

Box 3 Current transfers and the current account of the balance of payments

'Current transfers' comprises both receipts from, and payments to, non-resident counterparties without a *quid pro quo*. On average, about 80% of gross current transfer payments are related to central government transfer payments to trading-partner countries in the Southern African Customs Union (SACU). SACU transfers to the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) affect the balance on the current account of the balance of payments.

The net current transfer deficit remained stable at a ratio of about 0.9% of gross domestic product (GDP) between 2012 and 2015. However, in 2016 the ratio declined to 0.6% of GDP and consequently reduced the overall deficit on the current account of the balance of payments. The lower ratio was sustained in the first quarter of 2017 before increasing to around 1.0% of GDP in the second and third quarters. The increase in net current transfer payments in the second quarter of 2017 could mainly be attributed to an increase in SACU payments. Changes in the size of such payments originate from the National Budget at the beginning of each fiscal year (see memorandum item in the table below) and impact the balance of payments as from the second quarter of each calendar year. The rand value of SACU payments in each fiscal year is based on projections, which often require adjustments to the estimates of previous years. As such, the smaller SACU payment for the 2016/17 fiscal year can partly be attributed to a technical correction relating to the import component of the fuel levy in earlier years (see the *2017 Budget Review* for more detail). Hence, coming from a low base, this has *inter alia* resulted in the upward adjustment in the value of SACU payments in the 2017/18 fiscal year and a return of the ratio of net current transfers to GDP to levels experienced during 2012 to 2015.

Current account of the balance of payments

Components as a percentage of GDP

	2012	2013	2014	2015	2016	2017		
						Q1	Q2	Q3
Trade balance*	-1.1	-2.1	-1.7	-0.9	0.3	1.3	1.4	1.5
Net service payments**	-0.3	-0.3	-0.1	-0.1	-0.2	-0.1	-0.2	-0.0
Net income payments**	-2.7	-2.6	-2.7	-2.5	-2.8	-2.6	-2.7	-2.9
Net current transfers **	-1.0	-0.9	-0.9	-0.8	-0.6	-0.6	-1.0	-0.9
Balance on current account	-5.1	-5.9	-5.3	-4.4	-3.3	-2.0	-2.4	-2.3

Components may not add up to totals due to rounding off.

Memorandum item***

R billions	Fiscal years				
	2013/14	2014/15	2015/16	2016/17	2017/18
SACU payments.....	43.4	51.7	51.0	39.4	56.0

* Net merchandise exports and imports, and net gold exports

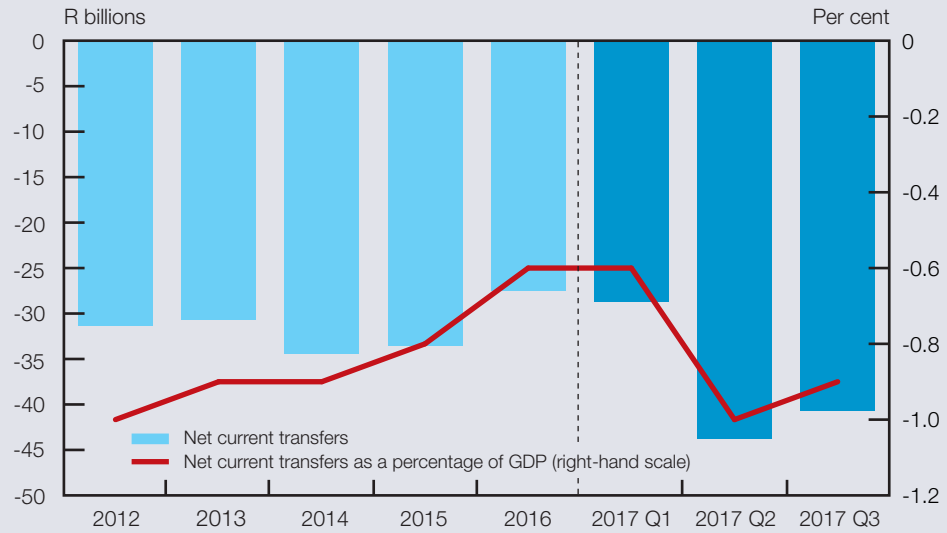
** Receipts less payments

*** 2017 Budget Review and Medium Term Budget Policy Statement

Sources: Stats SA, National Treasury and SARB

Net current transfers are one of the four main components of the current account of the balance of payments, together with the trade balance, net service payments and net income payments. The aggregate of the net inflows and outflows of these four components constitutes the balance on the current account of the balance of payments. Collectively, net service payments, net income payments and net current transfers are known as the services, income and current transfer account, and in South Africa, as in many other emerging market economies, the latter tends to be in a persistent deficit.

Net current transfers*



* Quarterly data are seasonally adjusted and annualised

Sources: Stats SA, SARB and National Treasury

Net current transfers account for a relatively large part of the current account of the balance of payments, but are usually fairly stable and not a major driver of changes in the ratio of the balance on the current account of the balance of payments to GDP. However, in 2016 and 2017, SACU payments impacted net current transfers and the balance on the current account of the balance of payments more significantly.