

Box 2 South Africa's external account¹ and banking sector² linkages with Russia and Ukraine

This box assesses South Africa's external account and banking sector exposure to Russia and Ukraine, in light of the conflict that started between the two countries on 24 February 2022. Although South Africa's direct exposure in terms of these linkages is limited, South Africa is affected indirectly by higher international crude oil and commodity prices, supply disruptions due to the sanctions imposed on Russia, restrictions on capital flows, and spillover effects from slower global economic growth and rising inflation.

South Africa's trade and investment links have changed since becoming a member of the BRICS alliance on 24 December 2010. This alliance is constituted of Brazil, Russia, India, China and South Africa, and was founded in 2001. Since joining this alliance, the value of both South Africa's exports to, and imports from, the BRICS countries have increased consistently. However, a sustained trade deficit with this alliance has persisted and widened over time. South Africa's imports from these countries relative to South Africa's total imports increased steadily to 29% of total imports in 2021, while South Africa's exports to these countries relative to South Africa's total exports have levelled off at around 15% since 2014.

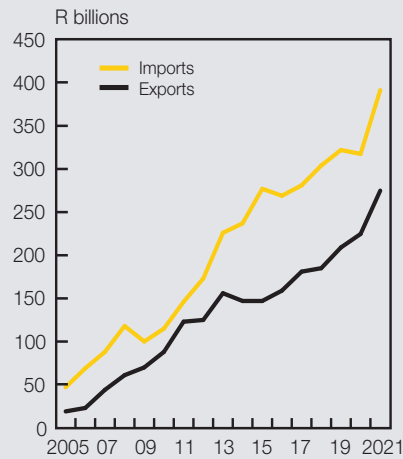
1 This box relates to the external account trade statistics in the trade account of the balance of payments on pages S-84 to S-89, and to the international investment position statistics on pages S-96 to S-105 in this edition of the *Quarterly Bulletin*.

2 The box also relates to the locational banking statistics on pages S-26 and S-27 in this edition of the *Quarterly Bulletin*.

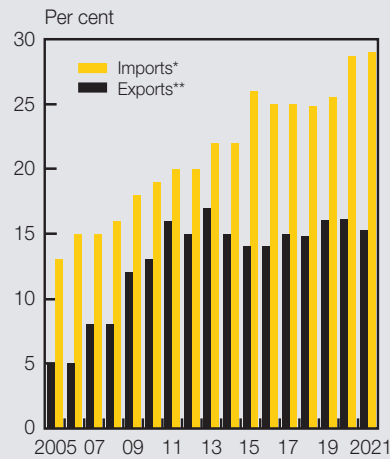




South Africa's trade with BRICS countries



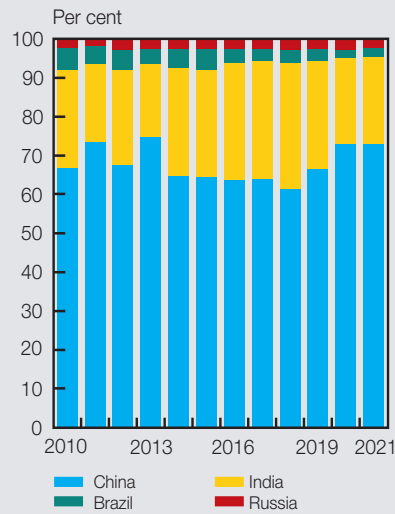
South Africa's trade with BRICS countries as a share of trade



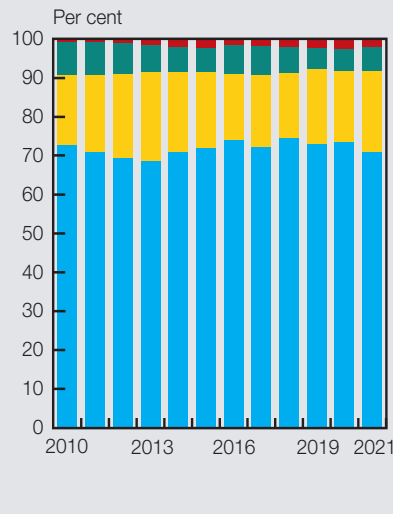
* Share of total imports
 ** Share of total exports
 Sources: SARS and SARB

Within BRICS, South Africa's largest trading partner in terms of both exports and imports is China, followed by India and Brazil, and then Russia which constitutes only slightly more than 2% of both exports and imports.

Composition of South Africa's exports to BRICS countries



Composition of South Africa's imports from BRICS countries

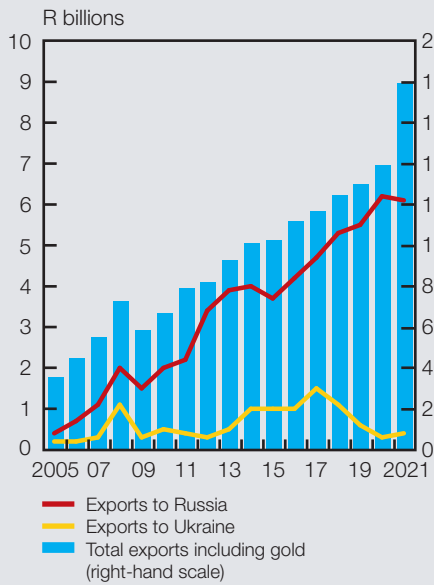


Sources: SARS and SARB

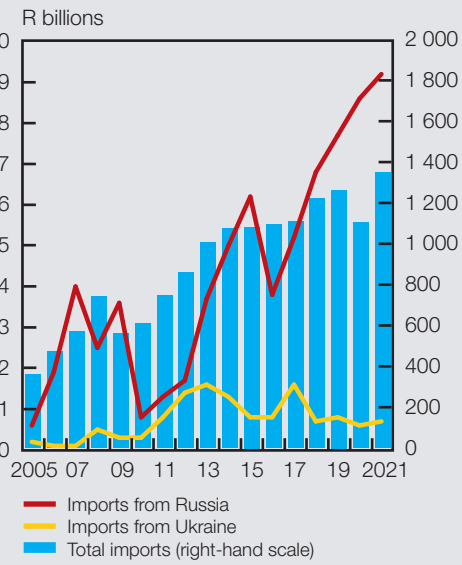
South Africa's trade with Russia increased after joining BRICS, with exports increasing marginally from 0.30% of total exports in 2010 to 0.34% in 2021, while the increase in imports was slightly more substantial, from 0.13% to 0.68% of the total over the same period. By contrast, South Africa's trade with Ukraine has remained even more negligible, at less than 0.1% on average for both exports and imports since 2010.

More than half of South Africa's exports to Russia are fruits and vegetables, followed by mineral products. South Africa mostly imports base metals and articles thereof from Russia, followed by chemical products (mainly fertilisers) and mineral products.

South Africa's merchandise exports



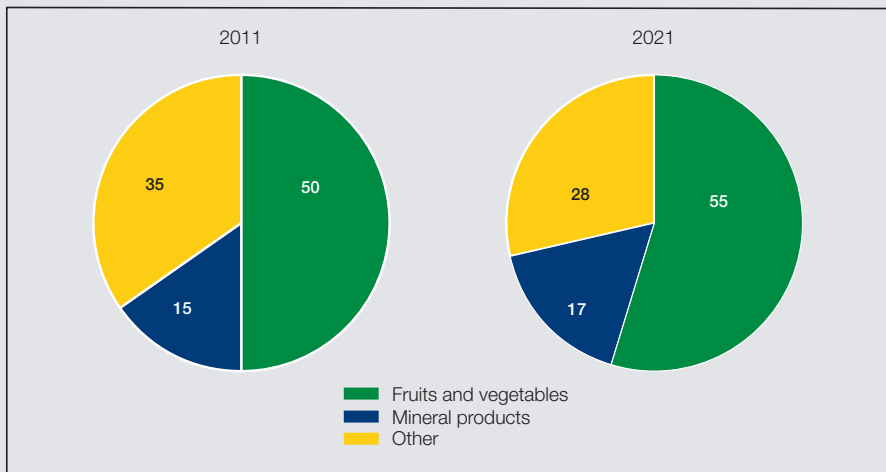
South Africa's merchandise imports



Sources: SARS and SARB

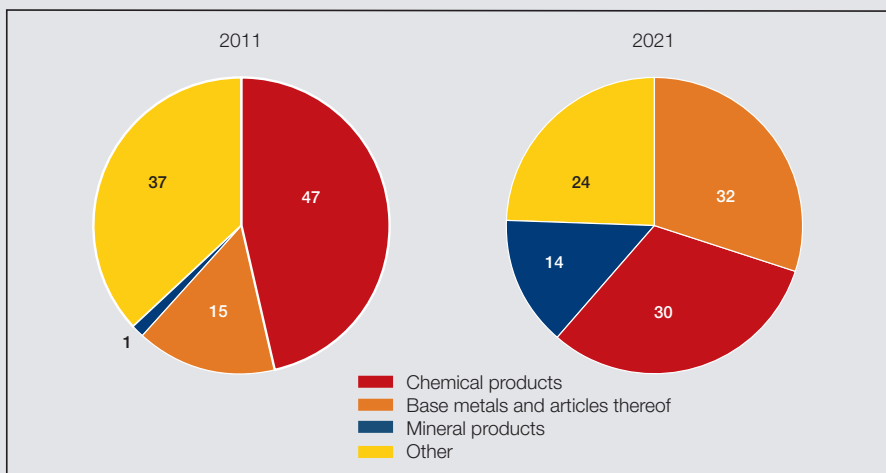
Product categories of South Africa's exports to Russia

Per cent



Product categories of South Africa's imports from Russia

Per cent



Sources: SARS and SARB

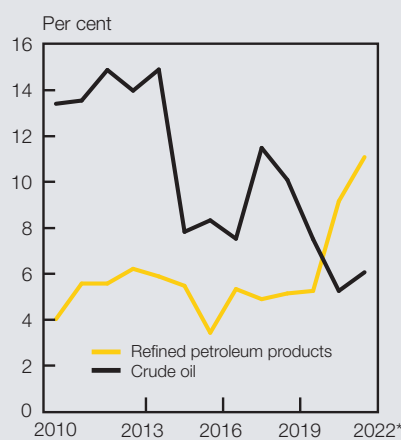




The conflict between Russia and Ukraine as well as the sanctions imposed on Russia heightened global supply concerns related to commodities such as food, crude oil and gas, and fertilisers, of which both countries are major exporters globally. According to the International Energy Agency's February 2022 report on global energy supplies, Russia is the world's second-largest crude oil exporter after Saudi Arabia, with disruptions affecting the international prices of this commodity. The spot price of crude oil, which has already increased in the wake of the coronavirus disease 2019 (COVID-19) pandemic, has surged further since mid-February 2022 in response to the conflict between these two countries and as sanctions on crude oil imports from Russia were imposed. The spot price of Brent crude oil increased by 23.7%, from an average of US\$79.76 per barrel in the fourth quarter of 2021 to US\$98.64 per barrel in the first quarter of 2022, and by 22.3% in rand terms.

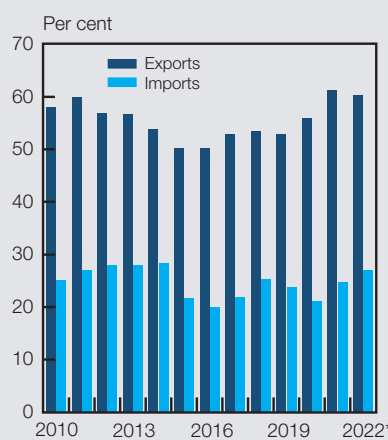
South Africa is reliant on both crude oil and refined petroleum product imports, with the increase in the prices of these products adversely impacting the trade balance and, as such, the balance on the current account of the balance of payments. The value of imported crude oil and refined petroleum products accounted for 14.4% (comprising crude oil of 5.3% and refined petroleum products of 9.1%) of South Africa's total merchandise imports in 2021. The value of crude oil and refined petroleum product imports as a share of total merchandise imports increased to 17.2% in the first quarter of 2022 from 14.4% in 2021, and mainly reflected the effect of higher prices.

Crude oil and refined petroleum product imports as a share of South Africa's total merchandise imports



* First quarter of 2022
Sources: SARS and SARB

Mining products as a share of South Africa's total merchandise exports and imports



In addition, concerns about supply chain disruptions also raised the prices of other mining commodities, in particular those exported by South Africa. After declining for a second consecutive quarter in the fourth quarter of 2021, the US dollar price of a basket of domestically produced export commodities (including gold) rebounded substantially by 18.5% in the first quarter of 2022, or by 17.0% in rand terms. South Africa tends to benefit from high commodity prices through their contribution to the current account balance, with the value of mining exports accounting for 61.2% of the total value of exported goods in 2021 and 60.2% in the first quarter of 2022.

The terms of trade is important in assessing the net impact of the increase in commodity export prices and the imported crude oil price on the current account. In the first quarter of 2022, the terms of trade improved marginally as the rand price of exports of goods and services increased at a slightly faster pace than that of imports.

Although the price of crude oil recently increased by more than that of most of South Africa's major export commodities, the effect of higher crude oil prices on the current account is negated by the higher prices of exported mining commodities, as the share of mining exports to total exports is much higher than the share of mining imports (including crude oil and refined petroleum products) to total imports.

South Africa's bilateral international investment position^{3, 4} (IIP) reflects, among other things, the country's foreign asset and liability position with Russia as at 31 December of each year.^{5, 6}

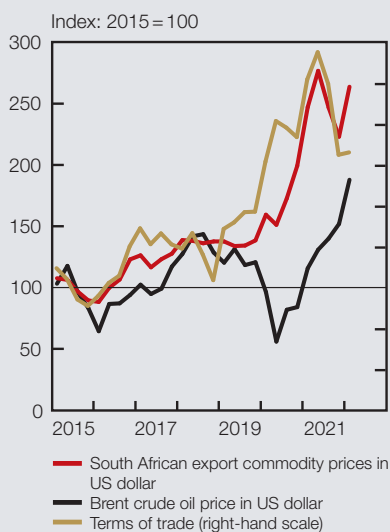
3 The methodology used to compile South Africa's IIP statistics adheres to the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF), available at <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

4 The IIP is a point-in-time statistical statement that shows the value and composition of the financial assets of the residents of a country (i.e. claims on non-residents and gold bullion held as reserve assets) and liabilities (i.e. claims by non-residents on residents).

5 Bilateral foreign assets and liabilities for Ukraine are not available as the country is included in the geographical demarcation of 'Other Western Europe' published on pages S-99 and S-103 in this edition of the *Quarterly Bulletin*.

6 South Africa's IIP is compiled according to the immediate host or investing economy approach, which is based on the direct relationships between the parties rather than on the residence of the ultimate partner economies or transactors. Therefore, South Africa's exposure to foreign assets and liabilities with Russia may be understated if these foreign assets and liabilities are indirectly held through a holding company in another country.

Terms of trade* and commodity prices



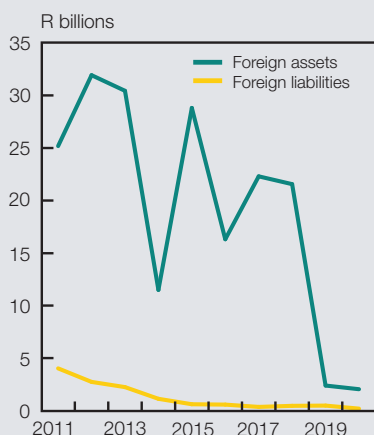
*Including gold

Sources: Refinitiv, Stats SA and SARB

Terms of trade* and mining commodity price deflators



South Africa's international investment position with Russia



Source: SARB

South Africa's relative exposure to Russia



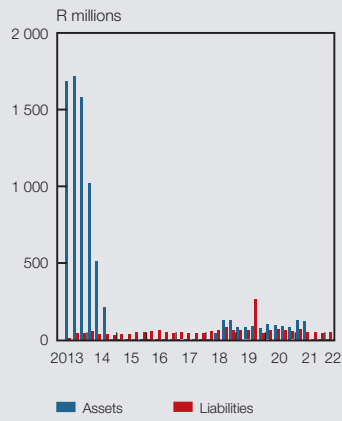
South Africa's foreign assets in Russia were significantly more than its foreign liabilities to that country until the end of 2018, whereafter the substantial decline in foreign assets narrowed the difference significantly. This decline in South Africa's foreign assets in Russia from the end of 2018 to the end of 2019 was as a result of the reorganisation of a large South African company's foreign investments, whereby the South African company's foreign investments were consolidated in a separate holding company in an intermediate country. South Africa's foreign assets in Russia accounted for only 0.03% of its total foreign assets at the end of 2020. South Africa's foreign liabilities with Russia accounted for only 0.003% of South Africa's total foreign liabilities at the end of 2020.

The South African banking sector's aggregate cross-border assets of just more than 14% of total assets generally exceed cross-border liabilities by a significant margin, along with limited positions against Russia and Ukraine.

The asset positions of South African banks with Russia declined to only R3.2 million in March 2022, from a recent high of R125.0 million in March 2021, as floating rate notes and term loans with Russian banks and non-financial institutions matured. Banks' asset positions were as high as R1.7 billion in September 2013, mostly on account of loans which were repaid during 2014. Changes in the Russian liabilities of South African banks mostly reflect deposit balances of households. South African banks' Russian assets are mostly held in rand (although prior to September 2021 holdings were mostly in US dollar), while the liability positions are held in both rand and US dollar.

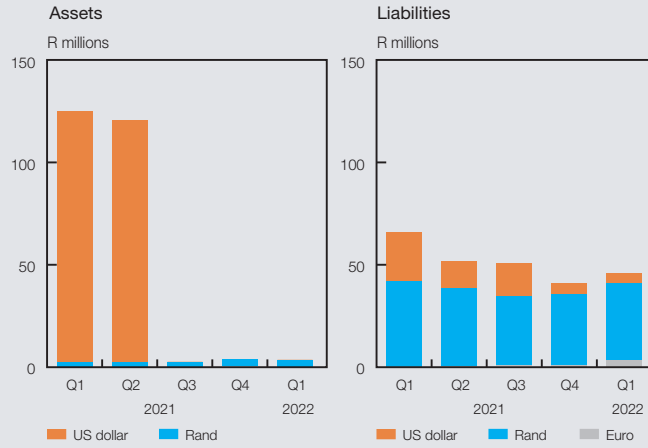


South African banks' cross-border exposure to Russia



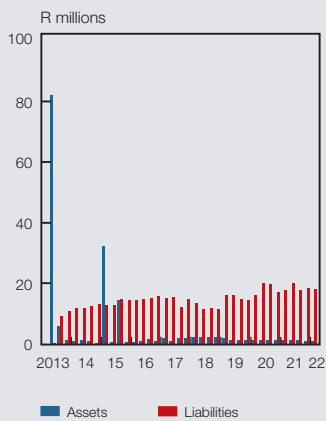
Source: SARB

South African banks' exposure to Russia by currency



South African banks' cross-border exposure to Ukraine is even less than their exposure to Russia, but for Ukraine, liabilities dominate. Banks' Ukrainian assets declined from a high of R81.8 million in June 2013 to less than R1.0 million in both December 2021 and March 2022, while Ukrainian liabilities amounted to R18.4 million and R18.1 million in the fourth quarter of 2021 and the first quarter of 2022 respectively. These liabilities consist mainly of customers' foreign currency accounts and household deposits. South African banks' Ukrainian assets are mostly held in rand, while the liability positions are mostly in rand and US dollar.

South African banks' cross-border exposure to Ukraine



Source: SARB

South African banks' exposure to Ukraine by currency

