Box 3 Banks' positions in foreign currency

While the bulk of South African banks' assets and liabilities are denominated in rand, roughly 15 per cent of the total balance sheet is currently made up of assets and liabilities denominated in foreign currencies. Gross off-balance-sheet positions in foreign currencies are much larger than on-balance-sheet positions, as shown in the table on the next page.

For an individual bank, its net open position in foreign currency indicates the net amount, across that bank's contractual obligations, that is subject to exchange rate risk – when the exchange rate appreciates or depreciates, that is the underlying amount on which profits or losses will be incurred.

Foreign-currency exposure of South African banking sector, 30 September 2015

Foreign-currency exposure item	US$ billion	Percentage of annual gross domestic product	Remarks/examples
Outright exposures			On balance sheet
Total foreign-currency assets (net of infrastructural investments)	46,6	**16**	
Claims on non-residents	35,5	12	Deposit with a foreign bank
Claims on residents	11,1	4	Advance to a South African company
Total foreign-currency liabilities	40,7	**14**	
Liabilities to non-residents	28,6	10	Deposit received from a foreign bank
Liabilities to residents	12,1	4	Deposit in customer foreign-currency account
Contingent exposures			Contingent on a counterpayment
Commitments to purchase foreign currency	253,0	**84**	
Commitments to purchase foreign currency against rand	175,0	58	
From residents	24,3	8	Forward cover for South African exporters; 8 per cent of GDP equals 3 months of exports
From non-residents	93,5	31	Forward cover for non-residents buying local bonds for future settlement; 31 per cent of GDP equals 7 months' non-resident gross purchases of bonds
From other authorised dealers	57,0	19	Setting off exposures through interbank dealing
From South African Reserve Bank	0,3	0	
Commitments to purchase foreign currency against foreign currency	78,0	26	
Commitments to sell foreign currency	258,9	**86**	
Commitments to sell foreign currency against rand	185,9	62	
To residents	41,7	14	Forward cover for South African importers; 14 per cent of GDP equals more than 5 months of imports
To non-residents	86,2	29	Forward cover for non-residents selling local bonds for future settlement; 29 per cent of GDP equals 6,5 months' non-resident gross sales of bonds
To other authorised dealers	55,8	19	
To South African Reserve Bank	2,2	1	
Commitments to sell foreign currency against foreign currency	73,0	24	
Overall exposure			
Effective net open foreign-currency position	0,0	**0**	

Source: Banks' BA 325 returns

The aggregate net open position for the private banking sector in South Africa is built up from large gross positions. On the balance sheet, outright assets denominated in foreign currencies exceeded outright liabilities at the end of September 2015, as shown in the accompanying table. In this instance, the focus is on the currency in which assets or liabilities are denominated, regardless of whether the counterparty is a resident or a non-resident. This differs from the country's balance of payments and international investment position, where the focus is on claims on, and liabilities to, non-residents only (and where such claims and liabilities denominated in rand are included in the aggregate position).

The banks' gross contingent positions in foreign currency were significantly larger than their outright positions at the end of September 2015. This is a reflection of the openness of the economy, the very liquid and active South African financial markets, and the banks' strong participation in the forward and swap markets for foreign exchange; forward cover is available from very short to very lengthy periods, and is extensively used by market participants.

However, adding up the banks' long outright position and short contingent position in foreign currency, their open position at the end of September stood at nil. While the Registrar of Banks requires banks individually to keep their net open positions below 10 per cent of capital and reserves, banks tend to use only a fraction of the allowable maximum.