



2024 banking and politics nexus

SOUTH AFRICA

Banking and broader financial services sector issues will be closely watched as part of political party campaigns and manifestos for the 2024 elections. Despite being likely a marginal issue for much of the electorate vs social wage and security type issues, financial sector issues have always been a loud and noisy signalling issue driven in particular by the ANC. Going forward coalition mixes will make the topic more interesting and important. In this deep dive note we provide party views on several of these issues including SARB nationalisation, the state bank, prescribed assets, illicit financial flows and more. Importantly, as the country continues to battle unemployment, inequality, poverty, infrastructure decay, parties are looking towards the financial services sector for possible contributions to the resolution of these challenges – something that is already starting this cycle. Generally, the baseline is that party policies will remain largely unchanged. Coalition scenarios will also make the implementation of some of the more radical policy shifts difficult.

The 2024 election is going to be the most competitive since the advent of democracy. Parties therefore must go all out to refine their value proposition to the electorate. This includes having comprehensive but realistic policy positions on several issues. Coalition combinations make future policy mixes more uncertain without proper analysis. Here, we assess party views on banking and broader financial services issues. The banking sector will come under some scrutiny as parties explore various ways to improve the country's economic conditions. We have already witnessed the ANC's Dr Nkosazana Dlamini-Zuma directing some criticism towards the big banks. The issues we focus on are: the state bank; the South African Reserve Bank (SARB) nationalisation; interest rates; Illicit financial flows; grey listing; lending (general financial and directed lending); prescribed assets; Regulation 28; the national credit regulator; financialisation; and cryptocurrencies. We must highlight that many political parties, including the larger opposition parties, lack the capacity to deal with the complexity of many of these issues. This is why they tend to be dependent on a small number of individuals who are well-versed in them. Nonetheless, parliament is having to deal with some of these issues more regularly hence their importance for parties.

Broadly we view the ANC as the key antagonist on much of these issues and drive most of the noise followed by the EFF, but small parties that join in coalition (including potentially with the DA) will amplify or dampen partners more extreme views. Overall however given our baseline coalition outcome views we expect broadly status quo post elections on the policy front.

We expect parties to start releasing their election manifestos from January next year. As such, we will update this note early in 2024, although we expect policy changes to be minimal.

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KRUTHAM 2024 BASELINE

ANC 47 [57.5] (strong up risk)
DA 25 [20.8] (downside risk)
EFF 12 [10.8] (downside risk)
ACSA 4 [-] (balanced risk)
IFP 5 [3.4] (balanced risk)
Proto 5 [-] (downside risk)
Other 3 [7.6] (Upside risk)

Note we have reinforced the upside risks we see for ANC though not changed the numerical forecast yet

TOPICS

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Table 1: Summary of party views (top three)

	ANC	DA	EFF
State bank	In support but Postbank reconfiguration will suffice for now; the SACP wants a "state banking sector"	Rejects establishment of any state bank, including Postbank reconfiguration	A big proponent of state ownership of banks
SARB nationalisation	Party members seem more interested than the leadership	Rejects this and raises concerns about possible implications for monetary policy	Has even taken legislative steps to ensure nationalisation
Interest rates	Interested in finding other ways of containing inflation; SACP has questioned the effectiveness of inflation targeting	Sees SARB as capable of taking unpopular but prudent decisions	Critical of the inflation targeting practice and calls for interest rates caps
IFFs	Long promised to strengthen measures to prevent and prosecute perpetrators	Has not been very vocal	Wants to establish a multidisciplinary team and judicial commission to gather historical data and recommend preventive and punitive measures
FATF grey listing	Blames state capture years	Concerned about negative impact on South African companies and individuals involved in global transactions	Says IFFs, profit shifting, tax evasion and base erosion characterise the SA economy
Lending	Has hardly expressed views	Has hardly expressed views	Wants legislation to be passed to prohibit banks from being transaction advisors and lenders in the same transaction. Also wants to regulate and cap interest charged by lenders.
Prescribed assets	Introduced the debate on this but has not moved to actualise it; SACP has demanded answers on lack of progress	Opposes it as a ploy to force pension funds to lend money to SOEs and the state bank	Supports asset prescription but under a clear developmental programme
Regulation 28	A proponent of the amendments, especially in relation to infrastructure investments	Sees its amendment as part of the ANC's failed economic policies. A holistic view is needed.	Has in the past communicated an intention to amend the Pension Funds Act to enable greater investment in infrastructure development, SME development and land transformation
National Credit Regulator	Once implored the NCR to consider a debt forgiveness programme	Has not been very vocal	Has not been very vocal
Financialisation	Increasing its support as a solution to government shortcomings	In support	Not opposed but shows the least appetite
Crypto	No view expressed	No views expressed	No views expressed

State bank

The state bank agenda is heavily championed by the EFF. The ANC officially wants to establish a state bank but there are varying degrees of commitment to the idea within the party. The transformation of the Postbank will further delay the realisation of a new state bank.

Economic Freedom Fighters

The establishment of a state bank is an idea that regained some traction following the founding of the Economic Freedom Fighters (EFF) and its subsequent nationalisation advocacy. The party identifies the “nationalisation of mines, banks and other strategic sectors of the economy without compensation” as one of its seven non-negotiable cardinal pillars. In its founding manifesto, the party stated that “the creation of a state bank and the nationalisation of the Reserve Bank constitute an immediate task and essential to the development of the South African economy, as it can be progressively positioned to improve the existence of state-owned development finance institutions, in order to finance new industries.”¹ The party foresees the state bank providing enterprise finance, housing finance and vehicle finance to all South Africans in a manner that promotes development rather than the narrow pursuit of profits.

In line with this commitment, in 2018 the EFF’s deputy president Floyd Shivambu introduced the Banks Amendment Bill (BAB) with the aim of amending the Banks Act. The bill sought to enable state-owned companies to register in terms of the act and to conduct the business of a bank. The bill was rejected as the standing committee on finance viewed National Treasury’s 2018 Financial Matters Amendment Bill (FMAB) which also dealt with a state-owned bank as superior to the BAB.²

In 2018, Shivambu argued that “the architecture of South Africa’s ownership and control of banks, which largely defines who gains access to finance, is responsible for the reproduction of economic apartheid. The black majority are on the margins of mainstream financial participation mainly due to the fact that existing financial institutions are driven by narrow commercial mandates, not a redress and developmental mandate. Enabling South Africa’s laws to permit the State to own banks is therefore an important milestone in South Africa’s pursuit of economic justice, redress and equality.”³ This is a crucial point because calls for the establishment of a state bank are partly a product of the country’s battle with inequality and current economic conditions in which unemployment remains high. State ownership of a bank whose mandate will centre on development and redress is therefore seen as one of the possible solutions.

The EFF’s state-owned bank proposal is in line with its stated positions of building state capacity, broader nationalisation, and an overall state-centric approach. In addition to support for the licencing of the Postbank, the EFF wants African Bank ownership to be fully transferred to the state. This is a

¹ EFF. 2013. “Economic Freedom Fighters Founding Manifesto: Radical Movement Towards Economic Freedom In Our Lifetime”. *Economic Freedom Fighters*. <https://effonline.org/wp-content/uploads/2019/07/Founding-Manifesto.pdf>

² Parliamentary Monitoring Group. 2019. “ATC190307: Report of Standing Committee on Finance on the Banks Amendment Bill [B 12 – 2018], 7 March 2019”. <https://pmg.org.za/taled-committee-report/3751/>

³ Floyd Shivambu. 2013. “Towards the creation of State Banks: From rhetoric to practice”. *Daily Maverick*. <https://www.dailymaverick.co.za/opinionista/2018-05-15-towards-the-creation-of-state-banks-from-rhetoric-to-practice/>

move that the ANC's Khumbudzo Ntshavheni stated was not necessary since African Bank was already majority "black-owned".

African National Congress

The ANC has long hinted at the establishment of a state bank. At its 2012 53rd national conference, the party identified the need to strengthen the role of the country's development finance institutions through bold state interventions such as financial regulation and control, and a state-owned bank.⁴ Despite this long-held position, the party has until recently not moved with much vigour to create a state bank. In July 2017, the ANC's general council resolved that a state-owned bank should be established within six months.⁵ That of course did not happen. The ANC's advocacy for a state-owned bank is half-hearted when compared to the EFF. The ruling party's calls are also tied to the Postbank's efforts to become a fully-fledged state-owned bank by 2024/25. As such, the successful transformation of the Postbank into a fully-fledged bank will likely be sufficient to silence any further demands within the ANC for a new state bank. The Postbank's offering will ultimately include transactional accounts, credit facilities, insurance products, savings products and remittance services.⁶

The Postbank is well on its way to becoming a fully-fledged bank following President Cyril Ramaphosa's signing into law of the Postbank Limited Amendment Bill on 27 September. The new Act enables the creation of the bank controlling company which will hold a 100% share in the Postbank on behalf of government. This terminates the Post Office's ownership of the bank. The next step is to apply for a banking licence from the South African Reserve Bank (SARB), which Postbank intends to do by the end of this year.⁸

The criticism against the establishment of a state bank centres on two issues. The first is capitalisation of the bank. During its sixth policy conference in June 2022, the ANC simply urged government "to find a way of capitalising the state bank."⁷ The second issue is the mandate of the bank. Like the EFF, the ANC envisages a commercial state-owned bank that will play a developmental role in the economy. The advocacy for the establishment of a state bank centres on the argument that individuals and small and medium-sized enterprises (SMEs) often do not have access to capital due to failure to meet requirements for finance from traditional banks. Lack of collateral is chief among these.⁶ It is this grouping as well as the unbanked and underbanked that a state-owned bank would target and that a transformed Postbank will be targeting. The argument against the transformational and developmental agenda of the reconfigured Postbank or any new state bank is that it would be engaged in risky lending by targeting individuals and entities that do not qualify for finance from

⁴ ANC. 2012. "53rd National Conference Resolutions". *African National Congress*. <https://www.anc1912.org.za/wp-content/uploads/2021/01/Resolutions-2012.pdf>

⁵ Bongani Nkosi. 2018. "State-owned bank could soon be a reality". *IOL*. <https://www.iol.co.za/the-star/news/state-owned-bank-could-soon-be-a-reality-14820487>

⁶ BusinessTech. 2023. "When South Africa's new state-owned bank plans to 'launch' – and what it wants to offer". *BusinessTech*. <https://businesstech.co.za/news/government/685995/when-south-africas-new-state-owned-bank-plans-to-launch-and-what-it-wants-to-offer/>

⁷ ANC. 2022. "6th National Policy Conference Report". *African National Congress*. <https://www.anc1912.org.za/wp-content/uploads/2022/09/6th-ANC-National-Policy-Conference-Reports-2022.pdf>

commercial banks.⁸ This would render it another failing state-owned enterprise (SOE) dependent on bailouts from the taxpayer.

We must clarify that the Postbank does identify overlaps in its target customers with both larger and smaller banks. As such, its target market is diverse, but the focus is on the underbanked and unbanked. The bank argues that “the provision of banking services to the poor, unbanked and the underbanked remain less impressive”.⁹

As is the case on various issues, there are splits in the ANC on the desirability of a state-owned bank. The agenda has the support of the leftists in the party as it is an idea in which the South African Communist Party (SACP) strongly believes. The Congress of South African Trade Unions (Cosatu) has also come out to support the idea. Enoch Godongwana, speaking in his capacity as the minister of finance, stated in 2022 that the establishment of a state-owned bank was unfeasible. One of the interesting proposals from the ANC is that salaries of government employees must be paid from the state bank. Considering the recent “technical glitches” that led to the failure of Postbank to pay social grants to about 600,000 beneficiaries, such a suggestion will not sit well with some government employees including members of Cosatu-affiliated unions.

Despite speaking up against the establishment of a state bank, Godongwana revealed in January that government was considering creating a housing bank to provide loans to public sector employees and the gap market.¹⁰ Meanwhile, the Department of Women, Youth and Persons with Disabilities (DWYPD) plans to launch a cooperative bank in 2024. The department is of the view that to reverse the exclusion of women, youth and persons with disabilities by financial institutions from accessing financial assistance, it needs to establish a cooperative bank.¹¹ The government is clearly identifying gaps that it can fill in the banking space. This is despite the Financial Sector Conduct Authority (FSCA) stating that “despite the increase in new entrants in the banking sector, the market remains highly concentrated, with the largest banks holding over 85% of the industry’s deposits in 2020.”¹²

Democratic Alliance

The Democratic Alliance (DA) has long been opposed to the establishment of a state-owned bank. The party has stated that the EFF’s state bank proposal closely mirrors that of the ANC and has characterised it as

⁸ BusinessTech. 2023. “New state bank: Another ‘treasure trove’ for government – with big risks”. *BusinessTech*. <https://businesstech.co.za/news/banking/698379/new-state-bank-another-treasure-trove-for-government-with-big-risks/>

⁹ Postbank. 2022. “Annual South African Postbank Soc Ltd 2021-22 Report”. *Postbank*. [https://static.pmg.org.za/Postbank Annual Report 2022 26 Oct 2022 22 Final 1.pdf](https://static.pmg.org.za/Postbank%20Annual%20Report%202022%2026%20Oct%202022%20Final%201.pdf)

¹⁰ BusinessTech. 2023. “Government proposes new state ‘housing bank’ for South Africa”. *BusinessTech*. <https://businesstech.co.za/news/government/658235/government-proposes-new-state-housing-bank-for-south-africa/>

¹¹ Parliament of RSA. 2023. “Media Statement: Multi-Party Women’s Caucus Held Fruitful Engagement on Cooperative Bank With Department Of Women, Youth And Persons With Disabilities”. *Parliament of RSA*. <https://www.parliament.gov.za/press-releases/media-statement-multi-party-womens-caucus-held-fruitful-engagement-cooperative-bank-department-women-youth-and-persons-disabilities>

¹² FSCA. 2022. “Financial Sector Outlook Study”. *Financial Sector Conduct Authority*. <https://www.fsc.co.za/Documents/FSCA%20Financial%20Sector%20Outlook%20Study%202022.pdf>

"...financially incoherent, hypocritical, redundant and thus doomed to fail."¹³ The DA's opposition to a state bank centres on two issues. The first is ideological. A perusal of the DA's policy documents makes it clear that the party is against significant state participation in the economy. The second issue is feasibility and desirability. The party strongly holds that within the current economic climate and fiscal constraints, the state cannot afford to establish and run a bank. This is tied to concerns about the possible occurrence of corruption. In this regard, the official opposition argued, in opposition to the signing of the South African Postbank Limited Amendment Bill into law, that "there is little doubt that it [the reconfigured Postbank] will merely serve as yet another mechanism to siphon taxpayer funds from the National Treasury into the pockets of its [the ANC's] patronage networks."¹⁴

The DA's concerns about corruption highlight what we believe may be a big hinderance to the prosperity of any state-owned bank, namely lack of trust in the government of the day. In the face of failing and mismanaged state-owned enterprises (SOEs), it would be difficult for any state-owned bank to convince the public of its capability to securely provide financial services. It must be noted that following the recent technical glitch around social grant payments, several SASSA beneficiaries opted to switch their grant payments to personal bank accounts or services provided by retailers.¹⁵

Inkatha Freedom Party

In line with its SOE privatisation advocacy, the Inkatha Freedom Party (IFP) holds that the Postbank should be "sold off and phased out to become a private entity." The IFP's view is largely informed by the party's concerns with the general state of the economy. Interestingly, in its 2019 election manifesto, the IFP promised to establish a state bank if it were elected to power.

The creation of a new state bank remains a distant possibility. The loss of an outright majority by the ANC in 2024 would make this even more difficult. Only an ANC-EFF coalition would push for a state bank and frankly, it would be the EFF doing the pushing. However, this coalition is not the baseline. The cold war between the two parties in Gauteng casts further doubt on their teaming up after the 2024 elections. While the ANC is likely to govern with minority parties, the party has not shown significant enthusiasm to establish a state bank. This is why we argue that the likelihood of a state bank remains doubtful for now.

Provincial state-owned banks

In February, Gauteng premier Panyaza Lesufi announced plans to establish a state-owned provincial bank. He indicated that the purpose of the bank would be to provide access to financial services to all residents, especially those who are excluded from financial services. He added that the bank is

¹³ DA. 2018. "The DA opposes the ANC's State Bank proposal as delivered vicariously by the EFF". *Democratic Alliance*. <https://www.da.org.za/2018/04/the-da-opposes-the-ancs-state-bank-proposal-as-delivered-vicariously-by-the-eff>

¹⁴ DA. 2023. "President's approval of Postbank is yet another strategy to siphon taxpayer funds". *Democratic Alliance*. <https://www.da.org.za/2023/09/presidents-approval-of-postbank-is-yet-another-strategy-to-siphon-taxpayer-funds>

¹⁵ Lindsay Dentlinger. 2023. "SASSA Beneficiaries Seek Alternative Grant Disburser After Postbank Woes". *EWN*. <https://ewn.co.za/2023/09/14/sassa-beneficiaries-seek-alternative-grant-disburser-after-postbank-woes>

"predicated on the principle of the state intervening in the economy."¹⁶ The bank is geared towards addressing the financing needs of small and medium-sized enterprises (SMEs) and growing the township economy, which has become a key focus for the Gauteng province. In July, a due diligence/feasibility report which endorsed the establishment of the bank was handed to the premier. The DA is opposed to the idea of the bank, characterising it as "yet another dysfunctional state-owned entity that the ANC and its cadres will raid to the detriment of hard-working South Africans already battling a government-induced cost-of-living crisis."¹⁷

The DA is not alone in opposing the Gauteng state bank. The Freedom Front Plus (FF+) argued that the intention to establish the bank reflected the ANC's flawed position that the state can successfully solve all social problems and pointed to various ailing SOEs to substantiate this view.¹⁸ Instead, the party suggested that the provincial government should consider helping communities establish cooperative banks.

The Gauteng state bank idea is part of ambitious plans that have been announced by Lesufi, including a provincial pharmaceutical company and a railway line connecting Gauteng and Limpopo. Importantly, it is part of a seemingly growing desire in some sections of the ANC for more state intervention in the economy. This is partly a product of lacklustre economic growth, resultant high unemployment and the high possibility of the ANC dropping below 50% in both the province and nationally. Given the existence of several development finance institutions in both Gauteng and South Africa, we struggle to see state-owned banks making much of an impact with regard to the developmental role that they are envisaged as playing.

In 2019, the EFF committed itself to establishing several provincial banks in various sectors: a retail state-owned bank, to be built from the banking assets of African Bank; an agricultural state-owned bank, to be built from the banking assets and capacity of the Land Bank; a housing state-owned bank; and a social assistance bank, to be built from the assets and capacity of the Postbank.

The provincial bank phenomenon is not new as the existence of Ithala Development Finance Corporation (Ithala Bank) which was established in 1954 illustrates. Ithala is a development finance agency which is wholly owned by the KwaZulu-Natal (KZN) provincial government with a mandate of assisting the government to promote economic development and empowerment in the province. Ithala performs many of the functions that a Gauteng state bank would be expected to perform. The bank prides in self on being "one of the pioneers of small, medium and micro enterprise (SMME) development, the first institution to bank unbanked communities, and the first

¹⁶ Gauteng Office of the Premier. 2022. "Gauteng looking into establishing a provincial state bank - 15 November 2022". *Gauteng Province*.

<https://www.gauteng.gov.za/News/NewsDetails/%7B3ae7ae1a-fdb9-4eed-9ea2-670c8382f106%7D>

¹⁷ DA Gauteng. 2023. "DA demands that the due diligence report on provincial state-owned bank be made public". *Democratic Alliance*.

<https://dagauteng.org.za/2023/07/da-demands-that-the-due-diligence-report-on-provincial-state-owned-bank-be-made-public>

¹⁸ Freedom Front Plus. 2022. "Lesufi Evades Question About What Will Prevent Gauteng's Proposed State Bank from Ending Up Like VBS". *Freedom Front Plus*.

<https://www.vfplus.org.za/media-releases/lesufi-evades-question-about-what-will-prevent-gautengs-proposed-state-bank-from-ending-up-like-vbs/>

to establish shopping centres and large industrial estates in rural areas, stimulating development in the more remote regions of KwaZulu-Natal."¹⁹

Interestingly, many rural communities in IFP-led municipalities benefit from the services of Ithala. Moreover, the bank highlights that it was established with the help of IFP founder, the late Prince Mangosuthu Buthelezi. So valued is his contribution that the bank has decided to rename its branch in Ulundi (where Buthelezi was born) after Buthelezi following his recent passing.²⁰ To some extent, the IFP's opposition to state ownership of banks is therefore surprising.

SARB nationalisation

The ANC has demonstrated a half-hearted commitment to nationalising the central bank. The EFF has shown the most enthusiasm. The DA strongly opposes the idea. SARB nationalisation is therefore a long way off.

African National Congress

The nationalisation of the SARB is a long-held resolution of the ANC, upon which the party has not acted. In 2017, during its 54th national conference the party resolved to nationalise the bank. During its 6th national policy conference last year, the governing party reaffirmed this resolution and characterised the private ownership of the bank as "historical anomaly". The resolution was again reaffirmed at the party's 55th national conference in December 2022. The conference resolved that the anomaly must be corrected in a manner that does not enrich speculators or overburden the fiscus; the constitutional independence of the bank must be reaffirmed; and the bank should implement monetary policy in a balanced manner, taking into account growth, employment, and exchange rate factors. SARB Governor Lesetja Kganyago has on numerous occasions spoken of the need to preserve the independence of the central bank and his intention to defend it.²¹ In addition to nationalisation, the ANC wants the mandate of the bank to change, something of which Kganyago is critical. We must highlight that the SARB should have a new governor by the end of 2024. Kganyago's term may be extended to 2025 but he will definitely vacate office during the term of the new parliament.

Again, the ANC has not moved with much vigour to implement its resolutions vis-à-vis the SARB. Part of the reason for this is the split on the matter within the party. Ahead of the ANC's 55th national conference, its national chairperson Gwede Mantashe suggested that the party should move away from some "ill-considered resolutions", including those related to the central bank. Since the resolution was first adopted in 2017 - when the radical economic transformation (RET) grouping had substantial influence in the party - it may well be among those resolutions seen as symbolising the "nine wasted years" of the Jacob Zuma administration. The other issue is the cumbersome process of changing the mandate of the bank, given that this mandate is enshrined in the constitution of the country. Notably, Godongwana has suggested that

¹⁹ Ithala, n.d. "Overview". *Ithala*. [https://www.ithala.co.za/who-are-we-2/#:~:text=The%20Ithala%20Development%20Finance%20Corporation%20Limited%20\(DFC%20or%20Ithala\)%20was,and%20empowerment%20in%20the%20province.](https://www.ithala.co.za/who-are-we-2/#:~:text=The%20Ithala%20Development%20Finance%20Corporation%20Limited%20(DFC%20or%20Ithala)%20was,and%20empowerment%20in%20the%20province.)

²⁰ EWN. 2023. "Ithala Bank to Rename Ulundi Branch After Buthelezi To 'Memorialise His Legacy'". EWN. <https://ewn.co.za/2023/09/15/ithala-bank-to-rename-ulundi-branch-after-buthelezi-to-memorialise-his-legacy>

²¹ EWN. "SARB Governor Says Will Go To War To Protect Independence". EWN. <https://ewn.co.za/2019/08/08/sarb-governor-says-will-go-to-war-to-protect-independence>

the mandate can be changed through non-legislative means. With a further shrinking of electoral support expected next year, it is highly unlikely that the ANC would have enough numbers in parliament to change the mandate of the bank even if it suddenly decided to act on its resolution.

Economic Freedom Fighters

In 2018, the EFF's Julius Malema tabled the South African Reserve Bank Amendment Bill which sought to make the state the sole SARB shareholder, among other things. The EFF's intention to nationalise the central bank is premised on the international norm of state ownership of central banks. The bill lapsed as the term of national assembly expired but was revived in October 2019. It currently remains in the standing committee on finance and we do not see it being passed any time soon.

Democratic Alliance

The DA is opposed to the nationalisation of the SARB, arguing that nationalising the central bank would mean that the minister of finance would have the power to appoint all board members (as opposed to the current split) from a list of nominees. This poses a threat of cadre deployment, according to the party.²² The DA also argues strongly that the ANC's stance is "irresponsible, ill-informed and has thus far only succeeded in alienating investors by worsening perceptions of South Africa's policy environment."²² The party also raises concerns about the possible negative implications on monetary policy of state ownership of the central bank. Earlier this year during its federal congress, the DA reaffirmed its stance on SARB nationalisation by adopting a resolution aimed at protecting the independence of the bank.

ActionSA

At its September 2023 policy conference, ActionSA resolved to oppose the nationalisation of the SARB. The party also registered an intention to oppose amendments to the mandate of the central bank to ensure that its focus remains inflation targeting and price stabilisation.²³ Given its liberal underpinnings, these resolutions were not a surprise.

Inkatha Freedom Party

As far back as 2009, the IFP called for the nationalisation of the SARB, citing concerns that private ownership of the bank exposes it to being used for the pursuit of private interests that may not be in sync with the interests of the public.²⁴ In recent times, the IFP's stance has been somewhat opaque. Instead of taking a clear position, the party has pointed to the need for a frank political discussion about the role of the SARB. This may be because SARB nationalisation contradicts the IFP's recent strong privatisation advocacy. Nonetheless, SARB nationalisation was something Buthelezi spoke in favour of on several occasions. We therefore would not be surprised if there is a change of tone from the party on the matter following his passing.

²² DA. 2022. "DA slams Ramaphosa's commitment to nationalise the Reserve Bank". *Democratic Alliance*. <https://www.da.org.za/2022/08/da-slams-ramaphosas-commitment-to-nationalise-the-reserve-bank>

²³ ActionSA. 2023. "Summary of approved policies from the 2023 policy conference". *ActionSA*. <https://www.actionsa.org.za/wp-content/uploads/2023/09/Summary-of-Approved-ActionSA-Policies-DIGITAL.pdf>

²⁴ IOL. "IFP calls for nationalisation". *Independent Online*.

<https://www.iol.co.za/business-report/economy/ifp-calls-for-nationalisation-704640>

Nationalisation of the SARB is a red herring. Many central banks are nationalised which makes no difference to their mandate or functions. That said, the costs of nationalisation are likely to be very large. How the various reserves are treated (eg if shareholders get a share of the various reserves or not) is likely to be the subject of prolonged and messy legal proceedings. This will benefit no one in our view, and it will neither improve nor worsen the way the SARB operates, but it will cost the fiscus a few billion rand to resolve (not least a few million rand in legal fees). Our view is that nationalisation is therefore merely a political ploy.

Interest rates

While parties have raised concerns about interest rate hikes, these will not be capped in the foreseeable future. The EFF is the only party which openly calls for introducing interest rate caps.

To perform its primary function of protecting the value of the rand in the interest of balanced and sustainable economic growth of South Africa, the SARB seeks to keep inflation low and steady. With an inflation target range of 3–6%, the SARB regularly adjusts the short-term policy rate - the repo rate - in accordance with this target. With a total of ten hikes from November 2021 until July 2023 when the SARB kept the repo rate unchanged, interest rates have become a significant concern for parties. In July, the ANC revealed that it had instructed finance minister Godongwana to engage the SARB to explore possible avenues of managing inflation without raising interest rates. The party was concerned about the resultant draining of disposable incomes which in turn negatively affects consumer demand.²⁵ Meanwhile, alliance partner, the SACP, has questioned the effectiveness of inflation targeting and accused the SARB of neglecting its the “balanced and sustainable economic growth of South Africa”.

The ANC's views speak to the point made by the DA. In opposing the nationalisation of the central bank, the DA posited that when run by politicians and cadres, the SARB would be tempted to do what is convenient at the time at the expense of a stable economic environment. This is opposed to - according to the party - the ability of the current technocrat-staffed SARB to take necessary and unpopular decisions.

The EFF has on many occasions voiced strong opposition to interest rate hikes characterising them “as nonsensical, tone-deaf, irrational, cruel and senseless”. Central to the party's opposition is that the inflation targeting policy is flawed and redundant. The party believes that the SARB's consecutive interest rate hikes to contain inflation are untenable. Additionally, the party has argued that rate hikes only benefit the banks. The party even called for lifestyle audits of members of the Monetary Policy Committee (MPC). Importantly, in 2019 the EFF communicated its intention to regulate and cap interest rates on unsecured lending, home loans, service and bank charges.²⁶

The IFP has long been an advocate of keeping interest rates as low as possible. Buthelezi wrote several newsletters explaining this position in the

²⁵ Bianke Neethling. 2023. “Reserve Bank interest rate hikes untenable – ANC”. *Daily Investor*. <https://dailyinvestor.com/finance/23890/reserve-bank-interest-rate-hikes-untenable-anc/>

²⁶ EFF. 2019. “2019 election manifesto: people's manifesto and action plan”. *Economic Freedom Fighters*. <https://www.dailymaverick.co.za/wp-content/uploads/2019-EFF-MANIFESTO-FINAL.pdf>

past. However, the IFP has recently restricted itself to issuing statements on MPC decisions.

Without taking a clear position, ActionSA warned of devastating potential ramifications of interest rate hikes. The party accused the ANC of mismanaging the country so much that the government “does not have funds or fiscal room to lighten the financial load of poor South Africans with government-funded relief efforts.”²⁷

Illicit financial flows

IFFs are an important part of discourse among parties. The ATM has been at the forefront of spreading awareness on the issue, while the EFF has devised a plan for halting the phenomenon.

Many parties have shown an interest in the issue of Illicit financial flows (IFFs). The EFF's action plan to combat IFFs entails the establishment of a multi-disciplinary cross-agency task team composed of officials from the National Treasury, the Financial Intelligence Centre (FIC), the SARB and the South African Revenue Services (SARS), with the mandate of gathering and publishing data on IFFs. The EFF would also institute a judicial commission of inquiry headed by a Constitutional Court judge to investigate IFFs since 1990. The commission would make recommendations on prevention, detection and punitive measures for transgressions.

The EFF is not alone in seeking to strengthen the state's ability to penalise those involved in the illicit flow of financial resources. ActionSA wants to improve the capacity of institutions such as FIC to identify and investigate IFFs. The African Transformation Movement (ATM) has also been very vocal about IFFs. In tabling a motion requesting a discussion of the impact of the unregulated informal sector, party leader Vuyo Zungula accused government of failing to curb IFFs and illicit trade.

In 2019, the governing ANC promised to intensify efforts and measures to act against private companies, financial services providers and agents that facilitate tax avoidance and IFFs, profit shifting, illegal imports and import fraud. The party correctly noted that these acts deprive the country of much needed tax revenue. Despite its former leader Thabo Mbeki having chaired the High-Level Panel on Illicit Financial Flows from Africa which produced a report that has over the years become one of the go-to sources on IFFs on the continent, the ANC has so far done little to curb IFFs.

Accurately quantifying IFFs can be difficult. However, to paint a picture of the magnitude of the problem, Global Financial Integrity estimated average illicit outflows from South Africa to be USD20bn every year from 2009 to 2018.²⁸

²⁷ ActionSA. 2022. “Interest Rate Hike Further Deepens South Africans' Woes”. ActionSA. <https://www.actionsa.org.za/interest-rate-hike-further-deepens-south-africans-woes/>

²⁸ Global Financial Integrity. 2021. “Trade-Related Illicit Financial Flows in 134 Developing Countries: 2009 – 2018”. *Global Financial Integrity*. <https://secureservercdn.net/50.62.198.97/34n.8bd.myftpupload.com/wp-content/uploads/2021/12/IFFs-Report-2021.pdf?time=1643653304>

FATF grey listing

The blame for the country's grey listing has been laid squarely on the ANC, which has in turn blamed the state capture years.

Earlier this year, the Financial Action Task Force (FATF) grey listed South Africa due to shortcomings in its mechanisms to counter money laundering, terrorist financing, and arms proliferation financing. The ANC called on government to speedily implement the national strategy on anti-money laundering and combating the financing of terrorism which the cabinet adopted in November 2022. This, according to the party, was important to ensure that South Africa would be speedily removed from the list. The party also blamed the state capture years for weakening institutions tasked with dealing with financial crimes. Reading the party's reaction to the grey listing, one would be forgiven for thinking that another party was in power during the state capture years.

For opposition parties, the country's grey listing provided an opportunity to level criticism against the ANC. The ATM has spoken strongly about how the unregulated informal sector provides fertile ground for crimes such as money laundering, proliferation of counterfeit products and tax evasion. The party pointed to allegations that some foreign-owned spaza shops were funding terrorist groups operating in different countries on the continent. The ATM also argued that the Phala Phala scandal could indicate possible commission of financial crimes on the part of President Ramaphosa. The president has of course been cleared of any wrongdoing on the case by both the SARB and Public Protector, although legal challenges still loom. The FF+ echoed the ATM's sentiments, stating that it was not surprised by South Africa's grey listing given that even the president was accused of money laundering and tax evasion.

The DA argued that the country's grey listing leads the rest of the world to view South African companies and individuals as high-risk counterparties in global transactions.²⁹ Grey listing is also an indictment of South Africa's criminal justice system and the government's inability to combat financial crimes, according to the official opposition. Importantly, the party pointed to potential negative economic consequences for the country, especially if it does not exit the list fast enough.

The EFF argued that IFFs, tax evasion, base erosion, and profit shifting characterise the South African economy. The party has also spoken about how the country loses billions of rand in revenue through the commission of theses acts by white corporates.

The grey listing will undoubtedly form part of the election manifestos of several parties. As it stands, ActionSA has already stated its intention to prioritise the implementation of legislation and interventions that will ensure South Africa's quick exit from the grey list. Getting off the grey list is quite a complex and technical exercise. The qualitative nature of the assessment compounds this complexity. The National Prosecuting Authority, FIC and several other institutions will have to be at their best if South Africa is to be removed from the list.

²⁹ DA. 2023. "DA's request approved for urgent debate in Parliament on greylisting of South Africa". *Democratic Alliance*. <https://www.da.org.za/2023/03/das-request-approved-for-urgent-debate-in-parliament-on-greylisting-of-south-africa>

Lending

This is one issue parties have paid little attention to. We suspect that this may have to do with the capacity issues we mentioned earlier.

Parties tend not to have well-crafted views on specific financial issues such as lending, let alone items such as general financial and directed lending. Instead, most parties vocalise views on government borrowing from international financial institutions.

General financial lending

The EFF has made some contributions to the lending debate. Firstly, the party wants legislation to be passed to prohibit banks from being transaction advisors and lenders in the same transaction. The party also wants to regulate and cap interest charged by lenders. The EFF's position largely seeks to protect consumers from possible exploitation by lenders. This is in sync with the party's tough stance on big business. The EFF would also like to see illegal lenders being shut down. This view is targeted mainly at illegal loan sharks who lend money mainly to the poor – some of which are dependent on social grants – on exploitative terms characterised by very high interest rates and punitive measures for inability to make repayments.

Directed lending

In our view, interest rate caps and directed lending almost inevitably lead to market distortions. Rather than charge a non-market related interest rate, banks will find other ways of reducing lending to risky clients – potentially cutting off lending entirely. Directed lending also entails other risks, particularly around corruption. Forcing banks to lend to infrastructure, for example, may not deliver what is expected and they may simply lend money to already bankable projects. More intelligent approaches include loan guarantees for certain types of infrastructure lending, where the risk is more appropriately shared between the state and the banking system.

Prescribed assets

The DA has opposed asset prescription, while the ANC and EFF have vocalised their support for it, albeit disagreeing on technicalities.

The recent discourse on prescribed assets was in earnest sparked by the ANC's 2019 elections manifesto. Prescribed assets are described as "the percentage of retirement funds' assets (and possibly of other institutional investors) that, by law, have to be allocated to certain government-approved instruments."³⁰ In 2019, the ANC registered its intention to investigate the possibility of introducing prescribed assets on financial institutions' funds for use in job creation and socially productive investments such housing, infrastructure for social and economic development and township and village economies.³¹ Since 2019, there has not been much movement on prescribe assets.

³⁰ Old Mutual. 2023. "Prescribed assets – should you be concerned?" *Old Mutual*. <https://www.oldmutual.co.za/corporate/resource-hub/all-articles/prescribed-assets-should-you-be-concerned>

³¹ ANC. 2019. "2019 election manifesto". *African National Congress*. <https://www.anc1912.org.za/wp-content/uploads/2022/01/ANC-National-Elections-Manifesto-2019.pdf>

The EFF has in the past supported the prescription of assets. The party has however stated that this needs to happen under a clear developmental agenda and not according to the broad proposal from the ANC.

The Association for Savings and Investment South Africa (ASISA) came out to reject the proposal to prescribe assets, stating that it would have negative effects on the country.

ASISA stressed that prescription would:

- Force the savings and investment industry to invest savings of ordinary South Africans in entities that have been involved in state capture and poor service delivery
- Jeopardise the fiduciary duty of trustees
- Force capital markets to invest in low yielding and/or high-risk projects which would in turn eliminate the need for these projects to compete since funding would be guaranteed and deprive deserving and performing projects of capital.³²

Asisa's concerns notwithstanding, it has been argued that the determinant factor to the impact of prescription is whether the definition of prescribed assets is narrow or broad. A narrow definition of prescribed assets is associated with a harmful impact on funds' returns whereas a broader one could be less harmful. The ANC's proposal was reasonably broad and would not have resulted in supply and demand issues from the onset.

The DA also registered its rejection of asset prescription, arguing that it was an attempt by the ANC to force pension funds to lend money to SOEs. The party believes that prescribed assets would destroy economic confidence and undermine the pension savings of hard-working South Africans. The DA's concern is that pension funds may be forced to invest in ailing SOEs which – if well run – would be able to access funding from the private sector.

ActionSA recently proposed the repeal of the Broad-Based Black Economic Empowerment (B-BBEE) Act. In its place, the party suggested an Opportunity Fund which would allocate 25% of its annual earnings to reinvest in equities, 65% for infrastructure and opportunity development projects, and a maximum of 10% for dividends to shareholders.²³ The fund would be supported in part by additional tax on private sector profits (with the exemption of SMMEs) which would replace the cost of BEE compliance. The party envisions that this tax would only be applicable for 30 years at most. ActionSA would encourage private investment into the fund through special tax allowances, including additional tax-deductible allowances and tax-free investments. The fund would be owned by the previously disadvantaged and carry the mandate of improving access to opportunities for inclusive socio-economic empowerment.

³² ASISA. n.d. "What are ASISA's views on prescription of assets and why?" ASISA. <https://www.asisa.org.za/media/gtvmhco/prescribed-assets-asisaview-20190828.pdf>

Regulation 28

Both the ANC and EFF have registered their support for the amendment of Regulation 28. While it has rejected the idea in the past, a holistic view from the DA is needed.

National Treasury's recent amendments to Regulation 28 of the Pension Funds Act came into effect in January this year. The regulation protects retirement funds by limiting the extent to which they may invest in a particular asset or asset classes, thereby limiting their exposure to risky asset classes. The recent amendments are meant to encourage and enable longer term investment in infrastructure by funds.³³ The amendments:

- Set a limit of 45% for exposure in infrastructure investment;
- Increase the allocation to private equity assets to 15% from 10%;
- Impose a 25% limit across all asset classes to restrict exposure of retirement funds to any one entity; and
- Reduce the allocation to housing loans to 65% from 95% but only in respect of new loans. This is meant to arrest the abuse of housing loan schemes by fund members.³³

Since February 2022, retirement funds have been enjoying an upper limit of 45% to their offshore investments, up from 30%. This amendment has been a subject of a significant public debate as it has implications for outflows from the country's savings industry. Unfortunately, the debate has taken place without much involvement from political parties.

Nonetheless, the EFF's views on pension funds are worth noting. The recent amendments would please the party to some extent. In 2019, the EFF registered an intention to amend the Pension Funds Act to increase investment in private equity for infrastructure development, SME development and land transformation venture capital to 50%. The party also promised to introduce a policy of aggressive social and green investments by all government-guaranteed pension funds and mandated asset managers upon election to power. Lastly, the EFF has registered an interest in establishing a state-owned asset manager to manage municipal pensions of all municipalities. Since this is in line with its state capacitation agenda, we expect that the EFF will retain this interest in its 2024 election manifesto.

One party that is happy with the amendments is the ANC. In 2020, the governing party proposed the amendment of Regulation 28 to facilitate greater infrastructure investment by pension funds. At the time, finance minister Godongwana was the chairperson of the party's economic transformation committee. It is thus no surprise that the amendments came into effect during his tenure as the finance minister.

In 2020, the DA raised concerns with the ANC's intentions to amend Regulation 28 to foster greater investment in infrastructure by retirement funds. The party saw this as the ANC's persistent commitment to failed economic policies. It is worth noting that the DA was reacting to the "leak" of the ANC's post-COVID reconstruction plan. As such, a comprehensive view on Regulation 28 may be slightly different.

³³ National Treasury. "Amendments To Regulation 28 of the Pension Funds Act to Encourage Infrastructure Investment by Retirement Funds". *National Treasury*. https://www.treasury.gov.za/comm_media/press/2022/2022070501%20Media%20Statement%20-%20AMENDMENTS%20TO%20REGULATION%2028%20OF%20THE%20PENSION%20FUNDS%20ACT.pdf

We think the revised approach to incorporating infrastructure in Regulation 28 is appropriate and works well given the various political dynamics.

National Credit Regulator

Parties have barely paid attention to the NCR, despite its importance.

The National Credit Regulator (NCR) has hardly received any attention from political parties. Nevertheless, in 2016 the ANC in parliament urged the NCR to consider implementing a “debt forgiveness programme” to ease the burden on over-indebted South Africans. Despite its qualms with the banks especially around allegations of them partly basing the interest they charge debtors on racial considerations, the EFF has not publicly detailed any plans to engage with the credit regulator to address these concerns. Instead, the party has levelled some strong criticism against some of the country’s biggest banks. Partly as a result of allegations of credit exclusion based on race considerations, the party sees a state bank as a solution. It is also surprising that the ANC has not approached the NCR, despite partly basing its state bank advocacy on exclusion of sections of society by lenders such as banks.

Financialisation

Support for financialisation is growing across parties.

In as far as financialisation is concerned, parties generally do not take a binary approach. All the major parties display some level of support for financialisation, the difference is the extent. The EFF probably displays the least, but not nil, support for financialisation. This is largely due to its state-centric economic approach as well as a significant belief in the ability of the country’s mineral resources to play a significant developmental role rather than dependence on financial markets. That said, the party wants to establish a sovereign wealth fund (SWF) to receive an allocation of ZAR100bn from the budget. The party also wants to “allocate” mining and petroleum industry shares to the fund.

The ANC also intends to establish a SWF which will invest in strategic sectors of the economy and long-term social and environmental needs of the country. In 2020, then finance minister Tito Mboweni announced that the fund would be capitalised with USD2bn, and possibly be funded from mineral royalties and spectrum allocation.³⁴ The intention to establish a SWF raised eyebrows particularly because the country did not have a national budget surplus and low debt levels, two conditions under which countries typically establish SWFs.³⁴ It is therefore not surprising that there has not been much progress towards the establishment of the fund. Nonetheless, the ANC has been demonstrating an increasing appetite for financialisation. Much of this is owed to the government’s inability to fund many interventions necessary for the prosperity of the country. The party has become an advocate of public-private partnerships. A good example of this is the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP).

Recently, ActionSA announced that it favoured government partnership with financial institutions to provide more affordable property bonds and other property financing options to first-time house buyers and low- and middle-income families.²³ However, the party also communicated an intention to

³⁴ Chelsea Markowitz. 2020. “Should SA establish a Sovereign Wealth Fund? Lessons from the African continent”. *South African Institute of International Affairs*. <https://saiia.org.za/research/should-sa-establish-a-sovereign-wealth-fund-lessons-from-the-african-continent/>

preserve social welfare that the state provides to the poor. This is a common theme among parties. While there is significant support for financialisation, there is also an emphasis on ensuring that this is balanced with or partly serves the need for the state to provide social welfare. Moreover, financialisation is framed as serving certain developmental goals rather than profiteering.

Crypto

While topical, parties have not said much about cryptocurrencies. We are only expecting their interest to grow after the election.

Cryptocurrencies have received little attention from political parties. Part of the reason for this is that the use of cryptocurrencies as a form of payment is not yet widely accepted in the country. However, in 2022 the FSCA declared crypto assets a financial product, which means that providers of financial services relating to crypto assets are now under the authority's regulatory jurisdiction.³⁵ Crypto providers were given until November 2023 to apply for licences to provide the service.

Conclusion

As we get closer to next year's elections and as parties publish their manifestos, banks in particular may be subjected to significant criticism as parties try to substantiate their support for the establishment of a state bank. This will likely come from the EFF and some sections of the ANC. The EFF will be blunt about its disdain for banks which it views as symbols of white capitalism. The ANC as the governing party will try to frame its pro-state bank stance along the lines of helping the poor and the unbanked. The criticism, even from some of the more confrontational sections of the party, will be relatively moderate.

We do not expect a new state bank to be established for now, especially as the reconfiguration of the Postbank seems likely to be a success. Should the ANC's support drop to under 50% next year, the establishment of a state bank will become even less probable. The only coalition government that may support the establishment of the bank is that of the EFF and the ANC. However, the baseline for now is that the ANC will be in a coalition with minority parties hence we maintain that the bank is unlikely to be established. A provincial state bank in Gauteng looks reasonably likely. Although we expect the ANC in the province to decline significantly, we expect the party to be able to form a governing coalition. The likely partners it may attract will be the EFF, the Patriotic Alliance and smaller parties such as the Super Seven in Ekurhuleni. Even if the minority parties are not in favour of the state bank idea, they would be overruled by the ANC and EFF. The main hinderance to the provincial state bank may be the simmering tension between the ANC and EFF in Gauteng.

The nationalisation of the SARB now looks less likely than it did when the ANC announced it. Frankly, the ANC in government and parliament has not demonstrated willingness to nationalise the bank or change its mandate. The party resuscitates the SARB nationalisation discourse whenever it holds its policy and national conferences. This gives the impression that ordinary ANC

³⁵ FSCA. 2022. "Declaration of Crypto Assets as a Financial Product". *Financial Sector Conduct Authority*.
https://www.fsc.co.za/News%20Documents/FSCA%20Press%20Release_Declaration%20of%20Crypto%20Assets%20As%20A%20Financial%20Product_20%20October%202022.pdf

members are in support of the agenda, but the leadership does not seem to believe it is necessary. The risk of SARB nationalisation will however rise if an ANC-EFF coalition is formed nationally, but that is not the baseline for now. There is the possibility that an ANC-IFP coalition may increase the risk of nationalisation or the change of the mandate of the SARB. These two parties have however demonstrated lacklustre commitment to these changes. The amendment of the mandate of the SARB is even less probable than nationalisation, while interest rate caps remain unlikely. Nonetheless, promises to nationalise and oppose the nationalisation of the central bank will be a significant part of the 2024 election campaign noise.

The prescription of assets is an intervention that not many parties have spoken about. Even the ANC which reignited the debate on asset prescription has demonstrated half-hearted commitments towards actualising this. The lobbying against asset prescription also appears to be significant. We therefore do not foresee asset prescription happening post the 2024 elections.

Parties are increasingly seeing financialisation as an important aspect of delivering upon the developmental mandate. As such, we foresee further growth in general financialisation, especially as government battles to stretch the fiscus to all the imperatives that need attention. Cryptocurrencies are yet to gain traction locally and while this may happen post the election, parties will not pay much attention to the subject in their campaigns and manifestos.

IFFs will be a significant part of election campaigns and manifestos, largely because of the FATF grey listing. Parties will generally use the grey listing to highlight the ANC's shortcomings in government. The EFF will however also use it to hint at the exploitation of the country by local and foreign businesses that allegedly play a role in moving resources out of the country illicitly. Meanwhile, the ANC has a readily available scapegoat for IFFs and grey listing in state capture. The party will also point to the legislative measures it has taken to combat financial crimes shortly prior to and after the FATF grey listing. In addition, the party will point to reforms that its government has made in institutions that are mandated in one form or another to prevent or prosecute financial crimes.

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