NATIONAL ASSEMBLY

QUESTIONS FOR WRITTEN REPLY

QUESTION NUMBER: 183 [NW208E]

DATE OF PUBLICATION: 23 AUGUST 2024

183. Mr D D D van Rooyen (MK) to ask the Minister of Finance

(1) Considering that, in the recent budget speech on 24 February 2024, he indicated that the National Treasury will access R500 billion in the Gold and Foreign Exchange Contingency Reserve Fund to help reduce the high debt-to-gross domestic product ratio which is in excess of 75%, by what date does the Government intend to abandon its neo-liberal economic policy of inflation targeting in favour of a macroeconomic policy that emphasises growth, employment, investment and domestic consumption;

(2) what is the nature of support that the SA Reserve Bank (SARB) requires, given that he allocated R100 billion towards supporting the SARB;

(3) what are the reasons that the Government subsidises a central bank that is not fully owned by its citizens, but is rather owned by private and foreign capital? NW208E

REPLY:

1. It is our assessment that an inflation targeting framework is the most appropriate and practical monetary policy framework to achieve price stability in the South African economy and as such government has no plans to abandon it. This is because the inflation targeting framework has proven to be an effective framework for achieving price stability which is why it has been adopted by many advanced and emerging market economies including India, Colombia, Brazil, United Kingdom and Australia.

   An important element of achieving price stability is anchoring inflation expectations of price setters (such as business and unions) to the inflation target which helps keep the general price level in the economy low as high inflation makes the cost of living expensive.

   By establishing a nominal anchor at which prices are kept low and stable, inflation targeting contributes to a stable and predictable macroeconomic environment which encourages investment and consumption because business and households take the future into account when making their spending and investment decisions. Or more simply, a clear and stable macroeconomic framework is a pillar for economic growth alongside continued reforms in the network industries as well as improvements in state capacity. These steps will boost confidence, increase private investment resulting in faster economic growth and sustained job-creation.

2. As announced in the 2024 Budget, the Minister of Finance and the Governor of the SARB entered into an agreement that will govern the future settlement of the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). In terms of this agreement the SARB will distribute R100 billion in 2024/25 and R25 billion in each of the subsequent two years to the National Treasury. These funds will be used to reduce the government's gross borrowing requirement.

   In addition, the GFECRA Defrayal Amendments Act, Act no 27 of 2024, provides for a net amount of R100 billion, credited to the National Revenue Fund (NRF) from the GFECRA in 2024/25, to be paid as a direct charge in 2024/25 against the NRF for the contingency reserve requirements of the SARB. These funds will be used to cover the liquidity management cost incurred to distribute the R150 billion to the National Treasury.

3. The South African Reserve Bank's mandate is governed by the Constitution and the South African Reserve Bank Act. Chapter 7 of the 2024 Budget Review provides details of the settlement arrangement for GFECRA and its purpose. The SARB has also published information on the GFECRA settlement on its website.