Gill Marcus: Overview of the South African economy

Address by Ms Gill Marcus, Governor of the South African Reserve Bank, at the 91st ordinary general meeting of shareholders, Pretoria, 30 June 2011.

* * *

Dear Shareholders,

Members of the Board,

Deputy Governors,

Ladies and Gentlemen

The business of an ordinary general meeting (OGM) of the Bank is to receive and discuss the minutes of the previous meeting, the financial statements for the preceding financial year, the report of the Board on the state of affairs and business of the Bank, the auditors' report, to attend to the election of directors and to attend to the appointment of auditors and the approval of their remuneration (this being referred to as the ordinary business of a general meeting).

In addition, special business of which proper notice was given, may be transacted at the general meeting. This special business would be resolutions proposed by shareholders that relate to the ordinary business of a general meeting.

As in recent times the conduct of special business has been an issue at general meetings, it is necessary to record that special business is not any business that shareholders wish to raise relating to the Bank and/or criticism of reports or documents presented at the general meeting. It must clearly relate to the ordinary business of a general meeting referred to above and must, more particularly, be framed as a resolution that is capable of being implemented, if adopted.

Business framed as criticism or demanding action on behalf of the Bank and which does not relate to the ordinary business of a general meeting as referred to above does not constitute special business.

In addition, matters relating to legislation under which the Bank operates and the requirements thereof are matters that do not constitute special business and are incapable of being implemented by the adoption of a resolution. These are matters that ought to be raised with the National Treasury and Parliament.

Criticism of the reports and documents presented at the general meeting does not in the normal course of business qualify as special business, unless properly framed as a resolution that is capable of being adopted. Any criticism, or for that matter queries, relating to reports and documents presented at the general meeting is properly dealt with and addressed at the general meeting as part of a discussion around these reports and documents. And this is the basis on which we intend to conduct the business of this meeting.

The Bank was founded at a time of great turmoil in the international monetary system and amid vigorous debates about the appropriateness of a return to the gold standard. In that context the Bank was established to ensure that the banknote issue was in line with the gold stock; in other words, the Bank had to ensure the convertibility of the currency or the maintenance of the value of the currency.

The early 1920s were also characterised by a high degree of capital flows and exchange rate volatility, and ultimately the 1929 collapse of Wall Street ushered in the worldwide Great Depression of the 1930s.

Today, we unfortunately find ourselves in a very similar context. The global financial crisis, which is now in its fourth year, and persistent global imbalances and volatile capital flows have again put the nature of the international monetary system and the international adjustment mechanism at the centre of the debate on global reform. Such turmoil and periodic systemic crises – in this instance the most devastating since the great depression – underline the need for strong central banks to be beacons of stability.

Our focus therefore continues to be on stability, which includes price stability, financial stability and the stability of the banking system. Such stability is essential to providing an environment conducive to economic growth and employment creation.

Global developments have continued to impact on our domestic economic conditions and policy environment. The recovery in the advanced economies, which had appeared to be more sustained, has become increasingly uncertain in recent months. While some view this as a “soft patch” from which countries will emerge fairly soon, there are still significant risks emanating from some peripheral countries in Europe in particular. These risks have the potential to derail the already slow recovery in the advanced economies and to have serious negative global repercussions.

Although countries such as Greece, Ireland and Portugal are relatively small in the European context, the exposure of the banking systems of the rest of Europe to these countries’ debt means that in the event of even a partial default, a systemic banking crisis could ensue. And notwithstanding the measures taken through initiatives such as Basel III, and an increased focus worldwide explicitly on financial stability, the possibility of a systemic banking crisis emanating from Europe cannot be dismissed.

While I do not want to overburden you with numbers, it is important to use some examples for illustrative purposes. According to the European Commission, the debt to GDP (Gross Domestic Product) ratio of Greece is expected to increase to 166 per cent in 2012, from 142 per cent in 2010. Its fiscal deficit is expected to decline from 10,5 per cent to 9,3 per cent. In Ireland, the debt to GDP ratio is expected to increase from 96 per cent in 2010 to 118 per cent in 2012. It is argued by some that in the case of Ireland it is more useful to look at the debt to GNP (Gross National Product) ratio, which stands at around 150 per cent. The fiscal deficit of 30,3 per cent in 2010 is expected to decline to 8,5 per cent in 2012.

Portugal’s debt to GDP ratio is expected to increase from 93 per cent in 2010 to 107 per cent in 2012, while austerity measures envisaged are expected to reduce its fiscal deficit from 9,1 per cent to 4,5 per cent next year – that is, to be cut in half in two years.

According to Bank for International Settlement (BIS) data, the total exposure of foreign banks to Spain, Greece, Portugal and Ireland was around US$2,3 trillion at the end of 2010, with a significant portion of the exposure being to German and French banks. There is also a difference in exposure to the different countries, for instance the United Kingdom (UK) banks have an exposure of US$190 billion to Ireland.

The International Monetary Fund (IMF) estimates that the European banks have an exposure to the periphery of around 10 per cent of Europe’s GDP, and about 80 per cent of the capital of European banks.

These growing uncertainties have resulted in periodic changes in risk perceptions in the international financial markets, resulting in continued volatility of exchange rates and capital flows. The tragic events in Japan earlier in the year also underlined the fragility of the recovery in the advanced economies.

At the same time, the strong recovery in most of the emerging markets, and Asia in particular, coupled with unfavourable weather conditions and political developments in the Middle East and North Africa, has put upward pressure on commodity prices, in particular oil and food. This has led to an end of the benign global inflation environment which had prevailed since the onset of the financial crisis.

At the risk of over-emphasising the deteriorating situation in Europe and the United States, it must be cause for concern when, within the space of a week, three of the world's leading central bankers – Ben Bernanke of the Federal Reserve, Jean-Claude Trichet of the European Central Bank (ECB), and Mervyn King of the Bank of England – all explicitly stated their concerns that the recovery from the financial crisis will be very slow, that there are real risks to the European banking system, and that this situation poses a great threat to financial stability.

It is within this fragile global outlook that the domestic economic outlook should be considered. Since March 2010, domestic inflation has remained within the target range of 3–6 per cent. CPI inflation reached a recent low of 3,2 per cent in September 2010, but has since increased to 4,6 per cent in May. This benign inflation environment enabled the Bank to reduce the repurchase rate to 5,5 per cent, which is the lowest nominal level of the policy rate in over 30 years. Real rates are also significantly below their long-run averages.

The accommodative stance of monetary policy has been maintained, given the relatively hesitant nature of the domestic recovery. There are signs that this recovery is becoming more self-sustained, following the 4,8 per cent annualised growth rate recorded in the first quarter of 2011, driven mainly by a strong performance in the manufacturing sector.

However, the fragility of this recovery is illustrated by the contraction in the manufacturing sector recorded in April 2011 and the continued slow pace of growth in the construction sector and in private-sector fixed capital formation. Employment growth has also remained subdued.

Although there are no signs of pressures on domestic inflation generated from the demand side of the economy, the inflation outlook is being adversely affected by global commodity prices. As a result of these developments, inflation is expected to breach temporarily the upper limit of the inflation target range in the first quarter of next year, and then remain close to the upper end of the target range for the rest of the year.

The Monetary Policy Committee (MPC) will continue to monitor closely any indications of second-round effects on inflation emanating from these cost pressures. We will continue to give primacy to our objective of price stability, and implement monetary policy within a flexible inflation-targeting framework.

The policy challenges we face are complex. While data at one level may suggest an upside risk to the inflation outlook and a possible change in the interest rate stance, other data may well indicate a need for the opposite policy approach. In times of such great uncertainty it is important for a central bank to remain focused on its primary responsibilities, but vigilant and aware of what is happening in the global and domestic economic environment.

The financial crisis has focused attention on financial stability issues. In the past most central banks had implicit financial stability mandates and the conventional wisdom was that price stability would ensure financial stability. The crisis has shown that financial stability should be seen as a separate objective, and a number of central banks have been given explicit financial stability mandates.

The Bank has also been given a mandate to take a leading role in maintaining financial stability. To this end, the Bank's Financial Stability Committee (FSC) has been reconstituted and given responsibility for macroprudential oversight and policy implementation. This is unchartered territory, and work is being undertaken both globally and domestically to determine the exact nature of such oversight as well as what appropriate policy instruments could be.

Without being complacent, our view is that at this stage there are no obvious threats to domestic financial stability: credit extension by banks is subdued and there is no evidence of incipient asset market bubbles. However, we remain vigilant as to the possible impact of any global financial stability or systemic banking matters that might arise.

The Bank's microprudential responsibilities have also been impacted by global developments with respect to the regulatory and supervisory environment. The Bank, as a member of the Basel Committee on Banking Supervision (Basel Committee), has been an active participant in the deliberations on banking regulatory reform. Meetings of the committee have culminated in the publication of the global regulatory framework for more resilient banks and banking systems, known as Basel III, which incorporates the details of global regulatory standards on bank capital adequacy and liquidity.

The changes should not have a material impact on South African banks which remain well capitalised and characterised by low leverage ratios. The proposals regarding liquidity are likely to pose a greater challenge, and it is important to recognise that it is not only South Africa that faces this hurdle. Given the relatively long phasing-in period allowed, these challenges are not viewed as being insurmountable.

Capital flows to a number of emerging markets moderated in the final quarter of 2010 and early 2011. A similar pattern was observed in South Africa, and between November 2010 and March 2011 there were cumulative net sales of bonds and equities by non-residents. More recently, renewed net purchases have been experienced and year to date the net purchase of bonds and equities stands at approximately R27 billion.

Despite this relatively volatile pattern of capital flows the Bank, with the assistance of National Treasury, has continued with its policy of Foreign-exchange reserve accumulation. In the 2010/11 financial year the Bank purchased approximately US$10,3 billion for this purpose. The need to sterilise the impact of these purchases of foreign exchange on domestic liquidity resulted in the Bank reporting an after-tax loss for the second consecutive financial year, amounting to a little under R1,2 billion.

Having given a brief outline of the global and economic outlook, let me now address a number of questions raised by various shareholders during the three shareholder road shows held in Pretoria, Durban and Cape Town in the run up to this meeting.

I would also like to thank all shareholders who attended these road shows, and encourage others to take advantage of this opportunity for more in-depth interaction next year.

Question 1 – The losses incurred and explanation of Gold and Foreign Exchange Contingency Reserve Account (GFECRA)

The Bank acquires foreign exchange for reserves accumulation purposes, and in the process injects rand liquidity into the domestic money market. In order for domestic money-market conditions to reflect the prevailing monetary policy stance as determined by the MPC, such liquidity needs to be sterilised (or drained) from the system. This is done, *inter alia*, by open-market operations conducted by the Bank by way of issuing SARB debentures, and conducting reverse repurchase transactions. These transactions, which effectively amount to a borrowing of rands, are undertaken, in terms of cost, at or around the repo rate which is currently 5,5 per cent per annum.

The foreign currency that is purchased is then invested in different currencies, that is, in US dollars, euros and pound sterling. In the current difficult economic climate, these investments generally earn low rates of return, currently below 1 per cent per annum.

This negative interest rate differential has resulted in the R1,16 billion loss reported in the *Annual Report 2010/11*. Unrealised and realised fair value gains and losses on financial assets and financial liabilities are also included in the interest income line item and are for the account of the Bank.

The losses incurred, as in 2009/10, were covered by drawing down on the contingency reserve, which declined from R9,1 billion to R7,94 billion for the Bank. Once the Bank returns to profitability, there will be a need to rebuild the contingency reserve, and reconsider the level that this should stand at taking account of recent experience.

It is important to point out that the losses were incurred in the execution of the Bank's public duties and do not in any way relate to operational deficiencies or undue risks being taken. The Bank has a sound risk management framework, a disciplined budgeting process, and prudent expenditure management.

Gold and foreign exchange contingency reserve account

The Gold and Foreign Exchange Contingency Reserve Account originates from sections 25 to 28 of the SARB Act. The GFECRA consists of three sub-accounts which reflect the following transactions:

(a) Gold price adjustment account

All profits and losses on gold holdings arising from price fluctuations and revaluation movements are recorded in this account.

(b) Foreign-exchange adjustment account

All revaluation profits and losses on foreign assets arising from exchange rate movements against the rand are recorded in this account.

(c) Forward exchange contracts adjustment account

All revaluation profits and losses arising from exchange rate movements against the rand on outstanding commitments in the forward Foreign-exchange market and foreign currency – denominated liabilities of the Bank are recorded in this account.

All the above amounts are for the account of Government in terms of the SARB Act. Settlement of this account is subject to agreement between the Bank and Government. The current arrangement is that only transactions that have affected liquidity in the South African money market will be settled.

Question 2 – Reserves management and holding thereof, including the issue of US dollar vs gold

While South Africa follows the international convention of reporting official reserves in US dollars, the portfolios of reserves are diversified in approved currencies which predominantly comprise US dollars, euros and pound Sterling. The notes to the financial statements (Note 29 on page 98 of the *Annual Report*) give an indication of the extent of currency diversification.

Gold reserves constituted approximately 12 per cent of total official reserves at the end of March 2011.

The Bank has held around 4 million fine ounces of gold for some time, and when such holdings are reviewed account is taken of both the cost of acquiring further gold reserves and any returns that could be earned from owning more gold.

The Bank has adopted a conservative and prudent approach to investing the reserves, guided by a clear governance framework and investment policy. The investment policy captures the objectives, rationale and the risk tolerance of the Bank for holding these reserves. The inherent risks in reserves management are mitigated by well-defined investment guidelines.

Question 3 – Clarification of certain aspects of the remuneration of directors (Note 30 on page 102 of the *Annual Report*)

The remuneration of directors for the year ended March 2011 reflects a general adjustment of 6 per cent over the amounts paid for 2010. In addition, the amounts paid in 2011 include:

- an “arrears adjustment” of 3,1 per cent in respect of the 2009/10 financial year. In keeping with a decision taken at the start of the 2009/10 financial year that the increase be inflation outcome linked, Board members were paid only an interim adjustment of 3,4 per cent, on the understanding that the balance would be paid once the inflation-outcome for that year was known. Consequently, the “arrears adjustment” was paid in the 2010/11 financial year with the resultant percentage increase distortion;
- payments for service as chairpersons and/or members of Board committees, and changes in the composition and chairpersons of the Board committees between the 2010 and 2011 financial years. This implies increases in retainers and attendance fees;
- the establishment of the Board Risk Committee on 25 February 2010, which resulted in payments to the Chairperson and members of this committee during the 2011 financial year, compared to the previous financial year when the committee was in existence for only one month, and hardly any payments were made;
- an above-average increase in the remuneration of Dr X P Guma with effect from 29 May 2010 owing to his appointment as Senior Deputy Governor from that date; and
- an above-average increase in the remuneration of Prof R W K Parsons for services as non-executive director of a subsidiary owing to the fact that he served for a longer period than before in such capacity during the 2011 financial year. He also served on one additional Board committee of the subsidiary during the 2011 financial year.

Question 4 – Code of ethics

The Code of Ethics was adopted by the SARB Board in February 2010, and has been part of internal discussions throughout the Bank. It will be published on the Internet in due course, together with a comprehensive value statement that is being developed throughout the Bank.

Question 5 – Additions to property, plant and equipment

A question was raised with regard to the additions in plant, vehicles, furniture and equipment (Note 10.1 page 85), which has increased from R52 million in the prior year to R205 million. It has been necessary to invest in machinery and equipment at the branches and manufacturing subsidiaries. Going forward, we expect more such investment to take place to ensure optimal functioning and best use of new technology to maintain both quality and performance from the Bank and its subsidiaries.

Question 6 – Panel process and nominations

A question was asked as to whether the Bank remains satisfied with the quality of candidates available to serve as non-executive directors on the Board. It was also said that the Panel process is not transparent as to who has nominated the candidate, what the quality of candidates is and shareholders have not been given the opportunity to meet and interview the candidates for election.

The Panel was established in terms of section 4(1C) of the Act, which Act further stipulates the process of nominating the candidates and the review process. I can confirm that nominations were received during March 2011 from the general public and were collated by the Secretariat for circulation to the Panel members.

The Panel met on 16 April 2011 to assess the nominations and to confirm the selected candidates for consideration by the shareholders. In total, 84 nominations were received. The experience and qualifications of the candidates varied, and included business people, academics, accountants, lawyers and other professional persons. The Panel was satisfied with the level of qualifications, skills and business acumen of the majority of the candidates, as could be determined from the curriculum vitae (CVs) presented. Three candidates have been identified and confirmed in each of the categories where vacancies will arise on 1 July 2011, and the Panel is satisfied that these are persons of good standing and have the requisite knowledge and skills to fulfil the roles and responsibilities of a non-executive director.

From reading the CVs of the nine possible candidates circulated to you, I have no doubt you will concur that all nominees are well known in their fields of expertise and reflect the highest standards of integrity and professionalism. Moreover, it is the responsibility of the Panel to assess the candidates, not that of shareholders. I am not aware of any precedent in the Bank where shareholders interviewed prospective nominees. It is also important to point out that this process allows for the public at large to make nominations, and therefore the pool of participants, both proposers and nominees, has been broadened. This is important as, given the small number of shareholders of the Bank, nominations limited to them could be construed as contrary to sound principles of central bank governance.

Question 7 – *King III* compliance

The Bank has been requested to expand upon its *King III Code of Governance (King III)* compliance and to explain where it does not apply the recommendations as set out in *King III*, in more detail. As discussed at the 2010 (OGM), the Bank has conducted a Bankwide gap analysis, and steps are being taken to address those areas we regard as having room for improvement. It is necessary to emphasise that *King III* is a voluntary code, and a tool for enhancing governance, which is the approach the Bank has taken.

Question 8 – Definition of corporate body

A request has been made to set out clearly the definition and status of the Bank with regard to profitability. The SARB Act clearly stipulates that the Bank is a juristic person, with its primary objective being to protect the value of the currency of the Republic in the interest of balanced and sustainable economic growth. There should be no ambiguity about this matter. The Bank does not perform its duties with a profit motive. On the contrary, in the exercise of its responsibilities, it may well take actions that are in the national interest but will result in the Bank being loss-making.

It is the obligation of the Bank to act in the best interests of the country, and not in the narrow interests of the profitability of the Bank or its shareholders. There are legal limits placed on the rights of the shareholders of the Bank – for instance a limit of 10,000 shares, a fixed dividend, the election of only some of the non-executive Board members and no role in the appointment of the Governor and deputy governors, among others.

Amendments to the SARB Act

The amendments to the SARB Act were promulgated in September 2010. In terms of these amendments, membership of the Board of the Bank was expanded from 14 to 15. The Board has also agreed to use as a guideline the nine-year rule contained in *King III* for the service periods of Board members. As a result, three new non-executive directors will be elected by shareholders at this OGM. There are currently four vacancies for non-executive directors appointed by Government. Once all these appointments have been made, the Board will comprise a significant proportion of new members. While this may raise challenges for continuity, I am confident that the new-look Board will continue to maintain effective corporate governance oversight of the Bank.

Other changes to the Board have come about as a result of the appointment of Mr Lesetja Kganyago as Deputy Governor, who assumed office on 16 May 2011. I would like to take this opportunity to welcome him again to the Bank. He brings a wealth of knowledge and experience, and his positive impact is already being felt. I would also like to take the opportunity to bid farewell to Senior Deputy Governor Dr X P Guma who has indicated to the President of the Republic that he is not available for reappointment when his contract expires at the end of July 2011, after 10 years as Deputy Governor. I wish to thank him for his service to the Bank. It is also fitting to pay tribute on this occasion to Mr Errol Kruger whose career in the Bank spanned 34 years. As Registrar of Banks he played a critical role in ensuring the soundness of the South African banking system. We wish them both well in their new undertakings.

Let us now turn to the formal business of the day, which includes the following matters:

Firstly, to consider the minutes of the Ordinary General Meeting of shareholders held on 8 December 2010.

Secondly, to present and discuss the annual financial statements and the reports of the Board of Directors and the auditors of the Bank for the financial year ended 31 March 2011.

Thirdly, to request shareholders to elect non-executive directors, to fill the three vacancies on the Board of Directors for persons with knowledge and skills in commence or finance; labour; and mining.

Fourthly, to approve the remuneration of the auditors of the Bank for the past audit.

Fifthly, to appoint auditors for the 2011/12 financial year.

And finally, to consider any further business duly placed and to be transacted at an ordinary general meeting.

The Office of the Secretary received no requests for special business to be placed on the agenda of this meeting from any shareholders other than Mr Duerr. Mr Duerr attempted to place some 15 items of purported special business on the agenda of this meeting, including 5 items which he attempted to place on the agenda of last year's OGM. None of the items qualified as special business as contemplated in regulation 7.3(d) read with regulation 12.3 of the Regulations, and Mr Duerr, was in writing, together with reasons, informed of this position. The matters addressed above during my speech do, however, cover many of the items raised by Mr Duerr as they formed part of the ordinary business of the meeting.

Notwithstanding the above, I would like to deal with some matters relating to Mr Michael Duerr. It is unusual to single out one shareholder, but given the extent to which Mr Duerr claims to speak on behalf of all shareholders, and his consistent communication of all issues raised with the Bank to a wide range of media, we feel it is necessary to put the record straight.

Mr Michael Duerr has been a shareholder in the Bank since about March 2006. Mr Duerr is a shareholder who does not normally reside in South Africa, and is therefore subject to the legal provisions applicable to shareholders who are not ordinarily resident in South Africa. In the main, the legal implication is that Mr Duerr (as is the case with all other non-resident shareholders) cannot vote at any general meeting of shareholders of the Bank. Non-resident shareholders, of whatever nationality, even if South African nationals, have not been permitted to vote virtually since the inception of the Bank, and this is clearly spelt out in the SARB Act. Mr Duerr should have been aware of this and other limitations on shareholders at the time he bought the Bank's shares. However, Mr Duerr refuses to accept that the SARB Act lawfully prohibits persons who do not ordinarily reside in South Africa from voting, and he has raised issues with regard to the enforceability of this measure with the Bank on numerous occasions.

We have spent literally hundreds of management hours responding to often spurious, slanderous and sometimes downright bizarre interventions by Mr Duerr. The Bank's Legal Counsel and his team have spent some 385 hours since the middle of last year just responding to his queries. We have received more than 60 e-mails and other correspondence, running to more than 160 pages. Apart from the tone, language, unfounded allegations and abuse contained in this correspondence, there have been no less than 61 demands, often stipulating responses expected within hours. By any standards, this is not in the interest of good governance or efficient or effective operations.

We have reflected the hours spent by the Legal Counsel, but the interaction also takes up the time of the Governors, the Secretary of the Bank and the Head of Strategy and Communications. We can only conclude that harassment appears to be the actual intention, which is most unfortunate and hardly a good reflection on Mr Duerr, who claims that in these actions he is the "caretaker shareholder" acting for all shareholders. In this way he ostensibly abrogates to himself powers that can never be his, and seeks in the process to disempower the vast majority of shareholders by evidently suggesting that he speaks in your name.

Allow me to quote from some of the public statements that have been made by Mr Duerr.

On 2 March 2009 Mr Duerr forwarded an article titled "The Central Bank Hunter", which had been published in an overseas publication styled "Börse Online", to the Bank. It consisted of an interview with Mr Duerr in which he, among others, made the following statements:

(a) he had stumbled upon the astonishing fact that the Bank (being a central bank) was 100 per cent privately owned, and started buying himself into the organisation;

(b) in order to side-step/circumvent the limitation of half a per cent of the issued shares that may be owned by a single shareholder, he ordered shares in the name of family members to their personal limit, resulting in his wife, children, parents and parents-in-law becoming part of the deal;

(c) his family held about five per cent, his personal friends an estimated five per cent and partners who had joined the business owned an estimated five to ten per cent of the Bank's shares;

(d) this business was not expensive for him, measured against the two million issued shares and their value expressed in euros;

(e) his initial purpose for buying the shares, namely to prevent the erection of a nuclear power plant near his property, had been superseded by an approach of achieving the maximum possible return on capital from his investment;

(f) in his opinion it would amount to R4 206 per share and this would be most easily achieved through nationalisation of the Bank as in such an event shareholders would be entitled to 40 per cent of the reserves of the Bank;

(g) he was persisting in his attempts to acquire more Bank shares; and

(h) from his side he wanted to increase the pressure on the central bank and threatened to pass on shares under his influence to the Chinese or the Indians. In this vein he pointed out that there are many investors who would be prepared to pay millions in order to have access to a political lever.

In various correspondence Mr Duerr has behaved in a threatening manner, including laying criminal charges against the Bank's Legal Counsel, which have been dismissed as without foundation by the National Prosecuting Authority. To give a sense of the tone he tends to adopt, I quote from his letter to Dr Johann de Jager of 19 November 2010: "Dear 'old foe' Johann, this is the only nickname you can expect from me after your seriously bad behaviour, stupidity and arrogance over the last few years …Just delay the AGM otherwise you ask for the next fracas, with all the media bells and whistles attached. I hope this finds you well and you have your blood pressure tablets handy. Do you choose the carrot or the stick?".

Correspondence from Mr Duerr is regularly copied to the media and other parties. As an example, in submitting questions to me on 17 November 2010, over 80 people from national and international media, the Government, Parliament and members of the legal fraternity were included in the mailing list. This is no doubt part of his efforts to question the integrity of the Governor and the governance of the Bank.

Profit maximisation has never been a motive for holding shares in the Bank. The limits set out in law of a fixed dividend and the limited holding of shares and voting rights available to private shareholders underline the fact that the Bank – like its counterparts in other countries – is a national asset that acts in the public interest. Shareholding in the Reserve Bank is not the same concept as shareholding in a JSE-listed commercial enterprise.

It is a simple but incontrovertible fact that shareholders have an interest in, but do not own, the Reserve Bank. Parliament has reconfirmed this in the most-recent amendments to the SARB Act, and every shareholder is aware of the numerous legal limitations when he or she purchases shares. That is a pretty clear state of affairs. It is accepted and embraced by the vast majority of the Bank's shareholders, from the large commercial banks to individuals from many walks of life for whom a shareholding is a contribution to the entrenchment and enhancement of the Bank's independence.

Given the claims made for a distribution of the profits and reserves of the Bank, I take this opportunity to refer to the judgement of the Court of Appeal in Brussels regarding the claims against the National Bank of Belgium by a group of its shareholders.

The Court of Appeal in Brussels on 1 June 2011 delivered judgement in the final pending legal dispute between a group of shareholders and the National Bank of Belgium. The Court confirmed, in a clear and convincingly motivated judgement, an earlier judgement delivered on 30 September 2010 in which it was held that shareholders had no right whatsoever to the gold reserves and the profits realised thereon.

The appeal was dismissed as unsubstantiated and a cost order was granted against the appellants of twice 30,000 euro (or twice 207 euro per share) which was payable to the National Bank and the Belgium Government respectively.

The judgement concluded a series of legal disputes instituted against the National Bank/Belgium Government by two groups of shareholders, representing a small minority of shareholders in the National Bank.

Ladies and gentlemen,

Responsible shareholders help entrench and enhance the Bank's independence. They support its public interest mission. They see in a private shareholding in the Bank first and foremost an opportunity to interact with the Bank and gain a deeper insight into the economy. They recognise this is not a get rich quick scheme.

Diversity of stakeholders remains a key intention of the Reserve Bank, of the Government, and of all serious shareholders. In fact, the most-recent amendments to the SARB Act have significantly broadened and strengthened our diversity and our ability to act without fear, favour, or undue influence from any quarter, whether at home or abroad.

Your responsible exercise of your rights and duties as shareholders make a significant contribution to the diversity and independence necessary for us to fulfil our mandate. With this contribution you help build the enormous goodwill and trust the Bank enjoys from across a wide spectrum of communities in the country.

In so doing, you help build the South African economy and you contribute to nation building. Allow me to express my appreciation for your contribution and to ask that you continue to support the very important work of the South African Reserve Bank, particularly at this very crucial time in history.

To the best of my knowledge, all business included in the agenda of today's meeting has been transacted.

I wish to thank President Zuma and the Presidency, the Government and Parliament for their continued support. The sound working relationship between the Bank and the National Treasury has continued, and I thank Finance Minister Pravin Gordhan, Deputy Minister Nhlanhla Nene and the staff of the National Treasury for their ongoing support. We also thank Mr Lesetja Kganyago as the former Director General, and are confident that the strong ties between the Bank and the National Treasury will continue to bear fruit as we build on the firm foundations already in place. We look forward to our continued sound working with the new Director General, Mr Lungisa Fuzile, and wish him well.

Sincere thanks are also due to the members of the Board for ensuring appropriate corporate governance in the Bank. We pay particular tribute to the three Board members whose terms of office end today, namely Ms Thandi Orleyn, Dr Len Konar and Ms Zodwa Manase for their years of service and support. Sincere appreciation is also due to Senior Deputy Governor Guma and Deputy Governor Mminele, as well as the entire management and staff of the Bank for their dedication and commitment in dealing with the issues we have had to face in these very challenging times.

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