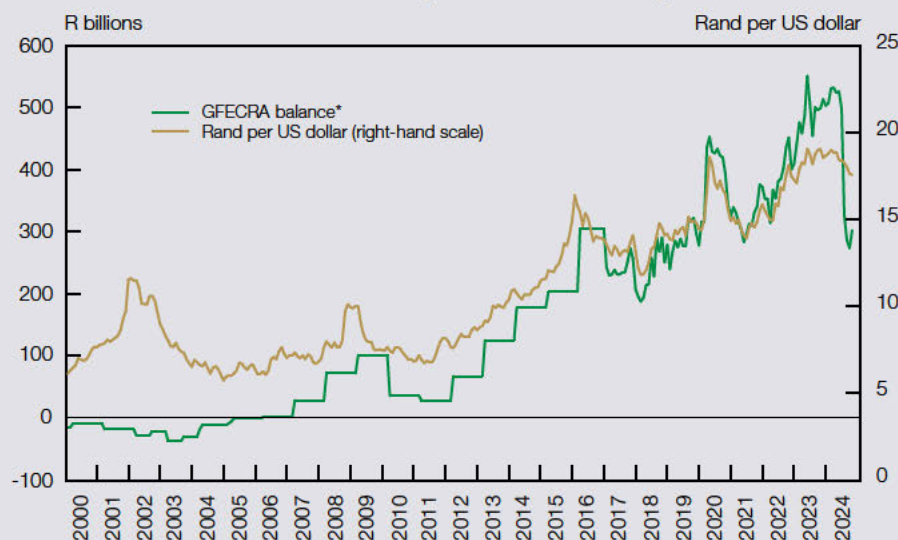


## Box 2 The impact of the Gold and Foreign Exchange Contingency Reserve Account distribution to National Treasury on money and banking statistics<sup>1</sup>

The Gold and Foreign Exchange Contingency Reserve Account (GFECRA)<sup>2</sup> Defrayal Amendment Act 27 of 2024 and the GFECRA Settlement Agreement<sup>3</sup> as provided for in the South African Reserve Bank Act 90 of 1989, as amended (SARB Act) gave effect to the transfer of funds from the GFECRA to National Treasury (NT) in the 2024/25 fiscal year and outlined a framework for further disbursements in the future. The transfers made in this fiscal year affected a range of statistics and analysis published in the *Quarterly Bulletin (QB)* and this box discusses the impact of the initial disbursements made between 1 July and 12 August 2024 on the money and banking statistics.

Historically, the outstanding balances in the GFECRA went unsettled, with the last formal settlement made by NT in 2003 to the value of R28 billion in favour of the SARB for accrued losses resulting from the appreciation in the exchange value of the rand against reserve currencies.<sup>4</sup> The balance of the GFECRA gradually grew from a negative R9.2 billion in April 2000 to R453 billion in April 2020 due to the increase in South Africa's holdings of foreign exchange reserves and in particular the valuation effects associated with the depreciation in the exchange value of the rand against reserve currencies<sup>5</sup> as reflected in the accompanying graph.

GFECRA balance and the exchange value of the rand against the US dollar



\* Annual data were used from 2000 to 2016 and monthly data from 2017.

Source: SARB

Thereafter, the GFECRA balance decreased in line with the appreciation in the exchange value of the rand, reaching R284 billion in May 2021 before increasing to an all-time high of R551 billion in May 2023 as the exchange value of the rand depreciated again.

- 1 This box explains the impact of the GFECRA disbursement on money and banking statistics disseminated in the SARB's *Quarterly Bulletin*. This is reflected in the changes to the 'South African Reserve Bank liabilities' table on page S-2, the 'Monetary analysis' tables on page S-24 and the 'Liquidity management operations' table on page S-29.
- 2 The GFECRA is a valuation account that captures the unrealised profits or losses incurred by the SARB on South Africa's holdings of gold and foreign exchange (FX) reserves that arise from exchange rate and price movements. Any unrealised profit or loss accrues to the government in terms of section 28 of the SARB Act. From a balance sheet perspective, a positive balance is reflected as a liability to the SARB, representing an amount payable to the government.
- 3 The GFECRA Settlement Agreement was promulgated in June 2024 and obligated the SARB to transfer R200 billion to the National Revenue Fund (NRF) during the 2024/25 fiscal year, with the first R100 billion transferred upon the promulgation and another R100 billion to be transferred later in the fiscal year. Of this amount, the government will transfer R100 billion to the SARB from the NRF towards the contingency reserve account. In addition, the SARB is expected to transfer R25 billion in each of the 2025/26 and 2026/27 fiscal years to the NRF.
- 4 Reserve currencies are foreign currencies held in large quantities by the SARB as part of its foreign exchange reserves.
- 5 When the exchange value of the rand appreciates against the US dollar and other reserve currencies, the GFECRA balance declines, and when the exchange value of the rand depreciates, the balance increases.



As envisaged in the February 2024 *Budget Review*, a new GFECRA settlement framework that was agreed to in June 2024 by the Minister of Finance and the Governor of the SARB set out key principles specifying that GFECRA distributions should be transparent, well-governed and used solely for reducing government borrowing. The framework emphasised the need to safeguard the SARB's balance sheet and policy independence, thus the agreement specifies that the GFECRA should retain a sufficient balance to absorb future exchange rate swings. It also prohibits the sale of foreign exchange (FX) reserves to realise GFECRA gains if the reserve balance falls below the adequacy level.<sup>6</sup>

To give effect to the new framework, the GFECRA has been split into three pools of funds, with distributions made based on the following 'waterfall' approach:

- The first pool is the GFECRA buffer, which serves as a backup fund to absorb significant rand appreciation shocks, thereby minimising the risk of the account turning negative.
- Once the first pool is full, any additional funds will flow to the SARB's contingency reserve fund.<sup>7</sup>
- Any remaining excess funds will be distributed to NT on an annual basis.

Statement of Assets and Liabilities				
	October 2024	July 2024	July 2024	
Post-GFECRA distribution				Pre-GFECRA distribution
EQUITY				LIABILITIES
Share capital	2 000 000	2 000 000	2 000 000	Share capital
Statutory reserve fund	458 525 601	458 525 601	458 525 601	Reserve fund
Contingency reserve fund	133 415 491 814	33 415 491 814		
Other	15 318 509 726	112 679 760 592		
LIABILITIES				
Notes and coin in circulation	169 222 976 808	167 342 760 551	167 342 760 551	Notes and coin in circulation
Deposits:				Deposits:
SA government's SDR deposit account	110 560 849 381	114 083 368 820	114 083 368 820	SA government's SDR deposit account
SA government: Other	8 375 092 620	8 641 926 918	8 641 926 917	SA government: Other
Banks	328 438 045 603	292 380 622 571	292 380 622 571	Banks
Other	48 360 827 168	59 257 142 286	59 225 126 612	Other
Foreign loans and deposits:				Foreign loans and deposits:
SA government	41 726 103 723	66 055 685 952	66 055 685 952	SA government
Other	46 505 766	47 095 859	47 095 859	Other
Gold and Foreign Exchange Contingency Reserve Account	302 391 192 757	327 312 840 000		
Other liabilities	6 192 594 755	7 829 739 088	481 269 847 169	Other liabilities
TOTAL EQUITY AND LIABILITIES	1 164 508 715 722	1 189 506 960 052	1 189 506 960 052	TOTAL LIABILITIES

<sup>6</sup> The reserve adequacy level is the amount of FX reserves needed to protect the country's economy from external shocks and maintain financial stability. The SARB FX reserve adequacy level is the minimum amount of liquid assets the country needs to have to cover its trade and debt obligations for one year.

<sup>7</sup> The contingency reserve fund is an all-purpose equity buffer for the SARB that provides a safety net for unexpected losses, including losses from the interest costs paid by the SARB to manage liquidity when there are GFECRA payouts to NT.



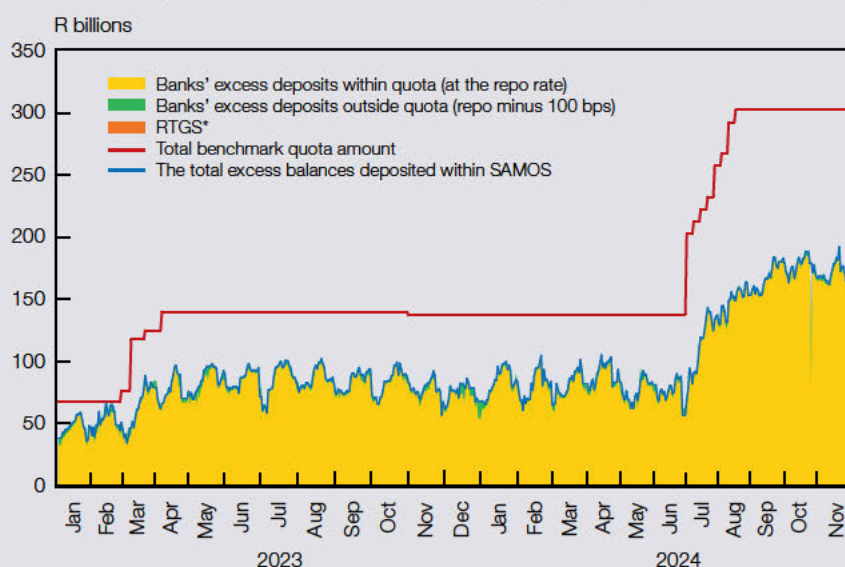
In line with these principles, the agreement specified the distribution of R250 billion from the GFECRA over a three-year period, of which R150 billion will be transferred to NT in three tranches: R100 billion in fiscal 2024/25 and R25 billion in both 2025/26 and 2026/27. An initial transfer of R100 billion was made to the SARB's contingency reserve buffer on 1 July 2024. The purpose of the buffer is to protect the SARB's policy solvency, defined as the flexibility to pursue its mandate without concern for its financial position.

The future distributions to NT are likely to be substantially smaller, as the current GFECRA balances have accumulated over a period of nearly two decades. However, accumulated GFECRA balances will be distributed more frequently. The liquidity management costs of these payouts will be payable by the SARB. The exact costs will be influenced by the level of short-term interest rates that apply at the time and will recur indefinitely.

The distribution of R100 billion to NT in fiscal 2024/25 was funded through the replacement of non-interest-bearing accumulated gains in the GFECRA, with new interest-bearing liabilities in the form of private banks' excess reserves placed<sup>8</sup> at the SARB. No FX reserves were sold. As a result, the impact of this transaction was limited to the liability side of the SARB's balance sheet,<sup>9</sup> as shown in the accompanying table with estimates for July 2024 and October 2024 for illustration.

To absorb the surplus liquidity generated by the GFECRA distribution, the SARB increased private banks' quota limits<sup>10</sup> from R138 billion in June 2024 to R302.5 billion in August. As a result of the GFECRA distribution, the average amount of banks' deposits within quotas increased from R73.8 billion in June 2024 to R166.0 billion in September. The SARB also utilised other money market tools to drain a portion of the excess liquidity emanating from the GFECRA distribution.

#### Banks' deposit balances within the SAMOS payment system



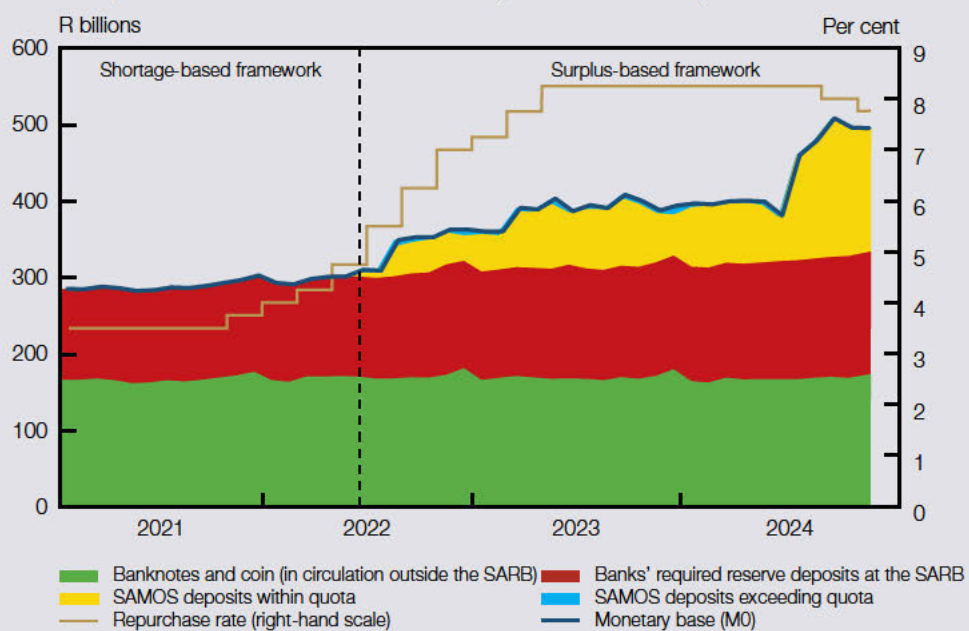
\* RTGS is the regional cross-border real-time gross settlement system in the SADC region. Deposits of foreign central banks at SARB. These amounts do not qualify to be remunerated.

Source: SARB

- 8 See table KB131 on page S-29 in the QB for the South African Multiple Option Settlement (SAMOS) account standing facilities regarding 'within quota' and 'in excess of quota' amounts as well as total surplus liquidity. Banks' deposit surplus liquidity at the SARB, with the amount 'within quota' earning the repurchase (repo) rate and that 'in excess of quota' earning the repo rate *minus* 100 basis points to encourage activity in the interbank market.
- 9 The GFECRA distribution necessitated changes to the 'South African Reserve Bank Liabilities' table on page S-2. Equity now includes contingency reserves fund and other reserves, which were included in other liabilities up to June 2024.
- 10 Quotas were designed to accommodate all excess liquidity in the system. The SARB sets quotas at its desired level of surplus liquidity, with the size of each bank's quota based on the relative size of its balance sheet.



### Composition of South Africa's monetary base and the repo rate



Source: SARB