

## Note on South Africa's participation in the Locational Banking Statistics initiative

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The Bank for International Settlements (BIS) is based in Basel, Switzerland, with representative offices in Hong Kong and Mexico City. The mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, to foster international co-operation in those areas and to act as a bank for central banks. Established on 17 May 1930, the BIS is the world's oldest international financial organisation. Under the Committee on the Global Financial System (CGFS), the BIS started collecting international banking statistics in the 1960s and with each subsequent financial crisis, data gaps prompted refinements. Over the years, a concerted effort was made to improve the timeliness, frequency, soundness and coverage of cross-border positions. The number of reporting countries increased and, as of the second half of 2012, the Locational Banking Statistics (LBS) initiative was covering the activities of some 7 700 banking entities from 44 countries.

Because of the regional influence and the importance of cross-border banking activity in South Africa, the BIS approached the South African Reserve Bank to participate in the LBS group of reporting countries. In September 2009 South Africa became the forty-third member country providing LBS data to the BIS. Initially, only banks with significant cross-border and foreign currency positions supplied data; but from the beginning of 2012, changes to the Regulations Relating to Banks ensured that the LBS reporting became compulsory for all resident banks located within the borders of South Africa.

One of the surveys that fulfil the need for both better measurement and transparency in the reporting of cross-border financial activity is the LBS form. This survey measures the aggregate international claims and liabilities of all banks in a specific jurisdiction. The main purpose of the LBS is to provide information on the role of banks and financial centres in the intermediation of international trade and capital flows. Data are primarily organised by country of residence of the reporting banks and their counterparties, and all positions are recorded on a gross basis, including those in respect of own affiliates. The reporting methodology is consistent with the principles underlying the compilation of national accounts, balance of payments and external debt statistics. The currency details supplied by the reporting countries allow for the approximation of capital flows and also measures lending flows in a given period.

The LBS reporting format comprises a detailed analysis of all international financial claims and liabilities of resident banks as at the end of each quarter. Banks are required to provide three main breakdowns of their total claims and liabilities: (i) a currency breakdown, (ii) a sectoral breakdown, and (iii) a full counterparty country breakdown. In view of the multidimensional nature of the data, this note includes a handful of illustrations of how the information may be used.

As depicted in the table (on page 83), the international assets and liabilities of South African-registered banks are mainly held with developed countries, with the United Kingdom, followed by Germany and the United States (US), being the major country counterparties.

The aggregate cross-border claims of South African banks expanded noticeably from June 2011 to June 2012. The two main drivers behind this expansion were increased loans granted to non-residents and increased holdings of international debt securities. Similarly, the aggregate cross-border liabilities of South African banks increased somewhat over the same period, in line with a moderate uptick in international banking activity. This increase was primarily caused by expansions in other liabilities, which mainly consist of positions in foreign derivative instruments and the issuance of debt securities in foreign countries.



## Distribution of claims and liabilities of South African banks across selected regions and countries

US\$ millions

Outstanding balance	Total international assets			Total international liabilities		
	Sep 2009*	Jun 2011	Jun 2012	Sep 2009*	Jun 2011	Jun 2012
Developed countries.....	47 035	40 426	43 505	35 856	27 630	30 405
Offshore centres.....	1 514	2 734	4 138	3 253	4 843	3 987
Developing Africa and Middle East .	2 611	2 611	4 302	4 602	4 152	4 152
Other non-resident countries .....	1 482	4 096	4 530	604	1 021	1 259
All non-resident countries .....	52 642	49 867	56 475	44 315	37 646	39 803
Residents denominated in foreign currency.....	3 724	6 800	6 918	6 385	9 138	8 825
<b>All countries and residents.....</b>	<b>56 365</b>	<b>56 667</b>	<b>63 393</b>	<b>50 700</b>	<b>46 785</b>	<b>48 627</b>

\* Date of inception of South Africa's participation in the LBS survey

Notwithstanding this rise, South African banks' participation in cross-border bank lending activity has remained subdued from a longer-term perspective, in line with the moderate global lending activity observed during the past few years. On aggregate, South African banks' foreign assets exceed their foreign liabilities by a significant margin.

The domestic currency exposure of both international claims and liabilities declined from September 2009 to June 2012, while the foreign currency exposure increased over the same period. The breakdown by currency shows that South African banks' exposure in both assets and liabilities are mainly in US dollar, followed by the euro. Expressed as a percentage of total foreign assets, the dollar lost some ground, but gained favour as a lending currency during the period under review.

## International claims and liabilities of South African banks by instrument and currency

Per cent

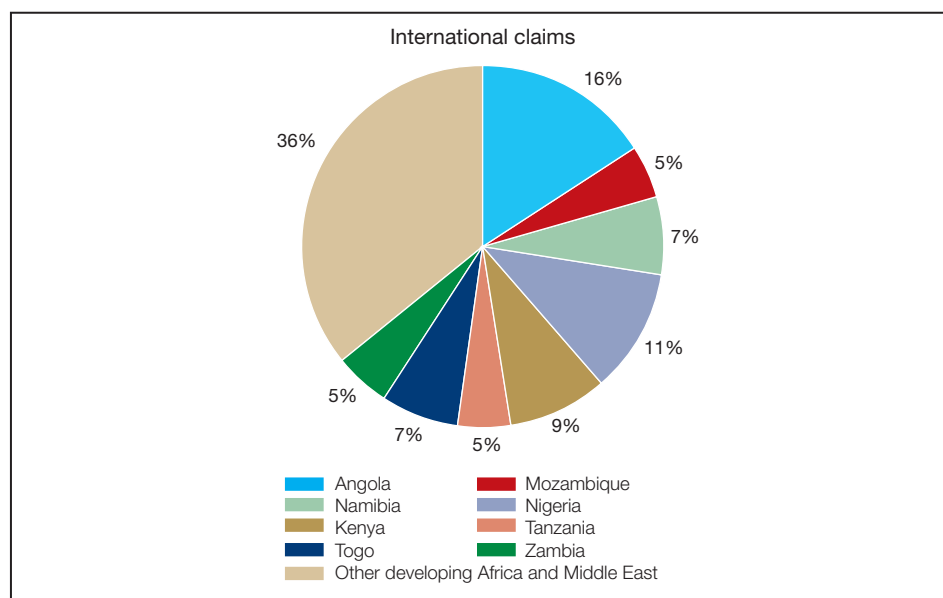
Share of components in total	Sep 2009	Jun 2011	Jun 2012
International loans .....	51	58	59
International holdings of debt securities.....	1	8	8
Other international assets .....	48	35	32
<b>Total international claims.....</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Of which:</i> Domestic currency.....	38	28	28
Foreign currency.....	62	72	72
<i>US dollar</i> .....	76	75	72
<i>Euro</i> .....	13	15	15
<i>Other</i> .....	11	10	13
International deposits .....	46	58	53
International own issuance of debt securities .....	3	3	5
Other international liabilities .....	51	39	42
<b>Total international liabilities .....</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Of which:</i> Domestic currency.....	44	40	42
Foreign currency.....	56	60	58
<i>US dollar</i> .....	74	72	75
<i>Euro</i> .....	15	18	17
<i>Other</i> .....	10	9	7



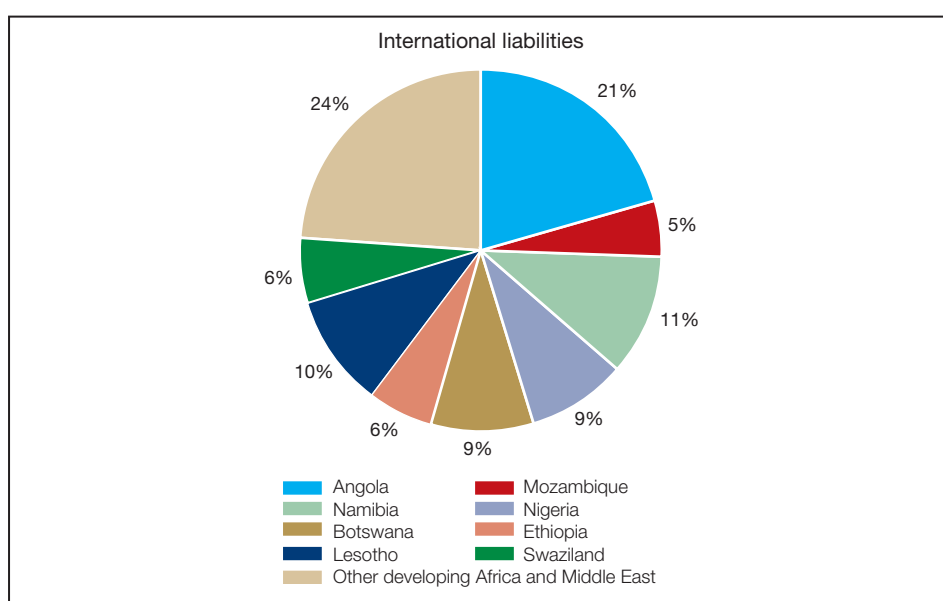


The cross-border exposure of South African banks to developing Africa and Middle East investments constitutes less than 10 per cent of their total international assets and liabilities. Within this category, South African banks' exposure to a single country is dominated by Angola, although Nigeria, Namibia and Mozambique also feature prominently.

#### Assets: Developing Africa and the Middle East



#### Liabilities: Developing Africa and the Middle East



On an international basis, cross-border interbank lending worldwide stabilised in the first quarter of 2012, following the severe contraction in the previous quarter. This could be attributed partly to returning market confidence in euro area banks, following the measures undertaken by the European Central Bank (ECB) through its programme of longer-term refinancing operations (LTROs), which assisted in the reopening of wholesale bank funding markets. However, during the period from mid-June to mid-September 2012, the trajectory of global growth shifted downwards alongside renewed concerns regarding the sustainability of euro area government debt and the future of the monetary union. Such tensions in sovereign bond markets may



continue to hamper the willingness of banks to provide credit, with adverse consequences for the global economy and a further deterioration in the asset quality of banks. These tensions are translated into the increase in credit default swaps of euro area banks, as well as the ongoing gradual loss of access to funding by banks in some euro area countries. To alleviate these tensions, the ECB announced a new programme of outright monetary transactions (OMTs) on 6 September 2012. The programme involves discretionary sterilised purchases of short-term sovereign bonds under specific conditions and is subject to prior request by the respective country's government for international assistance via the European Financial Stability Facility (EFS)/European Stability Mechanism (ESM).

The recent global financial crisis highlighted the need for further enhancements to the data required on major banking systems' funding and lending patterns. As a result, a working group of the Committee on the Global Financial System (CGFS) was tasked to review cross-border statistical requirements and they made a number of proposals which were approved by the CGFS for implementation from June 2012. The enhancements aim to address data issues and data gaps highlighted by the financial crisis; improve monitoring of credit exposures of national banking systems; and improve monitoring of trends in the supply of bank credit (both cross-border and domestically sourced) and banks' funding patterns. The latter will result in significant improvements in the usefulness of the international banking statistics for financial stability analysis. The enhanced surveys will be implemented in South Africa in mid-2013.

South Africa benefits from participation in LBS because it provides a benchmark vis-à-vis other countries in terms of both overall market share and categorisation provided in the data. Major lending and borrowing sectors are identified, alongside maturity and currency composition. In addition, it serves as a powerful tool for identifying economic trends that other banking statistics cannot capture. This allows for the tracking of sectors that account for build-up of risks; capturing selected channels of transmission of shocks; and early identification of large international banking flows that may require closer inspection. The balance-of-payments and external financial position data for South Africa incorporate the LBS data. Aggregated LBS data for South Africa are also included in various tables published in the BIS's *Quarterly Review* available at <http://www.bis.org/publ/qtrpdf/rqt1209.htm>.

At this stage, publication of a stand-alone set of LBS tables in the *Quarterly Bulletin* of the South African Reserve Bank is not envisaged, but this may be reviewed in future when more data points become available.







