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# Nationalisation of the SARB

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In 1921 when the South African Reserve Bank (SARB) was founded, it was set up with a private ownership structure in order to increase the chances that the bank's policies would be supported and accepted by the broader public. Today, only a small number of central banks globally have private shareholders. Nationalisation of the SARB would thus align the bank's ownership structure with the majority of central banks across the world.

## Overseas experience with nationalisation

A 2017 paper by Jannie Roussouw and Adele Breytenbach (University of South Africa) reviews available literature on private shareholding and historical instances of central banks that were nationalised.

Roussouw and Breytenbach state that before 1935, only a small number of central banks were entirely state-owned institutions. Ownership structures began to change from 1935 when the Reserve Bank of New Zealand was nationalised as the government accepted greater responsibility for the economy. The Danish Central Bank was nationalised in 1936 in order to give government and parliament greater insight into the affairs of the central bank. The Bank of England was nationalised in 1946. The central banks of Pakistan, Chile, Ecuador, Portugal, Mexico and Venezuela were all nationalised around 1974. After WWII in 1945, almost all established central banks had no shareholders since they came into existence (for example, the Central Bank of Australia, established in 1960).

The Austrian National Bank was nationalised in 2010 by transferring all shares held by the Republic of Austria to the Reserve Bank. This was purportedly done to improve supervision of the institution. The event drew very little public attention despite the fact that it was the first nationalisation of a central bank since 1974.

The historical frequency of central bank nationalisation globally suggests that it is a “normal” occurrence.

## Process for unwinding private ownership

The South African Reserve Bank Act stipulates the private shareholding structure of the bank.

Nationalisation could occur as soon as legislation is prepared and a bill is passed in parliament to amend the act via a simple majority vote in parliament.

The primary challenge in implementing the nationalisation agenda might be in deciding on the value at which the bank’s shares would be bought out. The existing legislation describes the process to be implemented when liquidating the bank, but is silent on nationalisation. Upon liquidation, shareholders could be reimbursed based on a formula derived from the value at which the shares are traded. SARB shares trade over-the-counter and are currently priced at roughly R6 to R10 each.

Legislation states that shareholders of the SARB cannot hold more than 10 000 reserve bank shares each. There was an instance historically where the High Court had to calculate a penalty when dealing with March 2019 shareholders who had failed to adhere to this prescription. The price was confirmed by KPMG at R1.55 per share. Some media commentators have suggested that this same price be used when buying shares back from private shareholders.

The central bank governor has often lamented that nationalisation could turn into a long and expensive legal process because some shareholders would want to profit from the move, at tax-payers’ expense.

In fact, Roussouw and Breytenbach describe what unfolded when the Austrian central bank was nationalised in 2010. The minority shareholders were paid a hefty premium over nominal value based on factors such as:

i. The last trade in the shares had been more than a decade before. One institution had bought the central bank shares from another institution at a price about ten times more than nominal value.

ii. Shareholders had to be compensated for giving up their authority to appoint members of the governing board of the central bank.

iii. Yields were low (the benchmark government bond yield was 2.5% p.a.) while the bank paid a dividend of 10% p.a. on the nominal value of shares. On that valuation basis, the shares would have traded at a premium to face value if traded on the secondary market.

The whole issue is complicated by the fact that parliament could decide on a completely different basis for valuing the shares.

## Merits for nationalisation of the SARB

For those who believe that nationalising the SARB would automatically lead to a change in the reserve bank's mandate towards a more "pro-growth" stance and less focus on inflation, this is not the case. The reserve bank's mandate to ensure stability of prices is set in the Constitution and a move to nationalise the SARB would not constitute a change in the SARB's mandate or affect its independence. Government ownership does not imply government control.

In any event, the changes proposed by those supporting an alteration of policy would not solve the underlying fundamental issues responsible for lack of growth and employment opportunities in the economy. In fact, any sign that nationalisation would lead to a move away from the SARB's central function of maintaining price stability would erode the value of the currency.

Getting rid of private shareholders wouldn't necessarily strengthen governance. A good example of this are the challenges experienced by South Africa's SOEs due to poor and/or corrupt leadership, appointed entirely by cabinet ministers.

Finally, some commentators believe that control of the bank may come with the ability to directly finance small businesses or agriculture. However, South Africa already has a number of banks focused on development (i.e. DBSA, The Land Bank, IDC). It isn't obvious that the SARB would do a better job.

## What should investors look out for if SARB nationalisation occurs?

The central bank's private shareholders currently have no say over the policy, day-to-day running or foreign reserves of the bank whatsoever. The only input they have is voting to appoint seven of the bank's ten non-executive directors.

Investors should start to be concerned if there are signs that the central bank has begun to lose its operational independence. If that happened, the Bank may no longer be able to perform its function to maintain price stability successfully and the currency would surely deteriorate in value. South African bond yields would rise as investors would demand a significantly higher currency risk premium in order to hold them. This move would require the sort of Constitutional change that is not on the horizon.

There are numerous instances in the past of other central banks globally being nationalised or indeed having been owned by the state since inception, with no apparent negative impact on their ability to independently and successfully fulfill their mandates.

It seemed to come as a surprise to some members of the ANC that certain aspects of the call to nationalise the reserve bank were included in the ANC's 2019 election manifesto. Cyril Ramaphosa has emphasised that the Reserve Bank's mandate will not be tampered with, while Ace Magashule has taken the opposite position – claiming that ANC policy is to broaden its mandate. This show of disunity in the upper echelons of the ANC leadership structure is worrying given that we are in an election year, and the government has been trying to encourage foreign investment.

We will follow the conversation closely, but we are currently not too concerned that this discussion poses an imminent threat to the value of South African bonds or the rand.

## Glacier Research would like to thank Grace Debeila for her contribution to this week's Funds on Friday.

***Grace Debeila, Fixed Income Portfolio Manager and Analyst***

*Lehlogonolo Mahlatse Grace Debeila joined Prescient Investment Management in February 2017 as a Fixed Income Analyst responsible for providing support to the fixed income team together with general research in building and testing fixed income strategies. She is currently working with Guy Toms as co-portfolio manager on the bond funds.*

*Grace is a seasoned investment professional with more than 11 years of experience in the industry. Prior to joining Prescient, she spent five years at Prudential Investment Managers working as an analyst on their multi-asset team. She had previously been on the Customised Solutions investments team for 2 years at RMB Asset Management working as a Portfolio Risk Analyst, a role to which she was seconded after completing two years at Momentum Wealth on their Product Development and technical actuarial support teams.*

*Her market experience together with a BEconSci - Actuarial Sciences - from the University of the Witwatersrand makes Grace an ideal addition to Prescient.*

## References

*Jannie Rossouw and Adele Breytenbach Identifying Central Banks with Shareholding Economics Department, University of South Africa (Unisa)* https://repository.up.ac.za/bitstream/handle/2263/17080/Rossouw_Identifying(2011).pdf?sequence=1