Reconfiguring South Africa's Financial Architecture to Promote Development: The National Planning Commission releases a report identifying elasticity spaces.

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Why has South Africa remained one of the most unequal countries in the world? Why have our investments in Gross Fixed Capital Formation (GFCF) as a percentage of GDP remained far below the National Development Plan target of 30%? Why are profit levels so high while investment levels are so low? Where will we find the funding to invest in the upgrading and extension of our national infrastructures?

These questions have been addressed in a new National Planning Commission (NPC) report titled *Transformation of South Africa's Monetary Architecture, 1983-2024*. It was compiled over the past three years under the auspices of the Finance task team of the Economy workstream of the NPC. Several renowned sector experts wrote background papers that were incorporated into a 284-page report by Commissioner Mark Swilling and his colleague, Steffen Murau.

The rationale for the report stems from research reports compiled by the NPC's Infrastructure Task Team. These reports investigated the investment requirements to achieve the infrastructure goals of the Cabinet-approved National Infrastructure Plan 2050 with specific reference to energy, water and digital infrastructure. Using the World Bank's Beyond the Gap methodology, these reports found that an additional R150 billion needs to be invested to close the gap between what is needed and what is actually spent on fixed capital and operational costs.

The question this raises is, where will this additional R150 billion come from? If monetary and fiscal policies remain unchanged, this means the additional funding will not come from so-called 'quantitative easing' (printing money), nor from increased spending, higher taxes, or more borrowing. To address this challenge, the Finance task team has compiled the first-ever detailed systems analysis of the architecture of South Africa's financial ecosystem. This was done by analysing the dynamics of the financial ecosystem during the course of four historical periods, namely 1983/5, 1994/6, 2014 and 2024.

Based on an understanding of the evolution of our financial ecosystem, the report shows that wealth inequality has worsened while investments in GFCF have declined in recent years. The wealth of the richest 35 000 households is equal to twice the wealth of the bottom 90% of the population. Investments in GFCF have declined drastically since the state capture years to below 15% of GDP, half the target set by the National Development Plan. No country has reduced inequalities and developed economically with declining levels of investment in GFCF. To provide an explanation for these challenges and possible solutions, the report provides the first comprehensive account of South Africa's public and private balance sheets and the relationships between them. Based on the assumption that a credit-based financial eco-system is a web of interlocking balance sheets, the report reveals the total value of all South Africa's balance sheets from the apex institutions like the South African Reserve Bank and the National Revenue Fund, and down through commercial banks, pension funds, insurance funds, development finance institutions, state owned enterprises, shadow banks, households, non-financial corporations (big and small), etc. Based on data from the Reserve Bank's Quarterly Bulletins for the period 2010-2021, it can be shown that the total value of these balance sheets is R49 trillion.

Capital flows through the web of interlocking balance sheets, particularly in path-dependent ways. This explains the inequalities and investment patterns that hold us back. The solution, therefore, is a range of balance sheet reconfigurations that unlock new flows of capital. The report ends with fourteen recommendations, each of which refers to a potential elasticity space where balance sheets can be stretched and reconfigured in ways that either redirect a particular flow of capital or unlock new flows that result in higher levels of investment and reduce inequalities.

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