

Box 2 Unpacking the balance on the current account of the balance of payments^{1,2} and the influence of dividend payments

Dividend payments at times have a significant impact on the outcome of the balance on the *current account* of the balance of payments. This box focuses on such an occurrence in South Africa in the second quarter of 2022 when the current account balance (seasonally adjusted and annualised) unexpectedly switched from a surplus to a deficit, mainly on account of an extraordinary large level of dividend payments. It also highlights the difference between not seasonally adjusted and not annualised balance of payments statistics and seasonally adjusted³ and annualised statistics in the context of the balance of payments as a whole.^{4,5}

Main components of the balance of payments

R billions

	Not seasonally adjusted and not annualised *								Seasonally adjusted and annualised **							
	2021				2022				2021				2022			
	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q2	Q3	Q4	Year	Q1	Q2	Q3		
Trade balance.....	154	110	91	448	70	76	58	565	437	336	448	372	252	233		
Balance on service, income and current transfers.....	-53	-73	-37	-220	-63	-77	-84	-270	-222	-204	-220	-216	-358	-251		
Service receipts.....	31	33	41	135	45	48	54	129	133	159	135	176	204	221		
Income receipts.....	25	66	29	167	52	34	56	114	244	141	167	171	155	200		
Payments for services	48	50	58	201	61	71	83	193	197	226	201	256	286	327		
Income payments.....	52	114	44	286	89	80	105	285	371	257	286	269	404	325		
<i>of which: direct dividend payments ***</i>								97	159	81	97	69	187	92		
<i>of which: portfolio dividend payments ***</i>								46	71	35	48	53	62	84		
Current transfers (net payments -)	-9	-8	-5	-36	-9	-7	-5	-36	-31	-21	-36	-37	-28	-20		
Balance on the current account..	101	36	54	228	7	-0.3	-26	295	214	132	228	157	-107	-18		
Capital account (net receipts +)	0.1	0.1	0.1	0.2	-29	0.1	0.1	0.2	0.2	0.2	0.2	-116	0.2	0.2		
Net lending to (+)/borrowing from (-) the rest of the world	101	36	54	228	-22	-0.2	-26									
Balance on financial account.....	-109	-21	-55	-244	31	-1	15									
Unrecorded transactions	8	-15	1	17	-9	2	11									

Components may not add up to totals due to rounding off.

* See page S-85 of *Quarterly Bulletin*

** See page S-86 of *Quarterly Bulletin*

*** See page S-92 and S-93 of *Quarterly Bulletin*

Sources: Stats SA and SARB

1 The balance of payments is a statistical summary of transactions between residents and non-residents during a specific period and consists of the current, capital and financial accounts.

2 The methodology used to compile balance of payments statistics adheres to the guidelines of the *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)* of the International Monetary Fund, available at www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

3 Seasonal adjustment identifies and removes recurring seasonal fluctuations and calendar effects from economic time series to obtain the underlying movements, such as turning points, the trend cycle and the irregular component.

4 This box relates to the statistics published in the tables on pages S-85, S-86, S-92 and S-93 in this edition of the *Quarterly Bulletin* and in the quarterly release of the current account, available at <https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/current-account/2022/Current%20account%20release%20-%20December%202022.pdf>

5 The not seasonally adjusted and not annualised current account statistics, together with the not seasonally adjusted and not annualised statistics of the capital account and the financial account, render the complete balance of payments. The financial account represents transactions (flows) in financial assets and liabilities, and comprises the following functional categories: direct investment, portfolio investment, financial derivatives, other investment and reserves.

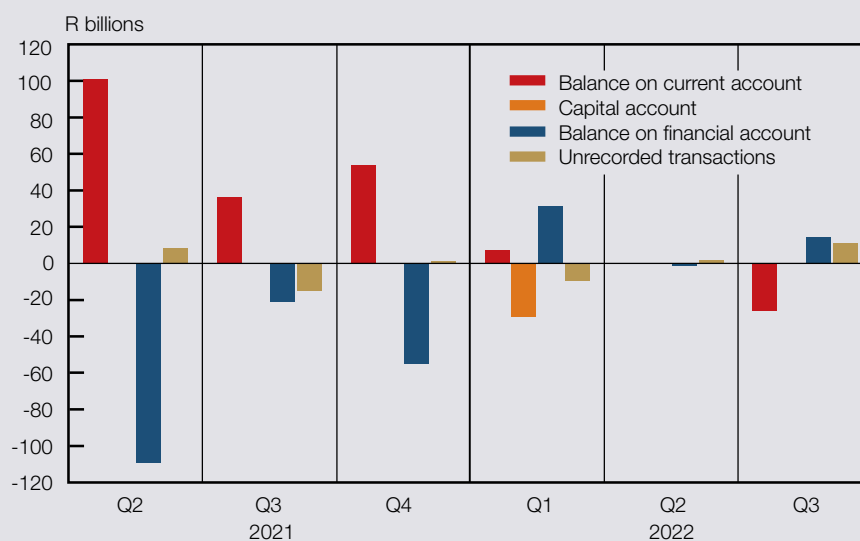


The balance on the current account⁶ consists of the trade balance⁷ and the balance on services⁸, income⁹ and current transfers¹⁰ (SICT). In South Africa, the trade balance varies between a deficit and a surplus, whereas the SICT balance has always been in a deficit position, similar to many other emerging economies, mainly due to a primary income deficit which is largely affected by dividend payments.

The seasonally adjusted and annualised balance on the current account switched from a surplus of R157 billion in the first quarter of 2022 to a deficit of R107 billion in the second quarter, followed by a deficit of R18.1 billion in the third quarter. The quarterly balance on the current account and its components is expressed on a seasonally adjusted and annualised basis to align with the level of the official nominal gross domestic product (GDP)¹¹ and related ratios. The balance on the current account as a ratio of GDP switched from a surplus of 2.4% in the first quarter of 2022 to a deficit of 1.6% in the second quarter, followed by a deficit of 0.3% in the third quarter.

The seasonally adjusted and annualised current account statistics differ from the not seasonally adjusted and not annualised version in terms of magnitude and, at times, also the direction of change. The dominance of both the current and financial accounts in the outcome of the balance of payments (on a not seasonally adjusted and not annualised basis) is indicated in the accompanying graph.

Main components of the balance of payments*



* Not seasonally adjusted and not annualised

Sources: Stats SA and SARB

In the second quarter of 2022, on a seasonally adjusted and annualised basis, a further narrowing of the trade surplus coincided with record-high dividend payments and a contraction in dividend receipts.

The switch in the current account balance from a surplus to a deficit in the second quarter of 2022, due to the large increase in dividend payments, was unexpected as such large increases are usually associated with strong economic growth and a broad-based increase in corporate profits, which were absent in that quarter. Gross dividend payments relative to GDP of 3.8% in the second quarter of 2022 exceeded the annual all-time high of 3.4% in 2007, when annual growth in real GDP was elevated at 5.4%. More recently, the ratio of gross dividend payments to GDP fell to only 1.6% in 2020 when the impact of the coronavirus disease 2019 (COVID-19) was most severe, alongside a contraction in real GDP of 6.3% and a decrease of 31.8% in dividend payments.

6 The current account comprises the trade balance (transactions in goods) and the balance on the services, income (primary income, such as dividends and interest) and current transfer account (secondary income).

7 The trade balance is the value of merchandise and net gold exports *minus* merchandise imports.

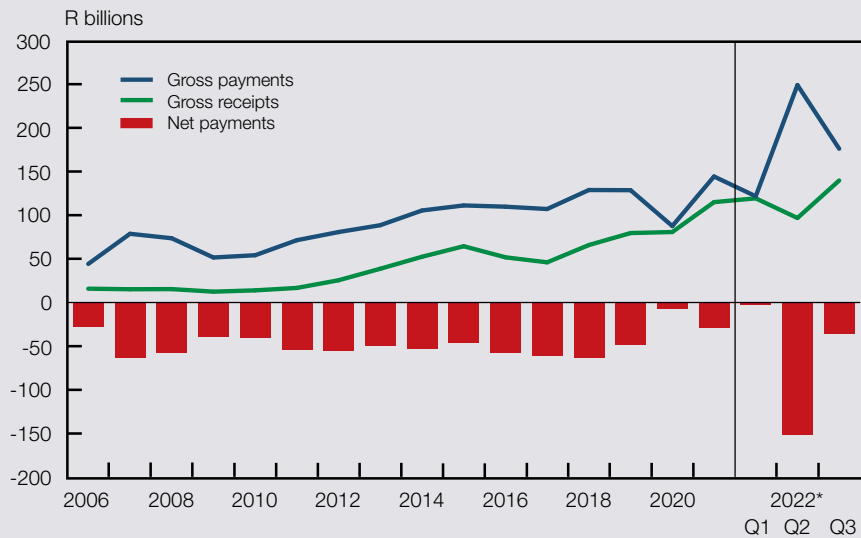
8 Services transactions arise from production activities and generally cannot be separated from consumption, and where ownership rights cannot be separately established.

9 Income (primary income) transactions include investment income, such as dividends and interest as the return on financial assets, and the compensation of employees for the contribution of labour to production activities.

10 Current transfers consist of transactions without a quid pro quo.

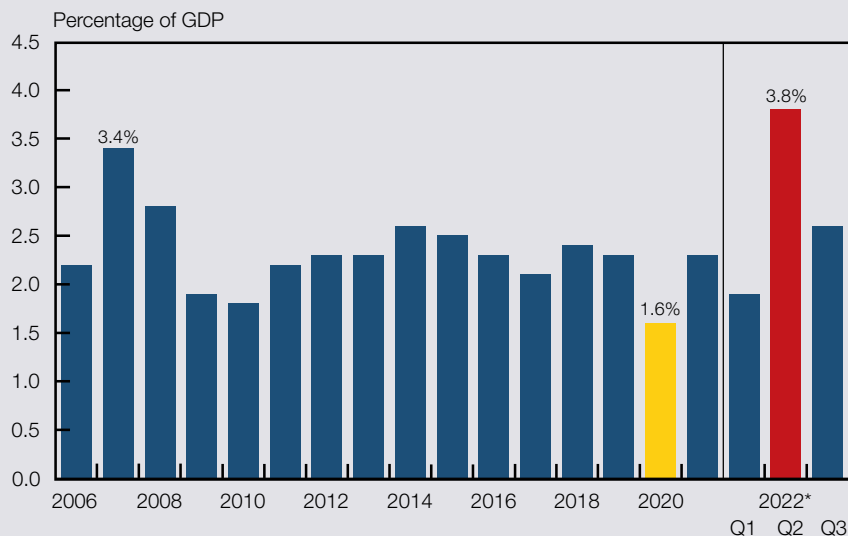
11 Seasonally adjusted and annualised trade in goods and services is part of the GDP estimate. Statistics South Africa seasonally adjusts goods and services. For an explanation of the methodology, see <https://www.statssa.gov.za/publications/Report%2004-04-04/Report%2004-04-042021.pdf>. The South African Reserve Bank (SARB) seasonally adjusts primary and secondary income. The SARB follows the Eurostat guidelines on seasonal adjustment and uses the X-13-ARIMA-SEATS procedure in the JDemetra+ software.

Dividends



Both the third quarter of 2020 and the first quarter of 2021 were marked by an unusual dividend surplus (net dividend receipts) – the first such quarterly surpluses in 25 years – which almost repeated itself in the first quarter of 2022. Amid these abnormal outcomes and volatility, the value of total dividend payments reached an all-time high in the second quarter of 2022, although only constituting 3.8% of GDP – lower than the all-time high of 4.4% in the fourth quarter of 2007.

Gross dividend payments



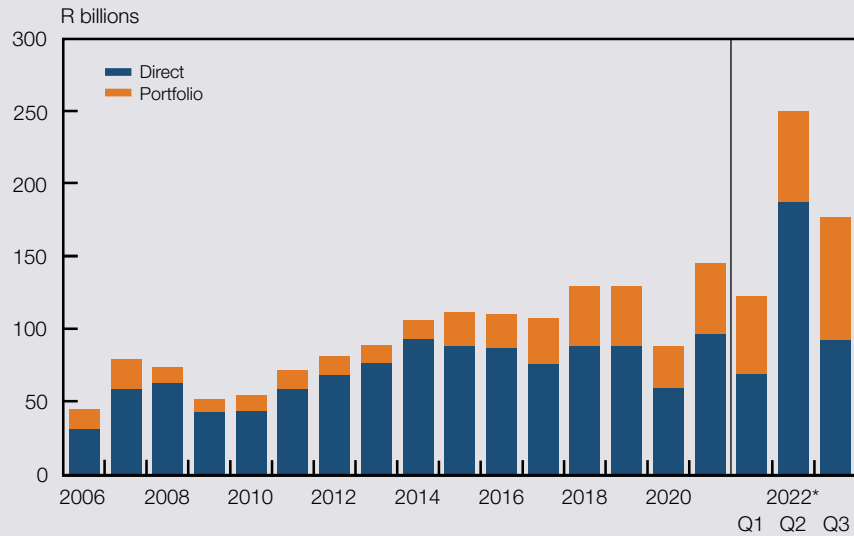
The composition of South Africa's dividend payments also affected the magnitude thereof in the second quarter of 2022, with the value of dividend payments by companies with a direct investment relationship¹² historically being markedly larger than portfolio investment-related dividend payments. Dividend payments on direct investments increased notably in the second quarter of 2022, reflecting their unpredictability in the absence of a scheduled dividend declaration policy, which generally applies to dividend payments on portfolio investments.¹³ The large dividend payments on direct investments in the second quarter of 2022 emanated mostly from the mining sector and reflected profits from higher commodity prices. Generally, the

¹² Investment by non-residents in undertakings in South Africa in which they have individually or collectively, in the case of affiliated organisations or persons, at least 10% of the voting rights.

¹³ Dividends on portfolio investments are generally declared by companies listed on the JSE Limited, with fixed dividend declaration patterns.

repatriation of these profits through dividends implies larger liquidity requirements of parent companies or major shareholders abroad.

Gross dividend payments

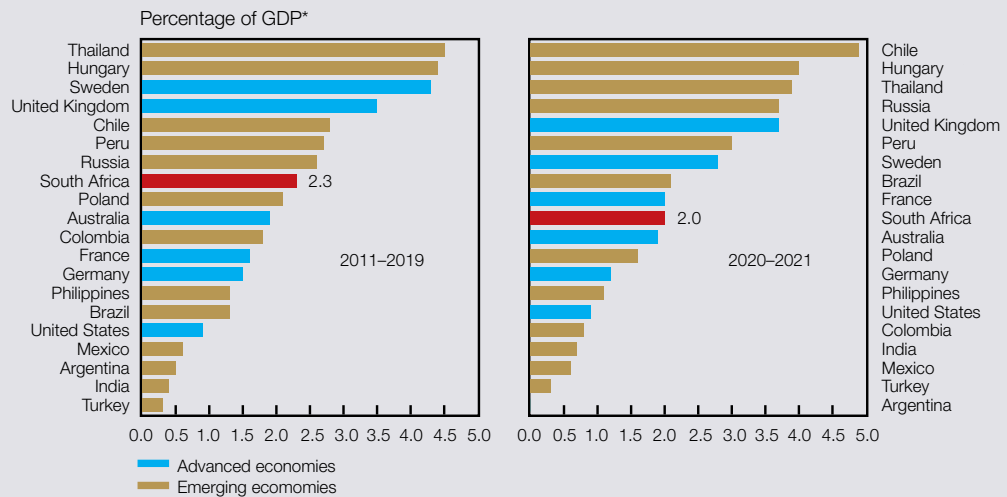


* Quarterly, seasonally adjusted and annualised

Source: SARB

Expressed as a ratio of GDP, the size of South Africa's dividend payments does not qualify as an outlier when compared with that in both advanced and emerging market economies. When comparing average annual total gross dividend payments for the 2011–2019 period with the 2020–2021 period, South Africa remained more or less in the middle within the same group of countries, implying that most other countries were similarly impacted by the onset of the COVID-19 pandemic in 2020.

Annual average dividend payments by selected countries



Sudden and large changes in dividend payments to non-residents impact the income account and therefore the overall size of the balance on the current account of the balance of payments. Some of these dividend payments, in particular those related to direct investments, could be random and do not always reflect broad economic activity and, depending on their magnitude, can significantly change the outcome of the current account balance as experienced in the second quarter of 2022.