Box 1 Unpacking South Africa's reserve assets[1, 2, 3]

'Gross[4] gold and foreign exchange reserves' is the major asset on the South African Reserve Bank's (SARB) balance sheet,[5] and comprises monetary gold,[6] special drawing rights (SDRs),[7] the reserve position in the International Monetary Fund (IMF)[8] as well as other reserve assets.[9] All of the above are also part of foreign assets in South Africa's international investment position.[10] The transactions in gross gold and foreign exchange reserve holdings are attributable to, among other things, proceeds from open market purchases, foreign direct investment and the government's foreign bond issues, and are recorded in reserve assets[11] in the financial account[12] of the balance of payments. The exchange value of the rand accounts for the difference between the value of gross gold and foreign exchange reserve holdings denominated in rands and in United States (US) dollars. Another concept, which is derived from the gross gold and foreign exchange reserve holdings, is the international liquidity position[13, 14] in US dollar terms.

This box contextualises these main reserve-related statistical macroeconomic aggregates in relation to both the SARB's balance sheet and South Africa's external accounts, while also showing the drivers of the recent increase in the international liquidity position in US dollar terms relative to gross gold and foreign exchange reserves denominated in US dollars.

Based on end-of-quarter values, South Africa's gross gold and foreign exchange reserve holdings, denominated in rands, averaged R843 billion from 31 December 2019 to 30 June 2021, and compromised 13% gold, 6% SDRs and 81% other reserve assets. The change in the market value of gross gold and foreign exchange reserve holdings from quarter to quarter can be decomposed into the net monetisation or demonetisation of gold,[15] which was negligible over the period; valuation adjustments;[16] reserve-related liabilities,[17] which were zero; and the change in reserve assets due to the acquisition or disposal of foreign assets.

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1 A country's monetary authority controls its reserve assets, which are those external assets that are readily available for meeting balance of payments financing needs and for other related purposes (such as maintaining confidence in the currency and the economy, and to serve as a basis for foreign borrowing).

2 The compilation of South Africa's external accounts adheres to the guidelines of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* of the International Monetary Fund, available at https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm

3 This box relates to the statistics published on pages S–3, S–82, S–83, S–93, S–95 and S–108 in this edition of the *Quarterly Bulletin.*

4 The 'gross gold and foreign exchange reserves' category includes foreign currency deposits received.

5 For the statement of the SARB's assets and liabilities, see https://www.resbank.co.za/en/home/publications/statements/Statement-of-Assets-and-Liabilities

6 As the monetary authority, a central bank's holdings of gold bullion is regarded as a financial asset.

7 The International Monetary Fund creates SDRs, which are held by the monetary authorities of member countries as part of reserve assets and these holdings can be converted into other currencies.

8 This is the sum of (a) the 'reserve tranche', that is, the foreign currency amounts (including SDRs) that a member country may draw from the IMF at short notice; and (b) any indebtedness of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member country, including the reporting country's lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).

9 Other reserve assets could include foreign currency assets such as currency and deposits, debt and equity securities, financial derivatives, and other claims, comprising loans and other financial instruments.

10 The international investment position is a statement of the composition and value of a country's foreign financial assets held by residents and liabilities towards non-residents as at a specific point in time. The difference between these external financial assets and liabilities represents a country's net international investment position.

11 The transactions in reserve assets from one period to another comprise the rand value of the change in gross gold and foreign exchange reserve holdings, adjusted for the monetisation/demonetisation of gold, valuation adjustments and reserve-related liabilities.

12 The financial account records the net acquisition and disposal of financial assets and liabilities between residents and non-residents during a specific period.

13 The international liquidity position in US dollars is calculated as the gross gold and foreign reserves *minus* foreign currency-denominated liabilities against both domestic and foreign counterparties *plus/minus* the forward position in foreign currency. Up to the end of February 2004, it was referred to as the 'net open foreign currency position of the SARB' (NOFP).

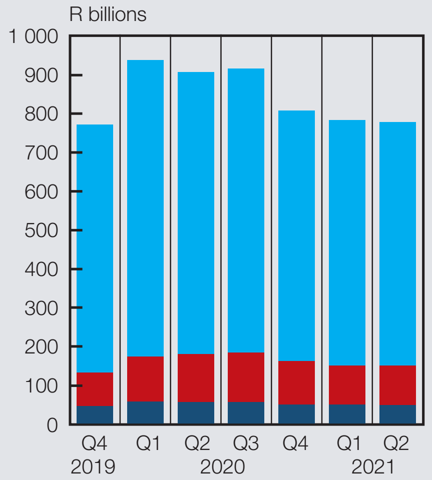
14 For the statement of the SARB's international liquidity position, see https://www.resbank.co.za/en/home/publications/notices?category=Information%20Notice&year=&rows=25&page=1

15 The monetisation or demonetisation of gold is the change in the classification of gold from a non-monetary good and non-financial asset to a monetary financial asset and vice versa, depending on the holder and reason for holding the gold.

16 Valuation adjustments are due to changes in exchange rates and market prices of the underlying reserve assets.

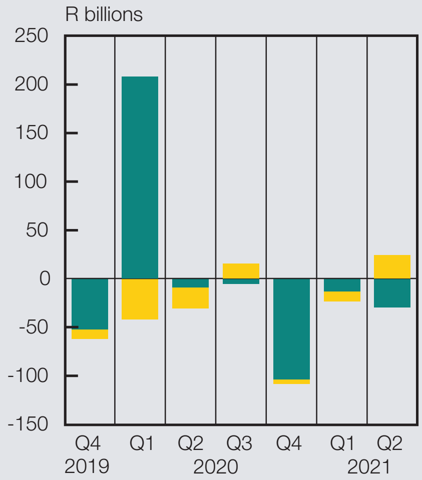
17 Reserve-related liabilities are the foreign currency liabilities of the monetary authority, which represents a direct claim by non-residents on reserve assets.

South Africa's gross gold and other foreign exchange reserves*



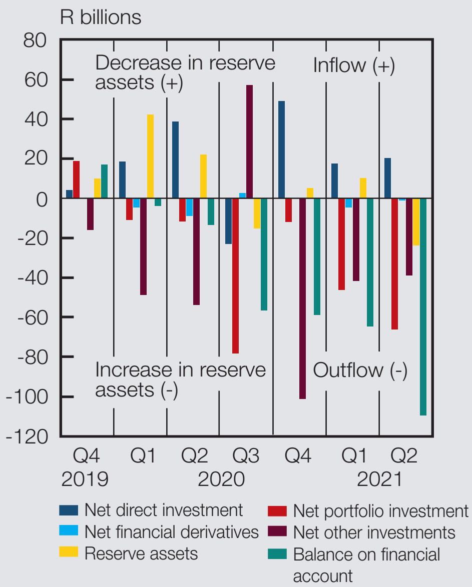
* As at end of quarter
Source: SARB

Change in South Africa's gross gold and foreign exchange reserves



The change in reserve assets due to transactions by the SARB in gold and other foreign reserves is recorded in the reserve asset functional category[18] of the financial account of the balance of payments.

Reserve assets in the financial account of the balance of payments



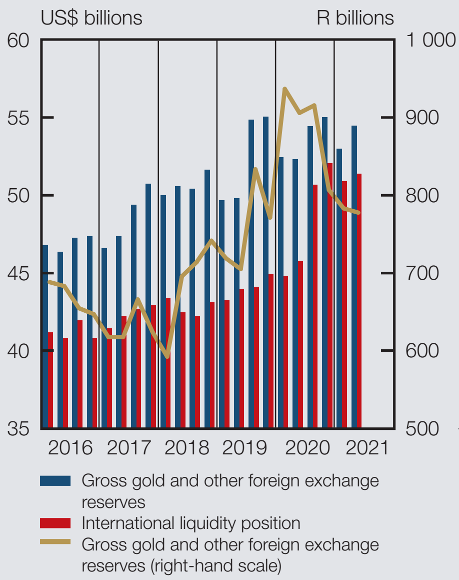
* As at end of quarter
Source: SARB

Exchange rate

When the foreign currency-denominated value of gross gold and foreign exchange reserve holdings is converted to rand by applying the relevant exchange rates, the impact of changes in the exchange value of the rand is evident, with a weaker exchange value increasing the rand value and a stronger exchange value decreasing the rand value.

18 The five functional categories of the financial account are direct investment, portfolio investment, financial derivatives, other investment, and reserve assets.

International reserves*



* As at end of quarter

Source: SARB

Difference between international liquidity position and the gross gold and foreign exchange reserves*

The international liquidity position, as defined above, reflects the financial resources and facilities at the disposal of the monetary authority of a country. In the case of South Africa, foreign currency deposits received[19] are therefore deducted while the positive forward position[20] is added.

Deriving the international liquidity position

US$ billions (end of period)

Category	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross gold and foreign exchange reserves	52.4	52.3	54.4	55.0	53.0	54.5
Foreign currency deposits received	-8.3	-7.1	-7.9	-6.7	-6.3	-6.9
Forward position.....................................	0.6	0.6	4.2	3.8	4.2	3.8
International liquidity position	44.8	45.7	50.7	52.1	50.9	51.4

Assets (+)/liabilities (-)
Components may not add up to totals due to rounding off.

Source: SARB

As from the third quarter of 2020, the more pronounced increase in the international liquidity position, in US dollar terms, relative to the increase in gross gold and foreign exchange reserves, in US dollar terms, narrowed the difference between these two reserve aggregates to only US$1.9 billion in May 2021. The driver of the increase in gross gold and foreign exchange reserves was the foreign currency proceeds of national government's borrowings abroad, through a US$4.3 billion loan from the IMF and a US$1.0 billion loan from the New Development Bank, which were both deposited at the SARB in July 2020. At the same time, the driver of the increase in the international liquidity position was the markedly larger forward position, which resulted from foreign exchange swaps conducted for sterilisation and liquidity management purposes. The international liquidity position continued to increase further in the first half of 2021, owing to both a decline in national government's foreign currency deposits and a further increase in the positive forward position.

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19 Foreign currency deposits received include the foreign loans and foreign exchange purchases by National Treasury, both through outright purchases and foreign exchange swaps.

20 The forward position mainly reflects outstanding foreign exchange forward transactions and includes foreign exchange swaps to sterilise foreign exchange purchases as well as swaps for liquidity management.