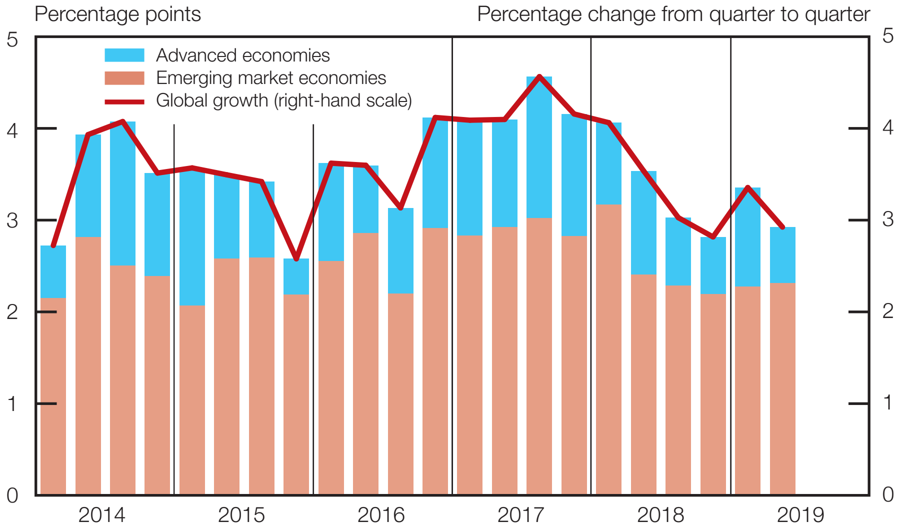
International economic developments

Global economic growth decelerated from an annualised rate of 3.4% in the first quarter of 2019 to 2.9% in the second quarter. The slowdown in real global output growth mainly reflected weaker economic activity in the major advanced economies, in particular the United States (US), the United Kingdom (UK) and the euro area, as well as in China and India. By contrast, growth in real gross domestic product (GDP) improved in emerging Europe and Latin America.

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



Seasonally adjusted annualised rates

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

Real output growth in the US decelerated from 3.1% in the first quarter of 2019 to 2.0% in the second quarter, with lower inventory holdings weighing on growth. Non-residential fixed investment also contracted and exports slumped as higher trade tariffs and slowing global demand adversely affected manufacturers.

Real output growth in selected advanced economies

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

	2017			2018					2019	
Country/region	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*	Q1	Q2
United States................	3.2	3.5	2.4	2.6	3.5	2.9	1.1	2.9	3.1	2.0
Japan...........................	2.9	1.3	1.9	-0.6	1.9	-1.9	1.8	0.8	2.2	1.3
Euro area......................	3.2	3.1	2.5	1.3	1.5	0.8	1.2	1.9	1.7	0.8
United Kingdom	2.1	1.6	1.8	0.2	1.6	2.8	0.9	1.4	2.0	-0.8
Canada	1.3	1.7	3.0	1.5	2.5	2.1	0.3	1.9	0.5	3.7
Australia	3.3	2.2	2.5	4.1	2.8	1.2	0.6	2.7	2.1	1.9
New Zealand	3.4	3.5	3.1	2.1	3.8	1.5	2.5	2.8	2.2	<u>2.3</u>
Advanced economies...	3.2	2.8	2.4	1.9	2.4	1.6	1.3	2.3	2.3	<u>1.5</u>

* Percentage change over one year
Underlined numbers indicate projections.

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

Real GDP growth in the euro area slowed markedly, from 1.7% in the first quarter of 2019 to 0.8% in the second quarter, following weak performances in large member states, such as Germany and Italy. The German economy contracted by 0.3% in the second quarter of 2019, largely due to lower industrial and automotive exports. Meanwhile, real economic growth in Italy slowed to a near standstill of 0.1% in the second quarter as global trade tensions affected industrial production.

In the UK, an unexpected contraction of 0.8% in the second quarter of 2019 followed growth of 2.0% in the first quarter. The decline was mainly due to a reduction in real inventory holdings, following an accumulation over a number of quarters ahead of the original March 2019 Brexit deadline. However, with the deadline postponed to 31 October at the earliest, businesses drew down on inventories in the second quarter. In addition, business investment and exports also detracted from real GDP growth.

Japanese real output growth decelerated from 2.2% in the first quarter of 2019 to 1.3% in the second quarter. The slowdown was largely due to higher imports on account of the stronger yen as well as a decrease in inventory holdings. A second consecutive quarterly decrease in Japanese exports most likely reflected the effect of the US–China trade tensions and weaker global demand.

Real economic growth in emerging economies accelerated marginally to 4.3% in the second quarter of 2019, from 4.2% in the previous quarter. The improvement was underpinned by stronger growth in emerging Europe and Latin America, while growth in emerging Asia decelerated due to the slowdown in China and India. Real output growth in China decelerated sharply from 6.9% in the first quarter to 5.5% in the second quarter, marking the slowest rate of expansion since the fourth quarter of 2008. Real GDP growth in India moderated further, to 2.9% in the second quarter, weighed down by a slump in manufacturing output, weak consumer demand and a deceleration in private investment growth.

Following a contraction of 0.4% in the first quarter of 2019, real output growth in Latin America rebounded sharply to 2.1% in the second quarter. This was largely due to a turnaround in Brazil, where output expanded by 1.8% in the second quarter after decreasing by 0.3% in the first quarter. Furthermore, real output in Argentina likely grew by 4.3% in the second quarter, marking the first expansion since the fourth quarter of 2017 and reflected a significant improvement in agricultural output.

In emerging Europe, real output growth accelerated from 1.6% in the first quarter of 2019 to 4.4% in the second quarter. The acceleration was mainly due to a rebound in Russia, where real GDP grew by 4.4% following a sharp contraction of 2.8% in the previous quarter. The expansion could largely be attributed to an improvement in gross fixed capital formation and firmer industrial production. By contrast, real output growth in Turkey moderated slightly from 6.4% in the first quarter to 5.1% in the second quarter.

Real output growth in selected emerging market economies

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

	2017			2018					2019	
Country/region	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*	Q1	Q2
China	6.9	6.5	6.8	6.9	6.5	6.1	6.1	6.6	6.9	5.5
India	9.5	8.6	7.2	7.6	6.0	6.1	6.9	6.8	4.1	2.9
Indonesia	5.2	5.3	5.1	4.7	5.8	4.9	5.3	5.2	4.3	5.7
Emerging Asia	**7.3**	**6.7**	**6.6**	**6.8**	**6.1**	**5.8**	**6.2**	**6.4**	**5.8**	**4.8**
Russia	0.8	-2.5	1.6	6.7	3.3	1.3	0.4	2.3	-2.8	4.4
Turkey	6.8	10.1	7.5	4.5	0.7	-5.5	-10.6	2.8	6.4	5.1
Poland	4.9	5.7	4.9	5.7	5.3	5.7	1.6	5.1	5.7	3.2
Emerging Europe	**3.5**	**2.7**	**3.9**	**5.6**	**3.1**	**0.5**	**-2.0**	**3.3**	**1.6**	**4.4**
Brazil	0.5	1.1	1.1	2.3	-0.4	2.1	0.5	1.1	-0.3	1.8
Mexico	-1.8	3.9	2.1	5.2	-0.8	2.0	0.3	2.0	-1.0	0.1
Argentina	6.8	3.6	2.7	-0.9	-17.5	-1.1	-5.0	-2.5	-0.9	4.3
Latin America	**1.4**	**2.3**	**1.9**	**3.2**	**-1.2**	**1.3**	**0.6**	**1.7**	**-0.4**	**2.1**
Emerging economies	**5.8**	**5.4**	**4.9**	**6.0**	**4.5**	**4.3**	**4.2**	**4.7**	**4.2**	**4.3**

* Percentage change over one year
Underlined numbers indicate projections

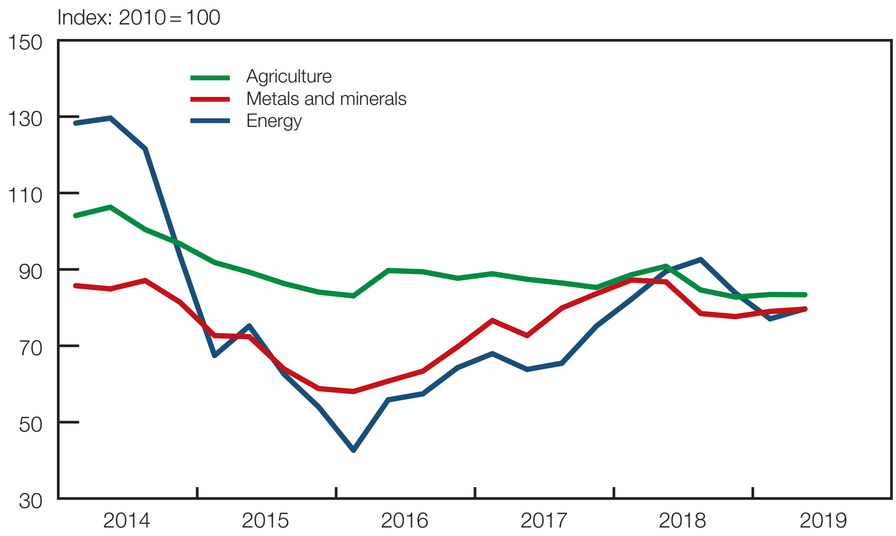
Sources: Barclays, Bloomberg, Haver Analytics, IMF, JPMorgan and SARB

Headline consumer price inflation in the major advanced economies remained subdued and below most central banks' inflation targets in the second quarter of 2019. In the US, growth in the personal consumption expenditure deflator (the US Federal Reserve's preferred inflation measure) slowed to 1.4% in the second quarter of 2019. Inflationary pressures also remained fairly contained in most emerging market economies.

World trade volumes (using world exports as a proxy) contracted at a year-on-year rate (three-months moving average) of 0.5% in June 2019, due to the ongoing trade tensions. Export volumes in emerging markets fell by 0.6% over this period, mainly due to lower exports from Africa, the Middle East as well as Asia (excluding China). Meanwhile, exports from advanced economies contracted by 0.4% in June, largely due to lower exports from the US and Japan.

The international prices of metals and minerals as well as energy rose modestly in the second quarter of 2019, while agricultural prices remained broadly unchanged. The price of Brent crude oil increased from below US$50 per barrel at the end of 2018 to around US$74 per barrel by mid-May 2019. The sharp increase was due to production cuts by oil-exporting countries and US sanctions on both Iranian and Venezuelan oil exports. Oil prices have since fluctuated considerably along a downward trend, to around US$60 per barrel as of mid-September, amid heightened fears of a global economic downturn.

International commodity prices in US dollars



Sources: World Bank and SARB

The international prices of agricultural products decreased marginally by 0.1%, in US dollar terms, in the second quarter of 2019. Metals and minerals prices increased by 0.8% over the same period, supported by higher iron ore prices due to continued tight global supplies.

Domestic economic developments

Domestic output[1]

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

Real economic activity in South Africa rebounded in the second quarter of 2019, with real *gross domestic product* (GDP) advancing at an annualised rate of 3.1% following a slightly revised sharp contraction of 3.1% in the first quarter. The recovery reflected a positive turnaround in the real output of the primary, secondary and tertiary sectors. Year-on-year growth in real GDP accelerated to 0.9% in the second quarter of 2019, with the average level of real output only 0.4% higher in the first half of 2019 than in the corresponding period of 2018.

Real gross domestic product

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

Sector	2018					2019	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Primary sector	-16.4	-7.3	-4.0	-1.1	-2.5	-12.3	9.7
Agriculture	-33.7	-42.3	13.7	7.9	-4.8	-16.8	-4.2
Mining	-9.1	8.1	-8.9	-3.8	-1.7	-10.8	14.4
Secondary sector	-6.2	1.3	4.9	3.0	0.5	-7.4	1.5
Manufacturing	-8.4	1.4	7.5	4.5	1.0	-8.8	2.1
Tertiary sector	0.4	-0.1	2.9	1.7	1.3	-0.4	3.0
*Non-primary sector***	*-1.1*	*0.2*	*3.3*	*2.0*	*1.1*	*-2.0*	*2.7*
*Non-agricultural sector****	*-1.8*	*0.8*	*2.2*	*1.5*	*0.9*	*-2.7*	*3.6*
Total	-2.7	-0.5	2.6	1.4	0.8	-3.1	3.1

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

Source: Stats SA

When excluding the contribution of the climate-bound agricultural sector, real output of the non-agricultural sector increased by 3.6% in the second quarter of 2019, after shrinking by a revised 2.7% in the first quarter.

The real gross value added (GVA) by the *primary sector* increased by 9.7% in the second quarter of 2019, following a revised sharp contraction of 12.3% in the first quarter. Within the primary sector, real agricultural output contracted at a slower pace, while the real GVA by the mining sector rebounded following five contractions in the past six quarters.

The real output of the *agricultural sector* decreased further in the second quarter of 2019, albeit at a slower pace of 4.2% and subtracted 0.1 percentage points from real GDP growth. The contraction reflected lower production of both field crops and horticultural products, while the real output of animal products increased. The average level of real agricultural output was 9.2% lower in the first half of 2019 than in the corresponding period of 2018. The expected commercial maize harvest of 11.02 million tons for the 2018/19 production season exceeds annual domestic consumption of about 10.86 million tons.

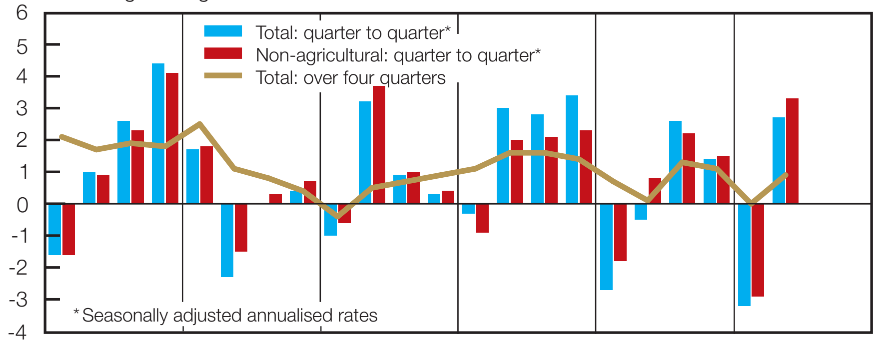
Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2017/18: final estimate	12.51	2.32
2018/19: seventh production forecast	11.02	2.30

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

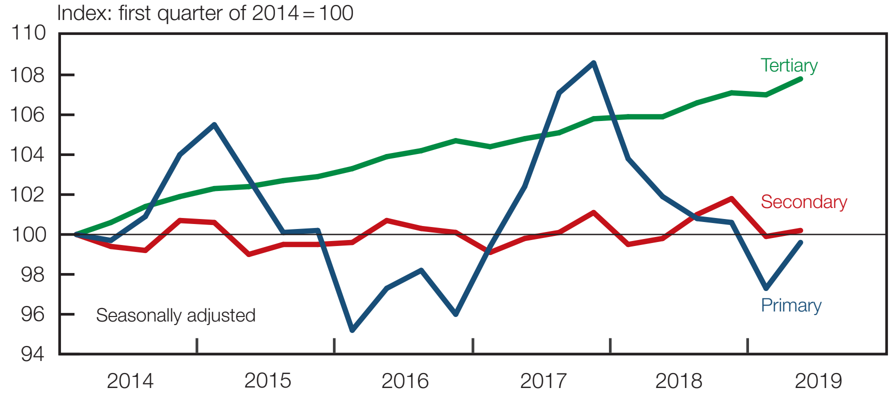
Real gross domestic product

Percentage change



Real gross value added by main sectors

Index: first quarter of 2014 = 100

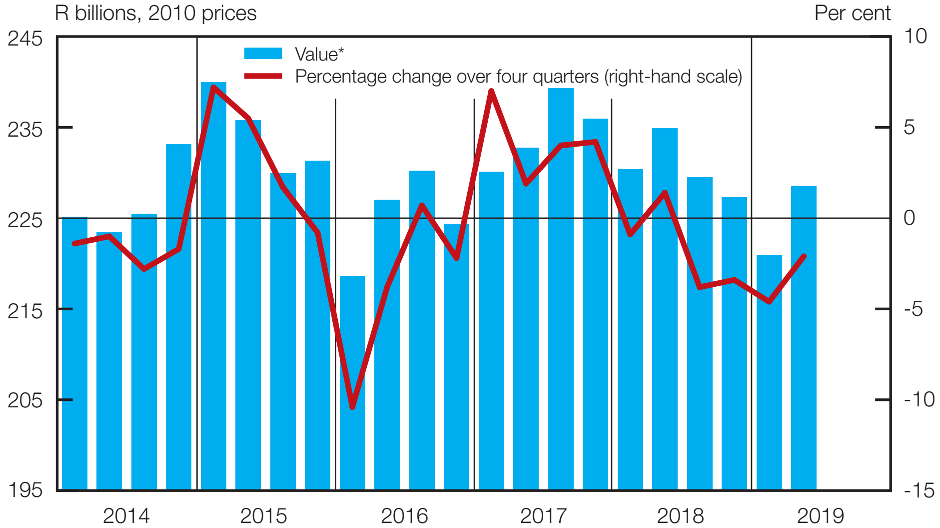


Source: Stats SA

Following three consecutive quarters of contraction, the real GVA by the *mining sector* expanded by 14.4% in the second quarter of 2019, contributing the most to overall growth in real GDP at 1.0 percentage points. This has been the largest increase since the second quarter of 2016, when mining output expanded by 16.3%. Production increased in 8 of the 12 subsectors, particularly iron and manganese ore as well as coal and other metallic minerals.

Real gross value added by the mining sector

R billions, 2010 prices | Per cent



* Seasonally adjusted

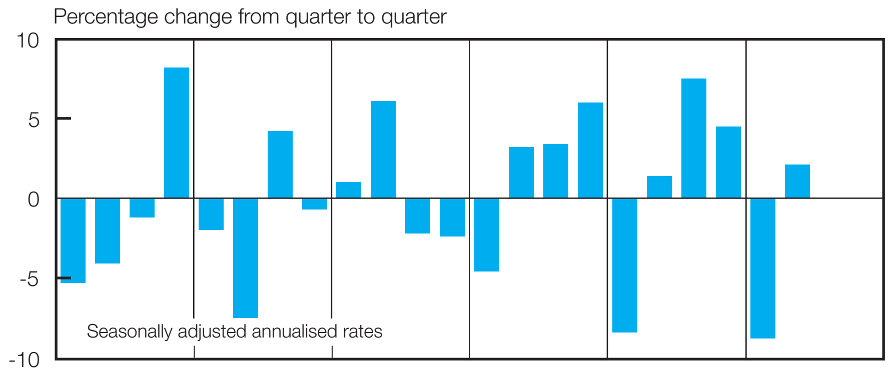
Source: Stats SA

These increases were partly offset by lower production of gold, building materials, copper and nickel. Eskom's increased demand boosted coal production and Chinese demand supported iron and manganese ore production. Gold production continued to weigh on total mining production, despite the recent surge in the gold price and the end of the prolonged strike at a large gold mine. Unreliable and more expensive electricity supply, high wage demands and deeper mines increasingly weighed on the profitability of South African gold mines. Notwithstanding the significant increase in mining production in the second quarter, the average level of real mining output was still 3.3% lower in the first half of 2019 than in the corresponding period of 2018. The medium-term outlook for mining production remains constrained by lingering domestic regulatory uncertainty and the moderation in global economic growth, particularly in commodity-importing China.

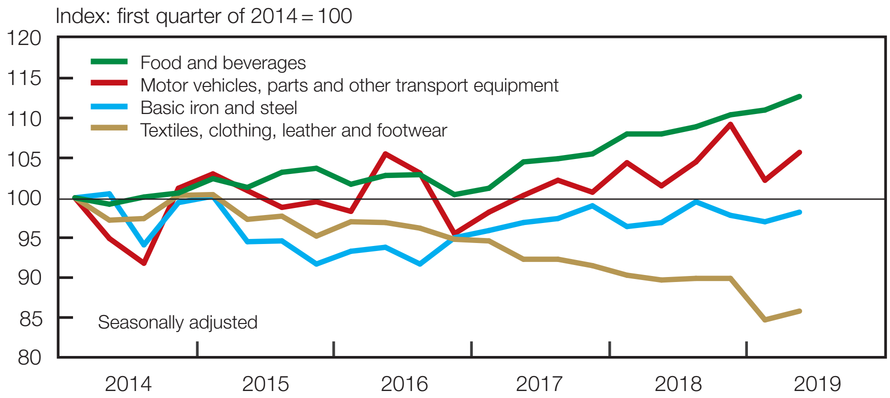
The real GVA by the *secondary sector* reverted from a contraction of 7.4% in the first quarter of 2019 to an expansion of 1.5% in the second quarter. The real output of the manufacturing as well as the electricity, gas and water sectors increased in the second quarter, while that of the construction sector decreased.

Following a sharp contraction in the first quarter of 2019, real *manufacturing* output increased by 2.1% in the second quarter and contributed 0.3 percentage points to overall GDP growth. Production increased in the sectors supplying food and beverages; motor vehicles, parts and accessories and other transport equipment; basic iron and steel, non-ferrous metal products, metal products and machinery; as well as textiles, clothing, leather and footwear. Activity in the motor vehicles, parts and accessories and other transport equipment subsector was boosted by increased production in all four components of the sector, with parts and accessories contributing the most. By contrast, production decreased in five of the manufacturing subsectors, with petroleum, chemical, rubber and plastic products subtracting the most from growth in total manufacturing GVA. The lower production of petroleum products reflected operational problems at refineries.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Source: Stats SA

The average level of real manufacturing output in the first half of 2019 was 0.5% higher than in the corresponding period of 2018, while the seasonally adjusted utilisation of production capacity in the manufacturing sector remained unchanged at 81.7% in February and May 2019. The recent moderation in global manufacturing output, amid both trade and geo-political tensions, could weigh on domestic manufacturing production in the quarters ahead.

The real GVA by the sector supplying *electricity, gas and water* advanced by 3.2% in the second quarter of 2019 and contributed 0.1 percentage points to overall GDP growth. Electricity production and consumption increased significantly from the first quarter, when severe load shedding occurred, to the second quarter when continuous electricity supply was available. Electricity production increased as Eskom's Unit 3 of the Medupi Power Station became operational and with the implementation of a new maintenance plan. Increased activity in the electricity-intensive mining and manufacturing sectors further supported demand for electricity.

Box 1 Electricity load shedding and economic activity

South Africa has experienced sporadic incidents of electricity supply disruptions of varying intensity since the end of 2007, commonly referred to as load shedding. The impact of load shedding on economic activity differs depending on its severity (stages 1 to 4) and duration (number of days). In addition to the electricity, gas and water sector, the real gross value added (GVA) by the electricity-intensive mining and manufacturing sectors has often been affected the most, with the agricultural and transport sectors also affected. However, some incidents of load shedding appear to have had a negligible effect on output, while the real GVA by the electricity, gas and water sector as well as South Africa's total real gross domestic product (GDP) at times contracted in the absence of load shedding. This implies that many other factors also influence real GDP outcomes.

The incidence of load shedding, in terms of the number of days in each of the stages per quarter, was used to derive a measure of the intensity of the effect thereof.[1]

Incidence and intensity of electricity load shedding

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

		Number of days per stage				
Year	Quarter*	Stage 1	Stage 2	Stage 3	Stage 4	Intensity
2008	Q1	3	3	7	1	34
2014	Q1	1	0	0	0	1
	Q2	2	0	0	0	2
	Q4	1	1	1	0	6
2015	Q1	6	5	0	0	16
	Q2	38	15	1	0	71
	Q3	12	11	0	0	34
2018	Q2	2	1	0	0	4
	Q3	1	0	0	0	1
	Q4	5	7	0	0	19
2019	Q1	1	7	2	5	41

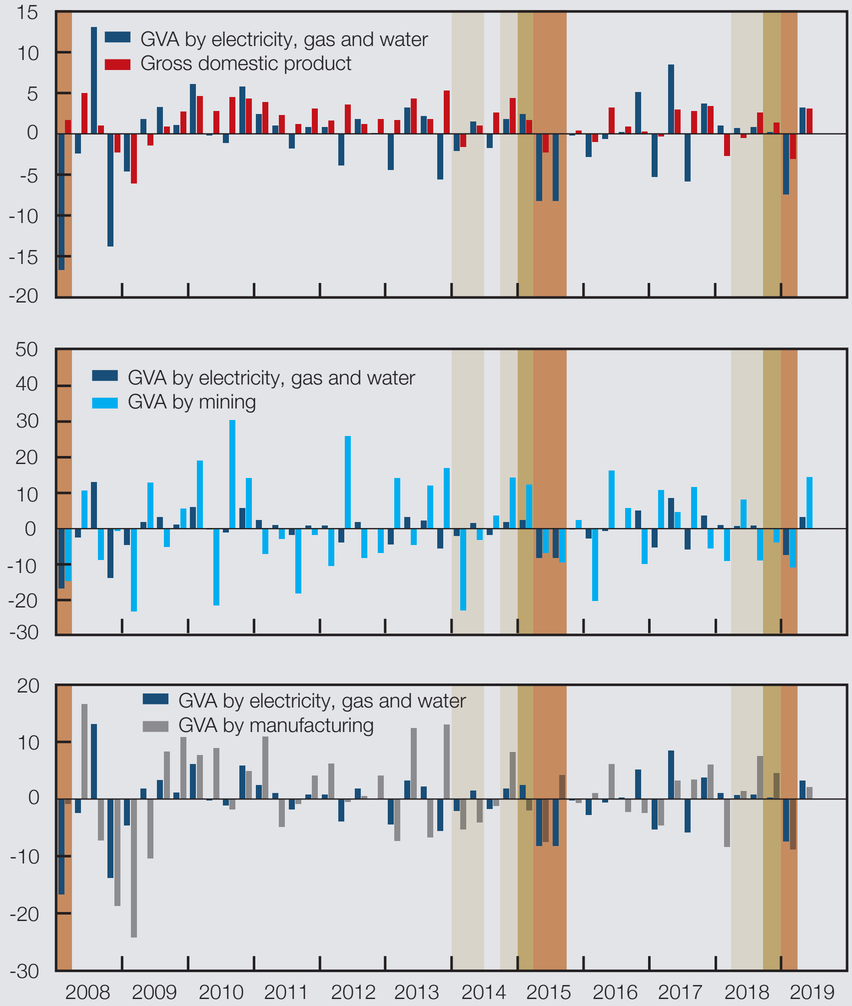
* The table only reflects quarters in which load shedding occurred

Sources: Eskom and SARB

The accompanying figure shows the quarter-to-quarter seasonally adjusted and annualised growth in South Africa's real GDP and in the real GVA by the electricity, gas and water; mining; and manufacturing sectors along with the intensity of load shedding. This shows that load shedding has been most severe in the first quarter of 2008, the third and fourth quarter of 2015, and in the first quarter of 2019. During all of these four quarters, the real GVA by the electricity, gas and water sector contracted notably while South Africa's total real GDP did not always contract. Counterfactually, positive growth outcomes could have been higher. The real GVA by the electricity-intensive mining sector contracted in all four high-intensity load shedding quarters, while that by the manufacturing sector contracted in only three of the four quarters.

1 The intensity of load shedding, per quarter, was calculated as the sum of the number of days of load shedding multiplied by the stage number per stage.

South Africa's real gross domestic product and real gross value added by selected sectors



Seasonally adjusted annualised rates

Sources: Stats SA, Eskom and SARB

In addition, South Africa's total real GDP and the GVA by these three sectors contracted in a number of other quarters over this period in which either none or only low-intensity load shedding occurred. Weak real output growth probably resulted from various factors other than electricity supply disruptions over this period, such as a number of prolonged labour strikes, maintenance and safety stoppages in the mining sector, weak domestic and global demand as well as political and policy uncertainty which has affected business and consumer confidence and constrained overall economic growth.

The impact of load shedding on real GDP was also tested by a regression model,[2] with the quarter-to-quarter seasonally adjusted and annualised growth in real GDP as the dependent variable and the derived measure of load shedding intensity as the explanatory variable. The model was also estimated with the GVA by each of the subsectors of GDP as the dependant variable.

The results show that as the intensity of load shedding increases, South Africa's real GDP growth decreases by a statistically significant 0.06%. The real GVA by all of the economic subsectors displayed a negative correlation to the intensity of load shedding, albeit not all statistically significant.

Among the statistically significant relationships, the intensity of load shedding had the biggest negative impact on growth in the real GVA in the following sectors: agricultural (0.27%), mining (0.19%), electricity, gas and water (0.18%), manufacturing (0.09%) and transport (0.05%).

2 The estimation was corrected for possible autocorrelation and heteroscedasticity.

Regression results of load shedding on real output growth

Economic sector	Coefficient
South Africa's total GDP	-0.0578***
Agriculture, forestry and fishing	-0.2684*
Mining	-0.1851**
Manufacturing	-0.0934**
Electricity, gas and water	-0.1776***
Construction	-0.0433
Trade, catering and accommodation	-0.0268
Transport, storage and communication	-0.0460**
Finance, insurance, real estate and business services	-0.0023
General government	-0.0292
Personal services	-0.0078

* Significant at the 10% level
** Significant at the 5% level
*** Significant at the 1% level

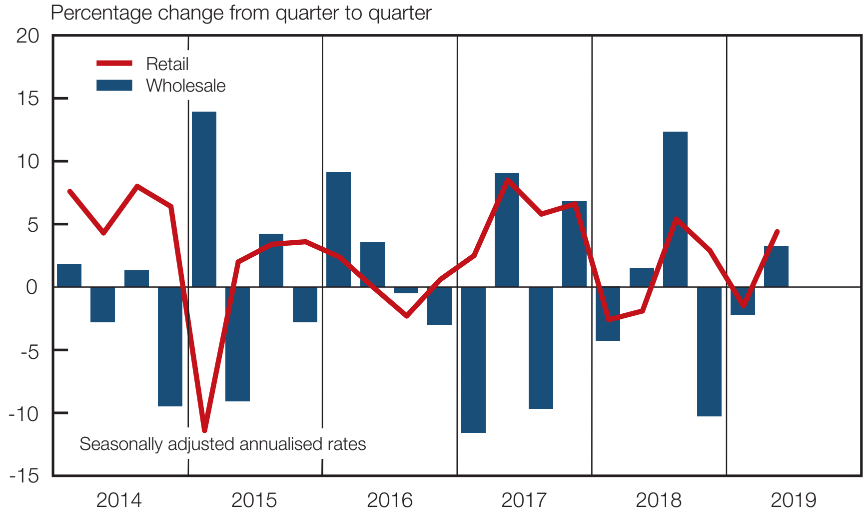
Real activity in the *construction sector* decreased further by 1.6% in the second quarter of 2019 – the fourth consecutive quarterly contraction. The contraction reflected reduced non-residential building activity and civil construction works. By contrast, residential building activity increased over the period.

Growth in the real GVA by the *tertiary sector* accelerated from a revised -0.4% in the first quarter of 2019 to 3.0% in the second quarter. The turnaround resulted from increased activity in the commerce; finance, insurance, real estate and business services; and general government services sectors. By contrast, activity in the transport, storage and communication sector decreased further.

The real GVA by the *commerce sector* reverted from a contraction of 3.6% in the first quarter of 2019 to an expansion of 3.9% in the second quarter and reflected increased activity in wholesale, retail and motor trade. Retail trade activity was underpinned by increased sales of household furniture, appliances and equipment; pharmaceutical and medical goods; cosmetics and toiletries; as well as in the 'other retailers' category. The increase in wholesale trade was supported by sales of food, beverages and tobacco as well as textiles, clothing and footwear. The real GVA by the motor trade subsector also increased as more new and used vehicles were sold over the period. In addition, increased domestic demand supported the real output of the accommodation services subsector.

Real wholesale and retail trade sales

Percentage change from quarter to quarter



Source: Stats SA

The real output of the *transport, storage and communication sector* decreased further by 0.3% in the second quarter of 2019, following a sharp contraction of 4.4% in the previous quarter. The GVA by the transport subsector decreased largely due to subdued activity in both land transportation and transport support services. Within land transportation, passenger transport decreased while activity in freight transport increased, consistent with the increase in import volumes. Telecommunications sustained its rate of expansion in output in the second quarter.

Real output growth in the *finance, insurance, real estate and business services sector* accelerated from 1.1% in the first quarter of 2019 to 4.1% in the second quarter, reflecting increased activity in financial intermediation, real estate and business services. Within financial intermediation, banking and equity market activity increased. The average level of real GVA by the finance, insurance, real estate and business services sector in the first half of 2019 was 2.7% higher than in the corresponding period of 2018.

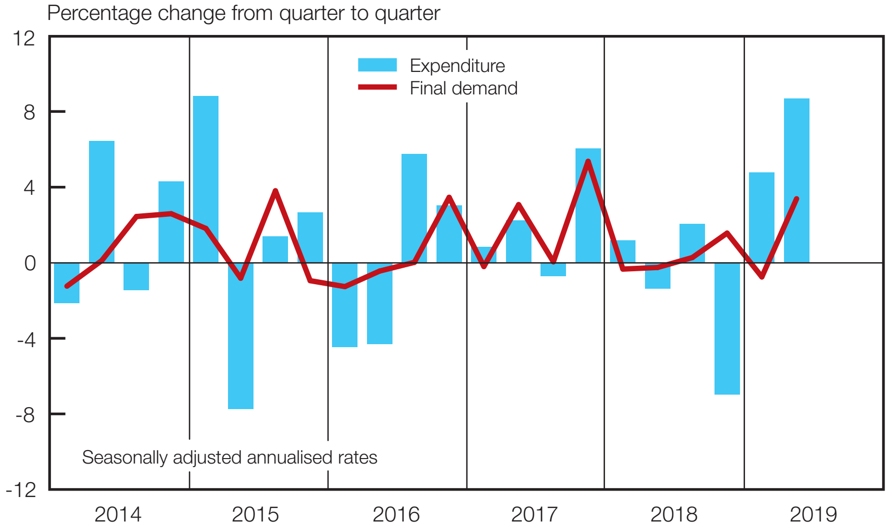
Growth in the real GVA by the *general government services sector* accelerated from a revised 2.4% in the first quarter of 2019 to 3.4% in the second quarter. The expansion reflected a further increase in the number of temporary election-related employees over the period.

Real gross domestic expenditure[2]

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

Real *gross domestic expenditure* (GDE) expanded further at an annualised rate of 8.7% in the second quarter of 2019, following an increase of 4.8% in the first quarter. The acceleration reflected increases in all of the expenditure components, in particular the accumulation of real inventory holdings. Real gross domestic final demand rebounded from a decrease of 0.7% in the first quarter of 2019 to an increase of 3.4% in the second quarter. This reflected a reversion to increases in both real final consumption expenditure by households and real gross fixed capital formation, and also a faster pace of increase in the real final consumption expenditure by general government. Despite the marked increase in the second quarter, the average level of real GDE in the first half of 2019 was only 0.7% higher than in the corresponding period of 2018.

Real gross domestic expenditure and final demand



Sources: Stats SA and SARB

Real gross domestic expenditure

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

Component	2018					2019	
	Q1	Q2	Q3	Q4	Year[1]	Q1	Q2
Final consumption expenditure							
Households	1.1	0.1	0.6	3.2	1.8	-0.6	2.8
General government	4.6	2.1	0.4	0.6	1.9	2.0	2.8
Gross fixed capital formation	-9.3	-3.8	-0.7	-2.5	-1.4	-4.1	6.1
Domestic final demand[2]	**-0.3**	**-0.2**	**0.3**	**1.6**	**1.2**	**-0.7**	**3.4**
Change in inventories (R billions)[3]	*13.1*	*4.6*	*14.5*	*-53.9*	*-5.4*	*-13.7*	*26.0*
Residual[4]	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*	*0.1*	*0.1*
Gross domestic expenditure[5]	**1.2**	**-1.4**	**2.1**	**-7.0**	**1.0**	**4.8**	**8.7**

1 Percentage change over one year
2 Comprises final consumption expenditure by households and general government as well as gross fixed capital formation
3 At constant 2010 prices
4 The residual as a percentage of GDP
5 Including the residual

Sources: Stats SA and SARB

Real GDE made a significant contribution of 8.7 percentage points to real GDP growth in the second quarter of 2019, as the change in real inventory holdings and real spending by households added 5.1 and 1.7 percentage points respectively. By contrast, real net exports subtracted 5.6 percentage points from overall economic growth over the period.

Contributions of expenditure components to growth in real gross domestic product

Percentage points

Component	2018					2019	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Final consumption expenditure							
Households	0.7	0.1	0.3	2.0	1.1	-0.4	1.7
General government	0.9	0.4	0.1	0.1	0.4	0.4	0.6
Gross fixed capital formation	-1.9	-0.8	-0.1	-0.5	-0.3	-0.8	1.1
Change in inventories	1.5	-1.1	1.3	-8.7	-0.3	5.0	5.1
Residual	0.0	0.0	0.5	-0.2	0.1	0.3	0.1
Gross domestic expenditure	**1.2**	**-1.4**	**2.1**	**-7.3**	**1.0**	**4.6**	**8.7**
Net exports	-3.9	0.9	0.5	8.7	-0.2	-7.7	-5.6
Gross domestic product	**-2.7**	**-0.5**	**2.6**	**1.4**	**0.8**	**-3.1**	**3.1**

Components may not add up to totals due to rounding off

Sources: Stats SA and SARB

Real *exports* of goods and services decreased slightly further by 0.2% (not annualised) in the second quarter of 2019, after having contracted by 7.6% in the first quarter. The increase in real manufacturing and services exports marginally outweighed the decrease in mining and agricultural exports. A rebound in the export volumes of vehicles and transport equipment as well as prepared foodstuffs, beverages and tobacco boosted manufactured exports. A decline in vegetable exports weighed on overall agricultural export volumes. The weaker foreign demand for mining products was mostly for precious metals (particularly gold and stones), while the exports of mineral products as well as base metals and articles increased in the second quarter of 2019.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2019					
	Exports			Imports		
	Percentage of total**	Q1***	Q2***	Percentage of total**	Q1***	Q2***
Total	100	-7.6	-0.2	100	-1.3	4.4
Mining	46.8	-10.5	-2.7	20.5	-1.4	4.9
Of which:						
Mineral products	18.9	5.4	0.2	15.0	-1.9	7.9
Precious metals including gold, platinum group metals and stones	16.4	-30.1	-12.2	1.3	-8.0	-22.3
Base metals and articles	11.6	-6.2	3.0	4.2	2.5	2.7
Manufacturing	32.7	-3.6	2.6	62.4	-1.2	4.2
Of which:						
Vehicles and transport equipment	10.5	-6.6	9.5	12.4	3.1	-3.8
Machinery and electrical equipment	6.7	-5.4	-0.7	24.8	0.0	7.6
Chemical products	5.3	1.3	-3.6	9.2	-5.8	7.0
Prepared foodstuffs, beverages and tobacco	3.6	-1.4	2.7	2.5	-4.5	13.2
Agriculture	5.7	-12.7	-4.7	3.6	-7.7	14.2
Of which:						
Vegetable products	4.4	-15.6	-9.2	1.4	-12.5	31.9
Services	13.8	-3.6	1.4	12.6	0.8	1.5

* 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

The rebound in real *imports* of goods and services by 4.4% in the second quarter of 2019 reflected higher import volumes of all the major goods and services components. Increased domestic demand for mineral products, including crude oil, as well as for base metals and articles outweighed the contraction in precious metal imports (including gold, platinum group metals (PGMs) and stones). Robust growth in the import volumes of most manufactured goods more than offset the decrease in that of vehicles and transport equipment. Agricultural import volumes also increased as the importation of vegetable products increased markedly.

Real *net exports* subtracted a notable 5.6 percentage points from real GDP growth in the second quarter of 2019. Net manufactured exports subtracted 2.2 percentage points, largely due to a deduction of 2.4 percentage points by machinery and electrical equipment, while real net mining and agricultural exports deducted a further 2.6 and 0.9 percentage points respectively.

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

Percentage points

Component	2019					
	Exports		Imports*		Net exports	
	Q1	Q2	Q1	Q2	Q1	Q2
Total	**-9.3**	**-0.2**	**-1.6**	**5.4**	**-7.7**	**-5.6**
Mining	**-6.1**	**-1.4**	**-0.3**	**1.2**	**-5.7**	**-2.6**
Of which:						
Mineral products	1.2	0.0	-0.3	1.4	1.6	-1.4
Precious metals including gold, platinum group metals and stones	-6.4	-1.9	-0.1	-0.3	-6.5	-1.5
Base metals and articles	-0.9	0.4	0.1	0.1	-1.0	0.3
Manufacturing	**-1.5**	**1.0**	**-0.9**	**3.3**	**-0.5**	**-2.2**
Of which:						
Vehicles and transport equipment	-0.9	1.3	0.5	-0.6	-1.4	1.9
Machinery and electrical equipment	-0.4	-0.1	0.0	2.3	-0.4	-2.4
Chemical products	0.1	-0.2	-0.7	0.8	0.8	-1.0
Prepared foodstuffs, beverages and tobacco	-0.1	0.1	-0.1	0.4	0.1	-0.3
Agriculture	**-0.9**	**-0.3**	**-0.3**	**0.6**	**-0.6**	**-0.9**
Of which:						
Vegetable products	-0.9	-0.4	-0.2	0.5	-0.7	-0.9
Services	**-0.6**	**0.2**	**0.1**	**0.2**	**-0.7**	**0.0**

* 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 2.8% in the second quarter of 2019, following a contraction of 0.6% in the first quarter. The increase reflected a turnaround in real outlays on durable and semi-durable goods, while that on non-durable goods increased at a faster pace. Growth in real spending on services moderated. Households' real disposable income increased at a faster pace in the second quarter of 2019, mainly supported by higher compensation of employees. Real household consumption expenditure was only 1.0% higher in the first half of 2019 than in the corresponding period of 2018, as rising unemployment, successive fuel price hikes and tax increases weighed on disposable income.

Real final consumption expenditure by households

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

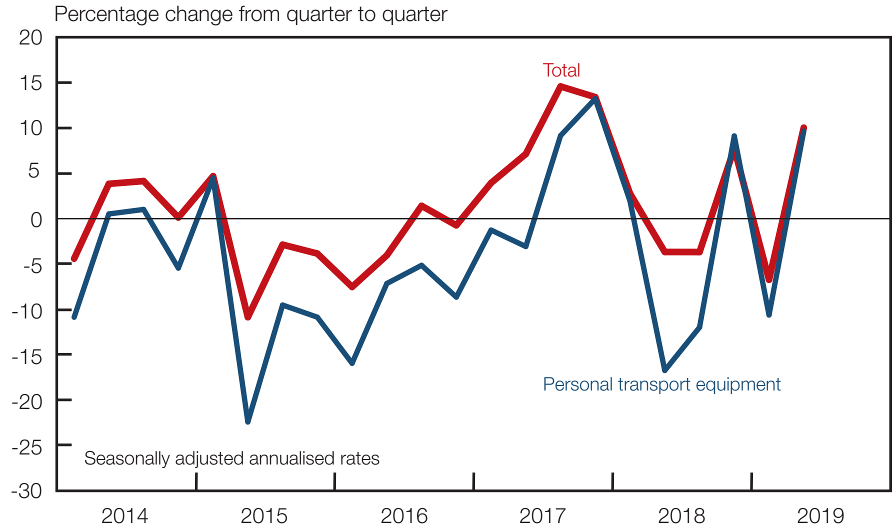
Category	2018					2019	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Durable goods	2.8	-3.7	-3.7	7.7	4.5	-6.7	10.0
Semi-durable goods	-13.1	1.2	9.0	8.7	3.0	-10.5	5.6
Non-durable goods	0.6	-1.8	2.7	3.0	0.8	0.3	2.4
Services	4.8	2.4	-2.0	1.1	1.9	2.5	0.9
Total	**1.1**	**0.1**	**0.6**	**3.2**	**1.8**	**-0.6**	**2.8**

* Percentage change over one year

Source: Stats SA

Real spending by households on *durable goods* surged by 10.0% and contributed 1.0 percentage points to growth in total household consumption expenditure in the second quarter of 2019, following a contraction of 6.7% in the first quarter. The turnaround resulted from faster growth in spending on furniture and household appliances as well as computers and related equipment, while real outlays on personal transport equipment, recreational and entertainment goods as well as other durable goods rebounded markedly. The increase in real spending on personal transport equipment, with a weight of about 47% in durable goods, largely reflected purchases of used vehicles.

Real final consumption expenditure by households on durable goods



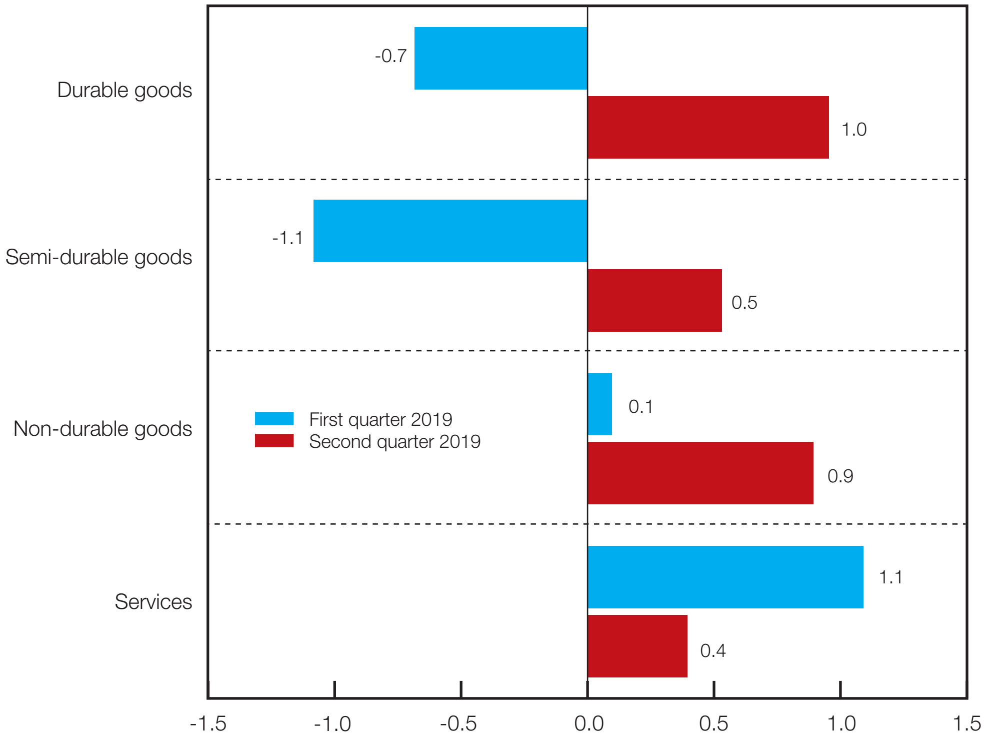
Source: Stats SA

Real outlays on *semi-durable goods* increased by 5.6% in the second quarter of 2019, following a sharp decrease of 10.5% in the first quarter, with the rebound occurring in all semi-durable goods subcategories. Real expenditure on clothing and footwear as well as on household textiles, furnishings and glassware, which together comprise roughly 75% of all semi-durable spending, increased notably.

Growth in real household consumption expenditure on *non-durable goods* accelerated from only 0.3% in the first quarter of 2019 to 2.4% in the second quarter, contributing 0.9 percentage points to growth in total spending by households. Real outlays on the largest component, namely food, beverages and tobacco, increased at a firm pace, alongside solid growth in expenditure on household consumer goods as well as recreational and entertainment goods. This was partly offset by reduced spending by households on fuel, power and water as well as petroleum products.

Growth in real household spending on *services* slowed from 2.5% in the first quarter of 2019 to 0.9% in the second quarter, and contributed 0.4 percentage points to growth in total final consumption expenditure by households. Spending on most services subcategories moderated, particularly transport and communication; recreational, entertainment and educational; as well as miscellaneous services. By contrast, real outlays on rent and medical services increased marginally in the second quarter.

Contributions to growth in real final consumption expenditure by households

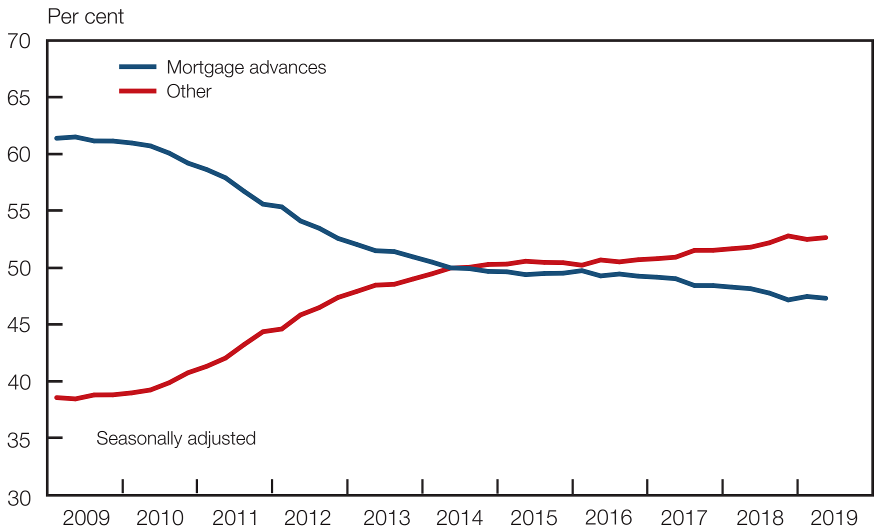


Percentage points

Source: Stats SA

Household debt increased at a faster pace in the second quarter of 2019 than in the first quarter. Mortgage advances contributed most to the increase in household debt, while instalment sale credit and general loans and advances also increased. Although the contribution of mortgage advances to total household debt declined from 61.5% in the second quarter of 2009 to 47.3% in the second quarter of 2019, it remained the largest single debt component. The ratio of debt to disposable income edged higher to 72.7% in the second quarter of 2019 from 72.5% in the first quarter, as the quarter-to-quarter increase in household debt marginally exceeded that in nominal disposable income. However, debt-service cost to disposable income remained unchanged at 9.4% in the first and second quarter of 2019.

Composition of household debt



Source: SARB

The increase in *households' net wealth* in the second quarter of 2019 mainly reflected a further increase in the value of equity portfolios and housing stock, which outweighed the increase in household debt. Consequently, the ratio of households' net wealth to nominal disposable income rose from 365.1% in the first quarter of 2019 to 368.8% in the second quarter.

Growth in real *final consumption expenditure by general government* accelerated from 2.0% in the first quarter of 2019 to 2.8% in the second quarter. Real spending on both the compensation of employees and on non-wage goods and services increased and reflected the recruitment of additional temporary employees as well as other expenses incurred by the Electoral Commission of South Africa (IEC) for the national elections in May. Higher government spending on non-wage goods and services also reflected increased spending on health and education. As a result, the level of real spending by general government in the first half of 2019 was 1.3% higher than in the corresponding period of 2018.

Real *gross fixed capital formation* increased by 6.1% in the second quarter of 2019, following five consecutive quarterly contractions. The turnaround resulted from a strong rebound in real fixed investment by private business enterprises. By contrast, real capital outlays by public corporations contracted anew after increasing notably in the first quarter, while that by general government decreased further. The average level of fixed capital investment in the first half of 2019 was 1.6% lower than in the corresponding period of 2018 and reflected continued weak business confidence and political uncertainty.

Real gross fixed capital formation

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

Sector	2018					2019	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	-6.7	-1.3	2.9	-1.4	2.1	-7.2	15.2
Public corporations.......................	-15.5	-13.8	-7.9	-5.6	-12.5	9.6	-6.7
General government.....................	-14.1	-4.3	-9.0	-4.1	-4.4	-2.1	-17.3
Total	-9.3	-3.8	-0.7	-2.5	-1.4	-4.1	6.1

* Percentage change over one year

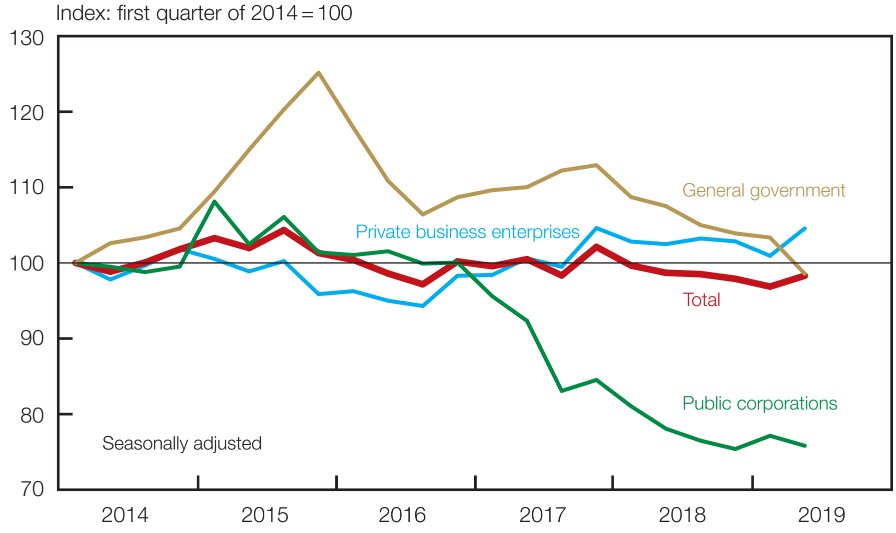
Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* increased by 15.2% in the second quarter of 2019, following two quarters of contraction. The improvement came from a very low base and mainly reflected increased capital spending on machinery and other equipment, despite weak manufacturing and civil construction confidence. After a lengthy delay, construction is now under way on the majority of projects approved under the fourth bid window of the Independent Power Producer (IPP) programme. Once completed, the 26 new IPP projects, along with the Redstone Solar Thermal Power Project, which was announced under Bid Window 3.5, are expected to add about 2.3 gigawatts to South Africa's electricity generation capacity.

Real capital expenditure by *public corporations* contracted once more by 6.7% in the second quarter of 2019, following a notable increase of 9.6% in the first quarter. Slight increases in capital outlays on construction works and transport equipment were outweighed by lower capital spending on non-residential buildings and on machinery and equipment.

The real gross fixed capital expenditure by *general government* decreased further by a marked 17.3% in the second quarter of 2019. Capital expenditure by all three spheres of government contracted, subtracting 3.0 percentage points from growth in the total gross fixed capital formation.

Real gross fixed capital formation



Source: Stats SA

Following two quarters of significant inventory depletion of R53.9 billion and R13.7 billion respectively, real *inventory holdings* accumulated by an annualised R26.0 billion (at 2010 prices) in the second quarter of 2019. The inventory build-up reflected re-stocking in the trade and mining sectors in particular. By contrast, the construction and transport sectors depleted inventory holdings. Nevertheless, industrial and commercial inventories as a percentage of non-agricultural nominal GDP edged lower from 10.1% in the first quarter of 2019 to 9.9% in the second quarter.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) for South Africa improved marginally from 14.8% in the first quarter of 2019 to 14.9% in the second quarter. The vastly improved saving performance by general government outweighed lower saving by corporate business enterprises and households. The portion of total gross capital formation financed through foreign capital (the foreign financing ratio) increased from 16.5% in the first quarter of 2019 to 21.2% in the second quarter.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted annualised rates

Sector	2018					2019	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Corporate	13.5	11.8	13.5	13.3	13.0	13.9	12.9
General government	-0.5	0.9	-0.1	-0.4	0.0	-0.6	0.7
Household	1.3	1.6	1.4	1.2	1.4	1.4	1.3
Total	**14.3**	**14.3**	**14.9**	**14.0**	**14.4**	**14.8**	**14.9**

Source: SARB

The decline in gross saving by the *corporate sector* as a percentage of GDP, from 13.9% in the first quarter of 2019 to 12.9% in the second quarter, reflected higher tax payments.

Gross saving by *general government* as a percentage of GDP increased to 0.7% in the second quarter of 2019, from a dissaving of 0.6% in the first quarter. Despite being below originally budgeted estimates, when accounting for seasonal variation the increase in government revenue nevertheless outpaced that in current expenditure, reflecting the first quarterly saving since the second quarter of 2018.

Gross saving by the *household sector* as a percentage of GDP declined marginally from 1.4% in the first quarter of 2019 to 1.3% in the second quarter, as the increase in nominal consumption expenditure exceeded that in nominal disposable income.

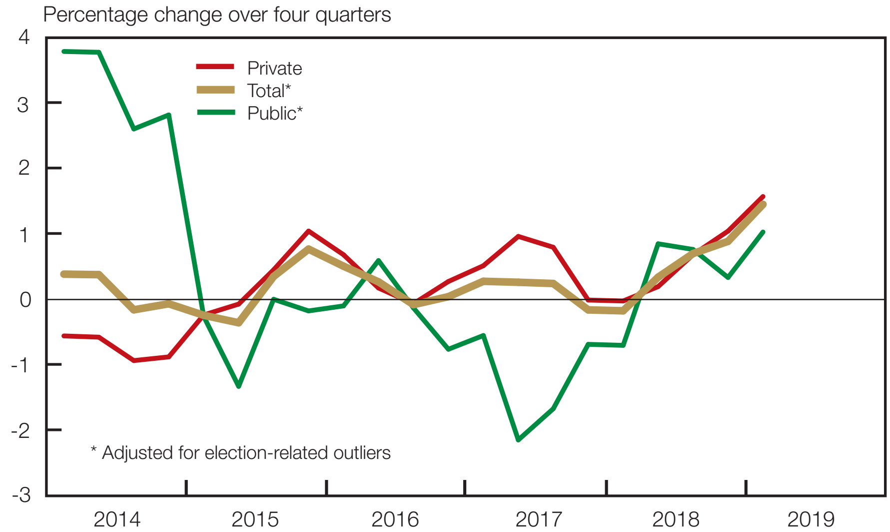
Employment[3]

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

4 According to Statistics South Africa's (Stats SA) *QES* survey.

Enterprise-surveyed formal non-agricultural employment increased[4] at an annualised rate of 2.0% from the fourth quarter of 2018 to the first quarter of 2019. This represents an additional 49 100 jobs and raised the level of employment to 10.17 million. Encouragingly, although not broad-based among subsectors, year-on-year growth in total formal non-agricultural employment has accelerated gradually from the second quarter of 2018 to the first quarter of 2019, despite the general slowdown in real GDP growth over the period.

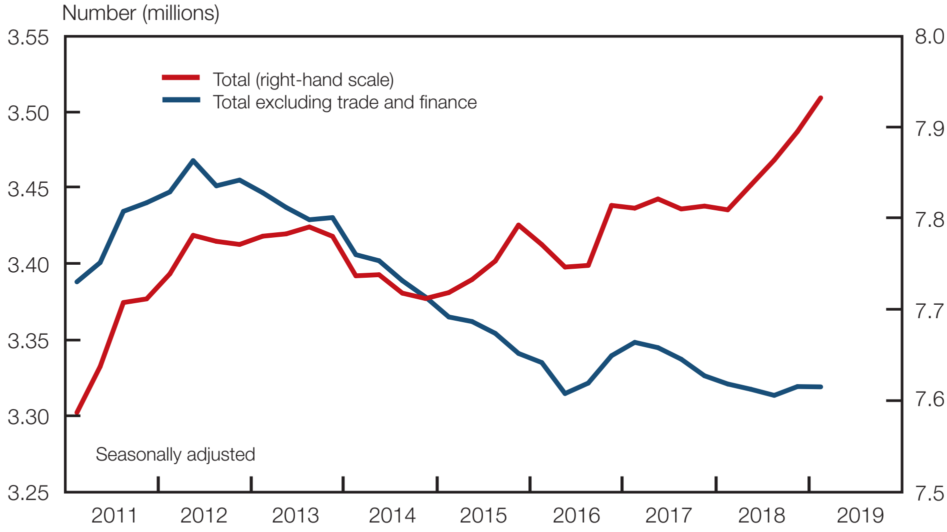
Formal non-agricultural employment



Sources: Stats SA and SARB

Both private and public sector employment contributed to the increase in total formal non-agricultural employment in the first quarter of 2019. *Private sector employment* growth accelerated further to an annualised rate of 2.0% in the first quarter of 2019, following an upward revision in the fourth quarter of 2018. The renewed momentum in employment gains in the services subsectors since the start of 2018 continued in the first quarter of 2019. This mostly reflected low-earning and often limited or unspecified duration contracts in trade and business services not elsewhere classified, mostly through labour brokers. However, private sector employment has trended downward since 2012 and remained broadly unchanged over the past year when excluding the trade, catering and accommodation services as well as the finance, insurance, real estate and business services sectors.

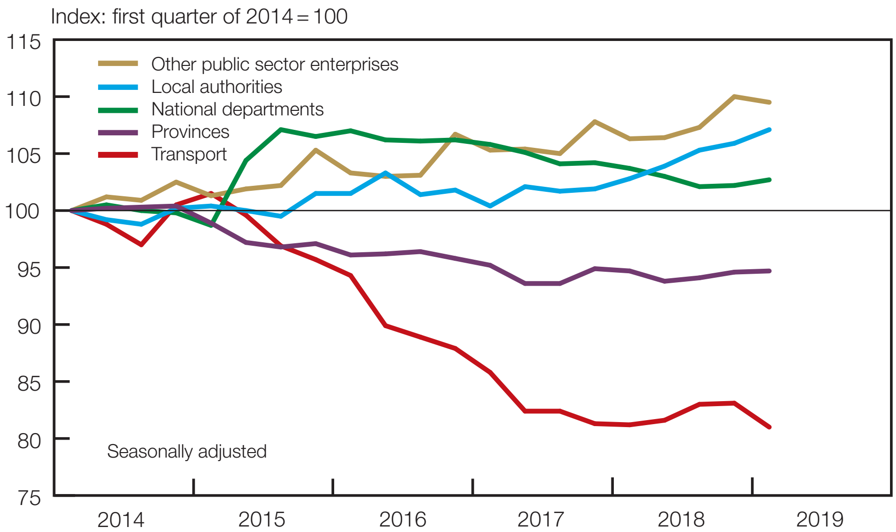
Private sector employment



Sources: Stats SA and SARB

Public sector employment increased at an annualised rate of 1.9% in the first quarter of 2019, partly boosted by around 7 000 temporary employment opportunities created by the IEC in preparation for the May 2019 national elections. When excluding these temporary jobs, public sector employment still expanded at an annualised 0.8% in the first quarter of 2019 with increases at all levels of the public sector, with the exception of the transport, storage and communication services sector. In the first quarter of 2019, the recruitment of trainees by the Department of Defence and the South African Police Service lifted the staff complement of national departments, while work and training opportunities emanating from the Department of Public Works' Expanded Public Works Programme (EPWP) continued to boost local government employment.

Public sector employment



Sources: Stats SA and SARB

Employment in the mining sector increased further in the first quarter of 2019, following an upward revision in the preceding quarter. The non-gold mining sector created a cumulative 13 000 jobs in the year to the first quarter of 2019. This mainly reflected employment gains in coal, PGMs and other minerals, as a possible lagged response to the earlier increase in international commodity prices and depreciation in the exchange value of the rand, both of which have since become less supportive. Although job losses in the gold mining sector persisted, the pace of job shedding slowed markedly in the first quarter of 2019.

Manufacturing sector employment increased slightly for a third successive quarter in the first quarter of 2019. However, business confidence among manufacturers fell by a further 3 index points to 22 in the second quarter of 2019, as business conditions were constrained by sustained weak demand, according to the *Absa Manufacturing Survey* by Stellenbosch University's Bureau for Economic Research (BER). Respondents reported lower domestic sales volumes, while export sales volumes improved slightly in the second quarter. Manufacturers also reported a further deterioration in production volumes, employment and fixed investment from already weak levels. The BER cited the possibility of renewed electricity load shedding and labour strikes in particular as concerns for the manufacturing sector in the short term, with wage negotiations having started in the automotive industry and the related platinum mining industry. Manufacturing output and employment could also be weighed down by slower global economic growth, amid ongoing trade and geo-political tensions.

Enterprise-surveyed formal non-agricultural employment*

Sector	Total number	Change over one quarter: Q1 2019		Change over four quarters to Q1 2019	
		Number	Per cent annualised	Number	Per cent
Total mining	459 000	3 400	3.1	4 500	1.0
Gold mining	93 500	- 300	-1.5	-8 600	-8.4
Other mining	365 500	3 800	4.2	13 000	3.7
Manufacturing	1 223 300	2 300	0.8	3 000	0.2
Construction	616 600	-11 400	-7.0	-21 900	-3.4
Total goods-producing	*2 299 000*	*-5 600*	*-1.0*	*-14 400*	*-0.6*
Trade, catering and accommodation services	2 260 500	26 000	4.7	66 000	3.0
Transport, storage and communication services	377 600	400	0.5	3 000	0.8
Finance, insurance, real estate and business services	2 353 500	12 600	2.2	58 900	2.6
Community, social and personal services	642 700	5 000	3.2	9 500	1.5
Total services	*5 634 300*	*44 000*	*3.2*	*137 300*	*2.5*
Private sector	7 933 300	38 300	2.0	122 900	1.6
National departments	466 100	2 500	2.1	-4 600	-1.0
Provinces	1 048 200	1 200	0.5	500	0.0
Local governments	334 800	3 900	4.8	13 600	4.2
Transport, storage and communication services	105 400	-2 700	-9.6	- 300	-0.3
Other public sector enterprises, including electricity and IEC**	280 000	5 800	8.8	-45 600	-14.0
Public sector	2 234 600	10 700	1.9	-36 400	-1.6
Grand total	10 167 900	49 100	2.0	86 500	0.9

* Seasonally adjusted. Components may not add up to totals due to rounding off.
** Electoral Commission of South Africa

Sources: Stats SA and SARB

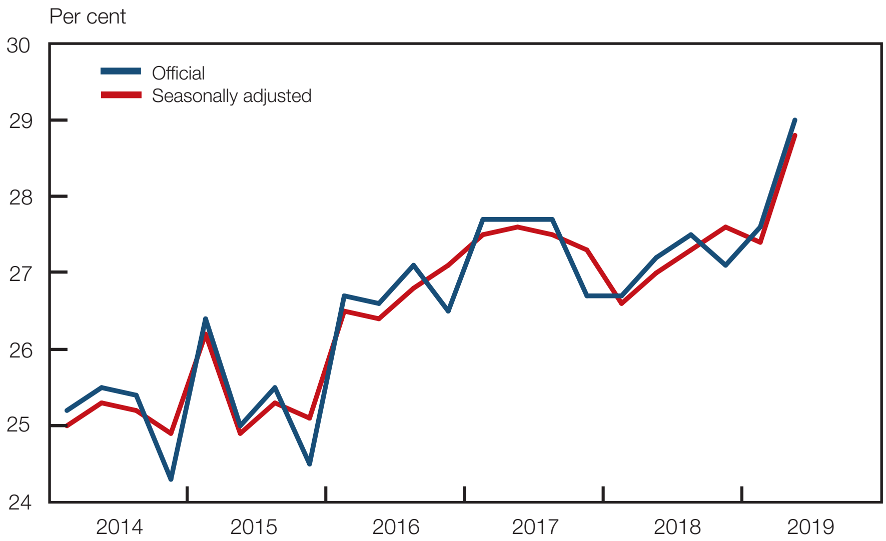
The pace of job shedding in the *construction sector* accelerated in the first quarter of 2019, amid an increasingly challenging operating environment. A cumulative 38 000 construction jobs were lost in the six quarters up to the first quarter of 2019. Recent outcomes of building and construction sentiment indicators suggest continued weakness and do not indicate the expectation of meaningful employment creation in the short term. The First National Bank (FNB)/BER Civil Confidence Index increased only marginally from an all-time low of 10 index points in the first quarter of 2019 to 11 index points in the second quarter, as construction activity declined further. The FNB/BER Building Confidence Index gained 4 index points to 29 in the second quarter of 2019, as confidence increased in four of the six subsectors. Although the majority of building firms were still dissatisfied with business conditions, activity improved at the start of the building pipeline.

The private services sector created a cumulative 145 000 jobs in the three quarters to the first quarter of 2019, with notable employment gains in the retail, wholesale and motor trade as well as in the business services not elsewhere classified (mostly labour brokers) subsectors. The *trade, catering and accommodation services and the finance, insurance, real estate and business services sectors* together accounted for 58% of private sector employment and 45% of total formal non-agricultural employment in the first quarter of 2019. The BER's Retail Survey showed that both retailer business confidence and overall consumer confidence increased in the second quarter of 2019. However, the BER noted that trading conditions remain challenging as rising unemployment, slowing wage growth and the increase in administered prices, among other factors, continue to weigh on overall consumer spending and disposable income. The slight improvement in consumer confidence in the second quarter of 2019 could possibly be attributed to temporary election-related optimism, also observed during previous election periods.

Household-surveyed employment[5] increased by a mere 21 000 between the first and second quarter of 2019 – and by only 25 000 (0.2%) when measured over four quarters – elevating the level of total employment to approximately 16.31 million. Employment gains in the informal sector (219 000) in the year to the second quarter of 2019 contrasted job losses in the formal non-agricultural sector (148 000) and by private households (45 000). In the formal sector, only the trade (210 000), finance (96 000) and manufacturing (45 000) sectors recorded employment growth on an annual basis. The number of employees with contracts of an unspecified duration decreased the most (150 000) in the year to the second quarter of 2019, followed by those with limited duration contracts (32 000) and permanent contracts (25 000).

5 According to the *Quarterly Labour Force Survey* (*QLFS*), conducted by Stats SA

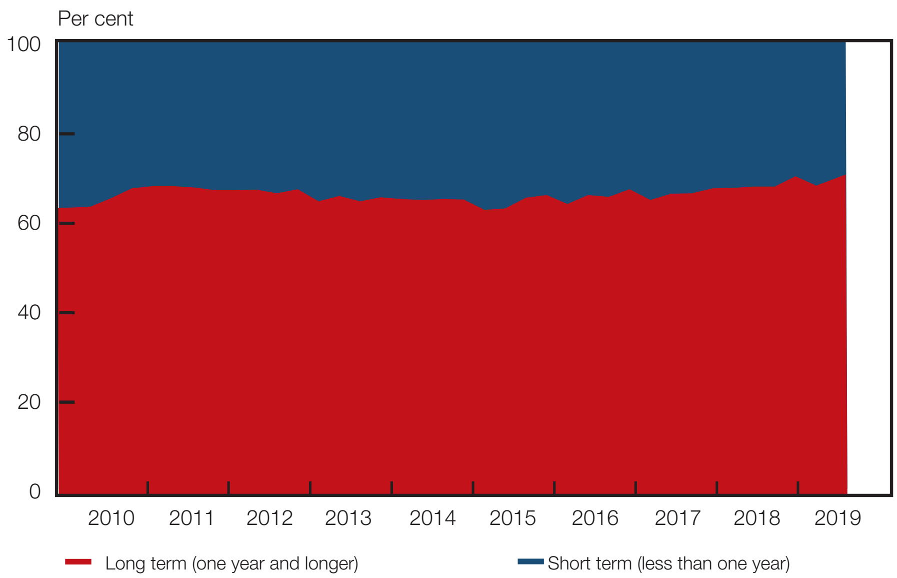
Unemployment rate



Sources: Stats SA and SARB

The number of unemployed South Africans increased notably by 455 000 in the second quarter of 2019 to an all-time high of 6.66 million, and by 573 000 from a year earlier. The number of discouraged work seekers decreased by 115 000 (4.0%) to 2.75 million in the year to the second quarter of 2019, and by 248 000 from the first to the second quarter. As a result, the official unemployment rate increased markedly from 27.6% in the first quarter of 2019 (and 27.2% a year earlier) to 29.0% in the second quarter – the highest since the inception of the *QLFS* in 2008. The unemployment rate was lifted by a significant number of new entrants and previously discouraged work seekers entering the labour market and actively searching for jobs. This possibly reflected optimism following the May 2019 national elections as well as more strain on household finances, inducing increased job searching activity. Likewise, the seasonally adjusted unemployment rate increased significantly from 27.4% in the first quarter of 2019 to 28.8% in the second quarter.

Short- and long-term unemployment as a proportion of total unemployment



Source: Stats SA

The youth unemployment rate (for people aged 15 to 24 years) increased for a third successive quarter from 55.2% in the first quarter of 2019 to a record high of 56.4% in the second quarter, up from 53.7% a year earlier. Of concern was the increase in the proportion of South Africans who have been unemployed for one year and longer, relative to short-term (or cyclical) unemployment. Structural long-term unemployment as a proportion of total unemployment soared from a low of 63.6% in the first quarter of 2015 to 71.5% in the second quarter of 2019 – the largest proportion since the inception of the *QLFS* in 2008. The majority of the unemployed youth falls into this category, which reflects the inability of the South African labour market to absorb the growing pool of largely unskilled labour, necessitating urgent appropriate policy interventions.

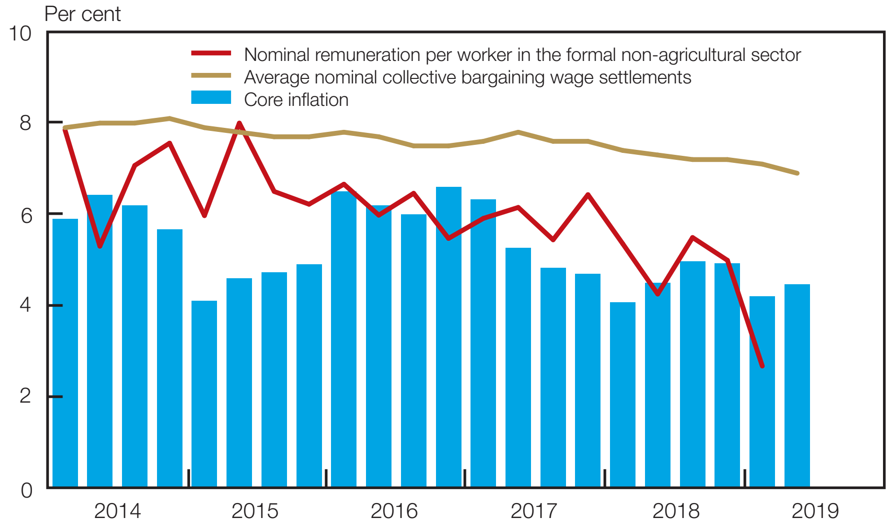
Labour cost and productivity

The pace of increase in *nominal remuneration per worker* in the formal non-agricultural sector moderated significantly further from a year-on-year rate of 5.0% in the fourth quarter of 2018 to a record low of 3.3% in the first quarter of 2019. This reflected a marked slowdown in private sector remuneration growth while that in the public sector accelerated.

The continued moderation in *private sector nominal remuneration growth per worker* for a third successive quarter, from 5.1% in the second quarter of 2018 to an all-time low of 1.0% in the first quarter of 2019, reflected the large number of new low-earning jobs in the trade and business services sectors, among other factors. Remuneration growth per worker slowed in most subsectors, namely trade, catering and accommodation services; manufacturing; non-gold mining; and private community, social and personal services. In addition, remuneration per worker contracted in the finance, insurance, real estate and business services and in the gold mining sectors. Wage growth per worker was adversely affected by the protracted strike at a large gold producer and in the finance sector by significantly lower bonus and overtime payments, the weak residential property market and the large number of low-earning jobs added in the business services subsector. Conversely, wage growth quickened slightly in the construction and private transport, storage and communication services sectors.

By contrast, growth in *nominal remuneration per public sector worker* quickened from 7.0% in the fourth quarter of 2018 to 10.0% in the first quarter of 2019. However, when excluding election-related outliers, public sector wage growth per worker remained broadly unchanged, accelerating marginally from 7.0% to 7.1% over the same period. Nominal wage growth per worker quickened at all public sector tiers, with the exception of local government, due to the increase in low-earning EPWP job opportunities.

Formal non-agricultural remuneration, wage settlements and inflation



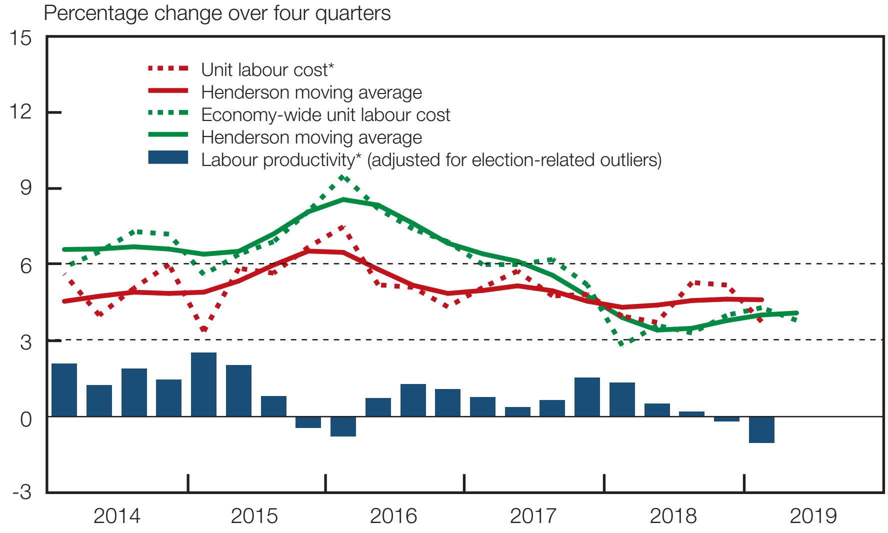
Sources: Andrew Levy Employment Publications, Stats SA and SARB

The average *nominal wage settlement rate*[6] in collective bargaining agreements decreased to its lowest level since the second quarter of 2007 in an environment of weak output and employment growth as well as relatively subdued consumer price inflation. At only 6.9% in the first half of 2019, it was lower than the 7.3% in the corresponding period of 2018 and the average of 7.2% for 2018 as a whole. Even though the *number of working days lost due to strike action* doubled to 1.10 million in the first half of 2019, from 550 000 in the first half of 2018, it was less than the 1.95 million for 2018 as a whole. Ongoing wage negotiations in the automotive and platinum mining industries could impact the number of working days lost in coming quarters, given the history of strike action accompanying past negotiations in these industries.

6 According to Andrew Levy Employment Publications

Labour productivity in the formal non-agricultural sector contracted further by 0.4% in the first quarter of 2019, following a decrease of 0.2% in the fourth quarter of 2018, as year-on-year output growth moderated while growth in employment accelerated. When adjusting for election-related outliers, labour productivity growth contracted even more (by 1.0%) in the first quarter of 2019.

Labour productivity and unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

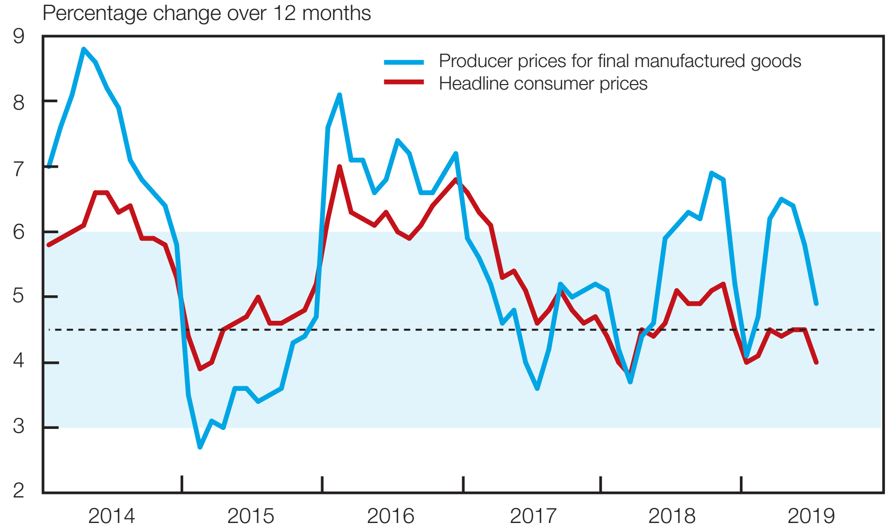
Growth in *nominal unit labour cost* in the formal non-agricultural sector slowed notably from 5.2% in the fourth quarter of 2018 to 3.7% in the first quarter of 2019, as year-on-year growth in total remuneration slowed at a faster pace than that in output. Year-on-year growth in economy-wide unit labour cost moderated from 4.3% in the first quarter of 2019 to 3.8% in the second quarter, as year-on-year output growth accelerated at a faster pace than that in the nominal compensation of employees.

Prices[7]

Domestic inflationary pressures initially increased somewhat since January 2019, largely due to the then higher international crude oil prices and, to a lesser extent, also owing to the earlier depreciation in the exchange value of the rand. Headline consumer price inflation accelerated from 4.0% in January 2019 to 4.5% (the midpoint of the inflation target range) in March and then settled around that level until June, before moderating to 4.0% again in July.

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

Producer and consumer price inflation

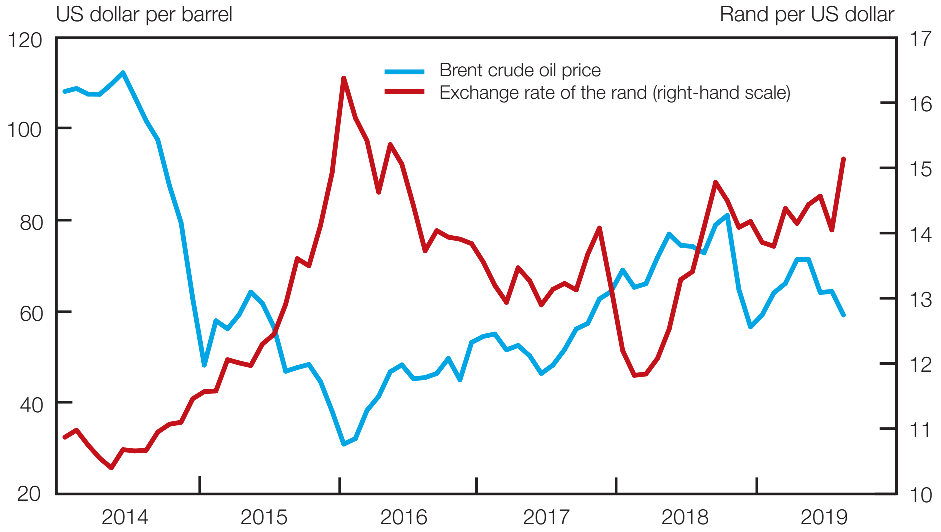


--- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Most measures of producer price inflation accelerated in the first four months of 2019 before slowing somewhat thereafter. Producer price inflation for final manufactured goods accelerated from 4.1% in January 2019 to 6.5% in April, before moderating again to 4.9% in July. Producer price inflation for intermediate manufactured goods displayed a similar trend, driven mostly by movements in chemicals and metals price inflation. Producer price inflation for mining products accelerated strongly to 21.1% in April 2019 before slowing to 15.7% in July, due to fluctuations in metal ore, coal and gas price inflation. Electricity and water producer price inflation accelerated to 14.5% in July 2019, mainly due to higher electricity prices while water price inflation remained elevated. Producer price changes for agriculture, forestry and fishing products briefly moved out of deflation in April 2019, at 0.3%, before prices again decreased by 1.1% in July.

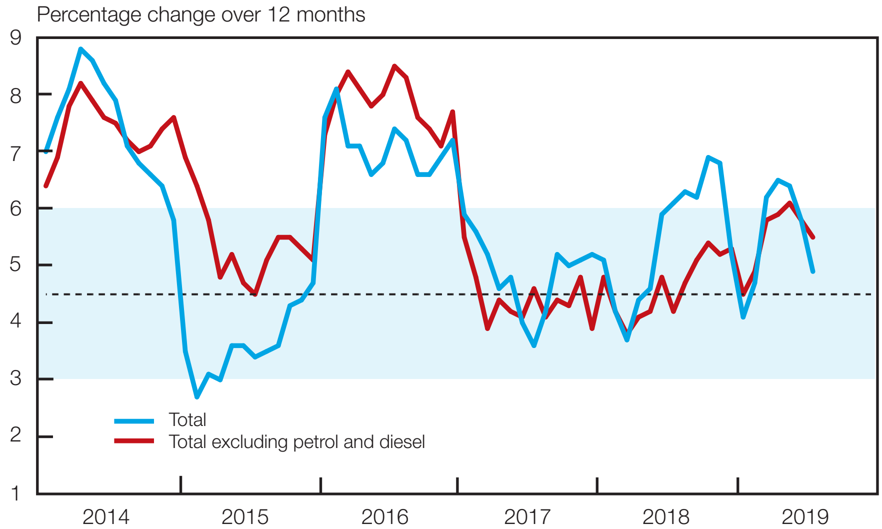
International oil price and exchange value of the rand



Source: Reuters

Higher domestic fuel prices were the major drivers of inflationary pressures in both the producer and consumer price indices throughout most of 2018 and the beginning of 2019. This is reflected by the more subdued headline producer price inflation, excluding petrol and diesel prices, which at 5.9% in April 2019 was 0.6 percentage points lower than headline producer price inflation. This measure of producer price inflation has nevertheless accelerated gradually since the start of 2018 and converged with headline producer price inflation in June 2019, at 5.8%.

Final manufactured producer price index



--- Midpoint of the inflation target range (4.5%)

Sources: Stats SA and SARB

Likewise, consumer price inflation excluding petrol and diesel prices has mostly remained below headline consumer price inflation, and consistently below the midpoint of the inflation target range, since April 2018. After diverging by as much as 0.4 percentage points in April 2019, these two inflation measures converged in recent months as the effect of higher fuel price inflation on consumer price inflation faded.

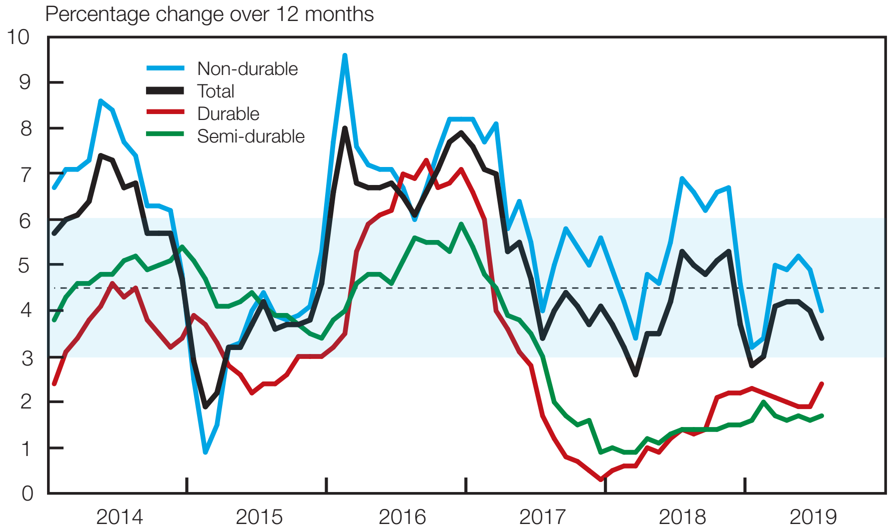
Consumer price index

--- Midpoint of the inflation target range (4.5%)

Sources: Stats SA and SARB

Consumer goods price inflation was the main driver of overall consumer price inflation in the first half of 2019, accelerating from 2.8% in January 2019 to 4.2% in May, before moderating to 3.4% in July. Over this period, total goods price inflation was driven almost entirely by movements in non-durable goods price inflation, which primarily originated from changes in fuel price inflation. Durable goods price inflation slowed to a subdued 2.4% in July 2019, largely due to a moderation in vehicle price inflation. Similarly, semi-durable goods price inflation remained muted around 1.7% in the first seven months of 2019. The prolonged period of subdued durable and semi-durable goods price inflation suggests fairly weak exchange rate pass-through in an environment of weak domestic economic growth.

Consumer goods price inflation



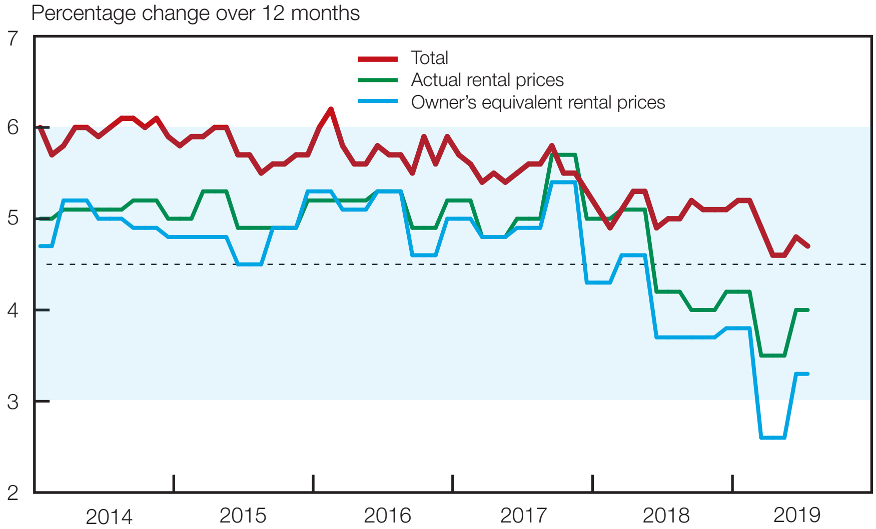
--- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Consumer services price inflation moderated from 5.2% in January 2019 to 4.6% in April and May mainly due to lower rental price inflation, which accounts for almost a third of the consumer services price basket. Both actual and owners' equivalent rental price inflation have slowed notably since the end of 2017 to their respective lowest levels since January 2009. The moderation in rental price inflation reflected subdued domestic economic activity, slowing wage growth and a weak residential property market. More recently, consumer services price inflation accelerated marginally to 4.7% in July 2019, as rental price inflation quickened somewhat.

Consumer services price inflation

Percentage change over 12 months



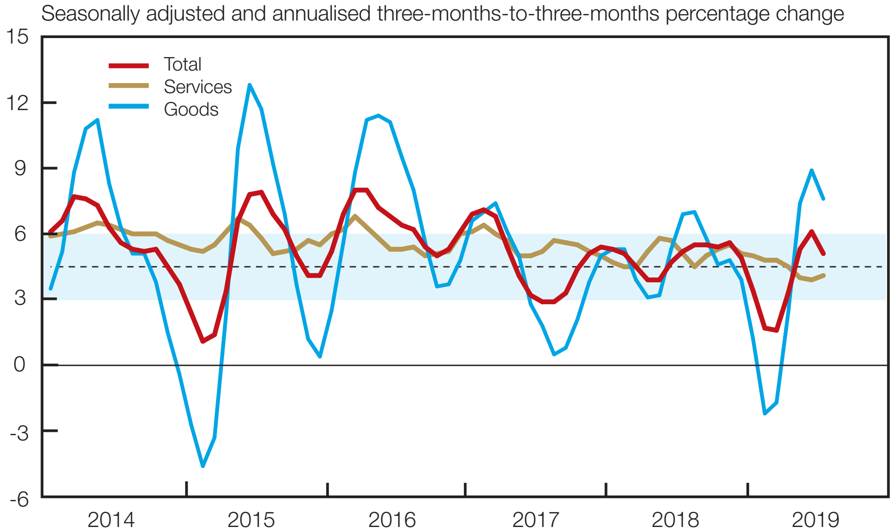
--- Midpoint of the inflation target range (4.5%)

Source: Stats SA

In contrast to headline consumer price inflation remaining close to the midpoint of the inflation target range, its short-term momentum gathered pace in recent months as the seasonally adjusted and annualised three-months-to-three-months percentage change in the consumer price index accelerated from 1.6% in March 2019 to 6.1% in June, before receding to 5.1% in July. This was mainly driven by a faster short-term pace of increase in consumer goods prices which accelerated to 8.9% in June 2019, along with the increase in fuel prices, before slowing somewhat to 7.6% in July. Conversely, the short-term pace of increase in the consumer services price index moderated from 5.0% in January 2019 to 4.1% in July, along with the moderation in rental price inflation.

Headline consumer price inflation

Seasonally adjusted and annualised three-months-to-three-months percentage change



--- Midpoint of the inflation target range (4.5%)

Sources: Stats SA and SARB

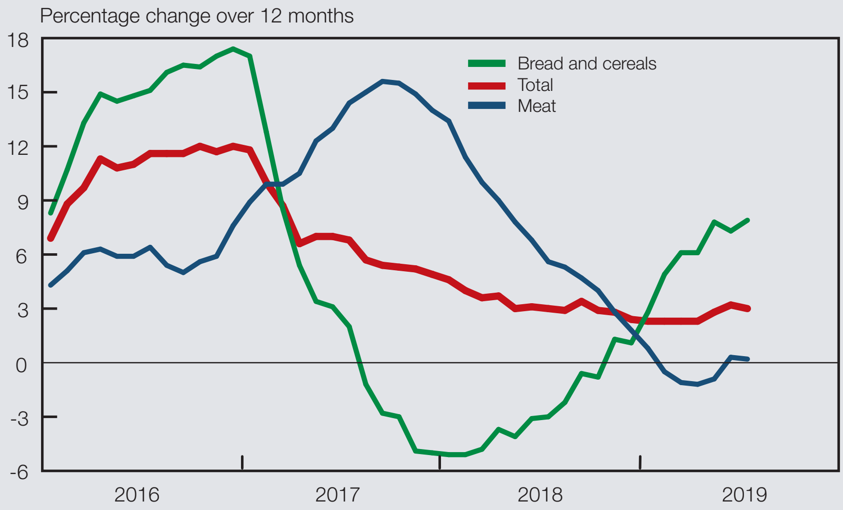
The year-on-year percentage change in the US dollar-denominated international food price index of the Food and Agriculture Organization (FAO) of the United Nations accelerated from -3.2% in March 2019 to 1.2% in August. This reflected higher dairy and meat prices and, to a lesser extent, higher oil and sugar prices, partially offset by significantly lower cereal prices in the five months to May 2019. In contrast, the 12-month increase in the rand-denominated FAO international food price index moderated from 17.6% to 8.7% over the same period as the exchange value of the rand against the US dollar appreciated up to July 2019. The year-on-year increase in the rand-denominated international cereals price index moderated markedly from a recent high of 22.4% in January 2019 to only 0.3% in August.

Domestic food price inflation has begun to accelerate in recent months, following a prolonged period of muted food price pressures. Final manufactured producer food price inflation accelerated gradually from 2.2% in January 2019 to 6.1% in July, as manufactured meat prices increased slightly and as grain mill and bakery product price inflation accelerated into double digits. At the consumer level, food price inflation quickened from a recent low of 2.3% in April 2019 to 3.2% in June as bread and cereals price inflation remained elevated and meat price changes moved out of deflation. See Box 2 for an analysis of the drivers of domestic consumer food price inflation.

Box 2 Drivers of domestic consumer food price inflation

The significant moderation in consumer food price inflation, from a recent peak of 12.0% in December 2016 to 2.3% in the first four months of 2019, was initially driven by a sharp deceleration in bread and cereals price inflation which outweighed an acceleration in meat price inflation over the period. The subsequent slowdown in meat price inflation then marginally outweighed the later acceleration in bread and cereals price inflation. These two food categories play a prominent role in the evolution of overall consumer food price outcomes, given their dominant weighting in the consumer food price basket[1]

Consumer food price inflation



Source: Stats SA

Thus far in 2019, the domestic spot price of white maize has levelled off following a marked increase in 2018, while that of wheat increased further, albeit at a slower pace. The year-on-year percentage increases in both of these prices accordingly moderated as the low price-comparison base gradually dissipates.

Recently, overall consumer food price inflation accelerated somewhat to 3.2% in June 2019 as bread and cereals price inflation quickened further, and as meat price *deflation* moderated and prices began to increase thereafter.

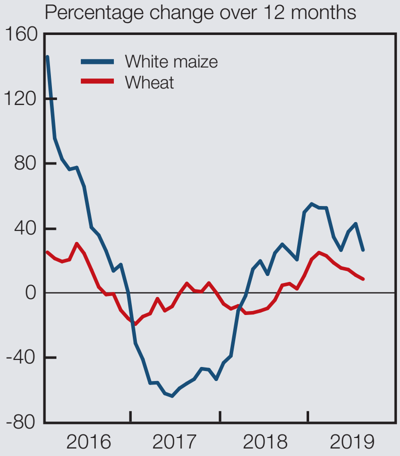
1 Meat products have a weight of 35.3% in the consumer food price index, with bread and cereals comprising 20.7% of the index.

Domestic spot prices of wheat and white maize

Rand per ton

Change in spot prices of domestic wheat and white maize

Percentage change over 12 months



Sources: International grains council and JSE

This box reflects on looming domestic food price pressures as assessed through the relationship between international food price inflation,[2] domestic agricultural producer price inflation and domestic consumer food price inflation. It seems that, although consumer food price inflation could accelerate in coming months, the effect of higher meat price inflation will likely be moderated somewhat by slowing bread and cereals price inflation. The expectation of a moderation in consumer bread and cereals price inflation, from its recent peak of 7.9% in July 2019, is based on the leading properties of price outcomes at earlier stages of production within the food price formation process.

The relationships in this price formation process are explored in terms of both correlation and asymmetrical turning point analysis. The correlation analysis[3] showed that the year-on-year percentage change in the rand-denominated[4] food price index of the Food and Agricultural Organization (FAO) of the United Nations correlated fairly well with the year-on-year percentage change in the domestic consumer price index (CPI) for food, with the highest correlation of 0.80 at a nine-month lead. Similarly, the rand-denominated FAO cereals price index correlated relatively well with the domestic CPI for bread and cereals, with the highest correlation of 0.70 at a six-month lead. However, the correlation between rand-denominated FAO meat price inflation and the domestic CPI for meat was weak, most probably due to the fact that most of domestic meat consumption is produced locally. Also, domestic meat prices are not affected to the same extent by import parity pricing, as is the case with cereals.

An *asymmetrical turning point analysis*[5] of leads and lags between these food price measures showed that rand-denominated FAO food prices lead cyclical turning points in total domestic CPI food prices at both peaks and troughs. This is also the case for international cereals prices, with the median lead at troughs being more than double that at peaks. Total domestic agricultural producer prices, constituted primarily of food, also reached cyclical turning points ahead of that in total domestic CPI food prices, with the peaks and troughs in domestic agricultural producer prices for cereals and other crops leading those in CPI bread and cereals prices.

Median leads in months at cyclical turning points of different measures of food price inflation

	Domestic CPI inflation			
	Total food		Bread and cereals	
	Peaks	Troughs	Peaks	Troughs
Rand-denominated FAO food prices	10.0	13.5	–	–
Total domestic agricultural producer prices	4.0	5.0	–	–
Rand-denominated FAO cereals prices	–	–	5.0	12.0
Domestic agricultural producer prices for cereals and other crops	–	–	8.5	6.5

Source: FAO, Stats SA and SARB

2 International food price inflation as measured by the Food and Agricultural Organization (FAO) of the United Nations.

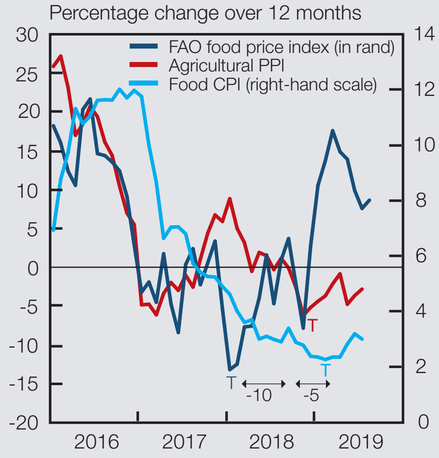
3 The sample period of the correlation analysis is January 2001 to April 2019.

4 Note that the rand-denominated FAO indices already include the impact of changes in the exchange value of the rand and that exchange rate effects were not separated in the analysis.

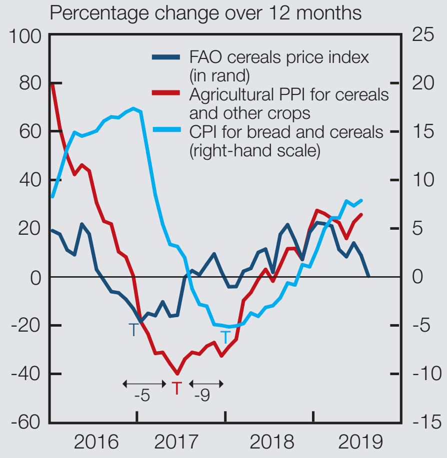
5 The sample period of the turning point analysis is from the mid-1990s to April 2019.

These leading properties of international food prices and domestic agricultural producer prices in respect of domestic consumer food prices held up well during the most recent trough in domestic food price inflation. The lower turning point in FAO food price inflation in January 2018 preceded that in domestic agricultural producer price inflation by 10 months and that in domestic CPI food price inflation by 15 months. Similarly, the trough in FAO cereals price inflation in January 2017 led the trough in domestic agricultural producer price inflation for cereals and other crops by five months and the trough in CPI bread and cereals price inflation by 14 months.

International and domestic food price inflation



International and domestic cereal price inflation



* Note that T indicates trough
Sources: FAO, Stats SA and SARB

This analysis shows the predictive value of leads and lags in the price formation process. Therefore, an acceleration in consumer food price inflation can be expected in coming months, given already observed higher price pressures in the food production chain. However, the acceleration will most likely be moderated by slowing wheat and maize price inflation, supressing increases in the prices of bread and cereals at the consumer level.

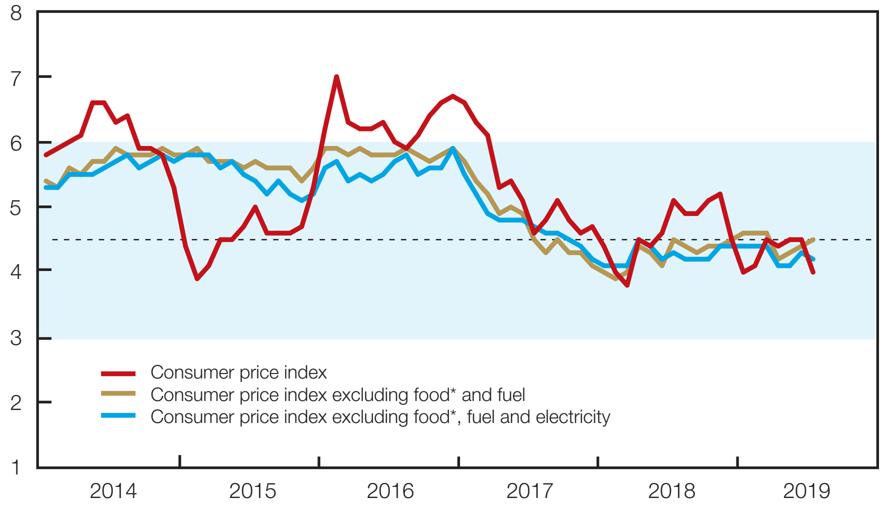
Underlying inflationary pressures have remained contained in an environment of weak domestic demand, lacklustre economic growth and muted international price pressures. Underlying inflation (headline consumer price inflation excluding food, non-alcoholic beverages and petrol prices) accelerated slightly from 4.2% in April 2019 to 4.5% in July. Likewise, the South African Reserve Bank's (SARB) preferred measure of core inflation, which also excludes electricity prices, accelerated from a low of 4.1% in May 2019 to 4.3% in June, largely due to somewhat higher rental price inflation.

The seasonally adjusted and annualised three-months-to-three-months percentage change in core inflation corroborates the existence of muted underlying inflationary pressures in the economy. This measure has fluctuated within the inflation target range for 38 consecutive months up to July 2019, and slowed from 4.6% in November 2018 to 4.0% in July, suggesting the absence of any meaningful underlying inflationary pressures in the domestic economy.

Administered price inflation accelerated from a low of 5.0% in January 2019 to 8.3% in April as fuel price inflation accelerated from -1.2% to 12.0% over the same period. Domestic fuel prices have increased by a cumulative 275 cents per litre (19.6%) for inland 95 octane unleaded petrol in the five months to June 2019, as international crude oil prices increased and with the general depreciation in the exchange value of the rand. Subsequently, administered price inflation decelerated significantly to 4.7% in July 2019, as fuel price inflation moderated markedly following decreases of 95 cents per litre and 75 cents per litre in petrol and diesel prices respectively at the beginning of the month. When excluding the volatile fuel prices, administered price inflation slowed from 7.7% in March 2019 to 6.8% in June, before accelerating to 7.0% up to July 2019. However, when also excluding electricity prices, administered price inflation slowed further to 5.3% in July 2019.

Headline and underlying measures of consumer price inflation

Percentage change over 12 months



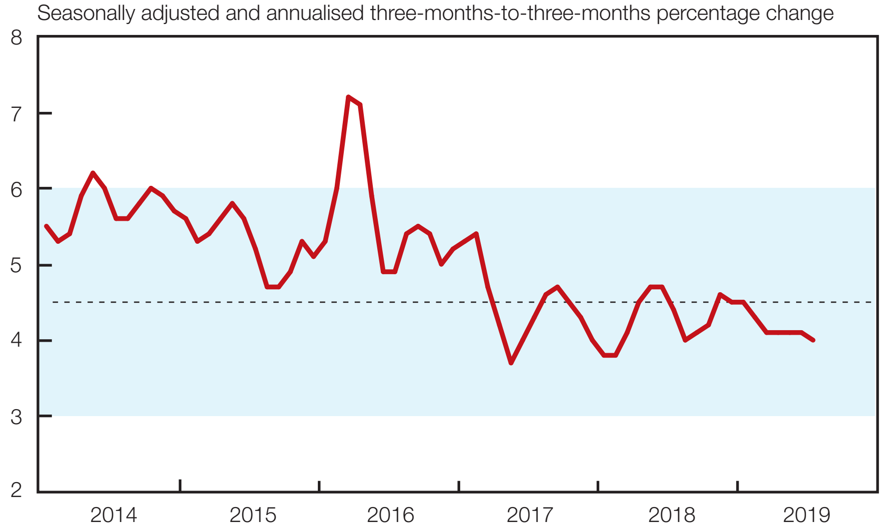
* Food includes non-alcoholic beverages

--- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Headline consumer price index excluding food*, fuel and electricity

Seasonally adjusted and annualised three-months-to-three-months percentage change



* Food includes non-alcoholic beverages

--- Midpoint of the inflation target range (4.5%)

Sources: Stats SA and SARB

Average annual headline inflation expectations, as reflected in the survey conducted by the BER in the second quarter of 2019, remained unchanged at 4.8% for 2019 but declined further in respect of the two subsequent years. On average, financial analysts as well as business and trade union representatives foresee inflation to average 5.0% in 2020 and 5.2% in 2021, down from 5.2% and 5.3% previously. Financial analysts and trade union representatives lowered their expectations across the whole forecast horizon, while business representatives kept theirs unchanged from the first quarter. The inflation expectations of business representatives remained higher than those of the other two survey groups, with the gap widening to about 0.5 percentage points on average for both 2020 and 2021.

Headline consumer price inflation expectations

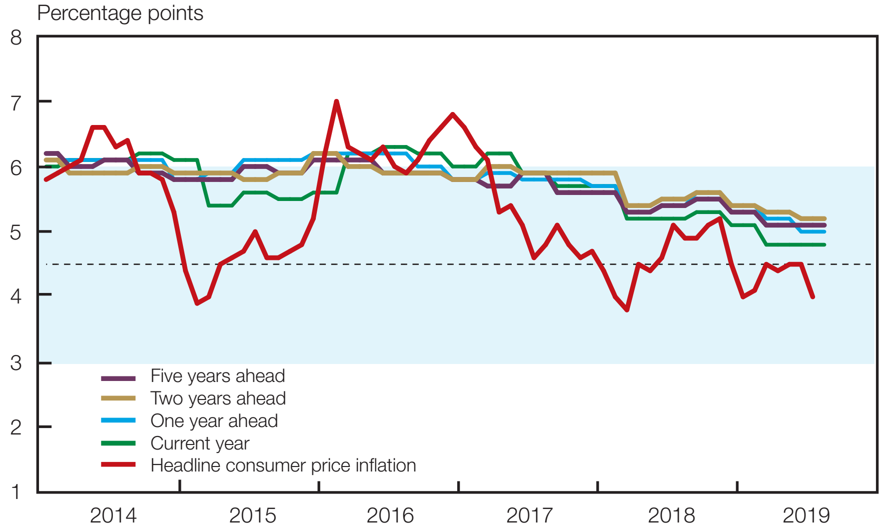
Per cent, as surveyed in the second quarter of 2019

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2019	4.5	5.1	4.7	4.8
2020	5.0	5.3	4.9	5.0
2021	5.0	5.5	5.0	5.2
Five years ahead	4.9	5.4	5.1	5.1

Source: BER

Average *five-year inflation expectations* remained unchanged at 5.1% from the first to the second quarter of 2019. A decline in financial analysts' expectations fully offset increases in the expectations of both business and trade union representatives.

Inflation expectations and headline consumer price inflation



--- Midpoint of the inflation target range (4.5%)

Sources: BER and Stats SA

Household inflation expectations moderated steadily from 6.6% in the second quarter of 2017 to 5.4% in the fourth quarter of 2018, before surging temporarily to 6.0% in the first quarter of 2019 and receding again to 5.1% in the second quarter of 2019.

External economic accounts

Current account[8]

South Africa's trade balance with the rest of the world switched from a surplus of R41.9 billion in the first quarter of 2019 to a deficit of R27.2 billion in the second quarter, as the increase in the value of net gold and merchandise exports was less than that of imports. The increase in the value of merchandise imports was driven by higher rand prices as well as higher volumes, while that of merchandise exports resulted from an increase in the rand prices.

The trade deficit in the second quarter of 2019 marked only the second interruption in a sequence of surpluses in the last 13 quarters. The latest trade deficit, in contrast to the first quarter of 2018, was accompanied by an increase in the value of merchandise exports (including gold), which brought the ratio of merchandise exports relative to gross domestic product (GDP) to 25.3%, compared with 24.3% in the first quarter of 2018. The higher ratio reflected an increase of about 13% in the value of merchandise exports between these two deficit quarters and signals a relatively firm export base amid challenging global economic conditions.

8 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

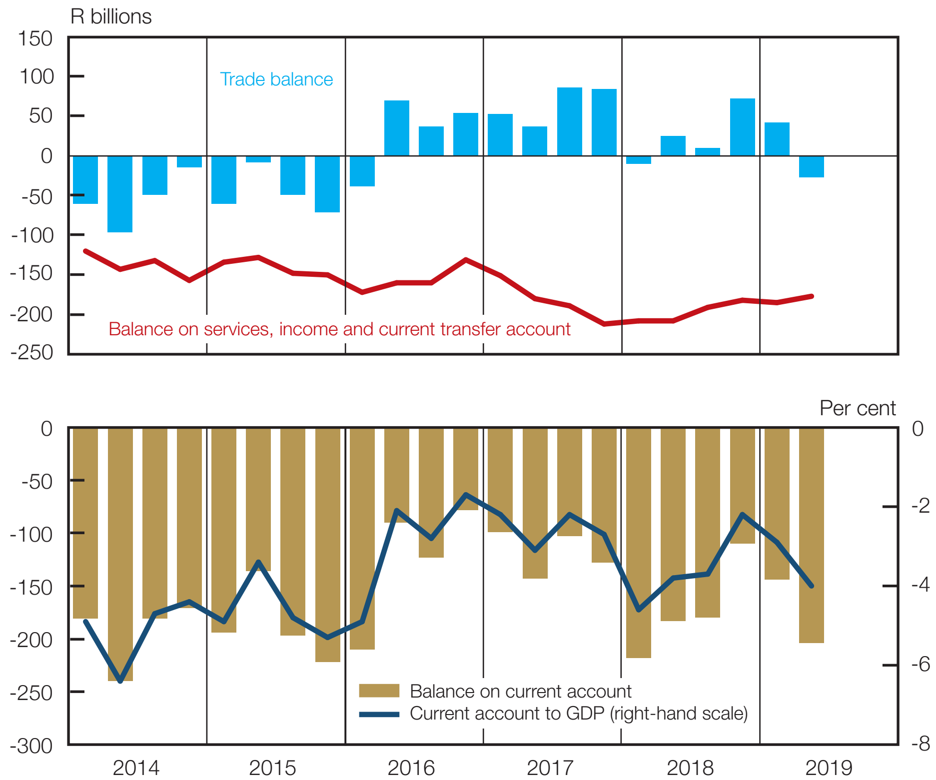
	2018				2019	
	Q2	Q3	Q4	Year	Q1	Q2
Merchandise exports	1 115	1 235	1 287	1 176	1 193	1 239
Net gold exports	70	73	67	72	56	50
Merchandise imports	-1 160	-1 298	-1 283	-1 223	-1 207	-1 316
Trade balance	**25**	**10**	**72**	**24**	**42**	**-27**
Net service, income and current transfer payments	-208	-191	-182	-197	-185	-177
Balance on current account	**-183**	**-180**	**-110**	**-173**	**-144**	**-204**
As a percentage of gross domestic product						
Trade balance	0.5	0.2	1.4	0.5	0.9	-0.5
Services balance	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3
Income balance	-3.5	-3.0	-2.8	-3.2	-2.8	-2.5
Current transfer balance	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7
Balance on current account	**-3.8**	**-3.7**	**-2.2**	**-3.5**	**-2.9**	**-4.0**

Components may not add up to totals due to rounding off

Sources: Stats SA and SARB

The deterioration in the trade balance in the second quarter of 2019 was contrasted by a smaller shortfall on the services, income and current transfer account. On balance, the deficit on the current account of the balance of payments widened from R144 billion in the first quarter of 2019 to R204 billion in the second quarter. As a percentage of GDP, the deficit on the current account widened from 2.9% to 4.0% over the same period.

Current account of the balance of payments

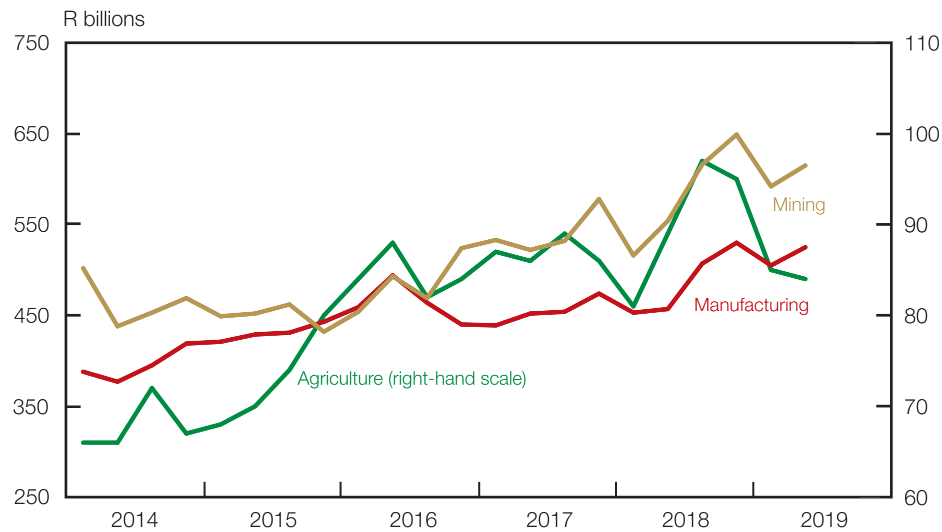


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The rebound of 3.8% in the value of merchandise exports in the second quarter of 2019 reflected a recovery in mining and manufacturing exports. Improved operational performance in the mining sector, following electricity-supply disruptions and labour strikes in the first quarter of 2019, supported increases in the values of exported platinum group metals (PGMs), mineral products as well as base metals and articles of base metals. Increased exports of vehicles and transport equipment as well as machinery and electrical equipment, which more than offset lower exports of paper and paper products as well as chemical products, boosted the value of manufactured exports. The value of agricultural exports contracted, despite a sharp rise in the export of citrus products, mainly to New Zealand, the United Kingdom, Russia and China.

Value of merchandise exports

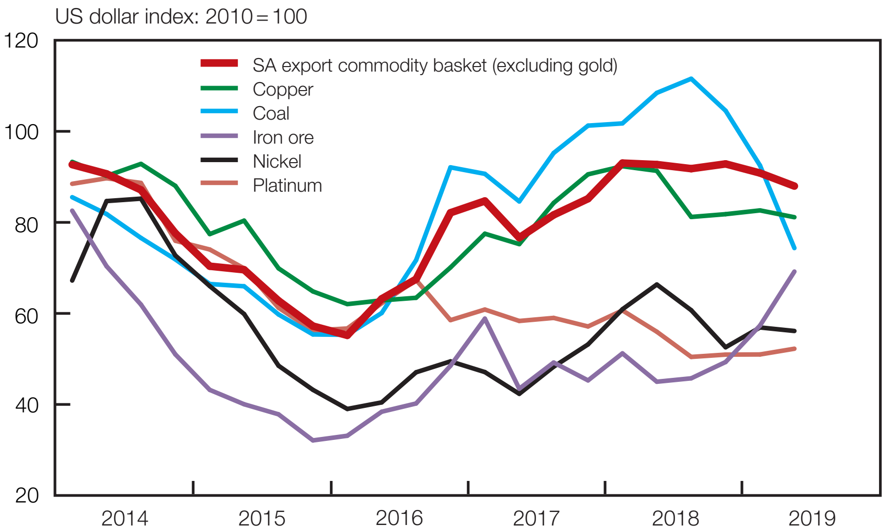


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The United States (US) dollar price of a basket of domestically produced non-gold export commodities declined by 3.2% in the second quarter of 2019, marking a second consecutive quarterly decline. The price of coal fell by almost 20.0% while that of copper and nickel also declined. The collapse in the coal price reflected weak demand, competition from gas and high inventories in the world's largest coal importer, China. The lower prices of base metals, such as copper and nickel, reflected deteriorating global manufacturing activity. By contrast, the prices of iron ore and platinum increased in the second quarter, with the former increasing for the fourth consecutive quarter amid tighter global supplies following the Brazilian dam collapse in January 2019.

International prices of selected South African export commodities



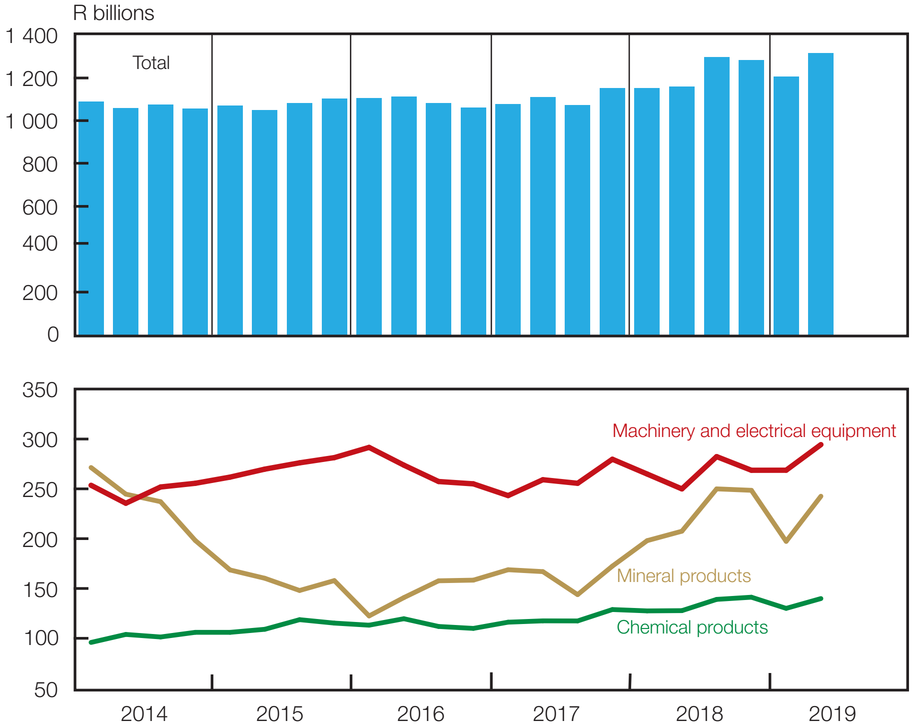
Sources: World Bank and SARB

The rand price of merchandise exports increased by 3.7% in the second quarter of 2019 as the external value of the rand, on average, depreciated over the period. Simultaneously, the volume of merchandise exports increased marginally following a decline of 7.1% in the first quarter of 2019.

In June 2019, the average US dollar price of gold on the London market increased to levels last seen in 2013, following declines in April and May. The increase in the gold price reflected, among others, higher demand for safe haven assets amid intensifying tensions between the US and Iran as well as expectations of an interest rate cut by the US Federal Reserve (Fed). On average, the US dollar gold price only increased marginally by 0.4% from US$1 304 per fine ounce in the first quarter of 2019 to US$1 310 per fine ounce in the second quarter. However, the average realised rand price of net gold exports increased by 4.7% over the same period as the exchange value of the rand weakened. Despite a slight increase in domestic gold production, the volume of net gold exports decreased in the second quarter of 2019. As a result, the value of net gold exports decreased by 11.3% in the second quarter of 2019.

Following two consecutive quarterly contractions, the value of merchandise imports increased by 9.0% in the second quarter of 2019. This reflected a rebound in the value of mining, manufacturing and agricultural imports. The total value of mining imports was boosted by a substantial increase in crude oil and refined petroleum products. Accordingly, the proportion of mineral products to total merchandise imports increased from 16.4% in the first quarter of 2019 to 18.5% in the second quarter, though still below the peak of 24.9% in the first quarter of 2014. This ratio is well correlated with the average rand price of crude oil, as crude oil and refined petroleum products account for the bulk of mineral imports.

Value of merchandise imports

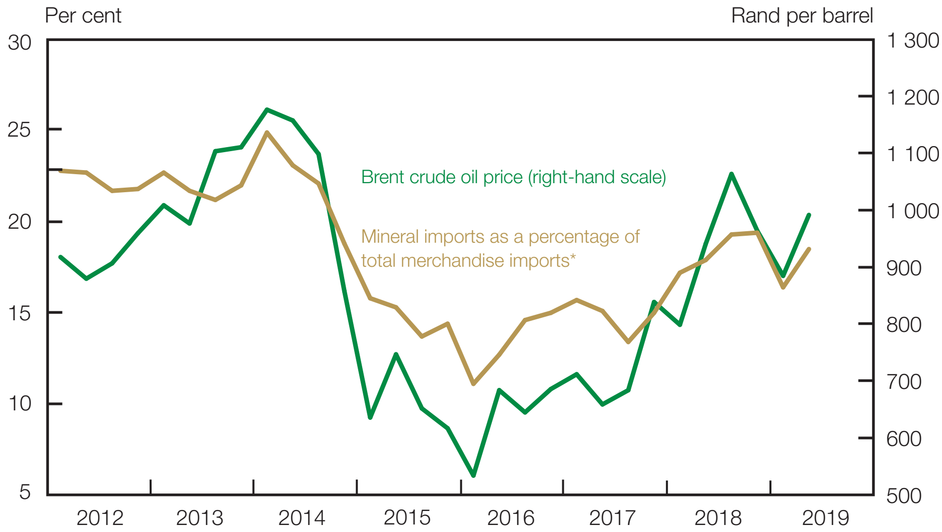


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The higher value of manufacturing imports in the second quarter of 2019 emanated from the increased importation of machinery and electrical equipment as well as chemical products. The former increased robustly due to higher demand for automatic data processing machines, photovoltaic cells as well as wind-powered generating sets required for the construction of wind farms.

Mineral imports and the rand price of crude oil

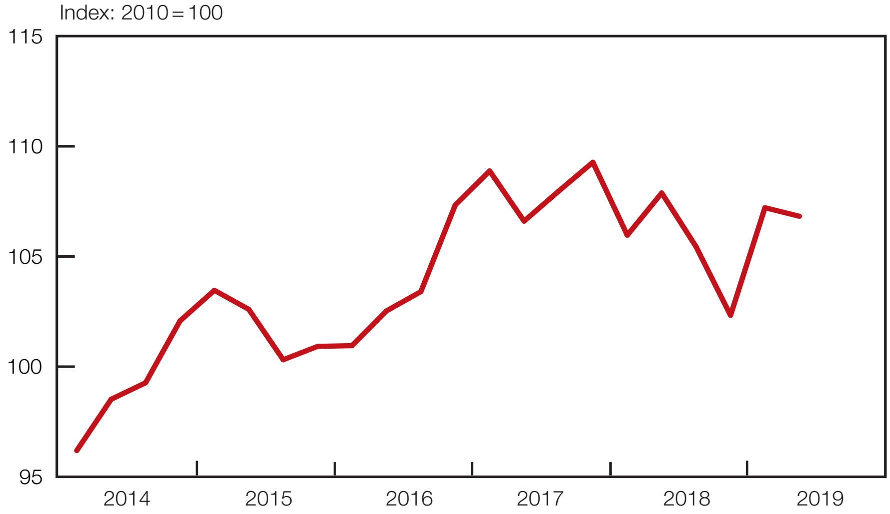


*Seasonally adjusted and annualised

Sources: Stats SA and SARB

The rand price of merchandise imports increased by 4.0% in the second quarter of 2019, following a decline of 4.4% in the first quarter. The increase reflected the depreciation in the exchange value of the rand, on average, together with higher international crude oil prices. Over the same period, the volume of merchandise imports increased by 4.8%. As a result, the import penetration ratio – real merchandise imports as a ratio of real gross domestic expenditure (GDE) – increased from 26.1% in the first quarter of 2019 to 26.8% in the second quarter.

Terms of trade*

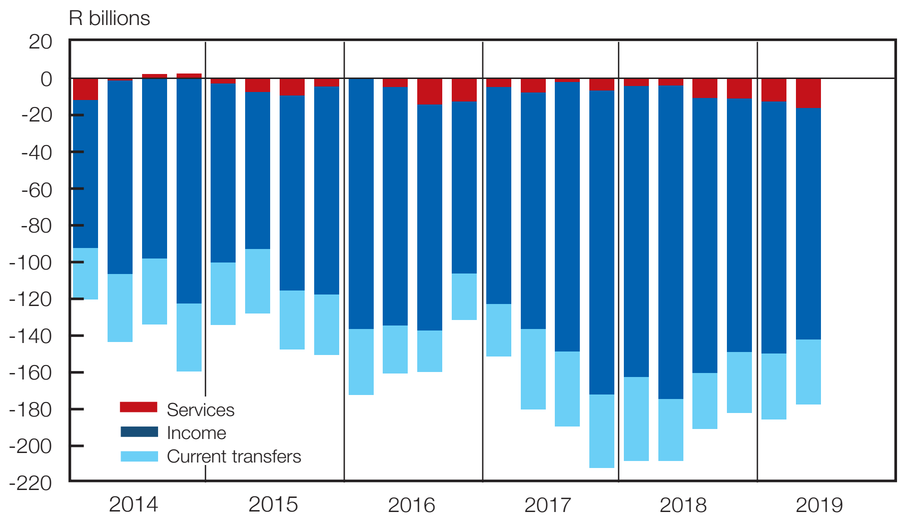


* Including gold
Sources: Stats SA and SARB

South Africa's terms of trade deteriorated in the second quarter of 2019 as the rand price of imports rose faster than that of exports.

The deficit on the services, income and current transfer account narrowed from R185 billion in the first quarter of 2019 to R177 billion in the second quarter. Expressed as a percentage of GDP, the deficit improved from 3.8% in the first quarter of 2019 to 3.5% in the second quarter, the smallest since the 3.4% in the first quarter of 2017. A slightly larger deficit on the services account was more than offset by smaller deficits on the current transfer account and on the income account in particular.

Net service, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

Net income payments, which dominate the overall deficit of the account, decreased for the fourth consecutive quarter as gross payments contracted more than gross receipts. The decrease in net income payments could largely be attributed to a contraction of about 12% in gross dividend payments in the first half of 2019 compared to the same period of the previous year in a constrained domestic economic environment. Gross interest payments to non-residents have increased since 2010, to a recent high of 2.4% of GDP in both the first and second quarter of 2019. This compares with a low of 1.0% for 2010 as a whole.

The services deficit widened further in the second quarter of 2019 as services payments exceeded services receipts by a larger margin. Higher payments for freight-related services contributed to the widening of the services deficit, consistent with the increase in imported merchandise. However, a second consecutive quarterly increase in gross travel receipts – which inter alia reflected an increase in the number of inbound tourists from some of South Africa's traditional European markets, compared to the second quarter of last year – contained the services deficit. Many of these tourists at the time chose to attend the 2018 FIFA World Cup™ in Russia.

Net current transfer payments decreased slightly in the second quarter of 2019, largely due to higher current transfer receipts.

Financial account

The financial account of South Africa's balance of payments (excluding unrecorded transactions) recorded an inflow of capital of R13.2 billion in the second quarter of 2019, smaller than the inflow of R24.1 billion in the first quarter. On a net basis, direct and portfolio investment as well as reserve assets recorded inflows, while financial derivatives and other investment registered outflows. As a ratio of GDP, net financial account inflows decreased from 2.0% in the first quarter of 2019 to 1.0% in the second quarter.

Net financial transactions

R billions

	2018				2019	
	Q2	Q3	Q4	Year	Q1	Q2
Change in liabilities						
Direct investment	40.9	28.7	-8.2	70.7	11.7	26.3
Portfolio investment	16.6	17.9	-33.9	90.0	29.2	10.0
Financial derivatives	-45.5	-65.4	-47.9	-218.4	-43.0	-31.5
Other investment	13.7	-8.7	112.7	118.8	35.8	-4.5
Change in assets						
Direct investment	-3.2	-13.0	-23.3	-60.3	-15.3	5.1
Portfolio investment	-8.7	-2.8	-29.3	-56.7	-17.9	17.5
Financial derivatives	50.4	69.9	51.8	225.4	40.9	31.0
Other investment	6.5	-2.0	0.9	-16.2	-51.6	-48.4
Reserve assets	-23.5	3.8	-6.2	-11.3	34.2	7.7
Total identified financial transactions*	**47.3**	**28.4**	**16.6**	**142.0**	**24.1**	**13.2**
As a percentage of gross domestic product	*3.9*	*2.3*	*1.3*	*2.9*	*2.0*	*1.0*

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

Source: SARB

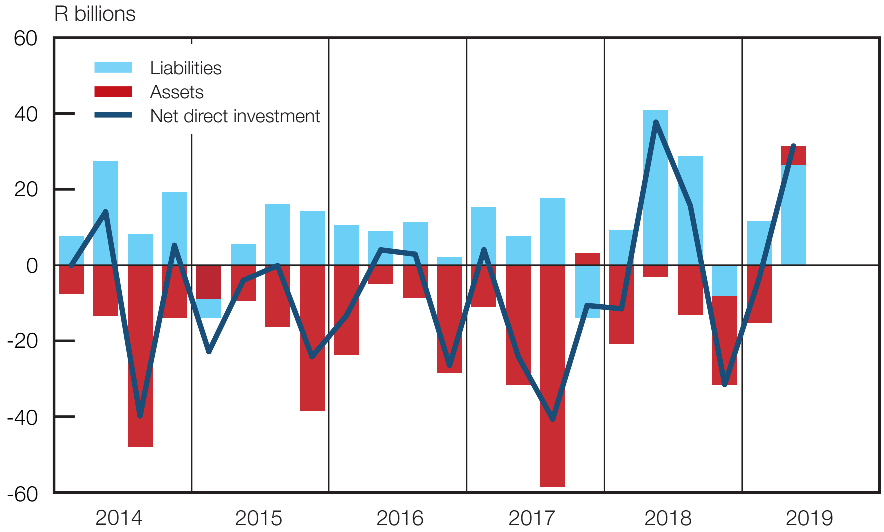
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded a larger inflow of R26.3 billion in the second quarter of 2019, following an inflow of R11.7 billion in the first quarter, as domestic private sector companies acquired debt and, to a lesser extent, equity funding from foreign parent companies.

Portfolio investment liabilities recorded a much smaller inflow of R10.0 billion in the second quarter of 2019, following an inflow of R29.2 billion in the first quarter. This reflected a decline in non-residents' acquisition of domestic debt securities as well as the repayment of international bonds of US$1 748 million by the national government. Net sales of domestic equities over the past three quarters reverted to net purchases of R9.0 billion in the second quarter of 2019.

Other investment liability flows reverted from an inflow of R35.8 billion in the first quarter of 2019 to an outflow of R4.5 billion in the second quarter. The outflow resulted mainly from the repayment of short-term foreign loans by the domestic private banking and non-banking sectors.

Direct investment flows



Source: SARB

South African-owned assets abroad

South Africa's direct investment abroad recorded an inflow of R5.1 billion in the second quarter of 2019, following an outflow of R15.3 billion in the first quarter. This reversion could be attributed to the repayment of loans by non-resident subsidiaries to their domestic parent companies as well as a number of South African parent companies disposing of equity investments abroad.

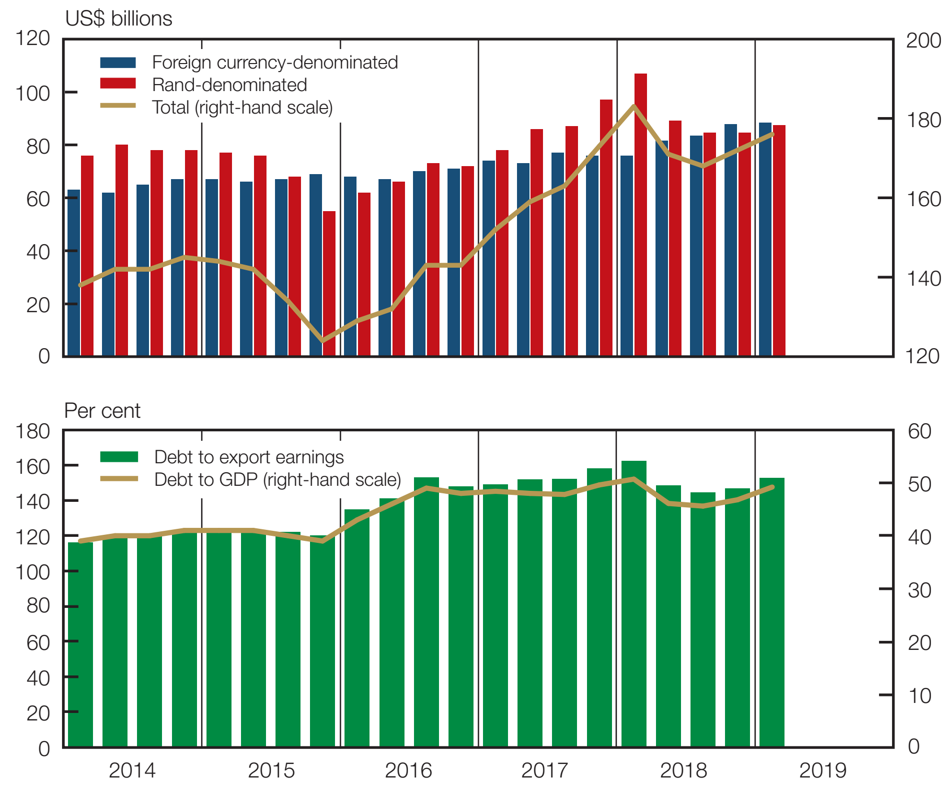
South African residents sold foreign portfolio assets of R17.5 billion in the second quarter of 2019, following acquisitions of R17.9 billion in the first quarter. On a net basis, the domestic private non-banking sector sold foreign equity securities while the domestic private banking sector sold foreign debt securities.

Other investment assets recorded a further outflow of R48.4 billion in the second quarter of 2019, following R51.6 billion in the first quarter. The domestic banking sector's loans to non-residents under repurchase agreements increased and the private non-banking sector extended short-term financing to non-residents.

Foreign debt

South Africa's total external debt increased from US$172.4 billion at the end of December 2018 to US$176.0 billion at the end of March 2019, mainly as a result of net purchases of domestic government bonds by non-residents. In rand terms, South Africa's gross external debt increased from R2 491 billion to R2 569 billion over the same period.

Foreign debt



Source: SARB

Foreign currency-denominated external debt increased marginally from US$87.9 billion at the end of December 2018 to US$88.5 billion at the end of March 2019. The increase was largely due to an increase in long-term loans extended to the non-monetary private sector by non-residents.

Foreign debt of South Africa

US$ billions at end of period

	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Foreign currency-denominated debt	75.9	75.9	81.6	83.4	87.9	88.5
Debt securities	26.7	26.7	29.3	30.7	30.7	30.7
Other	49.2	49.2	52.3	52.7	57.2	57.8
Public sector	9.9	10.4	10.1	10.4	10.4	10.5
Monetary sector	17.1	15.4	16.3	14.3	18.6	17.9
Non-monetary private sector	22.2	23.4	25.9	28.0	28.2	29.4
Rand-denominated debt	97.4	107.3	89.2	84.7	84.5	87.5
Debt securities	57.6	65.2	52.4	49.7	48.1	50.4
Other	39.8	42.1	36.8	35.0	36.4	37.1
Total foreign debt	173.3	183.2	170.8	168.1	172.4	176.0
As a percentage of gross domestic product	*49.6*	*50.7*	*46.1*	*45.6*	*46.8*	*49.2*
As a percentage of total export earnings	*158.0*	*162.4*	*148.6*	*144.6*	*146.8*	*152.7*

Source: SARB

Rand-denominated external debt, in US dollars, increased from US$84.5 billion at the end of December 2018 to US$87.5 billion at the end of March 2019. A decrease in non-residents' rand deposits with the South African banking sector was more than offset by net purchases of domestic government bonds by non-residents.

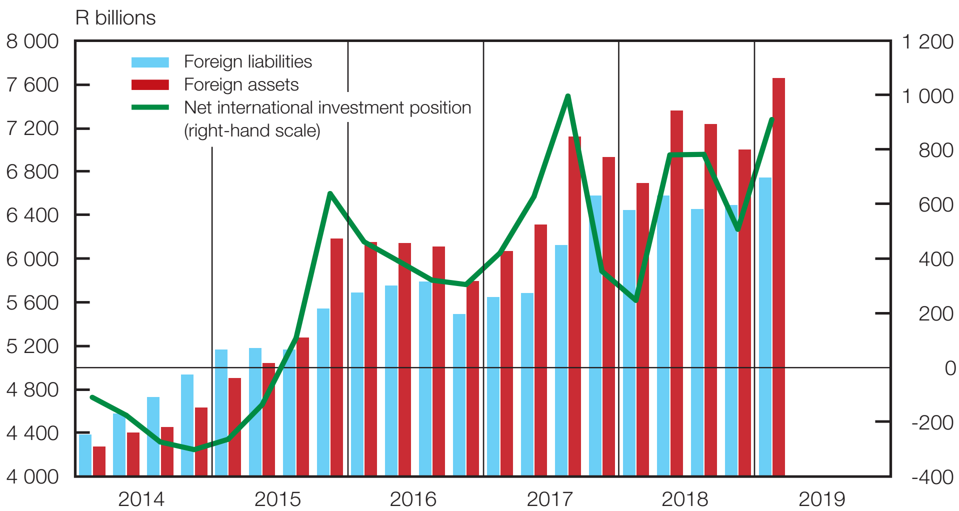
As a ratio of GDP, South Africa's total external debt increased from 46.8% at the end of December 2018 to 49.2% at the end of March 2019. Similarly, the ratio of external debt to total export earnings increased from 146.8% to 152.7% over the same period.

International investment position

South Africa's positive net international investment position (IIP) increased notably from a revised R508 billion at the end of December 2018 to R912 billion at the end of March 2019. This reflected a larger increase in foreign assets than in foreign liabilities as global equity markets rebounded.

The market value of South Africa's foreign assets (outward investment) increased by 9.3% from a revised R7 001 billion at the end of December 2018 to R7 655 billion at the end of March 2019, after a 3.2% decrease in the previous quarter. With the exception of reserve assets, the value of all functional asset categories increased in the first quarter of 2019. The value of direct investment increased mostly due to the valuation gain of a large foreign investment by a South African company. The value of foreign portfolio assets increased as the US Standard & Poor's (S&P) 500 Index increased by 13.1%, on balance, in the first quarter of 2019. Other investment assets increased as the domestic banking sector's short-term loans to non-residents under repurchase agreements increased and the private non-banking sector extended short-term loans to non-residents. The depreciation in the exchange value of the rand also contributed to the increase in the rand value of South Africa's foreign assets.

South Africa's international investment position



Source: SARB

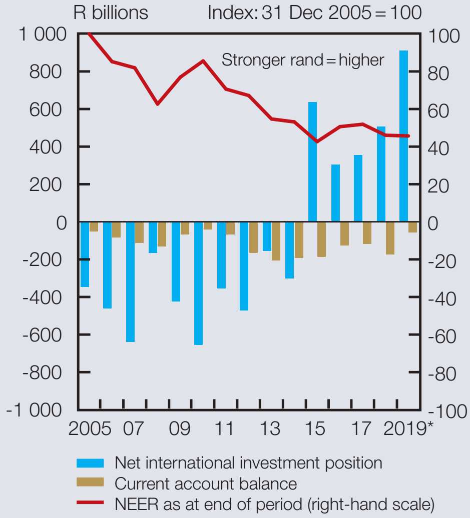
The market value of South Africa's foreign liabilities (inward investment) increased by 3.9% from a revised R6 493 billion at the end of December 2018 to R6 743 billion at the end of March 2019, following a marginal increase of 0.6% in the fourth quarter of 2018. All functional liability categories increased, except financial derivatives. The increase in the FTSE/JSE All-Share Index (Alsi) of 7.1% in the first quarter of 2019 contributed to the higher value of both direct and portfolio investment liabilities. The increase in the value of other investment liabilities resulted mainly from short-term loans extended to the domestic private non-banking sector.

Foreign assets as a ratio of South Africa's annual GDP increased from 143.6% at the end of December 2018 to 155.5% at the end of March 2019, while foreign liabilities increased from 133.2% to 137.0%. This resulted in an increase in the positive net IIP from 10.4% of GDP at the end of December 2018 to 18.5% at the end of March 2019.

Box 3 The drivers of South Africa's international investment position[1, 2, 3]

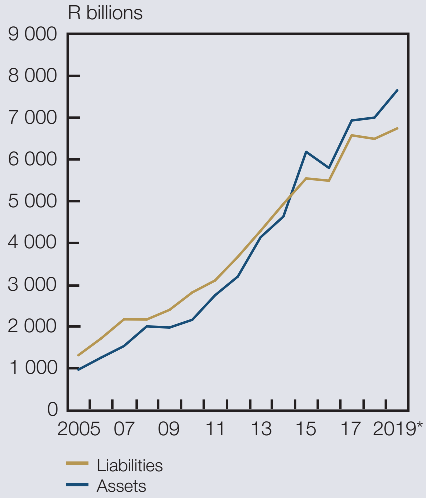
South Africa's international investment position (IIP) statistics dates back to as far as 1956, with the net IIP[4] only turning positive for the first time at the end of the third quarter of 2015. The integrated IIP statistical statement reconciles the difference between the opening and closing market values of foreign asset and liability positions over a specific period by accounting for financial account[5] transactions (flows) in financial assets and liabilities in the balance of payments,[6] revaluations due to price and exchange rate changes and also other volume changes such as write-offs.

Selected external account aggregates



* Q1 data
Sources: Stats SA and SARB

Foreign liabilities and assets of South Africa



This box discusses the drivers of the functional categories for both foreign assets and liabilities, while showing the effects of transactions and revaluations with reference to movements in domestic and foreign share prices and the nominal effective exchange rate (NEER) of the rand.

South Africa's interaction with the rest of the world through transactions as recorded in the current account[7] of the balance of payments renders the current account balance (i.e. the country's savings-investment gap). A current account deficit is financed through transactions in financial assets and liabilities recorded in the financial account, which is a driver of the foreign asset and liability positions in the IIP. Notwithstanding South Africa's persistent annual current account deficits since 2005, and the need for capital inflows through either an increase in foreign liabilities and/or a decrease in foreign assets, the stock of foreign assets (outward investment) exceeded that of foreign liabilities (inward investment) since the end of the third quarter of 2015. This caused the net IIP to switch from a net liability position of R346 billion at the end of 2005 to a net asset position of R508 billion at the end of 2018. The switch in the net IIP could largely be attributed to the effect of revaluations (accounting for changes in market values of foreign assets and liabilities due to price and exchange rate changes), which at times exceeded the contribution of financial account transactions to changes in liability and asset positions.

---

1 The international investment position is a point-in-time statistical statement that shows the value and composition of the residents of a country's financial assets (i.e. claims on non-residents and gold bullion held as reserve assets) and liabilities (i.e. claims by non-residents on residents).

2 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, available at www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

3 This box relates to the external account statistics shown on pages S–82, S–84, S–90, S–92, S–93 and S–109 of this *Quarterly Bulletin.*

4 The net IIP position is the difference between a country's foreign assets and liabilities.

5 The financial account shows the net acquisition/disposal of foreign financial assets by residents and the net acquisition/disposal of domestic assets by non-residents during a specific period.

6 The balance of payments is a statistical statement of transactions between residents and non-residents during a specific time period and consists of various sub-accounts, one of which is the financial account.

7 The current account shows flows of goods and services as well as primary and secondary income between residents and non-residents.

The main drivers of South Africa's net asset position were the price increases of direct investment assets due to significant gains on a large equity investment and the asymmetric effect of a depreciation in the exchange value of the rand on foreign assets and liabilities. With a depreciation in the exchange value of the rand, the market value of assets increase more than that of liabilities because a greater portion of assets is denominated in foreign currency compared with that of liabilities. However, conditions affecting revaluations change over time while the financing of the chronic current account deficit negatively affects the net IIP.

Both the IIP and the financial account of the balance of payments have the same functional categories, namely: direct investment, portfolio investment, financial derivatives, other investment and reserve assets, which reflect relationships between counterparties and the nature of the transaction and investment. Price and exchange rate changes, as part of revaluations, affect the functional categories differently depending on the market of issue and currency denomination.

International investment position and related indicators

	31 Dec 2005	31 Dec 2018	Compounded annual growth
	R billions	R billions	Per cent
Net international investment position	-346	508	
Foreign liabilities (inward investment)	1 312	6 493	13.1
Direct investment	612	1 888	9.1
Portfolio investment	524	3 541	15.8
Financial derivatives	13	91	16.2
Other investment	163	972	14.7
Foreign assets (outward investment)	966	7 000	16.5
Direct investment	196	3 425	24.6
Portfolio investment	432	2 168	13.2
Financial derivatives	11	91	17.2
Other investment	196	576	8.6
Reserve assets	130	742	14.3
	Index	Index	
FTSE/JSE All-Shares Price	18 097	52 737	8.6
S&P500	1 248	2 507	5.5
Nominal effective exchange rate of the rand	126.12	58.07	-5.8

Components may not add up to totals due to rounding off

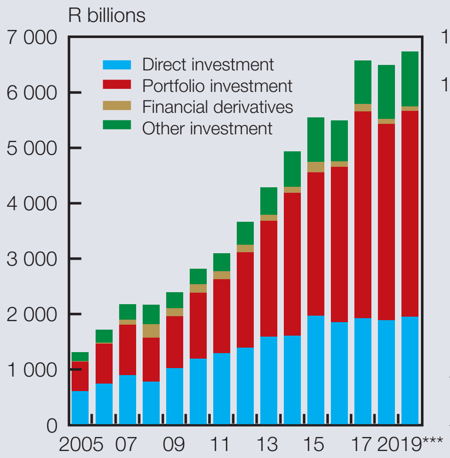
Source: SARB

Foreign direct investment liabilities comprise equity and investment fund shares as well as debt instruments, with the former only being rand denominated and the latter both rand and foreign currency denominated. Revaluations due to changes in the exchange rate of the rand are only affected by the foreign currency-denominated portion of debt instruments as part of foreign direct investment liabilities. Equity and investment fund shares of domestic direct investment enterprises are revalued to reflect both changes in the share prices on the JSE Limited as well as the reinvested earnings of unlisted companies.

*Portfolio investment liabilitie*s comprise non-resident investment in equity and investment fund shares as well as debt instruments, and accounts for the greatest portion of South Africa's foreign liabilities in the IIP. Equity and investment fund shares are exposed to revaluations due to changes in share prices, but not directly to exchange rate changes as these instruments are rand denominated. However, changes in the exchange rate of the rand do have an indirect effect to the extent that these companies' operations are exposed to foreign markets. Both rand and foreign currency-denominated debt instruments are exposed to revaluations due to changes in prices through the inverse relationship with bond yields. However, the debt exposure mainly consists of rand-denominated domestically issued government bonds which limit exposure to changes in the exchange rate of the rand to debt issued in foreign currency in international markets.

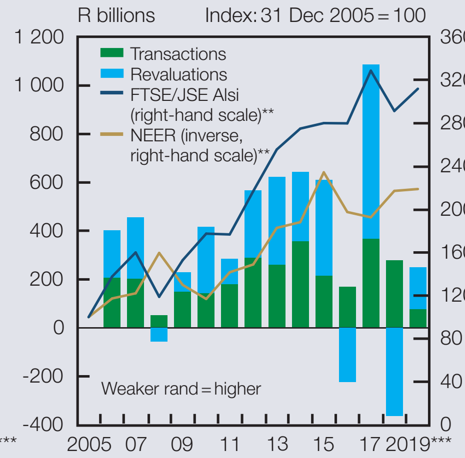
Financial derivatives can either be a liability or an asset, depending on changes in the price of the underlying instruments. Only financial derivative liability and asset positions of the domestic banking sector are recorded in the IIP and when settled at maturity it is expunged. Transactions and revaluations contribute roughly equally to changes in both foreign financial derivative liabilities and assets.

South Africa's foreign liabilities



Source: SARB

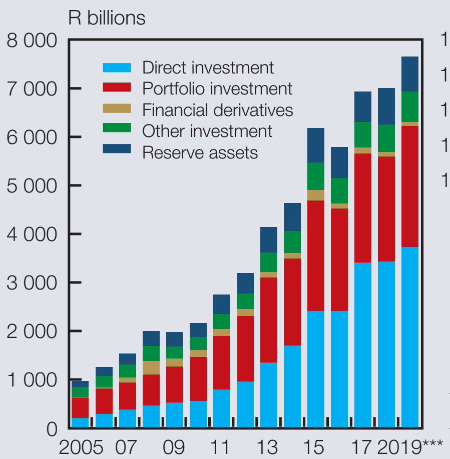
Transactions in, and revaluation of, foreign liabilities*



* The absolute annual change in the value of financial derivative assets is included in the valuation adjustment
** End of period
*** Q1 data

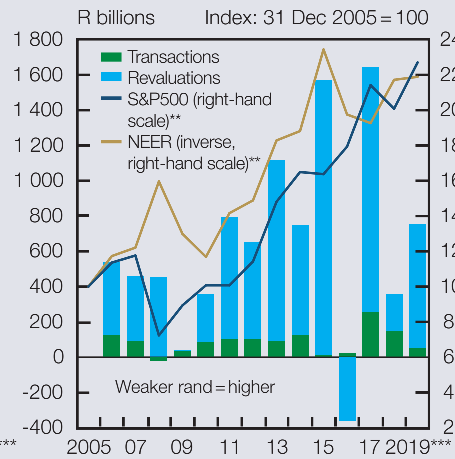
Other investment liabilities comprise currency and deposits, short- and long-term loans, trade credits, other accounts payable, and special drawing rights, some of which are denominated in rand and others in foreign currency. Only the foreign currency-denominated portion is exposed to exchange rate revaluation effects. These instruments are priced at nominal value and are thus not exposed to price changes.

South Africa's foreign assets



Source: SARB

Transactions in, and revaluation of, foreign assets*



* The absolute annual change in the value of financial derivative assets is included in the valuation adjustment
** End of period
*** Q1 data

Direct investment assets comprise equity and investment fund shares as well as debt instruments, with the former only foreign currency-denominated and the latter consisting of both rand and foreign currency-denominated debt owed to South African entities by a non-resident direct investor or direct investment enterprise. Direct investment assets grew more than any other foreign liability and asset functional category from the end of 2005 to the end of 2018. This is mostly attributable to a significant revaluation gain from the increase in the share price of a sizable investment by a South African company. The revaluation of equity and investment fund shares of foreign direct investment enterprises is influenced by changes in the share prices of such listed companies and the reinvested earnings of unlisted companies as well as exchange rate changes, since these assets are all foreign currency-denominated. The foreign currency-denominated portion of debt is affected by exchange rate changes.

Portfolio investment assets comprise resident investment in both equity and investment fund shares as well as debt instruments that are predominantly denominated in foreign currency, exposing it to revaluations due to changes in the exchange rate. These financial instruments are mostly listed on foreign bourses and exposed to revaluations from changes in share and bond prices. Compounded annual growth of 5.5% in the S&P500 Index and the decline of 5.8% in the NEER together contributed to a significant revaluation of South Africa's portfolio investment assets from the end of 2005 to the end of 2018.

Other investment assets consist of currency and deposits, short- and long-term loans, trade credits and other accounts payable, most of which are denominated in foreign currency and exposed to exchange rate revaluations. However, with all these instruments priced at nominal value, there are no revaluations necessary due to price changes.

Reserve assets are mostly affected by revaluations due to exchange rate changes and less so owing to changes in the prices of the underlying financial assets, which largely result from movements in international bond yields and significantly less from changes in the price of gold.

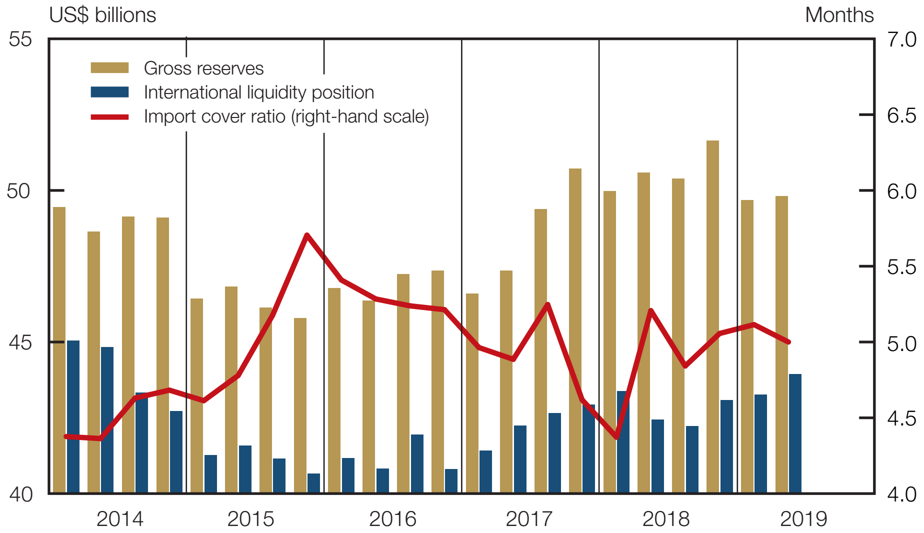
International reserves and liquidity

South Africa's international reserve assets decreased by a further R7.7 billion in the second quarter of 2019, following a decrease of R34.2 billion in the first 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) decreased from US$49.7 billion at the end of March 2019 to US$48.3 billion at the end of May, along with the redemption of an international foreign currency-denominated government bond. The country's gross gold and other foreign reserves then increased to US$49.8 billion at the end of June 2019, and slightly further to US$49.9 billion at the end of August. The increase in June was largely due to maturing foreign exchange swaps as well as an increase in the US dollar price of gold. South Africa's international liquidity position[9] increased from US$43.3 billion at the end of March 2019 to US$43.9 billion at the end of June, before increasing further to US$44.2 billion at the end of August.

9 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) decreased from 5.1 months at the end March 2019 to 4.8 months at the end of June.

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

Exchange rates[10]

The nominal effective exchange rate (NEER) of the rand increased, on balance, by 3.1% in the second quarter of 2019 following a slight decrease of 0.8% in the first quarter. The domestic currency exhibited fairly large swings in the second quarter of 2019 as the NEER increased by 2.3% and 2.9% in April and June 2019 respectively, and decreased by 2.1% in May. The decrease in May 2019 reflected continued economic policy uncertainty following the national elections amid renewed focus on the dire financial position of South Africa's major state-owned companies.

Exchange rates of the rand

Percentage change

	28 Sep 2018 to 31 Dec 2018	31 Dec 2018 to 29 Mar 2019	29 Mar 2019 to 28 Jun 2019	28 Jun 2019 to 6 Sep 2019
Weighted average*	-1.8	-0.8	3.1	-2.0
Euro	-0.6	0.9	1.7	-1.3
US dollar	-2.0	-1.0	3.2	-4.3
Chinese yuan	-2.4	-3.0	5.5	-0.7
British pound	0.4	-3.1	5.9	-1.3
Japanese yen	-5.5	0.3	0.3	-4.9

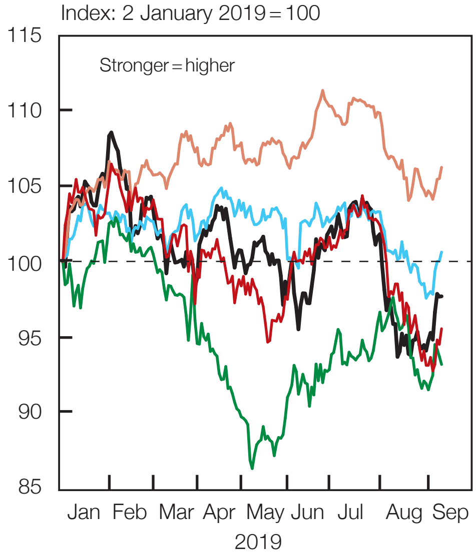
* Trade-weighted exchange rate against a basket of 20 currencies (nominal effective exchange rate)
Depreciation – appreciation +

Source: SARB

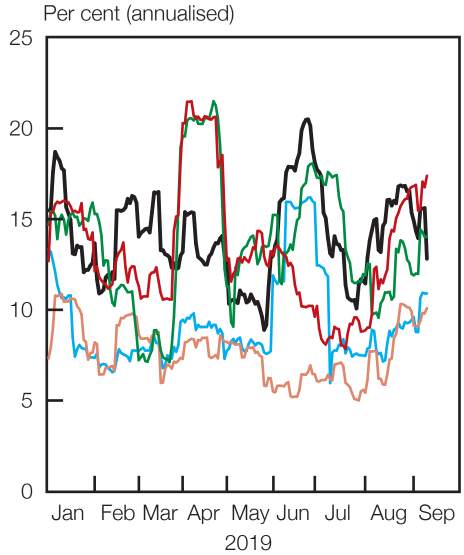
The reduction of 25 basis points in the US Fed's policy rate on 31 July 2019, which was almost fully priced in, contributed to the appreciation in emerging market currencies (including the rand) towards the end of the second quarter and early in the third quarter of 2019. However, the exchange value of the rand depreciated when the Fed downplayed expectations for further interest rate cuts and with the focus shifting to domestic policy uncertainty and the record-high unemployment rate in the second quarter of 2019. The announcement of additional government support to Eskom spurred speculation of sovereign credit rating downgrades following Moody's Investor Services' announcement that such support was credit negative, and Fitch's decision to revise South Africa's credit rating outlook from stable to negative.

Early in August 2019, the escalation in trade tensions, as the USA announced additional tariffs of 10% on a further US$300 billion of USA imports from China and the depreciation of the Chinese yuan to above ¥7 to the US dollar, contributed to the further depreciation in the exchange value of the rand to around R15.50 against the US dollar. However, most emerging market currencies depreciated against the stronger US dollar in July and August 2019, following appreciations in the first half of the year amid accommodative monetary policies. The US dollar increased by 3.2% on a trade-weighted basis over this period.

Selected exchange rates against the US dollar



Historical volatility in selected currencies*



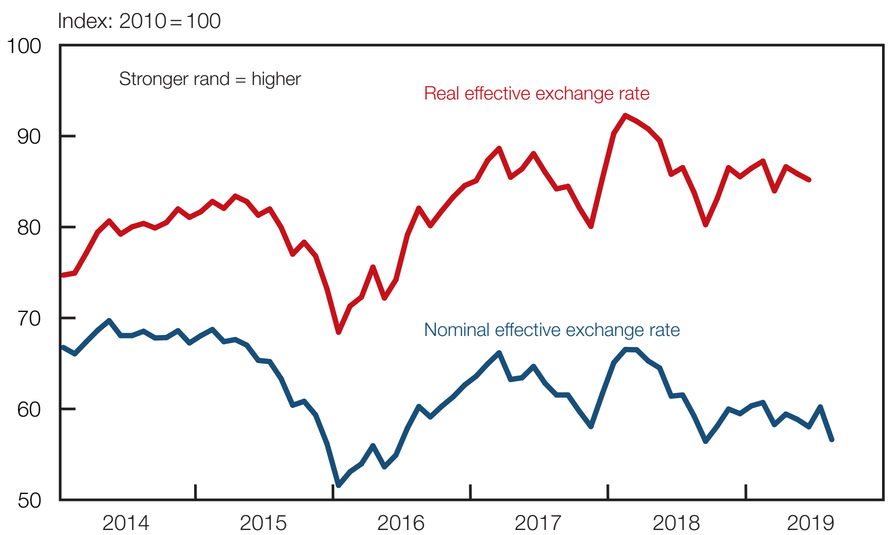
Russian rouble
Turkish lira
Mexican peso
South African rand
Brazilian real

* The 20-day standard deviation of the linear daily price changes in exchange rates against the US dollar, adjusted to annualised rates, i.e. multiplied by the square root of 252 days.

Source: SARB

The rand remained among the more volatile emerging market currencies such as the Brazilian real and the Turkish lira, both of which have sub-investment sovereign credit ratings.

Effective exchange rates of the rand



Source: SARB

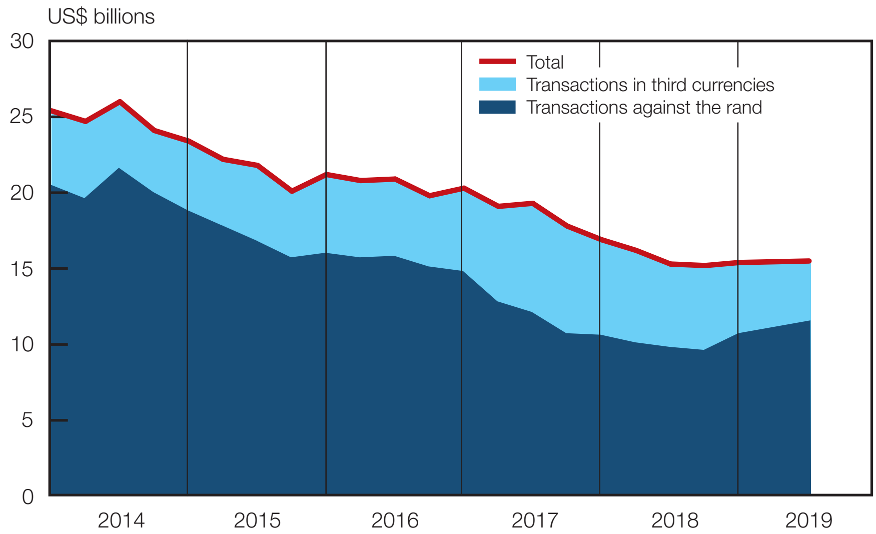
The real effective exchange rate (REER) of the rand decreased by 0.4% from December 2018 to June 2019, reflecting a marginal improvement in the external competitiveness of domestic producers in the foreign markets.

Turnover in the South African foreign exchange market

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

The net average daily turnover[11] in the South African market for foreign exchange increased by 1.0% from US$15.4 billion in the first quarter of 2019 to US$15.5 billion in the second quarter. The increase could be attributed to a rise in the value of transactions against the rand, from US$10.6 billion to US$11.2 billion over the same period. By contrast, turnover in third currencies decreased by 9.5% from a net daily average of US$4.8 billion in the first quarter of 2019 to US$4.3 billion in the second quarter.

Net average daily turnover in the South African foreign exchange market



Source: SARB

Third-currency trading in South Africa has been declining since late 2017. Investors preferred trading in currencies of advanced economies in more liquid offshore markets, especially given heightened volatility in global currency markets due to trade tensions and renewed global policy uncertainty since early 2018. The recent shift to more accommodative monetary policy in advanced economies may have resulted in increased hedging activity globally.

Box 4 Observations from turnover statistics[1] in the foreign exchange market for the South African rand[2]

The methodology for the compilation of over-the-counter (OTC) foreign exchange (FX) turnover statistics is based on the reporting guidelines of the Bank for International Settlements (BIS).[3] Global FX market activity in South African rand comprises turnover in both the domestic and offshore markets. Turnover in the domestic FX market, as measured by the South African Reserve Bank's (SARB) daily survey of Authorised Dealers in foreign exchange, consists of spot, outright forwards and FX swap transactions against counterparties, delineated as the monetary sector, other residents and non-residents[4] against both the rand[5]

1 Domestic turnover statistics reflect the net daily average value of foreign exchange transactions in a specific period which is calculated as the amount traded in a specific period divided by the number of business days in the period, as adjusted for double-counting within the monetary sector. The global turnover statistics analysed in this box were sourced from the Bank for International Settlements (BIS), and are on a net-net basis (i.e. adjusted for domestic and cross-border inter-dealer double-counting).

2 The turnover statistics of the South African foreign exchange market referred to in this box are based on the *South African Reserve Bank's daily survey of Authorised Dealers* in the South African foreign exchange market, as published on page S–107 of this *Quarterly Bulletin*, and statistics from the *Triennial Central Bank Surveys of Foreign Exchange and OTC Derivatives Markets* of the BIS, measured for the month of April in the respective years. See, https://www.bis.org/statistics/rpfx19.htm?m=6%7C381%7C677 for Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2019.

3 See, https://www.bis.org/statistics/triennialrep/2019survey_guidelinesturnover.pdf

4 Non-resident counterparties reflect transactions between the domestic reporting Authorised Dealer and any counterparty residing, or with its centre of economic interest outside the borders of South Africa.

5 FX transactions against the rand are rand trades against foreign currencies.

and third currencies.[6] The BIS Triennial Survey supplements these statistics at regular three-yearly intervals, while also reflecting rand turnover in offshore markets. A further addition to the BIS survey is transactions in currency swaps and options. These statistics provide information on the size and structure of the FX market, and are used by authorities and market participants. FX transactions are classified according to the characteristics listed in the accompanying table.

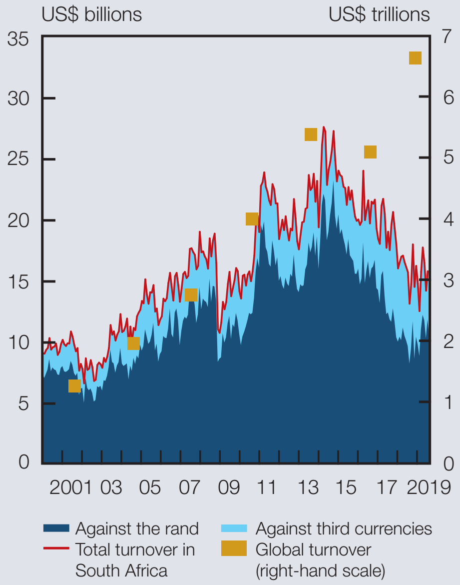
Types of FX transactions

The SARB's survey of Authorised Dealers includes:
Spot: Single outright transaction exchanging two currencies at an agreed rate, on the date of the contract for value or delivery (cash settlement) within two business days. Excludes the spot-leg of swap transactions.
Outright forwards: Transactions that exchange two currencies at an agreed rate, on the date of the contract for value or delivery (cash settlement) at some time in the future (more than two business days later).
FX swaps: Transactions that exchange two currencies (principal amount only), on a specific date, at a rate agreed on at the time of the conclusion of the contract (the short leg), and a reverse exchange of the same two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed on at the time of the contract (the long leg). Includes 'spot/forward swaps' and 'forward/forward swaps' and also short-term swaps, such as 'overnight swaps', 'spot next swaps' and other 'tomorrow/next day' transactions.
In addition, the BIS Triennial Survey also includes:
Currency swaps: Two counterparties commit to exchange streams of interest payments in different currencies for an agreed period of time and/or to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity.
OTC options: Contracts that confer the right to buy or sell a currency with another currency at a specified exchange rate during a specified period. Includes exotic foreign exchange options such as average rate options and barrier options.

Sources: BIS and SARB

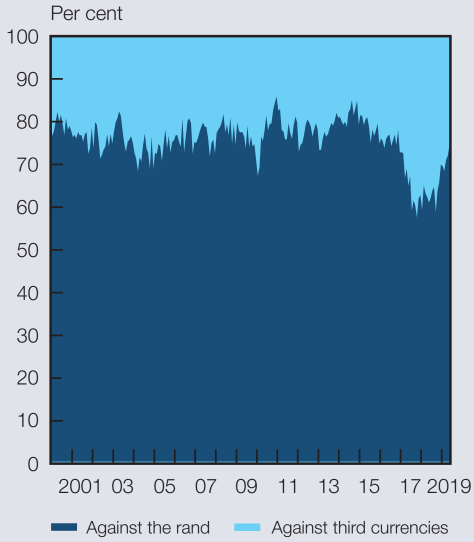
The trend in international total net average daily FX turnover and that in South Africa followed one another closely, with a then global peak of US$5.4 trillion in April 2013 and a domestic high of US$27.6 billion in March 2014. Following recommendations regarding OTC derivative transactions at the Group of Twenty (G20) Pittsburgh Summit in 2009, FX transactions are also cleared through central counterparties[7] (CCPs), though remaining only a small portion of the total derivatives market.

Net average daily foreign exchange market activity



Sources: SARB and BIS

Composition of total turnover in the South African foreign exchange market by currency



Source: SARB

6 FX transactions against third currencies are trades between two foreign currencies.

7 CCPs reduce counterparty credit and liquidity risk through netting and stand between two counterparties as the buyer to every seller, and seller to every buyer.

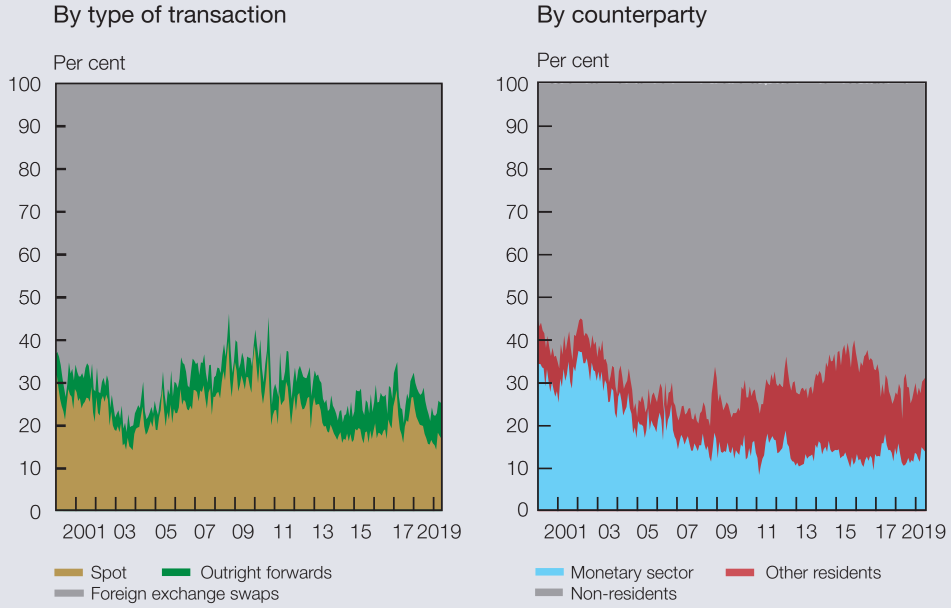
The decline in global FX turnover since 2014 reflects the effect of regulations in the aftermath of the global financial crisis to manage risks, such as the Volcker Rule, which prohibits proprietary trading by banks in particular. Changes in FX trading volumes also reflect changes in risk aversion, commodity prices and trade volumes over time. At the time of the BIS Survey in 2016, turnover in the South African domestic market amounted to US$20.0 billion, but has subsequently declined to US$13.8 billion in July 2019. In contrast, global turnover reached an all-time high of US$6.6 trillion in April 2019, according to the BIS Survey of 2019.

In the domestic South African FX market, transactions against the rand dominate relative to those against third currencies. Since 2000, on average, most of the turnover of the rand has been against the US dollar (95%) followed by the euro (2%). Transactions against the rand accounted for 75% of total domestic turnover, on average, with a record high of 85% in January 2011. However, transactions against the rand declined to as low as 57% of the total domestic market towards the end of 2017. In value terms, transactions against the rand contracted by about US$12.0 billion from March 2014 to December 2017.

Relative to total turnover in the domestic FX market, transactions against third currencies stagnated at just below 24%, on average, for most of the period prior to 2014, before increasing to almost 43% in November 2017. More recently, however, the proportion declined again to 25% due to fewer transactions against the euro. The US dollar accounts for the majority of transactions against third currencies, with half of those between the US dollar and the euro, and one third between the US dollar and the Great British pound (GBP). The US dollar against the Japanese yen (JPY) and the Swiss franc (CHF) each account for less than 5%. The euro's share among third currencies has declined from about 5% to around 1% against the GBP, JPY and CHF.

In the domestic South African FX market, FX swaps are the most prominent transaction type, accounting for 71% of total turnover, on average, since 2000, followed by spots at 23% and outright forwards of 6%. FX transactions in the domestic market against the rand are generally well supported by non-residents, particularly swap transactions, mostly to hedge their exposure to South African government bonds.

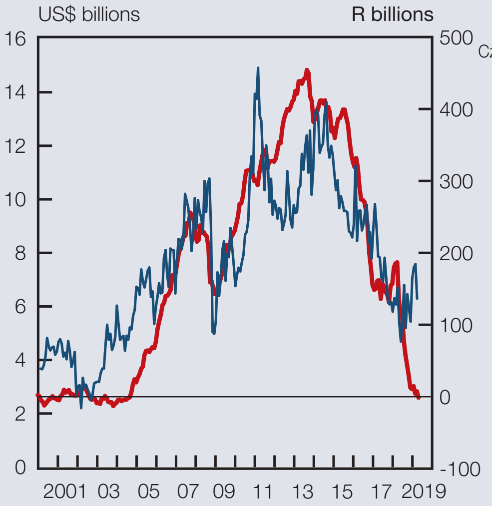
Composition of total turnover in the South African foreign exchange market



Source: SARB

Non-residents dominated the domestic South African FX market and accounted for almost 70% of total domestic turnover, on average, and peaked at 80% prior to the collapse of Lehman Brothers in September 2008, according to the SARB survey. Non-residents' presence in the domestic FX market also reflects changes in their participation in the South African share and bond markets, driven by a search for return and diversification in emerging market economies. This is not unique to South Africa, as reflected by a breakdown of BIS data between domestic and cross-border counterparties, of which the latter is comparable to non-residents.

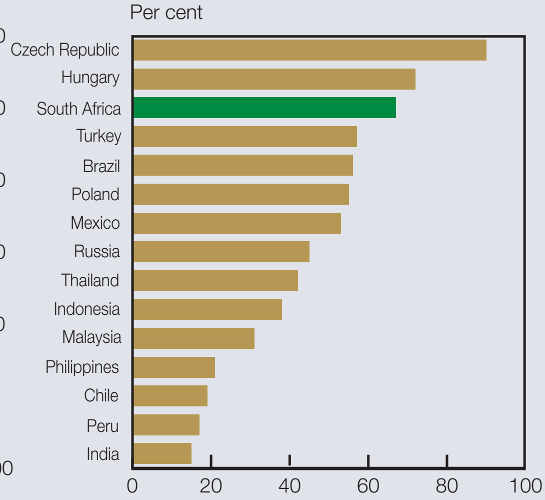
Non-resident activity in the South African share, bond and foreign exchange markets



Non-resident transactions against the rand
Cumulative non-resident net transactions in shares and bonds on the JSE (right-hand scale)

Sources: SARB and JSE

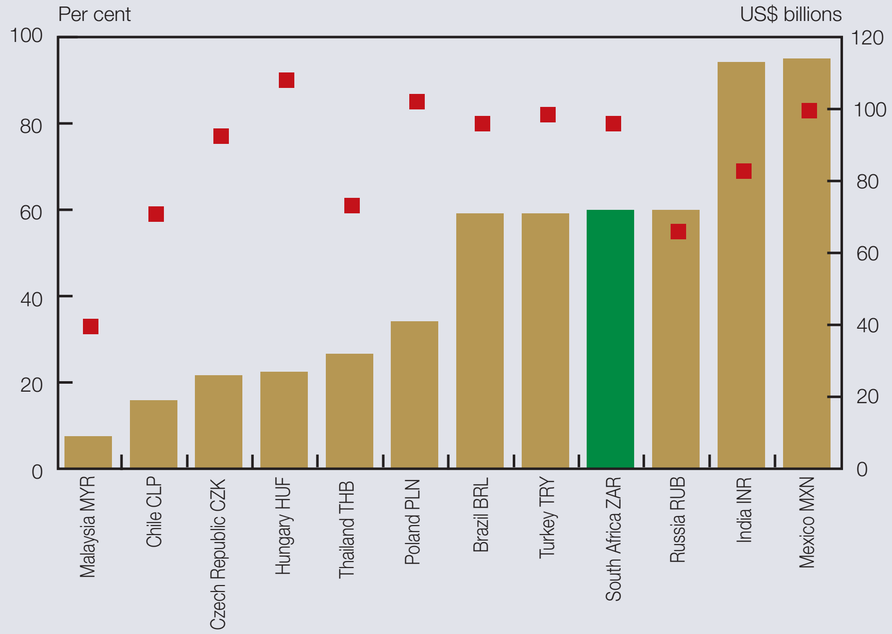
Non-resident participation in domestic foreign exchange turnover in selected emerging market economies in April 2019



Source: BIS

In addition to trading in domestic FX markets, countries' currencies also trade in offshore markets. In the case of South Africa, the rand trades extensively offshore. According to the BIS, 80% of global trading in the rand is conducted offshore, similar to the Brazilian real and other selected emerging market currencies. In April 2019, global turnover in the rand contributed US$72 billion to total global FX turnover of US$6.6 trillion. At this level, though small in global terms, South Africa's ranking declined from the 13th most traded currency in April 2001 to 18th in April 2019, based on the most recent BIS survey in April 2019.

Global foreign exchange turnover in selected currencies in April 2019



Domestic currency traded offshore as a percentage of global turnover
Global turnover, domestic and offshore (right-hand scale)

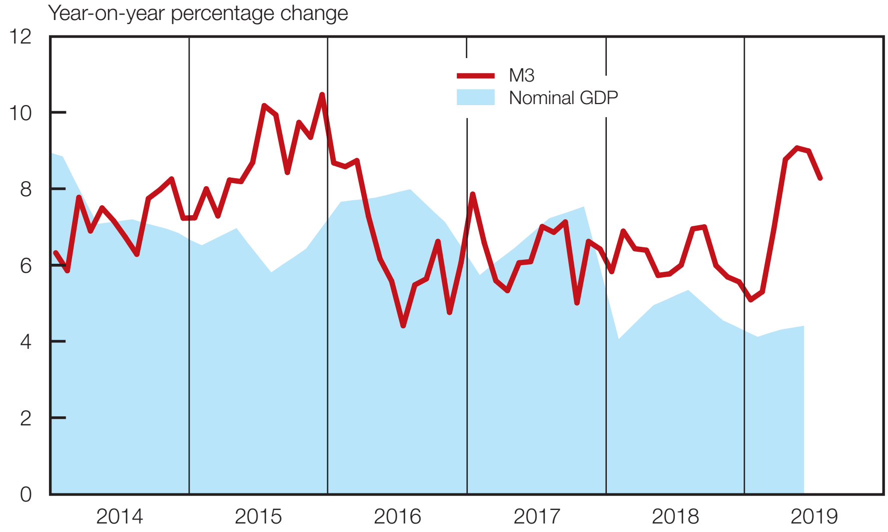
Source: BIS

Monetary developments, interest rates and financial markets

Money supply

Growth in the broadly defined money supply (M3) exceeded the expansion in nominal GDP by a much wider margin in the first half of 2019, with the latter only accelerating moderately in the second quarter of the year. Risk aversion in the run-up to the May 2019 national elections boosted growth in deposits to a multi-year high. The deposits of financial companies led the acceleration, with that of non-financial companies increasing at a more subdued pace. Growth in the deposit holdings of the household sector, which has slowed in recent years, also edged higher in the first half of 2019, reflective of banks' continuous efforts to attract and retain deposits. As a result, the quarter-to-quarter seasonally adjusted and annualised growth in M3 more than doubled from 6.2% in the first quarter of 2019 to a 10-year high of 14.9% in the second quarter. With the quarterly expansion in nominal GDP marginally exceeding that in M3, the income velocity of circulation of M3 increased from 1.37 in the first quarter of 2019 to 1.38 in the second quarter.

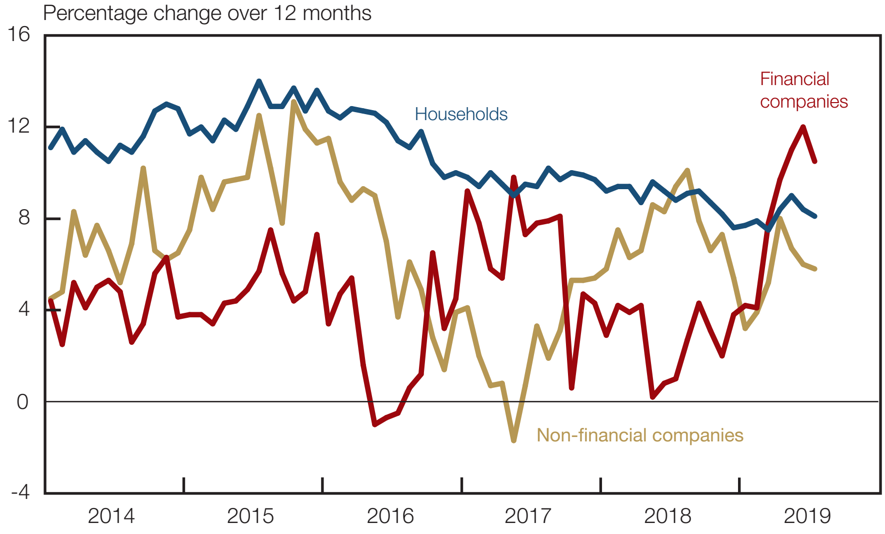
Money supply and gross domestic product



Sources: Stats SA and SARB

Year-on-year growth in M3, which had been fluctuating in a fairly narrow range in recent years, accelerated from a recent low of 5.1% in January 2019 to 9.1% in May before moderating slightly to 8.3% in July. Growth in M3 was supported by the acceleration in corporate deposit holdings, from 3.8% in January 2019 to a high of 9.3% in June, before decelerating to 8.4% in July. Within the corporate sector, growth in the deposit holdings of financial companies accelerated markedly from 4.2% in January 2019 to 12.0% in June, before receding somewhat to 10.5% in July. The deposit growth of non-financial companies also accelerated from a recent low of 3.2% in January 2019 to 8.0% in April, before slowing again to 5.8% in July. Growth in the deposit holdings of the household sector bottomed out early in 2019, but accelerated somewhat from 7.5% in March to 9.0% in May and 8.1% in July.

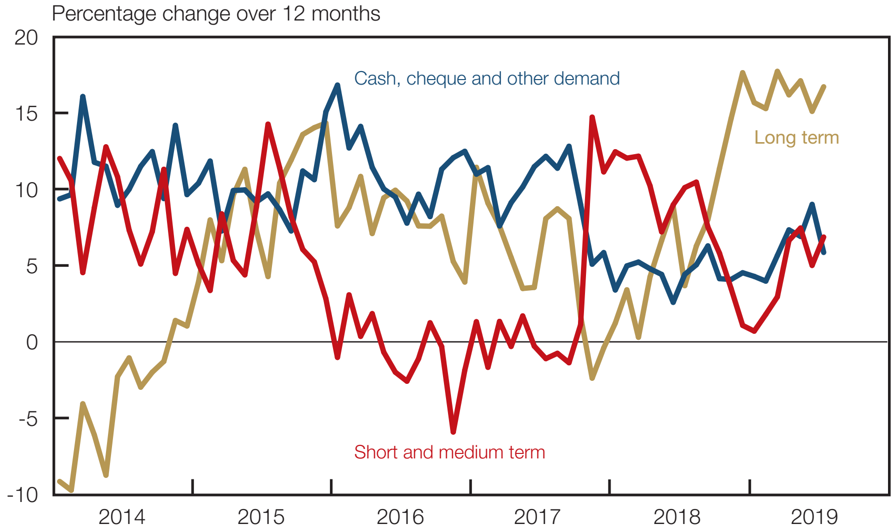
Deposit holdings of households and companies



Source: SARB

In terms of maturity, the preference for long-term deposits persisted although growth in the other deposit categories also accelerated in 2019. Growth in long-term deposits remained buoyant, averaging around 16% in the first seven months of 2019. In addition, growth in short- and medium-term deposits accelerated from a low of 0.7% in January 2019 to 7.5% in May 2019, but moderated somewhat to 6.9% in July. Growth in liquid cash, cheque and other demand deposits also accelerated to 9.0% in June 2019 before slowing significantly to 5.9% in July.

Deposits by maturity



Source: SARB

Total holdings of M3 deposits increased by R87.4 billion in the first quarter of 2019 and by a slightly lesser R62.0 billion in the second quarter compared to a contraction of R7.1 billion in the second quarter of 2018. The deposit holdings of the corporate sector as a whole increased by R20.0 billion in the second quarter of 2019, with financial companies contributing R26.1 billion while that of non-financial companies contracted by R6.1 billion, along with the payment of provisional taxes. The deposit holdings of the household sector increased by a notable R42.0 billion in the second quarter of 2019, up from R11.4 billion in the previous quarter and R29.8 billion a year earlier.

M3 holdings of households and companies

	Quarter-to-quarter change R billions						Percentage of total M3 deposit holdings*
	2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	
Households	10.8	29.8	35.0	11.6	11.4	42.0	35.0
Companies: Total	27.5	-36.8	123.6	-14.8	76.0	20.0	65.0
Of which: Financial	24.3	-23.4	87.3	-41.6	74.1	26.1	36.9
Non-financial	3.2	-13.4	36.3	26.9	1.9	-6.1	28.1
Total M3 deposits	**38.2**	**-7.1**	**158.6**	**-3.2**	**87.4**	**62.0**	**100.0**

* Expressed as a percentage of the total outstanding balance as at June 2019

Source: SARB

In statistical terms, the increase of R38.1 billion in claims on the domestic private sector and of R38.0 billion in net claims on the government sector contributed nearly equally to the increase of R62.0 billion in M3 in the second quarter of 2019. This reflected credit demand by these sectors during the period under review. The monetary sector's net foreign assets increased by R24.2 billion, partly due to valuation adjustments for the depreciation in the exchange value of the rand, on average. Net other assets, a contra-entry absorbing changes in foreign assets, among other factors, decreased by R38.4 billion over the period.

Box 5 Drivers of the recent growth in deposits and credit[1,2,3]

Growth in both bank credit extension[4] and deposits[5] accelerated recently with year-on-year increases almost doubling, though remaining in single digits. Growth in both money supply (M3) and total loans and advances slowed sharply in the wake of the global financial crisis of 2007/08, with credit extension contracting in the latter part of 2009 and early in 2010. Thereafter, both credit extension and deposits increased along broadly similar trajectories, but growth remained weak compared to pre-crisis levels.

This box analyses the drivers of the recent stronger growth in deposits and credit by looking at the contribution to growth from the type of deposit and credit as well as from institutional sector dimensions. Seemingly, the acceleration in credit growth in 2019 was mainly driven by general loans to companies, in particular, financial companies responding to political and financial market uncertainties, and not by non-financial companies usually affected by underlying economic activity. This supported growth in longer-term deposits of financial companies which, in addition to coupon payments on government bonds, supported growth in M3. Therefore, the recent acceleration in growth, in both deposits and loans, most probably reflects idiosyncratic short-term developments rather than an improvement in economic activity.

One of the drivers of growth in M3 is the change in deposit holders' *maturity preferences by type of deposit*. Cash, cheque, transmission and demand deposits, which reflect salaries and wages, among others, were the dominant contributors to overall growth in money supply from 2010 to 2017. Since then, their contribution declined as that of short- and medium-term deposits increased first, followed by that of long-term deposits. Long-term deposits already increased from the fourth quarter of 2018 amid heightened risk aversion in the

1 Unless stated to the contrary, all the growth rates in this box for both calendar years and quarters reflect averages of monthly year-on-year rates.

2 The methodology to compile South Africa's monetary and financial statistics adheres to the guidelines of the Monetary and Financial Statistics Manual and Compilation Guide, 2016, of the International Monetary Fund, available at https://www.imf.org/~/media/Files/Data/Guides/mfsmcg-final.ashx

3 This box relates to money supply and credit extension statistics shown on pages S–22 and S–23 of this *Quarterly Bulletin*.

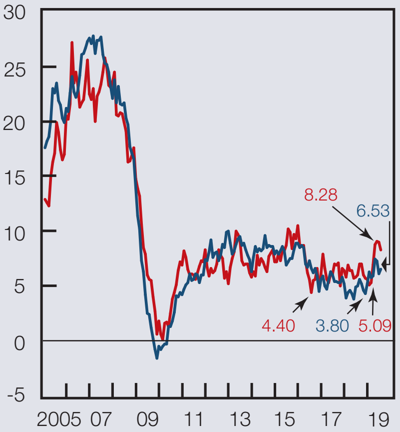
4 Credit extension includes total loans and advances of monetary institutions (banks) extended to the domestic private sector, with credit comprising instalment sales, leasing finance, mortgage advances, general loans, overdrafts and credit card advances.

5 Deposits include M1 (bank notes and coin in circulation; cheque and transmission deposits; and other demand deposits) plus other short- and medium-term deposits (adding to M2) plus long-term deposits, adding up to the broadly defined money supply (M3).

run-up to the national elections. In 2019, deposit holders increased their holdings of both liquid short term and less liquid long-term deposits, amid continued political uncertainty and weak economic activity. This coincided with inflows related to equitable share transfers to local governments and the distribution of fuel levy allocations to metropolitan municipalities, as well as coupon payments on government bonds.

Growth in money supply and credit extension

Percentage change over 12 months

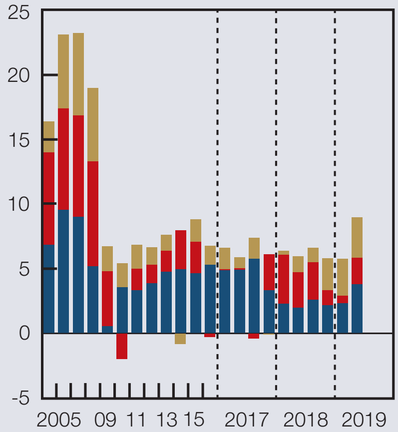


Money supply (M3)
Total loans and advances

Source: SARB

Contribution to growth in M3 by type of deposit in terms of maturity

Per cent



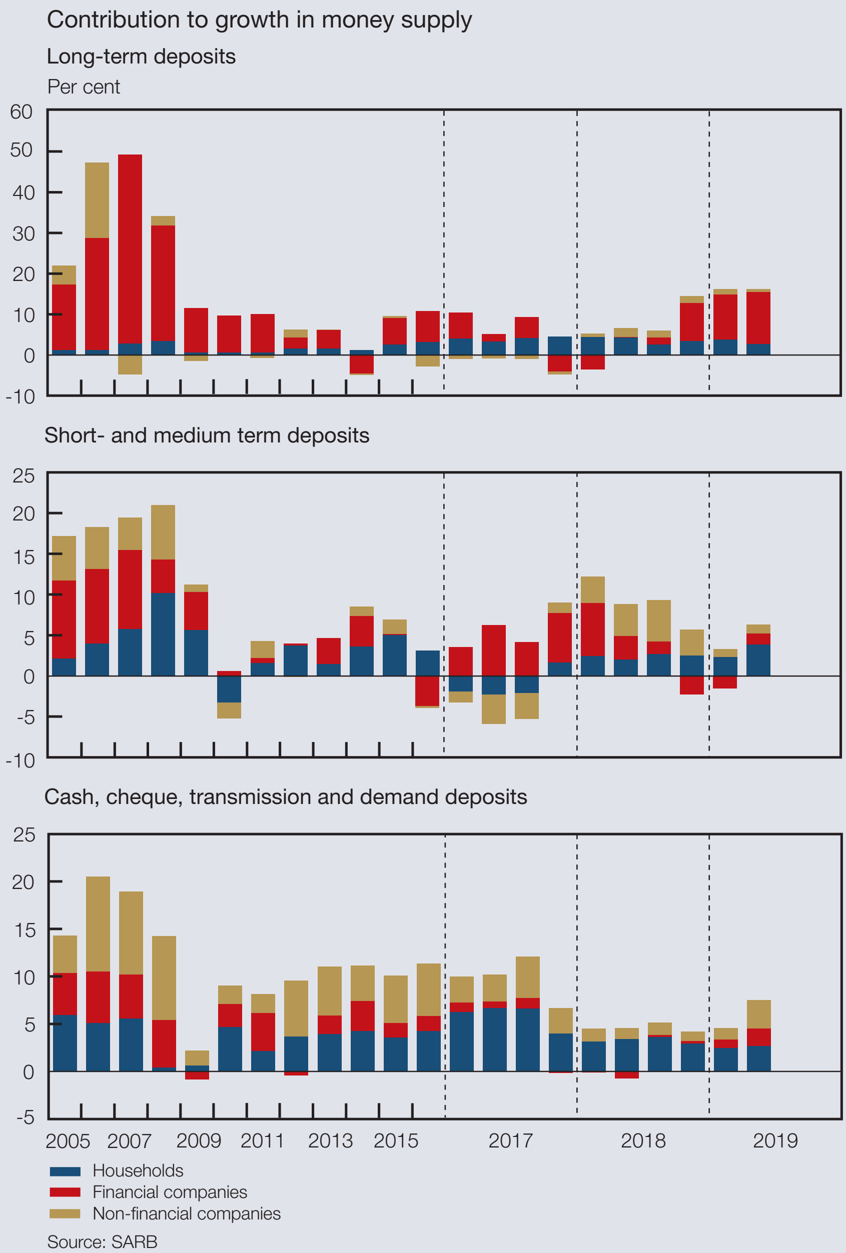
Cash, cheque, transmission and other demand
Short- and medium-term
Long-term

Households are the dominant contributors to growth in the most liquid part of money supply (M1) being significant holders of notes and coin, and recipients of salaries and wages. Households' contribution to long-term deposits has also increased over the years as banks succeeded in attracting such deposits, in line with Basel III[6] requirements.

Non-financial companies recently contributed more significantly to liquid deposits, along with occasional increases in short- and medium-term deposits, reflecting a build-up of cash balances amid weak gross fixed capital formation in an environment of low business confidence and subdued economic activity. However, their contribution to growth in overall M3 remained muted. Currently, non-financial companies hold slightly less than 30%, and financial companies around 37%, of total private-sector deposit balances.

Financial companies are usually the largest contributors to growth in short- and medium-term as well as long-term deposits. This applies to periods of heightened financial activity, such as from 2006 to 2008, and also to periods of subdued economic activity and weak growth in money supply. The contribution of financial companies to long-term deposits moderated somewhat during the course of 2017 and 2018, before again dominating from late 2018 and in the first half of 2019, in pursuit of stable returns amid financial market uncertainty.

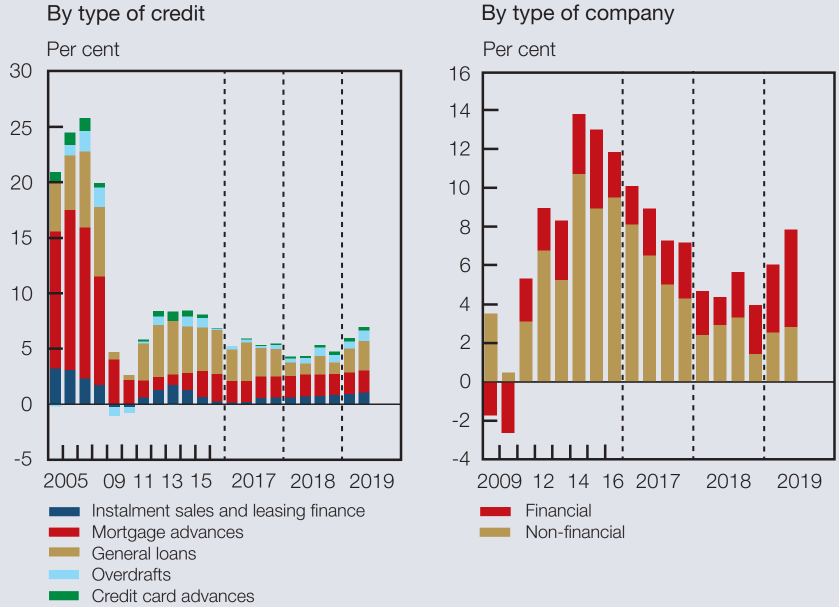
6 Basel III is a comprehensive set of reform measures put forth by the Basel Committee on Bank Supervision, designed to improve the regulation, supervision and risk management within the banking sector. The Net Stable Funding Ratio requirement necessitates greater balance between banks' funding and lending profiles. This metric aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding, on an ongoing basis.



By *type of credit,* the contribution of *mortgage advances* to growth in total loans and advances dominated before the global financial crisis, at around 50%, but diminished after 2008 to only 11% in 2013 and subsequently remained muted. After the global financial crisis, the contribution of *general loans* became more prominent. Nonetheless, the contribution of mortgage advances once again increased from 2014 – to more than 35% from 2016 onwards.

More recently, the contribution of general loans to growth in total loans and advances increased in the first two quarters of 2019, along with a moderate increase in such loans to households and a strong increase to companies. General loans – corporates' preferred source of funding – accounts for just more than 55% of all loans to companies. These loans are used to finance fixed investment and/or expansion, among others, and its growth normally tends to be aligned with that in overall economic activity. In contrast to these usual drivers, financial companies dominated the recent increase in general loans.

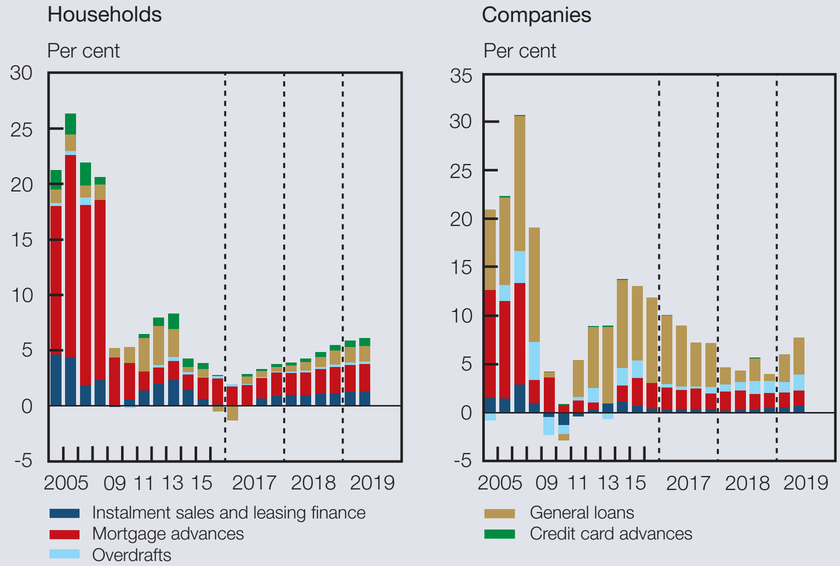
Contribution to growth in total loans and advances



Source: SARB

Historically, non-financial companies dominated credit demand, but this changed in the first two quarters of 2019 when fund managers and companies involved in securities trading, insurance and vehicle financing drove the demand for credit. The recent stronger growth in demand for credit by companies therefore does not necessarily indicate a recovery in gross fixed capital formation.

Contribution to growth in total loans and advances by type of credit to:



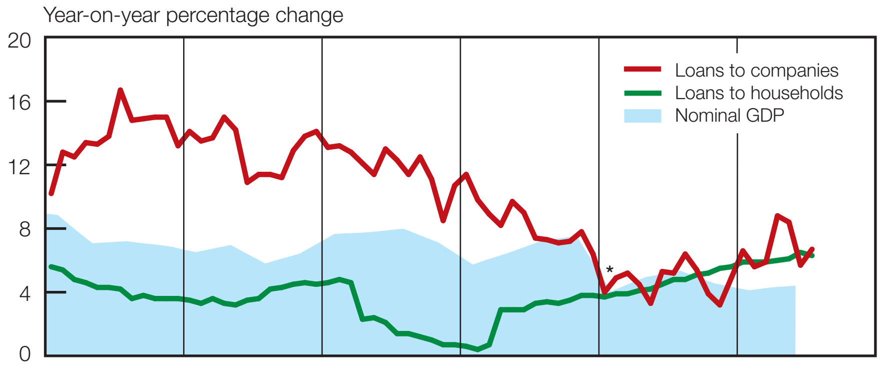
Source: SARB

The contribution of *mortgage advances* to growth in total loans and advances to both households and companies again became significant from 2014, with that of households increasing more than that of companies. The contribution of *credit card* advances, which is only a small portion of total loans and advances, is more relevant for households than companies. The contribution of credit card advances to growth in household credit increased to 11%, on average, in the first half of 2019, compared to less than 3% in 2016. The contribution of *overdrafts* to growth in total loans and advances to households remained subdued. By contrast, overdrafts contributed substantially to growth in credit to the corporate sector as its insignificant contribution in 2016 increased to 19% in the first half of 2019. The contribution of general loans to growth in overall loans to companies averaged around 65% from 2014 to 2017, before moderating sharply in 2018, affected by a technical adjustment related to the implementation of International Financial Reporting Standard 9, but reverted to previous levels a year later.

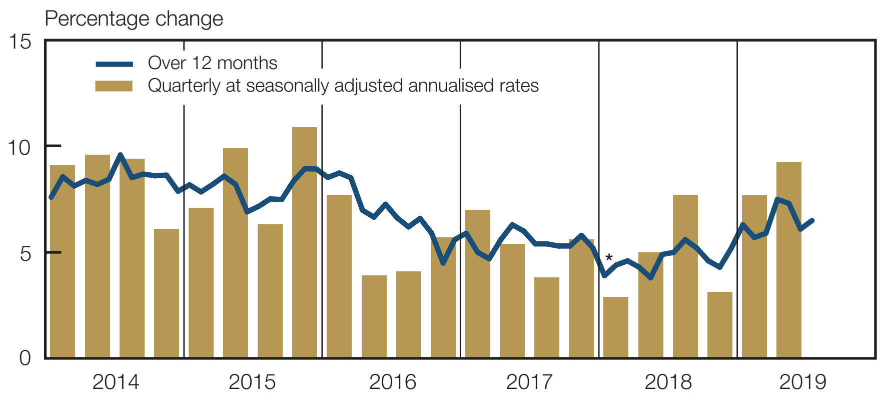
Credit extension[12]

Total loans and advances extended by monetary institutions to the domestic private sector increased steadily in the first half of 2019, with loans to households continuing its gradual upward trend and as loans to companies also increased. Growth in credit extended to households has been accelerating steadily since 2017 and averaged around 6% in the first half of 2019, while volatile growth in loans to companies averaged just less than 7%. The 25 basis points reduction in the repurchase rate in July 2019 could somewhat support credit demand.

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

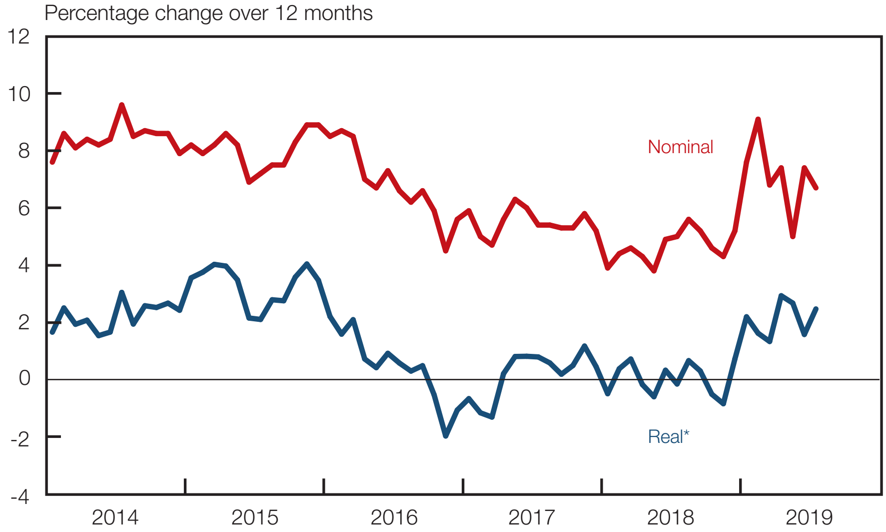
The value of total loans and advances increased by R30.6 billion in the second quarter of 2019, less than the R84.4 billion in the first quarter, but nonetheless exceeded the increase of R22.8 billion in the same period of the previous year. The acceleration in quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector, from 3.1% in the fourth quarter of 2018 to 7.6% in the first quarter of 2019, and further to 9.2% in the second quarter, reflected increased momentum in credit extension. However, the ratio of credit to nominal GDP still decreased moderately from 75.1% in the first quarter of 2019 to 73.9% in the second quarter, as the expansion in credit extension fell slightly short of that in nominal GDP.

In both nominal and real terms, growth in total loans and advances accelerated in the first four months of 2019 before slowing somewhat again. Twelve-month growth in nominal loans and advances quickened from a recent low of 3.8% in May 2018 to 7.5% in April 2019, but moderated to 6.5% in July. In real terms, growth in total loans and advances peaked at 2.9% in April 2019 before receding to 2.5% in July.

12 Growth in credit extension was impacted by the implementation of International Financial Reporting Standard 9 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

Total loans and advances

Percentage change over 12 months



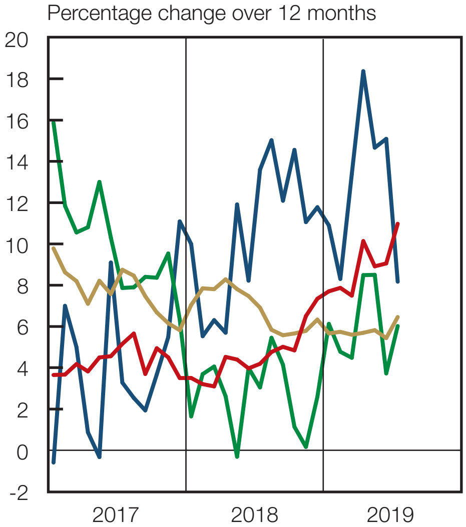
* Deflated with the consumer price index

Source: SARB

Year-on-year growth in *credit extension to the corporate sector* accelerated from 6.5% in January 2019 to 8.0% in April before receding to 7.2% in July. The demand for bank funding by financial companies involved in, among other things, securities trading and fund management was robust in the first four months of 2019, although followed by significant repayments in the ensuing three months. The demand for funding by non-financial companies also increased sporadically across nearly all credit categories over this period. The outstanding balances of general loans, instalment sale credit and leasing finance as well as mortgage advances consequently increased. There was also a notable increase in the utilisation of overdraft facilities, which accounted for 11.1% of total loans and advances to companies.

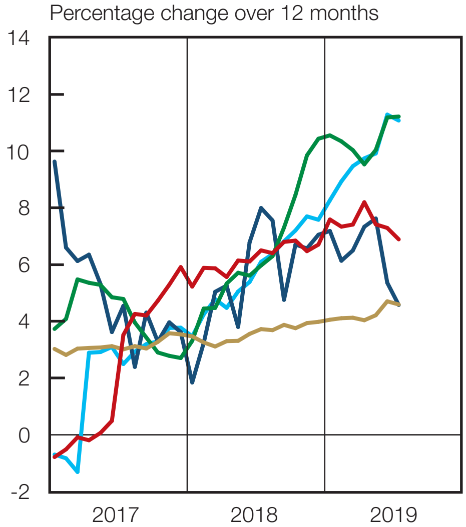
Selected loans and advances to corporate sector

Percentage change over 12 months



Selected loans and advances to household sector

Percentage change over 12 months



Mortgage advances
General loans
Credit cards
Instalment sale credit and leasing finance
Overdrafts

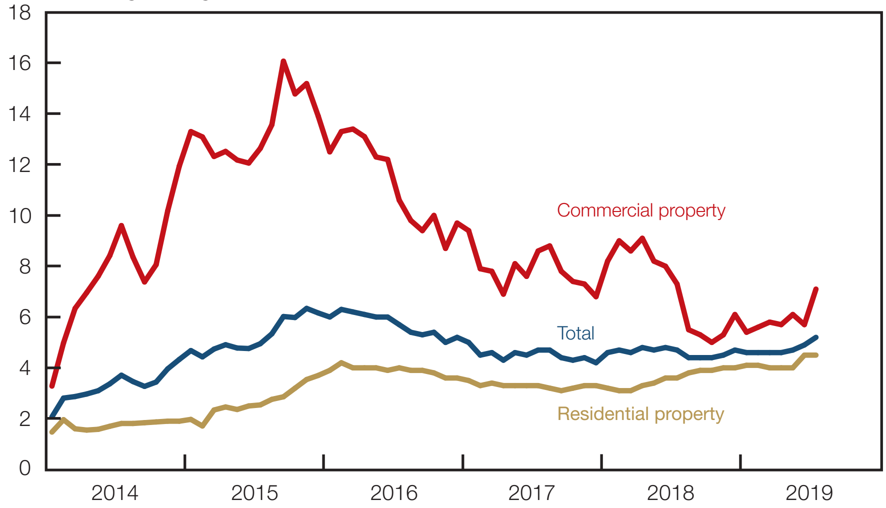
Source: SARB

Year-on-year growth in *total bank credit extended to the household sector* accelerated gradually from 5.6% in December 2018 to 6.5% in June 2019 – its highest level since October 2013 – before slowing somewhat to 6.3% in July. Growth was predominantly supported by strong demand for general loans, which accelerated from a low of 2.7% in December 2017 to 11.2% in July 2019. Growth in mortgage advances accelerated steadily from 3.1% in March 2018 to an average of around 4.3% in the first seven months of 2019. Instalment sale credit and leasing finance as well as credit card advances grew at a lively pace in recent months. However, subdued vehicle sales in the first half of 2019 and weak household income growth could slow the demand for instalment sale credit and leasing finance in the coming months. The utilisation of overdrafts has been subdued and only accounted for 2.7% of households' total loans in July 2019.

Growth in total mortgage advances edged moderately higher during the course of 2019, quickening from 4.6% in January to 5.2% in July on account of increased loans on commercial property. Mortgage advances on residential property grew at a steady pace of around 4% in the first seven months of 2019, marginally up from around 3% in early 2018. Growth in mortgage advances on commercial property was slightly more lively, accelerating from 5.4% in January 2019 to 7.1% in July.

Mortgage advances

Percentage change over 12 months



Source: SARB

Credit extension to the different domestic economic sectors varied widely in the second quarter of 2019. Growth in credit extension to the electricity and the finance and insurance sectors contracted anew in the second quarter, after increasing marginally in the first quarter. The real estate, manufacturing, transport and agriculture sectors maintained relatively lively growth rates, while credit growth slowed notably in the business services, mining and quarrying, construction as well as wholesale and retail trade sectors.

Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	Percentage of total credit extension*
Households	4.4	4.6	5.8	6.2	6.8	35.8
Finance and insurance	0.9	-7.9	-0.5	0.9	-1.2	17.3
Real estate	11.1	10.1	10.5	5.6	6.5	11.2
Wholesale and retail trade	14.0	16.6	17.7	6.7	3.0	5.2
Manufacturing	0.1	1.0	2.5	9.5	6.3	4.5
Business services	-1.4	-1.0	6.4	7.0	1.9	3.3
Transport, storage and communication	-2.5	-1.3	10.8	10.2	10.0	3.2
Electricity, gas and water	16.8	4.2	-0.4	1.2	-1.3	2.4
Agriculture, forestry and fishing	9.3	6.0	4.8	5.4	7.9	2.4
Mining and quarrying	2.2	16.1	24.2	29.3	0.2	1.6
Construction	5.6	5.9	9.9	17.7	5.9	0.9
Community, social, personal services and other	12.1	17.0	8.2	10.5	-0.5	12.3
Total	**5.5**	**4.3**	**6.2**	**6.3**	**3.8**	**100.0**

* Expressed as a percentage of the total outstanding balance for June 2019

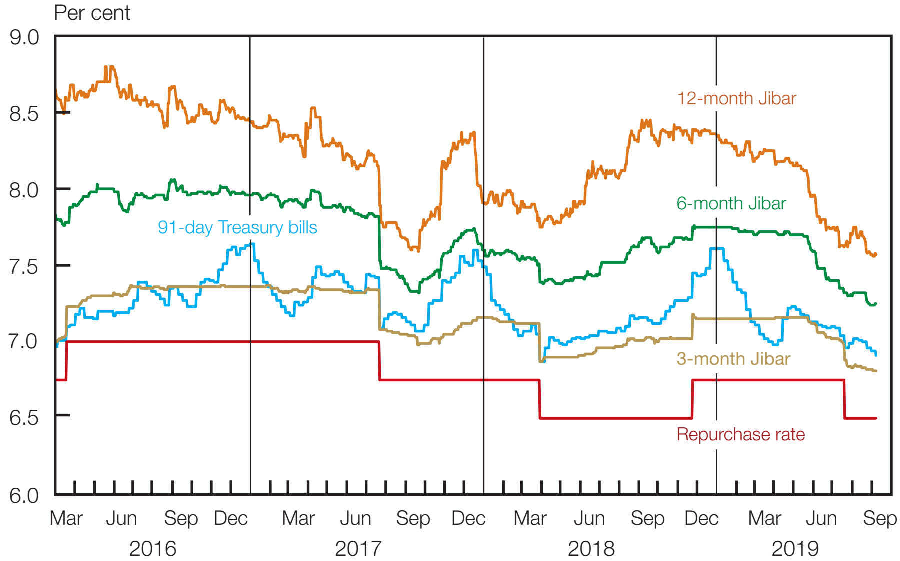
Source: SARB

Interest rates and yields

The SARB's Monetary Policy Committee (MPC) lowered the repurchase rate by 25 basis points to 6.50%, effective from 19 July 2019, having assessed the overall risks to the inflation outlook to be evenly balanced. However, the MPC expressed concerns about global financial conditions which continue to be sensitive to geopolitical tensions as well as domestic challenges related to the financing needs of some state-owned companies (SOCs), and other structural issues in need of attention.

The decline in domestic short-term interest rates in the first eight months of 2019 became more pronounced after the national elections in May and the reduction in the policy rate in July. The 3-month Johannesburg Interbank Average Rate (Jibar) declined from 7.16% on 22 May 2019 to a low of 6.83% on 30 July, and then paused in August, alongside increased financial market volatility and the depreciation in the exchange value of the rand. By 6 September 2019, the rate had once again decreased further to 6.81%. The 6-month Jibar also fluctuated lower from 7.72% on 18 April 2019 to 7.24% by early September. The 12-month Jibar started trending lower from late 2018 and declined from 8.45% on 18 September 2018 to 7.62% on 24 July 2019. However, this longer-term rate then increased to 7.75% on 2 August amid heightened uncertainty, before declining to 7.57% on 6 September. The decline in the tender rate on 91-day Treasury bills of 19 basis points, from 7.23% on 26 April 2019 to 7.04% on 18 July 2019, reflected a change in demand and the expected reduction in the repurchase rate. Subsequently, the rate on 91-day Treasury bills continued to tick lower to 6.91% on 6 September.

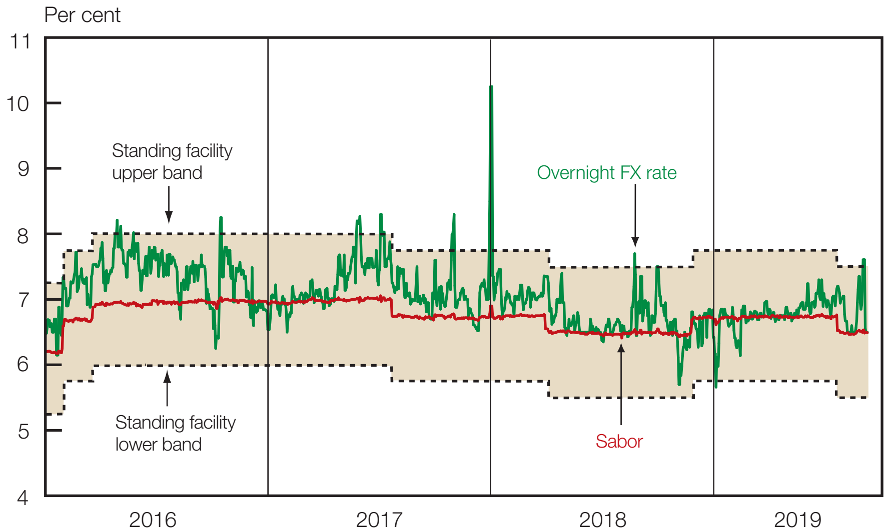
Money market rates



Source: SARB

The South African Benchmark Overnight Rate (Sabor) remained closely aligned with the repurchase rate and decreased from 6.76% on 18 July 2019 to 6.52% on 19 July, when the policy rate was lowered. Subsequently, the Sabor averaged around 6.50% in August and in the first week of September. During the first nine months of 2019, the Sabor and the overnight foreign exchange (FX) rate fluctuated well within the standing facility bands. The overnight FX rate fluctuated between a low of 6.66% and a high of 7.30% in the second quarter of 2019, increasing from 6.83% on 1 April 2019 to 7.30% on 19 June, alongside some depreciation in the exchange value of the rand. The rate then decreased to 7.00% by the end of June and continued to fluctuate lower to 6.50% in early August, before the marked depreciation in the exchange value of the rand resulted in the rate increasing again to 7.61% by 31 August. The overnight FX rate then declined sharply to 6.50% in early September.

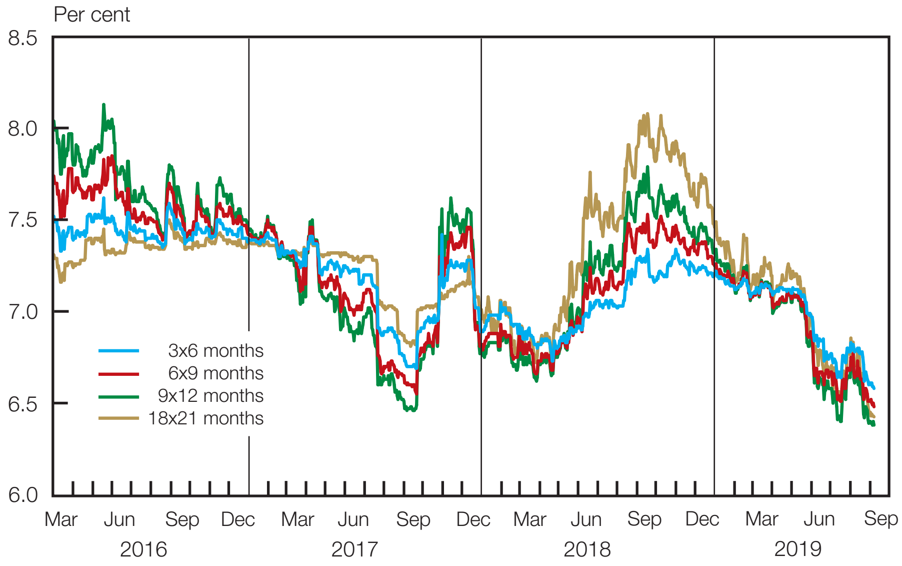
Benchmark overnight rates



Source: SARB

Rates on forward rate agreements (FRAs) across the maturity spectrum trended lower during the course of 2019, alongside benign domestic inflation outcomes. FRA rates already reflected expectations of a lower policy rate after the May 2019 MPC meeting and subsequently reacted only mildly when the repurchase rate was lowered in July. However, soon after the change in the policy rate, FRA rates adjusted higher amid a sharp depreciation in the exchange value of the rand, with longer term rates increasing more noticeably. For example, the 3x6-month FRA increased by 18 basis points from 6.64% on 17 July to 6.82% on 5 August, while the 9x12-month FRA increased by 35 basis points from 6.40% to 6.75% over the same period. Subsequently, forward rates fluctuated moderately lower up to early September as financial market conditions benefitted from an appreciation in the exchange value of the rand.

Forward rate agreements

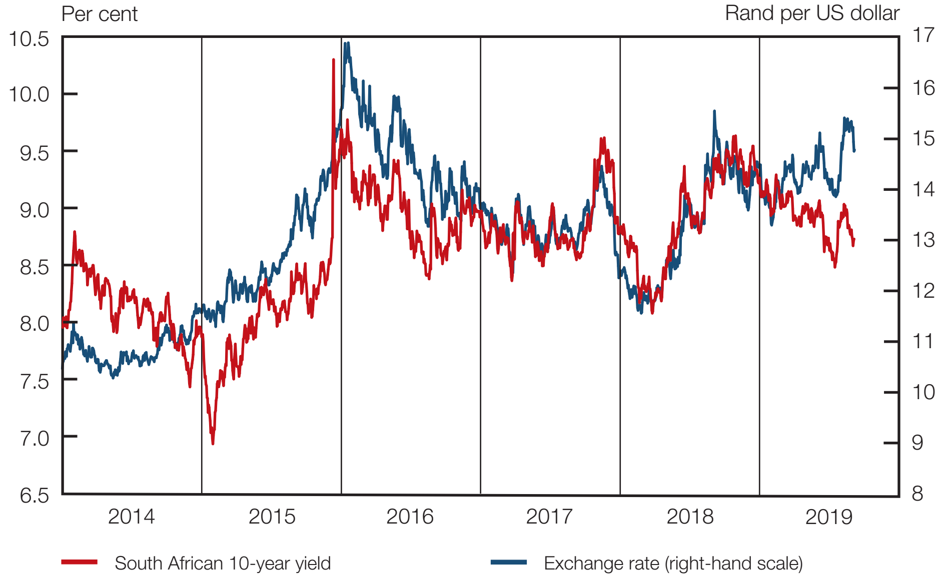


Source: SARB

Following the decrease in the repurchase rate in July 2019, private sector banks followed suit by lowering deposit and lending rates. The prime lending rate decreased from 10.25% to 10.00% in July 2019, while the weighted average flexible rate charged by banks on mortgage advances decreased from 9.77% in June 2019 to 9.59% in July. Interest rates offered on one-month notice deposits also decreased from 6.54% in June 2019 to 6.40% in July.

The general decline in the *yield on 10-year South African rand-denominated government bonds* issued and traded in the domestic market since the end of October 2018 reflected both domestic and global developments. Recently, domestic yields declined sharply by 58 basis points from 7 June 2019 to 8.48% on 18 July, along with an appreciation in the exchange value of the rand and lower global yields as weak global economic growth raised expectations of interest rate cuts by some central banks. However, domestic yields then increased by 54 basis points to 9.02% on 14 August in response to, among other factors, government's recapitalisation of Eskom, notable net sales of bonds by non-residents and the depreciation in the exchange value of the rand. Subsequently, the bond yield declined to 8.73% on 6 September along with the stronger rand.

Government bond yield and the exchange rate



Sources: IRESS, JSE and SARB

13 The break-even inflation rate is measured as the difference between the nominal yield on conventional government bonds and the real yield on inflation-linked government bonds.

Break-even inflation rates[13] have also generally declined since October 2018, along with lower inflation expectations amid weak domestic economic activity. However, towards the end of July 2019, break-even inflation rates increased again when the exchange value of the rand depreciated; three-year maturities increased from 3.61% on 16 July 2019 to 4.20% on 5 August and nine-year maturities increased from 4.71% to 5.00% over the same period. Subsequently, the three-year and nine-year maturity break-even inflation rates declined to 3.79% and 4.63% respectively on 6 September.

The general decline in yields led to the downward shift in the level of the *yield curve* from late October 2018 to July 2019 – with the extreme short end only having decreased after the reduction in the repurchase rate on 19 July 2019. Subsequently, the level of the yield curve shifted higher to mid-August as expectations of increased government borrowing led international credit rating agencies to raise concerns about debt levels, with one changing South Africa's sovereign credit outlook from stable to negative. Thereafter, the level of the yield curve moved lower, in line with the appreciation in the exchange value of the rand. Recently, the yield gap[14] narrowed from 324 basis points on 7 June 2019 to 283 basis points on 18 July, before widening notably to 359 basis points on 19 August. The yield gap then narrowed again to 333 basis points on 6 September.

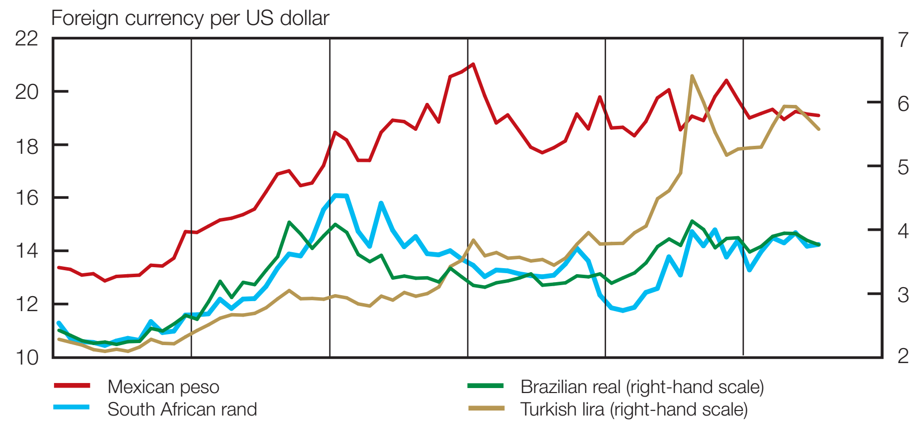
14 Yield gap is measured as the difference between yields at the extreme long and short ends of the yield curve.

The yield spread of emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[15] widened from a low of 384 basis points in February 2019 to 442 basis points in May. This reflected renewed risk aversion towards emerging markets amid ongoing US–China trade tensions, volatile international crude oil prices and prolonged uncertainty regarding Brexit. Subsequently, the EMBI+ narrowed significantly to 370 basis points in July, when emerging market currencies strengthened due to progressive talks between the US and China at the G20 summit and an interest rate cut by the US Fed. Subsequently, the EMBI+ widened to 437 basis points in August. Similarly, South Africa's *sovereign risk premium*[16] on government's US dollar-denominated bonds in the six-year maturity range narrowed from an average of 260 basis points in May 2019 to 229 basis points in July, before widening to 258 basis points in August.

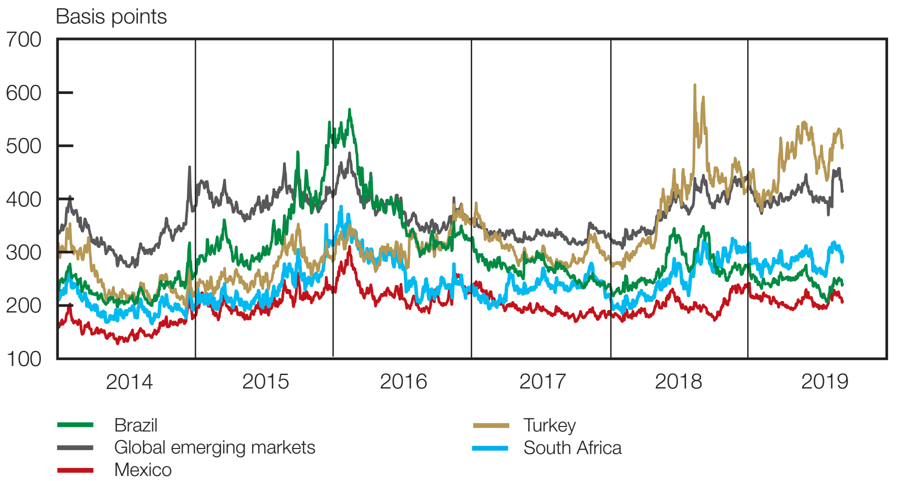
15 The EMBI+ measures the total returns on US dollar-denominated debt instruments of emerging market economies.

16 This is the differential between the yield on South African government US dollar-denominated bonds and that on US dollar-denominated bonds of the US government.

Selected emerging market exchange rates as at month end



Sovereign spreads*



* JPMorgan Emerging Markets Bond Index Plus

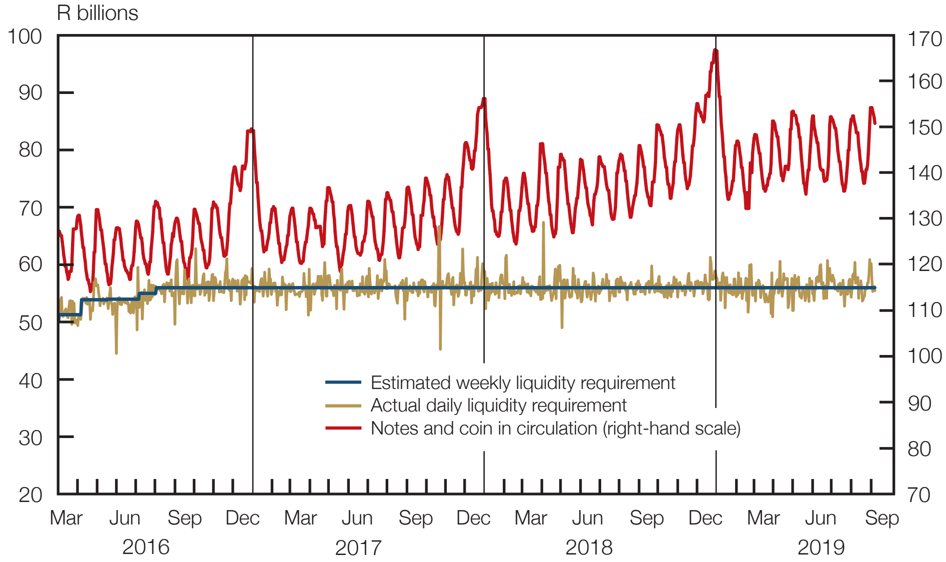
Sources: IMF and Bloomberg

Money market

Private sector banks' average actual daily liquidity requirement of R56.2 billion in the second quarter of 2019 fluctuated between a low of R52.0 billion and a high of R60.7 billion, somewhat narrower than the range of between R50.9 billion and R60.0 billion in the preceding quarter. On average, the SARB maintained the daily liquidity requirement at around R56 billion throughout the first eight months of 2019.

Money market liquidity contracted by R1.4 billion in the second quarter of 2019, following a contraction of R8.8 billion in the previous quarter. The relatively small net decrease masked quite large transactions during the quarter. An increase in notes and coin in circulation outside the SARB contracted money market liquidity by R0.9 billion in the second quarter of 2019, which was more than offset by a decrease of R3.4 billion in banks' required cash reserve deposits. A significant R24.0 billion in foreign exchange swaps previously entered into by the SARB were allowed to mature. This partly neutralised a repayment of R10.0 billion into the Sterilisation Deposit Account by National Treasury in the second quarter of 2019 as well as a withdrawal of R16.5 billion in deposits from private-sector banks by the Corporation for Public Deposits, and placed at the SARB. Foreign exchange transactions of the SARB in the spot market only had a slight tightening effect on money market liquidity. In July and August 2019, money market liquidity eased by a marginal R0.2 billion, as an expansion in notes and coin in circulation outside the SARB was predominantly offset by the money market operations of the SARB.

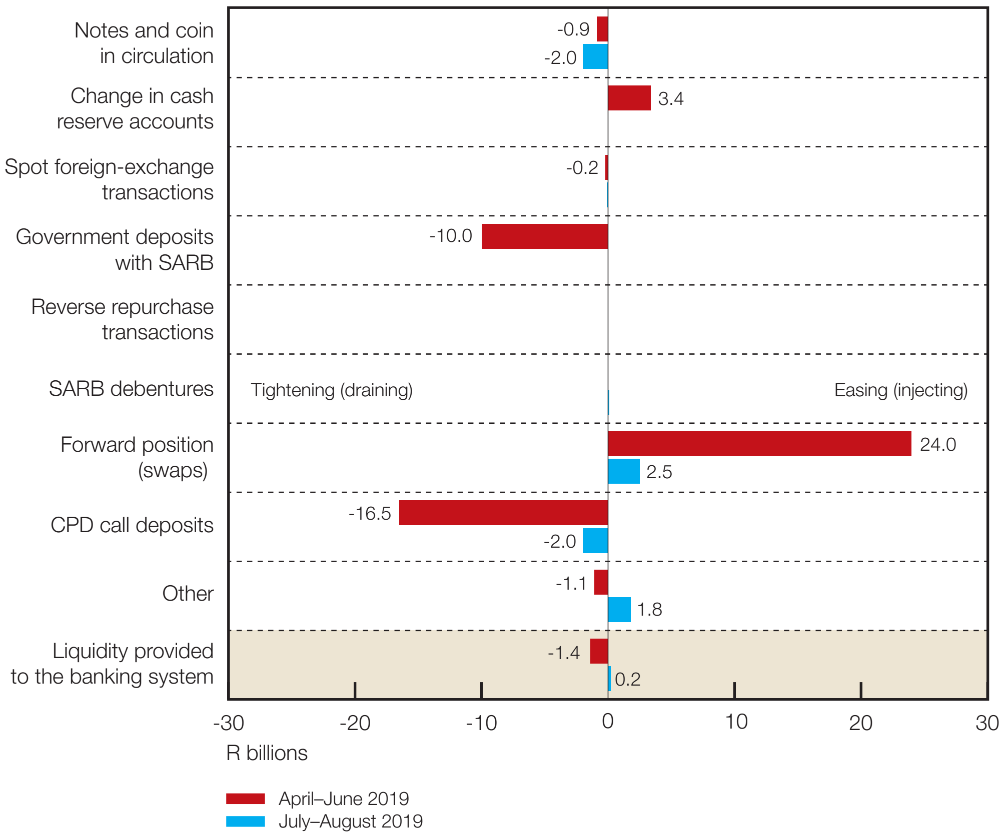
Liquidity requirement



Source: SARB

From April to August 2019, capital redemption and coupon interest payments of R49.6 billion were effected from government's tax and loan accounts. The SARB's relatively small portfolio of government bonds accrued total coupons of only R148 *million* over this period.

Factors influencing money market liquidity conditions

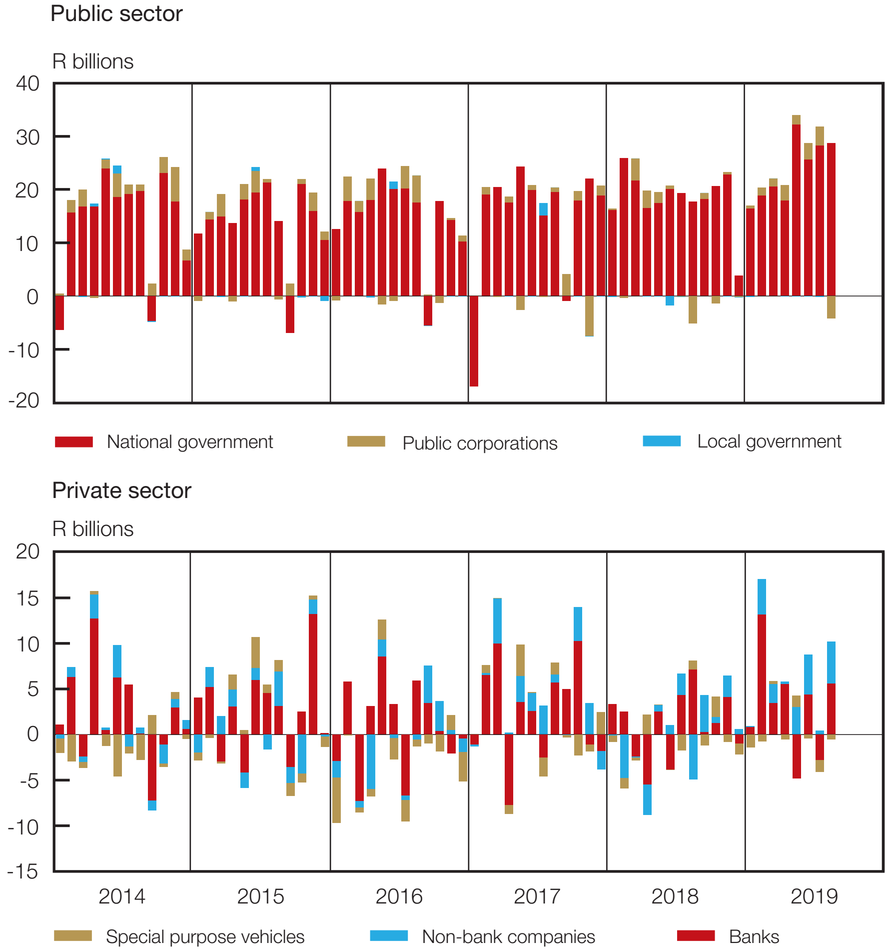


Source: SARB

Bond market

Funding activity in the *domestic primary bond market* in the first eight months of 2019 continued to be dominated by national government amid its growing funding needs. The nominal value of national government's net debt issuance increased by 21.9% year on year to R188 billion over this period. The additional recapitalisation of Eskom and preliminary indications of continued tax revenue shortfalls, relative to the 2019 Budget, led to a revised funding strategy. As a result, national government increased the amount on offer at the weekly bond auction for both fixed-rate and inflation-linked bonds in August 2019, from R3.30 billion to R4.53 billion and from R0.76 billion to R1.04 billion respectively.

Net issuances of listed bonds in the primary market



Source: JSE

By contrast, public corporations' net bond issues amounted to only R11.0 billion in the first eight months of 2019, while that of the private sector switched from net redemptions of R1.7 billion in the same period of 2018 to net issues of R40.9 billion thus far in 2019. In the first eight months of 2019, both banks and non-banks recorded net issuances, while securitisation by special purpose vehicles decreased. The total nominal value of all outstanding listed debt securities of R3.2 trillion on the JSE Limited (JSE), in August 2019, was 10.9% more than a year earlier.

The daily average *value of turnover* in the domestic secondary bond market reached new record highs in June 2019, in line with that in the All-Bond Total Return Index, before receding in the subsequent two months. Consequently, the daily average turnover of R152 billion in the eight months to August 2019 was 24.3% higher than the R122 billion in the same period of 2018.

The outstanding amount of rand-denominated debt securities in issue in the *European and Japanese bond markets* increased due to net issues of R12.21 billion in the eight months to

August 2019 compared with only R0.07 billion in the same period of 2018. Despite concerns about South Africa's sovereign credit rating, demand for domestic rand-denominated bonds issued in international capital markets seems to be regaining some traction, most probably due to relatively favourable returns.

Rand-denominated bonds issued in international bond markets, January to August

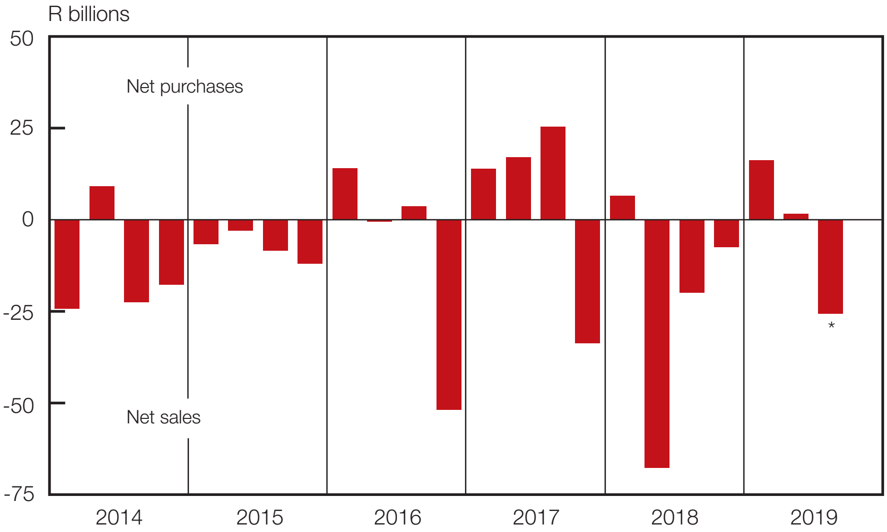
R millions

	Eurorand		Uridashi		Total	
	2018	2019	2018	2019	2018	2019
Issues	7 750	30 846	816	842	8 566	31 688
Redemptions	5 533	11 755	2 961	7 727	8 494	19 482
Net	**2 217**	**19 091**	**-2 145**	**-6 885**	**72**	**12 206**

Source: Bloomberg

Non-residents' holdings of domestic rand-denominated bonds increased by only R1.5 billion in the second quarter of 2019, following more sizeable net purchases of R16.1 billion in the first quarter, as reported by the JSE. However, this reverted to net sales of R25.6 billion in July and August. Non-residents' net sales of domestic bonds of R7.9 billion in the first eight months of 2019 were substantially less than the R76.0 billion over the same period of 2018. Non-residents' net sales in July and August 2019 could be attributed to several factors, such as investor concerns about the further escalation of trade tensions between the US and China, the change in South Africa's sovereign debt rating outlook by an international credit rating agency to negative following the Eskom recapitalisation, the depreciation in the exchange value of the rand, and the hawkishly perceived interest rate cut by the US Fed and related expectations. Non-resident investors held about 37.3% of all government bonds in issue on the JSE at the end of August 2019, with the R208 bond being sold the most and with the longer-dated R2032 bond attracting the most demand thus far in 2019.

Non-resident net transactions in the domestic bond market



* July and August

Source: JSE

Share market

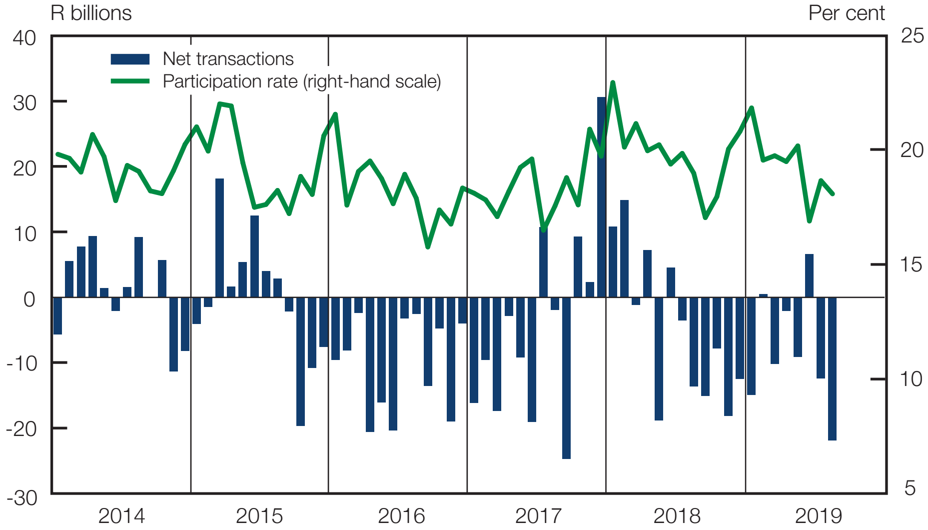
Equity capital raised by companies listed on the JSE in the domestic and international primary share markets of R28.4 billion in the eight months to August 2019 was broadly in line with that in the corresponding period of 2018. Weak domestic economic growth, share price volatility and a smaller number of listed companies contributed to subdued funding activity. Companies in the financial sector continued to contribute the most to the value of capital raised at 57.1% of the total in the first eight months of 2019.

The *value of turnover* in the secondary share market of the JSE remained subdued thus far in 2019. The daily average turnover of R19.9 billion in the first eight months of 2019 was 11.7% less than in the corresponding period of 2018, along with lower volumes traded and a decline in volatility. The market capitalisation of all listed shares on the JSE increased from a recent low of R12.5 trillion in November 2018 to R16.0 trillion in August 2019, alongside higher share prices.

Non-residents' sentiment towards shares listed on the JSE remained negative in 2019, with net sales of R24.7 billion in the first quarter of 2019 and R4.6 billion in the second quarter as well as R34.3 billion in July and August, as reported by the JSE. This resulted in cumulative non-resident net sales of R63.5 billion in the first eight months of 2019 compared with net purchases of R0.4 billion over the same period of 2018. Non-residents' participation rate[17] also declined from 21.8% in January 2019 to 18.1% in August.

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

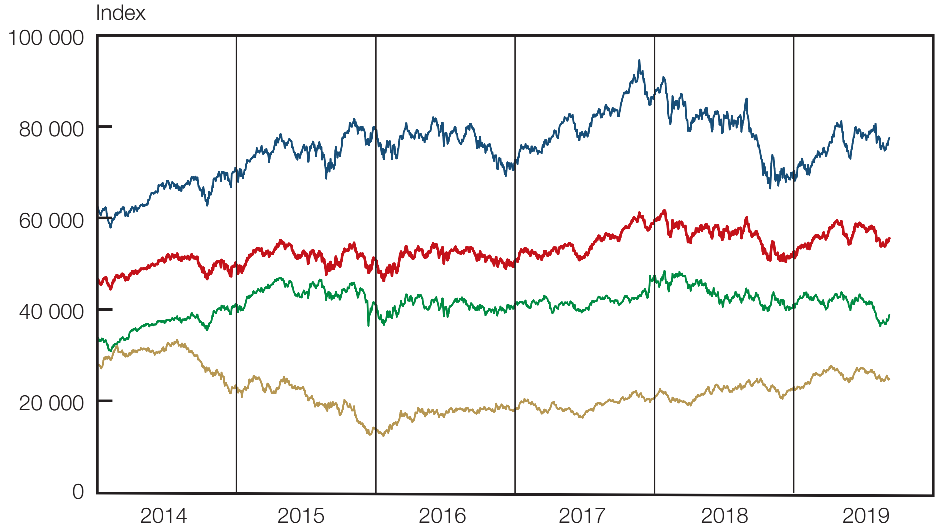
Non-resident participation in the domestic share market



Sources: JSE and SARB

The *share prices* of JSE-listed companies followed those of global equity markets higher, despite the contraction in South Africa's real GDP in the first quarter of 2019. The FTSE/JSE All-Share Price Index (Alsi) increased by 16.9% from a low of 50 434 index points on 10 December 2018 to a recent high of 58 974 index points on 20 June 2019. Amid generally less volatility in both the international and South African share markets, the upward trend in share prices over this period also reflected dovish rhetoric by major central banks as well as expectations of a constructive trade outcome between the US and China. Subsequently, the share prices of JSE-listed companies declined by 2.4% in July 2019, following the outcome of the US Fed's monetary policy meeting, the renewed escalation of US–China trade tensions and the reaction of credit rating agencies to the additional recapitalisation of Eskom. Thereafter, the Alsi declined further to 55 591 index points on 6 September 2019, with share prices of companies in the financial, resources and industrial sectors declining by 10.3%, 7.9% and 2.3% respectively from 20 June 2019 to 6 September.

FTSE/JSE share price indices



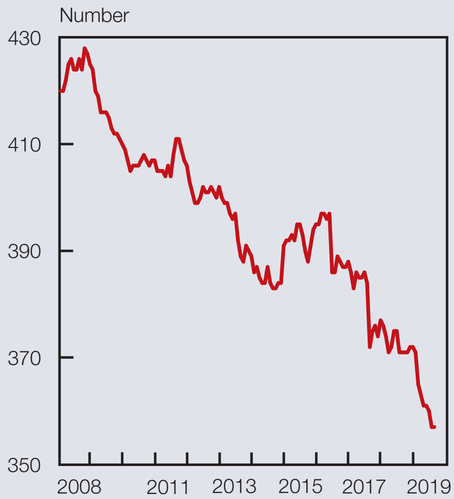
Sources: IRESS and JSE

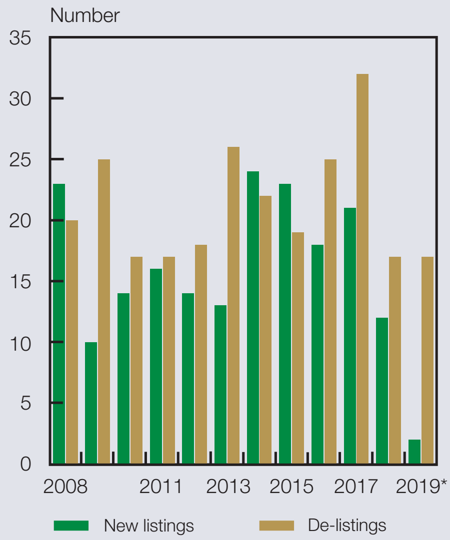
The overall historical *price-earnings ratio* of ordinary shares listed on the JSE increased from a recent low of 18.3 in December 2018 to 21.5 in June 2019, as total earnings declined while share prices increased notably, before decreasing to 17.5 in August.

Box 6 Observations on the evolution of corporate listings in South Africa[1, 2]

The changing composition of corporate listings on the JSE Limited (JSE)[3] since 2008 does not only reflect the effects of the global financial crisis, but also idiosyncratic domestic influences such as persistent weak economic growth, low business confidence and onerous corporate governance requirements.[4]

Number of listings on the JSE





* Up to August

Source: JSE

1 The discussion relates to listings on the JSE Limited, unless otherwise indicated. For related information, see: https://www.jse.co.za/?gclid=EAIaIQobChMIvLf7w4nm4wIVGeJ3Ch3eoAwYEAAYASAAEgIZk_D_BwE

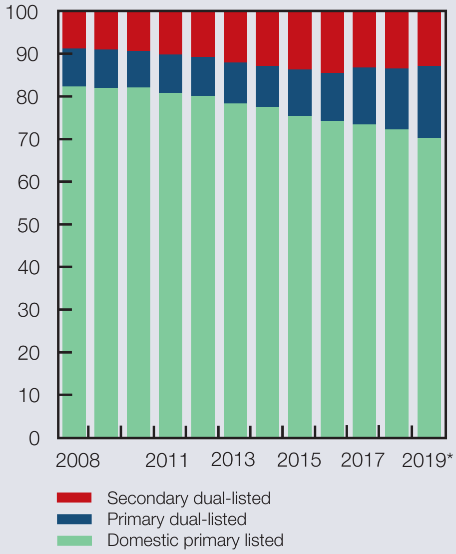
2 The box relates to market capitalisation statistics published in the table on page S–32 of this *Quarterly Bulletin*.

3 The JSE regulates listed companies and facilitates the buying and selling of shares as well as the raising of funding.

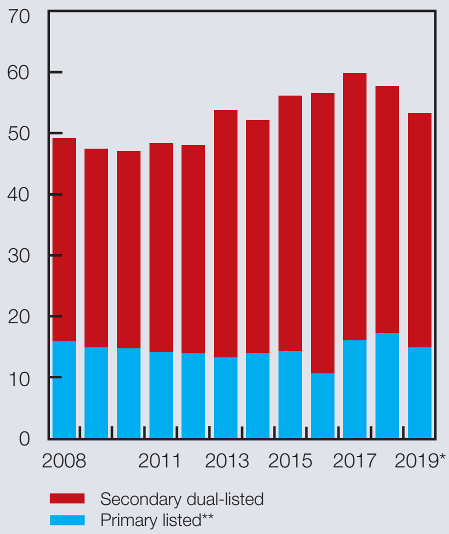
4 The JSE adopted the *King IV Report on Corporate Governance for South Africa 2016 (King IV)* in October 2017.

The number of companies listed on the JSE has decreased markedly since the global financial crisis, with de-listings mostly exceeding new listings. The number of listed companies declined by 16.6% from 428 in October 2008 to 357 in August 2019. The number of listings on the Main Board[5] continued to dominate, while that on Alt^{X}[6] almost halved. The composition of the number of listings changed, with an increased prevalence of dual-listed companies,[7] and with such primary listings[8] on the JSE exceeding such secondary listings[9] as from 2018. Although the number of domestic companies with only a primary listing on the JSE declined, they continued to account for the largest portion of listed companies. The top 10[10] companies listed on the JSE accounted for just more than half of the total market capitalisation[11] of the JSE, on average, during the period reviewed. Within the top 10, secondary listings were more than double the market capitalisation of primary listings.

Contributions to the total number of listed companies



Contribution of the top 10 companies to total market capitalisation



* Up to August
** Domestic primary listed and primary dual-listed

Source: JSE

A policy change by National Treasury in 2011, classifying residents' holdings of foreign domiciled secondary dual-listed shares on the JSE as domestic and not foreign, contributed to the increase in secondary dual-listings.[12] This is also reflected by the increased contribution of secondary dual-listings as part of the top 10 companies to the JSE's total market capitalisation. All dual-listings contributed almost 65% to total market capitalisation, on average, over the period reviewed. Of these, secondary dual-listings accounted for the most at 43%, on average, boosted by the increased number of such shares in issue.

The evolution of listings on the JSE affects both resident and non-resident participation in share trading in the secondary market, new equity capital raised in the primary share market and also South Africa's financial transactions with the rest of the world. Non-resident transactions in the shares of all JSE-listed South African domiciled companies contribute to changes in South Africa's foreign liabilities[13] and the funding of South Africa's current account deficit.

---

5 The Main Board provides for the listing of well-established companies that meet JSE listing requirements.

6 Alt^{X} commenced in October 2003 and provides for the listing of small and medium sized companies.

7 Dual-listed companies are listed on two or more exchanges.

8 Domestic and foreign domiciled JSE primary dual-listed companies are regulated by the JSE. These companies are primary and/or secondary listed on offshore or domestic exchanges.

9 Foreign domiciled secondary dual-listed companies on the JSE are primary listed on offshore exchanges and are regulated by the exchange on which it has a primary listing.

10 The top 10 is determined in terms of market capitalisation.

11 Market capitalisation, in this box, reflects the total market value of all listed companies' outstanding shares and is calculated at a company level by multiplying the number of shares in issue by the share's current market price.

12 In balance of payments statistics, resident holdings of secondary dual-listed shares are treated as holdings of foreign assets.

13 When non-residents buy (sell) the shares of JSE-listed South African domiciled companies (both primary dual-listed and those with only a primary listing on the JSE) then South Africa's foreign liabilities increase (decrease) and an inflow (outflow) of capital is recorded through the financial account of the balance of payments.

The Main Board contributed the most to the number of listings on the JSE's five boards, followed by AltX. However, the number of listings on all boards has declined since 2008.

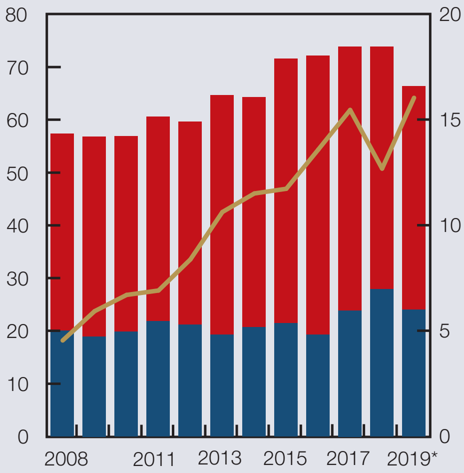
Number of listings on the JSE, by board, at year end

Year	Main	AltX	Development Capital Market[1]	Venture Capital Market[2]	Black Economic Empowerment[3]	Africa Board[4]	Total listings
2008	335	77	6	7	–	-	425
2009	321	76	6	6	–	1	410
2010	328	68	4	5	–	2	407
2011	332	66	3	3	–	2	406
2012	334	63	2	3	–	–	402
2013	324	60	2	3	–	–	389
2014	330	58	1	2	–	–	391
2015	326	64	1	2	2	–	395
2016	324	60	1	1	2	–	388
2017	320	53	1	1	2	–	377
2018	323	46	1	1	1	–	372
2019*	312	42	1	1	1	–	357

* As at 31 August
1 The Development Capital Market (DCM) targets companies with a minimum of 10% of each class of shares held by the public, a satisfactory profit history for the preceding two financial years, not less than one million shares in issue, and a minimum of R1 million subscribed capital.
2 The Venture Capital Market (VCM) requires subscribed capital of at least R0.5 million and above-average returns, without a profit history.
3 The Black Economic Empowerment (BEE) is for companies with BEE share schemes.
4 The Africa Board (BOAF) was launched in 2009 for African companies, but was discontinued in 2012.

Source: JSE

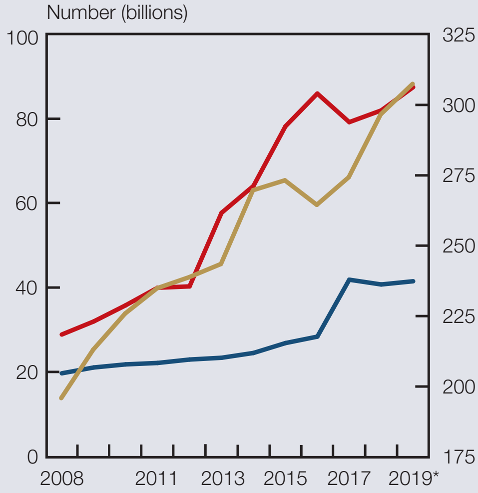
Contribution of all dual-listed companies to total market capitalisation



* Up to August

Source: JSE

Number of shares in issue on the JSE



South Africans' transactions in the shares of JSE-listed foreign domiciled companies affect South Africa's foreign assets.[14] Inward dual-listings of foreign domiciled companies on the JSE, which were permitted from 2004, afforded resident investors an opportunity to obtain exposure to foreign companies through the domestic share market.

The JSE's reign as the only exchange in South Africa ended when the first listing on a new stock exchange occurred in February 2017. Four exchanges, namely ZAR X, 4 Africa Exchange, A2X and Equity Express Securities Exchange, have since been established with 40 listings to date.

14 When South Africans buy (sell) the shares of foreign domiciled companies (both secondary dual-listed companies and foreign primary dual-listed companies on the JSE) then South Africa's foreign assets increase (decrease) and an outflow (inflow) of capital is recorded through the financial account of the balance of payments.

Market for exchange-traded derivatives

The South African agricultural commodities market is usually affected by both developments in international agricultural commodity markets and exchange rate movements. The *spot prices of both white and yellow maize contracts* listed on the JSE Commodity Derivatives Market initially decreased noticeably by 23.5% and 13.9% respectively from 17 January 2019 to 13 May, in step with lower global maize prices. Maize prices subsequently increased, with the price of white maize rising the most, by 21.9% from 13 May 2019 to R3 032 per ton on 12 August, alongside higher global maize prices. International maize prices increased as wet weather conditions in the US delayed plantings and weakened crop-growing conditions. With global weather conditions subsequently improving, international maize prices receded, followed by decreases in domestic white and yellow maize prices of 10.9% and 11.0% respectively up to 6 September.

The *spot price of domestic wheat* continued to trend higher during most of 2019, despite lower international wheat prices and expectations of increased domestic wheat production due to the larger area planted. The spot price of wheat, which increased by 8.7% from a low of R4 195 per ton on 30 November 2018 to R4 560 per ton on 6 September 2019, largely reflected the depreciation in the exchange value of the rand. In addition, the import tariff on wheat was raised twice, first to R675.1 per ton in May 2019 and then to R958 per ton in June.

Grain prices

Source: JSE

Turnover in commodity derivatives on the JSE increased markedly by 27.9% in the first eight months of 2019 compared to the corresponding period of 2018. By contrast, turnover in equity and interest rate derivatives contracted over the same period. Trading in equity derivatives continued to dominate overall derivatives trading on the JSE.

Derivatives turnover on the JSE, January to August 2019

Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	3 612	-3
Warrants	0.6	16
Commodity	545	28
Interest rate	922	-10

Source: JSE

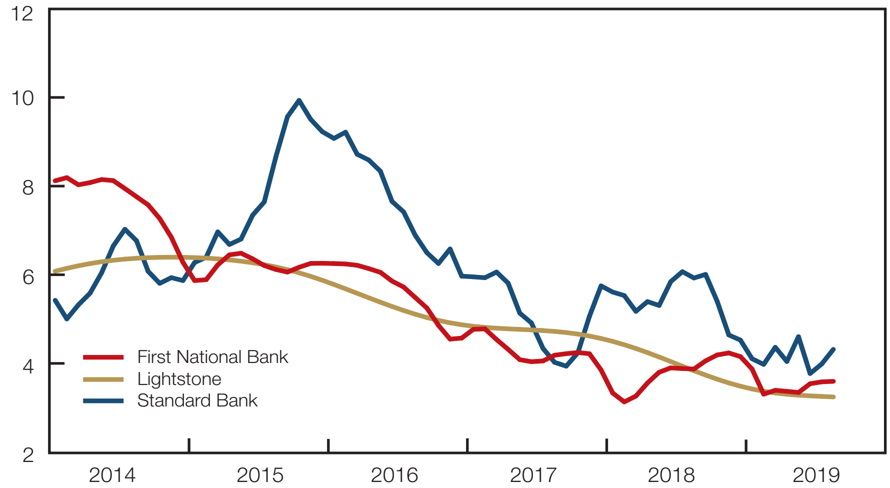
Real estate market

Growth in nominal residential property prices remained subdued in 2019 amid low consumer confidence, weak economic activity, subdued growth in households' disposable income, rising unemployment and sluggish residential property demand. The year-on-year rates of increase in nominal house prices varied between 3.2% and 4.3% across the different indicators in August 2019. Encouragingly, the average time that residential properties remained on the market declined from 15.3 weeks in the first quarter of 2019 to 14.1 weeks in the second quarter, while the Absa Homeowner Sentiment Index (HSI)[18] increased from 73% to 77% over the same period.

18 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

Percentage change over 12 months

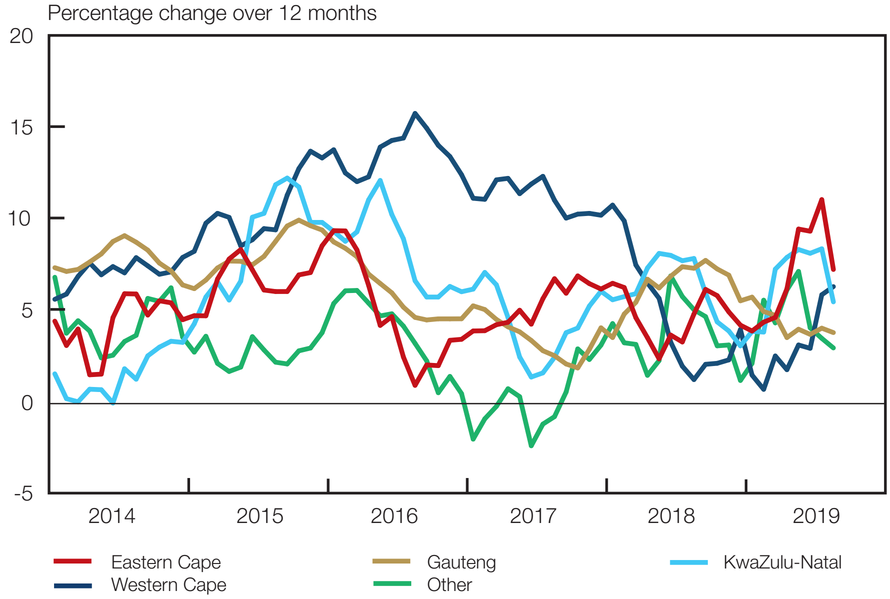


Sources: First National Bank, Lightstone and Standard Bank

According to Standard Bank, nominal house price growth in the Eastern Cape and KwaZulu-Natal accelerated thus far in 2019 to year-on-year rates of 11.0% and 8.3% respectively in July. Subsequently, these year-on-year rates declined to 7.2% and 5.4% respectively in August. Growth in house prices in the Western Cape also accelerated from a year-on-year rate of 0.6% in February 2019 to 6.3% in August. By contrast, growth in house prices continued to slow in Gauteng.

Nominal house prices by province

Percentage change over 12 months



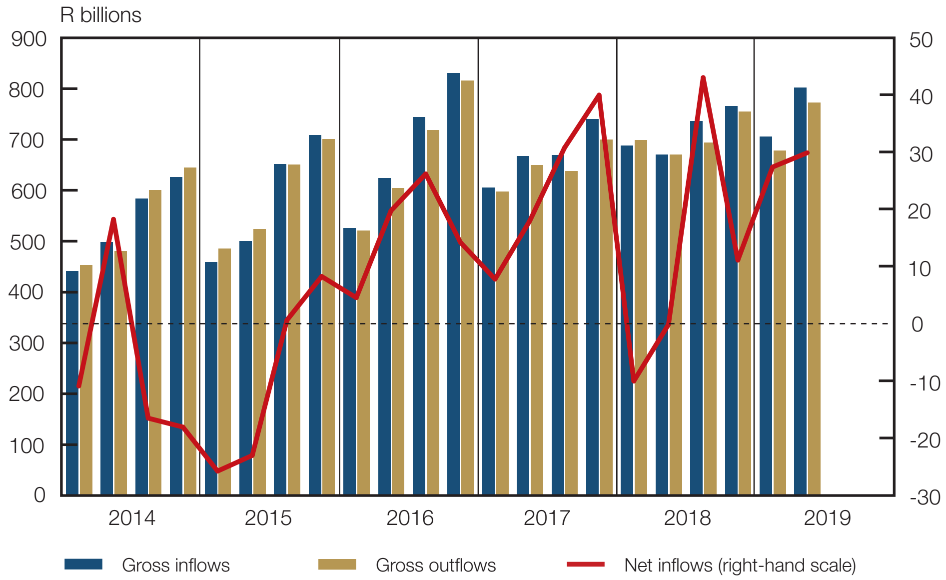
Source: Standard Bank

Non-bank financial intermediaries[19]

Financial intermediation through non-bank financial institutions in the second quarter of 2019 showed higher gross inflows[20] than gross outflows.[21] Gross inflows increased by 13.7% from the first quarter of 2019 to R802 billion in the second quarter, and by 19.7% over four quarters. Premiums received by insurers increased by 13.2% from the first quarter of 2019 to R175 billion in the second quarter amid improved growth in household disposable income. Premiums received by insurers from retirement and employer-based business increased by 14.1% quarter to quarter to R83.3 billion in the second quarter of 2019, while gross inflows to pension and provident funds declined in the second quarter of 2019.

Unit trusts recorded a significant increase in gross inflows in the second quarter of 2019, against the backdrop of higher financial asset prices. Gross inflows increased by 15.2% from the first quarter of 2019 to R586 billion in the second quarter. Over the same period, the value of households' direct acquisition of units in unit trusts increased by R29.1 billion to R253 billion. In the first half of 2019, gross inflows to non-bank financial institutions were R1.51 trillion compared to R1.36 trillion in the same period of 2018.

Non-bank financial institutions' financial flows



Source: SARB

Gross outflows from non-bank financial institutions increased by 13.9% from the first quarter of 2019 to R772 billion in the second quarter. The combined gross outflows from insurance companies as well as pension and provident funds increased by 2.9% to R224 billion over the same period. Gross outflows from unit trusts increased by R87.9 billion from the first quarter of 2019 to R548 billion in the second quarter, as institutional investors sold more units. Similarly, gross outflows from money-market unit trusts increased by R54.8 billion to R377 billion over the same period.

Net inflows[22] increased from R27.4 billion in the first quarter of 2019 to R29.9 billion in the second quarter. Net flows reverted from outflows of R10.2 billion in the first half of 2018 to inflows of R57.2 billion in the same period of 2019. Non-bank financial institutions invested the majority of the net inflows in cash and interest bearing securities over this period.

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

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

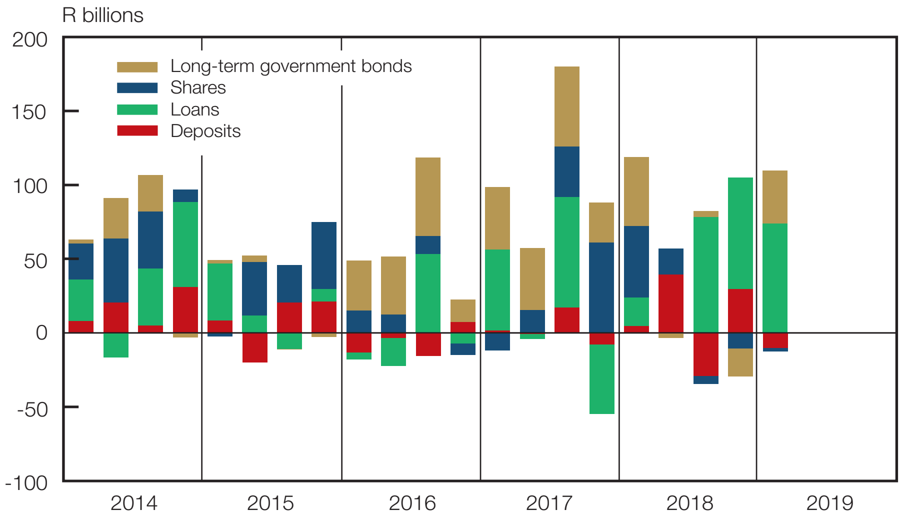
21 These comprise benefits and claims paid, surrenders, repurchases of units and administrative expenses.

22 Measured as the difference between gross inflows and gross outflows.

Flow of funds

Non-resident investors' net acquisition of domestic financial assets increased from R38.5 billion in the fourth quarter of 2018 to R66.6 billion in first quarter of 2019. A favourable yield differential supported net purchases of long-term government bonds of R35.7 billion in the first quarter of 2019, contrasting net sales of shares of R2.4 billion over the same period. The net sales of shares reflected weak domestic economic activity and concerns over international trade relations. Net purchases of public enterprise securities of R1.3 billion in the first quarter of 2019 contrasted net sales of R1.0 billion in the final quarter of 2018. Foreign investors withdrew deposits of R10.2 billion in the first quarter of 2019, following an increase of R29.7 billion in the final quarter of 2018, while net inflows through loans amounted to R74.0 billion in the first quarter of 2019.

Net acquisition of selected domestic financial assets by non-residents

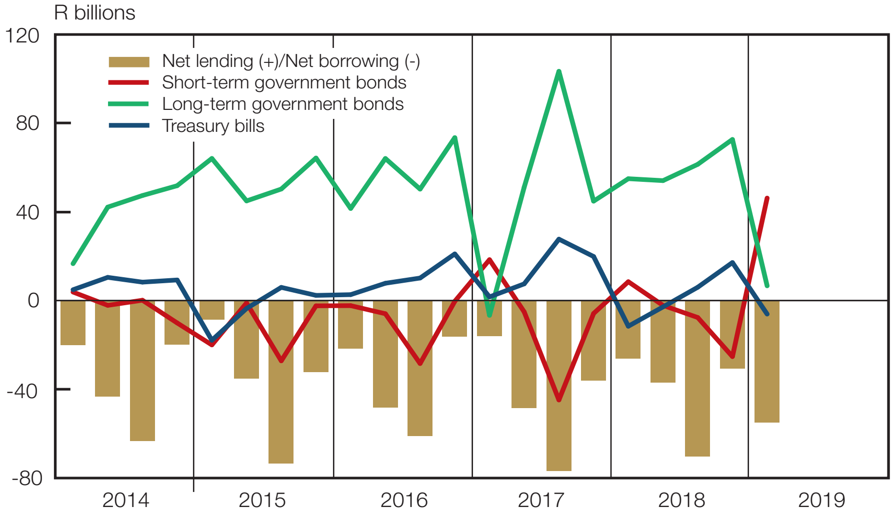


Source: SARB

A higher value of *financial intermediation* flows in the first quarter of 2019 contrasted the contraction in domestic output. Monetary institutions received deposits of R28.9 billion in the fourth quarter of 2018 and R37.8 billion in the first quarter of 2019, mostly from other financial institutions and the monetary authority. Net purchases of shares and fixed-interest securities by financial intermediaries amounted to R128 billion and R61.7 billion respectively in the first quarter of 2019, along with credit extension of R125 billion. Bank loans and advances of R112 billion were mainly taken up domestically by non-financial corporates and were mostly related to the resumption of renewable energy projects. Mortgage loans of R23.6 billion were extended in the first quarter of 2019.

The *general government sector's* net borrowing requirement increased notably from R30.6 billion in the fourth quarter of 2018 to R54.8 billion in the first quarter of 2019. Persistent weak domestic economic growth and higher value-added tax (VAT) refunds adversely affected tax collection, while expenditure remained relatively elevated. The shortfall was mainly financed in the domestic capital market through net issues of long-term and short-term government bonds of R6.6 billion and R46.2 billion respectively, while net redemptions of R6.1 billion were recorded in Treasury bills. In addition, general government's deposit holdings shrank by R59.2 billion in the first quarter of 2019 after an increase of R6.8 billion in the fourth quarter of 2018. Non-residents continued to invest in high yielding domestic government bonds despite fiscal risks posed by state-owned companies (SOCs). Net purchases of government bonds by domestic non-bank financial institutions also supported the funding of the general government sector.

General government's main sources of funding



Source: SARB

Non-financial corporate business enterprises' fixed investment continued to be suppressed by disappointing domestic economic growth outcomes and sustained weak business confidence. The capital outlays of non-financial corporates decreased from R129 billion in the fourth quarter of 2018 to R128 billion in the first quarter of 2019, due to a 1.4% decline in investment by private non-financial business enterprises on account of reduced outlays on transport equipment. Non-financial corporates' gross saving increased in the first quarter of 2019 and resulted in a larger net lending position of R26.6 billion. Funds placed with other financial institutions, net purchases of Treasury bills and financial derivatives collectively amounted to R66.3 billion. However, non-financial business enterprises' holding of deposits declined by R13.7 billion in the first quarter of 2019. Funding through loans, the net issuance of shares and fixed-interest securities amounted to R111 billion, R98.0 billion and R40.6 billion respectively in the first quarter of 2019.

The *household sector's* net dissaving in the first quarter of 2019 reflected constrained finances amid rising unemployment, slowing wage growth as well as fuel price and tax increases. The sector's net borrowing position more than doubled from R20.3 billion in the fourth quarter of 2018 to R46.6 billion in the first quarter of 2019. Household demand for credit remained relatively contained in the first quarter of 2019, with bank loans and advances and mortgage loans combined amounting to only R29.8 billion compared to R30.5 billion in the fourth quarter of 2018.

23 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–June 2019 to April–June 2018. Data for both periods are unaudited and preliminary.

24 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.

Public finance[23]

Non-financial public sector borrowing requirement[24]

The preliminary *non-financial public sector borrowing requirement* of R63.4 billion in the first quarter of fiscal 2019/20 (April–June 2019) was R29.4 billion more than in the same period of the previous fiscal year. This larger borrowing requirement could be attributed to the increase in the cash deficits of both consolidated general government and the non-financial public enterprises and corporations, or state-owned companies (SOCs). The borrowing requirement of consolidated general government increased by R15.1 billion year on year to R42.4 billion in April–June 2019 and reflected a more than doubling of the cash deficit of national government. By contrast, local governments recorded a smaller cash deficit while all other tiers of general government recorded cash surpluses.

Non-financial public sector borrowing requirement

R billions

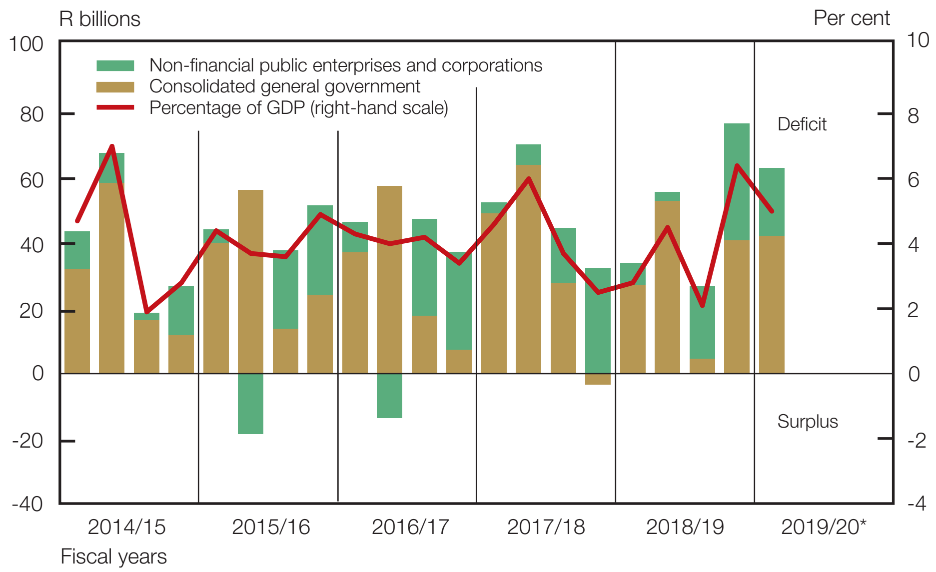
Level of government	April–June 2018*	April–June 2019*
Consolidated general government	27.3	42.4
National government	21.8	53.3
Extra-budgetary institutions	-9.0	-17.7
Social security funds	-4.0	-7.9
Provincial governments	-8.8	-8.6
Local governments	27.3	23.3
Non-financial public enterprises and corporations	6.8	21.0
Total**	**34.0**	**63.4**
As a percentage of gross domestic product	*2.8*	*5.0*

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

Sources: National Treasury, Stats SA and SARB

As a ratio of GDP, the non-financial public sector borrowing requirement increased notably to 5.0% in the first quarter of fiscal 2019/20, relative to 2.8% in the corresponding period of the previous fiscal year.

Non-financial public sector borrowing requirement

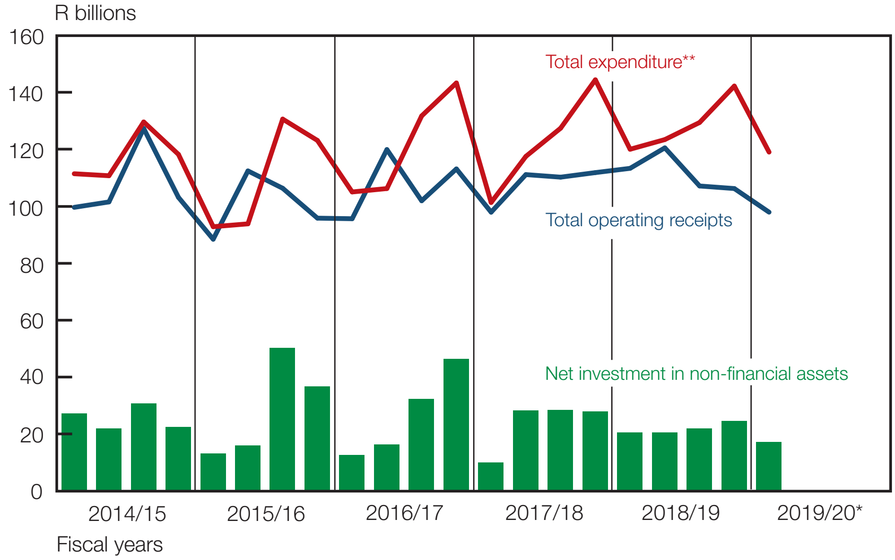


* April–June 2019

Sources: National Treasury, Stats SA and SARB

The preliminary cash deficit of the non-financial SOCs more than tripled to R21.0 billion in the first quarter of fiscal 2019/20 from the same period a year earlier. The increase could largely be attributed to a notable decline of 13.5% year on year in cash receipts from operating activities, to R98.0 billion in April–June 2019, which reflected continued constrained operations.

Financial activities of non-financial public enterprises and corporations



* April–June 2019
** Including both operating cash payments and net investment in non-financial assets

Source: SARB

The total expenditure[25] of non-financial SOCs also decreased by 0.9% year on year to R119 billion in the first quarter of fiscal 2019/20. This largely reflected lower capital spending with net investment in non-financial assets decreasing from R20.7 billion in April–June 2018 to R17.3 billion in the same period of 2019.

25 The sum of operational expenses and net investment in non-financial assets.

Budget comparable analysis of national government finance

National government's cash book deficit of R57.5 billion in the first quarter of fiscal 2019/20 was more than double that in the same quarter of the previous fiscal year as growth in expenditure far outpaced that in revenue. This deficit was mostly financed in the domestic capital market through the net issuance of Treasury bills and government bonds.

National government finances

	Actual April–June 2018		Actual April–June 2019		Originally budgeted[1] Fiscal 2019/20	
	R billions	Percentage change[2]	R billions	Percentage change[2]	R billions	Percentage change[2]
Revenue	298	9.7	318	6.8	1 403	10.3
Expenditure	325	5.5	375	15.4	1 659	10.2
Cash book deficit	27.6		57.5		255	
Primary balance[3]	-3.3		-29.4		-53.0	
Gross loan debt[4]	2 609	13.0	2 900	11.2	3 043	9.1

1 *2019 Budget Review*
2 Year-on-year percentage change
3 Cash book deficit (-)/surplus (+) excluding interest payments
4 As at 30 June for rand values

Sources: National Treasury and SARS

National government revenue increased by 6.8% year on year to R318 billion in the first quarter of fiscal 2019/20, which was R1.0 billion less than monthly budgeted estimates. The revenue shortfall resulted from, among other factors, generally weak domestic economic activity and higher tax refunds. As a ratio of GDP, revenue was 25.2% in the first quarter of fiscal 2019/20 – higher than the 24.6% recorded in the same period a year earlier.

National government revenue in fiscal 2019/20[1]

Revenue source	Originally budgeted Fiscal 2019/20		Actual April–June 2019	
	R billions	Percentage change[2]	R billions	Percentage change[2]
Taxes on income, profits and capital gains	820.3	11.0	191.3	7.8
Of which: Income tax on individuals	552.9	12.0	126.0	12.0
Income tax on companies	229.6	7.1	56.7	0.0
Payroll taxes	18.8	7.6	4.3	5.8
Taxes on property	17.2	12.5	3.7	-7.0
Taxes on goods and services	504.4	9.6	107.6	0.5
Of which: Value-added tax (VAT) net	360.5	11.0	73.0	-3.5
Domestic	406.2	7.2	96.0	6.6
Import	187.4	7.0	34.4	12.0
Refunds	-233.2	1.7	-57.4	27.2
General fuel levy	83.0	10.1	19.4	8.8
Excise duties	48.8	-12.2	12.3	15.5
Taxes on international trade and transactions	61.3	10.0	10.4	6.1
Of which: Import duties	60.0	9.1	10.1	5.4
Other revenue[3]	31.8	-3.8	13.4	75.1
Less: SACU[4] payments	50.3	4.1	12.6	4.1
Total revenue	**1 403.5**	**10.3**	**318.0**	**6.8**

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items
2 Year-on-year percentage change
3 Including non-tax revenue and extraordinary receipts
4 Southern African Customs Union

Sources: National Treasury and SARS

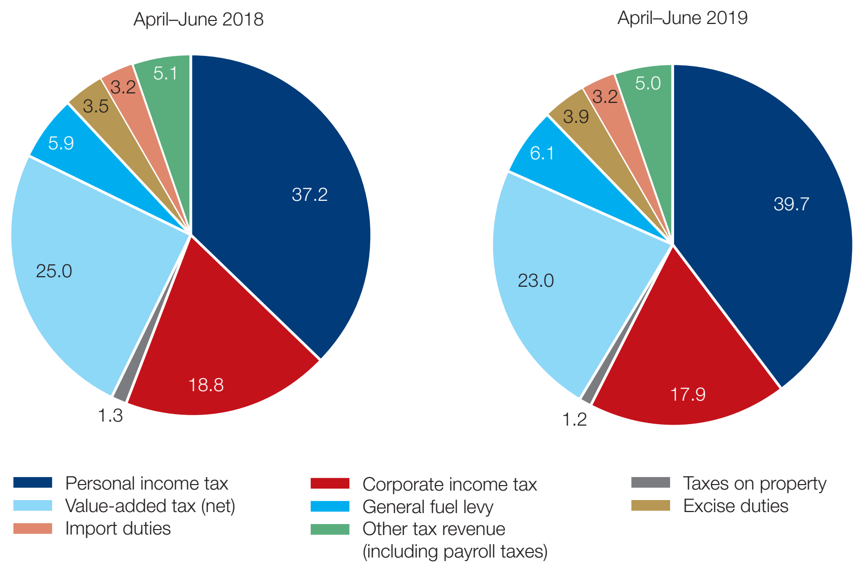
Revenue from taxes on income, profits and capital gains of R191 billion (60.1% of total revenue) in April–June 2019 was 7.8% more compared to the same period a year earlier. This increase mostly reflected a 12.0% year-on-year increase in personal income tax collections to R126 billion, in line with the original budget estimate. However, corporate income tax collections remained broadly unchanged at R56.7 billion from a year earlier.

Revenue from taxes on goods and services increased only marginally to R108 billion (33.8% of total revenue) in the first quarter of fiscal 2019/20 compared to the same period of the previous fiscal year. Domestic value-added tax (VAT) collections increased by only 6.6% year on year in the first quarter of fiscal 2019/20 compared to the originally budgeted increase of 7.2% for the full fiscal year. This probably reflects the impact of slowing wage and household consumption expenditure growth on VAT collections. Due to a marked year-on-year increase of 27.2% in VAT refunds to R57.4 billion, net VAT collections decreased by 3.5% to R73.0 billion in April–June 2019.

Taxes on international trade and transactions increased by 6.1% year on year to R10.4 billion in the first quarter of fiscal 2019/20, probably reflecting increased imports of electrical machinery and original equipment components.

Composition of national government tax revenue

Per cent



Source: SARS

Non-tax revenue increased significantly from R7.7 billion in April–June 2018 to R13.4 billion in April–June 2019, mainly due to receipts of R5.9 billion by the National Revenue Fund and higher rent on land of R4.8 billion. The *2019 Budget Review* earmarked R50.3 billion for the Southern African Customs Union (SACU) for fiscal 2019/20, with the first tranche of R12.6 billion transferred in April 2019.

The 2019 Budget estimated national government revenue to increase by 10.3% to R1 403 billion in fiscal 2019/20. However, in the first four months of fiscal 2019/20 (April–July 2019) total revenue collections of R392 billion represented an increase of only 4.9% compared to the same period a year ago.

National government expenditure in fiscal 2019/20*

Expenditure item	Originally budgeted Fiscal 2019/20		Actual April–June 2019	
	R billions	Percentage change**	R billions	Percentage change**
Voted expenditure	882.6	7.7	215.4	20.8
Of which: Transfers and subsidies	615.7	8.8	145.2	14.9
Current payments	246.8	9.4	55.2	10.6
Payments for capital assets	15.4	13.1	1.5	-25.8
Statutory amounts***	776.1	13.2	160.1	8.8
Of which: Provincial equitable shares	505.6	7.5	126.4	7.5
Interest on debt	202.1	11.2	28.1	15.4
General fuel levy	13.2	5.6	0.0	0.0
Total expenditure	1 658.7	10.2	375.5	15.4

* Components may not add up to totals due to rounding off and the exclusion of unclassified items
** Year-on-year percentage change
*** Including extraordinary payments

Source: National Treasury

National government expenditure increased significantly by 15.4% year on year to R375 billion in the first quarter of fiscal 2019/20. The higher spending mainly reflected increased transfers and subsidies, equitable transfers to provinces, higher debt service costs and the recapitalisation of Eskom in April 2019. As a ratio of GDP, expenditure was 29.7% in the first quarter of fiscal 2019/20, up from 26.9% in the same period of the previous fiscal year.

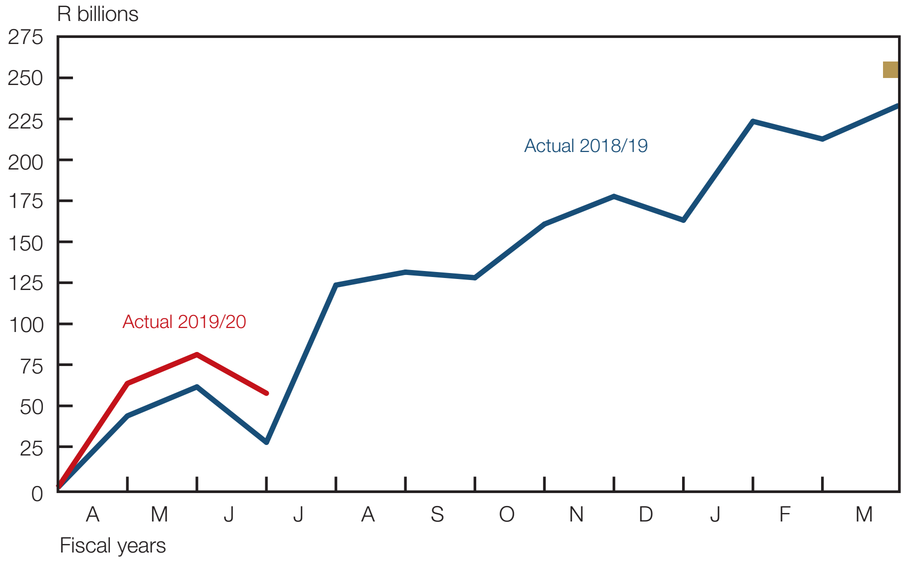
Total voted expenditure by national government departments (transfers and subsidies, current payments as well as payments for capital and financial assets) increased markedly by 20.8% year on year to R215 billion (57.4% of total expenditure) in the first quarter of fiscal 2019/20. Transfers and subsidies as well as current payments accounted for 93% of total voted expenditure, and increased by 14.9% and 10.6% respectively. The marked increase in transfers and subsidies reflected transfers to the Departments of Social Development, Education, Transport and Health. Higher payments for financial assets of R13.6 billion mostly reflected the recapitalisation of Eskom in April 2019, as already mentioned. The February 2019 Budget earmarked a provisional allocation of R69 billion for the reconfiguration of Eskom (R23 billion per annum) as from fiscal 2019/20. Subsequently, an additional allocation of R59 billion to Eskom was tabled in Parliament by the Minister of Finance through a Special Appropriation Bill in July 2019. This implies a potential R128 billion capital injection for Eskom over the three-year period.

The debt service cost of national government increased notably by 15.4% year on year to R28.1 billion in the first quarter of fiscal 2019/20. The *2019 Budget Review* projected debt service costs of R202 billion for fiscal 2019/20, or an increase of 11.2% from fiscal 2018/19 – in line with the rising stock of debt. However, debt service cost could increase by much more, given the first quarter outcome and the recapitalisation of Eskom.

Equitable share transfers to provinces (33.7% of total national government expenditure) increased by 7.5% year on year to R126 billion in the first quarter of fiscal 2019/20. The *2019 Budget Review* allocated R506 billion as equitable share transfers to provinces and R13.2 billion to metropolitan municipalities, as a share of the general fuel levy, for fiscal 2019/20.

The 2019 Budget projected national government expenditure to increase by 10.2% to R1 659 billion in fiscal 2019/20. However, in the first four months of fiscal 2019/20, total expenditure of R548 billion represented a significant year-on-year increase of 10.3%.

Cumulative deficit of national government



■ Originally budgeted deficit of R255 billion for fiscal 2019/20, in the *2019 Budget Review*

Sources: National Treasury, SARS and SARB

Netting national government revenue and expenditure resulted in a cash book deficit of R57.5 billion in the first quarter of fiscal 2019/20 – R29.9 billion more than in the same period of fiscal 2018/19 and R8.2 billion more than the monthly budgeted estimates. The larger cash book deficit resulted from a combination of sharply rising national government expenditure and the shortfall in revenue collections against monthly budget targets.

The *2019 Budget Review* projected a national government cash book deficit of R255 billion for fiscal 2019/20 as a whole. For April–July 2019, the net outcome of national government revenue and expenditure resulted in a cash book deficit of R157 billion, which was R33.1 billion more than a year ago.

National government's primary balance[26] was a deficit of R29.4 billion (2.3% of GDP) in the first quarter of fiscal 2019/20, notwithstanding the notable monthly surplus of R43.8 billion in June 2019. This was significantly larger than the deficit of only R3.3 billion (0.3% of GDP) in the same period of the preceding fiscal year. The primary deficit in the first quarter of fiscal 2019/20 was already more than half the annual projection of R53.0 billion in the 2019 Budget.

26 The primary balance is the cash book surplus/deficit excluding interest payments.

National government financing

R billions

Item or instrument	Actual Apr–Jun 2018	Actual Apr–Jun 2019	Originally budgeted[1] Fiscal 2019/20
Cash book deficit	27.6	57.5	255.2
Cash flow deficit[2]	51.5	51.4	...
Plus: Cost/profit on revaluation of foreign debt at redemption[3]	0.3	11.4	22.5
Accrual adjustments	33.6	-8.1	...
Net borrowing requirement	18.3	70.9	277.8
Treasury bills and short-term loans[4]	4.6	66.1	25.0
Domestic bonds[4]	34.9	53.8	185.4
Foreign bonds and loans[4]	24.6	-14.5	1.6
Change in available cash balances[5]	-45.8	-34.5	65.8
Total net financing[6]	18.3	70.9	277.8

1 *2019 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

National government's cash flow deficit decreased marginally from R51.5 billion in April–June 2018 to R51.4 billion in April–June 2019. However, the net borrowing requirement[27] soared from R18.3 billion in the first quarter of fiscal 2018/2019 to R70.9 billion in the first quarter of fiscal 2019/20.

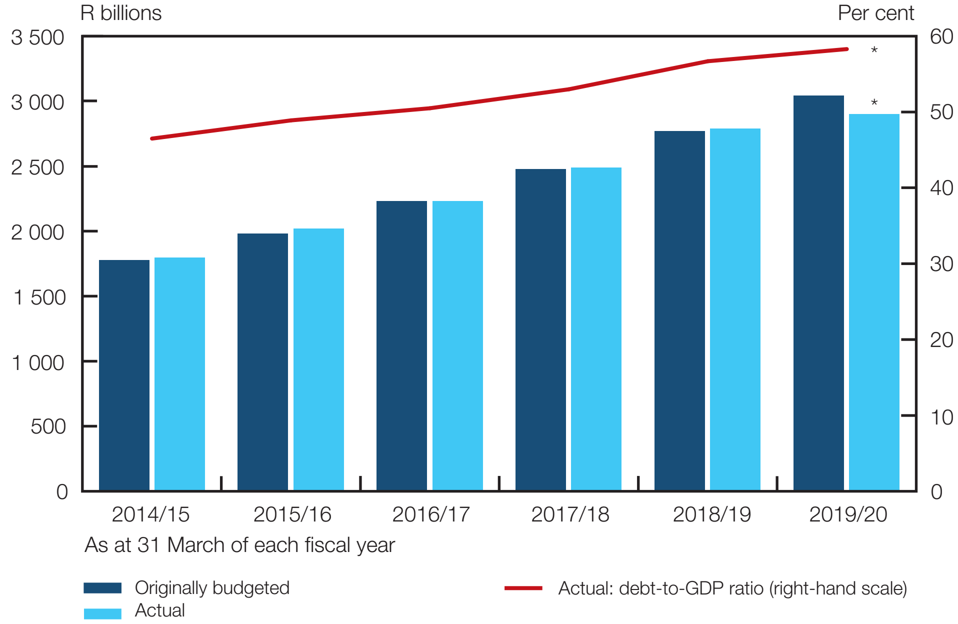
27 The net borrowing requirement is calculated as the cash flow deficit after accounting for the revaluation of foreign debt at redemption and accrual adjustments.

The higher net borrowing requirement in the first quarter of fiscal 2019/20 was predominantly financed in the domestic capital market, through the net issuance of Treasury bills and short-term loans as well as domestic bonds, which together was R80.4 billion more than in the same period a year ago. The net redemption of foreign bonds and loans of R14.5 billion in April–June 2019 contrasted the net issuance of R24.6 billion in April–June 2018. National government's funding activities increased its overall available cash balances by R34.5 billion in April–June 2019, less than the R45.8 billion a year earlier.

National government's gross loan debt (domestic and foreign currency denominated) of R2 900 billion as at 30 June 2019 was R291 billion more than a year earlier. The increase was entirely due to a rise in the outstanding stock of domestic debt, while foreign currency-denominated debt declined. Accordingly, domestic debt accounted for an even larger share of total gross loan debt at 91.0%, as at 30 June 2019. Total gross loan debt was 58.3% of annual GDP as at 30 June 2019.

The February 2019 Budget projected a year-on-year increase of 9.1% in gross loan debt to R3 043 billion (56.2% of GDP) at the end of fiscal 2019/20. The debt-to-GDP ratio was expected to increase steadily over the medium term, before stabilising at 60.2% in fiscal 2023/24. As at 31 July 2019, gross loan debt of R2 934 billion was R144 billion more than as at 31 March 2019.

Total gross loan debt of national government

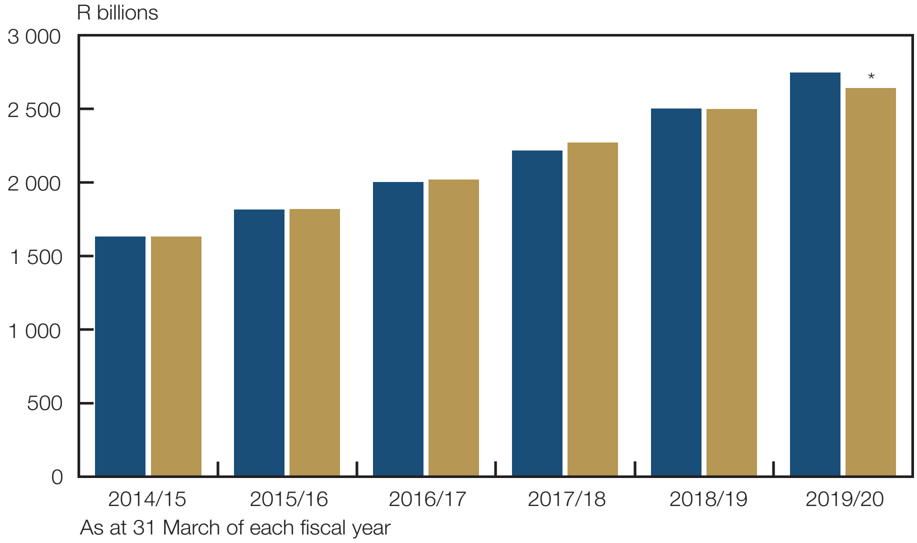


* As at 30 June 2019

Sources: National Treasury, SARB and Stats SA

National government's domestic debt (marketable and non-marketable) increased by R310 billion year on year to R2 640 billion as at 30 June 2019. The significant increase mostly reflected net issuances of domestic marketable debt (bonds and Treasury bills), the stock of which increased by 12.4% year on year to R2 578 billion. Domestic non-marketable debt (bonds and short-term loans from the Corporation for Public Deposits (CPD) also increased significantly by R26.4 billion year on year to R62.7 billion as at 30 June 2019. The 2019 Budget projected national government's domestic debt to be 10.0% more than at the end of fiscal 2018/19, at R2 748 billion (50.8% of annual GDP).

Domestic debt of national government

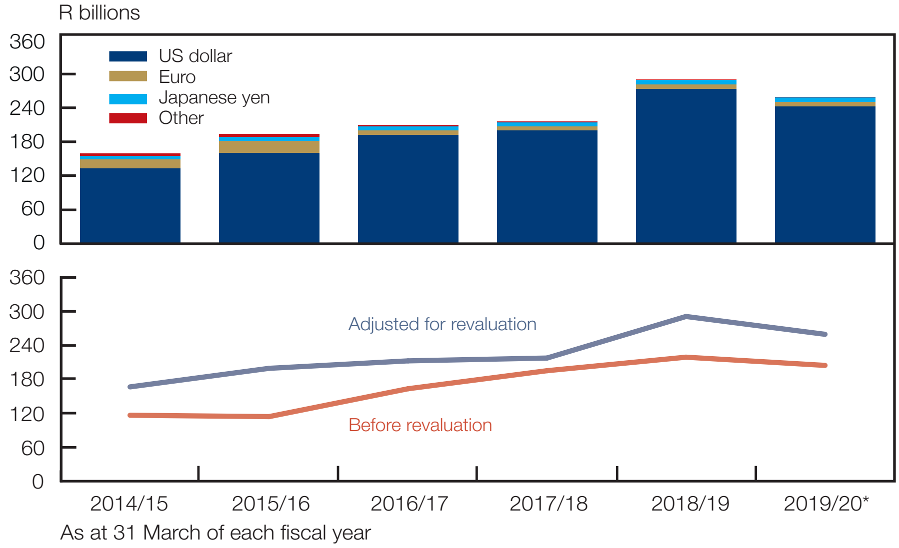


* As at 30 June 2019

Source: National Treasury

National government's foreign currency-denominated debt (marketable and non-marketable) declined by R18.4 billion year on year, reducing the outstanding balance to R260 billion as at 30 June 2019. The decline resulted largely from the redemption of a US$1.7 billion bond (R14.1 billion) in May 2019, notwithstanding revaluation effects due to the depreciation in the exchange value of the rand.

Foreign currency-denominated debt of national government



* As at 30 June 2019

Sources: National Treasury and SARB

The revaluation adjustment of national government foreign currency-denominated debt could be attributed to the depreciation in the exchange value of the rand against major currencies. Before accounting for revaluation, the foreign debt of national government decreased from R220 billion as at 30 June 2018 to R205 billion as at 30 June 2019. However, after accounting for exchange rate revaluation effects, the foreign debt was R260 billion as at 30 June 2019 – an upward revaluation of R55.0 billion. The average outstanding maturity of foreign marketable bonds remained broadly unchanged at 137 months between 30 June 2018 and 30 June 2019.