Advancing Strategy 2025

The SARB's strategy is formulated to fulfil its price and financial stability mandates and the additional priorities that various laws assign to the organisation. This strategy is articulated through five SFAs that the SARB considers essential in achieving its mandate. This is supported by five enablement focus areas (EFAs) that drive the strategy's execution.

During the review period, strategy formulation sessions were held to test and adapt our SFAs. The process found that the five SFAs remain relevant; however, we have reviewed how best to measure SFA 4 which assesses South Africa's resilience to external shocks. New indicators will be included in next year's reporting cycle. The indicators will be a month of import cover, the IMF's 'assessing reserve adequacy' (ARA) and an investment-grade rating.

There are two measures of foreign-exchange reserve adequacy. One is an import cover rule, drawn from the Southern African Development Community (SADC) convergence criteria. The other is the IMF's metric, a more complex measure of reserve adequacy which incorporates variables such as money supply, portfolio flows and foreign debt. For the import cover measure, the SARB aims to have reserves equal to at least six months of imports of goods and services. For the IMF metric, it aims to hold between 100% and 150% of the required amount, which is the standard range used by the IMF to test reserve adequacy.

The third metric is that South Africa should have an investment-grade credit rating from at least one of the major rating agencies.

Looking *ahead*

The 2024/25 performance cycle marks the last year of execution of Strategy 2025. The SARB's strategy framework requires that an in-depth review process is undertaken every five years to craft a five-year strategic plan. The process considers the current performance and developments in the SARB's operating environment that may warrant a shift in strategic priorities. Strategy 2030 will be launched in April 2025.

How we achieve price and financial stability

Stakeholder value proposition

SFA 1	SFA 2	SFA 3	SFA 4	SFA 5
Maintain headline inflation within the target range (Target partially met)	**Protect** and enhance financial stability (Target met)	**Promote** and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures (Target met)	**Enhance** South Africa's resilience to external shocks (Target partially met)	**Ensure** the cost-effective availability and integrity of currency (Target met)

Objectives unique to each SFA

SFA 1	SFA 2	SFA 3	SFA 4	SFA 5
Maximise monetary policy effectiveness (Target met)	**Improve** the monitoring of existing and emerging vulnerabilities (Target met)	**Enhance** risk-based, outcomes-focused and forward-looking supervision (Target met)	**Improve** the monitoring of existing and emerging vulnerabilities (Target met)	**Optimise** the currency supply chain (Target met)
Anchor inflation expectations (Target partially met)	**Assess** risks and vulnerabilities in the financial system (Target met)	**Implement** integrated and proportional regulatory and supervisory frameworks (Target met)	**Enhance** the functioning of South Africa's financial system (Target partially met)	**Enhance** the integrity of banknotes and coin (Target partially met)
	Develop and propose possible mitigating options (Target met)	**Improve** regulatory coverage (Target partially met)	**Enhance** the macroeconomic and macroprudential toolkit (Target met)	
	Broaden access to payment services while promoting the safety, efficiency and integrity of the NPS (Target met)	**Improve** the monitoring, reporting and surveillance of cross-border transactions (Target met)		

How we enable our strategic objectives

Cross-cutting themes

- EFA 1: **Improve** transparency and accountability through stakeholder engagement and communication (Target partially met)
- EFA 2: **Coordinate** policymaking and implementation (Target met)
- EFA 3: **Optimise**, integrate and leverage information and technology solutions (Target partially met)

Organisational capability

- EFA 4: **Improve** strategy execution and internal efficiency (Target met)
- EFA 5: **Attract**, develop and retain critical skills and competencies and embed the SARB culture (Target met)

Note: The status of an SFA is determined by the measures in its scorecard and not the achievement of its unique objectives.

Target met | Target partially met | Target not met

SFA 1

Maintain headline inflation within the target range

OBJECTIVE

Maintain headline inflation within the target range of 3–6% by delivering a structured research programme, economic analysis and policy advice. This is supported by an effective monetary policy implementation framework (MPIF), strong information management and targeted communication and stakeholder engagement.

2023/24 PERFORMANCE OVERVIEW

Headline inflation returned to the upper end of the inflation target range in 2023 at 6.0%. The SARB's inflation forecast is to revert to the target range at 5.0% in 2024; 4.6% in 2025 and 4.5% in 2026.

PERFORMANCE SCORECARD

Overall status

Strategic measures	Target (annual)	2023/24 (annual)	2022/23 (annual)
Headline inflation versus target	3–6%	6.0% *(2023 calendar year)* 5.5% *(financial year)*	6.9%

UNIQUE STRATEGIC OBJECTIVES FOR SFA 1

Maximise monetary policy effectiveness

- Achieved intended outputs of economic research for the year, with the SARB research papers used to inform monetary policy thinking and referenced in the *Monetary Policy Review (MPR)*.
- Several peer evaluations of research topics were completed.
- Published the *Quarterly Bulletin (QB)* and related statistics, the biannual *MPR* and produced timeous MPC background packs.

Anchor inflation expectations

- The Q4 2023 Bureau for Economic Research (BER) survey expectations returned to the broader target band, but individual groups expected inflation to stay above 6%. The aim is for expectations to be around 4.5% on a sustainable basis.
- Research on administered prices was completed and published. Further work on developing the price setter engagement approach will continue in the coming period.

Note: The strategic plan reports headline inflation for the 2023/24 financial year (April 2023 to March 2024).

Target met | Target partially met | Target not met

SFA 2

Protect and enhance financial stability

OBJECTIVE

Develop macroprudential frameworks with an increased focus on stress testing and understanding their efficacy. Modernise the NPS and ensure its safety.

2023/24 PERFORMANCE OVERVIEW

No systemic events occurred in the financial system during the 2023/24 financial year. After many years of legislative and design work, the SARB became the Resolution Authority with effect from 1 July 2023. This means the SARB now has the legal obligation to develop resolution plans for systemically important banks and insurers – or designated institutions – and in the event of a failure, to implement these resolution strategies.

PERFORMANCE SCORECARD

Overall status

Strategic measures	Target (annual)	2023/24 (annual)
Consistently test the financial stability framework to ensure it meets international standards	Improve the assessment of vulnerabilities in the financial system, development of mitigating tools and the SARB's ability to respond to shocks	Thematic focus areas were developed for the FSC. Policy proposals, supported by research and analyses, were made to the FSC. Subcommittees of the FSC made substantial improvement to financial stability resilience.

UNIQUE STRATEGIC OBJECTIVES FOR SFA 2

Improve the monitoring of existing and emerging vulnerabilities

- Revised indicators of external vulnerabilities and identified and removed inappropriate indicators.
- Improved the financial stability monitoring framework to include more appropriate assessments of external vulnerabilities.

Assess risks and vulnerabilities in the financial system

- Finalised standards for designated institutions in resolution that were necessary for the Financial Sector Laws Amendment Act 23 of 2021 (FSLAA) to become effective. These included the transfer of assets and liabilities, early termination rights and resolution moratoriums on contracts of designated institutions in resolution.

Develop and propose possible mitigating options

- Completed the first draft of the revised SARB macroprudential policy framework in collaboration with other financial sector regulators.
- Completed pilot resolution plans for two systemically important financial institutions (SIFIs) and hosted industry meetings with banks.
- Commenced the first chapter of the resolution plans, for completion by June 2024. Resolution plans for SIFIs (banks) are ongoing and a longer-term goal was set to be completed by 2028.
- Commenced the development of a resolution strategy for non-SIFIs (banks) and established the Financial Market Infrastructure (FMI) working group to develop a methodology for the designation of FMIs.

Broaden access to payment services while promoting the safety, efficiency and integrity of the NPS

- Incorporated the proposed consequential amendments to the National Payment System Act 78 of 1998 (NPS Act) into the Conduct of Financial Institutions Bill (COFI Bill).
- Engaged stakeholders on the cyber-resilience framework to be submitted for approval.

SFA 3

Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures

OBJECTIVE

Embed the PA's enhanced regulatory and supervisory practice and drive a proactive response through the right policies, frameworks and tools to support the evolving financial ecosystem and improve financial surveillance.

2023/24 PERFORMANCE OVERVIEW

The SARB continued to collaborate with other regulators and entities, including National Treasury, on various issues affecting the financial sector. SIFIs remain sound, profitable and well capitalised, reflecting the resilience of these institutions in a tough economic climate. The supervision of non-SIFIs[1] focused on addressing identified shortcomings in their business strategies, models, solvency and governance effectiveness. Over the past year, four entities were placed under various stages of resolution and one under judicial management. The SARB made progress in addressing the FATF greylisting action items, in line with the expectations of the FATF Joint Group (JG).

Steps have been taken to address these action items, including working closely with other agencies to proactively identify, investigate and sanction illegal money or value transfer services (MVTS).

During the year under review we continued our work on measures to give effect to the new Capital Flow Management Framework announced by the Minister of Finance in 2020. The framework for authorisations of registered crypto-asset service providers for cross-border activity is also underway. There has also been significant progress on identifying illegal MTVS through the illegal MVTS sub-working group, which forms part of the interagency working group on illicit financial flows. MVTS is a FATF greylisting action item.

PERFORMANCE SCORECARD

Overall status: Target met

Strategic measures	Target (annual)	2023/24 (annual)	2022/23 (annual)
Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate regulatory action	**100%**	100%
Weighted percentage of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs	90% or under adequate regulatory action	**96.9%**	99.5%
Compliance with sound governance and risk management practices for SIFIs (proportionate application of smaller banks and co-operative financial institutions)	100% of institutions fully compliant or under adequate regulatory action	**100%**	100%
Weighted percentage of non-SIFIs that comply with sound governance and risk management practices required by legislation	100% of institutions fully compliant or under adequate regulatory action	**96.4%**	97.3%

Target met | Target partially met | Target not met

1 Non-SIFIs: smaller banks or small- to medium-sized insurers.

UNIQUE STRATEGIC OBJECTIVES FOR SFA 3

Enhance risk-based, outcomes-focused and forward-looking supervision

- Continued refinement of the PA Risk Framework, which included training and workshops facilitated by the Toronto Centre in the year under review.

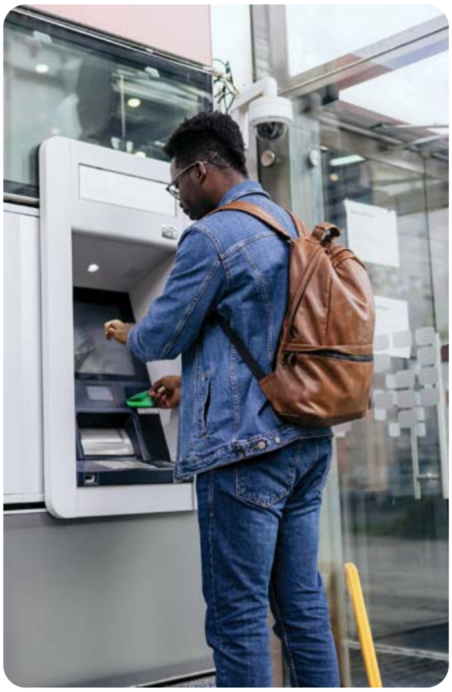
Implement integrated and proportionate regulatory and supervisory frameworks

- The SARB is on course to meet the FATF greylisting action item, in line with expectations of the FATF JG. All supervisors are required to demonstrate that they are able to impose administrative sanctions, which will be tracked via the JG process until the January 2025 deadline.
- Remedial actions are tracked quarterly against the 2020 Financial Sector Assessment Programme document.

Improve the monitoring, reporting and surveillance of cross-border transactions

- Regulated entities largely complied with financial surveillance systems and reporting standards. However, 30% did not meet the requirements and are under corrective action.[2]
- Improved the submission process of outstanding quarterly asset allocation and audit reports.
- Improved data integrity on the Portfolio Investment Reporting System (PIRS) by authenticating institutions' names with the Financial Sector Conduct Authority (FSCA), the licensing regulator for institutional investors.

2 The scoring model for monitoring compliance reporting is under review by the Financial Surveillance Department to align it with the adopted risk-based supervisory framework.



SFA 4

Enhance South Africa's resilience to external shocks

OBJECTIVE

Improve the monitoring of existing and emerging external financial and macroeconomic risks and vulnerabilities, continue to enhance the functioning of the financial system, enhance macroeconomic and macroprudential toolkits and improve the coordination of policy responses within the SARB and with National Treasury.

2023/24 PERFORMANCE OVERVIEW

The SARB continued to monitor external vulnerabilities, while further developing the policy toolkit used to support financial market functioning. Gross FX reserves rose to US$62.7 billion as at March 2024, up from US$61.85 billion for March 2023 and US$58.2 billion for March 2022.

PERFORMANCE SCORECARD Overall status

Strategic measures	Target (annual)	2023/24 (annual)[4]
Guidotti-Greenspan rule (GG): used to monitor reserves to cover debt should there be a sudden stop or reversal of capital flows	Foreign reserves should be at least 100% of total short-term debt	GG: 1.54 (Q3 2023)
FX debt of the total economy: (public sector, private sector)	Two standard deviations from the historical mean of R255 billion: total foreign debt of national government denominated in foreign currencies (R'bn)	R582.57 billion (October 2023)
	Two standard deviations from the emerging markets (EM) mean of US$287.58 billion: total foreign debt of private sector denominated in foreign currencies (US$'bn)	US$92.7 billion (Q3 2023)
Capital flows at risk (the degree to which capital flows could change in a risk scenario)[3]	Two standard deviations from the mean of -R148 million: net purchases of bonds by non-residents	R13.55 billion (February 2024)
	Two standard deviations from the mean of -R4.89 billion: net purchases of shares by non-residents	-R12.83 billion (February 2024)
Foreign shareholding in bonds and equities (the degree to which capital outflows could occur during a shock)	Two standard deviations from the mean of R224.78 billion: holdings of SA government bonds by non-residents	R389.18 billion (February 2024)
	Two standard deviations from the mean of R67.79 billion: holdings of SA equities by non-residents	R48.11 billion (February 2024)

Note: Standard deviation is a statistical indicator of how dispersed variables are relative to their historical mean values. An observation of greater (or less) than two standard deviations from the mean is generally regarded as an outcome that occurs less than 5% of the time, indicating a probable build-up of pressure.

3 Negative figures indicate outflows of capital.

4 Figures provided are the most recently reported as at 31 March 2024.

UNIQUE STRATEGIC OBJECTIVES FOR SFA 4

Improve the monitoring of existing and emerging vulnerabilities

- Adopted the market dysfunction framework and the governance framework for financial market interventions as policies that will guide the SARB's interventions in financial markets during periods of market dysfunction or crises.
- Commenced the development of architecture to support FX monitoring. Developing the technology infrastructure solution, alongside the reporting instructions for banks which is due for completion by April 2024.
- A research trip to Europe was conducted and informed the development and adoption of a new market intelligence (MI) function in Market Operations of Analysis (MOA). The MOA structure was revised to make provision for the new MI team. The new structure will take effect in April 2024.

Enhance the functioning of South Africa's financial system

- The proposed model for a Triparty Collateral Management (TCM) system has been developed and is being socialised with stakeholders.
- To improve access to the global financial safety net (GFSN), the SARB secured a FIMA[5] facility from the Federal Reserve of New York. This will provide dollar liquidity to onshore banks during periods of market stress. This facility was introduced to the private sector at the 27 June 2023 Money Market Subcommittee (MMS) meeting.

Enhance the macroeconomic and macroprudential toolkit

- A policy on the utilisation of FX reserves is under consideration.

5 The Federal Reserve established a repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility).

Target met Target partially met Target not met

SFA 5

Ensure the cost-effective availability and integrity of currency

OBJECTIVE

Ensure the availability of high-quality banknotes and coin, combat counterfeiting and explore the feasibility of a central bank digital currency (CBDC).

2023/24 PERFORMANCE OVERVIEW

The strategic goal of ensuring 100% on-time, in-full availability of currency to the cash industry was met during the year under review. The integrity of the currency as measured by the incidence of counterfeiting stood at 4.03 parts per million (ppm), well below the threshold of 12 ppm. The currency-manufacturing subsidiaries maintained their costs in line with set targets, despite increases in commodity prices and FX volatility.

PERFORMANCE SCORECARD

Overall status: Target met

Strategic measures	Target (annual)	2023/24 (annual)	2022/23 (annual)
On-time, in-full fulfilment of orders from the cash industry	100% orders fulfilled on time	**100%**	100%
Incidence of counterfeiting measured in ppm (annualised)	<12 ppm or under adequate regulatory action	**4.03 ppm**	2.92 ppm

UNIQUE STRATEGIC OBJECTIVES FOR SFA 5

Optimise the currency supply chain (Target met)

- The operating and production costs of banknotes and coin were within budget.
- Banknote and coin buffer stock levels are above the 9- and 6-month targets respectively.

Enhance the quality of banknotes and coin (Target partially met)

- The SARB completed the rollout of the fourth decimal coin series and version 6 banknotes.

Target met | Target partially met | Target not met

Subsidiaries: **page 71.**

Enablement focus areas

EFA 1

Improve transparency and accountability through stakeholder engagement and communication

2023/24 PERFORMANCE HIGHLIGHTS

The following scores were achieved in the latest reputation survey conducted between September 2023 and January 2024:

Informed stakeholders

- Citizenship: 72% (2022: 78%).
- Communication: 83% (2022: 89%).
- Image: 82% (2022: 83%).
- Relationship management: 73% (2022: 77%).
- Reputational equity: 84% (2022: 85%).

Public stakeholders

- Public awareness: 64% (2022: 60%).
- Public reputation: 69% (2022: 72%).

The next survey will be conducted in 2025/26.

EFA 2

Coordinate policymaking and implementation

2023/24 PERFORMANCE HIGHLIGHTS

- Work on EFA 2 has been completed and a proposal outlining the approach to cross-departmental research has been drafted.
- Climate change scenario modelling on major technical outputs such as stress testing is near completion. In the supervisory and prudential areas, Pillar 2 guidance notes under the Basel III reforms have been published. Refinement and data analysis for climate risk indicators are underway.
- Sixteen of 17 research papers into the impacts of Basel III reforms on SA's financial sector are in the final review stage. Some papers dealing with micro and macroprudential research will be covered in a special issue of the *SA Journal of Economics*.

EFA 3

Optimise, integrate and leverage information and technology solutions

2023/24 PERFORMANCE HIGHLIGHTS

- Progress was made on the delivery of Tier 1 programmes. Plans are in place to convert Tier 1 projects that are Amber to Green status during the next few months.
- Tier 2 projects are progressing with 80% achieving Green status at the end of February 2024.

EFA 4

Improve strategy execution and internal efficiency

2023/24 PERFORMANCE HIGHLIGHTS

- Deployed a bank-wide single project management solution with a built-in prioritisation tool.
- Strategy training for divisional heads and managers was completed in 2023.
- The Head Office Campus Redevelopment (HOCR) programme is on track.
- Implemented the Human Capital Management (HCM) cloud solution to simplify and digitalise human resources processes.

EFA 5

Attract, develop and retain critical skills and competencies and embed the SARB culture

2023/24 PERFORMANCE HIGHLIGHTS

- Improved the coverage ratio for critical roles to 91% (target: 85%). The average time to fill critical roles was 140 days (previous year 109 days).
- Critical roles turnover was within the tolerance range of less than 4%.
- Integrated action plans to address areas of improvement and sustain areas of strength identified in the 2023 Employee Engagement Survey (EES) continue to be implemented.
- The Ways of Work programme has ensured that hybrid working remains supported.
- The D&I programme continues with maximum participation and engagement. Phases 4 and 5 have commenced.

Target met   Target partially met   Target not met