QUARTERLY BULLETIN

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South African Reserve Bank

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Introduction

The further contraction in South Africa's real gross domestic product (GDP) at an annualised rate of 2.0% in the first quarter of 2020 extended the economic recession into its third quarter. The nationwide lockdown, from 27 March, to curb the spread of the coronavirus disease 2019 (COVID-19) is expected to severely affect economic activity in the second quarter.

The real output of the primary sector declined further and was driven by a sharp contraction in mining output, which was impacted by electricity load shedding and supply-chain disruptions as well as lower global demand as the COVID-19 pandemic impacted export markets. By contrast, the real gross value added (GVA) by the agricultural sector expanded markedly in the first quarter of 2020, following four consecutive quarterly contractions. Favourable weather conditions supported the production of field crops as well as horticultural and animal products.

The real output of the secondary sector contracted for a third successive quarter. Economic activity declined in most manufacturing subsectors in the first quarter of 2020, as both global and domestic demand conditions deteriorated. The sustained decline in the output of the electricity-intensive mining and manufacturing sectors also weighed on electricity production and consumption. Real construction activity contracted for a seventh successive quarter, suppressed by persistent low business confidence, policy uncertainty and the recessionary conditions.

The real GVA by the tertiary sector reverted from a contraction in the final quarter of 2019 to an increase in the first quarter of 2020. Growth in the real output of the finance, insurance, real estate and business services sector accelerated in the first quarter, in part reflecting increased trading activity in the financial markets following the worldwide panic-trading in reaction to the COVID-19 pandemic. By contrast, the real GVA by the commerce sector decreased further as weak trading conditions and pre-lockdown supply-chain disruptions constrained the real output of the wholesale trade subsector, while lower sales of new and used vehicles reflected weak consumer confidence and spending. However, real retail trade activity improved marginally, reflecting increased sales of food and beverages as well as pharmaceuticals as consumers stockpiled before the start of the national lockdown.

Real gross domestic expenditure (GDE) declined for a third successive quarter in the first quarter of 2020, mainly due to another substantial de-accumulation in real inventory holdings and a much faster pace of contraction in gross fixed capital formation. Growth in the real final consumption expenditure by households moderated, while that by general government reverted from a slight contraction to an increase. Real net exports contributed the most to growth in real GDP for the third consecutive quarter, but were outweighed by the sharp contraction in fixed investment spending and the depletion of inventories.

The slowdown in household consumption expenditure in the first quarter of 2020 resulted from sharp contractions in real outlays on durable and semi-durable goods, particularly in March, as the social distancing prior to the national lockdown and the trading days lost due to the actual lockdown impacted sales, with most of these goods being classified as non-essential. By contrast, real spending on services and, in particular, non-durable goods increased at a faster pace as consumers likely stockpiled food, beverages and tobacco as well as medical and pharmaceutical products before the lockdown.

Household debt increased at a slower pace in the first quarter of 2020 as the quarterly pace of increase in most categories of credit moderated. However, household debt as a percentage of nominal disposable income increased slightly to 73.7% over the period. Households' net wealth deteriorated markedly in the first quarter of 2020 as the value of assets decreased while that of liabilities increased moderately. The lower value of assets reflected equity holdings in particular, as share prices fell sharply following the panic-trading associated with COVID-19. The FTSE/JSE All-Share Price Index (Alsi) declined by 22.1% in the first quarter of 2020 – the largest decline since the third quarter of 1998.

Real gross fixed capital formation contracted at an accelerated pace in the first quarter of 2020 as fixed investment by the private sector in particular fell sharply. Capital investment by public corporations also contracted notably as the decline in construction works as well as investment in machinery and equipment by state-owned entities persisted. By contrast, capital spending by general government rebounded in the first quarter of 2020, following a sustained decline since the first quarter of 2018.

The level of fixed capital investment in the first quarter of 2020 was well below that of a year earlier and reflected continued weak business confidence, political uncertainty, the recessionary environment and constrained public sector budgets.

The number of unemployed South Africans increased significantly by 869 000 in the year to the first quarter of 2020 due to a surge in the number of new and re-entrants into the labour market who failed to find employment. This brought total unemployment to an all-time high of 7.07 million, with the official unemployment rate increasing to a record-high of 30.1% in the first quarter of 2020. The seasonally adjusted unemployment rate also increased to a new high of 29.9%, reflecting the economic recession amid a labour market that was already in distress before the outbreak of the COVID-19 pandemic.

The year-on-year pace of increase in formal non-agricultural nominal remuneration per worker accelerated somewhat in the fourth quarter of 2019, as remuneration growth per worker quickened in both the public and private sectors. However, on an annual average basis, growth in nominal remuneration per worker moderated from 4.9% in 2018 to 4.1% in 2019 – the lowest since 1970 – as private sector remuneration growth per worker slowed to below consumer price inflation. The average wage settlement rate in collective bargaining agreements also decreased further to a 14-year low in the first quarter of 2020, as current economic and labour market conditions are exerting downward pressure on wage increases amid excess labour supply and weaker bargaining power.

Both producer and consumer price inflation picked up pace from recent lows in November 2019 to February 2020, but moderated again from March. Most of the initial quickening was related to higher fuel price inflation outcomes due to the low base established at the beginning of 2019. Following the outbreak and rapid global spread of the COVID-19 pandemic, international crude oil prices declined significantly as most countries implemented lockdown restrictions. The average monthly price of Brent crude oil fell from a recent high of US$67.15 in December 2019 to only US$18.68 in April 2020, as fears of an unprecedented contraction in global output mounted, following sudden stops in economic activity. This resulted in a marked deceleration in domestic fuel price inflation from March 2020 onwards, despite the sharp depreciation in the exchange value of the rand between February and April 2020. Headline consumer price inflation thus moderated to 3.0% in April, despite a gradual acceleration in food price inflation. Core inflation slowed to a multi-year low of 3.2% in April 2020, indicative of a lack of pricing power in an environment of weak economic activity.

World trade volumes already reflected the disruptive effects of the COVID-19 pandemic in the first quarter of 2020. However, with the domestic lockdown restrictions only introduced late in March, the impact on South Africa's imports and exports in the first quarter was still limited, despite supply-chain disruptions throughout the quarter. Against this backdrop, South Africa's trade surplus with the rest of the world increased noticeably further to 4.0% of GDP in the first quarter of 2020 – the largest since the fourth quarter of 2010. This reflected a sustained increase in the value of net gold and merchandise exports alongside a third consecutive quarterly contraction in merchandise imports. Mining, manufacturing and agricultural exports all increased in the first quarter of 2020, with the value of gold exports, which reflected both a near record-high US dollar average quarterly gold price and the depreciation in the exchange value of the rand, also supporting the value of total goods exported. By contrast, the third consecutive quarterly contraction in the value of merchandise imports reflected weaker domestic demand amid the recessionary conditions as well as a substantial decline in both the value and volume of crude oil imports.

The deficit on the services, income and current transfer account narrowed significantly further in the first quarter of 2020 as all three sub-accounts recorded smaller deficits. The income deficit narrowed the most as domestic companies generally opted to withhold dividends to strengthen finances amid uncertainty regarding the effect of COVID-19 on operations. This, together with the much larger trade surplus, led to the first surplus on the current account of the balance of payments since the first quarter of 2003, with the balance switching from a deficit of 1.3% of GDP in the fourth quarter of 2019 to a surplus of 1.3% in the first quarter of 2020.

South Africa's terms of trade improved notably further in the first quarter of 2020, supported by higher commodity prices. Apart from the higher gold price, the US dollar price of a basket of domestically produced non-gold export commodities surged by 15.8% in the first quarter and, combined with the depreciation in the exchange value of the rand, contributed to the fourth consecutive quarterly increase in the rand price of merchandise exports. By contrast, the rand price of merchandise imports declined further, in line with lower crude oil prices.

The net inflow of capital on South Africa's financial account of the balance of payments increased from R10.1 billion in the fourth quarter of 2019 to R16.6 billion in the first quarter of 2020. On a net basis, direct investment, financial derivatives and reserve assets recorded inflows during the first quarter, while portfolio and other investment recorded outflows. Portfolio investment flows reflected the impact of COVID-19 on global financial markets with a substantial liability outflow in the first quarter of 2020 as non-residents sold domestic equity and, in particular, debt securities. This was partially countered by South African residents' disposal of foreign portfolio assets. Although South Africa's international reserve assets decreased further in the first quarter of 2020, the level of import cover rose to 6.9 months at the end of March – the highest on record.

South Africa's positive net international investment position decreased further from the end of September 2019 to the end of December, as the value of foreign assets declined more than foreign liabilities. The increase in the nominal effective exchange rate (NEER) of the rand over the period affected foreign assets more than foreign liabilities.

The NEER decreased markedly by 19.2% in the first quarter of 2020, in line with most other emerging market currencies, as the outbreak and rapid spread of the COVID-19 pandemic led to global risk aversion with the lockdowns implemented in most countries causing fears of a sharp global economic recession. The NEER increased slightly in the second quarter of 2020 after central banks across the globe, including the South African Reserve Bank (SARB), implemented various measures to assist and enhance liquidity in financial markets to restore confidence.

The yields on South African government bonds increased significantly from the end of February 2020 to late March. This was in line with the re-pricing of emerging market debt securities in the wake of COVID-19, and was exacerbated by both the sharp depreciation in the exchange value of the rand as well as the notable net selling of bonds by non-residents as South Africa's sovereign credit rating fell below investment grade. The yields subsequently declined again as the SARB supported liquidity through bond purchases in the secondary market together with successive decreases in the repurchase (repo) rate as well as fiscal measures by National Treasury to mitigate the effects of the lockdown.

Domestic short-term money market interest rates declined sharply in the first half of 2020, consistent with the four decreases in the repo rate in the first five months of the year. Rates on forward rate agreements (FRAs) declined gradually in January and February 2020 on account of favourable inflation outcomes before decreasing sharply from March as it followed the reductions in the repo rate.

Growth in the broadly defined money supply (M3) accelerated notably in the first quarter of 2020 and was driven by a marked acceleration in non-financial corporate deposits, with growth in household deposits trending only moderately higher. Growth in M3 accelerated further from April as the lockdown and associated uncertainty resulted in a noticeable shift toward bank deposits, with private sector companies placing inflows and surplus funds on deposit to provide for expenses during the lockdown, while reduced spending and payment holidays augmented household deposit balances.

Growth in total loans and advances extended by monetary institutions to the domestic private sector was fairly muted in the early months of 2020 amid the protracted weakness in economic activity. Growth in credit extension slowed further in May and was broad based among the credit categories, despite the substantial reduction in interest rates and a variety of measures to ease liquidity conditions to alleviate the impact of COVID-19.

The preliminary non-financial public sector borrowing requirement increased to R250 billion in fiscal 2019/20 as the deficit of consolidated general government almost doubled. This was due to continued revenue shortfalls following weaker than expected domestic economic activity as well as over expenditure relative to the original budget, mostly due to additional allocations to state-owned companies. The financing of national government's borrowing requirement led to a significant increase in gross loan debt to 63.4% of GDP as at 31 March 2020 compared with the originally budgeted ratio of 56.2%.

On 24 June 2020, government tabled a special supplementary budget in response to the expected impact of COVID-19 on public finances. The pandemic has changed the spending priorities initially proposed in the 2020 Budget, while the outlook for tax revenue deteriorated significantly. A national government budget deficit as a ratio of GDP of 14.6% is now expected in fiscal 2020/21 compared with 6.8% in the original *2020 Budget Review*. The total gross loan debt of national government is now expected to increase sharply to 81.8% of GDP in the current fiscal year.

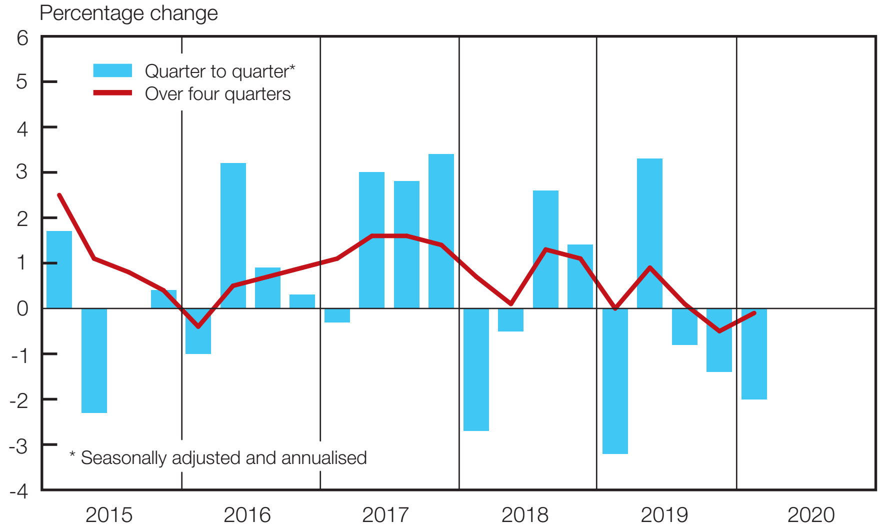
Domestic economic developments

Domestic output[1]

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

The economic recession persisted in the first quarter of 2020, with South Africa's real *gross domestic product* (GDP) contracting at an annualised rate of 2.0%, following contractions of 0.8% and 1.4% in the preceding two quarters. The real gross value added (GVA) by both the primary and secondary sectors declined further in the first quarter of 2020, while real output rebounded in the tertiary sector. The South African economy was already under pressure before the commencement of the nationwide lockdown at the end of March, with the level of real GDP 0.1% lower in the first quarter of 2020 than a year earlier.

Real gross domestic product



Source: Stats SA

When excluding the contribution of the agricultural sector, the real output of the non-agricultural sector decreased by a further 2.5% in the first quarter of 2020, following a contraction of 1.1% in the fourth quarter of 2019.

Real gross domestic product

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

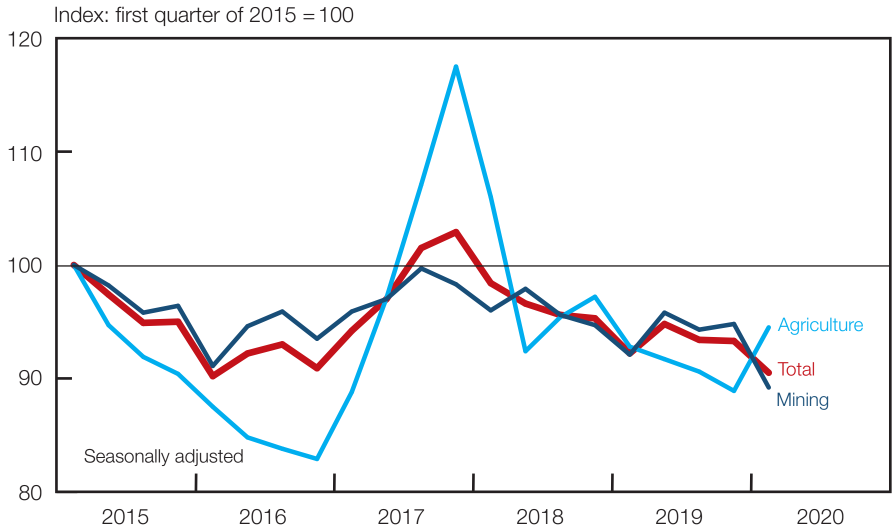
Sector	2019					2020
	Q1	Q2	Q3	Q4	Year*	Q1
Primary sector	-12.3	11.7	-5.7	-0.4	-3.1	-11.8
Agriculture	-16.8	-4.9	-4.5	-7.6	-6.9	27.8
Mining	-10.8	17.4	-6.1	1.8	-1.9	-21.5
Secondary sector	-8.0	1.3	-5.0	-2.9	-1.4	-7.5
Manufacturing	-8.8	2.1	-4.4	-1.8	-0.8	-8.5
Tertiary sector	-0.4	2.9	0.9	-1.0	1.2	1.3
*Non-primary sector***	*-2.1*	*2.5*	*-0.4*	*-1.4*	*0.6*	*-0.6*
*Non-agricultural sector****	*-2.8*	*3.7*	*-0.8*	*-1.1*	*0.4*	*-2.5*
Total	-3.2	3.3	-0.8	-1.4	0.2	-2.0

* 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

The real GVA by the *primary sector* has contracted for eight of the past nine quarters, when it declined by a further 11.8% in the first quarter of 2020. Real mining output contracted sharply while the real GVA by the agricultural sector rebounded following four consecutive quarterly contractions.

Real gross value added by the primary sector



Source: Stats SA

The real output of the *agricultural sector* expanded by a marked 27.8% in the first quarter of 2020, contributing 0.5 percentage points to overall GDP growth. The turnaround reflected increased production of field crops as well as horticultural and animal products, all on the back of favourable weather conditions during the 2019/20 production season. The expected commercial maize crop of 15.5 million tons for the 2019/20 production season is 37.6% more than the final crop of 2018/19, and at this level, it will be the second largest ever following the record harvest in 2017. This is also well above South Africa's 50-year average maize production of 9.4 million tons, and provides for the possibility of net exports in the next marketing year.

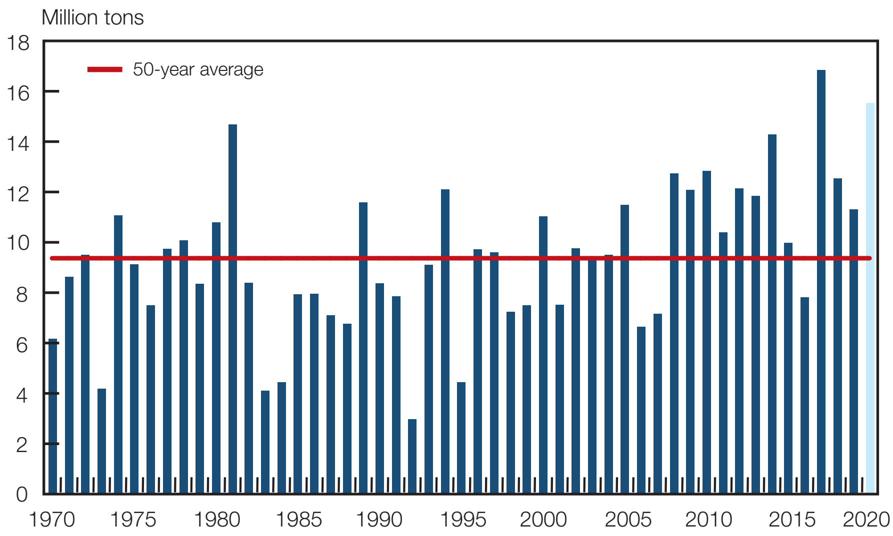
Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2018/19: final crop	11.3	2.3
2019/20: fifth production forecast..	15.5	2.6

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

The further significant contraction of 21.5% in the real GVA by the *mining sector* in the first quarter of 2020 reflected load-shedding as well as both supply-chain disruptions and a fall in global demand due to the outbreak of the COVID-19 pandemic, which impacted major export markets, notably China. The mining sector subtracted 1.7 percentage points from overall real GDP growth with iron ore, gold, chromium ore, manganese ore and other non-metallic minerals contributing most to the contraction. The slump in iron ore, chrome, copper and nickel production partly reflected lower demand from China, which went into lockdown in February, while planned maintenance at selected domestic mines also adversely affected gold production.

Commercial maize production

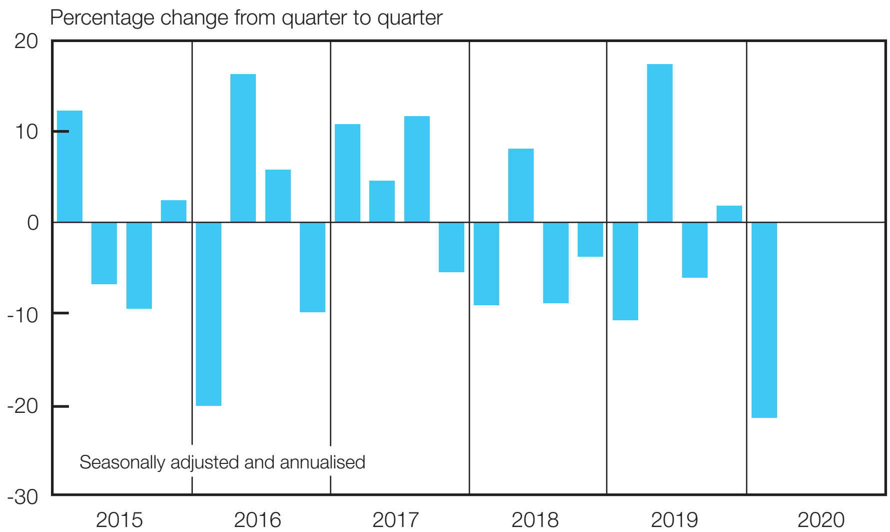


Calendar-year data, e.g. production season 2019/20 = 2020

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

The production of diamonds and coal was supported by soaring prices during most of the quarter as well as the depreciation in the exchange value of the rand. The average level of real mining output was 4.5% lower in the first quarter of 2020 than in the corresponding period in 2019, reflecting the challenges encountered by the sector.

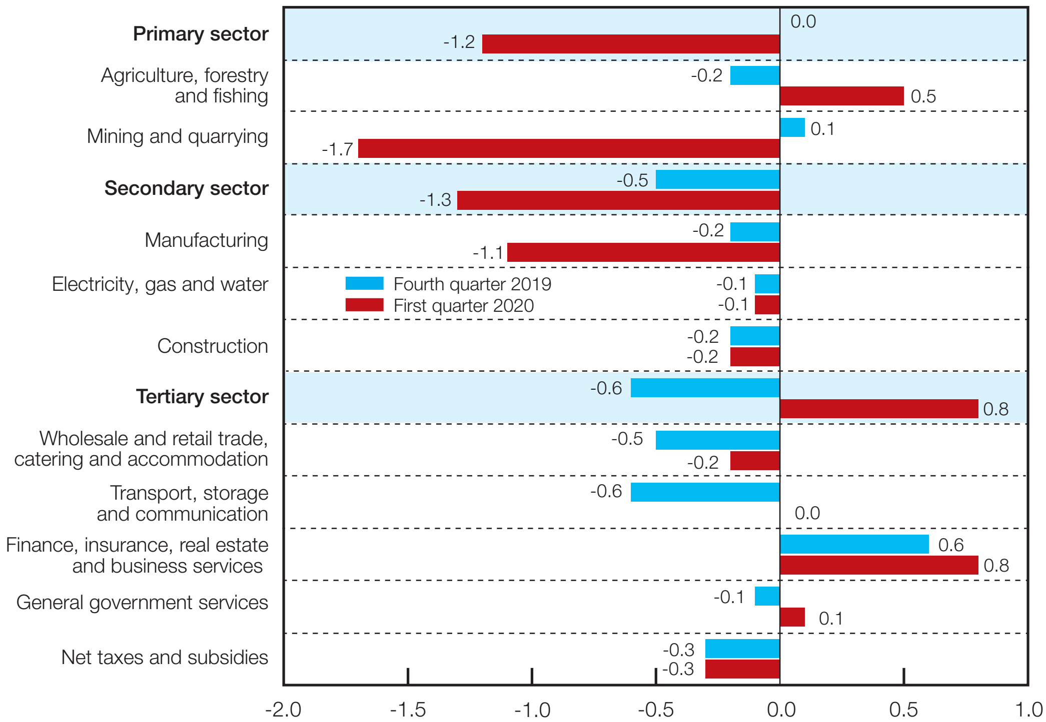
Real gross value added by the mining sector



Source: Stats SA

Real economic activity in the *secondary sector* contracted further by 7.5% in the first quarter of 2020 after decreasing by 2.9% in the fourth quarter of 2019. The real output of all three secondary sectors – manufacturing, electricity, gas and water as well as construction – shrank further in the first quarter.

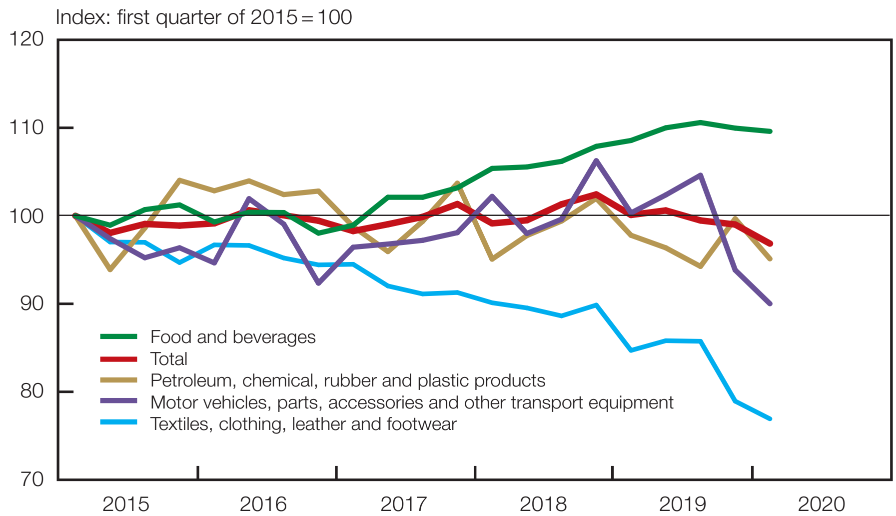
Contributions to growth in real gross domestic product



Source: Stats SA

Following two consecutive quarters of contraction, the real GVA by the *manufacturing sector* decreased further by 8.5% in the first quarter of 2020 and subtracted 1.1 percentage points from overall GDP growth. While almost all manufacturing subsectors were adversely affected by the further deterioration in both global and domestic demand, the production of petroleum, chemical, rubber and plastic products; basic metals; as well as motor vehicles, parts, accessories and other transport equipment suffered the most. The subsectors for food and beverages; wood and wood products, paper, publishing and printing; electrical machinery; and textiles, clothing, leather and footwear also regressed. These declines were somewhat offset by increased production of furniture and other manufacturing products.

Physical volume of manufacturing production



Seasonally adjusted

Source: Stats SA

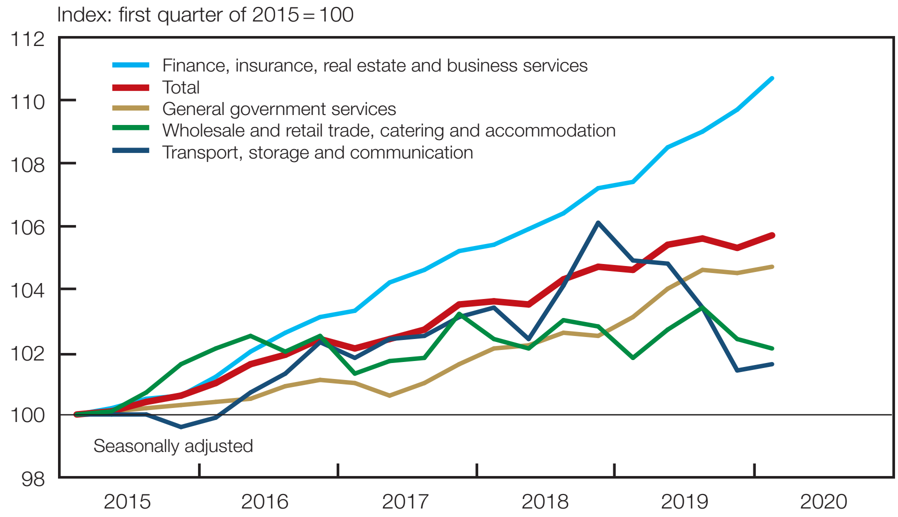
Consistent with business confidence at 20-year lows, the manufacturing sector was already in recession prior to the onset of the COVID-19 pandemic, as output was impaired by electricity supply disruptions and weak domestic demand. Notwithstanding the further decrease in output, the seasonally adjusted utilisation of production capacity in the manufacturing sector remained broadly unchanged at 80% in February 2020 from November 2019.

The real output of the sector supplying *electricity, gas and water* contracted further by a notable 5.6% in the first quarter of 2020, following a contraction of 4.0% in the fourth quarter of 2019. The sustained deterioration in economic activity in the electricity-intensive mining and manufacturing sectors weighed on both electricity production and consumption as well as water consumption. The ongoing planned maintenance at aging power plants continued to constrain generation capacity as it was challenging to secure boilers, turbines and control systems for maintenance. As a consequence, the average level of real output in the electricity, gas and water sector was 2.9% lower in the first quarter of 2020 than in the corresponding period in 2019.

Real economic growth in the *construction sector* decreased sharply further by 4.7% in the first quarter of 2020, marking the seventh successive quarterly contraction. Civil construction as well as residential and non-residential building activity decreased. Suppressed business confidence, policy uncertainty and pessimism about economic prospects contributed to the continued contraction.

The real GVA by the *tertiary sector* reverted to an increase of 1.3% in the first quarter of 2020, following a contraction of 1.0% in the fourth quarter of 2019. Real economic activity increased in the finance, insurance, real estate and business services, the general government services as well as the transport, storage and communication sectors, but declined further in the commerce sector in the first quarter.

Real gross value added by the tertiary sector



Source: Stats SA

The real output of the *commerce sector* decreased at a slower pace of 1.2% in the first quarter of 2020, following a decline of 3.8% in the final quarter of 2019 as wholesale and motor trade as well as the output of the catering and accommodation subsectors contracted. Weak trading conditions and pre-lockdown supply-chain disruptions constrained the real output of the wholesale trade subsector, while lower sales of new and used vehicles reflected weak consumer confidence and spending as households' disposable income remained constrained. Real retail trade activity rose marginally further, reflecting increased sales of food and beverages as well as pharmaceuticals as consumers stockpiled before the national lockdown that started on 27 March. The real value added by the catering and accommodation subsector shrank partly as a result of international traveling restrictions following the outbreak of the COVID-19 pandemic.

After contracting by a marked 7.2% in the fourth quarter of 2019, the real GVA by the *transport, storage and communication sector* increased slightly by 0.5% in the first quarter of 2020. This reflected increased activity in rail and road freight transportation. Growth in real activity in the communication subsector moderated over the period.

Growth in the real output of the *finance, insurance, real estate and business services sector* accelerated to 3.7% in the first quarter of 2020 and contributed 0.8 percentage points to overall GDP growth as finance, insurance and other business services activity increased. Growth in the financial auxiliary subsector reflected elevated trading activity in the financial markets, partly due to the worldwide panic-trading in reaction to the COVID-19 pandemic.

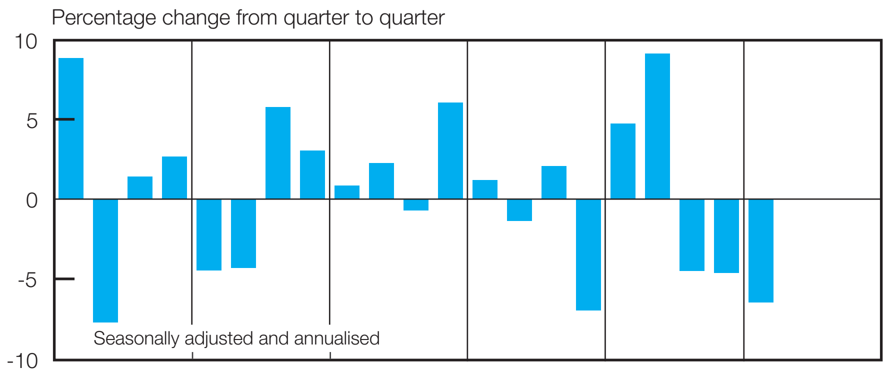
The real GVA by the *general government services sector* increased by 1.0% in the first quarter of 2020, following a decline of 0.4% in the previous quarter. This reflected an increase in the number of employees in provincial government and at higher education institutions in the first quarter.

Real gross domestic expenditure[2]

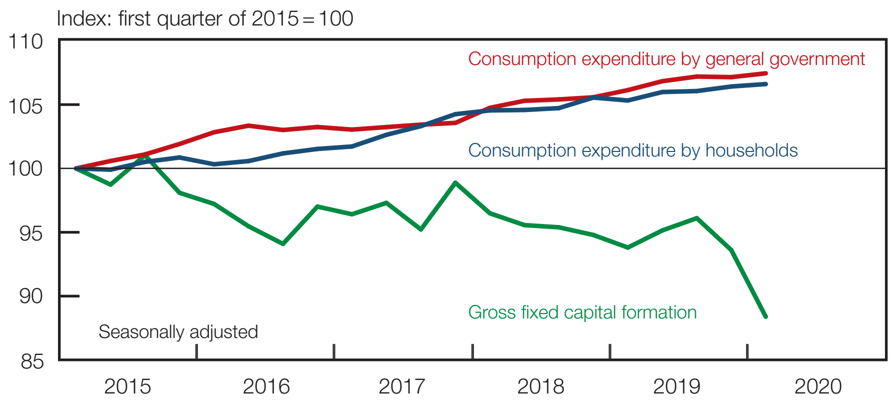
Real *gross domestic expenditure* (GDE) declined by a further 6.5% in the first quarter of 2020, following a notable decrease of 4.6% in the fourth quarter of 2019, marking the third consecutive quarterly contraction. This was mainly due to another substantial de-accumulation in real inventory holdings alongside a faster pace of contraction in gross fixed capital formation. Growth in the real final consumption expenditure by households moderated while that by general government reverted from a slight contraction to an increase.

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



Components of real gross domestic final demand



Sources: Stats SA and SARB

Real gross domestic expenditure

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

Component	2019					2020
	Q1	Q2	Q3	Q4	Year[1]	Q1
Final consumption expenditure						
Households	-0.9	2.5	0.3	1.4	1.0	0.7
General government	2.2	2.7	1.4	-0.2	1.5	1.1
Gross fixed capital formation	-4.1	5.8	4.1	-10.0	-0.9	-20.5
Domestic final demand[2]	**-0.9**	**3.2**	**1.2**	**-1.2**	**0.8**	**-3.4**
Change in inventories (R billions)[3]	*-11.7*	*29.4*	*-13.9*	*-40.3*	*-9.1*	*-67.3*
Residual[4]	*0.1*	*0.2*	*0.1*	*0.0*	*0.1*	*0.1*
Gross domestic expenditure[5]	**4.7**	**9.1**	**-4.5**	**-4.6**	**0.7**	**-6.5**

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

The decrease in real gross fixed capital formation and the drawdown in inventories detracted significantly from real GDP growth in the first quarter of 2020. By contrast, net exports contributed 4.6 percentage points to overall economic growth.

Contributions of expenditure components to growth in real gross domestic product

Percentage points

Component	2019					2020
	Q1	Q2	Q3	Q4	Year	Q1
Final consumption expenditure						
Households	-0.5	1.6	0.2	0.8	0.6	0.4
General government	0.4	0.5	0.3	0.0	0.3	0.2
Gross fixed capital formation	-0.8	1.1	0.8	-2.0	-0.2	-4.2
Change in inventories	5.3	5.3	-5.5	-3.3	-0.1	-3.4
Residual	0.2	0.5	-0.5	-0.2	0.1	0.3
Gross domestic expenditure	**4.6**	**9.0**	**-4.7**	**-4.8**	**0.7**	**-6.6**
Net exports	-7.8	-5.7	3.9	3.3	-0.6	4.6
Gross domestic product	**-3.2**	**3.3**	**-0.8**	**-1.4**	**0.2**	**-2.0**

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

Sources: Stats SA and SARB

Real *exports* of goods and services decreased by 0.6% in the first quarter of 2020, following a similar increase in the fourth quarter of 2019. The exports of both mining products (including gold) and services contracted, while that of manufactured products increased alongside a sharp acceleration in the growth in agricultural exports. The decline in total mining exports reflected lower export volumes of precious metals (including gold, PGMs and stones) as well as base metals and articles, while travel services weighed down total services. By contrast, strong growth in the export volumes of chemical products as well as vehicles and transport equipment boosted manufacturing exports, while vegetable products boosted overall agricultural exports.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	Exports			Imports		
	Percentage of total**	2019 Q4***	2020 Q1***	Percentage of total**	2019 Q4***	2020 Q1***
Total	100.0	0.6	-0.6	100.0	-2.2	-4.5
Mining	45.0	7.9	-2.7	19.9	17.8	-3.5
Of which:						
Mineral products	20.2	-7.3	5.6	14.5	24.8	-3.3
Precious metals including gold, platinum group metals and stones	13.6	36.7	-10.3	1.1	34.3	-13.5
Base metals and articles	11.2	3.1	-4.9	4.4	-5.8	-1.3
Manufacturing	34.6	-8.2	3.9	63.5	-7.8	-4.2
Of which:						
Vehicles and transport equipment	12.0	-17.8	4.6	13.1	-10.3	5.9
Machinery and electrical equipment	6.8	-4.9	-0.3	25.3	-12.4	-7.8
Chemical products	5.5	-1.1	9.9	9.4	-1.9	-2.9
Prepared foodstuffs, beverages and tobacco	3.8	-4.5	0.4	2.6	0.7	-5.7
Agriculture	5.7	0.3	10.9	3.4	-8.9	-4.3
Of which:						
Vegetable products	4.4	-1.0	12.0	1.5	-14.0	-1.5
Services	13.6	-0.9	-7.6	12.3	0.5	-9.0

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2019
*** 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 real *imports* of goods and services contracted further in the first quarter of 2020 as the import volumes of all the major goods and services components declined, reflecting weak demand amid the recessionary environment. The lower domestic demand for mining products was broad-based, in particular for precious metals (including gold, PGMs and stones). Contractions in the real import volumes of machinery and electrical equipment; prepared foodstuffs, beverages and tobacco; and chemical products weighed down the real value of manufactured imports, while the decline in vegetable imports reduced overall agricultural imports. The contraction in the total real imports of services was compounded by lower travel services, impacted by global travel restrictions following the outbreak of COVID-19.

Real *net exports* contributed 4.6 percentage points to real GDP growth in the first quarter of 2020 as real net manufacturing and agricultural exports added 4.6 and 0.6 percentage points respectively. The real net exports of machinery and electrical equipment contributed the most to overall manufacturing exports at 2.2 percentage points. In the mining sector, the contribution of the real net exports of mineral products was more than fully countered by the detractions of the real net exports of precious metals (including gold, PGMs and stones) as well as base metals and articles.

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

Percentage points

Component	Exports		Imports*		Net exports	
	2019 Q4	2020 Q1	2019 Q4	2020 Q1	2019 Q4	2020 Q1
Total	0.7	-0.7	-2.7	-5.3	3.3	4.6
Mining	3.9	-1.4	3.9	-0.9	0.0	-0.5
Of which:						
Mineral products	-1.7	1.2	3.8	-0.6	-5.5	1.8
Precious metals including gold, platinum group metals and stones	5.2	-2.0	0.4	-0.2	4.8	-1.8
Base metals and articles	0.4	-0.6	-0.3	-0.1	0.7	-0.6
Manufacturing	-3.4	1.5	-6.3	-3.1	2.9	4.6
Of which:						
Vehicles and transport equipment	-2.7	0.6	-1.7	0.9	-1.0	-0.3
Machinery and electrical equipment	-0.4	0.0	-4.1	-2.2	3.7	2.2
Chemical products	-0.1	0.6	-0.2	-0.3	0.1	1.0
Prepared foodstuffs, beverages and tobacco	-0.2	0.0	0.0	-0.2	-0.2	0.2
Agriculture	0.0	0.8	-0.4	0.2	0.4	0.6
Of which:						
Vegetable products	-0.1	0.7	-0.3	0.0	0.2	0.7
Services	-0.1	-1.2	0.1	-1.3	-0.2	0.2

* 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

Growth in real *final consumption expenditure by households* moderated to 0.7% in the first quarter of 2020, from 1.4% in the fourth quarter of 2019. Accelerated growth in real outlays on non-durable goods and services could not compensate for reduced spending on semi-durable goods and in particular durable goods. The lacklustre real spending was consistent with the markedly weaker consumer confidence, prevailing high levels of unemployment and slowing nominal wage growth that negatively impacted real disposable income over the period. Real consumption expenditure by households was 1.0% higher in the first quarter of 2020 compared with the corresponding quarter in 2019.

Real final consumption expenditure by households

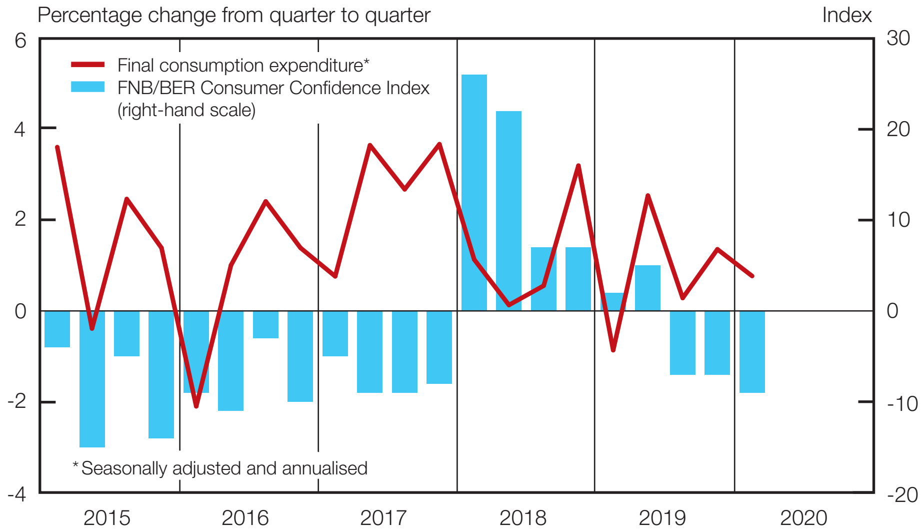
Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Category	2019					2020
	Q1	Q2	Q3	Q4	Year*	Q1
Durable goods	-7.2	8.7	2.2	-0.6	0.6	-7.6
Semi-durable goods	-11.4	3.7	-1.6	5.6	0.5	-6.2
Non-durable goods	-0.2	2.1	-0.2	0.7	1.1	3.6
Services	2.6	1.3	0.7	1.4	1.2	1.9
Total	-0.9	2.5	0.3	1.4	1.0	0.7

* Percentage change over one year

Source: Stats SA

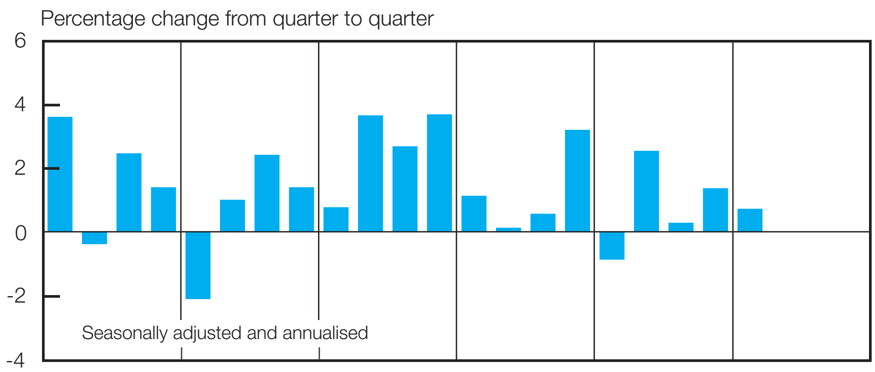
Real final consumption expenditure by households and consumer confidence



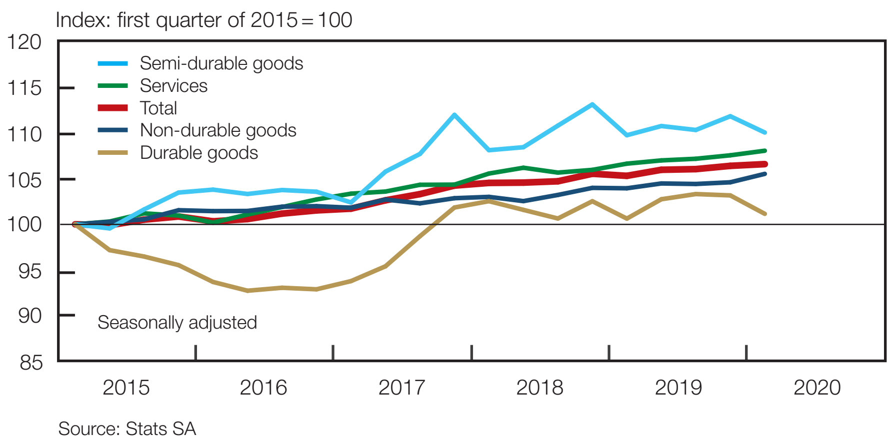
Sources: BER and Stats SA

Growth in real expenditure on *durable goods* contracted sharply by 7.6% in the first quarter of 2020, following a decline of 0.6% in the final quarter of 2019. Real outlays on personal transport equipment – representing almost half of the subsector – decreased substantially, particularly in March as the social distancing prior to the national lockdown, as well as the trading days lost due to the actual lockdown severely impacted vehicle sales. By contrast, purchases of furniture and household appliances as well as computers and related equipment increased at a slower pace, while growth in real spending on other durable goods accelerated slightly in the first quarter.

Real final consumption expenditure by households



Components of real final consumption expenditure by households



Source: Stats SA

Real household expenditure on *semi-durable goods* reverted to a contraction of 6.2% in the first quarter of 2020, from an increase of 5.6% in the final quarter of 2019. Outlays shrank specifically on clothing and footwear (the largest component); motorcar tyres, parts and accessories; as well as recreational and entertainment goods. By contrast, real spending on household textiles, furnishings and glassware increased somewhat. The lockdown impacted spending on semi-durable goods at the end of the quarter as most of these goods were classified as non-essential.

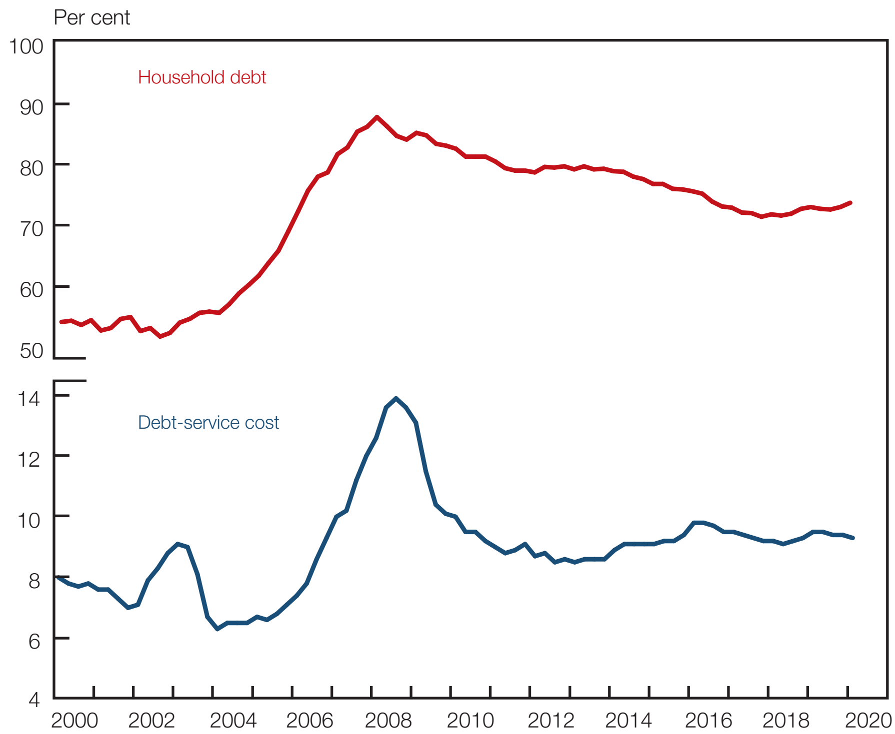
Growth in expenditure on *non-durable goods* accelerated to 3.6% in the first quarter of 2020, from only 0.7% in the fourth quarter of 2019. Real spending on food, beverages and tobacco; household consumer goods; as well as medical and pharmaceutical products likely increased as a result of pre-lockdown stockpiling in March. Expenditure on household fuel, power and water turned around from a decline in the previous quarter. By contrast, real outlays on petroleum products as well as recreational and entertainment goods decreased.

Growth in real household spending on *services* accelerated from 1.4% in the fourth quarter of 2019 to 1.9% in the first quarter of 2020. Increased real outlays on recreational, entertainment and educational services; household services; as well as transport and communication services outweighed lower spending on medical services.

Household debt increased at a slower pace in the first quarter of 2020, consistent with the modest increase in nominal spending. The quarterly pace of increase in most categories of credit extended to households moderated over the period. Consequently, household debt as a percentage of nominal disposable income increased slightly to 73.7% in the first quarter of 2020, from 73.0% in the fourth quarter of 2019, as the quarter-to-quarter increase in household debt exceeded that in nominal disposable income.

The ratio of debt-service cost to disposable income decreased slightly from 9.4% in the fourth quarter of 2019 to 9.3% in the first quarter of 2020, reflecting the cumulative 125 basis points reduction in the prime lending rate and the slower growth in household indebtedness in the first quarter.

Household debt and debt-service cost as a ratio of disposal income

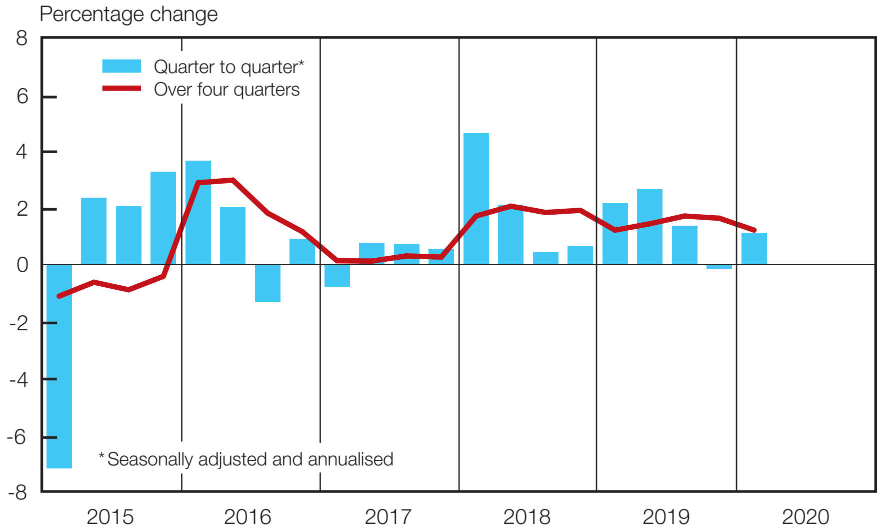


Seasonally adjusted
Source: SARB

Households' net wealth deteriorated markedly in the first quarter of 2020 as the value of household assets decreased while that of liabilities increased moderately. The lower value of household assets reflected equity holdings in particular, as share prices fell sharply following the panic-trading associated with COVID-19. Subsequently, the ratio of households' net wealth to nominal disposable income declined to 330.3% in the first quarter of 2020, from 359.8% in the fourth quarter of 2019.

Real *final consumption expenditure by general government* switched from a decrease of 0.2% in the fourth quarter of 2019 to an increase of 1.1% in the first quarter of 2020. Spending on both the real compensation of employees and non-wage goods and services increased. Real spending on health in the second half of the quarter, in response to the COVID-19 pandemic, elevated spending on non-wage goods and services. The level of real final consumption expenditure by general government was 1.2% higher compared with the corresponding period in 2019.

Real final consumption expenditure by general government



Source: Stats SA

Real *gross fixed capital formation* plummeted further by 20.5% in the first quarter of 2020, after contracting by 10.0% in the fourth quarter of 2019. Although the private sector was mainly responsible for the quarterly contraction, capital investment by public corporations also declined sharply. The level of fixed capital investment in the first quarter of 2020 was 6.2% below that in the corresponding period of 2019 and reflected continued weak business confidence, political uncertainty, the recessionary environment and constrained public sector budgets.

Real gross fixed capital formation

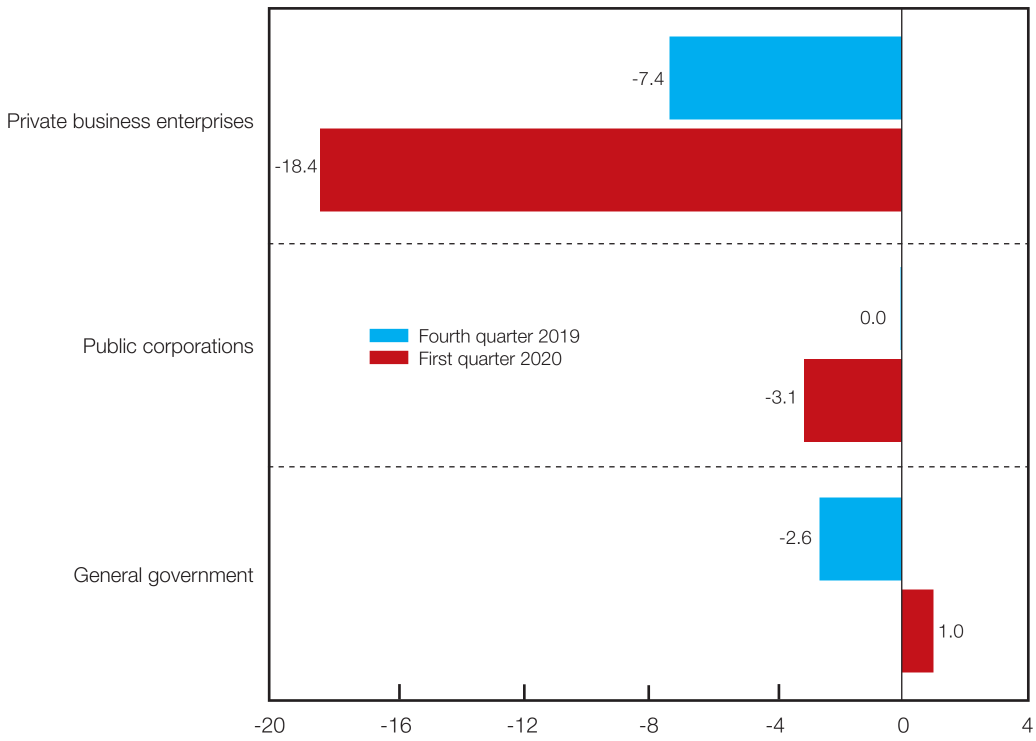
Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Sector	2019					2020
	Q1	Q2	Q3	Q4	Year*	Q1
Private business enterprises	-8.4	16.0	9.5	-10.3	1.1	-25.3
Public corporations	16.3	-12.0	0.7	-0.3	-1.6	-20.9
General government	-2.2	-16.3	-15.6	-17.6	-8.9	7.7
Total	-4.1	5.8	4.1	-10.0	-0.9	-20.5

* Percentage change over one year

Source: Stats SA

Contributions to growth in real gross fixed capital formation



Percentage points

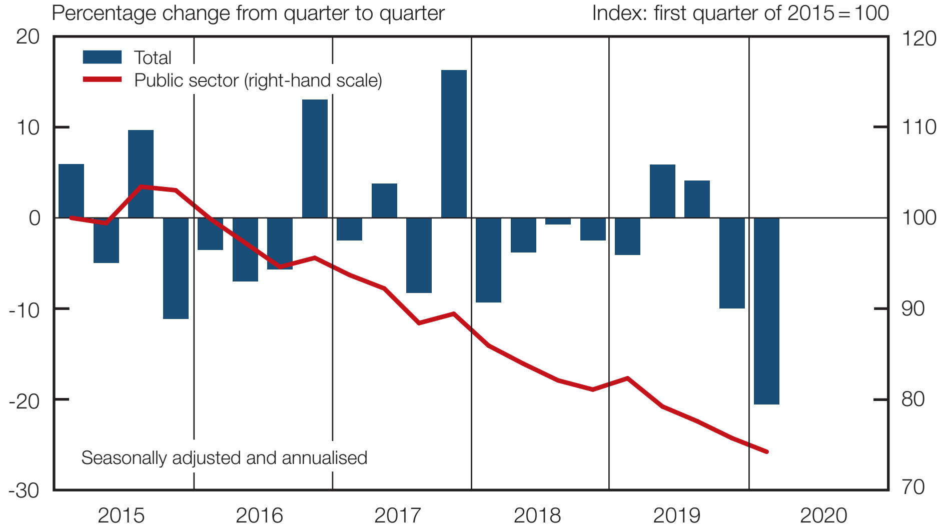
Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* decreased sharply further by 25.3% in the first quarter of 2020, following a decline of 10.3% in the fourth quarter of 2019. This was the largest quarterly contraction since the first quarter of 2009 when capital investment by private enterprises declined by 38.7%. Capital expenditure on transport equipment as well as on machinery and equipment decreased markedly. This downward trend resulted in a slight decrease in the private sector's share of total gross fixed capital formation, from 70.8% in the final quarter of 2019 to 70.0% in the first quarter of 2020.

Gross fixed capital formation by the *public sector* decreased for a fourth consecutive quarter in the first quarter of 2020, driven lower by a sharp decline in capital outlays by public corporations. Real gross fixed capital investment by *public corporations* declined by 20.9%. This was the second consecutive quarterly contraction and reflected the persistent decline in capital investment on construction works as well as machinery and equipment by state-owned entities. Real capital spending by *general government* rebounded by 7.7% in the first quarter of 2020, adding 1.0 percentage points to growth in total gross fixed capital formation. The turnaround followed a sustained decline since the first quarter of 2018, and reflected increased real capital outlays by central and local government.

Real fixed capital expenditure contracted across most industries in the first quarter of 2020, particularly in the mining; electricity, gas and water; and transport industries due to heightened uncertainty about South Africa's economic prospects amid the economic recession. Capital expenditure by private electricity producers declined in the first quarter of 2020, although spending on construction activity related to Independent Power Producer (IPP) projects remained significantly higher on a year-on-year basis.

Real gross fixed capital formation



Source: Stats SA

Real *inventory holdings* decreased significantly in five of the past six quarters, when it declined further by R67.3 billion (annualised and at 2010 prices) in the first quarter of 2020, subtracting 3.4 percentage points from total real GDP growth. De-stocking of inventories occurred in most sectors, particularly in mining, manufacturing and trade.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) increased markedly to 15.4% in the first quarter of 2020, from 14.6% in the fourth quarter of 2019. The notably improved saving performance by corporate business enterprises outweighed dissaving by general government and lower saving by households.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted annualised rates

Sector	2019					2020
	Q1	Q2	Q3	Q4	Year	Q1
Corporate	14.1	13.0	13.6	13.4	13.5	15.5
General government	-0.8	0.6	-0.6	-0.2	-0.2	-1.3
Household	1.3	1.3	1.3	1.3	1.3	1.2
Total	**14.6**	**14.9**	**14.2**	**14.6**	**14.6**	**15.4**

Source: SARB

The saving rate of the *corporate sector* increased from 13.4% in the fourth quarter of 2019 to 15.5% in the first quarter of 2020, mainly due to lower seasonally adjusted tax and dividend payments. Gross saving by *general government* as a percentage of nominal GDP amounted to a dissaving of 1.3% in the first quarter of 2020, from a dissaving of 0.2% in the fourth quarter of 2019. The increase in government's nominal expenditure – mainly on transfers to households – outweighed that in seasonally adjusted government revenue. The saving rate of the *household sector* edged lower to 1.2% in the first quarter of 2020, as the increase in nominal consumption expenditure outweighed that in nominal disposable income.

Box 1 The impact of COVID-19 on economic statistics

The lockdown restrictions imposed in many countries, in response to the COVID-19 pandemic, negatively affected statistics value chains globally. The restrictions imposed in South Africa, as from 27 March 2020, impacted both the South African Reserve Bank (SARB) and Statistics South Africa (Stats SA) in this respect. Globally, the ability to source relevant input data for the compilation of particular statistics was adversely affected. Policy measures, including fiscal and monetary responses, introduced methodological issues in the measurement of economic activity. These statistics have consequently been distorted with major implications also for the seasonal adjustment of time series. This confluence of events also led to the re-assessment of operational processes within the statistical value chain and the postponement of certain publication dates. Users of these statistics are not only affected by the delay in availability thereof, but also by uncertainty related to the extent of inherent biases due to low response rates and the magnitude of future revisions.

In South Africa, Stats SA announced on 17 April 2020[1] that gross domestic product (GDP) statistics for the first quarter of 2020 would only be released on 30 June 2020 instead of the original release date of 2 June 2020. On 21 May 2020,[2] Stats SA furthermore announced some changes to data collection methods and imputation techniques to provide for the compilation of the April 2020 consumer price index (CPI) to be released on 24 June 2020.

The SARB's media release[3] on 25 May 2020 regarding the impact of COVID-19 on the June 2020 *Quarterly Bulletin* announced a change in the publication date to 16 July 2020 to facilitate the integration of the delayed GDP and other statistics from Stats SA. These delays also impacted the release of the current account of the balance of payments (BOP), which follows that of the GDP by two working days, and it therefore changed from 4 June 2020 to 2 July 2020. The release of the external debt and international investment position statistics as at 31 March 2020 also changed to 16 July 2020, to coincide with the publication of the June 2020 *Quarterly Bulletin* and the balance of payment statistics.

Statistics published by the SARB also started to reflect the COVID-19 distortions. For instance, the SARB's composite leading business cycle indicator for March 2020, as published on 26 May 2020,[4] reflected temporary distortions to some of the component series due to the national lockdown. The liquidity measures in response to COVID-19 are already indicated in the monetary statistics in the SARB's balance sheet on pages S–2 and S–3 of this *Quarterly Bulletin* and the liquidity management operations on page S–29. These measures resulted in an increase in the SARB's holdings of government bonds and liquidity provided to banks on the asset side of the balance sheet, with potential consequences for the monetary base[5] on the liability side. Some of the counter entries show up in the banking sector's balance sheet, such as banks' holdings of government bonds on pages S–9 and S–10 and the statistical counterparts of the change in money supply on page S–24. The fiscal support by government will become visible in the government finance statistics, in particular those for national government revenue and expenditure on pages S–50 and S–51 and the financing of the net borrowing requirement on page S–52, which spill over into national government debt on pages S–54 and S–55. The decline in international trade due to the contraction in global economic activity and the impact of risk aversion on capital flows and exchange rates is evident in the external account statistics on pages S–83, S–84 and S–108, along with foreign debt on pages S–104 and S–105. Changes in financial asset prices and activity in the share, bond, derivatives and foreign exchange markets are reflected on pages S–31 to S–35 and S–107. The national accounts statistics calculated from both the production and expenditure side for the first quarter of 2020, as indicated on pages S–110 to S–137, already show some of the economic impact of the COVID-19 lockdown restrictions. The impact of the pandemic is also evident from the manufacturing and mining production as well as the trade statistics on pages S–140 and S–141, the unemployment statistics on page S–158 as well as the consumer and producer price statistics on pages S–142 to S–146.

The international statistical community responded by creating platforms for interaction among statisticians on methodological issues as well as to provide guidance. The Bank for International Settlements (BIS) created an Irving Fisher Committee (IFC) COVID-19 Statistical eBIS resources page[6] to provide information on statistical initiatives regarding the production, dissemination and use of official statistics in response to COVID-19.[7]

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1 Impact of COVID-19 on Economic Statistics in Statistics South Africa. See http://www.statssa.gov.za/?p=13224

2 Changes to the calculation and publication date of the April CPI. See http://www.statssa.gov.za/?p=13339

3 The impact of COVID-19 on economic statistics released by the South African Reserve Bank. See https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9951/COVID-19%20impact%20on%20release%20of%20economic%20statistics%20by%20SARB.pdf

4 Composite business cycle indicators. See https://www.resbank.co.za/Research/Statistics/Pages/CompositeBusinessCycleIndicators.aspx

5 The monetary base is defined as currency in circulation and banks' deposit holdings at the central bank, which comprise required reserve balances as well as excess cash reserves and other deposits.

6 Covid-19 statistical resources. See https://www.bis.org/ifc/covid19.htm

7 How COVID-19 is changing the world: a statistical perspective, 2020 by the Committee for the Coordination of Statistical Activities (CCSA). See https://data.unicef.org/resources/how-covid-19-is-changing-the-world-a-statistical-perspective

The lasting impact on the statistics value chain globally highlighted the need for both timely and high-quality data, inclusive of big and administrative data as well as assistance to reporting agents. The International Monetary Fund (IMF) launched a Special Series on COVID-19[8] to assist compilers with statistical issues such as the treatment of restructured loans, government support to households and businesses, continuity of external sector statistics and the recording of government interventions in fiscal statistics. The Organisation for Economic Cooperation and Development (OECD) launched an 'Official Statistics and COVID-19' workspace[9] to exchange best practices and experiences. Eurostat published numerous guidelines and methodological notes in the context of the COVID-19 pandemic,[10] such as the treatment of time series, statistical implications of policy measures, the estimation and imputation of missing data as well as a note[11] to give guidance on seasonal adjustment to effectively account for the effects of COVID-19 on economic statistics.

The uncertainty of how to interpret affected economic statistics is most prevalent in the CPI[12] and GDP statistics. Current methodological treatment could result in biases in consumer price inflation as certain goods and services were not available for sale, limited outlets that were open for business might not be in the sample, and data collectors could not visit outlets. The restriction on economic activity has led to changes in consumer expenditure patterns that can introduce significant bias in the measurement of consumer price inflation.[13] In the GDP, biases could be triggered by non-responses in sample surveys that included enterprises that ceased to exist but were still included in the survey population.

Stats SA's adjusted methodology for calculating the CPI from April 2020,[14] for as long as any form of restrictions to economic activity remain in place, resulted in the direct collection of prices of goods and services with a combined weight of only 34% in the CPI basket (22% online retail items and 12% mainly services). The prices of items not due for collection, with a weight of 41.5%, were carried forward according to the standard method. Biases could possibly be introduced by the remaining 26.5% of goods and services for which price changes were imputed, mainly by applying the change in the headline CPI to those items. This implies that these goods and services made no contribution to the outcome of the change in the overall headline CPI. If the actual change in the prices of the goods and services not measured was smaller than the change in headline CPI, it would introduce an upward bias, but if the actual change in the prices of those items was larger than the change in headline CPI, it would introduce a downward bias. The assessment of whether there is an upward or downward bias in the CPI outcome would depend on one's opinion of the price changes of these affected goods and services during the assessment period.

The national accounts estimates,[15,16] are based on questionnaires sent out to enterprises in a sample survey drawn from Stats SA's statistical business register. The lockdown period affected response rates and therefore also the scope and coverage, as under these circumstances the surveys are probably not a high priority to some enterprises while others may also not have the appropriate information readily available as financial statements have not been finalised. Furthermore, as enterprises are considered to be active for 18 months after their last value-added tax payment, those that have closed down will still be included in the sample survey, which introduces a bias towards over-estimation of economic activity and gives rise to larger than usual future revisions.

In conclusion, the effects of the COVID-19 pandemic on economic statistics have been far reaching and necessitated statistical agencies to adapt to these challenges in an effort to continue to best inform policy makers under difficult circumstances.

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8 IMF Special Series on COVID-19. See https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#stats

9 See https://login.oecd.org/?appId=378967&loginThrottled=true&referer=%2Fcommunity%2Fofficial-stats-workspace-covid

10 See https://ec.europa.eu/eurostat/data/metadata/covid-19-support-for-statisticians

11 See https://ec.europa.eu/eurostat/cros/content/treatment-covid19-seasonal-adjustmentmethodological-note_en

12 See https://www.nber.org/papers/w27144

13 See https://www.nber.org/papers/w27352#fromrss

14 See http://www.statssa.gov.za/?p=13339

15 For the compilation of the production-based GDP estimate, see http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2014.pdf

16 http://www.statssa.gov.za/?p=13224

3 Unless stated to the contrary, the *Quarterly Employment Statistics (QES)* data reported in this section are seasonally adjusted.

4 This is according to Statistics South Africa's (Stats SA) QES survey.

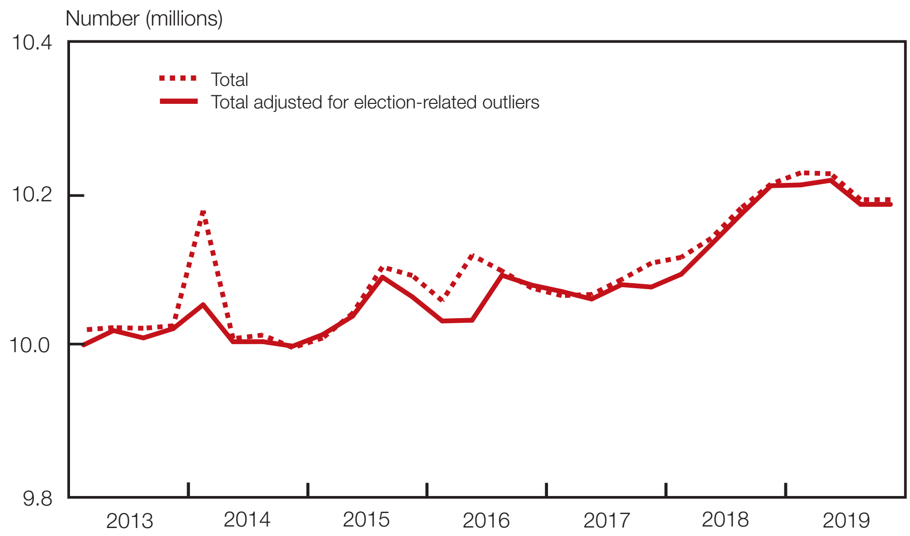
5 The South African Reserve Bank (SARB) statistically linked the QES data in this section to adjust for the level shift.

Employment[3]

Continued labour paring in the final quarter of 2019 was consistent with the economic recession that commenced from the third quarter of 2019. This was followed by expectations of accelerated job losses as the national lockdown to contain the spread of the COVID-19 pandemic, which started towards the end of the first quarter of 2020, resulted in the discontinuation of most non-essential economic activity.

Enterprise-surveyed[4] *formal non-agricultural employment* decreased further by 34 100 (an annualised 1.3%) in the fourth quarter of 2019, lowering the level of such employment to an estimated 10.19 million employees. These job losses occurred mostly in the private sector, while the staff complement of the public sector continued to increase. However, annual average formal non-agricultural employment still increased slightly by 0.8% in 2019 – marginally more than the increase of 0.6% in 2018. This incorporates Stats SA's new annual sample, as drawn from the 2019 Business Sampling Frame, which adjusted the level of formal non-agricultural employment upwards by about 51 000 in the second quarter of 2019.[5]

Formal non-agricultural employment



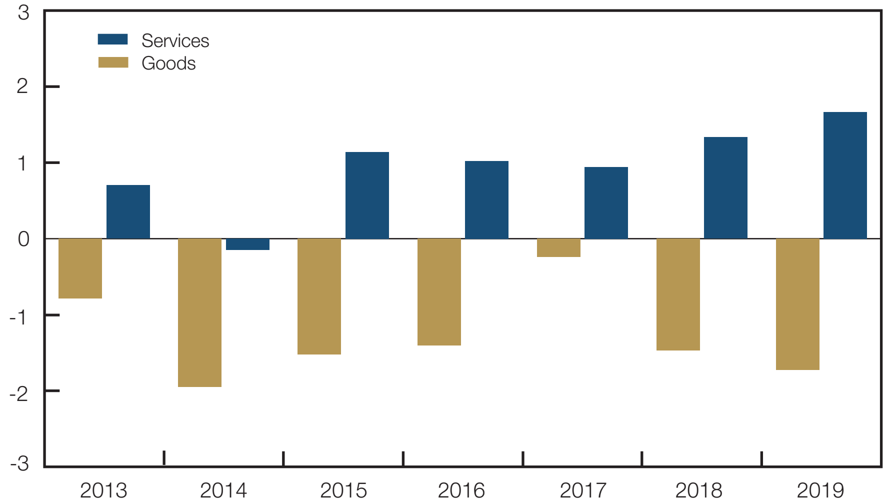
Sources: Stats SA and SARB

Public sector employment increased only marginally by an annualised 0.1% (and by 0.5% when excluding temporary election-related employment) in the fourth quarter of 2019, supported by continued growth in job opportunities created by the Expanded Public Works Programme (EPWP), in particular at local government level.

Employment also increased at provincial level and in the government transport, storage and communication services sector, while national departments and other public sector enterprises shed jobs. Notwithstanding the increase in EPWP-related job opportunities, a severely constrained fiscus and ailing state-owned companies (SOCs) are likely to weigh on public sector employment going forward.

Private sector employment

Percentage change over one year

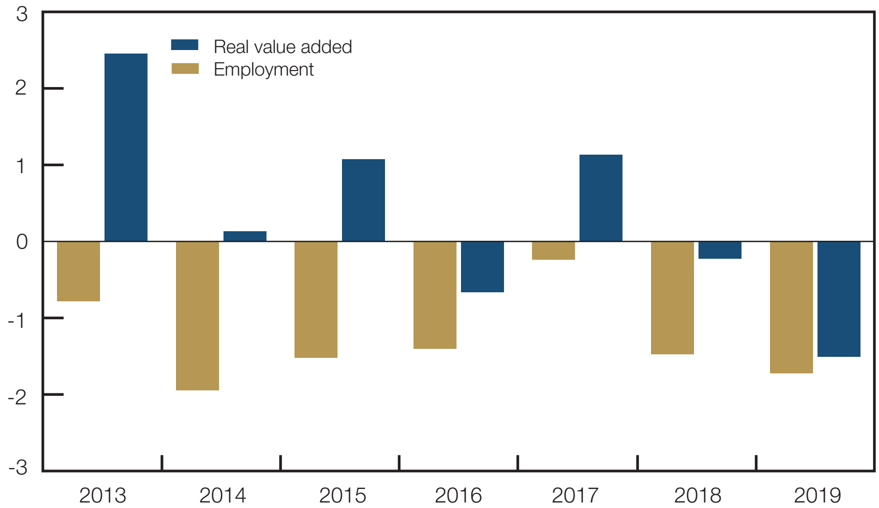


Sources: Stats SA and SARB

The private goods-producing sectors continued to experience exceptional challenges in 2019, with output contracting for a second successive year. Around 64 600 jobs were lost in the year to the fourth quarter of 2019, resulting in seven successive years of annual job losses – in line with the protracted downward phase of the business cycle. The lockdown-induced disruption of economic activity will magnify job losses in these sectors in the quarters ahead.

Employment and output in the goods-producing sectors

Percentange change over one year



Sources: Stats SA and SARB

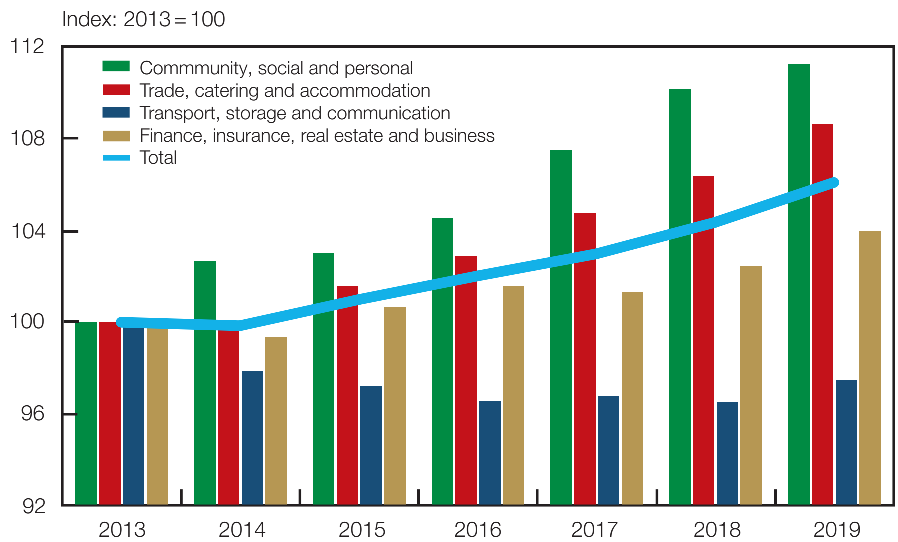
Employment in the mining sector decreased notably in the fourth quarter of 2019 and almost fully reversed the gains of the previous four quarters. Retrenchments in the PGMs and coal mining industries caused most of the job losses in the non-gold mining sector, along with continued measures to reduce operating costs through restructuring and the closing of unprofitable shafts. The gold mining sector created a mere 100 jobs in the fourth quarter, following the cumulative loss of around 13 700 jobs in the preceding five quarters.

The *manufacturing sector* shed 27 000 employment opportunities in the year to the fourth quarter of 2019, as recurring load shedding, depressed business sentiment and sustained weak demand persisted in a recessionary environment. Disconcertingly, manufacturing business confidence[6] declined to an almost 21-year low of 17 index points in the first quarter of 2020, from 24 index points in the fourth quarter of 2019. Continued weak domestic demand and a collapse in export orders in the first quarter contributed to a drop in production volumes and consequently employment. Respondents also reported a decline in fixed investment for a fifth consecutive quarter in the first quarter of 2020. With manufacturers already pessimistic about business conditions going forward, the adverse circumstances are expected to worsen due to the COVID-19 pandemic.

6 As measured by the Bureau for Economic Research's (BER) Absa Manufacturing Survey.

The *construction sector* has been stuck in a prolonged recession since the first quarter of 2017 along with amplified job losses. In 2019, the recessionary environment led to a further loss of around 33 100 formal construction jobs. Disconcertingly, there is still no respite for this beleaguered sector, as sentiment indicators remain at multi-year lows. The *FNB/BER Building Confidence Index* fell by 12 index points to 13 in the first quarter of 2020 – its lowest level since 1998 – due to a sharp deterioration in growth in building activity, building material manufacturing and hardware retail sales. All six sub-sectors registered a fall in confidence to multi-decade lows, led by architects. The survey results point to a further and likely deeper contraction in the building sector in the short term, with limited indications that activity will improve in coming quarters. Conversely, the FNB/BER *Civil Confidence Index* rose for a fourth consecutive quarter to a still low 24 in the first quarter of 2020, as improved profitability lifted sentiment while construction activity was stable at a relatively low level. While the outlook improved slightly, a multitude of headwinds still prevail, which could constrain a recovery such as the broadly downbeat outlook for infrastructure investment by the public sector, uncertainty about future rounds of the IPP programme and, more recently, the deteriorated overall economic landscape.

Employment in the private services sectors



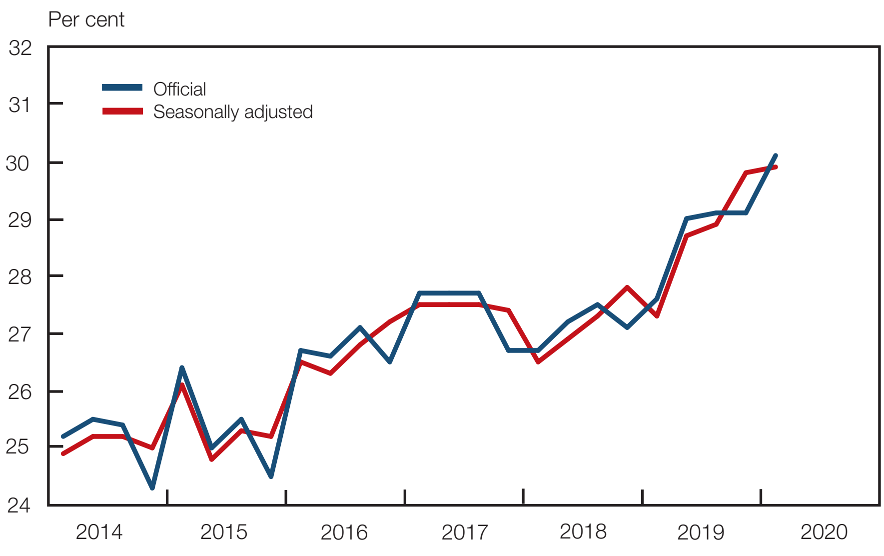
Sources: Stats SA and SARB

Job creation in the private services sectors, which has supported total private sector employment in recent years, has gradually lost momentum in recent quarters and is expected to slow further in the quarters ahead following the severe disruption to economic activity imposed by the national lockdown. Employment in the *finance, insurance, real estate and business services* sector decreased for a second successive quarter in the fourth quarter of 2019, after having created a cumulative 62 800 employment opportunities in the previous five quarters.

Similarly, employment in the *trade, catering and accommodation services sector* decreased in the fourth quarter of 2019, offsetting the gains made in the preceding quarter. In addition, the BER's Retail Survey showed a significant fall in retailer confidence from 30 index points in the fourth quarter of 2019 to 18 index points in the first quarter of 2020 – a mere one index point above the 21-year low reached in the third quarter of 2019. The decline in confidence was led by a further weakening in sales volume growth, which can be attributed to increased pressure on household finances as retrenchments, below-inflation private sector wage increases as well as lower bonus, overtime and commission payments restricted consumer's ability to spend. Coupled with the lower inflationary environment and fiercer competition for customers, the weakness in sales volumes continued to restrain profitability.

Although total household-surveyed employment decreased by 38 000 between the fourth quarter of 2019 and the first quarter of 2020, it was still 91 000 (or 0.6%) more than in the same period in the preceding year and resulted in total employment of approximately 16.38 million. Annual job losses in the informal sector (13 000) were outweighed by employment gains in the formal non-agricultural sector (61 000), agriculture (27 000) and private households (15 000). Employment growth occurred in community and social services (185 000), mining (18 000), construction (5 000) and finance (1 000) in the year to the first quarter of 2020. However, job losses were registered in manufacturing (74 000), electricity (34 000), transport (30 000) and trade (25 000) over the same period. Annual job gains occurred among workers with limited duration contracts (83 000) and those with unspecified duration contracts (50 000), while 79 000 permanent contract jobs were lost.

Unemployment rate



Sources: Stats SA and SARB

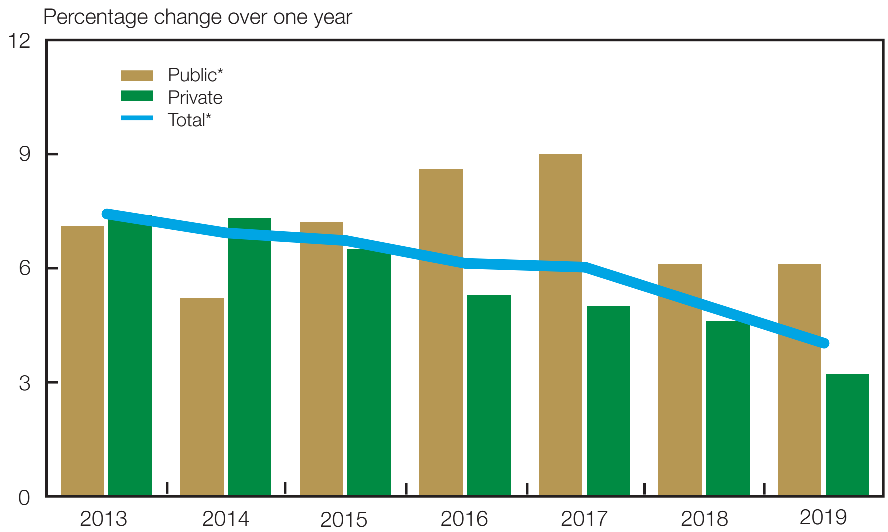
The number of unemployed South Africans increased notably by 344 000 in the first quarter of 2020, and by 869 000 (14.0%) from a year earlier, to an all-time high of 7.07 million. The increase resulted from a substantial surge in the number of new and re-entrants into the labour market who failed to find employment. As such, the official unemployment rate increased to a record-high of 30.1% in the first quarter of 2020, from 29.1% in the fourth quarter of 2019 (and 27.6% a year earlier) – reflecting the economic recession that commenced in the third quarter of 2019 amid an already distressed labour market. The COVID-19 pandemic is expected to cause a marked increase in the already high unemployment rate from the second quarter onwards. The seasonally adjusted unemployment rate increased only marginally from 29.8% in the fourth quarter of 2019 to an all-time high of 29.9% in the first quarter of 2020.

The number of discouraged work seekers increased by 63 000 to 2.92 million in the first quarter of 2020, but was still 79 000 (or 2.2%) less than in the same period a year earlier. Disconcertingly, the youth unemployment rate (for people aged 15 to 24 years) increased further from 58.1% in the fourth quarter of 2019 to a record-high of 59.0% in the first quarter of 2020, significantly up from the 55.2% recorded a year earlier.

Labour cost and productivity

Nominal wage growth slowed further in the second half of 2019 as job losses in the recessionary environment exerted downward pressure on wage increases. The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* nevertheless accelerated from 3.1% in the third quarter of 2019 to 4.8% in the fourth quarter, as remuneration growth per worker quickened in both the public and private sectors. On an annual average basis, growth in nominal remuneration per worker moderated from 4.9% in 2018 to 4.1% in 2019 – the lowest since 1970 – as private sector remuneration growth per worker slowed.

Formal non-agricultural nominal remuneration per worker



* Adjusted for election-related outliers

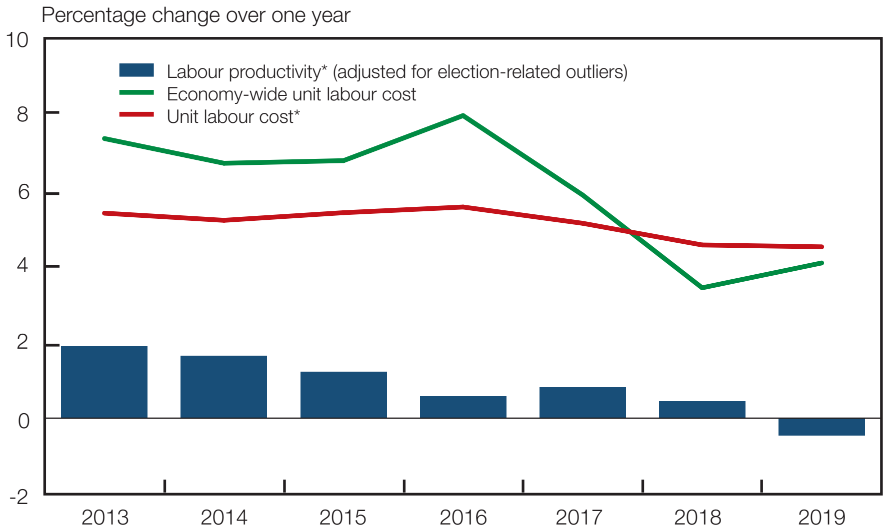
Sources: Stats SA and SARB

Growth in *nominal remuneration per public sector worker* quickened from a low of 1.8% in the third quarter of 2019 to 5.4% (and to 5.3% when excluding temporary election-related employment) in the fourth quarter, as wage growth accelerated at all tiers of the public sector, except local governments. On average, public sector nominal wage growth per worker more than halved from a recent peak of 13.7% in 2010 to 6.6% in 2019, though still above the upper limit of the inflation target range throughout this period. To curb the high public sector wage bill, government did not implement the 2020 public sector wage increase in April as negotiated with public sector unions, and the issue was still unresolved at the end of June.

Private sector remuneration growth per worker accelerated somewhat from 3.5% in the third quarter of 2019 to 4.4% in the fourth quarter, as wage growth quickened notably in the mining; transport, storage and communication services; finance, insurance, real estate and business services; and private community, social and personal services sectors. Conversely, wage growth slowed in construction; manufacturing; and trade, catering and accommodation services. Growth in annual average private sector remuneration per worker slowed for a seventh successive year from 7.5% in 2012 to the lowest rate on record of 3.2% in 2019, and below consumer price inflation.

According to Andrew Levy Employment Publications, the *average wage settlement rate in collective bargaining agreements* decreased further to a 14-year low of 6.4% in the first quarter of 2020, compared with 7.1% a year earlier. Downward pressure on wage increases is expected amid excess labour supply and weaker bargaining power, given current economic and labour market conditions. The number of working days lost due to strike action decreased notably from 1.06 million in the first quarter of 2019 to only 10 000 in the corresponding period of 2020.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

Labour productivity in the formal non-agricultural sector contracted further by 0.4% in the year to the fourth quarter of 2019, following a contraction of 0.5% in the third quarter, as output contracted while growth in employment slowed. Labour productivity decreased for 2019 as a whole, following an extended period of muted annual growth. Growth in *nominal unit labour cost* in the formal non-agricultural sector accelerated from a low of 3.6% in the third quarter of 2019 to 5.2% in the fourth quarter, as year-on-year growth in total remuneration accelerated while output contracted. However, *economy-wide unit labour cost* growth moderated slightly from 4.6% in the fourth quarter of 2019 to 4.5% in the first quarter of 2020, as growth in the compensation of employees accelerated while output contracted at a slower pace year-on-year.

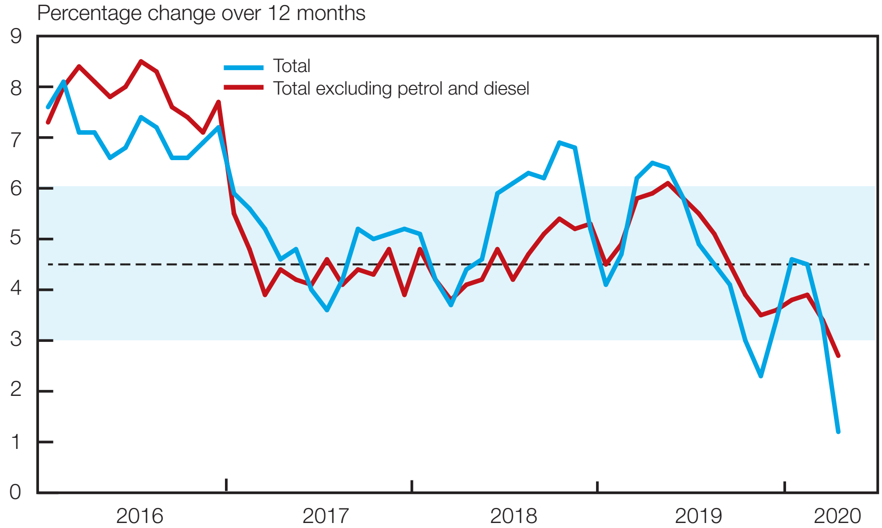
Prices[7]

Headline consumer price inflation has mostly remained below the 4.5% midpoint of the inflation target range since January 2019, and has amounted to 3.0% in April 2020.[8] Both producer and consumer price inflation picked up pace from recent lows in November 2019 to February 2020, but moderated again from March. Most of the initial quickening in both measures of domestic inflation was related to higher fuel price inflation outcomes due to the low base established at the beginning of 2019, which inflated year-on-year calculations. Headline producer price inflation accordingly accelerated to 4.5% in February 2020, alongside the marked acceleration in coal and petroleum product price inflation, to 10.2%, in that month. Subsequently, producer price inflation slowed to a 10-year low of 1.2% in April as coal and petroleum product price inflation plummeted to -13.2%.

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

8 The COVID-19-related national lockdown restrictions impacted Stats SA's ability to measure price statistics. As a result, about 26.5% of the weight of the CPI basket was imputed in April 2020, in line with international best practise. This was done by applying the change in the headline CPI for that month to these products.

Final manufactured producer price inflation

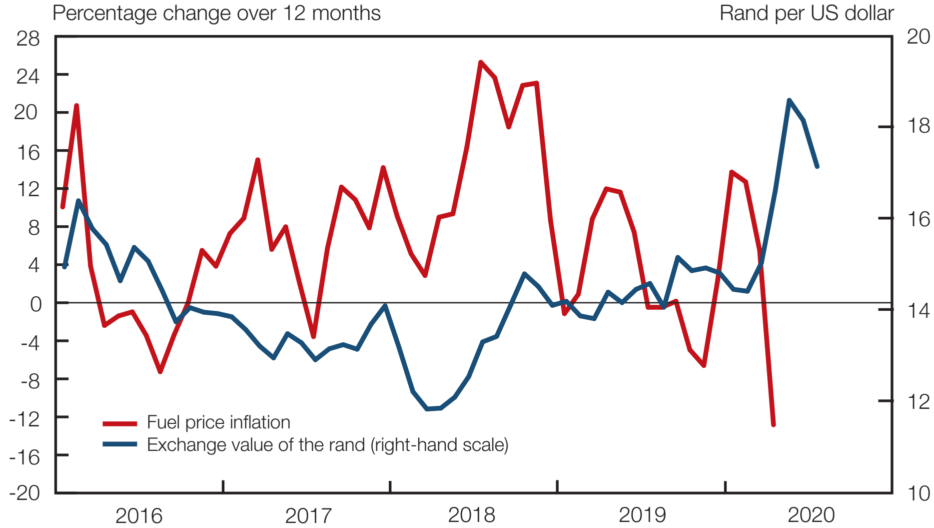


--- Midpoint of the inflation target range (4.5%)

Sources: Stats SA and SARB

Following the outbreak and rapid global spread of the COVID-19 pandemic, international crude oil prices declined significantly in recent months as most countries implemented lockdown restrictions. The average monthly price of Brent crude oil declined from a recent high of US$67.15 in December 2019 to only US$18.68 in April 2020 as fears of an unprecedented contraction in global output mounted, following sudden stops in economic activity. This resulted in a marked deceleration in domestic fuel price inflation from March 2020 onwards, despite the sharp depreciation in the exchange value of the rand between February and April 2020.

Fuel price inflation and the exchange value of the rand

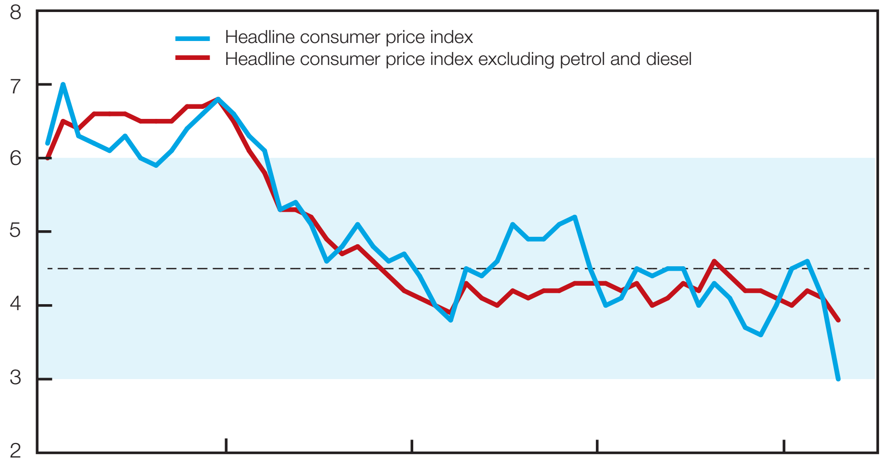


Sources: Stats SA and SARB

Headline consumer price inflation also initially accelerated between November 2019 and February 2020 as higher domestic fuel prices temporarily interrupted the medium-term downward drift in inflation. Consumer fuel price inflation picked up abruptly from -6.6% in November 2019 to 12.7% in February 2020, lifting overall headline consumer price inflation from 3.6% to 4.6% over this period. Subsequently, headline consumer price inflation moderated to 3.0% in April as fuel price inflation slowed markedly.

Consumer price inflation

Percentage change over 12 months



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

Sources: Stats SA and SARB

Producer price inflation of intermediate manufactured goods remained muted and switched from -1.5% in December 2019 to 1.3% in April 2020, mainly due to the acceleration in price inflation for basic and fabricated metals. Producer price changes for agriculture, forestry and fishing products has remained broadly in deflation for 17 months up to February 2020, led mainly by the decrease in agricultural product prices, before accelerating to 3.5% in April. Producer price inflation for electricity and water remained elevated and accelerated from 12.1% in February 2020 to 15.5% in April, as electricity price inflation in particular accelerated. Producer price inflation of mining products accelerated markedly to 49.0% in February – the highest rate of increase since the inception of this measure in January 2008 – and remained elevated up to April as the prices of gold and non-ferrous metal ores (in particular rhodium and palladium) increased significantly.

Consumer goods price inflation initially accelerated to 4.9% in February 2020 mainly due to higher non-durable goods price inflation as a result of the higher fuel price inflation. Subsequently, consumer goods price inflation moderated notably to 1.7% in April as fuel price inflation receded sharply. Semi-durable and durable goods price inflation also slowed further to 1.1% and 1.8% respectively in April 2020, indicative of subdued inflationary pressures and muted exchange rate pass-through in the current recessionary environment.

Consumer goods price inflation

Percentage change over 12 months

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

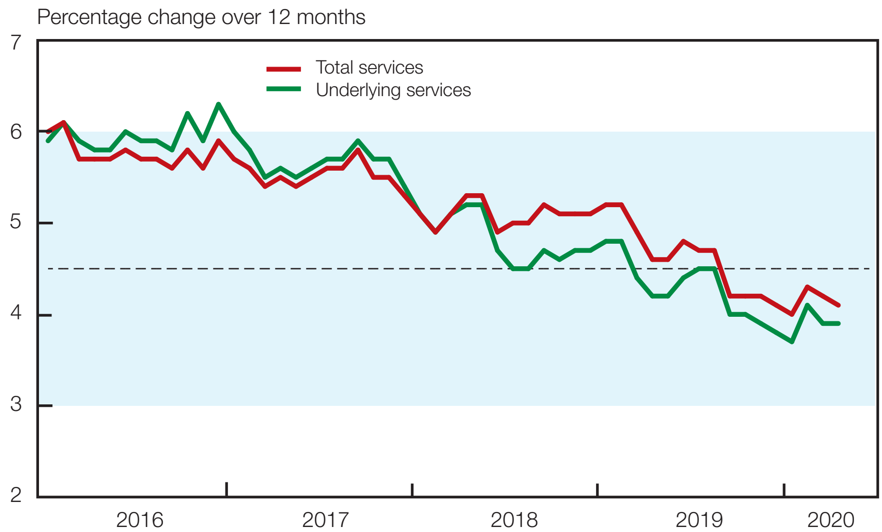
Sources: Stats SA and SARB

9 The consumer goods price basket, excluding the more volatile food and non-alcoholic beverages, fuel and electricity prices.

Underlying consumer goods price inflation[9] has remained below the midpoint of the inflation target range since March 2017 and moderated to below the 3% lower limit of the inflation target range in August 2017, remaining below that level for 19 consecutive months. This measure of underlying consumer price inflation only returned to within the inflation target range in March 2019, but again dipped below the lower limit of the inflation target range in December 2019 and slowed to only 1.4% in April 2020.

Consumer services price inflation moderated steadily over the past three years to 4.0% in January 2020 – its lowest level since the adoption of the classification of individual consumption by purpose (COICOP) methodology by Stats SA in January 2008. The deceleration resulted mainly from the gradual slowing in housing and utility services price inflation. Rental price inflation accelerated slightly in March 2020 but still remained unusually low due to increased supply and falling demand for residential property. On the supply side, the value of new residential housing coming on-stream reached a post-crisis high in 2019, primarily due to rapid growth in the supply of urban apartments. On the demand side, the financial strain experienced by households has resulted in downscaling. Given these supply and demand forces, landlords opted for lower annual rental price increases.

Consumer services price inflation



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

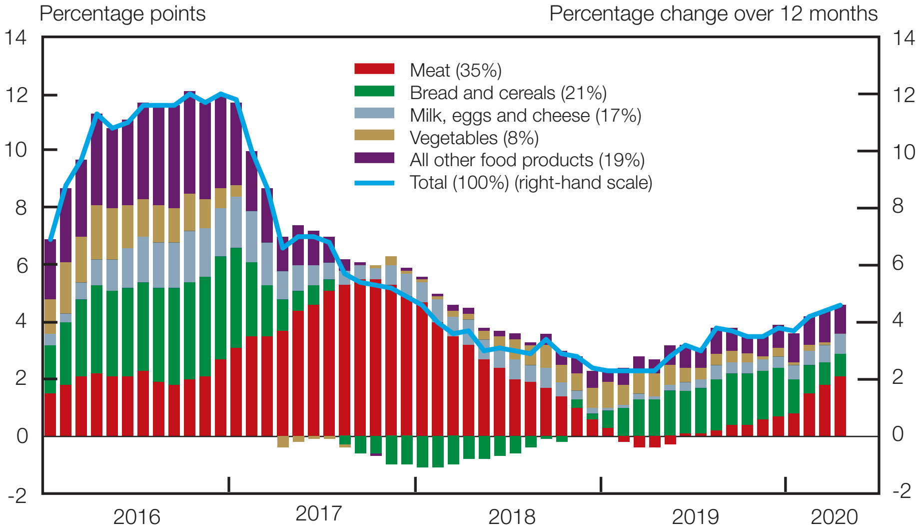
Sources: Stats SA and SARB

10 The consumer services price basket, excluding persistently high administered services price inflation items.

Underlying consumer services price inflation[10] receded to below the midpoint of the inflation target range in September 2019. Subsequently, underlying consumer services price inflation moderated further to a low of 3.7% in January 2020 before accelerating in February, largely due to a quickening in health insurance (medical aid contributions) price inflation. Both overall and underlying consumer services price inflation decelerated slightly again in March and April 2020 as education, public transport as well as restaurant and hotel services price inflation moderated – the latter to its lowest level of 1.1% since the adoption of the COICOP methodology. Subdued rates of inflation in both the underlying consumer goods and services price measures are indicative of a lack of pricing power in an environment of weak economic activity, which is likely to be exacerbated by the impact of COVID-19.

Domestic consumer food price inflation remained relatively subdued during the first three months of 2020 despite having accelerated somewhat to 4.6% in April. The steep increase in meat prices as farmers build herds following improved grazing conditions after good rains contributed most to the increase in consumer food price inflation. Recent higher import tariffs on poultry products (with the highest individual weight within the consumer meat basket) also contributed towards the acceleration in the inflation rate of poultry for the third consecutive month in April.

Contributions to consumer food price inflation



Numbers in brackets indicate weights in the total consumer food basket.

Source: Stats SA

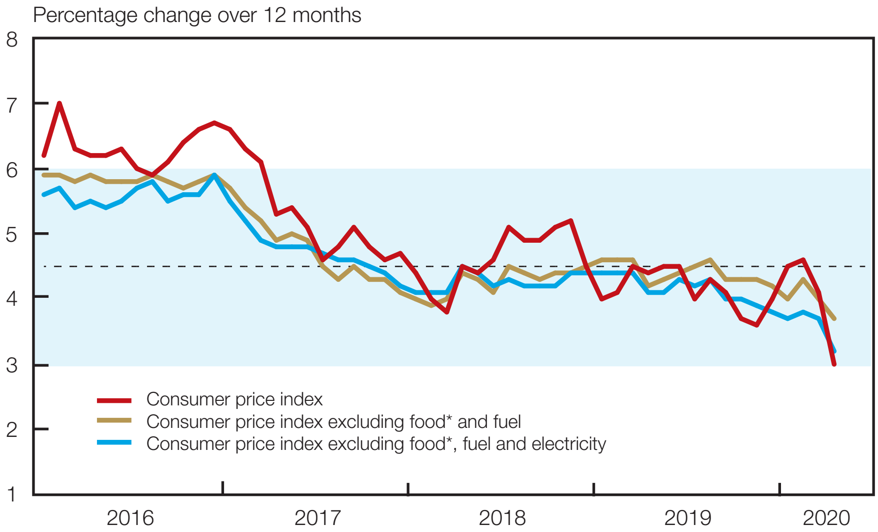
The expected 2020 commercial maize crop of 15.5 million tons is 37.6% more than the final crop of 2019, according to the latest summer crop estimate by the Department of Agriculture, Forestry and Fisheries. The 2020 harvest should be more than sufficient to satisfy local consumption and would be the second largest harvest ever recorded after the record crop of 2017. Bumper global wheat and maize harvests as well as the domestic maize harvest should contain domestic food price inflation in the coming months. However, South Africa is a net importer of wheat and the recent sharp depreciation in the exchange value of the rand is expected to exert some upward pressure on domestic wheat prices.

Rand-denominated international food price inflation soared with the sharp depreciation in the exchange value of the rand although international food price inflation has been subdued in recent months. The year-on-year rate of change in the US dollar-denominated international food price index of the United Nations' Food and Agriculture Organization (FAO) switched from an increase of 10.0% in January 2020 to a decrease of 2.2% in June. The marked moderation was driven by demand-side contractions linked to the effects of the COVID-19 pandemic and the significant decrease in international crude oil prices following the global lockdown. However, the 12-month rate of increase in the rand-denominated FAO international food price index accelerated notably from -0.5% in September 2019 to 29.6% in April 2020, as the exchange value of the rand against the US dollar depreciated markedly over this period. The rate of increase subsequently moderated to 15.0% in June, as the exchange value of the rand appreciated slightly. International wheat and maize prices declined, on balance, in the first half of 2020 due to large global supplies and broadly favourable crop prospects, but when converted to rand both prices soared due to the currency movements.

Underlying inflationary pressures receded further in the opening months of 2020 in an environment of weak domestic consumer demand. When subtracting the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant measure of underlying inflation amounted to 3.7% in April 2020. The SARB's preferred measure of core inflation (also excluding electricity prices) had remained below the midpoint of the inflation target range for 24 successive months and amounted to 3.2% in April 2020.

Administered price inflation decelerated from 9.2% in January 2020 to only 0.9% in April and mirrored the marked moderation in fuel price inflation from 13.7% to -12.8% over the same period. However, when excluding fuel prices, administered price inflation decelerated only slightly to 7.2% in April 2020, after having remained unchanged at 7.4% for seven consecutive months up to February 2020. When also excluding electricity prices, administered price inflation moderated to 4.9% in April 2020.

Headline and underlying measures of consumer price inflation



* Food includes non-alcoholic beverages

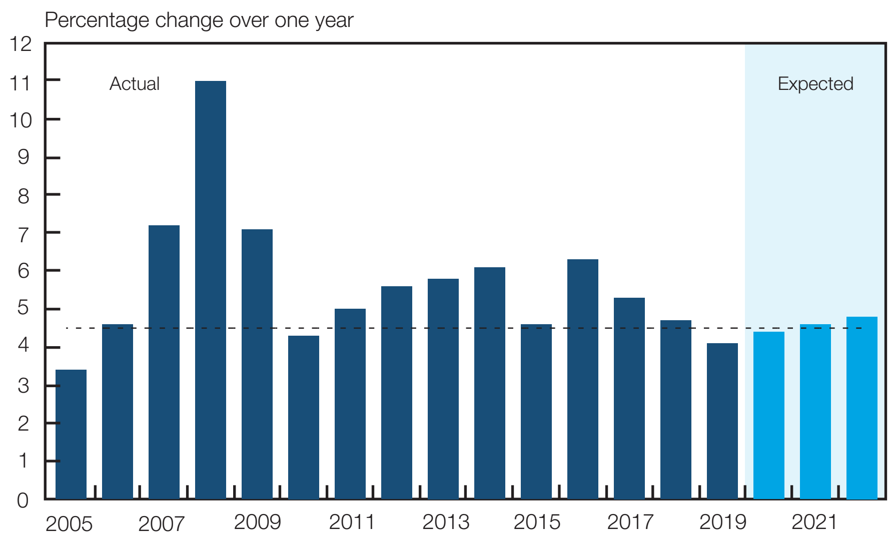
--- Midpoint of the inflation target range (4.5%)

Source: Stats SA

11 Inflation expectations as measured by the survey conducted by the BER in the first quarter of 2020.

The downward trend in average *annual headline inflation expectations*, which started in the third quarter of 2018, persisted in the first quarter of 2020. Average inflation expectations[11] for 2020 and 2021 declined by 0.4 percentage points each, representing the single largest quarterly decline since the start of the current downward trend in inflation expectations.

Annual headline consumer price inflation



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

Sources: BER and Stats SA

Since the previous survey, all three survey groups have lowered their inflation expectations for the current and the next calendar year to below 5.0%. Financial analysts reduced their forecast for 2020 to 4.3% (from 4.7%) and to 4.4% (from 4.7%) for 2021. Trade union representatives also foresee inflation to average 4.3% (from 4.7%) in 2020, rising to 4.6% (from 4.9%) in 2021. Business representatives lowered their expectations to 4.7% (from 5.1%) for 2020 and to 4.9% (from 5.3%) for 2021. Despite this noticeable general reduction in the level of inflation expectations, business representatives' expectations remained higher than those of financial analysts and trade unions. Although the survey respondents expect inflation to average 4.8% in 2022, financial analysts and trade union representatives foresee inflation to come in around the 4.5% midpoint of the inflation target range, while business representatives still expect inflation to be higher at 5.1%.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2020

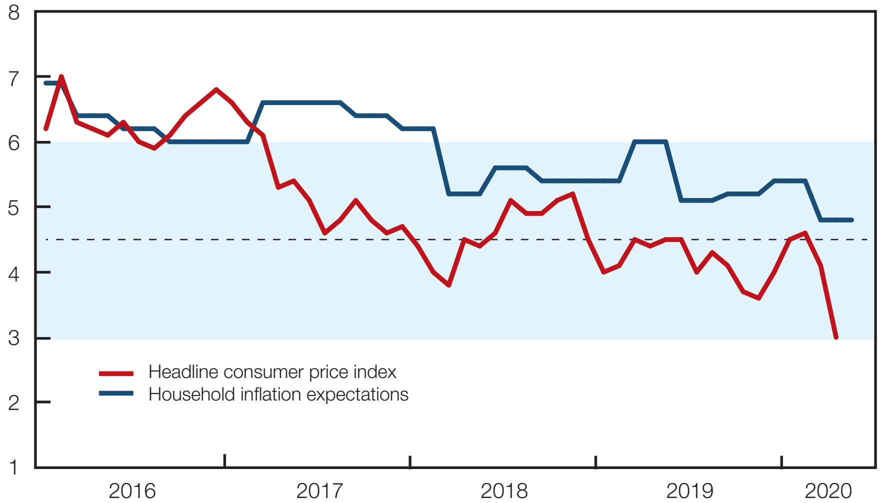
Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2020	4.3	4.7	4.3	4.4
2021	4.4	4.9	4.6	4.6
2022	4.5	5.1	4.6	4.8
The next five years	4.7	5.3	4.8	4.7

Source: BER

Average *five-year inflation expectations* declined further by 0.2 percentage points to 4.7% in the first quarter of 2020. The general decline in the level of expected inflation could likely be attributed to the recessionary economic environment and lower historical inflation.

Headline consumer price inflation and household inflation expectations

Percentage change over 12 months



--- Midpoint of the inflation target range (4.5%)
Sources: Stats SA and BER

Households expect inflation to average 4.8% over the next 12 months. This is 0.6 percentage points lower than in the fourth quarter of 2019 and the lowest that it has been during the past 14 years. The decline in household inflation expectations could be attributed to, among other factors, the lower nominal wage increases experienced in the private sector in the past year or two and lower actual inflation outcomes.

External economic accounts

Current account[12]

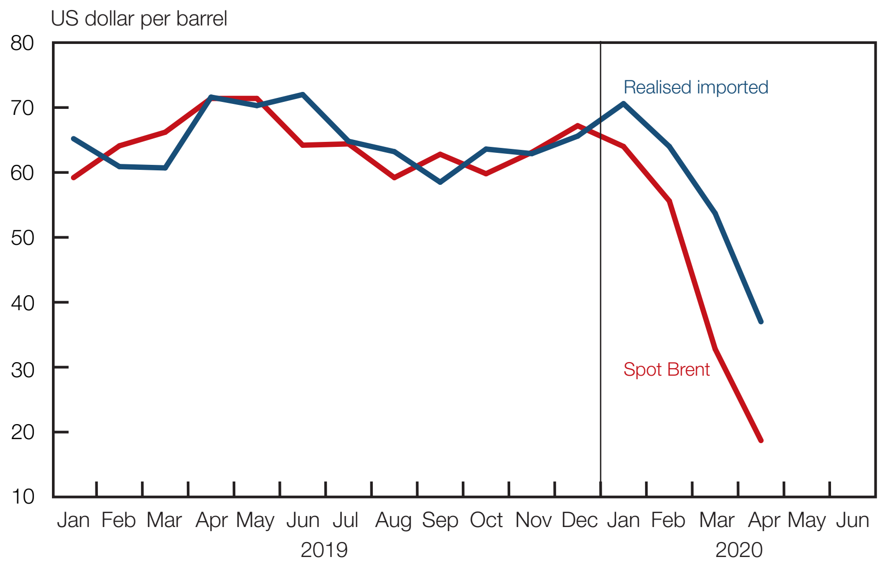
12 Unless stated to the contrary, the current account transaction flows referred to in this section are all seasonally adjusted and annualised.

World trade volumes already reflected the disruptive effects of the COVID-19 pandemic in the first quarter of 2020. With the domestic lockdown restrictions only introduced late in March, the impact on South Africa's imports and exports in the first quarter of 2020 was still limited. This, despite supply-chain disruptions throughout the quarter as some trading partner countries introduced restrictions earlier to contain the pandemic.

Under these conditions, South Africa's trade surplus still increased noticeably further from R102 billion in the fourth quarter of 2019 to R208 billion in the first quarter of 2020. The trade surplus as a percentage of GDP widened to 4.0% – the largest since the fourth quarter of 2010. The larger trade surplus reflected a sustained increase in the value of net gold and merchandise exports alongside a third consecutive quarterly contraction in merchandise imports. The value of gold exports, which reflected both a near record-high US dollar average quarterly gold price and the depreciation in the exchange value of the rand, supported the value of total goods exported in the first quarter of 2020. The value of gold exports as a ratio of total exports of goods accordingly increased further to 7.0% in the first quarter of 2020, from 6.9% in the previous quarter.

By contrast, the third consecutive quarterly contraction in the value of merchandise imports reflected weaker domestic demand amid recessionary conditions since the third quarter of 2019. The decrease in imports was also partly driven by a substantial decline in both the value and volume of crude oil imports, while the average realised rand price of crude oil imports increased slightly during the first quarter of 2020 as the weakening in the exchange value of the rand more than offset the lower dollar spot price of oil. As from late 2019, the value of oil imports also reflected the growing gap between the realised US dollar import price and the spot price of oil.

International price of crude oil

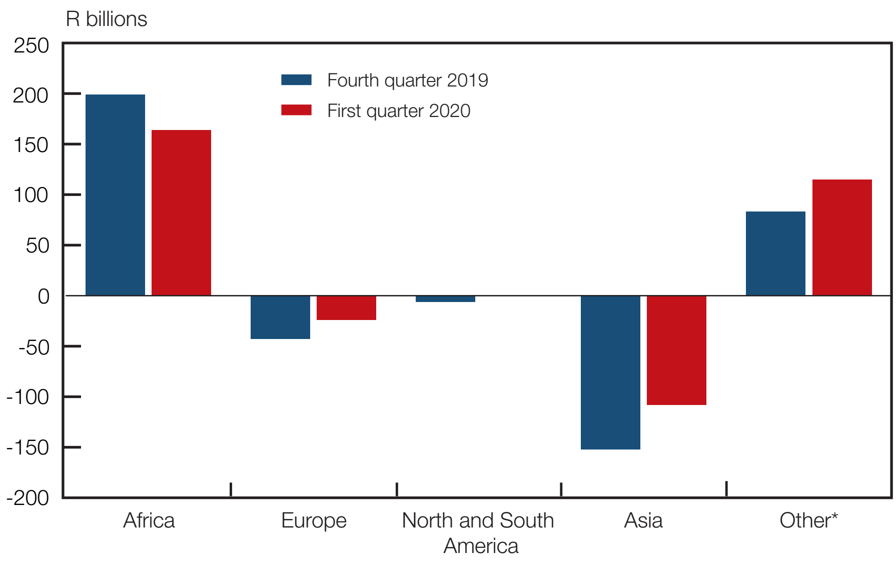


Sources: SARS, Reuters and SARB

Overall, the higher value of exports resulted primarily from higher prices, while the lower value of imports resulted from both lower volumes and prices.

According to South Africa's trade balance by region, the increase in the trade surplus in the first quarter of 2020 resulted from smaller trade deficits with Europe and Asia, in particular China, possibly already reflecting the impact of COVID-19.

South Africa's trade balance by region



* Includes Oceania, unclassified destinations as well as ships and aircraft

Annualised

Source: SARS

Current account of the balance of payments

R billions, seasonally adjusted and annualised

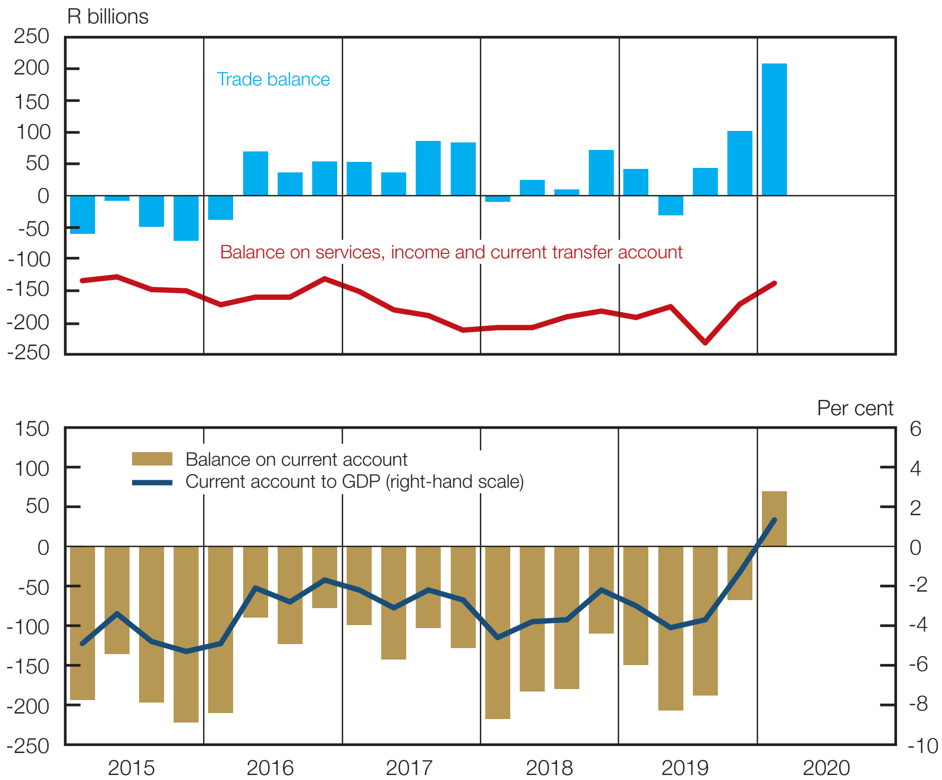
	2019					2020
	Q1	Q2	Q3	Q4	Year	Q1
Merchandise exports	1 193	1 233	1 258	1 260	1 236	1 299
Net gold exports	56	50	70	93	67	97
Merchandise imports	-1 207	-1 314	-1 284	-1 250	-1 264	-1 188
Trade balance	42	-31	44	102	39	208
Net service, income and current transfer payments	-192	-175	-232	-171	-192	-138
Balance on current account	-150	-207	-188	-68	-153	70
As a percentage of gross domestic product						
Trade balance	0.9	-0.6	0.9	2.0	0.8	4.0
Services balance	-0.3	-0.3	-0.2	-0.3	-0.3	-0.1
Income balance	-2.9	-2.4	-3.6	-2.3	-2.8	-1.9
Current transfer balance	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Balance on current account	-3.0	-4.1	-3.7	-1.3	-3.0	1.3

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

Sources: Stats SA and SARB

The significantly larger trade surplus in the first quarter of 2020 together with a markedly smaller shortfall on the services, income and current transfer account led to the first surplus on the current account of the balance of payments since the first quarter of 2003. With the balance on the current account switching from a deficit of R68.1 billion in the fourth quarter of 2019 to a surplus of R69.7 billion in the first quarter of 2020, it also changed as a percentage of GDP from -1.3% to 1.3%.

Current account of the balance of payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

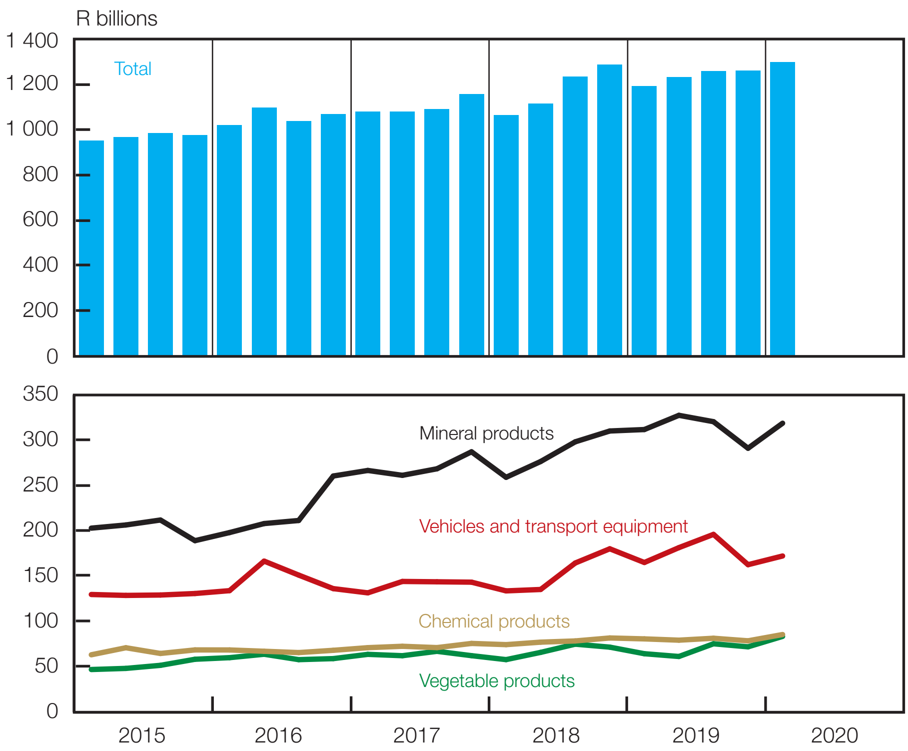
The value of merchandise exports increased by 3.1% in the first quarter of 2020 as manufacturing, mining and agricultural exports increased. Vehicles and transport equipment as well as chemical products supported manufacturing exports while grapes and maize lifted agricultural exports. The latter reflected a sharp increase in maize exports to Zimbabwe, following that country's lifting of a ban on the importation of genetically modified maize for the first time in 12 years.

The value of mining exports rose in the first quarter of 2020, boosted by mineral products as well as pearls and semi-precious stones. The increase in the export value of mineral products was supported by silver ore concentrates and iron ore, in particular iron ore destined for Japan, the Netherlands, South Korea and China, along with an increase in dry bulk cargo volumes at the Saldanha Bay iron ore terminal. These exports to China reflected demand by steel mills even though downstream sectors experienced disruptions due to the COVID-19 pandemic. However, the portion of the value of South African iron ore exports destined for China relative to total exports of iron ore decreased from about 63.3% in the fourth quarter of 2019 to 61.2% in the first quarter of 2020.

By contrast, exports of platinum group metals (PGMs) as well as base metals and articles of base metals decreased in the first quarter of 2020. Exports of PGMs decreased as production fell amid intermittent electricity load shedding, the temporary closure of a converter plant that was damaged during an explosion as well as lockdown restrictions towards the end of the quarter.

Most base metal prices, especially those of copper and nickel, declined in the first quarter of 2020 due to uncertainty about the impact of the lockdown which led to a shutdown of industrial production and construction activities globally along with rising inventories. By contrast, the international prices of iron ore, coal, palladium and rhodium increased over the period – the latter surged by almost 80% due to supply shortages and autocatalyst demand from the Chinese vehicle industry in order to comply with local emission standards.

Value of merchandise exports

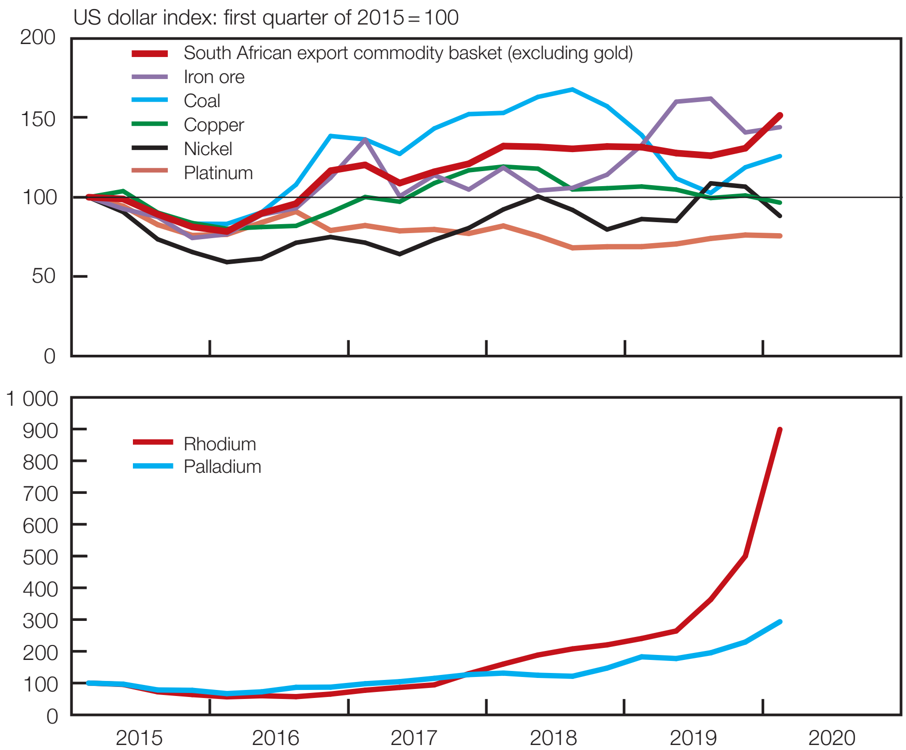


Seasonally adjusted and annualised

Sources: Stats SA and SARB

Resilient iron ore prices recovered towards the end of the quarter, on expectations that the Chinese government's economic stimulus measures will support steel demand.

International prices of selected South African export commodities

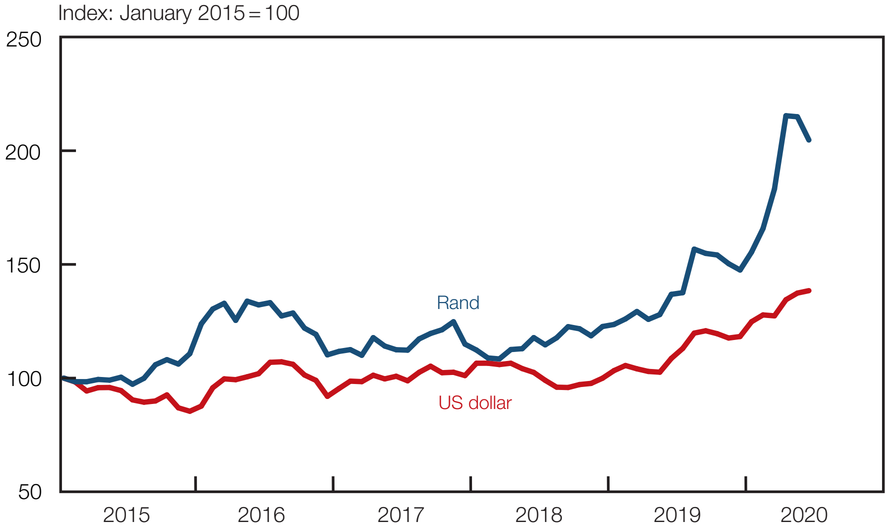


Sources: World Bank, Afriforesight and SARB

The US dollar price of a basket of domestically produced non-gold export commodities surged by 15.8% in the first quarter of 2020 and combined with the depreciation in the exchange value of the rand contributed to the 2.3% increase in the rand price of merchandise exports in the first quarter of 2020 – marking a fourth consecutive quarterly increase. At the same time, the volume of merchandise exports increased by 0.8% in the first quarter of 2020, largely on account of increased manufacturing and agricultural exports.

The average US dollar price of gold on the London market increased by 6.9% from US$1 482 per fine ounce in the fourth quarter of 2019 to US$1 584 per fine ounce in the first quarter of 2020 – a sixth consecutive quarterly increase. The gold price reflected safe-haven investment demand amid heightened uncertainties associated with the impact of the COVID-19 pandemic on the global economy. The sharp increase of 11.8% in the average realised rand price of net gold exports reflected the marked depreciation in the exchange value of the rand. The higher rand price more than offset the decline in the volume of net gold exports over the period with a resultant increase of 4.7% in the value thereof.

International price of gold



Sources: Reuters and SARB

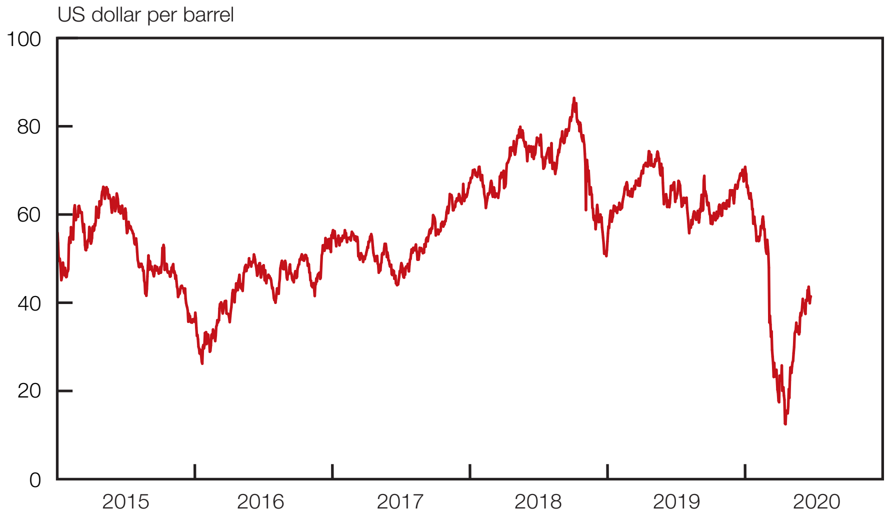
The value of merchandise imports contracted further by 4.9% in the first quarter of 2020 along with decreased imports of mining and manufactured products. The former was weighed down by a substantial decrease in the importation of mineral products, particularly crude oil. The ratio of the value of crude oil imports to total mineral product imports accordingly fell sharply from 68.6% in the fourth quarter of 2019 to 58.1% in the first quarter of 2020.

The value of crude oil imports was weighed down by lower volumes as the average realised US dollar price did not decline to the same extent as the spot price of Brent crude oil, which fell from a recent high of about US$70 per barrel in early January 2020 to below US$20 per barrel in April 2020. This followed the intensification of the spread of COVID-19 globally along with sudden stops in economic activity and fears of a global economic recession. Following unprecedented global monetary and fiscal stimulus as well as production cuts by the Organization of the Petroleum Exporting Countries (OPEC), the price of Brent crude oil increased somewhat in the ensuing two months to around US$41 per barrel at the end of June.

During April 2020, the volume of crude oil imports increased while the value declined. This was driven by much lower crude oil prices, despite the US dollar realised import price being double the spot price, with forward contracts concluded well ahead of delivery.

The increase in the value of imported vehicles and transport equipment in the first quarter of 2020 reflected demand for foreign produced automotive components as some domestic manufacturers ramped up production.

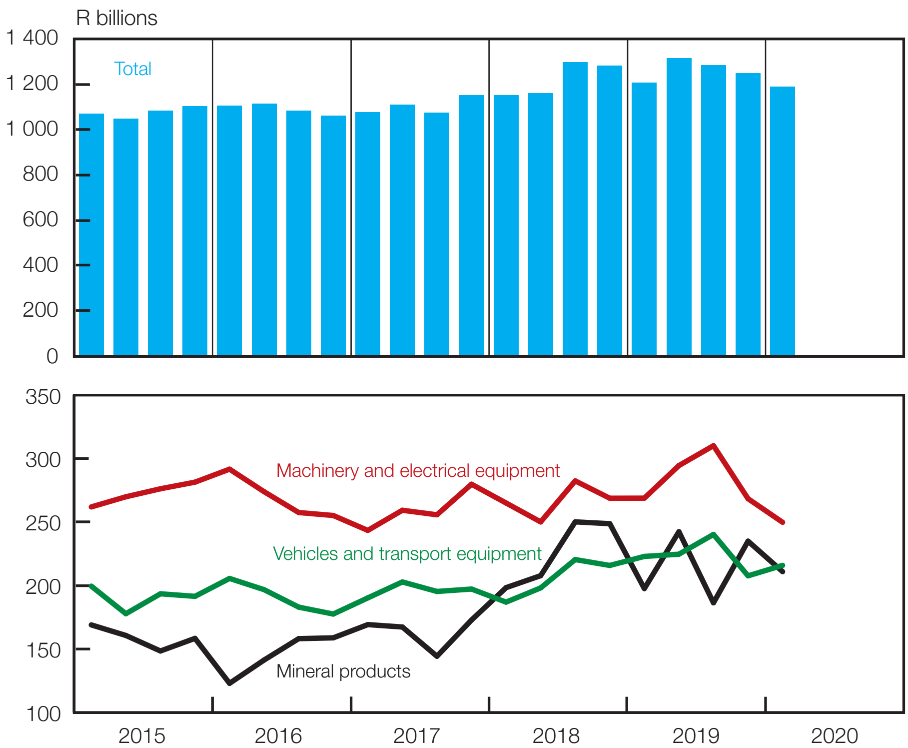
International price of Brent crude oil



Sources: Reuters and SARB

However, this was fully neutralised by decreases in all the other manufacturing sub-categories, with the importation of machinery and electrical equipment declining substantially. The overall value of imported manufactured goods accordingly contracted in the first quarter of 2020. By contrast, the value of agricultural imports was lifted by animal or vegetable fats and oils.

Value of merchandise imports



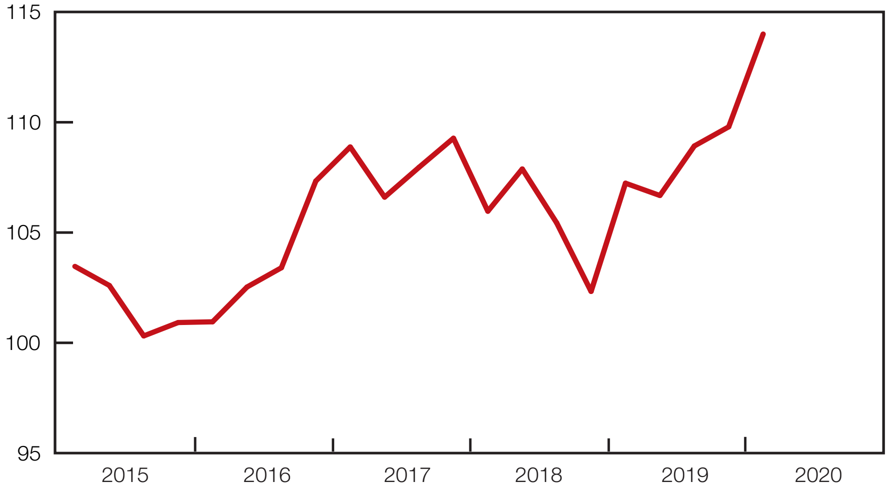
Seasonally adjusted and annualised
Sources: Stats SA and SARB

On balance, the volume of merchandise imports declined in the first quarter of 2020. The import penetration ratio – real merchandise imports as a ratio of real GDE – edged lower from 26.1% in the fourth quarter of 2019 to 25.5% in the first quarter of 2020. The rand price of merchandise imports continued to trend lower in the first quarter of 2020, after also decreasing slightly in both the third and fourth quarter of 2019.

South Africa's terms of trade improved further in the first quarter of 2020 as the rand price of exports increased while that of imports decreased.

Terms of trade*

Index: 2010 = 100



* Including gold

Sources: Stats SA and SARB

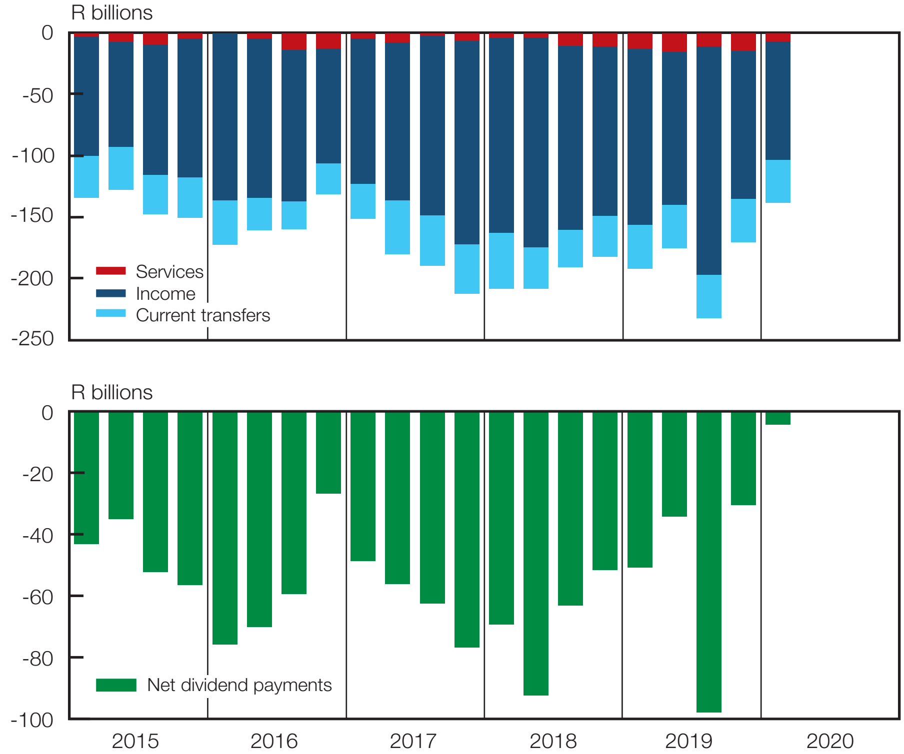
The shortfall on the services, income and current transfer account narrowed substantially for a second consecutive quarter, from R171 billion in the fourth quarter of 2019 to R138 billion in the first quarter of 2020. The decline in the first quarter of 2020 came from a more normal level in the fourth quarter of 2019 compared to the all-time high reached in the third quarter and hence reflected the most recent extraordinary circumstances. The deficit as a percentage of GDP narrowed from 3.3% in the fourth quarter of 2019 to 2.7% in the first quarter of 2020 – a ratio last observed in the second quarter of 2006. The deficits of all three sub-accounts narrowed in the first quarter, with the income account contributing most.

The deficit on the income account narrowed by R23.5 billion in the first quarter of 2020 as gross dividend payments declined by almost R22 billion to R85.6 billion while gross dividend receipts increased by R4.6 billion to R81.3 billion. This resulted in net dividend payments of only R4.3 billion, which were at its lowest in over two decades. The contraction in dividend payments originated from companies with a direct investment relationship with non-resident shareholders and was indicative of the weak domestic economic activity. In general, companies opted to withhold dividends to strengthen finances amid uncertainty as to the effect of COVID-19 on operations. By contrast, net interest payments increased by R4.7 billion while gross interest payments increased by only 3.9% over four quarters in the first quarter of 2020 compared with an increase of more than 8% in 2019 as a whole. Overall, net income payments were at its lowest since the fourth quarter of 2016.

Net service payments also declined in the first quarter of 2020, with the decline in gross service payments outweighing receipts. The lockdown of various economies and the closure of international borders by most countries resulted in a contraction in the number of both resident departures and non-resident arrivals in South Africa. As such, travel receipts contracted by 9.8% in the first quarter of 2020 along with sharp contractions in passenger fares following the cancellation or postponement of travel arrangements. The contraction in payments for freight-related transport was consistent with the decreased importation of goods.

Net and gross current transfer payments also declined slightly in the first quarter of 2020, but made only a negligible contribution to the narrowing in the deficit on the overall account compared to the other two sub-accounts.

Net service, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

Financial account

The net inflow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) increased from R10.1 billion in the fourth quarter of 2019 to R16.6 billion in the first quarter of 2020. On a net basis, direct investment, financial derivatives and reserve assets recorded inflows during the first quarter of 2020, while portfolio and other investment recorded outflows. Net financial account inflows as a ratio of GDP increased from 0.8% in the fourth quarter of 2019 to 1.3% in the first quarter of 2020.

Net financial transactions

R billions

	2019					2020
	Q1	Q2	Q3	Q4	Year	Q1
Change in liabilities						
Direct investment	11.0	27.9	17.3	10.5	66.8	29.0
Portfolio investment	28.5	10.0	40.2	9.3	88.0	-97.6
Financial derivatives	-43.0	-31.5	-37.9	-50.8	-163.2	-73.7
Other investment	35.8	-4.9	0.9	-42.0	-10.2	52.0
Change in assets						
Direct investment	-16.5	5.5	-21.6	-12.4	-45.1	-9.2
Portfolio investment	-17.9	17.5	34.7	8.7	43.1	79.6
Financial derivatives	40.9	31.0	34.8	52.3	159.0	87.8
Other investment	-51.9	-50.3	83.0	24.6	5.4	-93.4
Reserve assets	34.2	7.7	-77.2	9.9	-25.4	42.2
Total identified financial transactions*	21.3	12.8	74.3	10.1	118.5	16.6
As a percentage of gross domestic product	*1.8*	*1.0*	*5.7*	*0.8*	*2.3*	*1.3*

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

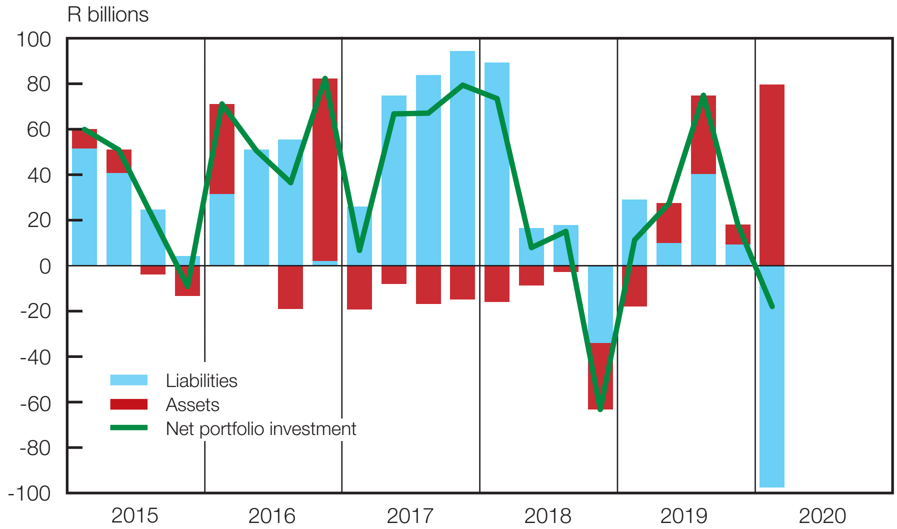
Source: SARB

Foreign-owned assets in South Africa

South Africa's direct investment liabilities increased by R29.0 billion in the first quarter of 2020 following an inflow of R10.5 billion in the fourth quarter of 2019, mainly as a result of the foreign acquisition of a domestic manufacturer and distributor of food and beverage products. Foreign parent companies also continued to provide equity and debt funding to South African subsidiaries.

Portfolio investment liability flows changed to a substantial outflow of R97.6 billion in the first quarter of 2020, following an inflow of R9.3 billion in the preceding quarter. The outflow reflected non-residents' net sales of domestic debt and equity securities as well as the redemption of an international government bond of US$1.6 billion. Non-residents sold debt securities of R74.4 billion in the first quarter of 2020, following the acquisition of R42.1 billion in the fourth quarter of 2019. Non-residents' net sales of domestic equity securities decreased to R23.1 billion from R32.8 billion over the same period.

Portfolio investment flows



Source: SARB

Other investment liabilities changed from an outflow of R42.0 billion in the fourth quarter of 2019 to a substantial inflow of R52.0 billion in the first quarter of 2020 as non-residents granted short-term loans to, and made foreign currency-denominated deposits with the domestic banking sector.

South African-owned assets abroad

South Africa's direct investment assets abroad recorded an outflow of R9.2 billion in the first quarter of 2020, following an outflow of R12.4 billion in the fourth quarter of 2019. The moderation in direct investment assets occurred as a result of the repatriation of the proceeds from the sale of shares in a company abroad by a domestic media and information technology company, despite a significant increase in debt financing to foreign entities.

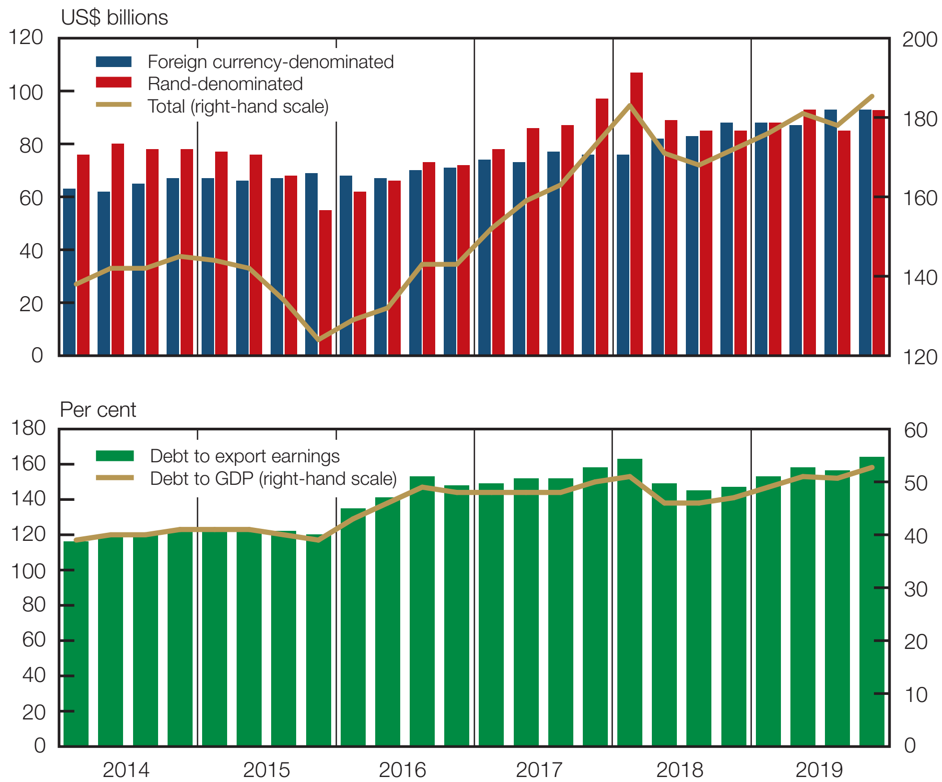
South African residents disposed of foreign portfolio assets of R79.6 billion in the first quarter of 2020, following the much smaller disposal of R8.7 billion in the fourth quarter of 2019. The domestic private non-banking sector's sale of foreign equity securities increased significantly.

A substantial outflow of other investment assets of R93.4 billion in the first quarter of 2020 followed an inflow of R24.6 billion in the preceding quarter. The outflow was mainly the result of the domestic banking sector increasing its foreign currency-denominated deposits at non-resident banks abroad.

Foreign debt

South Africa's total external debt increased from US$177.7 billion at the end of September 2019 to US$185.4 billion at the end of December due to an increase in rand-denominated debt. However, in rand terms, South Africa's total external debt decreased from R2 700 billion to R2 603 billion over the same period as the exchange value of the rand appreciated against the US dollar.

Foreign debt



Source: SARB

Foreign currency-denominated external debt decreased from US$93.2 billion at the end of September 2019 to US$92.6 billion at the end of December. The decrease was mainly due to the decrease in foreign currency-denominated long-term loans extended to the non-monetary private sector and public corporations.

Rand-denominated external debt, expressed in US dollars, increased from US$84.5 billion at the end of September 2019 to US$92.8 billion at the end of December. The increase was mainly due to the net purchases of domestic rand-denominated bonds by non-residents as well as an increase in the US dollar value of rand-denominated external debt due to the appreciation in the exchange value of the rand over the period.

South Africa's total external debt as a ratio of GDP increased from 50.7% at the end of September 2019 to 52.7% at the end of December. Similarly, the ratio of external debt to export earnings increased from 156.4% to 164.0% over the same period.

Foreign debt of South Africa

US$ billions at end of period

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Foreign currency-denominated debt	83.5	87.9	88.5	87.4	93.2	92.6
Debt securities	30.7	30.7	30.7	29.0	33.5	33.5
Other	52.8	57.1	57.8	58.4	59.7	59.1
Public sector	10.4	10.4	10.5	10.4	10.9	10.3
Monetary sector	14.3	18.6	17.9	18.0	17.8	18.7
Non-monetary private sector	28.1	28.2	29.4	30.0	31.0	30.0
Rand-denominated debt	84.7	84.6	87.5	93.2	84.5	92.8
Debt securities	49.7	48.1	50.4	55.1	50.0	57.6
Other	35.0	36.5	37.1	38.1	34.5	35.2
Total foreign debt	168.1	172.5	176.0	180.6	177.7	185.4
As a percentage of gross domestic product	*45.7*	*46.8*	*49.1*	*51.5*	*50.7*	*52.7*
As a percentage of total export earnings	*144.6*	*146.9*	*152.7*	*158.5*	*156.4*	*164.0*

Source: SARB

International investment position

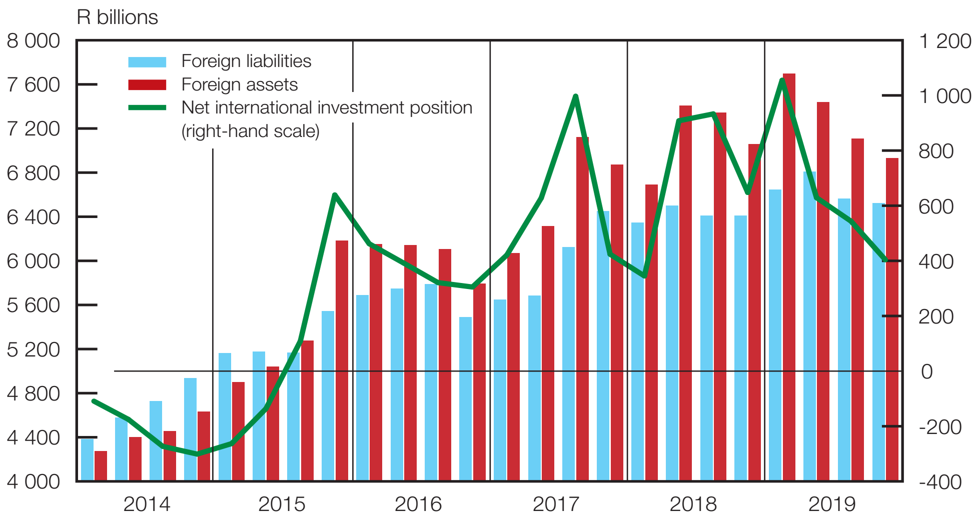
South Africa's positive net international investment position (IIP) decreased from a revised R544 billion at the end of September 2019 to R402 billion at the end of December. The smaller positive net IIP resulted from a larger decline in foreign assets than in foreign liabilities. The increase in the nominal effective exchange rate of the rand of 6.1% over the period affected foreign assets more than foreign liabilities.

The market value of South Africa's foreign assets (outward investment) declined by 2.5% from a revised R7 109 billion at the end of September 2019 to R6 928 billion at the end of December, following a decrease of 4.4% in the previous quarter. The decrease in foreign assets reflected a decrease in all functional categories, except in portfolio investment. Direct investment assets decreased mainly as a result of the lower market valuation of a large dual-listed company with a primary listing abroad. Foreign portfolio assets increased mainly as a result of an increase of 8.5% in the US Standard & Poor's (S&P) 500 Index in the fourth quarter of 2019. Other investment assets declined largely due to non-residents repaying short-term loans to the domestic private banking and non-banking sectors, while reserve assets declined due to a lower market valuation, following the strengthening of the external value of the rand.

The market value of South Africa's foreign liabilities (inward investment) decreased slightly by 0.6% from a revised R6 565 billion at the end of September 2019 to R6 526 billion at the end of December, following a decrease of 3.6% in the third quarter. The decrease in foreign liabilities reflected a decrease in all functional categories, except in portfolio investment. Direct investment and financial derivatives declined marginally, while the increase of 4.1% in the FTSE/JSE All-Share Price Index (Alsi) in the fourth quarter of 2019 contributed to the higher value of portfolio investment liabilities. The decrease in other investment liabilities resulted mainly from the repayment of loans obtained from non-residents by the domestic private non-banking sector.

Foreign assets as a ratio of South Africa's annual GDP decreased from 141.5% at the end of September 2019 to 136.4% in December, while foreign liabilities decreased from 130.6% to 128.5% over the same period. This resulted in a decline in the positive net IIP to 7.9% of GDP at the end of December 2019.

South Africa's international investment position



Source: SARB

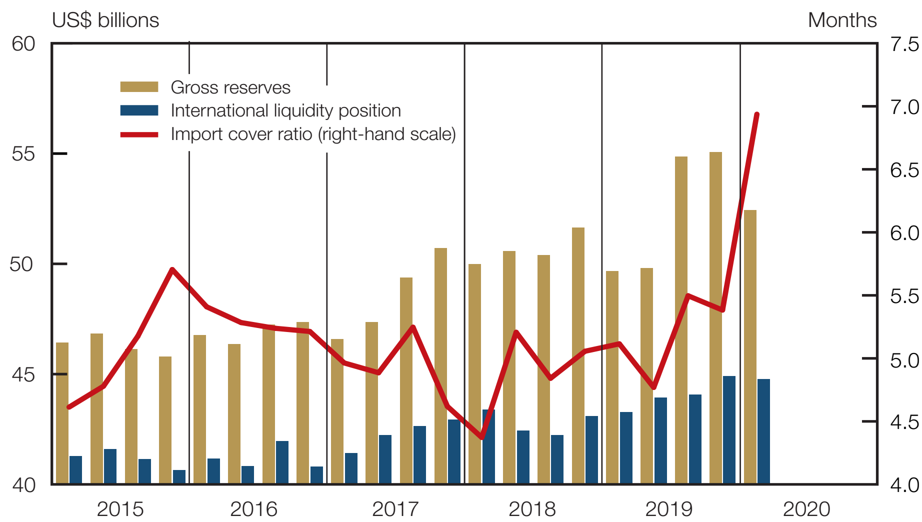
International reserves and liquidity

Having declined by R9.9 billion in the fourth quarter of 2019, South Africa's international reserve assets decreased by a further R42.2 billion in the first quarter of 2020.

Measured in US dollar, the 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$55.1 billion at the end of December 2019 to US$52.4 billion at the end of March 2020, largely reflecting the redemption of government's foreign debt obligations. Gross gold and other foreign reserves decreased further to US$52.3 billion at the end of June. South Africa's international liquidity position[13] decreased, albeit slightly, from US$44.9 billion at the end of December 2019 to US$44.8 billion at the end of March 2020, before increasing to US$45.7 billion at the end of June.

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

International reserves



Source: SARB

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports, as well as services and income payments) increased significantly from 5.4 months at the end of December 2019 to 6.9 months at the end of March 2020, the highest level on record.

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

Exchange rates[14]

The nominal effective exchange rate (NEER) of the rand decreased markedly by 19.2% in the first quarter of 2020, following an increase of 6.1% in the fourth quarter of 2019. The marginal increases in the NEER in November and December 2019 were reversed in the first quarter of 2020, with declines of 4.5% in January, 4.3% in February and an even more substantial 11.6% in March. The NEER then declined by a further 0.5% in April, followed by increases of 2.6% and 0.5% in May and June. In the second quarter of 2020, the NEER increased by 2.6%.

Exchange rates of the rand

Percentage change

	28 Jun 2019 to 30 Sep 2019	30 Sep 2019 to 31 Dec 2019	31 Dec 2019 to 31 Mar 2020	31 Mar 2020 to 30 Jun 2020
Weighted average*	-4.2	6.1	-19.2	2.6
Euro	-3.1	5.5	-20.4	1.7
US dollar	-6.9	8.2	-21.9	3.8
Chinese yuan	-3.2	5.6	-20.5	3.5
British pound	-4.1	1.5	-16.9	4.2
Japanese yen	-6.7	9.0	-22.2	3.2

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

Source: SARB

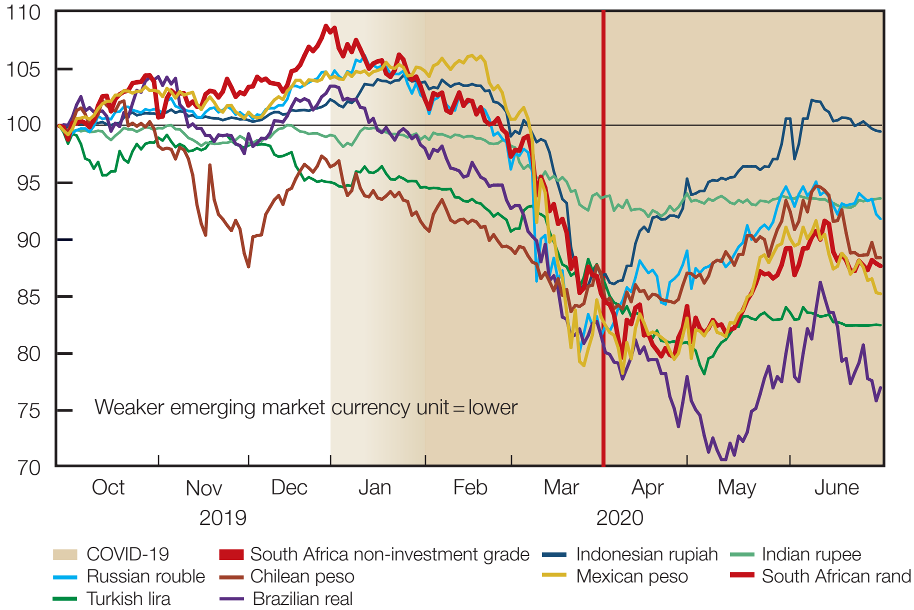
The exchange value of the rand depreciated consistently in the first quarter of 2020, from a level of R14.04 against the US dollar at the end of December 2019 to R14.85 at the end of January 2020, R15.62 at the end of February and R17.98 at the end of March. On 6 April 2020, the rand traded at its lowest value ever of R19.34 against the US dollar, following South Africa's downgrade to non-investment grade by Moody's Investors Service (Moody's) – being rated as non-investment grade by the three major rating agencies South Africa has now been excluded from the FTSE World Government Bond Index (WGBI). Although foreign exchange markets remained volatile during May and June, global sentiment improved from time to time. After subsequently hovering around R18.00 against the US dollar, the exchange value of the rand appreciated to R17.33 against the US dollar by 30 June 2020, from the record low in April.

Most emerging market currencies, including the rand, depreciated sharply during the first quarter of 2020 following the outbreak and rapid spread of COVID-19, which led to global risk aversion as the lockdowns implemented in most countries caused fears of a sharp global economic recession. The rand's depreciation was further exacerbated by the downward revision of South Africa's sovereign credit rating by Moody's. This, along with successive significant downward revisions to both global and domestic economic growth projections, momentous volatility in foreign exchange markets and uncertainty regarding the full impact and duration of COVID-19 amid large portfolio outflows, adversely affected the exchange value of the rand. Although central banks across the globe (including the SARB) have implemented various measures to assist and enhance liquidity in financial markets and to restore confidence, the outlook for the rand and other emerging market currencies remains uncertain for the rest of 2020.

Since South Africa's sovereign credit rating downgrade by Moody's, the exchange value of the rand has fluctuated between R17.50 and R19.34 against the US dollar. As the downgrade was generally anticipated, the rand followed a similar trend than other emerging market currencies (except India) during the first quarter of 2020. Of interest, the Mexican peso and the rand have been on a comparable trajectory, despite Mexico being rated investment grade, while the currencies of other investment-grade rated countries such as the Indian rupee, Indonesian rupiah, Russian rouble and Chilean peso outperformed currencies of those rated non-investment grade.

Emerging market currencies against the US dollar

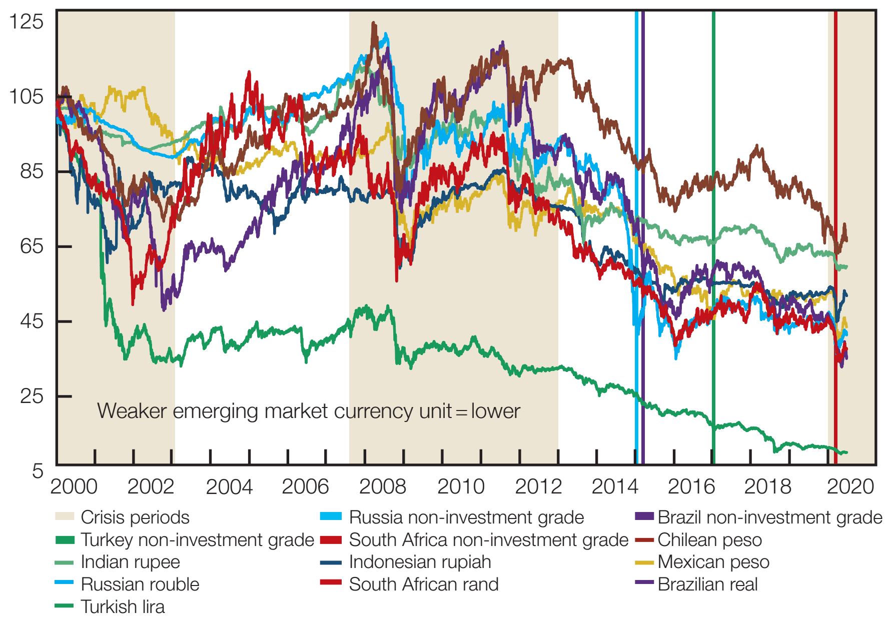
Index: 30 September 2019 = 100



Sources: Reuters and SARB calculations

Emerging market currencies against the US dollar during crises

Index: 30 December 1999 = 100

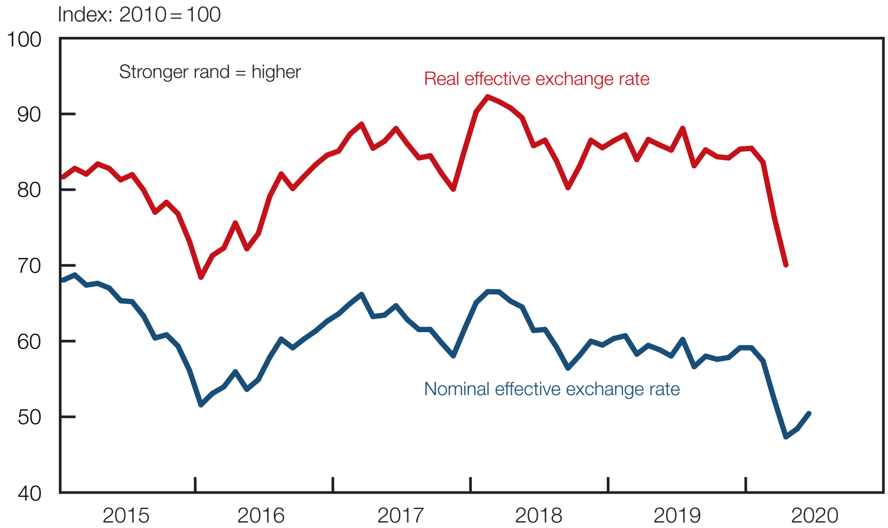


Sources: Reuters, Haver Analytics, Bloomberg and SARB calculations

Emerging market countries have experienced various currency crises over the past 20 years. Changes in the value of these countries' currencies were more similar during the 2008–09 global financial crisis and the subsequent euro zone sovereign debt crisis than during other crises periods. Furthermore, emerging market currencies have depreciated significantly over the full 20-year period. The Turkish lira seems to be an outlier, already being non-investment grade in the aftermath of the Asian crisis in the late 1990s when entering the global economic recession of the early 2000s. Turkey was only briefly awarded investment-grade status between 2013 and

2016. The rand has depreciated by 19.0% against the US dollar from the end of December 2019 to 30 June 2020, which includes the impact of the COVID-19 pandemic. This compares with depreciations of 25.6% and 13.2% in the Brazilian real and the Turkish lira respectively over the same period.

Effective exchange rates of the rand



Source: SARB

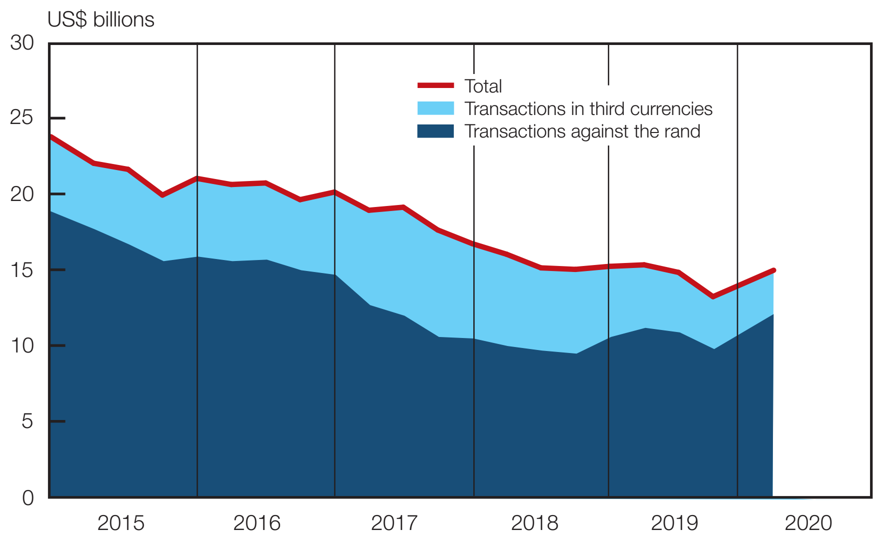
The real effective exchange rate (REER) of the rand decreased by 19.1% from April 2019 to April 2020, reflecting improved competitiveness for domestic producers in foreign markets.

Turnover in the South African foreign exchange market

The net average daily turnover[15] in the South African foreign exchange (FX) market increased notably by 17.8% from US$13.4 billion in the fourth quarter of 2019 to US$15.8 billion in the first quarter of 2020, following a persistent downward trend since the third quarter of 2014. This resulted from increases in both the value of FX transactions against the rand and FX transactions in third currencies. FX transactions against the rand increased by 15.6% from US$9.8 billion in the fourth quarter of 2019 to US$11.4 billion in the first quarter of 2020, while FX transactions in third currencies increased by 23.7% from US$3.6 billion to US$4.4 billion over the same period.

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

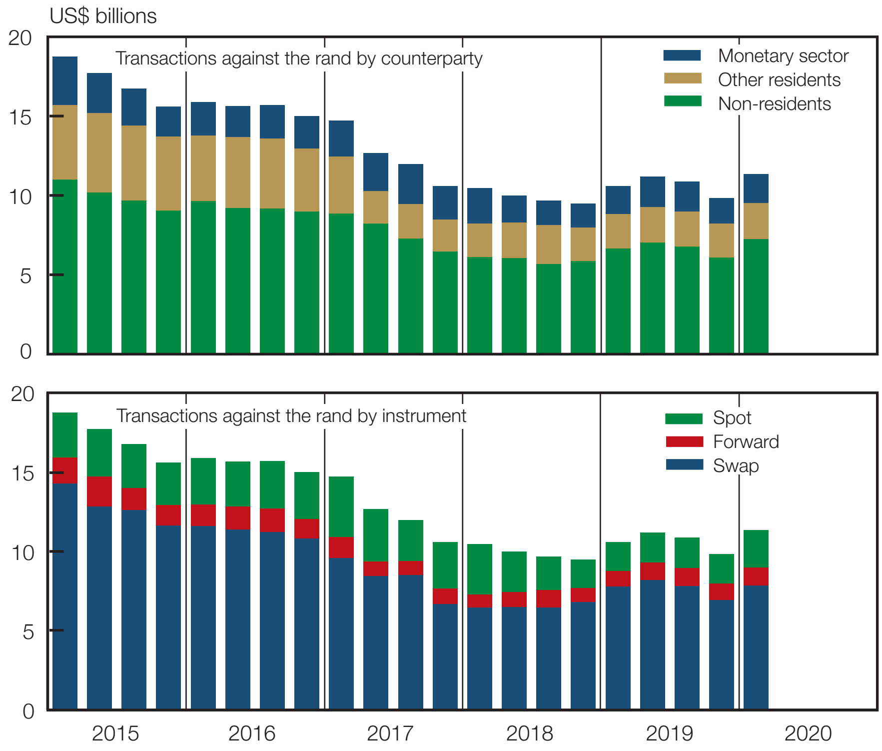
Net average daily turnover in the South African foreign exchange market



Source: SARB

Non-residents remained the predominant participants of FX transactions against the rand in the South African FX market. FX transactions against the rand with non-resident counterparties increased from US$6.1 billion in the fourth quarter of 2019 to US$7.2 billion in the first quarter of 2020. Swap transactions with non-residents increased from US$4.6 billion to US$5.2 billion over the same period amid increased volatility in the exchange value of the rand, following COVID-19 and the downgrade of South Africa's sovereign credit rating by Moody's in March 2020. Transactions against the rand within the monetary sector and with residents also increased, from US$1.6 billion and US$2.2 billion in the fourth quarter of 2019 to US$1.8 billion and US$2.3 billion in the first quarter of 2020 respectively.

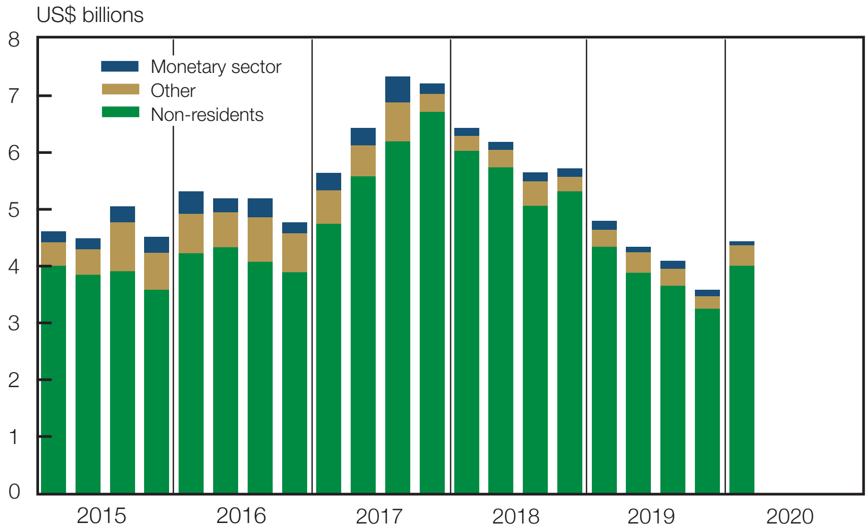
Composition of net average daily turnover in the South African foreign exchange market against the rand



Source: SARB

Following a prolonged period of global uncertainty and trade tensions since early 2018, activity in third currencies increased in the first quarter of 2020, mainly driven by an increase in non-resident participation from US$3.3 billion to US$4.0 billion over the period. FX transactions in third currencies with other resident counterparties also increased, from US$0.2 billion to US$0.4 billion, over this period. However, FX transactions in third currencies within the monetary sector remained muted, declining marginally to below US$0.1 billion in the first quarter of 2020.

Composition of net average daily turnover in the South African foreign exchange market in third currencies by counterparty



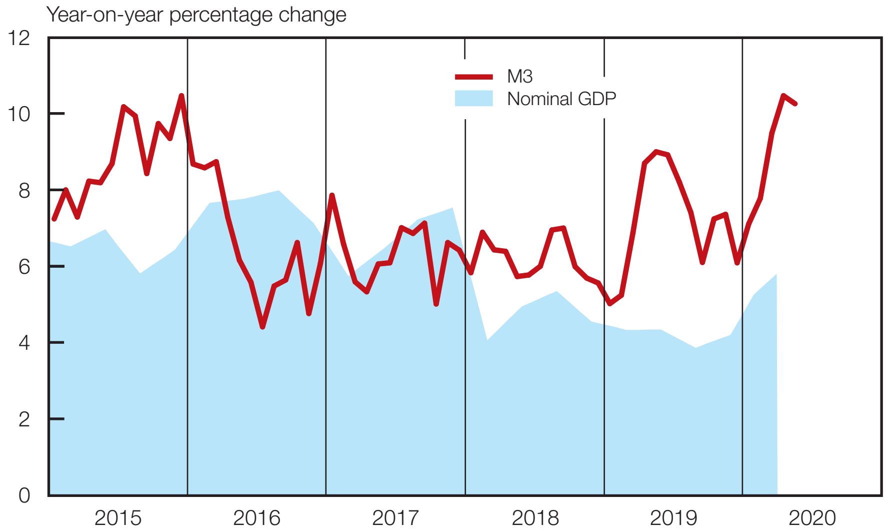
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Growth in the broadly defined money supply (M3) accelerated notably in the first quarter of 2020 and exceeded the weak expansion in nominal GDP by a sizeable margin – hence the income velocity of circulation decreased to 1.36 in the first quarter of 2020 from 1.38 in the fourth quarter of 2019. The overall increase in M3 in the first quarter of 2020 was driven by a marked acceleration in non-financial sector deposits with growth in household deposits trending moderately higher. The quarter-to-quarter seasonally adjusted and annualised growth in M3 accelerated from 1.2% in the fourth quarter of 2019 to 8.9% in the first quarter of 2020. Growth in M3 then accelerated significantly from April 2020 as the COVID-19-related national lockdown and associated uncertainty resulted in a noticeable shift toward bank deposits.

Money supply and gross domestic product

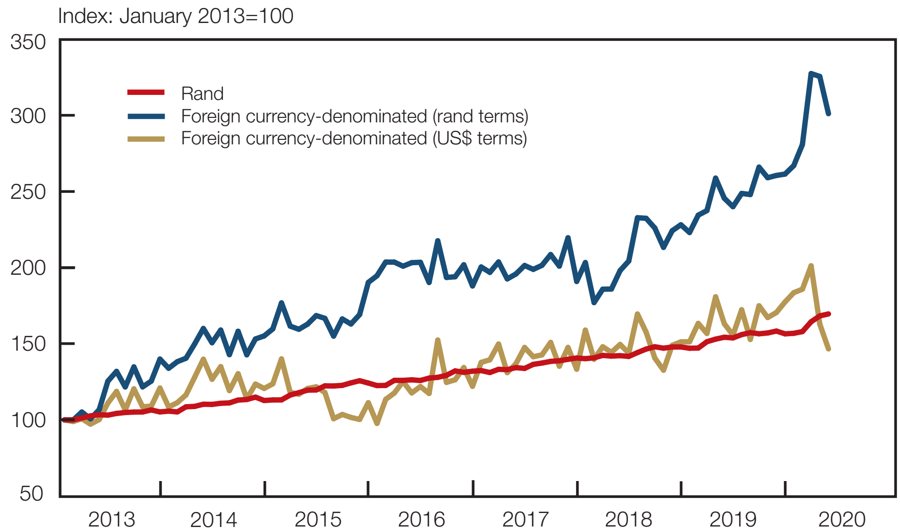


Sources: Stats SA and SARB

The moderation in the growth of M3 during the second half of 2019 made way for an acceleration thus far in 2020, with year-on-year growth quickening from a low of 6.1% in December 2019 to a high of 10.5% in April 2020, followed by a slight moderation to 10.3% in May. Growth in the deposit holdings of the corporate sector increased notably from a recent low of 4.7% in December 2019 to 9.7% in April 2020 – its highest rate since May 2013, before receding to 9.6% in May. Within the corporate sector, growth in the deposit holdings of non-financial companies[16] accelerated markedly from 5.0% in November 2019 to 15.4% in March 2020. This reflected uncertainty as private sector companies placed inflows and surplus funds on deposit to provide for expenses as from the start of the national lockdown on 27 March 2020. Various state-owned entities also kept the usual allocations from National Treasury on deposit due to limited business activity during the lockdown. In March 2020, equitable share transfers and the distribution of the fuel levy allocations to metropolitan municipalities also impacted the deposits of non-financial companies. The depreciation of the exchange value of the rand also increased the rand value of foreign currency-denominated M3 deposits, while an acquisition of a South African company by a foreign entity added to deposit balances. From its high in March, growth in the deposit holdings of non-financial companies subsequently moderated slightly to 13.2% in May, as the effect of the lockdown on business activity and cash flow became evident.

16 The deposit holdings of non-financial companies include local government deposits.

Domestic and foreign currency components of money supply

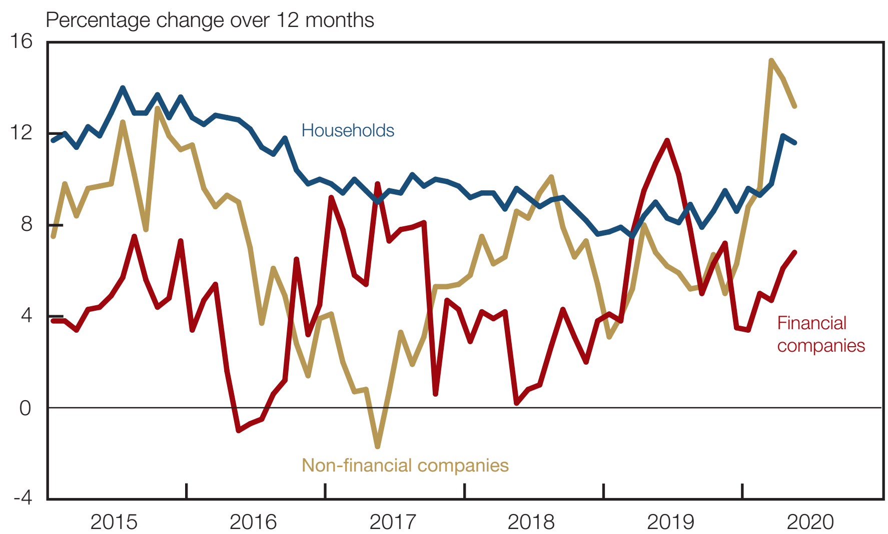


Source: SARB

Growth in the deposit holdings of financial companies accelerated slightly from a low of 3.3% in January 2020 to 4.8% in February, reflecting the receipt of inflows from the redemption of the R207 government bond in January and coupon payments on domestic government bonds. Growth in financial company deposits accelerated further to 6.8% in May, reflecting a preference for liquidity following the sharp drop in financial asset prices caused by the COVID-19 pandemic.

Growth in the deposit holdings of the household sector, which initially trended moderately higher to more than 9% in the first three months of 2020, accelerated to 11.9% in April as the lockdown-related reduction in consumer spending and payment holidays offered by banks boosted household deposit balances. The slight moderation in growth in household deposits to 11.6% in May 2020 possibly reflected the initial impact of reduced household income and job losses due to the national lockdown.

Deposit holdings of households and companies



Source: SARB

Maturity preferences diverged significantly in the first five months of 2020. Depositors favoured liquid cash, cheque and other demand deposits during this time of uncertainty. Growth in this deposit category accelerated briskly from a recent low of 2.9% in December 2019 to 16.3% in

May 2020 – with growth rates of more than 15% last seen in 2016. This contrasted the sharp decline in the preference for long-term deposits as year-on-year growth decelerated from a high of 19.0% in November 2019 to -1.7% in May 2020. Growth in short- and medium-term deposits also accelerated, from 4.6% in March 2020 to 9.0% in May.

Deposits by maturity

Source: SARB

Total M3 deposit holdings recorded a historic high month-on-month increase of R169 billion in March 2020, followed by increases of R90.0 billion in April and R20.0 billion in May. The quarterly change in total M3 deposit holdings reverted from a slight contraction of R3.7 billion in the fourth quarter of 2019 to a significant increase of R214 billion in the first quarter of 2020. The deposit holdings of the corporate sector contributed R187 billion to this sizable increase as the deposits of non-financial companies increased by R97.6 billion and those of financial companies contributed a further R89.4 billion. The household sector contributed R26.9 billion to the increase in M3 in the first quarter of 2020, compared with an increase of R21.2 billion in the fourth quarter of the previous year and also more than the R11.3 billion in the first quarter of 2019. The increase was most probably attributable to lower consumption expenditure in the recessionary environment, exacerbated by a further reduction in non-essential spending during the initial part of the lockdown.

M3 holdings of households and companies

	Year-on-year change R billions					Percentage of total M3 deposit holdings*
	2019				2020	
	Q1	Q2	Q3	Q4	Q1	
Households	11.3	41.5	32.9	21.2	26.9	34.6
Companies: Total	74.0	20.2	39.7	-24.9	187.1	65.4
Of which: Financial	71.8	25.3	9.9	-63.3	89.4	35.2
Non-financial	2.2	-5.1	29.8	38.4	97.6	30.2
Total M3 deposits	85.3	61.8	72.6	-3.7	214.0	100.0

* Expressed as a percentage of the total outstanding balance as at March 2020

Source: SARB

Statistically, the counterparts to the increase of R214 billion in M3 in the first quarter of 2020 consisted of a marked increase of R281 billion in net foreign assets of the monetary sector, 17 This is the difference between government deposits and banks' claims on government (mainly holdings of government securities).

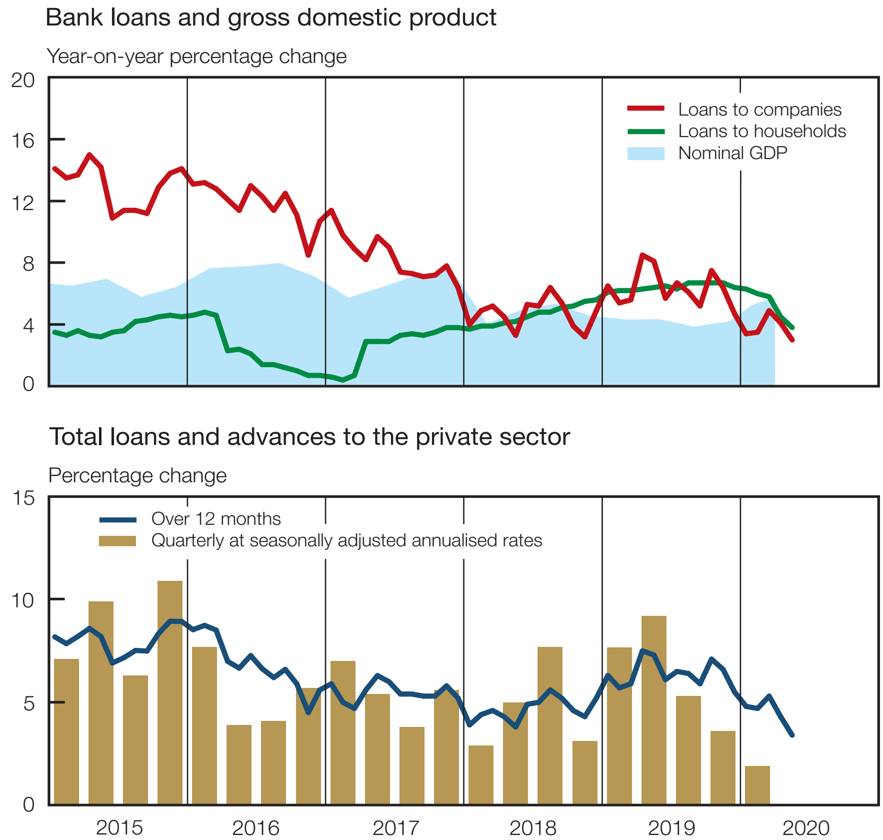
18 These measures are discussed in the 'Note on South Africa's liquidity measures in response to the COVID-19 pandemic' on page 89 of this *Quarterly Bulletin.*

which was offset by a decrease of R258 billion in net other assets (a contra-entry absorbing changes in foreign assets, among other factors). In addition, claims against the domestic private sector contributed R163 billion to the change in M3, alongside an increase of R28 billion in net credit extended to the government sector.[17]

Credit extension

Growth in total loans and advances extended by monetary institutions to the domestic private sector was fairly muted in the early months of 2020 amid the protracted weakness in domestic economic activity with year-on-year growth receding to around 4.5% after occasionally exceeding 7% in 2019. Growth in credit extension decelerated to 3.4% in May 2020, despite substantial interest rate relief and a variety of measures[18] to ease liquidity conditions in support of credit extension to alleviate the expected effects of the COVID-19 pandemic.

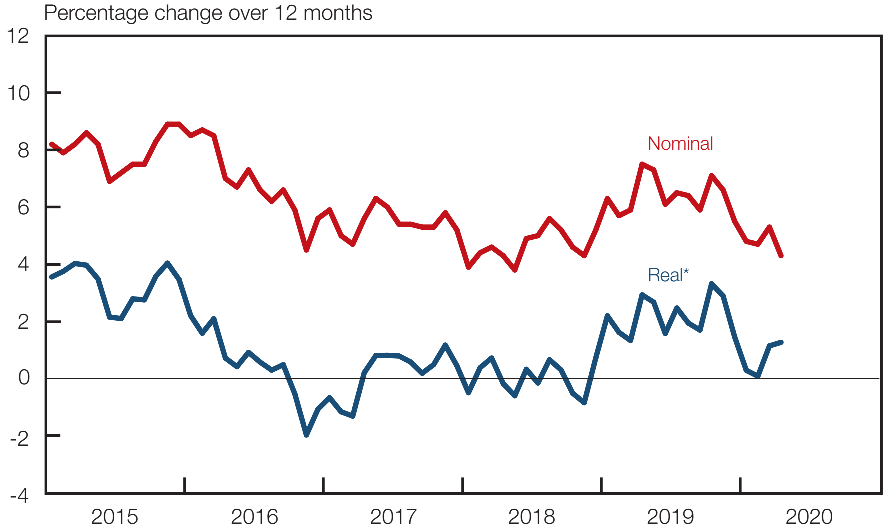
Following a slow start to 2020, the corporate sector's reliance on bank funding gained momentum amid the impact of the COVID-19-related national lockdown implemented from late March. In contrast, credit extension to the household sector slowed, with demand for credit affected by consumers' inability to spend on non-essential products and services, together with uncertain job prospects and rising unemployment.



Sources: Stats SA and SARB

The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector slowed for a third consecutive quarter, decelerating further from 3.7% in the fourth quarter of 2019 to only 1.8% in the first quarter of 2020. Notwithstanding the deceleration, the credit-to-GDP ratio increased slightly from 74.4% in the fourth quarter of 2019 to 74.7% in the first quarter of 2020, as the expansion in credit extension still exceeded that in nominal GDP. Real credit growth decelerated from a recent high of 3.3% in October 2019 to close to zero per cent in the first two months of 2020 before accelerating to 1.2% in April 2020 as the corporate sector's demand for bank funding increased and as consumer price inflation slowed notably.

Total loans and advances

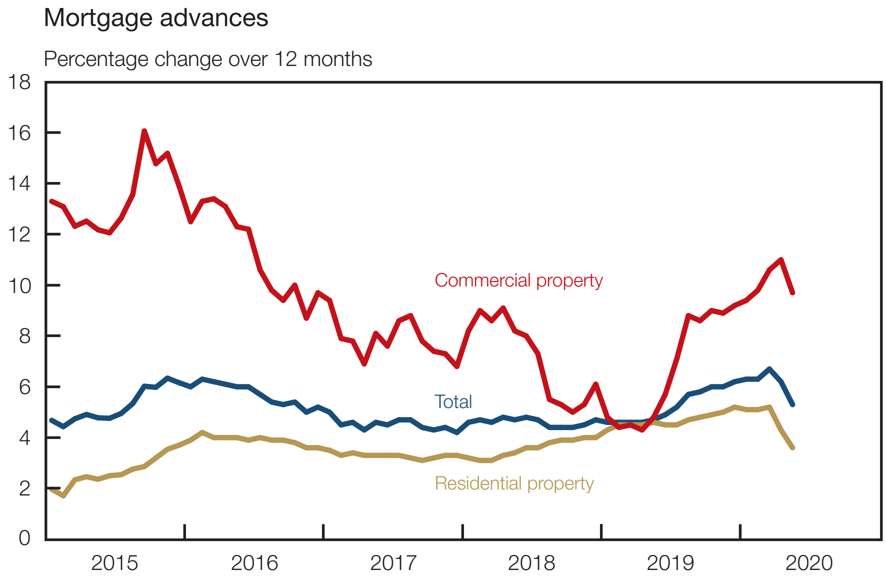


* Deflated with the consumer price index
Source: SARB

Credit extension to the corporate sector reverted from a contraction of R5.5 billion in the fourth quarter of 2019 to a significant increase of R58.3 billion in the first quarter of 2020 – the largest quarterly increase since the first quarter of 2016. Growth in bank credit was boosted by buoyant general loans as property development, consumer goods manufacturing as well as mining and resource companies required working capital. Credit extension was further elevated by temporary bridging finance through a syndicated loan for a large merger transaction concluded in the first quarter of 2020. However, the heightened uncertainty of the national lockdown and related financial market volatility affected companies differently. Elevated demand for loans by non-financial companies in the first few months of 2020 subsided in the subsequent months to May. By contrast, financial companies' demand for credit was initially subdued in the first quarter of 2020 in the wake of valuation gains on foreign investments due to the sharp depreciation in the exchange value of the rand, before increasing again in April and May.

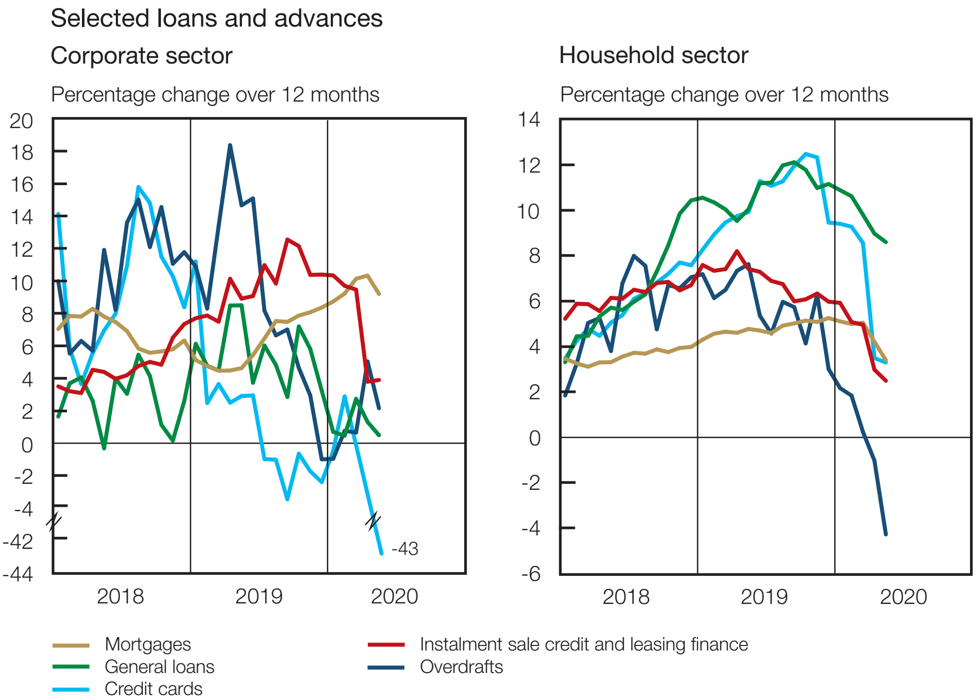
Year-on-year growth in general loans to companies started 2020 at a low of only 0.7% in January, compared with 6.1% a year earlier. Growth in this loan category then accelerated somewhat to 2.7% in March 2020 as companies required increased access to credit facilities for expenditure and working capital, followed by a deceleration to 0.5% in May. The pace of growth in overdrafts also increased from 1.0% in February 2020 to 3.8% in April, before moderating to 0.9% in May, while growth in credit card advances continued to decelerate. The general slowdown in global and domestic economic activity as well as limited trading by most industries during the initial phase of the national lockdown constrained the financial position of businesses and concomitantly reduced investment and expansion activities.

Growth in mortgage advances to the corporate sector accelerated in the opening months of 2020 and exceeded 10% in March, slowing only moderately to 9.2% in May alongside demand from, among others, commercial property developers. By contrast, growth in mortgage advances on residential and farm properties remained fairly contained, although fluctuating slightly higher from around 4% in early 2019 to 5.2% in March 2020. Subsequently, growth slowed to 3.6% in May as reduced income and weak employment prospects, exacerbated by the extended national lockdown, contributed to lacklustre growth in mortgage advances on residential property. On aggregate, growth in total mortgage advances slowed to 5.3% in May 2020.



Source: SARB

Credit extension to the household sector levelled off during 2019 and maintained a slow pace of expansion in the first five months of 2020. In the early months of 2020 growth was mired by slowing demand for general loans against the backdrop of income uncertainty brought about by the COVID-19 pandemic. Year-on-year growth in this, mostly unsecured, lending category decelerated from a recent high of 12.1% in September 2019 to 8.6% in May 2020. At the same time, demand for credit card advances also moderated and overdrafts contracted in both April and May 2020.



Source: SARB

Growth in *instalment sale credit and leasing finance* to finance purchases of new and used vehicles slowed further in the first five months of 2020 as vehicles sales, which were already under pressure from weak demand, plummeted amid the lockdown. Year-on-year growth in instalment sale credit and leasing finance decelerated from a recent high of 8.8% in April 2019 to 3.0% in May 2020.

The credit demand of most domestic economic sectors increased in the first quarter of 2020, although year-on-year growth rates remained fairly muted. Credit growth to the finance, business services, agriculture and mining sectors rebounded in the first quarter of 2020, following contractions in the previous quarter. This was probably the result of the resumption of economic activity after the holiday season. Credit demand by the real estate sector remained buoyant in the first quarter of 2020, despite continued weakness in residential property prices. Credit extension to the construction sector accelerated slightly and probably benefitted from the potential construction activity made possible under the fourth bid window of the Independent Power Producer (IPP) programme. Credit growth to the electricity, gas and water supply sector decelerated notably in the first quarter of 2020 amid sporadic periods of load shedding and the implementation of the national lockdown at the end of the quarter. In addition, credit extension to the wholesale and retail trade sector as well as the community, social and personal services sector contracted amid weak demand in the recessionary environment.

Growth in bank credit by economic sector

Percentage change over four quarters

	2019				2020	
Economic sector	Q1	Q2	Q3	Q4	Q1	Percentage of total credit extension*
Households	6.2	6.8	7.8	7.6	6.6	35.2
Finance and insurance	0.8	-1.2	-5.4	-7.2	10.5	17.9
Real estate	5.6	6.5	10.9	8.0	12.6	11.5
Wholesale and retail trade	6.7	2.9	0.3	-7.3	-0.1	5.1
Manufacturing	9.5	6.3	5.2	0.1	10.7	4.6
Business services	7.0	1.9	-1.9	-4.1	11.1	3.5
Transport, storage and communication	10.2	10.0	4.8	3.1	5.7	3.1
Electricity, gas and water	1.2	-1.3	9.8	10.4	3.5	2.4
Agriculture, forestry and fishing	5.4	7.9	-4.4	-7.5	12.4	2.5
Mining and quarrying	29.3	0.2	1.0	-6.5	4.2	1.8
Construction	17.7	5.9	2.3	5.7	6.4	0.9
Community, social and personal services, and other	10.5	-0.5	-3.1	7.6	-3.0	11.5
Total	**6.3**	**3.8**	**2.9**	**2.8**	**6.7**	**100.0**

* Expressed as a percentage of the total outstanding balance for for March 2020

Source: SARB

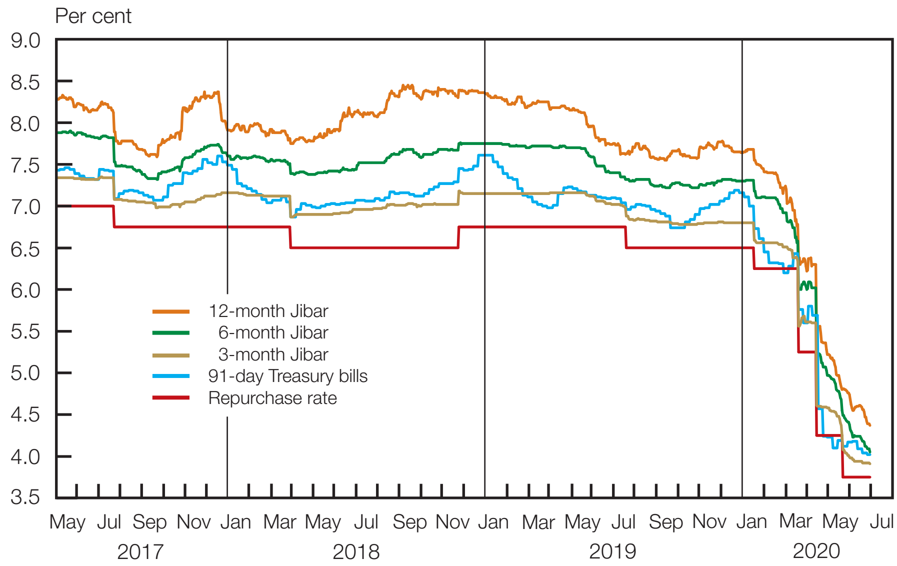
In anticipation of heightened private sector financial distress, National Treasury together with the SARB introduced various stimulus packages to assist banks to provide credit. This included a loan guarantee scheme for qualifying companies impacted by the lockdown to alleviate cash flow constraints. The government and commercial banks have agreed to share the risks associated with these loans. At the same time, most banks introduced comprehensive payment relief programmes and payment holidays for customers in distress, whose accounts were in good standing. As a result, credit extension by the monetary sector may be expected to gain some momentum in the short run as the effects of these measures start to filter through.

Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB has lowered the repurchase (repo) rate by a cumulative 275 basis points in the first five months of 2020 in the wake of the wide-ranging social and economic impact of the global COVID-19 pandemic. The reduction of the repo rate to 3.75%, effective from 22 May 2020, resulted in the lowest policy rate since 1973. The MPC noted that the economic contraction and anticipated slow recovery was expected to keep inflation outcomes well contained over the medium term, although electricity and other administrated price increases remained a concern.

Domestic short-term money market interest rates declined sharply during the first half of 2020, consistent with the four decreases in the policy rate in the first five months of the year. Money market rates were also affected by fluctuations in the exchange value of the rand and a sell-off in domestic debt securities amid the downgrading of South Africa's sovereign credit rating by international rating agencies. The 3-month Johannesburg Interbank Average Rate (Jibar) decreased fairly rapidly from 6.80% on 16 January 2020 to a low of 3.91% at the end of June. The 6-month Jibar also fell back sharply from 7.31% on 16 January 2020 to 4.05% on 30 June. The benchmark 12-month Jibar followed a similar trend, declining sharply to 4.37% at the end of June.

Money market rates



Source: SARB

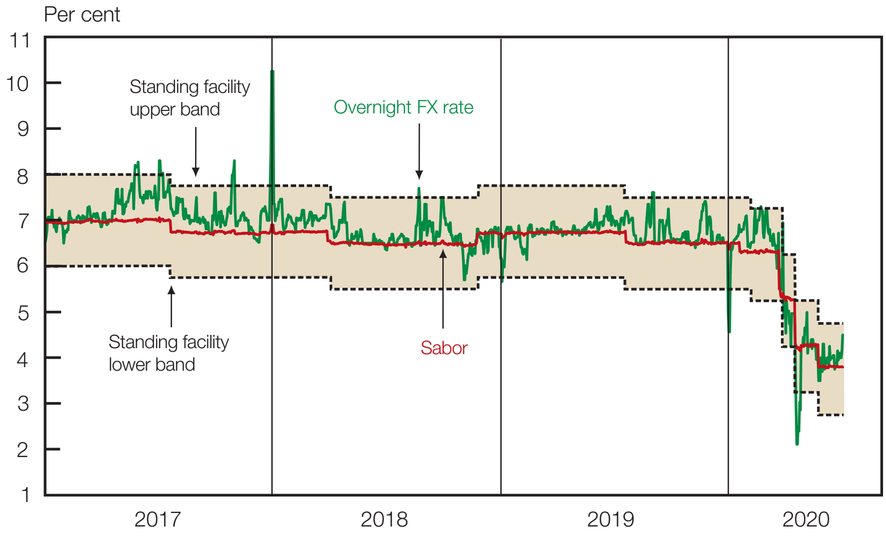
The tender rate on 91-day Treasury bills (TBs)[19] followed market rates lower in the first half of 2020 as it decreased notably by 309 basis points from a recent high of 7.19% on 24 December 2019 to a low of 4.10% in mid-May. At the time, the 91-day TB rate temporarily fell below the repo rate on the back of strong demand from market participants wanting to lock in prevailing interest rates prior to the May MPC meeting. Banks preferred to place surplus funds in higher-yielding money market instruments as opposed to standing facility reverse repo transactions at the SARB at 200 basis points below the repo rate. This reflected banks' surplus cash positions amid the various liquidity measures of the SARB.[20] The decline in TB rates occurred despite significant increases in issuance of R2.3 billion on 27 March 2020, R1.7 billion on 30 April and R875 million on 12 June across the full range of maturities (91, 182, 273 and 364 days). At the end of June 2020, the tender rate on the 91-day TBs had declined further to 4.02%.

19 Treasury bills are short-term debt funding instruments issued by National Treasury.

20 See the 'Note on South Africa's liquidity measures in response to the COVID-19 pandemic' on page 89 of this *Quarterly Bulletin.*

Funding conditions in the interbank lending market were initially relatively tight with the overnight FX rate trading above the repo rate prior to the SARB's liquidity measures in March 2020 to support the daily flow of funds in the banking system. Both the South African Benchmark Overnight Rate (Sabor) and the overnight FX rate followed the repo rate lower in the first five months of 2020. Reductions in the Sabor were closely aligned to those in the repo rate, as it fluctuated in a narrow range around the policy rate and remained well-anchored within the upper and lower standing facility limits. The Sabor decreased by 272 basis points from 6.52% on 16 January 2020 to 3.80% on 30 June, while the overnight FX rate decreased from a recent high of 7.25% on 28 February 2020 to a temporary low of 2.11% on 17 April, before increasing to 4.50% at the end of June. Fluctuations in the overnight FX rate displayed somewhat more volatility, as it occasionally breached the upper and lower standing facility limits. Trades below the lower band of the standing facility are associated with adequate supply of cash in the foreign exchange market.

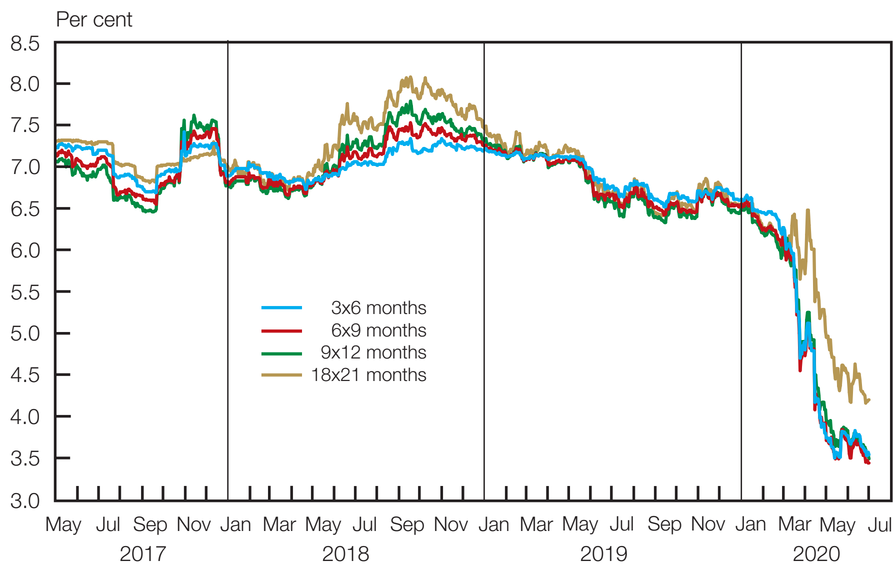
Benchmark overnight rates



Source: SARB

In early 2020, rates on forward rate agreements (FRAs) initially gravitated lower on account of favourable inflation outcomes before decreasing sharply from March as it followed the relatively quick succession of reductions in the repo rate. Over this period, both the short- and long-term FRAs decreased by close to 300 basis points. For example, the 3x6-month FRA decreased by 312 basis points from a recent high of 6.66% on 8 January 2020 to 3.54% at the end of June, while the 6x9-month FRA decreased by 316 basis points and the 9x12-month FRA by 303 basis points over the same period. The more subdued movement at the long end reflected expectations by market participants that interest rates were not expected to remain at such low levels for an extended period.

Forward rate agreements

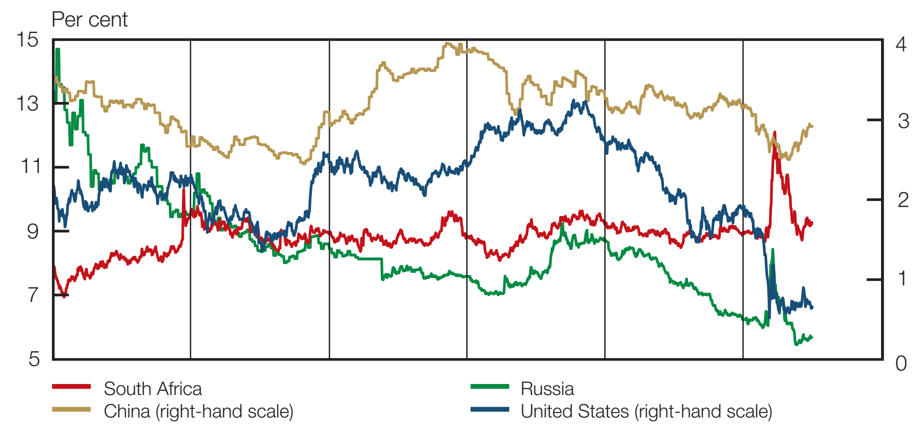


Source: SARB

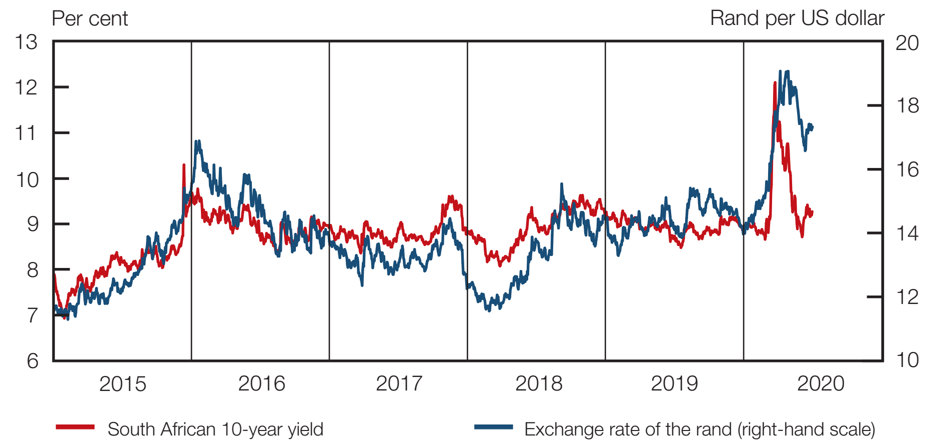
Commercial banks adjusted their deposit and lending rates lower, in line with the 275 basis point reduction in the repo rate since the start of 2020. The prime lending rate decreased from 10.00% in early January 2020 to 7.25% in May 2020. The weighted-average flexible rate charged by banks on mortgage advances decreased from 9.53% in December 2019 to 7.36% in May 2020, while the average interest rate offered on call deposits also decreased from 6.26% to 4.23% over the same period.

The *yields on 10-year South African rand-denominated government bonds* issued and traded in the domestic market increased by a whopping 345 basis points from 8.66% on 26 February 2020 to 12.11% on 24 March. This was in line with the re-pricing of emerging market debt securities in the wake of COVID-19, and was exacerbated by both the sharp depreciation in the exchange value of the rand as well as the notable net selling of bonds by non-residents as South Africa's sovereign credit rating fell below investment grade. Sentiment subsequently changed as the SARB supported liquidity through bond purchases in the secondary market together with successive decreases in the repo rate as well as fiscal measures by National Treasury to mitigate the effects of the lockdown. These developments assisted the subsequent decline of 283 basis points in the yield on 10-year South African government bonds to 9.28% at the end of June 2020.

Ten-year government bond yields



Government bond yield and the exchange rate

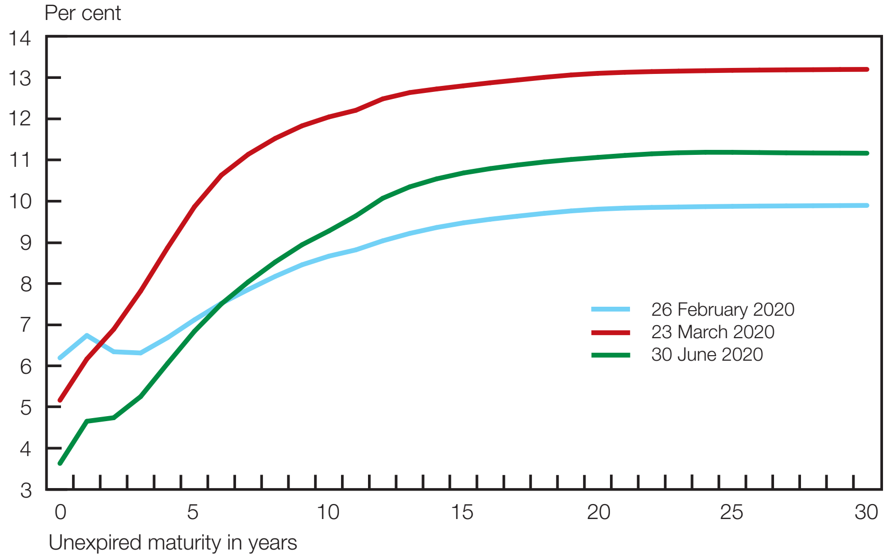


Sources: IRESS, JSE and SARB

The level of the *yield curve* moved higher and the slope steepened significantly from 26 February 2020 to 23 March as bond yields increased markedly across most of the maturity spectrum. This reflected the heightened uncertainty brought about by the spread of COVID-19 and the sell-off of risky emerging market bonds. The subsequent downward movement in the level of the yield curve across the full maturity range to the end of June partly reflected the effect of the SARB interventions, which eased liquidity conditions and the influence of the lower repo rate at the short end. The yield gap[21] more than doubled from 370 basis points on 26 February 2020 to 803 basis points on 23 March, before narrowing to 753 basis points on 30 June.

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

Yield curve



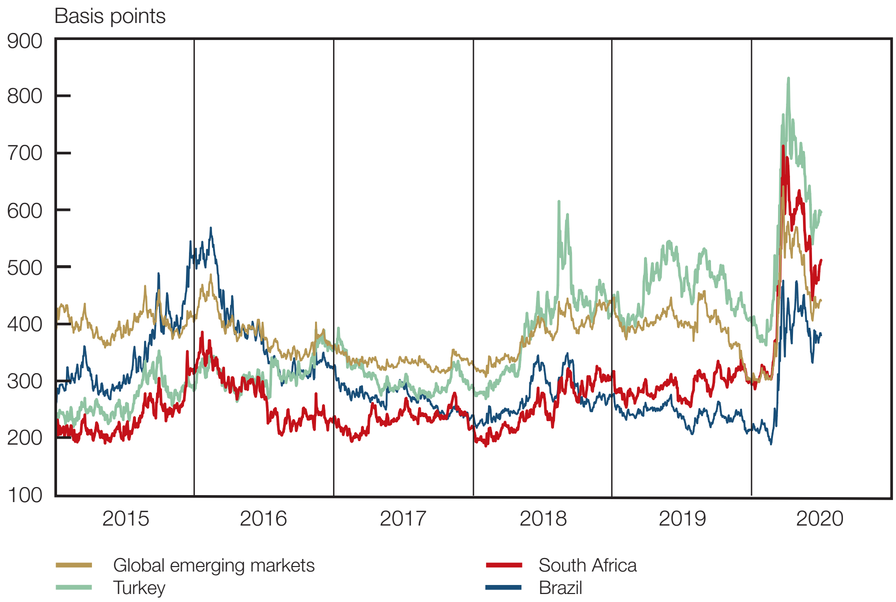
Sources: IRESS and JSE

The yield spread for emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[22] widened significantly from 298 basis points in December 2019 to 543 basis points in March 2020 – the highest since March 2009. This reflected emerging market risk aversion and heightened volatility in bond yields in the wake of COVID-19-related lockdowns in many countries, which increased the probability of defaults and contributed to currency depreciation as well as a sharp decline in international crude oil prices. The increase in sovereign spreads was arrested by widespread global monetary and fiscal policy responses along with the easing of lockdown restrictions, with the EMBI+ yield spread narrowing to 441 basis points in June. South Africa's *sovereign risk premium*[23] on US dollar-denominated government bonds in the five-year maturity range widened significantly from an average of 231 basis points in December 2019 to 579 basis points in April 2020, before narrowing to 397 basis points in June.

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

23 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.

Sovereign spreads*



* JPMorgan Emerging Markets Bond Index Plus

Source: Bloomberg

Money market

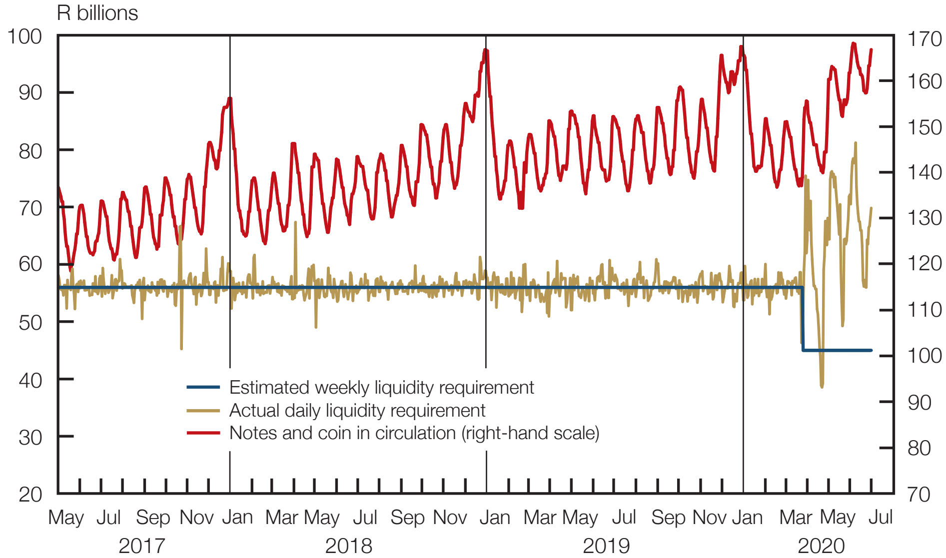
The actual daily liquidity requirement of private sector banks averaged R56.4 billion in the first quarter of 2020, while fluctuating in a wide range of between R46.3 billion and R75.5 billion. The low of R46.3 billion was recorded shortly after the weekly refinancing auction was decreased to R45 billion from its long-standing customary level of R56 billion, following the extra-ordinary measures implemented by the SARB to inject additional liquidity into the money market.[24] The total accommodation to banks that increased significantly from R56 billion in February 2020 to R101.1 billion in March comprised of: R45 billion through the customary weekly refinancing auction; R20 billion through a special repo auction with a maturity of 91-days; and an additional R36.1 billion offered through a supplementary repo auction on 31 March.

24 These measures are discussed in the 'Note on South Africa's liquidity measures in response to the COVID-19 pandemic' on page 89 of this *Quarterly Bulletin.*

The daily liquidity requirement averaged R63.4 billion in the second quarter of 2020, while continuing to fluctuate widely between a low of R38.5 billion and a high of R81.2 billion. The low of R38.5 billion occurred in April, alongside a temporary decline in demand for funding as banks held surplus cash along with a reluctance to participate in the weekly main refinancing auctions to avoid ending up with end-of-day surplus cash balances on deposit at the SARB at a rate of 200 basis points below the repo rate. Subsequently, the total accommodation to banks moderated from a recent daily high of R105.4 billion on 2 April 2020 to average around R66.5 billion during June.

The weekly main refinancing auctions of R45 billion together with the addition of the 91-day refinancing operations occasionally led to surplus positions at the end-of-day square-off. As a result, the weekly refinancing auctions were under-subscribed and declined to a low of R7.6 billion on both 20 May and 3 June 2020.

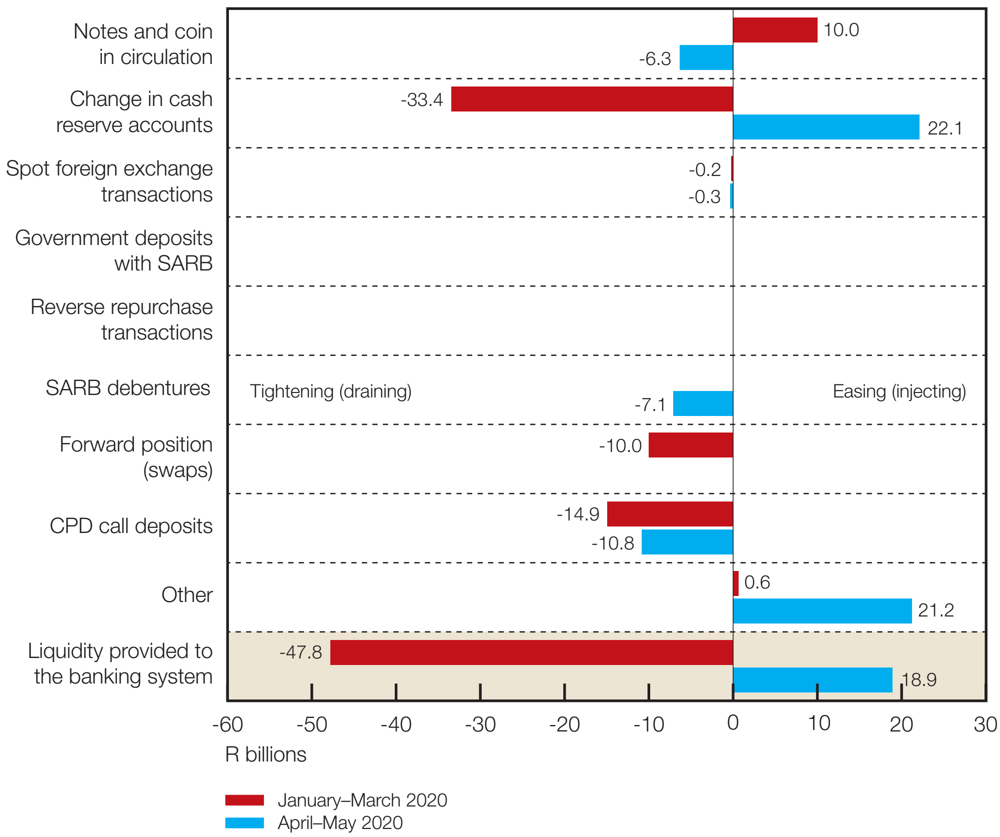
Liquidity requirement



Source: SARB

Money market liquidity contracted by a net amount of R47.8 billion in the first quarter of 2020, reverting from an expansion of R5.1 billion in the fourth quarter of 2019. Notes and coin in circulation outside the SARB expanded liquidity in the money market by R10.0 billion in the first quarter of 2020, while all the other factors contributed to the net overall contraction in market liquidity. The required cash reserve deposits of private sector banks increased by R33.4 billion, while FX swaps to the value of R10.0 billion and the placement of R14.9 billion in deposits of the Corporation for Public Deposits (CPD) at the SARB also served to tighten money market liquidity. The increased call deposits of the CPD at the SARB served to reduce National Treasury's Inter Governmental Cash Coordination account at financial year-end. In the subsequent two months to May 2020, liquidity conditions eased again by R18.9 billion, mainly through the implementation of measures which allowed private sector banks to reduce their cash reserve balances with the SARB by R22.1 billion, while the SARB also bought government bonds in the secondary bond market, all intended to free up more capital for on-lending. An increase of R10.8 billion in deposits of the CPD with the SARB and increased demand for debentures to the value of R7.1 billion, together with a R6.3 billion increase in notes and coin in circulation, marginally offset the liquidity provided to the banking system.

Factors influencing money market liquidity conditions



Source: SARB

From January to June 2020, capital redemption and coupon interest payments of R80.2 billion were effected from government's tax and loan accounts. Of this, R311 *million* accrued to the SARB's government bond portfolio.

Bond market

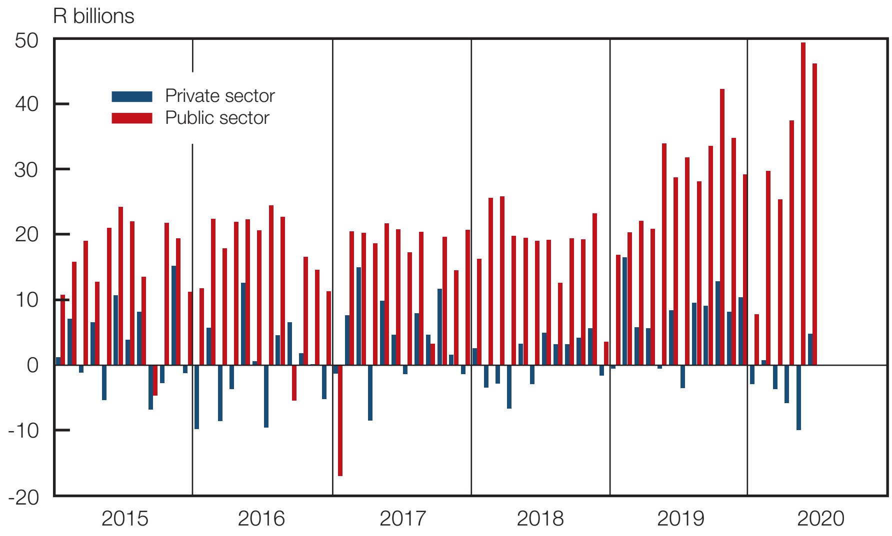
The value of the public sector's[25] net issuance of listed bonds in the *domestic primary bond market* of R196 billion in the six months to June 2020 was 37% more than in the same period in 2019. The increased borrowing reflected government's larger budget deficit which was affected by the revenue shortfall on account of recessionary economic conditions and fiscal support measures aimed at mitigating the effects of the COVID-19 pandemic. With the increased borrowing requirement of national government, the amount of government bonds on offer at the weekly bond auction for both fixed-rate and inflation-linked bonds increased from R4.53 billion to R6.10 billion and from R1.04 billion to R1.40 billion respectively in May 2020.

In contrast, record-high private sector[26] net bond issuances of R81.7 billion in 2019 switched to net redemptions of R16.7 billion in the first six months of 2020, with non-bank financial institutions contributing the most. The total outstanding nominal amount of all JSE-listed debt securities was R3.6 *trillion* at the end of June 2020.

25 The public sector includes national and local governments as well as public corporations.

26 The private sector includes banks, non-bank financial and non-financial institutions as well as special purpose vehicles.

Net issues in the domestic primary bond market



Source: JSE

27 This is measured as the consideration value of bonds traded relative to the market capitalisation of all listed bonds.

The daily average *value of turnover* in the domestic secondary bond market in the first six months of 2020 was 3.5% higher than in the same period of 2019, with R158 billion and R152 billion traded in the first and second quarter respectively. Despite this increase, the annualised liquidity ratio[27] in the bond market of 11.5 in the first six months of 2020 was similar to the 11.7 in the corresponding period of 2019. The higher turnover was consistent with increased trading volumes following heightened uncertainty in financial markets and the SARB purchases of bonds in the domestic secondary bond market.

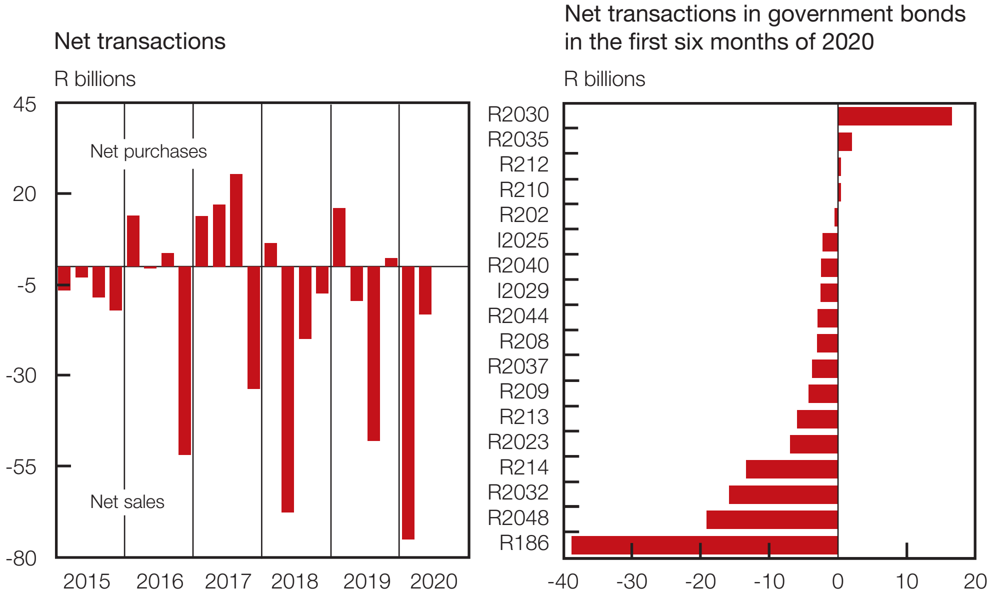
The increase in the outstanding amount of rand-denominated bonds in issue in the *European and Japanese bond markets* moderated notably from R11.1 billion in the first three months of 2020 to only R1.4 billion between April and June 2020. The lower net issuance coincided with South Africa's sovereign rating downgrades and the effects of the COVID-19 pandemic. However, the outstanding amount still increased from a recent low of R265 billion in January 2019 to R285 billion in March 2020, before levelling off at R286 billion in June.

Outstanding amount of rand-denominated bonds in issue in international markets

Source: Bloomberg

Non-residents were net sellers of domestic debt securities in the first half of 2020, according to JSE data. Small net purchases of R2.3 billion in the final quarter of 2019 was followed by significant net sales of R75.0 billion in the first quarter of 2020 and a further R13.1 billion in the second quarter. The cumulative net sales of domestic bonds of R88.1 billion by non-residents in the first half of 2020 compare with net purchases of R6.5 billion in the same period of 2019. The non-resident net sales of South African bonds were aggravated by domestic idiosyncratic developments such as deteriorating public finances and the sovereign credit ratings downgrade to sub-investment grade, which excluded South Africa from the World Government Bond Index (WGBI) as well as the impact of COVID-19 on global financial markets together with renewed tensions between the US and China. The proportion of domestic government bonds held by non-residents consequently declined from 37.3% in January 2020 to 30.6% at the end of June. Non-resident net sales in the first half of 2020 were concentrated in the R186 and R2048 government bonds.

Non-resident participation in the domestic bond market



Source: JSE

Share market

Equity capital raised by companies listed on the JSE in the domestic and international primary share markets increased by 24.5% year on year to R29.1 billion in the first six months of 2020. However, this was still lower than previous years due to lacklustre economic growth, weak business confidence and fewer listed companies on the JSE as well as concerns about the impact of COVID-19 on economic activity. Primary listed financial companies on the JSE contributed the most to funding activity at 35.3% of the total value of capital raised in the first half of 2020, followed by companies in the resources sector at 30.1%.

The daily average *value of turnover* in the secondary share market of the JSE of R24.5 billion in the first six months of 2020 was 22.3% higher than in the corresponding period of 2019. All-time high trading activity coincided with heightened volatility[28] brought about by the COVID-19 pandemic and the lockdown-related economic restrictions which led to a sharp decline in share prices. The market capitalisation of all shares listed on the JSE accordingly decreased from an all-time high of R17.5 *trillion* in September 2019 to a recent low of R14.5 *trillion* in March 2020, before increasing again to R16.9 *trillion* in June as share prices recouped some of the losses.

28 Volatility as measured by the South African Volatility Index (SAVI).

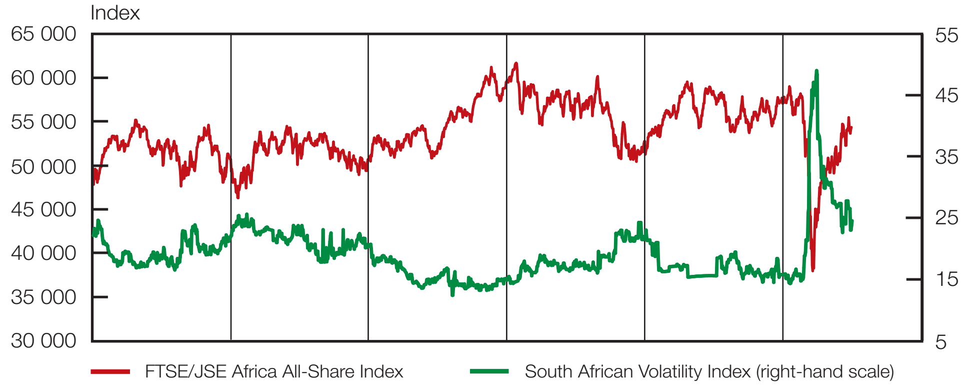
Non-resident net sales of JSE-listed shares continued in the first six months of 2020, according to JSE data. Net sales of R27.1 billion in the first quarter of 2020 receded only slightly to R25.8 billion in the second quarter, despite the advent of supplementary monetary policy

29 The non-resident participation rate is calculated as the purchases and sales by non-residents as a percentage of total purchases and sales of shares.

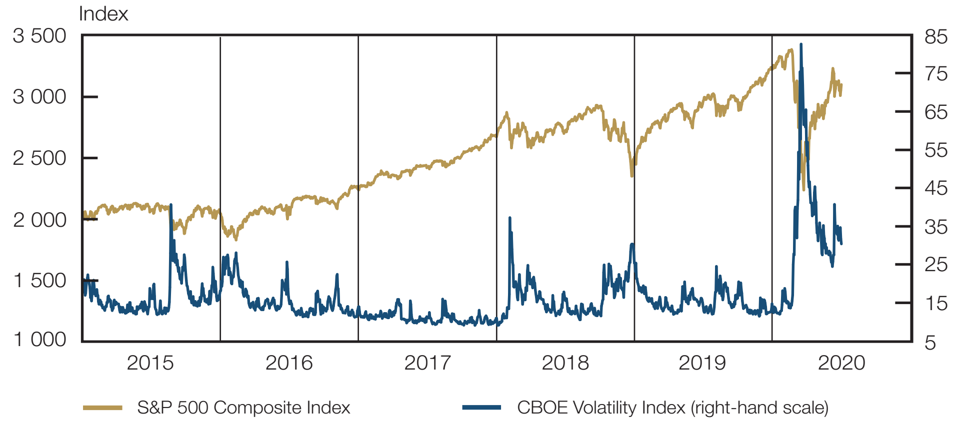
liquidity measures and a lower repo rate as well as fiscal stimulus packages to support domestic economic activity. The non-resident participation rate[29] fell to an average of 17.5% in the first half of 2020 compared with 19.6% in the corresponding period of 2019.

The *FTSE/JSE All-Share Price Index* (Alsi) declined by 22.1% in the first quarter of 2020 – the largest decline since the third quarter of 1998. The fall in share prices of JSE-listed companies was brought about by heightened concerns over the impact of the COVID-19 pandemic on economic activity. The South African Volatility Index (SAVI) and the Chicago Board of Exchange (CBOE) Volatility Index (VIX), which spiked at record highs in March 2020, reflected these anxieties globally. Thereafter the sharp recovery of share markets globally was supported by monetary and fiscal policy measures and the gradual lifting of lockdown restrictions. The Alsi bounced back by a whopping 43.2% from 37 963 index points on 19 March 2020 to 54 362 index points on 30 June.

South African share and volatility indices



United States share and volatility indices



Sources: IRESS and JSE

The overall historical *price-earnings ratio* of ordinary shares listed on the JSE fell sharply from a recent high of 21.5 in June 2019 to a low of 13.8 in March 2020, as total earnings increased and share prices declined. Subsequently, the ratio increased significantly to 21.6 in June 2020 as the trends of the underlying indicators reversed.

Market for exchange-traded derivatives

The volatility of *spot prices of maize contracts* listed on the JSE increased in the first six months of 2020. The spot price of white maize increased sharply by 51.8% from 2 January 2020 to R3 900 per ton on 16 April, following both the depreciation in the exchange value of the rand and rising demand from the Southern African region, primarily Zimbabwe, as the ban on the importation of genetically modified organisms was lifted. Subsequently, the spot price of white maize fell notably to R2 497 per ton on 30 June along with the appreciation in the exchange value of the rand, lower international maize prices and expectations of the second largest domestic maize crop on record in 2020.

The *spot price of domestic wheat contracts* trended significantly higher in the first half of 2020, increasing from R4 322 per ton at the end of 2019 to R5 409 per ton on 30 June. The increase reflected the much weaker exchange value of the rand over the period and smaller domestic planting estimates for the 2020/21 season as well as restrictions by various countries on exports amid fears of a prolonged COVID-19 pandemic, despite higher estimated global supplies for the 2019/20 season than in the previous season. Global wheat prices could therefore increase in the near term and spill over to domestic prices as South Africa is a net importer of wheat.

Grain prices

Sources: JSE and International Grains Council

Turnover in interest rate derivatives increased notably in the first half of 2020 compared with the corresponding period in 2019. By contrast, turnover in currency derivatives, which reached a low of R34.3 billion in January 2020, declined by 1.7% year on year in the first half of 2020, while the turnover in equity derivatives declined even more. The value of equity derivatives continued to dominate overall derivatives turnover on the JSE.

Derivatives turnover on the JSE, January to June 2020

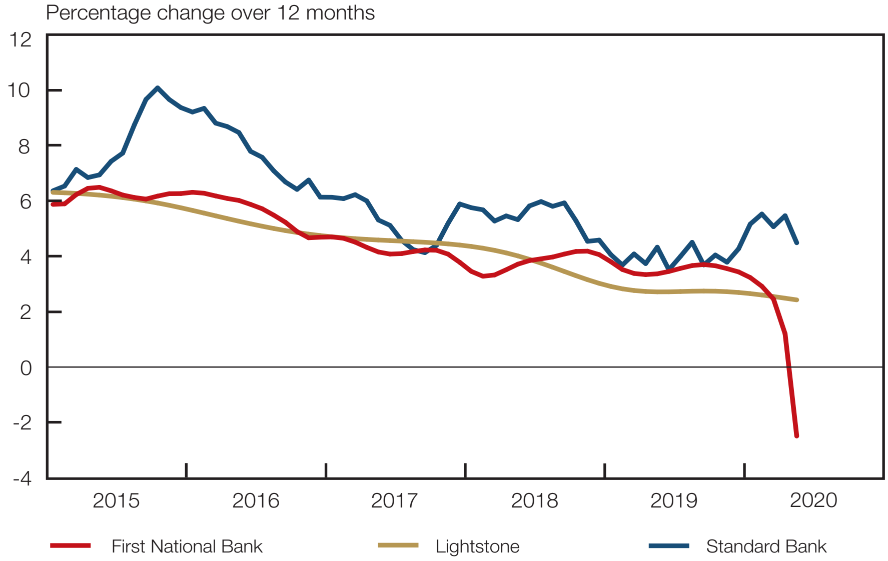
Type of derivative	Value (R billions)	Change over one year (Per cent)
Equity	2 810	-7
Warrants	1	135
Commodity	423	7
Interest rate	711	20
Currency	606	-2

Source: JSE

Real estate market

Growth in the nominal prices of residential property slowed further in early 2020, except for an acceleration in the Standard Bank house price index. The year-on-year rate of change varied between -2.5% and 4.5% across the different price indicators in May 2020. The lacklustre growth in house prices continued to reflect weak economic activity that was worsened by the COVID-19 pandemic and the subsequent lockdown, high unemployment, slow growth in households' disposable income and low consumer confidence, all of which depressed demand for residential property. The successive interest rate reductions in the first half of 2020 could support the residential property market somewhat going forward.

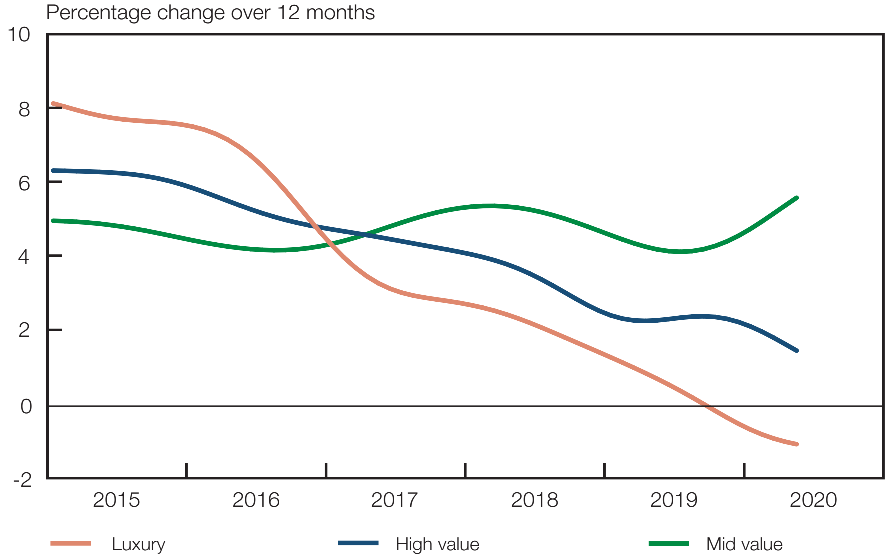
Nominal house prices



Sources: First National Bank, Lightstone and Standard Bank

Growth in nominal house prices also diverged across the different value categories, according to Lightstone data. The year-on-year rate of increase in the prices of luxury houses (more than R1.5 million) slowed sharply to a decline of 1.1% in May 2020, while that of mid-value houses (R250 000 – R750 000) accelerated somewhat to 5.6% along with a shift in demand for more affordable housing.

Nominal house prices by value category



Source: Lightstone

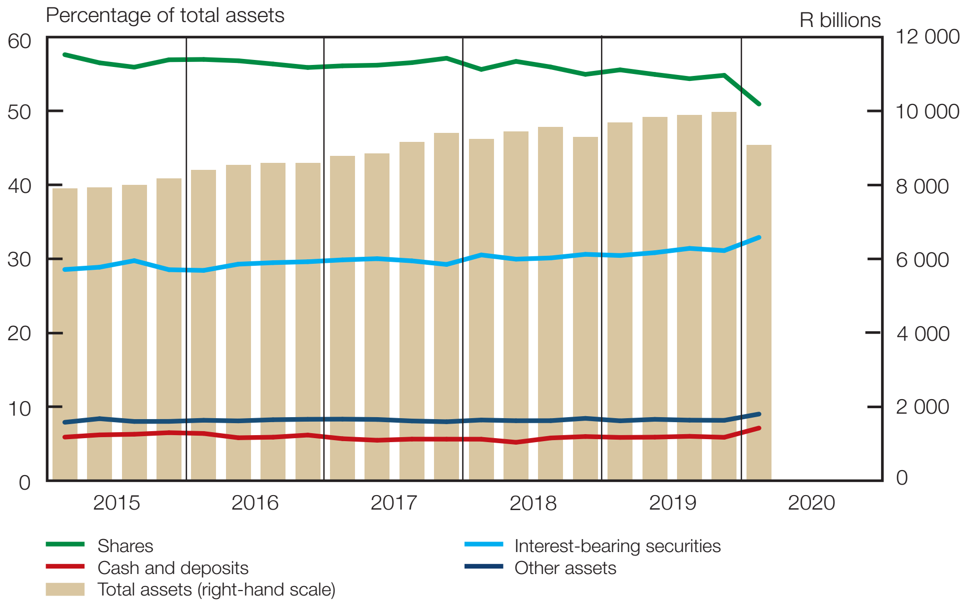
The muted growth in house prices is consistent with the increase in the average time that residential properties remained on the market, from 13.4 weeks in the first quarter of 2020 to 14.1 weeks in the second quarter. This also reflects restrictions placed on real estate activity during the COVID-19 lockdown and the closure of the Deeds Office during this period.

Non-bank financial intermediaries[30]

The balance sheets of non-bank financial institutions were significantly affected by the decline in financial asset prices in the first quarter of 2020, with consolidated assets falling by 9.0% to R9.1 trillion – the biggest quarterly decline since the first quarter of 2003. The assets of the Public Investment Corporation (PIC) and unit trusts declined by 11.6% and 9.6% to R1.9 trillion and R2.5 trillion respectively over this period. Similarly, the total assets of insurance companies declined by 7.7% to R3.0 trillion, while that of finance companies fell slightly by 0.3% to R321 billion in the first quarter of 2020. On a year-on-year basis, the value of non-bank financial institutions' total assets declined by 6.3% in the first quarter of 2020 to 174% of nominal GDP.

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

Total assets of non-bank financial institutions



Source: SARB

The change in non-bank financial institutions' asset allocation in the first quarter of 2020 reflected a reassessment of risk and return amid heightened uncertainty. The market value of share portfolios declined notably due to the marked decline in share prices in response to the expected impact of the COVID-19 pandemic on economic activity and profitability. The holdings of shares held by these institutions as a percentage of total assets declined by 3.9 percentage points from the final quarter of 2019 to 50.9% in the first quarter of 2020 – the lowest since the second quarter of 2010. Unit trusts and insurance companies were severely impacted by the decline in share prices, as shares accounted for nearly half of their assets.

By contrast, non-bank financial institutions' exposure to interest bearing securities increased by 1.8 percentage points from the final quarter of 2019 to 32.9% of total assets in the first quarter of 2020, despite the sharp decline in bond prices. Holdings of cash and deposits as a percentage of total assets increased by 1.3 percentage points from the fourth quarter of 2019 to 7.1% in the first quarter of 2020 and averaged 7% over the past 10 years. Furthermore, holdings of cash and deposits are likely to be influenced by expected redemptions of investments and drawdowns by investors following the deterioration in the financial position of households.

The rate of increase in credit extension by non-bank financial institutions decelerated during the first quarter of 2020, as the granting of loans by vehicle finance companies slowed. Growth in credit extended by finance companies to households and companies decelerated from an already low 0.4% in the final quarter of 2019 to 0.3% in the first quarter of 2020 due to concerns about job losses and low consumer confidence. However, lower interest rates might provide some support in coming months.

Public finance[31]

Non-financial public sector borrowing requirement[32]

The preliminary *non-financial public sector borrowing requirement* of R250 billion in fiscal 2019/20 exceeded the outcome in fiscal 2018/19 by R58.5 billion. This increase came about as the deficit of *consolidated general government*[33] widened significantly on account of a much larger cash deficit of national government, notwithstanding cash surpluses recorded by all other spheres of general government. The borrowing requirement of *consolidated general government* increased by R95.2 billion year on year to R218 billion in fiscal 2019/20. By contrast, the borrowing requirement of the non-financial public enterprises and corporations, also known as state-owned companies (SOCs), more than halved in the period under review. The non-financial public sector borrowing requirement expressed as a ratio of GDP of 4.8% in fiscal 2019/20 was higher than the 3.9% in the previous fiscal year.

31 Unless stated to the contrary, the year-on-year rates of increase in this section compare fiscal 2019/20 to fiscal 2018/19. Data for both fiscal years are unaudited and preliminary.

32 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.

33 Local government data are sourced from Stats SA. However, due to the COVID-19 lockdown, no survey data were received for the final quarter of fiscal 2019/20, thus data were estimated based on the previous quarter's survey data.

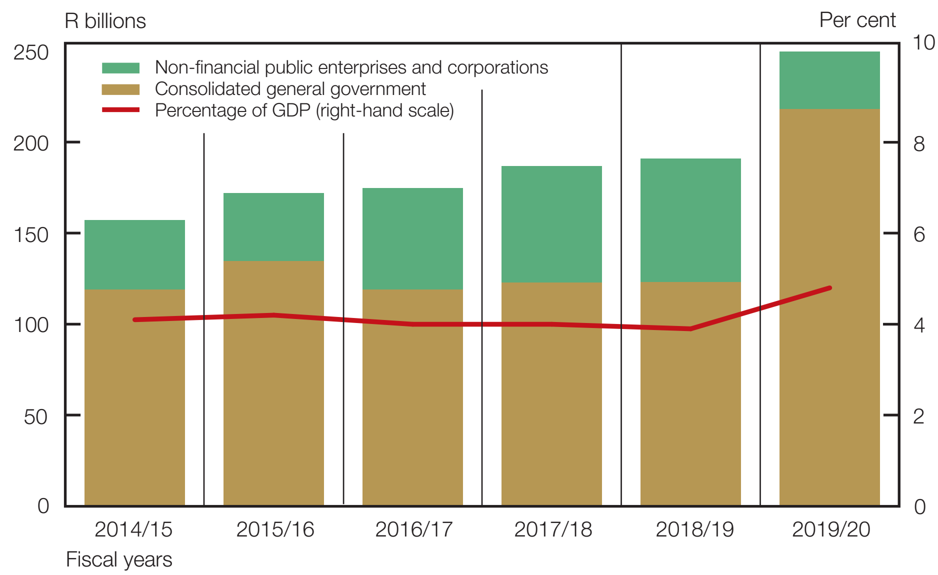
Non-financial public sector borrowing requirement

R billions

Level of government	Fiscal 2018/19*	Fiscal 2019/20*
Consolidated general government	123.1	218.3
National government	207.5	333.4
Extra-budgetary institutions	-17.5	-35.4
Social security funds	-14.7	-26.3
Provincial governments	-1.4	-5.0
Local governments	-50.7	-48.4
Non-financial public enterprises and corporations	68.0	31.4
Total**	**191.1**	**249.6**
As a percentage of gross domestic product	*3.9*	*4.8*

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

Non-financial public sector borrowing requirement

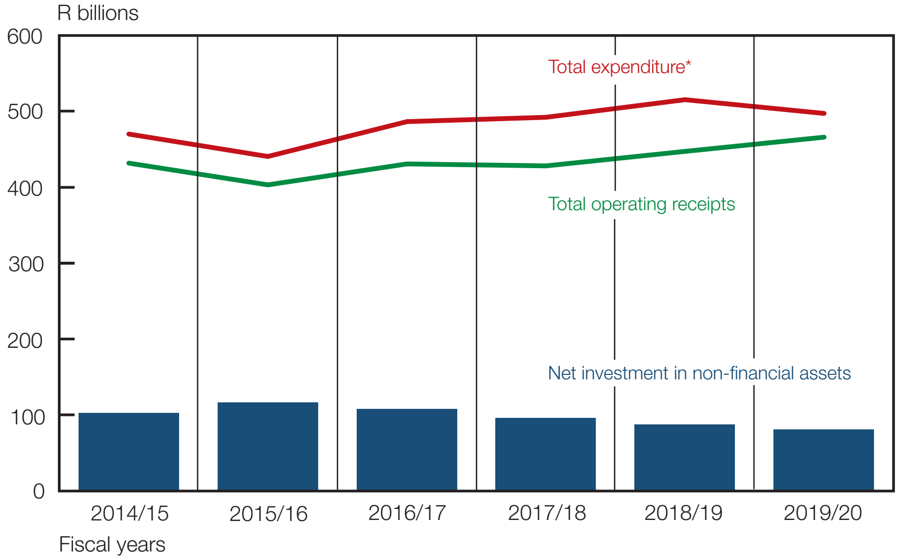


Sources: National Treasury, Stats SA and SARB

The financial activities of the non-financial SOCs in fiscal 2019/20 resulted in a preliminary cash deficit of R31.4 billion – less than half of the previous fiscal year. Total expenditure[34] by non-financial SOCs declined by 3.5% year on year to R497 billion, while cash receipts from operating activities increased by 4.2% to R466 billion in fiscal 2019/20.

34 Total expenditure includes cash payments for operating activities and net investment in non-financial assets.

Financial activities of non-financial public enterprises and corporations



* Including both operating cash payments and net investment in non-financial assets

Source: SARB

Net investment in non-financial assets by non-financial SOCs declined further by R6.6 billion year on year to R81.3 billion in fiscal 2019/20. This decrease could be attributed to reduced infrastructure spending by some major SOCs, such as Eskom and South African Airways, due to the constrained financial position of these corporations.

Box 2 South Africa's fiscal response to COVID-19[1]

The COVID-19 pandemic plunged the world into both a health and economic crisis at a time when the South African economy was already struggling. This required government support to uphold economic activity and livelihoods, while maintaining fiscal sustainability.

Government responded by introducing a national lockdown in South Africa as from 27 March 2020, to enhance health preparedness. This was followed by the announcement, on 21 April 2020, of a fiscal support package of revenue and expenditure measures as well as loan guarantees amounting to R500 billion (about 10% of nominal gross domestic product (GDP)) to support households and businesses to recover and resume economic activity.

The proposed fiscal stimulus package comprised both expenditure reprioritisation and borrowing. The temporary fiscal measures are intended to support healthcare spending, low-income households, small- and medium-size businesses and municipal services such as emergency water supply, to assist with sanitation, public transport and the provision of food and shelter for the homeless. Some of the main tax relief measures introduced to assist businesses and individuals include:

- a skills development levy holiday;
- fast-tracking of outstanding value-added tax (VAT) refunds;
- a delay in the filing and first payment obligation of carbon tax liabilities;
- a deferral of excise taxes on alcohol and tobacco;
- an increase in tax compliant businesses' gross income threshold for automatic tax deferrals and an increase in the proportion of tax to be deferred; and
- an increase in tax deductions on donations.

1 For a detailed discussion, see Economic Measures for COVID-19 at http://www.treasury.gov.za/comm_media/press/2020/20200428_COVID_Economic_Response_final.pdf

Fiscal support

	R million
Credit Guarantee Scheme	200 000
Job creation and support for small and medium enterprises and informal business	100 000
Income support (tax deferrals, skills development levy holiday and employment tax incentive extension)	70 000
Support to vulnerable households for six months	50 000
Wage protection (Unemployment Insurance Fund)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000
Total	500 000

Source: National Treasury

The composition of the funding structure of the fiscal support package is such that the loan guarantee scheme of R200 billion does not have an immediate fiscal effect,[2] while R130 billion is sourced from the reprioritisation of the current budget and R75 billion from drawing down surplus funds of institutions such as the Unemployment Insurance Fund (UIF). The intention is to obtain the balance from international financial institutions such as the International Monetary Fund.

Funding

	R million
Credit Guarantee Scheme	200 000
Baseline reprioritisation	130 000
Borrowings from multilateral finance institutions and development banks* for business support, job creation and protection	95 000
Additional transfers and subsidies from social security funds	60 000
Available funds in the Department of Social Development's 2020/21 appropriation	15 000
Total	500 000

* International Monetary Fund, World Bank and the New Development Bank

Source: National Treasury

The announcement, on 13 May 2020, of further relaxing the lockdown regulations would support the gradual resumption of economic activity. Government intends to return to the path of fiscal consolidation as soon as possible, as set out in the 2020 Budget.

2 Technical annexure of Economic Measures for COVID-19, page 2. See http://www.treasury.gov.za/comm_media/press/2020/20200428_COVID_Economic_Response_final.pdf

Budget comparable analysis of national government finance

National government's cash book balance amounted to a significantly larger deficit of R346 billion in fiscal 2019/20, which substantially exceeded the originally budgeted projection. This was due to less revenue collected together with over expenditure relative to the original budget. The larger cash book deficit was mostly financed through the issuance of domestic currency-denominated government bonds, which contributed to the 16.9% year-on-year increase in gross loan debt to R3 261 billion as at the end of fiscal 2019/20.

National government finances

	Actual Fiscal 2018/19		Actual Fiscal 2019/20		Originally budgeted[1] Fiscal 2019/20		Originally budgeted[2] Fiscal 2020/21	
	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[3]
Revenue	1 272	6.6	1 344	5.6	1 403	10.3	1 398	4.1
Percentage of GDP	*25.8*		*26.1*		*25.9*		*25.8*	
Expenditure	1 505	7.1	1 690	12.3	1 659	10.2	1 766	4.5
Percentage of GDP	*30.6*		*32.8*		*30.6*		*32.5*	
Cash book balance[4]	-233		-346		-255		-368	
Percentage of GDP	*-4.7*		*-6.7*		*-4.7*		*-6.8*	
Primary balance[5]	-51		-142		-53.0		-139	
Percentage of GDP	*-1.0*		*-2.8*		*-1.0*		*-2.6*	
Gross loan debt[6]	2 790	12.1	3 261	16.9	3 043	9.1	3 562	9.2
Percentage of GDP	*56.7*		*63.4*		*56.2*		*65.6*	

1 *2019 Budget Review*
2 *2020 Budget Review*
3 Year-on-year percentage change
4 Cash book deficit (-)/surplus (+)
5 Cash book deficit (-)/surplus (+) excluding interest payments
6 As at 31 March for rand values

Sources: National Treasury, Stats SA and SARS

The increase of only 5.6% year on year in total revenue of national government to R1 344 billion in fiscal 2019/20 resulted in a revenue shortfall of R59.9 billion relative to the original budget projection. The revenue shortfall could, among other factors, be ascribed to the impact of weaker than expected domestic economic activity.

National government revenue in fiscal 2019/20[1]

Revenue source	Originally budgeted Fiscal 2019/20		Actual Fiscal 2019/20	
	R billions	Percentage change[2]	R billions	Percentage change[3]
Taxes on income, profits and capital gains	820.3	11.0	772.7	4.6
Of which: Income tax on individuals	552.9	12.0	529.2	7.2
Income tax on companies	229.6	7.1	215.0	0.3
Payroll taxes	18.8	7.6	18.5	6.0
Taxes on property	17.2	12.5	16.0	4.8
Taxes on goods and services	504.4	9.6	492.1	6.9
Of which: Value-added tax (VAT) net	360.5	11.0	346.7	6.8
Domestic	406.2	7.2	399.3	5.4
Import	187.4	7.0	179.9	2.7
Refunds	-233.2	1.7	-232.5	1.5
General fuel levy	83.0	10.1	80.2	6.4
Excise duties	48.8	1.2	53.4	10.7
Taxes on international trade and transactions	61.3	10.0	56.3	1.1
Of which: Import duties	60.0	9.1	55.5	0.9
Other revenue[4]	31.8	-3.8	38.3	15.9
Less: SACU[5] payments	50.3	4.1	50.3	4.1
Total revenue	1 403.5	10.3	1 343.6	5.6

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

Sources: National Treasury and SARS

Total revenue as a ratio of GDP of 26.1% in fiscal 2019/20 was therefore still higher than the 25.8% in the previous fiscal year. Projected total revenue of R1 345 billion in the 2020 Budget was even R58.7 billion less than the R1 403 billion in the 2019 Budget.

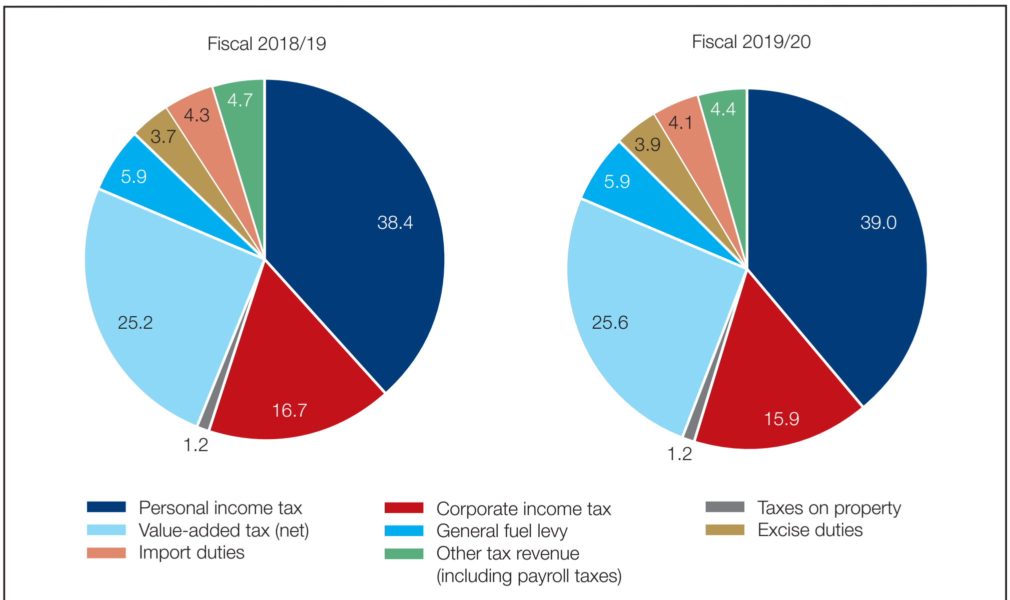
Revenue from taxes on income, profits and capital gains increased by 4.6% year on year to R773 billion (57.5% of total revenue) in fiscal 2019/20. Within this category, personal income tax (PIT) increased by only 7.2% year on year to R529 billion, which was less than expected, while revenue from corporate income tax (CIT) of R215 billion almost matched expectations, and merely 0.3% higher than a year ago. Together, PIT and CIT contributed R38.3 billion to the under collection of R47.7 billion in revenue from taxes on income, profits and capital gains.

Revenue from taxes on goods and services which increased by 6.9% year on year to R492 billion in fiscal 2019/20 was still R12.3 billion less than the R504 billion originally budgeted. Net value-added tax (VAT) collections of R347 billion was R13.7 billion less than originally budgeted and reflected subdued household consumption expenditure amid weak consumer confidence, while VAT refunds increased by 1.5% year on year to R233 billion.

Taxes on international trade and transactions of R56.3 billion in fiscal 2019/20 increased only marginally by 1.1% from the previous fiscal year. This reflected lower demand for imported goods which was further impacted by the COVID-19 pandemic on global manufacturing and trade towards the end of the fiscal year.

Composition of national government tax revenue

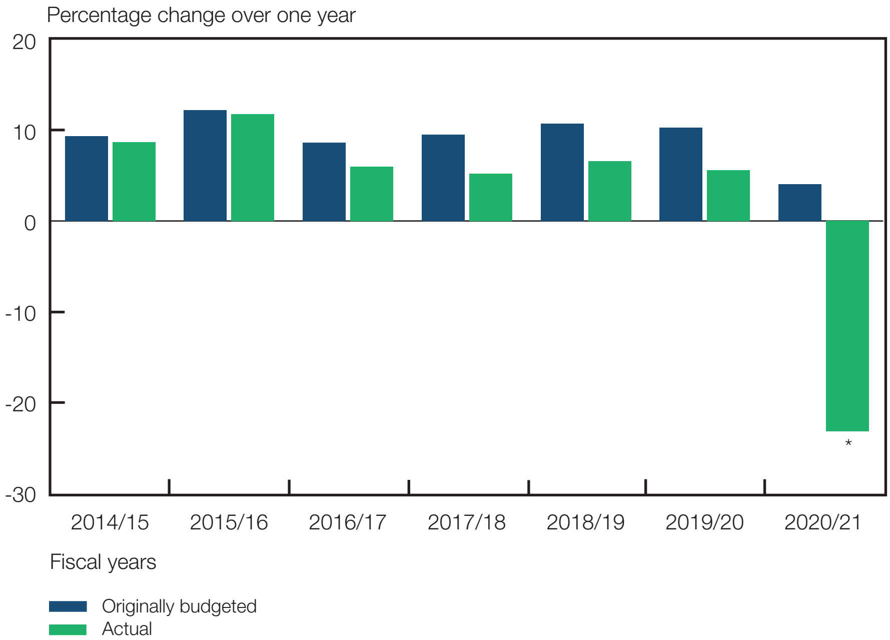
Per cent



Source: SARS

Non-tax revenue which increased significantly by 15.9% year on year to R38.3 billion in fiscal 2019/20 was R6.5 billion more than originally budgeted. This increase could mainly be attributed to rent on land of R11.8 billion, receipts of R9.0 billion by the National Revenue Fund as well as interest receipts of R7.6 billion. The R50.3 billion that was earmarked for the Southern African Customs Union (SACU) in fiscal 2019/20 was fully transferred in four equal instalments.

Revenue of national government



* April–May 2020

Sources: National Treasury, SARS and SARB

The *2020 Budget Review* projected national government revenue of R1 398 billion for fiscal 2020/21. In the first two months of fiscal 2020/21, *total revenue* collected contracted by 23.2% year on year to only R131 billion as all tax categories underperformed as a result of the restrictions on economic activity to curb the spread of the COVID-19 pandemic.

Total expenditure by national government increased notably by 12.3% year on year to R1 690 billion in fiscal 2019/20. The increase resulted from higher voted expenditure, mostly due to additional allocations to the state-owned companies (SOCs). Total expenditure exceeded the original budgeted projection for fiscal 2019/20 in the February 2019 Budget by R31.1 billion. Expenditure as a ratio of GDP of 32.8% in fiscal 2019/20 was higher than the 30.6% in the previous fiscal year.

National government expenditure in fiscal 2019/20[1]

Expenditure item	Originally budgeted Fiscal 2019/20		Actual Fiscal 2019/20	
	R billions	Percentage change[2]	R billions	Percentage change[3]
Voted expenditure	882.6	7.7	943.8	15.2
Of which: Transfers and subsidies	615.7	8.8	626.6	10.7
Current payments	246.8	9.4	241.3	7.0
Payments for capital assets	15.4	13.1	11.7	-14.2
Payments for financial assets	4.7	…	64.2	…
Statutory amounts[4]	776.1	13.2	746.0	8.8
Of which: Provincial equitable shares	505.6	7.5	505.6	7.5
Interest on debt	202.1	11.2	204.6	12.6
General fuel levy	13.2	5.6	13.2	5.6
Total expenditure	1 658.7	10.2	1 689.8	12.3

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.
2 Year-on-year percentage change: budgeted on previous year's actual outcome
3 Year-on-year percentage change: actual outcome on previous year's actual outcome
4 Including extraordinary payments

… Not available

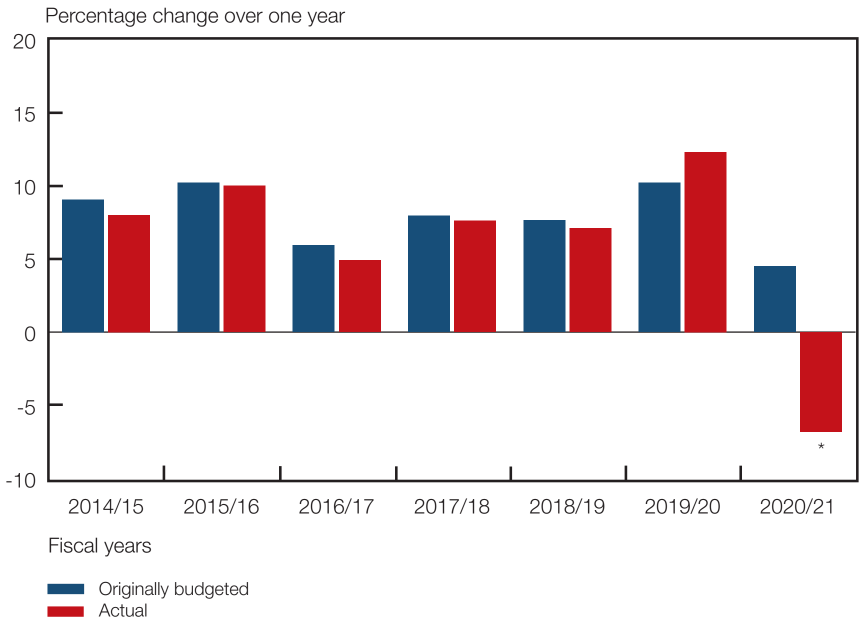
Source: National Treasury

Total voted expenditure by national government departments, which comprises transfers and subsidies, current payments as well as payments for capital and financial assets, increased significantly by 15.2% year on year to R944 billion (55.9% of total expenditure) in fiscal 2019/20. The main contributor, transfers and subsidies, increased by 10.7% to R627 billion in the period under review with the Departments of Social Development, Police, Higher Education and Training as well as Cooperative Governance and Traditional Affairs accounting for the largest share. Current payments increased by 7.0% year on year to R241 billion. Significantly larger payments for financial assets of R64.2 billion included additional transfers in terms of section 16 of the *Public Finance Management Act* and section 6 of the *Appropriation Act of 2019* to SOCs in financial distress, such as Eskom, South African Airways (SAA), Denel, South African Express Airways and the South African Broadcasting Corporation (SABC).

Interest paid on national government debt (debt-service costs) which increased by 12.6% to R205 billion in fiscal 2019/20 exceeded the original budget projection by R2.5 billion and reflected the increase in the stock of debt.

Equitable share transfers to provinces, which is the main source of provincial government revenue, increased by 7.5% year on year to R506 billion in fiscal 2019/20. An amount of R13.2 billion was also allocated in three equal instalments to metropolitan municipalities as their share of the general fuel levy in fiscal 2019/20.

Expenditure by national government



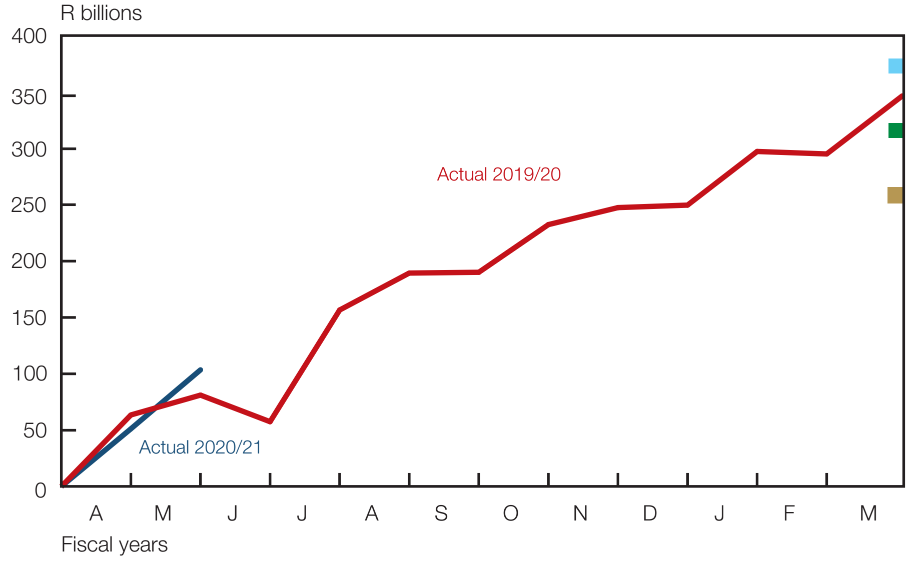
* April–May 2020

Sources: National Treasury, SARS and SARB

The *2020 Budget Review* projected national government expenditure of R1 766 billion for fiscal 2020/21. In the first two months of fiscal 2020/21, total expenditure decreased at a year-on-year rate of 6.8% to R235 billion.

These developments in national government revenue and expenditure caused a cash book deficit of R346 billion in fiscal 2019/20, which was R113 billion more than in the same period a year earlier. The cash book deficit exceeded both the original and revised budgeted projections by R91.0 billion and R8.8 billion respectively, and indicated a constrained fiscal environment. The 2019 Budget projected a cash book deficit of R255 billion for fiscal 2019/20, which was revised higher to R338 billion in the 2020 Budget, mainly on account of spending pressures and anticipated revenue shortfalls. National government's cash book deficit as a ratio of GDP increased to 6.7% in fiscal 2019/20 from 4.7% a year earlier.

Cumulative deficit of national government



Sources: National Treasury, SARS and SARB

The *2020 Budget Review* projected a national government cash book deficit of R368 billion for fiscal 2020/21. In the first two months of fiscal 2020/21, the net outcome of national government revenue and expenditure resulted in a cash book deficit of R104 billion, which was R22.5 billion more than a year earlier.

National government's primary deficit[35] of R142 billion in fiscal 2019/20 was significantly larger than the deficit of R51.1 billion in fiscal 2018/19. The primary deficit as a ratio of GDP of 2.8% in fiscal 2019/20 was much higher than the 1.0% in the previous fiscal year and much higher than the 2019 Budget projection of R53.0 billion.

35 The primary deficit is the cash book deficit excluding interest payments.

National government financing

R billions

Item or instrument	Actual Fiscal 2018/19	Actual Fiscal 2019/20	Originally budgeted[1] Fiscal 2019/20
Cash book deficit	232.9	346.3	255.2
Cash flow deficit[2]	243.6	343.8	...
Plus: Cost/profit on revaluation of foreign debt at redemption[3]	0.8	24.3	22.5
Accrual adjustments	-73.1	-28.7	...
Net borrowing requirement	171.3	339.4	277.8
Treasury bills and short-term loans[4]	14.1	36.1	25.0
Domestic bonds[4]	135.6	251.8	185.4
Foreign bonds and loans[4]	24.0	49.1	1.6
Change in available cash balances[5]	-2.3	2.5	65.8
Total net financing[6]	171.3	339.4	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

36 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 cash flow deficit of national government increased significantly by R100 billion, from R244 billion in fiscal 2018/19 to R344 billion in fiscal 2019/20. After accounting for the revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement[36] almost doubled from R171 billion in fiscal 2018/19 to R339 billion in fiscal 2019/20.

Box 3 The 2020 *Supplementary Budget Review*

Government's initial fiscal and economic response to the COVID-19 pandemic, as indicated in the special adjustments budget of 24 June 2020, followed an announcement of a R500 billion fiscal economic relief package, in April. The *2020 Supplementary Budget* serves as a bridge to the October *2020 Medium Term Budget Policy Statement* (MTBPS), which will set out proposals to stabilise the overstretched and unsustainable public finances and accelerate economic growth.

COVID-19 has changed the public spending priorities initially proposed in the 2020 Budget and the special adjustments revised spending plans for 2020/21, in line with the April fiscal relief package. This was also necessitated by a significant deterioration in the tax revenue outlook as real economic activity is now expected to contract by 7.2% in 2020 compared with growth of 0.9% projected in the *2020 Budget Review*, due to the restrictions placed on activity to contain the spread of COVID-19. This is expected to be followed by real economic growth of 2.6% in 2021 and 1.5% in both 2022 and 2023. Headline consumer price inflation is now expected to slow to 3.0% in 2020 compared with 4.5% in the February *2020 Budget Review*.

Macroeconomic projections*

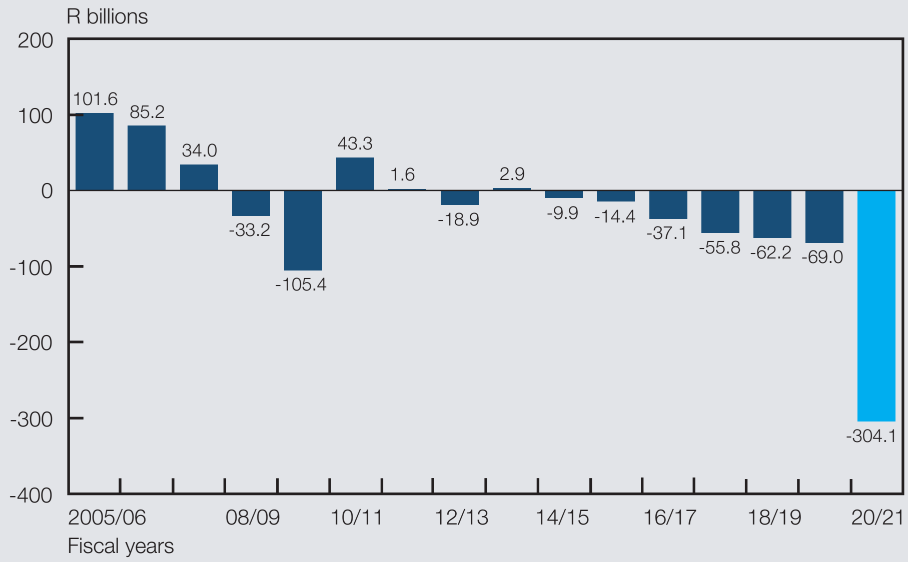
Percentage	2010–2018**	2019	2020	2021	2022	2023
	Outcome		Revised forecast***			
Real GDP growth	1.9	0.2	-7.2	2.6	1.5	1.5
Consumer price inflation.........	5.3	4.1	3.0	3.9	4.3	4.5

* Calendar years
** Average
*** *2020 Supplementary Budget Review*

Source: National Treasury

The *2020 Supplementary Budget* revised national government revenue lower by 21.4% to R1 099 billion, from R1 398 billion in the February 2020 Budget, along with an expected tax revenue underperformance of R304 billion in fiscal 2020/21 compared with the February 2020 Budget estimates. The revenue shortfall includes COVID-19 tax relief measures of R26 billion. Total revenue as a share of nominal gross domestic product (GDP) is also projected to decline from 26.2% in fiscal 2019/20 to 22.6% in fiscal 2020/21.

Actual revenue relative to budget forecasts



Sources: National Treasury and SARS

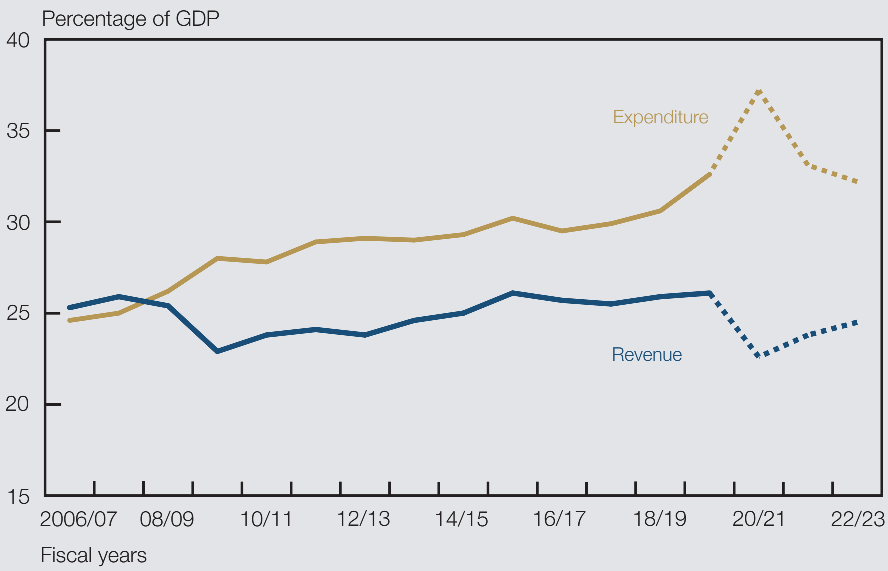
The *2020 Supplementary Budget* revised national government expenditure higher to R1 809 billion for fiscal 2020/21, from R1 766 billion in the February 2020 Budget. Total expenditure as a share of nominal GDP was therefore projected to increase from 32.5% in the February Budget to 37.2% for fiscal 2020/21. This reflected additional support provided to the Landbank, COVID-19-related spending and higher debt-service costs.

Non-interest expenditure was revised to increase by 2.3% to R1 573 billion compared with the estimates in the February 2020 Budget. This reflects the net outcome of reductions of R101 billion and allocations of R145 billion for the fiscal response to the COVID-19 pandemic. By economic classification, most of the national government spending revisions were in the transfers category, with a reduction of R20 billion in transfers to provinces for the repurposing of the provincial equitable share as well as suspensions in provincial and local conditional grants. These resources are mainly allocated to provincial health and education interventions as well as to provide funding for increased social payments to vulnerable households.

National government's interest payments (debt-service cost) for fiscal 2020/21 was revised higher by R7.1 billion to R236 billion. Debt-service costs are now the fourth-largest spending category, equalling the spending on health services. Debt-service cost as a ratio of nominal GDP was revised higher to 4.9% in fiscal 2020/21 compared with 4.2% in the February 2020 Budget. Disconcertingly, the share of debt-service costs, at about 12% of total spending, is more than double that spent on capital assets.

The government's primary balance[1] as a ratio of GDP was projected to widen to a deficit of 9.7% in fiscal 2020/21 compared with a deficit of 2.6% in the February 2020 Budget. The primary deficit is expected to turn into a primary surplus by fiscal 2023/24. A national government budget deficit as a ratio of GDP of 14.6% is now expected in fiscal 2020/21 compared with an expected 6.8% in the February 2020 Budget.

National government revenue and expenditure



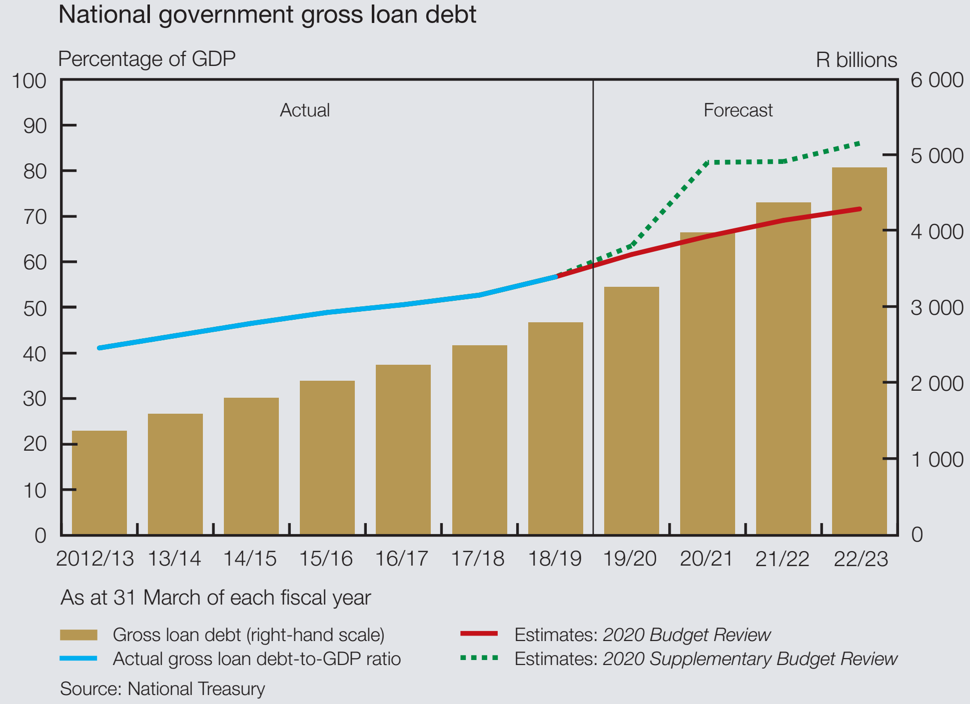
Source: National Treasury

International finance institutions are rendering support to developing economies amid the contraction in global economic activity. Accordingly, the South African government intends to borrow US$7.0 billion from multilateral finance institutions for its response to the COVID-19 pandemic. This includes a US$1 billion loan from the New Development Bank. As a member of the International Monetary Fund (IMF), South Africa intends to borrow US$4.2 billion through the IMF's rapid financing instrument, which is a low interest emergency facility.

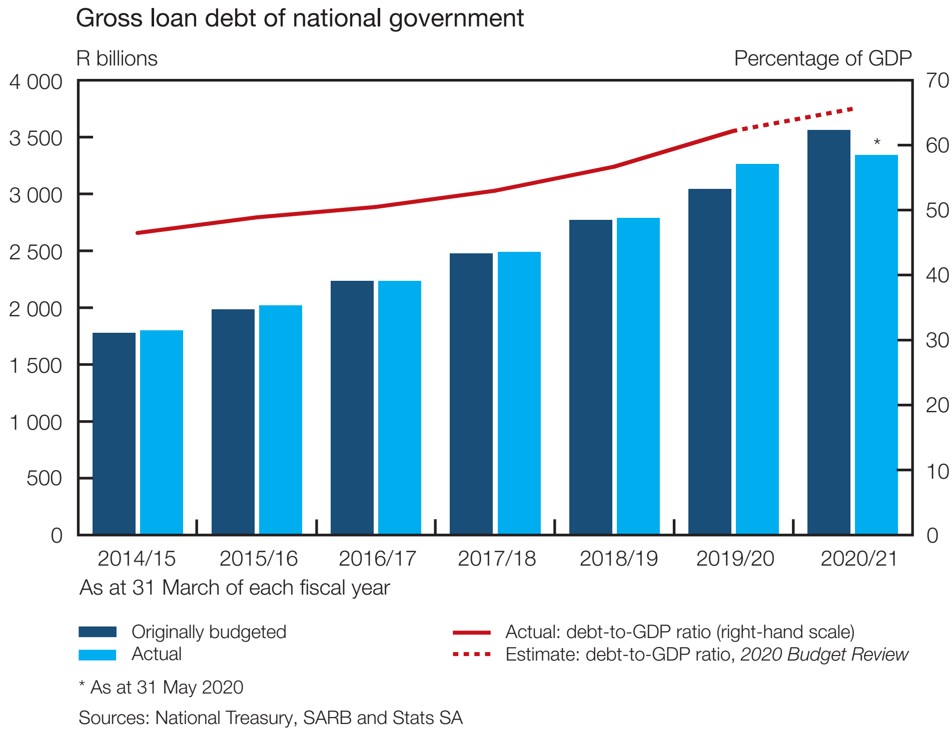
The *2020 Budget Review,* which was delivered a few weeks prior to the announcement of a national state of disaster by the President, projected an increase in the gross loan debt of national government from 65.6% of GDP in the current fiscal year to 71.6% of GDP by fiscal 2022/23. However, the *2020 Supplementary Budget Review* revised these projections higher to 81.8% and 86.0% respectively.

1 The primary balance (deficit/surplus) is calculated as the difference between revenue and non-interest spending.

Despite the deterioration in the fiscal metrics, government remains committed to stabilise the public finances through reforms that will promote trade, investment and job creation.



The higher net borrowing requirement in fiscal 2019/20 was financed in both the domestic and foreign financial markets mainly through the net issuances of domestic long-term government bonds of R252 billion, Treasury bills and short-term loans from the Corporation for Public Deposits (CPD) of R36.1 billion as well as foreign bonds and loans of R49.1 billion. In addition, the available cash balances of national government also decreased by R2.5 billion in fiscal 2019/20.

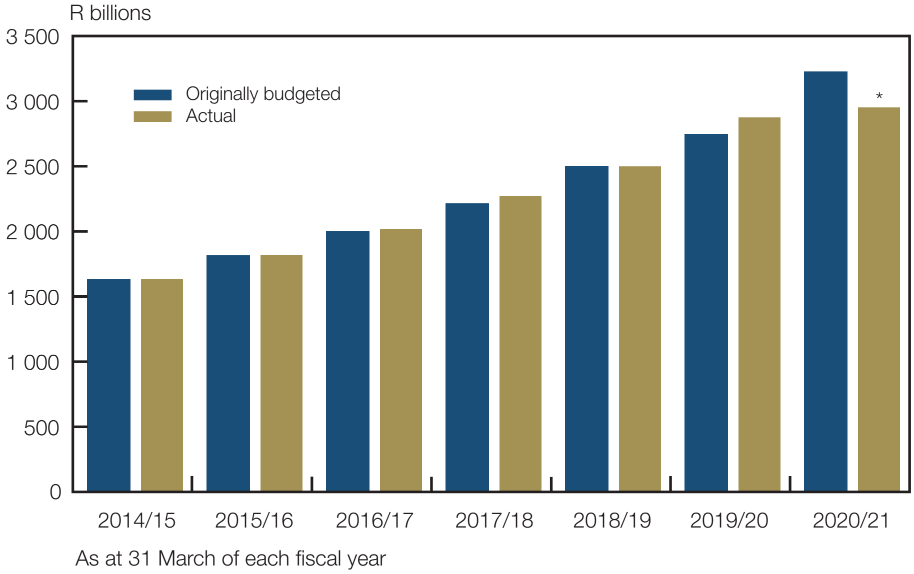


The net financing of national government's much larger borrowing requirement led to significant year-on-year increase of R472 billion in gross loan debt to R3 261 billion as at the end of March 2020. Domestic debt accounted for 79.7% (about R376 billion) of this increase with foreign debt accounting for the balance. This outcome by far exceeded the original estimates in the February 2019 Budget by R218 billion. At the same time, the gross loan debt-to-GDP ratio of 63.4% as at 31 March 2020 was notably higher than both the 56.7% as at 31 March 2019 and the original projection of 56.2% in the *2019 Budget Review* for fiscal 2019/20.

The *2020 Budget Review* projected national government gross loan debt of R3 562 billion for fiscal 2020/21, which will be a year-on-year increase of 9.2% relative to fiscal 2019/20. As at 31 May 2020, gross loan debt had already surged to R3 391 billion (95.2% of the original total budgeted amount for fiscal 2020/21).

National government's domestic debt of R2 874 billion as at 31 March 2020 was R376 billion more compared with 31 March 2019 and reflected higher net issuance of domestic marketable debt (bonds and Treasury bills), which rose from R2 469 billion at the end of March 2019 to R2 835 billion a year later. Domestic marketable bonds increased from R2 162 billion to R2 501 billion over this period, notwithstanding the redemption of the *Z083* and the *R207* bonds to the combined value of R16.1 billion during September 2019 and January 2020 respectively. The outstanding stock of Treasury bills rose from R307 billion as at 31 March 2019 to R333 billion a year later. The average outstanding maturity of domestic marketable bonds decreased from 185 months as at 31 March 2019 to 176 months a year later.

Domestic debt of national government

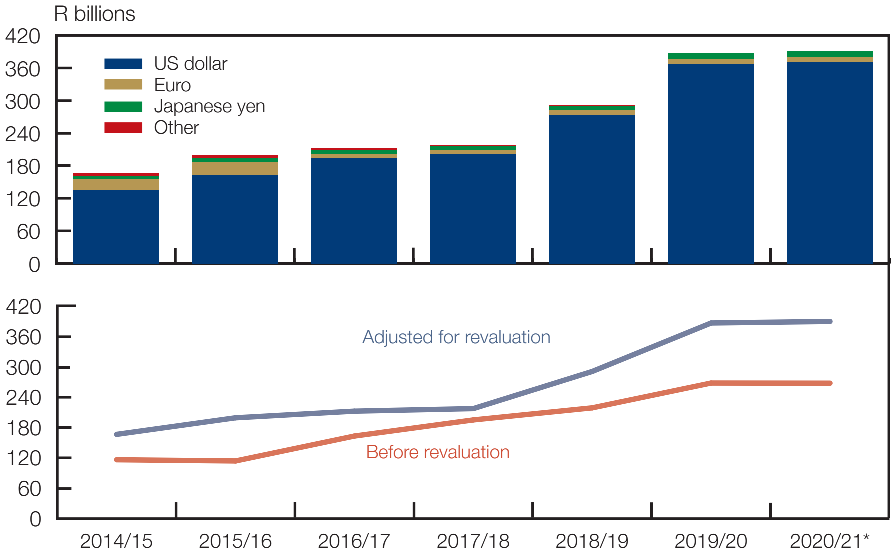


* As at 31 May 2020

Source: National Treasury

National government's net issuance of foreign debt, inclusive of exchange rate revaluation effects of R119 billion, brought the outstanding foreign debt to R387 billion as at 31 March 2020, some R95.9 billion more than a year earlier. Government's issuance of two foreign bonds to the total amount of US$5 billion in September 2019 raised R76.1 billion, while redemptions amounted to US$1.6 billion or R24.7 billion during March 2020. As a result, government's net issuance of foreign debt amounted to R36.5 billion in fiscal 2019/20 compared with R24.0 billion in the previous fiscal year.

Foreign currency-denominated debt of national government



As at 31 March of each fiscal year

* As at 31 May 2020

Sources: National Treasury and SARB

The exchange value of the rand depreciated against the currencies of South Africa's major trading partners during fiscal 2019/20, as the fiscal position gradually deteriorated along with the anticipated negative effects of the COVID-19 pandemic as well as the recent sub-investment grade sovereign credit rating in March 2020 by Moody's. National government's foreign debt is denominated in US dollar, euro, Japanese yen, British pound and Swedish krona, with the US dollar accounting for almost 95%. The average outstanding maturity of foreign marketable bonds increased from 128 months as at 31 March 2019 to 168 months as at 31 March 2020 due to the issuance of a 10 and a 30-year US dollar-denominated bond to the combined value of US$5 billion in September 2019.

Note on the revision of South Africa's nominal and real effective exchange rate indices

By A Joubert, P Phume and L Pickersgill

Introduction

The South African Reserve Bank (SARB) conducts regular revisions to the calculation of the effective exchange rate (EER) indices of the South African rand. These revisions include both the nominal effective exchange rate (NEER), which measures the external value of the rand against that of a weighted basket of South Africa's largest trading partner countries, and the real effective exchange rate (REER), which is an indicator of domestic producers' competitiveness in foreign markets.

The revised EER indices reflect changes in both major trading partner country coverage and corresponding weights due to the evolution of international trade patterns in manufactured goods.[1] The current (2020) revision is based on trade data for the period 2015 to 2017, indexed to the base year 2015, whereas the previous revision (2014) was based on trade data from 2010 to 2012, indexed to the base year 2010 (Motsumi et al., 2014).

This note briefly describes the underlying methodology used to compile South Africa's EER indices, some observations pertaining to the 2020 revision as well as a review of changes over time in the composition of these indices. The revised weights applied in the calculation of the NEER and the REER will be effective from 2 January 2015 and the new indices will be published as from 3 August 2020. Further details related to these changes will be provided on the SARB's website.

Methodology

The methodology used to compile South Africa's EERs has not changed since the early 2000s (Walters and De Beer, 1999) and this revision was conducted in accordance with the methodology of the Information Notice System (INS) of the International Monetary Fund (IMF) – a system established in 1983 to facilitate surveillance of the exchange rate policies of IMF member countries. The INS relies on trade data obtained from the United Nations (UN) database[2] that reflects trade in manufactured goods according to the Standard International Trade Classification (SITC), categories 5–8, excluding category 68.[3]

The lag in the data used in the review of the EERs reflects the time required to publish UN data. As in previous revisions, weights for trading partner countries were computed by taking into account three elements of competition in international trade.

The first is between imports and similar locally produced goods. This reflects the competitiveness of bilateral imports against domestically produced import-competing goods. The second is between own exports and similar produced goods in foreign markets. This reflects competition between local bilateral exports to trading partners and similar goods produced in each trading partner's respective market. The third is between own exports and exports of other countries in third markets. This reflects competition between local exports and exports of bilateral trading partners to other countries, which is referred to as competition in third markets. The second and third elements collectively approximate the competitiveness of locally produced goods against similar foreign produced goods in the international market.

The UN trade data analysis and the aforementioned methodology enable the identification of South Africa's major trading partner countries (retentions, exclusions and new additions) and the new bilateral import and export positions as well as third-market weights (see the table on comparison of weights for international trade in manufactured goods). A further three factors are important in the calculation of EERs, namely the base year, the price deflator and exchange rates.

1 The EERs for South Africa is only based on trade in manufactured goods and does not include trade in services.

2 See, https://comtrade.un.org/

3 SITC-5: Chemicals and related products, SITC-6: Manufactured goods classified mainly by material, SITC-7: Machinery and transport equipment, SITC-8: Miscellaneous manufactured articles, and SITC 68: Non-ferrous metals.

4 These countries are Botswana, Zambia, Mozambique and the United Arab Emirates. For India and Saudi Arabia, the wholesale price index was used.

The base year should be a period of relative stability in economic and financial market conditions and hence 2015 was selected as the suitable base year for the 2020 revision. The price index used as deflator to calculate the REER should be representative of traded goods, preferably manufactured goods. In the case of South Africa, the producer price index (PPI) has been regarded as the appropriate price deflator since the introduction of the REER methodology. For a few countries for which PPIs are not available, the SARB reverted to the use of the consumer price index (CPI)[4] as a proxy for the price deflator. Bose (2014) noted that 'no single REER price measure captures all the aspects of international price/cost competitiveness'. Other price measures include relative export prices, unit labour cost, gross domestic product and expenditure deflators as well as import and export unit values. Middle spot exchange rates and geometric averages are used in the calculation of the EERs. The percentage changes in daily bilateral exchange rates against the South African rand are weighted according to the major trading partner countries.

Comparison of weights for international trade in manufactured goods*

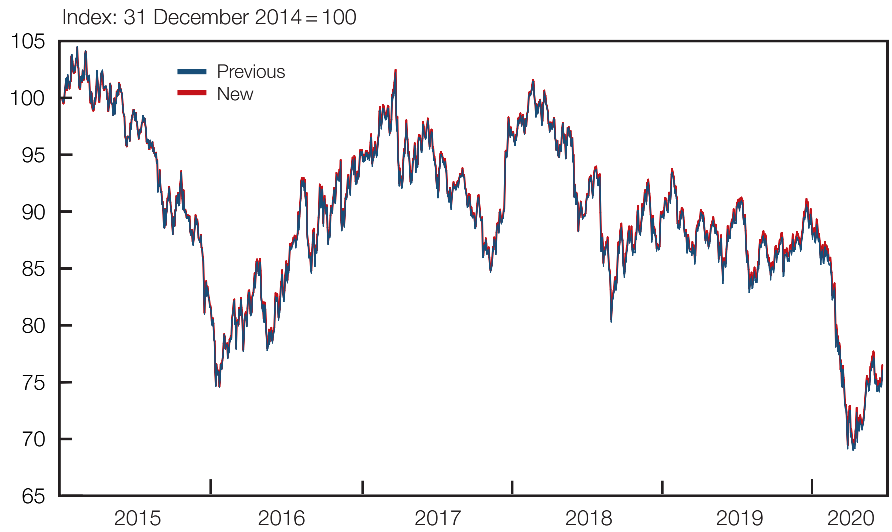
Country/area	Bilateral imports		Bilateral exports		Third markets	
	Previous 2010–2012	New 2015–2017	Previous 2010–2012	New 2015–2017	Previous 2010–2012	New 2015–2017
China	24.82	30.25	2.03	5.89	22.48	15.18
Euro area	30.83	30.04	26.87	34.65	25.58	31.72
United States	12.19	10.43	18.14	11.60	15.23	10.77
India	4.39	5.27	2.29	2.14	4.07	4.15
Japan	6.04	4.42	2.97	3.89	9.06	5.81
United Kingdom	5.12	3.94	5.94	4.24	8.39	4.18
Vietnam	–	2.34	–	0.20	–	1.09
Republic of Korea	3.57	2.11	0.74	2.29	3.61	3.78
Thailand	2.14	2.01	0.81	1.12	1.82	1.59
Sweden	2.21	1.51	0.55	0.47	1.50	0.72
Switzerland	1.94	1.36	1.13	1.07	1.81	1.28
Poland	0.92	1.23	1.01	0.41	0.67	0.61
Brazil	1.18	1.21	1.74	1.24	0.51	0.83
Malaysia	1.48	1.00	0.28	0.99	1.48	1.26
Saudi Arabia	–	0.85	–	0.77	–	0.66
Botswana	0.41	0.79	10.28	10.21	0.40	5.17
Australia	0.86	0.49	3.04	2.79	0.58	1.70
United Arab Emirates	–	0.39	–	3.80	–	3.13
Zambia	0.13	0.24	7.66	7.33	0.17	3.73
Mozambique	0.08	0.12	5.29	4.89	0.10	2.63
Canada	0.90	–	1.07	–	1.17	–
Israel	0.63	–	1.78	–	0.98	–
Zimbabwe	0.15	–	6.36	–	0.39	–

* Ranked according to new bilateral imports

Outcome

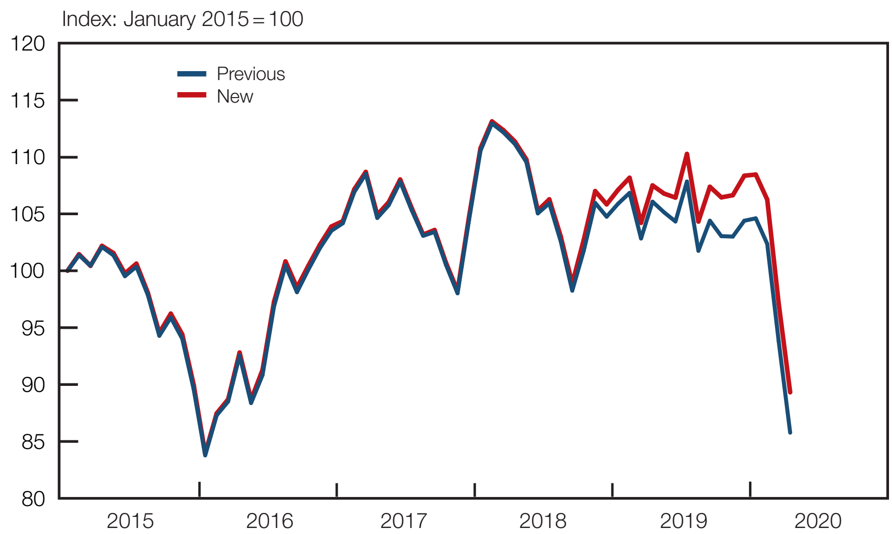
The newly calculated EER indices display movements that are fairly similar to the previously published time series. The newly calculated NEER does not deviate much from the 2014 calculations, though marginally higher with a daily average deviation of 0.2 index points. The REER shows slightly larger deviations, especially from late 2018, and reflects a slightly less competitive position as South Africa's inflation differential widened compared to the basket of trading partner countries.

Figure 1 Nominal effective exchange rate of the rand



Source: SARB

Figure 2 Real effective exchange rate of the rand



Source: SARB

Comparison of trading partner country total trade weights

Country/area	Prior to 1999	1999	2003	2008	2014	2020
Euro area..................	38.58*	35.70	36.38	34.82	29.26	30.68
China.........................	2.91	3.11	3.14	12.49	20.54	24.53
United States............	14.44	15.15	15.47	14.88	13.72	10.56
Japan	9.90	10.26	10.43	10.12	6.03	4.95
India	–	–	–	2.01	3.98	4.85
United Kingdom	14.09	14.91	15.37	10.71	5.82	4.03
Republic of Korea......	2.50	2.57	2.64	1.96	3.10	2.75
Botswana	–	–	–	–	2.09	2.45
Vietnam	–	–	–	–	–	1.87
Thailand....................	–	–	–	–	1.86	1.85
Zambia	–	–	–	0.80	1.42	1.56
United Arab Emirates	–	–	–	–	–	1.43
Switzerland...............	4.99	5.28	5.54	2.83	1.78	1.33
Sweden....................	1.58	1.79	1.81	1.99	1.81	1.21
Malaysia	–	–	–	–	1.27	1.10
Mozambique	–	–	–	–	0.97	1.07
Brazil	–	–	–	1.37	1.16	1.06
Poland......................	–	–	–	–	0.89	0.99
Australia	1.59	1.62	1.68	2.04	1.19	0.95
Saudi Arabia.............	–	–	–	–	–	0.78
Hong Kong SAR........	2.59	2.62	2.70	1.48	–	–
Zimbabwe	2.27	2.27	–	–	1.25	–
Canada	1.87	1.93	1.96	–	0.98	–
Singapore.................	1.55	1.62	1.66	1.40	–	–
Israel	1.14	1.17	1.22	1.11	0.88	–
Total	100	100	100	100	100	100

* Prior to 1 January 1999, the Euro area weights comprised Germany, Italy, France, Netherlands, Belgium, Spain, Ireland, Australia, Finland and Portugal.

Observations from the 2020 revision

- The total number of South Africa's trading partner countries remained at 20, with the inclusion of Vietnam, Saudi Arabia and the United Arab Emirates, which replaced Canada, Israel and Zimbabwe.
- The exclusion of Zimbabwe, similar as in 2003 and 2008, was due to currency volatility and high inflation.
- The remaining African countries, namely Botswana, Zambia and Mozambique together account for a total trade weight of 5.1%.
- The export and import cover ratios of total manufactured goods reflected minor changes with the import ratio increasing from 86.9% in the 2014 revision to 89.7% in the 2020 revision, while the export ratio decreased from 81.7% to 78.1%.
- The import ratio increased as trading partner countries now account for a larger portion of South Africa's imports relative to the previous period. Zimbabwe's exclusion did not impact the import ratio much due to its negligible contribution of less than 1.0%.

- The decrease in the export ratio is partially explained by the exclusion of Zimbabwe, which is a prominent bilateral export trading partner of South Africa. This is reflected in the UN trade data which show that Zimbabwe accounts for, on average, 4.6% of total South African exports of manufactured goods during the period 2015–2017.[5] The lower export than import ratio also reflects the exclusion of Namibia, Lesotho and Eswatini, which are important trading partner countries within the Common Monetary Area, linking into the monetary union with currencies pegged to the South African rand.
- The United States (US) has maintained its position with the third largest total trade weight among all trading partners in the basket, despite a decrease from 13.7% in 2014 to 10.6% in 2020. This decrease reflects a significant decline in overall trade of machinery and transport equipment, which lowered both the bilateral import and export weights in the 2015–2017 period to 10.4% and 11.6% respectively.
- China has been South Africa's fastest growing trading partner since 2003, moving from having the sixth largest trade weight in 2003 to having the second largest trade weight in 2020. China's trade weight remained the second largest and increased from 20.5% in 2014 to 24.5% in 2020, reflecting the significant importation of machinery and transport equipment from 2015 to 2017, which increased the bilateral import weight to 30.3%. South African exports to China also increased during the period as reflected by the increase in the bilateral export weight to 5.9%. In addition, China's exports to the other 19 countries decreased relative to South African exports to those countries as reflected by a decrease in the third-market weight to 15.2%.
- The almost doubling of India's trade weight, from 2.0% when first included in the basket of 15 trading partner countries in 2008 to almost 4.0% in 2014, reflects its increased ranking from the eighth to the fifth largest trade weight during this period. Subsequently, India's trade weight increased even further to 4.9% in 2020. This has resulted in India replacing the United Kingdom (UK) as South Africa's fifth largest trading partner, which reflects increased integration of India's manufactured goods market with South Africa and its top 20 trading partners. The increase in India's trade weight from 2014 to 2020 reflects the importation of machinery and transport equipment during the period 2015–2017, which increased South Africa's bilateral import weight with India to 5.3% while South African exports to India moderated.

5 South African exports to Zimbabwe during the period 2015–2017 averaged US$1.42 billion while the total exports of South Africa averaged US$31.25 billion, according to the UN trade data for manufactured goods.

Review of changes in weights and trading partners over time

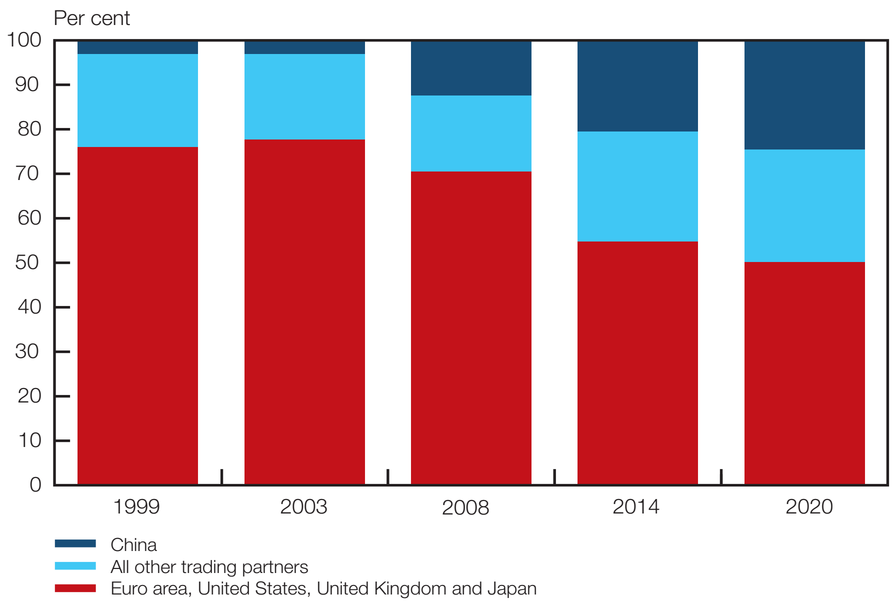
South Africa's initial EERs included only four major trading partner countries, namely the US, the Euro area, the UK and Japan, compliant with the global calculation methodology applied by major central banks and other official institutions such as the Bank for International Settlements (BIS) (Turner and Van't dack, 1993) and the European Central Bank (ECB) (Buldorini, Makrydakis and Thimann, 2002) prior to the 2000s. The evolution of the EERs included the change to the Euro area after 1 January 1999 and the increase in the number of trading partner countries to 14 in 1999.

This was followed by minor changes in 2003 with the exclusion of Zimbabwe due to lack of a representative exchange rate and a liquid foreign exchange market. Following a comprehensive review of structural changes in both domestic and global trade, related to economic developments as well as trade agreements and import tariff adjustments, the number of countries was increased from 13 to 15 in 2008 to reflect increased trade with Africa and other emerging market countries such as Zambia, India and Brazil. In addition, China's weight also increased significantly from 3.1% to 12.5%. In 2014, the number of countries increased to 20, with the inclusion of Botswana and Mozambique in addition to Zambia as well as more emerging market countries such as Malaysia, Thailand and Poland. These 20 countries reflected 86.9% and 81.7% respectively of total manufactured imports and exports. With the 2020 revision, the number of trading partner countries selected remained unchanged at 20 and now reflects 89.7% and 78.1% respectively of total manufacturing imports and exports. A further increase in the number of trading partner countries to 30[6] would only marginally increase the coverage to 95.2% and 85.0% respectively.

6 These 30 countries still exclude Zimbabwe.

The shift over time in the relative contribution of the Euro area, the US, the UK and Japan to the total weight of the basket of South Africa's trading partner countries showed a decline from 76.0% in 1999 to 50.2% in 2020. By contrast, the share of the remaining countries, mostly emerging market countries, inclusive of China, increased from 24.0% to 49.8% over the same period. China's trade weight increased the most, from around 3.0% in 2003 to 24.5% in 2020, while the weight of other emerging market countries also increased significantly. By contrast, the contribution of the UK shrank the most, from 15.4% in 2003, when it had the third largest weight in the basket prior to 2008, to only 4.0% in 2020, when it was overtaken by India.

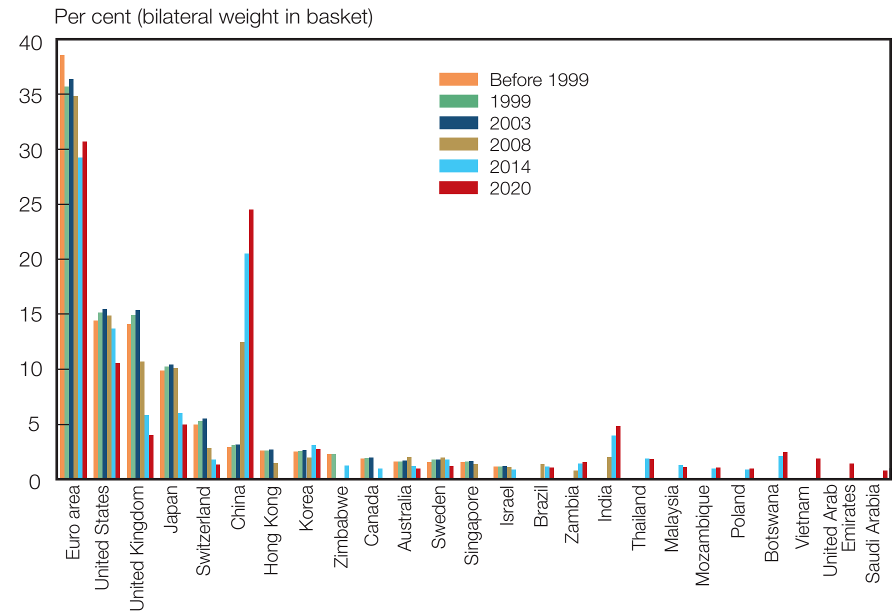
Figure 3 Contribution to total trade weight



Sources: United Nations and SARB calculations

Despite the decline in the contribution of the Euro area to the total trade weight, from 38.6% prior 1999 to 30.7% in 2020, it remained the largest among all trading partner countries in the basket across all the revision periods. The trade weight of the US also declined progressively, from 15.5% in 2003 to 14.9% in 2008 and 13.7% in 2014 and further to 10.6% in 2020, switching from second to third place in 2014, when China moved to second position.

Figure 4 Evolution of trading partner total weights



Sources: United Nations and SARB calculations

Annexure A: Formulae

The following formulae were used in the calculation of the appropriate exchange rate weights: $X_i^k(M)$ represents a country i's exports of manufactured goods to market k. $S_j^k(M)$ represents country j's share of all manufactured exports to market k and $W_i^k(M)$ is the share of country i's exports of manufactured goods shipped to market k. Therefore,

$$S_j^k(M)=\frac{X_j^k(M)}{\Sigma_{1\neq k}\ X_i^k(M)}$$

$$W_i^k(M)=\frac{X_i^k(M)}{\Sigma_{n\neq i}\ X_i^n(M)}$$

$\beta_i^m(M)$ and $\beta_i^x(M)$ represent the share of imports and exports respectively in country i's international trade in manufactured goods.

$$\beta_i^m(M)=\frac{\Sigma_{1\neq i}\ X_1^i(M)}{\Sigma_{1\neq i}\ X_1^i(M)\ +\ \Sigma_{n\neq i}\ X_i^n(M)}$$

$$\beta_i^x(M)=\frac{\Sigma_{n\neq i}\ X_i^n(M)}{\Sigma_{1\neq i}\ X_1^i(M)\ +\ \Sigma_{n\neq i}\ X_i^n(M)}$$

$W_{ij}(M)$ represents the sum of two components: the import component $\beta_i^m(M)\ MW_{ij}(M)$, which reflects competition in the home market (country i), and the export component $\beta_i^x(M)\ XW_{ij}(M)$, which reflects competition in all foreign markets.

$$W_{ij}(M)=\beta_i^m(M)\ MW_{ij}(M)\ +\ \beta_i^x(M)\ XW_{ij}(M)\ \text{where}$$

$$MW_{ij}(M)\ =\ S_j^i(M)\ \text{and}$$

$$XW_{ij}(M)\ =\ \tfrac{1}{2}\ BXW_{ij}(M)\ +\ \tfrac{1}{2}\ TXW_{ij}(M)$$

$$=\ \tfrac{1}{2}\ W_i^j(M)\ +\ \tfrac{1}{2}\ \frac{\Sigma_{k\neq ij}\ W_j^k(M)\ S_j^k(M)}{\Sigma_{k\neq i}\ W_j^k(M)\ (1-S_i^k(M))}$$

The import weight, $MW_{ij}(M)$, is the share of country i's imports of manufactured goods from country j. The bilateral export weight, $BXW_{ij}(M)$, is the share of country i's exports of manufactured goods to country j. The third-market export weight, $TXW_{ij}(M)$, is equal to the weighted average over all third-country markets of country j's import share divided by a weighted average of the combined import share of all country i's competitors, where the weights are the shares of country i's exports to the various markets. The bilateral and third-market export weights are arbitrarily given equal importance in the computation of the overall export weight, $XW_{ij}(M)$.

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Note on South Africa's liquidity measures[1] in response to the COVID-19 pandemic

By JM Shikwane, AM de Beer and DH Meyer

Introduction

The South African Reserve Bank (SARB) introduced a range of measures to ease liquidity strains[2] in domestic financial markets, similar to that of many other central banks globally, to cushion the economy against the effects of the COVID-19 pandemic.

This note provides a brief overview of the recent liquidity measures that were implemented by the SARB, while also reflecting on changes to monetary policy operations[3] since 2010. In addition, these measures are also contextualised relative to the absence of the need for such interventions during the 2007–09 global financial crisis[4] (GFC). South Africa's current financial market conditions reflect similarities to those experienced by other countries during the GFC, when central banks in developed economies introduced so-called unconventional monetary policies.[5]

Response to the global financial crisis

South Africa was not severely affected by liquidity disruptions at the time of the GFC as the domestic banking system was relatively well insulated and hence did not require any unconventional monetary policy measures.

At the time, there was no need to amend market operations or to implement quantitative easing[6] (QE). The money market shortage,[7] which fluctuated between R9 billion and R14 billion, reflected the amount of liquidity provided through standard refinancing auctions. The South African interbank market continued to function effectively, with only negligible increases in money market rates when the London Interbank Offered Rate (LIBOR)[8] increased significantly.

Nonetheless, the SARB significantly eased the monetary policy stance by lowering the repurchase (repo) rate from 12.0% in December 2008 to 5.5% in November 2010.

Changes to monetary policy operations since 2010

The SARB's monetary policy operations were reviewed in 2010, in response to a concern that a decline in participation in the auctions for SARB debentures and reverse repos could result in a decline in the money market shortage, thereby affecting the efficiency of the monetary policy operational framework.[9]

In August 2010, an automated final end-of-day square-off process in the South African Multiple Option Settlement (SAMOS) system[10] at the prevailing standing facility rate was introduced, while the penalty facility at which banks were charged the repo rate plus 500 basis points when obtaining funding from the SARB was abolished. The spread between the rates for standing facilities was also widened from 50 basis points to 100 basis points below and above the repo rate to encourage interbank funding and dissuade banks from depositing surplus funds with the SARB. The use of longer-term foreign exchange swaps with maturities of up to 12 months was also introduced to manage money market liquidity more effectively.

1 The statistics of liquidity management operations in table KB131 on page S–29 and the discussion in the money market section of the *Quarterly Bulletin* reflect these measures. The liquidity measures also show up in the statistics of liabilities and assets of the SARB on pages S–2 and S–3 and of the banking sector on pages S–6 to S–10, for liquid assets and cash reserves on page S–14 as well as the monetary analysis on page S–24 in this edition of the *Quarterly Bulletin*. The purchases of government bonds are indicated in the monetary aggregates on page S–23.

2 Liquidity strains occur when there is either an insufficient amount of cash or a shortage of funding available in the money market.

3 Monetary policy operations are central bank actions to influence overall money market liquidity and credit conditions in the economy, and can take the form of either injecting or draining liquidity as determined by conditions and requirements at the time.

4 The GFC refers to the period of extreme stress in global financial markets from mid-2007 to early 2009.

5 Unconventional monetary policies include liquidity management practices such as the large-scale purchases of government bonds by the central bank to inject cash into the banking system.

6 Quantitative easing is a monetary policy tool whereby a central bank purchases predetermined amounts of government bonds in order to inject money directly into the economy.

7 The SARB maintains an appropriate liquidity shortage in the money market which ensures that banks have to refinance daily liquidity requirements at the central bank.

8 LIBOR is a benchmark average interbank interest rate at which a selection of banks in the London money market are prepared to lend to one another.

9 This is a framework which enables monetary policy decisions to feed through to short-term money market interest rates.

10 SAMOS is an automated interbank settlement system provided by the SARB for banks to settle obligations on an immediate real-time basis, or in a delayed settlement arrangement which provides guaranteed settlement.

11 Supplementary auctions can either be in the form of a liquidity-providing repo transaction or a reverse repo transaction, which drains surplus liquidity from the money market.

In March 2016, supplementary[11] end-of-day auctions were re-introduced to provide relief for banks that ended up being either long or short of cash due to factors beyond their control, such as unforeseen changes in notes and coin in circulation outside the SARB and movements in the cash balances of the Corporation for Public Deposits. Such auctions are offered at the discretion of the SARB, on an exceptional basis, and are conducted at the prevailing repo rate. Interest rates on the automated standing facility were left unchanged at 100 basis points above and below the repo rate.

Liquidity measures in response to COVID-19

The COVID-19 pandemic changed market participants' sentiment and led to a sell-off of financial assets globally. In South Africa, this was exacerbated by sovereign credit rating downgrades by rating agencies, which negatively affected non-resident demand for domestic government bonds and constrained liquidity in parts of the financial system, while higher bond yields increased the cost of government borrowing considerably. Domestic and foreign exchange (FX) forward markets also showed signs of strain and experienced liquidity shortages as reflected in rand-implied rates which traded above the repo rate.

The SARB introduced a number of changes to monetary policy operations to inject liquidity:

- Intraday Overnight Supplementary Repurchase Operations

The SARB's end-of-day discretionary supplementary facilities were replaced by Intraday Overnight Supplementary Repurchase Operations (IOSROs) to increase liquidity to support the daily flow of funds in the banking system. The IOSROs are offered at the repo rate and allocated on a pro-rata basis, with the amount determined by the prevailing liquidity requirement of the market. The additional liquidity provided to clearing banks will lower the money market shortage (MMS) to below the current target level of R56 billion and make it easier for banks to extend credit to clients. The SARB initially maintained the size of the Main Refinancing Operations (MROs) at R56 billion, but has subsequently reduced the weekly shortage to R45 billion as an additional support to money market liquidity.

12 SFs are auctions conducted at penalty rates above or below the prevailing repo rate.

- End-of-day Standing Facility[12] rates

The Standing Facility (SF) borrowing rate was adjusted lower from the repo rate less 100 basis points to the repo rate less 200 basis points. It was subsequently announced that further amendments to the SF rate could be considered should it become evident that liquidity is not adequately transmitted. The reduction in the SF rate aims to stimulate interbank funding and discourage banks from hoarding cash.

The SF lending rate at which the SARB provides overnight liquidity to banks was lowered to equal the repo rate, where previously it exceeded the repo rate by 100 basis points. This supports liquidity in the interbank market as banks rely on the SARB to provide liquidity for end-of-day square-off transactions in the payment system without penalty.

- Main Refinancing Operations

The MROs, normally offered on a weekly basis for periods of seven days, remained unchanged while additional offerings of longer term refinancing operations with maturity of 91-days were announced to add liquidity to the money market. Refinancing operations of 91-days are offered at the repo rate plus 30 basis points, significantly lower than equivalent money market interest rates. Facilities could also be extended to maturities of up to 364 days if deemed necessary. The new refinancing measures were supported by the recent reduction in the weekly money market shortage from R56 billion to R45 billion.

- Purchases of government securities

13 Unsterilised implies that additional liquidity in the money market is not drained through any counter-transactions by the central bank.

The SARB introduced a programme to purchase government securities in the secondary bond market across the maturity spectrum of the yield curve. These purchases will remain unsterilised[13] as it is intended to increase the money supply and encourage lending while promoting the smooth functioning of domestic financial markets. The amount and maturity of bonds purchased are at the discretion of the SARB and are added to the monetary policy portfolio[14] of instruments. Purchases are conducted on a bilateral basis with a variety of counterparties, with both the amounts and counterparties undisclosed. The counter-entry to the subsequent increase in the assets of the central bank is reflected as an increase in private sector banks' deposits at the SARB.[15]

Conceptually, the bond purchase process is as follows: for the purpose of implementing monetary policy, the SARB has the ability to create money on the liability side of its balance sheet along with a simultaneous increase in cash on the asset side. The cash asset is then used to purchase government securities, which increases cash liquidity and circulates through the financial system, among other things, enabling banks to provide additional credit to households and companies. This process of creating additional liquidity is repeated for the duration of the programme. Ultimately, the only movements visible on the balance sheet of the central bank[16] will be an increase in the SARB's bond portfolio and an increase in bank deposits at the SARB. With some of the created money ending up back at the SARB, the change in cash holdings held by the public is partly negated. However, the multiplier effect of money in circulation has a lasting impact on money market liquidity, the overall money supply and credit extension.

- The Prudential Authority[17] also introduced relief measures

The Prudential Authority (PA) introduced the following measures to improve the flow of funds in the banking system:

- Capital relief on restructured loans that were in good standing before the COVID-19 pandemic, with such loans not attracting a higher capital charge.
- The liquidity coverage ratio[18] (LCR) for banks was lowered from 100% to 80%.
- Allowance of temporary capital relief, if required, by setting out the criteria for the utilisation of capital buffers. A reduction in the reserve requirements, Pillar 2A capital requirements, to zero on a temporary basis to facilitate banks' continued lending.
- Guidance to the banking sector on the implementation of *International Financial Reporting Standard (IFRS) 9*[19] during the period of economic stress.

Conclusion

In response to the COVID-19 pandemic, the SARB eased monetary policy through significant reductions in the repo rate, amounting to a cumulative 275 basis points between January and May 2020, and introduced some extraordinary changes to both monetary policy operations and prudential regulations to ensure the adequate flow of funds in the banking and financial systems. These measures eased liquidity strains in domestic financial markets and will be reassessed continually to ensure effective mitigation of risk through an appropriate liquidity management strategy.

14 Part of the instruments used to manage money market liquidity, either to add or drain liquidity from the money market.

15 These government bond purchases through private sector banks' deposits at the SARB increase the monetary base, which comprise central bank liabilities that support the expansion of credit and the money supply. For the underlying methodology, see pages 197 to 200 of the *Monetary and Financial Statistics Manual and Compilation Guide, 2016 of the International Monetary Fund.*

https://www.imf.org/en/Publications/Manuals-Guides/Issues/2018/09/21/Monetary-and-Financial-Statistics-Manual-and-Compilation-Guide-43001

16 This is reported in the statement of assets and liabilities of the SARB. See pages S–2 and S–3 in this edition of the SARB's *Quarterly Bulletin.*

17 The PA is responsible for the regulation of the financial sector and operates as a juristic person within the administration of the SARB, and consists of the following four departments: the Financial Conglomerate Supervision Department; the Banking, Insurance and Financial Market Infrastructures Supervision Department; the Risk Support Department; and the Policy, Statistics and Industry Support Department.

18 The LCR requires banks to hold sufficient cash or high-quality liquid assets that can easily be converted into cash, which matches or exceeds projected cash outflows that may potentially occur during a stress-induced scenario over a 30-day period. Its purpose is to enhance the banking industry's ability to absorb shocks resulting from financial and economic stress.

19 IFRS 9 is an accounting standard that specifies how expected credit losses in the banking sector should be calculated over a business cycle.

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Note on the flow of funds in South Africa's national financial account for the year 2019

by S Madonsela and B Khoza[1]

Introduction

The national financial account shows the flow of funds among institutional sectors of both real and financial transactions. The flow of funds represents the linkages between institutional sectors' sources of funds, such as savings and borrowings, and the uses, such as investment in financial and non-financial assets.

South Africa's national financial account for 2019 reflected the continuation of the longest downturn in economic activity on record as well as low consumer and business confidence, culminating in a technical recession from the second half of the year. Economic conditions were also affected by drought and severe power outages.

This note reflects the impact of economic conditions on the various institutional sectors' transactions. The quarterly national financial accounts for 2019 are appended to this note, and the annual summary is published on pages S–48 and S–49 of this *Quarterly Bulletin*.

Sectoral financing balances

Gross saving for the economy as a whole, which comprises net saving and the consumption of fixed capital, equates gross capital formation. Gross saving in the South African economy of all domestic institutional sectors increased from R701 billion in 2018 to R740 billion in 2019, while gross capital formation was 2.1% higher in 2019. Private non-financial business enterprises accounted for the largest share of both gross saving and gross capital formation in 2019, at 56.2% and 53.9% respectively. The capital formation by public non-financial business enterprises increased by 6.1% from 2018 to 2019. The net borrowing position of South Africa from the foreign sector decreased from R173 billion in 2018 to R153 billion in 2019.

1 The views expressed are those of the authors and do not necessarily reflect the view of the South African Reserve Bank (SARB). The SARB would like to express its sincere appreciation to all the reporting organisations – government departments as well as financial and other public and private sector institutions – for their cooperation in providing the data used for the compilation of South Africa's financial accounts.

Table 1 Financing balances,[1] 2018 and 2019

R millions

	2018				2019			
	Gross saving	Net capital transfers	Gross capital formation[2]	Net lending (+)/net borrowing (-)[3]	Gross saving	Net capital transfers	Gross capital formation	Net lending (+)/net borrowing (-)
Foreign sector[4]	172 961	-236	-	172 725	153 177	-244	-	152 933
Financial intermediaries	116 818	-	23 288	93 530	130 269	-	41 936	88 333
General government...	-1 123	-17 053	145 767	-163 943	-11 960	-98 807	137 193	-247 960
Non-financial business enterprises								
Public	56 926	1	127 410	-70 483	53 633	75 728	135 228	-5 867
Private	461 713	2 235	479 911	-15 963	502 291	1 979	481 500	22 770
Households[5]	67 101	15 053	98 020	-15 866	65 695	21 344	97 248	-10 209
Total	874 396	0	874 396	0	893 105	0	893 105	0

Surplus units (+) deficit units (-)

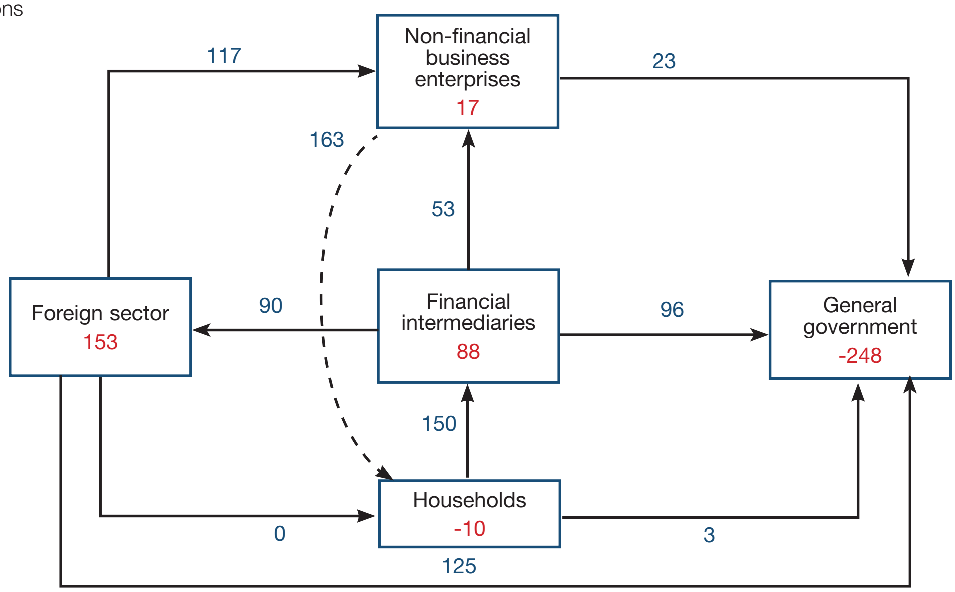
1. A positive amount reflects a net lending position and, by implication, the net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and, by implication, the net incurrence of financial liabilities.
2. Gross capital formation consists of fixed capital formation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

Source: SARB

Figure 1 shows the inter-sectoral flow of funds among the main sectors of the economy in 2019. The foreign sector's net lending position of R153 billion mirrored a domestic shortfall of the same amount. The general government sector recorded an all-time high net borrowing position of R248 billion, which contributed to an increase in government debt. General government sourced funding from financial intermediaries and the foreign sector to finance this shortfall. The foreign sector and financial intermediaries also channelled R170 billion to non-financial business enterprises, mainly through loans, financial derivatives and shares. Households sourced R163 billion from non-financial business enterprises and, in turn, financial intermediaries received R150 billion from households.

Figure 1 Net inter-sectoral flow of funds, 2019*

R billions



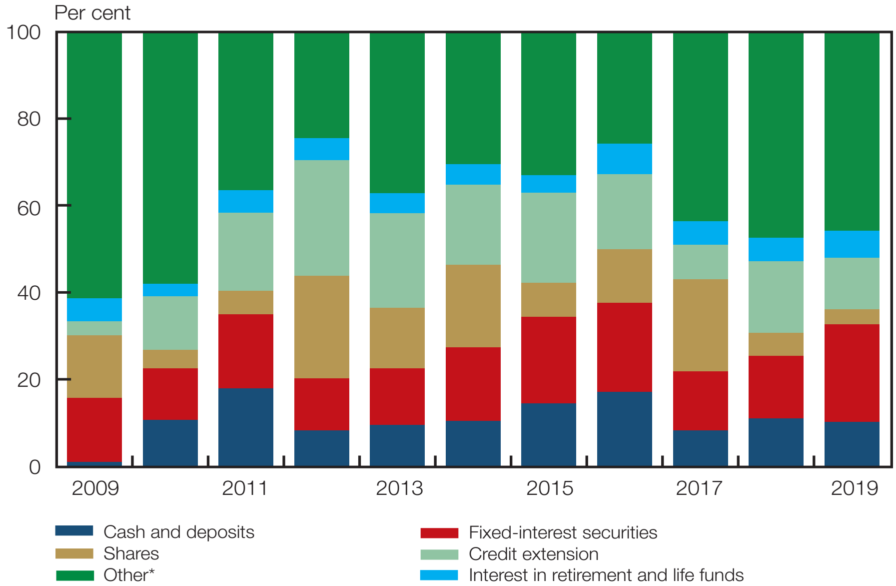
* The numbers may not balance perfectly due to rounding off. The numbers inside the boxes represent the net lending (+) or borrowing (-) positions of the sectors, and those outside the boxes illustrate inter-sectoral flow of funds and the direction of flows. To calculate the net lending or net borrowing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

Source: SARB

2 Total flows reflect the net acquisition of financial assets *plus* gross capital formation *plus* capital transfers.

Figure 2 shows the total flows[2] by different asset classes for all institutional sectors. The contribution of fixed-interest securities increased from 14.3% in 2018 to 22.4% in 2019 due to general government's all-time high net borrowing requirement. The contribution of cash and deposits, credit extension and shares of 10.3%, 11.8% and 3.5% respectively in 2019, all decreased from 2018. However, interest in retirement and life funds increased from 5.5% in 2018 to 6.2% in 2019. Gross capital formation contributed 31.2% to total flows in 2019 and accounted for most of the 'other' category in Figure 2.

Figure 2 Contribution of asset classes to total flows



* Gross capital formation, capital transfers and other financial instruments

Source: SARB

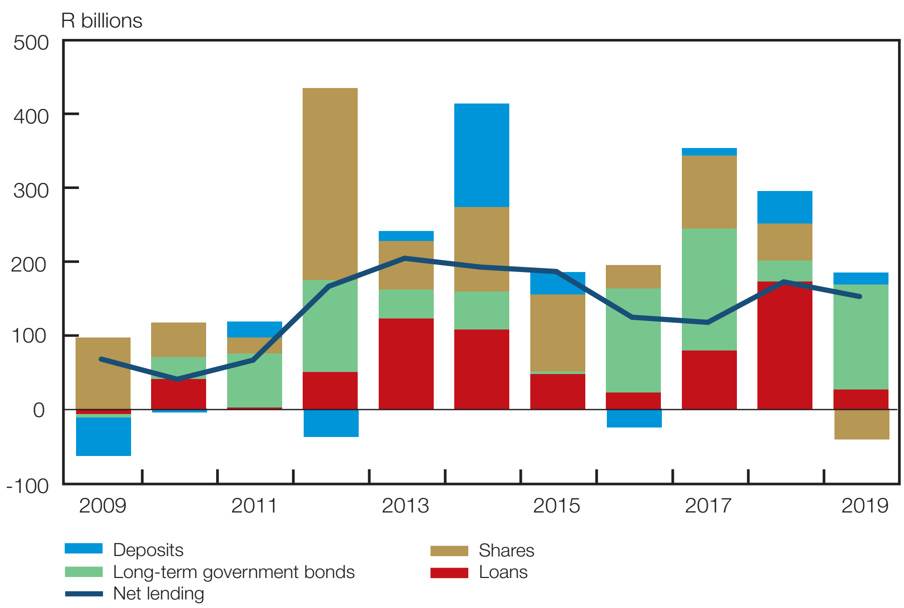
Sectoral analysis

The institutional sectors with surplus funds seek appropriate investments, while those with deficit positions require suitable funding. This section shows these outcomes per financial instrument which, among others, inherently reflect market participants' risk-return assessments, funding costs and general economic conditions.

Foreign sector

Funding from the foreign sector balances the domestic saving-investment gap. Non-residents' net lending position declined from R173 billion in 2018 to R153 billion in 2019. Non-residents channelled these funds into the South African economy through a mix of financial instruments, including bonds, loans and deposits. Net purchases of domestic long-term government bonds, which increased notably to R142 billion in 2019, from R28.4 billion in 2018, were encouraged by favourable interest rate differentials. Net sales of shares of R41.4 billion in 2019 reflected

Figure 3 Non-residents' net funding by selected instruments



Source: SARB

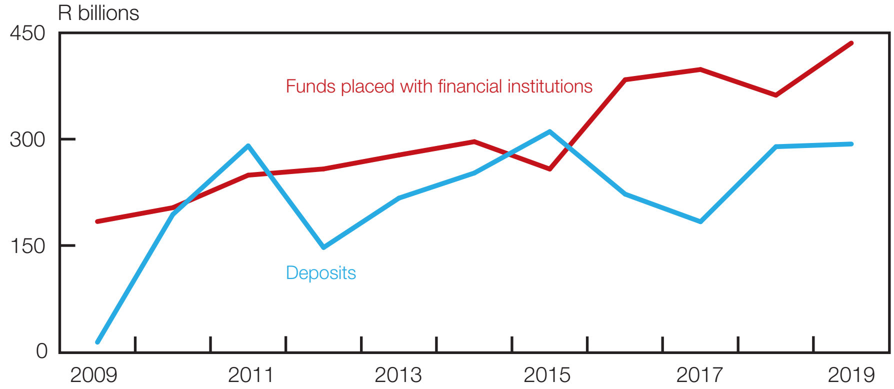
foreign investors' concerns about domestic economic growth prospects and lack of progress with structural reforms. The amount of loans extended decreased from R173 billion in 2018 to only R27.4 billion in 2019. Funds injected into the domestic banking sector in the form of deposits amounted to R16.7 billion in 2019 compared with R44.2 billion in 2018.

Financial intermediaries[3]

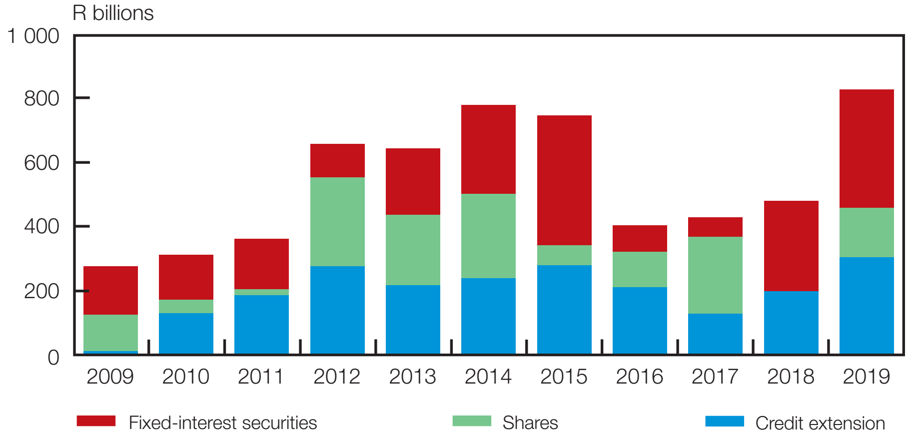
3 Financial intermediaries comprise the monetary authority, banks and non-bank financial institutions (excluding the Public Investment Corporation (PIC)).

Total funds intermediated between surplus and deficit units through financial intermediaries increased from R744 billion in 2018 to R955 billion in 2019. Financial intermediaries sourced funding largely through funds placed by investors of R436 billion in 2019, which included premiums and contributions, compared with R362 billion in 2018. In addition, the banking sector received deposits of R293 billion in 2019, up from R290 billion in 2018. Financial intermediaries, in turn, channelled these funds to other institutional sectors in need of funding through various financial assets, such as loans, shares and fixed-interest securities.

Figure 4 Net incurrence of financial liabilities through selected instruments by financial intermediaries



Net acquisition of financial assets through selected instruments by financial intermediaries



Source: SARB

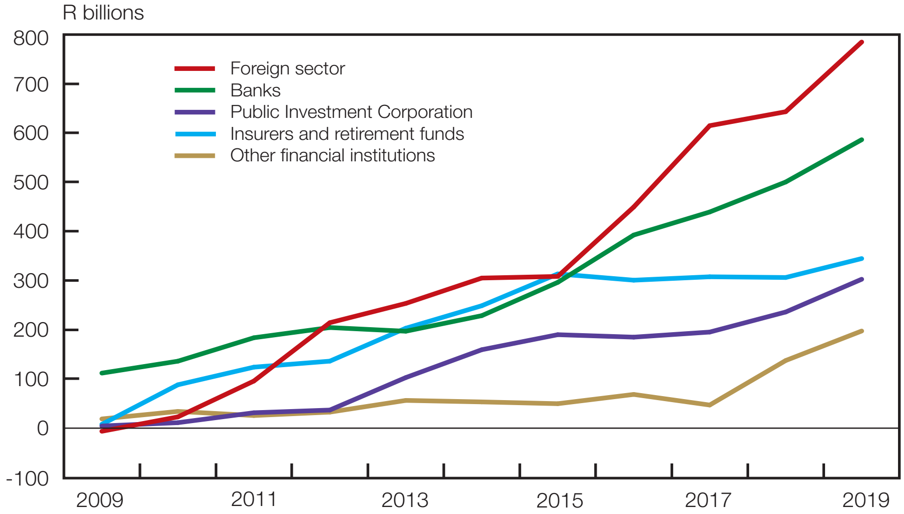
Intermediaries acquired fixed-interest securities of R367 billion, enabling especially general government to fund the deficit. Credit extension was higher at R305 billion in 2019 compared with R199 billion in 2018. Intermediation through domestic shares amounted to R154 billion in 2019.

General government

The general government sector issued a significant amount of debt instruments in 2019 to fund the borrowing requirement. The *2019 Medium Term Budget Policy Statement* highlighted the deterioration of public finances with subdued economic activity leading to large revenue shortfalls, while interest payments increased.

Capital spending by general government decreased from R146 billion in 2018 to R137 billion in 2019 as budget constraints intensified along with increased support for state-owned companies. General government's net borrowing position increased to an all-time high of R248 billion in 2019 or 4.9% of GDP, compared with 3.4% in 2018. The borrowing requirement was financed through the net issuance of long-term government bonds of R347 billion, of which R76.1 billion was raised in the international bond market, short-term government bonds of R34.4 billion and Treasury bills of R44.2 billion. The accumulated value of these financial assets held by the foreign sector, banks as well as insurers and retirement funds amounted to R785 billion, R586 billion and R345 billion respectively in 2019. The general government sector repaid loans of R48.8 billion, while deposit holdings increased by R18.1 billion in 2019.

Figure 5 Cumulative net investment* in national government instruments by main institutional sector



* Cumulative from 2009

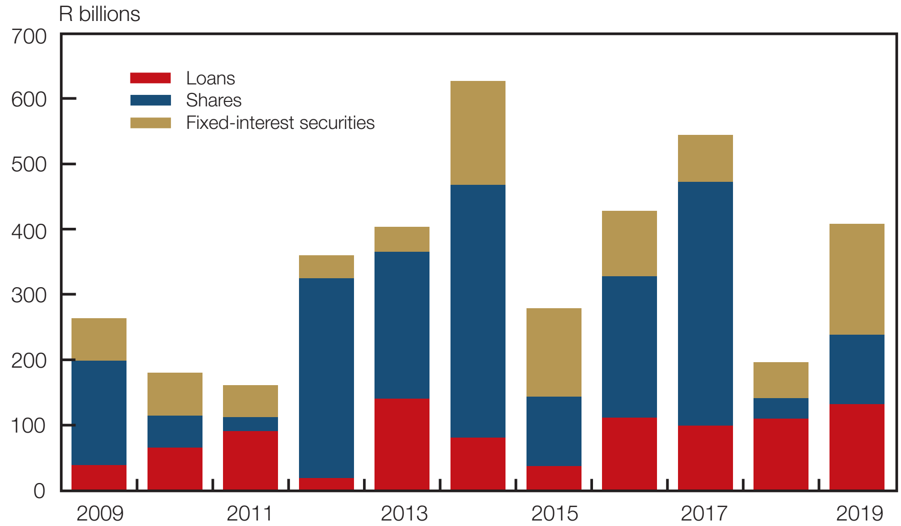
Source: SARB

Non-financial public and private corporate business enterprises

The challenging economic environment in 2019 and low business confidence constrained the expansion in gross capital formation by both public and private non-financial enterprises, which increased only marginally to R617 billion in 2019, from R607 billion in 2018. The increase was mostly due to spending on computers and related equipment by private non-financial business enterprises.

Public non-financial business enterprises continued to be a net borrower in 2019, with the net incurrence of financial liabilities exceeding the net acquisition of financial assets. While the net issuances of securities by public enterprises of R10.8 billion in 2019 were less than the R24.7 billion in 2018, the net issues of all fixed-interest securities by both public and private business enterprises increased from R55.6 billion in 2018 to R169 in 2019. Non-financial business enterprises, both public and private, borrowed R132 billion through loans, while the value of shares issued amounted to R107 billion in 2019. Non-financial business enterprises invested in various financial assets, including deposits of R79.5 billion, funds placed with other financial institutions of R74.2 billion and a somewhat increased exposure to financial derivatives of R169 billion in the review period.

Figure 6 Non-financial corporate business enterprises' net incurrence of financial liabilities

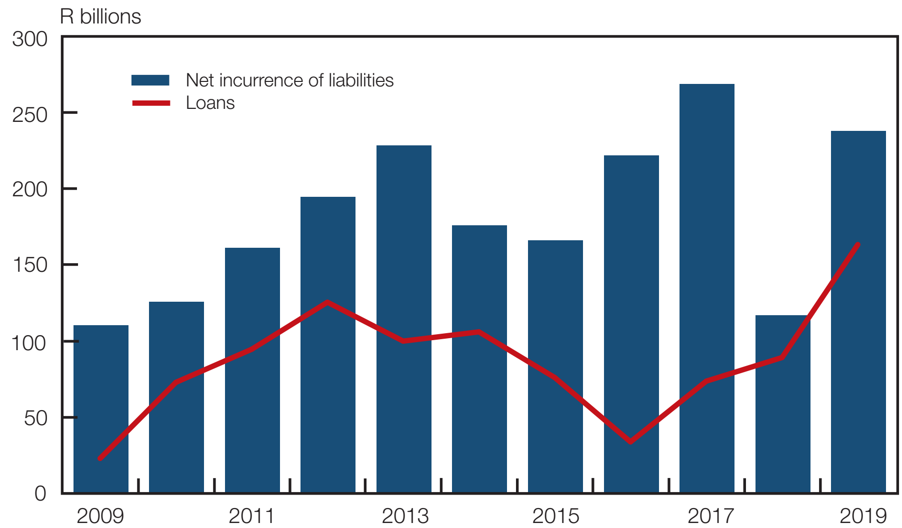


Source: SARB

Households

The increase in the household sector's accumulation of liabilities in 2019 mostly reflected credit extended to the sector of R163 billion compared with R88.9 billion in 2018. This credit supplemented income at a time when household finances were vulnerable due to rising unemployment, slower growth in real disposable income and low confidence. Demand for mortgage loans, which increased slightly from only R39.5 billion in 2018 to R49.6 billion in 2019, was dampened by weak activity in the real estate market along with stagnant house prices. Amid this uncertainty, household deposits increased by R104 billion in 2019. Despite less employment across key labour-intensive sectors, interest in retirement and life funds of R151 billion in 2019 was still more than the R119 billion in 2018.

Figure 7 Households' financial liabilities



Source: SARB

Summary

The flow of funds in 2019, as portrayed in the national financial account, reflected the impact of adverse developments in global trade, severe power outages, drought, low consumer and business confidence, and weak economic activity which turned into a technical recession in the second half of the year. The main highlights were:

- Net lending from the foreign sector of R153 billion in 2019 reflected the domestic shortfall and balanced the domestic saving-investment gap.
- Non-residents' net purchases of domestic long-term government bonds of R142 billion in 2019 were supported by favourable interest rate differentials.
- Non-residents' net sales of shares of R41.4 billion in 2019 reflected investors' concerns about domestic economic growth prospects and lack of progress with structural reforms.
- Capital spending by general government decreased as budget constraints intensified along with increased support for state-owned companies.
- The general government sector's net borrowing requirement increased to an all-time high and contributed to an increase in government debt.
- Gross capital formation by both public and private non-financial business enterprises increased only marginally.
- Public non-financial business enterprises continued to be net borrowers.
- The increase in the household sector's liabilities mostly reflected credit extended to the sector.
- Household deposits increased strongly amid uncertainty.

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National financial account

Flow of funds for the first quarter 2019[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	57 944		1 448		4 763		-48		4 478		12 771	
2. Consumption of fixed capital[4]			158		4 124		8		194		1 175	
3. Capital transfers	43	**106**										
4. Gross capital formation[4]				**317**		**13 817**		**9**		**219**		**1 057**
5. Net lending (+)/net borrowing (-) (S)	57 881		1 289		-4 930		-49		4 453		12 889	
6. Net financial investment (+) or (-) (U)		**57 881**		**1 289**		**-4 930**		**-49**		**4 453**		**12 889**
7. Net incurrence of financial liabilities (Total S 9 – 32)	9 187		-19 668		124 886		26 886		95 513		81 973	
8. Net acquisition of financial assets (Total U 9 – 32)		**67 068**		**-18 379**		**119 956**		**26 837**		**99 966**		**94 862**
9. Gold and other foreign reserves	-34 244			**-34 244**								
10. Cash and demand monetary deposits[5]		**-1 826**	-14 703	**9 500**	-7 047	**-1 114**		**1 782**		**-1 772**		**10 999**
11. Short/Medium-term monetary deposits[5]		**-4 759**		**28 708**	5 825			**999**		**-2 469**		**9 356**
12. Long-term monetary deposits[5]		**-3 525**		**1 015**	53 704			**4 619**		**4 063**		**39 798**
13. Funds placed with other financial institutions	334	**-29**				**4 265**		**1 976**		**1 230**	48 206	**334**
14. Funds placed with other institutions	2 526					**1 675**	26 886	**992**	992	**21 196**		**1 351**
15. Treasury bills	-339			**2 013**		**-11 839**				**-62**		**521**
16. Other bills	13 739			**9 323**	881	**3 749**		**908**		**-12**		**1 527**
17. Bank loans and advances	34 298		813	**-297**	399	**112 041**					24 713	
18. Trade credit and short-term loans	27 122	**61 882**	-343	**-25 000**	4 719	**21 493**			5 917	**383**	-1 681	**-630**
19. Short-term government bonds				**58**		**11 371**		**18 447**		**6 373**		**9 934**
20. Long-term government bonds		**35 690**				**-5 245**		**-12 853**		**5 759**		**-16 895**
21. Non-marketable debt of central government[6]												
22. Securities of local governments						**-129**				**-483**		**29**
23. Securities of public enterprises	1 508	**618**				**2 672**		**-353**		**-988**	18	**-1 077**
24. Other loan stock and preference shares	9 702	**-1 011**			-1 344	**16 631**		**-1 440**	-239	**13 842**	2 045	**13 528**
25. Ordinary shares	19 956	**-2 815**			3 162	**11 534**		**5 148**	71	**73 517**		**42 579**
26. Foreign branch/head office balances												
27. Long-term loans	7 982	**12 131**	6 206	**-3**	3 682				-36	**-3 545**	880	**261**
28. Mortgage loans	168					**17 831**				**230**	-136	**577**
29. Interest in retirement and life funds[7]		**7 456**				**-321**			43 097			
30. Financial derivatives	-40 900	**-42 954**			-9 251	**-3 172**			-197	**1 735**	-72	**-47**
31. Amounts receivable/payable	124		212	**178**		**-4 162**			23 012	**-13 345**	1 026	**-3 309**
32. Other liabilities/assets	-32 789	**6 210**	-11 853	**-9 630**	70 117	**-56 993**		**6 612**	22 672	**-5 514**	6 730	**-13 730**
33. Balancing item					39	**-331**			224	**-172**	244	**-244**

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

KB230

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

National financial account (continued)
Flow of funds for the first quarter 2019[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
-14 988		-2 064		-13 914		17 739		-39 744		28 385		1. Net saving[4]
17 962		6 206		26 953		100 320		18 044		175 144		2. Consumption of fixed capital[4]
	44 282	17 837		18 041		458	**15**	8 052	**28**	44 431	**44 431**	3. Capital transfers
	18 782		**17 385**		**31 863**		**95 928**		**24 152**		**203 529**	4. Gross capital formation[4]
-60 090		4 594		-783		22 574		-37 828				5. Net lending (+)/net borrowing (-) (S)
	-60 090		**4 594**		**-783**		**22 574**		**-37 828**			6. Net financial investment (+) or (-) (U)
24 145		13 055		11 308		148 741		83 133		599 159		7. Net incurrence of financial liabilities (Total S 9 – 32)
	-35 945		**17 649**		**10 525**		**171 315**		**45 305**		**599 159**	8. Net acquisition of financial assets (Total U 9 – 32)
										-34 244	**-34 244**	9. Gold and other foreign reserves
	-32 832		**9 874**		**-5 462**		**-7 155**		**-3 744**	-21 750	**-21 750**	10. Cash and demand monetary deposits[5]
	-34 977		**9 384**		**3 331**		**-11 979**		**8 231**	5 825	**5 825**	11. Short/Medium-term monetary deposits[5]
	-7 737		**-882**		**-137**		**7 906**		**8 584**	53 704	**53 704**	12. Long-term monetary deposits[5]
			-731		**578**		**32 258**		**8 659**	48 540	**48 540**	13. Funds placed with other financial institutions
	5 154					95			**131**	30 499	**30 499**	14. Funds placed with other institutions
-6 140							**2 888**			-6 479	**-6 479**	15. Treasury bills
				-160		333	**-702**			14 793	**14 793**	16. Other bills
931		1 304		6 861		21 636		20 789		111 744	**111 744**	17. Bank loans and advances
-24 659	**5 867**	-317	**4**	297	**3 012**	42 179	**25 782**	29 075	**-10 484**	82 309	**82 309**	18. Trade credit and short-term loans
46 183										46 183	**46 183**	19. Short-term government bonds
6 592					**136**					6 592	**6 592**	20. Long-term government bonds
218									**218**	218	**218**	21. Non-marketable debt of central government[6]
		-102					**481**			-102	**-102**	22. Securities of local governments
	3 613			1 330			**-1 627**		**-2**	2 856	**2 856**	23. Securities of public enterprises
	1 104			4 107	**260**	33 913	**5 270**			48 184	**48 184**	24. Other loan stock and preference shares
	5 291			10 254	**-264**	85 054	**-16 493**			118 497	**118 497**	25. Ordinary shares
												26. Foreign branch/head office balances
-3	**26 193**	53		18 998	**2 806**	6 077	**6 621**	531	**-94**	44 370	**44 370**	27. Long-term loans
				338		4 361		13 907		18 638	**18 638**	28. Mortgage loans
							2 091		**33 871**	43 097	**43 097**	29. Interest in retirement and life funds[7]
				-1 297	**749**	37 829	**29 801**			-13 888	**-13 888**	30. Financial derivatives
1 023	**-7 621**			-20 416	**5 370**	-17 687	**14 207**	3 910	**-114**	-8 796	**-8 796**	31. Amounts receivable/payable
		12 094		-9 003	**109**	-64 339	**81 437**	14 921	**49**	8 550	**8 550**	32. Other liabilities/assets
		23		-1	**37**	-710	**529**			-181	**-181**	33. Balancing item

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KB231

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

National financial account

Flow of funds for the second quarter 2019[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	31 909		1 553		10 345		101		8 630		7 685	
2. Consumption of fixed capital[4]			160		4 358		8		190		1 187	
3. Capital transfers	41	**101**										
4. Gross capital formation[4]				**96**		**11 190**		**8**		**172**		**932**
5. Net lending (+)/net borrowing (-) (S)	31 849		1 617		3 513		101		8 648		7 940	
6. Net financial investment (+) or (-) (U)		**31 849**		**1 617**		**3 513**		**101**		**8 648**		**7 940**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-14 438		-30 441		160 559		20 360		68 133		44 729	
8. Net acquisition of financial assets (Total U 9 – 32)		**17 411**		**-28 824**		**164 072**		**20 461**		**76 781**		**52 669**
9. Gold and other foreign reserves	-7 674			**-7 674**								
10. Cash and demand monetary deposits[5]		**-719**	-20 951	**-13 927**	35 603	**49**		**10 604**		**934**		**-8 971**
11. Short/Medium-term monetary deposits[5]		**-7 499**		**-33 208**	1 038			**-6 126**		**2 385**		**-49 185**
12. Long-term monetary deposits[5]		**5 944**		**-1 015**	82 893			**10 506**		**8 003**		**54 243**
13. Funds placed with other financial institutions	132	**-17**				**3 703**		**370**		**3 225**	40 878	**132**
14. Funds placed with other institutions	-23 191					**-20 499**	20 360	**639**	639	**9 187**		**-541**
15. Treasury bills	-469			**-1 066**		**29 499**				**-315**		**691**
16. Other bills	-11 343			**-8 454**	210	**-2 287**		**3 027**		**458**		**12 759**
17. Bank loans and advances	28 541		-443	**675**	680	**40 715**					-8 054	
18. Trade credit and short-term loans	60 450	**28 776**	-771	**32 060**	3 708	**23 985**			1 495	**13 728**	10 879	**32 158**
19. Short-term government bonds				**148**		**-6 979**		**-111**		**-5 098**		**-52**
20. Long-term government bonds		**-6 995**				**24 573**		**18 562**		**28 711**		**22 977**
21. Non-marketable debt of central government[6]		**-394**										
22. Securities of local governments						**-270**		**6**		**1 698**		**65**
23. Securities of public enterprises		**5 954**				**980**		**-1**		**417**		**- 492**
24. Other loan stock and preference shares	-4 841	**2 014**			-1 716	**425**		**-1 454**	5 903	**-3 480**	1 959	**719**
25. Ordinary shares	1 125	**16 307**			7 549	**4 384**		**-1 531**	66	**39 861**		**-25 021**
26. Foreign branch/head office balances												
27. Long-term loans	-8 920	**5 424**	-7 916	**-1**	-389				-290	**1 398**	494	**862**
28. Mortgage loans	-923					**27 932**				**-310**	1 474	**439**
29. Interest in retirement and life funds[7]		**-2 539**				**-6**			42 369			
30. Financial derivatives	-31 046	**-31 548**			17 671	**36 359**			-553	**1 090**	3 602	**4 281**
31. Amounts receivable/payable	1 031	**44**	-972	**110**		**1 443**			-3 112	**-9 829**	2 325	**4 423**
32. Other liabilities/assets	-17 310	**2 659**	612	**3 528**	13 234	**50**		**-14 030**	21 462	**-15 211**	-8 621	**2 887**
33. Balancing item					78	**16**			154	**-71**	-207	**295**

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KB230

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

National financial account (continued)

Flow of funds for the second quarter 2019[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
-4 754		-16 846		-12 865		19 402		22 163		67 323		1. Net saving[4]
17 796		6 712		27 353		101 780		18 312		177 856		2. Consumption of fixed capital[4]
	23 248	161		18 396		511	**15**	4 281	**26**	23 390	**23 390**	3. Capital transfers
	17 952		**17 208**		**36 006**		**138 502**		**23 113**		**245 179**	4. Gross capital formation[4]
-28 158		-27 181		-3 122		-16 824		21 617				5. Net lending (+)/net borrowing (-) (S)
	-28 158		**-27 181**		**-3 122**		**-16 824**		**21 617**			6. Net financial investment (+) or (-) (U)
130 792		4 004		14 300		139 331		55 916		593 245		7. Net incurrence of financial liabilities (Total S 9 – 32)
	102 634		**-23 177**		**11 178**		**122 507**		**77 533**		**593 245**	8. Net acquisition of financial assets (Total U 9 – 32)
										-7 674	**-7 674**	9. Gold and other foreign reserves
	20 821		**-11 134**		**1 232**		**7 019**		**8 744**	14 652	**14 652**	10. Cash and demand monetary deposits[5]
	62 108		**-11 676**		**-3 130**		**13 467**		**33 902**	1 038	**1 038**	11. Short/Medium-term monetary deposits[5]
	4 274		**194**		**1 029**		**3 575**		**-3 860**	82 893	**82 893**	12. Long-term monetary deposits[5]
			-562		**-23**		**18 930**		**15 252**	41 010	**41 010**	13. Funds placed with other financial institutions
	7 856					-530			**636**	-2 722	**-2 722**	14. Funds placed with other institutions
32 601							**3 323**			32 132	**32 132**	15. Treasury bills
	31			-188		17 070	**215**			5 749	**5 749**	16. Other bills
-405		2 759		-49		11 548		6 813		41 390	**41 390**	17. Bank loans and advances
31 274	**486**	761	**-2**	-820	**-3 096**	6 994	**-9 093**	2 547	**-2 485**	116 517	**116 517**	18. Trade credit and short-term loans
-12 092										-12 092	**-12 092**	19. Short-term government bonds
87 828										87 828	**87 828**	20. Long-term government bonds
-454									**-60**	-454	**-454**	21. Non-marketable debt of central government[6]
		-90					**-1 589**			-90	**-90**	22. Securities of local governments
				6 856					**-2**	6 856	**6 856**	23. Securities of public enterprises
	2 503					9 959	**10 537**			11 264	**11 264**	24. Other loan stock and preference shares
				275		37 008	**12 023**			46 023	**46 023**	25. Ordinary shares
												26. Foreign branch/head office balances
-636	**-5 020**	47	**3**	4 721	**-672**	7 120	**-6 208**	1 213	**-342**	-4 556	**-4 556**	27. Long-term loans
				5		16 951		10 554		28 061	**28 061**	28. Mortgage loans
							8 523		**36 391**	42 369	**42 369**	29. Interest in retirement and life funds[7]
				286	**-1 621**	63 226	**44 625**			53 186	**53 186**	30. Financial derivatives
-7 324	**9 575**			6 626	**17 469**	-10 672	**6 168**	30 803	**-10 698**	18 705	**18 705**	31. Amounts receivable/payable
		352		-3 309	**-14**	-19 587	**10 895**	3 986	**55**	-9 181	**-9 181**	32. Other liabilities/assets
		175		-103	**4**	244	**97**			341	**341**	33. Balancing item

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KB231

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

National financial account

Flow of funds for the third quarter 2019[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	63 381		1 344		-3 625		106		7 114		10 958	
2. Consumption of fixed capital[4]			161		4 480		8		193		1 202	
3. Capital transfers	44	**103**										
4. Gross capital formation[4]				**105**		**4 988**		**9**		**86**		**1 109**
5. Net lending (+)/net borrowing (-) (S)	63 322		1 400		-4 133		105		7 221		11 051	
6. Net financial investment (+) or (-) (U)		**63 322**		**1 400**		**-4 133**		**105**		**7 221**		**11 051**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-13 818		134 856		83 079		39 238		32 910		37 507	
8. Net acquisition of financial assets (Total U 9 – 32)		**49 504**		**136 256**		**78 946**		**39 343**		**40 131**		**48 558**
9. Gold and other foreign reserves	77 164			**77 164**								
10. Cash and demand monetary deposits[5]		**1 873**	87 269	**1 928**	-5 055	**5 036**		**3 045**		**-3 892**		**3 569**
11. Short/Medium-term monetary deposits[5]		**21 636**		**20 000**	61 930			**-1 482**		**-2 999**		**28 539**
12. Long-term monetary deposits[5]		**15 839**			11 619			**161**		**5 193**		**-21 029**
13. Funds placed with other financial institutions	1 497	**201**				**2 047**		**5 415**		**894**	45 373	**1 497**
14. Funds placed with other institutions	-47 852					**-47 852**	39 238	**655**	655	**35 701**		**325**
15. Treasury bills	-2 701			**-1 303**		**-2 276**				**-672**		**-400**
16. Other bills	21 909			**28 836**	-124	**503**		**2 424**		**63**		**10 323**
17. Bank loans and advances	-12 135		1 104	**9 725**	9 714	**1 960**					-1 779	
18. Trade credit and short-term loans	-40 931	**-46 840**	1 528	**-20 333**	-59 685	**-26 876**			7 660	**180**	-3 577	**1 625**
19. Short-term government bonds				**-63**		**2 745**		**-275**		**-2 522**		**-27**
20. Long-term government bonds		**72 760**				**35 415**		**20 285**		**13 950**		**10 832**
21. Non-marketable debt of central government[6]												
22. Securities of local governments						**-509**				**1 133**		**-192**
23. Securities of public enterprises		**-2 790**		**-20**		**7 577**		**-5 824**		**-2 113**	664	**-3**
24. Other loan stock and preference shares	8 856	**-1 027**			242	**13 178**		**-5 029**	-1 084	**10 474**	1 275	**10 749**
25. Ordinary shares	-28 364	**-29 298**			1 090	**-2 562**		**17 986**	126	**-42 830**		**-5 005**
26. Foreign branch/head office balances												
27. Long-term loans	12 170	**20 965**	40 158	**3**	4 141				125	**-4 112**	1 893	**2 266**
28. Mortgage loans	-365					**25 973**				**241**	-447	**-1 311**
29. Interest in retirement and life funds[7]		**8 851**				**114**			44 397			
30. Financial derivatives	-34 845	**-37 892**			86 793	**33 810**			305	**347**	265	**-156**
31. Amounts receivable/payable	506	**52**	146	**-3**		**-523**			5 162	**14 897**	-1 718	**1 070**
32. Other liabilities/assets	31 273	**25 174**	4 651	**20 322**	-27 440	**31 139**		**1 982**	-24 327	**15 898**	-4 332	**5 664**
33. Balancing item					-146	**47**			-109	**300**	-110	**222**

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KB230

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

National financial account (continued)
Flow of funds for the third quarter 2019[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
-53 338		-9 837		-11 482		44 027		13 759		62 407		1. Net saving[4]
17 901		6 772		27 844		102 512		18 451		179 524		2. Consumption of fixed capital[4]
	29 137	10 985		13 852		427	**16**	3 976	**28**	29 284	**29 284**	3. Capital transfers
	17 214		**16 533**		**37 013**		**140 595**		**24 279**		**241 931**	4. Gross capital formation[4]
-81 788		-8 613		-6 799		6 355		11 879				5. Net lending (+)/net borrowing (-) (S)
	-81 788		**-8 613**		**-6 799**		**6 355**		**11 879**			6. Net financial investment (+) or (-) (U)
151 774		7 521		-11 866		28 713		53 078		542 992		7. Net incurrence of financial liabilities (Total S 9 – 32)
	69 986		**-1 092**		**-18 665**		**35 068**		**64 957**		**542 992**	8. Net acquisition of financial assets (Total U 9 – 32)
										77 164	**77 164**	9. Gold and other foreign reserves
	35 146		**-4 530**		**1 393**		**31 910**		**6 736**	82 214	**82 214**	10. Cash and demand monetary deposits[5]
	-24 978		**2 329**		**743**		**-8 742**		**26 884**	61 930	**61 930**	11. Short/Medium-term monetary deposits[5]
	6 711		**1 040**		**3 776**		**3 566**		**-3 638**	11 619	**11 619**	12. Long-term monetary deposits[5]
			69		**-340**		**24 244**		**12 843**	46 870	**46 870**	13. Funds placed with other financial institutions
	3 466					338			**84**	-7 621	**-7 621**	14. Funds placed with other institutions
18 856							**20 806**			16 155	**16 155**	15. Treasury bills
	31			229		14 673	**-5 493**			36 687	**36 687**	16. Other bills
-361		17		-2 744		5 173		12 696		11 685	**11 685**	17. Bank loans and advances
-20 331	**1 792**	-2		-3 321	**-36**	-18 113	**-32 161**	19 026	**4 903**	-117 746	**-117 746**	18. Trade credit and short-term loans
-142										-142	**-142**	19. Short-term government bonds
153 242										153 242	**153 242**	20. Long-term government bonds
146									**146**	146	**146**	21. Non-marketable debt of central government[6]
		-102					**-534**			-102	**-102**	22. Securities of local governments
	-24			-3 868					**-7**	-3 204	**-3 204**	23. Securities of public enterprises
	2 503			6 674	**4**	20 809	**5 920**			36 772	**36 772**	24. Other loan stock and preference shares
				-4 073		-97 398	**-66 910**			-128 619	**-128 619**	25. Ordinary shares
												26. Foreign branch/head office balances
3	**40 158**	53		3 328	**-459**	9 763	**16 356**	3 542	**-1**	75 176	**75 176**	27. Long-term loans
				-450		14 168		11 997		24 903	**24 903**	28. Mortgage loans
							-1 316		**36 748**	44 397	**44 397**	29. Interest in retirement and life funds[7]
				-4 049	**5 441**	51 802	**98 721**			100 271	**100 271**	30. Financial derivatives
361	**5 181**			-11 694	**-9 581**	-4 101	**2 896**	10 146	**-15 181**	-1 192	**-1 192**	31. Amounts receivable/payable
		7 370		8 076	**-19 454**	31 182	**-54 041**	-4 329	**-4 560**	22 124	**22 124**	32. Other liabilities/assets
		185		26	**-152**	417	**-154**			263	**263**	33. Balancing item

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

KB231

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

National financial account

Flow of funds for the fourth quarter 2019[1]

R millions

Transaction items \ Sectors	Foreign sector S	Foreign sector U	Financial intermediaries: Monetary authority S	Monetary authority U	Other monetary institutions[2] S	Other monetary institutions[2] U	Public Investment Corporation[3] S	Public Investment Corporation[3] U	Insurers and retirement funds S	Insurers and retirement funds U	Other financial institutions S	Other financial institutions U
1. Net saving[4]	-57		1 041		18 072		113		5 113		14 555	
2. Consumption of fixed capital[4]			161		4 583		8		191		1 203	
3. Capital transfers	40	102										
4. Gross capital formation[4]				135		6 346		9		100		1 232
5. Net lending (+)/net borrowing (-) (S)	-119		1 067		16 309		112		5 204		14 526	
6. Net financial investment (+) or (-) (U)		-119		1 067		16 309		112		5 204		14 526
7. Net incurrence of financial liabilities (Total S 9 – 32)	-103 511		-48 458		-11 552		31 281		76 687		-5 635	
8. Net acquisition of financial assets (Total U 9 – 32)		-103 630		-47 391		4 757		31 393		81 891		8 891
9. Gold and other foreign reserves	-9 876			-9 876								
10. Cash and demand monetary deposits[5]		-4 373	-12 464	25 999	44 275	8 378		-15 473		3 042		-13 363
11. Short/Medium-term monetary deposits[5]		829		-13 500	27 454			10 954		2 597		-5 016
12. Long-term monetary deposits[5]		-6 671			-58 081			-13 227		-4 120		-29 524
13. Funds placed with other financial institutions	-604	182				1 223		5 133		60	3 554	-604
14. Funds placed with other institutions	-566					4 190	31 281	645	645	22 202		1 007
15. Treasury bills	2 678			18		-7 914		4 546		-24		-77
16. Other bills	-22 381			-25 017	-2 347	56		8 623		-699		11 845
17. Bank loans and advances	-30 302		-1 483	- 4 361	-5 080	-32 784			-77		3 478	
18. Trade credit and short-term loans	-22 549	-32 068	-2 033	-1 209	21 243	-8 570			8 981	33 859	-9 156	-14 423
19. Short-term government bonds				13		6 502		1 369		-7 359		-74
20. Long-term government bonds		40 189				10 150		16 621		-241		32 557
21. Non-marketable debt of central government[6]		-394										
22. Securities of local governments						-22		18		3 255		21
23. Securities of public enterprises		2 178		-45		2 004		-1 471		2 660	164	1 166
24. Other loan stock and preference shares	23 428	-1 315			-1 153	28 228		-3 083	-881	12 963	2 788	5 427
25. Ordinary shares	-8 486	-25 607			-4 913	4 503		26 384	143	42 111		10 606
26. Foreign branch/head office balances												
27. Long-term loans	15 236	-22 896	-39 406	-2	-3 175				397	6 345	2 558	1 475
28. Mortgage loans	-227					37 671				67	-163	248
29. Interest in retirement and life funds[7]		-704				625			47 052			
30. Financial derivatives	-52 263	-50 837			-64 411	-8 932			-825	-667	-316	-9
31. Amounts receivable/payable	-1 105	-86	838	96		-17 411			11 278	-3 830	-3 788	4 525
32. Other liabilities/assets	3 506	-2 057	6 090	-19 507	34 477	-22 855		-9 646	9 731	-29 998	-4 566	2 828
33. Balancing item					159	-285			243	-332	-188	276

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

KB230

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

National financial account (continued)

Flow of funds for the fourth quarter 2019[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
7 438		-15 633		-18 551		13 681		-3 860		21 912		1. Net saving[4]
17 910		6 803		28 295		102 830		18 570		180 554		2. Consumption of fixed capital[4]
	42 328	11 205		25 439		643	14	5 143	26	42 470	42 470	3. Capital transfers
	16 354		15 765		30 346		106 475		25 704		202 466	4. Gross capital formation[4]
-33 334		-13 390		4 837		10 665		-5 877				5. Net lending (+)/net borrowing (-) (S)
	-33 334		-13 390		4 837		10 665		-5 877			6. Net financial investment (+) or (-) (U)
39 609		13 986		-2 367		53 747		46 332		90 119		7. Net incurrence of financial liabilities (Total S 9 – 32)
	6 275		596		2 470		64 412		40 455		90 119	8. Net acquisition of financial assets (Total U 9 – 32)
										-9 876	-9 876	9. Gold and other foreign reserves
	1 111		764		2 258		9 395		14 073	31 811	31 811	10. Cash and demand monetary deposits[5]
	-586		1 002		8 787		16 177		6 210	27 454	27 454	11. Short/Medium-term monetary deposits[5]
	-6 297		-1 014		-81		643		2 210	-58 081	-58 081	12. Long-term monetary deposits[5]
			-155		-182		-1 302		-1 405	2 950	2 950	13. Funds placed with other financial institutions
	4 257					1 017			76	32 377	32 377	14. Funds placed with other institutions
-1 157							4 972			1 521	1 521	15. Treasury bills
	31			-304		19 096	-775			-5 936	-5 936	16. Other bills
-4 755		-678		-2 229		-11 233		15 214		-37 145	-37 145	17. Bank loans and advances
-32 742	9 604	-457		92	-358	-21 292	-42 716	217	-1 815	-57 696	-57 696	18. Trade credit and short-term loans
451										451	451	19. Short-term government bonds
99 276										99 276	99 276	20. Long-term government bonds
-455									-61	-455	-455	21. Non-marketable debt of central government[6]
		-90					-3 362			-90	-90	22. Securities of local governments
	35			6 441					78	6 605	6 605	23. Securities of public enterprises
	2 503			-37	-265	32 382	12 069			56 527	56 527	24. Other loan stock and preference shares
				1 664		74 301	4 712			62 709	62 709	25. Ordinary shares
												26. Foreign branch/head office balances
-663	-25 174	42	-1	-9 110	962	-4 729	1 966	1 808	283	-37 042	-37 042	27. Long-term loans
				-396		25 591		13 181		37 986	37 986	28. Mortgage loans
							3 030		44 101	47 052	47 052	29. Interest in retirement and life funds[7]
				4 792	-3 346	44 123	-5 109			-68 900	-68 900	30. Financial derivatives
-20 346	20 791			-134	-5 257	-13 554	-6 932	10 257	-8 450	-16 554	-16 554	31. Amounts receivable/payable
		15 112		-2 860	-73	-91 639	71 659	5 655	-14 845	-24 494	-24 494	32. Other liabilities/assets
		57		-286	25	-316	-15			-331	-331	33. Balancing item

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

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

Notes to tables

Public Investment Corporation – Table S–37

The data of the Public Investment Corporation (PIC), a government-owned asset manager, were revised as from the second quarter of 2006 in accordance with the financial instrument classification framework of the System of National Accounts 2008 (2008 SNA).[1] The liabilities, as previously published in table (KB212), have been replaced by table (KB247), with the guardian funds of government now excluded from households and combined with the Reconstruction and Development Programme Fund as part of other government funds. Households mainly include trust funds and non-profit institutions serving households.

The assets, as previously published in table (KB213), have been replaced by table (KB248), inclusive of the following major changes: cash and deposits now exclude money market instruments, which are now included as part of interest bearing securities of the domestic private sector; interest bearing securities of the domestic public sector now includes such securities and bills of central government, local governments and public enterprises; equity now includes direct and indirect investment in ordinary shares as well as investment in unit trusts and other funds, which were previously included as part of other; loans include amounts previously reported as part of bills issued by other institutions. Other assets include accounts receivable and net financial derivative exposures. Interest bearing securities issued by the foreign sector has now been separated from other fixed interest securities and non-financial assets have been separated from other assets. The foreign portion of all assets is now reflected in a separate column, which reflects as ‘of which: foreign assets’.

1 See https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf

Abbreviations

Alsi	All-Share Price Index
BER	Bureau for Economic Research
BIS	Bank for International Settlements
BOP	balance of payments
COICOP	classification of individual consumption by purpose
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPI	consumer price index
EMBI+	Emerging Markets Bond Index Plus
EPWP	Expanded Public Works Programme
FAO	Food and Agriculture Organization
Fed	United States Federal Reserve
FNB	First National Bank
FRA	forward rate agreement
FX	foreign exchange
GDE	gross domestic expenditure
GDP	gross domestic product
GFC	global financial crisis
GVA	gross value added
IFRS	International Financial Reporting Standard
IIP	international investment position
IMF	International Monetary Fund
IPP	independent power producer
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
LCR	liquidity coverage ratio
MPC	Monetary Policy Committee
MTBPS	*Medium Term Budget Policy Statement*
NEER	nominal effective exchange rate
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PIC	Public Investment Corporation
PIT	personal income tax
PGM	platinum group metal
QE	quantitative easing
QES	Quarterly Employment Statistics
RAF	Road Accident Fund
REER	real effective exchange rate
S&P	Standard & Poor's
Sabor	South African Benchmark Overnight Rate
SACU	South African Customs Union
SARB	South African Reserve Bank
SARS	South African Revenue Service
SAVI	South African Volatility Index
SNA	*System of National Accounts*
SOC	state-owned company
Stats SA	Statistics South Africa
TB	Treasury bill
UIF	Unemployment Insurance Fund
US	United States
VAT	value-added tax
WGBI	World Government Bond Index