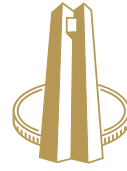


FINANCIAL STABILITY REVIEW

First edition
2026



SOUTH AFRICAN RESERVE BANK



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Background to the *Financial Stability Review*

The primary mandate of the South African Reserve Bank (SARB), as outlined in the Constitution of the Republic of South Africa, is to protect the value of the currency in the interest of balanced and sustainable economic growth. The Financial Sector Regulation Act 9 of 2017 (FSR Act) assigns the SARB a statutory mandate to protect and enhance financial stability in South Africa.

The SARB follows a structured framework to gather information, monitor developments, assess financial stability and communicate its assessment through the *Financial Stability Review (FSR)*. Among other things, the FSR Act requires the SARB to (i) monitor and review any risks – including their nature and extent – to financial stability as well as the strengths and weaknesses of the financial system; and (ii) take appropriate steps to mitigate these risks, including advising financial sector regulators and other organs of state on necessary actions.

The FSR Act further requires the SARB to assess the stability of the South African financial system at least every six months and to communicate its assessment in the *FSR*, which is tabled in Parliament. The *FSR* provides an overview of the SARB's assessment of the stability of the financial system. The assessment forms part of the SARB's ongoing operations, with the Financial Stability Committee (FSC) reviewing the financial stability outlook and risks at six meetings per year. The period under review for this edition of the *FSR* is the six months since the release of the previous edition of the *FSR* on 25 November 2025, while the forecast period is until June 2027.

The *FSR* is intended to inform members of Parliament, financial sector participants, ratings agencies, international financial institutions, standard-setting bodies, academia and the public about developments and the related policy actions taken by the relevant authorities to protect and enhance financial stability. It also aims to stimulate debate on key issues affecting financial stability in South Africa.



Executive summary

Since the release of the November 2025 *Financial Stability Review (FSR)*, the global environment has been shaped by the escalation of the Middle East conflict that started on 28 February 2026. This shock has contributed to a sharp rise in oil prices, tighter global financial conditions, higher market volatility and a deterioration in the global growth outlook. At the same time, rapid advances in frontier artificial intelligence (AI), combined with ongoing concerns over elevated sovereign debt levels, stretched asset valuations and liquidity mismatches in private credit, have left the global financial stability outlook more uncertain.

Global financial markets have adjusted to the geopolitical shock in an orderly manner thus far, but underlying vulnerabilities have increased. Tighter financial conditions could exert downward pressure on elevated asset prices and increase the risk of sharp repricing, while high public debt levels, rising refinancing needs and higher government bond yields leave sovereigns exposed to shifts in investor sentiment and borrowing costs. Advances in AI are increasing financial stability risk through two distinct channels. First, by lowering the technical barriers to sophisticated attacks and compressing the time needed to identify and exploit vulnerabilities, frontier AI models heighten the risk of systemic cyber incidents affecting critical systems and infrastructure. Second, the broader expansion of AI capabilities has fuelled a run-up in technology-related share prices, raising concerns over stretched valuations and the potential for a disorderly correction.

Domestically, financial conditions have tightened since the previous *FSR*, albeit from a historically loose base, and remain close to their long-term average. While tightening is evident, conditions remain well within the range observed during previous episodes of global stress. The SARB's Financial Conditions Index (FCI) indicates that this has been driven by higher equity market volatility, changes in exchange rate dynamics and the repricing of risk following the onset of the Middle East conflict. The credit-to-GDP gap remained marginally positive and well below levels that would signal strong credit growth. Tighter financial conditions and the more uncertain external risk environment will continue to test financial system resilience for the remainder of 2026.

Compared with the November 2025 *FSR*, the residual vulnerability of the domestic financial system has increased across several risk categories. Geopolitical conflict and policy uncertainty have intensified sharply and now act as a broad amplifier of other vulnerabilities primarily through the real economy, as weaker growth, higher inflation, rising costs and tighter financial conditions weigh on household and corporate balance sheets and credit performance. These pressures carry direct implications for sovereign risk dynamics. Specifically, vulnerability to volatile capital flows has increased as non-resident investors sell domestic assets in search of safe havens, contributing to greater rand volatility. The risk of unsustainable fiscal dynamics has risen due to the interaction between higher borrowing costs, weaker growth prospects and elevated debt redemptions in coming years. Household distress has also increased as the inflationary implications of higher fuel and transport costs erode real incomes and prolong pressure on indebted households. At the same time, changes in domestic interest rate expectations since the start of the conflict suggest that relief for interest rate-sensitive households is unlikely to materialise as expected at the beginning of the year.

Structural vulnerabilities related to low growth, unemployment, market concentration and financial exclusion are likely to be reinforced by a weaker macroeconomic outlook. Climate-related vulnerability has increased marginally as concerns around energy security and affordability constrain the near-term pace of transition, despite stronger longer-term incentives for renewable energy adoption. Operational vulnerability has risen materially, driven in large part by the financial stability risks posed by frontier AI models.

Despite these risks, the South African financial system remains resilient overall. Systemically important financial institutions are well-capitalised and liquid, and the broader financial system continues to be supported by ongoing policy and regulatory initiatives and efforts to strengthen crisis preparedness and operational resilience. One of these initiatives is the SARB's intention to provide deposit facilities to central counterparties as announced in this edition of the *FSR*.



Key developments of relevance to financial stability

Since the release of the November 2025 *FSR*, the most material development for financial stability has been the escalation of conflict in the Middle East. The sharp rise in oil prices has already triggered a broad repricing across major financial asset classes, including equities, sovereign bonds and currencies.

Beyond the immediate oil price shock, advances in frontier AI, most notably the release of Anthropic's Claude Mythos Preview model, pose risks to financial stability through two channels. First, by heightening the threat of systemic cyber incidents affecting critical systems and infrastructure, and second by supporting sustained growth in technology-related share prices that raises concerns over stretched valuations. At the same time, vulnerabilities persist in the form of liquidity mismatches in private credit and elevated levels of government debt. This section reviews these developments before assessing their implications for domestic financial stability through the SARB's Residual Vulnerability Matrix (RVM).

Middle East conflict

The start of the Middle East conflict on 28 February 2026 and the ensuing spillover to the broader Middle East region triggered a significant oil supply shock, raising fuel prices, increasing market volatility and contributing to tighter financial conditions. The closure of the Strait of Hormuz on 2 March 2026, uncertainty about its reopening and extensive damage to oil infrastructure in the Middle East have been the main drivers of higher oil prices since the start of the year (Figure 1).

Figure 1: Brent crude oil prices



Source: Bloomberg

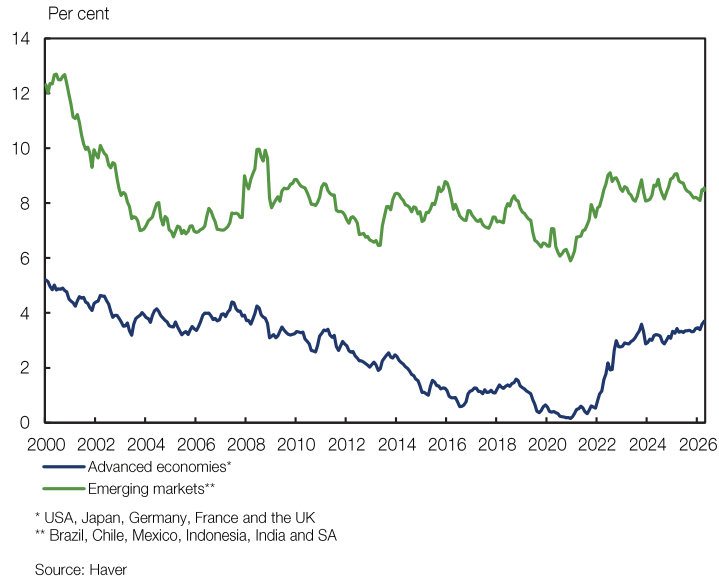
The conflict has also increased vulnerabilities in global sovereign debt markets. Policy buffers were already stretched prior to the shock, with public debt at elevated levels.¹ At the same time, as central banks in advanced economies unwind their balance sheets, governments are becoming more reliant on private investors to absorb rising debt issuance,² increasing the sensitivity of borrowing costs to shifts in market sentiment. In addition, lower economic growth will weigh on revenue collection. Global sovereign debt and sovereign bond yields remain elevated (Figure 2). While

1 International Monetary Fund (IMF), 'Fiscal Policy under Pressure: High Debt, Rising Risks', *Fiscal Monitor*, April 2026.

2 T Adrian, 'Growth of Nonbanks is Revealing New Financial Stability Risks', IMF blog, 14 October 2025.

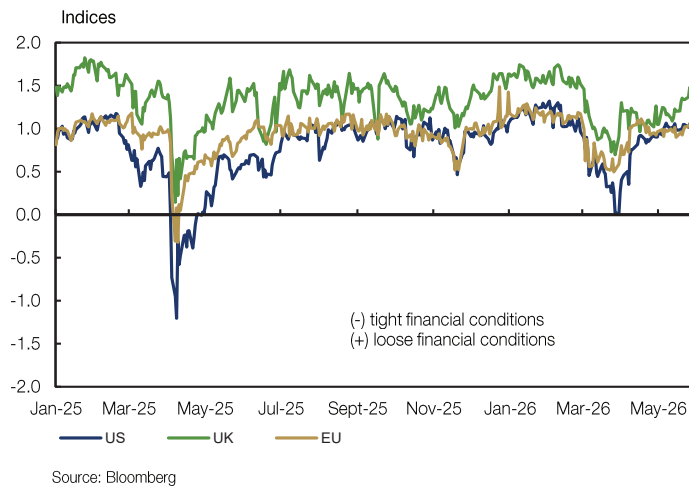
high debt levels alone are not destabilising,³ financial stability vulnerabilities arise when elevated debt interacts with tighter financial conditions, an uncertain inflation outlook and refinancing pressures, increasing sensitivity to yield shocks and market volatility.⁴

Figure 2: 10-year government bond yields



Tighter financial conditions in key global markets have exerted downward pressure on asset prices (Figure 3). Although equity prices have demonstrated notable resilience, a prolonged conflict could trigger a sharper correction, leading to increased margin and collateral calls, forced deleveraging among investors and abrupt asset repricing. However, the relatively modest adjustment to date may also indicate that markets have not yet fully priced in more adverse scenarios.

Figure 3: Financial conditions in selected advanced economies



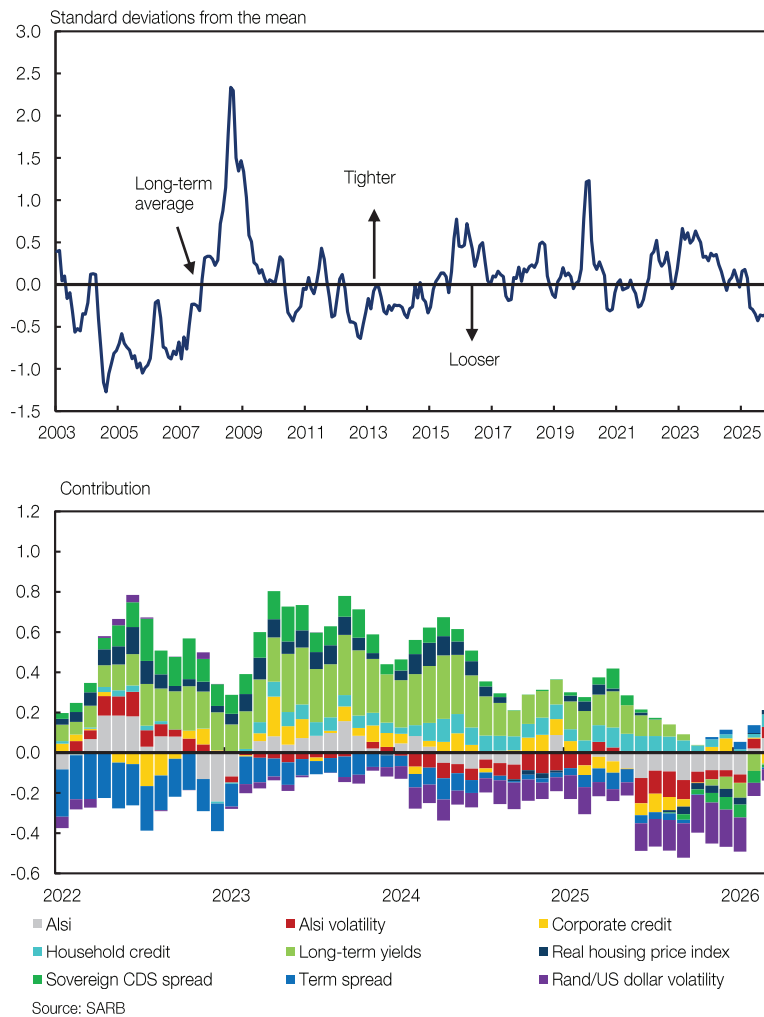
3 T Adrian, 'War in the Middle East Challenges Global Financial Stability', IMF blog, 14 April 2026.

4 B Hardy and S Zhu, 'Covid, Central Banks and the Bank-Sovereign Nexus', *BIS Quarterly Review*, 27 February 2023.



Domestically, financial conditions tightened following the onset of the conflict. The SARB’s FCI⁵ shows that despite tightening since the previous *FSR*, domestic financial conditions remain close to their long-term average (Figure 4). Conditions were loose by historical standards in the period leading up to the Middle East conflict and tightened as equity market volatility rose and equity prices fell below their long-term average. The supportive effect of lower exchange rate volatility has also diminished, with rand volatility rising sharply from decade-low levels prior to the conflict to a post-COVID-19 high. However, long-term yields and sovereign risk premia have continued to support looser financial conditions, suggesting that the tightening has been driven primarily by market volatility rather than a fundamental repricing of South Africa’s sovereign risk.

Figure 4: SARB FCI: Index (top) and composition (bottom)



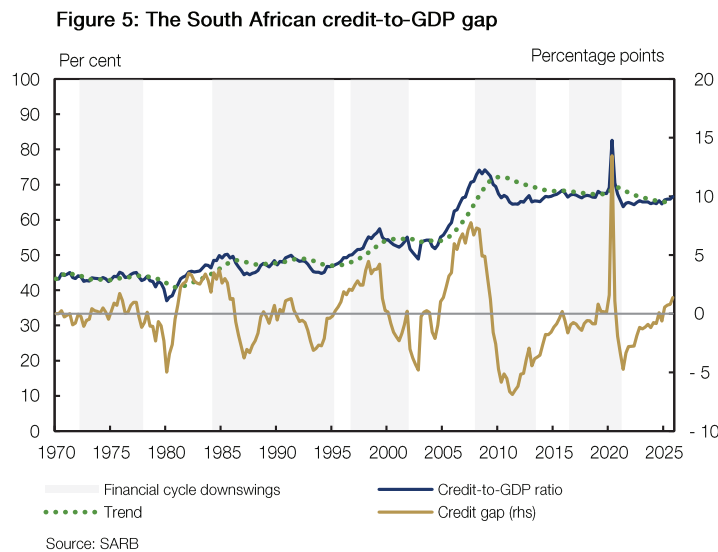
Commodity price dynamics have continued to impact domestic financial conditions through multiple channels. The surge in precious metals prices through much of 2025 supported fiscal revenue collection, bolstered external buffers and drove a rally in resource-linked equities that masked underlying weaknesses in domestically oriented sectors. However, the subsequent decline in precious metals prices has begun to reverse some of these gains, with potential downstream implications for asset valuations and fiscal outcomes. The composition of South Africa’s external

5 A Sikhosana and D van Lill, ‘Topical Briefing: Constructing a Financial Conditions Index for South Africa’, *SARB Topical Briefing*, November 2024.



reserves has also shifted, with gold now accounting for a significantly larger share, a dynamic explored further in Box 3.

Regarding credit conditions, the SARB uses the credit-to-GDP gap (credit gap), among other indicators, to monitor the financial stability implications of either excessive or insufficient credit extension (Figure 5).⁶ The credit gap turned marginally positive in the first quarter of 2025 and remained positive throughout the year, remaining well below levels that would warrant a policy response.⁷ Meanwhile, seasonally adjusted credit growth decreased slightly year on year from 8.6% in December 2025 to 8.4% in March 2026, suggesting that the pace of credit extension is moderating in line with tightening financial conditions.



Advances in artificial intelligence

Advances in AI are increasing financial stability risk. First through an operational channel, with frontier AI models amplifying threats to critical systems and infrastructure. The second is an asset valuation channel, which has seen the rapid expansion of AI capabilities fuelling concentration and stretched valuations in global technology equities. For South Africa, the operational channel is the more material of the two. While the global equity valuation channel remains relevant, particularly given the potential for spillovers from a correction in US technology stocks, it is the amplification of threats to critical systems and infrastructure that represents the more immediate vulnerability, as reflected in the SARB's RVM.

The operational channel

The release of frontier AI models, most notably Anthropic's Claude Mythos Preview in April 2026, has materially altered the cyberthreat landscape. These models reduce the technical expertise and time required to conduct sophisticated cyberattacks, lowering barriers that previously constrained the frequency and scale of potentially systemic incidents. These developments amplify existing operational vulnerabilities by increasing the speed, scale and accessibility of offensive cyber capabilities as

6 A positive credit-to-GDP gap indicates that total credit extension relative to the size of the economy is above its long-term trend, while a negative gap suggests that credit growth is below its long-term trend.

7 The Basel Committee on Banking Supervision recommends a 2 percentage point threshold as a guide for activating the countercyclical capital buffer. See Bank for International Settlements (BIS), 'Guidance for national authorities operating the countercyclical capital buffer', December 2010.

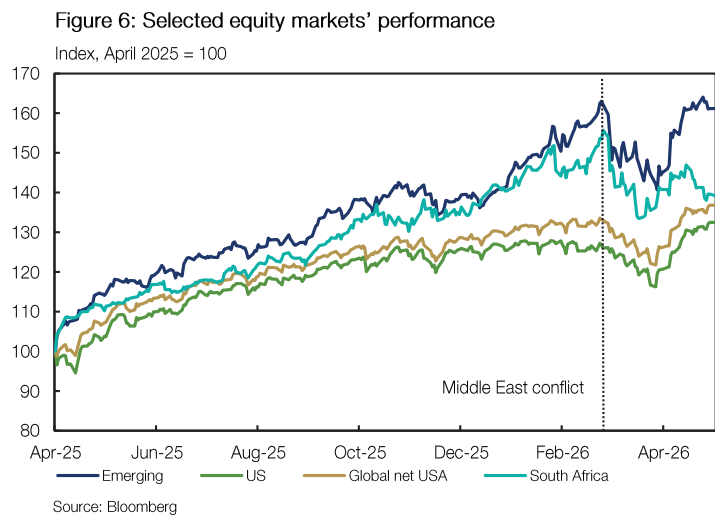


discussed in Box 1. The financial stability implications for South Africa are assessed in detail in the section on disruption in critical financial infrastructure.

The asset valuation channel

The concentration of global equity market performance in a small number of AI-focused technology firms, particularly the so-called ‘magnificent seven’,⁸ had raised concerns about the sustainability of valuations and the systemic implications of a correction. The onset of the Middle East conflict tested these valuations. Sentiment towards AI-focused companies initially weakened on concerns about the impact of higher energy prices and the availability of critical inputs on sector profitability. Global equities, especially in the technology sector, experienced a broad sell-off. However, technology equities have since recovered some of these losses, though the underlying concentration risk persists.

Domestically, equity prices have been driven less by AI-related developments and more by growth in commodity-linked companies. The JSE All-Share Index (Alsi) recorded a return of 37.8% for 2025, placing it among the best-performing markets globally. This rally was largely attributable to strong commodity prices, particularly gold and platinum. The gold price declined from a pre-conflict high of US\$5 418 to US\$4 618 by the end of April 2026 amid a stronger US dollar, leading to a moderation in local valuations and a widening of the domestic equity risk premium (Figure 6). While domestic equities have recovered more moderately, the JSE’s sharper decline and weaker recovery relative to emerging-market peers reflect its commodity dependence rather than direct AI exposure.



8 These are Apple, Microsoft, Nvidia, Alphabet (Google’s parent company), Amazon, Meta (Facebook’s parent company) and Tesla. See SARB, *Financial Stability Review*, second edition, November 2025.



Box 1: Advances in frontier AI models and capabilities

Frontier artificial intelligence (AI) models represent a step change in offensive cyber capability. For the first time, AI systems can autonomously plan, sequence and execute multi-step cyberattacks that previously required elite human expertise, significant time and manual coordination. This shift fundamentally alters the cyberthreat landscape by lowering the skill barrier for less sophisticated actors, compressing the time needed to identify and exploit vulnerabilities, and enabling attacks to be conducted at a scale and speed that were not previously possible.

These capabilities became apparent on 7 April 2026, when US-based AI developer Anthropic released its Claude Mythos Preview model (Mythos). The model autonomously identified thousands of previously unknown (i.e. zero-day) vulnerabilities in widely used operating systems and web browsers. Rather than releasing the model publicly, Anthropic granted initial access to approximately 50 partner organisations through an initiative called Project Glasswing, with a focus on patching identified vulnerabilities and sharing non-sensitive findings.

Prior to Mythos, AI models could assist with isolated tasks such as drafting phishing content or writing basic exploit code, but humans remained responsible for directing and sequencing the steps required for a full system compromise. The correct sequencing of these steps across multiple networks would typically take expert cybercriminals days or weeks to complete. This inherent constraint on the speed and frequency of attacks afforded defenders a window for detection, patching and response.

The Mythos release is part of a broader trend of rapidly improving offensive AI capability.¹ To benchmark these advances, the United Kingdom's (UK) AI Security Institute (AISI) developed a 32-step corporate network attack simulation to test different AI models' performance against a consistent set of criteria (Folkerts et al., 2026). The 32 steps form a structured attack chain, progressing from basic cyber reconnaissance and vulnerability identification through to privilege escalation, lateral movement and ultimately full system compromise, with model capability measured against the number of steps successfully completed.² In the 18 months to February 2026, frontier AI model performance in AISI's test environment increased nearly sixfold, from 1.7 steps to 9.8 steps completed.

On 13 April 2026, AISI published its assessment of Mythos. Although Mythos was not markedly better at executing individual tasks than previous frontier AI models, it was the first to autonomously sequence tasks into an end-to-end cyberattack, completing all 32 steps in 3 of 10 attempts. On average, Mythos completed 22 out of 32 steps, compared with 16 for the next-best-performing model.³ Critically, a sophisticated multi-step attack that previously required scarce, elite human expertise can now be attempted for approximately US\$80 at standard application programming interface (API) pricing, with no technical sophistication required from the operator (Folkerts et al., 2026).⁴

These capabilities are already being exploited. The mean time to exploit (TTE) cyber vulnerabilities has decreased from 2.3 years in 2018 to approximately 20 hours in early 2026 (Figure B1.1). With no observed plateau in model performance, the capability to autonomously plan and execute end-to-end cyberattacks at increasing scale and speed is likely to continue improving.

1 Anthropic, '[Disrupting the first reported AI-orchestrated cyber espionage campaign](#)', November 2025.

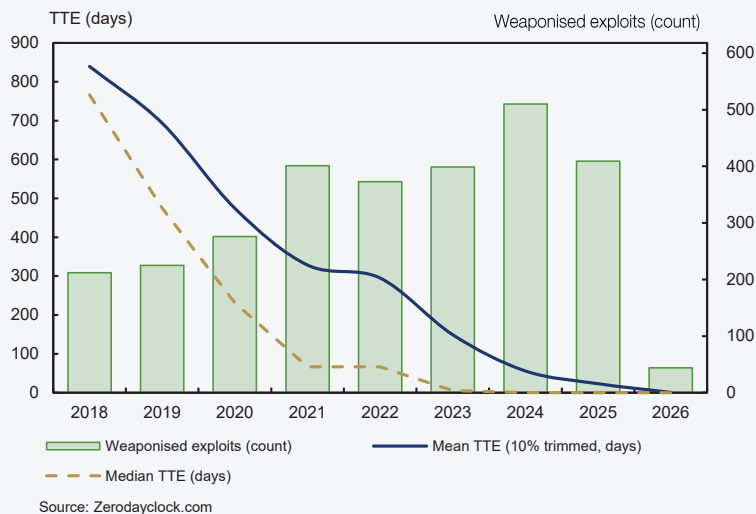
2 AI Security Institute, '[Our Evaluation of Claude Mythos Preview's Cyber Capabilities](#)', AISI blog, April 2026.

3 Ibid

4 API pricing refers to the cost developers and businesses pay to access and integrate third-party software, data or AI models into their own applications.



Figure B1.1: AI reducing mean TTE



Although frontier AI models can also be used by defenders to identify and patch vulnerabilities, there will likely be an initial lag before these models are optimised for defensive purposes. This lag is likely to be longer in emerging market economies, reflecting capability and access asymmetries, more limited cyber expertise, constrained resources and greater reliance on externally developed security solutions. This asymmetry is illustrated by Project Glasswing itself: all of the approximately 50 partner organisations granted access to the model are from advanced economies.

The key implication is that cyber risk has shifted from episodic and largely manageable events to continuous and compounding. From a financial stability perspective, the primary concern is the near-term amplification of existing vulnerabilities and transmission channels, rather than a fundamental change in the underlying level of system vulnerability. Longer-term effects will depend on whether governance frameworks and defensive capacity can keep pace.

References

Folkerts, L et al. 2026. 'Measuring AI Agents' Progress on Multi-Step Cyber Attack Scenarios', UK AI Security Institute: arXiv:2603.11214.

Key risks to domestic financial stability

The SARB identifies key risks to domestic financial stability using both quantitative and qualitative assessments of the environment in which financial institutions operate. Given the differing nature of these risks, it can be challenging to assess their likelihood, impact and time horizon on a consistent, cross-cutting basis. To improve comparability and ensure consistent measurement over time, the SARB has adopted a framework that classifies risks into three categories, namely cyclical; structural and perpetual; and operational and event risks. This edition of the *FSR* identifies the following key risks to domestic financial stability:

Cyclical financial risks

Cyclical financial risks relate primarily to asset valuations, credit extension and real economic conditions that typically fluctuate in line with economic and financial cycles. Countercyclical macroprudential policies can be applied to mitigate the build-

up of asset or credit bubbles where these risks become excessive. The key cyclical financial risks are:

- i. rapid capital outflows amid heightened market uncertainty;
- ii. unsustainable fiscal dynamics; and
- iii. increased financial distress in households.

Structural and perpetual risks

Structural and perpetual risks are linked to the broader operating environment of the financial sector and do not vary with domestic economic and financial cycles. These risks may stem from global influences beyond the control of the South African authorities, structural features of the domestic financial system or technological and financial innovation that could fundamentally change how the financial system functions. The key structural and perpetual risks are:

- i. intensified geopolitical conflict and policy uncertainty;
- ii. low economic growth, inequality, financial exclusion and concentration; and
- iii. the impact of climate change on the financial sector.

Operational and event risks

Operational and event risks refer to any shock that could disrupt the functioning of the financial sector on a systemic scale. The SARB distinguishes between two types of operational disruption.

The first is a disruption to the critical digital systems infrastructure that underpins financial services provision. This includes cyber incidents, loss of access to critical software or disruption to third-party services underpinning payment, clearing and settlement systems. The second is a disruption to the physical infrastructure supporting financial system operations, such as prolonged outages of electricity or other failures in essential physical infrastructure. The key operational and event risks are:

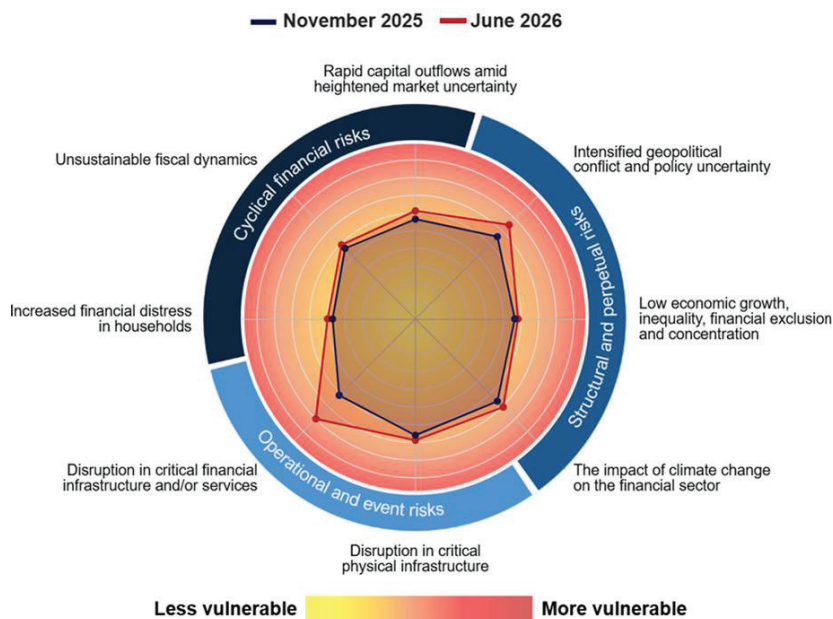
- i. disruption in critical financial infrastructure and/or services; and
- ii. disruption in critical physical infrastructure.

These risks are summarised in Figure 7, which presents the SARB's assessment of the residual vulnerability of the South African financial system. Residual vulnerability refers to the level of vulnerability that remains after accounting for mitigating factors and actions. It considers both the probability of a risk materialising over the forecast period (i.e. the next 12 months) and the anticipated impact should the risk materialise, taking into account factors that may either mitigate or amplify these risks. In the matrix, risks plotted closer to the outer edge of the circle indicate a higher residual vulnerability, while those nearer the centre reflect lower vulnerability.

The residual vulnerability of the domestic financial system to each of these risks is discussed in subsequent sections.



Figure 7: Key financial stability risks



Source: SARB

Intensified geopolitical conflict and policy uncertainty

The unprecedented closing of the Strait of Hormuz and targeted attacks on oil infrastructure in the Middle East have created a material disruption to global energy supply. Supply losses are now translating into a rapid drawdown of global oil inventories,⁹ increasing the likelihood that supply will not revert to pre-conflict levels in the near term, even if the conflict was to ease.¹⁰ The most significant variable remains the duration of conflict: the longer it continues, the longer oil prices are likely to remain elevated before reaching a new equilibrium.

To date, supply constraints have been partially offset by the release of strategic oil reserves and the increased use of pipelines. However, with strategic stockpiles now largely depleted, a prolonged conflict would likely lead to further oil price increases. The residual vulnerability of the domestic financial system to the risk of intensified geopolitical conflict and policy uncertainty has therefore increased notably since the November 2025 FSR.

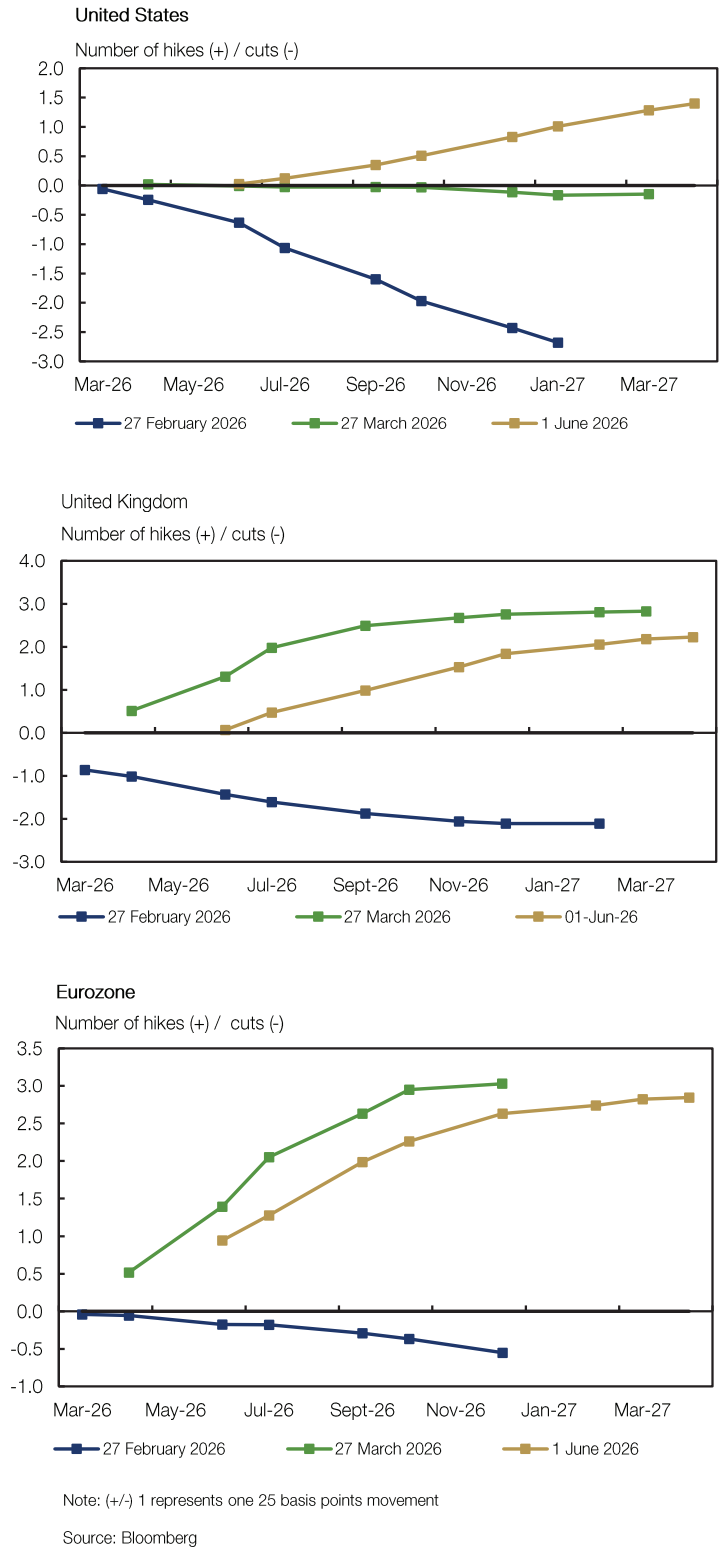
The oil price shock is expected to continue to exert inflationary pressure, potentially prompting tighter monetary policy than before the conflict. Inflation is a key consideration for financial stability. Central banks, including the SARB, that employ an inflation-targeting approach to monetary policy adjust policy rates to keep inflation expectations anchored.¹¹ The conflict has already materially impacted the global monetary policy outlook for 2026. Whereas most major central banks were expected to ease interest rates prior to the conflict, they are now projected to increase for the remainder of the year (Figure 8). Domestic interest rate expectations have also shifted.

9 International Energy Agency (IEA), *Oil Market Report*, March 2026.

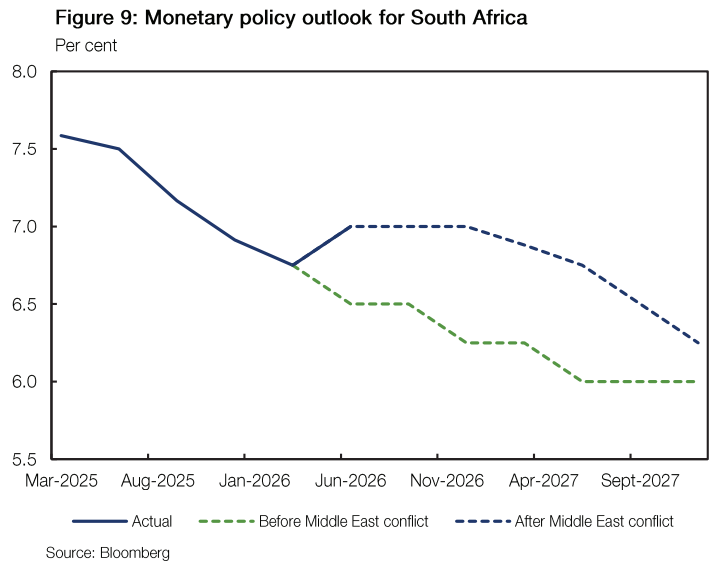
10 K Georgieva, 'Cushioning the Middle East War Shock', Speech by IMF Managing Director Kristalina Georgieva at the 2026 Spring Meetings in Washington, DC, 9 April 2026.

11 P Beaudry, T J Carter and A Lahiri, 'The Central Bank's Dilemma: Look Through Supply Shocks or Control Inflation Expectations?', *IMF Working Papers*, May 2026.

Figure 8: Monetary policy outlook for selected advanced economies



Domestically, market expectations pointed to rate cuts in 2026, prior to the Middle East conflict, but now suggest higher rates this year, with some easing in 2027 (Figure 9).¹²



The conflict has also led to global equity markets relinquishing some gains, with the Alsi experiencing a sharper decline and weaker recovery relative to its emerging market peers (Figure 10). This largely reflects that overall Alsi performance has been driven by a small number of large, commodity-linked companies since the start of 2025. The Alsi’s prolonged commodity-led recovery, particularly because of higher precious metals prices, masked persistent weaknesses in domestically oriented sectors and increased the market’s sensitivity to external shocks. As a result, equity valuations entered the current geopolitical episode both elevated and more vulnerable to changes in global risk sentiment and commodity cycles. Box 2 examines the financial stability implications of elevated asset prices and how a market correction could impact market functioning and broader financial stability.

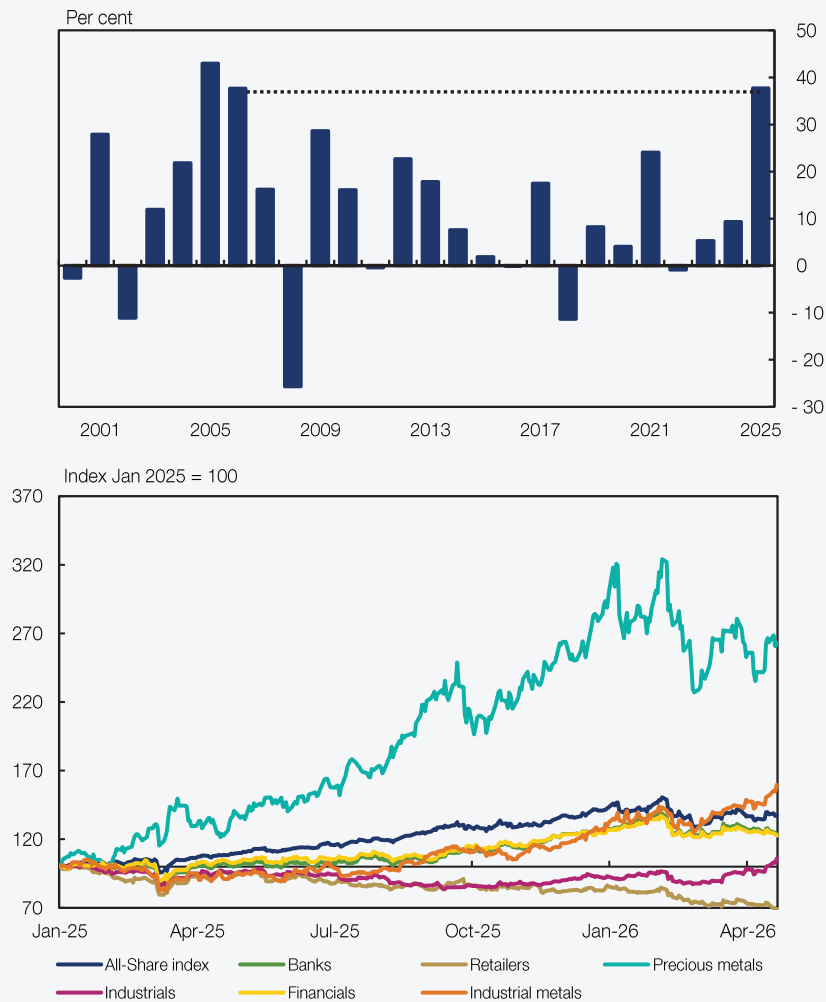
¹² **Erratum:** This sentence has been amended for accuracy following the publication of the *FSR*.

Box 2: Elevated equity prices and financial stability

Throughout 2025, various authorities, including the SARB, highlighted the significant growth in the equity prices of technology-focused companies and their investment in artificial intelligence (AI), as well as their growing share in global equity indices such as the S&P500.¹ Global equity markets entered 2026 with elevated valuations and expectations of further gains following a strong rally in 2025, which was supported by resilient economic growth, robust corporate earnings and expectations of looser monetary policy. The fact that stretched equity valuations largely reflected investor expectations regarding a single factor, namely AI developments, raised concerns of a market correction and investor losses should the returns AI disappoint.

A similar single-factor vulnerability was evident domestically, where the JSE's strong performance was largely attributable to commodity-linked companies, particularly precious metals mining companies, which outperformed local-oriented sectors such as financials and retailers. This left both global and domestic equity markets exposed to sharp corrections driven by a narrow set of risk factors (Figure B2.1).

Figure B2.1: JSE annual returns (top) and JSE sector performances (bottom)

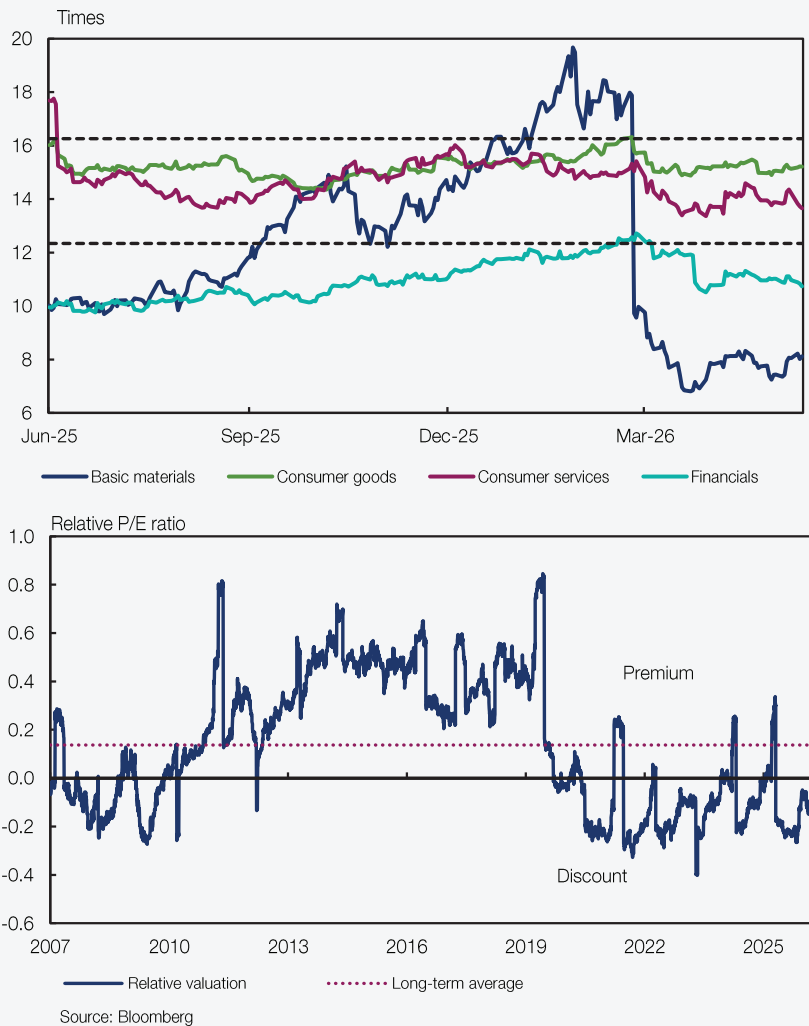


¹ For a more detailed discussion, refer to the November 2025 FSR, available at <https://www.resbank.co.za/en/home/publications/review/financial-stability-review>.



The increase in geopolitical risk significantly weakened market confidence and led to a broad-based retreat from risk assets. Sentiment towards AI-focused companies weakened on concerns about the impact of energy prices and the availability of critical components such as helium on the profitability of the sector. Domestically, the decline in gold prices, alongside a stronger US dollar, led to a moderation in local valuations and widening of the equity risk premium as investors demanded greater compensation for risk (Figure B2.2).

Figure B2.2: JSE All-Share index sectors' forward P/E ratios (top) and MSCI SA/MSCI EM relative valuation (bottom)



Source: Bloomberg

Global equities, especially in the technology sector, have recovered some losses, while domestic equities have rebounded to a more moderate extent. Although risk asset prices have generally remained resilient amid heightened geopolitical tensions, several additional headwinds could weigh on equity markets in the year ahead. Globally, these include a possible correction in the technology sector should investments in AI fail to deliver the expected returns.

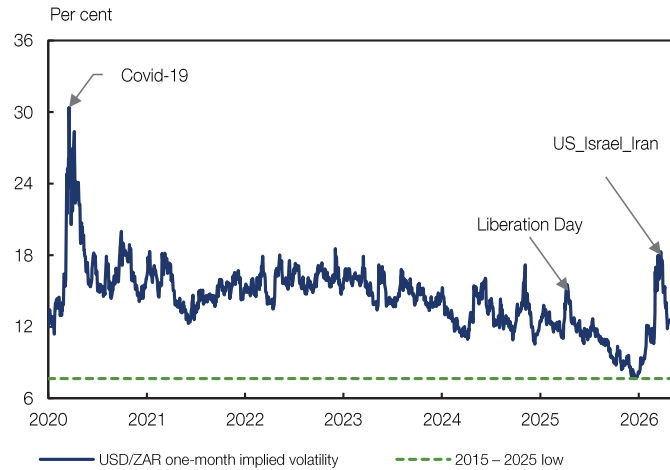
Domestically, a prolonged decline in precious metals prices could trigger a sharper correction in domestic equities, as much of the 2025 rally was driven by gold and platinum mining firms. Other risks to the local equity market include rand depreciation, fiscal pressures stemming from a weaker budget position and ongoing political uncertainty. Taken together, these global and domestic risks could undermine investor confidence, resulting in lower equity returns or, under more adverse conditions, sharp market corrections.



Rapid capital outflows amid heightened market uncertainty

In the months preceding the conflict, the rand traded at decade-low volatility levels. Since the start of the war, however, one-month rand volatility has risen sharply, reaching a post-COVID-19 high (Figure 10).

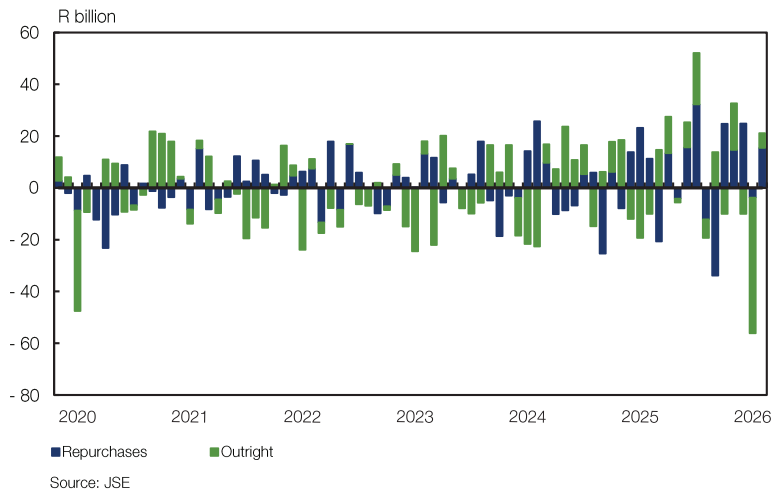
Figure 10: USD/ZAR one-month implied volatility



Non-resident investors were net buyers of South African government bonds in the three months before the start of the Middle East conflict on 28 February 2026 (Figure 11). These purchases were largely driven by repurchase transactions rather than outright demand, suggesting that non-resident activity was driven less by a structural increase in the demand for local assets (as may have been the case had South Africa still been rated as investment grade), but rather reflects shorter-term market positions. Following the start of the conflict, however, global investor sentiment deteriorated sharply and triggered a repricing of risk, reflecting higher inflation expectations and country risk premia on sovereign bond yields. This resulted in the largest one-month sell-off of South African bonds on record (Figure 11). However, the pronounced sell-off by non-resident investors in both domestic bonds and equities suggests that the flightiest investors may have already reduced their exposure to local assets. This could, in turn, reduce the risk of a sharp, coordinated sell-off and associated capital outflows, which may explain the moderate amount of net bond purchases by non-residents resumed in April 2026.



Figure 11: Bond transactions by non-residents



Overall, the risk of volatile capital flows has increased since the November 2025 *FSR*, reflecting heightened exchange rate volatility, a sharp reversal in non-resident flows and greater sensitivity of investor behaviour to global risk sentiment. Geopolitical risk has emerged as a powerful amplifier of global shocks, accelerating capital flow reversals and exposing structural sensitivities within the domestic financial system. Box 3 reflects how South Africa’s foreign exchange reserves have changed over time and the role they play in enhancing resilience to external shocks.



Box 3: Taking stock of South Africa's foreign exchange reserves

South Africa's foreign exchange (FX) reserves have grown recently and are now over 16% of gross domestic product (GDP) (Figure B3.1). This is the highest level recorded since data became available in the early 1960s.

Figure B3.1: Gross gold and FX reserves to GDP

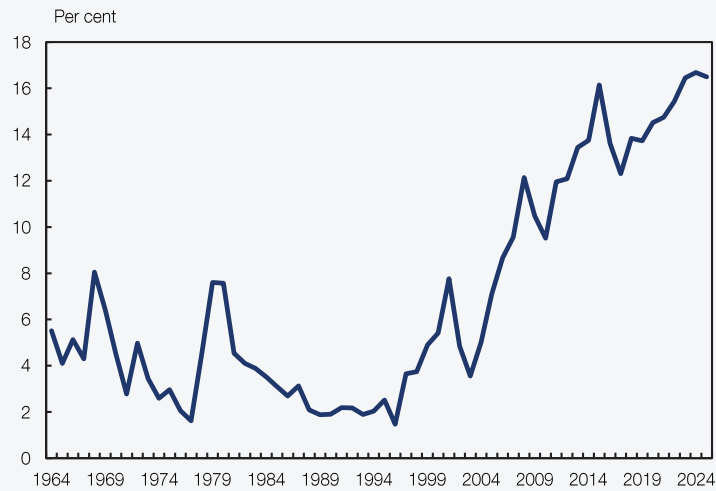
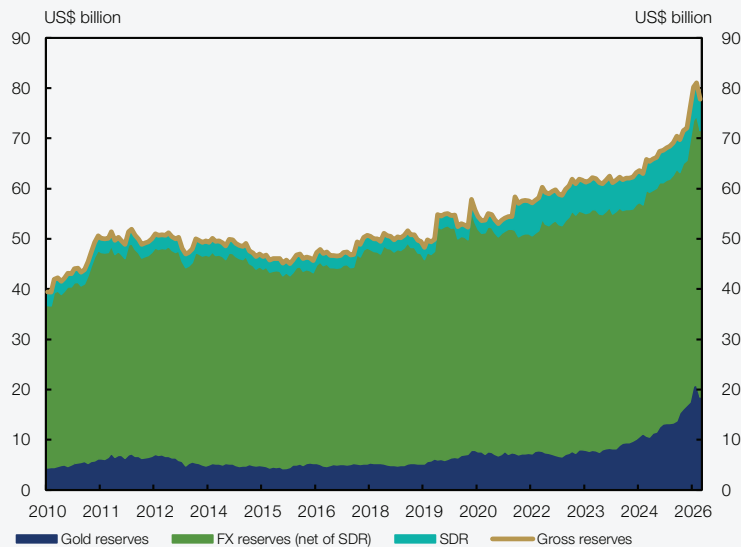


Figure B3.2: South Africa's gross FX reserves and gold



As a result, South Africa now meets all the major reserve adequacy metrics.¹ In particular, the country has reached the 100% threshold on the International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric, with a score for this indicator now broadly aligned with peers such as India and Brazil.² As a share of imports, South Africa's reserves satisfy the Southern African Development Community (SADC) guideline of six months of import

¹ For a summary of the major adequacy metrics, see IMF, 'Guidance Note on the Assessment of Reserve Adequacy and Related Considerations', Annex 1, p. 23, June 2016. Note, that of these measures, the ratio of reserves to M2 is not commonly used in domestic policy discussions. Nonetheless, the current ratio is near 30%, higher than both the 20% upper bound and the 5% typical threshold cited in this paper.

² Using IMF data for 2025, South Africa's ratio of reserves to the ARA metric was 1.09. Brazil's was 1.27 and India's 1.11.



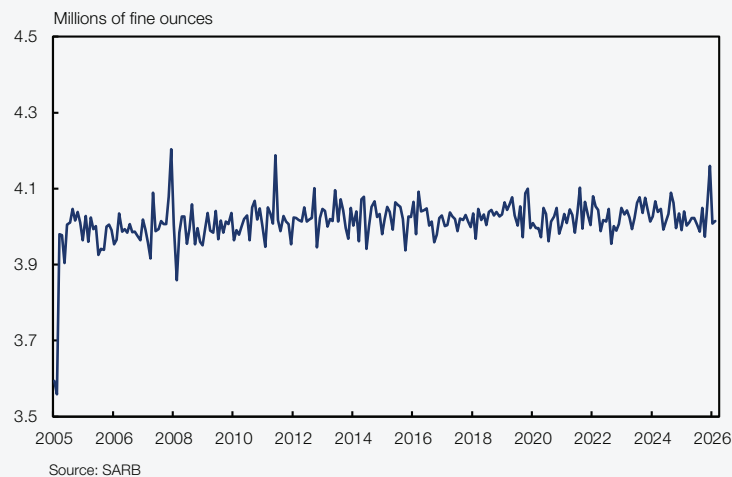
cover, estimated at 6.3 months for 2025 by the IMF.³ The country also continues to comfortably exceed the Greenspan-Guidotti and Jeanne-Rancière benchmarks, which consider variables such as the current account, external debt and vulnerability to sudden stops.⁴

These reserves serve several important objectives.⁵ At a basic level, they ensure that, in the event of a crisis, South Africa can meet foreign currency obligations, maintain imports of crucial goods and provide lender-of-last-resort support in FX. More broadly, FX reserves act as a form of insurance, enhancing the country's resilience to external shocks.⁶

FX reserves have grown consistently since about 2015, but the recent increase has been particularly pronounced, with gross reserves climbing by about US\$8 billion since September 2025. This increase mainly reflects higher gold prices. The SARB has not accumulated additional gold since 2003, with holdings remaining unchanged at approximately 4 million troy ounces (about 125 tonnes) (Figure B3.3).⁷ The increase in the dollar value of gold holdings is therefore purely a valuation effect (Figure B3.4).

Reserves have also benefitted from larger deposits by National Treasury, following the government's issuance of two US dollar-denominated bonds in December 2025.⁸ Additional contributions stem from new reserves purchases and growth from returns on existing reserves. At the time of writing, accumulation over the six months from September 2025 to March 2026 amounted to about US\$1.5 billion in outright purchases and around US\$1.3 billion attributable to returns.⁹

Figure B3.3: Gold reserves



3 IMF, 'Article IV Review for South Africa', p.3, *IMF Country Report* No.26/34, February 2026.

4 Greenspan-Guidotti adequacy estimates have been around US\$40 billion, using the expanded definition that includes current account deficits. Jeanne-Rancière estimates have been in the region of US\$25 billion, although these estimates are sensitive to assumptions.

5 P. Gourinchas, 'Adequate Reserves Shield Economics from Shocks and Strengthen Resilience', IMF blog, March 2026.

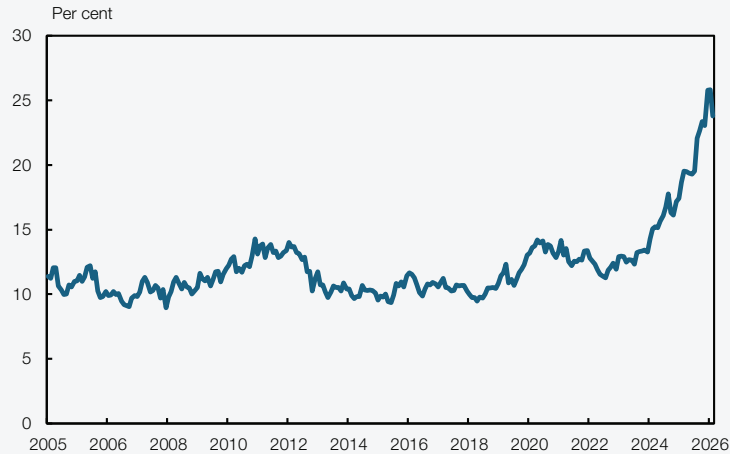
6 L. Alfaro and F. Kanczuk, 'Debt Redemption and Reserve Accumulation', *IMF Economic Review* 67, No. 2, May 2018.

7 Most of South Africa's gold is stored at the Bank of England, with smaller stocks held at the Bank for International Settlements (BIS) and domestically.

8 National Treasury, 'South Africa Successfully Issues US\$3.5 Billion', Media Release, December 2025.

9 This contrasts with gold gains of just over US\$9 billion over the same period.

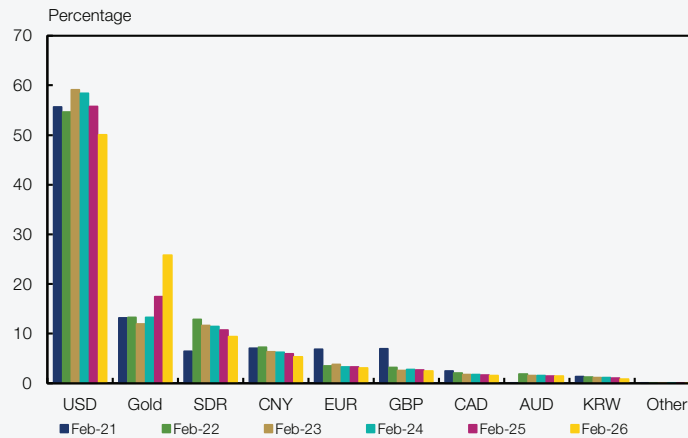
Figure B3.4: Gold share of gross reserves



Source: SARB

In terms of composition, gold now represents about 25% of total reserves, up significantly from historical levels of around 10–15%. This share is broadly in line with peer averages (although there is considerable dispersion around this mean).¹⁰

Figure B3.5: Currency composition of South Africa's gross FX reserves (incl. gold)



Source: SARB

While the rising share of gold in gross reserves has materially strengthened South Africa's external buffers, it has also increased the sensitivity of reserve adequacy to movements in the gold price, particularly given that holdings have remained unchanged in volume terms since 2003.

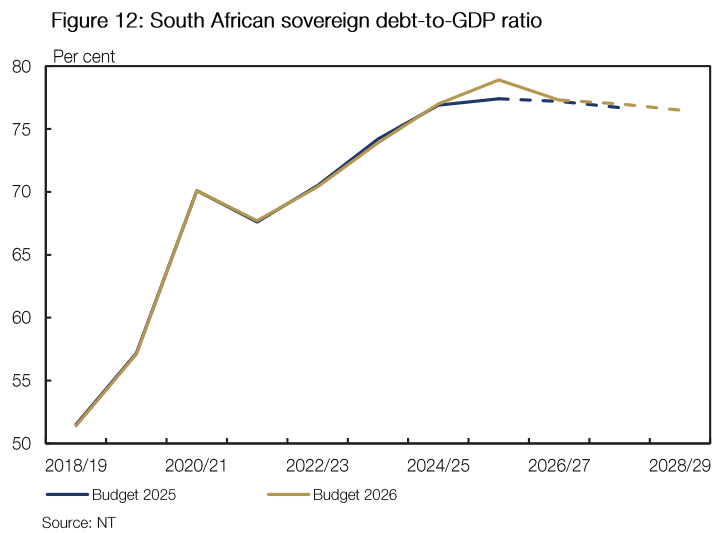
¹⁰ For instance, according to the data on official gold holdings in the International Financial Statistics database, South Africa's ratio (25.2%) is above that of BRICS partners China (9.6%), Brazil (7.6%) and India (19.4%) but below Russia (47%).



Unsustainable fiscal dynamics

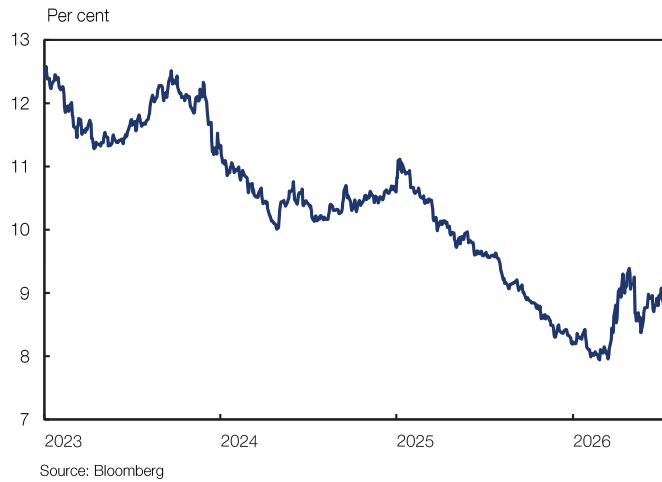
The domestic fiscal outlook remained broadly positive during the 2025/26 fiscal year up to the Budget Speech on 25 February 2026. Fiscal revenues exceeded projections, largely supported by strong commodity prices, while the rand traded at decade-low volatility levels and sovereign yields declined steadily. However, the Budget Speech also highlighted that a change in conditions, such as the one prompted by the start of the Middle East conflict, could result in commodity price volatility, higher sovereign borrowing costs, tighter monetary policy conditions and weaker investor sentiment. It noted that should any of these adverse developments materialise, it would likely reduce fiscal revenues, increase government borrowing requirements and result in higher-than-expected sovereign debt issuance.

Even before the start of the Middle East conflict, National Treasury expected sovereign debt to peak at 78.9% of GDP in 2026/27, compared with an expected peak of 77.4% at the time of the 2025 Budget (Figure 12).



However, as most of these risks indeed materialised shortly after the Budget Speech, the sovereign debt-to-GDP ratio may turn out to be worse than projected and may not stabilise within the timeframe anticipated by National Treasury. The 10-year South African government bond (SAGB) yield initially rose following the escalation of the Middle East conflict and continued to fluctuate as peace talks failed to reach a meaningful conclusion (Figure 13).

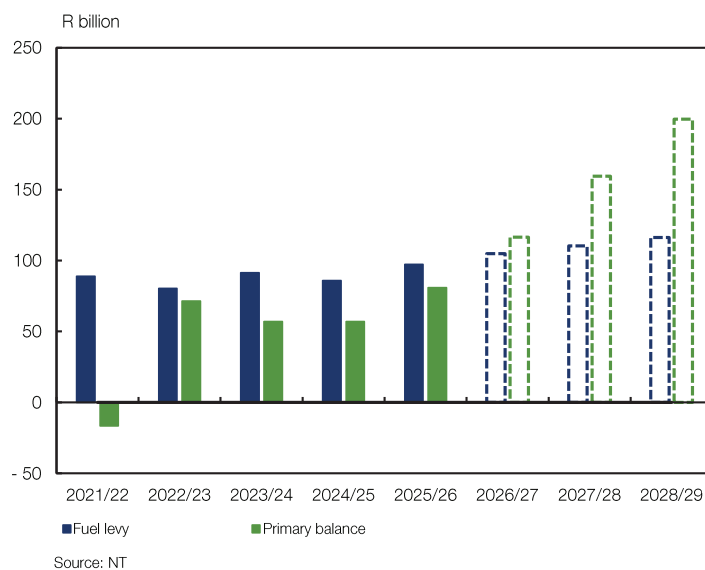
Figure 13: 10-year SAGB yield



Similar to other risks on the RVM, the residual vulnerability associated with unsustainable fiscal dynamics is expected to increase the longer the conflict continues. The temporary reduction in the general fuel levy, introduced to cushion the impact of rising fuel prices, will have a direct negative impact on fiscal revenues. Since 2016/17, fuel levy-related revenues have accounted for between 5% and 6% of total fiscal revenues. Although the initial fuel-levy relief measure, effective from 1 April to 5 May 2026, was expected to be fiscally neutral, National Treasury estimates that the extension of the fuel-levy relief to the end of June 2026 would result in R17.2 billion in lost tax revenue.

While National Treasury expects that at least a portion of the foregone revenue¹³ can be recouped within the fiscal framework approved during the 2026 Budget, the remaining revenue shortfall could affect National Treasury's ability to achieve a primary surplus.

Figure 14: National Treasury projected general fuel levy and primary balance

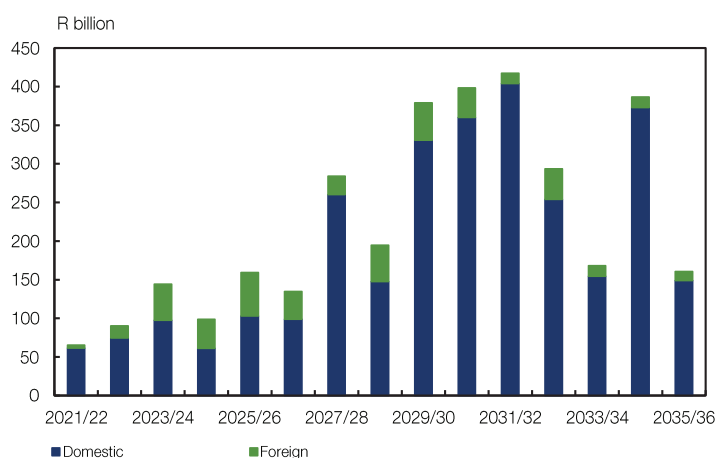


¹³ The full statement by National Treasury is available at <https://www.gov.za/news/media-statements/national-treasury-extension-short-term-relief-measures-address-fuel-price>.



The conflict is also likely to affect South Africa's debt issuance and fiscal sustainability through National Treasury's increased cash requirements in the near to medium term towards its upcoming debt redemptions. Between 2027/28 and 2030/31, National Treasury faces annual redemptions ranging from R195 billion to R399 billion, compared with an average of R112 billion per year between 2021/22 and 2025/26. The foreign currency component of these redemptions is also higher than it was at the time of the 2026 Budget, reflecting the impact of a weaker rand exchange rate (Figure 15). A key mitigant to the large upcoming debt redemptions is active liability management by National Treasury, such as through the bond switch programme, which will help smooth near-term redemptions by reducing the amount outstanding when a bond matures.¹⁴

Figure 15: National Treasury debt maturity schedule



Source: NT

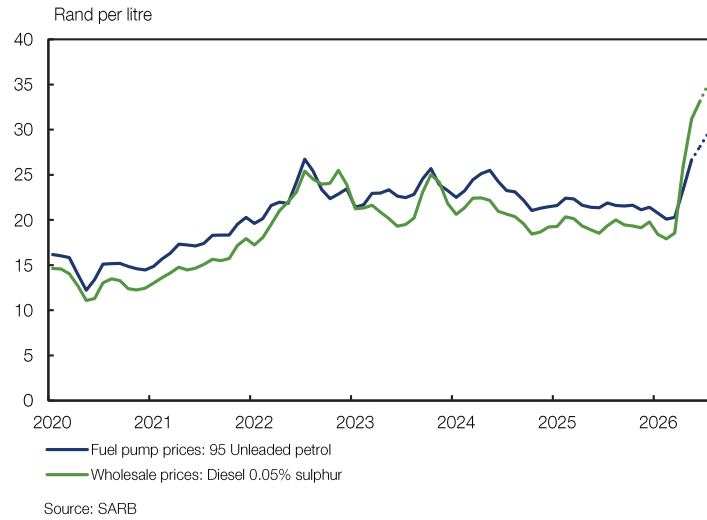
Current market conditions, characterised by lower global risk appetite and higher sovereign yields, will likely require National Treasury to borrow more under less favourable conditions. This could in turn raise the level at which sovereign debt would peak. On balance, the residual vulnerability of the domestic financial system to the risk of unsustainable fiscal dynamics has increased, reflecting the interaction between weaker revenues, higher borrowing costs and elevated debt redemptions.

Increased financial distress in households

The longer the Middle East conflict persists, the greater its inflationary impact is likely to be as higher oil prices affect almost every component of domestic supply chains. Figure 16 shows the increases in petrol and diesel prices since the onset of the conflict, driven by higher oil prices and a weaker domestic exchange rate. Given that the average household is already allocating around 16% of their expenditure to transport under normal conditions, further increases in fuel prices are likely to place further strain on household finances.

14 National Treasury (2026), *Budget Review*, Chapter 7: Government Debt and Contingent Liabilities.

Figure 16: South African fuel prices



Changes in domestic interest rate expectations since the start of the conflict also suggest that relief for interest rate-sensitive households is unlikely to materialise as expected at the beginning of the year. These pressures could contribute to an increase in banks' non-performing loans (NPLs). While NPLs were expected to continue to decline gradually before the Middle East conflict, they are now expected to remain above their long-term average for longer (Figure 17 and 18).

Figure 17: NPLs and risk-weighted exposure

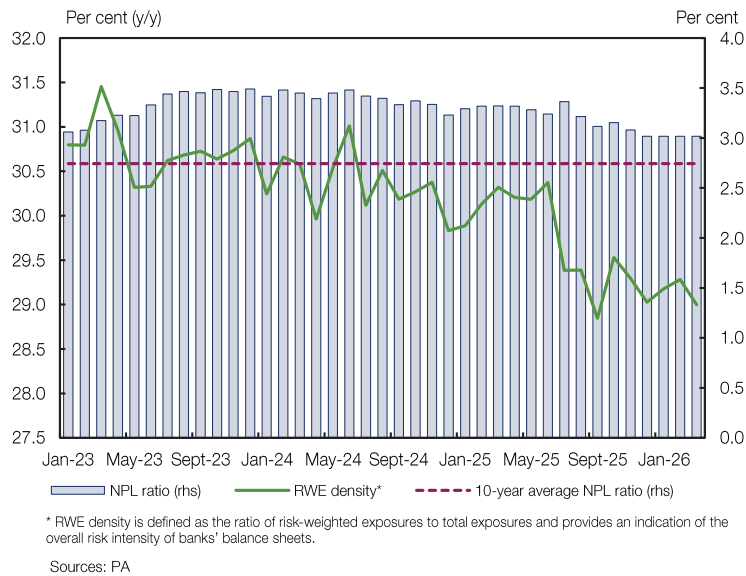
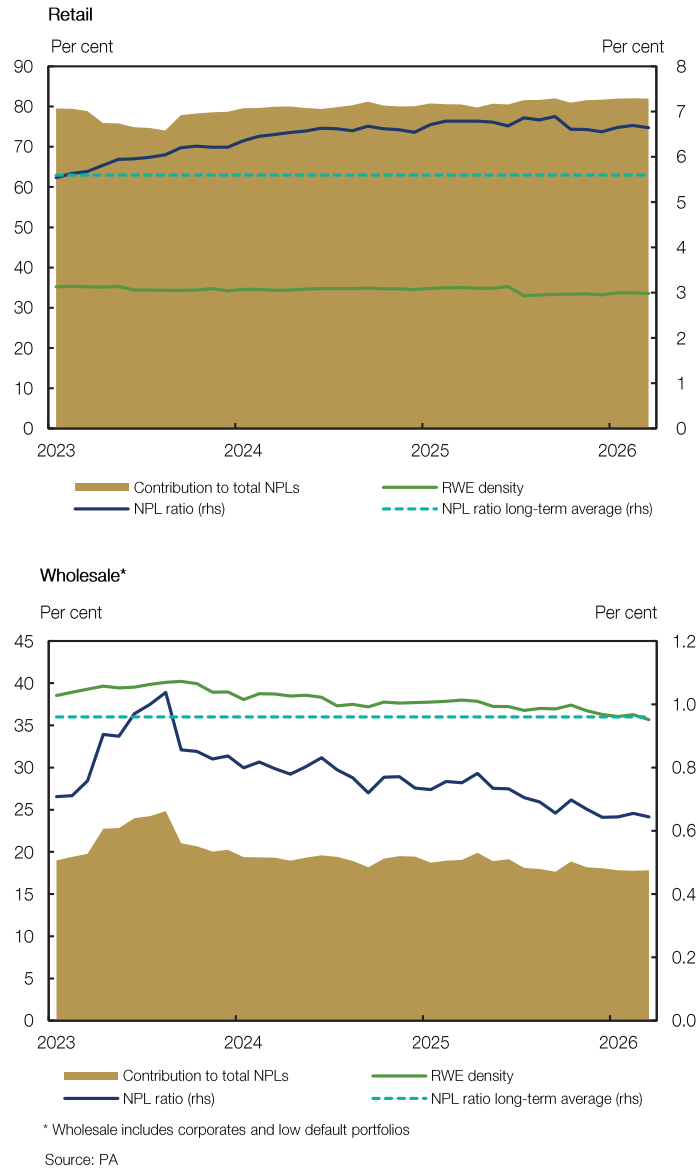


Figure 18: NPLs for banks' retail and wholesale portfolios



Overall, the risk of further financial distress in households has risen slightly since November 2025. Box 4 reflects on the growth in online gambling and buy now, pay later offerings observed in recent years.



Box 4: Online gambling and buy now, pay later

Recent developments in online gambling and buy now, pay later (BNPL) financing may contribute to rising financial vulnerability among households, particularly in an environment of elevated cost-of-living pressures and tighter financial conditions.

The total annual value gambled by South Africans reached approximately R1.50 trillion¹ in 2025, representing a 31.3% year-on-year increase (Figure B4.1).² Gross gambling revenue (GGR), defined as total stakes less winnings paid out, amounted to R74.5 billion, representing a 25.6% increase over the same period. In 2024/25, online betting accounted for about 85% of GGR.

Figure B4.1: Growth in gross gambling revenue

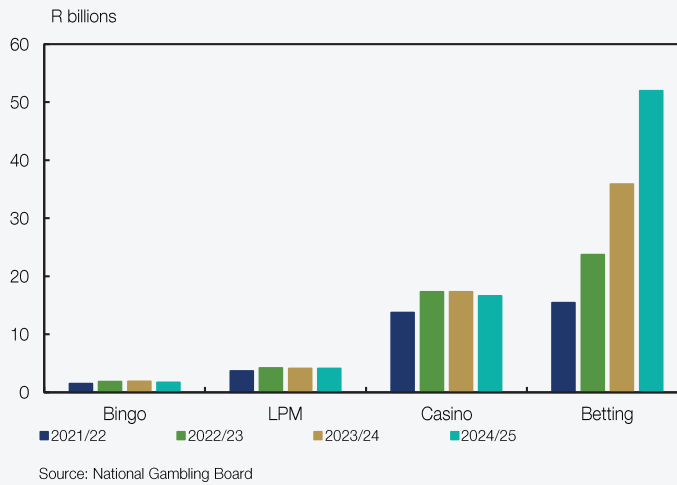
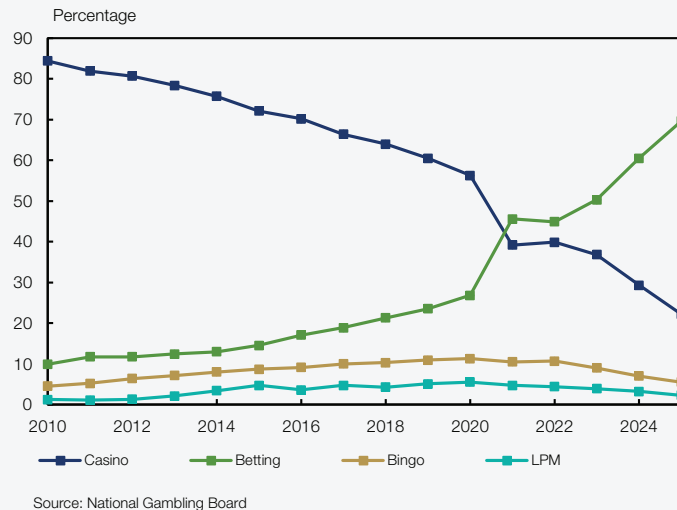


Figure B4.2: Composition of gross gambling revenue



Despite the strong growth, online gambling does not currently pose a systemic vulnerability. However, it may indirectly contribute to financial distress in households as some individuals turn to gambling to supplement their income. For a more detailed discussion on the growth in online gambling in South Africa, refer to Box 1 in the SARB's March 2026 *Quarterly Bulletin*.³

1 This amount represents gambling turnover, which is defined as the rand value of the money wagered and includes amounts staked on more than one occasion.
 2 National Gambling Board, *NGB Annual Report 2024/25*, July 2025.
 3 SARB, *Quarterly Bulletin*, March 2026.

Buy now, pay later

BNPL arrangements are associated with higher average basket values per transaction compared with other payment methods.⁴ This perceived affordability, together with the ability to hold multiple concurrent BNPL obligations, increases the risk of over-indebtedness and may weaken households' overall financial position, potentially exacerbating financial distress.

BNPL refers to short-term, point-of-sale instalment arrangements that allow consumers to purchase goods and receive them immediately, while repaying the purchase price over a fixed period, typically between six weeks and three months. Repayments are generally interest free if made on time. Under these arrangements, merchants receive full payment upfront while paying a commission to the BNPL provider, which assumes the associated collection and default risk. As a result, BNPL arrangements are not fully covered by the existing regulatory remit. Although these arrangements function similarly to consumer credit, they typically fall outside the scope of current credit legislation as no interest is charged on the transactions.⁵

The model appeals to consumers because it reduces upfront payment constraints by spreading purchases into small, interest-free instalments, supported by a seamless interface embedded at checkout points. Approval is typically rapid and based on less rigorous credit checks, rather than the full credit assessments that characterise traditional unsecured credit agreements.

The SARB continues to monitor developments in both areas.

⁴ C Phelane, 'Buy Now, Pay Later: Making Purchases More Manageable (But Proceed with Caution)', IFWG blog, April 2025.

⁵ In South Africa, the National Credit Act 34 of 2005 (NCA) applies to defined credit agreements, including credit facilities where payment is deferred and charges are imposed for the deferral. Although BNPL arrangements involve deferred payment and therefore resemble credit in substance, providers often argue that these products fall outside the NCA because they do not charge explicit interest or upfront fees.

Disruption in critical financial infrastructure and/or services

On 7 April 2026, US-based AI developer Anthropic released its Claude Mythos Preview model, which demonstrated unprecedented autonomous capability in identifying vulnerabilities across widely used software systems (refer to Box 1 in this edition of the *FSR*). Partners granted access through Anthropic's Project Glasswing initiative are actively scanning codebases, binaries and systems, with an initial focus on patching identified vulnerabilities and sharing non-sensitive findings. The deployment of frontier AI models has led to a significant increase in software and IT system vulnerability.

From a financial stability perspective, the key concern is near-term amplification of existing risks rather than a permanent shift in residual vulnerability. The main challenge is that these models intensify the speed and scale at which operational disruptions can propagate through the financial system, including through liquidity spillovers, synchronised failures and contagion. Longer-term effects will depend on whether governance and defensive capacity can keep pace.

A key transmission channel is the disruption of critical financial market infrastructure, particularly payment, clearing, settlement and messaging systems. System outages, payment failures or infrastructure breakdowns can impair the continuous provision of essential financial services. Disruptions to payment systems may constrain liquidity circulation, while outages affecting digital banking or card payment platforms can limit households' and firms' access to funds. If such incidents occur at scale or persist for extended periods, they may impede economic activity and amplify broader financial stress.

Dependence on, and concentration in, third-party service providers further amplify the systemic potential of operational disruptions. Financial institutions increasingly rely on a limited number of technology, cloud and payments infrastructure providers, many of which are foreign-domiciled and subject to external governance, legal and operational frameworks. This creates the financial stability risk that a single point of failure at a shared vendor could simultaneously bypass the individual defences of multiple major institutions. A correlated, systemic outage remains a significant tail risk, which the current multi-regulator framework is still evolving to address. Recent geopolitical developments add an additional layer of vulnerability, particularly through the low probability but potentially high impact of disruptions to cross-border payment, settlement or messaging infrastructure.

Disruption in critical physical infrastructure

An event such as an electricity blackout or a prolonged, widespread water outage could prevent the financial system from providing financial products and services uninterrupted. While contingency measures may be implemented (e.g. back-up generators and water tanks), prolonged outages would eventually disrupt the provision of financial products and services. Investment in such contingency measures means that financial institutions must often divert expenditure from growth-inducing initiatives.

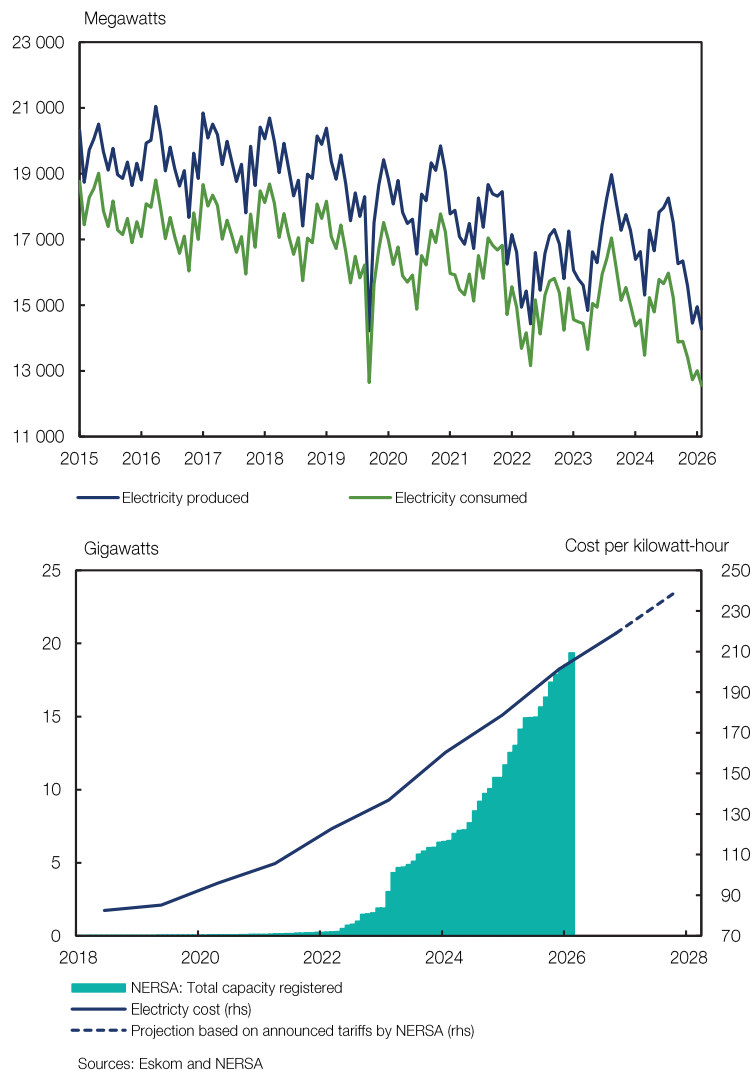
However, should the Middle East conflict escalate to the point of causing fuel shortages, electricity availability could be affected due to Eskom's reliance on diesel-fuelled open-cycle gas turbines during peak periods, as well as potential constraints in other generating capacity. In addition, many contingency plans in the financial sector and beyond rely on diesel in the event of a broader disruption to the electricity grid. Should the risk of diesel shortages materialise, such plans would likely prove ineffective.

Inadequate critical public infrastructure can further affect financial stability through its long-term impact on economic growth, with knock-on effects such as rising unemployment and increasing fiscal pressures. Moreover, for many municipalities, revenues from electricity and water services constitute a significant share of income. Rising electricity prices, increased substitution towards private generation and persistently weak revenue collection risk eroding these revenue bases over time.

The National Energy Regulator of South Africa (NERSA) approved a 8.76% electricity tariff increase from 1 April 2026, with further increases above inflation expected based on tariffs announced by the regulator (Figure 19). Private electricity generation continues to grow, weakening demand for and consumption of Eskom-produced electricity. Should the trend continue, it could result in spillover effects for municipalities generating income from on-selling Eskom electricity.

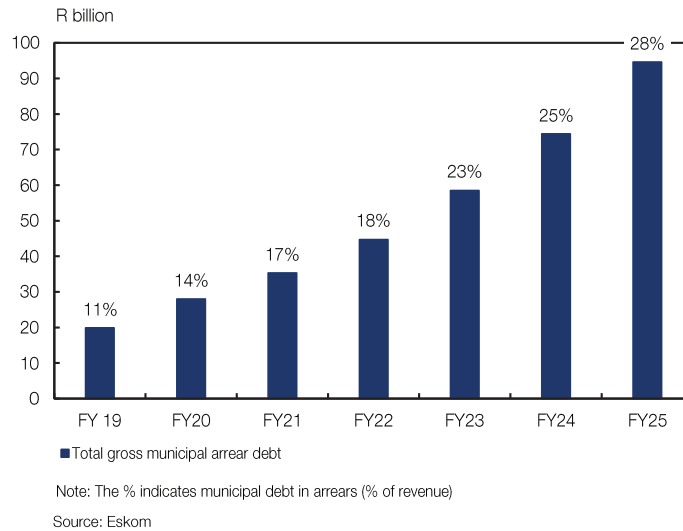


Figure 19: Electricity demand, supply, cost and generation



Financial risk in the electricity sector has increasingly shifted to municipalities. Municipal arrears to Eskom remain elevated, while persistent non-payment continues to constrain Eskom’s cash flow and transmits infrastructure-related risks to the broader financial system (Figure 20).

Figure 20: Rising municipal debt arrears



As with electricity, municipal arrears to water boards continue to rise. The volume of water distributed but not paid for remains high and service delivery is uneven across regions.¹⁵ Although the 2026 National Budget allocates significant resources to water and sanitation investment,¹⁶ widespread municipal financial distress continues to undermine infrastructure maintenance and service provision. The Budget explicitly acknowledges systemic municipal distress, noting that 63% of municipalities were financially distressed in 2023/24, and signals a more interventionist stance, including the use of section 216(2) of the Constitution to halt transfers to persistently non-compliant municipalities. Weak municipal financial positions heighten the risk of spillovers to the balance sheets of provincial and national government as well as financial institutions.

Emerging infrastructure-related risks have also become more prominent. Volatility in global oil markets has highlighted South Africa's sharply reduced domestic oil refining capacity since 2020.¹⁷ Strategic crude reserves offer limited protection in the absence of sufficient refining capacity, while feasibility studies to reopen or expand capacity remain incomplete. Related vulnerabilities include reliance on imported

15 Parliamentary Monitoring Group, [ATC260429: Report of the Portfolio Committee on Water and Sanitation on Quarterly Expenditure Reports and the Municipal Water Debts to Water Boards for the 2024/25 Financial Year](#), Tabled Reports, April 2026.

16 The establishment of the National Water Resource Infrastructure Agency — merging the Trans Caledon Tunnel Authority and parts of the Department of Water and Sanitation — represents a major institutional reform aimed at improving planning, financing and maintenance of national water infrastructure, with full operation targeted by April 2026.

17 Fuels Industry Association of South Africa, *2024 Annual Report*, May 2025.



bitumen – a critical input for road maintenance and construction – alongside the absence of dedicated bitumen terminals at domestic ports, raising costs and adding to execution risks in public infrastructure programmes.

Despite improvements in electricity supply and some progress in logistics and water sector reform, inadequate critical infrastructure – and the risk of disruption thereto – remains a material vulnerability. Heightened geopolitical tension, structural weaknesses at the municipal level and continued pressure on public sector balance sheets have contributed to the increased residual vulnerability of the financial system to disruptions in critical physical infrastructure, as reflected in the RVM.

Low economic growth, inequality, financial exclusion and concentration

South Africa's financial system faces a set of persistent, slow-burning structural vulnerabilities that do not fluctuate with the economic cycle but shape the environment in which financial institutions operate. Low economic growth, high inequality, elevated unemployment and concentration within the financial sector interact to constrain the system's capacity to absorb shocks and sustain inclusive financial intermediation.

Persistently high levels of inequality and unemployment can contribute to elevated social pressures and, in some circumstances, social unrest. Social unrest could impact financial stability by preventing some financial institutions from providing financial products and services uninterrupted, as demonstrated by the July 2021 riots in KwaZulu-Natal. Social unrest threatens financial stability by disrupting economic activity, weakening borrower repayment capacity and undermining confidence in financial institutions. It is also associated with weaker bank performance, lower profitability and reduced financial stability.¹⁸

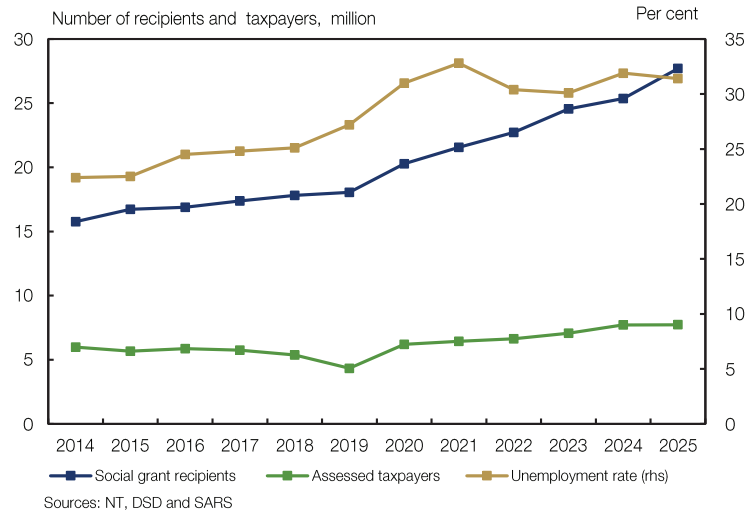
South Africa remains one of the most unequal countries in the world in terms of wealth and income distribution. The World Inequality Index¹⁹ shows that the wealthiest 10% of South Africans own approximately 85% of household wealth, while the highest-earning 10% account for 66.5% of total income. The combination of low and inequitable

18 P K Ozili, 'Country-wide protests and financial stability', *International Journal of Sustainable Economy*, Volume 17, Issue 1, pp. 1-25, December 2024; and B O A Jaara, 'Political instability and banks performance in the light of Arab Spring: Evidence from GCC region', *International Journal of Financial Research*, Sciedu Press, vol. 12(3), pp. 284-299, February 2021.

19 World Inequality Database, graph compilation on [South Africa's income distribution data](#), WID South Africa webpage.

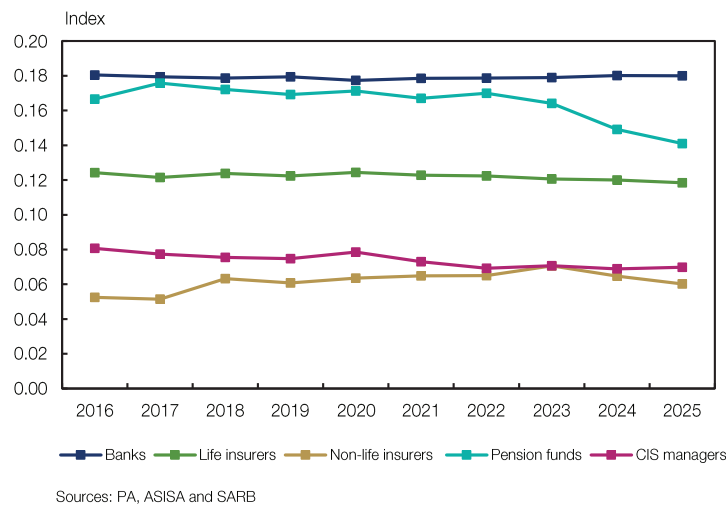
economic growth and high levels of unemployment results in growing dependence on a small number of active taxpayers having to support a growing number of social grant recipients (Figure 21).

Figure 21: Selected indicators of social instability



The financial sector remains highly concentrated, with significant interconnectedness across banks and non-bank financial intermediaries. High levels of concentration and interconnectedness amplify the risk of contagion should a systemically important institution come under stress. The Herfindahl-Hirschman Index (HHI) is a standard measure of market concentration, where an HHI value above 0.2 reflects very high concentration; between 0.15 and 0.2 indicates high concentration; between 0.1 and 0.15 reflects moderate concentration; and below 0.1 indicates low concentration. An HHI value above 0.18 for the banking sector confirms the high level of concentration in this sector (Figure 22).

Figure 22: Herfindahl-Hirschman Index



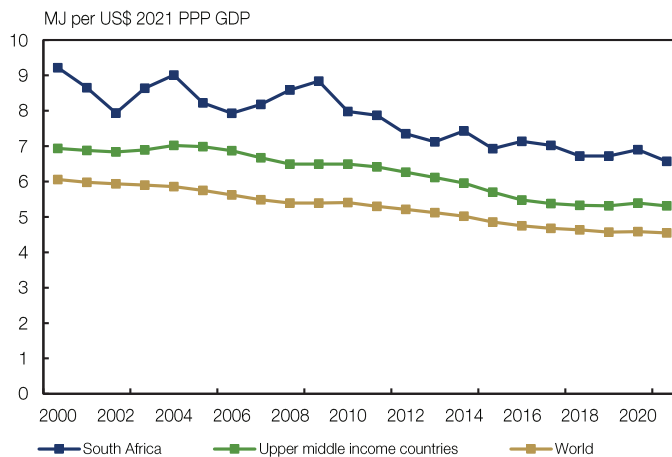
Low economic growth further exacerbates vulnerabilities in the financial sector: in the absence of consistent growth in the pool of potential customers, competition among financial institutions for eligible customers increases. The combination of low GDP growth, high levels of unemployment, pockets of financial exclusion, a largely stagnant tax base and a growing number of social grant recipients presents a persistent, longer-term risk to financial stability. This risk has increased slightly since the November 2025 *FSR*, reflecting the expected negative impact of the Middle East conflict on domestic economic growth.

The impact of climate change on the financial sector

The residual vulnerability of the domestic financial system to the impact of climate change has increased marginally since the November 2025 *FSR* as geopolitical conflict has driven higher and more volatile energy prices. While elevated energy prices strengthen long-term incentives for the transition to renewable energy, near-term responses have typically prioritised energy security and affordability, reinforcing reliance on existing fossil fuel infrastructure.²⁰ South Africa remains significantly more energy-intensive than both upper middle-income peers and the global average, and progress in reducing this intensity has been gradual (Figure 23).

Global transition risks have also increased, reflecting heightened volatility in energy markets and greater uncertainty around the timing and pace of the transition. Prior to the conflict, projections of long-term oil demand were already diverging significantly, with the International Energy Agency’s (IEA) *World Energy Outlook 2025* projecting continued demand growth through to 2050.²¹ Geopolitical fragmentation, including the conflict in the Middle East, shifting policy commitments and a weakening of multilateral climate cooperation, has amplified this divergence in global energy pathways, underscoring the fragility and uncertainty of the transition trajectory.

Figure 23: Energy intensity across selected economies



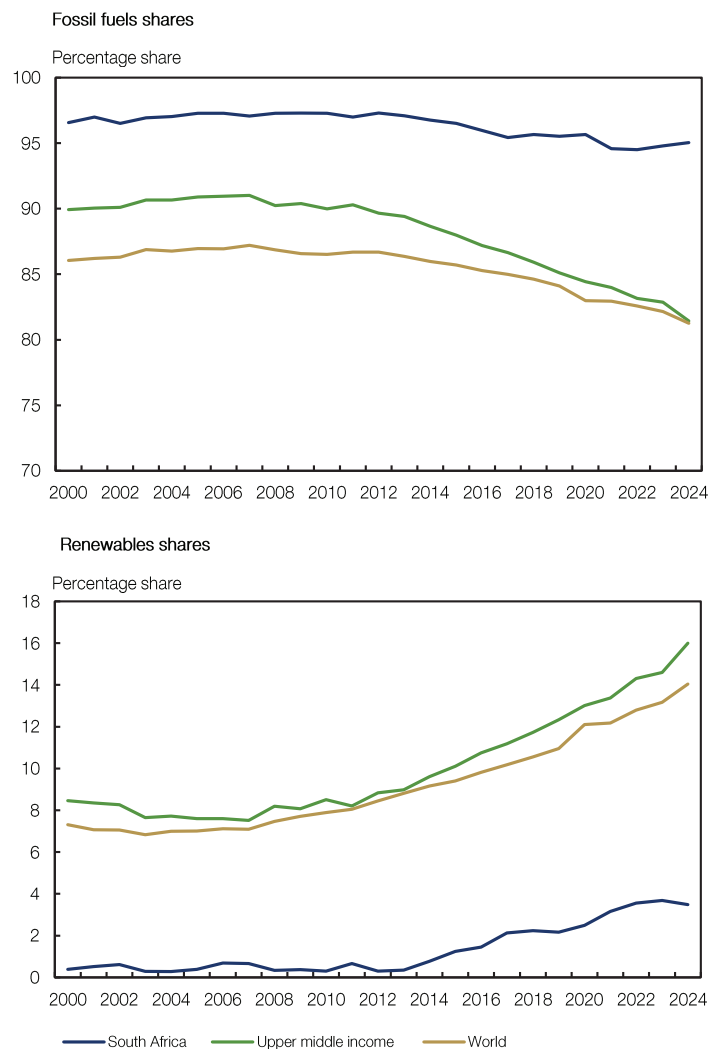
20 This pattern was evident during the most recent episode. The 2022 energy shock saw near-term policy responses prioritise energy security and supply adequacy amid disruptions to global energy markets, with limited acceleration in the transition. See IMF, *World Economic Outlook (WEO) - War Sets Back the Global Recovery*, April 2022; and *WEO - Countering the Cost-of-Living Crisis*, October 2022.

21 IEA, *World Energy Outlook 2025*, November 2025.



Historical evidence suggests that energy price shocks have tended to drive faster improvements in energy efficiency than in energy diversification. Global energy intensity has declined materially over time (Figure 23), cushioning the impact of energy price shocks, while adjustment in the composition of energy consumption has occurred more gradually (Figure 24). The domestic energy mix remains heavily concentrated in fossil fuels, with the fossil fuel share of total energy consumption remaining persistently high relative to both peers and the global average (Figure 24). While the renewable energy share has risen materially at the global level and among upper middle-income peers, South Africa's renewable share remains comparatively low and the gap has widened over time. Together, these trends highlight the relatively slow pace of structural adjustment in the domestic energy mix and imply limited flexibility in responding to changing global energy dynamics and evolving transition pathways.

Figure 24: Total primary energy consumption across selected economies



Sources: International Energy Agency (IEA), United Nations Statistics Division, World Bank

High energy intensity and a fossil-fuel-dominant energy mix amplify the transmission of global transition risks into the domestic financial system. This matters for financial stability because heightened energy price volatility and energy security concerns



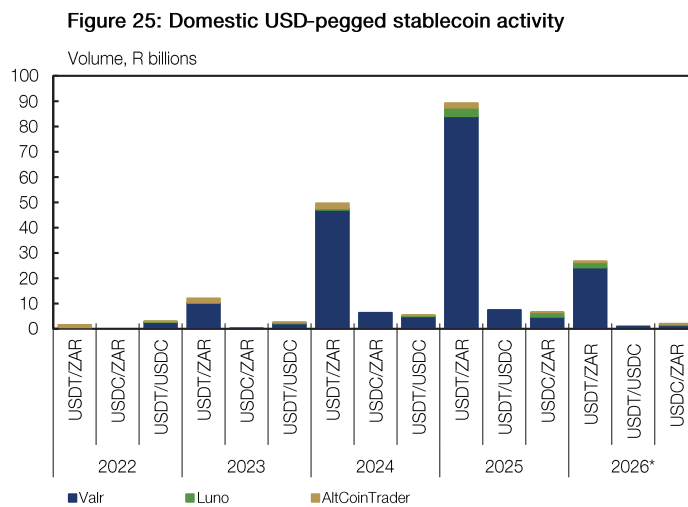
may reinforce near-term reliance on carbon-intensive activities where adjustment towards greener energy sources is constrained, prolonging exposure to transition risk even as incentives for decarbonisation strengthen. Delayed adjustment also increases the likelihood of a more abrupt and disorderly adjustment later, raising the risk of sharp asset repricing and a deterioration in the repayment capacity of borrowers in climate-sensitive sectors.

Emerging risks to financial stability²²

Crypto assets and stablecoins

While crypto asset activity does not currently pose a systemic risk to the domestic financial system, the SARB continues to monitor developments given the pace of growth in global stablecoin activity, evolving cross-border linkages and remaining gaps in the regulatory perimeter.

The number of crypto asset service providers (CASPs) licensed by the Financial Sector Conduct Authority (FSCA) reached 310 at the end of March 2026.²³ In line with global trends, Tether remains the preferred stablecoin domestically for transactions, with on-chain transactions involving Tether across Luno, VALR and AltCoinTrader (ACT) reaching almost R27 billion in the year to 30 April 2026 (Figure 25).



*As at 30 April 2026

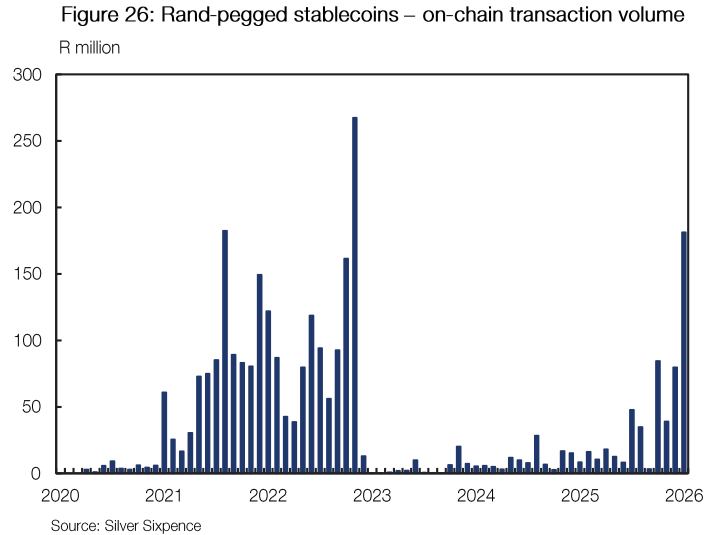
Source: Silver Sixpence

22 These are risks that are not currently systemic, but which the SARB is actively monitoring.

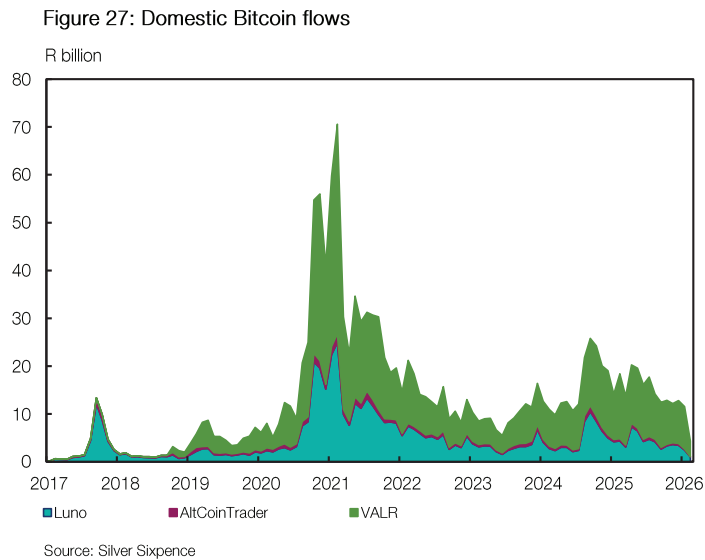
23 FSCA, 'Latest news: Update on licensing and supervision of crypto asset service providers', Press release, April 2026.



The volume of rand-pegged stablecoins in issue remains muted, with the total value of stablecoins in circulation reaching R176 million at the end of January 2026 (Figure 26).



Trading activity at selected CASPs indicates that monthly trading volumes on selected platforms declined from a monthly average of about R19.2 billion in 2025 to around R10.7 billion over the comparable four-month period in 2026 (Figure 27).



Draft regulations were published on 17 April 2026 under the Currency and Exchanges Act 9 of 1933 to include crypto assets in South Africa's capital flow management regime²⁴ and enhance authorities' ability to monitor cross-border crypto asset transactions. In addition, the Conduct of Financial Institutions Bill²⁵ (COFI Bill) will also amend the FSR Act to include "services related to

24 National Treasury, 'Publication of the draft capital flow management regulations, 2026 for public comment', media statement, April 2026.

25 National Treasury envisages obtaining Cabinet's approval to table in Parliament the COFI Bill during the first quarter of 2026. Once tabled, the Bill will be made available for public input as part of the Parliamentary process.



crypto assets” within the definition of financial services, which would further improve regulatory oversight of CASPs.

Policy actions and initiatives undertaken to enhance domestic financial stability

The SARB and other financial sector authorities continued to strengthen the resilience of the domestic financial system through a range of regulatory and supervisory initiatives. Key actions taken since the November 2025 *FSR* include:

- Following the phased implementation of a positive cycle-neutral (PCN) countercyclical capital buffer (CCyB) between 1 January and 31 December 2025, the focus in 2026 shifted to developing indicators to determine the optimal level of the CCyB. The full suite of indicators for South Africa is expected to be finalised in 2027.
- The SARB, through the Financial Sector Contingency Forum (FSCF), continued to strengthen system-wide operational resilience, enhance contingency and recovery arrangements for extreme disruption scenarios and strengthen coordination with industry to support the continued provision of essential financial products and services during systemic events brought on by an operational incident.
- Prudential Standard RA03,²⁶ which details the first loss after capital (Flac) instrument requirements for designated institutions, became effective on 1 January 2026 and the first Flac instruments were issued in the same month. Flac instruments play a key role in ensuring adequate loss absorption and recapitalisation of failing systemically important financial institutions (SIFIs). This reduces reliance on public funds for solvency support while enabling SIFI banks to continue to perform critical functions.

While not operational yet, the SARB intends to make deposit facilities available to central counterparties by the end of 2026. Box 5 discusses this development in detail.

²⁶ PA, 'Prudential Standard RA03: Flac instrument requirements for designated institutions', December 2024.

Box 5: SARB deposit facilities for central counterparties

Central counterparties (CCPs) are financial market infrastructures (FMIs) that facilitate the clearing of trades in financial instruments such as bonds and derivatives. Their fundamental role is to serve as ‘the buyer to every seller and the seller to every buyer’ by interposing themselves between counterparties after trade execution. This allows market participants to face a single entity, the CCP, rather than engage in a more complex web of transactions with multiple counterparties.

Central clearing has grown in importance since the global financial crisis for several reasons. It promotes transparency, supports sound market practices such as adequate margining and facilitates efficient capital management through netting, whereby institutions maintain a single net exposure to the CCP rather than multiple exposures to numerous counterparties. However, the widespread adoption of central clearing also means that CCPs have become systemically important (i.e. too important to fail). Their contribution has now become foundational to normal market operations, similar to other critical FMIs such as the high-value payment system the South African Multiple Option Settlement (SAMOS).

A distinctive feature of CCPs is that they centralise and assume counterparty credit risk. For example, if two firms agree on a trade and one defaults before the trade matures, the surviving firm continues to face the CCP, which must still fulfil its obligations in accordance with its rulebook.¹ To manage this risk, CCPs require margin payments from counterparties, designed to cover potential future exposure in the event of a default. This mechanism protects non-defaulting participants and helps limit systemic contagion.

These margin funds, similar to security deposits, must be kept safe and accessible, especially under stress conditions. For this reason, CCPs typically invest their margin funds in low-risk, highly liquid assets. Many CCPs globally have access to central bank deposit facilities, which offer unrivalled safety and liquidity (i.e. central banks operating fiat currency systems can always honour local currency obligations and, since central bank money represents the final means of settlement, it offers maximum liquidity).

To date, the SARB has not offered deposit facilities to CCPs in South Africa. However, to strengthen the resilience of the clearing ecosystem and thereby better protect financial stability, these facilities will be introduced in 2026, in keeping with global best practice.

At present, there is one CCP operating in South Africa, JSE Clear. It holds margin funds of approximately R60–R70 billion, raised from market participants including bank counterparties. To date, these funds have been reinvested in banks, mainly in the top five banks. This creates a circularity concern (i.e. wrong-way and concentration risk), whereby margins held against exposures cleared by the banks are mostly redeposited in the same banks. The introduction of a SARB deposit facility will help mitigate this risk, with the bulk of the margin fund, roughly R40 billion, moving to the SARB this year. The balance, which will be used to manage routine liquidity flows, will be diversified across a range of banks.

This transition will be timed to coincide with other liquidity flows, mainly those related to the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) settlements, to minimise volatility in the overall market liquidity position. Transfer timelines will be published in advance to facilitate smooth market functioning.

For the SARB, this change is expected to be cost-neutral. One SARB liability will expand (the CCP deposit) but that will be offset by a matching decline in another (excess reserves of banks), and as the two earn the same interest rate – the policy rate – the cost is the same. In future, the SARB may extend such facilities to other CCPs to support its financial stability mandate.

¹ This distinguishes CCPs from various other kinds of FMIs that generally do not mutualise counterparty credit risk.



Glossary

- **Financial stability risk:** A risk refers to any adverse development that could prevent financial institutions from providing financial products and services, and financial market infrastructures from performing their functions and duties in terms of financial sector laws, without interruption and without a loss of general confidence in their ability to do so, despite changes in economic circumstances.
- **Vulnerability:** A characteristic of the financial system that increases the likelihood and/or impact of a financial stability risk materialising.
- **Shock:** An event that may trigger the realisation of a financial stability risk.
- **Amplifier:** A property, factor or action that increases the vulnerability.
- **Mitigant:** A property, factor or action that reduces the vulnerability.
- **Transmission channels or mechanisms:** The channels through which the materialisation of a financial stability risk could cause financial instability.
- **Residual vulnerability:** The assessed vulnerability after considering mitigants.
- **Resilience:** A characteristic of the financial system that decreases the likelihood and/or impact of a financial stability risk realising.
- **Financial market infrastructures:** FMIs include payment market infrastructures and market infrastructures (i.e. exchanges, central securities depositories, central counterparties, clearing houses and trade repositories).
- **Flac instrument:** An unsecured debt instrument issued by a financial institution designated as systemically important or its holding company that meet the requirements set out in section 8 of Prudential Standard RA03: Flac instrument requirements for designated institutions.

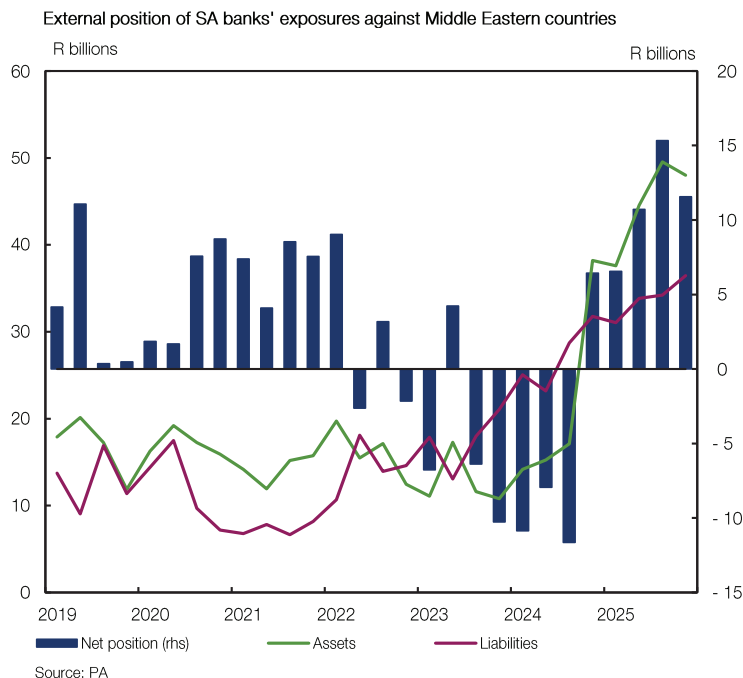
Annexure A: Sectoral indicators and overview

Banking sector

The South African banking sector continues to operate in a challenging global environment characterised by elevated uncertainty, heightened geopolitical tensions and tighter global financial conditions. Although direct cross-border exposures to conflict-affected jurisdictions remain limited, banks are indirectly exposed through global risk sentiment, capital flows, funding conditions and developments in key trading partners. These indirect channels constitute an external risk to financial stability, with potential implications for funding costs, asset valuations and confidence. Despite these headwinds, the domestic financial system and banking sector remain resilient.

South African banks' foreign exposures remain concentrated in major financial and trading partners, notably the UK, US, core-European Union (EU)²⁷ and China as can be seen in Figure A1. Aggregate positions vis-à-vis the Middle East are modest, while direct exposures to Russia and Ukraine remain negligible. As a result, geopolitical risks are more likely to materialise through higher global risk premiums, tighter financial conditions and spillovers to asset prices and capital flows, rather than through direct credit or counterparty losses. This exposure profile limits the risk of abrupt balance sheet stress arising from geopolitical shocks but leaves the banking sector sensitive to shifts in global funding and confidence conditions.

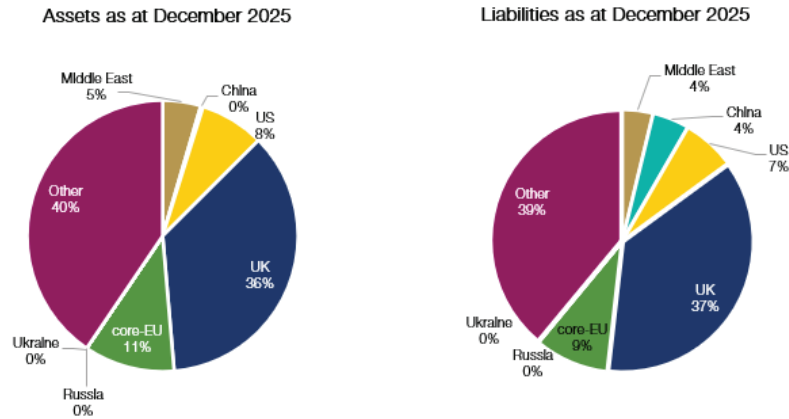
Figure A1: South African banks' cross-border exposures remain concentrated in major partner economies



²⁷ Core-EU comprises only counterparties in the EU to which South African banks have the largest exposures and not the entire EU. These EU countries include France (including French Guiana, French Southern Territories, Guadeloupe, Martinique, Mayotte, Monaco, Réunion and St. Pierre and Miquelon), Germany (including the European Central Bank), Italy and the Netherlands.



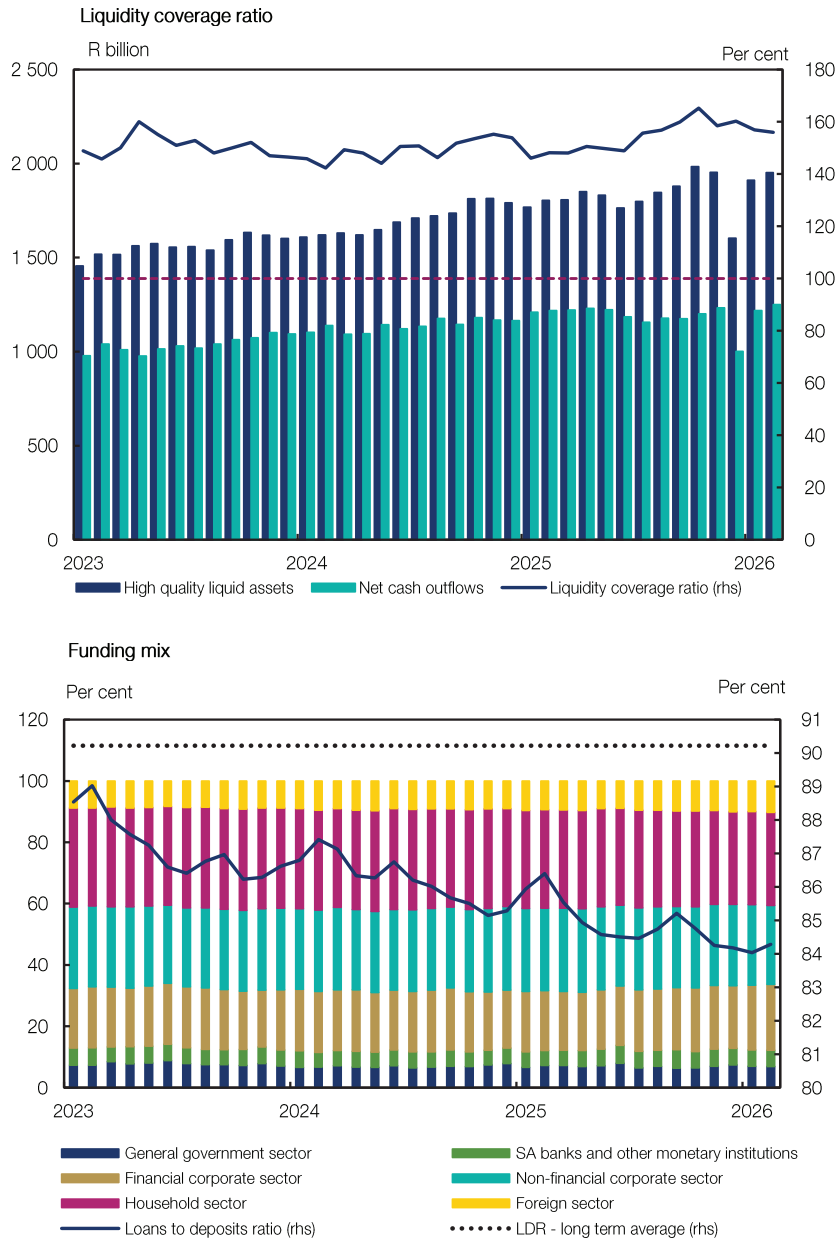
South African banks' cross-border exposures remain concentrated in major partner economies



Liquidity and funding conditions remain a key pillar of resilience. High-quality liquid assets have continued to increase over time, outpacing the growth in net cash outflows and keeping the liquidity coverage ratio comfortably above regulatory requirements (Figure A2). At the same time, the loans-to-deposits ratio has declined and remains below its long-term average. This indicates that deposit growth has outpaced loan growth, reducing balance sheet stretch and supporting liquidity resilience. This configuration reduces rollover and liquidity risk and provides a buffer against episodes of funding market volatility, which could arise in a risk-off global environment.



Figure A2: Strong liquidity buffers and a more conservative funding structure support resilience



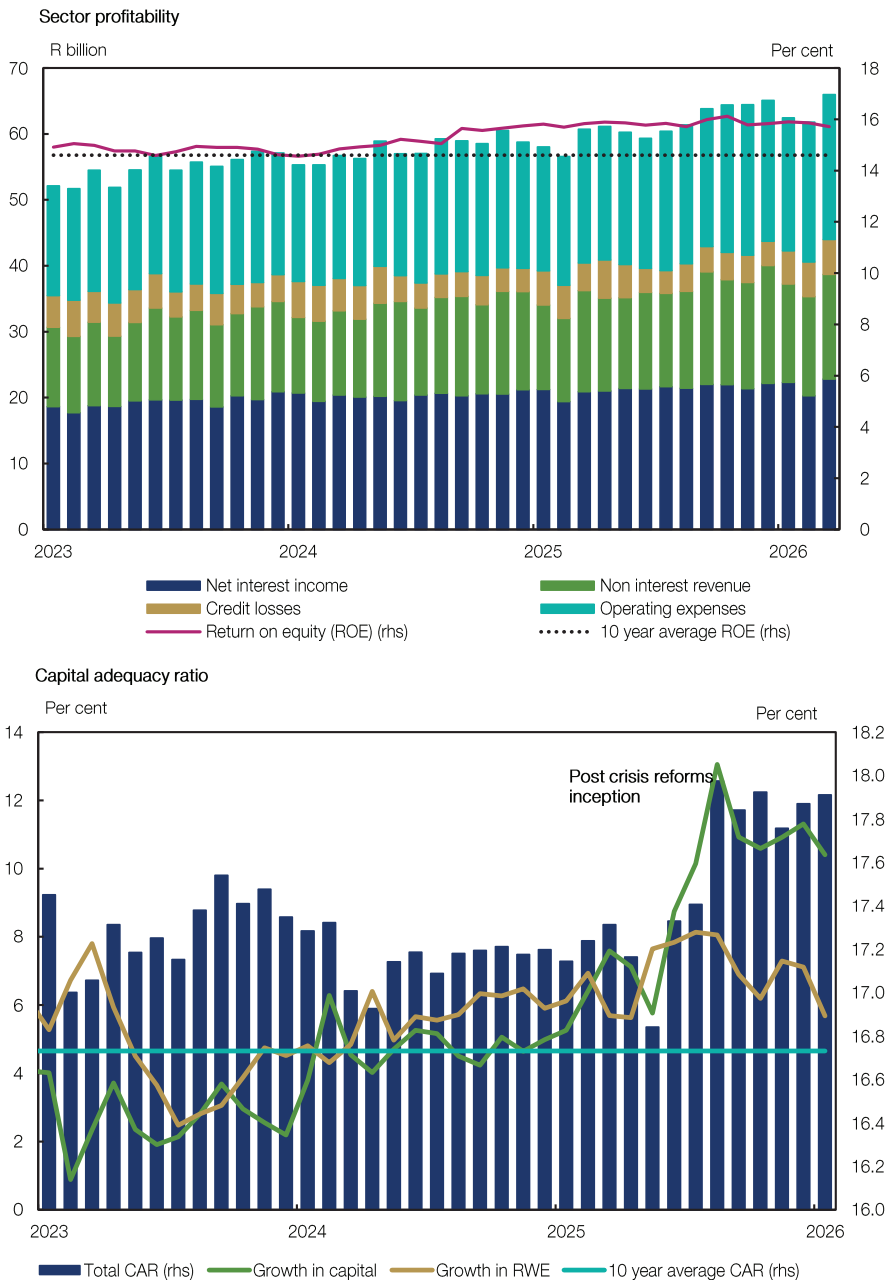
Source: PA

Profitability and capital buffers continue to support financial stability, although the composition of earnings is slightly different since September 2024 when interest rates started to decline. Net interest income increased steadily over the period July 2025 to December 2025, reflecting the lagged benefits of higher policy rates, but this momentum is expected to moderate as rates decline (Figure A3). At the same time, operating expenses have continued to rise and credit losses remain consistent, though they pose a persistent drag on earnings. Nevertheless, return on equity has remained broadly stable and above its long-term average, suggesting that banks retain earnings capacity even as macroeconomic conditions soften.



Capital adequacy remains sound, with the total capital-adequacy ratio consistently above its long-term average. Growth in regulatory capital has broadly kept pace with risk-weighted exposure growth, indicating that banks have maintained buffers rather than run them down. This capital position provides loss-absorbing capacity should downside risks materialise, particularly if global financial conditions tighten abruptly or domestic growth weakens further.

Figure A3: Profitability remains robust while capital buffers are preserved

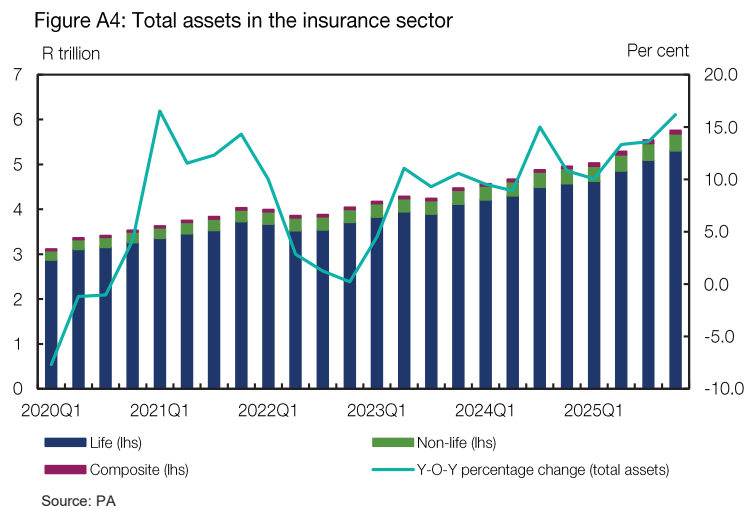


Source: PA

Overall, the banking sector remains resilient to current macro-financial and geopolitical risks. While heightened global uncertainty may give rise to indirect spillovers through financial markets and external conditions, existing buffers and prudent balance sheet structures continue to support financial stability.

Insurance sector

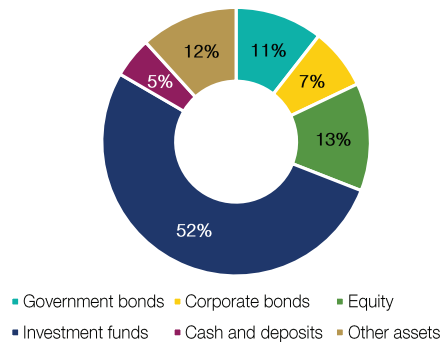
Total assets in the insurance sector registered over R5 trillion (Figure A4), predominantly driven by strong growth in equity markets by the end of 2025. The concentration of life insurance assets in equity-focused investment funds (Figure A5) and direct equity investments results in material exposure to equity markets. As a result, recent global economic developments are expected to affect investment portfolio returns, as historically observed during the 2020 COVID-19 period of stress.



While material equity exposure is concentrated in linked portfolios – limiting immediate capital stress²⁸ for insurers – elevated geopolitical tensions can weigh on life insurers' profitability by increasing equity market volatility and reducing fee-based and investment income. However, insurers manage these risks through strong capital buffers, diversified income streams, active investment and rebalancing strategies as well as close monitoring of policyholder behaviour – acting as a mitigant against these vulnerabilities.

²⁸ Changes in asset values primarily affect policyholder values, not the insurer's own balance sheet.

Figure A5: Composition of total assets in the insurance sector: 2025Q4



Source: PA

Non-bank financial institutions

Collective investment schemes (CISs), as the largest part of other financial intermediaries (OFIs),²⁹ continued to grow during the period under review, recording assets under management (AUM) of R4.6 trillion at the end of December 2025 (Figure A6). Multi-asset funds, the biggest contributor to both CISs and OFIs, grew to R1.9 trillion in December 2025 (from R1.8 trillion in June 2025), while money market funds (MMFs) decreased to R431 billion (from R445 billion) over the same period (Figure A6). The growth in multi-asset funds and CISs was mostly due to the robust performance of the equity market, underpinned by rising precious metals prices and a rally in mining shares. The decrease in MMF AUM, despite the overall growth in CISs, was due to a combination of lower interest rates, relative return compression and portfolio reallocation by investors.

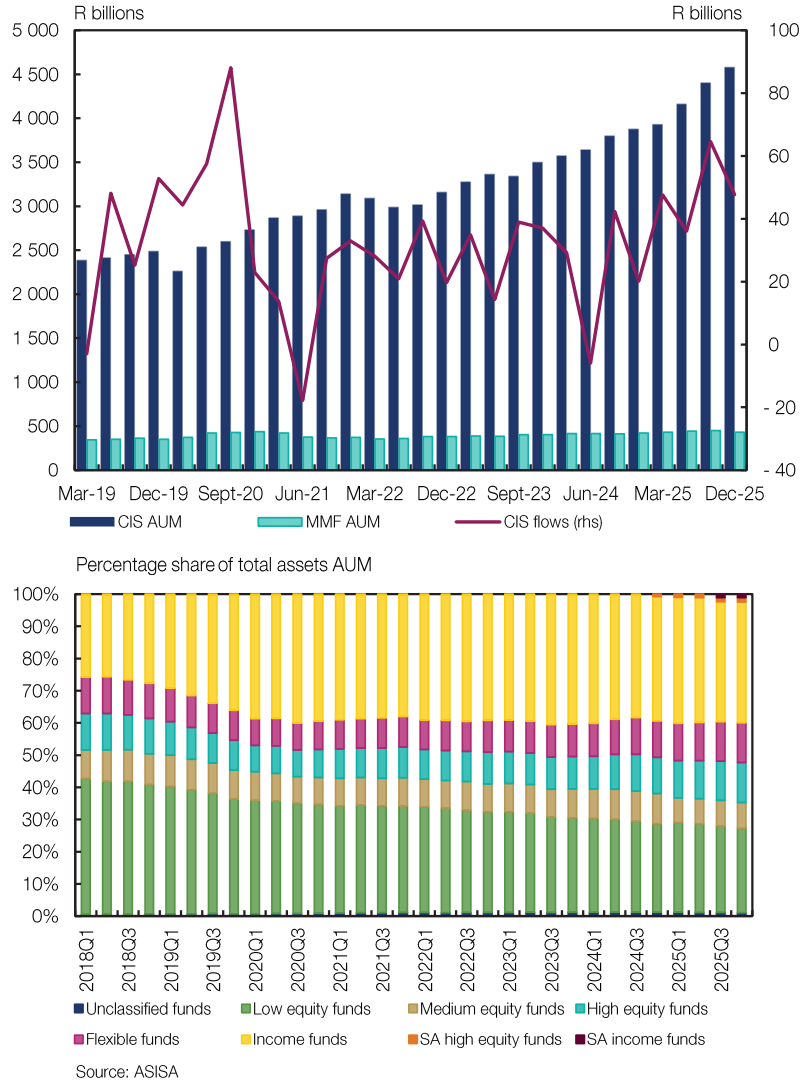
Although hedge funds make up a relatively small part of OFIs,³⁰ Figure A6 illustrates a strong and sustained increase in the net asset value (NAV) of hedge funds, rising to approximately R274 billion by the end of 2025, reflecting both investor inflows and the evolution of the domestic industry. The growth during the period under review was driven by significant growth in retail hedge funds.

²⁹ OFIs in this instance refer to non-bank financial intermediaries, excluding insurance companies and pension funds.

³⁰ At the end of 2024, hedge funds contributed 5.4% to total OFI AUM.

Hedgefunds are associated with leverage, liquidity mismatches and interconnectedness with the banking sector, most notably through prime brokerage relationships that create channels through which shocks can be amplified and transmitted. However, the robust domestic regulatory framework mitigates possible vulnerabilities.

Figure A6: CIS and MMF AUM and CIS flows (top) and multi-asset funds AUM (bottom)



Source: ASISA



Annexure B: Banking and insurance sector indicators

Table B.1: Banking sector indicators*

	2021	2022	2023	2024	2025	2026***
Market share in terms of assets (five largest banks)	92.35	92.13	92.29	92.26	92.34	93.02
Gini concentration index	82.68	82.36	80.28	80.16	80.37	79.23
Herfindahl-Hirschman Index (H-index)	0.18	0.18	0.18	0.19	0.18	0.18
Total assets (R billions)	6 562.1	7 019.7	7 489.9	8 045.7	8 528.2	8 983.9
- Year-on-year percentage change	1.74	6.96	6.77	7.39	6.35	8.99
Total loans and advances (R billions)	4 642.9	4 983.9	5 349.9	5 741.9	6 045.6	6 250.6
- Year-on-year percentage change	2.25	7.33	7.41	7.29	5.65	6.24
Total capital adequacy ratio	17.48	17.68	17.36	17.21	17.41	25.08
Tier 1 capital adequacy ratio	14.47	14.96	15.01	14.99	15.22	24.66
Common equity tier 1 capital adequacy ratio	13.29	13.62	13.43	13.29	13.44	24.66
Impaired advances (R billions)**	229.29	226.68	276.83	300.53	306.70	301.55
Impaired advances to gross loans and advances	4.94	4.55	5.17	5.34	5.10	4.82
Specific credit impairments (R billions)	105.45	109.74	127.15	141.05	145.76	144.64
Specific credit impairments to impaired advances	46.05	48.43	45.96	46.92	47.52	47.95
Specific credit impairments to gross loans and advances	2.27	2.20	2.38	2.51	2.42	2.31
Return on assets (smoothed)	0.81	1.12	1.11	1.13	1.18	1.19
Return on equity (smoothed)	10.51	14.25	14.84	15.14	15.67	15.69
Interest margin to gross income (smoothed)	58.64	58.79	60.15	60.46	59.26	58.52
Operating expenses to gross income (smoothed)	58.82	58.06	56.57	56.87	57.02	56.76
Liquid assets to total assets (liquid asset ratio)	13.3	14.0	14.9	15.0	15.9	15.9
Liquid assets to short-term liabilities	24.1	25.2	27.5	27.3	28.1	28.9
Liquidity coverage ratio	144.1	145.4	150.6	148.6	153.6	157.3
Gini concentration index	82.7	82.7	80.2	80.2	80.4	79.2

* Updated as at 13 May 2026. All figures are in percentages unless indicated otherwise.

** Impaired advances are advances in respect of which a bank has raised a specific impairment and include any advance or restructured credit exposure subject to amended terms, conditions and/or concessions that are not formalised in writing.

*** 2026 is year to date (to Mar 2026).

Source: PA

Table B.2: Insurance sector indicators

	2021	2022	2023	2024	2025
Market share in terms of assets (five largest life insurers)	73	74	71	71	71
Market share in terms of gross written premiums (five largest non-life insurers)	50	49	45	47	47
Balance sheet					
Total assets: life insurers (R millions)	3,724	3,705	4,115	4,570	5,301
Total assets: non-life insurers (R millions)	260.6	290.1	308.3	336.1	377.0
Total liabilities: life insurers (R millions)	3,344	3,354	3,723	4,162	4,892
Total liabilities: non-life insurers (R millions)	178.5	121.5	121.5	118.0	205.0
Profitability					
Gross written premiums: life insurers (R millions)	622.4	638.9	681.1	722.2	787.8
Net profit before tax and dividends: life insurers (R millions)	45.4	36.3	79.6	80.9	90.7
Individual lapse ratio: life insurers	77	76	64	55	69
Gross written premiums: non-life insurers (R millions)	167.2	186.1	210.3	227.4	243.7
Combined ratio: non-life insurers (%)	119	98	101	95	94
Operating profit ratio: non-life insurers (%)	-11	18	27	22	35
Solvency and capital					
Solvency capital requirement cover ratio (median): life insurers	1.7	1.7	1.9	1.8	1.8
Minimum capital requirement cover ratio (median): life insurers	4.2	4.7	4.9	4.9	4.7
Solvency capital requirement cover ratio (median): non-life insurers	1.8	1.5	1.7	1.8	1.8
Minimum capital requirement cover ratio (median): non-life insurers	3.8	3.7	4.3	4.2	4.5

Source: PA



Abbreviations

AI	artificial intelligence
Alsi	JSE All-Share Index
ARA	Assessing Reserve Adequacy
API	application programming interface
ASISA	Association for Savings and Investment South Africa
AUM	assets under management
BIS	Bank for International Settlements
BNPL	buy now, pay later
CASP	crypto asset service provider
CCP	central counterparty
CCyB	countercyclical capital buffer
CIS	collective investment schemes
CPU	Central Processing Unit
credit gap	credit-to-GDP gap
DSD	Department of Social Development
EU	European Union
FCI	Financial Conditions Index
FSC	Financial Stability Committee
FSOC	Financial Stability Oversight Committee
FSCA	Financial Sector Conduct Authority
FSCF	Financial Sector Contingency Forum
<i>FSR</i>	<i>Financial Stability Review</i>
FSR Act	Financial Sector Regulation Act 9 of 2017
FX	foreign currency
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GDP	gross domestic product
GGR	gross gambling revenue
HHI	Herfindahl-Hirschman Index
IEA	International Energy Agency
IIF	Institute of International Finance
IMF	International Monetary Fund
IT	information technology
JSE	Johannesburg Stock Exchange
lhs	left-hand scale
MMF	money market funds
NAV	net asset value
NBFI	non-bank financial institution
NERSA	National Energy Regulator of South Africa
NPL	non-performing loan
NT	National Treasury
OFI	other financial institution
PA	Prudential Authority
P/E	price earnings ratio
QPM	Quarterly Projection Model

R/ZAR	rand
rhs	right-hand scale
RVM	Residual Vulnerability Matrix
RWE	risk-weighted exposure
SAA	strategic asset allocation
SADC	Southern African Development Community
SAGB	South African government bond
SAMOS	South African Multiple Option Settlement (system)
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDR	Special Drawing Rights
UK	United Kingdom
US	United States



