Economics for sa

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The balance-of-payments (BOP) accounts of a country record the payments and receipts of the people of the country in their transactions with people of other countries. If all transactions are included , the payments and receipts of each country must be equal. I. E. Net Exports (NIX) always equal Net Capital Outflow (NCO). Although this is rarely the case. The BOP statement divides international transactions into three accounts: the current account, the change in reserve assets/capital account and the financial account.

The current account and financial account are impacted by export/import of odds and services. Every international transaction results in a credit and a debit. Transaction that causesmoneyto leave a country is a debit. Q: How many economists does it take to change a light bulb? A: Eight. One to screw it in and seven to hold everything else constant. Source: http://enter. Mac. AC. UK/ Joke. HTML When the US purchases South African diamonds, the AS Current Account will have a credit and the US current account a debit.

However AS will have a surplus of Dollars and so will purchase US assets example US Bonds. This transaction will be recorded in the financial account in the balance of payments. If South Africa buys US Dollars or any other foreign currency as an asset, then this is also recorded in the financial account. 2. 2. 1 Net Capital Flows If South Africa buys more US assets I. E. Invests more in the foreign market than what foreign markets invest in South Africa, then South Africa has a POSITIVE net capital outflow.

According to our example in the Market for AS Diamonds in the US , if South Africa has a trade surplus or current account surplus with the US then it will have POSITIVE net capital outflow as it will use the surplus of US dollars to purchase US assets. 2. 2. 2 South Africans Current Account Deficit Please refer to Diagram 4 in the Appendix. A current account deficit meaner that a country is importing more goods and services than it exports. This is an indication that an economy is " investing more than it is saving" and is borrowing from other economies tofinanceits spending.

We are an emerging/developing economy so we borrow in order to produce more BUT our current account deficit is growing - and this is concerning. This is an indication that our economy is " unbalanced" and the governments' efforts to redress this imbalance can be seen as they try to grow our local manufacturing industry. The deficits have been among the main reasons for the recent rand weakness as investors worry about South Africans ability to finance them. We will now examine developments in the foreign exchange markets and how they have impacted South Africa. 3.

Please refer to diagram 9 for the historical trend of the last 5 years of the Sara's exchange rate against the USED, YUAN, GAP and EURO. Economists can supply it on demand. Source: http://enter. Mac. AC. UK/Joke. HTML You can immediately notice that the Rand (CAR) is rapidly moving between peaks and roughs. This meaner that the Rand is not stable I. E. It is volatile. This is because South Africa is considered an emerging market. Any sudden change politically or globally will result in investors investing in more stable economies like the US (USED) or United Kingdom (GAP).

We have greater " financial volatility because we swing between economic prosperity and economic decline. " The USED, GAP and Euro (RUE) are currencies of the most stable economies in the world and are predictable and considered a 'safe bet' by investors. Their currencies float freely. China however pegs TTS currency to the USED and deliberately keeps the YUAN weaker than the USED so that it can encourage exports of its goods and services. Please refer to Diagram 5&6. From Mid 2010 we see a consolidation or recovery of most countries from the 2008 Global Recession.

This is due to the 2010 FIFE World Cup that created positive sentiment toward AS. This also created investor confidence which led to steady Direct Foreign Investment. This event was an ideal marketing platform for the tourism sector in AS. We see a peak in tourism during the World Cup. (Diagram AAA) This growth culminated at the end of 2010 (Diagram b), this reign interest increased the demand for AS goods and services which in turn increased the demand for the CAR which caused an appreciation of the CAR against foreign currencies.