Minutes of the 103rd annual Ordinary General Meeting

of the shareholders of the South African Reserve Bank – held on 28 July 2023

The Chairperson, South African Reserve Bank (SARB) Governor Lesetja Kganyago, extended a warm welcome to all who had joined the hybrid meeting, and declared the 103rd annual Ordinary General Meeting (AGM) of the shareholders of the SARB duly constituted in terms of the Regulations to the South African Reserve Bank Act 90 of 1989, as amended (SARB Act).

The Chairperson advised the shareholders that it was the first time that the SARB AGM was being held as a hybrid meeting. The SARB was currently embarking on a renovation and construction project of its Head Office in Pretoria and had temporarily relocated to an office in Centurion. However, due to the limited space available for conference facilities at the temporary venue, the SARB had considered the venue of the Council for Scientific and Industrial Research (CSIR) as a suitably conducive and accessible venue in the Pretoria vicinity. The Chairperson thanked the shareholders for their understanding.

The Chairperson advised that the proceedings of the meeting were being recorded for future reference if it became necessary. The meeting complied with the Protection of Personal Information Act 4 of 2013 (POPI Act), as the shareholders had been requested during registration on the LUMI Technologies SA Proprietary Limited (LUMI) platform to give consent to the SARB/LUMI to collect, collate, process and store their data for the purposes of this meeting. He reminded the shareholders joining online that they would be able to ask written questions related to the business of the meeting by following the instructions provided in the Notice of the Meeting. In addition, the shareholders would be afforded an opportunity to participate and ask questions through a virtual microphone.

The Chairperson confirmed that the registered shareholders had been provided with the information and a tutorial video on how to use the microphone facility. He also confirmed that messages could be submitted at any time prior to a matter being put to a vote.

All the shareholders present in person and online who held 200 or more shares in the SARB, and who were entitled to vote in accordance with the provisions of the SARB Act and its Regulations, were advised that voting on each of the matters under consideration at the AGM would take place by means of a poll conducted electronically and facilitated by LUMI, an independent external party.

The Chairperson mentioned that shareholders' questions would be answered during the meeting, and that both the questions and the answers would be recorded in the minutes. However, should questions from shareholders be received after the closing of the poll and question time, they would be responded to directly via their registered email address.

The Chairperson introduced the following persons who joined him on the podium and were to answer any questions that the shareholders might have on the matters before the meeting:

- SARB Deputy Governors: Dr Rashad Cassim, Mr Kuben Naidoo and Ms Nomfundo Tshazibana;
- Chairperson of the Audit Committee, Dr Terence Nombembe;
- Chairperson of the Remuneration Committee, Dr Yvonne Muthien;
- Chairperson of the Board Risk and Ethics Committee, Mr Zoaib Hoosen;
- Chairperson of the Non-executive Directors' Committee, Ms Lerato Molebatsi;
- SARB's General Counsel, Mr Chris van der Walt; and
- Acting Secretary of the SARB, Ms Clivia Ulland.

The Chairperson mentioned that the term of office of Dr Terence Nombembe had expired on 15 July 2023. Dr Nombembe had completed his three terms of office as the non-executive Director representing government. Dr Nombembe joined the meeting as the Chairperson of the Audit Committee during the year under review. The Chairperson thanked Dr Nombembe for his attendance.

The SARB's Board of Directors (Board) had appointed Mr Norman Mbazima to replace Dr Nombembe as the Chairperson of the Audit Committee with effect from 16 July 2023.

The Chairperson extended a special word of appreciation to Dr Nombembe for the dedicated and valuable service he had rendered to the SARB Board over his three terms of office and as the Chairperson of the SARB Audit Committee from 2020 until the end of his term.

He mentioned that Dr Nombembe was a good servant for the citizens of the Republic of South Africa who had been committed to the accounting profession, having served as the Deputy Auditor-General and later the Auditor-General in South Africa and having participated in high-level investigations in the country. He wished Dr Nombembe well in his future endeavours.

The Chairperson stated that the President of the Republic of South Africa would advise of his decision regarding this vacant Board position in due course.

The Chairperson presented his address which, for record-keeping purposes, follows these minutes and is marked as 'Annexure A'.

The Chairperson then turned to the formal business of the day and confirmed the agenda for the AGM as follows:

- Receive and accept the minutes of the AGM held on 29 July 2022.
- Receive and consider the SARB's annual financial statements for the financial year ended 31 March 2023, including the directors' report and the independent external auditors' report.
- Approve the remuneration of the SARB's independent external auditors – PricewaterhouseCoopers Inc. (PwC) and SizweNtsalubaGobodo Grant Thornton Inc. (SNG Grant Thornton) – for completing the audit for the 2022/23 financial year (in terms of regulation 22.1(b) read with regulation 7.3(c) of the Regulations to the SARB Act).
- Approve the appointment of BDO SA Inc. (BDO) and SNG Grant Thornton as the SARB's independent external auditors for the 2023/24 financial year.
- Elect one non-executive director to serve on the SARB's Board.
- Consider any further business arising from the items mentioned above (in terms of regulation 7.3(e) of the Regulations to the SARB Act).

The Chairperson confirmed that the Acting Secretary of the SARB had not received any requests for special business to be placed on the agenda of this AGM in terms of regulation 7.3(d) of the Regulations to the SARB Act.

The Acting Secretary of the SARB confirmed the shareholder representation at this hybrid AGM as follows:

- The total number of shares in the issued share capital of the SARB held by its shareholders was 2 000 000 (two million).
- 43 shareholders were present in person and online.
- 4 shareholders were represented by proxy.
- 585 votes were exercisable by the shareholders present in person or online, and those holding duly certified proxy forms for this purpose.

The shareholders were advised that voting on each of the matters under consideration at the AGM would take place by means of a poll conducted electronically and facilitated by LUMI, an independent external party.

The Chairperson then invited the shareholders to submit any questions related to the first four resolutions.

No questions were raised regarding the first four resolutions, which were then put to the vote on a poll, as follows:

Acceptance of the minutes of the 2022 AGM

The Chairperson proposed that the minutes of the 102nd AGM held on 29 July 2022 (included in the SARB Annual Report 2022/23) be taken as read and accepted.

There were no objections or corrections to the minutes.

Based on the results of the poll, the Chairperson declared that the minutes of the 2022 AGM were accepted by 99.62% of the votes cast, while 0.38% had abstained from voting.

Acceptance of the annual financial statements for the financial year ended 31 March 2023, including the directors' report and the independent external auditors' report

The Chairperson formally presented the annual financial statements of the SARB for the financial year ended 31 March 2023, including the directors' report and the independent external auditors' report.

The summarised South African Reserve Bank Group (SARB Group) annual financial statements were included in the SARB Annual Report 2022/23, which was published on the SARB website and posted to the shareholders on 28 June 2023. The full set of the 2022/23 annual financial statements was also made available on the SARB website on the same day.

Based on the results of the poll, the Chairperson declared that the SARB's audited annual financial statements for the financial year ended 31 March 2023 were accepted by 99.05% of the votes cast, while 0.95% had abstained from voting.

Remuneration of the SARB's independent external auditors

The Chairperson proposed that the remuneration of the SARB's independent external auditors in respect of the general statutory audit of the SARB for the financial year ended 31 March 2023 be confirmed and approved.

Based on the results of the poll, the Chairperson declared that the remuneration of the SARB's independent external auditors for the general statutory audit for the financial year ended 31 March 2023, amounting to R22 980 039 excluding value-added tax (VAT), was approved by 93.94% of the votes cast, while 5.11% had voted against the motion and 0.95% had abstained from voting.

Appointment of independent external auditors

The Chairperson then turned to the appointment of the SARB's independent external auditors for the 2023/24 financial year.

In accordance with the principles relating to the rotation of auditors, the Chairperson stated that PwC was due for rotation. Accordingly, the SARB's Board had approved a resolution that PwC would step down as an external auditor of the SARB Group on the completion of the audit work for the financial year ended 31 March 2023.

The SARB's Audit Committee had satisfied itself with the process of selecting an external auditor that would replace PwC as a new joint external auditor of the SARB Group. Should the shareholders approve the appointment of BDO, the new external auditor would conduct the audit jointly with the existing and remaining audit firm, SNG Grant Thornton, until 31 March 2025. Thereafter, a replacement firm for SNG Grant Thornton would be recommended to the shareholders for appointment.

It was reported that the SARB Audit Committee, supported by the Board, had recommended the appointment of BDO and the reappointment of SNG Grant Thornton as the SARB's independent external auditors for the 2023/24 financial year. The appointment of BDO for the provision of joint external audit services for the financial year ending 31 March 2024, was subject to the annual re-election process that would be followed at the SARB's AGM, for a potential maximum period of 10 years.

Based on the results of the poll, the Chairperson declared that BDO and SNG Grant Thornton were appointed as the SARB's independent external auditors for the 2023/24 financial year, by 100% of the votes cast.

The Chairperson congratulated BDO for their appointment and SNG Grant Thornton for their reappointment.

Election of a non-executive director

The Chairperson turned to the election of a non-executive director to fill the vacancy for a shareholder-elected non-executive director, which would be available the day after the AGM.

The Chairperson mentioned that the term of office of Ms M M T (Tryphosa) Ramano as a non-executive director with knowledge and skills in finance and commerce would expire the day after the 2023 AGM, being 29 July 2023. Ms Ramano was eligible and available for re-election by the shareholders.

The Panel, appointed in terms of section 4(1C) of the SARB Act, had considered the nominations for this vacancy. This Panel comprised:

- the Governor of the SARB;
- retired Constitutional Court Judge Baaitse Elizabeth Nkabinde and Prof. Deon Rossouw, the Chief Executive Officer (CEO) of the Ethics Institute of South Africa (both nominated by the Minister of Finance); and
- Mr Kaizer Moyane, Mr Thulani Tshefuta and Ms Lebogang Mulaisi (all three nominated by the National Economic Development and Labour Council (Nedlac)).

The Panel was satisfied that Ms Ramano had been the only candidate selected by the Panel with knowledge and skills in commerce or finance to fill the position of a non-executive director of the SARB. The curriculum vitae of Ms Ramano had been sent to the shareholders together with the Notice of this AGM.

The Chairperson then invited the shareholders to submit any questions related to the resolution.

No questions were raised regarding the resolution, which was then put to a vote on a poll.

Based on the results of the poll, Ms Ramano was re-elected as a non-executive director, with 53.92% of the votes cast in her favour and 28.61% of the votes cast against, while 17.47% had abstained from voting.

The Chairperson congratulated Ms Ramano on her re-election as a non-executive director. In terms of section 5 of the SARB Act, Ms Ramano's appointment would be effective from 29 July 2023 until the day after the AGM in 2026.

Special business to be considered at this AGM

The Chairperson reiterated his earlier confirmation that the Acting Secretary of the SARB had not received any requests for special business to be placed on the agenda of this AGM. However, he invited the shareholders to raise any questions arising from the matters under consideration at the AGM and from his speech.

A shareholder, Mr Mamahlodi, asked the Chairperson whether the SARB had any legislative or policy statement regarding crypto-currency in South Africa to protect the public from crypto-currency scams.

The Chairperson stated that the SARB had previously issued a cautionary statement warning the South African public to be careful with crypto-currency trade and investment, since there was no legislative or regulatory framework in place underpinning them. However, through engagements between the SARB, National Treasury (NT) and the Financial Sector Conduct Authority, crypto-assets had been declared as financial products and accordingly would be regulated in terms of applicable legislation. The Chairperson stated that the crypto-environment was an evolving area in the country and globally, and there was polarisation varying from banning crypto-currencies to warning the public about them. He further mentioned that there was a strong case on how crypto-assets were used in money laundering, the financing of terrorism and the financing of proliferation.

A shareholder, Dr Rossouw, referred to the new banknotes and asked for the reasons why the 'new feel' of the new series was different from the previous series of banknotes.

The Chairperson explained that the SARB had consulted extensively on a feel of the new banknotes and confirmed that the new banknotes had a distinctive feel. The advanced technology used on the substrate had enhanced the integrity, quality and durability of the banknotes.

Regarding a monetary policy matter, Dr Rossouw remarked that whenever the SARB increased the interest rates, the most-affected people would be those individuals with debt as they would have to pay higher interest on their serviced debt. However, he proposed that, at the time of adjusting the interest rates upwards, the SARB should consider adding in its statement that the upward interest rates would be beneficial to people who had savings and deposits in banks as well as those people who were earning interest. Reporting inclusively on the impact of inflation would provide clarity to the public that the higher interest rates were not a loss to the economy, but were detrimental only to those with debt. Such a statement would reflect a more balanced debate around the interest rate stance.

The Chairperson expressed appreciation for the suggestion made by Dr Rossouw.

Another shareholder stated that few of the central banks around the world were encouraging sustainable investment in greening projects through the banking system by providing a level of accommodation to banks through lending to sustainable investment projects and asked whether the SARB had considered greening the financial system.

The Chairperson stated that the SARB did not invest much in greening projects. The SARB had a responsibility to invest in reserves and those investments had to be of assets that were liquid. The SARB had to make sure that when those reserves were needed, the SARB would be able to access them.

However, the Chairperson stated that the SARB was not oblivious to the challenges caused by climate change, and as such the SARB was participating in two forums, namely the Task Force on Climate-related Financial Disclosures for Central Banks (Task Force) and the network for the greening of the financial sector. The Task Force enables central banks to ask the regulated sector, in their supervisory processes, to take account of climate risk in its activities and the extent to which it might pose a challenge for its capital and liquidity.

The other growing forum was the network for the greening of the financial sector. Domestically, an assessment of the impact of climate change on the financial sector had revealed that the insurance industry showed readiness for any eventualities. The frequency in which extreme weather events occurred, such as droughts and floods, had increased and had become erratic. The SARB had tested the resilience of the financial sector to climate shocks to ensure a price stability mandate as these shocks led to extreme price movements. Climate shocks were previously a one-off occurrence in at least 20 years, but if these shocks happened with increased frequency, they would become embedded in the price formation process of the price-setters. Once that decision had been taken, climate change would move from being just a physical risk to becoming a risk of financial stability and a risk to economic activities.

A shareholder, Ms Myeni, suggested that geomorphologists might be suitable to assist with tracking the impact of climate change, particularly in densely populated and rural areas where the social and financial risks were the highest.

It was mentioned that the work of the Prudential Authority (PA) and the SARB's Financial Stability Department was focused on improving the resilience of the financial sector to climate-related risks and incorporating climate-related information in funding and insurance decisions. Climate change indicators, disclosure and taxonomy rules would become part of the prudential framework.

A shareholder, Mr Moganwa, referred to the 10 cents dividend cap for the SARB shareholders and enquired whether it was fair that the 10 cents did not reflect the time value of money. He mentioned that the 10 cents of 1921, with the South African rand pegged to the British pound, was not the same as the 10 cents of 2023. He enquired whether there was a possibility for the SARB to obtain a legal opinion regarding the matter.

Another shareholder, Mr Ahmed, suggested that the SARB should consider increasing the dividends to its shareholders considering inflation over the past decade and should allow the dividends to be more material, which would add to the value of shareholders' investments. The current dividend policy was not conducive to the value of the underlying shares attaining proper growth. The legislation could not be amended to increase the dividends, and the shareholders felt prejudiced.

The Chairperson stated that there was no legal opinion required regarding the 10 cents capped dividend. The law was written in such a way that the dividend per share was capped at 10 cents per annum.

Ms Nxumalo, a shareholder, asked whether the research on language regarding the new banknotes was not supposed to have been addressed before the commissioning of the banknotes. She enquired whether the approach undertaken by the SARB was unprofessional and wasteful expenditure.

The Chairperson explained that the SARB had consulted extensively with expert organisations on the use of national symbols, languages and designs on the currency, including the Pan South African Language Board (PanSALB), which was the statutory authority on South Africa's 12 official languages. The SARB had reached out to PanSALB to revisit the matter and was awaiting feedback. More broadly, the SARB's recent campaign to educate the public on the new security and design features had helped to cement public trust and confidence in the country's currency.

A shareholder, Mr Dhawraj, asked about the status on the nationalisation of the SARB, as demanded by some politicians, and whether there was anything that the shareholders should be concerned about regarding the matter.

The Chairperson stated that questions on the nationalisation of the SARB should be directed to government.

Responding to a question from a shareholder, Ms Myeni, regarding the pre-2024 general elections scenarios, the Chairperson stated that the question was political and should be directed to political authorities.

Ms Myeni also asked if there was possibility that the high unemployment rate would be reduced through the implementation of structural reforms on condition that government tenders were suspended.

The Chairperson advised Ms Myeni to direct her question to National Treasury.

Ms Myeni indicated that gold mining around the Witwatersrand Basin had started approximately 200 years ago and she strongly felt that a ground stability study around the Gauteng province should be undertaken considering the recent frequency of tremors, surface subsidence and uncontrolled illegal mining. Gauteng being the economic hub of South Africa, ground stability was a major risk.

The Chairperson advised that the matter fell outside of the ambit of the SARB and should be referred to the relevant government authorities.

Ms Myeni asked if inflation in South Africa were to be as high as 80% due to factors outside of the SARB's control and what could be done now to prevent a situation similar to Argentina. Alternatively, she further enquired if inflation were to become as low as 0.5%, how would all South Africans benefit for long-term and sustained growth.

The Chairperson stated that de-anchoring inflation would mean that the SARB had disregarded its constitutional mandate. The reason for the SARB having acted as early as November 2021 to adjust the interest rates was to contain inflation.

A shareholder, Ms Nxumalo, stated that the primary mandate of the SARB, as stated in the Constitution of the Republic of South Africa – Act 108 of 1996 (Constitution), was to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. She enquired whether this mandate did not, however, include how banks engaged with their clients, thereby monitoring the movement of funds coming in and out of banking accounts. The Judicial Commission of Inquiry into Allegations of State Capture and Corruption and Fraud in the Public Sector had resulted in revealing that banks were involved in state capture, corruption and fraud.

The Chairperson stated that the engagement of banks with their clients had not been included as part of the price stability mandate. The Financial Sector Regulation Act 9 of 2017 (FSR Act) gave the SARB another responsibility with respect to financial institutions; to ensure safe and sound banks. Concerns relating to the alleged ill-treatment of customers by their respective banks should be directed to the Market Conduct Division of the Banking Association South Africa, as they advocated for the interests of the banking industry regarding legislation and regulation affecting their customers and clients.

Another shareholder posed questions on the following three matters: i) the SARB's agenda around the transformation of financial services in general and the stance of the current SARB Board approaching the transformation agenda in relation to the barriers of entry in the financial services and banking sectors; ii) the SARB's developmental agenda with regard to the supplier developmental programme in addressing the imbalances in South Africa, for example BDO which, earlier in the meeting, had been approved as a joint external auditor for the SARB, indicating that BDO was a white-owned construction company and enquiring about the reasons why a black-owned company had not been considered; and iii) the development of scarce skills in the financial sector, specifically the SARB's stance in ensuring that banks developed those skills for historically disadvantaged individuals.

The Chairperson explained that the SARB Board had no responsibility in respect of prudential regulation and the issuing of licences to banks but was rather responsible for strengthening the SARB's governance. The implementation of the Monetary Policy was the responsibility of the Governor and the three Deputy Governors. The Chairperson further clarified that BDO provided accounting services and was not a construction company. The other independent external auditor for the SARB was SNG Grant Thornton, which was a black-owned firm. There was no legislation that required the SARB to have two external auditors, but it did so for transformation reasons. He emphasised that there was no legislation that precluded the black race from conducting business with the SARB. Regarding the skills in the financial sector, banks operated under licences and had to meet the set requirements to qualify for licensing and providing capacity to do the job. Nothing in the licensing conditions required skills development and such, skills development was covered in another piece of legislation outside of the SARB. The Chairperson stated that he would find it odd to find any financial sector that would not have a responsibility to develop its own human resources.

Deputy Governor Tshazibana, in her capacity as the CEO of the PA, explained that, in terms of the FSR Act, the SARB was responsible for ensuring the safety and soundness of the financial system, whereas the PA considered the individual institutions. Within that, the PA considered, albeit very broadly, the issues of financial inclusion, competition and transformation, and all of these activities were within the context of safety and soundness. The policy mandate for the PA sat within NT, and the PA was the law implementer for the issuance of licences to qualifying institutions. Deputy Governor Tshazibana further explained that the PA regulated different deposit-taking institutions but indicated that NT had embarked on determining whether South Africa had sufficient variety of deposit-taking institutions.

South Africa had co-operative financial institutions (the entry level of deposit-taking institutions), co-operative banks, mutual banks and commercial licensing banks. All of these entities could accept deposits, and the PA ensured that those deposits were kept safe. The difference was the other types of business that these entities could embark on in addition to accepting deposits. Those other types of activities occasionally brought risk to depositors. During the licensing of these institutions, the PA considered the capabilities of those institutions, including their management and Board capabilities. The PA did not limit the number of banks that could enter the market, but the PA verified whether the applicant met the set criteria for licensing. The PA had observed an increase of the number of multi-players entering the market in the country; and there was room for different product offerings catering for different customers' needs. To complement the work being done by the PA in this area, the SARB's National Payment System Department was considering the multiple payment methods competing with the banks. On the transformation agenda, banks had direct obligations, which were linked to employment equity legislation, which was the responsibility of the Department of Labour. The PA engaged with these entities on an ongoing basis to understand how they were managing talent broadly and whether they were taking transformation into account.

Deputy Governor Naidoo mentioned that the SARB was not a public entity in terms of the Public Finance Management Act 1 of 1999 (PFMA). As such, the Preferential Procurement Policy Framework Act 5 of 2000 (PPPF Act) did not apply to the SARB. The SARB did, however, embrace socio-economic transformation and applied preferential procurement principles in its sourcing and procurement activities through the adoption of specific elements of the PPPF Act. The SARB was committed to maintaining the transformation of the supplier development programme and supplier network, which improved spend with qualifying suppliers and contributed to supplier development. The two largest areas of procurement within the broader SARB Group were in the currency field as most of the substrate was not produced in South Africa and there was an extensive process to increase the proportion of goods and services being procured from historically disadvantaged companies. During the 2022/23 financial year, the SARB's overall score for the supplier and enterprise development element of the scorecard was 22.2 points out of a maximum of 27 points.

As there were no further questions or comments from the shareholders, the Chairperson then gave Mr Fani Titi, Group Chief Executive of Investec Limited, the opportunity to propose a vote of thanks to the SARB on behalf of his organisation, the financial services sector and the SARB shareholders.

On behalf of the SARB shareholders and the entities that the SARB regulates, Mr Titi expressed the deepest gratitude to the SARB for its outstanding and globally recognised work.

Over the past year, the SARB had steered South Africa's inflation rate back to within the target range, achieving this challenging task earlier than many developed economies.

He thanked the highly competent regulation by the PA, which had resulted in South Africa's financial system being well-capitalised and a model of disciplined risk management.

Mr Titi stated that, in the face of extreme global and domestic uncertainty, the SARB had focused squarely on its mandate and had maintained its independence, while consulting regularly with government. Indeed, the competence and autonomy of the SARB underpinned the country's credit ratings and would support even higher ratings if not for the structural impediments to economic growth.

Furthermore, Mr Titi mentioned that the declining productivity over the past decade – the effect of state capture, poor governance and the hollowing out of state institutions – had been exacerbated by a sharp increase in government debt. High bond yields had crowded out fixed investments that typically carried higher risk and often lower returns, particularly in a low-growth economy.

In stark contrast, the period between 1999 and 2008 had seen rapid expansion of the private sector and declining unemployment – evidence of what could be achieved through sound policies that supported productive investment. Successful infrastructure investment, free of corruption and bureaucratic inefficiencies, had a two-fold benefit: increasing the productive capacity of the economy, while contributing directly to growth and employment through build programmes. The just transition to renewable energy, was crucial for South Africa's sustainable development, presented an opportunity for such large-scale productive investment. The SARB was at the leading edge of facilitating this through its participation in the Network of Central Banks and Supervisors for Greening the Financial System.

South Africa's greylisting by the Financial Action Task Force had highlighted the need for improved measures to prevent money laundering, the financing of terrorism and proliferation financing. The SARB's progress in risk-based supervision of designated non-financial businesses, and its invaluable assistance to law enforcement agencies seeking to bring financial criminals to book, was applauded.

Mr Titi mentioned that looking ahead, the partnership between the South African presidency and the private sector to address the crises in energy, freight transport and high crime levels was key to removing impediments to economic growth. Equally critical was the need to bolster investor confidence. To achieve this, property rights had to be strengthened, not undermined. As an institution with a deep understanding of long- and short-term risks, the SARB served as a critical bellwether, calling out the unintended consequences of proposed policies such as land expropriation without compensation and the proposed nationalisation of private health care under the National Health Insurance.

The SARB's sterling performance in the past year highlighted its standing as one of the country's proudest and most capable institutions. Mr Titi thanked the Board, Governor Kganyago, the Deputy Governors and the staff of the SARB for their leadership, integrity and resilience. Their dedication set an inspiring example to all institutions serving the people of South Africa.

Following the vote of thanks by Mr Titi, the Chairperson confirmed that all the business included in the agenda had been transacted.

The Chairperson took the opportunity to thank President Ramaphosa and Deputy President Mashatile, government and Parliament for their continued support. He also expressed sincere appreciation to the Minister of Finance, Mr Enoch Godongwana; Deputy Minister of Finance, Mr David Masondo; NT Acting Director-General, Mr Ismail Momoniat; the former NT Director-General, Mr Dondo Mogajane; and all the staff of NT for their ongoing support of the SARB.

Sincere thanks were expressed to the members of the SARB Board for their continued contributions and support, and for ensuring appropriate corporate governance at the SARB.

Sincere appreciation was also expressed to Deputy Governors Naidoo, Cassim and Tshazibana for sharing the workload as well as to the entire management and staff of the SARB for their continued dedication and support during what was once again a challenging year. The Chairperson thanked them for their contributions and stated that he was confident that their continued efforts would ensure that the coming year would be even more successful.

The Chairperson then thanked the shareholders for their attendance and participation and confirmed that the SARB would continue to count on the shareholders' support in future.

The Chairperson declared the proceedings closed.

E L Kganyago
Chairperson

Annexure A

An address by Lesetja Kganyago, Governor of the SARB, to the 103rd AGM of the SARB shareholders held on Friday, 28 July 2023

Introduction

I am very pleased to be here with you, in person, for the first time since 2019, even if the world has changed significantly since the last time I stood before the shareholders of the South African Reserve Bank (SARB).

We have survived the onslaught of COVID-19, but South Africa now faces multiple challenges of high inflation, low economic growth and a difficult external environment.

Despite the easing supply chain pressures and lower commodity prices, globally inflation remains well above many central banks' targets and monetary policy remains tight.

These conditions, including rising uncertainty and weak confidence, have been a drag on growth for many emerging market economies, including South Africa, whose post-pandemic recovery has been comparatively weak.

Electricity shortages, infrastructure challenges, high public debt levels and weak investment continue to weigh on growth over the medium term in South Africa.

Lower commodity prices have supported disinflation, and headline inflation returned to the target range in mid-2023. However, inflation remains sticky and the risk to the medium-term inflation outlook remains to the upside. Monetary policy continues to remain focused on returning inflation to 4.5% over the medium term, yet this goal will be complicated by challenges such as the ongoing geopolitical tensions and climate change.

Global conditions

Early in the pandemic, aggressive fiscal and monetary easing was aimed at mitigating the economic effects of the pandemic. As economic activity slowly resumed, supply chains remained severely constrained, prompting a sharp increase in global prices. The inflationary impulse was worsened by Russia's invasion of Ukraine, which raised the prices of important commodities such as food and oil. In response to elevated inflation, most central banks raised policy rates.

Global inflation peaked in the third quarter of last year and has since moderated into the third quarter of 2023. This deceleration almost entirely reflects lower food and oil prices, alongside less binding supply constraints and tighter macroeconomic policies. However, inflation remains above central bank targets, and in the advanced economies, core inflation remains uncomfortably high, reflecting sustained spending on services, tight labour markets and robust wage growth.

While the rising interest rates triggered some banking sector volatility in the United States (US) and Eurozone, this appears to have diminished in recent months. These market-related stresses were not enough to derail the hiking cycles of the advanced economies, with the US Federal Reserve and European Central Bank hiking by an additional 75 and 100 basis points respectively since March 2023. The persistence of inflation despite the sustained interest rate hikes by some central banks suggests that global neutral interest rates have risen well above their pandemic levels. As we move towards 2024, central banks around the world will be watching carefully for additional evidence of changes in neutral real rates.

With global financial conditions adjusting and risk-adjusted real interest rate differentials widening, portfolio flows will become less certain, affecting the availability and the cost of external funding. These rising credit costs will further impair the financing of large fiscal and current account deficits in many emerging market and developing economies (EMDEs), including South Africa. Many economies have experienced sustained increases in public debt levels, which, with higher inflation, create serious headwinds to economic growth. As exchange rates depreciate in response to the more adverse credit conditions, imported inflation tends to rise – a trend already seen in producer prices, fuel costs and food prices, among other items. EMDEs will need to consolidate their fiscal positions over the coming years helping indirectly to reduce exchange rate pass-through pressures and inflation and its wide-ranging economic costs.

Domestic conditions

South Africa's recovery from the COVID-19 pandemic was driven by demand expansion and a supply rebound following the easing of pandemic-induced restrictions. This generated a strong, but incomplete, recovery from the 6.0% contraction experienced during 2020. While growth rebounded by 4.9% in 2021, activity subsequently slowed to 2.0% in 2022, and by 2023 even lower growth was expected as the energy crisis facing the country worsened. The SARB forecasts gross domestic product (GDP) growth at 0.4% this year, and expects it to average about 1% over the next two years.

South Africa's post-COVID-19 recovery reflects various domestic idiosyncrasies such as political unrest, disruptive strikes, extreme weather conditions and failing infrastructure. Although load-shedding entered the South African lexicon 15 years ago, it has intensified over the past two years, placing a binding constraint on growth. The SARB estimates that growth over the 2023–2025 period would be closer to 2% in the absence of load-shedding.

South Africa's underwhelming economic performance is not new; the country's chronic low-growth problem predates the pandemic. In the five-year period before COVID-19, growth averaged just 1% – compared to the 3.5% growth achieved by a typical emerging market economy.

One of the main challenges to achieving higher growth is weak investment levels. South African investment lingers close to 16% of GDP compared to the 25% level achieved by comparative peers. From a macroeconomic perspective, a key constraint to achieving higher investment levels in South Africa is persistent fiscal dissaving. High public debt levels raise the risk premium, pushing up the cost of borrowing to around 11% today.

The low-investment problem is worsened by the composition of public spending, which is geared more towards current consumption than infrastructure.

The reversal of the economy's terms of trade risks worsening the fiscal outlook. Between January 2020 and March 2022, the prices for South Africa's major commodities – such as gold, iron ore, platinum group metals and coal – doubled. Since then, however, these prices have been falling consistently and by as much as 23.8% over six months alone. As funding needs grow, and as domestic saving remains weak, the need for foreign savings has widened. The current account deficit is now expected to expand from 0.5% in 2022 to 3.3% by 2025.

Headline inflation rose sharply this past year, surpassing the upper end of the 3–6% inflation target band in April 2022 and reaching a 13-year high of 7.8% in July 2022. Inflation has since moderated, albeit with some volatility, and finally returned to the target band in June 2023, when it reached 5.4%. The moderation can largely be attributed to lower global food and fuel prices in recent months, as well as lower imported inflation due to easing supply chain disruptions and easing demand conditions.

A more pronounced moderation in inflation is expected in the latter years of the forecast horizon, with headline inflation expected to ease to an annual average of 5.0% in 2024 and 4.5% in 2025.

The risks to inflation are still assessed to be on the upside. Rising services inflation and elevated administered price inflation continue to put upward pressure on prices. These pressures are exacerbated by elevated and rising inflation expectations by key price-setters over the medium term. For example, the survey of inflation expectations by the Bureau for Economic Research shows that two-years-ahead expectations have steadily trended up from around 4.5% in 2021 to 6.3% and 5.9% for businesses and trade unions respectively. These elevated expectations by key price-setters risk feeding into the recent wage negotiations and embedding in higher core inflation.

Facing this elevated and persistent inflation, the SARB's Monetary Policy Committee (MPC) stepped up the pace of repurchase (repo) rate normalisation over the past year, raising the repo rate by a cumulative 400 basis points since the May 2022 MPC meeting. This has brought the nominal repo rate to 8.25%. At these levels, monetary policy in South Africa is now considered restrictive.

The MPC continues to assess the impact of previous interest rate hikes on the economy. Monetary policy operates with a lag of approximately 12–24 months, with peak impacts of rate hikes between three and five quarters ahead.

To date, the rate hikes have had a moderately slowing effect on credit demand, which continues to rise even after adjusting for prices.

Total loans and advances to the private sector are, so far this year, 2.0% higher than they were over the first half of 2022. Credit growth to corporates remains relatively robust at 3.5%, while credit to households has slowed to real growth of 0.5%. Households' credit demand is typically comprised of mortgages, which have slowed since the robust growth experienced during the COVID-19 era ultra-low interest rate environment. The rise in interest rates has pushed households' debt-service cost as a share of their annual disposable income back up to its 2010–2019 average of about 8.5%.

The broader environment in which monetary policy is made presents additional challenges to central banks. Geopolitical tensions, changes to established global value chains and the intensifying problems of climate change are all likely to present challenges to long-term growth and relative price shocks.

Russia's invasion of Ukraine has been an unpleasant reminder of how rising commodity prices spill over into imported inflation for various economies. These tensions continue to pose an upside risk to the inflationary outlook, which is exemplified by the recent collapse of the Black Sea grain deal. Ongoing volatility in global oil and food prices risks delaying inflation back to target for many countries.

While pandemic-related shocks to global supply chains continue to ease and revert to more normal conditions, established global value chains will continue to adapt to a changing global trade, industrial and technology policy landscape. 'Nearshoring' will likely reverse the disinflationary impulse of globalisation, and is expected to put upward pressure on manufactured goods vis-à-vis services over the long term. The effects on emerging markets like South Africa will be significant, as deglobalisation lowers productivity growth, slows the diffusion of technology and makes it harder for economies to maintain competitiveness.

Major climate events such as floods and droughts have an immediate impact on local food prices. South Africa has experienced numerous climate events, including the flooding in KwaZulu-Natal in 2022 and the Western Cape droughts of 2015–2018. The El Niño event of 2015/2016 pushed food inflation up to about 11% in 2016, and its reappearance later this year risks delaying the food disinflation process. Despite the challenges of forecasting and modelling, a repeat of the 2015/2016 drought (which is a once-in-20-years event) could increase food prices by as much as 10%. For now, however, such a risk lies outside of the SARB's baseline view.

In a world this volatile, it has been more important than ever that the SARB hold fast to its mandate of ensuring price stability in the interest of balanced and sustainable economic growth. Monetary policy is focused on preventing second-round effects and the risk that inflation expectations de-anchor following inflation shocks. Though the MPC has paused the hiking cycle, it will act decisively to quell any inflationary pressures should they strengthen over the medium term. The priority remains that inflation reaches the midpoint of the 3–6% target band (4.5%) – and stays there – to best ensure balanced and sustainable economic growth in the interest of all South Africans.

Financial stability

The SARB's role does not end with monetary policy. Let me now turn to our other legislative mandate: that of securing financial stability.

The South African financial system has remained resilient amid challenging global and domestic developments. However, that resilience has been tested by global monetary policy tightening, turmoil in the developed markets' banking sectors, volatile financial markets and downward revision to growth projections.

Over the past year, the SARB has been highlighting the financial stability risks associated with ongoing electricity-supply shortages, an upward repricing in government debt, South Africa's greylisting by the Financial Action Task Force (FATF) and the impact of escalating geopolitical tensions, notably between Russia and Ukraine.

The SARB has, however, marked some key milestones in the past year that will bolster confidence and trust in our financial system, starting with the establishment of the Corporation for Deposit Insurance (CODI) as a legal entity on 24 March 2023. As the newest subsidiary of the SARB, which will become fully operational in April 2024, CODI will protect covered depositors in the event of a bank failure. Alongside this, the SARB became the Resolution Authority for Designated Institutions on 1 June 2023, which will help protect the financial system in the event of failures of systemically important financial institutions.

Prudential regulation

Another cornerstone of financial stability is effective regulation of our financial institutions. Several local institutions facing particular circumstances were put under curatorship in the past year. South Africa's banking and insurance firms, as well as its market infrastructures, remain sound. In the wake of FATF greylisting the country, the PA continues to work with other regulators and law enforcement agencies to address the remaining gaps in South Africa's oversight of money laundering, the financing of terrorism and proliferation financing.

Operational matters

At an operational level, the SARB met several milestones during this past year, which serves as a testament to our values of accountability, excellence and integrity.

The SARB's role as the steward of our country's national payment system (NPS) is too often overlooked. The NPS is, however, a critical infrastructure of the economy, and the SARB works hard to modernise the NPS and make it more secure, more efficient and more accessible.

In September 2022, we successfully migrated to the International Organization for Standardization's (ISO) financial messaging standard: ISO 20022. The adoption of ISO 20022 enables richer, better-quality data in payment processing and settlements, and is a significant step in the modernisation of our payments ecosystem.

A key operational development during the year was the transition to a new monetary policy implementation framework (MPIF). Between 8 June 2022 and 24 August 2022, the SARB moved from a money market shortage to a money market surplus. At the same time, banks were provided with quotas, allowing them to earn the policy rate on overnight deposits of excess reserves. The new system, formally a 'tiered floor' framework, is now fully operational. The reform has made monetary policy implementation simpler and more robust, while also improving the liquidity of the banking sector.

We have also successfully rolled out South Africa's upgraded banknotes and fourth decimal coin series – the first new series in 34 years. The upgraded currency continues to pay homage to our first democratically elected president Nelson Mandela, who signed into law the very Constitution that gives life to the SARB's mandate and protects our independence.

The SARB consults extensively with expert organisations on the use of national symbols, languages and designs on our currency, including the Pan South African Language Board (PanSALB), which is the statutory authority on our 12 official languages. Having received complaints from members of the Vatsonga community over the spelling of the Xitsonga word for 'Reserve Bank', used on the upgraded R100 note, the SARB has reached out to PanSALB to revisit the matter, and we await feedback. More broadly, the SARB's recent campaign to educate the public on the new security and design features helps to cement public trust and confidence in our currency.

In light of the ongoing power crisis in the country, the SARB is taking the necessary actions to minimise the impact of load-shedding on its operations and key financial system infrastructures.

Staff matters

The SARB's ability to achieve its strategic and operational milestones is only possible because of its staff. The SARB's employee value proposition is designed to attract and retain professionals of the highest calibre – with the skills and the commitment – to ensure that the SARB continues working for the economic well-being of all South Africans. Our Diversity & Inclusion (D&I) Programme, now in its third year, is helping us build a more diverse leadership pipeline and an organisation that embraces the unique lived experiences of its employees. The SARB continues to embed hybrid-working principles as the Head Office Renovation Project gathers pace.

In this final phase of the D&I Programme, organisation-wide workshops are underway to tackle issues around generational diversity; racial, ethnic and cultural diversity; gender diversity; sexual orientation; and sexual harassment. As we know, diverse organisations are more resilient and more responsive, and better placed to serve the public.

That spirit of public service extends to our engagements with stakeholders through our economic roundtables, publications, investor sessions, monetary policy and financial stability forums, as well as our corporate social investment (CSI) work.

Our CSI efforts are geared towards broadening the understanding of monetary policy, growing the pool of skills in areas such as economics and finance, and supporting people from disadvantaged communities. This includes bursaries for 102 students from first-year to master's level, and partnerships with four universities, to develop programmes that focus on monetary policy, financial stability and economic journalism.

Conclusion

As the SARB is approaching the final stretch of its Strategy 2025, I am pleased that significant progress has been made in its implementation. Despite the prevailing global and domestic economic conditions, we remain on course to deliver against our five strategic focus areas (SFAs) and the enablement functions that support our strategy.

As I indicated earlier, high inflation remains a concern and played a significant role in the SARB's inability to achieve its target set out in its SFA 1: keeping inflation within the target range of 3–6%. Appropriate monetary policy actions have contributed to an easing of inflation, with the consumer price index at 5.4% in June 2023. This again underscores the SARB's commitment to price stability.

Enhancing resilience to external shocks, the basis of SFA 4, also proved challenging in the face of high government debt levels.

Despite the many challenges to central banking that have emerged in recent years, both globally and domestically, I am confident that we have the human capacity to analyse those challenges and to work together with our partners in the public and private sectors to increase the resilience of our economy and financial system to meet any challenges head-on.

In this ongoing process, central banks need to remain focused on their core mandates as the best way to ensuring that the economy can grow. We must hold fast to our mandate of ensuring price stability in the interest of balanced and sustainable economic growth – and we must do so without fear, favour or prejudice. In doing so, we will ensure that the economy has a stable foundation – one that is resilient and flexible in addressing the many challenges we will undoubtedly continue to face.

I would like to express a heartfelt 'thank you' to all the staff of the SARB and its subsidiaries because they have done, and continue to do, just that. Their commitment and dedication mean that we can count a number of successes achieved during the past year, despite all the challenges.

We can expect that the months ahead will test us in new ways. But with this team of dedicated individuals, I know we will uphold our century-long legacy of working for the good of South Africa.