

#### **Box 4 Revision of equity portfolio investment statistics in South Africa's balance of payments**

The ever-increasing complexities of the financial markets in South Africa necessitate a frequent review of the South African Reserve Bank's (SARB) approach to collecting and compiling balance of payments statistics. During this process, the SARB validates primary source data and interrogates relevant additional data sources. In addition to using data from the JSE Limited (JSE), the SARB uses supplementary data sources such as stock positions of debt securities (and now also stock positions of equity securities) from South Africa's Central Securities Depository (Strate), to generate its own portfolio investment statistics.

In 2014 the SARB revised its estimates of inward debt portfolio investment flows, which resulted in a significant decline in the value of unrecorded transactions. The current revision is merely a continuation of the review process with a focus on equity portfolio investment flows. The SARB noted the gradual increase in public companies with listings on the JSE as well as on foreign stock exchanges, from less than 50 companies at the end of 2010 to about 90 at the end of February 2017. The SARB then researched the complex nature of trading activities in the shares of these companies in consultation with the relevant data providers, such as the JSE and Strate, for the period 2011 to 2016.

It became apparent that in the case of the movement of shares of public companies between the South African and offshore share registers, arbitrage transactions were not fully recorded; the capital inflows emanating from residents' sales on offshore exchanges were recorded as part of unrecorded transactions. The inflow of capital, in this instance, is reflected as a decline in the foreign assets of residents and is accompanied by an inflow of capital as depicted in the category 'net acquisition of financial assets' of the financial account of the balance of payments (see the table on the next page). The net result is that South Africa attracted more equity portfolio inflows than had previously been reported. Similarly, the positive value of transactions previously classified as 'unrecorded transactions' is now lower and in some instances negative.

The revised trading statistics of shares in public companies with listings on the JSE as well as on foreign stock exchanges are now comprehensively captured and included in the equity portfolio investment flows of the balance of payments. As in the previous revision, the flow and stock data of equity investment are now better aligned as a result of enhanced coverage of the movement of shares between domestic and offshore share registers.

As a result of the availability of more detailed data, the SARB is now also in a position to further disaggregate non-resident purchases and sales of shares listed on the JSE between 'net incurrence of liabilities' and 'net acquisition of financial assets'. Non-resident net portfolio purchases from and sales to residents in companies with a head office in South Africa are classified as 'portfolio investment – net incurrence of liabilities', while resident net portfolio purchases from and sales to non-residents in companies with a head office abroad are classified as 'portfolio investment – net acquisition of financial assets'.

Net equity portfolio investment statistics were revised from the first quarter of 2011 up to the third quarter of 2016. The magnitude of these revisions is shown in the table below.

### Selected balance of payments categories

R billions

	Before revision					After revision					
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2016
Net portfolio investment.....	32.6	84.1	58.0	49.1	69.6	57.0	112.4	107.2	145.7	122.6	255.0
Net incurrence of liabilities.....	86.4	117.7	69.5	73.4	106.0	114.6	182.1	130.2	146.9	121.3	154.3
Equity and investment fund shares .....	-26.6	-5.2	8.4	26.8	89.8	1.7	59.1	69.1	100.4	105.1	25.4
Net acquisition of financial assets.....	-53.8	-33.6	-11.5	-24.3	-36.4	-57.6	-69.7	-23.0	-1.2	1.3	100.7
Equity and investment fund shares .....	-37.3	-21.0	-10.6	-14.7	-17.8	-41.2	-57.1	-22.1	8.4	20.0	108.8
Balance on financial account	65.9	173.2	130.4	150.2	151.3	90.3	201.5	179.6	246.8	204.4	163.2
Unrecorded transactions.....	0.9	-6.5	77.5	51.3	22.7	-23.5	-34.8	28.3	-44.8	-26.7	-21.8

Source: SARB