Maintaining financial stability

The SARB is tasked, through the FSR Act, with safeguarding South Africa's financial system and maintaining its stability. The SARB ensures that the financial system remains resilient to domestic and global shocks and risks that may threaten it, ensuring it can keep funds flowing efficiently through the economy, even during times of stress. Like price stability, financial stability is essential for sustainable economic growth.

The SARB monitors and assesses risks and vulnerabilities in the financial system, using both quantitative measures and expert judgement. These risks are discussed at FSC meetings and communicated through the biannual publication of the *FSR*.[8]

If an event occurs that could threaten the stability of the broader financial system (i.e. a systemic event) or is imminent, the SARB may take any necessary steps to mitigate and manage the event to protect financial stability and the wider economy.

Main risks and vulnerabilities identified in 2024/25

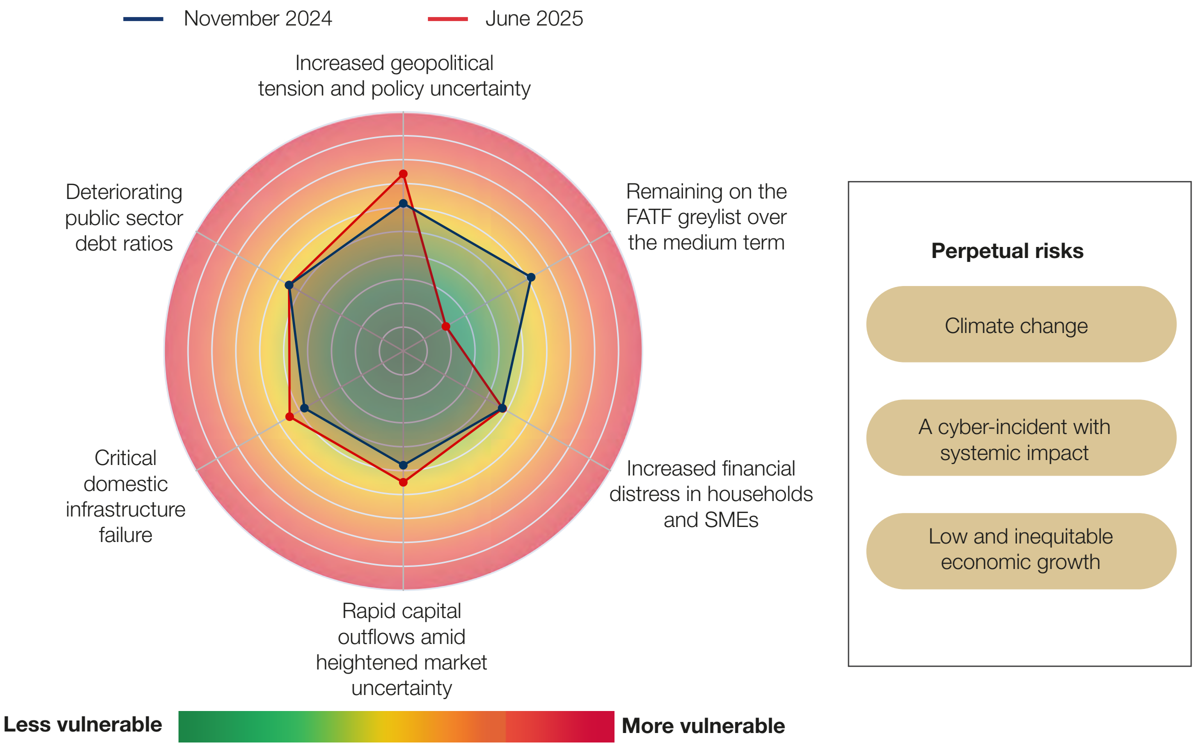
Systemic risks that weighed on the financial stability outlook during the financial year included escalating global conflicts and geopolitical risks. Country-specific factors, such as the implications of being on the FATF greylist, continued to weigh on domestic institutions, despite notable progress made by South Africa in remediating the deficiencies identified by the FATF.

8 SARB. *Financial Stability Review* (*FSR*). February 2025. https://www.resbank.co.za/en/home/publications/review/financial-stability-review

During the period under review, the SARB introduced a visual representation of the key risks to the domestic financial system and the vulnerability of these risks. To this end, the RVM shows the residual vulnerability of the financial system to key financial stability risks. Residual vulnerability considers both the probability of a risk materialising within the forecast period (i.e. the next 12 months) and the effect of mitigating (or amplifying) factors that reduce (or increase) the financial system's vulnerability to these risks.

The RVM provides a forward-looking assessment of the key risks to financial stability in South Africa. The key risks are identified based on the current situation but also consider possible future developments and the vulnerability of the financial system to these developments.

The SARB's Residual Vulnerability Matrix



Source: SARB

Financial stability heatmap

The SARB uses a wide range of indicators that are designed to identify the early build-up of financial imbalances that could contribute to financial instability 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.

Update from the Financial Stability Committee

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. A PCN CCyB increases financial sector resilience by allowing the capital requirements of banks to be reduced during times of stress. The phase-in period for the 1% buffer started on 1 January 2025 and it is expected to be fully implemented by 31 December 2025. The FSC continues to monitor market risks that might result from large holdings of government bonds by banks. In this regard the FSC resolved that the PA would continue to monitor and close valuation gaps in banks' holdings of SA government bonds.

The financial stability heatmap

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.

* Other financial intermediaries include unit trusts and finance companies.

Stress testing

Stress testing assesses whether financial institutions have adequate levels of capital and liquidity to deal with extreme but plausible negative shocks. The SARB periodically conducts macroprudential stress tests on South African financial institutions that may pose systemic risks.

Stress testing is a forward-looking macroprudential tool that 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 contributes to the protection and enhancement of financial stability, as outlined in the SARB's mandate set out in the FSR Act.

The SARB conducted its first CRST in March 2024. The CRST subjected systemically important South African banks to a set of plausible, long-term climate-related scenarios and their impact on banks' credit risk.

The outcomes of the exercise indicated that while SIFIs are reasonably well-positioned to assess their vulnerability to climate risks, challenges relating to data gaps and modelling capabilities were identified as areas for potential improvement in subsequent stress-testing exercises.

The Resolution Authority

The Resolution Authority (RA), became operational on 1 June 2023. As the RA, the SARB manages the resolution procedures of all banks and non-bank SIFIs and continues to develop resolution plans for designated financial institutions. The RA does this in the public interest, ensuring an orderly resolution process, protecting depositors' money and minimising the burden on taxpayers. Resolution plans aim to improve how a designated financial institution will deal with a crisis. This will ensure that resolution processes are orderly and ultimately protect financial stability. The SARB regularly conducts crisis simulation exercises to test an institution's ability to deal with a crisis. Two crisis simulation exercises were conducted in March 2025, which tested the Resolution Authority and CODI's decision-making processes in the unlikely event of a bank being placed in resolution and it is no longer able to meet its financial obligations. Crisis simulation exercises provide invaluable insights into how real-time coordination in a crisis scenario could be improved in the interest of protecting and enhancing financial stability.

Governance structures

FINANCIAL STABILITY COMMITTEE
(four meetings during the reporting year)

Chairperson
Governor of the SARB

Committee members
DGs, other MPC members and the heads of line departments[9]

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 (FSOC)[10]
(two meetings during the reporting year)

Chairperson
Governor of the SARB

Committee members
SARB, NT and representatives of financial sector regulators[11]

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 (FSCF)[12]
(two meetings during the reporting year)

Chairperson
DG responsible for Financial Stability

Forum 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.

9 The relevant line departments include FinStab, the PA departments, Financial Surveillance and the NPSD.
10 An internal non-statutory committee
11 Financial Sector Conduct Authority (FSCA), Financial Intelligence Centre (FIC), National Credit Regulator (NCR) and PA.
12 Statutory committees prescribed by the FSR Act.