



SOUTH AFRICAN RESERVE BANK

**Remarks by Rashad Cassim,  
Deputy Governor of the South African Reserve Bank,  
at the Annual Financial Markets Cocktail Engagement,  
Sandton, Johannesburg**

**4 September 2025**

Good evening, esteemed guests. It is my pleasure to welcome you all to the Annual Financial Markets Cocktail Engagement. Tonight's gathering reaffirms the strong and trusted relationship we share.

As you all know, we are currently living and operating in an unsettled environment. Geopolitical and trade tensions, alongside climate-related risks, soaring government debt and rapid technological advances, continue to challenge financial markets worldwide. Policy uncertainty has reached levels that rival, and sometimes even exceed, crisis episodes like the bankruptcy of Lehman Brothers or the onset of the COVID pandemic.<sup>1</sup>

Rather than focusing on the current domestic and global market developments, my intention this evening is to give you an overview on the progress made in the work by our Financial Markets Department. Key initiatives include ongoing enhancements to our monetary policy implementation framework (MPIF), the development of collateralised lending markets, the transition from the Johannesburg Interbank Average Rate (Jibar) to the South African Rand Overnight Index Average (ZARONIA), and an update on foreign exchange reserves.

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<sup>1</sup> Bloomberg's US Economic Policy Index readings: current (as of 27 August 2025) 753.8; March 2020, 516.6; and September 2008, 626.0.

## **Monetary policy implementation: Improving short-term funding market rates and resilience**

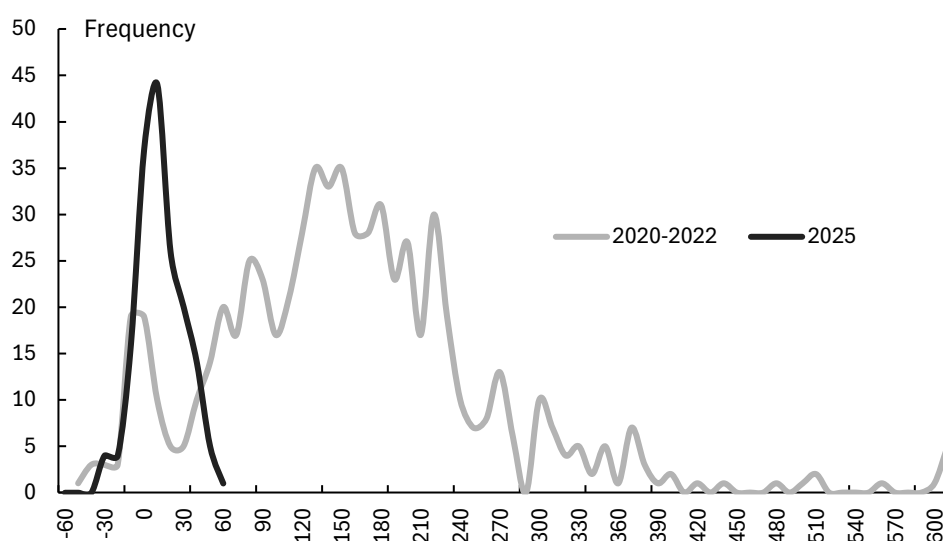
Let me begin with the MPIF, which has been operational as a surplus system for nearly three years. Recently, our Financial Markets Department conducted in-depth discussions with several commercial banks and non-bank financial institutions to assess its performance. The consensus is that the MPIF reform has enhanced policy transmission and financial stability, making the system more robust and operationally streamlined than its predecessor.

A prominent change is increased market liquidity. By remunerating reserves at the policy rate, we have removed the incentive for banks to minimise cash balances – a marked improvement compared to the previous shortage system, where excess reserves incurred penalty rates. During times of crisis, this setup offers us more flexibility to provide additional liquidity as needed, without distorting monetary policy transmission. Our ability to pay interest on reserves means we can anchor interest rates at different levels of surplus liquidity. This supports financial stability.

Of course, if you make it easier for banks to hold on to excess reserves, they have less incentive to offload them. This is why pure floor systems, globally, have led to much lower interbank activity. South Africa's system is a tiered floor, deliberately designed so that reserve balances above quotas earn a lower rate, encouraging ongoing interbank market activity and preventing liquidity from pooling up in only one or two banks. While the interbank market now serves more as a backstop than a funding benchmark, it remains functional.

Beyond the interbank market, our new MPIF has helped reduce volatility in other short-term rates, mirroring experiences in other countries with surplus systems. For instance, pricing in the FX forward market has improved compared to the first couple of years after the pandemic. More specifically, spreads have narrowed and the average for the year now closely tracks the policy rate.

Chart 1: FX implied-repo spreads (basis points)<sup>2</sup>



In our recent deep-dive with banks, most institutions indicated satisfaction with their liquidity surplus levels and allocated quotas, with moderate increases to their surplus levels easily accommodated. We are investigating what constitutes 'moderate' and assessing longer-term limits to surplus absorption, especially as the surplus has grown from about R45 billion to around R160 billion over the past three years.

The SARB, as always, will monitor short-term funding markets and engage with market participants and other stakeholders to ensure ongoing market stability and effectiveness.

### **Advancing market collateralisation**

Globally, financial markets are increasingly relying on collateralisation to limit credit risk. Our domestic markets, however, are plagued with market frictions, infrastructure gaps, legal ambiguities and restricted access, which hamper the use of collateral.

For example, there are legal and regulatory constraints, such as Board Notice 90, which prevent money market funds from acting as cash lenders, whereas in other countries they play a vital role in repo markets. Repo activity is further hindered by pricing frictions: fund providers typically prefer very short maturities, while asset

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<sup>2</sup> The year-to-date FX implied repo spread average (as of 29 August 2025) is -6.4 basis points.

managers and insurers seek longer terms, creating mismatches that drive up costs. In addition, market infrastructure has remained manually intensive and limited in scope, the Johannesburg Stock Exchange (JSE) does not yet accommodate classic or triparty repos and settlement lacks the automation and netting processes seen globally.

The SARB, in collaboration with private sector participants through the Financial Markets Liaison Group (FMLG), is actively pursuing reforms to address these bottlenecks. Initiatives include enabling triparty collateral management, expanding repo functionality at the JSE, clarifying the legal treatment of repos and exploring regulatory changes that would allow a wider set of participants (such as money market funds) to contribute liquidity. Together, these initiatives aim to align South Africa's markets with international best practices.

The SARB is also modernising its collateral management infrastructure by introducing a triparty collateral management (TCM) agency model. Triparty arrangements optimise collateral allocation, enable automated substitutions and enhance risk management across counterparties. An implementation roadmap is in place, with a Proof of Concept launching this month, followed by a position paper and market feedback. The end goal is a more efficient collateral market where assets can move more easily between participants, risks are managed in real time and funding costs are reduced. In short, this reform will bring South Africa's collateral markets closer to global standards and make them more resilient in times of stress.

## **Reforming domestic reference rates**

Turning to reference rate reform, the transition from Jibar to ZARONIA stands out as one of the most significant market shifts in recent years.

It is encouraging to observe the recent acceleration in the adoption of ZARONIA across derivative and cash markets since the ZARONIA First initiative started in May 2025. The London Clearing House (LCH) reports that notional exposures in ZARONIA-linked instruments have surged from R6.4 billion to R198 billion this year. While this increase is commendable, domestic Jibar-related exposures remain relatively high. Recent estimates indicate total gross exposures of about R44.7 trillion, 91% of which

are derivatives. This underscores the need to intensify efforts to encourage market participants to reference ZARONIA in financial contracts.

To support this transition, the SARB has published relevant materials on its website, including market conventions, and infrastructure providers have upgraded systems for ZARONIA-linked trading and settlement. The Market Practitioners Group has recommended fallback rate language for contracts and Bloomberg's appointment as the credit adjustment spread calculation agent was a key milestone, enabling the International Swaps and Derivatives Association (ISDA) to include ZARONIA in its updated Interest Rate Definitions and Protocol.

As we navigate this transition, we remain vigilant regarding the risks of delayed adoption, especially the potential for cliff-edge effects if legacy contracts are not renegotiated in time.

### **Foreign exchange reserves**

Finally, let me just comment briefly on our foreign exchange reserves.

Historically, South Africa has held a relatively low level of FX reserves. International assessments, such as the IMF Article IV reports, have often encouraged more reserve accumulation. We have responded by expanding reserves, and interestingly it has grown by about \$20 billion over the past ten years to the current total holdings of around \$69 billion. This positions us closer to meeting key adequacy benchmarks and bolsters our resilience and competitiveness. If further attractive opportunities arise, we would be able to continue to accumulate reserves.

### **Conclusion**

The SARB remains committed to inclusive engagement with domestic stakeholders. We will continue to collaborate with market participants through the established working groups, consultations and joint research programmes to foster a transparent, resilient and future-ready financial ecosystem.

Thank you for your continued partnership. Please enjoy the rest of the evening.