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Nationalisation and central bank independence

1. Introduction

Globally, central banks have increasingly been kept independent from government to ensure their thorough focus on price stability through an inflation targeting. The government control of the central bank usually reduces the efficiency of monetary policy measures. Therefore, the independence of a central bank plays a critical role in the life of any nation concerning monetary policy and safeguarding and promoting the value of its currency (Howells, 2009)[1].

Given the critical role of the monetary policy in an economy, this newsletter, therefore, provides an analysis of central bank independence and nationalisation with particular emphasis on SA. The discussion about the independence of the central bank was sparked by the African National Congress's (ANC)[2] 54th conference in December 2017, which resolved that the South African Reserve Bank (SARB)[3] should be nationalised, arguing that the independence of the central bank would not be compromised.

The analysis commences by explaining the concept of an independent reserve bank with reference to the model by Rogoff (1985)[4], whereby the independence is classified into financial and policy autonomy. It proceeds by discussing the rationale of keeping the reserve bank independent whereby focusing on its role in avoiding political influence and dynamically-inconsistency problem of the monetary policy. This is followed by an outline of central bank nationalisation, which is complemented by empirical evidence from the global perspective.

The article also focuses on the South African perspective in terms of the independence and the nationalisation of the country's central bank. It concludes by outlining the need to nationalise the South African Reserve Bank (SARB) without interfering with its constitutional mandate.

2. Independent central bank

Generally, a central bank is said to be independent if the monetary policy goals and instruments are entirely left at the discretion of the bank. In essence, independence is assessed by reference to the bank's freedom to set policy goals and instruments uninhibited by any political interference[5]. Monetary policy should be delegated to an independent and conservative banker[6] to avoid inflation bias[7] (Rogoff, 1985; Fischer, 2015). A conservative banker dislikes inflation and thus makes all possible means to formulate policies that will keep inflation sustainably low.

Rogoff (1985) distinguishes between financial independence and policy independence of a central bank. A central bank is regarded as financially independent if the government has a limited capacity to use the central bank's credits to finance its expenditures or debt. This also plays a crucial role in limiting the political influence of the governing party to use the central bank to fulfil its political mandates. For example, without financial independence in the central bank, the government may have the capacity to influence monetary authorities to pursue an expansionary monetary policy at the expense of higher inflation in the long-run.

Expansionary monetary policy can only promote output growth and employment in the short-run, but it might cause

[1] Howells, P. (2009): *Independent Central Banks: Some theoretical and empirical problems?* Working Papers, Department of Accounting, Economics, and Finance, Bristol Business School, the University of the West of England, Bristol, *available online:* *https://www.google.com/search?client=firefoxb&q=Independent+Central+Banks%3A+some+theoretical+and+empirical+problems%3F+Author(s)%3A+Peter+Howells,* accessed on 01/12/2018.

[2] The ANC is the ruling/governing political party in SA, which, had been in power since the first democratic elections in 1994.

[3] The SARB is the central bank of the Republic of SA. Its primary purpose is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in SA. The SARB also plays a pivotal role in ensuring financial stability. See the https://www.resbank.co.za/Pages/default.aspx, accessed on 21/12/2018

[4] Rogoff, K. (1985) briefly: *The Optimal Degree of Commitment to an Intermediate Monetary Target,* Quarterly Journal of Economics 100: 1169-1189, available online: *https://scholar.harvard.edu/rogoff/publications/optimal-degree-commitment-intermediate-monetary-target*, accessed on 01/12/2018.

[5] Dedu, V. (2012): *Central Bank independence,* Theoretical and Applied Economics Volume XIX (2012), No. 8(573), pp. 97-102 (*Also see Howells, 2009 in footnote 1).*

[6] A conservative central banker puts more weight on inflation stabilization than the social planner, solves the stabilization bias of discretionary monetary policy.

[7] Fischer, S. (2015): *Macroprudential Policy in the U.S. Economy*, *Macroprudential Monetary Policy.* Boston: 59th Economic Conference of the Federal Reserve Bank of Boston, Massachusetts, October 2, 2015. https://www.federalreserve.gov/newsevents/speech/fischer20151002a.pdf, accessed on 22/11/2018.

highly unsustainable inflation in the long-run (Sivák, 2013)[8]. Higher economic growth and employment are the primary goals for every country that needs to improve the wellbeing of its citizens. However, if achieved at the expense of inflation bias it might have far-reaching consequences to the social welfare of the people.

Policy independence of the central bank, therefore, refers to protecting the rights of monetary authorities to formulate and execute monetary policy targets without any political interference. As distinguished by Debelle and Fischer (1994)[9], policy independence has two essential elements; the goal and instrument independence. The former means that monetary authorities preserve the rights to set monetary policy goals of low inflation independently of any influence from the fiscal authorities[10]. The latter, on the other hand, means that the monetary authorities have the discretion to decide on the instruments necessary to achieve its goal of low inflation.

3. Why should the central bank be independent?

The primary mandate of central banks is to promote price stability. However, most central banks decided to include financial stability in their mandates after the global financial crisis of 2008. Therefore, the central bank independence is vital to avoid undue influence to policy formulation as this may compromise the primary mandate and thus results in accelerating inflation rate, commonly known as inflation bias. Inflation bias refers to the exceedingly high rate of inflation that usually arises when policymakers attempt to use monetary policy to achieve higher output above the natural level.

The policymakers are most likely to risk higher inflation to achieve high output and employment at the expense of unsustainable inflation. The most common sources of inflation bias include, but not limited to, political interference to the operations and execution of monetary policy targets as well as the dynamical inconsistency problem of the monetary policy[11].

Political influence

Political influence is defined as extreme political pressures to monetary authorities to behave in a particular way according to the government's preferences. For example, if fiscal policy is dominant in the pursuits of monetary policy mandates, the central bank may be forced to print money to finance government debt or fiscal deficit. This, in turn, compromises both financial and policy independence of the bank and thus cause unsustainable inflation in the long-run. Unsustainable inflation emanates from higher money growth due to uncontrolled money printing.

Sargent and Wallace (1981)[12] indicated that the more independent the central bank is, the less the monetary authorities can be forced to finance deficits by creating money. Therefore, maintaining the independence of the reserve bank plays a crucial role in countering the inflation bias (Fischer, 2015)[13]. The argument by Fischer was also echoed by Alesina and Summers (1993)[14], who stated that independent central banks are better at controlling inflation than central banks under political control. The authors further, maintained that with less political pressure, central bankers could take a longer view and make unpopular decisions to achieve long-term goals.

Thus, protected from pressures of day-to-day politics, Sargent and Wallace state that central banks can take a longer view and make unpopular decisions to achieve long-term goals. It is mainly for this reason that after global inflation behaved uncontrollably and disruptively in the 1960s and 1970s, many central banks fought for, and won, more freedom to control interest rates and set other monetary policy decisions without political interference.

The central banks' independence, however, began to attract

[8] Sivak. T. (2013): *Inflation targeting vs. nominal GDP targeting*, available online: https://www.nbs.sk/_img/Documents/_PUBLIK_NBS_FSR/Biatec/Rok2013/03-2013/02_biatec13-3_sivak.pdf , accessed on 22/11/2018.

[9] Dubelle, G., and Fischer, S., (1994): *How Independent a Central Bank should be?* Available online: https://pdfs.semanticscholar.org/a692/7bf59e9025ec16d3c9b9471c605972e5575c.pdf, accessed on 02/12/2018.

[10] An example-setting goal independently for low inflation is the current inflation targeting range of 3 to 6% by the SARB.

[11]. A policy is dynamically consistent if its action planned in the current period for implementation in the future remains an optimal policy when the future period arises. A policy is dynamically inconsistent if it cannot be applied as originally planned when the future period arises.

[12] Sargent, Thomas J., and Wallace, N. (1981): *Some Unpleasant Monetarist Arithmetic,* Federal Reserve Bank of Minneapolis Quarterly Review, 5 (1981), pp. 1–17, available online: https://www.minneapolisfed.org/research/qr/qr531.pdf, accessed on 20/12/2018.

[13] Fischer, S. (2015): *Macro-prudential Policy in the U.S. Economy, Macro-prudential Monetary Policy.* Boston: 59th Economic Conference of the Federal Reserve Bank of Boston, available online: *https://www.federalreserve.gov/newsevents/speech/fischer20151002a.pdf* accessed on 02/11/2018.

[14] Alesina, A., and Summers, L. (1993): *Central Bank Independence and Macroeconomic Performance - Some Comparative Evidence*. *Journal of Money, Credit and Banking, 25*(2), 151-162. doi:10.2307/2077833, available online: https://www.jstor.org/stable/2077833?seq=1#page_scan_tab_contents, accessed on 02/01/2019.

more criticism after the financial crisis that took the global economy into recession in 2008. It must be recalled that during the 2008 global financial crisis, many central banks utilised trillions of dollars to save the global financial system. Subsequently, the public's faith in the responsibilities and mandates of the central banks across the globe began to be challenged.[15]

Critics argued that the independent central banks are too secretive and put *commercial banks' interests first before taxpayers*'. However, central bank officials counter that they need to be free from political pressures to do their job of containing inflation, promoting full employment and maintaining financial stability (Condon, 2018).

Nonetheless, central banks across the globe are still struggling to stay above politics. In December 2018, the governor of the Reserve Bank of India (RBI), Urjit Patel abruptly resigned, few weeks after the government moved to apply more control over the RBI's regulatory powers on how to use its excess capital. Mr Patel has been replaced by Shaktikanta Das, a career civil servant. The rupee dropped by 1.8% against the dollar on the news.[16]

In Turkey, President Recep Tayyip Erdogan has repeatedly pressured the central bank to contain borrowing costs. As a result, the Turkish central bank deputy governor (the rate-setter), Erkan Kilimci resigned in September 2018. In July 2018, Erdogan appointed his son-in-law, Berat Albayrak as Treasury and Finance Minister in charge of the Ministry of Finance. Mr Albayrak, (40 years old) previously served as energy minister. His appointment and the absence of familiar, market-friendly ministers from the cabinet resulted in the depreciation of Lira (Turkish currency).[17]

In July 2018, the President of the United States of America (U.S.), Donald Trump began criticising the Federal Reserve's (Fed) interest-rate increases. President Trump has blamed the Fed for stock market declines. In November 2018 he went on and stated that he regrets appointing Jerome Powell as the head of Fed. By the way, Fed had four rate hikes of 0.25 basis points each in 2018. Mr Trump also argued that the central bank was putting the brakes on economic growth by raising rates[18].

As indicated by Erian (2019)[19], central banks will be exposed to face more criticism from politicians, market participants, and analysts in 2019. The consensus mainly informs Erian's sentiments that financial market risk has risen and the volatility could undermine the global economy. The problem of currency and financial market volatility is also raised by the World Bank (2019), which cautions central banks to be *flexible and pragmatic,* thereby shifting from less accommodative monetary policy.[20]

Dynamically-inconsistency problem

As mentioned by Kydland and Prescott (1977)[21], dynamic inconsistency problem of the monetary policy implies that the monetary authorities can, in pursuit of higher output and employment, renege from their promise of low inflation after the expectations are formed. This can only be reduced if monetary policy is delegated to an independent and conservative central bank[22].

A conservative banker dislikes inflation and can, therefore, enforce policies aiming to stabilise inflation rate. Policymakers may have an incentive to stimulate output through unexpected demand shocks, reducing unemployment but inefficiently raising long-term inflation. This can be avoided by entrusting a conservative banker with the formulation of monetary policy and execution thereof (Rogoff, 1985) and Walsh (1995)[23] argued that independent central banks could help overcome time inconsistency problems.

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[15] Condon, C. (2018): *Central Bank Independence,* available online: https://www.bloomberg.com/quicktake/central-bank-independence, accessed on 21/12/2019

[16] The Economist (2018): *Exit on Mint Street Urjit Patel, the head of the Reserve Bank of India, resigns,* India's economic policy is in turmoil, 13 December 2018, Mumbai, available online: https://www.economist.com/finance-and-economics/2018/12/15/urjit-patel-the-head-of-the-reserve-bank-of-india-resigns, accessed on 22/12/2018.

[17] Reuters (2018): *Deputy governor leaves Turkey's central bank, lira falls,* Central Banks, 30/08, available online: https://uk.reuters.com/article/uk-turkey-cenbank-board/deputy-governor-leaves-turkeys-central-bank-lira-falls-idUKKCN1LF1VA, accessed on 23/12/2018.

[18] Condon, C. (2018): *Central Bank Independence,* Bloomberg, 10/12/2018**,** available online: https://www.washingtonpost.com/business/central-bank-independence/2018/12/10/2d89eb76-fcb4-11e8-a17e-162b712e8fc2_story.html?noredirect=on&utm_term=.0181a7515324**,** accessed on 22/12/2018.

[19] Erian, M.A. (2019): *Why life is getting harder for central banks,* Bloomberg (04/01/2019, available online: https://www.bloombergquint.com/view/fed-and-ecb-get-blamed-for-stock-market-turmoil#gs.D6iXwhi6, accessed on 07/01/2019.

[20] World Bank (2019): Global Economic Prospects, Darkening Skies, available online: http://www.worldbank.org, accessed on 10/01/2019.

[21] Kydland, F., and Prescott, E. (1977): *Rules Rather than Discretion: the Inconsistency of Optimal Plans*. *Journal of Political Economy 85,* 473-491, available online: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.603.6853&rep=rep1&type=pdf, accessed on02/11/2018.

[22] Conservative means that the central bank is more inflation averse than the government.

[23] Walsh. C E. (2015). Goals and Rules in Central Bank Design. University of California, Santa Cruz. Available online: https://www.ijcb.org/journal/ijcb15q4a10.pdf, assessed on 02/11/2018.

This section has, therefore, laid a necessary foundation to understand the theoretical arguments surrounded the central bank independence and the primary reasons to maintain the independence of central banks. Given the emerging attack on central banks to be nationalised, it is vital to discuss nationalisation of central banks concerning autonomy as alluded to in the preceding sections. This will highlight the role of central bank's nationalisation in the formulation and execution of monetary policy instruments.

4. Nationalisation of central banks

Nationalisation of the central bank involves the transfer of shares from private shareholders to the government to become the sole shareholder. However, Rossouw (2014)[24] states that nationalisation of the central bank can also be achieved without necessarily changing the ownership structure of the bank[25].

Nonetheless, the shareholding in the central bank can be classified into seven different categories (De Kock, 1939), a) all shares held by the government, b) all shares held by private shareholders (juristic persons and the general public), c) shares held by the government and private shareholders, d) all shares held by banks, e) shares held by the government and banks, f) shares held by the government, banks and private shareholders, g) all shares held by banks and individual shareholders.

Based on the central bank independence discussed above and central bank shareholding as distinguished by De Kock (1939), it is evident that the nationalisation and the independence of central bank are entirely different from each other. Although private shareholding contributes to improved governance of the central bank, however, it is reasonable to assume that nationalising a central bank may not compromise the central bank independence.

4.1 Global perspective

Literature shows that some central banks were nationalised after the Second World War. For instance, the central bank of Pakistan was nationalised in 1975. The most recent central bank to be nationalise was the National Bank of Austria (NBA) in 2010. Among the objectives of nationalising the central bank of Australia as indicated by Rossouw (2014) were to improve government supervision over the central bank and avoid possible conflict of interests, as banks supervised by the NBA were also its *shareholders and appointed its governing board.*

Nationalised central banks

The nationalisation of central banks is common among countries across the globe. Table 4.1 depicts macroeconomic variables for the nations (Australia and Pakistan) that have nationalised central banks from 2010 to 2017. The table shows that in spite of nationalised central banks, these countries continue to control their inflation and interest rates quite well. For instance, Australia recorded an inflation rate of 1.9 % in 2017, down from 2.9% in 2010. Pakistan, on the other hand, recorded inflation of 4.1% in 2017, thereby improving from a high rate of 13.9% in 2010 (Table 4.1).

Interestingly, these countries have the lowest unemployment rates and moderate economic growth rate. The unemployment rate was estimated at 5.6% in Australia and 5.9% in Pakistan in 2017. With regards to the GDP growth rate, it is estimated that Australia recorded 2% growth and Pakistan recorded 5.7% in 2017 (Table 4.1).

Table 4.1: Macroeconomic statistics for countries with nationalised central banks, 2010 to 2017

	Australia				Pakistan			
	Inflation	Unemployment	GDP growth rate	Real interest rate	Inflation	Unemployment	GDP growth rate	Real interest rate
2010	2.9	5.2	2.1	6.0	13.9	0.7	1.6	2.9
2011	3.3	5.1	2.5	1.4	11.9	0.8	2.7	-4.4
2012	1.8	5.2	3.9	5.0	9.7	6.5	3.5	7.1
2013	2.4	5.7	2.6	6.3	7.7	3.0	4.4	4.7
2014	2.5	6.1	2.6	4.4	7.2	1.8	4.7	4.0
2015	1.5	6.1	2.4	6.3	2.5	3.6	4.7	5.8
2016	1.3	5.7	2.8	5.9	3.8	5.9	5.5	8.3
2017	1.9	5.6	2.0	1.5	4.1	5.9	5.7	4.0

Source: World Bank and Trading Economics, 2019

Central banks with private shareholders

Meanwhile, the central banks that have private shareholders include Belgium, Greece, Italy, Japan, South Africa (SA), Switzerland and Turkey, and the 12 Federal Reserve Banks in the US (Rossouw, 2014; Archer & Moser-Boehm, 2013)[26].

Table 4.2 displays macroeconomic variables for two countries

[24] Rossouw, J. (2014): "*Private Shareholding and the Public Interest: An Analysis of an Eclectic Group of Central Banks*," Economic Research Southern Africa Working Paper no. 457 (August) https://econrsa.org/system/files/publications/working_papers/working_paper_457.pdf, accessed on 22/02/2019.

[25] According to Rossouw, 2018, the Governor of a central bank may be required to appear periodically before a standing or select committee of parliament or the requirement for tabling annual reports of the central bank by the governor in parliament for debate.

[26] Archer, D. and Moser-Boehm, P. (2013): *Central bank finances. BIS Papers No 71.* Basel: Bank for International Settlements. Available online: https://www.bis.org/publ/bppdf/bispap71.pdf , accessed on 25/02/2019.

that have private shareholders in their central banks. The table reveals a similar trend with the countries that have nationalised central banks in terms of the low inflation rate, low unemployment rate, and high economic growth. The inflation rate for Belgium and Japan stood at 2.1% and 0.5 % in 2017, respectively. The unemployment rate in Belgium was estimated at 7.1% in 2017 while Japan had 1.7% unemployment during the same period. However, economic growth for both countries was relatively slow at 1.7%.

Table 4.2: Macroeconomic statistics for central banks with private shareholding

	Belgium				Japan			
	Inflation rate	Unemployment rate	GDP growth rate	Real interest rate	Inflation rate	Unemployment rate	GDP growth rate	Real interest rate
2010	2.2	8.3	2.7	..	-0.7	5.1	4.2	3.6
2011	3.5	7.1	1.8	..	-0.3	4.5	-0.1	3.2
2012	2.8	7.5	0.2	..	-0.1	4.3	1.5	2.2
2013	1.1	8.4	0.2	..	0.3	4.0	2.0	1.6
2014	0.3	8.5	1.3	..	2.8	3.6	0.4	-0.5
2015	0.6	8.5	1.4	..	0.8	3.4	1.4	-1.0
2016	2.0	7.8	1.4	..	-0.1	3.1	0.9	0.8
2017	2.1	7.1	1.7	..	0.5	2.8	1.7	1.2

Source: World Bank and Trading Economics, 2019

It is evident from the macroeconomic indicators in table 4.2 that nationalisation does not automatically compromise the independence of a central bank. However, this may vary from one country to another depending on the political environment and institutional quality.

5. South African perspective

5.1 Independence of the South African Reserve Bank

The South African Reserve Bank's (SARB) independence is enshrined in section 224 (2) of the country's constitution and *section 3 of the Reserve Bank Act of 1989 (Act No 90*) (Van de Mere (2004)[27]. According to these acts, the primary objective of the SARB is to protect the value of the currency of the Republic in the interest of balanced and sustainable economic growth. In pursuit of its primary objective, the SARB must perform its functions independently and without fear, favour or prejudice. Regular consultation must, however, take place between the Minister of Finance and the SARB.

Therefore, the SARB has full discretion to decide about the monetary policy instruments required to achieve the goal of low inflation (Van de Merwe, 2004). This, according to the author has the advantage of allowing the co-ordination of monetary and other policy measures, while protecting the SARB from political pressures in the pursuance of its objective of price stability. For example, the SARB adopted inflation targeting as its primary monetary policy instrument to achieve price stability.

The formal inflation targeting was adopted in 2000 after the informal inflation showed positive outcomes by reducing inflation rate from around 15% in the late 1980s to 5.2% in 1999[28] (Van de Merwe, 2004). It has contributed notably towards improved transparency and accountability of the reserve bank by communicating with members of the public regarding the decisions related to the monetary policy (Aron & Muellbauer, 2007)[29].

According to Van de Mere (2004), four reasons influenced the decision of the reserve bank to adopt formal inflation targeting. Firstly, informal inflation targeting created uncertainties among the public about the monetary policy objectives of the SARB. Secondly, the SARB believed that inflation targeting would improve the coordination between monetary and other economic policies. Thirdly, the SARB was of the view that inflation targeting would increase the accountability of the central bank. Finally, inflation targeting affects inflationary expectations, which should facilitate a reduction in inflation.

Despite its transparency and accountability to the public regarding monetary policy, a growing call to nationalise the SARB has consistently been made by many political leaders within the country. The demand to nationalise the reserve bank emanates from the fact that private shareholders own a more substantial proportion of shares in the SARB, with no single shares owned by the state or commercial banks.

5.2 *S*hareholding in the SARB

SARB is among the central banks that have private shareholders, with most of its shares held by private individuals irrespective of their citizenship, while there are no shares owned by either government or commercial banks

[27] Van de Mere (2004): *Inflation Targeting in South Africa*, Occasion paper no 19, available online: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.525.3159&rep=rep1&type=pdf, accessed on 22/12/2018.

[28] Inflation targeting was first adopted by New Zealand in 1990, and later followed by Australia, Brazil, Canada, Chile, Mexico, Sweden and the United Kingdom (UK).

[29] Aron, J. and Muellbauer, J. (2007): *Review of Monetary Policy in South Africa since 1994,* Journal of African Economies, Volume 16, Issue 5, 1 November 2007, Pages 705–744, available online: https://academic.oup.com/jae/article-abstract/16/5/705/802515 OR https://doi.org/10.1093/jae/ejm013, accessed on 02/01/2019.

within the country. It should be noted; however, that government and banks are not restricted from buying shares within the legal prescriptions of the SARB which stipulates that shares must be curbed to a maximum of 10 000 shares per shareholder. Greece has similar shareholding characteristics whereby neither government nor banks hold shares in the central bank, but it has limitations in terms of citizenship for shareholders (Rossouw, 2016)[30].

The SARB's shares are traded on an over-the-counter market with the share price estimated at R1.55 at the end of August 2015[31]. Shareholders are entitled to one vote for every 50 shares, and the votes are limited to a maximum of 200 votes.

The voting rights are limited to 200 votes irrespective of the number of shares that company groups with board or ownership control and family groups hold over 10 000. A shareholder with a minimum of 200 shares can only vote in the shareholders general meeting under the condition that it has been registered as a shareholder for not less than six months before the meeting and that is an ordinary resident in South Africa (Rossouw, 2015).

5.3 Macroeconomic variables in SA

Table 5.1 depicts a summary of macroeconomic variables in SA from 2010 to 2017. The table shows that the inflation rate was relatively low in the country with an estimated average rate of 5.2% in 2017. Inflation rate reached the midpoint of the inflation target band of 4.5% in 2010 and 2015 at 4.1% and 4.5%, respectively. Statistics South Africa (Stats SA, 2019)[32] indicates that inflation in SA was slightly above the midpoint at 4.7% in 2018.

Table 5.1: Macroeconomic statistics in SA, 2010 to 2017

	Inflation rate	GDP growth rate	Unemployment rate	Real interest rate
2010	4.1	3.0	24.7	3.3
2011	5.0	3.3	24.7	2.3
2012	5.7	2.2	24.7	3.3
2013	5.8	2.5	24.6	2.2
2014	6.1	1.8	24.9	3.4
2015	4.5	1.3	25.2	4.1
2016	6.6	0.6	26.6	3.5
2017	5.2	1.3	27.3	4.6

Source: World Bank, 2018

However, the economic growth rate was recorded at 1.3% in 2017, down from 3% in 2010. Disturbingly, the country has the highest unemployment rate of 27.3% when compared to other countries especially those that have nationalised central banks. Unemployment has remained considerable high for the entire period without a significant decline.

5.4 Nationalising the SARB

Among the resolutions that were adopted at the 54th national conference of the African National Congress (ANC) held in December 2017 was that the SARB must be nationalised in order to make government a sole shareholder of the reserve bank[33]. The nationalisation of the SARB is expected to bring SA in line with most central banks across the globe in terms of the balance of private and state ownership.

Further, it would enhance transparency and democratic processes, thereby re-examining the internal and external structures of governance. The process will also be vital in terms of operations and policy-making, including the focus on inflation, to address broader issues of growth and employment, and even industrial and sectoral policy in SA.

Can nationalisation compromise SARB independence?

As correctly pointed out by Rossouw (2018)[34], changing the central bank's ownership from private shareholders to the South African government would not affect its constitutional mandate as it enshrined in the constitution and the government appoints the leadership of SARB. He further argues that the constitutional mandate has nothing to do with shareholding, such that even with the government as its sole shareholder, the SARB would still be able to make policy decisions independently.

The South African President, Mr Cyril Ramaphosa retaliated Rossouw's argument and stated that the resolution would not affect the role, mandate and the independence of the

[30] Rossouw, J (2016): *Private shareholding and public interest: An analysis of an eclectic group of central banks*. SA Journal of Economic and Management Sciences, Vol 19:1: 150-159. Available online: http://www.scielo.org.za/pdf/sajems/v19n1/10.pdf, accessed on 21/02/2019.

[31] See footnote No.30.

[32] Stats SA (20189): *Consumer Price Index*, January 2019, Statistical release no P0141, Embargoed until 20 February 2019. Available Online: http://www.statssa.gov.za/publications/P0141/P0141January2019.pdf, accessed on 21/02/2019.

[33] As indicated in footnote number 2, the ANC is the ruling/governing political party in SA, which, had been in power since the first democratic elections in 1994.

[34] Rossouw. J. (2018): *Nationalising South Africa's central bank isn't bad per se: just what's done with it,* an article published by The Conversation Magazine (17/01/2018), available online: http://theconversation.com/nationalising-south-africas-central-bank-isnt-bad-per-se-just-whats-done-with-it-90031, accessed on 22//11/2018.

reserve bank, as government ownership does not automatically imply government control.

In addition, the Governor of the SARB (Lesetja Kganyago)[35], 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 South African Reserve Bank Act, the SARB publishes a monthly statement of its assets and liabilities and submits its Annual Report to Parliament. The central bank is, therefore, ultimately accountable to Parliament.

The assertion by Rossouw was further confirmed by the SARB (2018)[36], thereby emphasizing that shareholders in the SARB have no role whatsoever in the setting of, or influencing, the key mandates of the central bank. The primary role of the shareholders is the election of a minority of board members from a pre-approved list. This involvement is valuable to the extent that it requires greater openness and provides transparency to the operations and auditing of the bank[37].

[35] The Governor of has warned that interference to the activities of the central bank would lead to similar financial crises to those that currently experience in counties like Zimbabwe, Venezuela, Turkey, and others (Bloomberg, 2019, available online: https://www.bloomberg.com/news/articles/2018-09-02/a-50-billion-fight-about-who-owns-south-africa-s-central-bank, accessed on 03/01/2019).

[36] SARB (2018): *South African Reserve Bank Annual Report, 2017/18 -* Promoting the Economic Well-being of South Africans**,** available online: https://www.resbank.co.za/Publications/ Reports/Pages/Annual-Reports.aspx, accessed on 4/01/2019

[37]. Shareholders receive a fixed return on their shares of 10 cents per share from profits made, and this amounts to an overall dividend payment by the SARB of R200 000 per year). They also elect six of the 13 board members. The president of the country appoints the other board members, including the Governor and the Deputy Governors (see footnote 20).

Rossouw is, however, concerned about the fair value that will be paid to the SARB's current shareholders.[38] This is evident in countries like the UK, Sweden, and Denmark, where government ownership of central banks does not affect their unwavering commitment to keep inflation under control.

Nonetheless, Padayachee (2014) states that the process of nationalising SARB needs to be undertaken with extra caution and carefully managed in order to prohibit negative consequences that might lead to a loss of credibility and reputation of the bank. She suggests that a similar approach to that of United Kingdom (UK) needs to be followed, whereby the structure of the nationalised board of central bank includes at least two additional independent rotating members in the Monetary Policy Committee (MPC).

In the Bank of England, for example, these independent external members, usually drawn from the City or academia, and are formally co-opted to the Bank staff for their tenure to reduce the danger of conflicts of interest, but in a way which defeats the objective of having independent voices on the MPC.

6. Conclusion

As demonstrated in this article, the concern about the independence of the SARB revolves around its primary role of focusing on keeping inflation under control by sticking to an inflation target and its perceived failure to inspire economic growth. However, the SARB still plays a critical role in the life of the country concerning monetary policy and safeguarding and promoting the value of SA's currency.

[38] Shares of the SARB are only worth about R20 million, based on the current share price, some shareholders have argued the bank's assets belong to them, and they should be compensated for that when the government nationalises the institution. About 80% of its 770 owners are foreigners, so steps to nationalise could be challenged using bilateral investment treaties or end in international arbitration.

Also, most central banks in the world have a share ownership structure that has the state as the majority, or only, shareholder. The SARB is one of only eight central banks in the world with private shareholders. Akin to most central banks internationally, the SARB is possessed with a governing structures, which ensure that even if the majority shareholder is the state, but are free to implement monetary policy without political interference. In conclusion, this article shares the view that supports the nationalisation of the SARB, as this will have no adverse consequences to the independence of the central bank.

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