

## Box 2 The characteristics of dividend payments in South Africa's balance of payments<sup>1, 2</sup>

Dividends paid<sup>3</sup> to non-residents on direct as well as portfolio equity and investment fund share investments is an important category in South Africa's balance-of-payments statistics. Given the inherent volatility of this large, stand-alone payments item<sup>4</sup> in the services, income and current transfer account, it has a significant impact on both the income and the current account balances. Dividend payments on direct investment<sup>5</sup> in equity dominate the size of total dividends, even though non-residents' total holdings of equity and investment fund shares favour portfolio investment relative to direct investment. In addition, direct investment is dominated by investment in unlisted shares. Notwithstanding this, South Africa's dividend payments as a percentage of gross domestic product (GDP) is not an outlier in an international context. Similar to other countries, this ratio also increases during times of high economic growth.

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1 The methodology used to compile balance-of-payments statistics adheres to the guidelines of the *Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6)* of the International Monetary Fund (IMF), available at [www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf](http://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf).

2 This box relates to the statistics published in the tables on pages S-87 and S-92 of this *Quarterly Bulletin* and some unpublished data on the split between listed and unlisted companies.

3 Dividends paid in the balance of payments are measured at date payable, which is also the declaration date of dividends.

4 Dividends are the largest single payments item, followed closely by interest payments.

5 Dividends paid by companies in South Africa in which non-residents individually have (or collectively have in the case of affiliated organisations or persons) at least 10% of the voting rights are classified as dividend payments on direct equity investments.

## Components of the current account balance

As a percentage of gross domestic product

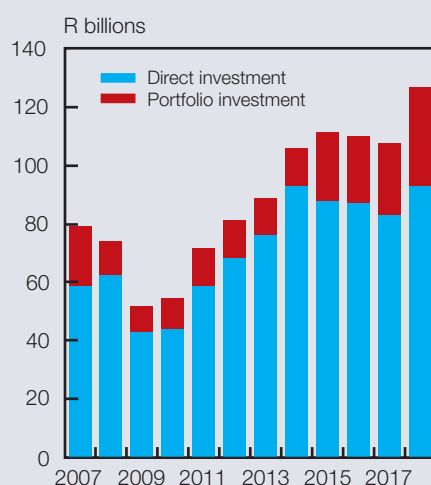
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Trade balance.....	-0.9	-0.6	1.1	2.2	1.6	-1.1	-2.0	-1.4	-1.2	0.7	1.4	0.5
Services, income and current transfer balance.....	-4.5	-4.9	-3.8	-3.7	-3.8	-4.0	-3.8	-3.6	-3.5	-3.6	-3.9	-4.0
<b>Current account balance .....</b>	<b>-5.4</b>	<b>-5.5</b>	<b>-2.7</b>	<b>-1.5</b>	<b>-2.2</b>	<b>-5.1</b>	<b>-5.8</b>	<b>-5.1</b>	<b>-4.6</b>	<b>-2.9</b>	<b>-2.5</b>	<b>-3.5</b>
<b>Memorandum items</b>												
Income balance.....	-3.3	-3.1	-2.2	-2.1	-2.6	-2.7	-2.6	-2.7	-2.5	-2.8	-3.0	-3.2
Dividend balance.....	-3.0	-2.5	-1.6	-1.5	-1.8	-1.7	-1.4	-1.4	-1.2	-1.3	-1.3	-1.4
Dividend receipts ...	0.7	0.7	0.5	0.5	0.6	0.8	1.1	1.4	1.6	1.2	1.0	1.2
<b>Dividend payments</b>	<b>3.7</b>	<b>3.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>2.6</b>

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

Sources: Stats SA and SARB

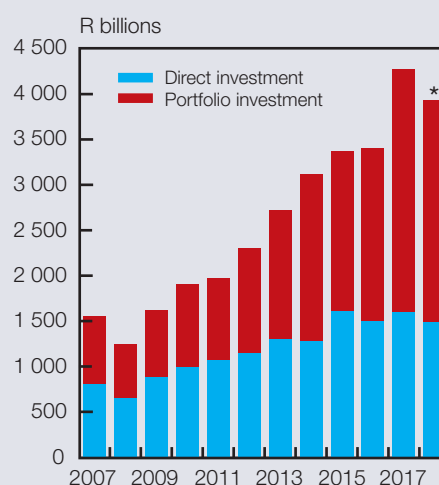
Dividend payments (flows in the balance of payments) reflect a part of non-residents' return on investment in equity and investment fund shares (stock position as part of South Africa's foreign liabilities in the international investment position). The following characteristics are of interest: there is an overwhelming dominance of dividend payments on direct equity investments, even though non-residents' total holdings of equity and investment fund shares favour portfolio investment relative to direct investment.

### Dividend payments on equity and investment fund shares



Source: SARB

### Equity and investment fund share liabilities



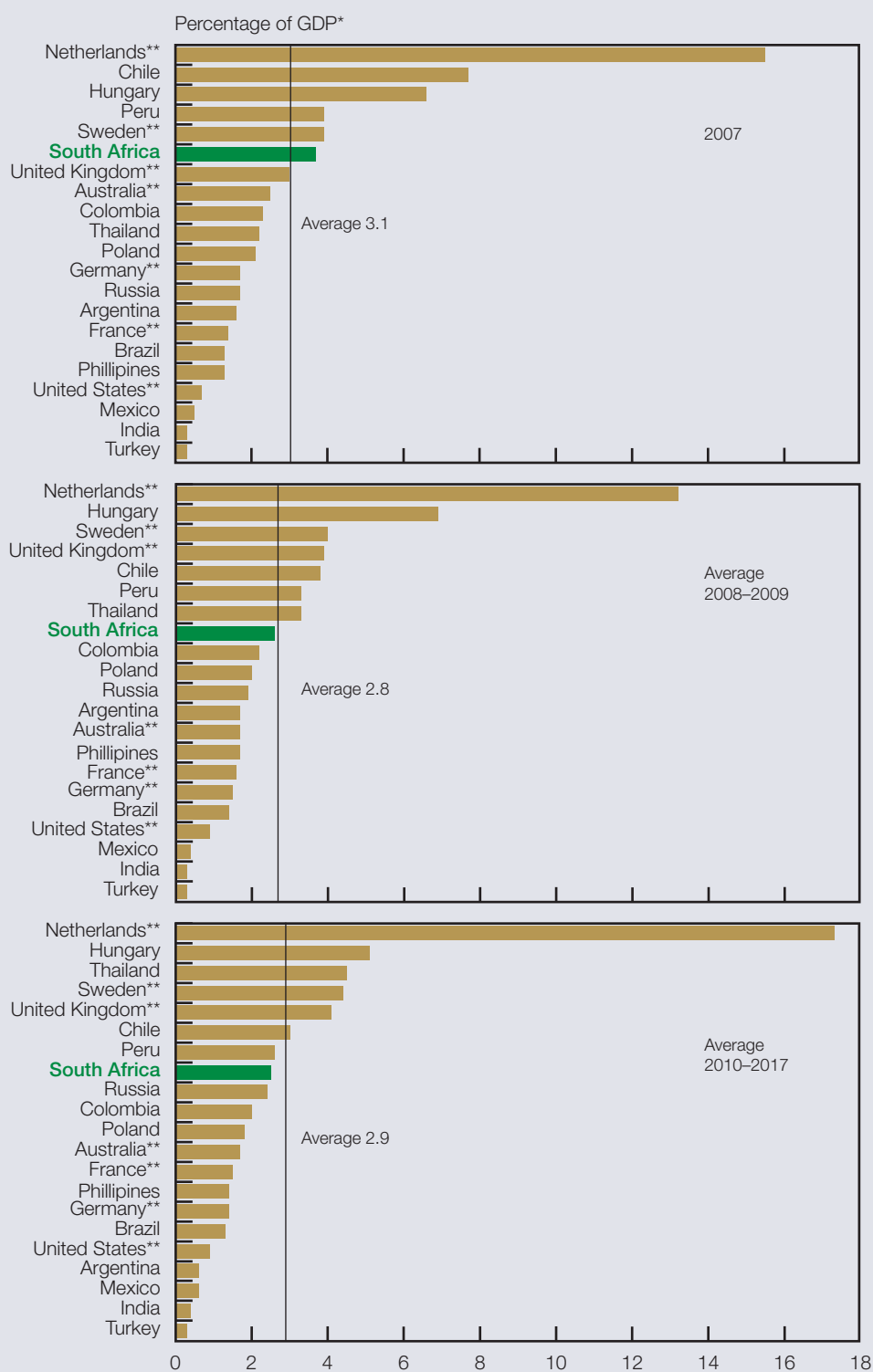
\* As at 30 September 2018

Economic growth and profits are some of the drivers of dividend payments by companies. South Africa experienced above-average annual real economic growth from 2005 to 2007, with a favourable 5.4% growth rate in real GDP in 2007 compared to the global average of 4.2%. In 2007, dividend payments by South African companies to non-resident investors as a percentage of GDP reached 3.7% – marking an all-time high since the inception of this time series in 1960.

A comparison of South Africa's annual dividend payments as a percentage of GDP with a selection of countries from 2007 to 2017 shows that the average ratio for all countries declined from 3.1% before the global financial crisis in 2007 to 2.8% in the period 2008-2009, and only increased slightly to 2.9% in the period 2010-2017. This indicates that dividend payments in the majority of countries (including South Africa) have not returned to pre-crisis levels yet. Further observations are that the country rankings remained broadly unchanged during these three periods; South Africa's ratio was below the average for the selection of countries in the periods 2008-2009

and 2010-2017; and South Africa's dividend payments in terms of relative size and response to economic developments compared favourably to other countries. Of interest is that most of the selected countries are net payers of dividends with advanced economies generally being net recipients of dividends.

### Annual dividend payments by selected countries



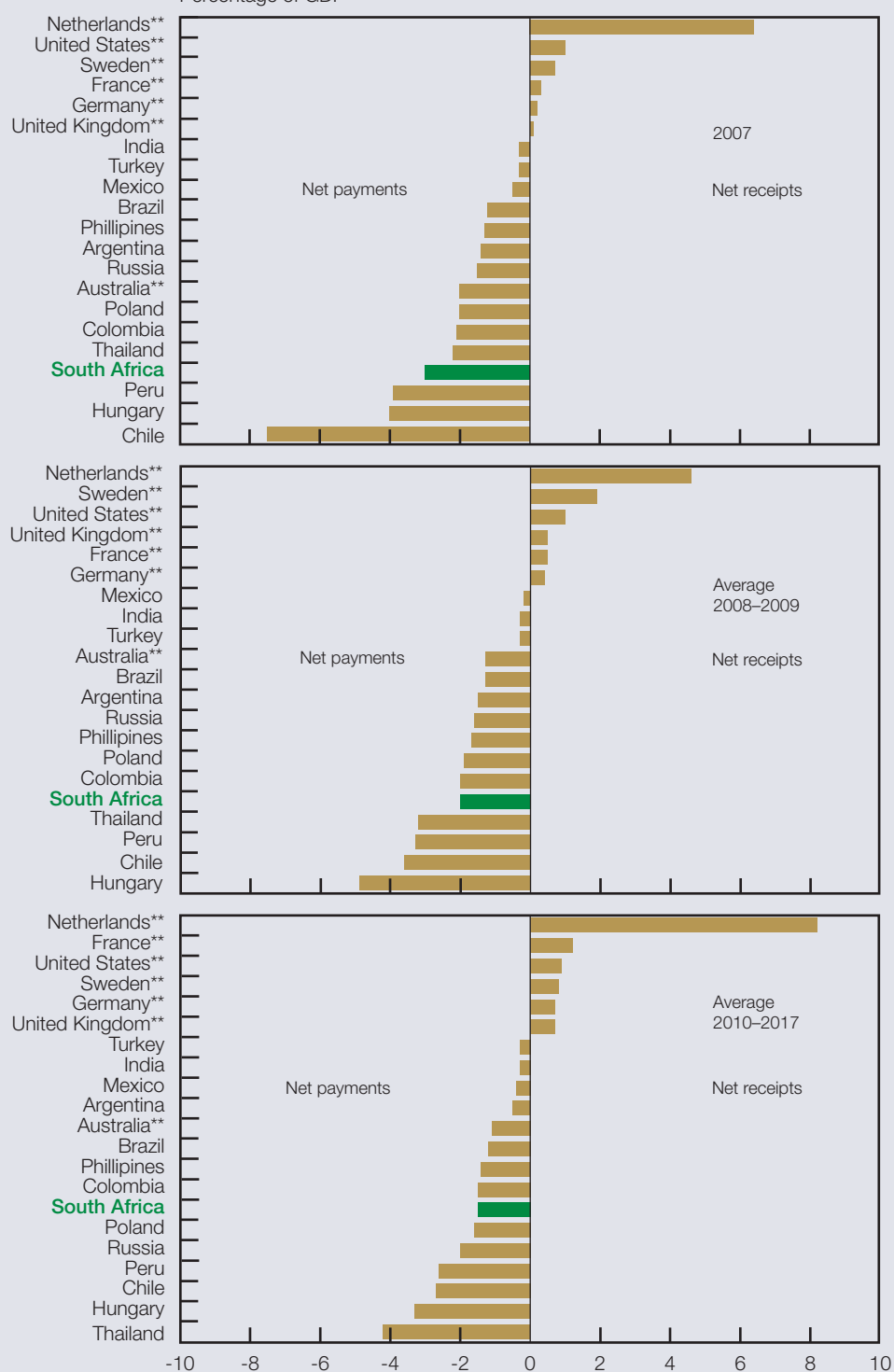
\* Ratio calculated using nominal aggregates in US dollar

\*\* Advanced economies

Sources: IMF and SARB

# Annual net dividend payments and receipts by selected countries

Percentage of GDP\*



\* Ratio calculated using nominal aggregates in US dollar

\*\* Advanced economies

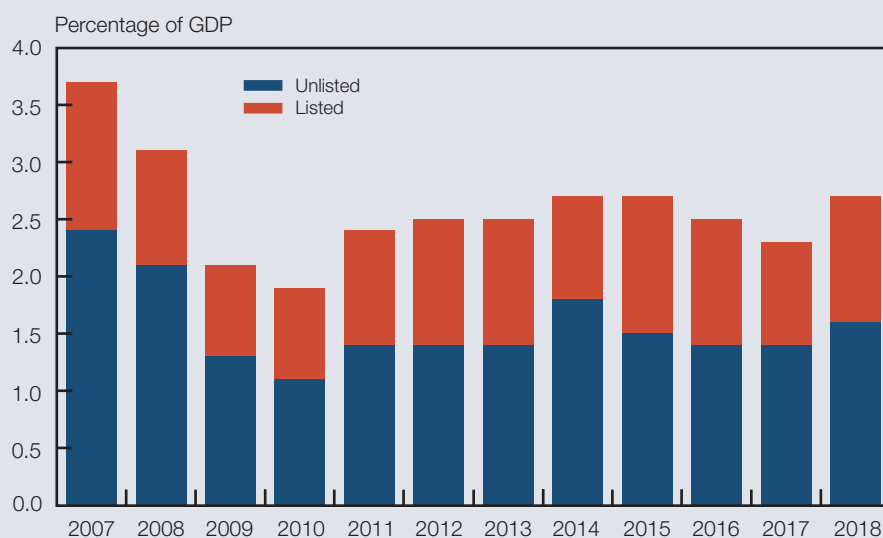
Sources: IMF and SARB



Companies with a direct investment relationship dominate South Africa's dividend payments to non-resident investors. Some of these are unlisted and others are listed on the JSE Ltd. Unlisted companies also dominate total dividend payments.

The South African economy has many sizeable, well-established and profitable unlisted companies. Listed companies tend to have more fixed dividend policies than unlisted companies, with the former's shares held by a more diverse shareholder base while those of the latter are concentrated in the non-resident parent company. The non-resident parent company may at any time request the payment of dividends for liquidity or other purposes. The parent company normally requires a specific amount in foreign currency, with the rand amount elevated during periods of rand weakness. This contributes to dividend distributions by unlisted companies exceeding those of listed companies. From 2007 to 2018, dividend payments by unlisted companies to non-resident shareholders were on average 1.5 times higher than dividend payments by listed companies.

#### Dividend payments by type of company



Source: SARB