

Note on South Africa's locational banking statistics

by Lisa de Beer and Marian van Deventer

Introduction

This note introduces the inaugural publication of South Africa's locational banking statistics (LBS) on pages S–26 and S–27 of the South African Reserve Bank's (SARB) *Quarterly Bulletin*. The Bank for International Settlements (BIS) developed LBS statistics under the guidance of the Committee on the Global Financial System, together with central banks, to provide a comprehensive and consistent source of statistics on banks' cross-border financial exposures to enhance the analysis of macroeconomic and financial stability issues. South Africa joined the initiative in 2009 and became the 43rd member of the group of reporting countries. In 2011, the Committee on the Global Financial System proposed major enhancements, which South Africa implemented fully in September 2013. The data are published in the *Quarterly Bulletin* on a quarterly basis, with a one-quarter lag, as from the third quarter of 2013.

Overview of underlying concepts and data dimensions¹

The LBS by residency measure the aggregate balance sheet positions of cross-border financial assets (claims) and liabilities of all banks resident in a reporting country in relation to both non-resident counterparties in any currency, as well as resident counterparties of the reporting country in foreign and domestic currency. The reporting is based on the residence of the reporting banks and is aligned with the methodology of compiling the balance of payments. The LBS asset and liability positions are disaggregated into the following main dimensions: instruments, which are presented as financial instruments; bank type; currency; counterparty sectors, which are reflected as counterparty institutional sectors; and counterparty countries, which are aggregated into counterparty regions. All of these statistics are disaggregated into more detailed subcategories. Bank assets (claims) are broken down into loans and deposits, holdings of debt securities, and other claims. Bank liabilities are broken down into deposits and loans, own issues of debt securities, and other liabilities. The bank-type category disaggregates reporting banks into four types of institutions based on the nationality of the controlling parent institution of the reporting bank. The currency positions are broken down into domestic currency and the minimum recommended foreign currencies. The counterparty breakdowns reflect detailed institutional sectors and the regions in which the counterparty of the reporting bank's assets or liabilities reside.

The LBS by nationality regroup LBS by residency based on the nationality of the controlling parent institution of the reporting bank. Therefore, for each reporting country, the total assets (claims) and liabilities as well as the underlying detail for all banks that report according to LBS by residency equal the total assets and liabilities of the same banks in LBS by nationality. This integrated view enables the analysis of the transmission of shocks among countries through the banking system.

The valuation of assets (claims) and liabilities is based on standard valuation principles to ensure consistency and comparability. Positions are mostly valued at market prices, with the exception of deposits at nominal value and loans at nominal or contractual value. Assets (claims) and liabilities are reported on a gross basis (i.e. assets and liabilities in relation to the same counterparty are not netted). Arrears in interest and principal are included in assets and liabilities, and credit impairments are not deducted. However, claims written off are deducted.

The BIS reports LBS in US dollar terms, with currency conversion at the prevailing end-of-quarter exchange rate. The LBS position data reflect balances at quarter end, with transactions and valuation adjustments accounting for the difference between quarter-end balances.

¹ For detailed guidance on the interpretation of locational banking statistics, consult 'Guidelines for reporting the BIS international banking statistics', March 2013. <https://www.bis.org/statistics/bankstatsguide.htm>

Locational banking statistics of South African-registered banks by residency and nationality as at the end of June 2018

R billions

Residency	Assets	Liabilities	Nationality	Assets	Liabilities
Domestic banks	500	391	South Africa	500	391
Subsidiaries	1	2	Bahrain	0	0
			Luxembourg	0	0
			Switzerland	0	0
			Portugal	1	1
			Greece	0	1
			Australia	0	0
Branches	91	149	United Kingdom	17	31
			India	3	8
			France	4	14
			Chinese Taipei	0	2
			United States	32	44
			Germany	2	6
			China	33	44
Total by residency	592	542	Total by nationality	592	542

Source: SARB

South Africa's locational banking statistics

The LBS for South Africa compiled by the Money and Banking Unit of the SARB's Economic Research and Statistics Department adhere to all the BIS principles. Reporting is mandatory for all South African banks (i.e. banks located within the borders of South Africa) registered in terms of the South African banking legislation.² Banks located in South Africa report their cross-border positions, which include positions with affiliates (i.e. branches, subsidiaries or joint ventures). All these banks report quarterly data per individual bank but the SARB and BIS only report at an aggregated country level. The classification of the non-resident sector (rest of the world) is based on balance of payments principles, and the distinction between residents and non-residents is explained in the *Institutional Sector Classification Guide for South Africa*³ published by the SARB. Residents and non-residents can have positions denominated in either domestic or foreign currency.

The LBS are conceptually similar to the balance sheets of depository corporations (banks) used in the compilation of monetary and credit statistics. However, there are some important differences as the LBS exclude non-financial assets and are reported gross of impairments, in accordance with international statistical guidelines. There is also synergy between the LBS, balance of payments and international investment position. Therefore, the LBS' geographical breakdown is particularly useful and the financial instrument breakdown, although somewhat limited, provides input for the compilation of banking positions in the external accounts. The LBS also provide balance sheet information of the South African banking sector that complement the existing statistics in the tables on pages S-6 to S-9 of the *Quarterly Bulletin*, with detailed cross-border positions.

The total assets of banks comprise total cross-border assets, which consist of claims against non-resident counterparties in domestic and foreign currency, and claims against resident counterparties of the reporting country in foreign and domestic currency. Similarly, total liabilities of banks comprise total cross-border liabilities to non-resident counterparties in domestic and foreign currency, and liabilities to resident counterparties of the reporting country in foreign and domestic currency.

² South African-registered banks refer to all deposit-taking institutions registered under the Banks Act 94 of 1990, excluding mutual banks.

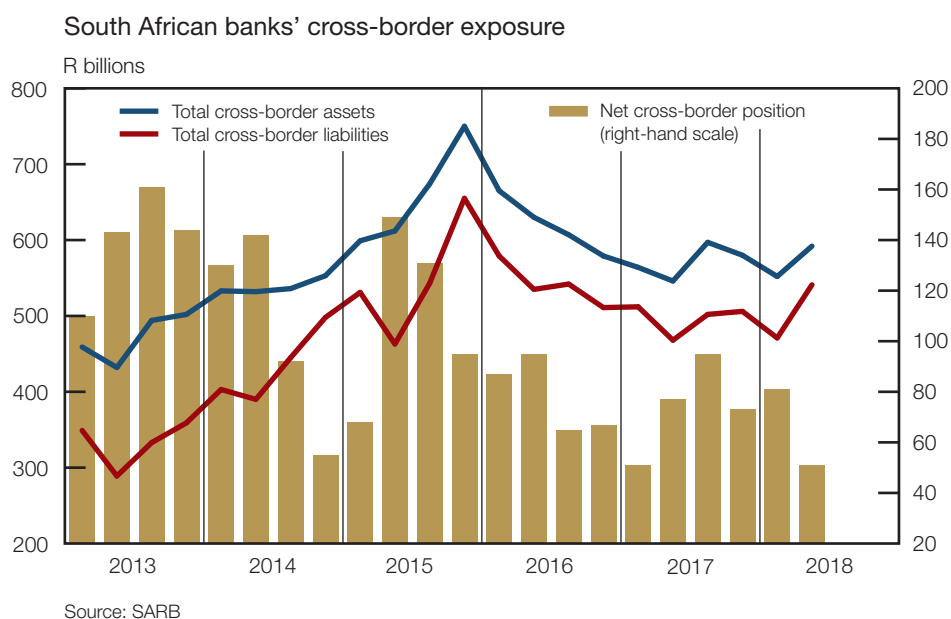
³ *Institutional Sector Classification Guide for South Africa*, March 2017, p 63. <https://www.resbank.co.za/Publications/Guides/Pages/Institutional-Sector-Classification-Guide-for-SA---2017.aspx>



Analysis of South Africa's locational banking statistics

South African banks are more domestically focused with much less cross-border activity than those of many other countries. This is reflected by cross-border assets (claims) of only 11% of total assets and liabilities of only 9% of total liabilities as at the end of June 2018. This is significantly smaller than, for example, the United Kingdom, where non-resident counterparty assets and liabilities generally account for more than 40% of total assets and liabilities.

South African banks' cross-border assets (claims) exceed liabilities (i.e. assets and liabilities in relation to non-resident counterparties denominated in foreign currency and rand), resulting in a positive net exposure. The value of banks' cross-border assets and liabilities denominated in foreign currency (which is 75% and 48% of total cross-border assets and liabilities respectively) is affected by fluctuations in the exchange value of the rand. The positive net cross-border asset position fluctuated between a high of R161 billion at the end of September 2013 and a low of R51 billion at the end of June 2018.

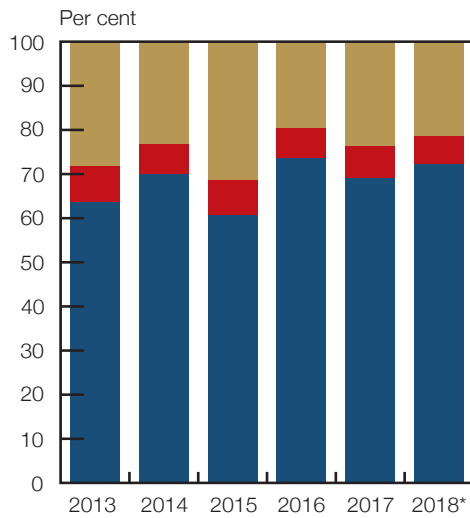


The LBS disaggregate cross-border asset (claim) and liability positions of banks into a number of dimensions.

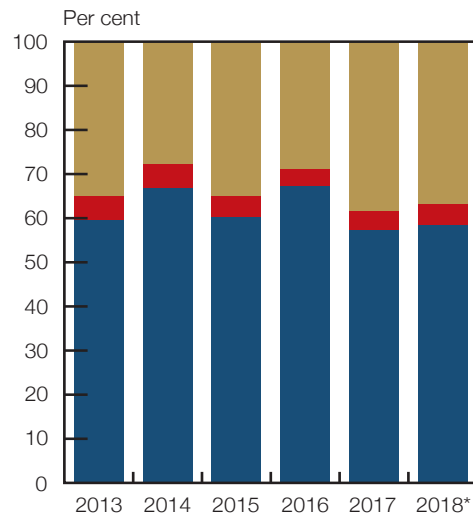
Financial instruments on the asset and liability side are categorised as deposits and loans, debt securities, and other instruments which include derivatives and equities. On the asset side, total cross-border claims predominantly consist of a combination of loans to, and deposits with, non-residents, with holdings of debt securities issued by non-residents of around 10%. Total cross-border liabilities mainly consist of deposits by, and loans from, non-residents of about 60%, with own issues of debt securities held by non-residents of less than 10%. Other assets and liabilities comprise, among other things, equity and derivative positions. Deposits and loans dominate both cross-border assets and liabilities, with assets exceeding liabilities in value terms. This facilitates the analysis of banks' cross-border funding and exposure to offshore assets.

Financial instrument composition of South African banks' cross-border assets and liabilities

Contribution to assets



Contribution to liabilities



Loans/deposits Debt securities
Other instruments

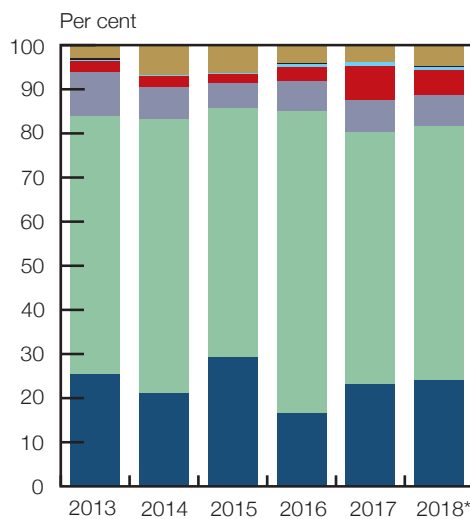
* As at end of June

Source: SARB

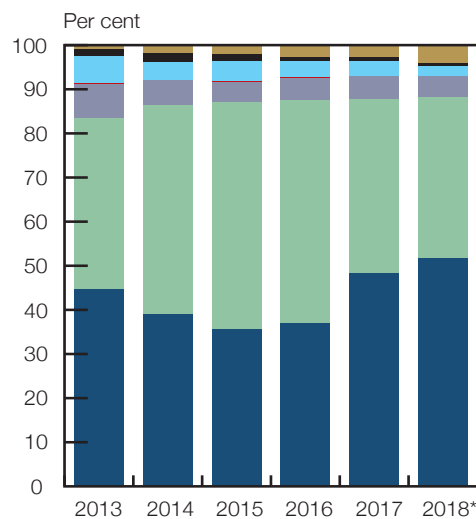
Cross-border assets (claims) and liabilities are delineated in terms of rand exposures and five foreign currencies, namely the US dollar, euro, Japanese yen, British pound and Swiss franc, with a residual category for all other currencies. The breakdown by currency shows that the largest part of cross-border assets (claims) is denominated in US dollars with, on average, a fairly equal split between US dollar- and rand-denominated liabilities. US dollar-denominated assets exceed US dollar-denominated liabilities, and rand-denominated liabilities exceed rand-denominated assets. Although a large proportion of foreign assets are exposed to currency risk, this is mitigated by the large proportion of foreign rand liabilities and foreign currency-denominated assets exceeding foreign currency liabilities. This breakdown allows insight into currency mismatches between funding and investments and the hedging thereof.

Currency composition of South African banks' cross-border assets and liabilities

Contribution to assets



Contribution to liabilities



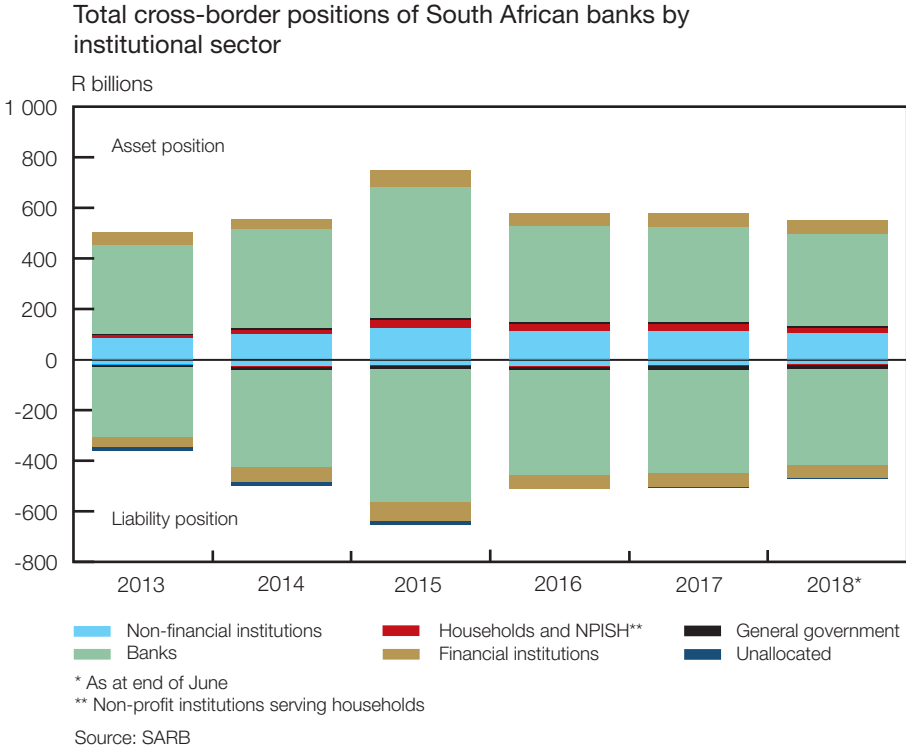
Rand Japanese yen US dollar Swiss franc

* As at end of June

Source: SARB

Euro Japanese yen US dollar British pound Other currencies

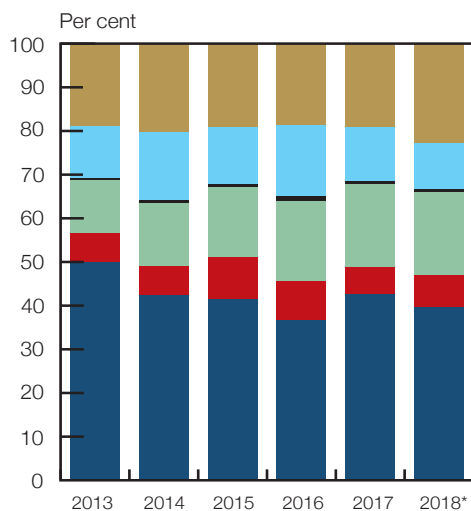
The *institutional sector* counterparties to banks' cross-border assets (claims) and liabilities are broken down into the financial and non-financial sectors, with various subcategories. Foreign banks as a counterparty dominate, representing, on average, 68% of assets and 79% of liabilities, followed by foreign non-financial institutions at 18% of assets and 4% of liabilities. The importance of information on institutional sector exposure became evident during the global financial crisis of 2007–08, in particular the exposure to banks.



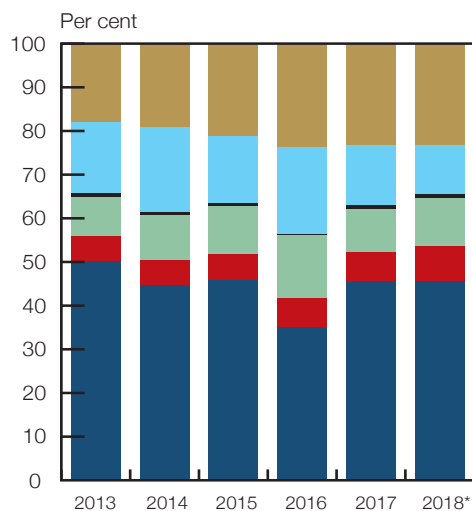
The global financial crisis also highlighted the importance of *counterparty country and regional data*, in particular peripheral countries in the euro area. In terms of banks' cross-border exposure, the United Kingdom, followed by developing Africa and the Middle East and offshore centres (of which the Isle of Man is most prominent) on average account for 71% of both assets (claims) and liabilities. The LBS also indicate limited exposure to the peripheral countries in Europe, with the value of South African banks' cross-border liabilities to these countries mostly exceeding assets. The value of cross-border assets of South African banks to the United Kingdom, United States, and developing Africa and the Middle East exceeds liabilities by a wide margin.

Composition of counterparty countries and regions of South African banks' cross-border assets and liabilities

Contribution to assets



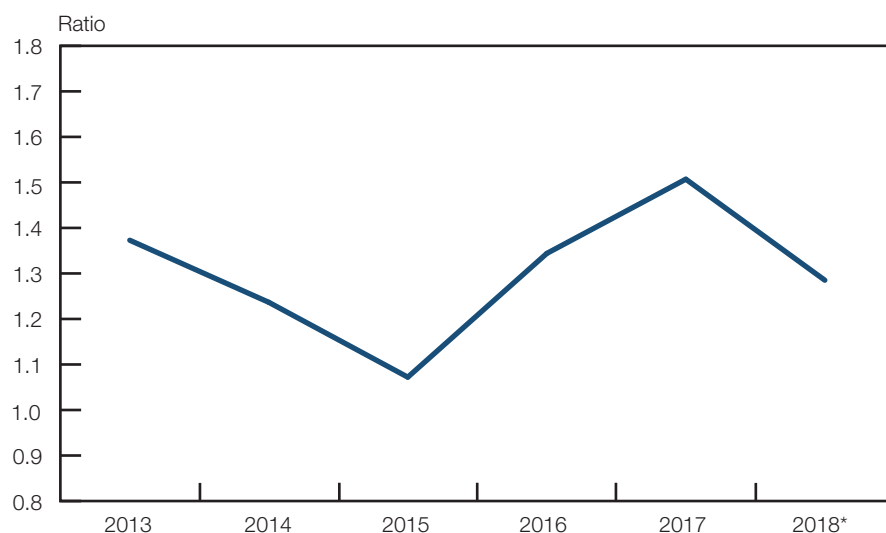
Contribution to liabilities



■ United Kingdom ■ United States ■ Developing Africa and the Middle East
■ Portugal, Italy, Greece and Spain ■ Offshore centres ■ Other
 * As at end of June
 Source: SARB

When extending the cross-border assets (claims) and liabilities from non-resident counterparties in any currency to also include resident counterparties of the reporting country in foreign currency, the holdings by South African banks of foreign currency-denominated assets generally exceed foreign currency liabilities, resulting in an overall net foreign currency-denominated asset position. An appreciation (depreciation) in the exchange value of the rand will reduce (increase) the value of South African banks' net foreign currency position in rand terms.

Net foreign currency position of South African banks



* As at end of June
 Source: SARB

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