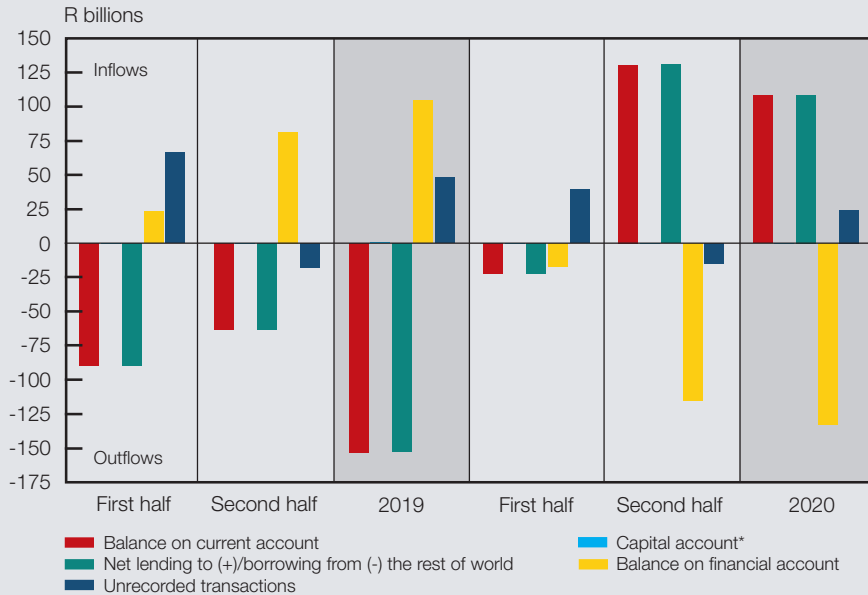


Box 3 The interaction between the current account and the financial account of the balance of payments^{1,2}

This box illustrates the relationship between the current and financial account of the balance of payments through highlighting the switch in South Africa's balance on the current account of the balance of payments from a deficit of R153.2 billion in 2019 or 3.0% of gross domestic product (GDP), to a surplus of R108.2 in 2020, at 2.2% of GDP.

Main components of the balance of payments



1 This box relates to the balance of payments statistics published in the tables on pages S-82 to S-83 and S-92 to S-93 in this edition of the *Quarterly Bulletin*.

2 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 <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>

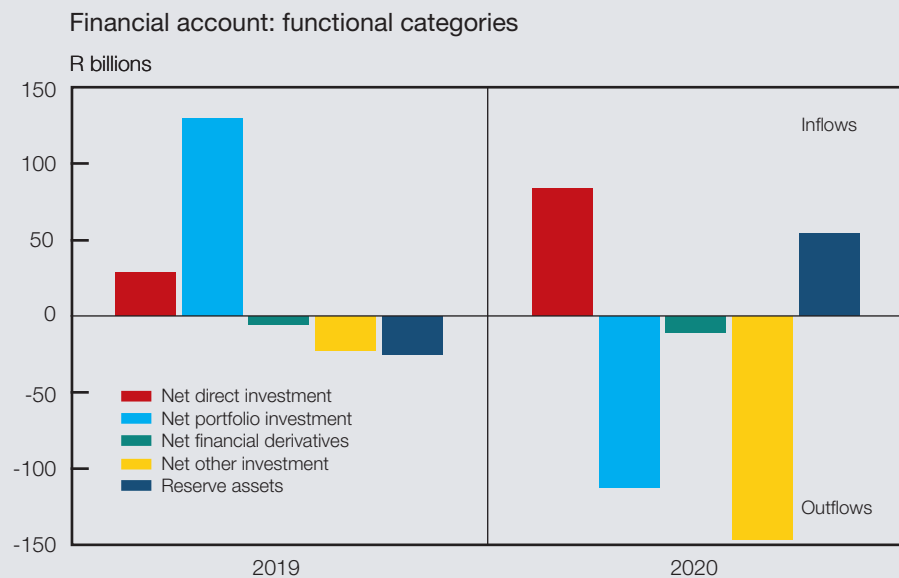




Conceptually, the balance of payments³ consists of the current account,⁴ the capital account⁵ and the financial account.⁶ The sum of the balances of the current and capital accounts renders the net lending (surplus) or net borrowing (deficit) position with the rest of the world, which is equal to the sum of the balance of the financial account and unrecorded transactions⁷, but with an opposite sign. The financial account indicates how the net lending to, or net borrowing from, non-residents was financed, while the unrecorded transactions account for imbalances due to imperfect source data.

The significant change in South Africa's current account balance was reflected in a substantial change in the financial account transactions in the various functional categories.⁸ The balance of the financial account transactions (flows) reverted from an inflow (net borrowing from the rest of the world) of R104.8 billion in 2019 to an outflow (net lending to the rest of the world) of R132.7 billion in 2020, or as a percentage of GDP from 2.1% to -2.7%. Outflows were already recorded from the first quarter of 2020, with a further substantial increase as from the third quarter when the current account switched to a large surplus which persisted into the fourth quarter.

The interaction between the current account and the financial account is acutely reflected by the changes in the transactions of the functional categories from 2019 to 2020. On a net basis, direct and portfolio investment recorded inflows in 2019, while financial derivatives and other investment as well as reserve assets recorded outflows. In 2020, on a net basis, direct investment still recorded an inflow and financial derivatives as well as other investment recorded an outflow, while reserve assets switched to an inflow and portfolio investment reverted to an outflow.



Source: SARB

Direct investment⁹ was the only functional category that recorded inflows in both years, from R28.6 billion in 2019 to R83.6 billion in 2020. The increase in net direct investment inflows could be attributed to outward direct investment reverting to an inflow in 2020, from outflows in 2019 as South Africans disposed of more foreign assets than what they acquired, on a net basis, while inward direct investment inflows decreased from 2019 to 2020 as non-residents acquired less South African assets, on a net basis.

3 The balance of payments is a statistical statement that summarises transactions between residents and non-residents during a specific period.
4 The current account records transactions of goods and services as well as primary and secondary income.
5 The capital account records credit and debit entries for non-produced, non-financial assets and capital transfers.
6 The financial account records the net acquisition and disposal of financial assets and liabilities.
7 Unrecorded transactions could originate from the current, capital and financial accounts.
8 Financial account transactions are classified into five functional categories, namely direct investment, portfolio investment, financial derivatives, other investment and reserve assets, to facilitate analysis of the drivers of the cross-border flows.
9 Direct investment relates to a relationship of control or significant influence between the counterparties and includes equity and investment fund shares as well as debt instruments.

Balance of payments transactions*

R billions

	2019			2020		
	First half	Second half	Year	First half	Second half	Year
Half yearly and annually						
Balance on current account.....	-89.9	-63.3	-153.2	-22.4	130.6	108.2
Balance on capital account.....	0.1	0.1	0.2	0.1	0.1	0.2
Net lending to, or borrowing from, the rest of the world**	-89.7	-63.2	-152.9	-22.2	130.7	108.4
Net direct investment.....	27.9	0.7	28.6	57.4	26.2	83.6
Net incurrence of liabilities.....	39.0	35.1	74.0	47.3	3.9	51.1
Net acquisition of financial assets.....	-11.0	-34.4	-45.4	10.1	22.4	32.5
Net portfolio investment.....	41.2	88.6	129.7	-22.6	-90.0	-112.7
Net incurrence of liabilities.....	41.6	46.0	87.5	-144.0	-15.4	-159.3
Equity securities.....	2.2	-65.1	-62.9	-36.2	-48.5	-84.7
Debt securities.....	39.4	111.0	150.4	-107.8	33.1	-74.6
Net acquisition of financial assets.....	-0.4	42.6	42.2	121.3	-74.7	46.6
Equity securities.....	4.5	75.8	80.2	120.0	16.1	136.1
Debt securities.....	-4.9	-33.1	-38.0	1.3	-90.8	-89.5
Net financial derivatives	-2.6	-2.9	-5.4	-13.7	2.6	-11.1
Net other investment	-85.2	62.4	-22.8	-102.6	-44.1	-146.6
Net incurrence of liabilities.....	14.3	-45.8	-31.6	14.1	2.8	16.9
Net acquisition of financial assets.....	-99.5	108.2	8.7	-116.7	-46.8	-163.5
Reserve assets.....	41.9	-67.3	-25.4	64.2	-10.1	54.2
Balance on financial account***	23.3	81.5	104.8	-17.3	-115.4	-132.7
Unrecorded transactions****	66.5	-18.3	48.2	39.5	-15.2	24.3

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

* Not seasonally adjusted

** Balance on the current and capital accounts

*** Excluding unrecorded transactions.

**** These are transactions on the current, capital and financial accounts.

Inflow (+)/outflow (-)

Source: SARB

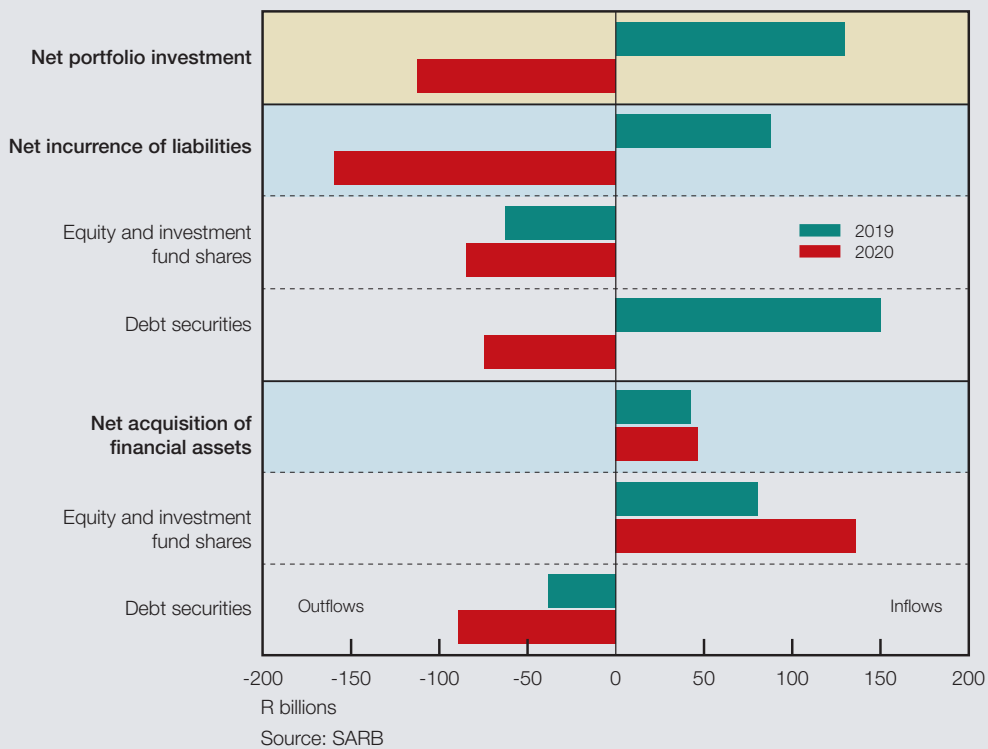
Portfolio investment¹⁰ recorded the most significant change of all the functional categories as the net inflow of R129.7 billion in 2019 switched to a net outflow of R112.7 billion in 2020. While non-residents' disposal of domestic equity securities increased from 2019 to 2020, the largest change in the financial account came from their disposal of domestic debt securities of R74.6 billion in 2020, which contrasted an acquisition of R150.4 billion in 2019. The significant reversal in non-resident flows of domestic debt securities can be attributed to the increased risk attached to South African government debt as a result of the deterioration in government finances, which was reflected in the downgrade of South Africa's sovereign credit rating to below investment grade by all the major credit rating agencies. Within portfolio investment, the net outflow due to a decrease in South Africa's foreign liabilities was partly offset by a net inflow due to South Africans' disposal of foreign equity and investment fund shares.

10 Portfolio investment is related to liquid and flexible access to financial markets and includes equity and investment fund shares as well as debt instruments.

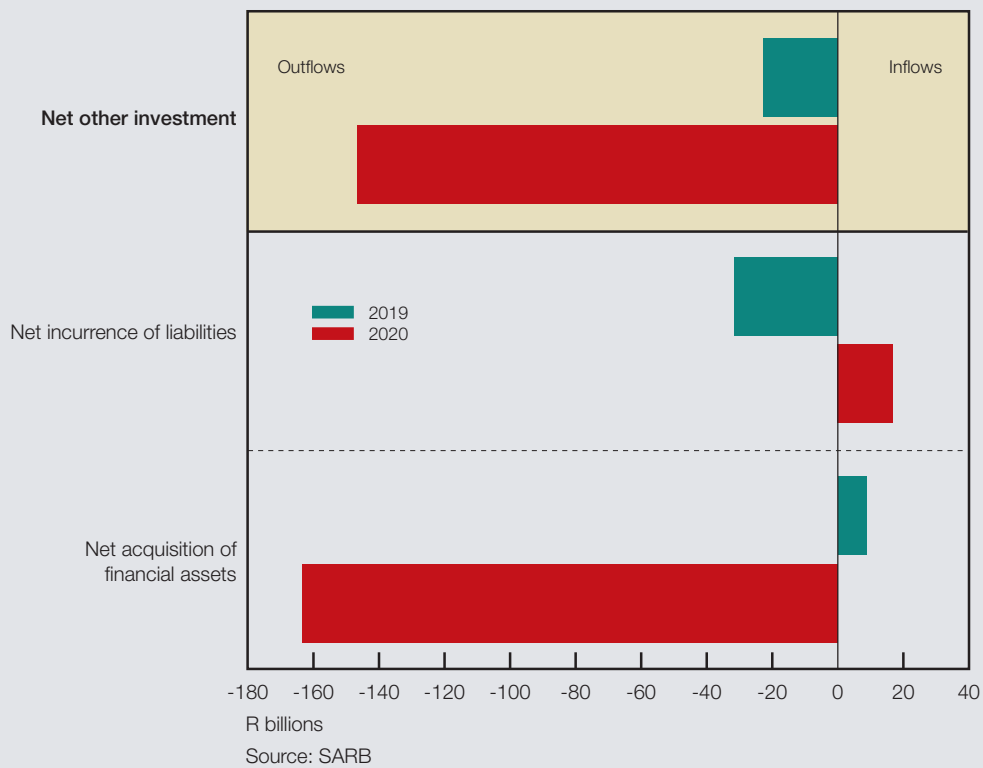




Portfolio investment



Other investment

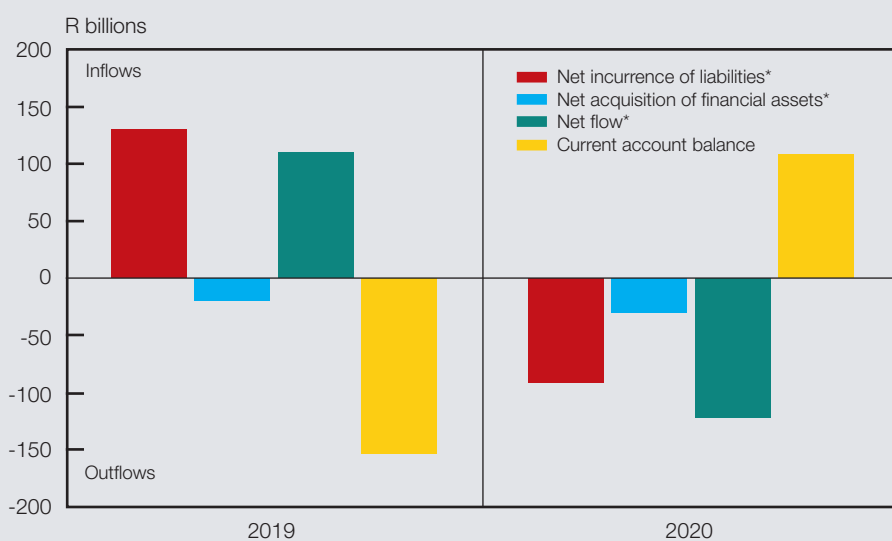


Financial derivatives¹¹ contributed to net outflows of only 0.1% and 0.2% of GDP in 2019 and 2020 respectively, as banks mostly maintained a hedged position. Net other investment¹² outflows increased markedly from R22.8 billion in 2019 to R146.6 billion in 2020, mainly as a result of a substantial net other investment assets outflow of R163.5 billion in 2020. This mainly reflected loans granted by South African banks under resale agreements to non-residents as well as short-term financing. The volatility in net other investment liabilities reflects short-term financing provided to South African residents.

The South African Reserve Bank's transactions in reserve assets¹³ changed from an outflow of R25.4 billion in 2019 to an inflow of R54.2 billion in 2020 – the only functional category which reverted from an outflow to an inflow over the period.

The direct, portfolio and other investment as well as reserve asset functional categories as a whole switched from a net inflow in 2019 to a net outflow in 2020 as the net incurrence of liabilities changed from a net inflow to a net outflow, while the net acquisition of foreign assets recorded only a marginally larger net outflow. From the accompanying graph, the relationship between the financial account flows and current account balance is clearly evident.

Selected net financial account transactions and the current account balance



*Excluding financial derivatives
Source: SARB

11 Financial derivatives provide for the trading of risks with inflows representing net profits and outflows representing net losses.

12 Other investment provides for other financial instruments and includes deposits, short- and long-term loans as well as trade finance.

13 Reserve assets include monetary gold, Special Drawing Rights and other reserve assets.

