

South Africa's international investment position

Net international investment position (foreign assets minus foreign liabilities)

South Africa's positive net international investment position (IIP) improved markedly from R109 billion at the end of September 2015 to R714 billion at the end of December primarily due to a significant stronger increase in the value of South Africa's foreign assets compared to the increase in the value of foreign liabilities. For the second consecutive quarter, the country's net international investment position benefited from a significant depreciation in the exchange rate of the rand.

Foreign liabilities

After declining by 0,3 per cent in the third quarter of 2015, the market value of South Africa's foreign liabilities (inward investment) increased by 7,5 per cent from R5 164 billion at the end of September 2015 to R5 549 billion at the end of December. The significantly faster pace of increase in the country's foreign liabilities in the fourth quarter of 2015 reflected an increase in the functional categories for direct investment, financial derivatives and "other" investment. The category for direct investment recorded the largest increase following the reverse takeover by a non-resident company of a resident integrated retail group and the subsequent movement of the primary listing of the group from the JSE to the Frankfurt Stock Exchange. The result of this transaction is the classification of the South African entity as a direct investment enterprise, while portfolio investment declined as the non-resident portfolio investment shareholders in this company no longer have a claim on a South African company following the transaction. "Other" foreign investment rose further as the South African banking sector increased its foreign currency-denominated loan finance from abroad.

Composition of inward investment

R billions

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Direct investment.....	1 609	1 619	1 608	1 624	1 942
Portfolio investment.....	2 575	2 748	2 825	2 700	2 614
Financial derivatives.....	115	127	96	137	197
Other investment.....	636	671	647	704	796
Total.....	4 935	5 165	5 176	5 164	5 549
Memo: US\$/Rand exchange rate	11,5719	12,2020	12,2406	13,8143	15,5742

Foreign assets

The market value of South Africa's foreign assets (outward investment) increased markedly during the fourth quarter of 2015 to an amount of R6 263 billion at the end of December 2015 compared to R5 276 billion at the end of September. The quarterly rate of increase in the value of foreign assets accelerated noticeably to

18,7 per cent in the fourth quarter of 2015 compared with an increase of 4,6 per cent in the preceding quarter. The increase in the value of the country's foreign assets was broad based, lifted by higher valuations for all five functional foreign asset categories. With the exception of "other" investment assets which grew at a moderate pace, all functional categories recorded significant increases; direct investment contributing the biggest absolute increase. The valuation of portfolio investment assets benefited from the previously mentioned movement of a domestic retail group's primary listing from the JSE to the Frankfurt Stock Exchange, as South African portfolio shareholders were as a consequence classified as portfolio investors in a foreign rather than in a domestic enterprise. The nominal effective exchange rate of the rand declined, on balance, by 10 per cent in the fourth quarter of 2015; against the US dollar, the rand depreciated by 11,3 per cent over the period. The majority of South Africa's foreign assets are denominated in foreign currency, which resulted in a more pronounced increase in foreign assets relative to foreign liabilities during the quarter concerned.

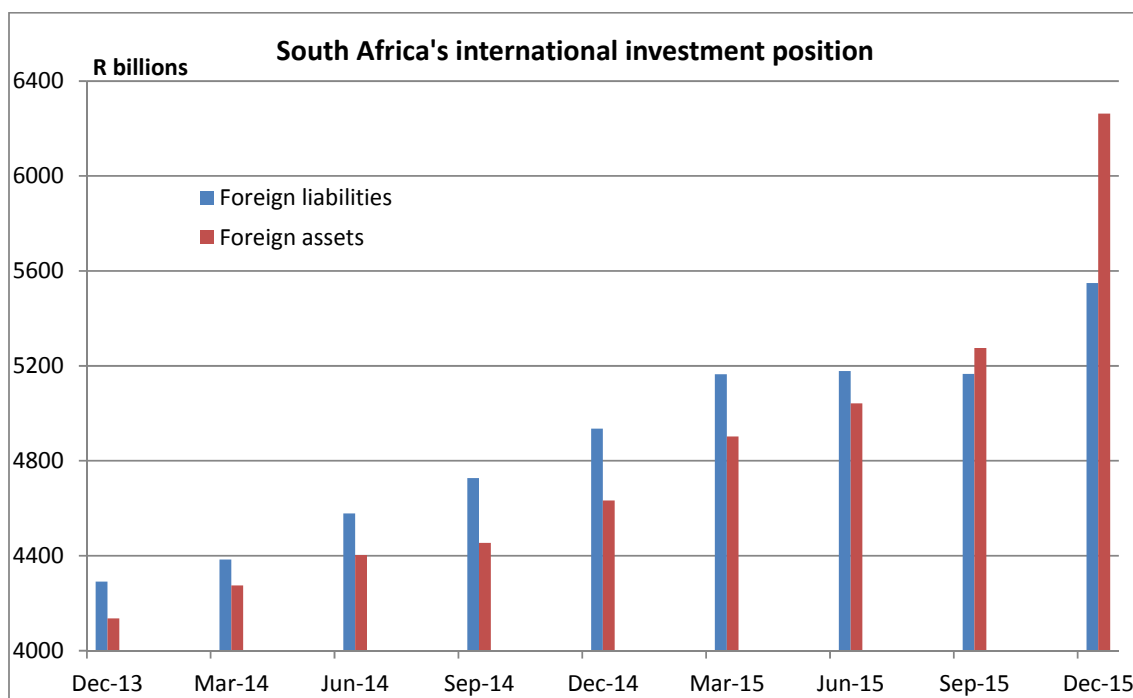
Composition of outward investment

R billions

	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015
Direct investment.....	1 691	1 903	1 982	2 062	2 531
Portfolio investment.....	1 794	1 798	1 854	1 876	2 231
Financial derivatives.....	116	133	103	151	220
Other investment.....	463	503	533	547	567
Reserve assets.....	569	565	571	640	714
Total.....	4 633	4 902	5 043	5 276	6 263
<i>Memo: US\$/Rand exchange rate</i>	<i>11,5719</i>	<i>12,2020</i>	<i>12,2406</i>	<i>13,8143</i>	<i>15,5742</i>

Concluding comments

The second consecutive quarter of significant declines in the end-of-period exchange rate of the rand resulted in another substantial increase in South Africa's foreign assets in the fourth quarter of 2015, which overshadowed the firm increase in the country's foreign liabilities. The net effect of these developments was a second consecutive quarterly improvement in the country's IIP, with the largest positive net IIP being recorded for South Africa since the measurement of the country's IIP commenced at the end of 1956. While South Africa's foreign liabilities increased by 12,5 per cent from 31 December 2014 to 31 December 2015, the country's foreign assets increased at a significantly faster rate of 35,2 per cent over the period., The value of South Africa's foreign assets was especially boosted in the second half of 2015 by a 21,4 per cent depreciation in the exchange rate of the rand against the US dollar.



As a ratio of South Africa's gross domestic product (GDP), the country's foreign liabilities increased from 131,0 per cent at the end of September 2015 to 139,1 per cent at the end of December; the country's foreign assets soared from 133,8 per cent to 156,9 per cent over the same period. This resulted in the country's positive net IIP increasing further to 17,9 per cent of GDP at the end of December 2015 compared to 2,8 per cent at the end of September.

South Africa's IIP as at the end of March 2016 will be released on the Bank's website at the end of June 2016.