SOUTH AFRICAN RESERVE BANK

An address by Lesetja Kganyago,
Governor of the South African Reserve Bank (SARB),
at the 104th annual Ordinary General Meeting of the SARB shareholders

South African Reserve Bank, Pretoria
Tuesday, 30 July 2024

Good morning, ladies and gentlemen.

Introduction

After another momentous year, today we convene the South African Reserve Bank's (SARB) annual Ordinary General Meeting (AGM).

In April, we marked 30 years of South Africa's still-young democracy. It has been an extraordinary three decades, with a global financial crisis rivalling that of 1929, a catastrophic health pandemic, as well as our own ongoing struggle to develop a new democratic dispensation to better address our legacy of inequality and poverty.

Despite these many challenges, the recent national and provincial elections have underscored our resilience as a society, and a new government of national unity has been ushered in.

While the SARB has been in existence for over a century, it is our democratic Constitution that sets its current mandate: to protect the value of the local currency in the interest of balanced and sustainable economic growth – and to do so without fear, favour or prejudice.

I am honoured to be part of a renewed leadership of the SARB, with Deputy Governors (DGs) Fundi Tshazibana and Rashad Cassim being reappointed, and Mampho Modise filling the vacant DG role. Our track record notwithstanding, we continue to face enormous challenges, but trust we will be supported by the dedicated staff of the SARB and its subsidiaries.

With this in mind, I now turn to our economic outlook.

A world economy in flux

The global economy continues on a long recovery path from the pandemic. This path has been a troubled one, and despite better prospects in recent months, remains beset by risks and vulnerabilities built up during the pandemic. Inflation remains stubbornly high, and public debt levels globally are at record levels. Technological development carries both risks to cybersecurity and the hope of large and sustained boosts to global productivity. Meanwhile, 22 July appears to have been the hottest day on Earth in recent history.[1]

In short: we are entering an era of new economic challenges, even as the recent ones have yet to be overcome. There is little fiscal or monetary policy space available to deal with the risks that could emerge to financial stability, renewed inflation pressures or even the growing challenge of climate change.

Inflation remains a major policy concern for central banks globally. Although global inflation declined from 8.7% in 2022 to 6.8% in 2023 and continues to ease in 2024[2], it remains high relative to the 2–3% inflation targets that many countries are trying to achieve.

Restrictive monetary policy, along with the recovery in supply chains and other pandemic-related bottlenecks, has helped inflation to recede from its 2022 highs.

[1] Recorded by the Copernicus Climate Change Service (C3S) data.
[2] Forecasts from the International Monetary Fund (IMF) World Economic Outlook (WEO) Updates, January 2024 and April 2024.

However, global disinflation has slowed recently, as is well illustrated by consumer price inflation in the United States (US) still sitting at 3% relative to their 2% target.

The slow pace of disinflation reflects a pattern of lower imported inflation but higher services inflation across most economies. In some, rising wages and sustained pent-up demand for services have been key factors.[3] In emerging markets specifically, fiscal challenges and sustained currency depreciations have played more of a role.

Policy commitment to reduce inflation back to targets has been strongly signalled around the globe, and central banks have generally been cautious in their approach to policy. Deepening geo-economic fragmentation, higher temperatures and other supply-related risks raise concerns about the long-term prospects for inflation, and considerable effort is going into reassessments of neutral real rate levels.

While inflation remains higher than desired, global economic activity has proven to be more resilient than expected. Global growth surprised higher at 3.3% in 2023, despite considerable divergence in growth across individual economies. Generally, however, global growth rates are expected to remain *below* pre-pandemic trends. This reflects the impact of protectionist measures on global trade, relatively tight financial conditions as well as uncertainty of future policy trajectories.

Greater stability in global affairs and more sustainable fiscal policy settings across the G20 countries would help to dampen uncertainty and enable longer-term horizons for policymakers, firms and households.

While lowering debt levels weigh on growth in the short term, the longer-term effects of falling borrowing costs act to improve growth prospects, supporting private investment and freeing up fiscal space. Lower inflation would also open monetary policy space and support easier credit conditions, complementing the fiscal actions.

[3] Persistent services inflation, especially in the advanced economies, along with higher commodity prices, is expected to continue slowing the pace of disinflation in 2024 and 2025. See the July 2024 IMF WEO Update: *The global economy in a sticky spot.*

The SARB forecasts trading-partner growth to remain moderate in the medium term, hovering at around 3%.

Domestic real economy developments

Despite varied sectoral performances, output in the South African economy slowed to 0.7% in 2023 from 1.9% in 2022, and remains well below growth in peer emerging markets.[4] Load-shedding and logistical challenges have been weighing heavily on economic activity, depressing the credit appetite of businesses and the spending of households.

Despite such weak growth in output, however, employment levels have recovered the 2.2 million jobs lost during the height of the pandemic.[5] As of the first quarter of this year, total employment surpassed its 2019 level. Nonetheless, job creation has been too slow and not enough to offset the growth in the labour force, leaving the unemployment rate elevated at 32.9% in the first quarter of this year.

South Africa's tailwind for growth coming from strong terms of trade continued to fade, despite still remaining at historically good levels. Exports also suffered over the past 12 months from energy and logistics challenges as much as price factors. Imports were also muted by logistics. As energy and logistics constraints continue to ease, the growth outlook will also improve.[6] The domestic economy is expected to grow by 1.1% this year, rising to 1.7% by 2026, as both household spending and investment start to strengthen.

Domestic inflation dynamics

---

[4] IMF WEO Update, July 2024. Peer economies are expected to grow by 4%.
[5] The global average elasticity of employment is roughly 0.5%. Ours is about 0.6% to 0.7%. See V Morén and … [Insert his/her initial(s).] Wändal, 2019, 'The employment elasticity of economic growth', University of Gothenburg, and also H E Bhorat, K Naidoo, M Oosthuizen and P Pillay, 'Demographic, employment, and wage trends in SA', WIDER Working Paper Series, 2015.
[6] Load-shedding is expected to detract less (0.2 percentage points) from growth in 2024, compared to 1.5 percentage points in 2023.

As with the global trend of moderating inflation, South Africa's headline inflation decelerated over the past year, falling from 6.9% in 2022 to average 6% in 2023.

These annual averages, however, hide the ongoing volatility in the underlying components of inflation, in turn demonstrating the risks and uncertainty marking the disinflation path. Since September of last year, headline inflation has been fluctuating between 5% and 6%, with frequent monthly setbacks coming from fuel, food and services prices.[7] In February, core inflation rose by 0.4 percentage points to 5%, propelled sharply higher by medical insurance inflation. Encouragingly, as of June, core inflation has moved to 4.5%. The SARB sees core inflation averaging 4.6% this year, from 4.8% last year. Inflation expectations eased in the first half of this year, but still remain well above the midpoint of the target band.

While headline inflation came out between 5% and 6% for much of the past year, our current forecast shows it easing to 4.9% this year, pulled lower mainly by softening food and fuel inflation, and resting at the midpoint in 2025 and 2026. Even with some quantitative and qualitative adjustments to risk perceptions over time, the Monetary Policy Committee (MPC) has felt it appropriate to maintain the repurchase (repo) rate at 8.25% – a level set in May of 2023.

Financial stability

Turning to financial stability, the SARB continued to ensure that the financial system remains resilient, without any systemic threats to its functioning materialising during the 2023/24 financial year.

This is despite the risks to the outlook that include sustained geopolitical tensions, sticky inflation and government debt levels that remain uncomfortably elevated, globally. These risks have coincided with an unprecedented number of national elections around the world, leading to some uncertainty and heightened market volatility.

[7] Inflation moderated to 5.1% in December 2023, from 5.9% in October, before accelerating to 5.6% in February 2024. Headline inflation has moderated from February and remained unchanged at 5.2% in both April and May.

South Africa is still confronted with its government's growing debt levels and ever-higher debt-servicing costs, as well as domestic financial institutions' high exposure to that debt. The SARB continues to monitor this sovereign-financial sector nexus closely.

Although we are working hard to exit the Financial Action Task Force (FATF) grey list, the effects of being greylisted are being felt as foreign counterparties apply greater scrutiny to our domestic institutions.

At the same time, the effects of climate change are becoming more frequent and more severe, as highlighted by the recent winter storms that lashed at least four provinces and necessitated the declaration of regional states of disaster.

As part of its ongoing efforts to understand and mitigate the risks associated with climate change, the SARB conducted its first comprehensive stress test of South Africa's major insurance companies during the 2023/24 period, which included a climate change component. Going forward, climate-related risk will increasingly feature as part of the SARB's stress-testing scenarios.

As of 1 July 2023, the SARB became a resolution authority, and is now obliged to develop resolution plans for systemically important banks and insurers, should they fail.

Accompanying this was the launch of the Corporation for Deposit Insurance (CODI) – a new subsidiary of the SARB with its own Board of Directors and Investment Committee. CODI manages the country's first deposit insurance scheme and cover qualifying depositors for up to R100 000 if their bank fails, is liquidated, or placed into resolution. These milestones will bolster trust and confidence in the financial system and strengthen its robustness.

Prudential regulation

The regulatory and supervisory work of the Prudential Authority (PA) goes hand in hand with our financial stability efforts. When it comes to the banking sector, elevated levels of inflation and rising interest rates have been eroding the disposable income of households and the profitability of businesses, resulting in a rise in impaired advances for banks. The PA will continue to monitor banks’ credit risk management practices and encourage banks to ensure that prudent financial and risk management practices are in place to weather any storm that may arise.

In its work to safeguard the interests of depositors and policy holders, the PA placed two institutions under judicial management, while it continues to monitor several institutions that are in various stages of resolution, because of financial and governance-related matters.

These challenges aside, the PA has supported efforts to grow a more diverse financial industry, having licensed one bank during the period under review, with five more in progress. Four new insurers, being three life and one non-life, were registered, with a further 11 applications in progress, six of which are life insurers. Two cooperative financial institutions were also registered, with a further two in progress.

The PA and the Financial Surveillance Department are driving the SARB’s efforts to get South Africa off the FATF grey list. FATF has identified 22 action items that South Africa must address to improve its anti-money laundering and combating the financing of terrorism (AML/CFT) regime. Currently, eight of the 22 items have been addressed or largely addressed, and 14 remain in progress. South Africa is left with two reporting cycles, in September 2024 and January 2025, in terms of the action plan.

Although foreign counterparties have been applying greater scrutiny to our domestic institutions as a result of the FATF greylisting, the PA has found no immediate negative impact on correspondent banking relationships. It is nevertheless imperative that the action items are addressed timeously to avoid long-term negative effects on the economy.

Operational matters

Moving to operational matters: during the year under review, the SARB saw the overhaul of its balance sheet with the introduction of new arrangements governing the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Announced in February 2024, the new GFECRA framework will allow government to access a portion of these funds to reduce debt issuance, while providing the SARB with a stronger capital position. In June, these arrangements were passed into law with the gazetting of the Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Act. This was accompanied by the signing of the GFECRA settlement agreement between the SARB and the Minister of Finance. The agreement ensures that, among other conditions, the SARB's solvency is not undermined by any GFECRA profits distribution. These distributions will be used to reduce government borrowing. There will be no sales of foreign exchange reserves if such reserves are below estimated adequacy levels.
As of 1 July, R100 billion had been transferred to the SARB, and roughly three-quarters of the R100 billion due to National Treasury this year has already been paid out. We expect to complete the transfers by mid-August.

The SARB is the custodian of South Africa's national payment system. In the past, payment systems were often viewed as the 'boring plumbing' underpinning a central bank's work. But with the rapid advancements in financial technology (fintech), payment systems globally are instead becoming central to innovation, enabling more digital transaction offerings, reducing the reliance on cash, and providing new ways to drive financial inclusion and economic development.

The recently published Digital Payments Roadmap outlines the key interventions that the SARB, together with public and private stakeholders, will implement to advance efforts to improve digital payments adoption by consumers.

The SARB's payments ecosystem modernisation programme will further support efforts to make domestic payments cheaper, faster, more reliable and more accessible to underserved communities. The programme includes the establishment of a new centralised public payments utility, and the renewal of the domestic settlement system

– being the South African Multiple Option Settlement (SAMOS) system. The SARB will also implement foundational enablers such as a digital financial identity for consumers.

Alongside modernisation efforts, the SARB remains committed to ensuring that our existing payment and settlement services continue to serve the industry effectively and efficiently. To this end, in June, we successfully migrated the Southern African Development Community real-time gross settlement (SADC-RTGS) system to the ISO 20022 global financial messaging standard. ISO 20022 is an open standard for payments messaging that creates a common language and model for payments data across countries. The adoption of this new standard by the SADC-RTGS system and its participants comes well ahead of the global November 2025 deadline and will support payments innovation in the SADC region.

In its day-to-day operations, the SARB procures a range of goods and services. Its procurement strategy is focused on fair, equitable, transparent, competitive and cost-effective purchasing. Although the SARB is exempt from the Preferential Procurement Policy Framework Act 5 of 2000, it nevertheless applies preferential procurement principles in its sourcing and procurement activities. This year has been the first of a three-year broad-based black economic empowerment (B-BBEE) strategy, demonstrating our commitment to maintaining and improving spend with qualifying suppliers. The bulk of the SARB's R4.7 billion in spending – or a little over 91% – went to local suppliers. Using the Generic Codes of Good Practice scorecard, the SARB achieved 21.6 out of a possible 27 points in terms of recognised B-BBEE spend.

Information and technology infrastructure is critical to the functioning of the SARB. The rapid changes in how we use and process information affect every facet of our work. The proactive management of the SARB's networks and systems has ensured that mission-critical business applications have remained up and running 99.9% of the time over the past year. Our systems' resilience has been enhanced by, among other initiatives, the redesign of our data centres and network modernisation. We are also working to build a workforce of the future, strengthening our cyber team to build local and regional resilience to cyber incidents.

Our commitment to serving the economic well-being of all South Africans is also evidenced in our corporate social investment programme, which focuses primarily on education. At the heart of this work is our external bursary programme, which aims to develop human capital in the fields of monetary policy, financial stability, data science and economic journalism. In 2023, the SARB sponsored 110 students: 63 continuing bursars, 35 first-year bursars and 12 students studying towards their Master's degree in data science. Eighty six percent are from previously disadvantaged backgrounds and 63% are female.

Staff matters

The importance of the SARB's role in our economy demands the utmost from its staff members. Without their commitment and expertise, this central bank would not be able to achieve its strategic objectives or deliver on its mandate.

To ensure that staff continue developing their professional skills, the SARB's spend on training increased to almost 6% of total payroll in the 2023/24 financial year. More than half of the employees that received training (56%) were women.

Diverse organisations which reflect the societies they operate in are typically more successful. Having rolled out the third phase of its Diversity and Inclusion (D&I) Programme, the SARB has incorporated a D&I accountability framework into its performance scorecard, ensuring it is embedding D&I into all that we do.

At the same time, our staff experience is being steadily improved through the digitalisation of our people management systems.

Conclusion

The year ahead will throw new challenges the SARB's way. Our international activities will receive particular focus as South Africa takes up the G20 Presidency. Together with National Treasury, the SARB is gearing up to co-chair the Finance Track from

December 2024. It will focus on, among other issues, global macroeconomic matters, climate change, cross-border payments and capital flows, and the financial inclusion agenda.

Over the past year, the SARB has worked to ensure a coherent G20 agenda which is relevant for the country, the G20 members and the African continent. South Africa is the fourth country in the Global South to lead the G20 Presidency before it moves back to an advanced economy.

On the regional front, we have prioritised a stragey focused on the integration of SADC member countries, in our role as Chair and Secretariat of the SADC Committee of Central Bank Governors.

The year 2025 will also mark the culmination of the SARB's five-year strategy cycle. The formulation of our new Strategy 2030 is currently underway. Whatever the outcome of this process, I can assure you that the SARB will remain in service to the country.

We will continue to ensure the cost-effective availability and integrity of our currency. We will continue to ensure that the financial sector safeguards depositors and policy holders. We will continue to enhance South Africa's resilience to external shocks.

But above all, we will hold fast to our price and financial stability mandates.

Thank you.