

# SA FINANCIAL SYSTEM SOUND, SAYS RESERVE BANK

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The South African financial system, based on an analysis of various indicators, was assessed as sound during the six months to December and overall confidence in the financial-services sector remains high, the South African Reserve Bank (SARB) said on Wednesday.

Releasing the March 2007 edition of the Financial Stability Review -- which focuses on the six months to December 2007 -- the SARB noted that the world economy is changing to a slower pace of expansion, following three years of uninterrupted robust growth.

It is generally expected that this adjustment will take place smoothly.

A United States housing crunch, which has already impacted on US gross-domestic product growth, further US dollar weakness, continued global imbalances and geopolitical concerns are risks that could lead to a sharper-than-expected slowdown in global growth.

"The brief global market sell-off in February 2007 has resulted in volatility in global equity and bond markets. Financial markets have, however, proved their resilience and recovered fully," the SARB noted.

In emerging-market economies, financial markets continued their strong performance in 2007 on increased investor confidence, renewed risk appetite, continuing investment-fund inflows and improved macroeconomic fundamentals.

In addition, following decades of sluggish progress, African economies are experiencing a major turnaround. Growth is, however, uneven across countries and sub-regions.

"The outlook for sub-Saharan Africa is generally positive. Excluding political risks, the major downside economic risk is a hard landing in the global economy that may result in a turnaround in the commodity boom," the SARB said.

The SARB noted that the South African financial system was assessed as sound during the period under review and stress-testing results showed that the banking sector should remain resilient to a range of plausible adverse developments.

The life-insurance sector is considered to be generally healthy, although there are concerns about the high lapses and surrenders and the low number of new policies issued, it said.

The level of household indebtedness, already high by historical standards, edged even higher. Mortgage advances, which form a dominant portion of credit to the household sector, continued to grow at a high rate.

"Existing fundamentals do not point to overall fragility in household-sector balance sheets, as debt-servicing costs are still low and household wealth and financial assets are growing," it said.

The ongoing resilience of the South African financial system is also dependent on the proactive efforts of financial authorities and policymakers to enhance the functioning of the financial system and reduce the risk of financial distress and contagion, it added.

In this regard, a number of significant regulatory development milestones were reached in the period under review.

These include regulatory amendments introduced in the insurance and retirement industries to give effect to certain undertakings of the Statement of Intent, and the release of the draft Companies Bill of 2007 for public comment, the SARB added.

The SARB's Financial Stability Review is part of the central bank's approach to encourage debate on financial-stability issues, and enhance the understanding of the financial system and its strengths and weaknesses. -- I-Net Bridge