South Africa: A sharp fall in the current-account deficit

South Africa’s current-account deficit fell sharply in the fourth quarter of 2013 to 36 billion (bn) rand, or 4.1 per cent of gross domestic product, after still reaching 61 bn rand in the previous quarter (figure 1). While merchandise exports increased slightly, imports decreased by 6.0 per cent, underpinning a drastic fall in the merchandise trade deficit from 26.4 bn rand to 8.3 bn rand. An important driver for this has been the lower exchange rate (figure 2), with the rand falling by 4.1 per cent against the dollar in the fourth quarter, continuing a decline that amounted to 15.3 per cent over the first three quarters of the year. This depreciation trend also engulfed the currencies of other emerging markets in light of the expected tightening of monetary policy in the United States, with the expected higher investment yields in developed countries leading to increased capital flows away from emerging markets and downward pressure on the respective exchange rates along the way. Since the beginning of 2014, this trend first accelerated further but with some fluctuations, leaving the rand on course for a depreciation by 3.5 per cent for the first quarter of this year. This holds the potential for a further reduction in the trade deficit, both because of weaker imports and stronger exports.