

Andreas Dombret: Closer cooperation between the South African Reserve Bank and the Deutsche Bundesbank

Speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at a press conference at the South African Reserve Bank, Pretoria, 29 August 2016.

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Ladies and gentlemen

We meet here today to herald a new phase of closer cooperation between the South African Reserve Bank and the Deutsche Bundesbank. And we do so in an environment that looks very different than it did just a couple of years ago – especially from the perspective of a central bank.

It's no news that the world has been growing ever closer for decades. And the financial sector is certainly no exception, with banks and other financial institutions globalising their business and becoming increasingly intertwined.

1. Structure of the Bundesbank's international representative network

As Germany's central bank, the Deutsche Bundesbank has adapted to these challenges by establishing a network of

- two representative offices: one in New York and one in Tokyo, and
- representatives based at German embassies or consulates general worldwide.

As early as in 1963, a financial economist from the Bundesbank worked at the German consulate general in New York and simultaneously held the post of Bundesbank representative at the world's most important financial centre. In the years that followed, the Bundesbank and the German Foreign Office agreed to create similar positions at the German Embassy in London and at Germany's Permanent Mission to the OECD in Paris. Over time, further important financial and political centres were added to this list: Beijing, Brussels, Istanbul, Moscow, Mumbai, São Paulo and Singapore.

There is an important cornerstone of the Bundesbank's international representative network I should also like to mention – the Bundesbank and Germany's Federal Ministry of Finance take turns in nominating the German IMF Executive Director and his or her deputy. And we together staff the German IMF office.

Our international representative network got a boost in 1986, when the Bundesbank opened representative offices in New York and Tokyo as entities detached from the official German missions in those two cities. Moreover, a number of years ago we added trading desks to both representative offices. These trading desks now fulfil an important role in the administration of the German reserve assets.

Since then, the Bundesbank has repeatedly evaluated its assumptions and adjusted the structure of its representative network to reflect changes in the Bundesbank's mandate and the modified framework of its operations.

The most important structural changes were triggered by

- the establishment of the Eurosystem,
- the functional transformation of the international financial markets, and

- the growing importance of emerging market economies for global economic developments.

In particular, our international cooperation within the G20 and the Financial Stability Board made it a matter of urgency for us to adapt our representative network. At the same time, our view of gathering necessary information has changed – alongside macroeconomic aspects, micro- as well as macroprudential issues have become increasingly important central bank activities. Furthermore, national and international financial markets have gained in significance.

2. The job of Bundesbank's representatives

The Bundesbank's network of international representatives is there to comprehensively observe economic developments and the expected evolution of financial markets from within key countries and regions. Our representatives' main tasks include observing and analysing the financial system, and not least detecting financial crises early on, should they arise. Even minor flaws confined initially to the local economy can rapidly take their toll on any national financial system in an interconnected global economy – and potentially engulf the entire economy. An important lesson learned from the global financial crisis is that isolated national efforts cannot safeguard the stability of our financial system.

Our representatives are expected to promote the exchange of expertise and nurture fruitful personal networks with central banks, financial authorities, supervisory authorities, banks etc. in their host countries.

By the way, a Bundesbank representative's place of work is not necessarily in the host country's capital city. In countries where the capital city is not the national financial centre, we chose to base our representatives in the latter, eg New York, São Paulo, Mumbai and Istanbul. The decision on where to locate each representative and whether to base them at German embassies or consulates general is based on technical criteria, the interests of the Bundesbank and an agreement with the German Foreign Office.

This raises the question of why our new representative to South Africa is located in Pretoria, and not in your financial centre Johannesburg? The reason for this decision makes sense at first glance: Johannesburg is in the vicinity of Pretoria, and the German embassy is located in Pretoria. What is more, the headquarter of our colleagues from the South African Reserve Bank are also in Pretoria. I shall come to this point in a moment to show why this aspect is so important for our representative.

3. Why is the Bundesbank in South Africa?

South Africa and Germany can look back on a long history of strong economic ties that we should strive to promote further. In fact, South Africa is Germany's most important trading partner in Sub-Saharan Africa, while Germany is the second-largest trading partner for South Africa. Trade between the two countries climbed to new records in 2015.

Encouragingly, the bilateral trade volume grew to more than 15 billion euro in 2015. South Africa's exports to Germany rose by close to 20 per cent to around 5 billion euro. At the top of the export list were vehicles, parts and accessories, gems and precious metals as well as machinery. At the same time, exports from Germany to South Africa also grew by approximately 16 per cent to about 9 billion euro, the main components also being vehicles, parts and accessories together with machinery and electronic equipment.

There are over 600 German companies operating in South Africa, including BASF, Bayer, Bilfinger Berger, BMW, DB International, DHL, Mercedes Benz, MTU, SAP, Siemens, ThyssenKrupp and Volkswagen, to name only a few. Together, these companies are estimated to provide around 90,000 jobs and contribute significantly to vocational training and technological development.

This engagement shows that South Africa has a lot to offer. Your country has vast economic potential, and with your developed financial, communications and transport infrastructures, German investors also see South Africa as a bridge to other African markets.

Conditions are excellent for deepening cooperation and boosting bilateral trade. Besides the manufacturing industry, German businesses see particularly promising investment opportunities in the energy and infrastructure sector as well as the information and telecommunications industry.

With our representative network, the Bundesbank can now track developments in nearly all the G20 countries – directly or indirectly – thanks to the regional expertise: New York is responsible for the United States, Canada and Mexico; Tokyo observes Japan, Korea and Australia; São Paulo keeps an eye on all the South American countries; and Singapore observes South East Asia, especially including Indonesia as a G20 member of the region.

By expanding our representative network, we are pursuing the goal of having a presence in the main industrial as well as emerging economies and of tracking developments in almost all the G20 countries, directly or indirectly. Given the growing role that the African continent at large and South Africa in particular is playing in the sphere of international economic and financial policy, the African continent has, up till now, been a blank spot on the map of the Bundesbank's representative network.

And as for the question of whereabouts in Africa to base our Bundesbank representative, there's simply no getting round South Africa – the most developed economy in Africa, a country that boasts abundant natural resources, and the only African member country of the G20.

Your country is fertile ground for the private sector. It has a diversified industry and a well-regulated financial sector with a recognised and independent central bank.

Because of your ability to promote political and economic stability in southern Africa, German companies use your country as a springboard into the African market, notably into the countries of the Southern African Development Community.

Today sees the Deutsche Bundesbank introduce its first representative to South Africa. My visit to celebrate this event is not just an acknowledgement, on the part of the Bundesbank, of the economic importance and potential of South Africa. It also marks the advent of a frequent exchange of information on financial and monetary policy issues with the aim of better understanding the economic and financial interests of each country and of facilitating dialogue in international forums.

Within this broader objective, the Deutsche Bundesbank and the South African Reserve Bank intend to cooperate closely for the purpose of promoting capacity building by each party and of supporting the formulation of policy in both countries. To this end, on 28 February 2016 the South African Reserve Bank, represented by Deputy Governor Mminele, and the Bundesbank, represented by me, signed at the G20 meeting in Shanghai a Memorandum of Understanding defining the scope of a cross-border cooperation between our two central banks. We will start by jointly undertaking two research projects: one that aims at exchanging best practices in bank stress testing, and another where we will explore how to cooperate more closely on G20 issues. And that is yet another reason why it is beneficial for our representative not to be located too far away from the SARB.

On that note, I am delighted that the Bundesbank is today presenting Ms Jenny Kilp as its first representative to South Africa. Ms Kilp graduated from Liebig University in Gießen with a Diploma in Economics, and after gathering several years of experience in the academic world, joined the Deutsche Bundesbank in 2004. Since then, Ms Kilp has been an expert in the Bundesbank's Directorate General Financial Stability, where she was in charge of policy issues regarding the International Monetary Fund (IMF). She has analysed the economic situation of a vast number of countries for the Bundesbank and gained a sound overview of the problematic issues facing various parts of the world, also in terms of the spill-over effects

of industrial countries' policies on other parts of the world. Ms Kilp is already familiar with South Africa as she worked on a project here while she was a student. Now she is committed to moving with her family to this great country for at least two to three years. I value her openness, excellent specialist knowledge and ingenuity – all traits which will serve her well in her new post! Some of you have already met her, and I am sure that she will be a great first Bundesbank representative to South Africa.

By stepping up the cooperation between the Bundesbank and the South African Reserve Bank, we will be able to jointly shape the future landscape for independent central banks.

I am looking forward to continuing our close working relationship with our colleagues from the South African Reserve Bank.

Thank you for your attention.