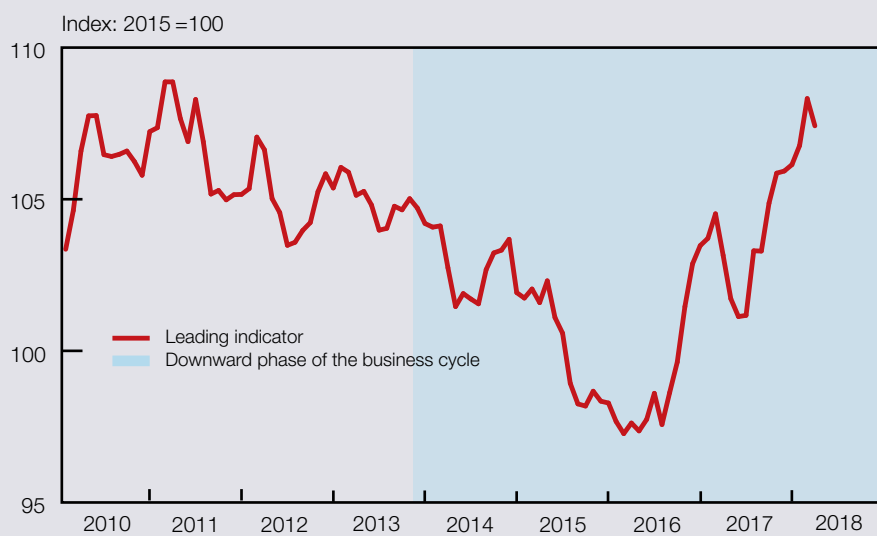


Box 1 The improvement in confidence in the South African economy

Business, consumer and foreign-investor confidence in the South African economy improved significantly in the first quarter of 2018. This followed a gradual and protracted weakening in confidence due to, among other factors, unfavourable domestic political events during the current downward phase of the business cycle which had commenced in December 2013.

The notable advance in various measures of confidence followed the African National Congress' elective conference in December 2017, and supported the further increase in the South African Reserve Bank's (SARB) composite leading business cycle indicator¹ in the opening months of 2018. The revival in confidence was also supported by the marked appreciation in the exchange value of the rand since mid-November 2017, the absence of any further sovereign credit rating downgrades, the return to fiscal consolidation proposed in the national Budget, and a Cabinet reshuffle. However, confidence would need to improve even further, and be sustained, to materially raise the rate of economic growth and fixed capital investment in South Africa.

Composite leading business cycle indicator for South Africa

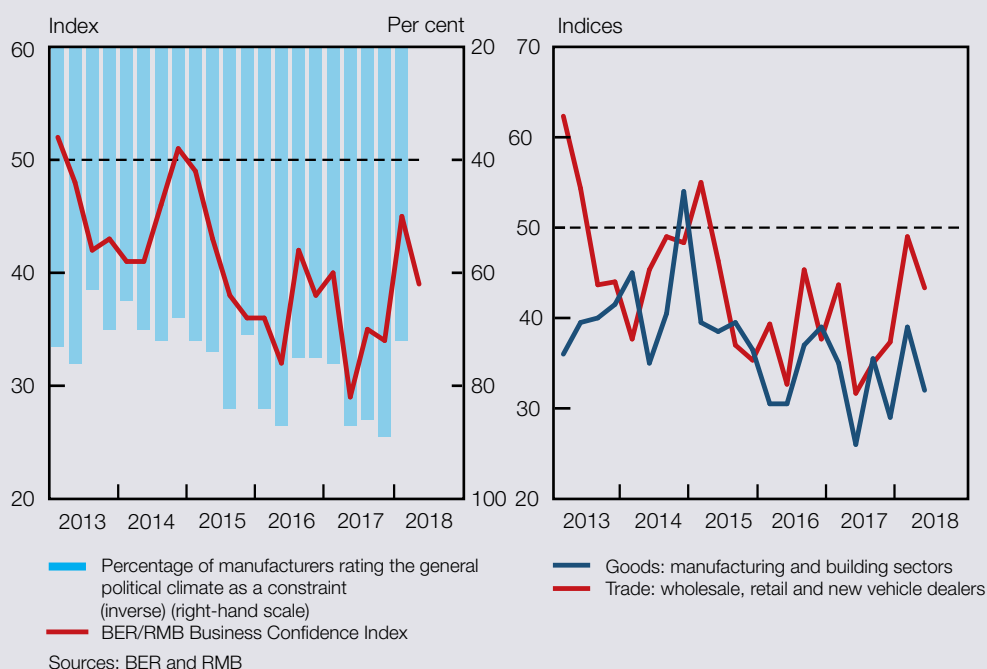


Source: SARB

¹ The RMB/BER Business Confidence Index is a component series of the SARB's composite leading business cycle indicator.

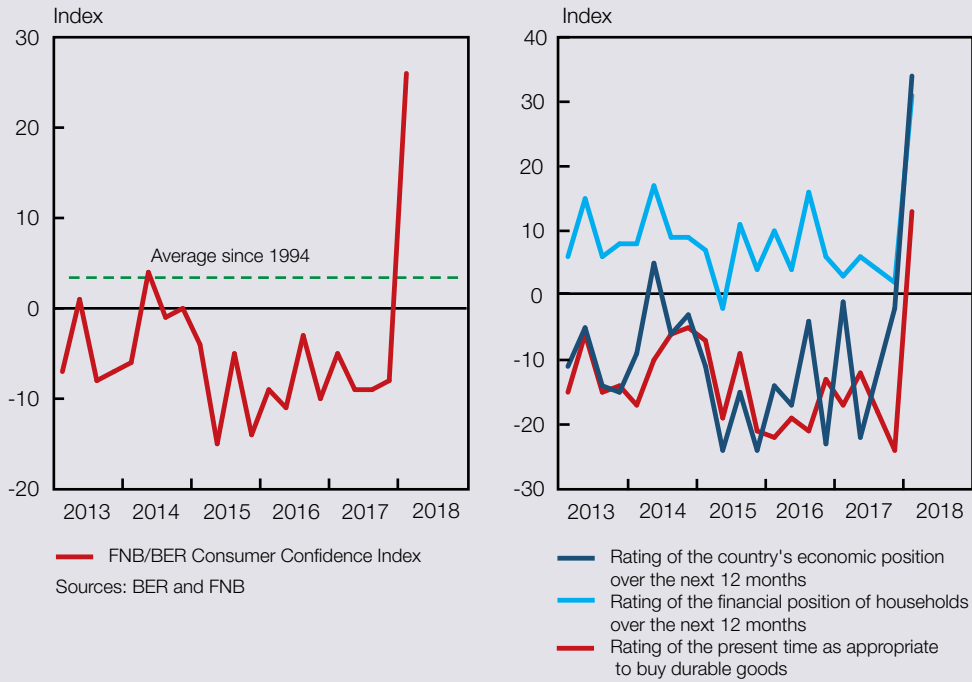
Business confidence in the South African economy, as measured by the Rand Merchant Bank (RMB)/Bureau for Economic Research (BER) Business Confidence Index (BCI), declined gradually from a high of 51 index points in the fourth quarter of 2014 to a low of 29 index points in the second quarter of 2017, while the percentage of manufacturers rating the general political climate as a constraint increased to an all-time high of 89% in the fourth quarter of 2017. Although the weakness was broad-based, confidence was generally lower in the goods-producing sectors (manufacturing and building) than in the trade sector. In the first quarter of 2018, the factors already mentioned contributed to a significant increase of 11 index points in the BCI to a level of 45, while the percentage of manufacturers rating the general political climate as a constraint fell markedly by 17 percentage points to 72%. Business confidence improved much more in the trade sector than in the goods-producing sectors in the first quarter of 2018, but despite the marked improvement the BCI is still below the neutral level of 50. Business confidence fell back slightly in the second quarter of 2018.

Business confidence



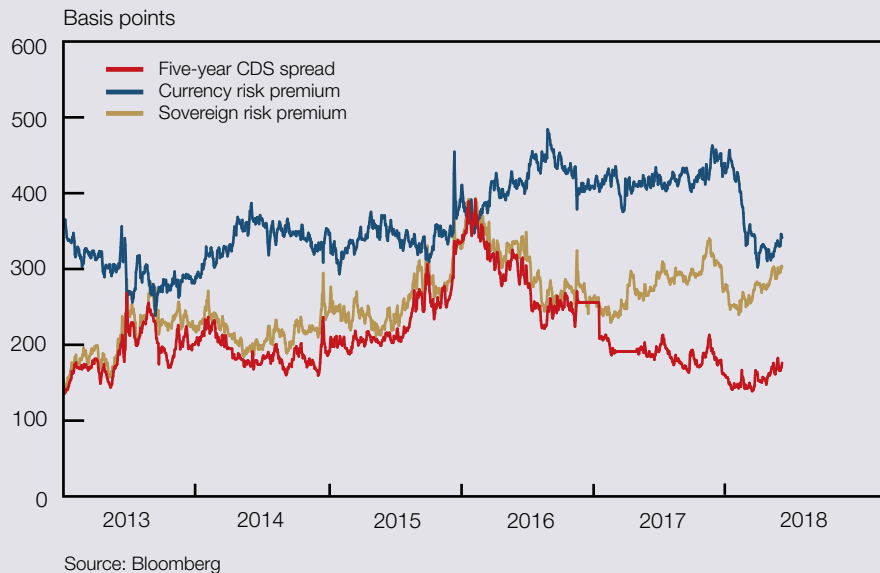
Domestic consumer confidence, as measured by the First National Bank (FNB)/BER Consumer Confidence Index (CCI), also remained fairly depressed throughout the most recent downward phase of the business cycle, and well below its democratic-era average of 3.4 index points. The CCI was dragged down by consumers' weak rating of the appropriateness of the present time to buy durable goods and their unfavourable rating of the economic position of the country in 12 months' time. By contrast, consumers' rating of their own financial position over the next 12 months held up relatively well in an environment of above-inflation wage and social grant increases, while employment growth only slowed instead of contracting outright. Following the events described above, the CCI increased markedly by a record 34 index points to 26 index points in the first quarter of 2018 as all three sub-indices increased significantly. Consumer confidence was also boosted by three consecutive fuel price decreases from January to March 2018 and the further moderation in consumer price inflation. However, the previously observed volatility in the CCI, the value-added tax increase in April 2018, and the recent increases in fuel prices could weaken consumer confidence in the short run. Nevertheless, the strong recovery in consumers' willingness to spend on durable goods augurs well for household consumption expenditure in 2018.

Consumer confidence



Foreign-investor confidence in South Africa, as measured by a number of risk premiums, has improved notably since mid-November 2017. Following the developments mentioned above, South Africa's sovereign risk premium², currency risk premium³ and five-year credit default swap (CDS) spread⁴ all narrowed significantly. However, further improvements in these indicators will also depend on external factors such as the pace and extent of increases in global interest rates.

Foreign-investor confidence



2 The differential between the yield on South African government US dollar-denominated bonds and that on US dollar-denominated bonds of the US government.

3 The differential between the yield on South African government rand-denominated bonds and South African government US dollar-denominated bonds.

4 The South African five-year credit default swap spread reflects the price of insuring against a default on five-year bonds of the South African government.