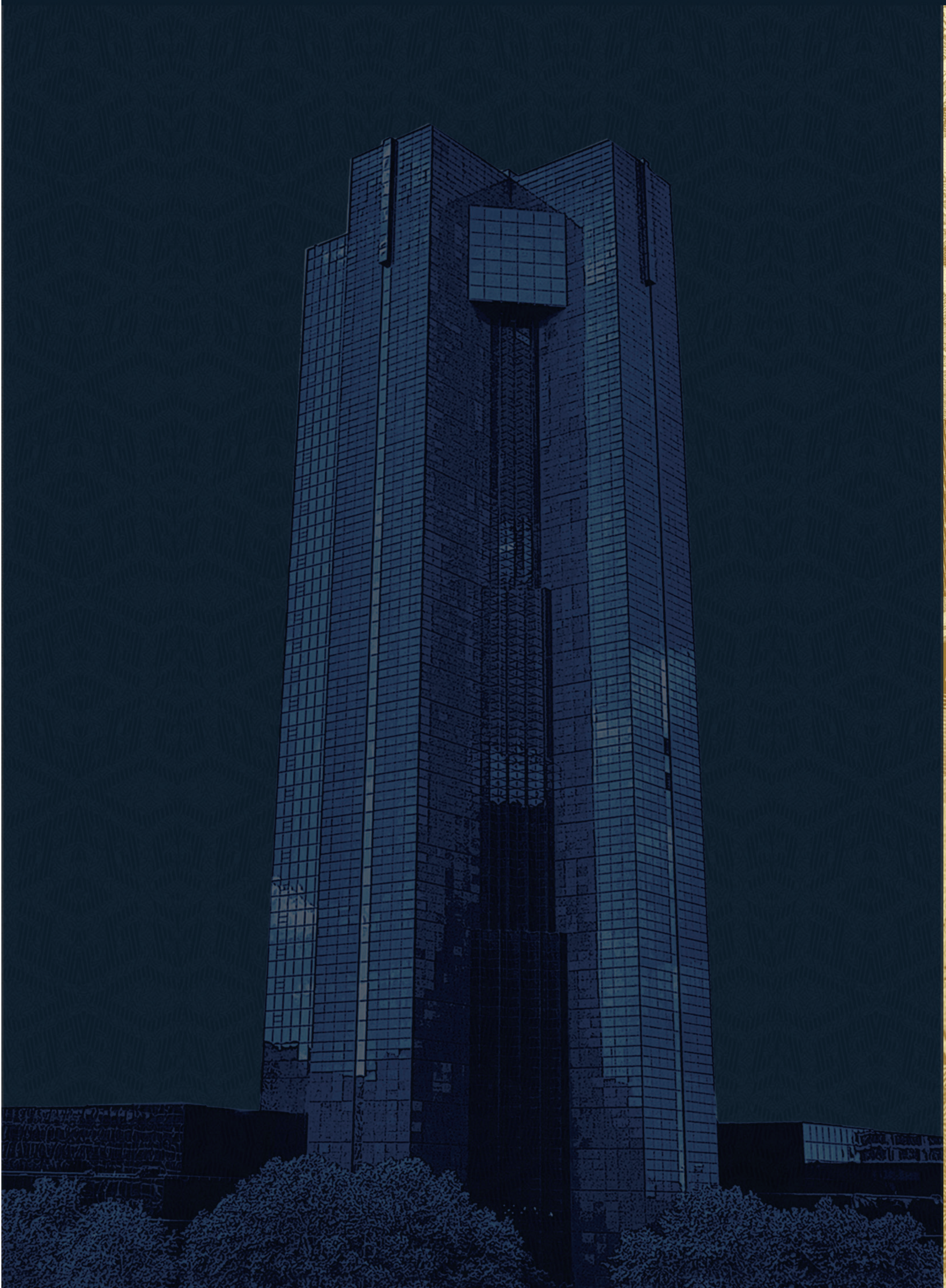
Quarterly Bulletin

June 2015



South African Reserve Bank

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Introduction

The global economy continued on a subdued path and recorded a disappointingly slow pace of growth in the first quarter of 2015, with cold weather resulting in a temporary setback to activity in the United States (US) and China registering the slowest pace of expansion in more than six years. While the pace of growth in India rebounded and activity in Europe firmed somewhat in the first quarter of the year, the global recovery remained uneven with many developing countries facing lower export proceeds and setbacks to income on account of declining international commodity prices. This was certainly the case in many countries in Africa, with declining export revenues translating into a weakening of the fiscal and external accounts and deteriorating growth prospects.

In the mature economies, monetary policy remained accommodative with policy rates held at ultra-low levels and the European Central Bank (ECB) launching its expanded asset purchase programme in March 2015. The continuation of expansionary monetary policies was consistent with the slack in growth momentum and the absence of inflationary pressures in those economies. Among the developing economies, however, policies diverged in the first half of 2015, with some countries – where lower export prices and reduced international investor risk appetite had, for instance, translated into currency depreciation and surging inflation – raising interest rates, but others, such as China, adopting more accommodative monetary policies in the wake of decelerating economic activity, favourable import prices and well-contained inflation.

In South Africa, growth in real gross domestic production moderated significantly in the first quarter of 2015 following a rebound in activity in the final quarter of 2014. Real output in the manufacturing sector contracted in the first quarter affected by, among other factors, relatively weak domestic demand and electricity supply constraints. Agricultural output also fell back in the first quarter of 2015 as the most severe drought in 22 years in the Free State and North West provinces started to take its toll. However, mining production recorded a pronounced increase on account of higher coal and platinum output, while the services sector continued to expand, albeit at a slightly slower pace than in the preceding quarter.

Whereas growth in real domestic production slowed to an annualised rate of 1,3 per cent in the first quarter of 2015, the pace of expansion in real gross domestic expenditure gained momentum. This was underpinned by a faster pace of consumption spending by households – most notably real purchases of non-durable goods such as petrol and food, which were bolstered by favourable price developments over the period. Real spending on semi-durable goods such as clothes also rose at a firm pace in the first quarter, but households' real expenditure on durable goods lost momentum, consistent with the subdued level of consumer confidence. Both the household debt-to-disposable income and debt-service cost ratios inched higher in the first quarter of 2015. More positively, at the same time, higher share prices along with other favourable wealth developments raised the gross and net wealth of the household sector to such an extent that the sector's debt-to-assets ratio declined somewhat. Growth in the real disposable income of households also inched higher following a slightly faster pace of increase in employees' compensation.

Inventory investment picked up somewhat in the first quarter of 2015 with stocks of crude oil and platinum trending higher. Fixed capital expenditure recorded slower but still positive growth, pushed somewhat higher by brisk capital spending by government. While off a high base, capital spending by public corporations registered a slight contraction over the same period, influenced by strike activity and technical problems in the electricity subsector. During the first quarter of 2015, fixed capital formation by private business enterprises increased marginally.

A slight reduction in government employment was reflected in a moderate decrease in government consumption expenditure and in the real value added by the general government sector in the first quarter of 2015.

Despite the moderation in global economic growth, the volume of South African exports advanced further in the first quarter of 2015, albeit at a somewhat slower pace than previously. The value of exports, however, was weighed down by a significant deterioration in the prices of South African export commodities. Growth in import volumes accelerated in the first quarter of 2015. As a result of these developments and a simultaneous smaller shortfall on the services, income and current transfer account, the deficit on the current account of South Africa's balance of payments decreased to 4,8 per cent of gross domestic product in the first quarter of 2015. The deficit was financed by inflows of portfolio and other investment capital as direct investment registered a net outflow over the period.

Headline consumer price inflation reached a lower turning point in February 2015, weighed down by the decline in the price of petrol and a moderation in food price inflation. This situation started to reverse in the subsequent months, fuelled by the recent increase in international crude oil prices, a renewed rise in food prices and double-digit electricity tariff increases.

Employment growth in the private sector continued to disappoint over the past year, consistent with the lackluster pace of economic expansion. Unemployment remained structurally high at around one in four persons in the labour force.

Money supply growth has exceeded growth in nominal gross domestic product since the middle of 2014, reversing the post-recession trend as lower prices of commodities restrained the nominal value added in the economy. M3 growth over the past year was largely concentrated in the deposits of households and non-financial companies, with the long-term deposit component of M3 benefiting from improved returns on such deposits. Foreign currency-denominated deposits – although only a small fraction of M3 – registered exceptionally high growth rates recently, alongside the depreciation in the exchange value of the rand.

Growth in aggregate bank credit extension maintained its sideways trend of the past three years in the early part of 2015, as the brisk usage of general loans and overdrafts by the corporate sector was neutralised by a slower credit uptake by households. The implementation from March 2015 of the Regulations for Affordability Assessment, as part of regulatory revisions related to the National Credit Act, may further restrain the extension of credit to the overindebted subsegment of the household sector.

The repurchase rate of the South African Reserve Bank, last raised in July 2014, has subsequently been maintained at 5,75 per cent against the background of subdued domestic economic growth outcomes and generally within the targeted medium-term forecasts for inflation. With the risks to inflation nevertheless tilted towards overshooting rather than undershooting, money-market interest rates reflected expectations of moderate increases in the policy rate going forward – congruent with the broad direction suggested in monetary policy statements.

In the capital market, bond yields declined in the first two months of 2015 as inflation decelerated and the inflation prognosis improved, but this was reversed in the subsequent months as the inflation environment again deteriorated. On the JSE Limited, the overall share price index reached new heights and then fluctuated close to those record levels in the first five months of 2015, although the prices of resources shares disappointed over this period, in conformity with weaker commodity prices.

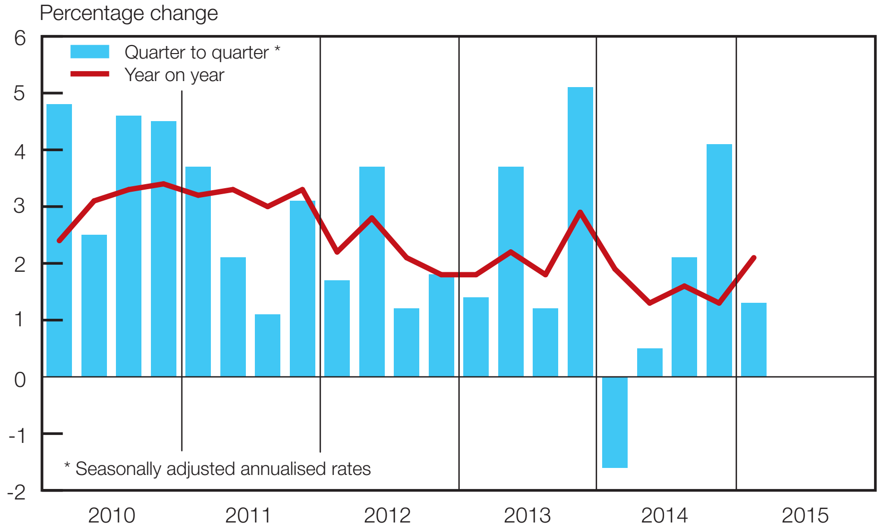
Overall, fiscal outcomes in 2014/15 were fairly closely aligned with initially budgeted and revised estimates; the national government's cash-book deficit for the year amounted to 4,6 per cent of gross domestic product. The non-financial public-sector borrowing requirement remained around 5½ per cent of gross domestic product in 2014/15, but with a smaller requirement for the general government subsector and a larger one for the public enterprises that continued with their substantial capital spending programmes. As gradual fiscal consolidation continued, two international rating agencies affirmed their investment grade sovereign credit ratings of South Africa in early June 2015.

Domestic economic developments

Domestic output[1]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Real growth in the South African economy decelerated in the first quarter of 2015. Following an increase of 4,1 per cent in the fourth quarter of 2014, growth in *real gross domestic production* slowed to an annualised rate of 1,3 per cent in the first quarter of 2015. This disappointing growth performance reflected a contraction in the real output of the secondary sector and slower growth in the primary and tertiary sectors.



Despite the weaker performance in the first quarter of 2015, the level of real gross domestic production was 2,1 per cent higher than in the first quarter of 2014. Excluding the contribution of the primary sector, growth in real gross domestic production slowed from an annualised rate of 3,0 per cent in the fourth quarter of 2014 to 0,8 per cent in the first quarter of 2015.

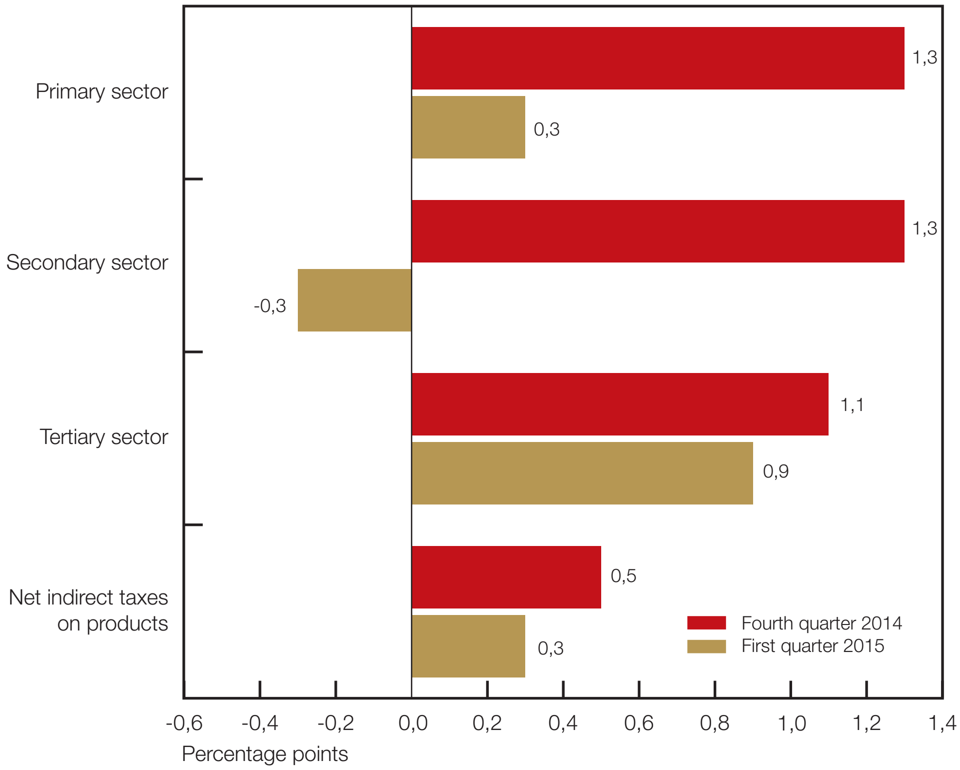
Real gross domestic product

Percentage change at seasonally adjusted annualised rates

Sector	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	-17,2	-1,0	5,2	13,3	0,0	3,3
Agriculture	4,8	5,6	9,5	7,5	5,6	-16,6
Mining	-22,8	-3,0	3,9	15,2	-1,6	10,2
Secondary sector	-3,8	-2,5	-0,4	7,2	0,4	-1,4
Manufacturing	-6,4	-4,0	-1,0	9,5	0,0	-2,4
Tertiary sector	1,7	1,9	2,4	1,8	2,1	1,5
Non-primary sector	*0,4*	*0,9*	*1,8*	*3,0*	*1,8*	*0,8*
Total	-1,6	0,5	2,1	4,1	1,5	1,3

Following a brisk increase of 13,3 per cent in the fourth quarter of 2014, the real value added by the *primary sector* increased at a comparatively modest annualised rate of 3,3 per cent in the first quarter of 2015, adding 0,3 percentage points to overall economic growth. Agricultural production contracted sharply in the first quarter of 2015, partly neutralising a further increase in the real value added by the mining sector.

Contribution to growth in real gross domestic product



Mainly impacted by a decrease in field crop production, the real value added by the *agricultural sector* declined at an annualised rate of 16,6 per cent in the first quarter of 2015. Having registered a near-record-high maize crop in the 2013/14 production season, the maize crop in the 2014/15 production season is estimated to be around 30 per cent lower due to the most severe drought in 22 years in the Free State and North West provinces. Other field crops were also affected by the dry weather conditions.

Commercial maize crop estimates

Period	Area planted (Million hectares)	Crop (Million tons)
2013/14: Final	2,7	14,3
2014/15: Fourth production forecast	2,7	9,8

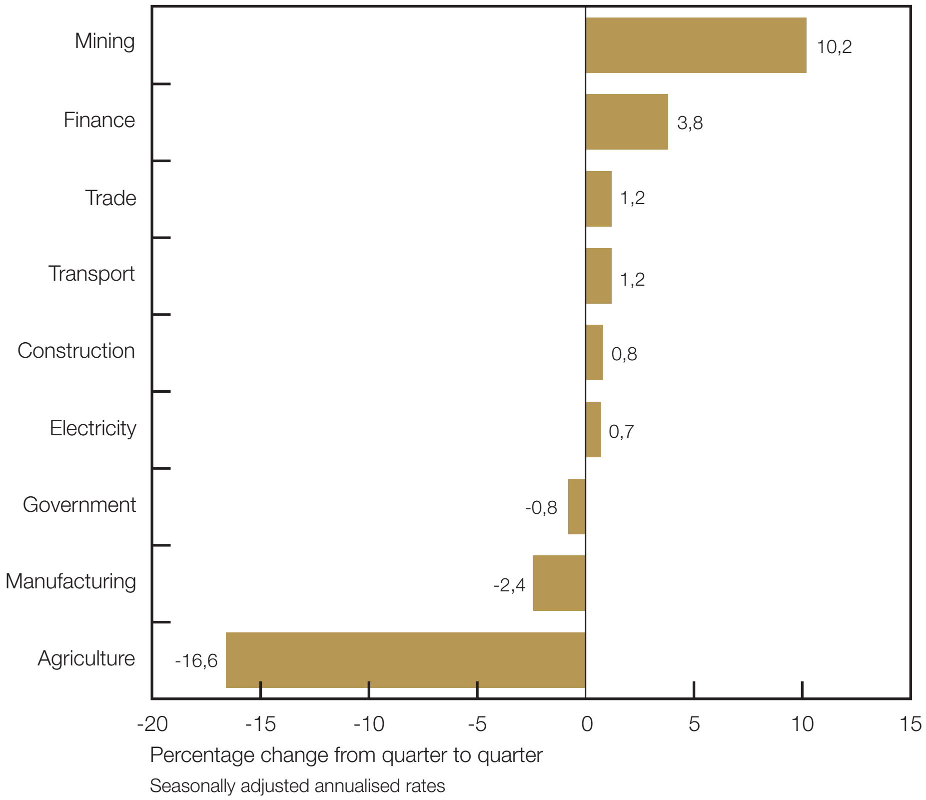
Source: Crop Estimate Committee

Growth in the real value added by the *mining sector* slowed in the first quarter of 2015, having made positive contributions to growth in the second half of 2014. A robust increase of 15,2 per cent in real output in the final quarter of 2014 was followed by an annualised increase of 10,2 per cent in the first quarter of 2015, adding roughly 0,8 percentage points to overall economic growth. Pronounced increases in coal and platinum production primarily contributed to higher mining production as declines were registered in the production of gold and diamonds. Gold production was hampered by, inter alia, a fire at one of the gold mines, labour disputes and safety stoppages over an extended period. Although diamond production reflected increased volumes of ore throughput, the volume of diamonds mined decreased over the period.

Owing mainly to the disappointing performance of the manufacturing sector, the real value added by the *secondary sector* switched from an annualised increase of 7,2 per cent in the fourth quarter of 2014 to a decline of 1,4 per cent in the first quarter of 2015. While the real value added by the electricity, gas and water sector increased further, activity in the construction sector slowed over the period.

Following three successive quarters of decline, the quarter-to-quarter rebound in the real value added by the manufacturing sector in the fourth quarter of 2014 was short-lived as real *manufacturing* output again contracted at an annualised rate of 2,4 per cent in the first quarter of 2015, subtracting 0,3 percentage points from overall economic growth. Manufacturing production was weighed down by lower production of textiles and clothing; wood and related products; petroleum and chemical products; and electrical machinery. Conversely, production rose, albeit at a slower pace, in the sectors supplying basic iron and steel; non-ferrous metal products and machinery; and motor vehicles, parts and accessories and other transport equipment. The disappointing performance of the manufacturing sector reflected sustained weak domestic demand, local infrastructure constraints and lower commodity prices. As a result, the utilisation of production capacity in the manufacturing sector inched marginally lower from 81,6 per cent in the fourth quarter of 2014 to 81,5 per cent in the first quarter of 2015.

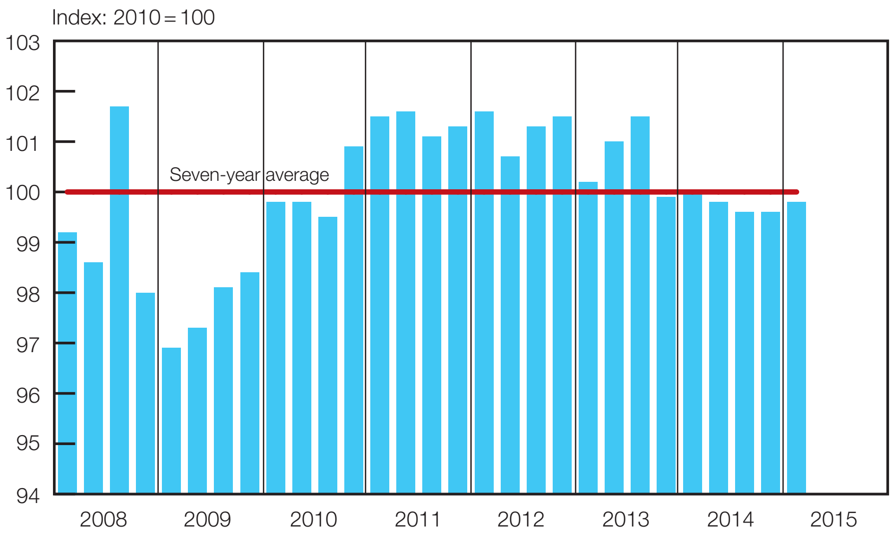
Growth in real gross domestic product by sector in the first quarter of 2015



Having increased at a subdued annualised rate of 0,3 per cent in the fourth quarter of 2014, growth in the real value added by the sector supplying *electricity, gas and water* edged higher to 0,7 per cent in the first quarter of 2015 as power supply benefited from additional electricity generated by independent power producers and increased electricity imports. Load shedding due to squeezed reserve margins, however, continued to impact negatively on business confidence and productivity growth in the economy.

Activity in the *construction sector* slowed in the first quarter of 2015. Following an expansion of 3,5 per cent in the fourth quarter of 2014, the real output of the *construction sector* advanced at an annualised rate of 0,8 per cent in the first quarter of 2015. Activity in civil construction was negatively affected by delays in major construction projects, rising input costs and subdued demand for new construction projects, while activity in the non-residential building subsector remained sluggish. Activity in the residential building segment increased further over the period.

Real value added by the electricity, gas and water sector



Seasonally adjusted

The real value added by the *services sector* increased at a somewhat slower pace in the opening months of 2015, decelerating from an annualised rate of 1,8 per cent in the fourth quarter of 2014 to 1,5 per cent in the first quarter of 2015. Real value added by the general government services sector declined, while momentum was lost in the transport and communications sector. Activity in the trade and the finance and business services sectors, however, increased at a faster pace over the period.

Owing mainly to increased activity in the wholesale trade subsector – a subsector that constitutes almost 35 per cent of the commerce sector – growth in the real output of the *trade sector* accelerated from -0,3 per cent in the fourth quarter of 2014 to an annualised rate of 1,2 per cent in the first quarter of 2015. Activity in the retail trade subsector continued to increase, albeit at a more moderate pace. Growth in the motor-trade and accommodation subsectors, however, decelerated over the period. Demand for tourist accommodation tapered off following relatively strong demand in 2014.

Growth in the real output of the *transport, storage and communication sector* lost some momentum as it moderated from 2,9 per cent in the fourth quarter of 2014 to an annualised rate of 1,2 per cent in the first quarter of 2015. Activity in land transport tapered off as both freight and passenger transportation slowed over the period. The telecommunication subsector continued to benefit from firm demand for mobile internet connections and improved bandwidth.

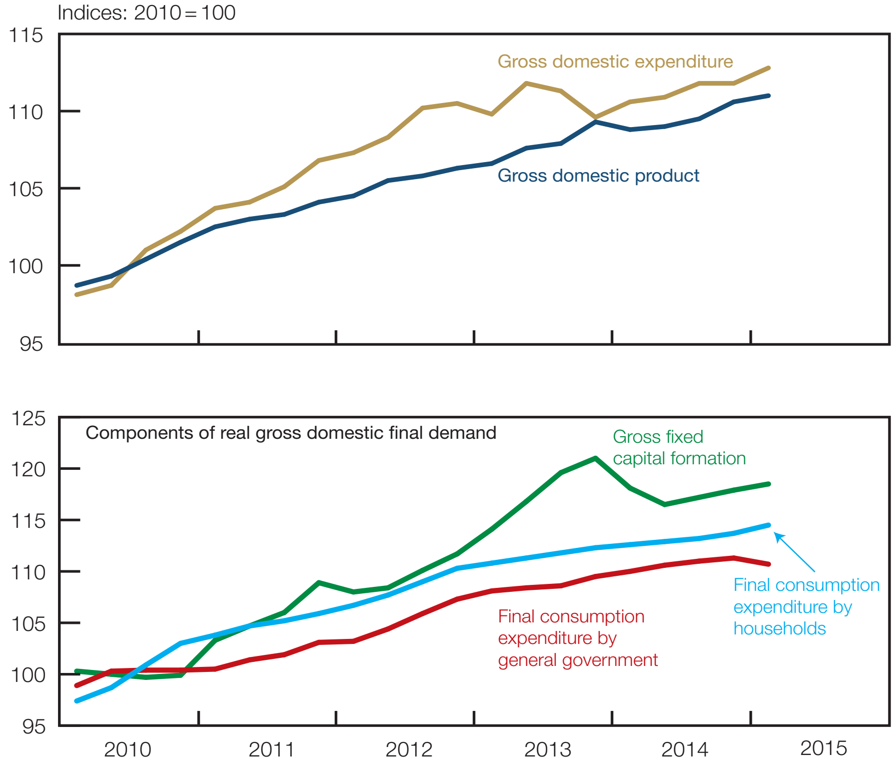
The real value added by the *finance, insurance, real-estate and business services sector* increased at an annualised rate of 3,8 per cent in the first quarter of 2015, slightly faster than the rate of increase of 3,5 per cent recorded in the preceding quarter. This pickup reflected increased levels of activity in the bond and other financial markets. Furthermore, higher fees and charges emanating from the gradual growth in business and the increasing use of mobile banking applications underpinned the rise in the real output of the banking sector.

Employment by government receded marginally in the first quarter of 2015. This accounted for the reversal in the real value added by *general government* from an annualised rate of increase of 1,2 per cent in the fourth quarter of 2014 to a decline of 0,8 per cent in the first quarter of 2015.

Real gross domestic expenditure

In contrast to the slower pace of increase in domestic production, growth in *real gross domestic expenditure* accelerated from 0,3 per cent in the fourth quarter of 2014 to an annualised rate of 3,4 per cent in the first quarter of 2015. Growth was underpinned by a faster pace of consumption expenditure by households alongside a firm accumulation of inventories, which more than offset slower growth in real gross fixed capital formation and a decline in expenditure by general government over the period.

Real gross domestic product, expenditure and final demand



Seasonally adjusted

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Component	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	1,0	1,0	1,1	1,6	1,4	2,8
General government	1,7	2,4	1,4	1,0	1,9	-1,9
Gross fixed capital formation	-9,2	-5,4	2,4	2,6	-0,4	1,8
Domestic final demand	**-1,0**	**0,0**	**1,5**	**1,7**	**1,1**	**1,7**
Change in inventories (R billions)*	-4,1	-1,0	2,9	3,8	0,4	8,8
Gross domestic expenditure	**3,8**	**0,9**	**3,2**	**0,3**	**0,6**	**3,4**

* At constant 2010 prices

Real final consumption expenditure by households made the largest contribution of 1,7 percentage points to growth in real gross domestic product in the first quarter of 2015, while gross capital formation added 1,1 percentage points. Having added 3,9 percentage points to total economic growth in the fourth quarter of 2014, real net exports subtracted 2,0 percentage points from growth in the first quarter of 2015.

Contribution of expenditure components to growth in real gross domestic product

Percentage points

Component	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	0,6	0,6	0,7	1,0	0,8	1,7
General government	0,3	0,5	0,3	0,2	0,4	-0,4
Gross fixed capital formation	-2,0	-1,1	0,5	0,5	-0,1	0,4
Change in inventories	4,1	0,4	0,5	0,1	-0,1	0,7
Net exports	-5,2	-0,4	-1,1	3,9	0,9	-2,0
Residual	0,6	0,5	1,2	-1,6	-0,4	1,0
Gross domestic product	-1,6	0,5	2,1	4,1	1,5	1,3

Final consumption expenditure by households

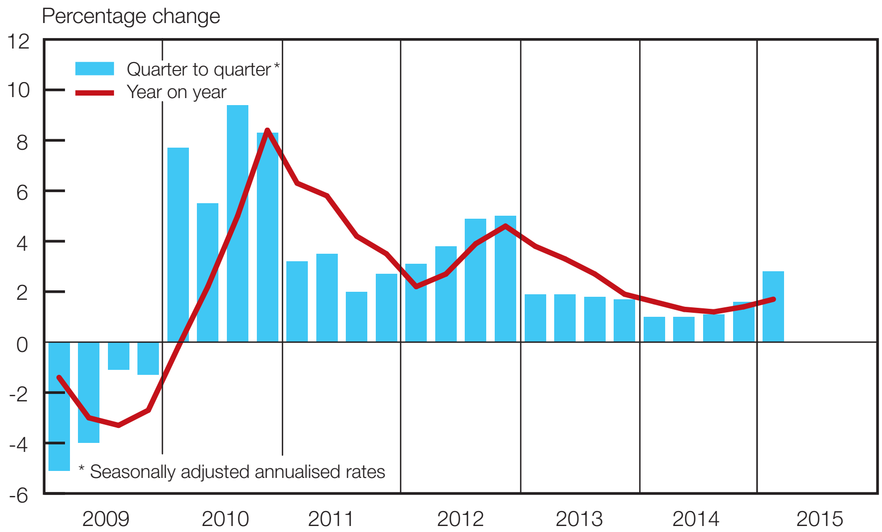
The lower domestic price of petrol and a further moderation in food price inflation underpinned the purchasing power of the household sector as *real final consumption expenditure by households* increased at an annualised rate of 2,8 per cent in the first quarter of 2015, almost double the rate of increase attained in the fourth quarter of 2014. Real spending across all categories increased over the period.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Category	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	4,8	3,4	4,0	5,3	5,3	1,1
Semi-durable goods	1,9	1,8	2,8	3,3	3,2	3,3
Non-durable goods	0,8	0,9	-0,1	1,5	0,8	4,9
Services	0,1	0,4	1,2	0,4	0,5	1,4
Total	1,0	1,0	1,1	1,6	1,4	2,8

Real final consumption expenditure by households



Consistent with dwindling consumer confidence, household expenditure on *durable goods* lost momentum in the first quarter of 2015. Growth in real spending on durable goods decelerated from an annualised rate of 5,3 per cent in the fourth quarter of 2014 to 1,1 per cent in the first quarter of 2015 – the lowest rate of increase since the second quarter of 2009. Real outlays on computers and related equipment declined in the first quarter of 2015 along with a moderation in sales of new motor vehicles; second-hand vehicle sales held up well over the period. Growth in spending on furniture and other household appliances as well as on durable recreational and entertainment goods also moderated.

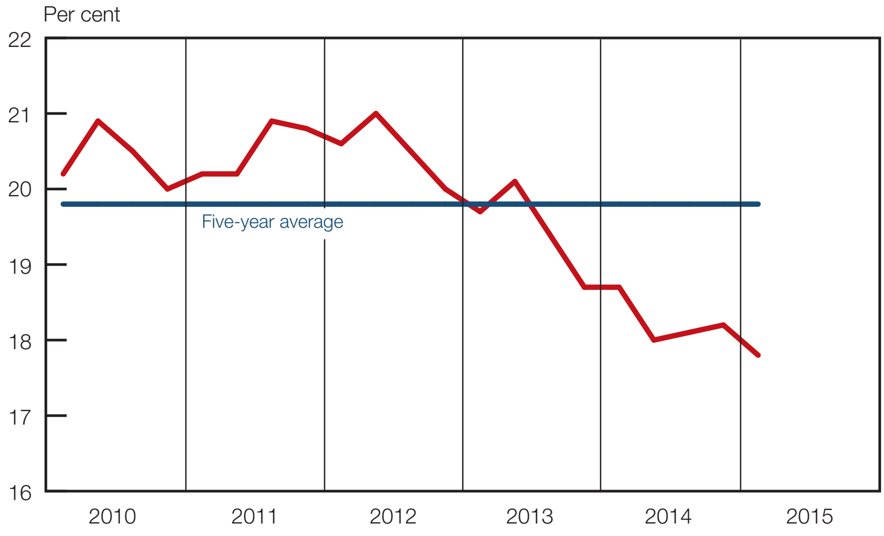
In the first quarter of 2015 real spending on *semi-durable goods* rose at an annualised rate of 3,3 per cent – the same rate of increase attained in the final quarter of 2014. Higher outlays on clothing and footwear – the largest component in this category – as well as on motorcar tyres, parts and accessories mainly supported expenditure on semi-durable goods. Spending on recreational and entertainment goods, however, remained lacklustre over the period.

Expenditure on *non-durable goods* picked up notably in the first quarter of 2015. Following an increase of 1,5 per cent in the fourth quarter of 2014, annualised growth in real outlays on non-durable goods accelerated to 4,9 per cent over the period. Lower petrol and diesel prices contributed to robust growth in spending on petroleum products. With food price inflation slowing, real consumer outlays on food and beverages – the largest component in the non-durable basket – also rose notably over the period, while purchases of household consumer goods and medical and pharmaceutical products also increased. Real outlays on household fuel and power decreased, consistent with the downward trend in spending on electricity over the period, some of which was induced by sporadic load shedding.

Real spending by households on *services* accelerated in the first quarter of 2015. Spending on all subcategories increased at a faster pace, with the exception of spending on medical services which grew at the same rate as in the fourth quarter of 2014, and spending on transport services which declined in the first quarter of 2015. The lower spending on transport services was probably partly related to the more favourable price of petroleum, which caused consumers to revert to own transport rather than public transport.

Following a marginally faster pace of increase in the compensation of employees, growth in the *real disposable income of households* edged higher from an annualised rate of 1,9 per cent in the fourth quarter of 2014 to 2,6 per cent in the first quarter of 2015.

Household debt-to-assets ratio



Seasonally adjusted

Consistent with the faster pace of increase in consumer spending, growth in household debt accelerated in the first quarter of 2015. Household debt as a percentage of disposable income consequently inched higher from 78,0 per cent in the fourth quarter of 2014 to 78,4 per cent in the first quarter of 2015. In addition, the debt-service cost as a percentage of disposable income advanced from 9,3 per cent to 9,4 per cent over the same period.

The net wealth of the household sector increased further in the first quarter of 2015 as quarter-to-quarter growth in the value of fixed and financial assets outpaced the rate of increase in households' financial liabilities. Over this period, the net wealth of the household sector was buoyed, in particular, by higher share prices. As a result, the debt-to-assets ratio of the household sector declined from 18,2 per cent in the fourth quarter of 2014 to 17,8 per cent in the first quarter 2015, with the ratio remaining well below its five-year average of 19,8 per cent.

Final consumption expenditure by government

Real final consumption expenditure by general government contracted in the first quarter of 2015. Growth in spending by general government slowed from an annualised rate of 1,0 per cent in the fourth quarter of 2014 to -1,9 per cent in the first quarter of 2015. Real compensation of employees – the largest component of government expenditure – contracted as a number of government employees resigned in misinformed fear of Government Employee Pension Fund reforms. In addition, real purchases of non-wage goods and services decreased over the period. Consequently, real final consumption expenditure by general government as a ratio of gross domestic product edged lower from 20,2 per cent in the fourth quarter of 2014 to 19,7 per cent in the first quarter of 2015.

Fixed capital formation

Consistent with subdued business confidence levels in the South African economy, *real gross fixed capital formation* increased at a slower pace in the first quarter of 2015. Capital outlays by public corporations contracted alongside slower growth in capital investment by private business enterprises and the general government. As a result, growth in real capital spending decelerated from 2,6 per cent in the fourth quarter of 2014 to an annualised rate of 1,8 per cent in the first quarter of 2015.

Having accelerated in the second half of 2014, growth in real gross fixed capital formation by *private business enterprises,* which accounts for almost two-thirds of total capital formation, decelerated from an annualised rate of 1,7 per cent in the final quarter of 2014 to 1,6 per cent in the first quarter of 2015. Real capital outlays by the mining, construction and commerce sectors contracted over the period.

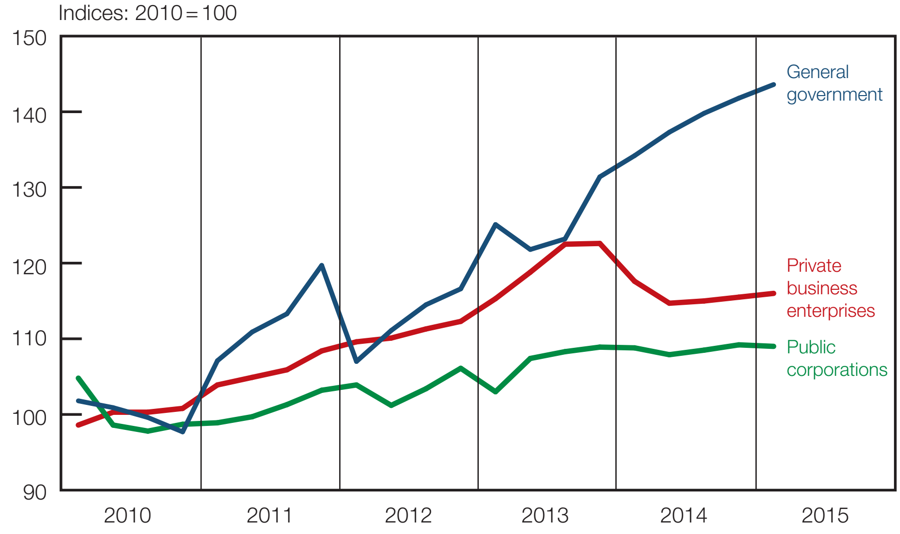
Real gross fixed capital formation

Percentage change at seasonally adjusted annualised rates

Sector	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	-15,4	-9,6	1,2	1,7	-3,4	1,6
Public corporations	-0,6	-3,4	2,3	2,5	1,6	-0,6
General government	8,7	9,8	7,4	5,9	10,3	5,1
Total	**-9,2**	**-5,4**	**2,4**	**2,6**	**-0,4**	**1,8**

Lower capital outlays by the mining sector were mainly evident in expenditure on construction works and on machinery and equipment. Declines in capital investment by business enterprises in the mining sector were especially noticeable in the gold, manganese, platinum and stone quarrying subsectors. Real capital formation by the private electricity sector continued to lose momentum on the back of the completion of most of the projects in Bid Windows 1 and 2 of the Renewable Energy Independent Power Producer Procurement Programme. In addition, building contractors lowered their capital spending following a deceleration in outlays on non-residential building projects and construction works.

Real gross fixed capital formation by institutional sector



Seasonally adjusted

Following an increase of 2,5 per cent in the fourth quarter of 2014, real fixed capital expenditure by *public corporations* contracted marginally at a rate of 0,6 per cent in the first quarter of 2015. Capital expenditure by the electricity subsector declined, influenced by factors such as strike activity and technical problems experienced with the commissioning of Unit 6, the first of six 800-megawatt generation units at Eskom's Medupi power station. Eskom also announced that its Sere Wind Farm had reached its full commercial operational capacity over the period. Capital expenditure by the transport subsector – more specifically the procurement of new locomotives by Transnet and the Passenger Rail Agency of South Africa – was not sufficient to maintain the upward momentum in capital spending by public corporations over the period.

Growth in real gross fixed capital expenditure by *general government* remained firm, registering annualised rates of 5,9 per cent in the final quarter of 2014 and 5,1 per cent in the first quarter of 2015. Increased spending by provincial and local governments on social and economic infrastructure to improve service delivery more than offset a decline in capital spending by the central government.

Inventory investment

Real *inventory investment,* measured at 2010 prices and annualised, accelerated from R3,8 billion in the fourth quarter of 2014 to R8,8 billion in the first quarter of 2015. The build-up of inventories was mainly evident in the manufacturing sector reflecting, inter alia, an increase in the volume of crude oil imports in the first quarter of 2015. In the mining sector, inventories of in particular platinum were accumulated during the period. Nonetheless, the industrial and commercial inventories as a percentage of non-agricultural gross domestic product edged lower from 14,0 per cent in the fourth quarter of 2014 to 13,7 per cent in the first quarter of 2015.

Factor income

The rate of increase in *total nominal factor income,* measured over four quarters, slowed from 6,4 per cent in the fourth quarter of 2014 to 4,2 per cent in the first quarter of 2015. This deceleration reflected the slower pace of increase in the gross operating surpluses of business enterprises and in the compensation of employees over the period.

The year-on-year pace of change in total *compensation of employees* decelerated from 8,0 per cent in the fourth quarter of 2014 to 7,7 per cent in the first quarter of 2015, mainly reflecting the slower growth in the compensation of employees in the general government sector over the period. Compensation of employees in most other sectors increased at a somewhat faster pace over the period. Relative to total factor income, the remuneration of employees increased from 52,3 per cent in the fourth quarter of 2014 to 53,1 per cent in the first quarter of 2015.

Growth over four quarters in total *gross operating surpluses of enterprises* decelerated from 4,5 per cent in the fourth quarter of 2014 to 0,5 per cent in the first quarter of 2015. This slower pace of increase can partly be ascribed to weak output growth in the primary and secondary sectors of the economy. In the mining and manufacturing sectors, growth in gross operating surpluses slowed as commodity prices underperformed, while uncertain and insufficient power supply, along with other infrastructure constraints, continued to adversely affect operations. Consequently, the share of gross operating surplus in total factor income declined from 47,7 per cent in the fourth quarter of 2014 to 46,9 per cent in the first quarter of 2015.

Gross saving

South Africa's *saving ratio* improved from 15,3 per cent in the fourth quarter of 2014 to 16,2 per cent in the first quarter of 2015. The higher saving ratio reflected an increase in saving by both general government and corporate business enterprises. The foreign financing ratio, or share of foreign capital in the financing of capital formation, declined from 25,0 per cent in the fourth quarter of 2014 to 22,7 per cent in the most recent quarter.

Gross saving by the *corporate sector* as a percentage of gross domestic product increased from 14,3 per cent in the fourth quarter of 2014 to 14,6 per cent in the first quarter of 2015. Lower corporate tax payments over the period mainly contributed to this outcome.

Gross saving by *general government* improved from a rate of 0,8 per cent of gross domestic product in the fourth quarter of 2014 to 1,5 per cent in the first quarter of 2015. Strong growth in several tax categories, including income tax on individuals and customs and excise duties, boosted government income. Simultaneously, the rate of increase in consumption expenditure by general government slowed.

The gross saving rate of the *household sector* remained unchanged at 0,2 per cent in the fourth quarter of 2014 and the first quarter of 2015. The pace of increase in the disposable income of households, which was supported by an increase in the compensation of employees, was broadly matched by the increase in nominal consumption expenditure over the period.

Business cycle developments

In 2014 and the first few months of 2015 the Bank's composite leading business cycle indicator exhibited a gradually declining trend, whereas the composite coincident business cycle indicator continued to trend higher, albeit with less momentum than earlier. Minor revisions to these indicators, which are introduced in this release of the *Quarterly Bulletin,* are described in the box on the next page.

Box 1 Revisions to the composite leading and coincident business cycle indicators

Various factors require the sporadic reassessment of the component time series included in the composite business cycle indicators of the South African Reserve Bank (the Bank). These include, inter alia, structural changes in the economy, the identification of new economic indicators or the discontinuation of existing indicators. The Bank previously revised the composition of the composite leading business cycle indicator in 2007[1] and that of the composite coincident[2] and lagging business cycle indicators in 2004.[3] It has since become necessary to effect a few minor revisions to the composite leading and coincident business cycle indicators. The purpose of this box is to briefly discuss these revisions.

The composite coincident business cycle indicator

The five component time series included in the composite coincident business cycle indicator have been retained unchanged. However, changes made to the composite coincident business cycle indicator were related to two other aspects. Firstly, historical revisions to the underlying data and weighting structure within some component time series were incorporated. Secondly, the long-term trend of the composite coincident business cycle indicator was adjusted. Regarding the first aspect, the following changes were incorporated:

- The industrial production component time series comprises the physical volume of manufacturing production, the physical volume of mining production and the quantity of electricity generated, each seasonally adjusted and weighted according to that sector's contribution to gross domestic product. The relative weights of the three constituent indicators were revised historically to 2005, resulting in a marginally revised industrial production index from January 2005 onwards.
- Statistics South Africa (Stats SA) recently improved the *Quarterly Employment Statistics* survey by implementing a new sample drawn from the 2013 business sampling frame. This resulted in a structural break in the component series that measured total formal non-agricultural employment in the second quarter of 2013, as well as in revisions to the quarterly changes in the indicator. This component indicator was statistically linked by the Bank to obtain a smooth time series, which was then incorporated into the composite coincident business cycle indicator.
- Recent data revisions to the indicator that measures the utilisation of production capacity in the manufacturing sector were also incorporated in the composite coincident business cycle indicator.

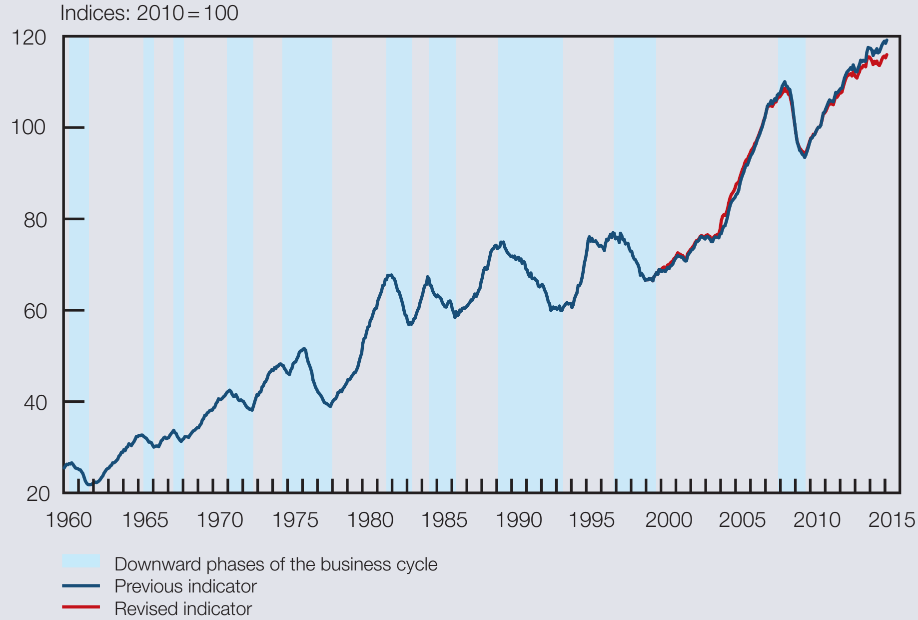
The final step in the compilation methodology of the composite coincident business cycle indicator was to adjust its long-term trend to match the long-term trend in real gross value added in the economy at basic prices, excluding agriculture. During the 2007 revisions, the long-term trend in the composite coincident business cycle indicator outpaced that in the non-agricultural real gross value added for the period considered at the time. The long-term trend in the composite coincident business cycle indicator was therefore adjusted downwards to match the long-term trend in the non-agricultural real gross value added.

Since the end of 2009 – the start of the most recent upward phase in the business cycle – the growth trend in the composite coincident business cycle indicator has outpaced the growth trend in real non-agricultural gross value added by a slightly bigger margin than before. This can largely be attributed to a much slower growth trend in real non-agricultural gross value added after the 2008–09 recession than during the preceding upward phase in the business cycle. In addition, the growth trend in the composite coincident business cycle indicator was supported by exceptionally strong public-sector employment growth, coupled with strong growth in the real value of new vehicle and retail trade sales over this period. The long-term trend in the composite coincident business cycle indicator was thus adjusted downwards by a slightly larger margin than before.

All of the changes discussed above were incorporated into the composite coincident business cycle indicator and the revised composite coincident indicator was linked to the historical composite coincident indicator in January 2000 (see figure on the next page). Importantly, these revisions did not result in any changes to the turning points in the composite coincident business cycle indicator.

1 J C Venter, 'Revisions to the composite leading and coincident business cycle indicators', text box on page 15, *Quarterly Bulletin* No. 244, June 2007, Pretoria: South African Reserve Bank.
2 J C Venter and W S Pretorius, 'Note on the revision of composite leading and coincident business cycle indicators', *Quarterly Bulletin* No. 231, March 2004, Pretoria: South African Reserve Bank.
3 J C Venter, 'Note on the revision and significance of the composite lagging business cycle indicator', *Quarterly Bulletin* No. 234, December 2004, Pretoria: South African Reserve Bank.

Composite coincident business cycle indicator



The composite leading business cycle indicator

Similar to the composite coincident business cycle indicator, changes to the composite leading business cycle indicator were aimed at achieving two objectives. The first objective was to align the composite leading business cycle indicator more closely to domestic real economic developments. Secondly, the long-term trend of the composite leading business cycle indicator was adjusted to reflect that in the composite coincident business cycle indicator.

In order to achieve the first objective, three changes were made to the composite leading business cycle indicator:

– The index representing the prices of all classes of shares traded on the JSE Limited (JSE) was discarded as one of the component time series of the composite leading business cycle indicator. Since the early 2000s, there appears to have been an increasing disconnect between domestic share price movements and the performance of domestic real economic activity. This was largely the result of a number of dual-listed companies increasingly dominating the market capitalisation on the JSE. As such, the share price component in the composite leading business cycle indicator failed to lead the most recently identified business cycle peak (November 2007). In addition, driven by the prolonged period of very accommodative global monetary policy measures following the global financial crisis, domestic share prices rose notably in recent years, increasingly reflecting global developments rather than domestic real economic developments.

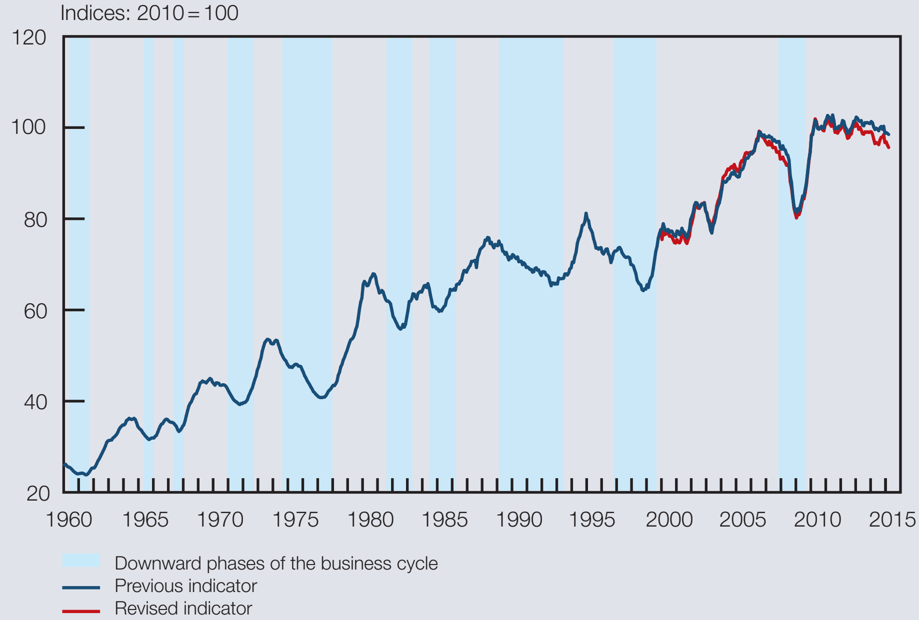
– Improvements were made to the component series representing the twelve-month percentage change in the composite leading business cycle indicator of South Africa's main trading-partner countries. The scope of this indicator was broadened to reflect the changing composition of South Africa's export trading partners. As such, the composite leading business cycle indicators of four additional trading-partner countries were included in the index, namely China, India, Spain and Australia. All the countries previously represented were retained, that is, the Unites States, the United Kingdom, Japan, Germany, France, Italy, the Republic of Korea and Taiwan.

– The weights within the component series representing the prices of a basket of South Africa's main export commodities, denominated in US dollar terms, were updated to more accurately reflect the export share of each commodity included in the index.

The selection of component time series to be included in the composite leading business cycle indicator was primarily based on their timing relation with the business cycle, in particular their ability to consistently provide early signals of possible turning points in the business cycle. A number of the component time series included in the composite leading indicator are therefore of a stationary nature, with no discernible long-term trend. As such, the inherent long-term trend of the composite leading business cycle indicator has no significant economic meaning, as the trend often changes when changes are made to the composition of the indicator. In order to keep the long-term trend in the composite leading business cycle indicator more stable over time and also to provide it with a more meaningful long-term trend, the leading indicator's inherent long-term trend was adjusted to match that of the composite coincident business cycle indicator. Since the long-term trend in the composite coincident business cycle indicator was adjusted downwards during the current round of revision, the trend adjustment of the composite leading business cycle indicator also had to be amended slightly.

The changes discussed above were all incorporated into the composite leading business cycle indicator and the revised indicator was linked to the historical composite leading indicator in January 1999, shown in the figure below. Although these revisions did not result in changes to the turning points in the composite leading business cycle indicator, the decrease in the revised leading indicator was more pronounced throughout 2007, providing a clearer signal of the downward phase in the business cycle that commenced in December 2007. In addition, the moderate downward trend displayed by the leading indicator over the past two years is now slightly more pronounced, providing a somewhat clearer signal of the recent slowdown in domestic economic activity.

Composite leading business cycle indicator



The table below lists the eleven component time series now included in the composite leading business cycle indicator, the five component time series included in the composite coincident business cycle indicator and the seven component time series included in the composite lagging business cycle indicator.

Component time series of the composite business cycle indicators

Leading indicator	Coincident indicator	Lagging indicator
Job advertisement space in the *Sunday Times* newspaper: percentage change over twelve months	Gross value added at constant prices, excluding agriculture, forestry and fishing	Cement sales (in tons)
Number of residential building plans passed for flats, townhouses and houses larger than $80m^2$	Total formal non-agricultural employment	Value of non-residential buildings completed at constant prices
Interest rate spread: 10-year government bonds less 91-day Treasury bills	Value of retail and new vehicle sales at constant prices	Ratio of gross fixed capital formation in machinery and equipment to final consumption expenditure on goods by households
Real M1 money supply (deflated with CPI): six-month smoothed growth rate	Industrial production index	Ratio of inventories to sales in manufacturing and trade
Index of commodity prices (in US dollar) for a basket of South African-produced export commodities	Utilisation of production capacity in manufacturing	Nominal labour cost per unit of production in the manufacturing sector: percentage change over twelve months

Component time series of the composite business cycle indicators (continued)		
Leading indicator	Coincident indicator	Lagging indicator
Composite leading business cycle indicator of South Africa's major trading-partner countries: percentage change over twelve months		Predominant prime overdraft rate of banks
Gross operating surplus as a percentage of gross domestic product		Ratio of consumer instalment sale credit to disposable income of households
RMB/BER Business Confidence Index		
Net balance of manufacturers observing an increase in the average number of hours worked per factory worker (half weight)		
Net balance of manufacturers observing an increase in the volume of domestic orders received (half weight)		
Number of new passenger vehicles sold: percentage change over twelve months		

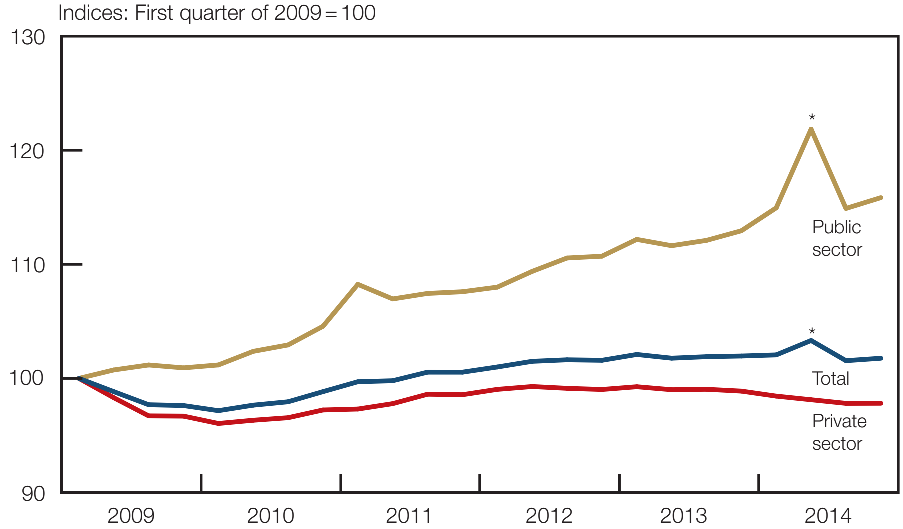
Employment

Consistent with the acceleration in output growth in the fourth quarter of 2014, the level of formal non-agricultural employment increased over the period. According to the *Quarterly Employment Statistics* (QES) survey undertaken by Statistics South Africa (Stats SA), the number of people employed in the formal non-agricultural sector of the economy increased by 0,8 per cent on a seasonally adjusted and annualised basis in the fourth quarter of 2014, representing a gain of 18 900 job opportunities and raising the level of formal non-agricultural employment to an estimated 8,97 million.[2] Stats SA recently improved the QES survey by implementing a new sample drawn from the 2013 Business Sampling Frame, which was enhanced by drawing on additional administrative sources. The new sample was introduced from the second quarter of 2013, resulting in an upward adjustment of roughly 0,5 million to the level of total formal non-agricultural employment. Nevertheless, formal non-agricultural employment growth moderated for a third successive year in 2014; the annual average growth rate slowed from 2,3 per cent in 2011 to 1,3 per cent in 2012, to 0,5 per cent in 2013 and a mere 0,2 per cent in 2014.

2 The QES data reported in this section are seasonally adjusted unless stated to the contrary.

Formal non-agricultural employment

Indices: First quarter of 2009 = 100



* Election-related outlier

The pickup in formal non-agricultural employment in the fourth quarter of 2014 resulted almost entirely from an increase in public-sector employment as, apart from a moderate decrease in the staff complement of national departments, job gains were recorded across all tiers of government. However, the scope for further public-sector job creation remains limited, given government's commitment to fiscal consolidation.

Following four consecutive quarters of labour paring, private-sector employment remained broadly unchanged in the fourth quarter of 2014. Employment gains recorded in the finance, insurance, real-estate and business services sector; the manufacturing sector; and the private transport, storage and communication sector were almost entirely offset by job losses in the construction sector; the mining sector; the private community, social and personal services sector; and the trade, catering and accommodation services sector.

Change in enterprise-surveyed formal non-agricultural employment by sector*

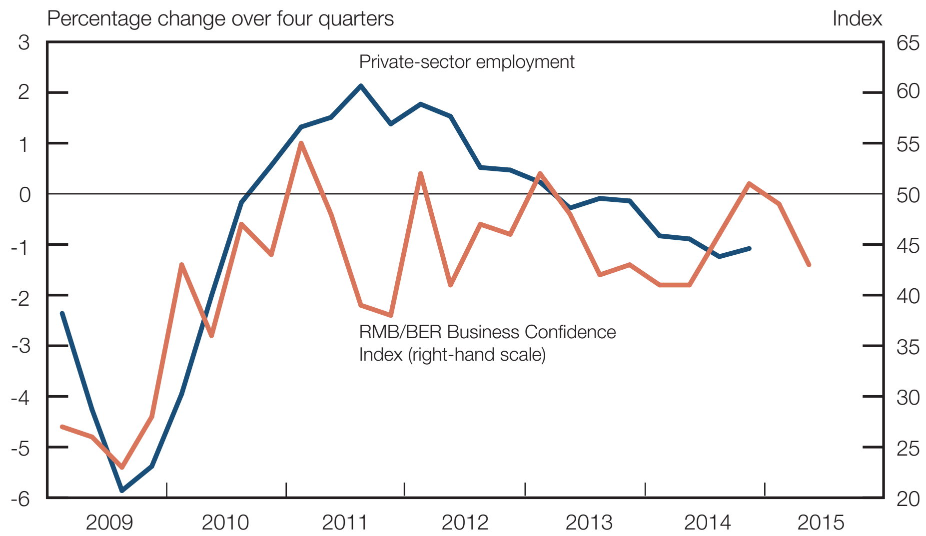
Sector	Change over one quarter 4th qr 2014		Change over four quarters to 4th qr 2014		Cumulative job losses (-) gains (+)	
	Number	Per cent annualised	Number	Per cent	4th qr 2008 to 1st qr 2010	2nd qr 2010 to 4th qr 2014
Total mining	-5 800	-4,6	-6 600	-1,3	-40 700	1 100
Gold mining	-1 100	-3,8	-6 500	-5,2	-9 600	-42 100
Other mining	-4 700	-4,9	-100	0,0	-31 100	43 300
Manufacturing	900	0,3	-31 300	-2,7	-113 800	-67 000
Construction	-10 400	-8,1	-13 700	-2,7	-54 500	-10 500
Trade, catering and accommodation services	-3 100	-0,7	-4 600	-0,3	-77 400	62 400
Private transport, storage and communication services	200	0,3	-9 200	-2,9	400	-2 400
Finance, insurance, real-estate and business services	22 700	4,7	-14 000	-0,7	-190 900	113 300
Community, social and personal services	-3 900	-3,1	6 300	1,3	16 400	25 100
Total private sector	**600**	**0,0**	**-73 200**	**-1,1**	**-460 600**	**122 100**
National departments	-3 900	-3,4	-2 600	-0,6	-2 500	40 500
Provinces	1 000	0,4	20 700	1,9	51 600	114 500
Local governments	10 900	15,1	31 400	11,1	15 200	75 400
Public transport, storage and communication services	5 700	11,3	3 800	1,8	-5 500	25 300
Other public-sector enterprises, including electricity	4 600	15,2	2 800	2,2	-4 900	27 300
Total public sector	**18 300**	**3,3**	**56 000**	**2,6**	**53 800**	**283 000**
Grand total	**18 900**	**0,8**	**-17 200**	**-0,2**	**-406 800**	**405 100**

* Seasonally adjusted. Components may not add to totals due to rounding

Source: Statistics South Africa, *Quarterly Employment Statistics* (QES) survey

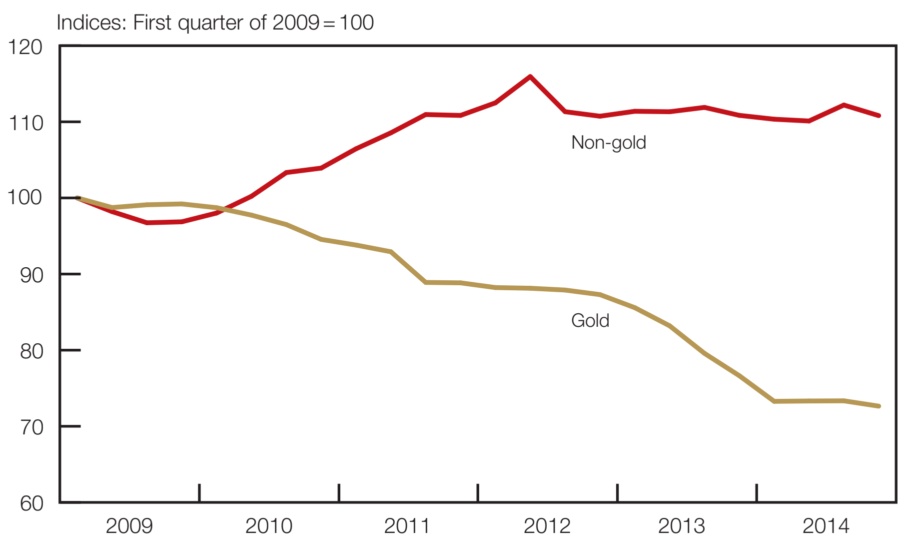
As shown in the accompanying table, the total number of jobs created by the private sector during the current upward phase of the business cycle still represents only about a quarter of those lost during the 2008–09 recession; of the 460 600 private-sector jobs lost during the recession, only 122 100 had been recovered up to the fourth quarter of 2014. The current upward phase of the business cycle has been characterised by persistently low levels of business confidence, exacerbated by enduring electricity supply constraints that stifled new private-sector investment projects. The accompanying graph shows the relationship between private formal non-agricultural employment growth and the Rand Merchant Bank (RMB)/Bureau for Economic Research (BER) Business Confidence Index, which declined to levels of 49 and 43 index points in the first and second quarters of 2015 respectively, probably also affected by xenophobic violence that occurred in the second quarter.

Private-sector employment and business confidence



Following an encouraging pickup in mining-sector employment in the third quarter of 2014, labour paring again occurred in the sector in the fourth quarter. Job creation in the non-gold mining sector appears to have stalled in recent years, with the level of employment in the fourth quarter of 2014 remaining broadly similar to that in the fourth quarter of 2012. Employment in the gold-mining sector resumed its long-term declining trend in the fourth quarter of 2014, following two quarters of stable employment levels. Labour relations continue to be crucial in shaping employment prospects in the mining sector, with wage negotiations having commenced in May 2015 to replace the existing two-year wage deal in the gold- and coal-mining industries.

Mining-sector employment



Following three consecutive quarters of job shedding, employment in the manufacturing sector increased marginally in the fourth quarter of 2014 as the adverse effects of labour strikes in the platinum-mining industry and in the metals and engineering industries earlier in the year dissipated. The manufacturing sector nevertheless shed an alarming 31 300 job opportunities in 2014. In addition, the BER's *Manufacturing Survey* revealed that manufacturing business confidence fell from 42 index points in the fourth quarter of 2014 to 30 index points in the first quarter of 2015, as domestic demand and production weakened alongside electricity load shedding. Employment indicators deteriorated further in the first quarter of 2015, with a net majority of respondents indicating a further reduction in the number of factory workers as well as a reduction in the average hours worked per factory worker. Despite the survey pointing to an improvement in fixed investment outlays in the first quarter, manufacturers indicated that fixed investment would be driven mainly by the replacement of existing capacity rather than additional production capacity.

Manufacturing production and employment

The pace of labour paring in the construction sector accelerated in the fourth quarter of 2014, with the sector shedding around 13 700 jobs in 2014. Discouragingly, the First National Bank (FNB)/BER Civil Construction Confidence Index retreated by 20 index points to 39 in the first quarter of 2015 – its lowest level since the fourth quarter of 2012. The BER noted that the fall in confidence was primarily due to a sharp drop in construction activity, coupled with a deterioration in profitability. However, civil contractors were upbeat about the outlook for the sector, despite their rating of insufficient demand for new construction work as a business constraint rebounding from 62 per cent in the fourth quarter of 2014 to 79 per cent in the first quarter of 2015. Moreover, the FNB/BER Building Confidence Index decreased by 5 index points to 55 in the first quarter of 2015. The survey indicated that confidence among residential contractors in particular decreased in the first quarter of 2015, suggesting that the recovery in the residential building sector appears to have lost some momentum. Electricity supply constraints are likely to inhibit fixed investment outlays by the private sector in particular, which could impede employment creation in the construction sector in the short run.

Following four consecutive quarters of job losses, employment in the finance, insurance, real-estate and business services sector advanced notably in the fourth quarter of 2014. The sector nevertheless shed around 14 000 job opportunities in 2014 as a whole. Conversely, employment in the trade, catering and accommodation services sector decreased further in the fourth quarter of 2014, albeit at a slower pace. Encouragingly, the BER's *Retail Survey* for the first quarter of 2015 indicated that business confidence among both retailers and wholesalers remained elevated in the quarter, owing to higher sales volumes and improved profitability.

Confidence among new vehicle dealers also rose notably in the first quarter of 2015, despite remaining below the neutral level of 50 for a sixth successive quarter.

Construction-sector employment and civil construction confidence

Box 2 Interpreting enterprise- and household-surveyed employment measures

Within the broader framework of statistics collection, primarily with the purpose of informing analysis and policy formulation, Statistics South Africa (Stats SA) engages the labour market through two distinct quarterly sample surveys, that is, the household-based *Quarterly Labour Force Survey* (QLFS) and the enterprise-based *Quarterly Employment Statistics* (QES) survey. Information derived from both these surveys serves as key input towards the understanding of historical and current trends in the labour market. Although these measures track well over the long term, occasional differences in trend have at times perplexed labour market analysts. To compound the interpretation challenge, but fortunately also to enrich labour market analysis, various additional labour market indicators are compiled and published by different private-sector institutions.

Although both official surveys by Stats SA measure employment in South Africa, employment is defined differently by these two surveys. Also, different samples, estimation procedures and concepts are applied in the execution of these surveys. Despite these differences in construction and execution, the time series data that emanate from these two surveys track fairly well over time – the QLFS has been available since 2008. At times, conflicting signals, however, result from these two data sources, requiring special interpretational insights to align their informational content. There are a number of quantifiable differences between these two surveys that assist the process of alignment and interpretation, with other differences, however, posing more measurement challenges. Information contained in this box endeavours to assist this process of interpretation. As indicated in the accompanying table, the QLFS and QES differ in terms of coverage, scope, reference period, employment definition and concept.

Of significance when interpreting data from these two employment sources is the distinction made between counting jobs in the QES survey as opposed to counting the number of employed persons in the QLFS survey. Another is how paid and unpaid workers are counted. There are also special cases that occur periodically, such as the employment of workers by the Independent Electoral Commission and decennial census workers, for which employment is counted differently.

Count of jobs versus count of employed persons. In the QES survey, the employment estimate provides a count of all non-agricultural jobs, implying that a person who holds more than one job would appear on more than one payroll and thus would be counted for each job. By contrast, the household survey provides an estimate of employed persons and each worker is counted once, regardless of how many jobs he or she holds.

Differences between the *Quarterly Labour Force Survey* (QLFS) and the *Quarterly Employment Statistics* (QES) survey

	QLFS (household based)	QES (enterprise based)
Coverage	Private households (including workers' hostels) Civilian population (not institutions) aged 15 years and older Total employment (including formal and informal sector, private households, agriculture and small businesses)	VAT-registered businesses (payroll) Employees only Formal non-agricultural sector
Scope	Quarterly sample survey of 33 000 dwellings (sampling unit is dwelling; unit of observation is the household)	Quarterly sample survey of 21 000 non-agricultural formal enterprises
Reference period	A week prior to the interviews Collection in the middle two weeks of the middle month of each quarter	Payroll on the last day of the quarter
Definition of formal non-agricultural employment	Employers and own-account workers whose businesses are registered for tax (income tax or VAT) Employees whose employers deduct income tax from their salaries Employees whose employer does not deduct income tax but who work for an establishment with more than 5 employees	Employees on payroll of primarily VAT-registered businesses
Standard industrial classification	All industries	Excludes agriculture and private households
Employment concept	Estimates of employed persons	Estimate of jobs that are paid for (i.e. those on a payroll of a firm; if a person appears on two payrolls, he or she is counted twice)
Employment definition	Includes employers, own-account workers, unpaid family workers, persons employed in agriculture, private households and those who are temporarily absent from their job	Employees only

Reference periods and paid versus unpaid workers. The reference period for the household survey is one week prior to the interview. Information is obtained in the middle two weeks of the middle month of each quarter. The QLFS counts a person as employed if the person performed at least one hour of work during the reference week, whether as a wage or salary worker, as a self-employed individual in his or her own business or farm, or as an employee of a private household. Unpaid workers are counted if they worked at least fifteen hours in a family-owned business. Workers away on temporary unpaid absence are also included as employed. This category includes workers who have a job at which they did not work during the survey week because they were on vacation, were sick, needed to take care of family or a personal obligation, were on maternity or paternity leave, were involved in a labour dispute such as a strike, or could not work due to bad weather.

The QES reference period is the payroll's last day of the quarter. The pay period can be weekly, semi-monthly, monthly or other. Workers must have received pay for the pay period in order to be counted, regardless of whether they were present or on paid leave. Those on paid leave for the entire pay period are included in the survey, whereas those on unpaid leave are not. Workers on strike or on other unpaid work action for the entire pay period are not included in the QES employment estimates.

Scope of coverage. The QLFS includes those employed, unpaid family workers, agricultural workers, those on unpaid leave, and employees of private households. The QES survey is a non-agricultural business establishment survey, excludes the unincorporated self-employed, and records only workers that are paid.

Age limit. QLFS data on employment are restricted to persons aged 15 years and older, while there is no age limit on those reported in the QES survey. The QLFS provides employment data categorised by age.

Institutionalised workers. By definition, institutionalised persons in any type of institution, such as a prison or mental health facility, are not counted in the QLFS because the QLFS sample represents the civilian non-institutionalised population.

Persons on active duty in the military. In the QLFS, active duty members of resident armed forces are considered to be out of the scope of the survey.

According to the Standard Industrial Classification (SIC) framework, employers and employees involved in labour broking, self-employment and those not well defined are classified in the 'finance, insurance, real-estate and business services' category. Recent legislative changes related to the registration and regulation of labour brokers have complicated discrepancies between the two surveys and administrative employment data. The QES does not include sub-contractors and consultants who are self-employed and not part of an enterprise. Furthermore, the QES does not include employees who are paid a commission, even though such employees receive this payment regularly from labour brokers. Conversely, the QLFS records subcontractors, consultants and workers who are only paid a commission.

Concerning welfare-to-work programmes, the QES and the QLFS treat these workers differently, depending on whether jobs are subsidised or unsubsidised. Paid, unsubsidised employment is covered by both surveys, while subsidised employment is treated differently. Workers in subsidised jobs would be covered by the QLFS, being considered employed, regardless of who remunerates them. Under the QES, if the subsidy is paid directly to the welfare beneficiary and the employer does not pay wages, then the employee would not be counted as employed. Consequently, more welfare-to-work employment is captured by the QLFS than the QES.

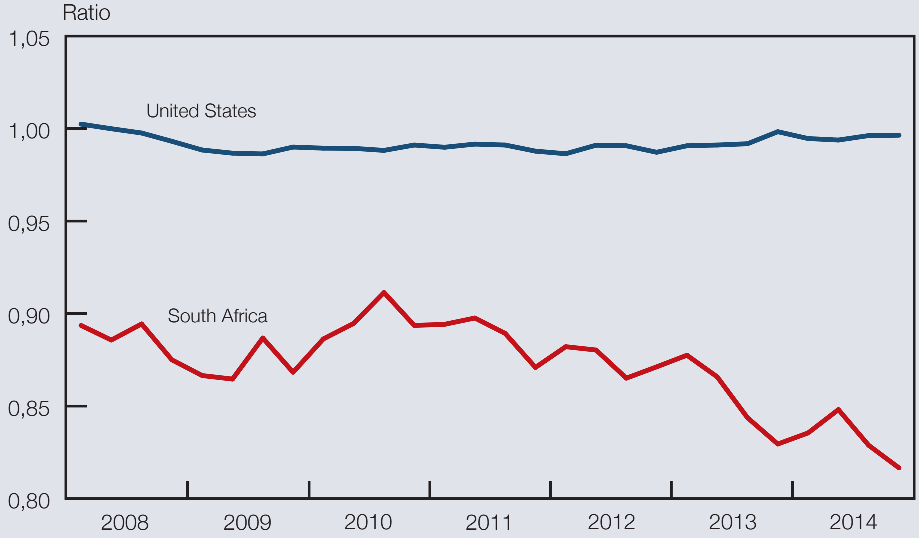
In terms of data strengths and limitations, Stats SA does not publish seasonally adjusted labour market data, that is, data that are adjusted for normal seasonal variations that occur regularly in certain periods of the year. For example, the hiring of seasonal workers to assist with year-end holiday activity imparts an irregularity into employment outcomes between successive periods. The seasonal adjustment of time series data affords the analyst the opportunity to better engage with the cyclical trend and irregular component in the data, enhancing the informational value thereof. To this end, the South African Reserve Bank (the Bank) publishes seasonally adjusted labour market data in the *Quarterly Bulletin*, sourced from the QES as published by Stats SA. Seasonally adjusted data from the QLFS are, however, not published by the Bank, apart from the unemployment rate.

It is most likely that both surveys include at least some undocumented immigrants. However, neither the enterprise nor household survey is designed to identify the legal status of workers. Therefore, it is not possible to determine how many are counted in either survey. The household survey includes questions that identify the foreign and native born, but it does not include questions about the legal status of the foreign born. Data on legal immigrants, derived from records held by the Department of Home Affairs, are published by Stats SA every three years.

The ratio between the QES and the QLFS employment time series serves as an indicator of the degree of divergence between the outcomes of these two employment measures. QLFS data should, however, first be adjusted to only represent formal non-agricultural employment through attrition. In the United States (US), this ratio has historically tended to remain around 1,0 regardless of the stance of the economy. In South Africa this ratio is significantly below 1,0 and fairly volatile as shown in the accompanying figure. This is an indication of the higher degree of discrepancy in household and payroll employment survey outcomes in South Africa compared to that in the US.

To address these discrepancies between the QLFS and the QES survey, Stats SA implemented a review process of its sample frame for the QES that commenced in 2013. The bias towards the inclusion on the QES sample frame of companies with a large turnover, but not necessarily employing a large number of employees, was addressed first. As such, non-value-added tax (VAT) firms have now been included in the sample since the second quarter of 2013 (published from the fourth quarter 2014 QES release). Over and above the South African Revenue Service (SARS) IRP5 data set, Stats SA is researching other data sources such as the Unemployment Insurance Fund database, and will reconcile all of these to the Department of Trade and Industries' business register. The new 2013 sample frame for the QES was designed to assist in addressing and benchmarking the imprecise administrative data that are encountered.

Ratio of enterprise-surveyed employment to household-surveyed formal non-agricultural employment (United States and South Africa)



Sources: Statistics South Africa and US Bureau of Labor Statistics (BLS)

Questions remain about the possible effects of labour brokers on employment measurement and the inclusion of undocumented workers in the two surveys. To address these and other issues, Stats SA continuously strives to improve its survey methodology and practices through dedicated research initiatives. It is important that data users and analysts familiarise themselves with the distinct characteristics of both these surveys to be able to properly assess their informational content and the way in which they inform the stance of the South African labour market.

According to the *Quarterly Labour Force Survey* (QLFS) conducted by Stats SA, the number of persons employed in South Africa increased by 140 000 from the fourth quarter of 2014 to the first quarter of 2015, raising the total level of employment to around 15,46 million.[3] However, total employment increased by 405 000 in the year to the first quarter of 2015, with the year-on-year growth rate accelerating from 0,9 per cent in the fourth quarter of 2014 to 2,7 per cent in the first quarter of 2015. Job creation in the year to the first quarter of 2015 took place primarily in the agricultural, informal and private household sectors of the economy. Disappointingly, a mere 17 000 employment opportunities were created in the formal sector in the year to the first quarter of 2015.

The number of unemployed persons increased notably by 468 000 in the year to the first quarter of 2015, bringing the total number of unemployed South Africans to around 5,54 million. Encouragingly, the number of discouraged job seekers decreased by 6 000 from the fourth quarter of 2014 to the first quarter of 2015, resulting in the total number of discouraged job seekers amounting to 2,40 million in the first quarter of 2015. The seasonally

3 The QLFS outcome for the first quarter of 2015 represents the first results of a redesigned master sample by Stats SA. The new master sample was designed in 2013 using the 2011 population census data, replacing the original master sample that was designed in 2007. The effect of this redesign is that the first quarter of 2015 results are not directly comparable to historical QLFS data.

adjusted unemployment rate increased from 24,9 per cent in the fourth quarter of 2014 to 26,2 per cent in the first quarter of 2015[4]. The youth unemployment rate increased from an already high 48,8 per cent in the fourth quarter of 2014 to 50,3 per cent in the first quarter of 2015, lower than the 53,2 per cent recorded a year earlier.

4 The official unemployment rate, which is not seasonally adjusted, increased from 24,3 per cent in the fourth quarter of 2014 to 26,4 per cent in the first quarter of 2015, up from 25,2 per cent recorded a year earlier.

Key labour market statistics
Thousands

	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015
a. Total employment	15 055	15 094	15 117	15 320	15 459
b. Total unemployment (official definition)	5 067	5 154	5 151	4 909	5 535
c. Total economically active (= a + b)	20 122	20 248	20 268	20 228	20 994
d. Total not economically active	15 055	15 084	15 221	15 415	14 805
e. Total aged 15–65 years (= c + d)	35 177	35 332	35 489	35 643	35 799
f. Official unemployment rate (= b*100/c)	25,2%	25,5%	25,4%	24,3%	26,4%

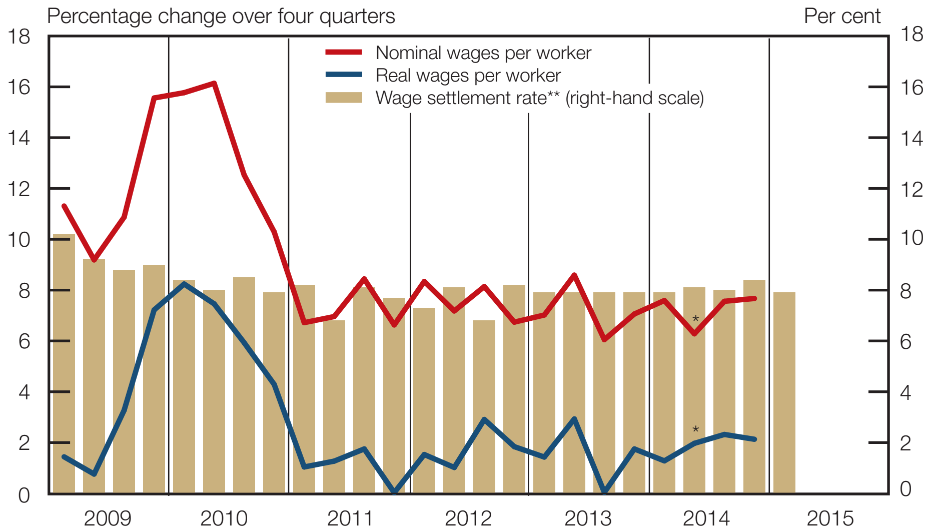
Source: Statistics South Africa, *Quarterly Labour Force Survey*

Labour cost and productivity

Wage increases continued to exceed consumer price inflation in 2014. The year-on-year pace of increase in nominal remuneration per worker in the formal non-agricultural sector of the economy accelerated marginally from 7,6 per cent in the third quarter of 2014 to 7,7 per cent in the fourth quarter. The marginal quickening in remuneration growth in the fourth quarter of 2014 resulted from an acceleration in private-sector remuneration growth, while public-sector remuneration growth moderated somewhat. On an annual average basis, the pace of increase in nominal remuneration per worker decelerated further from 7,2 per cent in 2013 to 6,6 per cent in 2014, while growth in the real salaries and wages per worker in the formal non-agricultural sector of the economy moderated from 1,5 per cent to 1,0 per cent over the same period.

Growth in public-sector remuneration per worker moderated marginally from a year-on-year rate of 6,5 per cent in the third quarter of 2014 to 6,3 per cent in the fourth quarter. National departments recorded the largest increase in the year to the fourth quarter.

Remuneration growth and wage settlement rates



* Values in second quarter of 2014 corrected for distortion arising from temporary election-related employment

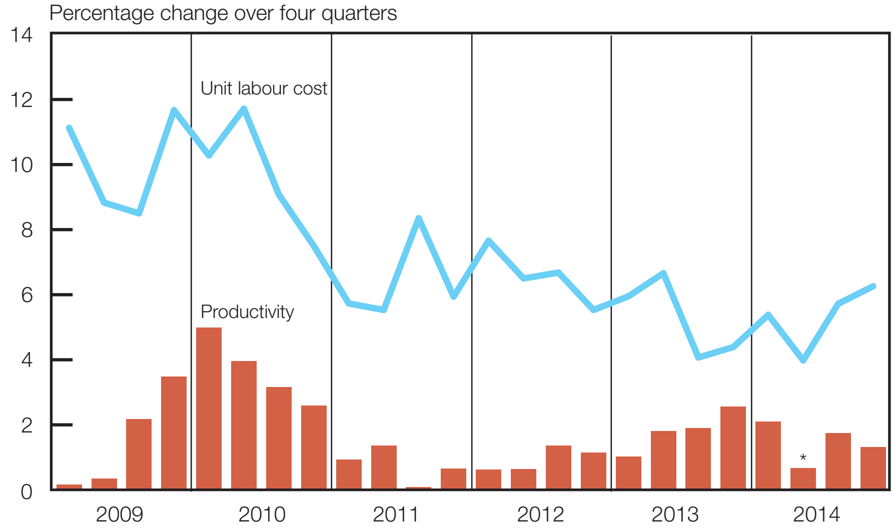
** Quarterly estimates based on cumulative data provided by Andrew Levy Employment Publications

By contrast, growth in nominal wages per worker in the private sector accelerated further from a year-on-year rate of 7,7 per cent in the third quarter of 2014 to 8,0 per cent in the fourth quarter. Remuneration growth quickened in the private transport, storage and communication sector (to 9,6 per cent); the private community, social and personal services sector (to 9,3 per cent); the construction sector (to 9,0 per cent); the finance, insurance, real-estate and business services sector (to 8,7 per cent); and the manufacturing sector (to 8,3 per cent) following the conclusion of the steel and engineering industry strike in July 2014. Moderations in wage growth were recorded only in the trade, catering and accommodation services sector (to 4,9 per cent) and in the mining sector (to 8,6 per cent). On an annual average basis, private-sector wage growth remained broadly unchanged at around 7,2 per cent for four consecutive years up to 2014.

According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements remained unchanged at 7,9 per cent in the first quarter of 2015 compared with the corresponding period in 2014, but was marginally lower than the 8,1 per cent recorded for 2014 as a whole. Encouragingly, the number of workdays lost due to industrial action fell notably to 80 000 in the first quarter of 2015 compared with 3,5 million in the first quarter of 2014, when the unprecedented strike in the platinum-mining industry commenced. In the public sector, a three-year settlement was reached in May 2015 after protracted and tough wage negotiations. The salary adjustment for 2015, effective from 1 April, was set at 7 per cent, with increases of consumer price index inflation plus 1 per cent in each of the subsequent two years.

Year-on-year growth in labour productivity decelerated from 1,7 per cent in the third quarter of 2014 to 1,3 per cent in the fourth quarter as output growth moderated somewhat, while employment contracted at a marginally slower pace. Likewise, labour productivity growth decelerated from an annual average rate of 1,8 per cent in 2013 to 1,2 per cent in 2014. Conversely, labour productivity growth in the manufacturing sector accelerated from 1,4 per cent in the third quarter of 2014 to 2,9 per cent in the fourth quarter as output growth rebounded following the strike in the previous quarter. With year-on-year growth in remuneration accelerating and output growth slowing in the fourth quarter of 2014, growth in nominal unit labour cost in the formal non-agricultural sector of the economy accelerated from 5,7 per cent in the third quarter of 2014 to 6,3 per cent in the fourth quarter. Similarly, nominal unit labour cost in the manufacturing sector quickened from 4,1 per cent to 5,3 per cent over the same period.

Formal non-agricultural labour productivity and nominal unit labour cost



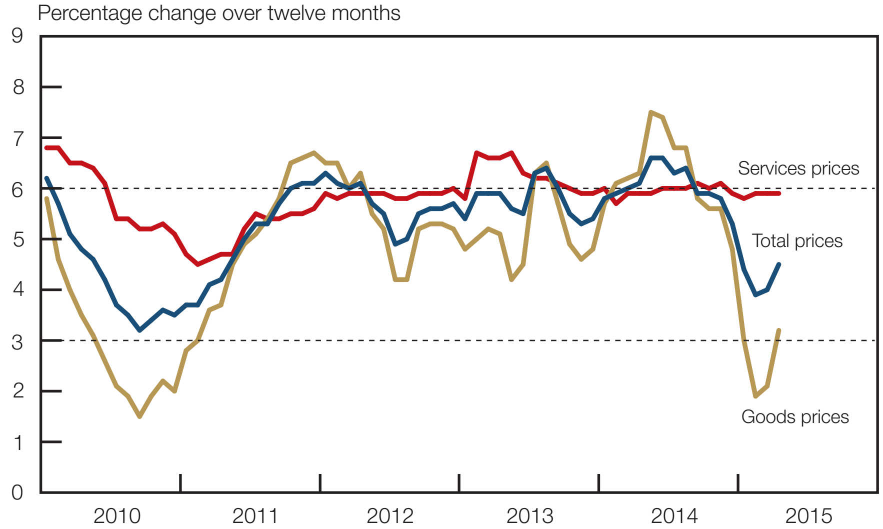
* Values in second quarter of 2014 corrected for distortion arising from temporary election-related employment

Prices

International crude oil prices increased somewhat in recent months, partly reversing the temporary reprieve that lower crude oil prices had provided to domestic consumer price inflation since the middle of 2014. As such, headline consumer price inflation slowed notably from a recent peak of 6,6 per cent in June 2014 to 3,9 per cent in February 2015, before accelerating to 4,5 per cent in April – remaining within the inflation target range of 3 to 6 per cent for an eighth successive month.[5] Domestic consumer price inflation appears to have reached a lower turning point in February 2015, as inflationary pressures are expected to intensify during the remainder of the year due to the recent reversal in international crude oil prices, rising food prices, double-digit electricity tariff increases, and services price inflation remaining close to the upper limit of the inflation target range.

5 All rates mentioned reflect year-on-year changes, unless stated to the contrary.

Targeted consumer price inflation



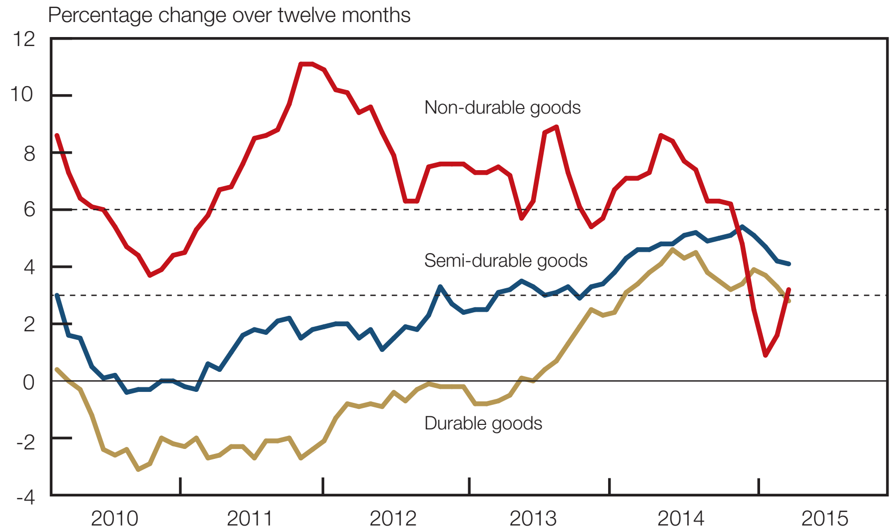
Producer price inflation continued to be favourably impacted by declining international commodity prices in the opening months of 2015, with most measures of producer price inflation slowing to multi-year lows. As such, twelve-month producer price inflation for intermediate manufactured goods moderated markedly from a high of 10,5 per cent in February 2014 to -0,2 per cent in April 2015, reflecting price outcomes over a broad range of such goods. In addition, final manufactured goods price inflation decelerated from a recent peak of 8,8 per cent in April 2014 to 3,0 per cent in April 2015, largely driven by a moderation in price inflation for coal, petroleum, chemical, rubber and plastic products; non-metallic mineral products; electrical machinery; as well as transport equipment. Similarly, producer price inflation for agriculture, forestry and fishing products moderated from 11,7 per cent in March 2014 to -1,0 per cent in March 2015 on account of falling agricultural food prices. Furthermore, producer price inflation for mining commodities moderated further to 4,7 per cent in April 2015, reflecting the continued decline in international commodity prices. Conversely, producer price inflation for electricity and water quickened somewhat from a recent low of 7,4 per cent in September 2014 to 10,4 per cent in April 2015.

Imported goods price pressures eased notably from the middle of 2014, following the decline in international crude oil prices coupled with a relatively stable exchange rate of the rand on a trade-weighted basis. As such, the twelve-month rate of increase in the unit value index for imported goods slowed markedly from around 21,0 per cent in the middle of 2014 to -6,8 per cent in March 2015.[6]

6 The year-on-year percentage change in the unit value index for imported commodities is calculated on a five-month moving average of the index, which could result in turning points occurring with a slight lag.

The moderation in headline consumer price inflation since mid-2014 resulted mainly from the significant slowdown in consumer *goods* price inflation from 7,5 per cent in May 2014 to a mere 1,9 per cent in February 2015. Non-durable goods price inflation in particular decelerated markedly to 0,9 per cent in February 2015, driven largely by a notable moderation in petrol price inflation and, to a lesser extent, a gradual moderation in consumer food price inflation. Semi-durable goods price inflation remained marginally above the 5 per cent level throughout the latter half of 2014 before slowing to 4,1 per cent in April 2015 as motor spare parts, and clothing and footwear price inflation slowed. Following a brief quickening in the closing months of 2014, durable goods price inflation slowed from 3,9 per cent in January 2015 to 2,8 per cent in April as price inflation of new vehicles and household appliances moderated. More recently, consumer goods price inflation accelerated somewhat to 3,2 per cent in April 2015 as the downward trajectory in non-durable goods price inflation was arrested by a reversal in the deflationary trend in petrol prices.

Consumer goods price inflation



Consumer services price inflation has oscillated around the upper limit of the inflation target range of 6,0 per cent for a protracted period and amounted to 5,9 per cent in February, March and April 2015. Accelerations in recent months in price inflation for housing and utility services, health services and education services were countered by moderations in price inflation for transport services, and restaurant and hotel services.

Against the backdrop of a prolonged decrease in international food prices, domestic food price inflation continued its moderating trend in the opening months of 2015. However, agricultural producer food price inflation, which initially led the slowdown in domestic food price inflation, started to accelerate gradually from -3,0 per cent in January 2015 to 5,1 per cent in April as price inflation for crops and horticultural products quickened on account of rising maize prices and unfavourable base effects. Domestic maize prices rose notably in the opening months of 2015 as successive crop estimates indicated a greatly reduced maize crop compared to that of 2014. Conversely, after remaining stubbornly elevated for a prolonged period, price inflation for live animals, milk and eggs slowed from 12,3 per cent in January 2015 to 8,4 per cent in April. Producer food price inflation at the manufactured level also slowed in the opening months of 2015, amounting to 5,0 per cent in April after having remained at around 8,5 per cent throughout 2014.

Consumer food price inflation moderated further in the opening months of 2015, decelerating for an eighth consecutive month from 9,5 per cent in August 2014 to 5,0 per cent in April 2015. The deceleration was led by slowing bread and cereals price inflation in a lagged response to falling crop prices in 2014, as well as moderating vegetable price inflation. On the contrary, consumer meat price inflation remained elevated in the opening months of 2015, but nevertheless moderated in April. Although the lower domestic maize crop has not yet affected consumer food price inflation in a significant way, it is expected to exert renewed upward pressure on food price inflation later in the year.

Food price inflation

Percentage change over twelve months

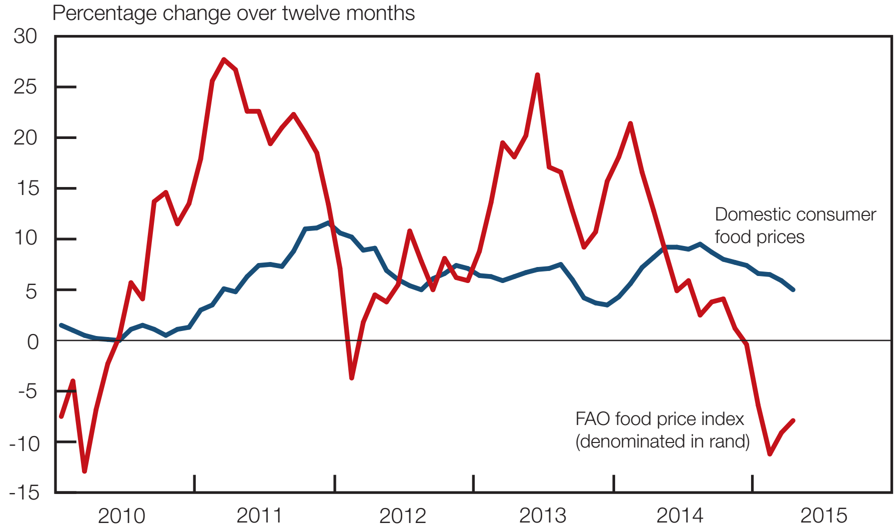
	Feb 2015	Mar 2015	Apr 2015
Agricultural producer food prices	-0,8	-1,9	5,1
Manufactured producer food prices	7,2	5,8	5,0
Consumer food prices	6,5	5,9	5,0
FAO international food prices (in rand terms)	-11,2	-9,9	-8,9

Sources: Statistics South Africa and United Nations Food and Agriculture Organization (FAO)

Global food prices continued to decline, with the international food price index of the United Nations Food and Agriculture Organization (FAO) (denominated in US dollar) decreasing by 19,1 per cent in the year to April 2015. The index has been falling steadily since April 2014 on account of large global supplies for most commodities included in the index. Driven by record production volumes and abundant global stocks, cereals prices in particular receded sharply. As such, in April 2015 the international cereals price index was 19,9 per cent below its level a year earlier. When expressed in rand terms, the year-on-year change in the FAO international food price index decelerated from 21,4 per cent in February 2014 to -8,9 per cent in April 2015.

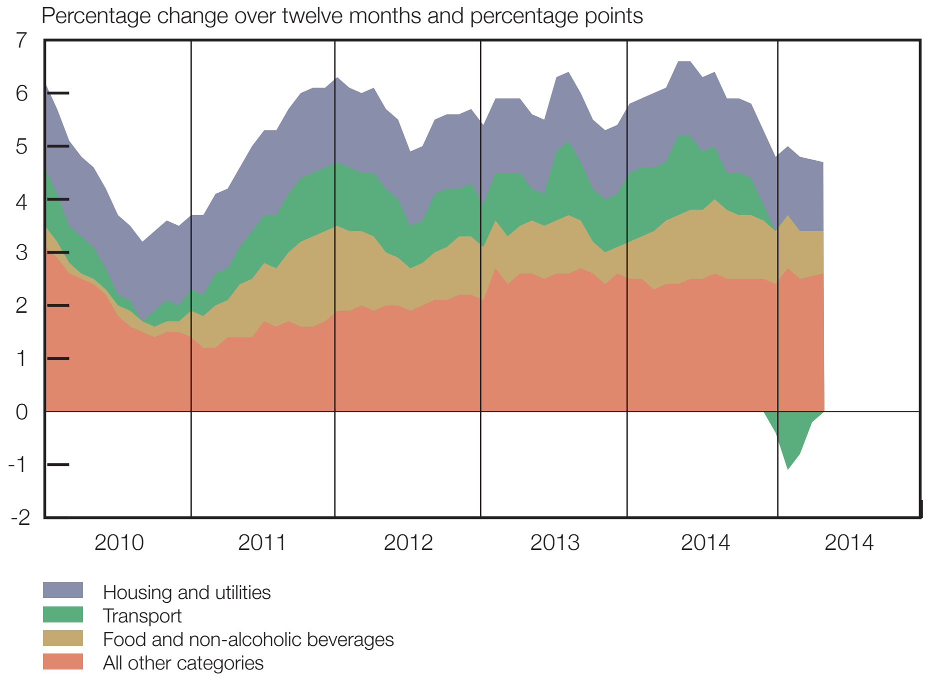
Food price inflation

Percentage change over twelve months



The recent slowdown in headline consumer price inflation was driven largely by the marked moderation in petrol price inflation and, to a lesser extent, food price inflation. The accompanying graph shows that the contribution of the transport category to headline consumer price inflation fell from a recent high of 1,5 percentage points in May 2014 to -1,1 percentage points in February 2015, before increasing somewhat to -0,2 percentage points in April. In addition, the contribution of food and non-alcoholic beverages decreased gradually from 1,4 percentage points in August 2014 to 0,8 percentage points in April 2015.

Contribution of selected categories to annual percentage change in consumer prices

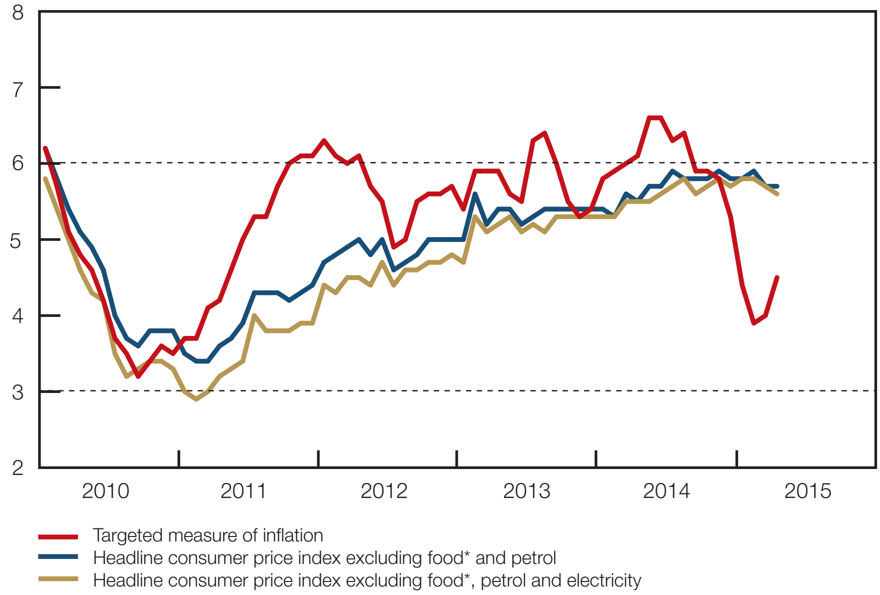


Underlying inflationary pressures appear to have stabilised just below the upper limit of the inflation target range since mid-2014. Subtracting the impact of the more volatile food, non-alcoholic beverages and petrol prices from targeted headline consumer price inflation, underlying price inflation quickened to 5,9 per cent in July 2014 and has remained broadly unchanged since, amounting to 5,7 per cent in April 2015. Similarly, when further excluding the impact of electricity prices from the calculation, the resultant underlying measure of inflation accelerated to 5,8 per cent in August 2014 and stabilised around that level in subsequent months, moderating marginally to 5,6 per cent in April 2015.

Administered price inflation slowed notably during the second half of 2014 and into 2015, reaching a recent low of -4,5 per cent in February 2015 as petrol price inflation decelerated markedly to -26,7 per cent in that month. However, petrol price inflation subsequently became less negative and amounted to -10,8 per cent in April 2015 on account of a 30,5 cents per litre increase in the fuel levy and a 50 cents per litre increase in the Road Accident Fund in that month, as well as rising international crude oil prices since February 2015. Consequently, administered price inflation quickened somewhat to 0,8 per cent in April 2015. Nevertheless, when excluding the effect of petrol prices from the calculation of administered prices, this rate of increase decelerated steadily from the middle of 2009 before stabilising around the 6,5 per cent level in the opening months of 2015.

Underlying measures of consumer price inflation

Percentage change over twelve months



* Food includes non-alcoholic beverages

Following a protracted period during which inflation expectations remained anchored around the upper limit of the inflation target range, average headline consumer price inflation expectations for 2015, as reflected in the *Inflation Expectations Survey* conducted by the BER, declined from 5,8 per cent to 5,4 per cent from the fourth quarter of 2014 to the first quarter of 2015. This decline resulted mainly from a 1 percentage point fall (from 5,4 per cent to 4,4 per cent) in analysts' inflation expectations. The expectations of business representatives and trade union representatives also declined, albeit by a relatively modest 0,2 percentage points, to 6,0 per cent and 5,7 per cent respectively. However, the moderation in consumer price inflation is expected to be only temporary as, on average, respondents expect inflation to accelerate to 5,9 per cent in 2016 and to maintain that rate in 2017.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2015

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2015..	4,4	6,0	5,7	5,4
2016..	5,6	6,2	5,9	5,9
2017..	5,3	6,3	6,1	5,9

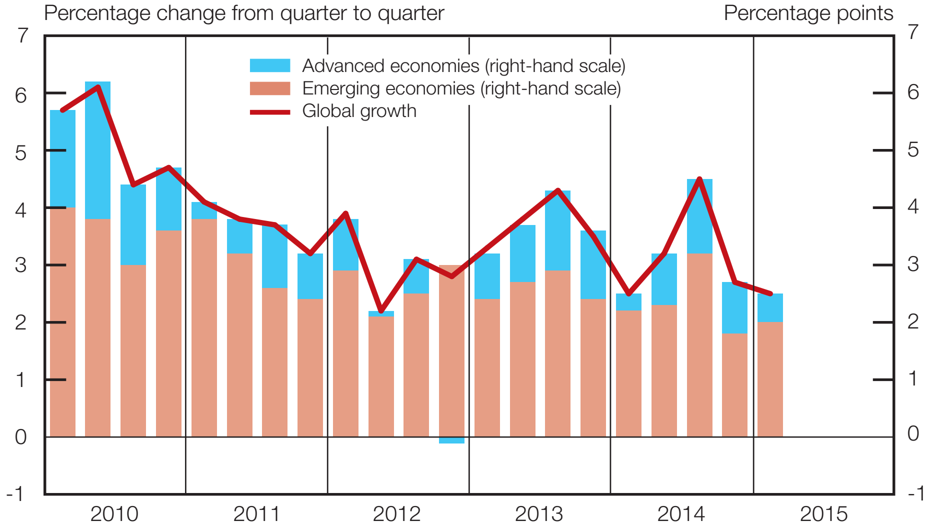
Source: Bureau for Economic Research, Stellenbosch University

Foreign trade and payments

International economic developments

Global economic growth decelerated further from an annualised rate of 2,7 per cent in the fourth quarter of 2014 to 2,5 per cent in the first quarter of 2015. The moderation in global growth was mainly due to disappointing economic performances in advanced economies such as Canada, the United Kingdom (UK) and the United States (US).

Global growth and contributions from advanced and emerging economies



Seasonally adjusted annualised rates

Sources: National statistical offices, JPMorgan and staff calculations

The International Monetary Fund (IMF) kept its global growth forecast for 2015 unchanged at 3,5 per cent in the April 2015 *World Economic Outlook*. The 2016 growth projection was, however, revised slightly upwards to 3,8 per cent. The growth outlook for the US in 2015 and 2016 was pared back by 0,5 and 0,2 percentage points respectively to 3,1 per cent for both years. On the contrary, growth projections for the euro area were increased by 0,3 and 0,2 percentage points to 1,5 per cent and 1,6 per cent for 2015 and 2016 respectively, while forecasts for Japan were increased by 0,4 percentage points for both years to 1,0 per cent and 1,2 per cent respectively. In emerging-market and developing economies, growth projections for sub-Saharan Africa, Latin America as well as the Middle East and North Africa were revised downwards for both years, while projections for emerging Asia were increased due to, among other factors, an improved growth outlook for India. Economic growth prospects for sub-Saharan Africa were lowered due to, inter alia, declining commodity prices, the Ebola epidemic in West Africa, as well as electricity supply constraints and the tighter fiscal stance in South Africa. Overall, the IMF projects moderate and uneven global growth, with higher growth in advanced economies expected to be offset by weaker growth in emerging-market and developing economies.

Real growth in selected advanced economies

Percentage change at seasonally adjusted annualised rates

	2013				2014					2015
Country/area	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
United States................	1,8	4,5	3,5	2,2	-2,1	4,6	5,0	2,2	2,4	-0,7
Japan...........................	2,9	2,0	-0,9	1,6	4,4	-6,8	-2,0	1,2	-0,1	3,9
Euro area......................	1,5	0,7	1,1	-0,4	0,9	0,4	0,7	1,4	0,8	1,5
United Kingdom	2,6	2,9	1,6	1,7	3,6	3,4	2,5	2,5	2,6	1,2
Canada	2,0	2,7	2,9	2,0	1,0	3,4	3,2	2,2	2,4	-0,6
Australia	2,9	1,5	3,3	2,0	4,0	2,2	1,3	1,9	2,7	3,8
New Zealand	1,8	4,5	2,1	2,5	4,0	2,8	3,8	3,3	3,0	n/a
Advanced economies...	**2,1**	**2,7**	**2,3**	**1,3**	**0,6**	**1,7**	**2,5**	**1,8**	**1,7**	**n/a**

Sources: Bloomberg, national statistical offices and staff calculations

Annualised economic growth in the US slowed significantly from 2,2 per cent in the fourth quarter of 2014 to -0,7 per cent in the first quarter of 2015, mainly due to cold weather conditions affecting consumption and investment, and lower net exports following the strong US dollar and relatively weak foreign demand.

The labour market in the US rebounded, following the weather-related setback in the first three months of the year. An average of 250 000 new jobs were created in April and May 2015 compared with 119 000 new jobs in March, reducing the unemployment rate to 5,5 per cent. The Federal Open Market Committee (FOMC) changed its forward guidance policy at the March 2015 meeting by dropping its promise to be 'patient' in raising interest rates. The FOMC acknowledged at the April 2015 meeting that economic growth in the US had slowed in the winter months and reiterated that changes in its monetary policy stance would remain data dependent.

Real growth in selected emerging-market economies

Percentage change at seasonally adjusted annualised rates

	2013				2014					2015
Country/area	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Russia	2,7	1,9	3,5	1,3	-0,2	0,7	0,6	-0,5	0,6	-8,7
Turkey	6,7	1,9	3,2	4,2	5,3	-0,2	1,7	3,1	2,9	5,3
Poland........................	3,2	3,6	2,8	1,7	4,5	2,4	3,6	3,2	3,4	4,1
Emerging Europe........	**3,9**	**2,4**	**3,4**	**2,1**	**1,9**	**0,7**	**1,8**	**1,3**	**1,8**	**-2,1**
China..........................	7,0	9,0	7,1	7,7	6,5	7,5	8,0	7,2	7,4	5,3
India	7,7	7,3	4,7	6,9	7,2	7,0	14,0	-2,6	7,2	10,9
Indonesia....................	5,7	5,1	5,5	5,6	4,4	5,0	4,9	5,7	5,0	3,3
Emerging Asia	**6,7**	**7,9**	**6,1**	**7,0**	**6,1**	**7,0**	**8,8**	**4,7**	**6,9**	**6,3**
Brazil	4,8	0,4	0,1	2,8	2,9	-5,5	0,6	1,1	0,2	-0,6
Mexico	-4,1	4,6	1,2	1,4	2,0	3,7	2,1	2,7	2,1	1,6
Argentina....................	3,0	2,6	-1,0	2,9	-2,6	2,2	0,5	0,1	0,5	n/a
Latin America	**3,0**	**2,3**	**1,2**	**2,8**	**0,4**	**-0,4**	**1,9**	**1,5**	**1,0**	**n/a**
Emerging economies..	**5,5**	**5,9**	**4,8**	**5,4**	**4,3**	**4,6**	**6,4**	**3,6**	**5,0**	**n/a**

Sources: Bloomberg, JPMorgan, national statistical offices and staff calculations

Economic activity in the euro area expanded at a somewhat faster pace in the first quarter of 2015, with real gross domestic product increasing at an annualised rate of 1,5 per cent. The region's improved economic performance was underpinned by accelerated growth in France, the Netherlands and Spain. After recording moderate rates of deflation for four consecutive months and a zero rate in April, year-on-year consumer price inflation in the euro area came to 0,3 per cent in May 2015. The European Central Bank (ECB) launched its expanded asset purchase programme in March 2015 with the purchases of euro-denominated public-sector securities in the secondary market, in addition to buying private-sector asset-backed securities and covered bonds. The combined monthly purchases amount to €60 billion and will continue at least up to September 2016.

In Japan real output growth accelerated sharply, registering an annualised rate of 3,9 per cent in the first quarter of 2015. The rapid growth was driven by a build-up of inventories and a pickup in business investment. Headline inflation decelerated in April 2015 to 0,6 per cent as the impact of the sales tax increase dropped out of the base. The Bank of Japan continued with its quantitative and qualitative easing programme, having expanded it significantly in October 2014.

Real output in the UK increased at a rate of 1,2 per cent in the first quarter of 2015. Headline inflation in April 2015 fell by 0,1 per cent, while core inflation decelerated to 0,6 per cent. The Bank of England left its policy rate unchanged at a record low 0,5 per cent.

Economic growth in emerging Asia accelerated to 6,3 per cent in the first quarter of 2015, partly due to rapid growth in India. The inflation rate in India edged higher to 5,0 per cent in April 2015. A favourable inflation outlook led to a cumulative 75 basis points reduction in India's policy rate to 7,25 per cent. First-quarter growth in China came to 5,3 per cent – the lowest since the fourth quarter of 2008. After decelerating to 0,8 per cent in January 2015, inflation in China accelerated to 1,5 per cent – in April, before moderating to 1,2 per cent in May. The People's Bank of China (PBOC) provided stimulus to the economy by lowering its reserve requirement ratio for banks for the second time in three months in April 2015, and lowered its interest rate for the third time in six months to 5,1 per cent in May.

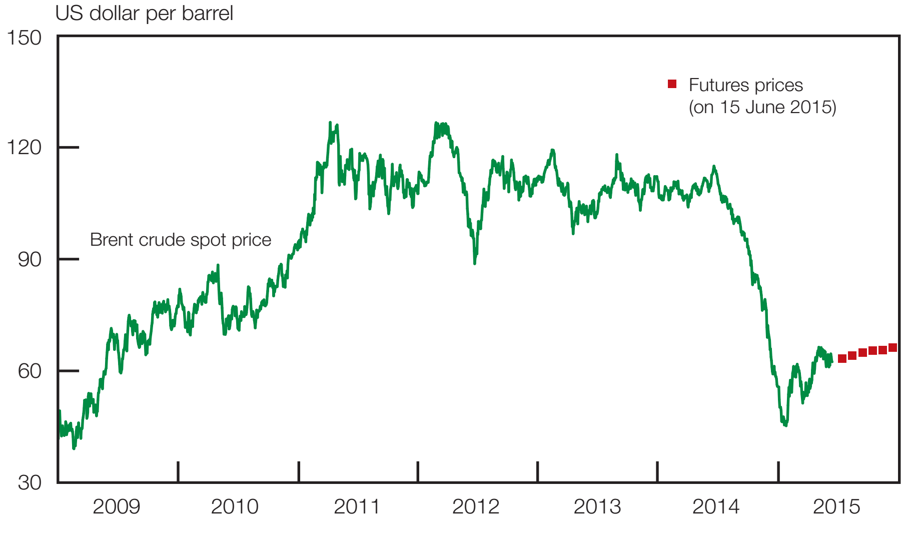
Real output in emerging Europe declined in the first quarter of 2015. Economic activity in Russia contracted substantially in the first quarter of 2015 due to the adverse effect of sanctions, net private-sector capital outflows and low oil prices. Inflation in Russia accelerated to 16,9 per cent in March 2015 – the highest rate since March 2002 – before moderating to 15,8 per cent in May. The central bank of Russia raised its benchmark policy rate by a cumulative 750 basis points between October and December 2014 to 17,0 per cent, before reducing it by 200 basis points in January 2015, 100 basis points in March and 150 basis points in April. The Turkish central bank faces the dilemma of having to support economic growth while battling with high inflation and a weakening lira. The Hungarian central bank lowered its interest rate in three consecutive months by a cumulative 45 basis points to 1,65 per cent in May 2015 after recording deflation for eight consecutive months. Consumer price inflation unexpectedly accelerated to 0,5 per cent in May, well below the central bank's medium-term inflation target of 3 per cent.

Preliminary estimates suggest that real output in Latin America also declined in the first quarter of 2015, mainly due to a contraction of economic activity in Brazil and Venezuela. High inflation in Brazil, however, led to a further 50 basis point increase in the central bank's policy rate in June 2015 to 13,75 per cent. This was the sixth consecutive increase, with the Selic rate (the central bank of Brazil's overnight rate) having been raised by a cumulative 275 basis points since September 2014. However, the central bank of Chile kept its policy rate unchanged at 3 per cent in May 2015 as inflation registered its lowest level since March 2014, although remaining above the 3 per cent target at 4,0 per cent.

According to the CPB Netherlands Bureau for Economic Policy Analysis, the volume of world trade (calculated as the three-month average of world exports relative to that of the preceding three months) declined by 5,3 per cent in March 2015. The contraction reflected weak exports in both advanced and emerging economies, with export volumes contracting by 3,9 per cent and 6,6 per cent respectively. US export volumes contracted by 17 per cent, while emerging Asia exports fell by 16,4 per cent in March.

After plummeting to US$45 per barrel in January 2015, Brent crude oil prices rebounded to a four-month high of US$66 per barrel in early May. The increase was mostly driven by a continued decline in the number of rigs deployed in shale formations and the geopolitical turmoil in the Middle East. Global oil supply decreased for the first time in two years to 94,5 million barrels per day in the first quarter of 2015, despite oil production in Saudi Arabia reaching a record high of 10,3 million barrels per day in March. Crude oil prices trended downwards during May, reaching levels of around US$62 per barrel in mid-June, mainly due to US dollar strength and the decision by the Organization of the Petroleum Exporting Countries (OPEC) to leave oil production levels unchanged. Brent crude oil futures contracts for delivery in the fourth quarter of 2015 traded around US$66 per barrel in early June 2015.

International crude oil prices



Source: Bloomberg

Current account[7]

Weaker global output growth alongside a moderation in domestic economic activity in the first quarter of 2015 slowed growth in the volume of merchandise exports from South Africa. This was reinforced by a further decline in export prices, resulting in lower export earnings over the period. By contrast, an expansion in gross domestic expenditure contributed to an increase in the value of merchandise imports, more especially of capital and consumption goods. As a result, South Africa's annualised trade deficit widened again from R35 billion in the fourth quarter of 2014 to R71 billion in the first quarter of 2015. Over the same period, the shortfall on the services, income and current transfer account with the rest of the world narrowed substantially, more than neutralising the deterioration in the trade balance.

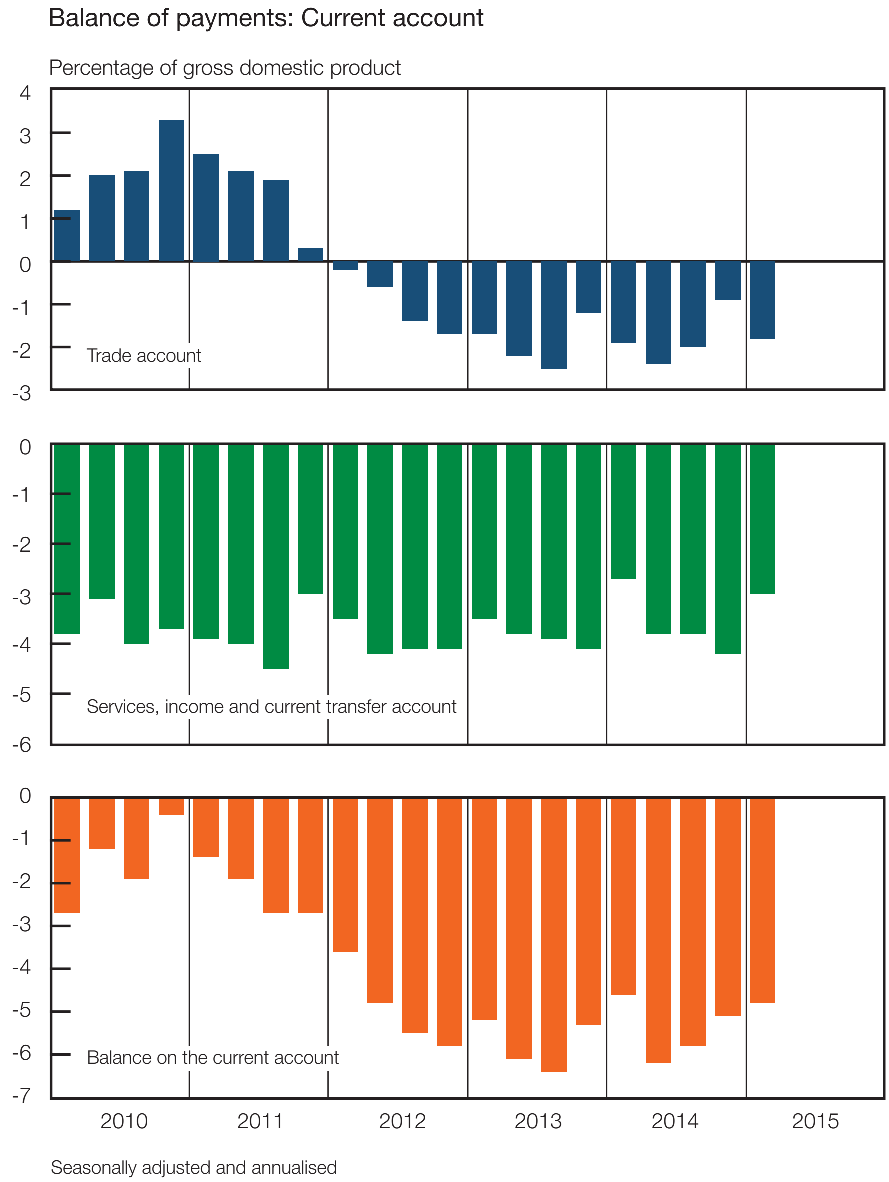
7 Unless stated to the contrary, the current-account transactions referred to in this section are all seasonally adjusted and annualised.

Balance of payments on current account

R billions, seasonally adjusted and annualised

	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	966	909	931	959	941	937
Net gold exports	62	64	63	62	63	59
Merchandise imports	-1 099	-1 064	-1 071	-1 056	-1 072	-1 067
Trade balance	-72	-90	-77	-35	-69	-71
Net service, income and current transfer payments	-101	-142	-145	-163	-138	-117
Balance on current account	-173	-232	-223	-198	-207	-189
As percentage of gross domestic product	*-4,6*	*-6,2*	*-5,8*	*-5,1*	*-5,4*	*-4,8*

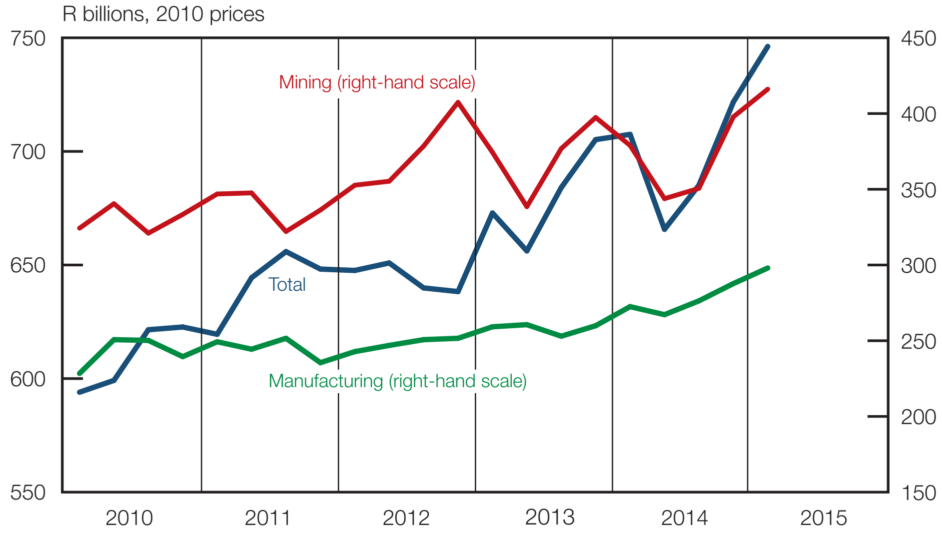
The deficit on the current account of the balance of payments consequently narrowed from R198 billion in the fourth quarter of 2014 to R189 billion in the first quarter of 2015; relative to the country's gross domestic product, the deficit on the current account shrank from 5,1 per cent to 4,8 per cent over the period.



The firm growth in the volume of merchandise exports in the second half of 2014 moderated in the first quarter of 2015 due to slower growth in the volume of both mining and manufacturing exports. Growth in mining export volumes was adversely affected by a decline in the physical quantity of especially platinum group metals and coal exports. The volume of coal exports dropped notably due to weaker global demand and less favourable international prices.

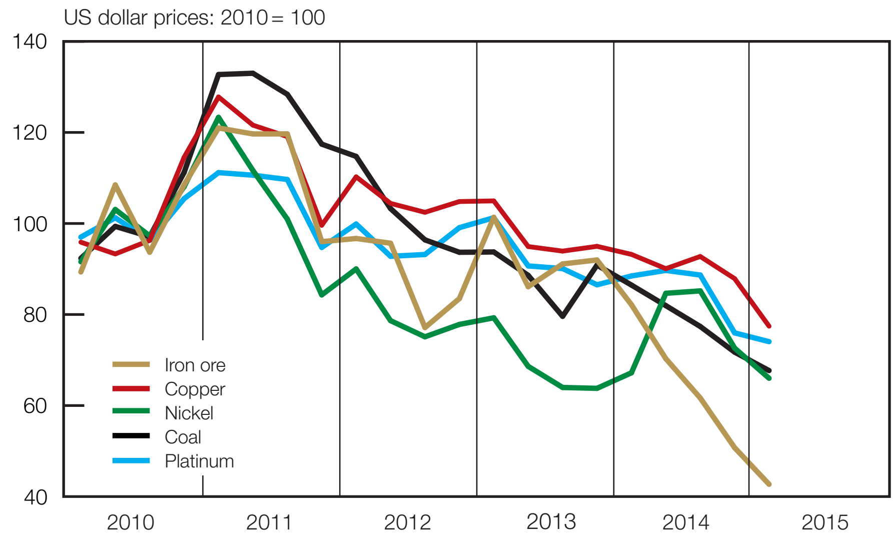
The physical quantity of South African-produced manufactured exports advanced further in the first quarter of 2015, albeit at a slower pace, as a surge in the export volume of vehicles and transport equipment was partly countered by a decline in the volume of chemical products exported. In addition, the volume of agricultural exports picked up over the period. On balance, the volume of merchandise exports advanced by 3,4 per cent in the first quarter of 2015.

Real merchandise exports



The average US dollar price of a basket of South African-produced non-gold export commodities declined by 9,1 per cent in the first quarter of 2015 as demand continued to dwindle. Noticeable declines were registered, inter alia, in the prices of iron ore, coal, nickel, copper and platinum. The lower external value of the rand against the US dollar partly propped up the rand price of merchandise exports; the price of exported goods subsequently declined by 5,6 per cent in the first quarter of 2015 following a decrease of 2,2 per cent in the fourth quarter of 2014. The combination of a notably lower rand price and a moderate increase in the physical quantity of merchandise exports resulted in a 2,3 per cent decline in merchandise export proceeds in the first quarter of 2015.

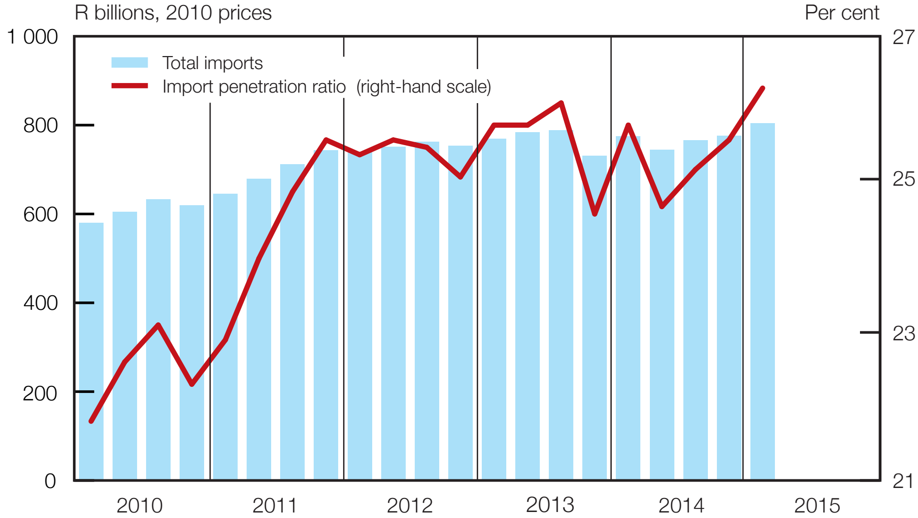
International prices of selected South African export commodities



The value of South Africa's gold exports decreased from R62 billion in the fourth quarter of 2014 to R59 billion in the first quarter of 2015. A decrease of 10,3 per cent in the physical quantity of gold exported was partly neutralised by an increase of 6,1 per cent in the average realised rand price of the precious metal. In dollar terms, the London fixing price of gold rose marginally from US$1 200 per fine ounce in the fourth quarter of 2014 to US$1 220 per fine ounce in the first quarter of 2015.

The volume of merchandise imports advanced by 3,6 per cent in the first quarter of 2015, having increased moderately in the preceding two quarters. The increase in import volumes in the opening three months of 2015 primarily reflected higher imports of mining and manufactured goods. Manufactured imports were boosted by increased domestic demand for vehicles and transport equipment, more especially train locomotives and motor parts and accessories used in assembling vehicles destined for both the local and export markets. The National Association of Automobile Manufacturers of South Africa (NAAMSA) expects the volume of vehicle exports to increase by about 25 per cent in 2015 as a whole.

Real merchandise imports



Even though the volume of crude oil imports surged by 21 per cent in the first quarter of 2015, it still fell short of reaching the high levels recorded in the first half of 2014. The volume of diesel imports decreased marginally in the first quarter of 2015, having increased substantially in the second half of 2014. Simultaneously, South Africa's import penetration ratio (real merchandise imports relative to real gross domestic expenditure) advanced from 25,6 per cent in the fourth quarter of 2014 to 26,3 per cent in the first quarter of 2015, as shown in the graph above.

The decline in the international price of crude oil in the first quarter of 2015, together with subdued inflation in most of South Africa's trading-partner countries, resulted in a decrease of 2,5 per cent in the rand price of imported goods. Consequently, the value of merchandise imports increased by 1,0 per cent over the period.

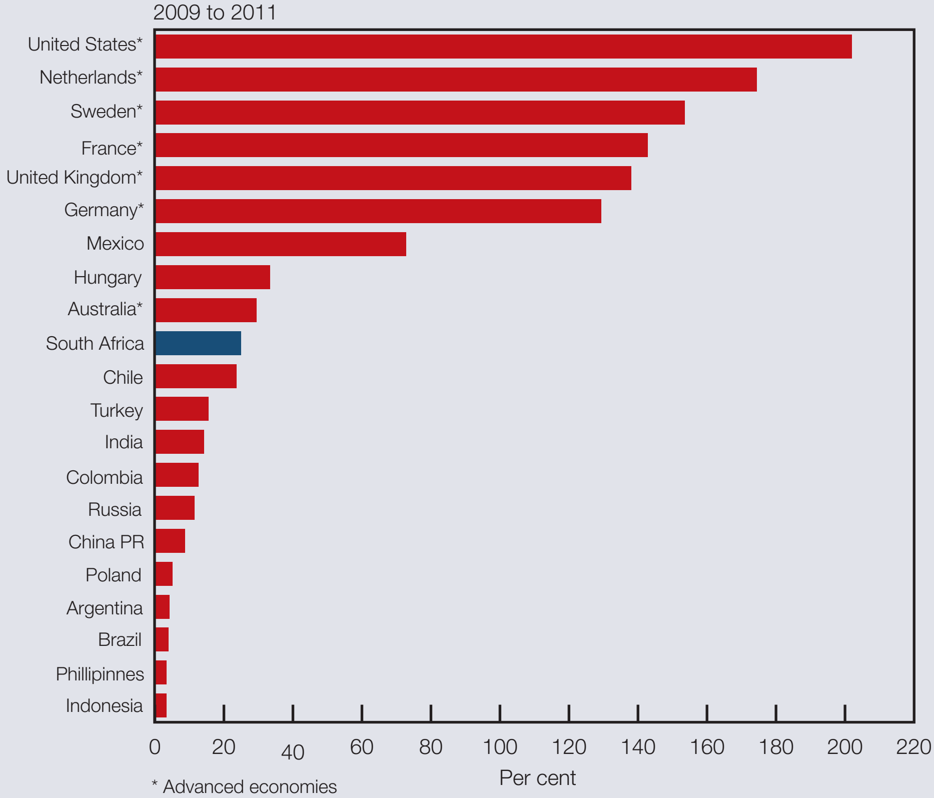
While South Africa's terms of trade (including gold) improved marginally in the second half of 2014, the substantially larger decrease in the rand price of merchandise exports relative to import prices caused the country's terms of trade to deteriorate by 2 per cent from the fourth quarter of 2014 to the first quarter of 2015.

The shortfall on the services, income and current transfer account of the balance of payments narrowed significantly from R163 billion in the fourth quarter of 2014 to R117 billion in the first quarter of 2015. Relative to the country's gross domestic product, the overall deficit shrank from 4,2 per cent to 3,0 per cent over the period. These developments largely reflected changes in the income account as a surge in gross dividend receipts, originating largely from direct investor relationships, coincided with a decrease in gross dividend payments to foreign investors in the first quarter of 2015.

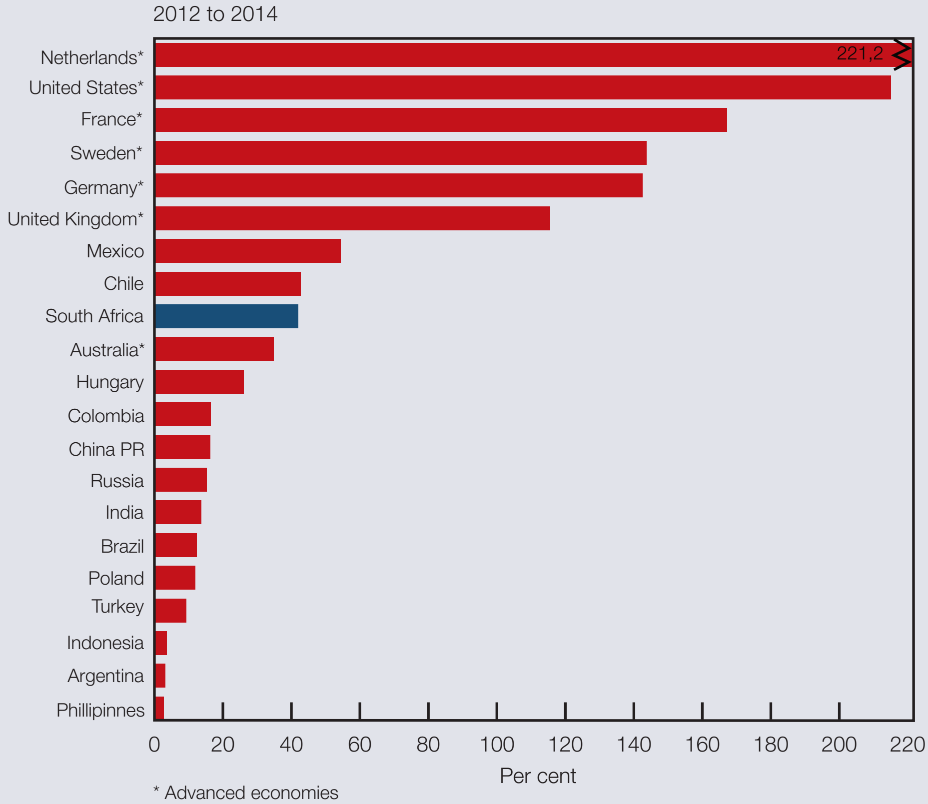
Box 3 Recent developments in dividend receipts

Gross dividend receipts from abroad increased markedly in the period 2012 to 2014, partially offsetting the negative impact of relatively large gross dividend payments on the balance on the current account. The annual growth in gross dividend receipts, however, moderated from more than 50 per cent in 2012 and 2013 to a still elevated 35 per cent in 2014.

Average dividend receipts as a percentage of dividend payments for selected countries



* Advanced economies



* Advanced economies

The average ratio of dividends received relative to dividends paid by South Africa almost doubled to just more than 40 per cent during the period 2012 to 2014 when compared to the preceding three-year period from 2009 to 2011.

Furthermore, the ratio for South Africa exceeded the average ratio for developing countries of 19 per cent and 17 per cent respectively over the two periods. Notwithstanding the more favourable ratio, South Africa's relative ranking effectively remained unchanged as the ratio for approximately all the selected advanced economies had risen, emphasising that the general trend to repatriate more dividends was not a phenomenon that was applicable to South Africa only.

Net payments for services reverted to a deficit in the first quarter of 2015 after recording a small surplus in the fourth quarter of 2014. This reversal was mainly driven by an increase in gross payments in the category 'other services', which includes payments for professional and technical services. Net current transfer payments to the rest of the world decreased slightly over the period.

Financial account

Weaker economic data in the US alongside a gradual pickup in international oil prices in the opening months of 2015 probably delayed the tightening of monetary policy in the US, thereby boosting international investors' sentiment towards investment in emerging-market economies. In addition, continued asset purchases by governments in Europe and Japan increased liquidity in financial markets, further facilitating capital flows towards emerging-market assets.

Domestically, persistent electricity supply disruptions and the downgrading of Eskom's long-term foreign currency-denominated bonds to below investment grade status by Standard & Poor's dampened investment sentiment in the country. South Africa was furthermore omitted from the list of the top 25 countries preferred for direct investment in 2015, according to a report compiled by the global strategy management and consulting firm, AT Kearny. In 2014 the country was ranked the thirteenth most attractive destination for direct investment. Non-resident investors nevertheless continued to accumulate South African-issued equity and debt securities in the first quarter of 2015.

After having recorded net capital inflows to the value of R23,3 billion in the fourth quarter of 2014, the financial account of the balance of payments (including reserve assets but excluding unrecorded transactions) recorded a net inward movement of capital of R33,1 billion in the first quarter of 2015.

Net financial transactions

R billions

	2014					2015
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	7,2	27,4	10,2	17,2	62,0	-22,2
Portfolio investment	12,3	27,4	50,8	-16,8	73,7	39,3
Financial derivatives	-48,0	-43,7	-39,6	-63,6	-194,8	-72,6
Other investment	38,0	5,1	49,7	53,8	146,6	32,9
Change in assets						
Direct investment	-7,7	-14,4	-43,8	-9,4	-75,3	-5,4
Portfolio investment	-8,9	-11,2	-3,2	-0,9	-24,2	-5,3
Financial derivatives	54,2	48,4	40,3	68,4	211,3	73,3
Other investment	-29,4	2,9	17,2	-17,4	-26,8	-19,1
Reserve assets	4,7	10,0	-23,4	-7,9	-16,6	12,3
Total identified financial transactions*	**22,4**	**51,8**	**58,3**	**23,3**	**155,8**	**33,1**
Financial transactions as ratio of gross domestic product	*2,4*	*5,5*	*6,1*	*2,4*	*4,1*	*3,4*

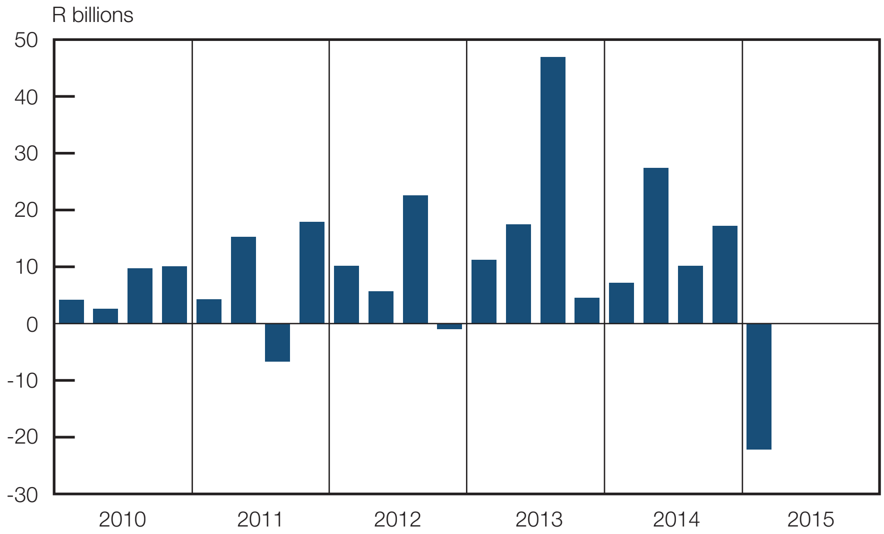
* Including reserve assets but excluding unrecorded transactions

Net inward investment into South Africa was driven by portfolio and other investment; by contrast, foreign direct investment recorded an outflow of capital on a net basis. As a ratio of gross domestic product, the capital inflow on the financial account amounted to 3,4 per cent in the first quarter of 2015 compared with a ratio of 2,4 per cent recorded in the previous quarter and an average of 2,3 per cent registered over the past twenty years.

Foreign-owned assets in South Africa

Foreign direct investment into South Africa registered a sizeable outflow of R22,2 billion in the first quarter of 2015 following capital inflows in the preceding eight quarters. The bulk of the outflow in the first quarter could be attributed to foreign parent companies disposing of their shareholding in domestic subsidiaries in the pharmaceutical and retail sectors.

Inward foreign direct investment flows



Inward portfolio investment into South African-issued portfolio assets switched from an outflow in the final quarter of 2014 to an inflow of capital in the first quarter of 2015. In the first quarter of 2015 non-resident investors acquired South African equity and debt securities to the amount of R39,3 billion after having disposed domestic securities to the value of R16,8 billion in the fourth quarter of 2014. The increase in non-resident holdings of debt securities was supported by the issue of an international bond by a parastatal to the value of US$1,25 billion. Many of the risks associated with a potential raising of interest rates in the US abated in the first quarter of 2015, increasing the appetite for emerging-market debt securities.

Other investment flows into South Africa amounted to R32,9 billion in the first quarter of 2015 following an inflow of R53,8 billion recorded in the fourth quarter of 2014. The private sector as well as the domestic banking sector incurred more foreign liabilities over the period.

South African-owned assets abroad

Outward direct investment or the acquisition of foreign direct investment assets by South African companies gave rise to a capital outflow of R5,4 billion in the first quarter of 2015 relative to an outflow of R9,4 billion in the fourth quarter of 2014. The private sector, in particular, expanded its operations abroad over the period in areas such as retailing.

The acquisition of foreign portfolio assets by South African entities gave rise to an outflow of capital to the value of R5,3 billion in the first quarter of 2015, notably more than the capital outflow of R0,9 billion registered in the final quarter of 2014. The private sector acquired foreign portfolio assets, while the banking sector disposed of foreign portfolio assets.

Other outward investment flows from South Africa increased from R17,4 billion in the fourth quarter of 2014 to R19,1 billion in the first quarter of 2015. The outflow of capital was buoyed by the domestic banking sector extending short-term credit to foreign entities.

Foreign debt

South Africa's gross external debt rose from US$142,3 billion at the end of September 2014 to US$145,1 billion at the end of December. Foreign currency-denominated debt advanced by US$2,8 billion over the period, whereas rand-denominated debt remained broadly unchanged. Expressed in rand terms, South Africa's external debt increased from R1,60 trillion at the end of September 2014 to R1,68 trillion at the end of December; this had previously amounted to R1,43 trillion at the end of December 2013.

Foreign debt of South Africa

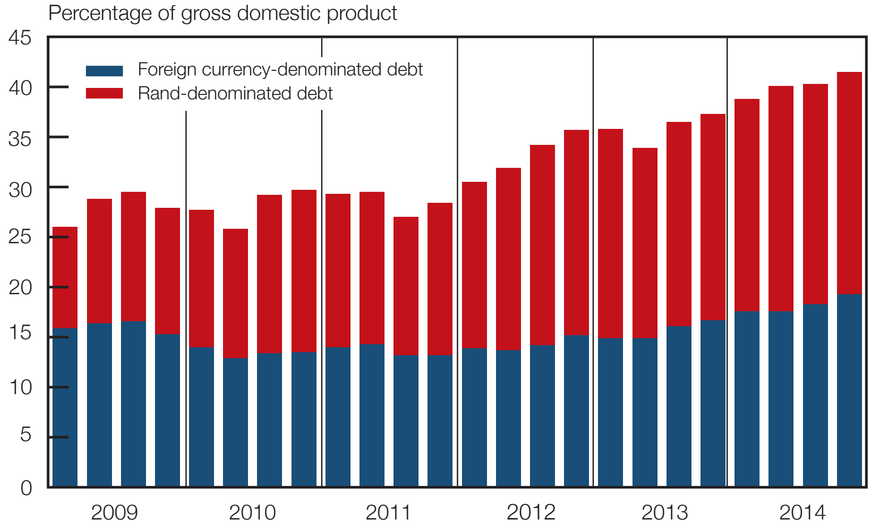
US$ billions at end of period

	2013		2014			
	3rd qr	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt	60,0	61,2	62,9	62,2	64,7	67,5
Debt securities	21,6	21,8	22,0	20,1	21,9	22,7
Other	38,4	39,4	40,9	42,2	42,8	44,8
Public sector	9,6	9,1	9,1	9,1	8,8	8,2
Deposit-taking institutions	10,4	12,1	13,5	13,9	14,5	18,4
Non-monetary private sector	18,4	18,3	18,3	19,1	19,5	18,2
Rand-denominated debt	76,1	75,3	75,6	79,6	77,6	77,6
Debt securities	42,3	41,1	40,1	44,1	41,6	41,2
Other	33,8	34,2	35,5	35,5	36,0	36,4
Total foreign debt	136,1	136,5	138,5	141,8	142,3	145,1
As percentage of gross domestic product	*36,5*	*37,3*	*38,9*	*40,2*	*40,3*	*41,4*
As percentage of total export earnings	*112,9*	*113,6*	*116,2*	*120,3*	*121,2*	*124,0*

The increase in foreign currency-denominated debt in the fourth quarter of 2014 was largely due to loans and advances drawn upon by the domestic banking sector. South Africa's short-term foreign currency-denominated debt (i.e. debt with an original maturity of less than one year and other longer-term foreign currency-denominated debt maturing within the next twelve months) increased from 43,6 per cent of total foreign currency-denominated debt at the end of September 2014 to 46,7 per cent at the end of December 2014.

The increase in the country's external debt position resulted in a higher ratio of total external debt to annualised gross domestic product; the ratio rose from 40,3 per cent at the end of September 2014 to 41,4 per cent at the end of December. At the end of December 2013, this ratio came to 37,3 per cent. Relative to the country's annualised export proceeds, external debt rose from 121,2 per cent to 124,0 per cent over the quarter under review, having amounted to 113,6 per cent at the end of December 2013. The share of rand-denominated debt in the country's total external debt decreased marginally from 55,2 per cent at the end of December 2013 to 53,5 per cent as measured at the end of December 2014.

External debt

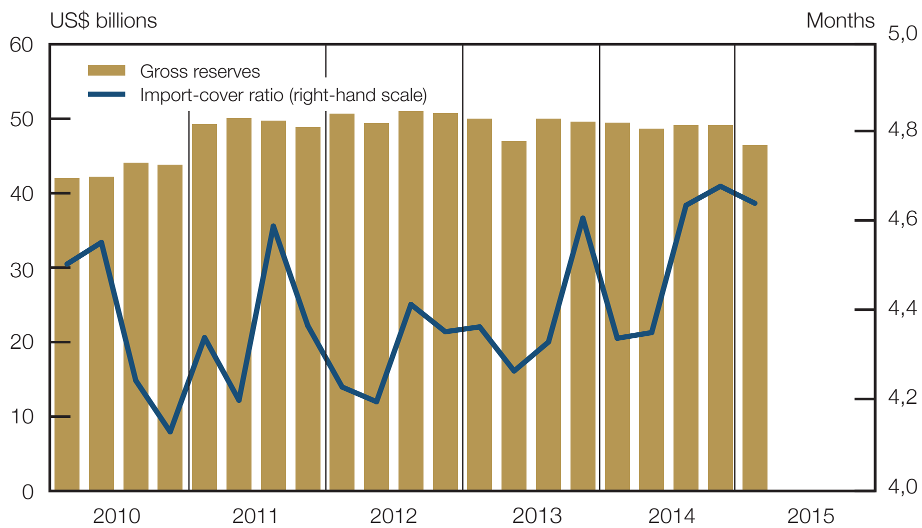


International reserves and liquidity

Following an increase of R7,9 billion in the fourth quarter of 2014, South Africa's international reserves declined by R12,3 billion in the first quarter of 2015.

Measured in US dollars, the value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the Bank before accounting for reserve-related liabilities) decreased from US$49,1 billion at the end of December 2014 to US$46,4 billion at the end of March 2015 as a lower gold price and stronger US dollar impacted on the value of reserves. The country's gross reserves remained broadly unchanged at the end of May. South Africa's international liquidity position retreated from US$42,7 billion at the end of December 2014 to US$41,3 billion at the end of March 2015, before increasing to US$41,5 billion at the end of May.

Gross international reserves

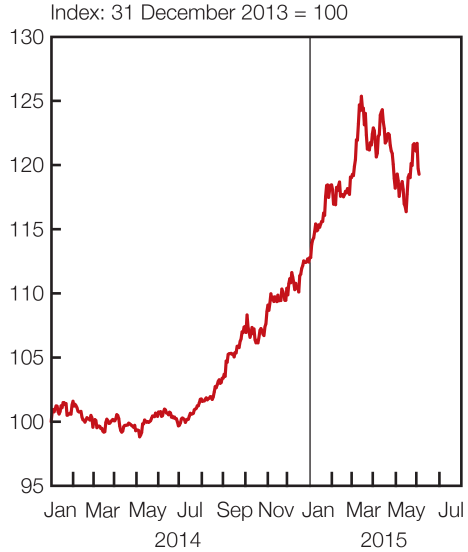


The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports, and services and income payments) declined marginally from 4,7 months at the end of December 2014 to 4,6 months at the end of March 2015.

Exchange rates

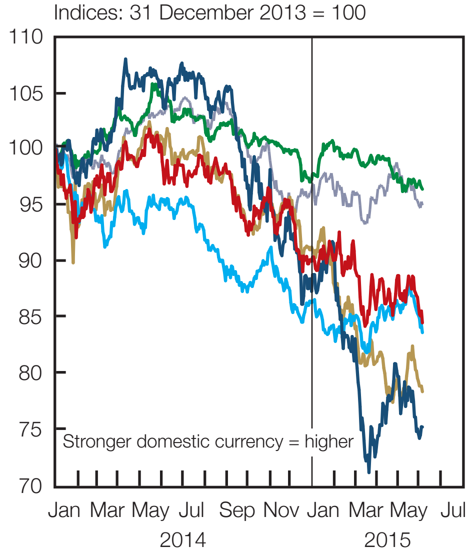
The US dollar strengthened further in the opening months of 2015, supported by expectations of an interest rate increase by the US Federal Reserve around the middle of the year. Even though this view mainly affected emerging-market currencies, the currencies of some advanced economies also registered losses against the US dollar. Weaker US economic data towards the end of the first quarter of 2015, however, confirmed the notion that expectations of a rate increase might have been premature.

External value of the US dollar*



* US dollar against a basket of major currencies
Source: Reuters

Selected exchange rates: US dollar per domestic currency unit



As a result, the nominal effective exchange rate of the rand declined, on balance, by 0,2 per cent in the first quarter of 2015, following an appreciation of 0,3 per cent in the fourth quarter of 2014. While the South African rand started the first quarter of 2015 on a positive note, supported by monetary stimulus from major central banks, the local unit lost momentum amid subdued economic activity, weak confidence and ongoing electricity supply constraints. During March 2015, the exchange rate of the rand declined, on balance, by 3,8 per cent on a trade-weighted basis, weighed down by a spate of poor local economic data releases and the downgrading of Eskom by Standard & Poor's. In April 2015 the US dollar struggled against most currencies on a dovish Federal Open Market Committee statement, and renewed concerns about the US economic growth outlook following soft US economic data. Simultaneously, the rand increased, on balance, by 1,2 per cent in April 2015. The trade-weighted rand declined by 1,5 per cent in May 2015 before declining sharply in early June 2015 following a better-than-expected US labour market report.

Exchange rates of the rand

Percentage change

	30 Jun 2014 to 30 Sep 2014	30 Sep 2014 to 31 Dec 2014	31 Dec 2014 to 31 Mar 2015	31 Mar 2015 to 11 Jun 2015
Weighted average*	-2,0	0,3	-0,2	-3,2
Euro	1,7	1,3	7,3	-6,1
US dollar	-5,6	-2,9	-5,2	-1,7
Chinese yuan	-6,5	-1,8	-5,2	-1,6
British pound	-1,2	1,5	-0,2	-5,9
Japanese yen	1,9	6,2	-4,8	1,0

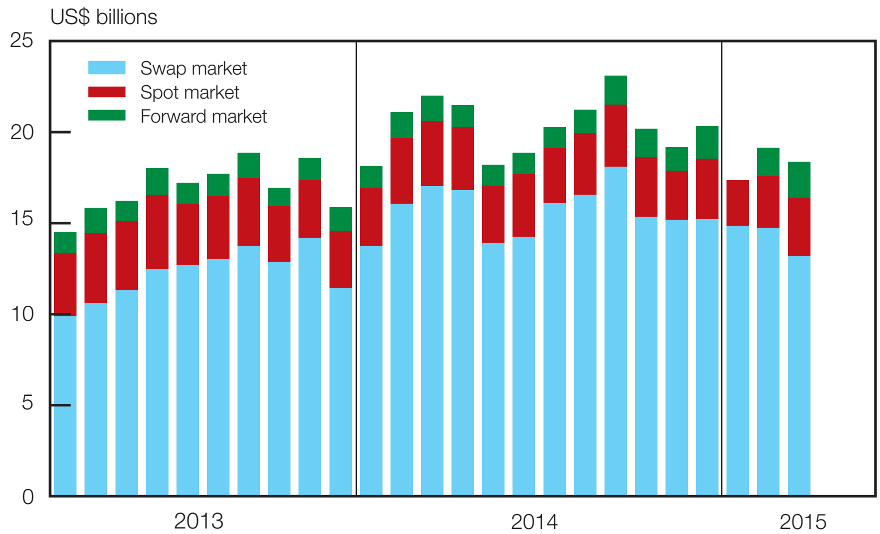
* Against a basket of 20 currencies

From December 2014 to March 2015, the real effective exchange rate of the rand increased by 1,2 per cent, reflecting a slight reduction in the competitiveness of domestic producers in foreign markets.

Turnover in the South African foreign-exchange market

The net average turnover in the rand foreign-exchange market receded by 5,8 per cent from US$19,9 billion in the fourth quarter of 2014 to US$18,7 billion in the first quarter of 2015. Transactions in the spot and swap market decreased by 7,8 per cent and 6,5 per cent respectively, while transactions in the forward market increased by 4,8 per cent. As has traditionally been the case, swap transactions continued to dominate activity in this market.

Net average daily turnover against the rand

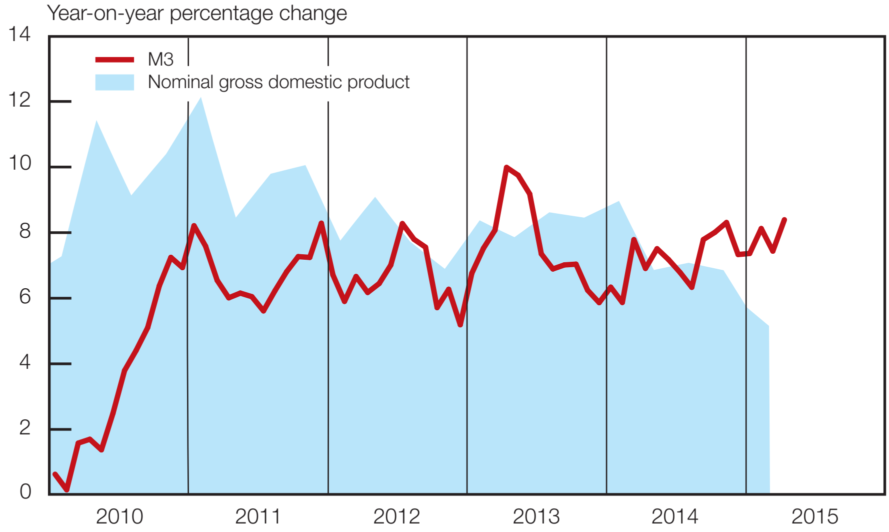


Monetary developments, interest rates and financial markets

Money supply

Growth in the broadly defined money supply (M3) remained fairly subdued in 2014 and the first four months of 2015, consistent with the generally slow pace of economic activity over this period. Twelve-month growth in M3 has remained within a narrow range of between 5,9 and 8,4 per cent over the past year and a half.

Growth in M3 and in gross domestic product



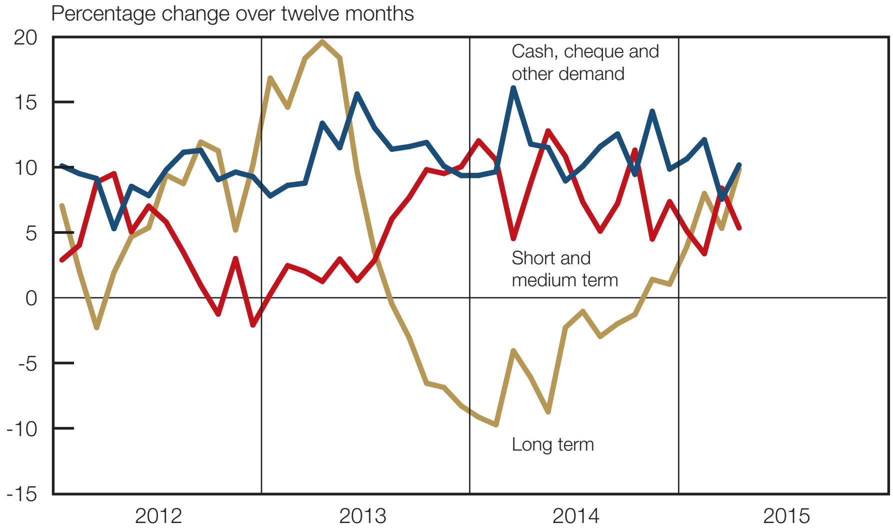
Growth in M3 has generally fallen below that of nominal gross domestic product over the past four years. However, this trend reversed in the second half of 2014 when year-on-year growth in money supply gained some momentum and exceeded that of nominal value added. The year-on-year growth in M3 averaged 7,9 per cent in the fourth quarter of 2014 and 7,6 per cent in the first quarter of 2015, surpassing the growth of around 5,2 per cent in gross domestic product over the same period.

Growth in household-sector deposits displayed somewhat more resilience throughout 2014 and early 2015, probably aided by relatively stable increases in nominal disposable income, whereas overall corporate-sector deposits registered a notably slower rate of expansion.

Deposits of non-financial corporates maintained a positive growth trend in 2014 and into the first quarter of 2015, mainly on account of retailers, commercial property, and technology and mobile communication companies recording rising deposits with banks. By contrast, the growth in deposits of financial corporates slowed.

When analysed by maturity, a notable feature of the past year is the behaviour of the long-term deposit component of M3. Long-term deposits broke the negative growth trend recorded since August 2013 with its twelve-month rate of change turning positive from November 2014, following the increases in the repurchase rate. Growth in long-term deposits continued to accelerate in 2015, reaching 9,8 per cent in April.

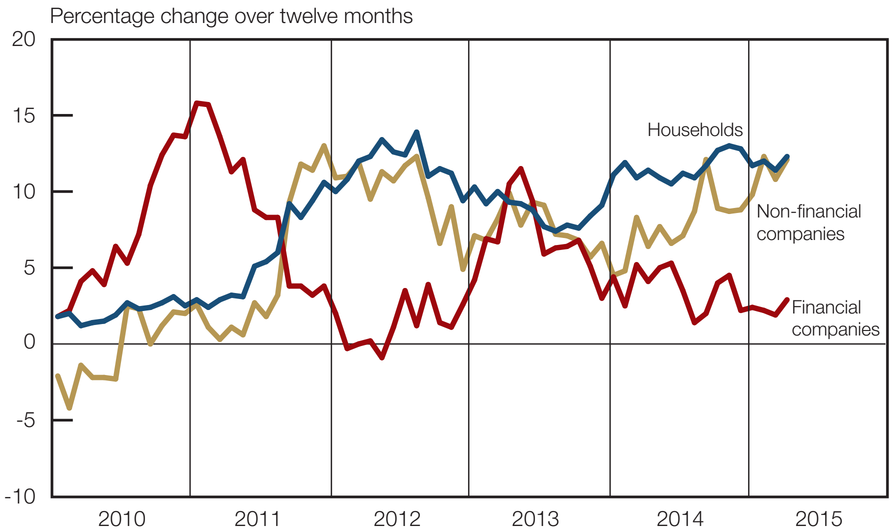
Growth in deposits by maturity



Overall, M3 money supply recorded an increase of R87,3 billion in the first quarter of 2015. This followed quarterly growth in M3 which averaged R46,0 billion in 2014 – the highest since 2008. Household- and corporate-sector deposits contributed almost equally to growth in 2014.

Measured over twelve months, growth in M3 deposit holdings of the household sector maintained an upward trajectory from 8,4 per cent in November 2013 to a recent high of 13,0 per cent in November 2014 – the highest rate since August 2012. It subsequently moderated somewhat in 2015, reaching 12,3 per cent in April. Growth in deposits of the corporate sector as a whole remained more subdued in 2014 and early 2015, fluctuating at around average year-on-year growth of 5,4 per cent in 2014, but improving somewhat in the first four months of 2015 to reach 6,7 per cent in April.

M3 holdings of households and companies

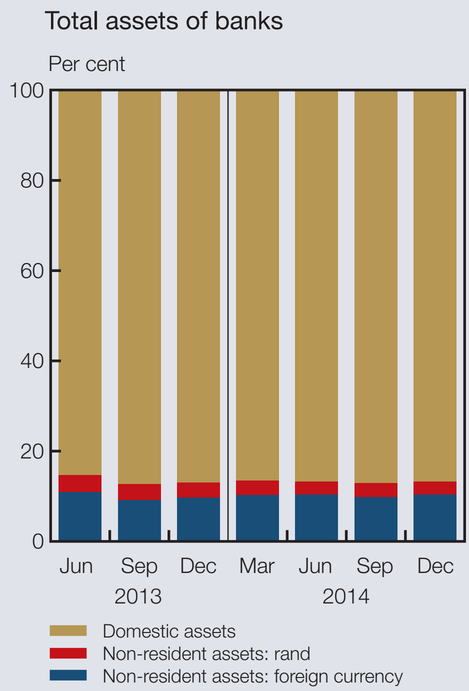


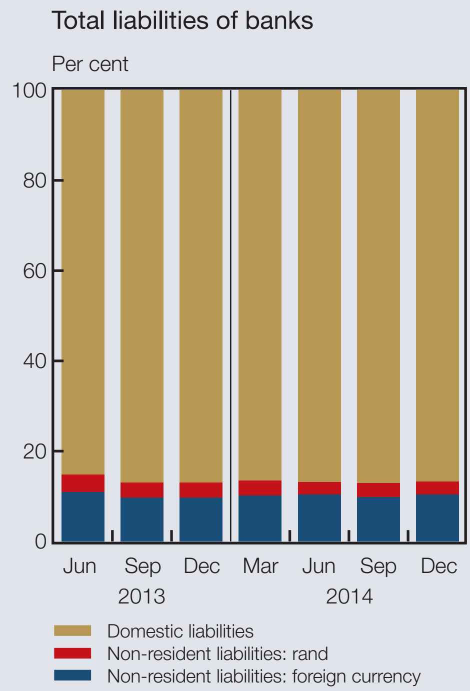
Deposits of financial companies recorded only moderate growth in 2014, which fluctuated at around 3,7 per cent. The weak trend continued into the first months of 2015, with growth reaching 1,9 per cent in March and 2,9 per cent in April. Deposits of non-financial companies picked up, recording twelve-month growth rates that accelerated from 4,5 per cent in January 2014 to highs of 12,1 per cent in September 2014 and 12,3 per cent in February 2015, before moderating to 12,1 per cent in April. The deposits held by local governments, retailers, car dealerships, telecommunication companies and companies involved in renewable energy projects rose briskly in 2014 and early 2015, probably indicating signs of ongoing activity in these areas.

Foreign currency-denominated deposits comprise about 2,6 per cent of M3 but have nonetheless grown in value since late 2012, driven by a structural shift in depositor behaviour alongside the weakening of the exchange value of the rand. Year-on-year growth in rand M3 averaged 6,7 per cent in 2014, compared to 28,0 per cent for foreign currency-denominated deposits. Growth in foreign currency-denominated deposits accelerated to a peak value of 31,5 per cent in February 2015, falling back to 10,4 per cent in April when the exchange value of the rand appreciated somewhat. For a more comprehensive overview of banks' foreign exposure, see the attached box.

Box 4 Foreign currency exposure of banks

South African banks are part of the global financial system and their balance sheets include assets and liabilities with non-residents as well as assets and liabilities denominated in foreign currencies. In some respects, South African banks are less internationally active than their international counterparts as their foreign assets and liabilities accounted for merely 13 per cent of total assets and liabilities as at the end of December 2014. Nonetheless, data on cross-border exposure can greatly benefit the assessment and understanding of bank systemic risk by providing a benchmark vis-à-vis other countries in terms of both overall market share as well as categorisation provided in the data, such as lending and borrowing sectors and maturity and currency composition. In addition, it serves as a powerful tool for spotting economic trends that other banking statistics cannot capture.





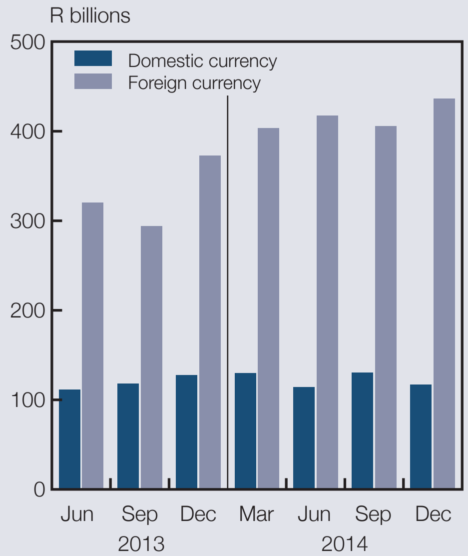
The increased pace of global financialisation and the concomitant increase in liquidity of many emerging-market currencies has placed more focus on the currency composition of the financial assets and liabilities of these economies. The sensitivity of foreign positions to exchange rate movements is important due to the fact that the currency composition of foreign assets and liabilities can often be highly asymmetric.

The rapid expansion of cross-border investment positions means that currency movements can potentially have large balance-sheet effects. The impact of this will vary across countries, depending on the scale of its international balance sheet, its net value position, as well as the currency composition of its assets and liabilities. Research done by Tille (2003), Gourinchas and Rey (2007), Lane and MilesiFerretti (2003, 2005, 2007) have highlighted that the foreign liabilities of the United States are mostly denominated in dollars while there is a substantial non-dollar component in its foreign assets. Accordingly, unanticipated dollar depreciation improves the net international investment position of the United States by increasing the dollar value of its foreign assets relative to its foreign liabilities. By contrast, many emerging markets have historically issued significant amounts of foreign currency debt — for these countries, currency depreciation has had an adverse impact on the net foreign asset position.

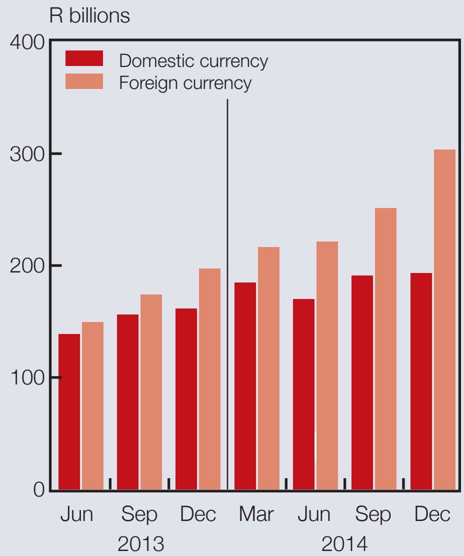
Of particular interest in this context is the composition of the foreign currency exposure of South African banks as their total holdings of foreign currency-denominated assets exceeds their foreign currency liabilities — although by a narrowing margin — thus resulting in a net foreign currency-denominated asset position. This implies that a depreciation of the rand reduces the size of South African banks' overall net foreign liability position by increasing the rand value of foreign currency assets relative to the foreign currency liabilities (the converse is true for an appreciation). However, this will also depend on the specific foreign currency basket composition of the assets and liabilities.

Although foreign currency mismatches — the extent to which an economy's liabilities and assets are divergently denominated in foreign currency – does not necessarily pose a significant problem at an aggregate level, it is possible that the aggregate net foreign currency asset position could be masking the existence of net foreign currency liability positions for individual counterpart sectors which could be important.

Non-resident assets of banks

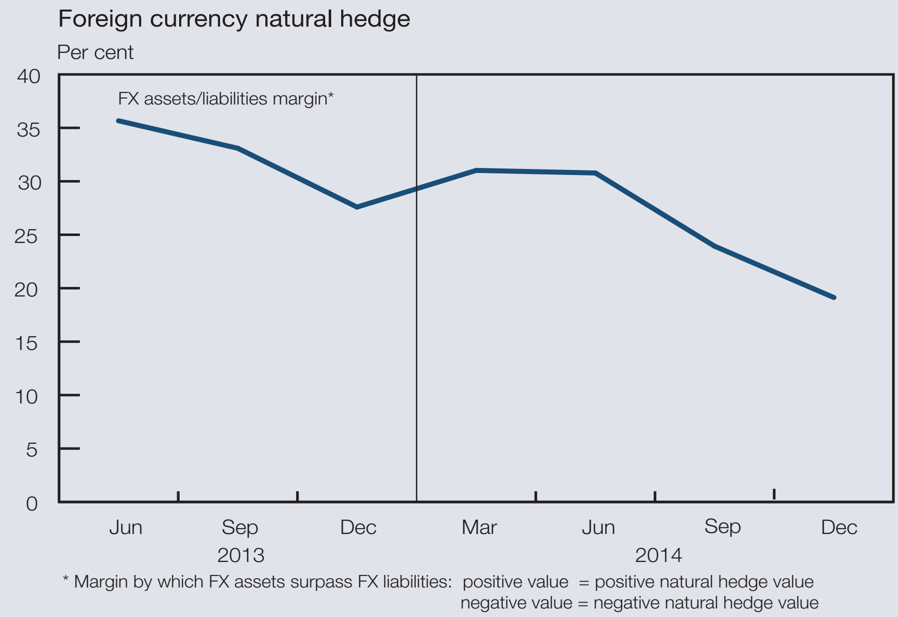


Non-resident liabilities of banks



The figure above illustrates that there has been a firm expansion in the non-resident assets of banks denominated in foreign currency from June 2013 to December 2014, with growth amounting to 36 per cent over this period compared to 5 per cent growth in non-resident assets denominated in rand. Foreign currency-denominated liabilities of non-residents recorded even more significant growth over this period, expanding by 103 per cent compared to 39 per cent growth in non-resident rand-denominated liabilities. Nonetheless, the foreign currency component of total liabilities of non-residents remains much lower than the foreign currency component of total assets of non-residents. Non-resident foreign currency-denominated liabilities constituted 61 per cent of total non-resident liabilities as at December 2014, whereas foreign currency-denominated assets of non-residents constituted 79 per cent of total non-resident assets. Between June 2013 and December 2014 the contribution of rand-denominated liabilities to total liabilities of non-residents declined from 48 per cent to 39 per cent, while the contribution of rand-denominated assets to total assets of non-residents declined from 26 per cent to 21 per cent. The aforementioned movements resulted in an 18 per cent positive foreign currency mismatch between assets and liabilities as at the end of December 2014. However, this ratio has steadily been declining from the June 2013 level of 36 per cent.

Because both the foreign currency-denominated assets and liabilities of banks are subject to similar valuation changes, it contributes to a natural foreign currency hedge position. However, this margin declined gradually from 36 per cent in June 2013 to 19 per cent in December 2014.



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In an accounting sense, the increase in M3 during the first quarter of 2015 was more than fully explained by an increase in claims on the private sector – the result of resilient credit extension to especially the corporate sector. Net claims on the government sector increased due to a decline in government deposits, which exceeded a decrease in loans and advances made to government by the Corporation for Public Deposits. The rise in net foreign assets was brought about by an increase in the value of gold and foreign exchange as well as foreign-issued derivatives held by the banking sector, which exceeded the rise in the sector's foreign liabilities. Net other assets and liabilities decreased, resulting from a rise in other liabilities of banks to domestic counterparties.

Statistical counterparts of change in M3

R billions

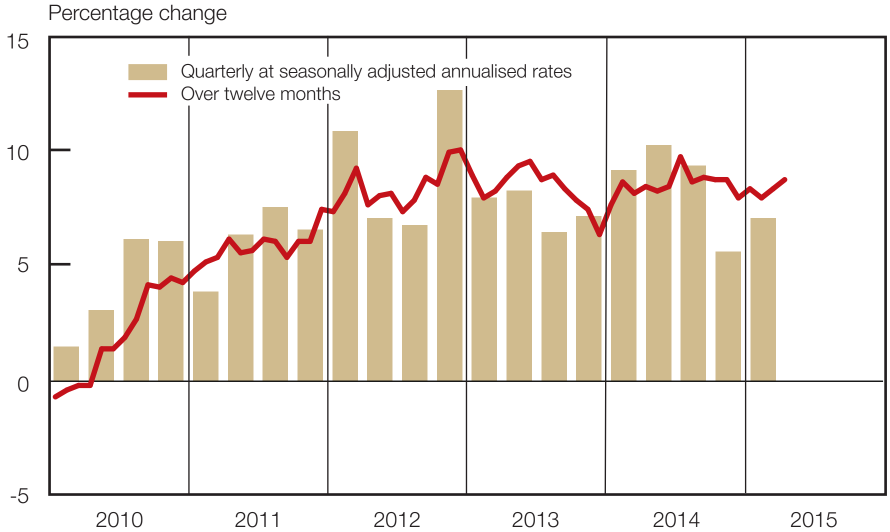
	2014			2015
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	-1,4	-7,5	-27,5	15,3
Net claims on the government sector	5,6	21,6	6,8	8,0
Claims on the private sector	37,1	54,3	33,4	110,1
Net other assets and liabilities	0,6	2,0	-19,9	-46,1
Total change in M3	41,8	70,4	-7,2	87,3

The income velocity of circulation of M3 receded moderately from 1,47 in the first quarter of 2014 to 1,45 in the fourth quarter, and further to 1,44 in the first quarter of 2015.

Credit extension

Growth in bank credit extended to the private sector maintained a relatively stable pace of expansion during the first quarter of 2015, with demand for credit by the corporate sector outpacing growth in credit extension to households by far. In April 2015 the year-on-year growth in total loans and advances was 8,7 per cent, with growth in credit extension to corporates recording a sturdy 15,1 per cent while that to households amounted to only 3,3 per cent. While banks remained cautious in their credit extension, preferring low-risk business, the uptake of credit by the corporate sector remained robust. Stagnating employment growth, sticky household debt levels and relatively tight credit conditions continued to constrain growth in credit extension to the household sector. However, in the context of the relatively low interest rate environment, the ratio of household debt to disposable income continued to edge marginally lower.

Total loans and advances to the private sector



Total loans and advances rose by R99,7 billion in the first quarter of 2015, exceeding the increase of R82,9 billion recorded during the first quarter of 2014 and also significantly up from the low of R16,5 billion recorded in the final quarter of that year. The uptick was also reflected in the quarter-to-quarter[8] growth rate, which increased from a recent low of 5,6 per cent in the fourth quarter of 2014 to 7,1 per cent in the first quarter of 2015. The increase in aggregate credit extension during the first quarter of 2015 was largely due to a rise in the usage of general loans and bank overdrafts by the corporate sector.

8 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted and annualised data.

Other loans and advances, which consist of general loans, bank overdrafts and credit card advances, remained the dominant driver of credit extension during 2014 and the early months of 2015. Growth in the asset-backed credit categories remained relatively subdued but edged slightly higher during 2014 and early 2015, mostly on account of improving growth in mortgage advances.

Following a brief contraction in the final quarter of 2014, other loans and advances increased by R78,1 billion in the first quarter of 2015. This outperformed the significant increase of R65,4 billion recorded during the first quarter of 2014. The corporate sector contributed 92 per cent to the overall growth in the first quarter of 2015 compared with 87 per cent a year earlier, while the contribution of the household sector plunged from 13 per cent to 8 per cent over the same period. The year-on-year growth in the category for other loans and advances moderated somewhat from a recent high of 16,7 per cent in July 2014 to 12,6 per cent in March 2015 and 13,5 per cent in April. The slowdown was partly the result of a significant deceleration in credit card advances extended to the corporate sector during this period. However, the demand for general loans and overdrafts by the corporate sector has remained buoyant during the past 16 months due to, among other things, the financing of working capital requirements, floor plan loans, trade finance, renewable energy deals, and mergers and acquisitions.

Composition of total loans and advances by type of credit

Type of credit	Quarterly change R billions					Percentage of total loans and advances*
	2014				2015	2015
	1st qr	2nd qr	3rd qr	4th qr	1st qr	1st qr
Household sector						
Instalment sale credit and leasing finance..................	3,3	2,6	2,6	4,9	2,3	9,1
Mortgage advances.................	6,1	6,0	2,3	4,0	9,5	30,7
Other loans and advances........	8,3	1,1	1,6	6,9	6,3	12,6
Overdrafts	*3,4*	*-2,1*	*-1,2*	*1,5*	*1,6*	*1,4*
General loans	*2,6*	*0,3*	*0,8*	*3,3*	*3,1*	*7,6*
Credit card advances	*2,3*	*2,9*	*2,0*	*2,1*	*1,7*	*3,6*
Total loans and advances to the household sector...........	17,7	9,7	6,5	15,8	18,1	52,3
Corporate sector						
Instalment sale credit and leasing finance..................	2,1	2,8	2,7	1,6	1,9	4,1
Mortgage advances.................	6,0	6,7	7,9	9,0	7,8	12,3
Other loans and advances........	57,0	20,1	36,2	-9,9	71,8	31,2
Overdrafts	*9,0*	*8,7*	*4,4*	*0,8*	*13,6*	*5,5*
General loans	*47,8*	*10,9*	*31,5*	*-10,1*	*58,3*	*25,5*
Credit cards advances	*0,2*	*0,5*	*0,3*	*-0,5*	*0,0*	*0,2*
Total loans and advances to the corporate sector............	65,1	29,6	46,8	0,7	81,6	47,7
Total loans and advances to the private sector	**82,9**	**39,3**	**53,3**	**16,5**	**99,7**	**100,0**

* Expressed as percentage of outstanding balances of total loans and advances (excluding investments and bills)

Twelve-month growth in general loans to households fluctuated below 5 per cent for most of 2014, compared to rates in excess of 30 per cent prior to 2013. In April 2015 growth measured 2,9 per cent, slightly down from 4,1 per cent recorded in January. The slowdown in this credit category reflected caution by some households and a debt constraint by others in the wake of weak growth in employment and income, which was exacerbated by interest rate increases in 2014 and relatively tight lending conditions. The implementation of the Regulations for Affordability Assessment as part of the revisions to the National Credit Regulations from March 2015, may further serve to restrain the uptake of credit by the household sector.

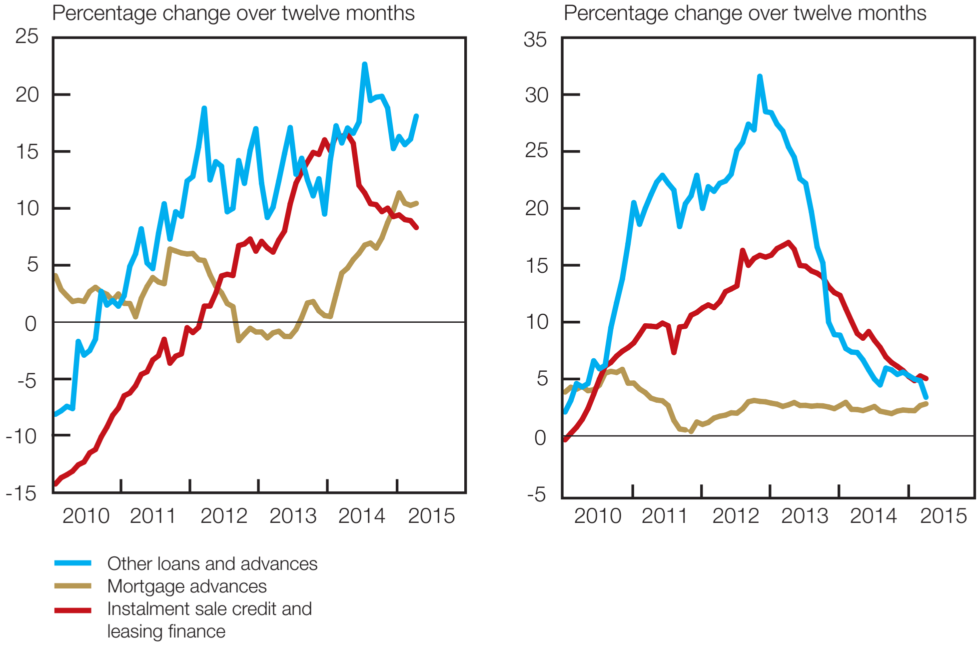
Mortgage advances, which made up around 54 per cent of total loans and advances in 2010, gradually dwindled to 43 per cent of the total in recent months as it lost ground to instalment sale credit and general loans. However, after falling from an average monthly increase of more than R9 billion prior to the financial crisis in 2008 to less than R2 billion per month in 2012, the average monthly increase in banks' mortgage book rebounded to R4 billion in 2014 and improved further to R5½ billion per month in the four months to April 2015. The current recovery in mortgage advances has been skewed towards commercial property, while growth in mortgage advances on residential property also gained pace, albeit more modestly. The increase in mortgage advances on commercial property could partly be attributed to a rise in loans to listed property funds, some of which have been bulking up their property portfolios. Twelve-month growth in mortgage advances gradually edged higher throughout 2014 and early 2015, reaching levels last seen in 2010. In April 2015 the year-on-year growth came to 4,9 per cent, up from growth of less than 3 per cent at the same time a year earlier. Elevated capital repayments on mortgage advances have partly contributed to the moderate growth in net new mortgage advances over the past three years, although capital repayments slowed somewhat after the increase in interest rates in January and July 2014 as a larger part of monthly instalments was absorbed by the interest component.

The rate of expansion in *instalment sale and leasing finance*, which mainly represents the financing of new and second-hand vehicles, gradually rebounded from 2010 to reach a peak towards the end of 2013. Since then, growth rates have moderated to levels last seen in 2011. The quarterly growth in instalment sale and leasing finance amounted to R4,3 billion in the first quarter of 2015, lower than the R5,4 billion recorded in the same period of 2014. Twelve-month growth declined from a peak of 14,2 per cent in October 2013 to 6,4 per cent in March 2015 and 6,0 per cent in April due to a decline in especially the consumer-driven new car market, while corporates also cut down on their usage of instalment sale credit. NAAMSA anticipates only marginal volume growth in domestic vehicle sales in 2015, assuming a slight improvement in the domestic economic growth rate. The South African vehicle manufacturing industry's volume growth in 2015 seems more likely to come from vehicle exports, which generally do not translate into domestic instalment sale and leasing finance business.

The corporate sector's reliance on bank-intermediated funding edged higher in 2014 and early 2015, diverging further from the weak growth in credit extension to the household sector. The noticeable increase in credit extension to the corporate sector was particularly robust in general loans and bank overdrafts.

Bank loans and advances by type:
Extended to corporate sector

Extended to household sector



Year-on-year growth in credit extension to the corporate sector accelerated from an average rate of 8,3 per cent in 2013 to 13,9 per cent a year later. The corporate sector's reliance on bank credit remained buoyant in the opening months of 2015 to reach 15,1 per cent in April 2015. The recovery in loans and advances extended to the corporate sector in 2014 was partly boosted by the renewable energy initiative of government. By economic sector, growth in the first quarter of 2015 was dominated by the electricity, gas and water and the agricultural sectors, followed by mining, real estate, construction and finance.

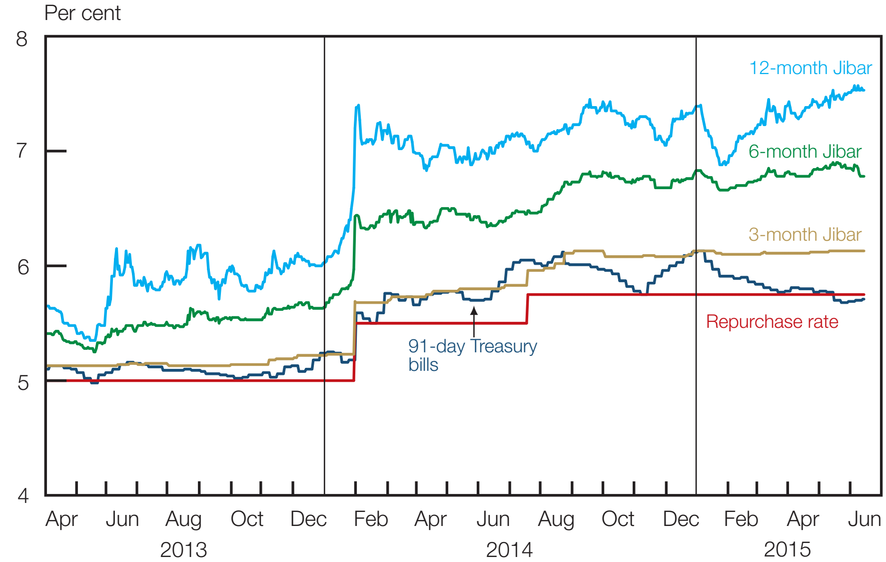
Twelve-month growth in credit extension to the household sector has receded over the past year, reaching an average rate of 4,3 per cent in 2014, down from an average of 8,3 per cent a year earlier. Growth remained sluggish in the opening months of 2015, reaching 3,3 per cent in April. Quarterly growth in credit extension to households increased marginally from R17,7 billion in the first quarter of 2014 to R18,1 billion in the same quarter of 2015. The modest increase was largely supported by an increase in mortgage advances, while instalment sale credit and general loans to the household sector declined during the first quarter of 2015.

Interest rates and yields

Given the subdued state of the domestic economy, the Monetary Policy Committee (MPC) kept the repurchase rate unchanged at the May 2015 meeting. The MPC remained mindful that the near-term inflation outlook had deteriorated, leaving little room to pause the process of domestic monetary policy normalisation. The partial reversal of the recent petrol price declines, emerging upside pressures on food prices, possible further electricity tariff increases, and a further depreciation in the exchange rate of the rand added to the risk of inflation overshooting. For the full March and May 2015 MPC statements, see pages 75 to 83 of this *Quarterly Bulletin*.

Short-term money market rates tracked the sideways movement in the repurchase rate during the first five month of 2015, while longer-dated instruments have progressively priced in the possibility of policy tightening before the end of the year. For example, the three-month Johannesburg Interbank Average Rate (Jibar), which stood at 6,13 per cent towards the end of December 2014, trended sideways during the first five months of 2015 to record 6,13 per cent on 15 June. By contrast, the twelve-month Jibar increased from a recent low of 6,88 per cent on 23 January 2015 to 7,53 per cent on 14 May, following the depreciation in the exchange value of the rand. The Jibar inched higher after the exchange value of the rand depreciated somewhat and the monetary policy stance was kept unchanged, and amounted to 7,54 per cent on 15 June.

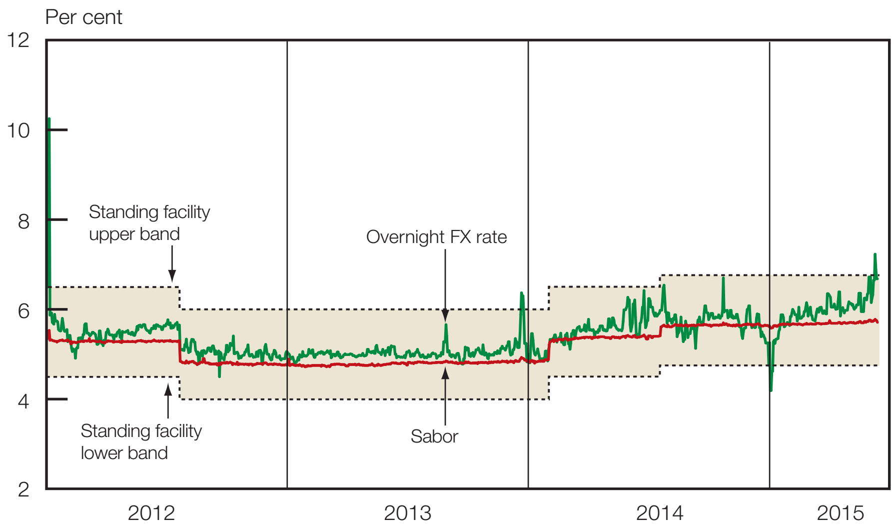
Money-market rates



The tender rate on 91-day Treasury bills followed a downward trend during the first quarter of 2015, declining by 36 basis points from 6,13 per cent on 8 January 2015 to 5,77 per cent on 20 March. This was the largest decline recorded in the past two years and reflected an increase in demand for the bills. Subsequently, the rate fluctuated in a narrow range and stood at 5,71 per cent on 15 June.

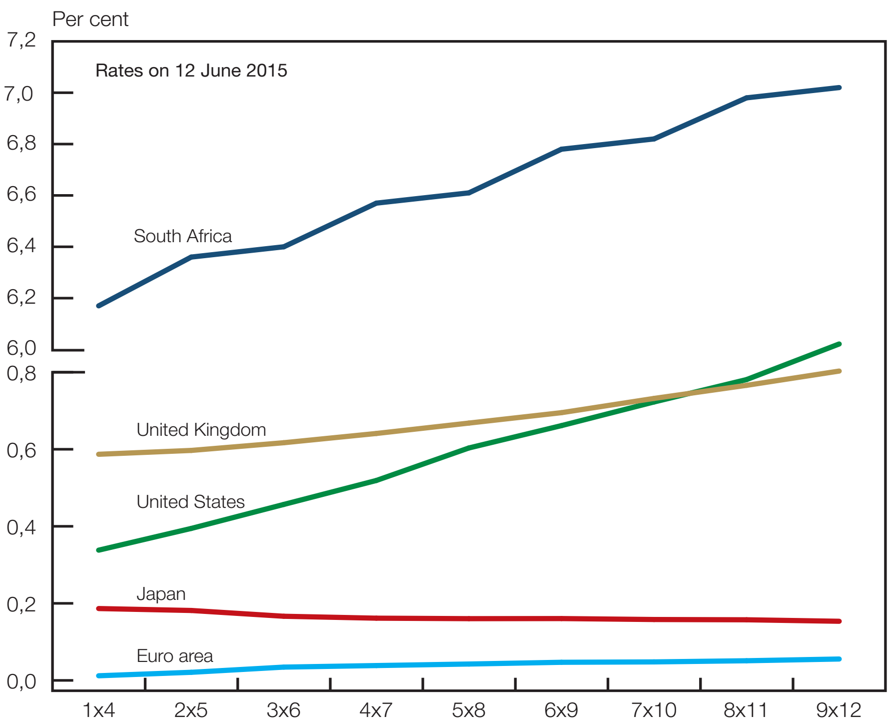
The South African Benchmark Overnight Rate (Sabor) on deposits remained relatively stable, fluctuating well within the standing facility limits during the first half of 2015. By contrast, the rate on one-day rand funding in the foreign-exchange swap market (overnight FX rate) moved from an outlier value of 4,62 per cent on 2 January 2015 to 6,39 per cent on 14 April. This partly reflected a normalisation in this market after a period of excess liquidity whereby some offshore banks were unwinding part of their long rand positions. By mid-June 2015, the Sabor rate stood at 5,69 per cent and the overnight FX rate at 6,02 per cent.

Benchmark overnight rates



After falling back sharply in January 2015, alongside declining oil prices and the announcement of the asset-purchasing programme by the European Central Bank, rates on forward rate agreements (FRAs) once again started fluctuating higher. FRA rates tracked the weakening exchange value of the rand and progressively started discounting a tightening of domestic monetary policy, with more pronounced movements in longer-term rates. For example, the twelve-month FRA rose by 111 basis points from 5,92 per cent on 29 January 2015 to 7,03 per cent on 15 June 2015. The three-month FRA followed a similar trend as it increased from 5,89 per cent on 29 January to 6,38 per cent on 24 April. However, the rate subsequently levelled out and remained relatively flat around the end of May, especially after the unchanged policy decision of the MPC on 21 May. By 15 June the short-term rate amounted to 6,39 per cent.

Forward rate yield curves



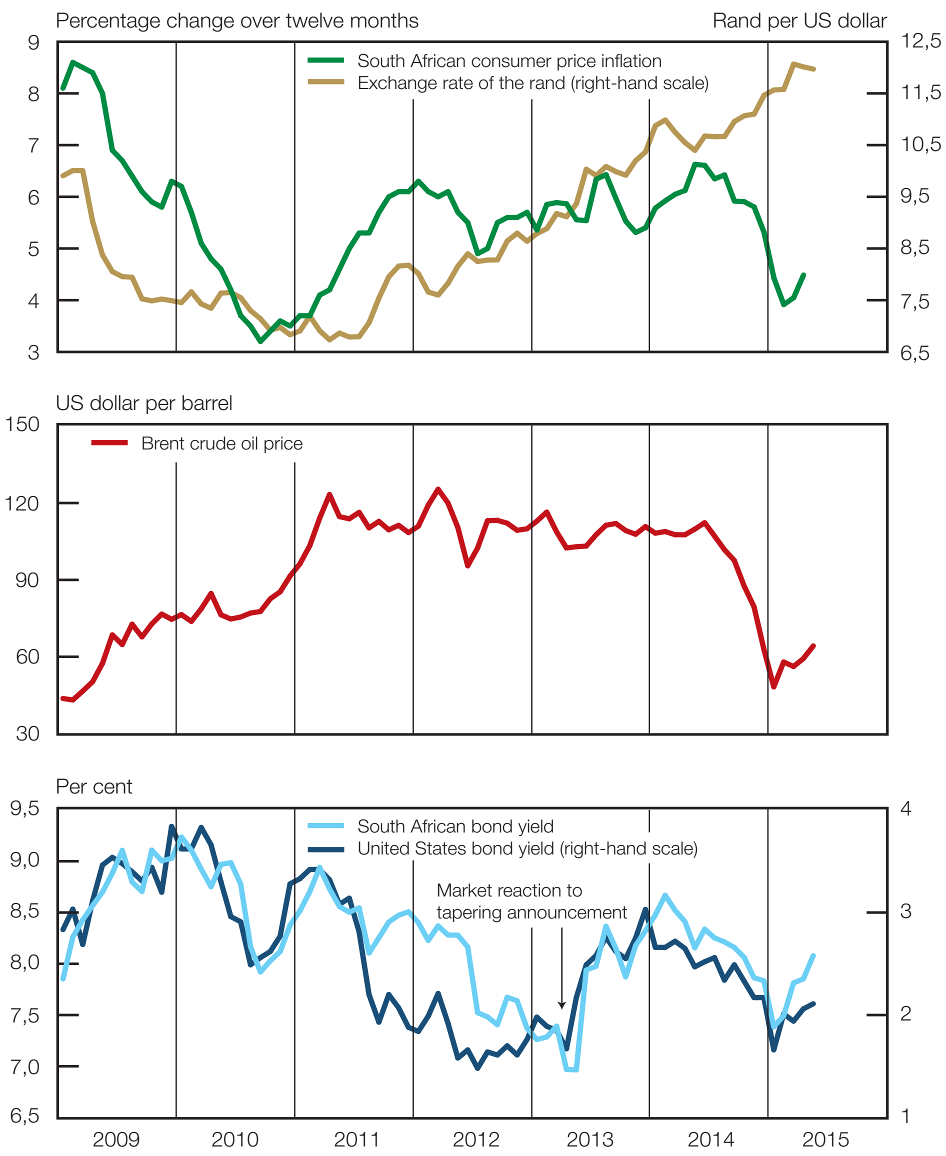
Rates on forward rate agreements demonstrate market expectations of a gradual increase in money-market interest rates of roughly half a percentage point over the forthcoming nine months in the US, with a more modest increase in the UK and essentially unchanged rates in Japan and the euro area. At the same time, the South African forward rate yield curve suggests an expected increase of more than three quarters of a percentage point over the same period. Given the underlying inflation environments, the level of South African rates is generally much higher than those of the developed economies.

The prime lending rate and the predominant rate on mortgage loans remained unchanged at 9,25 per cent, following the decision at the May 2015 MPC meeting to keep the policy rate unchanged. Similarly, rates on different deposit and loan categories of private-sector banks remained stable.

South African bond yields reversed course in the first five months of 2015. Initially driven by the lower oil price and resultant impact on inflation expectations, South African bond yields declined notably in January 2015. Subsequently, yields increased significantly, despite the slowing of historical consumer price inflation to a four-year low. This upturn in bond yields as from February 2015 was fuelled by several factors, including:

- the depreciation in the exchange value of the rand;
- the recovery, albeit limited, in the oil price;
- uncertainty about Greece's debt arrangements and the timing of the first US rate increase; and
- the general risk aversion that prevailed along with tension in the Middle East, contributing to a sell-off in emerging-market bonds.

Ten-year government bond yield and its drivers



Higher bond yields were also supported by a larger fiscal deficit provided for in the *2015 Budget*, and a less optimistic view on inflation prospects. The daily average yield on the South African R186 government bond (maturing in 2025/26/27) increased from a low of 7,07 per cent at the end of January 2015 to 8,32 per cent on 12 June. Similarly, the daily closing yield on the US 10-year government bond increased by 69 basis points from 1,66 per cent to 2,35 per cent over the same period.

Break-even inflation rates, a proxy for expected inflation, confirmed inflation concerns as they increased across all maturities from February 2015 along with the weaker rand. The break-even inflation rate in the eight-year maturity range increased from 5,24 per cent on 30 January 2015 to 6,49 per cent on 12 June as the nominal yield on conventional bonds increased while the real yield on inflation-linked bonds declined.

Tracking the recent upsurge in domestic bond yields, the *currency risk premium*[9] on South African government bonds widened from 305 basis points in January 2015 to 390 basis points in May as yields on rand-denominated bonds increased more pronouncedly than yields on dollar-denominated bonds.

The JPMorgan Emerging Markets Bond Index Plus (EMBI+)[10] yield spread above US government bonds narrowed from 433 basis points at the end of January 2015 to 383 basis points in May as investor sentiment started to improve somewhat. The *sovereign risk premium* on South African government US dollar-denominated bonds in the ten-year maturity range trading in international markets also narrowed from 224 basis points to 201 basis points over the same period.

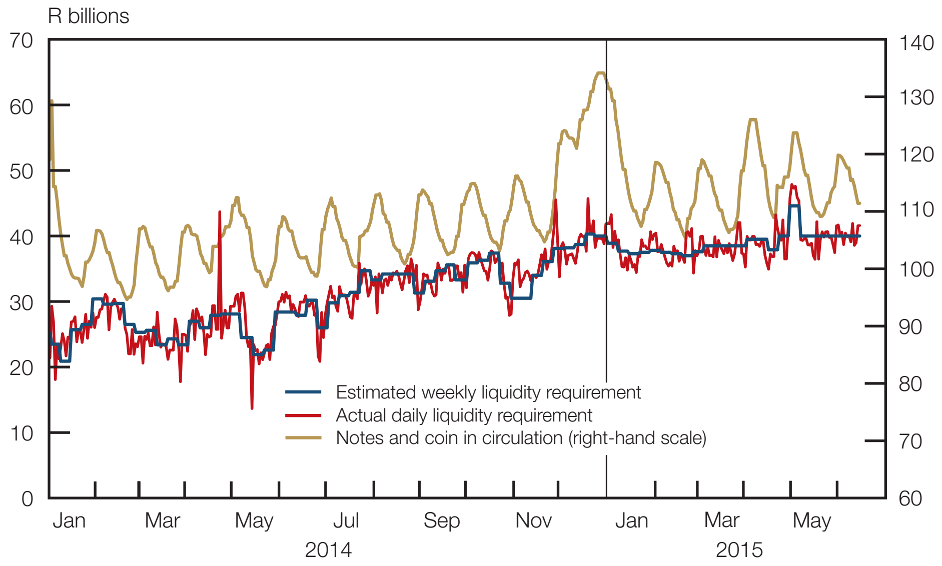
9 The differential between the South African government bond yield on rand-denominated debt issued in the domestic market and the yield on South African government US dollar-denominated bonds issued in the US, both in the ten-to-eleven-year maturity range.

10 The EMBI+ measures total returns on US dollar-denominated debt instruments of emerging-market economies.

Money market

The actual daily liquidity requirement of private-sector banks varied between a high of R43,3 billion and a low of R34,3 billion during the first quarter of 2015, narrower than the seasonally boosted range of between R27,6 billion and R45,7 billion recorded in the fourth quarter of 2014. Despite the slowdown, the gradual longer-term rise in the daily liquidity requirement of private-sector banks reflected the reforms introduced in recent years to keep the money-market shortage more closely aligned with conditions in the money market, ultimately improving the effectiveness of the transmission of monetary policy. Since the introduction of the new liquidity management strategy in August 2013, the actual average liquidity requirement increased from R22,4 billion to R40,5 billion as at 30 May 2015.

Liquidity requirement



During the first quarter of 2015, liquidity to the net amount of R1,1 billion was injected into the money market, compared to a net drainage of R7,0 billion recorded in the last quarter of 2014.

In the first quarter of 2015, the net effect of the change in the amount of notes and coin in circulation outside the Bank and banks' required cash reserve deposits was an expansion of money-market liquidity by R9,5 billion. The Bank utilised its liquidity management instruments to partly sterilise the (largely seasonal) factors that impact on money-market liquidity and drained R7,3 billion from the money market during this period. During April and May 2015, liquidity management operations drained R2,9 billion from the market.

Spot foreign-exchange transactions entered into by the Bank amounted to R1,3 billion during the first quarter of 2015 and had a contracting impact on money-market liquidity. At the same time, foreign-exchange swaps of R10 billion were entered into by the Bank, which further tightened liquidity in the money-market. During the first quarter of 2015, the Bank sold R1 billion worth of US dollars that were earmarked for the Reconstruction and Development Programme (RDP). The proceeds of the sale were deposited into National Treasury's RDP account with the Bank.

As an aid to liquidity, trade and investment, the Bank signed a three-year bilateral currency swap agreement on 10 April 2015 with the People's Bank of China for the exchange of local currencies between the two central banks of up to R57 billion, or CNY30 billion. The agreement will ensure greater financial market stability as it could act as a mitigating resource if short-term balance-of-payment pressures were to be experienced. The bilateral swap line could also be used to provide liquidity to domestic users of foreign currency in cases of liquidity shortages.

Money-market liquidity flows

R billions (easing + tightening –)

	2013	2014	
	Oct–Dec	Jan–Mar	Apr–May
Notes and coin in circulation	-18,0	9,5	2,4
Change in cash reserve accounts	2,8	-1,7	-4,7
Money-market effect of SARB* foreign-exchange transactions in spot market	-0,5	-1,3	-0,1
Government deposits with SARB	0,0	0,0	0,0
Use of liquidity management instruments	7,9	-7,3	-2,9
Reverse repurchase transactions	1,3	-0,4	0,0
SARB debentures	1,9	-2,9	2,0
Forward position (swaps)	10,0	-10,0	0,1
Corporation for Public Deposits call deposits with SARB	-5,3	6,1	-5,0
Other items net	0,7	2,2	0,6
Liquidity provided to banking system	**-7,0**	**1,1**	**-4,7**

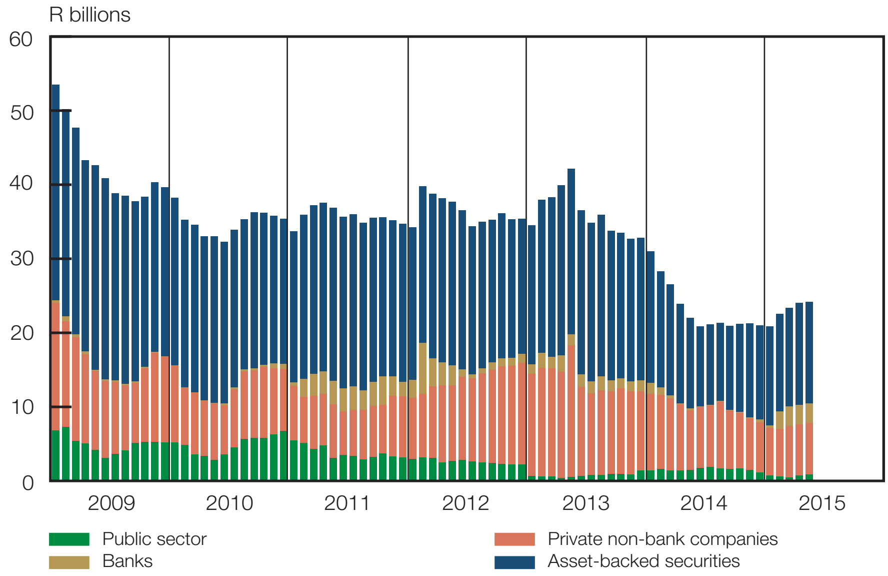
* SARB: South African Reserve Bank

Capital redemption payments and scheduled coupon interest payments on various government bonds amounting to R33,2 billion were effected from the government tax and loan accounts during the opening quarter of 2015, with only R0,1 billion of this amount accruing to the Bank.

Bond market

The national government contributed to the bulk of public-sector *bond issuances*. This sector's net bond issuances (excluding commercial paper) amounted to R80 billion in the first five months of 2015, while net issues of R5 billion were recorded by the private sector over the same period. These bond issuances were mainly from banks. Bond issuances by non-bank companies were disappointing as bank lending to companies proceeded briskly, with the refinancing of maturing debt not necessarily being done in the listed bond market. The amount of commercial paper listed on the JSE dwindled from R54 billion in January 2009 to R24 billion in May 2015, mainly due to low levels of secondary market liquidity following subdued demand. A decline across all issuer categories was evident, with asset-backed commercial paper still the largest contributor to issuances in the market. In total, the outstanding nominal value of debt securities listed on the JSE increased by R86 billion in the first five months of 2015 to reach R2,2 trillion at the end of May.

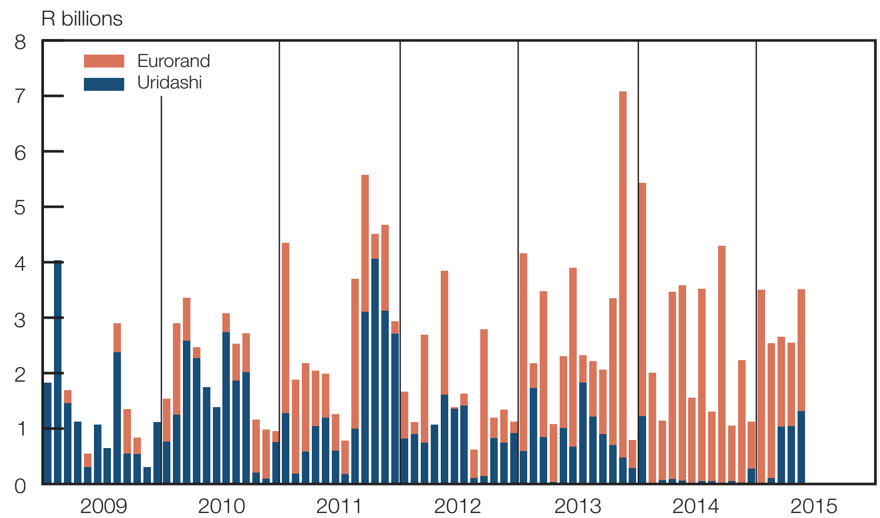
Commercial paper listed on the JSE by issuer sector



After more subdued trade in 2014, *turnover* in the secondary bond market recovered in 2015, boosted by the higher volumes traded and lower bond yields. The daily average turnover of R95 billion in the first five months of 2015 was 18 per cent higher than the daily average value traded in 2014. Bond market returns dwindled during 2015 as reflected in the gain of only 2 per cent in the All-Bond Index (ALBI) in the first five months of 2015. The R186 government bond (due 2025/26/27) was the most liquid government bond traded in the first five months of 2015 followed by the R203 bond (due 2017), reflecting higher liquidity in the short-to-medium-term maturity range.

Rand-denominated bond issuances in the *European bond markets* picked up from 2013 as issuers used these instruments for funding diversification and as investors were attracted to the combination of high yields and highly rated issuers. The issuances of rand-denominated bonds in these markets increased from R10 billion in 2012 to R25 billion in 2013 and further to R29 billion in 2014. In the first five months of 2015, rand-denominated bond issuances in the European bond markets amounted to R11 billion. By contrast, rand-denominated bond

Rand-denominated bond issuances in the Eurorand and Uridashi bond markets



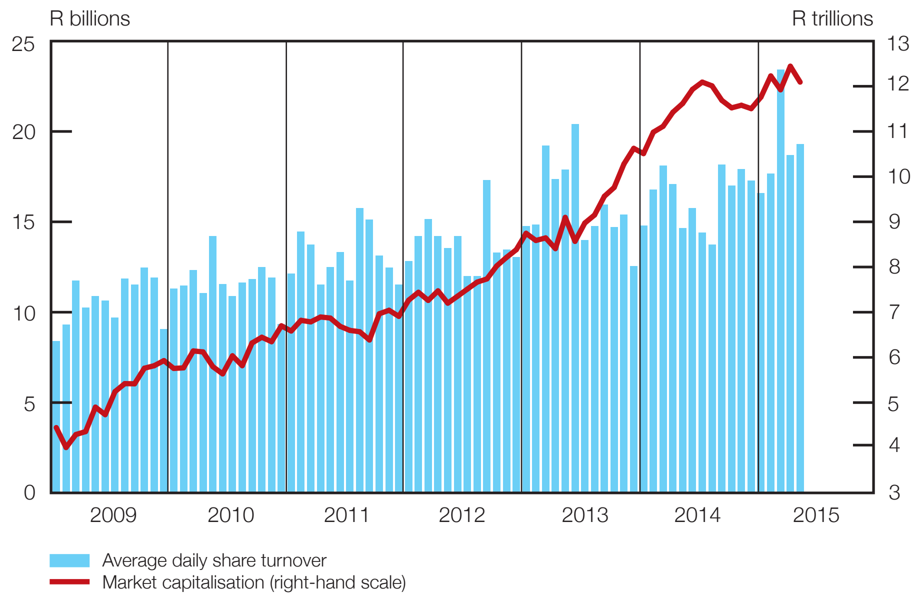
issuances in the *Japanese Uridashi bond market* faded noticeable in 2014. These issuances declined from R10 billion in 2013 to only R1,9 billion in 2014, probably influenced by the asset allocation legislative changes impacting Japan's Government Pension Investment Fund (GPIF). Rand-denominated bond issuances in the Uridashi bond market in the five months to May 2015 were, however, more positive at R3,5 billion. Total net issues of rand-denominated bonds in both markets, amounting to R7,9 billion in the first five months of 2015, were notably less than the net issues of R13 billion recorded in the corresponding period of 2014.

Exchange-reported data show net sales of local bonds by *non-residents* for three consecutive quarters since the third quarter of 2014. Non-residents reduced their holdings of domestic bonds significantly in both the third and fourth quarters of 2014. Further net sales of local debt securities by non-residents to the value of R11 billion were recorded in the first quarter of 2015. Weak non-resident activity possibly tracked concerns, among other things, over sovereign credit rating downgrades and declining bond yields over that period. Despite non-residents' net sales of local bonds being followed by net purchases in April, with yields at the same time increasing, cumulatively non-residents were net sellers of local bonds thus far in 2015.

Share market

According to the World Economic Forum's *Global Competitiveness Report 2014–2015,* the JSE continued to maintain its high standards and was ranked first for well-regulated and supervised securities exchanges, and third for efficient funding through the local equity market. This was clearly reflected in the continued robust amount of *equity capital raised* by listed companies on the JSE in the domestic and international primary share markets of R92 billion in the first five months of 2015 – outperforming funding over the same period of 2014 by 29 per cent. Boosted by high share prices, capital raised in the first quarter of 2015 reached an all-time high at R73 billion, surpassing the recent quarterly record high of R55 billion in the second quarter of 2014. Companies with primary listings on the JSE and, in particular, industrial-sector companies accounted for a significant share of equity funding at 93 per cent and 69 per cent respectively of the total capital raised in the five months to May 2015. This was mainly due to transactions by a large furniture company in February and March 2015 issuing shares to acquire a stake in a retailer.

JSE share turnover and market capitalisation

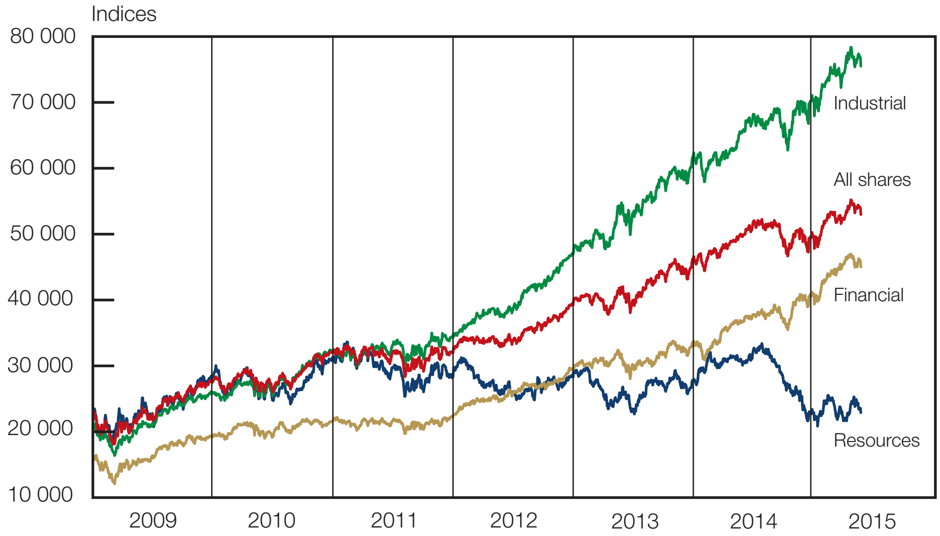


Turnover in the secondary share market remained high in the first five months of 2015 with the value of shares traded on the JSE averaging R19 billion per day. This surpassed turnover in the corresponding period of 2014 by 17 per cent, which was supported by record-high share prices and higher volumes traded. Elevated share prices also boosted the *market capitalisation* of the JSE higher by 8 per cent from a recent low in December 2014 to an all-time high of R12 trillion in April 2015, before receding slightly to May.

Following exchange-reported net sales of domestic shares by *non-residents* from November 2014, non-resident activity in the domestic secondary share market reversed its trend in March 2015 with record-high monthly net purchases of shares to the amount of R18 billion, alongside the strong performance in the equity market that boosted investor tolerance for riskier emerging-market assets. This contributed to cumulative net purchases of R19 billion in the first five months of 2015, somewhat higher than the net purchases recorded in the corresponding period of 2014. Subsequently, non-residents' participation rate, measured as their purchases and sales as a percentage of the total value of shares traded on the JSE, increased from 19 per cent in 2014 to an average of 21 per cent in the first five months of 2015.

After recording losses in the latter part of 2014, domestic *share prices* continued to reach new record highs in early 2015. For example, the FTSE/JSE All-Share Price Index (Alsi) increased by 18 per cent from a recent low of 46 673 index points on 15 October 2014 to an all-time high of 55 188 index points on 24 April 2015. The increase in the Alsi tracked, among other things, higher international equity prices, the depreciation in the exchange value of the rand, and monetary stimulus measures in support of the Chinese economy. Higher share prices of companies in the financial and industrial sectors supported the Alsi over this period of recovery, recording gains of 32 per cent and 25 per cent respectively. More recently, the Alsi followed global equity markets lower, declining by 6 per cent to 51 829 index points on 12 June, partly as a result of some profit-taking following the recent strong rallies, and uncertainty regarding the tightening of US interest rates. In US dollar terms, the Alsi declined by 1 per cent from 15 October 2014 to 12 June 2015, while the US Standard and Poor's (S&P) 500 Composite Index and the Euro Stoxx 50 Index rose by 12 per cent and 21 per cent respectively over the same period.

Share prices on the JSE

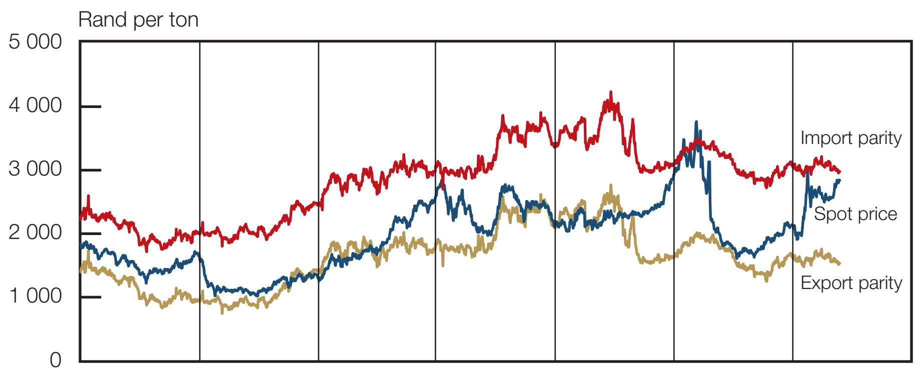


Total earnings of companies listed on the JSE fell by 3 per cent in the first five months of 2015, lifting the price-earnings ratio of all classes of shares from 16,8 in January 2015 to 19,4 in May – its highest level since January 2014. Although dividends declared increased, the dividend yield for JSE-listed companies decreased from 2,4 per cent in January 2015 to 2,3 per cent in May, reflecting increased share prices.

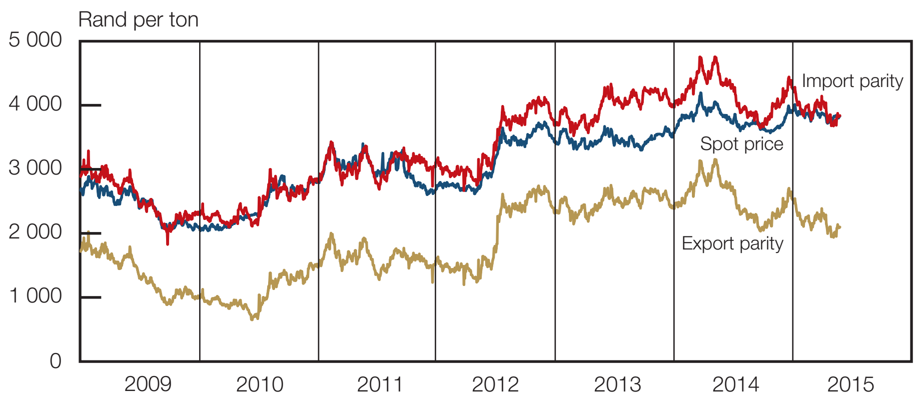
Market for exchange-traded derivatives

Some 1,3 million *commodity futures and options* contracts were traded on the Commodity Derivatives Market of the JSE during the first five months of 2015, representing a 15 per cent increase when compared with the volumes traded in the corresponding period of 2014. Brisk trading activity has accompanied marked increases in the domestic prices of agricultural commodities since the latter part of 2014. Domestic maize prices were supported largely by the weaker exchange value of the rand and recent severe drought conditions which damaged crops in the country's main producing regions, thereby prompting imports of the yellow maize variety for the first time in almost a year. This gave rise to the spot price of white maize trading noticeably higher than yellow maize since February 2015. Meanwhile, prices of domestic wheat have been on a lower trajectory since January 2015. However, the new wheat import tariff that came into effect on 13 March 2015, set at R461 per ton – an increase of a significant 194 per cent – together with movements in the exchange value of the rand as well as other production and transport costs are expected to push domestic wheat prices higher in the upcoming months. Customarily, domestic wheat prices continued to trade alongside import parity levels. These increases in agricultural prices are likely to push the consumer prices of staple foods higher.

Price of white maize



Price of wheat



In April 2015 the JSE announced its new swap futures licensing partnership with Eris Exchange (Eris), a US-based futures exchange group, to list interest rate, cross-currency and credit default swap futures on the JSE based on the Eris methodology. This initiative envisages offering market participants the regulatory certainty of futures, while also allowing them the capital efficiency of over-the-counter swaps and broadening their international exposure.

During the five months to May 2015, trading activity in the *currency derivatives market* of the JSE was more subdued. The volume traded in currency derivatives was 7 per cent lower than in the same period of 2014, as the market continued to be influenced by the volatile movements in the exchange value of the rand. By contrast, the *interest rate derivatives market* registered an increase of 16 per cent in trading activity over the same period. Turnover in all derivatives traded on the JSE during the first five months of 2015 is indicated in the accompanying table.

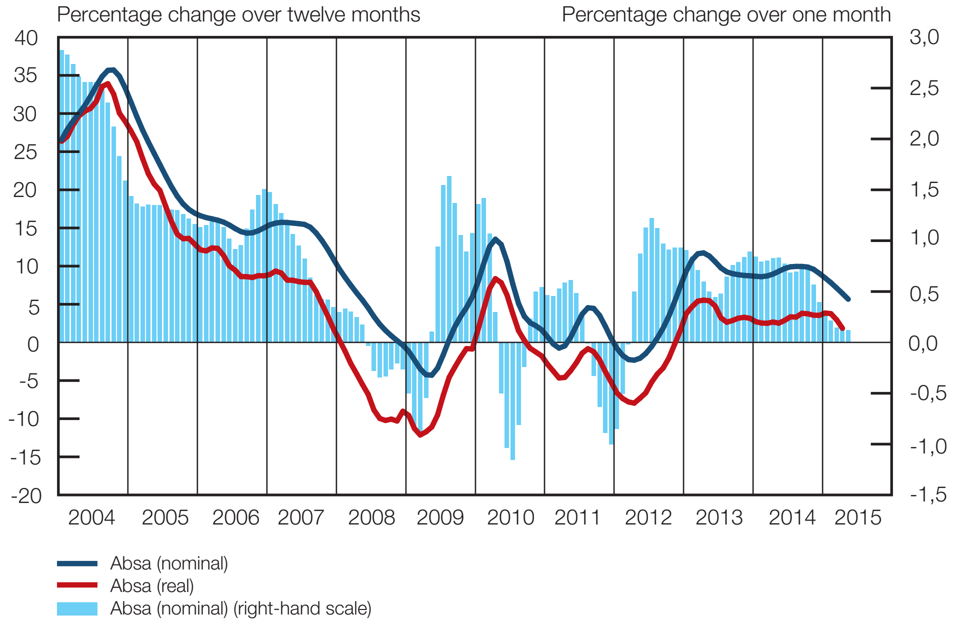
Derivatives turnover on the JSE, January to May 2015

Type of derivative	Value R billions	Change over one year Per cent
Equity	2 288	8
Warrants	0,3	-16
Commodity	251	15
Interest rate	355	25
Currency	200	-6

Real-estate market

The South African house market seemingly continued to reflect the subdued economic conditions. Affected by a declining trend in month-on-month house price inflation, the year-on-year increases in the nominal value of the residential property market softened somewhat further in May 2015, ranging between 4 per cent and 6 per cent across the different barometers. The gradual declining trend in nominal house price growth since the fourth quarter of 2014 was consistent with lacklustre economic growth and low levels of consumer confidence, together with concerns regarding inflation and interest rate increases. Nominal house price inflation, however, still outperformed consumer price inflation, although real house price inflation also decelerated in recent months. According to First National Bank, this was also manifested by the increase in the average number of weeks that residential properties remained on the market; this indicator increased over the past two quarters and came to nearly 13 weeks in the first quarter of 2015.

House prices



Non-bank financial intermediaries

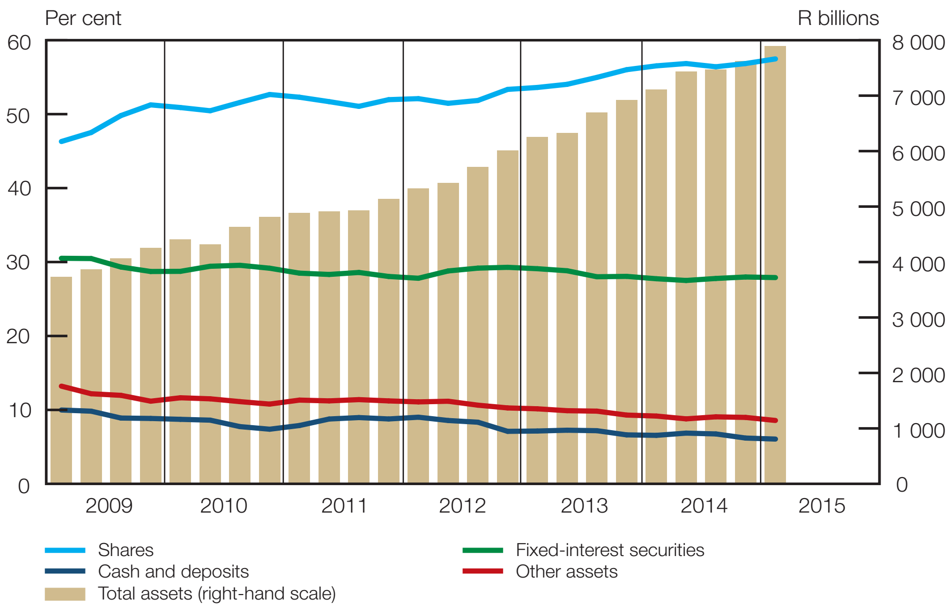
11 These institutions consist of unit trusts, the Public Investment Corporation, long- and short-term insurers, public and private pension funds, participation bond schemes, finance companies and non-monetary public financial corporations.

The balance sheet of non-bank financial institutions[11] expanded in the first quarter of 2015, supported by higher asset prices. The total assets of these intermediaries increased by 4 per cent from the final quarter of 2014 to a level of R7,9 trillion in the first quarter of 2015, with the bulk contributed by the Public Investment Corporation and long-term insurance companies. Increases in the financial assets of these intermediaries also have positive wealth effects that are reflected on the balance sheet of households. The trend in the asset allocation of these institutions has largely mirrored developments in domestic financial market conditions in the first quarter of 2015, as equities and bonds were the preferred asset classes for intermediating funds.

Reflecting higher equity prices, holdings of shares increased by 1 percentage point from the final quarter of 2014 to 58 per cent of total assets in the first quarter of 2015. The increase in exposure to the equity market was underpinned by lower risk aversion in the financial markets.

Investors' appetite for cash and deposits was subdued, alongside a relatively low interest rate environment. Holdings of cash by these institutions remained unchanged at 6 per cent of total assets in the final quarter of 2014 and the first quarter of 2015. Meanwhile, net outflows from money-market unit trusts declined from R11 billion in the fourth quarter of 2014 to R2,4 billion in the first quarter of 2015.

Asset holdings of non-bank financial institutions



Holdings of fixed-interest securities by these institutions remained unchanged at 28 per cent of total assets in the final quarter of 2014 and the first quarter of 2015. The favourable performance of the equity market and the low level of interest rates could encourage a further reallocation of funds from cash to equities and bonds in the first half of 2015.

As part of ongoing regulatory developments affecting non-bank financial institutions, in April 2015 National Treasury and the Financial Services Board released a draft Insurance Bill for comments. The Bill provides a framework for the prudential supervision of the insurance sector that is consistent with international standards. The Bill also aims to replace and consolidate substantial parts of the existing Long-term Insurance Act 52 of 1998 and the Short-term Insurance Act 53 of 1998 that relate to prudential supervision.

According to the *Solvency Assessment and Management Economic Impact Study Report* released by the Financial Services Board in February 2015, the Solvency Assessment Management (SAM) regime for insurers is likely to lead to better risk management and a more stable financial sector.

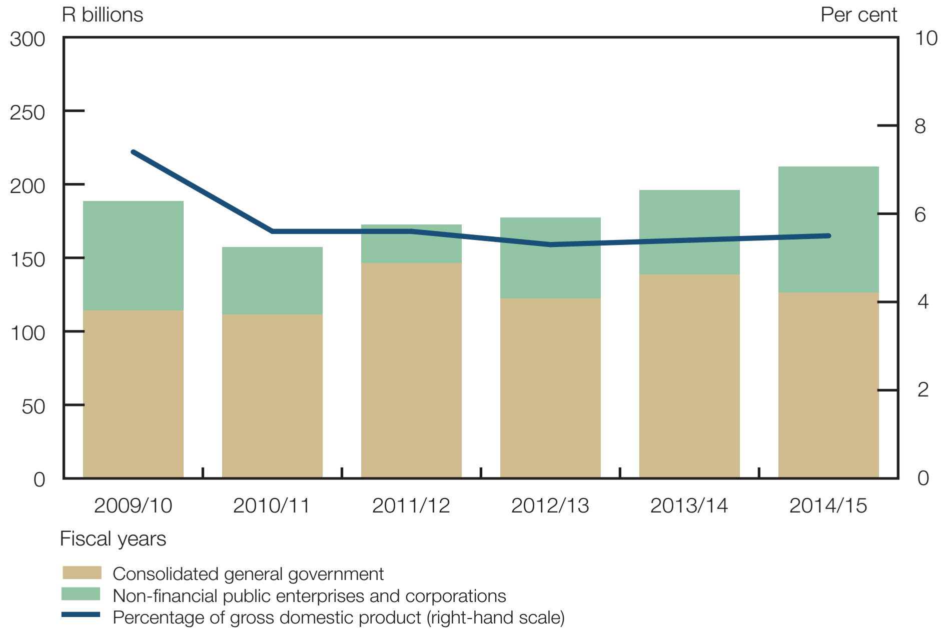
Public finance

Non-financial public-sector borrowing requirement[12]

During fiscal 2014/15, the non-financial public-sector borrowing requirement amounted to R212 billion – some R16 billion higher than in fiscal 2013/14. The borrowing requirement could have deteriorated further had it not been for the significant surpluses recorded by extra-budgetary institutions and social security funds. However, the borrowing requirement remained high as a result of large deficits recorded by national government and by the non-financial public enterprises and corporations. The higher cash deficit of national government was on account of higher interest payments and grant transfers to other levels of general government, primarily to provincial governments. The higher deficit by non-financial public enterprises and corporations was due to an increase of 9,3 per cent in cash payments for operating activities in fiscal 2014/15 compared with the previous fiscal year.

12 Calculated as the cash deficit/surplus of the consolidated central, provincial and local governments, and non-financial public enterprises and corporations.

Non-financial public-sector borrowing requirement



As a percentage of gross domestic product, the non-financial public-sector borrowing requirement amounted to 5,5 per cent in fiscal 2014/15, only fractionally higher than the ratio of 5,4 per cent recorded a year earlier.

Non-financial public-sector borrowing requirement

R billions

Level of government	2013/14*	2014/15*
Consolidated general government	138,6	126,4
National government	158,6	163,2
Extra-budgetary institutions	-4,5	-10,2
Social security funds	-12,5	-20,4
Provincial governments	-5,1	-6,4
Local governments	2,1	0,2
Non-financial public enterprises and corporations	57,3	85,5
Total**	195,9 **	211,9 **
As percentage of gross domestic product	*5,4*	*5,5*

* Deficit + surplus –
** Components may not add up to totals due to rounding

The borrowing requirement of the *consolidated general government* amounted to R126 billion in fiscal 2014/15, or approximately R12 billion lower than in fiscal 2013/14. This was on account of higher surpluses recorded by extra-budgetary institutions and social security funds. As a ratio of gross domestic product, the consolidated general government borrowing requirement amounted to 3,3 per cent in fiscal 2014/15 compared with 3,8 per cent a year earlier.

The financial activities of the *non-financial public enterprises and corporations* recorded a preliminary cash deficit of R85,5 billion in fiscal 2014/15, in line with the revised budgeted cash deficit of R85,4 billion as indicated in the *Budget Review 2015*. The 2014/15 cash deficit was substantially higher than the cash deficit of R57,3 billion recorded in the previous fiscal year, as pronounced growth in total expenditure far outpaced the growth in total receipts.

Preliminary estimates indicate that net investment in non-financial assets by non-financial public enterprises and corporations amounted to R119 billion in fiscal 2014/15, slightly lower than the R122 billion recorded in the previous fiscal year. Non-financial public enterprises and corporations continued to focus their capital spending on economic infrastructure, such as roads and transport, water and sanitation, and electricity. At the same time, some entities also stepped up their expenditure on the maintenance of plant and equipment, and faced notably higher interest costs as their indebtedness rose. Non-financial public enterprises and corporations continued tapping into the bond market through the net issuance of marketable instruments to the value of R23 billion in fiscal 2014/15. This brought the total outstanding marketable bonds of the non-financial public enterprises and corporations to R230 billion at the end of March 2015. The major state-owned companies – Eskom, Transnet and the South African National Roads Agency Limited (SANRAL) – accounted for 85,6 per cent of this total. At the same time, Eskom was owed a total of R9 billion, of which R5 billion was owed by households and the balance by municipalities.

An analysis of *national government* finance statistics showed that annual cash receipts from operating activities surpassed R1 000 billion for the first time as it amounted to R1 011 billion in fiscal 2014/15, or 9,4 per cent more than in the preceding fiscal year. Buoyant tax receipts from personal income tax and taxes on property in the year resulted in the solid increase in national government cash receipts.

In fiscal 2014/15, cash payments for operating activities of national government recorded a year-on-year rate of increase of 8,6 per cent, amounting to R1 154 billion in the full fiscal year. Compensation of employees increased by 4,4 per cent year on year – much lower than the year-on-year rate of increase of 11,3 per cent recorded in the previous fiscal year. Grants to other levels of government included in cash payments for operating activities amounted to R640 billion in fiscal 2014/15 – some 6,0 per cent more than a year earlier. These grants accounted for 55,4 per of the total expenses of national government, of which provincial governments received the largest share.

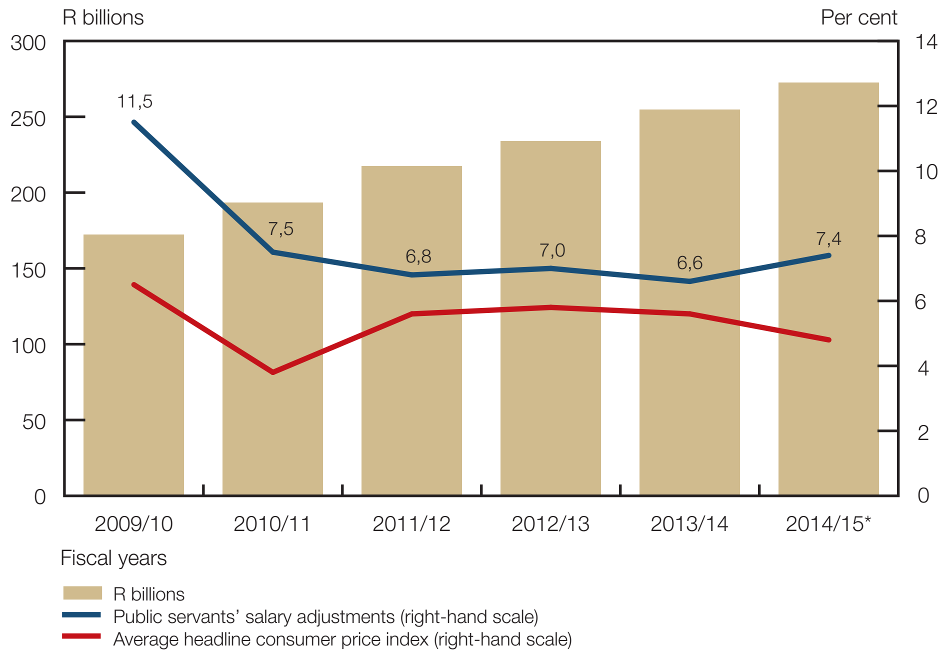
Net cash flow from operating activities, along with net investment in non-financial assets, resulted in a cash deficit of R163 billion in fiscal 2014/15. This could be compared with a cash deficit of R159 billion recorded in fiscal 2013/14.

In fiscal 2014/15, *provincial governments'* financial activities resulted in a cash surplus of R6,4 billion – R1,3 billion higher than the surplus recorded in fiscal 2013/14. The increased cash surplus was due to higher growth in cash receipts, which outweighed the growth in total expenditure. The *Budget Review 2014* projected that this level of government would record a cash surplus of R3,0 billion in fiscal 2014/15.

During the period under review, total provincial government cash receipts amounted to R460 billion, representing a year-on-year rate of increase of 7,1 per cent. Grants from national government remained the main source of provincial government's cash receipts and amounted to R445 billion. Transfers to this sphere of government include equitable share transfers and conditional grants earmarked for specific purposes.

Cash payments for operating activities, together with net investment in non-financial assets, resulted in a total expenditure of R454 billion in fiscal 2014/15. This was 6,9 per cent more than the total expenditure recorded in the previous fiscal year. The bulk of provincial government expenditure was on personnel costs, which amounted to R273 billion – equivalent to 60 per cent of total expenditure. The effect of above-inflation wage increases was particularly pronounced in the health and education sectors, which employ a large number of personnel to provide the necessary services.

Provincial government compensation of employees



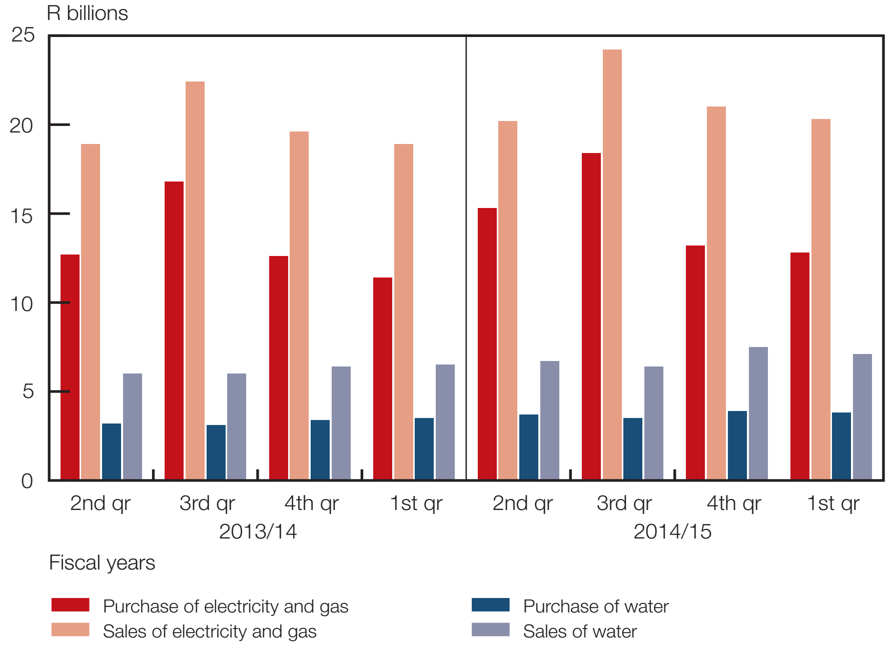
Provincial governments' deposits with the Corporation for Public Deposits increased from R13,1 billion at the end of March 2014 to R21,3 billion at the end of March 2015. At the same time, their deposits with private banks increased by R0,4 billion to R10,8 billion, while their overall indebtedness to banks decreased from R1,8 billion to R0,4 billion over the same period.

Unaudited *local government* statistics indicate that consolidated local government recorded a small cash deficit of R0,2 billion in fiscal 2014/15 compared with a cash deficit of R2,2 billion registered in the previous fiscal year. Strong growth in cash receipts outpaced the growth in cash payments over the latest year.

During fiscal 2014/15, local government cash receipts from operating activities amounted to R320 billion, representing a year-on-year rate of increase of 9,6 per cent. Strong increases in inter-governmental transfers as well as the sales of goods and services contributed to the rise in cash receipts. Municipal own revenue increased considerably with sales of water, electricity and gas, which totalled R113 billion during the period under review. Municipalities received a general fuel levy amount of R10,2 billion as part of the sharing agreement with national government.

Cash payments for operating activities increased by 9,6 per cent to amount to R264 billion in fiscal 2014/15. The sizeable increase in the total expense could be attributed to the purchases of goods and services, of which purchases of water, electricity and gas accounted for 42 per cent; municipalities distribute these to consumers, adding a surcharge to raise own revenue and supplement inter-governmental transfers in the financing of their operations. During the period under review, net investment in non-financial assets recorded a year-on-year rate of increase of 5,6 per cent and came to R56 billion – some R3,0 billion more than in the previous fiscal year.

Municipal trade in energy and water*



* Purchases and sales of water and electricity by municipalities are recorded on an invoice basis, that is, when the municipality receives an invoice from the suppliers of bulk water and electricity, a purchase is recorded and, similarly, when the municipality invoices the consumers for the consumption of water and electricity, a sale is recorded. Transactions include prepaid cash as well as payables to service providers (creditors), receivables from consumers (debtors) and cash prepayments for water and electricity by consumers.

Preliminary estimates indicate that *extra-budgetary institutions* recorded a cash surplus of R2,4 billion in the last quarter of fiscal 2014/15. This brought the total preliminary cash surplus in fiscal 2014/15 to R10,2 billion – significantly higher than the cash surplus of R4,5 billion recorded in the previous fiscal year.

Social security funds recorded a preliminary cash surplus of R20,4 billion in the period under review – R7,9 billion more than the cash surplus recorded in fiscal 2013/14. The significantly higher cash surplus could be attributed to an increase in social contributions by employers, while the social benefits paid to beneficiaries increased steadily.

Budget comparable analysis of national government finance

Data for the full fiscal year 2014/15 indicate that national government expenditure and revenue fell below the original February 2014 budgeted projections, but both fiscal measures were closely aligned with the revised February 2015 projections. The growth rate recorded in revenue slightly outpaced that of expenditure. A higher cash-book deficit was recorded when compared with the previous fiscal year.

National government finances: key statistics

Year-on-year growth rates

	Budgeted Feb 2014 Full 2014/15	Revised Feb 2015 Full 2014/15	Actual Full 2014/15
		Per cent	
Expenditure	9,1	8,3	8,0
Revenue	9,3	8,4	8,4
Deficit	R180 billion	R181 billion	R177 billion

In fiscal 2014/15, national government expenditure amounted to R1 131 billion, representing a year-on-year rate of increase of 8,0 per cent. Spending was originally budgeted to increase by 9,1 per cent year on year to amount to R1 143 billion for the full fiscal year. However, in the *Budget Review 2015,* expenditure was revised downwards to R1 135 billion, or 8,3 per cent more than in the previous fiscal year. As a proportion of gross domestic product, national government expenditure amounted to 29,4 per cent in fiscal 2014/15, remaining broadly unchanged when compared with the expenditure ratio recorded in fiscal 2013/14.

Expenditure in all the voted spending categories fell short of budgeted expectations in 2014/15, as shown in the accompanying table. Voted expenditure consists of current payments, transfers and subsidies, and payments for capital and financial assets.

National government expenditure in fiscal 2014/15

Expenditure item	Originally budgeted Full 2014/15		Actual Full 2014/15	
	R billions	Percentage change*	R billions	Percentage change*
Voted amounts	635,4	9,1	625,7	7,4
Current payments	*181,0*	*6,2*	*178,2*	*4,6*
Transfers and subsidies	*433,1*	*9,6*	*428,8*	*8,5*
Payments for capital assets	*17,7*	*26,1*	*15,2*	*8,3*
Payments for financial assets	*3,6*	*16,3*	*3,5*	*13,0*
Statutory amounts**	507,2	9,1	505,8	8,8
Of which: Interest on debt	*114,8*	*13,6*	*114,6*	*13,4*
Total expenditure	1 142,6	9,1	1 131,4	8,0

* Fiscal 2013/14 to fiscal 2014/15
** Including extraordinary payments

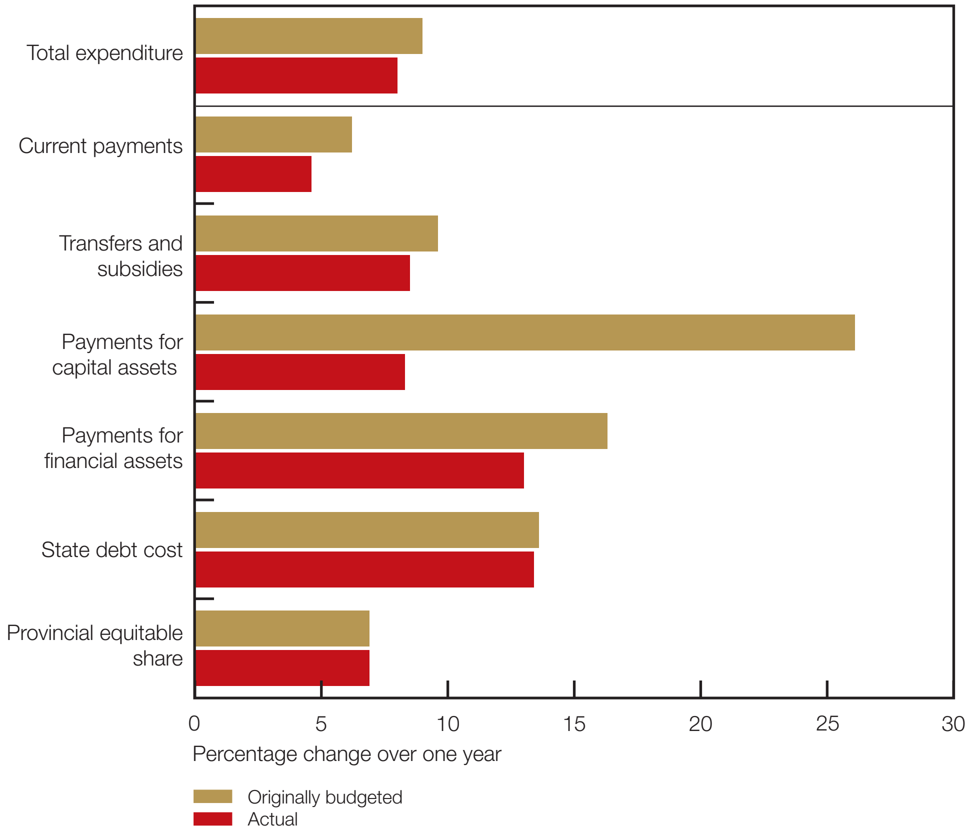
Current payments recorded a year-on-year rate of increase of 4,6 per cent, with the Justice, Crime Prevention and Security cluster accounting for 74,7 per cent of total current payments. Spending by the departments of Defence and Military Veterans as well as Police continued to be the largest contributors to current payments. Underspending in current payments were recorded by the departments of Cooperative Governance and Traditional Affairs, Health, Rural Development and Land Reform, and Water and Sanitation to the amount of R2 billion.

Higher transfers and subsidies were driven by an increase in spending by the departments responsible for education, health and social services. These departments all form part of the Social Services cluster, which accounted for 49,8 per cent of total transfers and subsidies. Transfers and subsidies also increased on account of spending by the departments of Cooperative Governance and Traditional Affairs, Transport, Human Settlements and National Treasury. The Department of Cooperative Governance and Traditional Affairs paid the local government an equitable share grant of R44,5 billion in fiscal 2014/15.

In fiscal 2014/15, payments for capital assets amounted to R15,2 billion, or 8,3 per cent more than in the previous fiscal year. According to the *Budget Review 2014*, this spending item was projected to amount to R17,7 billion. However, in the *Budget Review 2015,* this spending category was revised downwards to R15,5 billion. The Department for Water and Sanitation fell behind to only spend about 73 per cent of its revised budgeted expenditure. Capital spending was on bulk water infrastructure build schemes mainly through the Regional Implementation and Support Programme.

During fiscal 2014/15, payments for financial assets amounted to R3,5 billion, some 13,0 per cent higher than the total spent in the previous fiscal year. Included in this total was some R3,3 billion paid by National Treasury under the financial investment sub-programme. The sub-programme provides for funding needs of state-owned companies, such as the recapitalisation of the Land and Agricultural Development Bank of South Africa, the Postbank, and the Development Bank of Southern Africa.

Expenditure by national government in fiscal 2014/15



Interest paid on national government debt totalled R115 billion, some 13,4 per cent more than in fiscal 2013/14. The higher interest bill of government stemmed from the increase in issuance of domestic and foreign debt instruments. The *Budget Review 2014* envisaged that interest payments on national government debt would amount to R115 billion, or rise by 13,6 per cent year on year. This projection was kept broadly the same in February 2015.

Equitable share transfers to provinces equalled R362 billion in fiscal 2014/15, increasing by 6,9 per cent year on year as originally budgeted. These transfers are the main source of revenue for provincial governments to enable this level of government to fulfil its spending priorities, especially on education and health.

After accounting for cash-flow adjustments,[13] national government cash-flow expenditure amounted to R1 111 billion in fiscal 2014/15, some 5,3 per cent more than in the preceding fiscal year. Cash-flow adjustments were for surrenders, late departmental requests, outstanding transfers, and the revaluation of inflation-linked bonds.

National government revenue totalled R955 billion[14] in fiscal 2014/15, representing a year-on-year rate of increase of 8,4 per cent, which outstripped inflation but fell short of the originally budgeted amount by R8 billion. The *Budget Review 2014* projected that national government revenue would increase by 9,3 per cent year on year to amount to R963 billion. However, it was revised downwards to R954 billion in the *Budget Review 2015*, which was very close to the eventual outcome for the fiscal year. Relative to gross domestic product, national government revenue amounted to 24,8 per cent in fiscal 2014/15 – slightly higher than the ratio of 24,4 per cent recorded a year earlier.

National government revenue benefited from buoyant increases in personal income tax, taxes on property and value-added tax (VAT), but it was hampered by a slowdown in corporate income tax alongside a contraction in import duties and non-tax revenue.

13 Transactions arising from timing differences between the recording of transactions and bank clearances, along with late departmental requests for funds.

14 In the calculation by the Bank, revenue excludes premiums on debt portfolio restructuring and loan transactions (R8,2 billion in 2014/15).

National government revenue in fiscal 2014/15

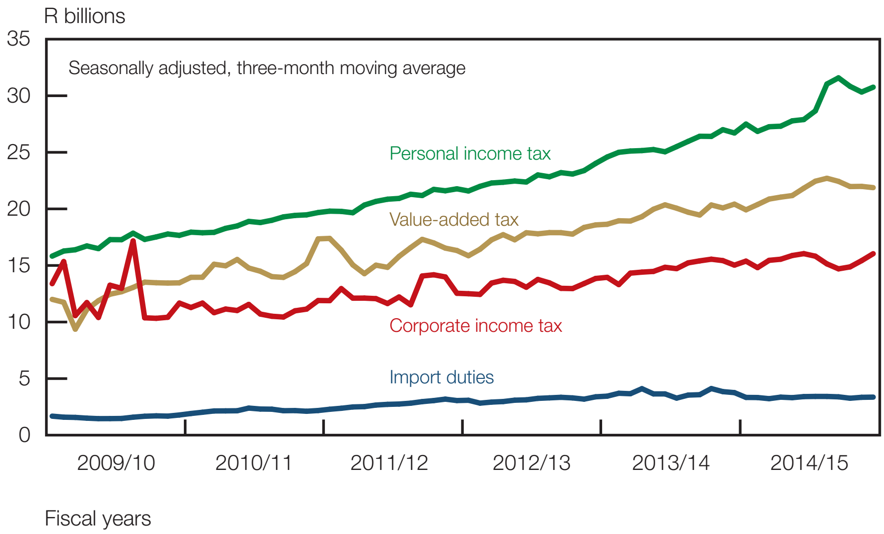
Revenue source	Originally budgeted		Actual Full 2014/15	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	557,0	9,7	561,8	10,6
Income tax on individuals	*335,9*	*8,0*	*353,9*	*13,8*
Income tax on companies	*198,9*	*10,8*	*186,6*	*4,0*
Payroll taxes	13,4	7,7	14,0	12,5
Taxes on property	11,5	9,4	12,5	18,9
Taxes on goods and services	361,2	11,3	356,3	9,8
Value-added tax (VAT)	*267,2*	*12,4*	*261,3*	*9,9*
Domestic VAT	*290,9*	*10,4*	*286,9*	*8,9*
Import VAT	*151,7*	*15,7*	*136,5*	*4,1*
Taxes on international trade and transactions	50,5	12,8	41,5	-7,2
Import duties	*50,3*	*13,9*	*40,5*	*-8,4*
Other revenue**	21,0	-12,7	20,4	-15,4
Less: SACU*** payments	51,7	19,3	51,7	19,3
Total revenue	**962,8**	**9,3**	**954,7**	**8,4**

* Fiscal 2013/14 to fiscal 2014/15
** Including extraordinary receipts
*** Southern African Customs Union

During fiscal 2014/15, taxes on income, profits and capital gains increased on account of brisk collections in personal income tax and withholding tax on dividends. Personal income tax increased due to pay-as-you-earn collections that were underpinned by above-inflation wage settlements and one-off payments that arose from the vesting of equity instruments forming part of individuals' compensation. The weak performance of income tax on companies continued, consistent with the subdued level of economic activity, but this tax category recorded a year-on-year rate of increase above revised budgeted projections. This improvement could be attributed to higher provisional payments, together with a saving in refunds and higher paragraph 19(3)[15] payments. Receipts from withholding tax on dividends increased sharply as companies continued to return profits to shareholders rather than to reinvest.

15 In terms of paragraph 19(3) of the Fourth Schedule to the Income Tax Act 58 of 1962, if the company's first and second provisional tax returns have been understated, the company may be requested to revise its estimate.

Tax collections by major type

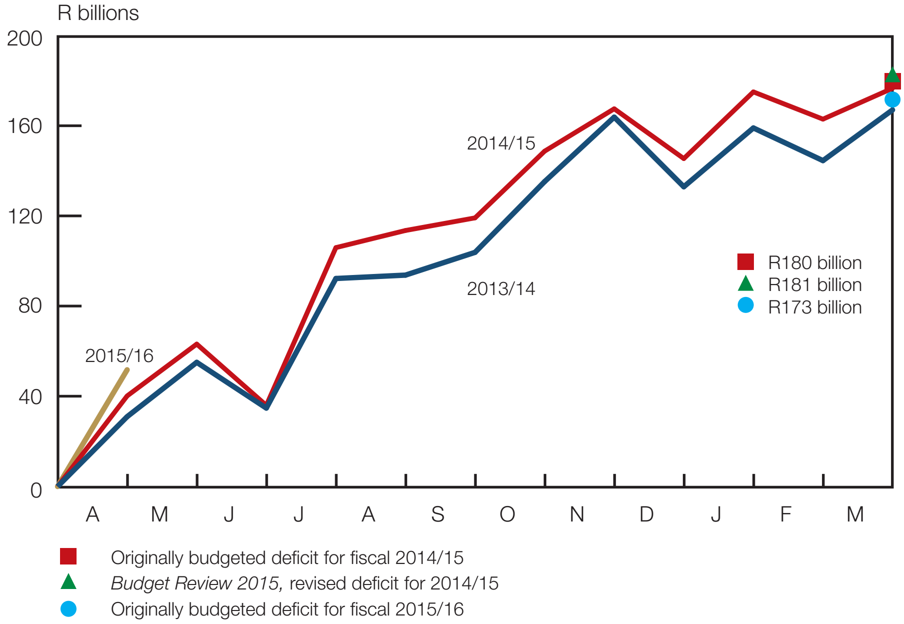


Taxes on property recorded a substantial year-on-year rate of increase of 18,9 per cent, which was mainly boosted by the sharp rise in transfer duties collected alongside solid receipts from security transfer tax. The sharp acceleration recorded in taxes on property reflected the upward trajectory in the property market.

Proceeds from taxes on goods and services recorded a solid year-on-year rate of increase above revised budget expectations, but fell below original budgeted projections. The increase was driven by solid collections from all the main components of this tax category. Domestic VAT increased, owing to growth in the finance, manufacturing, and wholesale and retail trade sectors. The increase in import VAT emanated from higher imports of original equipment components used in vehicle manufacturing mainly sourced from Germany and Japan.

Taxes on international trade and transactions continued to decline, recording a contraction of 7,2 per cent in fiscal 2014/15. The contraction in this tax category resulted from customs duties, owing to the reallocation of a significant amount to fuel levy, along with a decline in the importation of vehicles.

Cumulative deficit of national government



The net result of national government revenue and expenditure – the latter more than the former – was a cash-book deficit of R177 billion in fiscal 2014/15 – some R10 billion higher than the cash-book deficit of R167 billion recorded in the previous fiscal year. According to the *Budget Review 2014,* a cash-book deficit of R180 billion was projected for fiscal 2014/15. However, in the *Budget Review 2015*, the cash-book deficit was revised slightly upwards to R181 billion for the full fiscal year. As a ratio of gross domestic product, the cash-book deficit remained unchanged at 4,6 per cent in fiscal 2014/15.

In fiscal 2014/15, the primary balance[16] reached a deficit of R62,1 billion, or 1,6 per cent as a percentage of gross domestic product. This primary deficit could be compared with a primary deficit of R66,1 billion – or a deficit ratio of 1,8 per cent – recorded in fiscal 2013/14. The primary balance is a useful indicator of current fiscal effort, since interest payments are predetermined by the size of previous deficits.

The net result of national government cash-flow revenue and cash-flow expenditure was a cash-flow deficit of R156 billion in fiscal 2014/15 – some R11 billion lower than the cash-flow deficit recorded in the previous fiscal year. There was a difference of about R21 billion between the cash-book deficit and the cash-flow deficit in fiscal 2014/15, owing to the cash-flow expenditure adjustments mentioned earlier. The net borrowing requirement of national

16 The deficit/surplus recalculated by excluding interest payments from total expenditure.

government amounted to R161 billion. This borrowing requirement was R12 billion less than the net borrowing requirement recorded in the preceding fiscal year. During fiscal 2014/15, the net borrowing requirement was mainly financed domestically through the issuance of Treasury bills and government bonds, as reflected in the accompanying table.

National government financing in fiscal 2014/15

R billions

Item or instrument	Originally budgeted Full 2014/15[1]	Revised Estimate Full 2014/15[2]	Actual Full 2014/15	Actual Full 2013/14
Deficit[3]	**179,8**	**180,9**	**155,6[4]**	**167,1[4]**
Plus: Cost/profit on revaluation of foreign debt at redemption[5]	5,9	5,5	5,5	5,7
Net borrowing requirement	**185,7**	**186,3**	**161,1**	**172,7**
Treasury bills	23,0	10,0	9,6	23,0
Domestic government bonds	132,1	156,4	143,5	138,6
Foreign bonds and loans	7,2	13,8	13,8	6,0
Change in available cash balances[6]	23,4	6,0	-5,8	5,0
Total net financing[7]	**185,7**	**186,3**	**161,1**	**172,7**

1. *Budget Review 2014*
2. *Budget Review 2015*
3. Including extraordinary receipts and payments
4. Cash-flow deficit. This differs substantially from the cash-book deficit
5. Cost + profit –
6. Increase – decrease +
7. Components may not add up to totals due to rounding

South Africa's well-developed and liquid financial markets allowed government to secure funding from investors to cover the budget deficit at a reasonable cost. Net issues of government bonds included inflation-linked bonds worth R60 billion, which brought the outstanding balance on these instruments to R359 billion as at 31 March 2015.

Treasury bills were issued at an average interest rate of 6,0 per cent in fiscal 2014/15, whereas conventional bonds were sold at an average yield of 8,0 per cent and inflation-linked bonds at an average real yield of 1,7 per cent per annum. The average outstanding maturity of national government's domestic marketable bonds increased from 154 months as at 31 March 2014 to 170 months as at 31 March 2015.

In fiscal 2014/15, net issues worth R13,8 billion were recorded in foreign bonds and loans. Between March 2014 and March 2015, the average outstanding maturity of national government's foreign marketable bonds widened from 95 months to 115 months.

National government's available cash balances increased by R5,8 billion in fiscal 2014/15, bringing these balances to R212 billion as at 31 March 2015. Between March 2014 and March 2015, deposits with the Bank increased by R6,3 billion to amount to R159 billion at the end of March 2015.

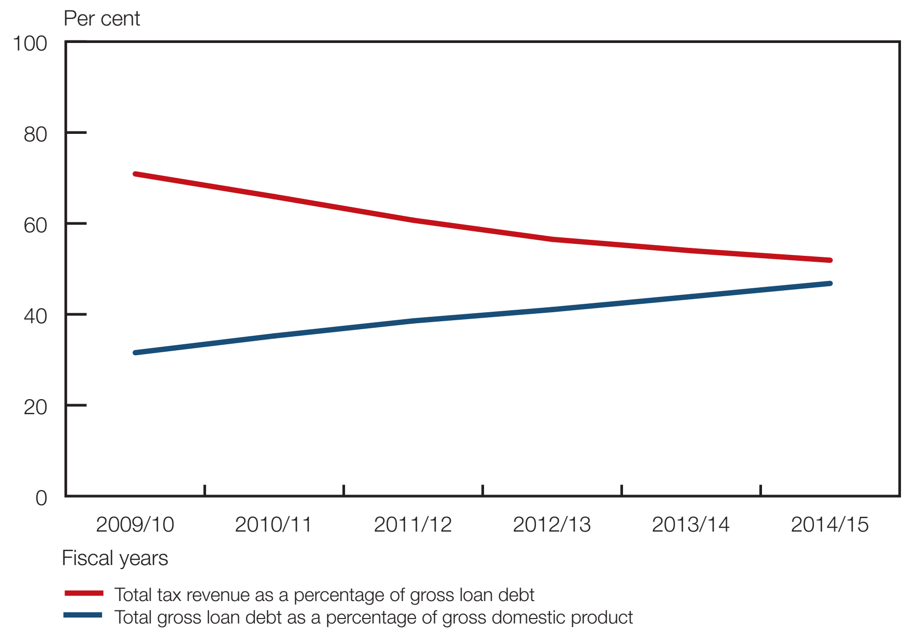
Domestic debt of national government increased significantly from R1 441 billion as at 31 March 2014 to R1 632 billion as at 31 March 2015. Higher issuances of Treasury bills and government bonds contributed to the rise in domestic debt levels. Government's debt consisted mainly of domestic debt instruments, which accounted for about 90 per cent of its entire debt portfolio. The *Budget Review 2014* projected domestic debt to total R1 631 billion at the end of fiscal 2014/15. This estimate was kept unchanged in the February 2015 Budget.

Between March 2014 and March 2015, foreign debt of national government increased from R144 billion to R167 billion. The increase in foreign debt emanated from the issuance of new bonds and the revaluation effects of the weaker exchange rate of the rand, which raised the rand value of debt commitments denominated in foreign currency. Among others, the rise in foreign debt emanated from the issuance of the new US$1,0 billion-denominated bond and the 500 million euro-denominated bond in July 2014, together with the debut issuance of the new US$500 million Sukuk (Islamic) bond during September 2014. The decision to issue an Islamic bond was informed by a drive to broaden the investor base and to set a benchmark for state-owned companies seeking diversified sources of funding for infrastructure development.

Foreign debt, before taking into account revaluation effects, amounted to R117 billion as at 31 March 2015. The difference between foreign debt valued at historical exchange rates (when the debt instruments were issued) and foreign debt valued at prevailing exchange rates amounted to R50,3 billion as at 31 March 2015. The widening gap could be attributed to a further weakening of the rand during March 2015. The *Budget Review 2014* projected that the foreign debt of national government would reach R147 billion as at 31 March 2015. However, it was revised upwards in the *Budget Review 2015* to amount to R161 billion.

Total gross loan debt of national government, consisting of domestic and foreign debt, rose from R1 585 billion to R1 799 billion between March 2014 and March 2015. Original budget projections were for total gross loan debt to amount to R1 778 billion for the full fiscal year, but it was revised upwards by R14 billion in February 2015. Relative to gross domestic product, total gross loan debt increased from 43,9 per cent to 46,8 per cent between these respective dates.

Total tax revenue and gross loan debt of national government



Statement of the Monetary Policy Committee

26 March 2015

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

Since the previous meeting of the Monetary Policy Committee (MPC), the near-term inflation outlook has deteriorated with the partial reversal of the recent petrol price declines, emerging upside pressures on food, and possible further electricity tariff increases. The rand exchange rate has depreciated further, adding to upside inflation risks, against the backdrop of the expected, but uncertain, tightening of United States (US) monetary policy. The domestic economy, however, remains weak amid electricity supply constraints and relatively subdued domestic demand.

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 4,4 per cent and 3,9 per cent in January and February respectively. The lower trend in inflation was mainly due to lower petrol prices, but recent oil price and exchange rate developments suggest that this is likely to be the low point for the medium-term inflation trajectory. The February outcome was marginally above market consensus and the Bank's forecast of 3,8 per cent, partly as a result of higher-than-expected health insurance price inflation of 9,6 per cent.

Petrol prices declined by 26,6 per cent in February, while food price inflation measured 6,5 per cent in February, down from 6,6 per cent in January. By contrast, core inflation, which excludes food, petrol and electricity, remained near the upper end of the inflation target range, having measured 5,8 per cent in both January and February.

The favourable impact of the lower oil price was also evident in the headline producer price inflation for final manufactured goods, which measured 3,5 per cent and 2,6 per cent in January and February respectively, compared with 6,5 per cent and 5,8 per cent in the preceding two months. The downward trend is also expected to reverse in the face of adverse fuel and food price developments.

According to the Bank's latest forecasts, inflation is now expected to average 4,8 per cent in 2015, compared with the previous forecast of 3,8 per cent. A first-quarter average of 4,2 per cent is now projected as the low point, compared with 3,5 per cent previously. The strong base effects in the first quarter of 2016 are expected to result in a temporary one-quarter breach of the inflation target during that quarter at 6,7 per cent, with the average for the year expected to measure 5,9 per cent, compared with 5,4 per cent previously. Inflation is expected to average 5,5 per cent in the final quarter of the year, compared with the previous forecast of 5,3 per cent.

The forecast for core inflation is more or less unchanged at 5,5 per cent and 5,2 per cent in 2015 and 2016 respectively, the latter up marginally from 5,1 per cent. The peak is still expected at 5,8 per cent in the first quarter of 2015. The deterioration in the headline forecast is due to an expected acceleration in food price inflation and the impact of the higher fuel and Road Accident Fund (RAF) levies on the petrol price, due to be implemented in April. This is in addition to the current under-recovery on the petrol price. The international oil price assumption remains unchanged from the previous meeting, with a moderate increase over the next two years. The electricity price assumption is also unchanged, with increases of 11,6 per cent assumed from July 2015 and July 2016. However, there is a high possibility of significant further electricity tariff increases.

Inflation expectations, as reflected in the Bureau for Economic Research (BER) survey conducted in the first quarter of 2015, improved for all respondents for 2015, but returned to levels around the upper end of the target range in the next two years. On average, expectations for 2015 declined from 5,8 per cent to 5,4 per cent, with a 1 percentage point decline in the expectations of analysts to 4,4 per cent, and a 0,2 percentage point decline in expectations of business people and trade union officials to 6,0 per cent and 5,7 per cent respectively. However, expectations for 2016 and 2017 are higher, with expectations of the categories of respondents ranging between 5,6 per cent and 6,2 per cent in 2016, and between 5,3 per cent and 6,3 per cent in 2017.

The global economic outlook remains uncertain, with a moderate slowdown in the US and China, and an improvement in the outlook and performance of the euro area and Japan. The US grew at a rate of 2,2 per cent in the fourth quarter of 2014, down from 5,0 per cent in the previous quarter, as the stronger dollar impacted negatively on export growth and investment. Nevertheless, the longer-term growth outlook remains positive. By contrast, the weaker euro and accommodative European Central Bank (ECB) monetary policy have contributed to improved growth prospects in the region, particularly in the core countries. In the fourth quarter of 2014, euro area growth surprised on the upside at 1,3 per cent and ECB forecasts for 2015 have been revised upwards by 0,5 percentage points to 1,5 per cent. The Japanese economy emerged from two quarters of negative growth, recording a growth rate of 1,5 per cent in the fourth quarter.

The larger emerging markets continued to be a drag on global growth. China's economic prospects remain relatively subdued with most domestic demand indicators weakening since the beginning of the year. Consensus forecasts are for both Russia and Brazil to record negative growth rates in 2015. The outlook for the Indian economy, by contrast, is more positive.

Global financial markets continue to be dominated by changing expectations of the timing and speed of the normalisation of US monetary policy. Favourable labour market data in the past weeks in the US resulted in a strong appreciation of the US dollar against most currencies, as expectations of the start of policy tightening were brought forward. However, these expectations were tempered following the March Federal Open Market Committee (FOMC) meeting where the growth and inflation forecasts were downgraded. Uncertainty persists regarding the timing of the first interest rate increase. The FOMC has not only re-emphasised the gradual nature of the expected path of interest rates, but the members' individual expectations of the interest rate path were also revised down significantly. In response to this guidance, the dollar weakened somewhat against most currencies.

While the US prepares to tighten monetary policy, the global trend has generally been towards policy easing or maintaining an accommodative bias. Both Japan and the euro area have continued with their quantitative easing, while a number of countries have eased their policy further, amid benign inflation pressures and concerns about deflation in some countries.

The volatile global trends were reflected in the high degree of volatility in the rand/US dollar exchange rate. Since the previous MPC meeting, the rand has depreciated by about 2 per cent against the US dollar, but traded in a wide band of around R11,27 and R12,52 against the US dollar, with a marked recovery after the recent FOMC meeting. Over the same period, the rand was more or less unchanged against the euro. On a trade-weighted basis, the rand depreciated by 0,7 per cent. Although the rand movement reflected US dollar strength to a large degree, the rand was also negatively impacted by domestic factors, including the weak January trade data and issues relating to Eskom and the domestic growth outlook.

The rand is expected to remain volatile while uncertainty regarding the outlook for US monetary policy persists. The commencement of US interest rate increases, when it happens, is expected to put the currency under pressure. The rand is also expected to remain sensitive to developments on the current account of the balance of payments. The marked narrowing of the trade account in the fourth quarter, reflective of higher export volumes and lower import volumes, contributed to the narrowing of the deficit to 5,1 per cent of gross domestic product (GDP) in that quarter, and to 5,4 per cent for the year. At this stage it is unclear whether or not this represents the beginning of a sustained compression of the current account after a long period of real exchange rate depreciation. While lower international oil prices are expected to continue to impact favourably on the import bill, as oil imports account for just under 20 per cent of merchandise imports, the wide trade deficit in January, should it persist, suggests that the adjustment may remain slow.

Although the current-account deficit to date has been relatively comfortably financed, the global capital flow environment is increasingly challenging, particularly against the backdrop of expected increases in US interest rates. During the fourth quarter of 2014, the deficit was financed primarily through flows into the banking sector. In the year to date, the net sales of bonds and equities by non-residents as reported by the exchanges suggest that net portfolio flows on the financial account of the balance of payments in the first quarter may be negative for the second consecutive quarter.

The outlook for the domestic economy remains overshadowed by the electricity supply constraint, which appears to have had an adverse effect on recent economic activity. This constraint is likely to persist for some time, and has resulted in a downward revision of short-term potential output to between 2,0 and 2,5 per cent. Nevertheless, some improvement on the 2014 growth rate of 1,5 per cent is expected in 2015, in the absence of protracted work stoppages. The Bank's growth forecast for 2015 is unchanged at 2,2 per cent, and marginally lower at 2,3 per cent for 2016. The Bank's leading indicator of economic activity, which had followed a moderately declining trend in 2014, also suggests a continuation of the sluggish growth outlook.

Underlying this outlook is the continued weakness in growth of gross fixed capital formation, which contracted by 0,4 per cent during 2014, with private-sector fixed investment contracting by 3,4 per cent, despite some recovery in the final quarter of the year. The main contribution to fixed capital formation came from general government, which accounts for a relatively small proportion of the total. With business confidence subdued, and amid binding electricity supply constraints, the prospects for a meaningful acceleration remain weak.

Initial high frequency data for 2015 are also a cause for concern, should the trends persist. Both real mining and manufacturing output contracted on a month-on-month basis in January; the Kagiso Purchasing Managers' Index (PMI) declined sharply to below the neutral 50 level in February; the Rand Merchant Bank/Bureau for Economic Research (RMB/BER) Business Confidence Index declined to below the neutral 50 level in the first quarter of 2015 to 49 points, with the decline most marked in the manufacturing sector; and the building sector also shows signs of slowing, with both buildings completed and new plans passed declining, along with lower confidence in the sector, particularly with respect to residential construction.

Against this backdrop, employment growth has stagnated and is likely to remain low: according to the Quarterly Employment Statistics of Statistics South Africa, formal-sector non-agricultural employment contracted by 0,2 per cent over four quarters in the final quarter of 2014, with growth in public-sector employment more than offset by job shedding in the private sector.

Growth in final consumption expenditure by households increased marginally to an annualised quarterly rate of 1,6 per cent in the fourth quarter of 2014, and measured 1,4 per cent over the year. Both retail trade and wholesale trade sales declined on a month-to-month basis in January, and the outlook remains uncertain, as the potential boost to consumption from lower petrol prices has been partially reversed. However, confidence of retailers, particularly of durable goods, remains relatively high. High debt levels, low employment growth and continued tight credit conditions are likely to constrain consumption expenditure growth in the absence of strong increases in real disposable incomes or strong positive wealth effects.

Fiscal policy is set to continue on its consolidation path. As outlined in the recent *Budget Review*, the projected deficit for both 2014/15 and 2015/16 is estimated at 3,9 per cent of GDP, despite lower GDP growth forecasts, and is expected to narrow to 2,5 per cent of GDP by 2017/18. This is envisaged to be achieved through a combination of lower expenditure compared with the 2014 budget estimate and higher tax revenues. This is expected to exert a moderate constraining effect on household consumption expenditure growth.

Trends in bank credit extension to the private sector have remained relatively unchanged, with highly divergent patterns in loans granted to the corporate and household sectors. While growth over twelve months in total loans and advances to the private sector measured 8,3 per cent in January, credit extended to corporates increased by 14,3 per cent, while that to households increased by 3,5 per cent. Growth across all the main categories of credit extension to households has remained subdued in recent months, despite a slight increase in unsecured lending off a low base. Both mortgage credit extension and instalment credit and leasing finance reflected slow growth in housing and motor vehicle sales. Commercial mortgages, by contrast, experienced buoyant growth.

The recent higher trend in wage settlements has the potential to put further upside pressure on inflation. Nominal remuneration per worker over four quarters increased by 7,7 per cent in the fourth quarter of 2014 and, after accounting for changes in labour productivity, resulted in a unit labour cost increase of 6,2 per cent, up from 5,7 per cent in the previous quarter. The Andrew Levy Employment Publications survey shows that during 2014, the average wage settlement rate in collective bargaining agreements amounted to 8,1 per cent, compared with 7,9 per cent in 2013. The public-sector wage settlement is still not agreed, and the outcome is expected to have an important bearing on the general trend of wage settlements in the economy in 2015.

The recent downward trend in consumer food price inflation is forecast to be reversed in the coming months, following the severe drought in some of the maize producing areas of the country. With drastically reduced maize crop estimates, South Africa is expected to become a net importer of maize during the year, and spot prices have moved closer to import parity. The spot price of white maize, for example, has increased by around 30 per cent since the beginning of the year, reinforced by a depreciating currency and despite moderating global prices. Meat prices have also remained elevated.

International oil prices have been relatively volatile but at vastly lower levels than those that prevailed for much of 2014. Having reached a low of around US$45 per barrel in January, Brent crude oil prices increased to around US$62 per barrel at the end of February, before declining to current levels of around US$57 per barrel. The partial recovery in the international oil price, in conjunction with the recent depreciation of the rand against the US dollar, and the impending fuel and RAF levies, will have reversed a large part of the favourable impact on domestic petrol prices, which had declined by about R4 per litre between August 2014 and February 2015.

The respite to the headline inflation outlook from lower international oil prices appears to have been short-lived. However, the expected breach of the target range in 2016 is likely to be temporary, and the main drivers of the deterioration of the inflation forecast are exogenous. While the MPC will look through these developments, the Committee remains concerned about the possible impact on inflation expectations, which remain at the upper end of the target range over the longer term.

The rand exchange rate continues to be the main upside risk to the inflation outlook, and remains highly vulnerable to the timing and pace of US monetary policy normalisation. The extent to which US rate increases are priced into the exchange rate remains uncertain. While the weaker euro has provided some offset, and therefore a more moderate depreciation of the trade-weighted exchange rate, this effect is partial. Furthermore, the rand will also remain sensitive to domestic developments, including the slow pace of contraction in the deficit on the current account of the balance of payments.

Wage and salary increases in excess of inflation and productivity growth also pose an upside risk to inflation. The MPC assesses the risk to the inflation outlook to be on the upside, with the possibility of further electricity tariff increases accentuating this risk.

At the same time, the growth outlook remains constrained by electricity supply concerns and low business confidence, and the risks to the growth forecast are assessed to be moderately on the downside. Demand pressures on inflation remain muted, reinforced by a moderately tighter fiscal policy stance.

In its previous statement the MPC noted that the more favourable inflation path allowed for some room to pause in the process of domestic monetary policy normalisation. The deterioration in the outlook suggests that this scope has narrowed. However, given the uncertainties related to US policy normalisation and the weak state of the domestic economy, the MPC has unanimously decided to keep the repurchase rate unchanged for now.

The timing of future interest rate increases will be dependent, as before, on a range of domestic and external factors. The MPC will remain vigilant and will not hesitate to act in order to maintain the integrity of the inflation-targeting framework.

Statement of the Monetary Policy Committee

21 May 2015

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

The challenges facing monetary policy have persisted and, as expected, the downward trend in inflation, which was mainly attributable to the impact of lower oil prices, has reversed. Headline inflation is expected to temporarily breach the upper end of the target range early next year, and thereafter to remain uncomfortably close to the upper end of the target band for most of the forecast period. The upside risks have increased, mainly due to further possible electricity price increases. The exchange rate also continues to impart an upside risk to inflation as uncertainty regarding impending United States (US) monetary policy continues. Domestic demand, however, remains subdued, while electricity constraints continue to weigh on output growth and general consumer and business confidence.

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 4,0 per cent and 4,5 per cent in March and April respectively. The petrol price increase of R1,56 per litre in April resulted in a decline in the rate of disinflation from the transport category, from -5,0 per cent in March to -1,1 per cent in April, while food price inflation moderated further. The main contributions to the April headline rate came from the categories of food and non-alcoholic beverages, housing and utilities, and miscellaneous goods and services, which together accounted for 3,2 percentage points of the outcome. Core inflation, which excludes food, petrol and electricity, moderated from 5,7 per cent in March to 5,6 per cent in April.

Producer price inflation for final manufactured goods appears to have reached a low point in February at 2,6 per cent, following the 3,1 per cent outcome in March, which was higher than market consensus. While food price inflation moderated, the main upside contribution came from coal and petroleum products where disinflation slowed. The recent increase in international oil prices and higher agricultural crop prices, along with further electricity price increases from mid-year are likely to sustain the upward momentum.

The inflation forecast of the Bank has changed since the previous meeting of the MPC. Inflation is now expected to average 4,9 per cent in 2015, with a first quarter low of 4,1 per cent. A temporary breach of the upper end of the inflation target band is still expected during the first quarter of 2016, to peak at 6,8 per cent, and to decline to 6,0 per cent by the second quarter of that year. An average inflation rate of 6,1 per cent is forecast for the year. The forecast period has now been extended to the end of 2017, with an average inflation rate of 5,7 per cent expected for the year, and 5,6 per cent in the final quarter.

The forecast for core inflation has also increased marginally, to 5,6 per cent in 2015, and to 5,4 per cent in 2016. Core inflation is expected to average 5,2 per cent in 2017, with a final quarter average of 5,1 per cent. Much of the persistence of core inflation at these levels is attributed to high levels of wage growth, currency depreciation and inflation expectations entrenched at the upper end of the target range.

The headline inflation forecast assumes electricity price increases of 13,0 per cent from July 2015 and July 2016 in line with the original multi-year price determination process of the National Energy Regulator of South Africa (NERSA). However, the application by Eskom for a further 12,6 per cent increase from 1 July 2015 will be decided at the end of June. Given the uncertainty regarding this decision, both in terms of quantum and timing of implementation, it has not been incorporated into the forecast, but poses a significant upside risk. Should NERSA fully accede to the Eskom request, a higher peak of headline inflation as well as a more extended breach of the target can be expected. The direct and indirect effects of such an increase could increase average inflation by around 0,5 percentage points over a year.

The Bureau for Economic Research (BER) inflation expectations survey for the second quarter of 2015 will only be released in June 2015. Median inflation expectations as reflected in the Reuters Econometer poll, at 4,9 per cent and 5,9 per cent for 2015 and 2016 respectively, are similar to the Bank's forecast, although there is a fairly wide dispersion between respondents. The break-even inflation rates, as reflected in the yield differential between conventional bonds and inflation-linked bonds, have been more volatile and are above the upper end of the target range over all maturities, having reversed their earlier declines this year.

The outlook for the global economy is broadly unchanged since the previous meeting of the Monetary Policy Committee (MPC). The US growth forecast for 2015 has been revised down by about half a percentage point following the broad-based first quarter estimate of 0,2 per cent, although this deterioration is generally believed to be temporary. Growth of around 3,0 per cent is now expected in 2015, still above estimated potential. Eurozone growth has surprised on the upside, and while still relatively subdued at an expected 1,5 per cent for 2015, there are indications that the region is responding to the European Central Bank (ECB) monetary stimulus. Any possible fall-out from the debt crisis in Greece remains uncertain. Japan is expected to growth by just below 1 per cent this year.

Growth in some of the larger emerging markets remains weak. Negative growth is being experienced in Brazil and Russia, and although the Chinese economy is still slowing, with first quarter growth of around 5,3 per cent, a hard landing is not expected amid further monetary policy easing. By contrast, the Indian economy has been performing strongly, partly in response to policy reforms. While growth in Africa has remained relatively robust, downside risks have emerged in some of the oil and commodity-producing countries.

Global inflation remains benign, but the partial recovery in the international oil price has ameliorated the deflationary risks in some of the advanced economies in particular. Higher, but still low, inflation expectations contributed to a sharp rise in bond yields in some of the advanced economies, with spillovers to other bond markets. However, most central banks remain in loosening mode, with further reductions in policy interest rates in a number of countries since the previous meeting of the MPC. A notable exception has been Brazil, where monetary policy was tightened for the third time this year.

Global financial markets remain focused on the timing of US monetary policy tightening. Low inflation and the weaker first quarter growth outcome have pushed out expectations regarding the starting date, but financial markets generally expect the first move to be during 2015, most likely in September, followed by a gradual data-dependent tightening cycle. Continued financial market volatility is likely to ensue with each relevant data release.

The uncertainty regarding US growth prospects contributed to a weakening of the US dollar against most currencies in recent weeks. Since the previous meeting of the MPC, the rand has traded in a relatively narrow band of between R11,80 and R12,20 against the US dollar, and is currently almost unchanged since then. However, in line with US dollar weakening, the rand has depreciated by 0,6 per cent against the euro and by 4,0 per cent against the pound sterling. On a trade-weighted basis, the rand has depreciated by 0,3 per cent.

The rand continues to be vulnerable to the ebbs and flows of global risk perceptions and associated capital flows, particularly in response to anticipated changes to US monetary policy. At the same time, there is a great deal of uncertainty regarding the extent to which US monetary policy normalisation has been priced into the rand. However, past patterns suggest that some further pressure is likely on the exchange rate and long bond yields as the start of the US tightening cycle becomes more certain. Reflecting this uncertainty, non-resident bond and equity flows have been quite volatile. According to JSE Limited data, non-residents have been net buyers of bonds and equities to the value of around R15 billion since the beginning of this year.

The rand therefore remains an upside risk to the inflation outlook, although the degree of upside risk is tempered somewhat by the continued relatively low level of pass-through to consumer price inflation. The Bank estimates that the actual pass-through could be about half of what is currently implied in the forecast model, but it is still uncertain as to whether this reflects a permanent change or a temporary phenomenon which can reverse rapidly.

The domestic growth outlook remains weak, amid continued electricity supply constraints and low and declining levels of business and consumer confidence. The Bank's forecast for gross domestic product (GDP) growth is marginally down from the previous forecast: growth is expected to average 2,1 per cent and 2,2 per cent in 2015 and 2016 respectively, and to increase to 2,7 per cent in 2017. Growth for the next two years therefore is expected to be more or less in line with the Bank's estimate of short-term potential output growth of between 2,0 and 2,5 per cent. It also suggests that the negative output gap, currently estimated at around 1,5 per cent, is likely to persist. This forecast makes an assumption regarding the persistence of electricity shortages, which are expected to be relieved somewhat only in 2017. However, the risks to growth are assessed to be on the downside. The moderate decline in the Bank's composite leading business cycle indicator also suggests a continuation of the sluggish growth outlook.

Despite a strong performance by the mining sector in March, first-quarter growth is expected to be subdued and much lower than the 4,1 per cent measured in the fourth quarter of 2014. According to Statistics South Africa, the physical volume of mining output increased at a quarter-to-quarter rate of 1,9 per cent in the first quarter. Platinum group metals output was particularly strong in March with a month- on-month increase of 26,6 per cent. By contrast, manufacturing output appears to have contracted by about 0,6 per cent in the quarter, consistent with the continued decline in the Kagiso Purchasing Managers' Index (PMI), down to 45,4 index points in April, and the slight decline in capacity utilisation in the manufacturing sector. The real value of building plans passed declined for a fourth successive month in February, in line with a weaker First National Bank/Bureau for Economic Research (FNB/BER) Building Confidence Index in the first quarter of the year.

Consumption expenditure by households is expected to remain relatively subdued, as higher personal tax rates take effect and the benefits of lower petrol prices dissipate. There are mixed signals from the retail trade sales, which rebounded strongly in February but then contracted in March on a month-on-month basis. A quarterly growth rate of 0,9 per cent was recorded in the first quarter of 2015. Growth in expenditure on durable goods in particular is expected to decline, as reflected in the sluggish new vehicle sales, which decreased further in April. The FNB/BER Consumer Confidence Index declined sharply in the first quarter of 2015, signalling modest growth in consumption expenditure going forward.

Subdued levels of household consumption expenditure are reflected in credit extension by banks to households, where the divergence between households and corporates continues. Growth in credit extension to the corporate sector was 13,9 per cent in March 2015, compared with 3,6 per cent to households. The latter is reflective of continued weak growth across all the main categories of credit, influenced by both supply and demand factors. These trends are likely to be reinforced further by the implementation of affordability assessment regulations as part of revisions to the National Credit Regulations in March. The impending changes in the Basel III regulatory requirements are also contributing to relatively tight credit conditions. At the same time, weak employment growth, high debt levels and continued household deleveraging, as well as expectations of higher interest rates may have impacted on the demand for credit.

Trends in remuneration growth remain a concern to the MPC. Average wage and salary growth has been in excess of inflation for some time, imparting some degree of automatic indexation to wage settlements, and therefore maintaining higher levels of inflation. In the fourth quarter of 2014, year-on-year growth in nominal remuneration per worker in the non-agricultural formal sector increased by 7,7 per cent. After accounting for labour productivity growth of 1,3 per cent, unit labour costs showed an increase of 6,3 per cent, from 5,7 per cent in the previous quarter. According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements measured 7,9 per cent in the first quarter of 2015. The public-sector wage settlement appears to have been settled at an increase of 7 per cent, but the full impact on the total government wage bill is still unclear. Upside risks to inflation from wage pressures are still expected, with the unresolved settlements in the coal and gold-mining sectors of particular concern.

While high wage settlements could underpin household consumption expenditure, this could be offset in part by inevitable reductions in employment.

Food price inflation is expected to contribute to upside inflation pressures. This is despite the continued moderation of global food prices and a recent declining trend of food price inflation at the CPI level and lower meat price inflation at the producer price level. Food price inflation measured 5,0 per cent in April following eight successive months of moderation. Similarly, final manufactured food producer price inflation moderated to 5,8 per cent in March. However, domestic drought conditions have resulted in a need to import yellow maize, contributing to maize prices rising close to import parity levels. These pressures, along with the weaker exchange rate, are expected to reverse the favourable trend in food price inflation by the second half of this year.

The international oil price appears to have stabilised in the US$60–US$70 per barrel range, as capital expenditure plans have been scaled back following the collapse of prices in the later part of last year. Since the previous meeting of the MPC, Brent crude oil prices have increased by about US$10 per barrel. Domestic petrol prices remained unchanged in May, but a further increase of around 50 cents per litre, should current trends persist, is likely in June, attributable mainly to higher international product prices.

Although the upward revision of the inflation forecast was relatively small, the persistence of medium-term inflation at elevated levels and the deteriorating risks to the outlook are an increasing concern to the MPC. While currently the breach is expected to be temporary, the longer-term trajectory is close to the upper end of the target range, and the upside risks make this trajectory vulnerable to any significant changes in inflation pressures.

The main risks to the outlook remain electricity tariff increases, the exchange rate and wage settlements. Significant additional electricity tariff increases are likely to cause inflation to diverge significantly from the target range for a more extended period than our baseline forecast suggests. The rand remains vulnerable to global market reaction to US policy normalisation, particularly in the context of South Africa's twin deficits. Any significant weakening of the exchange rate in reaction to US monetary policy tightening could cause inflation to diverge even further from target, and set in motion an exchange rate-inflation spiral. Furthermore, the possibility of a wage-price spiral, should settlements well in excess of inflation become an economy-wide norm, also poses a risk to the outlook.

The MPC recognises that domestic inflation is not driven by demand factors that are more easily dealt with through monetary policy responses. Household consumption expenditure remains relatively subdued. While monetary policy should generally look through supply side shocks, such as large electricity tariff increases and oil price changes, the MPC has to be mindful of the second-round effects of such shocks. In particular, we need to monitor closely the possible impact on inflation expectations which remain uncomfortably close to the upper end of the target range over the longer term.

Growth remains fragile, constrained by electricity shortages and low business confidence, and the risk to the outlook remain on the downside. But this cannot be solved by monetary policy alone. Monetary policy action will need to achieve a fine balance between achieving the Bank's primary mandate of price stability and not undermining growth unduly.

The MPC has decided to keep the repurchase rate unchanged at this meeting. Four members of the committee favoured an unchanged stance while two favoured a 25 basis point increase. The deteriorating inflation outlook suggests that this unchanged stance cannot be maintained indefinitely. The MPC will continue to closely monitor the evolution of inflation expectations and other factors that could undermine the longer-term inflation outlook and stands ready to act when appropriate.

From the next meeting in July, the Bank will take further steps to increase transparency by publishing the assumptions underlying the Bank's forecast with the MPC statement.

Note on the flow of funds in South Africa's national financial account for the year 2014

by C Monyela and S Madonsela[1]

1 The views expressed are those of the authors and do not necessarily reflect the views of the South African Reserve Bank (the Bank). The Bank wishes to express its sincere appreciation to all the reporting organisations – government departments, financial markets, and other public- and private-sector institutions – for their co-operation in providing the data used for the compilation of South Africa's financial accounts.

Introduction

The movement of funds across the real, financial, fiscal and external accounts of the economy, collectively called the national financial account, is comprehensively captured in the flow-of-funds framework in South Africa. This systematic macroeconomic analysis of financial interlinkages among the major sectors is accomplished by collecting all applicable balance-sheet data, processing their transaction data, and consolidating and matching them on a sector-to-sector basis.

This note presents flows among economic sectors in 2014, as influenced by their financing and investment needs against the backdrop of domestic and global economic conditions. The applicable quarterly accounts for the 2014 flow of funds are appended to this note and the annual summary is published on pages S–46 to S–47 of this issue of the *Quarterly Bulletin*.

Sectoral financing balances

The financing balances in Table 1 show that flows from the foreign sector played a crucial role in 2014. Non-residents injected funds which were sufficient to close a collective domestic deficit of R206 billion in 2014. This deficit widened by 1 per cent from R204 billion presented in 2013, mainly on account of broader public-sector expenditure. The general government sector incurred a financing shortfall of R155 billion, while non-financial public corporate business enterprises also registered a large financing deficit of R103 billion in 2014 from the R99 billion reported in 2013. The public sector's large deficit position stemmed from countercyclical fiscal policies to support economic activity as well as critical infrastructure spending. During the same period, non-financial private corporate business enterprises were net borrowers of R4,9 billion – about half the shortfall recorded in 2013 – having spent R406 billion worth of gross capital formation. A deficit of R47 billion by households was also added to the domestic financing shortfall in 2014.

Table 1 Financing balances,[1, 2] 2013 and 2014

R millions Surplus units (+)/deficit units (-)

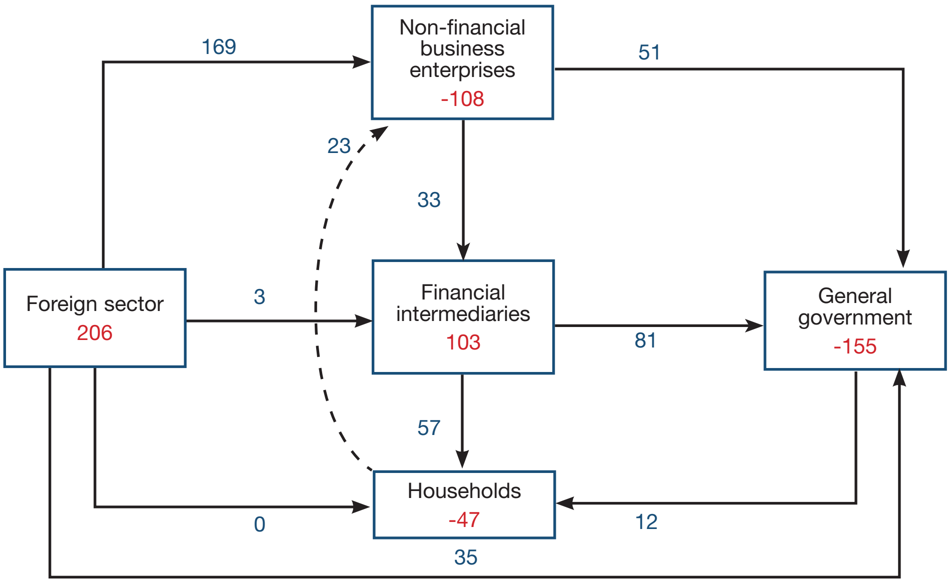
	2013			2014		
	Gross saving	Gross capital formation	Net lending (+)/net borrowing (-)	Gross saving	Gross capital formation	Net lending (+)/net borrowing (-)
Foreign sector[3]	203 531	–	203 531	206 408	–	206 408
Financial intermediaries	84 831	16 512	68 319	120 201	17 252	102 949
General government	-5 862	109 964	-115 826	-25 190	129 426	-154 616
Non-financial business enterprises						
Public	44 903	143 699	-98 796	47 281	149 986	-102 705
Private	364 401	374 671	-10 270	401 317	406 216	-4 899
Households[4]	19 340	66 298	-46 958	22 791	69 928	-47 137
Total	711 144	711 144	0	772 808	772 808	0

1. Gross saving plus net capital transfers less gross capital formation. Gross capital formation consists of fixed capital formation and changes in inventories, before providing for consumption (depreciation) of fixed capital.
2. A positive amount reflects a net lending position and, by implication, the net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and, by implication, the net incurrence of financial liabilities.
3. A positive amount reflects a surplus for the rest of the world and is therefore a deficit on South Africa's current account. A negative amount would represent a deficit for the rest of the world and a surplus on South Africa's current account.
4. Including unincorporated business enterprises and non-profit institutions serving households.

The diagram in Figure 1 summarises financial interrelations of economic agents in the economy, as aggregated into five broad sectors. It is evident that the domestic saving-investment gap remained large in 2014, as mirrored by the foreign sector's net lending position of R206 billion. The bulk of non-residents' funds went to non-financial business enterprises, along with their large net borrowing position of R108 billion. The general government sector sourced R35 billion from the foreign sector, R51 billion from non-financial business enterprises and R81 billion from financial intermediaries. In turn, general government transferred R12 billion to households.

Figure 1 Net inter-sectoral flows of funds, 2014

R billions



Note: Numbers may not balance perfectly due to rounding. The numbers inside the boxes represent the net lending (+) or borrowing (-) positions of the sectors, and those outside the boxes illustrate inter-sectoral flow of funds and the direction of flows. To calculate the net lending or borrowing position of each sector, inflows are treated as negatives and outflows as positives

Table 2 shows the aggregated usage of selected financial instruments by borrowers and investors in 2014. As a share of total flows, the use of cash and deposits declined from 18 per cent in 2013 to 16 per cent in 2014, while fixed-interest securities' share was unchanged at 14 per cent. Over the same period, credit extension increased from 17 per cent to 19 per cent as domestic demand edged up hesitantly in 2014. Similarly, the share of ordinary shares increased from 12 per cent in 2013 to 15 per cent in 2014, against the backdrop of a robust performance by some sectors of the equity market.

Table 2 Flow of funds: usage of main financial instruments*

	Percentage of total flows	
	2013	2014
Cash and deposits	18	16
Credit extension	17	19
Fixed-interest securities	14	14
Ordinary shares	12	15

* Do not sum up to 100 as the table does not cover all instruments

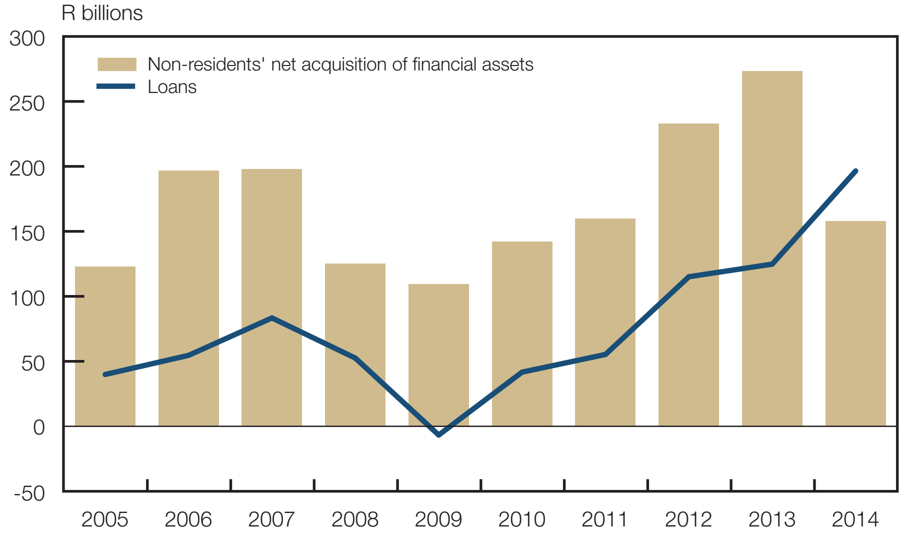
Sectoral analysis

Surplus economic units lend their excess funds by acquiring financial assets and thereby increase their expected income level. Correspondingly, the deficit units incur financial liabilities to finance their shortfall, and such liabilities reduce their future spending capacity. The choice of financial instruments used during intermediation in 2014 was guided by, among other things, the relevant regulatory environment, macroeconomic conditions, available financing and investment choices, and the risk-return profile of financial instruments. Against this background, each sector is analysed below to reveal the choice of financial instruments in 2014.

Foreign sector

After the interruption in 2009, non-residents' net acquisition of financial assets increased successively until 2013, comfortably meeting the saving-investment gap in the domestic economy. However, in 2014 the foreign sector's total flows declined to R158 billion, or 42 per cent less than the R274 billion documented in 2013, as volatility in emerging-market securities resurfaced due to the uncertainty around the timing and speed of the United States Federal Reserve's policy normalisation phase, and policy divergence in the global economy. During 2014 the local economy benefited from R44 billion worth of investment inflows from non-residents through long-term government bonds, R41 billion in equity, and a staggering R197 billion in loans. The foreign sector's lower total flows recorded in 2014 were generally in line with trends in other emerging-market economies.

Non-resident funding to South Africa



Financial intermediaries

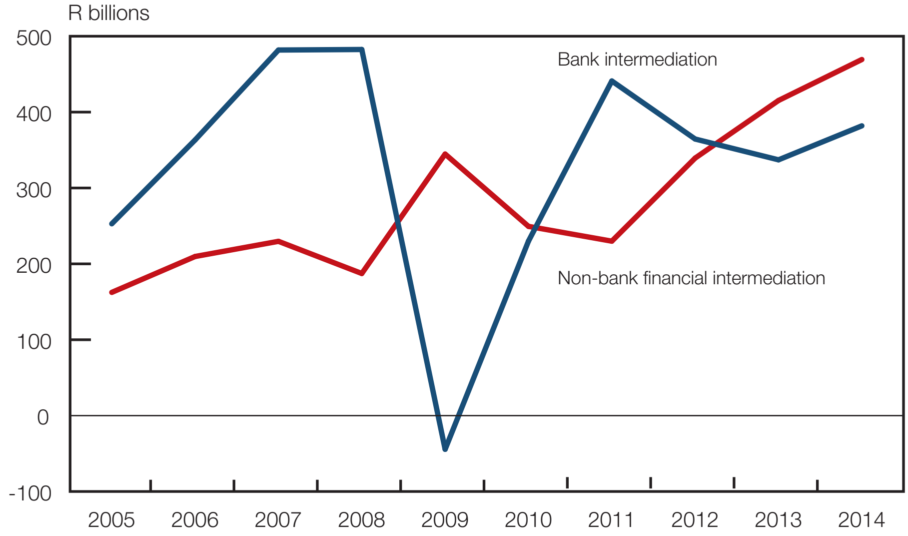
Financial intermediation[2], which ebbed during the height of the global financial crisis, surpassed the pre-crisis record amount of R711 billion in 2007 as it continued to grow. In 2014 total financial intermediary flows amounted to R851 billion, along with the steady recovery in the key intermediation instruments. Although intermediation occurred through all the major financial instruments, the contribution made by equities and credit extension transactions was more noticeable. Bank loans and advances amounted to R170 billion and mortgage lending recovered to R85 billion in 2014, steered by higher corporate demand. This led to total intermediation by monetary authorities and other monetary institutions of R382 billion in the review period, which was 45 per cent of total financial intermediation.

2 Including monetary authorities, other monetary institutions, insurers and retirement funds, and other financial institutions.

Meanwhile, non-bank financial intermediation[3] amounted to R469 billion during 2014 as flows through the purchases of bonds and equities continued at a brisk pace. Non-bank financial intermediaries' funds were distributed through the acquisition of bonds and equities worth R55 billion and R266 billion respectively, along with increased public-sector funding needs and non-financial private corporate business enterprises' appetite for raising equity capital.

3 Comprising insurers and retirement funds, and other financial institutions.

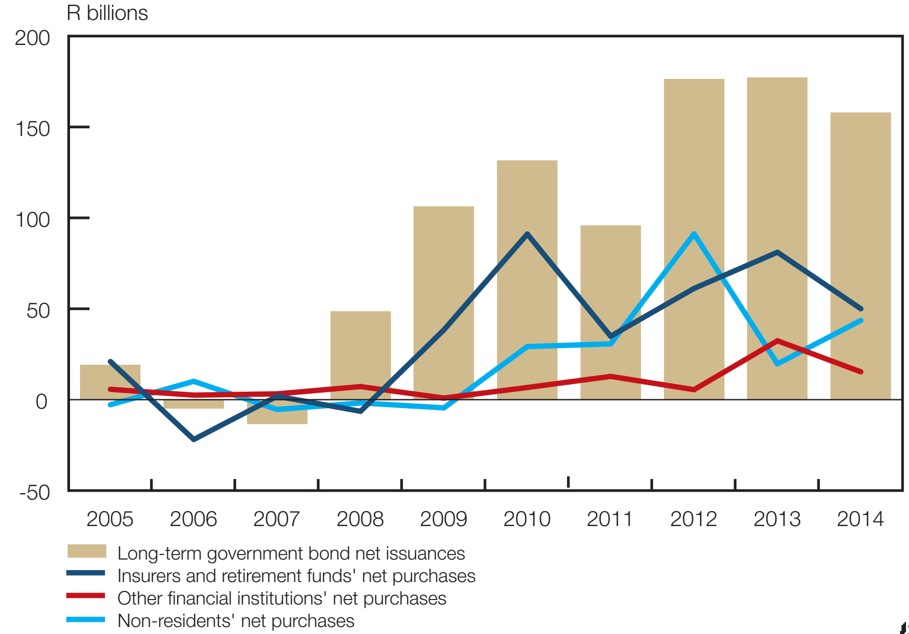
Intermediation by sector



General government

In 2014 the general government sector's financial trends continued to reflect a countercyclical policy stance in support of an economic recovery. A total amount of R85 billion was raised in the domestic market through long-term bond issuances and Treasury bills. An additional R44 billion was generated from non-residents, including R6 billion worth of proceeds from a Sukuk bond (an Islamic bond compliant with Sharia law) issued in the international markets during the second part of 2014 – the first issuance of its kind by National Treasury. These and other sources of funds enabled the general government to finance a wider deficit of R155 billion during 2014 – 33 per cent higher than in 2013. The deficit was necessitated by an acceleration in capital spending.

Government funding activity



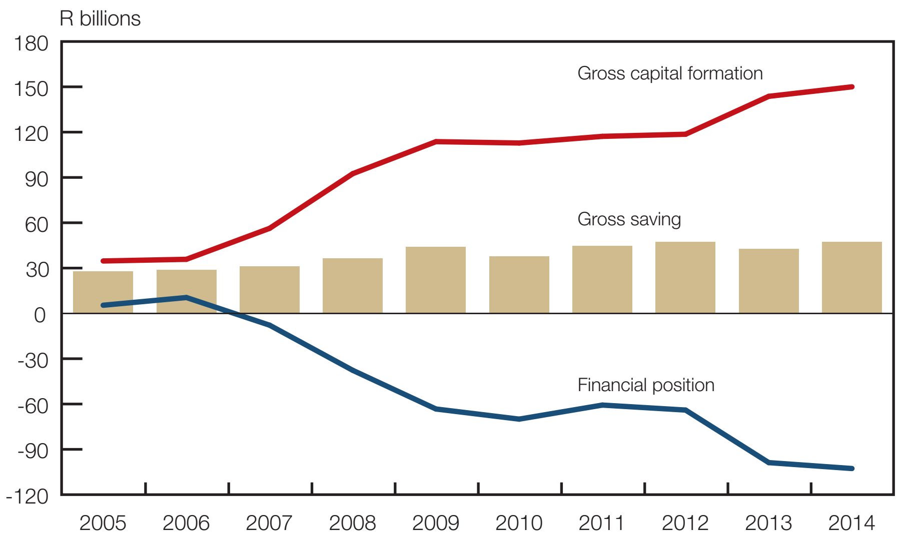
Sectors that contributed the most to the general government's funding activities were insurers and retirement funds, non-residents and other financial institutions. Insurers and retirement funds purchased long-term government bonds amounting to R50 billion in 2014, while non-residents and other financial institutions jointly acquired bonds worth R59 billion in an environment characterised by elevated global market uncertainty.

Corporate business enterprises

Activity in the non-financial corporate business enterprises sector remained firm in 2014, as their total flows were higher than in 2013. The inflows were mainly sourced through the incurrence of loans and the issuances of equity and debt securities. Funding through equity issuances amounted to R322 billion in 2014 from the R208 billion recorded a year earlier. Higher equity funding was a sensible initiative, given the height of equity prices observed during the review period. The equity-sourced funds were augmented by the proceeds of corporate debt issuances, amounting to R88 billion in 2014.

Flows generated from financial markets and other internally sourced funds enabled corporate business enterprises to keep their capital spending sturdy in 2014. With gross capital formation of R406 billion, the non-financial private corporate business enterprises contributed 53 per cent of the economy's total gross capital formation of R773 billion. This and other transactions led to a small shortfall of R4,9 billion by the non-financial private corporate businesses in 2014. Meanwhile, non-financial public corporate business enterprises incurred a noticeable shortfall of R103 billion in 2014, which reflected that state-owned enterprises relied heavily on external funding for capital formation. The total non-financial corporate business enterprises' gross capital formation amounted to R556 billion in 2014, representing 47 per cent of this sector's total flows. The medium-term sustainability of this magnitude of capital spending will probably depend on economic recovery and higher profit realisation, in the midst of increasingly adverse borrowing conditions faced by emerging-market economies.

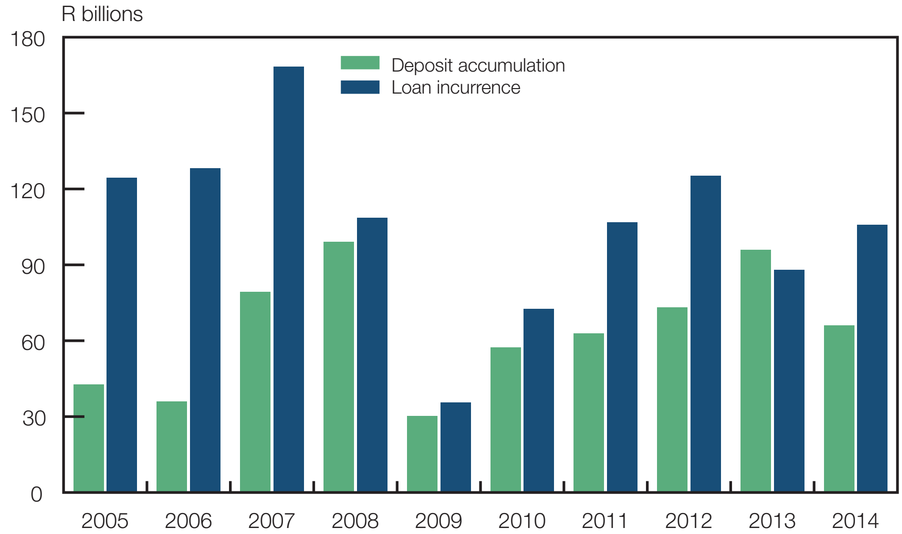
Non-financial public corporate business enterprises



Households

At R47 billion in 2014, the households' deficit was equivalent to the amount recorded in 2013. Households incurred loans of R106 billion, of which bank loans and advances amounted to R33 billion and mortgage loans totalled R20 billion. This latter category of borrowing continued to fluctuate firmly below bank loans and advances as its lending criteria is yet to be eased. Over the same period, households accumulated deposits of R66 billion, and interest in retirement and life funds of R57 billion. Consequently, the households' net incurrence of financial liabilities corroborated the sector's balance-sheet fragility.

Household lending and borrowing activity: selected financial instruments



Summary and conclusion

Despite weaker economic activity, lower confidence levels, and uncertain and divergent global economic prospects, the South African flow of funds continued to grow in 2014. The flow of funds was mostly driven by gross capital formation activity, equity capital raised, and credit extension. An analysis of the 2014 flow of funds highlights the following:

– The foreign sector continued to be a crucial supplier of funds to the domestic economy, mostly through the extension of long-term loans and the acquisition of equity securities.
– Although bank intermediation improved in 2014, mortgage lending was still below bank loans and advances, reflecting stringent lending criteria in this category and subdued demand.
– The general government continued to play a countercyclical role in an effort to boost a generally fragile economy.
– The non-financial corporate business enterprises sector sustained its capital formation activity, in spite of low confidence levels and uncertain economic prospects.
– Households registered a deficit position, amid a slower pace of accumulating deposits and interest in retirement and life funds.

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National financial account
Flow of funds for the first quarter 2014[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	50 136		-188		7 720				7 561		2 150	
2. Consumption of fixed capital[4]			13		2 763				457		658	
3. Capital transfers	43	**106**										
4. Gross capital formation[4]				**45**		**2 770**				**2 293**		**172**
5. Net lending (+)/net borrowing (-) (S)	50 073		-220		7 713				5 725		2 636	
6. Net financial investment (+) or (-) (U)		**50 073**		**-220**		**7 713**				**5 725**		**2 636**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-12 839		-756		64 972		25 202		58 897		60 530	
8. Net acquisition of financial assets (Total U 9 – 32)		**37 234**		**-976**		**72 685**		**25 202**		**64 622**		**63 166**
9. Gold and other foreign reserves	-4 688			**-4 688**								
10. Cash and demand monetary deposits[5]		**4 333**	-13 664	**-6 120**	24 889	**-11 048**		**739**		**5 302**		**10 670**
11. Short/Medium-term monetary deposits[5]		**4 656**	200	**1 770**	18 555			**-9 064**		**983**		**7 243**
12. Long-term monetary deposits[5]		**35**	1 506	**2 299**	22 147			**3 920**		**4 161**		**8 082**
13. Deposits with other financial institutions	627	**-115**				**3 696**		**-2 487**		**2 379**	13 334	**627**
14. Deposits with other institutions	20 248					**21 554**	25 202	**-2 272**	-2 272	**24 557**		**2 488**
15. Treasury bills	-2 016			**61**		**-1 917**				**673**		**-293**
16. Other bills	60 477			**65 778**	792	**-586**		**115**		**143**	4 946	**-349**
17. Bank loans and advances	-3 499		171	**-11 048**	-3 606	**70 941**			5		21 671	
18. Trade credit and short-term loans	-14 954	**46 485**	400	**-8 305**	47 725	**-6 183**			-299	**-4 933**	753	**13 848**
19. Short-term government bonds				**-180**		**542**		**-5**		**2 701**		**1 444**
20. Long-term government bonds	-25	**2 662**		**632**		**-11 934**		**13 581**		**13 071**		**47**
21. Non-marketable government bonds[6]		**-574**		**-7 648**								
22. Securities of local governments						**-2**				**1 106**		**687**
23. Securities of public enterprises	-450	**-82**	2 065			**2 935**		**2 018**		**-761**	75	**3 283**
24. Other loan stock and preference shares	-1 237	**2 115**			2 433	**3 829**		**1 384**	-111	**2 860**	94	**550**
25. Ordinary shares	15 480	**12 093**		**1 123**	504	**6 930**		**12 310**	523	**57 927**		**33 678**
26. Foreign branch/head office balances												
27. Long-term loans	3 491	**17 589**	6 927		1 633				147	**-2 543**	7 412	**2 467**
28. Mortgage loans	89					**18 273**			31	**13**	534	**354**
29. Interest in retirement and life funds[7]		**-67**				**48**			25 270			
30. Amounts receivable/payable	-57 028	**-39 230**	44	**-7 989**	-40 922	**-38 635**			26 601	**-36 439**	11 989	**-14 570**
31. Other assets/liabilities	-29 354	**-12 666**	1 595	**-26 661**	-8 883	**14 182**		**4 963**	8 751	**-6 433**	-209	**-6 817**
32. Balancing item					-295	**60**			251	**-145**	-69	**-273**

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the first quarter 2014[1]

R millions

General government				Corporate business enterprises								Sectors / Transaction items
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	
4 971		-10 379		-3 343		42 040		-47 925		52 743		1. Net saving[4]
13 432		4 754		15 090		74 392		14 391		125 950		2. Consumption of fixed capital[4]
	16 420	11 212		-332		959	15	4 687	28	16 569	16 569	3. Capital transfers
	18 981		12 534		38 904		85 781		17 213		178 693	4. Gross capital formation[4]
-16 998		-6 947		-27 489		31 595		-46 088		-		5. Net lending (+)/net borrowing (-) (S)
	-16 998		-6 947		-27 489		31 595		-46 088		-	6. Net financial investment (+) or (-) (U)
238		2 455		69 067		118 035		73 667		459 468		7. Net incurrence of financial liabilities (Total S 9 – 32)
	-16 760		-4 492		41 578		149 630		27 579		459 468	8. Net acquisition of financial assets (Total U 9 – 32)
										-4 688	-4 688	9. Gold and other foreign reserves
	-61 187		6 806		741		51 644		9 345	11 225	11 225	10. Cash and demand monetary deposits[5]
	39 112		4 485		2 580		-44 930		11 920	18 755	18 755	11. Short/Medium-term monetary deposits[5]
	935		607		-303		494		3 423	23 653	23 653	12. Long-term monetary deposits[5]
			557	2 962	716		17 666		-6 116	16 923	16 923	13. Deposits with other financial institutions
	3 258					2 722	-4 003		318	45 900	45 900	14. Deposits with other institutions
4 855							4 315			2 839	2 839	15. Treasury bills
	-469			28	673	9 559	10 497			75 802	75 802	16. Other bills
-7 862		-672		3 487		36 795		13 403		59 893	59 893	17. Bank loans and advances
118	-64	-656	-15 208	27 967	1 420	-55 963	-6 277	17 299	1 607	22 390	22 390	18. Trade credit and short-term loans
3 796					-706					3 796	3 796	19. Short-term government bonds
16 593					-1 491					16 568	16 568	20. Long-term government bonds
-8 512									-290	-8 512	-8 512	21. Non-marketable government bonds[6]
		-443					-2 234			-443	-443	22. Securities of local governments
	387			6 090						7 780	7 780	23. Securities of public enterprises
	-6	-96	-11	-176	2 881	4 227	-8 468			5 134	5 134	24. Other loan stock and preference shares
	1 330			4 320	-1 916	120 378	17 730			141 205	141 205	25. Ordinary shares
												26. Foreign branch/head office balances
-718	13 989	-113	-185	7 005	-176	5 618	374	178	65	31 580	31 580	27. Long-term loans
			-3	-8		11 535		6 456		18 637	18 637	28. Mortgage loans
	2 728				4 026		6 355		12 180	25 270	25 270	29. Interest in retirement and life funds[7]
4 450	-16 773	541	-15 818	5 418	38 507	-15 051	88 213	16 351	-4 873	-47 607	-47 607	30. Amounts receivable/payable
-12 361		3 671	13 959	11 730	-5 280	-1 652	18 021	19 980		-6 732	-6 732	31. Other assets/liabilities
-121		223	319	244	-94	-133	233			100	100	32. Balancing item

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the second quarter 2014[1]

R millions

Transaction items \ Sectors	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	51 213		337		13 026				7 099		6 716	
2. Consumption of fixed capital[4]			14		2 879				410		670	
3. Capital transfers	45	**101**										
4. Gross capital formation[4]				**47**		**3 138**				**122**		**116**
5. Net lending (+)/net borrowing (-) (S)	51 157		304		12 767				7 387		7 270	
6. Net financial investment (+) or (-) (U)		**51 157**		**304**		**12 767**				**7 387**		**7 270**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-35 599		167		32 964		34 076		79 973		60 157	
8. Net acquisition of financial assets (Total U 9 – 32)		**15 558**		**471**		**45 731**		**34 076**		**87 360**		**67 427**
9. Gold and other foreign reserves	-9 993			**-9 993**								
10. Cash and demand monetary deposits[5]		**8 535**	2 350	**3 301**	-2 875	**139**		**4 045**		**-5 820**		**-2 643**
11. Short/Medium-term monetary deposits[5]		**7 425**	-36	**4 831**	35 407			**4 607**		**2 572**		**17 372**
12. Long-term monetary deposits[5]		**4 583**	19	**5 256**	38 979			**3 525**		**2 793**		**23 735**
13. Deposits with other financial institutions	-2 883	**109**				**-4 285**		**4 798**		**-307**	22 351	**-2 883**
14. Deposits with other institutions	9 988					**9 839**	34 076	**71**	71	**28 193**		**15 573**
15. Treasury bills	-1 530			**274**		**8 167**		**-114**		**1 072**		**638**
16. Other bills	12 890			**7 883**	1 338	**1 328**		**7 262**		**60**	-2 107	**6 347**
17. Bank loans and advances	11 099		106	**1 738**	4 427	**36 968**			2		-6 223	
18. Trade credit and short-term loans	-15 098	**-28 848**	63	**487**	6 594	**-5 019**			4 712	**-61**	9 561	**-8 833**
19. Short-term government bonds				**-13**		**9 709**		**-1 678**				**-10 259**
20. Long-term government bonds	1 109	**27 382**				**-16 782**		**10 904**		**16 353**		**5 295**
21. Non-marketable government bonds[6]		**-1 723**		**335**								
22. Securities of local governments						**888**		**146**		**1 755**		**-654**
23. Securities of public enterprises	313	**-834**	161			**1 606**		**2 583**		**-3 096**	-2 507	**811**
24. Other loan stock and preference shares	-6 967	**-10 208**			4 437	**18 899**		**3 420**	39	**4 271**	182	**1 765**
25. Ordinary shares	19 844	**21 937**		**-1 123**	1 850	**1 121**		**2 966**	179	**63 611**		**44 920**
26. Foreign branch/head office balances												
27. Long-term loans	2 115	**24 474**	2 170		4 946				41	**7 052**	-15 492	**-611**
28. Mortgage loans	2 082					**22 808**			-15	**-238**	240	**851**
29. Interest in retirement and life funds[7]		**311**				**1 201**			28 050			
30. Amounts receivable/payable	-42 068	**-20 065**	-1 890	**-1 033**	-45 895	**-28 810**			21 560	**-19 674**	36 054	**-16 865**
31. Other assets/liabilities	-16 500	**-17 520**	-2 776	**-11 472**	-16 183	**-12 034**		**-8 459**	25 250	**-10 882**	18 073	**-6 849**
32. Balancing item					-61	**-12**			84	**-294**	25	**-283**

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U = Uses, i.e., net increase in assets at transaction value.

KB230

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the second quarter 2014[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
-21 729		-12 996		-2 019		13 857		29 759		85 263		1. Net saving[4]
13 674		4 871		15 672		76 874		14 647		129 711		2. Consumption of fixed capital[4]
	4 059	17		40		413	16	3 690	29	4 205	4 205	3. Capital transfers
	18 597		12 702		39 012		124 136		17 104		214 974	4. Gross capital formation[4]
-30 711		-20 810		-25 319		-33 008		30 963		-		5. Net lending (+)/net borrowing (-) (S)
	-30 711		-20 810		-25 319		-33 008		30 963		-	6. Net financial investment (+) or (-) (U)
82 799		23 226		-14 111		145 736		2 287		411 675		7. Net incurrence of financial liabilities (Total S 9 – 32)
	52 088		2 416		-39 430		112 728		33 250		411 675	8. Net acquisition of financial assets (Total U 9 – 32)
										-9 993	-9 993	9. Gold and other foreign reserves
	2 863		-7 460		1 614		-10 570		5 471	-525	-525	10. Cash and demand monetary deposits[5]
	-1 014		-10 048		-8 933		8 921		9 638	35 371	35 371	11. Short/Medium-term monetary deposits[5]
	-3 920		54		2 592		-2 024		2 404	38 998	38 998	12. Long-term monetary deposits[5]
			-33	-2 815	-167		14 156		5 265	16 653	16 653	13. Deposits with other financial institutions
	6 786					-1 626	-17 997		44	42 509	42 509	14. Deposits with other institutions
10 429							-1 138			8 899	8 899	15. Treasury bills
	219			-81	-652	13 090	2 683			25 130	25 130	16. Other bills
-3 114		-886		-1 436		31 554		3 177		38 706	38 706	17. Bank loans and advances
-118	-1	14 901	8 113	-40 907	-1 642	-14 583	1 618	8 348	7 659	-26 527	-26 527	18. Trade credit and short-term loans
-2 196					45					-2 196	-2 196	19. Short-term government bonds
42 104					63				-2	43 213	43 213	20. Long-term government bonds
-1 515									-127	-1 515	-1 515	21. Non-marketable government bonds[6]
		1 494					-641			1 494	1 494	22. Securities of local governments
	-5 556		-78	1 355			3 919		-33	-678	-678	23. Securities of public enterprises
	117	859	118	156	-2 137	-493	-18 027		-5	-1 787	-1 787	24. Other loan stock and preference shares
	-1 330			-4 344	1 610	106 013	-10 170			123 542	123 542	25. Ordinary shares
												26. Foreign branch/head office balances
-1 493	1 340	7 869	-26	6 356	194	16 613	-9 001	440	143	23 565	23 565	27. Long-term loans
		-5	-15	-337		14 732		6 709		23 406	23 406	28. Mortgage loans
	-347				10 021		8 643		8 221	28 050	28 050	29. Interest in retirement and life funds[7]
38 702	52 929	-478	11 741	-276	-47 062	-2 584	71 197	-6 195	-5 428	-3 070	-3 070	30. Amounts receivable/payable
	1	-396	38	27 914	4 768	-16 660	70 939	-10 192		8 530	8 530	31. Other assets/liabilities
	1	-132	12	304	256	-320	220			-100	-100	32. Balancing item

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KB231

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the third quarter 2014[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	63 780		96		15 128				6 852		4 623	
2. Consumption of fixed capital[4]			14		3 015				413		684	
3. Capital transfers	42	104										
4. Gross capital formation[4]				53		3 714				222		72
5. Net lending (+)/net borrowing (-) (S)	63 718		57		14 429				7 043		5 235	
6. Net financial investment (+) or (-) (U)		63 718		57		14 429				7 043		5 235
7. Net incurrence of financial liabilities (Total S 9 – 32)	12 812		55 468		77 987		7 295		27 873		-19 086	
8. Net acquisition of financial assets (Total U 9 – 32)		76 530		55 525		92 416		7 295		34 916		-13 851
9. Gold and other foreign reserves	23 356			23 356								
10. Cash and demand monetary deposits[5]		3 948	45 273	7 860	14 397	9 731		-7 997		4 913		-135
11. Short/Medium-term monetary deposits[5]		263	-68	-797	57 134			-1 880		4 684		4 445
12. Long-term monetary deposits[5]		399	26	-7 756	-31 170			-11 006		-2 867		-17 845
13. Deposits with other financial institutions	972	-48				324		3 885		304	-5 221	972
14. Deposits with other institutions	-22 985					-21 688	7 295	-23 333	-23 333	20 320		8 291
15. Treasury bills	22			54		8 678				225		-2 217
16. Other bills	14 660			13 270	-2 843	-407		287		-744	-2 902	-9 433
17. Bank loans and advances	-1 648		-2 459	20 031	15 421	33 717			-3		1 792	
18. Trade credit and short-term loans	10 252	63 835	751	-126	40 895	-518			2 982	-217	-451	5 536
19. Short-term government bonds				-62		2 209		-178		2 823		-3 463
20. Long-term government bonds	-696	16 640				6 198		23 154		10 044		-6 095
21. Non-marketable government bonds[6]		-584		-310								
22. Securities of local governments						39				-771		-836
23. Securities of public enterprises	443	-308	1 319			8 187		4 939		-1 985	-3 715	-1 026
24. Other loan stock and preference shares	7 183	692			825	7 320		2 283	-7	8 590	-39	-2 229
25. Ordinary shares	32 295	18 074			-52	1 485		4 238	179	-13 698		-180
26. Foreign branch/head office balances												
27. Long-term loans	3 057	1 783	12 535		524				-150	2 800	8 802	5 524
28. Mortgage loans	1 638					18 708			11	77	1 002	1 478
29. Interest in retirement and life funds[7]		929				44			30 269			
30. Amounts receivable/payable	-49 462	-28 337	-14	12	-51 070	16 703			16 607	-4 308	-17 188	2 344
31. Other assets/liabilities	-6 275	-756	-1 895	-7	33 695	1 515		12 903	1 239	4 544	-874	764
32. Balancing item					231	171			79	182	-292	254

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7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)

Flow of funds for the third quarter 2014[1]

R millions

Sectors / Transaction items	General government: Central and provincial governments S	General government: Central and provincial governments U	General government: Local governments S	General government: Local governments U	Corporate business enterprises: Public sector S	Corporate business enterprises: Public sector U	Corporate business enterprises: Private sector S	Corporate business enterprises: Private sector U	Households, etc. S	Households, etc. U	Total S	Total U
1. Net saving[4]	-40 369		-5 017		-4 013		22 357		8 197		71 634	
2. Consumption of fixed capital[4]	13 876		4 889		16 257		78 089		14 775		132 012	
3. Capital transfers		13 576	8 570		44		422	15	4 644	27	13 722	13 722
4. Gross capital formation[4]		18 545		14 388		36 634		111 896		18 122		203 646
5. Net lending (+)/net borrowing (-) (S)	-58 614		-5 946		-24 346		-11 043		9 467		-	
6. Net financial investment (+) or (-) (U)		-58 614		-5 946		-24 346		-11 043		9 467		-
7. Net incurrence of financial liabilities (Total S 9 – 32)	71 137		-3 295		31 348		202 516		13 913		477 968	
8. Net acquisition of financial assets (Total U 9 – 32)		12 523		-9 241		7 002		191 473		23 380		477 968
9. Gold and other foreign reserves											23 356	23 356
10. Cash and demand monetary deposits[5]		-23 031		143		-490		55 387		9 341	59 670	59 670
11. Short/Medium-term monetary deposits[5]		19 368		-1 088		7 473		8 237		16 361	57 066	57 066
12. Long-term monetary deposits[5]		5 164		196		-236		3 198		-391	-31 144	-31 144
13. Deposits with other financial institutions				-1	-71	-749		14 353		-23 360	-4 320	-4 320
14. Deposits with other institutions		6 739					21 793	-7 682		123	-17 230	-17 230
15. Treasury bills	8 270							1 552			8 292	8 292
16. Other bills		170			-426	-104	-7 444	-1 973	21		1 066	1 066
17. Bank loans and advances	12 439		1 144		3 862		18 622		4 578		53 748	53 748
18. Trade credit and short-term loans		346	-3 787	3 607	1 078	-114	29 357	7 482	579	1 825	81 656	81 656
19. Short-term government bonds	112					-1 217					112	112
20. Long-term government bonds	47 321					-3 316					46 625	46 625
21. Non-marketable government bonds[6]	-1 083									-189	-1 083	-1 083
22. Securities of local governments			-130					1 438			-130	-130
23. Securities of public enterprises		1		5	7 636			-4 133		3	5 683	5 683
24. Other loan stock and preference shares		-203	-955	3	1 992	-26	13 229	5 798			22 228	22 228
25. Ordinary shares		700			701	147	17 349	39 706			50 472	50 472
26. Foreign branch/head office balances												
27. Long-term loans	-655	10 852	497		2 265	180	10 830	16 935	460	91	38 165	38 165
28. Mortgage loans					132		13 647		3 833		20 263	20 263
29. Interest in retirement and life funds[7]		-411				130		18 181		11 396	30 269	30 269
30. Amounts receivable/payable	4 733	-7 171		76	6 919	6 546	72 976	-6 106	4 438	8 180	-12 061	-12 061
31. Other assets/liabilities		-1	-95	-12 137	6 945	-1 167	11 650	38 736	4		44 394	44 394
32. Balancing item			31	-45	315	-55	507	364			871	871

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the fourth quarter 2014[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries									
			Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	41 515		-90		14 106				9 746		9 076	
2. Consumption of fixed capital[4]			15		3 231				311		696	
3. Capital transfers	50	105										
4. Gross capital formation[4]				48		4 308				112		20
5. Net lending (+)/net borrowing (-) (S)	41 460		-123		13 029				9 945		9 752	
6. Net financial investment (+) or (-) (U)		41 460		-123		13 029				9 945		9 752
7. Net incurrence of financial liabilities (Total S 9 – 32)	-12 714		9 123		79 884		56 055		92 441		50 366	
8. Net acquisition of financial assets (Total U 9 – 32)		28 746		9 000		92 913		56 055		102 386		60 118
9. Gold and other foreign reserves	7 927			7 927								
10. Cash and demand monetary deposits[5]		-1 541	4 427	-7 517	39 585	9 505		-26 687		-2 461		496
11. Short/Medium-term monetary deposits[5]		10 296	126	-8 034	10 139			-7 923		-2 916		-1 253
12. Long-term monetary deposits[5]		5 429	25		-14 919			-3 092		-1 801		-19 313
13. Deposits with other financial institutions	-2 884	529				-175		-4 437		1 527	11 526	-2 884
14. Deposits with other institutions	22 753					22 755	56 055	44 025	44 025	8 143		6 969
15. Treasury bills	-856			-262		10 760				-2 537		802
16. Other bills	3 200			-1 117	-950	2 062		20		-67	-2 259	-952
17. Bank loans and advances	428		-1 336	11 615	5 564	6 068			-1		834	
18. Trade credit and short-term loans	-11 078	33 912	73	-210	25 058	-29 910			-6 762	7 988	8 846	17 954
19. Short-term government bonds				148		-1 782				-11 053		2 969
20. Long-term government bonds	177	-3 121				17 803		10 954		10 558		16 088
21. Non-marketable government bonds[6]		-1 642		6 094								
22. Securities of local governments						9				706		38
23. Securities of public enterprises	486	517	-1 052			5 136		7 663		4 634	157	531
24. Other loan stock and preference shares	-2 312	147			-307	11 796		1 530	124	18 294	-415	406
25. Ordinary shares	17 819	-11 513			2 022	-2 898		22 969	208	45 631		33 955
26. Foreign branch/head office balances												
27. Long-term loans	549	37 304	2 984	-5	1 430				1 542	1 518	6 773	2 098
28. Mortgage loans	848					24 035			70	-223	2 491	-971
29. Interest in retirement and life funds[7]		425				294			29 910			
30. Amounts receivable/payable	-45 721	-35 445	173	1	13 100	35 989			13 755	15 375	16 191	1 677
31. Other assets/liabilities	-4 050	-6 551	3 703	360	-628	-18 400		11 033	9 427	8 802	6 167	1 381
32. Balancing item					-210	-134			143	268	55	127

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)

Flow of funds for the fourth quarter 2014[1]

R millions

General government: Central and provincial governments S	General government: Central and provincial governments U	General government: Local governments S	General government: Local governments U	Corporate business enterprises: Public sector S	Corporate business enterprises: Public sector U	Corporate business enterprises: Private sector S	Corporate business enterprises: Private sector U	Households, etc. S	Households, etc. U	Total S	Total U	Sectors / Transaction items
14 222		-8 815		-7 048		12 476		-44 136		41 052		1. Net saving[4]
13 918		4 996		16 873		79 278		15 125		134 443		2. Consumption of fixed capital[4]
	14 423	9 191		60		224	18	5 053	32	14 578	14 578	3. Capital transfers
	19 177		14 502		35 436		84 403		17 489		175 495	4. Gross capital formation[4]
-5 460		-9 130		-25 551		7 557		-41 479		-		5. Net lending (+)/net borrowing (-) (S)
	-5 460		-9 130		-25 551		7 557		-41 479		-	6. Net financial investment (+) or (-) (U)
49 948		216		21 668		157 572		66 479		571 038		7. Net incurrence of financial liabilities (Total S 9 – 32)
	44 488		-8 914		-3 883		165 129		25 000		571 038	8. Net acquisition of financial assets (Total U 9 – 32)
										7 927	7 927	9. Gold and other foreign reserves
	63 079		2 173		559		-1 800		8 206	44 012	44 012	10. Cash and demand monetary deposits[5]
	-23 983		1 497		908		28 475		13 198	10 265	10 265	11. Short/Medium-term monetary deposits[5]
	-609		-520		-430		3 050		2 392	-14 894	-14 894	12. Long-term monetary deposits[5]
			22		8 807		6 885		-1 632	8 642	8 642	13. Deposits with other financial institutions
	3 042					-44 901	-7 165		163	77 932	77 932	14. Deposits with other institutions
9 243							-376			8 387	8 387	15. Treasury bills
	-367			-597	-21	1 574	1 425	15		983	983	16. Other bills
6 055		-532		5 159		-10 696		12 208		17 683	17 683	17. Bank loans and advances
	-401	-844	-784	1 728	212	9 713	20 176	25 322	3 119	52 056	52 056	18. Trade credit and short-term loans
-10 125					-405				-2	-10 125	-10 125	19. Short-term government bonds
51 751					-354					51 928	51 928	20. Long-term government bonds
4 356									-96	4 356	4 356	21. Non-marketable government bonds[6]
		1 459					706			1 459	1 459	22. Securities of local governments
	9		-376	12 306			-6 276		59	11 897	11 897	23. Securities of public enterprises
	19	-55	-1	690	-31	41 389	6 954			39 114	39 114	24. Other loan stock and preference shares
				4	-29	77 730	9 735		-67	97 783	97 783	25. Ordinary shares
												26. Foreign branch/head office balances
-1 398	1 628	-513	-2	6 191	-107	17 213	-8 746	-199	884	34 572	34 572	27. Long-term loans
			-7	109		16 323		2 993		22 834	22 834	28. Mortgage loans
	-411				-35		4 852		24 785	29 910	29 910	29. Interest in retirement and life funds[7]
-9 934	2 482	-251		-2 772	-12 797	57 090	86 546	26 188	-26 009	67 819	67 819	30. Amounts receivable/payable
		714	-10 687	-862	-120	-7 855	20 750	-48		6 568	6 568	31. Other assets/liabilities
		238	-229	-288	-40	-8	-62			-70	-70	32. Balancing item

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

Notes to tables

Official pension and provident funds: Income statement Table S–40

A comprehensive revision of the official pension and provident funds' income statement data led to changes in historical data. The revision was necessary to ensure correct classifications and market-related revaluations of data received from the Government Employees Pension Fund. The income statement data of the official pension and provident funds have been revised since the first quarter of 2002. The column for investment income from insurers was removed as only small amounts from state-owned enterprises were shown. All dividends received by official pension and provident funds have been included in the dividends column under investment income.

Official and private self-administered pension and provident funds: Assets and liabilities Table S–41

A comprehensive revision of the official pension and provident funds' assets data led to changes in historical data. The balance sheet of the official pension and provident funds was revised using the data reported by the Public Investment Corporation. The Public Investment Corporation invests funds on behalf of public-sector entities, including the Government Employees Pension Fund. The assets of official pension and provident funds have been revised since the first quarter of 2002, the period in which the Public Investment Corporation balance-sheet data were amended to reflect market values. The fixed property and accumulated interest data have been incorporated into the other assets column.

Composite business cycle indicators Tables S–145 and S–155

The composite leading and coincident business cycle indicators for South Africa have been revised and linked historically. These revisions are discussed in a text box on page 14 of this *Quarterly Bulletin.*