SOUTH AFRICAN RESERVE BANK

PRESS RELEASE

Today, 27 May 2021, the South African Reserve Bank (SARB) published the first edition of the *Financial Stability Review (FSR)* for 2021. The *FSR* is the primary means through which the SARB communicates its assessment of financial stability risks and mitigating policy actions to the public.

In brief, the South African economy continues to rebound from the 2020 recession, albeit at different growth rates across sectors. However, the economic outlook remains highly uncertain and will depend on the pace of the coronavirus disease 2019 (COVID-19) vaccine roll-out. In line with improving economic activity, asset prices are recovering, and banks' loan default rates appear to be stabilising.

Financial institutions in South Africa remain well capitalised. Profitability across both the banking and insurance sectors has been materially lower, but remained positive in 2020, which played an important role in bolstering capital levels. Owing to ongoing profitability and reduced dividend payouts, the regulatory capital ratios for both the banking and insurance sectors remained at roughly the same levels at the end of 2020 as they were before the onset of COVID-19.

In view of the fact that the the banking sector seems well placed to withstand near-term challenges, the Prudential Authority (PA) relaxed its guidance on the payment of dividends by banks and proposed returning bank capital requirements to their pre-COVID-19 level by next year. The PA had previously announced a reduction in bank capital requirements and had advised that banks refrain from paying dividends during the early stages of the COVID-19 economic shock to ensure that banks retain sufficient capital buffers to continue lending. The Loan Guarantee Scheme, which was implemented in response to COVID-19, has been extended to July 2021 and several other extraordinary policy measures remain in place. Among these measures, the most widely used has been the allowance for banks to restructure credit agreements for borrowers who have been affected by the COVID-19 pandemic, without the need to hold additional capital against those loans.

Despite the improving outlook, there are still material risks to financial stability. These risks relate to the durability of the economic recovery, the potential for global financial conditions to shift abruptly, as well as to the high and rising level of public debt in South Africa. The latter risk is discussed at length in the *FSR*.

The ability of South Africa's financial sector to cope with a once-in-a-century recession and severe operational disruptions during 2020 reflects a high degree of resilience.

This resilience is expected to remain an important mitigant against potential future risks.

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