

30-YEAR MACROECONOMIC OVERVIEW OF SOUTH AFRICA

Issue 4: Balance of Payments

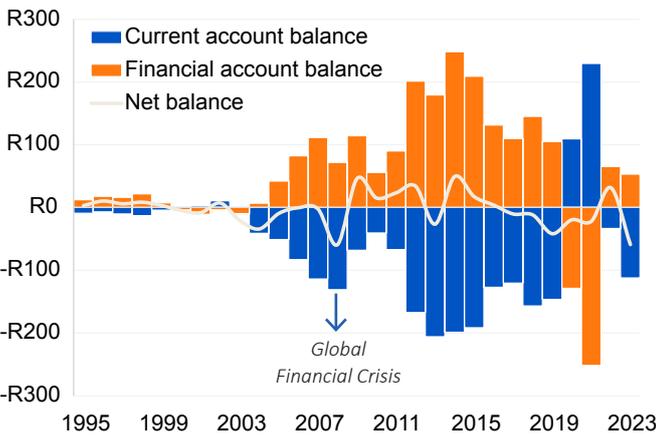
The **Balance of Payments (BoP)** is a country's statement of money coming in and flowing out. The economically most relevant components of the BoP are the **current account balance** and **international capital flows**. A deficit/surplus on the one needs to be offset by a surplus/deficit on the other so that the BoP always *balances in an accounting sense* (**Fig 1**). Shortfalls - when SA spends more than it earns - need to be financed by drawing down our foreign exchange reserves and/or by international capital inflows (including debt). We focus here on how these indicators vital for macroeconomic stability have evolved over the past thirty years.

<p>Current account</p> <p>Tracks money flowing in and out of South Africa through exports, imports, investment income and transfers.</p>	<p>Financial (capital) account</p> <p>Tracks cross-border financial assets and liabilities (e.g. countries investing in South Africa, or South Africans investing abroad).</p>
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After a decade of alternating relatively small deficits (<2% of GDP) and surpluses on the current account (**Fig 2**), South Africa registered continued relatively large deficits (average $\pm 3.3\%$ of GDP) between 2004 and 2019. Sufficiently large net capital inflows during this period allowed for the financing of the current account deficits as well as a build-up of foreign exchange reserves.

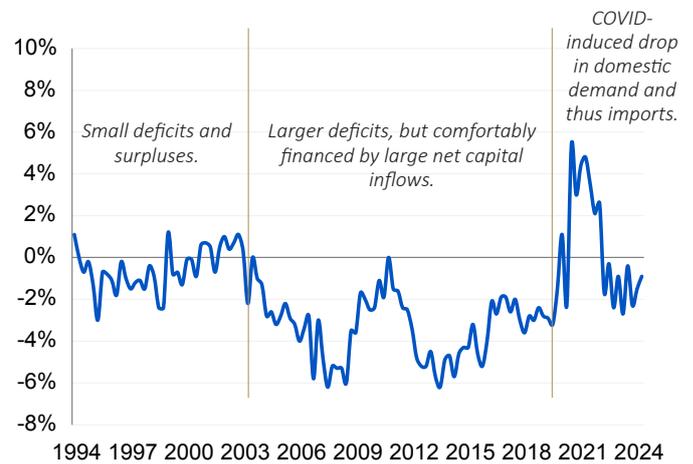
1. CURRENT AND FINANCIAL ACCOUNT BALANCES (BILLION), CURRENT PRICES

Source: SARB Quarterly Bulletin, KBP5764J, KBP5007J; BER calculations



2. CURRENT ACCOUNT BALANCE AS A SHARE OF GDP

Source: SARB Quarterly Bulletin, KBP5380K



“Continued large current account deficits are sometimes interpreted as an indication of a country ‘living beyond its means’, requiring restrictive macroeconomic policies. However, as long as such deficits are financed by foreign capital inflows - especially foreign direct investment - it may well support faster economic growth and development for the country concerned”

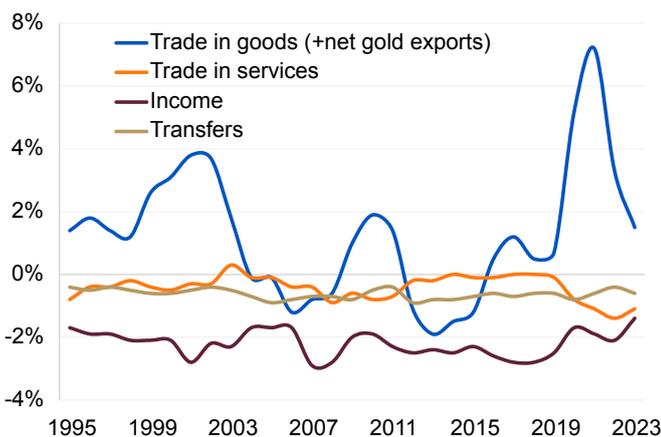
- Prof Ben Smit, Emeritus Professor, Economics Department, Stellenbosch University

Components of the current account

The trade balance, which reflects the interplay of South Africa's exports (mainly commodities) and capital and consumer durable goods imports, is often in surplus (**Fig 3, blue line**). However, the other balances are consistently in deficit, reflecting South Africa's small open economy characteristics.

3. COMPONENTS (NET) AS A SHARE OF GDP

Source: SARB Quarterly Bulletin, KBP5001J-5006J

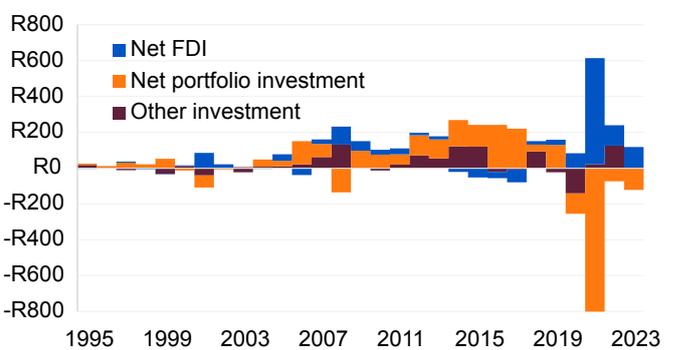


Components of the financial account (capital flows)

Capital inflows for most of the period up to 2019 were dominated by portfolio capital (equities, bonds and bank loans), with foreign direct investment (FDI) remaining modest (**Fig 4**). A share exchange between Naspers Ltd and Prosus N.V. in 2021 significantly affected the functional categories of the financial account. With Prosus acquiring 45% of Naspers Ltd N ordinary shares and its shareholding exceeding 10%, the acquisition was classified as direct investment.

4. NET BALANCES, RAND BILLION, CURRENT PRICES

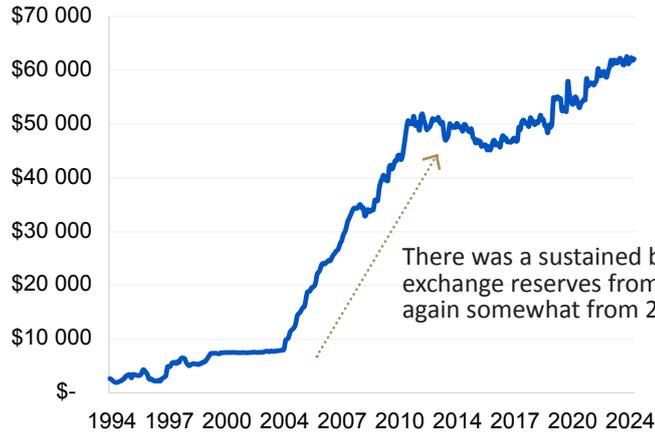
Source: SARB Quarterly Bulletin KBP5683J, KBP5684J, KBP5685J



Foreign exchange reserves, including gold

5. GROSS GOLD AND OTHER FOREIGN EXCHANGE RESERVES, RAND MILLION

Source: SARB Quarterly Bulletin, KBP5806M



Foreign exchange reserves are the assets held by a country's central bank in foreign currencies and gold, used to support its currency, pay for imports, and manage external debt. It provides a buffer against external shocks and reduces exchange rate volatility, thereby enhancing confidence in a country's macroeconomic stability.

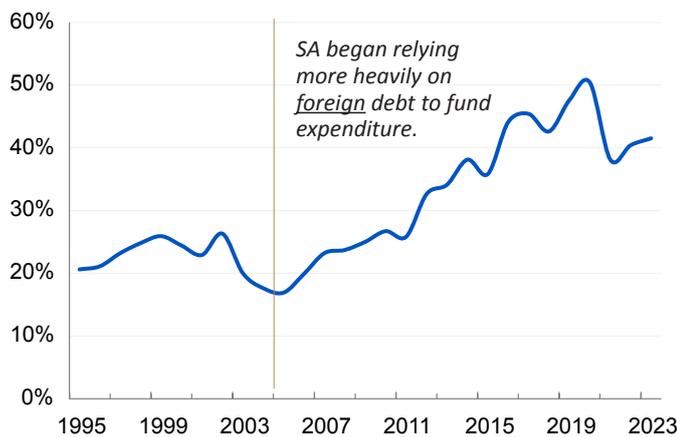
The 'original sin' refers to the inability of many emerging markets to borrow in their own currency on international markets, forcing them to take on foreign debt in stronger currencies like the US dollar, which increases vulnerability to exchange rate risks.

Foreign debt

Between 2004 and 2019, South Africa's foreign debt as a share of GDP rose sharply (Fig 6). However, the share of *rand-denominated debt* also increased from ±30% to ±60%. South Africa could borrow in rands, avoiding the constraints of the 'original sin' and 'fear of floating' faced by many emerging markets. However, the past two years have seen a decrease in rand-denominated debt and an increase in foreign currency denominated debt.

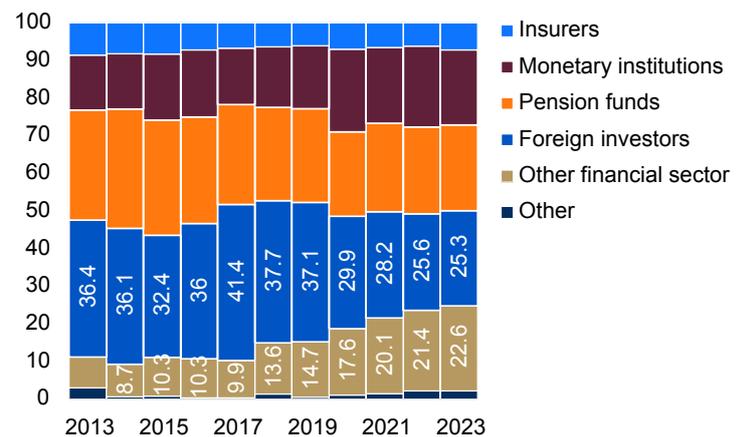
6. TOTAL FOREIGN DEBT AS A SHARE OF GDP

Source: SARB Quarterly Bulletin, KBP5260J



7. OWNERSHIP OF DOMESTIC BONDS (SHARE OF TOTAL)

Source: National Treasury



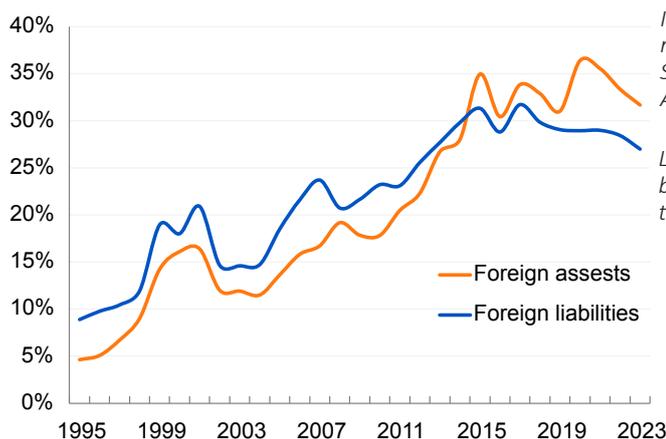
Growth in the purchase of South African bonds by foreign investors has slowed due to, among other factors, uncertainty about the domestic political environment and South Africa's greylisting by the Financial Action Task Force in 2023. As a result, the share of South African government debt held by non-residents has declined from about 40% to 25% over the past few years. The asset management industry (the 'Other financial sector' in Fig 7) has taken on most of this new government debt: with de-listings on the JSE and fewer investment options due to weak economic growth, asset managers have increasingly turned to government bonds.

Foreign assets and liabilities

South Africa's foreign assets have outweighed foreign liabilities since 2015 (Fig 8). It was caused by an outflow of investment, with slow economic growth and policy uncertainty as contributing factors. For the same reasons, foreign liabilities (i.e. investment by foreigners in SA) have stagnated.

8. FOREIGN ASSETS AND LIABILITIES AS A SHARE OF GDP

Source: SARB Quarterly Bulletin KBP5636J, KBP5584J



Implications for economic growth?

Policy stability and fiscal discipline will boost confidence in South Africa, leading to an inflow of capital reflected in a stronger **financial account**. Reforms that support export growth will help to keep the **current account** deficit in check.

Combined, these factors will help grow South Africa's foreign reserves and repay its debts, creating fiscal space for other priorities.

CONTACT US:

Helanya Fourie & Prof Ben Smit

Tel: +27 (21) 808 3004

Email: helanya@sun.ac.za

www.ber.ac.za

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