

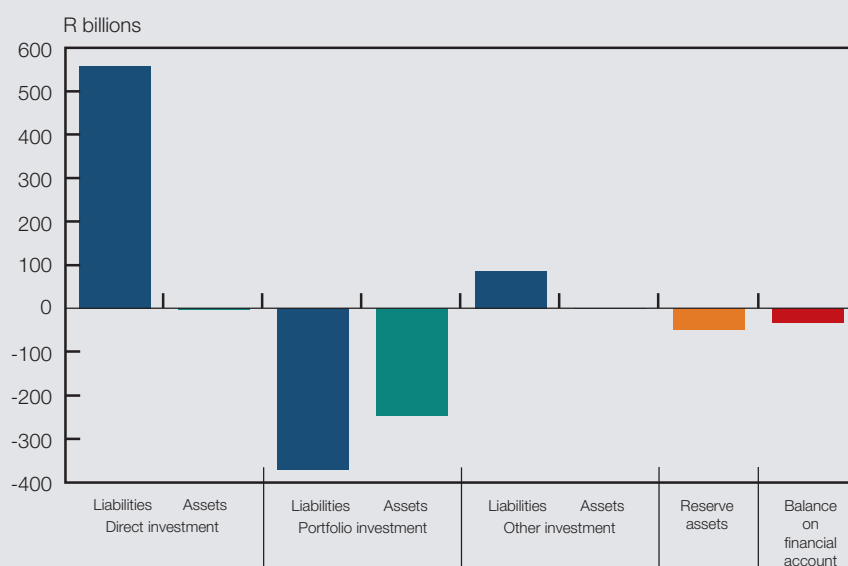
## Box 1 Developments in the financial account of the balance of payments in the third quarter of 2021<sup>1, 2</sup>

South Africa's financial account<sup>3</sup> of the balance of payments was significantly impacted in August 2021 by both the Naspers Ltd and Prosus N.V. share exchange<sup>4</sup> and the Special Drawing Rights (SDR)<sup>5,6</sup> allocation to member countries by the International Monetary Fund (IMF).

While the Naspers Ltd and Prosus N.V. share exchange on its own did not result in large cross-border flows, the financial account's functional categories<sup>7</sup> were significantly impacted, with some recording their largest ever absolute transaction values. However, secondary market trading resulted in cross-border transactions in Naspers Ltd and Prosus N.V. shares in the third quarter of 2021 as investors rebalanced their portfolios due to the change of the weights of these entities in share indices.

The Naspers Ltd and Prosus N.V. share exchange involved the acquisition by Prosus N.V. (a Netherlands domiciled company) of Naspers Ltd N ordinary shares (a South African domiciled company), held by resident and non-resident shareholders in exchange for Prosus N.V. ordinary shares N. This share exchange therefore impacted the direct and portfolio investment liabilities and portfolio investment assets functional categories.

Selected financial account functional categories in the third quarter of 2021



Source: SARB

*Direct investment liabilities* increased substantially, with Prosus N.V. acquiring about 45% of Naspers Ltd N ordinary shares from existing Naspers Ltd shareholders. With the shareholding of Prosus N.V. in Naspers Ltd exceeding 10%, the acquisition is classified as a direct investment transaction.

*Portfolio investment liabilities* declined as non-resident investors exchanged Naspers Ltd N ordinary shares for Prosus N.V. ordinary shares N, that is, the exchange of non-resident holdings in a resident entity for holdings in a non-resident entity. Portfolio investment assets increased as resident investors exchanged Naspers Ltd N ordinary shares for Prosus N.V. ordinary shares N, that is, the exchange of resident holdings in a resident entity for holdings in a non-resident entity.

1 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 (IMF), available at <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>

2 This box relates to the statistics published on pages S-84, S-85, S-94, S-95 and S-110 in this edition of the *Quarterly Bulletin*.

3 The financial account records transactions in financial assets and liabilities between residents and non-residents.

4 For the announcement, see <https://www.businesswire.com/news/home/20210512005395/en/Prosus-and-Naspers-Announce-Intention-for-Prosus-to-Make-a-Voluntary-Share-Exchange-Offer-to-Naspers>

5 For the announcement, see <https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights>

6 The IMF creates SDR, which are held by the monetary authorities of member countries as part of their reserve assets.

7 The functional categories are the primary classification used for each financial transaction in the balance of payments and consist of direct, portfolio and other investments as well as financial derivatives and reserve assets.

The IMF's general SDR allocation<sup>8</sup> of XDR456.5 billion (US\$650 billion) in the third quarter of 2021 was the largest in history, with about XDR190 billion allocated to emerging and developing countries. This followed an allocation of XDR182.7 billion in the third quarter of 2009. The recent allocation will create fiscal space, help to step up the COVID-19 response and support the economic recovery. Member countries can either hold the SDR as part of official reserves or convert it into any of the five SDR basket currencies.<sup>9</sup>

South Africa's SDR allocation in the third quarter of 2021 amounted to XDR2.9 billion (R62.6 billion) and was included as an increase in the other investment<sup>10</sup> liabilities (capital inflow) and as an increase in the reserve assets<sup>11</sup> (capital outflow) functional categories of the financial account of the balance of payments. The increase in the level of the gross gold and foreign exchange reserves of the South African Reserve Bank (SARB) can be attributed to the SDR allocation.

### Gross gold and foreign exchange reserves of the SARB\*

Millions

	US dollar			Rand		
	31 Jul 2021	31 Aug 2021	Change	31 Jul 2021	31 Aug 2021	Change
Gold reserves .....	7 366	7 303	-63	107 176	106 182	-994
SDR holdings** .....	3 431	7 589	4 158	49 927	110 349	60 417
Other foreign exchange reserves ....	43 667	43 516	-151	635 379	632 720	-2 653
Gross reserves .....	54 464	58 408	3 944	792 482	849 251	56 770
XDR/USD and USD/Rand exchange rate .....	1.4288	1.4243	-0.3%	14.5505	14.5400	-0.1%

\* The gross gold and foreign exchange reserves statistics are published on page S-110 in this edition of the *Quarterly Bulletin*.

\*\* SDR holdings in this table and on page S-110 in this edition of the *Quarterly Bulletin* are different from those published in the SARB's Statement of Assets and Liabilities and Information notice on the official gold and foreign exchange reserves of the SARB on a monthly frequency. The difference can be attributed to the inclusion of call and equity components of SDR in this table and on page S-110.

Source: SARB

8 A general allocation of SDR must be consistent with the objective of meeting the long-term global need to supplement existing reserve assets. It must also receive broad support from the IMF's membership (an allocation requires approval by the Board of Governors with an 85% majority of the total voting power of the members in the SDR Department). Once agreed, the allocation is distributed to member countries in proportion to their quota shares at the IMF.

9 US dollar, euro, Chinese renminbi, Japanese yen and British pound.

10 Other investment is a functional category that includes positions and transactions other than those included in direct and portfolio investment as well as financial derivatives.

11 Reserve assets are those external assets that are readily available to, and controlled by, the monetary authorities for meeting balance of payments financing needs.