

Box 2 Recent drivers of South Africa's international investment position^{1, 2, 3, 4}

South Africa's international investment position (IIP) was significantly affected from the first quarter of 2020 by changes in financial asset prices after the global emergence of the coronavirus disease 2019 (COVID-19). The pandemic caused a major disruption to global economic activity and resulted in significant movements in the exchange value of the rand. In addition, substantial financial account⁵ transactions occurred, particularly in the third quarter of 2021.⁶ This box analyses these drivers in the context of the different dimensions of the underlying statistics.

The net IIP,⁷ which turned positive for the first time at the end of the third quarter of 2015, increased substantially in the first quarter of 2020, largely on account of the decline of 19.3% in the nominal effective exchange rate (NEER) of the rand in the quarter. This reflected the effect of a depreciation in the exchange value of the rand. The exchange rate has a larger impact on the market value of foreign assets than on foreign liabilities, as a larger portion of foreign assets is denominated in foreign currency than foreign liabilities. The positive net IIP then increased further to its highest value on record in the second quarter of 2020, driven by the effect of the recovery in financial asset prices on direct and portfolio investment assets, despite the increase of 2.7% in the NEER. After peaking in the second quarter of 2020, the positive net IIP began to decline due to a decrease in the market value of South Africa's foreign assets along with an increase in the NEER and an increase in the market value of foreign liabilities.

1 The international investment position (IIP) is a point-in-time statistical statement that shows the value and composition of the residents of a country's financial assets (i.e. claims on non-residents and gold bullion held as reserve assets) and liabilities (i.e. claims by non-residents on residents).

2 The methodology used to compile South Africa's IIP 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/pdf/bpm6.pdf>.

3 This box relates to the external account statistics shown on pages S–96 to S–107 in this edition of the *Quarterly Bulletin*.

4 For more discussion on the drivers of South Africa's IIP, see the note published in the September 2018 edition of the *Quarterly Bulletin*, available at <https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/articles-and-notes/2018/8783/03Note-on-South-Africa-s-international-investment-position.pdf>, and the text box published on page 46 in the September 2019 edition of the *Quarterly Bulletin*, available at <https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/boxes/2019/9519/The-drivers-of-South-Africa-s-international-investment-position.pdf>.

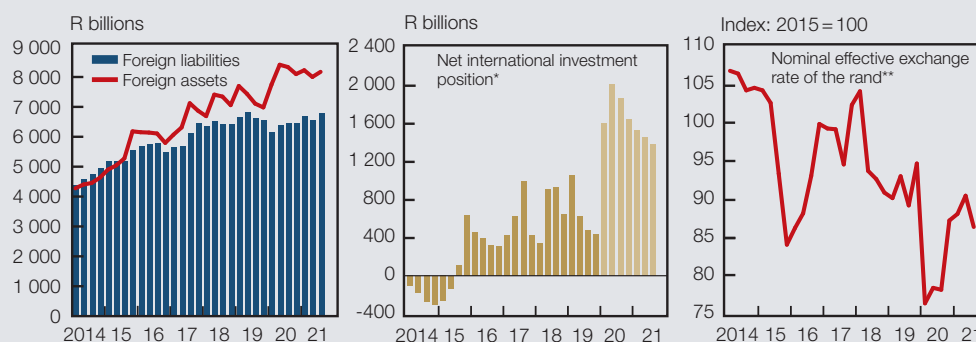
5 The financial account shows the net acquisition/disposal of foreign financial assets by residents and the net acquisition/disposal of domestic assets by non-residents during a specific period.

6 The effect of transactions in foreign financial assets and liabilities recorded in the financial account of the balance of payments on the foreign asset and liability positions in the IIP is generally less than that of revaluations for both price and exchange rate movements.

7 The net IIP position is the difference between a country's foreign assets and foreign liabilities.



South Africa's international investment position

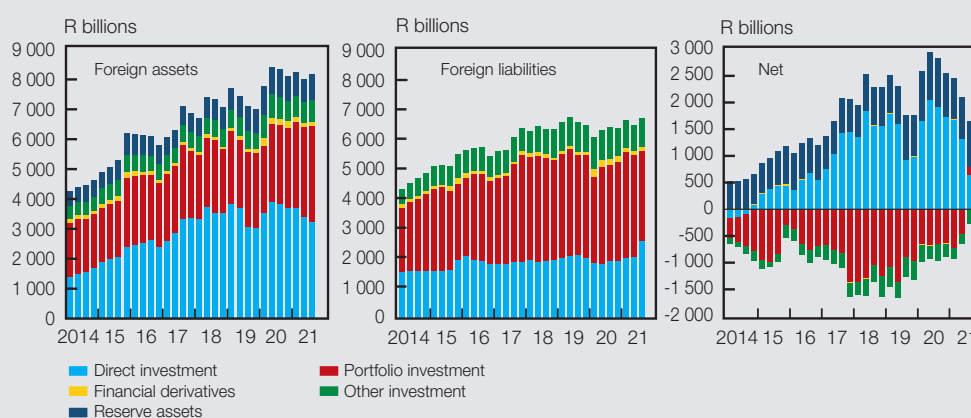


* The shaded bars indicate the period since the onset of COVID-19 in South Africa.

** End of period

Source: SARB

International investment position by functional category



Source: SARB

In terms of *functional categories*,⁸ direct investment accounts for most of South Africa's foreign assets while portfolio investment accounts for the largest share of the country's foreign liabilities. During the first half of 2020, the market value of direct investment assets was the main driver of the increase in South Africa's positive net IIP. However, during the first nine months of 2021, the market value of portfolio investment assets increased while the market value of direct investment assets declined. The decrease in the market value of direct investment assets could mainly be attributed to the decrease in the share price of a large dual-listed company with a primary listing abroad, while the increase in portfolio investment assets could be attributed to resident investors exchanging Naspers Ltd N ordinary shares for Prosus N.V. ordinary shares N during the third quarter of 2021.

The initial decline in the market value of portfolio investment assets in the first quarter of 2020 coincided with a 20% decrease in the United States (US) Standard & Poor's 500 Index (S&P 500). This was followed by a consistent increase in the market value of portfolio investment assets resulting from gains in global share markets. The S&P 500 increased by 45.3% from the end of March 2020 to the end of that year, and by a further 14.7% up to the end of September 2021. Combined with the decline in the market value of direct investment assets from the end of the first quarter of 2021, the market value of portfolio investment assets nearly matched that of direct investment assets at the end of September 2021.

The market value of direct investment liabilities increased substantially in the third quarter of 2021 following the Prosus N.V. acquisition of about 45% of Naspers Ltd N ordinary shares from existing Naspers Ltd shareholders. This, together with the decline in the market value of portfolio investment liabilities from the second quarter of 2021, led to a closer convergence between the market value of direct investment liabilities and that of portfolio investment liabilities.

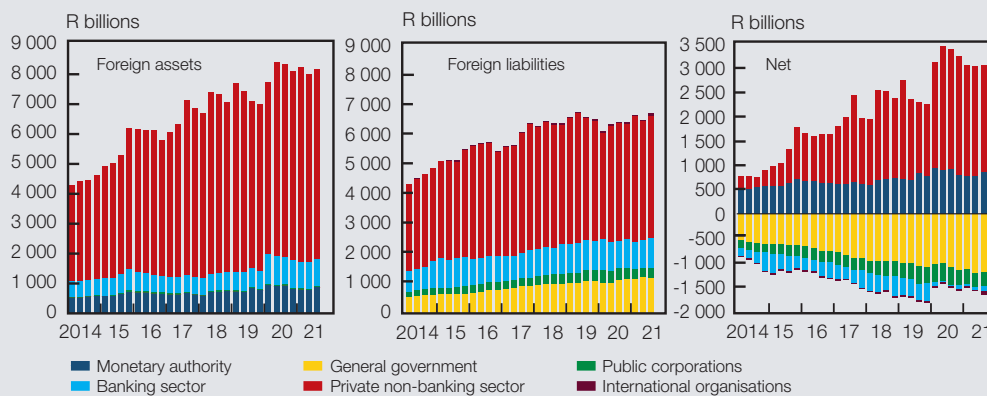
On a net basis, direct investment has historically been the largest positive contributing functional category to net IIP, while portfolio investment has made the largest negative contribution. However, the positive contribution of net direct investment has declined significantly since the second quarter of 2020 due to the decline in the market value of direct investment assets, which can be attributed to negative price valuation

⁸ 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.

effects. The increase in the market value of direct investment liabilities due to the significant direct investment of Prosus N.V. in Naspers Ltd in the third quarter of 2021 further contributed to the decline in the positive contribution of net direct investment over this period. At the same time, the negative contribution of net portfolio investment changed to a small positive contribution in the third quarter of 2021 as non-resident and resident investors exchanged Naspers Ltd N ordinary shares for Prosus N.V. ordinary shares N. This led to a substantial decline in the market value of portfolio investment liabilities and an increase in the market value of portfolio investment assets.

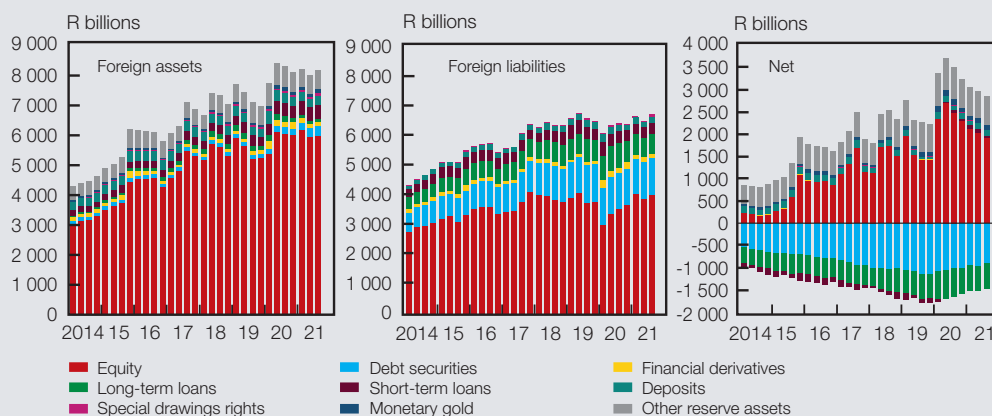
South Africa received a Special Drawing Rights (SDR) allocation of XDR2.9 billion (R62.6 billion) in the third quarter of 2021 as part of the International Monetary Fund's (IMF) general SDR allocation⁹ of XDR456.5 billion (US\$650 billion). This is reflected as an increase in the 'other investment'¹⁰ liabilities¹¹ as well as an increase in the reserve assets¹² functional categories. While the SDR allocation contributed on a gross basis to both foreign assets and foreign liabilities, on a net basis the contribution was zero and will remain so if the SDRs continue to be retained as reserve assets.

International investment position by institutional sector



The private non-banking sector and the monetary authority are the only two *institutional sectors* with a positive net contribution to South Africa's IIP. The private non-banking sector's overshadowing net contribution has gradually declined since peaking in the second quarter of 2020. The general government sector's negative net impact on the IIP has increased since the second quarter of 2020, mainly due to foreign borrowing to partly finance South Africa's COVID-19 response. The banking sector's negative net contribution to the IIP declined substantially from the fourth quarter of 2019 to the first quarter of 2020, whereafter it remained negligible up to the third quarter of 2021. This outcome could be attributed to the large exposure of the banking sector's foreign assets to foreign currency-denominated assets, which benefitted from the depreciation in the exchange value of the rand.

International investment position by financial instruments



9 A general allocation of SDR is consistent with the objective of meeting the long-term global need to supplement existing reserve assets, and member countries receive allocations in proportion to their quota shares at the IMF.

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 The SDR allocation is not a loan from the IMF. When the IMF allocates SDRs, participants receive unconditional liquidity represented by an interest-bearing reserve asset (SDR holding) and a corresponding long-term liability equal to the SDR allocation.

12 Reserve assets are those external assets that are readily available to, and controlled by, the monetary authority.





Equities dominated both foreign assets and foreign liabilities in terms of financial instruments, and made the largest net positive contribution to the IIP. However, on a net basis, the market value of equities has declined from a record high in the second quarter of 2020, mainly due to an increase in the market value of foreign equity liabilities. Equity instruments also have the largest exposure to price revaluations relative to all the other instruments, especially equity instruments listed on stock exchanges.

Debt securities made a negative net contribution to the IIP as non-residents are substantial investors in the domestic bond market, especially in government bonds. However, the negative net contribution of debt securities to the IIP has declined since the fourth quarter of 2019, mainly due to the revaluation effect of an increase in domestic bond yields as well as net sales of bonds by non-resident investors.