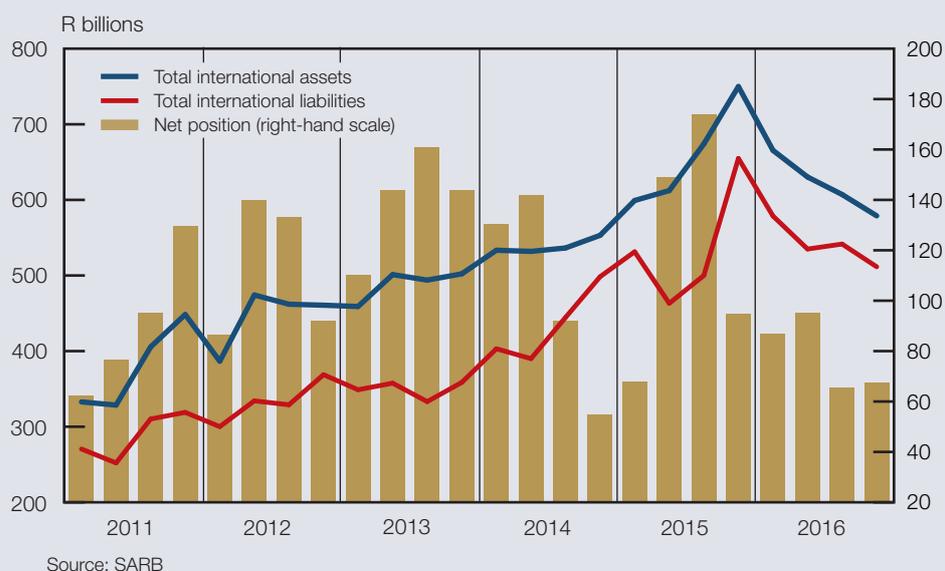


Box 5 Cross-border activity of South African banks¹

South African banks' balance sheets include both domestic and foreign assets and liabilities. The foreign activities of domestic banks represent transactions with non-residents and the creation of foreign asset and liability positions denominated in foreign currencies. Traditionally, the focus of South African banks has predominately been on domestic activity, with a lesser prevalence of international exposure. As a result, the cross-border banking activity of South African banks is relatively small compared to some other countries. Nonetheless, cross-border activity remains an important focus area, both locally and internationally. Granular stock and flow data of domestic banks' cross-border exposure provides a benchmark in relation to other countries in terms of both overall market share/exposure and categorisation – such as counterparty lending and borrowing institutional sectors, and currency composition. The data can also be utilised to assess changes in country and geographical preferences.

The value of cross-border assets and liabilities of South African banks increased noticeably in recent years. However, South Africa's private sector banks experienced a substantial reduction in outstanding international asset and liability balances during 2016. In rand terms, part of this reduction reflects the appreciation in the exchange value of the rand during the year. The balance of international assets fell by R171 billion, from a peak of R750 billion at the end of December 2015 to R579 billion at the end of December 2016. Over the same period, the balance of international liabilities decreased by R143 billion to R512 billion. This resulted in a narrowing of the net foreign asset position of domestic banks from R95 billion at the end of December 2015 to R67 billion at the end of December 2016. Nonetheless, South African banks total holdings of foreign assets continue to exceed foreign liabilities by a substantial margin. This net lending position indicates an absence of reliance on foreign funding for the domestic banking sector as a whole.

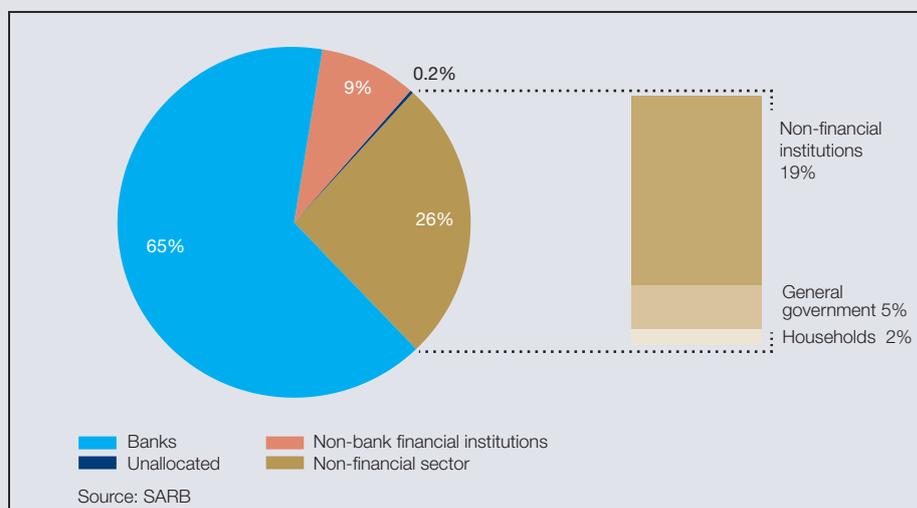
Total external position of South African banks



¹ South African banks, also referred to as *domestic banks* in this box, denote all registered, local or foreign controlled domestic private sector banks and South African branches of foreign banks.

The external sector accounted for 10.3% of the total financing obtained by South African banks at the end of December 2016 compared with 13.3% at the end of 2015. Similarly, domestic banks' holdings of non-resident assets as a percentage of total assets were 11.9% at the end of 2016, down from 15.5% a year earlier. As at December 2016, the majority of domestic banks' international assets were holdings of financial instruments issued by foreign banks, at about 65%, followed by non-financial and non-bank financial institutions.

Total international assets by institutional sector as at December 2016



The bulk of cross-border assets of South African registered banks are held in developed countries. At the end of 2016, the exposure of South African banks to a single counterparty country continued to be dominated by the United Kingdom (UK), followed by the Isle of Man, the United States and Nigeria. As a group, exposure to Africa (excluding South Africa) and the Middle East was also significant.

Similar to international assets, the bulk of the external liabilities of South African registered banks are dominated by developed countries, in particular the UK. South Africa has a well-developed and regulated banking system with multiple links to the UK. Some of the country's largest banking groups either have headquarters or parent companies located in the UK. In addition, various South African banks obtain offshore funding from the UK. As a result, significant changes to the UK's financial services sector will inevitably have spillover effects on South Africa's financial services sector. However, it should be noted that exposure to the UK represents only a small portion of the aggregate balance sheet positions of domestic banks. While the UK represented around 37% and 35% of domestic banks' international assets and liabilities respectively at the end of December 2016, it comprised only 4% of their total assets.

International assets of South African banks by largest counterparty country, including Africa* and the Middle East

R billions

	Amount outstanding as at the end of:		Percentage of total foreign assets for 2016
	Dec 2015 (R billions)	Dec 2016 (R billions)	
United Kingdom	310.5	212.1	36.6
Isle of Man.....	63.3	58.7	10.1
United States.....	73.7	52.1	9.0
Nigeria.....	31.3	27.4	4.7
Germany	20.7	21.0	3.6
Africa* and the Middle East	119.9	106.1	18.3
All countries.....	749.9	578.9	100.0

* Excluding South Africa

Source: SARB

Positions of South African banks in relation to the United Kingdom

R billions

	Amount outstanding as at the end of:		
	Jun 2016	Dec 2016	Change
Assets versus United Kingdom.....	267.6	212.1	-55.5
Liabilities versus United Kingdom	223.6	181.6	-42.0

Source: SARB

Available data for the second half of 2016 may provide some early insight into the impact that the UK's decision in June 2016 to exit from the European Union (also referred to as 'Brexit') may have had on offshore activity of the South African banking sector. Between 30 June 2016 and 31 December 2016, domestic banks' assets and liabilities with respect to the UK decreased by R55.5 billion and R42.0 billion respectively. However, it is probably still too early to predict the overall impact of Brexit on the balance sheets of domestic banks. Furthermore, Brexit will most likely remain an important focus area in the months to come as it is widely expected that London will lose its prominence as a financial gateway to Europe.