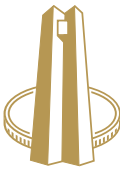


FINANCIAL STABILITY REVIEW

Second edition
2025

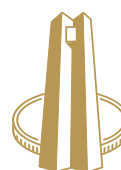


SOUTH AFRICAN RESERVE BANK



FINANCIAL STABILITY REVIEW

Second edition
2025



SOUTH AFRICAN RESERVE BANK

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Background to the *Financial Stability Review*

The primary mandate of the South African Reserve Bank (SARB), as stated in the Constitution of the Republic of South Africa, is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. The Financial Sector Regulation Act 9 of 2017 (FSR Act) assigns a statutory mandate to the SARB to protect and enhance financial stability in South Africa.

The SARB follows a structured framework designed to gather information, monitor developments, assess financial stability and communicate its assessment through the *Financial Stability Review (FSR)*. Among other things, the FSR Act requires the SARB to (i) monitor and review any risks to financial stability, including the nature and extent of those risks as well as the strengths and weaknesses of the financial system; and (ii) take steps to mitigate risks to financial stability, including advising the financial sector regulators and any other organ of state of the steps that should be taken to mitigate those risks.

The FSR Act also requires the SARB to assess the stability of the South African financial system at least every six months and to communicate its assessment in the *FSR*, which is tabled in Parliament. The *FSR* provides readers with the SARB's assessment of the stability of the South African financial system. The SARB assesses financial stability as part of its ongoing operations, and its Financial Stability Committee (FSC) reviews the financial stability outlook and assessment at six meetings per year. The period under review for this edition of the *FSR* is the six months from June to November 2025, while the forecast period is until November 2026.

The *FSR* aims to inform members of Parliament, participants in the financial sector, international central bank peers, ratings agencies, international financial institutions, standard-setting bodies and academia of financial stability-related developments and the commensurate policy actions taken by the relevant authorities to protect and enhance financial stability. The *FSR* further aims to stimulate debate on pertinent issues related to financial stability in South Africa.



Executive summary

Since the release of the June 2025 *FSR*, global financial markets have demonstrated resilience amid heightened geopolitical and trade uncertainties. Equity markets rebounded after the United States (US) announced new tariffs in April 2025, driven by strong growth in technology- and artificial intelligence (AI)-focused equities. Despite easing financial conditions, gold prices surged to historic highs, reflecting ongoing investor risk aversion and diversification away from other traditional safe-haven assets. Concerns persist regarding rising global government debt, which is projected to reach nearly 100% of gross domestic product (GDP) by 2030. This raises refinancing risks and concerns over the potential over-reliance on banks and other domestic institutions to absorb government debt.

South Africa's equity market also recovered after the April 2025 turmoil, with the JSE Limited (JSE) All-Share Index (Alsi) reaching an all-time high in October 2025. Government bond yields declined to six-year lows amid an improved fiscal outlook, supported by lower inflation, removal from the Financial Action Task Force (FATF) greylist, the lower inflation target announced in the *Medium-Term Budget Policy Statement (MTBPS)*, the credit rating upgrade by Standard and Poor's (S&P) Global Ratings, and expectations of policy rate cuts. Improved tax revenues and strategic reserve drawdowns from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) also supported short-term fiscal consolidation. Nonetheless, public sector debt remains elevated at 78.1% of GDP as of June 2025, with repeated upward revisions in recent years.

Banking sector profitability – measured by return on equity – remained above its 10-year average. Capital adequacy ratios remained robust, reflecting sector resilience. Non-resident investors have increased their holdings of South African government bonds (SAGBs) since the release of the June 2025 *FSR*, while banking sector exposure to sovereign debt grew at a slower pace. Corporate credit expanded, largely driven by investments in renewable energy and borrowing for working capital purposes, while household borrowing remained subdued. Household debt and debt-service ratios eased slightly but remain above their long-term averages.

The SARB's key quantitative indicators of domestic financial stability conditions reflect relatively benign levels of systemic risk despite heightened geopolitical tensions and policy uncertainty. In particular, the SARB's Financial Conditions Index (FCI) shows a steady easing of domestic financial conditions, in the main supported by rising equity prices and lower bond yields, despite some foreign exchange (FX) volatility following the US's tariff announcement in April 2025. The credit-to-GDP gap, a key indicator of excessive credit growth, turned marginally positive in the first half of 2025, mainly due to stronger corporate credit growth. However, the credit-to-GDP gap – currently at 0.81% – remains well below the 2-percentage-point threshold used as a risk level benchmark.

The SARB identifies key threats to financial stability across three risk categories. For this edition, these are:

- cyclical financial risks: rapid capital outflows amid market uncertainty; deteriorating public sector debt ratios, and increased financial distress among households and small and medium-sized enterprises (SMEs);

- structural and perpetual risks: heightened geopolitical tensions and policy uncertainty; concentration in the financial system, especially banking; persistently low and inequitable economic growth; deteriorating critical infrastructure (electricity, rail, ports and water); climate change impacts on the financial sector; and technology-enabled financial innovation; and
- operational and event risks: potential systemic operational incidents such as cyberattacks or critical infrastructure failures; and remaining on the FATF greylist over the medium term (although this risk dissipated after the FATF announced on 24 October 2025 that South Africa had been removed from the greylist).

Overall, the South African financial system remained resilient, and this resilience is expected to be maintained over the forecast period to November 2026.



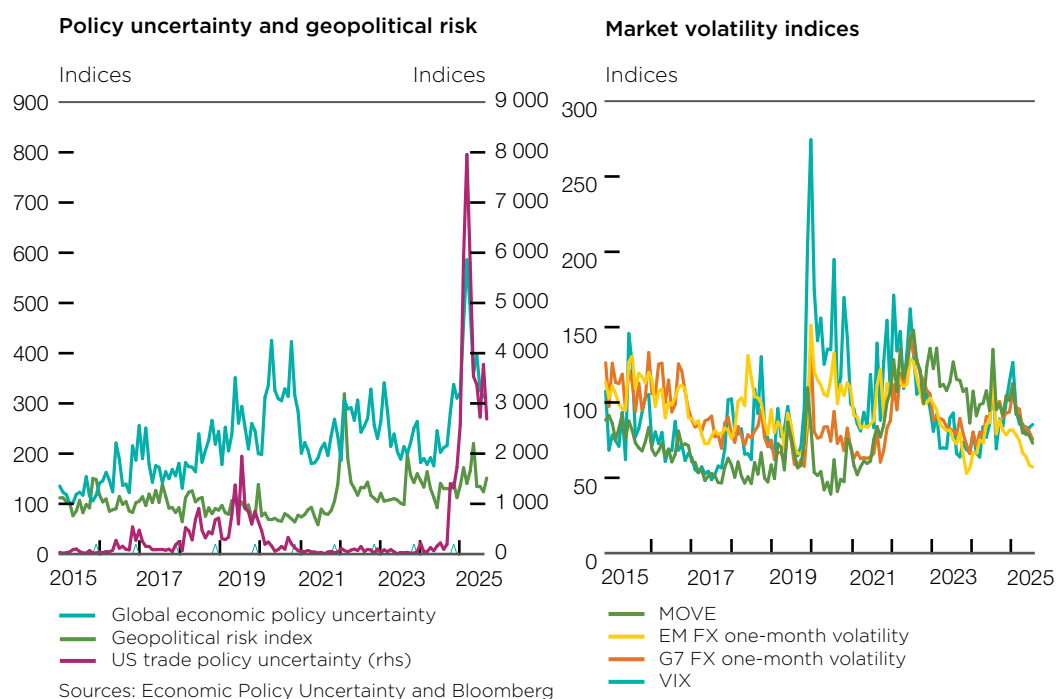
Financial stability developments and outlook

Global developments and risks to financial stability

Since the publication of the June 2025 *FSR*, global financial markets have demonstrated notable resilience amid ongoing trade and geopolitical uncertainties. However, there are warning signs due to divergence among major asset classes and concerns about the potential overvaluation of some financial assets, specifically equities. Concerns further remain over the growing role of non-bank financial intermediation and the increased exposure of banks to non-bank financial institutions.

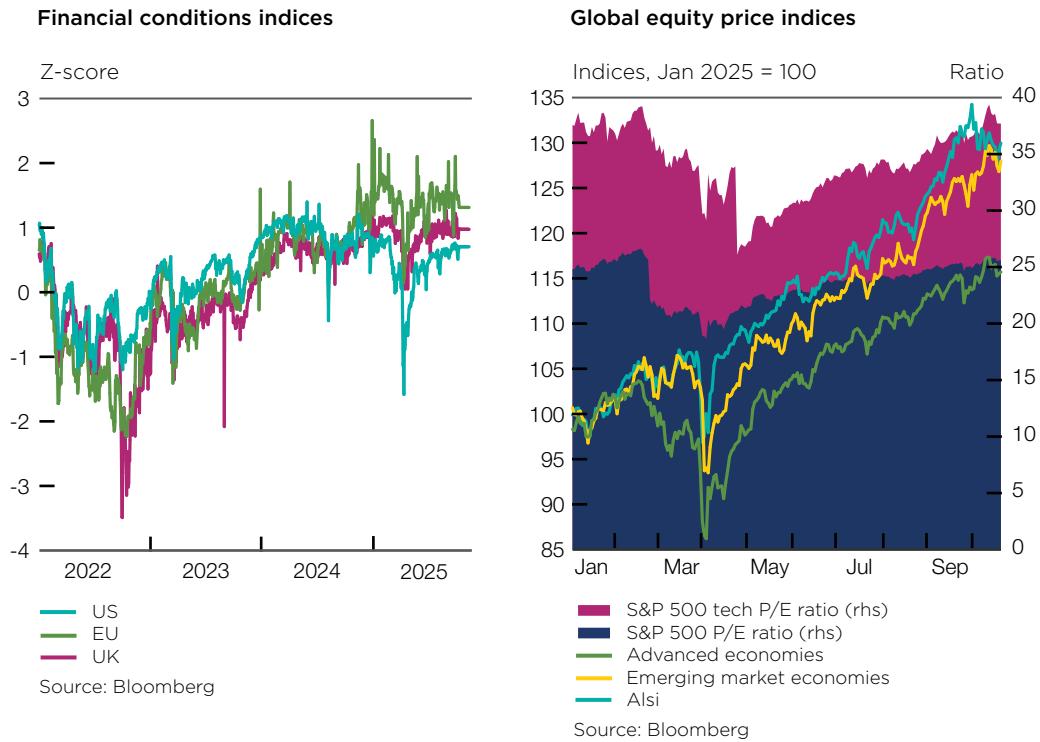
Equity markets have recovered from the broad-based sell-off following the US tariff announcement on 2 April 2025 (referred to as ‘Liberation Day’ by the US government). This rebound has been accompanied by a decline in volatility across major asset classes, which is unexpected during periods marked by heightened uncertainty about trade, macroeconomic policy and geopolitical risk, as reflected by various indicators (Figure 1). The International Monetary Fund’s (IMF) October 2025 *Global Financial Stability Report (GFSR)* attributes this moderation in market volatility to investors’ persistent willingness to maintain high equity exposure, supported by expectations of further monetary policy easing in most advanced and major emerging market economies.¹

Figure 1: Policy uncertainty and geopolitical risk

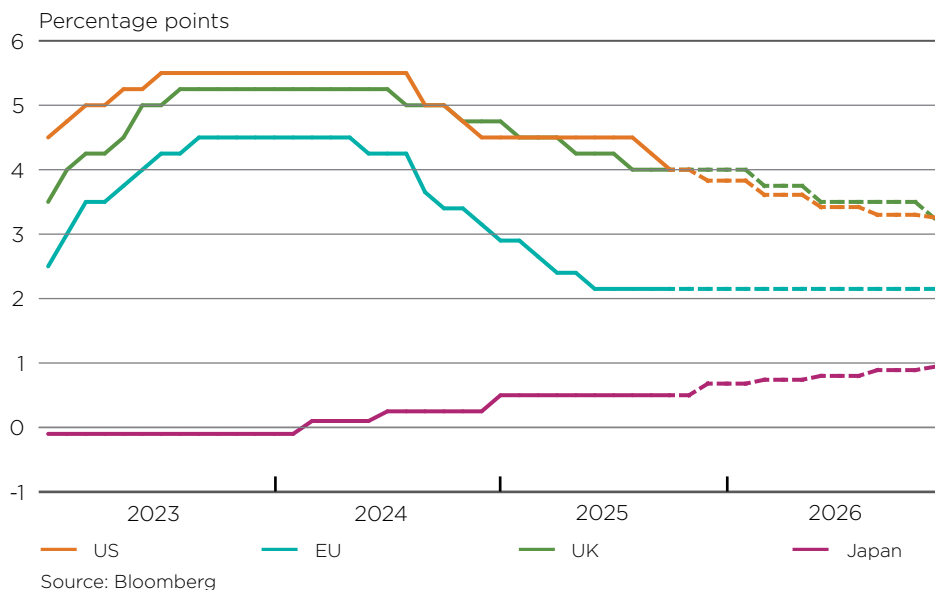


Global financial conditions have generally eased since the release of the June 2025 *FSR*, supported by the recovery in equity prices and a weaker US dollar (Figure 2). The sharp tightening of financial conditions after Liberation Day proved transitory, with levels returning to those seen before the announcement in most advanced economies. Subdued energy prices have helped to contain costs and reduce external vulnerabilities, particularly for energy-importing economies.

¹ Available at <https://www.imf.org/en/-/media/files/publications/gfsr/2025/october/english/text.pdf>

Figure 2: Global financial conditions indices and equity market performance

Investor sentiment was supported by expectations of monetary policy easing (Figure 3). As a result, valuations remain elevated across many equity markets, particularly in the US, where optimism around large market capitalisation stocks in the information technology (IT) and AI sectors has driven indices higher. The IT sector accounts for approximately 35% of the S&P 500.² The S&P 500's price-to-earnings (P/E) ratio has risen to approximately 25 times, suggesting that persistently strong earnings growth is required to sustain current valuations. Should this not materialise, the sector is vulnerable to downside risks. Box 1 explores this issue further.

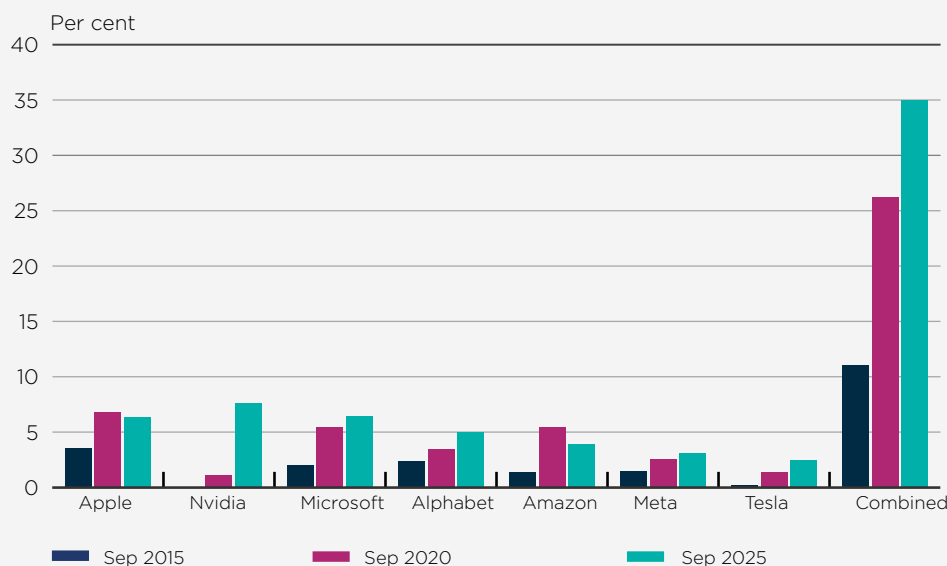
Figure 3: Selected advanced economy policy rates

² See the IMF's October 2025 *GFSR*, available at <https://www.imf.org/en/-/media/files/publications/gfsr/2025/october/english/text.pdf>

Box 1: Is the artificial intelligence-driven equity boom justified?

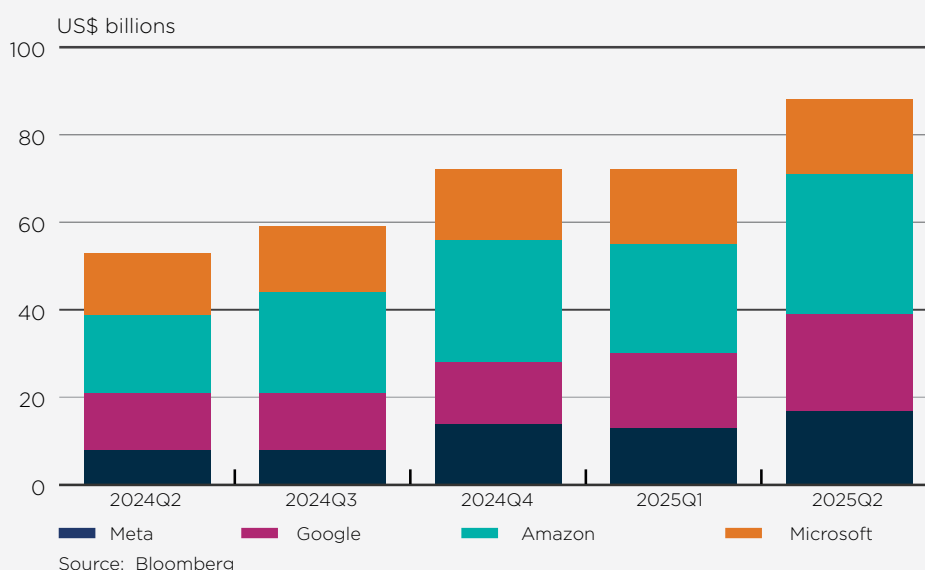
The recent global surge in technology-related equity valuations has been largely driven by a small group of leading technology giants in the United States (US), often referred to as the ‘magnificent seven’.¹ These seven firms’ combined market capitalisation accounted for about 35% of the S&P 500 benchmark index as at September 2025, more than three times their share of 11% in 2015 (Figure B1.1). This concentration highlights the increasing dependence of global equity market performance on a small group of firms.

Figure B1.1: Magnificent seven weights in the S&P 500 benchmark index



Since the second quarter of 2024, leading technology companies have significantly increased investment in artificial intelligence (AI) infrastructure in anticipation of increased future profits (Figure B1.2). While these outlays have fuelled investor optimism, they also emphasise the concentration of both market performance and corporate spending within a handful of firms, heightening systemic exposure should AI monetisation undershoot expectations. A recent Massachusetts Institute of Technology (MIT) study² found that around 95% of firms have yet to realise measurable returns on their AI investments, raising concerns about the sustainability of current valuations.

Figure B1.2: Capital expenditure by major technology firms on AI

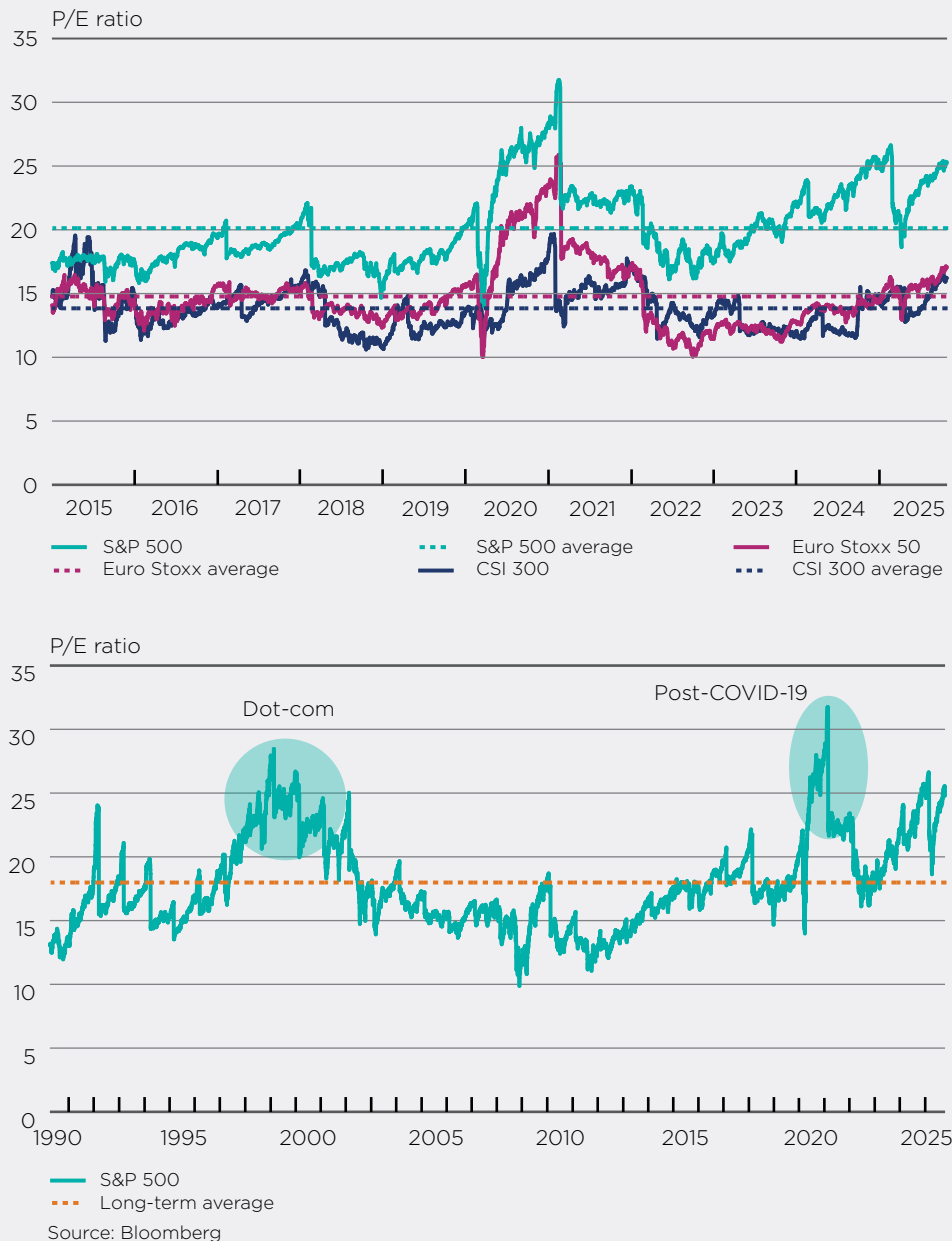


1 These are Apple, Microsoft, Nvidia, Alphabet (Google’s parent company), Amazon, Meta (Facebook’s parent company) and Tesla.

2 The MIT study, titled ‘The GenAI divide: State of AI in business 2025’, is available at https://www.artificialintelligence-news.com/wp-content/uploads/2025/08/ai_report_2025.pdf

US equity markets are trading at elevated price-to-earnings (P/E) ratios compared to historical norms and global peers (Figure B1.3 top). An analysis of the S&P 500 P/E ratio since January 1990 shows that current valuations are elevated, though still below the peaks reached during the dot-com bubble and the post-COVID-19 pandemic (Figure B1.3 bottom).

Figure B1.3: P/E ratios – S&P 500 versus Euro Stoxx 50 and CSI 300 (top) and historical P/E ratio of S&P 500 (bottom)

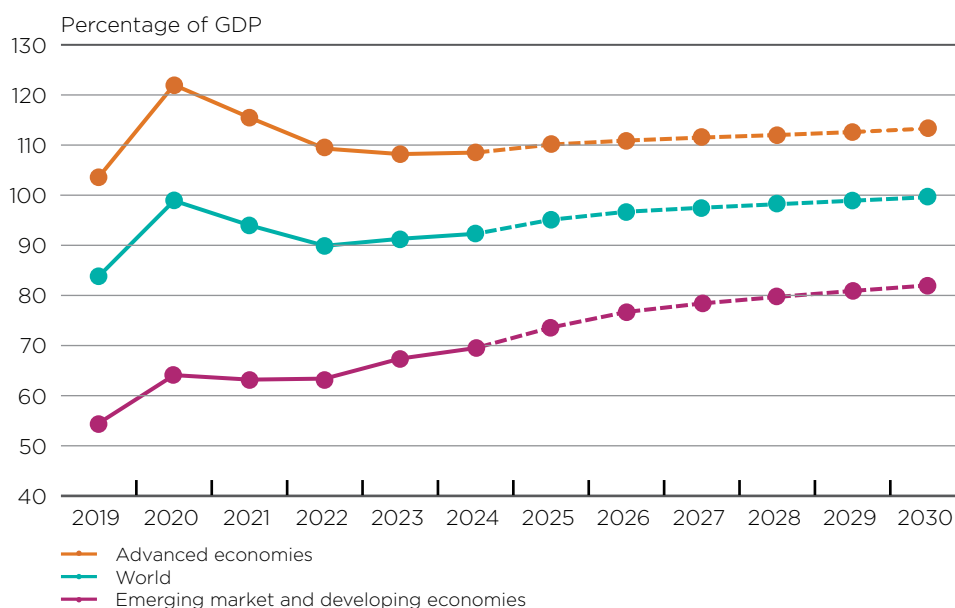


With US equities accounting for roughly 60% of global market capitalisation in 2023,³ the consequences of a correction would extend far beyond US borders. A sharp reassessment of valuations could trigger a tightening in global financial conditions, as risk aversion rises and liquidity conditions deteriorate. Historically, such episodes have been unfavourable for emerging markets, leading to portfolio outflows, weaker exchange rates and higher risk premia. For South Africa, these spillovers could amplify domestic market volatility and weigh on asset prices, particularly in the equity, fixed-income and currency markets.

³ M Mauboussin and D Callahan, 'Stock market concentration: How much is too much?', *Courtpoint Global Insights*, Morgan Stanley Investment Management, 4 June 2024, https://www.morganstanley.com/im/publication/insights/articles/article_stockmarketconcentration.pdf

In contrast to the optimism evident in equity markets, investors in bond markets seem more cautious. Borrowing costs in major advanced economies (i.e. the US, United Kingdom (UK), euro area and Japan) have risen. Globally, government debt levels are increasing further from already record highs, with global government debt projected to reach almost 100% of global GDP in 2030 (Figure 4). High government debt levels increase financial stability risks by impeding price discovery, lowering market liquidity and potentially leading to an over-reliance on banks and public institutions to absorb government debt.

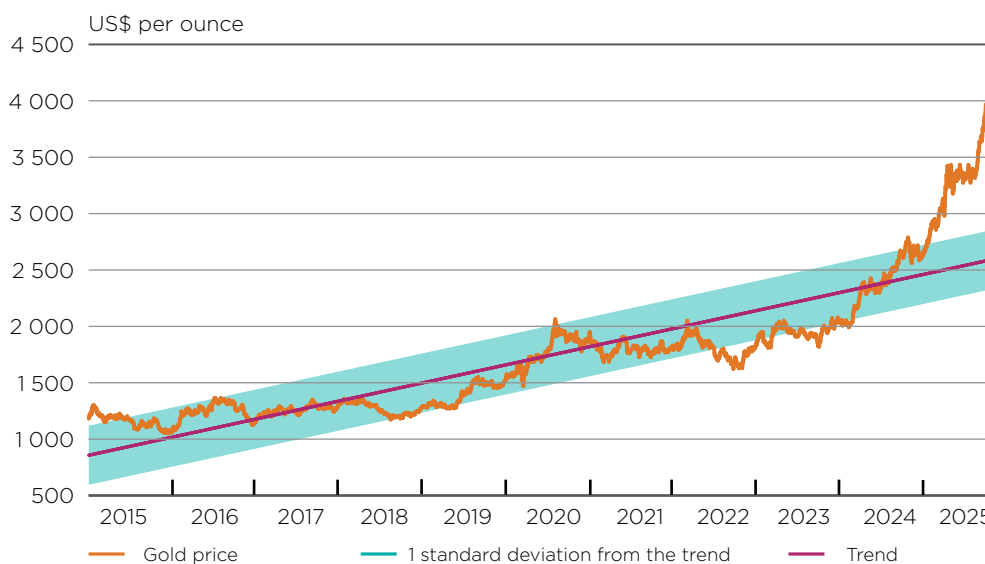
Figure 4: Global government debt



Source: IMF *Fiscal Monitor*, October 2025

Despite high equity prices and an easing of financial conditions, which typically supports investor risk appetite, the price of gold as a safe-haven asset has surged to historic highs well above its long-term trend (Figure 5). This reflects sustained investor uncertainty and diversification away from the US dollar as preferred safe-haven asset.

Figure 5: Gold price relative to its historical trend



Source: Bloomberg

At a glance: Key domestic developments and indicators

Financial market developments, and government and household finances

The South African equity market rebounded after April's market turmoil, with the JSE Alsi reaching an all-time high of almost 114 000 points in November 2025 (Figure 6a). Over the same period, South African government bond yields moved lower across the yield curve. The 10-year benchmark yield eased to 8.62% in November 2025 – its lowest level in six years – while shorter-dated maturities also registered notable declines (Figure 6b).

South Africa's fiscal position has improved since the beginning of 2025, culminating in S&P Global Ratings upgrading the country's sovereign credit rating on 14 November 2025. This marks the first upward revision of South Africa's credit rating in nearly two decades. The lower inflation target announced in the *MTBPS* was also well received by the market.

According to the 2025 *MTBPS*, national government gross loan debt is projected to stabilise at 77.9% of GDP in 2025/26, slightly higher than the 77.4% outlined in the 2025/26 *Budget Review* (Figure 6c). The government recorded a primary surplus of R19.7 billion in the first quarter of fiscal 2025/26, a sharp turnaround from the R8.4 billion deficit in the same period last year. The outlook is further supported by an expected primary surplus of R68.5 billion (0.9% of GDP) in 2025/26, with the deficit projected to decline from 4.5% of GDP in 2025/26 to 2.7% by 2028/29.

Stronger tax revenue collections, particularly from personal income tax and value-added tax (VAT), have substantially reduced the net borrowing requirement, while drawdowns from the GFECRA have helped ease funding pressures.³ The overall debt burden remains elevated and poses both macroeconomic and financial stability concerns.

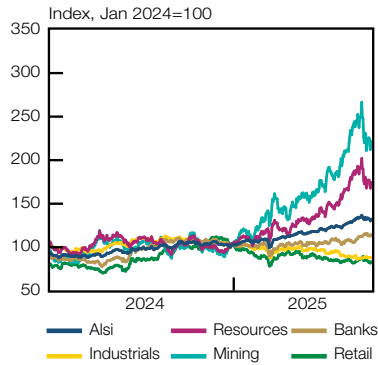
Non-resident holdings of SAGBs have increased significantly since the beginning of 2025, with cumulative net purchases of R127.7 billion between January and October 2025 (Figure 6d). Non-residents held 25.7% of outstanding domestic government bonds as at 31 October 2025, up from 24.2% at the end of November 2024.

³ Refer to the box on page 29 of the 2025 *MTBPS* for an update on the GFECRA distributions (available at <https://www.treasury.gov.za/documents/mtbps/2025/speech/speech.pdf>).



Figure 6: Key domestic developments

a. JSE performance



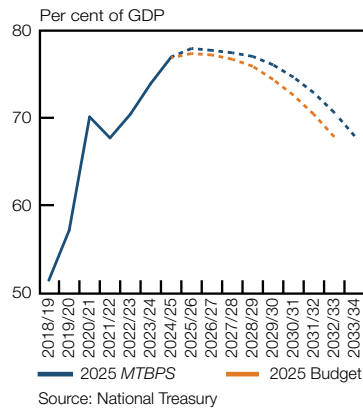
Source: JSE

b. Exchange rates and borrowing costs



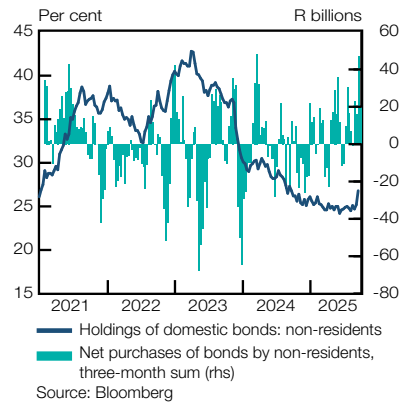
Source: Bloomberg

c. Gross government debt



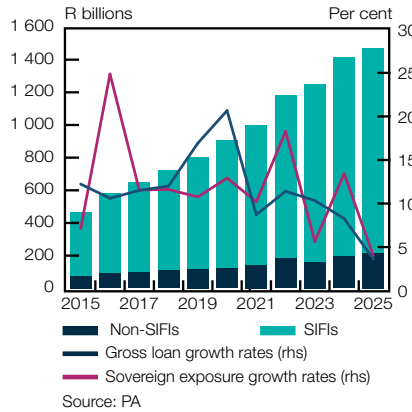
Source: National Treasury

d. Non-resident holdings of SAGBs



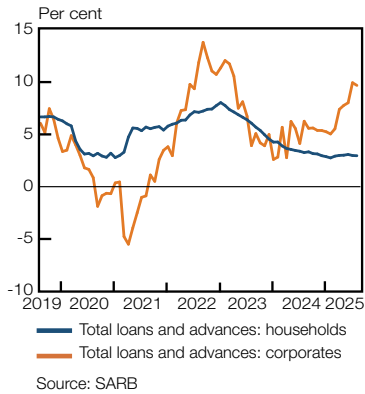
Source: Bloomberg

e. Sovereign exposure of the banking sector



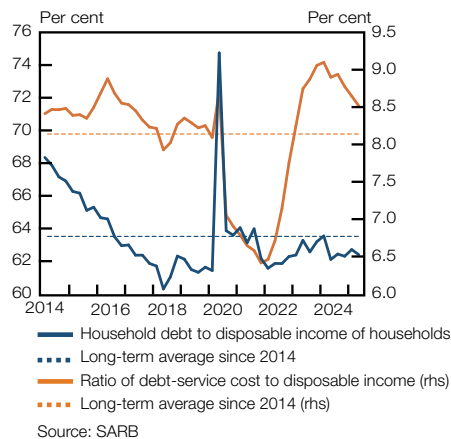
Source: PA

f. Total credit extension to households and corporates



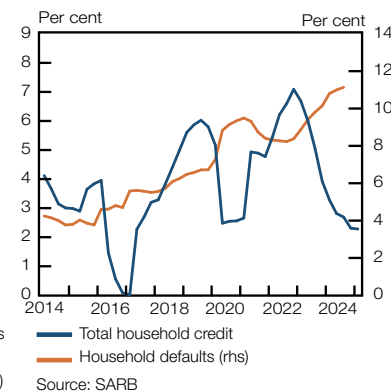
Source: SARB

g. Household debt and debt-service cost to disposable income



Source: SARB

h. Household credit extension and defaults



Source: SARB

Growth in the total banking sector's exposure to the sovereign has continued since the release of the June 2025 *FSR*, albeit at a slower rate (Figure 6e). Credit extension to the corporate sector has also continued to rise while household borrowing has remained relatively subdued (Figure 6f). The growth in corporate credit was mainly driven by investment in renewable energy and borrowing for working capital purposes.

The domestic interest rate cutting cycle that started in late 2024 has provided some relief for South African households. Household debt as a share of disposable income moderated to 62.4% as at June 2025 from 62.7% in March 2024 (Figure 6g). Household debt-service costs as a percentage of disposable income eased to 8.8% in June 2025 from 9.3% at the beginning of 2024. While this marks an improvement, these levels remain above their long-term averages, indicating ongoing financial pressure. Banks mitigate vulnerabilities arising from an increase in household default rates by tightening lending standards, which lead to lower credit extension (Figure 6h).

Profitability across the banking sector, as measured by return on equity (ROE), has remained above its 10-year average for both systemically important financial institutions (SIFIs) and non-SIFI banks (Figure 7a). Regulatory capital levels of both SIFI and non-SIFI banks continued to exceed their long-term averages, underscoring the sector's resilience (Figure 7b). The uptick in real credit growth in the first half of 2025 was primarily driven by credit extension to corporate and low-default portfolios (Figure 7c).

Figure 7: Banking sector profitability

a. Return on equity for SIFI banks and non-SIFI banks

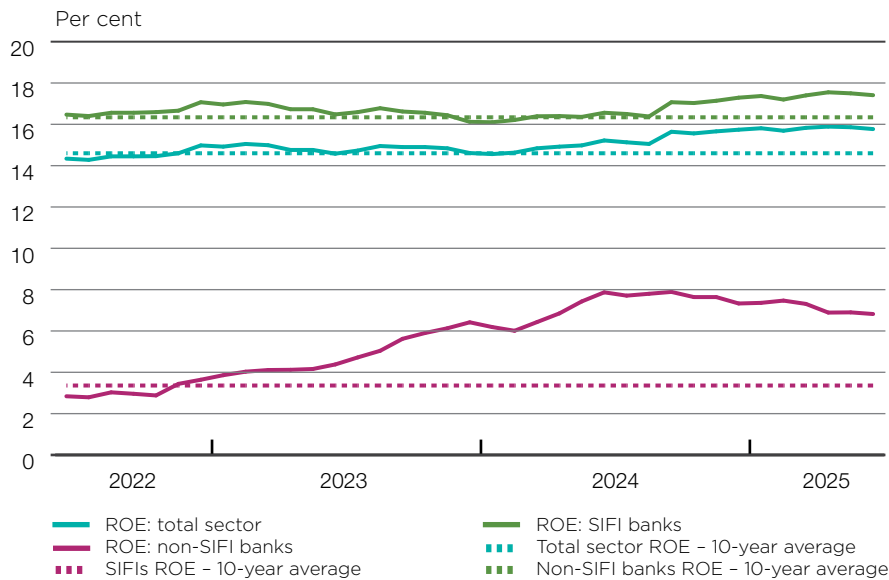
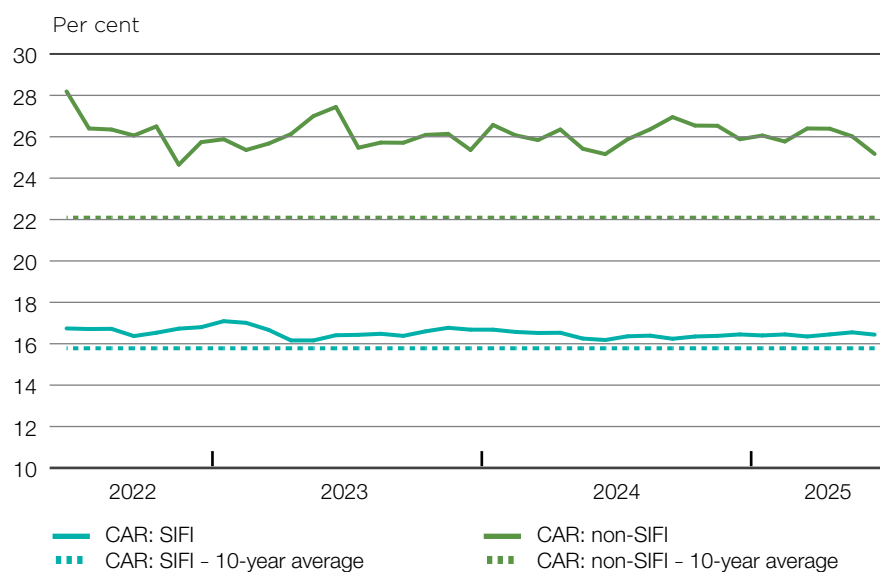
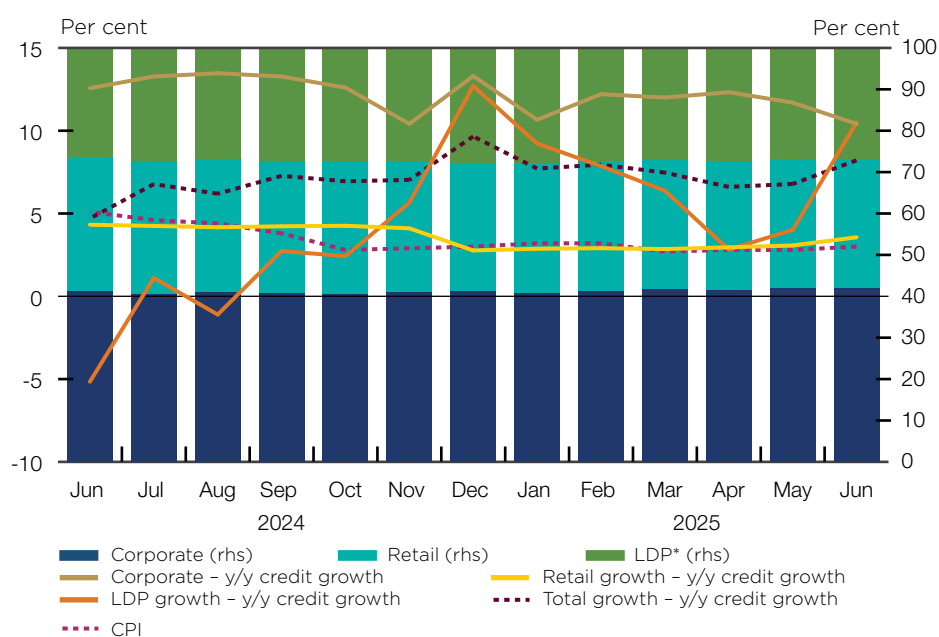
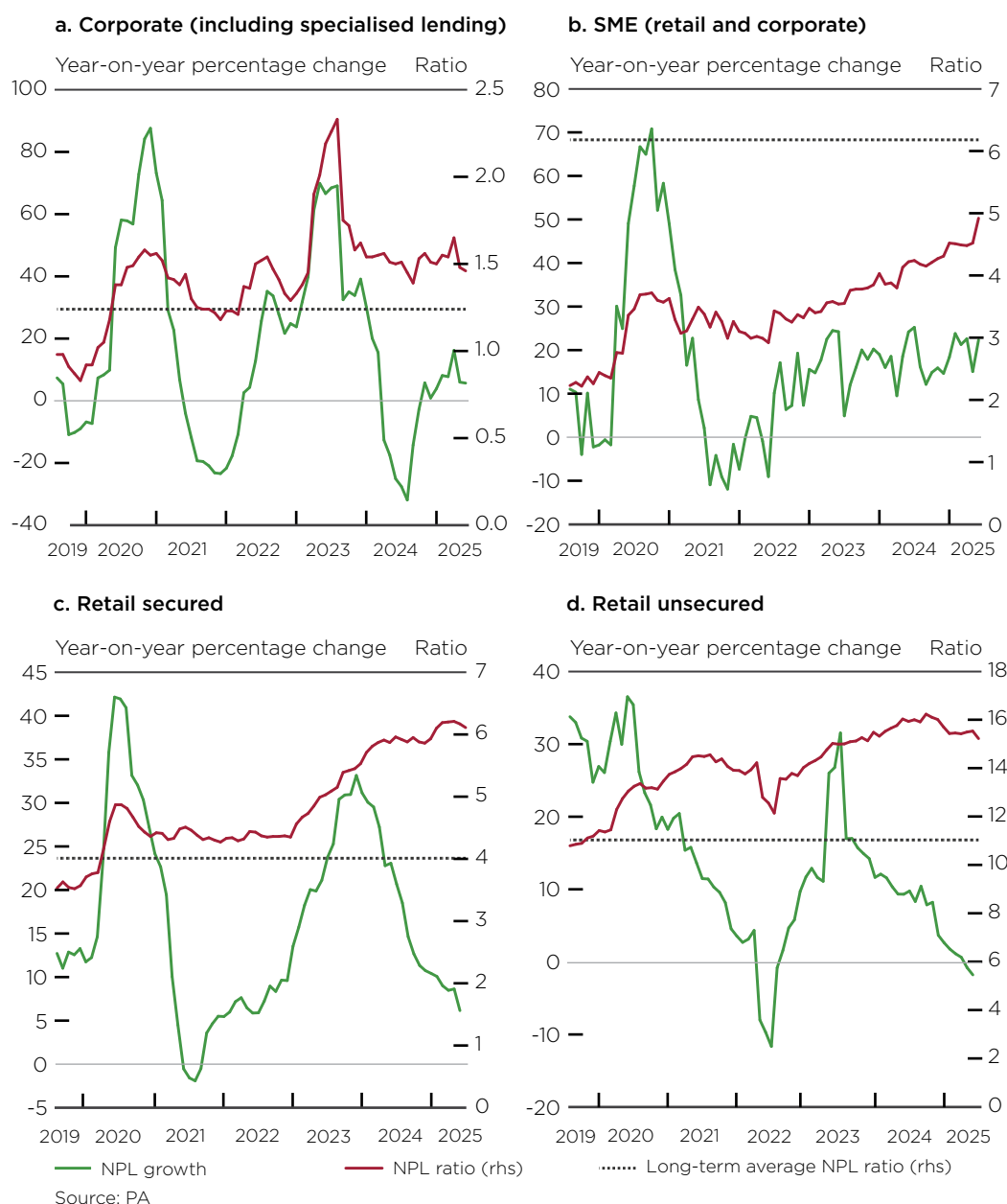


Figure 7: Banking sector profitability (continued)**b. Capital adequacy ratio****c. Credit growth in the banking sector**

Since the onset of the COVID-19 pandemic, non-performing loan (NPL) ratios have remained above their long-term averages, with the exception of the SME segment (Figure 8). However, the retail segment has shown signs of improvement, with the NPL ratio declining since September 2024. This divergence suggests that while household credit stress remains elevated, it is being partially offset by more conservative lending practices and a degree of resilience among consumers. Box 2 considers how past due loans may serve as an early warning signal for future increases in NPLs.

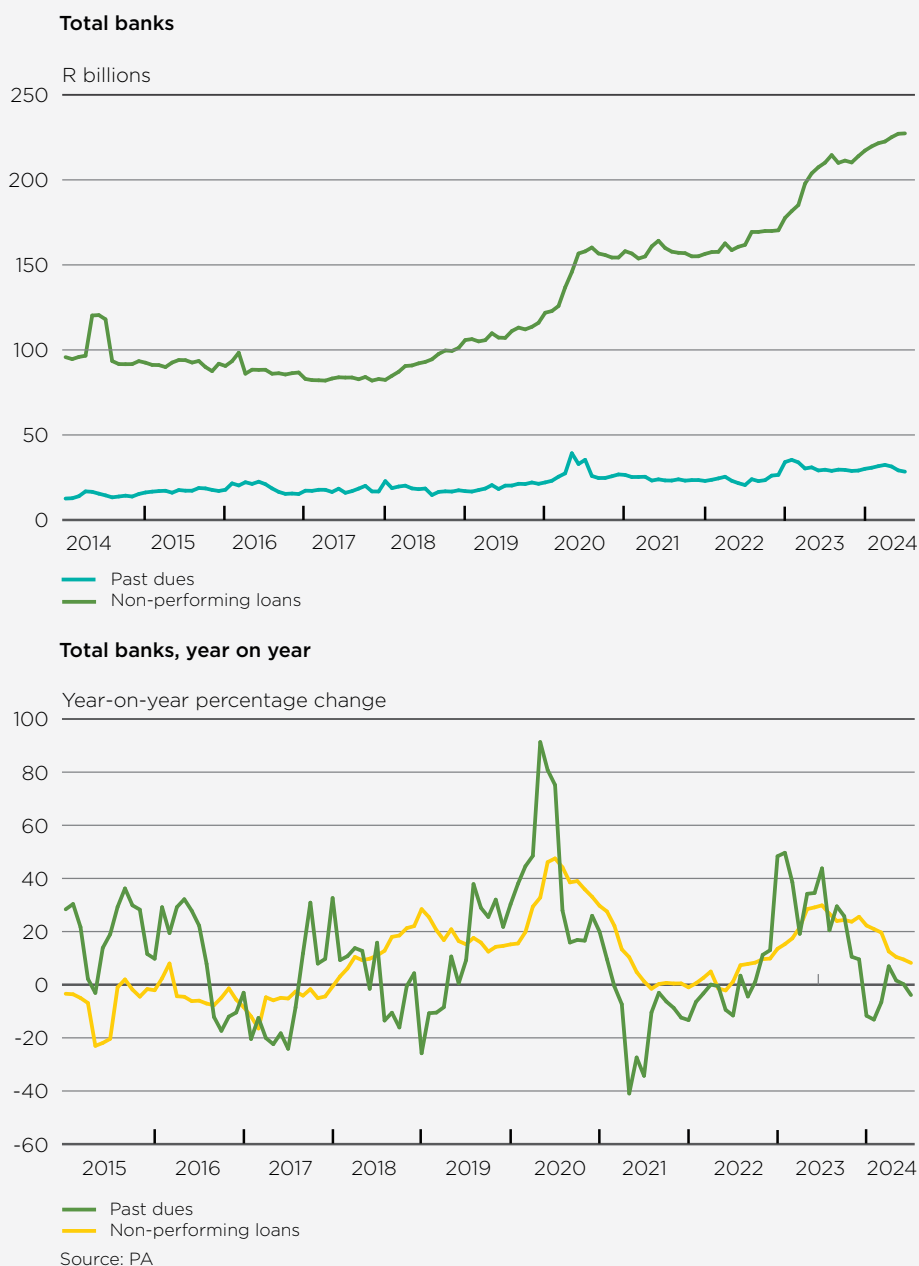
Figure 8: NPL ratios per asset class



Box 2: Past due loans as an early warning indicator of non-performing loans

In developing various types of macroprudential indicators, the South African Reserve Bank (SARB) considered whether loan delinquency buckets¹ – specifically the 1–30, 31–60 and 61–90 days past due buckets – could serve as an early warning indicator for non-performing loans (NPLs) in the South African banking sector.² High levels of NPLs can erode bank profitability and capital, thereby limiting banks' lending capacity and slowing economic growth. Figure B2.1 illustrates the relationship between NPLs and past dues.

Figure B2.1: NPLs and past dues



1 Loan delinquency is when a borrower (i.e. a bank client) misses one or more scheduled repayments. For supervisory purposes, such delinquent loans are split into three buckets: 1–30, 31–60 and 61–90 days past due (i.e. past the due date on which the scheduled repayment was due). Once delinquent loans are overdue for more than 90 days, they are classified as non-performing, with banks viewing these as unlikely to be repaid in full.

2 Owing to data constraints, analysis for the entire banking sector is limited to exposures in the 61–90 days past due bucket. However, analysis of the 1–30 and 31–60 days past due buckets is possible for banks applying the internal ratings-based (IRB) approach. These banks include most institutions classified as systemically important financial institutions (SIFIs), which collectively represent more than 90% of total banking sector assets.

For this analysis, data was sourced from the Prudential Authority's bank regulatory returns and two estimation techniques were utilised, namely a rolling expanding window³ and a rolling shrinking window.⁴ Both techniques estimate year-on-year changes in past dues against changes in NPLs using contemporaneous values and lags of up to three months. Coefficients, t-values and R-squared values are tracked to assess their significance and explanatory power. The findings for the three delinquency buckets are as follows:

- **1-30 days past due:** The results for this bucket are inconclusive. Coefficients are small (0 to 0.04) and t-values are mostly insignificant, indicating weak predictive power given the low correlation with NPLs.
- **31-60 days past due:** This bucket demonstrates stronger predictive power compared to the 1-30 days past due bucket. Coefficients range from 0.2 to 0.4, with t-values between 3.0 and 6.6, especially in the latter years used in the sample. R-squared values in this bucket are also higher on average and range between 0.1 to 0.5 for both estimation techniques, suggesting a meaningful portion of these exposures transition into NPLs. Overall, the results show that a 1% change in past dues in this bucket will result in a 0.2%–0.4% change in NPLs.
- **61-90 days past due:** As this represents the final stage of delinquency prior to loans being classified as non-performing, it is to be expected that this category exhibits the strongest linkage to NPLs. Coefficients are stable at around 0.3 to 0.4, with high t-values (up to 10), especially using the shrinking window estimation technique. R-squared values are highest here with values between 0.3 and 0.7 over the 2016 to 2021 period, confirming the strong correlation with NPLs. In this bucket, the results show that a 1% change in past dues leads to a 0.3%–0.4% change in NPLs.

Overall, the results indicate that past due exposures in the 31-60 and 61-90-day delinquency buckets are reliable early warning indicators of future NPLs.

3 For this technique, the starting point of the estimation is January 2015. This starting point stays fixed over the entire sample period. After each iteration, the sample increases by one month until the full sample estimation is reached.

4 In contrast to the rolling expanding window, for this technique the end point of the estimation stays fixed at the last actual data point. The estimation starts in January 2015 and moves towards the last actual data point.

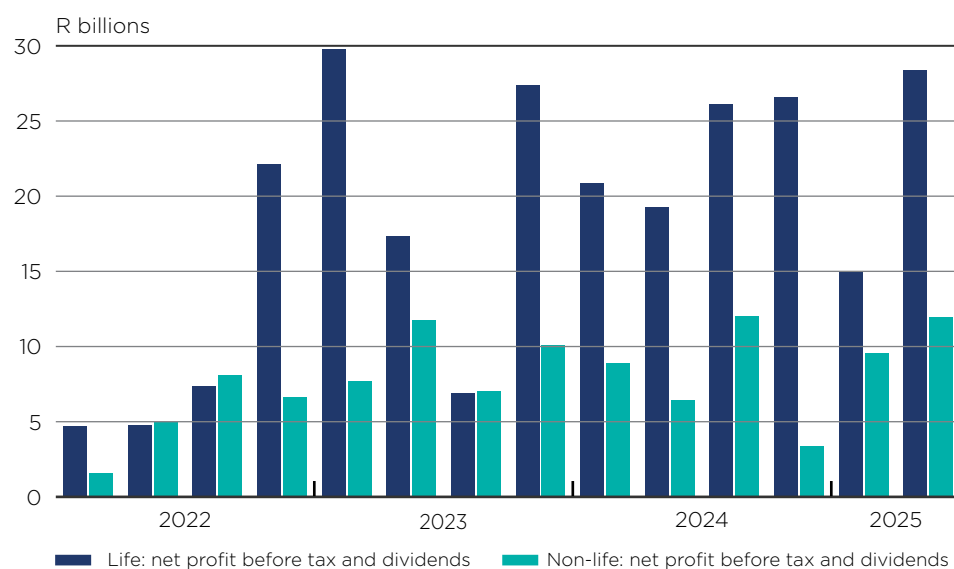
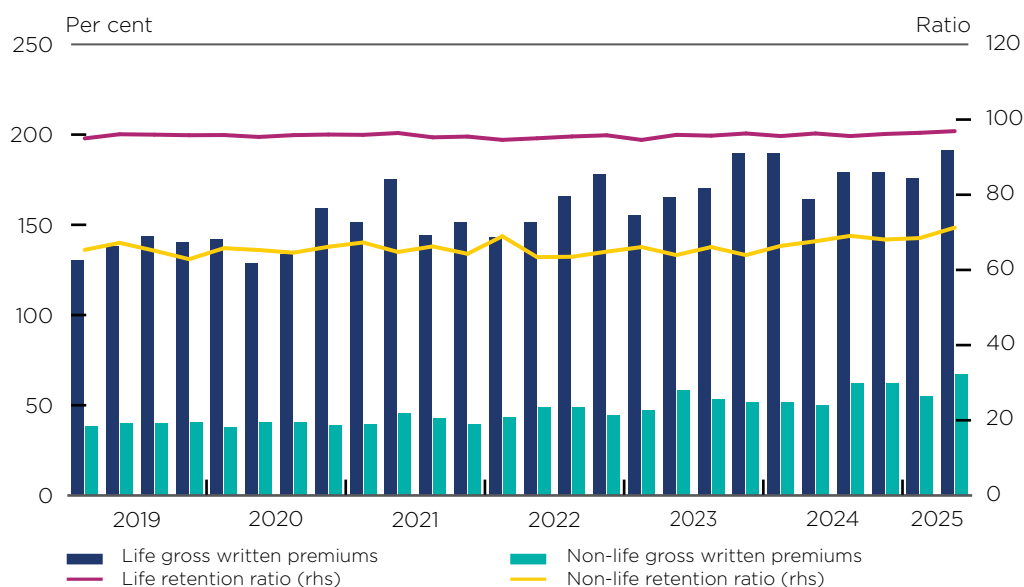
Non-banks

Insurance sector

Net profit before tax and dividends in the insurance sector remained stable in the first half of 2025 (Figure 9a). This stability is largely attributable to the dominance of the life insurance segment, which invests mostly in longer-term assets to match the long-term nature of its liabilities. Gross written premiums rose steadily from the beginning of 2022 to mid-2025, again largely driven by the life insurance sector (Figure 9b).⁴

4 Gross written premiums can increase even when employment growth is low because they include both new and existing policies. Growth can come from employers expanding group cover and from mandatory insurance products (e.g. credit, life or car insurance), which can drive premium growth regardless of job market trends. Insurers may also gain traction in previously under-served markets, reaching new customers through digital channels or partnerships. Additionally, existing policyholders might upgrade their cover or add more products to their current policies. All these changes, whether from new sales or adjustments to existing policies, are captured in the gross written premium figures reported at an aggregate level.



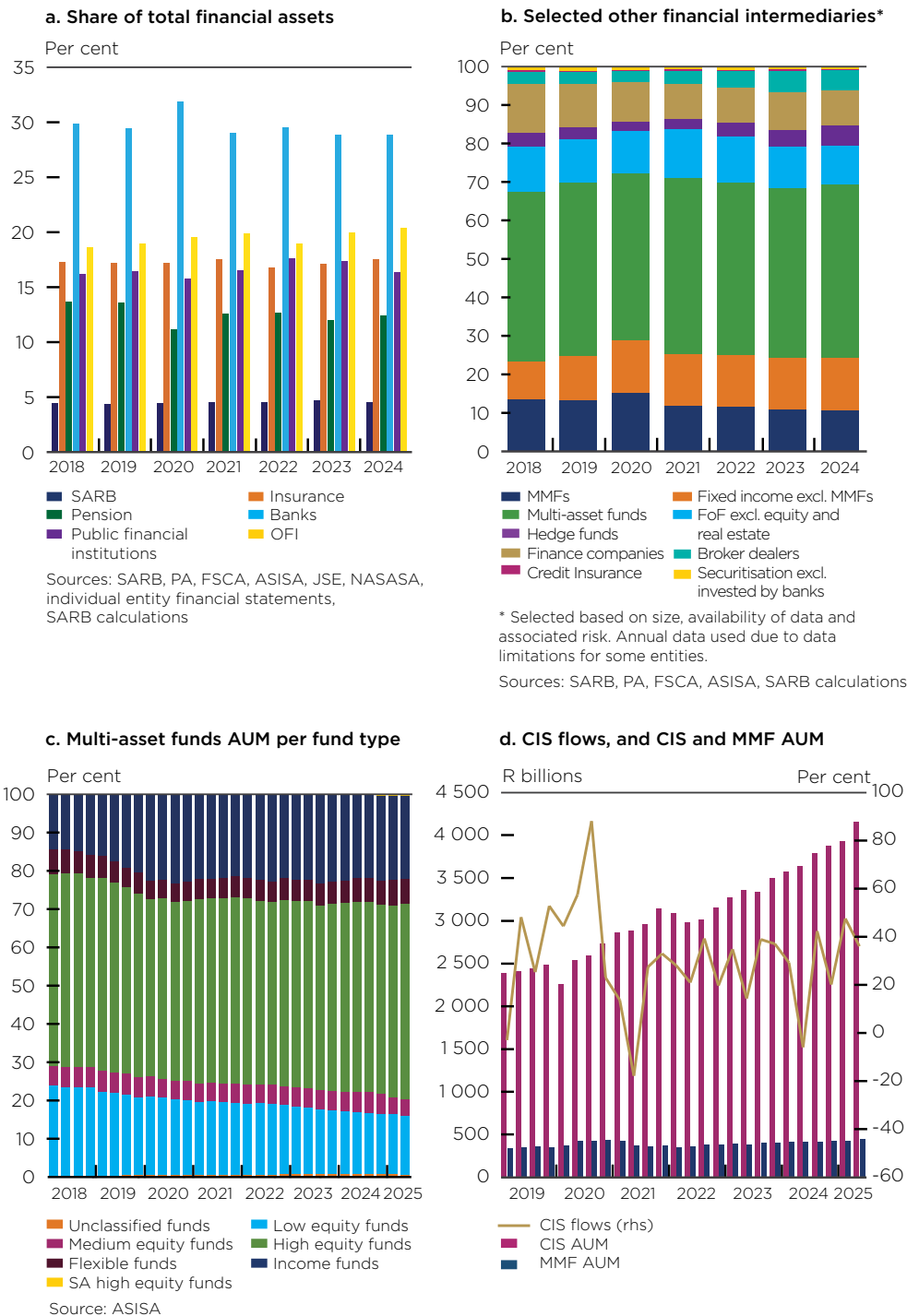
Figure 9: Insurance sector indicators**a. Net profit before tax and dividends****b. Gross written premiums**

Source: PA

Collective investment schemes (CISs) continue to make up the largest segment of other financial intermediaries (OFIs)⁵ in South Africa, with assets under management (AUM) of R4.16 trillion as at the end of June 2025 (Figure 10a). With R1.7 trillion in AUM, multi-asset funds make up the largest portion of CIS funds (Figure 10b). Supported by the robust domestic equity market, high-equity multi-asset funds experienced a notable increase in AUM during the period under review (Figure 10c). The AUM of money market funds (MMFs) also continued to grow (Figure 10d).

⁵ OFIs in this case refer to non-bank financial intermediaries, excluding insurance companies and pension funds.

Figure 10: Indicators for selected other financial intermediaries



Quantitative indicators of domestic financial stability conditions

The SARB uses a suite of quantitative financial stability indicators designed to act as early warning signals for a potential build-up of cyclical changes in the financial system that could lead to vulnerabilities if left unattended.⁶ These include the SARB's:

⁶ For more information, refer to the SARB's Macroprudential Policy Framework and Decision-making Process, available at <https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-stability/macroprudential-policy/SARB%20macroprudential%20policy%20framework%20and%20decision-making%20process.pdf>; and its Financial Stability Monitoring and Assessment Framework, available at <https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-stability/macroprudential-policy/SARB%20financial%20stability%20monitoring%20and%20assessment%20framework.pdf>

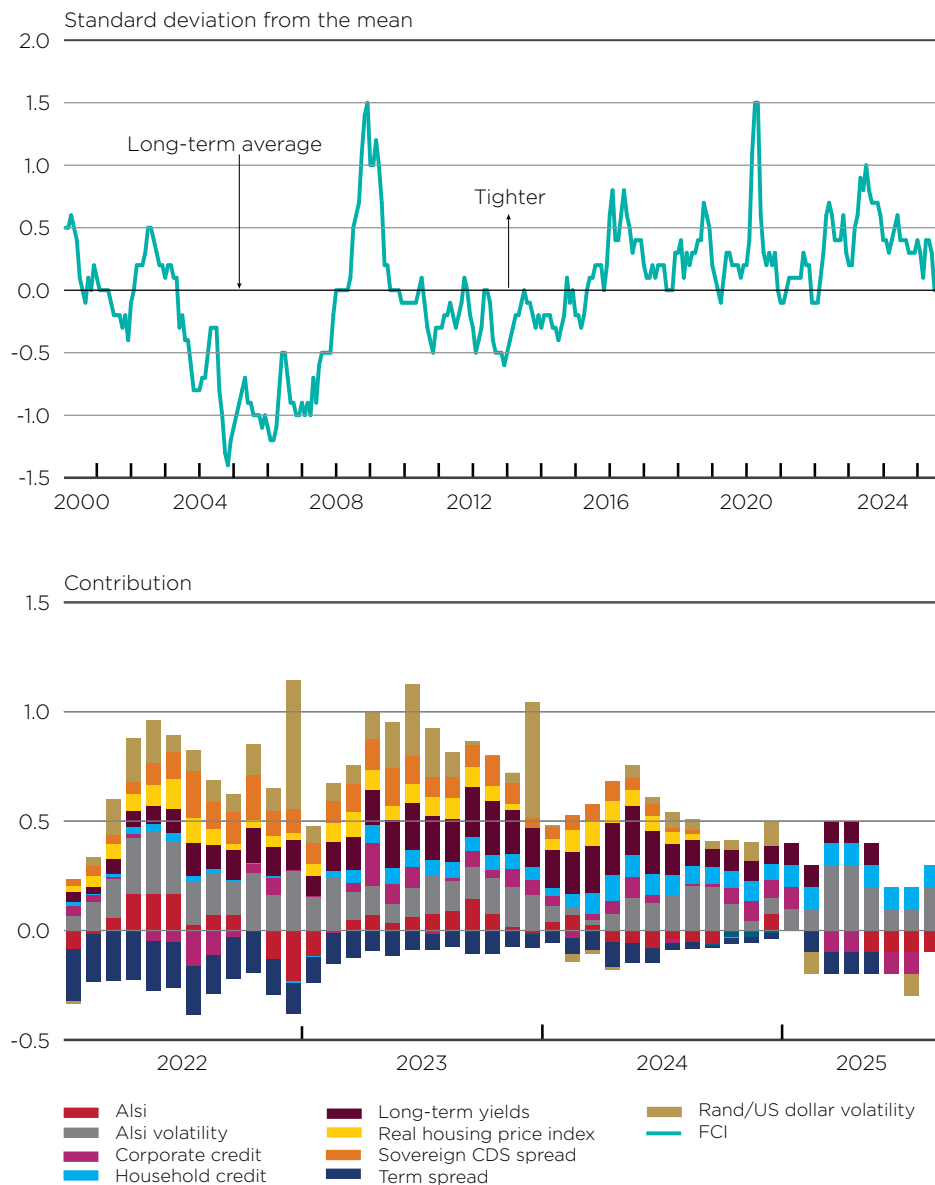


1. FCI;
2. credit-to-GDP gap; and
3. growth-at-risk (GaR) framework.

Financial conditions index

The SARB's FCI⁷ shows that domestic financial conditions have eased steadily since the previous edition of the *FSR*, realigning with the long-term average in June 2025 for the first time since late 2021 (Figure 11). Despite heightened geopolitical and trade tensions, rising equity prices have continued to support the easing in domestic financial conditions. Long-term bond yields are lower than in previous years, reducing pressure on financial conditions. While the growth rate of household credit has decreased – contributing to tighter conditions – this has been partially offset by increased corporate credit throughout 2025.

Figure 11: SARB FCI – index (top) and composition (bottom)

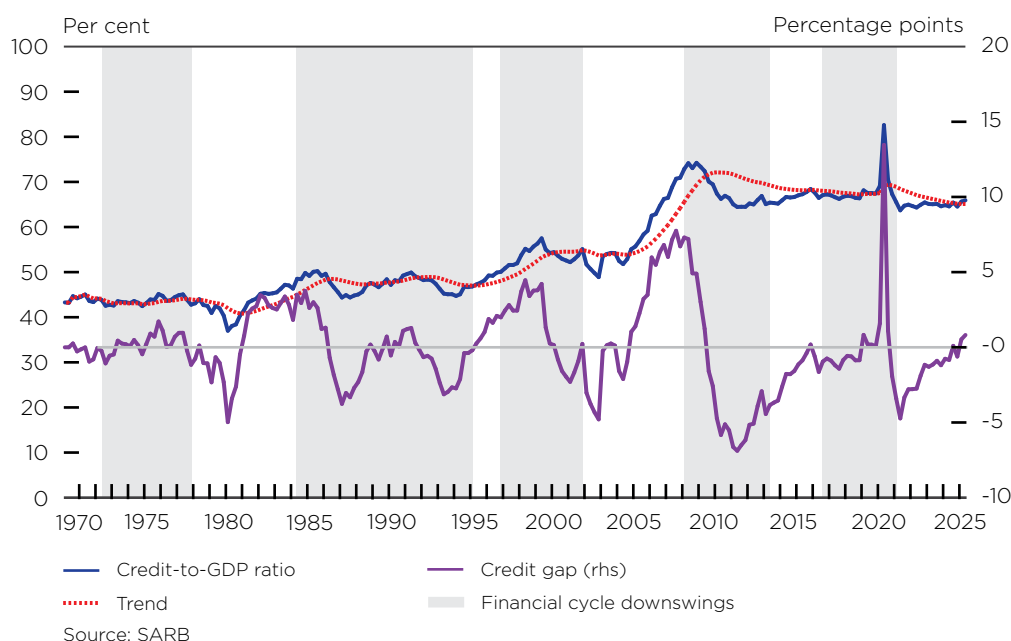


⁷ The methodology underlying the FCI is available at <https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-stability/Constructing%20a%20Financial%20Conditions%20Index%20for%20SA.pdf>

Credit-to-GDP gap

The credit-to-GDP gap is one of several indicators used by the SARB to assess financial stability. A positive credit-to-GDP gap indicates that total credit extension relative to the size of the economy is above its long-term trend, while a negative gap suggests that credit growth is below its long-term trend. Since the fourth quarter of 2020, South Africa's credit-to-GDP gap has been negative, suggesting no signs of excessive credit extension. However, in the first quarter of 2025, the gap turned marginally positive, although it remained well below the 2-percentage-point threshold that guides activation of the countercyclical capital buffer. This recent increase is mainly due to a rise in credit extended to corporates.

Figure 12: South African credit-to-GDP gap

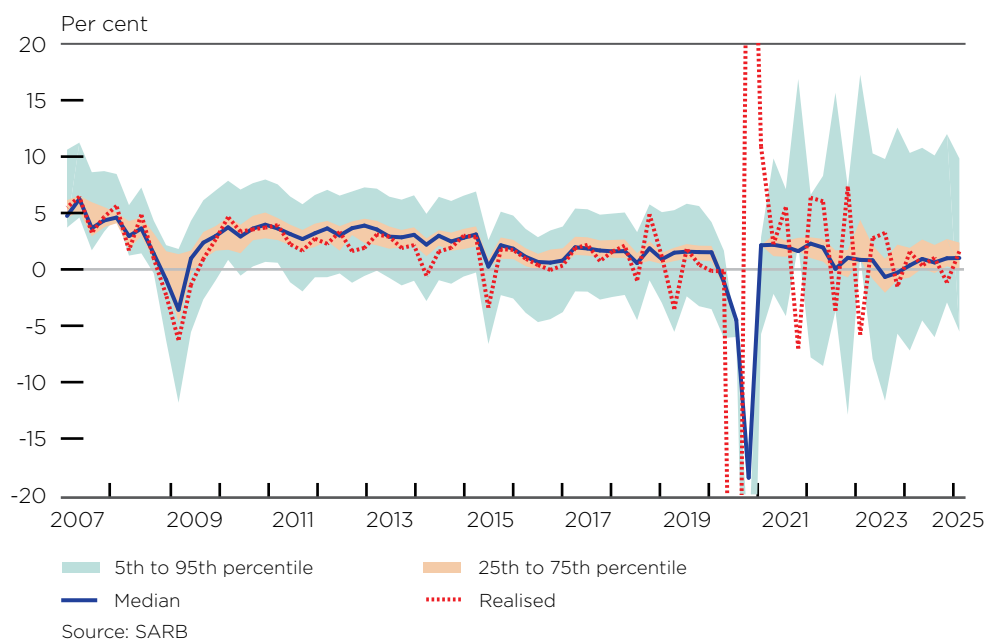


Growth at risk

This edition of the *FSR* includes the SARB's GaR framework. The GaR framework translates current financial conditions into a full forecast distribution for GDP growth, rather than a single point estimate. In Figure 13, the blue line shows the median forecast, the shaded bands show the middle 50% (25th to 75th percentile in orange) and 90% range (5th to 95th percentile in light blue) of possible outcomes, and the dotted red line tracks realised outcomes. Widening bands signal rising uncertainty and downward shifts indicate deteriorating expected growth prospects.



Figure 13: GaR fan chart – how financial conditions shape the GDP growth distribution



The lower edge of the distribution (the 5th percentile) is the framework's key policy metric, representing a reasonable worst-case scenario (i.e. growth at risk). Crucially, this downside risk (reflected by the 5th percentile) is far more sensitive to financial conditions than the upside (reflected by the 95th percentile), which remains relatively stable. This asymmetry is the GaR frameworks' central insight: tighter financial conditions amplify downside risks while barely affecting upside potential. Consequently, focusing solely on median forecasts can mask the build-up of vulnerabilities, as the central outlook may appear stable even when tail risks are escalating. GaR frameworks are therefore a useful complement to traditional forecasting techniques as they not only quantify what growth will likely be, but also reveal what would happen to growth should a worst-case scenario materialise.

Key risks to domestic financial stability

The SARB identifies key risks to domestic financial stability by drawing on both quantitative and qualitative assessments of the environment in which financial institutions operate. As these risks differ in nature, it can be challenging to assess their likelihood, impact and time horizon on a consistent, cross-cutting basis. To make the assessment of a variety of financial stability risks more comparable and consistently measurable over time, the SARB has adopted a framework that classifies risks into three categories, namely cyclical, structural and perpetual, and operational and event-specific:

1. Cyclical financial risks relate primarily to asset valuations, credit extension and real economic conditions that typically rise and fall in line with economic and financial cycles. Countercyclical macroprudential policies can be applied to prevent the development of asset or credit bubbles if these risks become excessive.
2. Structural and perpetual risks are those associated with the operating environment of the financial sector, and which do not rise and fall with the domestic economic and financial cycles. These risks can be caused by global influences outside the control of the South African authorities, historical characteristics of the financial system, or future developments and innovation.

3. Operational and event risks: Operational risk refers to any shock that could disrupt the operations of the financial sector on a systemic scale. As the sector becomes increasingly reliant on rapidly developing technology, its exposure to operational risk becomes increasingly important and warrants special focus. Event risks may include extreme weather events, incidents of social unrest and ad hoc events that can have financial stability implications for South Africa (e.g. when South Africa was first placed on the FATF greylist).

This edition of the *FSR* identifies the following key risks to domestic financial stability:

Cyclical financial risks:

- i. rapid capital outflows amid heightened market uncertainty;
- ii. deteriorating public sector debt ratios; and
- iii. increased financial distress in households and SMEs.

Structural and perpetual risks:

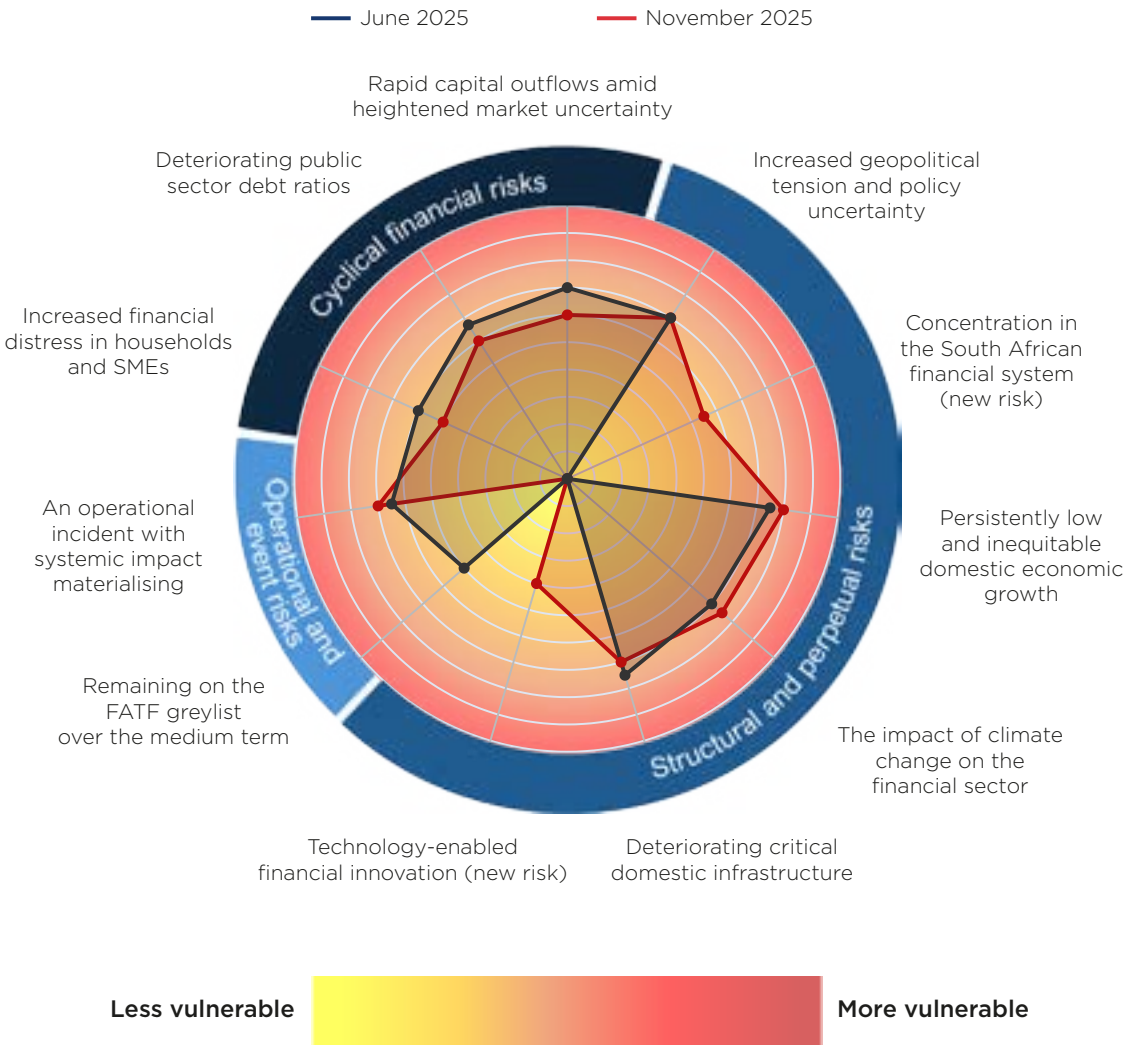
- i. increased geopolitical tension and policy uncertainty;
- ii. concentration in the South African financial system;
- iii. persistently low and inequitable domestic economic growth;
- iv. technology-enabled financial innovation;
- v. deteriorating critical domestic infrastructure; and
- vi. the impact of climate change on the financial sector.

Operational and event risks:

- i. an operational incident with systemic impact materialising; and
- ii. remaining on the FATF greylist over the medium term. The residual vulnerability associated with this risk has reduced to zero following the removal of South Africa from the FATF greylist.



Figure 14: The SARB’s Residual Vulnerability Matrix



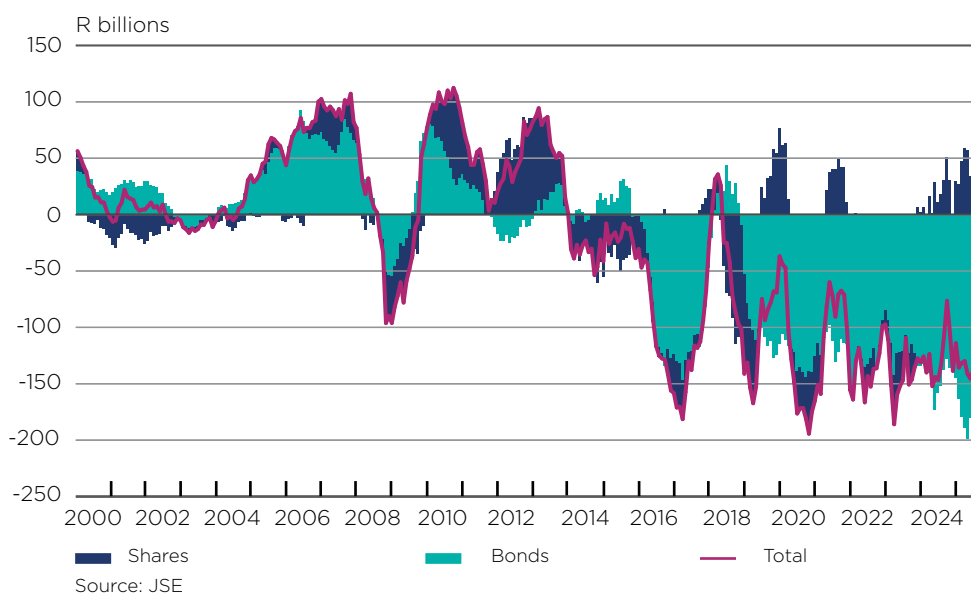
Source: SARB

Cyclical financial risks

Rapid capital outflows amid heightened market uncertainty

Since the release of the previous *FSR*, net portfolio flows into the bond market have remained robust, while outflows from the equity market have persisted (Figure 15). This divergence suggests that, although South African sovereign debt is attracting inflows due to its relatively attractive yields and an improved fiscal outlook, investor confidence in South Africa's corporate earnings and growth prospects remains subdued. However, S&P Global Ratings' decision to lift South Africa's credit rating for the first time since 2005 reflects a more positive long-term outlook.

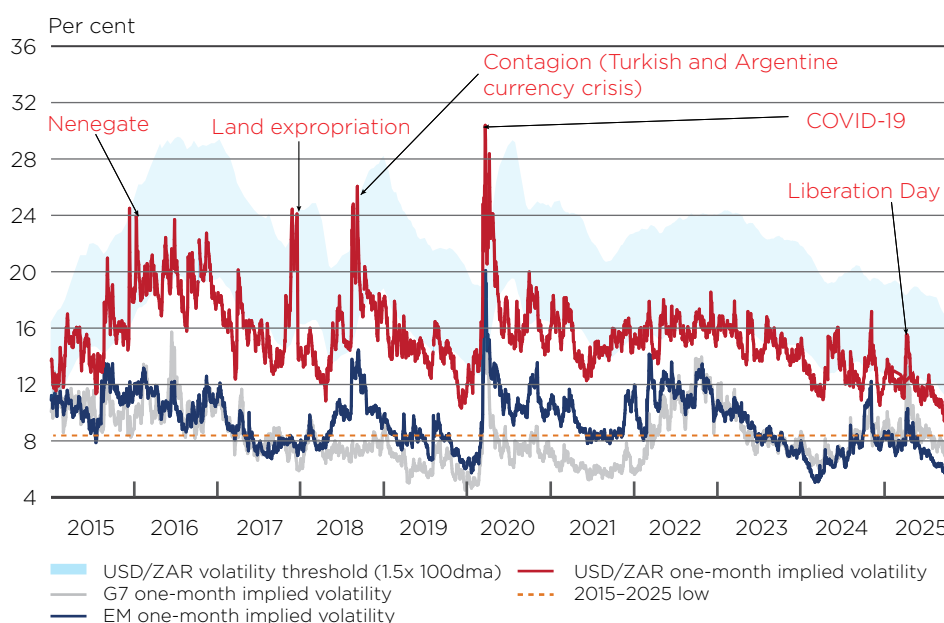
Figure 15: Net non-resident flows



A mitigating factor against the risk of capital flow volatility is lower rand volatility. Since early 2025, the implied volatility of the rand/US dollar exchange rate has declined, reaching a record low of 8.76% in October 2025. This decline in volatility is in line with global trends: since the release of the previous *FSR*, the one-month FX-implied volatility for emerging markets has eased from an annualised rate of 7.28% to 5.61%, and that of advanced economies from 8.75% to 7.01% (Figure 16). One of the key drivers of lower FX-implied volatility is the narrowing of interest rate spreads with the US dollar, which in turn compresses forward-implied rates. This compression in volatility supports capital inflows by lowering hedging costs and reducing exchange rate uncertainty.



Figure 16: One-month FX-implied volatility for selected currencies



Sources: Bloomberg and SARB

Several recent editions of the *FSR* have flagged the risk associated with non-resident investor-driven capital flow volatility.⁸ What has not, however, received proportionate consideration in the *FSR* is the role of South African resident investors in potentially mitigating this risk. Box 3 on the next page fills this gap.

Driven largely by lower rand volatility and the active role resident investors play in mitigating the impact of volatile capital flows, financial system vulnerability to this risk has decreased since the previous *FSR*.

⁸ Previous editions of the *FSR* are available on the SARB website at <https://www.resbank.co.za/en/home/publications/review/financial-stability-review>

Box 3: The role of South African resident investors in cross-border capital flows

Since 2015, total South African resident investors' foreign investment flows have been characterised by phases of offshoring (outflows of domestic investment funds to foreign markets) and onshoring (repatriation of investment funds from foreign markets). Because of their size, institutional investors dominate the direction and magnitude of flows. For most of the period since 2015, institutional investors have consistently externalised funds. However, during periods of domestic or global financial market stress, resident funds tend to flow back into South Africa, with the most notable instance occurring during the financial market turmoil related to COVID-19 in 2020. In this way, resident inflows have helped offset non-resident sell-offs during periods of stress, acting as a countercyclical stabiliser.

Figure B3.1: Net flows by resident investors*

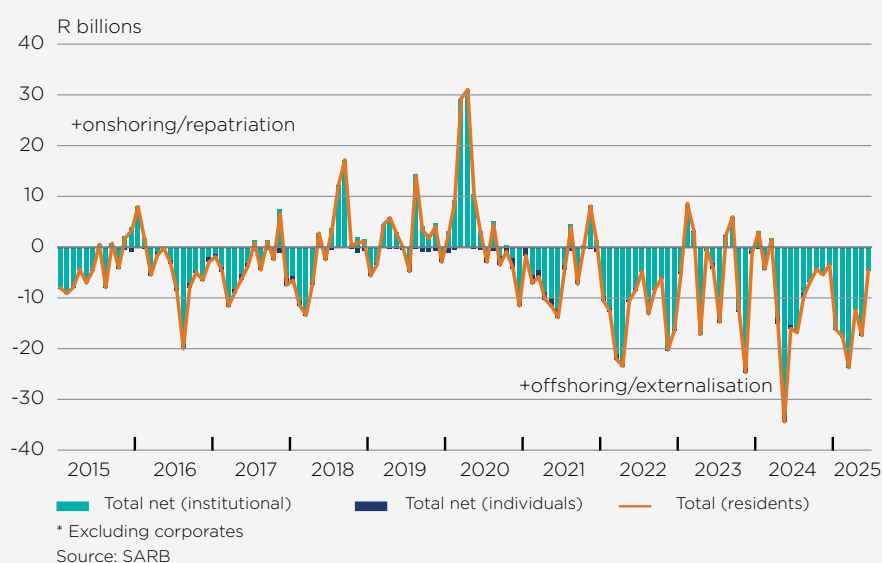
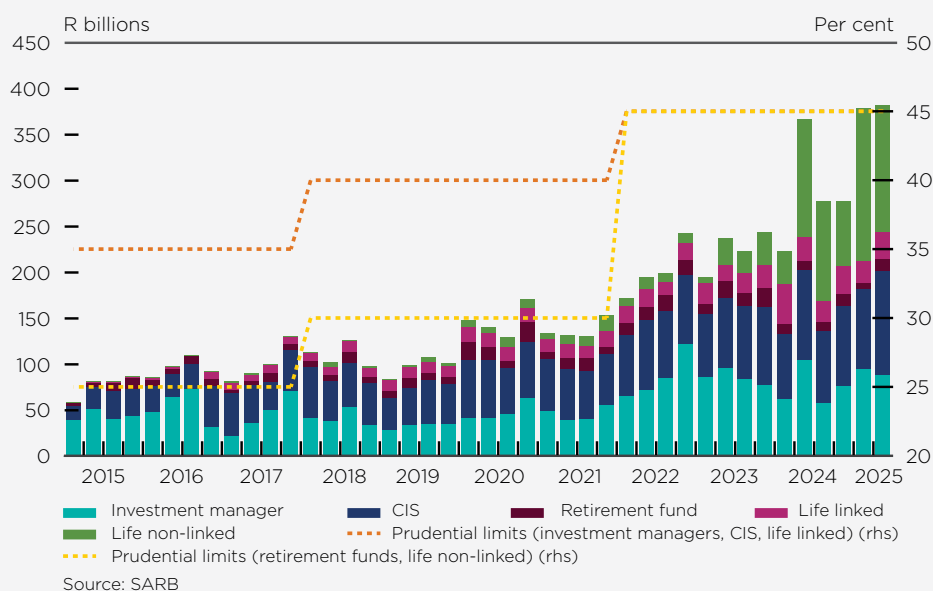


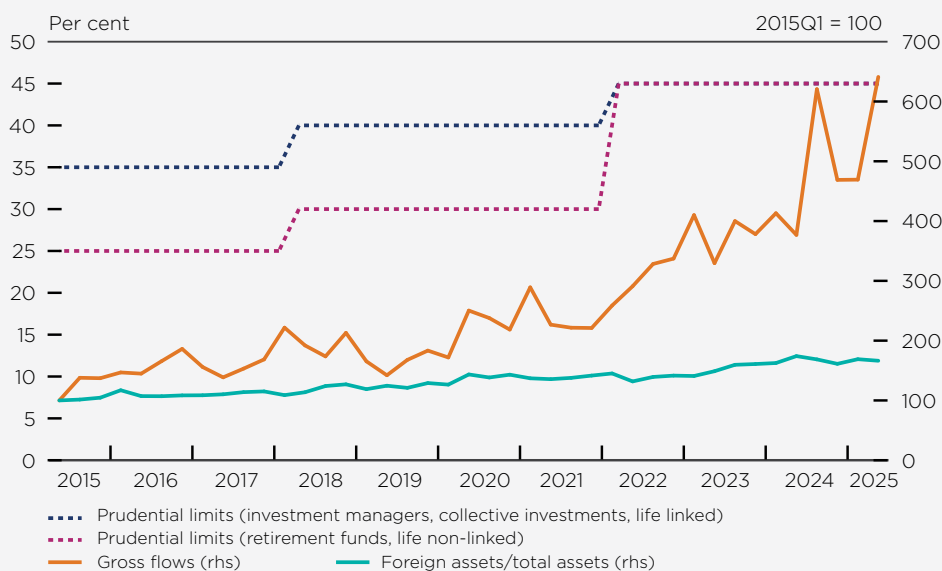
Figure B3.2 shows the evolution and magnitude of gross resident flows by investor type and compares these movements with the prudential limits on their foreign asset holdings. Because gross flows are calculated as the sum of inflows and outflows in absolute terms, the figure captures the overall intensity and magnitude of capital movements, not just the net flows. A clear upward trend in net resident outflows over time is visible, which is in line with increases in the foreign investment limits. Although investment managers and collective investments dominate gross flows, the increasing contribution of life non-linked insurers over the past decade is notable (Figure B3.2).

Figure B3.2: Gross resident flows by investor type versus prudential limits



The growth in gross flows related to institutional investors outpaced the change in their foreign asset exposure between 2015 and 2025 (Figure B3.3). Notably, while gross flows have increased markedly since late 2021 and net resident flows have declined to their lowest level, the share of foreign assets has not changed substantially. Therefore, while large by historical standards, the recent level of portfolio-related resident outflows has been in line with the growth in local institutional retail assets under management.

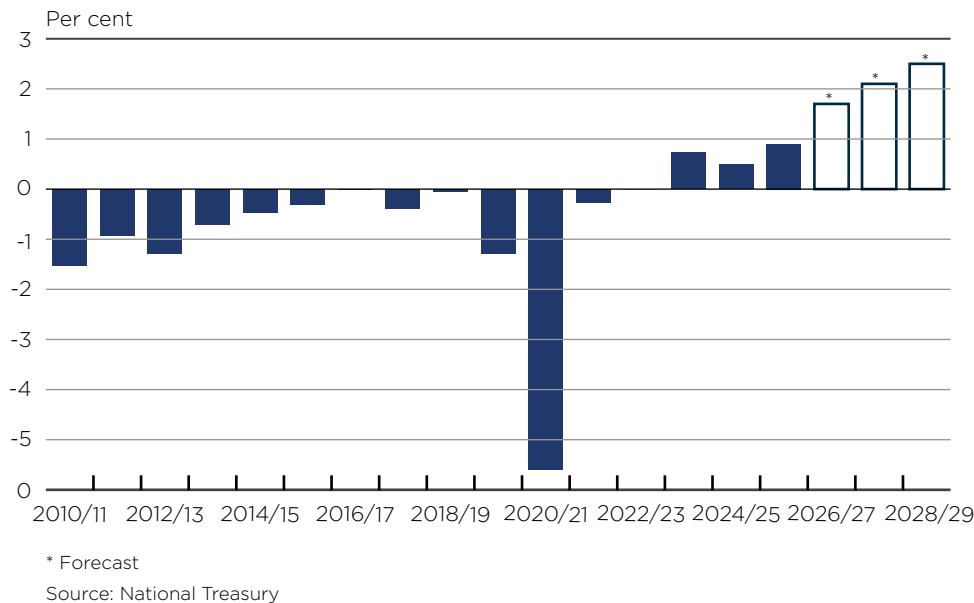
Figure B3.3: Gross institutional investor flows and foreign asset allocation



Deteriorating public sector debt ratios

Fiscal developments have generally been positive in the year to date, with revenue collection exceeding expectations. The outperformance of revenues relative to expenditure is expected to result in a narrower budget deficit for 2025/26 than initially projected by National Treasury, thereby supporting debt stabilisation. Another positive development was the strong rally in SAGBs, with yields declining by 79 basis points to 124 basis points across the curve in the year to the end of September. This compression of yields supports the containment of sovereign debt-service costs, which continue to pose a long-term challenge for fiscal sustainability.

National Treasury anticipates that primary balances will persist over the coming years, rising to over 2% by 2027/28 (Figure 17). It will also continue to engage stakeholders with a view of tabling a proposal on fiscal anchors in 2026. Should these developments materialise over the forecast horizon, they would likely support a meaningful, persistent improvement in the fiscal position over time. Stabilising debt levels and reducing the need for new debt issuance would also ease the sovereign-financial sector nexus over time, thereby reducing the risks associated with the elevated exposure of financial institutions to the sovereign.

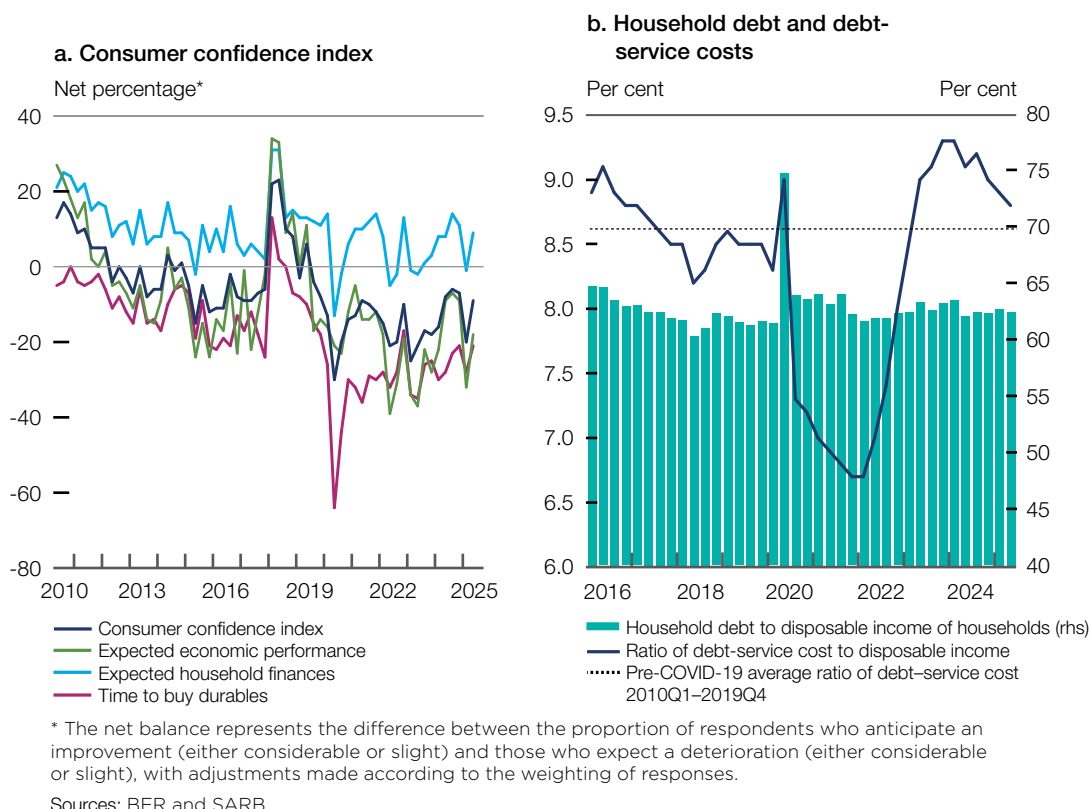
Figure 17: Primary balance (percentage of GDP)

Risks to the outlook are primarily associated with unexpected increases in fiscal expenditure, such as unplanned financial support for state-owned entities or unforeseen disaster management costs. Such expenditure shocks could adversely affect the primary balance and government borrowing requirement. In addition, a material deterioration in global risk sentiment would increase emerging market sovereign borrowing costs, in turn raising debt-service costs for many emerging markets, including South Africa. On balance, and supported by lower inflation, the lower inflation target announced in the November 2025 *MTBPS*, South Africa's removal from the FATF greylist and the credit rating upgrade by S&P Global Ratings, the financial system's residual vulnerability to the risk of deteriorating public sector debt ratios has reduced slightly from the previous *FSR*.

Increased financial distress in households and SMEs

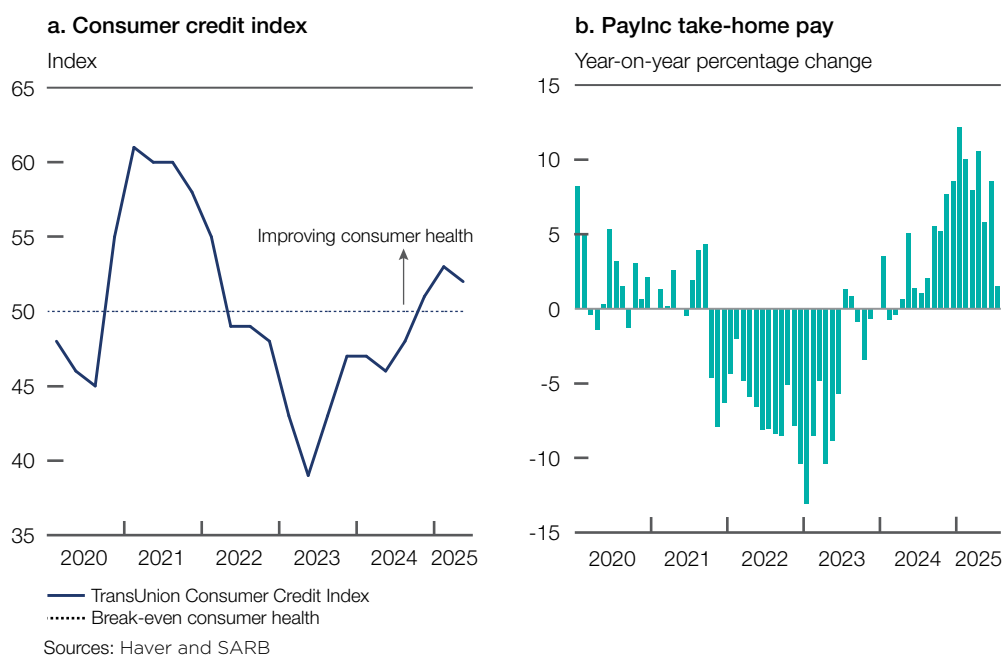
The combination of persistently low economic growth, high levels of unemployment and elevated debt-service costs continues to weigh on household finances. Real incomes have remained broadly stagnant in 2025, though lower inflation and interest rates have offered some relief, as evidenced by the decline in debt-service costs as a share of household income (Figure 18). Since the release of the June 2025 *FSR*, the risk of financial distress among households has eased slightly but remains elevated.

Figure 18: Consumer confidence and household debt



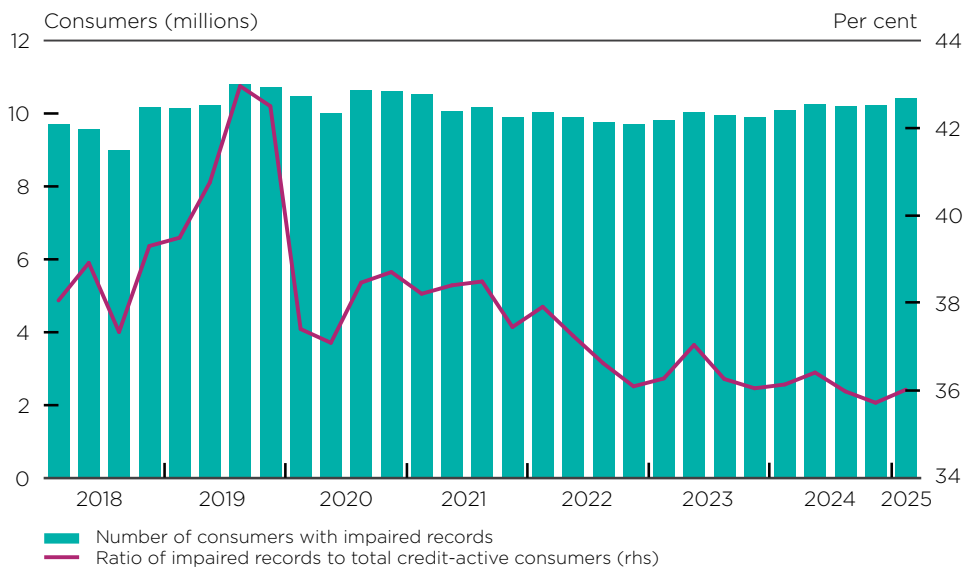
Despite a moderate decline in the first half of 2025, the TransUnion Consumer Credit Index confirmed an improvement in household credit profiles (Figure 19a). The index remained above the neutral 50-point threshold, suggesting that the moderation in credit activity is more reflective of tighter lending standards than a decline in consumer demand. Although living costs are rising – particularly due to the sharp increases in electricity prices and municipal rates that have outpaced both wage growth and inflation – higher real take-home pay since the fourth quarter of 2024 has mitigated some of the impact (Figure 19b).

Figure 19: Consumer health and take-home pay

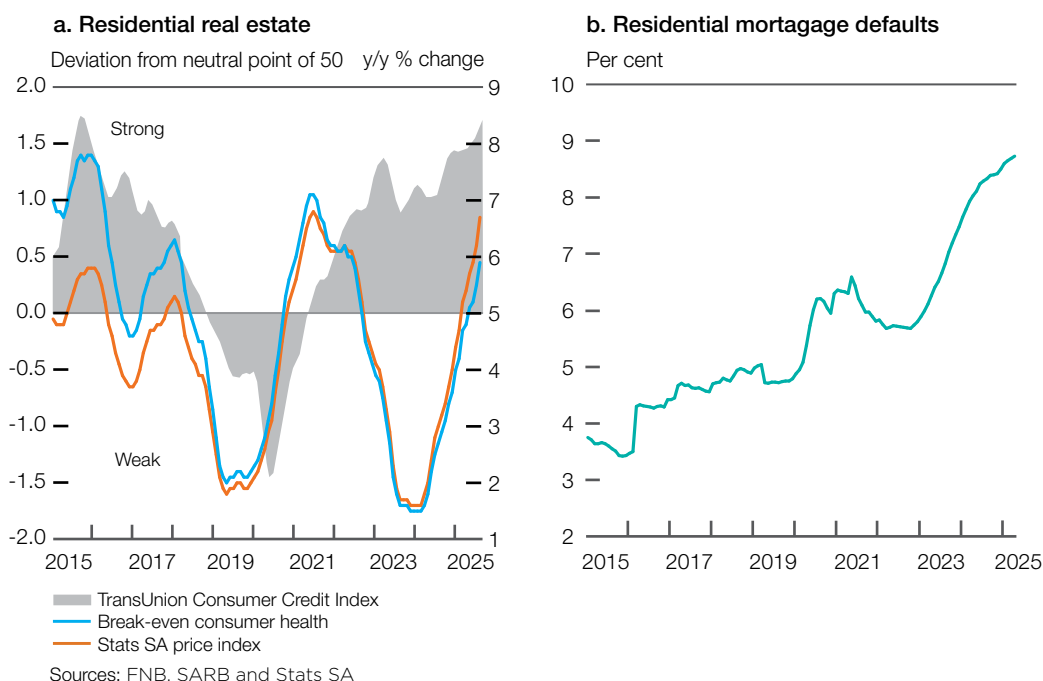


The reductions in the SARB policy rate since September 2024 have provided some financial relief to households. However, even with this easing, the number of consumers with impaired credit records remains stubbornly high (Figure 20). While the ratio of impaired records to total credit-active consumers declined from 42% in the third quarter of 2019 to approximately 36% in the first quarter of 2025, this improvement is mainly due to a decrease in the number of credit-active consumers rather than a decline in impaired credit records. This downward trend suggests that broader financial distress may be mitigated by more conservative lending practices by lenders.

Figure 20: Consumers with impaired credit records



The residential property market continues to demonstrate resilience, as reflected by selected price and market strength indicators (Figure 21). However, residential mortgage defaults have continued to trend upwards since the start of 2023 despite an easing in the SARB's policy rate, which indicates ongoing financial strain among households.

Figure 21: Residential real estate indicators and mortgage default rates

Structural and perpetual risks

Increased geopolitical tension and policy uncertainty

South Africa's integration into physical and financial global value chains makes it vulnerable to spillovers from geopolitical tensions and policy uncertainty, either directly or through key trading partners. Although the immediate impact of geopolitical tensions on the domestic financial system has so far been limited, the IMF⁹ and Organisation for Economic Co-operation and Development (OECD)¹⁰ caution that persistent shocks and politicised trade could raise sovereign risk premiums, especially in emerging markets with constrained fiscal buffers such as South Africa. Overall, geopolitical tensions and policy uncertainty remain elevated, and the vulnerability of the domestic financial system to this risk remains unchanged from the June 2025 FSR.

Concentration in the South African financial system (new risk)

South Africa's financial sector is large in relation to the size of its economy. A high level of concentration in the financial sector is generally regarded as a source of vulnerability. Firstly, it contributes to 'too-big-to-fail' risk. This risk is being mitigated by putting in place mechanisms and resolution plans that will enable these institutions to continue providing critical services under distressed conditions, preferably without government support. Secondly, concentration can lead to rapid and widespread contagion of distress events throughout the financial system.

The banking sector is highly concentrated, with the six largest banks accounting for more than 90% of banking sector assets over the past decade (Figure 22a). The

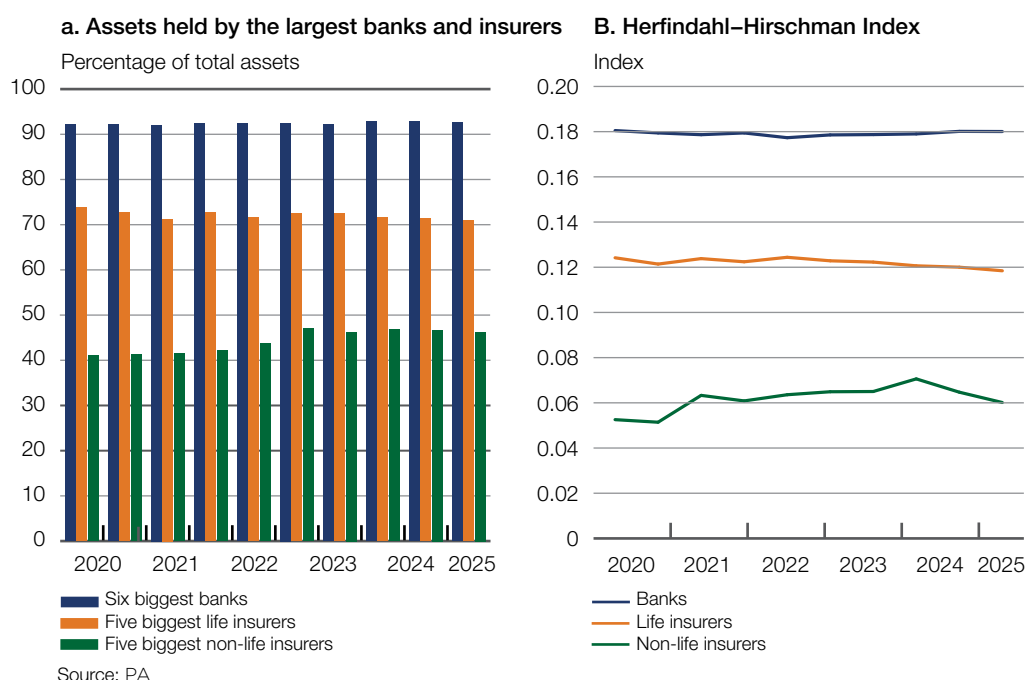
⁹ See the IMF's April 2025 *GFSR*, available at <https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025>

¹⁰ See the OECD's *Economic Outlook*, Volume 2025 Issue 1, available at https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2025-issue-1_83363382-en/full-report/south-africa_6945dfbc.html

Herfindahl-Hirschman Index (HHI)¹¹ is a standard measure of market concentration, with an HHI value of more than 0.2 reflecting very high levels of concentration; values between 0.15 and 0.2 indicating high concentration; between 0.1 and 0.15 reflecting moderate concentration; and below 0.1, low concentration. The HHI for the banking sector, with a value above 0.18, confirms the high concentration in the banking sector (Figure 22b).

Compared to the banking sector, the insurance sector is relatively less concentrated, with the five largest life and non-life insurers respectively accounting for over 70% and 40% during the same period. This is due to the insurance sector being able to accommodate a wider variety of business models, which has encouraged the entry of smaller players and contributed to a more competitive landscape. The life insurance sector is less concentrated, with its HHI declining gradually from 0.125 to 0.119 over the past decade, while the non-life insurance sector consistently reflects the lowest level of concentration.

Figure 22: Concentration in the banking and insurance sectors



Persistently low and inequitable domestic economic growth

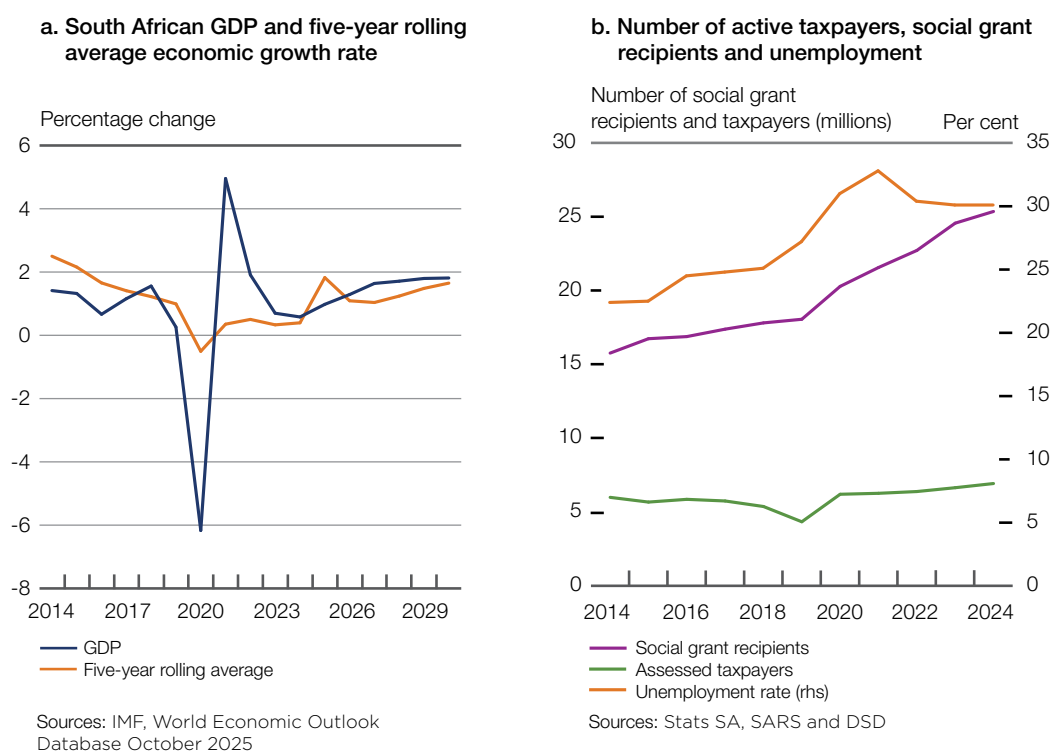
South Africa recorded an annual average economic growth rate of only 0.39% for the five years from 2020 and 2024 (Figure 23a). Although the COVID-19 pandemic exacerbated South Africa's structurally entrenched drags on economic growth, long-standing vulnerabilities such as high levels of unemployment, increased dependence on social grants, deterioration in physical infrastructure and a narrow tax base have further contributed to sluggish growth. Over time, low and inequitable economic growth – along with the resulting high levels of unemployment – has contributed to a growing dependence on a small number of active taxpayers having to support a growing number of social grant recipients (Figure 23b). When combined with cyclical financial risks such as deteriorating public sector debt ratios and mounting financial

¹¹ The HHI is a common and widely used index to measure market concentration of an industry, taking into account both the number and size distribution of financial institutions within an industry such as banking or insurance.

pressure on households, these factors leave the South African financial system vulnerable to the risk of sustained low and inequitable economic growth.

Low and inequitable growth is a slow-moving risk that can affect financial stability in the long term. It adds to vulnerability in the financial sector in various ways: as more financial sector institutions rely on a shrinking portion of the population, any increase in market share by one institution occurs at the expense of others. It also makes it challenging for new market entrants to gain sufficient market share to compete profitably with established institutions.

Figure 23: GDP growth, number of taxpayers and unemployment



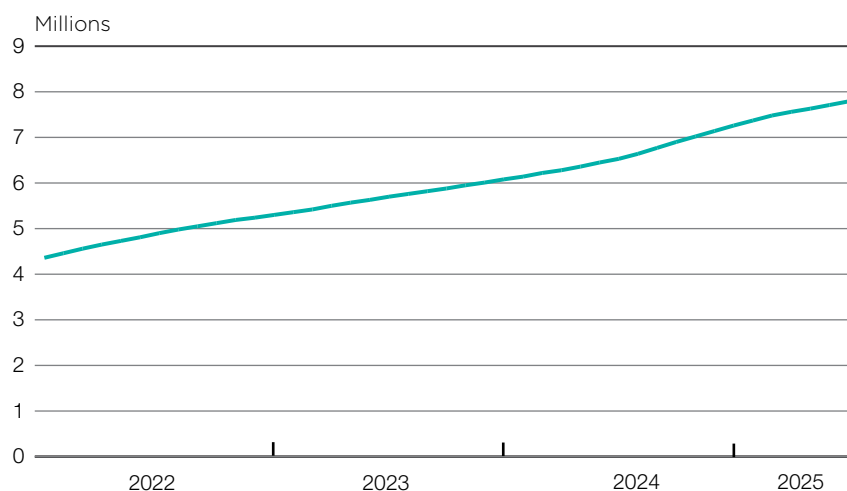
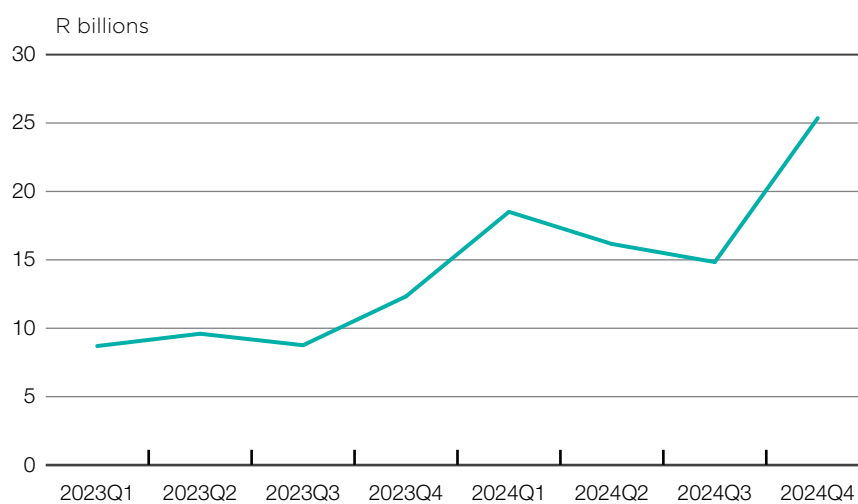
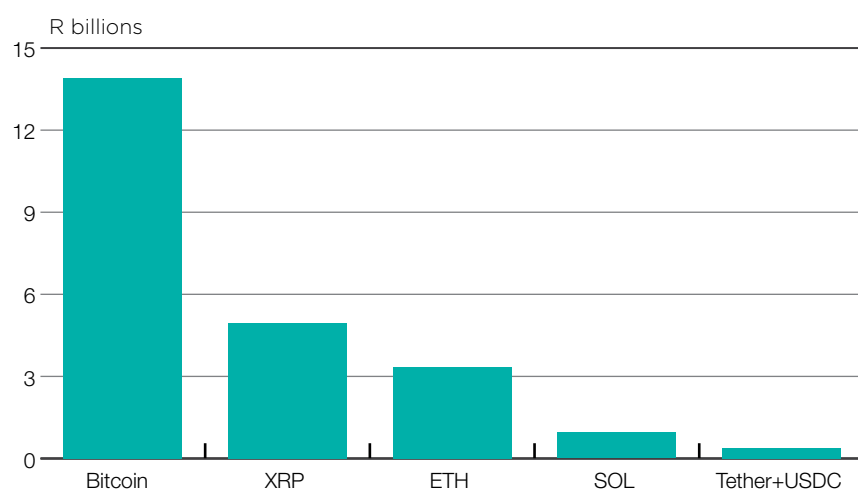
Given the wide-ranging social impact of low GDP growth, high levels of unemployment, a largely stagnant tax base and a growing number of social grant recipients, the residual vulnerability of the domestic financial system to the risk of low and inequitable economic growth has increased since the release of the June 2025 *FSR*.

Technology-enabled financial innovation (new risk)

Crypto assets and stablecoins (new risk)

The number of registered users on South Africa's three largest licensed crypto asset service providers (CASPs) – Luno, VALR and Ovex¹² – continue to grow, reaching almost 7.8 million at the end of July 2025 (Figure 24a). The total value of crypto assets held in custody by Luno, VALR and Ovex increased from under R10 billion at the start of 2023 to R25.3 billion at the end of 2024 (Figure 24b). As at 31 December 2024, Bitcoin continued to account for the largest share of domestic crypto asset holdings, followed by Ripple (XRP), Ethereum (ETH) and Solana (SOL) (Figure 24c).

12 The SARB expresses its gratitude to the three CASPs for providing the data used in Figure 24 on a voluntary basis.

Figure 24: Selected indicators of crypto asset adoption in South Africa**a. Number of registered customers****b. Value of crypto assets held in custody****c. Breakdown of crypto asset holdings**

Sources: Luno, VALR and Ovex

Due to their exclusively digital – and therefore borderless – nature, crypto assets can be used to circumvent the provisions of the Exchange Control Regulations, 1961. On-chain analysis confirms that since 1 January 2019, the top 10 domestically hosted Bitcoin wallets have processed almost R63 billion in outwards volume (Table 3). Should more wallets be tracked and other popular crypto assets such as ETH and XRP be added, the number is likely to be much higher.

Table 3: Annual value externalised by the top 10 Bitcoin wallets hosted by South African crypto asset trading platforms

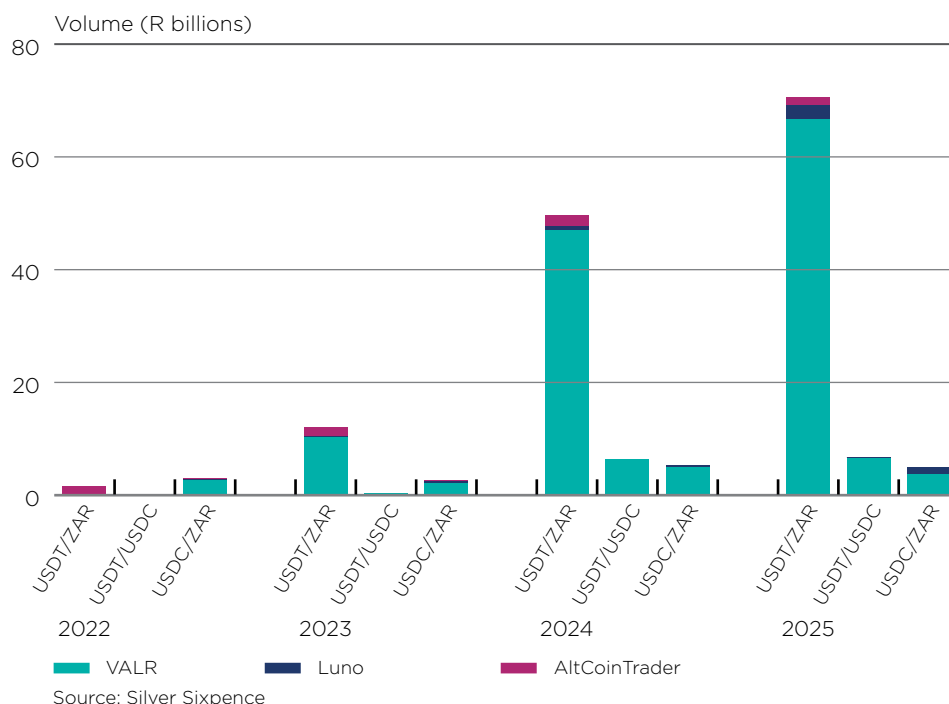
Year	Annual value
2019	R4.58 billion
2020	R12.39 billion
2021	R11.05 billion
2022	R12.59 billion
2023	R8.61 billion
2024	R6.60 billion
2025 (year to 9 October 2025)	R6.90 billion
Total	R62.75 billion

Source: Silver Sixpence

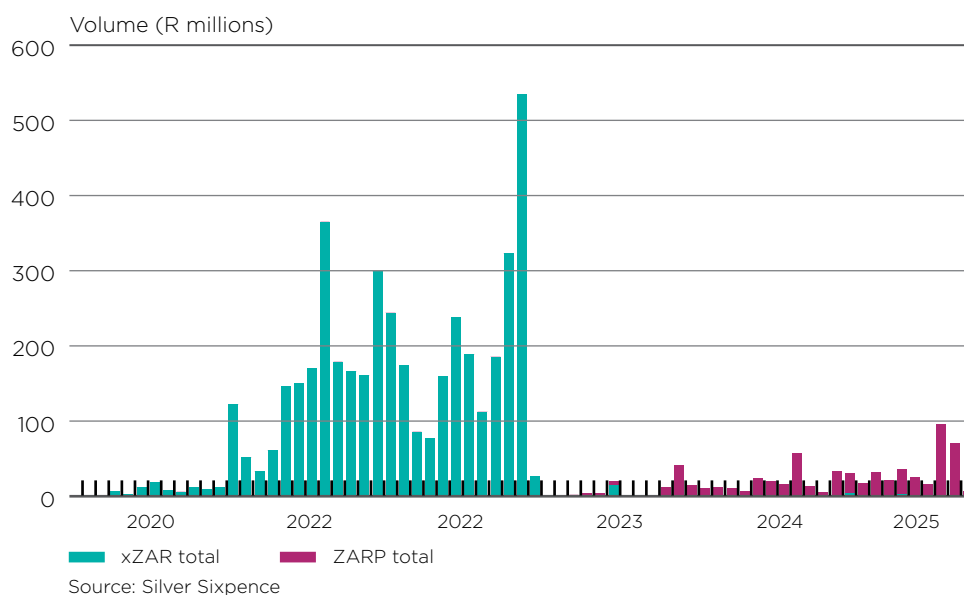
The Intergovernmental Fintech Working Group (IFWG) has issued several recommendations aimed at addressing the gaps in the South African exchange control framework that have been exposed by crypto assets.¹³ The SARB is working with National Treasury to issue a framework for overseeing cross-border transactions relating to crypto assets, while also reviewing and updating the Exchange Control Regulations, 1961 to align with developments and to include crypto assets.

A structural shift that has taken place since 2022 is the growing role of stablecoins in crypto asset activities. Whereas Bitcoin and other popular crypto assets were the main conduit for trading crypto assets until 2022, USD-pegged stablecoins have become the preferred trading pair on South African crypto asset trading platforms. Trading volumes of these stablecoins have increased materially since 2022, growing from less than R4 billion in 2022 to almost R80 billion in the year to October 2025 (Figure 25). This is due to the notably lower price volatility of stablecoins compared to unbacked crypto assets.

¹³ An update on the implementation of the recommendations in the 2021 IFWG Position Paper on Crypto Assets is available at <https://www.ifwg.co.za/Reports/Update%20on%20the%20Implementation%20of%20the%20recommendations%20in%20the%202021%20IFWG%20Position%20Paper%20on%20Crypto%20Assets.pdf>

Figure 25: Crypto asset trading is migrating to stablecoins

After peaking at more than R250 million in November 2023, the monthly value of on-chain transactions involving rand-pegged stablecoins fell sharply in 2024 before gradually increasing in 2025 (Figure 26). While the current level of on-chain stablecoin transactions is relatively modest, the number should increase going forward as the stablecoin payment use case grows.

Figure 26: Rand-pegged stablecoins – on-chain transaction volume

As crypto asset adoption in South Africa grows, so does the need for the domestic regulatory framework to continue to evolve in response to crypto asset market developments and risks. To this end, the Financial Stability Board (FSB) published its overarching crypto asset regulatory framework in July 2023, comprising two sets



of high-level recommendations: one for the regulation, supervision and oversight of crypto assets, and one for the regulation, supervision and oversight of global stablecoin arrangements.¹⁴ Subsequently, on 16 October 2025, the FSB published the findings of its review of FSB members' – and some non-members' – progress with implementing the two sets of high-level recommendations.¹⁵ South Africa was assessed as having 'no framework in place' for regulating global stablecoin arrangements, and 'partial regulations in place' for crypto assets.

In terms of reporting requirements for South African CASPs and the scope of activities covered by South Africa's CASP licensing and authorisation framework, the FSB's assessment is reflected in tables 4 and 5 below.

Table 4: FSB assessment of reporting requirements for South African CASPs

Assessment category	Financial statements and condition	Financial risks	Non-financial risks	Regulatory compliance	Other reporting
None required	None	None	None	None	None

Table 5: FSB assessment of coverage of activities in South Africa's CASP licensing and authorisation framework

Custody	Borrowing/lending	Derivatives trading	Proprietary trading	Investment activities (yield/earn/liquid staking)	Own issuance
Permitted (additional requirements)	Not covered by regulatory framework	Permitted under Financial Markets Act	Not covered by regulatory framework	Covered only where CASP provides investment advice	Not covered by regulatory framework

One of the key transmission channels through which crypto assets may affect financial stability is through their use in payments and settlements.¹⁶ However, without transparent, consistent and reliable data on crypto assets – along with their adoption, use and interlinkages with the traditional financial system – risks may build up undetected. This lack of data, coupled with the existing gaps in the South African crypto asset regulatory framework (e.g. prudential requirements for domestic CASPs and stablecoin issuers and operators), constitutes a vulnerability from a financial stability perspective. The South African financial system's vulnerability will likely continue to increase until the existing gaps in the South African crypto asset regulatory framework have been closed.

14 See the FSB's 'High-level recommendations for the regulation, supervision and oversight of crypto-asset activities and markets: Final report' (available at <https://www.fsb.org/uploads/P170723-2.pdf>) and the FSB's 'High-level recommendations for the regulation, supervision and oversight of global stablecoin arrangements: Final report' (available at <https://www.fsb.org/uploads/P170723-3.pdf>).

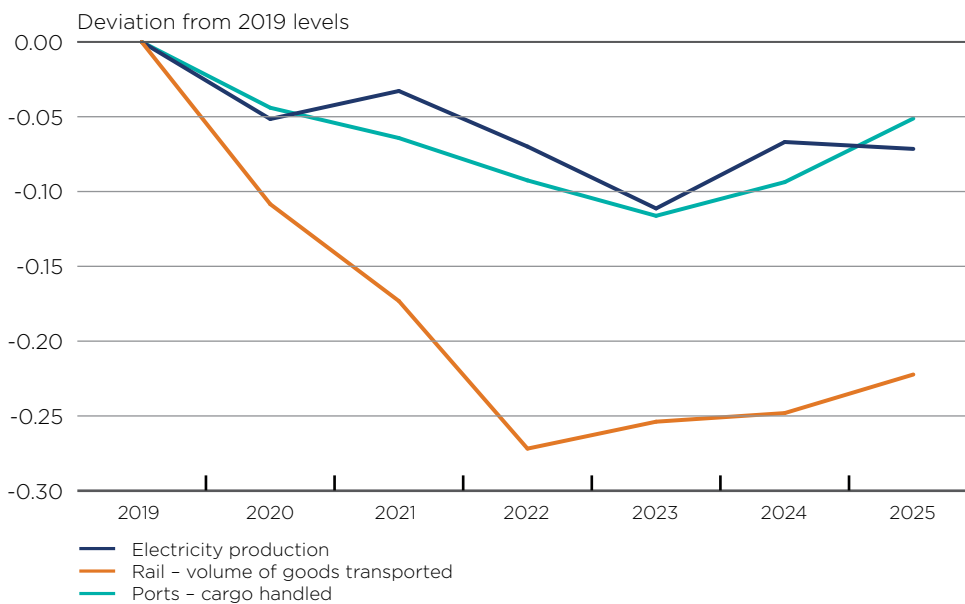
15 The report is available at <https://www.fsb.org/2025/10/thematic-review-on-fsb-global-regulatory-framework-for-crypto-asset-activities/>

16 The four key channels through which crypto assets may affect financial stability were first identified by the FSB in 2018. They are through (i) confidence effects; (ii) exposures of financial institutions; (iii) market capitalisation and wealth effects; and (iv) payments and settlement. The FSB document is available at <https://www.fsb.org/uploads/P101018.pdf>

Deteriorating critical domestic infrastructure

Despite some improvement in recent years, the deteriorating long-term performance of South Africa's critical infrastructure – particularly electricity, rail, ports, water and municipal services – continues to constrain economic growth. South Africa currently produces less electricity, transports lower volumes of goods by rail and handles less cargo at its ports than it did in 2019 (Figure 27).

Figure 27: Deteriorating critical infrastructure – electricity, rail and ports



The longer-term impact of deteriorating critical infrastructure interacts with other financial stability risks, in particular how it exacerbates the risk of low economic growth and deteriorating public debt ratios. For example, for some municipalities the revenue from electricity and water sold on to ratepayers constitutes the bulk of their revenue. If there is insufficient electricity supply to meet demand, electricity users will continue to explore alternative solutions such as solar, which over time may further reduce demand for municipality or Eskom-supplied electricity. This may reduce both municipal and state-owned entity income, in turn potentially placing additional strain on the fiscus.

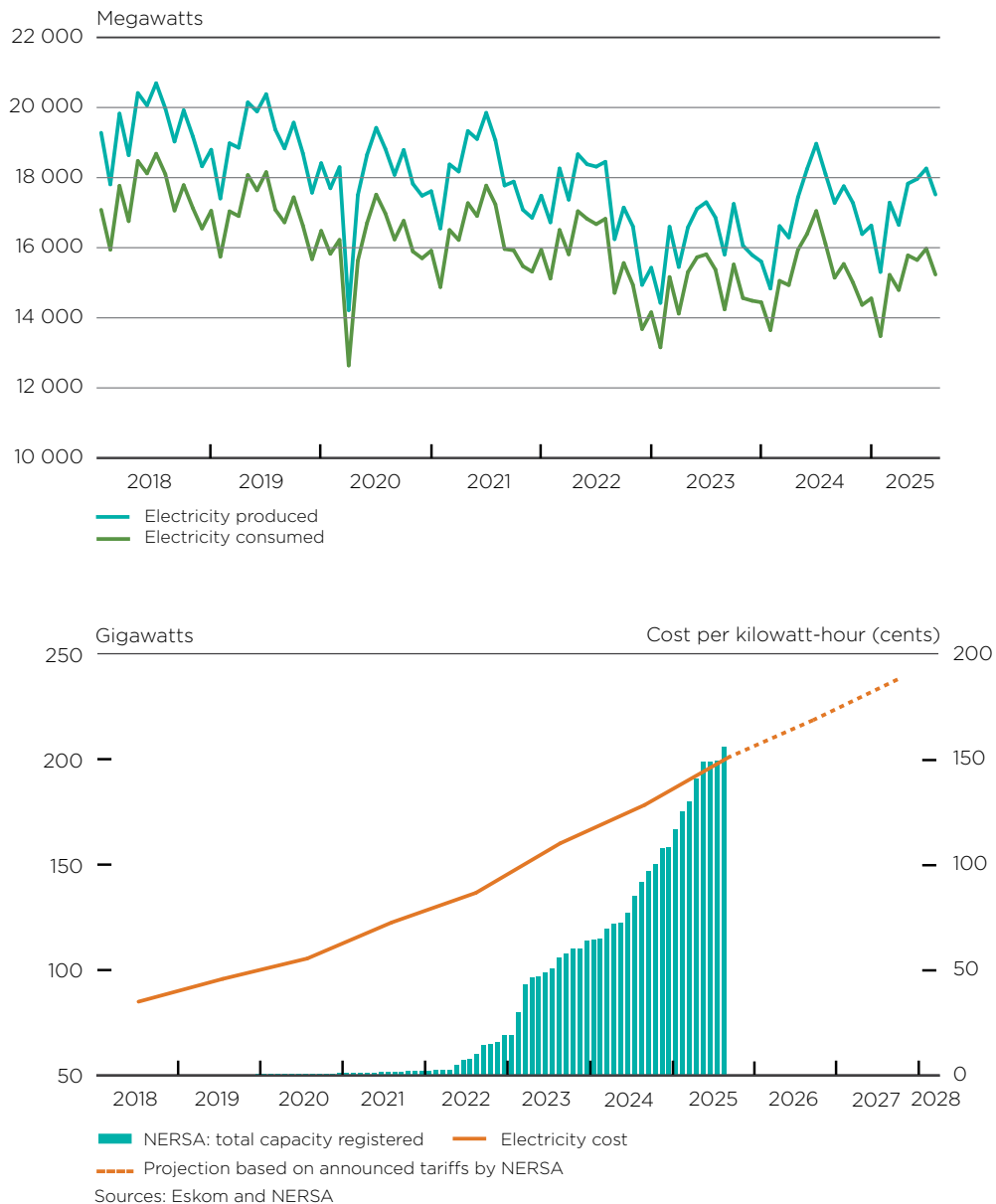
Electricity availability has stabilised over the past 18 months, as demonstrated by Eskom's energy availability factor increasing from 51% in January 2024 to 69% in September 2025. This has contributed to a significant reduction in load-shedding since April 2024. However, the sustained growth in private renewable energy generation has alleviated pressure on the electricity grid, with demand for and consumption of Eskom-produced electricity consistently declining in recent years (Figure 28a). Municipal service provision is becoming a significantly binding constraint.

The SARB's October 2025 *Monetary Policy Review*¹⁷ confirmed that electricity prices have increased by more than 600% since 2009, with projected prices expected to continue along the current trajectory based on tariffs announced by the National

¹⁷ Available at <https://www.resbank.co.za/content/dam/sarb/publications/reviews/monetary-policy-review/2025/Monetary%20Policy%20Review%20-%20October%202025.pdf>

Energy Regulator of South Africa (NERSA) (Figure 28b). Should private electricity generation continue its current trend, Eskom's longer-term profitability is likely to decline, with spillover effects for municipalities generating income from on-selling Eskom electricity. Municipal arrears to Eskom exceeded R100 billion as at March 2025, and the 12.6% tariff increase for the 2025/26 financial year could further strain the ability of both municipalities and Eskom's direct customers to pay for electricity.¹⁸

Figure 28: Electricity demand, supply, cost and generation



In addition to electricity arrears, municipalities' arrears to water boards continue to grow and service delivery remains uneven across regions. While the government's commitment to large-scale water infrastructure investment is a positive step, implementation delays and governance challenges continue to undermine progress.

¹⁸ Refer to the statement by the Minister of Electricity and Energy, available at <https://pmg.org.za/committee-question/28383/>

The financial health of municipalities is deteriorating, with budgets heavily reliant on rates and user charges, yet revenue collection remains weak. Intergovernmental transfers, though helpful, are limited in scope and often tied to specific mandates.

Despite improvements in electricity supply and some stabilisation in port operations, the overarching risk of critical infrastructure failure remains unchanged since the June 2025 *FSR*.

The impact of climate change on the financial sector

Since the release of the June 2025 *FSR*, ongoing geopolitical and trade tensions have contributed to heightened global uncertainty about climate policy, in turn increasing global transition risks and increasing domestic vulnerability to climate risk. More frequent extreme weather events are compounding financial sector vulnerability to physical risks associated with climate change. For example, between 2000 and 2024, there were 8 537 climate-related disaster events recorded globally in the EM-DAT International Disaster Database, compared to 5 209 between 1900 and 1999.¹⁹ Economic losses globally resulting from extreme weather events in the first half of 2025 alone reached at least US\$162 billion, with insured losses for 2025 expected to reach at least US\$100 billion – well above the first-half yearly average of US\$41 billion over the 21st century.²⁰ The risk of spillovers to South Africa from extreme weather events elsewhere in the world remains limited and these physical risks do not currently pose a material threat to domestic financial stability. However, the financial sector remains exposed to policy uncertainty and transitional risks.

The successful completion of the SARB's inaugural Climate Risk Stress Test (CRST) for systemically important banks — as reported in the June 2025 *FSR* — has established a solid foundation from which the implications of climate change for other parts of the financial system can be explored.²¹ Given the insurance sector's potential to act either as a stabiliser or an amplifier of financial stress, the SARB has shifted its focus to this sector.²² The results from the 2024 CRST projected a fivefold increase in expected climate-related losses in South Africa over the coming decades as extreme weather events become more frequent and severe (Figure 29).

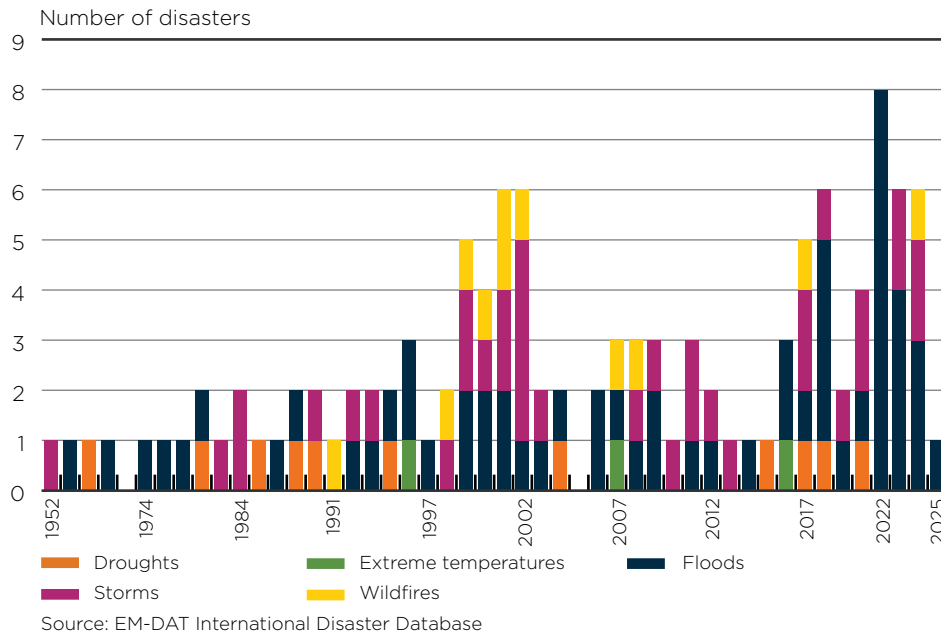
19 Climate-related disasters refer to extreme weather events recorded in the EM-DAT International Disaster Database whose frequency and severity are associated with variations or long-term changes in the climate system, namely meteorological (e.g. storms), hydrological (e.g. floods) and climatological (e.g. droughts) events. See the 2023 WMO Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes, available at <https://wmo.int/publication-series/atlas-of-mortality-and-economic-losses-from-weather-climate-and-water-related-hazards-1970-2021>

20 See Aon's *Global Catastrophe Recap*, available at <https://www.aon.com/getmedia/01e165ae-1788-4997-a51b-9225bce850dd/1H-2025-Global-Catastrophe-Recap.pdf>

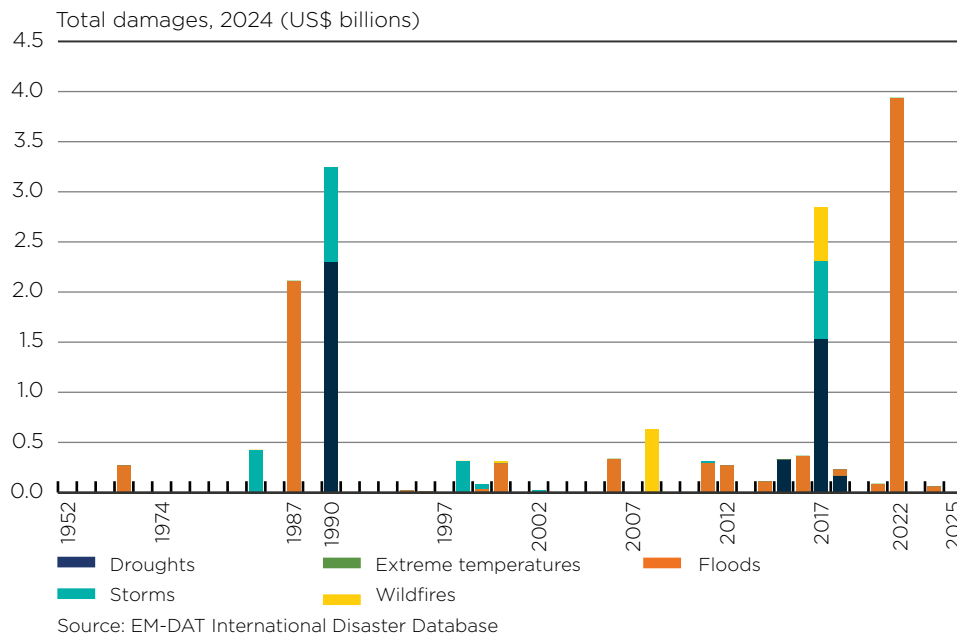
21 The June 2025 *FSR* is available at https://www.resbank.co.za/content/dam/sarb/publications/reviews/finstab-review/2025/financial-stability-review/First%20Edition%202025%20Financial%20Stability%20Review_1.pdf

22 Natural catastrophes such as hurricanes Andrew (1992) and Katrina (2005) — two of the costliest and most systemically significant storms on record — have shown that under extreme conditions, insurance markets can face solvency pressures and reinsurance strain, although such events remain rare (Swiss Re, 'Hurricane Katrina: a watershed event for insurance', 23 June 2025, available at <https://www.swissre.com/institute/research/topics-and-risk-dialogues/climate-and-natural-catastrophe-risk/hurricane-katrina-watershed-event-for-insurance.html>)



Figure 29: Frequency of climate-related disasters in South Africa

Although the economic impact of these events has historically been manageable, the ongoing losses from the 2022 KwaZulu-Natal floods – the costliest disaster on record – illustrate that future catastrophes could impose a significant cost on the economy (Figure 30).²³

Figure 30: Estimated costs of climate-related disasters in South Africa

²³ See National Treasury's 'Disaster Risk Financing Approaches: Independent Report on the Experience of South Africa Municipalities' (available at https://www.treasury.gov.za/comm_media/press/2025/Annexure%20A%20Disaster%20Response%20Financing%20Strategy%20v8.pdf) and Disaster risk financing approaches (available at <https://documents1.worldbank.org/curated/en/099032825104570788/pdf/P169126-75c76d20-f97b-4f02-896e-f75c1b19f9cf.pdf>).

Natural catastrophe insurance is a key instrument for mitigating such losses. However, of the approximately US\$16 billion in climate-related economic losses recorded in South Africa between 1952 and 2024, only about US\$3 billion was insured. According to the EM-DAT International Disaster Database, this uninsured portion — the climate insurance protection gap — is projected to widen as the impacts of climate change intensify, with potentially systemic implications for both the global and local financial system.²⁴ As coverage tightens or becomes costlier, activities that depend on insurability — such as mortgage lending and property development — may also be constrained, creating potential channels through which climate shocks could transmit to the broader economy.²⁵

The SARB is therefore advancing work to refine and expand its understanding of South Africa's climate insurance protection gap through independent estimates, aimed at closing data gaps, strengthening data quality, enhancing modelling capacity and technical skills, and improving market-based and public sector risk-transfer mechanisms.²⁶ These initiatives seek to ensure that the domestic financial system remains resilient to extreme weather events and that the insurance sector continues to serve as a stabilising force in the face of rising climate-related shocks.

Operational risks

An operational incident with systemic impact materialising

This risk has been expanded from the June 2025 *FSR* to encompass any operational incident that could disrupt the financial system and lead to financial instability. Such risks include, but are not limited to, cyber-incidents, the failure of critical third-party service providers, disruptions to payment systems and financial market infrastructures, interruptions in telecommunications and/or Internet connectivity, or a full or partial electricity grid failure. Table 6 below demonstrates that the number of reported incidents of digital banking fraud and the associated financial losses incurred are increasing rapidly.

Table 6: Digital banking fraud in South Africa 2022–2024

Year	Reported incidents	Year-on-year change	Gross fraud losses	Year-on-year change
2022	36 178	n/a	R734.7 m	n/a
2023	52 584	+45%	R1.082 bn	+47%
2024	97 975	+86%	R1.888 bn	+74%

Source: SABRIC *Crime Statistics Report 2024*²⁷

24 Available at <https://www.emdat.be/>

25 For example, following Hurricane Katrina (2005), several US insurers withdrew from high-risk regions, temporarily constraining mortgage issuance and slowing reconstruction. See <https://www.swissre.com/institute/research/topics-and-risk-dialogues/climate-and-natural-catastrophe-risk/hurricane-katrina-watershed-event-for-insurance.html>

26 See 'Addressing the natural catastrophe insurance protection gap', side event hosted by the G20 South African Presidency, in collaboration with the International Association of Insurance Supervisors and the World Bank Group during the G20 Finance Ministers and Central Bank Governors meetings in Durban on 17 July 2025 (available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2025/g20-natural-catastrophe-insurance>) and the G20 Sustainable Finance Working Group input paper: Identify and address insurance protection gaps (available at <https://www.iais.org/uploads/2025/07/G20-SFWG-input-paper-Identify-and-address-insurance-protection-gaps.pdf>).

27 Available at <https://www.sabric.co.za/wp-content/uploads/2025/09/CRIME-STATISTICS-REPORT-2024.pdf>

As the number of cyberattacks increase and become more sophisticated, so does the probability of a successful attack with systemic impact. Combined with heightened geopolitical tensions, the residual vulnerability of the financial sector to an operational incident with systemic impact materialising has therefore increased since the June 2025 *FSR*.

Remaining on the FATF greylist over the medium term

As mentioned in the June 2025 *FSR*, following the FATF Plenary meetings held on 12 and 13 June 2025, the FATF announced that (i) South Africa had addressed or largely addressed all 22 action items agreed to as per the Action Plan following South Africa's greylisting in February 2023; and (ii) as a result, an on-site assessment by the Africa Joint Group would be conducted to verify that reforms to combat money laundering and the financing of terrorism had been implemented and were being sustained, and that the necessary political commitment remained in place.

The on-site visit took place in July 2025, following which the FATF considered the report of the Africa Joint Group on the visit at its October 2025 meetings. On 24 October 2025, the FATF confirmed that South Africa had been removed from the greylist.²⁸ Despite being removed from the FATF greylist, various restrictions remain on South Africa as a direct consequence of having been greylisted in the first place. Specifically, removal from the FATF greylist does not mean South Africa will automatically be removed from the European Union (EU) list of high-risk jurisdictions. South Africa will remain on the EU list until the respective processes for being removed have been concluded successfully.

Overall, the process of being greylisted by the FATF and the subsequent process to be removed provide a strong foundation for South Africa to continue strengthening reforms to combat money laundering and the financing of terrorism, particularly in view of the FATF's Fifth Round Mutual Evaluation for South Africa, due to start in 2026.

Policy actions and initiatives undertaken to enhance domestic financial stability

- Implementing a positive cycle-neutral (PCN) countercyclical capital buffer (CCyB) and developing indicators to determine the optimal level of the CCyB in South Africa once fully implemented.
- Monitoring the sovereign-financial sector nexus: The SARB and the Prudential Authority continued to collaborate to monitor this risk, particularly from a market risk perspective.
- Enhancing the financial sector's resilience against potential systemic operational disruptions: Joint Standard 2 of 2024, first published for consultation on 15 December 2021 by the Financial Sector Conduct Authority and the Prudential Authority, sets mandatory cybersecurity and cyber resilience requirements for South African financial institutions. Its objectives are to protect critical information assets, ensure business continuity and strengthen the financial sector's ability to prevent, detect and recover from cyber threats. The standard became operational on 1 June 2025.²⁹

28 For more detail, see 'Jurisdictions under Increased Monitoring - 24 October 2025', available at <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/increased-monitoring-october-2025.html>

29 <https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2024/joint-comms-2-of-2024/Joint%20Communication%20of%202024%20-%20Publication%20of%20the%20Joint%20Standard%20-%20Cybersecurity%20and%20cyber%20resilience.pdf>

- Enhancing crisis preparedness and resolution planning: Following the successful completion of two crisis simulation exercises in the first half of 2025,³⁰ the SARB continued to plan for subsequent simulation exercises to be conducted in 2026.

Key topics discussed at FSC and FSOC meetings

The following key topics and risks to financial stability were discussed at the FSC and Financial Stability Oversight Committee (FSOC) meetings during the period under review:

1. Increased geopolitical tension and policy uncertainty
2. Stablecoins and crypto assets
3. Harmonisation of the prudential limits
4. Vulnerabilities in the household sector
5. Approach to designating financial market infrastructures as systemically important
6. The SARB GaR framework
7. Reflections from crisis simulation exercises
8. Progress made with getting South Africa off the FATF greylist
9. Lessons learnt from being greylisted in preparation for the next FATF Mutual Evaluation starting in 2026

³⁰ See page 24 of the June 2025 *FSR*, available at https://www.resbank.co.za/content/dam/sarb/publications/reviews/finstab-review/2025/financial-stability-review/First%20Edition%202025%20Financial%20Stability%20Review_1.pdf



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Glossary

- **Financial stability risk:** A risk is any adverse development that could prevent financial institutions from providing financial products and financial services, and financial market infrastructures from performing their functions and duties in terms of financial sector laws, without interruption despite changes in economic circumstances, and without a loss of general confidence in the ability of financial institutions and financial market infrastructures to do so.
- **Vulnerability:** A characteristic of the financial system that increases the likelihood and/or impact of a financial stability risk realising.
- **Shock:** An event that may trigger the realisation of financial stability risk.
- **Amplifier:** A property, factor or action that increases the vulnerability.
- **Mitigant:** A property, factor or action that reduces the vulnerability.
- **Transmission channels or mechanisms:** The channels through which the materialisation of a financial stability risk could cause financial instability.
- **Residual vulnerability:** The assessed vulnerability after considering mitigants.
- **Resilience:** A characteristic of the financial system that decreases the likelihood and/or impact of a financial stability risk realising.
- **Financial market infrastructures (FMIs):** FMIs include payment market infrastructures and market infrastructures (i.e. exchanges, central securities depositories, central counterparties, clearing houses and trade repositories).



Abbreviations

AI	artificial intelligence
Alsi	JSE All-Share Index
AUM	assets under management
CAR	capital adequacy ratio
CASP	crypto asset service provider
CCyB	countercyclical capital buffer
CDS	credit default swap
CIS	collective investment scheme
COVID-19	coronavirus disease 2019
CRST	Climate Risk Stress Test
CSI	China Securities Index
EM	emerging market
EM FX	Emerging Market Foreign Currency Volatility Index
ETH	Ethereum
EU	European Union
FATF	Financial Action Task Force
FCI	Financial Conditions Index
FMI	financial market infrastructure
FNB	First National Bank
FSB	Financial Stability Board
FSC	Financial Stability Committee
FSCA	Financial Sector Conduct Authority
FSOC	Financial Stability Oversight Committee
<i>FSR</i>	<i>Financial Stability Review</i>
FSR Act	Financial Sector Regulation Act 9 of 2017
FX	foreign exchange
G7 FX	Group of Seven Foreign Currency Volatility Index
GaR	growth-at-risk
GDP	gross domestic product
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GFSR	Global Financial Stability Report
HHI	Herfindahl-Hirschman Index
IMF	International Monetary Fund
IT	information technology
JSE	JSE Limited
LDP	low default portfolio
MIT	Massachusetts Institute of Technology
MMF	money market funds
MOVE	Merrill Lynch Option Volatility Estimate
<i>MTBPS</i>	<i>Medium Term Budget Policy Statement</i>
NERSA	National Energy Regulator of South Africa
NPL	non-performing loan
OECD	Organisation for Economic Co-operation and Development
OFI	other financial institution
P/E	price-to-earnings (ratio)
PA	Prudential Authority
PCN	positive cycle-neutral
R	rand
rhs	right-hand scale
ROE	return on equity
RVM	Residual Vulnerability Matrix

S&P	Standard and Poor's
SAGB	South African government bond
SARB	South African Reserve Bank
SARS	South African Revenue Service
SIFI	systemically important financial institution
SME	small and medium-sized enterprise
SOL	Solana
UK	United Kingdom
US	United States
USD	United States dollar
USDC	United States dollar Circle
USDT	United States dollar Tether
VIX	Volatility Index
XRP	Ripple
ZAR	South African rand



Annexure A: Banking and insurance sector indicators

Table A.1: Banking sector indicators*

	2020	2021	2022	2023	2024	2025
Market share in terms of assets (five largest banks)	89.99	89.84	89.55	89.67	89.62	89.69
Gini concentration index	83.11	82.68	82.36	81.27	80.16	80.15
Herfindahl-Hirschman Index (HHI)	0.176	0.178	0.179	0.179	0.180	0.180
Total assets (R billions)	6 457.3	6 562.3	7 019.7	7 490.5	7 888.2	8 271.6
- Year-on-year percentage change	11.93	1.74	6.96	6.78	5.31	7.32
Total loans and advances (R billions)	4 542.5	4 643.1	4 984.0	5 349.9	5 627.1	5 877.1
- Year-on-year percentage change	6.90	2.20	7.30	7.40	5.20	6.20
Total capital adequacy ratio	16.21	17.49	17.68	17.36	17.20	17.22
Tier 1 capital adequacy ratio	13.14	14.47	14.96	15.01	14.99	14.96
Common equity tier 1 capital adequacy ratio	12.33	13.30	13.63	13.43	13.29	13.22
Impaired advances (R billions)**	211.9	229.2	226.7	276.8	300.5	307.6
Impaired advances to gross loans and advances	4.70	4.90	4.5 00	5.20	5.30	5.20
Specific credit impairments (R billions)	92.2	105.5	109.7	127.2	141.1	147.2
Specific credit impairments to impaired advances	43.56	46.07	48.45	45.98	46.93	47.85
Specific credit impairments to gross loans and advances	2.03	2.27	2.20	2.38	2.51	2.50
Return on assets (smoothed)	0.79	0.81	1.12	1.11	1.13	1.18
Return on equity (smoothed)	10.22	10.62	14.26	14.84	15.15	15.81
Interest margin to gross income (smoothed)	58.17	58.65	58.77	60.09	60.48	59.36
Operating expenses to gross income (smoothed)	58.26	58.73	58.08	56.60	56.89	56.80
Liquid assets to total assets (liquid asset ratio)	12.2	13.3	14.0	15.0	15.1	16.0
Liquid assets to short-term liabilities	24.1	24.1	25.2	27.5	27.4	28.4
Liquidity coverage ratio	142.2	144.1	145.4	150.6	148.7	149.4

* Updated as at 22 October 2025. All data is averaged for the year shown. Data is in percentages unless stated otherwise.

** Impaired advances are advances in respect of which a bank has raised a specific impairment and include any advance or restructured credit exposure subject to amended terms, conditions and/or concessions that are not formalised in writing.

*** 2025 is year to date (to June 2025).

Source: PA

Table A.2: Insurance sector indicators

	2020	2021	2022	2023	2024
Market share in terms of assets (five largest life insurers)	73	73	74	71	71
Market share in terms of gross written premiums (five largest non-life insurers)	47	50	49	45	47
Balance sheet					
Total assets: life insurers (R millions)	3 254 815	3 724 257	3 705 455	4 115 321	4 569 733
Total assets: non-life insurers (R millions)	239 132	260 616	290 127	308 317	336 127
Total liabilities: life insurers (R millions)	2 909 562	3 343 586	3 353 525	3 722 862	4 162 133
Total liabilities: non-life insurers (R millions)	141 422	178 516	121 541	121 502	118 019
Profitability					
Gross written premiums: life insurers (R millions)	564 327	620 821	631 629	681 055	722 296
Net profit before tax and dividends: life insurers (R millions)	11 766	48 731	19 848	28 499	26 007
Individual lapse ratio: life insurers	66.0	77.0	76.0	64.0	55.0
Gross written premiums: non-life insurers (R millions)	158 632	169 846	181 916	210 291	227 437
Combined ratio: non-life insurers (%)	113.0	119.0	98.0	101.0	95.0
Operating profit ratio: non-life insurers (%)	16.0	-14.0	14.0	27.0	22.0
Solvency and capital					
Solvency capital requirement cover ratio (median): life insurers	1.9	1.7	1.7	1.9	1.8
Minimum capital requirement cover ratio (median): life insurers	4.3	4.2	4.7	4.9	4.9
Solvency capital requirement cover ratio (median): non-life insurers	1.9	1.8	1.5	1.7	1.8
Minimum capital requirement cover ratio (median): non-life insurers	4.0	4.4	3.8	3.7	3.5

Source: PA



