Submission on the

*South African Reserve Bank Amendment Bill*

by

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This submission is in response to the call for representation to the Finance Standing Committee on Finance on the Private Member Bill, the *South African Reserve Bank Amendment Bill*[[1]](#footnote-2)(the Bill) (B26-2018).[[2]](#footnote-3)

According to the call for representation[[3]](#footnote-4), the Bill aims at amending the *South African Reserve Bank Act*, No 90 of 1989, as amended[[4]](#footnote-5) (the Act), so as to:

* to delete certain definitions;
* insert a definition;
* provide for the appointment of certain Board directors by the Minister;
* provide for the tenure of office of appointed directors;
* deal with the filling of casual vacancies for appointed directors;
* make the State the sole holder of the shares in the Bank;
* repeal certain sections;
* give the Minister the power to appoint auditors of the Bank;
* give the Minister the power to make regulations relating to the appointment of appointed directors; and
* provide for matters connected therewith.

More specifically, the *Memorandum on the objects of the South African Reserve Bank Amendment Bill, 2018*(the Memorandum), states in Section 2 that:

*The Bill seeks to amend the Act to make the State the sole holder of the shares inthe Bank and to give powers to the Minister to exercise the rights attached to theshares in the Bank of which the State is the owner. The Bill further seeks to providefor the appointment process of directors of the Board that instead of being electedat an ordinary general meeting of shareholders, will now be appointed by theMinister.*

The Bill therefore has as its objective an amendment to the governance structure of the SA Reserve Bank. In any consideration of the governance structure of the SA Reserve Bank, it is important to draw a distinction between shareholding in the SA Reserve Bank, governance, the mandate of the central bank and its independence from political interference in discharging its mandate.[[5]](#footnote-6) Shareholding in the SA Reserve Bank and its governance structure are closely linked, while the mandate of the central bank and its independence from political interference in discharging its mandate are not related to the issue of shareholding and governance.

In terms of ownership, the SA Reserve Bank is one of a small group of central banks with shareholders. Little has been published in the literature on these institutions, with Rossouw and Breytenbach (2011)[[6]](#footnote-7)some of the first structured local or international literature on the topic since 1974. In 1974 Dr M H de Kock, a former Governor of the SA Reserve Bank, published an update of his book (the last update after its first publication in 1939), *Central Banking*, that deals, *inter alia*, with the matter of central banks with shareholders.[[7]](#footnote-8)Rossouw and Breytenbach (2011)[[8]](#footnote-9) identified central banks with shareholders, but erroneously omitted the central bank of San Marino as a central bank with shareholders. This omission was addressed in Rossouw (2018)[[9]](#footnote-10), where the central banks with shareholders are correctly identified as those in Belgium, Greece, Italy, Japan, San Marino, South Africa, Switzerland and Turkey, while the 12 Federal Reserve Banks in the United States also have shareholders.

Shareholders in these institutions play a role in governance, but not in policy decisions, policy making or the execution of monetary policy. Shareholders therefore add an additional layer of transparency to the governance activities of these central banks.

There seems to be an assumption in certain circles that a change of ownership of the SA Reserve Bank, by transferring all shares held privately to the government, automatically implies a change in the role the Bank plays, particularly in respect of monetary policy. To the contrary, the mandate of the SA Reserve Bank is set out in the Constitution of the Republic of South Africa[[10]](#footnote-11), which states:

*The primary objective of the Bank shall be to protect the value of the currency of the Republic of South Africa in the interest of balanced and sustainable economic growth in the Republic*.

This constitutional mandate of the SA Reserve Bank is embodied in an inflation target. In terms of this target, the SA Reserve Bank aims at keeping South African inflation between 3 and 6 per cent per annum. It is important to note that South Africa’s inflation rate is calculated by Statistics South Africa (Stats SA) and not by the SA Reserve Bank. The historic rate of inflation is often mistrusted and/or misunderstood, *inter alia*, owing to the:

* negative demonstration effects of the changes in prices of specific goods such as groceries or petrol, *vis-à-vis* the change in price of services; and
* lack of understanding that the rate of inflation is calculated cumulatively over time.[[11]](#footnote-12)

The Bank uses monetary policy and interest rate decisions to achieve its inflation target. When the trend of inflation declines and this decline is expected to continue, the interest rate will decline; when the inflationary trend increases with an expectation of continued increases, the interest rate will increase.

Inflation has never brought sustained wealth to any economy or to the citizens of a country, although certain groups in a country can benefit from inflation. Inflation is simply not a policy option, but the result of bad policy choices.

Inevitably, the main beneficiary of sustained high inflation is the government, as it has the largest debt in the country, while members of pension funds[[12]](#footnote-13) and pensioners are inevitably the groups suffering the most from inflation.In the 1980s, inflation in South Africa rose dramatically and in a sustained fashion. The country suffered its highest inflation rates ever: on average about 15 per cent per annum[[13]](#footnote-14) for the decade.At a sustained inflation rate of 15 per cent per annum, the price level will increase from 100 to 200 after the first 5 years, to 400 after the next 5 years and to 800 after the next 5 years (i.e., after 15 years the general price level will be 8 times higher than at the commencement of the period).

Unfortunately, this sustained inflation did not bring prosperity to the country: The result of inflation is not prosperity, but hardship with low confidence and low economic growth.

Against this background, it is therefore unclear which (if any) benefits to the South African economy the Bill seeks to achieve, as no such perceived benefits are spelled out in the Bill. This is a serious flaw and omission in the Bill, as a drastic course of action is proposed, without any indication of clear benefits or advantages to the economy in general or any group(s) of people in the country. The Bill is silent on this matter.

Turning again to the Memorandum accompanying the Bill, it is stated in Section 4 that the financial implications for the state are *None*. The implication is clear: This Bill introduces a principle of nationalisation without compensation, also known as expropriation, seizure or confiscation. Such a principle in terms of asset transfer to the State at the expense of any substantial group of beneficial owners have not before been implemented in South Africa under the Constitution of 1996; certainly not atthe scale envisaged in the Bill.

This is a dangerous principle introduced by the Bill; if accepted in its current format. Similar approaches can be used for expropriation without compensation in respect of other assets, should this Bill be passed by Parliament. On this basis the Bill is also not supported.

**This Bill is therefore not supported on two grounds**:

1. No explanation is given of any benefits to society at large emanating from the nationalisation without compensation of the SA Reserve Bank; and
2. It ushers in a dangerous precedent of nationalisation without compensation in South African constitutional law.

I am available to elucidate any aspects in this submission.

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*In the interest of transparency, it is disclosed that the author owns shares in the SA Reserve Bank. It is also disclosed that the author was previously employed by the SA Reserve Bank*.

1. Please see <https://www.gov.za/sites/default/files/gcis_document/201808/b26-2018sareservebanka.pdf>. [↑](#footnote-ref-2)
2. Please see <https://pmg.org.za/call-for-comment/993/>. [↑](#footnote-ref-3)
3. Ibid. [↑](#footnote-ref-4)
4. Please see

<https://www.resbank.co.za/BanknotesandCoin/CurrencyManagement/Documents/SA%20Reserve%20Bank%20Act%2090%20of%201989.pdf>.f [↑](#footnote-ref-5)
5. See for instance Rossouw, J. 2019. The Reserve Bank needs stability: South Africa’s central bank – ownership, mandate and independence. 27 January. *The Conversation*. Available at <https://www.wits.ac.za/news/latest-news/opinion/2019/2019-01/the-reserve-bank-needs-stability.html>. [Accessed on 8 November 2020]. [↑](#footnote-ref-6)
6. Rossouw, J and Breytenbach, A. 2011. Identifying central banks with shareholding: A review of available literature. *Economic History of Developing Regions*. Vol 26: Suppl 1. [↑](#footnote-ref-7)
7. . De Kock, M. H. 1974. *Central Banking*. 4th Edition. Crosby Lockwood Staples. [↑](#footnote-ref-8)
8. Op cit. [↑](#footnote-ref-9)
9. Rossouw, J. 2018. An institutional comparison of private shareholding in the central banks of South Africa and Turkey. *ERSA working paper 724*. Available at <https://econrsa.org/system/files/publications/working_papers/working_paper_724.pdf>[Accessed on various dates]. [↑](#footnote-ref-10)
10. Please see <https://www.justice.gov.za/legislation/constitution/SAConstitution-web-eng.pdf> [↑](#footnote-ref-11)
11. In terms of a simplified example: If the rate of inflation is 5 per cent per annum for a prolonged period, prices will double every 14,4 years, rather than every 20 years as seems to be the intuitive conclusion. [↑](#footnote-ref-12)
12. Pension funds invest in government bonds and these bonds lose real value during periods of high inflation. [↑](#footnote-ref-13)
13. At this rate of inflation, the general price level in a country doubles every 5 years. [↑](#footnote-ref-14)