

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 1453 [NW1604E]**  
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**1453. Mr D J Maynier (DA) to ask the Minister of Finance:**

Whether the SA Reserve Bank (a) has taken steps and/or (b) will take steps to mitigate the effects of a possible sovereign ratings downgrade on the stability of the financial system; if not, why not, in each specified case; if so, what are the relevant details, in each specified case?

NW1604E

**REPLY:**

The SA Reserve Bank (SARB) has provided the following response: The SARB fulfils its responsibility for financial stability and continually monitors developments that may affect this mandate, and has taken steps to mitigate the effects of a possible sovereign ratings downgrade on the stability of the financial system. The SARB produces its Financial Stability Review (available on its website [www.resbank.co.za](http://www.resbank.co.za)) twice a year to report on how it is fulfilling this mandate.

The dual mandates of the SARB (price and financial stability) are pursued through the tools available in a manner consistent with its defined objectives, irrespective of the source. The framework for dealing with financial stability risks (including those posed by a possible sovereign ratings downgrade), includes:

- i) Monitoring for financial stability risks
- ii) Contingency planning for various risk scenarios
- iii) Stress testing

**i) Monitoring framework for financial stability**

The Financial Stability Department has in place a monitoring framework that focuses on the systemic vulnerabilities that may propagate adverse shocks to the South African economy and financial system. As noted in the SARB Financial Stability Review (May 2016), an important component of this monitoring framework is the risk assessment matrix (RAM) that identifies key domestic and external risks to financial stability, and their likely impact. The risks associated with a sovereign credit rating downgrade to sub-investment grade have been included in the versions of the RAM presented to the Financial Stability Committee since at least 2014.

## **ii) Contingency planning for various risk scenarios**

The SARB is involved in continuous efforts to identify, quantify and mitigate possible adverse events that could pose a financial stability risk including a ratings downgrade. This contingency planning involves engaging with key public and private sector stakeholders.

The systemic risks associated with various scenarios are then discussed with all key stakeholders and contingency arrangements are put in place.

## **iii) Stress testing exercise conducted**

The SARB conducted a common scenario stress test exercise to evaluate the soundness of the South African domestic banking sector (2016 stress testing exercise). Details of the scenarios and methodology are contained in the Financial Stability Review (May 2016). The scenarios made provision for vulnerabilities similar to what could be experienced following a downgrade.

In addition to these measures aimed at ensuring financial stability, action have been taken (by the Bank Supervision Department) to mitigate risks that may arise to individual financial institutions.