South African Reserve Bank

The Response of the South African Reserve Bank to COVID-19 Pandemic

The South African Reserve Bank (SARB) continues to pursue both micro and macro-prudential measures to contribute towards mitigating the effects of the COVID-19 Pandemic on the economy of South Africa. At a micro-prudential level, the Prudential Authority (PA) is collecting and analysing data daily from banks, insurance companies and market infrastructures on business continuity, market risk impacts, liquidity metrics, counterparty risks, settlement risk, credit risk trends and insurance policy lapse patterns. This analysis is done to assess the potential impact of COVID-19 on individual institutions and on the broader financial system.

Considering the extensive reliance the PA places on auditors, the PA also collected information from audit firms engaged in the audits of banks and insurers regulated by the PA, pertaining to contingency plans that these firms had put in place to minimise disruption and ensure business continuity during this pandemic. From the macro-prudential level, the Financial Sector Contingency Forum is monitoring bank business continuity planning. Additionally, the Financial Sector Oversight Committee is in regular contact, with members sharing their views on potential financial stability risks imposed by COVID-19.

On macroprudential limits, the SARB has not opted to impose any measures on the financial sector. Macroprudential instruments are typically used to contain risk build-up in the financial system. The SARB is of the view that credit growth and the overall levels of risk taking are well contained. These efforts are augmented by continual communication with financial institutions on ground level developments.

The response by the SARB has taken several forms

1. Monetary policy easing

The SARB cut the repo rate on four different occasions, namely, by 25 basis points (bps) in January, followed by cuts of 100 bps each in March and April 2020 (the latter was at an emergency Monetary Policy Committee (MPC) meeting), and a further 50 bps in May. These reductions in the central bank rate brought the policy rate to 3.75% to ease financial conditions and improve the resilience of households and firms to the short-term economic implications of COVID-19.

2. Purchasing of government bonds in the secondary market

The SARB announced on 25 March 2020 that it would take the unprecedented step of purchasing government bonds in the secondary market. The purpose of this was to inject liquidity into the bond market and deal with observed market dislocations in light of the large-scale sell-off of government bonds that had taken place.

3. Financial market relief measures

Changes to the money market liquidity management strategy of the SARB were made to counter liquidity strains in various domestic funding markets. The following changes in the application of the open market operations became effective as at 20 March 2020:

- Conducting Intraday Overnight Supplementary Repurchase Operations (IOSROs), twice daily at 10:00 and 13:00, (except on Wednesdays), to provide intraday liquidity support to clearing banks. Previously the supplementary repos were conducted once a day at end-of-day for market square-off. However, in May 2020, the number of auctions was reduced to one daily as this was deemed sufficient.

- Adjusting the Standing Facilities (SF) borrowings rate (the rate at which the SARB absorbs liquidity) to the repo rate less 200 basis points, from the current repo rate less 100 basis points. This will encourage the flow of money market liquidity.

- Adjusting the SF lending rate, i.e., the rate at which the SARB provides liquidity to the commercial banks, lower by 100 bps, to the repo rate, from the prevailing rate of the repo rate plus 100 basis points. This is in order to support banks to facilitate their flow of money market liquidity without being penalised.

- Providing term repos for periods of up to 12 months. Thus far, term repos of 3 months have been provided on a weekly basis, as longer term tenors have not been deemed necessary.

4. Relief measures for cooperative financial institutions and cooperative banks

The PA proposed prudential priority measures for co-operative financial institutions and co-operative banks which may be accessed on application. The priority prudential measures have been categorised into prudential policy issues; supervisory activities including regulatory reporting; as well as governance and operational issues.

5. Relief measures to banks

In addition to the actions taken on deploying monetary policy tools to mitigate the impact of COVID-19, the SARB further decided to support the banking system in response to the needs of banking customers, by providing for regulatory relief measures as well as guidance to banks in managing the crisis. The regulatory relief measures are provided for in broadly four areas, namely, capital relief on restructured loans that were in good standing before the COVID-19 crisis, a lower liquidity coverage ratio (LCR), lower capital requirements as well as a general relief in respect of certain regulatory reporting timelines in respect of some regulatory returns and annual financial statements.

The SARB is temporarily amending Directive 7 of 2015 on Restructured Exposures, which means that for the duration of the crisis, loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge. This amendment covers loans to households, small- and medium-sized businesses and corporates, and for specialised lending.

For the duration of the crisis, the LCR, a ratio setting out the liquid assets a bank has to maintain in relation to its anticipated outflows, was lowered from 100% to 80%.

In relation to capital relief, the Pillar 2A capital requirement, which is set at 1% of risk-weighted assets, is now set at zero. Clear criteria are also provided that allow for banks to dip into their capital conservation buffer, which is set at 2.5% of risk-weighted assets.

In addition, the PA also provided guidance covering accounting issues regarding the application of IFRS 9 and called on banks and insurers to limit the payment of dividends and bonuses so that they can conserve capital and retain capacity to support the real economy in an environment of heightened uncertainty caused by COVID-19.

6. Relief measures to small and medium-sized enterprises

The SARB has partnered with National Treasury and the major commercial banks to implement a R200 billion loan guarantee scheme for small and medium-sized enterprises (SMEs) with a turnover of less than R300 million. The primary intention of the scheme is to provide finance to SMEs, so that they can continue to pay their operational expenses during this challenging time. The loans will cover up to three months of operating costs. The scheme allows for risk and profit sharing between government and commercial banks.

These measures are being taken to mitigate the impact of COVID-19, while at the same time pointing out that South Africa’s banking system is robust and well-capitalised.