South African Institute of Race Relations NPC

Submission to the Standing Committee on Finance

regarding the

South African Reserve Bank Amendment Bill of 2018 [B26-2018]

30 June 2025

Table of Contents

Table of Contents		Page
1	Introduction	2
2	The role of the South African Reserve Bank (SARB)	2
3	The purpose of the Bill	3
4	The content of the Bill	3
5	The underlying reasons for the proposed amendments	4
5.1	*What the EFF has said*	*4*
5.2	*What the ANC and its SACP ally have said*	*5*
6	The major economic risks in loose monetary policy	6
7	Many negative consequences of increased state spending	7
8	The dangers in modern monetary theory (MMT)	10
9	No comprehensive socio-economic impact assessment	12
9.1	*Legal and constitutional issues*	*12*
9.2	*Economic costs*	*13*
9.3	*Macroeconomic policy and developmental objectives*	*13*
9.4	*An inadequate assessment*	*15*
10	The constitutional need for proper public consultation	15
10.1	*The vital need for an accurate socio-economic impact report*	*16*
10.2	*The need to comply with Chapter Ten of the Constitution*	*17*
10.3	*Constitutional obligations at risk of being breached*	*18*
11	The Way Forward	19

1 Introduction

The Standing Committee on Finance ("the Standing Committee") in the National Assembly has invited interested persons to submit public comments on the South African Reserve Bank Amendment Bill of 2018 [B26-2018] ("the Bill") by noon on 30th June 2025. The Bill is a private member's one, proposed by Julius Malema, Commander-in-Chief of the Economic Freedom Fighters (EFF), in 2018 and since twice revived by successive Parliaments after general national and provincial elections in 2019 and 2024 had caused it to lapse.

This submission is made by the South African Institute of Race Relations NPC (IRR), a non-profit organisation formed in 1929 to oppose racial discrimination and promote racial goodwill. Its current objects are to promote democracy, human rights, development, and reconciliation between the peoples of South Africa.

2 The role of the South African Reserve Bank (SARB)

The South African Reserve Bank (SARB or Reserve Bank) plays a major part in determining South Africa's monetary policy through the decisions it makes on the money supply, interest rates and attempts, if any, to stabilise the exchange rates.

Conventional monetary policy has for many decades sought to steer a careful course between expansionary and contractionary strategies, depending on what circumstances require. Expansionary strategies – increasing the money supply and lowering interest rates – are used at times of economic malaise to promote fixed investment, encourage consumer spending, and boost growth and employment. But these interventions often lead to higher inflation, a widening trade deficit, and a declining exchange rate – at which point expansionary strategies generally yield to contractionary ones. In this phase, interest rates are raised and the money supply is curtailed to make borrowing more expensive and encourage people to save rather than spend. This prevents inflation from spiralling out of control. However, it also increases unemployment and can push economies into recession.[1] Striking the right balance between expansionary and contractionary policies is thus a constant challenge.

South Africa's Constitution generally reflects a conventional approach to monetary policy. "The primary object" of the SARB, it says, is to "protect the value of the currency in the interest of balanced and sustainable economic growth". The Bank's "powers and functions" are those "customarily exercised and performed by central banks", while the SARB must "perform its functions independently and without fear, favour, or prejudice".[2]

In 2000 the SARB adopted an inflation-targeting strategy under which it seeks to keep the annual consumer inflation rate within a range of 3% to 6%.[3] According to SARB governor Lesetja Kganyago, this strategy has provided an effective way of fulfilling the Bank's constitutional mandate and maintaining its operational independence.[4] It has also succeeded in keeping the annual inflation rate at an average of some 5.5% over the past 24 years.[5] This average, says Mr Kganyago, is a "historically low" figure compared to the 1980s and 1990s, when inflation often

[1] www.investopedia.com, types of monetary policies.
[2] Section 224, Constitution of the Republic of South Africa, 1996.
[3] Marianne Merten, 'The South African Reserve Bank minus the political noise', *Daily Maverick* 21 January 2019, p2
[4] *Business Day* 7 March 2019
[5] Centre for Risk Analysis, The Economy, November 2024, p. 2.

exceeded 12% and interest rates were higher still at 15% and more.[6] The strategy has also kept inflation expectations low and helped create the economic stability essential to investment and growth. "This is the clearest and most effective way the central bank can help the economy achieve full employment," the governor states.[7]

3 The Purpose of the Bill

According to the Memorandum on the Objects of the Bill, the purpose of the Bill is to "make the State the sole holder of the shares" in the Reserve Bank and give the Minister of Finance (the Minister) the power to "exercise the rights attached to the shares in the Bank of which the State is the owner". Under the Bill, the Minister will thus appoint the seven directors on the board of the Bank who are currently elected by the Bank's private shareholders.[8]

As the EFF added in a presentation to both the Standing Committee on Finance in the National Assembly and the Select Committee on Finance in the National Council of Provinces, the Bill will also "give the Minister the power to make regulations related to the appointment of appointed directors". In addition, it will empower Minister to appoint two firms of public accountants to audit the Bank each year.[9]

4 The Content of the Bill

In keeping with these objectives, the Bill proposes various small changes to the South African Reserve Bank Act, Act 90 of 1989 ("the Act"). Its most important changes – with proposed deletions marked in **bold** and proposed insertions <u>underlined</u> – are as follows:

Making the state the sole shareholder in the Bank:

Clause 9: The following section is hereby substituted for Section 21 of the principal Act:

"**Share capital of Bank**

(1) [**The share capital of the Bank shall be two million rand, and shall be divided into two million ordinary shares of one rand each**] <u>The State is the sole holder of shares in the Bank</u>.
(2) [**The liability of a shareholder shall be limited to the amount unpaid on the shares held by him**] <u>The rights attached to the shares in the Bank must be exercised by the Minister on behalf of the State</u>.

Granting the Minister the power to appoint all board directors:

Clause 2: Section 4 of the principal Act is hereby amended –

(a) by the substitution in subsection (1) of paragraph (b) of the following paragraph:

[6] Centre for Risk Analysis, The Economy, February 2022, p. 32.
[7] *Business Day* 7 March 2019
[8] Clause 2, Memorandum on the Objects of the South African Reserve Bank Amendment Bill, 2018.
[9] Purpose of the Amendments, in South African Reserve Bank Amendment Bill, Private Member's Bill Presentation to the Joint Committee of Standing Committee of Finance and Select Committee on Finance, undated PowerPoint presentation ("EFF Presentation").

(b) seven appointed directors [**elected**] who shall be appointed by the [**shareholders**] Minister from candidates confirmed by the Panel;

Removing all private shareholder rights and influence:

Clause 1: Section 1 [of the principal Act] is hereby amended

(a) by the insertion before the definition of "associate" of the following definition:
"appointed director" means a member of the Board appointed by the Minister; [and]
by the deletion of other relevant definitions, ie "**associate**", "**close relative**", "**elected director**" and "**shareholder**".

Allowing the Minister to appoint the Bank's auditors:

Clause 13: Section 30 of the principal Act is hereby amended by the substitution for subsection (1) of the following subsection:

(1) For every financial year of the Bank, the [**shareholders**] Minister shall [**at the general meeting elect**] appoint two firms of public accountants to act during that year as auditors of the Bank.

Enabling the Minister to make regulations regarding future director appointments:

Clause 16: Section 36 of the principal Act is hereby amended:

(a) by the substitution for paragraph (a) of the following paragraph:
  (a) the [**election of directors by shareholders**] appointment of the directors by the Minister; [and]
  by the deletion of another sub-paragraph, ie **sub-paragraph (d)**.

5 The underlying reasons for the proposed amendments

5.1 What the EFF has said:

In its presentation to the joint committee on finance, the EFF said that "almost all of the central banks created in post-colonial states were established [as] fully state-owned [banks]"; that only three central banks in the world – those of Italy, South Africa and the United States of America – have no state ownership. In addition, it said, "a significant number" of the Bank's current shareholders are "white people", which means that the board does not reflect the country's demographics. This also enables "the white capitalist establishment" to control the financial system, which "weakens oversight over private banks" and is the reason why the SARB has "failed to deal with aggressive illicit financial flows and corruptions (sic) facilitated by banks".[10]

The EFF thus want to nationalise the SARB, so that it is "democratically owned by the people as a whole" and can then "pursue the decisive transformation of the financial sector". Adds the EFF: "The Bank currently has 802 shareholders, and they must be expropriated in favour of 57 million people". This expropriation must be implemented "without compensation". Claims that

[10] EFF Presentation.

it would cost billions to nationalise the SARB are "myths and urban legends", for each of the Bank's two million shares is worth R10, giving a total of R20 million. Dividends are also limited to R1,000 per year, so there can be no basis for claiming "billions" are in issue.[11]

According to the EFF, nationalisation of the SARB is vital to South Africa's "true sovereignty and autonomy". Moreover, once the state has 100% ownership of the Reserve Bank, "the next debate will be on its mandate".[12] This indicates that the underlying purpose of the nationalisation proposed by the Bill is to pave the way for a changed SARB mandate – and a shift to much looser macroeconomic policy.

5.2 What the ANC and its SACP ally have said:

In 2012 the African National Congress (ANC) resolved at its Mangaung national conference that "South Africa requires a flexible monetary policy regime, aligned with the objectives of the second phase of the transition".[13] It reiterated this decision at its 2017 national conference at Nasrec (south of Johannesburg), while resolving that that "the Reserve Bank should be 100% owned by the state".[14]

In 2019 President Cyril Ramaphosa endorsed the nationalisation demand, saying that this was necessary to bring the ownership of the SARB into line with global practice (only six other central banks, he said, have private owners) and give the country "sovereignty" over its central bank. The shift was also obligatory in the light of the Nasrec resolutions and would "not necessarily affect the independence of the Bank".[15] But Tim Cohen, then senior editor at *Business Day,* cautioned that nationalisation was likely to result in the SARB being "required to take instruction from the state".[16] Mr Kganyago has also warned that nationalisation could be used as a "Trojan horse" to change the SARB's mandate.[17]

The ANC's policy conference in July 2022 decided that SARB nationalisation was moving too slowly and should be prioritised at "a reasonable pace", while the need to change the Bank's mandate should also be "reviewed".[18] At its 2022 national conference, again held primarily at Nasrec, the ANC again endorsed both these decisions, albeit in more ambiguous terms than it had earlier used.[19]

Why does the ANC want the mandate of the SARB changed? Its principal ally, the South African Communist Party (SACP) – the dominant partner in the alliance – has spoken, along with the Congress of South African Trade Unions (Cosatu), of wanting "very low interest rates" to stimulate growth and employment and so assist "the poor and small businesses".[20]

[11] Ibid.
[12] Ibid.
[13] Marianne Merten, 'The South African Reserve Bank minus the political noise', *Daily Maverick* 21 January 2019, p. 2.
[14] Ibid, p. 1.
[15] *Mail & Guardian* 18 Jan 2019.
[16] *Business Day* 18 Jan 2019
[17] *The Citizen* 15 March 2019
[18] https://www.businesslive.co.za/fm/fm-fox/2022-07-29-reserve-bank-mandate-up-for-debate-again/; https://www.businesslive.co.za/bd/politics/2022-07-31-reserve-banks-role-at-issue-as-anc-holds-sombre-crisis-talks-on-economic-policy/
[19] Bisseker, C, 'ANC does an unexpected time warp again', Business Live, 19 January 2023: https://www.businesslive.co.za/fm/features/2023-01-19-anc-does-an-economic-time-warp--again/
[20] Cosatu Central Committee Statement, February 2018, p. 5.

More recently, however, the SACP has stressed that the main objective is to stop "neo-liberal" monetary policy from standing in the way of increased state spending on the National Health Insurance (NHI) system, the proposed National Social Security Fund, a universal basic income grant (BIG), free tertiary education, mass public employment, "a major infrastructure build", a comprehensive programme of "state-led (re)industrialisation" and "a just green transition".[21] All these interventions are necessary, says the SACP, and none should be held back by the current mantra of the government having to cut back on spending and "make difficult trade-offs".[22]

The SACP agrees that "not everything can be done at once" and says it is not suggesting that the SARB "simply churn out any amount of money regardless". But the party nevertheless assumes that the Bank can "print" or "electronically inject" massive amounts of money into the financial system with nothing but benign effects, provided the spending thus made possible is "socially transformative".[23]

6 The major economic risks in loose monetary policy

Mr Kganyago has countered that there are major risks in "urging stimulus and going for growth". Addressing the Association of Black Securities and Investment Professionals (ABSIP) national conference in October 2018, the governor said:[24]

> Economic populism starts with deep dissatisfaction. Too much unemployment, too much inequality, too much poverty. The populist solution is to start spending – push as much demand as possible into the economy, without consideration of constraints. The argument is that more spending will make people better off. More demand encourages more supply, meaning more jobs and more investment. It's supposed to be a virtuous circle.
>
> So the government starts spending money – as much as possible. It borrows from people's pension funds. It borrows from the central bank and demands that it…prints money to buy its bonds… It spends the foreign exchange reserves. And, at first sight, it works… The immediate consequence of these policies tends to be an economic boom… There is more growth and big wage increases and more jobs.
>
> But it doesn't last. Time and again, the boom turns to bust. Inflation shoots up and growth collapses… The exchange rate depreciates…and people keep raising their prices to keep ahead of inflation… A few years in, inflation is running at very high levels… This is poison to an economy. It destroys people's savings and shuts down longer-term credit markets. It also interferes with the everyday business of buying and selling goods and services. So what starts with a nice growth bump ends in a deep depression, and a large increase in poverty.

According to Mr Kganyago, people who want to "engineer a short-term boom" and ignore the long-term economic costs "don't like it when the long-term shows up" – which usually happens about two years after the implementation of their "quick-fix policies". In addition, those who

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[21] SACP, Political report, pp. 7, 9: https://www.politicsweb.co.za/documents/sacp-political-report-to-the-15th-national-congress.
[22] Ibid, p. 9.
[23] Ibid, p. 8.
[24] Lesetja Kganyago, 'Lessons from the economics of populism', Politicsweb.co. za, 24 October 2018, pp. 1 – 2.

think inflation doesn't matter, should "go try some". They can also "ask all the Zimbabweans or Venezuelans who have had to leave their countries when their economies collapsed".[25] South Africa has "acute challenges" of joblessness, poverty and inequality, but these are "not reasons to gamble with macroeconomic stability". Rather they mean that the country has to be "extra careful about managing the system carefully, so it doesn't blow up".[26]

7 Many negative consequences of increased state spending

South Africa's economy grew at a paltry 0.8% average from 2012 to 2023. Growth was 0.8% in 2023 and slowed to 0.5% in 2024. The population grew faster than the economy, which meant that all South Africans became poorer on average. GDP per capita declined from $6,121 in 2012 to $5,747 in 2023 in constant dollars.[27]

South Africa's tax base is also unusually narrow. This is partly because relatively few adults are employed (36% compared to a global average of 55%), while many have earnings below the threshold at which personal income tax (PIT) becomes payable. In 2022 some 4.5 million people (out of 62 million) contributed 95% of all personal income tax, while 43,000 companies (out of 1.2 million) contributed 97% of all corporate income tax.[28]

Because economic growth has been so limited and the country's small tax base limits the amount of revenue that can be collected, government spending over the past 15 years has increasingly been financed by public debt. Debt has thus grown exponentially over the period.

In 2009 public debt totalled R800bn (28% of GDP), but in 2023 it stood at R5.3 trillion (74.1% of GDP). It is now projected to exceed R6.8 trillion (75.1% of GDP) in 2027/28.[29] Annual debt service costs have thus also risen fast, increasing from R180bn in 2018, when Mr Ramaphosa became president, to R356bn in 2023 and a projected R479bn in 2027. More than R1.35 trillion is to be spent on debt service costs over the next three years, with much of these monies also needing to be borrowed.[30]

In 2020 Moody's Investors Service followed Fitch Ratings and S&P Global Ratings in downgrading South Africa's sovereign debt to non-investment or "junk" status.[31] Moody's currently has the country at two notches into junk, while Fitch and S&P have it one notch

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[25] Ibid.
[26] Ibid; see also *BizNews* 20 October 2018.
[27] National Treasury, Budget Review 2024, https://www.treasury.gov.za/documents/national%20budget/2024/review/FullBR.pdf; Statistical Release P0441: Gross Domestic Product, First Quarter 2025, Table 2: Trading Economics, https://tradingeconomics.com/south-africa/gdp-per-capita-constant-2000-us-dollar-wb-data.html accessed 29 June 2025. https://www.statssa.gov.za/publications/P0441/P04411stQuarter2025.pdf.
[28] Bisseker, C, 'SA is not sustainable if the middle class is overburdened and shrinking', *Business Day*, 30 May 2022: https://www.businesslive.co.za/bd/opinion/columnists/2022-05-30-claire-bisseker-sa-is-not-sustainable-if-the-middle-class-is-overburdened-and-shrinking/; CRA, *Public Finance*, November 2022, pp. 11, 7.
[29] CRA, *Public Finance*, December 2024, p. 41; National Treasury, *2025 Budget Review*, p. 80: https://www.treasury.gov.za/documents/national%20budget/2025/review/FullBR.pdf.
[29] National Treasury, *2025 Budget Review*, p. 81: https://www.treasury.gov.za/documents/national%20budget/2025/review/FullBR.pdf.
[30] National Treasury, *2025 Budget Review*, p. 81: https://www.treasury.gov.za/documents/national%20budget/2025/review/FullBR.pdf
[31] *The Economic Times*, *IndiaTimes.com*, 'Fitch, Moody's cut South Africa's ratings deeper into junk, S&P affirms': https://economictimes.indiatimes.com/news/international/business/fitch-moodys-cut-south-africas-ratings-deeper-into-junk-sp-affirms/articleshow/79338820.

lower.[32] When South Africa lost the last of its investment ratings, it was automatically excluded from the World Government Bond Index. This obliged many foreign investors to dispose of their South African bonds, deepening a sell-off which has reduced foreign holdings of government bonds from 43% in March 2018 to 25% in 2024.[33] Bond yields have risen too, increasing the government's debt service costs and adding to the damage from spiralling state debt.[34]

After March 2020, foreign investors became unable or less willing to hold South African bonds, even at their high yields. The government then had to borrow more and more from local banks, which bought up the bonds that foreign investors sold when they exited the market, along with much of the government's new borrowing.

In 2022, in its annual Article IV assessment of South Africa, the International Monetary Fund (IMF) warned against the country's banks holding too much government debt. "The increasing nexus" between the government and the financial sector posed a growing risk to financial stability and could "amplify" shocks to the economy. Commented *Business Day* in an editorial: "Anyone who followed the European sovereign debt crisis from around 2010 will know what they are talking about. Banks with large holdings of 'risk-free' government bonds in their balance sheets almost went down when sovereigns such as Greece and Spain faced fiscal crises and the prices of the bonds they had issued crashed, pushing yields to levels not seen in developed markets."[35]

In addition, since the private sector had had to keep buying up government bonds to keep the state afloat, the state's consumption spending over the last five years has crowded out fixed investment and other valuable economic activity.[36]

Despite these negative developments, the EFF, along with the ANC/SACP alliance, continues to assume that loose monetary policy and large increases in state spending will have many "positive multiplier effects". In their view, such spending will help to boost consumer demand, thereby expanding employment and raising the growth rate. However, other commentators have cautioned that state spending in the past decade has often harmed the economy through what might be seen as "negative multiplier effects".

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[32] Bisseker, C, 'With supportive global factors fading, SA's vulnerabilities are exposed again', *Business Day*, 11 July 2022: https://www.businesslive.co.za/bd/opinion/columnists/2022-07-11-claire-bisseker-with-supportive-global-factors-fading-sas-vulnerabilities-are-exposed-again/; Mavuso, B, 'Busisiwe Mavuso: We remain deep in junk territory and it's costing us dearly', *Business Day*, 28 November 2022: https://www.businesslive.co.za/bd/opinion/columnists/2022-11-28-busisiwe-mavuso-we-remain-deep-in-junk-territory-and-its-costing-us-dearly/.

[33] National Treasury, *2025 Budget Review*, p. 78: https://www.treasury.gov.za/documents/national%20budget/2025/review/FullBR.pdf

[34] Winning, A and Arnold, T, 'Local investors cushion impact of South African bond index exit – for now', *Reuters*, 30 April 2020: https://www.reuters.com/article/safrica-markets-bonds-idUKL8N2CI5GH.

[35] https://www.businesslive.co.za/bd/opinion/editorials/2022-02-16-editorial-local-banks-funding-big-is-no-small-matter2/. The extent of "banks' sovereign exposure" is also one of the "macroprudential indicators" flagged by the SARB in a "financial stability heatmap": see South African Reserve Bank, *Financial Stability Review*, First Edition 2025, https://www.resbank.co.za/content/dam/sarb/publications/reviews/finstab-review/2025/financial-stability-review/First%20Edition%202025%20Financial%20Stability%20Review.pdf.

[36] https://www.dailymaverick.co.za/article/2022-02-08-what-the-hard-data-reveals-about-the-true-state-of-the-nation-spoiler-alert-not-good-at-all/; https://www.businesslive.co.za/fm/features/2021-05-20-basic-income-grant-debate-hots-up/?

Part of the problem is that much of the government's annual procurement spending (now totalling some R1.2 trillion a year) is frequently tainted by fraud, inflated pricing, and defective or partial performance. In terms of preferential black economic empowerment (BEE) procurement alone, the current rules allow for BEE "preference premiums" which, in the words of Treasury official Willie Mathebula, are "capped" at 25% on contracts below R50m and at 11.1% on contracts above R50m. These legal premiums, or price mark-ups, on the public tenders awarded to BEE firms cost an estimated R17bn a year. However, price inflation on public tenders often far exceeds the specified limits and is estimated, together with other forms of preventable corruption, to cost R133bn a year. This makes for overall wastage in public procurement of roughly R150bn a year.[37]

Government spending on public servants and SOE employees has also been both wasteful and distorting in its effects. As Professor Ricardo Hausmann of the Harvard Kennedy School points out, the number of public servants has steadily increased, but few additional teachers, health professionals, or police officers have been taken on. Instead, much of the expansion has been in "central government administration". In addition, public service wages have gone up so sharply, especially at mid-levels, that "state employees in the 50th percentile get paid 110% more than their private-sector counterparts".[38] South Africa's public servants are also paid well above global norms. According to National Treasury and several reports from the International Monetary Fund (IMF) and World Bank, public sector compensation has hovered at around 12–13% of GDP, whereas the global average is generally closer to 9%.[39]

Despite high public service wages, inefficiency in national and provincial departments is rife. A similar problem is evident in the local government sphere, where many municipalities are dysfunctional and unable to discharge their key functions. Government spending has thus been singularly ineffective in meeting the country's needs or helping to expand the economy. In the words of Claude de Baissac, CEO of Eunomix Group, a political and economic risk consultancy: '[Since] 2020 [there has been] an inverse correlation between the rise in government expenditure...and the growth of the economy. The more the government spends, the less the economy grows.' [40]

Gabriel Crouse, Executive Director of IRR Legal, has elaborated on the "negative multiplier effects" of increased state spending. In a recent paper, Mr Crouse notes that government revenue collected, as a percentage of the country's Gross Domestic Product (GDP), has risen from 19.8% in 1996 to 25.1% in 2023. This increased percentage means that the state extracted R327 billion more in 2023 than it would have at the 1996 rate. Over the same period, moreover, government effectiveness in South Africa declined at the third fastest rate among a range of countries monitored by the World Bank. "In summary," writes Mr Crouse, "South Africa spent

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[37] Crouse, G, 'Parliament must cut BEE premiums and VAT burden on the poor', Politicsweb.co.za, 27 March 2025: https://www.politicsweb.co.za/politics/parliament-must-cut-bee-premiums-and-vat-burden-on.

[38] Cohen, T, 'What the hard data reveals about the true state of the nation (spoiler alert: not good at all), *Daily Maverick*, 8 February 2022: https://www.dailymaverick.co.za/article/2022-02-08-what-the-hard-data-reveals-about-the-true-state-of-the-nation-spoiler-alert-not-good-at-all/.

[39] Corrigan, T, 'Balancing the books and rebalancing the (political) economy', *The Daily Friend*, 31 March 2025: https://dailyfriend.co.za/2025/03/31/balancing-the-books-and-rebalancing-the-political-economy/

[40] https://www.businesslive.co.za/bd/opinion/2021-10-21-claude-de-baissac-a-strategy-guaranteed-to-fail/.

27% more of its annual output on tax while dropping 51% in the global rankings of government effectiveness. That is evidence of a system-wide failure to get value for money."[41]

Mr Crouse spells out the meaning and importance of the fiscal multiplier, writing: "The fiscal multiplier is a measure of the impact of government fiscal expenditure. Typically, a fiscal multiplier above 1 is desired, since it means that for every R1 spent [by the state] on the margins more than R1 of GDP is added... A multiplier above 1 indicates some form of government productivity." [42]

By contrast, he adds, "when the fiscal multiplier is below one, that means spending R1 produces a GDP impact of below R1". Most commentators assume that state spending will always have some positive effect and so cannot enter the negative range. The South African state has shown these assumptions to be mistaken. Though economists have found that the fiscal multiplier from state spending was positive from 2009 to 2014, that multiplier has generally been negative since then. Comments Mr Crouse: "With a negative fiscal multiplier estimate, for every rand the state spends on the margin it literally destroys output. Setting the money on fire would have been less destructive than entrusting it to state spending."[43]

8 The dangers in modern monetary theory (MMT)

The SACP brushes aside the factors outlined above – anaemic growth, limited tax revenues, rapidly rising public debt and a negative fiscal multiplier – as key reasons why millions of South Africans remain mired in unemployment and poverty. Instead, the party claims that the explanation for adverse outcomes lies in the "neoliberal dogma" underpinning current macroeconomic policy. The solution, it says, lies thus in "rejecting the neoliberal, austerity macroeconomic straitjacket" and casting it off.[44] This task has been made easier, it adds, by the "quantitative easing" adopted during the 2007/8 financial crisis, when "central bankers in the US, EU and UK simply abandoned the neoliberal playbook and pumped huge liquidity into their private banks" – while doing even more of the same during the Covid-19 lockdown.[45]

As earlier noted, the SACP thus assumes that the SARB can "print" or "electronically inject" massive amounts of money into the financial system without the country suffering any adverse consequences. All that is needed, it claims, is that the increased state spending thus made possible should be "socially transformative".[46] This brings the ANC/SACP alliance close to endorsing modern monetary theory (MMT) as a credible option for South Africa.

MMT was developed in 1993 by Warren Mosler, a hedge fund manager in the 1980s. Its basic thesis – as explained by Duma Gqubule, director of the Centre for Economic Development and Transformation – is that "governments that control their currencies are not like households. They do not have to tax or borrow before they can spend,...as they create the money they spend". Hence, they do not need to worry about budget deficits or the overall size of their public

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[41] Crouse, G, 'The IRR's Blueprint for Growth 2: Cut VAT and BEE', IRR, February 2025, pp. 1, 4 – 5, 7 – 8, 10 – 12: https://irr.org.za/reports/the-irrs-blueprint-for-growth/the-irr-blueprint-for-growth-2025/2-the-irrs-blueprint-for-growth-2-cut-vat-and-bee.
[42] Ibid, p. 13.
[43] Ibid.
[44] SACP Political Report, 15th National Congress, July 2022, p. 9.
[45] Ibid, pp. 9 – 10.
[46] Ibid, p. 8.

debt. Inflation is the only limit on their spending – and this can always be addressed via wage and price controls and by increased taxes on the wealthy, as these take money out of circulation and have a deflationary effect.[47] MMT, adds Gqubule, is thus rightly seen as "the magic money tree".[48]

IRR policy fellow Ivo Vegter sums up what MMT is expected to achieve, saying: "MMT is popular with socialists because, if it worked, it would achieve almost everything socialists love: practically unlimited government spending, a well-funded welfare state with free everything, systematic redistribution of wealth from the rich (via taxation) to the poor (via government spending), and extensive government control over the private sector through elaborate price and wage controls that make it hardly relevant who actually *owns* the means of production." [49]

In practice, however, there are major fallacies in the MMT idea, as demonstrated by Sri Lanka's recent economic collapse. An editorial in the *Financial Mail* in April 2022 put it so: [50]

> The island is suffering its worst economic crisis since independence in 1948, marked by food shortages, power blackouts of 10 hours a day, and a 60% drop in the value of the rupee in the past month. Last week, its state oil company hiked fuel prices by a third, as its inflation rate rocketed past 21%.
>
> What happened is that after President Gotabaya Rajapaksa was elected in 2019, he implemented popular, if short-sighted measures, including tax cuts. The next year, central bank governor Weligamage Don Lakshman unveiled an outlandish plan to deal with the country's debt: hike the proportion of domestic debt, simply by printing more cash. "Domestic currency debt – if I may use the term – in a country with sovereign powers of printing money, as the modern monetary theorists would argue, is not a huge problem," he said.
>
> So, as Bloomberg put it, the central bank "began to run the printing presses day and night" and money supply grew 42% in less than two years. Inevitably, the rupee began to lose value. Inflation spiked as the price of imports – such as oil and food – soared. And, big surprise, nobody wanted to buy any of the local bonds issued as part of the local debt plan. [In] September [2021], Rajapaksa declared an 'economic emergency'. [Soon] the country was rationing staples including rice, sugar, and milk.

By July 2022 Sri Lanka's inflation rate had risen to 60%, prompting hundreds of thousands of people to take to the streets in protest. After weeks of angry demonstrations – culminating in the storming of the presidential palace – Mr Rajapaksa fled to Singapore and then formally resigned. Meanwhile, fish, meat and even dhal (a staple food made from split peas) have become too costly for most families to afford. The United Nations warned of growing malnutrition and a

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47 https://www.newframe.com/sa-could-eliminate-poverty-in-three-years/

48 https://www.businesslive.co.za/bd/opinion/columnists/2021-04-05-duma-gqubule-why-the-wealthy-elites-always-support-austerity/?

49 https://dailyfriend.co.za/2021/07/28/the-magic-money-theory-mmt/;

50 https://www.businesslive.co.za/fm/opinion/editorial/2022-04-26-editorial-magic-money-lessons-for-the-anc/

humanitarian crisis, while one of the first tasks of the country's new government was to try and negotiate an urgent bail-out from the International Monetary Fund (IMF).[51]

MMT proponents argue that the United States (US) and the United Kingdom (UK) both massively expanded their money supply – mainly through quantitative easing – during their Covid-19 lockdowns without suffering major adverse effects. But these are G7 countries with strong economies and global reserve currencies that are widely regarded as "safe-havens" and hence are much in demand.[52] In addition, both the US and the UK experienced a major upsurge in inflation, which in 2022 reached rates not seen for 41 years.[53] Inflation at these levels severely eroded earnings and savings. Moreover, to help bring inflation rates back down again, the Federal Reserve in the US and the Bank of England in the UK had little choice but to push up interest rates, which significantly increased the costs of servicing public debt in both countries.[54]

If South Africa were to implement MMT, it would soon follow in the footsteps of Sri Lanka – and also of Zimbabwe and Venezuela, as outlined below – in triggering a collapse in its currency, an upsurge in inflation, and crippling shortages of fuel, food, medicines, and a host of other imported necessities. Any evaluation of the Bill – which is intended to facilitate a shift from current macroeconomic policy to MMT – must take these likely consequences into account.

9 No comprehensive socio-economic impact assessment

In an extraordinary failure to consider the relevant issues – including the negative consequences of expropriating SARB shares without compensation – the Memorandum on the Objects of the Bill describes the *Financial Implications for the State* as "None".[55] It was presumably to help fill this gap – and comply with government policy as well as the Standing Committee's constitutional obligations on public consultation – that the Parliamentary Budget Office (PBO) was requested in 2023 to provide a "socio-economic impact assessment" of the Bill.

The PBO presented this assessment to the Standing Committee on Finance in September 2024. In an introduction to this assessment, the PBO explains that the EFF introduced the Bill to the National Assembly in August 2018, but it lapsed at the time of the May 2019 general election and was then revived by the National Assembly. Both the Standing Committee on Finance and

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[51] https://www.bbc.com/news/world-asia-62077109; https://www.bbc.com/news/world-asia-62160227; https://www.bbc.com/news/world-asia-62161350; https://www.reuters.com/world/asia-pacific/sri-lanka-restart-bailout-talks-with-imf-august-president-2022-08-03/.

[52] Wikipedia defines a "reserve currency" as "a foreign currency which is held in significant quantities by central banks…as part of their foreign exchange reserves": Wikipedia, Reserve currency: https://en.wikipedia.org/wiki/Reserve_currency#:~:text=A%20reserve%20currency%20is%20a,aspects%20of%20the%20global%20economy; see also https://dailyfriend.co.za/2021/07/28/the-magic-money-theory-mmt/.

[53] In 2022 the US consumer inflation rate reached 9.1%, the highest rate since 1981, Historical U.S. Inflation Rate by Year: 1929 to 2025: https://www.investopedia.com/inflation-rate-by-year-7253832; in the UK, inflation reached 11.1% in 2022, also the highest rate since 1981: House of Commons Library, UK Parliament, 'Rising cost of living in the UK', 11 July 2024: https://commonslibrary.parliament.uk/research-briefings/cbp-9428/#:~:text=The%20annual%20rate%20of%20inflation,first%20time%20since%20July%202021.

[54] Labonte, M, 'Why is the Federal Reserve Keeping Rates "High for Longer"? Insight, Library of Congress, 7 March 2024: https://www.congress.gov/crs-product/IN12388#:~:text=The%20Federal%20Reserve%20(Fed)%20responded,the%20highest%20target%20since%202001; Bank of England, 'Why are interest rates high and how quickly might they fall', Explainers, 8 May 2025: https://www.bankofengland.co.uk/explainers/current-interest-rate.

[55] Memorandum on the Objects of the Bill, para. 4.

the Select Committee on Finance were briefed on the Bill, while public hearings on the measure were conducted in November 2020. In 2023 the PBO was requested to conduct its socio-economic impact assessment. The Bill then lapsed again at the time of the May 2024 general election and was later revived for a second time.[56] A new process of public consultation is now under way.

In its presentation, the PBO implies that its report covers "the potential fiscal costs of buying out the current shareholders", as well as "the likely impact" of the Bill in terms of its "economic impact", its "social impact" and its "financial impact", in line with "the key concerns raised by stakeholders". It also promises to "evaluate some key legal and constitutional consequences" of the Bill. However, very little of the promised information and analysis has in fact been provided.

9.1 Legal and constitutional issues

As the PBO points out, the Bill's proposal to nationalise SARB shares without compensation "raised concerns about property rights under Section 25 of the Constitution". In 2018, moreover, "Parliament's Legal Advice had confirmed that expropriation without compensation would be unconstitutional and would set a dangerous precedent". The public hearings conducted had also "raised concerns that the Bill failed to explain the societal benefits of nationalisation, as required by Section 25(2)(a) of the Constitution".[57]

The SARB had also warned that expropriation without compensation could breach various bilateral investment treaties (BITs), including the one between South Africa and Germany (which was concluded by the administration of President Nelson Mandela). German shareholders in SARB could "claim the full market value of SARB shares, plus interest", either under sunset clauses extending the benefits of this agreement for existing investors for 20 years after its termination in 2013,[58] or under the Protection of Investment Act of 2015.[59]

Against this background, the PBO queried whether "the Bill could result in a long and costly legal process, unless it resolved concerns about property rights, compensation and international treaties".[60] However, it made no further attempt to answer this key question.

9.2 Economic costs

The PBO also attempted to identify what compensation might be needed. In June 2022, it said, the SARB's two million shares were held by 800 shareholders. These shares were traded at R6 a share, while maximum holdings were limited to 10,000 shares. The value of 10,000 shares was thus R60,000 while annual dividends (at a yield of 1.66%) generally amounted to some R1,000. A total of R20 million in compensation might thus be appropriate, but the state would also have

[56] Parliamentary Budget Office, 'Inception Report: Analysis on SARB Bill, Socio Economic Impact Assessment – SCOF', 24 September 2024 ("PBO Presentation").
[57] Ibid.
[58] Woolfrey, S, 'Another BIT bites the dust', Tralac, 2013: https://www.tralac.org/discussions/article/5342-another-bit-bites-the-dust.html
[59] Ibid.
[60] Ibid.

to “justify the public interest” in expropriation. Hence, a negotiated settlement might need to be “considered”.[61]

The PBO also points out, however, that the likely costs of the Bill “go beyond the financial costs of buying the shares”. The SARB and the National Treasury have “warned of the negative impact on business and financial market sentiment”, it cautions.[62]

9.3 Macroeconomic policy and developmental objectives

The PBO goes on to note that “nationalising the SARB will not necessarily result in operational independence”. Nor will it “automatically address the developmental state objectives of growth and employment”. Parliament may therefore have to amend “Section 223 (sic) of the Constitution…to align the Bank’s mandate with developmental objectives”.[63] (The relevant constitutional provision is in fact Section 224, which says that “the primary object of the SARB is to protect the value of the currency in the interest of balanced and sustainable economic growth”.)[64]

The PBO also cautions that the pursuit of developmental objectives requires the use of “multiple tools”, including “state control of finance, exchange rates, capital controls, [investment] quotas, and differential interest rates”. There must also be a “close coordination of monetary, fiscal and industrial policies”, which can affect the “mandates and independence” of central banks.[65]

According to the PBO, key questions still to be explored are whether “nationalising the SARB” would “foster greater investment in infrastructure, education and other sectors critical for sustainable growth” and so help reduce “financial exclusion and inequality”. However, other “unintended potential issues” arising from SARB nationalisation are important too. Will this, “in the short term, create uncertainty and negatively affect investor confidence, potentially leading to capital flight and currency depreciation”? Will it result in “certain sectors or industries [being] unduly favoured…at the expense of others”?[66]

Having raised, but not resolved, these issues, the PBO then comes down firmly on the side of quantitative easing and modern monetary theory (MMT). During the global financial crisis of 2007 to 2009, it says, “central banks started purchasing large amounts of government debt in secondary markets (quantitative easing or QE)” as well as “limited monetary financing”. During the Covid-19 lockdowns, it adds, “central banks pivoted to large-scale direct monetary financing – the issuance of public money to support government spending”.[67]

The PBO ignores the negative consequences of these interventions – particularly an upsurge in inflation and public debt – which even wealthy countries with strong currencies, such as the US and the UK, then experienced. Instead, it concludes (without giving reasons): “A developmental central bank in South Africa can finance government spending (monetary finance), reduce the

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[61] Ibid.
[62] Ibid.
[63] Ibid.
[64] Section 224(1), Constitution.
[65] PBO Presentation.
[66] Ibid.
[67] Ibid.

cost of government borrowing (QE), capitalise development finance institutions (DFIs), and use regulatory levers (including quotas) to influence the allocation of private capital."[68]

The PBO then goes on to claim that "there is nothing inherently inflationary in monetary financing," that modern monetary theory is adept in countering any inflation risks – and that inflation will result only "if the government tries to spend too much into an economy that's already running at full speed". However, this was hardly the situation during the Covid-19 lockdowns, when inflation in many Western democracies reached levels last seen some 40 years previously.

The PBO then reverses course, saying that inflation will result only where the supply side has been severely disrupted, as in times of war. It confidently predicts that there will be no resulting inflation in South Africa because the country has many "large industrial companies" with significantly under-utilised manufacturing capacity. Here, the PBO seems to assume that these companies will immediately increase production once MMT has put more money into consumers' hands. But this ignores a host of binding constraints on manufacturing production. These constraints range from depressed business confidence to limited fixed investment, dysfunctional governance, high input costs, electricity and water shortages, crumbling logistics, major skills deficits (made worse by racial targets and the pending National Health Insurance scheme) and an escalating threat to property rights under the Expropriation Act. Unless all these problems can be resolved, production is most unlikely to expand – while inflation is sure to rise significantly, as Mr Kganyago has warned.

9.4 An inadequate assessment

The PBO's partial and often muddled assessment provides no substantiated or useful insights into the likely costs and consequences of the Bill. It ignores the warning sounded by Mr Kganyago that any initial boom will soon turn to bust. It overlooks a host of major economic problems: from low growth and a narrow tax base to escalating public debt, persistent sub-investment or "junk" ratings by international agencies, the ineffectiveness of state spending – and the sad reality that the fiscal multiplier from such spending has been negative for many years.

The PBO does make some attempt to set out the relevant legal issues, warning that expropriating SARB shares without compensation would be unconstitutional. It provides an estimate (R20 million) of the costs of the state's buying the SARB shares, while acknowledging that economic costs could go well beyond this. The particular risks it flags – but does not further explain – are reduced investor confidence, potential capital flight and further currency depreciation. Astonishingly, the PBO nevertheless implicitly endorses modern monetary theory. It recommends the use of quantitative easing and direct monetary financing by the SARB and predicts (against a raft of evidence to the contrary) that these interventions will have no inflationary impact.

The PBO was asked to produce a meaningful socio-economic impact assessment of the Bill, but it has failed to do so. In the absence of this assessment, the Standing Committee is still not equipped to make an informed decision on the Bill. Nor can it fulfil its constitutional obligation,

[68] Ibid.

under Section 59(1) of the Constitution, to "facilitate public involvement" in the passage of the Bill.

10 The constitutional need for proper public consultation

Under the Constitution, Parliament has an obligation to "facilitate public involvement in the legislative...processes of the National Assembly and its committees". This obligation is a vital aspect of South Africa's democracy, as the Constitutional Court has repeatedly reaffirmed in judgments spanning two decades. These rulings include *Matatiele Municipality and others* v *President of the Republic of South Africa and others*, *Doctors for Life International* v *Speaker of the National Assembly and others*, *Land Access Movement of South Africa and others* v *Chairperson of the National Council of Provinces and others*, and *Mogale and others* v *Speaker of the National Assembly and others*.[69]

In the *New Clicks* case in the Constitutional Court, Mr Justice Albie Sachs noted that there were many ways in which public participation could be facilitated. He added: "What matters is that...a reasonable opportunity is offered to members of the public and all interested parties *to know about the issues* and to *have an adequate say*". This passage was quoted with approval in *Doctors for Life*, the *Land Access* case, and in the recent *Mogale* judgment striking down the Traditional and Khoi-San Leadership Act of 2019.[70]

10.1 The vital need for an accurate socio-economic impact report

The best way to ensure that the public *know about the issues* and can then *have an adequate say* on what is being proposed is to provide them with a comprehensive and objective socio-economic impact assessment that clearly sets out all the economic and other ramifications of a bill. This is also what the government's own policy requires.

According to the government's *Guidelines for the Socio-Economic Impact Assessment System (SEIAS)* – which were developed by the Department of Planning, Monitoring, and Evaluation in May 2015 and took effect in September that year – all new legislation in South Africa is supposed to be subjected to a comprehensive "socio-economic impact assessment" before it is adopted. The aim of the SEIA system is to ensure that "the full costs of regulations and especially the impact on the economy" are fully understood before new rules are introduced.[71]

According to the *Guidelines*, the SEIA system must be applied at various stages in the policy process. Once new legislation has been proposed, "an initial assessment" must be conducted to identify different "options for addressing the problem" and making "a rough evaluation" of their respective costs and benefits. Thereafter, "appropriate consultation" is needed, along with "a continual review of the impact assessment as the proposals evolve".[72]

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[69] (CCT73/05A) [2006] ZACC 12; 2007 (1) BCLR 47 (CC); 2006 (6) SA 416 (CC); [2016] ZACC 22; [2023] ZACC 14.

[70] Section 59(1), Constitution of the Republic of South Africa, 1996; *Minister for Health and another* v *New Clicks South Africa (Pty) Ltd and others*, [2005] ZACC 14, at para 630, emphasis supplied by the IRR; *Doctors for Life*, at para 145; *Land Access* judgment, at para 59; *Mogale* judgment, at para. 34.

[71] Department of Planning, Monitoring and Evaluation, 'Socio-Economic Impact Assessment System (SEIAS), Revised Impact Assessment: National Health Insurance Bill', 26 June 2019 (2019 SEIAS Assessment); *SEIAS Guidelines*, p. 3, May 2015.

[72] *SEIAS Guidelines* p. 7.

A "final impact assessment" must then be developed that "provides a detailed evaluation of the likely effects of the [proposed law] in terms of implementation and compliance costs as well as the anticipated outcome". When a bill is published "for public comment and consultation with stakeholders", this final assessment must be attached to it. A particularly important need is to "identify when the burdens of change loom so large that they could lead to excessive costs to society, for instance through disinvestment by business or a loss of skills to emigration".[73]

The Bill is likely to trigger precisely such "excessive costs". The Bill is clearly intended, not only to nationalise the Reserve Bank, but also to facilitate a shift towards much looser macroeconomic policy, if not the introduction of modern monetary theory. Yet shifts of this kind have had devastating economic consequences not only in Sri Lanka, as earlier outlined, but also in Zimbabwe and Venezuela, to name but two further examples.

In Zimbabwe in 2004, the state-owned Reserve Bank of Zimbabwe (RBZ) came under strong political pressure from President Robert Mugabe and the ruling Zanu-PF party to start printing money to fund government spending. In the words of Paul Maritz, a director of Free SA, the Foundation for the Rights of Expression and Equality, the Mugabe government needed to "fund budget shortfalls, pay public workers, finance… agricultural subsidies, and cover massive corruption-linked expenditures. By 2008, Zimbabwe descended into full-blown hyperinflation, peaking at an unimaginable 89.7 sextillion percent. Prices doubled every 24 hours. The Zimbabwean dollar collapsed and was ultimately abandoned. Life savings were wiped out overnight. A once-thriving agricultural economy was left in ruins [and] unemployment soared past 90%". In 2009 the National Statistics Agency of Zimbabwe estimated that 1.5 million citizens, "nearly 10% of the Zimbabwe population, had emigrated to South Africa". The real numbers were probably far higher.[74]

Much the same happened in Venezuela, which in the 1970s had the highest GDP per capita in South America after decades of sustained economic growth. In 2005 President Hugo Chavez overrode the constitutional mandate of the Central Bank of Venezuela (BCV) to maintain its independence in implementing monetary policy. The president compelled the central bank to transfer international reserves directly to the executive (as the SARB here has also started to do to help finance state spending that cannot be funded by either revenue or increased public debt). In 2010, as Mr Maritz writes, "a new law [in Venezuela] effectively stripped the BCV of its autonomy, allowing the government to directly print money to finance public spending". Adds Mr Maritz: [75]

> What followed was one of the worst economic collapses in modern history. Hyperinflation became entrenched by 2016, with inflation hitting over 1,000,000% by 2018. The national currency became so worthless that people used it to make handicrafts. Food, fuel and medicine shortages became common. An estimated 7 million Venezuelans [out of a population of some 30 million] fled the country.

[73] *SEIAS Guidelines*, p. 11.
[74] Maritz, P, 'When politicians seize the Central Bank' Politicsweb.co.za, 26 June 2025: https://www.politicsweb.co.za/opinion/when-politicians-seize-the-central-bank.
[75] Ibid.

The socio-economic impact report compiled by the PBO ignores the lessons from Sri Lanka, Zimbabwe and Venezuela. It also fails to deal with a host of relevant economic issues which it sees as needing further analysis and evaluation. In these circumstances, the great majority of South Africans – in whose name the nationalisation of the SARB is being proposed by the EFF – have no way of "knowing about the issues" raised by the Bill. Nor can they "have an adequate say" on whether they support it or not.

10.2 The need to comply with Chapter Ten of the Constitution

As the *National Policy Development Framework* ("the *Framework*") points out, "Chapter 10 of the Constitution prescribes that people's needs must be responded to, and the public must be encouraged to participate in policy making. Therefore, the involvement of the public in policy-making is a constitutional obligation that government institutions must respect and institutionalise."[76]

The *Framework* was approved by the Cabinet in December 2020 and is intended to help give effect to the *National Development Plan: Vision 2030*. It seeks to improve policy development by "ensuring meaningful participation" and "inculcating a culture of evidence-based policy making".[77] Towards this end, the *Framework* lists some of the key requirements for proper public participation. "Consultation with stakeholders should commence as early as possible," it says. All relevant stakeholders should be identified, including "those who will benefit when [existing] problems are addressed" and "those who will bear the cost of implementation of the proposed intervention". Policy-makers must also identify and counter all "barriers to active participation" and ensure that "consultation is infused in all aspects of the policy-making cycle".[78]

According to the *Framework*, adequate thought must be given to "which policy solutions would best achieve the public policy objective" and "how best" the proposed policy solution can be implemented. Policy-makers must "inform and engage stakeholders" on "the nature and magnitude of a policy issue", along with its likely "impacts and risks". These assessments must be "informed by the best available evidence, data, and knowledge".[79]

In addition, policy-makers must be willing to adjust their proposals in the light of the evidence provided. "Policy-makers must not impose their preconceived ideas...and pre-empt the outcome of the policy consultation process. They need to be willing to be persuaded and acknowledge the input of stakeholders with a view to creating a win-win policy outcome". They must also avoid any impression that "the consultation process is staged, managed, cosmetic, token and a mere compliance issue". Instead, they must "strive to produce an outcome based on bargaining, negotiation, and compromise".[80]

[76] Ibid, p. 19.
[77] National Policy Development Framework, 2020, p. 3.
[78] Ibid, pp. 19 – 20.
[79] Ibid, p. 20.
[80] Ibid.

Policy-makers, the *Framework* adds, must also provide adequate feedback to those who have submitted comments. Such feedback must include "rational reasons" as to why "submissions and comments...were not consolidated into the final policy document". In addition, policy-makers must "report in the SEIAS (final impact assessment: consultation section) on the results of their early engagement with stakeholders". They must explain "what stakeholders viewed as possible solutions, benefits, and costs and how these influenced the selection of the proposed policy solution".[81]

10.3 Constitutional obligations at risk of being breached

All these important instructions to policy-makers have been disregarded in the consultation process on the Bill. The *Framework*'s directions as to what must be included in a SEIA report have been ignored by the PBO. Instead, the PBO report fails to include any evidence-based analysis of the likely economic and other ramifications of the Bill. Its evident (and partisan) support for loose monetary policy and modern monetary theory further taints its recommendations, as does its failure to consider sound alternative policies.

Moreover, by the PBO's own admission, its report leaves many important issues unexplored and unresolved. Hence, its assessment cannot count as the "final" SEIA report that should have been attached to the Bill when public comment on it was invited.

In short, the PBO's incomplete and partisan report cannot provide an adequate foundation for the proper public consultation required by both section 59(1) and Chapter Ten of the Constitution. To avoid any breach of its constitutional obligations, the Standing Committee should therefore decline to continue with the processing of the Bill.

Any final SEIA report that might be developed in the future must comply in full with the government's SEIA guidelines as well as the *National Policy Development Framework*. The authors of the new report required should thus refrain from "imposed their pre-conceived ideas" on the public, as the PBO has done. Instead, they should rely on "the best available...data and knowledge" – and set out in full "the likely impact and risks" of nationalising the SARB and so paving the way for loose monetary policy. As the *Framework* requires, they should also explore alternative policy solutions with all stakeholders and avoid the impression – so evident in relation to this Bill – that the ANC alliance views the public consultation process as "staged, managed, cosmetic, token and a mere compliance issue".

11 The Way Forward

The Standing Committee has failed to obtain (and append to the Bill, as required) a final SEIA report that is accurate and comprehensive in its analysis and so empowers the public to "know about the issues" raised by the Bill and "have an adequate say" on its provisions. The Standing Committee has therefore failed to facilitate proper public involvement in the passage of the Bill, as required by Section 59(1) of the Constitution. At the same time, the Standing Committee has also overlooked its obligation, under Chapter Ten of the Constitution, to encourage meaningful

[81] Ibid.

public participation on the Bill. Hence, it cannot lawfully proceed with its deliberations on the Bill – let alone decide to adopt it – without first rectifying these deficiencies.

According to the Bill, all SARB shareholders are to have their shareholdings expropriated without compensation. This is contrary to Section 25 of the Constitution and its requirement that all expropriations be accompanied by "just and equitable" compensation. It is also inconsistent with the Expropriation Act of 2024 (still to be brought into operation), which authorises "nil" compensation solely for land and then only when further tests are met. The content of the Bill is thus prima facie unconstitutional. For this reason, too, the Standing Committee cannot lawfully proceed with its adoption.

Even if the Standing Committee amends the Bill's wording to provide that just and equitable compensation must be paid for all SARB shares, there will still be major problems in proceeding with the Bill. In particular, as both Mr Lesetja and the National Treasury have warned, the negative economic ramifications are likely to be considerable.

The mere adoption of the Bill will immediately have substantial economic costs. Nationalisation of the SARB will further undermine property rights and erode investor confidence in the country. Yet investor confidence needs urgently to be increased – rather than diminished – if South Africa is to raise its current paltry rate of fixed investment (15% of GDP) to 26% of GDP (the global average) and preferably to 30% of GDP, as the National Development Plan recommended in 2012.

Fixed investment in factories, shopping centres, office parks, machinery and other assets must rise to the 26% or 30% level to boost economic growth and make it possible to create millions more jobs. But no one will invest in fixed assets (which, by definition, cannot be moved away) unless they have confidence that their property rights will be upheld – and that essential institutions, such as the Reserve Bank, will retain their capacity to implement prudent macroeconomic policy free from political interference.

The adoption of the Bill is also likely to trigger capital flight, as the National Treasury has cautioned. This is the exact opposite of what the country needs. If this occurs, South Africa's already limited levels of fixed investment will fall further. This will inevitably reduce economic growth and leave some 12 million unemployed people with little prospect of ever finding jobs or earning their own living.

The National Treasury has also warned that the adoption of the Bill could trigger further depreciation in the value of the rand. This in itself would immediately have major inflationary effects, as it would push up the cost of petrol – which affects almost all prices – as well as the cost of all other imported items. This in turn would reduce the purchasing power of all earnings and the value of all savings. The burden, as ever, would fall most heavily on the poor, who have less capacity to shield themselves from the negative effects of rising prices.

Given the ANC's repeated support for the SARB's nationalisation – and the SACP's determination that the Reserve Bank must abandon the conventional monetary policy that has served South Africa so well – the adoption of the Bill is sure to trigger concerns that the country is moving towards modern monetary theory and the unchecked printing of money. This perception in itself is likely to worsen rand depreciation and capital flight. In addition, the more a nationalised SARB in fact proceeds down such a path, the worse the additional negative consequences will be. Economic disasters of the kind that have befallen Sri Lanka, Zimbabwe and Venezuela will then be difficult to avoid.

In addition, many of the reasons put forward for adopting the Bill are based on the assumption that increased state spending – to be facilitated by a nationalised Reserve Bank – will be effective in growing the economy and overcoming poverty. Since 2015, however, the economic data shows that increased spending by the South African government has had a *negative* multiplier effect. For every additional R1 spent at the margins, there has been no gain in GDP at all but rather a negative impact. As Mr Crouse has pointed out, setting the money on fire would cause less damage than expanding state spending still further.

The Bill must thus be abandoned. To proceed with it now, without the proper public consultation required, is procedurally unconstitutional and is likely to result in the legislation being struck down in the future. To proceed with its current provisions for expropriation without compensation is substantively unconstitutional and hence unlawful too.

Moreover, it is economically foolish to proceed with a damaging Bill for which there is no need at all. Current macroeconomic policy is working well and there is no need to "fix" what is not broken. It is especially foolish to proceed when the likely economic costs of the intended "fix" include increased capital flight, further rand depreciation, a rise in inflation and a diminution in investment, growth and employment.

In addition, all members of Parliament have an obligation to uphold the Constitution. They must also act at all times in the best interests of the country – and not simply as their political parties might prefer. In these circumstances, the Standing Committee should decline to proceed any further with the Bill. If necessary, it should simply be allowed to lapse in due course, as has happened twice before.

South African Institute of Race Relations NPC **30 June 2025**