South African Reserve Bank

Remarks by Lesetja Kganyago,
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at the annual dinner in honour of the Ambassadors and High Commissioners to the Republic of South Africa

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Introduction

Dean of the Diplomatic Corps, Ambassadors, High Commissioners, Counsellors and Diplomats – a very good evening to you all. Thank you for accepting our invitation to this event, which has become a permanent feature on our calendar.

South Africa has its fair share of challenges. Our country finds itself at an intensely contested but creative moment in its history. South Africans are energetically debating the problems we face today and the policies we should be implementing to fix these problems.

Notwithstanding these challenges, South Africa has a number of positive things going for it, not least of which are its institutions, which remain resilient.

However, it is not my intention to bore you with the developments in South Africa tonight. I would prefer to use the limited time I have on this podium to touch on global economic developments and say a bit more about some of the initiatives that the South African Reserve Bank (SARB) has been involved in on the continent and in other global forums. I will be brief, so that we can enjoy the excellent food and wine on offer tonight.

A global economy experiencing a cyclical recovery

Over the past few years, the world has had to become accustomed to disappointing global growth outcomes. Therefore, when the International Monetary Fund (IMF) identified 2016 as the turning point in the global growth cycle and upgraded the outlook for the global economy for 2017, it came as a welcome surprise. Broad-based gains were pencilled in across both the developed world and emerging markets. It seemed that the many years of accommodative and often unorthodox monetary policy, coupled with the more recent easier fiscal policy in the advanced economies, had helped to propel the global economy into a cyclical upswing.

But despite the promising short-term outlook, a number of challenges and risks persist, and I would like to highlight a few of these. The shift towards more inward-looking policies threatens to derail global trade, with negative consequences for growth. And the lack of progress in the implementation of some of the financial regulatory reforms agreed on since the most recent global financial crisis, such as finalising the capital framework under Basel III, is also something we need to address as it threatens to create an uneven global playing field, putting some countries at a disadvantage by creating space for regulatory arbitrage.

Policy uncertainty in many countries, specifically the uncertainty arising from the tax proposals in the United States, also warrants careful attention. Furthermore, more aggressive monetary policy actions than currently anticipated could tighten global financial conditions, causing disruptions to capital flows to emerging market and developing economies (EMDEs) like South Africa.

So while the short-term outlook is an optimistic one, there is general recognition that we cannot afford to be complacent. Securing a sustained recovery over the medium term requires stronger international cooperation. Allow me to highlight some of the initiatives in this regard.

International cooperation

International forums such as the G20[1] and BRICS[2] continue to give attention to initiatives aimed at supporting stronger, more sustainable, balanced, and inclusive growth. As part of that, the G20 and BRICS also give much attention to improving the resilience of the global financial system.

Structural reforms have been a key objective of the G20 and have consequently been receiving greater emphasis since the Australian Presidency of the G20 in 2014. These reforms are aimed at raising the collective G20 GDP[3] by an additional 2% by 2018. Each G20 country has devised a growth strategy, highlighting the key structural reforms to be undertaken to raise potential output. Every year, member countries update their growth strategies (which are peer-reviewed), new measures are committed to (where possible), and progress towards the stated objectives is assessed.

Under China's G20 Presidency in 2016, the structural reform agenda was further enhanced by the development of a set of priorities and guiding principles as a reference for G20 reform efforts. An indicator system was devised to assist with the monitoring and assessment of the implementation of structural reforms and their adequacy to address the structural challenges. This year, under Germany's Presidency, the G20 has devised a set of principles as a means of enhancing member countries' resilience to shocks.

There is little doubt that progress is being made in building a more resilient global financial architecture. The IMF is currently reviewing its lending toolkit to make it more relevant and more balanced, and to also work towards closing the existing gaps within the global financial safety net. Numerous discussions are also continuing on developing macroprudential policies and devising ways of improving the availability and quality of relevant data to enhance economic policy formulation and implementation.

[1] Group of Twenty
[2] Brazil, Russia, India, China, South Africa
[3] gross domestic product

South Africa continues to reaffirm its support for the agreed reforms to strengthen the global financial system. It is our hope that various jurisdictions will expedite their respective processes to find a compromise on the remaining Basel III elements to ensure level playing fields. We support the efforts of the German G20 Presidency to try and establish a more holistic monitoring framework of the effects of the reforms, especially for EMDEs. This is essential to determine the adjustments and/or refinements to the reforms that may be needed to reduce their unintended effects.

Digital innovations in the financial sphere are another key topic in international forums. South Africa is fully supportive of the ongoing work on the regulatory approaches to financial digital innovations as well as of the stocktake of cybercrime regulations in the financial sector. The reduction of correspondent banking services in some EMDEs has presented some challenges for countries on the African continent. Reasons for this reduction in correspondent banking services relate mainly to more stringent regulatory requirements which have brought about reviews of business models. The resultant impact of these developments, inter alia on financial inclusion, warrants closer attention.

Beyond the G20, the BRICS grouping has achieved much since its first political dialogue in September 2006. The New Development Bank (NDB) was established to mobilise resources for infrastructure development, particularly within the BRICS countries but also in other EMDEs. The NDB is doing well in mobilising resources for infrastructure development projects and, in 2016 alone, approved seven projects in the BRICS countries with a total value of over US$1.5 billion. These projects are all in the areas of renewable and green energy and transportation. The first ‘green bond’ was issued in 2016 and the NDB has signed memorandums of understanding with other development banks such as the World Bank and the Asian Development Bank. I should also mention that the African Regional Centre of the NDB will likely be opened in South Africa later this year.

Another initiative which the BRICS grouping has undertaken in its quest to strengthen the global financial safety net is the Contingent Reserve Arrangement (CRA). The CRA Treaty was signed in July 2014 and came into effect a year later; it is now fully operational.

The CRA is a self-managed contingent reserves arrangement to forestall short-term balance-of-payments pressures, provide mutual support, and further strengthen financial stability. The arrangement, which is a pool of US$100 billion, provides the BRICS countries with access to additional liquidity in the event of a crisis. Fortunately, none of the BRICS countries have had a need to call upon the CRA to date.

A number of new initiatives are being discussed under the BRICS agenda, with a view to furthering the work already undertaken and cementing the progress that has been made to date. More details will emerge at the BRICS summit later this year. Next year, South Africa will take over the Presidency of the BRICS grouping. We will continue the work aimed at further strengthening the cooperation and collaboration among the BRICS members.

Regional economic integration

The SARB is an active participant in various forums on the continent, which include the Southern African Development Community (SADC), the Association of African Central Banks (AACB), and the Common Monetary Area (CMA).

The main aim of SADC is to promote economic and financial integration in the interest of sustainable economic development in the region. In this regard, the SADC Heads of State adopted the revised Regional Integrated Strategic Development Plan in 2016. The SARB's regional initiatives are mainly conducted through the Committee of Central Bank Governors (CCBG), which is chaired by the SARB. The main objective of the CCBG is to undertake initiatives in support of the SADC Finance and Investment Protocol.

A notable achievement of the CCBG in recent years relates to the implementation of the SADC Integrated Regional Electronic Settlement System, known as SIRESS. Through SIRESS, 14 regional central banks and 76 commercial banks are electronically linked to effect cross-border payments and settlements in real time. Since its inception in 2015, more than 700 000 transactions to the value of almost R3.1 trillion have been cleared on the SIRESS platform.

The SARB is also a member of the AACB. The main objectives of the AACB include the promotion of cooperation in the monetary, banking and financial spheres in the interest of maintaining price and financial stability. The work of the AACB is in line with the broad framework of Agenda 2063 adopted by the African Union in 2013.

The SARB is currently the Vice Chair of the AACB and will host the Ordinary Annual Meeting as well as the Governors Symposium on 12-16 August 2017 here in Pretoria. At this annual meeting, the SARB will assume the chairmanship of the AACB. During our tenure as chair, we will continue to enhance cooperation among African central banks on cross-border banking supervision and payment systems, continental training on issues relating to banking supervision and regulation, and the collection of data needed to support bank supervisory activities.

Closer to home, the SARB also engages with the central banks of Lesotho, Namibia and Swaziland, who together with South Africa are members of the CMA. The central bank governors of the CMA meet three times a year to discuss economic developments in their respective countries as well as other issues related to cross-border spillover effects among CMA members. The exchange of information as well as the collaboration on research and other matters of mutual interest have proven extremely useful in assisting the CMA countries to fulfil their respective obligations stipulated in the Multilateral Monetary Agreement which governs the CMA arrangement.

Conclusion

The SARB remains committed to playing its role in the development of the region, the continent, and the global economy. In many instances, we do this in collaboration with our counterparts in your respective countries. Tonight, we celebrate this cooperation, and we trust that our partnerships will only strengthen in the times ahead. In the spirit of this cooperation, I would like to invite you to approach the SARB through our International Economic Relations and Policy Department should you need an update on economic and/or monetary policy developments.

Thank you for honouring our invitation. Please enjoy the rest of the evening.