



FINANCIAL STABILITY FORUM

FSR presentation

29 November 2023

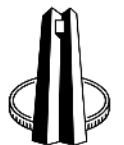
Dr Herco Steyn



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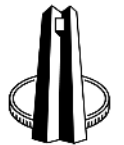
Defining financial stability

- ‘Financial stability’ refers to a financial system that **exudes and inspires confidence** through its **resilience to systemic risks and shocks**, and its ongoing ability to **efficiently intermediate funds**.
- Financial stability is therefore **not an end in itself**, but is an important **precondition** for sustainable **economic growth**.



Statutory mandate for financial stability

- **Primary mandate:** The Constitution of the Republic of South Africa, Act 108 of 1996, (the Constitution) mandates the SARB to achieve and maintain **price stability** in the interest of balanced and sustainable economic growth in South Africa.
- **Statutory mandate:** The Financial Sector Regulation Act 9 of 2017 (FSR Act) mandates the SARB to protect and enhance **financial stability** in South Africa.

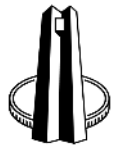


Collaborating in pursuit of financial stability

- The FSR Act assigns a **lead role to the SARB** in protecting and enhancing financial stability in South Africa

BUT

- The FSR Act also empowers **several other financial sector regulators to support the SARB** in pursuing this mandate, including NT, PA, FSCA, FIC and NCR
- Inter-agency collaboration and cooperation are therefore critical



Global developments

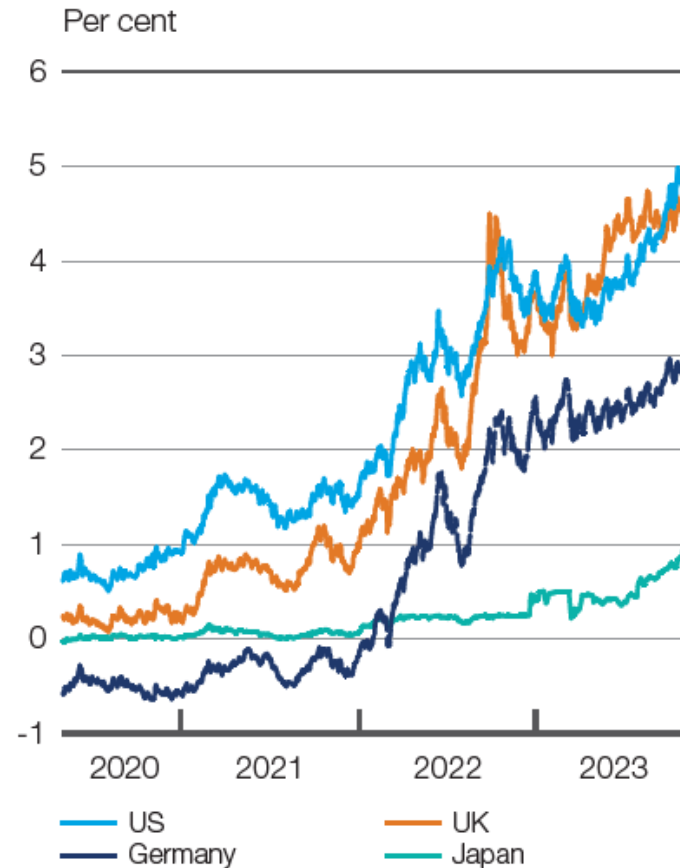


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Key global developments

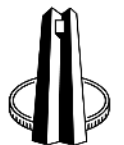
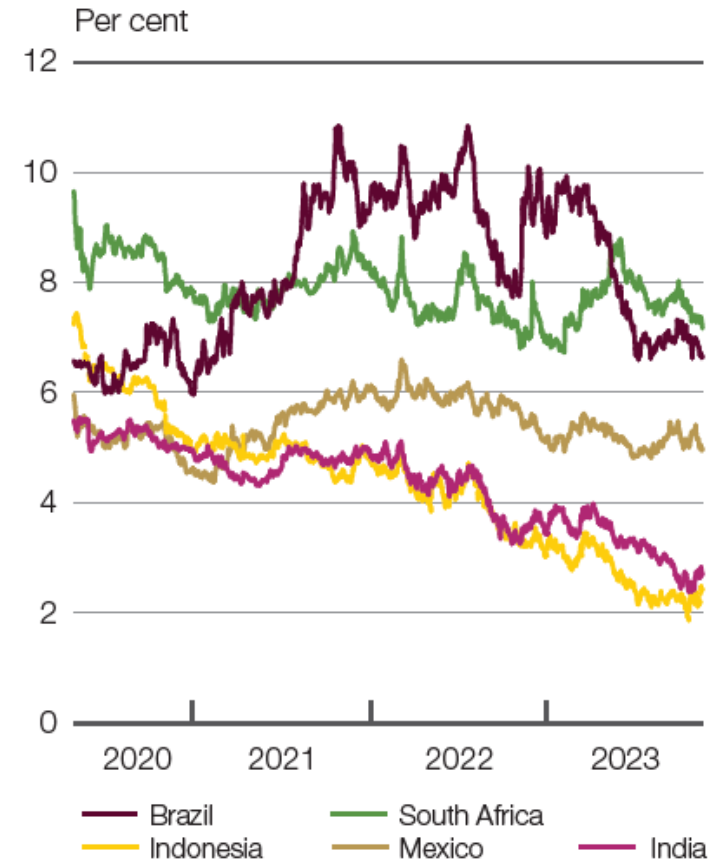
Emerging market government bonds 'relatively' less attractive compared to advanced economies:

10-year AE government bond yields



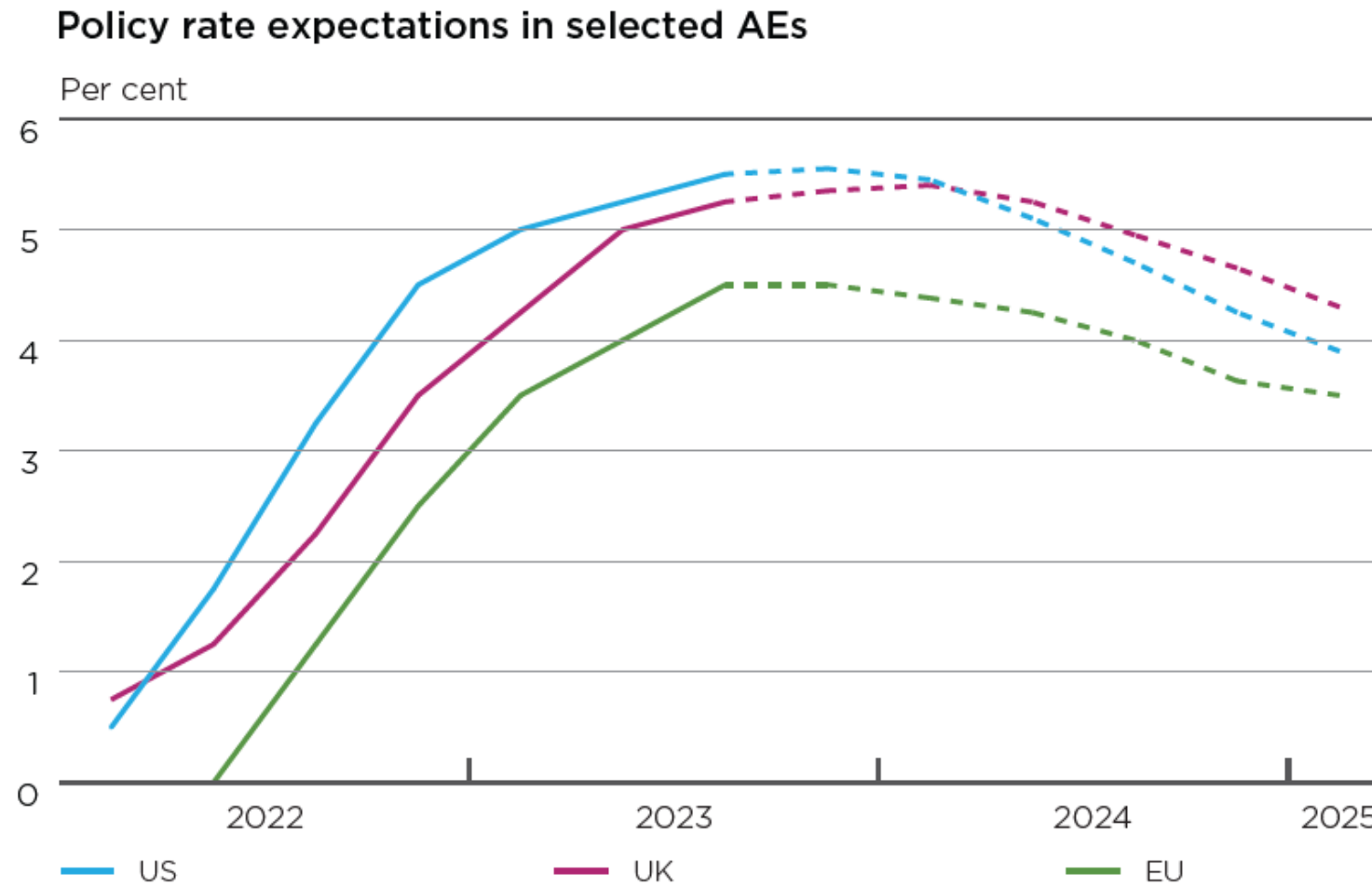
Source: Bloomberg

10-year EM government bond yield spreads relative to US Treasury yields

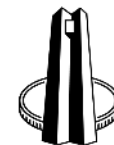


Key global developments

Indicators suggest that interest rates are at or near their peaks, *but...*



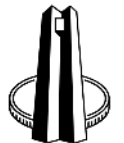
Source: Bloomberg



Key global developments

Risks to global financial stability:

- Geopolitical tensions
- Geopolitical fragmentation and implications of 'nearshoring/friendshoring'
- Policy rate divergence and associated implications
- Inflation surprises
- Slower-than-expected Chinese recovery
- Concerns over the commercial real estate sector in the US and China (among others)



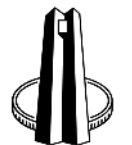
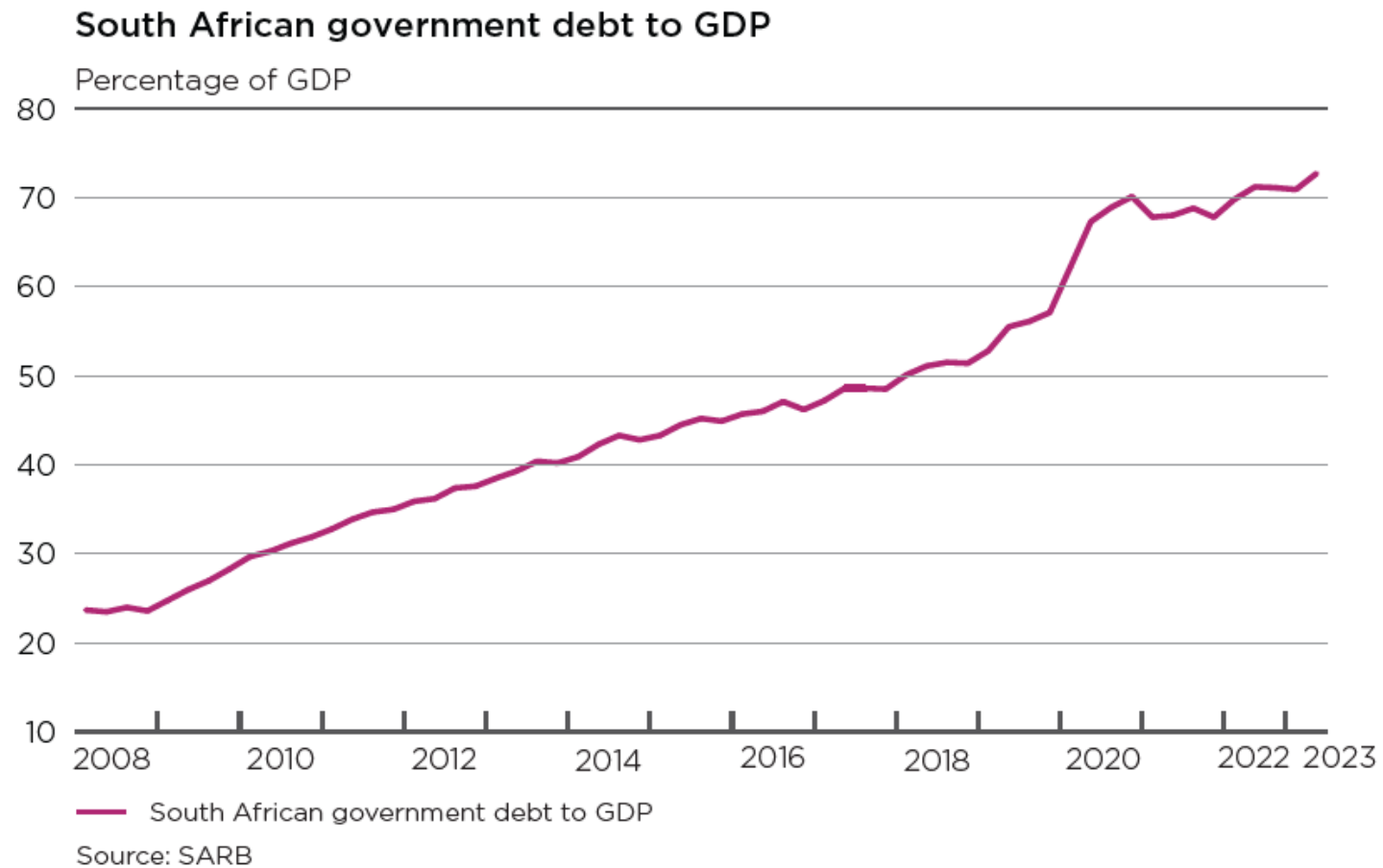
Domestic developments



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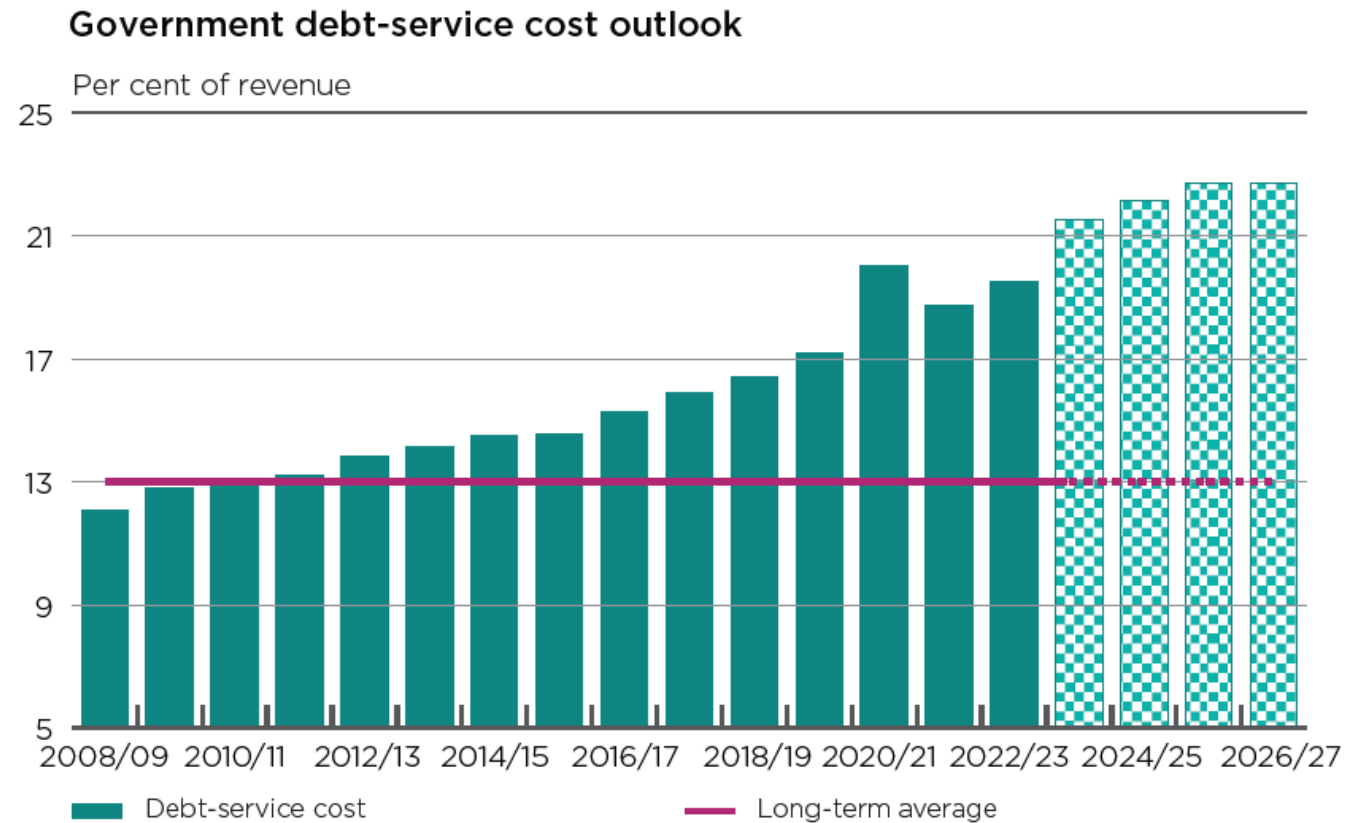
Key domestic developments

Government debt is increasing:

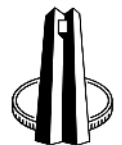


Key domestic developments

Higher levels of government debt mean higher debt-service costs:

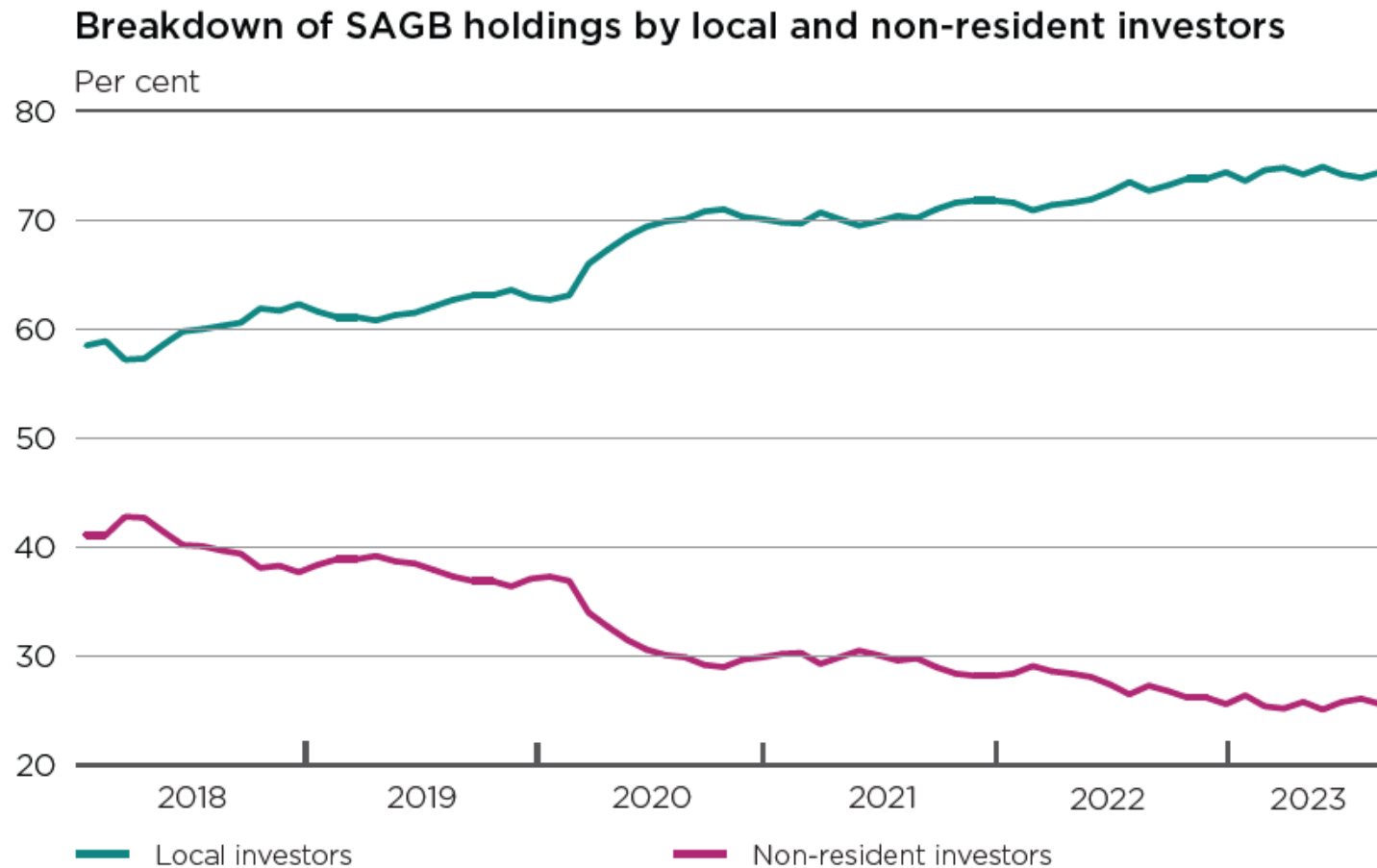


Source: NT

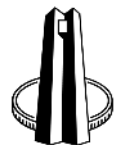


Key domestic developments

While government debt and debt-service costs have been increasing, non-resident investors have continued to gradually reduce their relative holdings of SAGBs and equities:

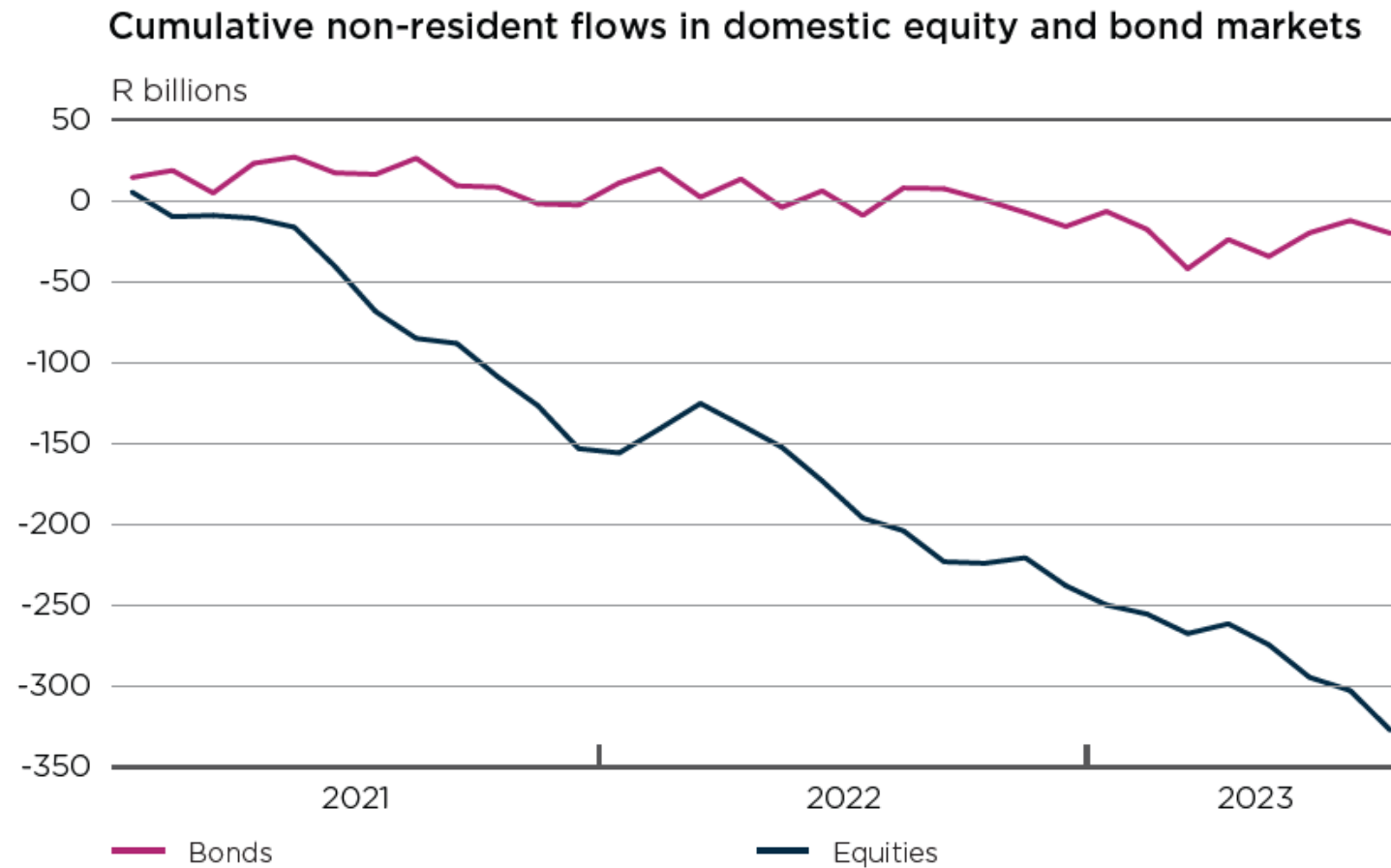


Source: NT

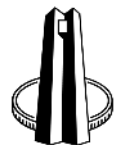


Key domestic developments

South African capital markets have continued to record portfolio outflows:

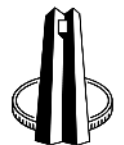
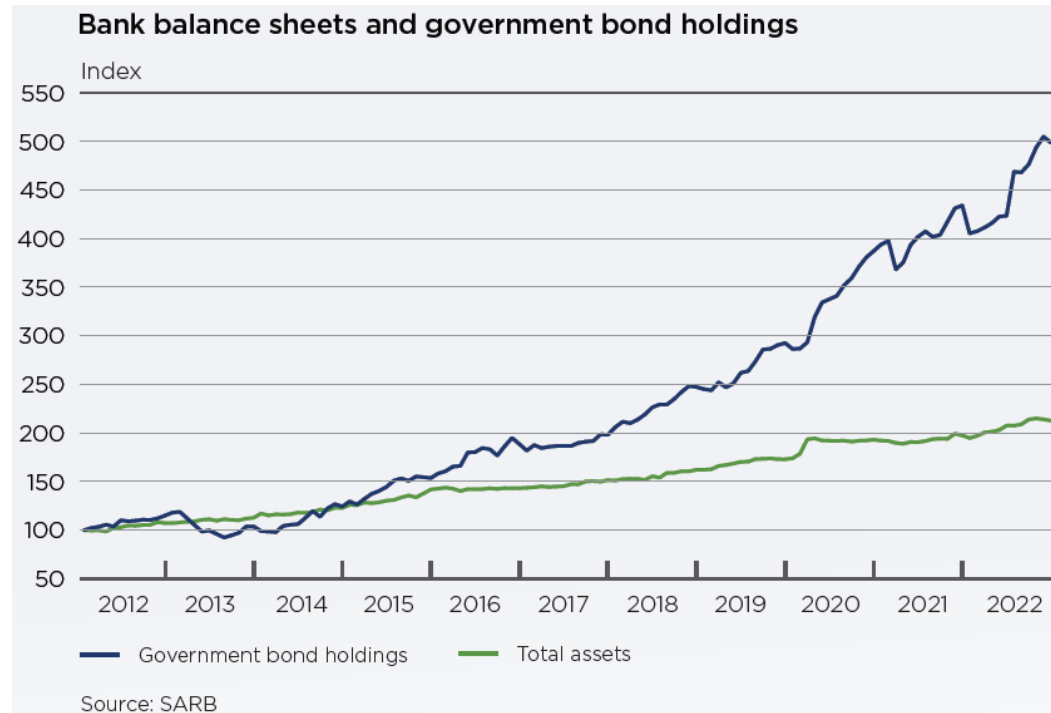


Source: JSE



Key domestic developments

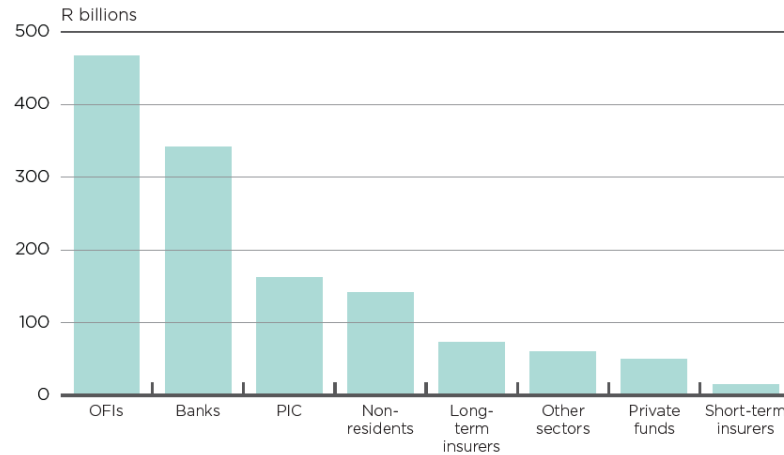
Government bond holdings and banks' risk-weighted assets



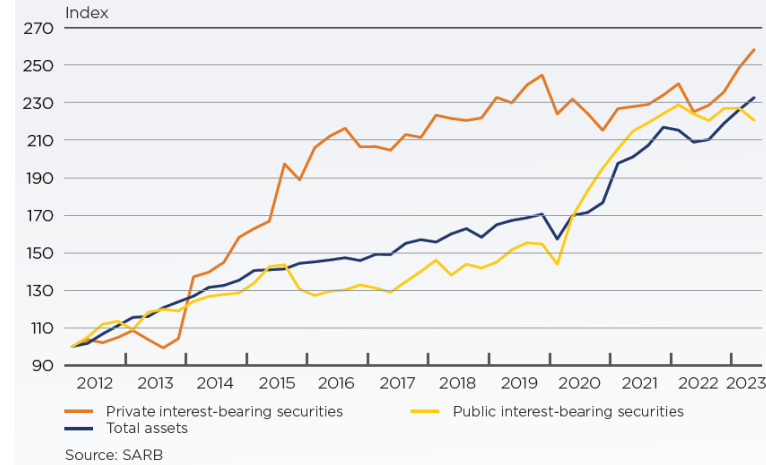
Key domestic developments

Sovereign financial-sector nexus: not just banks that have increased their holdings of SAGBs:

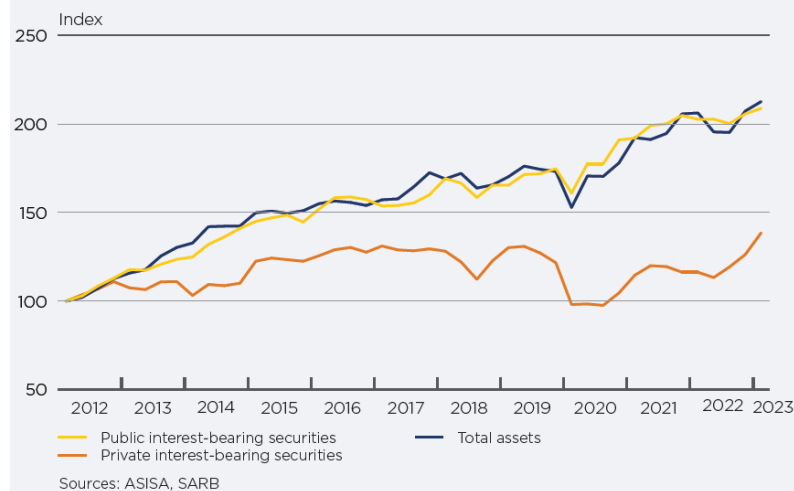
Accumulation of SAGBs since 2018



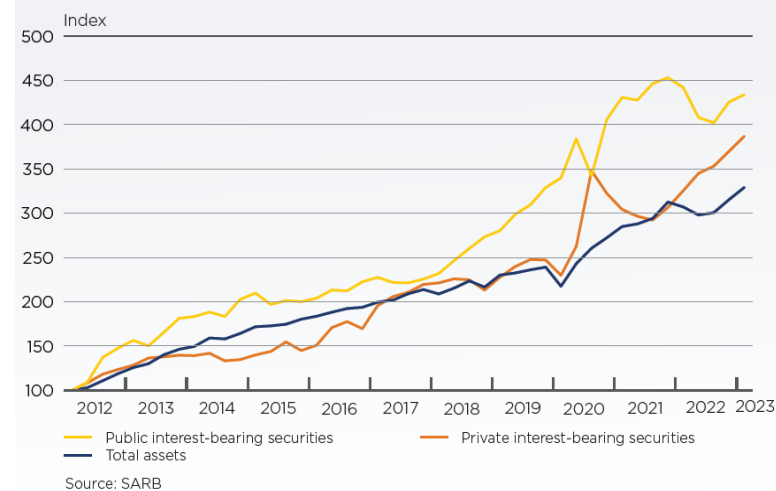
Insurers' government bond holdings and total assets



Pension funds' government bond holdings and total assets

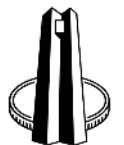
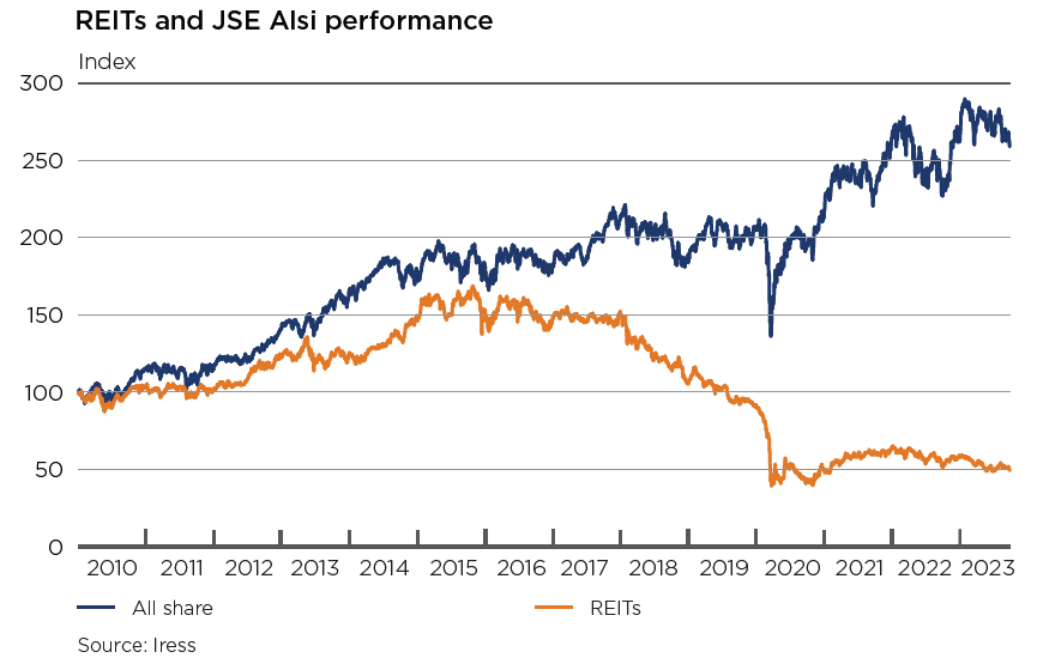
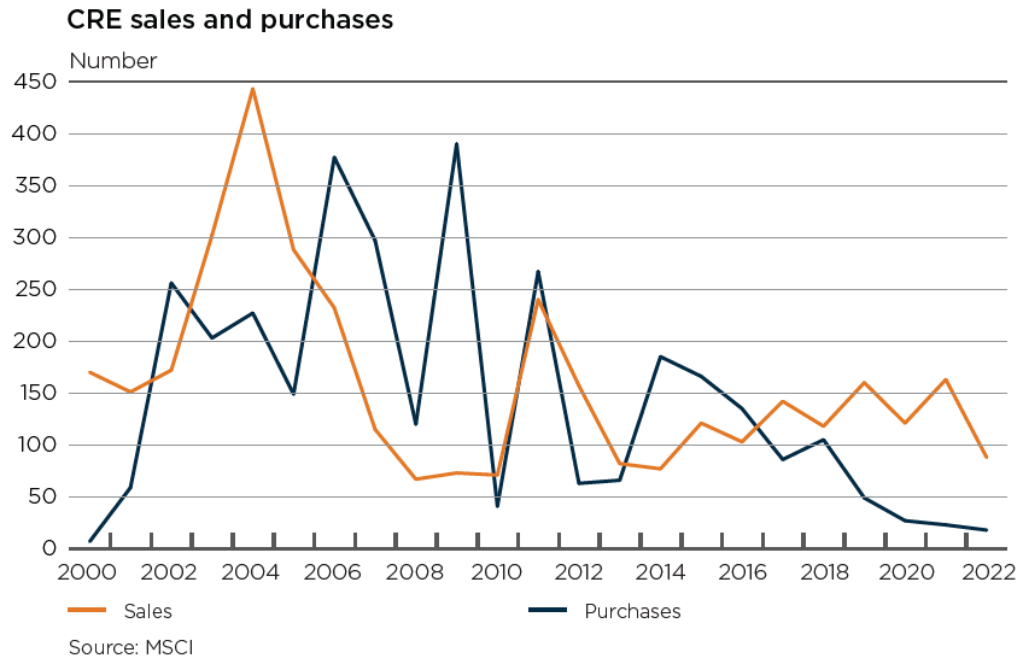


Aggregate unit trust balance sheets



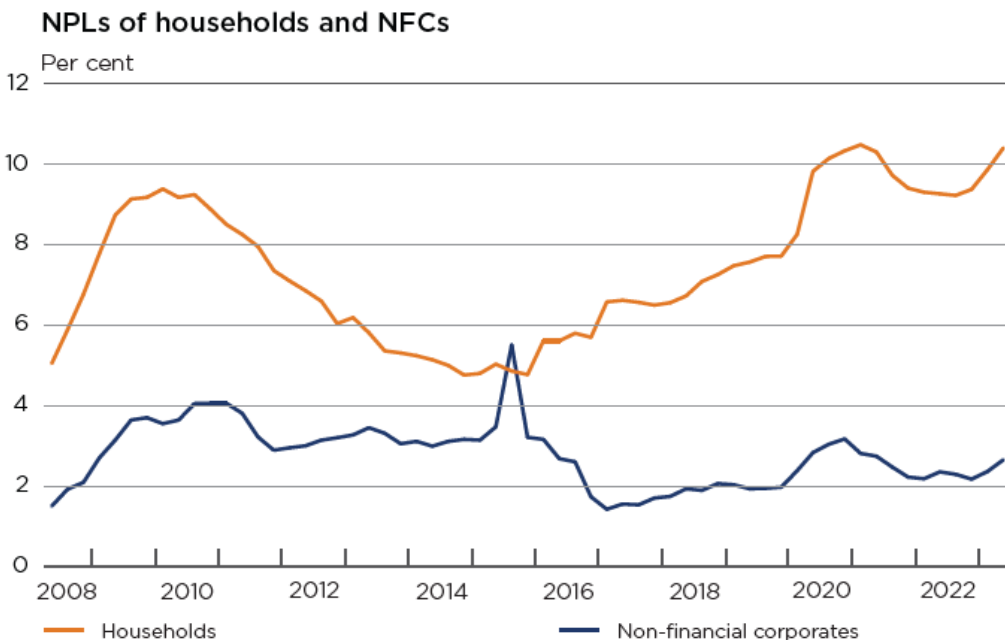
Key domestic developments

The commercial real estate sector remains under pressure:

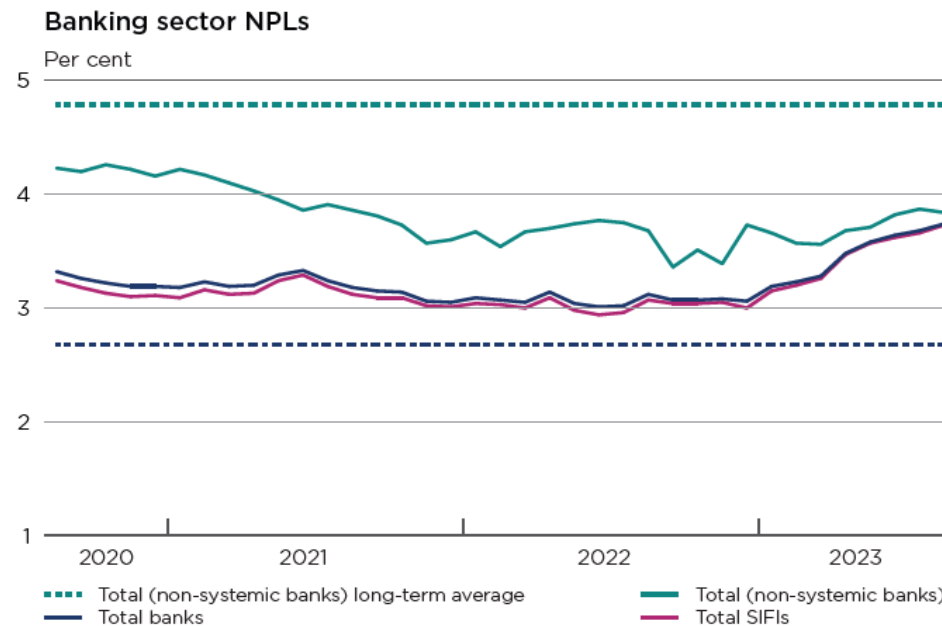


Key domestic developments

Households and non-financial corporates (NFCs) are starting to exhibit some strain as evidenced by an uptick in non-performing loans (NPLs):



Source: SARB



* Long-term average is from January 2014 to August 2023

Source: PA



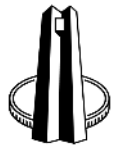
Financial stability outlook and assessment



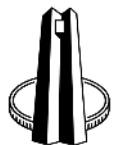
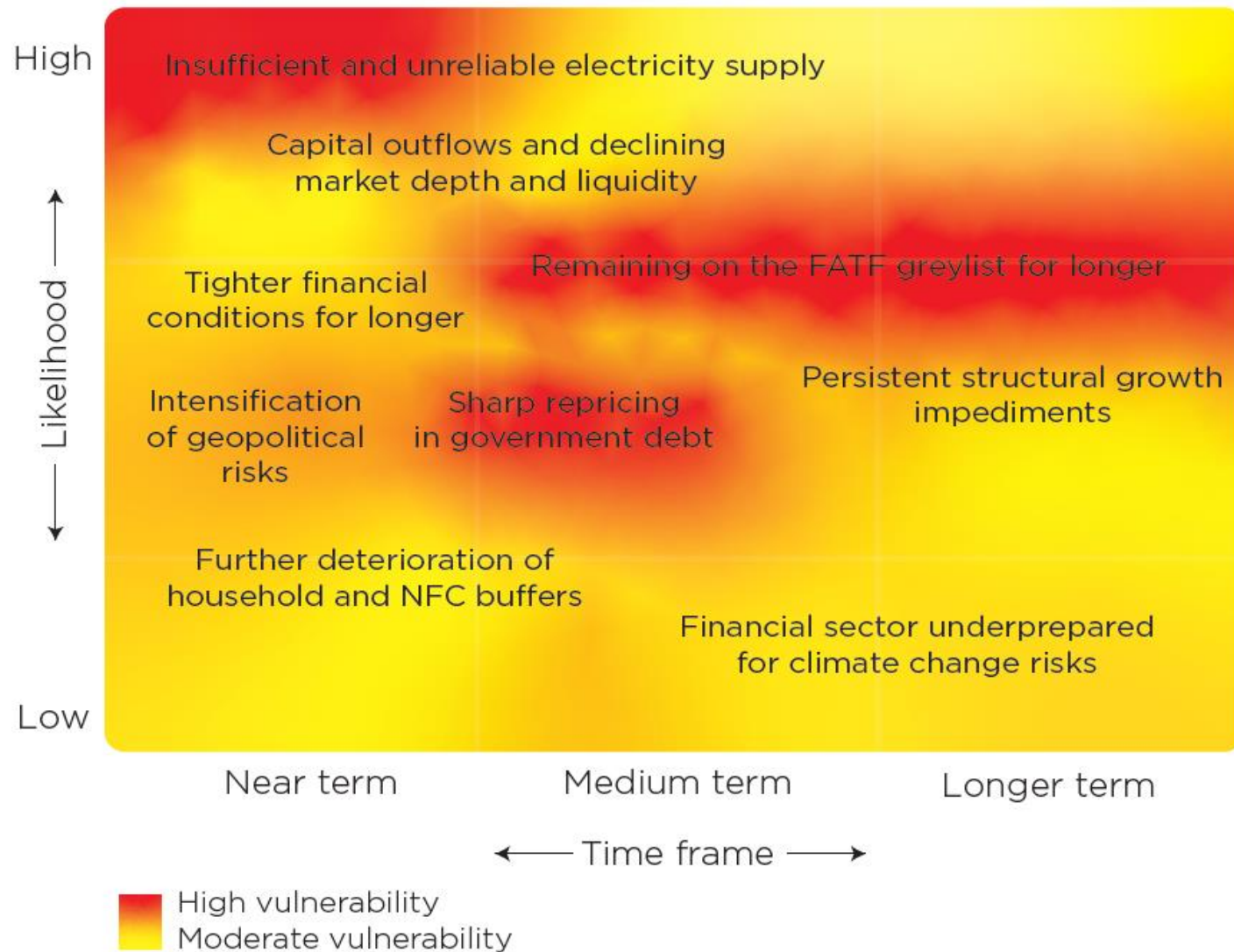
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Outlook: SARB Risk and Vulnerability Matrix (RVM)

- RVM: forward-looking assessment of the key risks to financial stability in South Africa over the short, medium and longer term
- Key risks are identified based on the current conjuncture, and take into account possible future developments and the vulnerability of the financial system to such developments
- After considering existing mitigating factors and policy actions, the residual vulnerability of the financial system is identified for each risk

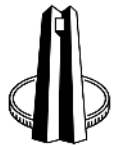


November 2023 RVM



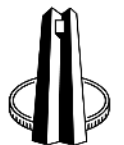
RVM: Country-specific risks

- Sharp repricing in government debt
- Capital outflows and declining market depth and liquidity
- Insufficient and unreliable electricity supply
- Remaining on the FATF greylist for longer
- Persistent structural growth impediments
- Further deterioration of household and NFC buffers



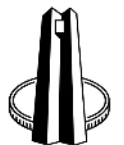
SARB's assessment of financial stability during review period

- **Systemic risk remained elevated** during the period under review, but with some shifts in the underlying contributors: **government's increasing debt levels**; higher government **debt-servicing costs**, domestic financial institutions' **high exposure to government debt**; **implications of being on the FATF greylist**.
- **Areas that contributed to a decline in systemic risk**: marked **decrease in the risk of secondary sanctions** being imposed on South Africa; encouraging developments around the **potential easing of electricity-supply constraints in 2024 and beyond**; reduced concerns over the **global banking stress** in March 2023.



SARB's assessment of financial stability during review period

- **Prudentially regulated domestic financial institutions**, in aggregate, remained **resilient**, as measured by their ability to maintain **adequate capital and liquidity buffers** to absorb the impact of shocks. However, **there are signs of increasing credit risk across the financial sector**, which is being monitored closely.
- However, persistent **structural growth impediments**, **tighter-for-longer global financial conditions** and other **idiosyncratic country factors** will test this **resilience** beyond the forecast period.



Initiatives and policy actions taken by the SARB to enhance financial stability



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Initiatives and policy actions by the SARB to enhance financial stability

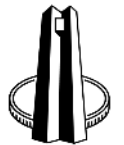
Resolutions from the SARB's Financial Stability Committee's October 2023 meeting:

A positive cycle-neutral (PCN) countercyclical capital buffer (CCyB) of 1% would be implemented in South Africa:

- The phase-in period for implementing the 1% CCyB will commence on 1 January 2025 for 12 months, and is to be fully implemented by 31 December 2025.

Developments around the sovereign-bank nexus do not require formal policy intervention at this stage:

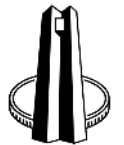
- The PA is to develop ways to monitor and close valuation gaps in banks' holdings of South African government bonds.



Initiatives and policy actions by the SARB to enhance financial stability

Other actions:

- The SARB continued to collaborate with FSOC members to discuss some of the key risks to financial stability, in particular the way forward following South Africa's greylisting by FATF and the addition of South Africa to the EU's list of high-risk countries.
- The SARB, through the FSCF, continued to plan for the improbable, but not impossible, scenario of a complete national electricity grid shutdown or another potential systemic event.



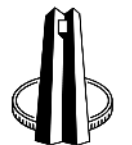
Topical briefings on selected issues relevant to domestic financial stability



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Results from the SARB's Common Scenario Stress Test (CSST)

- This year's CSST scenarios **simulated a South African economy** that (i) remains vulnerable to **spillover effects from global events**; and (ii) is confronted by a rapidly **escalating electricity crisis, persistent inflation** and a sudden **decrease in economic activity**.
- The results indicate that **domestic systemically important banks** will be able to **remain well capitalised** when faced with a set of **severe but plausible scenarios**.
- Chapter 3 in the main focuses on the results from the CSST.
- **Also in Chapter 3:** Topical briefing: An event-window assessment of the impact of the FATF greylisting on the South African stock market premium.





THANK YOU



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