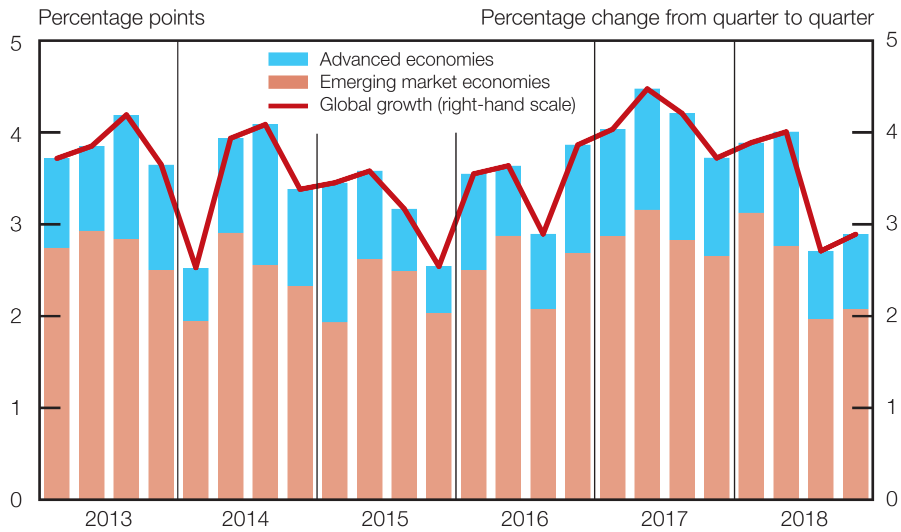
International economic developments

The synchronised global economic growth momentum of 2017 and early 2018 has faded, with growth becoming both slower and more uneven. After decelerating sharply in the third quarter of 2018, real global output growth recovered somewhat to 2.9% in the fourth quarter. The moderate acceleration was mainly due to increased economic activity in India and Japan. However, apart from the third quarter, this was still the global economy's weakest economic performance in two years.

Real global output growth and contributions from advanced and emerging market economies



Seasonally adjusted annualised rates

Sources: Bloomberg, Haver Analytics, IMF, JPMorgan and SARB

Growth in real gross domestic product (GDP) in the United States (US) decelerated from 3.4% in the third quarter of 2018 to 2.6% in the fourth quarter. Robust consumer spending in the fourth quarter was partly offset by reduced residential investment as well as lower state and local government spending given the partial government shutdown. Increased imports also subtracted from GDP growth.

Real output growth in selected advanced economies

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

	2017					2018				
Country/region	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
United States................	1.8	3.0	2.8	2.3	2.2	2.2	4.2	3.4	2.6	2.9
Japan..........................	3.6	1.8	2.5	1.6	1.9	-0.4	1.9	-2.4	1.9	0.8
Euro area......................	2.7	2.7	2.7	2.8	2.4	1.4	1.7	0.6	0.9	1.8
United Kingdom	1.7	1.0	2.1	1.6	1.8	0.4	1.7	2.5	0.7	1.4
Canada	4.1	4.4	1.3	1.7	3.5	1.3	2.6	2.0	2.0	2.2
Australia	1.8	3.1	2.6	2.2	2.4	4.3	3.3	1.1	0.7	2.7
New Zealand	3.6	3.5	3.5	2.9	3.0	2.2	3.9	1.3	<u>2.0</u>	<u>2.8</u>
Advanced economies...	**2.4**	**2.8**	**2.9**	**2.2**	**2.3**	**1.8**	**2.7**	**1.7**	**<u>1.9</u>**	**<u>2.2</u>**

* Percentage change over one year
Underlined numbers indicate projections.

Sources: Bloomberg, Haver Analytics, IMF, JPMorgan and SARB

Real output growth in the euro area accelerated marginally, from 0.6% in the third quarter to 0.9% in the fourth quarter, along with resilient exports, consumer spending and fixed investment. However, the Italian economy fell into recession, with a second consecutive contraction in the fourth quarter of 2018. The German economy narrowly avoided a technical recession, with an expansion of only 0.1% in the fourth quarter of 2018, after contracting in the third quarter. Weak global demand as well as disruptions to vehicle production from new emission standards affected the German economy.

In the United Kingdom (UK), real economic growth decelerated notably from 2.5% in the third quarter of 2018 to 0.7% in the fourth quarter, as Brexit-related uncertainty weighed on aggregate demand. By contrast, real GDP growth in Japan accelerated sharply to 1.9% in the fourth quarter following a contraction of 2.4% in the third quarter. The rebound was mainly due to robust consumer spending and a recovery in fixed investment, following natural disasters in the preceding quarter.

Real output growth in emerging markets accelerated in the fourth quarter of 2018 as emerging Asia grew by 5.6%. Real GDP growth in India accelerated to 5.1% in the fourth quarter following a sharp slowdown in the previous quarter. The strong growth momentum in the fourth quarter resulted from increased consumer spending and robust infrastructure investment. By contrast, China's real output growth moderated further to 6.0% in the fourth quarter of 2018 – its slowest pace since the global financial crisis – due to the ongoing US-China trade tensions as well as deleveraging in some sectors.

Real output growth in selected emerging market economies

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

	2017					2018				
Country/region	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
China	6.4	7.0	6.9	6.4	6.8	6.9	6.5	6.2	6.0	6.6
India	8.0	8.7	7.9	6.6	7.2	9.3	8.5	3.5	5.1	7.0
Indonesia	4.7	5.4	5.1	5.4	5.1	4.4	6.2	4.7	5.5	5.2
Emerging Asia	**6.6**	**7.2**	**6.9**	**6.1**	**6.6**	**7.3**	**6.8**	**5.2**	**5.6**	**6.5**
Russia	1.4	4.1	0.1	-1.4	1.6	2.7	6.2	-1.1	2.8	2.3
Turkey	5.8	8.1	6.5	10.3	7.4	3.7	0.2	-6.1	-9.4	2.6
Poland	4.5	3.6	4.5	5.7	4.8	6.1	4.1	6.6	2.0	5.1
Emerging Europe	**3.7**	**5.2**	**3.0**	**3.2**	**3.9**	**3.4**	**4.2**	**-0.7**	**-0.6**	**3.2**
Brazil	6.1	1.4	0.6	1.1	1.1	1.7	0.2	2.2	0.5	1.1
Mexico	1.8	1.7	-1.6	4.3	2.1	4.2	-0.6	2.4	1.0	2.0
Argentina	2.9	6.5	3.8	2.7	2.9	2.7	-15.6	-2.7	-9.5	-2.3
Latin America	**2.7**	**1.8**	**1.1**	**2.2**	**1.3**	**2.6**	**-0.5**	**1.2**	**0.5**	**1.1**
Emerging economies	**5.5**	**6.0**	**5.4**	**5.1**	**4.8**	**5.8**	**5.1**	**3.7**	**3.9**	**4.7**

* Percentage change over one year
Underlined numbers indicate projections.

Sources: Barclays, Bloomberg, Haver Analytics, IMF, JPMorgan and SARB

Emerging Europe experienced a technical recession in the second half of 2018 as output contracted further in the fourth quarter. The weak growth performance in the region was due to the Turkish economy, which fell into recession as consumer demand declined markedly amid higher inflation and weak confidence following the currency crisis in the third quarter. Meanwhile, economic conditions in Russia improved as real GDP recovered from a contraction of 1.1% in the third quarter to an expansion of 2.8% in the fourth quarter, reflecting robust growth in the construction sector.

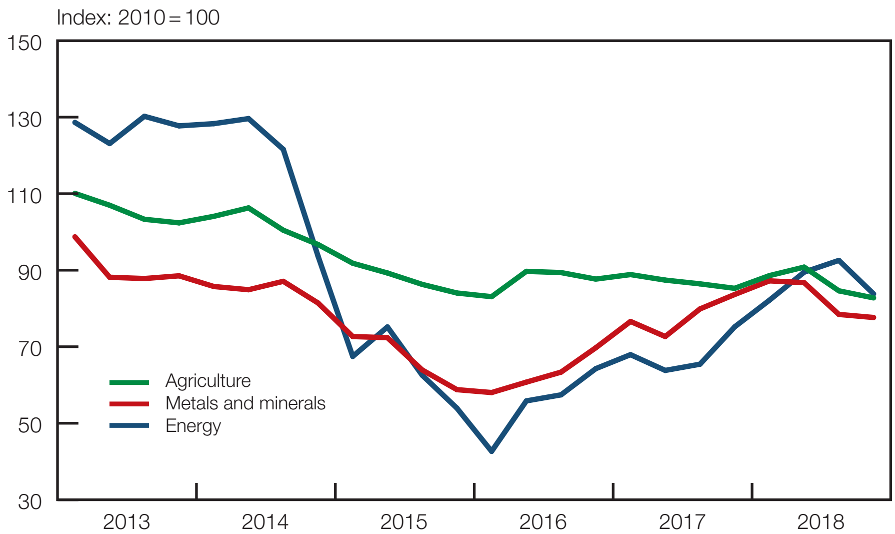
Real output growth in Latin America decelerated from 1.2% in the third quarter of 2018 to a subdued 0.5% in the fourth quarter. Regional growth was constrained by weak economic performance in Argentina, Brazil and Mexico. Argentina remained in recession following the severe drought of 2018 and the currency crisis in August. Growth moderated in Brazil and Mexico in the fourth quarter of 2018 following solid performances in the third quarter.

Headline consumer price inflation remained contained in the major advanced economies. In the US, the personal consumption expenditure deflator (the US Federal Reserve's preferred inflation measure) declined marginally below the central bank's 2.0% target in the fourth quarter of 2018. Inflationary pressures continued to ease in most of the emerging market economies alongside lower international crude oil prices, but remained in double digits in Argentina and Turkey.

World trade volumes (using world exports as a proxy) declined by 2.4% in December 2018 (in three-months-to-three-months terms). Export volumes in emerging markets contracted by 5.0% over this period, mainly due to lower exports from emerging Asian economies. Meanwhile, exports from the advanced economies contracted marginally by 0.3% in December.

The international prices of agricultural commodities, metals and minerals as well as energy declined in the fourth quarter of 2018. After reaching levels of around US$86 per barrel at the beginning of October 2018, the price of Brent crude oil declined below US$50 per barrel at the end of December following the deteriorating global economic growth outlook, record production from major oil exporters, and temporary waivers from US sanctions for imports from Iran. Oil prices have since bounced back to around US$65 per barrel in early March 2019. The increase followed an agreement by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers (including Russia) to reduce oil production by 1.2 million barrels per day in the first six months of 2019. Firmer oil prices were also supported by the unexpected drawdown in US inventories as well as the implementation of US sanctions on Venezuela's oil sector.

International commodity prices in US dollar



Sources: World Bank and SARB

International agricultural product prices, in US dollar terms, fell by 2.2% in the fourth quarter of 2018 due to sharp declines in wheat, barley and sunflower prices. Metals and minerals prices decreased by 1.0% over the same period, owing to lower nickel, lead and zinc prices.

Domestic economic developments

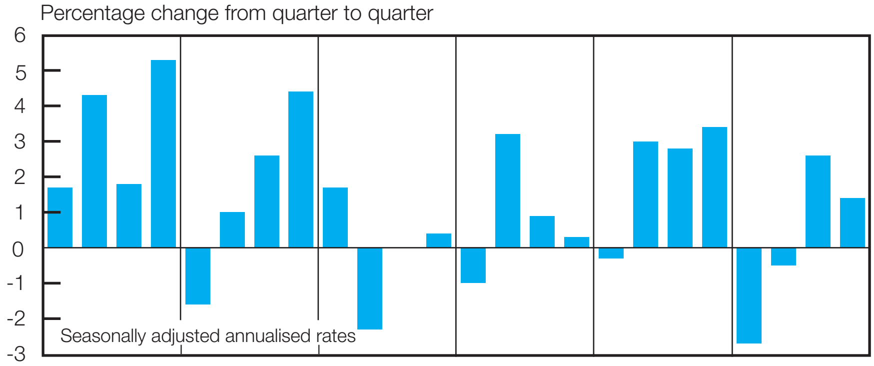
Domestic output[1,2]

Real economic activity in South Africa increased at a slower pace in the fourth quarter of 2018 as well as in the year as a whole. Growth in real *gross domestic product* (GDP) slowed markedly from a revised annualised rate of 2.6% in the third quarter of 2018 to 1.4% in the fourth quarter. The real gross value added (GVA) by the primary sector contracted further in the fourth quarter of 2018, while growth in the real output of both the secondary and the tertiary sectors decelerated.

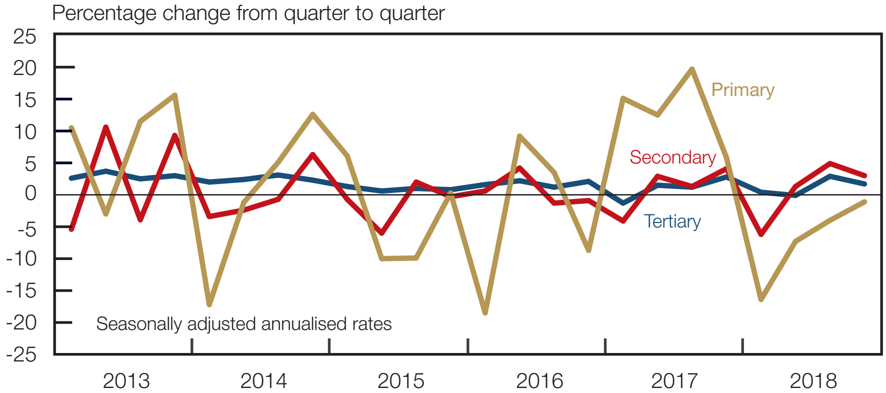
1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data and are annualised.

2 The analysis in this section of the *Quarterly Bulletin* is based on a revised set of national accounts estimates. These revisions are based on more detailed or more appropriate data that have become available.

Real gross domestic product



Real gross value added by main sectors



Source: Stats SA

When excluding the contribution of the volatile primary sector, real output growth slowed to 2.0% in the final quarter of 2018 from 3.3% in the third quarter.

Real GDP growth moderated from a revised 1.4% in 2017 to 0.8% in 2018 following two consecutive quarters of contraction in the first half of 2018 and an increase of 1.5% in the last two quarters of the year. The slowdown in 2018 mainly reflected a contraction in real economic activity in the primary sector. By contrast, the real output of the secondary sector increased slightly following a small contraction in 2017, while growth in the real GVA by the tertiary sector accelerated marginally.

Real gross domestic product

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Sector	2017			2018				
	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Primary sector	19.7	5.8	8.0	-16.4	-7.3	-4.0	-1.1	-2.5
Agriculture	47.8	44.9	21.1	-33.7	-42.3	13.7	7.9	-4.8
Mining	11.7	-5.5	4.2	-9.1	8.1	-8.9	-3.8	-1.7
Secondary sector	1.3	4.1	-0.2	-6.2	1.3	4.9	3.0	0.5
Manufacturing	3.4	6.0	-0.2	-8.4	1.4	7.5	4.5	1.0
Tertiary sector	1.2	2.8	1.0	0.4	-0.1	2.9	1.7	1.3
*Non-primary sector***	*1.2*	*3.1*	*0.7*	*-1.1*	*0.2*	*3.3*	*2.0*	*1.1*
*Non-agricultural sector****	*2.1*	*2.3*	*1.0*	*-1.8*	*0.8*	*2.2*	*1.5*	*0.9*
Total	**2.8**	**3.4**	**1.4**	**-2.7**	**-0.5**	**2.6**	**1.4**	**0.8**

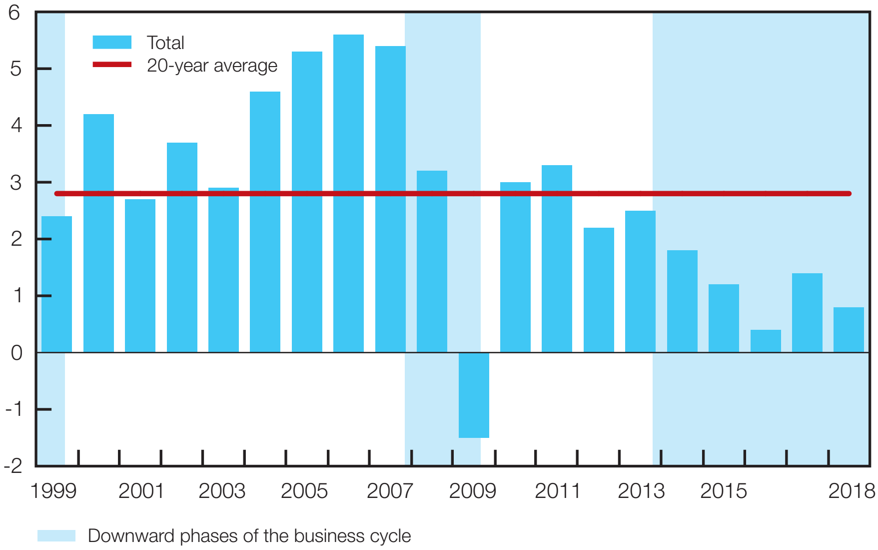
* Percentage change over one year
** Non-primary sector is total GVA excluding agriculture and mining
*** The non-agricultural sector is total GVA excluding agriculture

Source: Stats SA

Over the past seven years, annual growth in real GDP has been much lower than the 20-year average of 2.8%. Real economic growth moderated from 3.0% and 3.3% in 2010 and 2011 respectively to a post-crisis low of 0.4% in 2016, consistent with the current downward phase of the business cycle which had commenced in December 2013. Real GDP growth then accelerated to 1.4% in 2017 with a notable recovery in agricultural output, but once again waned to 0.8% in 2018. South Africa's real GDP per capita has decreased since 2015, reflecting a decline in living standards, with average real GDP growth of only 0.9% and annual average population growth of 1.6% between 2015 and 2018.

Real gross domestic product

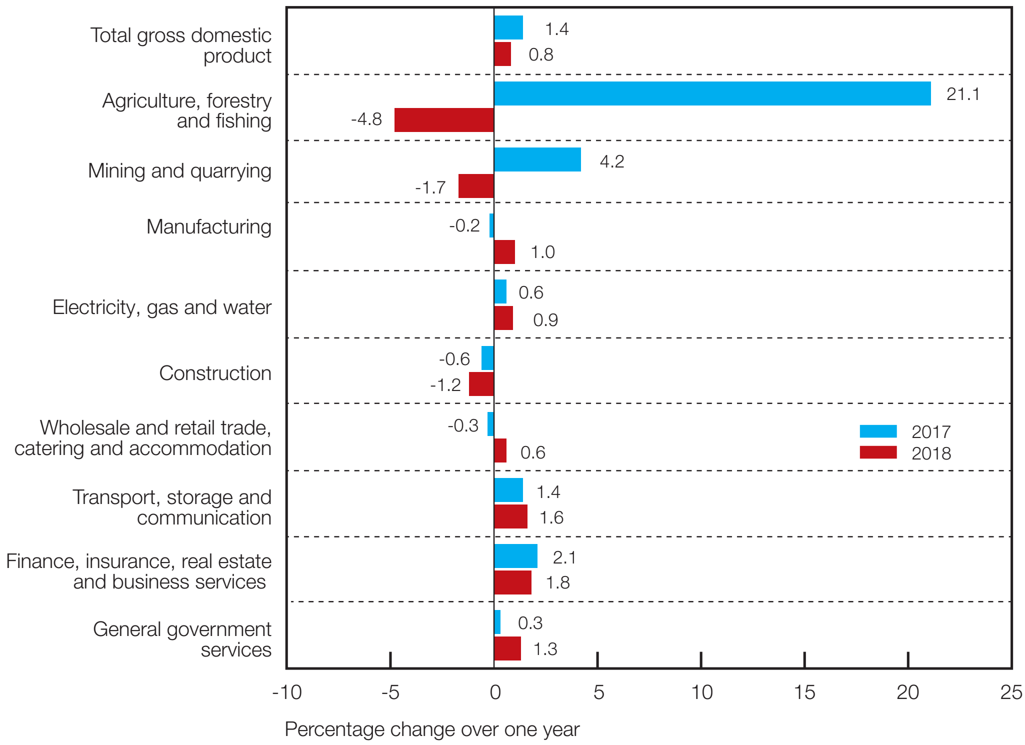
Percentage change over one year



Sources: Stats SA and SARB

The real GVA by the *primary sector* contracted further by 1.1% in the fourth quarter of 2018 following a revised decline of 4.0% in the third quarter as real output contracted in the mining sector. The real GVA by the primary sector decreased by 2.5% and subtracted 0.2 percentage points from overall annual GDP growth in 2018.

Growth in the components of real gross domestic product



Source: Stats SA

The real output of the *agricultural sector* increased further by 7.9% in the fourth quarter of 2018 after expanding by a revised 13.7% in the third quarter. The increase reflected higher field crop production and an improvement in the Western Cape's agricultural output following better weather conditions than in the previous year. Following two quarters of contraction, agricultural output declined by 4.8% for 2018 as a whole. Apart from erratic weather conditions and severe drought in certain areas of the country, the protracted debate around land reform also weighed on sentiment and output.

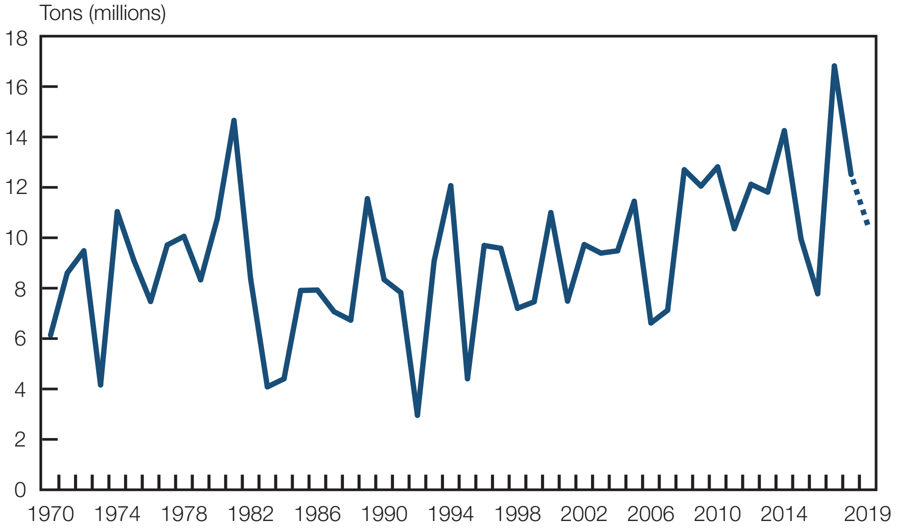
According to the first production estimate by the Department of Agriculture, Forestry and Fisheries' Crop Estimates Committee, a commercial maize harvest of 10.51 million tons is expected for the 2018/19 season, 16.0% less than the final 2017/18 crop but still more than the 2014/15 and 2015/16 harvests. The area of 2.30 million hectares expected to be planted for the season is only 0.7% less than the previous season's following early January 2019 rainfall. Sufficient stocks from the previous year should ensure that the availability of maize exceeds the estimated domestic demand of about 10.86 million tons per annum.

Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2017/18: final estimate...	12.51	2.32
2018/19: first production forecast..	10.51	2.30

Source: Crop Estimates Committee of the Department of Agriculture, Forestry and Fisheries

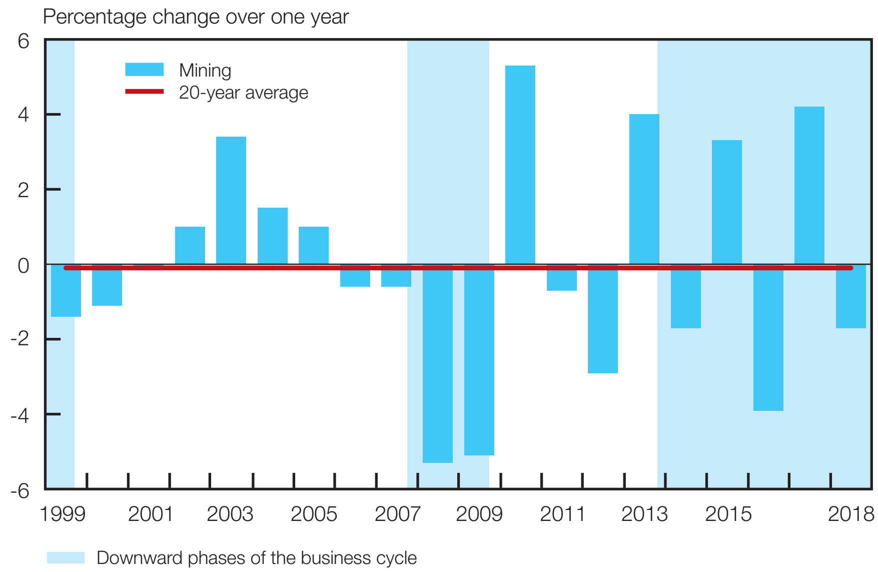
Commercial maize production



Calendar-year data, e.g. production season 2018/19 = 2019
Source: Crop Estimates Committee of the Department of Agriculture, Forestry and Fisheries

The real output of the *mining sector* contracted further, albeit at a slower pace of 3.8%, in the fourth quarter of 2018 after plunging by 8.9% in the third quarter. Mining output subtracted 0.3 percentage points from real GDP growth in the fourth quarter, with production decreasing in 6 of the 12 subsectors, in particular gold, iron ore, coal and diamonds. These declines were somewhat offset by increased production of platinum group metals (PGMs), copper and manganese ore. Lower gold production partly reflected the impact of the prolonged strike action at a large gold mine, while the renewed onset of electricity load-shedding in the last two months of the quarter exacerbated the decline in overall mining output.

Real gross value added by the mining sector



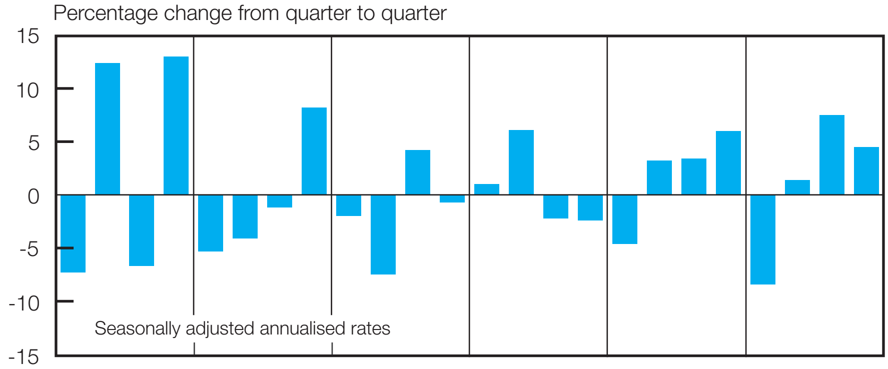
Sources: Stats SA and SARB

Over the past 20 years, average annual growth in the real GVA by the mining sector has remained virtually unchanged at -0.1%, with volatility ranging from a low of -5.3% in 2008 to a high of 5.3% in 2010 amid health and safety issues, industrial action as well as legislative and regulatory uncertainty. The mining sector has also not fully benefitted from the increases in some commodity prices since 2016. Volatility in annual mining production persisted in 2018, with real GVA contracting by 1.7% following an increase of 4.2% in 2017. The contraction in 2018 mainly emanated from lower production of iron ore, gold, coal and copper. The production of gold was impacted by the weaker gold price and increasing operating costs. By contrast, the contraction in the production of PGMs in both 2016 and 2017 was followed by an increase in 2018 as higher global demand for palladium used in the manufacturing of hybrid vehicles drove prices higher. Global growth concerns and the US-China trade dispute impacted on commodity prices in 2018, while the domestic mining sector was also adversely affected by rising input costs, including electricity and water tariffs as well as fuel prices.

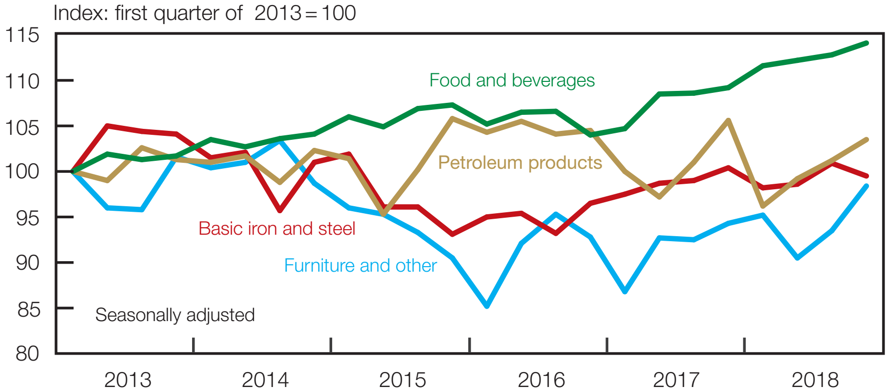
Growth in the real GVA by the *secondary sector* slowed from 4.9% in the third quarter of 2018 to 3.0% in the fourth quarter. The real output of the manufacturing as well as the electricity, gas and water subsectors increased at a slower pace, while activity in the construction sector declined in the fourth quarter.

The real output of the *manufacturing sector* advanced further by 4.5% in the fourth quarter and contributed 0.6 percentage points to overall GDP growth. There were higher production volumes in 7 of the 10 manufacturing subsectors, in particular food and beverages (the highest-weighted subsector); textiles, clothing, leather and footwear; motor vehicles, parts and accesories; and petroleum, chemical, rubber and plastic products. These were partially offset by declines in wood and wood products, electrical machinery, as well as basic iron and steel products. The last-mentioned subsector reflected a moderation in global economic growth, particularly in China, as well as the ongoing US-China trade dispute and higher tariffs. Firm export demand and the more competitive exchange value of the rand supported the production of motor vehicles. The higher level of manufacturing production was reflected in the marginal increase in the seasonally adjusted utilisation of production capacity in the manufacturing sector, from 81.3% in the third quarter of 2018 to 81.4% in the fourth quarter.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Source: Stats SA

The real GVA by the manufacturing sector increased by 1.0% in 2018 along with higher production of food and beverages; motor vehicles, parts and accessories; and basic iron and steel products. The depreciation in the exchange value of the rand rendered domestically produced manufactured products more competitive and supported increased production in the export-orientated industries in 2018.

The real GVA by the sector supplying *electricity, gas and water* increased marginally at a rate of 0.2% in the fourth quarter of 2018 following an increase of 0.8% in the preceding quarter. Increased activity in the electricity-intensive manufacturing subsectors supported demand for electricity.

The real output of the electricity, gas and water sector increased by less than 1.0% in both 2017 and 2018. In 2018, activity was affected by Eskom's continued supply disruptions to some defaulting municipalities and load-shedding towards the end of 2018 due to ageing power stations, coal-supply shortages, theft and vandalism as well as labour unrest.

The real output of the *construction sector* declined by 0.7% in the final quarter of 2018 after having contracted by 1.7% in the third quarter. Civil construction as well as residential and non-residential building activity decreased.

Growth in the real GVA by the *tertiary sector* slowed to 1.7% in the fourth quarter of 2018 from 2.9% in the third quarter. Activity in the commerce and general government services subsectors contracted alongside an acceleration in the real output growth of the finance and transport subsectors.

Real output growth in the *commerce sector* decelerated markedly from 3.4% in the third quarter of 2018 to -0.7% in the fourth quarter, reflecting contractions in wholesale and motor trade as well as in catering and accommodation, while activity increased in the retail trade subsector. Increased sales by retailers of textiles, clothing, footwear and leather products as well as household furniture, appliances and equipment, but also in the general dealers subsector, were supported by Black Friday promotions in November. By contrast, real activity in the wholesale trade subsector contracted in the fourth quarter of 2018 as the sales of food, beverages and tobacco; textiles, clothing and footwear; solid liquid and gaseous fuels as well as precious stones, jewellery and silverware declined. In addition, activity in the motor trade subsector remained subdued, reflecting, among other factors, lower demand for new passenger vehicles as the replacement of passenger vehicles was postponed. The real GVA by the commerce sector increased by only 0.6% in 2018 on account of weak consumer demand.

The real output of the *transport, storage and communication sector* expanded by 7.7% in the final quarter of 2018 and contributed the most to overall GDP growth at 0.7 percentage points. Activity in both land transport and transport support services increased.

Growth in the real GVA by the *finance, insurance, real estate and business services sector* accelerated to 2.7% in the fourth quarter of 2018 from 2.1% in the preceding quarter. Financial intermediation, insurance, auxiliary activities and real estate activity supported the faster growth. The real GVA by the finance, insurance, real estate and business services sector increased by 1.8% in 2018 compared to a revised increase of 2.1% in 2017.

A decrease in employment growth led to a contraction in the real output of the *general government services sector* of 0.6% in the fourth quarter of 2018 from an increase of 1.9% in the third quarter.

Box 1 Methodological challenges in measuring gross national income

The measurement of gross national income (GNI), as published in the national income and production accounts on page S–110 of this *Quarterly Bulletin*, is based on the System of National Accounts (SNA).[1] This box highlights a few important aggregates in the SNA that are needed for the calculation of nominal and real GNI.

Measuring nominal and real gross national income

R millions

	2018	
	Nominal (current prices)	Real (constant 2010 prices)
Gross domestic product	4 873 899	3 144 539
Trading gain or loss from changes in the terms of trade		48 770
Net primary income to the rest of the world	-154 045	-103 141
Primary income receivable from the rest of the world	96 507	
Less: Primary income payable to the rest of the world	250 552	
Gross national income	4 719 854	3 090 168

Sources: Stats SA and SARB

Nominal gross domestic product (GDP)[2] at market prices is an important and well-known summary aggregate in the national accounts as well as an indicator of a country's economic activity. This GDP measure includes gross value added at basic prices as well as taxes and subsidies on products, and differs from nominal GNI at market prices. The difference is the net of economic activities by residents abroad (primary income receivable from the rest of the world) and by non-residents in the national economy (primary income payable to the rest of the world).[3] In South Africa, nominal GDP is always larger than nominal GNI as the income on foreign-owned factors of production in South Africa exceeds that on South African factors of production abroad. Both GDP and GNI, in nominal terms, cover the total economy, but with GDP referring to production (output) and GNI to income. The annual nominal estimates of value added are used to derive real GDP by applying double-deflation.[4] This procedure removes the effect of prices in order to measure the change in volumes from one period to another.

Income flows cannot be disaggregated into quantity and price components but can be calculated in real terms at constant purchasing power. Real GNI[5] is affected by the price level in the reference year and the choice of price deflator numerators. Therefore, proceeding from real GDP to real GNI requires an adjustment for trading gain or loss from changes in the terms of trade (ToT)[6] between the national economy and the rest of the world, as real income is affected by the difference between export and import prices as well as the relative rate of change in export and import prices.

The literature is inconclusive about the choice of a price deflator for the value of exports minus imports of goods and services[7] (current balance) at nominal values to measure the trading gain or loss from changes in the ToT. One possibility in the SNA is to deflate the current balance by either the export or the import price indices, depending on whether it is positive or negative. Another option is to deflate by the average of export and import prices, or by a general price index unrelated to foreign trade. In the case of South Africa,

1 The methodology to compile national accounts aggregates adheres to the guidelines of the *System of National Accounts 2008 (2008 SNA)*. This statistical framework provides a comprehensive and consistent set of macroeconomic accounts. The *2008 SNA* was developed by the United Nations, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group. See https://unstats.un.org/unsd/nationalaccount/docs/sna2008.pdf.

2 South Africa's GDP statistics are compiled and published by Statistics South Africa. For the methodology, see http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2014.pdf.

3 Primary income receivable and payable are measured and published by the South African Reserve Bank (SARB) as part of the balance-of-payments statistics, as shown on pages S–82 to S–84 and S–86 to S–89 of this *Quarterly Bulletin*. The methodology to compile balance-of-payments statistics adheres to the guidelines of the *Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6)* of the International Monetary Fund. See www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf.

4 Real GDP statistics (at constant 2010 prices) are shown on pages S–113 and S–115 of this *Quarterly Bulletin*. See http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2014.pdf for Statistics South Africa's double-deflation methodology.

5 Real GNI measures the purchasing power of total income generated by domestic production.

6 The terms of trade (ToT) is calculated as the ratio between the prices of exports and imports. The ToT is relevant in this context because in theory, with an improvement (deterioration) in the ToT, the residents of a country could increase (decrease) the volume of imports for income generated by domestic GDP.

7 The value of exports and imports of goods in the balance of payments is sourced from the South African Revenue Service. The SARB adjusts the exports and imports of goods for balance-of-payments purposes and compiles the services, income and transfer receipt and payment statistics.

either one of the two methods is used, depending on the level of nominal imports relative to exports. When exports exceed (are less than) imports, the difference between nominal imports (exports) divided by the import price deflator and nominal imports (exports) divided by the export price deflator is used.[8]

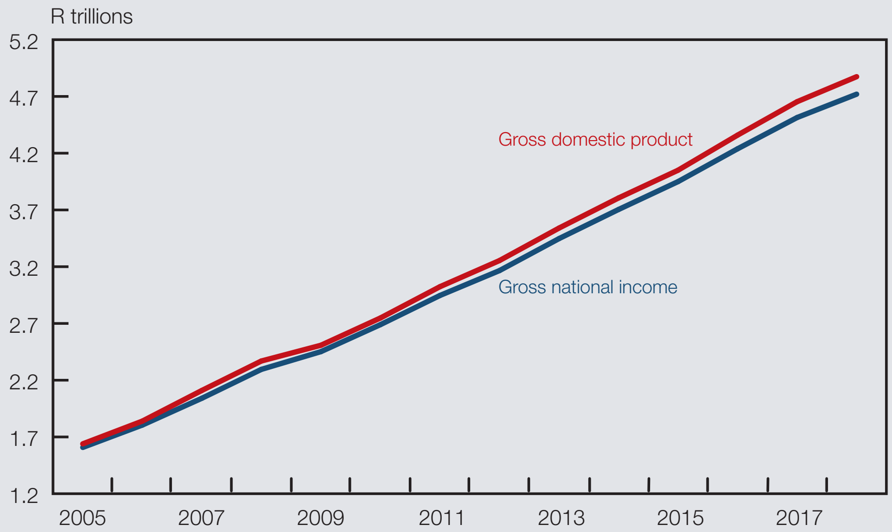
To proceed further to real GNI requires the deflation of net primary income. Here, also, a number of possible alternative approaches exist in the literature. In the case of South Africa, one of three methods is used, depending on the nominal level of net exports and net primary income. These are:

1. When net exports are positive (i.e. when exports exceed imports) and less than net primary income, then the real net primary income is calculated as nominal net exports divided by the export price deflator *plus* the nominal net primary income divided by the import price deflator *minus* nominal net exports divided by the import price deflator.
2. When net exports are negative (i.e. when exports are less than imports) and less than net primary income, then the real net primary income is calculated as the nominal net primary income divided by the import price deflator.
3. When net exports (i.e. exports minus imports) are greater than or equal to net primary income, then the real net primary income is calculated as the nominal net primary income divided by the export price deflator.

Finally, real GNI is measured as real GDP (i.e. production in volume terms) adjusted for trading gain or loss from changes in the ToT as well as the real net primary income.

A comparison of the level of GDP and GNI at current prices shows that, in the case of South Africa, GDP is always larger than GNI as the income on foreign-owned factors of production in South Africa exceeds that on South African factors of production abroad.

Comparison of nominal national accounts aggregates

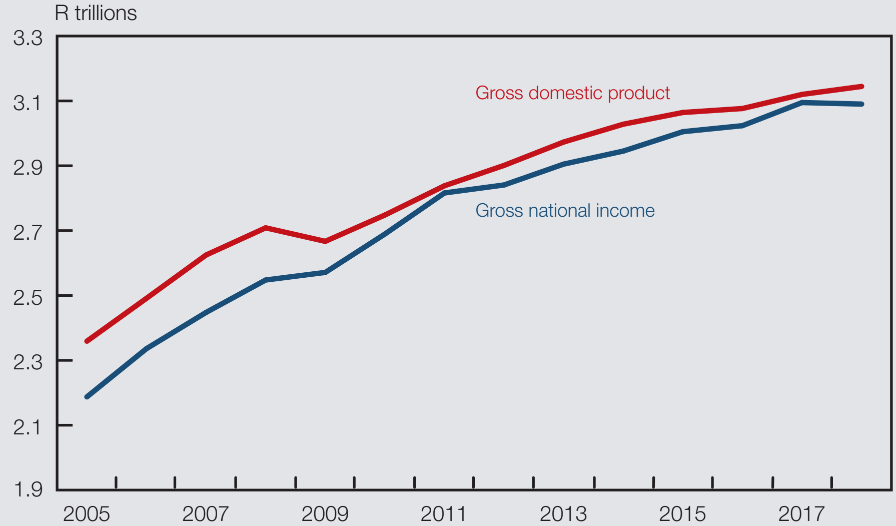


Sources: Stats SA and SARB

8 The export and import price deflators of goods and services are implicit aggregate price deflators derived from detailed export and import price deflators compiled by Statistics South Africa.

In the case of South Africa, the difference between the level of GDP and GNI at constant 2010 prices is not always small. This reflects the effect of relative changes in export and import prices on the real purchasing power of South Africans, affected by trading gain or loss from changes in the ToT as well as the effect of implicit price deflators on net primary income.

Comparison of real national accounts aggregates



Sources: Stats SA and SARB

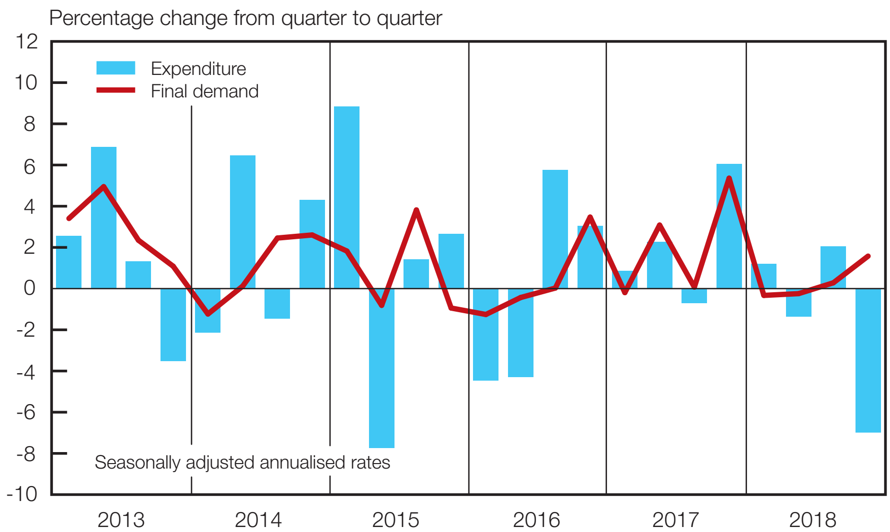
Real gross domestic expenditure[3, 4]

Real *gross domestic expenditure* (GDE) switched from an expansion of 2.1% in the third quarter of 2018 to a contraction of 7.0% in the fourth quarter, largely due to a significant decline in real inventory holdings. By contrast, real gross domestic final demand expanded in the fourth quarter of 2018 as the acceleration in growth in real final consumption expenditure by both households and general government more than offset the contraction in real gross fixed capital formation. Growth in real GDE moderated to 1.0% in 2018 from 1.9% in 2017.

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

4 The analysis in this section of the *Quarterly Bulletin* is based on a revised set of national accounts estimates. These revisions are based on more detailed or more appropriate data that have become available.

Real gross domestic expenditure and final demand



Source: Stats SA

Real gross domestic expenditure

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Component	2017			2018				
	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Final consumption expenditure								
Households	2.7	3.7	2.1	1.1	0.1	0.6	3.2	1.8
General government	0.7	0.5	0.2	4.6	2.1	0.4	0.6	1.9
Gross fixed capital formation	-8.3	16.3	1.0	-9.3	-3.8	-0.7	-2.5	-1.4
Domestic final demand	**0.1**	**5.4**	**1.5**	**-0.3**	**-0.2**	**0.3**	**1.6**	**1.2**
Change in inventories (R billions)**	-1.0	1.2	3.2	13.1	4.6	14.5	-53.9	-5.4
Gross domestic expenditure* **	**-0.7**	**6.1**	**1.9**	**1.2**	**-1.4**	**2.1**	**-7.0**	**1.0**

* Percentage change over one year
** At constant 2010 prices
*** Including the residual

Sources: Stats SA and SARB

The largest contribution to real GDP growth in the fourth quarter of 2018 came from real net exports at 8.7 percentage points, while the change in real inventory holdings subtracted the same magnitude. Real final consumption expenditure by households and by general government contributed 1.1 and 0.4 percentage points respectively to growth in real GDP in 2018.

Contributions of expenditure components to growth in real gross domestic product

Percentage points

Component	2017			2018				
	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Final consumption expenditure								
Households	1.6	2.2	1.2	0.7	0.1	0.3	2.0	1.1
General government	0.1	0.1	0.0	0.9	0.4	0.1	0.1	0.4
Gross fixed capital formation	-1.7	3.0	0.2	-1.9	-0.8	-0.1	-0.5	-0.3
Change in inventories	-0.7	0.3	0.4	1.5	-1.1	1.3	-8.7	-0.3
Net exports	3.5	-2.6	-0.5	-3.9	0.9	0.5	8.7	-0.2
Residual	-0.1	0.4	0.0	0.0	0.0	0.5	-0.2	0.1
Gross domestic product	**2.8**	**3.4**	**1.4**	**-2.7**	**-0.5**	**2.6**	**1.4**	**0.8**

Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

Real *exports* increased further at a lower 2.7% in the fourth quarter of 2018 as growth in the exports of merchandise and net gold decelerated alongside a contraction in the exports of services. In the fourth quarter of 2018, a slight contraction in the export volumes of base metals and articles as well as a moderation in foreign demand for precious metals (including gold, PGMs and stones) weighed on real mining exports while the exports of mineral products accelerated. Slower growth in the export volumes of most manufactured goods more than offset the turnaround in that of chemical products. A decline in vegetable exports adversely affected agricultural exports.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2018					
	Exports			Imports		
	Percentage of total**	Q3***	Q4***	Percentage of total**	Q3***	Q4***
Total	100	5.9	2.7	100	5.2	-4.3
Mining	46.8	6.2	4.2	20.5	7.6	-7.5
Of which:						
Mineral products	18.9	0.1	3.4	15.0	5.0	-7.9
Precious metals including gold, platinum group metals and stones	16.4	10.3	9.4	1.3	27.7	-12.2
Base metals and articles	11.6	11.2	-1.8	4.2	11.2	-4.5
Manufacturing	32.7	7.3	3.0	62.4	5.8	-3.0
Of which:						
Vehicles and transport equipment	10.5	14.3	8.4	12.4	8.9	-1.4
Machinery and electrical equipment	6.7	4.1	2.1	24.8	7.5	-6.7
Chemical products	5.3	-0.5	0.9	9.2	6.6	1.1
Prepared foodstuffs, beverages and tobacco	3.6	5.5	2.3	2.5	-6.0	-1.0
Agriculture	5.7	10.2	0.2	3.6	1.8	-5.7
Of which:						
Vegetable products	4.4	16.9	-2.5	1.4	-11.0	2.5
Services	13.8	1.2	-1.5	12.6	-0.3	-4.9

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2018
*** Not annualised
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

Real *imports* of goods and services contracted in the fourth quarter of 2018 as the import volumes of all the major goods and services components declined. Weaker domestic demand for mining products was broad-based, in particular for precious metals (including gold, PGMs and stones). Contractions in the real import volumes of vehicles and transport equipment, machinery and equipment, as well as prepared foodstuffs, beverages and tobacco weighed the real value of manufactured imports down. Agricultural imports also decreased.

Real *net exports* added 8.7 percentage points to real GDP growth in the fourth quarter of 2018 as real net mining and manufactured exports contributed 4.4 and 3.6 percentage points respectively. These contributions were driven by real net exports of mineral products as well as machinery and electrical equipment, which added 2.3 percentage points each.

Contributions of real exports and imports and net exports of goods and services to growth in real gross domestic product

Percentage points

Component	2018					
	Exports		Imports*		Net exports	
	Q3	Q4	Q3	Q4	Q3	Q4
Total	**6.9**	**3.2**	**6.4**	**-5.4**	**0.5**	**8.7**
Mining	**3.4**	**2.4**	**1.9**	**-2.0**	**1.5**	**4.4**
Of which:						
Mineral products	0.0	0.8	0.9	-1.5	-0.9	2.3
Precious metals including gold, platinum group metals and stones	1.9	1.9	0.4	-0.2	1.5	2.1
Base metals and articles	1.5	-0.3	0.6	-0.2	0.9	0.0
Manufacturing	**2.7**	**1.2**	**4.4**	**-2.4**	**-1.7**	**3.6**
Of which:						
Vehicles and transport equipment	1.6	1.1	1.3	-0.2	0.3	1.3
Machinery and electrical equipment	0.3	0.2	2.3	-2.2	-2.0	2.3
Chemical products	0.0	0.1	0.7	0.1	-0.8	-0.1
Prepared foodstuffs, beverages and tobacco	0.2	0.1	-0.2	0.0	0.4	0.1
Agriculture	**0.7**	**0.0**	**0.1**	**-0.3**	**0.6**	**0.3**
Of which:						
Vegetable products	0.9	-0.1	-0.2	0.0	1.1	-0.2
Services	**0.2**	**-0.3**	**0.0**	**-0.8**	**0.2**	**0.5**

* A positive contribution by imports subtracts from growth and a negative contribution adds to growth.
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

Real *final consumption expenditure by households* increased by 3.2% in the fourth quarter of 2018 following a revised increase of only 0.6% in the third quarter. Real spending on both durable goods and services expanded following declines in the preceding quarter, while expenditure on non-durable goods edged higher and real outlays on semi-durable goods increased at a marginally slower pace. Faster growth in household debt supported increased spending. Household consumption expenditure growth slowed somewhat to 1.8% in 2018 compared to 2.1% in 2017.

Real final consumption expenditure by households

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Category	2017			2018				
	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Durable goods	14.6	13.4	4.7	2.8	-3.7	-3.7	7.7	4.5
Semi-durable goods	7.5	16.9	3.2	-13.1	1.2	9.0	8.7	3.0
Non-durable goods	-1.6	2.2	0.7	0.6	-1.8	2.7	3.0	0.8
Services	2.9	0.1	2.4	4.8	2.4	-2.0	1.1	1.9
Total	**2.7**	**3.7**	**2.1**	**1.1**	**0.1**	**0.6**	**3.2**	**1.8**

* Percentage change over one year

Source: Stats SA

Real outlays by households on *durable goods* rebounded notably by 7.7% in the final quarter of 2018 following two consecutive quarterly declines. Spending on personal transport equipment surged after a sharp decline in the third quarter.

Growth in real consumption expenditure on *semi-durable goods* decelerated slightly to a still robust 8.7% in the fourth quarter of 2018 from 9.0% in the third quarter. Real purchases of both clothing and footwear (representing about 60% of this spending category) as well as motorcar tyres and accessories moderated somewhat in the fourth quarter of 2018 but still maintained solid growth. Real outlays on household textiles, furnishings and glassware as well as recreational and entertainment goods increased at a faster pace.

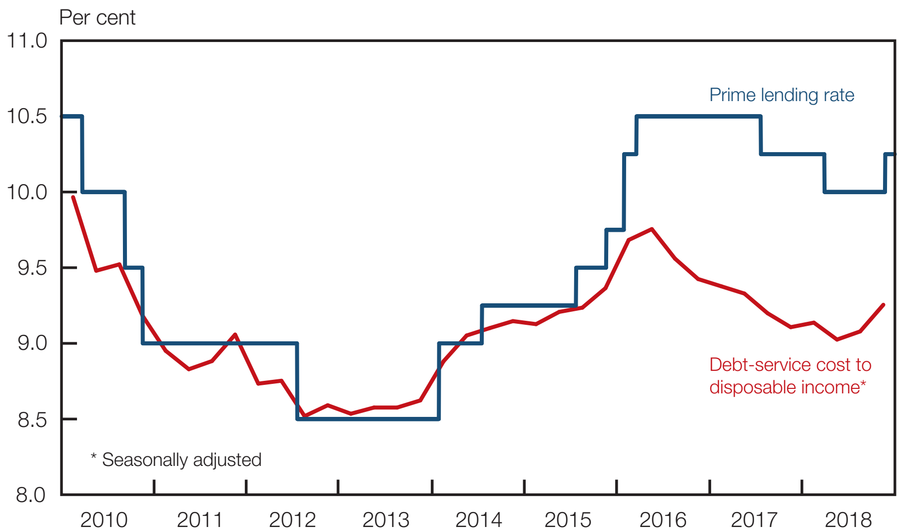
Real expenditure on *non-durable goods* advanced by 3.0% in the fourth quarter of 2018 after increasing by 2.7% in the previous quarter. Spending on food, beverages and tobacco as well as on household consumer goods lost some momentum, while households' real outlays on medical and pharmaceutical products as well as petroleum products declined. By contrast, expenditure on recreational and entertainment goods as well as on power, water and fuel increased. The last-mentioned category reflected the significant decrease in fuel prices at the beginning of December.

Growth in households' real spending on *services* reverted from -2.0% in the third quarter of 2018 to 1.1% in the fourth quarter. The turnaround was broad-based, as real outlays in almost all the subcategories increased in the fourth quarter of 2018, including in medical services, transport and communication services, as well as recreational, entertainment and educational services. Consumption expenditure on rent advanced at broadly the same pace as in the previous quarter.

Household debt increased at a faster pace in the fourth quarter of 2018. Mortgage advances, the largest component of household debt, contributed the most to the increase. General loans and advances at all monetary institutions also increased notably, suggesting that consumers borrowed to sustain spending. Household debt as a percentage of nominal disposable income edged higher from 71.8% in the third quarter of 2018 to 72.7% in the fourth quarter, as the quarter-to-quarter increase in household debt exceeded that in disposable income.

Debt-service cost to disposable income increased marginally to 9.3% in the fourth quarter of 2018 from 9.1% in the third quarter, consistent with the 25 basis points increase in the prime lending rate in November 2018 and the faster growth in household indebtedness in the fourth quarter of the year. However, for 2018 as a whole, the ratio of both household debt and debt-service cost to disposable income decreased.

Household debt-service cost and prime lending rate



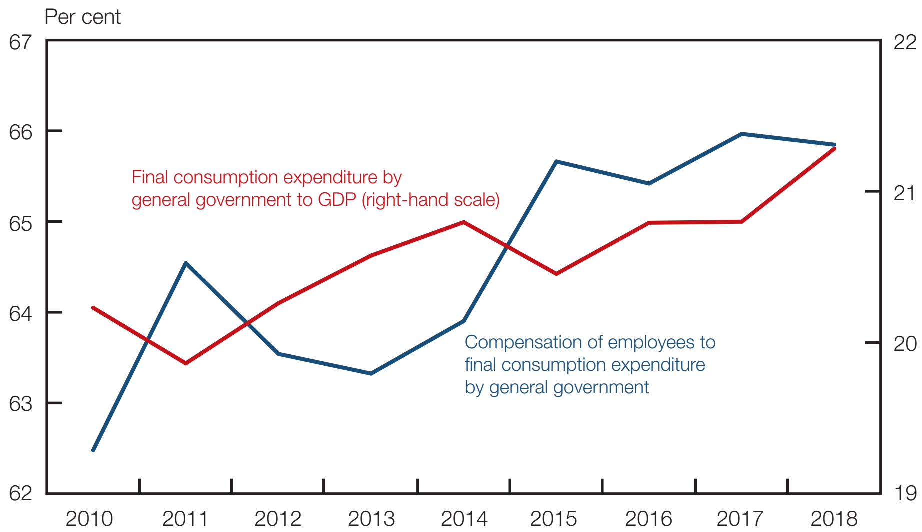
Source: SARB

Households' net wealth declined in the fourth quarter of 2018, mainly due to the effect of lower share prices on equity holdings and the increase in household debt. The ratio of net wealth to nominal disposable income declined to 357.5% in the fourth quarter of 2018 and edged lower for 2018 as a whole as nominal disposable income grew faster than net wealth.

Growth in real *final consumption expenditure by general government* increased marginally from 0.4% in the third quarter of 2018 to 0.6% in the fourth quarter. The subdued growth was in line with government's efforts to contain expenditure as real spending on the compensation of employees declined. By contrast, growth in real outlays on non-wage goods and services rose at a somewhat faster pace.

Growth in real final consumption expenditure by general government accelerated from 0.2% in 2017 to 1.9% in 2018 as real spending on non-wage goods and services as well as on the compensation of employees increased. The nominal compensation of employees relative to final consumption expenditure by general government increased from 62.5% in 2010 to 65.8% in 2018, lifting the ratio of nominal final consumption expenditure by general government to GDP from 20.2% to 21.3% over the same period.

Nominal final consumption expenditure by general government



Source: Stats SA

Real *gross fixed capital formation* declined further by 2.5% in the fourth quarter of 2018 after contracting by 0.7% in the third quarter. This was the fourth consecutive quarterly contraction, with private business enterprises, public corporations and general government all reducing capital outlays over the period.

Real gross fixed capital formation contracted by 1.4% in 2018 following a moderate increase of 1.0% in 2017. Capital outlays by both general government and public corporations decreased, while those by private business enterprises increased marginally in 2018. Capital investment in South Africa was constrained by, among other factors, low business confidence, regulatory uncertainty in the mining sector in particular, electricity-supply disruptions, subdued economic growth, and concerns about fiscal sustainability. The ratio of nominal fixed capital formation to GDP declined to 18.2% in 2018 – its lowest level since 2005 and well below the 23.5% of 10 years ago.

Real gross fixed capital formation

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Sector	2017			2018				
	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Private business enterprises	-4.4	22.3	5.0	-6.7	-1.3	2.9	-1.4	2.1
Public corporations	-34.5	7.1	-11.7	-15.5	-13.8	-7.9	-5.6	-12.5
General government	8.2	2.5	0.2	-14.1	-4.3	-9.0	-4.1	-4.4
Total	**-8.3**	**16.3**	**1.0**	**-9.3**	**-3.8**	**-0.7**	**-2.5**	**-1.4**

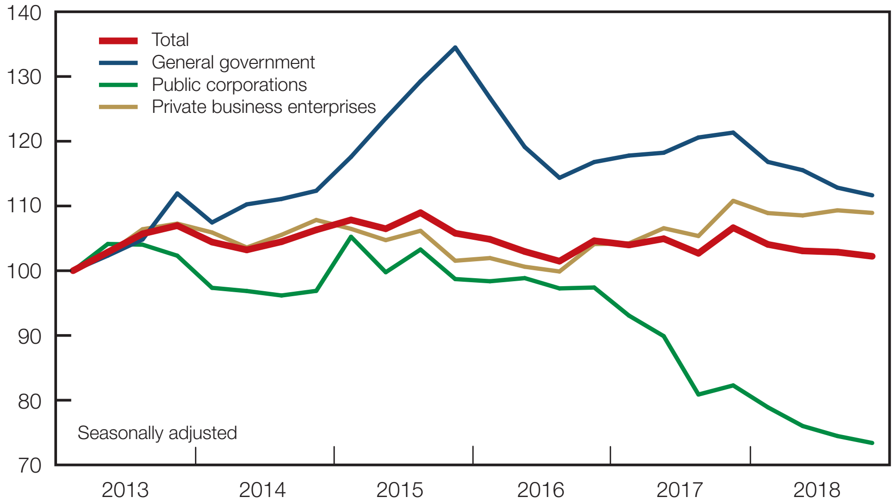
* Percentage change over one year

Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* contracted anew by 1.4% in the fourth quarter of 2018 following a rebound of 2.9% in the third quarter. The decline subtracted 1.0 percentage point from overall growth in real gross fixed capital formation in the fourth quarter of 2018. For the year as a whole, capital expenditure by private business enterprises increased by 2.1% following an increase of 5.0% in 2017. Weak demand and a general lack of confidence reduced expenditure on machinery and equipment in 2018, while the winding down of construction activity at major independent power generation facilities also contributed to the slowdown.

Real gross fixed capital formation

Index: first quarter of 2013 = 100

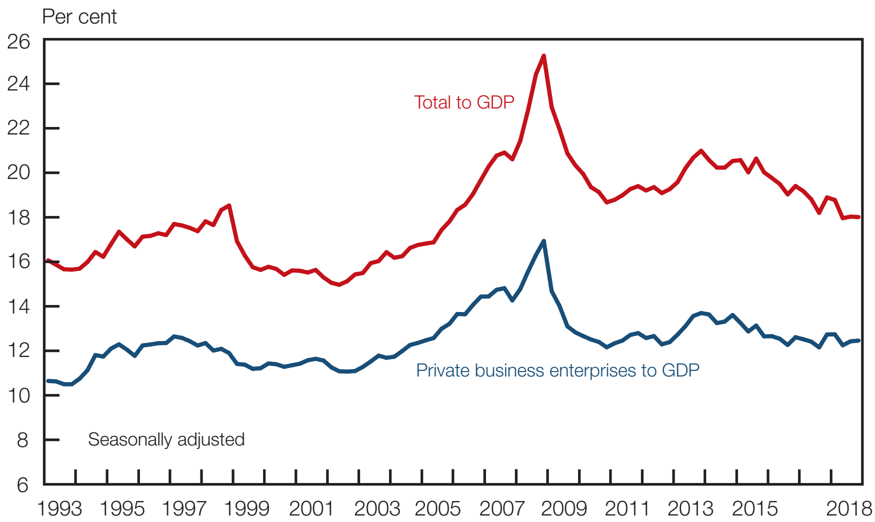


Source: Stats SA

Total real gross fixed capital formation has moved broadly sideways since 2013, with the initial ramp-up in investment by general government masking the decline in public corporations. Gross fixed capital formation by the private sector (constituting 68.5% of the total in 2018) expanded in only 7 of the last 16 quarters with the share of private sector nominal gross fixed capital formation to GDP averaging 12.6% over the period.

Real capital expenditure by *public corporations* contracted further by 5.6% in the fourth quarter of 2018 after having declined by 7.9% in the third quarter. An improvement in real fixed capital outlays on residential and non-residential building activity was outweighed by a decline in capital expenditure on transport equipment as well as on machinery and equipment. Following four quarterly contractions in 2018, public corporations' real capital expenditure declined further by 12.5% in 2018, reflecting funding and governance challenges at these institutions.

Nominal gross fixed capital formation

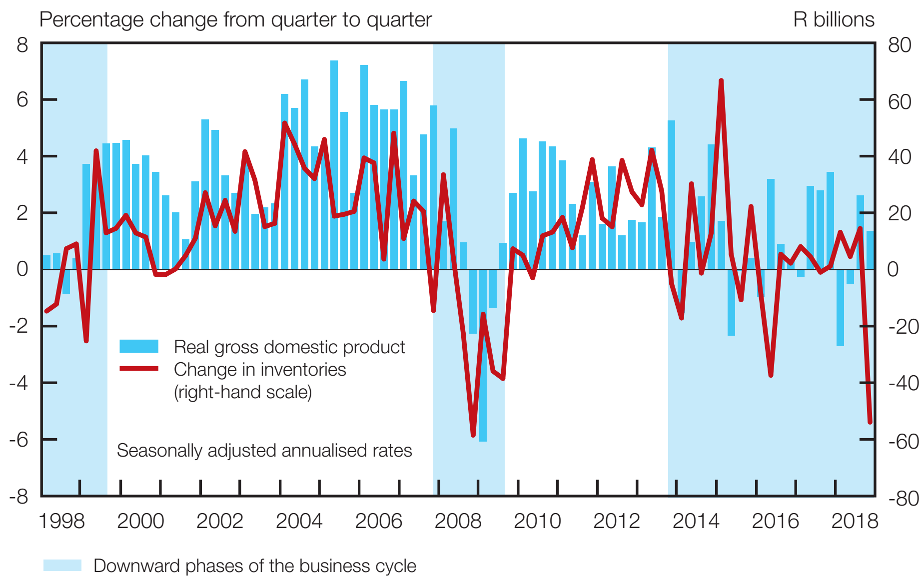


Source: Stats SA

Real gross fixed capital expenditure by *general government* declined further by 4.1% in the fourth quarter of 2018 after having decreased by 9.0% in the third quarter. Consequently, annual growth in real fixed capital investment by general government shrank by 4.4% in 2018 following a slight increase of 0.2% in 2017. Delays in the commencement and completion of large infrastructure projects detracted from growth in 2018.

Real *inventory holdings* declined by R53.9 billion (at 2010 prices) in the fourth quarter of 2018 after having increased in the third quarter. De-stocking occurred in most sectors, in particular the mining and manufacturing sectors as exports of these products increased notably. Following the accumulation of inventories in 2017, real inventory holdings were depleted by R5.4 billion in 2018, similarly to the lower inventory holdings in previous downward phases of the business cycle.

Real gross domestic product and change in inventories



Sources: Stats SA and SARB

Gross nominal saving

South Africa's *national saving rate* (gross saving as a percentage of GDP) declined from 14.9% in the third quarter of 2018 to 14.0% in the fourth quarter. The decrease reflected weaker saving by corporate business enterprises, households and general government. The portion of total gross capital formation to be financed through foreign capital (i.e. the foreign financing ratio) decreased markedly from 19.7% in the third quarter of 2018 to 13.6% in the fourth quarter. However, the annual national saving rate decreased from 16.3% in 2017 to 14.4% in 2018 – the lowest annual saving rate since 2012.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted annualised rates

Sector	2017			2018				
	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Corporate	14.5	14.7	14.5	13.5	11.8	13.5	13.3	13.0
General government	-0.1	-0.2	0.2	-0.5	0.9	-0.1	-0.4	0.0
Household	1.6	1.6	1.6	1.3	1.6	1.4	1.2	1.4
Total	**16.1**	**16.1**	**16.3**	**14.3**	**14.3**	**14.9**	**14.0**	**14.4**

Source: SARB

Gross saving by the *corporate sector* as a percentage of GDP declined from 13.5% in the third quarter of 2018 to 13.3% in the fourth quarter, mainly due to higher tax payments. Consequently, the corporate sector's saving rate declined from 14.5% in 2017 to 13.0% in 2018.

The dissaving by *general government* as a percentage of GDP increased to 0.4% in the fourth quarter of 2018 from 0.1% in the third quarter. The increase in government expenditure outweighed that in revenue as income moderated on account of lower personal income and value-added tax (VAT) collections. General government's saving rate weakened further in 2018 as the increase in total expenditure marginally outweighed that in total revenue. Although tax revenue rose following the increase in the VAT rate, this was more than offset by the increase in general government's final consumption expenditure in 2018.

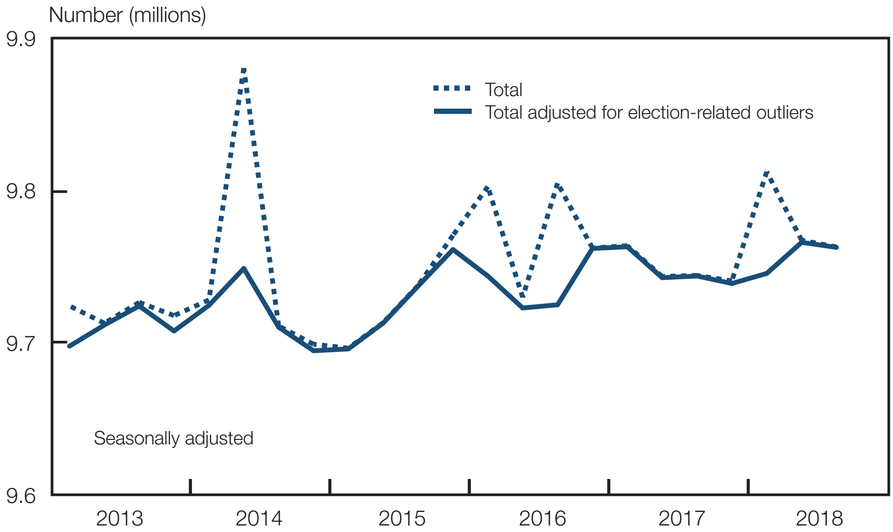
Gross saving by the *household sector* as a percentage of GDP declined to 1.2% in the fourth quarter of 2018, the lowest quarterly saving rate since the third quarter of 2016, as the increase in nominal consumption expenditure outpaced that in nominal disposable income.

Employment[5]

According to the *Quarterly Employment Statistics (QES)* survey released by Statistics South Africa (Stats SA), enterprise-surveyed formal non-agricultural employment decreased marginally further by an annualised 0.3% in the third quarter of 2018. The level of employment remained broadly unchanged at around 9.8 million, following the loss of only about 6 400 jobs in the quarter. Employment increased by 0.2% in the year to the third quarter of 2018.

5 Unless stated to the contrary, the *QES* data reported in this section are seasonally adjusted.

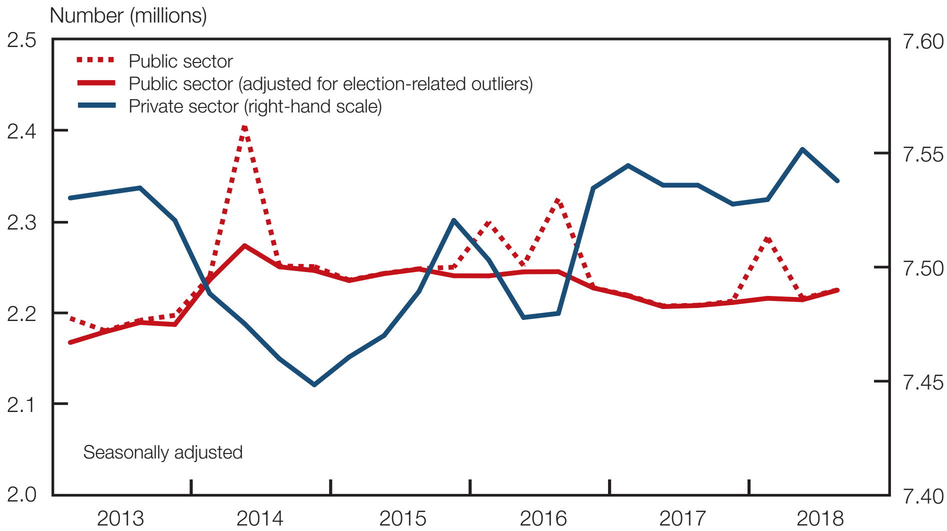
Formal non-agricultural employment



Sources: Stats SA and SARB

The decline in formal non-agricultural employment in the third quarter of 2018 resulted from a decrease in *private sector employment.* The private sector shed around 13 800 jobs in the third quarter, thereby reversing the employment gains in the previous two quarters. While the services subsectors still created some jobs, these were more than offset by notable job losses in the goods-producing subsectors, in particular construction, goldmining and manufacturing.

Formal non-agricultural employment



Sources: Stats SA and SARB

By contrast, *public sector employment* increased by 1.3% in the third quarter of 2018. Almost all tiers of the public sector expanded their staff complement, with the exception of national departments. The increase at local governments largely reflected jobs related to the expanded public works programme.

Mining sector employment decreased slightly in the third quarter of 2018 after increasing in the second quarter. Employment in the gold-mining sector decreased notably in the third quarter, and for the eighth successive quarter when measured over four quarters, consistent with the structural decline in South African gold production. Conversely, non-gold-mining employment increased further, and at a faster pace, in the third quarter of 2018. Mounting cost pressures remain a key constraint to employment growth in the mining sector, with the Minerals Council of South Africa expressing concern over the potential impact of the approved double-digit electricity tariff increase.

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

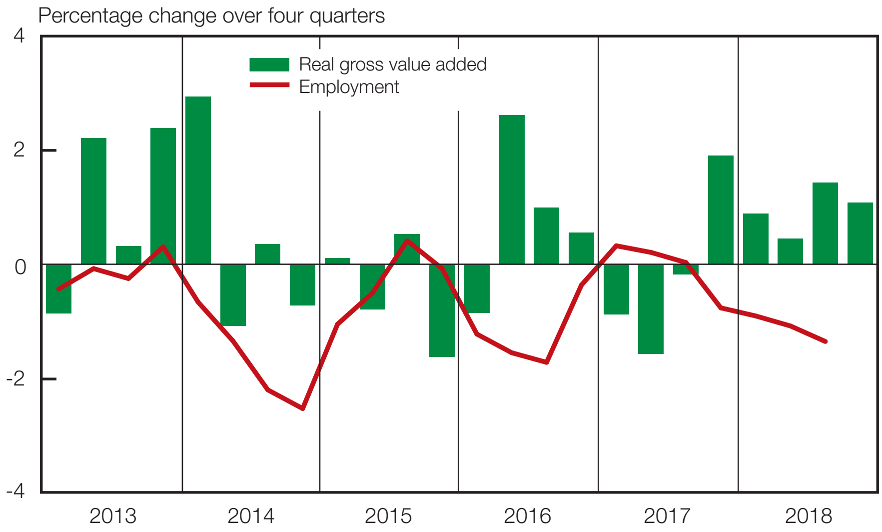
Sector	Change over one quarter: Q3 2018		Change over four quarters to Q3 2018		Cumulative job losses(-)/ gains(+)**	
	Number	Per cent annualised	Number	Per cent	Q2 2010 to Q1 2014	Q2 2014 to Q3 2018
Total mining	-1 400	-1.2	-2 900	-0.6	800	-35 900
Gold mining	-6 900	-23.8	-13 900	-12.5	-41 200	-20 600
Other mining	5 500	6.4	11 000	3.2	42 000	-15 200
Manufacturing	-5 700	-1.9	-16 100	-1.4	-44 500	-46 200
Construction	-7 400	-4.9	-22 500	-3.7	19 000	-54 400
Total goods-producing	*-14 500*	*-2.6*	*-41 600*	*-1.8*	*-24 700*	*-136 400*
Trade, catering and accommodation services	5 000	0.9	26 400	1.2	83 400	126 700
Transport, storage and communication services	-2 700	-3.0	-9 700	-2.7	9 500	-17 200
Finance, insurance, real estate and business services	2 500	0.5	21 300	1.0	148 000	42 800
Community, social and personal services	-4 100	-2.8	5 500	1.0	32 300	33 500
Total services	*700*	*0.1*	*43 500*	*0.8*	*273 300*	*185 900*
Private sector	**-13 800**	**-0.7**	**1 900**	**0.0**	**248 700**	**49 400**
National departments	-2 600	-2.2	-4 300	-0.9	44 000	14 700
Provinces	3 900	1.5	5 700	0.6	108 000	-64 800
Local governments	1 900	2.4	9 200	2.9	66 300	17 100
Transport, storage and communication services	1 800	6.8	800	0.7	26 700	-22 200
Other public sector enterprises, including electricity and IEC***	2 400	3.5	4 300	1.6	18 800	39 400
Public sector	**7 300**	**1.3**	**15 600**	**0.7**	**263 800**	**-15 800**
Grand total	**-6 400**	**-0.3**	**17 500**	**0.2**	**512 500**	**33 600**

* Seasonally adjusted. Components may not add up to totals due to rounding off.
** These reflect the two most recent phases in the formal non-agricultural employment cycle.
*** Electoral Commission of South Africa

Sources: Stats SA and SARB

Despite the slight upward trend in manufacturing output since the second quarter of 2017, *manufacturing sector employment* contracted for a sixth successive quarter in the third quarter of 2018, shedding a cumulative 22 400 jobs since the first quarter of 2017. According to the *Absa Manufacturing Survey* conducted by Stellenbosch University's Bureau for Economic Research (BER), business confidence among manufacturers rose slightly from 26 to 30 index points in the fourth quarter of 2018. An improvement in the underlying activity and demand indicators was countered by an increase in production costs, while respondents continued to flag the general political climate as a major constraint. The BER noted that although the outlook for the manufacturing sector remained fairly bleak, manufacturers were significantly less pessimistic about long-term business conditions than in the third quarter of 2018.

Manufacturing sector employment and output



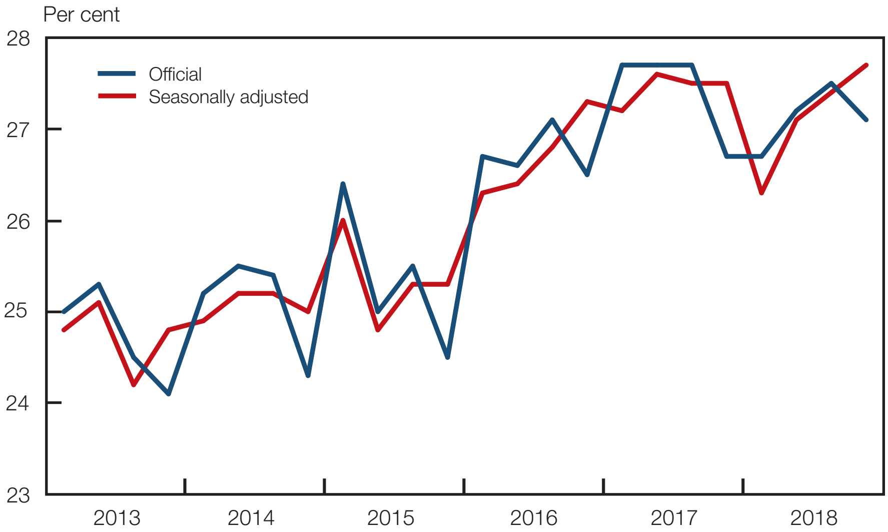
Sources: Stats SA and SARB

Employment in the *construction sector* decreased notably in the third quarter of 2018, more than reversing the marginal gains made in the previous quarter. On a year-on-year basis, formal construction sector employment has contracted for eight consecutive quarters up to the third quarter of 2018. The *First National Bank (FNB)/BER Construction Survey* showed that the civil construction industry remained depressed, with little sign of improving in the short term. The *FNB/BER Civil Confidence Index* rose by only 1 index point to a still very low 18 index points in the fourth quarter of 2018. The index has remained below 20 for a fourth successive quarter, with 50 representing the threshold between optimism and pessimism. Respondents reported a significant decline in construction activity and a deterioration in order books. Furthermore, the *FNB/BER Building Confidence Index* shed 3 index points to reach 32 in the fourth quarter of 2018, largely due to the deterioration in confidence among architects and quantity surveyors. Although activity among residential and non-residential building contractors improved moderately, the deterioration at the start of the building pipeline suggests that building activity could weaken in the near term.

Employment in the *finance, insurance, real estate and business services sector* expanded slightly in the third quarter of 2018 – its fourth successive quarterly increase. Similarly, employment in the *trade, catering and accommodation services sector* also increased in the third quarter, albeit at a much slower pace than in the previous quarter. According to the BER's *Retail Survey,* business confidence among retailers improved from 23 index points in the third quarter of 2018 to 33 index points in the fourth quarter, aided by higher sales volumes and a slight improvement in overall profitability. However, the majority of retailers still reported tough trading conditions compared to a year ago. Nevertheless, the *FNB/BER Consumer Confidence Index* held steady at 7 index points in the fourth quarter of 2018, suggesting a relatively high willingness to spend among consumers. However, consumers still rated the present time as inappropriate to buy durable goods, which together with the slow growth in households' disposable income and credit extension, suggests constrained spending in the short term, thus weakening the prospects for meaningful employment creation in the commerce sector.

According to the *Quarterly Labour Force Survey (QLFS)* of Stats SA, the total number of people employed in South Africa increased by 149 000 (0.9%) from the third to the fourth quarter of 2018, and by 358 000 (2.2%) over four quarters, raising the level of total employment to approximately 16.45 million. In the year to the fourth quarter of 2018, employment grew in the formal non-agricultural sector (0.9%), the informal sector (6.9%) and private households (4.9%), while remaining static in agriculture. Annual employment gains occurred in the finance (238 000), construction (91 000), trade (79 000) and mining (27 000) sectors. Conversely, job losses were observed in community and social services (67 000), transport (36 000), manufacturing (24 000) and electricity (16 000). The number of employees with contracts of an unspecified duration increased the most (85 000), followed by those with permanent contracts (65 000) and part-time contracts (63 000).

Unemployment rate



Sources: Stats SA and SARB

The number of unemployed South Africans decreased by 70 000 in the fourth quarter of 2018 to approximately 6.14 million, but increased by 259 000 from a year earlier. In addition, the number of discouraged work seekers increased markedly by 303 000 (11.9%) to around 2.84 million in the year to the fourth quarter of 2018, and by 108 000 (4.0%) from the third to the fourth quarter. As a result, the official unemployment rate (which does not take discouraged work seekers into account) decreased from 27.5% in the third quarter of 2018 to 27.1% in the fourth quarter, up from 26.7% a year earlier. The seasonally adjusted unemployment rate increased from 27.4% in the third quarter of 2018 to a record high of 27.7% in the fourth quarter. The youth unemployment rate (for people aged 15 to 24 years) increased from 52.8% in the third quarter of 2018 to 54.7% in the fourth quarter, up from 51.1% a year earlier.

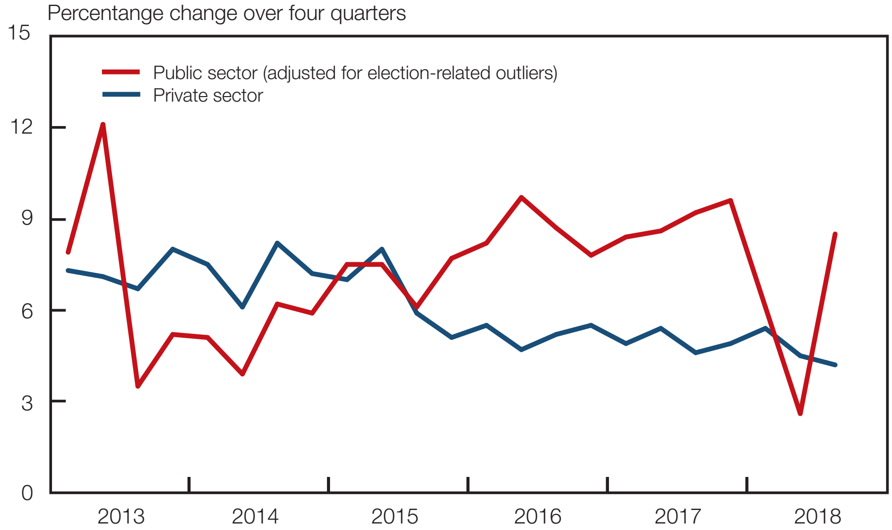
Labour cost and productivity

Following three successive quarters of moderation, *nominal remuneration per worker* in the formal non-agricultural sector accelerated from a year-on-year rate of increase of 4.0% in the second quarter of 2018 to 5.5% in the third quarter, as remuneration growth quickened notably in the public sector while moderating further in the private sector.

Growth in *nominal remuneration per public sector worker* accelerated markedly from a low of 2.5% in the second quarter of 2018 to 8.5% in the third quarter, following the delayed implementation of the annual wage increase, including backpay. Wage growth per worker quickened at national departments and provinces as well as in the public transport, storage and communication sector, but slowed at local government level and at other public sector enterprises.

Private sector nominal remuneration growth per worker slowed for a second successive quarter, from a year-on-year rate of 4.5% in the second quarter of 2018 to 4.2% in the third quarter. Remuneration growth per worker moderated in the following sectors: manufacturing (from 5.5% to 5.1%); trade, catering and accommodation services (from 3.7% to 3.6%); transport, storage and communication services (from 4.2% to 3.4%); and community, social and personal services (from 7.4% to 1.5%). Conversely, remuneration growth per worker quickened in the following sectors: mining (from 4.9% to 6.2%); finance, insurance, real estate and business services (from 4.4% to 4.8%); and construction (from 1.8% to 2.8%).

Formal non-agricultural nominal remuneration per worker

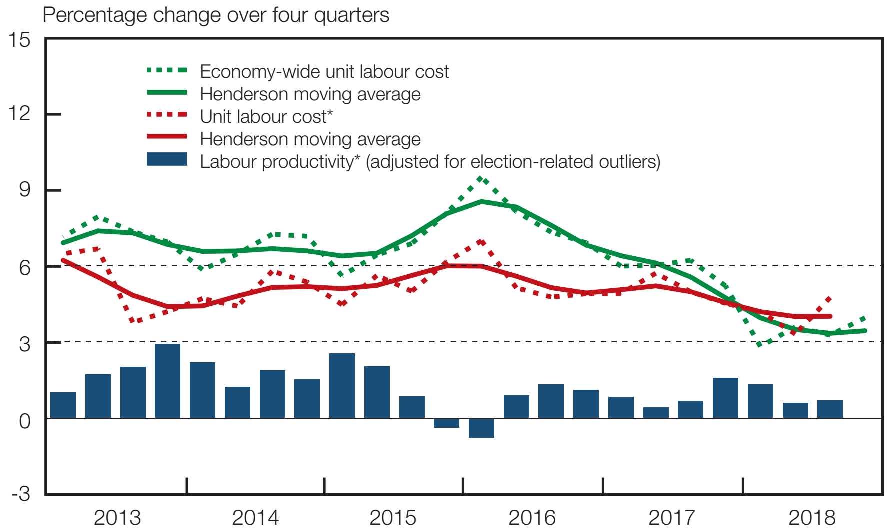


Sources: Stats SA and SARB

According to Andrew Levy Employment Publications, the *average wage settlement rate* in collective bargaining agreements of 7.2% in 2018 was lower than the 7.6% in 2017, and in line with the moderation in consumer price inflation from 5.3% to 4.6% over the same period. The *number of working days lost due to strike action* increased significantly from a low of 480 000 in 2017 to 1.95 million in 2018, as wage negotiations took place within an environment of weak economic growth.

Year-on-year growth in *labour productivity* in the formal non-agricultural sector of the economy (adjusted for election-related outliers) quickened marginally from 0.6% in the second quarter of 2018 to 0.7% in the third quarter, as year-on-year output growth remained unchanged while growth in employment slowed marginally.

Labour productivity and unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

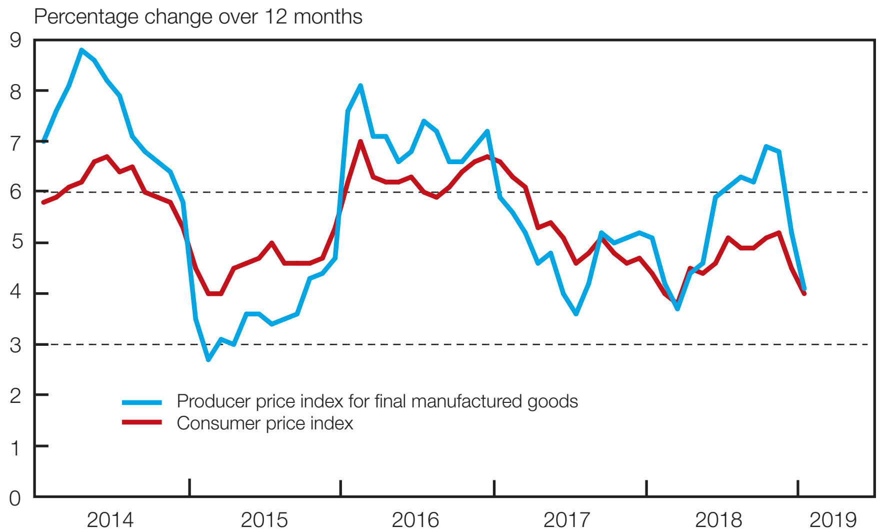
Growth in *nominal unit labour cost* in the formal non-agricultural sector accelerated from an 11-year low of 3.3% in the second quarter of 2018 to 4.8% in the third quarter, as year-on-year growth in total remuneration accelerated while growth in output remained unchanged, primarily due to the sharp acceleration in public sector remuneration growth following the delayed implementation of the annual public sector wage increase. Likewise, year-on-year growth in *economy-wide nominal unit labour cost* accelerated from a revised 3.3% in the third quarter of 2018 to 4.0% in the fourth quarter, as year-on-year growth in the compensation of employees accelerated marginally while growth in output slowed.

Prices[6]

Domestic inflationary pressures have moderated markedly since 2016 in step with the longest downward phase of the business cycle after World War II. The notable appreciation in the exchange value of the rand in 2016 aided the deceleration in annual average consumer price inflation from 6.3% in 2016 to 5.3% in 2017, whereafter it receded further to 4.7% in 2018 – only 0.2 percentage points above the midpoint of the inflation target range.

The inflationary pressures induced by higher fuel prices in the second half of 2018 have dissipated in recent months, as the notable deceleration in domestic petrol and diesel price inflation contributed to a moderation in headline consumer price inflation from 5.2% in November 2018 to 4.0% in January 2019. This disinflationary trend was also visible in the seasonally adjusted annualised three-months-to-three-months percentage change in the headline consumer price index, which moderated from 6.4% in November 2018 to 3.4% in January 2019.

Headline consumer and producer price inflation



Source: Stats SA

Producer price inflation for final manufactured goods, which had slowed markedly from an annual average of 7.1% in 2016 to 4.9% in 2017, again accelerated to 5.4% in 2018 as producer price inflation for coal and petroleum products doubled. Subsequently, the significant slowdown in producer price inflation for coal and petroleum products, from 29.3% in November 2018 to 6.7% in January 2019, contributed to a moderation in headline producer price inflation to 4.1% in January 2019. Producer price inflation for intermediate manufactured goods also slowed from an annual average of 6.9% in 2016 to 3.5% in 2018, although it quickened from a low of -1.3% in March 2018 to 7.7% in September before moderating to 3.8% in January 2019 as chemical, plastic, basic iron and steel product price inflation slowed.

6 Unless stated to the contrary, all rates mentioned in this section reflect year-on-year changes.

Producer price inflation

Annual average percentage change

	2016	2017	2018	Jan 2019*
Final manufactured goods	7.1	4.9	5.4	4.1
Intermediate manufactured goods	6.9	4.0	3.5	3.8
Electricity and water	10.5	6.0	5.3	5.5
Mining	11.5	5.5	2.9	7.7
Agriculture, forestry and fishing	16.7	0.5	1.5	-3.0

* Changes in prices from January 2018 to January 2019

Source: Stats SA

Producer price inflation for electricity and water slowed to an annual average of 5.3% in 2018 and came to 5.5% in January 2019 as electricity price inflation quickened in the second half of the year. Producer price inflation for mining products also slowed to an annual average of 2.9% in 2018, supported by an appreciation in the exchange value of the rand from October 2017 to February 2018 and fairly stable US dollar-denominated prices of South African-produced mining commodities throughout the year. This occurred notwithstanding the depreciation in the exchange value of the rand from March 2018, which led to an acceleration in producer price inflation for mining products to 7.7% in January 2019. Producer price inflation for agriculture, forestry and fishing also decelerated significantly from an annual average of 16.7% in 2016 to only 0.5% in 2017, and then remained fairly subdued at 1.5% in 2018.

Consumer goods price inflation moderated for a second consecutive year to an annual average of 4.2% in 2018 as durable and semi-durable goods price inflation more than halved. Non-durable goods price inflation also moderated, despite the fact that the marked slowdown in consumer food price inflation was partially offset by higher fuel price inflation following the sharp increase in international crude oil prices in the second half of 2018. The concomitant marked increase in domestic fuel prices led to an acceleration in consumer goods price inflation in the second half of 2018, which slowed again more recently from 5.3% in November 2018 to a mere 2.8% in January 2019 following the decrease in fuel prices and as consumer food price inflation also slowed further. Durable and semi-durable goods price inflation accelerated gradually throughout 2018 but nevertheless remained subdued in January 2019 at 2.3% and 1.6% respectively, along with muted import price inflation and weak domestic demand.

Consumer price inflation

Annual average percentage change

	2016	2017	2018	Jan 2019*
Headline CPI	6.3	5.3	4.7	4.0
Headline CPI excluding food and non-alcoholic beverages, fuel and electricity	5.6	4.8	4.3	4.4
Goods	7.0	5.1	4.2	2.8
Non-durable	7.5	6.1	5.4	3.2
Semi-durable	5.0	3.1	1.2	1.6
Durable	6.0	2.6	1.3	2.3
Services	5.8	5.5	5.1	5.2

* Changes in prices from January 2018 to January 2019

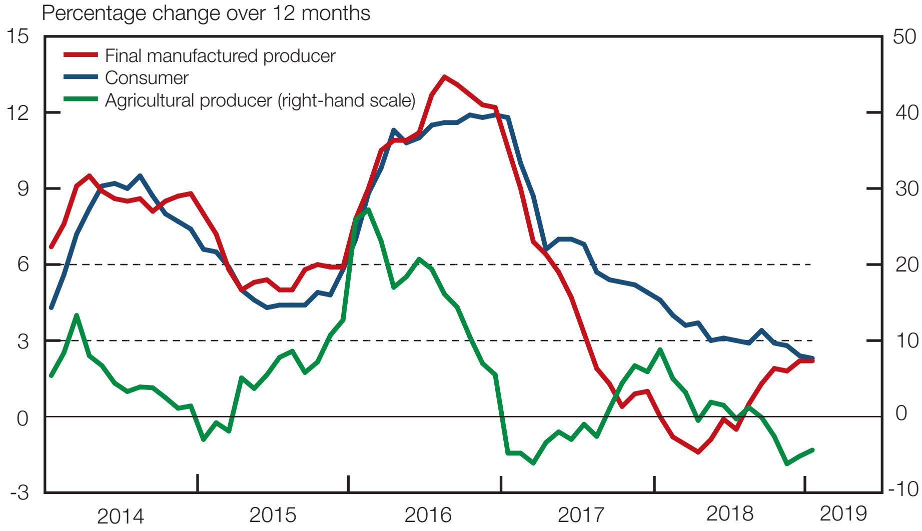
Source: Stats SA

The moderation in *consumer services price inflation* from an annual average of 5.5% in 2017 to an eight-year low of 5.1% in 2018 also exerted downward pressure on overall consumer price inflation. The slowdown in 2018 was fairly broad-based, with price inflation moderating in five of the nine services subcategories, accelerating in three, and remaining unchanged in one.

Rental price inflation, which represents a third of the consumer services price basket, slowed notably, while restaurant and hotel services price inflation also decelerated further to 4.0% in 2018 – its lowest annual average rate of increase since the inception of this price index in January 2008 – as food price inflation slowed.

Food price inflation

Percentage change over 12 months

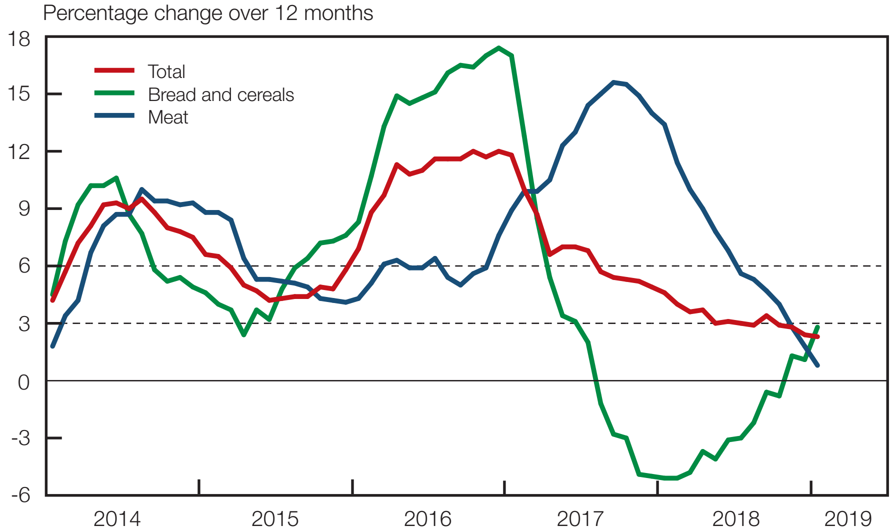


Source: Stats SA

Domestic food price inflation receded for a second consecutive year in 2018. Annual average consumer food price inflation moderated further from 7.0% in 2017 to its lowest rate since 2010 of 3.3% in 2018, as price inflation in 8 of the 9 consumer food subcategories decelerated. Producer food price inflation at the manufactured level similarly moderated to only 0.2% in 2018, as price inflation slowed in 9 of the 10 final manufactured food subcategories. By contrast, producer food price inflation at the agricultural level accelerated somewhat to a still subdued 0.6% in 2018 as the prices of cereals and other crops increased.

Consumer food price inflation

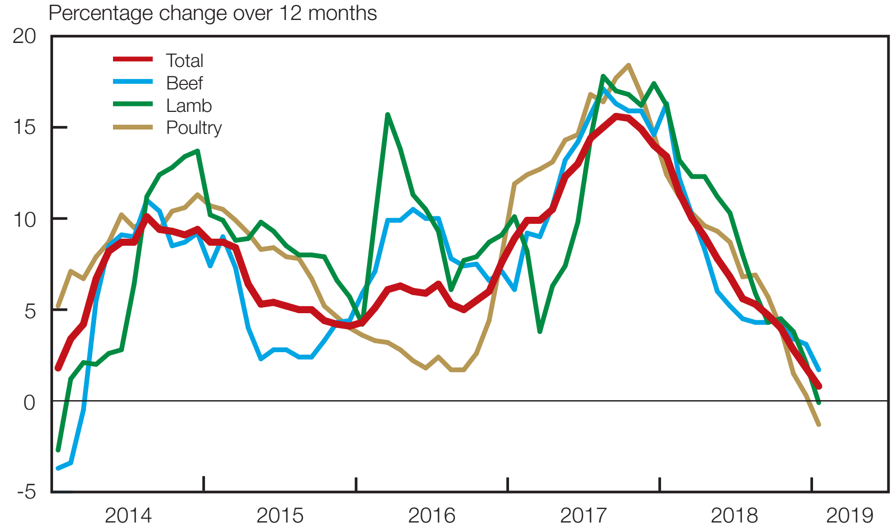
Percentage change over 12 months



Source: Stats SA

Consumer food price inflation moderated to a low of 2.3% in January 2019, despite the two subcategories with the highest weights displaying divergent trends. The deceleration in overall food price inflation was largely driven by a broad-based moderation in meat price inflation, with a weight of 35% in the consumer food basket. Meat price inflation could decelerate further as the ban on South African red meat exports to most neighbouring countries, triggered by the recent outbreak of foot-and-mouth disease in parts of Limpopo, might boost domestic supply. While agricultural live animal price inflation, which is a leading indicator of consumer meat price inflation, slowed further to -20.2% in January 2019, the price inflation of bread and cereals (with a weight of 21% in the consumer food basket) accelerated gradually to 2.8% in January 2019. This follows the notable acceleration of cereals and other crops inflation at the agricultural level to 27.4% in January 2019, which was driven by the sharp increase in domestic maize prices following expectations of a lower domestic maize crop in 2019.

Consumer meat price inflation



Source: Stats SA

The moderation in domestic food price inflation in 2018 was aided by the sharp slowdown in international food price inflation. The rand-denominated international food price index of the Food and Agricultural Organization (FAO) of the United Nations decreased by, on average, 4.2% in 2018. The moderation was fairly broad-based among the different food product categories, with the exception of cereals that rose by, on average, 8.4% in 2018.

Food price inflation

Annual average percentage change

	2016	2017	2018	Jan 2019*
Agricultural producer food prices	17.1	-0.8	0.6	-4.4
Manufactured producer food prices	11.4	4.3	0.2	2.2
Consumer food prices	10.8	7.0	3.3	2.3
FAO international food prices (rand-denominated)	13.9	-1.8	-4.2	11.2

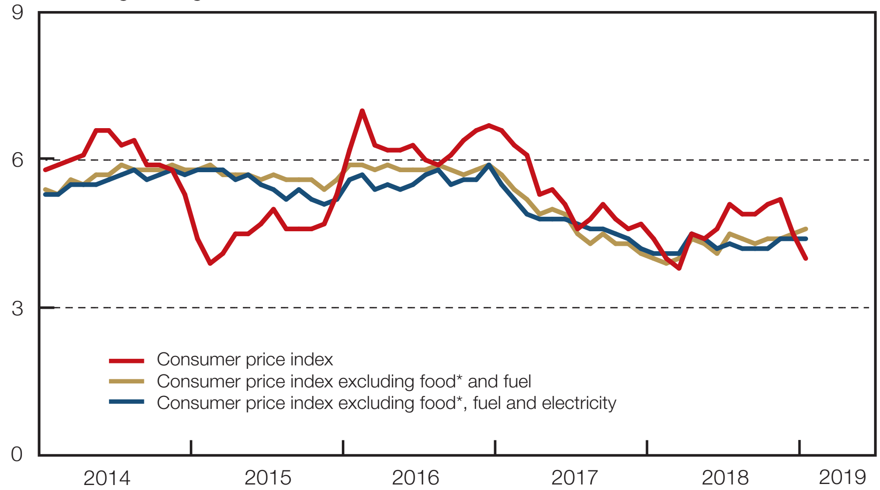
* Changes in prices from January 2018 to January 2019

Sources: FAO and Stats SA

Underlying inflationary pressures receded further in 2018 in an environment of muted import price inflation and weak domestic consumer demand. When subtracting the impact of food, non-alcoholic beverages and petrol prices from headline consumer price inflation, the resultant measure of underlying inflation amounted to 4.6% in January 2019. The SARB's preferred measure of core inflation (also excluding electricity prices) remained below the midpoint of the inflation target range for 11 of the 12 months of 2018, at an annual average of 4.3%, with the exception of April when the VAT rate was increased by one percentage point. Core inflation remained at 4.4% for a third consecutive month in January 2019.

Headline and underlying measures of consumer price inflation

Percentage change over 12 months



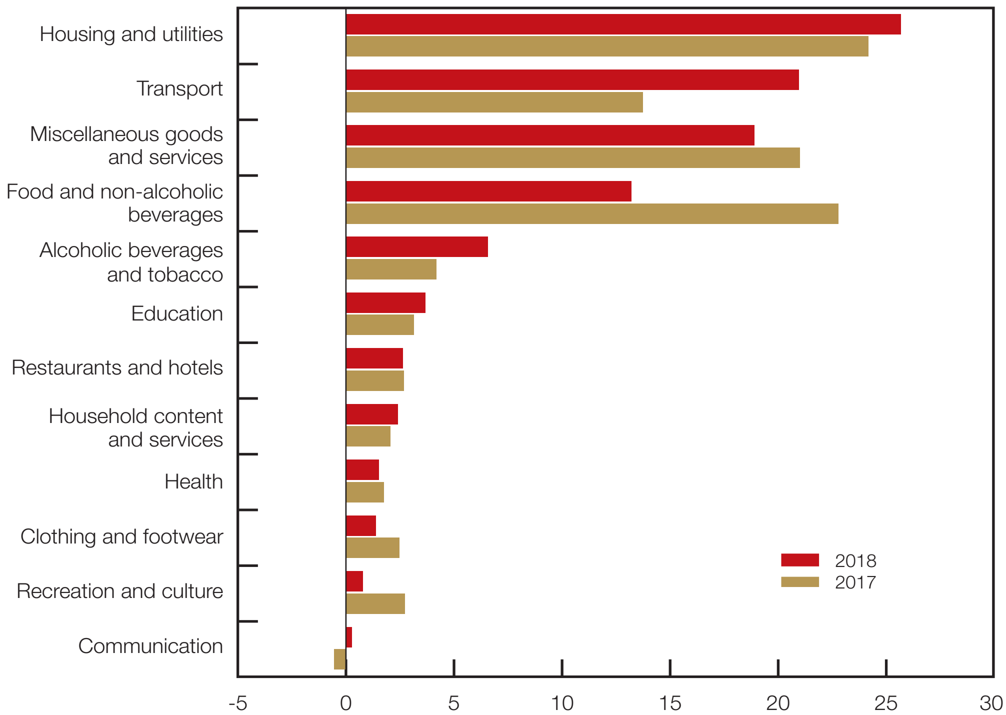
* Food includes non-alcoholic beverages

Source: Stats SA

An analysis of price changes based on the classification of individual consumption by purpose (COICOP) categories does not fully reflect the moderation in inflationary pressures from 2017 to 2018. Annual average price inflation only moderated in half of the 12 COICOP categories in 2018. In addition, annual consumer price inflation exceeded the upper limit of the inflation target range in 5 of the 12 COICOP categories in 2018, compared to 4 in 2017.

The accompanying figure shows that housing and utilities was once again the main contributor to annual consumer price inflation in 2018, followed by the transport category. Transport's contribution increased the most in 2018 as international crude oil prices and domestic fuel prices increased sharply. Conversely, food and non-alcoholic beverages' contribution decreased the most as domestic food price pressures continued to ease.

Contributions to annual average headline consumer price inflation by COICOP category

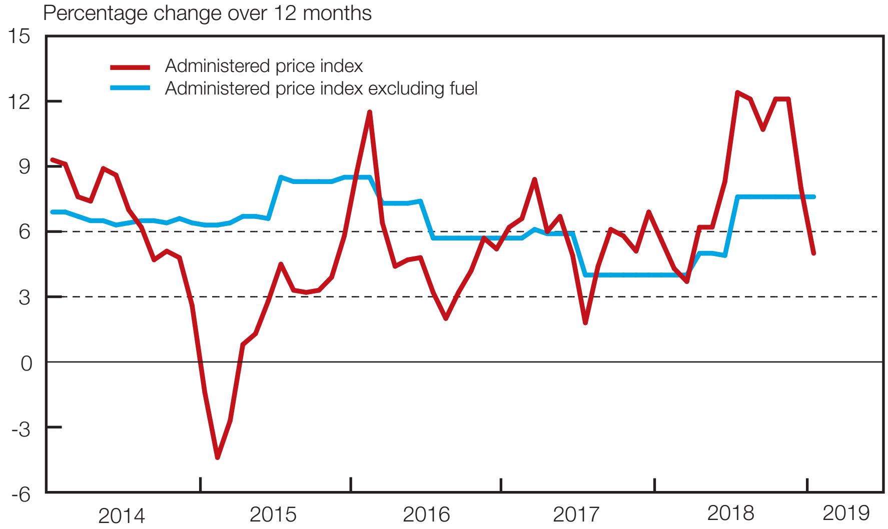


Per cent

Source: Stats SA

Administered price inflation accelerated notably in 2018 as fuel price inflation almost doubled from an annual average of 7.8% in 2017 to 14.5% in 2018. However, when excluding fuel prices, administered price inflation still accelerated in 2018 due to a marked increase in municipal assessment rates and, to a lesser extent, an acceleration in water and electricity price inflation. More recently, administered price inflation moderated from 12.1% in November 2018 to 5.0% in January 2019 when fuel price inflation decelerated sharply. Excluding fuel prices, administered price inflation remained unchanged at 7.6% for a seventh consecutive month in January 2019.

Administered price inflation



Source: Stats SA

Average annual headline inflation expectations, as reflected in the survey conducted by the Bureau for Economic Research (BER) in the fourth quarter of 2018, declined by 0.2 percentage points for each year of the forecast horizon compared to the third quarter. The average inflation expectation for 2018 was lowered to 5.1%, and to 5.4% for both 2019 and 2020. All three respondent groups lowered their inflation expectations for both 2018 and 2019, with trade union representatives adjusting their expectations the most.

Headline consumer price inflation expectations

Per cent, as surveyed in the fourth quarter of 2018

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2018	4.7	5.6	5.1	5.1
2019	5.2	5.7	5.3	5.4
2020	5.3	5.8	5.3	5.4
The next five years	5.1	5.7	5.2	5.3

Source: BER

Average annual five-year inflation expectations receded from 5.5% in the third quarter of 2018 to 5.3% in the fourth quarter – similar to the all-time low in the first quarter of 2018. Average household inflation expectations moderated from 5.6% in the second quarter of 2018 to 5.4% in the third and fourth quarters of 2018.

External economic accounts

Current account[7]

South Africa's trade surplus widened notably from R10.2 billion in the third quarter of 2018 to R71.8 billion in the fourth quarter, as the value of merchandise exports increased while that of imports declined. The higher value of merchandise exports reflected increased volumes, while lower volumes weighed down the value of imports.

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

Current account of the balance of payments

R billions, seasonally adjusted and annualised

	2017	2018				
	Year	Q1	Q2	Q3	Q4	Year
Merchandise exports	1 102	1 065	1 115	1 235	1 287	1 176
Net gold exports	66	77	70	73	67	72
Merchandise imports	-1 104	-1 152	-1 160	-1 298	-1 283	-1 223
Trade balance	65	-10	25	10	72	24
Net service, income and current transfer payments	-183	-208	-208	-191	-182	-197
Balance on current account	-118	-218	-183	-180	-110	-173
As a percentage of gross domestic product						
Trade balance	1.4	-0.2	0.5	0.2	1.4	0.5
Services balance	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Income balance	-3.0	-3.4	-3.5	-3.0	-2.8	-3.2
Current transfer balance	-0.8	-1.0	-0.7	-0.6	-0.7	-0.7
Balance on current account	-2.5	-4.6	-3.8	-3.7	-2.2	-3.5

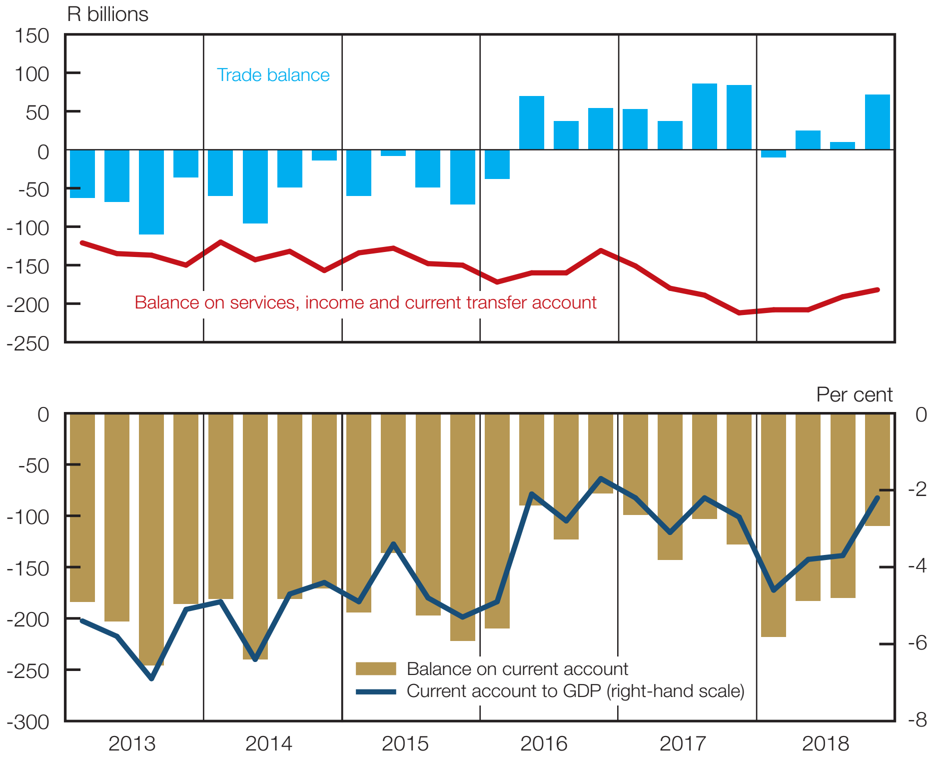
Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

The further narrowing of the shortfall on the services, income and current transfer account in the fourth quarter of 2018, together with the larger trade surplus, caused the deficit on the current account of the balance of payments to narrow from R180 billion in the third quarter of 2018 to R110 billion in the fourth quarter. Over the same period, the deficit on the current account as a percentage of GDP narrowed significantly from 3.7% to 2.2%. On an annual basis, the current account deficit widened from 2.5% of GDP in 2017 to 3.5% of GDP in 2018.

The increase in the value of merchandise exports of 4.3% in the fourth quarter of 2018 marked a third consecutive quarterly advance. For the year as a whole, the value of merchandise exports increased by 6.7%, from R1 102 billion in 2017 to R1 176 billion in 2018. The export values of both mining and manufactured goods increased substantially in the fourth quarter of 2018. The former reflected increased exports of mineral products, platinum group metals (PGMs) as well as pearls, precious and semi-precious stones. Mineral exports were buoyed by coal, iron ore and manganese ore, while PGMs benefitted from improved domestic production and external demand. Higher manufactured exports mainly reflected increased foreign demand for South African-produced vehicles and transport equipment. Statistics from the National Association of Automobile Manufacturers of South Africa also showed a further increase in the number of vehicles exported from the third to the fourth quarter of 2018.

Current account of the balance of payments

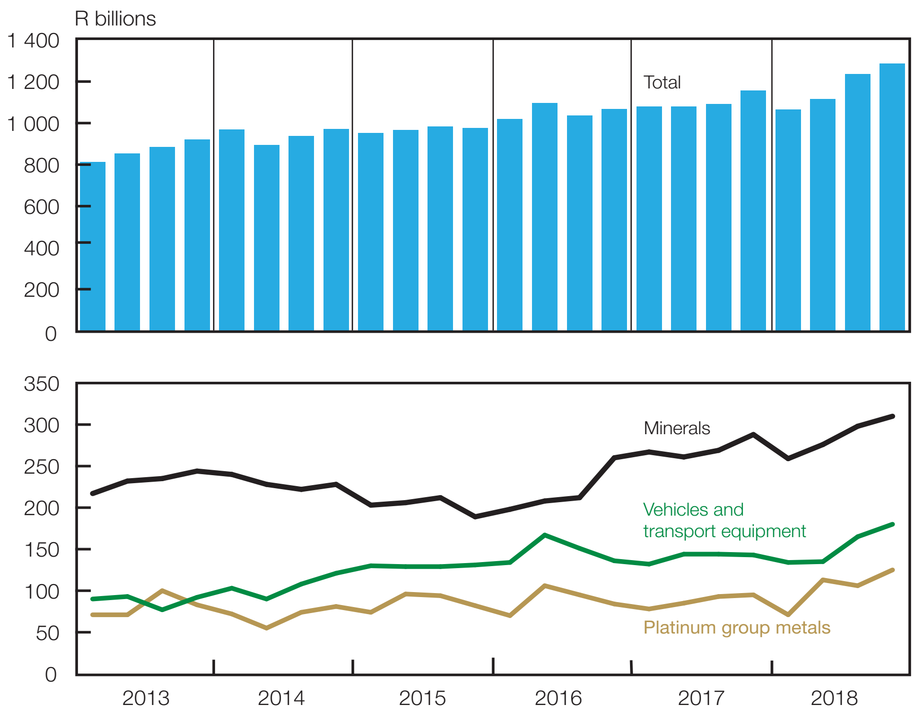


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The sharp decrease in the export value of citrus products in the fourth quarter of 2018 reversed the strong increase of the previous quarter, as the good domestic citrus harvesting season ended. This, together with a decline in the export value of maize, reduced the overall export value of agricultural products in the fourth quarter of 2018.

Value of merchandise exports

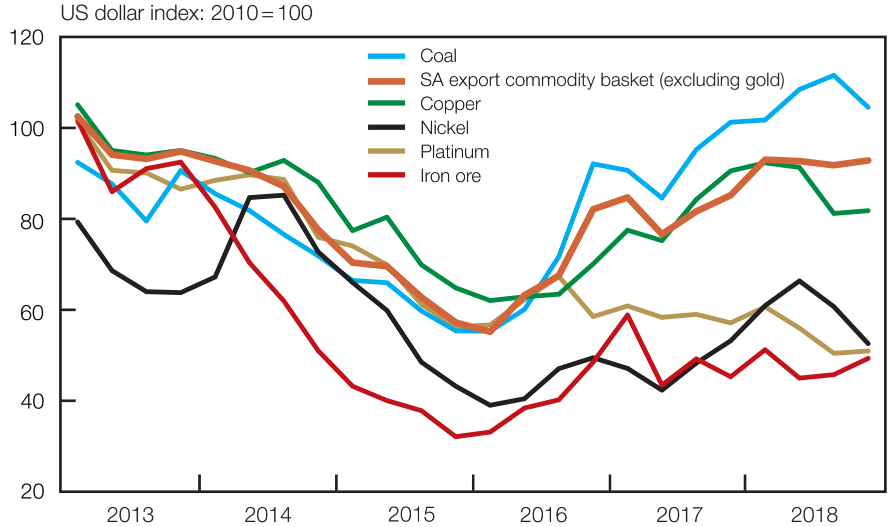


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The US dollar price of a basket of domestically produced non-gold export commodities increased by 1.1% in the fourth quarter of 2018 following two consecutive marginal quarterly declines. The international prices of iron ore, platinum and copper increased, while that of nickel declined due to, among other factors, expectations of increased supply from Indonesia and the Philippines. At the same time, Chinese coal import restrictions weighed on coal prices. The annual average price of a basket of domestically produced non-gold export commodities increased for a third consecutive year in 2018, both in US dollar and in rand terms.

International prices of selected South African export commodities



Sources: World Bank and SARB

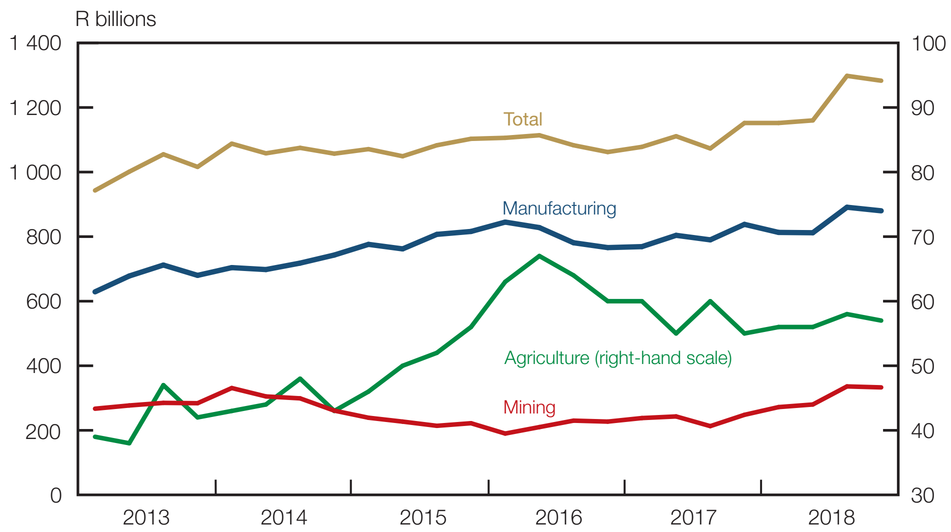
After having increased for two consecutive quarters, the rand price of merchandise exports remained broadly unchanged in the fourth quarter of 2018. At the same time, the volume of merchandise exports increased further by 4.2% following an increase of 6.5% in the third quarter, along with strong increases in the volumes of mining and manufactured goods.

The average US dollar price of gold on the London market increased by 1.3% from US$1 213 in the third quarter of 2018 to US$1 229 in the fourth quarter, as the US dollar weakened due to concerns about the US economy after the Federal Reserve raised interest rates. Increased demand from exchange-traded fund investors and central bank purchases also supported the gold price. The World Gold Council indicated that central banks' net purchases of 652 tonnes of gold in 2018 were the most since 1971 and mainly reflected purchases by the central banks of China, Hungary, India, Kazakhstan, Poland, Russia and Turkey.

The average realised rand price of net gold exports increased by 4.6% from the third quarter of 2018 to the fourth quarter. However, this was not enough to offset the contraction in the physical quantity of net gold exported, which was affected by strike action, among other factors. As a result, the value of net gold exports decreased in the fourth quarter of 2018. For the year as a whole, the value of net gold exports rose from R66.4 billion in 2017 to R71.7 billion in 2018.

Following an increase of 11.9% in the third quarter of 2018, the value of merchandise imports declined slightly by 1.1% in the fourth quarter, partly due to weak domestic demand. Decreases were recorded in all three main import categories, with the value of mining and manufactured imports declining the most. The decrease in mining imports was broad-based, with pearls, precious and semi-precious stones declining the most, including the importation of coins which decreased notably in the fourth quarter. The contraction in the value of mineral imports resulted primarily from a decline in that of refined petroleum oil products. The decrease in the import values of machinery and electrical equipment as well as vehicles and transport equipment weighed down the overall value of manufactured imports. On an annual basis, the value of merchandise imports increased by 10.8% in 2018 compared with 2017.

Merchandise imports

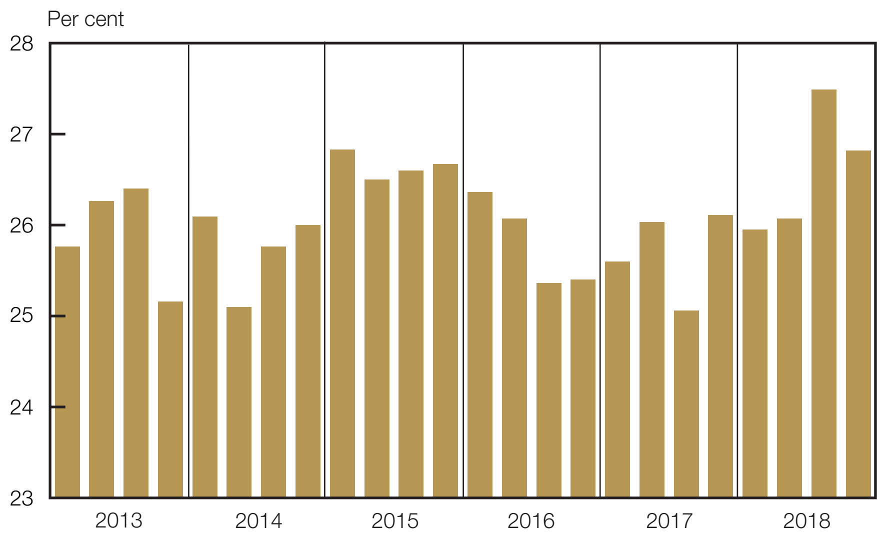


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The rand price of merchandise imports increased further by 3.2% in the fourth quarter of 2018, while volumes contracted by 4.2% after rising by 6.0% in the third quarter. The import volumes of mining, manufacturing and agricultural products all decreased in the fourth quarter. Consequently, the import penetration ratio (real merchandise imports as a ratio of real GDE) declined to 26.8% in the fourth quarter of 2018 from a recent peak of 27.5% in the third quarter.

Import penetration ratio

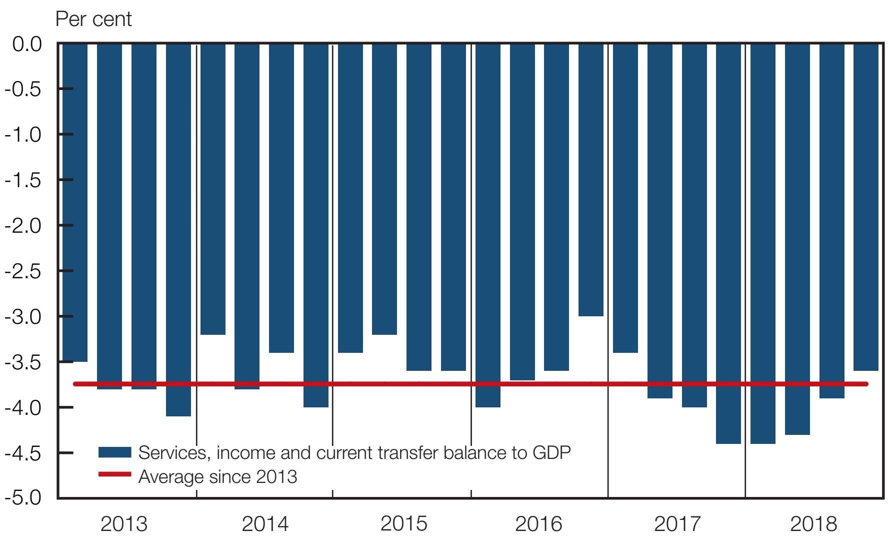


Sources: Stats SA and SARB

South Africa's terms of trade deteriorated further in the final quarter of 2018 as the rand prices of imports increased more than those of exports.

The shortfall on the services, income and current transfer account narrowed further from R191 billion in the third quarter of 2018 to R182 billion in the fourth quarter, as the deficit on the income account continued to narrow. By contrast, the deficit on both the services and the current transfer accounts widened slightly in the fourth quarter. Relative to GDP, the overall deficit narrowed from 3.9% in the third quarter of 2018 to 3.6% in the fourth quarter. At 4.0% of GDP, the deficit for 2018 as a whole was almost unchanged from that in 2017.

Services, income and current transfer balance



Sources: Stats SA and SARB

The narrower income deficit resulted from the relatively strong increase in gross dividend receipts more than offsetting the increase in payments. In 2018, gross dividend receipts and payments both increased from a low base in 2017. Gross interest payments decreased slightly in the fourth quarter and increased at a slower pace in 2018 than in 2017.

The slightly wider services deficit resulted mostly from an increase in gross payments for services of a technical nature. This was partly countered by a decrease in freight-related payments, consistent with the reduced importation of goods coming off a high base in the third quarter. In addition, gross travel receipts were broadly unchanged and moderated the services deficit. Gross travel receipts increased by only 0.7% in 2018 due to, among other factors, a contraction in the number of inbound tourists from some European markets as the attraction of the 2018 FIFA World Cup™ in Russia served as a potential 'pull' factor.

Net current transfer payments increased somewhat in the fourth quarter of 2018 due to higher gross current transfer payments.

Box 2 The characteristics of dividend payments in South Africa's balance of payments[1, 2]

Dividends paid[3] to non-residents on direct as well as portfolio equity and investment fund share investments is an important category in South Africa's balance-of-payments statistics. Given the inherent volatility of this large, stand-alone payments item[4] in the services, income and current transfer account, it has a significant impact on both the income and the current account balances. Dividend payments on direct investment[5] in equity dominate the size of total dividends, even though non-residents' total holdings of equity and investment fund shares favour portfolio investment relative to direct investment. In addition, direct investment is dominated by investment in unlisted shares. Notwithstanding this, South Africa's dividend payments as a percentage of gross domestic product (GDP) is not an outlier in an international context. Similar to other countries, this ratio also increases during times of high economic growth.

1 The methodology used to compile balance-of-payments statistics adheres to the guidelines of the *Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6)* of the International Monetary Fund (IMF), available at www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf.

2 This box relates to the statistics published in the tables on pages S–87 and S–92 of this *Quarterly Bulletin* and some unpublished data on the split between listed and unlisted companies.

3 Dividends paid in the balance of payments are measured at date payable, which is also the declaration date of dividends.

4 Dividends are the largest single payments item, followed closely by interest payments.

5 Dividends paid by companies in South Africa in which non-residents individually have (or collectively have in the case of affiliated organisations or persons) at least 10% of the voting rights are classified as dividend payments on direct equity investments.

Components of the current account balance

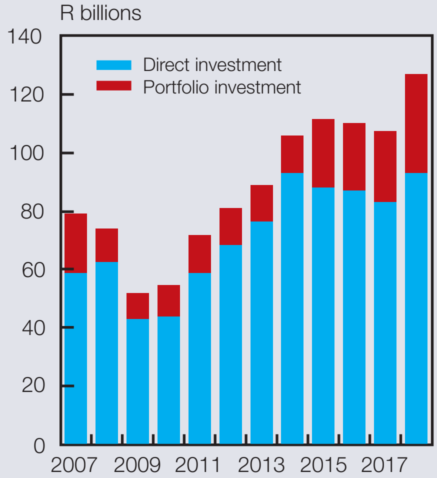
As a percentage of gross domestic product

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Trade balance.............	-0.9	-0.6	1.1	2.2	1.6	-1.1	-2.0	-1.4	-1.2	0.7	1.4	0.5
Services, income and current transfer balance..........	-4.5	-4.9	-3.8	-3.7	-3.8	-4.0	-3.8	-3.6	-3.5	-3.6	-3.9	-4.0
Current account balance	**-5.4**	**-5.5**	**-2.7**	**-1.5**	**-2.2**	**-5.1**	**-5.8**	**-5.1**	**-4.6**	**-2.9**	**-2.5**	**-3.5**
Memorandum items												
Income balance..........	-3.3	-3.1	-2.2	-2.1	-2.6	-2.7	-2.6	-2.7	-2.5	-2.8	-3.0	-3.2
Dividend balance......	-3.0	-2.5	-1.6	-1.5	-1.8	-1.7	-1.4	-1.4	-1.2	-1.3	-1.3	-1.4
Dividend receipts ...	0.7	0.7	0.5	0.5	0.6	0.8	1.1	1.4	1.6	1.2	1.0	1.2
Dividend payments	**3.7**	**3.1**	**2.1**	**2.0**	**2.4**	**2.5**	**2.5**	**2.8**	**2.8**	**2.5**	**2.3**	**2.6**

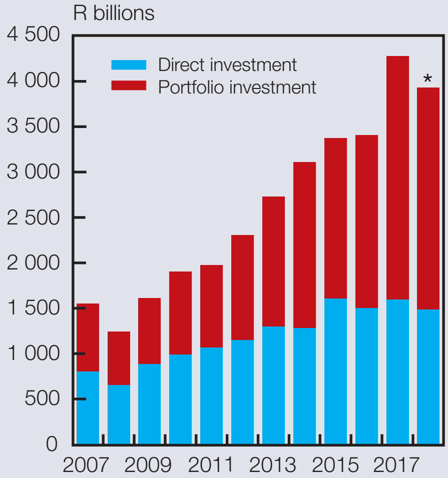
Components may not add up to totals due to rounding off.
Sources: Stats SA and SARB

Dividend payments (flows in the balance of payments) reflect a part of non-residents' return on investment in equity and investment fund shares (stock position as part of South Africa's foreign liabilities in the international investment position). The following characteristics are of interest: there is an overwhelming dominance of dividend payments on direct equity investments, even though non-residents' total holdings of equity and investment fund shares favour portfolio investment relative to direct investment.

Dividend payments on equity and investment fund shares



Equity and investment fund share liabilities



* As at 30 September 2018

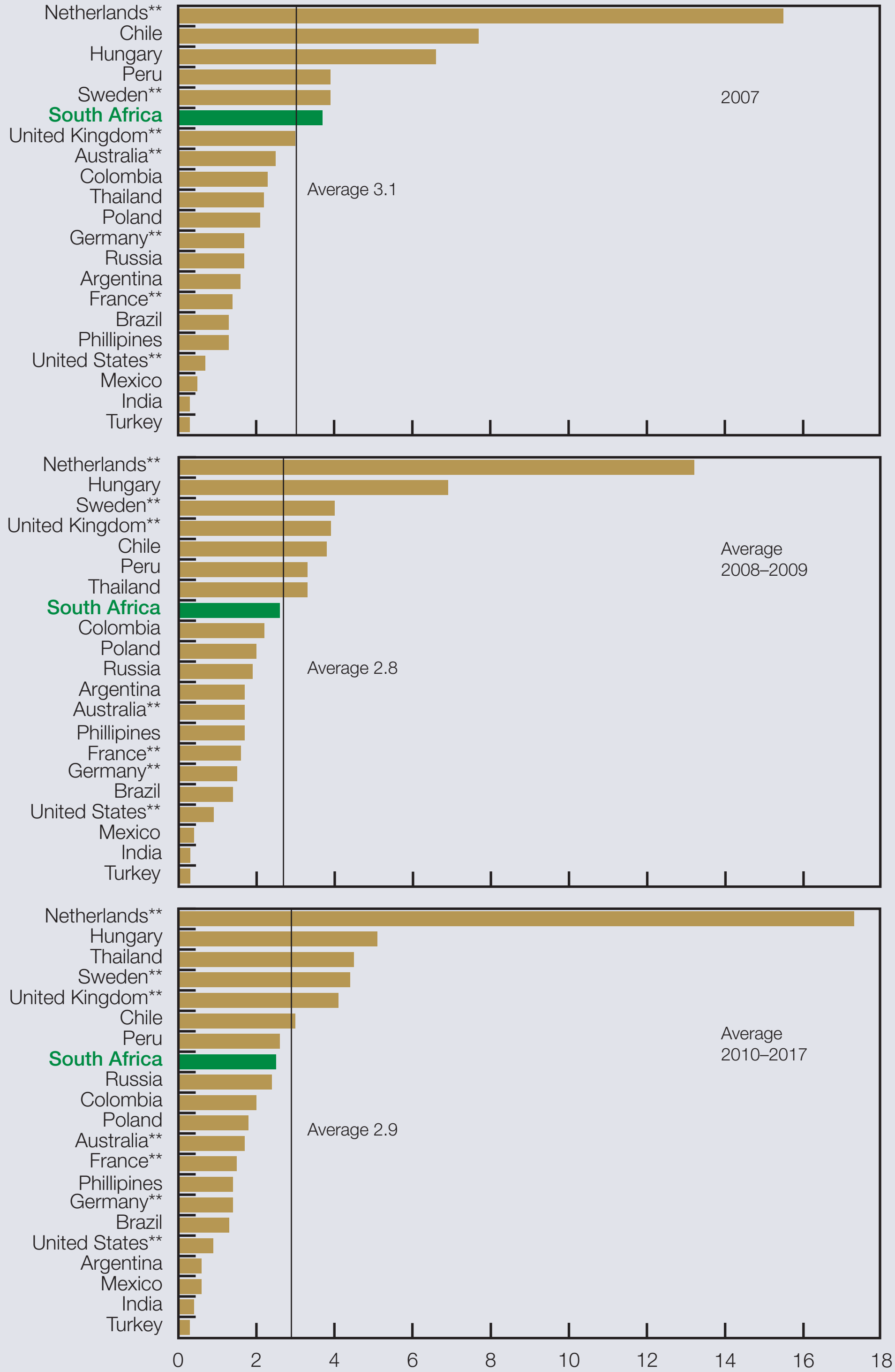
Source: SARB

Economic growth and profits are some of the drivers of dividend payments by companies. South Africa experienced above-average annual real economic growth from 2005 to 2007, with a favourable 5.4% growth rate in real GDP in 2007 compared to the global average of 4.2%. In 2007, dividend payments by South African companies to non-resident investors as a percentage of GDP reached 3.7% – marking an all-time high since the inception of this time series in 1960.

A comparison of South Africa's annual dividend payments as a percentage of GDP with a selection of countries from 2007 to 2017 shows that the average ratio for all countries declined from 3.1% before the global financial crisis in 2007 to 2.8% in the period 2008-2009, and only increased slightly to 2.9% in the period 2010-2017. This indicates that dividend payments in the majority of countries (including South Africa) have not returned to pre-crisis levels yet. Further observations are that the country rankings remained broadly unchanged during these three periods; South Africa's ratio was below the average for the selection of countries in the periods 2008-2009 and 2010-2017; and South Africa's dividend payments in terms of relative size and response to economic developments compared favourably to other countries. Of interest is that most of the selected countries are net payers of dividends with advanced economies generally being net recipients of dividends.

Annual dividend payments by selected countries

Percentage of GDP*

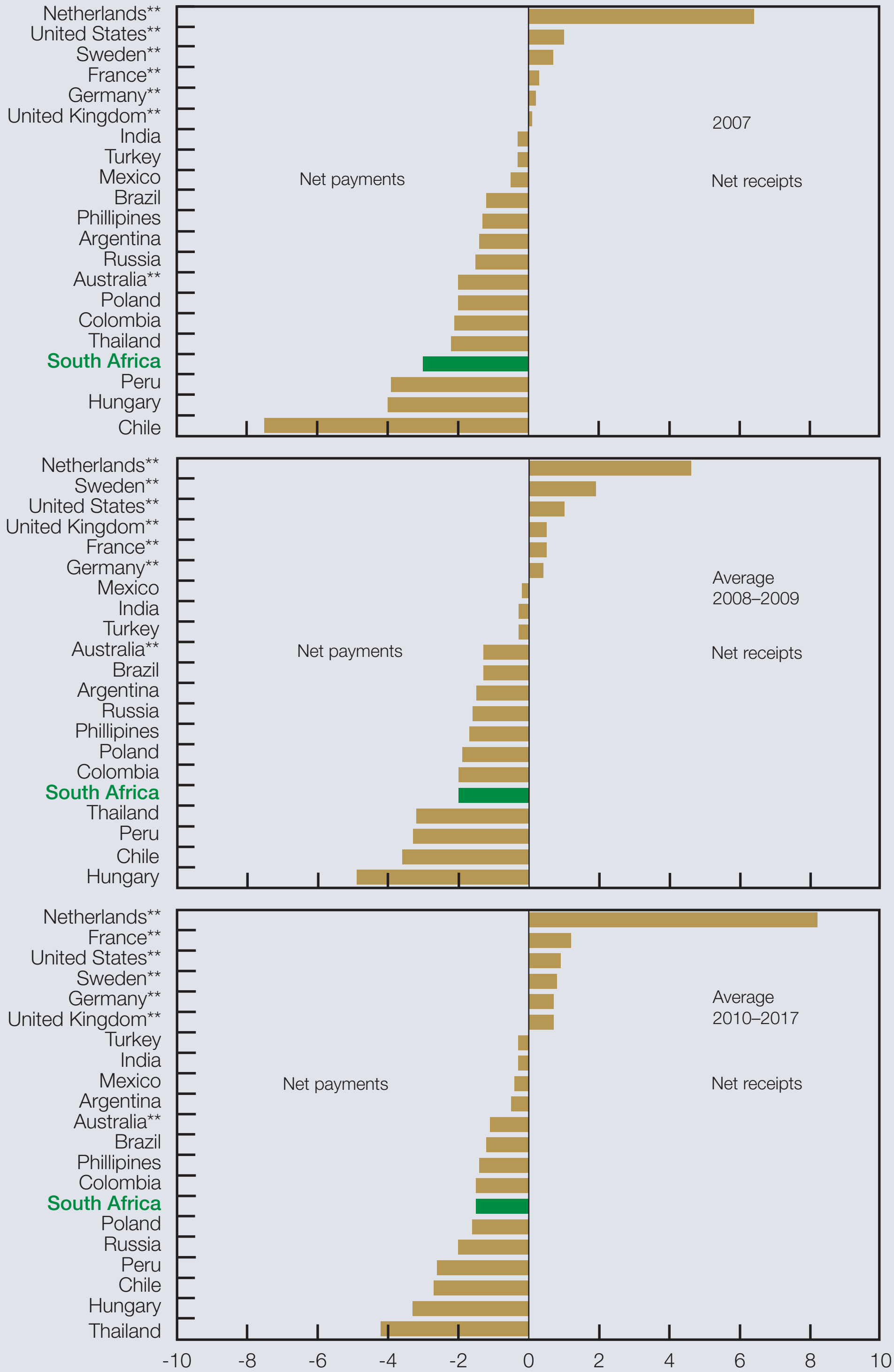


* Ratio calculated using nominal aggregates in US dollar
** Advanced economies

Sources: IMF and SARB

Annual net dividend payments and receipts by selected countries

Percentage of GDP*



* Ratio calculated using nominal aggregates in US dollar

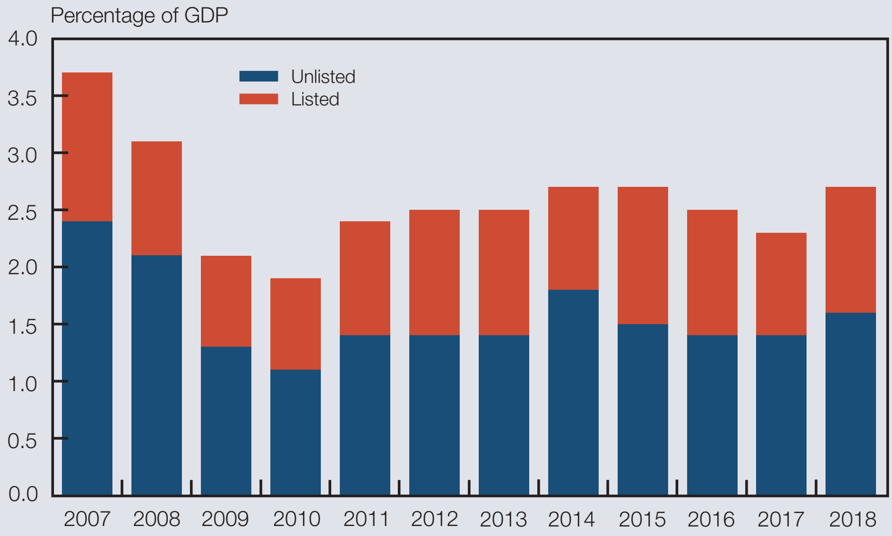
** Advanced economies

Sources: IMF and SARB

Companies with a direct investment relationship dominate South Africa's dividend payments to non-resident investors. Some of these are unlisted and others are listed on the JSE Ltd. Unlisted companies also dominate total dividend payments.

The South African economy has many sizeable, well-established and profitable unlisted companies. Listed companies tend to have more fixed dividend policies than unlisted companies, with the former's shares held by a more diverse shareholder base while those of the latter are concentrated in the non-resident parent company. The non-resident parent company may at any time request the payment of dividends for liquidity or other purposes. The parent company normally requires a specific amount in foreign currency, with the rand amount elevated during periods of rand weakness. This contributes to dividend distributions by unlisted companies exceeding those of listed companies. From 2007 to 2018, dividend payments by unlisted companies to non-resident shareholders were on average 1.5 times higher than dividend payments by listed companies.

Dividend payments by type of company



Source: SARB

Financial account

The financial account of South Africa's balance of payments (excluding unrecorded transactions) recorded a lower net capital inflow of R16.6 billion in the fourth quarter of 2018 following an inflow of R28.4 billion in the third quarter. On a net basis, direct and portfolio investment recorded outflows, while financial derivatives and other investment registered inflows. The cumulative inflow on the financial account amounted to R142 billion in 2018 relative to R110 billion in 2017. As a ratio of GDP, net financial account inflows receded from 2.3% in the third quarter of 2018 to 1.3% in the fourth quarter. However, net financial account inflows at 2.9% of GDP in 2018 were higher than the 2.4% in 2017.

Net financial transactions

R billions

	2017	2018				
	Year	Q1	Q2	Q3	Q4	Year
Change in liabilities						
Direct investment	26.8	9.3	40.9	28.7	-8.2	70.7
Portfolio investment	278.8	89.4	16.6	17.9	-33.9	90.0
Financial derivatives	-227.5	-59.6	-45.5	-65.4	-47.9	-218.4
Other investment	61.4	1.1	13.7	-8.7	112.7	118.8
Change in assets						
Direct investment	-98.2	-20.8	-3.2	-13.0	-23.3	-60.3
Portfolio investment	-58.9	-15.9	-8.7	-2.8	-29.3	-56.7
Financial derivatives	223.2	53.3	50.4	69.9	51.8	225.4
Other investment	-70.1	-21.6	6.5	-2.0	0.9	-16.2
Reserve assets	-25.5	14.6	-23.5	3.8	-6.2	-11.3
Total identified financial transactions*	110.1	49.7	47.3	28.4	16.6	142.0
As a percentage of gross domestic product	*2.4*	*4.3*	*3.9*	*2.3*	*1.3*	*2.9*

* Excluding unrecorded transactions. Components may not add up to totals due to rounding off.
Inflow (+) outflow (-)

Source: SARB

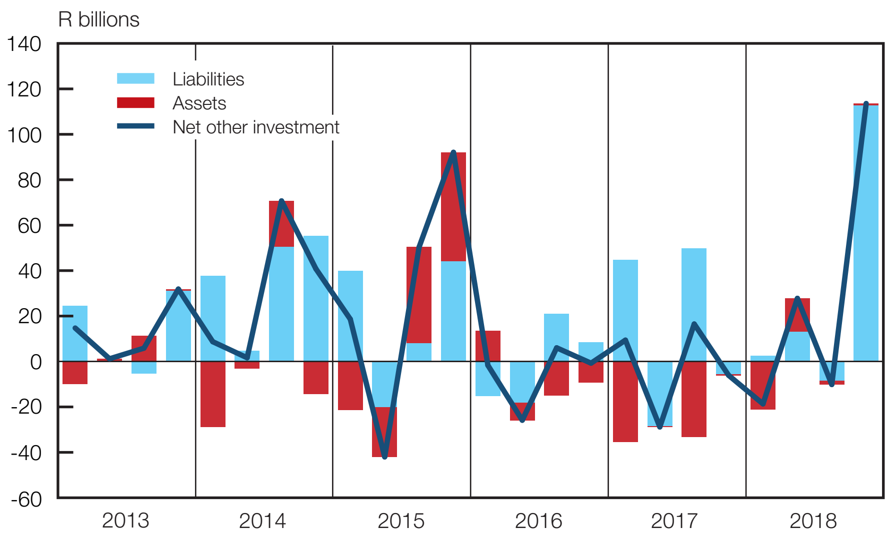
Foreign-owned assets in South Africa

South Africa's direct investment liabilities reverted from an inflow of R28.7 billion in the third quarter of 2018 to an outflow of R8.2 billion in the fourth quarter due to the repayment of short-term loans by South African subsidiaries to foreign parent companies. Notwithstanding the outflow during the fourth quarter, inward direct investment increased from only R26.8 billion in 2017 to R70.7 billion in 2018.

Portfolio investment liabilities reverted from an inflow of R17.9 billion in the third quarter of 2018 to an outflow of R33.9 billion in the fourth quarter as non-residents disposed of both equity and debt securities. Non-residents' net sales of domestic equities of R15.7 billion in the fourth quarter followed net sales of R7.4 billion in the third quarter, while their net purchases of debt securities of R25.3 billion in the third quarter reverted to net sales of R18.2 billion in the fourth quarter. Non-residents' net purchases of domestic equity and debt securities of R90.0 billion in 2018 were significantly less than the R279 billion in 2017.

Other investment liabilities changed from an outflow of R8.7 billion in the third quarter of 2018 to a marked inflow of R113 billion in the fourth quarter. The sharp reversal could be attributed to non-residents extending loans to the domestic banking sector as well as an increase in rand-denominated deposits and, to a lesser extent, foreign currency-denominated deposits with the domestic banking sector. Other investment liability inflows nearly doubled from R61.4 billion in 2017 to R119 billion in 2018.

Other investment flows



Source: SARB

South African-owned assets abroad

South African investors' acquisition of direct investment assets of R23.3 billion in the fourth quarter of 2018 followed acquisitions of R13.0 billion in the third quarter. The larger outflow was mainly due to a domestic company in the insurance sector acquiring a company abroad. Outward direct investment flows of R60.3 billion in 2018 were less than the R98.2 billion in 2017.

South African residents' acquisition of foreign portfolio assets increased significantly from R2.8 billion in the third quarter of 2018 to R29.3 billion in the fourth quarter. The domestic private non-banking sector acquired both foreign equity and debt securities in the fourth quarter while the domestic banking sector acquired foreign debt securities. South African investors purchased foreign portfolio assets of R56.7 billion in 2018 compared to R58.9 billion in 2017.

Other investment assets reverted from an outflow of R2.0 billion in the third quarter of 2018 to an inflow of R0.9 billion in the fourth quarter as non-residents repaid short-term loans to domestic companies. This was partly countered by increased deposits of the South African banking sector abroad. Other investment outflows amounted to only R16.2 billion in 2018 compared to an outflow of R70.1 billion in 2017.

Foreign debt

South Africa's total external debt decreased from US$171 billion at the end of June 2018 to US$168 billion at the end of September, mainly due to the revaluation of domestic rand-denominated bonds. South Africa's external debt, in rand terms, increased from R2 347 billion at the end of June 2018 to R2 381 billion at the end of September.

Foreign debt of South Africa

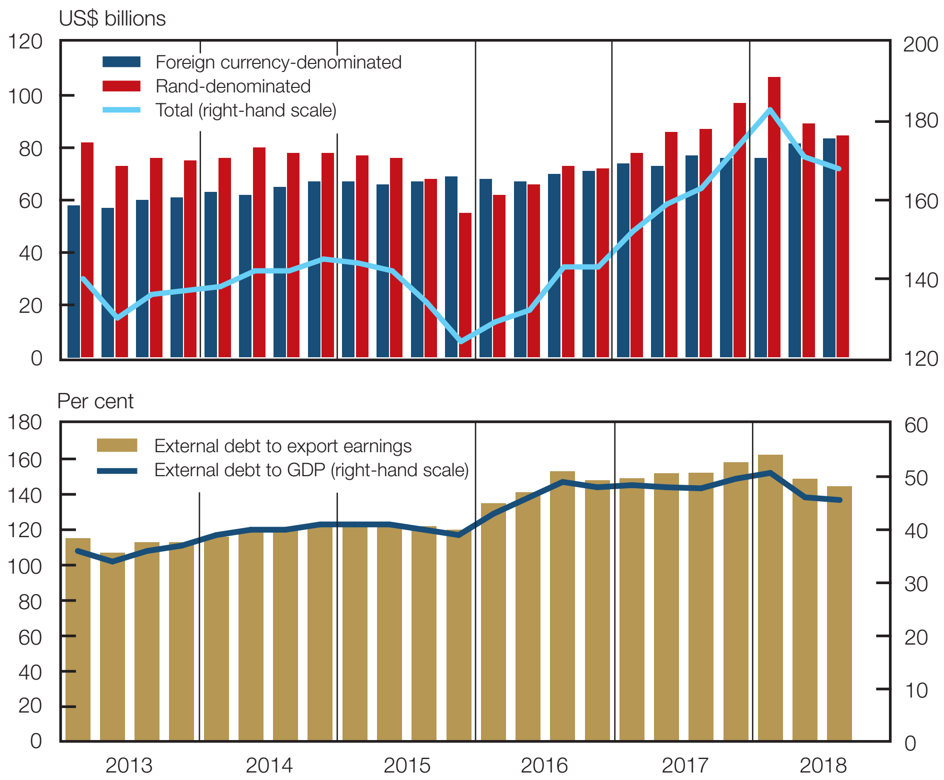
US$ billions at end of period

	2017			2018		
	Q2	Q3	Q4	Q1	Q2	Q3
Foreign currency-denominated debt	73.0	76.5	75.9	75.9	81.6	83.5
Debt securities	24.3	26.7	26.7	26.7	29.3	30.7
Other	48.7	49.9	49.9	49.2	52.3	52.8
Public sector	9.2	9.6	9.9	10.4	10.1	10.4
Monetary sector	16.6	17.9	17.1	15.4	16.3	14.3
Non-monetary private sector	22.9	22.3	22.2	23.4	25.9	28.1
Rand-denominated debt	85.5	86.8	97.4	107.3	89.2	84.7
Debt securities	50.3	50.3	57.6	65.2	52.4	49.7
Other	35.2	36.5	39.7	42.1	36.8	35.0
Total foreign debt	158.5	163.3	173.3	183.2	170.8	168.2
As a percentage of gross domestic product	*48.0*	*47.8*	*49.6*	*50.7*	*46.1*	*45.6*
As a percentage of total export earnings	*151.8*	*152.1*	*158.0*	*162.4*	*148.6*	*144.6*

Source: SARB

Foreign currency-denominated external debt increased from US$81.6 billion at the end of June 2018 to US$83.5 billion at the end of September. The increase resulted largely from international bond issues by a public corporation as well as long-term foreign loans extended to the domestic private non-banking sector.

External debt



Source: SARB

Rand-denominated external debt, in US dollars, decreased from US$89.2 billion at the end of June 2018 to US$84.7 billion at the end of September. Net purchases of domestic government bonds by non-residents were offset by the depreciation in the exchange value of the rand and a decline in the market value of domestic debt securities as yields increased.

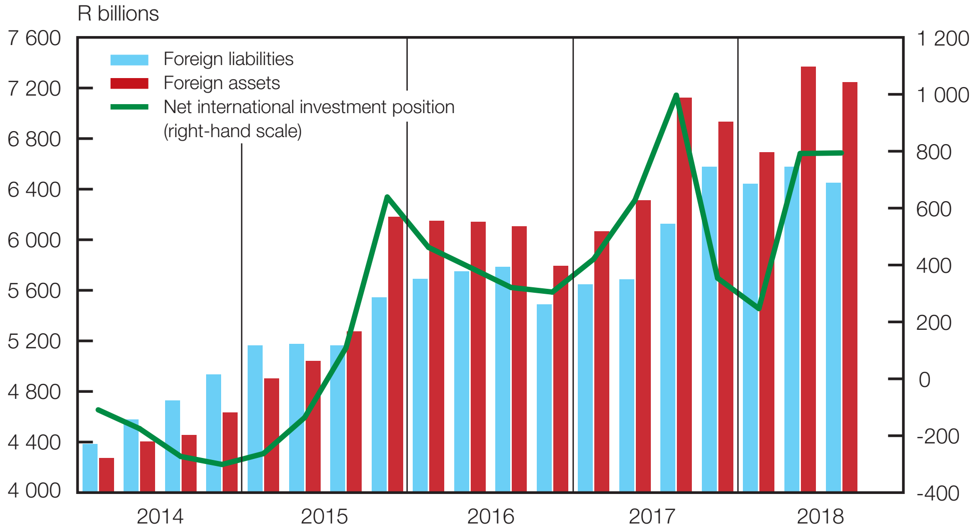
South Africa's total external debt as a ratio of annual GDP decreased from 46.1% at the end of June 2018 to 45.6% at the end of September. Similarly, the ratio of external debt to export earnings decreased from 148.6% to 144.6% over the same period.

International investment position

South Africa's positive net international investment position (IIP) increased marginally from R793 billion at the end of June 2018 to R795 billion at the end of September, as the decrease in the value of foreign liabilities narrowly exceeded that in foreign assets. The 1.4% decline in the weighted average exchange rate of the rand in the third quarter of 2018 had a limited effect on both foreign assets and liabilities.

The market value of South Africa's foreign assets (outward investment) decreased by 1.7% from R7 369 billion at the end of June 2018 to R7 247 billion at the end of September following an increase of 10.1% in the previous quarter. The market value of direct investment and financial derivatives declined in the third quarter of 2018, while that of all other functional categories increased. Direct investment decreased mainly due to the lower rand value of a large foreign investment of a South African company. Foreign portfolio assets increased mainly as a result of the 7.2% increase in the US Standard & Poor's (S&P) 500 Index, while the value of other investment assets increased on account of domestic banking sector deposits abroad.

South Africa's international investment position



Source: SARB

The market value of South Africa's foreign liabilities (inward investment) decreased by 1.9% from R6 576 billion at the end of June 2018 to R6 452 billion at the end of September following an increase of 2.1% in the second quarter. With the exception of direct investment, all the functional categories decreased in the third quarter of 2018. Direct investment liabilities increased as foreign investors extended loan financing to the domestic private non-banking sector. Portfolio investment liabilities decreased as the FTSE/JSE All-Share Index (Alsi) declined by 3.3% in the quarter and non-residents sold domestic equity securities, which more than countered a public corporation's international bond issuances to the value of US$1.5 billion. The decrease in other investment liabilities mainly resulted from the decline in non-resident deposits with the domestic banking sector.

As a ratio of South Africa's annual GDP, foreign liabilities decreased from 138.3% at the end of June 2018 to 133.9% at the end of September, while foreign assets decreased from 155.0% to 150.4% over the same period. This rendered a positive net IIP of 16.5% of GDP at the end of September 2018, which was slightly lower than the 16.7% at the end of June.

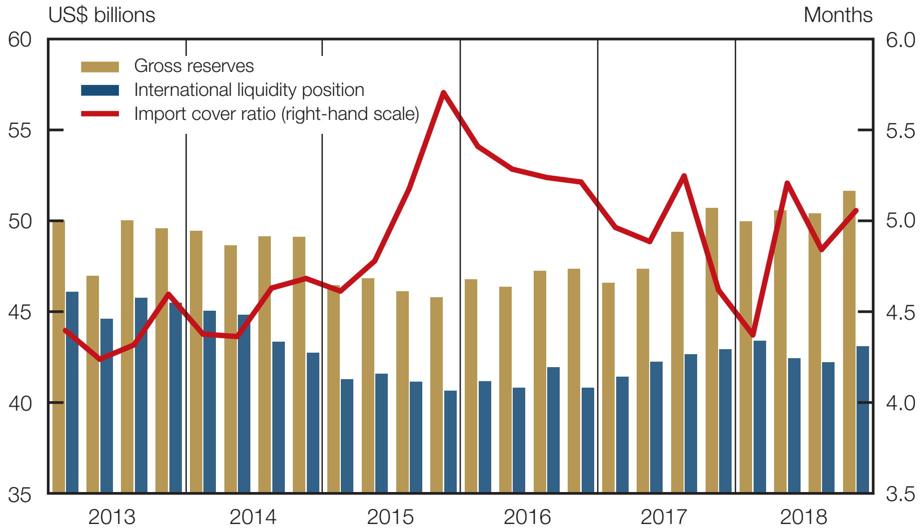
International reserves and liquidity

South Africa's international reserve assets increased by R6.2 billion in the fourth quarter of 2018 following a decrease of R3.8 billion in the third quarter.

The US dollar value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities) increased from US$50.4 billion at the end of September 2018 to US$51.6 billion at the end of December, largely due to an increase in the US dollar gold price and foreign exchange transactions conducted by the SARB. Gross gold and other foreign reserves subsequently decreased to US$50.8 billion at the end of February 2019. South Africa's international liquidity position[8] increased from US$42.2 billion at the end of September 2018 to US$43.1 billion at the end of December and further to US$43.7 billion at the end of February 2019.

8 This is calculated as the SARB's gross gold and foreign reserves minus foreign currency-denominated liabilities against both domestic and foreign counterparties plus/minus the forward position in foreign currency.

International reserves



Source: SARB

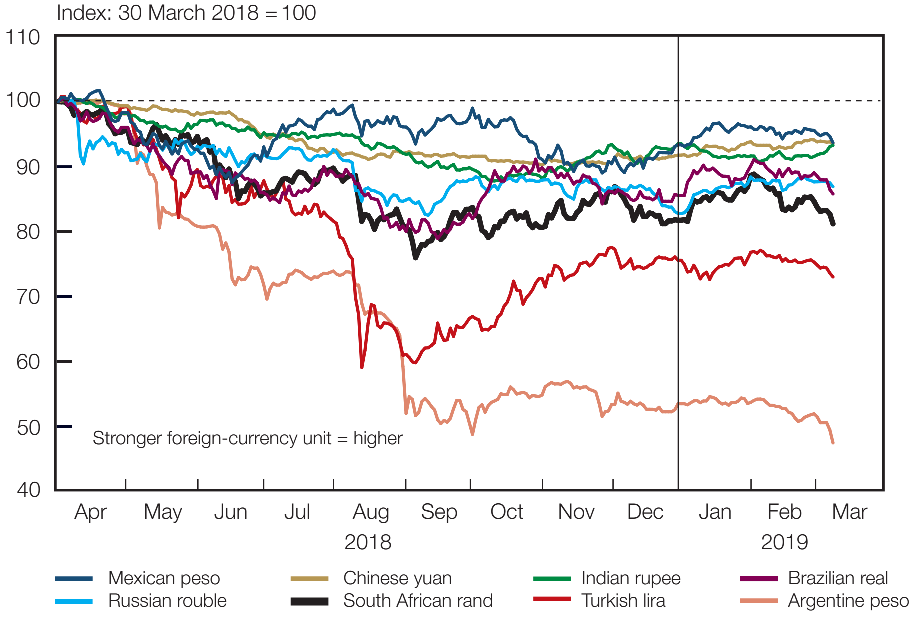
The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) increased from 4.8 months at the end of September 2018 to 5.1 months at the end of December.

Exchange rates[9]

The nominal effective exchange rate (NEER) of the rand decreased further by 1.8% in the fourth quarter of 2018 following a decrease of 1.4% in the third quarter. The NEER was volatile in the fourth quarter, with a decrease of 2.0% in October followed by an increase of 6.3% in November and another decrease of 5.7% in December. The depreciation in the exchange value of the rand in October 2018 resulted partly from upward revisions to South Africa's projected budget deficit and debt trajectory in the *2018 Medium Term Budget Policy Statement (2018 MTBPS)*, together with an increase in global risk aversion triggered by global economic growth concerns, fiscal and political uncertainties in Europe, as well as rising interest rates in the US. Consequently, many emerging market currencies, including the rand, came under pressure as investors reallocated funds towards safe-haven assets.

9 Unless stated to the contrary, all percentage changes in this section are based on the end of period.

Selected exchange rates: US dollar per foreign-currency unit



Source: SARB

A slightly more dovish tone by the US Federal Reserve and lower international crude oil prices supported the exchange value of the rand in November 2018, while the SARB's decision to raise the repurchase rate by 25 basis points improved the domestic currency's appeal. In December 2018, the gains in the NEER were reversed as global demand for riskier assets waned following downward revisions to economic growth projections by various central banks. Although maintaining a fairly dovish tone, the US Federal Reserve increased the policy rate by 25 basis points in December. The exchange value of the rand was weighed down further by concerns of rising public debt, in particular that of South Africa's national power producer (Eskom), and the then widening of the current account deficit in the third quarter of 2018.

Exchange rates of the rand

Percentage change

	29 Mar 2018 to 29 Jun 2018	29 Jun 2018 to 28 Sep 2018	28 Sep 2018 to 31 Dec 2018	31 Dec 2018 to 8 March 2019
Weighted average*	-10.0	-1.4	-1.8	-0.3
Euro	-9.1	-2.8	-0.6	1.5
US dollar	-14.0	-2.9	-2.0	-0.7
Chinese yuan	-9.6	0.9	-2.4	-2.6
British pound	-8.1	-2.2	0.4	-3.4
Japanese yen	-10.7	-0.5	-5.5	0.8

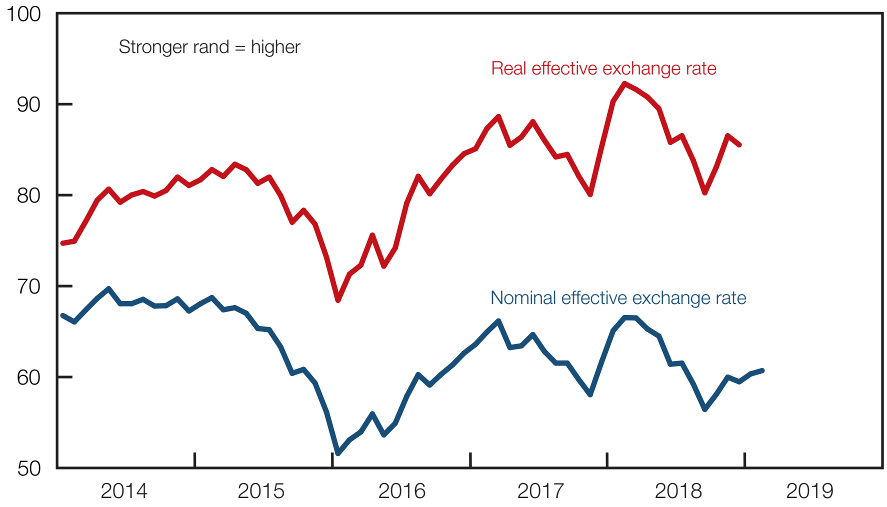
* Trade-weighted exchange rate against a basket of 20 currencies (nominal effective exchange rate)
Depreciation – appreciation +

Source: SARB

Notwithstanding increased global economic growth concerns due to slower GDP growth in China and further downward revisions by the International Monetary Fund, an increasingly dovish tone by the US Federal Reserve and easing global trade concerns lifted investors' appetite for high-yielding currencies. This contributed to an 8.4% appreciation in the exchange value of the rand against the US dollar in January 2019 despite disappointing domestic economic data, including a further decline in business confidence and worse-than-expected mining production. The exchange value of the rand then retreated in February and early March 2019 following the resumption of electricity load-shedding and renewed concerns about the negative effects of possible future electricity-supply disruptions on the domestic economy and the impact of Eskom's financial position on the fiscus.

The real effective exchange rate (REER) of the rand increased by 8.1% from November 2017 to November 2018, reflecting a significant decrease in the competitiveness of domestic producers in foreign markets over the period.

Effective exchange rates of the rand



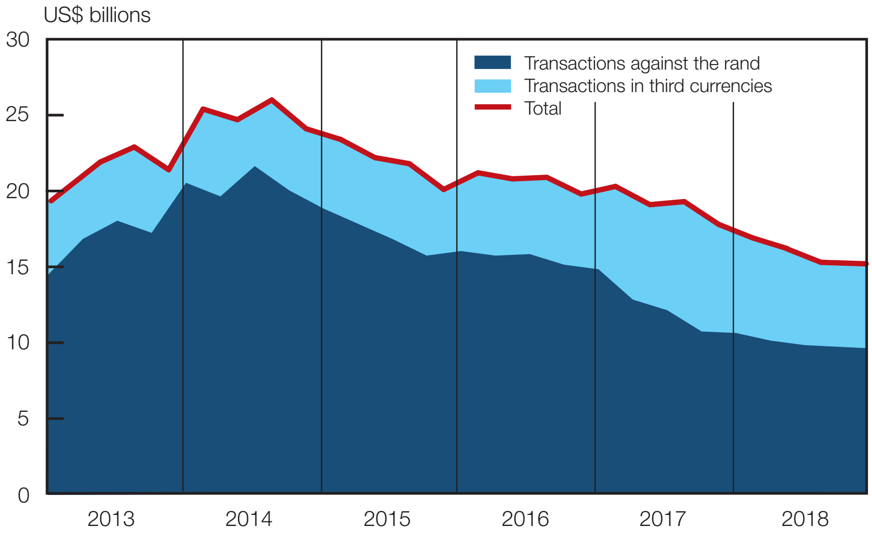
Source: SARB

Turnover in the South African foreign exchange market

The net average daily turnover[10] in the South African market for foreign exchange decreased marginally by 0.7% from US$15.3 billion in the third quarter of 2018 to US$15.2 billion in the fourth quarter. The value of transactions against the rand decreased from US$9.7 billion to US$9.5 billion over the same period, while turnover in third currencies increased marginally from a net daily average of US$5.6 billion in the third quarter of 2018 to US$5.7 billion in the fourth quarter.

10 This is calculated as the daily average of all new foreign exchange transactions concluded during a specified period, adjusted for local interbank double-counting.

Net average daily turnover in the South African foreign exchange market



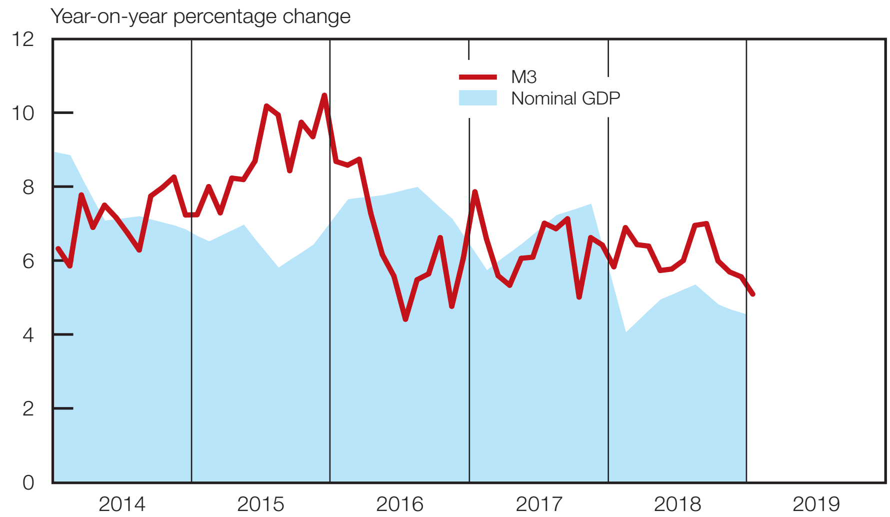
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Growth in the broadly defined money supply (M3) remained roughly at the same subdued level in 2018 as in 2017 and aligned with the moderate growth in nominal GDP. Muted growth in the deposit holdings of the corporate sector during 2018 reflected subdued financial company deposits in the first half of the year and a deceleration in non-financial company deposits towards year-end amid subdued economic conditions. Slower wage growth contributed to a further deceleration in households' deposit holdings, which became more noticeable towards the end of 2018. The quarter-to-quarter seasonally adjusted and annualised growth in M3 decelerated from 9.3% in the third quarter of 2018 to 4.4% in the fourth quarter. The income velocity of circulation of M3 remained unchanged at 1.42 in the fourth quarter of 2018, as the quarterly expansion in M3 matched that in nominal GDP.

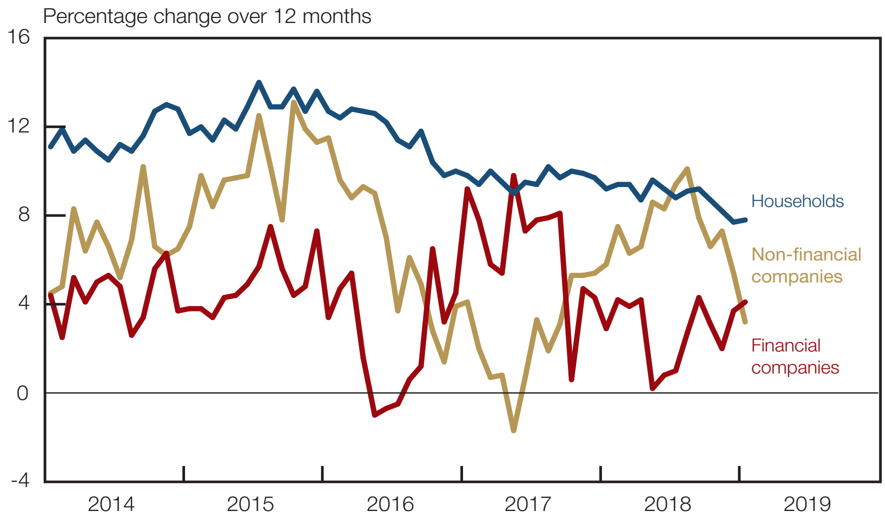
Money supply and gross domestic product



Sources: Stats SA and SARB

Year-on-year growth in M3, which had initially fluctuated higher from 5.8% in January 2018 to 7.0% in August, subsequently moderated to 5.6% by year-end. Growth in the deposit holdings of the corporate sector averaged 4.8% in 2018 and slowed from 5.9% in August to 3.7% in January 2019.

Deposit holdings of households and companies



Source: SARB

Weak growth in the deposit holdings of financial companies in the first half of 2018 recovered from less than 1.0% in May and June to 3.7% in December and 4.1% in January 2019. By contrast, growth in the deposit holdings of non-financial companies slowed from a recent high of 10.1% in August 2018 to 5.4% in December and 3.2% in January 2019 following a rebound from -1.7% in May 2017. Growth in the deposit holdings of the household sector slowed from an average of 9.7% in 2017 to 8.9% in 2018 following a recent deceleration from 9.2% in September to 7.8% in January 2019 alongside relatively constrained household income growth.

Maturity preferences diverged significantly in 2018 as banks continued to offer enticing savings and investment products to attract stable deposits. Growth in long-term deposits accelerated from 0.3% in March 2018 to 17.8% in December and 16.0% in January 2019, whereas growth in short- to medium-term deposits slowed from 12.5% in January 2018 to 0.6% in January 2019. The more liquid cash, cheque and other demand deposits remained relatively stable during 2018, with growth moderating slightly from 6.3% in September to 4.3% in January 2019.

Deposits by maturity

Source: SARB

Total M3 deposit holdings increased by R187 billion in 2018, marginally less than the increase of R203 billion recorded in 2017. A decrease of R3.2 billion in total M3 deposit holdings in the fourth quarter of 2018 followed a significant increase of R159 billion in the third quarter and an increase of R42.5 billion in the same period of the previous year. Corporate deposit holdings decreased by R16.7 billion in the fourth quarter of 2018 with the payment of provisional taxes and as financial companies pursued investments outside of the banking sector. The household sector's deposit holdings increased by only R13.5 billion in the fourth quarter of 2018, much less than the R35.0 billion in the third quarter and only about half the increase of R28.4 billion in the fourth quarter of 2017.

M3 holdings of households and companies

	Year-on-year change R billions				Percentage of total M3 deposit holdings*			
	2015	2016	2017	2018	2015	2016	2017	2018
Households	114.6	95.6	102.0	89.0	32.1	33.3	34.3	35.0
Companies: Total..................	167.4	85.1	100.6	97.6	67.9	66.7	65.7	65.0
Of which: Financial	75.6	49.9	49.7	44.6	37.6	37.0	36.3	35.6
Non-financial.....	91.8	35.2	50.9	53.0	30.3	29.7	29.4	29.4
Total M3 deposits................	282.0	180.6	202.6	186.6	100.0	100.0	100.0	100.0

* Expressed as a percentage of the total outstanding balance as at December of each year

Source: SARB

In statistical terms, the increase in claims on the domestic private sector of R177 billion mostly explains the R187 billion increase in M3 in 2018 and reflects this sector's demand for credit during the year. At the same time, the net foreign assets of the monetary sector increased by R61.0 billion, partly due to the depreciation in the exchange value of the rand over the period. Net claims on the government sector increased by R27.8 billion as banks' investment in government securities exceeded the increase in government deposits, while net other assets decreased by R79.1 billion.

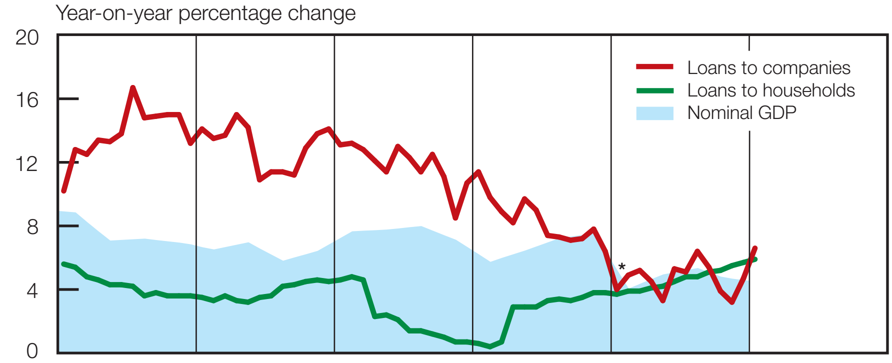
Credit extension[11]

Growth in total loans and advances by monetary institutions to the domestic private sector remained subdued in 2018 despite accelerating slightly in the second half of the year. Credit growth picked up from a recent low of 3.8% in May 2018 to 6.3% in January 2019 despite the effect of the implementation of International Financial Reporting Standard 9 (IFRS 9) from January 2018 and protracted weakness in domestic economic activity. Growth in loans and advances to companies was fairly weak and erratic, accelerating from 3.3% in May 2018 to 6.4% in August before slowing to 3.2% in November and rebounding again to 6.6% in January 2019. A sustained improvement in consumer demand and business confidence is needed to boost corporate demand for credit. Encouragingly, credit extension to the household sector inched higher from 3.7% in January 2018 to 5.7% in December and grew by 4.6% on average in 2018 compared to only 2.6% in 2017 and 2.3% in 2016. This may have benefitted household consumption expenditure somewhat.

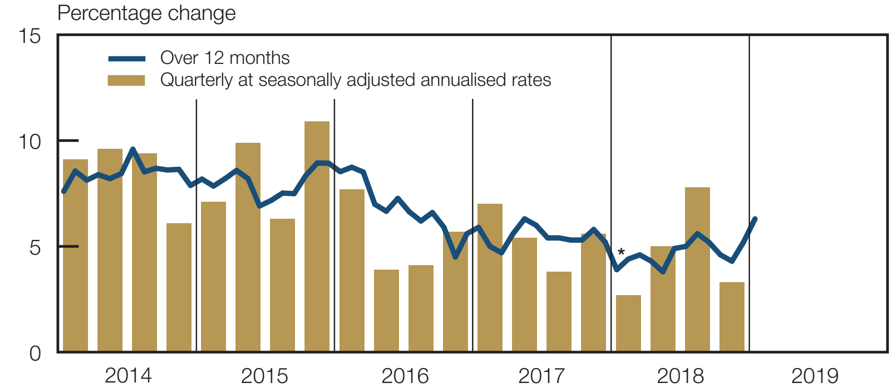
The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector decelerated to 3.1% in the fourth quarter of 2018 following an acceleration from 2.9% in the first quarter to 7.7% in the third quarter. The value of total loans and advances increased by R165 billion in 2018, up from R156 billion in 2017. The ratio of credit to GDP decreased from 73.9% in the first quarter of 2018 to 72.4% in the fourth quarter, as the expansion in nominal GDP exceeded that in credit extension.

11 Growth in credit extension was impacted by the implementation of International Financial Reporting Standard 9 (IFRS) from January 2018. Banks' calculation of the provision for credit losses (impairments) changed fundamentally, which affected outstanding credit balances. For a more comprehensive analysis, see 'Box 3: Impairments and credit statistics' on page 52 of the June 2018 edition of the *Quarterly Bulletin*, also available at http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/8615/03Impairments%20and%20credit%20statistics.pdf

Bank loans and gross domestic product



Total loans and advances to the private sector

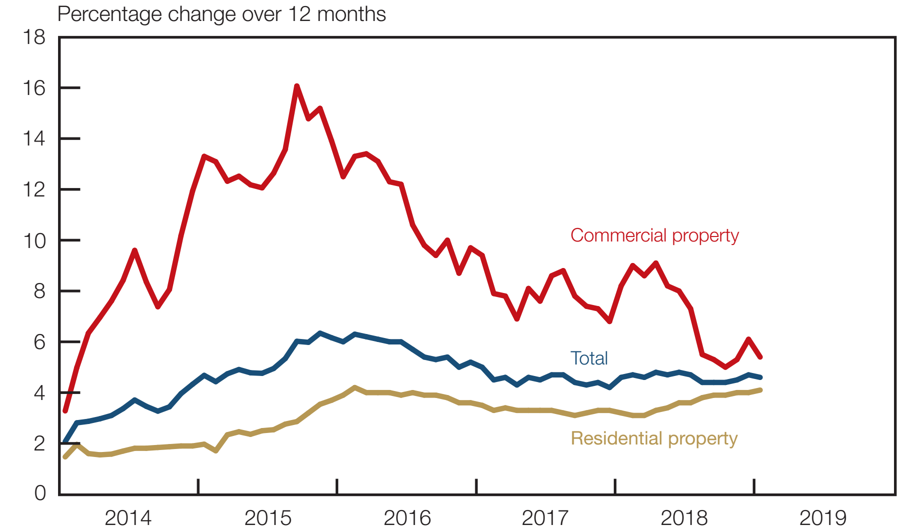


* Growth rates impacted by the implementation of IFRS 9 from January 2018

Sources: Stats SA and SARB

The increase in *credit extension to the corporate sector* of R1.4 billion in the fourth quarter of 2018 was significantly less than both the R11.1 billion in the fourth quarter of 2017 and the R30.7 billion in the third quarter of 2018. Demand for loans from non-financial companies declined in the fourth quarter of 2018, particularly in the consumer goods and manufacturing industries.

Mortgage advances



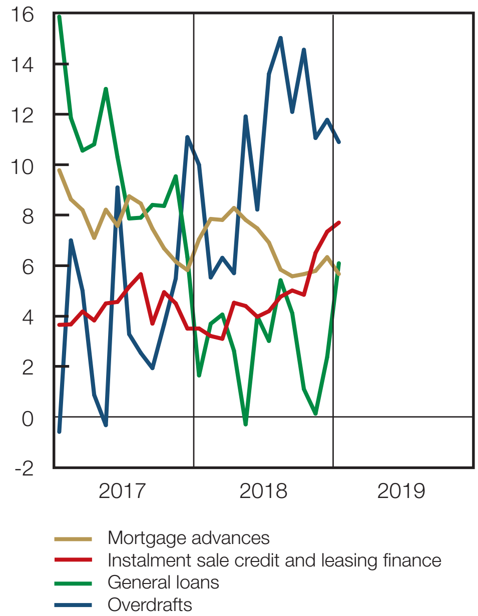
Source: SARB

Growth in total *mortgage advances* averaged 4.6% in 2018, not very different from the 4.5% in 2017. The increase in mortgage advances on commercial property of R23.0 billion in 2018 was similar to the R24.1 billion increase in the previous year. Year-on-year growth in mortgage advances on commercial property decelerated from a high of 9.1% in April 2018 to a low of 5.0% in October before picking up to 5.4% in January 2019. Growth in mortgage advances on residential and agricultural property accelerated gradually from 3.1% in February 2018 to 4.1% in January 2019, constrained by households' low income growth and weak job prospects as well as uncertainty regarding government's proposed land expropriation policy.

Demand for general loans and instalment sale credit supported the increase in *credit extension to the household sector* of R87.5 billion in 2018 compared to only R57.0 billion in 2017. A notable increase of R9.5 billion in general loans in the fourth quarter of 2018 contributed to the increase of R22.1 billion for the year as a whole, which was nearly four times more than the R5.5 billion in 2017. As such, year-on-year growth in general loans to households accelerated from 3.3% in January 2018 to 10.7% in January 2019. In addition, households' demand for instalment sale credit and leasing finance increased at a relatively lively average of 6.2% in 2018, while growth in overdrafts and credit card advances also trended higher.

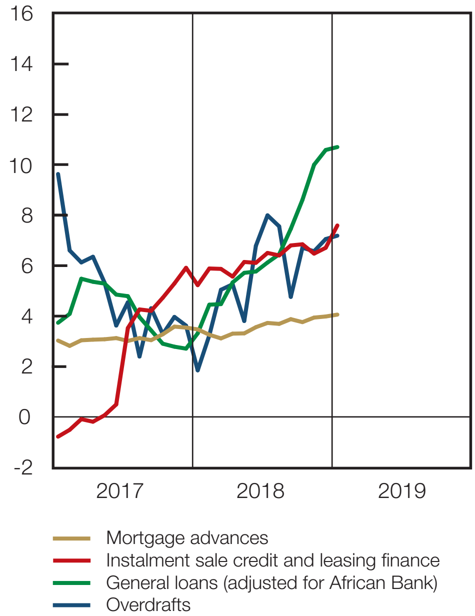
Selected loans and advances to corporate sector

Percentage change over 12 months



Selected loans and advances to household sector

Percentage change over 12 months



Source: SARB

Instalment sale credit and leasing finance for the purchase of new and used vehicles increased by R26.8 billion in 2018 compared to an increase of R18.9 billion in 2017. This was also reflected in the acceleration in year-on-year growth from 4.7% in January 2018 to 6.9% in December, and further to 7.6% in January 2019.

Year-on-year growth in *overdrafts* more than doubled from 5.6% in April 2018 to 13.4% in August before moderating somewhat to 10.8% in December and 10.1% in January 2019. The increased utilisation of overdraft facilities was especially evident in the corporate sector, while that by the household sector increased only moderately. However, overdrafts comprise only 2.9% of total loans to the household sector and 10.5% of total loans to the corporate sector.

Credit demand varied fairly widely across the domestic economic sectors in 2018. Credit extension to the real estate and construction sectors was relatively buoyant throughout most of 2018, despite the low growth in property prices and relatively weak building activity. Growth in credit extension to the wholesale and retail trade sector was very resilient, possibly due to anticipated higher sales volumes. Credit demand by the mining sector increased notably in recent quarters, although it formed a small component of both overall funding to the mining sector and credit extension by the banking sector. However, credit extension to the finance and insurance sector as well as the business services sector contracted in some of the quarters of 2018 as domestic economic activity remained sluggish.

Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	Percentage of total credit extension*
Households	3.7	4.0	4.4	4.6	5.8	35.1
Finance and insurance	3.7	2.8	0.9	-7.9	1.1	18.0
Real estate	9.9	13.1	11.1	10.1	10.2	11.1
Wholesale and retail trade	8.2	14.8	14.0	16.6	17.7	5.7
Manufacturing	-0.6	-6.7	0.1	1.0	2.5	4.4
Business services	4.4	-7.7	-1.4	-1.0	-2.1	3.3
Transport, storage and communication	-4.9	-5.0	-2.5	-1.3	10.7	3.1
Electricity, gas and water	11.5	24.7	16.8	4.2	-0.4	2.2
Agriculture, forestry and fishing	7.8	7.2	9.3	6.0	4.8	2.3
Mining and quarrying	-20.6	-6.2	2.2	16.1	24.1	1.8
Construction	8.0	0.2	5.6	5.9	10.1	0.9
Community, social, personal services and other	4.0	0.6	12.1	17.0	8.0	12.2
Total	**3.9**	**3.9**	**5.5**	**4.3**	**6.1**	**100.0**

* Expressed as a percentage of the total outstanding balance for December 2018

Source: SARB

Box 3 Trends in the key dimensions driving credit extension in South Africa since 2008[1]

Corporates and households have dominated the institutional sector dimension of total credit extended[2] since 2008, contributing the most in terms of average contribution to credit growth as well as relative weight, which shifted slightly from households to companies over this period. The government sector recorded strong average annual growth in credit uptake since 2008, largely reflecting banks' investment in government securities. Mortgage advances have lost some ground to general loans but have nonetheless maintained its position as the most prominent type of credit. Households remained the largest sector, when companies and government are disaggregated into separate economic sectors, despite having recorded the fourth-weakest average annual growth in credit uptake. Notwithstanding the relatively modest growth in credit extension, the outstanding balance of total credit extended nearly doubled from 2008 to 2018.

Among the institutional sectors, households and corporates have largely been responsible for borrowing between 2008 and 2018 in terms of both relative weight in total credit extended and average contribution to growth in this aggregate. Since 2008, the largest relative weight in total credit extension, at the margin, has shifted from households to corporates as the latter's average contribution to growth from 2008 to 2018 slightly exceeded that of households. Corporates have also recorded the strongest average annual growth in credit uptake, especially when investments and bills discounted are included, and is matched only by the banking sector's gross claims[3] on government which largely reflected banks' investment in government securities. Government's relative weight in credit extension nearly doubled from 8.3% in 2008 to 16.2% in 2018, and mostly reflected banks' increased holdings of government securities as liquid assets in terms of Basel III.

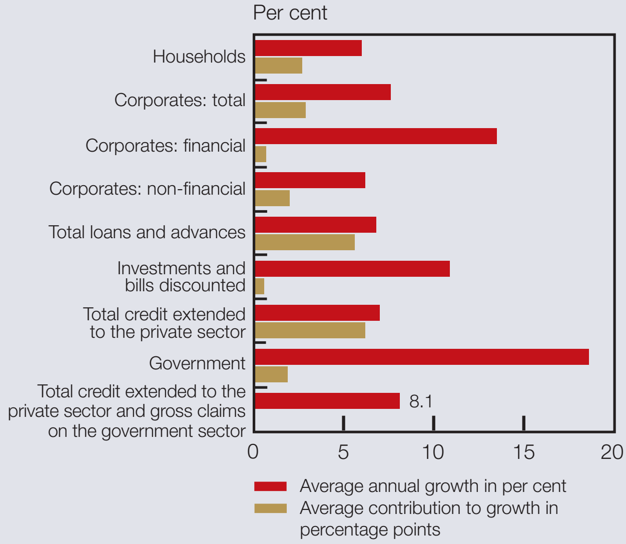
1 This box relates to the statistics published in the tables on pages S–20 to S–24 of this *Quarterly Bulletin*.

2 Total credit extension is measured as total credit extended to the private sector and gross claims on the government sector.

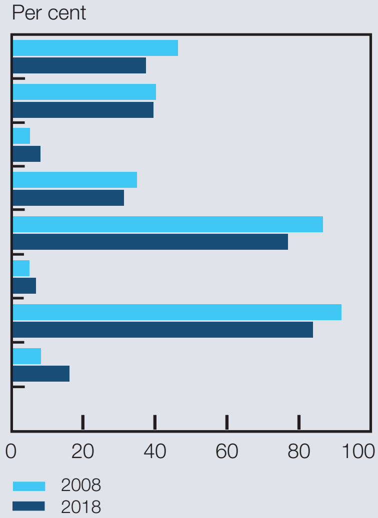
3 These are gross claims on government, with government's deposits with banks not netted against banks' holdings of government bonds. Usually, net credit extended to government is used to derive total domestic credit extension.

Total loans and advances by type of credit shows a shift in relative weight from mortgage loans to general loans, but with mortgage loans still dominating. Households' preference for general loans increased from 2008 to 2012 before levelling off at around 14% of their outstanding credit balance up to 2018. Corporates prefer general loans for working capital, and its share of corporates' outstanding credit balance increased to 55% in 2018. The increased prominence of general loans reflected both its high average contribution to credit growth from 2008 to 2018 as well as strong average annual growth.

Total credit extended* per institutional sector, 2008 to 2018



Relative weight in total credit extended* per institutional sector

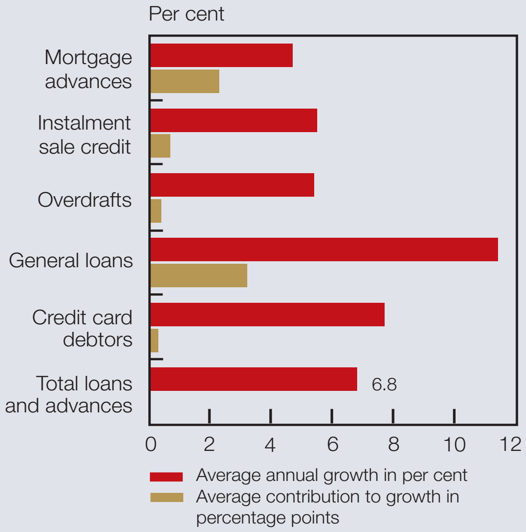


* Total credit extended to the private sector and gross claims on the government sector

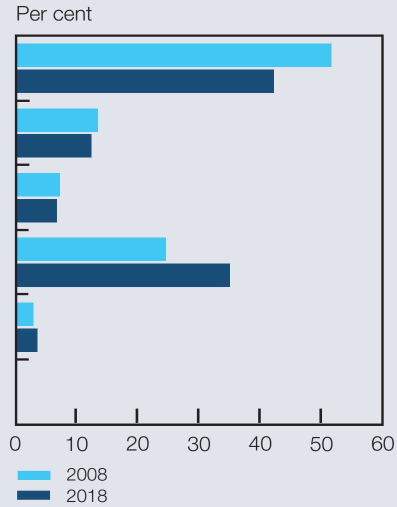
Source: SARB

Households remained the largest economic sector in terms of relative weight in total credit extended. However, their relative weight declined as this sector recorded the fourth-weakest average annual growth in credit uptake from 2008 to 2018. The second-largest sector in terms of relative weight in total credit extended was finance and insurance, followed by real estate. A total of 7 of the 13 economic sectors recorded average annual growth in total credit extended above 10% from 2008 to 2018, with electricity, gas and water as well as community, social and personal services growing at more than 20%.

Total loans and advances per type of credit, 2008 to 2018

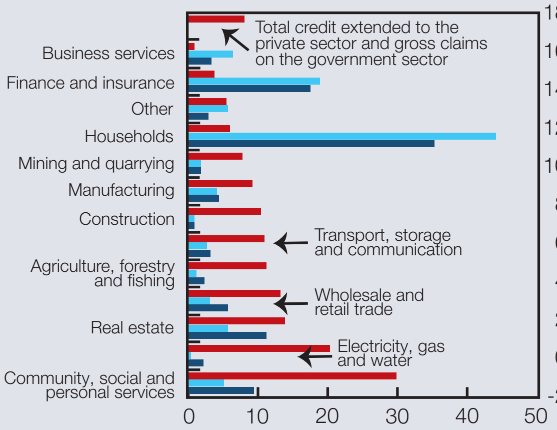


Relative weight in total loans and advances per type of credit



Source: SARB

Total credit extended* per economic sector

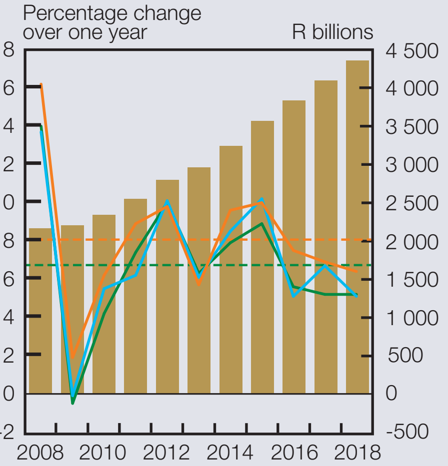


Average annual growth 2008 to 2018 in per cent
Relative weight 2008
Relative weight 2018

* Total credit extended to the private sector and gross claims on the government sector

Source: SARB

Different measures of credit extension



Total loans and advances
Average annual growth
Total credit extended to the private sector and gross claims on the government sector
Average annual growth
Total credit extended to the private sector
Outstanding balance* (right-hand scale)

Growth in the three dimensions of credit extension, as discussed, was closely correlated with annual growth in total credit extended to the domestic private sector, including gross claims on the government sector, which averaged 8.1% from 2008 to 2018, and that on total loans and advances, which averaged 6.8%. The outstanding balance of total credit extended to the domestic private sector and gross claims on the government sector still nearly doubled from 2008 to 2018, despite fairly modest growth in total credit extension.

Credit extension by economic sector*

	Relative weight in credit extension		Average annual growth
	Per cent		
	2008	2018	2008-2018
Agriculture, forestry and fishing	1.2	2.3	11.2
Mining and quarrying	1.8	1.8	7.8
Manufacturing	4.1	4.4	9.2
Electricity, gas and water	0.4	2.2	20.3
Construction	0.9	0.9	10.4
Wholesale and retail trade	3.1	5.7	13.2
Transport, storage and communication	2.7	3.1	10.9
Finance and insurance	18.9	18.0	4.1
Real estate	5.7	11.1	13.9
Business services	6.4	3.3	0.9
Community, social and personal services	5.1	9.3	29.9
Households	44.1	35.1	6.0
Other	5.7	2.9	5.5

* Based on total credit extended to the private sector and gross claims on the government sector

Source: SARB

Credit extension by the monetary sector in South Africa

	Relative weight in credit extension		Average		Contributions to growth in credit extension*										
			Annual growth	Con-tri-bution											
	Per cent				Percentage points										
	2008	2018	2008–2018*		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Institutional sector															
Households	46.4	37.5	6.0	2.7	7.3	1.4	3.3	3.0	4.6	2.5	1.7	2.0	0.3	1.5	2.1
Corporates	40.2	39.5	7.6	2.9	5.1	-1.9	0.3	3.3	3.6	2.7	4.8	5.3	4.2	2.6	1.9
Financial	5.3	8.1	13.5	0.7	...	-1.6	0.5	0.8	1.5	0.5	1.0	1.7	0.5	1.2	1.1
Non-financial	34.9	31.4	6.2	2.0	...	-0.3	-0.2	2.6	2.2	2.1	3.8	3.7	3.8	1.4	0.8
Total loans and advances	86.6	76.9	6.8	5.6	12.4	-0.5	3.6	6.3	8.2	5.2	6.5	7.3	4.5	4.1	4.1
Investments and bills discounted	5.1	6.9	10.9	0.6	0.4	0.4	1.3	-0.7	0.5	0.1	0.9	1.6	-0.1	1.6	0.3
Total credit extended to the private sector	91.7	83.8	7.0	6.2	12.8	-0.1	4.9	5.7	8.7	5.3	7.4	8.8	4.4	5.7	4.3
Government	8.3	16.2	18.6	1.9	3.4	2.0	1.3	3.3	1.0	0.4	2.2	1.2	3.1	1.1	2.1
Growth in per cent **															
Growth in total credit extended to the private sector and gross claims on the government sector			8.1		16.2	1.9	6.2	8.9	9.8	5.7	9.6	10.0	7.5	6.9	6.4
Total credit extended to the private sector			7.0		13.7	-0.1	5.5	6.2	10.1	6.1	8.5	10.2	5.1	6.7	5.1
Total loans and advances			6.8		14.0	-0.5	4.2	7.4	10.0	6.3	7.9	8.9	5.6	5.2	5.2
Type of credit															
Total loans and advances															
Mortgage advances	51.6	42.2	4.7	2.3	6.8	1.9	2.1	1.3	1.0	0.9	2.0	2.7	2.3	1.8	2.0
Instalment sale credit and leasing finance transactions	13.5	12.4	5.5	0.7	1.1	-0.8	0.3	0.9	1.6	1.7	0.9	0.5	0.1	0.6	0.8
Overdrafts	7.3	6.8	5.4	0.4	0.3	-0.5	-0.1	0.6	0.2	0.5	1.0	0.4	0.2	0.6	0.7
General loans	24.6	35.0	11.4	3.2	5.7	-1.0	1.8	4.3	6.3	2.6	3.6	5.1	3.0	2.0	1.4
Credit card debtors	3.0	3.6	7.7	0.3	0.1	-0.1	0.1	0.3	0.9	0.6	0.4	0.2	0.0	0.2	0.3

* Contributions calculated as the change in stock of a specific category divided by the relevant measure of total stock multiplied by the growth rate
** Year-on-year growth
*** Denotes not available

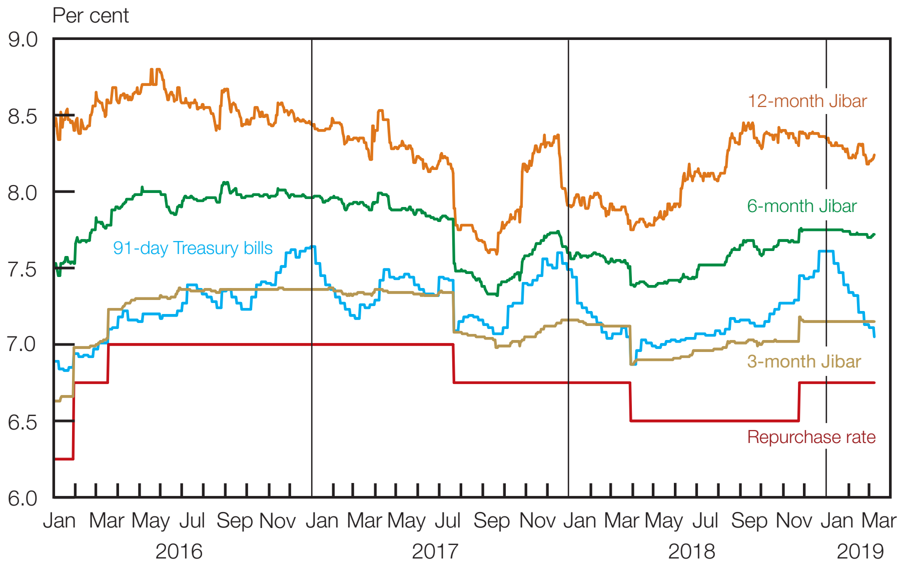
Source: SARB

Interest rates and yields

The repurchase rate was kept unchanged at 6.75% in January 2019. The Monetary Policy Committee (MPC) took note of the improved inflation outlook over the near term but nonetheless assessed the overall risk to the inflation outlook to be moderately on the upside.

Domestic short-term interest rates have recently trended lower as investor sentiment improved and the exchange value of the rand strengthened, after at first following the 25 basis points increase in the policy rate in November 2018. The 3-month Johannesburg Interbank Average Rate (Jibar) increased from 7.02% on 22 November 2018 to 7.18% on 23 November before levelling off to 7.15% from late November up to 8 March 2019. The 6-month Jibar also remained flat at 7.75% between 28 November 2018 and 23 January 2019 before inching lower to 7.70% on 27 February and remaining at that level up to early March. However, the benchmark 12-month Jibar declined by more, from 8.39% on 29 November 2018 to 8.18% by late February 2019, before increasing marginally to 8.24% by 8 March. The tender rate on 91-day Treasury bills fluctuated widely, initially increasing from 7.12% on 25 September 2018 to 7.61% on 21 December before receding to 7.05% on 8 March 2019.

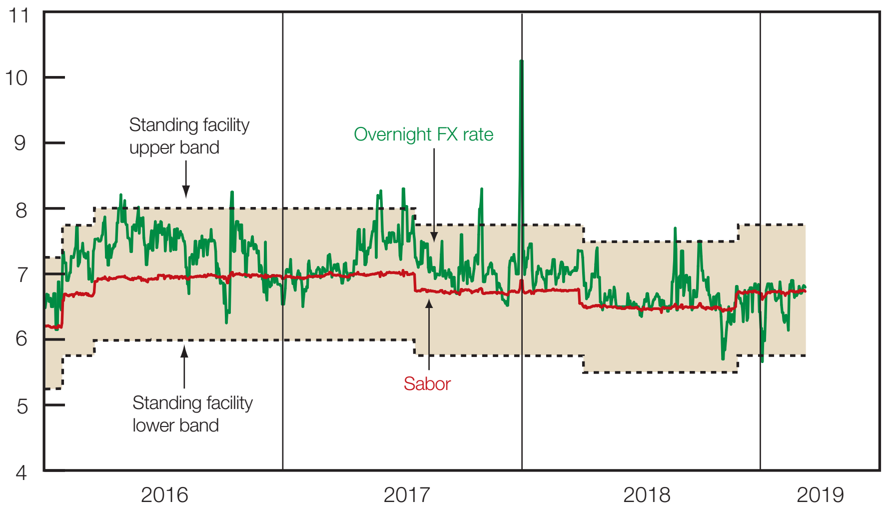
Money market rates



Source: SARB

The South African benchmark overnight rate (Sabor) has continued to fluctuate well within the standing facility limits in recent months, amid stable funding conditions in the interbank lending market. The Sabor remained aligned with the repurchase rate, averaging 6.72% from December 2018 to February 2019. By contrast, the overnight foreign exchange (FX) rate, which is the rate at which a depository institution is willing to lend funds to another against FX, has become increasingly volatile in recent months as the demand for FX has changed. In January 2019 alone, the overnight FX rate fluctuated between a low of 5.66% at the start of the month and a high of 6.88% towards month-end. Nonetheless, in February 2019, the overnight FX rate averaged 6.58%, fairly similar to the 6.60% in December 2018. By 8 March 2019, the overnight FX rate had once again increased to 6.80%.

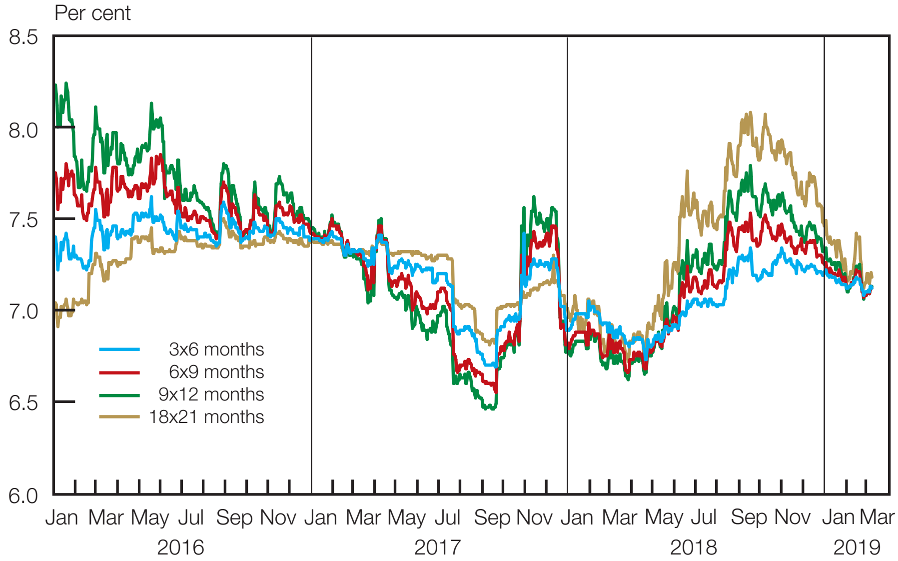
Benchmark overnight rates



Source: SARB

Rates on forward rate agreements (FRAs) generally trended lower towards the end of 2018 and in the early months of 2019 alongside the appreciation of the exchange value of the rand. Following a recent high of 7.64% on 1 November 2018, the 9x12-month FRA decreased to a low of 7.08% on 28 February 2019 before increasing marginally to 7.13% by 8 March. The 6x9-month FRA followed a similar downward trajectory, while rates at the short end declined by less. The more optimistic outlook also filtered through to longer-term rates, with the 18x21-month FRA decreasing from 7.75% on 10 December 2018 to 7.18% in early March 2019.

Forward rate agreements



Source: SARB

Since the increase in the repurchase rate in November 2018, private sector banks have kept deposit and lending rates relatively stable. The prime lending rate remained at 10.25%, while the weighted average flexible rate charged by banks on mortgage advances increased from 9.48% in October 2018 to 9.75% in January 2019.

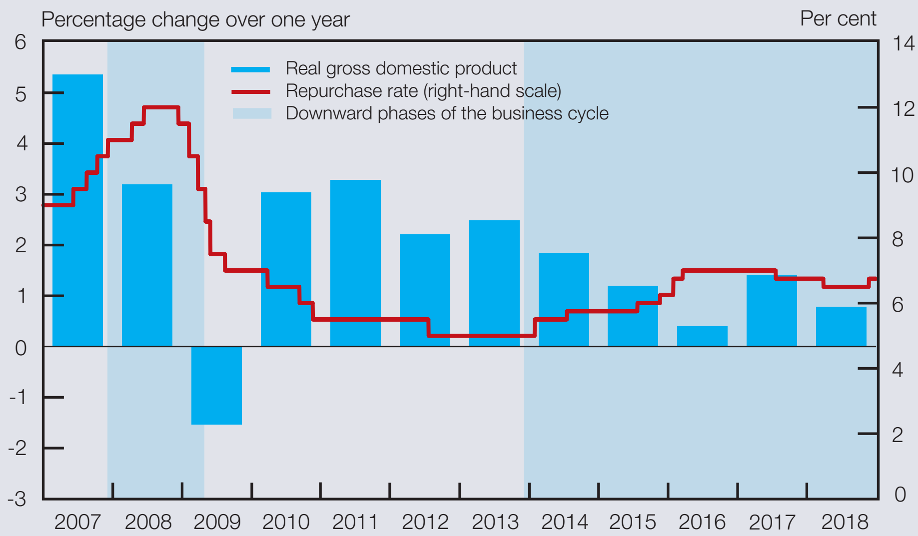
Box 4 Drivers of households' borrowing and deposit rates[1, 2]

Fairly persistent weak domestic economic activity in the wake of the global financial crisis tightened credit standards and the international regulatory regime. The change in the composition of bank credit to households towards more expensive credit contrasted with higher deposit rates. Borrowers have not always benefitted from a lower repurchase rate but, on balance, households' net interest burden declined.

The level and trend of interest rates, and the changes therein, reflect economic conditions and associated policy responses as well as regulatory requirements – all of which affect the demand and supply of credit and deposits. Credit extension is further influenced by banks' willingness to lend and households' ability to repay debt. The lending rates charged by private sector banks on loans and advances extended to households reflect the continued reassessment of borrowers' credit risk profiles relative to banks' appetite for credit, liquidity and interest rate risk, all of which influence the risk premium added to the funding cost. Interest rates on different types of loans also differ due to, among other factors, dissimilar term structures and underlying collateral.

Credit standards tightened in the wake of the global financial crisis and the 2008-09 recession in South Africa, which was followed by a relatively weak upward phase of the business cycle that turned into a protracted downward phase at the end of 2013. This was accompanied by relatively accommodative monetary policy[3] while regulatory requirements exerted upward pressure on costs as banks geared up to comply with Basel III requirements.[4] This increasingly changed banks' focus towards more stable sources of funding and compliance with more stringent liquidity requirements. Some of these adjustments and higher interest rates from tighter credit standards discouraged long-term mortgage lending, while gradually higher deposit rates encouraged household deposits.

Economic activity and monetary policy



Sources: Stats SA and SARB

Since the global financial crisis, the composition of bank credit extended to the household sector changed noticeably as growth in general unsecured loans and instalment sale credit accelerated and that of mortgage advances slowed. This not only changed the composition of banks' and households' exposure to different types of loans, but also increased households' exposure to loan categories with higher interest rates, increasing the interest burden. This is reflected by the trends in the weighted average interest rates[5] charged on the different categories of loans.

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1 The analysis is based on data collected from the South African Reserve Bank BA930 surveys of registered South African banks.

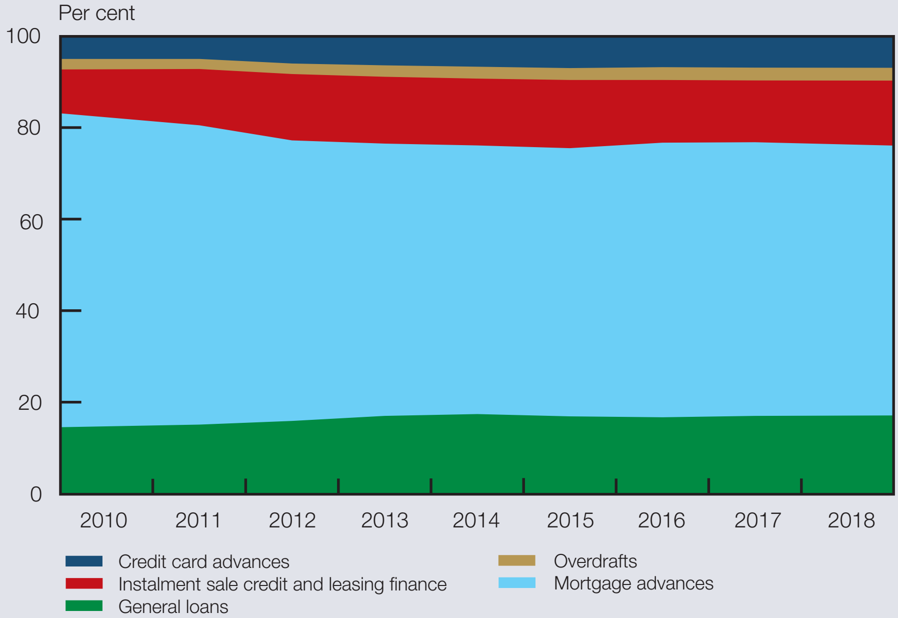
2 This box reflects selected statistics of interest rates on deposits as well as loans and advances published in the tables on page S–30 of this *Quarterly Bulletin.*

3 The repurchase rate initially declined from a peak of 12.00% per annum in November 2008 to a low of 5.00% in 2012, and then remained unchanged until early January 2014 before increasing by a cumulative 175 basis points to its current level of 6.75%, effective November 2018 – inclusive of 25 basis points decreases in both June 2017 and March 2018.

4 The Basel Committee on Banking Supervision developed Basel III as a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector. Actual implementation was scheduled from January 2013 to January 2019.

5 Weighted average interest rates are reported by banks on both new and existing loans for each credit category.

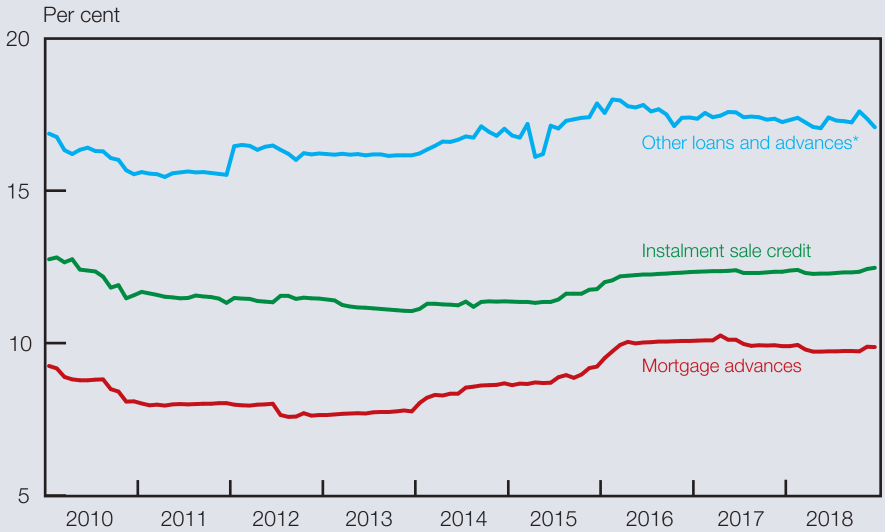
Composition of household sector loans



Source: SARB

The weighted average interest rate on mortgage loans is significantly lower than that on other types of loans, such as general unsecured loans, due to underlying real estate collateral and repayment periods of up to 30 years. However, since the end of the property boom in 2008, banks' credit standards have tightened and the weighted average interest rates on mortgage advances have increased while remaining relatively stable on most other types of loans.

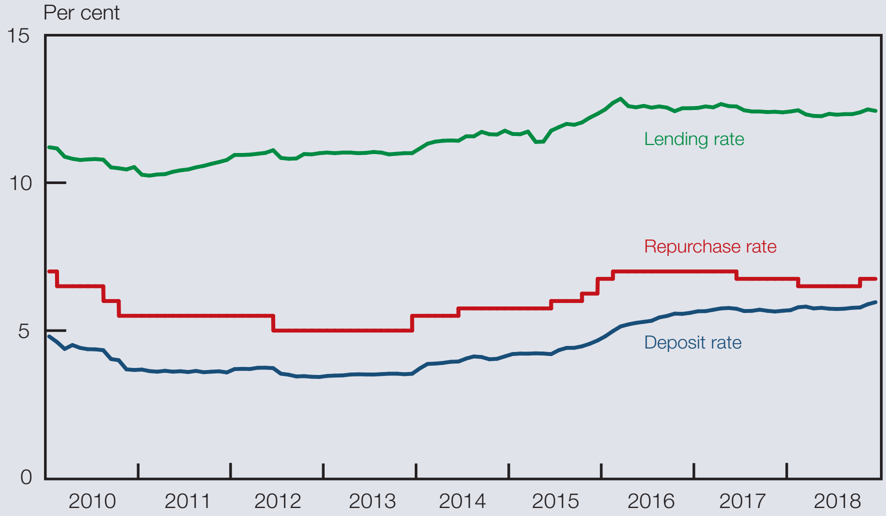
Weighted average interest rate on household loans



* Includes credit card advances, overdrafts and general loans
Source: SARB

Households' overall weighted average lending rate[6] trended higher from 10.24% in February 2011 to 12.59% in April 2016, and levelled off thereafter. This reflects the structural change in exposure towards loans with higher risk premiums, whereas banks' quest for more stable funding drove up households' weighted average deposit rate.

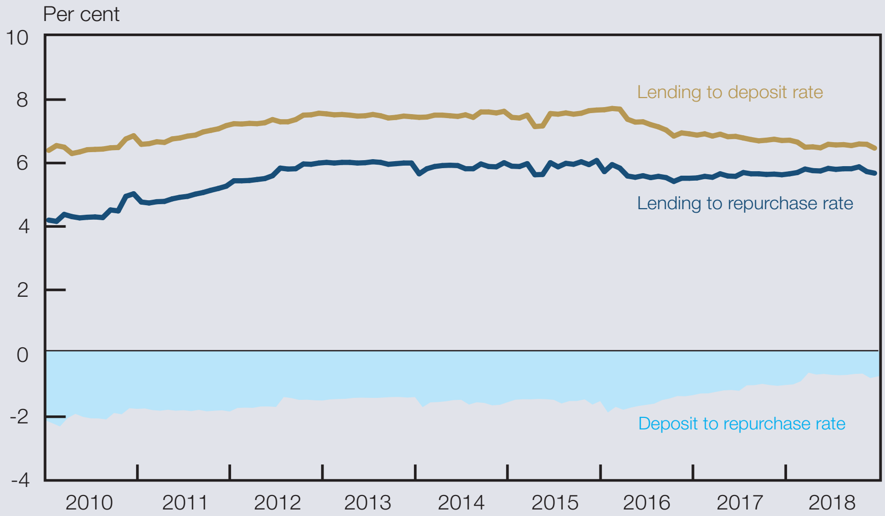
Households' overall weighted average lending and deposit rates and the repurchase rate



Source: SARB

The drivers of interest rates at times pushed lending rates higher when monetary policy became more accommodative, and lately caused deposit rates to move against the trend in the repurchase rate. This is reflected by changes over time in the difference between both lending and deposit rates relative to the repurchase rate. As borrowers, households therefore did not always benefit fully from a lower repurchase rate. However, more recently, households benefitted from the narrowing of the difference between lending and deposit rates as this, on balance, reduced their overall net interest burden, with the outstanding balance of loans exceeding the outstanding balance of deposits.[7]

The difference between household lending and deposit rates, and the repurchase rate



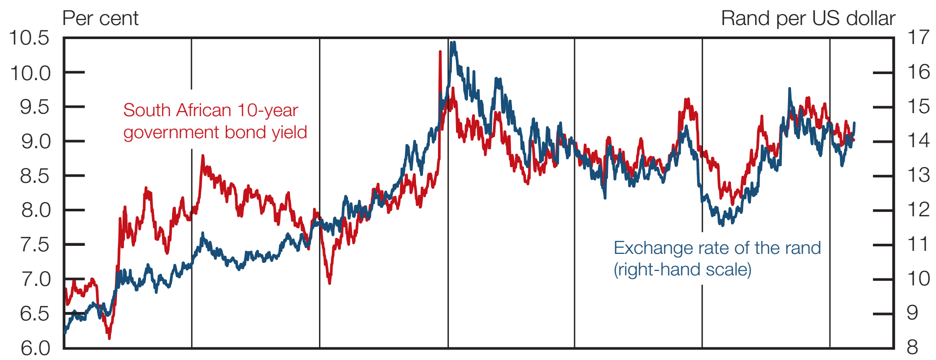
Source: SARB

6 Households' overall weighted average lending (deposit) rate is derived by applying the weighted average rates to each credit (deposit) category. While each bank reports its own weighted rate per category, these rates are then aggregated and weighted across the various banks using outstanding balances.

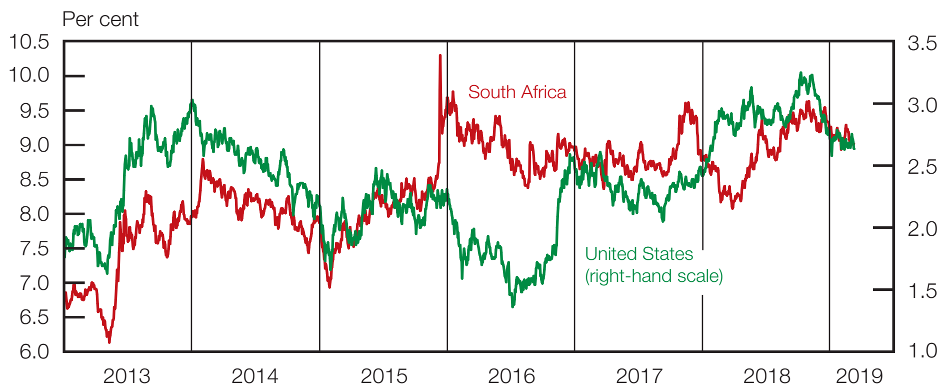
7 See 'Box 7: What does the loan-to-deposit ratio tell us?' in the *Quarterly Bulletin, No. 287, March 2018:* p. 58–60. Pretoria: South African Reserve Bank. Also available at http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/8361/07What%20does%20the%20loan-to-deposit%20ratio%20tell%20us.pdf

The upward trend in *yields on South African rand-denominated government bonds* issued and traded in the domestic market from late March 2018 to the end of October generally reflected global developments. The subsequent decline was driven by lower domestic inflation and an appreciation in the exchange value of the rand in an environment of lower international oil prices and a switch to net purchases of domestic bonds by non-residents, following indications of a pause in interest rate increases by the US Federal Reserve as well as expectations of China and the US reaching a trade agreement. This culminated in a decline of 70 basis points in the daily closing yield on the 10-year South African government bond from 9.63% on 31 October 2018 to 8.93% on 31 January 2019 compared to a decline of 53 basis points in the 10-year US government bond yield. The 10-year South African government bond yield then initially increased to 9.29% on 14 February 2019, along with a depreciation in the exchange value of the rand, before decreasing to 9.02% on 8 March following the national Budget.

Government bond yield and the exchange rate



Ten-year government bond yields



Sources: IRESS, JSE and SARB

These developments as well as the responses of bond yields, at first moved the level of the *yield curve* higher from March 2018 and then again lower across most of the maturity spectrum from the end of October. From late November 2018, after the increase in the repurchase rate, yields at the extreme short end of the curve increased. Then, after the State of the Nation Address on 7 February 2019, the yield curve moved slightly higher as bond yields reflected the depreciation in the exchange value of the rand. After the 2019 Budget, the yield curve shifted lower along with an appreciation in the exchange value of the rand. The net effect of all of this was a narrowing of the yield gap (measured as the difference between yields at the extreme long and short ends of the curve) from 383 basis points on 25 October 2018 to 297 basis points on 8 March 2019.

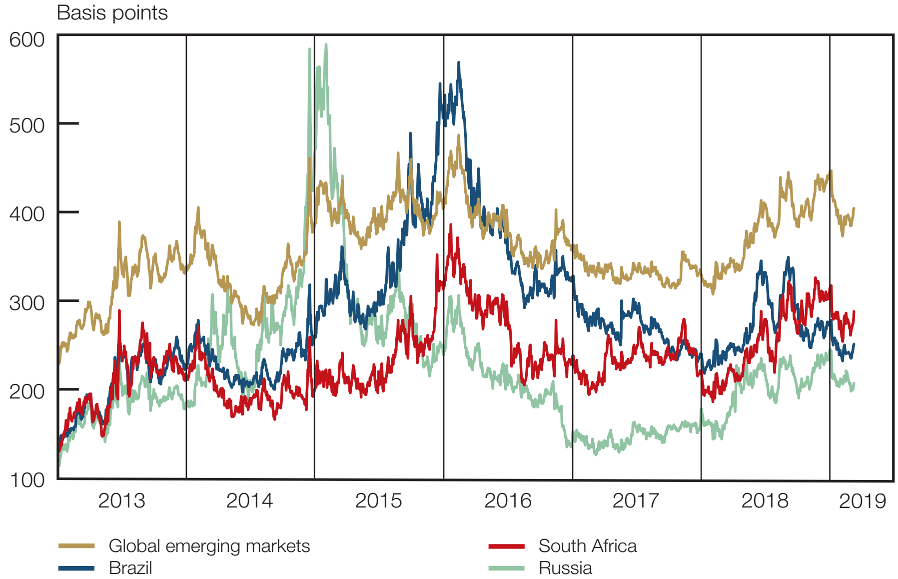
The yield spread for emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[12] widened significantly from 312 basis points at the end of January 2018 to 445 basis points in December. This reflected increased global risk aversion due to, among other factors, the US-China trade tensions, higher international oil prices, interest rate increases and the partial government shutdown in the US, as well as weaker emerging market currencies. Subsequently, the yield spread narrowed to 384 basis points in February 2019, as emerging market currencies

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

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

appreciated following the US Federal Reserve's indication of fewer interest rate increases than previously expected. South Africa's spread, and that of its fellow BRICS countries included in the EMBI+, has consistently been lower than the global emerging markets spread from mid-2016. South Africa's *sovereign risk premium*[13] on US dollar-denominated government bonds in the six-year maturity range increased notably from 180 basis points in January 2018 to 285 basis points in December before narrowing to 253 basis points in February 2019.

Sovereign spreads*



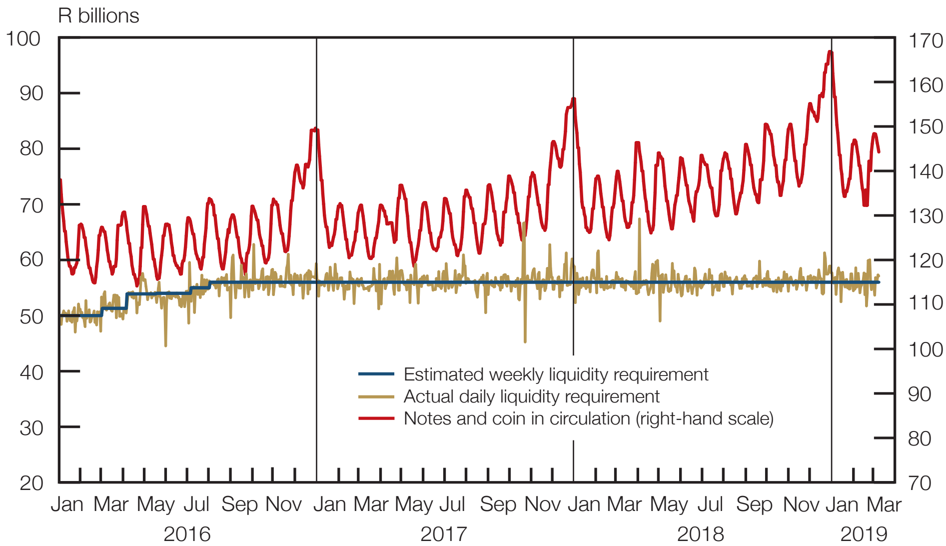
* JPMorgan Emerging Markets Bond Index Plus

Source: Bloomberg

Money market

The daily liquidity requirement of private sector banks averaged R56.3 billion in the fourth quarter of 2018, fluctuating between a low of R53.0 billion and a high of R61.3 billion. On average, the SARB maintained the money market shortage at about R56 billion per day for the whole of 2018, a level that has been purposefully maintained since September 2016. The actual daily liquidity requirement averaged R56.1 billion in both January and February 2019.

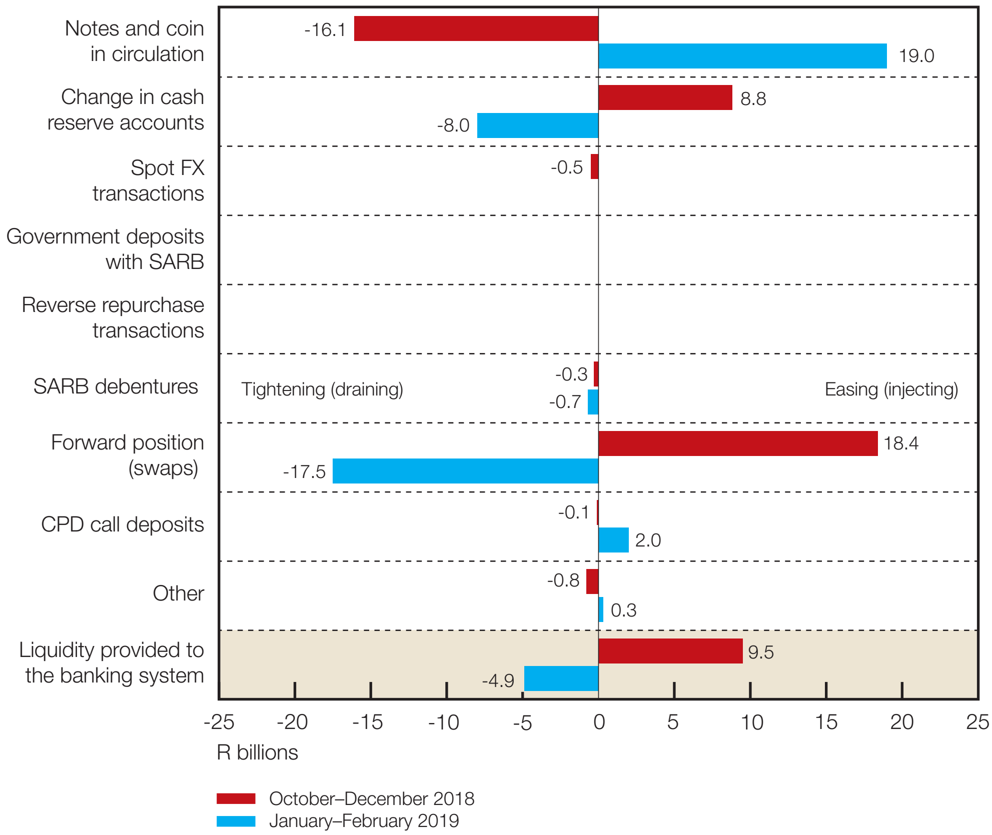
Liquidity requirement



Source: SARB

Money market liquidity expanded by a net amount of R9.5 billion in the fourth quarter of 2018, compared to a slight contraction of R0.4 billion in the third quarter. In the fourth quarter of 2018, an increase in notes and coin in circulation outside of the SARB of R16.1 billion, and a decrease of R8.8 billion in private banks' required cash reserve deposits, resulted in a contraction in liquidity of R7.3 billion. However, the contraction was more than offset by the SARB's liquidity management operations, which included FX swaps to the value of R18.4 billion. In January and February 2019, overall money market liquidity contracted by R4.9 billion following liquidity-draining forward transactions in the FX market by the SARB, which mostly served to counter the reversal of the December 2018 seasonal increase in notes and coin in circulation.

Factors influencing money market liquidity conditions



Source: SARB

Capital redemption as well as scheduled coupon interest payments on various government bonds totalling R51.6 billion were paid from the government tax and loan accounts from October 2018 to February 2019, with only R148 *million* accruing to the SARB.

Bond market

National government's net debt issuance in the *domestic primary bond market* increased from R180 billion in 2017 to R223 billion in 2018, despite the redemption of the R204 government bond of R10.0 billion in December 2018. The increase in public sector debt resulted mostly from national government's borrowing requirement while the demand for government bonds remained strong, as reflected by the oversubscription in the weekly government bond auctions at an average bid-to-cover ratio of 2.9 in 2018.

By contrast, the private sector's net bond issues declined from R51.1 billion in 2017 to only R10.5 billion in 2018 as non-financial companies and special-purpose vehicles recorded net redemptions. Net issuance of R234 billion in 2018 and R53.0 billion in the first two months of 2019 contributed to the total outstanding nominal amount of bonds in issue of R3.0 trillion at the end of February 2019.

Funding in the domestic primary bond market

R billions

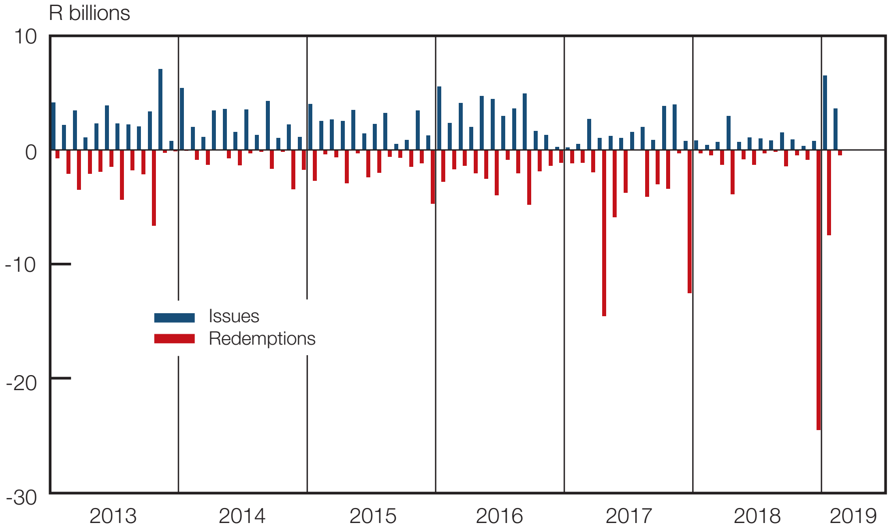
	Net issues		Nominal amount in issue	
	2017	2018	As at 31 December 2018	As at 28 February 2019
Public sector	180	223	2 426	2 463
National government	177	220	2 106	2 141
Public corporations: Financial	7	2	51	52
Non-financial	-6	3	251	252
Local governments	2	-2	18	18
Private sector	51	11	542	557
Banks	28	13	357	371
Non-bank private companies: Financial	7	1	65	66
Non-financial	14	-2	68	70
Special-purpose vehicles (securitisation)	2	-1	52	50
Non-residents	1	0	9	9
Total	232	234	2 977	3 029

Source: JSE

Both higher volumes and new record highs in the All-Bond Index supported the 9.4% increase in the daily average *value of turnover* in the secondary bond market to an all-time annual high of R122 billion in 2018. The daily average turnover of R133 billion in the first two months of 2019 was also higher than the R129 billion in the corresponding period of 2018.

The outstanding amount of rand-denominated debt in issue in the *European and Japanese bond markets* decreased due to net redemptions of R32.0 billion and R23.7 billion in 2017 and 2018 respectively. The contraction in rand-denominated debt in issue reflected sovereign credit rating concerns and volatility in the exchange value of the rand. The outstanding amount, however, increased slightly by R2.2 billion in the first two months of 2019 along with higher issuances in the European bond market.

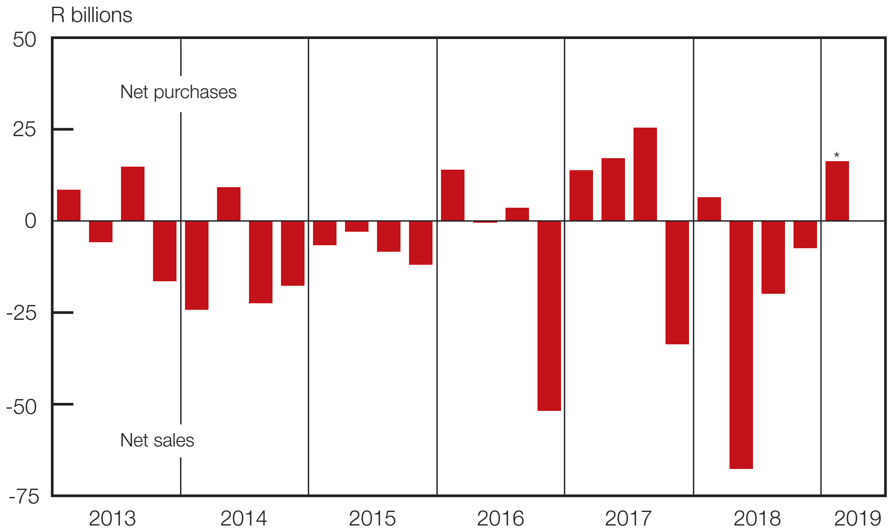
International primary markets for rand-denominated bonds



Source: Bloomberg

Non-residents' net sales of South African debt securities decreased from a sizable R67.6 billion in the second quarter of 2018 to R19.9 billion in the third quarter and to only R7.4 billion in the fourth quarter, according to JSE-reported data. Cumulative net sales of R88.5 billion in 2018 contrasted net purchases of R22.6 billion in 2017. Non-residents' net sales of bonds in the last three quarters of 2018 reflected a broad emerging market sell-off due to, among other factors, higher US interest rates and weaker emerging market currencies. The subsequent shift in foreign investor sentiment, along with an appreciation in the exchange value of the rand, global economic growth concerns and the US Federal Reserve's decision to keep interest rates unchanged in January 2019, contributed to net bond purchases of R16.3 billion in the first two months of 2019.

Non-resident net transactions in the domestic bond market



* January and February

Source: JSE

Share market

Equity capital raised by companies listed on the JSE in the domestic and international primary share markets almost halved from R101 billion in 2017 to R55.6 billion in 2018 – the lowest annual amount since 2004. The decline in capital raised reflected lower business confidence as well as a decline in the number of listed companies. The latter echoed fewer listings and more de-listings than listings. The trend in listings probably reflected the effects of more stringent regulatory and corporate governance requirements, which increased the cost of listings and of raising capital, as well as a trend towards venture capital and other sources of funding. In 2018, primary listed companies in the industrial sector contributed 41.1% to the total value of shares issued and financial companies 40.1%. The value of shares issued in the first two months of 2019 amounted to only R2.9 billion.

Number of listings on the various boards of the JSE

As at year-end	Alt^{X}	Venture and development capital boards	Main board	Total	For the year New listings	For the year De-listings
2016	60	2	326	388	18	25
2017	53	2	322	377	21	32
2018	46	2	324	372	12	17
2019*	44	2	320	366	1	7

* As at 28 February

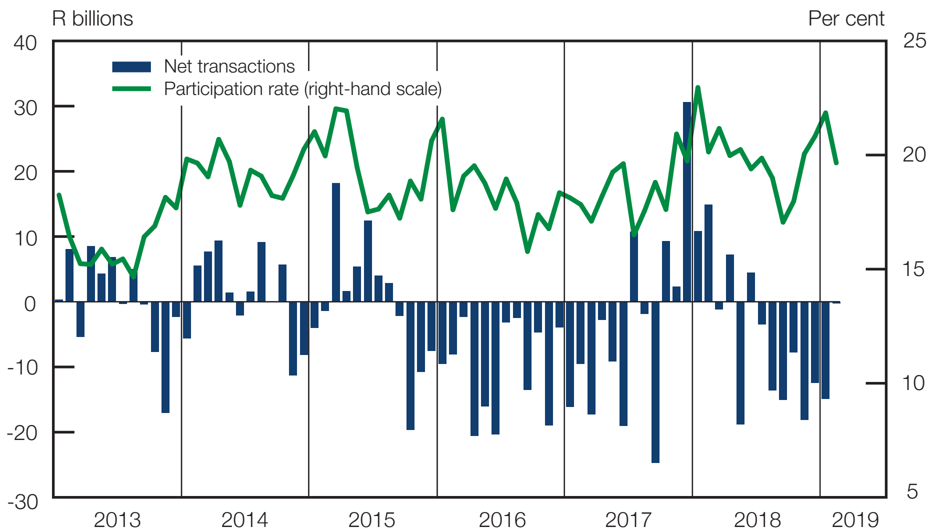
Source: JSE

The daily average *value of turnover* in the secondary share market of the JSE increased by only 0.4% to R22.2 billion in 2018, but subsequently declined to R18.0 billion in the first two months of 2019 along with lower volumes. The market capitalisation of all shares listed on the JSE of R12.7 trillion in December 2018 was 18.0% less than at the end of 2017, mostly due to lower share prices. Subsequently, the market capitalisation increased significantly to R15.7 trillion in February 2019 along with higher share prices and the conversion of some interest rate market notes to equity structured products.

Non-resident investors' net sales of JSE-listed shares of R38.4 billion in the fourth quarter of 2018 almost equalled the R39.2 billion for the second and third quarters combined, as reported by the JSE. Their cumulative net sales of R53.0 billion in 2018 was slightly more than the R47.6 billion in 2017. Negative investor sentiment persisted, with further net sales of R15.2 billion in the first two months of 2019. This reflected concerns regarding both the slower pace of global economic growth as well as continued weak domestic economic activity. Notwithstanding the persistent net sales, non-residents' participation rate[14] increased from 17.1% in September 2018 to 19.7% in February 2019.

14 This reflects the purchases and sales by non-residents as a percentage of total purchases and sales of bonds.

Non-resident participation in the domestic share market



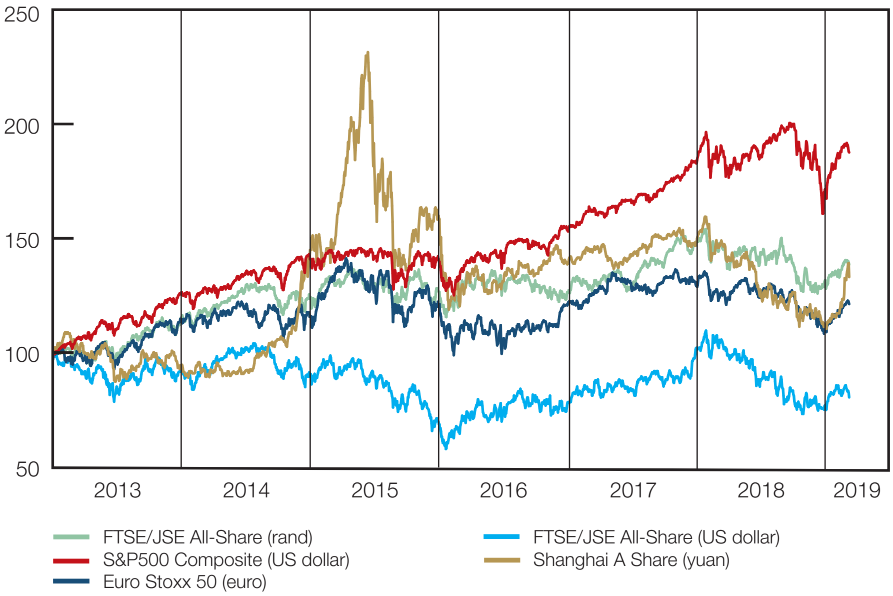
Sources: JSE and SARB

The *share prices* of companies listed on the JSE significantly underperformed in 2018 following a strong 2017. The FTSE/JSE All-Share Price Index (Alsi) fell by 11.4% in 2018 – its worst decline in a decade – and by 24.6% in US dollar terms. The prices of JSE-listed shares followed those of other international share markets lower in 2018 alongside global economic growth concerns and geopolitical issues, as also reflected in increased volatility.

The share prices of companies listed on the JSE increased noticeably in early 2019 as they tracked international share prices higher amid an improved risk outlook, optimism regarding a US-China trade deal, and the US Federal Reserve's indication that interest rates might remain unchanged for a while. The Alsi increased by 10.0% from a recent low of 50 434 index points on 10 December 2018 to 55 489 index points on 8 March 2019. Thus far in 2019, the resources sector was the best-performing sector, with an increase of 12.5% up to the end of February, in line with higher international commodity prices. The share prices of industrial and financial companies increased by only 4.2% and 3.7% respectively over the same period.

Share prices

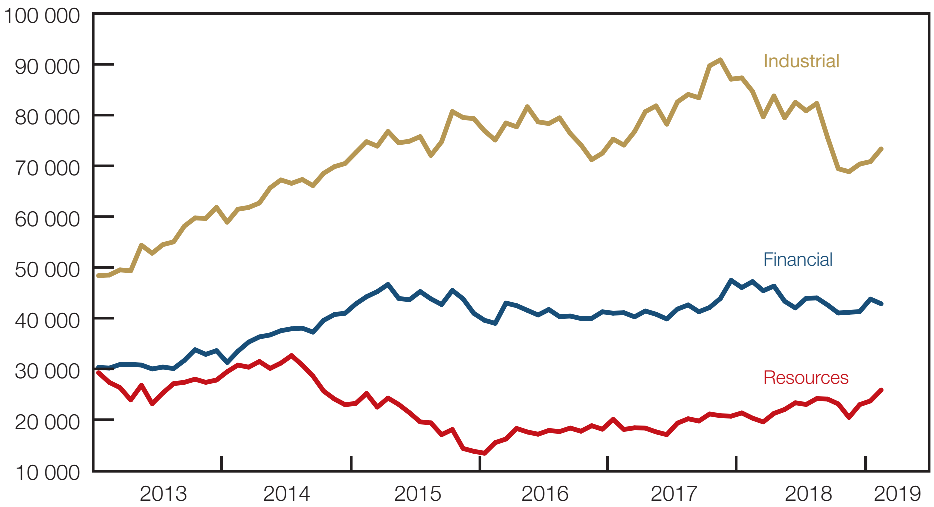
Index: 2 January 2013 = 100



Sources: IRESS, JSE and SARB

FTSE/JSE share prices

Index



Sources: IRESS and JSE

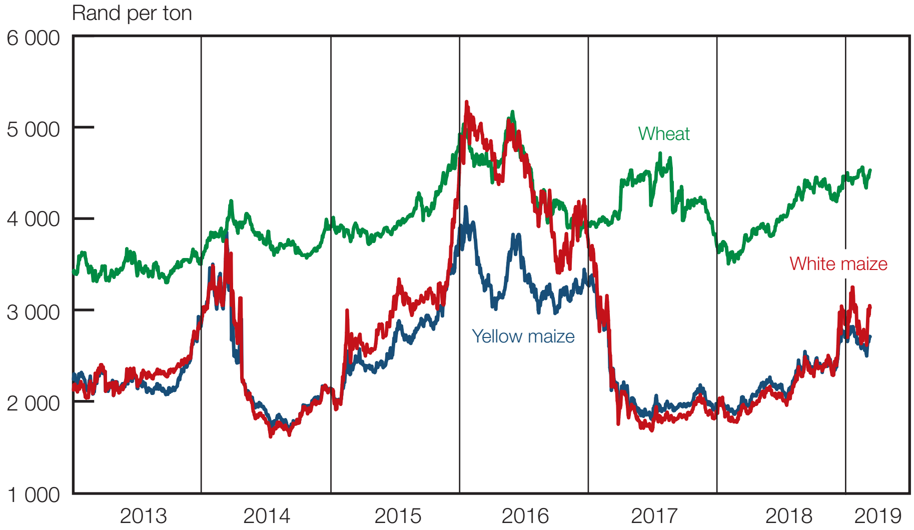
The historical *price-earnings ratio* of all classes of shares listed on the JSE declined from 25.1 in September 2018 to 18.3 in December 2018, as earnings increased by a sizable 20.9% while share prices declined. Subsequently, the price-earnings ratio increased to 19.4 in February 2019 as share prices increased.

Market for exchange-traded derivatives

The *spot prices of maize contracts* listed on the JSE Commodity Derivatives Market have increased noticeably from mid-2018. The spot price per ton of white and yellow maize increased by 54.5% and 33.8% respectively from 16 July 2018 to 8 March 2019. The increase in domestic maize prices reflected higher agricultural input costs for fuel and fertilizer following the weaker exchange value of the rand as well as higher international maize prices on account of increased global demand with the substitution of wheat with lower-cost maize for animal feed. Domestic maize prices were also affected by subdued planting due to low soil moisture levels across the maize-producing areas of South Africa. In the near term, maize prices could be affected by uncertainty regarding the size of the maize harvest and weather conditions.

Similarly, the *spot price of domestic wheat contracts* trended higher in 2018 and the first two months of 2019 alongside increased commercial buying, a depreciation in the exchange value of the rand, and higher international wheat prices. The latter was largely driven by expectations of lower global wheat supplies on account of unfavourable weather conditions, particularly in Europe, the Black Sea region, China and India, as well as a reduction in the area planted. The spot price of wheat per ton increased by 29.2% from 31 January 2018 to 8 March 2019, to the same level last seen in August 2017.

South African grain prices



Source: JSE

Turnover in equity and interest rate derivatives on the JSE was lower in 2018 than in 2017, while that in commodity and currency derivatives increased. Turnover in currency derivatives peaked several times throughout 2018, with an all-time high in September contributing to an annual increase of 12.5%. This reflected negative investor sentiment towards emerging market assets and supported increased hedging activity against adverse movements in the exchange value of the rand.

Derivatives turnover on the JSE

Type of derivative	Value (R billions)		Change over one year (per cent)	
	2018	Jan–Feb 2019	2018	Jan–Feb 2019
Equity	5 996	580	-3	-20
Warrants	1	0.2	36	13
Commodity	678	129	19	35
Interest rate	1 324	277	-3	-23
Currency	1 065	112	13	-18

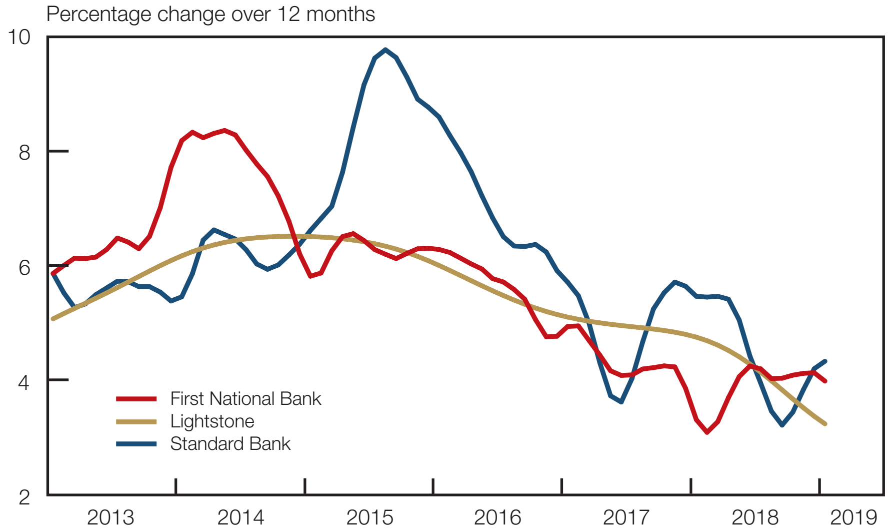
Source: JSE

Real estate market

Sustained muted growth in nominal house prices in 2018 and a further slowdown in the early months of 2019 reflected sluggish economic growth, subdued growth in households' disposable income, high unemployment, and weak residential property demand. In January 2019, the year-on-year rate of increase in nominal residential property prices varied between 3.2% and 4.3% across the different indicators. However, the average time that residential properties remained on the market declined from a recent peak of 17.6 weeks in the third quarter of 2018 to 15.3 weeks in the final quarter, and the Absa Homeowner Sentiment Index (HSI)[15] improved from 72% in the third quarter of 2018 to 77% in the fourth quarter.

15 The HSI measures consumer sentiment among South Africans with regard to the buying, selling, investing, renting and renovating of residential property, as well as property market conditions in general.

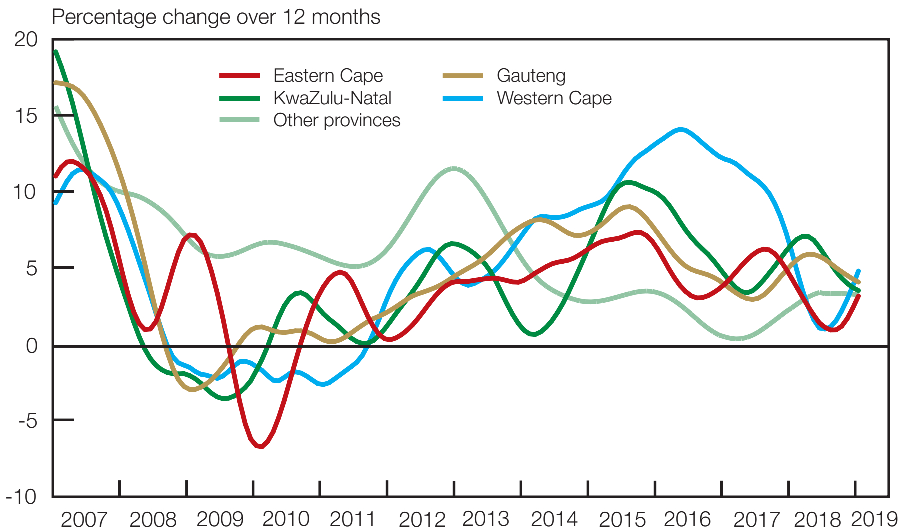
Nominal house prices



Sources: First National Bank, Lightstone and Standard Bank

According to Standard Bank, nominal house price growth in the Western Cape has slowed since mid-2016, with year-on-year growth plummeting from a high of 14.1% in May 2016 to 1.0% in July 2018 before recovering slightly as drought conditions eased. Nominal house price growth slowed notably in KwaZulu-Natal from the second quarter of 2018, and to a lesser extent in Gauteng.

Nominal house prices by province



Source: Standard Bank

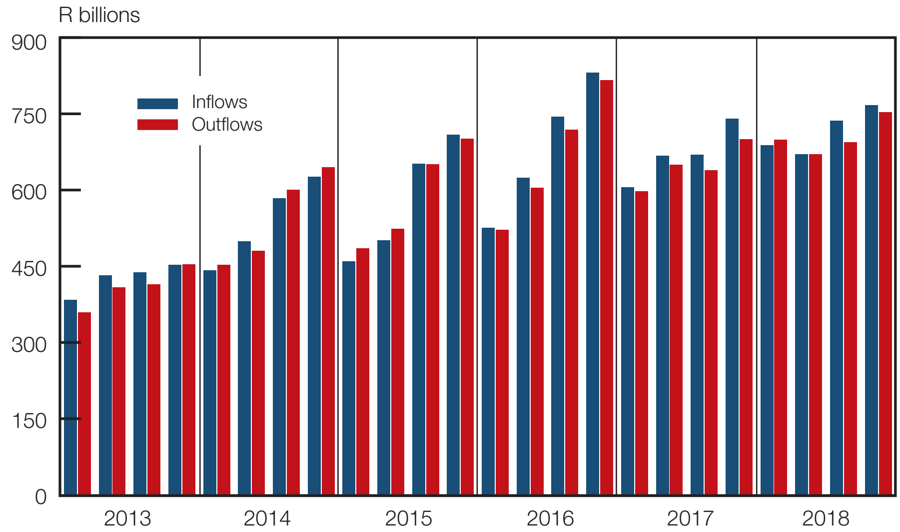
16 These consist of pension and provident funds, insurers and unit trusts.

17 These comprise contributions and premiums received and sales of units.

Non-bank financial intermediaries[16]

The weak economic environment contributed significantly to the increase of only 4.1% from the third quarter of 2018 to R767 billion in the fourth quarter in the gross inflows[17] to non-bank financial institutions. Gross inflows to insurers declined over the same period, by 2.9% to R159 billion, as premiums received from pension and group life business contracted. By contrast, gross inflows to unit trusts increased by 6.1% from the third quarter of 2018 to R565 billion in the final quarter, despite heightened financial market volatility as well as a decline in domestic share prices. Contributions to pension and provident funds increased notwithstanding weak employment growth. However, gross inflows to non-bank financial institutions still increased by 6.7% in 2018 in contrast to a decline of 1.6% in 2017. Gross inflows as a ratio of GDP increased by 1 percentage point from 2017 to 57.2% in 2018.

Gross financial flows of non-bank financial institutions



Source: SARB

18 These comprise benefits and claims paid, surrenders, repurchases of units and administrative expenses.

The gross outflows[18] from non-bank financial institutions increased by 8.5% from the third quarter of 2018 to R752 billion in the fourth quarter. Gross outflows from unit trusts increased by 14.4% to R547 billion over the same period, as the household sector withdrew R9.5 billion in the final quarter of 2018. By contrast, gross outflows from insurers decreased by 5.7% to R153 billion in the fourth quarter of 2018 following a decline in claims paid. The gross outflows from non-bank financial institutions increased by 8.9% in 2018 following a decline of 2.8% in 2017.

19 These are measured as the difference between gross inflows and gross outflows.

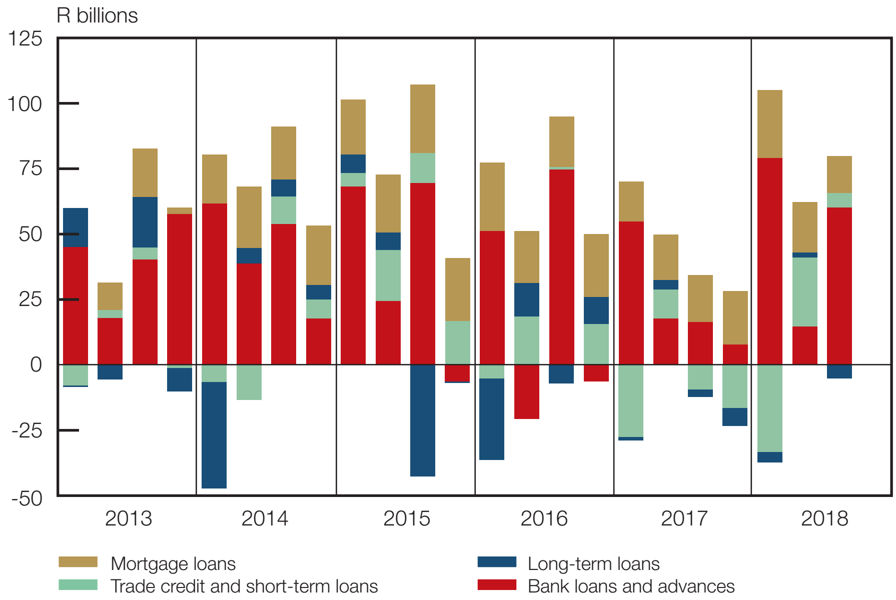
Net inflows[19] to non-bank financial institutions decreased markedly from R43.1 billion in the third quarter of 2018 to R14.2 billion in the final quarter. On an annual basis, net inflows to these institutions more than halved from R96.4 billion in 2017 to R47.0 billion in 2018 – the lowest since 2015. The decline in net inflows reflected subdued savings, and had a negative effect on investment and the financial position of non-bank financial institutions.

Flow of funds

Net lending from the *rest of the world* to South Africa increased from the second to the third quarter of 2018. Non-resident net sales of long-term government bonds of R3.4 billion in the second quarter of 2018 reverted to net purchases of R3.8 billion in the third quarter, while net purchases of shares of R17.8 billion changed to net sales of R5.1 billion over the same period. However, non-residents purchased public enterprises securities to the net amount of R20.3 billion in the third quarter of 2018. Non-residents' deposits with domestic banks declined by R29.2 billion in the third quarter of 2018 due to withdrawals, but foreign loans extended to other domestic sectors increased by R78.4 billion. Weak domestic economic growth, concerns over global trade tensions as well as heightened risk aversion reduced non-residents' appetite for emerging market assets.

Financial intermediation through loans increased in the third quarter of 2018. Total loans extended by financial intermediaries increased from R62.2 billion in the second quarter of 2018 to R74.5 billion in the third quarter, supported by private non-financial corporate business enterprises as well as central and provincial governments. Financial intermediaries' holdings of interest-bearing securities increased marginally more by R123 billion in the third quarter of 2018 compared with an increase of R122 billion in the second quarter. In addition, financial intermediaries' net purchases of shares of R47.2 billion were 59.5% less than in the second quarter. Deposits with monetary institutions increased by R119 billion in the third quarter of 2018 compared to R101 billion in the preceding quarter.

Types of credit extended by financial intermediaries

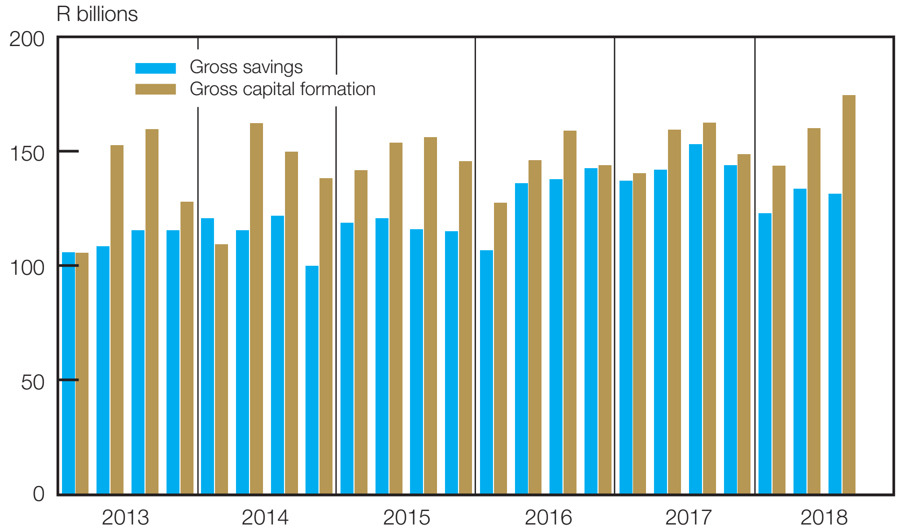


Source: SARB

The *general government sector's* net dissaving increased the net borrowing requirement from R37.0 billion in the second quarter of 2018 to R70.3 billion in the third quarter, with central and provincial government accounting for 94.9% of the deficit. General government financed the net borrowing requirement through the net issuance of Treasury bills and long-term government bonds of R6.0 billion and R61.4 billion respectively. Most of the long-term government bonds were taken up by non-bank financial institutions. General government's capital outlays of R36.3 billion in the second quarter of 2018 decreased marginally to R35.9 billion in the third quarter, due to a decrease in transport equipment. The *2018 Medium Term Budget Policy Statement (2018 MTBPS)* envisaged continued capital investment in infrastructure projects, including attempts to leverage private sector funding to resuscitate economic growth.

Public and private non-financial corporate business enterprises' gross capital formation increased to R175 billion in the third quarter of 2018 from R160 billion in the preceding quarter. The decrease in gross savings from R134 billion to R131 billion over the same period contributed to the widening of their net borrowing requirement from R25.9 billion in the second quarter of 2018 to R42.7 billion in the third quarter. Funds sourced through loans and the net issuance of interest-bearing securities were notably higher in the third quarter of 2018 at R126 billion and R58.0 billion respectively from R82.7 billion and R7.2 billion recorded in the preceding quarter.

Public and private corporate business enterprises' saving and investment



Source: SARB

Total flows of the household sector decreased in the third quarter of 2018 despite an increase in its gross savings. The sector's net lending position increased to R28.4 billion in the third quarter of 2018 from R22.7 billion in the preceding quarter. Household deposit holdings increased by R32.3 billion and interest in retirement and life funds by R39.6 billion in the third quarter of 2018. The household sector also continued to acquire funding through mortgage loans of R9.5 billion and bank loans and advances of R11.0 billion in the third quarter of 2018. Households financed spending as rising inflation, caused mainly by surging fuel prices, eroded income.

Public finance[20]

Non-financial public sector borrowing requirement[21]

The preliminary *non-financial public sector borrowing requirement* of R130 billion in the first nine months of fiscal 2018/19 (April–December 2018) was R55.8 billion less than in the same period a year earlier. The smaller borrowing requirement could solely be attributed to the lower deficit of consolidated general government with national government's smaller deficit and the larger surpluses of all the other tiers of consolidated general government. By contrast, the cash deficit of non-financial public enterprises and corporations, or state-owned companies (SOCs), increased over the period.

Non-financial public sector borrowing requirement

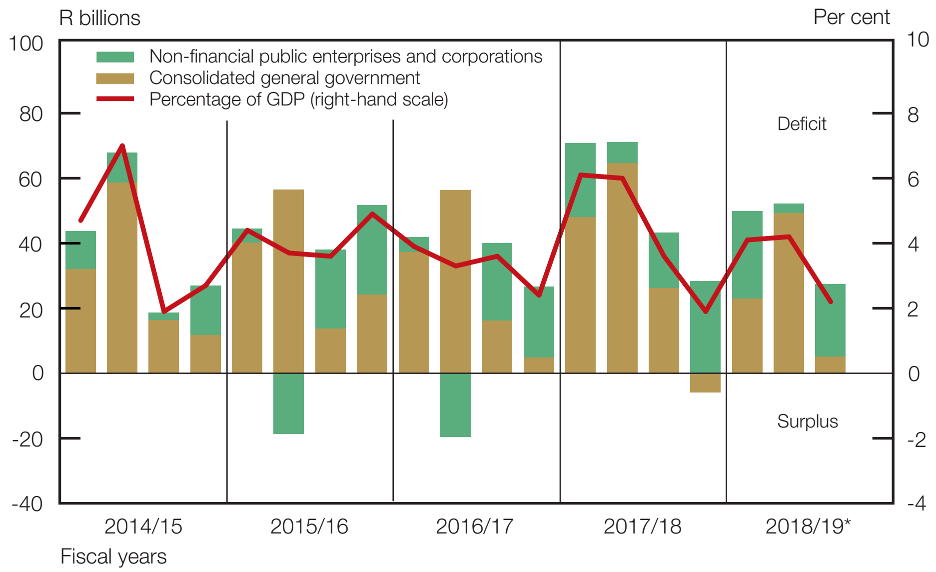
R billions

Level of government	Apr–Dec 2017*	Apr–Dec 2018*
Consolidated general government	139.0	77.5
National government	175.3	145.3
Extra-budgetary institutions	-6.5	-13.5
Social security funds	-10.1	-18.9
Provincial governments	-0.2	-5.2
Local governments	-19.6	-29.9
Non-financial public enterprises and corporations	46.3	52.0
Total**	**185.3**	**129.5**
As a percentage of gross domestic product	*5.2*	*3.5*

* Deficit + surplus –
** Components may not add up to totals due to rounding off.
Sources: National Treasury, Stats SA and SARB

The non-financial public sector borrowing requirement as a ratio of GDP decreased from 5.2% in April–December 2017 to 3.5% in April–December 2018.

Non-financial public sector borrowing requirement



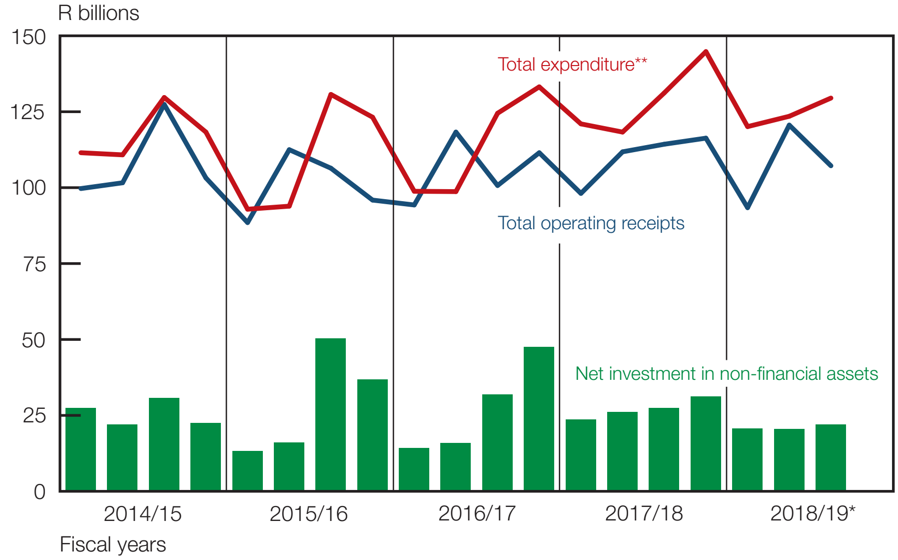
* April–December 2018
Sources: National Treasury, Stats SA and SARB

20 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–December 2018 to April–December 2017. Data for fiscal 2017/18 are unaudited and preliminary.

21 The non-financial public sector borrowing requirement is calculated as the cash deficit/surplus of the consolidated general government as well as non-financial public enterprises and corporations.

The cash deficit of non-financial SOCs increased by R5.7 billion to R52.0 billion in April–December 2018 from the same period a year earlier. The larger cash deficit resulted from lower cash receipts from operating activities and increased expenditure. Total expenditure increased on account of higher cash payments for operating activities, while net investment in non-financial assets declined as major capital programmes by SOCs approached completion and new capital investment projects were constrained by funding challenges.

Financial activities of non-financial public enterprises and corporations



* April–December 2018
** Including both operating cash payments and net investment in non-financial assets
Source: SARB

The deteriorating financial position of several major SOCs poses a potential risk to the domestic economy and fiscal sustainability over the medium term. The *2019 Budget Review* reaffirmed government's commitment to reform SOCs and to restore governance, operational efficiency and financial controls.

Budget comparable analysis of national government finance

National government finances improved somewhat in the first nine months of fiscal 2018/19 to a cash book deficit of R163 billion, which was R21.4 billion less than in April–December 2017. This was brought about by faster growth in revenue, which outpaced slower growth in expenditure. The deficit continued to be largely financed through the issuance of debt securities in the domestic capital market, and resulted in a 12.0% year-on-year increase in gross loan debt up to the end of December 2018.

National government finances in fiscal 2018/19

	Actual Apr–Dec 2017		Actual Apr–Dec 2018		Originally budgeted[1] Full 2018/19	
	R billions	Percentage change[2]	R billions	Percentage change[2]	R billions	Percentage change[2]
Revenue	853	5.1	923	8.2	1 321	10.7
Expenditure	1 038	8.0	1 086	4.6	1 512	7.6
Cash book deficit	185		163		191	
Primary balance[3]	-80.0		-47.9		-10.9	
Gross loan debt[4]	**2 467**	**10.0**	**2 764**	**12.0**	**2 771**	**11.3**

1 *2018 Budget Review*
2 Year-on-year percentage change
3 The cash book deficit/surplus excluding interest
4 As at 31 December for actual values

Sources: National Treasury and SARS

National government revenue increased at a faster year-on-year pace of 8.2% to R923 billion in April–December 2018 compared to the 5.1% increase in April–December 2017. However, revenue was still R26.8 billion less than the monthly budgeted estimates in the 2018 Budget due to, among other factors, higher-than-expected tax refunds as the backlog was reduced. As a ratio of GDP, revenue was 24.8% in the first nine months of fiscal 2018/19 – higher than the 24.1% in the same period of the previous fiscal year. Following the technical recession in the first half of 2018, the original projected revenue of R1 321 billion was revised lower to R1 298 billion in the *2018 Medium Term Budget Policy Statement (2018 MTBPS).*

National government revenue in fiscal 2018/19[1]

Revenue source	Originally budgeted Full 2018/19		Actual Apr–Dec 2018	
	R billions	Percentage change[2]	R billions	Percentage change[2]
Taxes on income, profits and capital gains	773.0	8.6	531.3	5.1
Of which: Income tax on individuals	507.3	9.6	348.2	7.6
Income tax on companies	234.1	6.3	160.1	-0.7
Payroll taxes	16.9	5.7	12.8	10.8
Taxes on property	17.3	4.4	11.4	-3.4
Taxes on goods and services	484.6	14.8	340.2	11.4
Of which: Value-added tax (VAT) net	348.1	16.8	242.1	12.4
Domestic	378.6	12.6	282.4	13.0
Import	169.5	10.9	124.1	15.0
Refunds	-200.0	4.7	-164.5	15.5
General fuel levy	77.5	9.2	56.0	6.5
Excise duties	46.5	13.1	33.1	16.1
Taxes on international trade and transactions	54.1	8.2	40.0	13.6
Of which: Import duties	46.3	-5.8	39.4	13.8
Other revenue[3]	23.6	-24.2	23.5	-9.3
Less: SACU[4] payments	48.3	-13.7	36.2	-13.7
Total revenue	1 321.1	10.7	923.1	8.2

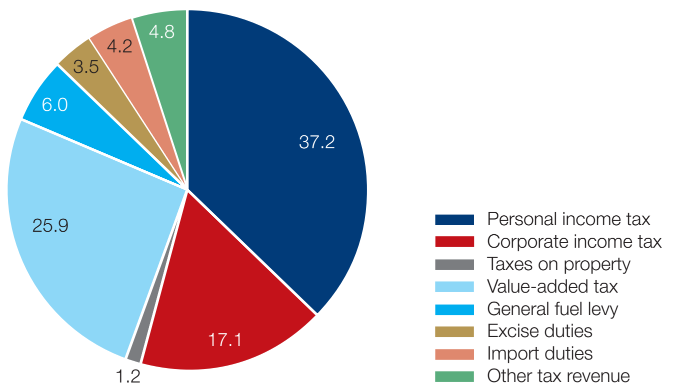
1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.
2 Fiscal 2018/19 compared to fiscal 2017/18
3 Including non-tax revenue and extraordinary receipts
4 Southern African Customs Union

Sources: National Treasury and SARS

Taxes on income, profits and capital gains increased by 5.1% year on year to R531 billion (57.6% of total revenue) in April–December 2018, as personal income tax increased by 7.6% amid higher pay-as-you-earn collections from mostly the financial intermediation, manufacturing and mining sectors. Over the same period, corporate income tax collections decreased by 0.7% year on year to only R160 billion, which was well below the monthly budgeted projections due to lower provisional payments and higher refunds following the finalisation of company audits. The *2018 Budget Review* projected an annual increase of 8.6% for fiscal 2018/19 to R773 billion in taxes on income, profits and capital gains.

Composition of national government tax revenue, April–December 2018

Per cent



Source: SARS

The collections from taxes on goods and services of R340 billion (36.9% of total revenue) in April–December 2018 were R34.8 billion more than in the same period of the previous fiscal year. The increase was mainly driven by value-added tax (VAT) and excise duties, which increased by 12.4% and 16.1% respectively, notwithstanding a marked increase in VAT refunds. VAT collections were boosted by the 1 percentage point increase in the VAT rate to 15%, effective from 1 April 2018.

The revenue from taxes on international trade and transactions was R40.0 billion (4.3% of total revenue) in the first nine months of fiscal 2018/19, 13.6% more than in the same period of the previous fiscal year. The increase was mainly due to more imports of electrical components, machinery as well as vehicles and merchandise.

Non-tax revenue, including extraordinary receipts, declined by 9.3% year on year to R23.5 billion in April–December 2018 as revaluation proceeds from foreign-currency transactions decreased. The 2018 Budget allocated R48.3 billion to the Southern African Customs Union for fiscal 2018/19 as a whole, with R36.2 billion already transferred in three equal payments in April, July and October 2018.

National government's expenditure of R1 086 billion in April–December 2018 was 4.6% more than in the same period a year earlier due to higher interest payments on government debt, higher equitable share transfers to provinces, and higher transfers and subsidies. The February 2018 budget projected an annual increase of 7.6% in total expenditure to R1 512 billion in fiscal 2018/19. As a ratio of GDP, expenditure was 29.2% in the first nine months of fiscal 2018/19 – slightly lower than the 29.3% in the same period of the previous fiscal year.

National government expenditure in fiscal 2018/19*

Expenditure item	Originally budgeted Full 2018/19		Actual Apr–Dec 2018	
	R billions	Percentage change**	R billions	Percentage change**
Voted expenditure	814.5	6.0	594.3	2.5
Of which: Transfers and subsidies	569.7	9.4	417.8	5.4
Current payments	226.1	5.0	163.7	4.8
Payments for capital assets	14.3	1.6	8.6	-5.6
Statutory amounts*	697.7	9.7	491.9	7.3
Of which: Provincial equitable share	470.3	6.6	352.7	6.6
Interest on debt	180.0	10.7	115.2	10.1
General fuel levy	12.5	5.8	8.3	5.8
Total expenditure	**1 512.2**	**7.6**	**1 086.2**	**4.6**

* Components may not add up to totals due to rounding off and the exclusion of unclassified items.
** Fiscal 2018/19 compared to fiscal 2017/18. Note that the numbers might differ from previous editions of the *Quarterly Bulletin* due to the audited outcome of fiscal 2017/18.
*** Including extraordinary payments

Source: National Treasury

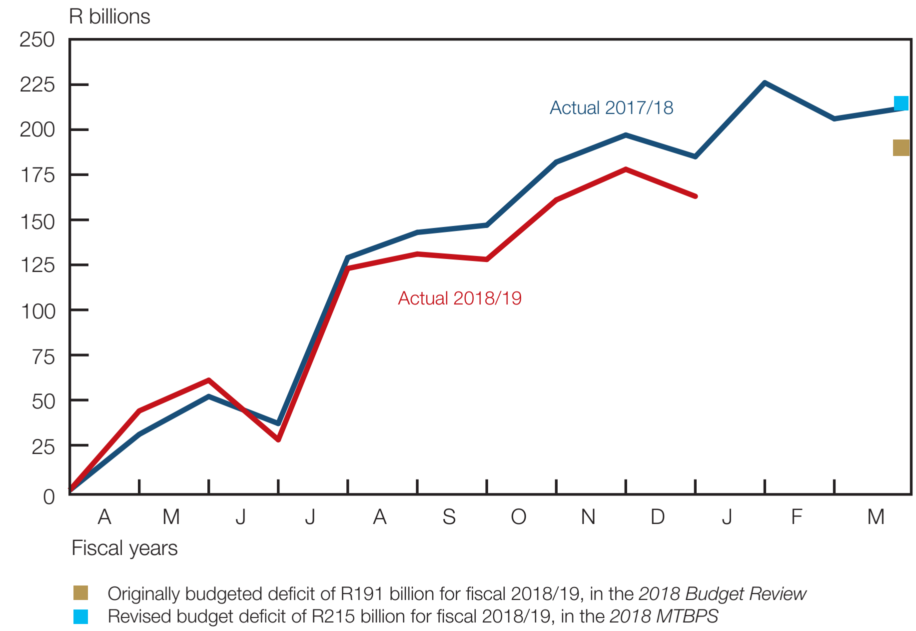
Total voted expenditure by national government departments – which comprises transfers and subsidies, current payments, as well as payments for capital and financial assets – amounted to R594 billion (54.7% of total expenditure) in April–December 2018. Transfers and subsidies, together with current payments, accounted for almost 98% of total voted expenditure. Transfers and subsidies came to 5.4% more than a year earlier at R418 billion and mainly represented increased transfers to the Departments of Social Development, Education, Cooperative Governance and Traditional Affairs, Transport, and Health. Payments for financial assets included a R4.2 billion capital injection for the National Development Bank.

Interest paid on national government debt (debt-service cost) increased by 10.1% year on year to R115 billion in April–December 2018. Debt-service cost represented 10.6% of total expenditure and remained the fastest-growing spending category, driven by the increasing stock of debt. For fiscal 2018/19 as a whole, the R180 billion (11.9% of total expenditure) originally budgeted for interest payments on debt was revised slightly upward by R1 billion in the *2018 MTBPS*.

Equitable share transfers to provinces increased by 6.6% year on year to R353 billion in April–December 2018, in step with the originally budgeted increase. In addition, R12.5 billion was allocated to metropolitan municipalities as their share of the general fuel levy in fiscal 2018/19, with two of three equal instalments already transferred in August and December 2018.

National government revenue and expenditure generated a cumulative cash book deficit of R163 billion in April–December 2018, which was R21.4 billion less than in the same period of the previous fiscal year. This was less than both the originally estimated cash book deficit of R191 billion (3.8% of GDP) for fiscal 2018/19 in the *2018 Budget Review* and the revised R215 billion in the *2018 MTBPS*.

Cumulative deficit of national government



Sources: National Treasury, SARS and SARB

22 The cash book deficit/surplus excluding interest payments.

The primary balance[22] of national government narrowed to a deficit of R47.9 billion in April–December 2018 compared to R80.0 billion in the same period a year earlier. As a ratio of GDP, the primary deficit was 1.3% in the first nine months of fiscal 2018/19, lower than the 2.3% in the corresponding period of the previous fiscal year. The 2018 Budget projected a primary deficit of R10.9 billion (0.2% of GDP) for fiscal 2018/19, which was revised higher to R34.1 billion (0.7% of GDP) in the *2018 MTBPS.*

National government financing

R billions

Item or instrument	Actual Apr–Dec 2017	Actual Apr–Dec 2018	Originally budgeted[1] Full 2018/19
Cash book deficit	184.6	163.1	191.1
Cash flow deficit[2]	203.8	196.1	...
Plus: Cost/profit on revaluation of foreign debt at redemption[3]	2.1	0.8	0.8
Accrual adjustments	48.0	62.1	...
Net borrowing requirement	157.9	134.8	191.9
Treasury bills and short-term loans[4]	67.1	46.2	14.2
Domestic government bonds[4]	99.0	94.0	159.9
Foreign bonds and loans[4]	31.9	24.0	36.8
Change in available cash balances[5]	-40.0	-29.4	-19.0
Total net financing[6]	157.9	134.8	191.9

1 *2018 Budget Review*
2 The cash flow deficit includes extraordinary receipts and payments, and differs from the cash book deficit.
3 Cost + profit –
4 Net issuance + net redemption –
5 Increase – decrease +
6 Components may not add up to totals due to rounding off.
... Not available

Sources: National Treasury and SARB

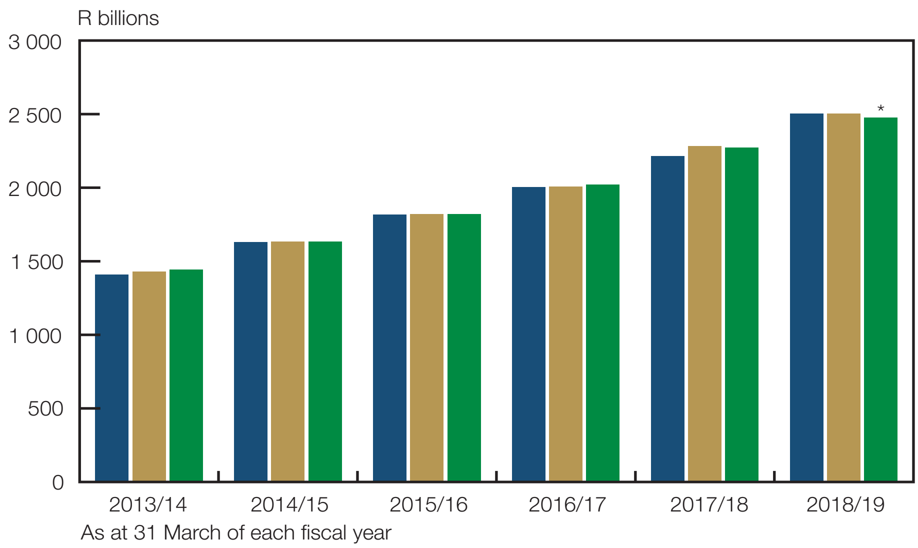
The cash flow deficit of national government narrowed by R7.6 billion to R196 billion in April–December 2018 compared with the same period a year ago. After accounting for the cost on the revaluation of foreign debt at redemption as well as accrual adjustments, the net borrowing requirement was R135 billion, or R23.1 billion less compared to a year earlier.

National government's net borrowing requirement was financed primarily in the domestic capital market through the net issuance of domestic government bonds to the value of R94.0 billion in the first nine months of fiscal 2018/19, compared with R99.0 billion in the same period of the previous fiscal year. The net issuance of Treasury bills and short-term loans from the Corporation for Public Deposits (CPD) of R46.2 billion in April–December 2018 was R20.8 billion less than in April–December 2017. The net issuance of foreign bonds and loans of R24.0 billion in April–December 2018 was R7.9 billion less than in April–December 2017. The funding activities of national government increased its overall available cash balances by R29.4 billion in April–December 2018.

National government's gross loan debt (domestic and foreign currency-denominated) of R2 764 billion as at 31 December 2018 was R274 billion more than as at 31 March 2018. Both domestic debt, which accounted for 89.5% of gross loan debt, and foreign currency-denominated debt increased over the period. As a percentage of GDP, gross loan debt increased from 53.0% as at 31 March 2018 to 56.7% as at 31 December 2018. The *2018 Budget Review*'s estimate of gross loan debt of R2 771 billion (55.1% of GDP) at the end of fiscal 2018/19 was revised higher to R2 818 billion (55.8% of GDP) in the *2018 MTBPS*. Fluctuations in inflation, interest rates and exchange rates since the 2018 Budget affected government debt, with the depreciation in the exchange value of the rand accounting for about 70% of the R47.6 billion upward revision to gross loan debt.

National government's gross domestic debt (marketable and non-marketable) of R2 475 billion as at 31 December 2018 was R203 billion more than as at 31 March 2018, as the net issuance of domestic marketable debt (bonds and Treasury bills) increased notably. Domestic marketable debt of R2 420 billion as at 31 December 2018 followed net issuance of R177 billion in the first nine months of fiscal 2018/19. Government redeemed the 14-year R204 fixed-rate bond to the value of R10.0 billion on 12 December 2018. Domestic non-marketable debt of R55.0 billion as at 31 December 2018 was R26.0 billion more than as at 31 March 2018 on account of increased borrowing from the CPD.

Domestic debt of national government



* As at 31 December 2018

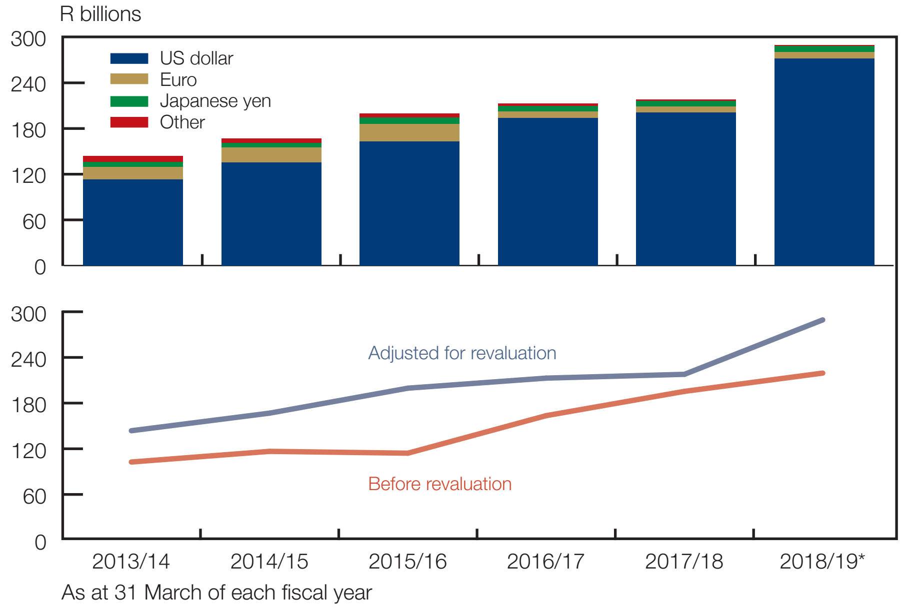
Original estimates: Budget review
Revised estimates: MTBPS
Actual

Source: National Treasury

The foreign currency-denominated debt of national government (marketable and non-marketable) of R289 billion as at 31 December 2018 was R71.5 billion more than as at 31 March 2018. This increase largely reflected exchange rate revaluation effects of a weaker rand on a trade-weighted basis. Almost all of national government's foreign currency-denominated debt consisted of marketable debt as at the end of December 2018.

National government's foreign currency-denominated debt of R219 billion before accounting for revaluation effects as at 31 December 2018 was R70.0 billion less than the R289 billion after adjusting for exchange rate movements. As at 31 December 2018, national government's foreign currency-denominated debt was mostly denominated in US dollars (93.9%). The average outstanding maturity of foreign marketable bonds remained unchanged at 132 months from 31 March 2018 to 31 December 2018.

Foreign currency-denominated debt of national government



* As at 31 December 2018

Sources: National Treasury and SARB

Box 5 The *2019 Budget Review*

Following the weakening of the economic outlook since the *2018 Medium Term Budget Policy Statement (2018 MTBPS)* and in light of the long-term risks to South Africa's public finances, the 2019 Budget charted some economic and fiscal measures to address these issues. These interventions focus on growth-enhancing reforms, sustaining real growth in priority expenditures, narrowing the budget deficit, stabilising debt, restructuring the electricity sector, and rebuilding public sector institutions.

Macroeconomic projections*

Percentage

	2016	2017	2018			2019	2020	2021
	Outcome		2018 Budget	*2018 MTBPS*	2019 Budget	Medium-term estimates**		
Real GDP growth	0.6	1.3	1.5	0.7	0.7	1.5	1.7	2.1
Consumer price inflation	6.3	5.3	5.3	4.9	4.7	5.2	5.4	5.4
Current account balance as a percentage of GDP	*-2.8*	*-2.4*	*-2.3*	*-3.2*	*-3.5*	*-3.4*	*-3.8*	*-4.0*

* Calendar years
** *2019 Budget Review*

Source: National Treasury

Projected real gross domestic product (GDP) growth for 2018 remained unchanged at 0.7% from the *2018 MTBPS* projection and was significantly lower than the 1.5% expected in the February 2018 budget. The deterioration in the economic growth outlook was evident from the downward revision in real GDP growth to 1.5% in 2019 (from 1.7% in the *2018 MTBPS)*, which was only expected to improve moderately to 2.1% in 2021 (compared to 2.3% in the *2018 MTBPS)*.

The weaker-than-expected economic performance, tax administration issues and an increase in value-added tax (VAT) refunds have all contributed to large revenue shortfalls and a deterioration in the revenue outlook since the *2018 MTBPS*. Tax revenue was expected to underperform by R15.4 billion in fiscal 2018/19 relative to the *2018 MTBPS*. The fiscal environment is further challenged by increased funding requests from state-owned companies (SOCs). The 2019 Budget proposed changes to the fiscal framework through tax and expenditure measures to narrow the budget deficit and stabilise debt.

The tax proposals of the 2019 Budget are expected to raise an additional R15 billion in fiscal 2019/20 and a further R10 billion in fiscal 2020/21. The main tax proposals for 2019/20 are:

- *Tax-free threshold:* A marginal increase in the tax-free threshold for personal income tax (PIT) has been proposed, from R78 150 to R79 000 per annum, and for the first time since the early 1990s, no changes to PIT brackets have been put forward.
- *Fuel taxes*: An increase of 15 cents per litre in the general fuel levy and of 5 cents per litre in the Road Accident Fund levy, effective from 1 April 2019, has been proposed, as well as a carbon tax of 9 cents per litre, effective from 1 June 2019.
- *Excise duties*: Increases of between 7.4% and 9.0% on alcohol and tobacco products have been put forward.
- *Additional zero-rating for VAT*: The extended list includes white bread flour, cake flour and sanitary pads, effective from 1 April 2019.
- *Employment tax incentive*: An increase in the eligible income bands has been proposed.

Overall, these tax proposals should bring the total consolidated revenue to R1.6 trillion in fiscal 2019/20.

Growth in real non-interest expenditure was expected to average 2.0% per annum over the medium term. The 2019 Budget proposed new allocations of R75.3 billion over the next three years, including R69.0 billion for the reconfiguration of Eskom. These increases were partially offset by reductions in medium-term baselines of R50.3 billion, mainly for national and provincial governments, as well as a decrease of R2.0 billion over three years in the contingency reserve.

Consolidated government spending was expected to grow from R1.7 trillion in 2018/19 to R2.1 trillion in 2021/22. The compensation of employees remained the largest spending category, accounting for an average of 34.4% of allocated expenditure over the three years. However, the 2019 Budget introduced measures to contain growth in the wage bill and to reduce compensation by R27.0 billion over the medium term.

Consolidated fiscal framework indicators*

R billions/percentage of GDP

	2016/17	2017/18	2018/19			2019/20	2020/21	2021/22
	Outcome		2019 Budget	*2018 MTBPS*	2019 Budget	Medium-term estimates**		
Total consolidated revenue	1 286	1 354	1 491	1 467	1 455	1 584	1 696	1 837
Percentage of GDP	*29.1*	*28.7*	*29.7*	*29.1*	*28.8*	*29.3*	*29.2*	*29.4*
Total consolidated expenditure	1 443	1 544	1 671	1 669	1 665	1 827	1 949	2 089
Percentage of GDP	*32.7*	*32.7*	*33.3*	*33.1*	*32.9*	*33.7*	*33.5*	*33.4*
Consolidated primary balance	-2.6	-20.5	7.3	...	-21.5	-33.3	-19.9	3.5
Percentage of GDP	*-0.1*	*-0.4*	*0.1*	...	*-0.4*	*-0.6*	*-0.3*	*0.1*
Consolidated budget deficit	-157.0	-190.3	-180.5	-202.0	-210.2	-242.7	-252.6	-252.4
Percentage of GDP	*-3.6*	*-4.0*	*-3.6*	*-4.0*	*-4.2*	*-4.5*	*-4.3*	*-4.0*
Gross loan debt***	2 233	2 490	2 771	2 818	2 814	3 043	3 358	3 684
Percentage of GDP	*50.6*	*52.7*	*55.1*	*55.8*	*55.6*	*56.2*	*57.8*	*58.9*
Net loan debt***	2 008	2 260	2 527	2 546	2 522	2 829	3 147	3 471
Percentage of GDP	*45.5*	*47.9*	*50.3*	*50.5*	*49.9*	*52.3*	*54.1*	*55.5*

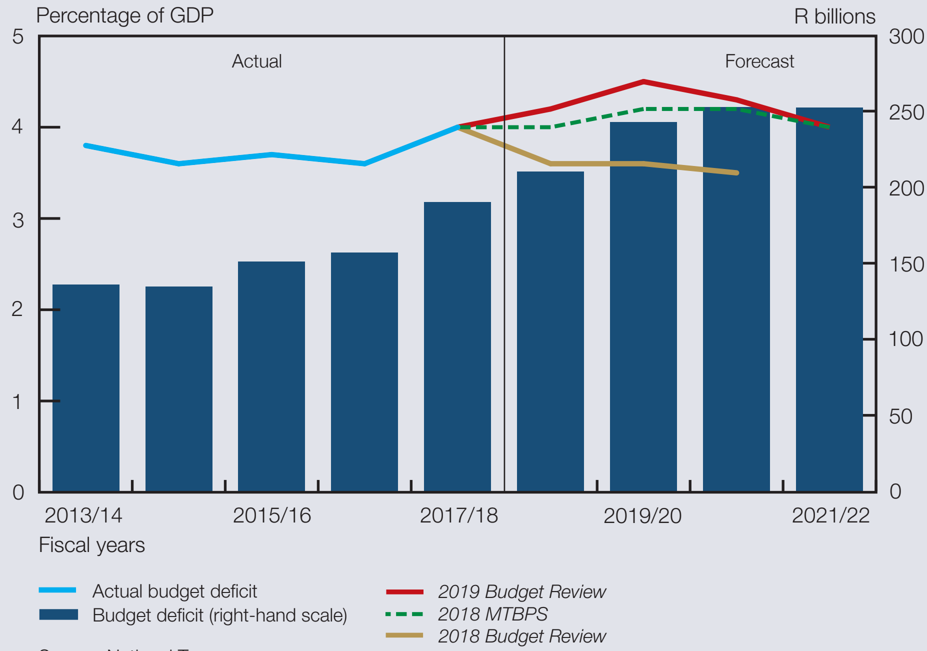
* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as extra-budgetary institutions, social security funds and selected public entities.
** *2019 Budget Review*
*** Refers to national government or main budget
... Not available

Source: National Treasury

Public employment programmes will receive R61.4 billion over the medium term. From April 2009 to March 2018, more than 4 million job opportunities of varying duration were created by the Expanded Public Works Programme, and the aim is to create another 2 million job opportunities by the end of 2020/21. Debt-service cost was revised higher by R2.1 billion to R182 billion in fiscal 2018/19 due to the larger borrowing requirement and the increasing stock of government debt, and is expected to increase to R247 billion in 2021/22.

The revised revenue and expenditure projections increased the consolidated budget deficit from 3.6% of GDP in fiscal 2016/17 to 4.2% of GDP in fiscal 2018/19 before narrowing to 4.0% of GDP in 2021/22. The primary balance (the cash book deficit/surplus excluding interest payments) of consolidated government is now expected to switch from a deficit to a surplus only in fiscal 2021/22.

Consolidated government budget deficit



Source: National Treasury

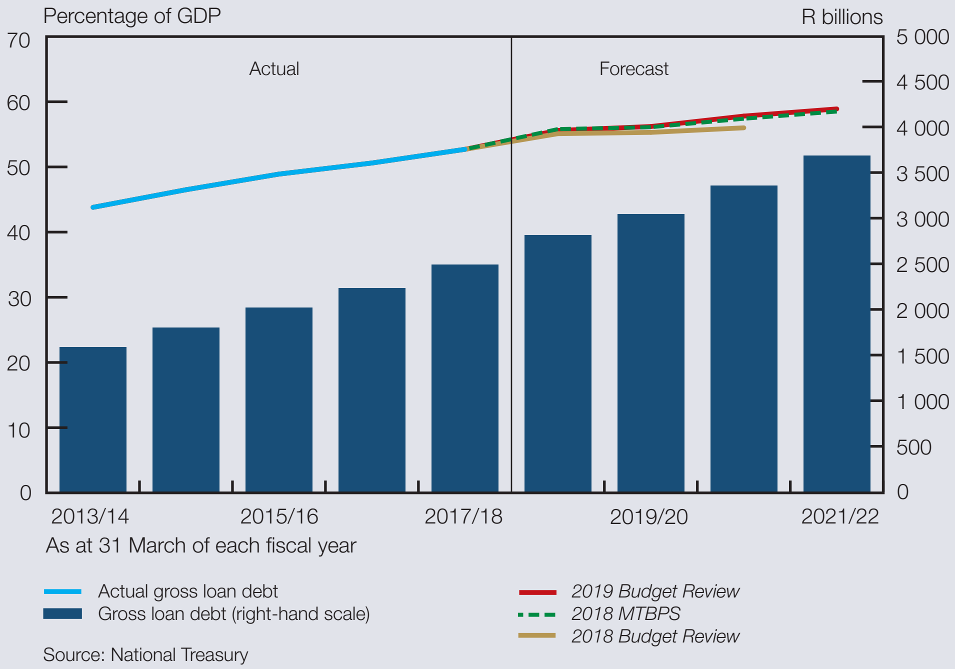
In fiscal 2018/19, the larger budget deficit increased government's net borrowing requirement by R15.3 billion to R240 billion, and this is expected to increase further to R335 billion in fiscal 2019/20. The borrowing requirement will mostly be funded through the net issuance of government bonds in the domestic capital markets. Net foreign bond issuance and loans was also revised higher to R54.2 billion in fiscal 2018/19, and is expected to decline to R28.5 billion in 2019/20 before increasing to R43.6 billion in fiscal 2021/22.

Gross loan debt of national government was projected to increase to R2.8 trillion (55.6% of GDP) at the end of fiscal 2018/19, and is expected to stabilise at 60.2% of GDP in 2023/24.

Government's total contingent liability (including guarantees to SOCs, independent power producers and public-private partnerships) was projected to increase to R880 billion in fiscal 2018/19 and to R1.0 trillion in fiscal 2021/22.

Significant risks to the fiscal outlook include uncertainty regarding the outlook for economic growth and the revenue forecast, the contingent liabilities of SOCs, and the public sector wage bill.

National government gross loan debt



Source: National Treasury