SOUTH AFRICAN RESERVE BANK

Keynote address by Lesetja Kganyago,
Governor of the South African Reserve Bank,
at
Stellenbosch University, 25 September 2025

More or less regulation: Responding to a changing global environment

Good evening.

It is always a great pleasure to engage with the students and staff of Stellenbosch University. I extend my gratitude to the Law Faculty for the invitation to speak with you today.

In my capacity as Chancellor of this university, I wish to acknowledge Mr Gys Steyn for establishing the Gys Steyn Chair in Financial Regulation Law. In South Africa, we need more interdisciplinary academic work on financial stability issues to both inform policy and build stronger relationships with financial regulators and policymakers.

I have been involved in financial sector policymaking for close to four decades, both locally and internationally. Over this time, financial stability risks have continuously evolved, and financial regulators have, on far too many occasions, been too slow to identify and respond to them. As we have seen with the Great Financial Crisis (GFC), regulators' inability to anticipate these risks clearly demonstrated the enormous cost of overlooking these issues.

Today, I will address the global regulatory landscape and tackle the following four questions:

1. Why is the financial sector subject to regulation?
2. How did we get to Basel III and what has it cost us?
3. How are the risks to the financial system evolving?
4. How do we develop the necessary skills to manage risks effectively?

Why is the financial sector subject to regulation?

Consider a scenario where you arrive at your bank and you are suddenly unable to withdraw your savings because the institution cannot meet its obligations. An even more serious scenario would be a banking crisis occurring alongside an economic crisis like the one we experienced during COVID-19 − where you not only lose your job but all your savings as well.

The goal of financial regulation is to prevent economic and financial crises by building a system we can all trust. This means requiring banks to keep a financial safety cushion to absorb unexpected losses, while at the same time protecting people and businesses from scams, cheating and illegal trading.

The nature of the financial system is such that there are often long lags between when someone makes a commitment and when you find out if that commitment is really valid. If you go to a shop and buy fruit, and the fruit is rotten, you will know within a few days, and you can go right back to the store and address the problem. But if you put your money into the financial system − in a bank maybe or with an asset manager − you may only want it back much later, perhaps years later, at which point you could get a bad surprise that they are unable to repay you.

At that point, there is often not much that can be done. The money is gone, the company is insolvent, and for you, it is a disaster. It is also often a social disaster, because financial failures often lead to larger crises. In the equilibrium where everyone trusts the system, those resources help support economic activity. But in the equilibrium where trust breaks down, everyone rushes to withdraw their funds, and buying power goes out of the hands of productive users – to under the mattress.

This helps illustrate why financial crises are so expensive. As Carmen Reinhart and Ken Rogoff famously documented, banking crises are associated with significant declines in output and employment, with the unemployment rate, on average, rising by 7 percentage points.[1] The real value of government debt also explodes. Financial crises are among the most traumatic events a country can experience.

Financial regulation is meant to address these problems. Even though everyone acknowledges that regulation can be burdensome, we agree it is necessary because the problem of financial instability is so severe. Unfortunately, we do not always agree on how much to regulate. There is a pendulum – regulation tends to tighten straight after a crisis, when safety is a priority and losses are fresh in everyone's minds. But then over time the memories fade and the burden of the regulatory constraints becomes more visible, and deregulation sets in again. I have seen this pendulum swing back and forth several times in my nearly forty years as a policymaker, and it is moving again today.

What factors shaped the development of the current regulatory regime?

The last big swing of the pendulum followed the GFC of 2007−09. That crisis revealed how decades of deregulation, particularly in the United States (US), had enabled financial institutions to pursue riskier activities with minimal and poorly designed regulatory checks and balances. Banks did not understand the risks associated with new products such as mortgage-backed securities, and they did not have enough capital to absorb losses.

To address these problems, Basel III focused on overhauling bank capital requirements. The goal was twofold: (i) to improve the **quality of capital** by prioritising shareholder equity over debt, and (ii) to modify the required **ratio** of this high-quality equity relative to a bank's total assets.

[1] C M Reinhart and K S Rogoff, 'The aftermath of financial crises', *National Bureau of Economic Research Working Paper Series No. 14656*, Cambridge, Massachusetts, January 2009.

South Africa was not one of the countries that experienced a financial crisis during the GFC, although we certainly experienced an economic downturn. Still, the GFC experience clearly exposed the shortcomings of Basel II, and so we applied ourselves seriously to implementing Basel III.

We did this in a rigorous way, with robust analysis and extensive consultations among regulators and financial institutions. In my roles as Director-General of the National Treasury, and Deputy Governor and now Governor of the South African Reserve Bank, I have personally dedicated a considerable amount of time to discussing the various elements of Basel III with colleagues from other jurisdictions and with local financial institutions.

In common with developments in other jurisdictions, critics of the new regulations have argued that Basel III has imposed substantial economic costs, making borrowing more expensive and restricting credit extension. However, the most effective policy changes have some short-term costs that are ultimately outweighed by medium- and long-term benefits.

In 2024, we initiated a call for research proposals to assess the economic impact of Basel III's implementation in South Africa. Contrary to some expectations, the findings suggest only an insignificant negative impact on economic activity at the aggregate level, as many financial institutions met the higher capital requirements by using retained earnings.[2] At a more granular level, some smaller, less capitalised banks and specific borrowers have been more affected. But the research seems clear that adverse effects have been modest and localised, rather than large and widespread.

The analysis also reveals that banks increase their capital ratios not only to meet regulatory requirements but also in response to other emerging risks. An example is fiscal weakness: when confidence in **government debt** deteriorates, it affects banks holding such debt.[3] These factors, in turn, can raise borrowing rates and reduce

[2] See S Merrino and L Harris, 'Basel III and South African banking: Assessing the effects', *South African Journal of Economics* 93(1), pp 3–5.

[3] See G Dell'Ariccia et al., 'Managing the sovereign-bank nexus', *International Monetary Fund Departmental Paper No. 18/16*, 2018.

lending, thereby amplifying the impact of any regulatory changes.[4] It is important not to attribute all changes to regulatory requirements.

The closures of Silicon Valley Bank in 2023, followed by several other banks and the takeover of Credit Suisse by UBS, serve as a potent reminder that the current framework is not perfect. Poor governance and unsustainable business models cannot be offset by any sensible amount of capital.[5] Regulatory systems must continuously evolve in response to emerging economic and financial risks. The challenge for us as regulators is that we often find ourselves in a reactive position, struggling to identify emerging risks due to the inherent complexity of the global financial system.

This brings me to my third question: **How are the risks to the financial system evolving?**

In the field of cancer treatment, you will find that for some cancers, the largest contributor to a reduction in mortality is not new medication, but rather the reduction of risk factors. A prime example is smoking: as the number of people who smoke has declined, there has been a significant decline in lung cancer cases and the subsequent need for treatment.

When we consider deregulation, we must ask ourselves whether the risk factors with the potential to destabilise the financial system have diminished. My assessment is that these risk factors have increased substantially. Allow me to provide a few examples.

Macroeconomic and geopolitical instability

[4] See K Makrelov et al., 'Fiscal risks and their impact on banks' capital buffers in South Africa', *South African Journal of Economics* 91(1), pp116–134.

[5] See S Dahlgren et al., 'Assessment of the European Central Bank's supervisory review and evaluation process: Report by the Expert Group to the Chair of the Supervisory Board of the ECB', April 2023.

The global environment is marked by elevated macroeconomic and geopolitical risks. The Bank for International Settlements (BIS), in its 2025 Annual Report,[6] identifies the current historically high debt levels across many countries as a major risk to the global financial system. Similarly, in South Africa, we have also observed a build-up of fiscal risks.

Meanwhile, global policy uncertainty has risen to unprecedented levels. This, combined with geopolitical tensions and economic fragmentation, undermines the global economy's capacity to act decisively in the face of major economic and financial shocks.

If we desire lighter-touch regulation, we must first reverse the current macroeconomic and geopolitical trends. The world is living too dangerously for us to be dismantling defences now.

Crypto assets and decentralised finance

The second risk factor is the emergence of crypto assets and decentralised finance. Cryptocurrencies, stablecoins, non-fungible tokens and decentralised finance platforms make it challenging to identify beneficial owners and prevent money laundering and the financing of terrorism. The sustained growth rates of over 50% in some crypto assets suggest the formation of large asset bubbles.[7,8]

These impacts will be amplified by the growing interconnectedness between traditional financial systems and crypto markets as well as the borderless nature of cryptocurrencies. Although some jurisdictions, including the United States and the European Union, have passed legislation to regulate stablecoins, current growth rates suggest that the build-up of financial risks continues.

---

[6] See BIS, *Annual Report 2024/25*, June 2025.

[7] See S L Náñez Alonso et al, 'Bitcoin's bubbly behaviors: Does it resemble other financial bubbles of the past?', *Humanities and Social Sciences Communications* 11(1), p 715.

[8] As of 25 August 2025, the annual return on the Bloomberg Bitcoin Index is 83.9 %.

Technological advancements and financial innovation

Technological advancements and financial innovation present a double-edged sword. While innovations such as artificial intelligence promise to make financial services cheaper, faster and more accessible, their reliance on complex and often untested systems creates new operational dangers. A failure in one of these core systems could trigger a cascading event, threatening the stability of the system.[9]

And, while financial innovation can foster greater competition and drive inclusion, it may also encourage increased risk-taking.[10]

Regulators failed to foresee how the bundling of high-risk subprime mortgages into complex financial instruments could trigger the GFC. Today, the financial landscape is marked by even higher levels of complexity. In this context, it is often difficult to clearly identify the vulnerabilities until they trigger a crisis.

Climate change

We are also confronted with risks associated with climate change. Various institutions have attempted to estimate their impact. The most recent scenarios from the Network for Greening the Financial System indicate that, under a 'current policy' scenario, the physical impacts of climate change – such as more frequent and severe extreme weather events – could result in global GDP losses of around 15%.

Our own work shows that the South African banking sector's exposure to transition-sensitive sectors is approximately 35% of total credit exposure, which suggests a high vulnerability to transition risks.[11]

---

[9] See Financial Stability Board, 'The financial stability implications of artificial intelligence', November 2024.

[10] See E Feyen et al., 'Fintech and the future of finance: Market and policy implications', World Bank Group, 2023.

[11] See P Monnin et al., 'Transition and systemic risk in the South African banking sector: Assessment and macroprudential options', *South African Reserve Bank Working Paper Series WP/24/12*, July 2024.

The Financial Stability Board's Roadmap for Addressing Financial Risks from Climate Change[12] identifies four priority areas: (i) improving disclosure; (ii) data; (iii) vulnerability analysis; and (iv) developing appropriate regulatory and supervisory practices and tools. The most recent progress update, published in July, indicates that while significant progress has been made, the work is still foundational in nature.

In South Africa, we have already published guidance notes for insurance companies and banks on climate-related disclosure, governance and risk management practices. However, our ability to effectively address climate-related risks is hindered by considerable data gaps and the unreliable estimates of their possible impacts.

What is particularly concerning is that every year some institution provides estimates about the frequency and severity of extreme weather events expected over the next 30 years, only for us to realise a year later that these estimates underestimated the actual impact of the events. Efforts to achieve greater coordinated climate change mitigation should become a bigger focus.

Non-bank financial institutions

A final risk is the growth of non-bank financial institutions. These institutions play a crucial role in the financial system, yet often operate outside the regulatory framework. Their diverse nature, rapid evolution, interconnectedness with the traditional banking system, and inherent vulnerabilities − such as liquidity mismatches and leverage − present significant challenges to financial regulators.

In addition, there are many other risk factors that justify more, not less, regulation, including cybersecurity and money laundering risks. In the case of South Africa, the Financial Action Task Force (FATF) greylisting underscores some of the gaps in our financial regulation.

While there may be limited scope for deregulation, there is considerable room to improve regulation and make certain functions more effective. For example, risk

[12] The roadmap is available at https://www.fsb.org/2025/07/fsb-roadmap-for-addressing-financial-risks-from-climate-change-2025-update/

weights assigned to infrastructure projects in Africa remain excessively high, even though their failure rates are lower than in other jurisdictions.[13] Further, government bonds are still classified as high-quality liquid assets, even in jurisdictions facing imminent fiscal crises.

Therefore, risk assessment must become more reflective of the current economic and financial environment.

I will now turn to my final question: **How do we develop the necessary skills to manage risks effectively?**

Different groups will make different contributions to financial stability. Academics, policymakers and market practitioners all have different roles.

Many of you here today are likely to be university-based financial regulation experts. Whether your background is law, economics or actuarial science, your role as an academic is both unique and crucial in helping society navigate changing and often challenging environments. At its core, your responsibility is simply to educate individuals and conduct high-quality research. This work is absolutely fundamental to navigating the complexities of the regulatory landscape. Allow me to explain.

Becoming a proficient regulator, like many other professions, requires a solid interdisciplinary foundation and the ability to think critically. Many of these foundational skills must be developed during university training. The rapidly changing financial sector requires regulators to continually develop new skills, and training programmes must adapt to these new conditions. This begs the question: How many universities in South Africa offer postgraduate training in financial market operations and regulation? The answer, regrettably, is not many, despite the financial sector being the largest in the South African economy.

[13] See W Gbohoui et al., 'Sub-Saharan Africa's risk perception premium: In the search of missing factors', *International Monetary Fund Working Paper No. 2023/130*, June 2023.

When it comes to research, its purpose is not only to inform, but also to hold financial regulators and firms accountable. It is a critical component in improving policy development and ensuring accountability in the regulatory environment.

Sometimes, poor university research is used to justify flawed policies or to discredit public institutions. As we contend with a proliferation of misinformation, it is essential for the academic community to ensure its members adhere to the highest academic standards to improve policymaking.

Conclusion

In conclusion, the global environment has become more uncertain, and many of the critical risk factors for financial stability have intensified. To effectively navigate the modern financial landscape, central banks and regulators must embrace technology such as artificial intelligence for risk analysis, rapidly integrate climate-related risks into supervisory frameworks, and enhance international and cross-sector collaboration to prevent regulatory divergence.

We do not need deregulation. Instead, we can regulate more smartly, but the risk environment requires us to step up, not step back. The most effective policy actions are those that are informed by robust analysis and which are coordinated across policy areas, institutions and countries. In this environment, academic institutions play a critical role by providing research, holding financial regulators accountable, and protecting their independence.

Thank you.

References

Bank for International Settlements (BIS). 2025. Annual Report 2024/25. Basel: BIS.

Dahlgren, S et al. 2023. 'Assessment of the European Central Bank's Supervisory Review and Evaluation Process: Report by the Expert Group to the Chair of the Supervisory Board of the ECB'. Frankfurt am Main: European Central Bank.

Dell'Ariccia, G et al. 2018. 'Managing the sovereign-bank nexus', *International Monetary Fund (IMF) Departmental Paper No. 18/16*. Washington, DC: IMF.

Feyen, E et al. 2023. 'Fintech and the future of finance: Market and policy implications' Washington, DC: World Bank Group.

Financial Stability Board (FSB). 2024. 'The financial stability implications of artificial intelligence', Basel: FSB.

Gbohoui, W, Oudedraogo, R and Some, Y M. 2023. 'Sub-Saharan Africa's Risk perception premium: In the search of missing factors'. *International Monetary Fund (IMF) Working Paper No. 2023/130. Washington DC: IMF*.

Makrelov, K et al. 2023. 'Fiscal risks and their impact on banks' capital buffers in South Africa'. *South African Journal of Economics* 91(1): 116−134.

Merrino, S and Harris, L. 2025. 'Basel III and South African banking: Assessing the effects'. *South African Journal of Economics* 93(1): 3−5.

Monnin, P, Sikhosana, A and Singh, K. 2024. 'Transition and systemic risk in the South African banking sector: Assessment and macroprudential options'. *South African Reserve Bank (SARB) Working Paper Series WP/24/12.* Pretoria; SARB.

Náñez Alonso, S L et al. 2024. 'Bitcoin's bubbly behaviors: Does it resemble other financial bubbles of the past?' *Humanities and Social Sciences Communications* 11(1): 715.

Reinhart, C M and Rogoff, K S. 2009. 'The aftermath of financial crises'. *American Economic Review* 99(2): 466−472.