

Central bank in ongoing talks with Treasury to access contingency reserve

The Institute for Economic Justice, economists, academics, and civil society organisations have urged Treasury to consider utilising South Africa's Gold and Foreign Exchange Contingency Reserve Account (Gfecra) to avoid a reduction in funding for government programmes, services, and expenditures.



Source: The Banking Association South Africa.

The central bank officially acknowledged that it is in ongoing discussions with the National Treasury regarding accessing the contingency reserve to this end.

"We are engaged with the Treasury....We have bought in international expertise to engage on these matters, including on how to deal with the capital position of the bank," the South African Reserve Bank (Sarb) governor Lesetja Kganyago said at a media briefing on Thursday, 23 November, after the monetary policy committee held rates steady.

The potential withdrawal amount, the timeframe over which it might occur, and the associated costs for the central bank, are in the process of being determined.

Kim Silberman, economist and macro strategist at Matrix Fund Managers, suggests that the gains from gold and foreign-exchange reserves can be utilised by the National Treasury through either selling the reserves or retaining them and resorting to money printing.

In the scenario where the Sarb prints money equivalent to a portion of the profits from the country's gold and foreign exchange reserves, Silberman explains that this would require measures to offset the effects of the newly printed money on the economy.

This could involve selling government securities which could attract foreign investors or taking other steps to absorb the excess money supply, essentially withdrawing it from active circulation in the economy.

“This process would involve the Sarb paying interest at the repo rate,” Silberman said.

Silberman said essentially obtaining funding at the repo rate would provide inexpensive financing for the Treasury, but it should be viewed as additional debt, not a 'magic pot of gold at the Sarb'.

According to Kganyago, on Thursday, 23 November, Gfecra's worth stood at R497bn.

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