

REPUBLIC OF SOUTH AFRICA

**GOLD AND FOREIGN EXCHANGE
CONTINGENCY RESERVE
ACCOUNT DEFRAYAL BILL, 2003**

*(As introduced in the National Assembly as a money Bill)
(The English text is the official text of the Bill)*

(MINISTER OF FINANCE)

[B 17—2003]

IRIPHABLIKI YO MZANTSI AFRIKA

**UMTHETHO OYILWAYO
WOKUHLAWULA IAKHAWUNTI
EGCINELWE OKUNGEHLA
NGEZEGOLIDE NORHWEBO-
MALI ZANGAPHANDLE, 2003**

*(Njengoko ingeniswe kwiNdlu Yowiso Mthetho njengo Mithetho Wezemali)
(Umbhalo wesiNgesi nguwo osemthethweni)*

(uMPHATHISWA WEZEMALI)

[M 17—2003]

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BILL

To provide for the defrayal of a loss on the Gold and Foreign Exchange Contingency Reserve Account.

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:—

Defrayal of a loss on the Gold and Foreign Exchange Contingency Reserve Account

1. Despite anything to the contrary contained in any law, payments to defray a loss on the Gold and Foreign Exchange Contingency Reserve Account are a direct charge against the National Revenue Fund. 5

Payments

2. The payments to be made in terms of the mechanism contemplated in section 1, in respect of the 2002/03, 2003/04, 2004/05 and 2005/06 financial years, are:

- (a) an amount of R7 000 million (seven thousand million rand) for the 2002/03 financial year; and 10
- (b) an amount not exceeding R21 024 million (twenty one thousand and twenty four million rand) for the 2003/04, 2004/05 and 2005/06 financial years, subject to an agreement between the National Treasury and the South African Reserve Bank on the outstanding amount to be settled and the exact figure to be paid in each of those financial years. 15

Short title

3. This Act shall be called the Gold and Foreign Exchange Contingency Reserve Account Defrayal Act, 2003.

**MEMORANDUM ON THE OBJECTS OF THE GOLD AND
FOREIGN EXCHANGE CONTINGENCY RESERVE ACCOUNT
DEFRAYAL BILL, 2003**

Purpose of the Bill

1. The purpose of the Bill is to seek parliamentary authority for the defrayal of a loss accrued on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), in compliance with section 28(3) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (“the SARB Act”).

Background

2. Sections 25 to 27 of the SARB Act provide for the management by the South African Reserve Bank (“the Bank”) of a Gold Price Adjustment Account, a Foreign Exchange Adjustment Account and a Forward Exchange Contracts Adjustment Account. Profits and losses arising from the revaluation of the Bank’s gold holdings and its trade in gold, from the appreciation or depreciation of the currencies in which the Bank’s foreign assets are held and from forward exchange contracts, foreign currency loans and export credit reinsurance agreements are recorded on these accounts and accrue to the Government. The SARB Act provides, in section 28, that the balances in these accounts shall be transferred at the close of each financial year to the GFECRA, managed by the Bank on behalf of the Treasury. Any credit balance on this Account is for the benefit of the National Revenue Fund and any debit balance is a loss for the Government and shall be a charge against the National Revenue Fund. Section 28(3) provides that such a loss shall be carried forward in the GFECRA until the Treasury and the Bank deem it desirable to settle the outstanding balance, and that it shall be defrayed from money appropriated by Parliament for such purpose.

3. The balance on the GFECRA on 31 March 2002 was a debit amount of R28 024 million. This amount is subject to an audit investigation currently under way. The debit balance has accrued since 1995/96 — when the account was last settled — largely as a result of losses incurred in the Bank’s forward exchange operations. At times the Bank’s provision of forward exchange cover has exceeded its foreign assets by a wide margin, resulting in losses during periods of rand depreciation. By agreement, the Bank has steadily reduced this exposure in recent years. The net open forward position has declined from a high of US\$23,2 billion in 1998 to US\$1,5 billion in January 2003. In the context of this progress, the Bank and the Treasury have agreed to settle the outstanding balance on the GFECRA, subject to the findings of the current audit investigation, over a four-year period.

4. Although the total liability has yet to be finalised, the loss reflected in the GFECRA balance is of such a magnitude that a partial settlement had to be made during the 2002/03 year. This necessity arises from the impact over time of forward losses on liquidity in the South African money market, and the need to provide the Bank with resources that in turn are required for the effective conduct of its monetary policy responsibilities.

5. An amount of R7 billion (seven billion rands) was issued to the Bank in 2002/03 in partial settlement of the accrued losses on the GFECRA account. As set out in Chapter 5 of the 2003 Budget Review, Treasury proposes to settle the outstanding balance over the next three years, provisionally projected at R7 billion a year.

6. The losses on the GFECRA are a statutory obligation of Government and Government is required to settle the losses. Only the timing of the payment is subject to an agreement between the Bank and Treasury. As the obligation to settle the debit balance is prescribed in the SARB Act and the settlement is accordingly non-discretionary, the Bill proposes that the defrayal should be a direct charge.

7. Parliamentary authority is accordingly sought to regard the defrayal of losses on the GFECRA as a direct charge against the National Revenue Fund, despite anything to the contrary contained in any law.

Departments and bodies consulted:

South African Reserve Bank

Financial implications for State

An amount of R7 billion will be charged to the National Revenue Fund in the 2002/03 year. Expenditure of R7 billion a year is anticipated in each of the 2003/04, 2004/05 and 2005/06 years.

Parliamentary procedure

In the opinion of the State Law Advisers and the National Treasury, the Bill must be dealt with in terms of the procedure set out in section 77 of the Constitution, as it is a money bill.