NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
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1474. Ms O M C Maotwe (EFF) to ask the Minister of Finance:

Whether any progress has been made with the launch of the Republic's Sovereign Wealth Fund; if not, why not; if so, what (a) total amount has been allocated towards the specified fund, (b) are the sources of the fund and (c) will the fund finance?

NW1784E

REPLY

The National Treasury provided an outline of the implications of establishing a sovereign wealth fund (SWF) in a document published in December 2021 (Discussion Document - Oil and Gas Tax Regime). The issues highlighted in that document are still relevant today.

Conceptually, the SWF would be a state-owned company that would accumulate resources for capital investment through a dedicated revenue instrument and would then invest these in different asset classes. From a fiscal policy perspective, it would be an extra-budgetary account or institution, which we would list and whose surplus or deficit position would form part of the consolidated fiscal framework.

(a) At the moment, the main budget balance is negative with no resource slack to capitalise a SWF (that is, the net position of all public entities and social security funds is in deficit).

(b) & (c) South Africa's prevailing structural current account and budget deficits mean that the macroeconomic conditions that would support the formation of a sovereign wealth fund are not in place. Countries with SWFs broadly maintain surpluses in their current accounts and budget balances. This has not been a consistent feature of South Africa, which has instead seen consecutive current account and fiscal deficits, with this trend expected to continue over the medium-term.

Further, the public revenues or royalties derived from mineral resources have historically not been reliable nor consistent in South Africa. The 2024 Budget Review noted that the windfall tax gains from high commodity prices over the previous two years have come to a halt. Provisional corporate tax receipts from the mining sector for the first 10 months of 2023/24 were nearly R40 billion lower - more than 50 per cent lower - than the same period in 2022/23. Importantly, the National Treasury has illustrated how funding for service delivery remains under pressure in the context of the current fiscal constraints, and that additional resources are required to improve the recruitment of key personnel such as police, teachers, and to increase investment in the maintenance of basic service infrastructure.

In light of these realities, the most appropriate policy path is to use resources – including higher-than-expected revenues should they arise – to reduce the debt burden while improving the delivery of existing services that achieve development objectives, while actively pursuing policies that remove impediments to economic growth, such as in respect of energy security, water supply, and transport and logistics.