Addressing climate change risks

Climate-related risks are increasing due to the lack of a coordinated global response by governments to combat climate change and restrict temperature increases to 1.5 degrees Celsius. Different countries are transitioning at different paces, exacerbating the risks associated with a disorderly global transition.

In this environment, central banks face higher risks to financial and price stability. There is more urgency to increase the resilience of financial systems to climate-related shocks and ensure strong monetary policy credibility to address larger and more persistent price shocks.

The SARB continues to analyse the impact of emerging global and domestic climate-related risks and develop policy responses guided by global best practices.

Over the past year, the PA published four guidance notices on climate change for public comment. These guidance notices covered climate-related disclosures as well as risk management and governance practices for banks and insurers. The PA seeks to enhance industry's climate-related risk practices and disclosures on a voluntary basis, promote comparative transparency and ensure appropriate international alignment. Following industry consultations, 45 written submissions were received from 28 entities. For the year ahead, the PA will monitor implementation through ongoing supervision, sharing best practice insights and develop case studies and training material.

The PA finalised a supervisory guideline on climate-related risk and undertook 22 engagements with boards of directors and senior management of selected financial institutions. These discussions allowed the PA to understand how institutions are responding to and managing climate-related risks, and what actions they are taking to improve their resilience. For the year ahead, the PA will develop a climate risk dashboard to identify the materialisation of certain physical and transition risks as well as the exposure of specific institutions.

The SARB has focused on developing tools to analyse the impact of climate change-related risk on the stability of the wider financial system. Preliminary research to assess the materiality of certain transition risks for the South African banking sector has been completed. The results are being assessed for potential policy and macroprudential monitoring implications. The climate stress test of systemically important banks was initiated in March 2024 and is scheduled for completion in early 2025. A smaller climate risk add-on was also included in the macroprudential stress test of insurers in 2023/24.

The SARB has published a series of short notes exploring the impacts of specific physical and transition risks. Topics include South Africa's energy transition, carbon taxation in South Africa and the risks of carbon border adjustment mechanisms; price and non-price tools for climate change; the short-term impact of physical climate risks; and the importance of rare earth metals.

As part of the 2023 South African BRICS Presidency (i.e. Presidency of the BRICS group of countries Brazil, Russia, India, China and South Africa), the SARB also published a report on how technology can be used to address climate-related data gaps. A call for research proposals by the SARB is expected to generate several working papers examining climate-related topics, including further analytical work on the implications of climate change risks for monetary policy.

The SARB continues to contribute to the global policy agenda. In January 2024, DG Tshazibana was appointed as Vice-Chair of the NGFS in recognition of the leading role the SARB plays in global policy debates in this area. The SARB and PA participate in the finance streams of the G20, the workgroups of the NGFS, the International Association of Insurance Supervisors (IAIS) and Sustainable Insurance Forum (SIF), BCBS and the Sustainable Banking and Finance Network (SBFN).

On the financial markets and investments front, the SARB's work focuses on three pillars: developing and implementing an ESG strategy for South Africa; working with peer central banks within the Common Monetary Area (CMA) and the SADC to promote the greening of the CMA and SADC financial sectors; and contributing to the NGFS.

The ESG South Africa pillar includes incorporating climate considerations into the SARB's investment management framework. To this end, the SARB has reached a significant milestone in its reserve management investment framework, where it is in the process of investing EUR150 million in a green bond. The SARB is doing further work to incorporate ESG considerations into its investment portfolios. The CODI Board has approved the incorporation of ESG considerations into the CODI investment policy and guidelines and work is underway to adopt similar policies for other portfolios such as the CPD and the SARB Pension Fund.

The SARB is progressing with the reduction of its own carbon footprint, guided by recommendations from the NGFS. It has approved a carbon footprint reduction strategy which seeks to cut the organisation's carbon emissions by 30% by 2026, before reducing them to zero by 2035.

The Climate Change Skills Hub, which covers the various work programme themes, has rolled out a range of courses. A training session on the impact of climate change and stress testing held in December 2023 was attended by delegates from regional central banks, National Treasury and the South African Revenue Service (SARS).