INTUITION

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SARB: Modernising our infrastructure

The focus of this issue of Intuition is the South African Reserve Bank (SARB), an institution that has steered our economy through turbulence for over a century. While traditionally known for its conservative wisdom, the SARB is currently embarking on a massive technological leap to modernize how we transfer money. By upgrading our national payment systems, the bank is fundamentally rewiring our financial DNA to address modern challenges. The SARB is actively working to structurally lower borrowing costs, make everyday transactions more affordable, and bring unbanked citizens into the formal economy.

Willie Pelser

For over a century, the South African Reserve Bank (SARB) has operated as the "Old Sage" of Pretoria - a bastion of institutional independence and a steady hand on the tiller during South Africa's most turbulent storms. (The SARB's historical timeline is available at the end of the article).

Established in 1921, Africa's oldest central bank has survived the existential trauma of the Great Depression, the birth of the Rand in 1961, and the 1985 debt standstill that triggered draconian exchange controls. Today, it remains one of the few national institutions that can hold its head high, standing in stark contrast to the rhetoric of "bankrupt politicians" who frequently eye its independence as a panacea for structural failures.

However, the Sage is currently attempting a pivot that would be ambitious for a Silicon Valley unicorn, let alone a 105-year-old institution. Despite pioneering payment innovations like Saswitch and real-time clearing in the 1980s, South Africa has recently watched from the sidelines as emerging market peers like Brazil and India transformed their economies through digital-first payment architectures.

The SARB is no longer content with being a conservative bystander. Through its Payments Ecosystem Modernisation (PEM) Programme, it is reinventing itself as a digital pioneer. This is more than a technical upgrade; it is a fundamental rewiring of the nation's financial DNA to address "modern and novel challenges" in the world's most unequal society.

The Keynesian ghost and the Gold Standard Capitulation

The SARB's institutional pedigree is elite. Its first governor, William Glegg, was not merely appointed; he was selected by a committee in London chaired by the titan of modern economics, John Maynard Keynes – a personal friend of Prime Minister Jan Smuts. Yet, prestige did not prevent the "miscalculation" of 1931.

At the height of the Great Depression, the Bank advised the government to cling to the gold standard while the rest of the world's major economies abandoned it. This refusal to decouple led to a brutal economic contraction until South Africa finally capitulated in 1932. As a financial historian, one

SPEED READ

- **A Prestigious Foundation: Established in 1921 as Africa's oldest central bank, the SARB was built on elite economic expertise. Its first governor, William Glegg, was hand-selected by a committee chaired by the legendary economist John Maynard Keynes, establishing a century-long legacy of institutional prudence and professionalism.**
- **Cheaper Debt for Everyone: By officially lowering its inflation target to a 3% midpoint for 2025/2026, the SARB is actively driving down the overall cost of debt. This strategic move is designed to create lower interest rates for homeowners and entrepreneurs across the country.**
- **Putting People Over Profit: The bank is creating a National Payment Utility that treats payment networks as a public good rather than a commercial profit centre. This infrastructure aims to prioritize financial inclusion while acting as a resilient shield against international economic shocks.**
- **Ending the Banking Queues: A planned Digital Financial Identity platform will use simple details like mobile numbers or emails for verification. This modern approach replaces archaic paperwork, easily opening doors to credit and insurance for the unbanked.**

sees this not as a mark of shame, but as the origin of the Bank's legendary prudence. Institutional memory of that mistake fuels the Bank's current obsession with data-driven stability.

> *"Its first governor was appointed by the famous UK economist John Maynard Keynes, who, as a friend of the then prime minister Jan Smuts, chaired the selection committee in London. The bank has regularly exhibited high professionalism not only in successfully implementing monetary policy, but over time also in responding to changing economic circumstances."* — **Prof Raymond Parsons, former SARB board member**

The 25-year "Fiddle": narrowing the Path to Prosperity
In 2000, South Africa became the 13th country to adopt inflation targeting, but for nearly a quarter-century, the 3% - 6% target band remained static. Governor Lesetja Kganyago has recently moved to fix what he calls the "fateful decision" of 2002 - the choice to postpone narrowing that target.

By shifting to a 3% midpoint for 2025/2026, the SARB is doing more than just "fiddling" with numbers; it is structurally lowering the cost of debt for the entire economy. By early 2026, inflation expectations hit all-time lows, causing the entire yield curve to shift downward. This is the ultimate "Economic Columnist" insight: lower inflation targets aren't just about price stability; they are a mechanism to lower interest rates for every homeowner and entrepreneur in the country.

> *"Our constitutional mandate is to protect the value of the currency... the target was always somewhat high and the band too wide - a legacy of the fateful decision, dating back to 2002, to postpone plans to narrow it. It has taken nearly a quarter century to fix that mistake, but we have finally done so."* — **Governor Lesetja Kganyago**

Pursuing the "Red Dot": Lessons from Brazil and India

The SARB's "Red Dot" represents the primary goal: a state where fast, simple, and affordable digital payments are the default. To achieve this, South Africa must move to a "Higher Equilibrium," escaping the coordination frictions and high costs of its current "post box" banking culture, where users receive digital funds only to immediately withdraw them as cash.

The case for this step-change is undeniable when looking at global success data:

- Brazil's PIX processed a staggering 64 billion transactions in 2024, a 53% year-on-year increase.
- India's UPI now accounts for 80% of all retail payments across that nation.

To bridge this gap, the SARB has identified three pillars for modernization:

- Competition: Shifting to an activity-based model that allows fintechs to compete with banks.
- Infrastructure: Overhauling the "middle-mile" to support interoperability.
- Cash Dependency: Providing digital alternatives for the unbanked who still find cash more "trustworthy."

The National Payments Utility: DPI and the Sanctions Shield

In a counter-intuitive but macro-critical move, the SARB is transitioning away from the private-sector-led model of BankservAfrica (now called PayInc) toward a "National Payment Utility" (NPU). By treating payment infrastructure as **Digital Public Infrastructure (DPI)** - a public good rather than a commercial profit centre - the Bank can prioritize inclusion over dividends.

This shift is not just about fees; it is about sovereignty. In an era of geopolitical volatility, the NPU acts as a shield against international sanctions and external shocks, ensuring that the domestic "middle-mile" remains resilient. Furthermore, the economic stakes are high: digitizing government payments alone is projected to boost South Africa's GDP by 0.4% to 0.5%.

> *"The SARB, through the PEM, is building a national payments utility that aims to be resilient, efficient and accessible, powering a thriving and inclusive digital economy."* — **Pradeep Maharaj, Executive Director: PEM Programme**

Digital Identity: Trading Paperwork for Electronic Trust

For the "unbanked," the greatest barrier to entry isn't a lack of money - it's a lack of paperwork. The planned Digital Financial Identity (DFID) platform aims to replace archaic physical verification with "cumulative electronic trust."

By utilizing "e-Know Your Customer" (eKYC) and simple aliases like mobile numbers or email addresses, the SARB is effectively ending the era of the banking hall queue. This creates a financial identity for those previously invisible to the system, allowing them to build a digital footprint that opens doors to credit and insurance.

A Level Playing Field: Bringing 1930s Rules into the Crypto Age

The SARB's regulatory philosophy is evolving toward an "activity-based" model. The logic is simple: if you perform the activity of a bank, you will be regulated like one. This extends to the contentious world of crypto assets.

Governor Kganyago's stance is pragmatic: South Africa's exchange control framework dates back to the 1930s and must be updated for the 21st century. The Bank argues that no industry, including crypto, should be exempt from controls any more than they are exempt from taxes. By creating a "level playing field," the SARB isn't stifling innovation; it is ensuring that innovation happens within a framework that protects macroeconomic stability and prevents illicit flows.

Conclusion: Can the Sage Bridge the Great Divide?

As we look toward the next century, the SARB remains committed to its mission: navigating storms so that "good news endures and bad news prove temporary." It has successfully evolved from a colonial-era institution influenced by Keynes into a digital pioneer leading a DPI revolution.

Yet, a haunting question remains for this 105-year-old startup: Can a central-bank-led digital revolution truly solve the "unwanted tag" of being the world's most unequal society? Digitizing the Rand is a monumental achievement, but the true test of the Sage's wisdom will be whether these digital rails lead to genuine economic inclusion for every South African, or merely a faster way to manage poverty.

Historical Timeline.

The South African Reserve Bank (SARB), Africa's oldest central bank, has reached several major milestones over its 105-year history, evolving from its colonial-era beginnings to a modern institution with its independence enshrined in the constitution. The following are the major historical milestones of the Bank as detailed in the sources:

Founding and Early Years
1921: The South African Reserve Bank was established. Its first governor, William Glegg, was appointed by the renowned economist John Maynard Keynes.
1931–1932: In 1931, the Bank advised the government to remain on the Gold Standard, a decision later viewed as a significant miscalculation as other major economies had already abandoned it. South Africa eventually dropped the Gold Standard in 1932.

Currency and Exchange Milestones
1961: On February 14, the Rand was introduced as the official currency of South Africa.
1985: The Bank introduced exchange controls following significant capital outflows from the country.
1995: The dual rand system was introduced to manage capital.

Modern Reforms (2025–2026):
Under Governor Lesetja Kganyago, the Bank has moved to modernize exchange controls to include crypto assets and is amending the national payments system to incorporate fintech players.

Monetary Policy and Inflation Targeting
2000: South Africa became the 13th country to adopt an inflation-targeting monetary policy framework, initially setting a target band of 3%–6%.
2025: The Bank implemented a significant reform by lowering the inflation target to 3% (with a one-percentage-point tolerant band) to better align with peer countries and ensure structurally lower interest rates.

Navigating Economic Crises
The SARB has been recognized for its "adept stewardship" in navigating various domestic and global shocks:
2008: Played a key role in steering the economy through the global financial crisis.
2020: Deftly managed the economic impacts of the COVID-19 pandemic.
Ongoing: Continues to manage "intractable sluggish domestic growth" while maintaining its mandate of price stability

Our next seminar will delve into the complicated world of AI and articulate how we have positioned portfolios to benefit from this fast-moving technology."

Topic:	**Positioning your portfolio for AI**
Natal Midlands	
Date:	10th of September, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	8th of September, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	N/A
Venue:	J&J Belmont Square, Belmont Road, Rondebosch
Time:	7.30am
Venue:	Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town
Time:	5.30pm for 6pm

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