

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
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657. Mr N Singh (IFP) to ask the Minister of Finance:

- (1) What (a) is the current position regarding the introduction of rand-backed stablecoin cryptocurrency in the Republic and (b) are the full relevant details of the implications of the introduction of the rand-backed stablecoin to the world;
- (2) whether he has found that it is feasible to issue legal electronic tender; if not, what is the position in this regard; if so, what are the relevant details?

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REPLY:

- (1) (a) (i) and (ii) The South African Reserve Bank (SARB) is not considering issuing a stablecoin or any other cryptocurrency, be it rand-backed or otherwise.

The SARB and Treasury distinguish between the concepts of (i) cryptocurrency (generally referred to as crypto-assets in the international regulatory space); (ii) stablecoins; and (iii) central bank digital currency.

A crypto-asset is a digital representation of value that is not issued by a central bank, but traded, transferred or stored electronically by natural or legal persons used for the purpose of payment, investment or other form of utility for the user.

A stablecoin is a privately (i.e. non-central bank) issued cryptocurrency with a stability mechanism incorporated into its design with the aim of closely mimicking the value of (i) a single sovereign currency; (ii) a basket of sovereign currencies; or (iii) another reference asset such as a commodity or even another crypto-asset, with the ultimate objective of addressing the widely documented challenges crypto-assets have had with limiting price volatility, which makes them unsuitable as a medium of exchange, a store of value and a unit of account.

A working group of the National Treasury, SARB and other financial sector regulators are currently considering how best to bring crypto-assets within the regulatory perimeter. Stablecoins also form part of this review. It is the intention of National Treasury and SARB that a draft policy paper on crypto assets and stable coins will be published in the near future.

Like numerous other central banks, the SARB is exploring the benefits and risks of issuing a central bank digital currency (CBDC), which would essentially be the equivalent of digital cash. A CBDC, however, would necessarily be linked on a one-to-one basis with the sovereign currency (in this case the Rand), the value of which is protected via the SARB's monetary policy and inflation-targeting regime.

Such a South African CBDC would likely be legal tender, thus obligating merchants to accept it as payment for goods and services. The practical implications such designation would have, particularly for micro, small and medium-sized businesses, are currently under consideration.

The SARB is researching the broad range of implications such an issuance could have for areas including but not limited to (i) domestic financial stability, (ii) payments (domestic and cross-border), (iii) the monetary policy transmission mechanism, (iv) the potential disintermediation that could occur and how such disintermediation could affect traditional financial intermediaries such as banks, (v) exchange rate volatility, (vi) capital flows and capital flow volatility, and (vii) financial inclusion. Most of these factors are, however, focused domestically, with the potential implications of a South African CBDC for the global monetary and financial system currently not being regarded at this juncture.

- (2) Currently, the CBDC project at the SARB is in a "Request for Proposal (RFP) phase". Vendors have been shortlisted to participate in a RFP expected to be issued in early 2020.