Maintaining financial stability

The FSR Act gives the SARB the legislative mandate to protect and enhance financial stability by ensuring that the financial system is resilient to systemic risks and shocks and can efficiently intermediate funds, even in adverse conditions. Financial stability is necessary for balanced and sustainable economic growth.

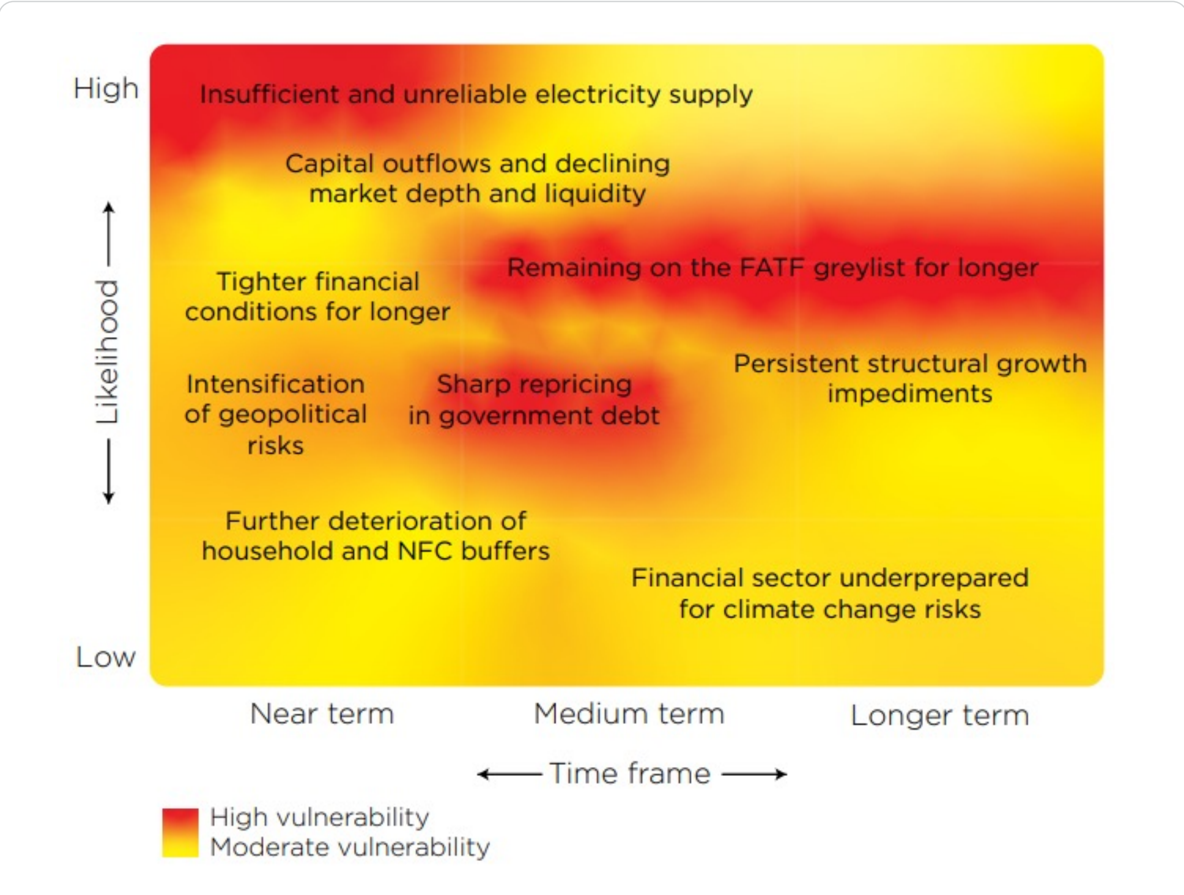
The SARB continually monitors and assesses the build-up of risks and vulnerabilities that may threaten the stability of the financial system. These risks are discussed at FSC meetings and communicated through the biannual publication of the *Financial Stability Review (FSR)*.[4]

Main risks and vulnerabilities identified in 2023/24

During the period under review, systemic risks that weighed on the financial stability outlook included country-specific factors such as the government's increasing debt levels and higher debt-servicing costs as well as domestic financial institutions' high exposure to it. The implications of being on the FATF greylist also started to materialise during the period under review, with growing evidence of domestic institutions being subjected to increased scrutiny by foreign counterparts.

At the same time, there was a marked decrease in the risk of secondary sanctions being imposed on South Africa and encouraging developments around the potential easing of electricity-supply constraints.

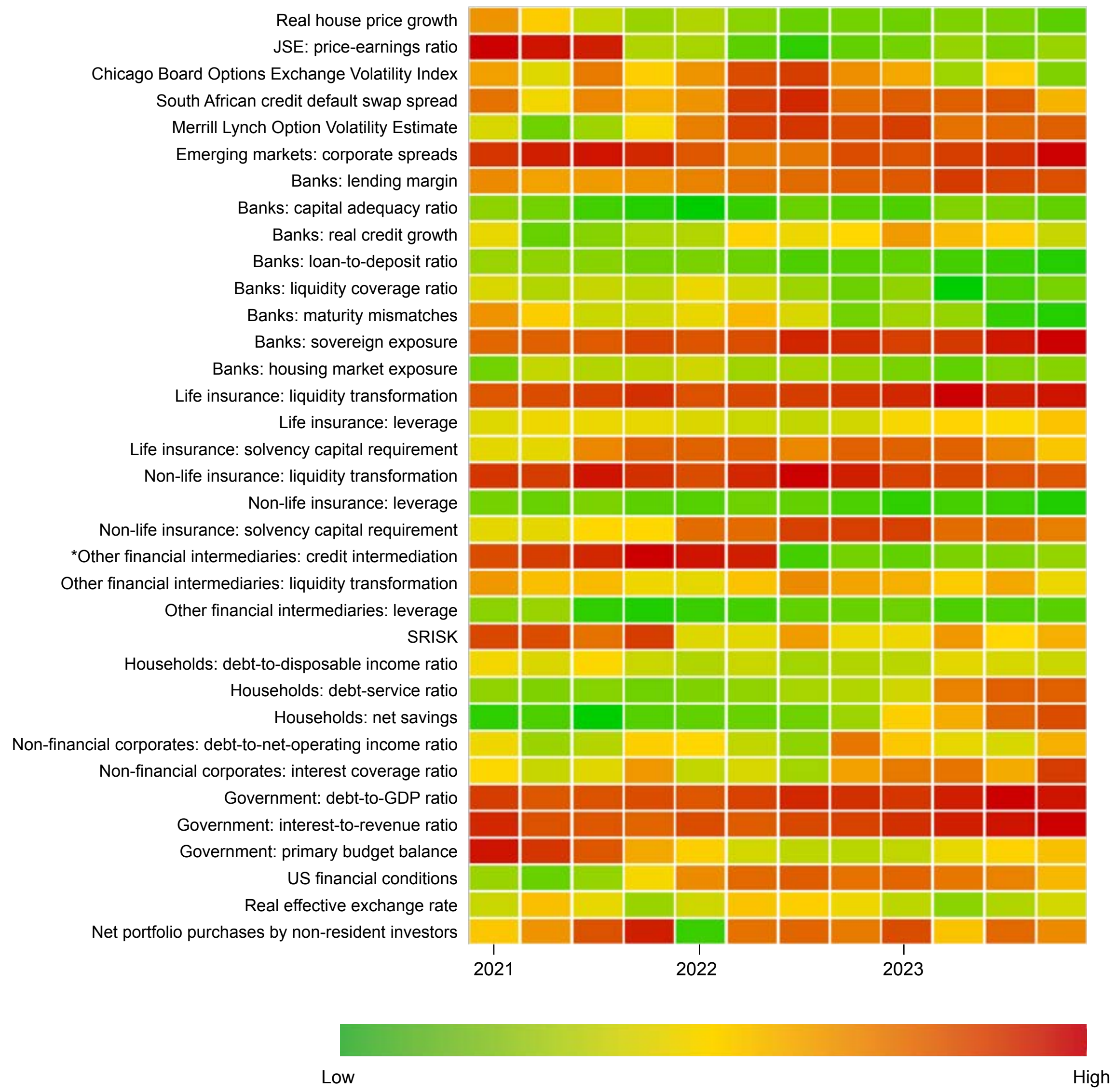
The SARB RVM is a tool that provides a forward-looking assessment of the key risks to financial stability in South Africa over the short, medium and long term. The key risks are identified based on the current state of affairs but also consider possible future developments and the vulnerability of the financial system to such developments.



4. The latest edition of the SARB *FSR* is available at https://www.resbank.co.za/en/home/publications/review/financial-stability-review.

Financial stability heatmap

The SARB uses a wide range of indicators that are designed to act as early warning signals of a potential build-up of cyclical changes in the financial system that could lead to vulnerabilities if left unattended. A snapshot of all material developments is reflected in the financial stability heatmap, which is data driven and based on historical information. It does not contain any evaluation of financial stability risks and is a tool used to flag areas for deeper analyses.



Methodology:The heatmap is based on a z-score transformation of the underlying indicators. The transformed indicators are thereafter mapped onto an empirical cumulative distribution function (ECDF). Low values from the ECDF are mapped to green while higher values are mapped to shades of red.
*OFIs:Includes unit trusts and finance companies.

Update from the SARB FSC

At its October 2023 meeting, the FSC resolved that a positive cycle-neutral (PCN) countercyclical capital buffer (CCyB) of 1% be implemented in South Africa. The phase-in period for the 1% buffer will start on 1 January 2025 and should be fully implemented by 31 December 2025. The FSC also resolved that developments around the sovereign-bank nexus did not require formal policy intervention at that stage. It resolved that the PA would develop ways to monitor and close valuation gaps in banks' holdings of SA government bonds.

Stress testing

Stress testing assesses whether financial institutions have adequate levels of capital and liquidity to withstand extreme but plausible negative shocks. The SARB conducts periodic macroprudential stress tests on South Africa's SIFIs and other potentially systemic institutions.

Stress-testing is a forward-looking macroprudential tool which offers unique insight into the strengths and vulnerabilities of the financial system. It is one of several instruments that the SARB employs to monitor and assess financial stability. Stress-testing therefore contributes significantly to the protection and enhancement of financial stability, as per the SARB mandate set out in the FSR Act.

The outcome of the 2023 Common Scenario Stress Test (CSST) for banks that was concluded in November 2023 indicated that the banking sector was resilient to a selection of severe but plausible scenarios. This included the escalation of South Africa's electricity crisis and its effect on business activity, employment and household disposable income. In particular, the 2023 CSST results confirm that SIFIs remain well capitalised, sufficiently liquid and able to withstand the severe, yet plausible, shocks simulated under the adverse scenarios of the exercise. While the banking sector's aggregate capital adequacy ratio deteriorated across the adverse scenarios, it still comfortably exceeded the regulatory minimums. Furthermore, the solvency results give a conservative assessment of banks' solvency positions under stress due to the exclusion of unappropriated profits, which provides an additional layer of safeguard. The liquidity stress-test results also confirmed that systemically important domestic banks maintained strong liquidity buffers, well in excess of the minimum prudential requirements.

The 2023/24 bottom-up stress test of the insurance sector was concluded in the second quarter of 2024 and results were reported in the first edition of the 2024 *FSR*.

The 2024/25 Climate Risk Stress Test (CRST) of the banking sector was initiated in March 2024. Results for this 'first of its kind' stress test are expected in early 2025. Across all its stress tests, the SARB uses a formalised approach to risk identification and makes use of internal tools such as the RVM.

Designation of the SARB as the Resolution Authority

The SARB has been designated as the Resolution Authority in terms of the FSR Act, read with the FSLAA. The Resolution Authority became operational on 1 June 2023 and will manage all procedures in the event where a systemically important bank or insurance company (designated institutions) is likely to fail or is failing. The FSR Act requires that the SARB develop resolution plans and take steps to ensure that resolution processes are orderly and protect financial stability.

5. An internal non-statutory committee.
6. FSCA, FIC, NCR and PA.
7. Statutory committees prescribed by the FSR Act.

Governance structure

FINANCIAL STABILITY COMMITTEE (four meetings during the reporting year)

Chairperson
Governor of the SARB

Committee members
DGs, MPC members and the heads of line departments

Meetings are divided into two sessions:
- an information session on developments in the global and domestic environments that may impact domestic financial stability; and
- a policy session in which mitigating actions are considered that address any adverse impact on domestic financial stability.

FINANCIAL STABILITY OVERSIGHT COMMITTEE[5] (FSOC) (two meetings during the reporting year)

Chairperson
Governor of the SARB

Committee members
SARB, National Treasury and representatives of financial sector regulators[6]

The FSOC:
- facilitates cooperation between financial sector regulators and the SARB on financial stability matters;
- makes recommendations to the Governor on the designation of SIFIs; and
- makes recommendations to other organs of state to assist in promoting, protecting, maintaining, managing or preventing risks to financial stability.

FINANCIAL SECTOR CONTINGENCY FORUM[7] (FSCF) (one meeting during the reporting year)

Chairperson
DG responsible for Financial Stability

Committee members
SARB and representatives of financial sector regulators, financial sector industry associations and organs of state

The FSCF assists the FSOC and SARB with:
- identifying potential risks that may result in a systemic event occurring; and
- coordinating appropriate plans, mechanisms and structures to mitigate risks.

The FSCF has two subcommittees:
- the Operational Risk Subcommittee, which develops contingency measures for events that could severely disrupt operational continuity in the financial sector; and
- the Financial Sector Cyber Resilience Subcommittee, which focuses on industry-wide efforts to increase the resilience of the financial sector to cyberattacks.