put in place to establish a state-owned bank and (b) will be the process going forward to ensure that a state-owned bank is established? NO1145E

REPLY

- (a) South Africa currently has a number of state banks, including the Development Bank of Southern Africa, Land Bank and many other development finance institutions. The Department of Communications and Digital Technologies is also in the process of finalizing legislative amendments to the South African Postbank Act, so that the Postbank can be in a position to finalise its application for a banking licence from the Prudential Authority of the South African Reserve Bank.

The key question to consider with regard to state-owned banks is whether current state banks are performing as expected to meet the mandates expected of them. It is also important to determine what market failure and gap each existing state bank seeks to address, and what remaining gaps or problems we are trying to solve, before coming up with solutions. We also need to consider the rationalization and consolidation of some existing state finance institutions where overlapping mandates exist.

Identifying the market failures and gaps to be addressed is necessary to establish the structure, funding model, feasibility and ultimate sustainability of any state bank. Each state bank needs to determine its own business model, and whether it can also service a market that may not be adequately serviced by existing banks. This means that there needs to be a clear balance between providing access to finance to under-serviced markets (market failure), and pricing in of risk, to ensure sustainability.

It is even more important to do so in the current climate, where we face such significant fiscal challenges as outlined in the 2022 Budget Speech. It is imperative that no state bank be a burden on the fiscus, and that all state banks must be able to generate sufficient own-revenue to fund their operations. The country does not have the funds to inject equity into any state bank, even as we face challenges to some existing state banks.

The country also needs to learn the lessons from recent bank failures in South Africa. All banks need to be managed prudently at all stages, with the highest regard for sound corporate governance practices and ethical conduct. Banking is a risky and complicated business, based on trust, with no guarantee of success - that is why they are regulated

so intrusively and intensively. If any bank lends recklessly or is managed poorly and/or fraudulently by its board or management, such bank will fail and face the prospect of closure, as was the case with African Bank in 2014 and VBS Mutual Bank in 2018.

- (b) As noted in (a), the process going forward is to determine whether current state banks are performing as expected to meet the mandates expected of them, and whether government would need to consider the rationalization and consolidation of some existing state finance institutions where overlapping mandates exist.