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Joseph Maswanganyi
Chairman, Standing Committee on Finance
National Assembly of the Republic of South Africa

Attention: Mr Allen Wicomb and Ms Teboho Sepanya

Per Email: awicomb@parliament.gov.za / tsepanya@parliament.gov.za

16 November 2020

Dear Mr Maswanganyi

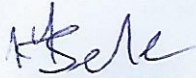
SUBMISSION ON THE SOUTH AFRICAN RESERVE BANK AMENDMENT BILL [B26-2018]

- 1 The Standing Committee on Finance ("**Committee**") recently invited stakeholders and interested parties to make written submissions on South African Reserve Bank Amendment Bill [B26-2018] (the "**Bill**"), which amends the South African Reserve Bank Act, No. 90 of 1989 ("**SARB Act**").
- 2 Business Leadership South Africa ("**BLSA**"), as an independent organisation representing many of South Africa's largest companies, welcomes the opportunity to make submissions on the Bill.
- 3 The South African Reserve Bank ("**SARB**") governing structure is one of the few 'independent' central banks in the world that has a private shareholding structure. Changing its governance structure to be under state control should, therefore, in principle, not be an issue. However, considering that the SARB's credibility, South Africa's monetary policy approach and its excellent standing in the world could plummet, this becomes a hugely risky move for no meaningful benefit. This risk is exacerbated by the creeping state control and failures that we are experiencing as a country. Additionally, in light of the Finance Minister recently announcing steps to make cross-border business easier, including relaxing rules around inward listings, loop structures and foreign corporate borrowings, and the National Treasury announced that it was exploring the listing of foreign-denominated assets on local exchanges, which will ultimately attract inward investment and position the country as an African financial hub, this move may be perceived as going in the opposite direction.

- 4 We believe the Committee should be aware of how important the institutional quality of the state is for foreign direct investment, financial markets and ultimately through the yield curve into businesses' ability and cost of funding. Both perceived and actual central bank independence is a core component of many global indices and ratings related to emerging markets like South Africa that investors look at. Given the degradation over the years of state capture in our state's institutional strength – so the SARB is at present, to a large degree on its own, holding up these global ratings for South Africa.
- 5 There has been a lively and fruitful debate over the policies the SARB has undertaken during this crisis and what more they can and cannot do. However, the various additional potential policy options that the SARB might have taken have nothing to do with its shareholding structure being one way or the other. Business has welcomed the strong and decisive policy easing to both monetary and prudential policies that the SARB (and its Prudential Authority) have undertaken during this crisis.
- 6 We must also recognise that the SARB operates in a set of global central bank, monetary policy and financial sector regulatory norms which allow South Africa easy access to the global financial sector and cross boarder financing. Tampering with this could have disastrous consequences.
- 7 When considering institutional changes of the future, for the long term, we should also be aware of the risks of another bout of state capture or aggressive rent extraction within the South African political economy. Current regulatory and institutional setups should be stress tested against such future risks – even though we have in the past two years turned a corner. The SARB was a bulwark against state capture and its independence is a safeguard against future state capture.
- 8 Related to this, financial markets are currently pondering the risks of South African institutions, forcing investors and banks to buy government bonds through financial repression tactics. The SARB's independence guards against this but tampering with it could send the wrong signal to markets and our banks that financial repression is more likely, and this would accelerate an eventual fiscal cliff related crisis.
- 9 Furthermore, we have legal concerns with the proposed Bill. The SARB shares are a form of incorporeal property. Shareholders have subscribed for the shares and contributed to the capitalisation of the SARB. It seems that section 22 of the SARB Act contemplates that shares in the SARB can be bought and sold and section 24(e) contemplates the payment of dividends to shareholders. Subsequently, shares in the SARB may have a value in the market. Repealing section 22 of the SARB Act would effectively amount to an expropriation without compensation of the shares in the SARB. In our view, this expropriation would be unconstitutional for want of compliance with section 25(2)(b) of the Constitution of the Republic of South Africa, 1996.
- 10 For the abovementioned reasons, BLSA does not support the proposed Bill. We are of the view that the Bill introduces unnecessary risk to the country, to sustainable jobs intensive employment growth and the cost of funding for businesses and is also unconstitutional.

11 Please do not hesitate to contact us should you have any queries in relation to these submissions.

Yours sincerely



Tebele Luthuli

Business Leadership South Africa

Director: Policy and Legislation