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Title: Time ticking for Treasury to tap R150bn reserve before elections **Publish Date:** 31 March 2024
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Time ticking for Treasury to tap R150bn reserve before elections

Parliament needs to pass legislation before poll authorising state to draw funds from reserve account

By KHULEKANI MAGUBANE

Minister of Finance Enoch Godongwana

● Parliament is working around the clock to pass – before the elections – legislation that will allow the Treasury to draw R150bn from the account containing South Africa's gold and foreign currency reserves.

Presenting the budget in February, Enoch Godongwana proposed a drawdown of R150bn from the gold and foreign exchange contingency reserve account (GFECRA) to reduce some of the country's colossal debt. The account, managed by the Reserve Bank, has more than R500bn in reserves.

The Gold and Foreign Exchange Contingency Reserve Account Defrayment Amendment Bill – required to authorise the drawdown – was submitted to parliament on the day of the budget.

In remarks made this week at a press conference announcing the Bank was holding the repo rate at 8.25%, governor Lesetja Kganyago made it clear no transfer would take place until the bill had been passed.

"There is a piece of legislation that must be passed. Until [then], there will be no transfer that will take place from GFECRA to the Treasury," he said.

In March, the bill was passed by the National Assembly, which then referred it to the National Council of Provinces (NCOP).

Dikeledi Mahlangu, chair of the NCOP's select committee on appropriations, on Thursday said they were still processing the proposed legislation and were aiming to finalise it in the coming weeks.

"The bill is still in the process [of being finalised], but we will attend to it the week after next.

"I'm afraid to confirm the date because we are still consulting with the chief whip, as there are other bills we need to look into. But we are meeting the week after next week to process the GFECRA [bill]."

When she was asked about whether the committee would be able to conclude the process and allow the lower house of parliament to vote on it before the May 29 elections, she said: "A big yes. The committee is scheduled to adopt its report on April 24, and the NCOP has three proposed dates – May 2, 3 or 7. All are before the elections."

The sixth parliament will end in early May as MPs prepare for the national and provincial elections.

The Treasury is banking on the R150bn to reduce national debt of R5.2-trillion, amounting to 73.9% of GDP, which is incurring R400bn in annual debt-servicing costs. A delay in finalising the bill would mean it would have to wait for the next parliament, which will need completely new committees for both houses to be constituted. This could happen weeks after the results are announced, while the Treasury meanwhile continues to borrow in markets, incurring even higher debt-servicing costs.

The Bank noted in its March quarterly bulletin released on Friday that to assist with stabilising debt the government would draw down R150bn from the balance of the GFECRA, and that the framework setting out the distributions would be formalised through legislation.

Meanwhile, Monetary policy committee (MPC) member David Fowkes has encouraged banks to continue keeping their money

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Time ticking for Treasury to tap account

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with the central bank despite the GFECRA drawdown.

"If banks have a better idea for what to do with the money, then they can go and do it, but depositing money at the central bank means it's very safe and it's very liquid, because it's cash – it's literally in your current account. So it doesn't make a lot of sense for a bank to go and buy some other asset that pays less than the policy rate if they can just get the policy rate with us," Fowkes said.

Explaining the reasons for keeping rates steady, the Bank said headline inflation was projected to reach the target midpoint only at the end of 2025, which signalled that interest rates could stay high for longer. It now expects inflation to come down to 4.5% – the midpoint of the target – only at the end of 2025.

This could put a damper on hopes of an early cut in rates, which many economists had predicted.

Commenting on the uptick in inflation to 5.6% in February, deputy governor Rashad Cassim said the central bank forecast CPI would get back to 4.5% in late 2025, but many risks had been taken into account in this projection.

"The real question for us is not necessarily the current data, but what does [it] tell us about our forward-looking measures? Let's, for example, say that CPI in the last two months went on a declining path. We still wouldn't take comfort because we have to make a judgment about what that means for the forward-looking nature, because our decisions are based on what we think is going to happen in the future."

He said the MPC was not surprised CPI had increased in the last month, because fuel prices, medical insurance and other categories had all gone up, while the rand had depreciated further against major currencies.

Bank of America sub-Saharan Africa economist Tatonga Rusike said that, despite the shallow trajectory of rate cuts, the cumulative effect remained unchanged, with an expected reduction of 100 basis points by the first quarter of 2025, bringing the rate to 7.25%.

Raymond Parsons of North West University Business School said the timing and depth of a cutting cycle would depend on inflation winding down to the midpoint of the target range and remaining there.

"While many economists are expecting inflation to ease later in the year, the MPC will want to see the lower inflation outlook as sustainable before starting the cutting cycle."

He said uncertainties around "sticky" inflation, food inflation, a volatile rand, US interest rates and the elections in May were shaping the MPC's highly cautious stance.

Efficient Group economist Dawie Roodt said that, while he still believed a rate cut in June was possible, this latest inflation outlook meant the expected cut had been postponed by at least two months and would be shallow.

"I think we need to understand why the Reserve Bank said that. The economy is always moving. The agriculture [sector] is not doing as well as previously thought, especially grain production."

He said factors, including bad harvests, played a critical role. This meant grain prices would go up, which would raise food prices even further and could add 10% to the price of maize.

"I still think there is a possibility, depending on the moving factors of this machine, of rate cuts in the second half. The uncertainty of elections can also filter into things. So they definitely won't be cut before the elections, because they don't want to be seen to be supporting a particular party."

On the pressure agricultural challenges posed to food inflation, Kganyago said: "It now looks like the risk to crops could materialise more than we thought last year. As we pointed out, there are dry and hot weather conditions.

"That might be a threat to field crops. They might end up being less than what was expected."

When asked about the uncertainty of holding the next MPC meeting the day after the elections, Kganyago hinted the date could be shifted.

"In the November meeting last year, we announced the MPC dates for the year. The president decided to announce elections, [which will] be on the second day of the MPC meeting [in May]. So what were we to do? Bring the MPC forward so that the decisions are made before the elections, or wait for the elections and make the decision afterwards?

"Both ways, there would still be uncertainty, because the fact that the elections have taken place does not mean that a government has been formed."