

South Africa's international investment position

Introduction

The international investment position or IIP of a country is a set of economic statistics reflecting that country's foreign assets and foreign liabilities. The South African Reserve Bank (the Bank) released South Africa's IIP valued as at 31 December 2013, 31 March 2014 and 30 June 2014 on 30 September 2014. With the publication for the first time of the country's IIP on a quarterly basis, South Africa now fully complies with the requirements of the Special Data Dissemination Standard of the International Monetary Fund and the G-20 Data Gaps Initiative regarding the dissemination of quarterly IIP statistics. The Bank will in future publish South Africa's quarterly IIP statistics with a one-quarter lag.

In the calculation of the IIP, compilers value the country's external assets and liabilities at the current market prices and exchange rates ruling at the end of the period concerned. Accordingly the rand value of such assets and liabilities may change either due to transaction flows or to revaluation effects.

Foreign liabilities

The value of South Africa's total foreign liabilities valued at the end of 2013 amounted to R4 187 billion compared with R3 534 billion at the end of 2012. On balance, the rate of increase in foreign liabilities, however, slowed from 19,5 per cent in 2012 to 18,5 per cent in 2013. From the end of 2013 to 30 June 2014 the country's foreign liabilities increased by a further 9,4 per cent to R4 579 billion.

Composition of inward investment

R billions

	31 Dec 2012	31 Dec 2013	31 Mar 2014	30 Jun 2014
Direct investment.....	1 390	1 596	1 661	1 719
Portfolio investment.....	1 729	2 089	2 162	2 322
Other investment.....	415	502	537	538
Total.....	3 534	4 187	4 360	4 579
<i>Memo: Rand-dollar exchange rate.....</i>	<i>8,4838</i>	<i>10,4675</i>	<i>10,5953</i>	<i>10,6135</i>

The *stock of direct investment liabilities* advanced by 14,8 per cent from the end of 2012 to the end of 2013. This increase was brought about by both a capital inflow, which amounted to R79,1 billion, and valuation adjustments mainly related to the depreciation of the rand against most other currencies as the nominal effective exchange rate of the rand declined by 18,6 per cent over the period. Direct investment liabilities increased by a further 7,7 per cent from the end of 2013 to 30 June 2014, mainly as a result of further inflows and retained earnings; the nominal effective exchange rate of the rand depreciated by only 1,1 per cent over this six-month period.

The value of outstanding *portfolio investment liabilities* increased by 20,8 per cent from the end of 2012 to the end of 2013. While the inflow of portfolio investment capital to the value of R70,9 billion in 2013 was dominated by non-resident net purchases of South African debt securities, the increase in the stock of portfolio investment liabilities over the period resulted mainly from increases in the value of equity securities owned by non-resident investors. The JSE All-Share Price Index rose by 17,8 per cent from the end of 2012 to the end of 2013. The value of portfolio investment liabilities increased by a further 11,2 per cent from the end of 2013 to 30 June 2014 - the JSE All-Share Price Index increased by a further 10,1 per cent alongside the further net acquisition South African domestic debt securities by non-resident investors.

The stock of *other investment liabilities* increased by 21,0 per cent from the end of 2012 to the end of 2013 largely owing to the continued foreign borrowing activity of the public corporations and the private non-banking sector. Other investment liabilities rose by a further 7,2 per cent from the end of 2013 to 30 June 2014 largely due to credit extended to the South African banking sector in the first quarter of the year.

Foreign assets

South Africa's total foreign assets amounted to R4 048 billion at the end of 2013 compared with R3 084 billion at the end of 2012. The annual rate of increase in foreign assets accelerated to 31,2 per cent over the period compared with an increase of 17,5 per cent in the preceding year. From the end of 2013 to 30 June 2014 the country's foreign liabilities increased by 7,7 per cent to a level of R4 357 billion.

Composition of outward investment

R billions

	31 Dec 2012	31 Dec 2013	31 Mar 2014	30 Jun 2014
Direct investment.....	950	1 350	1 402	1 478
Portfolio investment.....	1 358	1 749	1 803	1 897
Other investment.....	776	949	987	982
Total.....	3 084	4 048	4 192	4 357
Memo: Rand-dollar exchange rate.....	8,4838	10,4675	10,5953	10,6135

The stock of *direct investment assets* increased by 42,1 per cent from the end of 2012 to the end of 2013. This increase reflected, *inter alia*, marked increases in the share prices of existing direct investment holdings, the decline in the exchange value of the rand mentioned above, and an outflow of direct investment capital to the value of R54,3 billion. Direct investment assets advanced by 9,5 per cent from the end of 2013 to 30 June 2014 largely due to the favourable revaluation of the equity shareholding in direct investment enterprises over the period.

The value of *portfolio investment assets* rose by 28,8 per cent from the end of 2012 to the end of 2013. Even though outward portfolio investment flows declined over the period, the stock value of portfolio investment assets benefited from favourable valuation adjustments arising from the 18,6 per cent decline in the nominal effective exchange rate of the rand in 2013 and the strong performance of global equity markets over the period – the S&P500 Price Index surged, on balance, by 27,4 per cent in 2013. Portfolio investment assets increased by 8,5 per cent from the end of 2013 to 30 June 2014 as the S&P500 increased by a further 6,1 per cent amidst the further acquisition of foreign equity securities by South African residents.

Other investment assets valued at the end of 2013 were 22,3 per cent higher than at the end of 2012 mainly on account of favourable valuation adjustments - the conversion of the foreign currency-denominated assets of monetary authorities and the banking sector into rand were, in particular, affected by the weaker exchange rate of the rand. The stock of other investment assets increased at a rate of 3,6 per cent in the first half of 2014 mainly due to capital outflows emanating from the banking sector.

Net international investment position (foreign assets minus foreign liabilities)

Owing largely to the positive wealth effects following the depreciation in the exchange rate of the rand, the value of South Africa's foreign assets increased by more than its foreign liabilities in 2013. As a result, the country's negative net international investment position narrowed from R450 billion at the end of 2012 to R139 billion at the end of 2013. The decrease in the country's negative net international investment position occurred despite the financing of South Africa's current-account deficit of R197 billion in 2013.

Concluding comments

The openness of the South African economy to foreign trade and capital movements continues to be revealed in increases in the country's foreign liabilities and assets. Both financial flows and revaluation effects contributed to significant increases in the rand value of these assets and liabilities in 2013 and the first half of 2014. As a ratio of annual gross domestic product, foreign liabilities increased from 113 per cent at the end of 2012 to 124 per cent at the end of 2013, while foreign assets advanced from 98 per cent to 120 per cent of gross domestic product over the same period. The foreign liability ratio increased further to 131 per cent and the foreign asset ratio to 124 per cent by mid-2014. Favourable revaluation effects were important in narrowing the gap between foreign liabilities and assets, particularly in 2013.

It is envisaged that the next IIP – that for the end of the third quarter – will be released on the Bank's website at the end of December 2014.