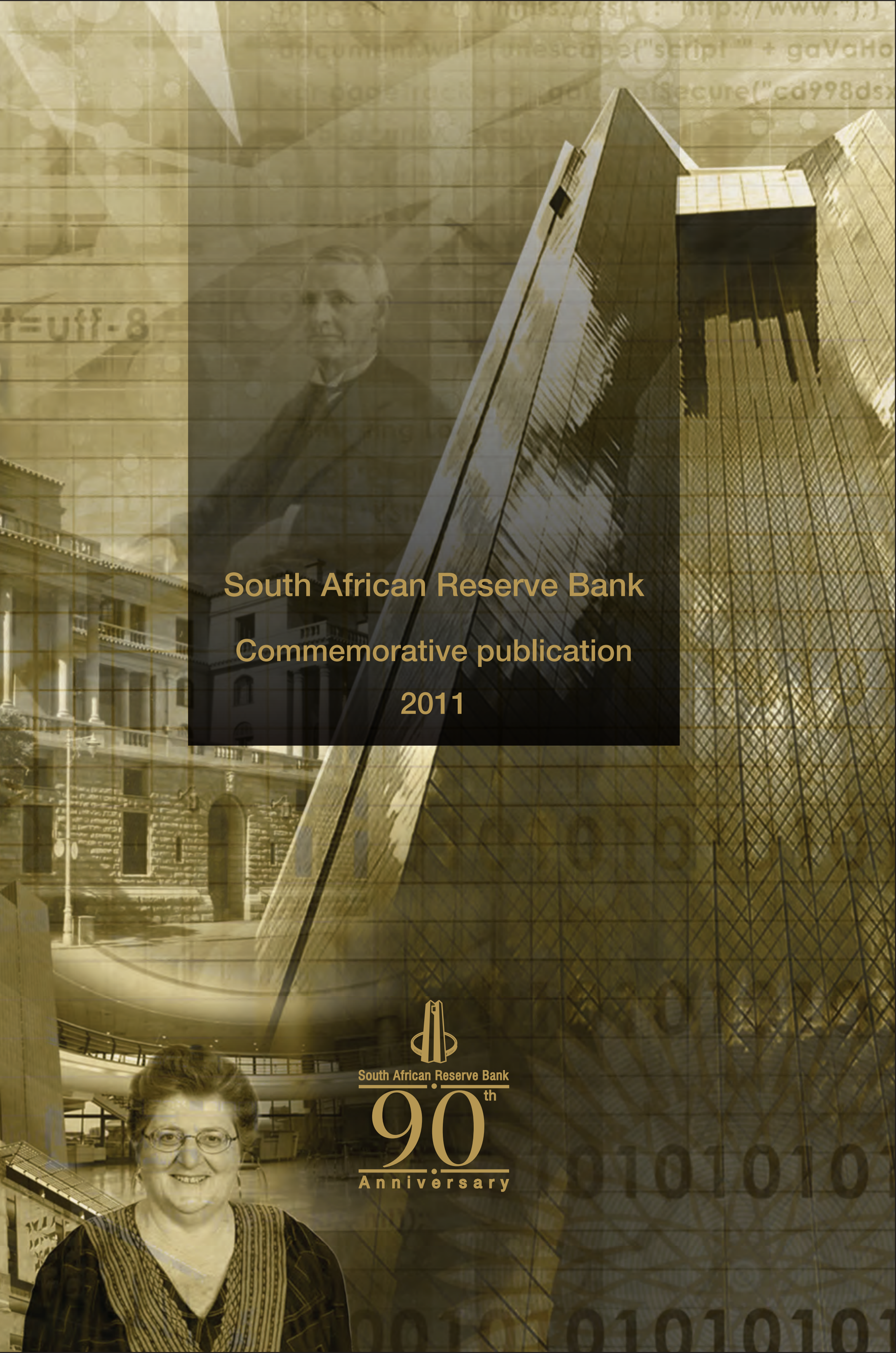
South African Reserve Bank

Commemorative publication

2011



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90th

Anniversary

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Contents

Abbreviations

ATM	automated teller machine
BIS	Bank for International Settlements
CCBG	Committee of Central Bank Governors
CLC	code line clearing
CLS	Continuous Linked Settlement
CMA	Common Monetary Area
CPD	Corporation for Public Deposits
CPI	consumer price index
CPIX	consumer price index for metropolitan and other urban areas, excluding changes in mortgage interest cost
EFT	electronic funds transfer
ELA	emergency liquidity assistance
FSB	Financial Services Board
G-8	Group of 8 countries
G-20	Group of 20 countries
GDP	gross domestic product
GEC	Governors' Executive Committee
ICT	information and communications technology
IMF	International Monetary Fund
JSE	JSE Limited
LOLR	lender of last resort
MPC	Monetary Policy Committee
MPR	*Monetary Policy Review*
NCD	negotiable certificate of deposit
NFC	National Finance Corporation
NOFP	net open foreign currency position
NPS	national payment system
OECD	Organisation for Economic Co-operation and Development
OGM	Ordinary General Meeting
PCH	Payment Clearing House
RAMP	reserves advisory and management programme
repo	repurchase
SABN	South African Bank Note Company (Pty) Ltd
SADC	Southern African Development Community
SAJE	*South African Journal of Economics*
SA Mint	South African Mint Company (Pty) Ltd
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SARBCIC	South African Reserve Bank Captive Insurance Company Limited
SARS	South African Revenue Service
SDR	Special Drawing Right
STRATE	Share Transactions Totally Electronic
UK	United Kingdom
US	United States of America

Introduction

This is the commemorative edition of a booklet outlining the history, functions, institutional structure and management of the South African Reserve Bank (the SARB), published on the occasion of the SARB's 90th Anniversary on 30 June 2011. This booklet provides all stakeholders of the SARB with a concise overview of its history, objectives and activities. A general understanding of these objectives and activities garner support for the policies, and regulatory and supervisory roles of the SARB.

The compilation of this booklet was inspired by the SARB's 90th Anniversary, and by questions about the objectives and functions of the SARB. These questions have often demonstrated that a central bank needs to communicate constantly with its stakeholders to ensure that its important role in the economy is understood.

The structure and content of this booklet were informed, to some degree, by the existence of similar publications at other central banks. Inspiration was drawn in particular from the following publications with broadly the same aim as this booklet:

Scheller, H K. 2006. *The European Central Bank: History, role and functions.* 2nd revised edition. Frankfurt-am-Main: European Central Bank.

Schweizerische National bank. 1992. *Functions, instruments and organisation.* 7th revised edition. Zurich: Swiss National Bank.

The Federal Reserve System. 2005. *Purposes and functions*. 9th edition. Washington, DC : Board of Governors of the Federal Reserve System.

This booklet is typeset in two parts: (i) the left-hand pages offer a pictorial and anecdotal history and (ii) the right-hand pages contain the narrative. The two parts are distinct from each other.

Pretoria
2011

Minutes of the first meeting of the Select Committee that approved the Currency and Banking Bill, which was adopted as the Currency and Banking Act, 1920 (Act No. 31 of 1920). This Act provided for the establishment of the SARB.

PROCEEDINGS OF COMMITTEE

PROCEEDINGS OF THE SELECT COMMITTEE, appointed by Orders of the House of Assembly, dated the 31st March and 16th April, 1920, on Embargo on Export of Species. The Committee to have power to take evidence and call for papers, and to consist of the Minister of Finance, Sir Abe Bailey, and Messrs. Creswell, Wilcocks, Macintosh, Saunders, Close, Fichardt, Kentridge, Langenhoven and H.N.J van der Merwe.

Tuesday, 20th April, 1920

PRESENT:

The Minister of Finance	Mr. Close
Sir Abe Bailey	Mr. Kentridge
Mr. Creswell	Mr. Saunders
Mr. Wilcocks	Mr. Langenhoven
Mr. Macintosh	Mr. H N J van der Merwe.
Mr. Fichardt	

Clerk read Orders of the House, dated the 31st March and 16th April, 1920, appointing the Committee.

On the motion of Mr. Creswell,

Resolved: That the Minister of Finance be the Chairman.

On the motion of the Chairman,

Resolved: That there be laid before the committee 12 copies of each of the following :

The Currency and Banking Bill.
Pamphlet entitled "The South African Currency and Exchange Problem", by Henry Strakosch.

On the motion of Mr. Creswell,

Resolved: That there be laid before the committee 12 copies of each of the following:

Minutes of the Gold Conference, held at Pretoria in October, 1919.
Minutes of the Committee on Currency and Banking.

The Committee deliberated and adjourned until Friday, at 10.30 a.m.

Chairman.

1. Establishment and early history of the South African Reserve Bank

The SARB is the central bank of the Republic of South Africa. It was established in 1921 in terms of a special Act of Parliament, the Currency and Banking Act, 1920 (Act No. 31 of 1920). Owing to its unique role as a central bank, some people are under the impression that the SARB was the first banking institution to be established in South Africa. This, however, is not the case. The first bank to be established in South Africa was the Lombaard Bank in Cape Town, which opened its doors for business on 23 April 1793. Although this bank was fully owned by the Cape Colonial Government, it was established with a commercial objective, rather than as a central bank. It was closed in 1842 because, *inter alia*, it did not meet the banking requirements of the Cape Colony at the time. Its closure led to the establishment of other commercial banks.

The earliest proposals for the establishment of a central bank in South Africa were made as far back as 1879 by the Afrikaner Bond, a political party in the then Cape Colony. In the period between 1897 and the establishment of the SARB in 1921, various further calls were made for its establishment. In the early 1890s a series of articles advocating the establishment of a central bank appeared in *De Paarl*, a newspaper edited by Reverend S J du Toit, the founding leader of the Afrikaner Bond. Calls were again made for the establishment of a central bank to coincide with the establishment of the Union of South Africa in 1910. In 1912 the advantages of the establishment of a central bank were reiterated by Mr J Postmus of De Nederlandsche Bank van Zuid-Afrika, who became Governor of the SARB in 1932.

Financial and economic turmoil in the period after the Great War (later known as World War I) demonstrated the advantages of establishing a central bank. Before one was established in South Africa, commercial banks printed their own banknotes for issue. These notes were backed fully by gold in terms of the gold standard, that is, the notes could be exchanged for gold. At the time of the establishment of the SARB, the authority of commercial banks to issue banknotes was a well-established practice internationally, albeit under “review”, as banks of issue (as central banks were known initially) were established in various countries, particularly in Europe, during the latter part of the nineteenth century.

During the Great War the South African currency remained on the gold standard and commercial banks were obliged to redeem their notes for gold, in each instance at a fixed exchange rate. This was in terms of an arrangement where the domestic currency was pegged to the British currency (pound sterling) which, in turn, was pegged to the US dollar and, therefore, the gold price. This arrangement ended in March 1919 when the pegging of the

In this journal article Prof. R W K Parsons explains the role of the British economist, J M Keynes, in the SARB.

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pound sterling to the US dollar came to an end, which resulted in the pound sterling depreciating by ⅓ against the US dollar and gold. As a result, gold obtained in South Africa through the conversion of banknotes at commercial banks could be sold at a premium in London. At the same time, domestic commercial banks had to buy gold at the same premium in London to provide the necessary backing for their banknotes in issue in terms of the gold standard. In response to a call on Government by commercial banks to be released of this obligation to "trade at a loss", a Gold Conference was convened in Pretoria in October 1919.

One of the resolutions of the Gold Conference was to request Government to introduce uniform bank legislation for the country, as no such legislation had been introduced since the unification of the country in 1910. Following on this proposal, the Government obtained the services of Sir Henry Strakosch, a British banker, to effect the recommendations of the Gold Conference. Sir Henry was instrumental in ensuring support for his proposal for the establishment of a domestic central bank.

Support for the establishment of a central bank was not unanimous. Of interest is the view of Mr H C Jorrissen, at the time General Manager (Chief Agent) of De Nederlandsche Bank voor Zuid-Afrika, that the timing was not right for the establishment of the SARB. In January 1921 he, nevertheless, accepted the position of first Deputy Governor of the SARB. Likewise Mr J P Gibson, at the time Joint General Manager of Standard Bank in South Africa, expressed his opposition to the proposal, but nonetheless accepted an appointment to the Board of the SARB.

On 31 March 1920 a Select Committee, consisting of ten members of Parliament, was appointed to examine the practicalities of establishing a central bank. The Labour Party proposed the formation of a State Bank, modelled on the Commonwealth Bank of Australia, which would issue the nation's credit at a nominal rate of interest (two thirds of 1 per cent). The governing South African and Union Parties recommended that the advice of Sir Henry Strakosch be accepted and that a privately owned central bank (similar to the Federal Reserve Banks in the US) be established. The latter proposal was adopted on 2 August 1920 by 69 votes to 22. The adoption of this proposal also implied the adoption of the Currency and Banking Act, 1920 and provided, *inter alia*, for the establishment of a central bank with the power to issue domestic banknotes for a period of 25 years. In 1944 this period was extended in perpetuity.

The legislation providing for the establishment and operations of the SARB was based on the legislation of the Federal Reserve Banks in the US and of the Charter of the Bank of Java (today the Bank of Indonesia), as the legislation of these two institutions was drafted not long before the establishment of the SARB.

KEYNES AND SOUTH AFRICA

R. W. K. Parsons*

Keynes and South Africa are summed up in the wider impact of his thinking, his friendship with Jan Smuts, and his famous attack on our principal export — gold — as a 'barbarous relic'. 'It may be that, never having loved gold,' wrote Keynes, 'I am not so subject to disillusion' (*Collected Writings* [CW], vol. IX, p.362).

South Africa was, of course, at the periphery of Keynes's life, but the centenary of his birth creates an opportunity to record and collate some points of interest to this country.

1 KEYNES AND SMUTS AT VERSAILLES

Keynes and Smuts met for the first time in 1919 at the conclusion of the First World War at the Peace Conference at Versailles. Smuts was 49 and Keynes 35. Jan Smuts and Louis Botha were the South African representatives. Keynes was the principal British Treasury representative at the Peace Conference — and was deeply involved in the negotiations. 'Keynes carries a great load of responsibility,' Austen Chamberlain wrote to the British Prime Minister (Lloyd George), 'and you will understand that there are times when he feels that the right of access to a Minister on the spot is really necessary for the discharge of his duties' (CW, vol. XVI, p 450). In the absence of any British minister in Paris at that time, it was arranged at Chamberlain's request that Keynes might consult Smuts when he was in need of guidance.

Smuts and Keynes became good friends, sharing a growing distaste for the way in which the peace negotiations were developing into an unduly harsh and vindictive treatment of Germany. 'Squeeze her till the pips squeak' was the slogan of the victorious nations. 'Poor Keynes often sits with me at night after a good dinner and we rail against the world and the coming flood,' wrote Smuts. 'And I tell him this is the time for the Griqua prayer (the Lord to come himself and send not his Son, as this is not a time for children). And then we laugh, and behind the laughter is Hoover's terrible picture of 30 million who must die unless there is some great intervention. But then again we think things are never really as bad as that; and something will turn up, and the worst will never be. And somehow all these phases of feeling are true and right in some sense' (Hancock, 1962, p. 521).

As the final terms of the Peace

*I am indebted to Dr J. H. de Loor, Director-General of Finance, and Professor M. Truu of Rhodes University, for access to unpublished documentation.

The name chosen for the central bank of South Africa, the South African ‘Reserve’ Bank, reflects reference to the Federal ‘Reserve’ System, as this name was previously used only in the US. Subsequently, the word ‘Reserve’ has been used in the names of the central banks of Peru (in Spanish, *Reserva*), established in 1922; New Zealand, established in 1933; El Salvador (in Spanish, *Reserva*), established in 1934; India (1935); Australia (from 1945); Malawi (1964); Zimbabwe (originally the central bank of Rhodesia) (1964); Fiji (1973); Vanuatu (1980); and Tonga (1989).

The SARB opened for business on 30 June 1921, which makes it the oldest central bank in Africa. The first banknotes were issued to the public on 19 April 1922. Accordingly, commercial banks were instructed to cease issuing or reissuing their own banknotes with effect from 30 June 1922. This confirmed the achievement of one of the primary objectives envisaged for the SARB at the time of its establishment.

The achievement of the second primary objective, namely the restoration of the gold standard at the pre-war rate of exchange, has a somewhat more chequered history. At the time of its inception, the SARB had to deal with a situation where the country was nominally on a gold standard, but the system was effectively suspended. Government could issue gold certificates in exchange for gold bullion or specie or banknotes, but declare the certificates non-convertible, albeit only for a limited period.

The SARB’s approach to monetary policy after its inception in 1921 was, therefore, to apply credit and interest rate policies aimed, in orthodox gold standard fashion, at bringing about the necessary conditions for an eventual return to such a standard. South Africa reintroduced the gold standard at the pre-war conversion rate on 18 May 1925. This put the South African pound on par value with the pound sterling, as the UK had returned to a gold standard, also at the pre-war conversion rate, on 25 April 1925.

The US, and subsequently many other countries, entered a period of sharp contraction in economic activity and price deflation, generally known as the ‘Great Depression’, following a crash in the prices of shares on the New York Stock Exchange in October 1929 and the subsequent curtailment of credit. The first use of the terminology ‘depression’ to describe the prevailing economic conditions is ascribed to US President Herbert Hoover. This terminology was used in 1930 because it sounded less frightening at the time than words such as ‘panic’ or ‘crisis’ to describe the economic situation. Amid these depressing economic conditions, the UK suspended the gold standard on 21 September 1931. South Africa also suffered the consequences of the worldwide depression but, nevertheless, decided to retain the gold standard independently from the UK. Full convertibility of banknotes for gold was retained and no restrictions were placed on the export or import of gold, resulting in large gold exports from South Africa.

Treaty unfolded, Keynes and Smuts were drawn even closer together in their opposition to what was happening — but they were powerless to effect any modifications. Smuts commented bitterly about Lord Balfour, the British Foreign Secretary: 'Balfour was a tragedy, a mere dilettante, without force or guidance, when a strong British Foreign Minister might have saved the whole situation' (Brendon, 1979). Keynes spelled out to Smuts the financial and economic implications of the proposed Peace Treaty. Both believed that the Treaty, if not modified, would lead to a second big war in the future. For Smuts, too, with Louis Botha at his side, Vereeniging was haunting Versailles (Engelenburg, 1929, p. 236). Towards the end, Keynes resigned from the British delegation, and Smuts reluctantly, and under protest, signed the Treaty on behalf of South Africa on June 28, 1919.

Smuts wrote to Keynes gently chastizing him for abandoning the Peace-talks but urging him to write an account, not for the specialist but for the plain man, 'of what the financial and economic clauses of the Treaty actually mean,' and expressing his continued disquiet at the outlook (Hancock, p. 533). With this and other encouragement, Keynes began to write his famous *The Economic Consequences of the Peace*, and was not put off when a few weeks later Smuts had changed his mind. Now in a mood of 'not bitterness, but faith', he wanted Keynes to desist from a frontal attack on the Treaty. 'After giving the matter my closest consideration, I have seen no great profit in a regular attack on the Treaty . . . better be constructive,' he wrote. 'You will find many opportunities to help the world, especially when the real trouble over the reparation and financial clauses begins with Germany' (Hancock, p. 547). But by now Keynes's commitment to his book was beyond recall. He promised Smuts an early copy. Smuts was depressed when he read it but thought there was a note of hope 'not based on any of the obvious factors in the situation, but on the incalculable power of good' (Van der Poel, 1966). Many years later, after Keynes's death, Smuts remarked to the late Sir Roy Harrod that 'the portrait of President Wilson was absolutely truthful but Keynes should not have written it; after all Wilson was our friend' (Harrod, 1963, p. 260).

A postscript to the Peace Treaty controversy was a subsequent attack on Smuts in England and South Africa — within two years of the signing of the Treaty — holding him mainly responsible for the war pensions proposal, i.e. the inclusion of war pensions in reparations. Keynes sprang to Smuts's defence in correspondence, saying that, although it had been unwise for Smuts to have become involved in the pensions issue, 'it is monstrous to believe that you were anything but the leading champion for views of sanity and reason on this issue at the Conference' (Hancock, p. 542).

The gold standard controversy duly developed into a political issue, with the Government of the day supporting it, and the opposition arguing that the gold standard should be abandoned and the domestic currency linked to the pound sterling. Owing to increased capital outflows in December 1932, South Africa abandoned the gold standard on 28 December 1932. This was considered a temporary emergency measure and South African banknotes continued to carry a promise of convertibility until 1992. Analysing the situation with the benefit of hindsight shows that South Africa should have followed the UK in abolishing the gold standard in September 1931. The policy of maintaining the gold standard exacerbated the domestic depression as the SARB had to follow a contractionary monetary policy, thereby aggravating economic hardship.

2 IMMEDIATE POST-FIRST WORLD WAR PERIOD

Towards the end of 1919 Keynes was involved with Mr (later Sir) Henry Strakosch in plans to establish a new company to sell South African gold. They felt that existing marketing arrangements could be profitably improved. This had the blessing of Smuts. Finally, it was decided not to go ahead until the South African government's currency policy had been more clearly defined. South Africa was also in Keynes's mind, of which we get a tantalizing glimpse, when he wrote in response to a query from Dr Samuel Evans in Johannesburg:

> I presume that the fact of South African Sterling being linked by the exchange to British Sterling is the fundamental cause of the loss of gold from South Africa. As a gold sovereign is worth about 23s 6d British Sterling, it is obviously profitable to remit to South Africa, obtain gold coins there, so long as the expenses of smuggling are not so high as to eat into all the profit. It follows that, so long as British Sterling is depreciated, the linking up of a value of South African Sterling with it must bring a tendency into existence for South Africa to be drained of gold. (Unpublished letter, 24 October 1919.)

Early in 1920, Smuts approached Keynes to visit South Africa for two months to assist in formulating our currency policy, but Keynes was unable to accept the invitation due to other commitments. Instead, he recommended Henry Strakosch for the task, who together with Arthur Gillett, was involved in drafting legislation that year to set up a central bank in South Africa.

Later in 1920 Smuts requested Keynes's help in choosing a Governor for the new South African Reserve Bank, saying that 'we are very anxious to secure the right man for Governor of the Bank' and asking Keynes to be a member of the selection committee, with Strakosch and others. Keynes agreed to serve, and later wrote to Smuts that 'it is a difficult post to fill, and well qualified candidates are scarce; but we met yesterday, and there are good prospects, I think, of a strong appointment' (CW, vol XVII, pp. 200-201). Eventually Mr W.H. Clegg, who although from the Bank of England had been born in Bloemfontein, was appointed and was Governor for the period 1920-31.

3 THE TWENTIES AND THIRTIES

Keynes and Smuts kept up an occasional correspondence over the next few years. The revision of the Peace Treaty and the state of Europe were the subjects raised in this long-distance exchange of views. Keynes also wrote to congratulate Smuts on his speech on the future of Europe to the South Africa Club Dinner in London towards the end of 1923 — 'something to frighten France' was what Keynes wanted, and got. Keynes, Smuts and the German expert, Carl Melchior, met in London at the time to discuss the prevailing economic and political conditions in Germany.

2. A brief overview of developments between 1933 and 2011

2.1 Monetary policy since 1933

Because the gold standard was abolished by the end of 1932, it was necessary for the South African authorities to consider a new monetary policy framework for the country early in 1933. It was decided to link the value of the domestic currency to that of the pound sterling, which implied, *inter alia*, that the Union of South Africa became part of the Sterling Area.

At the outbreak of World War II in 1939 South Africa retained its membership of the Sterling Area and the country accepted the exchange control arrangements pertaining to Sterling Area countries. Domestic monetary policy was also supplemented by an extensive system of direct control measures to curb inflationary pressures during the war. At the end of World War II South Africa became part of the international exchange rate system agreed upon in terms of the Bretton Woods agreement, which implied that the external value of the currency and exchange rate stability remained the primary focus of monetary policy, but at the same time retained its membership and the exchange controls of the Sterling Area. In terms of the Bretton Woods agreement of fixed (but adjustable) exchange rates, the US dollar served as anchor currency for the international exchange rate system. The value of currencies was linked to the US dollar which was, in turn, linked to gold at a fixed price of US$35 per fine ounce.

South Africa left the Commonwealth when the country became the independent Republic of South Africa on 31 May 1961. A new decimal currency system with R2,00 equal to £1 was introduced in February 1961, replacing the previous system comprising the pound, shilling and pence (£/s/d). Exchange control measures initially introduced in terms of the Sterling Area agreement were expanded and adapted for South Africa's unique circumstances, with the introduction of restrictions on foreign investment by residents and on the repatriation of domestic investments by non-residents. In addition, South Africa adopted direct monetary controls aimed at limiting credit demand by the middle of the 1960s, which included the use of credit controls, credit ceilings and deposit rate control.

The Bretton Woods agreement collapsed in 1971 after inflationary pressures had developed in the US in the wake of the Vietnam War. In reaction to the collapse of the Bretton Woods agreement, major industrialised countries introduced a system of floating exchange rates. South Africa pegged the exchange rate of its domestic currency initially to the pound sterling, then to the US dollar, then to a basket of currencies and again to the US dollar (albeit at varying levels after formal devaluations in December 1971 and in September 1975), before a system of managed floating was introduced from January 1979.

South Africa was inevitably drawn into the maelstrom of events leading up to the crisis surrounding the gold standard in 1931. Almost immediately after Britain left the gold standard in September 1931, Keynes approached a director of the Bank of England asking whether it would 'not be a good plan for the Bank of England to fix up a definite arrangement with the South African mines to buy their entire output of gold on the basis of the dollar quotation on the date of delivery?' (CW, vol. XX, p. 621).

Keynes did not believe that South Africa could remain on the gold standard for long once the majority of countries had abandoned it, and said so publicly. On the 20th October 1931 he wrote: 'One wonders how long South Africa will last' (CW, vol. XXI, p. 4). And on the 6th January 1932: 'South Africa will find economic life under the gold standard increasingly impracticable' (p. 43).

After South Africa had, indeed, left the gold standard in December 1932, the resulting devaluation of the South African pound clearly foreshadowed a substantial increase in the revenues of gold mining companies. Commenting early in 1933 on the prospects for the London Stock Exchange, Keynes wrote that 'this boom is an event of first-class magnitude . . . the speculators' spark — though no use for driving the power system of the world — may be just what we need' to end the international slump (pp. 227-28).

Between 1929 and 1934 Smuts made four visits abroad, including to the ill-fated 1933 World Economic Conference in London. The photograph reproduced with this article is the only known extant one of the two men together, and was taken at the 1933 Conference. The photograph reflects a meeting between equals. Although no specific correspondence has been found on the subject, it is safe to surmise that Smuts's view on the gold standard controversy in South Africa might well have been influenced by Keynes. It is known that Smuts had been overseas just prior to campaigning against Hertzog in 1932, which — together with Tielman Roos's intervention — eventually led to Fusion in 1933. Given Keynes's negative views on gold and the gold standard, it is not difficult to guess at what his advice would have been to Smuts during that period.

On the eve of the Second World War Keynes was wrong, and Smuts right, about the inevitability of hostilities. On 14 August 1939 Keynes could still write that 'it is difficult to see how some sort of appearance of a crisis in the next month can be avoided, but I shall be extremely surprised at a warlike conclusion' (CW, vol. XXVIII, p. 131). War broke out on September 1st, and both Smuts and Keynes faced new responsibilities in their respective spheres.

4 THE SECOND WORLD WAR AND AFTER

During this phase Keynes was

The SARB replaced direct controls as the main instrument of monetary policy with market-orientated monetary policy from 1 September 1980. In terms of the revised monetary policy framework, the level of interest rates, as a reflection of the true cost of borrowed funds, played (and continues to play) a much more pivotal role than before. During 1986 the SARB announced the adoption of specific growth targets for a money supply aggregate as the country's monetary policy framework. The SARB adopted a broadly defined money supply growth target and set low-profile and adjustable, rather than fixed, targets. Money supply growth targets were replaced with money supply growth guidelines in the early 1990s. Eclectic monetary policy was adopted in 1996, which implied that the SARB monitored a wide range of economic indicators in the formulation of monetary policy.

After democratic elections in 1994 in South Africa the authorities announced a policy of gradually abolishing exchange controls. In 1995 the financial rand, an investment currency for non-residents, was abolished. This was followed by the gradual relaxation of exchange controls on residents, which included an exchange control amnesty for natural persons: 43 176 individuals applied for and received amnesty in respect of previously unauthorised assets amounting to some R45 billion held outside the country.

Bank rate was replaced with the repurchase (repo) rate on 13 March 1998 as the rate at which the SARB provides liquidity to South African banks. South Africa adopted inflation targeting as a monetary policy framework in 2000. At the time, inflation targeting was used by 12 countries and is currently used by the countries listed in Table 4 on pages 135 and 137 of this booklet.

The inflation rate used for targeting purposes was initially specified in terms of changes in the CPIX. South Africa adopted a target range of 3 to 6 per cent per annum. Minor changes to the targeting framework have been announced from time to time since 2000. It was announced in October 2008 that changes in the CPI, rather than changes in the CPIX, would be used for inflation-targeting purposes from January 2009, although the target range of 3 to 6 per cent was retained.

2.2 Institutional structure

Since the inception of the SARB it has been necessary to amend its enabling legislation from time to time to take cognisance of changed circumstances. After the initial legislation, the Currency and Banking Act, 1920, was amended four times before it was replaced with the South African Reserve Bank Act, 1944 (Act No. 29 of 1944). One of the main considerations in the adoption of new legislation in 1944 was that the Currency and Banking Act, 1920 entrusted the SARB with monopoly powers to issue banknotes for only preoccupied with the economics of war, and with reconstruction in the post-war period. There are frequent references in his memoranda and correspondence to the need to draw on Commonwealth gold stocks, especially those of South Africa, to finance gold reserves, are not increasing them, and the whole of it, including South Africa, adheres loyally to the pooling of dollar reserves (CW, vol. XXIII, p. 246). However, the United States queried with Britain why lend-lease aid was being extended to South Africa

John Maynard Keynes with Field-Marshal Jan Smuts at the World Economic Conference, 1933. *By courtesy of Oxford University Press.*

the war effort. Obviously South Africa, as part of the Sterling area, also featured in the 'lend-lease' system which had been worked out between Britain and the United States.

Keynes, writing in 1942, conceded that 'the Sterling area has pooled its dollar reserves, but not its gold reserves. This lies behind the decision of South Africa to keep the whole of their reserves in gold. But the rest of the Sterling area, whilst not reducing their 'when South Africa was visibly piling up great quantities of gold and clearly had no need of such assistance' (CW, vol. XXIV, p. 262). Keynes said that there were 'strong political reasons' for going gently with South Africa. Early in 1944 South Africa was asked to pay for all non-munition supplies. The question of 'sterling balances' — the debts Britain had incurred to foreigners in the course of waging war — was to dominate post-war financial ar-

25 years, that is, until 1945. As these powers were about to expire, it was necessary to reconsider the SARB's legislative framework.

The Act of 1944 was amended nine times before its replacement by the South African Reserve Bank Act, 1989 (Act No. 90 of 1989). Since 1989 this Act has been amended a number of times, also to ensure that it remains aligned with the Constitution of the Republic of South Africa, which makes provision for a central bank for the Republic of South Africa. South Africa's Constitution, 1993 (Act No. 200 of 1993) entrusted to the SARB the protection of the internal and external value of the currency in the interest of balanced and sustainable economic growth in the Republic of South Africa.

This objective was changed in the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) by entrusting to the SARB the protection of the value of the currency in the interest of balanced and sustainable economic growth in the Republic.

Initially, the Act of 1989 entrusted to the SARB, as primary objectives, monetary stability and balanced economic growth in South Africa. The primary objective of the SARB in the Act was changed in 1996 to the protection of the value of the currency of the country in the interest of balanced and sustainable economic growth, thereby aligning the Act with the Constitution of 1996.

The most recent amendments to the South African Reserve Bank Act took place in 2010. These amendments formalised the practice that the SARB has a governance board and not a management or a policy board, and provide for a clear demarcation between the powers of the Board and of the Governor and deputy governors as the executives of the SARB.

Other legislative amendments included
- the expansion of the Board from 14 to 15 members;
- some changes to the areas of expertise of non-executive directors elected by shareholders, which now cover agriculture, commerce or finance, industry, labour, and mining;
- the establishment of a Panel appointed to assess whether candidates nominated for election to the Board by shareholders are "fit and proper" to serve on the Board;
- a comprehensive description of disqualifications for service as Board members;
- provision for the wider public to nominate people as candidates for election to the Board; and
- the inclusion of a definition for "associate shareholders", which limits the ability of shareholders to concentrate votes beyond permissible limits.

rangements and policy. Smuts and Keynes met for the last time in London in 1944.

Although after the war ended Keynes explained to the United States that South Africa's large gold holdings should be seen in the context of 'the great internal political difficulties which the South African Government faced by reason of its participation in the war' (ibid. p. 532), he was strongly of the view that this country was not carrying its 'fair share' of the financial burden compared with other parts of the Commonwealth. Hence, when Keynes heard that the South African Minister of Finance, Jan Hofmeyr, was going to London at the end of 1945 to arrange for the final financial settlements, Keynes told a British Treasury official that he hoped 'you are collecting a vast assemblage of claims, complaints and every other inducement . . . South Africans have grossly refrained from playing their full and proper part (ibid. p. 532).

The Bretton Woods and Savannah Conferences, leading up to the formation of the International Monetary Fund and the International Bank for Reconstruction and Development in 1945, entailed much background negotiations in the two years leading up to the final decisions. In the course of these discussions, Keynes met, and respected, both the late Dr M.H. de Kock, then Deputy Governor of the Reserve Bank, and the late Dr J.E. Holloway, then Secretary for Finance. The latter is credited by the late Dr W.J. Busschau with having 'much to do with the insertion in the IMF Charter of the clause providing for the revaluation of gold' (Friedlander, 1970). Keynes died in April 1946, a few days before Smuts arrived in London for a Conference of Commonwealth Prime Ministers.

5 CONCLUSION

All over the world, and in Cambridge itself, the centenary of Keynes's birth has provided another opportunity to place him in perspective. He was born in the year that Marx died — 1883. Marx tried to destroy capitalism; Keynes wanted to save it. It is 37 years since his death, and the debate rumbles on, even though the 'Age of Keynes' is over. He, above all, would not have expected many of his arguments to apply to conditions for which they were not designed.

History will judge his ultimate status in the evolution of economic thought. 'While I put him in a class with Adam Smith and Ricardo,' said the late Sir Roy Harrod in 1950, 'I express doubt whether his star, as an economist, was quite of their magnitude. Yet perhaps that is not the last word that can be said' (Harrod, 1963, p. 467). Closer home, writing at about the same time, Professor H.M. Robertson of the University of Cape Town who, like Harrod, had also been a former student of Keynes, thought that 'in truth or in error, he was a great economist' (Robertson, 1950).

Clearly Smuts shared this view. Keynes's brother, the late Sir Geoffrey

3. Mission statement of the South African Reserve Bank

3.1 Introduction

When the SARB was first established it had the achievement of two clear goals in mind, which can be regarded as its mission at the time. The SARB's first aim was to restore and maintain order in the issue and circulation of domestic banknotes, a function that it still performs. Secondly, the SARB aimed to restore the gold standard, a goal that was achieved from 1925 to 1932.

In 1990 the SARB accepted a formal mission statement for the first time, which stated that its aim was to protect the internal and external value of the rand. This objective, albeit in a revised format (i.e., to protect the value of the currency), is also contained as the primary goal of the SARB in the Constitution of the Republic of South Africa, 1996. Between 2000 and 2004 the SARB's mission statement described its primary goal in the South African economic system as *the achievement and maintenance of financial stability*. From 2005 it was changed to *the achievement and maintenance of price stability*.

The Bank endeavours to remain relevant, effective and viable amid constant change in a complex environment.

3.2 Primary purpose

The primary purpose of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in promoting financial stability.

To this end, the SARB is, among other functions, responsible for
- formulating and implementing monetary policy;
- issuing banknotes and coin;
- supervising the banking sector;
- ensuring the effective functioning of the national payment system;
- managing official gold and foreign-exchange reserves;
- acting as banker to the government;
- administering the country's remaining exchange controls; and
- acting as lender of last resort to provide liquidity assistance in exceptional circumstances.

Given its national importance and unique influence on the economic wellbeing of the general public in South Africa, the SARB promotes good corporate governance. The SARB enjoys operational autonomy and is

Keynes and South Africa

Keynes, writing of a meeting with Smuts, reports: 'When I was introduced he seized hold of the lapels of my jacket and talked with great kindness of his admiration for my brother ' (Keynes, G., 1981, p. 334). And Smuts himself wrote in 1949 in a letter to Roy Harrod: 'Brilliant in intellect, high minded, and of the highest personal integrity, he was an ornament to the society that produced and nurtured him' (Van der Poel, vol. VII, p. 288).

But there were other outstanding economists in the world to interest Smuts — why Keynes? Here may be a part of the answer. Keynes once claimed that 'the master-economist must possess a rare *combination* of gifts. He must reach a high standard of talents not often found together. He must be mathematician, historian, statesman, philospher — in some degree . . . No part of man's nature or his institutions must be entirely out of his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet as near the earth as the politician' (CW, vol. X, p. 173). Keynes was a polymath; Smuts had his 'holism' and own manysidedness. Empathy and friendship were inevitable. It drew Keynes, in a small way, into our economic history — a minor piece of *Africana* in the evolution of policymaking in South Africa.

Johannesburg

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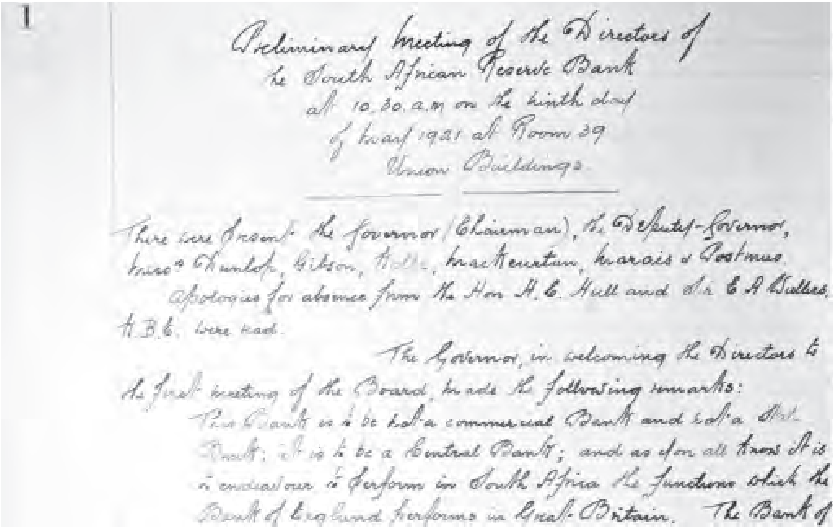
directly accountable to Parliament. The SARB is not a profit-driven institution, but strives to function efficiently. A number of corporate values specific to successful central banks apply to the SARB. These include

- maintaining trustworthiness and credibility;
- demonstrating exceptionally high degrees of integrity; and
- maintaining professionalism and excellence in the delivery of services.

In the final instance the SARB aims to be a respected institution and a beacon of stability that follows an agile, responsive and flexible approach in its operations. The SARB aims to contain inflation in terms of its policy focus on inflation targeting. The problems associated with inflation are described in Annexure A.

An extract from the minutes of the first meeting of the SARB's Board of Directors held on 9 May 1921 at the Union Buildings.



1

Preliminary meeting of the Directors of the South African Reserve Bank at 10.30 a.m on the ninth day of May 1921 at Room 39 Union Buildings.

There were present the Governor (Chairman), the Deputy-Governor, Messrs Dunlop, Gibson, [illegible], MacKeurtan, Marais & Postmus.

Apologies for absence from the Hon H. C. Hull and Sir E. A. Walton, K.B.E. were read.

The Governor, in welcoming the Directors to the first meeting of the Board, made the following remarks:

This Bank is to be not a commercial Bank and not a State Bank: it is to be a Central Bank; and as for all times it is to endeavour to perform in South Africa the functions which the Bank of England performs in Great Britain. The Bank of

Plaque at the Union Buildings.

4. Ownership, legislative framework, autonomy and ultimate accountability

When the SARB was established in 1921, the majority of central banks worldwide had private shareholders (or 'stockholders' as they were occasionally called). A similar structure was introduced in South Africa. Internationally, however, this approach has changed since the 1930s. Nationalisation of central banks during this period of economic hardship amid the Great Depression commenced with the central banks of New Zealand in 1935 and Denmark in 1936. After World War II, nationalisation of central banks continued in the wake of state ownership of key industries in numerous countries.

The structure of shareholding in the SARB has not been amended since its inception. It is a juristic person in terms of its own Act. The SARB and a small number of other central banks (Belgium, Greece, Italy, Japan, Switzerland, Turkey and the Federal Reserve Banks in the US) have shareholders other than the governments of their respective countries.

The SARB has some 650 shareholders. Shares were delisted from the JSE on 2 May 2002 as amendments to the listings requirements of the JSE made continued listing impossible. Since delisting, the shares have predominantly been traded over the counter. Except for the provision in the Act that no individual shareholder may hold more than 10 000 shares of the total number of 2 000 000 shares issued, there are no other limitations on shareholding. The dividend is limited to 10c per share per annum (in total R200 000 per annum).

The SARB annually holds an ordinary general meeting of shareholders at its Head Office building in Pretoria. On this occasion the Governor, as Chairperson, delivers an annual address on matters covering the state of the economy, certain aspects of monetary policy and the operations of the SARB, which are widely reported in the media. At this meeting the SARB tables a comprehensive *Annual Report* on its operations and finances for approval by shareholders. The *Annual Report* also contains a discussion of monetary policy.

Sections 223 to 225 of the Constitution of the Republic of South Africa, 1996; the South African Reserve Bank Act, 1989; and the regulations framed in terms of this Act provide the enabling framework for the SARB's operations. The SARB enjoys a considerable degree of autonomy in the execution of its duties. In terms of section 224 of the Constitution, 1996, *the South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank and the Cabinet member responsible for national financial matters.* The independence and autonomy of the SARB are, therefore, entrenched in the Constitution.

The first Board members of the Bank

Mr W H Clegg (Governor), appointed on 17 December 1920
Mr H C Jorissen (Deputy Governor), appointed on 1 January 1921

Non-executive directors all appointed with effect from 9 May 1921:

- Mr W Dunlop
- The Hon H C Hull
- Mr J P Gibson
- Mr G A Kolbe
- Mr G M Mackeurtan
- Mr S J Marais
- Mr (later Dr) J Postmus
- Sir Evelyn A Wallers

Board members, other than the Governor and the Deputy Governor, were reimbursed any amount expended on rail fares to attend Board meetings and were paid a subsistence allowance of two guineas (£2/2/–) per night "... necessarily absent from home on the business of the Bank".

Mr Mackeurtan is the Board member who served for the shortest period in the SARB's history, as he passed away on 31 March 1922.

The longest-serving member (as Deputy Governor, Governor, Chairperson and non-executive director) is Mr M H de Kock, who served on the Board for a period of 39 years.

Mr R H Parker, who served for 31 years, is the non-executive director with the longest period of service on the Board.

The oldest person ever to serve on the Board is Dr W D Baxter, who served as non-executive director until the age of 86.

Decision to commence with central bank business on 30 June 1921

The SARB celebrates its 90th Anniversary on the date that it opened for business in 1921, namely 30 June. This date for opening the SARB and commencing with business is, however, not prescribed in any legislation.

The Currency and Banking Act, 1920 (Act No. 31 of 1920), which provided for the establishment of the SARB, was promulgated on 19 August 1920, but put into operation only on 17 December 1920. The first Governor (Mr W H Clegg) commenced duties on 17 December 1920 and the first Deputy Governor (Mr H C Jorissen) commenced duties on 1 January 1921.

The SARB has been entrusted with the overarching monetary policy goal of containing inflation. The SARB can use any instruments of monetary policy at its disposal to achieve this monetary policy goal. This implies that the SARB has instrument independence in monetary policy implementation, but not goal independence in the selection of a monetary policy goal.

The Governor holds regular discussions with the Minister of Finance, and meets periodically with members of the Parliamentary Portfolio and Select Committees on Finance. In terms of section 32 of the Act, the SARB publishes a monthly statement of its assets and liabilities, and submits its *Annual Report* to Parliament. The SARB is, therefore, ultimately accountable to Parliament.

The first two (and most senior) officials of the SARB (Mr E W Cattell, the Chief Cashier and Mr A Burns, the Secretary) were appointed on 9 May 1921.

In the deliberations at the first meeting of the Board of the SARB (called preliminary meeting of the Board) on 9 May 1921, the Governor explained that the Currency and Banking Act merely prescribed certain dates that should inform the decision of the date on which the SARB should commence with its business. As three of the first non-executive directors were appointed only until 1 July 1921, it was necessary for the SARB to commence with business before that date. It seems that the decision to open the SARB on 30 June 1921 was informed, in the final analysis, by this expiry date of the appointment of these non-executive directors.

A cancelled early share certificate, issued originally on 4 April 1923.


CERTIFICATE OF STOCK

SOUTH AFRICAN RESERVE BANK

This is to Certify

CANCELLED

5. Formulation and implementation of monetary policy

5.1 Formulation of monetary policy

The formulation of South African monetary policy is entrusted to the MPC of the SARB. The Governor, deputy governors and four other senior officials of the SARB serve as members of the MPC. The SARB's refinancing system is the main mechanism used for the implementation of monetary policy. The repo rate is the rate of interest charged on such refinancing. The repo rate is set and reviewed at meetings of the MPC. The timetable for meetings is announced before the beginning of each year. The general public is therefore aware of the meeting dates of the MPC well in advance. Typically six meetings are held annually. However, should the need arise, the MPC can convene unscheduled meetings, which meetings will be pre-announced.

Economic developments are monitored continually between meetings, particularly those developments that have a direct impact on inflation and, therefore, on the monetary policy stance. Members of the MPC receive frequent briefing updates and consider research outputs from various domestic and international sources.

Preparation for scheduled MPC meetings commences three to four weeks before the date of the meeting, when members of the MPC consider the assumptions for forecasting inflation. A "suite of econometric models" is used for the purpose of forecasting inflation. Although great emphasis is placed on the forecast, it should be noted that there is no mechanical relationship between the forecast and monetary policy decisions. While forecasting is a tool used to assist with monetary policy decision-making, the final decision about the level of, and changes to, the repo rate is not based only on the forecast, but will be informed by the collective judgement of MPC members.

In reaching its interest rate decision, the MPC considers various factors that influence inflation, for example (in alphabetical order), changes in administered prices; changes in wages, productivity and unit labour cost; components of domestic and external demand; exchange rate developments; import prices, money supply and credit extension; oil prices; and the expected output gap (the gap between actual and potential output). The MPC has no level or target for any of these variables and the rate of inflation is the benchmark for monetary policy decisions. Decisions are made by consensus and MPC members do not vote. The decision of the MPC is announced in a media statement and released at a televised media conference attended by all MPC members, with a simultaneous webcast on the SARB website.

Salaries: Governor and Deputy Governor

At the time of the appointment of the first Governor, his salary was set at £5 000 per annum. The Deputy Governor's salary was set at £2 500. From 1 January 1923 the salary of the Deputy Governor was adjusted to £3 000 per annum.

The Pilgrims and Sabie News of Friday, 20 July 1923, carried a report of a speech delivered by Mr Tielman Roos on Saturday, 14 July 1923. At the time Mr Roos was a leading member of the Nationalist Party, which was the main opposition party. The newspaper states that "(r)eferring to the management of the Reserve Bank, Mr Roos avowed that one man could easily manage that institution and he needn't be paid more than £2 500 a year". The SARB then had a staff complement of 28 people.

Mr Roos's proposal was not implemented. Neither the salaries nor the staff complement were adjusted. The salaries of the Governor and the Deputy Governor were adjusted in 1945, when the salary of the Governor was increased from £5 000 to £6 000 per annum and the salary of the Deputy Governor to £3 500 per annum. In 1961 these salaries were converted to R12 000 per annum for the Governor and converted and adjusted to R8 004 per annum for deputy governors.

In 1963 the Governor's salary was adjusted to R15 000 per annum, and that of deputy governors to R10 008 per annum. Since 1963 the salaries of the Governor and Deputy Governors were increased on a more regular basis. This is evidenced, *inter alia*, by the fact that Mr H O de Villiers, a previous Deputy Governor who passed away in 2011, retired at a salary of R26 400 per annum in 1976.

5.2 Implementation of monetary policy

The refinancing system is the mechanism used by the SARB to implement monetary policy. Through the refinancing system the SARB provides liquidity to banks, thereby enabling them to meet their daily liquidity requirements. In this context, 'liquidity' bears reference to the available balances of banks used for settling interbank claims through the SAMOS system, over and above their minimum level of statutory reserves. In terms of the South African Reserve Bank Act, 1989, and the regulations framed in terms of the Banks Act, 1990 (Act No. 94 of 1990), and the Mutual Banks Act, 1993 (Act No. 124 of 1993), banks are required to hold in cash a prescribed percentage of their total liabilities, as adjusted to exclude certain liabilities, on their cash reserve accounts at the SARB.

In terms of its monetary policy implementation framework, the SARB ensures that its key policy rate (the repo rate), remains effective by compelling banks to borrow a substantial amount (i.e., the liquidity requirement or money-market shortage) from the SARB by means of repo transactions on which they pay the repo rate as the rate of interest. The application of a statutory cash reserve requirement is the main instrument available to the SARB to create a structural liquidity shortage in the money market.

The repo rate influences money-market interest rates in two ways. Firstly, it has an influence on the cost of funding for banks. Secondly, the level of the repo rate reflects the monetary policy stance of the SARB. Banks link the level of their prime overdraft rates to the level of the repo rate and adjust their prime overdraft rates whenever the repo rate changes. The margin between the repo rate and the prime overdraft rate has been at 3,5 percentage points for some time. This linkage ensures that the repo rate influences the pattern and level of interest rates charged by banks, the general level of interest rates in the economy and, consequently, other economic aggregates such as money supply, bank credit extension and, ultimately, the rate of inflation.

To influence the level of liquidity in the system, the SARB transacts regularly through open-market transactions in the money market. Open-market transactions refer to trading in SARB debentures, longer-term reverse repos, foreign-exchange swaps, and the movement of central government and CPD funds between the SARB and the banking sector.

The SARB estimates the overall liquidity requirement of banks on a daily and weekly basis. The overall liquidity requirement is increased or decreased only by transactions between a domestically registered bank and the SARB. Transactions and transfers among the banks themselves or with businesses and the general public do not affect the overall liquidity requirement in the money market. In these liquidity estimates all transactions that either expand or contract the balances of banks at the SARB are taken into consideration.

The first building of the SARB. This building was located in Church Street East, between Andries Street and Church Square, in Pretoria. This building served as the SARB Head Office building from 1921 to 1931.

Plaque commemorating the site of the first SARB building in Church Street East. This plaque is somewhat confusing, as it commemorates the "First SA Reserve Bank", rather than the location of the first building of the SARB, as if South Africa might have had more than one central bank.

Such transactions include the flow of notes and coin outside the central bank; gold and foreign-exchange transactions; the flow of funds between the government's accounts held at the SARB and in the banking system; and open-market operations conducted by the SARB. These transactions are also reflected on the balance sheet of the SARB. As regards the balance sheet of the SARB, the following generally applies:

- An increase in a liability of the SARB increases the liquidity requirements of the banking sector
- An increase in an asset of the SARB decreases the liquidity requirements of the banking sector
- A decline in a liability of the SARB decreases the liquidity requirements of the banking sector
- A decline in an asset of the SARB increases the liquidity requirements of the banking sector.

The main refinancing (or liquidity-providing) facility available to banks is the weekly refinancing repo auction of the SARB, where liquidity is provided by means of a repo transaction. Banks borrow cash from the SARB against the security of eligible collateral, comprising all securities that qualify as 'liquid assets' in terms of the prudential liquid asset requirement. The weekly repo has a duration of one week. The weekly auction is conducted on Wednesdays, when the SARB invites banks electronically to tender for the amounts of refinancing (i.e., liquidity) that they need. The SARB publishes the estimated average liquidity requirement for the coming week.

Upon maturity, the transaction is reversed, that is, banks return the cash to the SARB in exchange for the securities. No actual flows of cash and securities take place. The accounts of banks held at the SARB are merely credited or debited, and the ownership of securities is transferred electronically via STRATE.

Although the main repo auctions provide the estimated required liquidity of banks for a week, daily square-off operations are entered into to absorb liquidity swings in the market. Such swings can be caused by, for instance, deviations from the expected changes in the value of notes and coin in circulation, movements in the accounts of the CPD, government spending and foreign-exchange transactions.

In the case of a daily shortage, further refinancing is provided, either by means of a supplementary repo auction (conducted at the repo rate) or an automated standing facility repo (conducted at a rate 100 basis points above the repo rate). With these transactions the SARB also provides liquidity to banks in exchange for qualifying securities. These transactions mature on the next working day.

The SARB can also absorb daily surplus liquidity from the market by means of a supplementary reverse repo auction (at the repo rate) or an automated standing facility reverse repo (at a rate 100 basis points below the repo rate).

1921

SOUTH AFRICAN RESERVE BANK

FIRST
ORDINARY GENERAL MEETING
OF STOCKHOLDERS
29 July, 1921

REPORT OF PROCEEDINGS

These transactions also mature on the next working day and imply that the SARB provides banks with securities as collateral on an overnight basis and pays interest on the cash it absorbs.

In addition to the supplementary auctions and standing facilities mentioned above, banks have access to their cash reserve balances at the SARB for liquidity management purposes, on condition that they adhere to the reserve requirements on an average basis over the relevant maintenance period.[1] If a bank uses some of its cash reserves for a day or two (thus falling below the required amount), it has to hold additional reserves in its reserve account with the SARB thereafter to ensure that it complies, on average, with the statutory reserve requirement. This arrangement provides an additional mechanism for banks to manage their short-term liquidity needs.

5.3 Management of official gold and foreign-exchange reserves

5.3.1 Rationale for central banks holding foreign reserves

Central banks generally hold foreign reserves – assets denominated in foreign currency – for a number of reasons. First, central banks hold foreign currency to fund foreign-exchange market operations that arise as part of their broad monetary policy functions. Holding foreign reserves, therefore, generally gives the central bank the option to buy or sell foreign exchange that could be used to influence the level of the exchange rate.[2]

Second, central banks hold foreign reserves for transactions purposes, for example, to fund demands for foreign exchange from the public sector, such as the Government wishing to repay a maturing foreign loan or to effect foreign payments. Third, holding foreign reserves serves as a buffer against international financial shocks or crises. With such holdings a central bank is able to provide liquidity in the event of extreme market movements in order to maintain investor confidence in markets. The last reason relates to giving confidence to investors and rating agencies that the country will be able to service its future foreign currency obligations.

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1 The term 'maintenance period' refers to the system of control used to ensure that banks comply with their statutory cash reserve requirements (currently 2,5 per cent of their liabilities as adjusted). Each maintenance period commences on the fifteenth business day of a month, and there are 12 such periods in a calendar year. During each of these maintenance periods every bank should keep cash reserve balances with the SARB that equal, on average, an amount equivalent to their cash reserve requirements as calculated at the end of the month preceding the respective maintenance period.

2 In the case of South Africa, which follows an inflation-targeting framework, the SARB does not intervene in the foreign-exchange market in an attempt to influence the value of the currency, towards a particular point or range. The SARB does, however, buy foreign exchange for purposes of reserve accumulation.

SOUTH AFRICAN RESERVE BANK

First Ordinary General Meeting of Stockholders, 1921

REPORT OF PROCEEDINGS

The Governor, addressing the meeting, said:

This is the first General Meeting of Stockholders of the Reserve Bank, and as the meeting has very little business to transact, perhaps you will endure with patience the few remarks which I feel it would be fitting for me to make on this historic occasion.

The South African Reserve Bank is the outcome of a conviction that has grown in thoughtful and reflecting minds in the Union during the last few years, that the increasing importance of South Africa in the world of commerce called for some elaboration in her banking machinery. It was felt that, however well the existing Commercial Banks had served her in the past, there was necessarily a lack of co-ordination in their activities which led to a too great profusion of credit at some times, and to a too great stringency at others. This was in no way the fault of the existing banks who, as separate and independent institutions, naturally revolved in their own separate and independent orbits. But there was a fault in the system—a fault which the South African Reserve Bank was ordained to remedy.

There may be some among the general public who have no very clear conception of the real meaning and functions of a Bank. A Bank may be compared to a reservoir. In old days there was no such thing as a public water supply, but every family had to make its own separate arrangements for getting water from well, stream, or river. Nowadays, huge reservoirs, or pools of water, are formed from the contributions of a thousand petty channels which would otherwise run waste into the Sea. In the same way the Banks of a country gather into a "pool" the current wealth of the people; and by this means are enabled to irrigate with the streams of credit the fields of industry and commerce.

5.3.2 Adequate level of foreign reserves

When the Bretton Woods system, essentially a system under which exchange rates were fixed, collapsed in the early 1970s, countries moved towards more flexible exchange rates and it was anticipated that foreign-exchange reserve requirements would be reduced. This has not proven to be the case, as many countries have still chosen to intervene in the foreign-exchange markets. Increases in exchange rate volatility may also have encouraged central banks to increase their holdings of foreign reserves.

The level of foreign reserves may be described as adequate when a central bank feels that it can achieve its selected objectives. While there are no universally applicable measures for assessing the adequacy of foreign reserves, specific country circumstances, for example, the exchange rate regime; foreign indebtedness and the maturity structure of foreign debt; the balance-of-payments position; the volatility of capital flows; the openness of the economy; and access to capital markets all impact on considerations regarding the adequacy of foreign reserves.

It should be noted that an adequate level of reserves, however defined, is required for almost every country that seeks to employ the savings of other nations to develop its own economy.

5.3.3 Evolution of reserve management

In 1994 a low level of gross reserves and an oversold forward book in foreign exchange held by the SARB resulted in South Africa running a large negative international liquidity position.[3] The so-called net open foreign currency position (NOFP) of the SARB was at around US$23 billion at its peak in 1998 before it was neutralised in 2003. The elimination of NOFP allowed the SARB to increase its foreign-exchange reserves, which were at a level of just over US$50 billion at the end of May 2011. The period of negative net reserves and low positive reserves forced the SARB to focus on liquidity management.[4] Over time, as reserves increased, the focus gradually shifted towards more active management of these reserves.

This move towards a higher level of sophistication in the management of reserves resulted in the introduction of the first external fund management programme in 1998, which was later expanded to include both official- and private-sector external fund managers, and a securities-lending programme with selected custodians. With its external fund managers the SARB embarked

3 The international liquidity position only moved into positive territory in 2003.

4 The SARB manages the official foreign reserves of South Africa by virtue of its powers and duties as spelt out in section 10(1)s of the South African Reserve Bank Act, 1989, namely to *perform such other functions of bankers and financial agents as central banks customarily may perform*.

This is the function of the ordinary commercial banks. Where then does the need for a Central Bank arise? I gather from remarks in the newspapers that some people think there is no need for a Central Bank, and I have read such expressions as "this ridiculously premature" Reserve Bank; "this Strakosch Bank," and so on. This opinon is the result of a lack of grasp of what a Central Bank really stands for. Just in the same way as banks are necessary for the development of the trade and industries of a country, so is it necessary that there should be a Central Bank or reservoir, to be in the same relation towards the other banks as they are towards the general community. When trade "booms" and prices are increasing and everyone in the commercial world is expecting to make his fortune, there is liable in the course of time to be a speculative overproduction of commodities.

Now as with the body of the individual, so with the body financial. An active and unrestricted circulation is essential to health. A stoppage is fatal. If goods which have been made with the help of Bank advances remain unsold, the Bank advances remain unpaid, and the power of the banks to make new advances to meet the trade requirements of the country becomes restricted, if not, for a time, entirely suspended.

In such circumstances each bank naturally tries to increase its reserve of gold, but if there is no Central Bank it can do so only at the expense of the other commercial banks. A crisis ensues, business languishes, traders come to grief, and a long period ensues of clearance and liquidation.

A Central Bank is the recognized means of mitigating the effects of these periodic crises, or of avoiding them altogether. If carefully and wisely managed it should have so husbanded its resources, that when the other banks find they have no more to lend the Central Bank should have the means of re-discounting their bills and so providing them with resources whereby the trade of the country can be carried on during the period of adjustment of prices.

In short, a Central Bank should be a Reserve Bank, and the South African legislature has wisely emphasized this special function of their Central Bank by naming it the South African Reserve Bank.

Now it may be asked, how it is that the Reserve Bank will have the power, which I have just described, of rediscounting for the other banks? In the first place it has its Capital, in the second place it holds the reserves of the other banks, and in the third place it has, or shortly will have, the sole right to issue notes. This right to issue notes on a top-down review of the investment process and portfolio structure of the foreign-exchange reserves and embarked on a detailed analysis to determine an appropriate strategic asset allocation,[5] given its reserve management objectives. Alongside these processes the SARB continually made adjustments to its reserves and risk management policies, and governance structures to ensure that reserves are managed within a prudent framework.

5.3.4 Management of official foreign reserves in South Africa

The SARB holds and manages the official foreign reserves of South Africa. In common with most central banks, the SARB has the following objectives:

- *Capital preservation*: risks are controlled in a prudent manner to ensure the security of reserves
- *Liquidity requirements*: timely availability of reserves to meet commitments without incurring significant penalties
- *Income generation*: market-related total return within a framework of acceptable risk.

With these objectives in mind, the SARB structures its foreign-exchange reserves into three tranches, namely (1) liquidity, (2) buffer and (3) investment. The purpose of the liquidity tranche is to have relatively liquid funds for operational requirements, for example, for managing domestic liquidity. The buffer tranche is for replenishing the liquidity tranche and the investment tranche when necessary and may be seen as fulfilling the role of holding precautionary balances. The investment tranche focuses on the enhancement of returns within a framework of a specified and prudent risk appetite. The risk tolerance for the SARB is approved by the GEC.

In recent years the value of official gold and foreign-exchange reserves held by the SARB has increased significantly. As a result, the efficient management of reserves has become a key activity of the SARB and has as its purpose the achievement of a satisfactory return within acceptable risk parameters. A large portion of the SARB's foreign-exchange reserves is managed internally within strict guidelines to achieve this goal, while a smaller portion is managed by external fund managers, also within strict guidelines. The external fund management programme was initiated in the late 1990s mainly to enhance reserve-management capacity in the SARB through skills and technology transfer, and to provide enhanced returns. The overwhelming portion of the SARB's foreign-exchange reserves is held in very liquid form, either in deposits or securities that are of high quality and readily marketable in international financial markets. Similar to other central banks, the SARB has maintained

5 Strategic asset allocation involves the determination of the appropriate asset allocation to achieve pre-determined long-term investment objectives. This process involved both historical and forward-looking analyses to determine the optimal target duration for the investment and appropriate buffer trances of foreign reserves.

is the mainspring of its power. This is the instrument by which it can regulate the supply of commercial credit. And let it not be thought that such regulation is a matter of the mere whims or opinions of the Directors of the Reserve Bank. There is laid upon them the obligation to maintain a reserve of gold amounting to 40% of their note issue and other liabilities, and as it is obvious that any loans made by them must either increase their note issue or other liabilities, or decrease their holding of gold, it is also obvious that they must be always watching the relation between their liabilities and their stock of gold. Here then you have at last in South Africa a bank whose duty it is to study for the country as a whole this relation between the basis on which credit is built and the superstructure of credit itself. Long before the crisis is on you, the South African Reserve Bank will have taken steps to avert it by a timely raising of the rate for discounts and advances: and although this last phrase has an unpleasant sound in the ears of traders, let me remind them that it is better to have an occasional period of comparatively dear money, accompanied by financial equilibrium, than continual easy money accompanied by periodic crises.

There is one point, however, on which I should like to lay special stress. We hear a great deal nowadays of the need of credit facilities, and some people seem to think that the panacea for all commercial and financial needs is abundant credit facilities. "Let the Government issue £10,000,000 of notes," cries one gentleman, who may be taken as the spokesman of this class of opinion, "and all will do well. Existing trades will expand, new trades will be started, industry will flourish as the almond tree, and the desert will blossom like the rose." Ladies and gentlemen, allow me to assure you that this is but a fascinating delusion. The effect of such an issue would indeed be to stimulate production and to expand trade. But it would also at the same time raise prices, increase the cost of living, and turn the exchanges violently against this country. The final result would be a collapse of the artificially stimulated trades and industries and a further problem of deflation to be solved. The last state of the country would be worse than the first.

No, ladies and gentlemen, let us turn away from such amateur expedients, of the foolishness of which history has repeatedly warned us, and let us base our policy on the well-tried and never failing basis of the gold standard. Broadly speaking, gold is now the universally adopted standard of value, and no system of national banking is a conservative universe of eligible securities in its foreign reserve portfolios. Securities are denominated in a narrow range of major international currencies.

As part of its reserve portfolio, the SARB also holds bullion and gold coin. These holdings tend to be passively held, that is, not actively managed with a view to gaining a return on these assets.

sound which is not based upon the intention to meet both internal and external liabilities in gold.

The Reserve Bank's power of manufacturing credit by granting advances, and of thus increasing its issue of notes, must ever be kept within the bounds required by this axiom of sound finance. And this axiom is of peculiar and particular importance at this present time. As you all know, the export of gold coin is at present prohibited by Act of Parliament, and thus the natural check against an over-issue of notes and banking-credit is non-existent for the time being. So long as the embargo on the export of gold continues, it will be the duty of the Reserve Bank to guard most carefully not only against inflation but against any check being given to the process of deflation and reduction of general prices which is at present operating.

There is one further matter, which you will, I hope, pardon my referring to before we come to the actual business of the meeting. There has been a suggestion made recently that it would be a good stroke of business if the Government were to sell, at its current market price, the gold coin now under its control as security for the Gold Certificates issued against it, and invest the proceeds in British Treasury Bills, and at some future date, when the price of gold has reverted to par with sterling, re-purchase the gold. This is known as the Greig Scheme, it having been propounded by Mr. D. C. Greig of Johannesburg. It is a bold ingenious scheme, and it has the merit of being straight-forward and simple. If it turned out entirely to plan, there is no question but a large sum of money would be made, not only in the actual interest gained each year but in selling the gold at a premium and re-purchasing it at par. Nevertheless, I cannot hide from myself the fact that the scheme is in its very essence a speculation in the price of gold, such as I do not think any Government would be justified in entering into. The scheme is based upon the expectation—the not unreasonable expectation—that at some date before South Africa requires the gold for its own purposes, the price of gold will have fallen to par with sterling, and that the country will be able to re-purchase it at a substantial profit. But though I have called this a not unreasonable expectation, the project is nevertheless a speculative one. No one can predict the date when gold and sterling will each be at par in terms of the other, and no one can say at what point in the development of the currency situation South Africa might want that gold, and want it badly.

6. Services rendered to Government

6.1 Banker to the Government

The SARB provides banking services to the central government, and provides the necessary infrastructure to effect receipts and payments via the NPS by moving funds to and from commercial banks. Such movements have an effect on the cash holdings of banks and, therefore, serve as a convenient additional instrument for managing the liquidity in the banking system.

The SARB also provides the necessary infrastructure to effect various payment options via Internet banking, electronic funds transfers (EFTs) and code line clearing (CLC) for cheques. This enables Government to pay creditors, staff salaries and related expenses.

Other functions include assisting Government in liaising with commercial banks regarding administering stop payments related to Government cheques and EFTs; and providing cash management facilities to Government departments that hold accounts with commercial banks.

6.2 Administration of exchange controls

The SARB is responsible, on behalf of the Minister of Finance, for the day-to-day administration of exchange control in South Africa. Exchange Control Regulations are legal provisions that limit the extent to which South African residents and companies may transfer funds abroad.

In line with the stated objective of a structured relaxation of exchange controls, lenient limits for foreign payments and investments by residents and local companies have been introduced in a gradual fashion over time. In 2003 and 2004 South African individuals were granted an opportunity to apply for amnesty in respect of the regularisation of their foreign assets held in contravention of Exchange Control Regulations.

Controls over non-residents, 'affected persons',[6] and emigrants have been relaxed considerably, as is explained below.

The Exchange Control Regulations empower National Treasury to control all dealings in gold and foreign currency. The administration of some of these powers is delegated to the SARB, while the export of gold is regulated by the

6 'Affected persons' are body corporates, foundations, trusts or partnerships operating in South Africa, or estates, in respect of which 75 per cent or more of
- their capital, assets or earnings may be paid to, or to the benefit in any manner of, any person who is not resident in South Africa; or
- the voting securities, voting power, power of control, capital, assets or earnings thereof, are directly or indirectly vested in, or controlled by, or on behalf of, any person who is not resident in South Africa.

I think that this objection cuts at the very root of the scheme, and I therefore say nothing on the important point whether the Government has any right, legal or moral, to take the gold lodged with it for one purpose by the banks, and use it for another; nor whether, having so taken it, the profit would not belong to the banks or their customers rather than to the Government. I say nothing on these points, but pass on to another very strong objection which I have to this scheme, in its substitution of Treasury Bills for gold as the basis of our note currency. It is true, as Mr. Greig would doubtless point out, that this substitution is intended to be only temporary, and he might argue that gold is useless when condemned as at present to an indefinite term of imprisonment. He would transport it for a term of hard labour elsewhere, until it could be taken back to the bosom of its native land. There is, however, to my mind a strong objection on principle to the basis of the note issue of this country being taken still another remove from gold. It is bad enough at present, when the gold certificate stands between the note and its basic support. But to adopt Mr. Greig's scheme would be to go still further from sound national finance, and to put off to a date still more uncertain than at present the re-establishment of the South African currency on a true gold basis.

Now, Ladies and Gentlemen, I turn to our own more immediate domestic concerns.

The prospectus for the issue of our Stock was published in the middle of May under the aegis of the Treasury. Under the terms of the Act some £300,000 was allotted to the banks and the balance of £700,000 was offered to the public. The response was only lukewarm, and it was deemed advisable to extend the date for the closing of the lists from 4th to 18th June. Even so the subscriptions of the public amounted to only £379,200. Under the terms of the Act the Treasury took up the balance. The causes of this disappointing result were doubtless a general scarcity of capital, and the almost simultaneous issue of a very attractive Loan by the Government itself.

The Bank started business on the 30th June and, as it has had but four weeks of existence, there is naturally nothing as yet to say to you on the subject of Profit and Loss.

I pass, therefore, to the actual business which has brought us together, viz.: the election of a Class "B" Director, i.e. a Director representing on the Board the

Precious Metals Regulator in consultation with the exchange control authorities. The implication of this arrangement is that policy decisions about exchange controls are made and announced by the Minister of Finance and the National Treasury, while the SARB administers and implements exchange controls in accordance with policy.

In its administration of exchange controls, the SARB is assisted by a number of banking institutions in South Africa that have been appointed as Authorised Dealers in foreign exchange by the Minister of Finance. These institutions undertake foreign-exchange transactions for their own account with their clients, within limits and subject to conditions laid down by the SARB, including certain reporting requirements regarding their activities in foreign exchange.

The current exchange control dispensation differentiates between different classes of institutions, and between institutions and private individuals in terms of types of transactions and payments abroad that are permitted.

6.2.1 Institutional investors

Exchange control limits on foreign investment by institutional investors – insurers, pension funds, collective investment schemes and investment managers – have gradually been liberalised since 1996. Foreign diversification of investment portfolios, consistent with prudential limits, has largely been achieved. The prudential regime has been streamlined further by the abolition of the pre-approval process whereby Authorised Dealers may effect foreign currency transfers on behalf of institutional investors, without referral to the SARB.

Retirement funds and the underwritten policy (non-linked) business of long-term insurers may invest up to 25 per cent of their total retail assets abroad. Investment managers registered with the FSB as discretionary managers for exchange control purposes, collective investment scheme management companies and investment-linked business of long-term insurers cannot invest more than 35 per cent of their total retail assets under management abroad.

Institutional investors can invest an additional 5 per cent of their total retail assets abroad by acquiring foreign currency-denominated portfolio assets in Africa. This can be achieved through foreign currency transfers from South Africa.

Foreign companies, governments and institutions may list instruments, including derivative instruments, based on foreign reference assets, on South Africa’s bond and securities exchanges.

interests of the commercial and industrial section of the community. You are doubtless aware that under the Act which constituted the Bank, the Directors, apart from the Governor and Deputy-Governor, are divided into three classes, consisting of three Directors each:—

Class "A" are the Banking Representatives who are nominated by the Banks.

Class "B" are the commercial and industrial representatives, who are elected by the Stockholders.

Class "C" are the Government Representatives who are appointed by the Governor-General of the Union.

The first Directors of the Bank were appointed by the Governor-General in accordance with the Act; one of each class to hold office till 1st July, 1921, one till 1st July, 1922, and one till 1st July, 1923.

Of the three Directors who retired on the 1st of this month, the Directors in Class "A" and "C" who previously held the posts have been re-appointed.

It now falls to you, ladies and gentlemen, to appoint a Class "B" Director, owing to the retirement, under the arrangement already referred to, of Sir Evelyn Wallers. Sir Evelyn has been a Director of the Bank for about 2 months, but during the greater part of the time he has been abroad, and therefore his tenure of office has been purely nominal. The Board hope, however, that his wide experience and great abilities may be retained for the Bank during the next three important years of its infantile life; and they therefore heartily recommend Sir Evelyn Wallers for reappointment on the Board as a commercial and industrial representative. Sir Evelyn Wallers is well-known to you all, and it is unnecessary to say that as a Director of the Central Mining Company and as past President of the Chamber of Mines, his knowledge and his point of view cannot fail to be of the greatest use to the Board in their difficult task.

I therefore beg leave to move that Sir Evelyn Wallers, K.B.E., be appointed a Director of the Board, as a "Commercial and Industrial Representative."

The motion, having been duly seconded by Brigadier-General Beves, was adopted unanimously.

The proceedings then terminated.

6.2.2 South African corporates

For South African corporates there is no pre-approval process for foreign direct investment in respect of transactions totalling less than R500 million per company per annum. At least 10 per cent of the foreign target entity's voting rights must be acquired. Authorised Dealers administer the directives and guidelines on these types of investment. Where the total cost of foreign direct investment exceeds R500 million per company per calendar year, an application must be submitted to the SARB for prior approval.

As an alternative mechanism of financing offshore investments or to repay existing offshore debt, applications by corporates to engage in corporate asset or share-swap transactions, and requests for share placements and bond issues offshore by locally listed companies will be considered by the SARB.

Corporates that have existing approved subsidiaries abroad are allowed to expand such activities without prior approval, subject to certain conditions. Since 26 October 2004, dividends declared by offshore subsidiaries of South African corporates may be retained offshore and used for any purpose, without recourse to South Africa. Authorised Dealers may also extend foreign currency-denominated facilities to South African corporates to finance approved foreign direct investment.

South African companies, trusts, partnerships and banks are permitted to manage their foreign exposures by participating without restriction in the rand futures market on the JSE. This dispensation also extends to investment in inward-listed (foreign) instruments.

Authorised Dealers may acquire direct and indirect foreign exposure up to a macroprudential limit of 25 per cent of their total liabilities excluding total shareholders' equity. Private equity funds that are members of the South African Venture Capital Association, mandated to invest into Africa, may apply for approval to invest in Africa, subject to certain conditions.

6.2.3 Private individuals resident in South Africa

Residents of South Africa who are over the age of 18 years qualify for a private individual foreign capital allowance of up to a total amount of R4 million per calendar year, subject to tax clearance by SARS, and reporting of the transfer of funds abroad to the exchange control authorities. Applications in excess of the limit of R4 million per calendar year may be submitted to the SARB for consideration. A single discretionary allowance of R1 000 000 per year may be apportioned for travel, gifts, loans, study allowance, donations to missionaries, maintenance, alimony and child support payments, wedding expenses and other special occasions.

SOUTH AFRICAN RESERVE BANK.

REPORT OF THE GOVERNOR AND DIRECTORS PRESENTED TO STOCKHOLDERS AT THE ORDINARY GENERAL MEETING HELD AT PRETORIA, ON THE 22nd MAY, 1922.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with Sections 97 and 98 of Regulations framed under Section 29 of the Currency and Banking Act, 1920.

After writing off Flotation Expenses amounting to £5,680: applying £3,000 and £2,500 respectively in reduction of Bank Premises Account and Bank Furniture and Fittings Account: and providing for Income Tax and other accruing liabilities: the net profits amount to £45,524 7s. 7d.

The Directors have declared and paid a Dividend at the rate of 6 per cent. per annum, subject to dividend tax.

The dividend has absorbed	£35,443	2	6
leaving for appropriation	10,081	5	1
	£45,524	7	7

They recommend that this balance of £10,081 5s. 1d. should be appropriated as follows:—

Pension Fund	£ 5,000	0	0
Widows and Orphans Fund	2,000	0	0
Staff Guarantee Fund...	1,000	0	0
Balance...	2,081	5	1
	£10,081	5	1

The Currency and Banking Act, 1920, requires that any surplus profits shall for the present be placed to a Special Fund for strengthening the Gold Reserve of the Bank, and the balance of the Appropriation Account will be treated accordingly.

CAPITAL STOCK.—Holders of the capital stock of the Bank at the 31st of March last numbered 1,044.

DIRECTORS.—It is with a deep sense of loss that the Directors record the death of their colleague, Mr. George Mackeurtan, one of the Government representatives on the Board. The vacancy will be filled in the manner prescribed in subsection 2 of Section 9, Currency and Banking Act, 1920.

6.2.4 Emigrants' assets

Emigrants may transfer up to an amount of R8 million per family unit or R4 million per individual per annum, inclusive of any assets previously transferred abroad.

Emigrants' assets can be used locally for any purpose. On application, requests will be considered to transfer the emigrants' remaining liquid assets or the export of quoted securities in lieu of cash, exceeding the above-mentioned limits.

6.2.5 Local financial assistance to affected persons, non-residents (foreign ownership of domestic entities) and emigrants

To improve access to domestic credit in financing foreign direct investment in South Africa or for domestic working capital requirements, there are no restrictions on amounts that can be borrowed locally by affected persons or non-residents. Affected persons and non-residents who use funds for the acquisition of residential properties in South Africa and certain other financial transactions, such as portfolio investments, securities lending, hedging or repurchase agreements, are restricted to borrow up to a limit equal to amounts introduced into South Africa in terms of a 1:1 ratio. Emigrants are subject to a 1:1 ratio in respect of local borrowing for any transactions.

6.2.6 Common Monetary Area

Although member countries of the CMA have their own currencies, these currencies are fixed at par to the South African rand. The South African rand serves as anchor for the currencies of the CMA because of the dominant role of the South African economy in the CMA. South Africa's GDP comprises some 95 per cent of the GDP of the CMA. Owing to the free flow of capital and in terms of the CMA Multilateral Monetary Agreement, CMA partner countries' application of exchange controls must at least be at the same level as that of South Africa.

In terms of the Act, Mr. J. P. Gibson and Sir Ernest Chappell, C.B.E., retire by rotation.

The vacancy occasioned by Mr. Gibson's retirement will be filled in accordance with the provisions of Article 56 of the Regulations.

Sir Ernest Chappell, C.B.E., being eligible, offers himself for re-election.

AUDITORS.—The Board appointed Messrs. Aiken & Carter and Messrs. Dougall, Lance & Hewitt, to examine the first accounts of the Bank. The Stockholders will be requested at the General Meeting to determine the remuneration of the Auditors for the past audit upon the recommendation of the Board, and to appoint Auditors for the ensuing year.

7. Provision of economic and statistical services

The SARB collects, processes, interprets and publishes statistics and other information. The SARB annually publishes, *inter alia*, four *Quarterly Bulletins,* two *Monetary Policy Reviews*, an *Annual Report*, an *Annual Report* of the Bank Supervision Department, an *Annual Economic Report* and two *Financial Stability Reviews*. The data these publications contain are a major source of information for policy-makers, analysts and researchers.

7.1 Collection

The SARB uses two types of mainframe databases to support the collection and processing of economic statistics. One is an institutional database where information on banking, the financial and money markets, balance of payments, and national accounts is managed. This is updated via surveys that are conducted either monthly, quarterly or annually. Other basic economic information is captured and edited in the time-series database as it becomes available.

Various statistical techniques are employed in the estimation and aggregation of statistical information, and time series are regularly analysed to improve quality and relevance. Trends in the data are also monitored and movements explained.

7.2 Compilation and processing of statistics and research

The SARB became officially responsible for the compilation of South Africa's balance of payments in 1965. The balance of payments comprises two main groups of accounts, namely (1) the current account and (2) the capital and financial account. The former account pertains to goods and services, income and current transfers, while the latter account pertains to various capital flows and transfers.

The SARB also compiles and publishes the GDP quarterly according to the expenditure approach. This responsibility of compiling the GDP is shared with the National Accounts Division of Statistics South Africa, which compiles the GDP according to the production approach.

The SARB compiles comprehensive information on South Africa's financial markets and non-bank financial intermediaries, and the national financial account. This involves data collection and processing of South Africa's bond,

BALANCE SHEET at 31st MARCH, 1922.

LIABILITIES.

	£	s.	d.
Capital (Fully paid)	1,000,000	0	0
Deposits:			
Bankers	7.118,011	0	2
Rebate on Bills not yet due	303	18	0
Provision for Forward Sales of Exchange	1,500	0	0
Other Liabilities	11,301	10	0
Profit and Loss Account	45,524	7	7
	£8,176,640	15	9

ASSETS.

	£	s.	d.
Cash on hand	5,166,550	16	6
Loans and Advances to the Government	2,200,000	0	0
Investments	800,000	0	0
Bank Premises	7,279	4	8
Bank Furniture and Fittings	2,810	14	7
	£8,176,640	15	9

equity and derivative markets, bank and non-bank financial institutions, and the analysis of the flow of funds between the sectors of the economy, based on data compiled from surveys of all financial institutions.

The SARB calculates various monetary aggregates (M0, M1A, M1, M2, M3). Monetary analysis entails establishing the accounting counterparts to changes in the M3 money supply. These include changes in net foreign assets, net claims on the government sector, claims on the private sector, and changes in net other assets and liabilities. Changes in money-market conditions, and money-market and related interest rates are also monitored. These include the repo rate, overdraft rates on current accounts, discount rates and various deposit rates.

Another responsibility of the SARB is to record the transactions of the public sector. The Statement of Revenue, Expenditure and Borrowing comprises the revenue and expenditure of the national government. The expenditure generally exceeds the revenue. The ways in which this deficit is financed are also analysed. A consolidated account of the revenue and expenditure of general government, which includes the consolidated central government, provincial governments and the local authorities, is also compiled. The total debt of the national government is monitored on a monthly basis, and is classified according to domestic and foreign ownership distribution.

Activities in the labour market and information on price changes are also analysed. This includes changes in production and consumer prices, and changes in the prices of imported goods and goods produced in South Africa. As an indication of inflation, these price indices are some of the key variables influencing monetary policy decisions. To identify economic statistics that can serve as reliable indicators of business cycle changes, the cyclical behaviour of a large number of time series over a long uninterrupted period is studied. Changes in individual time series may lead, coincide with, or lag behind changes in the general business cycle.

The SARB is also involved in a variety of research activities. These include the use of econometric models to assist the SARB in the formulation of policy; applied research into monetary policy issues; interaction on behalf of the SARB in various regional and multilateral institutions; and the monitoring of international economic conditions and developments.

In addition to the publications mentioned earlier, further means of information dissemination by the SARB include various key indicators and other statistical data that are updated on the SARB's website as soon as they are released, so as to keep the South African public and the international community updated. This research and information dissemination also inform the MPC in its monetary policy formulation and decision-making.

PROFIT AND LOSS ACCOUNT for the period 30th June, 1921, to 31st March, 1922.

DR.	£	s.	d.	CR.	£	s.	d.
To **General Expenditure**, including Rents, Rates, Salaries, Remuneration to Directors and Auditors, and all other expenses	27,335	2	11	By **Gross Profits**, after deducting Income Tax, appropriation to Bank Premises, Furniture and Fittings; Rebate on Bills not yet due, and provision for other liabilities incurred	78,539	14	7
" **Flotation Expenses**	5,680	4	1				
" **Balance**	45,524	7	7				
	£78,539	14	7		£78,539	14	7

ALEC. BURNS, Secretary.

W. H. CLEGG, Governor.

H. C. JORISSEN,
E. CHAPPELL,
W. DUNLOP, } Directors.

8. Supervision of the South African money and banking system

8.1 Bank supervision

The SARB is responsible for bank regulation and supervision in South Africa, the purpose of which is to achieve a sound and efficient banking system in the interests of the people who deposit funds with banks, and the economy as a whole. This function is performed in terms of either the Banks Act, 1990 or the Mutual Banks Act, 1993. The SARB is also responsible for certain supervisory responsibilities of co-operative banks established in terms of the Co-operative Banks Act, 2007 (Act No. 40 of 2007). The South African banking sector is concentrated, with the four main banks controlling more than 80 per cent of bank deposits.

Banks are important to the economy of a country for several reasons. Firstly, they act as intermediaries through which the funds of surplus units (savers) can be made available to deficit units (borrowers) in order to finance productive activities. This lending takes place in terms of a fractional reserve system, which implies that only a portion of funds received on deposit is held in reserves and the balance can be borrowed by banks' customers. Secondly, banks provide a whole range of financial services to the public without which an economy cannot function smoothly. Thirdly, banks are important because they serve as the channel through which monetary policy decisions are transmitted to the rest of the economy. Banks therefore need to be regulated or supervised.

Most countries have a banking supervision authority and although the principles involved are largely the same, supervisory authorities may differ in respect of their degree of autonomy, relationships with other financial regulators and supervisory approaches or methods employed. In the case of South Africa this function is entrusted to the SARB, which issues banking licences to institutions registered to function as banks.

8.1.1 Background to banking regulation and supervision

Within the legislative framework pertaining to banks, reference is made to "regulation" and to "supervision". These two functions can be described as follows:

- "Regulation" refers to the creation and maintenance of a legal framework within which institutions are licensed to operate as banks, subject to prudential rules and practices
- "Supervision" refers to the process of monitoring the control systems, activities and financial condition of banks to ensure that they are always within limits of prudent banking practice as set out in the prudential regulations.

The establishment of the SARB's branch offices

In 1925 the Board agreed to the opening of branch offices to extend the SARB's services. In the same year the first branch offices were opened in Cape Town (or "Capetown", as it was recorded in the minutes of the SARB's Board meeting at the time), Durban and Johannesburg. This was followed by the opening of branch offices in Port Elizabeth and East London in 1926. The branch office in Bloemfontein was opened in 1939 and the Pretoria North Branch opened in 1982.

After a period of using a temporary building, the first permanent branch building in Cape Town was situated on the corner of Wale and St George's streets. This building was subsequently sold to Board of Executors. The SARB and the branch moved to its current building in St George's Mall. It is interesting to note that this is the only SARB building where provision is made for tenants.

The first permanent building for the SARB's branch in Durban was in Smith Street. In 1991 the branch office moved to the current building situated at 8 Dr A B Xuma Road, as branch operations outgrew the capacity of the original building. However, soon after moving to the new building, the SARB rationalised its branch activities and some areas of the larger building were no longer required for branch operations.

Durban Branch

In 1996 the SARB moved from its first permanent branch building in Johannesburg to its current premises at 57 Ntemi Piliso Street. When the SARB moved to the new building it still had a settlements office for financial markets in the Johannesburg Branch office. With the introduction of electronic trading and settlement, this office was later closed and the building currently only accommodates branch activities.

The South African banking industry is characterised by international links through correspondent banking relations with off-shore banks and international institutional investments in domestic banks. A prerequisite, therefore, is that the best international standards of regulation and supervision should be applied to South African banks. This ensures entry for South African banks into foreign markets and a continued interest of foreign institutions in the domestic market.

It is important to guard against any unauthorised usage of the word 'bank' in the name of any institution. The SARB acts against persons who are not registered as banks but who conduct illegal deposit-taking activities. Complaints received or information supplied with regard to possible contraventions of the provisions of the Banks Act, 1990, pertaining to the conduct of suspected illegal deposit-taking activities are investigated and action is taken if activities contravene the Banks Act, 1990.

Although the relevant provisions of the Banks Act, 1990, are clearly aimed at investor protection, depositors also have a responsibility to ensure the safety of their investments. The SARB's investor awareness programme plays an important role in this regard. Occasionally, the SARB conducts public awareness campaigns aimed at warning the general public about risks involved in depositing money with, or entrusting funds to, unlawful deposit-taking institutions. Usually these campaigns are run in collaboration with the FSB.

8.1.2 Entry criteria and licensing policy

Since the banking system plays an important role in the South African economy, banking stability is crucial. Consequently, an application for authorisation to establish a bank has to meet entry criteria and prudential standards. The Banks Act, 1990 and the Regulations relating to Banks framed in terms of this Act, prescribe the format of an application for authorisation to establish a bank. Many details are required in a specified format, and a complete and comprehensive application in terms of the Banks Act, 1990 usually results only from a carefully planned and diligently executed project, often involving consultants who specialise in this field. The processing of an application entails not only an analysis of the application, including financial projections, but also consultation with other regulators and authorities. The following are important entry criteria:

- *Public interest considerations:* as the establishment of a bank should be in the public interest, applicants are expected to make a worthwhile contribution to banking services and competition in South Africa, and not merely add to the number of banks. Although applicants do not have to offer a full range of banking services, they are expected to maintain a significant presence in South Africa and to add some depth to the local banking sector.

- *Ownership and control:* a bank should have appropriate regard for the interests of its depositors. Therefore, no single shareholder (or group of

In 1982 the Pretoria North Branch opened in a building purposely built to meet SARB requirements. The building is situated next to the South African Bank Note Company (Pty) Ltd, and was planned from the outset as a note depot, rather than a branch that deals with the public.

The Port Elizabeth Branch moved into its current building in 1944. Given the shortage of certain building materials during World War II, it is somewhat surprising that the SARB continued building operations in this period. As little is known about the building (or perhaps buildings) occupied by the branch between 1926 and 1944, other concerns might have pressed the SARB into completing this building.

The East London Branch moved into its current building in 1952. This building has recently been enlarged to cater for the SARB's needs and requirements. This has always been regarded as one of the SARB's most beautiful buildings and it is pleasing to see that the extension to it complements the character of the original structure.

East London Branch, built in 1952

The Bloemfontein Branch moved into a purpose-built building when it opened in 1939. This building on Hoffman Square is still occupied by the branch, but a new building is under consideration as the old building no longer meets SARB requirements.

The activities of the branches, other than the function of the Pretoria North Branch, have changed considerably over the years. Initially, the branches had customer accounts for government and quasi-government organisations. One requirement was therefore large banking halls, and the SARB's older buildings were all erected with beautiful banking halls. They have fallen into disuse in recent years, as the branches no longer have customer accounts, but focus on currency distribution.

The SARB's buildings are landmarks wherever they are located, but over time changes in the security environment have compelled the SARB to shareholders) should be in a position to exercise undue influence over the policies or operations of a bank. The shareholding structure should not be a source of weakness and should minimise the risk of contagion from activities conducted by other entities or shareholders. Banking and non-banking activities should be separate, with appropriate divisions between them.

– *Fit and proper management:* Banks should be governed and managed only by directors and management with proven ability and integrity to pursue the interests of shareholders without harming the interests of depositors. The management and directors proposed in an application to establish a bank should have relevant banking experience and skills to conduct the proposed business.

– *Corporate governance, audit and internal control*: Any application for the establishment of a bank should demonstrate the ability of the applicant to maintain appropriate corporate governance, management, internal control and risk management systems, including internal audit. Provision should also be made for a compliance officer to monitor and limit all the risk exposures of the proposed bank as from the day on which it commences operations. The operating controls and risk management procedures have to be consistent with the proposed strategy of the bank. The proposed bank has to be capable of producing all required statutory and prudential information in an accurate and timely fashion from the start of its banking operations.

– *Internal structure:* The proposed bank's internal structure should be sound in terms of generally accepted management principles and the proposed group structure should not be detrimental to the bank or to effective supervision of the bank. Among other issues, a foreign bank wishing to establish a locally incorporated bank (or branch) should be subject to acceptable supervisory arrangements in its country of origin and be in good standing with that supervisor.

– *Capital and financial conditions:* A bank should be established with financial strength demonstrated by adequate capital and sustainable profitability. Initial capital should be from a known and legitimate source, and should not be borrowed money. Furthermore, a proposed bank has to adhere to capital-adequacy, cash reserve and liquidity ratios, among other prudential requirements. Therefore, an applicant has to submit an acceptable business plan, incorporating realistic and sustainable projections of the scope, scale and specialisation of operations, cash flows and earnings for the first three years of the proposed bank's operations.

An assessment of whether the applicant demonstrates the commitment and ability to establish a bank, and to ensure its viability against intense market competition is of paramount importance in reviewing an application.

improve branch security. This is a further contributing factor that makes branch buildings less accessible to the public than before.

Bloemfontein Branch, built in 1939

The missing £85 000

At the Ordinary General Meeting held in 1929 the Governor reported that an amount of some £85 000 had been stolen by the Note Clerk in the Johannesburg Branch. At the time of the opening of the branch in 1925, the first Secretary of the SARB, Mr Alexander Burns, was appointed as the Governor's Agent (as branch managers were known at the time) in Johannesburg.

Mr Burns did not exercise tight control in the management of the branch, and the Note Clerk stole an amount of £85 000 between 1927 and 1929. The fraud was detected only when Mr Burns went on leave and a Temporary Agent, seconded from Head Office, took control of the branch. The fraud went undetected for two years as staff members in the branch hardly took any leave over this period.

As a result of the fraud, criminal charges were pressed against the Note Clerk, and he served a jail sentence. The Chief Clerk (Assistant Manager) was transferred to Head Office with demotion. According to the records "(h)e lost 11 places on the staff list" and his salary was reduced by 25 per cent. Mr Burns was dismissed from the SARB's service. His wife was paid a small honorarium for a period, as Mr Burns had lost all benefits and pension rights upon his dismissal.

A number of steps were taken as a result of this fraud. A rule was introduced that all staff members should take leave for 10 consecutive days at least once per annum. The external auditors, who did not detect the fraud, were not reappointed. A branch inspectorate (today the Internal Audit Department) was established to ensure better control over the branches.

Adjusted for inflation, £85 000 in 1929 amounts to some R20 million today.

8.1.3 Managing distress in banks

The procedures for handling distress in banks differ significantly in many respects from those embodied in ordinary company and insolvency laws. The rationale for this differential treatment arises from two broad considerations relating to the nature and functions of banks:

- The intermediation function is necessary in order to facilitate savings flow in the economy, but causes banks to take a risk posture that is systemically adverse in nature. In the intermediation process banks acquire liquid and certain liabilities (deposits), and create illiquid and uncertain assets (bank loans). The nature of banks' business contracts is, therefore, such that they create major systemic risks.

- The maintenance of public confidence in the stability of the banking system is the cornerstone of the process of financial intermediation. The emergence of liquidity or solvency problems in a particular bank can threaten confidence not only in that particular bank, but also, because of the possibility of contagion in the safety and stability of the system as a whole. South Africa does not have a deposit insurance scheme in terms of which depositors are guaranteed the repayment of any portion of their deposits in the event of a bank experiencing financial distress.

These considerations have led to the realisation that banks deserve special protection in times of distress. The policy followed in South Africa is not aimed at zero failure of banks. Instead, the objective is to resolve problems in banks effectively and to ensure that depositors with failing banks recover as much of their deposits as possible, in order to maintain the confidence of investors in the banking system. If a bank has to exit from the banking system, this has to occur with the minimum market disruption possible.

In essence, the policy is that a bank with temporary liquidity problems may be assisted, provided it is solvent. An insolvent bank, however, cannot be allowed to continue operations, since its problems are very likely to become worse. Such a bank should exit from the system in an orderly and efficient manner that minimises losses to depositors and that does the least harm to confidence in the banking system. Managing distress in banks is described in more detail in section 8.6.

8.2 Settlement of interbank transactions and the oversight of the national payment system

The NPS encompasses all the systems, mechanisms and instruments that enable the transfer of funds from one banking account to another. The payment system, therefore, includes the entire payment process from payer to beneficiary in the NPS.

The SARB moved to a new building in Pretoria in 1931. This building is situated at the north-eastern corner of Church Square in Pretoria, not far from where the original building was located in Church Street East.

The SARB provides for final real-time electronic settlement of high-value interbank transactions and low-value retail transactions made in the economy, via the SAMOS system. In addition, the SARB oversees the NPS, to ensure the overall effectiveness and integrity of the payment system. In essence the main aim is to reduce settlement risk and thereby minimise possible systemic risk emanating from, *inter alia*, the settlement default (inability or lack of funds to settle transactions) of one or more settlement banks.

There are a number of participants in the NPS, each with specific roles and responsibilities. These entities fall within the oversight responsibility of the SARB and include the following:

– *Clearing and settlement banks*: These banks either issue payment instruments to their clients, acquire payment instrument transactions on behalf of their clients, or both. Because of their participation, the banks build up interbank obligations in respect of one another which, in turn, require final and irrevocable settlement in central bank money. To facilitate this settlement, the SARB operates the SAMOS system.

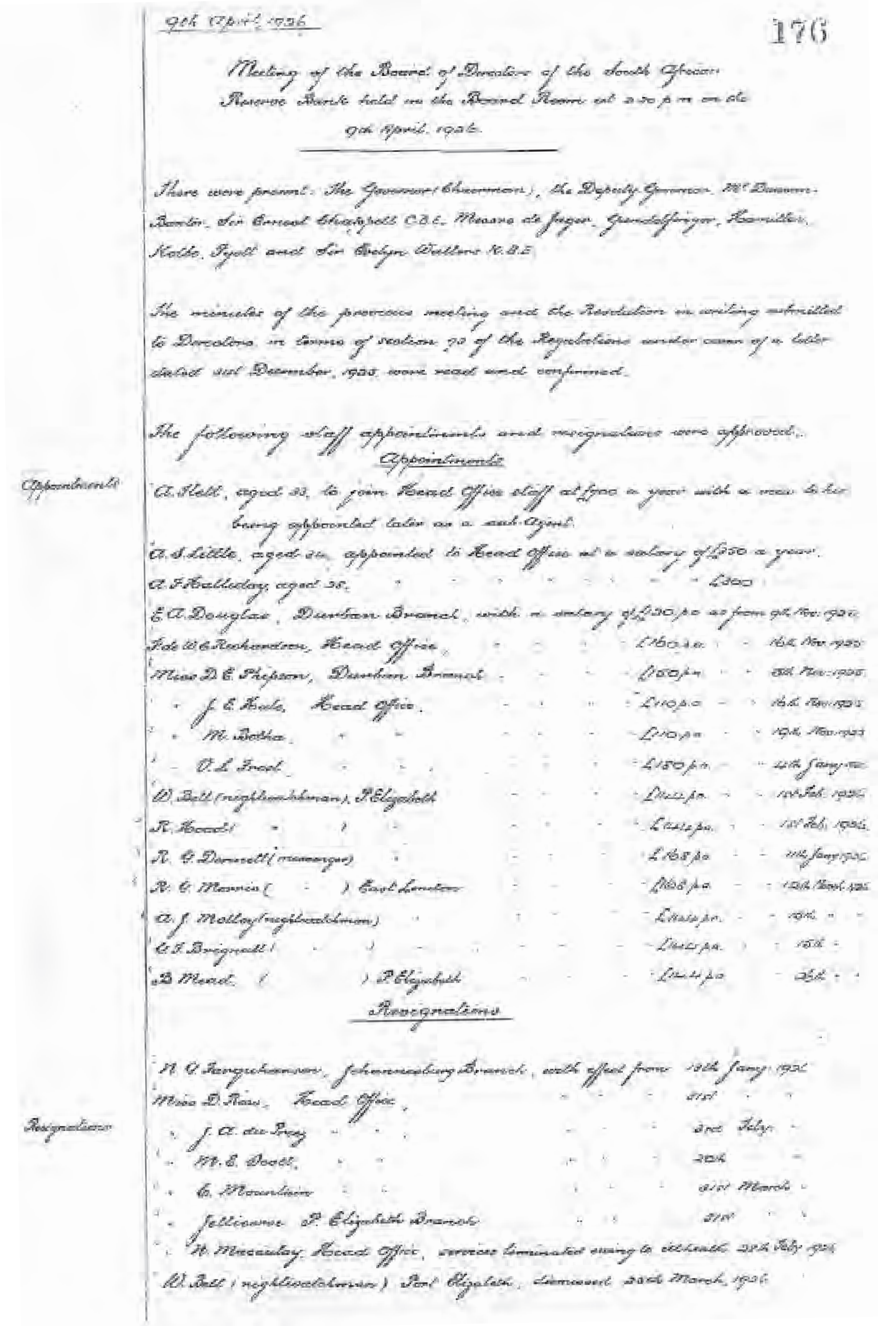
– *PCH system operators:* These entities are responsible for collecting and processing payment instruments, and determining interbank obligations. BankservAfrica is responsible for the retail environment, which includes most payment instruments currently available to the clients of banks, while STRATE Ltd determines the obligations arising from financial markets, such as the money, bond and equities markets.

– *Third person payment service providers:* Where a payment is due, these entities act as agents and accept payments and/or make payments on behalf of principals. Typical examples are the collection of payments in respect of utility bills, and processing and distribution of salary payments to the employees of the principals.

– *Payment system operators:* These operators process payment instructions for any two or more participants in the payment system. They provide the information technology products and services required to process payments.

– *CLS system:* This system is a worldwide financial industry initiative to reduce risks associated with cross-currency transactions by settling the two legs of a foreign-exchange transaction simultaneously. Foreign-exchange settlement risk is the risk that originates once a currency has been irrevocably paid by one party and thereafter the counterparty fails to meet its obligation in terms of the transaction. The South African rand is one of the major currencies settled in CLS.

An extract from the original Board minutes of the meeting held on 9 April 1926. These minutes were handwritten by Mr G G Messum, at the time Secretary of the SARB. This is one of the neatest handwritting on record in the SARB.



9th April 1926 176

Meeting of the Board of Directors of the South African Reserve Bank held in the Board Room at 2.30 p.m. on the 9th April, 1926.

There were present: The Governor (Chairman), the Deputy Governor, Mr [illegible] Sir Ernest [illegible] C.B.E., Messrs de Jager, [illegible], Hamilton, [illegible] and Sir Evelyn Wallers K.B.E.

The minutes of the previous meeting and the Resolution in writing submitted to Directors in terms of section 70 of the Regulations under cover of a letter dated 31st December, 1925, were read and confirmed.

The following staff appointments and resignations were approved.

Appointments

Appointments: A. Hall, aged 33, to join Head Office staff at £300 a year with a view to his being appointed later as a sub-Agent.

A. S. Little, aged 24, appointed to Head Office at a salary of £250 a year.

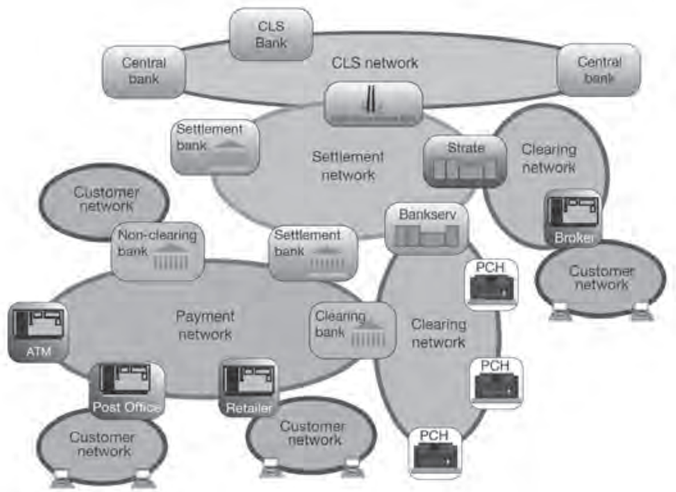
A. F. Halliday, aged 28, " " " " " " " £300

E. A. Douglas, Durban Branch, with a salary of £230 p.a. as from 9th Nov. 1925

Resignations

Resignations: [illegible]

Figure 1: The payment system network



The entire payment system comprises a vast and sophisticated infrastructure that links numerous networks. These networks (Figure 1) commence at the customer interface with the retailers and brokers, where the front-end point-of-sale devices and computer systems link to back-office systems. These, in turn, link to their acquiring banks' systems or trading systems in the case of brokers. From these networks, transactions and transaction data are moved to the PCH system operator networks for processing before entering the settlement network where settlement takes place. For transactions that involve foreign-exchange transactions, a further network links South Africa to the CLS system operating from London.

8.3 Banker of other banks

The SARB holds the cash reserves that banks are legally required to hold with the SARB. It has the authority to change the minimum cash reserves that banks are required to hold, and can use such adjustments as an instrument of monetary policy.

In addition, the SARB assumes responsibility for domestic rand payments to customers of foreign central banks. Surplus funds in the accounts of these banks are invested with the CPD.

8.4 Banknotes and coin

The SARB has the sole right to make, issue and destroy banknotes and coin in South Africa. The South African Mint Company (Pty) Ltd (SA Mint), a subsidiary of the SARB, mints all the coins on behalf of the SARB. The South African

An extract from the original Board minutes of the meeting held on Saturday, 31 December 1932, the most unusual day and date for a Board meeting in the history of the SARB. The decision to convene this meeting might have been informed by the fact that South Africa left the gold standard on 28 December 1932.

31st December, 1932 : 3/103.

Meeting of the Board of Directors of the South African Reserve Bank held in the Board Room on Saturday the 31st of December 1932 at 10 a.m.

There were present : The Governor (Chairman), the Deputy Governor, Sir Ernest Chappell, C.B.E., Messrs. de Jager, Gundelfinger, Jorissen, Lotz, Niven, Parker and Pyott.

The Board regretted to learn of the absence of Mr. Hamilton owing to indisposition and wished him a speedy recovery.

On 31 March 1933 the SARB's total staff complement was 188 and the salary bill for the financial year ending on that day amounted to £65 141.

Bank Note Company (Pty) Ltd (SABN), another subsidiary of the SARB, prints all banknotes on behalf of the SARB. Section 11 of this booklet highlights the activities of the SARB's subsidiaries.

As mentioned earlier, since 28 December 1932 banknotes can no longer be exchanged for gold at the SARB. This implies that the value of banknotes is based solely on trust. People use banknotes and accept them for payment of debts because they trust that they will, in turn, be able to purchase goods and services to the face value of the banknotes. One of the main consequences of inflation is an erosion of people's trust in the face value of banknotes and coin.

The SARB is responsible for bulk distribution of banknotes and coin. Banks are responsible for the collection of banknotes and coin from the SARB for onward distribution to their cash centres, branches and ATMs for distribution to the public. To perform this function, the SARB has seven branch offices, namely in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Port Elizabeth and Pretoria North. These branches are responsible for ensuring the availability of good-quality banknotes to meet public demand. The branches also settle claims for mutilated banknotes.

The demand for banknotes and coin is determined by the general public. It makes virtually no difference from the SARB's broad monetary policy perspective whether the public holds cash, demand deposits at banks or has pre-arranged but unutilised credit lines. The potential supply of banknotes and coin to the public, however, is limited by banks to the extent that the public is only permitted to withdraw cash held as deposits or draw cash against pre-arranged credit facilities.

To provide an efficient service to banks and satisfy their requirement for banknotes, the SARB ensures that there is sufficient storage capacity in branch vaults to meet the normal demand for notes and for exceptional or seasonal demands. In ensuring that only banknotes of good quality remain in circulation, branches are equipped with electronic note-processing machines. These machines determine which notes can be re-issued, while soiled notes are shredded.

The branches of the SARB, the South African Police Service and commercial banks co-operate in combating the counterfeiting of banknotes.

8.5 Financial system stability

The SARB assesses the stability and efficiency of key components of the South African financial system. The SARB's approach to financial system stability places considerable reliance on market forces to achieve financial system stability. Any intervention should, therefore, be at the minimum level needed to contain systemic risk. Safeguarding of financial system stability requires adequate information about the behaviour of financial market participants, regardless of the institutional arrangements.

The Head Office staff of the SARB, 1933–1934

STAFF 1933—1934

Row 6: ?, C.O.G. Turner, A.A.E.M. Olie, M.E. Ashburner, A. Sandenbergh, I.M. Truter, H. Corry, M. Baikie, M. Macduff, G.M Kernan, A.J.C. Hill, M. Chapham, R.G.F. Hollis, M. Bridge, A. Dickson, F.G. Huddy (Head Messenger)

Row 5: J.R.N. Cole (Messenger), B. Leibrandt, J.A. Maritz, E.B. Rees, J.D. Prentice, E.J. Snell, S. Byrne, C.M.N. Cole, S. Ray, M.G. Barrett, B.L. Gilmour, A.B. Littlewood, A. McDornan, S. Steyn

Row 4: Twynam (Messenger), I.H. Corbishley, K. Eustace, R.P. Pienaar, M.F. Verdier, E. Ferguson, M. Maude, B. Rodda, M.D. Johnson, M.P. Bentote, V.K. Fowler, H.M. Egerton-Bird, E.A.L. Tebb, F.M. Delfos, T.B. Sommerville-Royle, A.J. Stevens (Messenger)

Row 3: J. Crooks (Messenger), A.J. van Zyl, N.K. Spradbury, H.W. Budke, P.J. Rademan, R.E. Spence, F. Oosterbroek, J.B. de K. Wilmot, E.W. Nixon, D.G. Bentor, H.E. Moggridge, W. Fletcher (Messenger)

Row 2: J.D. Kennedy, H.J. Alston, A.F. Halliday, H.P.J. de Villiers, A.S. Little, W. van Wermiskerken, L.J. Cockhead, G. Siemelink, F.R. McCallum, A.M. Sturdy, F.W. van Blommestein, R.F.A. Louw, G. Rissik

Row 1: A.P. McLoughlin, W.G. Wyndham-Quinn, A.R. Herschell, C.R. Moore, S.C. Welsh, F. de Rijk, S.H.W. Venn, A.R. Oldridge, C. Schuil, C.E.M. Bailey, G.C. Woodward, B.C.J. Richards

The prudential regulation and supervision of banks assist and complement the SARB in its pursuit of financial system stability. It has, however, become increasingly clear that the financial system may be vulnerable as a result of inherent imbalances between the real and financial sectors of the economy. Such vulnerabilities would not be revealed by the supervision of individual institutions. For this reason the SARB and other central banks have gradually placed increased emphasis on macroprudential aspects of financial stability. Financial system stability cannot be achieved by the SARB in isolation. All financial system participants should act in ways that enhance the robustness of the financial system, which, of course, requires good and reliable information about trends and developments in the financial system.

Notwithstanding the best efforts of central banks and other regulators to detect and prevent instability, financial-sector crises can still occur. Under these circumstances the SARB liaises with National Treasury and other regulators such as the FSB in planning and co-ordinating the responses of the authorities to alleviate the impact of financial crises on the real economy. This includes the development and maintenance of safety-net policies and procedures, and the co-ordination of contingency planning for systemic crisis resolution. The social cost of financial system failure usually exceeds the private costs, which justifies the role of central banks as the source of emergency liquidity assistance in times of banking liquidity problems.

8.6 Provision of temporary standby liquidity assistance to banks and exit policy

At the first emergence of signals that a bank is potentially experiencing distress, corrective action is taken. The exact type of action differs from case to case, and is not prescribed in any detail in South African banking legislation. Actions may range from a discussion of the area of concern at a routine or special prudential meeting with the senior management of the bank, to formal sanctions and fines, prohibitions on further expansion of activities, and increases in the capital requirement. The ultimate sanction would be withdrawal of the banking licence.

When a bank experiences financial difficulty, a special investigation is conducted to establish beyond doubt whether it suffers from a liquidity or a solvency problem. If the bank’s liquidity shortage is of a temporary nature and does not affect its solvency, the SARB will then decide, in the interests of the stability of the banking system, whether or not to provide temporary emergency liquidity assistance (ELA) against appropriate security provided by the bank. The twofold objectives of such assistance are to

– provide some breathing space to an institution facing problems with short-term funding in order to enable it to implement corrective measures; and
– prevent illiquidity from precipitating a situation of insolvency and to prevent the contagion effect of bank runs.

The complete minutes of the shortest Board meeting held in the history of the SARB.

22nd January, 1936. 3/310

Meeting of the Board of Directors of the South African Reserve Bank held in the Board Room on Wednesday, 22nd January, 1936, at 10 a.m.

There were present:- The Governor (Chairman), the Deputy Governor, Sir Ernest Chappell, C.B.E., Messrs. Duncan Baxter, de Jager, Jorissen, Kolbe, Lotz, Niven, Parker and Pyott.

In view of the sad and unhappy circumstances which had arisen owing to the death of His Majesty King George V, the Governor proposed that the Meeting should dissolve directly after taking the following resolution :-

> The Board of the South African Reserve Bank desire to place on record an expression of their profound sorrow at the death of His Majesty King George V, who, during his long, eventful and distinguished reign, evoked the admiration of the Nation and World at large. Further, they most respectfully wish to add a sense of their deepest sympathy with the members of the Royal Family and especially with the Queen-Mother in this personal and national calamity.

Directors signified their assent to the Resolution by rising in their places. The Meeting then dissolved.

8th April 1936.

Chairman.

The ELA function should be distinguished from the SARB's normal liquidity provision facilities through the daily repo auctions. Decisions on ELA assistance are made on a case-by-case basis, taking into consideration the implications of a bank failure for the stability of the monetary and financial systems of South Africa.

The SARB's ELA function is totally compatible with its objectives. Universally, central banks are tasked with the function of promoting, supporting and maintaining overall financial stability. Because financial stability is essential for economic growth and as a minimum prerequisite for sustainable economic development in the long term, the primary objective of ELA is to ensure monetary and financial system stability.

8.6.1 Preconditions for emergency liquidity assistance

The basic precondition for the provision of ELA is the judgement of the SARB that if it were to be deprived of liquidity assistance, the failure of an illiquid banking institution would damage the stability of the monetary or financial system (i.e., systemic risk would result). In addition, a number of preconditions for ELA would apply. These preconditions include that

- the institution has a sufficient margin of solvency;
- the ELA would be collateralised adequately;
- the institution has sought other reasonable available sources of funding before seeking ELA;
- the shareholders of the institution have made all reasonable efforts to provide liquidity and/or solvency support as a demonstration of their own commitment to the institution;
- there is no evidence at first sight that the management is not fit and proper, or that the liquidity problem is due to fraud; and
- the institution has developed, and is committed to, the implementation of a viable plan of appropriate remedial action to deal with its liquidity problems.

As a measure of whether an institution has a sufficient margin of solvency, the SARB will generally require the institution to demonstrate that, after making an adjustment for any additional provisions that might be necessary, it maintains a capital-adequacy ratio that is appropriate for its operations. Usually, these calculations will be the subject of a due diligence review instituted by the SARB.

8.6.2 Instruments used to provide emergency liquidity assistance

The South African Reserve Bank Act does not allow the SARB to make any unsecured loans to banks. Therefore, all ELA loans have to be fully collateralised. However, there is no prescription regarding the exact form or order of preference that such collateral should take.

Under normal circumstances the SARB would provide emergency liquidity assistance against the most liquid and less risky assets of banks.

The Head of each branch office of the SARB was initially known as the Agent (short for the Governor's Agent). This title changed to Branch Manager in the 1970s.

These would typically include high-quality marketable securities, such as negotiable certificates of deposit (NCDs), government bonds, Treasury bills and high-quality non-government bonds. However, these assets may sometimes not be adequate to secure the amount of ELA required. In such cases, the SARB could also grant credit against the security of the institution's asset portfolio.

The decision whether ELA is provided to a bank, the amount that is provided and the assets that are accepted as collateral are determined on a case-by-case basis, depending on the degree of systemic risk and the specific characteristics of the troubled bank.

Since the purpose is to provide the institution with temporary breathing space to resolve its difficulties, ELA would in normal circumstances be provided only on a short-term basis. However, the SARB could extend the duration of such assistance, at its discretion, depending on the situation.

Interest on ELA support would usually be charged at a rate sufficiently high to maintain incentives for management to resolve the bank's difficulties, but not at a level that would defeat the purpose of the facility, namely to prevent illiquidity from precipitating insolvency.

8.6.3 Emergency liquidity assistance for branches of foreign banks

The policy outlined earlier applies to the provision of liquidity to locally incorporated authorised institutions whose failure might have systemic implications. Normally it would not be the policy of the SARB to provide branches of foreign banks operating in South Africa with ELA. This is a recognition of the fact that the liquidity of a branch cannot readily be divorced from that of the parent bank. It follows, therefore, that the parent of a branch, supported if necessary by ELA in the parent's home country, would be expected to provide enough funding to enable the branch in South Africa to meet its obligations. If the parent were unable to do so, there would be no alternative but for the branch to close its operations in South Africa. In such circumstances, the SARB would consider whether to use its powers under section 69 of the Banks Act, 1990, to appoint a curator to take control of the affairs, business and property of the branch in South Africa.

The SARB might, however, provide financial assistance to a branch with funding problems in three circumstances:

1. For purposes of normal liquidity accommodation in special circumstances, the SARB might accept foreign collateral of equivalent standing to that eligible for daily repos in order to provide liquidity to branches of foreign banks operating in South Africa. For example, central government paper of most member countries of the OECD would be acceptable for this purpose.

Official cars of the governors and deputy governors

Small anecdotes are known about official cars of governors and deputy governors, but these anecdotes should perhaps start with some information on the transport arrangements of the first secretary of the SARB. It is known that Mr Alexander Burns came to work every morning on a two-stroke motorcycle. The picture of the first building occupied by the SARB depicts a car and two bicycles parked in front of it. It is not known whether it is the Governor's car that is depicted, and perhaps the Deputy Governor's bicycle?

In the 1950s the Governor's official car was a Pontiac Strato-Chief. This car was later used by the Deputy Governor. It seems that this might have been the first official car provided by the SARB to the Governor. This was a big car, and set the trend for most of the cars used by governors and deputy governors for many years to follow.

Early in 1973 it was decided to import an official vehicle for the Governor from the United States. After consideration of alternative options, a beige Buick was selected. When the car arrived in Pretoria there was considerable consternation, as it was rather yellow and not quite beige. A further complication was that the car arrived at the time of the 1973 oil crisis. The Governor elected not to use the car, and it was duly replaced with a considerably smaller Chevrolet 4100 as his official car.

A Deputy Governor nearly wrecked his car in the SARB's parking garage. By accident he crashed into a pillar. He was not injured in the accident.

On occasion the SARB had a Governor who preferred to drive his own car to the office in the morning, as he was really not a "morning person". He was followed every morning from the official residence to the office by his security contingent, comprising his driver and VIP protector, in a second car. This Governor's new BMW was some three months old when he stopped one morning at a red traffic light, and the security contingent duly crashed into the back of his car. All staff members in the SARB were on their best behaviour for the rest of that week, and avoided the Governor.

On occasion a Senior Deputy Governor arrived at the SARB on Monday morning straight back from his farm near Modimolle. At about 10:00 on that morning it was realised that he had brought a snake with him, that started emerging from below the car. Considerable consternation followed, as the SARB does not employ snake handlers.

One morning on his way to the office, a Deputy Governor's car developed mechanical problems. The Deputy Governor left the vehicle next to the road and hiked to work. This resulted in a lot of excitement, as he was dropped off at Head Office by a cafe owner with vegetables and live chickens on his truck.

2. The SARB might swap South African rand for US dollar held by the branch if no suitable counterparty can be found in the market.

3. The SARB might provide urgently required bridging finance on a secured basis to a branch, pending the branch's receipt of funds from its parent. This would be done only if the SARB is satisfied that the funds would indeed be forthcoming from the parent and if the home country supervisor has given assurance to that effect.

8.6.4 Funding support requiring specific approval from the Minister of Finance

Based on the criteria set out above, the SARB would provide ELA at its discretion. When the criteria are not met, funding support would be provided only with the specific prior approval of the Minister of Finance. This would include situations where
- the institution is unable to comply with the preconditions for ELA set out earlier. This would involve more serious situations falling outside what the SARB would consider to justify ELA;
- it is considered necessary to provide funding support that exceeds the ELA support criteria set out earlier; and
- the institution concerned cannot provide eligible security as prescribed.

Any funding provided in these circumstances would have to be considered on merit in the light of the implications for systemic stability. In addition, the SARB would consider whether to appoint a curator under section 69 of the Banks Act, 1990 to safeguard the assets of the institution, and to protect the interests of depositors and other creditors.

8.6.5 Default situations

Should ELA not be repaid on maturity or should the SARB not be prepared to roll over the funding, the SARB would have to consider a number of other options, including the option of recommending to the Minister of Finance that the bank in distress be placed under curatorship. A curator would be appointed to a bank only if deemed to be desirable in the public interest, after consultation with, and with the written consent of, the chief executive officer or the chairperson of the Board of Directors of the bank concerned. The future of a bank that is placed under curatorship depends on its particular circumstances. If the bank is insolvent, the decision to support it through capital injections or other measures resides with Government. Such a decision would take into consideration the public cost of possible financial instability resulting from a bank failure, compared to the public cost of supporting such a bank.

A Senior Deputy Governor ordered a new official car from a dealership in Ermelo. A SARB driver was identified and dispatched to fetch the car. On his way back to Pretoria, the driver was involved in an accident with the new car. Again staff members were on their best behaviour for a week or so.

On his way to a function in Johannesburg, a Governor's car developed a mechanical fault. The Governor and the VIP protector started hiking, and were given a ride by a student on his way to the library. When the student dropped the Governor at his destination, he asked for a business card. The Governor gave him a R20 note and said, "My name and address appear on this".

One Friday evening a Deputy Governor's white Mercedes-Benz was reported missing from the VIP parking area. This was a major cause for concern, with questions being raised about overall safety in the building. It transpired on the following Monday morning that a staff member had been allocated a white Mercedes-Benz from the SARB's fleet of pool vehicles on the Friday in question, and had taken the Deputy Governor's car by mistake.

A Governor, who preferred to drive his own car, purchased a fast British car. His security contingent followed him in a SARB car wherever he went, but soon reported that the SARB had to buy them a faster car. They could not keep up with the Governor.

An extract from original staff instructions

4. Marriage – Any member of the staff intending to be married must advise the Bank of such intention.

   The life of a married official must be insured for at least £250, and the Bank will require to be satisfied that the premiums are regulary paid. Subject to this condition the Bank will not withhold permission to marry, provided there exists no special reason for it so doing, but, in leaving this question to the judgement of the officer concerned, it should be understood that the Bank regards with disfavour marriages upon inadequate incomes and, should financial embarrassment arise from imprudent conduct in this respect, it would view the matter seriously.

9. Support services

9.1 Accounts

To fulfil its responsibilities, the management of the SARB has established and maintains an adequate and effective system of financial controls, and ensures the requisite compliance. This system provides reasonable assurance about the integrity and reliability of financial and management information, and is based on the established written policies and procedures of the SARB.

Policies and procedures are implemented by trained and skilled staff, and duties are appropriately assigned. All staff members are required to maintain the highest level of ethics in ensuring that the activities of the SARB are conducted in a manner that is beyond reproach. Systems are in place to ensure the safeguarding of, and control over, assets, the economical and efficient use of resources allocated, and the effective performance of all functions.

The SARB generates income from its activities. The SARB is not a profit-maximising organisation, but is strives to cover the cost of its operations and to generate reasonable surpluses in order to build capital reserves. However, in the execution of its public duties the SARB has also periodically incurred losses. When a surplus has been achieved, the balance of the surplus after allowing for certain provisions, payment of company tax on profits, transfers to reserves and dividend payments of not more than 10 cents per share per annum to shareholders, is paid to Government.

9.2 Audit function

In order to assist with broad controls, the SARB has an internal audit function. The primary objective of the internal audit function is to evaluate independently the corporate business risks of the SARB and its subsidiaries, and to provide objective assurance and consultancy services on the adequacy and effectiveness of the system of control, governance and accounting processes.

The internal audit function is performed in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The scope of internal audit work includes assessment of the various components of the system of control, focusing on the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; accomplishment of established objectives; and compliance with laws, regulations, contracts and procedures.

The SARB is also subject to an annual external audit. Two external audit firms annually submit a joint audit report on the accounts of the SARB.

Editorial Notes
Redaksioneel

Well, here it is at last; the very first issue of the South African Reserve Bank Staff Magazine. Thanks to the enthusiasm and co-operation of the entire staff, the Bank and more especially of course, the various committees, what a few short months ago was merely an idea, has become reality.

Let us hope that in the years to come the Magazine will succeed in enabling the staff to keep in touch and get to know each other in spheres not necessarily always related to banking and in so doing, achieve its object – the creation of a wonderful Esprit-de-Corps amongst us all.

9.3 Human resources

As at 31 March 2011 the SARB employed 2 215 people. The particular nature of the activities of the SARB necessitates specialised knowledge in many areas. In order to ensure an adequate knowledge base at all times, the SARB invests significantly in staff training, maintains succession plans for key personnel and is committed to remunerating staff on a market-related basis.

Training and development offered to staff range from basic adult education and training to courses in core business, management and leadership. The SARB also finances the tertiary education of staff, and the dependants of staff members and pensioners of the SARB.

The SARB's training and development extend beyond its own employees. Through the SARB College a number of high-level workshops and seminars are presented for specific niche markets. The SARB College is regarded as a key partner for international training institutions to offer capacity-building interventions on the African continent. The SARB College co-operates with central banks in the SADC region and international training institutions such as the IMF and World Bank institutes. The SARB College also manages the SARB's Cadet Graduate Programme.

9.4 Corporate support

In the performance of its functions as a central bank, the SARB requires facilities, buildings and services that cater for its unique requirements. The SARB occupies its own Head Office building, and its branch offices are also accommodated in their own buildings. The SARB's property portfolio is reviewed and improved on a regular basis to ensure that it still meets the SARB's requirements. At a corporate level the management of assets other than property owned by the SARB is also important, as the SARB owns, *inter alia*, an extensive art collection.

The SARB requires substantial ICT support. In the main, the SARB ensures the internal provision of ICT services, but relies on external service providers and consultants whenever required. The optimal utilisation of ICT is viewed as an important instrument to enhance the productivity of the SARB's staff.

The SARB has an internal legal function with responsibility for, *inter alia*, the review and safekeeping of contracts, and the management of the SARB's over-the-counter share-trading facility and register of shareholders.

The SARB is responsible for the provision of secretarial services to its Board of Directors, board committees and to various internal committees. An additional responsibility is the annual arrangement of the SARB's ordinary general meeting of shareholders.

In the beginning...

The younger members of the Bank who are today, one and all, housed in modern well equipped offices, may find it hard to believe that our institution first opened for business on the 30th June, 1921, in the shabby single storied structure featured in the photograph opposite the next page. The origin and antiquity of this building, which was situated in what is today the centre of the busiest shopping area of Pretoria, is in some doubt, but it certainly belonged to the last century.

Prior to moving into this building preliminary arrangements had been effected in certain offices at the Union Buildings and there are doubtless still some who will remember the narrow and extremely long room used for personal interviews by the first Governor Mr. W.H. Clegg and his Deputy Mr. H.C. Jorissen. In those early days when there were literally hundreds of applicants for very few posts, aspirant Reserve Bank clerks had to traverse the at least 100 yards (or so it seemed) to the far end of this room for their interview, while being observed over the tops of pince nez by these two very dignified and awe inspiring gentlemen - walking the plank was child's play!

However, to revert to our first premises. The interior was architecturally no less depressing than the exterior but fortunately during the next year the general atmosphere of the former was improved considerably with the appointment of the first lady clerks to the Bank's note department. A bonny and comely lot who inevitably hied themselves to the milliner next door, there to expend their princessly salaries of some £9 per month. From the first payday onwards there was a distinct upward trend in male morale coupled unfortunately with a definite lessening of concentration on banking.

The Bank issued its first Weekly Statement on the 2nd July, 1921, and you may find it interesting to note that "subsidiary coin" at that time figured as £20.6.6. whereas at present the figure fluctuates between £400,000 and £500,000.

Central banking was pretty well uncomplicated for the mere clerk in those days. The machine age had not arrived and almost everything was manually performed. At times there was little to do beyond balancing the attendance register!

Way back in 1921 transport problems did not exist. The worst that could happen was to trip over your own feet when walking to work and if some Croesus ventured to arrive on a second-hand bicycle costing a pound or two it was almost enough for the manage-

The SARB complies with health, safety and environmental legislation, and is committed to safeguarding the interests and wellbeing of employees. The SARB acknowledges the importance of its responsibilities, and is committed to ensuring that a healthy and safe working environment is maintained at all times. This is ensured through the regular commissioning of compliance assessments and environmental studies by external specialist organisations, accompanied by the implementation of corrective actions if required.

Extensive critical business and technology testing, and exercise of procedures and corrective alignment are carried out on an ongoing basis to ensure business continuity management in the SARB. The SARB contributes towards the establishment and maintenance of resilient business continuity capacity within the broader financial sector, including the cash management industry.

ment to request the opulent individual to sign an extra blue form.
Our first Secretary was someone from another planet; he possessed and rode to work a two-stroke motor cycle of some antiquity.

Life went smoothly and often hilariously until early in 1921 when the Rebellion broke out on the Rand. The entire male staff, six in number, were permitted to enrol in the armed forces and after signing on, all, having an hour or two to spare, returned to the Bank to find the Chiefs in a wonderful muddle over the balancing of the weekly Trial Balance. It is regrettable to have to record that considerable sadistic pleasure was derived from the viewing of their effort. We were after all on the verge of a great adventure into the wide open spaces and we cared little for the discomforture of our elders and betters. To our deep regret hostilities lasted a mere ten days!

Security arrangements in the Bank were, for a time, even more elaborate than they are today. Somewhere in the middle twenties a massive and ferocious hound of the Dobermann Pinscher variety was acquired to assist the night-watch. It was kept in the back yard during the day and it roamed the Bank at night, and in the course of it's short career it bit all and sundry in many and varied places. For some reason the highly placed officer responsible for this innovation managed to remain immune from these attacks for some time and as a result, the pleadings of many deputations for the animal's removal fell on deaf ears. However early one morning Nemesis eventually overtook the stubborn gentleman in the shape of a painful bite out of his calf, and needless to say the dog was summarily dismissed from the service with a piece of human fleshin lieu of a month's notice.

It was not until 1925 that activities were extended elsewhere and in that year branches were opened at Johannesburg, Cape Town and Durban, followed by Port Elizabeth and East London in 1926. After this there was a lull in branch expansion through the depression years of the 1930's and it was not until 1939 that a branch at Bloemfontein was opened, followed by one at Pietermaritzburg in 1942. Temporary premises were used for a number of years at all but the two last mentioned places but today we occupy our own very fine buildings wherever we are represented.

The Head Office of the Bank remained in its single-storied obscurity for almost exactly ten years until 1931 when we moved into our present very fine building, designed by Sir Herbert Baker and depicted on the cover of this Magazine.

-------oOo------

10. Subsidiaries of the South African Reserve Bank

To ensure the proper functioning of the SARB and the optimal discharge of its responsibilities, over a period of some 60 years some of the SARB's activities have been organised in subsidiary companies. Although this was not initially the case with all the subsidiaries, the SARB is currently the sole owner of its subsidiaries.

The SARB's first subsidiary was the NFC, which commenced operations on 20 September 1949. The NFC was established with the aim of deepening the domestic money market, thereby ensuring the utilisation of capital in the best economic interests of South Africa. The NFC accepted as liabilities deposits from Government and quasi-government institutions, and invested mainly in Treasury bills and other government securities. The liquidity of the NFC was guaranteed in terms of an agreement that the SARB would discount its holdings of Treasury bills, as and when required, at the rates at which the NFC acquired the bills.

In 1984 the CPD was established as a subsidiary of the SARB after the dissolution of the NFC. The CPD is governed by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984). The CPD accepts call deposits from the public sector and invests the funds in short-term money-market instruments and special Treasury bills. With the permission of the Minister of Finance, the CPD may also accept call deposits from other depositors. All funds invested with the CPD and any interest earned are payable on demand.

The CPD is managed and controlled by its Board of Directors, appointed by the Minister of Finance. The Chairperson of the CPD is a deputy governor of the SARB. The SARB is responsible for the investments and administration of the daily business operations of the CPD.

When the decision was made in 1958 to print South African banknotes domestically rather than abroad as was the practice at the time, the SARB and a British banknote printer, Bradbury Wilkinson, established as a joint venture company the SABN. A suitable factory for printing banknotes was built.

The shareholding of Bradbury Wilkinson in the joint venture company was subsequently taken over by the SARB and the SABN is currently one of the four wholly owned subsidiary companies of the SARB. The SABN prints banknote denominations currently in use in South Africa and also prints banknotes for neighbouring countries. It has a separate management structure and functions as an independent subsidiary. The members of its board are appointed by the Board of the SARB.

Launch of the South African rand

On 8 August 1956 the South African Government appointed the Decimal Coinage Commission to consider the merits of introducing a local decimal currency. This commission submitted its findings nearly two years later (on 1 August 1958) and recommended the introduction of a decimal currency for South Africa. Before decimalisation, South Africa used a somewhat confusing system of pound, shilling and pence (£/s/d), with £1 comprising 20 shillings and a shilling not only comprising 12 pennies, but the abbreviation "d" used for penny.

It was decided to use the name *rand* for the new currency. The name is derived from the Witwatersrand, which refers to the area near Johannesburg. The conversion rate from £/s/d to rand was set at £1 = R2 and 12 pennies = 10 cents.

The rand was launched on 14 February 1961, when the SARB introduced rand banknotes and the Government launched coin. Responsibility for coin issue was transferred to the SARB in 1988, after the SARB had bought the South African Mint from the Government. Rand notes in denominations of R1, R2, R10 and R20 were issued at the time. Adjusted for inflation since 1961, on average, some R58,50 would be required today to buy the same goods and services as R1 in 1961.

The first decimal notes and coin had many of the characteristics of the notes and coin they replaced, such as size and colour (e.g., the R10 note looked like the previous £5 note). This was an attempt to limit public confusion. The jingle "Decimal Dan, the rand/cent man" was used to educate the public and raise awareness of the new currency. The jingle was produced in a number of languages that have official language status in South Africa today.

The SARB introduced local currency printing at the time of the introduction of the rand. Earlier all banknotes were printed in the UK. To this end, the South African Bank Note Company (Pty) Ltd was established in 1958 as a joint-venture subsidiary of the SARB and Bradbury Wilkinson. The partner was required to ensure skills transfer. The SARB bought the interests of its partner in the 1970s.

When the company was established, the accepted convention was to write "bank note" as two words, and the company's name was registered in this way. Today it is written as one word, so the South African Bank Note (two words) Company produces banknotes (one word).

The history of minting coins in South Africa goes back to the period when South Africa comprised four separate regions that later became provinces of the Union of South Africa. A government mint was established in Pretoria in 1890. This mint commenced with the domestic production of coin in 1892.

After unification of South Africa in 1910 the country used British coin as well as coin of the Zuid-Afrikaansche Republiek. The latter remained legal tender until 1938, while British coin remained legal tender until 1961. Coining operations in Pretoria evolved into the South African Mint, which was established in 1923, and functioned as a division of the central government. When the Government sold the South African Mint to the SARB in 1988, it was decided to house the coining activities in a wholly owned subsidiary company, the SA Mint.

The SA Mint is responsible for manufacturing of all circulation coins issued in South Africa and also produces coin for other countries. This company also mints the Krugerrand and the Natura and Protea coins. Numismatic coins are sold by the SA Mint, while the Rand Refinery has, since the inception of the Krugerrand, played a major role in its issue. The SA Mint is an independent subsidiary with its own board (appointed by the Board of the SARB) and management structure. The Chairperson of the Board of the SA Mint is a deputy governor of the SARB.

The youngest of the SARB's subsidiaries is the SARBCIC Ltd, a captive insurer licensed to carry out short-term insurance business in terms of the Short-term Insurance Act, 1998 (Act No. 53 of 1998) for, and on behalf of, the SARB and its subsidiary companies. SARBCIC's primary purpose is to provide an efficient risk transfer mechanism, thereby reducing dependency on external insurers and optimising expenditure on insurance over the long term. In terms of conditions for its registration, SARBCIC may only issue insurance policies to cover risks of the SARB and its subsidiary companies, including risks related to its pension and/or provident funds (first-party risks).

SARBCIC is managed and controlled by a Board of Directors that is appointed by the SARB. One of SARBCIC's directors, who is a full-time permanent staff member of the SARB, is appointed to serve as its Chief Executive Officer. The SARB is responsible for the management of the company, which includes responsibility for the investments and administration of its daily business operations.

Consideration of the first South African rand banknote series. Mr S F T Greaves (Chief Cashier) on the left and Dr G Rissik (Governor) on the right.

11. International and regional co-operation

In the SARB's relations with multilateral institutions, considerable focus is placed on participation in key forums such as the G-20, the IMF and the World Bank. The G-20 has replaced the G-8 as the premier forum for international economic co-operation and co-ordination. It deliberates and seeks to provide guidance on, *inter alia*, the global economic and financial outlook, global imbalances, reform of the international monetary system, financial regulation and reform of international financial institutions, fiscal elements of growth and development in G-20 member countries, policy issues pertaining to commodity cycles and financial stability, and Bretton Woods reform.

As the host of the Secretariat of the CCBG in SADC, the SARB supports the implementation of CCBG projects. As a consequence, progress is visible in the legal, payment system, ICT, and macroeconomic and banking supervision committees. This progress is shared with the parliamentary finance committees in SADC countries through the ratification of the Finance and Investment Protocol, a key instrument for the advancement of regional economic integration in SADC. SADC's ultimate aim is the establishment of a regional central bank and the introduction of a single currency for all SADC countries.

The SARB is one of only two African central banks with a shareholding in the BIS in Basel, Switzerland. The BIS serves, *inter alia*, as a forum for central bank governors to discuss matters of mutual interest.

Telephones: Sweet revenge
by Mr R Barclay, a pensioner of the SARB

The mezzanine floor in the SARB on Church Square was where the top management was based. Often one of the managers leaned over the balconies and looked down at the Pretoria Branch staff. He would later comment on a particular person to the Branch Manager who would relay the message to the Accountant, who would eventually talk to the "culprit".

Sometime later (be it weeks or months) the senior person on the mezzanine floor would receive a telephone call. All the telephones were black, bulky and heavy. All that he heard was, "Sorry I have dialled the wrong number" and the telephone would be put down. What the recipient did not realise was that the earpiece of the telephone had been wiped full of endorsement stamp pad ink. It took an effort to clean his ear. Top management could not point a finger to the guilty person who had "endorsed" his coloured ear.

Some of the SARB's gold holding in the late 1960s.

12. Communication supporting the implementation of monetary policy

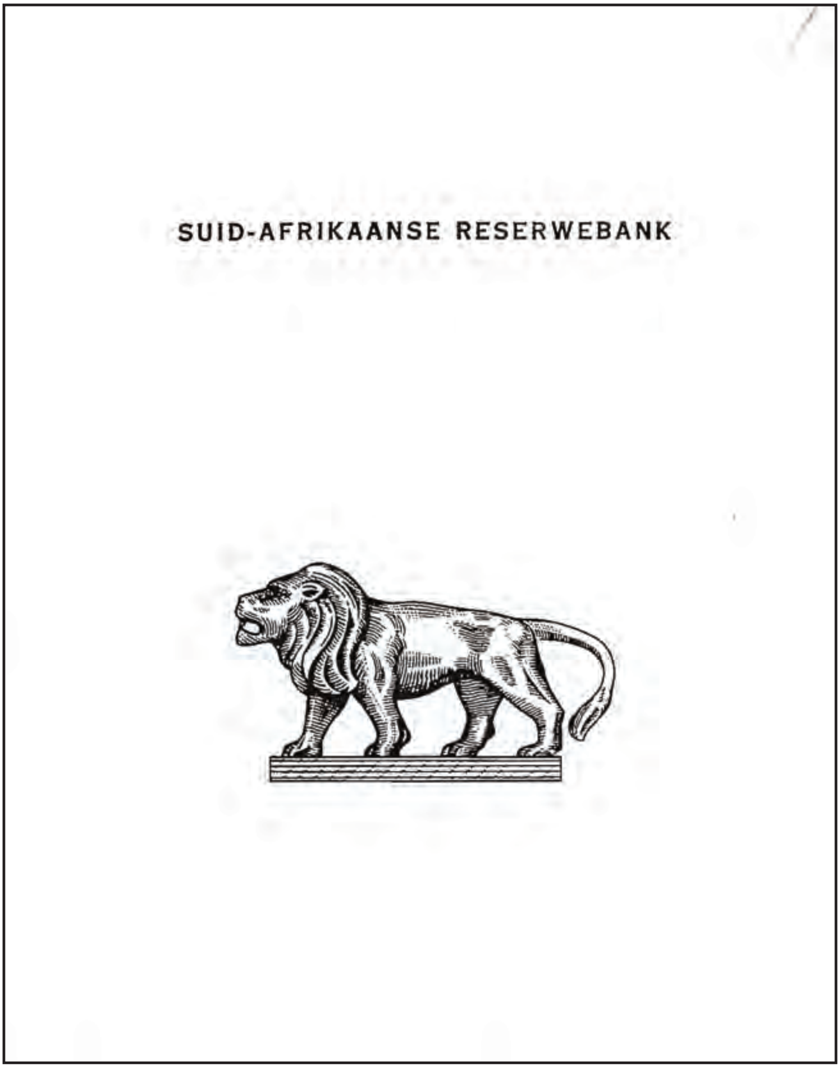
The SARB understands that monetary policy will only be supported if it is understood by the SARB's various stakeholders. The most important of these stakeholders are (in alphabetical order) the business community, Government, labour, media, Parliament, public, shareholders of the SARB and staff members of the SARB.

The most important initiative to improve communication and transparency about the formulation of monetary policy was the establishment of the MPC with responsibility for setting the repo rate. The MPC introduced certainty about adjustments in monetary policy in as much as
- responsibility for monetary policy decision-making is entrusted to the MPC;
- the MPC meets at predetermined intervals and on predetermined dates, published up to a year in advance;
- any element of surprise about the timing of monetary policy decisions (although not about the decision itself) is removed;
- a detailed statement accompanies the announcement of the MPC's decision. Although the minutes of the MPC meeting are not released, the statement details the rationale and assessment of economic conditions that led to the decision; and
- the MPC's decision is announced after each meeting at a media conference and in a media statement. In conjunction with broadcasting networks and by means of a webcast, the SARB broadcasts the MPC announcement live after each meeting to ensure that everyone receives the information about the decision on interest rates simultaneously.

Communication about the implementation of monetary policy is also enhanced by the publication of a *Monetary Policy Review (MPR)*. The *MPR* appears twice a year and is discussed at Monetary Policy Forums. The SARB hosts such forums twice a year in all the provinces of South Africa. The *MPR* analyses developments in, and factors influencing, inflation; assesses recent policy developments; considers the outlook for inflation and reports on the MPC's assessment of inflation and the SARB's inflation forecast. It provides an *ex post* insight into matters on which the MPC has deliberated.

The SARB published *Annual Financial Statements* until 2002, but reporting and disclosure in the statements improved to such an extent that the report was renamed *Annual Report and Financial Statements* with effect from the publication of the statements for 2003. The name was changed to *Annual Report* in 2006. The revised name reflects its nature, in as much as the SARB reports on matters much broader than only its financial affairs. The *Annual Report* attracts considerable media attention, enhancing the accuracy of reporting on the activities of the SARB.

The front page of, and some extracts from, the staff policy booklet of the SARB published in 1968. It is interesting to note the use of a lion as logo of the SARB. As this logo was never registered in favour of the SARB, it fell into disuse.


SUID-AFRIKAANSE RESERWEBANK

The SARB introduced its Outreach Programme in 2009. The programme facilitates two-way communication between the Bank and stakeholders in the South African economy. The programme is aimed at creating greater awareness and understanding of the contribution made by monetary policy to the broader national economic agenda.

The Outreach Programme is implemented by means of a two-pronged approach. Firstly, the Governor hosts economic roundtable meetings that are mainly targeted at economists from corporates, trade unions and the markets. The central banks of CMA countries are also invited to these meetings. The main aim is to share and debate views on topical economic issues. These meetings are held in alternate months to MPC meetings.

Secondly, the Governor hosts bilateral meetings with stakeholders from the main sectors and subsectors of the economy. These stakeholders include business chambers, trade unions, political parties and other professional groupings. These meetings focus on sector-specific issues within the broader macroeconomic policy framework.

Other forms of external communication used by the SARB include briefing sessions with media representatives, and speeches by the Governor, deputy governors and other senior officials of the SARB. In addition, the SARB's website is used extensively to alert the media, market participants, staff and the general public to important matters pertaining to the SARB.

The staff magazine of the SARB, *BankIndaba*, is published regularly. It is used to improve communication with, and among, staff members.

SOUTH AFRICAN RESERVE BANK

At the outset we should like to take this opportunity to welcome you as a new member of the staff of the South African Reserve Bank.

We are glad to have you with us, and would like you to become proud of the Institution you will serve. May you share with the staff the personal satisfaction that comes from making a worthwhile contribution to the life of the Bank as it is called upon to carry out its various functions in the service of South Africa.

It is important for each member of the staff to clearly understand what the functions of the Bank are, in order that they may perform their duties to the best of their ability. Accordingly, if you have any problems relating to these functions, or if you have questions about your own particular tasks, do not hesitate to approach one of the signing officers who will be very pleased to discuss them with you.

You will find that the Bank is concerned about the working conditions and welfare of its staff and endeavours to provide the most modern of equipment and accommodation. The various facilities available for the personnel are of a high standard as the Bank is anxious to have a happy and contented staff.

This booklet tells you briefly and simply something about the South African Reserve Bank and your place in it – what you can expect and what is expected of you. It is suggested that you read it carefully and thoughtfully.

We wish you every success. Put all you have into the fulfilment of your worthwhile career and you cannot fail to reap a rich reward.

We believe that this is the beginning of a happy relationship with the South African Reserve Bank and that you are going to enjoy many years of service in it.

TW de Jongh

GOVERNOR

13. Governance

To fulfil its responsibilities, the management of the SARB has established and maintains an adequate and effective system of internal control and ensures compliance therewith. This internal control system, which is designed to provide sufficient assurance about the integrity and reliability of financial and management information, is based on the established written policies and procedures of the SARB. Policies and procedures are implemented by trained and skilled staff, and duties are appropriately segregated. All staff members are required to maintain the highest level of ethics in ensuring that the practices of the SARB are conducted in a manner that is beyond reproach.

The SARB is committed to the principles and complies to a significant degree with the prescriptions of its own legislation with the requirements of the *King Report on Corporate Governance* (*King III*).

13.1 Board and Board committees

13.1.1 Board of Directors

Board of Directors, 24 February 2011

Front row: Dr D Konar, Ms N D Orleyn, Mr A D Mminele (Deputy Governor), Ms G Marcus (Governor), Dr X P Guma (Senior Deputy Governor), Ms T N Mgoduso, Prof. B W Smit
Back row: Dr J J Rossouw (Acting Secretary), Dr J J de Jager (General Counsel), Prof. R W K Parsons, Ms Z P Manase, Mr J F van der Merwe, Mr S M Goodson, Dr M Mnyande (Chief Economist and Adviser to the Governor), Mr H H van Gass (Assistant Secretary)

The Board of Directors meets regularly to ensure that the functions that it has delegated to executive management through a structured framework are implemented. This structured framework includes receiving reports from various Board committees and subcommittees, chaired by non-executive directors, and from the GEC, which is responsible for the day-to-day management of the SARB.

YOU AND THE SOUTH AFRICAN RESERVE BANK

CONDUCT

It is expected that every member of the staff will make the service of the Bank one of which all may be proud. This can only be done if each one conscientiously plays his part, and you must think of yourself as being a representative of your Bank at all times.

It need hardly be said that the conduct of the staff in their private lives, should be exemplary. In this connection it may also be mentioned that officers should be particular in the choice of their leisure-time friends as the company they keep can also reflect on the good name of the Bank.

Employees are expected to pay special attention to the question of maintaining themselves in good health. Obviously, the Bank would have to ask an officer to leave its service if his state of health caused him to be continually absent from duty. All officers are encouraged to participate in some branch of sport.

The Bank expects its staff to practise thrift and to live within their means and avoid getting into debt. The borrowing or lending of money between members of the staff is prohibited and a serious view is taken should an official become financially embarrassed in any way. It should also be mentioned that members of the staff are expected to carry adequate insurance cover for any motor vehicle they may own.

Perhaps it should be added that marriages on inadequate salaries are looked upon with disfavour, as frequently the persons concerned soon find themselves in financial difficulty.

Members of the staff are expected to present a neat and clean appearance at all times. If the Bank's office jackets are not used conventional suits must be worn and not sports jackets (or blazers) and grey flannels. During the summer months the male staff may, with the Bank's approval, wear suitable jackets and short trousers.

Considerable importance is attached to being at work at the appointed time in the mornings, after tea breaks, and also after the lunch hour period. It should be mentioned that the Bank is averse to insurance agents interviewing the staff during office hours.

13.1.2 Non-executive Directors' Committee

The Non-executive Directors' Committee comprises the non-executive directors of the SARB. The primary function of the committee is to assist the Board in fulfilling its legal and fiduciary obligations and responsibilities, and to enhance corporate governance matters and practices.

13.1.3 Audit Committee

The Audit Committee is a subcommittee of the Board and the SARB's external and internal auditors have unrestricted access to the Chairperson of this committee. The committee reviews the financial statements and underlying accounting policies, the effectiveness of management information, other systems of internal control and the internal audit function.

13.1.4 Remuneration Committee

The Remuneration Committee, also a subcommittee of the Board, reviews human resources matters and remuneration practices and policies.

13.1.5 Board Risk Committee

The Board Risk Committee reviews the risk management processes applicable to the operations of the SARB and recommends areas that internal and external auditors should review.

13.2 Governors' Executive Committee (GEC)

Govenors' Executive Committee, 28 February 2011

Front row: Dr M Mnyande, Mr A D Mminele (Deputy Governor), Ms G Marcus (Governor), Dr X P Guma (Senior Deputy Governor)
Back row: Dr J J Rossouw (Acting Secretary), Dr J J de Jager, Mr H Mathebula, Mr L van Zyl
Insert: Mr E M Kruger

Employment contract of Mr C E L (Clive) Crompton, the longest-serving staff member of the SARB as at its 90th Anniversary on 30 June 2011. He was appointed at a salary of R1 800,00 per annum with effect from February 1971.

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to the value of 30 Cents.

Articles of Agreement

For SOUTH AFRICAN RESERVE BANK

DEPUTY GENERAL MANAGER

made and entered into between the

SOUTH AFRICAN RESERVE BANK

(hereinafter referred to as "the Bank")

and MR. CLIVE EDWARD LAKE CROMPTON

(hereinafter referred to as "the employee").

The employee is appointed to a position in the service of the Bank on the following conditions mutually agreed upon between the employee and the Bank:—

1. The employee shall at all times while he is in the Bank's employ serve it faithfully and diligently in any place in any position connected with banking which the Bank may order.

2. The employee hereby solemnly declares that he will observe the strictest secrecy in respect of all transactions of the Bank or its customers, and in all matters relating thereto, and hereby pledges not to reveal to outsiders any information which may come to his knowledge in the discharge of his duties.

3. The employee shall devote his time exclusively to duties in the Bank and shall not engage directly or indirectly in any other business or occupation, whether for profit or otherwise, unless he has previously obtained the written permission of the Bank.

4. The employee shall not get into debt or stand surety for anyone, unless he has previously obtained the written permission of the Bank, and should judgment be given against him for any debt incurred by him or should he have dealings with any moneylender he shall be liable to instant dismissal from the Bank's service.

5. The employee shall be paid for his services a salary commencing at the rate of R 1,800 p.a.
(One thousand eight hundred Rand per annum)
per annum, payable monthly, to commence from the date he joins the service of the Bank.

6. This appointment shall be terminable by one calendar month's written notice to be given by either side, but shall be subject to immediate cancellation by the Bank for breach of any of the provisions of this Agreement, or for any act of intemperance, or if the Bank is satisfied that the employee is not fitted for his work, or in the event of the Bank deciding for any just cause that the contract should be so cancelled. It is further agreed that should the employee leave the service of the Bank contrary to the terms of this agreement, he shall forfeit and pay to the Bank, on demand, a sum equivalent to one month's salary as liquidated and ascertained damages.

7. (a) The Bank hereby undertakes to insure the employee against death by accident, whether caused by the negligence of the Bank or not, in an amount to be determined by the Bank, and, subject to the exceptions of the Bank's policy, the proceeds shall be used in the first instance by the Bank to meet any claim or claims which may be made by the widow and/or dependants of the employee against the Bank and the balance, if any, shall be paid to the estate of the employee.

(b) The employee hereby acknowledges to be aware that the said insurance is subject to certain exceptions which include driving or riding in a race, playing football and, in the case of unmarried persons under the age of 20, driving or riding in or on a motorcycle or sidecar.

The employee further undertakes and agrees:

8. to join any Group Life Insurance Scheme which may be in operation now or at any future time; to remain a member thereof and to abide by all the terms and conditions relating thereto which may be in force from time to time;

9. to apply to become a member of the United Banks' Medical Aid Society and if accepted, to remain a member thereof and to abide by all the terms and conditions relating thereto.

In witness whereof the said parties have hereto set their hands on the dates written below.

PRETORIA, 5th February 1971.

E.H. Paubert.
Witness to the signature of the Deputy General Manager

Deputy General Manager,
On behalf of the South African Reserve Bank

(Insert place and date) Durban 1st February 1971

Witness to the signature of the person employed

C. Crompton
(Signature)

SUID-AFRIKA 10c SOUTH AFRICA

* Assisted by me,

(Father or Guardian)

The Governor and deputy governors, in their capacity as executive directors of the SARB, are responsible for the day-to-day management and policy decisions of the SARB except those reserved for the board. The SARB has a GEC with responsibility for the consideration of policy issues (other than monetary policy) and other executive management matters.

13.3 Governor's Co-ordinating Committee (GCC)

Governor's Co-ordinating Committee, 28 February 2011

Front row: Dr J J de Jager, Dr M Mnyande , Mr A D Mminele (Deputy Governor), Ms G Marcus (Governor), Dr X P Guma (Senior Deputy Governor), Mr L van Zyl, Mr H Mathebula
Back row: Mr B Kahn, Dr J J Rossouw, Dr G R Wesso, Mr M D Nkhabu, Ms J Jeftha, Mr D C Mitchell, Dr J P van den Heever, Mr A Ismail, Mr Z R Nkwali, Mr A Bezuidenhout, Ms Z MavusoMbatha, Ms N Ford-Hoon, Mr S E Mazibuko

The GCC meets once a month to ensure proper co-ordination between the executive and departmental management. The GCC comprises the Governor, the deputy governors, the advisers to the Governor and heads of department.

Clive Crompton at the time of his appointment on 1 February 1971 and a current photograph of him.

Celebration of the SARB's 50th Anniversary (1971)

Little is known about the celebration of the SARB's 50th Anniversary. A book on the history of the Bank was published, which is available in the SARB's library. Enquiries made among pensioners who worked in the SARB at the time of the 50th Anniversary reveal, as their best memory, the fact that all staff members and pensioners received a special bonus equal to one month's salary or pension respectively.

The Lord has arrived

One evening Lord Glendyne of the Bank of England arrived at the Cape Town Branch of the SARB for a meeting with the Governor. The security guard announced the arrival of the visitor to the Control Room, saying, "The Lord has arrived." Quick as a flash the Control Room Officer responded, "His Kingdom come, his will be done." Unfortunately, the intercom was switched to public address and his words echoed all around the branch building. Lord Glendyne took it in his stride and there were fortunately no international repercussions.

14. Governor's message

This is a reprint of the Governor's message in the *Annual Report 2010/11*, tabled at the Ordinary General Meeting of shareholders on Thursday, 30 June 2011. It provides a description of the economic and financial backdrop of the 90th Anniversary of the SARB:

It gives me great pleasure to present the *Annual Report* of the SARB for the financial year ended 31 March 2011 to the shareholders and other stakeholders of the SARB. This *Annual Report* is particularly significant because it coincides with the 90th Anniversary of the establishment of the SARB. To mark this occasion, the Ordinary General Meeting of the SARB will be held on 30 June, which is the date on which the SARB was established in 1921.

As usual, the *Annual Report* presents the financial statements of the SARB, as well as an overview of the main operations of the SARB during the financial year. The report covers policy interventions, including a detailed analysis of monetary policy, an outline of the internal workings of the SARB, and highlights some of its broader social responsibility initiatives. The *Annual Economic Report*, which provides a review of global and domestic economic developments, will be published as a separate document.

The SARB was established at a time of turmoil in the international monetary system, when there were debates about the appropriateness of a return to the gold standard, and in that context the SARB was established to ensure that the banknote issue was in line with the gold stock. In other words, the SARB had to ensure the convertibility of the currency or the maintenance of the value of the currency. The early 1920s was also characterised by a high degree of capital flows and exchange rate volatility.

Today we find ourselves in a similar context. The global financial crisis, which is now in its fourth year, and the persistent global imbalances and volatile capital flows have again put the nature of the international monetary system and the international adjustment mechanism at the centre of much of the debate on global reform. Such turmoil and periodic systemic crises underline the need for strong central banks to be beacons of stability. Our focus, therefore, continues to be on stability, which includes price stability, financial stability and the stability of the banking system. Such stability provides an environment conducive to economic growth and employment creation.

Global developments have continued to impact on our domestic economic conditions and policy environment. The recovery in the advanced economies appears to be more sustained, but there are still significant risks emanating from peripheral Europe in particular. These uncertainties have resulted in periodic changes in risk perceptions in the international financial markets,

Quotable quote

In the SARB you should not ask for little things, but for big things. It is easier to get a car than a typist's chair.

During the 1970s 'safari suits' (a jacket serving at the same time as a shirt and matching pants in the same material) were very popular as office wear in South Africa. At that time the staff members of the SARB still worked on Saturday mornings.

Pietermaritzburg Branch enquired whether all Signing Officers below the rank of Accountant could wear safari suits. They pointed out that these suits had become accepted fashion and were worn by members of the dental and medical profession.

After general discussion Head Office agreed that it would be left to the Managers to decide whether safari suits could be worn by signing officers below the rank of Accountant. The General Manager, however, stipulated that these officers would have to wear long pants and, furthermore, would not be allowed to wear a safari suit when acting in the capacity of Accountant. All safari suits worn by members of the staff were to be neat, and uniform as far as was possible.


resulting in continued volatility of exchange rates and capital flows. The tragic events in Japan also underlined the fragility of the recovery in the advanced economies. At the same time, the strong recovery in most of the emerging markets, and in Asia in particular, coupled with unfavourable weather conditions and political developments in North Africa and the Middle East, have put upward pressure on commodity prices, in particular oil and food. This has led to an end of the benign global inflation environment which had prevailed since the onset of the financial crisis.

Since March 2010, domestic inflation has remained within the target range of 3 to 6 per cent. This enabled us to reduce the repo rate to 5,5 per cent, the lowest nominal level of the policy rate in over 30 years. Real rates are also significantly below their long-run averages. This stance of monetary policy has been maintained, given the relatively fragile nature of the domestic recovery. However, there are signs that this recovery is becoming more self-sustained, while at the same time global commodity price increases have begun to pose risks to the domestic inflation outlook. This is expected to create a challenge for monetary policy going forward. Inflation is expected to breach temporarily the upper limit of the inflation target range in the first quarter of next year, and then remain close to the upper end of the target range for the remainder of the year. The risks to the inflation outlook are assessed to be on the upside. We will continue to give primacy to our objective of price stability, and implement monetary policy within a flexible inflation-targeting framework.

The financial crisis has focused attention on financial stability issues. In the past most central banks had implicit financial stability mandates, and the conventional wisdom was that price stability would ensure financial stability. The crisis showed that financial stability should be seen as a separate objective, and a number of central banks have been given explicit financial stability mandates. The SARB has also been given a mandate to take a lead role in maintaining financial stability. To this end, the SARB's Financial Stability Committee has been reconstituted and given responsibility for macro-prudential oversight and policy implementation. This is unchartered territory, and work is being undertaken to determine the exact nature of such oversight and the appropriate policy instruments. Without being complacent, our view is that at this stage there are no obvious threats to domestic financial stability: credit extension by banks is subdued, and there is no evidence of incipient asset market bubbles.

The SARB's microprudential responsibilities have also been impacted by global developments, with continued focus on the regulatory and supervisory environment. The SARB, as a member of the Basel Committee on Banking Supervision, has been an active participant in the deliberations on banking regulatory reform. These meetings have culminated in the publication of *A global regulatory framework for more resilient banks and banking systems* (Basel III), which incorporates the details of global regulatory standards on

Down Memory Lane…

Contribution by Ms E Soer, a pensioner of the SARB

The first day of December 1973 was a Saturday and my first day to report for work in a second-hand, blue crimplene SARB uniform, at a little red building adjacent to the main SARB building on Church Square. The little red building housed the Exchange Control Department (Excon) of the SARB and consisted of two floors; the lower floor with the administration office, typing pool, switchboard, scribes and a few signing officers, while the top floor housed a tea room and the offices of the 'big bosses' and senior officials.

I was escorted to an office of the most senior official on the ground floor and told to study a foot-high manual of the staff rules of the SARB. A gentleman popped in at one point, looking like a messenger, with an old Post Office jacket and leather inserts at the elbows, and greeted with a nod. Being polite I called him "Oom"(Uncle). Not too long after that incident, I was escorted upstairs to be introduced to Excon's 'boss', Mr Jan Senekal, who turned out to be the same 'messenger' wearing the Post Office jacket, which he had by now replaced with a smart suit jacket. Not an '*oom*' but sir!

Strict control was monitored over working hours. A large A3-size book was signed on arrival and at departure times, every day. Late arrival could result in a half-day leave form being presented for signature! After about two years of perfect punctuality, I asked the staff manager for permission to leave work five minutes earlier than normal as I was sick and by catching the earlier bus, I would get home one hour earlier. He agreed but said, "Don't make a habit of this." No flexi-time!

Presumably, South Africa's banking hours were adopted from overseas and while we did not work on Wednesday afternoons, we worked every second Saturday morning. The Saturday draw-card consisted of tea-time snacks, pre-ordered and very cheap. I remember enjoying a delicious egg roll that had been ordered for me, on 1 December 1973! Many Wednesday afternoons were spent on a sports field.

In the 1970s hairstyles were big and females were automatically deemed to be secretaries or administrative staff so I was lucky enough, along with four other females, to qualify for 'male' positions as we all had completed Bachelors degrees in Commerce. My monthly salary was a princely R380! Operational staff started at the bottom of the ladder as 'scribes' and hopefully would gain experience and confidence, and eventually promotion to 'signing' positions.

bank capital adequacy and liquidity. The changes should not have a material impact on our banks which remain well-capitalised and characterised by low leverage ratios. The proposals regarding liquidity are likely to pose a greater challenge, but given the relatively long phasing-in period, they are not seen to be insurmountable.

Capital flows to many emerging markets moderated in the final quarter of 2010 and early 2011. A similar pattern was observed in South Africa, and between November 2010 and March 2011 there were cumulative net sales of bonds and equities by non-residents. More recently, renewed net purchases have been experienced. Despite this unstable pattern of capital flows the SARB, with the assistance of National Treasury, has been able to continue with its policy of foreign exchange reserve accumulation. In the 2010/11 financial year the SARB purchased approximately US$10,3 billion for this purpose. The need to sterilise the impact of these purchases of foreign exchange on domestic liquidity resulted in the SARB reporting an after-tax loss for the second consecutive financial year, amounting to R1,2 billion.

The amendments to the South African Reserve Bank Act (Act No. 90 of 1989) were promulgated in September 2010. In terms of these amendments, membership of the Board of the SARB is expanded to 15. The Board has also recently agreed to apply the nine-year rule contained in the *King III Report on Corporate Governance* as a guideline for the service periods of Board members. As a result, at the forthcoming OGM, three new non-executive directors will be elected by shareholders. There are currently four vacancies for non-executive directors appointed by government. Once all these appointments have been made, the Board will comprise a significant proportion of new members. While this may raise challenges for continuity, I am confident that the new-look Board will continue to maintain effective corporate governance oversight of the SARB.

As was the case at the time of the establishment of the SARB, we are facing a challenging global and domestic environment. In the 90 years of its existence, the SARB has been able to navigate successfully through many turbulent periods. Over the years, economic theory and policies have also evolved in response to changing circumstances. The SARB is fortunate to have a skilled and professional staff which will enable it to continue to keep abreast of the latest developments in the policy environment, and remain focused on the implementation of appropriate and sustainable policies in the interests of all South Africans.

Gill Marcus

Gill Marcus
Governor

In the world of banking, Excon was like the tax man. No one really knew what we did and many did not like us. But those years the desk phone was the most-used piece of office equipment and the photostating machine was used only now and again. The typing pool was lined with desks fitted with old-fashioned typewriters. The high-tech IBM electronic typewriters came later. There were no fax machines, computers or cellphones.

Every single urgent Excon application phoned in by the commercial banks was written down in long hand by 'scribes'. Any requests from the banks to speed up an urgent application were called 'expedites' and would also be phoned in by staff members of Authorised Banks. So, scribes had to write down telephonic requests and lists of expedites and spent hours on the phone while still processing applications. Every single application received in the 'post' was stamped and recorded manually in huge A3-size books by the admin ladies. Once finalised, the reply date was recorded in the same book! These huge books were eventually replaced with computerised systems.

Excon moved venue a number of times, and the volumes of work grew and staff numbers increased. Eventually scribes and signing officials were allowed to work overtime to reduce volumes of applications that were stored in Nelly's Room. On one of the Wednesday afternoons, I answered a lone internal phone ringing persistently near a photostating machine positioned next to a passageway. The Afrikaans-speaking gentleman had the wrong number and as I thought he was one of the 'messengers', I called him 'Oom'. At the end of the call he asked me if I knew which 'Oom' I was talking to and to my embarrassment he said 'Mr Senekal'. We chuckled about this 'Oom' a number of times prior to his retirement in 1986. He was such a gentleman and so involved with his work that sometimes he would have two cigarettes going at the same time. Smokers were allowed to smoke indoors, at their desks.

Formal training was earmarked for male staff members. Male authority ruled and if a woman wanted to get married, she had to get permission from the SARB. And women who fell pregnant had to resign. Trade unions were frowned upon and staff performed in terms of the work contract entered into when joining the SARB. The predominantly male society was infiltrated in the 1980s and 1990s and the women on the operational side were often outnumbered heavily in formal meetings and social functions. Our 'family' expanded and became large and almost impersonal.

My 'journey' through my photo albums brought back many bitter-sweet memories of precious years with stalwarts growing 'old' together with grey hair, aches, pains and middle-aged waistlines.

Luckily, today contact with a friend is just at the click of an e-mail or an instant message on a Blackberry! See you on the beach.

15. Celebration of the South African Reserve Bank's 90th Anniversary

Little can be remembered about past important anniversaries of the SARB. For the sake of completeness, the scope of the 90th Anniversary celebrations is recorded in some detail. This record might inform the planning of the SARB's centenary celebrations on 30 June 2021.

15.1 Thematic approach

A thematic design approach was used for the 90th Anniversary celebrations. This theme was used on all publications and invitations, and included a special logo designed for use during 2011.

15.2 Gala cocktail

A gala cocktail was hosted at the SARB on 30 June 2011. The function was attended by dignitaries and senior staff members.

15.3 Booklet on the SARB

This booklet on the SARB was published to commemorate the 90th Anniversary. It is a special edition of an earlier publication highlighting the history, functions and institutional structure of the Bank.

First general discussion of computerisation in the SARB, held on 19 and 20 February 1973.

<u>Computerisation</u>

The General Manager informed the Meeting that the main object of holding the present Conference was the fact that the Bank was considering the idea of computerisation of certain of its activities and to enlighten the Managers more fully on these aspects. With this in mind the resident consultants of Urwick International, who had been actively engaged on a full-time basis for some months investigating the systems of the Bank with a view to computerisation, would present a seminar programme on the first two days of the Conference.

The General Manager appealed to members of the Conference to participate in the discussions over the following two days and not to hesitate to ask questions and to obtain clarification, as it was essential that as much benefit as possible should be derived from the seminar. Enthusiasm for and participation in the concept of computerisation was of the utmost importance to ensure the success of the project and Managers should regard the computer as part of the Bank and accept it as their own.

Messrs. McDermid and Smuts who had been closely associated with the computerisation programme for some time would also be given the opportunity of acquainting the Managers of the progress which had been made as far as the Automated Clearing Bureau and the encoding of cheques and allocation of account numbers were concerned.

15.4 Special edition of the *Economic History of Developing Regions* journal

A special issue of the academic journal, *Economic History of Developing Regions* (EHDR), was published in conjunction with the Economic History Society of South Africa (EHSSA). The special issue was edited jointly by Prof. Stefan Schirmer, the permanent editor, and Prof. Vishnu Padayachee of the University of KwaZulu-Natal (a former non-executive director of the SARB) and Dr Jannie Rossouw (at the time Acting Secretary of the SARB). Copies of the journal were distributed to interested staff members, other stakeholders and members of EHSSA. This special issue contained the following papers and research reviews:

- "A selective reflection on the institutional development of the South African Reserve Bank since 1921" by Jannie Rossouw
- "The economic architecture of the two De Kocks" by Paul Styger and Andrea Saayman
- "Reflecting on ninety years of intermittent success: The experience of the South African Reserve Bank with inflation since 1921" by Jannie Rossouw and Vishnu Padayachee
- "An assessment of inflation targeting and its application in South Africa" by Brian Kahn and Shaun de Jager
- "Inflation targeting in South Africa: Friend or foe of development?" by Hassan Comert and Gerald Epstein
- "'A superior practical man': Sir Henry Strakosch, the gold standard and monetary policy" by Bradley Bordiss and Vishnu Padayachee
- "Identifying central banks with shareholding: A review of available literature" by Jannie Rossouw and Adèle Breytenbach.

15.5 Supplement in the *Financial Mail*

A supplement on the SARB appeared in the *Financial Mail*. This supplement covered various aspects of the history and activities of the SARB. Copies were also distributed to interested staff members.

15.6 Commemorative R5 circulation coin

A special R5 circulation coin was minted in commemoration of the SARB's 90th Anniversary. On one side the coin depicts the national coat of arms. The other side depicts a coin with St George and the dragon as motif, a R5 coin commemorating the birthday of former South African President Mr Nelson Mandela, a Natura coin depicting the black rhinoceros, a 20c coin depicting

Introduction to Computers - Seminar Programme
19th to 20th February, 1973

Time	Subject	Speakers
Monday 19th		
8.30 a.m.	"What is a Computer?" Concepts of "hardware" and "software" Computer jargon explained	N.F. Fossey (Urwick International)
10.15 a.m.	Tea	
10.30 a.m.	"Computer People" The work of systems analysts and programmers Computer operations	B. Morris (Urwick International)
12.30 p.m.	Lunch	
2.00 p.m.	"Computers in Action" Advantages and disadvantages "Real time" and "batch" systems	N.F. Fossey
3.15 p.m.	Tea	
3.30 p.m.	"Computers in Action" (continued)	
4.30 p.m.	Adjournment	
Tuesday 20th		
8.30 a.m.	"The Automated Clearing Bureau" Background to ACB Introduction of MICR encoded cheques New clearing system	A.W. McDermid
10.15 a.m.	Tea	
10.30 a.m.	"Account Coding"	H.H.L. Smuts
10.45 a.m.	"The Interim Period" Clearing operations via ACB before the Bank's computer comes into use	A.W. McDermid
11.00 a.m.	"Computers in the Reserve Bank" Background to the introduction of computers Customer accounts	N.F. Fossey
12.30 p.m.	Lunch	

../

the king protea (one of the country's national symbols), a farthing depicting two sparrows on a mimosa branch and a circulation banknote issued during the period that Dr M H de Kock served as Governor of the Bank. The coin was minted as a circulation coin, with 5 million pieces issued, and as a silver commemorative coin, with a mintage of 10 000. The latter was used as gifts and was sold at Coin World, the numismatics shop at the SA Mint.

15.7 Seminar on 1 July 2011

A seminar with the theme "Central banking: Yesterday, today and tomorrow" was presented on 1 July 2011. The seminar was attended by dignitaries, governors of other central banks, local academia and senior staff of the SARB.

15.8 Ordinary General Meeting of shareholders

The SARB's 91st Ordinary General Meeting of shareholders was held on 30 June 2011 in commemoration of the Bank's 90th Anniversary on that day. The numbering of the OGM is one ahead of the SARB's number of years of existence, as the first OGM was held within the first month after the Bank's establishment (on 29 July 1921).

15.9 Staff functions

Staff functions in commemoration of the 90th Anniversary were hosted in the SARB's Head Office, branches and the subsidiaries on 28 June 2011.

Time	Subject	Speakers
2.00 p.m.	"Computers in the Reserve Bank" (continued) Other application areas in banking	
2.45 p.m.	"Computer Applications in Economics"	T.C. Hawthorne (Urwick International)
3.15 p.m.	Tea	
3.30 p.m.	"Future Work Programme" Time scale Education and training Need for involvement	N.F. Fossey
3.50 p.m.	"Group Discussion"	A.W. McDermid N.F. Fossey B. Morris
4.25 p.m.	"Summary and Conclusion"	N. van der Westhuizen

After full discussion from which all those present had fruitfully benefited, the consultants of Urwick International, by way of conclusion, expressed the opinion that by mid-May, 1973, consolidated specifications of the proposed computer installation would be prepared so that various suppliers could be approached with a view to obtaining tenders. By September tenders should be submitted so that orders could be placed.

As the Automated Clearing Bureau would become operative during April, 1974, for the purpose of serving banks in the Rand/Pretoria area, transactions over customer accounts would by that time be computerised. Other procedures will also be investigated, especially the activities of the Economic Department, and will be computerised as and when the required feasibility studies have been concluded.

15.10 Articles in the staff magazine

The SARB's staff magazine, *BankIndaba*, published a series of articles on the history of the SARB in commemoration of its 90th Anniversary in various issues during 2011. These articles covered a wide variety of topics such as the establishment of the SARB, decimalisation in South Africa and the history of the SARB's branches and branch buildings.

15.11 CD of choir and instrumental music

A CD of choral and instrumental music was compiled. The CD was a collaborative effort between the SARB choir, the SARB Chamber Orchestra and the primary school choir of the New Hope School, a school in Pretoria for children with special needs. Each staff member received a copy of the CD and it was also distributed to guests who attended the gala cocktail. Music from the CD was played at the gala and staff functions.

15.12 Awareness quiz

A quiz to raise awareness about the 90th Anniversary was run by electronic means for staff at Head Office and the branches of the SARB.

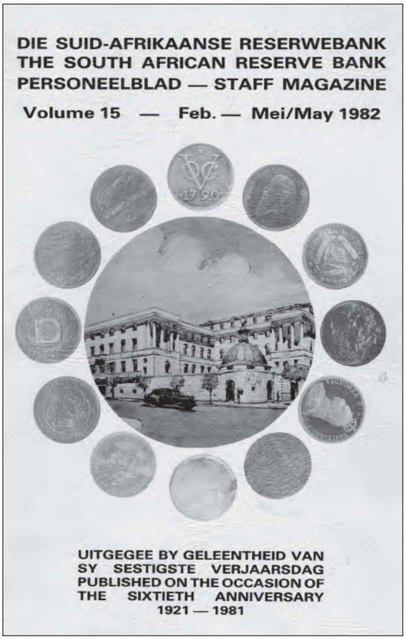
15.13 Exhibition

A selection of historical items, photographs depicting the history of the SARB and a selection of artworks from the SARB's art collection was exhibited in the SARB's Head Office building.

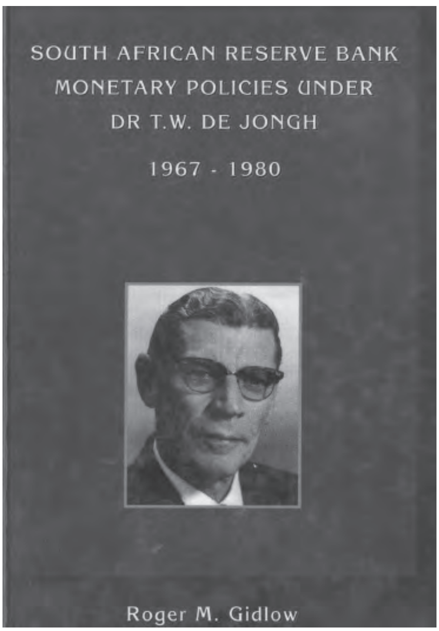
15.14 Article in *Central Banking* journal

An article on the SARB and other central banks with private shareholders appeared in the November 2011 edition of *Central Banking.*

Special issue of the SARB staff magazine to commemorate the SARB'S 60th Anniversary on June 1981.



Cover page of a book on monetary policies during the period in which Dr T W de Jongh was Governor of the SARB.



16. Governors and deputy governors of the South African Reserve Bank since 1921

- Mr W H Clegg, Governor from 17 December 1920 to 31 December 1931
- Mr H C Jorissen, Deputy Governor from 1 January 1921 to 31 January 1926
- Mr (later Dr) J Postmus, Deputy Governor from 1 January 1927 until his appointment as Governor on 1 January 1932; a position he held until 30 June 1945
- Dr M H de Kock, Deputy Governor from 1 January 1932 until his appointment as Governor on 1 July 1945; a position he held until 30 June 1962
- Mr J T Jurgens, Deputy Governor from 1 July 1945 to 30 June 1951
- Dr E H D Arndt, Deputy Governor from 1 July 1951 to 30 June 1961
- Mr (later Dr) G Rissik, Deputy Governor from 1 May 1960 until his appointment as Governor from 1 July 1962; a position he held until 30 June 1967
- 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
- Dr T W de Jongh, Governor from 1 July 1967 to 31 December 1980
- 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 from 1 January 1981; a position he held until 7 August 1989 (the only person who died while still serving as Governor)
- Dr C L Stals, Deputy Governor from 1 April 1976, Senior Deputy Governor from 1 January 1981 to 31 August 1985, and Governor from 8 August 1989 to 7 August 1999
- 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


THE MONETARY SYSTEM
AND MONETARY POLICY
IN SOUTH AFRICA

FINAL REPORT

OF

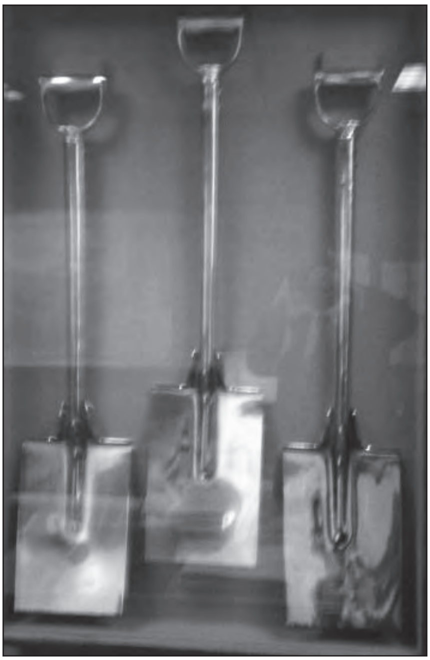
THE COMMISSION OF INQUIRY INTO THE
MONETARY SYSTEM AND MONETARY POLICY
IN SOUTH AFRICA

Selling Price (GST excluded)
Local R5,00
Other countries R6,20
Post Free

REPUBLIC OF SOUTH AFRICA

Obtainable from the Government Printer, Bosman Street, Private Bag X85, Pretoria
RP 70/1984
ISBN 0 621 09033 6

The Commission of Inquiry into the Monetary System and Monetary Policy in South Africa (De Kock Commission) was chaired by the Governor of the SARB. The commission published its findings in 1985. It recommended, *inter alia*, the use of market-orientated monetary policy. This approach has since been one of the cornerstones of monetary policy conduct in South Africa.



Memorial spades

Johannesburg Branch
Official turning of the sod ceremony
Performed by the Governor
Dr C L Stals
27 July 1992

New Head Office building
Official turning of the sod ceremony
Performed by the Governor
Dr G P C de Kock
15 August 1983

Durban Branch
Official turning of the sod ceremony
Performed by the Deputy Governor
Dr B P Groenewald
19 October 1988

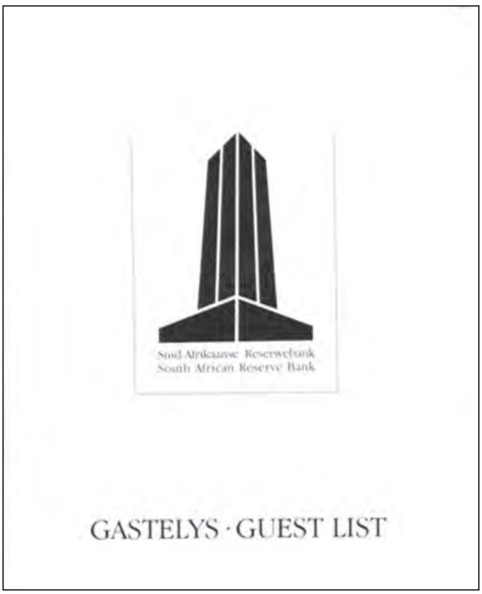
- Dr A S Jacobs, Deputy Governor from 1 January 1981 and Senior Deputy Governor from 1 September 1985 to 28 February 1990
- Dr J A Lombard, Deputy Governor from 1 September 1985 and Senior Deputy Governor from 1 March 1990 to 30 April 1991
- Dr B P Groenewald, Deputy Governor from 1 January 1986 and 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 June 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 since 9 November 2009
- Mr T T Mboweni, Governor from 8 August 1999 to 8 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
- Mr E L Kganyago, Deputy Governor from 16 May 2011.

Mr W H Clegg was born in Bloemfontein in South Africa, but his family moved to the UK shortly after his birth, following the death of his father. Mr Clegg was a career central banker in the Bank of England, which he joined in 1886 despite the fact that he had no formal academic training in banking or economics. At the time of his appointment as Governor of the SARB, he was Chief Accountant of the Bank of England. Mr Clegg served two terms as Governor of the SARB and served one additional year as Governor to oversee the completion of the construction of the SARB's Head Office building on Church Square in Pretoria. After his retirement as Governor, he returned to the UK to take up an appointment as an Executive Director on the Court (board) of the Bank of England. He served in this capacity until 1937.

Dr J Postmus was appointed as the second Deputy Governor of the SARB after the retirement of his predecessor, Mr H C Jorrissen. It was the second time that he had filled a vacancy left by Mr Jorissen, as he was also appointed General Manager of De Nederlandsche Bank voor Zuid-Afrika when Mr Jorissen relinquished that position to become Deputy Governor in 1921. Dr Postmus was born in the Netherlands and moved to South Africa in 1903.

Preparation of the site for the erection of the current Head Office building of the SARB.

Logo design used at the time of the inauguration of the Head Office building of the SARB at 370 Church Street, Pretoria, in 1987. At the time the SARB had no approved logo. The logo that is currently in use was approved only in 1990.



He served as Board member of the Bank from 9 May 1921 to 30 June 1923, when the representation of banks on the Board was terminated. Upon Mr Clegg's retirement, Dr Postmus was appointed as Governor on 1 January 1932. Like his predecessor, Dr Postmus had no formal training in banking or economics, but was awarded a DCom (*honoris causa*) by the University of Pretoria in 1946.

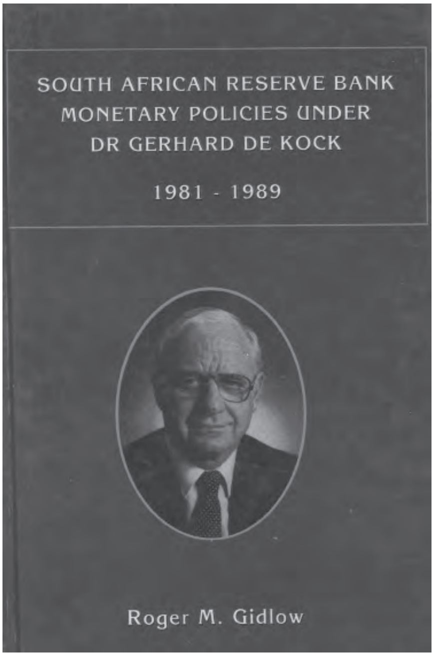
Dr M H de Kock was appointed as Deputy Governor when Dr Postmus assumed governorship of the SARB on 1 January 1932. Dr de Kock served as an official of the SARB from 1 January 1931, pending his appointment as Deputy Governor. He obtained a BA degree from Victoria College (today the University of Stellenbosch) and a DPhil degree in 1922 from Harvard University. Before joining the SARB, Dr de Kock served as an academic, at the Board of Commerce and Industry and at the Diamond Advisory Council. When Dr Postmus retired in 1945, Dr de Kock was appointed as Governor with effect from 1 July 1945. Dr de Kock was the author of *Central Banking* published in 1939, the first comprehensive textbook on this topic. He received honorary doctorates from the Universities of Cape Town, Natal (today KwaZulu-Natal) and Stellenbosch.

Dr G Rissik joined the SARB as a clerk in 1923. Through part-time studies at the University of Pretoria he obtained a BCom degree and passed the membership examinations of the Chartered Institute of Secretaries. He was appointed as Secretary of the Bank in 1943 and became Chief Cashier in 1950. This was followed by his appointment as Executive Assistant in 1958, Deputy Governor in 1960 and Governor in 1962. Dr Rissik received an honorary DCom degree from the University of Pretoria in 1964 and stepped down as Governor in 1967.

Dr T W de Jongh was appointed as Governor from 1 July 1967, after he had served as Executive Assistant from 1962. He obtained BSc and MSc degrees in Mathematics from the University of Stellenbosch and an MA degree from Columbia University. This was followed by a DCom degree at the University of Pretoria. Before joining the SARB as its first statistician on 1 January 1946, he worked for the Education Department and the Industrial Development Corporation. Dr de Jongh's appointment as statistician followed the realisation that South Africa suffered a lack of economic and financial statistics at the time. He retired as Governor on 31 December 1980.

Dr G P C de Kock, a son of Dr M H de Kock, a previous Governor, was appointed as Governor from 1 January 1981. He occupied the position until 7 August 1989. Dr de Kock completed BA and MA degrees at the University of Pretoria and MA and DPhil degrees at Harvard University. He joined the SARB as an economist in 1955. After seconded service at the Treasury and as an Alternate Executive Director of the IMF, he was appointed Deputy Governor on 1 July 1971 and Senior Deputy Governor on 1 July 1976. He was seconded from 1977 to the end of 1980 as Special Economic Adviser to the Minister of Finance, but retained his position as Senior Deputy Governor of the SARB while on secondment.

Cover page of a book on monetary policies during the period in which Dr G P C de Kock was Governor of the SARB.



Certificate to commemorate 50 years of the SARB's listing on the JSE.

Dr C L Stals was appointed Governor on 8 August 1989. He joined the SARB as a clerk in 1955 and obtained BCom, MCom and DCom degrees through part-time studies from the University of Pretoria. He was appointed Deputy Governor on 1 April 1976 and Senior Deputy Governor on 1 January 1981. From 1985 to 1989 he relinquished his positions at the SARB and on the boards of its subsidiaries, as he was seconded to the Department of Finance. After serving two terms as Governor, Dr Stals retired on 7 August 1999.

Mr T T Mboweni was appointed Governor on 8 August 1999, after serving as Adviser to the Governor from July 1998. He was reappointed on 8 August 2004 and retired on 8 November 2009. Mr Mboweni obtained a BA degree from the National University of Lesotho and an MA degree from the University of East Anglia. He was Deputy Head of the Department of Economic Policy of the African National Congress until his appointment as Minister of Labour in May 1994. Mr Mboweni serves as honorary Colonel of 1st SA Tank Regiment and was appointed as an Honorary Professor in Economics at a number of universities. He also received a number of honorary doctorates. Mr Mboweni does not use his honorary titles.

Ms G Marcus assumed duty as Governor on 9 November 2009. She obtained a BCom degree from the University of South Africa (Unisa). Ms Marcus worked for the African National Congress from 1970 to 1994, and served as its Deputy Secretary of Information. She was elected to Parliament in 1994 and chaired the Joint Standing Committee on Finance until her appointment as Deputy Minister of Finance in 1996. From 1999 to 2004 Ms Marcus served as Deputy Governor of the SARB. She was the first woman to be appointed as one of the deputy governors of the SARB. From 2004 to 2007 she served as Professor in Policy, Leadership and Gender Studies at the Gordon Institute of Business Science (GIBS), University of Pretoria. She continued to serve as a Visiting Professor after her appointment as non-executive Chairperson of the Absa Group in July 2007. She relinquished both these positions in July 2009. Ms Marcus is patron of the Pretoria Sungardens Hospice and the Working on Fire Programme.

A small number of people served as deputy governors of the SARB until1960, and two of them subsequently became Governor. This has changed since 1960, when the number of positions for deputy governors was increased from one to two (the position to which Dr Rissik was appointed), and subsequently to three, when the position for a Senior Deputy Governor was created in 1971 and Dr Franzsen was appointed to the position.

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

Current design of share certificates issued by the SARB.

Sertifikaat A № 000575 R2 ****************

SUID-AFRIKAANSE RESERWEBANK

AANDELESERTIFIKAAT

Hiermee word verklaar dat JOHANNES JACOBUS ROSSOUW ****************

die geregistreerde houer is van R 2 ****************

(TWEE RAND ****************)

Suid-Afrikaanse Reserwebankaandele.
Geseël en geteken volgens die Regulasies op 1995-08-21 ****************

**************** te Pretoria

C.J. de Swardt
J.H. Meijer } Direkteure

Sekretaris (J.J. Rossouw)

JSE Limited – The original plaque from the price board of the trading floor which closed on 7 June 1996.

Governors and deputy governors of the South African Reserve Bank since 1921


W H Clegg


H C Jorissen


J Postmus


M H de Kock


J T Jurgens


E H D Arndt

The SARB's current logo was adopted and registered in 1990 and was explained as follows at the time:

THE LOGO OF THE SOUTH AFRICAN RESERVE BANK

The head office building of the Reserve Bank in Pretoria forms the nucleus of the logo of the Bank. The logo portrays the four basic functions and the mission of the Bank. Its colour is gold. Gold has, because of its monetary role in the history of the world over more than three thousand years, become synonymous with money, and money is the business of the Bank.

The foreground consists of the head office building with its distinct four façades depicting symbolically the four main functions of the Bank, namely:

- to formulate and implement monetary policy;
- to manage the money and the banking system of the country;
- to provide economic and financial services to Government; and
- to provide economic and statistical services to the general public.

The cross-section near the top of the building represents the view platform on the upper floors and depicts the corporate services (manpower, technology, etc.) that provide the supporting infrastructure to the line functions and also bond the various activities of the Bank into a unitary and smoothly functioning total organisation. Behind the head office building lies a coin which represents the South African currency.

The mission of the Bank, namely to **protect the internal and external value of the rand,** is symbolically embodied in the logo, with the building representing the Bank and its functions, guarding over the coin and, in the process, protecting the value of the currency.

Governors and deputy governors of the South African Reserve Bank since 1921 (continued)

G Rissik

D G Franzen

J B de K Wilmot

T W de Jongh

H O de Villiers

G P C de Kock

On occasion the Pretoria Branch of the SARB had a teller that enjoyed pulling people's legs. Whenever a customer asked for an exact amount in banknotes (e.g., £50 or R100), he used to pick up a pre-counted and pre-checked bundle of notes amounting to the value of the withdrawal. He then simply held this bundle of notes next to his ear before handing it to the surprised customer. In response to any questions, he used to say "If you have worked for the SARB as long as I have, you simply have to listen to the money, rather than to count it."

Governors and deputy governors of the South African Reserve Bank since 1921 (continued)

C L Stals

J C du Plessis

B van Staden

A S Jacobs

J A Lombard

B P Groenewald

Closing of Pretoria Branch - end of a stately era

The closing of the Pretoria Branch must certainly have tugged at the heartstrings of many people in the Bank, even those staff members who never worked in the building or even got to see its interior. Yet not all is lost, for this beautiful old building is now a national historical museum and will therefore be preserved for posterity for some time.

The Bank moved into this imposing building on Church Square on 27 July 1931. At a Board meeting a year later the directors decided, after much deliberation, that the extension of the Bank's operations had made the functioning of the Bank too cumbersome to continue as one office. Therefore, it was decided that as from 8 July 1933 Head Office would attend to the administrative duties, while the branch duties would be undertaken by a section under an "Officer-in-Charge". This section was housed in the same building.

This building was begun in 1927 by the London firm of Herbert Baker and A. Scott. Baker introduced a mode of building suitable for hot climates. This was the first time that this consideration had been consciously brought to bear on architectural design. F.L.H. Fleming was the resident architect and the north-eastern wing was altered and completed by Gordon Leith after the Second World War.

The chosen site, on the north side of Church Square, did not take possible subsequent buildings into account, with the result that, today, the shape of the building is marred by the adjacent building which occupies nearly a quarter of the block.

Baker's and Scott's design was one of classical balance and symmetry. While Gordon Leith later retained these elements, he strengthened the original conception with a more intensive use of the 16th century Roman Palazzo style. The result is a rich and coherent expression of wealth and power. The opulence and beauty of the interior also reflect the elegance of Renaissance living conditions.

The branch may no longer exist, but the building is not entirely empty. Part of it is currently occupied by the Institute for Central Banking. As yet the Institute is too small to warrant the sole use of the building. Various proposals on the future application of the building have been put forward to the Board of Directors, but as yet no decisions have been made. Being a national historic monument, no changes can be made to the facade of the building. Hopefully the future users or owners of the building will also leave the grandeur of the interior intact.

Branch lives on in memories

Stately building or not, Pretoria Branch certainly saw much of life on the "brighter" side and staff were usually up to some trick.

At one stage all new staff members were informed by their colleagues that they had to come into work on Saturday morning, bringing with them a bottle of Brasso and a soft cloth so that they could polish the gold. Unfortunately one irate mother phoned the Manager, saying that she didn't mind if her son came in to work on Saturday morning to polish the gold, but there was no way that she was going to supply the Brasso and cloth. Needless to say, the gold never got "polished" again.

Another favourite story was the one of Popeye, a hobo who spent his days sleeping on a bench on the Square. Popeye was well known by the tellers, as he would come in regularly and beg for 20c. One day he happened to ask teller 1 for 20c, who brushed him away with the instruction that he could get 20c if he sang a song to teller 2. Popeye waited patiently in the queue in front of teller 2, and when it was his turn to be helped, he burst into opera-like song without any further ado. Teller 1 promptly ducked his head and teller 2 had no idea of what was going on. The building had excellent acoustics, and Popeye's voice reverberated throughout the entire building, so much so that the manager was hanging from the balcony to see what the noise was about. Popeye was forcibly removed from the building without his 20c, but he never bothered the tellers again.

The acoustics of the building also had embarrassing moments for employees. New employees were all subject to a medical examination on appointment. This would be followed up by a fake phone call stating that they had forgotten to take a voice test - the new appointee would either have to come in again or take the test over the telephone. Naturally, everyone opted for the telephonic test and were instructed to sing a song. The "medical practitioner" must have had problems with his testing equipment, as the employee would be told that he would have to sing much louder than that, as it was not even registering on their equipment. The employee would sing louder and louder, never realising until too late that the entire building was also listening to him.

Governors and deputy governors of the South African Reserve Bank since 1921 (continued)

C J de Swardt

J H Meijer

T T Thahane

J H Cross

G Marcus

T T Mboweni

Celebration of the SARB's 75th Anniversary (1996)

The celebrations of the SARB's 75th Anniversary culminated in a gala dinner on 28 June 1996, attended by senior staff members, other dignitaries and their spouses/partners. The President of the Republic at the time, Mr Nelson Mandela, and the Governor of the Bank at the time, Dr Chris Stals, addressed the guests. Dr Stals highlighted certain aspects of the SARB's history since its inception.

As was the case in 1975, staff members and pensioners again received a special bonus equal to one month's salary or pension respectively.

A special logo was designed for use in commemoration of the 75th Anniversary of the SARB.

SARB 75

Governors and deputy governors of the South African Reserve Bank since 1921 (continued)

X P Guma

I Plenderleith

R D Mokate

A D Mminele

E L Kganyago

The programme for the gala dinner held on 28 June 1996 included a very interesting summary of highlights in the history of the SARB:

Highlights in the history of the South African Reserve Bank

1879	First proposals are made for the founding of a central bank.
1920	Founding of the SARB necessitated by events before and immediately after World War 1. This was made possible by the passing of the Currency and Banking Act.
1921	On 18 May the prospectus to secure the subscription of the Bank's capital is issued.
	Bank first opens its doors for business on 30 June in a small building (no longer exists) in Church Street with 15 staff members.
	Bank to be sole issuer of banknotes in the Union of South Africa until 1945.
1922	The first South African Reserve Bank banknotes are printed in England and first issued to the public on 19 April (1 pound denomination).
1924	Within 3 years of starting operations, the Bank becomes the sole bank of issue, bank of central clearance and bank of rediscount and lender of last resort, as well as principal custodian of foreign reserves and cash reserves of other banking institutions.
1925	Activities are extended and branches are opened in Johannesburg, Cape Town and Durban.
1926	Branches are opened in Port Elizabeth and East London.
1927	Sir Herbert Baker is invited to submit designs for the Bank's new head office building on Church Square.
1931	Bank moves to the new building on Church Square.

17. Financial and statistical overview, and data tables

The financial year of the SARB runs from 1 April to 31 March. The SARB publishes an *Annual Report* that is distributed to shareholders and tabled in Parliament. The *Annual Report* contains, *inter alia*, reviews of monetary policy and of the activities of the SARB, and the financial statements.

17.1 Statement of assets and liabilities of the SARB

In terms of section 32(1)(a) of the South African Reserve Bank Act, 1989, the SARB publishes a statement of its assets and liabilities on a monthly basis.

This statement is released electronically on the website of the SARB (http://www.reservebank.co.za) on the fifth business day after month-end.

The asset-and-liability structure of the SARB reflects its functions. The *liabilities* can be classified into the following categories:

– *Notes and coin in circulation*, which reflects the total value of notes and coin outstanding as at the date of the statement. This figure provides only an estimate of the amount of cash held by the public, because some portion of these notes and coin is held by banks as vault cash.

– *Government deposits*, comprising deposits of the Treasury. This includes the rand proceeds of IMF SDRs of the South African Government that are held by the SARB as part of its total gold and foreign assets.

– *Banks' deposits*, consisting of reserve accounts of banks that they are obliged to hold at the SARB in terms of their reserve requirements, and current deposits that are held for the clearing of accounts between banks.

– *Other deposits*, including mainly the accounts of international organisations, foreign banks, foreign governments and the CPD.

– *Foreign loans and deposits*, comprising foreign loans incurred by the SARB and foreign deposits placed at the SARB.

– *Other liabilities,* consisting of a wide variety of items including remittances in transit, accrual accounts for interest and discounts receivable, notes of other banks for which the SARB has assumed liability, and accounts related to the gold and foreign asset holdings of the SARB.

The *assets* reported on the balance sheet of the SARB can be classified as follows:

– *Gold and foreign assets*, consisting of the gold and SDR holdings of the SARB, and foreign assets comprising mainly working balances with other central banks and foreign banks, call deposits and foreign investments.

1933	Pretoria branch opens.
1934	For the first time gold is stored in the Bank's vaults.
1939	Bloemfontein branch opens.
1942	Pietermaritzburg branch opens.
1944	Bank receives new charter with the promulgation of the Reserve Bank Act of 1944 – Bank's sole right to issue banknotes extended indefinitely.
1961	Windhoek branch opens.
1982	Pretoria North branch opens.
1987	Opening of new head office building in Church Street - highest building in Pretoria.
1989	The new South African Reserve Bank Act of 1989 is passed.
1990	Windhoek branch is taken over by Bank of Namibia.
1991	Due to rationalisation Pietermaritzburg branch is closed.
	SARB Training Institute opens. Courses in Central Banking are presented to SARB staff and staff of other banks and central banks.
1994	First cadet intake – contract for 2 years for training. Ends in June 1996.
1995	The Pretoria branch is closed.
1996	Opening of new Johannesburg branch building on 1 July.
	Total number of staff (including branch staff) is 1 775.

- *Fixed assets* represent the current value of the SARB's investment in fixed assets for own use.
- *Accommodation to banks* reflects the SARB's monetary policy activities.
- *Loans and advances* include loans and overdrafts granted by the SARB.
- *Securities* consist of the SARB's portfolio of investment in a broad range of securities such as government bonds.
- *Other assets*, consisting of a large number of balances, such as remittances in transit, prepaid expense accounts and balances on the accounts related to the gold and foreign asset holdings of the SARB.

The notes to statement of assets and liabilities explain the rand price per ounce at which the SARB's gold holdings are valued for reporting purposes and the SARB's gold holdings in fine ounces as at reporting date.

Table 1 Statement of assets and liabilities, 31 March 2011

Liabilities	R
Share capital	2 000 000
Reserve fund	395 163 919
Notes and coin in circulation	78 252 580 700
Deposits:	
Government SDR deposit account	19 227 849 819
Government: Other	67 199 698 081
Banks	56 976 763 500
Other	3 068 314 853
Foreign loans and deposits:	
Government	58 606 840 224
Other	3 489 523
Other liabilities	78 960 239 819
	362 692 940 438
Assets	
Gold	39 098 131 460
SDR holdings	19 257 330 309
Foreign assets reserves (excluding SDRs)	276 263 631 043
Total gold and foreign assets	**334 619 092 812**
Domestic assets:	
Fixed assets	815 510 545
Loans and advances:	
Government	0
Other	385 867 272
Accommodation to banks:	
Repurchase agreements	16 204 882 192
Utilisation of cash reserves	211 322 907
Securities:	
Government	8 253 367 367
Other	279 000 006
Other assets	1 923 897 337
	362 692 940 438
Rand per fine ounce	9 731,87
Gold holdings in fine ounces	4 017 530

Source: SARB website

The SARB's 75th Anniversary gala dinner

Dr Chris Stals and President Nelson Mandela

17.2 Staffing

As at 31 March 2011 the SARB employed 2 215 people. These employees were spread as follows over the SARB's various departments:

Table 2 Staff complement as at 31 March 2011

Department	Permanent staff	Contract workers	Total
Executive Management	50	1	51
Bank Supervision	123	0	123
Business Systems and Technology	176	22	198
Corporate Services	204	7	211
Currency and Protection Services (including branches)	854	61	915
Financial Markets	116	1	117
Financial Services	80	1	81
Financial Surveillance	157	2	159
Human Resources	64	5	69
Internal Audit	51	0	51
Legal Services	29	1	30
National Payment System	28	0	28
Research	148	2	150
Risk Management and Compliance	11	0	11
SARB College	10	11	21
Total staff complement	2 101	114	2 215

Source: SARB

Address by President Nelson Mandela at the South African Reserve Bank`s 75th Anniversary Banquet

28 June 1996, Pretoria

Dr Stals;
Ministers of the Cabinet;
Governors and other representatives of the central banks of the member countries of the SADC;
Distinguished guests;
Ladies and gentlemen.

It is my honour today to propose a toast to an institution which has made a major contribution to the financial and other economic developments in our country.

As a person at my age should know, a 75th birthday entails a lot of reflection on the happy and sad moments of life; moments which, in combination, amount to invaluable experience.

The South African Reserve Bank operates in an environment in which the margin of error, if there is any at all, is limited indeed. And we are proud that the experience you have gathered over these decades stands the Bank and our entire economy in good stead.

When we received your invitation in March, the difficulties facing the rand had just started to unfold. And by the time we accepted it in May, the situation had worsened. After that, there was the turbulence occasioned by the decision of major commercial banks to increase their interest rates.

And so, as each event unfolded, we had to agonise about what to say this evening.

The volatility and mood swings of the financial markets are a burden that all countries have to carry. We have had our own share of rude shocks in the past few months. And thanks to the Finance Ministry and the Reserve Bank, we have, under the circumstances, passed the test with flying colours.

The stability that has set in and the ensuing decision taken by the major banks to reduce rates not only made my life easier. It will also impact on the material lives of all citizens. It will add impetus to our efforts to ensure rapid economic growth and the creation of much-needed jobs.

Scanning through the history of the South African Reserve Bank, one comes across many challenges that you had to contend with.

The path to the establishment of the Bank was itself a thorny one. There were arguments that South Africa`s well-functioning banking system served the country well, and therefore that a central bank was not necessary. Others argued, quite correctly, that the prevailing banking system was, in the words of then Minister of Finance, Mr Burton, like a person “without a head”.

Today, greying with wisdom, that head is there; and we have assembled to celebrate the contribution that you have made to the country`s financial and monetary development.

17.3 Inflation data

Table 3 Average inflation rates of South Africa, 1921–1930 to 2001–2010

Period	Inflation rate (Per cent per annum)
1921–1930	-3,2
1931–1940	-0,1
1941–1950	4,8
1951–1960	3,5
1961–1970	2,7
1971–1980	10,7
1981–1990	14,7
1991–2000	9,0
2001–2010	6,0

Source: SARB website; SARB calculations

When the Reserve Bank was founded, a deliberate decision was taken to ensure that the country`s financial system would be less dependent on London. Thus was born the gradual process whereby South Africans would determine their own economic imperatives. Exclusive as it was then, the Reserve Bank reflected the political milieu in which it had to operate. Today, the nation as a whole has redeemed itself as master of its own destiny.

The Reserve Bank was established long before the founding of central banks in most countries. It was in fact only the fourth central bank set up outside Europe, the others were located in the United States of America, Java and Japan.

It is natural that a Bank with such a history should occupy such a place of honour in international financial circles. It is natural too that our financial and banking infrastructure should be cited as a major boon in our attractiveness as an investment destination. These are attributes that we should be proud of; qualities we should nurture; and virtues we should promote.

Yet we need to remind ourselves each time we are tempted to beat our chest with pride, that such sectors where we are in the league of the best in the world, face the urgent and mammoth challenge of lifting the rest of the economy and society to new heights. Our celebration today is an injunction to all of us – in government and in the private sector – to perform even better.

The credibility that our Reserve Bank has won in international circles is in part a reflection of the quality of its staff, close to 1 800 of them, providing international, national and regional services throughout the country.

Needless to say, from the exclusive beginnings of 75 years ago, one of the greatest challenges that the Bank today is to ensure that its staff complement, at all levels, reflects the diversity of our country. This is our major strength as a nation. And there is excellence in diversity.

It is encouraging to note that deliberate steps have been taken in this direction and we are confident that more will be done.

In many of my visits abroad, I have been inundated with praises for this wunderkind of the South African financial system; and I regret to say this in your presence, Mr. Governor. So I made it my duty to find out where you come from, and the qualifications that have earned you such respect. I was pleasantly shocked to note that, with your excellent performance in acquiring your doctorate and other qualifications, you joined the Bank before you completed your commerce degree; and you rose through the ranks at the same time as you upgraded your skills.

Herein lies a profound lesson for young South Africans. For the moral of your own achievements is that, with application, determination and discipline, we can all rise to positions of responsibility. Today the doors of learning are wide open, and young South Africans from all communities should take up the challenge.

As they do this, they should find in the Reserve Bank a transformed and transforming institution. They should see in the Bank an institution with

Table 4 Countries targeting inflation in 2011

Table 4a Countries that adopted inflation targets up to 1999 (before South Africa)

Country	Date of adoption	Specification of inflation rate used for targeting purposes*	Current target (Per cent)
Australia	1993	Average of quarterly weighted median CPI and trimmed mean CPI, which excludes mortgage interest costs	2–3
Brazil	1999	Extended headline inflation, which excludes mortgage interest costs	4,5 (+/- 2,5)
Canada	1991	CPI excluding eight volatile components (e.g., energy prices) and the effect of changes in indirect taxes and subsidies on the remaining components	1–3
Chile	1999	Headline inflation	2–4
Colombia	1999	Headline inflation excluding food	5 (+/- 0,5)
Czech Republic	1998	Headline inflation excluding regulated prices and indirect taxes	3 (+/- 1)
Israel	1997	Headline inflation	1–3
New Zealand	1990	CPI excluding goods and services tax, credit services, and mortgage interest costs	1–3
Poland	1999	Headline inflation measured quarterly, which excludes all owner-occupied housing (e.g., mortgage interest cost), food prices and fuel prices	2,5 (+/- 1)
South Korea	1998	Headline inflation, excluding petroleum and agricultural products other than grain (also known as core inflation)	2,5–3,5
Sweden	1993	CPI excluding household mortgage interest expenditure and the effects of changes in indirect taxes and subsidies	2 (+/- 1)
United Kingdom	1992	CPI excluding energy, food and tobacco, and CPI excludes cost of owner-occupied housing (e.g., mortgage interest costs)	2

the necessary profile to become the first port of call for top-class graduates and other young men and women – particularly from communities that have all along been excluded – who are prepared to learn and to excel in the service of society.

During its 75 years, the Reserve Bank from time to time found itself in the forefront of many serious financial challenges deriving from local and international developments.

At the political level, the Second World War and common measures that Sterling Area countries had to undertake imposed certain obligations on the Bank and the country. But no other factor made the Bank`s work more difficult than the intensification of the apartheid system, and the resistance, culminating in the outflow of capital and the debt standstill in the 1980s.

If the South African nation can today celebrate its liberation, no less unshackled is the Reserve Bank, now able to relate to counterparts in southern Africa and the continent, as well as further afield, not by stealth nor as a pariah; but as an equal and proud financial and monetary representative of a free people.

The presence tonight of Governors and other representatives from central banks of the SADC bears testimony to this growing relationship, in essence the coming of age of our own Bank. We welcome them with all humility.

As they should know, we South Africans are wont at times to emphasise the role that we can play in assisting our neighbours in many areas of expertise. Yet, it is in such interaction with them and other partners that we also come to appreciate how much we can learn from their experiences in transformation, in building legitimacy, in serving society as a whole.

The 75 years of the South African Reserve Bank`s existence were also marked by many technical challenges such as the abolition of the international gold bullion standard and the termination of the fixed price for gold, which culminated in the collapse of the Bretton-Woods system some 25 years ago. The capacity of the Bank to adapt to these changing circumstances was confirmed over and over again.

Today, the new international financial system – some call it a “non-system” – of floating exchange rates and integrated global financial markets demands of central banks and governments the kind of dexterity that would test even nerves of steel.

Without entering complex international economic debates, perhaps one of the major challenges of today is to deepen discourse, in as dispassionate a manner as possible, around the current international financial system and its implications for growth, jobs and income distribution both in the developed and developing countries. We are certain that our own Bank can make an important contribution to such discussion.

We say so because, during its life-time, the Reserve Bank has contributed in many ways to the development of the financial infrastructure of South Africa, in a changing world environment, and contributed its share to the pool of international financial wisdom.

Its contribution to the development of our money and capital markets, the system of bank supervision and the active bond market which has afforded

Table 4 Countries targeting inflation in 2011 (continued)

Table 4b Countries that have adopted inflation targets since 2000

Country	Date of adoption	Specification of inflation rate used for targeting purposes*	Current target (Per cent)
Hungary	2001	Headline inflation, excluding owner-occupied housing and mortgage interest costs	3,5 (+/- 1)
Ghana	2007	Headline inflation, which excludes mortgage interest costs	14,5–17,5
Iceland	2001	Headline inflation, which excludes housing interest costs	2,5
Indonesia	2005	Headline inflation, which excludes mortgage interest costs	5,5 (+/- 1)
Mexico	2001	Headline inflation, which excludes mortgage interest costs	3 (+/- 1)
Norway	2001	CPI adjusted for tax and interest changes and excluding energy products and excise duties	2,5
Peru	2002	Headline inflation	2,5 (+/- 1)
Philippines	2002	Headline inflation measured quarterly	5–6
Romania	2005	Headline inflation	3,0** (+/- 1)
Slovak Republic	2005	Headline inflation	3,5 (+/- 1)
South Africa	2000	CPI for all urban areas	3–6
Thailand	2000	Core CPI measured quarterly, excluding raw food and fuel, while CPI also excludes mortgage interest costs and owner-occupied housing	0–3,5

* Information about the specification of the target by the different countries is not readily available for purposes of this comparison, particularly because no single international specification for the CPI used to measure inflation has been universally adopted. The result is, therefore, that two countries using “headline CPI” show differences in the items included in or excluded from headline inflation. Inflation is measured monthly by these countries except where specified otherwise.

** Romania uses a declining target range, that is, a target of 3,8 per cent for 2008, 3,5 per cent for 2009 and 2010, and 3,0 per cent for 2011.

Sources: Adapted from Rossouw, 2009.

government a cost-effective way of raising funds needed for the Budget, is acknowledged far and wide.

The role of the Reserve Bank as the institution responsible for promoting financial stability in South Africa remains of the utmost importance. This is not only a matter of conviction on the part of Government; but it is explicitly entrenched in the constitution: the Bank is charged with the task of protecting the value of the currency in the interest of balanced and sustainable growth; and it is given autonomy over the instruments it uses in order to achieve that objective.

I suppose that nothing makes the life of central bank easier than the existence of a government policy framework within which it can operate, a macroeconomic strategy through which a combination of instruments can be used to pursue growth and equitable income distribution. Thus, the fiscal and monetary authorities can work in tandem, without placing undue pressure on one instrument.

The Macroeconomic Strategy released by government a few weeks ago seeks to do just this; and it spells out the interplay of deficit reduction and management of the money market.

Lest we lose ourselves in technical matters, the fundamental aim of all this is to create more jobs, and to provide better living standards for all citizens. This demanding task will not be possible in an environment of unstable financial conditions. Investors, be they foreigners or South African residents, cannot take rational decisions unless the value of the currency remains relatively stable. The government lends the Reserve Bank our full support in their efforts to achieve financial stability.

We know that the decisions of the Reserve Bank are not always popular with everyone, especially if they derive from developments outside of its control. The government, however, has full confidence in the integrity and the professionalism of the South African Reserve Bank to execute its difficult task, at the same time as it transforms itself under the new conditions.

For over 70 years, many men and women served the Bank and the economy as Board members, governors, deputy governors and staff. Today, you are able to do so with the confidence and in the full knowledge that the whole nation supports your efforts.

You can rest assured that, as you improve the institution and change popular mindsets, the whole nation will come around to see in your professionals, not merely erudite economists juggling numbers; but public servants pursuing the best interests of the country and its citizens.

Many happy returns!

Ladies and gentlemen,

I now ask you to rise, to lift your glasses and to share with me in this toast to the South African Reserve Bank.

18. Contact details

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Opening of the Johannesburg Branch building of the SARB on 1 July 1996. This formed part of the SARB's 75th Anniversary celebrations. On this occasion the Minister of Finance, Mr Trevor Manuel, stated that the SARB is not a timid player when it comes to buildings.

Dr Chris Stals and Minister Trevor Manuel

SOUTH AFRICAN RESERVE BANK
STRATEGIC PLANNING MEETING OF
GOVERNORS AND HEADS OF DEPARTMENTS
1999

Front row L-R: J J Rossouw, J H Cross, T T Thahane, T T Mboweni, C L Stals, C J de Swardt, E J van der Merwe, C J Swanepoel
Back row L-R: F J van Zyl, H P Badenhorst, Z S Gumede, P D Steyn, R M Gidlow, T T Ngcobo, B L de Jager, G J Terblanche, C F Wiese, R M du Plooy, M C Janse van Rensburg, L van Zyl, P J Tromp, A M Bruce-Brand

Pretoria North

460 Jan van Riebeeck Street, Pretoria North 0182

P O Box 17376 Pretoria North 0116

Telephone: 012 521-7700

Subsidiaries

Corporation for Public Deposits
P O Box 427 Pretoria 0001
Telephone: 012 313-3231

SA Bank Note Company (Pty) Ltd
460 Jan van Riebeeck Street, Pretoria North 0182
P O Box 16172 Pretoria North 0116
Telephone: 012 521-1200
Web address: www.sabanknote.co.za

SA Mint Company (Pty) Ltd
Old Johannesburg Road, Midrand, 1685
P O Box 464 Pretoria 0001
Telephone: 012 677-2911
Web address: www.samint.co.za

SARBCIC Ltd
P O Box 427 Pretoria 0001
Telephone: 012 313-3695

Special issue of the SARB staff magazine to commemorate the 80th Anniversary on 30 June 2001.

SA RESERVE BANK JUNE 2001

BANKINDABA

By Jannie Rossouw

On Saturday, 30 June 2001 the Reserve Bank reaches an important milestone: the commemoration of its eightieth birthday. The Bank was established in 1921 in terms of the Currency and Banking Act, No. 31 of 1920, and opened its doors for business for the first time on Thursday, 30 June 1921.

Prior to the Bank's establishment, commercial banks (e.g. Standard Bank) in South Africa issued banknotes to the public. There was, however, no uniformity in the legislation providing for the issuing of banknotes by commercial banks, except that the issuing banks were obliged to convert notes held by the public into gold when tendered at their branches.

After World War I (1914 to 1918) the price of gold in the United Kingdom rose above its price in South Africa, and a profit could be made by converting banknotes into gold in South Africa and selling the gold in London. Commercial banks had to buy gold at a higher price in London for re-import into South Africa to back their banknotes in issue, than the price at which they converted their banknotes for gold. This 'obligation to trade at a loss' posed a serious threat to the ability of banks to continue meeting their obligations to the general public holding their notes.

To protect their financial viability, the commercial banks asked the Government to release them from the obligation to convert their banknotes into gold on demand. This led to the Gold Conference of October 1919. Following the recommendations of the Conference, a Select Committee of Parliament recommended the establishment of a central bank, with responsibilities including the issuing of banknotes and taking over the gold held by commercial banks.

Parliament accepted the recommendation of the Select Committee on the creation of a central bank and promulgated on 17 December 1920 the Currency and Bank Act, which provided for the establishment of the Bank. Effect was given to its various provisions in the course of the next six months, and the Reserve Bank opened its doors for business for the first time on 30 June 1921.

At the time, the only other central banks outside Europe were in the United States, Java and Japan. This implies that the Reserve Bank is one of the oldest central banks outside Europe, and the oldest in Africa.

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Joining the SARB

A reminiscence by Ian Plenderleith, Deputy Governor from 2002 to 2005

Newly in retirement, I had been doing some research at the British Museum in London and as I emerged one morning for a coffee break, the phone rang. It was Governor Mboweni. Would I be interested in serving a term as a Deputy Governor at the SARB? Looking at the cold, damp November weather in London, I knew the answer instantly.

Thus it was that, just a few weeks later, I found myself sitting 30 floors up in the sky in Pretoria, looking out at a range of hills whose name I could not pronounce while I immersed myself in the intricacies of South African monetary policy.

For an English central banker coming from the Bank of England to South Africa, there are many cultural hurdles. Switching my loyalties to the Springboks and the Proteas was easy: it was so nice to be supporting winning teams for a change. Learning to love *pap* was more of a challenge: looking at it on my plate, I took it initially to be part of the lender-of-last resort function, but I soon discovered it was a uniquely South African device for mopping up liquidity.

But the differences are superficial and what struck me repeatedly as I settled in were the similarities and, above all, the shared values. The central banking challenges were essentially the same, even though the economic context was different. The professionalism and dedication of the SARB staff was as high as one could encounter anywhere in the world. The SARB itself was international in outlook (hence my presence), open to change and committed to sound economic policies. Above all, the colleagues I had the pleasure to work with could not have been more welcoming and helpful. The result was, for me, three years of great professional reward at the epilogue of my career, and an abiding admiration for the strengths of the SARB and for the progress it is helping modern South Africa achieve.

I am extremely glad I took that call from Governor Mboweni.

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Secretaries and Acting Secretaries of the SARB since 1921

Other than the Governor and deputy governors, the Secretary of the SARB is the only position that has kept its title since 1921.

- Mr A Burns (at a salary of £1 000 + £50 p.a. to £1 500 per annum): 9 May 1921 to 18 May 1925
- Mr G G Messum: 19 May 1925 to 9 April 1943
- Mr (later Dr) G Rissik (later Deputy Governor and Governor) 10 April 1943 to 30 September 1954
- Mr R F A Louw: 1 October 1954 to 31 January 1960
- Mr H O de Villiers (later Deputy Governor): 1 February 1960 to 31 December 1967
- Mr L Orchard: 1 January 1968 to 31 March 1976
- Mr G P C de Kock (a cousin of Governor G P C de Kock): 1 April 1976 to 30 April 1983
- Dr B P Groenewald (later Deputy Governor and Senior Deputy Governor) 1 May 1983 to 31 December 1985
- Dr C J Swanepoel: 1 January 1986 to 31 August 1993
- Dr R M du Plooy: 1 September 1993 to 30 April 1995
- Mr (later Dr) J J Rossouw: 1 May 1995 to 14 March 2000
- Ms Z P Matsau: 15 March 2000 to 31 December 2004
- Mr H H van Gass (acting): 1 January 2005 to 30 September 2005
- Mr T P Mongwe: 1 October 2005 to 19 March 2010
- Dr J J Rossouw (acting): 20 March 2010 to 31 March 2011
- Ms S L Reynolds: from 1 April 2011

Annexure A

Inflation

Inflation describes a process of continually rising prices, commonly measured as the percentage rate of increase in a price index. The word ‘inflation’ owes its origin to the Latin word *inflare*, which literally means “to blow into”, from *flare*, “to blow”. As a description of declines in the purchasing power of banknotes in circulation, the word ‘inflation’ has been in use from around the 1850s. The current understanding of the word is contrasted with its earlier meanings. Today, inflation is synonymous with a rise in prices, but for many years it was used to describe the declining value of paper money. An increased availability of cash will not necessarily make the public wealthier – printing more banknotes and distributing them freely to the public will simply lead to higher prices for the available goods and services. This could lead to an inflationary process if the increase in money supply is not accompanied by a rise in the production of goods and services. Increased wealth can only be derived from the increased production of goods and services.

Going back as far as the Roman Empire, inflation has been experienced in different ways over many centuries in different countries, regimes and economic systems. Diocletian tried (in vain) to curb Roman inflation in the fourth century Common Era. He fixed the maximum prices at which beef, grain, eggs, clothing and other articles could be sold, and prescribed the death penalty for anyone charging higher prices. This is a very early example of direct price controls aimed at containing price increases, but failed so miserably that it had to be abandoned after much bloodshed.

An ‘anti-inflationary policy’ can be described as actions taken against a rise in the general price level. The central aim of all the SARB’s policy actions is to ensure inflation at a appropiate level, which is aligned with its mission statement, as this ensures that the people of the country have faith and confidence in the value of the money they use. Low inflation means that the continual rise in the general price level, that is, in the prices of all goods and services, is at such a low level that it no longer influences the decision-making of consumers and producers.

A precondition for the efficient working of a market economy is that producers and consumers must be able to identify changes in the relative prices of goods and services. The identification of changes in relative prices allows producers and consumers to take appropriate economic decisions that ensure the most efficient allocation of productive resources, especially in respect of the use of labour and machinery, and the purchase of goods and services. When all prices rise continually, a serious problem arises. Producers and consumers can then make the wrong decisions because they cannot distinguish properly

South African Ministers of Finance since 1921

15 April 1920 to 29 June 1924	H Burton
30 June 1924 to 5 September 1939	N C Havenga
6 September 1939 to 15 January 1948	J H Hofmeyr
16 January 1948 to 3 June 1948	F C Sturrock
4 June 1948 to 30 November 1954	N C Havenga
3 December 1954 to 5 August 1956	E H Louw
6 August 1956 to 22 October 1958	J F Naudé
23 October 1958 to 21 January 1967	T E Dönges
24 January 1967 to 4 February 1975	N Diederichs
5 February 1975 to 26 July 1984	O P F Horwood
27 July 1984 to 30 April 1991	B J du Plessis
5 May 1992 to 18 September 1994	D L Keys
19 September 1994 to 28 March 1996	C F Liebenberg
4 April 1996 to 9 May 2009	T A Manuel
10 May 2009 to date	P J Gordhan

between the changes in relative prices (reflecting relative scarcity) and price increases that form part of an ongoing inflationary process.

Economic efficiency is sacrificed and scarce resources may not necessarily be used efficiently during periods of continual high inflation. High rates of inflation inevitably lead to a decline in the efficient working of a market economy. In the medium to longer term this could lead to a lower rate of growth of the economy as a whole and, therefore, low levels of employment creation. Apart from disguising changes in relative scarcity, other important disadvantages of inflation are the following:

– Losses to savers, because the capital of their savings loses value as the value of money becomes eroded by rising prices
– Losses to people with fixed incomes, such as pensioners
– Increased efforts to hedge against price rises by investing in assets such as precious metals or collectables, instead of focusing on production
– Resources are wasted under conditions of hyperinflation, for example, at inflation rates of more than 1 000 per cent per annum (which South Africa has, fortunately, never experienced), as prices have to be revised frequently, which is a costly procedure
– Hardship for poor people, as price increases emanating from inflation erode the buying power of their income.

Although it is sometimes stated publicly that higher inflation will create jobs, this is not true. Higher inflation destroys jobs in the long run. It is true, however, that policies aimed at lowering inflation might have a short-term negative effect on economic growth and thus negatively affect job creation.

In its quest to contain inflation, South Africa has adopted an inflation-targeting monetary policy approach. This policy framework was announced by the Minister of Finance in February 2000, and entrusts the SARB with the responsibility of keeping the rate of inflation between 3 and 6 per cent. In South Africa the central bank has the autonomy to adjust monetary policy, but does not have goal independence, that is, the autonomy to select its own policy goal. Its goal is to keep the rate of inflation between 3 and 6 per cent per annum. The rate of inflation is calculated by Statistics South Africa.

South Africa's CMA partner countries (i.e., Lesotho, Namibia and Swaziland) follow a policy of exchange rate targeting in keeping the exchange rates of their currencies fixed to the South African rand. The implication is that these countries indirectly follow an inflation-targeting policy, with the concomitant advantages of such a policy.

Inflation targets assist the central bank in achieving price stability by providing a nominal anchor for monetary policy and inflation expectations; enhancing

A special logo was designed for use in commemoration of the SARB's 90th Anniversary.

South African Reserve Bank

90th

Anniversary

At the gala cocktail held on 30 June 2012 in commemoration of the SARB's 90th Anniversary, the Deputy President of South Africa, Mr Kgalema Motlanthe, minted the 90th Anniversary commemorative coin mentioned on pages 103 and 105.

The Governor and the Deputy President

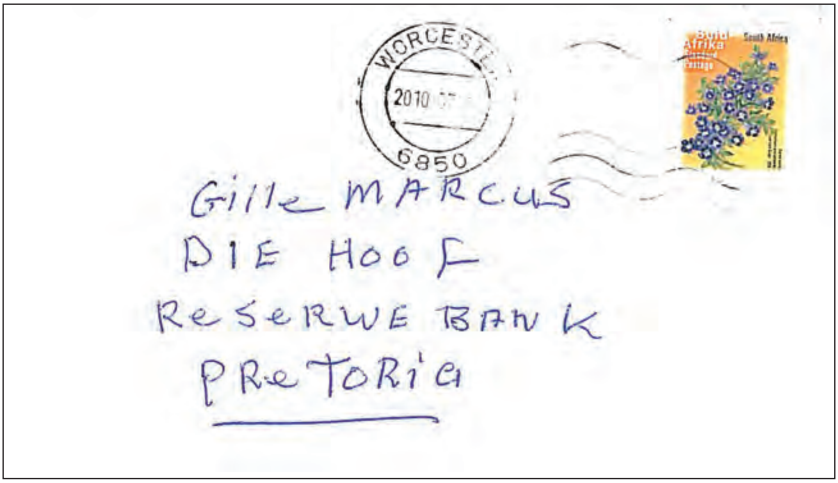
the credibility of the central bank in containing inflation; and improving the transparency and accountability of monetary policy.

Countries adopting an inflation-targeting monetary policy framework have adopted either a target range or a specific numerical target point. A target range permits flexibility in the application of monetary policy, but might induce the central bank to keep inflation just below the upper limit of the range, rather than well within the range. To date no country that has introduced a policy of inflation targeting has chosen a zero rate of inflation as a target or midpoint for an inflation target range. The specification of the rate of inflation to be used for targeting purposes, and particularly the question of whether any prices should be excluded from the target measure, is a matter to be considered by a country that adopts an inflation target. No single practice has unanimous international support.

Table 4 shows that three inflation targeters use a single point, while eleven countries use a single-point target with a range around the target point. Ten countries use a target range. The implication is a clear preference for a range, rather than the use of a single point as target. This table shows hardly any correlation between the specification of any of the targets and the inflation rates used for targeting purposes, with large differences in the inflation rate specifications. In view of these differences, comments on the choice of a target point or range should be made only once all the relevant facts have been considered.

Over the period 1921 to 2010, average prices, as reflected by changes in the CPI, increased at an average rate of some 5,5 per cent per annum. Put differently, the implication is that today R1,00 will, on average, buy the same goods that could be bought for about 1 cent in 1921. South Africa's experience of inflation since 1961 is highlighted in Table 3. This continuous pattern of price increases over a prolonged period shows the importance of continued central bank vigilance against inflation. Table 3 also shows that the SARB has achieved considerable success in containing inflation since the adoption of inflation targeting as its monetary policy regime.

The SARB occasionally receives very interesting correspondence.



Over the years a number of expressions had been coined for use in the SARB. Examples are:

- Inflation is *ungood.*
- Central banking is about eating.

Annexure B

The SARB Conference Centre

The SARB had a Conference Centre as part of its Head Office building for a number of years. The Conference Centre opened in 2003, but had to make way for Head Office expansion in the course of 2011. During the eight years of its existence the centre hosted some major local and international events. International events of note include various meetings of the Southern African Development Community (SADC) countries and a meeting of G-20 finance and central bank deputies.

The current Head Office building of the SARB in Pretoria.

Annexure C

Nelson Mandela Coin

In July 2008, the bi-metal R5 circulation coin, which was introduced in 2004, once more featured former President Mr Nelson Mandela in commemoration of his 90th birthday. This is the first time ever that a President has featured twice on the same denomination and in the same coin series. Five million circulation "birthday" R5 coins were distributed for circulation and 5 000 proof and 14 000 proof-like coin were made for the numismatic coin market.