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## The Governance of Macroprudential Policy in South Africa

JANINE ARON

CSAE, Department of Economics and INET, University of Oxford, UK

GREG FARRELL

Macro-Financial Analysis Research Group, School of Economics and Finance,  
University of the Witwatersrand.

and

JOHN MUELLBAUER

INET and Nuffield College, University of Oxford, UK

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### **Abstract**

South Africa's experience developing a macroprudential role for its central bank could yield lessons for emerging market central banks. An explicit mandate to maintain and enhance financial stability accompanied a re-defined prudential and conduct regulatory ("Twin Peaks") framework in the Financial Sector Regulation Act of 2017. Using a macroprudential lens and international comparative analysis, this paper goes further than previous analyses (largely by legal scholars) and reveals weaknesses in the governance design for macroprudential policy. We suggest changes in the design of institutions, processes, transparency and accountability, to improve and future-proof SA macroprudential policymaking. These include: formalising the role of the central bank's Financial Stability Committee - the *de facto* executive body for policy but not mentioned in the Act - preferably as a smaller statutory committee with external members and improved reportage; strengthening macroprudential policy in 'ordinary' times by adopting 'comply or explain' recommendations to reduce the Act's crisis focus and better manage credit cycles; improved data collection to extend the macroprudential instrument toolbox for Borrower Based Measures and create early warning indicators for vulnerable households; and, for the *Financial Stability Review*, to address gaps in tracking and reporting risk indicators, and policy decisions, to better meet its new role as vehicle for transparency and accountability under the Act. We also consider political economic trade-offs between protecting the SA banking system and wider social and economic goals.

**Key words:** macroprudential governance, central banking institutions, central bank transparency, financial regulation, credit cycles, financial crisis, systemic risk, financial stability, loan-to-value, debt-to-income.

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## 1. Introduction

Addressing financial stability through clear channels of responsibility gained strong emphasis after the Global Financial Crisis (GFC) in 2008. Macroprudential policy is effectively a newly expanded discipline aimed at reducing systemic risk and improving the resilience of the whole financial system by limiting the buildup of financial vulnerabilities.<sup>1</sup> The aim is to increase resilience and reduce vulnerabilities that could give rise to procyclicality or systemic interconnections, to avoid costly economic downturns or financial crises that could disrupt credit and other financial services vital for stable economic growth. Financial vulnerabilities may be high if institutions and investors have high leverage, mismatched maturity transformation, complex interconnectedness, and an incorrect pricing of risk, which could lead to negative financial externalities (including ‘fire sales’ and contagion). Household vulnerabilities may also be an important source of systemic risk, so that the remit of macroprudential policy includes improving the resilience of households to stress, Tereanu et al. (2022).<sup>2</sup>

Macroprudential policy addresses the connections of risky financial institutions to the whole financial system and real economy, and any resulting feedback effects. By contrast, micro-prudential supervision is mainly focused on the soundness of individual financial institutions, and not on the financial system as a whole. Financial stability requires a bedrock of a strong micro-prudential framework, but a wide consensus now suggests it is unwise to rely only on micro-prudential oversight.

Macroprudential policy encompasses monitoring the different risks to *systemic* financial stability over time, developing a toolkit to mitigate risks, understanding the strategic issues in the application of such policy and its coordination with monetary policy, and effective communication for both the transparency and accountability of policy. Macroprudential tools may be *structural*, aiming to build lender or borrower resilience to adverse events at any stage during the business cycle. An example is the additional capital charges applied to domestic Systemically Important Financial Institutions (SIFIs), which refers to institutions distinguished by their size and complexity, interconnectedness in the domestic financial system, and, sometimes, global activities. *Cyclical* macroprudential tools aim to reinforce resilience ahead of an economic downturn, to reduce any subsequent credit contraction.<sup>3</sup> Examples of these tools include the countercyclical capital buffer (CCyB),<sup>4</sup> the design of stress test scenarios, and time-varying loan-to-value or loan-to-income restrictions on mortgage debt. Time-varying macroprudential policy needs to be *pre-emptive* to build resilience to possible future shocks.

Governance arrangements differ for the implementation of structural macroprudential policies (with a focus on individual institutions by the prudential authorities), compared with time-varying or cyclical macroprudential policies. The governance framework for the latter is newer and less well established (Edge and Liang, 2022).<sup>5</sup> These authors suggest that since macroprudential policy has a broad remit, an effective governance structure and institutional design is especially important for timely policy implementation - more so than for micro-prudential policy. The remit covers financial stability risks that encompass many different bank and non-bank financial intermediaries, the links between financial markets and the macro-economy and policies to mitigate risks on the financial system and macro-economy. The pre-emptive nature of cyclical macroprudential policy can result in unpopular policy actions, for example, constraining credit in good times to avoid an unsustainable debt burden later, which, if targeted at particular types of

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<sup>1</sup> As Goodhart (2010) explains, central banks have always had a financial stability objective, and some tools, including regulation, resolution and acting as lender of last resort, to meet that objective. The 1988 Basel Accords, revised in 2004, agreed an international capital adequacy framework to control financial risks. The inadequacy of that framework, revealed in the GFC, has led to the expansion of the new macroprudential toolkit.

<sup>2</sup> In a survey of 14 macroprudential authorities on mitigating housing market risks, maintaining lender resilience was an important objective for all, and nine also emphasized maintaining borrower resilience, BIS (2023).

<sup>3</sup> Adrian (2017) sees the tasks of cyclical macroprudential policies as two-fold: first, “to lean against the buildup of financial vulnerabilities with the goal of reducing macro-financial amplification mechanisms”; and second, “to build temporary buffers when financial conditions are overly easy and financial vulnerabilities are growing”.

<sup>4</sup> The CCyB tool, developed under Basel III, requires an analytical process to regularly evaluate economic and financial cycles for the buildup of systemic risks (for example, through excessive credit growth), to adjust the setting of the CCyB.

<sup>5</sup> Edge and Liang specifically examine the use of the CCyB and find that institutional arrangements and establishing clear governance responsibilities for the new tools have a measurable effect on policy decisions.

assets, may have distributional consequences.<sup>6</sup> These factors require effective coordination across several different regulators in the financial system, with governance mechanisms that preclude policy inaction or lags in implementation.

South Africa has followed a handful of countries in introducing the Twin Peaks framework for micro-prudential supervision and for conduct regulation (Taylor, 2021), overlaid by a strong emphasis on financial stability in micro-supervision. Simultaneously a financial stability mandate was granted to the South African Reserve Bank to make macroprudential policy, coordinating and collaborating with a network of inter-regulatory agency committees. The legislation that defines the governance of macroprudential policy in South Africa is the *Financial Sector Regulation Act* (FSR Act), enacted in August 2017, and becoming effective in April 2018. South Africa is the first of the emerging market and developing countries to introduce a Twin Peaks-plus macroprudential framework, and its experience may serve as a useful exemplar. Taylor (2021) and others emphasize that it is not a case of ‘one-size-fits-all’ with such a framework, given the heterogeneous institutions and histories amongst different countries. For example, the magnitude of the financial accelerator will differ systematically across countries (see Aron et al., 2020; Muellbauer, 2022). In countries where cyclical systemic risks tend to be higher, as in South Africa, the effective governance of macroprudential policy is likely to prove *especially* important.

This paper *explains* the new governance structure for macroprudential policy in South Africa. We characterize the hybrid nature of the Twin Peaks-plus macroprudential framework in an international context. In [Sections 2 and 3](#), we describe the new organizations under the Act, the links between these organizations and the coordination bodies, the resultant channels for policy-making, and the arrangements for policy accountability. Our diagrammatic representation to clarify the regulatory structure for the financial system and financial markets, in Figure 1, is the first to explain the links between the Reserve Bank’s internal committee, the Financial Stability Committee (FSC), and the regulatory bodies and coordination committees created by the new Act, and the origin of policy recommendations and directives. We explain how macroprudential policy is channelled through a set of predictable procedures, both in ‘ordinary’ and in crisis times (some of which are not described in the Act itself).

This paper also *evaluates* the new governance structure for macroprudential policy. Our three evaluation criteria are the willingness to act; access to adequate information to act; and possessing the tools to act. The *willingness* to act requires a clear mandate for macroprudential policy, well-defined policy objectives, and transparency and accountability mechanisms, see IMF-FSB-BIS (2016). However, even if the governance arrangements favour the willingness to act, the *ability* to act may be constrained by inadequate powers under different states of the world. These include information powers (to obtain information from other authorities and close data gaps), calibration powers (to direct or influence the activation and calibration of regulatory constraints or ‘tools’) and designation powers (to influence the designation of individual institutions as systemically important), see IMF-FSB-BIS (2016). The FSR Act has received much attention from the legal fraternity,<sup>7</sup> but not through the lens of economics and macroprudential policy nor addressing directly the different policy powers pertaining under different states of the world.

We present a typology (and an organizing table) for South Africa, distinguishing between ‘hard’, ‘semi-hard’ and ‘soft’ powers **for the implementation of macroprudential tools, in both ‘ordinary’ and in crisis times**, see [Section 4](#). The designation of ‘hard’ powers means there is direct control over tools, of ‘semi-hard’ powers means changes can be recommended to a regulator in a ‘comply or explain’ procedure, and ‘soft’ powers cover the cases where only warning or non-binding recommendations can be made, but without any follow-up requirements (IMF-FSB-BIS (2016), Edge and Liang (2022)). We find that there are ‘soft’ powers in South Africa in ‘ordinary’ times concerning both bank and non-bank sectors. In practice, ‘soft law’ in the form of flexible memoranda of understanding between the Reserve Bank and regulators is the only way in which requests for information and prudential actions are underpinned. It is only when an imminent or actual systemic event is declared by the Governor, that the Governor has sweeping ‘hard’

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<sup>6</sup> For empirical evidence on distributional consequences, and discussion of how softer versions of the policies can limit unintended negative spill-overs, see Georgescu and Martin (2021), Giannoulakis et al. (2023) and Valderrama (2023).

<sup>7</sup> See for example, the referenced papers by Van Heerden and Van Niekerk.

powers to acquire information and direct regulators.<sup>8</sup> Our analysis in this paper is strongly suggestive of changes to strengthen the hand of macroprudential policy in ‘ordinary’ times, by adopting ‘comply or explain’ recommendations.

The 2017 Act was developed in the aftermath of the GFC. The contrast between the emergency ‘hard’ powers in a crisis, and only ‘soft’ powers otherwise, may reflect an undue emphasis on a crisis mindset, to the neglect of risks that have since arisen in non-crisis times. South Africa’s financial system weathered the GFC moderately well for reasons of tight banking supervision, a tight control of cross-border flows and a strong, highly concentrated banking sector. However, since 2010, there have been setbacks, in large part following a failure to control the 2005-2007 credit and house price boom. The implications have included rising non-performing loans, constraints on credit availability (e.g., to smaller companies), and several smaller bank failures, including the African Bank failure in 2014. Since the GFC, systemic risk monitoring has been enhanced, with stress tests, heat maps and surveillance. Under Basel III, some macroprudential policy tools and new capital buffer instruments have been phased-in, and there is regular appraisal from the IMF. These developments provide external advice and oversight. However, there are significant data gaps and some inaction of policy, which we suggest is linked to governance features. An important example is expanding the macroprudential toolset to cover Borrower Based Measures (BBMs), and to create further early warning indicators for vulnerable households. Tools must be developed to implement housing-related BBMs, and, more urgently, non-housing-related BBMs, in advance of their possible future usage, with the databases to manage the tools. We propose a way out of the present data impasse, which has impeded action, see [Section 4.3](#).

Greater transparency and accountability of macroprudential policy should reduce policy volatility and improve policy adjustments over time. This should also encourage ‘buy-in’ cooperation and forward reactions in the private sector by changing behaviour and expectations (and potentially also in the public sector). Under the Act, communication proves to be *integral* to the transparency and accountability of macroprudential policy. There is a legal requirement for a comprehensive assessment of risks to financial stability, for addressing risk transparently through macroprudential policy, and for providing accountability for policy over time. The Act requires all the above to be communicated and monitored via the *Financial Stability Review* of the Reserve Bank. This publication, which pre-existed the 2017 Act, has been given an important *new role* under the Act. This new role ought to have entailed significant changes to the content and structure of reportage to accommodate this new role. Our paper evaluates the sufficiency of such changes, as required by the Act, in [Section 5](#).

The governance structure is not set in stone, and, as with monetary policy and inflation targeting in South Africa, it should be possible to progressively enhance both governance features and the transparency and accountability of policy. Taking a longer-term view of the governance of macroprudential policy includes trying to reduce features that may cause future inaction bias or lags in implementation, or regulatory capture and ‘group think’, or reliance on single dominant actors (who may in the long-term not be benign). This paper also assesses the effectiveness of the new governance structure for macroprudential policy in the light of international comparative empirical research in [Section 6](#), and international practice, and explores possible ways to improve the transparency and accountability of macroprudential policy in [Sections 5 and 6](#).

Finally, we organize our suggestions for financial stability governance reforms in the conclusions under four categories: institutional design, process design, transparency features, and accountability design.<sup>9</sup>

## 2. The new governance structure for macroprudential policy in South Africa

This section elucidates the governance structure for macroprudential policy in South Africa. It characterizes the hybrid nature of the Twin Peaks-plus macroprudential framework in an international context. The FSR Act of 2017 is interpreted to describe the new organizations, the links with coordination committees, and arrangements for accountability. [Figure 1](#) clarifies the channels for policy-making on financial stability, showing the origin of policy recommendations and directives in particular committees, and the coordination amongst regulators.

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<sup>8</sup> The Governor also acquires ‘hard’ powers, even in ‘ordinary’ times, over institutions designated as SIFIs, see [Section 4](#).

<sup>9</sup> We are grateful to Philippe Burger for suggesting this organizing principle.

## 2.1. The historical position of prudential and conduct regulation

Historically, the prudential regulation of banks and non-banks in South Africa was split between the Bank Supervision Department, based at the Reserve Bank from 1987, and the Financial Services Board, which became operational from 1991, respectively.<sup>10</sup> Despite the proposal of a single regulator for banks and non-banks in 1993 by the government-sponsored Melamet Commission, a sector-based institutional design was adopted, and contention on this choice continued for some years.<sup>11</sup> While the Bank Supervision Department regulated the banks with prudential supervisory powers, the Financial Services Board regulated insurance companies and supervised fund managers and exchanges, and, together with the Johannesburg Stock Exchange, supervised market intermediaries, with both prudential and conduct responsibilities. Listed companies and unlisted companies were supervised by the Johannesburg Stock Exchange and the Department of Trade and Industry, respectively. In addition to these, the National Credit Regulator (NCR), established by the National Credit Act, 2005,<sup>12</sup> was responsible for the regulation of the South African credit industry, and reported to the Department of Trade and Industry. Supervision of foreign currency dealers and monitoring of the payments system continued to fall to the Reserve Bank.

The predominance of multiple regulators, each with different legislation, standards and requirements, resulted in a so-called ‘silo’ approach to the regulation of banks and non-banks, with the risk of regulatory arbitrage.<sup>13</sup> Havemann (2021) details the coordination complexity entailed by five regulators established by five separate legal acts and variously answerable to three different ministers.

The fragmentation of regulation created prudential risks and insufficient protection in some cases for consumers. Van Heerden and van Niekerk (2018a) also refer to a “notorious shortcoming”, which was that the market conduct regulation of banks “largely fell through the cracks”, as it was not covered by the regulatory remit of the Reserve Bank, nor by other regulators (although the National Credit Regulator and the Competition Commission could address some of the possible risks).

## 2.2. Transition to a hybrid Twin Peaks system of financial regulation, emphasizing financial stability

Regulatory change for the financial system in South Africa was catalysed by the National Treasury from 2007, with the review made more comprehensive after the GFC of 2008. A resultant policy paper proved influential in initiating the reforms that had been agreed by the G20 after the GFC, and in setting up a Financial Regulatory Reform Steering Committee in 2013 (National Treasury, 2011). With representation from the regulators, the Reserve Bank and National Treasury, this committee produced a policy document entitled “Implementing the Twin Peaks model of financial regulation in South Africa” (National Treasury, 2013). A comprehensive background and rationale for the regulatory reforms is given by Havemann (2021).

The Twin Peaks approach refers to an objectives-based structure of financial regulation. Jackson (2021) suggests it “deconstructs sectoral agencies and reassembles the resources into a pair of industry-wide bodies: one focused on market conduct requirements that protect customers and market structures, and a second targeted at the prudential regulations that ensure the safety and soundness of financial firms.” This has the advantage of regulatory specialization, with dedicated objectives and clear mandates. Another, advantage, according to Godwin et al. (2017), is avoiding prioritizing one regulatory culture - like conduct regulation - in the regulatory landscape (as purportedly occurred in the UK before the GFC, Taylor (2021)). The Twin Peaks systems may be better suited to reach beyond traditional sectors and encompass big tech and shadow banking; according to Jackson (2021): “objectives-based supervision may

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<sup>10</sup> These institutions were governed, respectively, by the Banks Act (Act no 94 of 1990) and the Financial Services Board Act (Act no 97 of 1990), with both regulators responsible to the Minister of Finance.

<sup>11</sup> Other regulatory bodies were established in 1998. These were a Competition Commission, governed by the Competition Act (Act no 89 of 1998), and responsible to the Minister of Trade and Industry; and the Council for Medical Schemes Act (Act no 131 of 1998), responsible to the Minister of Health.

<sup>12</sup> The National Credit Act no 34 of 2005 came into force in part in June 2006 and fully by June 2007, with the regulator responsible to the Minister of Trade and Industry.

<sup>13</sup> This fragmentation was also typical of New Zealand’s financial regulation prior to the adoption of a Twin Peaks system, Dervan and Jensen (2021).

just be a better fit for the twenty-first-century economy.” Nevertheless, the challenge of coordination across regulatory authorities poses a potential disadvantage, discussed in [Section 3](#), and some regulatory overlap for the regulated entities, with potentially poor information sharing (Godwin and Schmulow 2021).

The regulatory structure in South Africa was redefined as a Twin Peaks model of financial regulation by the FSR Act 2017. Much of the Act is concerned with regulatory arrangements and powers for micro-prudential and micro-conduct supervisors. However, the Act also defines the mandate and powers of the Reserve Bank in the conduct of macroprudential policy. The stated aims are: “to achieve a stable financial system that works in the interests of financial customers and that supports balanced and sustainable economic growth in the Republic, by establishing, in conjunction with the specific financial sector laws, a regulatory and supervisory framework that promotes financial stability; the safety and soundness of financial institutions; the fair treatment and protection of financial customers; the efficiency and integrity of the financial system; the prevention of financial crime; financial inclusion; transformation of the financial sector; and confidence in the financial system.”<sup>14</sup>

New prudential and conduct regulators were established in place of the old sectoral regulators, with over-arching imperatives to assist in the maintenance of financial stability. Bank regulation was formally removed from the Reserve Bank’s remit and a separate prudential regulator created, the *Prudential Authority* (PA), though still housed within the Reserve Bank. The PA supervises all financial institutions and is responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates, and certain market infrastructures.<sup>15</sup> The Act also established the *Financial Sector Conduct Authority* (FSCA) as a stand-alone market conduct regulator, located outside the Reserve Bank. The role of the PA is to promote the safety and soundness of financial institutions, and the FSCA enhances and supports the integrity and efficiency of financial markets and protects financial customers. Despite some contentious debate, the NCR was not assimilated into the new conduct authority. It was retained as an independent credit regulator, but became subject to the network of coordination required under the Act. The Act fosters interagency coordination and collaboration by various mechanisms and via new bodies, including the Financial System Council of Regulators and the Financial Sector Inter-Ministerial Council, see [Section 3](#).

Implementation of the Twin Peaks approach has varied across international jurisdictions (Taylor, 2021). South Africa’s new system is a hybrid of institutional models of the Twin Peaks-plus macroprudential framework variety, with the central bank as the macroprudential policy-maker. We compare features of the design for South Africa with other countries in [Table 1](#). Commentators have engaged in colourful topographical descriptions variously involving mountains, peaks, foothills and molehills to capture South Africa’s hybrid system, where the central bank is sometimes a mountain and sometimes one of a set of similar peaks.<sup>16</sup> We would describe the South African financial regulatory system as a classic Twin Peaks objectives-based regulatory system with independent prudential and conduct authorities covering micro-prudential and conduct regulation, and additionally assisting the Reserve Bank with macroprudential issues, but with several hybrid characteristics.

The *first* hybrid feature is that the second peak, that of the conduct authority, is bifurcated, in that the pre-existing NCR was not absorbed into the new conduct authority, for political and practical reasons.<sup>17</sup> Thus, the FSCA and the NCR are together responsible for conduct in financial markets. That a bifurcated second peak is pretty unique is apparent from [Table 1](#). Potentially this bifurcation could create inefficiencies and problems in data collection and

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<sup>14</sup> Government Gazette, 22 August 2017, p.48.

<sup>15</sup> The PA does not supervise micro-lenders in South Africa, whose regulation falls to the National Credit Regulator (NCR), see [Section 3.2](#).

<sup>16</sup> South Africa’s Twin Peaks system has been described as comprising “three large peaks and some smaller “hills”” (van Heerden and van Niekerk, 2018a); or “three peaks” with the Reserve Bank as the “apex peak”, or, including the NCR, a “quad peak” model (van Heerden and van Niekerk, 2017; and Van Heerden et al. 2020); Havemann (2021) quotes a member of Parliament describing it as: “A mountain, two peaks and some molehills”; another member of Parliament commenting on the exclusion of the NCR from the FSCA commented: “The Bill, without the National Credit Regulator firmly tucked under the Financial Sector Conduct Authority is not a twin peaks Bill; it is a one peak and a molehill Bill” (RSA Hansard, 16 November, 2016).

<sup>17</sup> The Standing Committee on Finance in Parliament saw much debate on this issue. COSATU (2015) worried that the FSCA could be unduly influenced by the lobbying power of the large financial institutions, potentially undermining the consumer protection objectives of the NCR. Another concern was loss of specialized staff if the NCR functions were taken over by the FSCA.

sharing. Van Heerden and van Niekerk (2018a) refer to this outcome as “the carve–out that the National Credit Regulator strong-armed for itself”. Critics argue<sup>18</sup> that the NCR lacks resources, has not done enough to penalize lenders who engage in predatory lending practices, and has not found the right balance between addressing systemic issues of household over-indebtedness on the one hand and financial inclusion on the other.<sup>19</sup>

A *second* hybrid feature is that the Prudential Authority is not a department of the central bank (as it used to be), or a subsidiary of the central bank (e.g. in the UK it is part of the Bank of England, and is a limited liability company, wholly owned by the Bank of England), or a stand-alone regulator housed outside the central bank (as in Australia), but instead is housed within the Reserve Bank as an independent organization with its own objectives and powers.<sup>20</sup> This is a useful feature for several reasons. Well-functioning channels of communication and capacity from formerly being a department of the central bank creates smooth continuation. The Prudential Committee, which oversees the administration of the PA (see [Section 2.4](#)), includes the Governor (Chair) and all the Deputy Governors, one of whom is the Chief Executive Officer of the PA. These important synergies facilitate cost savings and timely information-sharing, vital to counter costly inaction and lags in macro- and micro-prudential policy implementation. Taylor (2021) reminds us that regulatory choices need to be adapted to the particular circumstances of individual countries with different institutions, histories, and political economies. Godwin and Schmulow (2015) suggest that the standing and credibility of the Reserve Bank may have influenced the design choice of where to house the PA, helping promote strong independent action by the PA in an economic environment of sometimes weak governance and oversight of regulators (and presumably to reduce regulatory capture and inaction). They also observe that the choice of a separate juristic entity with its own objectives more closely conforms with the precepts of the Basel Committee Principles on Banking Supervision.<sup>21</sup>

However, given the close connections between the PA and the Reserve Bank, it is possible that conflicts of interest or trade-offs may emerge between the primarily micro-prudential supervisory objective of the PA and the primarily systemic and macroprudential mandate of the Reserve Bank, both under the FSR Act. If the PA is not sufficiently independent, then the carrying out of its objectives may be subsumed by those of the Reserve Bank under the Act, or the Reserve Bank might take too great a hand in the micro-supervisory aspects at the expense of its macroprudential objectives. Several legal commentators (e.g. Godwin and Schmulow (2015) and Van Heerden and van Niekerk (2021)) have raised this issue.

A *third* hybrid feature concerns the nature of the committee/s for deliberating macroprudential policy. Many countries created financial stability committees after the GFC. Edge and Liang (2022) document an increase from 12 in 2008 to 47 committees by 2017 in their sample of 58 countries, and suggest this represents a fundamental change in governance arrangements for macroprudential policies to reduce financial stability risks. However, they find a majority of these multi-agency committees focus on communications and coordinating actions amongst the regulators, with only a quarter classified as relatively strong and authorized to take macroprudential policy action with ‘hard’ or ‘semi-hard’ powers. They question whether these committees are designed to improve accountability for financial stability and carry out macroprudential decision-making, or exist mainly to convene and discuss risks (see [Section 6.1](#)). Edge and Liang note the presence of the ministry of finance in 40 of the 47 new committees they analyse, in addition to the regulators and central bank. Where there is leadership in these committees by finance ministries, the fact that the committees are then less insulated from political processes could create lags and inaction bias in policy making.<sup>22</sup> Several financial stability committees are contrasted in our [Table 1](#), of which the strongest (by Edge and Liang’s

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<sup>18</sup> One example is by [Arcadia Finance](#), a loan advisor.

<sup>19</sup> In a Standing Committee on Finance meeting, March 2024, the NCR identified the key challenges to its operations as insufficient funding, the loss of key personnel to the industry and the inability to attract and maintain competent skills, and the lack of amendments to the National Credit Act.

<sup>20</sup> “The Prudential Authority is a juristic person operating within the administration of the Reserve Bank.” Section 32, FSR Act.

<sup>21</sup> Principle 2 states that the banking supervisors should possess operational independence, transparent processes, and sound governance. Their budgetary processes should not undermine autonomy and adequate resources, and they should be accountable for the discharge of duties and use of resources. At the same time there should be legal protection for banking supervisors.

<sup>22</sup> Against this, Edge and Liang rationalize the inclusion of finance ministries partly because of resources potentially required for crisis management, and partly because they may strengthen the political legitimacy of macroprudential policies when there are distributional consequences.

classification), and the most transparent, is the statutory Financial Policy Committee of the Bank of England for macroprudential policy-making.

In South Africa, in addition to providing a new mandate to the Reserve Bank for macroprudential policy, and clarifying its powers to use macroprudential tools, the 2017 Act provided for a new multi-regulator oversight body for macroprudential policy, called the Financial Stability Oversight Committee (FSOC), *external* to the Reserve Bank.<sup>23</sup> The FSOC would appear to be a committee of the type described by Edge and Liang. Indeed, Edge and Liang (2019, 2022), see [Section 6.1](#), designate FSOC as the *mandated* financial stability committee in South Africa in their analyses. This is also the legal interpretation of Van Heerden and van Niekerk (2018a): “It thus appears that the main decisions regarding the exercise of the central bank’s financial stability mandate will be made in the FSOC and that the Governor will be acting largely in accordance with decisions taken by this Committee...”; and Van Heerden and van Niekerk (2020) suggest that the Reserve Bank, when exercising its powers in terms of the Act, has to take account of any views of the regulators or any recommendations of FSOC, and this “.. reinforces the combined power of the FSOC as the *ultimate decision-taker* on financial stability matters (our italics).” We question this interpretation below.

The details of how macroprudential policy-making operates via different channels, different committees, and a powerful Governor (under some circumstances), is described in [Section 2.4](#) and [Section 3](#). In brief, an *internal* committee in the Reserve Bank without statutory powers, the Financial Stability Committee, is *de facto* the executive committee where macroprudential policy is made quarterly - but it is not mentioned in the FSR Act. In practice, the FSOC with a diverse membership and meeting just twice a year, serves as a coordination committee of regulators for commentary and to feed through risk-related information from individual regulators and from other mandated committees. However, it appears that the FSOC may originally have been intended to be a statutory committee with a central role in macroprudential policy-making, rather like the Financial Policy Committee of the Bank of England. This is suggested by earlier drafts of the 2017 Act and by the influential motivating paper of the National Treasury in 2013. This history is explored in [Section 2.5](#) and has implications for shortcomings in the current accountability of policy.

The *fourth* hybrid feature concerns the number of macroprudential regulators. The Reserve Bank is the designated macroprudential authority. The PA carries out directives or recommendations<sup>24</sup> to implement some macroprudential tools, but potentially it could in its own right directly control tools that could be considered to be either microprudential or macroprudential, see [Section 4.3](#). The IMF thus classifies South Africa as having more than one macroprudential authority (IMF, 2022a). However, the Prudential Authority is represented on the internal Financial Stability Committee. If this committee made a decision, for example, to adjust the CCyB, it would direct the PA to implement this action,<sup>25</sup> suggesting that the IMF classification may be misleading.<sup>26</sup>

Further to the above, and not referred to in the FSR Act, South Africa limits foreign loan exposure of domestic banks, administered under exchange controls by the Bank’s Financial Surveillance Department. Some of the exchange controls are related to macroprudential policy, e.g., a loan-to-value (LTV) ceiling of 50 per cent applies to non-residents’ mortgages from domestic banks, and local pension funds have limits on external exposure in foreign assets and property. Exchange control is a National Treasury function, announced in the Budget, and administered by the

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<sup>23</sup> The establishment, functions, membership, administration and meetings and procedures of FSOC are defined by the FSR Act, sections 20-24.

<sup>24</sup> For the difference between directives or recommendations, as iterated by the 2017 Act, see [Section 2.4](#).

<sup>25</sup> See the Financial Stability Review (2023, 2nd ed.), for example, where it is clear that the PA was directed by the Financial Stability Committee to increase the CCyB to 1 per cent.

<sup>26</sup> Admittedly, as the banking supervisor, the PA has a confidential relationship with banks that it supervises, and would not be able to share routinely all bank-specific information with the Financial Stability Committee, given the risk of data leakages. Situations may well arise in which the PA asks an individual bank to alter its behaviour in some specific way, or to tighten up its information management. Some of these actions could conceivably have a macroprudential aspect (as well as micro).

Reserve Bank. Compared to some emerging market peers, South Africa has few capital flow management instruments.<sup>27</sup>

### 2.3. The Reserve Bank's financial stability mandate and the role of the Minister of Finance

The new Act satisfies two of the features referred to in the Introduction concerning *willingness* to act, namely, a clear mandate for macroprudential policy and well-defined policy objectives, see IMF-FSB-BIS (2016). A striking feature of the 2017 FSR Act is that it imposed on the Reserve Bank an *explicit* mandate to maintain and enhance financial stability. This was previously an *implicit* mandate. The Reserve Bank's diversified mandate before the Twin Peaks regulatory regime comprised its primary objective, 'the protection of the value of the currency in the interest of balanced and sustainable economic growth',<sup>28</sup> as well as supervision of the payments and settlement system, supervision of banks, and being Lender of Last Resort and Provider of Emergency Liquidity Assistance. That the Reserve Bank also had a financial stability mandate, acting in concert with other regulators, was implied, but not legislated.

In Chapter 2 of the FSR Act, the Reserve Bank's responsibility for financial stability is defined as protecting and enhancing financial stability, and restoring or maintaining financial stability if a systemic event has occurred or is imminent.<sup>29</sup> A definition of financial stability is given in the Act, that: "financial institutions generally provide financial products and financial services, and market infrastructures generally perform their functions and duties in terms of financial sector laws, without interruption; financial institutions are capable of continuing to provide financial products and financial services, and market infrastructures are capable of continuing to perform their functions and duties in terms of financial sector laws, without interruption despite changes in economic circumstances; and there is general confidence in the ability of financial institutions to continue to provide financial products and services, and the ability of market infrastructures to continue to perform their functions and duties in terms of financial sector laws, without interruption despite changes in economic circumstances."<sup>30</sup>

Of the many definitions of financial stability, a common feature is the absence of system-wide failures of the financial system, and the above definition concurs with this approach. Macroprudential policy is effectively a new discipline aimed at reducing systemic risk and improving the resilience of financial systems to stress. Adrian et al. (2015) define systemic risk as: "the potential for widespread financial externalities—whether from corrections in asset valuations, asset fire sales, or other forms of contagion—to amplify financial shocks and in extreme cases disrupt financial intermediation." Research and policy development of macroprudential tools and objectives now focus more on vulnerabilities, Adrian et al. (2015) and Adrian (2017). They define vulnerabilities "as the collection of factors that contribute to the potential for widespread financial externalities", especially leverage, maturity transformation, interconnectedness, complexity, and the pricing of risk.

To qualify and extend the prior primary objective of the Reserve Bank, the FSR Act required an amendment of section 3 of the South African Reserve Bank Act<sup>31</sup>: "... (2) *In addition*, the Bank is responsible for protecting and maintaining financial stability as envisaged in the Financial Sector Regulation Act, 2017" (*our italics*). Interpreting this amendment, Van Heerden and van Niekerk (2021) state: "its mandate for financial stability is now captured in legislation in explicit terms, and *put on a par* with its price stability mandate" (*our italics*). In South Africa, the terms 'primary mandate' and 'statutory mandate' are now in common usage, distinguishing the objectives without pronouncing on parity, see the Reserve Bank's website and the *Financial Stability Review* ("Background"). A similar situation prevailed in New

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<sup>27</sup> If South Africa joins the OECD Code of Liberalisation of Capital Movements, its policy flexibility in using these instruments could be more constrained. The IMF view, contained in the Integrated Policy Framework (Gopinath, 2019), jointly considers monetary, exchange rate, macroprudential, and capital flow management policies: to the extent that capital flows are the source of systemic financial sector risks, the tools used to address those risks are both capital flow management measures and macroprudential measures. The OECD Code appears to conflict with this. South Africa's new capital flows management framework reforms that were introduced in 2020, which were aligned to the OECD Code, are currently under review (according to the Budget Review, 2024, Annexure E). Hopefully, South Africa can preserve its policy flexibility.

<sup>28</sup> Section 3, South African Reserve Bank Act, Act no 90 of 1989.

<sup>29</sup> FSR Act, section 11.

<sup>30</sup> FSR Act, section 4.

<sup>31</sup> South African Reserve Bank Act, Act no 90 of 1989.

Zealand.<sup>32</sup> We instead suggest that the new express statutory financial stability mandate is a *second* and simultaneous objective with the original primary objective. They are both statutory.

Whether monetary and macroprudential policy are on a par or not at other central banks, there is now greater appreciation of the importance of macroprudential policy, and of interactions, policy trade-offs and the need to coordinate between monetary and macroprudential policy (Laeven et al. (2022); Muellbauer (2022)). For a discussion of this in the South African context, see also Hollander and van Lill (2019). Svensson (2018a; 2018b) argues that monetary and macroprudential policies are different (in terms of goals, instruments, and governance), and affect each other but not systematically. He argues that each is best conducted separately, informed about and taking cognisance of the conduct of the other. Monetary policy should only ever “lean against the wind” if supported by a convincing country-specific, cost-benefit analysis, a view supported by several central bank practitioners. On the other hand, Muellbauer (2022) demonstrates with empirical evidence that there can be strong interactions and parallels between interest rates and lending standards and their effects on the economy. Interest rates and lending standards can have major effects on house prices, household debt and consumption, depending on a country’s financial institutions. In the credit cycle, interest rates affect non-performing loans ratios which feed back onto credit standards. This transmission channel of monetary policy is often neglected, though is especially important in countries like the UK and South Africa, where floating rate debt predominates and home equity withdrawal is easy. South Africa’s governance framework, with overlapping memberships between the MPC and the FSC, is well suited to developing both complementary and coordinated monetary and macroprudential policies.

The monetary policy objective of the Reserve Bank involves instrument independence, giving the Reserve Bank the power to set interest rates, and is confirmed by the Constitution.<sup>33</sup> However, the financial stability objective cannot be executed independently by the central bank, as several regulators may be involved. The FSR Act therefore provides for a significant network of coordination arrangements amongst the many regulators and ministers of state in the Twin Peaks regulatory framework (see [Section 3](#)).

In Chapter 2 of the Act, the comprehensive functions and processes to be followed by the Reserve Bank in executing its mandate for macroprudential policy are laid out. The Reserve Bank is required to engage in the pre-emptive monitoring of risks to financial stability and in the mitigating of these identified risks to financial stability.<sup>34</sup> Such risks might be systemic in nature, or non-systemic, and risks may also be reported by the FSOC or a participating regulator.

Steps to address the risks include advising the financial sector regulators and any other organ of state of particular mitigating actions (see discussion in [Sections 2.5 and 4](#)). The Reserve Bank is also obliged to assess the observance in the Republic of principles developed by international standard setting bodies, and to report the findings to the Minister of Finance and the regulators.

Chapter 2 also covers determining whether a systemic event has occurred or is imminent, and covers preventing or managing a systemic event (see [Section 4.1](#)).<sup>35</sup> The Act provides for the designation of Systemically Important Financial Institutions (also known as SIFIs) by the Governor of the Reserve Bank and the prudential management of SIFIs by the Reserve Bank, see [Section 4.1](#).<sup>36</sup> The Act details how coordination with other regulators and organs of state should occur, and the specific coordination bodies for financial stability which the Reserve Bank has the responsibility to set up and administer, namely the FSOC and the *Financial Sector Contingency Forum* (FSCF), see [Section 3](#).<sup>37</sup> Finally, the Reserve Bank is required to publish a biannual *Financial Stability Review*, and table it in Parliament, and

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<sup>32</sup> Dervan and Jensen (2021) interpret the Reserve Bank of New Zealand (RBNZ) Act to have required that monetary policy take precedence because it was described as the RBNZ’s *primary* function. This was later altered when monetary policy was transferred to a statutory Monetary Policy Committee; however, the RBNZ Act still does not clearly state that financial stability and monetary policy are to have equal priority.

<sup>33</sup> Section 224 of The Constitution of the Republic of South Africa, Act no 108 of 1996.

<sup>34</sup> FSR Act, section 12.

<sup>35</sup> FSR Act, sections 14 and 15.

<sup>36</sup> FSR Act, sections 29-31.

<sup>37</sup> FSR Act, sections 16-28.

there are specific indications of how the review should provide transparency and accountability for macroprudential policy (see [Section 5](#)).<sup>38</sup>

The drafting of this Act followed the GFC, which event appears to loom large in features of the Act. The legislation underpins overriding powers for the Governor in the case of an imminent or actual systemic crisis, which have been described as ‘emergency type powers’ (Van Heerden and Van Niekerk, 2021). Systemic frailty covers factors that may even fall outside the financial sector (e.g. concerning the state-owned power company, Eskom). In this connection, the FSCF has a historic role. It was established under the Act to assist the FSOC with identification of potential risks of systemic events and recommending the coordination required to mitigate those risks, typically of an operational type. But this body was originally created in 2003, when it was voluntary, and meeting biannually to coordinate plans, mechanisms, and structures for managing financial crises, as well as infrastructure failures and operational risks.<sup>39</sup> The evolution of the role of the FSCF is an interesting illustration of institution-building and the eventual entrenching of informal governance in law.

The Minister of Finance plays a key role in administering the FSR Act, from several perspectives. The first concerns the execution of the Reserve Bank’s financial stability mandate, where the Act requires a policy framework to be agreed between the Minister of Finance and the Governor.<sup>40</sup> Within the agreed framework, there is no Treasury presence on the internal executive body, the Financial Stability Committee (see [Section 2.4](#)). A Treasury representative rather than the Minister sits on the external coordinating committee, the FSOC (see [Figure 1](#)), but both the Minister and the Reserve Bank receive advice from FSOC on the management of risks to financial stability and crisis management.<sup>41</sup> Secondly, the Minister has to be consulted before the designation by the Governor of an imminent or actual systemic event, and kept informed of any changes in the designation (see [Section 4](#)), and there are provisions to keep the Minister informed about steps proposed or taken to mitigate systemic events and their effectiveness.<sup>42</sup> Concerning *fiscal safeguarding*, the Act prohibits any steps without the Minister’s approval that will bind the National Revenue Fund to any expenditure, or have a material impact on the cost of borrowing for the Fund or create a future financial commitment or a contingent liability for the Fund.<sup>43</sup> On *oversight* arrangements, the Minister of Finance is part of the Financial Sector Inter-Ministerial Council under Section 83 of the Act, to coordinate Cabinet Members responsible for administering financial sector legislation. The council should also evaluate on a regular basis the required memoranda of understanding between the Reserve Bank and regulators, see [Section 3](#). Once a crisis has been designated, both the NCR and organs of state may be subject to consultations with the Minister of Finance and other ministers (see [Section 4](#)). On *accountability*, the Minister should receive a draft of each *Financial Stability Review* with at least two weeks to make comments before publication (see [Section 5](#)). And, finally, as mentioned above, the Minister must be informed about actions to align South African practice with developments by international standard setting bodies.

## 2.4. The executive Financial Stability Committee (and insights from earlier drafts of the Act)

On the face of it, the Act, through granting a clear financial stability mandate to the Reserve Bank and with clear objectives articulated in the Act (see [Section 2.3](#)), satisfies the main governance features for ‘willingness to act’ as a macroprudential policy-maker, described in the Introduction. Where there is some opacity and ambiguity, however, concerns transparency and accountability mechanisms - also stipulated as important under the ‘willingness to act’, see IMF-FSB-BIS (2016). We distinguish between two areas of transparency and accountability concerning macroprudential policy-making. The first is the transparency and accountability mechanisms for the tracking of risk, the reporting of macroprudential policies to mitigate risk, and accountability for such policy decisions. These are

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<sup>38</sup> FSR Act, section 13.

<sup>39</sup> Chaired by a Deputy Governor of the Reserve Bank, its membership was then drawn from the National Treasury, Reserve Bank, Financial Services Board, Bank Association of South Africa, South African Insurance Association, Johannesburg Stock Exchange, Payments Association of South Africa, SA Bankers Services Company, South Africa’s Central Securities Depository (Strate Limited), and the Association for Savings and Investment South Africa (IMF, 2015).

<sup>40</sup> FSR Act, section 11.

<sup>41</sup> FSR Act, section 21.

<sup>42</sup> FSR Act, section 16 (1).

<sup>43</sup> FSR Act, section 16 (2).

comprehensively provided for in the Act, via required reportage in the *Financial Stability Review* (and tabling the review in Parliament). The extent to which these legal requirements of the Act are met by the *Financial Stability Review* is discussed in detail in [Section 5](#).

The second area concerns the transparency and accountability features of the executive policy-making committee itself. The FSR Act governs the channels for the making of macroprudential policy in South Africa. It is striking that nowhere in six informative papers giving a legal interpretation of Twin Peaks and the role of the central bank under the FSR Act,<sup>44</sup> is this *internal* committee, the Financial Stability Committee (FSC) of the Reserve Bank, mentioned. The Act does not specifically create a *statutory* financial stability committee, but instead provides that in executing the mandate, the Reserve Bank is obliged to act within a policy framework agreed between the Minister of Finance and the Governor.<sup>45</sup> Implicitly this also leaves the transparency and accountability features of the resultant executive committee in the hands of the Minister of Finance and the Governor. These transparency and accountability aspects in principle cover whether minutes are published after each meeting (or a summary account, as for the Bank of England's Financial Policy Committee (FPC)); the nature of the committee membership and whether this includes external members; the quorum; the nature of decision-making, whether by consensus or voting; whether the executive committee members are named in the *Financial Stability Review* for individual accountability, and which individuals and/or committees sign off the *Financial Stability Review*; but also, whether there is public documentation of the above features of the committee.

Before explaining the origins and character of the Reserve Bank's executive committee for macroprudential policy, the FSC, it is useful to examine as a benchmark the equivalent set-up in the UK, with the most complete transparency and accountability for macroprudential policy in our [Table 1](#). The Bank of England's FPC is a statutory committee, where five of the 12 voting members are external members, decision-making is by consensus (failing which there is voting with a second casting vote for the Chair), and which produces a 'Summary and Record' after each quarterly meeting. It also produces a biannual Financial Stability Report, as required by legislation. This publishes the objectives of the FPC, explains in a preamble how it meets objectives, states that the Financial Stability Report sets out the view of this executive committee on risk as well as documenting policy actions taken and tracking whether the Committee's previous policy actions have succeeded in meeting the Committee's objectives, and it gives the names of the full committee (which provides accountability for the document). The report tracks comprehensive core indicators of risk, and documents policy related to mitigating those risks and also the accountability for policy in a special Annex, see our [Section 5](#). An annual remit letter is sent to the Governor by the Chancellor of the Exchequer reiterating responsibilities for financial stability and making some recommendations.<sup>46</sup> That such strong governance (indisputable by the public) was applied to the UK after the GFC, is linked to the much-publicized disasters, with huge losses to the tax-payer, that mainly befell the Royal Bank of Scotland under a single regulator before and during the GFC.<sup>47</sup> As Taylor (2021) explains, the single regulator had prioritized conduct over prudential regulation, and had missed the excessive risk-taking in the financial sector and the wider build-up of financial risk.

In South Africa, establishing the current governance structure for macroprudential policy has been an evolutionary process, involving consultation on several draft versions of the Act, and building on and formalizing existing institutions within the central bank. The first formal signalling of the role of the central bank in managing financial stability was in a letter of 16 February 2010, from Pravin Gordhan, then Minister of Finance, to the new Governor on her appointment, then Gill Marcus. This was the annual letter that the Minister of Finance writes to the Governor of the Reserve Bank for the conduct of monetary policy by the Monetary Policy Committee (MPC), confirming the constitutional mandate, setting the range for the targeting of CPI inflation, and with additional related clauses. The MPC is also a non-statutory body, internal to the Reserve Bank, which meets six times a year, has consensus decisions (but failing that, majority voting and a second casting vote from the Governor), and it produces (but does not publish) minutes.

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<sup>44</sup> See the referenced papers by van Heerden and van Niekerk.

<sup>45</sup> FSR Act, section 11.

<sup>46</sup> For 2024, see <https://www.gov.uk/government/publications/monetary-policy-remit-mansion-house-2024>.

<sup>47</sup> As late as 2021, the Office of Budget Responsibility reported a loss of £35 billion on RBS, with small gains on other financial institutions that were brought into public ownership (like Northern Rock).

The 2010 letter confirmed the primary objective of the Reserve Bank, the target range for CPI inflation, but also emphasized the importance of a stable and well-regulated financial sector.<sup>48</sup> In October of that year, the *Medium-Term Budget Policy Speech* (MTBS) first referred to a “revised mandate” for the Reserve Bank that “includes particular responsibility for financial stability”.<sup>49</sup> An internal (non-statutory) FSC of the Reserve Bank had first been established in 1999 in the wake of the East Asian crisis to provide ‘macroprudential surveillance’. Following the MTBS of 2010, this committee was elevated to “a level equal to [*the MPC*] and [*with meetings*] alternating with the MPC meetings”.<sup>50</sup>

No documents between the National Treasury and the Reserve Bank agreeing a policy framework for the execution of the Reserve Bank’s financial stability mandate under the Act have been published. However, such an agreement would have had to be in place in 2018 to comply with the Act.<sup>51</sup> That there *is* an unpublished document detailing the framework, has been confirmed by the Reserve Bank, and also in a recent paper, Reserve Bank (2024, footnote 3). What we know about the executive committee for macroprudential policy is from the Reserve Bank’s website, the *Annual Report*, and the *Financial Stability Review*. The website clarifies that the Financial Stability Committee (FSC) is an internal non-statutory policy committee formulating the financial stability policy of the Reserve Bank in support of its financial stability mandate. The committee facilitates cooperation with other bodies (the FSOC and FSCF) in the execution of the Reserve Bank’s mandate. The website establishes unequivocally that the Reserve Bank fulfils its responsibility to protect and enhance financial stability *through* the FSC: “to monitor and review the strengths and weaknesses of the financial system and any risks to financial stability, and *take the necessary steps to mitigate these risks*” and “to monitor global and domestic financial vulnerabilities, consider their possible implications for domestic financial stability, and *decide whether any mitigating measures need to be taken*” (our italics).<sup>52</sup> Thus, *de facto*, the FSC is the executive committee for macroprudential policy in South Africa - by contrast with the views of other observers mentioned in [Section 2.2](#). Six years after the ratification of the 2017 FSR Act, Reserve Bank (2024) refers to the *unpublished* framework between the National Treasury and the Reserve Bank, and reveals details from it confirming the status of the FSC as the executive committee for macroprudential policy, with policy recommendations related to financial stability considered by the FSC prior to approval by the Governor for implementation.<sup>53</sup> But very little else is said about its constitution.

There is no remit letter as for the MPC. The FSC does not publish minutes or a summary after each quarterly<sup>54</sup> meeting. Voting is probably consensual with a second casting vote for the Governor (see below), and there are no external members. The quorum is not stated anywhere, but at the least will comprise the Governor and three Deputy-Governors (or a sub-set thereof), by the South Africa’s Reserve Bank Act 90 of 1989, see [Section 4.2](#). The Annual Report of 2023/24 confirms only that the FSC discusses the build-up of risks and vulnerabilities and communicates these through the biannual publication of the *Financial Stability Review*. The *Financial Stability Review* (2024, March) does not contain the names of the members of the FSC and also refers only to the FSC as reviewing risks but not making policy: “The Reserve Bank assesses financial stability as part of its ongoing operations, and its Financial Stability Committee (FSC) reviews the financial stability conjuncture and outlook at four meetings per year. The *Financial Stability Review* provides readers with the Reserve Bank’s assessment of the stability of the South African financial system.” This provides a strong contrast with the Bank of England’s equivalent report, which accountably links the policy decision-making as documented in their report, and in response to the risks assessed in their report, to the specific executive committee, the Financial Policy Committee (see further discussion on this in [Section 5](#)).

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<sup>48</sup> “I wish to ... reaffirm the role that the bank plays in overseeing and maintaining financial stability.” See [the letter to Governor Gill Marcus](#) from Minister Pravin Gordhan.

<sup>49</sup> See [MTBS Speech of 2010](#) by Minister Pravin Gordhan.

<sup>50</sup> This quote is from the Reserve Bank website (clarifying italics added), <https://www.resbank.co.za/en/home/about-us/our-people>. This was the only source we could find. Accessed on 25 October 2024.

<sup>51</sup> The Act refers to a framework between the Reserve Bank and National Treasury, which will be the agreed framework within which the Reserve Bank will fulfil its financial stability responsibilities.

<sup>52</sup> As of 2023, the FSC oversees the Resolution Policy Panel, for resolution planning and crisis management policies, and the Crisis Preparedness Committee, to coordinate contingency plans should a systemic event occur.

<sup>53</sup> In an Annex it clarifies that: “The purpose of the FSC is to formulate financial stability policy of the SARB in support of its financial stability mandate”; and “Through the FSC, the SARB fulfils its responsibility to monitor and review the strengths and weaknesses of the financial system and any risks to financial stability”; and “The FSC assesses policy proposals to address systemic risks and decides whether any macroprudential policy measures need to be selected and implemented”, (our italics).

<sup>54</sup> The Governor can convene a meeting of the committee at any time if required.

Interviews have established that the FSC membership of 15 is large and unwieldy, and over-weighted by the PA, to the extent of one-third. The view has been expressed that this composition gives a more micro-prudential focus to the meeting and has led to an inaction bias. The meetings largely concern a broad-based discussion on risk, with decisions seldom taken. We suggest this has curtailed the development of macroprudential policies, with a micro-rather than a systematic focus on risk. Our view is that a properly constituted FSC with optimal membership would have done a better job, for example in developing a macroprudential toolkit, especially ensuring the relevant data were collected to implement BBMs ([Section 4.3.2](#)), in early warning system modelling, and addressing non-bank and non-SIFI bank problems.

The confusion by prominent commentators referred to in the Introduction, e.g. Edge and Liang (2019, 2022) and Van Heerden and van Niekerk in various papers, who wrongly designated FSOC as the mandated financial stability committee in South Africa and the *ultimate decision-taker* on financial stability matters, suggests a lack of clarity in communication about the *de facto* decision-making process for macroprudential policy.

We surmise that the original intention when the National Treasury drafted the Bill for Twin Peaks and financial stability, was that FSOC *would be* the *statutory* Executive Committee, with a design more closely approximating the current Financial Policy Committee of the Bank of England. This becomes apparent when scrutinizing earlier drafts of South Africa's FSR Act and the amendments which occurred as a result of comments,<sup>55</sup> see also the analysis of Godwin et al. (2017). However, ultimately, a rather different role emerged for the FSOC by the final draft of the Act. The contrasts are explored in [Table 2](#), which compares the committee features for FSOC in the 2011 and 2013 drafts of the Act versus the 2017 Act, and contrasts these with the FSC after the 2017 Act. In the process of executing consecutive amendments to the bills, ambiguities have arisen concerning the accountability and transparency of the *de facto* executive committee, the FSC, and hence for macroprudential decision-making in South Africa.

In the *First Draft of the Bill*, the Reserve Bank's primary responsibility for promoting financial stability was stated in terms of section 3 of the Reserve Bank Act, that it should act within a policy framework agreed between the Minister of Finance and the Governor, and that it should establish and administer the FSOC. The FSOC in this early conception had a central role and was charged with continuously monitoring the financial system for risks and developments that could cause financial instability of all kinds, and it was stated that it must *initiate any action* to mitigate the risk, advise of any impending crisis and identify SIFIs. The FSOC was expected to meet frequently (every quarter) with a quorum comprising the majority of all the members of FSOC, with majority voting for decisions and a casting vote for the Governor. The membership was broader than in the FSOC of the final FSR Act and included a non-voting representative of the National Treasury. The FSOC itself (rather than the Reserve Bank's Department for Financial Stability) was to be responsible for publishing the *Financial Stability Review* twice a year. The reporting requirements were similar to those required in the final Act, covering risk monitoring and policy recommendations. Importantly, the *Financial Stability Review* was to cover the Financial Stability Oversight Committee's assessment of stability in the financial system for the period under review.

What is striking is how, this earlier conception of the FSOC was able to give recommendations to regulators in 'ordinary' times of the 'comply or explain' type rather than the diluted powers of 'soft' recommendations without follow-up that prevailed in the final FSR Act. Thus, the original conception was that the regulator *had to take* such action as it considered necessary to implement the recommendation *or else* provide a written explanation to the FSOC as to why the recommendation was not implemented, which was then subject to ministerial determination to resolve. This would have provided accountability and a definitive and transparent resolution, if there was a failure to act. This requirement to 'comply or explain' applied to the Twin Peaks regulators, the PA, the FSCA, the NCR, and to other regulatory authorities (though similar arrangements pertained to other organs of state as in the final Act). The Governor was to decide, together with the Minister of Finance, whether a situation constituted an actual or potential financial crisis. If there was a crisis then the powers to act devolved to the Reserve Bank which was to take direct responsibility to act, and regulators *had to* provide information and comply with any direction made by the Governor

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<sup>55</sup> There was extensive prior consultation before the enactment of the Financial Sector Regulation Act 9 of 2017, with three drafts of the Bill and two amendments, see <https://www.treasury.gov.za/twinpeaks/>.

(*hard* powers). The draft Bill is fairly limited concerning what should be done about SIFIs, but in crisis times the duty fell to the Governor to keep them functioning.

The above view on FSOC and its powers was endorsed by the ‘Roadmap’, an influential precursor to the Act. The Roadmap document (National Treasury, 2013) was a detailed follow-up document to the Red Book titled “Implementing a Twin Peaks model of model of financial regulation in South Africa”, National Treasury (2011). In the 2013 Roadmap document, the FSOC was to identify risks and respond appropriately (making recommendations on a ‘comply-or-explain’ basis) and was to be formalized within the Reserve Bank.

However, by the *final* FSR Act, the FSOC had been transformed to a collaborative forum, with some changes in membership, and with the frequency of meetings reduced from four to two meetings a year.<sup>56</sup> Decisions in FSOC were changed from explicit majority voting with an explicit majority quorum, to a quorum to be decided by FSOC, and without any explicit requirements for voting, but allowing the Chair a second casting vote where necessary. Decision-making appears to be on a consensus basis, which observers suggest may induce lags in implementation (BIS, 2023). The powers to act were diluted to ‘soft’ powers in ‘ordinary’ times, with the removal of any requirement to ‘comply or explain’. The *Second Draft of the Bill* had provided that the Reserve Bank should ensure that written minutes were kept and retained for seven years, but by the final draft a more vague stipulation is found whereby “minutes of each meeting of the Financial Stability Oversight Committee are kept in a manner determined by the Governor”.<sup>57</sup> The requirement to publish the *Financial Stability Review* was removed from the FSOC ‘back’ to the Reserve Bank (where it had been published since 2004), but in the process the *de facto* executive committee for macroprudential policy was not made responsible for the content (although the FSOC and the Minister may provide, *if they choose to*, comments on the report within two weeks). Given the important role accorded to the *Financial Stability Review* under the Act, this has created in our view an unfortunate ‘disconnection’ in accountability for macroprudential policy, see [Section 5.3](#).

We differ from Godwin et al. (2017), who suggests that the nearest equivalent to the *current* FSOC is the UK’s Financial Policy Committee with ‘responsibility for regulation of stability of the financial system as a whole’. This confuses which is actually the executive committee for macroprudential policy in South Africa, see below. We argue that the FSOC became far *less like* the Financial Policy Committee by the final draft of the FSR Act, but it would have been a statutory executive body according to earlier drafts of the Act.<sup>58</sup>

## 2.5. Channels for macroprudential policy-making

Our diagram in [Figure 1](#), of the current regulatory structure for the South African financial system and financial markets, was the first to explain the links between the Reserve Bank’s internal executive committee, the FSC, and the regulatory bodies and coordination committees, including the FSOC, under the Act.<sup>59</sup> Coordination arrangements are shown by the thin blue arrows. The diagram also shows the origin of policy recommendations and directives. The FSR Act distinguishes between recommendations (but which are not of the ‘comply or explain’ variety) made to regulators by the Reserve Bank in ‘ordinary’ times, and directives (where there must be compliance) to regulators from the Governor in crisis times. These recommendations (or directives in crisis times) to the regulators (and other organs of state) are indicated on the diagram by thick red arrows from the FSC. Recommendations from the FSOC to the FSC and to other organs of state, and recommendations from the FSCF to the FSOC, are also indicated by thick red arrows.

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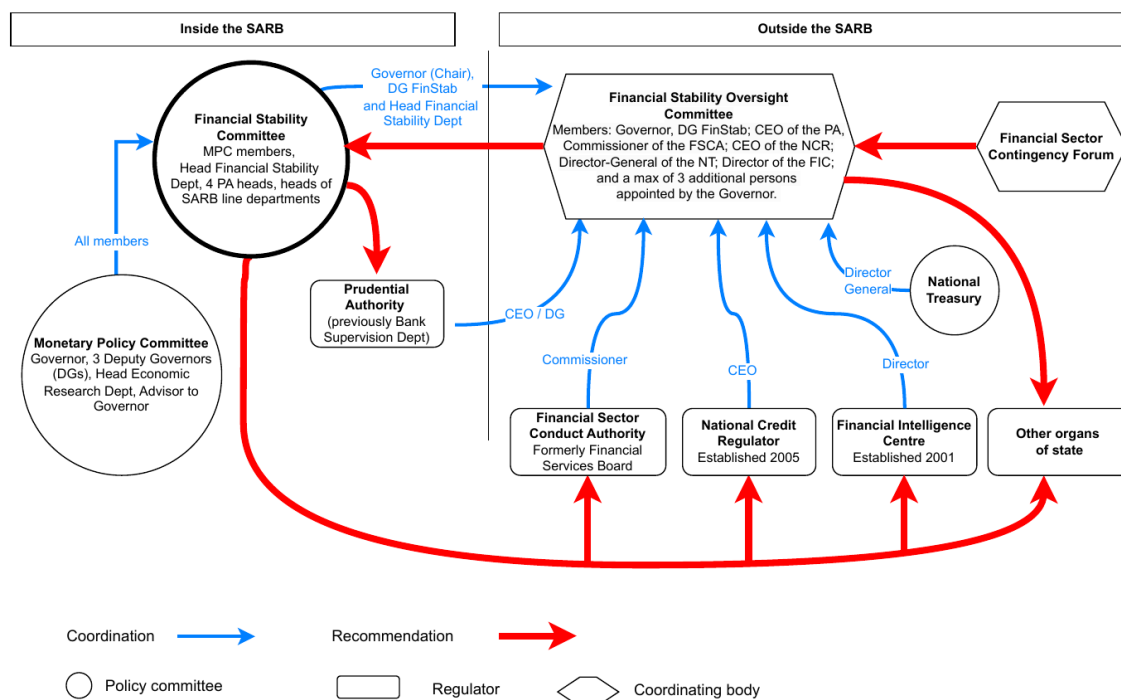
<sup>56</sup> See Godwin et al. (2017): the receipt of comments suggesting the role of FSOC was unclear, solicited the following response from the National Treasury: ‘[i]n light of these comments, the FSOC has been redesigned in the second draft to be a more collaborative forum allowing relevant authorities in the financial sector to share views on systemic stability. The membership is now more balanced and decisions are made on a consensus basis.’ The Director of the Financial Intelligence Centre was also included in the FSOC and the requirement removed for the Governor to obtain the Minister’s approval when appointing ‘additional persons’.

<sup>57</sup> FSR Act, section 20.

<sup>58</sup> A National Treasury insider who was present during the process has confirmed our interpretation of the role of the FSOC versus the FSC and how it changed during the drafting of the FSR Act.

<sup>59</sup> An earlier version of this diagram was presented by us at the Biennial Conference of the Reserve Bank in 2018.

Figure 1: New Regulatory Structure for Financial Stability following the FSR Act no 9 of 2017



Note: (i) In designated crisis times, the Governor of the Reserve Bank has the powers to issue *directives* on macroprudential policy to regulators and organs of state, which are stronger than *recommendations*, and are required to be carried out under the 2017 FSR Act. (ii) The Financial Stability Department of the Reserve Bank is an important component in carrying out the financial stability mandate. It is neither a committee, nor a regulator, and is not represented on the diagram, except that the Head of the Department sits on the FSC. The Department produces the stress tests and risk monitoring indicators, monitors risk developments, and produces the *Financial Stability Review*, crucial under the Act for transparency and accountability of macroprudential policy actions, see [Section 5](#).

Source: Devised and constructed by the authors (see Glossary for Abbreviations). We exclude three standing subcommittees. On 16 February 2023, the Financial Stability Committee (FSC) approved the establishment of the Crisis Preparedness Committee (CPC) as a standing subcommittee of the FSC, chaired by the Deputy Governor responsible for Financial Stability; other subcommittees are the Resolution Policy Panel (RPP) and Reference Rate Oversight Committee (RROC).

The non-statutory, *internal* FSC, which is the *de facto* executive committee for macroprudential policy, is shown on the left-hand side of [Figure 1](#). Current membership of the FSC comprises the Governor as Chairperson, the Deputy Governors, all members of the MPC, and a maximum of seven other Reserve Bank officials (the heads of the Financial Stability, Financial Surveillance and Financial Markets Departments within the Bank, and the heads of the four departments that make up the Prudential Authority). The *external* FSOC committee, chaired by the Governor of the Reserve Bank,<sup>60</sup> with representatives from all the regulators, the Reserve Bank, and the National Treasury,<sup>61</sup> is shown on the right-hand side of [Figure 1](#). The FSOC has wide-ranging functions.<sup>62</sup> It is pivotal as a coordinating forum for the exchange of information and views concerning actions pertaining to financial stability. It assesses risks of an operational nature, advising the Reserve Bank and the Minister of Finance on ‘steps’ to be taken to “promote, protect or maintain, or to manage or prevent” risks to financial stability, and on matters of crisis management and prevention.

<sup>60</sup> If the Governor is absent, the Deputy Governor responsible for financial stability matters chairs the meeting.

<sup>61</sup> FSR Act, section 22. The FSOC consists of the following members: the Governor; the Deputy Governor responsible for financial stability matters; the Chief Executive Officer of the PA; the Commissioner of the FSCA; the Chief Executive Officer of the National Credit Regulator; the Director-General of the National Treasury; the Director of the Financial Intelligence Centre; and a maximum of three additional persons appointed by the Governor. Terms of membership are determined by the Governor, and from 2018 he has included as a member the head of the Reserve Bank’s Financial Stability Department.

<sup>62</sup> FSR Act, section 21.

FSOC is also charged with making recommendations to other organs of state regarding steps toward promoting, protecting or maintaining, or managing or preventing such risks to financial stability. Another key role is to make recommendations to the Governor on the designation of Systemically Important Financial Institutions (SIFIs). These recommendations are indicated by thick red arrows emanating from FSOC.

The *Financial Sector Contingency Forum* (FSCF),<sup>63</sup> also meets every six months, and assists FSOC with identification of potential risks of systemic events and coordination required in the form of plans, mechanisms, and structures, to mitigate those risks. These recommendations are indicated by a thick red arrow emanating from FSCF. The FSCF comprises at least eight members, including a Deputy Governor designated by the Governor, who serves as Chairperson.<sup>64</sup> These risks are typically of an operational type, some of which may fall outside the financial sector.<sup>65</sup> van Heerden and van Niekerk (2018a) suggest that the actual detection of risk will occur in this forum as well as the strategies about how to address this risk, which will be fed through to FSOC. However, this is only partially correct. The Financial Stability Department of the Reserve Bank is the primary place where a wide range of risks including systemic risks are monitored through a mix of risk indicators and stress testing, and the FSCF is only one of the sources for signalling mainly operational risks.

The twice a year meeting dates of the FSOC are coordinated to occur shortly after the quarterly FSC meetings. There is a two-way relationship between these committees in that much of the agenda for the FSOC meetings originates in the FSC.<sup>66</sup> There is a strong overlap between the members of the internal Monetary Policy and internal Financial Stability committees, and some overlap between the latter and FSOC (see thin blue arrows in [Figure 1](#)). Moreover, while the Bank Supervision Department was dissolved and an independent Prudential Authority created, it remains housed in the central bank and is headed by a Deputy-Governor of the Reserve Bank, see [Section 2.2](#). Clearly the extent of overlap of membership enhances coordination of the different types of policies, macro-, micro-, and monetary, in these committees.

### 3. The coordination of regulation, and its oversight

The Twin Peaks-plus macroprudential model requires two types of coordination. The first arises because there is overlapping supervision of many firms by both the market conduct authority and the prudential regulatory authority,<sup>67</sup> and the second, for the necessary coordination between the central bank as macroprudential regulator with the prudential authority and other regulators. Coordination amongst the different regulators is imperative not only for the most efficient policy actions and outcomes, but also for the consistent communication of policy (BIS, 2017).

#### 3.1. The coordination structure

The FSR Act establishes cooperative arrangements between the financial regulators (and organs of state) and the Reserve Bank for the maintenance of financial stability both in ‘ordinary’ times and when a systemic event has been declared.<sup>68</sup> The Act additionally requires cooperation and collaboration amongst the different regulators themselves within the Twin Peaks regulatory framework. Some commentators have suggested that uncertainty about cooperation and the different regulatory cultures amongst the different regulators may undermine the central bank’s ability to address financial stability (van Heerden and van Niekerk, 2018a). A holistic approach to protecting financial stability

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<sup>63</sup> FSR Act, section 25.

<sup>64</sup> The remaining members of the FSCF are representatives of each of the financial sector regulators, representatives of other organs of state, as the Chairperson may determine, and representatives of financial sector industry bodies and any other relevant person, as the Chairperson may determine.

<sup>65</sup> Communication, Financial Stability Department, Reserve Bank.

<sup>66</sup> Information packs prepared for the FSC are reviewed at FSOC; FSOC members are invited to submit agenda items, the Governor as chair sets the agenda. Communication, Financial Stability Department, Reserve Bank.

<sup>67</sup> While coordination *is* one of the challenges of a Twin Peaks framework, Jackson (2021) considers that: “similar, if not more confounding, issues of coordination are faced in sectoral models of regulation, where financial conglomerates are also subject to overlapping jurisdictions.”

<sup>68</sup> FSR Act, section 26-28. Moreover, the Financial Sector Laws Amendment Act (FSLAB) of 2021 concerns the Reserve Bank’s resolution function and amendments to clarify cooperation and information sharing, also updating the identification and management of systemic events as regards the new resolution functions of the Reserve Bank.

is required, but it would be regrettable if complex coordination induced wasteful overlaps, conflicting actions, delays, and inaction biases.

The coordinating bodies are summarized in [Table 3](#). Two of these, the Financial Stability Oversight Committee (FSOC) and the Financial Sector Contingency Forum (FSCF), established mainly toward supporting and facilitating the financial stability mandate, were introduced above, see [Section 2.5](#) and [Figure 1](#). Meetings of FSOC are typically every six months but may be convened by the Governor at any time, and also at the request of senior officials of the PA, FSCA or National Credit Regulator. The Act stipulates that the Reserve Bank must provide administrative support, and other resources, including financial resources, for the effective functioning of the FSOC.<sup>69</sup> This Committee does keep minutes, but these are not required to be published. Majority voting is not stipulated, but the Act suggests that an equality of votes on a matter that may be voted for gives the Chair a casting vote in addition to a deliberative vote.<sup>70</sup> The Act requires that the Governor must establish the *Financial Sector Contingency Forum* (FSCF),<sup>71</sup> which meets every six months, with administrative support and resources from the Reserve Bank. The procedures for its functioning are determined by the Governor. There is no explicit provision for voting or minutes in the Act.

The other two cover a far broader coordination, the Financial System Council of Regulators (FSCR) and the Financial Sector Inter-Ministerial Council. The FSCR should facilitate cooperation, collaboration, and consistency of action among the regulatory institutions, with a wider membership than the FSOC, and meeting biannually. Its main purpose is to establish working groups in areas such as financial inclusion and financial crime.<sup>72</sup> The Financial Sector Inter-Ministerial Council should facilitate cooperation and collaboration amongst those Cabinet members responsible for administering legislation concerning regulation and supervision of the financial sector. The timing of meetings is determined by the Minister of Finance.

In ‘ordinary’ times, by a separate section of the Act, the regulators are enjoined to collaborate and cooperate with the Reserve Bank, and with each other, to maintain financial stability.<sup>73</sup> And the regulators are required to provide assistance and information to the Reserve Bank and FSOC when reasonably requested<sup>74</sup> and to promptly report issues that may pose a risk to financial stability, and to gather micro-information from financial institutions that concerns financial stability. At the same time, the Reserve Bank must take account of recommendations from FSOC, and views and information from the financial regulators.

In practice, the coordination between the Reserve Bank and regulators on financial stability is supposed to be underpinned by memoranda of understanding (MOUs). Various country models employ ‘soft law’ in the form of MOUs between the parties with the documentation of shared principles to enhance coordination. For example, a mix of ‘hard law’ and ‘soft law’ is also seen in the Twin Peaks models of New Zealand, see Dervan and Jensen (2021), and Australia, see Godwin et al. (2021). In South Africa, van Heerden and van Niekerk (2021) suggest that collaboration and cooperation within the Twin Peaks model consists of “legislatively entrenched obligations, implemented practically by means of MOUs, as flexible soft law measures”. In other words, in South Africa, the MOUs should play a vital role because they are pivotal to achieving action in ‘ordinary’ times when the Reserve Bank lacks ‘hard’ or even ‘comply and explain’ powers for policy direction and information acquisition, see [Section 4](#).

In South Africa, the contents of the MOUs between the Reserve Bank and the Twin Peak regulators, or between regulators, are not prescribed in law.<sup>75</sup> However, sections 76 and 77 in Chapter 3 of the Act suggest several areas that might be covered by MOUs, including delegation of a power or duty by a financial sector regulator to another financial sector regulator, information sharing, and minimizing duplication of effort and expense, for example by setting up

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<sup>69</sup> FSR Act, section 23.

<sup>70</sup> FSR Act, section 24.

<sup>71</sup> FSR Act, section 25.

<sup>72</sup> FSR Act, section 81 1 (a)-(h).

<sup>73</sup> FSR Act, section 26.

<sup>74</sup> By section 28 of the FSR Act, other organs of state are similarly required to provide information, and also have regard to the implications of their activities on financial stability in performing their functions.

<sup>75</sup> After completion or being updated these MOUs must be provided to the Minister of Finance and the Cabinet member responsible for administering the National Credit Act (section 77, 5).

and sharing databases and other facilities. The Act makes clear that abiding by the law overrides any MOU, e.g. a financial sector law, the National Credit Act or the Financial Intelligence Centre Act.<sup>76</sup>

The FSR Act required, within six months of the Act being tabled, that MOUs be signed between each regulator and the Reserve Bank, and renewed at least every three years. These cover the nature of the cooperation to comply with their duties relating to financial stability.<sup>77</sup> There is a requirement to publish the MOUs and each amendment.<sup>78</sup> With commendable transparency, the MOUs dated 2018 between the Reserve Bank and the PA, the Reserve Bank and the FSCA, the Reserve Bank and the PA and the NCR, the Reserve Bank and PA and Financial Intelligence Centre (FIC), and between the PA and the FSCA, can all be located on the Reserve Bank's website. However, they are out of date (though not expired), as they should have been renewed both in 2021 and 2024, according to the FSR Act. There is a discussion of some MOUs in van Heerden and van Niekerk (2020).<sup>79</sup>

The Act also provides for elaborate oversight toward the useful design and effectiveness of the MOUs. The financial sector regulators and the Reserve Bank must report on measures taken to co-operate and collaborate with each other in their annual reports. A further check is regular independent evaluations of cooperation and collaboration.<sup>80</sup> The first of these was supposed to be commissioned by the Inter-Ministerial Council on the initial establishment of the MOUs, within six months after tabling the Act. Thereafter, the Act obliges the Council to commission an independent evaluation every two years<sup>81</sup> of the effectiveness of co-operative and collaborative mechanisms between the financial sector regulators, the Reserve Bank, the Financial Intelligence Centre, the Council for Medical Schemes, and the Competition Commission. The Council may at any time initiate such an evaluation, or on the request of a regulator (furnishing reasons if the request is rejected). Any such evaluation needs to be tabled in Parliament and accompanied by a report from the Council.

However, it appears that none of these Inter-Ministerial Council evaluations has yet been done.<sup>82</sup> Together with lack of renewal of the MOUs since 2018, this suggests a slippage in oversight (and possibly also a deeper problem about capacity) which might also be mirrored in aspects of the practical implementation of the MOUs. It is beyond the scope of this paper to explore this complex and important practical issue, but it is germane to the achievement of the financial stability mandate. If 'comply or explain' ('semi-hard') powers were available to the Financial Stability Committee of the Reserve Bank in 'ordinary' times to direct regulators, then MOUs would not have to underpin such recommendations. But MOUs would still have an important supplementary role of the formation of trust and common objectives amongst regulators.

### **3.2. Issues related to the bifurcation of the Conduct 'peak': the NCR**

The MOU referred to above between the NCR, the PA and the Reserve Bank envisages the large scope for cooperation and data-sharing with the NCR, but this potential has not been developed. Our interviews suggested very little usage of NCR data by the Reserve Bank, and that requests for data tend to be one-off or occasional requests and take time to be fulfilled. Recent issues of the *Financial Stability Review* do not report such data, and do not mention the

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<sup>76</sup> FSR Act, section 78 (3) and 27 (4).

<sup>77</sup> FSR Act, section 27: "... how they will co-operate and collaborate with, and provide assistance to, each other and otherwise perform their roles and comply with their duties relating to financial stability."

<sup>78</sup> FSR Act, section 77 (6).

<sup>79</sup> van Heerden and van Niekerk (2020) report, for example, that the MOU between the SARB, the PA and the NCR mostly contains requirements that are already in the Act (sections 4 and 6 of this MOU). Importantly, the parties undertake promptly and reasonably to perform their statutory duties by "ensuring that statutory reporting and data collected from financial institutions are shared between the Parties as far as is reasonable and in accordance with applicable law" (6.2.1) and "exploring the viability of shared databases where the financial institutions submit their statutory reports" (6.2.2).

<sup>80</sup> FSR Act, section 86.

<sup>81</sup> Note that this (two year) test of *effectiveness* is sensibly roughly just after the mid-point of the first (three year) renewal by the Reserve Bank and regulators of the MOU - but thereafter falls out of step.

<sup>82</sup> As at 2 August 2021, this was correct. The answer by the Minister of Finance, Mboweni, to GG Hill-Lewis' question said that "no meetings had been convened as yet, as Section 83 of the Financial Sector Regulation Act is not yet in operation. This structure will only be convened as and when deemed necessary by the Minister of Finance."

NCR as a useful source.<sup>83</sup> The question arises whether the bifurcation of the conduct authority peak (the NCR and the FSCA are separate organizations instead of a single conduct authority), with different and apparently inadequate funding arrangements for the NCR, help to explain the inefficiencies, data gaps and problems in data collection and sharing. Also, in ‘ordinary’ times the Reserve Bank only has ‘soft’ powers to request data from the NCR, rather than a ‘comply or explain’ power which could transparently reveal any constraints.

The most immediate casualty, which might in part be attributed to this apparent dysfunctionality, is that moves toward developing the important domestic macroprudential tools called *Borrower Based Measures* (BBMs), see [Section 4.3](#), have been impeded. In this sub-section, we discuss the nature and the potential usefulness of the data collected by the NCR for early warning systems, and query why it has not been used by the Reserve Bank. We postpone, to [Section 4.3](#), a clarification that the relevant data for implementing BBMs have been collected in the wrong format by the NCR, and discuss an alternative way of creating a database for the overdue task of implementing BBMs by the PA itself, by amending the existing bank survey forms. There has been partial progress towards this aim, following consultations on revisions to the bank returns, due to become operative in July 2025.

The NCR is empowered by the 2005 National Credit Act to collect data from credit providers to households and sole proprietorships. The NCR has a much wider coverage of lenders than the PA, as micro-lenders are not in the domain of the PA. The reporting credit providers, the large and small banks and non-banks, are required to audit their submissions annually. The NCR publishes a rich quarterly data set, back to the end of 2007, on credit flows and stocks, and on payment arrears, in each case for each type of loan (including mortgages, other secured credit, unsecured credit, credit facilities granted and short-term credit). The arrears data are broken down by the number of months in arrears. In addition, and separately from the information gathered from the credit providers, the NCR collects and publishes quarterly data from credit bureaux, including on impaired credit reports for borrowers, adjusted for definitional differences between the different bureaux.

This downloadable data set does not appear to have been utilized by the Reserve Bank, although an important potential application is in *early warning systems*. The arrears data should be extremely valuable, as payment defaults feed directly into non-performing loans measures, which are useful in early warning models (see Aron and Muellbauer, 2022). The data permit a highly informative disaggregation by loan type; often 1–2-month arrears transition into larger arrears later on, so these data could also be part of an early warning system as indicators. Moreover, a statistical model of the dynamics of flows into arrears using macroeconomic and other data as controls, would enhance such early warning analyses (Aron and Muellbauer, 2016). Information on impaired records from the bureaux needs to be regularly tracked and could also be an indicator feeding into an early warning system. Consideration needs to be given to extending the information on potential early warning indicators on loan standards, such as average credit scores on granted loans, and loan-to-income ratios (see discussion in [Section 4.3.2](#)).

Another area concerns *stress testing* and measuring ‘leakages’. Moreover, quite apart from the data published by the NCR, the NCR also has a rich historical database for each major credit provider, which could be shared with the PA and which could be an important ingredient in the stress tests regularly carried out for the SIFIs. As small banks and non-banks potentially are an important source of leakage if restrictions were imposed on SIFIs, NCR data could be helpful in tracking leakages for non-SIFI banks and non-banks (where stress tests are not conducted).

#### **4. Governance and the strength of policy powers for macroprudential tools in South Africa<sup>84</sup>**

Even if the governance arrangements favour the *willingness to act* to avoid inaction bias or potentially costly delays in implementation (see [Section 2.3](#)), the *ability to act* may be constrained by inadequate powers to take action under different states of the world. As mentioned in the Introduction, these include powers to obtain information and close

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<sup>83</sup> Interviews suggest there has been a lack of trust by some at the Reserve Bank in the quality of NCR data. This is a sensitive issue but deserving of attention if this impedes macroprudential decision-making.

<sup>84</sup> This section draws on and develops our table on the strength of macroprudential powers produced for a slide presentation by Janine Aron at the Reserve Bank’s Biennial conference of 2018.

data gaps, powers to direct or influence the activation and calibration of regulatory constraints, and powers to designate the systemically important institutions.<sup>85</sup> This section is concerned with South Africa's macroprudential regulator's access to information from supervisory regulators, and its degree of legal powers under the FSR Act to direct regulators to implement macroprudential tools for mitigation of potential or actual systemic risk.

In [Table 4](#) we present a typology for South Africa that clarifies the actual strengths of policy powers available to the FSC and Governor for the direct control of macroprudential tools, categorized by bank and non-bank financial sectors, for those financial institutions also designated as SIFIs, and under different states of financial stability (i.e. in 'ordinary' times versus crisis times). The designation of 'hard' powers means there is direct control over the tools. In their 2022 paper, Edge and Liang define this as meaning that a financial stability committee can directly set the counter-cyclical capital buffer (CCyB), set risk weights, constrain high loan-to-value (LTV)<sup>86</sup> lending or direct a regulator. The designation of 'semi-hard' powers means the committee can recommend the changes to a regulator in a 'comply or explain' procedure. Finally, 'soft' powers cover the cases where only warning or non-binding recommendations can be made.

In [Section 6.1](#), we examine the cross-country empirical work by Edge and Liang linking institutional arrangements and powers in policy-making, for each financial policy committee in their sample of 58 countries, to the effectiveness in implementing time-varying macroprudential policy. Clearly, their choice of institutional features is, to a degree, subjective. Unfortunately, an error was made in their ranking of South Africa, which was wrongly based on the designated financial policy committee being FSOC, without cognisance of the internal FSC, and also missing the nuances of South Africa's mix of 'hard' and 'soft' powers under differing states of the world and by sector.

#### **4.1. Governance and uneven policy powers in 'ordinary' versus crisis times**

[Table 4](#) makes a stark contrast. The Reserve Bank has only 'soft' powers to act in 'ordinary' times concerning both bank and non-bank sectors. But once an imminent or actual systemic event is so designated by the Governor, the Governor acquires sweeping 'hard' powers to acquire information and direct regulators. There is a distinction in 'ordinary' times for banks designated by the Governor as Systemically Important Financial Institutions (SIFIs). The Reserve Bank (and in some instances the Governor) has 'hard' powers, at all times, when applied to SIFIs (but only 'soft' powers for the non-SIFI banks and non-banks, in 'ordinary' times).

It is important to consider why the powers given under the FSR Act appear to be of the all-or-nothing variety: 'hard' powers when there are crises or too-big-to-fail banks, but only 'soft' powers outside of these conditions, and heavily reliant for their implementation on 'soft law' via coordination networks and the memoranda of understanding ([Section 3](#)).

##### **4.1.1. Soft' powers in 'ordinary' times**

In non-crisis times, the recommendations described by The Act are not of the 'comply or explain' variety but are 'soft' powers. These encompass recommendations made by the FSOC to the Reserve Bank on steps to be taken to promote, protect or maintain, or to manage or prevent risks to financial stability.<sup>87</sup> The FSOC may make recommendations to other organs of state concerning appropriate steps required for them to assist in promoting, protecting or maintaining, or managing or preventing risks to financial stability.<sup>88</sup> The FSC of the Reserve Bank, in 'ordinary' times, in the execution of its mandate to mitigate recognized risks, may make recommendations to financial sector regulators or any other organ of state.<sup>89</sup>

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<sup>85</sup> For some countries, insofar as some potentially risky financial institutions may not be within the regulatory net, the power is also required to enlarge the regulatory perimeter.

<sup>86</sup> Edge and Liang mention only LTVs among the range of potential borrower-based measures, that also include constraints on loan-to-income (LTI) and debt-service-to-income (DSTI) ratios.

<sup>87</sup> FSR Act, section 21 c(i).

<sup>88</sup> FSR Act, section 21 d.

<sup>89</sup> FSR Act, section 12 b.

In [Figure 1](#), if for example the relevant regulator is the Prudential Authority, this recommendation is shown by a thick red arrow from the Reserve Bank to the Prudential Authority. Insofar as the FSOC or Reserve Bank recommendations require action by the PA, they would be tabled by the internal FSC for attention by the PA. Generally, given that the PA is represented in the FSC, there would likely be action on such recommendations to the PA. But the possibility remains that the PA may disagree and not implement them. Another example could be that requests for information or data, say from the National Credit Regulator, may not be met or fully met, or be subject to substantial delays.

That there is a duty to assist the central bank in maintaining financial stability is plain from the objectives of both the PA and the FSCA (and not only in systemic times), see [Section 3.1](#).<sup>90</sup> The Act requires that memoranda of understanding be signed and renewed every three years between each regulator and the Reserve Bank, as described in [Section 3.1](#). In essence, the MOUs are intended to achieve the necessary practical action to mitigate risk when the Reserve Bank lacks ‘hard’ macroprudential powers for policy direction and information acquisition.

#### 4.1.2. ‘Hard’ powers concerning designated SIFIs in ‘ordinary’ times

In a further nuance, the Reserve Bank and, in particular circumstances, the Governor, have ‘hard’ powers for Systemically Important Financial Institutions (SIFIs). To discourage moral hazard-type of behaviour with excessive risk taking, the Act makes clear that SIFIs cannot rely on being bailed out by government.<sup>91</sup>

The Act explains how SIFIs are designated.<sup>92</sup> The Governor designates a SIFI by written notice to a financial institution, after having consulted the FSOC over a reasonable period, and taken its advice, and may also revoke it by a written notice. Before designating a SIFI the Governor must also allow submissions to be made by or for the institution, and take these into account. However, the Governor’s powers to designate SIFIs are even stronger in times of systemic crisis, termed ‘emergency’ designation by van Heerden and van Niekerk (2018a).<sup>93</sup> Then the Governor may designate a SIFI without complying, or complying fully, with the consultation processes with FSOC and the institution. The institution may still make a submission within a month, and the designation then needs to be confirmed or revoked. In terms of section 29 (7) of the FSR Act the designation of SIFIs is required to be published. The first six banks designated as SIFIs were announced in the *Financial Stability Review (Review 2019: 2, pp.37-38)*.<sup>94</sup>

The Act does not specifically define a SIFI, but instead refers to section 29 of the Act, which lays out the factors that should govern the designation of SIFIs.<sup>95</sup> From a methodology published by the Reserve Bank in June 2019, based on the Basel Committee on Banking Supervision’s (BCBS) approach to identifying Global Systemically Important Banks (G-SIBs), these criteria were set out in the *Financial Stability Review (Review 2019:1)*, giving 40 per cent of the weight respectively to size, and interconnectedness and substitutability, and 10 per cent to each of global activity and complexity, see Box 2, p.13.

Once a SIFI has been designated, to mitigate the risks that systemic events may occur, the Reserve Bank may, after consulting the Prudential Authority, direct the Prudential Authority to impose solvency measures and capital requirements (possibly including those pertaining to counter-cyclical capital buffers), leverage ratios and liquidity. These directives are expected to apply either via prudential standards or the regulator’s directives. Many other prudential matters are also covered, including organizational structures, sectoral and geographical exposures, risk management arrangements, statistical reporting, and recovery and resolution. The Prudential Authority is then expected to notify the Reserve Bank and the FSOC of steps taken and the effect of those steps.

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<sup>90</sup> This is expressed in the FSR Act sections 33(d) and 34 (b), and 57(c) and 58 (b), respectively.

<sup>91</sup> FSR Act, section 29 (5): “The designation of a financial institution as a systemically important financial institution does not imply, or entitle the financial institution to, a guarantee or any form of credit or other support from any organ of state.”

<sup>92</sup> FSR Act, section 29.

<sup>93</sup> FSR Act, section 29 (4).

<sup>94</sup> All the banks (Absa Bank Limited, The Standard Bank of South Africa Limited, FirstRand Bank Limited, Nedbank Bank Limited, Investec Bank Limited and Capitec Bank Limited) accepted this designation by the deadline of end of September 2019.

<sup>95</sup> FSR Act, section 29 (3).

Apart from the ‘hard’ macroprudential powers given to the Reserve Bank, this section of the Act also makes provision for the Governor to recommend a directive from the Reserve Bank, concerning a prudential standard or regulator’s directive, for “...any other matter in respect of which a prudential standard or regulator’s directive may be made that is prescribed by Regulations made for this section”.<sup>96</sup>

In ‘ordinary’ times, therefore, the SIFIs constitute an important exception to the Reserve Bank only being able to make a recommendation to regulators rather than being able to direct a regulator. As the designated SIFI banks cover over 90 per cent of the domestic banking assets, this substantially enhances the ‘hard’ macroprudential powers in non-crisis times (see [Table 4](#)). In the future, as non-bank SIFIs are designated,<sup>97</sup> ‘hard’ macroprudential powers will apply even more widely in ‘ordinary’ times.

Nevertheless, in ‘ordinary’ times the constraints on macroprudential powers may induce vulnerabilities. Financial intermediation could migrate outside of the SIFIs that are subject to macroprudential restrictions, especially if restrictions become stringent (IMF, 2022a). There could be domestic or cross-border leakages to non-SIFI institutions. Problematic non-SIFI banks and non-banks may induce vulnerabilities that may not be addressed or may only be addressed with costly delays. As Liang (2022) points out, while banks remain at the core of the financial system, non-bank financial intermediation has grown in importance due to regulatory, technological, and other factors. This is also the case in South Africa, where non-bank credit flows have become more important to small and medium-sized enterprises (SMEs), as well as to households, and there have been several small bank failures.

#### **4.1.3. Hard’ powers for the Governor during or in the run-up to a ‘systemic’ event**

It is only when there is an event that is deemed ‘systemic’, or in the run-up to such a systemic event, that the Governor by the FSR Act acquires ‘hard’ macroprudential powers to issue a policy directive, in writing, for information or for mitigating or corrective actions, which *must* be followed by any relevant regulator.<sup>98</sup> This refers to information in the possession of the financial sector regulator, which may be relevant for the management of the systemic event or the effects of the systemic event.<sup>99</sup> The policy directives refer to actions for the restructuring, resolution or winding-up of any financial institution, or for preventing or reducing the spread of risk, weakness or disruption through the financial system, or increasing the resilience of financial institutions to risk, weakness or disruption.

A definition of a possible systemic event is given in the Act.<sup>100</sup> The FSR Act gives the Governor, after having consulted the Minister of Finance, and potentially the FSOC, the power to determine that a specified event, or combination of events or circumstances, constitutes a ‘systemic event’, either already occurred or deemed imminent. The financial sector regulators and the Minister need to be kept informed of the determination, and of any amendment or revocation of this (after consulting the Minister), in writing. The determination (or amendment or revocation) must be tabled in Parliament and published on the Reserve Bank’s website.

Following such a declaration, the Reserve Bank “must take all reasonable steps” to stave off a financial crisis, or mitigate the adverse effects and manage the event to protect financial stability, economic activity and financial

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<sup>96</sup> FSR Act, section 29 (1 (i)).

<sup>97</sup> The methodology for designation of *non-bank* financial institutions is being developed, as international best practices and guidance are finalised, according to Quarterly Bulletins of the Reserve Bank (June, 2019; October, 2020). The big domestic insurance groups in South Africa are Sanlam, Old Mutual, Liberty, MMI and Discovery.

<sup>98</sup> FSR Act, sections 17 and 18.

<sup>99</sup> These *directives* for information *per se*, referred to in sections 17 and 18, clearly pertain to times of *systemic crisis*, as they refer to the exercising of powers specifically and precisely in terms of section 14 or 15 of the FSR Act, which are clearly concerned only with systemic events having been declared or declared imminent.

<sup>100</sup> FSR Act, section 1: “A “systemic event” means an event or circumstance, including one that occurs or arises outside the Republic, that may reasonably be expected to have a substantial adverse effect on the financial system or on economic activity in the Republic, including an event or circumstance that leads to a loss of confidence that operators of, or participants in, payment systems, settlement systems or financial markets, or financial institutions, are able to continue to provide financial products or financial services, or services provided by a market infrastructure.”

customers.<sup>101</sup> Then the Reserve Bank could *direct* regulatory actions even on non-SIFI banks and non-banks which it cannot do in ‘ordinary’ times.<sup>102</sup>

Given a systemic event, the IMF confirms that the Reserve Bank in effect ‘attains authority’ over regulators’ directives to address the event (IMF, 2022a). Regardless of the presence and efficacy of the MOUs, the Prudential Authority, Financial Sector Conduct Authority and the Financial Intelligence Centre *must* comply with a directive for information or regulatory action, and they may not exercise any of their powers in a way that may compromise steps taken to manage the systemic event. The National Credit Regulator *must* comply with a directive issued to it for information or regulatory action (provided that the Minister of Finance has consulted the Minister responsible for consumer credit matters). Other ‘organs of state’, with regulatory or supervisory functions in relation to the financial system, may not act in a way that compromises policy decisions taken by the Governor (or the Reserve Bank) when faced by a systemic event, without the approval of the Minister of Finance in consultation with the Cabinet member responsible for that ‘organ of state’.

The striking distinction between ‘soft’ powers in ‘ordinary’ times versus the ‘hard’ powers of the Governor (when a systemic event has been declared), may reflect the lack of a clear distinction in the Act between macroprudential policy, which aims to ensure resilience of the financial system and prevent a *future* financial crisis, and crisis management in the *event* of an actual crisis. Without a systemic event, macroprudential policy-making may be subject to inaction bias, compromising financial stability. When other countries are in crisis, declaring a systemic event is more likely to reassure markets that the authorities are ready to act decisively, than to risk deepening the crisis. However, if a potential crisis is mainly of *domestic* origin, declaring a systemic event could well exacerbate or even cause the crisis. Policy-makers may be reluctant to declare a systemic event, or fear exacerbating an imminent or actual crisis through such an announcement (e.g. by inducing hoarding, or herding behaviour such a bank run). It could be argued that the drafting of the FSR Act was heavily framed by the Global Financial Crisis, when the impact on South Africa was triggered mainly by external events. The National Treasury, in its emphasis on systemic events, may have been influenced by the perceived huge cost to the fiscus of banking failures, as for Ireland, the UK and Spain after the GFC.<sup>103</sup>

A major downturn in GDP does not necessarily involve a full-blown financial crisis.<sup>104</sup> Suppose that excessively loose lending standards result in a build-up of financial vulnerabilities and over-shooting of asset prices and credit beyond fundamentals.<sup>105</sup> When negative shocks arrive, bad loans mount and with higher NPL ratios, the capability and appetite of lenders to provide credit to the private sector shrinks. A rapid tightening of loan standards then exacerbates the downturn, with negative repercussions including higher levels of bankruptcies, home repossessions, loss of jobs and income.<sup>106</sup> Such a classic credit cycle can occur without a widespread financial crisis, especially when, as in South Africa, the banking system is oligopolistic, generally profitable and, by international standards, well capitalised. Even though no lender necessarily fails, this excess volatility can be very damaging for the resilience of households and small businesses. Moreover, it is not always the case that monetary policy can mitigate the effect of such a downturn by lowering interest rates: for example, under conditions of high inflation, and dependence on capital inflows, the higher interest rates may have to be maintained. The key point is that mitigating the impact of such damaging credit cycles should be a major objective of macroprudential policy and this requires stronger powers in *non-crisis* situations.

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<sup>101</sup> The functions of Reserve Bank in relation to systemic events are detailed in the FSR Act, sections 15.

<sup>102</sup> As pointed out in [Section 2.3](#), the Act prohibits any steps without the Minister’s approval that have expenditure and debt-increasing implications for the National Revenue Fund, FSR Act, section 16.

<sup>103</sup> See comments by Roy Havermann at the Finance Standing Committee, 17 August 2016.

<sup>104</sup> Influential work on growth-at-risk (e.g. Adrian et al. (2019); Prasad et al. (2019)) emphasizes the downside risk to GDP and the role of financial factors in generating risk.

<sup>105</sup> This is due in part, as Adrian (2017) argues, to the tendency of market participants to form extrapolative expectations of asset prices.

<sup>106</sup> Indeed, Davel and Levin (2021) argue that “the impact of the GFC on the South African economy was magnified by the reaction of the banking sector to the crisis, with a resulting credit contraction, and the impact that this had both on consumer demand and on the business sector for many years after 2008.”

#### 4.1.4. 'Hard' powers from the Basel III process in 'ordinary' and crisis times

The Basel II and Basel III capital adequacy frameworks were adopted by South Africa, respectively in 2008 and 2013, replacing earlier prudential standards.<sup>107</sup> The Reserve Bank therefore also has 'hard' macroprudential powers in one other sphere, under international banking regulations from the Basel III process (see [Table 4](#)).<sup>108</sup> This is the ability to set the counter-cyclical capital buffer (CCyB), which would apply to all banks, not just SIFIs.<sup>109</sup> A decision on the CCyB is formally considered by the Financial Stability Committee within the Reserve Bank and is reported in the *Financial Stability Review*. The setting of *sectoral* CCyBs was considered by the Basel Committee on Banking Supervision (BCBS), but agreement was not reached on this further addition to the kit of 'hard' powers for macroprudential tools.<sup>110</sup> South Africa's macroprudential toolset is discussed in [Section 4.3](#).

#### 4.2. The *de facto* Single Decision-Maker model versus a designated Committee

The IMF characterizes the Governor as "a designated sole decision maker" for financial stability, operating within a framework of three wide-ranging advisory committees, and interprets this arrangement as a source of strength, promoting the willingness to act (IMF, 2022a). The IMF places great reliance on these committees (that is, the internal Financial Stability Committee, the FSO and the FSCF, [Figure 1](#)) to successfully restrain a future 'sole decision maker' Governor, who might have "a strong inaction bias (or overly aggressive action preferences)". The IMF notes that these committees distinguish the institutional arrangements in South Africa from other emerging market countries.

South Africa has interesting parallels with New Zealand in this respect. The Single Decision-Maker model (SDM) in New Zealand, present until 2019, has been criticized by Dervan and Jensen (2021). The Reserve Bank of New Zealand (RBNZ) Act of 1989 gave the RBNZ governor full responsibility and accountability for all RBNZ functions. The original purpose of the SDM was apparently to bolster the conferring of operational independence in monetary policy decision-making to the RBNZ. The RBNZ Act also established a Board of Directors but with limited powers, and the RBNZ used informal committees for decision-making from 2013; there is an informal Council of Financial Regulators (CFR), but it is not a decision-making body. Referring to pre-2019 circumstances, Dervan and Jensen (2021) asserted that "at a statutory level, the RBNZ governor, an unelected official, holds extensive regulatory power and the governor's sole opinion on regulatory matters can determine policy." They considered the SDM model as inappropriate for the Twin Peaks framework after the GFC, given the growing complexity of financial markets, and a broader regulatory perimeter. The risks of 'groupthink' and rigid thinking concerned them, with expertise restricted to internal bank members in committees. They contrasted the SDM unfavourably against the UK's statutory committee, the Financial Policy Committee, with independent external members to "safeguard against groupthink and to provide a forum where competing views regarding policy are considered". In 2019, the responsibility for monetary policy was transferred to a statutory Monetary Policy Committee (MPC); and the Minister of Finance proposed that New Zealand's prudential and macroprudential policy decision-making should transfer from the Governor to a (non-statutory) governance board. The above authors describe this arrangement as a 'half-way house' model, between the SDM and United Kingdom models.<sup>111</sup>

In the case of South Africa, all powers and duties of the Bank (other than the corporate governance of the Bank, which is the function of the Board of Directors) are conferred by the Reserve Bank Act 90 of 1989 to be vested in

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<sup>107</sup> However, some of the provisions were phased in gradually to be fully functional from 2019, and there were amendments to the framework in 2015.

<sup>108</sup> International regulatory cooperation is under the Financial Stability Board (FSB): this includes 25 jurisdictions (South Africa is represented by both the Reserve Bank and the National Treasury).

<sup>109</sup> See *Financial Stability Review* (April 2017), p.30, South African Reserve Bank. The CCyB regime became fully effective in January 2019. The actual implementation of the CCyB is done by the PA.

<sup>110</sup> Guiding principles for the operationalization of a sectoral countercyclical capital buffers were issued by the BCBS in November 2019. "These guiding principles are intended to support the implementation of a SCCyB on a consistent basis across jurisdictions. The guiding principles are not included in the Basel standards and are only applicable for those jurisdictions that choose to implement them on a voluntary basis."

<sup>111</sup> Body and Jensen (2023), critical of the new arrangement, advised the next Minister of Finance that they should: "Appoint a prudential policy committee consisting of experienced and independent, non-executive individuals with the skills to be responsible for all of the RBNZ's prudential management (i.e., legal, financial and banking skills) and give that prudential policy committee a statutory mandate (by amending the Reserve Bank of New Zealand Act 2021 ...)."

and exercised by the Governor *and* the Deputy Governors.<sup>112</sup> The original purpose may have been similar to that of New Zealand, see above. A non-statutory Monetary Policy Committee, internal to the Reserve Bank, was formed in October 1999 to conduct monetary policy under inflation targeting. By the above Act, only the Governor and Deputy Governors can vote on monetary policy matters (with a casting vote for the Governor under the Act); however, in practice, decisions are made by consensus amongst its seven members.

To flesh out the IMF's assertion, and specifically concerning macroprudential policy, we consider the circumstances and the 'states of the world' (i.e. crisis or non-crisis times) when the Reserve Bank's Governor can be considered a sole decision-maker. The Governor is empowered by the FSR Act to designate a SIFI, and to designate a systemic event; but both of these decisions are subject to several checks and balances (see [Section 4.1](#)). However, when there are actual or imminent systemic events declared, the Governor's powers override those of other regulators, who must obey requests for information and action. This suggests to us a contradiction between the two Acts, the South African Reserve Bank Act 90 of 1989 and the FSR Act of 2017. The latter gives the Governor SDM powers in crisis times, rather than conferring powers to the set of the Governor and three Deputy-Governors. Indeed, in a crisis situation, the Governor is a single decision-maker.

The IMF argues that the dominance goes further and that it applies to macroprudential decisions even in 'ordinary' times: they claim the Governor 'cannot be outvoted' on the Financial Stability Committee (IMF, 2022a). We indicated in [Section 2.4](#) that no published document exists which discusses the constitution and role of the FSC as the executive committee for macroprudential policy-making. There is no remit letter as for the MPC. We also do not know the nature of voting on the FSC, or if there is voting; but, by the South African Reserve Bank Act 90 of 1989, the Governor, indeed, has a deciding vote in the case of a tie if there is voting.

What happens if a governor is appointed in the future who turns out to be ill-qualified? In our view, the public and the financial system should be future-proofed and safe-guarded against an inactive or too active Governor by creating an *alternative* to an SDM model for financial stability. We consider an SDM governance model for macroprudential policy, and especially during a crisis, to be far riskier than majority voting in a statutory FSC. Although a systemic crisis demands emergency powers, a statutory financial stability committee, with majority voting on policy actions, would formally provide the needed checks and balances, and also, importantly, group accountability, in both crisis and non-crisis times. There are no external members on the MPC of the Reserve Bank. However, external expertise has been argued to be especially useful for financial stability policy, given its heterogenous nature. Allowing for a proportion of the members to be external to bring in expert competing views could mitigate against 'groupthink' or a bias to the status quo. If this route was followed, it would be necessary to prioritize parliamentary approval for Treasury nominations of external members, to avoid back-logs and delays. Moreover, external members would need to meet a pre-decided threshold of appropriate expertise, but should not be sourced from employees in the powerful oligopolistic banking sector, as this could introduce the possibility of regulatory capture and undue influence.

The UK still uses consensus decision-making in its Financial Policy Committee. Aikman (2022), endorsed by Kohn (2022), favours the UK moving away from a consensus-based decision framework to voting on specific policy issues, but in a context where almost half the members are external members (see [Table 1](#)).<sup>113</sup> He argues that many of the Financial Policy Committee's key policy decisions are one-dimensional, focusing on tools calibration, and suggests that these types of decisions lend themselves to such a process. This arrangement would allow dissenting voices to be aired and rebalance toward external members, also giving outsiders a clearer understanding of the decision-making process.

Setting up a statutory FSC in South Africa would take time. In the interim it is important that the current lack of clarity about the *de facto* executive committee and decision-making process for macroprudential policy, discussed in the Introduction and in [Section 2.4](#), be addressed with published documentation from the National Treasury. For public transparency, this should reflect the actual arrangements made between the Minister and Governor, as required by section 11 of the 2017 FSR Act. A remit letter as for the MPC (and the BOE's FPC) could update the process annually.

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<sup>112</sup> South African Reserve Bank Act 90 of 1989, section 4A.

<sup>113</sup> Note that there are also non-voting members on this committee.

There should also be clarity about the executive committee - its structure, objectives, and duties, in the *Financial Stability Review*, to address a current problem with the accountability for macroprudential policy decisions (discussed in [Section 5.3](#)).

### 4.3. Governance and a narrow and bank-centric macroprudential tool set

A recent assessment categorizes South Africa as having a *narrower* and more *bank-centric* toolkit than its emerging market peers, and having taken *fewer and later* macroprudential policy actions compared to its peers since the GFC (IMF (2022a), referring to June 2021). According to the IMF, the narrow toolset is based first and foremost on Basel III measures. There are no borrower-based tools (quite widely-used by some emerging market peers), no sectoral capital buffers<sup>114</sup> or sectoral risk weights,<sup>115</sup> and a limited scope of macroprudential measures for *non-bank* financial institutions. South Africa's *implicit* tool set is explained in [Section 4.3.1](#). No information has been released by the Reserve Bank as to exactly what tools it is able to use. In Reserve Bank (2024), an appendix is given detailing the 'available instruments to the Reserve Bank and the PA'. However, two of the tools mentioned there, the debt-to-income ratio and the loan-to-value ratio (the Appendix excludes the debt-service-to-income ratio), in fact are currently not able to be used as macroprudential instruments. In the subsequent section we consider which governance features may have given rise to some of the criticisms above. In particular, we look at why data are still not available to monitor credit standards, vital for the implementation of borrower-based measures (BBMs). From July 2025, data on loan-to-value ratios, alone, will begin to be collected, but this is insufficient to properly implement the full range of BBMs. We clarify in [Appendix 1](#), which credit standard data should be collected, to allow for the calibration and the implementation of BBMs as part of the toolkit.

#### 4.3.1. The currently used toolset

The main broad-based capital tools are the following: the *CCyB*, that could be built up in boom times when the cost of equity is relatively low, and released in downturns to support credit provision (set at zero per cent since January 2016 due to weak credit developments, but by a decision at the October 2023 meeting, phasing in an increase to 1 per cent between 1 January 2025 and 31 December 2025);<sup>116</sup> a *CCB* or capital conservation buffer (set at 2.5 per cent, phased-in from January, 2016, and fully implemented since January, 2019);<sup>117</sup> a *leverage ratio* (fully implemented from January, 2018, and set at 4 per cent compared to the 3 per cent norm in Basel III); and a *systemic Pillar II capital add-on* to build additional resilience in the banking sector in a small open economy (set at 1 per cent, relaxed during the pandemic but reinstated from January 2022). All designated SIFIs have a *capital surcharge* of 0.5-2.5 per cent (phased-in from January 2016 to January 2019, but which has not been adjusted since). The definition of the leverage ratio will be changed from 1 July 2025, as the Prudential Authority incorporates the remaining Basel III reforms into the domestic regulatory framework. The PA proposes that the minimum leverage ratio for both domestic systemically important banks (D-SIBs) and non-D-SIBs remain unchanged at 4 per cent.<sup>118</sup>

The liquidity tools are: the LCR or liquidity coverage ratio (of 100 per cent, phased in from January, 2015 and fully implemented by January, 2019, though reduced to 80 per cent during the pandemic); a liquid asset ratio (5 per cent of adjustable assets, and of long-standing, being in place since the late 1990s); and the NSFR or net stable funding ratio

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<sup>114</sup> Note, however, that there was provision for a sectoral application of the CCyB from the outset, see Circular 8/2015 issued in terms of section 6(4) of the Banks Act, No. 94 of 1990 (Item 2.7).

<sup>115</sup> These could be *time-varying*, with both micro- and macroprudential implications under Basel III.

<sup>116</sup> The PA published the Proposed Directive: Implementation of a positive cycle-neutral countercyclical capital buffer, on 27 Nov 2023, after the decision by the Financial Stability Committee at its October 2023 meeting. The *Financial Stability Review* clarified that: "The increase of the CCyB is not intended as a policy tightening measure, but as a structural change that will make it possible in future for the Reserve Bank to reduce it to up to 0 per cent if there is excessive pressure on the banking system, or to increase it to up to 2.5 per cent if there are signs of overheating in the banking system."

<sup>117</sup> The use of the CCB requires engagement with the micro-prudential authority, and the design and level of the CCB is specified in the Basel capital framework. An [Annexure to the proposed directive](#) states: "Any deviation by the regulator (e.g. lowering the buffer to below 2.5%) would be contrary to BCBS guidance". Hence, the CCB may not really be a discretionary macroprudential tool.

<sup>118</sup> See Annexure 3, of the September, 2024: ("Statement of the need for, expected impact and intended operation of the proposed amendments to the Regulations relating to Banks (Regulations)").

(set at 100 per cent from January, 2018, and not again adjusted). There is also forward-looking loan provisioning (under new accounting standards, IFRS 9) for financial years ending after 2018. Furthermore, there are limits on banks' net open position, and CFM or capital flow management measures which limit external assets of banks, pension funds and asset management funds as a share of their total assets. The implementation of structural macroprudential policies is closely tied to micro-prudential regulators. The Pillar II capital add-on and the SIFI capital surcharge are also both set by the PA.<sup>119</sup> The resolution framework for the management of a failed SIFI, which became fully effective in June 2023,<sup>120</sup> and the new deposit insurance scheme, see [Section 4.3.3](#), are other risk-reducing regulatory interventions.

#### **4.3.2. The impact of governance features on the failure to develop housing and non-housing BBMs**

It is of interest to consider whether governance features may have given rise to the IMF critique. The IMF noted the striking lack of development of housing-related borrower-based measures (BBMs) in South Africa's macroprudential tool kit, though considered relevant in many emerging market countries (IMF, 2022a). The risks of a limited toolset are the inability to stop or address domestic leakages when the financial system evolves to become more market-based and financial regulations change. As growth picks up, credit provision could move outside the SIFI banks. With liberalization of the capital account, there could also be cross-border leakages.

The 'fewer and later macroprudential policy actions' compared to peers are sometimes attributed to a flat credit cycle since 2012 (and since 2009 for mortgage loans). With growth prospects currently still poor and little sign of exuberance in real estate or mortgage markets, it may seem that there is less current need for borrower-based measures focused on housing. However, the primary source of risk for mortgages comes from cash-flow problems, especially from jumps in the lending rate in the floating rate mortgage market.<sup>121</sup> The macroprudential regulator should be prepared for all eventualities, and should develop *housing-related* BBMs in advance of their possible future usage, as well as the databases to manage the tools. These tools include limits on loan-to-value, loan-to-income, and debt-service ratios at the household level. Softer versions of these limits (often called 'speed limits') are discussed below. The application of macroprudential policies to mitigate the potential financial stability risks arising from housing market developments is comprehensively discussed in BIS (2023).

The dominant reliance on Basel III tools and those introduced via international standards may suggest hesitancy or a bias to inaction on the development of domestic macroprudential tools. The 2017 FSR Act did not explicitly give powers for creating and implementing BBMs to the Reserve Bank or the PA, but it authorized *directives* from the Reserve Bank to implement macroprudential tools to the PA. That BBMs were expected to be included in the prospective toolset is indicated in a 2016 document from the Financial Stability Department, (FSD (2016), under asset-side instruments in their Table 1). In our view, the main factor preventing the development of BBMs in South Africa is the present inability to monitor and assess granular data on credit standards - a prerequisite for checks on the implementation and effects of BBMs. Without such data, BBMs cannot be calibrated and the impact of lender-based policies cannot be measured (such as higher risk weights for riskier loans). Revisions to the BA200 returns from banks to the PA become operative in July 2025, see below, and this will begin to make it possible to monitor distributions of LTV ratios. As the historical record accumulates, the effects of potential LTV restrictions will be able to be tracked. However, a broader set of loan quality measures than this needs to be tracked for BBMs, see [Appendix 1](#).

There are strong contrasts with the UK, as regards data collection, and in how the specific powers to use macroprudential tools are subject to parliamentary scrutiny and oversight. The Financial Policy Committee (FPC) of the Bank of England has two main powers under the Financial Services Act 2012. It can make *recommendations* (which can be of the 'comply or explain' variety) internally in the Bank, to the Treasury and other relevant persons, and to regulators including the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). It can also give *directions* to those regulators to implement a specific measure (which are 'hard' powers). The Government ensures that the macroprudential tools subject to the FPC's direction-making powers are well-designed, proportionate,

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<sup>119</sup> The IMF suggests some of these measures can be classified as macro- or micro-prudential, or both.

<sup>120</sup> See <https://www.resbank.co.za/en/home/what-we-do/resolution-authority>.

<sup>121</sup> During the pandemic, the prime rate fell to 7 per cent, though with little impact on growth of new mortgage issuance, but then rose to 11.75 per cent by 2023.

and subject to safeguards, giving Parliament a role in determining the scope of the power of direction. These powers are restricted to specific tools set out by the Treasury in secondary legislation.<sup>122</sup> In April 2015, the Government gave the FPC powers of direction over the PRA and FCA for loan-to-value and debt-to-income limits for owner-occupied lending.<sup>123</sup> The FPC's Policy Statement on its powers over housing policy instruments, which it is required by law to prepare, explains precisely the powers the FPC has been given to set such tools, then implemented by the PRA (Bank of England, 2016).<sup>124</sup>

Concerning data, essential for monitoring credit standards, the FCA gathers granular quarterly data on all regulated mortgages (by banks and non-banks) in the UK, via a census called the MLAR (Mortgage Lending and Administration Return).<sup>125</sup> The FCA has the task of monitoring and assessing the effects of BBMs on these data, which include information on payment arrears and home foreclosures as well as detailed information on loan characteristics including loan-to-value, loan-to-income, debt-service-to-income ratios, and interest rates charged. These granular data, down to individual loans, by type of mortgage (first-time buyer, repeat buyer and buy-to-let) are available for analysis within the Bank, and can be cross-classified completely flexibly to track distributions of loan characteristics by loan type and by region, *inter alia*.

There is no data equivalent in South Africa to the UK's MLAR. The monthly BA900 banking returns in South Africa, which cover all banks only, and are used to compile bank-level and aggregate statistics on balance sheets, do not currently gather such granular information.

The NCR is a supervisor and micro-regulator of credit providers, with a more complete coverage than by the PA, but the Reserve Bank can exercise only 'soft' powers to acquire information over the NCR in 'ordinary' times.<sup>126</sup> The quarterly database of the NCR covers mortgages as well as other types of loans, but is not at the granular level of the UK's MLAR. The NCR collect aggregated new loans data from each lender according to a pre-specified format (e.g. by type of loan, by income group, by numbers and amounts of loans, and by bank). In one respect, the NCR data have an advantage over UK data, in that there is extensive coverage of non-mortgage loans (on which good data are absent in the UK), and which, in contrast to the UK, now account for over half of total household debt in South Africa. The granular data at the Bank of England down to individual loans is available for analysis within the Bank. Not only are the data not granular in South Africa, but the NCR does not have a shared database with the Reserve Bank.

A further problem is that there are design flaws in the NCR data collection framework. Firstly, the NCR is supposed to monitor credit standards, but it does not collect the most relevant data in the returns it requires of credit providers. It is unfortunate that loan-to-income ratios and debt-service information are not reported for mortgage and non-mortgage credit, and that for mortgages, first-time buyers are not distinguished from other buyers, while loan-to-value ratios are not required to be reported. Moreover, the NCR's published data on new lending, classified by the income group of the borrower, can only provide a useful *snapshot* at any one point. Examining changes over time is compromised by their use of fixed nominal income brackets. For example, the effect of inflation is that the numbers reported in the under R3500 income group will decline over time, while those in the over R15,000 income group will increase. It is complex to try to redress this problem over time for past data - but this comparability problem would not arise if the above three *ratios* were collected.

A positive point is that the rates of growth of new loans reported by the NCR could contribute to monitoring the effects of BBMs. Another useful indicator is the data they collect on outstanding arrears levels (including on levels

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<sup>122</sup> This is under the Bank of England Act 1998 (as amended by the Financial Services Bill), see HM Treasury (2012).

<sup>123</sup> This followed recommendations by the FPC, in September 2014, in response to a request from the Chancellor of the Exchequer.

<sup>124</sup> In late 2016, the FPC was also granted powers over loan-to-value and interest coverage ratios in respect of buy-to-let lending.

<sup>125</sup> See <https://www.fca.org.uk/publication/data/mlar-statistics-technical-notes.pdf>.

<sup>126</sup> Until 2010, Gabriel Davel as CEO of the NCR gave a quarterly briefing to the Reserve Bank on NCR data, which ceased after his tenure ended.

classified by 1, 2-3, 3-4, and 4 months or more overdue, see [Section 3.2](#)). If BBMs were tightened, this should be reflected in decreased arrears in due course.

More urgent, is to develop *non-housing-related* BBMs. Non-mortgage loans make up over half of total household debt (unlike in other OECD countries). There have been spurts of strong growth in sections of non-mortgage lending, especially in unsecured credit; the failure of African Bank in 2014 and a record level of household non-performing loan ratios reached in 2023, illustrate potential problems. As over-indebtedness and impaired credit records by many households are a major problem in South Africa, the development of BBMs setting limits on debt-to-income and debt-service-to-income for new loans, either for all households or more flexibly with escape clauses for a fraction of new loans at each credit provider, would be an important addition to the macroprudential toolkit.

How should the BBM problem be solved? The controversial bifurcation of the conduct authority peak is problematic, due to ‘soft’ macroprudential powers and delays or inaction from complex coordination and reliance on MOUs. Indeed, the view of the Reserve Bank seems to be that the NCR should be absorbed into the Financial Sector Conduct Authority (FSCA), where data sets could be combined, and skills and funding problems addressed. However, sometimes reforming existing institutions is so time-consuming and fraught with political problems, inducing costly delays, that a different and creative approach can be more fruitful. To solve the impasse for the development of BBM tools, we consider that the most sensible approach would be for legislation under the Statistics South Africa (SSA) Act to allow the collection of distributional data on loan-to-value, loan-to-income and debt-service ratios in a standardized format by the Prudential Authority, in an extension of the BA200 returns collected monthly from all banks, to be published in aggregated form, preserving privacy.

A partial step in this direction has been taken by the PA in the recent revisions to the BA200 returns. These require lenders to both residential and commercial real estate to report loan-to-value ratios in decile tranches from 50 per cent to under 60 per cent, to 60 per cent to under 70 per cent, to 70 per cent to under 80 per cent, to 80 per cent to under 90 per cent, to 90 per cent to under 100 per cent, and 100 per cent and over, beginning in July 2025. Lenders are required to provide this information both for the existing loan book and for new business generated in the last month.<sup>127</sup>

However, no distinction has been made between residential mortgages partially guaranteed by the borrower’s pension and those not guaranteed. The former will tend to have higher reported LTVs, though for a given LTV, the credit risk for the lender will be lower.<sup>128</sup> This impairs the usefulness of distributional information about LTVs in monitoring credit risk. It is also a matter of regret that the opportunity at this revision was not taken of requiring the provision of distributional information on loan-to-income and the debt-service ratios - both for housing and non-housing household debt. A fall in nominal house prices is relatively rare in South Africa, so that negative equity as a mortgage default trigger is likely to be less common than cash-flow problems triggered by rises in interest rates or falls in income (see Aron and Muellbauer (2016) for discussion of these triggers). This suggests that loan-to-income and debt-service ratios are even *more* germane to managing credit risk than LTVs, while for non-housing credit, they are crucial. Section 131(1) of the FSR Act gives the Reserve Bank and the PA broad information gathering powers, and indeed, assessing such information at the level of individual lenders should be part of the PA’s micro-prudential supervision. Publishing aggregated data (over lenders or groups of lenders) to assess trends in a historical context should be an input into macroprudential regulation. From the perspective of the SSA Act, these data are both a public good and satisfy privacy through aggregation.

A welcome feature of the BA200 returns revision in 2025 is that for banks following the standardized risk assessment approach (as opposed to those following the internal risk basis (IRB)), data on loans overdue, which will be classified into the same ‘days overdue’ tranches as for the NCR data, will be required to be submitted from July 2025. Though

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<sup>127</sup> However, the documentation is obscure on the valuation basis of the real estate collateral on existing loans. In principle, the values at loan origination could be updated using good local house price indices, but it is unclear whether lenders are asked to update valuations in this way.

<sup>128</sup> The Pension Funds Act (1956) enables retirement funds to provide collateral for their members toward home loans, to a maximum of 65 per cent of their pension interest in the fund. The actual percentage varies with specific fund rules. Borrowing directly from the fund is possible, but subject to NCR registration and regulation. More common is the provision of security to a mortgage lender, who receives monthly payments deducted by the employer from the member’s salary and is then able to extend a mortgage at a lower loan-to-value ratio and/or a lower interest rate than to borrowers without a pension-backed security.

the PA data will lack the historical record back to 2007 of the NCR data, this is a useful addition to the PA's supervision of credit risk.

Lenders covered by both PA and NCR, could provide the granular distributional information for monitoring BBMs to both these regulators (see [Appendix 1](#) for the data required). If the NCR then extended this data requirement for *distributional* loan standard ratios to lenders *not covered* by the PA, then it could better monitor credit quality across time. These non-bank and smaller bank data should be shared with the Reserve Bank, as part of the NCR's required role in supporting financial stability.

For borrower-based measures (BBMs), the negative implications for households of too rigid or too restrictive limits have been widely debated. Indeed, when households are quite heterogeneous, a uniform cap, for example on loan-to-income ratios, can be quite inefficient. As BIS (2023) emphasises, guard rails, such as the Bank of England's limit, introduced in 2014, on the proportion of high LTI loans in each lender's portfolio, gives banks more flexibility to take account of the idiosyncratic situation of particular households, e.g. where job prospects are more secure or credit ratings are more favourable. BIS (2023) also highlights the desirability of BBM tools that have an *automatic stabilization* property. For mortgage loans, the report contrasts ceilings on LTV ratios, which may need to be reset when house prices rise, with limits on loan-to-income or debt-service ratios, which automatically tighten with the rise in house prices relative to income. Higher risk weights for lenders on loans with high LTI or high DSTI<sup>129</sup> ratios also have such automatic stabilization properties, since the average risk weight on a loan portfolio increases as the proportion of riskier loans rises.

Another pressing issue is the design of a proposed National Credit Register. This approach was encouraged by the IMF in the FSAP, see IMF (2022a). However, a former NCR Director argues against the attempt to aggregate information, often not consistent, and sometimes of dubious accuracy, from credit bureaux into a national register, Davel and Davies (2021). One reason is that credit data on business loans are not shared between bureaux, and this makes such data more prone to error. They also argue that inadequate credit monitoring for the Small and Medium-sized Enterprises (SME) sector is a serious weakness. They favour creating a business-focused credit register following a design closer to the ECB's AnaCredit database<sup>130</sup> (which is concerned with loans above 25,000 euros, in the European context); however, the exclusion of household mortgages from AnaCredit is a shortcoming.

#### 4.3.3. The sovereign-financial nexus

The IMF also noted gaps with respect to the sovereign-financial nexus, where a loss of confidence in sovereign debt destabilizes the financial system. The most obvious implication is that government should adjust policies to promote growth and fiscal policy to bring down sovereign debt to GDP. The *Financial Stability Review* has been signalling this source of risk for years, but there is not much the Reserve Bank can do except to warn the government.<sup>131</sup> Hesse and Miyajima (2022) have made several recommendations for South Africa, including enhancing the resolution framework and introducing a deposit guarantee scheme. To enhance public confidence in the banking system, the Corporation for Deposit Insurance (CODI), a subsidiary of the Reserve Bank, became operational on 1 April 2024, and runs South Africa's Deposit Insurance Scheme to protect bank depositors for up to R100,000 of qualifying deposits in the event of a bank failure. Hesse and Miyajima (2022) note that banks using the internal ratings-based (IRB) approach to credit risk have already raised their risk weights on sovereign domestic debt. They suggest imposing modest risk weights on non-IRB banks and imposing Pillar 1 and 2 capital surcharges on sovereign debt holdings exceeding some limit. As banks are major holders of sovereign debt (which receives preferential treatment

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<sup>129</sup> The use of stressed DSTI ratios as introduced by the Bank of England in 2014 is another helpful tool. Until March 2022, the Bank required mortgage lenders to ensure that borrowers could cope with an interest rate 3 per cent higher than the contracted rate. This made sense in the context of very low rates. But it would clearly need to be reset or abandoned when lending rates are above historical norms.

<sup>130</sup> AnaCredit is a dataset containing detailed information on individual bank loans in the euro area, harmonized across all Member States. "AnaCredit" stands for analytical credit datasets.

[https://www.ecb.europa.eu/stats/money\\_credit\\_banking/anacredit/html/index.en.html](https://www.ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html).

<sup>131</sup> However, under an agreement with the SARB, the 2024 Gold and Foreign Contingency Reserve Account Defrayal Amendment Bill allows proceeds from the account to bring down government borrowing over three years, which will slow the rate of growth of the headline figure of government debt.

in the definition of relatively safe assets), careful calibration and a substantial transition period would help avoid destabilizing the market of domestic treasury securities.

## 5. Governance and legally-required transparency and accountability by the FSR Act

International lessons suggest that effective macroprudential policy is promoted by a clear mandate for the macroprudential authority, with well-defined objectives, adequate powers and strong accountability requirements (IMF-FSB-BIS, 2016). Transparency and accountability mechanisms can establish legitimacy for the macroprudential policy stance to the legislature and the public, creating commitment for action, and hence contribute to effective policy.

Transparency and accountability are achieved domestically through communication tools, including the regular publication of a financial stability report, tabling the report in Parliament, making policy statements, and publishing minutes or records of meetings concerning financial stability. Communication about macroprudential policy encompasses identification of the risks, vulnerabilities and resilience of the financial system, the objectives of policy, and the announcement, explanation, and evaluation of macroprudential policy interventions. There should be a clear explanation of the governance structures for macroprudential policy-makers on central bank websites and in the financial stability reports.

Formal channels of communication also arise from international responsibilities. Member countries of the Basel Committee on Banking Supervision (BCBS) are required to report decisions regarding the CCyB in their jurisdictions for inclusion in a list of buffers that is maintained on the Bank for International Settlements' website.<sup>132</sup> This list of CCyBs helps ensure level playing fields through jurisdictional reciprocity between domestic and foreign banks with exposures to the same jurisdiction. The IMF's Financial Sector Assessment Program (FSAP) country reports, on a five-year cycle, generally with the cooperation of domestic authorities, "analyse the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises".<sup>133</sup> These contribute to transparency, to holding domestic authorities to account, and may help develop domestic macroprudential capacity.

It is important to manage public expectations about what can be achieved with policy (BIS 2012). Success in alleviating crises or impending instability should be well-communicated to give the authorities the credibility for the policy action. The paradox is that unpopular macroprudential policy action that proves successful in mitigating a crisis can subsequently be criticized when it looks as if a crisis did not materialize or was less severe than suggested. The BIS (2023) in the context of housing policies suggests that openness about cost-benefit trade-offs can promote long-term support for macroprudential policies: "candid communication about costs, benefits, uncertainties regarding their measurement and how they informed policy decisions helps to maintain support even as memories of housing crises fade".

### 5.1. A crucial new role for financial stability communication by the FSR Act

The FSR Act has created a formal requirement for *transparency* in identifying and addressing the risks to financial stability, and for *accountability* in documenting and monitoring policy recommendations and directives, and in evaluating the effectiveness of these policies over time. Both these transparency and accountability features - according to the Act - must be transmitted through the *Financial Stability Review*.<sup>134</sup>

The Reserve Bank has published a bi-annual *Financial Stability Review* since 2004, to communicate its view of potential risks to financial stability. Over time, the *Financial Stability Review* has considerably broadened its considerations of risks, and the breadth of the topics and sectors covered. However, the stringent requirements of the 2017 FSR Act would

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<sup>132</sup> See [www.bis.org/bcbs/ccyb/index.htm](http://www.bis.org/bcbs/ccyb/index.htm); the Prudential Authority is responsible for communicating South Africa's decisions relating to the CCyB to the BCBS.

<sup>133</sup> See <https://www.imf.org/external/np/fsap/fssa.aspx>.

<sup>134</sup> Clear requirements are set out in the FSR Act, section 13 (2).

suggest particular changes to the content and structure of reportage in the *Financial Stability Review* to meet its new role.<sup>135</sup>

### 5.1.1. Monitoring risks

The FSR Act requires that the Reserve Bank publish a *Financial Stability Review* at least every six months. The Reserve Bank's assessment of the state of financial stability in South Africa should be reported for the reporting period (the six months prior to publication).<sup>136</sup> The potential risks to financial stability should be identified and assessed for at the least the following year.<sup>137</sup> The Act also requires an overview of actions (called 'steps' in the Act) taken by the Reserve Bank and the financial sector regulators to identify risks, weaknesses and disruptions in the past six months.<sup>138</sup> 'Steps' taken could include setting up core indicators to comprehensively track risk, and requesting additional information on occasion from banks and non-banks via the PA, FSCA and NCR, to supplement the regularly monitored information. Potentially too, risks that affect the financial bank and non-bank sectors, but which cannot be affected by prudential actions applied to the financial institutions (e.g. sovereign risk and systemic frailties like failures of Eskom), require 'steps' to be taken and documented, like writing to the Minister of Finance, or raising these as issues in the *Financial Stability Review*. Communication should be subject to the proviso, in keeping with literature on crisis events (e.g. Geraats, 2010), that publication of information which might exacerbate the possibility of a systemic event may be delayed until after the danger period has subsided or the issue has been addressed.<sup>139</sup>

### 5.1.2. Actions to mitigate risks

Apart from the monitoring and identification of risk, the *Financial Stability Review* must also summarize actions ('steps') taken by the Reserve Bank and the financial sector regulators to manage *risks, weaknesses and disruptions* in the past six months, and those actions envisaged for the year ahead (or longer). Any actions taken by the Reserve Bank and the financial sector regulators need to be reported and monitored.<sup>140</sup> Recommendations made by the Reserve Bank and by the FSOC must be reported. These include 'recommendations'<sup>141</sup> to be implemented by the PA, FSCA, NCR, Financial Intelligence Centre, or other 'organs of state'. Actions (steps) thus include the making of recommendations, and the carrying out of those recommendations.

### 5.1.3. Providing accountability for those mitigating actions

In addition to summarizing the actions taken ('steps' and recommendations made), the *Financial Stability Review* must examine the progress made in implementing these over time, or in other words, provide accountability for the actions.<sup>142</sup> On accountability, tracking the actual implementation of actions is referred to, but whether the actions are efficacious or not is not explicitly addressed. This can sometimes be difficult to assess. Nevertheless, supplementary actions would be expected to be recommended if the risk was assessed not to have been sufficiently contained by prior actions.

The *Financial Stability Review* is required to be tabled in Parliament, under section 13, 4 (c), of the Act. Parliamentary hearings and testimonies, which comprise part of monetary policy accountability in South Africa, might eventually be adopted in the financial stability context too. Reviewing the experience of New Zealand, Gai (2017) considers that rigorous and open parliamentary scrutiny by lawmakers is the most practical way forward to realize the 'transparency

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<sup>135</sup> This section draws on the invited review of the FSR by Aron and Muellbauer (2018).

<sup>136</sup> FSR Act, section 13 (2), (a). Or for a shorter period if the frequency of publication is increased.

<sup>137</sup> FSR Act, section 13 (2), (b) and (c).

<sup>138</sup> FSR Act, section 13 (2), (c).

<sup>139</sup> FSR section 13, 12 c.

<sup>140</sup> FSR Act, section 13 (2), (c).

<sup>141</sup> The word 'directive' is not used in section 13 of the Act. However, clearly this form of 'recommendation' with 'hard' powers attached, pertaining in times of declared systemic crisis or its imminence, and for designated SIFIs, is implicitly covered.

<sup>142</sup> FSR Act, section 13 (2), (d).

dividend' (i.e. understanding and public trust), which a vastly greater volume of published technical information has not necessarily achieved.

## 5.2. Does communication meet legal requirements for the transparency of risk monitoring?

One objective of communication is to stabilize the economy by reducing uncertainty. Asymmetric information between borrowers and lenders, and between buyers and sellers of assets, is at the core of potential inefficiencies and instabilities in finance. Reducing such asymmetries through improving the information about the likely course of the economy and policy should lead to better economic decisions. A second objective of communication is to guide expectations about the evolution of policy and so increase the impact of macroprudential policy on behaviour.

The articulation of objectives can be aided by setting *intermediate objectives* and explaining how actions by policy-makers help achieve these. Intermediate objectives, linked to observable risk indicators, permit the regular updating of information relevant to financial stability. A commitment to the compilation and regular publication of a set of risk indicators for financial stability, to be considered by the Financial Stability Committee in their policy deliberations, is a first step toward making policy systematic. Making policy more predictable, conditional on the evolution of these indicators then helps to guide the expectations of private sector decision-makers. The more effective these indicators are at revealing the state of financial stability relative to past benchmarks, the more likely it is that the objective of transparent risk reportage will be achieved. Without such risk trends, it is difficult to assess the stance and outcome of policy, and to meet the accountability objective.

Our view is that a set of well-constructed core risk indicators is crucial to achieve both the legal objectives (of transparency and accountability) that are incumbent on the *Financial Stability Review*. We first consider the evolution of the published risk indicators, risk assessment (and vulnerability) matrices and heat maps since the 2017 Act. Then, we compare the core indicators published with those of the Bank of England, which provides an excellent benchmark, see [Tables](#)

[Table 1](#), although we also caution against only using such comparisons as they may miss important indicators. Finally, we highlight gaps in data on foreclosures and missed opportunities in modelling and forecasting with arrears data in South Africa.

Prior to the enactment of the 2017 FSR Act, the *Financial Stability Review* published selected indicators of the South African banking sector and a risk assessment matrix (e.g. *Review 2017: 2*, Table 1 and Table 7). The former consisted of monthly measures of concentration in the banking sector, measures of total assets and total liabilities on the balance sheet, measures of capital adequacy, measures of credit risk based on impairments rather than non-performing loans, some profitability measures such as returns on assets and equity, and interest margins and operating expense relative to gross income, and finally liquidity measures such as liquid assets to total assets and to short-term liabilities, and a liquidity coverage ratio. By 2024, this same banking sector table, now giving only *annual* figures, but expanded to include the insurance sector,<sup>143</sup> had become an Annex (e.g. *Review 2024:1*, Annexure B).

The 'risk assessment matrix' (RAM) table, already present in the 2017 *Reviews*, classified the risk likelihood as high, medium, or low, and gave a brief overview of risks posed by the domestic fiscal position and financial cycle, and geopolitical events. The RAM expanded its form in *Review 2020:1* to encompass reducing, increasing or stable risks. It was renamed the 'risk and vulnerabilities matrix' (RVM) in a figure in *Review 2021:1*, expressing the likelihood of risks as low, medium, and high, colour-coding the limited, moderate, and high vulnerabilities, and distinguishing between the near-term and longer term. For example, physical and transitional risks of climate change are classified as medium likelihood and moderate vulnerability risks in the longer term. By 2024 (*Review 2024:1*), the RVM figure had essentially the same form and a new separated-out category of 'perpetual risks', covering climate risk, cyber-risk, and structural impediments to growth.

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<sup>143</sup> The expansion to insurance indicators was first published in *Review 2020:1* for annual data.

In an important addition, since 2020 (*Review* 2020:1), a heat-map has been published as a visual depiction of risk indicators and early warning signals. This is an economical way of presenting information on risks with the past record transparently shown, though in colours rather than numbers.<sup>144</sup> The now significantly enhanced risk assessment framework was explained in some detail in Roopall and Nkosi (2021). Since then, there have been further developments. The heatmap has been expanded to include 35 quarterly indicators, shown back to 2014, and defined in a table (*Review* 2024:1, Annexure A).<sup>145</sup>

From 2022 (*Review* 2022:1) a new detailed background table was included, also colour-coded, giving an enhanced analytical summary on the RVM for a range of potential domestic risks and vulnerabilities, indicating which risks had deteriorated since the previous Review, and the relevant time-scale over which the risks could materialise. By 2022 (*Review* 2022:2) this table was renamed the ‘RVM Supporting Table’ and moved to an Annex. A column entitled ‘mitigating factors/actions’ loosely refers to actions which could potentially include those of the central bank and regulators (for example, higher bank provisioning for NPLs is mentioned in response to a new risk), but also measures taken by other state institutions that could moderate risk (for example, by limiting the monopoly power of ESKOM in the electricity market).

One could regard the indicators shown in the heatmap and the ingredients of the banking and insurance tables as the Reserve Bank’s current version of the set of core indicators. Such indicators have two closely related functions. One is for a general assessment of risks to financial stability. The other is to serve as an input in setting macroprudential policy instruments such as the CCyB and BBMs (see the toolset in [Section 4.3](#)). However, the visual display in the heatmap back to 2014 of quarterly z-scores should be complemented by the underlying raw historical data, as gradations of colour are not easy to compare over time.<sup>146</sup> More detailed information about how the indicators are defined is also needed. Downloadable spreadsheets of the underlying raw historical *quarterly* data on both the heat map and the banking and insurance sector data should be available to provide benchmarks and comparisons with the past. Moreover, as we show below, there are important missing risk indicators that should be added to the set of core indicators.

In a separate paper, we examine the quarterly data on core risk indicators published in the Financial Stability Report of the Bank of England (BOE) and assess the possibility of constructing these for South Africa from existing or commissioned data to match the BOE benchmark (Aron et al., 2025). An important difference for transparency and accountability, is that the BOE provides quarterly historical information on its core indicators on its website, while the Reserve Bank does not. The Bank of England publishes two tables of ‘core indicators’ defined as inputs for setting macroprudential tools. The first table is for setting the CCyB. The main indicators in the Bank of England set that are not in the Reserve Bank’s set are the national external debt to GDP ratio, a real long-term interest rate, global corporate spreads, banks’ shareholder equity relative to total assets, the price to book ratio for bank shares, banks’ CDS spreads, and bank leverage ratios. One could regard the several capital asset ratios for banks in the Reserve Bank’s core set as a reasonable substitute for the BOE’s bank leverage ratio, and that sovereign bond spreads reported by the Reserve Bank are probably more germane in South Africa than CDS spreads, given relatively well capitalized large banks. The Reserve Bank’s heatmap indicators could be extended to include coverage of the BOE’s. In some respects, the Reserve Bank’s core indicators are more comprehensive than the BOE’s, for example, by including credit impairment ratios, and disaggregating financial service into the banking sector, the insurance sector, and other financial institutions, and also distinguishing households from non-financial companies.

The BOE’s Financial Stability Report publishes a second table of core indicators relevant for setting housing-related, borrower-based macroprudential measures. These include distributional information on high LTV and LTI mortgages. These data are not available in South Africa, and it is because of the lack of such information that the Reserve Bank does not currently have BBMs in its macroprudential toolkit (see [Section 4.3](#)). However, in addition to tool-setting,

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<sup>144</sup> The heatmap is based on a z-score transformation of the underlying indicators. Transformed indicators are mapped from a cumulative distribution function, shaded by colour from green for low values to red for high values.

<sup>145</sup> A subset of the indicators goes back further: in *Review* 2021: 2, data are presented for 6 indicators from 2006.

<sup>146</sup> Where such data are proprietary, it is not possible to publish the raw data, and hence publishing the z-scores, which are computed relative to evolving means and distributions of the raw data, should be unproblematic.

these tables of core indicators have a wider function of risk monitoring, and the lack of loan quality data in South Africa is a serious limitation.

Making comparisons of what each central bank includes in its published ‘core indicator’ tables has its limitations. For example, in 2018 the BOE included another core indicator table relevant for setting sectoral capital requirements, with much additional information on residential and commercial real estate markets and credit provision to these markets. This table has not been published since 2020, and information in the other two tables has been simplified - but this does not mean that risks from these sources are no longer monitored internally.

Further information that could be in the core indicators set is arguably missing from both the Reserve Bank and the BOE. Anderson et al. (2018) emphasize “preparedness” for effective macroprudential policy *in advance* of a crisis period, which entails “a sustained effort to close information gaps”, as such gaps “hinder the assessment of risks, impede the effective calibration of tools, or hinder the evaluation of the impact of measures *ex post*”. The IMF (2022a) also recommends special attention to developing of early warning indicators.

One remarkable gap in South African data concerns property foreclosures from ‘sales in execution’. Shaw (2016) shows that rates of foreclosure in South Africa are strikingly high compared to those in other countries. In the UK, court data on claims, orders, warrants and final foreclosures are produced by the judicial system on a quarterly, national, and regional basis. In South Africa, most claims and orders appear to have been in magistrates’ courts but there is a lack of clarity about the process and about which courts have jurisdiction, Singh (2019). A better data source would be data from the Banking Association. In the UK, the industry association, UK Finance, produces quarterly data on payment arrears and foreclosures for both owner-occupier and buy-to-let mortgages. These data have proved useful for developing predictive models for housing-related financial stress (e.g. for UK mortgage arrears and foreclosures, see Aron and Muellbauer, 2016), though are not included in the BOE’s core indicator set.

While there are no readily available data on foreclosures in South Africa, the NCR publishes quarterly data on payment arrears back to 2007, classified by days, in numbers of cases and in value, and for different types of loans. The BA200 returns from banks collected by the PA do provide some information about arrears.<sup>147</sup> Important advantages of the NCR data relative to the BA200 returns include wider coverage (with the smaller and non-bank lenders), and also, historically, the ‘days in arrears’ classification.

Finally, the Reserve Bank publishes a time series for the related credit risk indicator: ‘credit impairments’, which is a loan loss provision, and not the preferable NPL concept. Elevated non-performing loans (NPLs) are a recurrent characteristic of banking crises, with an important two-way connection between credit conditions and NPLs. Unfortunately, South Africa is not immune from the inconsistency of concepts across countries and jurisdictions, and within countries between different institutions and across time. In Aron and Muellbauer’ (2022) we detail the evolution of NPL concepts in South Africa, which have been heavily affected by regulatory definitional changes. We propose in that paper how pre- and post-2008 data on three different NPL concepts should be joined to permit an analysis of data from 2001 on reasonably consistent definitions (the volatile period, 2001-2007, can help draw robust insights). Contrasting NPL ratios for mortgage loans, other secured loans, and unsecured loans, would be informative on risks that are developing. Developing econometric forecasting models for NPLs could be highly relevant for informing monetary and macroprudential policy in South Africa, by strengthening model linkages between the financial sector and real economy.

To summarise, the combination of the heat-map and the RVM, and the verbal explanations in and accompanying the latter, do provide important information helpful to promote transparency, and indicate substantial improvements since the FSR Act, compared, for example, with the *Financial Stability Reviews* of 2017. However, there remain substantial gaps in risk indicators that could and should be tracked and published. Moreover, the modelling and forecasting of foreclosure and arrears, and NPLs, would enhance the FSC’s assessment of the risk outlook.

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<sup>147</sup> In the revisions due to be implemented in mid-2025, ‘days overdue’ data for all banks, using the same classification as the NCR, will be collected through the BA200 returns.

### 5.3. Does communication meet legal requirements for the accountability of policy actions?

Accountability helps to enforce the *implicit* contract which exists between a macroprudential authority and its stakeholders. Being subject to regular outside scrutiny increases the incentives for good policy-making. Accountability also has a wider role in a democratic society, helping to cement the authority's legitimacy and increase support for its actions among its stakeholders. This should help to counteract the inaction bias that may occur when short-term consequences of actions are visible and unpopular with private agents, while the long-term benefits are uncertain and less visible.

The *Financial Stability Review* has a critical responsibility from the FSR Act, that of communicating regularly about macroprudential policy decisions taken and providing a forum for the accountability of macroprudential policy. This could entail a special Annex in the Review each half-year to monitor past policy recommendations and record new policy recommendations and any directives made. This record should include cases where decisions are taken *not* to change policy, e.g. the CCyB. It should also document decisions made that have not yet been implemented (still outstanding). In the Bank of England's Financial Stability Report, for example, an Annex entitled 'Macroprudential policy decisions' lists the new macroprudential recommendations taken by the FPC since the previous meeting, any recommendations still outstanding at the date of the current meeting, and other FPC decisions that remain in place (for example, on the CCyB rate, mortgage loan-to-income ratios and leverage ratios). Three Annexes in the consecutive Reports serve to give a full picture of the evolution of actions recommended over time, their status and outcomes. A similar Annex should be included in the *Financial Stability Review* to meet the legal accountability requirement.<sup>148</sup>

A possibly controversial area in the accountability remit of the *Financial Stability Review* from the FSR Act may arise when coordination is compromised should one or more regulators fail to act appropriately or in a timely fashion after receiving recommendations, potentially endangering financial stability. There have been instances of this.<sup>149</sup> Strictly, under the FSR Act, all recommendations should be recorded in the *Review*. This would help to make the relevant regulators accountable for their actions (see [Table 4](#)). If there were 'comply or explain' powers (i.e. 'semi-hard' powers) to direct a regulator in 'ordinary' times, as we strongly argue there should be, then the Minister of Finance would be the ultimate arbiter in any failure to carry out a recommendation, thereby revealing and solving the constraints.

By contrast with the FPC of the Bank of England, which publishes a 'Summary and Record' after each quarterly meeting, no records are published of the deliberations under the internal Financial Stability Committee of the Reserve Bank which also meets quarterly (accordingly to the website). As the IMF points out, with the internal committee meeting four times a year and the *Financial Stability Review* published only biannually, no information about the Financial Stability Committee's assessment of risks or need for policy action is published every other time it meets (IMF, 2022a). We suggest a similar brief 'Summary and Record' should be published after each quarterly meeting that is not followed by an FSR, for improved communication, transparency, and accountability.

There has been debate in the UK about the 'Summary and Record'. To improve transparency and accountability, Aikman (2022) argues for a full transcript of the FPC 'policy' meetings - as opposed to the more deliberative 'issues' meetings - to be published after a long lag, such as eight years (as for the MPC in the UK since 2015), along with the agenda and the essential staff briefing papers. Kohn (2022), who reviewed the Bank of England's policy processes in 2000 in the Kohn Report, does not support transcript publication, which he asserts deleteriously changed the character of meeting of the Federal Open Market Committee of the Federal Reserve away from open discussion and deliberation. He suggests publishing the staff papers after five years, instead enhancing the record of each meeting to better express the different perspectives in the deliberations, for improved accountability.

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<sup>148</sup> This recommendation was made in a commissioned review of the *Financial Stability Review*, Aron and Muellbauer (2018).

<sup>149</sup> For example, we understand that the FSCA has been recommended (with 'soft' powers in 'ordinary' times) to address concerns about the liquidity of Money Market Funds, but has not reacted, at least in a timely manner (communication, Reserve Bank).

At the present time, the *Financial Stability Review* is tabled in Parliament prior to publication, as required by the FSR Act, but is not subject to any further parliamentary scrutiny.<sup>150</sup> Van Heerden and Van Niekerk (2021) suggest this tabling is sufficient for the accountability of policy. We would argue that simple tabling is not enough. Even if there were further parliamentary scrutiny of the *Review*, to be able to assess how effective policy action has been requires the prior transparent communication of risk. Regular publication of a comprehensive set of core risk indicators that influence policy relative to their historical record is a prerequisite, in our view, for the accountability of the macroprudential authority. This information flow needs to be visible to outside stakeholders and market participants.

A final important aspect of accountability for macroprudential policy concerns who is responsible for the content of the *Financial Stability Review*. Risk monitoring is discussed at the FSC meetings, proposed by Financial Stability Department staff. However, the FSC itself should take responsibility for ensuring that the contents of the *Financial Stability Review* express its own view on risk, as well as adequately capturing the reporting over time of macroprudential policy recommendations and directives and the evaluation of these for accountability, as required under the FSR Act.

Section 2 explained that the internal FSC of the Reserve Bank is not mentioned in the FSR Act. For oversight, the FSR Act (section 13) requires only that the *Financial Stability Review* be submitted to the Minister of Finance and the FSOC “for information and comment”, allowing two weeks for such comments to be made (“should they wish to do so”), and then taking account of any such comments. In practice, the coordination involved and the different expertise of the more broadly constituted FSOC means that comments are typically not received from members of FSOC.

Thus, unlike at the Bank of England, this publication is not officially designated as the mouthpiece of FSOC or of the internal FSC of the Reserve Bank. For example, in the *Review 2024:1*, the preamble states: “The SARB assesses financial stability as part of its ongoing operations, and its Financial Stability Committee (FSC) reviews the financial stability conjuncture and outlook at four meetings per year.” This is the only mention of the FSC in the preamble. It does not explain structure and objectives of the FSC, nor that the recommendations and directives are made by this executive committee. There is a *disconnect* here, the origins of which are historical (see Section 2.4), that does not make sense from an accountability perspective and is at odds with the legal requirements under the Act.

For accountability, the members of the internal Financial Stability Committee should be listed by function and name on the preamble page of the *Financial Stability Review*, as they are in the Bank of England’s Financial Stability Report. Legislation pertaining to the Bank of England requires that the Financial Stability Report sets out ‘the view of the FPC’ of the outlook for UK financial stability; moreover, the Committee ‘accounts for and monitors its policy action within this report’, under this legislation. However, the accountability link between the FSC and the *Financial Stability Review* should be no different for South Africa, even if the committee is not statutory.

## **6. International comparative research on governance and communication for financial stability**

A new strand of research with comparative empirical findings on how governance and accountability structures influence the effectiveness of macroprudential policy-making is described in Section 6.1. This allows a key aspect of South Africa’s macroprudential governance, namely the effectiveness of its Financial Stability Committee, to be compared with other countries.

In Section 6.2, we turn to comparative findings on central bank communication via financial stability reports, and the transparency of communication on financial stability. We also produce updated measures for South Africa of the *Composite FSR Score* measuring quality and coverage of financial stability reports (Čihák (2006); Čihák et al. (2012)), and of a broader *Financial Stability Transparency Index* (Horváth and Vasco, 2016).

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<sup>150</sup> The Deputy Governor concerned did appear in Parliament after the FSR Act came into effect to discuss the financial stability mandate. South Africa has an effective Standing Committee on Finance, e.g. see <https://pmg.org.za/committee-meeting/24748/>. Unlike monetary policy, where the Governor is required to submit an annual report on the implementation of monetary policy to the Minister of Finance and appear regularly before Parliament to explain the MPC’s stance, there is not a similar requirement to appear and explain financial stability.

## 6.1. Evidence from international comparative research on macroprudential governance structures

Recent research emphasizes that the governance structure is critical for the effective implementation of macroprudential policy (Edge and Liang, 2019, 2022; and BIS (2023)). Central to the analyses of Edge and Liang are the *multi-agency* financial stability committees (FSCs), whose number has grown four-fold since the GFC in 2008.<sup>151</sup> In several papers, they draw on cross-country empirical evidence from 58 countries to evaluate the effectiveness of the institutional structures developed to implement time-varying macroprudential policy. South Africa is one of the countries included.

Earlier research assumed that a stronger role for the central bank in the new institutional structures implied effective macroprudential policy-making (Lim et al., 2013; Masciandaro and Volpicello, 2016; and Lombardi and Siklos, 2016). Edge and Liang (2019, 2022) take a broader view, examining membership, leadership, and authority over macroprudential tools for the new committees.

The FSCs typically include prudential regulators as well as the Central Bank; and the National Treasury/Ministry of Finance or elected officials may be involved since credit allocation and distributional aspects of macroprudential policy can raise political economic concerns.<sup>152</sup> Some argue that excess powers vested in unelected officials is a concern (Tucker, 2018; Goodhart and Lastra, 2018). However, macroprudential policies were often already partly under the aegis of central bank expertise, with central banks well-positioned to coordinate between monetary policy and macroprudential policies. Moreover, a more prominent role for central banks could, via the independence of central banks, partly protect macroprudential policy from political interference or inaction. The longer time-horizon of central banks could allow less popular remedial policies to be enacted within an electoral cycle. Central roles for elected officials could create a dilatory or ineffective policy atmosphere, and potentially compromise the independence of central banks and other regulators on these committees. This view is attributed to the IMF, amongst others.

Edge and Liang (2019) argue that four specific features in a FSC make for more effective, active policy: an FSC formally constituted by legislation; a designated Chair to set the agenda and be the official voice of government on macroprudential policy; a voting process to facilitate action; and the power to directly action macroprudential tools. They do not stipulate the Chair being the central bank governor as one of the critical features, although it seems likely to be important.

On the control of macroprudential tools, Edge and Liang (2019) distinguish between ‘hard’ powers (defined as where the FSC can directly set the CCyB, risk weights, constrain high LTV lending or direct a regulator), ‘semi-hard’ powers (where the FSC can recommend the changes to a regulator in a ‘comply or explain’ procedure) and ‘soft’ powers (where only warning or non-binding recommendations can be made but without any ‘comply or explain’ requirements). They consider whether countercyclical policies could be directly implemented. Only three committees out of 47 allowed this: the UK,<sup>153</sup> France and Malaysia. Another ten committees possessed ‘comply and explain’ policies, so that a directed prudential agency must explain if it fails to carry out policy. The remaining 34 committees had only an advisory role with ‘soft’ powers to issue warnings or non-binding recommendations, or for some, simply to share information and effect coordination - designated ‘even softer’ powers.

For each FSC in their sample, the institutional arrangements are characterised, and the powers of the committees in policy-making are delineated. Using cluster analysis, they group countries according to whether their institutional

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<sup>151</sup> In the sample of Edge and Liang (2019, 2022), all but 11 countries possessed such committees by 2018. The data are based on updates of country data used in Correa et al. (2017).

<sup>152</sup> Of the 47 countries with FSCs, Edge and Liang find that 39 had three to five agencies as members. The Central Bank is a member in all except Chile where it has observer status. The Ministry of Finance is on most committees, except for seven countries including the UK (and is only an observer in four committees where it is present). The Ministry of Finance is the Chair or co-Chair of 25 Committees. The Central Bank is the Chair or co-Chair of 18 Committees. The 11 countries without committees account for a very small share, 3 per cent, of collective GDP.

<sup>153</sup> For instance, the UK’s FPC has powers of direction to set the countercyclical capital buffer (CCyB) rate for the UK, sectoral capital requirements for UK firms, a leverage ratio requirement for UK firm, loan-to-value and debt-to-income limits for UK mortgages on owner-occupied properties and loan-to-value and interest cover ratio limits for UK mortgages on buy-to-let properties.

structures make them more effective in taking macroprudential action.<sup>154</sup> We present the clusters in the dendrogram from their 2022 paper, which extends the definition of ‘good tools’,<sup>155</sup> in [Figure 2](#). These clusters differ in some respects from their 2019 paper, though South Africa is in the same category in each case. Of the 47 FSCs in their sample, the cluster designated ‘strongest’, comprises 13 committees, with all four features present (typically wealthier countries, with effective structures for the rule of law and checks and balances, more advanced financial systems and with higher fiscal costs-to-GDP related to the GFC). Another 26 committees lack two or more of these four features and are designated ‘less able to act’ committees, of which 12 are in the cluster designated ‘weakest’.<sup>156</sup> Of the remaining 8 committees, each has three of the features, including South Africa – Edge and Liang judge that none has ‘hard’ or ‘semi-hard’ tools (the analysis of South Africa is, however, flawed by reference to the wrong committee, see [Section 6.1.2](#)). These countries have the characteristics of higher credit-to-GDP ratios and more developed financial sectors for both institutions and markets. Edge and Liang suggest they would benefit from having stronger FSCs.

Edge and Liang (2019) conclude that most of the FSCs in their sample are engaging in coordination and information sharing, rather than implementing effective time-varying macroprudential policy.<sup>157</sup> Of the set of least-enabled central banks, typically none are prudential regulators or wide prudential regulators, none have the authority (‘hard’ or ‘semi-hard’ power tools), they tend to have a stronger rule of law, and nearly all published a financial stability review prior to the creation of a FSC, suggesting a pre-existing stake in financial stability. They infer that the intention was to set up governance structures for monetary policy and macroprudential policy that are highly separate, and to avoid central banks simultaneously having strong powers for micro-prudential policy, monetary policy and macroprudential policy. In most countries in this set, the Minister of Finance is the Chair of the Financial Stability Committee. From their overall analysis, they infer that many countries place a low weight on the ability of policy institutions to act and a high weight on political economic considerations.

In Edge and Liang (2022), the measures of governance structures for macroprudential policies developed in their preceding papers are used to test the factors influencing countries’ use of a particular new macroprudential tool, the Basel III countercyclical capital buffer (CCyB). Setting the CCyB involves establishing a new macrofinancial analytical process to regularly evaluate emerging systemic risks and allows these entities with new responsibilities to influence the process. Their sample includes all decisions to increase the CCyB since it was phased in from 2016. Between 2015 and 2019, 15 countries made multiple decisions to activate and use the CCyB – but South Africa was not one of these. They find the likelihood of a country increasing its CCyB rises if its FSC is stronger (defined as above), and that if the FSC or the Ministry of Finance has direct authority to set the CCyB, the likelihood is even higher than if left to the prudential authorities. In addition, credit growth has substantial effects on the likelihood of increasing the CCyB, though the credit-to-GDP gap is not significant. They find that countries with FSCs in the strongest cluster are more than twice as likely to activate the CCyB when credit growth is rapid than countries with less strong FSCs. Overall, they conclude that the specific delegation of responsibilities, and having the authority to take action, *do* affect whether decisions are taken.

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<sup>154</sup> An aspect not considered is whether governance structures differ according to the likely magnitude of the financial accelerator. This differs systematically across countries (see Aron et al., 2020), and where cyclical systemic risks tend to be higher, like South Africa, effective governance is likely to prove even more important.

<sup>155</sup> Edge and Liang (2022) expand their definition of “good tools” to include whether the FSC makes a formal recommendation on the CCyB.

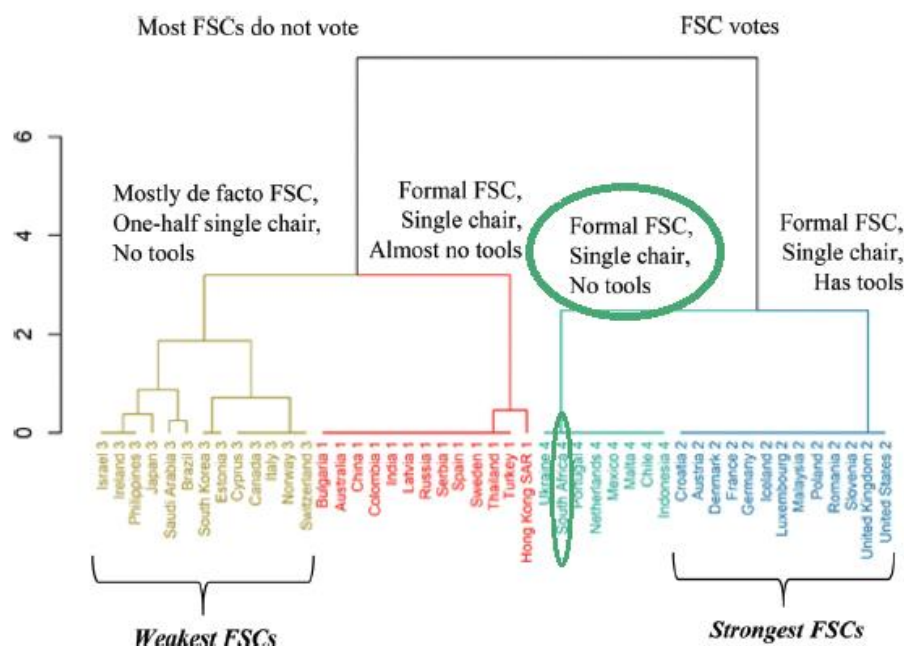
<sup>156</sup> Only one of the 12 has tools and only two have a voting process.

<sup>157</sup> The larger FSCs or those with weak governance mechanisms may even hinder effective decision-making.

### 6.1.1. South Africa

The first draft of Edge and Liang’s analysis predated the FSR Act and the new committees it mandated, in Correa et al. (2017). The designation used by Edge and Liang (2019) in their second draft, does refer to the FSOC, formed under the FSR Act, as *the* ‘financial stability committee’ for South Africa.<sup>158</sup> As pointed out in [Section 2.2](#), though incorrect, this is also the interpretation of van Heerden and van Niekerk in several papers in legal journals.

**Figure 2: The Financial Stability Committee’s ability to act dendrogram**



Notes: (i) Edge and Liang have incorrectly designated FSOC as the Financial Stability Committee for South Africa. (ii) Concerning direct powers over macroprudential tools, Edge and Liang (2019) distinguish between ‘hard’ powers (the Committee can directly set the CCyB, risk weights, constrain high LTV lending or direct a regulator), ‘semi-hard’ powers (the Committee can recommend the changes to a regulator in a ‘comply or explain’ procedure) and merely ‘soft’ powers, where only warning or non-binding recommendations can be made. (iii) Dendrogram based on *FSC is formal*, which equals 1 if the FSC has been created formally by legislation. *FSC chair*, which equals 1 if the FSC has a chair or co-chair. *FSC votes*, which equals 1 if the FSC takes votes. In the above three cases, equals zero otherwise. *FSC has good tools*, which equals 1 if the FSC has either ‘hard’ or ‘semi-hard’ tools or has a formal role in advising the agency setting the CCyB. But equals 0 if the FSC has neither of these two types of tool nor has a formal role in advising the agency setting the CCyB. F-Stat for clusters = 41.9.

Source: Edge and Liang (2022: 269), their Figure 3 (green circles are the authors’ additions); reused with [permission](#).

The first cluster analysis by Edge and Liang (2019) finds that South Africa’s FSOC lacks one out of the four features they designate as making for a more effective, active macroprudential policy. Thus, they placed the committee amongst the *more* able of Financial Stability Committees, but not in the set of the *most* able to execute macroprudential policy in a cyclical fashion, since its powers to set tools in ‘ordinary’ times are not ‘hard’ powers or even ‘semi-hard’ powers, but merely ‘soft’. The same designation is found in Edge and Liang (2022), see [Figure 2](#).<sup>159</sup>

<sup>158</sup> Note that an earlier definition for South Africa in IMF-FSB-BIS (2016) pre-dating the FSR Act indicated a central bank internal committee (Model 2 in the IMF-FSB-BIS, Table 1).

<sup>159</sup> For a second cluster analysis performed by Edge and Liang (2019), their Diagram 4, which examines how able the central banks themselves are to conduct macroprudential policy even if the FSC is weak, the authors appear *not* to have updated their designation of the FSC from their 2017 version. They characterize the Reserve Bank as not publishing a financial stability review before the formation of this committee (yet publication began in 2004); as the FSC having access to adjusting LTVs, which realistically it did not (see [Section 4.3.2](#)); and say the Reserve Bank is typically a prudential regulator, which it ceased to be after the 2017 Act.

However, the South African structure is not easily classifiable into Edge and Liang’s categories. Their ranking is wrongly based on the designated financial policy committee being the FSOC without mention of the internal FSC, and they also miss the nuances of the mix of ‘hard’ and ‘soft’ powers under differing states of the world and by sector, see [Table 4](#). The *internal* FSC at the Reserve Bank is the executive committee for macroprudential decisions. The FSOC can only make non-binding recommendations to the Governor, the Reserve Bank, Minister of Finance, and organs of state, see [Figure 1](#). The Reserve Bank, through its internal FSC and the authority of the Governor/s, has control of prudential tools for the SIFIs, and the power to set the CCyB, as discussed above. Further, where a systemic event has occurred or has been deemed imminent, the Governor is empowered under the Act to issue binding directives in writing to the regulators, covering all banks and non-banks, and not just the SIFI-designated banks, for information or actions, and these *must* be complied with - subject to some caveats (see [Section 4](#)).

Paradoxically, despite their wrong designation of the ability of the Reserve Bank by their own definitions of ‘able’, *de facto* the Reserve Bank *is* one of the more able central banks to conduct macroprudential policy, through the fact of ‘hard’ powers of tools in practice in ‘ordinary’ times for the SIFIs, which dominate the banking sector, and also, in crisis times, as described above. However, it currently lacks BBMs.

## 6.2. Comparative research on communication, with new indices for South Africa

A significant branch of the empirical literature examining central bank communication on financial stability is focused on the financial stability reviews or reports (FSRs) published by central banks. The earliest FSRs were published in the mid-1990s, and their numbers have since burgeoned. The surveys of Oosterloo et al. (2007) and Čihák (2006) covered 40 FSRs and 46 FSRs in 2005, respectively; by 2011, the survey of Čihák et al. (2012) extended to over 80 FSRs. By 2020, almost 120 jurisdictions produced FSRs (Comelli and Ogawa, 2021). A BIS survey focused on 24 emerging market countries in 2016, Patel (2017), found that 23 of these published FSRs (and the exception was planning to publish). South Africa’s first FSR appeared in 2004, like other emerging market players, such as Brazil (2002), Chile (2004), Colombia (2005), Poland (2003) and Turkey (2005).<sup>160</sup>

[Table 5](#) provides a comparative view on financial stability reports for a selected group of Emerging Market Economy (EME) countries. For countries with potentially high levels of volatility, such as South Africa, a six-monthly rather than an annual frequency is appropriate. We constructed the average frequency of publication for the emerging market countries included in the MSCI index, and find over 60 per cent of these countries publish six-monthly.<sup>161</sup>

A comparative literature on aspects of central bank communication about financial stability has produced constructed indices or scores based on the FSRs, such as a *Composite FSR Score*, measuring quality and coverage (Čihák (2006); Čihák et al. (2012)), and a broader *Financial Stability Transparency Index* (Horváth and Vasco, 2016). South Africa is included in some of the studies, which pre-date the FSR Act. In [Table 5](#), we update these measures for South Africa, both for a year after the FSR Act was enacted, and for 2023, to contrast with the position prior to the FSR Act.

### 6.2.1. Composite scores measuring quality and coverage of financial stability reports

Čihák (2006) and Čihák et al. (2012) assess **financial stability reports** in terms of the ‘clarity, consistency and coverage’ (CCC) of reports based on subjective judgment of the reports – termed the CCC framework. These characteristics are applied to five main elements of a financial stability report: (i) the aims; (ii) the overall assessment presented in the FSR; (iii) the issues that are covered; (iv) the data, assumptions and tools used; and (v) other features such as the FSR’s structure, Čihák et al (2012, p.12). They find significant heterogeneity in the quality of **financial stability reports** across countries.

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<sup>160</sup> By contrast, the US Federal Reserve began publishing a semi-annual FSR only at the end of 2018.

<sup>161</sup> The MSCI *Emerging Markets Index* comprises the following 25 countries in 2018: Brazil, Chile, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, *South Africa*, Taiwan, Thailand, Turkey and United Arab Emirates. Of these, 14/25 or 56% (or 14/23=61%, excluding erratic producers of the FSR, Egypt and Pakistan) publish biannually.

Čihák et al. (2012) use their FSR composite quality rating in an updated CCC framework for 44 countries in 2000–2009 in an econometric analysis<sup>162</sup> to determine the links with financial stability.<sup>163</sup> Although the better **financial stability reports** assessed by this framework tend to be associated with more stable financial environments, there is no robust empirical link between publication of a **financial stability report** *per se* and financial stability (Čihák et al., 2012). They suggest it would be interesting to explore the channels by which quality promotes financial stability, for instance whether improved information affects the market or whether a better FSR stimulates better policy-making. However, it is dubious as to whether clear conclusions can emerge from this kind of panel study when there is a great deal of heterogeneity between countries, and where the direction of causality could be ambiguous.

Oosterloo et al. (2007) conduct a probit analysis exploring the factors influencing likelihood of publication of financial stability reports. Their cross-country probit model is for 154 countries, over 1996–2005. They corroborate that the information content provided in a financial stability report is not related to the soundness of the banking system. The experience of a past systemic banking crisis, higher income per capita and EU membership appear to increase the likelihood of the **financial stability report** being published, but they find no effect of legal origin. They construct an FSR transparency measure using a tabular assessment of the coverage of IMF-recommended Financial Soundness Indicators (FSIs),<sup>164</sup> they find that central banks publish on average only a third of the FSIs recommended by the IMF. A simple bi-variate correlation exercise shows there is no relationship between the transparency index and two indicators of stability of the banking system (Moody’s weighted average bank financial strength index and the financial system soundness indicator of Das et al. (2004)).

Lim et al. (2019) also applies a CCC framework to assess the **financial stability reports** of 19 countries from Latin America and the Caribbean, as of July 2016. On average, they find better reports for countries with a larger economy and financial sector, countries with flexible exchange rates and an inflation-targeting framework, and countries that have central banks as the supervisory agency. They suggest this reflects the higher sophistication and capacity associated with such features, an advantage in terms of independence and mandate, as well as a greater need to keep the public regularly informed. This accords with the empirical literature on transparency. The more serious gaps concerned full coverage of systemically-important areas of the financial system, adopting a forward-looking perspective, computing stress tests, and implementing an effective communication strategy. To enhance long-term resilience, Lim et al. (2019) emphasize a strong commitment to provide unbiased and transparent communication and being prepared to be held accountable for the policy actions taken to mitigate risks.

South Africa’s composite FSR score is calculated using the same CCC framework, and for the years indicated, see [Table 5](#).<sup>165</sup> We based this on financial stability reports dating from the first half of 2016 for pre-FSR Act years, and the first half of 2019 to achieve a baseline, given that South Africa’s FSR Act became effective in 2018. For a more recent assessment we use the financial stability report dating from the second half of 2023. The ranking of 2017 levels of financial development, see above, roughly approximates to that of the composite FSR scores. South Africa’s score has shown a distinct improvement since the enactment of the FSR Act, attributable to a more comprehensive background discussion of the aims and legal basis of the report, a clearer link between the assessments over time based on the risks and vulnerabilities matrix, and specific briefings on key topics.

[Table 5](#) reveals considerable heterogeneity across in the communication trade-offs made in the FSRs. A standard trade-off concerns the target audience. Increasing coverage and sophistication of FSRs has to be balanced against the concern of limiting their audience and effectiveness (Patel, 2017). Haldane and McMahon (2018) suggest typical central bank communications have reading grade levels of 14–18 measured using the Flesch-Kincaid reading grade score. This

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<sup>162</sup> They control for potential selection bias due to the non-random nature of the sub-sample of FSR publishers, using a two-step Heckman estimation. The first step determining publication is a probit model. The second equation links financial stability with controls and financial stability report quality assessments.

<sup>163</sup> Their dependent variables include a binary systemic banking crisis variable based on Laeven and Valencia (2010); Moody’s Bank Financial Strength Ratings (BFSR); a measure of volatility of the national stock market; the International Country Risk Guide (ICRG) sovereign financial risk rating; and Moody’s KMV 1-year median banking system Expected Default Frequency (EDF).

<sup>164</sup> The transparency index of Oosterloo et al. (2007) sums the items on which FSI information is presented in the financial stability report of the country concerned, see their Table 3 and Appendix A.

<sup>165</sup> The scoring for South Africa is available from the authors on request.

requires university-level education, so that central bank communication is inaccessible to much of the general public. A textual analysis on the complexity of language covering 16 emerging market country FSRs supports this finding (Patel, 2017).

Patel (2017) provides two measures based on analysis of FSRs published in late 2016: the Flesch-Kincaid grade level, which can be interpreted as the number of years of education needed to understand an FSR, and the Flesch reading ease level. FSRs that have a *higher* Flesch-Kincaid grade levels are harder to read, while the converse holds for the Flesch reading ease index.<sup>166</sup> Table 5 shows that South Africa has the lowest (*best*) Flesch-Kincaid grade level (17.72) and Mexico (20.15) the highest of the five countries (and Patel reports an average of 18.2 for the 16 countries). Table 5 also shows that Argentina has the best Flesch reading ease level (32.35) and Brazil (20.55), the worst; South Africa's score of 23, falls below (i.e. is worse than) Patel's average over the set of 16 countries of 27.3.<sup>167</sup> These studies miss many features of communication, since communication can target different audiences at different levels of complexity, for example, a website can be used with straightforward summaries from the report or review. However, in general, clearer language would improve the effectiveness of communication, particularly in jurisdictions with lower levels of financial literacy. Communicating safe management of financial stability to the public may enhance confidence in and hence the independence of the regulators and central bank, see BIS (2023).

## 6.2.2. Transparency of the financial stability policy framework

The expansion of communication with more information made public has been linked with the improved transparency of central banks (see Siklos and Sturm (2013), and articles in this edited volume). The 'Financial Stability Transparency Index' (FSTI) of Horváth and Vasco (2016), constructed for 110 countries for 2000-2011, takes a more holistic view that addresses the transparency of the whole policy framework for financial stability. They encompass the coverage of financial stability reports and other communication channels, as well as the decision-making procedures and underlying legal aspects. The FSTI<sup>168</sup> of most countries in their sample increased in the 2000s but showed considerable dispersion across countries. They explore in regressions which factors determine their index.<sup>169</sup> They find that central banks with transparent monetary policy regimes are more likely to have increased their financial stability transparency, that developed economies have greater transparency than less developed economies, that episodes of instability in the past impact negatively on transparency, and that the legal origins of the financial system are relevant (in that cross-section regressions show that Nordic and German legal systems are positively related to financial stability transparency, but this is not the case for the English and French systems). They find some evidence that central banks with more involvement in financial market supervision have higher transparency scores.

However, it is dubious as to whether clear conclusions can emerge from this kind of panel study when there is a great deal of heterogeneity between countries, and where the direction of causality could be ambiguous.

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<sup>166</sup> Patel defines the *Flesch reading ease index* as  $RE = 206.835 - (1.015 \times ASL) - (84.6 \times ASW)$ , where  $ASL$  = Average Sentence Length (i.e. the number of words divided by the number of sentences) and  $ASW$  = Average number of syllables per word (i.e. the number of syllables divided by the number of words). The *Flesch-Kincaid grade level* is defined as  $RE = (0.39 \times ASL) + 11.8 \times ASW - 15.59$ ; it can be interpreted in practical terms as the number of years of education needed to understand an FSR.

<sup>167</sup> Patel (2017) in BIS (2017) reports the *Flesch-Kincaid* grade level (Flesch reading ease level) of the following publications: Harry Potter 6.25 (73.79); the BIS Annual Report 13.53 (35.81); the Bank of England FSR 15.32 (31.02); and an article from the Economist magazine 12 (32.3).

<sup>168</sup> The 'Financial Stability Transparency Index' is compiled as the sum of 11 items: the presence of a financial stability objective in the central bank act (item 1), the periodicity and coverage of the FSRs (items 2- 5), whether stress tests (item 6) and FSIs (item 7) are published, whether there is a strategy for macroprudential policy transparency (item 8), whether there is a financial stability policy committee (item 9), and whether there are separate sections on the central bank's website for financial stability (item 10) and for speeches about financial stability (item 11). The maximum value of the index is 11 index points (the weights are not quite equal, however, since item 5 contributes 1.5 index points and item 11 just 0.5 index points). Items 3, 6, 7 and 8 have three categories each earning 0, 1/2 or 1, and item 5 has four categories (0, 1/2, 1, 1 1/2), see their p.47. They chose to use simple averages of the components because of the difficulties of weighting choices.

<sup>169</sup> The explanatory variables include a monetary policy transparency index (from Dincer and Eichengreen, 2014), a banking crisis dummy, GDP per capita, a supervisory structure dummy, stock market capitalization to GDP, the credit to GDP ratio, openness, inflation and GDP growth; they use the fixed effects estimator.

Horváth and Vasco (2016) also estimate panel regressions including some controls<sup>170</sup> to assess the effect of the index (and its square) on financial instability. They proxy financial instability by the share of non-performing loans, or financial stress (there is an IMF measure available for half the sample) or a zero/one dummy for a banking crisis. They find a non-linear effect (from the squared term) of central banks' FSTIs on financial stability and attribute this to the GFC of 2008 being in the sample, since more transparency about financial imbalances and accompanying risks in bad times may escalate a crisis. Their finding is that transparency promotes financial stability, but that there can be *too much* transparency, and is in line with theoretical literature on the optimal degree of transparency, e.g. Cukierman (2009). Horváth and Vasco (2016) try to control for selection problems, for example, that some central banks share responsibility for financial stability, but others may not be legally responsible at all. Their results prove largely robust to different lag structures and regression specifications, and also when using the components of the FSTI rather than the whole index.

We calculate a 'Financial Stability Transparency Index' score for South Africa, using the same framework as for the other countries, and for the years indicated, see [Table 5](#) (see the scoring in [Appendix 2](#)). The FSTI of Horvath and Vaško (2016), which measures transparency out of a total of 11 points, suggests a similar ranking of countries to the 'FSR quality' scores above, although Argentina (5.5) has a higher transparency ranking than its 'FSR quality' score would suggest. South Africa's FSTI score of 5 in 2011 (the second highest in the table) increased strongly to 8.25 in 2019 and to 8.75 in 2023, as its macroprudential framework developed, mainly attributable to greater clarity regarding the legal basis for the financial stability mandate, developments in the financial stability institutional framework and improved coverage and transparency of the FSR.

## 7. Conclusions

The international empirical literature on financial stability finds that countries where the central bank has a culture of transparency and accountability in its monetary policy framework, and has conducted banking supervision (hence is familiar with the data issues and micro-prudential tools), are more likely to adopt a transparent and accountable framework for macroprudential policy. South Africa fits this description.

Following significant work catalysed by the National Treasury since before the GFC of 2008, the governance structure for micro-prudential and micro-conduct regulation of bank and non-bank financial sectors in South Africa was comprehensively overhauled, in line with new international practice, in the wake of the GFC. Financial stability became an overriding theme in this regulation. Defining the parameters of macroprudential policy was a keystone of the reforms. The Financial Sector Regulation Act of 2017 became effective in April 2018 and extended the primary monetary policy mandate of the Reserve Bank, already entrenched in the Constitution, expressly to include financial stability. This was done within a 'Twin Peaks' regulatory model for the financial sector, making South Africa the first emerging market jurisdiction to adopt a 'Twin Peaks'-plus macroprudential model. South Africa has enacted a legal governance framework for its macroprudential policy that requires both a thorough, forward-looking assessment of risk, and transparent and accountable reporting of risk assessment and mitigation policies through the Reserve Bank's *Financial Stability Review*.

This paper has gone further than previous analyses, largely by legal scholars, of the role for the central bank within the Twin Peaks legislation. We have introduced a macroprudential focus, and through comparative analysis, and a close interrogation of the Act and its subsequent practice, have revealed some weaknesses in the governance design for macroprudential policy.

In this paper, we have categorized the 'Twin Peaks-plus macroprudential policy' arrangements in South Africa as a *hybrid* model, with several distinguishing features as compared to other countries ([Section 2](#) and [Table 1](#)). The Reserve Bank's *explicit* mandate to maintain and enhance financial stability conferred by the new Act and policy objectives have

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<sup>170</sup> The controls are GDP per capita, market capitalization, openness, credit to GDP ratio, real interest rate, inflation, GDP growth and the nominal exchange rate change. The GDP per capita and credit to GDP ratios are linked to financial instability, though more developed stock markets (proxied by market capitalization) are beneficial to financial stability. High inflation, high real interest rates and low growth promote financial instability.

been outlined, together with the key advisory roles of the Minister of Finance in administering the Act. Using a new diagram, in [Figure 1](#), we have elucidated the channels for decision-making and the coordination structure for macroprudential policy, clarifying the role of the internal committee, the non-statutory Financial Stability Committee (FSC) of the Reserve Bank, which is not itself mentioned in the FSR Act. We examined earlier drafts of the FSR Act where the coordinating body for financial stability, the external Financial Stability Oversight Committee (FSOC), had a role not dissimilar to that of the Bank of England’s statutory FPC; by the final Act, its powers were diluted and tasks transferred to the Reserve Bank, but in the process this created, in our view, some opacity concerning transparency and accountability for the FSC decision-making. We have examined not just the origin of macroprudential recommendations or directives to regulators as in [Figure 1](#), but presented a typology in [Table 4](#) that clarifies the actual strengths of policy powers available to the FSC and Governor for the direct control of macroprudential tools, for different sectors, and under different states of financial stability. We have explained the imbalances of powers to direct macroprudential policy as between crisis and ‘ordinary’ times. We found that the Reserve Bank has merely ‘soft’ powers in ‘ordinary’ times, not even ‘comply and explain’ (or ‘semi-hard’) powers. We argued this reflects the undue emphasis of a GFC mindset when drafting the Act, but that it has led to the neglect of other risks that have since arisen, for example from the current high levels of household indebtedness, over half of which is due to non-mortgage debt. We strongly suggest that ‘comply and explain’ powers should apply in non-crisis times to improve policy management and influence and help prevent a future financial crisis. We have explored when the Governor may act as a ‘single dominant policy-maker’ under the Act and have highlighted potential concerns about this Single Decision-Maker model (SDM), especially in the context of financial stability, with suggestions for reform. We argue that the role of the FSC as the *de facto* executive body for macroprudential regulation, should be formalised, and preferably as a statutory committee. We also explored the possible governance reasons why South Africa is categorized by IMF (2022a) as having limited macroprudential tools and having used these more sparingly than its peers. The post GFC era has seen a significant growth in unsecured loans and the indebtedness of vulnerable households. One crucial area we have examined in detail, including providing an Appendix ([Appendix 1](#)) on the relevant data collection, are the reasons for the absence to date of Borrower Based Measures (BBMs) as tools to regulate both housing and non-housing loans.<sup>171</sup> We have examined the evolution of issues of the biannual *Financial Stability Review* and considered the extent to which it satisfactorily meets its new legislated role as the vehicle for both transparency and accountability under the Act. Finally, we have calculated financial stability transparency indices for South Africa for international comparisons and have also categorized the likely effectiveness of South Africa’s macroprudential governance vis-à-vis other countries, using recent literature by Edge and Liang (2019, 2022).

We have suggested institutional design changes and better communication and oversight to improve sustainable macroprudential policy-making in South Africa. Legislation and governance provisions should aim to safe-guard and future-proof the long-term effectiveness of financial stability policy. The current FSR Act and the conduct of macroprudential policy toward financial stability is not set in stone, but can benefit from progressive improvements that come to light through analyses such as in this paper. It is both a strength and imperative to be able to adapt to changing circumstances. Indeed, the considerable improvements in monetary policy transparency and accountability when inflation targeting was adopted (under Governor Mboweni) over the previous regime (under Governor Stals), extensively documented in Aron and Muellbauer (2009a, 2009b, 2007), were achieved over several years. Legal scholars have remarked (van Heerden and van Niekerk, 2018a), after detailing possible points of conflict which may arise in implementation, mainly in the area of coordination and cooperation: “...the most sound approach *would be a pro-active one*, much like that which the Reserve Bank is supposed to take with regard to financial stability” (our italics). They also emphasize taking lessons from other jurisdictions, an approach we have followed in this paper. The IMF (2022a) assessment also appears to anticipate the possibility of multiple amendments to the FSR Act in time.

We organize our suggestions for financial stability governance reforms under four categories: institutional design, process design, transparency features, and accountability design.<sup>172</sup> We are concerned with whether the current set-up

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<sup>171</sup> In our companion WIDER paper, Aron and Muellbauer (2025), we explain the need to improve measures of house price movements.

<sup>172</sup> We are grateful to Philippe Burger for suggesting this organizing principle.

is efficacious for different sectors and different states of the world; whether it complies fully with the Act; and how it compares to other countries, drawing on their lessons.

## 7.1. Institutional design

Under *institutional design*, our first point is to suggest formally constituting the executive FSC, to improve transparency and accountability to the public of this decision-making body for macroprudential policy-making. The Financial Stability Committee, in our view, is shrouded in mystery. Reserve Bank insiders agree there is a *disconnect* between the FSOC being a statutory, well-defined committee but without macroprudential policy-making powers, and the FSC being an internal, opaque committee, with such powers. The FSC is not mentioned in the FSR Act, except that the Act makes it clear that National Treasury and the Reserve Bank will agree a policy framework for the execution of the Reserve Bank’s financial stability mandate. No such framework has been published by the National Treasury, transparently setting up the FSC as the executive committee for macroprudential policy. Drawing on international comparisons, the most transparent and accountable outcome to ‘future-proof’ macroprudential decision-making for the public, would be to constitute a *statutory* committee through an amendment to the Act, with a quorum, majority voting, and a casting vote for the Governor.<sup>173</sup> Majority voting is a tool against inaction (BIS, 2023). Even if the Committee were not statutory, it should be formally designated via the National Treasury. The structure, objectives, and duties of this committee in meeting the Mandate should be available to the public. We discuss below further features of transparency (publishing a quarterly Summary and Record after meetings) and accountability (signing off the *Financial Stability Review*) for this committee.

The ministerial role vis-à-vis macroprudential policy, with many built-in safe-guards, is well designed, see [Section 2.3](#), and does not entail a presence of the Minister of Finance on the FSC. We favour the introduction of two to three external members into the FSC to reinforce credibility and offer a form of external oversight and fresh perspectives to help avoid groupthink (see [Section 4.2](#) for various caveats if this route were to be followed). We also favour a reduction in the size of this committee, which has been described by one member as a “mass meeting”, currently with 15 members, one third of whom are from the PA. The dominance of the PA in this unwieldy committee has led to inaction bias in the view of some members of the committee. In our view, it may have pushed the committee in the direction of micro-prudential policy and away from developing the important macroprudential focus that is part of the Reserve Bank’s financial stability mandate, including the development of BBM tools and the making of systemic policy in ‘ordinary times’ to stave off instability. With the Governor and three Deputy Governors (one of whom is the CEO of the PA), and the Head of the Financial Stability Department at the Reserve Bank as voting members, including also three external voting members, would reduce the size of the current committee by one third. With such a structure, Reserve Bank members would still be in the majority.

Our second point concerns the creation of a Single Decision-Maker model (SDM) through the FSR Act in times of crisis. When an actual or imminent systemic event is declared, the Governor’s powers override those of other regulators, who must obey directives under the FSR Act, subject to some fiscal and other provisos. The emergency decision-making structure in a crisis under the 2017 Act appears to override the South African Reserve Bank Act 90 of 1989 which gives the *set* of the Governor and three Deputy-Governors rights to governance. We consider an SDM, and most especially in a crisis, to be risky. The governance structure should ‘future-proof’ policy in a crisis against an inaction bias or over-action-bias by a too powerful Governor (which we above argue was seen before 2000 in the context of monetary policy with deleterious economic effects). While the current Governor of the Reserve Bank has had a long tenure with international acclamation,<sup>174</sup> there is no guarantee of the quality of leadership in the future. If further legislation made the FSC a statutory committee with ‘comply or explain’ (‘semi-hard’ powers) to act in ‘ordinary’ times and with ‘hard’ powers in crisis times, and with a quorum, majority voting, and a casting vote for the Governor, this would create appropriate safe-guards.

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<sup>173</sup> While it is beyond the scope of this paper, the argument for a *statutory* committee for monetary policy-making in South Africa, as at the Bank of England, with its beneficial transparency and accountability characteristics, is similarly relevant to the informal MPC at the Reserve Bank.

<sup>174</sup> The current Governor, Lesetja Kganyago, appointed in 2014, and reappointed in 2019 and 2024, received the prestigious international Governor of the Year award at the 5th Central Banking Awards ceremony in 2018.

Our third point concerns the National Credit Regulator (NCR). One unusual hybrid feature of South Africa's Twin Peaks framework is that the second peak, that of the conduct authority, is bifurcated, because the NCR was not absorbed into the conduct authority (FSCA), for political and practical reasons. COSATU, for example, opposed the absorption into the FSCA as it feared that consumer protection could be lost among the latter's wider objectives. Such fears are not unfounded: in the UK the very broad remit of the FSCA has led to criticism that it cannot give proper attention to all its objectives.<sup>175</sup> However, a combination of 'soft' powers exercised by the FSC of the Reserve Bank in 'ordinary' times, discussed below, and resource constraints on the NCR, have created inefficiencies, data gaps and problems in data collection and sharing. One option is to absorb the NCR into a single conduct peak so that it can benefit from economies of scale, shared skilled staff and equipment, and other synergies, including better funding. However, to the extent that it potentially plays an important role as above, an alternative is to improve the access to funding, training, and oversight, which would be beneficial for the optimal functioning of this regulator. We present a proposal to allow BBMs to become part of the toolkit of macroprudential policy, discussed below, where the PA extends the current bank returns (BA200) to additionally collect distributional credit quality data from the banking sector. Following a consultation, a partial move in this direction has been undertaken with new reporting requirements from banks due to begin in July 2025. However, a broader set of loan quality measures than this is required for BBMs. Completing this extension, as we indicate in [Appendix 1](#), would allow monitoring of these data and calibration for the implementation of the full range of BBMs. The NCR could concentrate on conduct features for vulnerable households, and collecting similar data for the micro-lenders not covered by the PA, which would enhance its ability to do its job well.

## 7.2. Process design

Unlike the Bank of England, the Reserve Bank does not have direct control at all times over a full set of macroprudential tools. Firstly, there is a striking distinction between the 'soft' powers to act in 'ordinary' times concerning both bank and non-bank sectors, and the Governor's sweeping 'hard' powers in crisis times. This reflects a lack of a clear distinction in the Act between macroprudential policy aiming to ensure resilience of the financial system and prevent a future financial crisis, and crisis management in the event of an actual crisis. A major downturn in GDP, especially if associated with a credit crunch, does not necessarily involve a full-blown financial crisis, but can be very damaging for the resilience of households and small businesses. Without a systemic event, macroprudential policy-making may be subject to inaction bias, compromising financial stability. Policy-makers may be reluctant to declare a systemic event for fear of exacerbating an imminent or actual crisis.

Secondly, by reserving strong powers for crisis times, the 'soft' macroprudential powers in 'ordinary' times makes it more difficult to pre-emptively mitigate the impact of damaging credit cycles on vulnerable households and firms, a major objective of macroprudential policy. In general, 'soft' powers may prevent the enactment of timely and effective macroprudential policy. The Reserve Bank must in 'ordinary' times rely on other regulators to carry out non-binding recommendations to act. A feature of the governance structure is that flexible soft law in the form of renewable signed memoranda of understanding (MOUs) between the Reserve Bank and the three Twin Peak regulators is expected to *underpin* the practical implementation of the Reserve Bank's recommendations in 'ordinary' times. Under 'soft powers', the bifurcated second conduct peak has proved deleterious to the gathering of information crucial for financial stability. The MOU between the PA, the Reserve Bank and the NCR envisaged high levels of data-sharing and cooperation, but this has yet to materialise. Moreover, the elaborate oversight structure for updating the MOUs is apparently not working, including by the Inter-ministerial Council ([Section 3.1](#)). The MOUs are useful in a complex coordinating environment to give clarity on goals and to establish trust and working relationships. But our argument is that they must not be the vehicle for the execution of 'soft' orders.

Our analysis strongly suggests strengthening macroprudential policy in 'ordinary' times, by adopting 'comply or explain' recommendations (as originally envisaged by the National Treasury, see [Section 2.4](#)). This power should be restored to a statutory (or properly constituted) FSC committee through legislative amendment to the Act, to remove lags and inaction. Then a regulator *must take* such action as it considers necessary to implement the recommendation *or else* provide a written explanation to the FSC as to why the recommendation was not implemented, which is then

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<sup>175</sup> Private communication from a former member of the MPC, BOE.

subject to ministerial arbitration to resolve. Importantly, this provides accountability and a definite eventual transparent resolution, if there were a failure to act. The ‘comply or explain’ is integral to the successful functioning of the system, especially if policy making is to be more forward-looking, taking countercyclical steps ahead of crises.

An exception in ‘ordinary’ times concerns those banks designated by the Governor as Systemically Important Financial Institutions (SIFIs), where the Reserve Bank has ‘hard’ powers to direct regulators, who must obey these directives ([Section 4.1.2](#)). In practice, the SIFIs cover 90 per cent of the banking sector, and there are as yet no non-bank SIFIs designated. However, it is in the smaller bank and non-bank sectors where credit problems have in recent years been more acute and where inaction bias poses a danger.

A third feature of process design concerns creating alternative data sources to expand the macroprudential toolset to cover Borrower Based Measures (BBMs), and to create further early warning indicators for vulnerable households. Tools should be developed to implement housing-related BBMs, and more urgently, non-housing-related BBMs, in advance of their possible future usage, with the databases to manage the tools. These include distributional data on debt-to-income ratios, housing debt-service-to-income ratios and loan-to-value ratios, and timely granular arrears and foreclosure data in the housing market ([Section 4.3.2](#)). To be able to apply BBM tools by limiting these ratios requires tracking these data, including in the non-bank and smaller (non-SIFI banking) sectors. Further, without such data, it is not possible to calibrate borrower-based measures, and hence to measure the impact of lender-based policies such as higher risk weights for riskier loans. The form in which the NCR collects loan data (which importantly does *not* include the above key ratios), does not allow comparisons across time (see [Sections 3.2 and 4.3.2](#)).

We suggest a different *process* to yield these data for BBM development, which does not require reliance on the NCR for data, or require it to be absorbed into the FSCA. The 2017 FSR Act authorized directives from the Reserve Bank to implement macroprudential tools to the PA; that BBMs were expected to be included in this prospective toolset is indicated in Reserve Bank documents at the time ([Section 4.3](#)). To solve the impasse for the development of BBM tools, we consider that the most sensible approach would be to allow the collection of distributional data on loan-to-value, loan-to-income and debt-service-to-income ratios by the Prudential Authority, in an extension of the BA200 returns collected monthly from all banks, and also data on arrears and foreclosures, see our data suggestions in [Appendix 1](#).<sup>176</sup> Once the data have been collected, the Reserve Bank could direct the PA to implement the BBMs and to monitor the data. It is close to zero cost for lenders covered by both PA and NCR, for the granular distributional information to be provided to *both* these regulators. If the NCR then extends this data requirement to lenders *not covered* by the PA, then it could better monitor credit quality across time. These non-bank and smaller bank data should be shared with the Reserve Bank, as part of the NCR’s required role in supporting financial stability. An interview with the Reserve Bank revealed that after auditing its set of potential tools to address financial stability (see Reserve Bank (2024) for a summary), it was concluded that it lacked no tools from its macroprudential toolset. This is contrary to our view, and that of the IMF (see IMF (2022)). The FSC as macroprudential decision-maker must continually monitor the developing distributions of loan-to-value, loan-to-income and debt-service-to-income ratios as risk indicators relative to their historical context (see Appendix 1), in particular, the *tails* of these distributions which reveal where vulnerabilities may be developing both for housing debt and for non-mortgage debt (which in South Africa comprises over half of household debt). The build-up of credit risk in non-crisis times can take years, and hence is time-varying, and requires time-varying and pre-emptive macroprudential policy setting by the FSC. Micro-prudential regulation at the individual bank level by the PA is insufficient.

Finally, failing an early reform of the ‘soft’ powers into ‘semi-hard’ powers in ‘ordinary’ times, we discussed approaches which may ameliorate some of the negatives for financial stability of inaction and lags (drawing on BIS (2023)). Tools that have automatic stabilizing properties can help overcome lags in decision-making, and implementation and inaction bias. Examples for the housing market include limits on debt-to-income ratios or on market shares of lenders for high loan-to-income mortgages. As house prices rise relative to incomes, such measures will tend automatically to become

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<sup>176</sup> In a first step in this direction, a revision in the BA200 returns comes into effect in July 2025. However, distributional data on loan-to-income and debt-service ratios will not be collected, as they should be; and the loan-to-value ratios being proposed fail to capture distortions due to the role of pension collateral (see [Section 4.3](#)).

tighter, compared to loan-to-value ratios. For other kinds of credit, risk weights for lenders based on the fraction of debt issued at high debt-to-income levels, automatically constrain lenders if these fractions were to increase.

### 7.3. Transparency design

Under *transparency*, there are two areas for suggested reforms. The first concerns the FSC, which to date has produced no account of its quarterly meetings, creating a deficit in transparency in our view, and missing communication opportunities for updating the public and the market, who must otherwise rely on the *Financial Stability Review*, published only biannually. There is no information about the FSC's assessment of risks or need for policy action every other time it meets (IMF, 2022). We suggest that the FSC should produce a short Summary and Record after the meetings that are not followed by an FSR Review, giving a brief flavour of the different perspectives in the deliberations.<sup>177</sup> As the macroprudential policy-making capacity of the current committee improves, see above, and inaction bias is addressed, there will be deliberations to report (and not taking action is also a decision to be reported). [Section 5.3](#) suggested that producing detailed minutes and verbatim transcripts were probably inimical to frank discussions, however, international practice can give a sense of how the content could evolve to give the public an improved understanding of the arguments and their weights. If voting were introduced, see above, we would not favour publishing the voting record.

The second area concerns the transparency required by the FSR Act in identifying and addressing the risks of financial stability, to be transmitted through the *Financial Stability Review*. The compilation and regular publication of a set of well-constructed core risk indicators, to be considered by the FSC in their policy deliberations, makes policy systematic and more predictable, and is crucial to satisfying the legal objectives of both transparency and accountability incumbent on the *Financial Stability Review*. The more effective the indicators are at revealing the state of financial stability relative to past benchmarks, the more likely it is that transparent risk reportage will be achieved. Without the historical risk trends, it will be difficult to assess the stance and outcome of policy, and hence to meet the accountability objective.

We have revealed important gaps in tracking risk, namely for lending conditions and loan performance for mortgages, other secured loans and unsecured loans, and similar data for business loans, especially SMEs who often borrow from non-banks. Lending to commercial real estate is another poorly monitored area where risks can arise, see Boshoff et al. (2024).

Risk build-up here is an important aspect of the vulnerability of households and small businesses. The heat map is a convincing graphical representation of risk developments, but gradations of colour are not easy to compare over time. Downloadable spreadsheets of the underlying raw historical *quarterly* data on the heat map and on the banking and insurance sector data, which can be regarded as the Reserve Bank's current set of core indicators of risk, should be available to provide benchmarks and comparisons with the past.<sup>178</sup> As explained in [Section 5.2](#), several further indicators should be added to these core indicators, and early warning indicators developed, such as from non-performing loan data, and from NCR data on payment arrears by numbers of days and by loan type.<sup>179</sup> The NCR has arrears data going back to 2007 in its currently available data set, which should have been used in models by the Reserve Bank toward early warning indicators. The FSR Act stipulates that the potential risks to financial stability should be identified and assessed for *at the least* the following year, but given the nature of credit cycles, a three-year horizon for the assessment of risk should be standard.

There is a further benefit of transparency.<sup>180</sup> The influential CGFS report (BIS, 2023) stressed that transparency can assist in maintaining political legitimacy especially where macroprudential policies overlap with other government objectives (e.g. credit provision).

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<sup>177</sup> The recent review by the IMF on central bank transparency in South Africa (IMF, 2024), also raised the need for financial stability decisions and outcomes to be disclosed in a timely manner.

<sup>178</sup> IMF (2024) did not pick up on the current inability to compare quantitative risk indicators over time.

<sup>179</sup> More detailed information is also needed about how all the risk indicators are defined.

<sup>180</sup> We are grateful to Ryan Banerjee of the BIS for raising this point.

## 7.4. Accountability design

Under *accountability*, there are two areas for suggested reforms. First, the FSR Act explicitly requires accountability in the documenting and monitoring of policy recommendations/directives, and in the evaluation of the effectiveness of macroprudential policies over time, both to be transmitted through the *Financial Stability Review*. However, the *Financial Stability Review* lacks a dedicated Annex, of the type published in each edition of the Bank of England's equivalent publication, the Financial Stability Report, to track and evaluate new, continuing, and past policy actions (recommendations and directives) and their state of completion. The Annexes in the consecutive Reports can give a full picture over time. This record should include cases where decisions are taken not to change policy, e.g. the CCyB. This is a significant omission suggesting the *Financial Stability Review* is not meeting its legally required role on accountability. Such an Annex would be particularly important as new tools, such as BBMs, are brought on stream.

Second, the accountability of the FSC for the macroprudential decisions made in that committee is subject to ambiguity, which we argue arose following repeated amendments to the Draft Act (see [Section 2.4](#)). In particular, the content of the *Financial Stability Review*, which includes the assessment of risk, the taking of decisions to mitigate that risk, and the assessment of the effectiveness of those decisions, is not linked to the executive FSC Committee. As a probable consequence of the FSOC's role changing between the first and last drafts of the Act (see [Table 2](#) and [Section 2.4](#)), the FSR Act (section 13) requires only that the *Financial Stability Review* be submitted to the Minister of Finance and the FSOC "for information and comment", allowing two weeks for such comments to be made ("should they wish to do so?"), and then taking account of any such comment.

For proper accountability, the FSC should take responsibility for ensuring that the contents of the Review express its views and adequately captures the reporting over time of the macroprudential policy recommendations and directives of the executive committee, as required under the FSR Act. We would argue that the names and the roles of the members of the internal Financial Stability Committee should be listed on the preamble page of the *Financial Stability Review*, as they are in the Bank of England's Financial Stability Report.

## 7.5. Trade-offs and the protection of vulnerable households and firms

Finally, we consider three important trade-offs: between price stability and financial stability; between greater competition in an oligopolistic banking industry and financial stability; and bolstering the biggest banks versus the protection of vulnerable (and especially poorer) households and firms. The first concerns whether price stability is the primary objective, with stability taking a secondary position, or whether both should be on a par. The terms 'primary mandate' and 'statutory mandate' are now in common usage, distinguishing the objectives without pronouncing on parity. We have suggested that the new express statutory financial stability mandate is a second and simultaneous objective with the original primary objective (also statutory). A conflict that could arise in South Africa, would be if high inflation requires higher interest rates, following which there could be a rise in non-performing loans and impairments increasing the vulnerability of households and threatening the financial viability of one or more banks. We would argue that a forward-looking Reserve Bank should pre-emptively enact protective macroprudential guidance, to ensure that borrowers could cope with potential rises in interest rates.<sup>181</sup> Periods when interest rates are particularly low, need extra vigilance about risks that may be posed by a sudden large rise in interest rates. The FSC then needs to be particularly careful in managing credit risk through BBMs or countercyclical buffers or risk weights. BBMs act more directly on the vulnerable sectors, appropriate for countercyclical macroprudential policy.<sup>182</sup> Indeed, we argue that in practice it is the synergies between the objectives of price and financial stability that would likely predominate over conflicts, see [Section 2.3](#).

The 2023 banking stress tests for the six SIFI banks (accounting for 92 per cent of total banking assets) suggest that they remain well capitalized even under extreme negative scenarios. Their profit margins remain high in virtually all circumstances. We question whether South Africa has achieved the *right balance* between financial stability, defined in

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<sup>181</sup> In the UK, when the 2022 rise in inflation entailed rising interest rates, the earlier macroprudential guidance from the BOE, to ensure that borrowers could cope with a 3 percentage point rise, proved its worth.

<sup>182</sup> Buffers are more generic, acting not just at the household level. Risk weights targeted at certain types of loans fall in between.

terms of the survival of the biggest banks, and financial conduct, defined as a competitive market and a good deal for borrowers in credit terms and access. The financial stability concern might even protect the monopoly power of the big banks.

As argued above, apart from moral suasion and setting broad regulatory standards, the Reserve Bank has no tools to regulate lending standards and does not even track them carefully. It appears to rely on stress tests for the six SIFIs to preserve the safety of the main banks, rather than by managing the credit cycle to stabilize the economy and guard the resilience of households and small businesses (on this, see Constâncio, 2014). The Reserve Bank may be paying insufficient attention to the non-SIFI banks and to non-bank lenders, where credit risks are higher. Closely monitoring credit market conditions, and close tracking and modelling of the consequences of deteriorating credit standards, could result in a still safe system but with lower banking profit margins.

In South Africa, there is great pressure for broad financial inclusion: for access to 24-hour mobile financial services<sup>183</sup> and especially to credit. The present model encourages the big lenders to apply liberal credit criteria to individuals, and then to compensate by charging high interest rates. Households may thus acquire more debt than is wise, with very high debt servicing charges - increasing their vulnerability and perpetuating indebtedness. Almost a quarter of households are now overdue on credit payments. As a former CEO of the NCR points out, since 2008 bank credit has grown strongly in real terms for households and corporates but has contracted in real terms for SMEs (Davel, 2025). He argues that lack of credit for SMEs has seriously hampered growth and job creation in South Africa. A key reform would be to make it compulsory for banks to report business credit to the credit bureaus, extending the benefits of credit scoring and automation to lending to small businesses.<sup>184</sup> In an alternative equilibrium, involving shifts both in conduct policy and in macroprudential policy, the banks could be required to adopt careful lending practices, educate borrowers about potential risks, and charge lower interest rates. This would entail, to a degree, overcoming the problem of asymmetric information between lender and borrower, particularly pronounced, as Davel argues, in lending to SMEs. Improved transparency on loan pricing would also lead to better outcomes. If data were published (as we argue they should be) on the distributional characteristics of loans issued in the last six months, potential customers could be protected against paying over the odds. Then, lenders could expand market share by competitive pricing instead of lower credit standards. The current opacity suits both mortgage brokers<sup>185</sup> and bank profits. We argue that the NCR has never collected the right granular data from credit providers, which should include distributions of loan-to-income ratios, of debt-service-to-income ratios and of loan-to-value *ratios* for secured loans. Had it done so, it could better have protected borrowers from predatory lending practices and generated data useful for macroprudential regulation (and probably improved the internal risk assessment models of at least some of the banks).

To conclude, a focus on the vulnerable in macroprudential policy-making is crucial and should not be left only to the conduct authorities. The poor suffer disproportionately from financial instability and crises. South Africa could do more to embed this key role of the central bank in the public consciousness to help buy in support and help entrench the independence and viability of the governance structures, policy-makers and regulators, to provide the best possible future protections against financial instability.

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<sup>183</sup> Failure to achieve the widely documented financial inclusion benefits of mobile money (Aron, 2018) in South Africa is due to adopting a bank-led model for mobile money and to inflexibility in defining a deposit (Aron and Muellbauer, 2019; Finmark Trust 2017).

<sup>184</sup> He also points to generic problems in contract enforcement in South Africa, increasing risks to lenders of small businesses. Regarding households, his view is that predatory practices regarding credit sales, repayments collection and payroll deduction, remain far too common. See also Schmulow (2016).

<sup>185</sup> It is hard to get information on mortgage bond pricing from alternative lenders without using a mortgage broker. But the broker charges a margin and is incentivized by lenders to favour their particular product and so will not offer an unbiased picture of the market to lenders.

## **Glossary of Acronyms and Abbreviations**

Bank for International Settlements (BIS)

Basel Committee on Banking Supervision (BCBS)

Borrower Based Measure (BBM)

Chief Executive Officer (CEO)

Committee on the Global Financial System (CGFS)

Congress of South African Trade Unions (COSATU)

Counter-cyclical Capital Buffer (CCyB)

Debt-service-to-income ratio (DSTI)

European Systemic Risk Board (ESRB)

Financial Conduct Authority (FCA) - in the UK

Financial Sector Assessment Programme (FSAP) - IMF

Financial Policy Committee (FPC) – Bank of England

Financial Services Authority (former) (FSA) of the UK

Financial Sector Regulation Act (FSR Act) – in South Africa

Financial Stability Board (FSB) - international

Financial stability report (FSR)general

Financial Stability Committee (FSC) – in South Africa

Financial Stability Oversight Committee (FSOC) – in South Africa

Financial Sector Conduct Authority (FSCA) – in South Africa

Global Financial Crisis (GFC)

Global systemically important banks (G-SIB)

International Monetary Fund (IMF)

Loan-to-income ratio (LTI)

Loan-to-value ratio (LTV)

Medium-Term Budget Policy Speech (MTBS) – in South Africa

Memorandum of understanding (MOU)

Monetary Policy Committee (MPC)

National Credit Regulator (NCR) – in South Africa

Prudential Authority (PA) – in South Africa

Prudential Regulation Authority (PRA) – in the UK

Risk assessment matrix (RAM)

Risk and vulnerabilities matrix (RVM)

Small and medium-sized enterprises (SME)

South African Reserve Bank (Reserve Bank or SARB)

Systemically Important Financial Institution (SIFI)

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## Tables

**Table 1: Comparative hybrid models of the Twin Peaks-plus macroprudential policy framework**

<b>'Twin peaks' hybrid: numbers of peaks</b>	
South Africa	Twin, but unusually with a bifurcated conduct peak. The Prudential Authority (PA) is responsible for prudential regulation. The conduct peak is bifurcated, comprising the Financial Sector Conduct Authority (FSCA) and the pre-existing National Credit Registry (NCR).
UK	Twin. FSA regulation replaced in 2013 by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
NZ	Twin. Reserve Bank of New Zealand (RBNZ) responsible for prudential regulation and the Financial Markets Authority (FMA) for conduct in financial markets, including that of insurers and insurance intermediaries.
Australia	Godwin (2021): Twin. Australia adopts a functionally-based twin peaks model under which regulatory responsibility is divided primarily between two regulators. The Australian Securities and Investments Commission (ASIC) is responsible for the regulation of companies, market conduct and consumer protection. The Australian Prudential Regulation Authority (APRA) is responsible for prudential regulation.
Netherlands	Twin. Prudential supervision is within De Nederlandsche Bank (DNB), while the Autoriteit Financiële Markten (AFM) undertakes conduct-of business supervision, including of security market activities.
<b>Independence of the Prudential Authority</b>	
South Africa	Independent juristic person within the Reserve Bank.
UK	The Financial Services Act 2012 established the Prudential Regulation Authority (PRA). The Bank of England and Financial Services Act 2016 subsequently created the Prudential Regulation Committee (PRC) to make decisions. The PRC has a majority of independent, appointed external members. PRC members' remuneration is determined by the Bank's Remuneration Committee. The PRC is independent in all its decision-making functions, which include making rules and the PRA's most important supervisory and policy decisions.
NZ	RBNZ Act provides the legal basis for prudential regulation by the RBNZ, supported by a MoU on macroprudential policy (updated in August 2021). The RBNZ considers Government priorities in meeting its financial stability objective, outlined in a Financial Policy Remit.
Australia	APRA is an independent statutory agency established by the Australian Parliament under the Australian Prudential Regulation Authority Act 1998 (APRA Act). APRA is not a division of the Reserve Bank of Australia (RBA).
Netherlands	Under the amended Bank Act (January 2014), the Dutch National Bank (DNB) has an explicit mandate for financial stability in addition to its responsibility for micro-prudential supervision.
<b>Number of macroprudential regulators</b>	

South Africa	One: the SA Reserve Bank/Governor. The IMF FSAP suggests there are two (it includes the PA), but we dispute in the text ( <a href="#">Section 2.2</a> ).
UK	One. The Financial Services Act 2012 formally established the Financial Policy Committee (FPC) in the Bank with a primary objective of financial stability. The FPC has a clear mandate as the United Kingdom’s macroprudential authority.
NZ	One. The RBNZ.
Australia	One: APRA (responsible for both microprudential and macroprudential policy). Background: The IMF FSAP 2019 notes that “Australia has a relatively informal institutional arrangement for the coordination of financial stability policy, and responsibilities and tools for safeguarding financial stability are spread across several regulators”. The RBA has a mandate for overseeing financial system stability but has few policy levers.
Netherlands	One nationally. The DNB. However, for Single Supervisory Mechanism (SSM) countries, the competency for macroprudential policy is shared between national authorities (DNB) and the ECB.
<b>Financial Stability Committees <i>Internal to central bank</i></b>	
South Africa	<p>The Financial Stability Committee (FSC) of the Reserve Bank (in existence since August 2000; reconstituted in 2010).</p> <p><b>Statutory?</b> No. The committee is not mentioned in the FSR Act which states only that when fulfilling its responsibility for financial stability, the SA Reserve Bank must act within a policy framework agreed between the Finance Minister and the Governor.</p> <p><b>Membership/external members?</b> Only internal members: the Governor as Chairperson, the Deputy Governors, all members of the MPC, and a maximum of seven other Reserve Bank officials (the heads of the Financial Stability, Financial Surveillance and Financial Markets Departments within the Bank, and the heads of the four departments that make up the Prudential Authority).</p> <p><b>Meetings?</b> 4 times per year.</p> <p>Publishes minutes? No</p>
UK	<p>The FPC.</p> <p><b>Statutory?</b> Yes. Her Majesty’s Treasury (HMT) determines the structure of the macroprudential oversight regime, including which directional powers are granted to the FPC, subject to approval from the U.K. Parliament. Subject to the primary financial stability objective, there is also a secondary objective (to support the Government’s economic policy, as defined by the Chancellor of the Exchequer in an annual remit letter to the FPC).</p> <p><b>Membership/external members?</b> Internal and external. Normally has thirteen members: the Governor (who chairs the FPC), the four Deputy Governors, the Chief Executive of the Financial Conduct Authority, the Bank’s Executive Director for Financial Stability Strategy and Risk, five external members appointed by the Chancellor, and a non-voting member from HM Treasury.</p> <p><b>Meetings?</b> 4 times per year.</p> <p><b>Publishes minutes?</b> The FPC publishes a Summary and Record after each meeting.</p>
NZ	<p>In terms of the RBNZ Act 2021, the independently appointed governing Board is responsible for all prudential policy decisions (and for all decision-making except decisions made by the Monetary Policy Committee). The Financial Stability Oversight Committee is a standing Board committee.</p> <p><b>Statutory?</b> No statutory FPC.</p>

	<p><b>Membership/external members?</b> Internal and external members. Currently 8 members. Members of the Board are appointed by the Governor-General on the recommendation of the Minister of Finance.</p> <p><b>Meetings?</b> The Financial Stability Oversight Committee met 7 times in 2023/24.</p> <p><b>Publishes minutes?</b> Minutes of these Board meetings are released each quarter.</p>
Australia	APRA is responsible.
Netherlands	External to the central bank: the AFM, DNB and the Ministry of Finance are members of the Financial Stability Committee (FSC)
<b>Financial Stability Committees or oversight-coordination forums <i>External to the central bank</i></b>	
South Africa	<p>The Financial Stability Oversight Committee (FSOC).</p> <p><b>Statutory?</b> Yes, FSR Act (2017), sections 20-24.</p> <p><b>Purpose?</b> The FSOC has the following functions: (a) To serve as a forum for representatives of the Reserve Bank and of each of the financial sector regulators to be informed, and to exchange views, about the activities of the Reserve Bank and the financial sector regulators regarding financial stability; (b) to make recommendations to the Governor on the designation of systemically important financial institutions;</p> <p>(c) to advise the Minister and the Reserve Bank on: (i) steps to be taken to promote, protect or maintain, or to manage or prevent risks to, financial stability; and (ii) matters relating to crisis management and prevention; (d) to make recommendations to other organs of state regarding steps that are appropriate for them to take to assist in promoting, protecting or maintaining, or managing or preventing risks to financial stability; and (e) any other function conferred on it in terms of applicable legislation.</p> <p><b>Membership?</b> The Governor; the Deputy Governor responsible for financial stability matters; the Chief Executive Officer of the PA; the Commissioner of the FCSA; the Chief Executive Officer of the National Credit Regulator; the Director-General of the National Treasury; the Director of the Financial Intelligence Centre; and a maximum of three additional persons appointed by the Governor. Terms of membership are determined by the Governor, and from 2018 he has included as a member the head of the Reserve Bank's Financial Stability Department.</p> <p><b>Meetings?</b> Twice per year (at least every six months).</p> <p>Publishes minutes? No</p>
UK	No.

NZ	<p>The Council of Financial Regulators (CoFR).</p> <p><b>Statutory?</b> No.</p> <p><b>Purpose?</b> Relationship and Regulatory Charters set out the goals, principles, roles, and functions of CoFR, and an MoU facilitates cooperation and mutual assistance</p> <p><b>Membership?</b> The CoFR comprises of five agencies: RBNZ, the FMA, the Commerce Commission, the Ministry of Business, Innovation and Employment and The Treasury. The Governor of the Reserve Bank and the Chief Executive of the Financial Markets Authority take turns to chair meetings.</p> <p><b>Meetings?</b> Quarterly.</p> <p><b>Publishes minutes?</b> A Quarterly Statement is released after meetings.</p>
Australia	<p>The Council of Financial Regulators (CFR).</p> <p><b>Statutory?</b> Non-statutory. No separate financial stability authority in Australia. Financial Regulator Assessment Authority Act 2021.</p> <p><b>Purpose?</b> Co-ordination. Provides a forum for identifying important issues and trends in the financial system, including those that may affect overall financial stability. It is also responsible for ensuring that there is an appropriate framework and coordination arrangements for responding to actual or potential instances of financial instability.</p> <p><b>Membership?</b> Australia's financial stability policy framework involves a mandate for financial stability for each of the four CFR member agencies. Membership consists of APRA, ASIC, the RBA, and the Treasury.</p> <p><b>Meetings?</b> 4 times per year</p> <p><b>Publishes minutes?</b> No. CFR has no powers or decision-making responsibilities and does not publish records or reports of its activities, except for a short high-level description in RBA's semi-annual FSR.</p>
Netherlands	<p>The Financial Stability Committee (FSC).</p> <p><b>Statutory?</b> The FSC is legally embedded in the Bank Act 1998 as of July 1, 2023.</p> <p><b>Purpose?</b> FSC has a macroprudential mandate and advisory powers (without a comply-or-explain mechanism), but the use of macroprudential instruments remains the responsibility of individual agencies, the DNB and the MoF.</p> <p><b>Membership?</b> The FSC includes seven representatives from DNB, AFM, and MoF (as a non-voting member). DNB is the secretariat of the FSC and currently the Director of the DNB's Financial Stability Division (FSD) has the role of head of the secretariat. Chaired by the President of the DNB.</p> <p><b>Meetings?</b> The FSC is required to meet at least twice a year.</p> <p><b>Publishes minutes?</b> The FSC publishes a summary of its meeting on the website although it is not legally required to do so. The secretariat strives to publish the summary within a week after the meeting. When the FSC issues warnings and recommendations, the Minister of Finance passes them on to the Parliament. The FSC also publishes an annual report for the MoF.</p>

<b>Financial Stability Department within central banks</b>	
South Africa	A Financial Stability Department was established on 1 August 2001. The Financial Stability Department became a unit within the Bank Supervision Department in 2011, then became a department again on 1 April 2014. The department also produces the Financial Stability Review (FSR), published twice a year.
UK	The Bank's Deputy Governor for Financial Stability manages four groups with more than 350 full-time staff. The Financial Stability Strategy and Risk (FSSR) directorate, with a staff of 155 in 2021, oversees financial stability monitoring and houses the secretariat for the FPC. Other directorates cover financial market infrastructure (124 staff), central bank digital currencies (21), and international policy (64), which is co-managed with the Deputy Governor for Monetary Policy.
NZ	RBNZ has a dedicated department, the Macro-Financial Department, with two teams and 10 staff that leads systemic risk analysis and macroprudential policy discussions. The department is also in charge of the Financial Stability Report (FSR), published twice a year.
Australia	A dedicated department provides advice on financial stability to the Governors and the Reserve Bank Board and supports the Reserve Bank's representation on the Council of Financial Regulators, the Financial Stability Board, and the Basel Committee on Banking Supervision. It is responsible for producing the Bank's semi-annual Financial Stability Review.
Netherlands	The DNB has a dedicated division, the FSD, which consists of two departments with 36 staff, which undertake systemic risk analysis and prepare macroprudential policy discussions at the DNB. The coordination and most of the drafting of the FSR is done by the Macroprudential Analysis and Policy Department in the FSD.
<b>Financial Stability Report</b>	
South Africa	Financial Stability Review, published biannually. First published March 2004. <b>Statutory?</b> Yes. FSR Act (2017), section 13(1). The FSR must set out: (a) the Reserve Bank's assessment of financial stability in the period under review; (b) its identification and assessment of the risks to financial stability in at least the next 12 months; (c) an overview of steps taken by it and the financial sector regulators to identify and manage risks, weaknesses or disruptions in the financial system during the period under review and that are envisaged to be taken during at least the next 12 months; and (d) an overview of recommendations made by it and the FSOC during the period under review and progress made in implementing those recommendations. The Financial Stability Review is required to be tabled in Parliament, under section 13, 4 (c), of the Act.
UK	Financial Stability Report, twice a year (Q2 and Q4). <b>Statutory?</b> Yes. Financial Services Act 2012 Section 9W. After publication of the FSR, Parliament's Treasury Committee holds meetings with the Governor of the Bank of England and members of the FPC to scrutinize the report. Transcripts of these meetings are published.

NZ	Financial Stability Report, published twice a year. <b>Statutory?</b> Yes. The FSR is published pursuant to section 170 of the Reserve Bank of New Zealand Act 2021. The FSR must “report on matters relating to the stability of New Zealand’s financial system, and other matters associated with the Reserve Bank’s prudential objective; and contain the information that is necessary or desirable to allow an assessment to be made of the effectiveness of the Bank’s use of its powers to protect and promote the stability of New Zealand’s financial system, and achieve the prudential objective”.
Australia	Financial Stability Review, published semi-annually. The FSR is presented to the Reserve Bank Board twice a year and informs the Board on risks to financial stability. Statutory? No.
Netherlands	Financial Stability Report, bi-annual. Statutory? No.

*Sources:* Compiled by the authors. South Africa: Reserve Bank website, Act and Annual Reports. UK: website, Act, and IMF (2022b,c). Australia: websites for RBA and APRA, and IMF (2019). Netherlands: website for DNB, and IMF (2017). NZ: websites for RBNZ and CoFR.

**Table 2: The executive and coordinating committees for macroprudential policy: The Treasury’s original conception versus the final 2017 Act**

Committee features	FSOC: earlier drafts of the FSR Act, linked to Nat. Treasury (2011, 2013)	FSOC: the Final FSR Act of 2017	Current FSC
Nature of committee	FSOC is executive committee.	FSOC is coordinating committee.	FSC is executive committee.
Frequency of meetings	FSOC meets quarterly.	FSOC meets twice a year.	FSC meets quarterly (Governor can convene at any time).
Membership	Governor as Chairperson; the Chief Executive Officer and the other Deputy Governors of the Reserve Bank; the Commissioner and at least two Deputy Commissioners of the Market Conduct Authority designated by the Commissioner in consultation with the Governor; Director-General of the National Treasury.	Governor as Chairperson; Deputy Governor responsible for financial stability matters; Chief Executive Officer of the PA; Commissioner of the FCSA; Chief Executive Officer of the National Credit Regulator; Director-General of the National Treasury; Director of the Financial Intelligence Centre; a maximum of 3 other persons appointed by the Governor (from 2018, Head, Reserve Bank’s Financial Stability Department).	Governor as Chairperson, the Deputy Governors, all members of the MPC, and a maximum of seven other Reserve Bank officials (the heads of the Financial Stability, Financial Surveillance and Financial Markets Departments within the Bank, and the heads of the four departments that make up the Prudential Authority).
Quorum and minutes	Quorum stipulated as a majority of members and written minutes to be kept and retained for seven years.	Quorum to be set by FSOC. Minutes kept ‘in a manner decided by the Governor’.	No information on quorum and minutes. No Summary published after quarterly meetings.
Nature of voting	Majority voting in FSOC.	Consensus decisions in FSOC (Chair has second casting vote if necessary)	Probably consensus decisions in FSC with Chair’s casting vote if necessary (nowhere stated).
Who monitors risk?	FSOC has a central role: conducts risk monitoring and assessment; receives input on operational risks from FSCF.	FSOC receives inputs on operational risks from FSCF, feeds through to the FSC.	Evaluates risks as monitored and presented by the Department of Financial Stability at the Reserve Bank and from FSCF via FSOC.
Who compiles and produces the Financial Stability Review	FSOC to compile and publish the <i>Financial Stability Review</i> twice a year.	NA	The Reserve Bank’s Department of Financial Stability compiles and publishes the <i>Financial Stability Review</i> twice a year.
Nature of powers to act in ‘ordinary’ times	Semi-hard: ‘comply or explain’ recommendations to regulators – with ultimate ministerial resolution if necessary. The FSOC initiates all actions to mitigate risks.	Only ‘soft’, non-binding recommendations to Reserve Bank and to organs of state in ‘ordinary’ times.	Only ‘soft’, non-binding recommendations to all regulators in ‘ordinary’ times.
Who chooses the crisis designation	Governor and Minister choose when to designate a systemic crisis. FSOC advises Minister of crises and SIFIs.	Governor to choose when to designate a systemic crisis and informs Minister.	See LHS.
Nature of powers to act in crisis times	Hard powers.	NA.	Hard powers.

Source: Compiled by the authors

**Table 3: Coordination bodies**

Body	Mandate	Members and Chair
Financial Stability Oversight Committee (FSOC) Section 20, FSR Act	Facilitate the execution of the Reserve Bank’s financial stability mandate; and facilitate co-operation and collaboration among the financial sector regulators and the Reserve Bank in respect of financial stability. Should meet at least biannually. Resourced by the Reserve Bank. Minutes kept as determined by the Governor of the Reserve Bank.	The <b>Governor</b> ; the Deputy Governor responsible for financial stability matters; the Chief Executive Officer of the PA; the Commissioner of the FCSA; the Chief Executive Officer of the National Credit Regulator; the Director-General of the National Treasury; the Director of the Financial Intelligence Centre; and a maximum of three additional persons appointed by the Governor. Terms of membership are determined by the Governor, and from 2018 he has included as a member the head of the Reserve Bank’s Financial Stability Department.
Financial Sector Contingency Forum (FSCF) Section 25, FSR Act	Facilitate the execution of the Reserve Bank’s financial stability mandate, specifically in the identification of systemic risk and in coordination to mitigate risk. Should meet at least biannually. Resourced by the Reserve Bank.	The <b>Deputy Governor</b> designated by the Governor, representatives of each of the financial sector regulators, representatives of other organs of state, as the Chairperson may determine, and representatives of financial sector industry bodies and any other relevant person, as the Chairperson may determine.
Financial System Council of Regulators (FSCR) Section 79, FSR Act	Facilitating co-operation and collaboration and, where appropriate, consistency of action, between the institutions represented on the FSCR by providing a forum for senior representatives of those institutions to discuss and inform themselves about matters of common interest. Should meet at least biannually. Resourced by the FSCA. Minutes kept as determined by the FSCA.	The <b>Director-General</b> of Treasury; the Director-General of the Department of Trade and Industry; the Director-General of the Department of Health, the CEO of the PA; the Commissioner of the FSCA; the CEO of the National Credit Regulator; the Registrar of Medical Schemes; the Director of the Financial Intelligence Centre; the Commissioner of the National Consumer Commission; the Commissioner of the Competition Commission; the Deputy Governor of SARB responsible for financial stability matters; and the head of any organ of state or other organisation that the Minister of Finance may determine.
Financial Sector Inter-Ministerial Council Section 83, FSR Act.	Facilitate co-operation and collaboration between Cabinet members responsible for administering legislation relevant to the regulation and supervision of the financial sector by providing a forum where these Cabinet members can discuss and consider matters of common interest. Meetings occur as determined by the Minister.	The <b>Minister of Finance</b> , the Cabinet members responsible for consumer protection and consumer credit matters, the Cabinet member responsible for health, and the Cabinet member responsible for economic development.

*Source:* Compiled by the authors.

**Table 4: ‘Hard/soft’ powers and accountability of macroprudential policy in South Africa**

Institution	Macroprudential tools			Governed by which section of Financial Sector Regulation Act 9 of 2017 (FSR Act).	Has the SIFI status been published?	Are policy recommendations sourced from FSOC?	Are macroprudential policy recommendations published in the FSR?		
	‘Hard’ powers	‘Semi-hard’ powers (comply or explain)	‘Soft’ powers				a. When action is taken?	b. When no action is taken?	
								When decided not to make a change?	When a regulator does not comply with a recommendation?
<b>Tools: countercyclical capital buffer (CCyB)</b>									
All banks	Yes	–	–	Not governed by the Act. Governed by Basel III rules.	–	No	Yes	Yes	–
<b>Tools: all other macroprudential tools</b>									
<b>BANK FINANCIAL SECTOR</b>									
<b>In ‘ordinary’ times:</b>									
SIFI	Yes	–	–	<u>Section 30</u> – re SIFIs	Yes	No. Only the designation of the SIFI is suggested.	Yes	*	–
Non-SIFI	–	–	Yes	<u>Section 21</u> – Recommendations	–	Yes, but only indirectly to the FSC, in ‘ordinary’ times’.	*	*	There are instances of non-reportage ( <u>Section 5.3</u> )
<b>When a systemic event (or preamble to) is declared:</b>									
Non-SIFI	Yes	–	–	<u>Section 18</u> – Directives in case of <i>systemic event</i>	–	No. If there is a systemic event, then the Governor has the power to issue Directives.	*	*	*
<b>NON-BANK FINANCIAL SECTOR</b>									
<b>In ‘ordinary’ times:</b>									
SIFI	Yes	–	–	<u>Section 30</u> – re SIFIs	No (not yet designated)	No. Only the designation of the SIFI is suggested.	*	*	–
Non-SIFI	–	–	Yes	<u>Section 21</u> – Recommendations	–	Yes, but only indirectly to the FSC, in ‘ordinary’ times’.	*	*	*
<b>When a systemic event (or preamble to) is declared:</b>									
Non-SIFI	Yes	–	–	<u>Section 18</u> – Directives in case of <i>systemic event</i>	–	No. If there is a systemic event, then the Governor has the power to issue Directives.	*	*	*

Notes: 1. Systemically Important Financial Institutions (SIFIs) are defined and regulated in section 29 and 30 of the FSR Act. Six banks were designated as SIFIs in 2019 (FSR (2019: 2), pp.37-38). 2. Edge and Liang (2019) tools: ‘hard’ powers (like a Directive – must be carried out); ‘semi-hard’ powers (comply or explain); and ‘soft’ powers (no imperative to obey – only a recommendation). 3. Geraats (2002) recommends that even when the policy decision is ‘no change’, this should be reported for transparency. On recommendations versus directives, see Figure 1.

Source: Constructed by the authors. KEY: – means not applicable.

\* means has not yet arisen.

**Table 5: Financial Stability Reports: transparency, quality and coverage, and readability**

Country	Financial Development Index: 2017	Issuing authority/ FSR starting year and frequency	INDEX: Composite FSR scores measuring quality and coverage 2016 study	INDEX: Financial Stability Transparency 2011 study	F-K (reading) grade level: late 2016	Flesch reading ease level: late 2016
Argentina	0.34	Banco Central de la República Argentina/ 2004, semi-annual	2.2 (2016)	5.5 (2011)	18.01	32.35
Brazil	0.59	Banco Central do Brasil/ 2002, semi-annual	2.6 (2016)	4 (2011)	19.06	20.55
India	0.42	Reserve Bank of India/ 2010, semi-annual	na	3 (2011)	17.91	26.04
Mexico	0.40	Banco de México/ 2006, annual	2.65 (2016)	4.5 (2011)	20.15	32.23
South Africa	0.63	SA Reserve Bank/ 2004, bi-annual	Pre-FSR Act: 3.03 (2016)	Pre-FSR Act: 5 (2011)	17.72	23
			Post-FSR Act: 3.03 (2019) 3.13 (2023)	Post-FSR Act: 8.25 (2019) 8.75 (2023)		

*Notes:* (i) Financial Development Index: see Sahay et al. (2015) and Svirydzhenka (2016). Financial development is defined as a combination of depth (size and liquidity of markets), access (ability of individuals and companies to access financial services), and efficiency (ability of institutions to provide financial services at low cost and with sustainable revenues, and the level of activity of capital markets). The broad multi-dimensional approach to defining financial development follows the matrix of financial system characteristics developed by Čihák et al. (2012). (ii) Composite FSR scores: The CCC framework comprises 26 principles, organized into 5 elements (aims, overall assessment, issues, tools, structure, and other features) and 3 characteristics (clarity, consistency, and coverage), see Appendix II, Čihák (2006)). Assessment for each is on a 4-point scale: 4 (fully compliant), 3 (largely compliant), 2 (partly compliant), and 1 (not compliant); weighted averages were used for the aggregate gradings. Scores for Latin American countries are from Lim et al. (2019) as of 30 June 2016, except Argentina from July 2016. **South Africa:** calculated by authors using *Financial Stability Reviews: 2016 FSR (H1), 2019 FSR (H1) and 2023 FSR (H2)*. The FSR is published biannually. (Calculations for South Africa available from authors on request.) (iii) The Financial Stability Transparency Index has of a total of 11 points, from Horvath and Vaško (2016). See [Appendix 2](#). **South Africa:** calculated by authors using *Financial Stability Reviews: 2019 FSR (H1) and 2023 FSR (H2)*. The FSR is published biannually. (iv) The Flesch-Kincaid grade level (can be interpreted as the number of years of education needed to understand an FSR) and Flesch reading ease level are from Patel (2017) in BIS (2017). FSRs that have higher Flesch-Kincaid grade levels are harder to read, while the converse holds for the Flesch reading ease index.

*Source:* The 2016, 2019 and 2023 index measures for South Africa are constructed by the authors. The 2016 scores for selected Latin American countries are from Lim et al. (2019). The 2011 measure for South Africa (and selected EME countries) is from Horvath and Vaško (2016). Reading levels are from Patel (2017) in BIS (2017).

## Appendix 1: Data needed for Borrower Based Measures (BBMs)

Monitoring is required for two purposes: the first, ensuring that each lender is adhering to the BBM restrictions; and the second, to monitor the impact of such BBMs more broadly.

Housing-related BBMs on new lending for each lender can take the form of restrictions on housing debt-to-income, housing debt-service-to-income and loan-to-value (LTV) ratios. These restrictions can take the form of ‘speed limits’: restrictions on the share of new lending above specified upper limits on some of these ratios. BBMs might need to be separately set for different types of loans, for example, for first-time buyers, for repeat buyers for owner-occupation and for buy-to-let investors. In South Africa they would also need to distinguish mortgages partially secured by a pension from those not secured in this way.

For the first type of monitoring, each lender needs to provide to the Prudential Authority (PA) the data on distributions of these ratios. For debt-service-to-income ratios, forms could specify numbers of loans and Rand amounts of lending, in various percentages computed for annual age ranges such as under-25, 25-30, 30-35, 35-40, 40-45, 45-50 and 50+. For debt-to-income ratios, ranges could take the form of corresponding intervals of 0.5 ranging from 2.5 to 5.0+. For LTVs, ranges in percentages could take the form of 5 per cent intervals from under 70, 70-75 to over 110 per cent.<sup>186</sup>

Responsible mortgage lenders should ensure that households’ debt-servicing capacities can cope with their overall debt burdens, and not just for the mortgage debt. They should therefore be collecting data on the joint mortgage and non-mortgage debt holdings of households to whom new debt is granted.

As non-mortgage debt accounts for over half of total household debt in South Africa, and over-indebtedness is an important issue for the vulnerability of households, non-housing BBMs should also be in the macroprudential toolkit. Lenders should therefore be required to submit to the PA the data on *non-mortgage* debt-to-income and *non-mortgage* debt-service ratios for households, as well as the overall debt and debt-service ratios, in distributional form. Ideally, the data provided should also be categorised by loan type, for example, loans secured on a consumer durable or unsecured or other loan types.

Provision of these types of data would satisfy the first type of monitoring required for the implementation of BBMs and would go a long way towards meeting the second type of monitoring required, that of monitoring outcomes. An important additional data source for monitoring outcomes is arrears data, e.g. the days-in-arrears categories already used at the NCR, and the foreclosure data at the level of individual lenders. For assessing outcomes, data on growth rates of credit by loan type are already being monitored by the PA, as are data on house price developments.

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<sup>186</sup> In the revisions to come into force in July 2025 to the BA200 returns, 10 percent LTV intervals were chosen, beginning with the 50 to under-60 per cent decile.

## Appendix 2: Financial Stability Transparency (FST) index

The financial stability transparency (FST) index of Horváth and Vasko (2016) is intended to be a comprehensive index of the transparency of central banks regarding their policy frameworks to safeguard financial stability. It is compiled as the sum of the following 11 items (the number of points granted for each category is indicated in parentheses). We apply this framework for South Africa in 2019 and in 2023, see [Section 6.2](#).

**Table 6: The Financial Stability Transparency (FST) index**

	<b>The FST index is the sum of the following 11 items:</b>	<b>2019</b>	<b>2023</b>
1.	The goal of financial stability is explicitly stated in the central bank act (0 – not stated, 1 – explicitly stated).	1	1
2.	The publication of the FSR (0 – not published; 1 – published).	1	1
3.	The publication of the FSR – frequency (0 – not published; ½ – published annually; 1 – published semi-annually or more often).	1	1
4.	The FSR is forward looking (0 – not forward looking, 1 – includes outlooks and forecasts of risks).	1	1
5.	The coverage of the FSR (in total, a max. of 1.5 points): (a) Macroeconomic environment and its risks (½ if included). (b) Deposit takers information and its risks (½ if included). (c) Other subjects or market information and risks (½ if included).	½ 0 ½	½ 0 ½
6.	The publication of stress test (0 – stress test not published, ½ published annually, 1 – published more often).	¼	¼
7.	The publication of FSIs (0 – not published, ½ – core set of FSIs published, 1 – both core and encouraged set published).	½	½
8.	Macro-prudential policy transparency (0 – not described, ½ – general strategy and co-operation described, 1 – detailed policy and crisis management described).	½	1
9.	The existence of a financial stability policy committee (0 – no committee, 1 – committee with regular meetings and clear strategy).	1	1
10.	A separate section on financial stability on the central bank’s website (0 – no separate page (section) on web, 1 – separate page on the web).	1	1
11.	A separate section (database) on the central bank’s website for speeches about financial stability (0 – no separate section, ½ separate section)	0	0
	South Africa	8.25	8.75

*Source:* Constructed by the authors.