

Changes in the Foreign Liabilities and Assets of South Africa During the Year 1963

by

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1. SUMMARY

Despite the capital outflows recorded in the balance of payments in 1963, South Africa's total foreign liabilities increased by about R30 million to R3,053 million at the end of that year. The effect of capital outflows on the country's foreign liabilities was therefore more than offset by the reinvestment of profits by foreign-controlled organisations in South Africa.

The total foreign investment in South African organisations controlled from abroad increased from 58 per cent of total foreign liabilities in 1956 to 65 per cent in 1963. This can be ascribed to the fact that the foreign capital repatriated during the last five years was more of a "portfolio" nature, while "direct investment" in South Africa continued to increase.

The United Kingdom's total investment in South Africa increased further to R1,855 million, accounting for more than 60 per cent of the total at the end of 1963. Increases were also registered for Other Sterling Area Countries, Continental Western Europe and "Other" countries, while contractual repayments on outstanding loans caused decreases in South Africa's total liabilities towards the United States of America and International Organisations.

The total investment of South African residents in foreign assets increased by R128 million to R1,450 million at the end of 1963. Gold and foreign exchange reserves accounted for R87 million of the former figure which also reflected South Africa's favourable balance of payments for 1963. The foreign assets held by South African residents other than the Government, the South African Reserve Bank and the commercial banks, increased by R45 million during the year, mainly on account of investments in foreign organisations controlled from South Africa. Last year's increase of R128 million brought the total increase in foreign assets during the last three years to the substantial figure of R552 million. The ratio between South Africa's total foreign assets and its total foreign liabilities has now increased from only 29½ per cent in 1956 to about 47½ per cent in 1963.

Small increases were recorded for most of the countries in which South Africa holds foreign assets. Of the total privately held foreign assets

of R692 million at the end of 1963, about 49 per cent and 30 per cent represented investments in the former Federation of Rhodesia and Nyasaland and the United Kingdom, respectively.

2. THE MEANING OF SOUTH AFRICA'S FOREIGN LIABILITIES AND ASSETS

The foreign liabilities in Statement 1¹ are estimates of the total value of the net accumulated investment by foreigners in South Africa as at the end of each of the years 1956 to 1963, while the foreign assets in Statement 2 represent estimates of the total value of the net accumulated investment by South African residents in foreign countries over the same period. The investments are held mostly in the form of share capital and financial claims, for example loans, deposits and current accounts.²

In order to present the foreign liabilities or foreign assets in a summary form, the values placed on all the various types of liabilities are added to obtain a single aggregate for foreign liabilities, and similarly for foreign assets. According to Statement 1, South Africa's total foreign liabilities amounted to R3,053 million at the end of 1963, and according to Statement 2, its total foreign assets reached R1,450 million at that date. These figures should be interpreted in the light of the following remarks.

In the first place, it should be noted that various items which are fundamentally different in kind, have been added together. In the case of foreign assets, for example, the value placed on farms and other real estate owned in foreign countries by South African residents, has been added to the gold and foreign exchange reserves of South African banks to arrive at the total.

Secondly, a different basis of valuation is used for the various items which have been added. Thus, in the case of foreign liabilities, all ordinary shares held by foreigners in South African organisations which are controlled by them, are included at nominal values plus a proportionate share of the reserves, while shares held

1) Statements 1 and 2 appear on pages xliii to l.

2) For the purposes of Statement 2, the gold reserves held by the South African Reserve Bank and the commercial banks are also regarded as foreign assets.

by foreigners in South African organisations which are controlled by local residents, are included at nominal values or at the December, 1956, prices if quoted on the Stock Exchange.

Thirdly, items with different liquidity characteristics have been grouped together. Certain items could be realised only at a substantial loss, if at all, while other, e.g. foreign deposits with South African banks, are fully liquid by reasonable standards.

The total foreign liabilities figure, viz. R3,053 million, can therefore not be regarded as the current value of the total foreign funds invested in South Africa as at 31st December, 1963. Neither does it represent the amount withdrawable from the country by foreigners, nor the net amount of foreign funds which flowed into the country over the years. It should rather be seen as an approximate indication of the importance of foreign investment in the total capital accumulation in the country. A knowledge of the size and structure of South Africa's foreign liabilities and assets is also useful for a proper evaluation of the country's international economic relations.

In view of the consistency in the basis of valuation of the relevant items from year-to-year, the figures provide an indication of long-term trends in South Africa's foreign liabilities and assets. Thus it is important to note that South Africa's total foreign liabilities increased by only 11 per cent during the seven years from the end of 1956 to the end of 1963 while the country's foreign assets increased by about 18 per cent during the same period. This development caused South Africa's total foreign assets to increase from only 29½ per cent of the country's total foreign liabilities in 1956 to about 47½ per cent in 1963.

3. CHANGES IN FOREIGN LIABILITIES DURING 1963

Small increase in Total Foreign Liabilities

After declining for two consecutive years, South Africa's total foreign liabilities increased again during 1963 and amounted to R3,053 million at the end of that year compared with R3,023 million at the end of 1962. This increase of R30 million was accounted for by respective increments of R10 million and R20 million in the foreign liabilities of the official and the private sectors.

Table 1 — Total Foreign Liabilities of the Official and Private Sectors

(R millions)

End of Year	Official Sector	Private Sector	Total	Change in Total
1956	322	2,468	2,790	
1957	343	2,479	2,822	+ 32
1958	411	2,584	2,995	+173
1959	419	2,630	3,049	+ 54
1960	445	2,629	3,073	+ 24
1961	455	2,583	3,038	— 35
1962	417	2,606	3,023	— 15
1963	427	2,626	3,053	+ 30

A closer scrutiny of the figures in Statement 1 reveals that the foreign liabilities of South African organisations controlled from abroad increased by R53 million during 1963, while those of other South African residents decreased by R23 million. This reflects a continuation of the trend towards a decrease in the relative importance of portfolio foreign investment in the South African economy. The portfolio disinvestment from the country during the last five years was, however, more than outweighed by Direct Foreign Investment which increased by an average of about R50 million per year since 1956.

Table 2 — Total Foreign Liabilities of the Direct and Non-Direct Investment Sectors

(R millions)

End of Year	Direct Investment Sector			Non-Direct Investment Sector			Total		
	Long-term	Short-term	Total	Short-term	Total	Long-term	Long-term	Short-term	Total
1956	1,329	289	1,618	152	1,172	1,020	2,349	441	2,790
1957	1,391	279	1,670	161	1,152	991	2,382	440	2,822
1958	1,471	338	1,809	195	1,186	991	2,462	533	2,995
1959	1,514	341	1,855	187	1,194	1,007	2,521	528	3,049
1960	1,559	314	1,873	215	1,200	985	2,544	529	3,073
1961	1,543	318	1,861	224	1,177	953	2,496	542	3,038
1962	1,601	316	1,917	203	1,106	903	2,504	519	3,023
1963	1,624	346	1,970	231	1,083	852	2,476	577	3,053

During 1963 there was a marked difference in the behaviour of long-term foreign liabilities (i.e. with an original maturity of more than twelve months) and short-term foreign liabilities, the former decreasing by R28 million and the latter increasing by R58 million. It is possible that an important part of the latter increase occurred in the form of trade credits and was therefore connected with the substantial increase in South Africa's imports during 1963.

Increase in Direct Investment Liabilities

During 1963, reinvested profits which, according to Statement 1, increased by R61 million,³ once again played a major role in the increase in the foreign liabilities of South African organisations controlled from abroad. As will be mentioned below reinvested profits are not shown as capital inflows in the South African balance of payments and this is one of the main reasons why the country's foreign liabilities are increasing despite the substantial capital outflows experienced during the last five years.

Apart from the increase in the undistributed profits and reserves, significant changes also occurred in the mortgages and other long-term loans and in the short-term liabilities due to foreigners by South African organisations classified in the Direct Investment Sector, the former decreasing by R27 million, due mainly to substantial contractual repayments on outstanding loans, while the latter item increased by R27 million.

Decline in Non-Direct Investment Liabilities

The decrease of only R23 million in portfolio foreign investment appears rather low compared with the substantial capital outflows that occurred during 1963 through transactions on the Johannesburg Stock Exchange. This is due to the fact that part of the proceeds of the net sales of South African securities by foreigners to South African residents were not repatriated during the year, but invested in the Special Blocked Rand Bonds of the Government or partially blocked in accounts with the commercial banks. Although these foreign funds were withdrawn from the South African private sector, it was only transferred to the official sector and therefore did not reduce the country's total foreign liabilities. The decrease in the foreign liabilities is also smaller than the estimated capital outflow for 1963 due to the difference in the bases of valuation for the two sets of figures.

Long-term foreign liabilities in the form of

portfolio investment did, however, decrease by R51 million during 1963, but this was partly offset by the abovementioned increase of R27 million in short-term foreign liabilities.

Changes in Foreign Liabilities by Country

A summary of South Africa's foreign liabilities outstanding towards various countries and International Organisations as at the end of 1962 and 1963 is given in Table 3.

Table 3 — *Foreign Liabilities by Country, 1962 and 1963*

(R millions)

Country	End 1962	End 1963	Change
United Kingdom	1,825	1,855	+30
Other Sterling Area Countries	177	185	+8
United States of America	336	324	-12
Continental Western Europe	458	464	+6
Other Countries	64	73	+9
International Organisations	163	152	-11
Total	3,023	3,053	+30

The United Kingdom's total investment in South Africa increased by R30 million during the year to a total of R1,855 million. The United Kingdom is South Africa's most important foreign creditor, the share of British investors being more than 60 per cent of the total foreign investment as at the end of 1963. Increases of R8 million, R6 million and R9 million were also registered for the investment in South Africa by Other Sterling Area Countries, Continental Western Europe and "Other" countries, respectively, while South Africa's indebtedness to the United States of America and to International Organisations were reduced by R12 million and R11 million, respectively. In the case of the United States repayments of more than R27 million on official and private long-term loans were partly offset by an increase in other long-term liabilities.

4. CHANGES IN FOREIGN ASSETS DURING 1963

Substantial Increase in Foreign Assets

South Africa's foreign assets increased by R128 million during 1963 to a total of R1,450 million at the end of the year. As during the two preceding years, the increase occurred mainly in the foreign assets held by the South African Government, the Reserve Bank and the commercial banks which are the holders of South Africa's official gold and foreign exchange reserves. The increase of R83 million during 1963 in the foreign assets of the Official Sector is therefore mainly a reflection of South Africa's favourable balance of payments for that year.

3) The transfer of the residence of an important company from the United Kingdom to South Africa during the year had a substantial influence on this figure.

Table 4 — Main Classes of Foreign Assets

(R millions)

End of Year	Official Sector		Private Sector				Total Foreign Assets
	Gold Reserves	Other	Direct Investment	Non-Direct Investment	Sub-Total	Change in Sub-Total	
1956	160	243	243	178	421		823
1957	155	187	279	177	456	+35	798
1958	151	189	310	178	488	+32	828
1959	171	288	324	189	513	+25	971
1960	127	210	355	206	561	+48	898
1961	213	254	399	210	609	+48	1,076
1962	356	319	443	204	647	+38	1,322
1963	450	308	483	209	692	+45	1,450

During the year the foreign assets held by other South African residents increased by R45 million of which R40 million represented additional investments in foreign organisations controlled from South Africa. This increase was accounted for mainly by reinvested profits and by the transfer of the residence of a company from London to South Africa, already referred to above.

The Nature of the Foreign Assets of the South African Official Sector

Details of the foreign assets held by the South African Government, the Reserve Bank and the commercial banks are given in Table 5. It will be noted that the gold and foreign exchange reserves held by the official sector increased by R87 million during 1963, while other foreign assets decreased by R4 million. The gold and foreign exchange reserves accounted for 76 per cent of the total foreign assets of the official sector at the end of 1963, and subscriptions to International Organisations⁴ for 16 per cent.

Table 5 — Foreign Assets of the Official Sector

(R millions)

	End 1962	End 1963	Change
Gold Reserves	356	450	+94
Foreign Exchange Reserves	185	128	-7
Total Gold and Foreign Exchange	491	578	+87
Subscriptions to International Organisations	127	128	+1
Other Long-term	6	4	-2
Other Short-term	51	48	-3
Total	675	758	+83

4) These comprise subscriptions to the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association.

Changes in Foreign Assets by Country

The increase in South Africa's foreign assets during 1963 was, apart from the substantial increase of R94 million in the country's gold reserves, distributed over the various foreign countries roughly in proportion to the total investment in each region. South Africa's gold reserves accounted for 31 per cent of the country's total foreign assets while 35 per cent of South Africa's other foreign assets was held in the former Federation of Rhodesia and Nyasaland and 32 per cent in the United Kingdom. Of the total privately held foreign assets of R692 million at the end of 1963, no less than 49 per cent was concentrated in the former Federation of Rhodesia and Nyasaland, and about 30 per cent in the United Kingdom.

Table 6 — Foreign Assets by Country, 1962 and 1963

(R millions)

Countries	End 1962	End 1963	Change
Federation of Rhodesia & Nyasaland	338	349	+13
United Kingdom	301	321	+20
Other Sterling Area Countries	46	50	+4
United States of America	60	62	+2
Other Countries	96	88	-8
International Organisations ..	127	130	+3
Gold Reserves	356	450	+94
Total	1,322	1,450	+128

5. NOTES ON THE MEASUREMENT OF CAPITAL MOVEMENTS IN THE BALANCE OF PAYMENTS AND THE FOREIGN LIABILITIES AND ASSETS OF SOUTH AFRICA

The statistics of capital movements collected for balance of payments purposes provide the basic information for the calculation of changes in the country's foreign liabilities and assets, so that the concepts and definitions used for the compilation of the foreign liabilities and assets generally conform to those applied in estimating capital movements. In the presentation of foreign liabilities and assets in Statements 1 and 2 which accompany this article, the classifications are essentially similar to those in Tables XXXIII B and C of this Bulletin, where details are provided of capital movements in the South African balance of payments. A distinction is thus made in these tabulations between Foreign Liabilities and Foreign Assets, the Official Sector and the Private Sector, Direct Investment and Non-Direct Investment and Long-term and Short-term. All these concepts have been defined in previous reviews of South Africa's foreign investment position and in footnotes to the above-mentioned tables on capital flows.

Although capital movements in the balance of payments should theoretically agree with

changes in the corresponding foreign liabilities and assets, differences may occur on account of adjustments for coverage, valuation and timing. For example, changes in the reserves of foreign-controlled South African resident or South African controlled foreign resident companies are *not* included as capital flows in the balance of payments, whereas proportionate amounts of such reserves are apportioned to foreign residents and South African residents, respectively, in the Statement of Foreign Liabilities and Assets. If the foreign "stake" in reinvested profits of South African undertakings should exceed the capital outflow, total foreign liabilities will increase despite the net outflow of capital shown in the balance of payments. In times of net capital inflows in the balance of payments, the increases in foreign liabilities will in turn generally exceed the inward movements on capital account in the balance of payments.

An example of a difference between capital flows and changes in South Africa's foreign liabilities and assets arising from different methods of valuation can be found in the treatment of listed securities. Purchases by foreigners of securities in South African organisations from South African residents will be recorded as capital inflows in the balance of payments and will also show up as increases in foreign liabilities, and *vice versa* for sales of South African securities by foreigners to South African residents. However, such purchases and sales by foreigners will be recorded in the balance of payments as capital inflows or outflows at trans-

actions value, i.e. at the values at which the actual market transactions took place. The corresponding changes in foreign liabilities should preferably be valued to exclude fluctuations in market prices. In the case of South African companies controlled from abroad, the listed securities held by foreigners are included at nominal value plus a proportionate share of the undistributed profits and reserves, and in the case of companies which are not controlled from abroad, listed securities are valued at prices quoted for these securities on the Johannesburg Stock Exchange as at the end of 1956, while unlisted securities are included at nominal values. Fluctuations in the market prices of listed South African securities held by foreigners will therefore not affect the changes over time in foreign liabilities as calculated in Statement 1 accompanying this article.

The reconciliation of capital flows as recorded for balance of payments purposes and the changes in foreign liabilities and assets also calls for adjustments in the case of such items as capital appreciation, write-offs, structural re-organisations and amalgamations of companies, bonus share issues, and the transfer of the residence of companies from one country to another.

From the above it should be clear that changes in South Africa's foreign liabilities and assets position will be affected by the capital flows as recorded in the balance of payments, and that balance of payments statistics often have to be further adjusted in order to reflect changes in the country's foreign liabilities and assets.

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