



South African Reserve Bank Annual Report and Prudential Authority Annual Report for 2020/21

Presentation to the Standing
Committee on Finance

18 August 2021



SOUTH AFRICAN RESERVE BANK



A purposeful journey

Outline of presentation



1. The role of the South African Reserve Bank (SARB)
2. Macroeconomic overview and outlook
3. Highlights from the SARB 2020/21 Annual Report
4. Highlights from the Prudential Authority (PA) 2020/21 Annual Report



The role of the SARB: 100 years on



SOUTH AFRICAN RESERVE BANK



A purposeful journey

The SARB's mandate ...

- **Constitutional mandate**

To protect the value of the currency in the interest of balanced and sustainable economic growth

- **Legislative mandate**

Financial Sector Regulation Act, which came into effect in August 2017, mandates the SARB to maintain, promote and enhance financial stability in South Africa

The SARB's key functions include, inter alia:

- Issuing and destroying banknotes and coin
- Regulating and supervising certain entities in the financial system
- Ensuring the effective functioning of the national payment system
- Managing the official gold and foreign exchange reserves of the country
- Administering the country's remaining exchange control regulations
- Acting as banker to the government

Shareholding structure, but the public is the beneficiary

- The SARB is one of a few central banks that has private shareholders
 - There are 2 million shares in issue
 - Dividends are capped at 10 cents a share with the maximum total dividend of R200 000 a year
 - 90% of the remaining surplus accrues to government, after setting aside contingencies, reserves, tax

The SARB Act provides for 7 shareholder-elected non-executive directors, out of a 15-member Board

- Since 1996, several legislative changes were implemented to:
 - provide clarity on the role of shareholders;
 - limit the rights of foreign shareholders; and
 - limit the number of shares each shareholder, together with their associates, is permitted to hold.
- Board helps ensure good governance, but plays no role in policy or regulatory decisions
- Government appoints 8 members, including the four executives, while shareholders elect 7 members

Macroeconomic overview and outlook

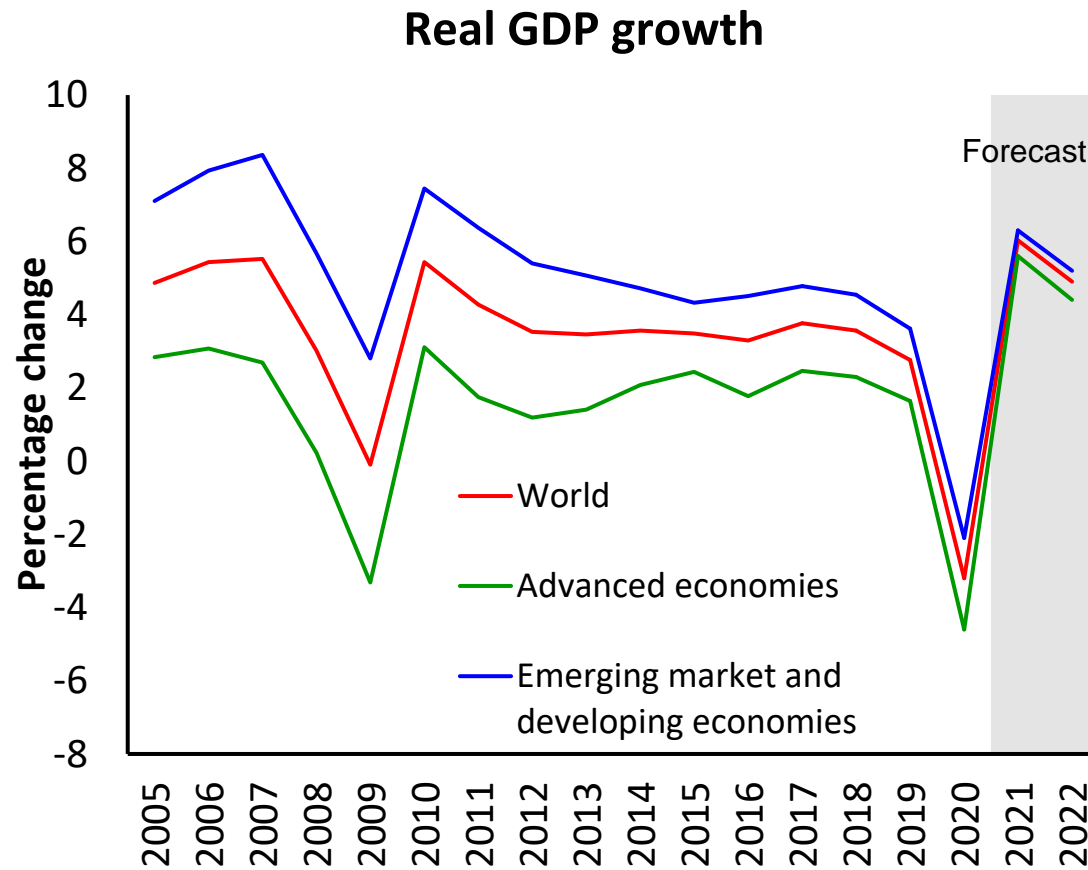


SOUTH AFRICAN RESERVE BANK

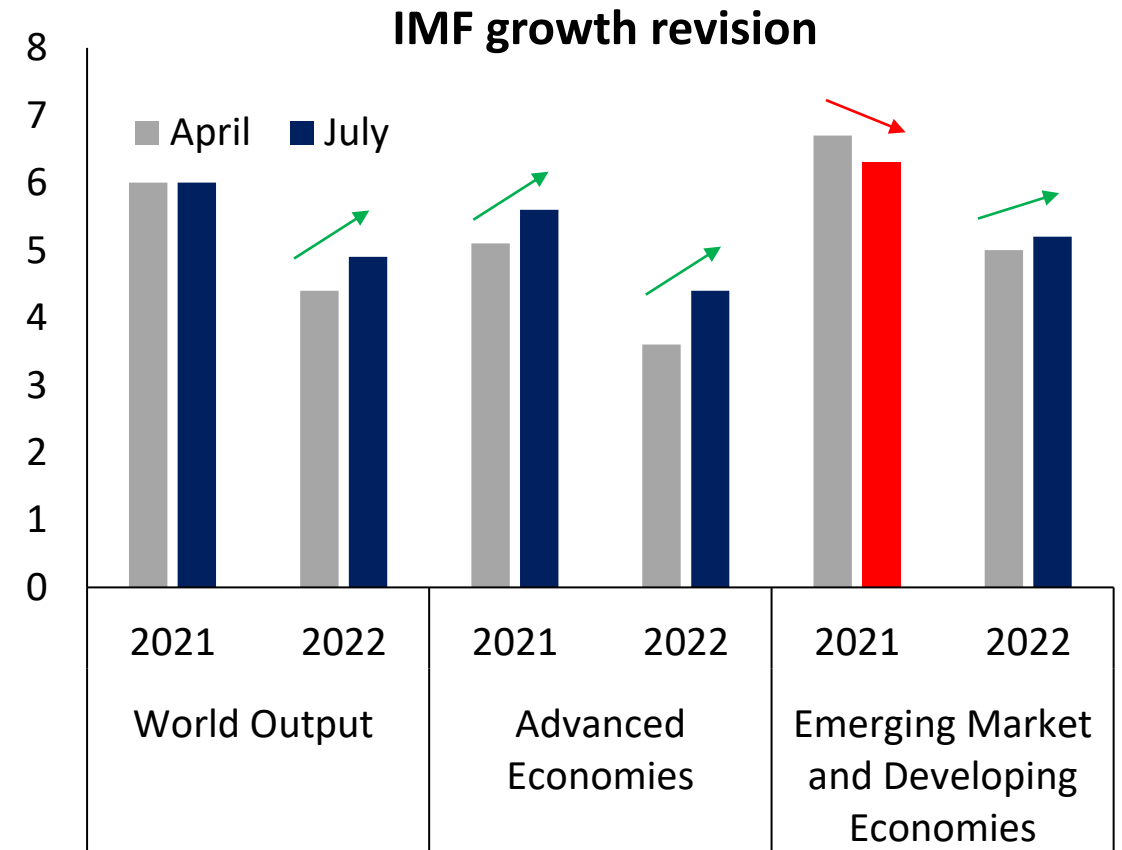


A purposeful journey

Sharp but divergent recovery in the global economy

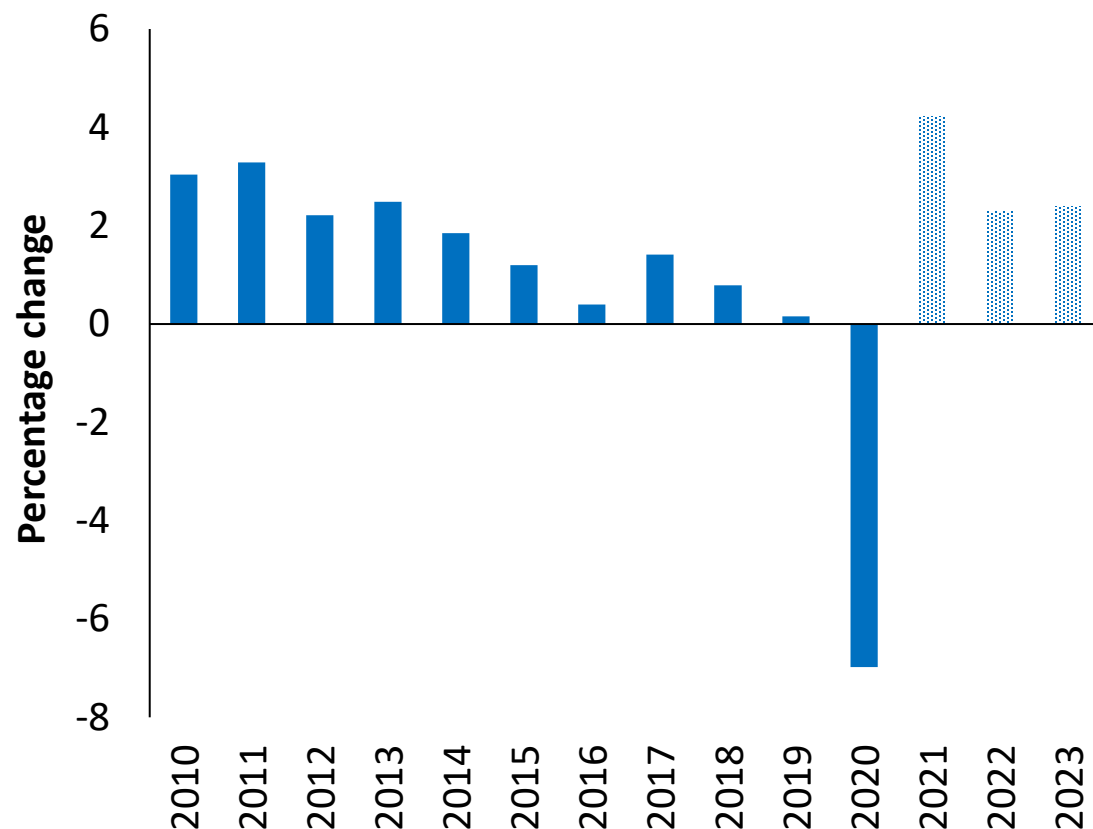


Source: IMF

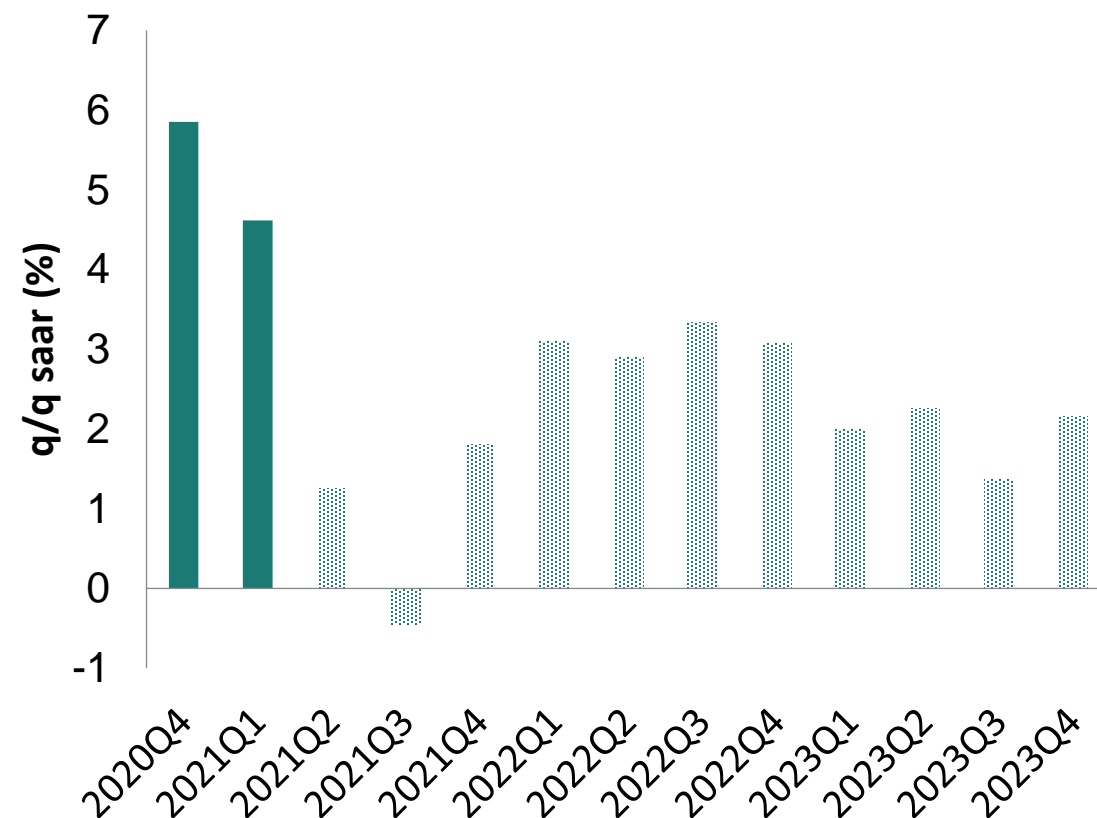


After a sharp GDP contraction in 2020, SA recovery has surprised on the upside

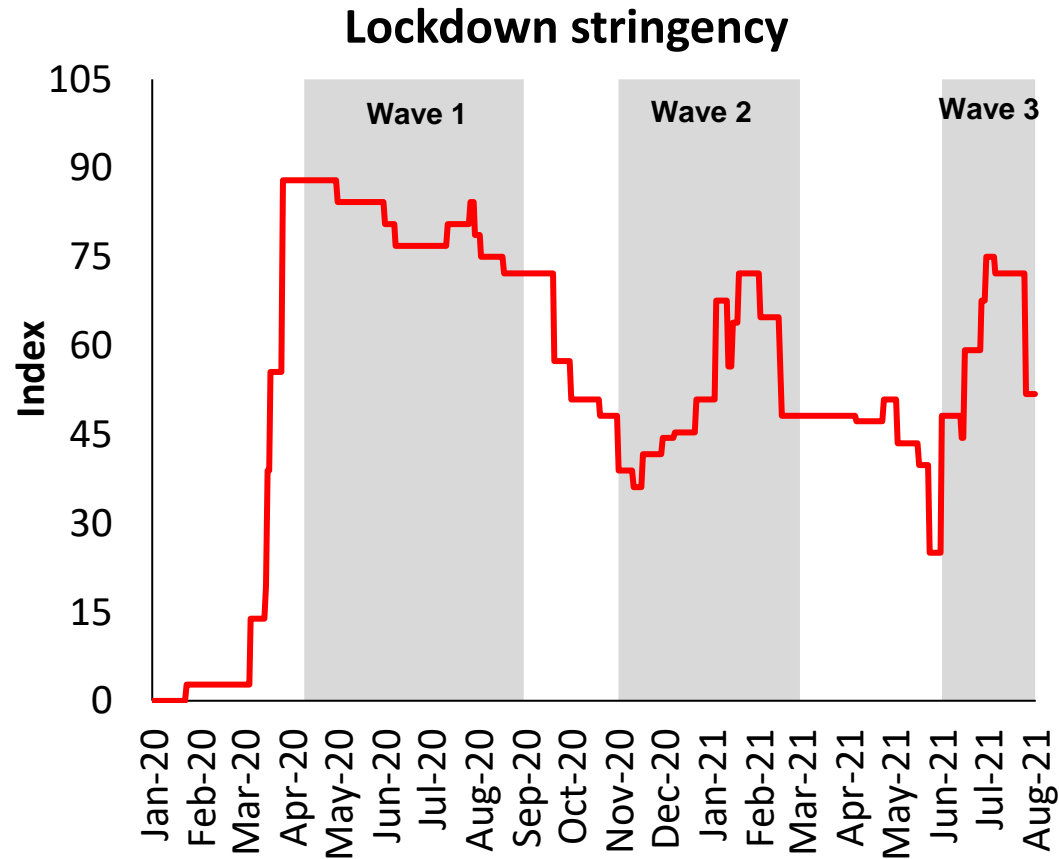
Annual growth and forecasts



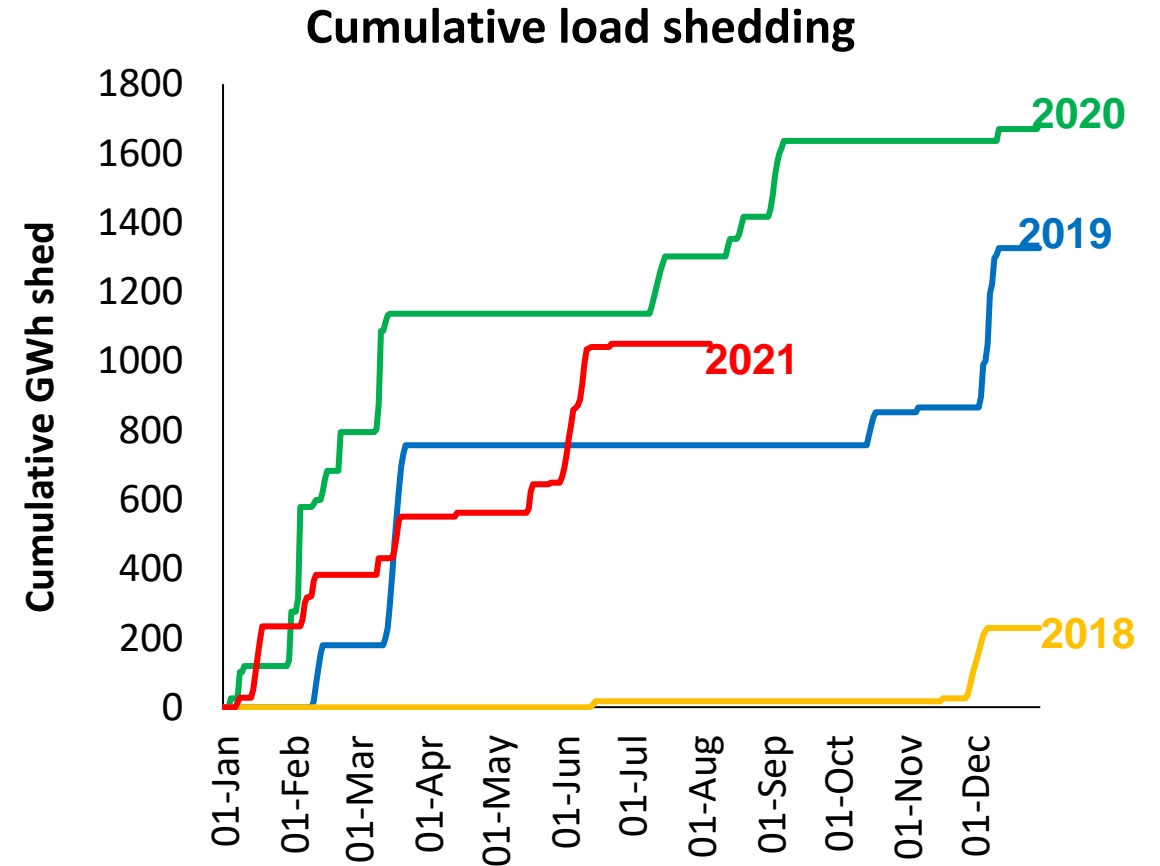
Quarterly growth and forecasts



Even as COVID-19 waves and load shedding persisted

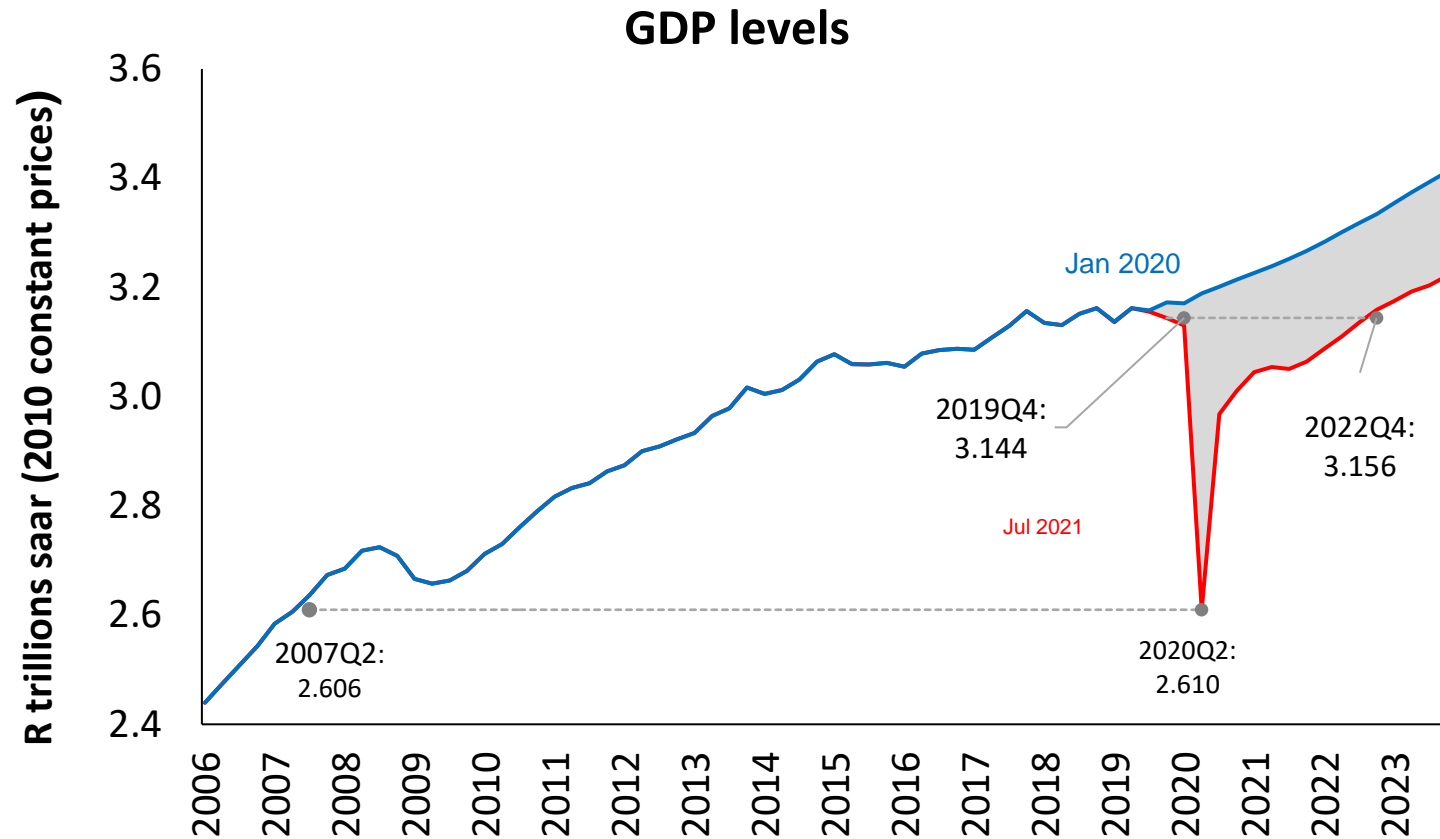


Source: Oxford University



Source: ESP (app), Eskom Twitter

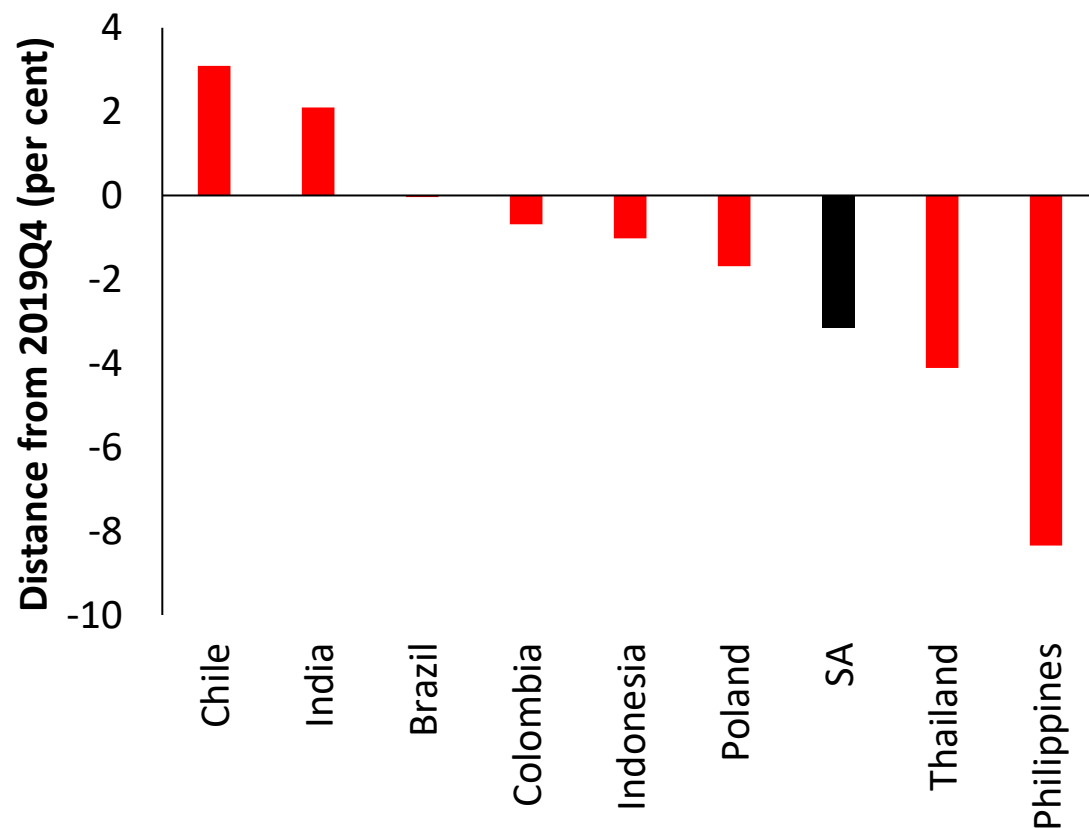
Domestic growth however not high enough; recovery to 2019 output level only expected in 2023



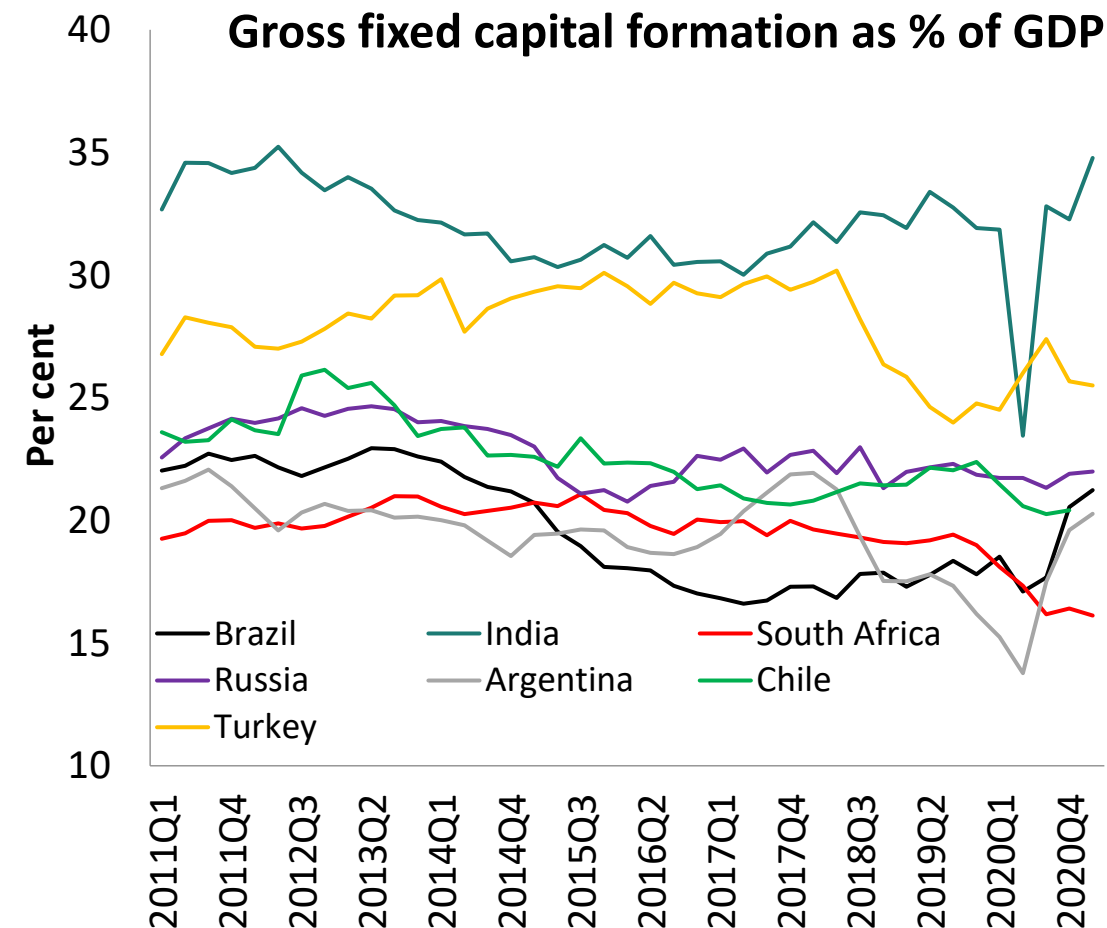
Source: Stats SA and SARB

SA recovery weaker than most peer countries, and so is investment

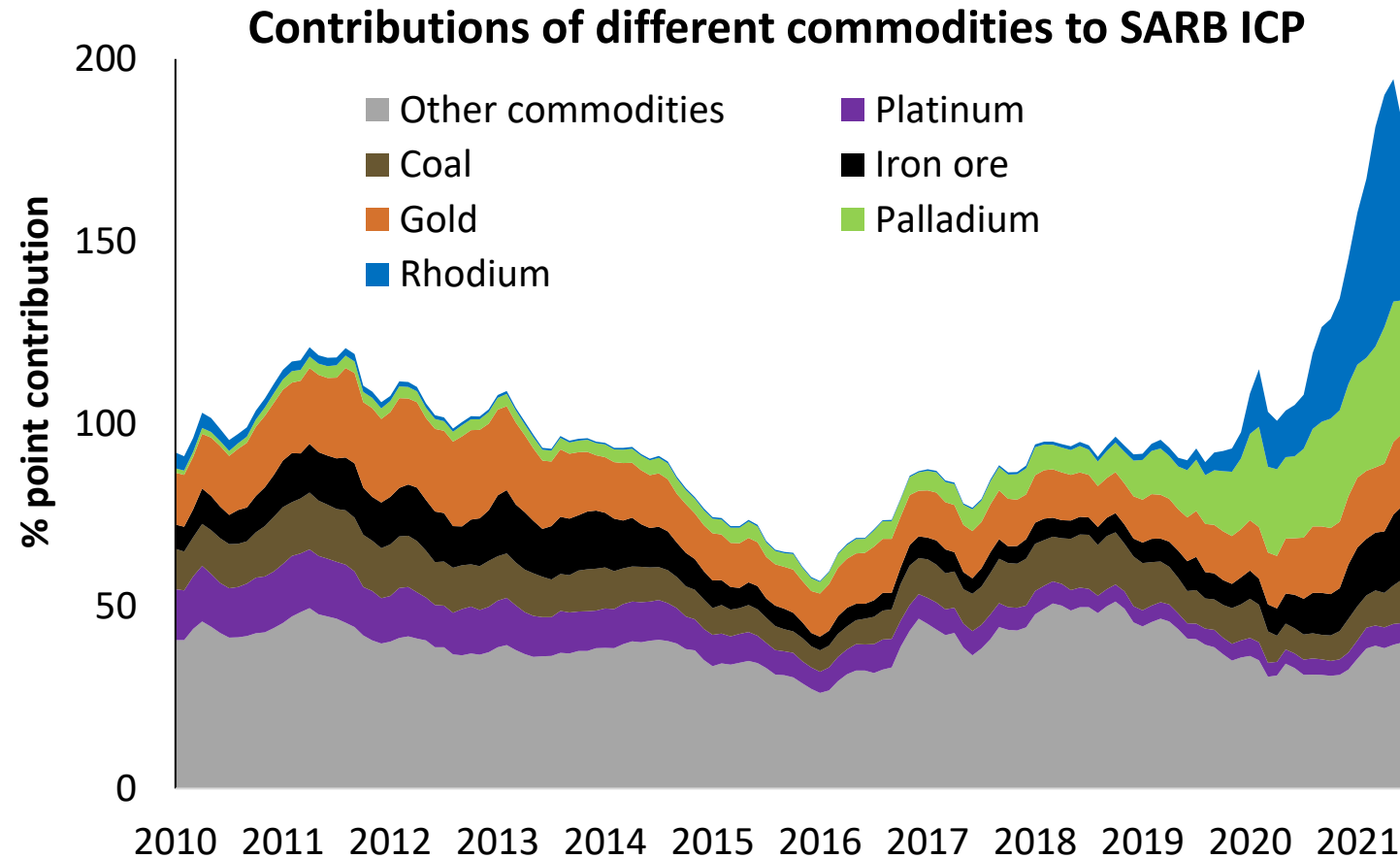
1Q21 GDP deviation from 4Q19 (levels)



Gross fixed capital formation as % of GDP

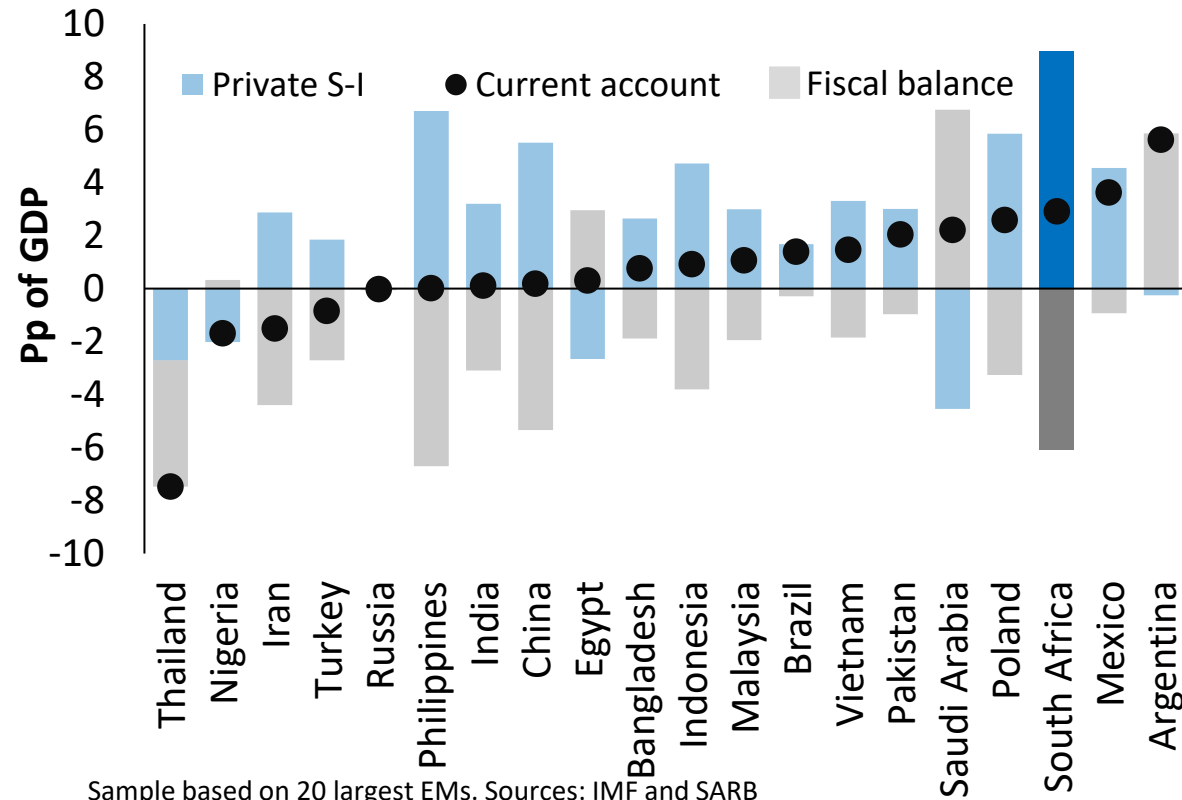


Commodities at the centre of SA recovery, buoyed by strong global recovery

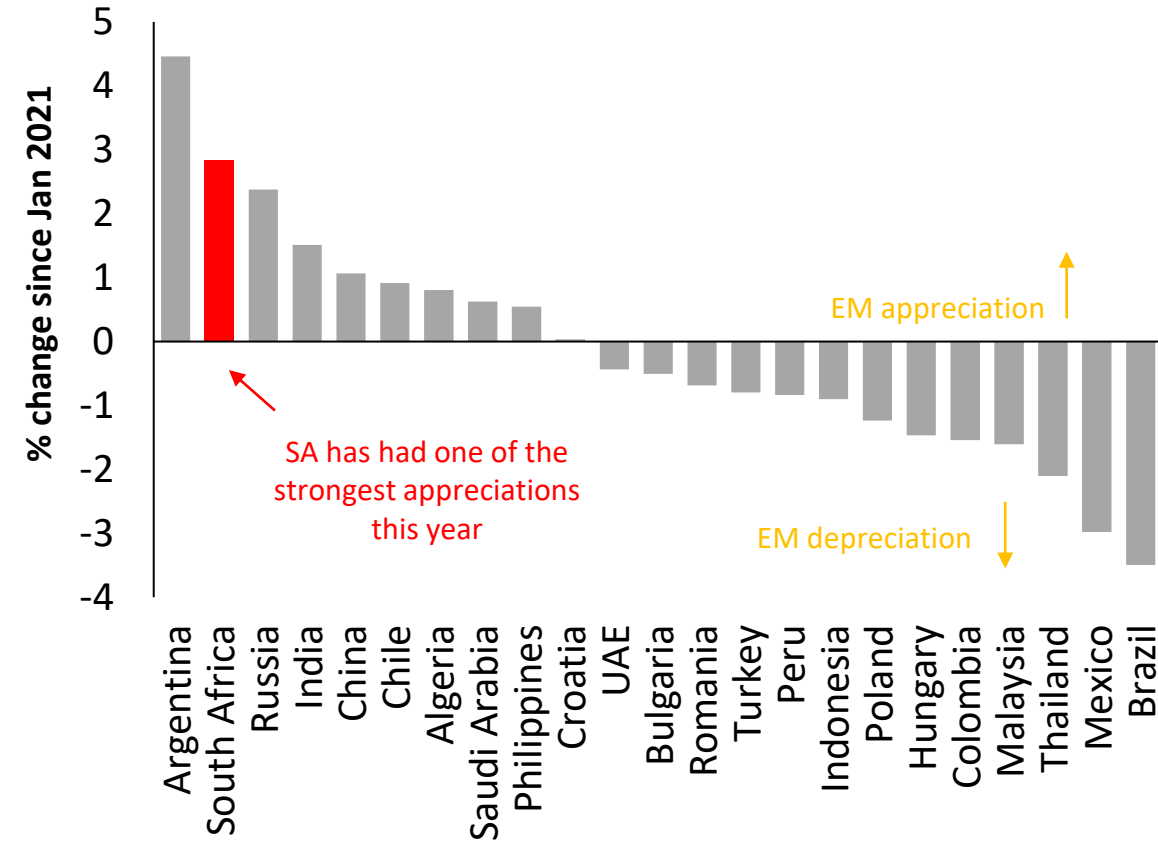


Robust terms of trade supporting current account and strong rand

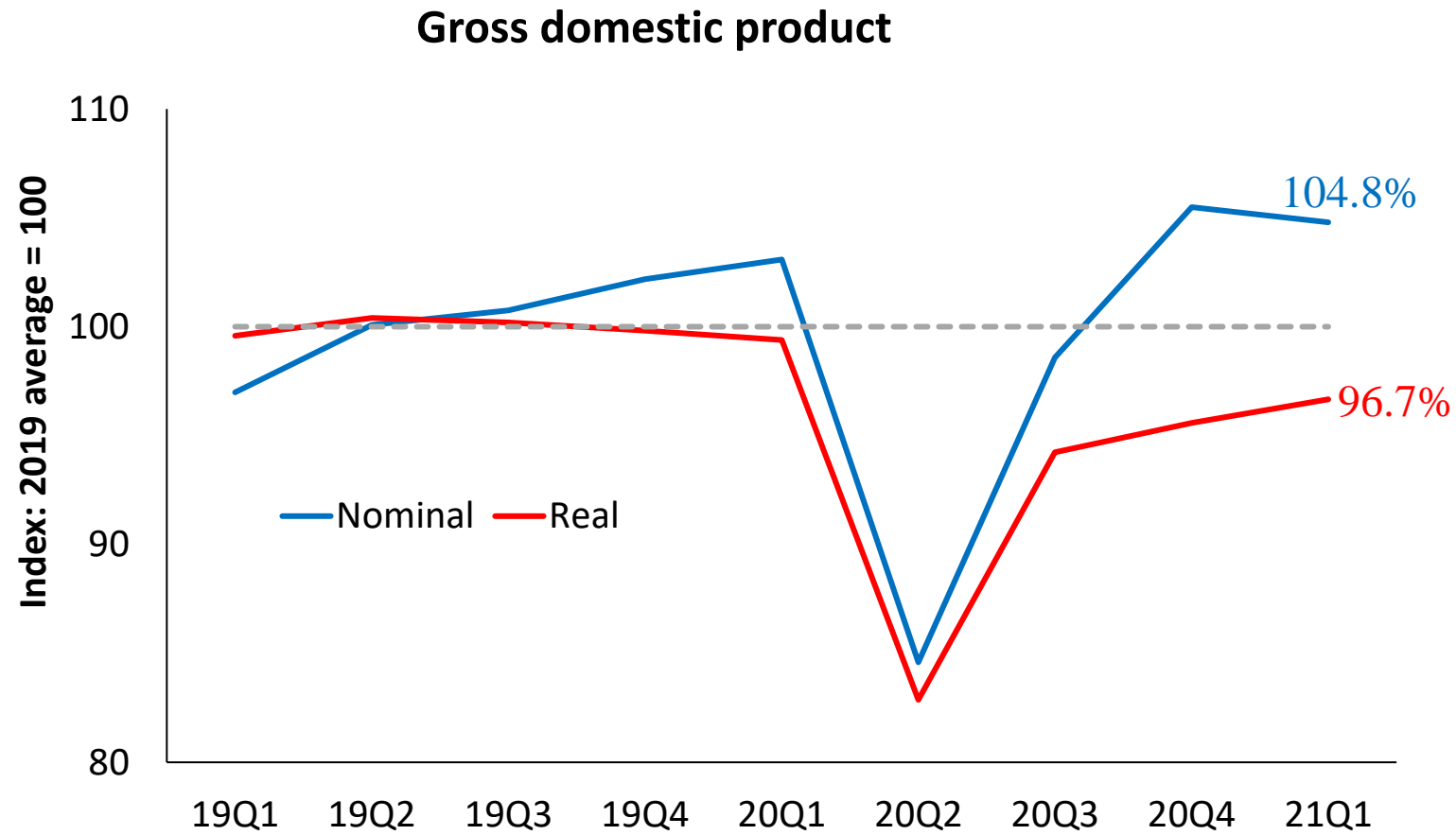
Change in current account:
2021 vs 2015-19 average



Real effective exchange rate

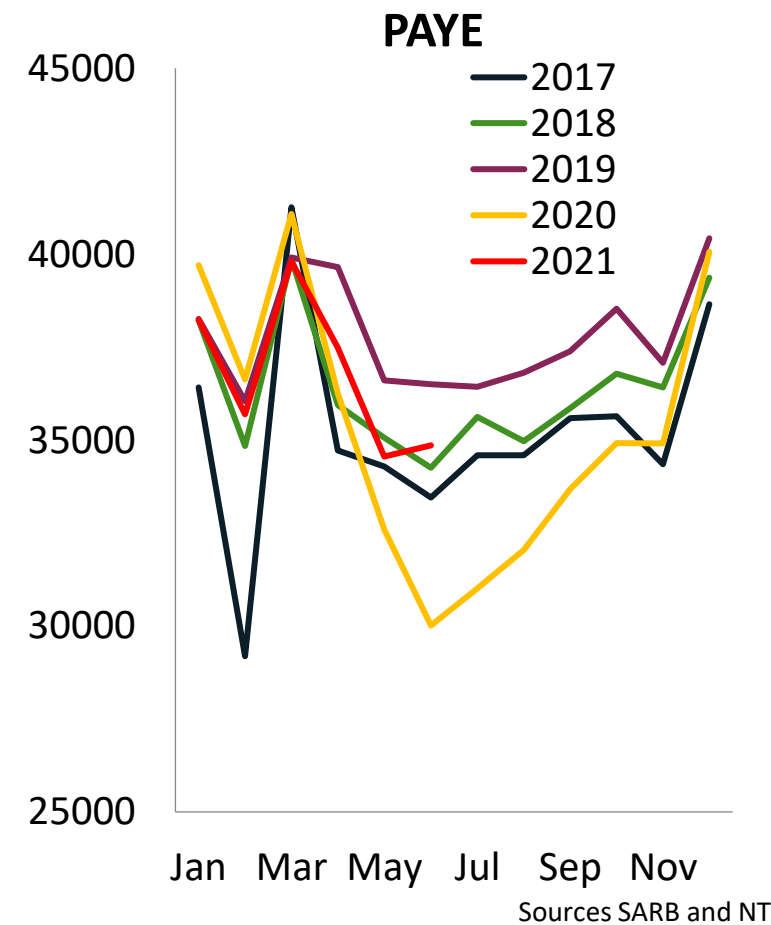
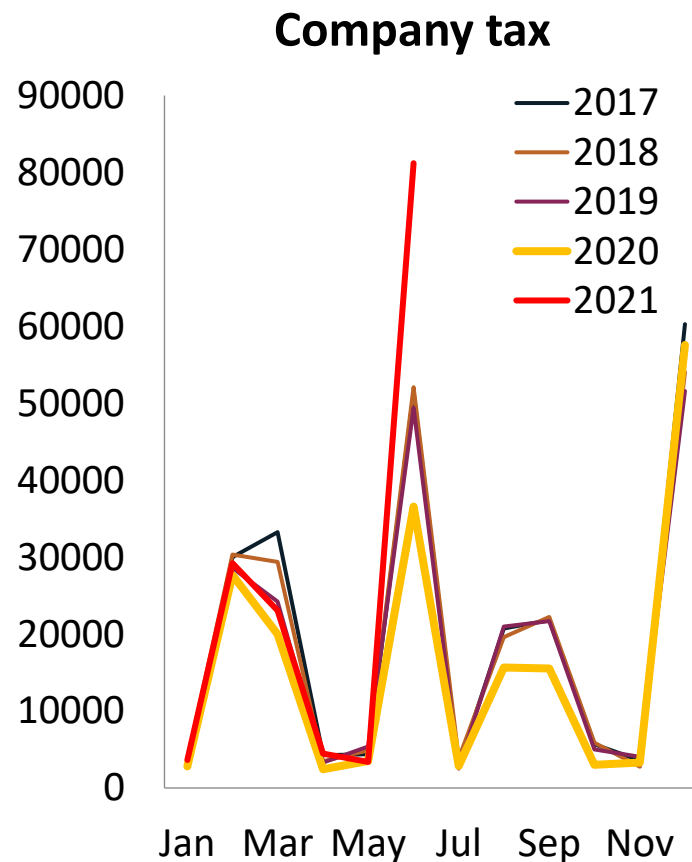
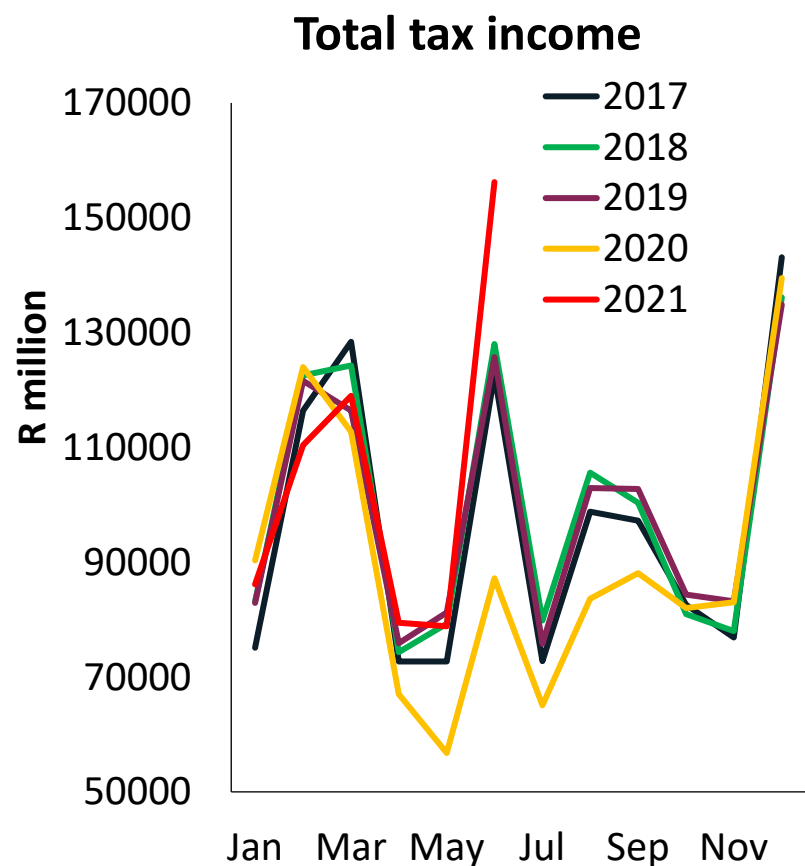


Commodities also driving nominal GDP higher

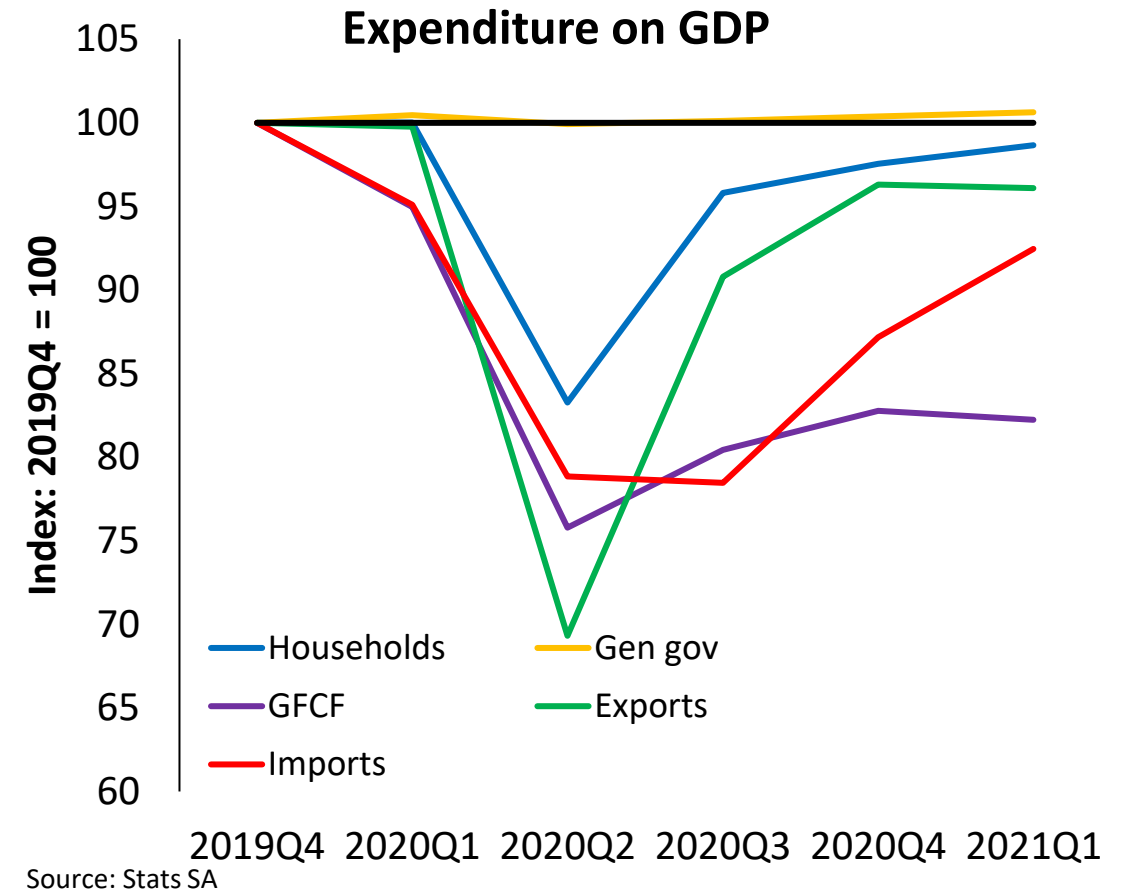
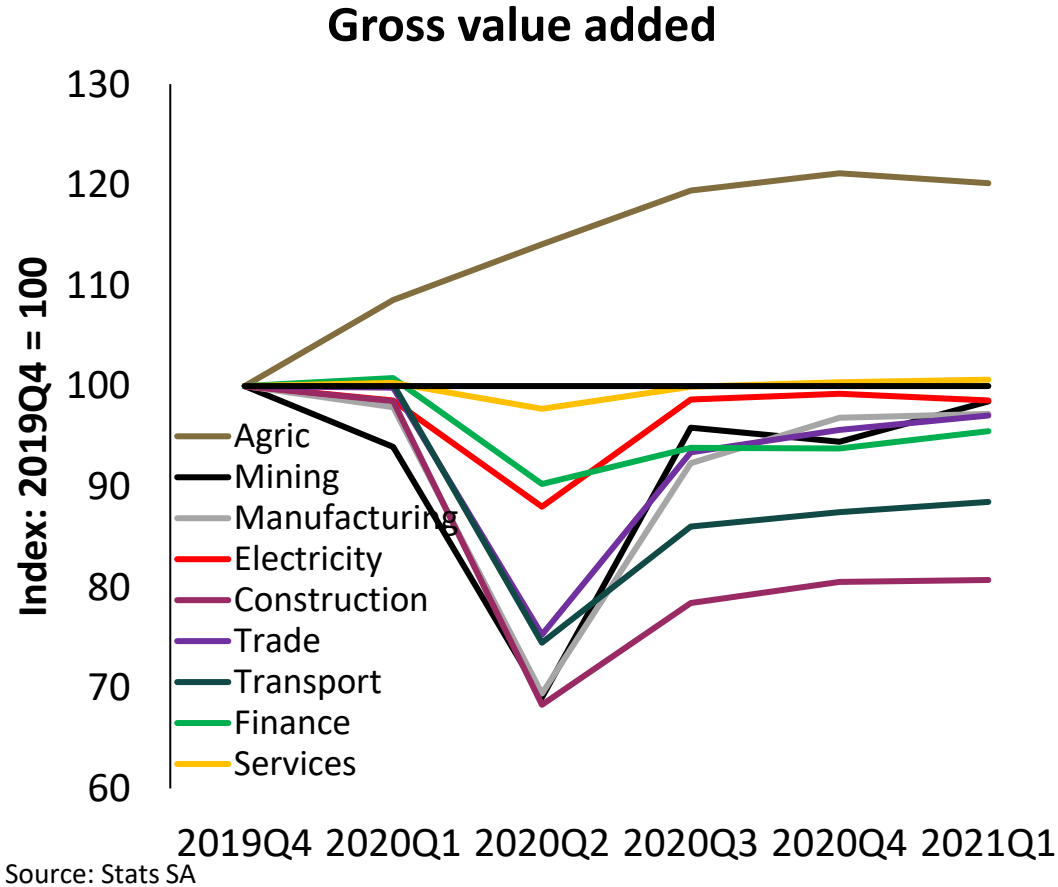


Source: SARB

Supporting tax revenue collections

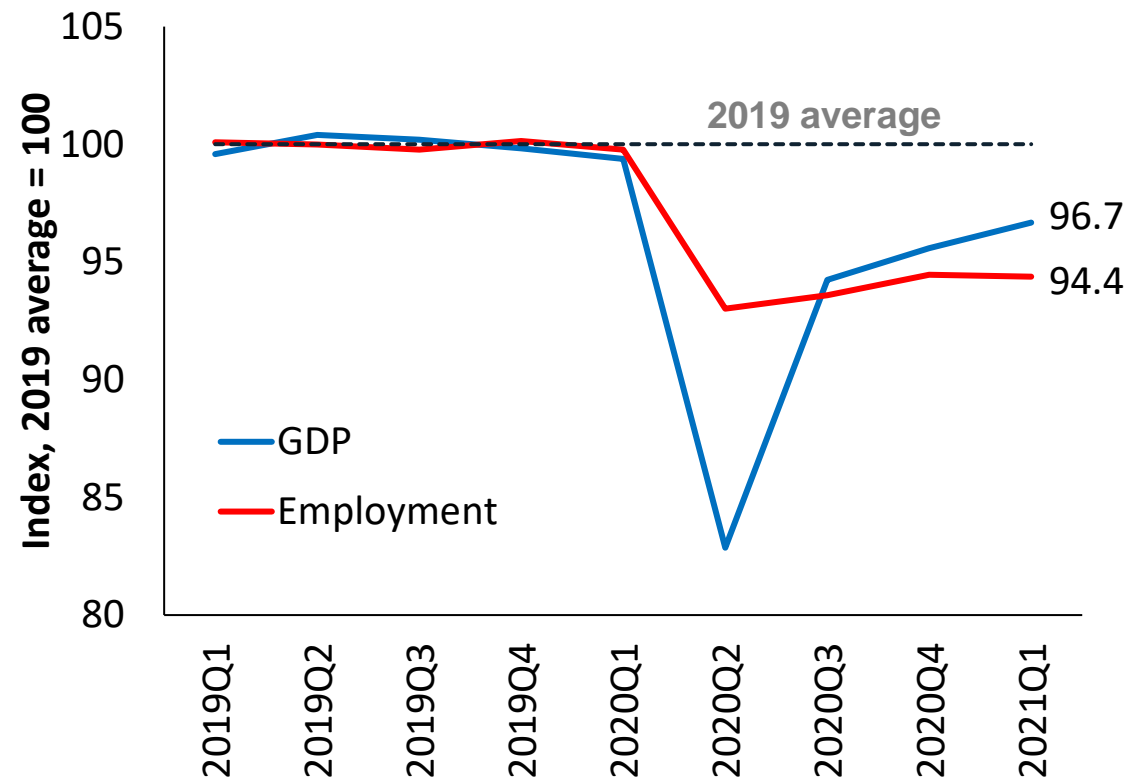


Recovery has been uneven; slow recovery in labour-intensive sectors



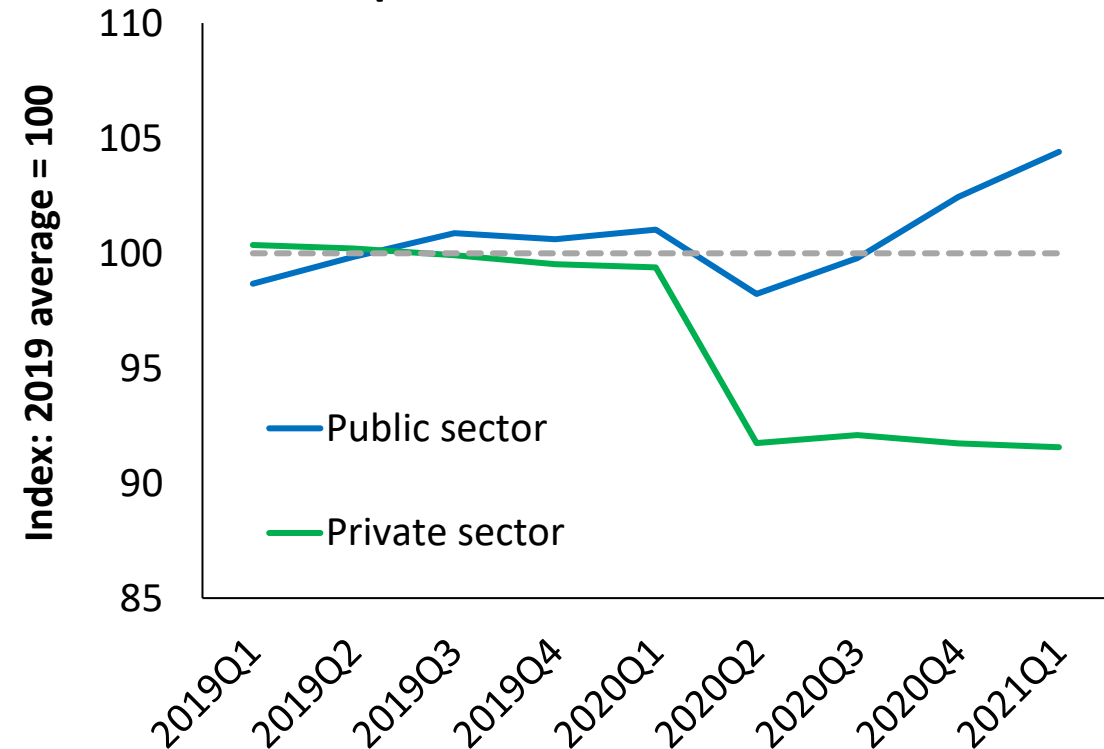
The employment recovery remains weak ...

Output and employment



Source: Stats SA, QES

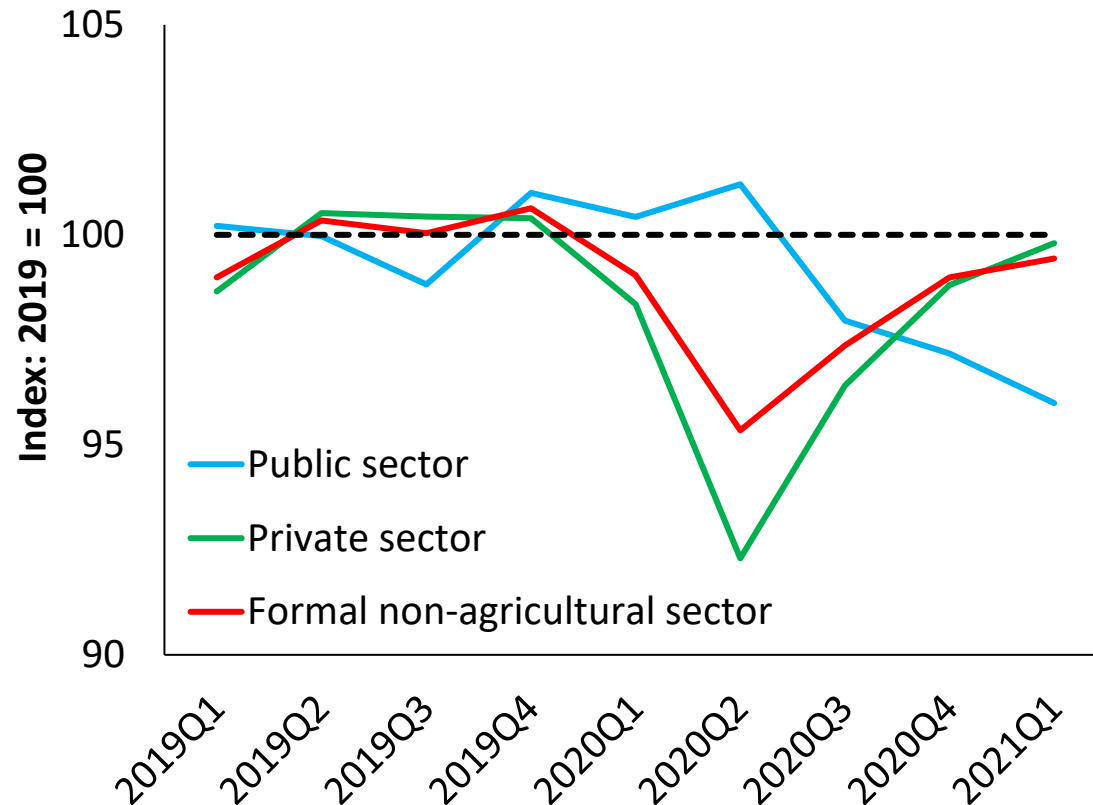
Employment in the private and public sector



Source: SARB

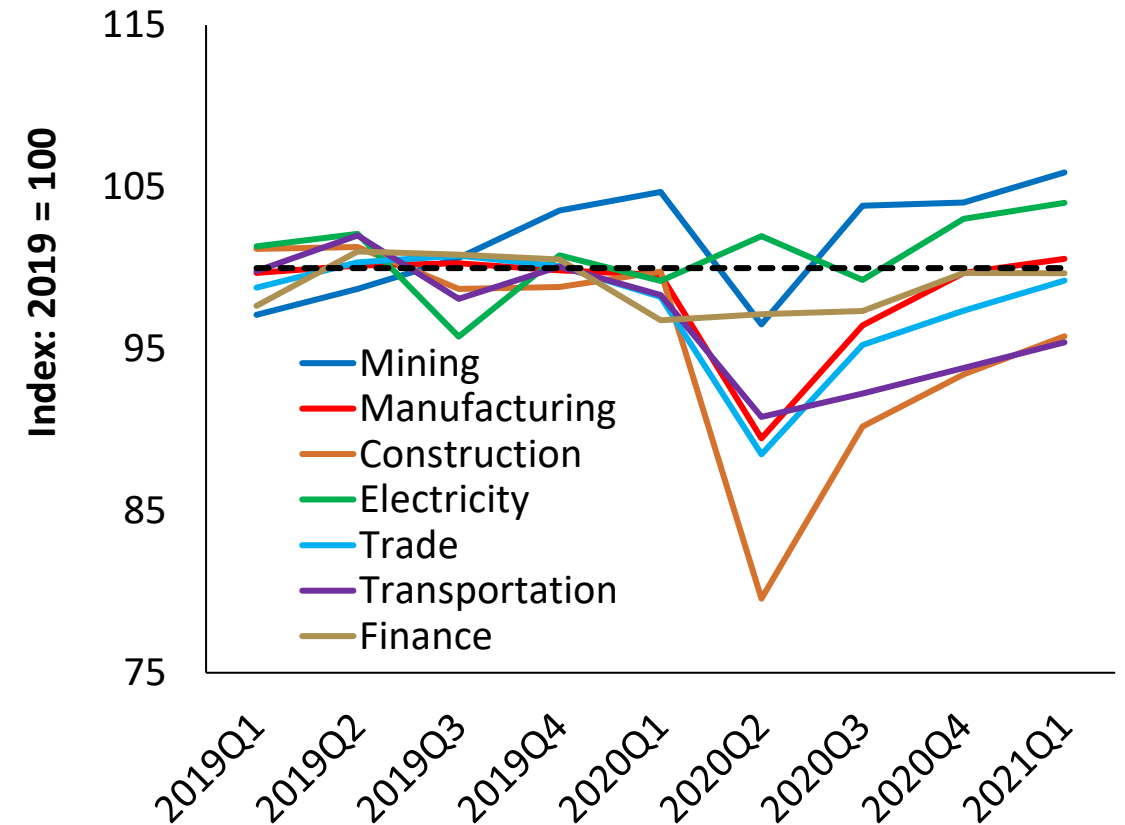
...but earnings have mostly returned to their pre-pandemic levels

Real average earnings



Source: SARB

Real average earnings by industry



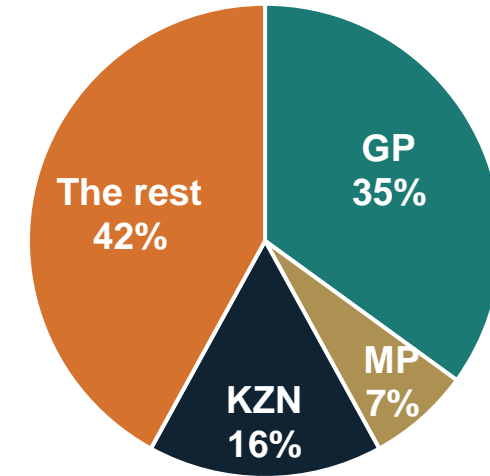
Source: SARB

The recent unrest a negative shock: footprint spans 3 provinces (58% of GDP)

Provinces most affected



Provincial GDP (2019)



Source: Stats SA

3 931 stores affected by unrests



100 malls and 112 shopping centres looted and damaged



200 liquor outlets and distribution centres



1 223 ATMs and 269 bank branches destroyed



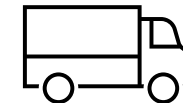
45 warehouses and 22 factories damaged



113 communication infrastructure



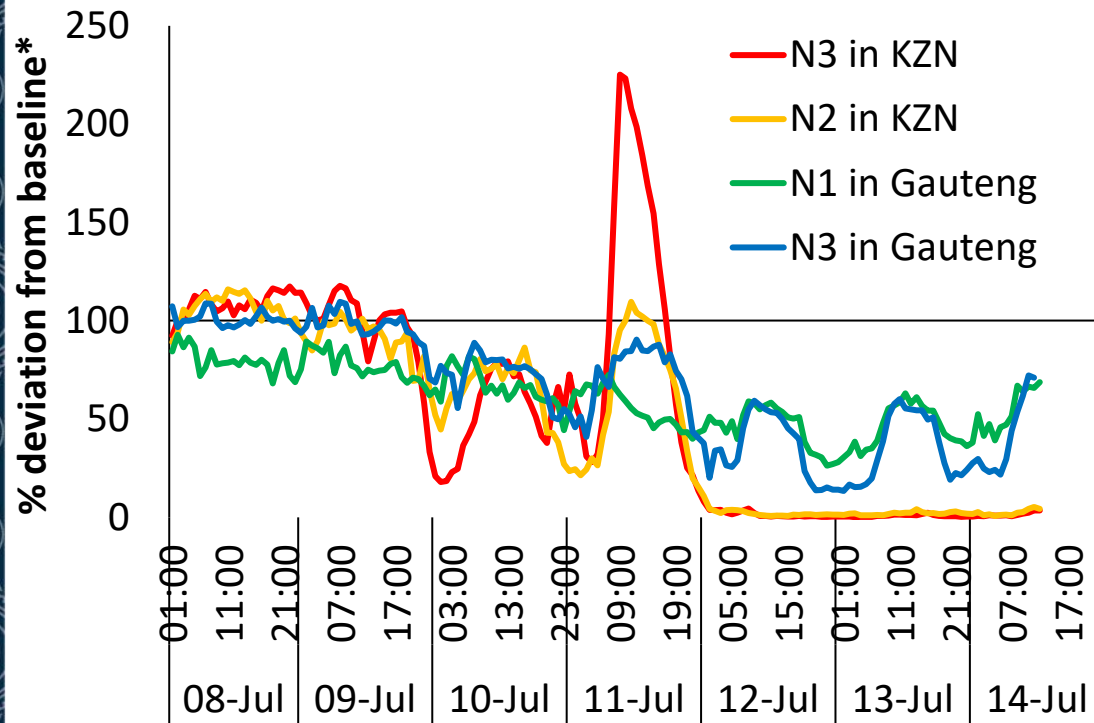
40+ trucks torched



Source: SAPOA, 2 August 2021

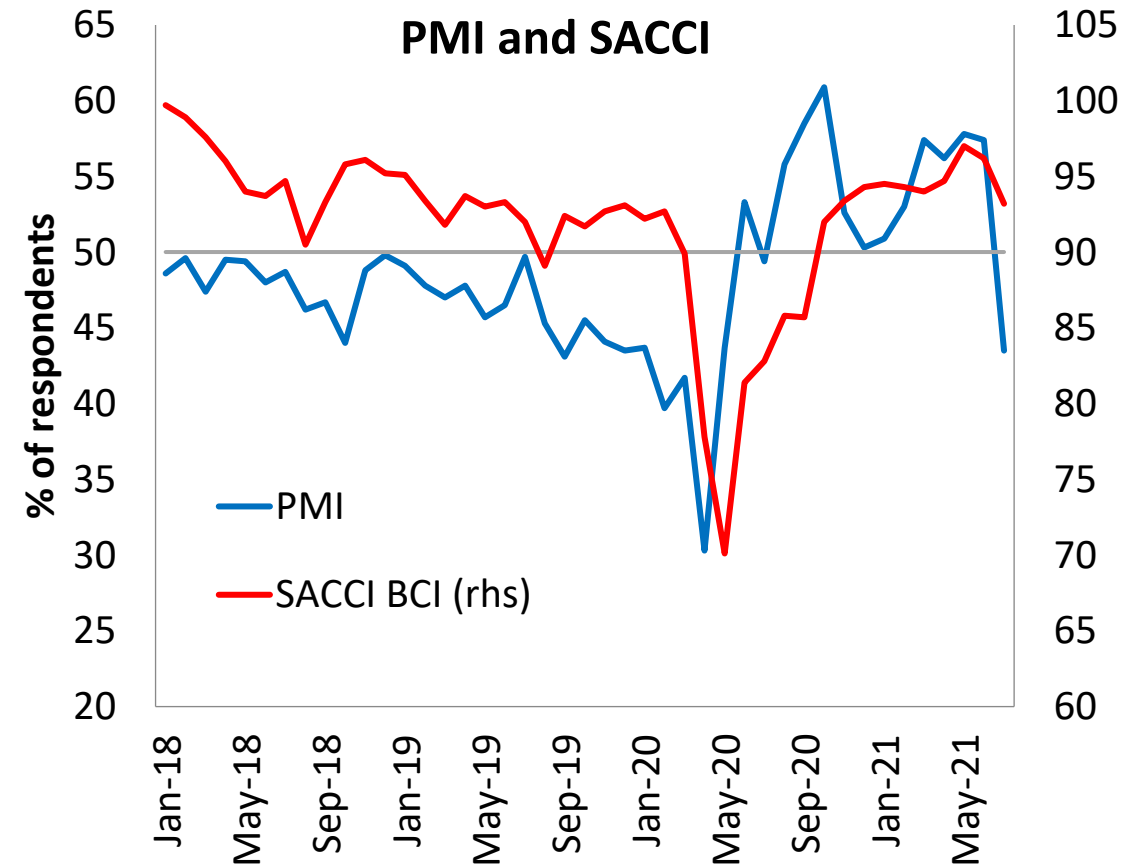
Riots caused disruptions to supply chains, shaking business confidence

Average truck volumes



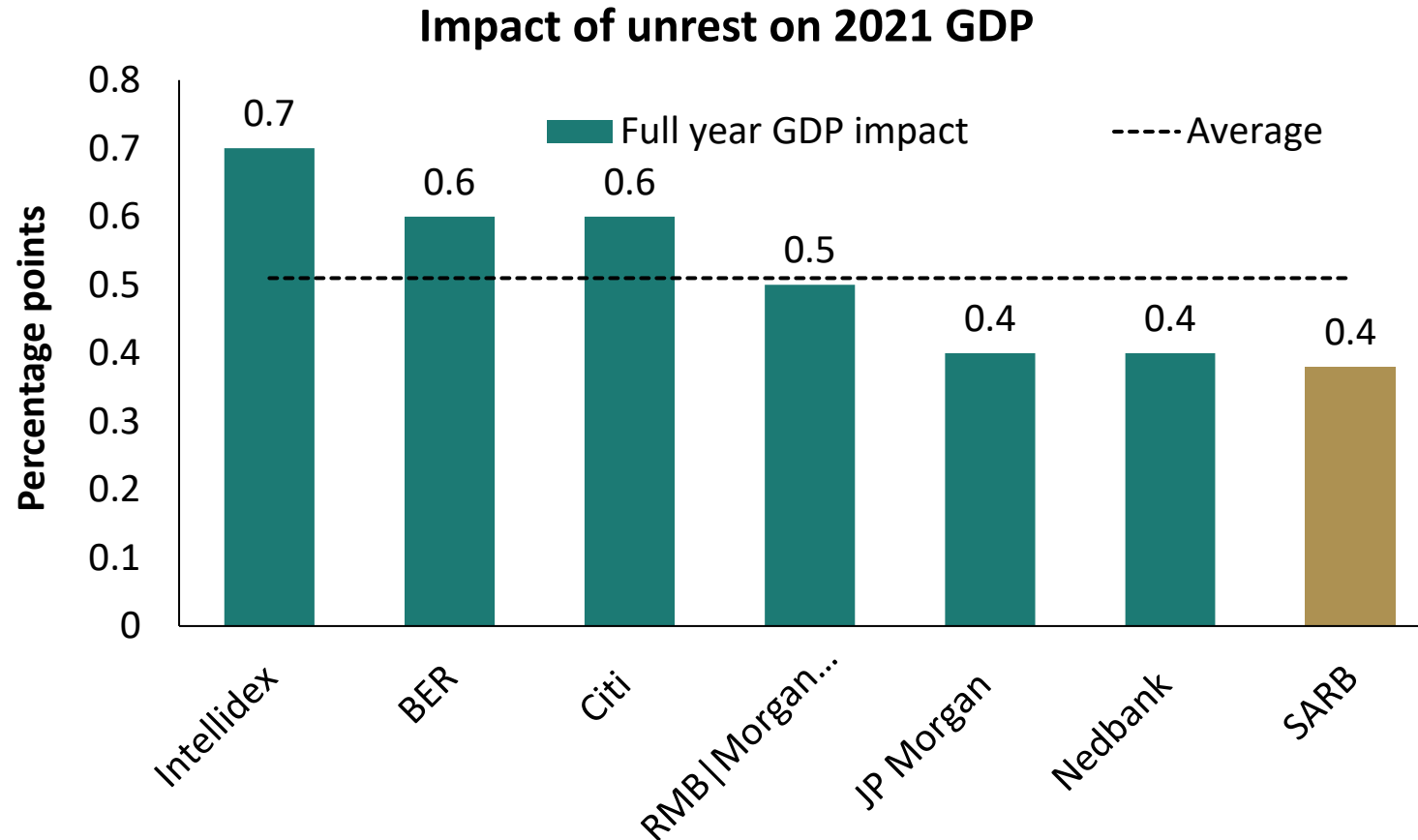
*Baseline = median of hourly truck volumes during the same time and day in the week.
Sources: SANRAL and SARB (B Botha)

PMI and SACCI



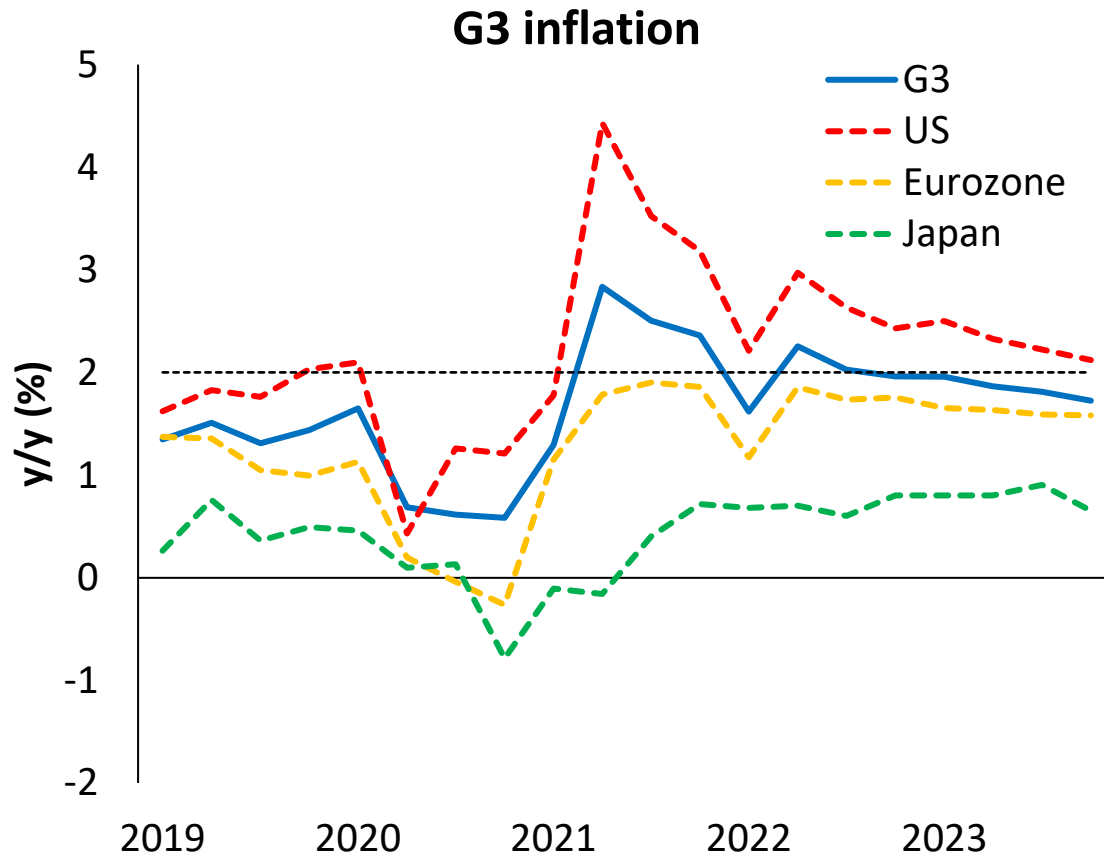
Source: BER

Social unrest expected to temporarily interrupt 2021 GDP growth

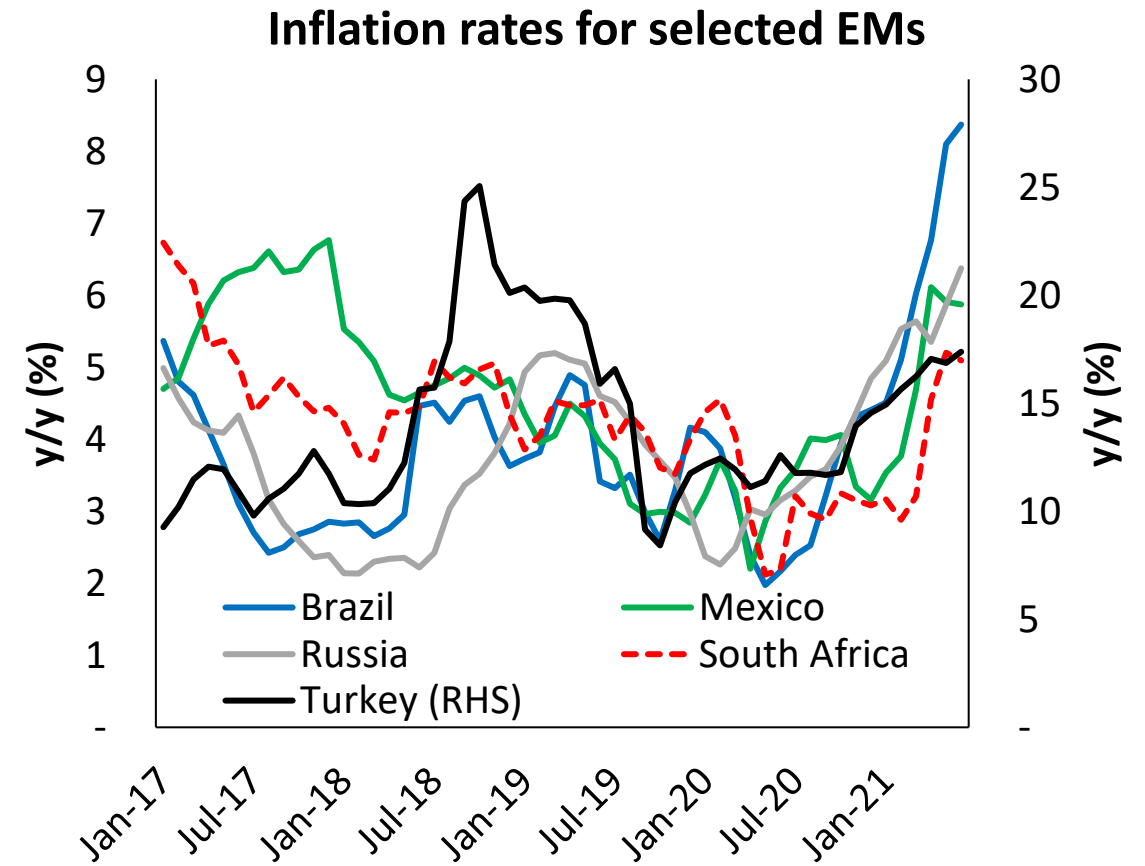


Global inflation on the rise

Will this be transitory?



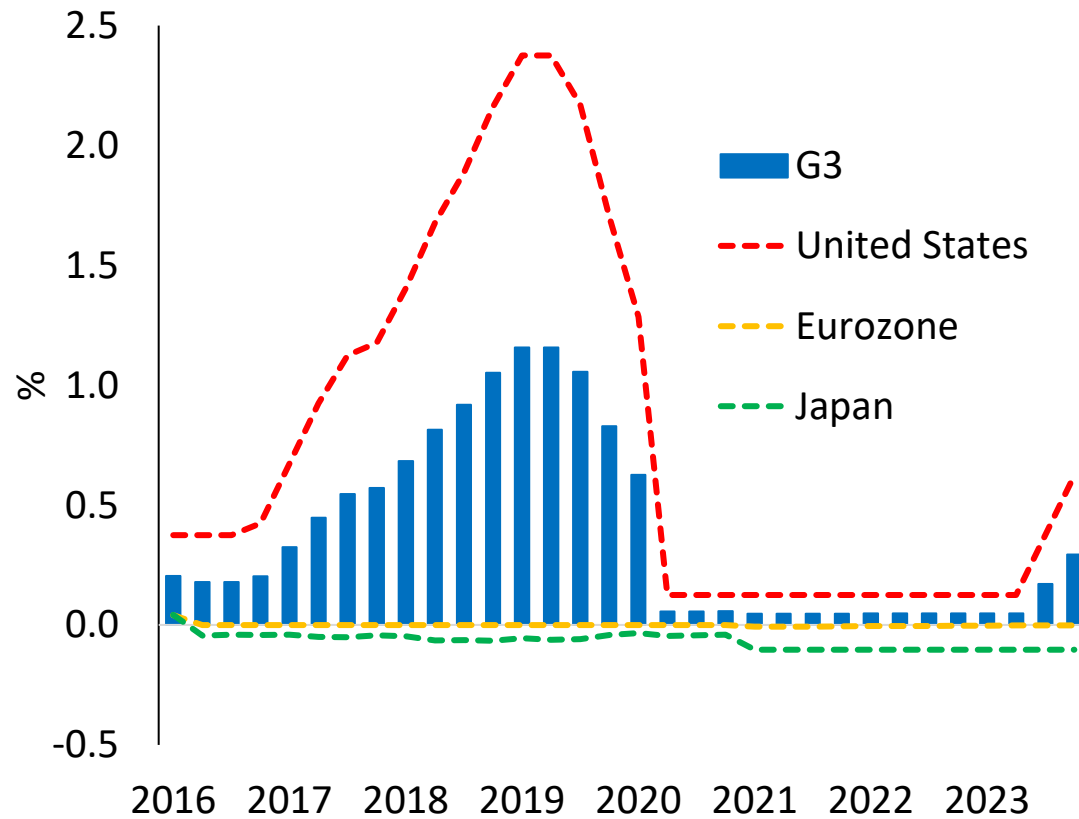
Source: ECB, FMOC, BOJ and SARB



Source: Respective central banks

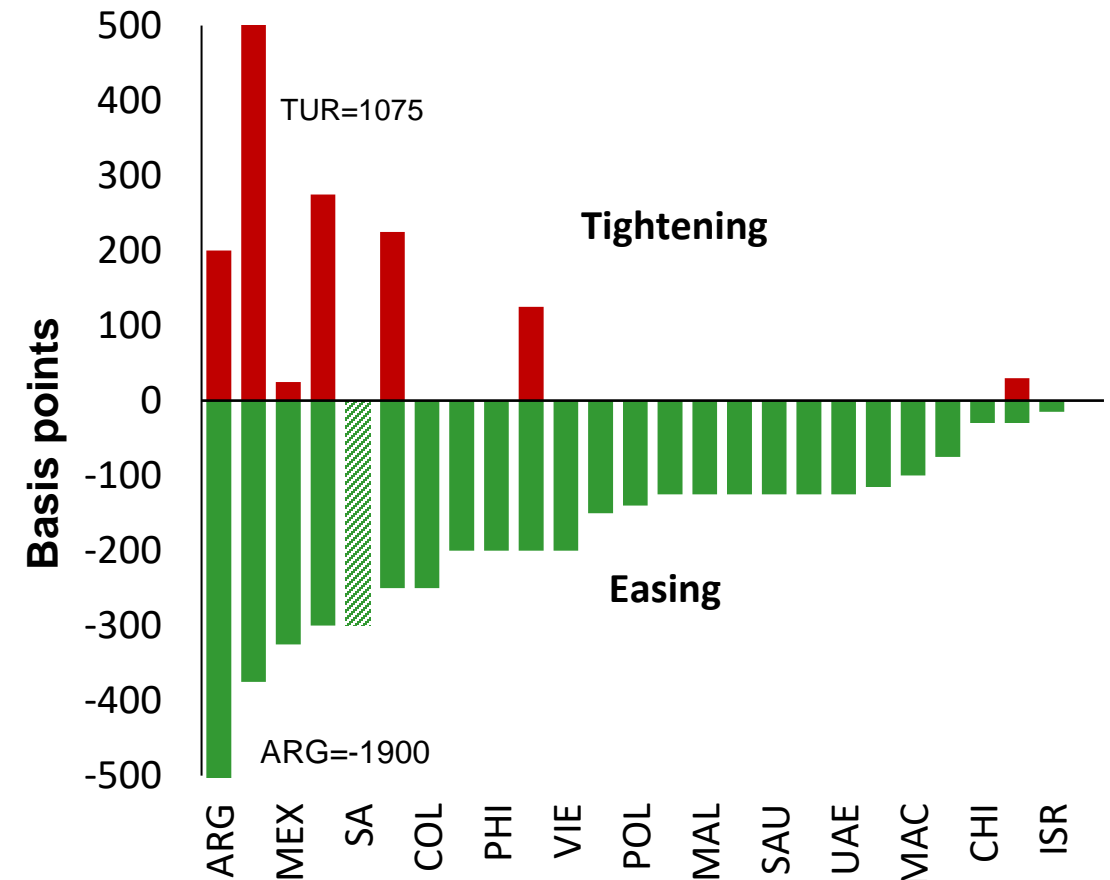
AE rates to remain on hold, but many EMs tightening

G3 nominal interest rates



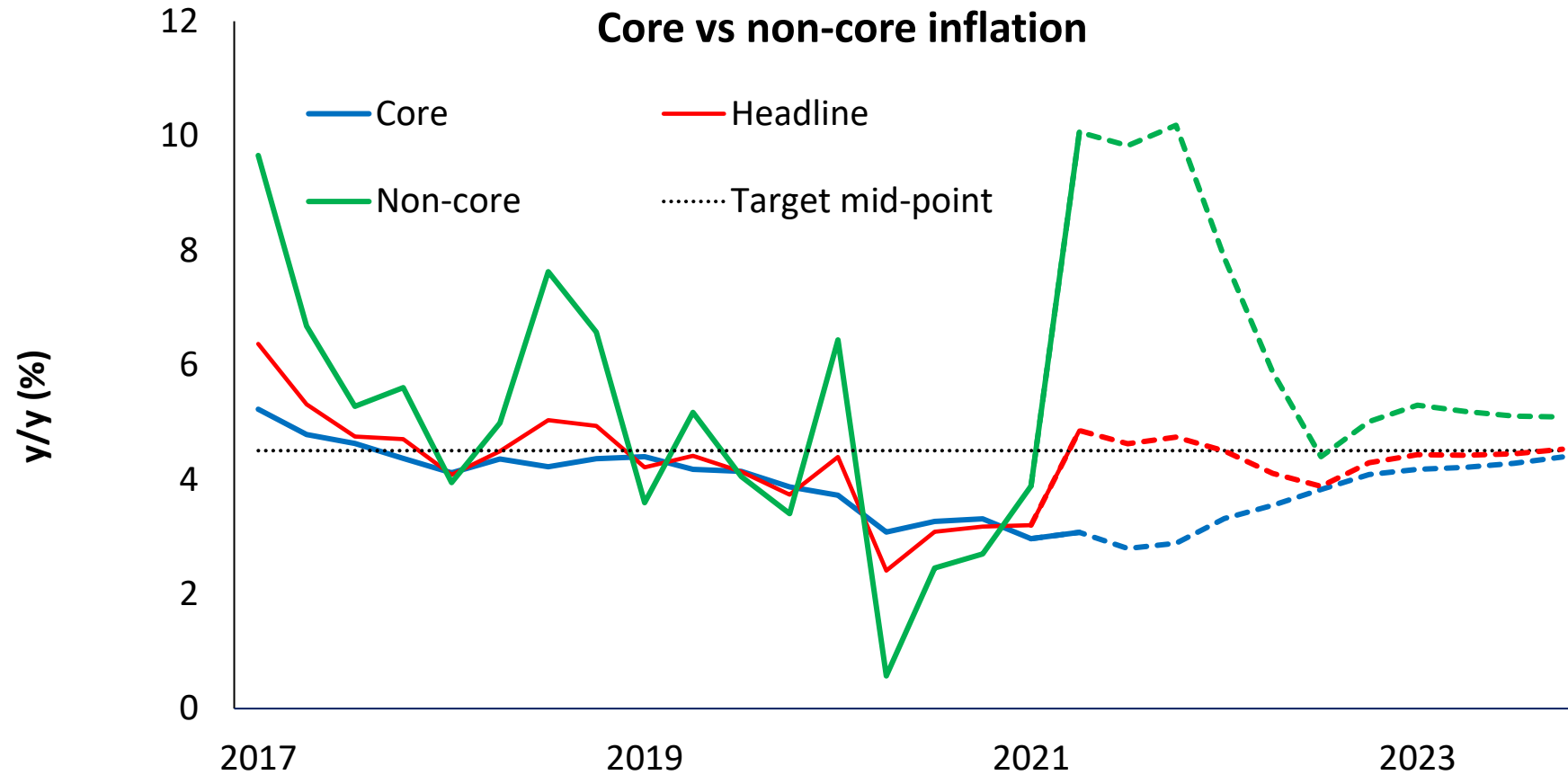
Source: ECB, FMOC, BOJ and SARB

EM monetary policy changes since 1 Jan 2020



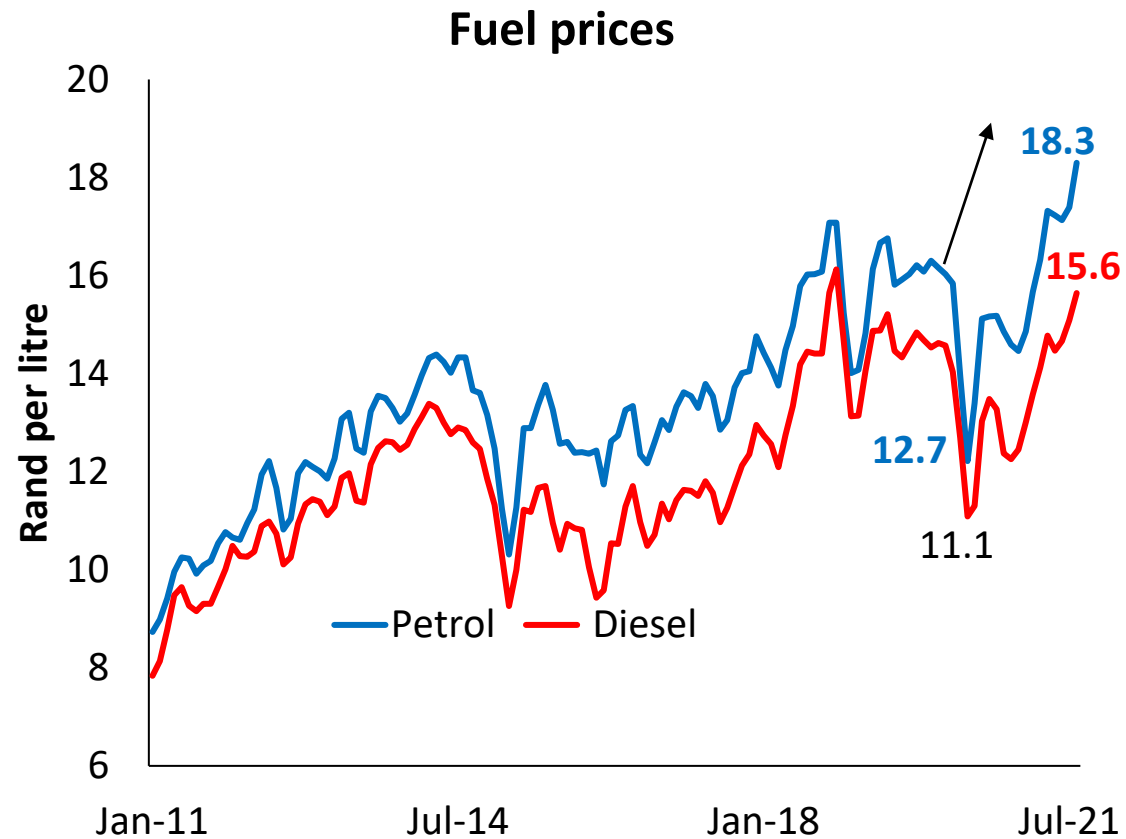
Inflation pressure shifted to non-core

This is driving the dynamics in headline and core

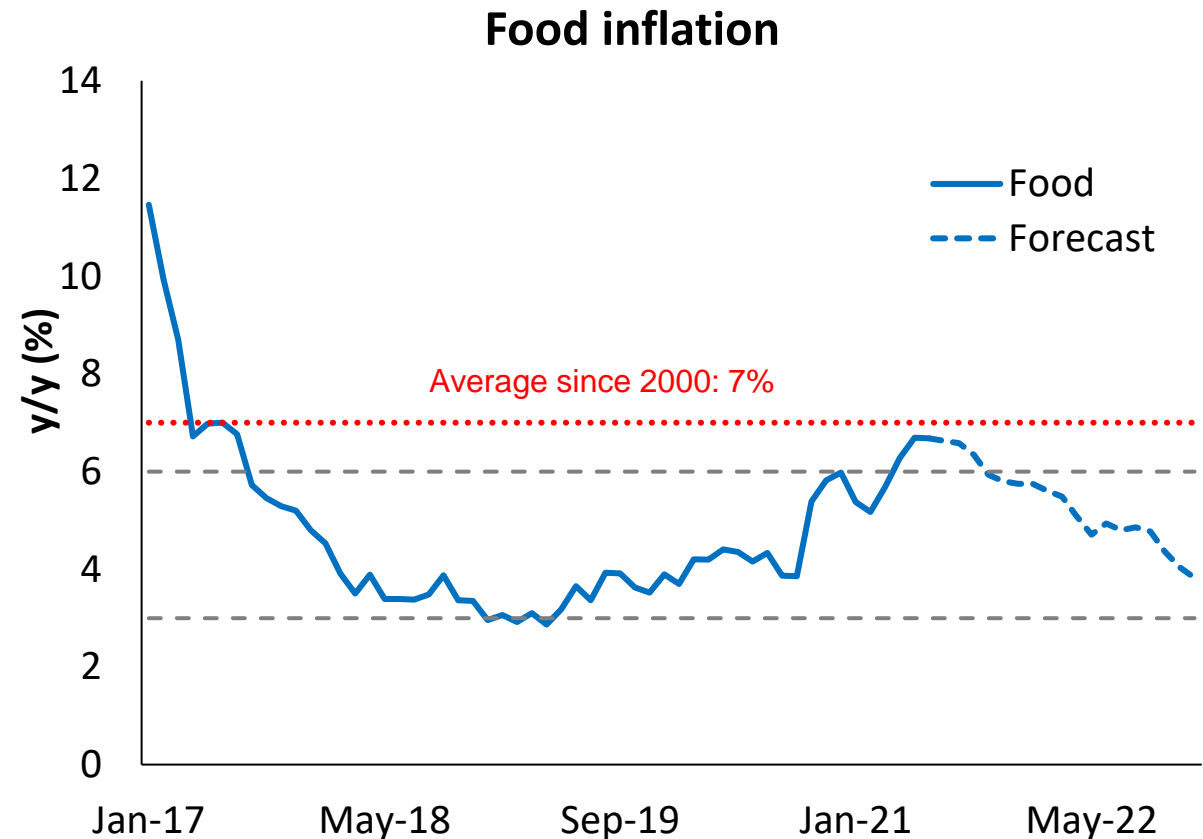


Source: Stats SA and SARB

Fuel and food the main culprits



Source : Department of Energy

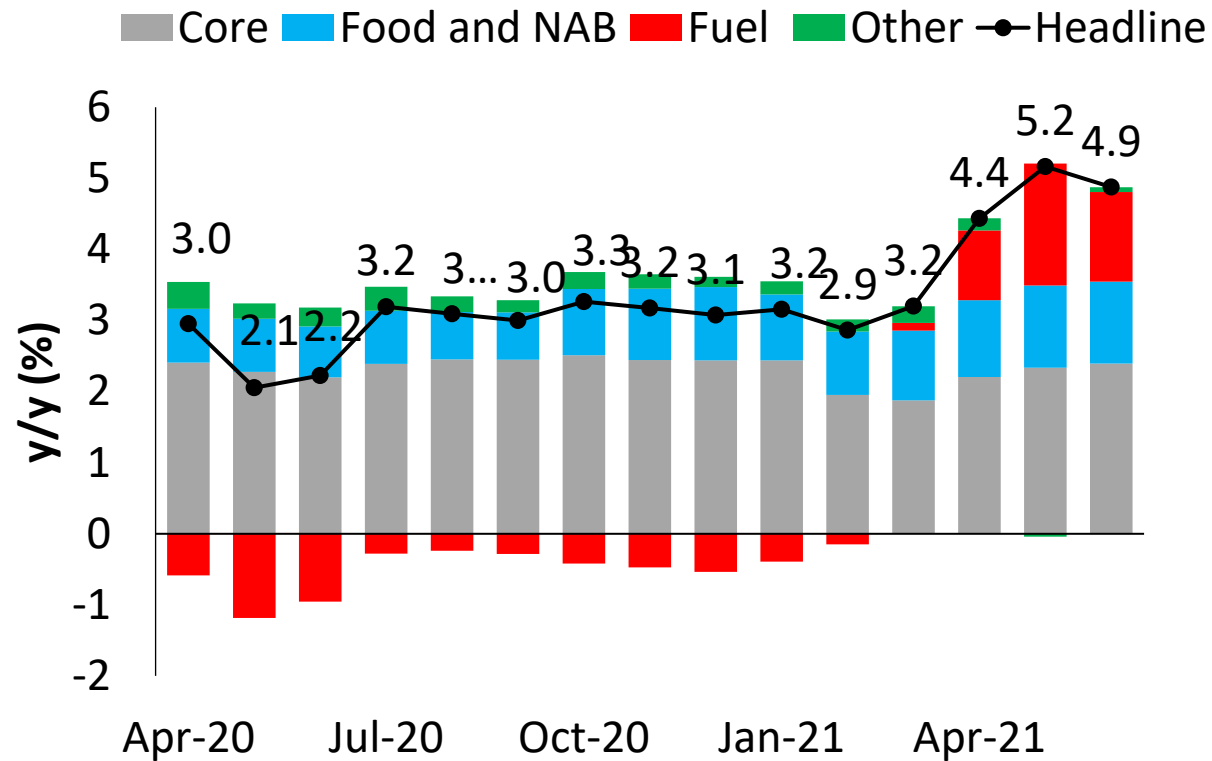


Source: Stats SA and SARB

Lower services inflation helping to keep core inflation subdued

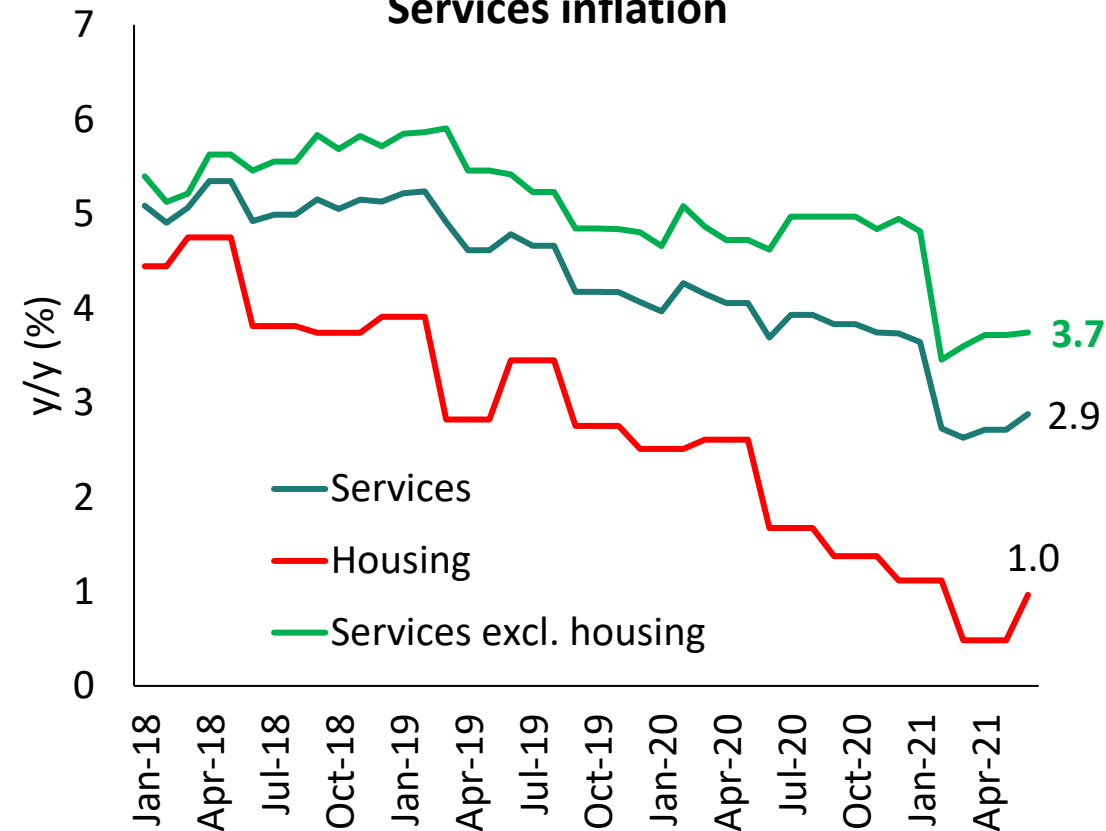
Largely driven by lower housing costs

Contributions to headline inflation



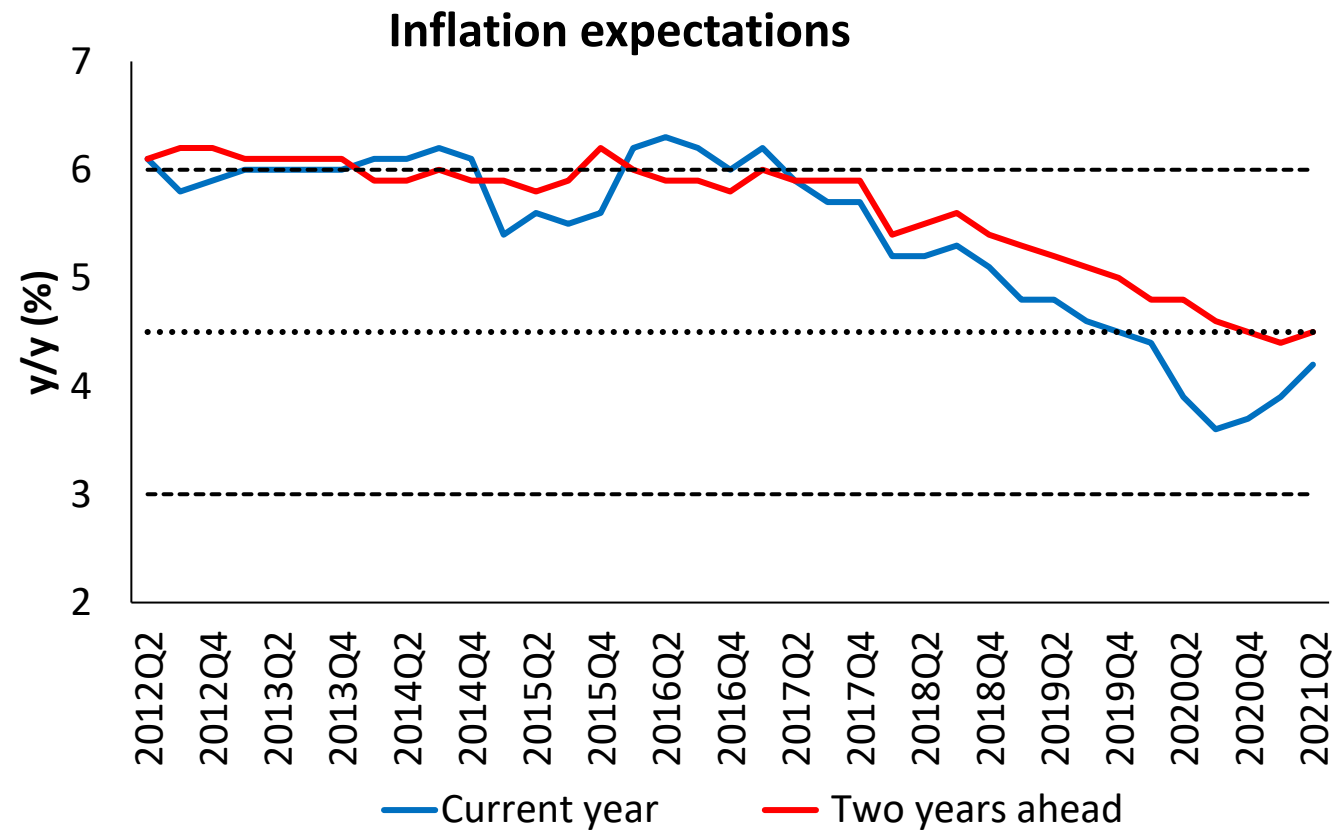
Sources: Stats SA and SARB

Services inflation



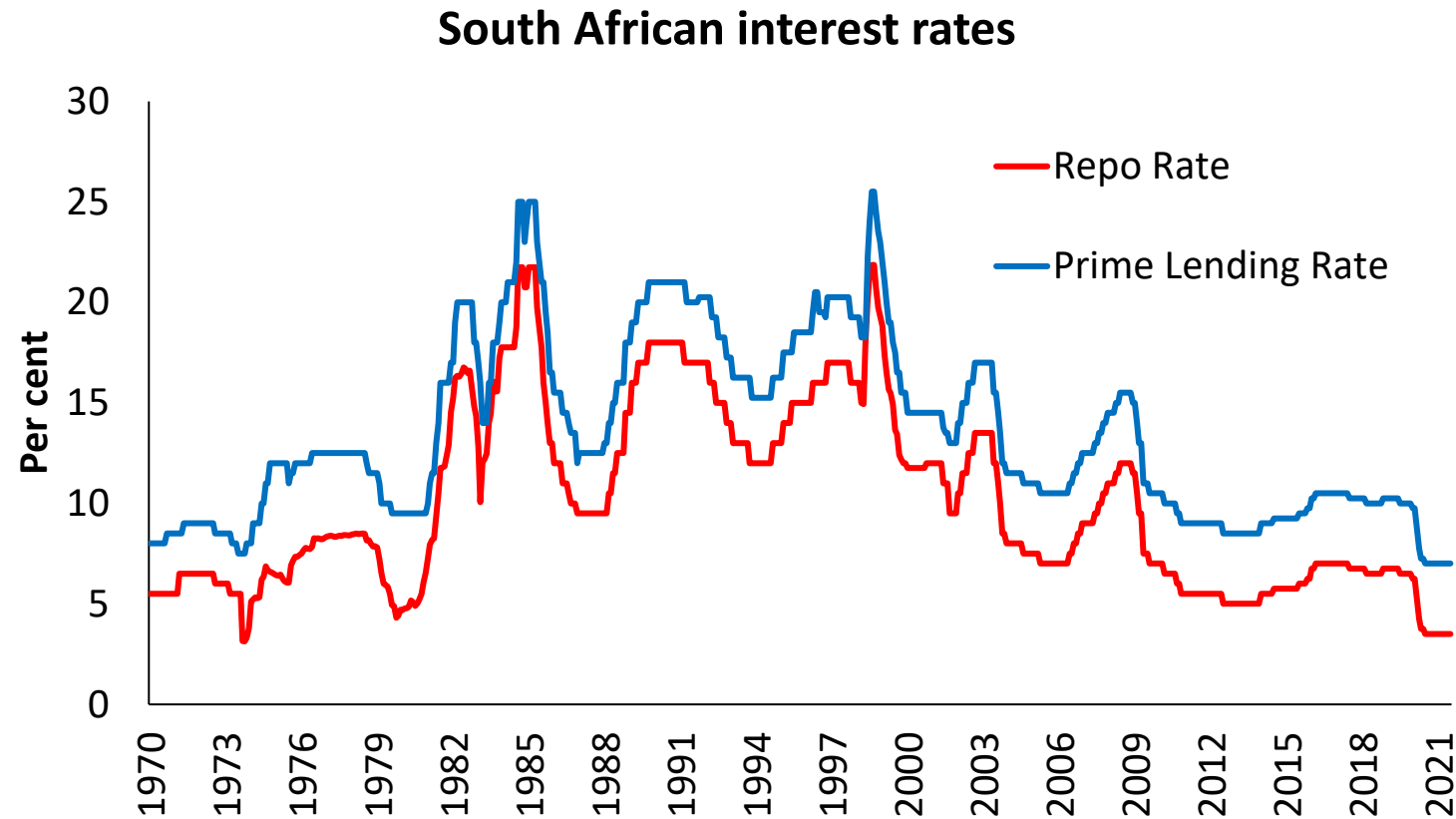
Source: Stats SA and SARB

Inflation expectations appear well anchored



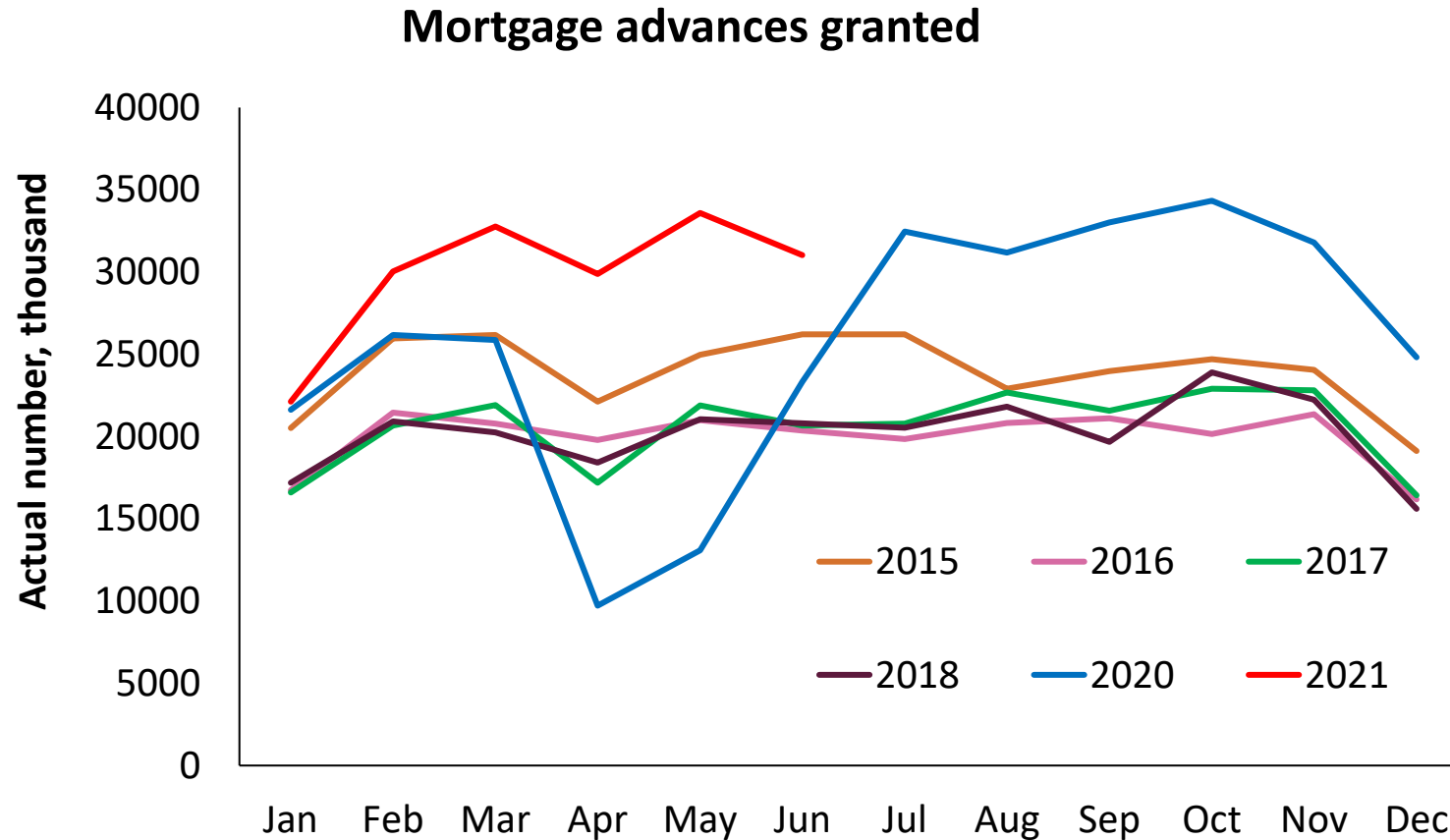
Source: SARB and BER

Borrowing costs at 56-year lows



Source: SARB

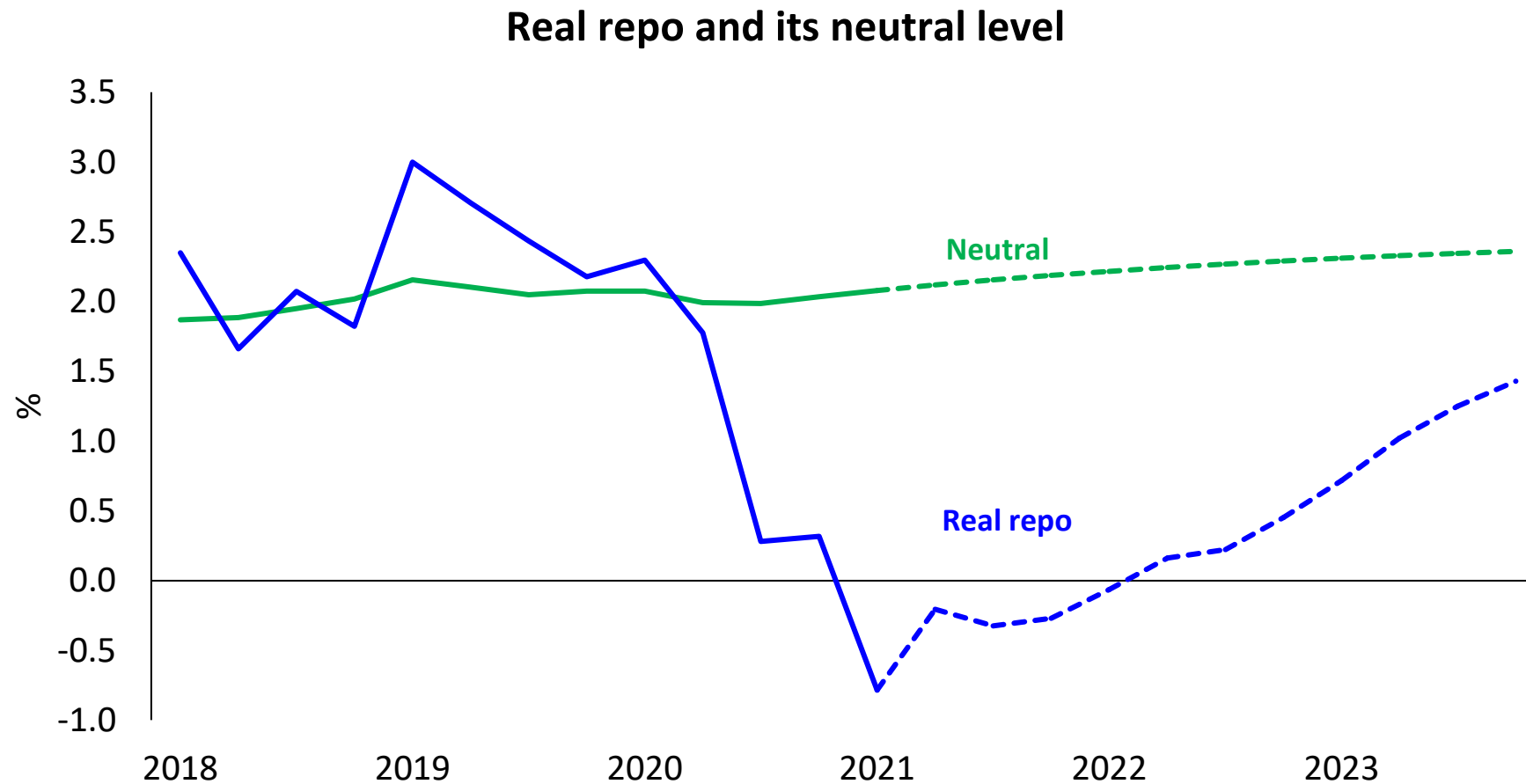
Low interest rates feeding through to credit extension



Source: SARB

Real rates currently negative

To remain accommodative even with policy normalisation



Source: SARB

Risks to the recovery

- Electricity supply
- Future COVID-19 waves
- Lasting impacts of riots on investment
- Inflation quickens on global reflation
- Sharp correction in commodity prices deteriorating public finances

Highlights from the SARB 2020/21 Annual Report



About the SARB 2020/21 Annual Report

- SARB's response to the COVID-19 pandemic
- Delivering the SARB's strategy
 - Tracking performance
 - Financial highlights
 - Social investment
 - Preferential procurement
 - Human resources highlights



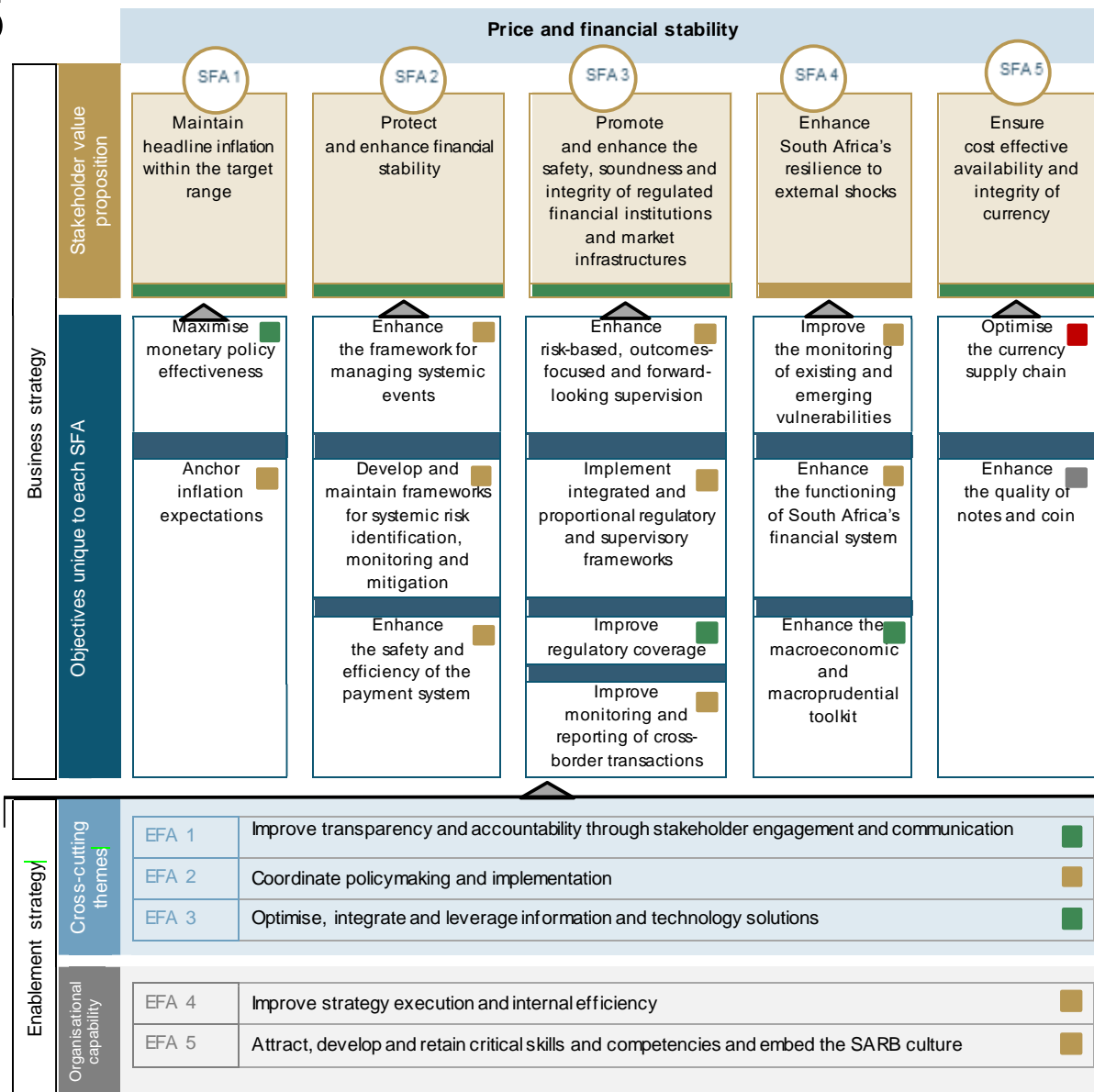
SARB response to the COVID-19 pandemic

The SARB used a variety of tools consistent with its constitutional and legislative mandates in response to the pandemic:

- On price stability, the SARB lowered interest rates by 300 basis points since January 2020. This is an all-time low of 3.5%, leaving the prime rate at a 54-year low of 7.0%.
- In line with its legislative mandate of financial stability, the SARB bought government bonds in the secondary market to improve the functioning of the South African market.
- The SARB made liquidity available to banks, through a range of facilities in line with its macroprudential responsibilities.
- The SARB supported the Treasury Loan Guarantee Scheme (LGS) for funding for small and medium enterprises (SMEs). Commercial banks applied and got approval for R89 billion LGS facilities from the SARB against an available limit of R100 billion.
- By the end of the availability period, 12 July 2021, only R14.5 billion of the R89 billion was utilised. The lower utilisation is mainly attributable to the support that the banks had already provided to their clients before the LGS was implemented and partly due to clients' reluctance to borrow amid economic uncertainty.

The SARB's Strategy 2025

- The SARB has five strategic focus areas (SFAs) that represent our mandate outcomes.
- The strategy is supported by five enablement focus areas (EFAs) which define the organisational capacity and capability required for sustainability of the institution.



2020/21 SFA strategic performance

SFA	Performance
SFA 1 Maintain headline inflation within the target range	Inflation remained firmly within the target range and is projected to remain within the target range over the two-year forecast horizon.
SFA 2 Protect and enhance financial stability	A host of regulatory interventions were swiftly implemented to ensure the continued safety and soundness of the financial system. The financial system remained resilient with no systemic events.
SFA 3 Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures	The PA continued its supervision of regulated financial institutions and adherence to governance and risk management practices. There were no failures of SIFIs, although some smaller institutions were placed under specific regulatory action.
SFA 4 Enhance the functioning of South Africa's resilience to external shocks	The SARB improved its monitoring of external vulnerabilities. It is developing and implementing various tools to improve the functioning of the financial system.
SFA 5 Ensure cost-effective availability and integrity of currency	Banknotes and coin orders were delivered in full and stock buffer levels are adequate. COVID-19-related disruptions impacted production costs. The incidence of counterfeiting was below the target threshold.

Other strategic initiatives

- The SARB marked its 100-year anniversary on 30 June 2021 with the introduction of a commemorative circulation R5 coin and relaunched its SARB Currency App. It hosted an event on the day with stakeholders in South Africa and globally.
- The SARB launched the real-time gross settlement (RTGS) system renewal programme to widen access to payment services, enhance competition, optimise costs, lower the transaction fees, and make the system more adaptable to changes in the financial sector.
- The SARB published a position paper on crypto-assets, providing a roadmap for a framework for regulating crypto-assets in South Africa. It makes 25 recommendations related to cross-border financial flows, consumer protection and market abuse, as well as containing money-laundering and combating the financing of terrorism.
- The second phase of Project Khokha, through which the SARB practically explores the potential impact of distributed ledger technology on financial markets, is nearing its final stages.
- The SARB has embarked on a central bank digital currency (CBDC) feasibility study. The objective of the study is to investigate if it would be feasible, appropriate and desirable for the SARB to issue a CBDC to be used for retail purposes, complementary to cash, in South Africa.

Financial highlights

Profit/(loss) breakdown	Group (R'm)	
	2021	2020
CPD	1 541	(2 769)
SA Mint	315	947
SABN	60	106
Subsidiaries' profit contribution	1 916	(1 716)
Share of profit attributable to associate	119	280
Less intercompany dividends	-	(1 400)
SARB's net profit after taxation	1 678	6 385
Total Group profit attributable to the parent	3 595	2 851

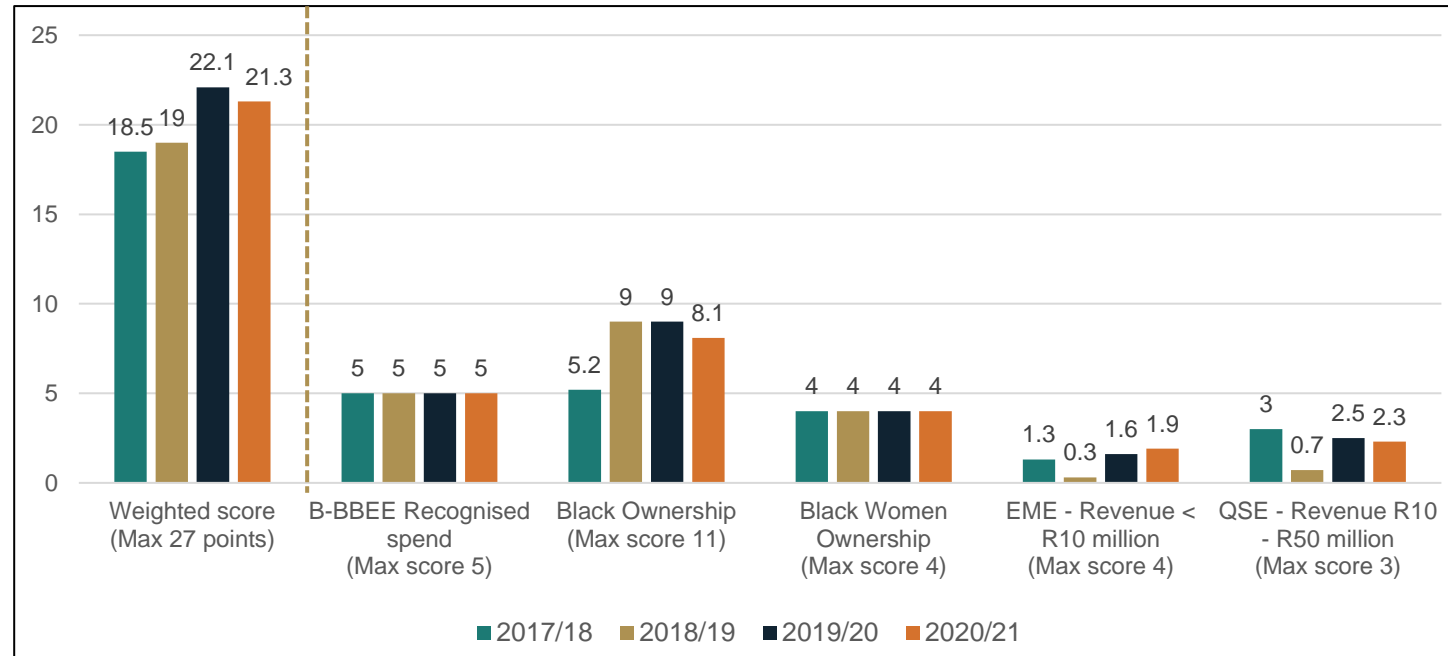
- The SARB Group net profit after tax of R3.60 billion was higher than the prior year's Group net profit after tax of R2.85 billion. This was mainly due to a profit in the CPD of R1.54 billion (CPD - FY2020: R2.77 billion loss).
- CPD profit of R1.54 billion was mainly due to the reversal of the expected credit loss allowance of R1.5 billion.
- SARB net profit after tax of R1.68 billion decreased by 74% compared to the prior year's net profit after tax of R6.38 billion. This was largely attributable to decreased fair value gains of R7.7 billion as a result of the appreciation of the ZAR against the USD (2021: R14.79, 2020: R17.88).
- SA Mint net profit after tax of R0.3 billion decreased by 67% compared to the prior year's net profit after tax of R1 billion. This was largely attributable to lower profits in Prestige Bullion as a result of lower Krugerrand sales.
- SA Mint declared dividends of R450 million in June 2021.

Social investment and support

The SARB's corporate social investment continued its focus on education. The MPC Schools Challenge, its flagship programme, reaches over 3 200 learners in over 400 schools annually. Owing to the COVID-19 pandemic, the programme was suspended in 2020 and is being rolled out virtually in 2021. The SARB continued to support existing partnerships with universities and the funding of its bursary programme.

Monetary Policy Committee Schools Challenge	External bursaries, including arts and culture	University partnership for research and development	SARB Employee Volunteerism Programme
A partnership with the Department of Basic Education to deepen understanding of monetary policy among Grade 12 Economics and Accounting scholars.	Funding of bursaries for young people studying at tertiary institutions. Funding for two arts and culture bursaries. Recipients are from underprivileged communities.	Partnerships with universities known as Chairs, to drive skills in finance, economics and central banking, as well as support for financial and economic journalism students - at UCT, Wits, Rhodes and UP.	Staff participate in activities at schools for the disabled in areas where it has offices. Support provided to schools in provinces where SARB does not have a presence.
Suspended in 2020, rolled out virtually in 2021	Reaching 95 beneficiaries	Reaching 104 beneficiaries	

Preferential procurement

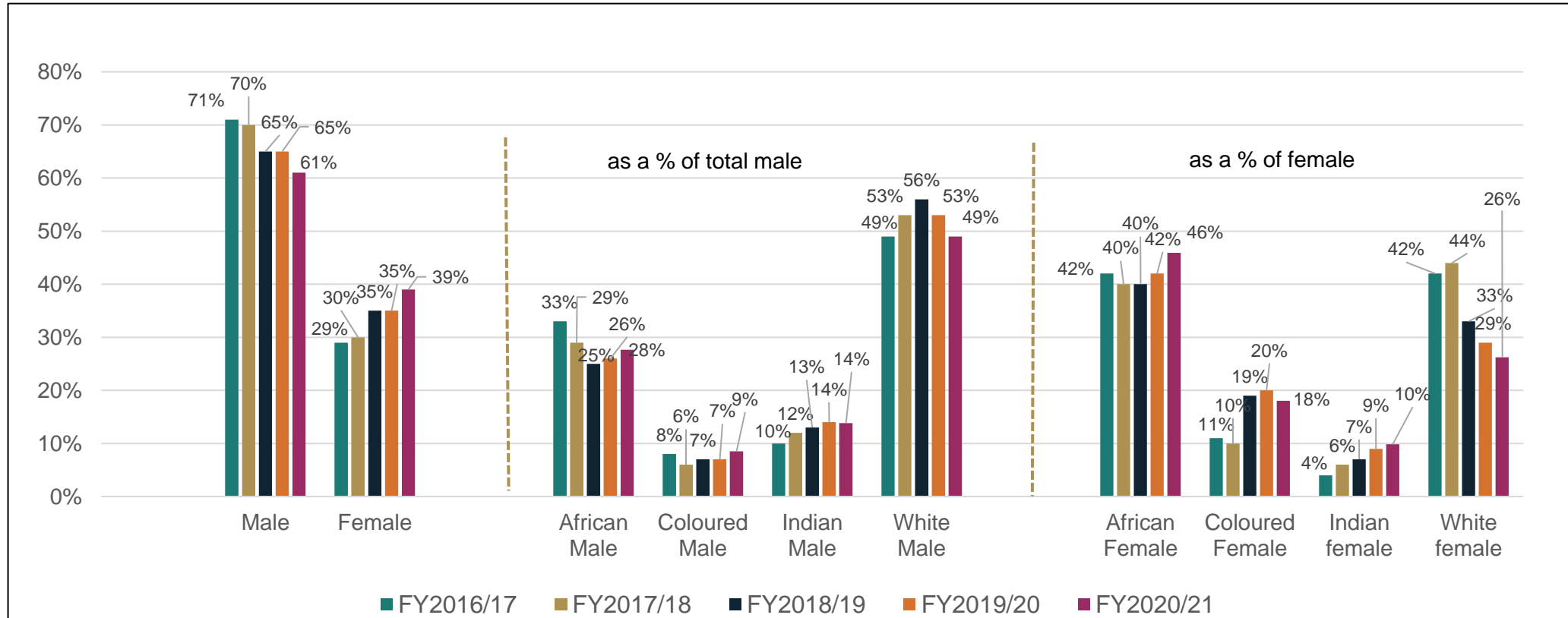


- B-BBEE performance decreased from 22.1 points in 2019/20 to 21.3 points in 2020/21. The 0.8 point decrease was mainly due to the following:
 - Black ownership score decreased by 0.9 points due to lower spend on large-value projects which occurred in previous year, as well as the impact of the COVID-19 pandemic which resulted in reduced spend with several suppliers.
 - The SARB has consistently maintained maximum points for BWO since 2016/17 - this marks five consecutive years of solid performance.
 - A decrease of 0.2 points in the QSE category, mainly attributable to the run-off of major projects awarded in previous years with QSE suppliers.
 - An increase of 0.3 points in EME category, mainly as a result of continued channelling of low risk spend to EME's in both professional services resources and commodity-based sourcing activities.

Human resources highlights

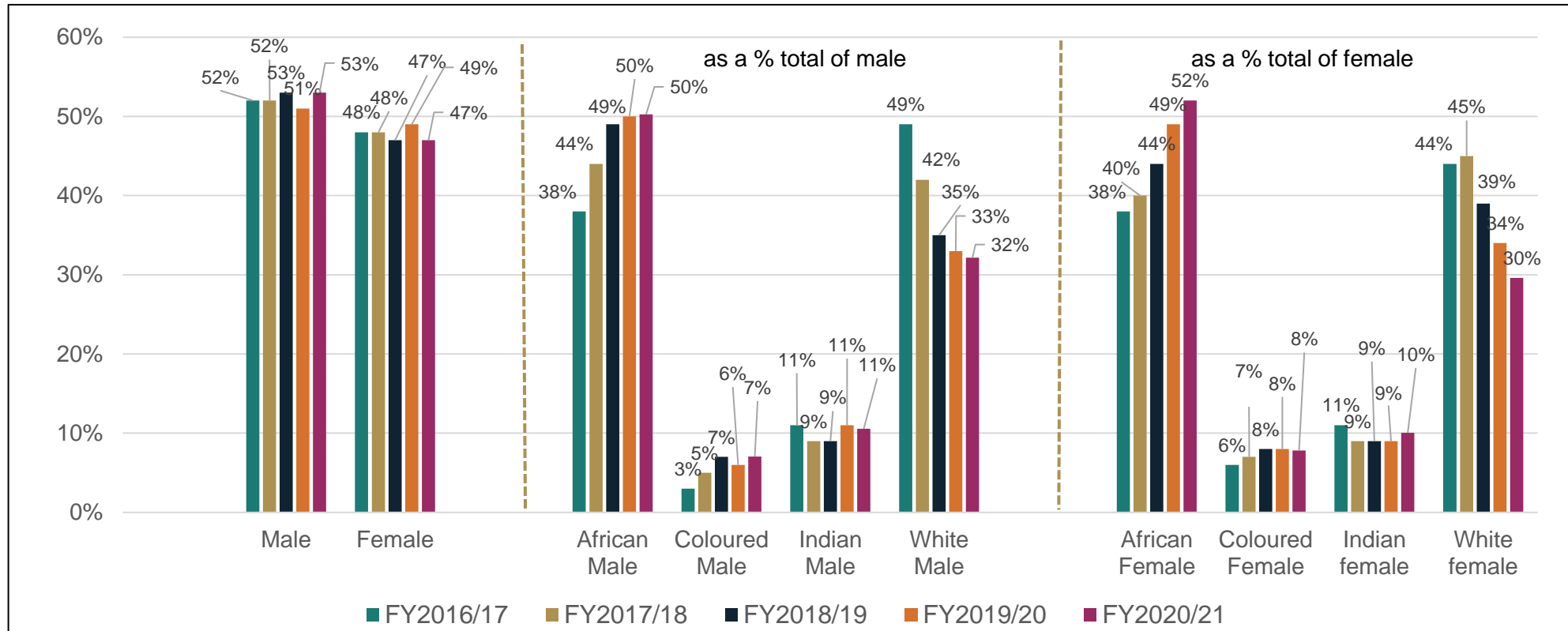
- The SARB conducted an employee engagement survey in February and March 2021, with a higher participation rate, achieving a score of 72.3%. This qualifies as a Platinum Seal, the highest level in the Deloitte Best Company to Work For Survey.
- The SARB's total staff composition is 79% black (African, Coloured and Indian) and 21% white:
 - Executive management (GEC) is 100% black.
 - Top management is 61% black and 39% white.
 - Senior management is 70% black and 30% white.
- The SARB spent R27.6 million on training and development. This equates to 1 516 employees (67%) attending a training intervention in 2020/21.
- The coverage ratio of critical roles increased to 88% in 2020/21 (target: 85%).
 - (2019/20: 82%)
- Regrettable turnover ratio is 1.20% in 2020/21 (target: < 4%).
 - (2019/20: 1.10%)

Staff composition: top management



- Female representation increased from 35% in 2019/20 to 39% in 2020/21.
- Male representation decreased from 65% in 2019/20 to 61% in 2020/21.
- Indian male representation remained the same at 14%.
- African and Coloured male representation increased by 2%.
- White male representation decreased from 53% in 2019/20 to 49% in 2020/21.

Staff composition: senior management



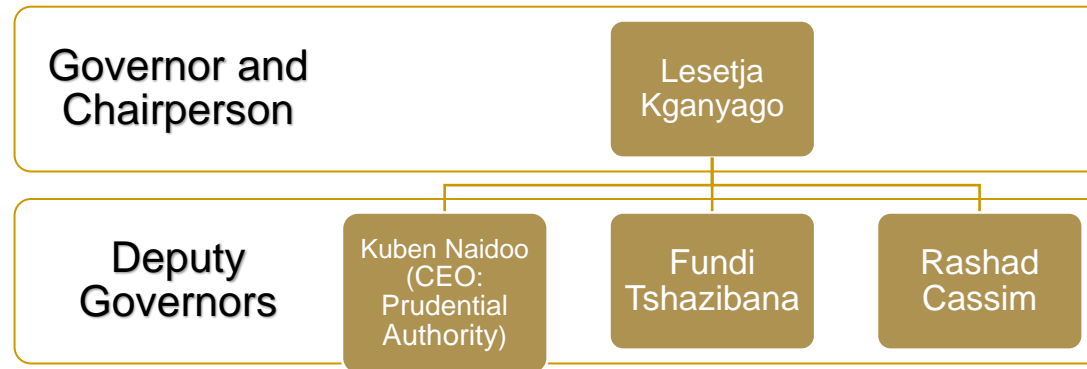
- Male representation increased from 51% in 2019/20 to 53% in 2020/21.
- Female representation decreased from 49% in 2019/20 to 47% in 2020/21.
- African female representation increased from 49% in 2019/20 to 52% in 2020/21.
- Coloured female representation remained the same at 8%.
- Indian female representation increased marginally from 9% in 2019/20 to 10% in 2020/21.
- White female representation decreased from 34% in 2019/20 to 30% in 2020/21.

Highlights from the 2020/21 Prudential Authority Annual Report



The PA: governance structures

Prudential Committee (met nine times during the reporting year)

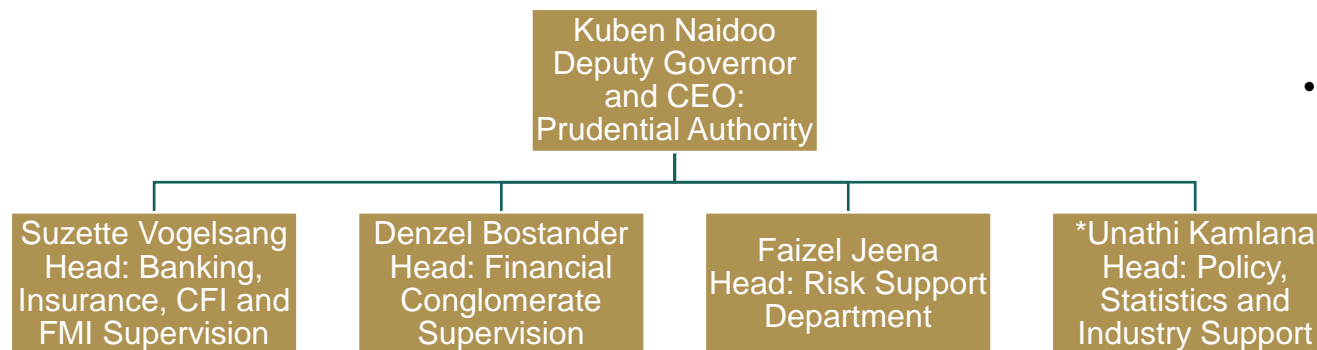


Responsibilities

- Provides oversight on the management and administration
- Oversees the implementation of key matters by various laws pertaining to the financial sector
- Approves prudential and joint standards as well as other regulatory instruments
- Approves the *Prudential Authority Annual Report*

Prudential Authority Management Committee

(met ten times during the reporting year)



Responsibilities

- General operations and management of the PA and oversight over regulatory and supervisory matters
- Provides advisory, technical and administrative support to the Prudential Committee

*Unathi Kamlana has been appointed Commissioner of the FSCA effected 1/06/21

The PA: response to the COVID-19 pandemic

The PA's approach has been to facilitate the orderly use of buffers to support the economy during a downturn

The substantive temporary regulatory relief measures were designed to ensure that financial institutions could support and fund their clients and the real economy through the crisis.	Lowered the liquidity cover requirement for banks from 100% to 80%
	Temporarily reduced banks' minimum add-on capital requirements for systemic risk from 1% to 0% and provided clear criteria to enable banks to dip into their capital conservation buffer
	Provided capital relief on restructured loans that were in good standing before the pandemic
Financial institutions needed to maintain compliance with prudential regulation to ensure their own long-term safety and soundness.	In collaboration with the FSCA, implemented temporary regulatory and supervisory actions to alleviate the stress experienced by the insurance industry
	In collaboration with the CBDA, implemented temporary regulatory and supervisory actions to alleviate the stress experienced by co-operative banks and CFIs
The measures ensured that financial institutions had the capital resources needed to absorb losses during the COVID-19 crisis.	Relaxed certain regulatory reporting requirements to relieve some of the operational pressures on financial institutions.
	Provided guidance on the distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers. In February 2021 a new guidance note was issued, allowing banks to consider such payments if their boards considered it prudent.

The PA: maintaining a safe and sound financial system

The PA's regulatory strategy sets out its key priorities. A detailed review of the regulatory strategy is underway to direct the PA's action over the next three years.

Strategic priorities

- Strengthen the regulation and supervision of banking institutions with updated Basel III requirements.
- Update regulatory requirements related to mutual banks.
- Assess the co-operative banks framework.
- Develop prudential standards for co-operative financial institutions and co-operative banks.
- Implement prudential regulation and supervision of financial conglomerates. Published the financial conglomerate designation criteria in September 2020. Issued, for public comment, a set of draft prudential standards on the proposed regulatory framework for financial conglomerates in October 2020.
- Prudentially regulate market infrastructures, including strengthening the resilience of MIs and ensuring that international principles related to MIs are adhered to, where appropriate.
- Prudentially regulate and supervise insurers by embedding the Insurance Act and the Prudential Standards issued in terms of the Insurance Act, and issuing further regulatory instruments as per the Insurance Act.
- Establish a framework for significant owners, including the development of regulatory standards.
- Conclude MoUs with other financial sector regulators, namely the FSCA, National Credit Regulator, Financial Intelligence Centre, as well as with the SARB.

The PA: overview of regulated sectors

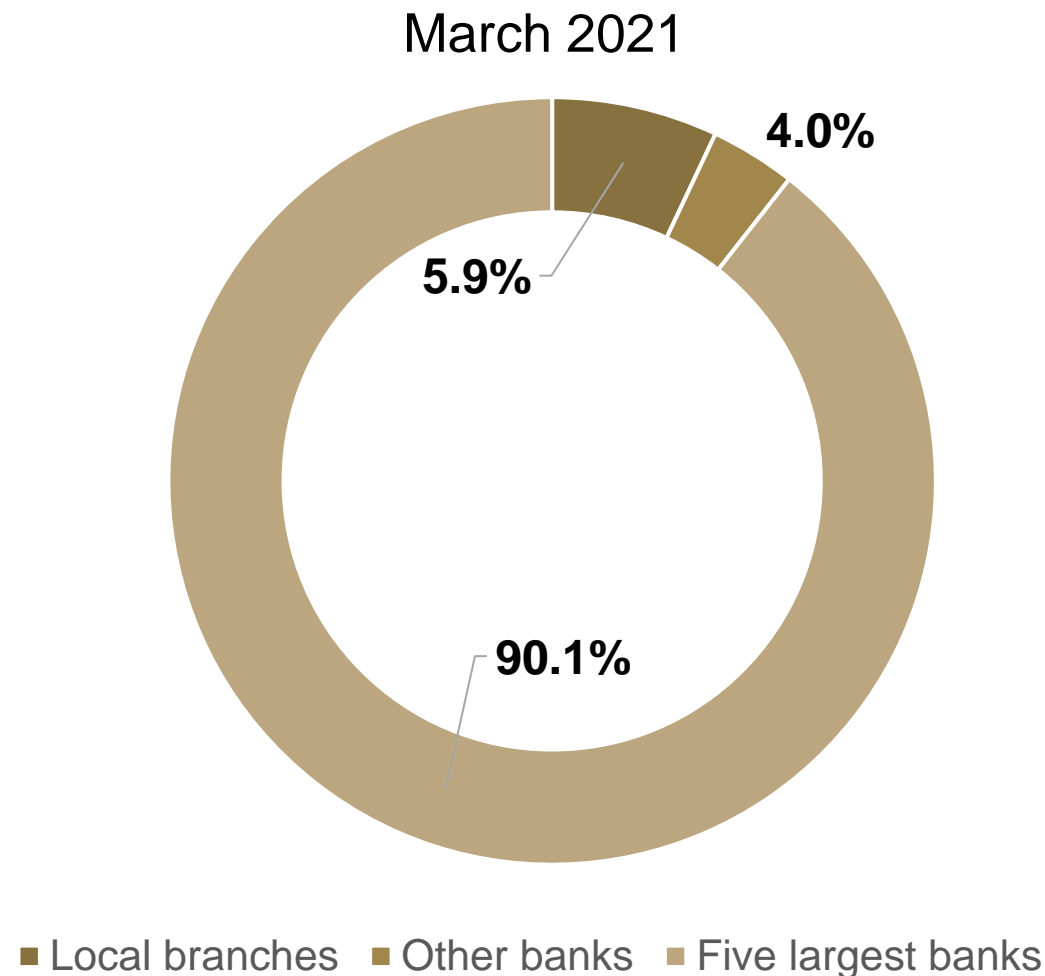
Registered entities	Number of entities
Banks (registered bank and local branches of foreign banks)	31
Mutual banks*	4
Co-operative banks	5
Co-operative financial institutions	24
Life insurers	67
Non-life insurers	74
Reinsurers	9
Market infrastructures	9

* The number of mutual banks includes VBS Mutual Bank, not yet deregistered

The PA: deposit-taking financial institutions

South Africa's banking sector is dominated by the five largest banks, which collectively held **90.1%** of the total banking sector assets as at 31 March 2021 (March 2020: 89.4%).

Local branches of international banks accounted for **5.9%** of banking sector assets at the end of March 2021 (March 2020: 7.0%) while other banks represented **4.0%** at the end of March 2020 (March 2019: 3.6%).



The PA: co-operative sector

February*	Number		Members		Deposits R millions		Assets R millions	
	2021	2020	2021	2020	2021	2020	2021	2020
Co-operative banks	5	4	5 032	4 280	290	174	333	210
CFIs	24	23	26 488	25 911	129	175	169	213
Total	29	27	31 520	30 191	419	349	502	423

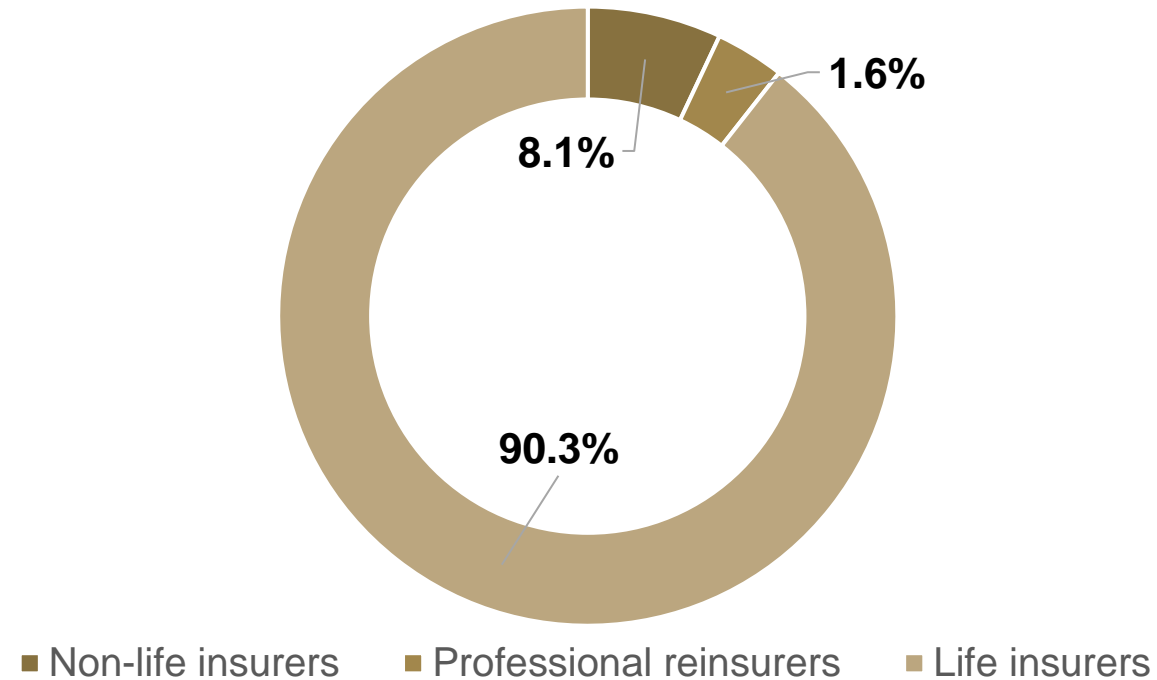
* The financial year-end for the sector is the last day of February

As at the end of February 2021, the total assets in respect of CFIs declined – decreasing by **20.62%**.

The overall growth in the co-operative banking sector is attributable to the registration of a fifth co-operative bank during 2020. Net loans amounted to R202 million, a **29.61%** increase from February 2020.

The PA: insurance sector

Total insurance sector assets – December 2020



	Assets R millions		Liabilities R millions	
	2020	2019	2020	2019
Life insurers	3 255	3 144	2 910	2 761
Non-life insurers	239	207	141	117
Composite reinsurers	37	38	25	26

The PA: additional information

Licence applications: 1 April 2020 to 31 March 2021

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks	2	2	1
Representative offices	1	1	-
CFIs	19	2	2
Insurers	19	18	-

Inspections relating to illegal deposit-taking schemes: 1 April 2020 to 31 March 2021

Total number of schemes	8
Schemes carried over from previous year	5
New schemes	3
Schemes finalised in year of review	2
Schemes still under investigation	6

The PA: administrative sanctions and penalties

During the period under review, the PA imposed administrative sanctions, including financial penalties for non-compliance with the FIC Act, on three insurers.

Name of institution	Administrative sanction
Clientele Life Assurance Company Limited	A financial penalty of R200 000
Hollard Life Assurance Company Limited	A caution not to repeat the conduct leading to the non-compliance
Outsurance Life Insurance Company Limited	A caution not to repeat the conduct leading to the non-compliance



THANK YOU



SOUTH AFRICAN RESERVE BANK



A purposeful journey