

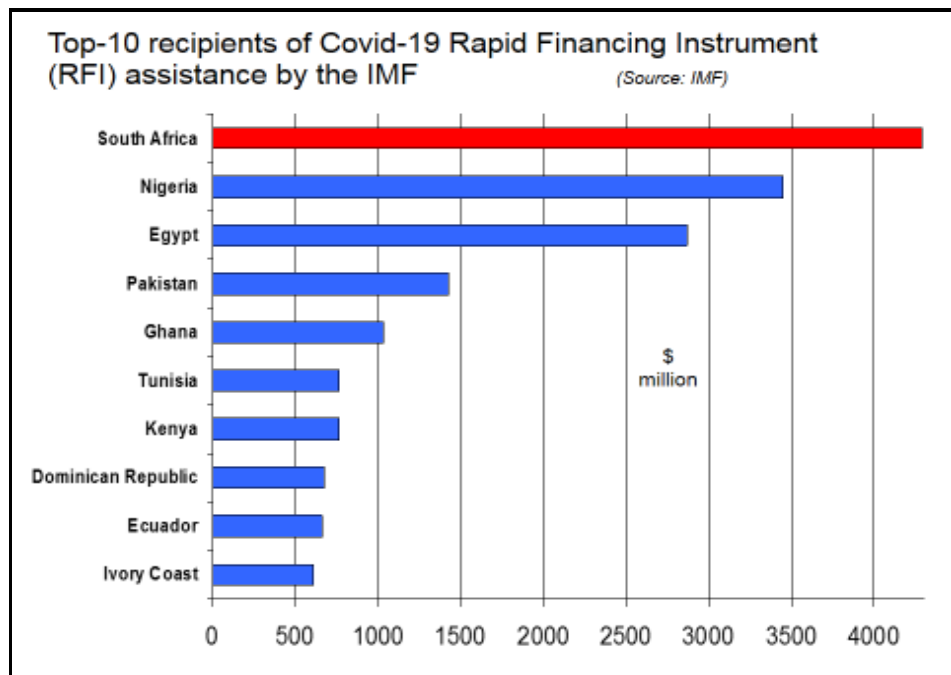
IMF lends a generous hand

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To date, the International Monetary Fund (IMF) has granted South Africa the largest single loan of any country under its Rapid Financing Instrument (RFI) facility.

The IMF is providing financial assistance and debt service relief to member countries that are facing a severe negative economic impact of the COVID-19 pandemic. Judging by the domestic reaction by radically socialist organisations, the public debate on economic policy in South Africa is in desperate need of some common sense.



Comments by a number of spokespersons for minority political parties, most of whom have no representation in Parliament, bordered on the ludicrous, with reference to "neo-colonial policy prescriptions" and threats to South Africa's sovereignty.

It remains a pity that all modes of media continue to broadcast and print opinions and statements from people who are misinformed and apparently guided by the radical socialism that has virtually destroyed the economies of countries like Zimbabwe and Venezuela.

Fortunately, these radical elements do not possess and executive powers in the government (outside of a marginal influence in the composition of a handful of municipal councils, where their involvement has generally resulted in a visible deterioration of service delivery).

The RFI represents one of two emergency funding options that have been made available by the IMF to assist developing countries. For the poorest countries, an interest-free Rapid Credit Facility (RCF) may be utilized. This is subsidised by high-income member countries and is not available to middle-income countries like South Africa.

The second facility, for which the South African government duly applied, is the RFI. The IMF expects to meet financing demand of around \$100-billion for these funding windows.

ADVANTAGES

When considering the following characteristics of the IMF's emergency lending facility to South Africa, it is nigh impossible to fathom the rationale for opposing the loan:

- Firstly, the loan comes at a very low interest rate of around 1.1%. Clarity on the effective rate will depend on whether the loan repayments are denominated in rand terms, dollar terms or in terms of Special Drawing Rights (SDRs). The latter is an international reserve asset created by the IMF in 1969 in order to supplement the official reserves of member countries. South Africa has drawn down 100% of its SDR quota at the IMF, which stands at 3,051-million. At the SDR/US\$ and US\$/rand exchange rates on 28 July, this translated into a rand amount of R70.7-billion.
- A second advantage of the IMF facility is the absence of any conditionality outside of the loan repayment schedule over three to five years. The IMF's emergency funding does not include any strict requirements that have to be met in terms of macroeconomic policy design and implementation. Although the IMF always stresses the need for sustainable public finances and adherence to sound principles of good governance by member countries, these are not enforceable (it should be borne in mind that the South African government has, in any event, regularly committed itself to these principles since Pres. Ramaphosa became head of state).
- Arguably the most important advantage of securing the IMF loan lies in the counter-cyclical nature of such funding. There can be no doubt that a large chunk of the funding will find its way into the new growth plan of National Treasury. Although Covid-19 has stalled the implementation of the plan, which essentially involves deregulation and investment in productive and labour-intensive sectors of the economy, government apparently realises that austerity is not the route to recovery.

It matters not where the cheap funding originates, as long as it is appropriated to growth-enhancing projects that rely heavily on private sector involvement and adheres to good corporate governance.