



Geordin Hill-Lewis MP
Shadow Minister of Finance
Cell: +27 072 320 1289
Tel: +27 21 403 2338
Email: geordinh@gmail.com
www.da.org.za

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Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington DC, 20431

Dear Ms K. Georgieva

REF: Triggering the IMF's 'accountability and transparency' funding requirement for South Africa's RFI loan

On the 27th of July 2020, the Executive Board of the International Monetary Fund (IMF) approved a request from South Africa for emergency financial assistance amounting to US\$4,3 billion under the Rapid Financing Instrument (RFI) to meet the urgent balance of payment (BOP) needs stemming from the outbreak of the COVID-19 pandemic.

The South African government committed themselves to managing the IMF's emergency financial assistance with full transparency and accountability.

However, recent actions by the South African government show that they are now deviating from the commitments made in the Letter of Intent (LOI) that was submitted by the Minister of Finance, Tito Mboweni, in his application for IMF financial assistance.

Plans are at an advanced stage to extend a bailout of R10,5 billion (US\$629 million) to the country's mothballed state airline, South African Airways (SAA). This is clearly at variance with the commitments made on how funds from the IMF loan will be spent. The Minister's LOI had clearly stated that the funds will be used to support health and frontline services, solve the balance of payments problems caused by the crisis, protect the vulnerable, support economic reform, drive job creation and stabilise public debt.

Furthermore, it has been credibly reported that the Minister of Finance proposes to fund this bailout by cutting Covid stimulus expenditure earmarked for public employment programmes and for rail infrastructure.

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It is for this reason that the Democratic Alliance (DA), South Africa's official opposition, is writing to you to raise our sincere concern around this proposed bailout. We further request the IMF to trigger its funding requirement for 'full transparency and accountability' on the RFI loan and ask that the South African government gives an update on how the funds have been spent. The SAA bailout is neither a Covid-19 related cost item nor does it constitute prudential fiscal management, a key requirement to contain the country's rising budget deficit.

In his statement, following the approval of the RFI loan to South Africa, Mr. Geoffrey Okamoto, First Deputy Managing Director and Acting Chair, stated that *"there is a pressing need to.....ensure debt sustainability by carrying out fiscal consolidation"*. If the bailout is not funded by cutting current expenditure and Covid relief expenditure, then it will be funded through additional debt. This will be indicative of the government's inability to control public spending. It will only worsen South Africa's deteriorating debt outlook with spill over effects that could impact on social cohesion. Triggering the accountability requirement for the RFI funding instrument to question the SAA bailout, will be in line with the IMF's obligation to prevent a BOP crisis in South Africa.

Perhaps most importantly, Mr Okamoto had advised the South African government to have 'specific reform commitments at the time of the October *Medium-Term Budget Policy Statement ...* to buttress the credibility of the reform efforts'. Extending a bailout to a moribund State Owned Enterprise (SOE) such as SAA is reflective of the reluctance to pursue a systematic economic structural reform programme. Several IMF reports have warned that unless concerted efforts are taken to reform the economy, the medium-term growth outlook would remain subdued exacerbate unemployment, poverty and inequality.

I look forward to your consideration of the aforementioned request and response thereto.

Thank you.

Kind Regards,

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