

A SELECTIVE REFLECTION ON THE INSTITUTIONAL DEVELOPMENT OF THE SOUTH AFRICAN RESERVE BANK SINCE 1921

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ABSTRACT

The South African Reserve Bank (the Bank) turns ninety in 2011, which makes it the fourth-oldest central bank outside Europe. This paper reviews the institutional history of the Bank since 1921. The conclusion is that the institutional structure of the Bank had to be revised periodically to ensure alignment to changing domestic and international developments and challenges.

Keywords: South African Reserve Bank, institutions, monetary policy

JEL classification: E42, E58, N27

1. INTRODUCTION

The South African Reserve Bank (the Bank), which celebrates its ninetieth birthday on 30 June 2011, is the fourth-oldest central bank outside Europe. The other three are the Bank of Indonesia, established by the Dutch authority in the east as the Bank of Java (De Javasche Bank), which commenced business on 24 January 1828; the Bank of Japan, which opened for business on 10 October 1882; and the Board of Governors of the Federal Reserve System (the Fed) in the United States of America (US), which opened for business on 16 November 1914.

This paper focuses on the institutional development of the Bank since its inception and changes to this structure that were required from time to time to ensure efficiency in the Bank's conduct of monetary policy. This analysis shows that institutional structures of central banks can hardly be static, as change is often forced onto such institutions. Their challenge is to cope with such change.

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This paper is structured as follows: International and domestic developments contributing to the establishment of the Bank are highlighted in Section 2. Section 3 highlights amendments to legislation pertaining to the Bank since its inception. Section 4 considers the executive of the Bank since 1921. The fifth section highlights the Bank's experience with private stock/shareholders. A brief conclusion follows in Section 6.

2. ESTABLISHMENT OF THE BANK²

The first proposals for the establishment of a domestic central bank were made in 1879 by the Afrikaner Bond, a political party in the then Cape Colony (D'Assonville 1999, 203; De Kock 1954, 3; SA Reserve Bank 1971, 9). Similar proposals were made after a financial and banking crisis in the then Cape Colony in 1890 and 1891 (SA Reserve Bank n.d., 1), culminating in a series of articles on the advisability of the establishment of a central bank in a newspaper in the Cape Colony, *De Paarl* (SA Reserve Bank, n.d., 1). As the Reverend Dr S. J. du Toit, the founding leader of the Afrikaner Bond, was editor of the newspaper from 1890 to 1896 (D'Assonville, 1999, 125), these articles and the proposals of 1879 were related.

Following the unification of South Africa in 1910, Mr M. Groslaude advocated the advantages of establishing a central bank for the new Union of South Africa (SA Reserve Bank n.d., 1). In 1912 the same matter was raised by Mr (later Dr) J. Postmus (SA Reserve Bank n.d., 1), who later served as Deputy Governor and as Governor of the Bank (Meiring, 1994, 163).

In the absence of a central bank (i.e. before 1921 in South Africa), the accepted practice was that commercial banks issued banknotes (see for instance SA Reserve Bank n.d., 1), which were convertible into gold at a fixed rate. The domestic currency was fixed in value to the British pound sterling, which was in turn fixed to the US dollar and the gold price. This practice was retained in South Africa during and after the Great War (as World War I was initially known) (De Kock 1954, 11). When the peg of pound sterling to the US dollar and gold was suspended in March 1919, the pound depreciated against the US dollar and gold (Gelb 1989, 54). South African currency could be converted into gold at the official rate and the gold proceeds could be sold at a premium in London (SA Reserve Bank 1971, 10). Domestic commercial banks had to purchase gold at the same premium in London, but had to convert banknotes into gold at a lower price in the domestic market in terms of the gold standard applied in South Africa. As this soon became untenable, commercial banks called on the South African government to intervene in the domestic currency market. The

2 This section draws on Rossouw and Padayachee 2008.

government convened a gold conference in October 1919 to consider the problems of commercial banks (De Kock 1954, 11).

One proposal emanating from the conference was that a uniform Bank Act should be adopted for the country (De Kock 1954, 13), as each of the four provinces that merged in 1910 to form the Union of South Africa still had their own banking legislation. In view of this proposal the South African government engaged the services of a British banker, Mr H. (later Sir Henry) Strakosch, to assist with the drafting of the proposed new Act. He convinced the authorities of the merits of establishing a central bank (De Kock 1954, 14; see also Gelb 1989, 48).

The Currency and Banking Act, No 31 of 1920, was enacted on 17 December. This legislation consolidated banking legislation in South Africa and provided for the establishment of The South African Reserve Bank.³ It also entrusted to the Bank the power to issue banknotes for a period of 25 years (De Kock 1954, 23; Engelbrecht 1987, 95 and 96; SA Reserve Bank 1971, 11 and 12). In the drafting of the Currency and Banking Act, extensive use was made of the legislation of the Federal Reserve Banks⁴ in the United States and the 1906 Charter of the Bank of Java, as those laws were the newest available central bank legislation at the time (De Kock 1954, 38).

3. LEGISLATION PERTAINING TO THE BANK

As the Bank functions within the confines of its legislation, the most important framework for institutional development and change is amendments to its legislation and amendments to the regulations framed in terms of this legislation. A review of legislative amendments is therefore necessary to put institutional development into perspective.

Shortly after commencement of operations, it transpired that the Currency and Banking Act was flawed in two respects. First, it restricted the Bank's capacity to make advances to the domestic banking sector (SA Reserve Bank 1971, 21). As the powers to make advances to the domestic banking sector were modelled on the legislation of the Federal Reserve Banks, the first Governor (Mr W.H. Clegg), who came from the Bank of England, was of the view that the legislation should be amended to align the Bank's powers to make advances with the broader powers of the Bank of England (see also Kok 2009, 69 in this regard). Legislative amendments of 1923 and 1930 achieved this objective. Some literature

3 The name of the Bank was changed simply to *South African Reserve Bank* when the original legislation was replaced by the SA Reserve Bank Act, No. 29 of 1944. The use of the word *Reserve* reflects reference to the Federal *Reserve* System (De Kock 1954, 38).

4 It is occasionally stated incorrectly that the Currency and Banking Act was "... modelled on the laws pertaining to the Federal Reserve System in the United States" (SA Reserve Bank 1971, 13) rather than on the Federal Reserve Banks.

mentions that the legislation of the Federal Reserve System was too restrictive of lending to the banking sector at the time of the Great Depression in the 1930s, thereby prolonging the depression (see for instance Bordo 2010). Governor Clegg therefore had particular foresight in achieving the broadening of the powers of the Bank in 1923 and 1930, although the depression was prolonged in South Africa's instance because the authorities tried to maintain the gold standard after the United Kingdom left it in 1931.

Secondly, the legislation caused conflicts of interest in as much as it provided for commercial banks to nominate non-executive board members (SA Reserve Bank 1971, 25). With the amendment of the Bank's legislation in 1923, the board's composition was changed to exclude banking sector representatives.

The Currency and Banking Act was replaced by the SA Reserve Bank Act, No. 29 of 1944. Important legislative changes introduced in 1944 included:

- perpetual monopoly powers to issue banknotes;
- amending the requirement for the Governor and the Deputy Governor to have tested banking experience to apply only to the Governor;
- reducing maximum shareholding by any individual or juristic person from 20,000 to 10,000 shares;
- providing for the payment of a dividend of 10% of the original issue value of shares (i.e. 10 cents per share), rather than a 6% cumulative dividend that could be supplemented by a 4% additional dividend, dependent on reserve levels;
- entrusting the determination of the remuneration of board members (including the governors) to the Minister of Finance, rather than to the board as was the case with the legislation of 1920;
- including South African residency as a requirement for shareholders to vote at the Ordinary General Meeting (OGM) in the Act, rather than in the regulations as was previously the case; and
- the first provision for the board to delegate powers to the governors.

This Act of 1944 was amended nine times over the period that it was the Bank's enabling legislation. Important changes were provisions for the appointment of a non-executive director, rather than the Governor, as Chairperson of the board and for the appointment of a second deputy governor, thereby increasing the number of Board members from 11 to 12 (1960); and provision for the appointment of a Senior Deputy Governor (therefore three deputy governors in total), but with a concomitant decrease to two in the number of non-executive directors appointed by the President of the Republic in 1971.

The Act of 1944 was replaced by the SA Reserve Bank Act, No. 90 of 1989. Although still the Bank's enabling legislation, the Act of 1989 has been amended nine times. Not all these amendments impacted directly on the institutional structure of the Bank, e. g. legislative provision for the Bank to participate in an

electronic settlement system, rather than a manual system. The SA Reserve Bank Act of 1989 has to some degree also been superseded by the provision for a central bank in the Constitution, Act No. 108 of 1996. The Constitution provides in Sections 223 to 225 for a central bank with a clear constitutional mandate, namely to protect the value of the currency of the Republic in the interest of sustainable economic growth in the Republic.

At the time of its promulgation, the SA Reserve Bank Act of 1989 included a number of notable changes, compared to the Act of 1944:

- the number of board members was increased from 12 to 14, with provision for an additional representative for commerce or finance and an additional non-executive government representative;
- not providing for the appointment of alternate directors, that had fallen in disuse many years earlier;
- reference to shareholders (rather than stockholders) and stock was converted into shares. As a result the shares could now trade in any number, whereas stock could previously trade only in units of 100;
- the determination of the remuneration of directors (including the Governor and deputy governors) was re-entrusted to the board, rather than to the Minister of Finance, thereby reversing the amendment of 1944. As the Minister was often reluctant to increase remuneration, the remuneration of senior officials on occasion nearly equalled that of deputy governors. More important, however, is the symbolic confirmation of central bank autonomy in entrusting the determination of remuneration at all levels to the board of the institution, rather than to a political functionary; and
- the inclusion of *monetary stability* and *economic growth* as primary objectives with an equal weighting for achievement by the Bank.

The SA Reserve Bank Act was amended in March 1996 in a number of institutional respects, namely to:

- prescribe residency in South Africa, rather than South African citizenship as a requirement for board membership, to provide for the appointment of Mr T.T. Thahane (a citizen of Lesotho) as Deputy Governor;
- state that the President of the Republic can appoint governors and non-executive directors only after consultation with the Minister of Finance and the board of the Bank; and
- state as the Bank's primary objective the protection of the value of the currency of the Republic in the interest of sustainable economic growth in the Republic. This amendment ensured the necessary alignment with the Constitution. As the Constitution provides the primary mandate for the Bank's operations, the mandate in the Bank's legislation cannot deviate from the constitutional mandate. Before this amendment in the Bank's legislation,

its primary objectives of monetary stability and economic growth were not aligned to its constitutional mandate.

Any monetary policy framework (or goal or aim) entrusted to the Bank by the South African Government, or chosen by the Bank in the absence of any framework, goal or aim entrusted by the South African Government, should be aligned to the Constitution. The current policy framework, namely inflation targeting, meets this requirement. The government cannot entrust to the Bank a mandate not aligned to the Constitution, e.g. an employment target (see for instance Bell 2008; Cosatu 2008; or Epstein 2002, 38).

From an institutional perspective the SA Reserve Bank Act was again amended in September 2010, *inter alia*, to deal with shareholder activism (see section 5 below). The most important amendments were to:

- provide for the establishment of a Panel for confirming nominees for election by shareholders as non-executive directors to the board;
- expand the areas of expertise from which board members elected by shareholders are drawn to include labour and mining, thereby improving representation on the board;
- limit the concentration of shareholding in the hands of shareholders, e.g. within family groups;
- provide for the nomination of directors by a broader base of the South African public, rather than only by shareholders;
- expand criteria for disqualification of persons from serving on the board;
- clarify the powers and functions of the board, thereby entrusting for the first time management powers directly to the Governor and deputy governors;
- provide for the possibility of the Governor and deputy governors being reappointed to serve terms of office of less than five years;
- increase the number of non-executive directors appointed by the President of the Republic from three to four; and
- remove the requirement that the President can appoint non-executive directors only after consultation with the board of the Bank.

4. EXECUTIVE OF THE BANK SINCE 1921

Institutional development and change in a central bank, as is the case in many other businesses, are driven by the executive team, and the chief executive in particular. This section highlights the Bank's executive since 1921 and comments briefly on monetary policy approaches during the tenure of the Bank's nine governors.

The Currency and Banking Act was promulgated on 20 December 1920 and the first Governor was appointed with effect from 1 January 1921, but arrived

in South Africa from the United Kingdom only on 8 January 1921 (Meiring 1994, 35). The first Deputy Governor, Mr H.C. Jorissen, also assumed duty on 1 January 1921 and served until 31 December 1927 (Meiring 1994, 125).

At the time of his appointment as Governor of the Bank, Mr Clegg was Chief Accountant of the Bank of England (SA Reserve Bank 1971, 17). Mr Clegg had not obtained any formal qualifications after completion of his school education. After his retirement as Governor at the end of 1931, Mr Clegg served as an Executive Director on the Court (board) of the Bank of England until 1937 (Meiring 1994, 38).

On occasion of the first OGM of the Bank on 29 July 1921, Governor Clegg used the Governor's Address to explain the differences between central banking and commercial banking. He also cautioned that an increase in banknotes in circulation would not lead to a sustained increase in wealth, but would merely increase prices and the cost of living (SA Reserve Bank 1921). This confirms that the Bank has realised since its inception that inflation is *ungood* and cannot be used as a long-term policy instrument. Given his prior experience in the Bank of England, Mr Clegg was of the opinion that the legislative framework of the Bank, modelled on the Federal Reserve Banks and the Bank of Java was too restrictive to allow for the successful conduct of monetary policy. He therefore used legislative changes to expand the powers of the Bank to make loans and advances, which aligned the Bank to the Bank of England. Mr Clegg's main monetary policy challenge was to restore and maintain the gold standard.

At the time of its establishment, the two most senior officials of the Bank, other than the Governor and the Deputy Governor, were the Chief Cashier and the Secretary of the Bank. The first Chief Cashier, with responsibility for the operations of the Bank, was Mr E.W. Cattell, and the first Secretary, with responsibility for the administration of the Bank, was Mr A. Burns.⁵ Both these appointments were confirmed at the first board meeting held on 9 May 1921 (SA Reserve Bank 1971, 14). In terms of the allocation of responsibilities to the Chief Cashier and the Secretary, the Governor and the Deputy Governor were primarily occupied with policy matters.

Upon the retirement of Mr Jorissen, Dr Postmus was appointed Deputy Governor. He was appointed as Governor on 1 January 1932 and served until 30 June 1945. Like Mr Clegg, Dr Postmus had no formal training in banking or economics, but was awarded a DCom (*honoris causa*) by the University of Pretoria in 1946. Dr Postmus initially faced the challenge of keeping South Africa on the gold standard, and subsequently faced the challenge of introducing and maintaining the Sterling Area agreement as domestic monetary policy framework

5 It is sad to note that Mr Burns was dismissed from the service of the Bank. Mr Burns assumed duty as the Governor's Agent (branch manager) in Johannesburg in 1925. He was dismissed in 1929 as he had failed to uncover over a period of two years theft amounting to some £85 000 (about R21,5 million in today's money) by a note clerk in that branch.

after the country left the gold standard at the end of 1932 (see the discussion in Section 5 below). Mr Postmus was also the first Governor that had to deal with shareholder revolt (see Section 5 below).

Dr M.H. de Kock was appointed as Deputy Governor on 1 January 1932 after he served as an official of the Bank for one year, pending his appointment as Deputy Governor. This arrangement was necessary, as Dr de Kock did not have any banking experience, which was a requirement for appointment as Deputy Governor at the time. Dr de Kock held a BA degree in Classics and a DPhil degree in Economics and Finance (Meiring 1994, 54 and 55). Dr de Kock was appointed as Governor on 1 July 1945 (Meiring 1994; SA Reserve Bank 1971).

Dr de Kock served as Governor during a period of political transition in South Africa. He guided the Bank through a change of government in 1948 which brought substantial political change, and governed the Bank at the time of the country becoming the Republic of South Africa. Under the stewardship of Dr De Kock the Bank established a statistical and research unit. With his formal training in financial and economic matters, Dr De Kock recognised the importance of data in effective monetary policy decisions.

Dr de Kock served as Governor of the Bank for a period of 17 years, ending on 30 June 1962. He was appointed as Chairperson of the Bank's board upon retirement, although it was soon found that splitting the roles of Governor and Chairperson was not in the Bank's best interests (see for instance Rossouw 2004, 1101; Rossouw and Padayachee 2008, 13 and 14). Following on the appointment of Dr de Kock as Governor, Mr J.T. Jurgens, previously Assistant General Manager of Standard Bank, was appointed as Deputy Governor (Meiring 1994). Mr Jurgens completed one term as Deputy Governor and Dr E.H.D. Arndt, previously the Registrar of Banks in the Treasury, was appointed to this position on 1 July 1951. Dr Arndt retired as Deputy Governor on 30 June 1961 (Meiring 1994; SA Reserve Bank 1971).

Up to the time of the appointment of Dr G. Rissik to the second position for a Deputy Governor created with effect from 1 May 1960, only five people (two of whom were subsequently appointed as Governor) served in this position. This changed considerably after 1960, *inter alia*, because legislation changed from time to time to provide for more deputy governors (Meiring 1994; SA Reserve Bank 1971; Stals 1996). Dr Rissik was appointed as Governor on 1 July 1962 and served one term of five years. He obtained a BCom degree in Economics and Finance and received an honorary DCom degree from the University of Pretoria in 1964. Direct control measures (credit control, credit ceilings and deposit rate control) were introduced by Dr Rissik. This was a fundamental departure from the policy approaches followed by his predecessors.

Dr T.W. de Jongh⁶ was appointed as Governor from 1 July 1967. Dr de Jongh held BSc, MSc, MA and DCom degrees in Economics and Statistics. Dr de Jongh

6 It is of interest to note that Dr de Jongh's sister was married to Dr M.H. de Kock.

never served as Deputy Governor before his appointment as Governor (Meiring 1994; SA Reserve Bank 1971). Dr de Jongh continued with the direct control measures introduced by his predecessor. These measures were not successful in as much as they encouraged disintermediation and inflation accelerated despite these controls. Some four months before his retirement on 31 December 1980, Dr de Jongh introduced a market-oriented approach to monetary policy, which was a complete departure from the monetary policy philosophy followed during his tenure as Governor.

Dr G.P.C. de Kock, a son of Dr M.H. de Kock, was appointed as Governor from 1 January 1981. Dr de Kock held a BA, two MA and a DPhil degrees in Banking and Economics, with his doctoral dissertation covering the history of the Bank until 1952. He served as Governor until 7 August 1989 and is the only person to die while still occupying the position. Dr de Kock was a strong supporter of market-oriented monetary policy, but one consequence was more rapid and much larger interest rates swings than before. Borrowers experienced great difficulty to understand and adjust to this interest rate volatility. The Bank adopted M3 money supply targets as a monetary policy framework during the period that Dr de Kock served as Governor.

Dr C.L. Stals served as Governor from 8 August 1989 to 7 August 1999. He completed BCom, MCom and DCom degrees in Economics. Dr Stals was a career central banker, although he served in a seconded capacity as Director-General of the National Treasury from 1985 to 1989. After retirement Dr Stals served on the board of Standard Bank and on the African peer-review group. Dr Stals announced shortly after his appointment as Governor that the Bank would contain inflation. As the country had by then suffered nearly 20 years of double-digit inflation, this change in policy focus was initially not believed by economic decision-makers. Although Dr Stals eventually achieved success, one of the consequences was a very deep recession early in his first term. He served as Governor during the political transformation of 1994 and was reappointed for a second term by the new government after democratic elections. During his tenure the Bank initially moved from money supply growth *targets* to money supply growth *guidelines* and subsequently abandoned these altogether in favour of eclectic monetary policy.

Mr T.T. Mboweni served as Governor from 8 August 1999 to 8 November 2009. He completed BA and MA degrees in Development Economics. Mr Mboweni relinquished a cabinet position in July 1998, when he was appointed as Advisor to the Governor of the Bank. This ensured that he met the requirement that the Governor has to have banking experience. He holds various honorary titles, e.g. honorary Colonel at 1st SA Tank Regiment and honorary professor at a number of universities, and also received a number of honorary doctorates, but elects not to use any of these titles. After retirement Mr Mboweni served on the boards of companies and as an advisor to Goldman Sachs. Mr Mboweni faced the challenge of introducing a policy of inflation targeting in South Africa, which entrusted to the Bank a single monetary policy goal. This approach was initially

not well understood and Mr Mboweni ensured over time the general acceptance of inflation targeting as a suitable monetary policy framework for South Africa. He introduced a Monetary Policy Committee with responsibility for monetary policy decisions, which brought certainty about policy decisions.

Ms G. Marcus was appointed as Governor for a five year term from 9 November 2009. She completed a BCom degree. Ms Marcus was appointed as Deputy Minister of Finance in 1996 and as a Deputy Governor of the Bank in 1999. After stepping down in 2004, Ms Marcus held various private sector positions, including an appointment as a Professor at a business school, and served as Chairperson of ABSA Bank. Since her appointment, Ms Marcus has improved considerably the Bank's internal and external communication with all its stakeholders.

Since 1961 the following people served as deputy governors of the Bank (see for instance Meiring 1994; Rossouw and Padayachee 2008; SA Reserve Bank 1971; Stals 1996):

- Dr D.G. Franzsen, Deputy Governor from 1 July 1961 and Senior Deputy Governor from 1 July 1971 to 30 June 1976;
- Dr J.B. de K. Wilmot, Deputy Governor from 1 July 1962 to 31 December 1969;
- Mr H.O. de Villiers, Deputy Governor from 1 January 1970 until 31 March 1976;
- Dr G.P.C. de Kock, Deputy Governor from 1 July 1971 and Senior Deputy Governor from 1 July 1976 until his appointment as Governor;
- Dr C.L. Stals, Deputy Governor from 1 April 1976 and Senior Deputy Governor from 1 January 1981 to 31 August 1985.⁷ Dr Stals was seconded to the Treasury from 1 September 1985 until his appointment as Governor;
- Dr J.C. du Plessis, Deputy Governor from 1 July 1976 to 31 December 1980;
- Dr B. van Staden, Deputy Governor from 1 January 1981 to 31 December 1985;
- Dr A.S. Jacobs, Deputy Governor from 1 January 1981 and Senior Deputy Governor from 1 September 1985 to 28 February 1990;
- Dr J.A. Lombard, Deputy Governor from 1 September 1985 and Senior Deputy Governor from 1 March 1990 to 30 April 1991;

7 Upon his secondment to the National Treasury Dr Stals relinquished his position as Senior Deputy Governor, while his predecessor, Dr de Kock, retained his position at the Bank during a similar secondment before his appointment as Governor. However, Dr de Kock did not attend board meetings of the Bank during his period of secondment.

- Dr B.P. Groenewald, Deputy Governor from 1 January 1986 and Senior Deputy Governor from 1 May 1991 to 31 July 1995;
- Dr C.J. de Swardt, Deputy Governor from 1 March 1990 to 30 June 1999;
- Dr J.H. Meijer, Deputy Governor from 1 May 1991 to 30 April 1996;
- Mr T.T. Thahane, Deputy Governor from 1 April 1996 to 31 March 2001;
- Mr J.H. Cross, Deputy Governor from 1 January 1997 and Senior Deputy Governor from 21 September 1999 to 31 December 2001;
- Ms G. Marcus, Deputy Governor from 1 July 1999 to 30 June 2004, and Governor from 9 November 2009;
- Dr X.P. Guma, Deputy Governor from 1 August 2001 and Senior Deputy Governor since 29 May 2010;
- Mr I. Plenderleith, Deputy Governor from 1 January 2003 to 31 December 2005;
- Dr R.D. Mokate, Deputy Governor from 1 August 2005 to 31 July 2010;
- Mr A.D. Mminele, Deputy Governor since 1 July 2009; and
- Mr E.L. Kganyago, Deputy Governor since 16 May 2011.

Whereas vacancies for deputy governorships were filled upon becoming vacant for many years, it is noteworthy that the Senior Deputy Governor position remained vacant for long periods of time after the retirement of Dr Groenewald and Mr Cross. Likewise, deputy governorships were also vacant for considerable periods of time since 1995.

At its inception the Bank only had a Governor and a Deputy Governor. The relationship between the Governor and Deputy Governor was on occasion described as one of *primus inter pares* in respect of the Governor (see for instance Botha 2002 on this topic). It seems that the Governor and the Deputy Governor shared policy responsibility, particular during periods that one of the two was absent from the Bank, e.g. during the period that Mr Clegg chaired the Hong Kong Currency Commission (Meiring 1994, 37; SA Reserve Bank 1971, 17), or when Dr Postmus attended the World Economic Conference in 1933 or the Imperial Conference in 1937 (Meiring 1994, 196).

Over time responsibilities entrusted initially to the most senior officials of the Bank were elevated to the level of deputy governors. In this case cause and effect are unclear. It is not clear whether an elevation of duties necessitated the appointment of more deputy governors, or whether duties had to be found for a larger number of deputy governors. A possible explanation is that senior officials “carried” some of their duties with them upon appointment as deputy governor, particularly in instances where former chief cashiers were appointed as deputy governors. The net effect, however, is that deputy governors currently play a much larger role in the daily management of the Bank than was the case previously.

5. CENTRAL BANK STOCK/SHAREHOLDING

As one of a handful of central banks with private shareholding in one or another form – the others are Belgium, Greece, Italy, Japan, Switzerland and Turkey, while the Federal Reserve Banks has a unique structure of banking shareholders (see for instance Lybek and Morris 2004) – it is important to consider the degree in which shareholders influenced the Bank's institutional development.

At the time of the establishment of the Bank, the majority of central banks in existence had private shareholders. The same approach was therefore adopted in South Africa and has been retained for the past 90 years, despite an international trend in the 1930s and 1940s to nationalise central banks (De Kock 1956, 312). The nationalisation of the Austrian central bank in 2010 is the most recent case of central bank nationalisation.

The Bank was initially established with a nominal capital of £1 million SA Reserve Bank stock, divided into 2 million units of 10 shillings each. The stock was offered to banks and the public, and was fully subscribed by 6 March 1922 (SA Reserve Bank 1971, 14). At the time of decimatisation in 1961, the nominal value of the stock was converted into R2 million. Shareholders receive an annual dividend of not more than 10% of the face value of the shares, i.e. not more than 10 cents per annum, paid as equal interim and final dividends of 5 cents per share.

The capital of the Bank was listed on the JSE until 2002, when the Bank could no longer comply with the listings requirements. Since 2002 the shares trade on an over-the-counter share trading facility in the Bank.

Shareholders have limited rights in the Bank's activities. They are entitled to attend the OGM, where:

- the Bank's external auditors are elected;
- the remuneration of the external auditors are determined; and
- seven non-executive directors to the board of the Bank are elected.

The advantages of retaining shareholders are sometimes questioned, but their single main advantage is the additional layer of transparency in the reporting and accountability of the central bank. However, it can naturally be argued that this same transparency can be achieved by other means, e.g. media conferences. No comparative study of the roles, rights and obligations of shareholders in central banks have been undertaken to date.

It is also not always clear why individuals and juristic persons retain their shareholding in the central bank. Although no structured research into this question has been undertaken to date, deciding factors could include prestige; receipt of a dividend; (initially) a return commensurate with the return on government securities; and an invitation to the Bank's OGM.

Over the first 80 years of its existence, the Bank has experienced considerably little shareholder activism. However, this has changed since the delisting of the Bank in 2002. At its second OGM held in 1922, shareholders complained about

a withholding tax of 5% (1/- in the £) on dividends, as this implied that gross dividend payments were reduced accordingly. At the time the Governor explained to shareholders that the Bank would contravene its own Act if the withholding tax were paid on behalf of shareholders, as it would be tantamount to an increase in dividends (SA Reserve Bank 1922).

At the OGM held in 1932 shareholders complained about volatile movements in the price of the Bank's stock, following expectations that the Bank would suspend dividend payments owing to losses sustained because South Africa retained the gold standard independently after its abolition by the United Kingdom in 1931 (Rossouw 2008; Rossouw and Padayachee 2008). This expectation was supported by a statement by the Minister of Finance in 1932 that "it would probably be some years before the Bank could pay dividends again" (cited in Meiring 1994, 161). As dividend payments were not suspended, the stock price recovered and stockholders who sold their stock on the expectation of sustained lower prices voiced unhappiness about their capital losses (SA Reserve Bank 1932).

A group of shareholders organised themselves at the time as a Committee of Stockholders in Cape Town. This Committee, chaired By Mr E.R. Syfret, opposed the re-election of the sitting board member (Dr W.D. Baxter) who retired by rotation (Meiring 1994, 10), by nominating Mr R.H. Parker as a candidate.⁸ Despite the Governor's objections, who stated his doubts as to whether Mr Parker was fit and proper to serve as a board member of the Bank⁹ (SA Reserve Bank 1932), Mr Parker nevertheless defeated Dr Baxter in the election for board membership (Meiring 1994, 162). Only 60 years later, in 1992, the election of a sitting board member retiring by rotation was again opposed, when the re-election of Mr J.J. Fourie was opposed by Mr C.L. von Abo. On this occasion the sitting member (Mr Fourie) was re-elected (SA Reserve Bank 1992).

Shareholders requested an increase in dividends at the OGM in 1962 (SA Reserve Bank 1962). It was explained to shareholders that the Bank's legislation provided for the dividend payment and the dividend policy could therefore be changed neither by the Bank nor its shareholders.

An Extraordinary General Meeting of shareholders was held in 2002 to consider the delisting of the Bank from the JSE. Delisting was necessitated by the fact that the Bank could no longer comply with the capital requirements for listing on the JSE, and could also not participate in the electronic dematerialised trading of shares. This meeting was preceded by shareholders briefings (see for instance SA Reserve Bank 2002a), which have subsequently become regular practice of

- 8 To ensure continuity in the service of non-executive directors, the expiries of their terms are structured to ensure that they do not all step down from the Board in the same year after serving a term of three years. This structure in the service of Board members of the Bank are referred to as retirement by rotation.
- 9 It seems that Mr Parker was indeed fit and proper to serve on the board of the Bank, as he served in this capacity for nearly 32 years and also served as Chairperson of a major insurance company for nine years (Meiring 1994, 162).

the Bank. With the benefit of hindsight is true to say that the delisting of the Bank's shares ushered in an era of shareholder activism at the Bank.

At the Extraordinary General Meeting in 2002 shareholders considered a motion to postpone any decision on delisting for six months, but the motion did not carry. The delisting of the shares was approved (SA Reserve Bank 2002a) and listed trading was replaced with an over-the-counter trading facility (OTCSTF). The shareholders in fact had no option but to support the delisting, as the only other alternative would have been the indefinite suspension of the trading of the shares on the JSE, which would not have been in the interest of any current or prospective shareholder of the Bank.

At the OGM held in 2002, shareholders considered a motion to change the name of the SA Reserve Bank to *SA Reserve Bank Limited*. The motion did not carry (SA Reserve Bank 2002b).

At the 2003 meeting shareholders adopted a motion to increase the Bank's dividend to 10% of the after-tax profits (SA Reserve Bank 2003). As was the case in 1962, this motion has come to nothing, as shareholders cannot amend the SA Reserve Bank Act that prescribes the dividend. At the same meeting Mr S.M. Goodson opposed Mr B.P. Gilbertson, the sitting member retiring by rotation. This was only the third time that a sitting member retiring by rotation was opposed. Mr Goodson was elected to this vacancy (SA Reserve Bank 2003).

At the OGM held in 2004 a shareholder raised a series of questions on the Bank's accounting for derivatives and its gold holdings (SA Reserve Bank 2004). These questions were answered to his satisfaction at the meeting, although the relevance of these questions to the activities of the Bank is not immediately obvious. Since 2004 sitting members retiring by rotation have been opposed annually, but on each occasion the sitting member had been re-elected.

At the OGM held in 2007:

- a shareholder stated that the financial statements did not disclose fully the financial position of the Bank's subsidiaries, as one subsidiary was (in his view) running at a loss. He therefore moved to oppose the approval of the statements, but the statements were approved by a majority of shareholders (SA Reserve Bank 2007); and
- another shareholder raised questions about the constitutionality of the limitation on voting powers in respect of the Bank's shares, as non-residents cannot vote and shareholders have one vote in respect of every 200 shares held in the Bank. As these provisions are (and have been since the Bank's inception) a legal stipulation (either by means of legislation or regulation), voting rights cannot be changed by shareholders.

Shareholder activism resulted in a disruptive OGM in 2008, although all particulars are not reported in the report of that meeting (SA Reserve Bank 2008). A non-resident shareholder wished to raise a number of matters and despite a ruling of the Governor, who presided at the meeting, that no shareholder would be

permitted to speak, the shareholder nevertheless voiced his objections. Owing to the disruptive nature of the OGM of shareholders in 2008, the Governor again ruled that no shareholder could speak, make any remarks or raise any questions at the OGM held in 2009.

In April 2010 a group of shareholders lodged, in terms of the regulations, a request with the Secretary of the Bank for the arrangement of an Extraordinary General Meeting of shareholders. As this motion was supported by shareholders with insufficient voting rights (10% of the voting rights were required at the time for such a motion to be considered), it was declined and no meeting was arranged.

Following the promulgation of the SA Reserve Bank Amendment Act in September 2010, the regulations framed in terms of the Act were also amended. These amendments provided, *inter alia*, for the Minister of Finance to postpone the date of the Bank's OGM of shareholders beyond six months after the financial year-end on 31 March. The 90th meeting of shareholders was held on 8 December 2010.¹⁰

In the period running up to the OGM, a shareholder (Pretorius 2010) invited selected shareholders to a meeting on 30 October 2010. The agenda of matters proposed for shareholders to consider at the meeting included:

- the appointment of a commission of enquiry to investigate alleged corruption at the Bank and mismanagement at the SA Bank Note Company (Pty) Ltd (SABN), a subsidiary of the Bank;
- an instruction to the board of the Bank to refrain from considering in any way the nationalisation of the Bank;
- the approval of an annual capital distribution to shareholders equal to 10% of the Bank's net profit;
- agreement that the Governor should propose to Parliament the elimination of legal provision that shareholders not ordinarily resident in South Africa may not vote at an OGM;
- outsourcing of the OTCSTF trading of the Bank's shares;
- the establishment of a shareholder representative committee to resolve shareholder issues with the Board;
- the submission of the financial statements of the Bank's four subsidiaries (Corporation for Public Deposits, SABN, SA Mint Company (Pty) Ltd and SARBCIC Ltd), for approval by shareholders at the OGM;
- agreement that remuneration adjustments for non-executive directors should be subject to approval by shareholders at the OGM; and

10 The numbering of the OGM and the age of the Bank are somewhat confusing. The explanation is that the first OGM was held on 29 July 1921, i.e. 29 days after the Bank commenced business on 30 June 1921. The numbering of the OGM therefore runs one year ahead of the age of the Bank.

- fixing the remuneration of the governors and non-executive directors to the remuneration of political office bearers.

In response it was explained in a circular to shareholders (Marcus 2010) that they may choose to meet privately and unofficially to discuss matters of interest or concern. However, as such a meeting has no official standing, resolutions taken have no legal force or effect and are not binding on the Bank (Marcus 2010).

6. CONCLUSION

At the time of the commemoration of Bank's 50th anniversary, it was mentioned that "[t]he early beginnings of the Bank were modest indeed" (SA Reserve Bank 1971, 14), although it was already concluded by 1971 that "[o]ver the first half-century of its existence the South African Reserve Bank has moved far away from its modest beginnings in 1921" (SA Reserve Bank 1971, 83). In the subsequent 40 years this departure from modest beginnings was, if anything, even more pronounced. As the oldest central bank in Africa, the Bank is today an internationally respected central bank looking forward to its centenary celebrations on 30 June 2021.

The institutional structure of the Bank has had to be revised periodically to make sure that it remains aligned to changing domestic and international developments and challenges. Areas for future research are a comparison of the role and powers of shareholders in central banks with shareholder structures and an assessment of the reasons why people invest in the shares of central banks.

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