BALANCE OF PAYMENTS IN GOOD SHAPE

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA (5 July 2022)

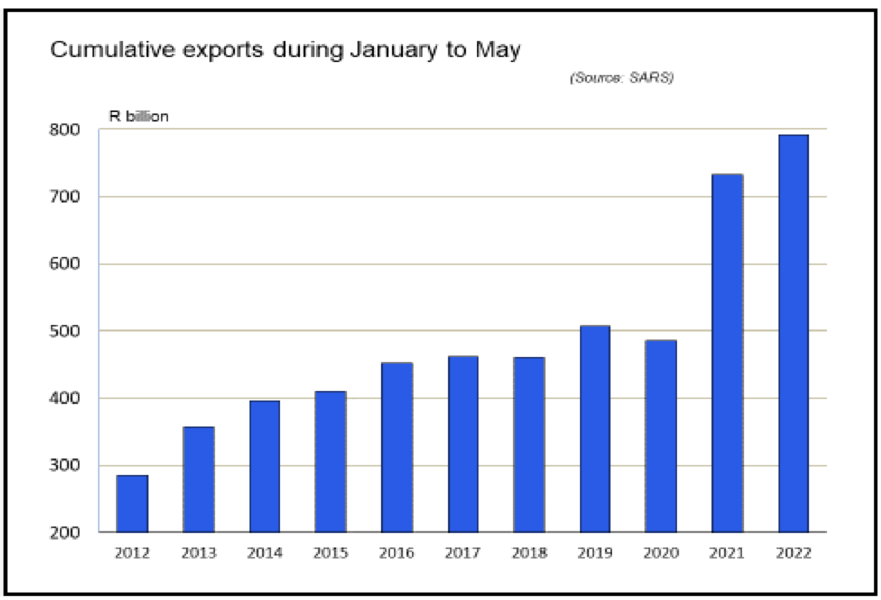
Ever since the recovery from the worst of the Covid-pandemic began in 2020, South Africa's international trade has blossomed, with the current account of the balance of payments (BoP) moving decisively into surplus territory.

This was achieved mainly as a result of subdued imports (initially) and record exports, fuelled by exceptionally high commodity prices. During the first quarter of 2022, the current account recorded its seventh successive surplus, but this time around, the BoP was boosted by the welcome addition of a surplus on the *financial account*, due to substantial inflows of foreign direct investment (FDI) and portfolio investment, especially in equities.

Relentless rise in exports

South Africa's export performance since 2020 has been astounding. Data released on 30 June by the South African Revenue Services (SARS) confirms a new cumulative record for the value of export trade during the first five months of the year, namely R791 billion – more than 8% higher than the previous record for January to May (achieved last year).

However, the star of the country's international trade show during the first five months of the year was the import value. At a level of R685 billion, it was the highest ever cumulative figure and imports for May also recorded the highest ever monthly figure of more than R150 billion, breaking the previous record by 7.6% (recorded two months earlier).



It is clear from analysing the country's trade data that exporters have picked up some slack that was caused by the haphazard global restrictions on economic activity. Combined with closures of key harbours in South-East Asia, a surge in several commodity prices and South Africa's highly diversified & sophisticated agriculture and manufacturing sectors, exports have broken one record after another since the middle of 2020.

Although the cumulative *trade surplus* for the first five months of the year has not been able to match the record of more than R200 billion recorded in 2021, it still managed to reach its second highest ever level of R107 billion – more than sufficient to provide a handy buffer for the rand exchange rate against a strong US dollar that is wreaking havoc with most emerging market currencies.

Best and worst export performances for the ten largest trade sections - January to May 2022 (year-on-year % change)

Section	%	Section	%
Base metals	28.2	Machinery & equip.	7.9
Paper & pulp	22.2	Chemicals	5
Minerals	19.9	Vehicles & spares	-3.7
Plastic & rubber	14.5	Textiles & clothing	-5.4
Agriculture & food	13.5	Precious metals	-6.8

Sources: *SARS: own calculations*

It is also clear from the spread of 35 percentage points between the worst and best performing export sections that heightened geo-political tensions (especially in the Ukraine), an uneven pattern of further global economic recovery and a spike in global inflation has led to increased volatility amongst the different trade sections.

A key observation from the latest trade data is the sharp increase in the imports of products that are closely aligned to the expansion and development of the domestic economy. During January to May, the combined imports of only four sections of the harmonised trade system, viz. oil, chemicals, machinery & equipment and vehicles & components, amounted to more than R418 billion – 61% of total imports.

Recovery of FDI

It is clear that many foreign companies remain positive about South Africa's prospects for securing sustainable growth, despite daunting challenges in the areas of labour unrest, energy and transport infrastructure. This is reflected in the solid performance of foreign direct investment (FDI) inflows, which recorded an impressive R27 billion during the first quarter of the year.

Any doubts over the renewed faith in the country's economic future since the gradual implementation of market-friendly reforms under Pres. Ramaphosa have been dispelled by the five-fold increase in the average quarterly FDI inflows since 2018 (compared to the state capture era of 2010 to 2017).

Hopefully, a swift end to the war in Ukraine and the demise of lockdown regulations will soon remove much of the current geo-political and socio-economic volatility. This could lead to the normalisation of energy prices, lower inflation and renewed growth impetus.